GLOBAL EQUITIES GAZETTE- MAY 2021

NOMURA
ASSET MANAGEMENT

Bump in the Road

Market Outlook

Markets continued to rise with the MSCI All-Country World Index up 10% year to the end of May. May saw the first of the long anticipated higher inflation reports, with the April inflation number proving to be well ahead of consensus expectations. Oddly though, inflation expectations implied by the market via the US 10 year breakeven rate (the gap between nominal and inflation protected bonds) rose prior to the inflation data announcement but then fell back again afterwards ending the month back where it started. The debate continues to focus on the likely longevity of higher inflation and here we have the competing arguments of a 'base effect' from the weakest periods of 2020 and apparently remaining slack in the economy, set against somewhat anecdotal evidence of staff shortages in industries such as retail and hospitality. Indications from central banks are that rates are likely to remain low, but the market may become concerned that this is unsustainable. The riskiest part of the cycle for Quality-Core investments is, generally speaking, the first stage of economic rebound as this is the period when lower quality, highly cyclical type stocks tend to do well, from a low base, having collapsed during the recessionary period. Of course this cycle is somewhat different to the normal economic cycle, having been created by the Covid-19 pandemic and so we expect 'bumps in the road' as the recovery continues and/or pandemic restrictions on personal freedoms are ended or extended. The debate is over inflation being the current 'bump'. As in April the underrepresentation of the strategy in Financials, Energy and Materials proved to be a headwind to performance, but additionally we saw weakness in the Technology stocks we hold which are typically the structurally well positioned companies and performed worst among that sector group. Looking at the strategy from a sector perspective, the stock selections actually contributed positively, but this was offset by the sector headwind.

Commentary on the Nomura Global High Conviction Fund

During the month the strategy reduced the weighting to Inditex, which is a retailer with several brands, Zara being the most well-known. We first bought this stock late in 2020 at around EUR23.5 but with the stock at around EUR31-32 we decided to lock in some profits that had come somewhat quicker than we thought they might. At the same time we added back to Ross Stores, which had been a little weak after its results, even though the results were positive. May saw continued inflows, meaning that the strategy has now reached over USD115mn in size with the new money coming from European clients.