24 June 2022

From the Chief Investment Office

Market report

- The world economy continues to slow, fuelling concerns over the next recession
- Markets remained volatile in a quieter week for data and news flow

Our perspective

The focus of this week so far for investors has been the early glimpse at business confidence for June in Europe and the US. The survey levels confirm what we are seeing unevenly in other data sets – the world economy is slowing. In some senses, this is welcome. In many economies, it is clear that demand for many goods, services, and workers continues to comfortably outstrip the currently available supply of them. There are, of course, considerable lingering distortions here – the supply of many of the above has been affected by the pandemic, war in Europe, and other factors.

"Dangerous months still lie ahead as central bankers try to wrestle this powerful genie back into the bottle."

The urgency to hike interest rates in spite of this slowdown can be linked to the multiplying signs that consumers and businesses expectations of future inflation have begun to threaten escape. Dangerous months still lie ahead as central bankers try to wrestle this powerful genie back into the bottle. As noted previously, it may be that a recession is the bi-product of this fight, though in truth this should not be the focus for most investors.

"That does not mean that stocks cannot fall further."

The message from both the changes in various market levels to that from internal relative moves, is that investors have already moved a long way to factor in the global slump ahead. That does not mean that stocks (for instance) cannot fall further. Further inflation surprises, whether spot or expectations (or both), will likely force yet more draconian rises in short interest rates from the bankers and markets. All things being equal, the more that short rates are forced higher over the next few months, the more you should see investors worrying about the scale of the incoming slump in activity. As we've said previously, the short-term outlook for inflation and inflation expectations is simply not predictable enough to allow for strong conviction here.

"The best advice for those fully invested in a globally diversified batch of assets is to not look too much."

The best advice for those fully invested in a globally diversified batch of assets is to not look too much. Remember that market pricing is mostly pretty efficient – the weighted range of potential futures you see reflected in prices is rarely far out. The team continue to evaluate various tactical options within the world of investments; however for the moment, that package of shorter positions – the Tactical Asset Allocation – is relatively flat. There is certainly no requirement to be always expressing lots of different short-term views. For the moment, discretion feels the better part of valour in what is likely to remain an extremely disorienting macro-economic environment.

For those of a longer term discipline, tune out all of the above and focus on staying/getting invested. The path ahead for global productivity and therefore shareholder returns continue to look sufficiently inviting.

This week's theme: The importance of shareholder voting

All investments can fall in value. You may lose capital. Please note that past performance is not a guide to future performance.

Hugo Vanhegan
Investment Writer

For many years, investors have purchased shares in companies to participate in the potential profits of these companies. But being a shareholder is changing. As a part-owner of the business, you may be increasingly keen not only to ensure that the company is generating financial rewards but also consider how those rewards are achieved.

Recently, we have seen that public interest in companies' environmental, social and governance (ESG) commitments – and how companies apply these – has been rising in recent years.

Many UK-listed companies are reporting higher levels of investor engagement in the last year, driven heavily by ESG issues. The focus by investors on environmental and social performance will likely accelerate in the years ahead.

Companies need to focus on sustainability issues as part of their engagement with shareholders. We believe that voting and engaging with companies is an important part of responsible investing and, from last year, we have been voting and engaging with the companies in which we have a holding.

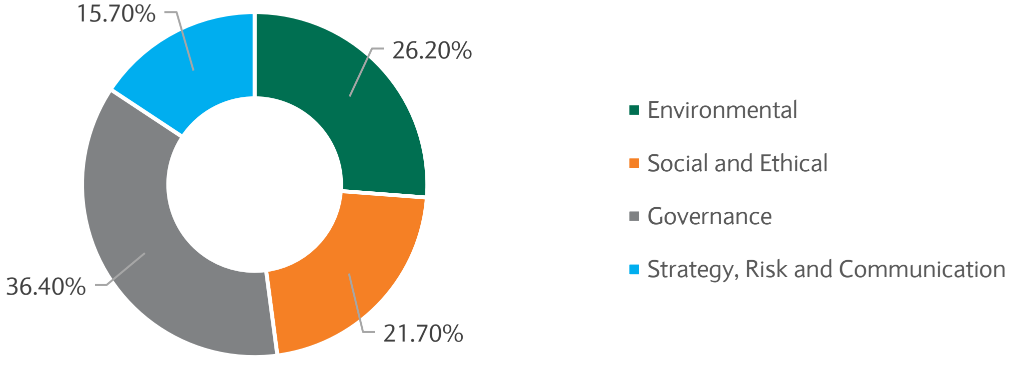
Here, we discuss our approach to voting, and how we believe we are delivering the best outcomes for our clients.

Stewardship

We partner with a leading stewardship provider, EOS at Federated Hermes ("EOS")[1], who engage with the companies on our behalf. We seek to highlight key ESG issues of concern, engaging investee companies on matters relevant to shareholder value and the wellbeing of stakeholders. This reflects our approach of promoting constructive dialogue with our investee companies by building long-term relationships to seek to influence ESG practices.

In 2021, we engaged[2] with 596 companies on 2,425 environmental, social, governance, strategy, risk and communication issues and objectives (Figure 1). Because of the way we engage with companies, it may be possible that we are involved with companies on more than one topic simultaneously.

Figure 1: Engagement levels in 2021



Source: 2021 Annual Review, Barclays Wealth, Engagement Highlights, EOS

[1] https://www.hermes-investment.com/stewardship/
[2] For further information, please refer to 'A guide to engagement terminology', 2021 Annual Review, Barclays Wealth, Engagement Highlights, EOS (page 15).

Milestones

In order to track the progress we make in our engagements with companies, we use the EOS proprietary milestone system. These milestones can be broadly defined as follows:

- Milestone 1: Concern raised with the company at the appropriate level
- Milestone 2: The company acknowledges the issue as a serious investor concern
- Milestone 3: We oversee the company develop a credible strategy/stretches targets set to address the concern
- Milestone 4: We oversee the company implement a strategy or measures to address the concern

During 2021, we made significant progress in delivering our engagement objectives. Figure 2 highlights how much progress has been made in achieving the milestones set for each engagement.

Voting

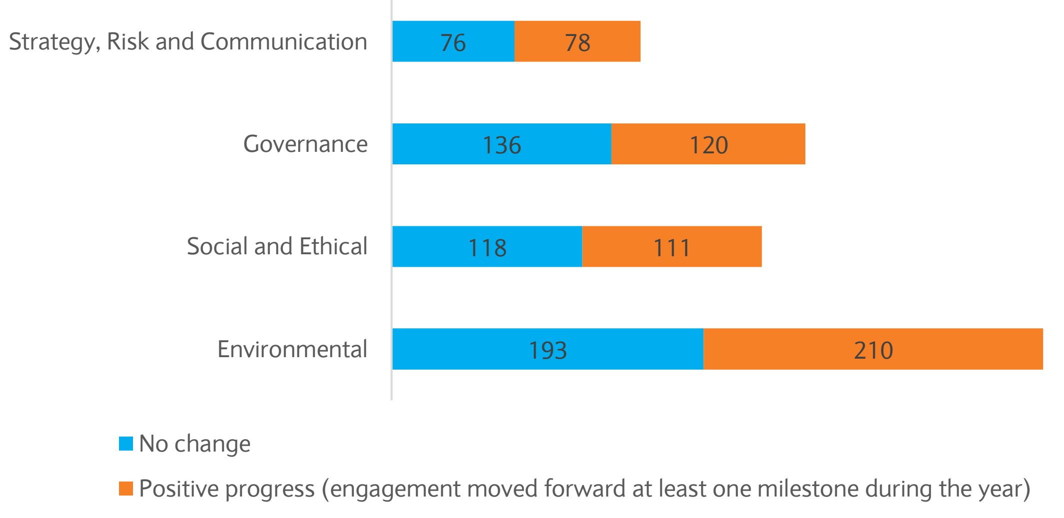
In 2021, EOS (on our behalf) made voting recommendations on 4,334 resolutions at 481 meetings (Figure 3). At 240 of those meetings, we recommended opposing one or more resolutions, while at one meeting, we recommended abstaining. Some of the reasons why we voted against management or abstained include board structure, remuneration, capital structure and dividends. We recommended voting with management by exception[3] at eight meetings and supported management on all resolutions at 232 meetings.

In the UK, for example, we have seen some good practices, with many companies repaying the money received from the UK Government to furlough their employees or in business rates relief. It was generally accepted that companies not able to do so should not pay bonuses to executives.

Conclusion

Voting and engaging across the companies directly held in our funds is an important part of the Barclays responsible investing journey and helps us to meet a variety of current and future regulations.

Figure 2: Engagement progress in 2021



Source: 2021 Annual Review, Barclays Wealth, Engagement Highlights, EOS

[3] 'Voting by exception' means that EOS are recommending supporting the management on the vote in question, but this is against EOS' standard policy. Typically, EOS will do this because having engaged with management, they are comfortable on the specific rationale (for this year at least).

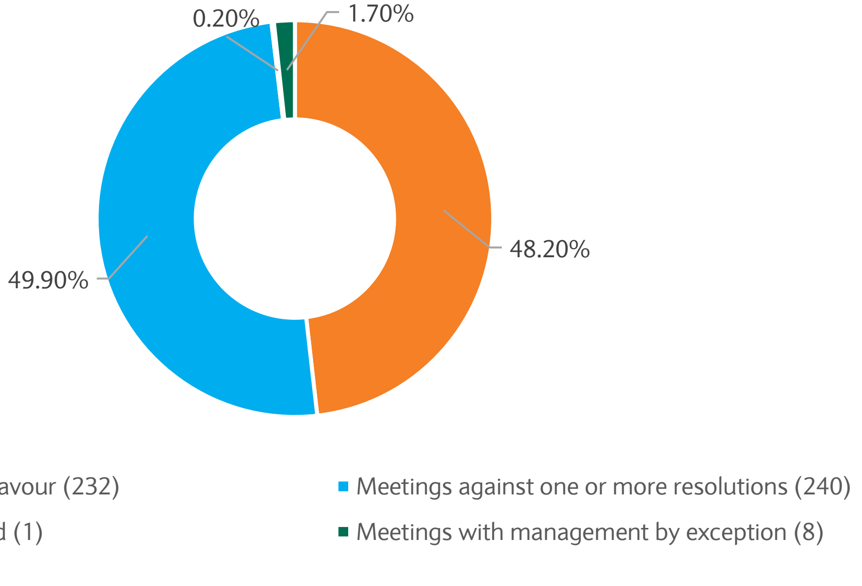
For companies, the most prudent way to manage climate change (and reduce the risk of becoming a target of activism) is by proactively setting a clear sustainability strategy and meeting or exceeding industry standards. For the benefit of their shareholders, organisations should also set clear short-, medium-, and long-term targets to improve on sustainability metrics.

Recent trends in investor activism are only likely to accelerate as stewardship providers scrutinise company recommendations and large asset managers respond to increasing pressure to demonstrate their ESG credentials with their votes. Those companies that recognise the challenge and build a long-term strategy to respond will be best placed to thrive in an era of enhanced shareholder engagement on sustainability.

Important information

None of the funds or companies mentioned in this article constitutes an investment recommendation. Past performance is not a guide to future performance. All investments can still fall in value as well as rise and you might get back less than you invest. We don't offer personal investment advice so if you're unsure you should seek that independently. Funds are designed for the long term so you should only consider them if you can stay invested for at least five years. These are our current opinions but the future, as ever, is uncertain and outcomes may differ.

Figure 3: Voting overview



Source: 2021 Annual Review, Barclays Wealth, Engagement Highlights, EOS

Market calls – summary

Macro summary

- It remains a complicated macro backdrop, particularly in the UK. We're probably at least a quarter away from peaking inflation, household incomes are set to sharply decline, and the Bank of England look set to raise interest rates aggressively to curb inflationary pressures and anchor expectations.
- This shouldn't be an automatic trigger to disinvest across risky assets though. We look at a range of indicators to give us clues about economy activity, but it's not straightforward to translate them into profitable market-timing. The stock market is not just the economy, especially in the UK where most profits are earned abroad.

Tactical Asset Allocation

Asset Class	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Cash & Short Maturity Bonds			●		
Developed Government Bonds			●		
Investment Grade Bonds			●		
High Yield & Emerging Markets Bonds			●		
Developed Markets Equities				●	
Emerging Markets Equities		●			
Commodities			●		
Alternative Trading Strategies			●		

Fixed Income

- Neutral high yield. Credit spreads have widened following aggressive tightening from central banks and slowing economic momentum. We are also now neutral global treasuries as a result.
- Recently closed underweight in EM local currency debt (EMDL), given the sharp losses to the asset class following Russia's invasion of Ukraine.

Equities

- Overweight Developed Markets Equities relative to Emerging Market Equities. Slowing global growth and a tightening monetary policy backdrop has often resulted in outperformance from Developed Market Equities.

Alternatives

- We remain neutral on commodities.

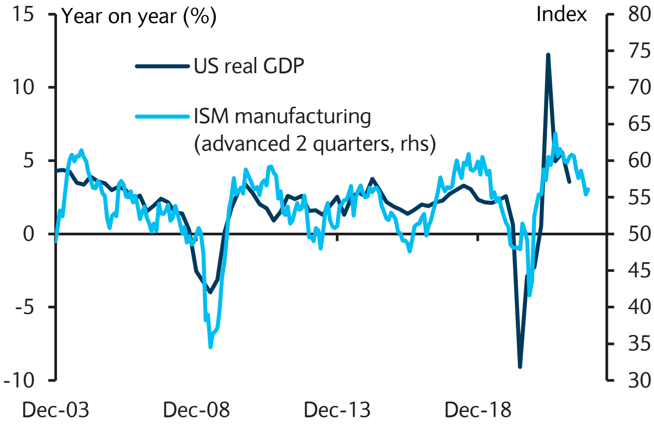
Total returns across key asset classes

	2022 YTD	2021	2020	2019	2018	2017
Cash & Short-Maturity Bonds	0.1%	0.0%	0.3%	0.7%	0.5%	0.2%
Developed Government Bonds	-9.8%	0.9%	6.3%	6.0%	0.1%	1.5%
Investment Grade Bonds	-13.2%	-1.0%	7.2%	10.6%	-2.7%	4.6%
High Yield & Emerging Market Bonds	-12.0%	-0.4%	3.0%	11.5%	-3.2%	6.6%
Developed Market Equities	-12.2%	22.9%	12.3%	22.7%	-3.0%	11.8%
Emerging Market Equities	-9.8%	-1.6%	14.7%	13.8%	-9.3%	25.4%
Commodities	35.0%	28.2%	-6.1%	3.6%	-5.8%	-7.1%
Alternative Trading Strategies	5.8%	3.5%	1.7%	2.2%	-3.1%	2.2%

Source: FactSet, Barclays. 2022 year-to-date performance is up to 23rd June. ATS as of end April 2022. Past performance is not a guide to future performance. Asset classes in GBP and represented by the following indices: Cash & Short Maturity-Bonds, Barclays Sterling Treasury Bills (0-12M) TR GBP; Developed Government Bonds, Barclays Global Treasury TR Hgd GBP (60%), Bloomberg Barclays Global Inflation-Linked TR Hgd GBP (40%); Investment Grade Bonds, Barclays Global Agg Corp TR Hgd GBP; High Yield and Emerging markets Bonds, BofAML US HY Master II Constrnd TR Hgd GBP (40%), JPM EMBI Global Diversified TR Hgd GBP (30%), JPM GBI-EM Global Diversified TR GBP (30%); Developed Markets Equities, MSCI World NR GBP; Emerging Markets Equities, MSCI EM NR GBP; Commodities, Bloomberg Commodity TR GBP; Alternative Trading Strategies (ATS), HFRX Credit Arbitrage TR Hgd GBP (25%), HFRX Merger Arbitrage TR Hgd GBP (25%), HFRX Active Trading TR Hgd GBP (25%), HFRX Systematic Diversified TR Hgd GBP (25%).

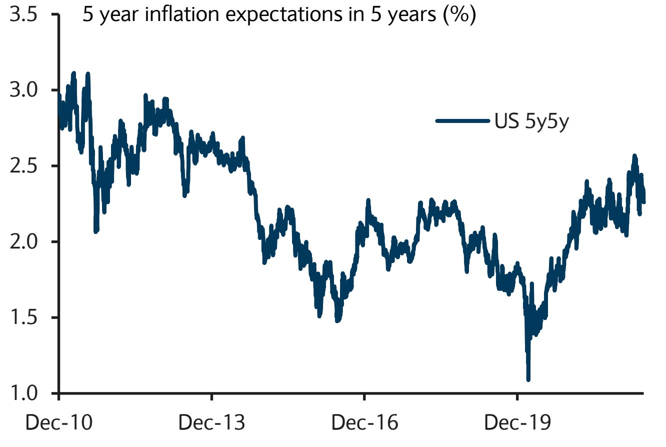
What are we thinking about?

Will economic momentum continue to slow?



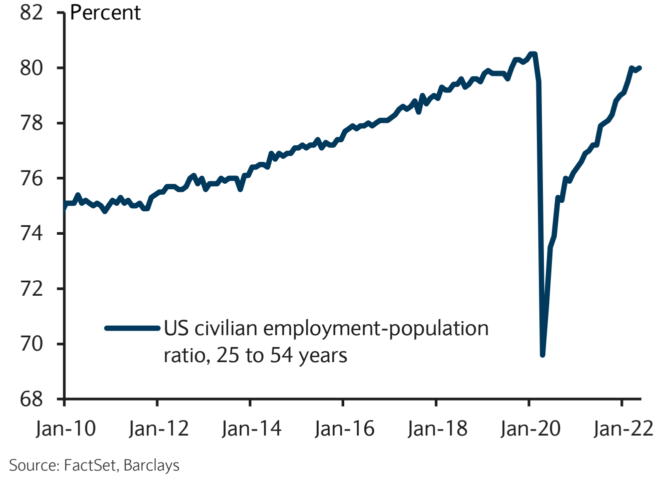
Source: FactSet, Barclays

Have inflation expectations peaked?



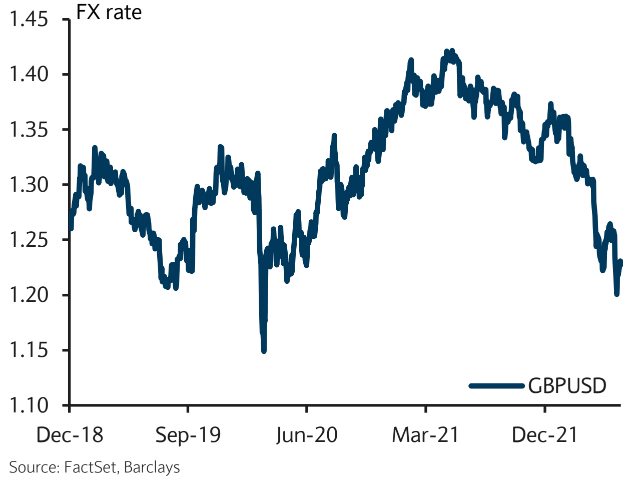
Source: Bloomberg, Barclays

How quickly will labour markets recover?



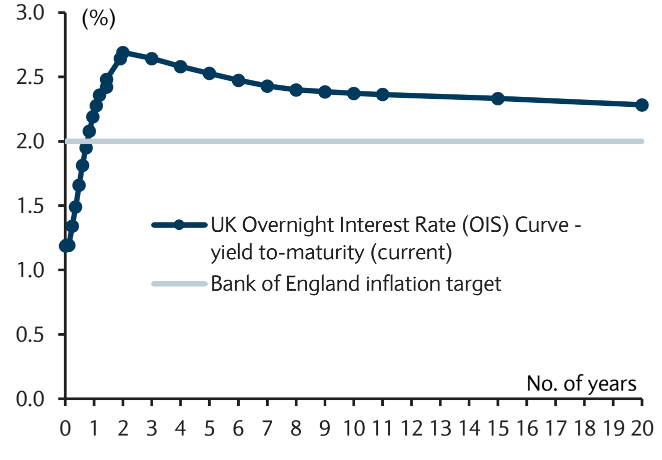
Source: FactSet, Barclays

Will Sterling weaken from here?



Source: FactSet, Barclays

How many times will the Bank of England raise rates?



Source: Bloomberg, Barclays

Will credit weaken further?

Source: FactSet, Barclays

Past performance is not a reliable guide to future performance.