June Market Reflection

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The first half of the year has witnessed strong gains for equities as investors continue to have faith in the global economy's ability to recover from the COVID pandemic. Market leadership has largely been in the hands of those sectors and companies more exposed to the reopening trade, as opposed to the "stay at home" winners of 2020. Even so, the fortunes of the two groups continue to ebb and flow depending upon the pace of vaccination programmes and the prevalence of new variants. At the current time, the increasingly widespread of the Delta variant is creating concern about the ability of many countries to open their borders more freely. The other side of the recovery coin features negative returns for investors in government bonds, with exceptionally low yields unable to compensate for capital losses. Alongside COVID, the outlook for inflation remains at the centre of the investment debate. The latest consumer price data in several regions reveal a large jump from levels a year earlier, with the effects of a low comparative base being amplified by numerous bottlenecks in local and global supply chains. Central banks continue to view the spike as being transitory, although the US Federal Reserve did acknowledge the risks of more persistent inflation at its June meeting by effectively shortening its time horizon for policy tightening. In many ways, once the dust had settled, investors were encouraged by this change of tack, as it reduces the risk of inflation expectations becoming unanchored. Meanwhile company profits continue to rebound strongly, and the UK is attracting more than its fair share of corporate predators, with supermarket chain Wm. Morrison being the latest high-profile recipient of a bid from a private equity buyer. Such buyers are currently holding large cash balances, and we believe that more merger and acquisition activity is probable.

- The global economy is set to recover strongly in 2021, although upgrades to growth expectations appear to have stalled at 6% (Bloomberg median estimate). Expectations for 2022 are still rising, and now stand at 4.5%. However, it is possible that recovery could be delayed if borders are not opened in a timely fashion owing to the rising prevalence of the Delta variant in countries with lower vaccination rates.

- Inflation in May once again topped expectations, with headline CPI rising by 2.1% in the UK and by a shocking 5% in the US. A combination of supply chain disruption and the release of pent-up demand for certain services were widely cited. While it is probable that inflation will settle at higher levels than pre-COVID, we continue to view warnings of 1970s-style inflation as alarmist.

- The shift in the social agenda remains visible in governments' fiscal plans. Although President Biden had to settle for a lower dollar

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amount of spending than initially proposed, his infrastructure programme, with a heavy emphasis on carbon reduction, points the way ahead. An even larger support package directed more at families is expected to be passed later in the year.

- Funds that focus on Environmental, Social and Governance (ESG) factors continue to attract record amounts of new investment. Investec is a signatory of the United Nations' Principles for Responsible Investment and is committed to embedding the assessment of ESG factors into all levels of the investment process.

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