Harwood

Wealth Management Group Ltd

Quarterly Update

Q1 2021

IMPORTANT INFORMATION

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- Wellian Investment Solutions Limited.

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INTRODUCTION

Markets, on the whole, are said to be forward looking. In essence this means that they are more interested in what they think will happen in the future than what happened over the previous month or quarter, or indeed what is happening on any given day. This was amply demonstrated over the period since the last review with investors firmly focused on a future where the virus is under control and the political landscape is more accommodating. Whilst the former is still some way off, the Democratic party followed up on their election win with success in both contested Georgia senate seats. This is a big boost for the party, and it gives them greater freedom to implement their strategy without running into Republican blockages at every stage.

The election of a new president is always closely followed around the world due to the importance of the US economy and the scrutiny was even more intense this time around. Investors will be hoping that the election of Joe Biden will see a return to a more decorous and predictable sort of politics. With the dramatic scenes from early January hopefully behind him, attention turned to Biden's initial acts as president. His first 100 days in office will be closely watched as this period is often the one that helps to set the tone for the full 4-year term.

The reaction to the eventual smooth transition of power saw all of the main markets in the US rise back over all-time high levels, led at least in part by the view that the Democratic party would seek to push through its plans for enormous levels of additional stimulus. The new president has warned that the pandemic will get worse before it gets better and his America Rescue Plan (aka Bidenomics) seeks to put a $1.9tn package in place to help workers and will be followed up by further borrowing to jump start their economy. Janet Yellen, Biden's pick for Treasury secretary, has called for Congress to "act big", but their plans are likely to face a tough ride even with their technical majority.

The latest stimulus package is likely to see between $600 and $2,000 given to each individual in the country. Support like this has also been beneficial for corporate America. Despite the loss of some big names, the overall rate for bankruptcy filings in the US fell to close to 500,000 last year. This compares to a recent annual average of 800,000 whilst the rate following the Global Financial Crisis was several times higher than that level. The question now is how many of the businesses that have survived will remain viable once the support they have received thus far starts to be removed.

The ebullience was not limited to America and towards the end of the period, European equities enjoyed their best week since November while the MSCI World price index passed its record high point. Indices in China have also now moved past their previous peaks from 2008 as the country and wider region benefit from a rapid recovery from the pandemic.

Closer to home, the last-minute agreement between the UK and the EU is in place and all that's left is the trivial matter of years of ongoing negotiations to iron out the "small print". Markets do not like uncertainty and despite the gaps left by the Brexit deal, it removed any lingering concerns about a no deal outcome. This provides a good base for recovery, helped by improving news on the vaccine front. Our main indices have rallied of late but compared to markets in the US and elsewhere, UK equities remain good value and this has made them a popular choice for firms looking to expand their reach. As evidence of this, in the first 18 trading days of the year there were £18bn worth of bids for UK companies.

One area that remains depressed is that of dividends. One piece of research suggests that payouts from UK firms are unlikely to return to pre-Covid levels before 2025, adding to the woes of natural income seeking investors who have already endured a long period of very low interest rates. Over 2020, dividends fell by almost a half with two thirds of firms reducing or cancelling their payments. Firms will be hoping that as the vaccine programme ramps up and restrictions start to ease, the pent-up demand from consumers will help power their resurgence.

One other theme over the quarter was the ongoing march of ethical or sustainable investing. Although we run ethical models, we are not prevented from holding the assets held within them inside our other portfolios. Where funds are suitable they can and should be included, however, we have to remain mindful of the fact that where funds might have performed well, this could simply be a result of their inability to invest in certain areas of the market. Should conditions change, these funds might have less flexibility to change course.

This awareness of changing conditions will be important as we look ahead. 2021 is a very different prospect to 2020, even with the stuttered start, and with Brexit and Trump in the rear-view mirror there are fewer "known unknowns" than at this point last year. It is therefore more critical than ever to ensure that we understand the funds that we use to ensure that they have potential and not just past performance.

Sector Analysis

Top Performing 30/09/2020 - 31/01/2021		**Top Performing YTD 2020 (31/01/2021)**	
North American Smaller Companies	24.56%	China/Greater China	6.09%
UK Smaller Companies	22.26%	North American Smaller Companies	3.89%
Global Emerging Markets	19.12%	Asia Pacific Excluding Japan	3.02%
Asia Pacific Excluding Japan	17.04%	Global Emerging Markets	2.80%
China/Greater China	16.35%	Tech & Telecom	1.74%
Worst Performing 30/09/2020 - 31/01/2021		**Worst Performing YTD 2020 (31/01/2021)**	
UK Index Linked Gilts	-2.51%	UK Index Linked Gilts	-2.73%
UK Gilts	-1.63%	Europe Including UK	-1.93%
Short Term Money Market	-0.07%	Europe Excluding UK	-1.88%
Standard Money Market	0.02%	UK Gilts	-1.62%
Global Bonds	0.31%	Japan	-1.50%

Data from FE fundinfo 2021, dates as above.

FIXED INCOME

Sterling Bonds

The global fixed income markets are presently finding themselves in a bit of a quandary. Debt levels are high. Governments have had to "print money" to support their economies in 2020. The Covid-19 pandemic brought much of the world to a halt. Millions are furloughed, millions are out of work and this has nothing to do with a typical recession.

You would expect that, through the laws of supply and demand, that something would give. After all, if the supply of pounds in circulation is rising, something has to fall – usually the relative valuation of the currency compared to other currencies. This has not been the case though as the amount of Euros in circulation and US Dollars in circulation is also rising. The other side of the equation would therefore be interest rates. If supply rises faster than demand, then to entice people to buy Sterling they need to be offered an attractive interest rate but interest rates remain flat.

Europe as a whole actually charge to have money on deposit. Interest rates are so low in the UK and US for instance that they might as well be zero. It was commented that in the final quarter of the year that the Bank of England even enquired with the commercial banks if their systems could actually handle negative interest rates. Talking of which, of the $16 TRILLION in global government debt, more than 1/3 of it presently offers the holders of said debt a guaranteed capital loss if held to maturity.

Even though debt levels are high, debt servicing costs are low and this is where the quandary lies. Corporates and governments have the potential to borrow at low rates, and many are choosing to do so thus pushing up further the debt levels. On the other hand, as the economy starts to open up after the pandemic, balance sheets should strengthen again as profits return. Arguably this could be considered a very cheap source of finance. It is often said that companies that survive recessions emerge stronger.

Performance-wise, the fixed income sectors have delivered steady positive returns over the last couple of months, partly aided by the recent strength of Sterling. Returns from the fixed income sectors have been relatively smooth.

Performance of this high yield bond sector has been very strong over the last couple of months, and over 2020 as a whole which could be seen as quite surprising. Companies that borrow in the high yield space are generally seen as weaker companies and have a greater chance of default as they are perceived to have higher risks. But, the capital markets are not acting normally at the moment. Interest rates are at all-time lows (even negative in Europe and Japan) and governments all over the world have been incredibly accommodative to businesses to keep them operating, so this has acted as a back stop for high yield markets.

Most high yield bonds are not issued in Sterling, and with Sterling strengthening over the last couple of months, this too has added to the returns achieved.

The high yield bond market is quite different in composition compared to the investment grade market – it contains lots of companies that operate in the oil and gas market (and with a bias towards shale and the US for instance) and therefore there is a high reliance on a strong oil price for profits and repayment of the debt. At one stage in 2020 the oil price actually went negative (a quirk of the market) which spooked the high yield market. This issue was quickly rectified and oil prices have since stabilised. The scope for oil prices to rise in 2021 and beyond, off the back of a global economic recovery looks good, so the odds of default are likely to fall.

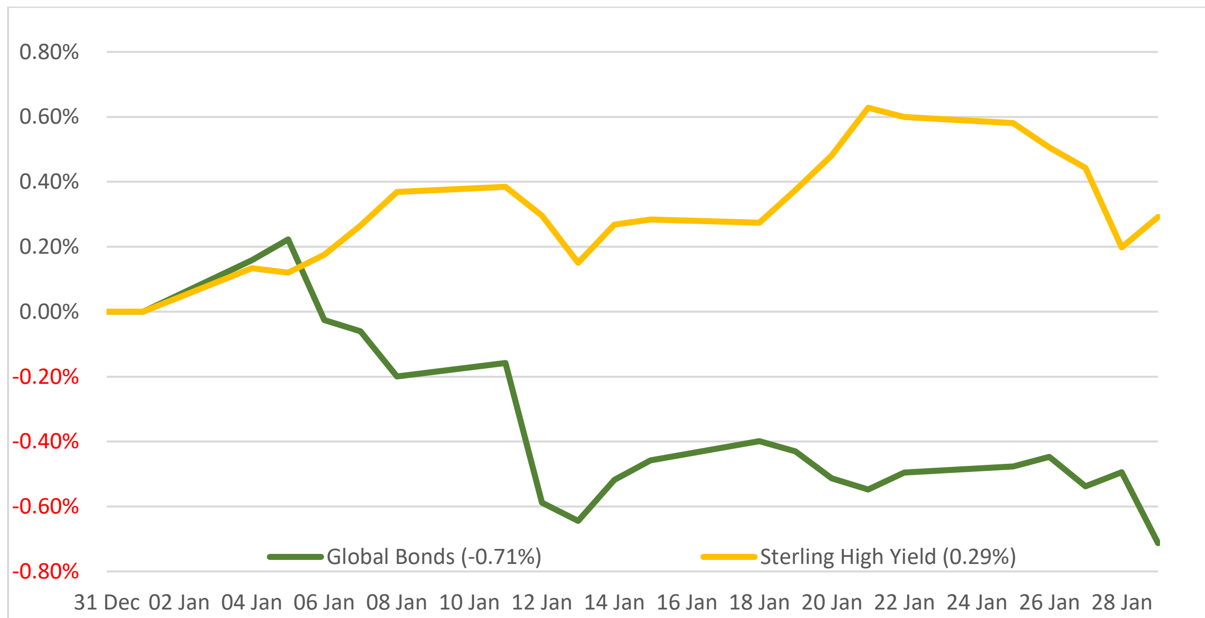
Combined with this, a number of investment grade debt issuances fell out of the investment grade market into the high yield market during 2020. These issues are known as fallen angels and perversely improved the quality of the high yield bond market.

Interest rates are likely to stay at present levels for the next couple of years. Economies are likely to recover from the sharp recession caused by Covid-19 in 2021 and beyond. The yields on the market looks attractive (certainly compared to cash, government debt and investment grade debt) and demand remains high. Although a more volatile asset class compared to other fixed income instruments, the broad bounce back towards the end of the year helped high yield.

Sector comparison: Global Bonds and Sterling High Yield – 3 month performance

30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling High Yield – YTD performance

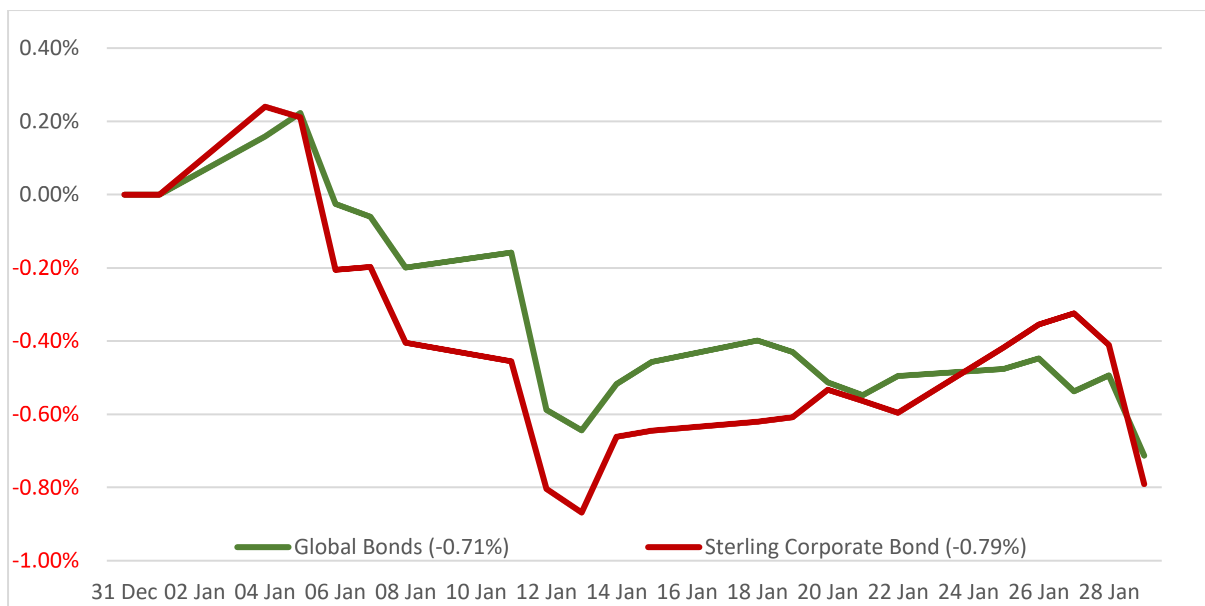


31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Corporate Bond – 3 month performance

30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Corporate Bond – YTD performance

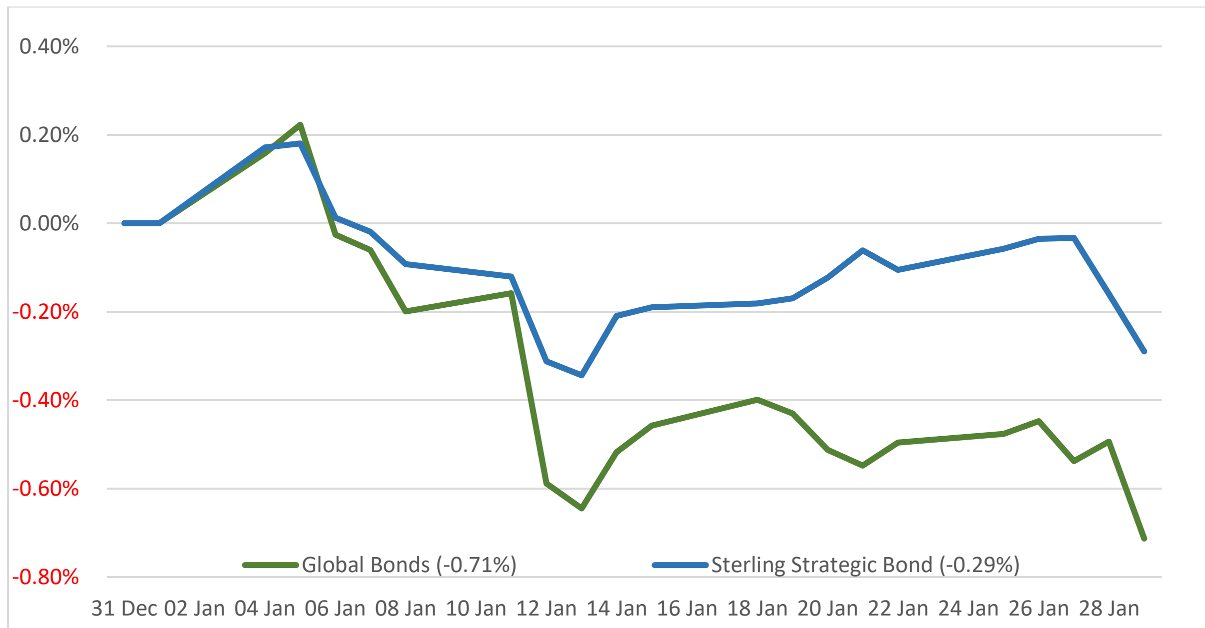


31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Strategic Bond – 3 month performance

30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Strategic Bond – YTD performance



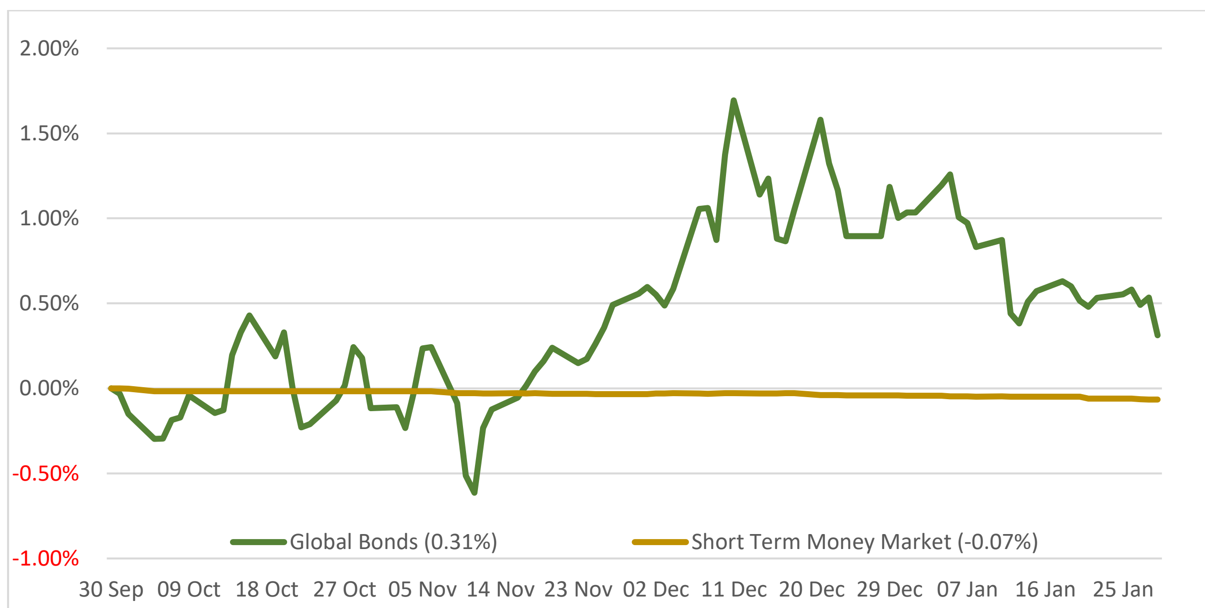
31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

Global Bonds

As predicted in our previous update, developed market bonds were largely flat over the period as weakness in the US dollar and the Yen was offset by a moderate decline in yields which was driven by increased demand. As markets headed towards the end of 2020, they were focused on the US election and the impacts this could have on fiscal and monetary conditions. In the US, Treasury bills continued a rally which had started in the summer where from a record low of 0.52% they rose to over 1.1%, before moderating slightly towards the end of the period.

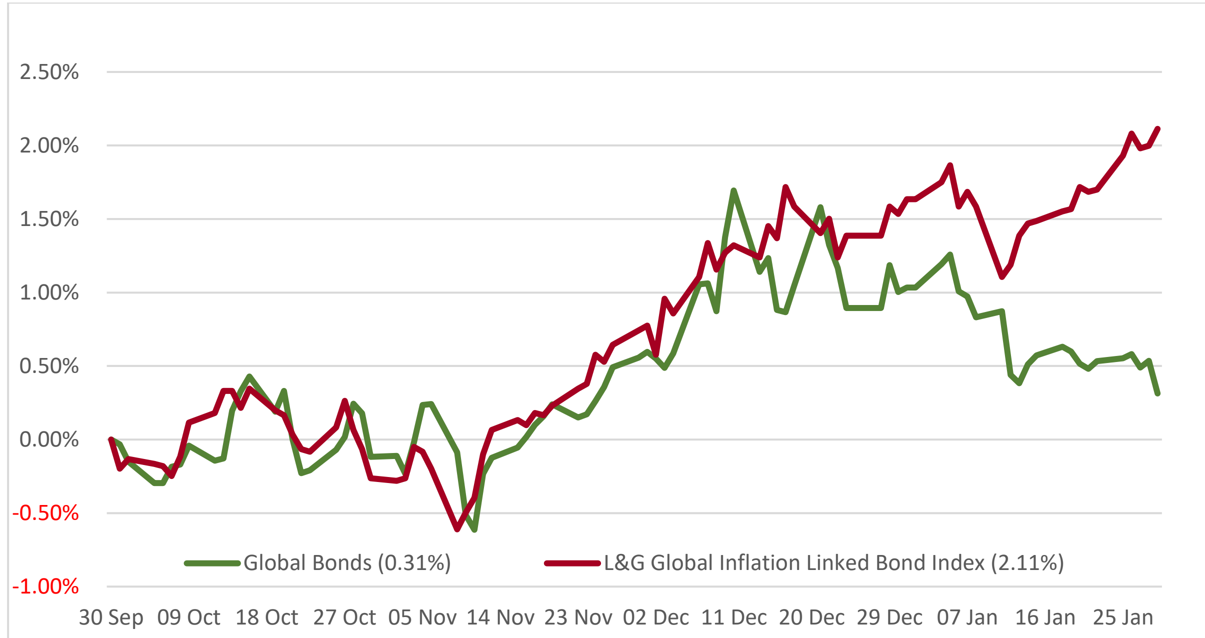
Emerging market bonds were strong over the quarter, at least from a local currency perspective. The performance of the dollar had an impact on the other end of the market as it saw its first fall in 3 years, reflecting expectations of continuing ultra-easy monetary conditions. We remain wary of default rates and also, whilst it might not be a concern over the very short term, the impact of rising inflation. As prices begin to rise, as we have started to see already this year, it will push yields higher. For now, it seems likely that very low interest rates will put a cap on short and even medium-term yields, helping to maintain prices.

Sector comparison: Global Bonds and Short Term Money Market – 3 month performance



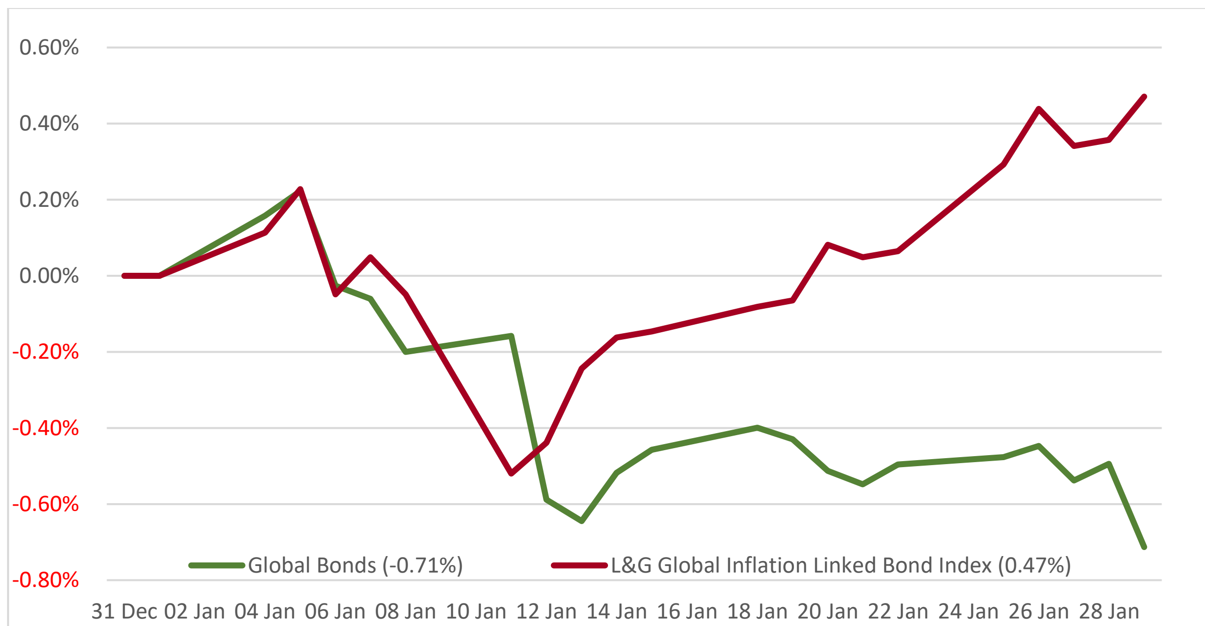
30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Global Inflation Linked Bond Index Proxy – 3 month performance



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Global Inflation Linked Bond Index Proxy – YTD performance



31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

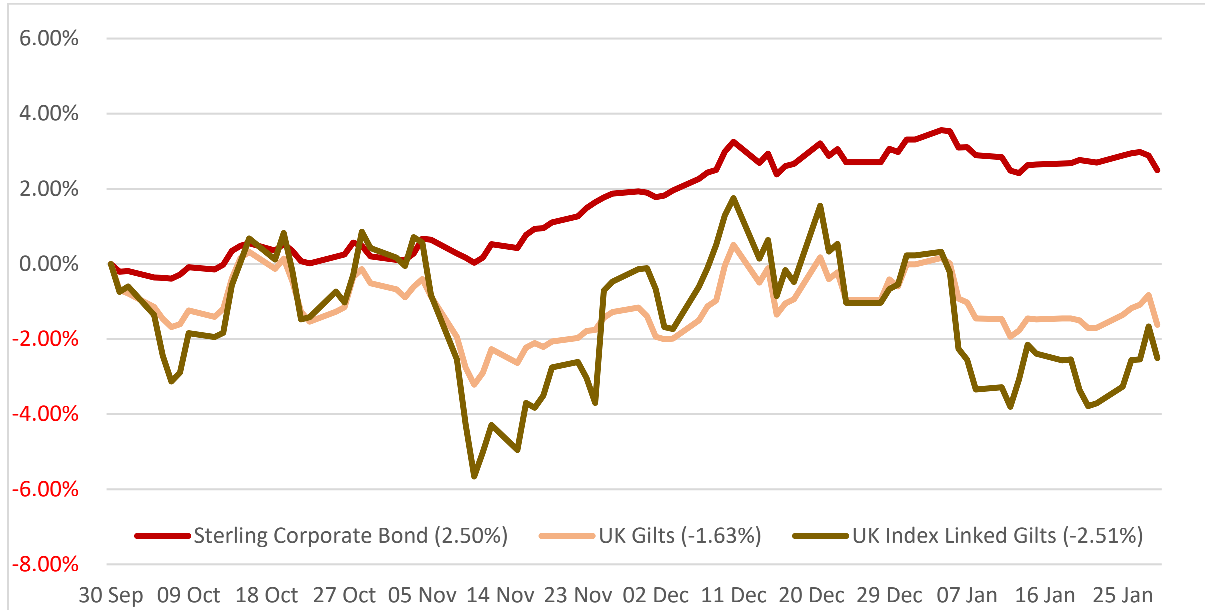
UK Gilts

UK government bonds showed little volatility during the quarter, despite a weak domestic equity market in October and its swift reversal in November. The 10yr Gilt yield moved in a narrow range around 0.25%, despite events such as Brexit, vaccines, fiscal policy and the US elections (to name but a few) generating plenty of volatility elsewhere. The signing of the Brexit deal in the hours before Christmas gave a boost to sterling. The lack of movement in the Gilt market reflected its heavily anaesthetised condition, courtesy of the Bank of England's asset purchase programme.

Some commentators have suggested that government bonds currently offer "return-free risk" although a number of strategic bond managers do continue to maintain an allocation, believing that returns can be eked out by actively managing their allocations, or that government bonds will provide a hedge against problems with vaccine roll-out and noting the optimism that has already been priced into markets for 2021.

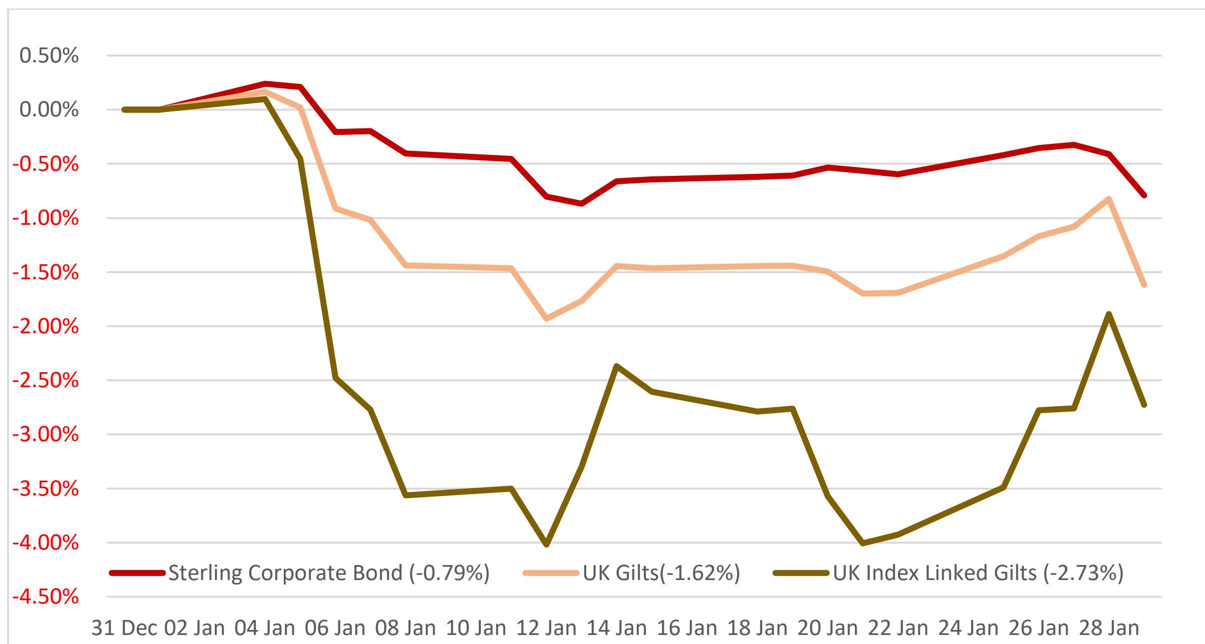
The Bank of England held interest rates at 0.1% over the quarter.

Sector comparison: Sterling Corporate Bond, UK Index Linked Gilts and UK Gilts – 3 month performance



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Sterling Corporate Bond, UK Index Linked Gilts and UK Gilts – YTD performance



31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

DEVELOPED MARKET EQUITIES

UK

The UK Equity market ended October in negative territory, its lowest level since March, as investors priced in a second wave of Covid-19. With the number of cases rising, anticipation that the UK government would further tighten control measures impacted sentiment in the final week of the month, amid concerns about the impact the second UK lockdown would have on the economy.

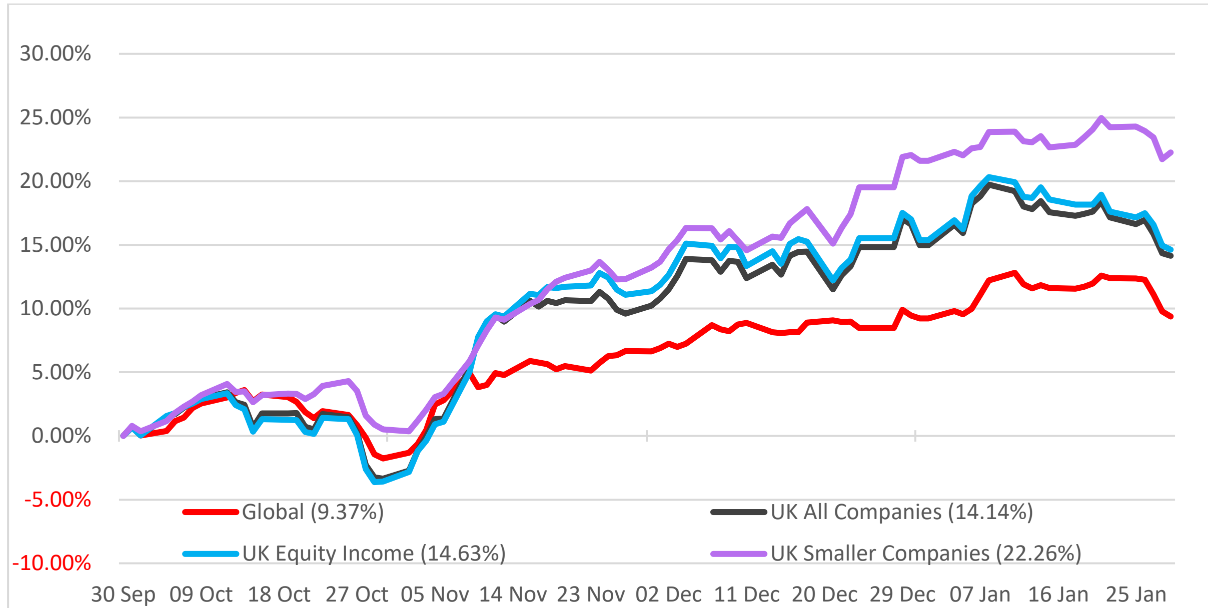
However, in a reversal to the previous month November was the best month for the UK equity market in over 30 years, propelled by a series of Covid-19 vaccine breakthroughs and optimism over Joe Biden's victory in the US presidential election.

News of promising results from Covid-19 vaccine trials boosted hope for a faster-than-expected economic recovery in 2021 should mass immunisation allow business and social life to return to some sort of normality. As a vaccine rollout appeared to edge closer, further support for equity market sentiment came from a new study which found that Covid-19 cases fell by almost a third in England during November's national lockdown.

The uplift in sentiment led to a decline in defensive stocks (those which are typically less dependent on the economic cycle), which have performed well for much of this year, and saw a broader market rotation from growth to value stocks, which had already appeared to be underway. Growth stocks are those which have the potential to outperform the market over time and are priced more expensively to reflect that, while value stocks are those trading below what investors consider to be their real worth, which is anticipated to rise once their intrinsic value is recognised by the market.

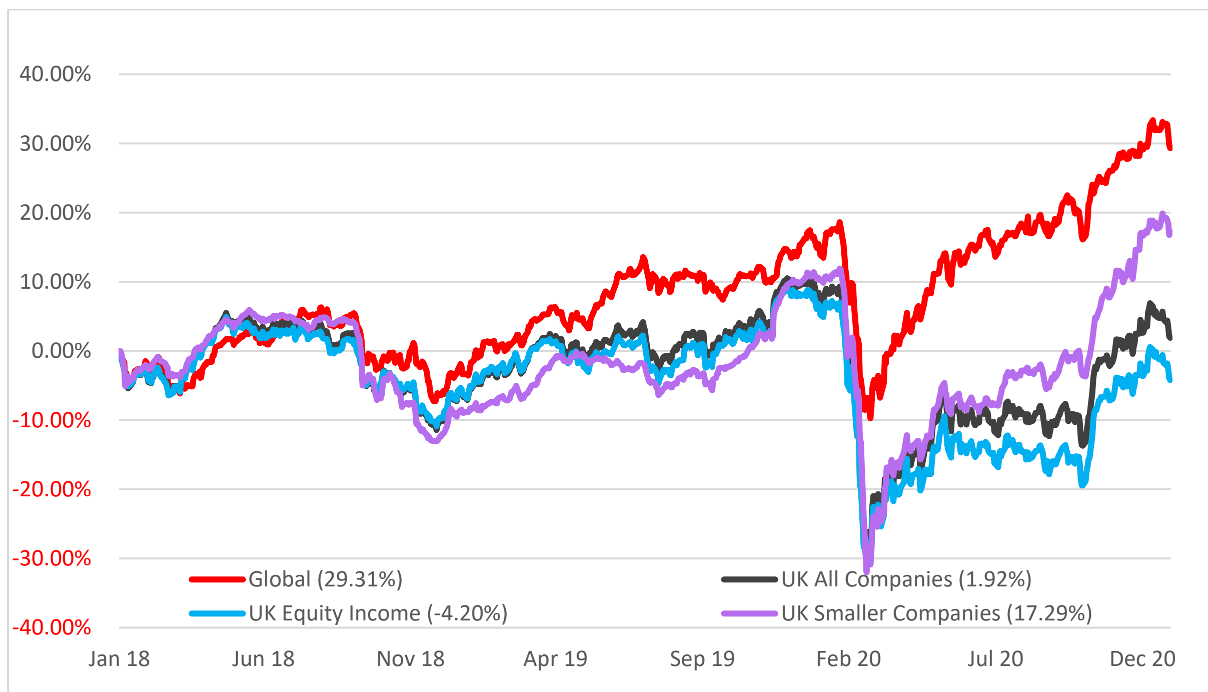
The UK equity market rallied in December to end the month in positive territory, fuelled by the start of the mass Covid-19 vaccination programme and the announcement of a long-awaited Brexit deal. After years of Brexit uncertainty, markets were boosted after the Christmas Eve announcement, giving investors some optimism about the UK equity market's prospects in 2021.

Sector comparison: Global, UK Equity Income, UK All Companies and UK Smaller Companies – 3 month performance



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global, UK Equity Income, UK All Companies and UK Smaller Companies – 3 year performance



31/01/2018 – 31/01/2021 Data from FE fundinfo 2021

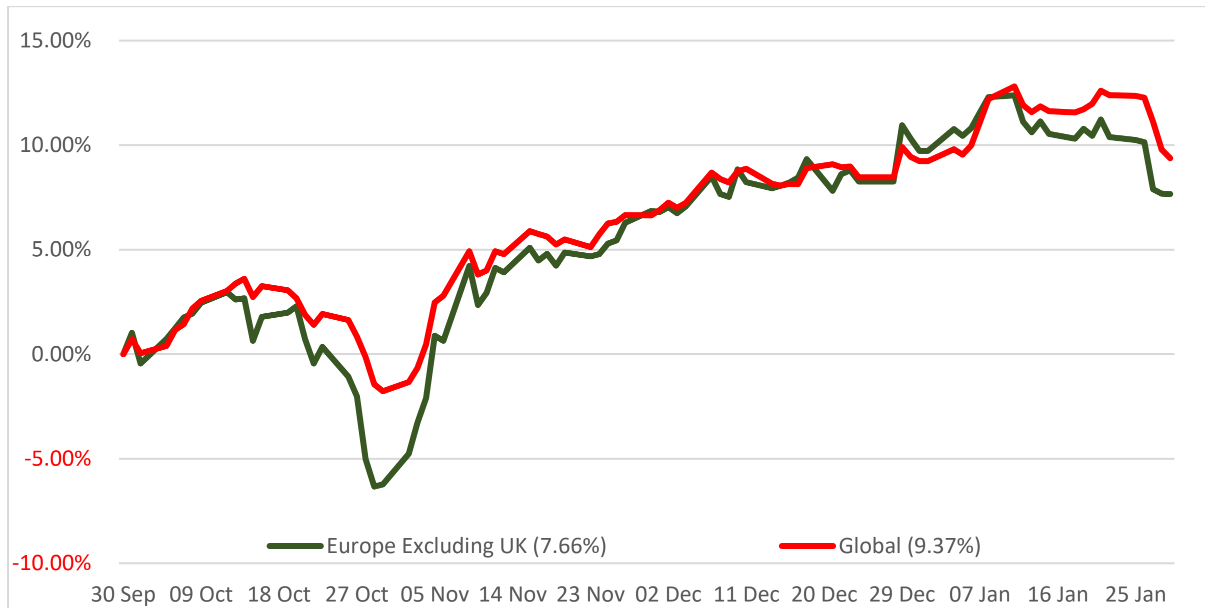
Europe

Since the beginning of November – when the widespread acceptance of Covid-19 vaccines was rolled out by Western governments, it's been fairly safe to say European equity markets reacted positively albeit with quite a dispersion of returns. Even the defensively constructed Swiss Market for instance delivered a double-digit return, whereas the Spanish IBEX index returned over 20%. The two largest markets in Europe – Germany and France generated a positive 18% and 20% respectively.

Covid-19 continues to influence the markets and contributing to their volatility. In the final quarter of 2020, it was announced that vaccines from a number of pharmaceutical businesses had been fast-track approved and started to be put into circulation. This – obviously – saw a massive relief rally from the capital markets, and those stocks that had really suffered when the markets fell in the first quarter were among the stocks that returned the best numbers. Many commentators are now suggesting that the "value" investment style could take the lead from "growth" – the style that has been driving the markets higher for the past decade. The European equity market contains many companies that are considered "value" (with characteristics suggesting their share prices are low relative to earnings, sales, cash flow, and metrics such as book value). If this thesis bears fruit, it could be positive for those with investments in the region.

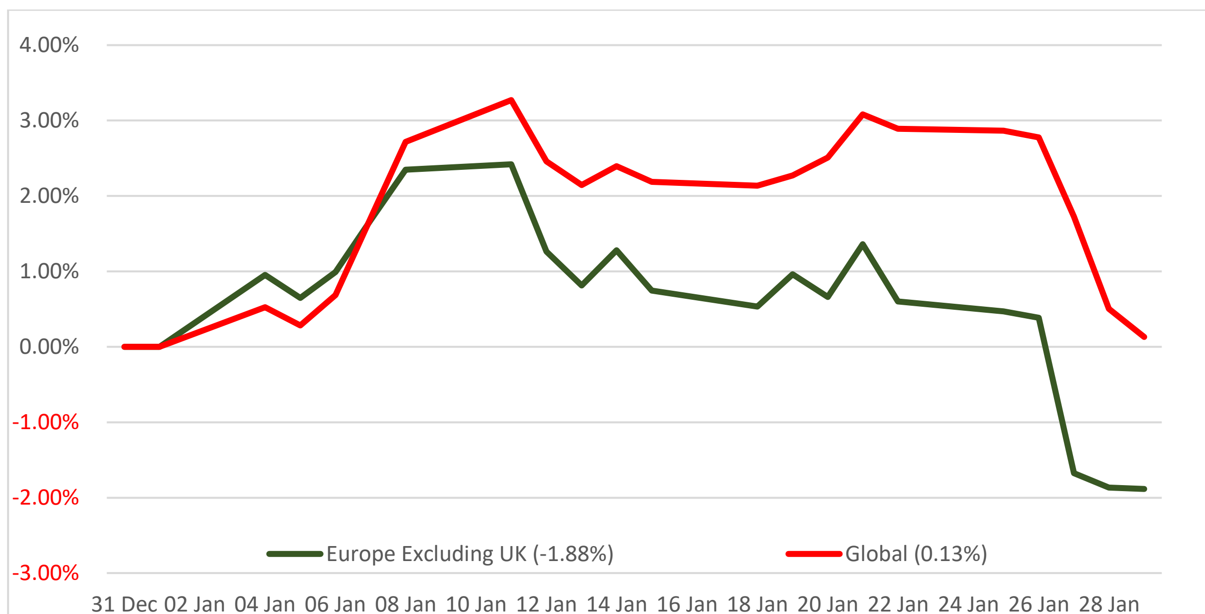
Looking forward there will still be a lot of uncertainty for investors and this is not isolated to those focusing on Europe. Interest rates will remain low, inflation is not showing signs of structurally changing (although due to the "base effect" it will rise in the forthcoming months) and the gradual opening of the economies of Europe could be beneficial for those willing to take risks.

Sector comparison: Global and Europe Excluding UK – 3 month performance



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global and Europe Excluding UK – YTD performance



31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

US

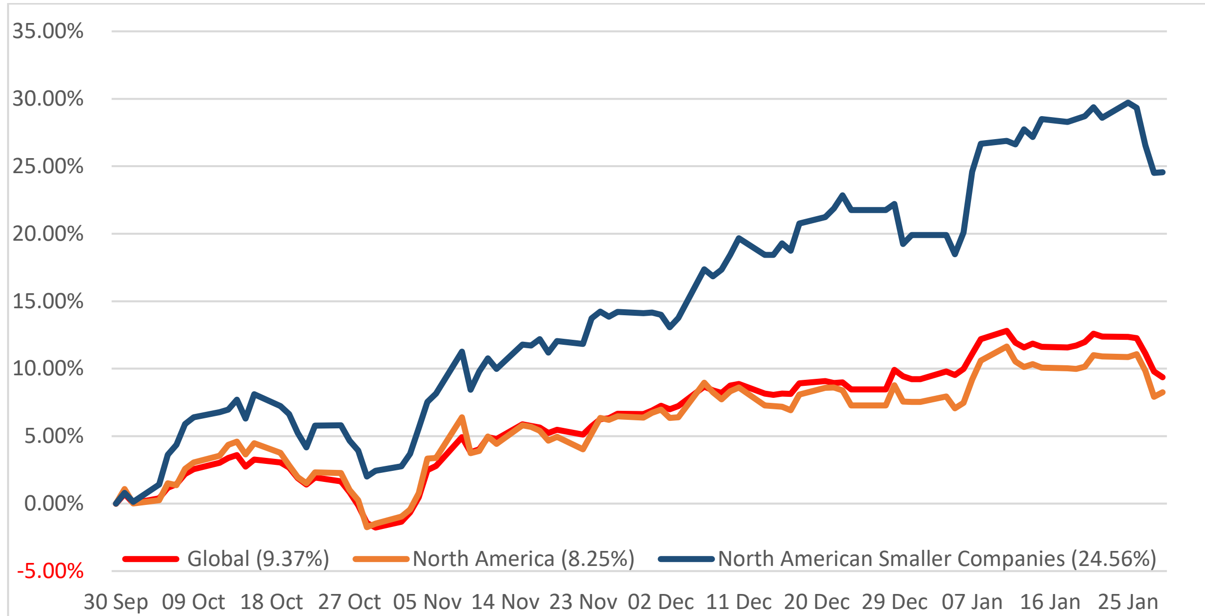
Investors will be hoping that the election of Joseph R Biden as president of the United States will see a return to more decorous and predictable politics. He inherits a deeply divided nation as highlighted by the events that led up to his inauguration. On the day there were more National Guard troops in Washington DC than there were US troops in Afghanistan, Iraq, and Syria combined. With the dramatic scenes from early January hopefully behind him, attention turned to Biden's initial acts as president. His first 100 days in office will be closely watched as this period is often the one that helps to set the tone for the full 4-year term.

Amongst the 30 executive orders signed on his first day in the job there were changes made US membership of multinational projects like the World Health Organisation and the Paris Climate Change Agreement. The latter move was widely expected and has implications for areas such as infrastructure spending where a move to renewable sources of energy and away from oil drilling will present a raft of challenges and opportunities for investors. Biden sent out a strong message by withdrawing permits for the controversial Keystone XL oil pipeline but despite the support of much of his party, course corrections like this will likely provoke a strong reaction on the other side of the political divide.

The reaction to the eventual smooth transition of power saw all of the main markets in the US rise back over all-time high levels, led at least in part by the view that the Democratic party would seek to push through its plans for enormous levels of new stimulus. The new president has warned that the pandemic will get worse before it gets better, and his America Rescue Plan (aka Bidenomics) seeks to put a $1.9tn package in place to help workers and will be followed up by further borrowing to jump start their economy. Janet Yellen, Biden's pick for Treasury secretary, has called for Congress to "act big", but their plans are likely to face a tough ride even with their technical majority.

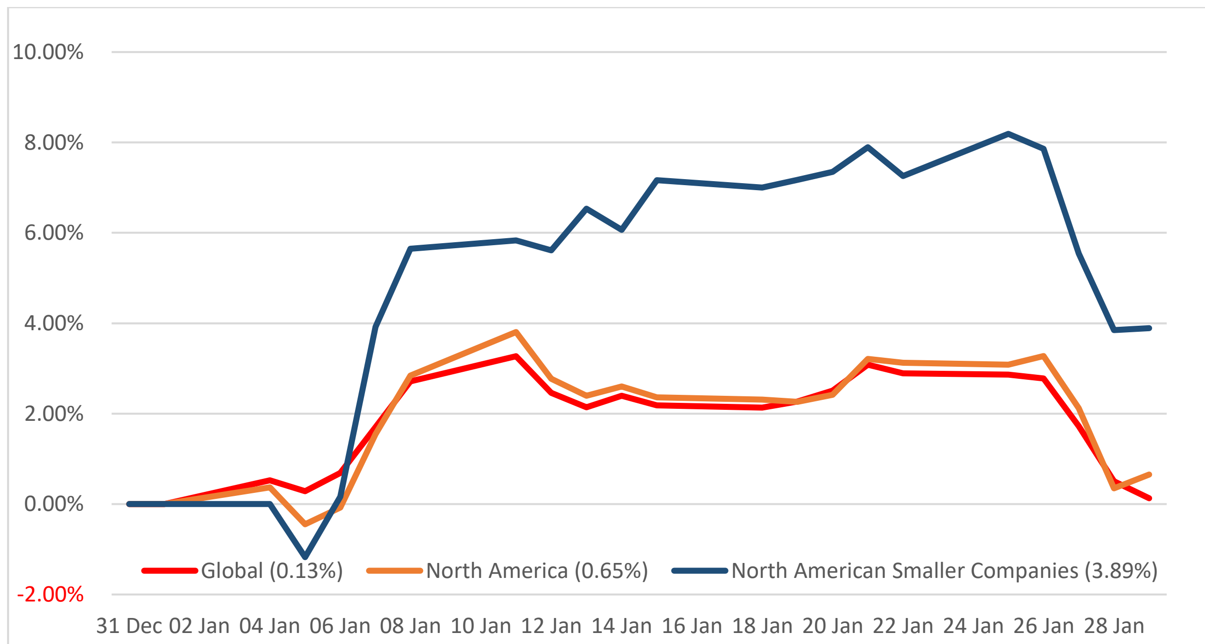
Looking ahead, the burden of this debt is going to present a significant challenge to the government and central bank, but more pressing now is dealing with the immediate crisis. With more cases and deaths than any other country, the vaccine programme is a particular focus and hopefully the new administration takes a more consistent and pragmatic approach than its predecessor. With markets at elevated levels, we need to be careful about how we allocate within the region, something that is easier to achieve with active managers versus passive instruments.

Sector comparison: Global, North America, North American Smaller Companies – 3 month performance



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global, North America and North American Smaller Companies – YTD performance



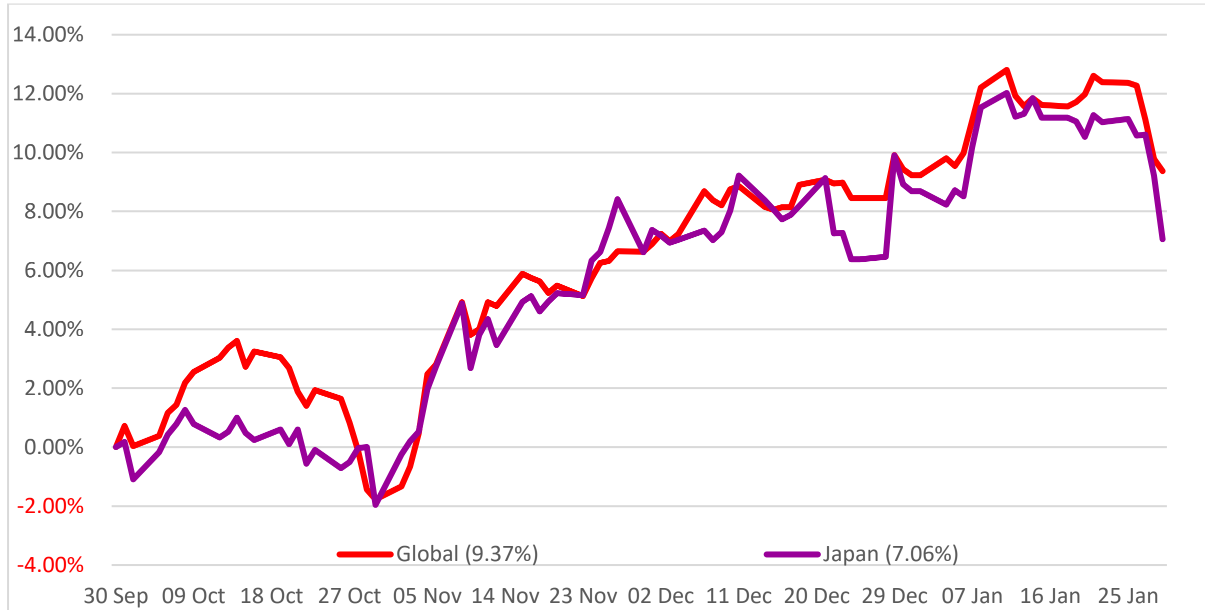
31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

Japan

Japanese equities, in common with a number of equity regions, had a difficult start to the quarter as investor sentiment declined in the face of a resurgence in global cases of covid-19 and fears about the pace at which economies might reopen. November's good news on vaccines saw an abrupt change in investor sentiment, which was particularly beneficial for more economically sensitive businesses (cyclical) that may now be able to trace a path to profitability. Companies reporting during the quarter revealed the inevitable impact of covid-19 on revenues and profits, but the damage was generally less severe than analysts had been anticipating.

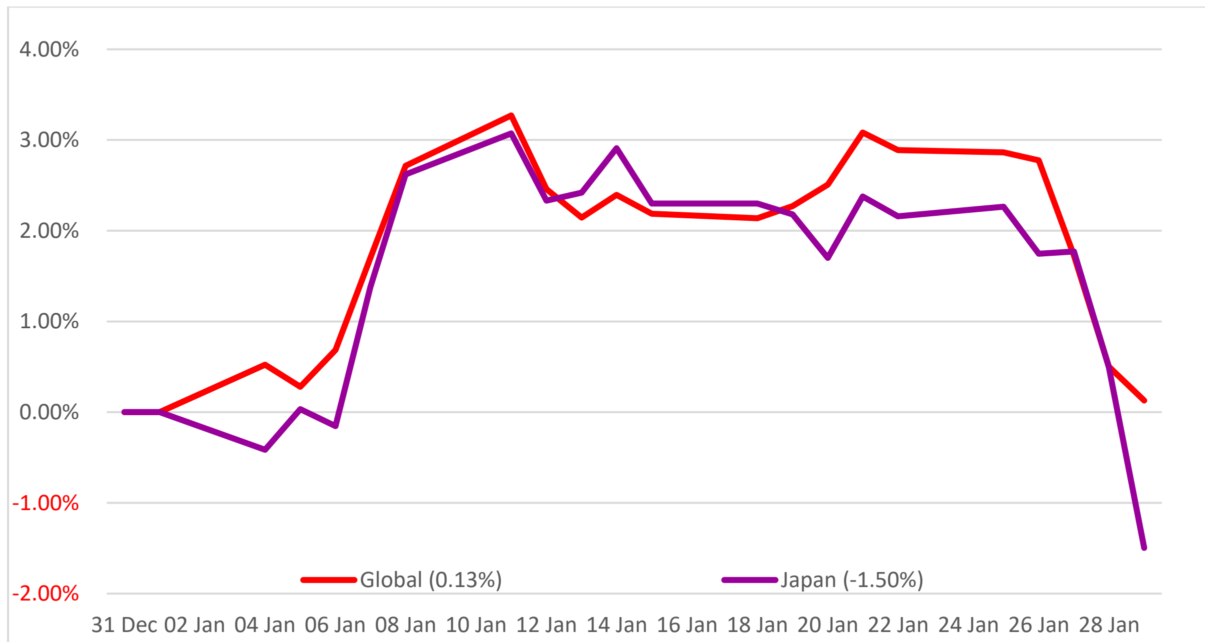
Japan may be under new leadership from Prime Minister Suga, but it remains committed to the policies of "Abenomics". The Japanese government announced fiscal stimulus during the quarter to deal with both the covid-19 crisis and infrastructure investment to aid economic recovery, while the Bank of Japan reaffirmed its accommodative stance. Suga has announced his own take on Abe's "third arrow", which is to include a consolidation of Japan's regional banks and efforts to drive greater productivity and digitalisation.

Sector comparison: Global and Japan – 3 month performance



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global and Japan – YTD performance



31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

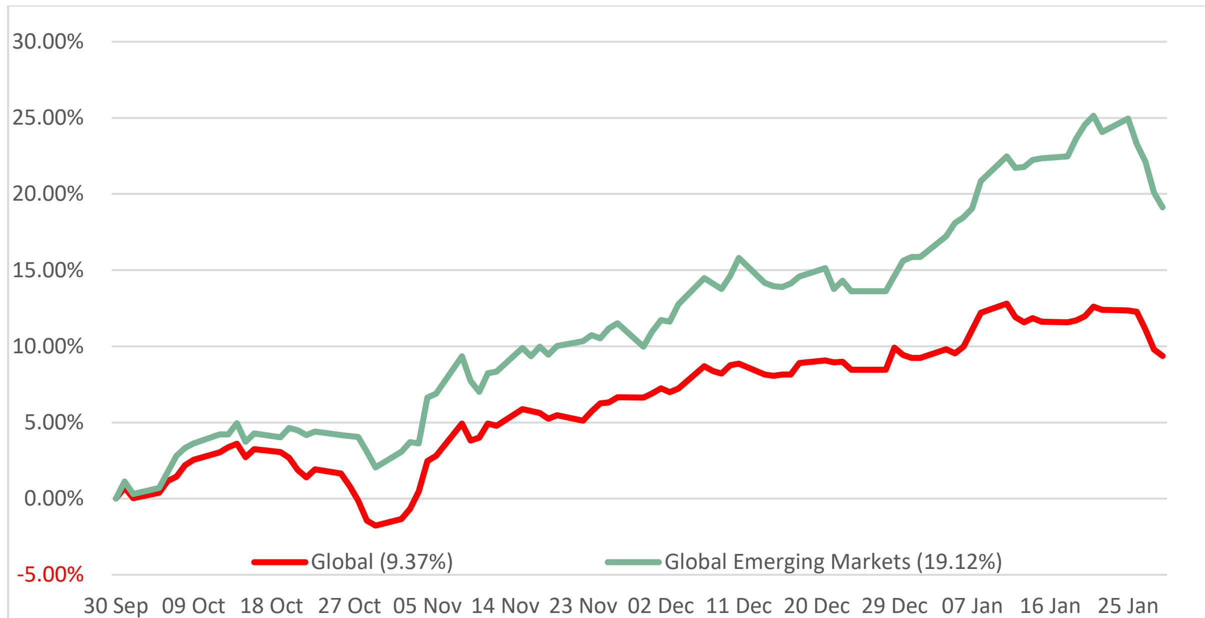
EMERGING MARKETS

Global emerging equity markets registered strong gains over the last quarter, outperforming developed markets, on increased confidence that a return to normalcy and stronger economic growth in 2021 would unfold following a vaccine breakthrough against the coronavirus. The advance in share prices was led by companies that were previously hardest hit by the pandemic as well as an easing in US political uncertainties and optimism fueled by Joe Biden's success in the presidential election which also bolstered positive sentiment.

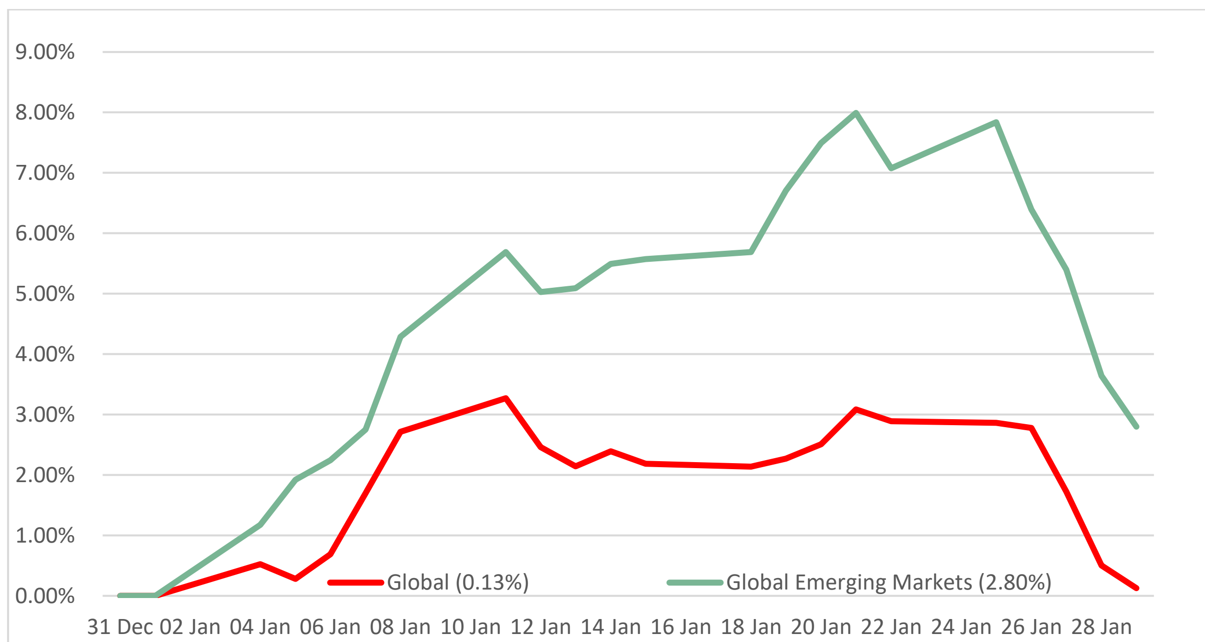
Asian markets delivered the best returns, driven by China and the subsequent knock on affect it has on the rest of the region. The swift introduction of coronavirus containment measures meant that China has controlled the virus much better than the rest of the developed world and was among the first to stop the spread of infections, enabling the country to mount a strong economic fight-back in the second half of the year and are very much "back to normal" again. Korea (technology hardware) and Taiwan (exporters) were the big winners in the region.

Latin American equity markets also posted strong returns as higher commodity prices boosted sentiment in the region, particularly in Colombia and Brazil. However, the commodity-sensitive region had been the worst impacted among emerging markets over the course of the year by the ravages of the Covid-19 pandemic.

Despite a strong finish, all emerging equity markets in the EMEA region closed the year in negative territory with Russia being one of the worst performers being heavily linked to the oil price.



30/09/2020 – 31/01/2021 Data from FE fundinfo 2021



31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

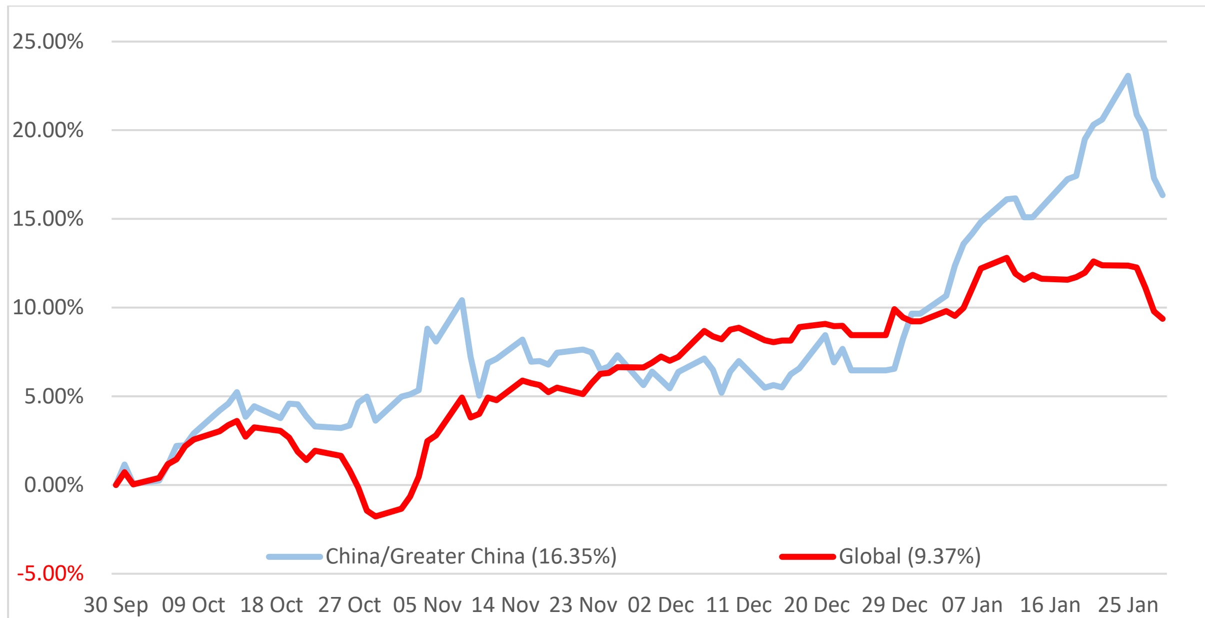
ASIA PACIFIC/CHINA

Asian equity market performance was positive over the last quarter as investors continued to favour risk assets despite rising Covid-19 cases internationally and an increase in local lockdowns. Within Asia, new infections decreased significantly in North Asian countries, such as China and Korea, as the swift introduction of coronavirus containment measures meant that the virus has been controlled much better than the rest of the developed world and were among the first to stop the spread of infections, enabling a strong economic fight-back in the second half of the year and are very much "back to normal" again. Sentiment was boosted by the rollout of Covid-19 vaccine programmes in several countries and the introduction of a US $900bn Covid-19 relief package along with a $1.4tn fiscal spending bill, as well as a stock-market favourable US election outcome given the less disruptive foreign policy proposed by Biden compared to Trump.

In China, the market was supported by healthy third quarter 2020 results and macroeconomic data indicating a continuing economic recovery, with September retail sales rising by 3.3% (year-on-year). Meanwhile, China's 14th Five Year Plan to become an advanced socialist country with leading global influence by 2049 was taken well by the market. However, investor sentiment was dampened somewhat by proposed new antitrust rules on internet companies and renewed US-China conflicts. In November, the US government took action to prohibit US investors from investing in 31 Chinese companies identified with military ties from 11th January 2021, while in December, the Trump administration blacklisted China's top chipmaker, Semiconductor Manufacturing International Corp. (SMIC), China's largest offshore oil and gas producer, China National Offshore Oil Corporation (CNOOC) and 60 other Chinese companies, claiming that they exploit US technology for malign purposes.

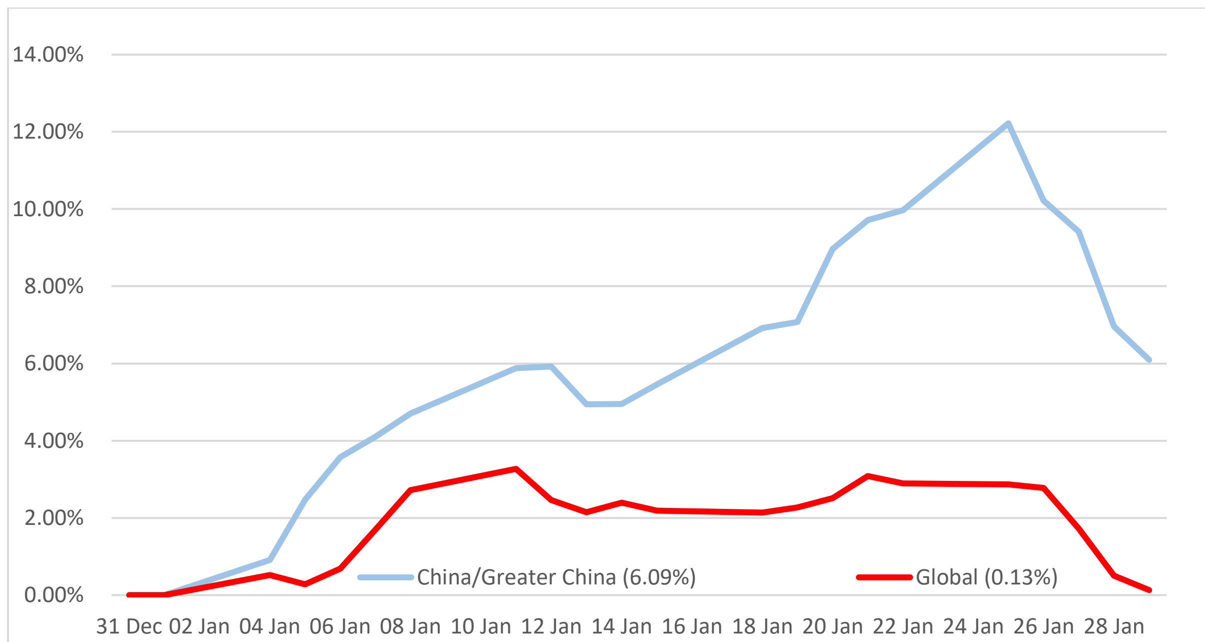
Within the region, the Korean market was among the top performers as its vaccination programme led to higher visibility surrounding its economic outlook. The Taiwanese market also outperformed thanks to the strength of the tech sector which benefited from a better pricing environment for tech components.

Sector comparison: Global and China/Greater China – 3 month performance



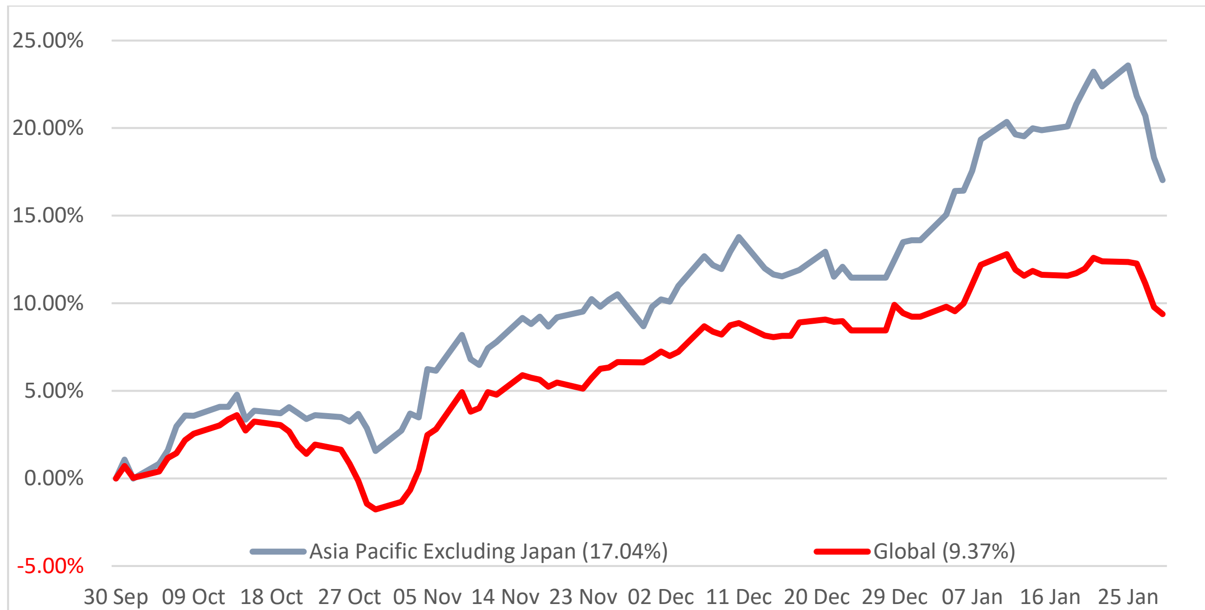
30/09/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global and China/Greater China – YTD performance



31/12/2020 – 31/01/2021 Data from FE fundinfo 2021

Sector comparison: Global and Asia Pacific Excluding Japan – 3 month performance



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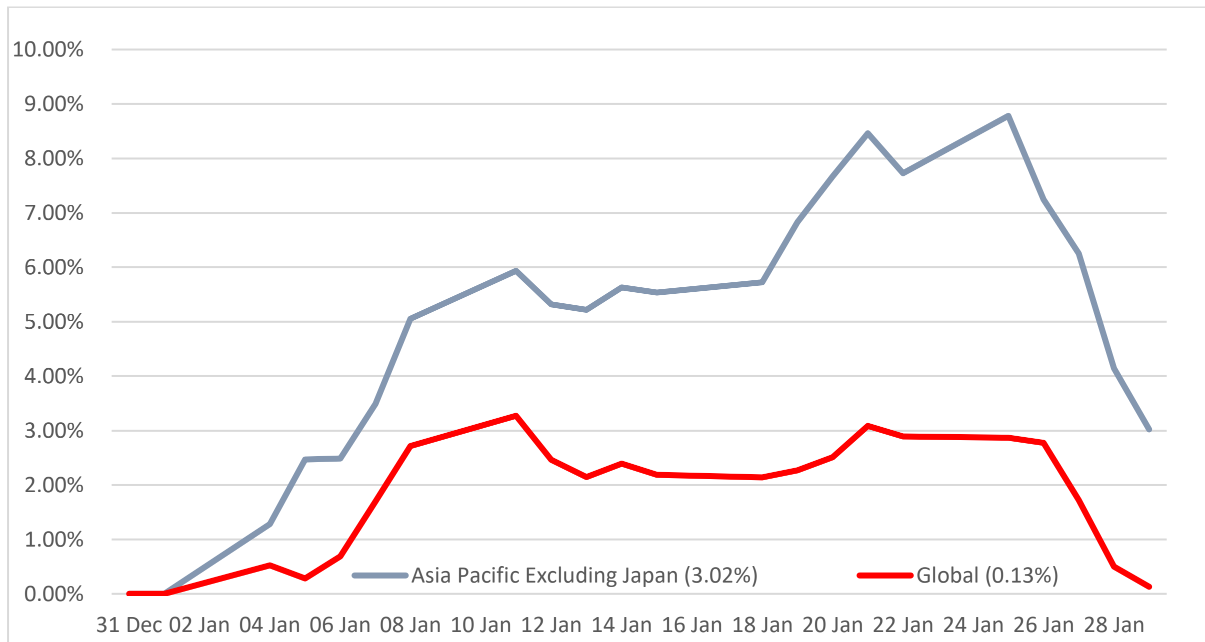
Sector comparison: Global and Asia Pacific Excluding Japan – YTD performance



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COMMODITIES

Perhaps unsurprisingly, oil prices improved strongly over the period as global demand rose on an improving economic outlook. Whilst western nations continued to struggle, the new lockdowns were less restrictive than previous incarnations and China returned to near-normality. In addition, prices were boosted after Saudi Arabia said that it would cut production by 1 million barrels per day across February and March. This voluntary reduction complements other action taken by the OPEC+ group that will see production levels held steady whilst Covid continues to hold back demand in major developed markets. Having fallen technically below zero at their lowest point last year, prices recently rose to over $50 per barrel. This is a massive jump from last spring, but it is a level at which many producers remain unprofitable.

Gold prices were volatile over the period as investors struggled to chart a path through a confusing news cycle that moved rapidly from concern about Covid infection rates and about the political situation in the US to a focus on positives, including a desire for protection from the spectre of rising inflation. The commodity enjoyed its best year in a decade in 2020, but despite a brief spike at the start of January, prices moderated as political concerns eased.

The yellow metal tends to steal the limelight, but it has some way to go to match the rises seen in other areas. Copper, lithium and nickel, to name just three, have enjoyed very strong performance over recent months. Nickel alone has risen around 70% since its low point in March of last year. The theme that connects many of the fastest growing metals is electric cars. As demand for battery powered vehicles rises, helped by political pressure, investors are speculating that demand will outstrip supply leading to shortages.

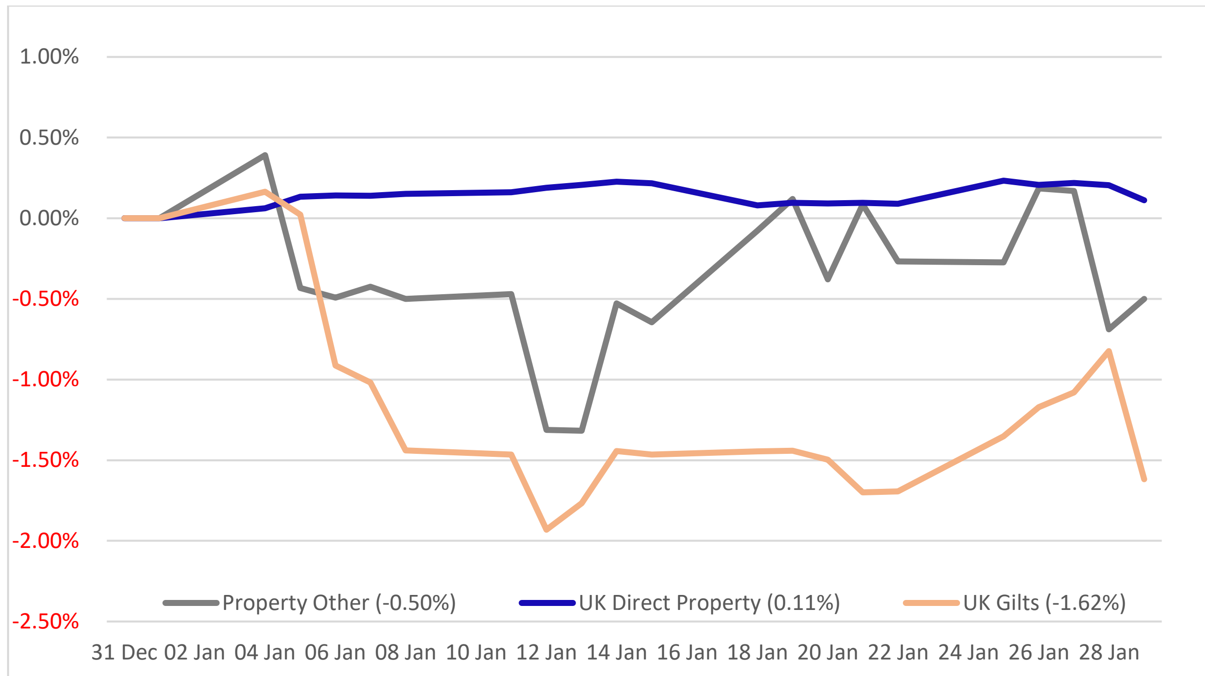
ALTERNATIVE STRATEGIES

UK Direct Property

The fourth quarter saw further progress on the reopening of the UK bricks and mortar property funds, which have been closed since March 2020. Whilst most funds in the sector still remain closed, fund managers have been selling properties to raise cash levels. The exact level of cash a manager requires before proposing to reopen a fund reflects an estimate of the redemptions the manager anticipates and the longer term target level of cash. Monitoring the funds that have reopened so far, redemptions have been manageable, orderly and mostly driven by concerns around the FSA's review, or exasperation with the asset class's tendency to suspend. Portfolios have also been subject to reshaping as the ongoing challenges in the retail sector have necessitated a transition away from retail property and some types of office exposure that have been challenged by the covid-19 crisis. Clearly those funds expecting high levels of redemptions, or those that require greater realignment, are likely to be among the last to reopen.

With December's Brexit deal removing some uncertainty from investors' minds, property could offer valuable income and diversification benefits in future. Fund suspensions do create obstacles for some investors but a favourable conclusion of the FCA's review could lead to in-flows for the asset class.

Sector comparison: Property Other, UK Gilts and UK Direct Property – YTD performance



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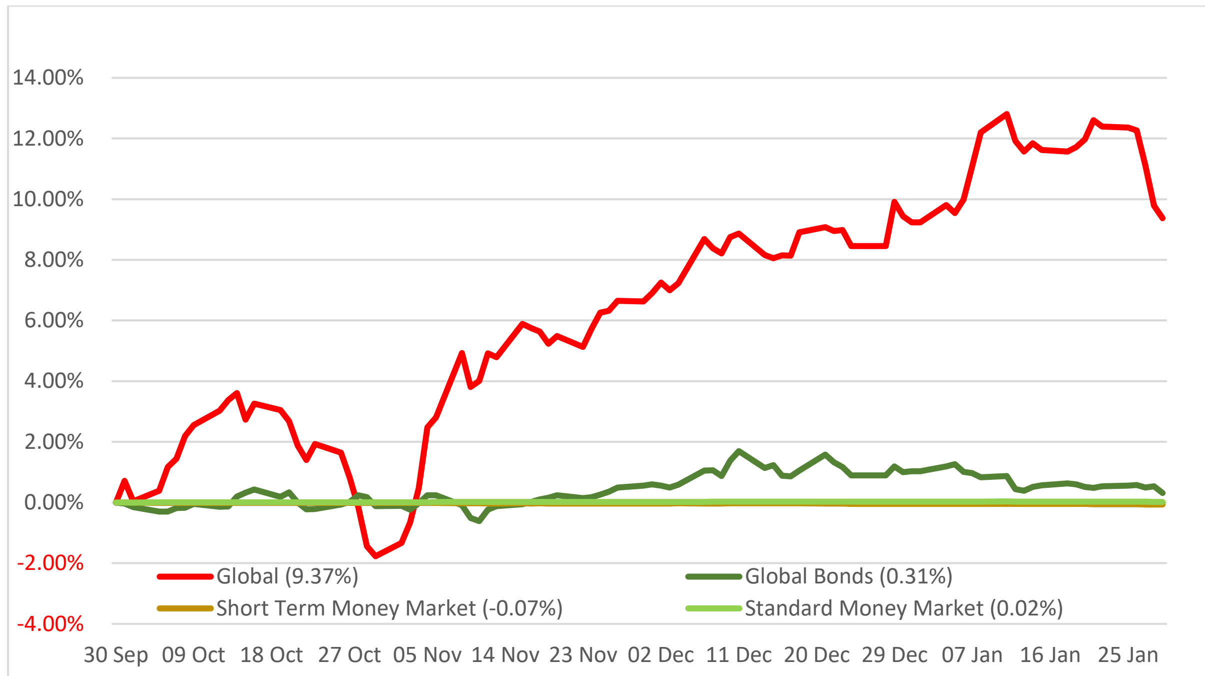
Cash / Money Markets

Across developed markets, the Federal Reserve, Bank of England, European Central Bank and the Bank of Japan all kept interest rates on hold during the fourth quarter with the expectation that interest rates are staying low and unlikely to change in the foreseeable future.

The cash markets are somewhat constrained at the moment. Central Banks generally use interest rates to help control the pace of economic activity. If economies are growing, interest rates generally also rise to stem demand. The global shutdown of economies in the last year, accompanied by unlimited stimulus from central banks and further cuts in interest rates, basically mean there are no opportunities left.

With near zero returns available from cash, short duration bond funds continue to be used across portfolios as a cash-like replacement as well as reducing portfolio volatility.

Sector comparison: Global, Short Term Money Market, Global Bonds and Standard Money Market – 3 month performance



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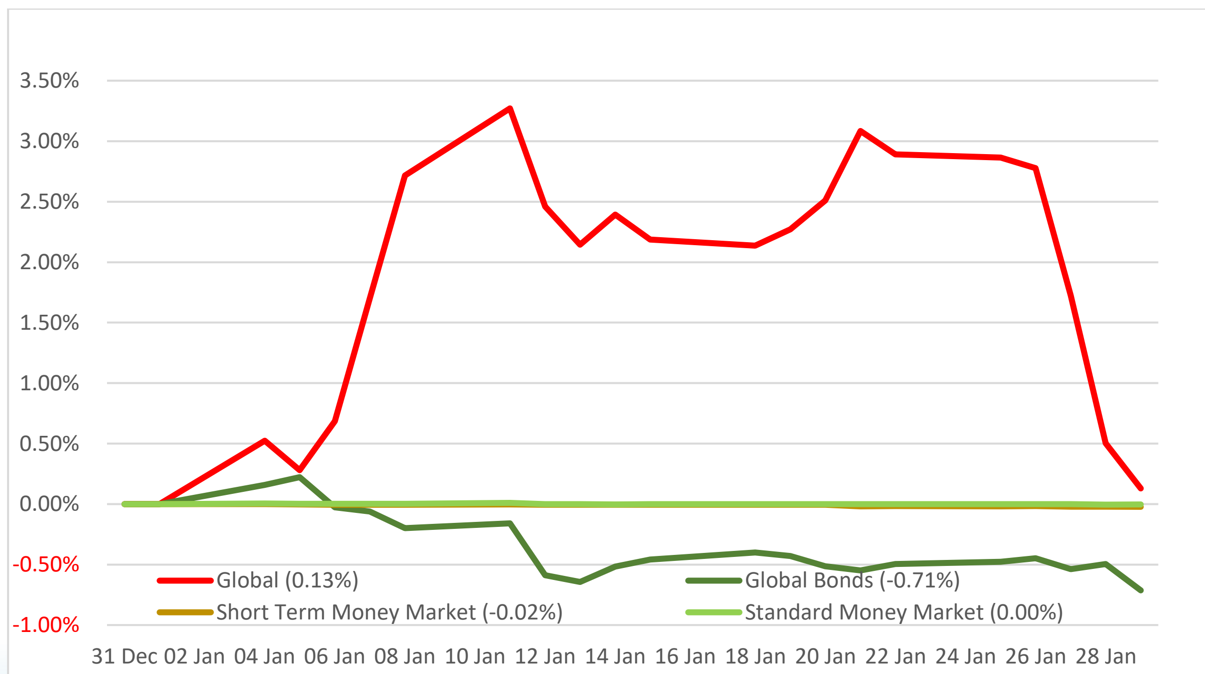
Sector comparison: Global, Short Term Money Market, Global Bonds and Standard Money Market – YTD performance



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Infrastructure

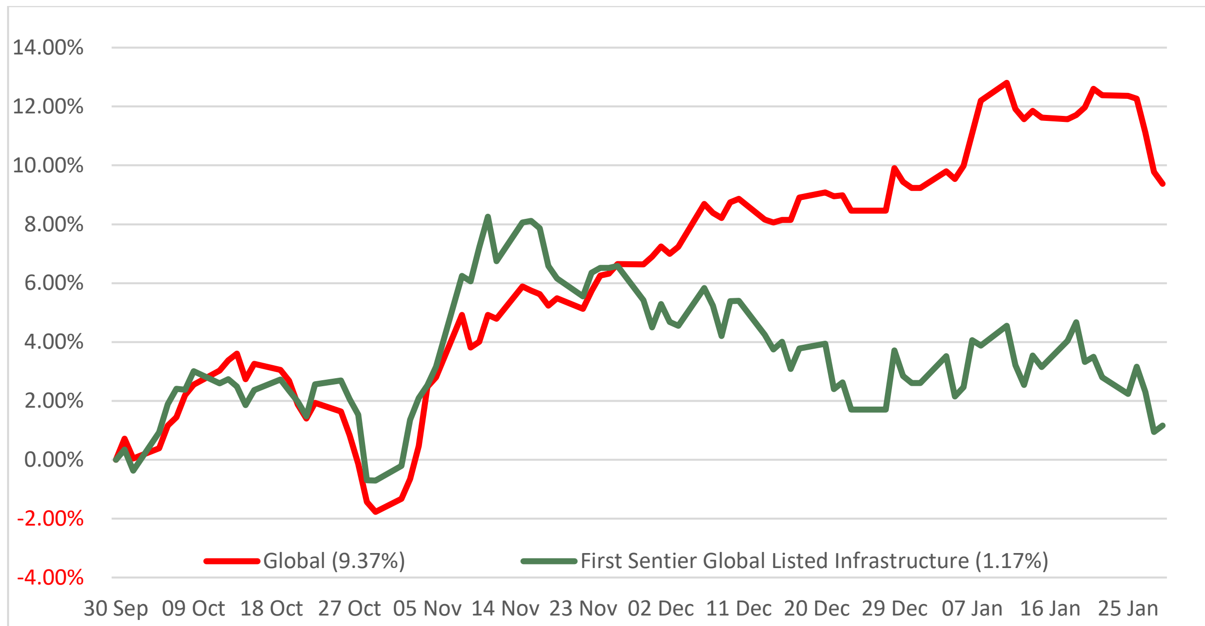
Investment in this sector is typically made either directly or indirectly into a broad range of global companies involved in the ownership and operation of infrastructure assets, including, for example, electricity, water, gas, telecommunications, airports, roads, railways, seaports and social infrastructure assets.

Over the quarter, renewable energy assets contributed considerably to infrastructure returns. Supported by climate change initiatives from a number of nations, solar, wind and energy storage technologies delivered strong performance, which was given a further boost by the US election of President Biden, who has been open about his desire to pursue a more environmentally aware agenda than his predecessor. Outside of renewables, regulated utilities, transport and communication also performed well.

We have previously noted that one consequence of the pandemic is an acceleration in existing trends for remote working, online shopping and entertainment, which requires reliable, robust high speed fixed and mobile data networks. Interest from private equity investors in European telecommunications companies would seem to underline that there is unrecognised value in these networks.

With interest rates set to remain low for some time to come and the pandemic hitting the finances of many traditional dividend payers, sources of income have been in short supply. Infrastructure may complement other income streams to diversify and enhance the reliability of income portfolios are able to deliver.

Sector comparison: Infrastructure Index Proxy and Global – 3 month performance



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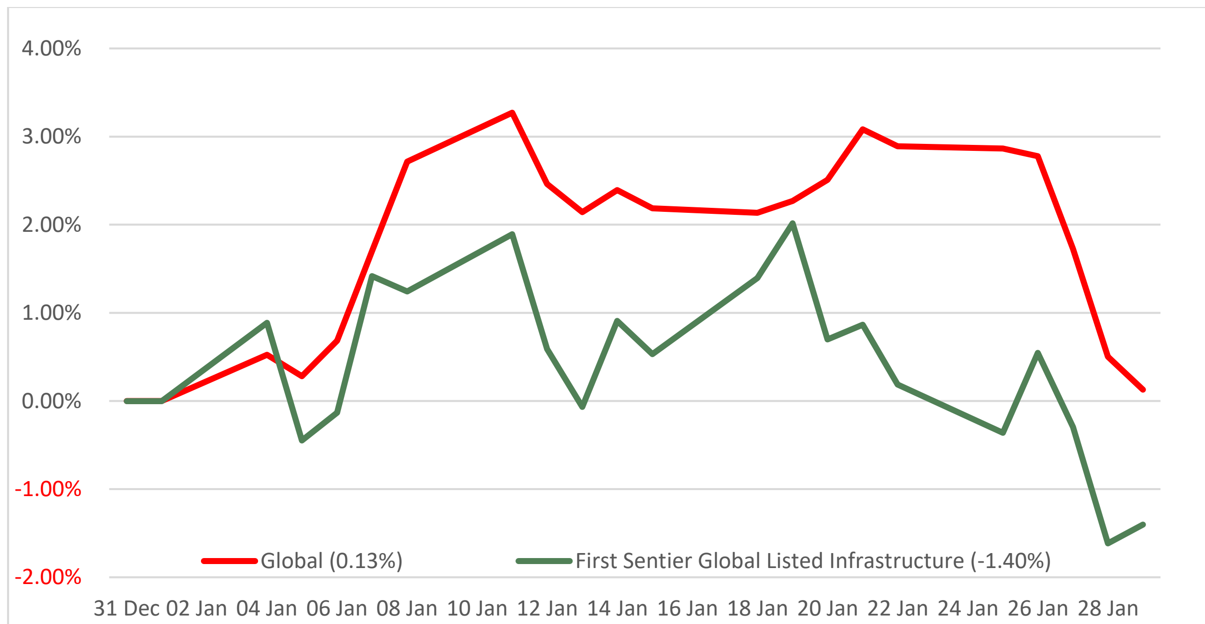
Sector comparison: Infrastructure Index Proxy and Global – YTD performance



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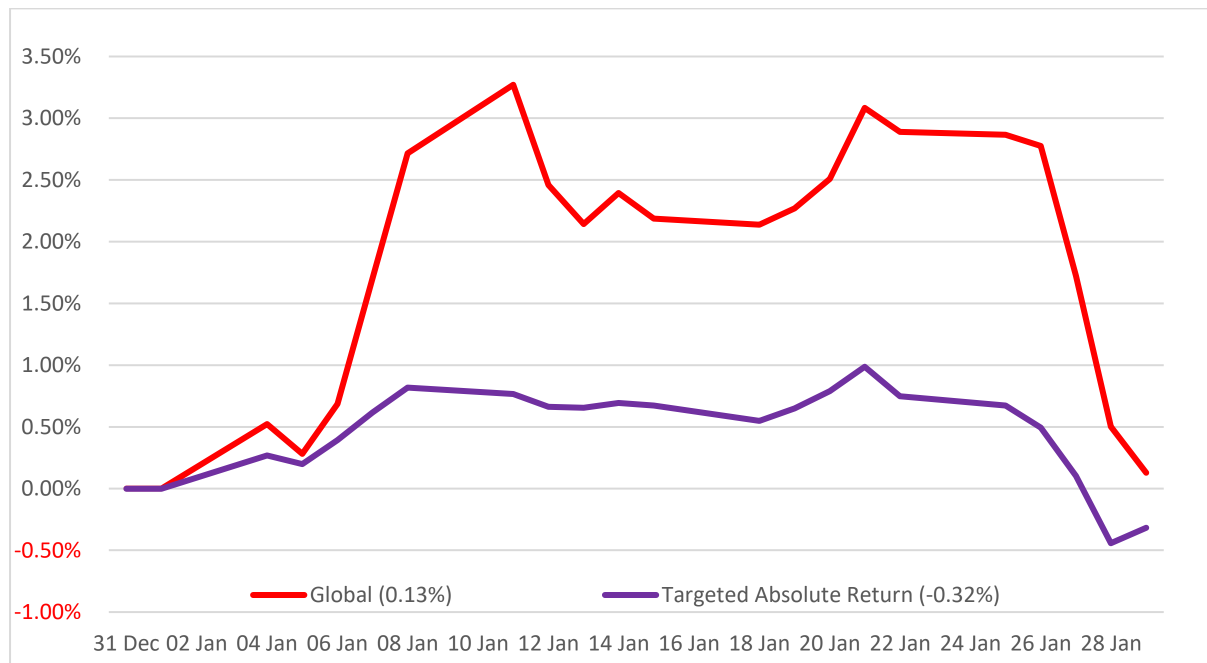
Targeted Total Return

It is very difficult to explain the returns of the sector as a whole due to the diverse nature of the component parts. Some funds aim for a positive return on a year-by-year basis and the portfolio is predominantly cash and short-dated bonds and therefore take a much lower risk profile to other funds. Funds within the Targeted Total Returns have the ability to invest in equity, debt, property, cash, alternative assets and derivatives. Many funds will use all of the above financial instruments.

Some funds will use these instruments to reduce risk, others will use them to enhance risk. Because of these factors, volatilities will be different, as will returns. This is a sector where you need to know the investment objectives of the fund you are investing in and analyse it individually, not necessarily compared to the sector average return. Deviation between the best and worst fund over any time period is likely to be large.

Sector comparison: Global and Targeted Absolute Return – YTD performance



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