tampremier

Q1 2021 COMMENTARY
GBP PORTFOLIOS

MARKET REVIEW

It was a volatile first quarter for financial markets, as optimism around the post-pandemic recovery led to differing outcomes for stocks and bonds. Whilst the stock market began the year strongly due to positivity stemming from the rapid vaccine rollout in Europe, the global bond market had one of the worst starts to the year in over 5 years. This was due to mounting concerns that the ongoing stimulus from central banks and eventual economic recovery from COVID-19 would spark serious inflation pressures.

Eventually, this fed through into the stock market, as rising rates make buying equities less attractive as opposed to government debt. Large-cap technology companies were particularly hard hit as these were the "COVID winners" of 2020, therefore trading at relatively steep valuations. This impacted the US market the most, which has a heavy bias towards the technology sector. The government and central bank continued efforts to stimulate the US economy, which included a $1.9bn fiscal stimulus package and maintaining low interest rates, which were forecast to remain close to zero until at least 2024, despite the upgrade to US growth forecasts.

Despite the volatility, stock markets ended the quarter strongly, particularly the UK, as lockdowns began to ease as a result of the highly successful vaccine rollout programme. Its bias towards the value sectors hardest hit by the pandemic, such as energy and financials, also benefited as the economy began to recover. The Bank of England kept policy unchanged and followed the Fed with its dovish tone.

PERFORMANCE REVIEW

The performance data below relates to the period 1st January to 31st March 2021.

	Portfolio	Benchmark	Relative
Defensive	(2.44)	(5.32)[1]	2.88
Cautious	(0.98)	(3.11)[2]	2.13
Balanced	0.64	(1.44)[3]	2.08
Growth	2.35	0.80[4]	1.55
Adventurous	2.78	2.47[5]	0.31
Speculative	3.95	4.16[6]	(0.21)

Notes on Benchmarks: FTSE All World Index + FTSE World Government Bond Index in the following proportions: 1) 15% + 85% 2) 35% + 65% 3) 50% + 50% 4) 70% + 30% 5) 85% + 15%.
Source: TAM Asset Management Ltd.

The largest contributors to performance came from our positions within value-orientated UK and global equities. Detractors included high quality, growth-focused strategies, particularly in the US, as this market was relatively worse hit by the sell-off in technology stocks, but also in Europe and Asia.

Exposure to index-linked gilts was the largest contributor to performance on the non-equity side, with our overall underweight to non-index-linked government debt also helping. Corporate bond and commodity exposure detracted from performance.

PORTFOLIO ACTIVITY

We made a slight rotation out of large-cap UK equities into small and mid-cap equities at the start of the quarter, to benefit from a recovery in the domestic economy. Towards the end of the quarter, we sold down a portion of our growth-orientated global and US equities, in favour of global and UK equities with a value tilt, in order to benefit from the market rotation towards this investment style.

On the non-equity side, we continued selling down government debt as this asset class continued to suffer from rising yields (falling prices), in favour of short dated corporate bonds and more index-linked gilts which provide inflation protection.

OUTLOOK AND STRATEGY

As we look towards the second quarter, we will begin to see economies re-opening, output rising and international travel restarting, which should provide a boost to the hospitality, retail, travel and leisure sectors, which have all begun a slow recovery since late last year.

Although we will continue to hold a diversified portfolio across growth and value investments, we have increased the value style in recent months, which includes economically sensitive stocks which usually see higher earnings growth at the beginning of an economic recovery. This is based on our view that the market rotation into cyclical stocks could continue for the remainder of the year, although we do envisage the market coming back to a more level playing field between growth and value investing, with attention eventually coming back to some of the quality growth names.

On the non-equity side of the portfolios, we are positioned for continued weakness in the government debt market and inflation eventually coming through. This is because major central banks are still optimistic about the outlook for their economies and are therefore willing to let inflation "run hot" for a period of time.

Although we remain optimistic on the outlook for the equity market this year, we do not believe we have left volatility behind in 2020, as the first quarter has proven. We will continue to take steps to try to deliver the best possible returns for our clients' portfolios, whilst preserving last year's strong performance.

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