# PORTFOLIO POSITIONING UPDATE MAY 2021

18 May 2021

momentum
global investment management

## Performance

The Fintax Balanced Fund returned 3.6% in April and the Fintax Growth Fund returned 4.6%. Over the past 12 months the Funds have returned 29.3% and 39.6% respectively in US dollars.

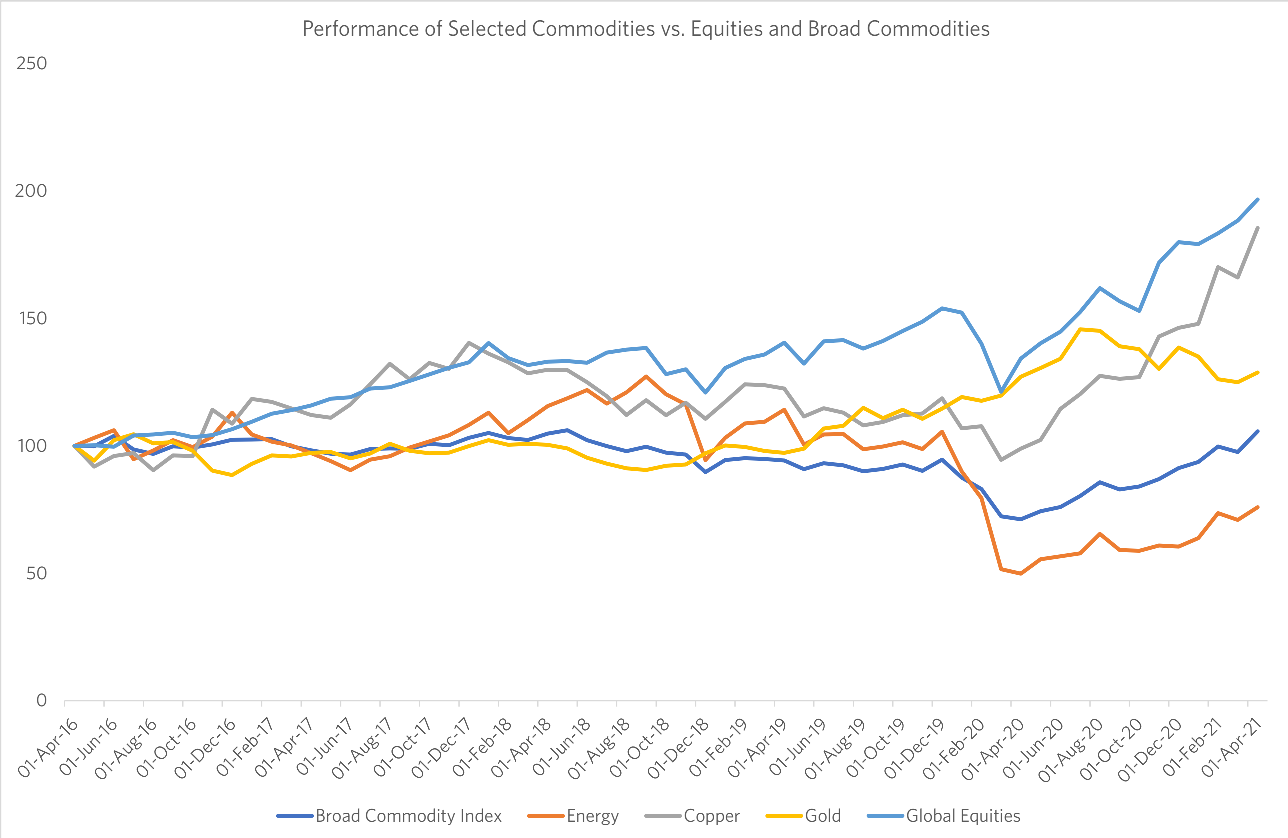
## Market Review

April was another positive month for equity markets as the MSCI AC World Index returned 4.4%. In a reverse of the previous month, growth stocks outperformed value stocks with Information Technology and Communications Services sectors both rallying hard, while more cyclical sectors such as Industrials and Energy lagged in relative terms. The move in equity markets came in tandem with declining yields, as the US 10 year fell back to 1.63% during the month after the sharp increase seen in Q1. The funds' top performers were growth managers Jennison and Sands, while the only notable detractor was our small position in a Japanese equity ETF. Across our fixed income assets, our infrastructure exposure performed strongly, while both credit and bond positions generated positive absolute returns in the favourable macro environment. The decline in yields was also a positive for gold which rallied 3.6% on the month.

## A new commodity supercycle?

As lockdowns continue ease in the major developed markets and economies have rebounded, we have seen a sharp rise in global commodity prices, most notably copper and oil which are up 90.3% and 166.1% respectively over the last 12 months. There have been several macroeconomic drivers of these prices – such as a weaker dollar and rising inflation expectations – but there is growing expectation that we may be at the start of another global supercycle.

While cycles are everywhere in financial markets, supercycles are rare beasts which can last for a decade or more, and result from long term supply/demand imbalances which cause prices to persist above trend. They have historically been caused by large geopolitical shifts such as China's emergence as an economic superpower, or the reindustrialisation of Europe and Japan after the second world war.



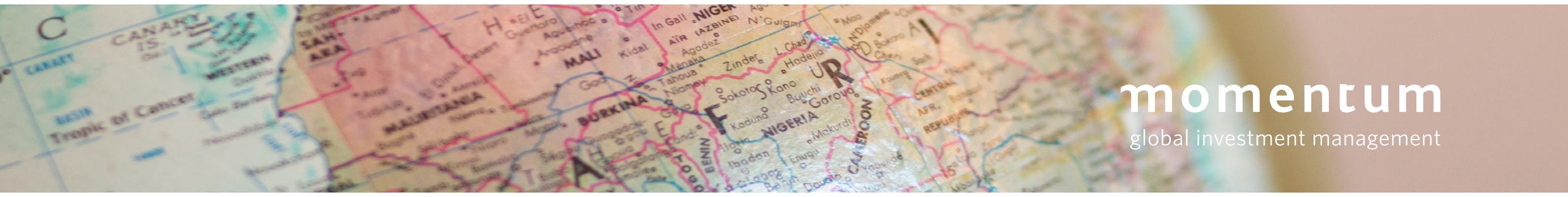

*Source: Bloomberg Finance L.P.. Commodity returns are from the relevant Bloomberg Commodity Indices, while Global equities are represented by the MSCI AC World Index. All returns in US dollars.*

Proponents of this idea point to both demand and supply factors as driving the next boom. On the demand side, governments across the world have pledged to reduce net carbon emissions to zero by 2050, which is creating demand for a host of new technologies such as electric vehicles and renewable energy. Copper and cobalt are key metals required here for mass production, as the average electronic car uses 3-4 times the amount of copper as a car powered by a traditional internal combustion engine.

On the supply side, the effects of coronavirus and the lack of investment from commodity producers in recent years means that there may be limited supply to meet demand as the recovery gets going. It takes time to raise capital and build new mines, and many investors still remain wary about investing in such capital-intensive ventures.

Looking at prices however, there is much dispersion, as can be seen from the above chart. While oil prices have staged a sharp recovery, it should not be forgotten the dramatic lows they reached last year as prices incredibly went briefly negative in some cases. With the success of shale technology, the US is now a net oil exporter for the first time in decades, effectively capping prices and undermining OPECs pricing power.

Furthermore, investors must consider the deflationary impact of China's slowdown; urbanisation and industrialisation are not proceeding at anywhere near the same pace as they did during the last cycle, and that is unlikely to change in the near term. While a broad commodity basket has underperformed the market over the last 5 years, it is notable how gold has held up relatively well (even including its recent price decline) and has provided beneficial diversification relative to other commodities which can move more in line with equity market cycles. Gold, as the ultimate scarce commodity, continues to have a role in portfolios even if the macro environment deteriorates from here.




## Outlook

Inflation concerns have so far not prevented the continued bull market in global equities, with valuations increasingly looking high relative to history. Fundamentals are showing real signs of improvement however with some impressive earnings and sales numbers emerging as we move through reporting season. We continue to run significant equity risk to capture these remarkable returns, while also balancing the risks through being well-diversified across assets, currencies, geographies and styles. We believe there is still plenty of upside left in cyclical/value sectors, as well as potentially some emerging markets which are still lagging developed markets due to renewed covid concerns. Gold and our options positions remain a useful hedge to protect the funds in the event of any nasty negative surprises, as we are cognisant that the current bull market has run a long way from its bottom over a year ago.