

Value-bias provides resilience

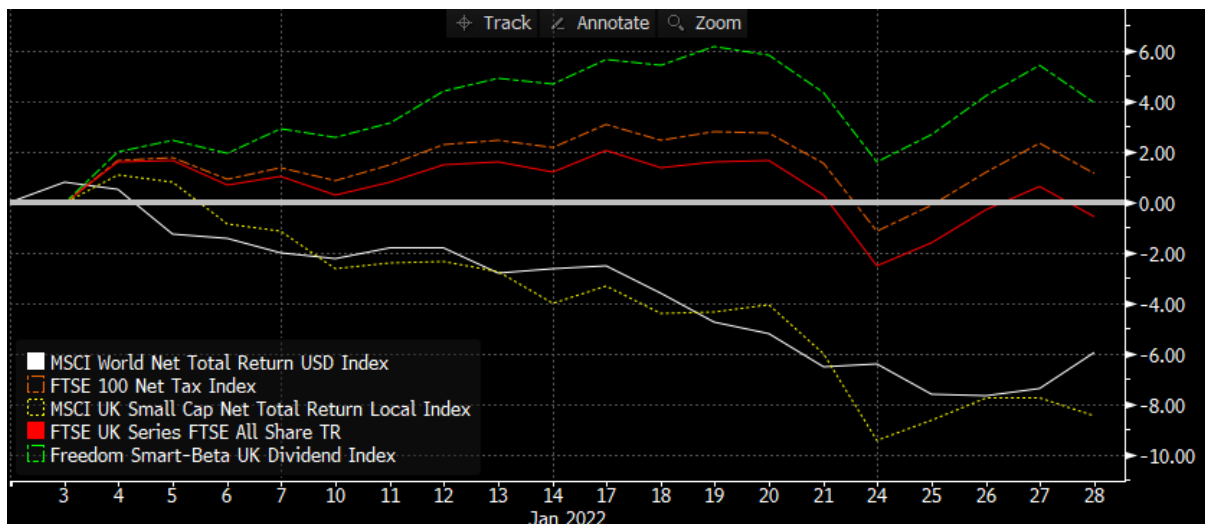
Value-biased equities have been out of fashion since the financial crisis with performance lagging Growth or Momentum factor equities. But they are making a comeback because of their cash generative ability and shorter "equity duration" characteristics which mean they have greater potential to outperform during an inflationary regime.

Value has outperformed growth since vaccine day (9th November 2020) in a so-called "great rotation". However, it still has potential to continue, owing to the extent of prior underperformance, and the continued higher inflationary regime.

Year to date performance has underscored resilience

The dispersion between styles and segments within equities is pronounced in the UK.

Fig.1 UK equity YTD segment index performance (GBP) as at end 28-Jan-21



Source: Elston research, Bloomberg data

While the true rate of inflation is the subject of some debate there is no argument that it is now meaningful. Consequently, nominal assets, such as bonds, are losing their relative purchasing power. The only way to keep pace with inflation is to invest in real assets that produce cash flow generated by goods and services whose prices keep pace with inflation. Typically, these are commodity producers, providers of essential household goods and food as well as retailers. These companies have a relatively high weighting in indices biased to value, including ELSUKI and hence the Munro Smart-Beta UK fund that follows it. This why



the relative performance has been good since inflation started to pick up in the autumn. As inflation passes through into wages due to demographically induced labour shortages there is every indication that inflation is here to stay.

Robert Davies

Lead Manager and Business Developer for the VT Munro Smart-Beta UK Fund

VT Munro Smart-Beta UK Fund

Valu-Trac Investment Management Limited. Authorised and regulated by the Financial Conduct Authority (FCA), registration number 145168. Head Office: Orton, Fochabers, Moray, IV32 7QE Telephone: +44 (0)1343 880217 Registered in England No. 2428648 Registered Office: Level 13, Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.

Visit our Website at <https://www.valu-trac.com/administration-services/clients/munro/>
Direct contact details for Robert Davies: Telephone: 01360 771921 Mobile: 07889 690369