DART CAPITAL

Market Commentary

April 2021

It was another strong month for equity markets, as falling COVID cases and accelerating vaccination programmes across western economies helped bolster market sentiment. Much market commentary, and attention, is focused on inflation, and it is notable that our managed portfolios are well positioned for a period of above (Central Bank) target inflation, owing in large part to our minimal exposure to long-dated bonds, and tilt towards the more lowly valued areas of the stock market within our equity allocation.

Market Dynamics

Having risen markedly over the first quarter, government bond yields broadly held their ground over the month, as traders awaited further signs of strengthening growth across western economies. In contrast, commodity markets were in more ebullient mood, with the likes of copper seeing a significant rise in price on the prospect of strengthening demand. Stable bond yields and buoyant commodity markets drove a barbell performance within the equity market, with technology and commodity stocks leading markets higher.

Corporate earnings season kicked off in strong fashion, led by the US technology behemoths which handily beat expectations. Google and Facebook benefitted from the continued rebound in online advertising, whilst Apple and Microsoft saw strong demand for their electronic devices and cloud computing offerings respectively. Although their results were strong, the immediate "pop" in share prices quickly unwound as investors considered whether this would be the peak of their earnings growth as the world returns closer to normal, and households are able to spend more of their disposable income within the "real" economy. We have trimmed exposure to these businesses, in favour of areas of the market that are more heavily exposed to more economically sensitive, yet still good quality, companies which should be experiencing rebounding profits over coming months.

Investment Managers

Richard Whitehead
richard.whitehead@dartcapital.com

Chris Bellchambers
chris.bellchambers@dartcapital.com

Andrew Savage
andrew.savage@dartcapital.com

Anna Whittle
anna.whittle@dartcapital.com

Research Team

Alexander George
alexander.george@dartcapital.com

Michael High
michael.high@dartcapital.com

Daniel Patterson
daniel.patterson@dartcapital.com

Dart Capital
61 Queen Street, London EC4R 1EB
Tel: 020 7283 1117
Fax: 020 7283 0891

UK

Aided by the loosening of lockdown restrictions, the UK economy has started to rebound strongly, with the initial survey figures for April showing a return to growth. Against this buoyant backdrop, growth rates have been revised upwards for the remainder of the year by most economists, with the average economist forecast now pointing to 7% growth for 2021 as a whole. Inflation rose over March, as rising fuel and clothing costs pushed the figures up, and we expect a further rise over April as the year-on-year impact of the bounce-back in the oil price reaches its peak. The data emanating from the domestic labour market has remained stable albeit certainly aided by the government's furlough scheme, with the unemployment rate actually falling slightly to 4.9% in the three months to March. UK equities have been a strong driver of performance so far this year, particularly shares in smaller companies which have broadly benefitted most from the improving sentiment towards the domestic economy. MSCI UK All-Cap gained 4.1% in sterling terms over the month.

US

The US economic recovery gained pace over March according to survey data released over the month, with the services sector showing a particularly strong pick-up in activity as households moved to spend pent-up savings and newly received stimulus cheques. Increasing economic activity has driven a decline in the unemployment rate, which fell to 6% in March, as employers added over 900,000 jobs. Of all developed economies, inflationary pressures are building most clearly within the US economy, with inflation moving up to 2.6% year-on-year in March according to data released over the month. Although the economic recovery is likely to be particularly strong within the US given the huge amount of stimulus which has been pumped into the economy by the Biden administration, the Federal Reserve have intimated they don't expect to raise interest rates until 2023 at the earliest. The S&P 500 gained 5.2% in US Dollar terms over the month.

Europe

Data released over the month indicated that the Eurozone economy slipped back into recession over the first quarter, as the strength of the manufacturing sector was unable to make up for the lockdown-induced weakness across the far larger services sector. The currency bloc's economy continued to lag the US and UK over April, as the flare-up in COVID cases across France and Germany has forced the respective governments into renewed lockdown restrictions at a time when many of their largest trading partners are loosening restrictions. Although the near-term COVID-related news has been poor, we believe the acceleration of the vaccine rollout – and the onset of summer – should help push cases down, and allow for a strong bounce-back in economic activity through the second half of this year. Against this backdrop of low expectations, we have been topping up exposure to continental European stocks across our managed portfolios. MSCI Europe ex-UK ended the month up 1.5% in local currency terms.

Asia

The Chinese economy grew strongly over the first quarter when compared to the heavily COVID effected period a year ago. Despite this, and having performed particularly strongly for much of the last year, previously high flying Asian technology stocks have struggled over recent months, driven largely by concerns over rising US bond yields and unwanted political interference from the Chinese government. MSCI China H ended the month down 1.7% in local currency terms. Having had far lower levels of COVID cases and hospitalisations than Europe and the US, Japan has struggled with a modest rise in cases over recent weeks which has resulted in the government bringing in renewed lockdown measures. Whilst these restrictions are less onerous than those which were in place across much of Europe this winter, it has been sufficient to dampen sentiment within the Japanese equity market with MSCI Japan returning -2.6% over the month in Yen terms.