UK Mid Cap strategy

The attractions of the UK as a place to invest visible through the on-going flow of M&A activity

- June was again a volatile month as the market continues to react to data
- FTSE All-Share Index finished the month up
- Growth stocks, in general, continued their recent recovery

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What's happening?

In June, the market was initially buoyed by data showing further economic recovery and improved sentiment regarding the pandemic as the UK reported no daily deaths from COVID-19 on the first day of the month, for the first time since the pandemic began. This early optimism, however, turned to caution as rising global inflation data led the market to worry that central bank stimulus would be tapered sooner than previously expected and this was in part confirmed when the US Federal Reserve's (Fed's) median interest rate projection changed from one of no increases before 2024 to potentially two rises in 2023.

In addition to this, both domestically and globally, the case numbers of the Delta variant rose steeply in the latter half of June causing a delay to the final unlocking of UK restrictions. Commodity prices also came under pressure during June following a period of very strong growth as a result of the Fed's actions and helped by China releasing stockpiles and clamping down on speculation. The oil price, however, was an exception to this as Brent crude and West Texas Intermediate surged through $70 per barrel, to the highest levels since October 2018. The increase reflected growing demand for fuel from the recovering global economy and potential delays to a deal between the US and Iran over the latter's nuclear power development. The FTSE All-Share Index finished the month up 0.16%[1], with the oil price strength helping the FTSE 100 Index gain 0.41%[1]. It was also a good month of returns for small-cap indices, with a gain of 1.23%[1], but the more domestically-focused FTSE 250 Index fell -1.18%[1], impacted by the Delta variant worries. On a year-to-date basis, the strategy benchmark, FTSE 250 ex-investment trusts Index, has risen 11.97%[1].

[1] Source : Bloomberg, as at 30/06/2021

Portfolio positioning and performance

The strategy outperformed its index in June as it benefited from strong monthly performances from Future, Darktrace, and Learning Technologies Group. Detractors from performance included Just Group as yields pulled back during the period, as well as Clinigen following a profit warning that Proluekin sales would be below expectations, and Morrisons after the supermarket received a takeover approach but is not held within the strategy. Sector allocations had a slightly negative impact overall with technology contributing positively and consumer staples contributing negatively.

We used share price volatility to add to core holdings and make reductions. New holdings were taken in Made.com Group as part of the initial public offering process. Holdings in Rank and St Modwen Properties, which received a takeover approach from Blackstone, were sold. Additions of note included supporting fund raisings for both Rathbones (to buy Saunderson House) and Draper Esprit (to accelerate its business model). The strategy's investment philosophy and process remained unaltered.

Outlook

June was again a volatile month as the market continued to react to every inflation, employment, and GDP[2] print. This is driving the performance of both markets and sectors as investors try and anticipate the next central bank move.

Growth stocks in general continued their recent recovery as investors were nervous that central banks would dampen the recovery, removing some of the exuberance from cyclical stocks. In addition to this, the rapid spread of the highly transmissible Delta variant of COVID-19 is another cause for concern. However, economic data over the last three months has generally been very strong and global forecasting bodies are now projecting that the UK will be one of the fastest growing of the major developed economies in both 2021 and 2022. The attractions of the UK as a place to invest are manifesting themselves most visibly through the ongoing flow of M&A activity in the UK-listed space. With so much liquidity still in the system, this is likely to continue to feature over the coming months.

[2] GDP: Gross Domestic Product