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ECONOMIC AND FUND REVIEW

In August, greater attention was paid to the Covid-19 Delta variant, which has caused increasing cases in most of the developed world. Over the course of the last two months, Australia and New Zealand were the latest countries to reimpose restrictions as cases rose to their highest level since the start of the pandemic. Nevertheless, in areas where Covid-19 vaccination rates are high enough, there is still substantial evidence that vaccination prevents serious illness. The Federal Reserve maintained its dovish position and indicated it will not raise interest rates until maximum employment has been achieved. In this environment, equities continued to break record highs and bond yields stayed broadly range-bound.

The top contributor to returns was Prudential. Investors continued to react well to the demerger of the company's US subsidiary Jackson – which should be completed in September – and other elements of the ongoing restructuring plan. Prudential is aiming to focus on Asia and Africa – two regions with strong growth potential. Other positives included US-based energy company NextEra Energy, which reported second-quarter earnings that exceeded analysts' estimates.

Detractors included payment-processor Mastercard. Despite releasing Q2 2021 earnings that beat consensus estimates, investors appeared to be more concerned about the growth in the buy now pay later market, which lessens the appetite for credit cards. However, we remain convinced of Mastercard's long-term potential thanks to its vast global network which is difficult to replicate. It should also benefit from an uptick in cross-border fees as pent-up travel demand materialises. Other detractors included biotechnology firm Amgen, which saw its share price fall despite releasing better-than-expected results. Rather than focusing on such positives, investors reacted to news that Amgen is facing litigation proceedings brought by the US Internal Revenue Service over transfer pricing from the US to Puerto Rico – something Amgen's management disputes.

There were no complete buys or sales 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 of deploying the vaccine globally and for economies and societies to reopen fully. In terms of infection rates, the impact of the more transmissible Delta variant – especially in those countries with low rates of vaccination – is being closely watched. There are signs that this variant is already moderating many 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 the remainder of 2021 and beyond, 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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