

L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **Strongest US jobs report in 11 months...**
- **...Delta variant cases appearing to plateau globally as the month ended...**
- **...a strong earnings season helped to nudge valuations lower.**

MARKET OVERVIEW

August proved to be a good month for most risk assets, particularly equities. In the US, the first of two proposed new spending bills from the Biden administration was agreed. Federal Reserve Chair Powell gave a speech suggesting the central bank was on course to begin tapering asset purchases towards the end of the year, although he reiterated the assertion that rate setters would be patient with respect to raising rates, which markets received favourably. In COVID-19 related news, fears over the spread of the Delta variant eased as the number of new cases appeared to reach a peak globally as the month ended.

UK mid-cap equities were a standout performer over the month as the nation's economy experienced its first full month following its 'Freedom Day' – the government's rollback of the vast majority of social-distancing measures. Emerging-market equities also had a good month, with Indian equities contributing as the country advanced its vaccination programme. Mid-risk assets such as listed infrastructure, global high-yield bonds and emerging-market debt in hard & local currency also experienced gains in August, benefiting from the positive investor sentiment. Developed-market bonds, however, were mostly negative over the month as central banks weighed up the possibility of tapering asset purchases.

MARKET OUTLOOK

We expect the economic recovery to continue, with the near-term range of outcomes narrowing as vaccine rollouts continue apace worldwide. We had recently moved our view on overall risk down half a notch from +1 to +0.5 (on a scale of -3 to +3) given our concerns over the spread of the Delta variant of COVID-19 in China. The country's tried and tested policy of mass testing and aggressive lockdowns was deployed as anticipated, and has been more effective on the Delta variant than we had expected. For this reason, we have moved our risk view back to +1 and will gradually allow our exposure to risk assets to drift upwards to reflect this.

While developed markets, led by the US, are at the forefront of the rebound, we believe emerging-market macro fundamentals remain solid, despite the waves of COVID-19. However, countries that are major tourist destinations are likely to remain relative losers due to ongoing border restrictions. And even though headline inflation, boosted by commodity prices and supply bottlenecks, remains elevated, we see little impact on our growth forecasts at current levels and expect inflationary pressures to be transitory. Against this backdrop, the US Federal Reserve will likely begin tapering its asset purchases by the year-end.

We continue to monitor:

- The UK's reopening as a possible blueprint for other countries
- The potential for a more sustained economic boom from pent-up savings
- The danger of new, vaccine-resistant COVID-19 strains
- The next round of US fiscal stimulus, in particular its timing and revenue-raising components.

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FUND PERFORMANCE REVIEW

The Mixed Investment Funds experienced positive returns in July. The funds with more exposure to equities fared better than the funds with more bond exposure, given the strong performance of risk assets.

We reduced exposure to equities in all but the lowest-risk fund given our concern over the spread of the Delta variant of COVID-19 in China and the potential ramifications for the global economy. As anticipated, China deployed its playbook policy of mass testing and strict lockdowns. This has been more effective on the Delta variant than we expected, with cases plateauing, and so we are reversing some of the reduction in equity exposure. We are still concerned about potential further outbreaks in China and so this reversal will be gradual to allow flexibility for a pause.

We removed our hedge against the Australian dollar. This follows recent weakness in the currency after the spread of the Delta variant led to renewed lockdowns and a reduction in the likelihood of approaching interest-rate rises.

RECENT PORTFOLIO CHANGES



AUSTRALIAN DOLLAR, CASH



GLOBAL EQUITIES

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