

MARKET UPDATE

June 2021

Just like the great British weather, for much of May, markets were out of sorts. After a strong start to 2021, the BAM model portfolios, with the exception of Defensive Mixed Assets, struggled to make further progress during the month.

2021 - A REPLAY OF 2010 AND 2022 LIKE 2011?

An observation from one of our fund managers we spoke with was that the pandemic, in market terms, is closely following the pattern from the financial crisis. 2009 and 2020 were very similar; a market panic followed by huge stimulus followed by a V-shaped recovery. 2021 is shaping up a lot like 2010; a strong economic recovery with inflation concerns because of stimulus measures undertaken at the peak of the crisis. This led to a value/cyclical market such as the one we see today.

What happened next in 2011? Inflation concerns subsided and debt, demographics and technology kicked in as deflationary forces and the investment environment returned to corporate outcomes determining investment outcomes. Could this be 2022? That isn't clear, but it is a possibility. Once we exit this period of economic acceleration and recovery, those companies operating in disrupted and low growth industries will struggle to support rising share prices increasing further. It still feels too soon to call the end of the value/growth rotation as bond yields could move higher, but there is some light at the end of the valuation tunnel.

INVESTORS SEEK INFLATION PROTECTION

Brent Crude was approaching, and has since the end of the month pushed through, \$70 a barrel for the first time since October 2018. Higher oil prices are inflationary and could push up interest rates, which is bad for equity and fixed income returns. However, energy now accounts for just six per cent of the US consumer inflation basket and a tenth of Europe's.

Gold was also a big winner in May, lifted by inflation concerns. Investors sought physical stores of value to hedge against the risk that the recent pickup in inflation is not as transitory as the central bankers believe it to be.

Oil can be replaced by renewables, whereas wind turbines cannot be built from wind. We will need to mine ourselves to Net Zero, especially as we need lots of copper to deliver electrification and, as a result, we are diversifying our Gold exposure within our Alternatives fund to include other base metals we believe to be attractive.

SUMMER OF SPORT AHEAD

A full June 21st reopening for England looks questionable, with the now called 'Delta' strain becoming dominant - but we have a summer of sport to look forward to with the Euros, Wimbledon and the Olympics all coming up to help take our minds off the pandemic and markets too are generally quieter.

The Japanese aren't keen on holding the Olympics, though, even with no spectators. Despite Japan being known for its efficiency and organisation, where the trains famously always run to time, it has lagged well behind peers on its Covid 19 vaccination programme. A lot of eyes will be on any up-tick in cases.

The weather and markets are perking up a bit, but even on a seemingly bright day, it can be prudent to take an umbrella (as anyone living in the UK will testify!). The same principle increasingly applies to investing. In the wake of the stock market's strong gains year to date, it's an opportune time to take some precautions and the multi asset approach acts as our umbrella in accordance with your risk profile.

SOCIAL IMPACT MODEL



■ A - Social Impact Portfolio 22/01/2021 TR in GB [44.92%]
■ B - ARC Sterling Balanced Asset PCI TR in GB [30.79%]

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



■ A - Defensive Mixed Assets 22/01/2021 TR in GB [24.45%]
 ■ B - UK Consumer Price Index + 2% TR in GB [21.32%]

*5 Years to 30/4/2021 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL



■ A - ARC Sterling Balanced Asset PCI TR in GB [30.79%]
 ■ B - Defensive Balanced Mixed Assets 22/01/2021 TR in GB [26.55%]

BALANCED MIXED ASSETS MODEL



■ A - Balanced Mixed Assets 22/01/2021 TR in GB [42.57%]
 ■ B - ARC Sterling Steady Growth PCI TR in GB [42.54%]

FOCUSED GROWTH MIXED ASSETS MODEL



■ A - Focused Growth Mixed Assets 22/01/2021 TR in GB [70.94%]
 ■ B - ARC Sterling Equity Risk PCI TR in GB [54.13%]

BAM figures take into account normal dealing costs but not Beckett fees. Source: FE Analytics – Total Return.

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