RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

June 2021

Market overview

The positive momentum for equity markets continued over the month, ending an excellent quarter in which world equities rose by just under 8%. The US market led the way with both the broad-based S&P 500 Index and the technology heavy NASDAQ Index again hitting new highs. The US dollar also strengthened, which boosted returns for sterling-based investors to over 5%. Strengthening economic indicators, positive company earnings guidance and the expectation of continued stimulus remain the key positive drivers.

Eurozone markets also made further gains as rapidly accelerating vaccine rollouts allowed for the further opening up of economies. Data looking at sectors such as manufacturing and overall business confidence is improving sharply and is now as strong as it has been for a decade. This backdrop has not, however, changed the expectation, and guidance, that the European Central Bank will continue to keep monetary policy extremely loose for some time to come.

Returns from the UK market were muted over the month but have been strong over the quarter and the data still indicates quite a sharp pick-up in economic output. Asian markets were positive albeit they were partly weighed down by the stronger US dollar and lagged their developed counterparts.

All eyes remain firmly focused on inflation and unemployment data. Inflation numbers have spiked in many key regions driven by global supply shortages in areas such as semiconductors, cost pressures such as the price rises in oil and copper and labour force disruption. The extent of this spike has exceeded expectations in some regions, notably the US. Despite this, and despite the more hawkish tone of the US Federal Reserve policy meeting in June, bond markets have been fairly sanguine in their reaction to this data. Having sold off quite significantly in Q1, the US 10 Year Treasury bond yield, for example, has fallen from 1.74% to 1.47% over Q2.

Strategy positioning

There have been two changes to the mandates during the month. The first change is in recognition of the fact that the near-term outlook for fixed interest investments has become more uncertain due to the pick-up in inflation. While central bank messaging is working well, the Investment Committee have felt it prudent to reduce portfolio duration (the sensitivity to inflation/interest rate change) by reducing government bond exposure and reallocating to less sensitive bond strategies with an absolute return focus. The fixed income element of portfolios is well diversified and is skewed towards inflation-linked and high-quality corporate bonds, as well as to dynamically managed strategic bond funds able to shift their exposures actively in response to market opportunities.

The second change relates to the equity portion of portfolios where the direct technology sector fund has been sold in favour of more diversified, broader market funds. This stems from a belief that market leadership may have shifted away from the giant technology stocks that have performed so strongly over the last couple of years in particular. The Investment Committee sees greater opportunities in less expensive 'growth' (including technology) stocks further down the market cap scale and also favours a blend of investment styles to capture opportunities in both 'growth' and 'value' stocks and sectors.

The combination of strengthening economic data, continued stimulus from governments and central banks and the continued upward revisions to global corporate profit estimates (now up 40% on average for 2021) is providing the confidence to maintain each mandate at the upper end of their corresponding Dynamic Planner risk profile.

Risk warnings