



CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



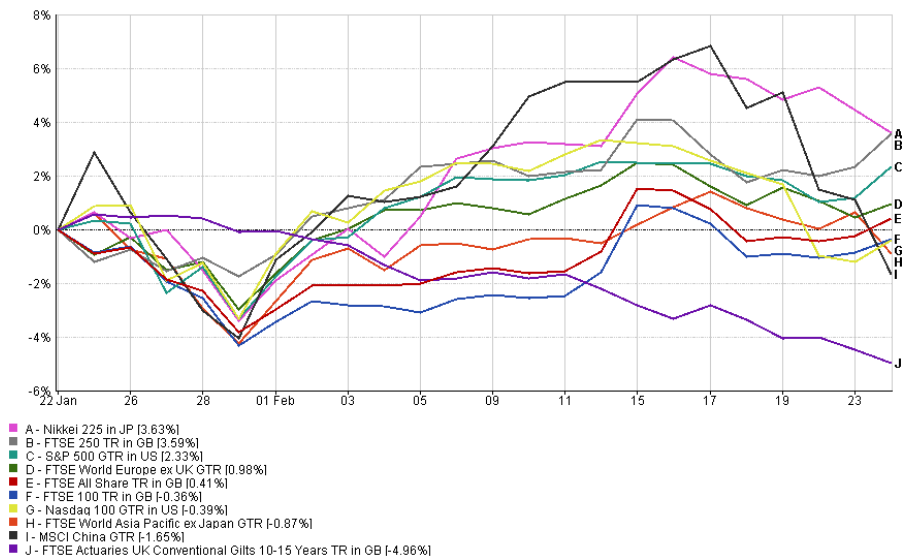
25 FEBRUARY 2021

OVERVIEW

The past month has seen encouraging news on the progress of Covid-19 coronavirus vaccination programmes around the world as the efficacy of vaccines are seen in real time. The prospect of successful vaccines enabling economies to open through 2021 has been supportive of equity markets. Government bond yields have increased sharply (prices have fallen) in anticipation of a strong bounce back as economies reopen with the possibility of inflation rising rapidly. Investors' appetite for risk is increasing as a result of the more optimistic economic outlook; "safe haven" government bond positions are being pared back in favour of equities as corporate earnings look set to rise, when companies start to operate normally again.

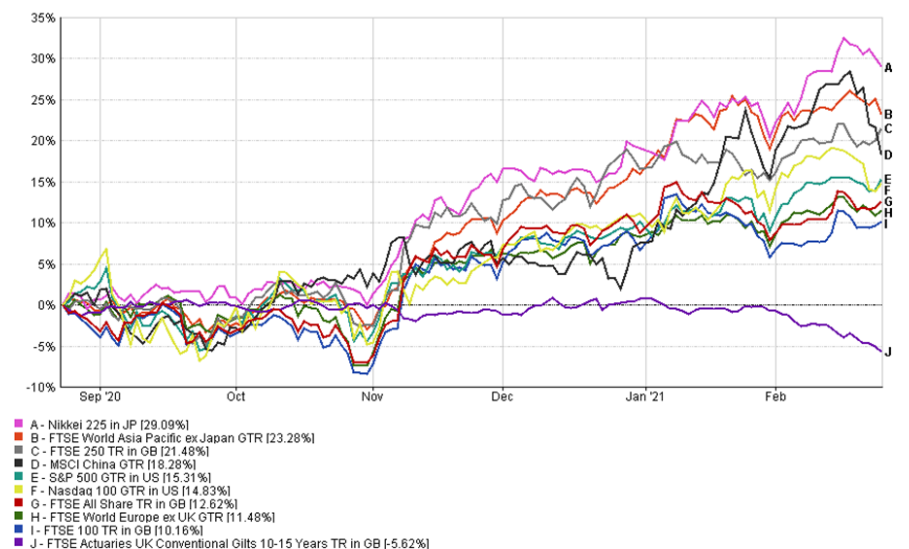


ONE MONTH INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES



22/01/2021 - 24/02/2021 Data from FE fundinfo 2021

SIX MONTH INVESTMENT MARKET RETURNS IN LOCAL CURRENCIES



24/08/2020 - 24/02/2021 Data from FE fundinfo 2021

Economic indicators show that the manufacturing sectors of the developed economies continue to stabilise whilst service sectors are still contracting, albeit at a slower pace, as pandemic-related restrictions take their toll. The exception is the US where service sector activity has picked up as restrictions have been eased. Investors are largely looking through these slowing/negative economic growth figures and are anticipating a sustained improvement as economies start to return to normal.



Supporting investor sentiment is the prospect of further fiscal stimulus programmes. President Biden is trying to steer a US\$1.9 trillion programme through Congress. This represents a stimulus equivalent to a massive 9% of US Gross Domestic Product (GDP). Although the final figure may be scaled back to a small extent, this would still be a colossal boost to the US and the global economies. The impact of the US\$900m December 2020 stimulus package has already been seen, as payments made to individuals have sent US retail sales soaring. The European Union's €750 bn 'Recovery Fund' is gradually being paid out, but perhaps more support is needed given the ambition behind US actions. In the UK, the Chancellor delivers his budget shortly - which is likely to include stimulatory measures. It would seem that governments no longer fear debt whilst interest rates are so low!

Together with fiscal measures and ongoing loose monetary policy, global equity markets are anticipating consumers spending savings which they have accumulated during the pandemic. As restrictions are eased, consumers are likely to spend on leisure and travel. The recent announcements of staged exits from lockdown in England and Scotland have seen the UK mid-cap index, in particular, rise in anticipation of increased spending, as it has heavy exposure to leisure and travel companies, which should see earnings improve rapidly.

Such a hike in spending is leading to higher inflation expectations and rising government bond yields. Central banks are likely to tolerate above target levels of inflation – the US Federal Reserve (Fed) has indicated such a stance and Jerome Powell, the Chair of the Fed, has commented that the Central Bank is nowhere near to pulling back on its monetary support. Any premature rise in interest rates to dampen inflation could also choke off the economic recovery as borrowing costs would increase. The first rate rise in the US is expected in Spring 2023.

Rising interest rates are not necessarily bad news for equities so long as corporate earnings expectations improve too. However, the prospects for earnings need to be assessed by sector. Low interest rates have really helped the technology sector, for example, in which companies pay little or no dividends. Instead they reinvest in the company. As these “growth” companies are likely to expand quickly and dominate their markets in the longer term, so the value of their future cash flows are reduced by rises in bond yields and interest rates now; hence the recent falls in share prices of technology companies. Companies in the financial sector such as banks are negatively affected by low interest rates as they have little or no margin on their lending. With interest rates rising, they should perform better, as they can increase their margins and therefore profits. Commodities/mining sectors should also benefit from some inflation, particularly against a backdrop of demand rising as governments around the world look set to increase infrastructure spending.

This rise in inflation may be short term as there is spare capacity in the economy – for example unemployment has increased so there is likely to be little pressure on wage levels. Much of the post-pandemic spending may be on services rather than goods which will have less impact on the inflation rate. There may be a situation where due to the damage caused by the pandemic the supply of goods may be negatively affected which in turn could lead to higher prices whilst companies take time to increase production.



Portfolios are showing positive returns over the last six months with equity funds contributing well to performance. Since the news of effective vaccines was announced in November 2020, funds with a cyclical or value bias have performed well. With Asia and the US economies now recovering and the rest of the world likely to follow as vaccination programmes ramp up, cyclical companies i.e. those that are economically sensitive, should see their earnings recover strongly. Whereas, during years of low interest rates, it has been growth companies which have been the better performers. Our portfolios are structured to reflect investment objectives and risk profiles, and blend different investment styles through the funds held. As ever, diversification is the key.



The CM Investment Commentary is compiled by Angela Cooper, Managing Director of Cartlidge 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

UK assets are a topic of interest (even excitement) in financial markets for the first time in recent years. Sterling has firmed after a choppy period of dire predictions, which encourages international investors. The UK market provides wide exposure to global cyclicals and the UK economy is expected to improve quickly, in response to the relaxed lockdown permitted by a successful vaccination programme. A government with a strong majority, with an apparently competent Chancellor – provides reassurance, as does the UK's continued ability to conduct a large quantitative easing programme, whilst maintaining the confidence of the financial markets.

Nevertheless, there remain lucrative potential rewards elsewhere. The US can never be ignored and it is foolish to be bullish about the UK, and negative towards the US. Markets are so highly correlated that Wall St sentiment needs to remain positive for UK/European markets to remain so. President Biden now seems likely to introduce the stimulus package Donald Trump dreamt of in the earliest part of his presidency and it should provide a significant boost to US prospects. Furthermore, the Democrats tend to prove more capable of controlling the Federal deficit than the Republicans and the sceptics will take heart from that.

China, the UK and the US marching in time with massive stimulus packages and increasing economic activity is the best economic news Europe is likely to receive— the continent's three largest customers all in a position in which they are likely to buy more. Europe's hopes, to some extent, rely on the 'roaring twenties' excesses predicted in some quarters due to the savings that have accumulated during global lockdown. As a massive exporter of branded luxury goods, that would be ideal for the European economy.

Sentiment towards Japan continues to improve. The cash rich industrial corporations are understood to have invested heavily in robotics and are thought well-placed to benefit at the expense of manufacturing competitors whose labour costs will now be materially less competitive by comparison. It may be that a Japanese economic renaissance is about to dawn after 30 years of very modest economic growth. The advance in robotics relieves much of the pressure on a workforce shrinking due to demographics.

..... continued

OUR VIEW....continued

Armed with cutting edge robotics and hi-tech, the slow growth Japanese economy may now step up several gears. If it does, then complemented by continuing growth in China, the Asia 'tigers' will retain their 'eastern promise' and emerging market economies will benefit too.

The trauma of the global pandemic with its lockdowns has acted as a 're-set' button for the global economy. The prospects are exciting presently, provided the central bankers can wean the world off quantitative easing and governments set their spending on a sustainable footing, once the pressures caused by the pandemic have eased. Inflation and its ability to upset bond markets and the policy makers' objective of maintaining low interest rates are a concern.

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



83-85 Mansell Street London E1 8AN
t: +44 (0)20 7709 5560
e: enquiries@cartlidgemorland.com
www.cartlidgemorland.com

This material is not intended to be relied on as a forecast, research or investment advice, and is not a recommendation, offer or solution to buy or sell any securities or to adopt any investment strategy. Cartlidge Morland's current views and suggestions in this document are based on research which is obtained from a variety of sources. Whilst these sources are believed to be reliable, the information obtained cannot be guaranteed to be accurate and may be condensed or incomplete. Past performance not a guide to the future. The value of investments and income arising may go down as well as up.

Cartlidge Morland is a trading name of The Cartlidge Morland Partnership, an appointed representative of Cartlidge Morland Ltd, which is authorised and regulated by the Financial Conduct Authority.