

## Macroeconomic Commentary<sup>1</sup>

Global equities maintained their upward momentum throughout the second quarter as progress of the global vaccine rollout allowed many economies to gradually reopen. The MSCI World, S&P 500, FTSE 100, and Euro STOXX 50 indices were all up 7.7%, 8.5%, 5.6% and 5.2% respectively over the quarter. As markets rallied, rising inflation became a concern for investors as increased consumer demand, coupled with supply chain disruptions across the world, contributed to rising output prices. As a result, many central banks took a more hawkish tone. Although the US Federal Reserve sees the rise in inflation as transitory, it acknowledged the possibility of tapering bond purchases. Brent crude oil was up 20.7% over the quarter driven by increased demand and continued production cuts by OPEC+. In the UK, Prime Minister Boris Johnson announced the delay of "Freedom Day" until July 19th, due to a rise in new coronavirus cases caused by the Delta variant. Yields on UK and US 10-year bonds decreased by 13 and 27 basis points respectively over the quarter. The pound ended the quarter up 0.3% against the US dollar and down 0.7% against the euro.

## Fund Commentary

During the second quarter of 2021, the Credo Global Equity Fund (CGEF) increased by 3.7%, underperforming the MSCI World Index by 4.0%<sup>2</sup> in GBP terms. Over the same period, the MSCI Value Index returned 4.7%, underperforming the MSCI Growth Index by 6.2% in GBP terms.

Q2 saw a reversal of momentum in Growth versus Value. Concerns over a rapid rise in Covid-19 cases with the spread of new variants, saw a rotation back into the "Working from Home" (WFH) trade at the expense of the "Opening Up" trade. Likewise, the Federal Reserve (the Fed) managed to convince the market that the inflationary data readings (CPI / PPI) are transitory, and that there is no need at this stage to speed up the increase in the interest rate cycle. This led to a significant retracement of the US 10-Year Treasury yield to well below 1.5% and sparked further momentum back into Growth stocks.

Within the portfolio, the main positive contributors to the CGEF over the period were Facebook, Sberbank of Russia, Northrop Grumman, Wells Fargo, Raytheon and Bece SAB de. The main negative contributors were Flutter Entertainment, Prudential plc, IG Group, Alibaba Group Holding, Crown Resorts and Cigna.

## Looking Forward

At the end of the second quarter, equity investors remain bullish. US markets are close to or at all-time highs, yet the return profile of the underlying stocks that make up the index are very different. We are seeing distinct leadership sectors re-emerging, as the "WFH" / "Opening Up" trade and Growth / Value themes play out.

It seems that company fundamentals are slightly secondary at present, as the market becomes fixated with weekly economic data while it tries to unravel the big question around inflation, and whether the Fed is ahead of the curve in terms of tapering and rate rises. This makes it difficult for longer term, bottom up stock pickers like us, as we try and avoid short term noise, and invest through the cycle. However, it does mean that short term performance gets affected (negatively or positively).

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(1) Source: Bloomberg.

(2) Source: Bloomberg. Performance of the Credo Global Equity Fund Class A Retail Shares over the period 31/03/2021 to 30/06/2021.

We remain positioned for a global economic recovery. Our portfolio is still weighted towards the “Opening Up” trade, and we are of the belief that rates will have to begin to rise sooner rather than later, and that the asset purchasing programs of central banks will begin to taper. Growth stock valuations remain elevated and we still believe the upside performance in the market remains on the Value side.

As always, we remain patient and true to our investment philosophy.

*Jarrod Cahn, Co-Portfolio Manager*

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