Close Brothers Asset Management

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Close Tactical Select Passive Funds

Monthly fund manager update

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MONTH IN REVIEW

The year started with uncertain markets which favoured 'economy re-opening trades' rather than the, long favoured, high growth tech. As inflation climbs higher, pressure has been building on central banks to control it by raising interest rates. This has had an adverse effect on most fixed income and equity assets, but broad commodities have benefitted. Despite this downward pressure, the funds performed relatively well and were not significantly different from their IA peers: TSP Conservative shed -3.4% (versus -3.1%), TSP Balanced -4.2% (versus -4.7%) and TSP Growth -5.2% (versus -4.8%)

The re-opening rally benefited UK large caps, but almost all other equity markets sold off. Thus the best performing equity fund for January was the iShares FTSE 100 ETF which added +1.4%; the worst performers were the Lyxor Nasdaq100 and LGIM Cyber Security ETFs which both slid -10%.

Pricing in further interest rate hikes, Sterling fixed income investments were all negative, albeit short duration bonds continued to outperform longer duration, and corporate bonds slightly outperformed gilts. Curiously, despite their longer duration, inflation-linked bonds actually outperformed the broad gilt index, which is lower in duration. This can be attributed to the fact that inflation-linked bonds are now paying higher coupons.

January was another great month for broad commodity exposure with the UBS CMCI Composite ETF up +6.2%. (It was also the best performing investment within the funds in 2021). Gold lagged behind broad commodities, but remains well ahead of the broad equity market year-to-date, and returned -0.7%. The iShares FTSE Global Infrastructure ETF was down -3.3%.

GENERAL POSITIONING

Acknowledging the 're-opening' trade, in early January we sold the First Trust Cloud Computing ETF and increased our allocation to the First Trust US Equity Income ETF. We also added a new ETF - the SPDR S&P 500 Financials sector ETF gives broader access to the performance of banks, insurers and capital markets which have already, and may continue to, benefit from higher interest rates.

These trades did not change our broad asset allocation and we are still following the in-house consensus view. Therefore, the funds are currently overweight equities versus fixed income, with a preference for US, EM and Asia equities.

Our fixed income allocation remains marginally underweight, and we are still overweight corporate bonds relative to government bonds. Within alternatives, we now only invest in infrastructure and commodities, currently split 50-50 between gold and broad commodities.

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