ERIC STURDZA INVESTMENTS

Sturdza Family Fund

February 2021 Fund Commentary

Market Development

In February, the MSCI World Index (in USD) saw an increase of 2.56% and the Euro Stoxx 50 (EUR Net Return) returned 4.54% whilst the S&P 500 also increased by 2.61%. The Dollar Index (DXY Index) appreciated by 0.33% over the period, whilst the generic 30Yr Treasury yield went from approximately 1.83% to 2.16% and the VIX Index decreased slightly, to 27.95 from 33.09.

Following positive evidence of the effectiveness of vaccination campaigns (Israel, UK, etc), more encouraging data regarding their ability to cover so-called "variants", encouraging economic data from the Eurozone (Q4 GDP growth beating expectations) and momentum from Biden's fiscal stimulus, markets continued their progression towards a normal state of affairs more confidently during the month. For equities, this has meant supporting a further revaluation of the worst hit sectors such as travel, hospitality, entertainment and the like. For fixed-income, long-term assumptions have gradually shifted to allow for mean-reversion in the path of inflation, with a notable steepening of yield curves. In turn, a repricing of interest rates and inflation expectations injected volatility into some areas of the equity markets, pressuring flows and multiples in the higher growth, "long-duration" stocks complex, while encouraging the rotation to "value" across the board.

With the earnings season nearing a close, equity markets were able to digest another quarter of strong results, even as uncertainty remains heavily underscored by management teams in their 2021 guidance.

Following a significant reduction of the fixed income portfolio duration in December 2020, further macroeconomic momentum, accompanied by upwards pressure on commodity prices and a perceived change in market regime, led us to further adjust the overall portfolio. In the first half of February we decided to cut the fixed-income portfolio's duration and dispose of the long-dated TIPS position at a significant profit - thereby acting upon significantly normalised inflation expectations and increasing duration risk. With hindsight, late February price movements validated our concerns of interest rate risk spreading to equities and the loss of the diversification power of duration vis-à-vis equities.

Market Outlook

We remain cautiously optimistic regarding equity market fundamentals as it pursues a transition from a "Covid" to "post-Covid" world. An attractive asset class as a whole, the current change in leadership calls for renewed caution around pockets of speculative, flow-driven stocks, some of which might prove fragile. While receding negative real rates can provide a backdrop for relative multiple contraction, the 2013 "Taper Tantrum" experience reminds us that visibility into a de-risked macroeconomic context and credibly benign central banks could, on the contrary, have supported multiple expansions in the past. In a timely demonstration of this fact, the Nasdaq almost recouped its entire 4% initial intraday drawdown on 23rd February following Chairman Powell's public comments regarding maintaining stimulus and keeping long-term rates low. The lesson will likely be two-pronged: the potential for volatility in growth stocks as this transition takes hold; and the pro-active stance of the Fed and ECB to ensure a smoother path. At this time, we believe the evolving narrative of the market will support an evolution from expanding valuations to a healthier, earnings-growth-led performance in the medium term, and that this calls for a balanced, quality-focused approach to equity markets.

Eric I. Sturdza
Portfolio Manager

Constantin Sturdza
Portfolio Manager

Investment Approach

An active and flexible investment process, managing a mixed asset investment portfolio predominantly comprised of equities and fixed income investments. Investing directly or indirectly, between 51-81% in global equities or equity related instruments and between 20-49% in fixed income instruments. Focusing on strong growth companies that the Investment Adviser deem to be underappreciated by the market, whilst fixed income investments will be selected based on global macro economic analysis and evaluation of central banks' policies.

Investment Objective

To achieve capital appreciation over the long term.

A sub-fund of E.I. Sturdza Funds plc.

Registered in Ireland.

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Portfolio Development

In terms of contribution, Aon Plc. (+0.19%), Global Payments (+0.18%), and Alphabet (+0.18%) were the largest positive contributors whilst Thermo Fischer Scientific (-0.13%), Apple (-0.12%), and Becton Dickinson (-0.12%) were the largest detractors.

Ratings & Awards

Morningstar Sustainability Rating

Out of 2,073 Flexible Allocation funds as of 31/01/2021. Based on 71.52% of AUM. Data is based on long positions only.

See Awards Disclaimer below.