Close Brothers
Asset Management

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Close Portfolio Funds

Monthly fund manager update

OCTOBER 2021

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MONTH IN REVIEW

The Close Portfolio Funds all delivered strong positive returns in October following more challenging markets in September. The Conservative Fund rose +1.58%, Balanced added +2.25% and Growth advanced +3.06%. These returns all compared very favourably with the Funds' relevant IA Sectors of +0.55%, +0.93% and +0.83% respectively.

The same is true on a year-to-date basis (IA sectors in brackets): Conservative stands at +5.89% (+5.88%), Balanced at +9.26% (+9%) and Growth at +12.26% (+9.74%).

OCTOBER THOUGHTS

After a rough September, global equity markets rebounded strongly in October to reach new highs. This was in line with our expectations given that there appears to be a recurring market sentiment. Typically, the last month of the quarter is characterised by increased uncertainty as visibility is limited by the 'quiet period' ahead of the earnings reporting season. In the absence of corporate news, macroeconomic worries tend to take centre stage. However, when companies do start reporting after the quarter end, improved clarity - with plenty of companies meeting or beating earnings forecasts - restores investor confidence and lifts share prices. This recurring market dynamic was evident again between September and October. Therefore, having kept our conviction on core holdings, we are now being rewarded by positive outcomes as companies report.

MACROECONOMIC OUTLOOK

On the macroeconomic front, the debate around whether inflation is 'transitory' or likely to be more persistent is still ongoing. One eventually has to ask: what could be the maximum period which could elapse before inflation is no longer defined as 'transitory'? It has been suggested that as price pressures are the result of supply chain bottlenecks, a tight US labour market, and renewed demand as economies rebound from Covid-19, inflation is likely to remain elevated until first half of 2022 and then begin to recede.

Past experience, in any case, indicates that it is usually wiser to agree with the Federal Reserve (Fed). Therefore, as long as they maintain the view that inflation will not become a long-term problem, it seems sensible to align fund positioning accordingly. In the meantime, the Fed will likely begin tapering their monthly bond purchases shortly, while actual interest rate hikes may come later. This would mean a gradual tightening of financial conditions, a process that should be implemented carefully to avoid an excessive economic slow-down.

Looking at fixed income market indicators, yield curves are still relatively flat, especially in the UK, indicating modest growth expectations. Credit spreads remain tight, implying little value in corporate bonds either, but also that investment grade corporate bond investors remain relaxed about the health of the market right now.

As we approach the end of 2021, markets are likely to oscillate between macroeconomics (suggesting a slowing growth trajectory in China and other major economies as well as enduring inflation concerns) and company specific developments, with an increasing focus on the outlook for profits and growth in 2022.