Monthly Strategy Review | October 2021

Asset Allocation as a driver for medium to long-term performance

Investment strategies have been conceived on the premise that asset allocation is a key fundamental consideration in order to generate medium to long-term returns for investors. Asset allocation forms the basis for any investment strategy which is underpinned by three core asset classes, which are; ii) Money Market, ii) Fixed Income, and, iii) Equity. The level of risk varies, with money market instruments exhibiting the safest risk metrics, fixed income instruments providing more risk than money market assets but less overall risk than equities, and equities exhibit the highest form of risk. Investors seeking to protect capital will have more fixed income exposures then equity, whilst investors seeking greater long-term returns will choose a strategy which is tilted towards equities. The choice of an investment strategy hinges upon the risk profile of the investor which is adequately assessed by professional financial advisors. The basic principle in finance, is that the level of risk should be compensated by a level of return. Investment strategies seek to tap risk buckets when it is appropriate given a set of market conditions. Specifically, markets undergo periodic cycles in which the risks undertaken do not always justify the expected returns. In this case, investment strategies are designed to cut back on risk, in order to smoothen any expected volatility.

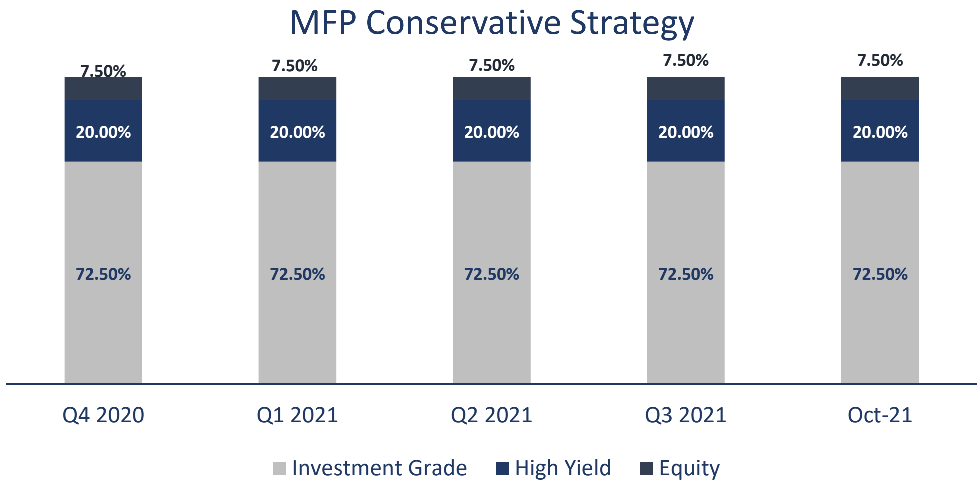
An equity rally that significantly outstripped fixed income returns during October 2021

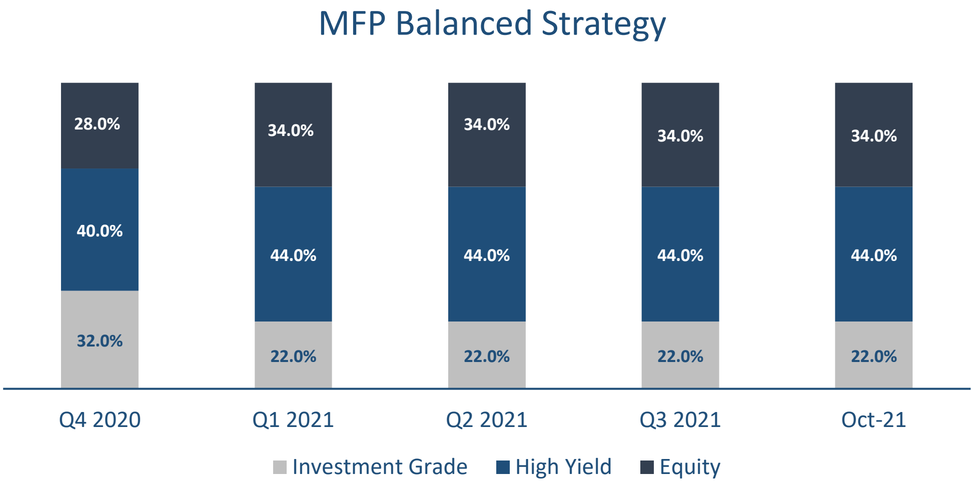
The Euro Stoxx 50 index returned 5.20%, whilst the S&P 500 Index returned 7.01% for the month after lacklustre returns during September. The rebound in equity markets coincided with the earnings season. Earnings in both Europe and the US met expectations on the whole, as guidance was in line with expectations. Both European investment grade debt and European high yield debt delivered negative returns for the month as benchmark yields increased during the month. On a year-to-date basis, European investment grade debt underperformed, whilst European high yield experienced limited upside with a total return of 3.08%. The standout asset class for the year so far has been both European and US equity markets given their respective total returns in excess of 20%.

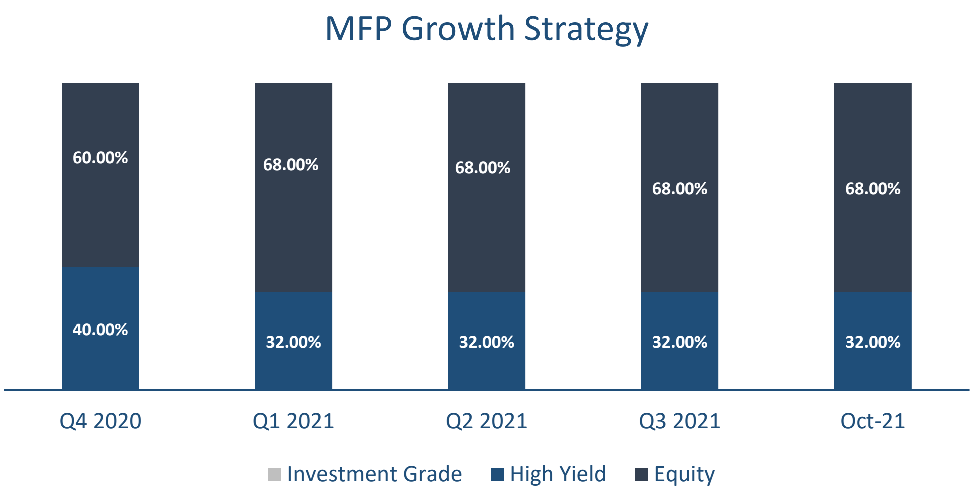
In the European high yield space, markets continued to contract during October as the overall high yield market is currently now yielding c. 2.90%. This is the result of spreads remaining flat, however, the overall yield environment shifted upwards following the increased inflationary focus by market participants. Inflation concerns continue to press on market sentiment as commodity prices continue in their relentless upward pace. The supply chain disruption narrative continued to plague October, albeit having a greater impact on fixed income rather than equities. The inflation momentum is moving central bank policy, with both the Federal Reserve and the Bank of England likely to act in the upcoming period. Expectations are that the Federal Reserve will cut back on asset purchases, whilst the Bank of England is touted to raise rates, despite a challenging outlook in view of the winter season.

The winter is shaping up to be a difficult period for global economies as the vaccination rate remains low at the mid-30%. This means that the risk of resurgence as currently experienced in Easter Europe and throughout the globe is not an “if” but a “when”. Countries on the lower end of the vaccination drive need to strike out deals with other countries in order to vaccinate their population. Vaccine effectiveness is high for individuals to have milder symptoms; however, the risk of transmission and hospitalisation are not completely eliminated. This means that heading into the Winter season, investors need to thread with caution in order contain any risks that may emanate from this event.

Asset allocation changes over recent quarters for each MFP strategy

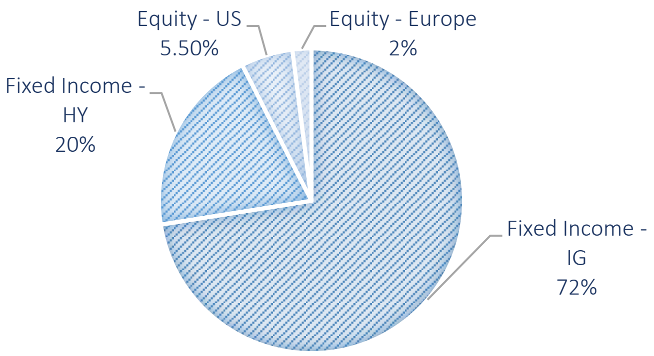






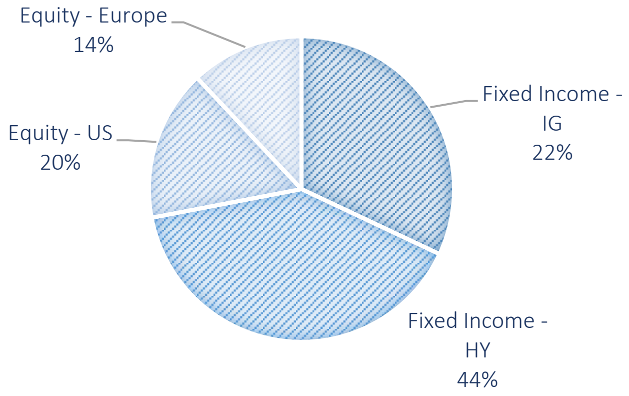
Strategy Snapshot

Asset Allocation | Conservative Strategy



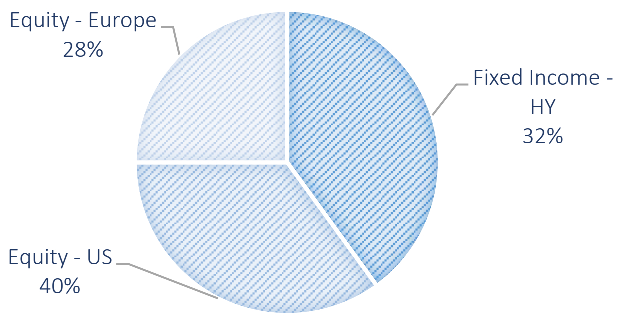
Current Distribution Yield: 1.44%*
Fixed Income Duration: 5.37*

Asset Allocation | Balanced Strategy



Current Distribution Yield: 2.21%*
Fixed Income Duration: 4.02*

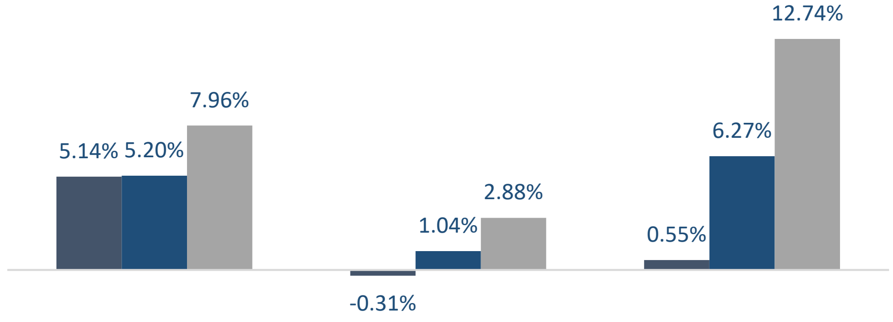
Asset Allocation | Growth Strategy



Fixed Income Duration: 2.77*

** All figures quoted are as at 31st October 2021*

Performance Snapshot



	2020	Oct-21	YTD
Conservative Strategy	5.14%	-0.31%	0.55%
Balanced Strategy	5.20%	1.04%	6.27%
Growth Strategy	7.96%	2.88%	12.74%

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