Schroders

atlas

Report from Schroders on the Atlas Master Trust investment funds

Please note that these are unaudited figures illustrating current market conditions, caused principally by the Coronavirus (COVID-19) pandemic. We'll be updating this periodically.

Update 31 March 2021

Portfolio comments

It was a mixed picture for global markets in March. Developed markets generally gained as hopes for an economic recovery grew, while emerging markets and Asia underperformed. Bond yields continued to rise in the US and UK. US equities rose amid earnings optimism, policy accommodation and the $1.9 trillion fiscal stimulus bill, whilst European equities also recorded strong gains. This was despite delays in the supply of Covid-19 vaccines and a rise in infection rates resulting in a number of restrictions and renewed lockdowns. UK equities also performed well as the country took its first steps to ease lockdown restrictions.

Although we view the rising bond yields this year as accompanying growth rather than choking it off, we recognise the risk this poses to equity valuations. Indeed, one could easily argue that both credit and equity valuations are already consistent with "late cycle". As a consequence, although we remain overweight equities, we have sought to mitigate some of the risks by expressing this overweight with a value bias through exposures to banks, value and Japan.

In terms of portfolio changes, we closed our long emerging market equities position at the start of March in line with a reduction in our overall equity overweight. Our conviction in this region has faded somewhat whilst performance has been weaker relative to our other overweight positions which have more of a value tilt e.g. US financials and Japanese equities.

Turning to fixed income, we closed our underweight German bunds position, whilst also reducing our broad global government bond short. While government bonds don't look particularly cheap yet from a valuation perspective, the speed of the recent move looks excessive under several metrics. We therefore decided to observe discipline and take some profit on the positions.

Within currencies, we closed our overweight Canadian dollar (CAD) vs New Zealand dollar (NZD) position. Following the announcement of changes to New Zealand's macroprudential housing policy, the NZD fell, a fall which we thought was exaggerated. As a result, we decided to take profits on the trade.

Outlook

For the last 6 months we've had a procyclical bias in our asset allocation based on "recovery" signals from our cyclical models which started turning green last summer. The models are based on historical relationships and don't make allowances for two factors that have turbo-charged this recovery from a market perspective; the announcement of the vaccines, which recalibrated COVID risks, and the extreme amount of both monetary and fiscal stimulus, which prevented the usual credit cycle. From an economic perspective we judge that the "recovery" signal is still correct in that slack based on output gap measures and employment is still significant. We expect some upward pressure on inflation driven by base effects in oil but for now we judge that concerns about second order inflation effects are premature.

	Atlas 1 / benchmark	Atlas 2 / benchmark	Atlas 3 / benchmark
Month to date	3.6% / 2.9%	2.6% / 2.0%	1.6% / 1.1%
Year to date	4.8% / 3.1%	2.7% / 1.6%	0.7% / 0.1%
1 year	36.2% / 35.3%	26.8% / 26.8%	17.9% / 18.6%

N.B. Performance data is unaudited. Official performance figures are not ready for publication.