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UK Multi-Cap strategy

We continue to focus on those companies that we believe can compound their earnings

- Increased demand for domestic exposure
- Mid and small-cap indices performed better in February
- We started holdings in Moonpig Group and Auction Technology Group

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What's happening?

After pulling back at the end of January, the FTSE All-Share Index resumed its rally in February, rising over +5.5%¹ by mid-month. However, a sharp rally in bond yields globally on concerns that the improving economic outlook would be accompanied by inflationary pressures, saw it give back some of these gains in the latter half of the month. This resulted in a more muted return of +1.99%² for the month.

The mid and small-cap indices performed better in February with gains of 3.5% and 4.2%², respectively, as they benefited from the rotation to value and the increased demand for domestic exposure following the UK's swift progress on vaccine deployment.

Portfolio positioning and performance

The strategy performed positively in absolute terms over the month. From a sector perspective, the overweight position in healthcare and technology detracted from relative performance, as did the underweight positions in financials and materials. The underweight position in consumer goods was beneficial.

Stock selection contributed positively to performance. Positive stock performances of note including Future (a special interest media company), Eco Animal (pet and livestock pharmaceuticals company) and Prudential (multinational insurance company). Future upgraded their expectations for fiscal 2021 on strong performance at its media division, driven by continued momentum in e-commerce and digital advertising. The share price of Eco Animal increased on news of a significant increase in the company's pre-tax profits for the first half of fiscal 2021.

¹ Source: Bloomberg from 31/01/2021 to 15/02/2021. Total return performance in GBP.

² Source: Bloomberg as of 28/02/2021. Total return performance in GBP.

Detractors on a relative basis included HSBC, Royal Dutch Shell, BHP and Barclays, all of which are either not held or held at an underweight versus the index.

We used share price volatility to add to core holdings and make reductions. We took new holdings in Moonpig and Auction Technology Group as part of their IPO processes. No holdings were sold over the month.

Outlook

The main driver of equity markets has now become the action in the world's bond markets, as yields have rallied sharply in response to rising inflationary concerns. This is driving the performance of both markets and sectors, as investors position for this apparent reflationary environment.

Central banks to-date have suggested limited concerns with these higher bond yields; however, while they continue to rise, UK leadership is likely to be dominated by the domestic, commodity and banking sectors. It is hoped that the spike in inflation will just be a temporary effect as economies reopen again following the vaccine rollout, and that central banks are not forced into more drastic action.

Mergers and acquisitions remain a feature of the UK market as corporate and private equity buyers take advantage of depressed valuations.

In these times of volatile news and capital flow, we continue to focus on those companies that we believe can compound their earnings, and where balance sheet strength is supportive of that growth.

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