UK Multi-Cap strategy

The market concluded that omicron is probably less disruptive to economic growth

- Bank of England unexpectedly increased interest rates for the first time in 3 years
- Stock selection in Healthcare contributed to performance
- Travel and leisure companies rebounded on optimism that omicron would be milder

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What's happening?

Having started the month with a broad sell-off, owing to concerns over the Omicron variant of Covid, the market gradually came to the conclusion that this strain of the virus is highly transmissible but probably less dangerous, and thus less disruptive to economic growth. A surprising development came in the middle of the month, when the Bank of England (BoE) unexpectedly increased interest rates for the first time in more than 3 years. The BoE described the decision as finely balanced. The lack of clarity on whether Omicron would be inflationary or disinflationary seems to have swung the decision to hike, along with the BoE feeling under pressure from headline inflation which is forecast to peak in Spring 2022 at around/above 6%.

The UK equity markets managed the traditional 'Santa rally' through the final month of 2021 and unlike much of the rest of the year where style, size and currency factors skewed performance, during December the market's advance was broadly spread. The FTSE All Share (+4.68%[1]), FTSE 100 (+4.75%[1]), & FTSE 250 (ex-Investment Companies, +4.95%[1]), while the FTSE Small Cap (ex-Investment companies, +5.83%[1]) performed strongest of all. Over the 12 months, the FTSE 100 (+18.40%[1]) performed in-line with the FTSE 250 (ex-Investment Companies, +18.35%[1]), while the FTSE Small Cap (ex-Investment companies, +31.26%[1]) outperformed.

Portfolio positioning and performance

The strategy outperformed the FTSE All Share in December. Stock selection contributed positively to outperformance, particularly within the health care sector where the strategy benefitted from its position in Clinigen. The underweight

[1] Source: Bloomberg

position in the financial sector was also positive. Clinigen's share price rose 54.4% in December on news the company was in advanced talks with Triton Investment Management on a possible takeover offer.
The strategy also benefitted from its positions On the Beach (online retailer of beach holidays) and TI Fluid (manufacturer of automotive parts). Travel and leisure companies, including On the Beach, rebounded in the second half of December on optimism that the omicron variant would be a milder strain of Covid-19.

Detractors over the month include Boohoo Group (an online fashion retailer), Ascential (media business specialising in information services) and Rentokil (the world's largest pest control company). Not holding British American Tobacco also detracted from relative performance. Rentokil pulled back following news that it is to acquire US peer Terminix for approximately US$6.7bn. Whilst the deal makes strategic sense, the size and unexpected nature of it caused some investor concern.

We used share price volatility to add to core holdings and make reductions.

Outlook

Market direction in 2022 seems likely again to be shaped by Covid and inflation. Central banks performed a U-turn on inflation in 2021, shifting from a reassurance that it would be a "transitory" reflection of the post-lockdowns bounce back to an acceptance that it is more persistent. With expectations that inflation will peak in the Spring, there is the chance that central bank policy mistakes could be made. Striking the right balance between slowing the economy as it recovers and not allowing it to overheat will be hard to achieve, especially while withdrawing other monetary support.

There are, of course, reasons to be optimistic about equities in 2022. Economists are forecasting that global real GDP growth will remain above trend. In addition, global inventory levels remain low and the process of rebuilding them will be a further tailwind through 2022. Earnings forecasts are modestly set and valuations should not be a barrier to further progress following the strong earnings growth in 2021 which brought some multiple compression.

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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