CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY

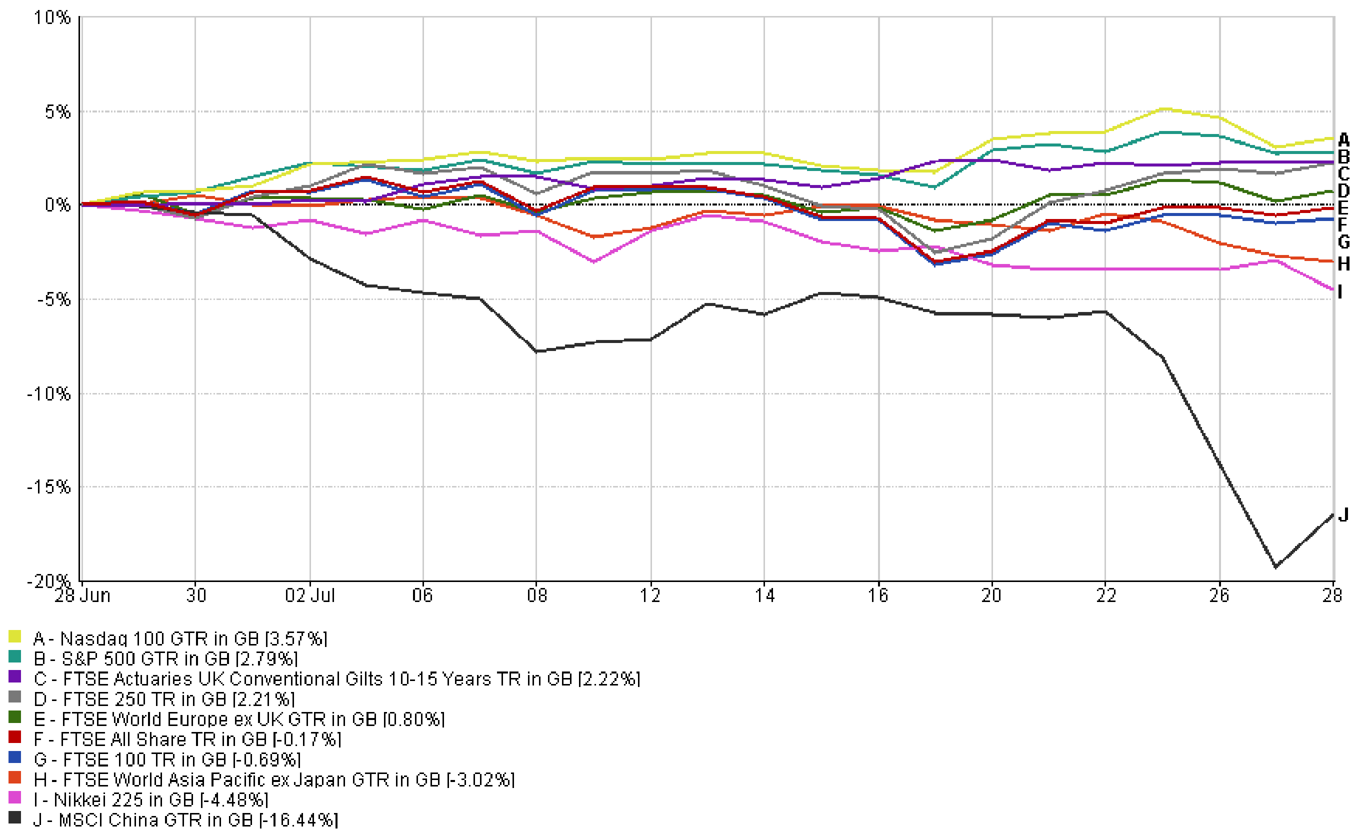
28 JULY 2021

OVERVIEW

Markets have been oscillating recently between concerns about increasing Covid-19 rates and optimism arising from strong second quarter company results. The US equity market reached another record high. However, fears overs escalating regulatory pressures on Chinese technology and private tutoring companies have seen their shares tumble in value. This volatility is likely to continue in the short term due to uncertainty surrounding future economic growth and inflation levels. The thin trading normally seen throughout the summer also accentuates market moves as investor sentiment changes.

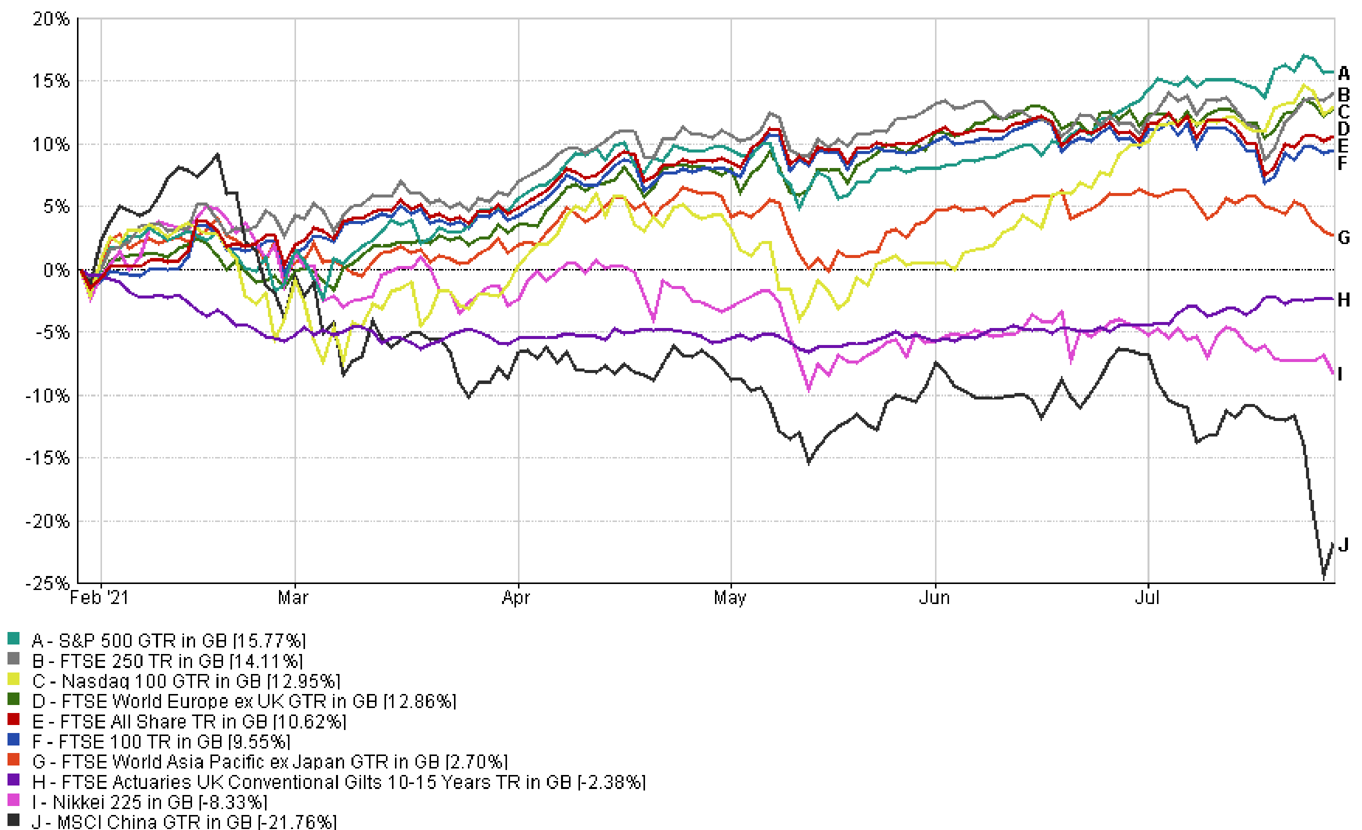
Covid-19 infection and hospitalisation rates are increasing rapidly across the US in part due to a slow-down in the uptake of vaccines. In Europe, more stringent travel restrictions have been imposed to try to control the spread of the highly transmissible delta variant. The Asia Pacific region including Australia, is fighting a new wave of Covid infections against a background of modest vaccination rates. Any increase in/reintroduction of Covid-related restrictions could hold back the strong economic growth which markets were anticipating when vaccine programmes were being rolled out at the start of the year.

ONE MONTH INVESTMENT MARKET STERLING TOTAL RETURNS



28/06/2021 - 28/07/2021 Data from FE fundinfo2021

SIX MONTHS INVESTMENT MARKET STERLING TOTAL RETURNS



28/01/2021 - 28/07/2021 Data from FE fundinfo2021

The broadening regulatory crackdown by the Chinese authorities has seen the Hong Kong stockmarket tumble. Financial and technology companies have already been reined in but the latest action in banning academic tuition groups from making profits, raising capital or going public has rattled investors further. It seems that perhaps no sector will escape more stringent oversight in the authorities' quest for central control of data and financial stability. Western governments have belatedly discovered that economic engagement and political rapprochement with China has so far failed to encourage the political and human rights reforms anticipated.

The worries about economic growth have led to a recent improvement in the bond markets – yields have fallen. Yields had risen earlier in the year as inflation rates around the world climbed when economies emerged from Covid-19 restrictions. Inflation expectations have dipped marginally, with investors perhaps now worrying about stagflation i.e. high inflation and low levels of economic growth. With this uncertainty about the strength of economic growth, central banks are not expected to raise interest rates any time soon and are likely to tolerate above target levels of inflation. Central banks still expect elevated rates of inflation to be transitory due to supply chain bottlenecks gradually reducing as the pandemic abates over time. At its latest meeting, the European Central Bank (ECB) committed to keeping interest rates at historic lows and to maintaining its bond purchase programme. At its July meeting, the US Federal Reserve (Fed) commented that it had made "progress" towards its objectives of full employment and 2% average inflation. Although not altering its monetary policy at this stage, the statement indicates that changes may be considered later in 2021 or early in 2022 if "progress" is maintained.

The prospect of interest rates remaining low in the immediate future and economic growth levels less robust than anticipated have seen growth sectors, such as technology and healthcare, move back into favour with investors. Returns from companies in sectors which are more economically sensitive/cyclical have moderated after strong gains earlier in the year. This rotation is reflected over the past few months in the relative performance of the S&P 500, which has significant exposure to the mega-tech companies and the more cyclically exposed FTSE All Share index. Investors have sought strong future income streams of 'growth' companies in uncertain times.

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

Readers may recall we expressed particularly bullish views in last month's commentary – thereby making it near certain that market outcomes over the very short term would be less encouraging. Such is the hazard inherent in expressing strong views, but fortune ultimately favours the brave.

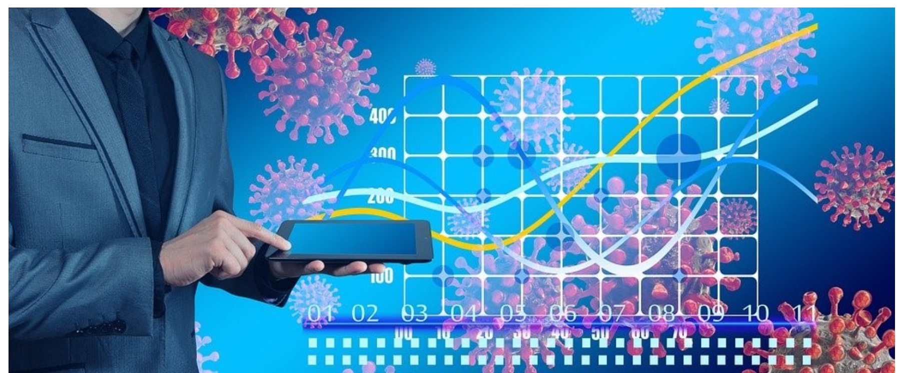
Our optimistic shorter/medium term view is unchanged. The IMF has trimmed its global growth forecast back to 6% for 2021, against a much lower normal trend growth rate. In other words, a global economy growing at 6% p.a. is recovering robustly. US/UK progress with vaccination programmes, combined with their greater contraction at the height of the pandemic than other G7 economies, has resulted in the IMF expecting a UK/US tie for the accolade of fastest growing developed economy in 2021. An additional factor is that US support for businesses during the pandemic has been greater than that in any other economy, with the UK second in the same category of support. More generally, corporate earnings continue to improve across the developed economies with surprises largely on the upside.

Our portfolios are structured to combine a mix of asset classes and a blend of funds to provide opportunities for capital growth and/or income as well as some protection on the downside. We have no direct exposure to Chinese equity funds although our Asia Pacific and emerging markets equity funds have Chinese holdings. In turn these funds are diversified too.

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

OUR VIEW continued

As predicted, there is now ample evidence of quantitative easing fuelling asset prices, to the extent experts are now openly questioning the extent to which benefits have flowed into the 'real' economy globally. As the US/UK nowadays have strong, well-capitalised banking systems and with the nature of government aid programmes to companies, it seems utterly inconceivable that very real stimulus is not finding its way into the 'real' economy. This may not be true of the EU's stimulus package to the same degree, as in general terms, the European banking system remains weakened by the global financial crisis a decade ago. Continuing political uncertainties in Germany exacerbated by recent flood damage and criticism of under-investment in national infrastructure are not helping sentiment. However, investors are buying company shares, not shares in the ECB nor national treasuries. Major European companies appear to be trading well with strong earnings reports emerging for the most recent quarter. Germany will undoubtedly cure itself with whatever medicine may be needed.



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