UK Multi-Cap strategy

BoE[1] decided not to rise interest rate in the face of solid economic recovery

- Reintroduction of precautionary measures following concerns about Omicron
- Supply chain shortages boosted demand for second hand cars
- Many companies have reported strong trading

Chris St John
Portfolio Manager, UK Multi-Cap Strategy

What's happening?

Macro events dominated market movements during November. The month started with the market surprised by the Bank of England's decision not to increase interest rates in the face of a solid economic recovery and sharply rising inflation. Sterling weakened over the course of the month. However, despite solid GDP figures for Q3, by the end of the month expectations of a rate hike before the end of the year receded as concerns grew about a new strain of Covid (Omicron) being identified in Southern Africa. While tests are being carried out to establish the efficacy of existing vaccines to the variant and the deadliness of the virus, the government has moved quickly to reintroduce precautionary measures around limiting its spread. While further lockdowns are not being widely anticipated, markets reacted negatively to the news.

Large caps again outperformed their mid and small cap peers during what was a turbulent and weak month for equity returns with the FTSE All Share (-2.2%[2]). The FTSE 100 (-2.2%[1]) gave back October's gains but outperformed the FTSE 250 (ex-Investment Companies, -3.2%[1]), while the FTSE Small Cap (ex-Investment companies, -4.9%[1]) had a particularly weak time. Year-to-date, the FTSE All Share index has gained 13.0%[1] on a total return basis.

Portfolio positioning and performance

The overweight position to the technology and industrials sectors contributed positively to relative performance of the strategy compared to the FTSE All Share index. However, stock selection detracted from performance.

[1] BoE: Bank of England
[2] Source: Bloomberg, November 2021.

Positive stock contributors include Auto Trader (digital autos marketplace) and Fevertree Drinks (beverage company). Many companies reported strong trading during November, including Auto Trader who reported very strong six-monthly revenue and profit. As a direct consequence of supply chain shortages, the numbers of new cars manufactured and available for sale has fallen, boosting demand for second hand cars. As a result, second hand car prices have risen, benefitting the cash margin available to Autotrader's customer base.

Detractors over the month include Darktrace (cyber security) and On the Beach (online beach holiday retailer).

Outlook

The equity market continues to be influenced to some degree by movements in global bond markets. Debate around the likely duration and extent of inflationary pressures continue to dominate and the UK consumer has seen the impact of supply/demand imbalances in many areas of their lives, including around impending utility bill inflation. Although the commentary is unrelentingly inflationary, we are starting to see emerging evidence from companies that supply chains are starting to ease. Increasing supply or demand destruction? Equilibrium would be welcomed by companies and should contribute increasingly to the 'inflation is transitory' narrative. Central banks look set to increase interest rates but the pace and size of the increases are uncertain. The latest Omicron Covid variant has added further complexity with governments quickly responding to its threat by imposing more restrictions.

In this environment, 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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