MARKET UPDATE

August 2021

WORRIES OVER PEAK EVERYTHING

July saw investors fretting about 'peak everything'. The super strong rates of growth after the sharpest post-war recession were bound to slow, whilst further waves of Covid-19 and uneven global vaccination progress threatened both confidence and re-opening. Equity investors moved away from so-called 'reflation' trades – assets which do better in periods of faster economic expansion. Despite the angst and a mid-month sell-off, global equities (with the exception of China) ended July just shy of yet another all-time high. Bond yields fell throughout July as investors shrugged-off yet another large US inflation print with June CPI coming in at 5.4%, well above expectations. Future inflation will largely depend on the outcome of wage negotiations, and that in turn will be determined by a countless number of individual decisions. The pandemic has changed perceptions and behaviours in such a way that it makes any future predictions hazardous. While inflation is still a concern, our commodity exposure is benefiting. Unsurprisingly, credit based fixed income was supported by the robust bond and equity markets, with Euro and US investment grade issues doing particularly well.

LIQUIDITY TAPS STAY ON

It seems 'bad news is good news' again and is keeping the central bank liquidity taps on. Although the US Federal Reserve is now talking about reducing stimulus, other central banks remain extremely accommodating. The European Central Bank has committed itself to stimulus as far as the eye can see, and even the more orthodox Chinese Central Bank has signalled an end to tightening. On top of fresh Covid-19 outbreaks, Beijing gave investors a re-education in political risk this month as the ongoing regulatory crackdown moved from tech to tuition stocks and went on to rattle Chinese and Asian stocks more broadly. The slowdown anticipated in China over the next 6-12 months is best viewed as a return to normality following a period of above-trend output. China has quite an extreme demographic case but so does a lot of developed Asia. The crackdown on education costs could be seen to lessen the financial burden of having children as the latest census suggests the Chinese are aging faster than even the UN estimates. Capital Economics is expecting 4.5% growth from China. This has halved over the last decade, coinciding with a leadership shift to a more centralised state-led economy, so lower productivity. Beijing wants to retain control, as can be seen on the crackdowns on Ant and Tencent that have changed rules on online gaming after a state newspaper article. Alibaba used to push the limits, but we appear to be in a new era of having to do what they are told.

EUROPE LOOKING BRIGHTER

Things are looking better for Europe as a smooth vaccine roll-out allows governments to lift lock down measures. The region is now taking the lead in the recovery from the Covid crisis from the US with business activity across the region expanding at its fastest rate in 21 years and mobility indicators having already returned to pre-Covid levels. At the same time, European stocks should also benefit from an expected upward move in real bond yields. That's because European equity indices contain a greater proportion of value stocks, such as financials, which tend to outperform when real rates rise. The European Commission this month also announced a package of proposals ("Fit for 55%") designed to help the bloc meet its goal of cutting harmful emissions by 55% by 2030, as an interim step to reaching net zero by 2050. The initiative includes a proposed carbon border tax, expansion of the Emissions Trading System, increased use of renewable energy, fuel taxes, and faster roll-out of low emission transport modes.

SUPER HUMANS IN JAPAN

Waking up to morning news of medals for team GB in the Tokyo "2020" Olympics was a welcome respite after the trials and tribulations of the pandemic. It was sad to see such superhuman feats in empty stadia as a state of emergency was re-imposed due to rising Covid levels in Tokyo and spectators banned. This is still likely to be the case for the upcoming Paralympics where we look forward to more success and heart-warming stories.

SOCIAL IMPACT MODEL

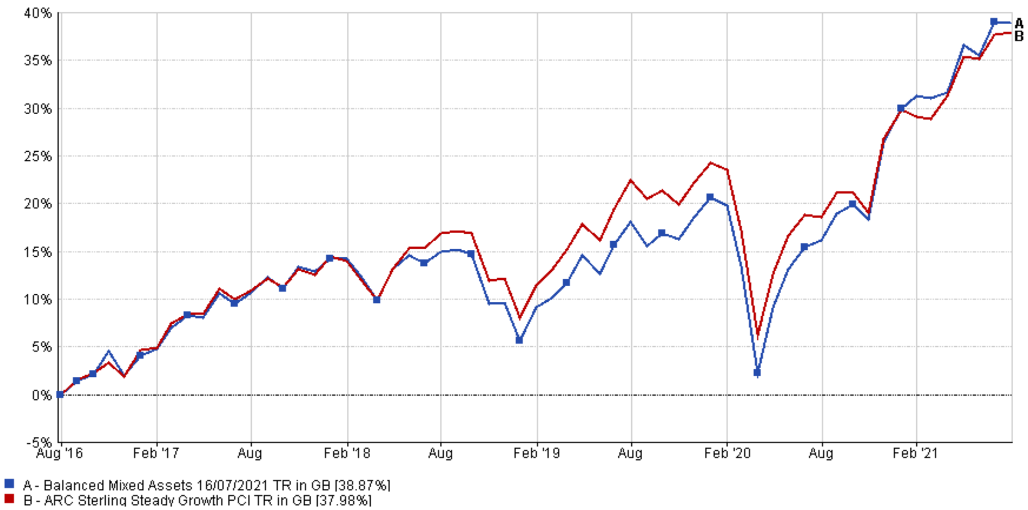
5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

*5 Years to 30/6/2021 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL



FOCUSED GROWTH MIXED ASSETS MODEL

Total Return figures take into account normal dealing costs but not Adviser fees. Source: FE Analytics – Total Return.

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