Square Mile Update

16th September 2021

Recent UK economic signals have remained broadly positive and the June GDP numbers indicated a stronger recovery than forecasted and the Bank of England now expects the economy to regain its pre-COVID size by the end of this year.

While growth in the UK's service sector has slowed to its weakest level since March overall, it has been a much more positive story for manufacturing. The Bank also found costs were rising at their fastest pace in 25 years, raising concerns of inflation. Inflationary pressures within the labour market were also evident, with UK job vacancies rising above 1 million for the first time ever. The list of anecdotal reports of labour and product shortages continued to grow, including McDonald's milkshakes, chicken-based products at Greggs, bikes at Halfords and decaffeinated coffee at Costa.

The well-documented semi-conductor shortages alongside labour shortages from the 'pingdemic' and Brexit migration away from the UK resulted in an almost 40% fall year-on-year in UK car production, which is the worst performance seen since 1956. In fact, efforts to plug labour shortages led to the highest number of job vacancies on record. It is ironic that for most of the pandemic period policymakers were worried about too much unemployment. Now the fear is that there are not enough workers to fill all of the jobs. However, there are still some lingering concerns that when the government furlough scheme finishes at the end of this month, unemployment will jump. We will have to wait and see.

In our portfolios, we have brought many of the marginal regional equity bets back into line with the Strategic Asset Allocation as they have not been making much of a difference. Our key value add is our outstanding fund research and so this is where we have refocused the portfolios and brought in some new exciting names reflecting our research team's very best ideas. We have also recycled money out of narrowly focused thematic funds into broader based funds which can invest right across different industries to make the most of the opportunities in the global stock markets.

In fixed interest we have been concerned about the very low yields on offer and because of this, and the poorer outlook for many parts of the bond markets, we have introduced an element or higher exposure in some cases to absolute return. This should offer both higher returns and better protection should there be some sort of a selloff in the bond markets in the months ahead.

So, as we move into the Autumn, we remain positive on the outlook but expect returns to be a little more volatile than we have seen so far this year.

Mark Harries, Chief Investment Officer
16th September 2021

In a recent review of the equity fund holdings, specifically focussing on global equities we have shifted the focus from narrowly mandated specialist funds, that were partly used to provide diversification benefits, while providing some equity exposure, into broader global equity funds, which we believe have the best chance of delivering performance, on a forward-looking basis.

As part of this review, one of the funds we have recently added is the T.Rowe Price Global Focused Growth Equity fund. Although T.Rowe Price is not a household name in the UK, it is a very large and respected global asset management firm, which is responsible for north of $1.5trillion USD of assets. The firm has a lot of resources, with over 100 analysts covering over 4,000 stocks.

This particular fund is managed by David Eiswert, who makes very good use of the resources at the firm. He and his sub-team essentially cherry pick the best stock ideas from the analysts, where they believe there is an insight that should lead to superior returns. The fund is managed with a distinct bias towards largely capitalised growth stocks, however, it is run within sensible parameters that should provide investors with broad regional and sector exposures, to companies listed in both developed and emerging markets.

While this fund does have its biases, and is one that we would consider to be higher end of the risk spectrum, we feel that it is a great fit within the overall re-appraisal of the global equity bucket.

Daniel Pereira, Investment Research Analyst
16th September 2021

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