Investment Managers

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September 2021
Monthly Perspectives
Framlington Equities

UK Multi-Cap strategy

Signs that some supply and inflationary pressures have peaked in some areas

- Central banks remain steadfast in their view that inflation will be temporary
- "Value" stocks outperformed "growth" in September
- We initiated a position in Oxford Nanopore (IPO)

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What's happening?

With economic growth slowing and inflation rising, newspaper headlines are shouting 'stagflation!'. The debate about inflation and its persistency will continue over the coming weeks and potentially months, with consumer confidence at risk if supply tightness is not relieved soon. Over the month, the UK benefitted from its structural biases as oil and gas and resource companies outperformed the wider market. This dynamic was reflected in the 'style' performance metrics, with 'value' stocks outperforming 'growth'. Overall, equites fell over the month as the prospects of tightening monetary policy and inflationary pressures were digested.

Portfolio positioning and performance

Strategy performance was negative over the month, as was the performance of the broader UK market(FTSE All-Share index) which dropped 1.0%. The overweight allocation to the technology and industrials sector proved negative in September, however stock selection within these sectors contributed positively to relative performance. The underweight to the basic materials sector also contributed positively. Stock selection within consumer staples was positive, while this was negative in the consumer discretionary sector due in part to positions in boohoo (an online fashion retailer), Moonpig Group (an online retailer of personalised greeting cards and gifts) and TI Fluid (which develops, manufactures and supplies automotive fluid storage, carrying and delivery systems).

Positive stock performances of note included Serica (a gas & oil business), Darktrace (a cybersecurity company) and Dunelm (a home furnishings and furniture retailer). Darktrace released an update on their first quarter which was met positively by the market. The positive quarter led the company to revising their revenue guidance upward slightly. Dunelm saw its share price rise in September after the company upgraded their full year earnings expectations again. They also announced a special dividend.

We used share price volatility to add to core holdings and make reductions. A new position was taken in Oxford Nanopore (part of its IPO). The company develops technologies for molecular detection and analysis. These technologies are used in, but not limited to, DNA sequencing, diagnostics, drug development, and defence applications. Holdings in Made.com and Jackson National Inc (spun out of our holding in Prudential) were sold.

Outlook

Macroeconomic events arising from the rate of economic recovery are likely to drive capital flows over the short term. Inflationary pressures, both short and longer term, the incidence of COVID infections (globally), together with the commensurate rate of economic growth are likely to influence investor sentiment and allocation of capital. Central banks remain steadfast in their view that inflation will be a temporary phenomenon and monetary policy remains accommodative, although moderate monetary tightening seems increasingly likely. Supply chain tightness is distorting several markets and we will continue to monitor both the severity and duration of this.

Company management teams are not seeing enough evidence yet to declare that price rises are over, however there are signs that perhaps some of the tightness in supply and inflationary pressures have peaked in some areas. For example, lumber and Iron Ore prices are down over 50% from their peak in May 2021 and the oil price is in backwardation, suggesting that future prices will be lower than current prices. At the aggregate level, the UK Input Price Index peaked in June 2021 and the US Index peaked in August 2021. In addition, furlough support for 1.5 million adults in the UK will cease at the end of September, adding to the pool of labour.

Longer term, the more secular forces of both inflation and deflation will continue to battle for aggregate supremacy. ESG investment will remain inflationary, China is unlikely to export deflation going forwards to the same extent as it has historically and both demographics and technological innovation will continue to exert powerful deflationary pressures.