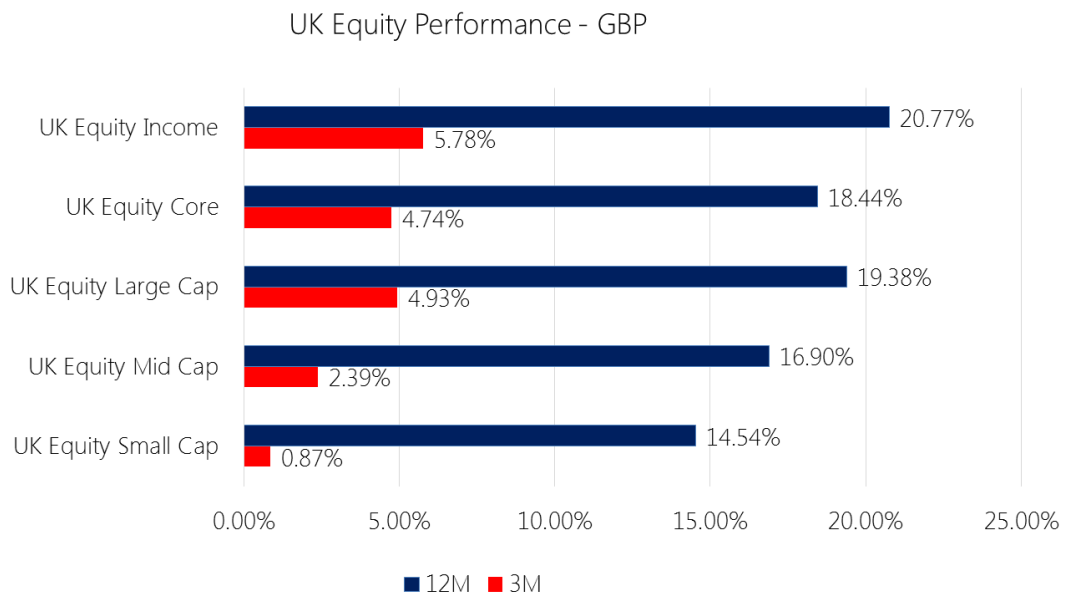


## 2021 UK equity segment performance

Within UK equity market segments, UK Equity Income outperformed all other segments in 2021 as inflation fears made income-generative, value-oriented shares relatively more attractive, according to research by Elston Consulting<sup>1</sup>. UK Equity Income, represented by the Freedom Smart Beta UK Dividend Index (ticker ELSUKI Index), returned +20.77%, whilst UK Large Cap returned +19.38% and UK Core returned +18.44%. UK Small Cap was the weakest UK segment, returning +14.54% for the year.

*Fig.1 UK equity segment performance (GBP) as at end Dec-21*



Source: Elston research, Bloomberg data

For the first 9 months of 2021 equity returns were led by growth sectors and momentum continued to be the dominant feature, as it has been for most of the last three years. A period when QE and ultra-low interest rates were the driving force in capital markets.

<sup>1</sup> <https://www.elstonsolutions.co.uk/insights/2021-performance-by-asset-class>



However, at some point in the middle of September 2021 market sentiment started to change in favour of value. This feature gradually became more important as the year drew to a close and made a substantial difference to the relative performance of different sectors for the year even though it was only a factor for the last quarter of the year.

Driving this change in sentiment was the sudden appearance of inflation, in quite a significant manner, after decades in which it had been dormant. Although the proximate cause was shortages caused by the pandemic, the underlying driving force is the easy money policy adopted by the major central banks even since the financial crisis of 2007.

Inflation now threatens this policy, and it remains unclear how vigorous central banks will be in acting to defeat inflation. As ever, capital markets are taking no chances. They have already moved to anticipate rising interest rates by moving assets away from long-duration equities, which are vulnerable to higher interest rate, to short-duration equities which offer greater reliability of income. In hindsight 2021 may come to be seen as a pivotal year in capital markets and the start of the third quarter in particular.

The fourth quarter rally in value stocks meant that the VT Munro Smart-Beta UK Fund, which tracks the index, ended the year ahead of two thirds of its rivals.

Robert Davies

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**VT Munro Smart-Beta UK Fund**

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