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UK Multi-Cap strategy

The UK consumer sector proved resilient in the second quarter

- Economic data over the last three months has generally been very strong
- Equity markets continue to dance to the tune of the world's bond markets
- We participated in Revolution Beauty IPO

Chris St John
Portfolio Manager, UK Multi-Cap Strategy

What's happening?

In July, the market was initially buoyed by optimism about the continued economic reopening. However, shares came under sharp pressure around mid-month as investors became increasingly worried about big rises in new cases of COVID-19 and its potential impact on the economic recovery. Stocks clawed back the losses towards the end of the month as infections declined and COVID-19 curbs were relaxed further, while the government said it would end quarantine rules for fully vaccinated travellers from the European Union (EU) and the US.

The UK consumer sector proved resilient as retail sales were up 10.4%[1] in the second quarter compared with the equivalent period in 2019, before COVID-19 emerged. Meanwhile, UK mortgage lending rose by a record £17.9bn[1] in June from May, as buyers sought to take advantage of a tax break before it expired at the end of the month.
Despite the encouraging data, the UK economy grew by a weaker-than-forecast 0.8%[2] in May from April. In the three months to the end of May, GDP expanded by 3.6%[2], which was also lower than expected due to supply bottlenecks and the 'pingdemic' phenomenon which impacted economic growth and added to inflationary pressures. In the UK, consumer prices increased by 2.5% year-on-year in June, which was the highest rate since August 2018 and compared to a rise of 2.1% in May[3].

The FTSE All-Share Index finished the month up 0.5%[4] and the FTSE 100 Index gained 0.1%[4]. Real strength was to be found in the FTSE 250 Index, which gained 2.7%[4], and it was also a good month of returns for the FTSE Small Cap ex Investment Trusts Index which gained 1.2%[4].

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[1] Source: Reuters.

[2] Source: Financial Times.

[3] Source: Trading Economics.

[4] Source: Bloomberg as of 30/07/2021. Total return performance in GBP.

Portfolio positioning and performance

Over the month, the strategy outperformed its comparative benchmark, the FTSE All-Share Index, rising 1.8%. Stock selection and sector allocation contributed to outperformance. The overweight position to the Technology and Industrials sectors, as well as stock selection within these sectors were positive over the month. Stock selection within Consumer Discretionary detracted from relative performance, as did the underweight position to Basic Materials. Detractors from relative performance included Made.com (online furniture and homewares retail), Boohoo (online clothing retail) and miners BHP and Anglo American (not held). Positive stock performances of note included Darktrace (cybersecurity), Ultra Electronics (defence electronics), Future (media) and Rentokil (pest control). Ultra Electronics received a takeover offer from Cobham, a UK defence group.

We used share-price volatility to add to core holdings and make reductions. We took a new holding in Revolution Beauty as part of the IPO process, while we did not divest from any holdings over the month. The strategy's investment philosophy and process remained unaltered.

Outlook

Equity markets continue to dance to the tune of the world's bond markets, with treasury yields falling over the month in response to US Federal Reserve tapering talk on the back of rising inflationary concerns. July was again a volatile month as the market continued to react to every inflation, employment, and GDP 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.

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 major developed economies in both 2021 and 2022. Inflationary pressures are likely to remain at the forefront of investors' minds and the impact on both company profit margins and the demand for goods and services will need to be monitored carefully. 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.

No assurance can be given that the UK Multi-Cap Strategy will be successful. Investors can lose some or all of their capital invested. The UK Multi-Cap strategy is subject to risks including; Equity; Smaller companies risk; Liquidity risk; Investments in small and/or micro-capitalisation universe; Investments in specific countries or geographical zones.

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