



CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



31 AUGUST 2021

OVERVIEW

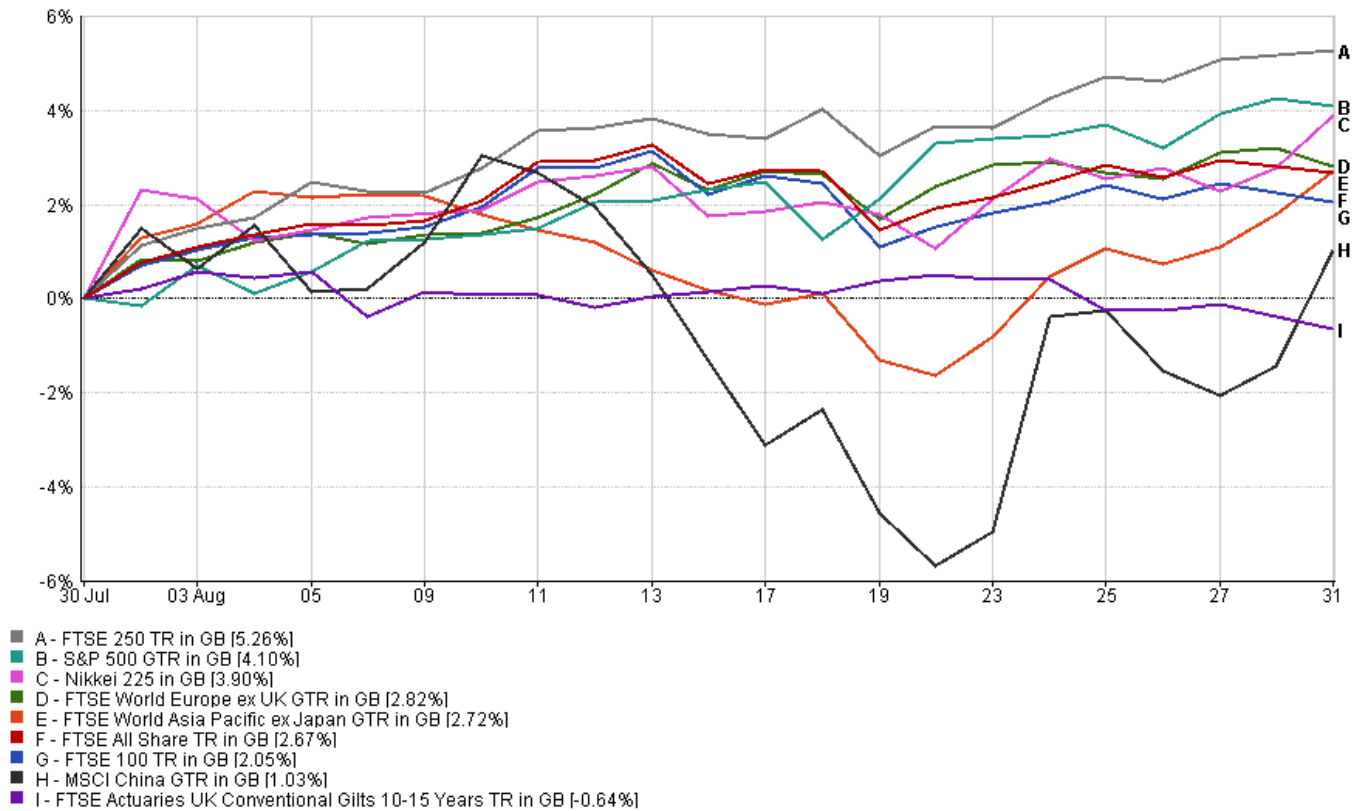
International equity markets have made positive returns over the past month seemingly shrugging off concerns about less robust global economic growth than anticipated and the possibility of the US Federal Reserve (Fed) starting to tighten monetary in the near future.



Jay Powell, the Chair of the US Federal Reserve, gave investors some reassurance in his recent speech at the Jackson Hole Economic Symposium. He commented that care would need to be taken in ensuring that the Fed's \$120bn per month debt purchase programme was not tapered too quickly. He indicated that there would be a slow withdrawal of monetary stimulus starting later in 2021. Additionally, he drew a distinction between this tapering and increasing interest rates saying that they were subject to different debates. The Fed is targeting maintaining average inflation at a rate of 2% and maximum employment. The former has been achieved and there is "clear progress" on the latter with jobless claims continuing to fall. Equity markets were encouraged by Mr Powell's message that a rash response to elevated inflation levels could harm global economic growth – continuing bond purchases and maintenance of ultra low interest rates support equities and other higher yielding assets as bond yields are likely to remain low.

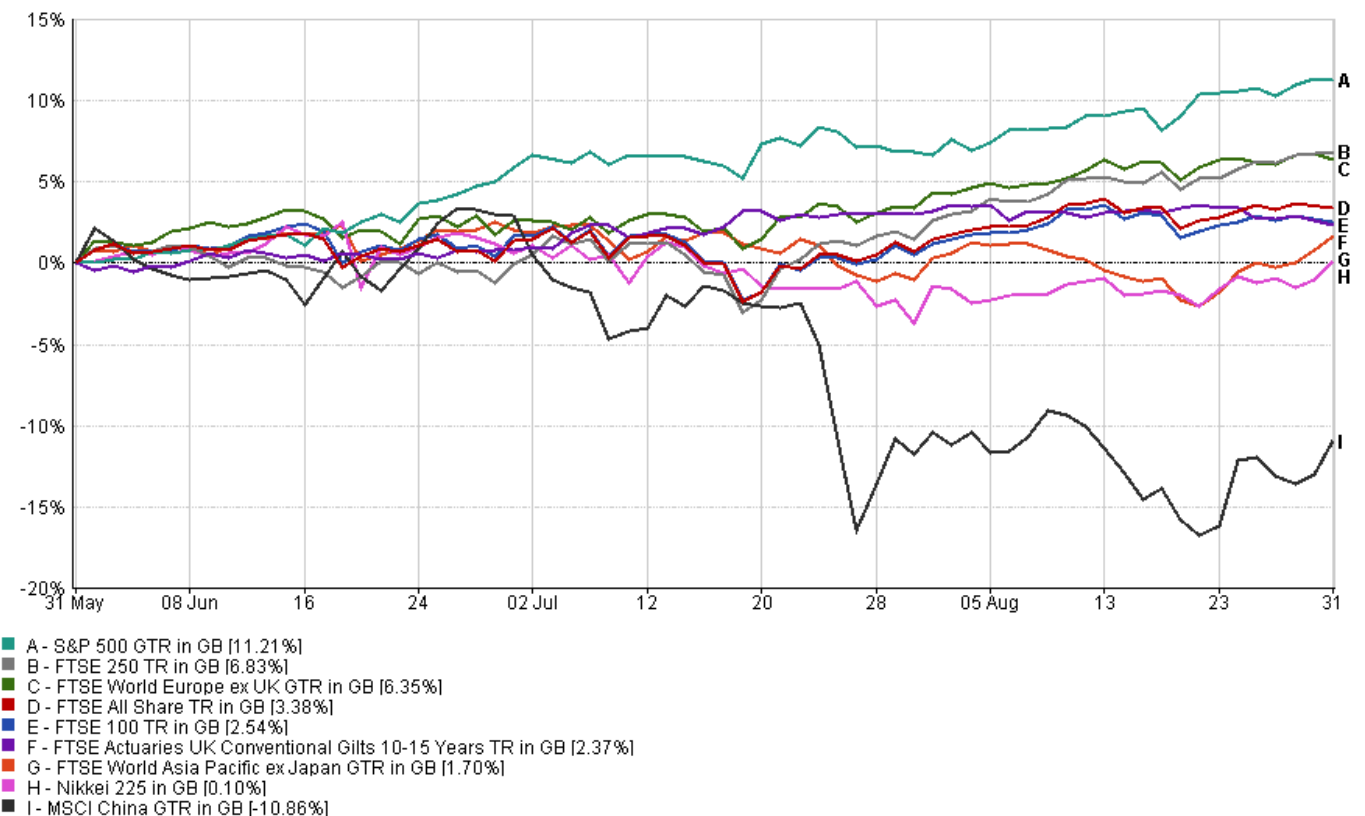
Despite this well received news, there still remain worries over the strength of the global economic recovery. China, one of the key drivers of global growth, has seen manufacturing data weaken and non-manufacturing statistics show that this part of the economy contracted over July. The rise in cases of the Delta variant in China and the renewed restrictions to contain this next wave of the virus has led to the Chinese economy slowing. Japan, New Zealand and Australia have also introduced strict lockdowns impacting on economic growth. Investor sentiment in the region has deteriorated and the Chinese stock market has also suffered as the Chinese authorities toughened data privacy rules and placed restrictions on the number of hours children can play online games. As a result, the values of technology company shares have been adversely affected, in particular.

ONE MONTH INVESTMENT MARKET STERLING TOTAL RETURNS



30/07/2021 - 31/08/2021 Data from FE fundinfo2021

THREE MONTHS INVESTMENT MARKET STERLING TOTAL RETURNS



31/05/2021 - 31/08/2021 Data from FE fundinfo2021

As has already been seen over the last few months, when investors start to worry about economic growth prospects, tighter monetary policy and further waves of the Covid-19 pandemic, they look to invest in safe haven assets such as the US dollar, government bonds, high quality corporate bonds and gold - whilst selling stocks such as commodities and airlines, which are linked to the strength of economic growth. As bond yields decline, shares of growth companies tend to increase as future earnings are valued at higher levels. US technology companies have performed well in the recent past as a result.

British business confidence is at a four-year high. As the Covid-19 vaccination programme progresses and lockdown restrictions lifted, the domestic economy has gradually been able to open more fully. The economy grew by 4.8% in the second quarter of 2021. A record number of UK companies are planning to increase salaries. The UK unemployment rate has fallen to 4.2% but the end of the furlough scheme may see that increase. The 'FTSE UK 250 Index' (UK medium sized companies) has made a strong return over the past year as confidence has increased and the number of takeovers has risen, as UK companies continue to offer good value to international investors.



European equity markets have continued to perform well over the year, but consumer confidence has fallen. The manufacturing sector is under some stress due to raw materials being in short supply, coupled with rising costs and transportation problems. There is also uncertainty surrounding the possibility of new restrictions if Covid-19 cases begin to rise. The European Central Bank (ECB) still remains confident that the eurozone will achieve economic growth of 4.6% for the year. There has been a strong rebound in the economic growth in Italy and Spain as tourism has increased. Inflation remains above target at 3% pa fuelled by shortages and rising energy costs.



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

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OUR VIEW

As discussed in the last commentary, markets cannot seem to decide whether economic growth will continue to rebound, or whether further waves of Covid-19 will dampen economic activity - as restrictions are renewed to control the virus. A vaccination programme which is global-reaching would help to allay these fears, as will further understanding of the virus and its variants. Currently, with the Fed seemingly continuing its support of the US/global economy in the near term markets seem happy, as evidenced by the high levels being reached in equity markets. Strength of company earnings and problems in the Chinese economy - which may normally have driven the direction of equity markets - seem to have been side-lined in recent days by the actions of the Fed.

The end of the usually erratic summer holiday period is likely to return direction to markets. Globally, ample capital is chasing investment opportunities and any company whose share price provides an acquirer with a 'bargain' is fair game. With UK share prices continuing to lag comparable shares in other developed markets, corporate activity is set to continue which should drive domestic share prices upwards. The alternative is that UK companies benefit from fundamental re-appraisal to the degree that they trade at fair value.

An under-appreciated domestic market is unhelpful to domestic investors, who tend to hold overweight positions when weighted according to market capitalisation. We have continued to increase overseas exposures in response, as investors cannot wait indefinitely for the UK market to find a proper level. Conversely, most of our clients still hold sufficient domestic exposure to benefit handsomely from a re-appraisal of UK equities when that moment comes. Dividend increases are certainly on the way, with the market already paying more in dividends than before the Covid 19 pandemic. Robust economic growth and an exceptionally strong employment market are all positives.

US equity valuations are again a concern but the US equity market is so large that generalisations are dangerous. Undoubtedly, the share prices of individual mega-cap stocks have significant influence in movements of the Standard and Poor's 500 Index. That the valuations of some of those mega-caps (and other stocks) are challenging is without doubt. Nevertheless,

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OUR VIEW continued

there will always be pockets of value in such a large market and it is up to active fund managers to find them. A chastened, over-ambitiously valued US market would affect all major markets but only over the shorter term. Fundamentals would reassert themselves following inevitable re-appraisal in the wake of a less exuberant period.

The US economy continues to recover strongly, even if the rate of recovery has slowed. The vast expenditure and investment plans of the new administration will support growth. The eurozone economies remain patchy in terms of performance but the ECB remains accommodative of recovery, despite a recent spike in inflation. It seems there is consensus amongst central banks that a little post-pandemic inflation is preferable to the risk of recession. Continued quantitative easing is supportive of asset prices.



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