

# The City of London Investment Trust

June 2022

Marketing Communication

## Fund Manager Name

Job Curtis

## Macro backdrop

The UK equity market fell by 6.0% in June, as measured by the FTSE All Share Index. Economic data reported during the month was poor with UK inflation - as measured by the Consumer Price Index (CPI) - for May rising to 9.1% and GDP growth for April falling by 0.3%.<sup>1</sup> The Bank of England raised its bank rate by 25 basis points to 1.25%. As fears of recession grew, defensive sectors such as pharmaceuticals and tobacco outperformed. Conversely, cyclical sectors, such as travel and leisure, underperformed. The industrial metals and mining sector was also a laggard, with fears of slowing global economic growth leading to falls in the prices of iron ore and copper. Sterling declined over the month against the US dollar from an exchange rate of 1.26 to 1.22. The FTSE 100 Index's greater exposure to defensive sectors and overseas earners helped it outperform with a return of -5.5% compared to the FTSE All Share Index (-6.0%) and the FTSE 250 Index of medium-sized companies -8.3% return.<sup>1</sup>

## Trust performance and activity

The portfolio outperformed during the month, with a negative total return of 5.1% compared with a negative return of 6.0% for the FTSE All Share Index.<sup>1</sup>

Overall, the portfolio has a defensive bias and notable contributors were BAE Systems, the UK's leading defence contractor, and Imperial Brands, the tobacco company. The portfolio is underweight to the mining sector but does hold Anglo American, which was a notable detractor. A holding in Woodside Energy entered the portfolio through the spin-off from BHP; Woodside's assets are predominantly in Australia and the Gulf of Mexico and we made an addition to the position given the stock's leverage to liquefied natural gas (LNG) which accounts for some 50% of its production. Elsewhere, we exited the holding in Berkeley Group, the housebuilder, given the cost pressures facing housebuilders and the potential for demand to dampen.

## Outlook/strategy

A new Prime Minister could loosen UK fiscal policy, which might lead to further upward pressure on interest rates. In the forthcoming second quarter results season, it will be interesting to see how companies are coping with inflationary pressures and how they view the outlook for demand for their goods and services. The dividend yield of the UK equity market remains attractive relative to the main alternatives.

<sup>1</sup>Source: Bloomberg as at 30 June 2022

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## Glossary

**Defensive stocks** - A defensive stock is a stock that provides consistent dividends and stable earnings regardless of the state of the overall stock market. There is a constant demand for their products, so defensive stocks tend to be more stable during the various phases of the business cycle.

**Cyclical stocks** – Companies that sell discretionary consumer items, such as cars, or industries highly sensitive to changes in the economy, such as miners. The prices of equities and bonds issued by cyclical companies tend to be strongly affected by ups and downs in the overall economy, when compared to non-cyclical companies.

**Fiscal policy** - Connected with government taxes, debts and spending. Government policy relating to setting tax rates and spending levels. It is separate from monetary policy, which is typically set by a central bank. Fiscal austerity refers to raising taxes and/or cutting spending in an attempt to reduce government debt. Fiscal expansion (or 'stimulus') refers to an increase in government spending and/or a reduction in taxes.

**Gross Domestic Product (GDP)** - The value of all finished goods and services produced by a country, within a specific time period (usually quarterly or annually). It is usually expressed as a percentage comparison to a previous time period, and is a broad measure of a country's overall economic activity.

**Inflation** – The rate at which the prices of goods and services are rising in an economy. The CPI and RPI are two common measures. The opposite of deflation.

**Leverage** - The use of borrowing to increase exposure to an asset/market. This can be done by borrowing cash and using it to buy an asset, or by using financial instruments such as derivatives to simulate the effect of borrowing for further investment in assets.

Discrete year performance % change (updated quarterly)	Share Price	NAV
30/06/2021 to 30/06/2022	7.7	7.5
30/06/2020 to 30/06/2021	21.3	20.0
28/06/2019 to 30/06/2020	-16.2	-14.6
29/06/2018 to 28/06/2019	3.0	2.7
30/06/2017 to 29/06/2018	6.2	6.3

All performance, cumulative growth and annual growth data is sourced from Morningstar.

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