

Montanaro European Income FundQuarterly Commentary – Q2 2021

Market review

The Value rally, which has been the dominant force in equity markets since the approval of Covid-19 vaccines last November, cooled during the second quarter of 2021. Equities traded higher as confidence in the economic recovery was bolstered by accelerating vaccination programmes. Europe made particularly good progress, catching up with high vaccination rates in the US and UK. As data signalled underlying economic strength and inflationary pressures became more visible, surprisingly US benchmark bond yields declined. This reflected the Federal Reserve's immediate focus on supporting employment, rather than taking the heat out of the economy by raising interest rates - a stance currently shared by other central banks. This helped to support Growth areas of equity markets. As European economies continued along the gradual path to normality, European SmallCap eked ahead of LargeCap for the first half of the year.

Portfolio

During the quarter, the NAV of the share class increased by 7.6% (in GBP).

The strongest contribution during the quarter came from **NCAB**, the full-service supplier of PCBs, which experienced strong order growth thanks to a recovery in its end markets and customers stocking up to avoid semi-conductor shortages. **Amadeus FiRe**, the specialist German staffing company, benefitted from the recovery in labour markets as Germany gradually re-opens. **Atea**, the leading Nordics IT services provider, continued to see good momentum as a recovery in its clients' buying activities boosted its growth prospects.

The weakest contribution came from **Fjordkraft**, the Norwegian energy retailer, which weakened due to rising energy prices. **Kitron**, the leading Scandinavian electronics manufacturing services company, saw a flat share price following excellent performance over the last 12 months. **ENAV**, the provider of air navigation support services in Italy, traded lower as air travel continued to face Covid related disruption.

Outlook

At the beginning of April, we published a "*Letter to Investors*" in which we urged clients to remain calm in the face of a strong value-led market rotation. Guided by history, we suggested that such style rotations tended to be short-lived. This proved fortuitous timing – the Value style has since lost some of its momentum. This illustrates quite how difficult it is to time markets. Rotations, when they happen, tend to be swift.

We are moving into uncharted territory in the battle against Covid-19 with the ending of social and economic restrictions in some countries. Many people are likely to experience a mixture of emotions: relief that the pandemic may be coming to an end, contrasted by worries that cases will rise or that new variants of the disease will emerge. It would be no surprise if these anxieties manifested themselves in greater market volatility during the second half of 2021.

A catalyst for volatility could be that as economies reopen, inflation rises faster as pent-up demand is released. It is our view, however, that it will take a lot for central banks to bring to an end this long period of loose monetary policy. Whichever way the macroeconomic winds blow, we will continue to search for businesses with quality foundations that can grow over time and compound returns to their shareholders.

The views expressed in this article are those of the author at the date of publication and not necessarily those of Montanaro Asset Management Ltd. The information contained in this document is intended for the use of professional and institutional investors only. It is for background purposes only, is not to be relied upon by any recipient, and is subject to material updating, revision and amendment and no representation or warranty, express or implied, is made, and no liability whatsoever is accepted in relation thereto. This memorandum does not constitute investment advice, offer, invitation, solicitation, or recommendation to issue, acquire, sell or arrange any transaction in any securities. References to the outlook for markets are intended simply to help investors with their thinking about markets and the multiple possible outcomes. Investors should always consult their advisers before investing. The information and opinions contained in this article are subject to change without notice.