RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

May 2021

Market overview

Equities made further progress in May with developed markets rising 1.5%. Corporate earnings announcements, both in the US and elsewhere, have generally surpassed expectations so far this year and economic activity is picking up strongly in many regions. Key indicators such as Purchasing Managers' Indices (PMIs) are rising quicker than expected, while vaccine rollout programs continue to progress well and data around their efficacy remains encouraging. The comparatively strong economic backdrop fuelled significant outperformance from value stocks over the month.

The outlook for inflation continues to be a key influence on markets. Headline inflation in the US again rose more than expected (+0.8% month on month), however the rhetoric from the US Federal Reserve (Fed), which has talked down the prospect of changing rate policy, remains unchanged. Markets will continue to focus on the likely timing and scale of any tapering in asset purchases, which the Fed has acknowledged it will consider 'at some point in the upcoming meetings.'

The opening up of the economy in the UK is also leading to quite a dramatic recovery in retail sales, which is in turn driving pockets of price inflation in the short term. PMIs in the eurozone are recovering sharply as restrictions are relaxed and a pick-up in the vaccination program is driving market confidence higher, causing European indices to lead the way in May.

Emerging markets were positive for the month, aided by US dollar weakness. There was a high disparity in returns between countries however, with some countries facing increasing virus infection numbers and others impacted by higher commodity prices.

Government bonds were relatively stable as dovish comments from central banks counteracted higher short-term inflation numbers. Positive returns could be found in credit however, with high yield bonds responding most to the generally positive economic and corporate news-flow.

Strategy positioning

The Investment Committee continues to believe that equity markets are well supported by the prospect of a broad global economic recovery and continued stimulus from governments and central banks. Company earnings announcements in key regions also look broadly encouraging and, as a result, each mandate remains at the upper end of their corresponding Dynamic Planner risk profile.

Stock market exposure remains skewed to regions with superior growth prospects (the US and Asia) and also to sectors that should benefit from the global commitment to decarbonisation, electrification and renewable energy.

The immediate outlook for fixed interest investments is confused by the inflation debate. We are maintaining a diversified approach where exposure is not only skewed towards corporate and inflation-linked bonds, but also to strategic managers who can pivot quickly to minimise risks or take advantage of mispriced opportunities.

The Investment Committee still has a favourable view on the outlook for 'market neutral' equity alternative strategies, which continue to offer good diversification benefits to portfolios.

Risk warnings