

Macroeconomic Commentary¹

Global equity markets were relatively flat over the quarter as much of the quarter's initial gains were erased in September when several risks came to the surface, such as increasing inflation, supply disruption and concerns over peak economic growth. The S&P 500 and FTSE 100 were up 0.6% and 1.9% respectively whilst the Euro STOXX 50 was down 0.1%. Central banks around the world delivered a hawkish shift with the Federal Reserve announcing it would start tapering asset purchases and the Bank of England suggesting it may put up interest rates, both before the end of the year. On the back of this narrative, combined with the progress of the vaccine rollout around the world, September saw a selloff in government bonds. Yields on US and UK 10-year bonds increased by 2 and 31 basis points respectively. Brent crude oil increased by 8.5% due to rising global demand being met with tight supply due to global lockdowns. The pound was down against the euro and the US dollar by 0.2% and 2.6% respectively

Fund Commentary

During the third quarter of 2021, the Credo Global Equity Fund (CGEF) decreased by 1.1% underperforming the MSCI World Index by 3.6%² in GBP terms. Over the same period, the MSCI Value Index returned -0.8%, underperforming the MSCI Growth Index by 1.7% in GBP terms.

Q3 was a relatively volatile quarter, where markets gave back most of their gains during September as it became more apparent that inflation in particular was becoming a bigger issue for central bankers. The idea that inflation was "transitory" started disappearing from the narrative, and with that talk of interest rate hikes and tapering became the new narrative. This led to a significant sell off in September, as market participants repositioned their portfolios for the change in macro event.

Within the portfolio, the main positive contributors to the CGEF over the period were our "inflation friendly" basket of stocks including Financials, Healthcare and Energy. Sberbank of Russia, HCA Healthcare, Royal Dutch Shell plc, Wells Fargo, and Beazley plc contributed. The main detractors from performance were Alibaba, which continued to be in the crosshairs of the Chinese Government crackdown, and Crown Resorts, which faced further regulatory and compliance scrutiny by the Australian authorities.

Looking Forward

At the end of the third quarter equity investors remain bullish, however volatility has begun to creep back into markets. Issues around supply chain disruptions, labour costs, energy prices and general inflation are becoming more prevalent. Central bankers are now talking about raising rates, and one would think that the period of extremely low interest rates and ultra-cheap money is coming to an end. The question for investors is how quickly the Federal Reserve in the US and other countries will begin tapering and raising rates, and how their economies will react to this. Generally, in an inflationary environment Value strategies outperform Growth strategies.

(1) Source: Bloomberg.

(2) Source: Bloomberg. Performance of the Credo Global Equity Fund Class A Retail Shares over the period 30/06/2021 to 30/09/2021.

The portfolio remains weighted towards the “Opening Up” trade, and we are of the belief that rates will have to begin to rise sooner rather than later, and that the asset purchasing programs of central banks will begin to taper. Growth stock valuations remain elevated, and we still believe the upside performance in the market remains on the Value side.

As always, we remain patient and true to our investment philosophy.

Jarrod Cahn, Co-Portfolio Manager

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