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ECONOMIC AND FUND REVIEW

Many parts of the world continued to see high infection rates as a result of the more transmissible Delta variant, leaving global equities roughly at the same levels where they started the month. Elsewhere, developed market government bond yields fell, despite higher-than-expected inflation in the US and UK.

Investors became less worried about a spike in inflation leading the major central banks to raise interest rates sooner than expected. While US Federal Reserve chair Powell commented that the US economy was making progress towards conditions that warrant higher interest rates, risks to the economic outlook remain. These comments clearly had a positive impact on bond markets.

Overall, the second quarter reporting season has, to date, given us confidence that the vast majority of the portfolio's holdings are performing well operationally, and that the recovery from the pandemic continues.

The most significant individual contributor to performance was semiconductor manufacturer ASML. The company reported second-quarter earnings that were in-line with analysts' estimates, but it was the strength of its outlook that really caught the attention of investors. ASML raised its sales-growth outlook from 30% to 35% year-on-year.

Other positives included US-based Service Corporation. As the country's leading funeral-service provider, the company is benefitting from the ageing demographic theme – the number of 'baby boomers' in the population will soon begin to have a meaningful effect on the number of deaths in the United States. We can see how this trend is already helping Service Corp in its most recent set of results – strong revenues and cost controls have helped the business beat analysts' estimates and raise full-year earnings-per-share guidance from $3.20 to $3.50.

Conversely, Alstom, which manufactures and services rolling stock and equipment for the rail industry, detracted from returns. Despite results that were ahead of expectations, the company's shares suffered as the business re-estimated its cashflow guidance following its acquisition of Bombardier, given cost overruns in the acquired projects.

There were no notable buys or sells during July.

OUTLOOK

Although infection rates are rising in some parts of the world, mass vaccination rollouts mean that hopes of returning to normal are slowly being realised. And while this is undeniably positive news, there remains a significant challenge in deploying the vaccine globally and for economies and societies to reopen fully. In terms of infection rates, the impact of the new, more transmissible, Delta variant – especially in those countries with low rates of vaccination – is being closely watched. And there are signs that this new variant is already moderating analysts' growth expectations.

To revive economies, policy makers have drawn on their playbook from the 2008 Financial Crisis. Central banks have shifted towards a more dovish monetary policy globally, at least in rhetoric, potentially seeing lower rates for longer and a willingness to sustain higher inflation. Trillions in fiscal stimulus have also been pledged, targeting societal inequality with 'levelling up' policies, and industry stimulus such as US President Joe Biden's proposed infrastructure package and the UK's 'Green Budget'. Crucially, governments' mentality towards debt has shifted, meaning we're unlikely to see a return to the austerity that followed the 2008 crisis.

We expect trends that have accelerated due to the pandemic – such as e-commerce and working from home – are here to stay. Opportunities will be driven by the shift to a more digital world, automation, climate change mitigation and adaptation. There are also long-term demographic trends and shifts in consumption patterns, in the emerging and the developed markets.

Beyond the pandemic, there are other challenges we monitor. Rising inequality is our greatest worry and the consequences of the virus disproportionately affecting lower skilled, lower income populations. Global supply chains are being tested: already fragile and now facing pressure from accelerating global demand, reshoring production and strategic supply nationalism.

Despite the challenges, we remain positive on the prospects for a recovery in 2021 supported by international vaccination efforts. Ultimately, the reaction function of central banks to inflation and economic data are likely to be the defining factor for asset markets over the next 12 months.

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