

Market Commentary June 2021

US inflation on the rise

Expectations of rising inflation became reality in May, as the latest inflation print from the US showed a year-on-year rise of 4.2%. Although the year-on-year comparison is flattered by a low inflation figure twelve months ago, there are still a number of drivers behind this headline figure, including the effects from the Fed's aggressive fiscal and monetary easing, the narrowing of spare economic capacity, rising input costs (raw materials and energy) and the combination of the unwinding of pent-up consumer demand and supply-side constraints resulting from Covid.

European markets continue to rebound strongly

Strong gains were seen once again across the European markets, as investors continued to look past the current difficulties surrounding the Covid vaccination programmes, and out to the wider global economic recovery. Smaller EU nations were particularly strong, driven by good uplifts in GDP reported in the first quarter. Some smaller markets have returned more than 20% so far this year. The Euro Stoxx 50 Index hit a new high on 1st June.

Commodities resume strong upward trend

Commodity prices around the world resumed their strong upward trajectory, with gains across the board. Energy commodities (oil, coal etc.) gained another 7.1%, making a total gain of more than 35% so far this year. Meanwhile, agricultural commodities (wheat, soy beans, coffee etc.) gained 5.7% (14.4% YTD), fertilizers rose by 4.4% (34.6% YTD) and metals and minerals gained 9.1% (26.2% YTD). Precious metals also rebounded strongly, with gold erasing all its year-to-date losses.

Emerging markets see inflows from investors

Emerging markets rallied once again in May, as the dollar weakened, rates remained low, and inflation began to become more visible. This is the perfect combination of factors for the emerging market economies, with their massive dollar-denominated debt and manufacturing economies. Investors have been quick to get on board with the emerging market recovery, and during May, one manager, Federated Hermes, announced that its Global Emerging Market Equity Fund would close to new investors from 15th June to maintain its liquidity and "portfolio characteristics".



The World at a Glance

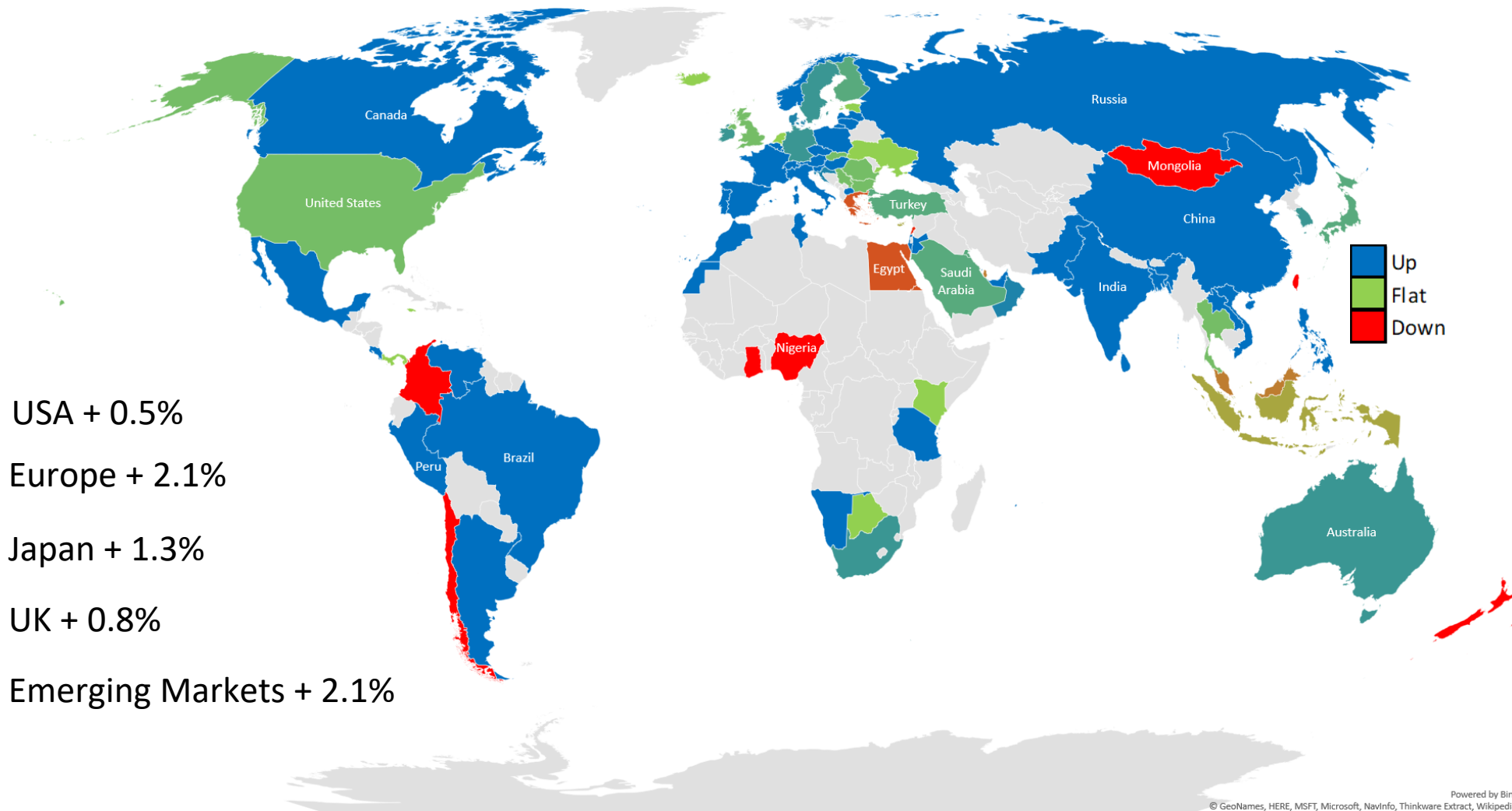
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	May 21	Year to Date
UK CASH	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.3%	0.6%	0.7%	0.2%	0.0%	0.0%
US DOLLAR	1.5%	-0.5%	0.3%	12.8%	9.3%	3.6%	-9.9%	4.4%	0.2%	-6.7%	-1.6%	-0.1%
UK GILTS	15.6%	2.7%	-3.9%	13.9%	0.6%	10.1%	1.8%	0.6%	6.9%	8.3%	0.4%	-6.3%
US TREASURIES	9.8%	2.0%	-2.7%	5.1%	0.8%	1.0%	2.3%	0.9%	6.9%	8.0%	0.3%	-3.2%
GLOBAL CORPORATE BONDS	4.6%	10.8%	-0.1%	2.9%	-3.6%	3.7%	8.9%	-3.2%	10.7%	10.0%	1.0%	-1.9%
GLOBAL HIGH YIELD BONDS	3.1%	19.6%	7.3%	0.0%	-2.7%	14.3%	10.4%	-4.1%	12.6%	7.0%	0.9%	1.9%
S&P 500	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	0.7%	12.6%
FTSE ALL SHARE INDEX	-6.7%	8.2%	16.7%	-2.1%	-2.5%	12.5%	9.0%	-13.0%	14.2%	-12.5%	0.8%	9.3%
EUROPE STOXX 600	-11.3%	14.4%	17.4%	4.4%	6.8%	-1.2%	7.7%	-13.2%	23.2%	-4.0%	2.1%	12.0%
TOPIX INDEX	-18.9%	18.0%	51.5%	8.1%	9.9%	-1.9%	19.7%	-17.8%	15.2%	4.8%	1.3%	6.6%
ASIA EX-JAPAN	-14.9%	19.3%	5.9%	7.4%	-5.6%	6.1%	35.6%	-12.3%	17.9%	22.4%	0.7%	6.6%
EMERGING MARKETS	-20.4%	15.1%	-5.0%	-4.6%	-17.0%	8.6%	34.3%	-16.6%	15.4%	15.8%	2.1%	6.6%
COMMODITIES	-0.4%	-4.3%	-3.1%	-28.9%	-29.0%	32.8%	-3.4%	-8.5%	13.1%	-26.1%	0.1%	21.5%
GOLD	9.6%	6.1%	-28.7%	-1.7%	-10.9%	7.7%	12.8%	-2.8%	18.0%	20.9%	7.7%	0.1%
HEDGE FUNDS	-8.9%	3.5%	6.7%	-0.6%	-3.6%	2.5%	6.0%	-6.7%	8.6%	6.6%	0.4%	3.5%

Total Return - Local Currency

Source: Bloomberg



World Equity Markets



Source: Bloomberg – National benchmark indices in local currency

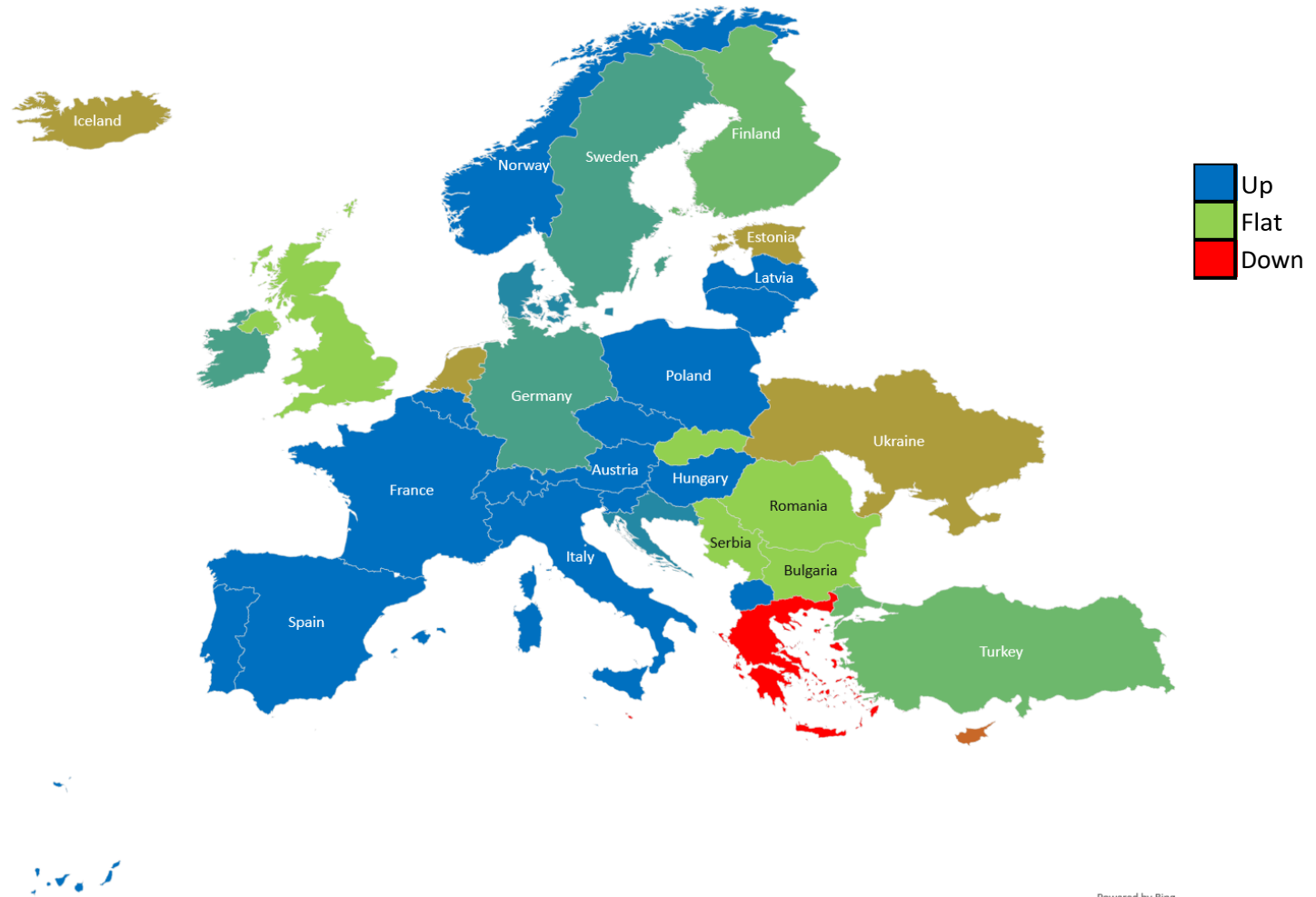
May was another positive month for equity investors generally, as all the major markets turned in gains and the emerging markets were also at the forefront once more. The reality of higher inflation numbers was established as the US headline CPI inflation rose to 4.2% and core inflation (excluding energy and food) hit 3.0%.

Whilst higher inflation usually means higher interest rates, central banks appear minded to keep rates as low as possible for as long as possible to support the recovery and inflate away some of the debt that has piled up during the Covid crisis.



European Equity Markets

UK + 0.8%
Germany + 1.9%
France + 2.8%
Italy + 4.3%



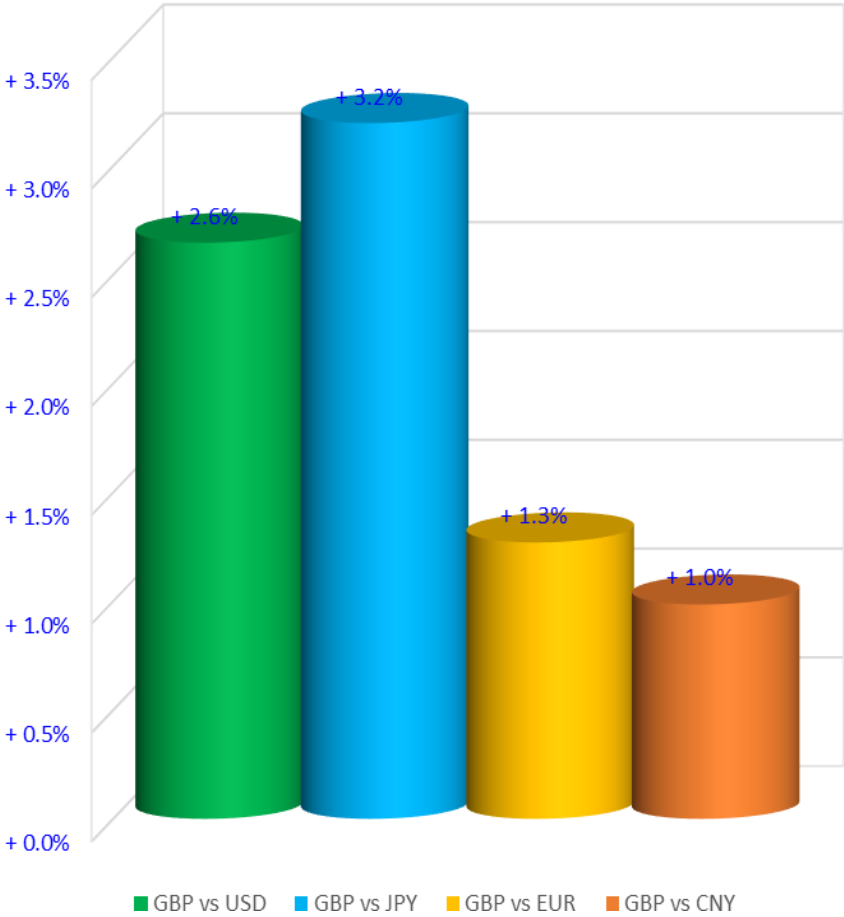
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Source: Bloomberg – National benchmark indices in local currency

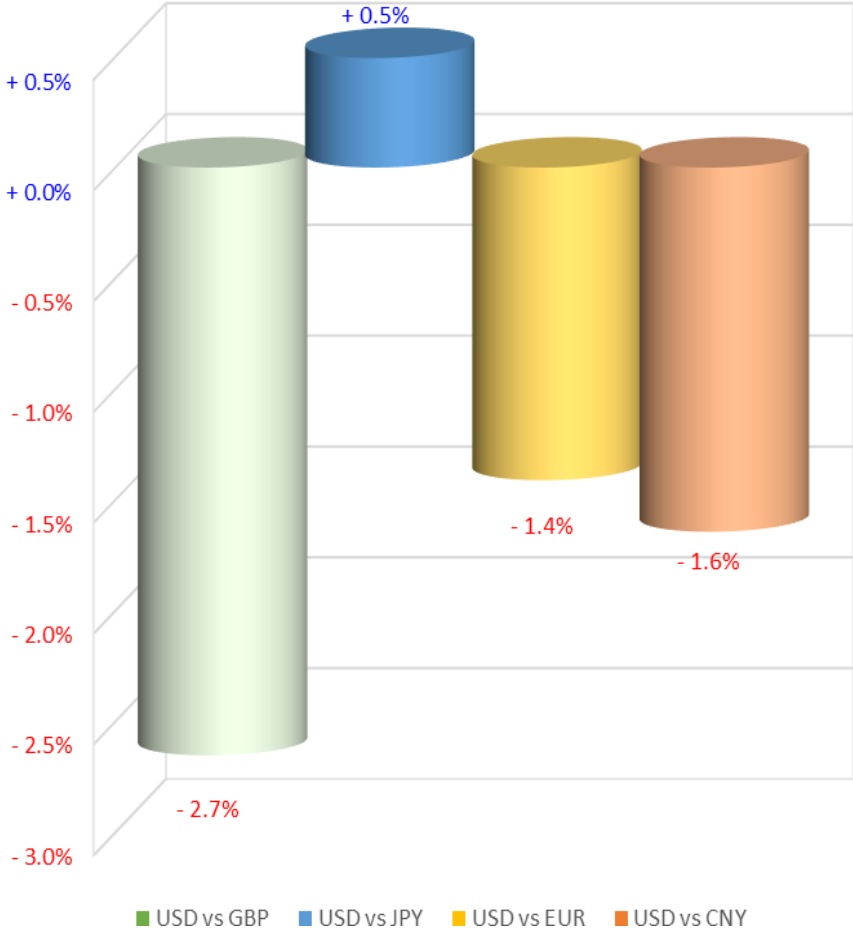
France was, once again, a strong performer, though Italy gave the best return in May. Despite France's poor track record in rolling out Covid vaccinations, the CAC Index, at its peak, was up 16.9%, making it the best of the main global markets this year. Outside of the majors, many peripheral European markets saw strong growth, based on optimism for the global recovery and their own strong GDP growth in the first quarter of the year, led by Slovenia, up more than 27% so far in 2021. The pan-European Euro Stoxx 50 Index also hit a new all-time high on the morning of Tuesday 1st June.



Pound vs Other Currencies



Dollar vs Other Currencies

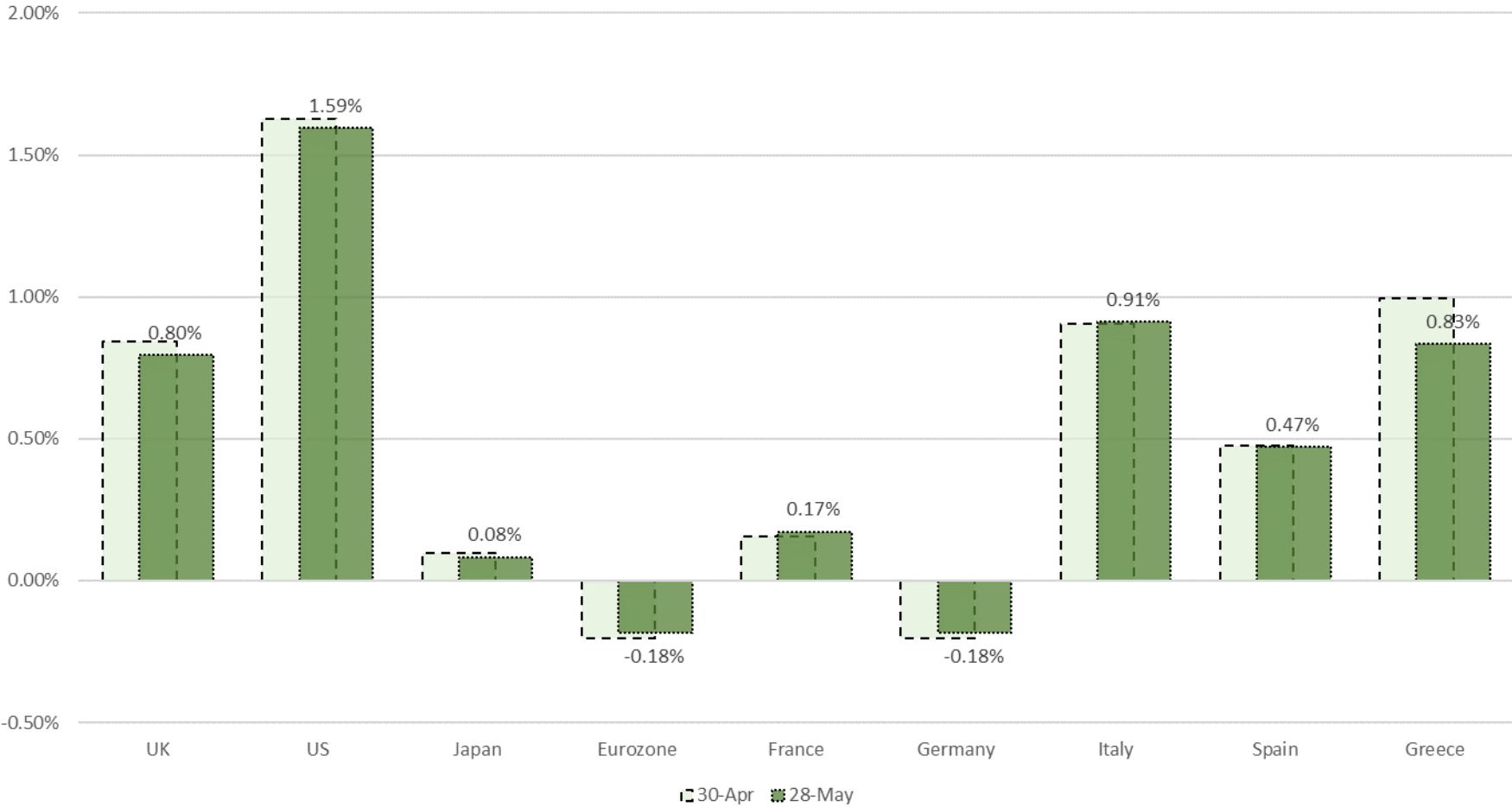


Source: Bloomberg

Sterling continued its medium-term appreciation in May, benefiting from the rapid vaccine roll-out and the imminent return to “normality” expected in the second half of June. Britain has mostly maintained low single-digit deaths from the virus, despite the rise of the Indian variant. A weak dollar was the other striking feature of the currency markets, as higher inflation, coupled with a lower-for-longer monetary policy compounded the effect of the massive US trade deficit and savings shortfall to undermine the currency.



Generic 10-year Yields*



Source: Bloomberg

Bond markets represented an oasis of relative calm in May, amid the volatility of equities and commodities. Whilst many yields around the world remained flat, or edged lower, the total return from all sections of the global bond market was negative for Sterling investors, due to the strength of the pound during the month. Returns from sovereigns, IG corporates and high yield bonds were barely differentiated. This was despite the minutes of the latest Fed meeting reflecting some more hawkish views, that the tapering conversation should start sooner, rather than later.

*A Generic bond is a theoretical bond that always has the specified tenor, unlike a Benchmark bond, which is a physical bond, with a decreasing tenor.



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