Quarterly Review Q2-2021

The second quarter of 2021 was generally good for risk assets. Equities led the way but even investment in fixed income securities generated superior returns to cash, and the model portfolios captured a proportion of this growth depending on the risk profile chosen. The primary reason for the favourable returns was the improving economic and health narrative. Activity continued to rebound as vaccine programs in most of the developed world had the desired effect of lowering hospitalisations and death rates, allowing Governments to ease restrictions and for many life continued to normalise. Consumers awash with cash saved in lockdown, continued to buy goods and were now able to use services more freely, get their hair cut, visit restaurants, cinemas and bars and even think about travelling.

In fact, with money awash in the system from central bank and government support and various bottlenecks suppressing supply of goods and commodities, inflation has appeared in the system and the question on investors minds is will it prove to be transitory or will it be the more sticky secular variety. The answer to this has big implications for financial assets. If it is the former, short-lived variety, then Central banks such as the Bank of England and Federal Reserve will be able to keep interest rates low and maintain their asset buying programs. If it is the latter, then it is reasonable to expect that there will soon be a tapering of these asset purchase programs and, further out, that interest rates might need to be on an upward path. Bonds and growth equities are typically the asset classes more susceptible to damage from tighter monetary policy, whereas cyclical recovery stocks are less affected by such a move.

But on the whole, investor optimism won out over the period as economic recovery has maintained its momentum, corporate earnings are delivering ahead of expectations and the vaccination programs are slowly winning the battle against serios illness.

Positioning & Outlook

The call on the future direction of inflation is an exceedingly difficult one to make and we were unapologetically sitting on the fence during the last quarter, maintaining a foot in both the growth camp through the Focused Fund and Future Wealth exposures and one in the value camp by holding shorter duration bonds, index trackers, infrastructure and the Schroder UK Recovery fund.

Going forward it will become clearer from the data as to which scenario plays out, and perhaps we can take a lead from China which was the economy first in the pandemic and first out. Here we have actually seen signs that growth is coming in a bit below expectation, as it would seem that the consumer, whilst awash with pandemic savings is a little reluctant to spend after an initial splurge. This could be mirrored in the Western world and it is possible that the economic rebound may lose some momentum over the remainder of the year. The job market globally is also not recovering as fast as authorities would hope, through a combination of people reluctant to work and also fewer jobs available, as many companies have used the pandemic as an opportunity to increase productivity through new technology at the expense of labour.

These early signs suggest to us that the inflation spike may actually begin to recede. If that is the case then bond yields could fall or at least stabilise companies that can grow their earnings independent of the economic cycle could again come back into vogue. We have therefore decided to increase the duration of our bond weightings back to a more neutral position and have switched our UK Equity content by selling Schroder Recovery in favour of Slater Growth.

I will finish with a much bigger picture view and say that I think the backdrop for financial assets to continue to outperform cash remains positive. The biggest long-term driver for equities is company earnings and here we can find great reason to be optimistic with another knock out reporting season expected to get underway shortly in the US. Yes, markets are expensive by historic measures, but I feel prices are justified given the low yields on offer from bonds and the pitiful returns from cash. We will do our best to maximise returns for investors and justify your support.

Tom McGrath
Chief Investment Strategist

IMPORTANT INFORMATION

This document has been produced for information only and represents the views of IDAD Limited at the time of writing. It should not be construed as Investment Advice. No investment decisions should be made without first seeking advice. Full details of the MGTS IDAD Funds, including risk warnings, are published in the MGTS IDAD Funds Prospectus. Margetts Fund Management Limited is the Authorised Corporate Director of the MGTS IDAD Funds and is authorised and regulated by the Financial Conduct Authority FRN 208565. Registered Office 1 Sovereign Court, 8 Graham Street, Birmingham. B1 3JR. IDAD Limited is authorised and regulated by the Financial Conduct Authority FRN 740499.

RISK WARNINGS

The MGTS IDAD Funds, are subject to normal stock market fluctuations and other risks inherent in such investments. The value of your investment and the income derived from it can go down as well as up, and you may not get back the money that you have invested. Investments in overseas equities may be effected by changes in exchange rates, which could cause the value of your investment to increase or diminish. Past performance is not a guide to future performance. Every effort is taken to ensure the accuracy of this data, but no warranties are given.