CARTLIDGE MORLAND
INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY

29 APRIL 2021

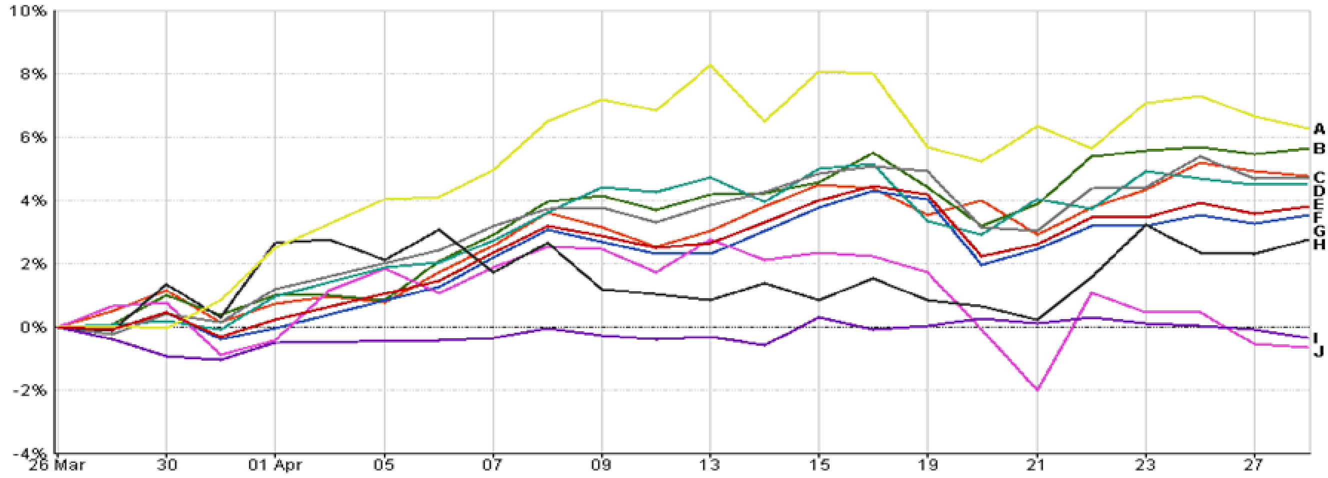
OVERVIEW

Many equity markets have continued to provide strong returns in the past month as Covid-19 vaccination programmes continue to progress well particularly in the UK, the US and many developed economies. Technology and energy stocks have boosted index levels following good quarterly earnings reports. Optimism remains high that economies will gradually reopen over 2021 – some faster than others. Sadly, some countries, such as India and Brazil, are still trying to cope with high numbers of Covid-19 infections which are severely affecting their societies and economies.

Those companies which are more exposed to the economic cycle have made strong returns against a backdrop of a global economic recovery as vaccination programmes are rolled out. Over the past few weeks, technology stocks (as represented by the Nasdaq index in the charts) have recovered from falls earlier in the year, which were due to the value of their future earnings being marked down - as bond yields rose on rising inflation expectations. Earnings from the mega-tech companies such as Apple, Amazon and Microsoft have grown strongly over lockdowns as home working, on line home entertainment and internet shopping all increased.

The Japanese and Chinese stock markets have performed less well than the other leading equity markets recently. Sentiment towards the Japanese market has been negatively affected by the states of emergency declared across major cities (as the number of Covid-19 cases rose sharply) and by the associated economic restrictions. The prospect of monetary tightening by the Chinese authorities to curb asset bubbles has continued to weigh on investor sentiment, coupled with China's market regulator cracking down on big internet companies. Alibaba was fined $2.8bn for abusing its market dominance earlier this month.

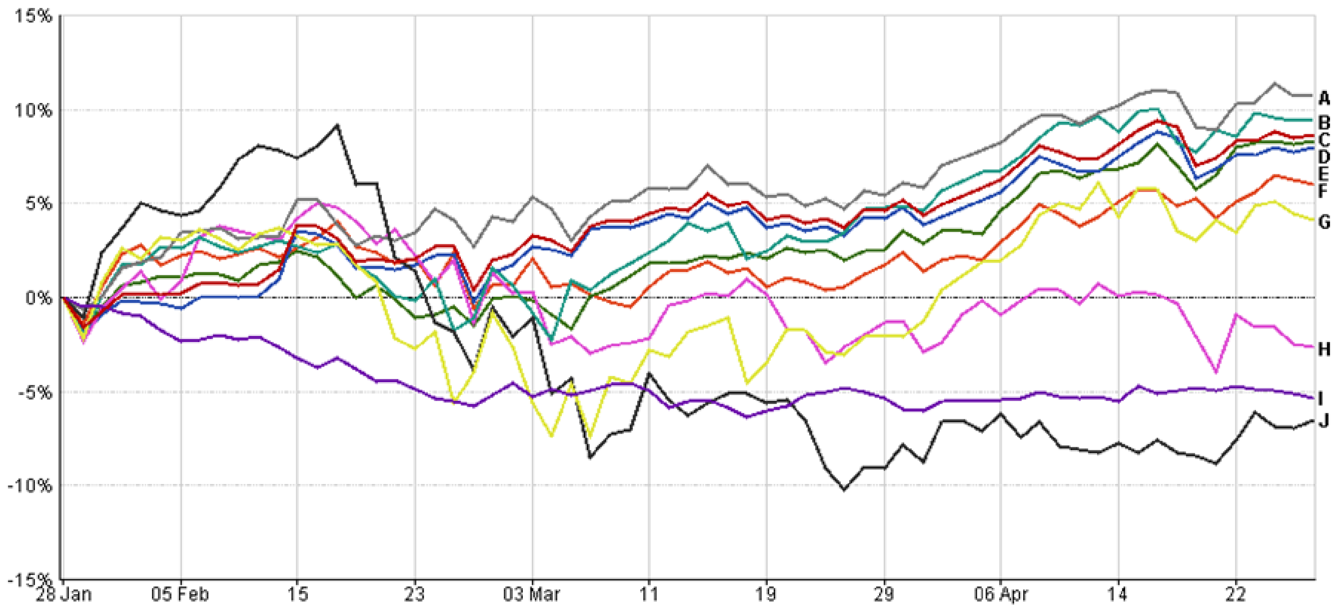
ONE MONTH INVESTMENT MARKET STERLING TOTAL RETURNS



A - Nasdaq 100 GTR in GB [6.26%]
B - FTSE World Europe ex UK GTR in GB [5.64%]
C - FTSE World Asia Pacific ex Japan GTR in GB [4.75%]
D - FTSE 250 TR in GB [4.73%]
E - S&P 500 GTR in GB [4.48%]
F - FTSE All Share TR in GB [3.82%]
G - FTSE 100 TR in GB [3.55%]
H - MSCI China GTR in GB [2.76%]
I - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [-0.35%]
J - Nikkei 225 in GB [-0.65%]

26/03/2021 - 28/04/2021 Data from FE fundinfo2021

THREE MONTHS INVESTMENT MARKET STERLING TOTAL RETURNS



A - FTSE 250 TR in GB [10.71%]
B - S&P 500 GTR in GB [9.37%]
C - FTSE All Share TR in GB [8.69%]
D - FTSE World Europe ex UK GTR in GB [8.29%]
E - FTSE 100 TR in GB [8.00%]
F - FTSE World Asia Pacific ex Japan GTR in GB [6.06%]
G - Nasdaq 100 GTR in GB [4.09%]
H - Nikkei 225 in GB [-2.63%]
I - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [-5.35%]
J - MSCI China GTR in GB [-6.49%]

28/01/2021 - 28/04/2021 Data from FE fundinfo2021

The major central banks continue to maintain loose monetary policy to support economies during and whilst emerging from the Covid-19 pandemic. The asset purchase programmes relating to bonds continue and interest rates remain at record lows. Jay Powell, the Chair of the US Federal Reserve (Fed), has indicated that the Fed is still a long way off withdrawing its support of the US economy. Tasked with maintaining full employment and inflation at around 2% pa over time, the latest statistics point to a strengthening economy with robust jobs growth. The Fed has stated that it will wait for sustained improvement in the course of the pandemic and therefore the economy before considering a reduction of its monetary stimulus programme. The Fed reiterated its belief that any rise in inflation will be transitory, but higher government bond yields in recent months indicate that the market is expecting interest rates will have to be increased to contain inflation as economic growth accelerates. The European Central Bank has marginally increased its rate of bond purchases recently, but these still remain within the previously announced programme of €1.85trn.

Government spending is another strand of pandemic-related economic support. Following the latest fiscal stimulus package being implemented in March 2021 and the announcement of massive infrastructure spending over the remainder of the decade, President Biden has recently unveiled a new $1.8trn 'Families Plan'. However, higher taxes on companies and the wealthy will be required to fund these packages so there could yet be resistance against the necessary legislation. The UK Government has supported individuals and companies as well as funding higher healthcare costs through the pandemic, although this is now winding down as the economy reopens in line with the Government's road map. Government borrowing is now at its highest since the Second World War at £303bn in 2020/1. The EU has already set up a €1.8trn package to support economic recovery in the region. These fiscal stimuli will be supportive of not only domestic economies but the wider global economy too.

Since the first steps in re-opening the UK economy, UK consumer confidence and spending have returned to pre-pandemic levels. Those people who have been able to save through the pandemic are now likely to spend some of those savings. The retail and hospitality sectors are already recording strong sales growth. Retail sales rose 5.4% in March 2021 compared to February 2021. UK economic growth is predicted to reach over 5% in 2021 as the economy is due to fully re-open from June. Economic indicators in the UK and the other developed economies all point to stronger growth through 2021/2022 on the prospect of the global economy gradually recovering as vaccination programmes are rolled out and the virus subsides. The US economy grew by 6.4% pa in the first quarter (Q1) of 2021 – which is the quickest Q1 rate of growth since 1984, as its economy started to reopen and the rate of vaccinations increased. In contrast, the resurgence in virus infections and renewed restrictions in Europe have seen the eurozone enter a double dip recession in Q1 2021 - their economy contracted by 0.6% following a decline of 0.7% in the final quarter of 2020.

As a result of the economic lockdown in March 2020, many companies cut or suspended dividend payments as earnings fell and cash needed to be conserved. Equity income funds were severely affected by these actions. The rate of decline in UK dividends is gradually shrinking since the 48.2% fall in the second quarter of 2020. As the economy re-opens companies will resume trading and it is expected that dividends will start to increase; banking dividends are returning, albeit at low levels, for example. Rising dividends and the prospect of strong economic growth have been highly supportive of the UK equity market over the last few months.

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

In general terms, corporate earnings are bound to increase massively as a result of global socio-economic lockdowns easing. Markets have already priced this natural rebound in, as efficient markets anticipate events. The unknown quantity is the massive central bank and governmental stimulus packages – of huge benefit to consumers and businesses alike. These packages are likely to spur significantly increased business investment and personal consumption across the developed world. The potential effects of these stimuli on corporate earnings and ultimately, asset prices, cannot be ignored. Barring the unexpected, there remain 'good times' ahead for equity holders.

As we have observed previously, too much economic stimulus presents the danger of inflation. This would not be good for debt (bond) holders and presently, relatively low yields continue to characterise bond markets, with little capital upside. Indeed, there is greater downside risk to capital than usual in the debt markets. Such is the price of exceptional returns from global equity markets but bonds have their place in providing protection against the unexpected, as we explained in last month's commentary.

Presently, our focus is very much on ensuring clients are sufficiently exposed to upside opportunities and less about containing shorter term risks – for all we remain mindful of them. The continued rampage of the Covid-19 virus in South America and India remains a huge humanitarian concern and an economic one too. The various mutations of the virus appear to have had little effect on the efficacy of vaccination programmes to date. Although it is scientifically unlikely that the virus will mutate to forms which are totally resistant to current vaccines (viruses generally weaken as mutations progress), there remains an outside chance that this may happen and thereby cause further waves of the pandemic which would undermine nascent economic growth and global equity markets. Therefore, appropriate levels of lower risk assets are being maintained in line with clients' objectives and risk tolerance.

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