RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

August 2021

Market overview

Global equities rose a further 2.5% over the month as markets continue to perform strongly over the summer. Volatility also remains perhaps surprisingly low.

Sentiment among equity investors was buoyed by the tone of US Federal Reserve Chairman Jerome Powell's comments coming out of the Jackson Hole symposium, which played down the prospect of earlier than expected rate increases or of an acceleration in the anticipated schedule of asset purchase tapering. Central bank and government stimulus measures continue to provide support, and some progress was made on the planned $1trn infrastructure deal in the US, which was passed in the Senate and now requires approval from the House of Representatives. Strong earnings announcements from some index heavyweights in sectors such as technology and financials also served to drive US indices to new all-time highs.

Q2 company earnings announcements in continental Europe have also been encouraging and the region has seen a successful acceleration in vaccination programs, which served to mitigate the global concerns regarding the spread in the Delta variant. Investor interest in the UK market was centred on the smaller cap end where several M&A bids have been announced in recent months.

Emerging market equities initially declined due to concerns over rising virus cases and tighter regulation measures in China but then recovered to end the month in positive territory, albeit there was a significant dispersion of returns across individual countries.

Despite the dovish comments from Jerome Powell, government bond yields rose globally (i.e. values fell) as headline inflation rates pushed higher, bringing the potential prospect of tighter monetary policy. The UK 10-year gilt yield rose from 0.57% to 0.62% over the month and similar moves were seen in the US and continental Europe. Higher risk sectors within fixed income generally produced positive returns, however, as coupons exceeded capital losses.

Within commodities the energy sector sold off over concerns about the potential impact of the Delta variant on global growth, with the oil price particularly impacted.

Strategy positioning

The decision to keep equity exposures at the upper end of strategic ranges is proving beneficial as markets are responding to positive economic and corporate data. The bias towards the US market has also worked well given the excess returns it has been generating.

The spread and potential economic impact of the Delta variant remains a key focus for the Investment Committee, as is the data on inflation and employment. Central bank rhetoric continues to emphasise the view that inflation is expected to moderate into next year and that policy will remain supportive for risk assets. While it is fair to say that a full inflationary retreat to levels seen at the start of this year is now less likely, the Investment Committee still think it is reasonable to expect the current supply chain bottlenecks, which are definitely contributing to elevated inflation numbers, to ease over the coming months.

Our fixed income exposure is well diversified, with a bias towards inflation-linked bonds and also to strategic managers who can pivot quickly as conditions change. The Investment Committe also believe that this is an environment where alternative investments deploying market neutral strategies, in both equity and fixed income markets, could provide a valuable hedging tool, guarding against the possibility of some elevated market volatility if the economic outlook and central bankers' intentions become more confused.

Risk warnings