Close Brothers Asset Management

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Close Tactical Select Passive Funds

Monthly fund manager update

DECEMBER 2021

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MONTH IN REVIEW

December summed up 2021 with GBP strength hurting the local currency returns of our foreign assets. Within equities, there was also a clear preference for “re-opening” stocks compared to “lockdown” stocks – despite news of the omicron variant breaking. Furthermore, sterling fixed income returns were negative due to a rate increase in December, although we were able to alleviate some of this by positioning at the shorter end of the yield curve. Despite it being a more challenging month for equities, all the funds were positive.

The favouring, in December, of “re-opening” stocks was evident from the performance of our equity holdings: the First Trust ISE Cloud Computing ETF fell -4.3% and the VanEck Video Gaming and eSports ETF tumbled -7.11%; while S&P 500 ETFs were up circa +2% and the more value-oriented First Trust US Equity Income ETF added +3.7%. Additionally, the UK equity market, heavily weighted towards the energy and financial sectors, was up circa +5% in December.

Within sterling-denominated bonds, only short duration corporate bonds eked out slightly positive returns. Inflation linked bonds that are typically longer in duration performed worst with the Lyxor FTSE Actuaries UK Inflation linked Gilts ETF down -5.8%, having returned +6.2% in November.

Another theme for 2021, reinforced in December, was the underperformance of gold relative to broad commodities, with gold ETCs up circa +0.5% compared to +3% for the UBS CMCI Composite ETF. The iShares FTSE Global Infrastructure ETF provided some good gains this month, as has been the case throughout 2021; it added +3.6%.

GENERAL POSITIONING

We have kept a steady course throughout 2021 and trading at a minimum. We are looking to modestly rebalance the Funds to reflect government policy on omicron and other variants. We will keep stable in terms of broad asset allocation and follow the in-house consensus view. The Funds are therefore currently overweight equities vs fixed income, with overweights in US, Emerging Markets and Asia equities.

Within the marginally underweight fixed income allocation, we prefer corporate bonds relative to government bonds, and prefer short duration to long duration. As inflation has increased and rate hikes are looking ever more likely, we are looking to tilt the portfolios even further into shorter duration bonds. Within alternatives, we now only invest in infrastructure and commodities, the latter being split 50-50 between gold and broad commodities.