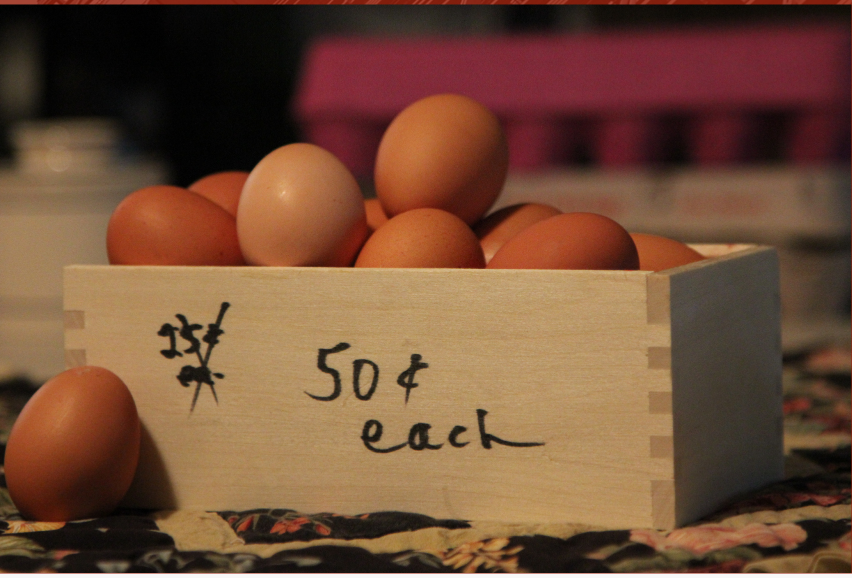
GLOBAL EQUITIES GAZETTE- JUNE 2021



The Case of Rising Inflation

Market Outlook

Inflation has become the story of the last 3 months. Inflation reports in May and June were ahead of expectations, but, with the help of central bank commentary and the Covid-19 Delta variant, the market has come to think that inflation will be transitory and indeed the economic recovery might be slower than previously expected. As a consequence bond yields have fallen and Growth stocks have risen. The Delta variant is a spanner in the works, no doubt, but a steady recovery in the economy is the most likely outcome. Vaccine program continue to progress and restrictions continue to lift. The big unknown is how will emerging markets fair through this period. Despite the continuation of higher inflation reports the market continued the significant rotation towards Growth stocks that had started with the first above expectations inflation report in mid-May. Similarly the US 10 year breakeven rate continued to fall throughout the month and nominal bond yields also fell. On the face of it this was surprising considering the above expectations inflation reports, but it appears that the markets had become rather over focused on that one issue (i.e. it had become a 'crowded position') and has since concluded, with the help of comments from the Federal Reserve and other central banks, that higher inflation will indeed be transitory. With that in mind it is less surprising that short term investors/speculators felt compelled to rapidly move out of the inflation hedge positions they had moved into over the last few months. Other economic data, such as employment reports, were also a little disappointing and the surge in new Covid cased resulting from the emergence of the Covid-19 Delta variant, first observed in India, combined to dampen enthusiasm for post-covid 're-opening' oriented stocks. Indeed the outperformance of Growth is the other side of the sell-off of 're-opening' stocks coin. As the cycle progresses we expect Quality stocks to perform well, with the lower quality and/or highly cyclical stocks typically working better in the early part of the cycle. Indeed for a Quality-Core strategy such as Global High Conviction the riskiest part of the economic cycle, from a performance perspective, should already be passed. Indeed, although it outperformed, the strategy did experience a significant headwind in late 2020 and early 2021. Having said that the nature of this cycle is different, as we have seen in June, in that unpredictable non-traditionally economic factors can have a significant impact on theeconomic outcome and market sentiment. The most prominent is the Delta variant, which is more transmissible and apparently less well combated by the existing vaccines, according to the live data from Israel.

Commentary on the Nomura Global High Conviction Fund

In the first half of the quarter, performance was strong, but that fell away in the second half as Growth stocks really started to outperform meaning that overall the strategy was just slightly ahead of benchmark. Alphabet and Novo Nordisk were the best performers, with Network International the worst. This largely appears to be a reflection of renewed Covid-19 concerns, which is also a key driver in the outperformance of Growth.