July 2021 Published 01.07.2021

Overview

The month of June was marked by the shift in the US Federal Reserve's Dot Plot, which is a chart summarising the Federal Open Market Committee's (FOMC) outlook for the federal funds rate. Each dot represents the interest rate forecasted by one of the 12 members of the Committee: some members of the Committee moved their expectations of a first rate hike forward to end-2022, from 2023. As we wrote last month, the GDP slowdown scenario the US is facing, from 2023 onwards, as in 2011, should be a thriving environment for the technology mega caps and 'new' growth stocks. It will also likely prevent the Fed from raising rates prematurely, (in the 2011 stagnation episode, they ended up rising them only in 2015). At the same time, China intensified its battle to control a spike in commodities, issuing new regulations for speculative investments made by retail investors, and released, for the first time in 10 years, commodities such as zinc and copper from its Strategic Reserves. Those events caused some tectonic shifts in the market:

- A violent, bullish flattening of the US curve, (30-year rates moved lower, while 5-year rates moved higher): while 10 year yields returned to pre FOMC levels, the 30 - 5 year yield differential remained at lower levels
- While equity indices recouped their losses within a week, in style indices, such as growth, at +4.5%, outperformed value, at -1.4%. At the sector level, in the US for example, the technology sector rose 7%, while materials lost 5% and industrials fell 2%. The resurgence of growth was also evident in the recovery of some of our lagging thematic strategies: health improving technologies surged over 9%, and our global consumer thematic surged by a similar percentage
- A global commodity sell off saw, for example, copper lose more than 7% over the month, while another much talked about commodity, lumber, lost 42%. Gold also got caught up in the sell off, losing almost 8%, while the dollar generally traded stronger against most currencies. The exception has been the Brazilian Real, which rose 5%. The central bank intensified its battle against surging inflation (at 8%), and hiked rates by 75 bps to 4.25%: as recently as March they had been at 2%. Crude oil, despite the Iranian talks, rose by 11%, as the markets focused on the reopening of economies

As a result, stock markets reached new highs in June, however with a different leadership than earlier in the year, amidst worries about the resurgent pandemic of the delta variant in several countries, like in the UK, Portugal or Russia, but also in Thailand, Kenya and South Africa. This has pushed the reopening trade lower, as the travel and hospitality sectors were hit. The UK government's whipsawing on foreign travel restrictions clearly didn't help.

From a macroeconomic point of view, the good news on economic growth continued to pile in. US GDP is essentially at the same level as pre-pandemic. Meanwhile in Europe, we are now probably 3 to 5% below pre-pandemic levels. That said, growth is accelerating. The two main worries, that are keeping financial markets on edge, are unchanged from the previous month: inflation and unemployment, particularly in the UK and the US, as inflation in the Eurozone, currently at 1.9%, seems to be under control. We continue to think that inflation in the US and UK is led by temporary reopening factors. In the US, 'revenge' shopping, in such things as used or new cars, will fade and excess 'pandemic' savings will gradually be diverted to spending on services. As a result, those factors that led to an impressive inflation spike, are likely to become a drag in late 2021-2022.

Supply issues are also likely to fade medium term, as capacity utilisation is likely to be ramped up. Where we see potential medium-term issues, are in wages. In the US, while some companies increased wages, most companies that are struggling to find workers are giving bonuses, which are temporary in nature. As we highlighted in previous newsletters, our worry is if society's attitude towards work has changed, or if the pandemic has upended the way many businesses trade. Both the UK and US could have incurred a structural change, and, consequently, there is a mismatch between available jobs and available skills, be it regional, (remember a lot of people moved in the US) or nationally. In the US, as we explained in our last letter, we should soon know if one hinderance, that of finding workers, has been due to the weekly USD 300 supplementary benefit for the unemployed, the fear of Covid, or closed schools. Adding to the pain, there is the hangover from the sweeping ban by the Trump administration on temporary work visas to 'protect' employment for Americans, who lost jobs during the pandemic. Note that there is currently a record 9 million job openings in the US.

Over in the UK, a recent survey by Lloyds showed that 20% of surveyed businesses, who are expanding hiring following a loosening of the lockdown rules, were struggling to find staff with the right skills. Here, Brexit has also played a role, as trucking and hospitality firms are those who are having the biggest troubles in finding workers, though missing also, are butchers, bricklayers and welders. Many were from Eastern Europe. Maybe they decided it was safest to just stay in continental Europe and not come back to the UK. Having a short supply of workers in certain sectors, and an overhang in others, potentially creates a perfect storm: wages could start to impact inflation, at the same time as unemployment increases. Many companies are now asking for changes to the list of occupations that qualify for looser immigration rules and the government is thinking about programmes to retrain or requalify workers. It might help, but it might also be too late.

STRATEGY

As highlighted above, some of our thematic exposure to 'growth' have recovered nicely during the month: we continue to favour a 'barbell' exposure to equity, with value and cyclical exposure paired with secular and 'new' growth. While we expect the return of some volatility, around macrodata and pandemic news, we believe that markets will continue to be supported by:

- Robust earnings growth
- The return of share buybacks, (an estimated 300 billion in the US)
- Seasonal inflows
- A reduction of what Goldman Sachs calls the 'wedge': in the US an extra USD 3 trillion is still parked in bonds and money markets, compared to before the pandemic, and the trickle out and into equities has been relatively slow, (only USD 183 billion YTD (source GS)
- The average institutional investor is not overweight equities, and the markets are running away

We continue to have an exposure to Gold, that, over the long term, we think will continue to be an ideal portfolio diversifier. We strategically hedge our USD exposure.

Overall Exposure

We are Overweight Equities, and Underweight Fixed Income, Overweight Cash, with a long Gold position, fully USD hedged.

Equity: Overweight

Overweight Continental Europe, Neutral UK, Underweight US, Neutral Japan, Neutral Asia ex Japan, Overweight Emerging Asia.

Thematic Equities

Global Consumer, Health Improving Technologies and Services, Asian Technology, European Family Holdings, European COVID Recovery, Pet and Animal Wellbeing, UN's 17 Sustainable Development Goals.

Fixed Income: Underweight

Underweight High Yield in EUR and USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long Global Inflation Linked Securities, Long Covered Bonds, Long Hybrids & Long Asian Bonds.

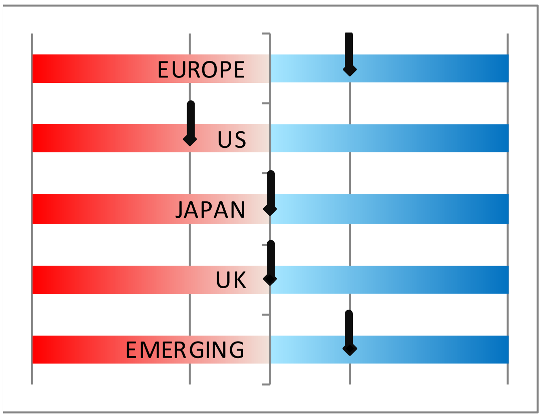
Currencies: **Underweight USD**, (Portfolios are fully USD hedged)

Commodities: Overweight

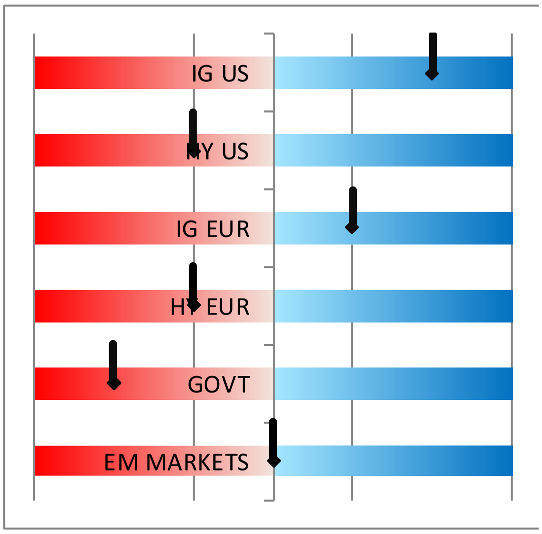
Long Gold

CONVICTION THERMOMETER

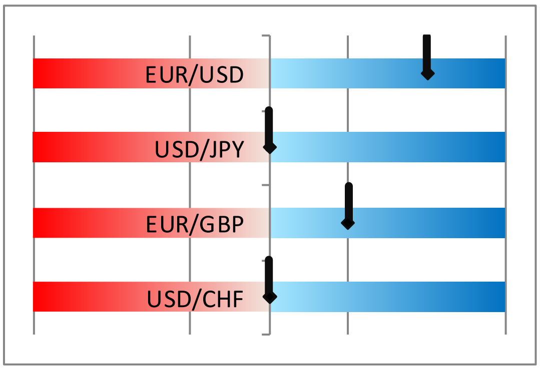
Equities



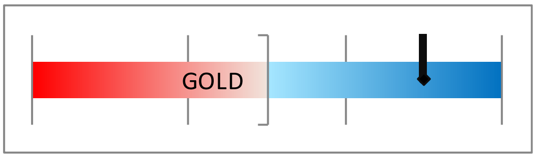
Bonds



Currencies



Commodities



*Negative view / Positive view

Market Overview as of 30th June 2021

EQUITIES (local ccies)	Level	5D	MTD	YTD	2020
MSCI WORLD	3 017,23	0,69%	1,53%	13,33%	16,53%
GERMANY DAX	15 531,04	0,48%	0,71%	13,21%	3,55%
FRANCE CAC40	6 507,83	-0,55%	1,23%	19,52%	-4,96%
UK FTSE100	7 037,47	-0,44%	0,41%	10,88%	-11,44%
BELGIUM BEL20	4 125,95	0,33%	2,03%	16,16%	-6,61%
SWISS MARKET INDEX	11 942,72	0,37%	5,10%	14,65%	4,30%
EUROPE EURO STOXX 50	4 064,30	-0,23%	0,70%	16,59%	-2,59%
US S&P500	4 297,50	1,33%	2,33%	15,24%	18,39%
NASDAQ 100	14 554,80	1,97%	6,40%	13,34%	48,88%
RUSSELL 2000	2 310,55	0,35%	1,94%	17,53%	19,93%
JAPAN TOPIX	1 943,57	-0,18%	1,17%	8,89%	7,41%
MSCI EMERGING	1 374,64	1,14%	0,17%	7,43%	18,79%
BRAZIL IBOVESPA	126 802	-1,27%	0,46%	6,54%	2,92%
MEXICO MEXBOL	50 289,75	0,26%	-1,14%	15,40%	3,17%
RUSSIA MICEX	3 841,85	0,20%	3,55%	19,44%	14,82%
CHINA CSI 300	5 224,04	1,71%	-1,48%	1,01%	29,89%
INDIA SENSEX	52 482,71	0,38%	1,29%	10,59%	17,16%
KOREA KOSPI	3 296,68	0,63%	2,90%	14,88%	33,80%
HONG KONG HANG SENG	28 827,95	0,26%	-0,65%	7,42%	-0,23%
AUSTRALIA ALL-SHARE	4 014,74	-0,54%	0,15%	11,07%	-9,73%
SAUDI ARABIA TADAWUL	10 984,15	0,90%	4,21%	28,21%	6,67%

US: Sectors	Level	5D	MTD	YTD	2020
COMMUNICATION SVCS	264,35	0,97%	2,72%	19,67%	23,61%
CONSUMER DISCRETIONARY	1 431,82	0,94%	3,81%	10,27%	33,30%
CONSUMER STAPLES	721,62	1,58%	-0,18%	5,02%	10,75%
ENERGY	407,37	-1,24%	4,60%	45,61%	-33,68%
FINANCIALS	610,60	1,81%	-2,96%	25,60%	-1,76%
HEALTH CARE	1 468,94	1,20%	2,34%	11,85%	13,45%
INDUSTRIALS	866,24	1,08%	-2,21%	16,40%	11,05%
INFORMATION TECHNOLOGY	2 594,48	2,23%	6,95%	13,76%	43,88%
MATERIALS	517,02	0,57%	-5,30%	14,50%	20,73%
REAL ESTATE	277,41	-0,51%	3,19%	23,30%	-2,17%
UTILITIES	321,58	-0,20%	-2,17%	2,47%	0,52%

EUROPE: Sectors	Level	5D	MTD	YTD	2020
BASIC MATERIALS	3 024,96	0,42%	0,38%	16,55%	9,63%
CONSUMER GOODS	4 320,23	-0,20%	2,64%	15,48%	0,85%
CONSUMER SERVICES	1 478,87	-0,54%	0,33%	16,64%	-4,95%
FINANCIALS	739,70	-0,62%	-2,47%	17,04%	-15,36%
HEALTH CARE	3 177,31	1,74%	6,97%	14,63%	-2,19%
INDUSTRIALS	3 402,97	-0,25%	2,15%	19,34%	6,48%
OIL & GAS	1 050,49	-1,41%	3,80%	13,75%	-26,81%
TECHNOLOGY	1 536,76	1,55%	4,32%	22,55%	17,87%
TELECOMS	622,18	-0,09%	2,95%	17,93%	-12,52%
UTILITIES	1 964,92	-0,24%	-2,38%	-1,68%	16,72%

WORLD: Styles	Level	5D	MTD	YTD	2020
QUALITY	3 677,99	1,34%	3,66%	13,90%	22,20%
MOMENTUM	3 663,25	1,15%	1,14%	7,33%	28,26%
VALUE	11 126,37	0,33%	-1,39%	14,72%	-1,16%
GROWTH	8 890,12	1,02%	4,46%	11,14%	33,83%
VOLATILITY	8 362,03	0,59%	1,38%	12,12%	11,11%
SIZE	8 118,21	0,32%	0,42%	12,61%	12,37%
DIVIDEND	4 473,55	0,61%	0,17%	10,90%	5,60%

FIXED INCOME	Level	5D	MTD	YTD	2020
Pan-Euro 3-5 yrs IG	218,63	0,04%	0,12%	0,05%	0,84%
Euro Aggregate	269,07	0,19%	0,39%	-2,28%	4,05%
Pan-Euro HY Hedged Eur	415,81	0,04%	0,58%	3,11%	2,35%
Global Inflation hedged EUR	274,13	0,21%	0,30%	-0,24%	8,34%
US Corp High Yield	2 264,90	0,44%	1,34%	3,62%	7,11%
EM USD Aggregate TR	1 260,87	0,04%	0,72%	-0,59%	6,52%
EM Aggregate TR Local Ccy	150,47	0,28%	-1,18%	-0,95%	5,34%
EUR Banks CoCo Tier 1	156,32	0,37%	1,08%	4,41%	6,16%
EU GOVT HEDGED EUR	252,45	0,31%	0,50%	-3,64%	5,40%
U.S. Treasury	2 554,99	0,22%	0,64%	-2,58%	8,00%

COMMODITIES	Level	5D	MTD	YTD	2020
GOLD	1 770,11	-0,48%	-7,17%	-6,76%	25,12%
COPPER	429,65	-0,79%	-8,15%	22,09%	25,81%
OIL WTI	73,47	0,53%	10,78%	51,42%	-20,54%
OIL BRENT	75,13	-0,08%	8,38%	45,04%	-21,52%

CURRENCIES	Rate	5D	MTD	YTD	2020
EURUSD	1,1858	-0,57%	-3,02%	-2,93%	8,94%
GBPUSD	1,3831	-0,95%	-2,68%	1,18%	3,12%
USDJPY	111,11	0,14%	1,40%	7,61%	-4,94%
USDCHF	0,9250	0,71%	2,90%	4,50%	-8,42%
AUDUSD	0,7498	-1,02%	-3,05%	-2,55%	9,59%
USDRUB	73,15	0,74%	-0,39%	-1,70%	-11,08%
USDCNY	6,4571	-0,27%	1,37%	-1,13%	5,28%
USDKRW	1 106,85	-1,01%	1,40%	3,66%	4,22%
USDINR	74,33	0,07%	2,36%	1,22%	9,15%
USDIDR	14 500	0,46%	1,54%	3,20%	7,42%
USDBRL	4,9696	0,05%	-4,78%	-4,40%	28,98%
USDTRY	8,7076	0,75%	2,54%	17,03%	25,03%
BITCOIN	34 585	4,62%	-5,74%	19,27%	305,07%

30.06.2021

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