



# Re-opening rally continues

## 2021 Q2 review

Successful vaccine rollouts in the US and Europe are driving optimism about global economic re-opening and growth. Following a strong start to the year for risk assets, equities reached fresh highs, with tech stocks driving the recent rally (Chart 1). Commodities also built on an impressive start to the year, led by oil which rallied to two-year highs as inventories remained low while demand recovered. Sovereign yields fell slightly over the quarter (Chart 2) as markets shrugged off the spike in US inflation as 'transitory', in line with comments from the US Federal Reserve.

As economies re-open further this year, we expect risk assets to continue their recovery, led by more cyclical assets. However, uncertainty regarding inflation, new virus variants and geopolitical risks remain and hawkish turns in policy or extensions to lockdown could be challenging for risk assets given current valuations. Our tactical overweight positioning in equities and commodities added value over Q2. We have taken some profits in equities but remain overweight global high yield bonds and underweight government bonds. Please see our [Investment Clock blog](#) for our latest views.

Chart 1: Tech stocks lead indices higher, value pauses

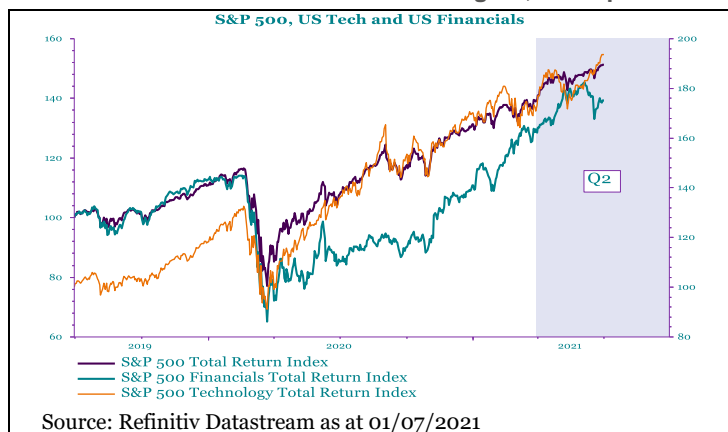


Chart 2: Lower break evens send nominal yields lower

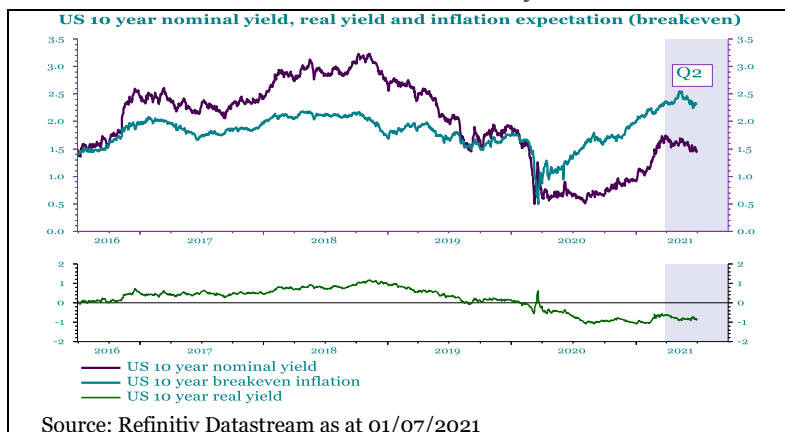


Table 1: Sterling-based annual returns from major asset classes 2007-2021

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD
1	Gilts +15.6%	EM Stocks +12.8%	Global Stocks +21.2%	Property +19.5%	Property +13.9%	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +19.9%
2	Property +8.1%	UK Stocks +12.3%	UK Stocks +20.8%	Gilts +13.9%	Global Stocks +4.4%	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +11.4%
3	Multi Asset +1.6%	Global Stocks +12.1%	Property +11.0%	Global Stocks +12.2%	Multi Asset +1.8%	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	UK Stocks +11.1%
4	Cash +0.6%	Multi Asset +7.1%	Multi Asset +7.3%	EM Stocks +7.9%	UK Stocks +1.0%	UK Stocks +16.8%	Property +11.2%	Multi Asset -1.2%	Multi Asset +8.9%	Multi Asset +2.2%	EM Stocks +7.1%
5	UK Stocks -3.5%	Gilts +2.7%	Cash +0.5%	Multi Asset +6.5%	Gilts +0.6%	Multi Asset +12.1%	Multi Asset +6.3%	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	Multi Asset +4.7%
6	Global Stocks -6.9%	Property +2.3%	Gilts -3.9%	UK Stocks +1.2%	Cash +0.5%	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	Property +4.2%
7	Commodities -12.7%	Cash +0.6%	EM Stocks -5.3%	Cash +0.5%	EM Stocks -10.3%	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%
8	EM Stocks -18.4%	Commodities -5.4%	Commodities -11.2%	Commodities -11.8%	Commodities -20.3%	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.7%

**Past performance is not a reliable indicator of future results.** Source: RLAM, DataStream as at July 2021; property as at May 2021. 'Multi Asset' returns are based on the benchmark weights of Royal London Global Multi Asset Portfolio (GMAP) Growth Fund / Governed Portfolio 5. Indices used are FTSE All World Ex-UK, FTSE All Share, FTSE British Govt Fixed All Stocks, JPM Cash UK 1 month Index, Bloomberg Commodity Index, MSCI UK Monthly Property Index and the FTSE Emerging Markets Index. Total returns in sterling terms.

## Markets: Risk advances as rates roll over

As of 30-Jun-21

- Global stocks continued to advance over the quarter, reaching fresh highs as economic data continued to recover amid global reopening.
- Equities saw the Q1 outperformance of value stocks reverse slightly in Q2, with tech stocks outperforming.
- Commodities continued their strong performance as oil took its year to date performance to +50%.
- Bond yields ended the quarter lower with inflation fears easing despite upside surprises.
- Sterling weakened slightly in Q2 after a strong Q1. The euro and Swiss franc strengthened; the Australian dollar and yen were weaker.

FX	1 GBP buys	Q2 (vs GBP)	Ytd
USD	1.38	0.0	-1.1
EUR	1.16	0.8	-4.1
CHF	1.28	1.8	-5.4
JPY	153.3	-0.4	-8.0
AUD	1.84	-1.6	-3.6
CAD	1.71	1.3	1.8

CB rates	Rate (%)	chg in Q2 (%)	Ytd 2021 (%)
Fed	0.25	0.00	0.00
BoE	0.10	0.00	0.00
ECB	-0.50	0.00	0.00
BoJ	-0.05	-0.01	-0.02

Bond Yield	Yield (%)	chg in Q2 (bps)	Ytd 2021 chg (bps)
US 10 Year	1.47	-27	55
UK 10 Year	0.72	-13	52
EU 10 Year	-0.21	9	36
JP 10 Year	0.06	-4	4

### Multi Asset

	Local Currency		GBP	
	Q2	Ytd	Q2	Ytd
UK Stocks	5.6	11.1	5.6	11.1
Global ex UK Stocks	7.2	13.8	7.3	11.4
Gilts	1.7	-5.7	1.7	-5.7
UK Cash	0.0	0.0	0.0	0.0
UK Property	2.0	4.2	2.0	4.2
Commodities	13.3	21.1	13.2	19.9

### Equity Regions

	Local Currency		GBP	
	Q2	Ytd	Q2	Ytd
UK	5.6	11.1	5.6	11.1
North America	8.8	15.1	8.7	14.0
Europe ex UK	7.2	16.0	8.3	10.9
Japan	0.1	9.4	-0.5	0.7
Pacific ex Japan	4.9	12.7	5.0	9.4
Emerging Markets	4.1	8.4	5.1	7.1

### Global

#### Equity Sectors

	Local Currency		GBP	
	Q2	Ytd	Q2	Ytd
Consumer Discretionary	5.8	9.7	5.9	7.3
Industrials	4.5	14.7	4.7	11.6
Financials	6.0	19.7	6.3	17.5
Consumer Staples	5.5	6.4	5.8	4.1
Utilities	-0.6	1.5	-0.3	-0.5
Healthcare	9.3	11.4	9.4	9.0
Energy	8.9	29.5	9.5	28.0
Materials	5.3	14.1	6.0	11.8
Communication Services	0.6	7.1	0.7	3.9
Information Technology	10.4	13.3	10.5	11.5

### Bonds

	Local Currency		GBP	
	Q2	Ytd	Q2	Ytd
Conventional Gilts	1.7	-5.7	1.7	-5.7
Index Linked Gilts	3.6	-3.0	3.6	-3.0
GBP Credit	1.7	-2.5	1.7	-2.5
Global High Yield	2.2	2.4	2.2	2.4

### Commodities

	Local Currency		GBP	
	Q2	Ytd	Q2	Ytd
Energy	23.2	44.6	23.1	43.1
Agriculture	12.8	20.4	12.6	19.2
Industrial Metals	9.4	17.6	9.3	16.4
Precious Metals	3.9	-5.7	3.8	-6.7

Note: Standard indices sourced from DataStream and Bloomberg; Property data as of May 2021.

### Investment risks

**Investment risk:** The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested

**Credit risk:** Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

**Derivative risk:** Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

**EPM Techniques:** The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

**Exchange Rate risk:** Changes in currency exchange rates may affect the value of your investment.

**Interest Rate risk:** Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

**Emerging Markets risk:** Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

**Counterparty risk:** The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

**Fund investing in Funds risk:** The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

**Liquidity and Dealing risk:** The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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