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Q2 2021 COMMENTARY
GBP PORTFOLIOS

MARKET REVIEW

Equity markets across the globe continued to rise steadily in the second quarter, although gains were slightly more muted compared to the first quarter. Economies continued to reopen as the vaccine rollout gathered pace, with the UK and US leading the way, although Europe was not far behind despite initial delays. Consumer demand was strong for most countries as people had accumulated large amounts of savings over the lockdown period which they were beginning to spend.

Caution remained around whether positive economic data and signs of more persistent inflation would mean central banks would have to pull back on monetary support, which would inevitably impact the strong growth rebound markets have been experiencing. Data from the US showed stronger than expected manufacturing and services activity and rising headline inflation, which did little to allay these fears. This led the Federal Reserve to indicate they would be raising interest rates sooner than predicted, possibly in 2023. Similarly, UK inflation rose higher than expected in May, although the Bank of England remained firm in their view that this inflation surge would be temporary and should revert when the global economy returns to normal.

These events caused a brief reversal in the 'reflation trade' which favoured value-orientated, cyclical companies for much of the quarter, towards the more defensive, high growth companies which had performed exceptionally well during 2020.

All in all, global equities posted a strong quarter, as represented by the FTSE All World index, which returned in the region of 7.3% for the period.

PERFORMANCE REVIEW

The performance data below relates to the period 01 April – 30 June 2021.

	Portfolio %	Benchmark %	Relative %
Defensive	3.11	2.12	0.99
Cautious	4.58	3.19	1.39
Balanced	5.41	3.96	1.45
Growth	6.19	4.95	1.24
Adventurous	6.86	5.67	1.19
Speculative	6.68	6.36	0.32

Source: TAM Asset Management Ltd. Notes on Benchmarks: Composite of an equity and fixed income component. The equity component is the FTSE All World Index and FTSE All Share split equally, the fixed income component is the FTSE World Government Bond Index and FTSE UK Gilts All Stocks Index split equally. Both components are apportioned based on each individual risk profile.

Our commodity exposure, including broad commodities and precious metals, was the largest contributor to performance, followed by index linked government debt.

On the equity side, European equity exposure was the largest contributor, followed closely by UK exposure, particularly small and mid-cap stocks. The largest detractor from performance came from our Asian equity fund, whilst our US equity position also underperformed the benchmark.

PORTFOLIO ACTIVITY

We rotated out of large-cap UK equities into small and mid-caps in light of their continued strength. We also added a new UK investment which focuses on dividend paying companies, which we believe will do well as the economy continues to recover.

On the non-equity side, we switched into an active commodity fund in order to fully capture the opportunity of what we believe is an ongoing commodity bull market. In terms of government debt, we reduced exposure to inflation-linked UK government debt and re-introduced US Treasuries into the portfolios, as we feel this asset class has been oversold in recent months due to inflation fears.

OUTLOOK AND STRATEGY

We remain positive on the economic outlook for the second half of the year and constructive on equities, as central banks continue to signal they will be looking through transitory inflation in the short run, suggesting we should not expect significantly higher policy rates any time soon. The risk is that inflation turns out to be persistent, causing interest rates to be hiked more aggressively than markets expect, although this is not our base case scenario.

We continue to favour a barbell approach when it comes to investment styles, holding cyclical equities, which should do well as the economic recovery persists, alongside growth-orientated companies, which should be more resilient if we see economic data softening from here. In both cases, we favour high quality companies which we believe will benefit the most from the next stage of this market cycle.

We are positive on UK and European equities due to the cyclical orientation of these economies and the removal of Brexit uncertainty, which should help to reduce the risk premium on these assets.

We remain underweight government debt given our view that interest rates will remain low in the short run, favouring diversified exposure to high quality corporate debt, high yield debt and commodities.

Overall, we remain positive on risk assets for the remainder of the year and see markets continuing to rally, albeit in a slightly more measured approach, as we continue to gauge the strength of the economic recovery vs. the perceived strength which investors have already priced in.

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