GAM Managed Fund Solutions

Quarterly commentary Q2 2021

Marketing material for professional / institutional clients

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Performance review*

The second quarter of 2021 saw the MSCI AC World Equity Index (GBP) increase by 7.4%, adding to the 3.7% that had already been posted in the first quarter. A heady combination of US economic recovery amid significant ongoing monetary and fiscal policy support saw investors happily support equity markets. However, debate heated up about inflationary pressures in the global economy generally, and the US economy in particular. The latter posted a Consumer Price Index print of 5% on the previous year for May, well in excess of the Federal Reserve's (Fed's) 2% target, albeit using a slightly different measure. In meetings and interviews, Fed Chair Jerome Powell stuck to the line that near-term inflation was 'transitory', implying that near-term interest rates would not have to be raised. The market's indecision about whether to buy into this or not played out in style leadership: cyclical and value stocks fared well in April and May but by June the baton had returned to the growth style, including large-cap technology stocks. Either way, the strong relative performance of the US economy lent support to a strengthening US dollar in June, hampering progress in emerging market (EM) equities whose trade receipts and external debt are often denominated in US dollars.

In fixed income, long-dated government bond yields in the form of the 10-year US Treasury fell to around 1.5% as global bond investors both sought yield and downplayed long-term inflation expectations. Corporate bonds also remained expensive, with high yield 'junk' offering barely 2.8% more yield than the US Treasury note. This raised the issue of investor exuberance amid the wall of central bank supplied liquidity.

Within equities, exposure to the listed European property sector was the standout performer as vaccination rates in the region picked up pace, and lockdowns gradually lifted allowing a return to recreational activities such as shopping. Elsewhere, performance was mixed but mostly positive, with the exception of Japan. A breakout of Covid-19 cases led to regional lockdowns and dented confidence in Japanese equities. Japan has very low vaccination rates compared to other developed markets, and uncertainty loomed on whether or not spectators would be allowed at the upcoming Tokyo Olympics.

Away from equities, our capital preservation exposure remained dominated by fixed income and credit, aiming for consistency and reliability over time. These included mortgage-backed, subordinated, and EM debt securities. After a challenging first quarter, it was pleasing to see all of the underlying fixed income funds generate positive returns from March to June.

* Where relevant, since not all our clients have invested in the same strategies. Nonetheless, common themes run across our allocations, so we trust that an overall flavour of our positioning will be informative.

GAM Investments

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