



CARTLIDGE MORLAND

INDIVIDUAL WEALTH MANAGEMENT

INVESTMENT COMMENTARY



30 SEPTEMBER 2021

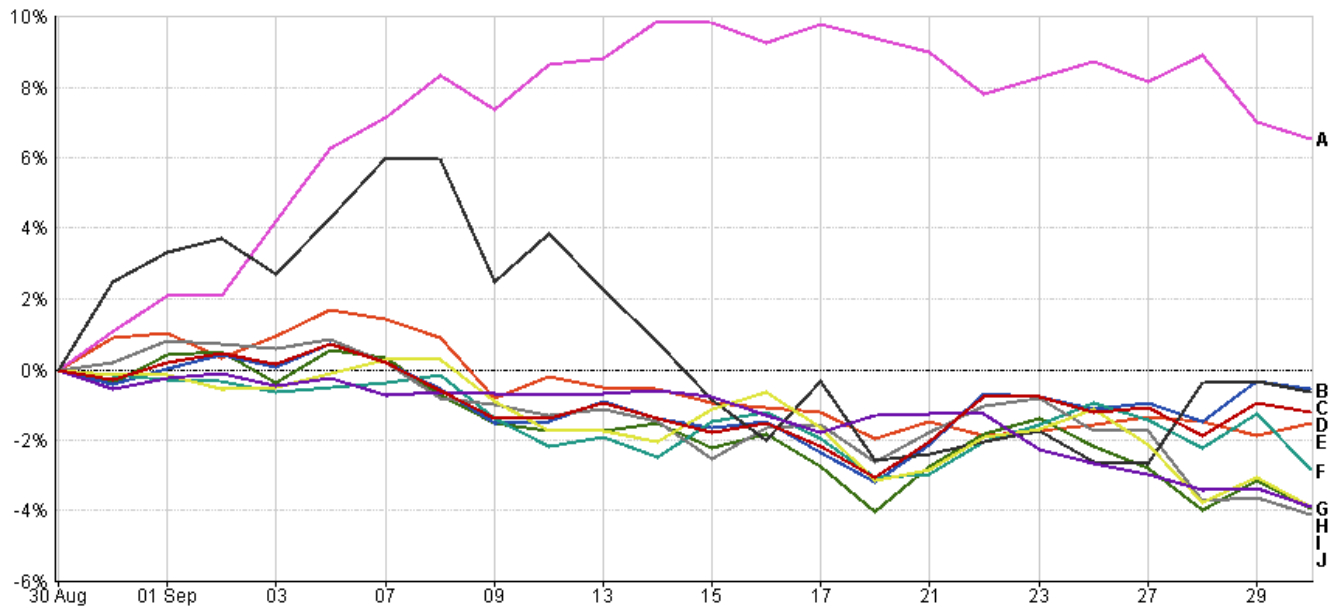
OVERVIEW

With the exception of Japan, investment market returns have been lacklustre over the past month. Inflation expectations have risen against a backdrop of news indicating that price pressures are coming from various parts of the economy. In the UK there have been fuel distribution problems culminating in long queues for petrol, energy bills have soared across Europe, the oil price has increased to around \$80 per barrel and there have been power shortages in China. Investors are worried that the major Central Banks will start to tighten monetary policy as a consequence, with asset purchase programmes being tapered and interest rates increasing. The possible debt default by the world's most indebted property company, Evergrande, and the requirement to raise the US debt ceiling added to more cautious sentiment.



The US Federal Reserve (Fed) did not change its monetary policy stance at its September meeting although signalled that an announcement of phasing out its stimulus measures would take place in November due to the strength of the US economy with the measures likely to be withdrawn completely by the second half of 2022. It now seems that the Fed expects its main interest rate to increase next year. The markets had been largely expecting these moves so originally they were relatively calm in the aftermath of the meeting. However, the Fed Chair, Jay Powell, commented subsequently that higher inflation may persist due to “frustrating” supply chain bottlenecks so contradicting previous comments on the transitory nature of the current elevated level of inflation. The Bank of England’s Monetary Policy Committee also appeared more hawkish with the expectation of “modest” monetary policy tightening to ensure that its inflation target is met in the medium term. The UK economy is expected to have the highest rate of inflation in the advanced economies by the end of 2022 - at 3%. The Bank of Japan (BoJ) also left its monetary policy unchanged at its September meeting against a background of limited price pressures and some improvement in economic activity – exports and industrial production both increased. It would appear that the BoJ is not likely to begin to tighten its monetary policy whilst the impact of the pandemic remains uncertain and the inflation outlook is weaker than in other G7 economies. The European Central Bank (ECB) appears not to be moving towards tightening monetary policy further following the slowing of its bond purchase programme. Its President, Christine Lagarde, has promised to not “overreact to transitory supply shocks” which are fuelling inflation. However, with eurozone inflation now running at 3.4% pa (a thirteen-year high), there may be pressure on the ECB to act to contain it.

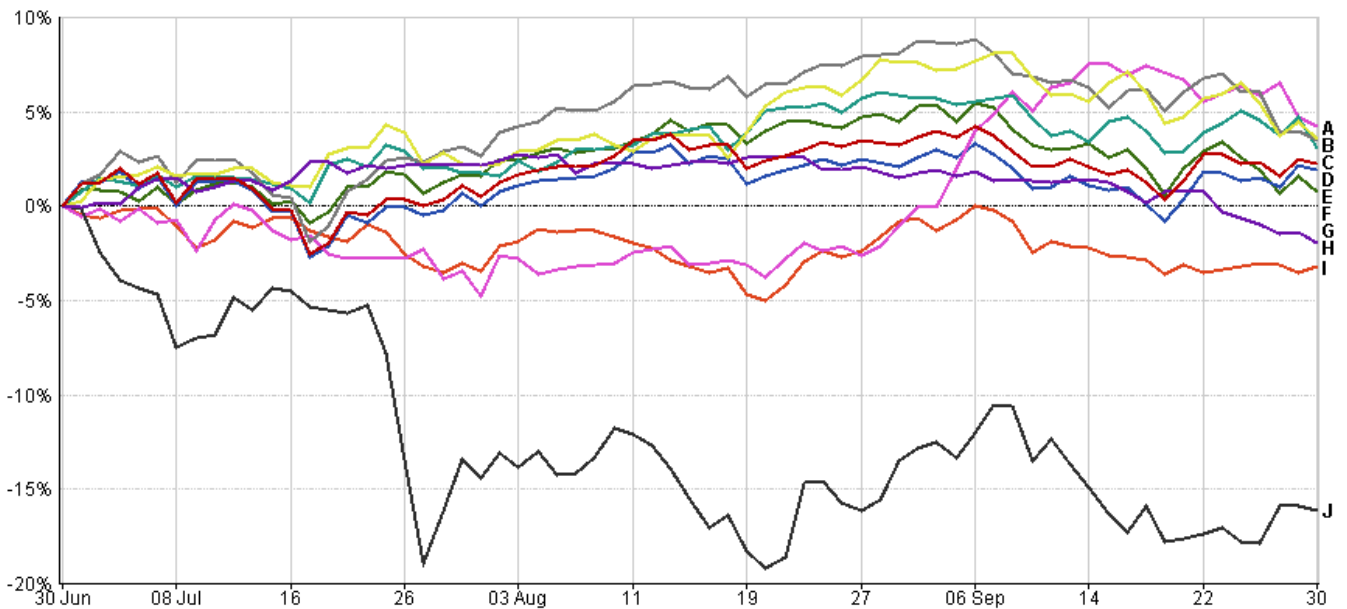
ONE MONTH INVESTMENT MARKET STERLING TOTAL RETURNS



- A - Nikkei 225 in GB [6.52%]
- B - FTSE 100 TR in GB [-0.56%]
- C - MSCI China GTR in GB [-0.63%]
- D - FTSE All Share TR in GB [-1.23%]
- E - FTSE World Asia Pacific ex Japan GTR in GB [-1.52%]
- F - S&P 500 GTR in GB [-2.83%]
- G - Nasdaq 100 GTR in GB [-3.90%]
- H - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [-3.91%]
- I - FTSE World Europe ex UK GTR in GB [-3.91%]
- J - FTSE 250 TR in GB [-4.10%]

30/08/2021 - 30/09/2021 Data from FE fundinfo2021

THREE MONTHS INVESTMENT MARKET STERLING TOTAL RETURNS



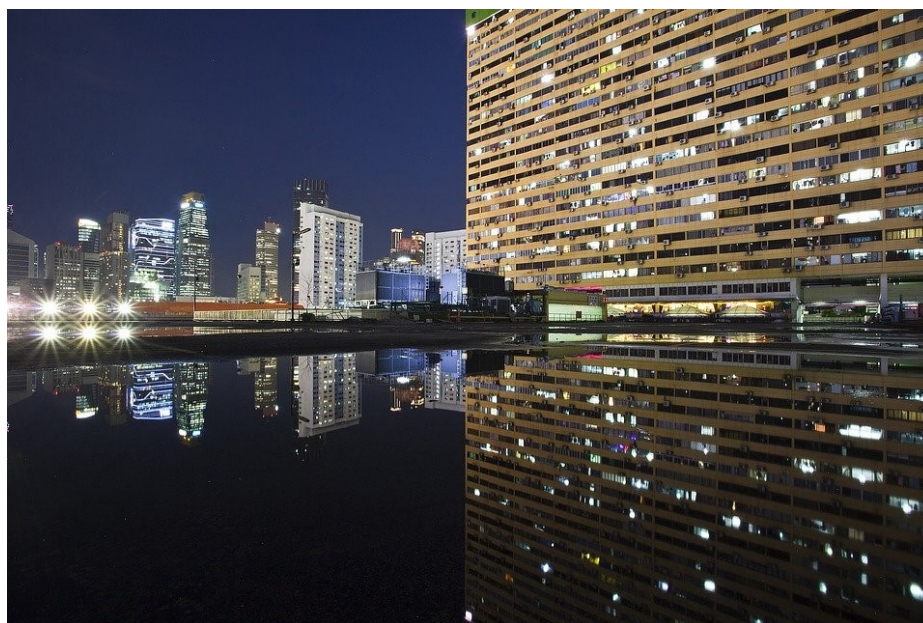
- A - Nikkei 225 in GB [4.26%]
- B - Nasdaq 100 GTR in GB [3.58%]
- C - FTSE 250 TR in GB [3.49%]
- D - S&P 500 GTR in GB [3.05%]
- E - FTSE All Share TR in GB [2.23%]
- F - FTSE 100 TR in GB [1.96%]
- G - FTSE World Europe ex UK GTR in GB [0.76%]
- H - FTSE Actuaries UK Conventional Gilts 10-15 Years TR in GB [-1.93%]
- I - FTSE World Asia Pacific ex Japan GTR in GB [-3.15%]
- J - MSCI China GTR in GB [-16.12%]

30/06/2021 - 30/09/2021 Data from FE fundinfo2021

There is concern that higher inflation will be not be accompanied by greater economic growth ie stagflation. The tightness of global supply, labour shortages together with the continuing pandemic is currently resulting in slower economic growth than anticipated which is reflected in recent Chinese manufacturing figures and economic surveys in the US, UK and Europe. However, it may just be that economic growth, which was expected to be extremely strong as economies reopened and expanded after pandemic-related restrictions were lifted, will be spread over the next few quarters as markets adjust to supply and demand requirements.

Once more the US seemed set to breach its debt ceiling which is embedded in law. Congress has to pass legislation to increase it. If the US were to default on its debt, that would lead to turmoil in financial markets and the global economy. A funding bill has been signed by President Biden which will keep the US Government open until 3 December 2021, but in the interim the Democrats and Republicans still need to agree on legislation to raise it. If not, then uncertainty will again increase as the deadline approaches – although such precipices have been approached on several previous occasions. Ultimately, Congress will vote to ‘keep the show on the road’ as the alternative is unthinkable.

Markets had been unsettled by fears Evergrande, the massive Chinese property developer, would default on its bonds, as concerns about a weakening Chinese property market could spread to the global financial system. The company did fail to meet its recent interest payments and is now in 30-day periods of grace before formal defaults are declared. However, there seems to be an expectation that the Chinese Government will initiate a restructuring of the company rather than let it collapse which has calmed nerves although the position remains uncertain.



Over the past nine years, Japan has expanded due to Abenomics with millions of jobs created, capital expenditure boosted and profits rising. The equity market has trebled in value in the past decade. In contrast to other major equity markets, the Japanese equity market performed well in September. Investor sentiment has been buoyed by Fumio Kishida becoming Prime Minister. He is thought to be market-friendly and will continue to follow Abenomics. Japan is now seeing a fall in Covid-19 cases and increasing levels of vaccinations after initial poor handling of the pandemic. This augurs well for the economy with earnings starting to improve. There also remains the prospect of further monetary and fiscal support of the economy although a general election is due later in the year. Japanese sentiment tends not to be as closely correlated with that in other major markets.



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

The prospect of rising inflation and lower than expected economic growth is not beneficial for equity markets - as we have seen in the past month. Monetary tightening is not going to help economies in recovery/expansionary phases. The major central banks were only recently talking about the transitory nature of these elevated rates of inflation. It may well be that this is the case and that inflation levels fall back next year as the global economy adjusts and continues its recovery from the effects of the Covid-19 pandemic as vaccination levels increase.

Investment markets never react well to uncertainty and therefore it is necessary to ensure that portfolios are fully diversified between asset classes and geographic regions. Within those regional allocations, we maintain a mix of funds investing in different parts of markets and following varied investment strategies. Portfolios are structured for the long term within specified risk parameters. It is impossible to time the markets, so it is important to remain invested to gain exposure to market upturns as and when they occur. Taking profits whilst they are there is also a consideration, particularly for those drawing income from their portfolios, as they can easily vanish.

In overall terms we remain 'bullish' on equities and more cautious with regard to bonds. To raise interest rates, the central banks need to rein in their bond purchases thereby allowing market forces to reassert their influence in the bond markets. The resultant fall in bond prices will result in higher bond yields and hence interest rates too. For those holding bonds this will mean some reversal in bloated capital values but it will improve income yields and provide a more viable asset class for realised equity gains.

The central banks continue to approach reduction in asset purchases and a rise in interest rates (to curb inflation) with considerable caution. We are anticipating modest increases in interest rates from extraordinarily low levels next year - not a return to the days of phased series of 0.50% or even 1.00% rate rises. Whilst this will soften the blow to bond markets they will have to be hit, to allow rates to rise.

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

OUR VIEW continued

The real assets represented by equities provide a better hedge against inflation than bonds which generally present fixed capital and income. The global economy is expected to produce growth at a level well in excess of normal trend next year and against that background companies (and their shares) should perform well.

The supply side problems currently being experienced and associated inflation - especially in the developed economies - was predictable and indeed we anticipated it in earlier editions of this bulletin. It is an inevitable consequence of sharp recovery from an extraordinary period of recession and capacity reduction. Re-establishing capacity to match the inevitable surge in demand would prove challenging and was always likely to interrupt the pace of recovery, once it started. What we are now living amidst may seem unbelievable and most of all disappointing, after the euphoria of emergence from lockdown. It is simply a phase that has to be endured as supply chains recalibrate to meet 'normal' levels of demand. Economic growth will still progress during this phase - and at an accelerated pace once supply side dynamics improve. The central banks being able to take any step from desperate emergency measures to normality will be welcomed by markets ultimately, even though never convenient.



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