Close Brothers Asset Management

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Close Portfolio Funds

Monthly fund manager update

APRIL 2021

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MONTH IN REVIEW

The Close Portfolio Funds all delivered strong returns in April. The Conservative Fund returned +2.3%, Balanced added +3.0% and Growth returned +3.9%. Their relevant IA Sectors returned +2.2%, +3.1% and +3.3% respectively (see below for year-to-date returns).

MAY: REASONS TO BE HAPPY

FUNDS' PERFORMANCE

While it is sometimes said that "one swallow does not make a summer" and we must be mindful of not getting ahead of ourselves, so far we can cheer another year of positive returns.

CORPORATE EARNINGS

It has been an excellent Q1 result season overall. The US earnings reports have exceeded expectations with strong growth prospects going forward for the rest of the year. This is a good indicator globally, as well. In the US:

- Of the c. 300 companies that have reported from the S&P 500, 87% have beaten consensus, which is better than the long-term average of 65% and the Q4 average of 76%.
- Estimates for Q2 earnings growth for S&P companies are even stronger at +60%, then easing to +22% in Q3 and +16% in Q4.
- For the whole of 2021, consensus S&P earnings growth is now for +33%, after the -12% decline seen in 2020.

GLOBAL ECONOMIC RECOVERY

A strong broad-based and synchronised economic recovery is expected this year for the world economy. Importantly, it is led by the two largest economies, the US and China, which is good news for all.

COMMODOTIES*

Global growth expectations are reflected in a broad-based recovery in commodity prices: iron ore, copper, platinum, lumber, chickens, agricultural commodities, oil - this is a welcome sign of economic recovery. However, this will eventually feed through to price inflation. A moderate level of inflation is considered healthy as long as price trends do not develop into 'unwanted' inflation risks.

The happy news is that our Funds have been clear beneficiaries from these commodity price trends. In equities, both Anglo American (+35%) and Rio Tinto (+20%) are among the top holdings with strong YTD returns. In alternatives, we hold ETFs/ETCs where YTD returns are also positive with Copper up +30%, Platinum up +16% and Silver up +2%. This means that our tactical view on the strength of industrial metals has been correct in this environment. However, as they are cyclical by nature, we shall continue to monitor the supply/demand situation as well as the overall macroeconomic recovery to adjust positioning, if necessary.

On the other hand, we have clearly favoured metals and mining over oil in the portfolios. This is due to the more limited visibility related to OPEC production controls on the supply side and weaker expected oil demand due to continued travel restrictions as well as the improving availability of alternative energy sources.

FROM ROTATION TO BROAD-BASED PERFORMANCE

The previous six months have been marked by sometimes rather extreme rotations within equities. This has resulted in swings between cyclically sensitive 'value' stocks and secular 'growth' quality companies. Our Funds tend to find better long-term opportunities in the innovative leaders in technology and finance, and we have continued to support these. However, as discussed in the previous point, we have also added shorter-term cyclical risk in the portfolio at the margin, when it has been appropriate.

More recently, these wild rotational swings seem to have settled and made room for a more broad-based performance across sectors, themes and regions. From investors' point of view, this is an indication of a 'happier and healthier' kind of market.

VALUATIONS

Surely all markets are expensive by now after such a strong start for the year, you might ask. Indeed, we ask that question ourselves every day, too. This is when we turn to the quantitative valuation framework that takes into account a number of different factors, including interest rates, various levels of risks, profitability and earnings growth. Is there still upside in equities, and if so: where and what exactly?

Again, more positive news here. We still see over 20% upside potential for equity markets in the UK, Europe and Japan and over 10% in the US. The indicated gains are somewhat lower in Emerging Markets but still well into positive territory.

HAPPY DAYS! WHAT COULD GO WRONG?

1) Financial/economic risks:

i) The excess liquidity and stimulus support put in place to manage the covid-related crisis could be withdrawn too abruptly or too soon resulting in renewed slow-down.

ii) If inflation proves **not** to be as transient as currently expected, interest rates could rise to a point where they start to impact equity valuations negatively.

2) Geo-political risks. Hard to predict but cannot be excluded.

3) Covid-19 strikes back with new mutations.

OVERALL RESULT

Positives 6-3 Negatives - let's see how things look when we reach half-time. We look forward to reporting back.

CLOSE PORTFOLIO FUNDS DISCRETE PERFORMANCE AS AT 30 APRIL 2021

	YTD	2020	2019	2018	2017	2016
Close Conservative Portfolio Fund	**3.1%**	**3.0%**	**12.5%**	**-2.7%**	**9.0%**	**5.4%**
IA 20-60% Shares	3.0%	3.5%	11.8%	-5.1%	7.2%	10.3%
Close Balanced Portfolio Fund	**4.6%**	**2.4%**	**17.1%**	**-2.9%**	**11.8%**	**6.3%**
IA 40-85% Shares	4.7%	5.3%	15.8%	-6.1%	10.0%	12.9%
Close Growth Portfolio Fund	**5.6%**	**5.4%**	**21.9%**	**-3.4%**	**12.5%**	**6.8%**
IA Flexible Investment	5.6%	6.7%	15.7%	-6.7%	11.2%	13.8%

SOURCE:

FE Analytics 05.05.2021; 2021 (YTD) data as at 30.04.2021; fund performance is total return net of fees with dividends reinvested for X Acc share class.

* Prices and returns in this section are to 6 May 2020.