MUNRO

Comment
March 2022

Value still seen as optimal inflation hedge

With the inflation rate in the US and Europe showing little sign of slowing down - not least due to the additional supply shock prompted by the Russia-Ukraine war - a recent survey conducted by Bloomberg revealed unequivocally that a majority of investors view allocating to Value as the optimal inflation hedge, with gold and inflation-linked bonds coming in as distant runners up.

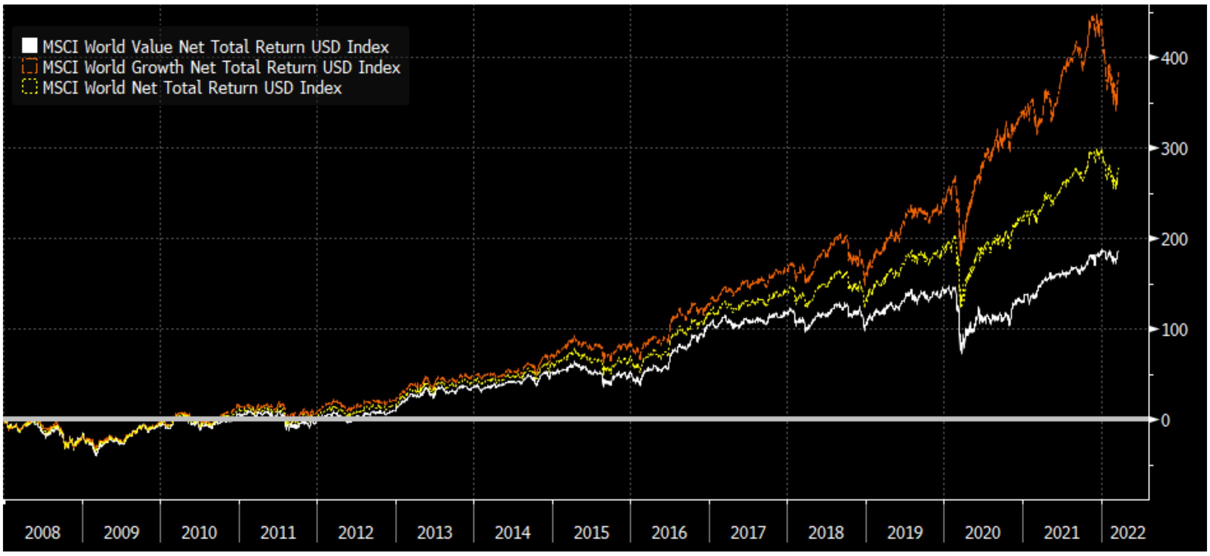
The "great rotation" to Value began towards the end of 2020 as inflation fears came into focus and investors have been rewarded accordingly. From 31st December 2020 to 23rd March 2022, the MSCI World Value factor has delivered returns of +24.63% returns compared to +10.73% return for Growth factor and +17.89% for the parent MSCI World index, all in GBP terms.

Fig.1. MSCI World and World factor indices, in GBP terms since December 2020

Source: Bloomberg data, 31-Dec-20 to 21-Mar-22 in GBP terms

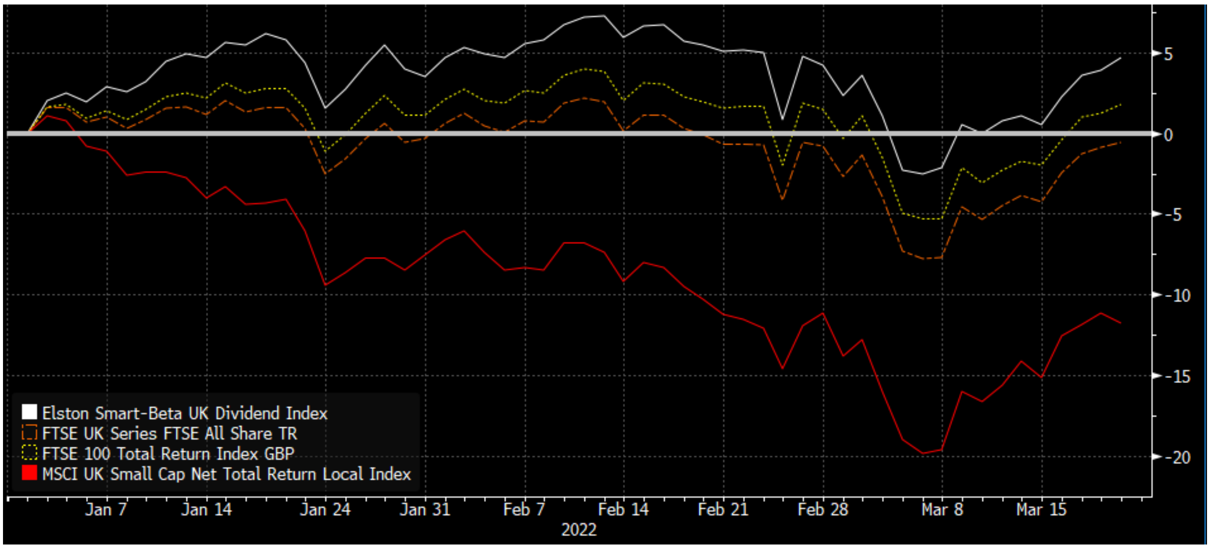
If we look back further at relative performance since the end of 2007, we can see that Value's underperformance relative to Growth is still material. On this basis, the re-rating of Value, relative to Growth, may still have room to run in the face of a persistent inflationary environment.

Fig.2. MSCI World and World factor indices, in GBP terms since December 2007



Source: Bloomberg data, 31-Dec-07 to 21-Mar-22 in GBP terms

Looking at the picture in the UK, the story remains the same. The inflation figure published on 16th February showed a rise of 5.5% year on year in the Consumer Prices index meaning more pain for Growth equities as future earnings are discounted accordingly. Year to date, the FTSE 100 is 1.75%, the FTSE All Share is -0.58% and the MSCI Small Cap is -11.80%.



Source: Bloomberg data, 31-Dec-21 to 21-Mar-22 in GBP terms

While well positioned factor-wise for the current macroeconomic environment, at stock level too the fund’s holdings are benefiting from prevailing trends. Already pushed higher by a post-pandemic supply squeeze, commodity prices have spiked since the start of Russia’s offensive against Ukraine and the raft of trading sanctions it has prompted. Half of the fund’s ten largest holdings comprise mining companies and oil firms, all with resilient income streams.

With break-even inflation rates pointing to the current inflationary period persisting for at least 5 years, the inherent bias of the VT Munro Smart Beta UK fund to Value positions it favourably for the medium-term.

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VT Munro Smart-Beta UK Fund
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