RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

November 2021

Market overview

Concerns over the new Omicron variant led to a sharp reversal in equity markets towards the end of November and developed markets ended the month over 2% down.

Economically sensitive areas took the brunt of the falls, as did sectors most directly impacted by potential tightened restrictions, such as travel and leisure. Commodities, and most notably oil, fell due to concerns over potentially weaker demand. Likely beneficiaries of potential further restrictions such as e-commerce proved much more resilient.

The deterioration in sentiment led to government bond yields falling and the US dollar rallying – the latter serving to alleviate losses somewhat in the mandates given our exposure. Higher risk areas of the fixed income markets were negatively impacted, and investment grade bonds lagged while high-yield bonds declined.

Markets are now looking to ascertain the efficacy of existing, or potentially modified, vaccines against the Omicron variant and on the potential requirement for further lockdowns and other restrictions globally. It is encouraging to see that the market reaction has been comparatively muted relative to what was seen on the emergence of previous variants. There appears to be optimism in terms of the likely protection offered by existing vaccines, and also a belief that key economies will now be more resilient to potential lockdowns than they have been previously.

Central banks now face an even less clear picture in terms of the inflation outlook. Pre the emergence of the Omicron variant the rhetoric from the US Federal Reserve was becoming more hawkish in the face of the Consumer Price Index rising above 6% and Chair, Jerome Powell, spoke of an acceleration in the tapering of asset purchases. It now remains to be seen to what extent the potentially damaging economic consequences of the emergence of the Omicron variant might impact that view.

Strategy positioning

We have maintained the mandates at the upper end of their Dynamic Planner ('DP') risk profiles and, at the time of writing, this has been rewarded as equity markets have recovered quite strongly since the initial reaction to the Omicron variant. With heightened levels of inflation in many developed economies, investors seeking real returns are still looking to equities to provide this. Investing in companies with pricing power, i.e. the ability to increase their prices, remains a key method of hedging this inflation risk.

In addition to being positioned at the upper end of their DP risk profiles, the mandates have further benefitted from an overweight positioning towards the US, which has substantially outperformed other major regions and was again a relative outperformer in November.

We will need to monitor both the potential impact of the Omicron variant and the inflation outlook very carefully. For now we believe that continued central bank stimulus, economic recovery, and generally positive earnings announcements are providing a favourable backdrop for risk assets. We are, as ever, mindful of the current risks and we note that the multi-asset mandates have embedded protection in the shape of lower risk and absolute return focused holdings within their fixed income and alternative asset exposure.

Risk warnings