Investment commentary

July 2021

Market overview

Economic data and consumer confidence indicators continued to be positive over the month and there were further relaxations to restrictions globally. Sentiment was impacted, however, by concerns over the rise in case numbers of the Delta variant of COVID-19. This heralded a degree of caution for investors and triggered a quite significant decline in bond yields. The 10-year Treasury yield fell from 1.47% to 1.23% and the 10-year Gilt yield fell from 0.72% to 0.57% as global bonds rose in value by 1.3% over the month. The fall in bond yields also led to a marked outperformance of growth stocks over their value counterparts.

In terms of equity markets, the US again led the way with the S&P 500 Index reaching new all-time highs. In addition to robust economic data, and following on from strong Q1 numbers, the Q2 earnings announcements have also been very encouraging so far with 90% exceeding expectations.

Business activity growth in the eurozone hit a 20-year high in July and earnings expectations are also being widely exceeded. Data also suggests that the eurozone economy grew more than 2% in the last quarter. Returns were more muted, if positive, from the UK where sterling strength impacted those companies with substantial US dollar earnings.

It was a very different story across emerging markets, which lagged significantly, weighed down by the announcements from China of greater regulation of the technology and private education sectors. Given that the reforms were deeper than expected the market has become concerned that this new regulatory framework could be extended to other sectors as well. Increased virus cases also impacted certain Asian markets, notably Thailand and the Philippines.

Despite US inflation numbers rising further the US Federal Reserve's policy meeting again spoke about this inflation rise being 'mostly transitory', albeit it also acknowledged that there was upside risk to the outlook. Markets will continue to focus on central bank rhetoric closely, both in the US and elsewhere, and also on the unemployment numbers, which fell quite sharply in the US over the month.

Strategy positioning

The successful deployment of vaccines, easing of lockdowns and implications for a steady economic revival give us confidence to maintain equity exposures at the upper end of their corresponding Dynamic Planner risk profile.

Despite near-term inflation and policy change risks, substantial monetary and fiscal stimulus is likely to remain in place, underpinning equity markets. Our stockmarket bias remains towards those parts of the world that we expect to have fundamentally stronger and more resilient economic growth trajectories in the years ahead, i.e. the USA and Asia. Equity portfolios are also tilted towards sectors that should benefit from the global commitment to decarbonisation, electrification and renewable energy, including the necessary infrastructure spending that surrounds these themes.

Our fixed income exposure is well diversified, with a bias towards both corporate and inflation-linked bonds, and also to strategic managers who can pivot quickly as conditions change.

The Investment Committee continues to favour 'market neutral' alternative investments, which are acting as good portfolio stabilisers in the current environment.

Risk warnings

This document is issued and approved by Richmond House Investment Management Limited. Past performance should not be seen as an indication of future performance. The price of shares/units and income from them may fall as well as rise and is not guaranteed. The models used are typical of portfolios managed by Richmond House Investment Management. Your actual portfolio may differ depending on your individual circumstances. Richmond House Investment Management Limited (No 114563) is authorised and regulated by the Financial Conduct Authority Registered in England at Premier House, Argyle Way, Stevenage, Herts, SG1 2AD. Tel 0333 2413350. www.richmondhouseim.co.uk.