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Portfolio Review *July 2021*

As we move into the second half of the year, the global economic recovery continues, with the vaccine rollouts making steady progress and further restrictions being eased in several major developed markets. Although global growth momentum has now likely peaked, strong global demand and supportive central bank policy should continue to provide a tailwind for economic growth.

Sentiment was dented however by the spread of the more contagious Delta variant of Covid-19, not just here in the UK but also in the US, raising concerns that the path to normality may be bumpier than expected. This triggered some anxiety among investors in the early part of July and some intermittent volatility in global stock markets. So far data suggests that vaccines remain effective against new variants in preventing serious illness and indeed the UK is demonstrating that it is possible to lift restrictions even as new case numbers are rising without leading to increases in hospitalisation rates or putting undue pressure on healthcare systems. But it is still early days.

Inflation remains one of the biggest worries for policymakers, contributing to the volatility in equity markets and unnerving bond investors. US inflation surprised on the upside for the fourth consecutive month with an increase of 5.4% year-on-year in June whilst UK CPI hit 2.5%. The Bank of England predicts this could rise to 4% by the end of 2021 before falling back closer to its target 2% next year. For the time being the message remains that these figures are largely “transitory” based on a low comparable during the pandemic lows last year and it is unlikely we will see any change in central bank policy just yet. However, the direction of travel is clear and it is a matter of when and not if central banks start to unwind their monetary policy measures.

Looking across the asset classes, bond and equity markets painted contrasting pictures in July. In the case of the former, the renewed concerns over Covid-19 cases and potential implications for global growth resulted in global bond yields falling in July (meaning values rose) as investors shifted back towards safer investments. Government bonds delivered the best returns in fixed interest markets, but investment grade corporate bonds and high yield bonds also delivered some healthy returns for investors. In contrast equity markets remained surprising resilient to the ongoing day-to-day volatility. Despite the MSCI World Index suffering its biggest one-day loss on 19th July, investors largely shrugged off these concerns and the index ended the month in positive territory.

In the UK, equities rose over the course of the month although sterling strength proved a headwind for many large-cap overseas earners and inflation fears dragged financials lower. As a result, the FTSE 100 was largely flat for the month, although better performance from small and medium-sized companies saw the FTSE All Share index rise 0.5%. Economically sensitive areas of the market performed well whilst continued M&A activity also provided a boost to share prices.

US equities continued their stellar performance despite the intermittent volatility with the S&P 500 extending its winning streak for a fifth straight month, ending 1.7% higher in July. Investors shrugged off global growth worries as second quarter earnings season got underway and companies again exceeded analysts’ expectations at record levels driven by rebounding demand and elevated profitability levels. However, reports for the so-called FAANG stocks (Facebook, Apple, Amazon, Netflix and Google), which account for 22.5% of the S&P 500, were solid but not without flaws and the share prices of all except Google declined. Although trends in digital transformation have been accelerated by the pandemic, comparisons are getting harder to beat and the bar of expectations for some of these mega-cap tech names is high after such strong share price appreciation over the past year.

European equities also notched up gains in July as release of earnings got off to a strong start and the vaccine rollout accelerated with Spain, Italy and Germany all overtaking the US in terms of numbers fully vaccinated. The FTSE Europe index recorded a gain of 1.6% with the top performing sectors including technology, real estate and basic materials.

Japan's major benchmarks faced headwinds as Covid-19 cases reached record levels and the government extended the state of emergency in an effort to control the spread of infections. The Nikkei 225 was down 4.8% while the broader TOPIX index fell 1.7%. Equity markets were closed for a four-day holiday to mark the start of the Olympic games, although due to the rising case numbers, spectators were banned from most events.

Turning to Asia and Emerging Markets, a sharp sell-off in Chinese equities towards the end of the month weighed heavily on indices. Chinese authorities announced a regulatory crackdown on the private education sector effectively banning any company from being run for profit. This sent shockwaves through the market with some securities falling as much as 70% and had spill over effects for technology stocks which are also under regulatory scrutiny in China. MSCI Asia and Emerging Market indices fell by 8.1% and 7.3% respectively for the month and investor sentiment has been significantly impacted by the intervention. India was the only country in the MSCI Emerging Markets index to record a positive return for the month.

Commodities had a positive month with strong growth in the industrial metals and energy components of the index as the global economic recovery continues. The precious metals component also gained as the price for gold climbed to $1,813.

Portfolios

Despite the return of some volatility to markets, all the Beckford James portfolios delivered positive returns for the month with the majority of them outperforming their respective benchmark indices.

The best performing portfolio was once again the Ethical portfolio, returning 1.84% which was comfortably ahead of its benchmark return. The portfolio has good exposure to global growth stocks which performed well over the month as well as reasonable exposure to fixed interest. Notable performers included Pictet Water, up 5.1% and Liontrust Sustainable Future UK Growth which rose 3.3%. Only the Stewart Investors Asia Pacific Sustainability fund delivered negative returns, down 1.6%, however this held up much better than the index which fell 7.2% largely thanks to its limited exposure to China within the fund and an overweight to India.

Turning to the Growth portfolios, the lowest risk Growth 3 was the strongest performing portfolio up 1.61% and followed in ascending order to Growth 10 which returned 0.29%. The lower risk profiles performed the strongest due to their higher degree of exposure to fixed interest funds and limited exposure to Asia, Emerging Markets and Japan which all delivered negative returns for the month. The best performing fund was the Vanguard UK Inflation-Linked Gilt Index fund which rose 6.3% as yields fell back and has now recovered all of the underperformance experienced in the first quarter. Unsurprisingly, Baillie Gifford Emerging Market Growth and Baillie Gifford Japanese Smaller Companies were the biggest detractors, falling 8.3% and 3.1% respectively.

Finally, the Income portfolio returned 0.4% but largely lagged the growth counterparts as growth stocks once again outperformed value stocks, with the portfolio having a bias towards the latter. There were still some strong performances from BMO Property Growth & Income, Chelverton Income and BlackRock Continental European Income, all up between 4-5%, which partially offset some weakness from the JP Morgan Emerging Market Income and Fidelity Asian Dividend funds.