



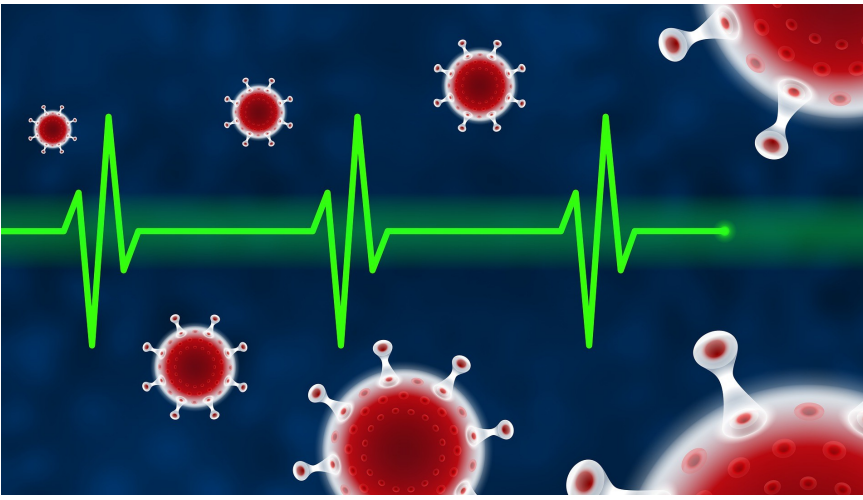
CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



17 DECEMBER 2020

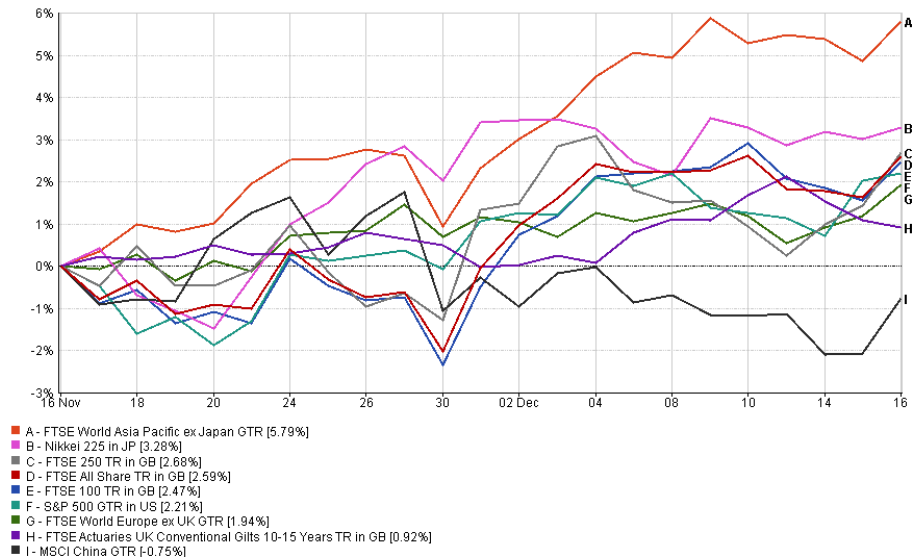


OVERVIEW

The major equity markets have made positive returns over the past month as investment sentiment has improved due to the news on effective Covid-19 vaccines with the Pfizer vaccine being approved and rolled out by the US, Canada and the UK with more countries likely to follow suit. The success of vaccination programmes should open up countries and their economies which equity markets are now anticipating. Consequently, cyclical sectors such

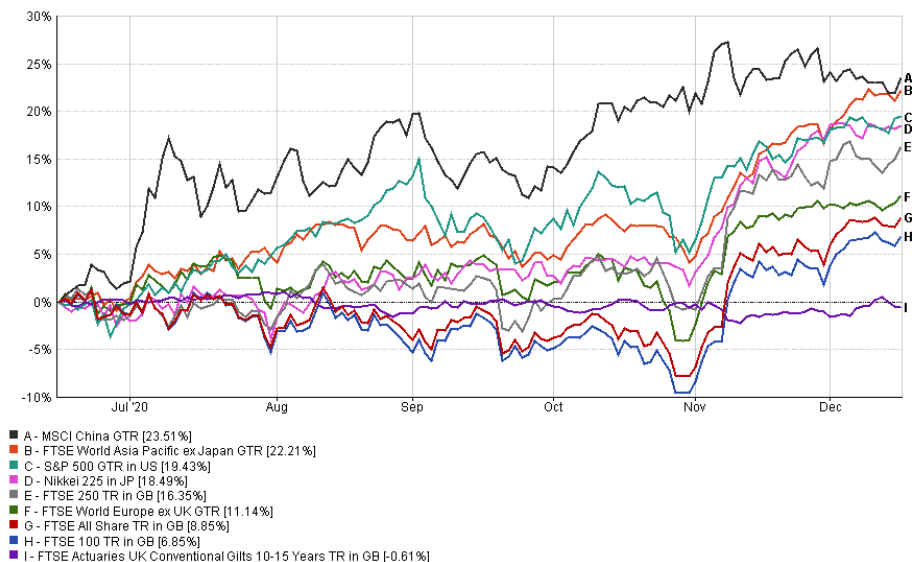
as commodities, financials, travel and leisure which were severely impacted by lockdowns throughout the year, have recovered strongly of late. The UK equity market has significant exposure to these sectors which together with uncertainty over a UK/EU trade deal has held back relative performance during the year. It is still unclear whether a trade deal can be agreed and there is an expectation that negotiations will continue to the 'wire'. Sterling and the equity market are likely to rally if an agreement is reached but whichever way the talks go, there will be some certainty about what the UK/EU trade relationship looks like.

ONE MONTH INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES



16/11/2020 - 16/12/2020 Data from FE fundinfo 2020

SIX MONTHS INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES



16/06/2020 - 16/12/2020 Data from FE fundinfo 2020

Central banks have continued their support of their respective economies. The Bank of England (BoE), European Central Bank (ECB) and the US Federal Reserve (Fed) have committed to extend support as necessary and where they can. Interest rates are already at



historically low levels but low real yields and a weak US dollar indicate easy global funding conditions. Jerome Powell, Chairman of the Fed, confirmed that it will maintain its massive bond buying programme until “substantial” progress is seen in increased employment and inflation. Government bond yields are likely to remain low for some time as central banks continue with their asset purchase programmes. Many are just not buying government bonds but also some corporate bonds, so supporting the broader fixed income market. There is still some value to be found in parts of the market on a stock specific basis.

The US fiscal support package has still not been agreed after months of wrangling but it appears that Congress is now moving towards a final package which should underpin the equity market. The EU finally approved its €1.8 trillion stimulus package which should help badly affected member states cope with the impact of the second wave of the Covid-19 virus. China’s central bank is pumping more money into the financial system to encourage lending.

The second wave of the Covid-19 virus has led to restrictions being re-imposed in some countries as governments try to control its spread. Therefore economic statistics point to weaker service sectors in affected countries, whilst global industrial production remains strong - particularly in Europe. It is unlikely that the level of economic contraction seen during the first wave of the virus will be repeated, but short-term economic data may deteriorate before it improves. Many Asia Pacific countries have controlled the Covid-19 virus successfully and their economies are functioning almost normally. Chinese economic activity and investment continues to strengthen and it is the only major economy likely to expand this year. Its recovery is boosting the share prices of companies which generate significant revenue from China. European companies, in particular, have been beneficiaries. Japanese companies have also seen their corporate earnings improve against the backdrop of



China’s economic recovery - especially export-related sectors such as automobiles and electronics.

Worries still persist about the US/China relationship. With Mr Biden now confirmed as President, he is expected to continue to maintain a tough line on China, though is likely to be more prudent in his rhetoric and to follow a more consistent approach.



The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartledge Morland's Investment Services team.

Angela runs the firms' investment management propositions, with over 30 years' experience in investment research working for investment companies, leading UK national IFAs and wealth managers. Angela graduated from the London School of Economics and is a Chartered Insurance Practitioner.

OUR VIEW

As vaccines lead society back to some sort of normality, we should see risk assets perform well as economies recover in the second half of 2021. The UK equity market has under-performed for years as the Brexit question has rumbled on, coupled with political uncertainty, and it is still cheap. Its cyclical bias should be beneficial in a global recovery. We would also expect Europe and Japan to recover well in the short term. We should see the consumer return with pent up demand being realised in 2021; where people have been able to increase their personal savings during lockdowns, they will look to spend. Gradually, as companies recover, dividends will recommence and/or increase which will help income generation in portfolios. Whilst US technology companies have performed strongly during the pandemic, other more cyclical areas have lagged. As the US economy reopens, these parts of the market should perform very well although the technology companies should rise in value too. Asia Pacific and emerging markets equities still offer good longer term growth opportunities due to demographics and increasing domestic demand.

Portfolios are positioned to take advantage of this more optimistic outlook for equities within appropriate risk parameters whilst maintaining diversification. All Western markets have strong correlation with the US market – especially that of the UK. Whilst we consider UK/Europe to offer stronger potential upside, our expectation is also that US equities will also deliver fairly strong returns, especially those that have lagged outside the communications, social media and technology bubble. Japan, Asia Pacific and emerging markets all seem to be set fair too – so a broad range of opportunity is available.

The spectre of increasing inflation provides succour for index linked gilts, although lofty pricing and negative yields have ensured continued profit taking within our portfolios. Conventional gilts will enter choppy waters if inflation increases beyond the Bank of England target which would also reduce the attractiveness of opportunities that remain prevalent in the corporate bond markets. International bonds have proved a profitable diversification from Sterling bonds but yields have fallen back and Sterling gains against overseas currencies would place current capital values at risk.

As always if you have any concerns please contact your usual Cartlidge Morland Partner/Director/Consultant.



OUR VIEW....continued

We have high expectations of both the global economy and global equity markets for 2021. Of course, much depends on the success of global vaccination programmes against the Covid-19 virus and signs that the world will return to normal conditions over the course of the next 12 months.

In recent weeks, we have seen 'balanced' portfolios showing gains over the past 12 month period, rather than merely the past six month period during which the recovery of earlier losses has ensured portfolio gains. Such gains have still been too weak to cover reasonable levels of income withdrawal but client portfolio income withdrawals are now largely being covered by investment returns, which is important.

**We take this opportunity
to wish all
Cartlidge Morland clients
an enjoyable Christmas,
despite current restrictions,
and
good health, happiness
and prosperity in 2021.**



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