Overview – Countrywide Assured plc Balanced Managed Pension / Life Investing Funds

This report is provided by our Fund Manager Schroders and covers the portfolio activity on our main investing funds the Countrywide Balanced Managed Pension/Life Investing Funds, together with their short-term economic outlook. The report describes the current economic background and Schroders' perspective of this and how it impacts their management of the Countrywide Balanced Managed Pension/Life Investing Fund. It also covers all individual asset class sectors (UK & Global Equities; fixed interest; Property and cash).

Your policy will be invested in a specific customer fund of your choice which has its own fund objectives (see fund list and specific fund objectives) www.countrywideassured.co.uk/fund-centre/understanding-my-funds/fund-objectives/. All customer managed funds are invested in the Countrywide Balanced Managed Pension/Life Investing Funds, to a greater or lesser extent depending on the nature of the fund objective. If you're invested in an individual asset class sector fund, although no specific commentary is provided for these funds, the report does cover individual markets and other asset classes, which is consistent with the fund managers reasoning.

Performance Summary

The Countrywide Assured plc Balanced Managed Pension / Life Investing Funds posted a positive return of 4.0% (gross of fees) in the second quarter of 2021, however the fund underperformed its benchmark[1] which returned 5.2%. Contributions from our allocation to equities were the main driver of returns over the period.

Portfolio Activity

Going into Q2 2021, we were overweight equities. In April, we added a tilt in favour of Taiwanese equities as we believed that the manufacturing outlook looked bright given strong global demand and low semiconductor inventory levels. In May, we added an overweight UK vs Australian equities trade. Up until recently, the performance of the UK equity market had been overshadowed by Brexit and the pandemic. However, as the impact of these two factors receded, we believed there was an opportunity for UK equities to outperform other markets. In June however, UK equities struggled as the number of cases of the "Delta" variant increased and so the trade was closed.

We remained underweight government bonds throughout the quarter. Whilst prices have become slightly more attractive with the recent rise in bond yields (as bond yields rise, prices decline), they nonetheless remained expensive. In May, we implemented an underweight US 10-year Treasuries trade as we continued to see upward pressure on US bond yields given the strong growth outlook.

On the currency side, we closed our overweight US dollar and pound sterling vs euro currency trades in April. In comparison to the US and UK, the roll-out of Covid-19 vaccines in Europe had initially been slower due to the delays in the delivery of vaccines to the region. However, the subsequent speedy roll-out of vaccines in Europe reduced the differential between these currency trades and so we closed the positions. In June, we added an overweight Australian dollar vs Canadian dollar trade. We believed that the ongoing strength of the Australian economy would increase pressure on the Reserve Bank of Australia to remove their emergency policies which would support the currency.

Outlook

The success of the vaccine roll-out, policy support and the adaptability of many firms in operating with significant Covid-19 restrictions has led us to upgrade our global growth forecast and reaffirm our faith in the economic recovery. We expect the latest rise in inflation to be transitory but we do see it returning more meaningfully in the second half of 2022. Given this reflationary outlook, we expect the Federal Reserve (Fed) to begin tapering quantitative easing in December. For now, we believe that a combination of continued policy support from the authorities and stronger global growth should support equities. Importantly, we expect the robust profits outlook and the delivery of strong earnings growth will offset the impact of higher bond yields.

The recovery in economic growth is being driven by a re-opening of the service sector, which favours the advanced economies over the emerging markets (EM). Hence, our upgrade is led by the US and Europe with only a minor increase in the EM forecast. This growth differential is reinforced by the greater availability of vaccines and fiscal support in the developed economies. Such an outcome is a contrast with the recovery from the last recession when massive stimulus in China led EM out of the global financial crisis (GFC). Inflation is also higher in the near term because of the rise in commodity prices and the rapid pace of recovery. We concur with the Fed that this will be transitory but looking further out, we see inflation building. Such an outlook will force the Fed off the side-lines and we now expect the central bank to begin tapering asset purchases at their December meeting this year and to start raising interest rates in Q4 2022. The challenge for the Fed will be to communicate the pivot in policy without generating substantial market volatility. Other economies are lagging behind the US, but not by much and policymakers can expect to come under similar scrutiny in 2022.

Against this backdrop, we maintain our overweight equity stance. Among regional equity markets, for many years we have favoured the US. Initially because, in a world where growth was scarce it offered a superior corporate earnings stream and, more recently, because of the swifter post-Covid recovery in the US. From a tactical perspective, however, we see the opportunity for equity markets and currencies outside of the US to catch up over the summer as vaccination rates increase and the economic recovery continues, while central bank liquidity is still plentiful. Both European and Japanese equity markets are well positioned to gain from the recovery in global trade given the cyclical nature of the indices (cyclical stocks refer to companies that are more sensitive to the economic cycle). We are also positive on the UK market as it offers attractive prices plus cyclicality. Despite the more favourable growth dynamics of advanced economies, we have tactically upgraded our view on EM equities, which offer attractive prices compared to other stock markets.

Within the government bond universe, we remain negative across all the main developed markets. We continue to believe there is further scope for yields to move higher given the rebound in global growth, upside risks to inflation and prospect of tightening of liquidity by the central banks. With valuations still expensive, we do not believe that these risks are adequately priced. Similar factors weigh on investment grade credit, which is an over-owned asset class leaving the market vulnerable to shifts in sentiment.

All in all, we continue to have a pro-cyclical tilt on the back of ongoing economic growth and a strong corporate earnings outlook which should support equities. However, we are entering a more complicated phase and we are adopting a nuanced approach to mitigate risks. As ever, diversification and adaptability are key.

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