



CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



28 JUNE 2021



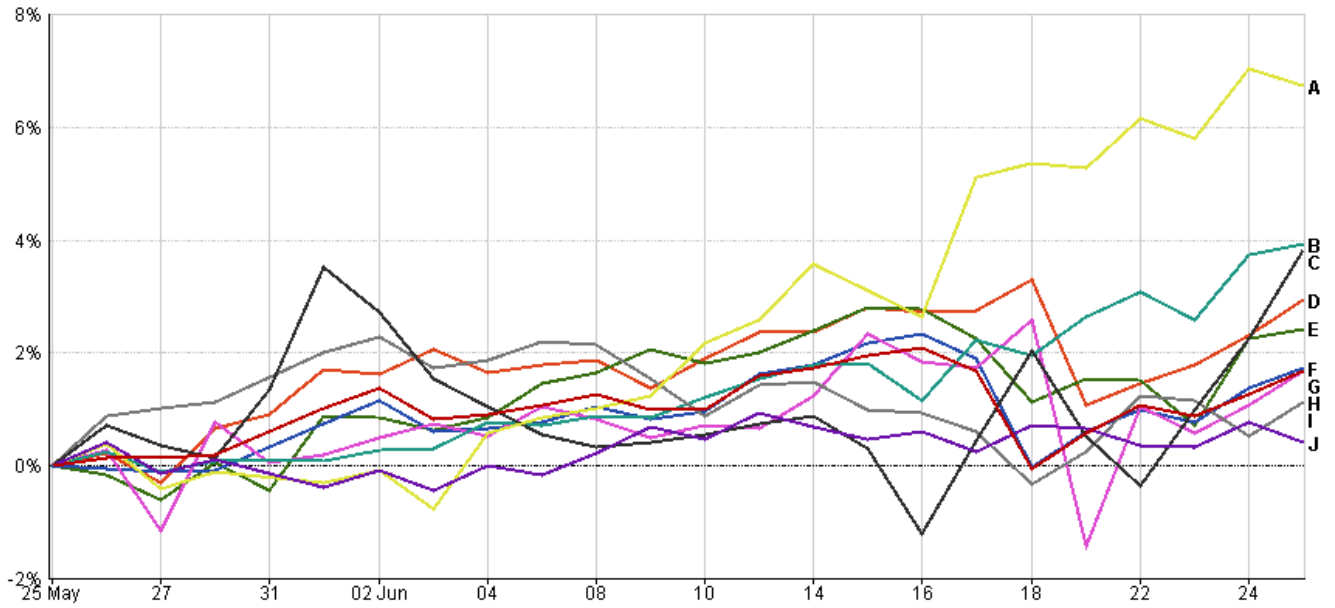
OVERVIEW

As the global economy continues to adjust and recover from the pandemic, global equities look set to record another month of gains. Investors have been anxious that US interest rates would start to rise earlier than expected as economic growth strengthened. At its latest meeting, the US Federal Reserve (Fed) indicated that interest rate rises may be brought forward to 2023 to contain above target consumer inflation (5% in May 2021). Equities, bonds and the US dollar were all impacted by this prospect. However, worries abated to some degree, as the latest figures show US inflation running below expectations and investors recognised that the Fed had acknowledged that it may need to take action about persistently high, future inflation. In addition, President Biden obtained Senate agreement for an infrastructure spending package of around \$1.2trn which should support employment and economic growth in the years to come.

At its June meeting, the Bank of England's Monetary Policy Committee (MPC) maintained its accommodative monetary policy. It still expects UK inflation (up 2.1% in the year to May 2021) to remain above its 2% target in the coming months.

In Europe, inflation is expected to rise over the next few years with the European Central Bank (ECB) anticipating inflation to reach 1.9% this year - above its last projection of 1.2%.

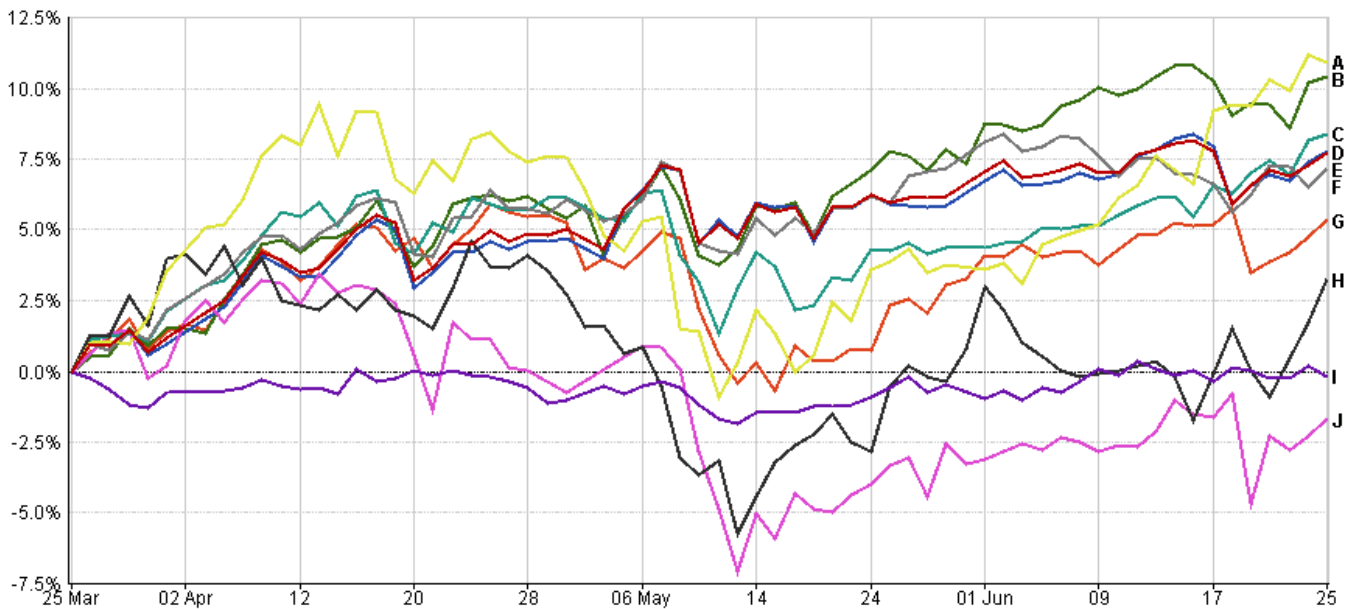
ONE MONTH INVESTMENT MARKET STERLING RETURNS



- A - Nasdaq 100 GTR in GB [6.75%]
- B - S&P 500 GTR in GB [3.95%]
- C - MSCI China GTR in GB [3.83%]
- D - FTSE World Asia Pacific ex Japan GTR in GB [2.95%]
- E - FTSE World Europe ex UK GTR in GB [2.42%]
- F - FTSE 100 TR in GB [1.75%]
- G - FTSE All Share TR in GB [1.68%]
- H - Nikkei 225 in GB [1.67%]
- I - FTSE 250 TR in GB [1.14%]
- J - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [0.41%]

25/05/2021 - 25/06/2021 Data from FE fundinfo2021

THREE MONTHS INVESTMENT MARKET STERLING RETURNS



- A - Nasdaq 100 GTR in GB [10.90%]
- B - FTSE World Europe ex UK GTR in GB [10.40%]
- C - S&P 500 GTR in GB [8.37%]
- D - FTSE 100 TR in GB [7.76%]
- E - FTSE All Share TR in GB [7.74%]
- F - FTSE 250 TR in GB [7.18%]
- G - FTSE World Asia Pacific ex Japan GTR in GB [5.38%]
- H - MSCI China GTR in GB [3.29%]
- I - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [-0.19%]
- J - Nikkei 225 in GB [-1.70%]

25/03/2021 - 25/06/2021 Data from FE fundinfo2021



The US Fed's supportive monetary action of buying \$120bn of bonds monthly since March 2020, is likely to remain in place until the Fed sees "substantial further progress" towards its economic growth and employment objectives. Jay Powell, the Chair of the Fed, said that the Fed was "talking about talking about" reducing the Fed's bond purchase programme at its June meeting. It is expected that the Fed will give the market a lot of warning before tightening its monetary policy to forestall a possible "taper tantrum" similar to that

experienced in 2013/14, which impacted investment markets severely. Changes to monetary policy are likely to be gradual and aimed at avoiding a major impact on the US economy, as strong economic growth should take over from monetary stimulus.

Since the end of November 2020, cyclical sectors, which are sensitive to economic growth and inflation, have out-performed their growth counterparts. However, concerns about inflation appear to have reduced recently. Investors now seem to accept the views of the major central banks that heightened inflation will be a temporary phenomenon, as economies reopen/adjust as the pandemic subsides. Against this background, the shares of growth-oriented companies, including technology companies, have risen recently - as the value of their future earnings are linked to long-term interest rates. The NASDAQ index, which largely comprises the shares of technology companies, has climbed sharply since the beginning of June 2021. However, if tightness in labour markets increases as economic growth strengthens then inflationary expectations may begin to rise once again.





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

Due to the exceptional support of financial markets and economies by the major central banks buying government bonds and corporate bonds, yields on bonds have been kept low. As the pandemic recedes, global economic growth looks set for a robust recovery during 2021 and 2022, with demand increasing strongly and some bottlenecks in supply chains as countries restart their economies. Consequently, it is likely that central banks will need to increase interest rates at some point to contain inflation. We believe that returns from lower risk assets such as government bonds and high quality corporate bonds are likely to be negatively affected when central banks start to reduce their bond buying activities as economic growth increases. Elevated rates of inflation will also reduce demand, as inflation erodes the value of fixed interest income payments. The capital risk presented by low yields in the sovereign bond/investment grade corporate bond markets are of concern presently. Against this unusual background, we have made adjustments to the lower risk asset parameters of our Cautious and Cautious Balanced portfolios so that there is flexibility to hold more in higher risk assets, where necessary, to optimise returns for investors. Strong economic growth should favour equities and high yield bonds, the returns of which are closely correlated with equities. We have also increased the possible maximum exposure of high risk assets in our Cautious Balanced portfolios.

We continue to hold blends of funds in portfolios, which permits exposure to a range of investment approaches including growth-oriented and value strategies, as well as to funds which invest across both. In the light of our comments above, we have trimmed exposure to government bonds and to some high quality corporate bonds, in favour of more flexibly positioned strategic bond funds or high yield bond funds. Where appropriate, we have increased holdings in cash. We have maintained exposure to index linked gilts which should offer some protection in the event of an elevated inflation rate whilst continuing to harvest excess capital returns. As part of the lower medium risk element within portfolios, we still include limited exposure to commercial property funds for their income streams and diversification benefits.

If you have any queries please do not hesitate to contact us via your Cartlidge Morland consultant.

OUR VIEW continued

In essence, the global economy is entering uncharted territory as it recovers strongly from an artificially created recession caused by the response to the pandemic. The recession has been exceptional in its depth and the scale of the government/central bank rescue is unprecedented – if one excludes spending/Marshall Aid after WWII. Although the central bankers may not be, and should not be, unduly concerned by inflation caused by temporary dislocation of demand and supply, it is hard to believe they will ignore either rapid wage increases nor a burgeoning money supply indefinitely – both harbingers of systemic inflation. It may be that in their view the latter are only problems when following strong global economic expansion and will fizzle out without that.

As we have said previously, the environment is very much one of 'risk on' presently as asset prices seem likely to increase significantly, best represented by equities. We should not ignore that momentum any more than the reasons for it and need to take advantage. There is risk of a severe hang-over later but plenty to be enjoyed first. As always, we remain mindful of the downside risks.



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