

Premier Portfolio Management Service

Investment committee – asset allocation update

Meeting held on 8 February 2021

Since the last meeting of the committee, bond markets have been the noteworthy asset class as bond yields have surged since early January. The prospect of a fiscal boost for the US from Biden's stimulus proposal sparked the January sell-off in government bond markets, meaning rising yields. The US 10-year treasury yield hit 1.17% on the morning of the committee meeting as there is expectation that the stimulus will boost US economic growth which will eventually lead to higher levels of inflation.

The Federal Reserve have also had to provide clarity on when asset purchases could be tapered as memories of the 2013 'taper tantrum' still remain. Comments from the Federal Reserve have been clear; loose monetary policy will remain in place and it is too premature in the current environment to make any changes. This has been a continuously clear message from policymakers across the globe to reiterate their stance to do whatever it takes and for as long as required. The past month has also seen indications from the Bank of England that negative interest rates are not imminent and this coupled with the optimistic comments has supported the rise in gilt yields.

Little has changed within global equity markets since the previous meeting of the committee. A notable performer has been Japan, which has seen a strong start to the year with the Nikkei 225 Index returning 4.87% year-to-date, as investors have been buying shares of Japanese exporters which are expected to benefit as the global economy recovers from the pandemic. China has also continued to perform strongly, announcing that its economy grew 2.3% in 2020, the only major economy to see growth in 2020. The fourth quarter GDP growth came in at an impressive 6.5% in comparison to the rather dire first quarter of -6.8%, showing growth accelerated very fast throughout the year, which can be largely attributed to the country's ability to contain the virus.

Many companies have now recorded their fourth quarter earnings for 2020, which have been better than expected. More companies are beating estimates and by a wider margin than average and as a result, reporting year-on-year growth for the first time since the fourth quarter of 2019.

Divergent returns in equity markets has been prevalent over the past year. The differences in valuations across the globe are vast, for instance the US has seen valuations shoot to extremely high levels, whereas the UK continues to look attractive on valuation grounds. There was a notable rotation from growth orientated stocks into the more economically sensitive or "value" stocks following the announcement of the effective vaccination trials in November. Since then, growth stocks have been playing catch-up but it seems as though the long-term growth trends remain in place however, the concerns over valuations in the technology and communication sectors are appropriate, with many suggesting the bubble will soon burst.

The UK has been one of the world leaders in the rollout of the vaccination, whilst other countries are at varying stages of the distribution and administration. The next few months will be crucial to see whether this dispersion between countries is reduced, if herd immunity can be reached across the globe and if mutations of the virus can be kept at bay without causing further repercussions, this will then hopefully mean restrictions can be eased and boost optimism for the potential of economic recovery to return later in the year.



Portfolio update – growth portfolios

The portfolios remain fully invested and the investment committee is comfortable with the profile and the exposures at present. Therefore, there were no asset allocation changes approved at the meeting.

Portfolio update – income portfolios

The portfolios remain fully invested and the investment committee is comfortable with the profile and the exposures at present. Therefore, there were no asset allocation changes approved at the meeting.

Portfolio update – managed portfolios

The portfolios remain fully invested and the investment committee is comfortable with the profile and the exposures at present. Therefore, there were no asset allocation changes approved at the meeting.

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