Sturdza Family Fund

July 2021 Fund Commentary

Market Development

In July, the MSCI World Index (total return in USD) progressed 1.79%, the Eurostoxx 50 (net return in EUR) returned +0.70%, whilst the S&P 500 (total return) also increased by 2.27%. The Dollar Index (DXY Index) weakened by 0.28% over the period, the generic 30Yr Treasury yield decreased from 2.09% to 1.90% whilst the VIX increased slightly from 15.83 to 18.24.

As global economies continue their slow climb out of the pandemic, and equity markets hit new highs, there is increased importance for a controlled and progressive monetary policy normalisation process, alongside strong corporate results. For now, both fronts have been strong enough to offset a confluence of opposing forces. A good illustration lies in the reaction equity markets have had over the past couple of weeks:

Firstly, the spread of the delta variant put pressure on investments linked to the post-pandemic recovery. The Eurozone suffered more in relative terms, partially due to the significant weights of economically sensitive businesses reflected in European indices having made the region an attractive vector for the so-called "recovery trade". That said, the overall turbulence remained contained, with European Quality and Growth style factors reaching new highs despite Value underperforming.

Secondly, the ongoing desire to maintain social stability has led the Chinese government to announce a fresh round of drastic interventions in sectors such as Tech and Education. As social stability is a key objective for Xi Jinping and the ruling Communist Party, the scope for further, and seemingly random interventions, remains extremely large and therefore uncertain. As a result, Chinese assets in international markets repriced sharply - a selloff worth several hundreds of billions of equity value in just a couple of trading sessions. Naturally, these developments reverberated across markets, only to stabilise once the news of a meeting between regulators and major banks leaked to the public. Even though the situation remains extremely convoluted, asset values reached levels that we believe to be interesting for both authorities and long-term investors.

Despite these headwinds, solid fundamentals in developed markets coupled with corporate earnings that continue to beat expectations and Central banks that reiterate their supportive stance is deemed sufficient by the market to still favour equities and their potential outlook.

Market Outlook

Our outlook remains unchanged since the last publication; as we enter the second half of 2021, we remain positive toward equity markets yet consider three sources of relevant uncertainty:

First and most obvious, the virus and its mutations: what about the "delta" variant? Responsible for 90% of new infections in the United Kingdom and may soon reach the status of the dominant variant in the US. Preliminary results seem to demonstrate the effectiveness of current vaccines, and the vaccination rollout in developed countries could help avoid a resurgence of infections, but the risks remain. On the other hand, India and some South American countries, which suffer from a cruel lack of vaccine doses and whose economies are still burdened, will certainly be slow to find respite, and the consequences could be felt not only in human terms, but also in economical and social terms in the long run.

Eric I. Sturdza
Portfolio Manager

Constantin Sturdza
Portfolio Manager

Investment Approach

An active and flexible investment process, managing a mixed asset investment portfolio predominantly comprised of equities and fixed income investments. Investing directly or indirectly, between 51-81% in global equities or equity related instruments and between 20-49% in fixed income instruments. Focusing on strong growth companies that the Investment Adviser deem to be underappreciated by the market, whilst fixed income investments will be selected based on global macro economic analysis and evaluation of central banks' policies.

Investment Objective

To achieve capital appreciation over the long term.

A sub-fund of E.I. Sturdza Funds plc.

Registered in Ireland.

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Second, could the US's recent moves on the tax front, with the drafting of a minimal global tax, as well as on the concentration of economic power of digital champions, lead to a wait-and-see attitude in equity markets? After all, these markets are increasingly reliant on continued earnings growth and results have been supported for years by the combination of lower taxes and accretive acquisitions. The example of the merger between Aon and Willis Tower, recently opposed by the US government, suggests that even in the unexciting space of insurance brokerage, tolerance for oligopolies is diminishing with the new Biden administration. Not to mention its expressed willingness to reverse Donald Trump's tax cuts…

Finally, politics, which has been the catalyst for increased visibility in recent months, with a deemed economically and geopolitically satisfactory US election, could resurface, with major tensions continuing between the developed world and China. This, along with the economic challenges linked to COVID bogging down entire regions, with as yet unknown consequences – again, South America and India, come to mind in particular.

Equity markets are particularly sensitive to the financial conditions provided by central banks, the outlook for earnings growth and general uncertainty. It seems to us that, after the first half of the year confirming the transition to a "post-COVID" world, strong results posted by listed companies and clear messages from central bankers, investors have demonstrated their serenity on the prospects of these first two points. We remain constructive on the equity asset class in general, particularly in view of its relative value, but we will remain vigilant – especially as our optimism, albeit measured, is now widely shared by the market. Additionally, if these well-known questions, or others, were to weigh more heavily on the market, entry points for long-term investment opportunities could arise, which is why we are maintaining a more balanced allocation today.

Portfolio Development

In terms of contribution, HCA Healthcare (+0.28%), Blackstone (+0.16%) and Alphabet (+0.14%) were the largest positive contributors, whilst Alibaba (-0.19%), Centene (-0.11%) and Activision Blizzard (-0.09%) were the largest detractors. From a sector standpoint, Information Technology, alongside Health Care and Financials were the top contributing sectors over the period. On the other hand, Consumer Staples was a slight detractor, followed by Materials and Industrials, which were basically flat in terms of contribution.

Ratings & Awards

Morningstar Sustainability Rating

Out of 2,436 Flexible Allocation funds as of 30/06/2021. Based on 72.76% of AUM. Data is based on long positions only.

See Awards Disclaimer on last page.

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