GUINNESS
MULTI-ASSET FUNDS

July 2021 Market Update & Investment Report

POWERED BY

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The Month in a Minute...

June Overview

Equities continued their strong rise into the second quarter and finished the half year with many of the leading markets showing double digit returns or close to. Markets rose as the vaccinations continued apace across the globe with Europe closing the gap on both the UK and USA. After initial scepticism from the Japanese, and a rigorous approval process, the country is accelerating the roll out as part of its preparation for the Tokyo Olympics. Emerging Market vaccination rates remain well behind the developed world, but attention is turning to ensure a global approach to conquering the virus and its mutations.

Markets continued to be supported by the accommodative monetary stance of central governments, relaxing of Covid restrictions, strong economic data and consumers looking to return to some form of normality. The $1.9 trillion COVID stimulus package, signed into law by Biden in March, is driving strong US growth. Overall household income has surged on the back of stimulus payments from the government. Meanwhile, cumulative excess household savings since the start of the pandemic are now about $2.3 trillion.

Whilst economies experienced a strong recovery, inflation rebounded sharply which adversely impacted the conventional bond market. US core CPI accelerated to 3% YoY in April, the highest level since December 1995. The rise was partly due to base effects; however, MoM numbers were strong as well, rising 0.9%. The real question is whether they will prove transitory or persistent, however, given the current unemployment rate and labour market slack our belief is that it will prove transitory.

Over the quarter, the underweight position to Bonds and overweight equity exposure has been positive tailwinds for the portfolio. During Q2, stock selection was driven by the Invesco Nasdaq fund where we saw a unwinding of the rotation to value, the Xtracker China fund, Vanguard FTSE Dev Europe and the preference for silver over gold.

The Month in Numbers

Period (to 30/06/2021)	Euro STOXX	FTSE 100	MSCI AC Asia ex Japan	MSCI Emerg-ing Markets	S&P 500	TSE TOPIX
1m	0.83%	0.41%	2.77%	3.08%	5.00%	2.61%
3m	6.96%	5.66%	3.47%	4.91%	8.30%	-0.92%
6m	10.98%	10.91%	5.29%	6.32%	13.79%	0.06%
1yr	24.04%	18.01%	24.90%	26.03%	25.34%	10.35%
3yr	26.18%	3.30%	35.07%	31.67%	57.08%	13.67%
5yr	75.87%	31.33%	90.48%	78.51%	111.89%	53.57%
10yr	111.59%	73.00%	129.38%	76.79%	336.14%	133.93%

Period (to 30/06/2021)	Guinness Multi Asset Growth Fund			Guinness Mulit Asset Balanced		
	Strategic Asset Allocation	Tactical Asset Allocation	Difference	Strategic Asset Allocation	Tactical Asset Allocation	Difference
Cash	2.5%	2.5%	0.0%	2.5%	3.0%	0.5%
Bonds	12.0%	9.0%	-3.0%	22.5%	19.5%	-3.0%
Government Bonds	5.5%	3.5%	-2.0%	8.0%	6.0%	-2.0%
Inflation Linked Bonds	0.0%	0.0%	0.0%	2.5%	2.5%	0.0%
Corporate Bonds	6.5%	5.5%	-1.0%	12.0%	11.0%	-1.0%
Equities	83.5%	88.5%	5.0%	68.0%	73.0%	5.0%
UK equities	3.4%	4.4%	1.1%	2.7%	3.7%	1.0%
International equities	80.2%	84.1%	4.0%	65.3%	69.3%	4.0%
US	50.6%	51.3%	0.7%	41.2%	41.9%	0.7%
Europe ex UK	10.9%	11.9%	1.0%	8.9%	9.9%	1.0%
Japan	5.6%	6.2%	0.6%	4.6%	5.2%	0.7%
Asia ex Japan	11.3%	11.9%	0.6%	9.2%	9.8%	0.6%
EM	1.8%	2.8%	1.0%	1.5%	2.5%	1.0%
Alternatives	2.0%	0.0%	-2.0%	7.0%	4.5%	-2.5%
Hedge funds/alternatives	1.0%	0.0%	-1.0%	4.0%	3.5%	-0.5%
Commercial property	0.5%	0.0%	-0.5%	1.5%	0.5%	-1.0%
Gold	0.5%	0.0%	-0.5%	1.5%	0.5%	-1.0%

Asset Allocation Overview

Equities

Central banks are showing no signs of easing off the stimulus gas pedal, and the corporate profit outlook is bright. We believe global equities can continue pushing higher over the next 12-months, albeit with corrections along the way. In terms of signposts for reducing our equity allocation, we are watching the bond market closely. Since the correlation between Treasury yields and the S&P 500 turned positive in the late 1990s, the equity market has peaked after an increasingly small rise in Treasury yields. The good news is that the threat from bond yields has eased, as they've dropped lower in recent months. Another signpost will be global consumer confidence. Past peaks in the global equity market have come around the point in time when consumer confidence peaks. There is still room for confidence to rise, but probably not much.

Bonds

With inflation expectations rolling over, investors relaxed with respect to Fed tightening prospects, and given that we're likely not far off the peak in global growth momentum, we safe haven longer dated bond have moved lower. It still seems too early to believe that bond yields have peaked for the cycle. That peak typically doesn't happen until much closer to the end of the economic cycle, when labour market indicators stop improving. On this front, we believe there is lots of room for the jobs recovery to continue. That said, debt to GDP ratio across the household, corporate and government sectors is either at or approaching new all-time highs. With leverage so high, the global economy is vulnerable to rising interest rates. This sensitivity suggests that any rise in bond yields will ultimately be self-limiting, and the peak in bond yields this cycle will lower than we've seen in past cycles.

Alternatives

Given our expectations that real bond yields will move higher, we have a small underweight in gold.An environment of rising real bond yields would not be great for REITs either. Risk/reward appears to be superior in other areas of the equity market. We therefore stick with a continued modest REIT underweight. Finally, we remain underweight absolute return. It would take a souring in equity market prospects for us to turn more optimistic on this asset class.

Cash

We recommend retaining a small cash overweight. We want to have liquidity on hand opportunistically to add to positions in other asset classes in the event of corrections.

Equity Allocation by Region

US Equities

The structural demand outlook for the tech/digital stocks the US is so heavily weighted in is attractive. However, there are a number of reasons to believe that now is not the best time to position for continued US outperformance. For one, as the global economy re-opens, it would not be surprising to see the trend of tech spending relative to GDP reverse somewhat, as occurred in late last year. In addition, there's probably not much downside in bond yields. On the contrary, history suggests there is further upside as the cycle matures. Rising bond yields are a headwind for the relative performance of growth-oriented tech stocks. Meanwhile, global growth leadership is shifting away from the US to other regions.

Europe ex UK Equities

The euro has corrected lower of late, which to a large extent reflects the market re-pricing of the timing of Fed versus ECB rate hikes. European FX weakness has weighed on common currency relative performance. Nevertheless, favouring the region still appears to make sense. It's rare that continental European FX peaks versus the dollar ahead of a peak in global economic growth momentum. Moreover, the outperformance of the region has been tiny relative to the boom in global growth momentum. Some catch up in relative performance seems likely, especially in the context of growth momentum shifting away from the US and toward Europe.

UK Equities

From late October last year until mid-last month, value outperformed growth and UK outperformed the global equity benchmark. The reason was that energy, banks, materials and insurance - all value sectors the UK is heavily weighted in - were strong outperformers. Since then, these sectors have lagged. Looking ahead, commodity prices should be supported by if the dollar weakens anew as we expect. Meanwhile, UK financials like banks need higher bond yields to outperform. It's probably too early to expect that we've already seen the cyclical highs in bond yields. The bottom line for UK equities is that there's probably still a little more room to outperform as we move toward peak global growth. But like the cyclicals vs defensives trade, that window for outperformance looks like it's beginning to narrow.

Japan Equities

Japan remains far behind most of the rest of the developed world in terms of the share of its population vaccinated. However, the pace of vaccinations is Japan has accelerated rapidly. The relative growth backdrop will begin to shift in Japan's favour as the country catches up on vaccinations, which should provide some support to the yen and common currency relative performance. The Japanese market is relatively heavily weighted in cyclicals, which should support Japan at a time of still accelerating global growth momentum. This, combined with the more favourable currency backdrop should see Japanese equity relative performance improve this quarter after a very rough Q2. While we wouldn't bet against Japan at this stage, we wouldn't position for outperformance, either. For that to sustainably occur, we would need to believe that domestic growth prospects relative to the rest of the world were set to improve. That is currently not the case.

Asia ex Japan Equities

The deep correction in the consumer-oriented Chinese big tech sector amidst a structural backdrop that should see consumer spending in China as an increasingly important growth driver raises the question if now is a good time to raise weightings. We suspect not. The market is still digesting a much tougher regulatory stance toward big tech, which has major implications for the earnings outlook. Moreover, the latest action against ride hailing company Didi suggests that Chinese authorities are not yet finished on their regulation drive. While lower share prices relative to the market are appealing, if that drop in prices is accompanied by a deterioration in growth prospects, then valuation hasn't become more attractive. Against this backdrop, a weighting in Asia ex Japan that is consistent with performance that slightly lags that of the global equity market is justified.

Emerging Markets ex Asia

EM ex Asia has performed weaker than expected given the prevailing macro fundamentals. Part of the reason is that the region has been harder hit than most by the pandemic. However, regional growth momentum is expected to accelerate as we progress through the year in much of EM ex Asia as the crisis subsides. This improvement should come alongside a growth deceleration in many other parts of the world, which should bolster the attraction of this very inexpensively priced region. Against this backdrop, and considering we expect oil prices to keep rising and the dollar to weaken anew, it is probably too early to abandon this position.

At a glance...

The Multi Asset Balanced Fund

Medium Risk

You are prepared to have more than half of your investment held in equities with the aim of achieving a higher investment return over the long term. The greater allocation to equities means your portfolio may experience heightened levels of volatility over the investment term.

The portfolio will typically include two thirds of the assets invested in equities whilst the remainder will be split between cash, fixed income and alternatives. You are prepared to accept fluctuations in the value of your portfolio to achieve their investment goals.

Asset Allocation

Equities	72.9%
Alternatives	13.6%
Fixed Income	4.7%
Cash	8.9%

Equity Allocation

USA	40.7%
Asia ex Japan	11.2%
Europe ex UK	9.4%
Japan	5.3%
UK	3.9%
Emerging Markets	2.4%
Cash	8.9%

Holding	% Weight
Vanguard S&P 500 UCITS ETF	12.5%
iShares Core S&P 500 UCITS ETF USD Dist	12.5%
iShares Global Corp Bond UCITS ETF	10.7%
Vanguard FTSE Developed Europe ex UK UCITS ETF	9.7%
Invesco EQQQ Nasdaq-100 UCITS ETF	8.1%
Xtrackers CSI300 Swap UCITS ETF	6.1%
SPDR S&P US Dividend Aristocrats UCITS ETF	5.9%
iShares Global Government Bond Index	5.8%
Fidelity MSCI Japan Index Fund	5.7%
Vanguard Pacific Ex-Japan Stock Index Fund	5.1%
iShares plc - iShares Core FTSE 100 UCITS ETF	3.8%
Lyxor MSCI Emerging Markets Ex China UCITS ETF	2.5%
iShares Global Inflation-Linked Bond Index Fund	2.5%
Xtrackers Russell 2000 UCITS ETF	2.0%
JPM Global Macro Opportunities USD	1.3%
BNY Mellon Global Dynamic Bond	1.2%
BNY Mellon Global Short-Dated High Yield Bond	0.7%
iShares Physical Silver ETC	0.7%
Amundi Index FTSE EPRA NAREIT Global	0.5%
Cash	2.7%

This page represents a typical portfolio breakdown for the Guinness Multi-Asset Balanced Fund.

At a glance...

The Multi Asset Growth Fund

Medium / Higher Risk

You are seeking to generate higher investment returns through a high exposure to equities to help achieve your long-term investment goals.

The portfolio will typically have a very high proportion of your investment held in equities and very low levels of fixed income, cash and alternative asset classes.

A larger proportion invested in equities is likely to lead to increased volatility in the overall value of the portfolio.

Asset Allocation

Equities	90.6%
Alternatives	5.6%
Fixed Income	0.5%
Cash	3.3%

Equity Allocation

USA	51.0%
Asia ex Japan	11.7%
Europe ex UK	6.5%
Japan	6.2%
UK	4.6%
Emerging Markets	2.8%
Cash	3.3%

Holding	% Weight
iShares Core S&P 500 UCITS ETF USD Dist	15.0%
Vanguard S&P 500 UCITS ETF	15.0%
Vanguard FTSE Developed Europe ex UK UCITS ETF	11.8%
Invesco EQQQ Nasdaq-100 UCITS ETF	9.8%
SPDR S&P US Dividend Aristocrats UCITS ETF	7.3%
Xtrackers CSI300 Swap UCITS ETF	7.2%
Fidelity MSCI Japan Index Fund	6.8%
Vanguard Investment Series PLC - Pacific Ex-Japan Stock Index Fund	6.0%
iShares Global Corp Bond UCITS ETF	5.3%
iShares plc - iShares Core FTSE 100 UCITS ETF	4.4%
iShares Global Government Bond Index	3.4%
Lyxor MSCI Emerging Markets Ex China UCITS ETF	2.8%
Xtrackers Russell 2000 UCITS ETF	2.5%
JPM Global Macro Opportunities USD	0.3%
iShares Physical Silver ETC	0.2%
Cash	2.1%

This page represents a typical portfolio breakdown for the Guinness Multi-Asset Growth Fund.

Expert thinking

When you invest with Guinness Asset Management you have a team of experts working for you.

Strength and depth

They are part of our broader team who collaborate to interpret the wider market and economic environment and identify those funds that meet our standard for investment, adding up to the strength and depth of insight we need to deliver for you.

> "The Guinness Multi Asset fund range follows a tried and tested investment approach so our investors can be confident about what to expect from it."
>
> - David Hood, Head of Investment Solutions

Meet the Guinness team

Jonathan Waghorn
Co-Manager
Jonathan joined Guinness Asset Management in September 2013 and is co-manager on the Guinness Multi Asset range

Will Riley
Co-Manager
Will joined Guinness Asset Management in May 2007 and is co-manager on the Guinness Multi Asset range

Meet the Brewin Dolphin team

David Hood
Head of Investment Solutions
David joined Brewin Dolphin in March 2009 as a quantitative analyst. He heads up the investment solutions team which specialises in model portfolio, fund construction and risk analysis.

Guy Foster
Head of Research
Guy is our Chief Strategist and oversees our broader team, which uses its collective expertise to make both strategic and tactical recommendations for asset allocation by Brewin Dolphin.

Janet Mui
Investment Director
Janet is investment director at Brewin Dolphin. As part of the research team, Janet is responsible for the commentary and communication of Brewin Dolphin's macro/investment views to clients and the media.

Notes

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Past performance should not be taken as an indicator of future performance. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement; you may not get back the amount originally invested.