STONEHAGE
FLEMING

5 July 2021

Dear Equity Client

GLOBAL EQUITIES – 2nd Quarter 2021

World equity markets delivered solid performance on the continued economic recovery. The MSCI World Index (including Emerging Markets and dividends) increased +7.4% (US$ terms, +7.4% UK£ terms) over the quarter, bringing the return for the first half of the year to +12.3% (US$ terms, +11.1% UK£ terms).

Shareholders generally experienced outstanding earnings results, well ahead of expectations. Over 87% of the S&P 500 constituents declared better than expected earnings over the quarter. This ratio is an all-time record. Consensus expectations for the index earnings for the next twelve months have increased further by +10.1% over the quarter. This strong fundamental data support share prices well.

The main capital markets feature over the quarter was the continued lower US interest rate levels despite a sharp spike in inflation, contrary to many (if not most) views a few weeks ago. The latest US CPI (Consumer Price Index) reading increased to 5.0% and PCE (Private Consumer Expenditure), the Federal Reserve's preferred inflation measure, increased to 3.1%. Both these inflation levels are well beyond their longer term target level of 2%. Against these inflation spikes, and the strong US economic recovery, the Ten Year US Treasury Yield dropped from a cycle peak of 1.74% in March to 1.47% at the end of June.

Federal Reserve chairman Powell is credited for allaying fears of structurally increasing inflation levels. He addressed the topic again on 22 June, reiterating his view that the inflation surge is attributed to factors mostly related to economic reopening and is merely 'transitory'. It seems the market is starting to put more weight to this view than to one of threats of crippling inflation. The above 0.27% drop in the Treasury yield, as moderate as it may sound, reflects an important change in investor perceptions away from a hugely uncertain and volatile outlook to a more stable and constructive environment.

The Biden administration is doing its utmost to further stimulate the US economy beyond the normal recovery. US consumer confidence is now recovering sharply and is currently at the highest level ever immediately following a recession. With consumption making up over 70% of the US GDP, these bode well for continuing strong earnings deliveries.

Whilst the backdrop above is fundamentally supportive of equity investing, we can expect investor considerations to slowly start moving beyond the economic recovery and become more focussed on the future structural drivers of business and economic growth. Our orientation is to ensure we hold those sustainable above-average earnings compounders rather than cyclical short term winners which necessitate active trading to exit well ahead of a maturing cycle.

We thank you for all your support.

With best wishes.

Gerrit Smit
Partner – Head of Equity Management

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