August 2021

General Overview

Asset/Region	Current Stance	Previous Stance
US Equities	Neutral View	Neutral View
UK Equities	Positive View	Positive View
European Equities	Selective Approach	Selective Approach
ROW Equities	Cautious View	Cautious View
Fixed Income	Negative View	Negative View
Property	Selective Approach	Selective Approach
Infrastructure	Positive View	Positive View

Since our last meeting, equity markets have continued to creep higher, with indices in the US and Europe posting fresh all-time highs. Equity market declines have been short lived, with an obvious buy the dip mentality in play.

The committee raised concerns over the timing of central bank tapering, with a growing chorus at the Federal Reserve suggesting it would be appropriate later this year. The recovery bounce back has been relatively strong in most developed nations; however, the rise of the delta variant has somewhat clouded the outlook. Nonetheless, a strong US jobs report next month could see the Fed move to tighten liquidity, as a result, there were concerns that this could be a catalyst for a period of increased volatility.

Because of this, there was a slight rotation out of what we consider high growth and into more defensive sectors and asset classes, with the UK being the main region to see a rise in allocation. We remain underweight fixed income, with our preference to hold floating rate notes where portfolios allow.

USA

As mentioned above, the next jobs print in September will be a pivotal event. Equity markets continue their grind higher but we do feel this is somewhat unsustainable given the eventuality of tighter monetary conditions. The next jobs report coincides with the long weekend that is Labour Day, and one member of the committee felt the return of investors would bring with it a move to position for tighter conditions. The taper tantrums of previous years are stark reminders of the possibility that markets can be caught ‘long and wrong’.

The US economy is running strong, and the final piece of the jigsaw is a tighter labour market. We feel the strength of the US economy warrants tighter conditions, and any acceleration in this move will be negative for sentiment. As a result, we have reduced our exposure to US equities slightly.

We continue to monitor the fiscal packages being discussed by the Democrats, however the proposals currently in discussion are for a large spend over a number of years, so we feel the tailwind to the economy this would provide is somewhat watered down compared to the headline numbers suggested.

UK

As previously mentioned, the committee feel that UK companies look attractive after a number of years of being unloved. We have already seen a number of bids come in for UK assets, and the potential bid for J Sainsbury's post committee meeting is a perfect example of this in play; we certainly feel there is more to come. We have therefore increased exposure to UK listed companies, but there is an additional motive for this as well. We have sought larger cap investments in more defensive sectors where we are expecting dividends to bounce back and assist in driving performance, especially during heightened volatility.

The UK furlough scheme is due to terminate at the end of September. Whilst we feel this will lead to a tick higher in the unemployment rate, this will add some supply back to the jobs market which has inevitably left shortages in certain areas and driven up wages as a result. We feel there will be a better balance moving forward.

The UK is seen as a trial case of re-opening, and the data was pointing to a declining number of cases, although in recent weeks this has begun to tick up. This was an inevitability, so it is therefore the hospitalisation rate that we are focussing on.

EU

A number of European indices have also approached record highs. Recent drivers of performance have come from sectors or companies that we would exclude from portfolios, such as luxury goods or companies like Nestle.

Next month it is the German election, which we feel the markets are being slightly complacent about, and as we get closer, this could be a catalyst for increased volatility in the region, especially as the country could potentially have an element of the left or right in government depending the formation of the post-election coalition.

In line with slightly reducing our high growth exposure, the allocation to European equities has declined slightly.

ROW

Chinese authorities have continued to weigh on sectors deemed not to be aligned with the regime's long-term plans, with technology a noticeable casualty in recent weeks. We have very limited exposure to Chinese companies through their domestic or foreign listings, so have largely avoided this, and this stance has not changed. Economic, rather than direct listing remains our preferred way to gain exposure to one of the world's largest economies. Any direct listing exposure is in companies that are operating in sectors that do not conflict with the regimes program.

We have recently engaged with the fund house who provide most of our pacific/emerging market exposure, (including China), as the region is still reliant on fossil fuels. Over half of the underlying companies are contributing to solutions to tackling climate change, with the 5-year historical carbon intensity of the portfolio around 73% lower verses the funds benchmark. There was no desire to change allocation; however, any movements in model portfolios exposure to Japan, Developed Asia or EM were marginal because of the slight change in global fund allocations.

Inflation and Global Interest Rates

There has been no change in our inflation or interest rate expectations. There has been no ease in the supply bottlenecks although commodity prices have moved lower from their recent highs. Tapering will be the next move, and we see no change in interest rates in the short to medium term.

Asset Allocation

Broad asset allocation has remained largely unchanged; however, equity exposure has shifted slightly from global growth towards UK income (sectors such as utilities, healthcare was sought). Lower risk portfolios also saw a marginal increase in sustainable real estate exposure at the expense of equities. Bond exposure was unchanged, remaining below our neutral level, whilst infrastructure also remained unchanged.

Company Information

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