

Montanaro European Income FundQuarterly Commentary – Q3 2021

Market review

As so often seems to be the case, investors returning from Summer holidays found plenty to worry about. An energy crisis, blockages in global supply chains, a slowdown in China and growing inflationary pressures were just some of the things to ponder. Rising energy and commodity prices, increased shipping costs (which have gone up tenfold in the space of a year) and labour shortages fed through to staple products, with global food prices hitting a ten-year high. Bond yields rose as some Central Bankers switched from dovish to hawkish mode. If there was good news to be found, it was that, for the first time in many months, Covid-19 was not the dominant factor influencing equity markets. Vaccination rates continued to increase in many countries and hospitalisation cases did not overwhelm healthcare systems.

While many developed market indices were flat over the quarter – September’s worries eroding the gains of the earlier Summer months – it was a good period for European SmallCap, which held its ground and continued to outperform its LargeCap counterpart. While our strategies enjoyed a quarter of healthy outperformance, inflationary pressures contributed to a sell-off of Growth stocks relative to Value towards the end of the period.

Portfolio

During the quarter, the NAV of the share class increased by 6% (in GBP).

The strongest contribution during the quarter came from **NCAB**, the full-service supplier of PCBs, which rose after announcing the acquisition of RedBoard Circuits in the US. **Nolato**, the contract manufacturer of silicon and plastic moulded devices and components, gained as it showed strong operational performance in its quarterly results. **Thule**, the Swedish outdoor lifestyle brand, traded higher due to anticipation of a new product category launch in the 2H.

The weakest contribution came from **Atea**, the leading Nordic IT reseller and consultant, which saw its share price correct after a sharp appreciation in Q2, following in-line earnings results. **Kaufman & Broad SA**, the French residential and commercial property developer, declined following lower order intake due to a slowdown in building permits approvals. **Kitron**, the leading Scandinavian electronics manufacturing services company, drifted following strong Q2 results, perhaps due to investor concern over supply chain bottlenecks.

Outlook

The fizz appears to have gone out of equity markets. While September and October have historically been tricky months for investors, a period of consolidation may be no bad thing. Equity investors, who have had plenty to cheer about in recent years, are sitting on double-digit gains in most developed markets so far in 2021.

As we write these lines, the style rotation into Low Quality and Value is intensifying. The current environment reminds us of the price action seen in the weeks that followed the announcement of the Pfizer vaccine in November 2020, albeit the rotation is not as dramatic. Fortunately, these periods tend to be short-lived. We will keep our heads down and carry on investing in the same way as always – with our “Quality Growth”, Buy & Hold hats firmly on.

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