



Touchbutton

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Midsummer sitrep

Away from the world's dreadful geopolitical events, markets continue to be primarily dominated by expectations about the extent and impact of rising inflation.

It is probably now fair to say that a full inflationary retreat to the levels seen at the start of this year is less likely, with growing evidence in some sectors that some of the recent inflationary spikes will become baked in. But we do not, at this stage, see this leading to an earlier move to reduce central bank stimulus than markets currently anticipate – and this is absolutely key to determining investment strategy.

There are clear risks to both bond and equity markets of a premature move, or a more hawkish tone on monetary policy and equally, there are risks that the anticipated global economic recovery will not be as strong as markets expect. These scenarios could leave the extremes of deep value or cyclical on the one hand and expensive growth on the other quite exposed. Fortunately, in the middle ground of these two market poles there are still plentiful supplies of less expensive quality growth companies, with more predictable revenue trajectories, for active managers to uncover.

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We still believe that a full commitment to stockmarkets is justified, but also that a balanced approach is the more sensible way to allocate capital. We do not want to run the risk of being whipsawed by the current fickle state of markets, which are trying to second guess the magnitude of central banks' eventual move, and the timing of it, which is a mug's game.

Outside of stockmarkets it seems increasingly necessary to mind one's eye on fixed interest exposure, including having too much duration risk. This is an environment where alternative investments deploying market neutral strategies, in both equity and fixed income markets, could become a more useful hedging tool, guarding against the

possibility of some elevated market volatility if or when the economic outlook and central bankers' intentions become more confused.

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