DART CAPITAL

Market Commentary

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It was another eventful start to the year for markets, with the market friendly US Senate election result early in the month giving way later in the month to concerns over renewed shutdowns, as well as volatility caused by elevated trading levels from retail investors. Whilst there remains uncertainty around the speed with which economies will re-open, we are confident that there will be a strong economic recovery once households are allowed to return to the real economy and spend pent-up savings. It has been an active time for us in managing portfolios, as we look to take advantage of the opportunities in areas of the equity markets where fundamentals are starting to improve and valuations are still attractive.

Market Dynamics

The end of the month saw many headlines and column inches devoted to the huge share price gains in a number of lesser-known US stocks, such as electronics retailer Gamestop which gained over a 1000% at its peak (although most of this gain has since reversed). The moves were caused by retail traders, which having grouped together on the social media message board, Reddit, agreed to bid up shares in companies with a high proportion of their stock being short sold by Hedge Funds. In what is known as a "short squeeze", this buying pressure then forced these Hedge Funds to cut their positions and buy the shares in the open market as the share prices rose, which in turned pushed share prices up even further. The activity caused a modest sell-off across the rest of the market as some trading firms cut market exposure in reaction to the spike in volatility, and the US's S&P 500 ended the month down 1.1% in capital return terms.

US

Since the US election result in early November that left the Republican party holding 50 seats in the Senate, and the Democratic party in touching distance with 48, it was clear that Georgia's Senate election on the 5th January would decide which party would take control of the Senate for the next two years as, in the event of a 50/50 split in the Senate, the Vice President has the deciding vote. Whilst most political commentators had expected the Republican party to narrowly gain one of the two seats they required in the traditionally conservative-leaning state, it was always expected to be a close run thing and so it proved, with the Democratic party winning both tightly fought races aided by a strong turnout from younger voters. The Democratic party controlling the Senate will allow President Biden to push through more of his legislative agenda, starting with a far larger fiscal stimulus package than most investors had expected. Bond yields pushed higher following the result as markets discounted higher levels of government spending with the 10 year Treasury increasing 15 basis points to end the month at 1.07%.

UK

The UK data for the month was slightly better than most economists had expected, given the lockdown restrictions that were in place over the month. The labour market has remained supported by the furlough scheme, with the unemployment rate remaining at only 5% despite most of the travel and leisure industry being shut since early November. One area of the economy which is firing on all cylinders is the manufacturing sector, which continues to benefit from households spending more on discretionary goods amidst the ongoing lockdown, with new orders for the sector hitting a three year high in December according to data released over the month.

The COVID data for the UK showed a marked improvement towards the end of the month, with new cases and hospitalisations starting to fall off significantly and, subject to no surprises, we expect the government will be able to proceed with opening schools and other areas of the economy sooner rather than later. The continued vaccine roll-out, in which the UK has been ahead of the curve, helped bolster sentiment towards UK assets over the month, with the Pound making small gains against both the US Dollar and the Euro to end at $1.37 and €1.12 respectively. MSCI UK All-Cap ended the month down 0.8% in capital return terms.

Europe

In the same vein as the UK and the US, continental Europe continues to grapple with stubbornly high COVID infection and hospitalisation rates over this winter period, and this is reflected in the economic data for the Eurozone currency bloc with GDP figures set to be released for the fourth quarter expected to show the economy contracted over the period. The European Central Bank (ECB) have remained on the front foot, and committed to further stimulus measures if required over coming months. MSCI Europe ex-UK returned -1.1% over the month in local currency terms.

China

Economic data emanating from China remained strong through January with the economy growing 2.6% through the final quarter of last year. Retail spending rose for the fifth straight month in December whilst the factory sector moderated slightly on decreased demand overseas. Earlier on in the month the New York Stock Exchange (NYSE) announced that it will delist three Chinese telecom companies (China Mobile, China Telecom and China Unicom), following a Trump administration executive order banning US investment in Chinese companies linked with the military. This was the exchange's second reversal on the subject having said only shortly before that the order didn't require it to delist the companies. The second U-turn was reportedly a result of a phone call between Steven Mnuchin, former US Treasury Secretary, and Stacey Cunningham, New York Stock Exchange President. MSCI China H ended the month with a gain of 1.8% in local currency terms.

Asset Class Performance – End January 2021 (in Sterling terms)

Asset Class	Dart Capital Position	1 Month	3 Months	12 Months	Index
Cash	↘	+0.01%	+0.02%	+0.17%	Bank Of England Base Rate in GBP
Fixed Interest	↗	-1.53%	-1.46%	+1.73%	L&G All Stocks Gilt Index Trust I Inc in GBP
Equities – UK	↘	-0.77%	+16.09%	-11.70%	MSCI UK All Cap in GBP
Equities – International	↗	-0.98%	+9.68%	+11.67%	MSCI All Country World Index ex UK in GBP
Property	↘	+0.60%	+1.81%	-1.96%	FE UK Property Proxy in GBP
Alternatives	↘	+0.01%	+0.02%	+0.17%	Bank of England Base Rate in GBP

Benchmarks are capital return which excludes income
Month to 31 January 2021
All performance data supplied by Financial Express Analytics
Dart Capital positions based on Dart Capital mid risk strategy

↗ Overweight
→ Neutral
↘ Underweight