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Portfolio Review *June 2021*

As we reach the midway point of the year, it is always a good time to reassess what has happened in markets so far and what we think the important drivers and challenges will be for the major asset classes as we head into the second half.

Economies and markets have made remarkable progress since 6 November 2020 when Pfizer was the first to announce a successful Covid-19 vaccine. They were quickly followed by a slew of other successful vaccines and as of mid-June vaccination rates were close to 50% in Europe and the United States and over 60% here in the UK. This has enabled governments to gradually ease Covid-related restrictions, resulting in a strong pickup in activity levels in almost all aspects of the economy. Economic data over the last three months have generally been exceptionally strong, especially in the US, which posted annualised growth of 6.4% in the first quarter.

The so-called "reopening trade" has seen markets make considerable progress from their lows last March and seen a pronounced shift in equity market leadership away from the expensive technology and growth stocks in favour of undervalued cyclical stocks. A reasonable summary is that the asset classes that performed poorly during lockdown have been the winners in the post-vaccine phase, although the last quarter has seen some retracement of this trend. As the recovery continues to take hold, we might continue to see a greater rotation away from the US to other markets with catch-up potential and stocks sensitive to economic conditions opening up a lead over their growth counterparts.

Bonds, on the other hand, have moved into retreat amid these economic conditions. Rising inflation and the prospect of higher interest rates further down the track spell an increasing difficult time for assets that pay a fixed income. However, as we were reminded of last year, bonds retain their appeal as a safe haven in times of market stress and this should not be underestimated in portfolio composition. Bond markets have been surprisingly quiet over the past quarter. The yield on the all-important 10-year US Treasury, which moved sharply higher in the first quarter, appears to have plateaued as markets seem to have shrugged off strengthening economic data, spikes in inflation and uncertainty over the trajectory of monetary and fiscal policies. While short term rates remain anchored by near-zero interest rates around the world, yields are likely to recommence their moves higher in the second half of the year as central banks start to taper their asset purchases which have been supporting the market.

It should also come as no surprise that the biggest watchpoints throughout the second half of the year will continue to be inflation and central banks' responses. The reopening of economies and rebound in activity is fuelling inflation numbers as pent-up demand and supply shortages place considerable upward pressure on the headline figures. While the Fed and other central banks continue to see these inflation spikes as transitory, higher than expected readings that continue into the second half could prompt a more hawkish tone from policy makers and potentially provide a challenge for equity markets.

Looking ahead for equity markets, investors will be paying keen attention to the Q2 earnings season which kicks off in mid-July. Corporate earnings growth expectations were shattered in Q1 and

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expectations are even higher for Q2 as the reopening progresses. However, with valuations already at all-time highs companies will have to deliver or their share prices will likely be punished and could provide an opportunity for markets to catch a breath.

After a steady start to June, equity markets encountered some volatility mid-month following the perceived hawkish messaging from the US Federal Reserve after its latest policy meeting. Although there was no policy change, projections that interest rates could rise in 2023, which is much earlier than currently expected, seemingly caught markets off guard. However subsequent comments made by Chairman Powell sought to allay any worries over tightening monetary policy too quickly, allowing equities to continue their upward trajectory.

Global equity markets as measured by the MSCI World Index rose 4.4% in June, bringing the YTD return to 11.9%. At a regional level, US equities outperformed non-US equities thanks to a rebound in growth stocks which led the S&P 500 to a fifth consecutive month of gains. A strong rebound in economic activity saw gains in Europe whilst an increasing vaccination rollout in Japan enabled its markets to recoup some of the losses from earlier in the quarter.

UK equities performed well over the second quarter as a whole, however struggled to make much progress in June amid a rise in Covid-19 infections. Defensive large-cap equities were very much in favour, a trend amplified as sterling fell against a very strong US dollar. The FTSE All Share and FTSE 100 indices were broadly flat for the month, up 0.2% and 0.4% respectively, while small-cap and domestic focussed stocks fell out of favour, with the FTSE 250 index down 1.2%.

It was a mixed month for commodity markets. Energy performed well amid a strengthening oil price which reached a two-year high of $75 a barrel and coal hit a decade high due to a shortfall of natural gas. However other commodities such as copper and lumber saw their momentum reverse, while gold fell by over 7% as a combination of a stronger US dollar, perceived hawkishness from the Fed and a risk-on environment created an adverse environment for the precious metal.

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On the back of a positive month for global equity markets, all of the Beckford James portfolio's delivered positive returns in June. Those portfolios with the highest degree of exposure to equities were inevitably the best performing portfolios for the month; Growth 10 delivered a return of 2.2% followed all the way through to Growth 3 (with the lowest equity exposure) which was up 1.0%. The Ethical portfolio delivered a return of 2.8%. All of these returns were in line with or ahead of their respective benchmarks for the month.

The best performing Growth portfolio fund was the Goldman Sachs Global Millennials fund which returned 8.1% for the month, benefitting from both a high degree of exposure to the US and a bias towards growth stocks. This was followed by the Natixis Loomis Sayles US Equity Leaders fund, which rose 6.2%, benefiting from both a strong dollar and US equity market gains. At the other end of the spectrum, reversing recent performance, the Amati UK Smaller Companies pulled back 0.8% in June, reflecting weaker domestic markets, although the fund is still up a highly respectable 14.9% year to date.

The best performing funds in the Ethical portfolio were the Baillie Gifford Positive Change Fund and the Liontrust Sustainable Future Global Growth Fund, up 9.9% and 6.5% respectively. Both funds have a high degree of exposure to the US so benefited from the strong returns delivered across the Atlantic.

In a reversal of the previous month's performance, the Income and Balanced Income & Growth portfolios were the poorest performing portfolios, although did still deliver positive returns, largely reflecting their higher exposure towards value-type investments. The Income portfolio remains the top performing Beckford James portfolio year-to-date, up 10.2% for the first half of the year which is comfortably above its benchmark return.

Unsurprisingly, given the above comments and those in previous months' reports, the UK equity income element of the Income portfolio which has strongly contributed to returns year-to-date was responsible for the lacklustre performance in June. All UK equity income funds held in the portfolios fell for the month as investors shunned cyclical stocks, with the Man GLG Income and Unicorn Income among the worst performers, down 2.0% and 1.7% respectively. On a more positive note, returns from Asian and Emerging Market funds were positive contributors for the month.