RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

December 2021

Market overview

Global equity markets reversed the falls seen in November and ended what has proved to be an excellent year for equities strongly. Investors were encouraged by early data suggesting that the Omicron variant could be less potent and vaccine resistant than feared, potentially lessening the requirement for restrictions and lockdowns. Economic data, including key indicators such as Purchasing Manager Indices (PMIs), continue to point to a steadily recovering global economy while company earnings revisions remain healthy, continuing the strong recovery over the last year.

The UK and continental Europe outperformed over the month, recovering most from the weakness seen in November. 'Value' investments outperformed 'growth' on the back of improved sentiment for cyclically sensitive companies and sectors.

Inflation in many areas remains uncomfortably high. In the UK, the rise in Consumer Price Index, allied with a fall in the unemployment rate and a record 1.2 million job vacancies, led to the Bank of England raising interest rates from 0.15% to 0.25%. Other countries acted to moderate their economic stimulus mechanisms – most notably the US Federal Reserve announced an acceleration in the tapering of its asset purchases from January 2022 while the European Central Bank also announced that its pandemic emergency purchase program would end in March.

Short-term UK and US sovereign bond yields rose in December reflecting central bank actions, however movements in 10-year bond yields were relatively muted. High yield credit spreads narrowed quite significantly as risk appetite recovered, but higher quality investment grade bond spreads were largely unmoved.

The increased positivity in the economic outlook led to a recovery in energy prices and the oil price bounced back 14% from the falls in November. On the currency side the US dollar weakened over the month as investors focused on more cyclical and commodity driven currencies.

Strategy positioning

No asset allocation changes were made over the month as the mandates remain at the upper end of their respective Dynamic Planner ('DP') risk profile – we maintain a constructive view on equities. Further economic disruption caused by Omicron (or a new variant) remains a key risk, as does the threat of a 'higher for longer' spike in inflation, however markets currently look well supported by positive economic growth and strong earnings upgrades. Markets will need to digest the repercussions of a gradual reduction in policy support from governments and central banks, however to date momentum in markets remain strong.

Our broad geographic equity allocations, with a bias to the US and Asia, remain unchanged – but dominant global franchises can be found in all world markets, along with businesses at the forefront of a more digitised and environment-friendly world.

Fixed interest markets remain vulnerable to unscheduled actions by central banks and a gradual removal of monetary stimulus. We are maintaining our low duration positioning, which reduces the sensitivity to interest rate change, focusing exposure within inflation-linked bonds and with strategic managers who can pivot quickly to take advantage of changing conditions. Our government bond exposure remains minimal.

We continue to hold market neutral 'alternative' funds that can exploit relative value opportunities in both equity and bond markets, acting as good portfolio stabilisers and alternative sources of return, particularly in more challenging times.

Risk warnings