



DART CAPITAL

Market Commentary

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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

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It was a more positive month for equity markets, although rises in government bond yields did cause volatility across stock markets late in the month. Recent economic data and market moves have been broadly in-line with our expectations, and we believe investor capital will increasingly flow into those asset classes which will benefit from a pick-up in economic activity. Over the month, our managed portfolios benefitted from our avoidance of direct exposure to long-dated government bonds that fell in value as bond yields rose from what were exceptionally low levels. Portfolios have also started to benefit from our lack of exposure to the pockets of the equity market – such as loss making technology companies – where valuations had reached extreme levels and we believe are most at risk from a return to a more rational market environment.

Market Dynamics

The month saw a significant move-up in government bond yields, as traders priced in a stronger global economic recovery, aided by the acceleration in the vaccinations programmes across the world. On the back of the Brexit deal, and our more positive view on the outlook for the global economy, we sold down our sole direct exposure to long-dated government bonds – US Treasuries – in mid-January, and these moves really helped over the month as this area experienced heavy losses with the Gilts index ending the month down 6%. Whilst we don't expect the move in yields to be a one-way street, it is increasingly clear that developed economies – led by the US and UK – are well set-up for a strong economic recovery later this year, with households set to deploy high levels of pent-up savings as soon as they are allowed to do so, whilst government fiscal policy remains supportive of household finances.

Across the stock market, the rise in yields drove divergent performance across sectors, with more economically sensitive sectors – such as industrials and materials - outperforming as investors sought to rebalance portfolios which had become increasingly skewed towards technology businesses on high valuations.

US

The government emphasis in the US has shifted even further to ensuring full employment and supporting wage growth amongst lower paid workers, whilst inflation – following a decade of weak headline consumer price inflation – is firmly on the backburner. The selection of Janet Yellen as Treasury Secretary further re-iterates this shift in stance, and we believe that – whilst the deflationary forces effecting the economy remain in place - the likelihood of a period of above average inflation is increasingly likely as surging demand is met with reduced supply. In contrast to the situation in Europe, the US services sector started the year on a strong footing according to survey data released over the month, although data from the labour market indicates that unemployment remains elevated from where it was prior to the pandemic. The S&P 500 ended the month 2.6% higher in US Dollar terms.

UK

The services side of the economy continues to struggle amidst lockdown measures, with activity declining to its lowest level since May during January, according to survey data released over the month. However, the government's plan for the re-opening of the economy – starting with schools re-opening on the 8th March – does provide significant hope to the sector, and we expect a dramatic bounce-back in household spending once restrictions are lifted and they are able to deploy pent-up demand. Over the month, Gilt yields rose significantly, as the prospect of improving domestic and global growth caused investors to rule out any potential move towards negative interest rate policy. Inflationary pressures remain benign, although there will be a rise in the headline inflation rate starting in April and, likely through much of the rest of the year, as the year-on-year increase in the oil price – which fell to its low last April – will push the figures up. MSCI UK All-Cap ended the month up 1.9% in capital return terms.

Europe

The Eurozone manufacturing sector remains the bright spot across the currency bloc, as buoyant demand for consumer and industrial goods contrasted sharply with the lock-down induced weakness across the services sector. The European Central Bank (ECB) continue to carry out their Quantitative Easing programme, and appear likely to step-up their bond purchases should government bond yields across the currency bloc continue to increase at pace. MSCI Europe ex-UK returned 2.5% over the month in local terms.

China

Early in the month, President Joe Biden held his first official phone call with Xi Jinping, China's President. The call came three weeks after Biden's inauguration and saw, according to a readout of the call, Biden confront Xi about China's "coercive and unfair economic practices, crackdown in Hong Kong, human rights abuses in Xinjiang and increasingly assertive actions in the region, including toward Taiwan,". Whilst officials noted that there were "deep problems" with how the Trump administration had approached relations with China, it was clear that Biden is not afraid to confront China on important issues whilst working with allies in Europe and Asia. Having posted strong returns over the last year, it became clear that positioning within the Chinese equity market had become stretched as the market was negatively impacted by rising bond yields in developed markets. MSCI China ended the month down 1% in local terms.

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

Asset Class	Dart Capital Position	1 Month	3 Months	12 Months	Index
Cash		+0.01%	+0.02%	+0.12%	Bank Of England Base Rate in GBP
Fixed Interest		-5.62%	-5.97%	-5.27%	L&G All Stocks Gilt Index Trust I Inc in GBP
Equities - UK		+1.88%	+4.79%	-0.44%	MSCI UK All Cap in GBP
Equities - International		+0.36%	+1.42%	+18.02%	MSCI All Country World Index ex UK in GBP
Property		+0.54%	+1.82%	-1.37%	FE UK Property Proxy in GBP
Alternatives		+0.01%	+0.02%	+0.12%	Bank of England Base Rate in GBP

Benchmarks are capital return which excludes income

Month to 28 February 2021

All performance data supplied by Financial Express Analytics

Dart Capital positions based on Dart Capital mid risk strategy

-  Overweight
-  Neutral
-  Underweight

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