tamsharia

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	2.12	1.11	1.01
Cautious	2.95	2.56	0.39
Balanced	4.14	3.63	0.51
Growth	5.77	5.71	0.06
Adventurous	6.49	6.09	0.40

Source: TAM Asset Management Ltd. Notes on Benchmarks: Composite of the 1-Month Libor GBP (Cash) Index and FTSE All World Index split equally, apportioned based on each individual risk profile.

The top contributor to performance came from exposure to European equities, as Europe was one of the strongest performing regions over the quarter. Positions within global equity funds also contributed to performance, whilst exposure to US and emerging market equities detracted.

Broad exposure to corporate debt detracted from performance versus the cash benchmark, however the physical gold position outperformed the non-equity benchmark.

PORTFOLIO ACTIVITY

Physical silver was re-introduced into the portfolios in Q2, following a period of weakness which made the precious metals market look more attractive in terms of valuations, given our outlook for this asset class. With inflation remaining, in our opinion, a transitory force, we see appetite for silver starting to return to the market.

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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