MARKET UPDATE

May 2021

Just four months into 2021 and we have seen double digit gains from some equity markets, leading some to think about the old phrase, "sell in May and go away". The rotation trade from growth to value we have written about previously took a breather in April, with the market switching back to its former favourite in growth. Looking beyond the styles that the equity market holds in vogue, nothing goes up in a straight line and equities may pause for breath as they digest potentially higher inflation data and the changing Covid headlines.

RAPID RESTART AFTER COVID

The Covid shock to the economy is more akin to a natural disaster which is followed by a rapid 'restart' – instead of a traditional business cycle recession followed by a 'recovery.' That implies a huge near-term growth spurt where expectations for spectacular economic growth turn from forecast to fact. This near-term impact means all eyes are on the degree to which inflationary pressures are as transitory as central bankers are flagging. We still believe central banks will happily see inflation above target before resorting to interest rate hikes. Indeed, a chart from JP Morgan expects interest rates in the UK not to reach 1% until 2026. In an environment with higher inflation and low interest rates, market participants are pushed to risk assets to try to maintain a real return.

PROTECTION AGAINST EQUITY PULLBACKS

Our multi-asset approach, which positions for multiple potential futures, should be able to deal with any budding volatility which may be in the pipeline. In the face of such a rapid recovery, we have "buffer" investments in the portfolios to help project against any pullbacks. Property remains attractively valued and will continue to benefit as the economy reopens, and is a reasonably reliable hedge against any build up in inflation. Quality, well-let, long-income, long-life, energy efficient sustainable properties are becoming the buzzwords for outperformance. We are now even asking our property managers about physical location risks to properties as a result of climate change.

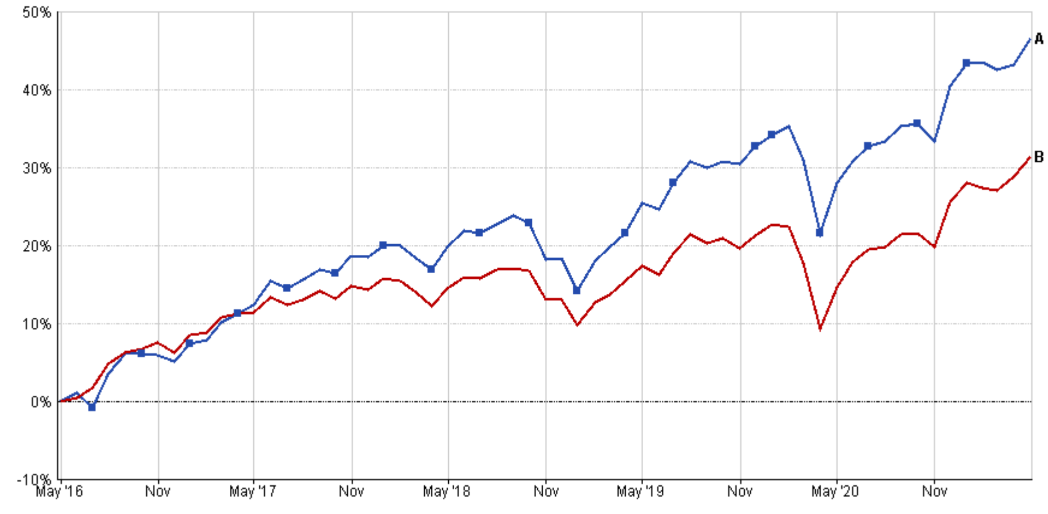
TRANSITION TO NET ZERO

Every April we see Earth day celebrated. The roots are in the US but it became an international campaign in 1990. The mission is to diversify, educate and activate the environmental movement worldwide. The 2021 event was marked by US President Biden virtually hosting 40 world leaders and he stole the show with a pledge to cut greenhouse gas emissions by up to 52% by 2030, a doubling of the previous target. This is a promising kickstart to a crucial year of global diplomacy culminating in COP26 - a UN climate summit - in November. China, the world's largest polluter, has promised enhanced cooperation but still has a 2060 target for net zero, ten years later than many others have pledged. However, China's premier, Xi Jinping, has stated that China's coal consumption would peak in 2025. This indicates that climate policy is one area where economic rivals can find common ground and policymakers will be the key driver of change, providing both incentives to encourage investment in research and development and also measures such as carbon pricing schemes.

The transition to a net-zero emissions world will have an enormous but uneven impact across economic sectors. Our fund managers are busy understanding how the wave of policy changes ahead will impact cash flows and valuations. They see opportunities and risks in different sectors: for industries such as logistics, it is expected that the strong will only get stronger, while in other areas such as energy, major technological breakthroughs will still be required in areas such as biofuels or hydrogen. Companies that can achieve climate-based technology solutions look set to be the biggest beneficiaries of new environmental initiatives ahead.

Now that an estimated 70% of adults in the UK now have antibodies against the coronavirus, the UK should be on a sustainable path to reopening and we hope you enjoy the new freedoms.

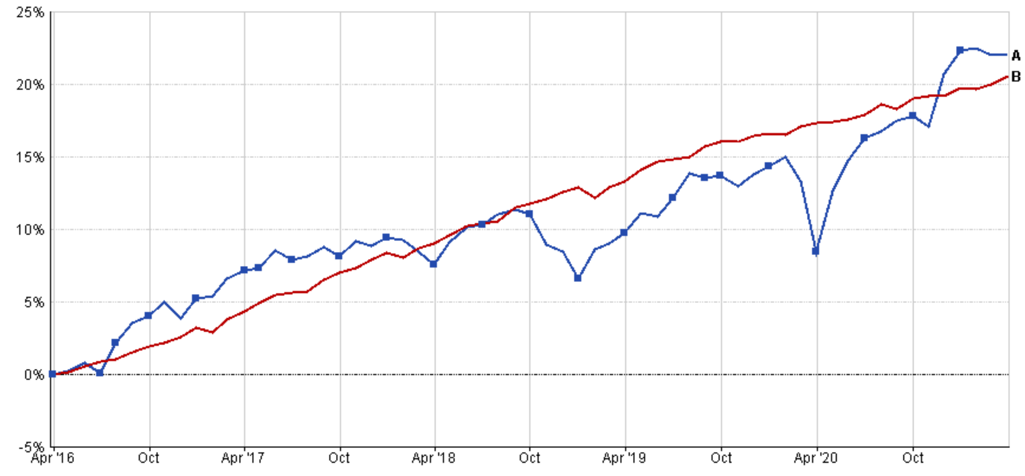
SOCIAL IMPACT MODEL



A - Social Impact Portfolio 22/01/2021 TR in GB [46.57%]
B - ARC Sterling Balanced Asset PCI TR in GB [31.50%]

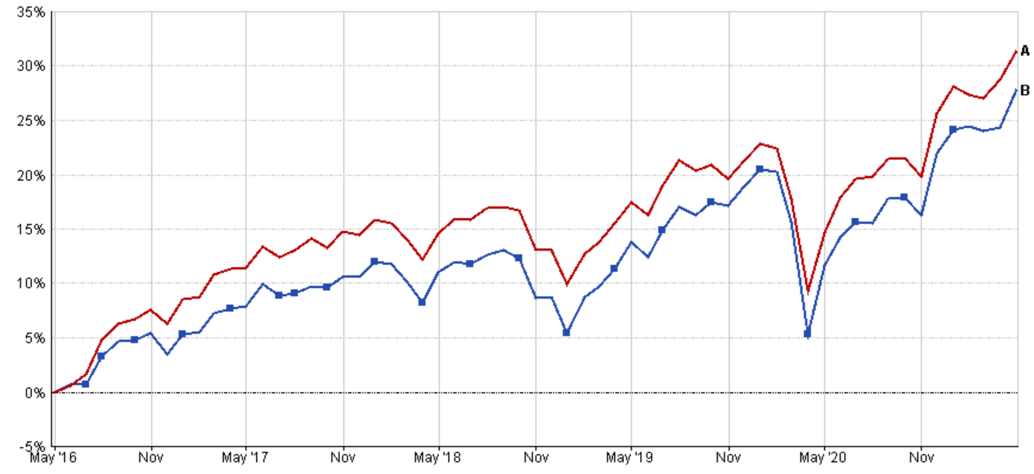
5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

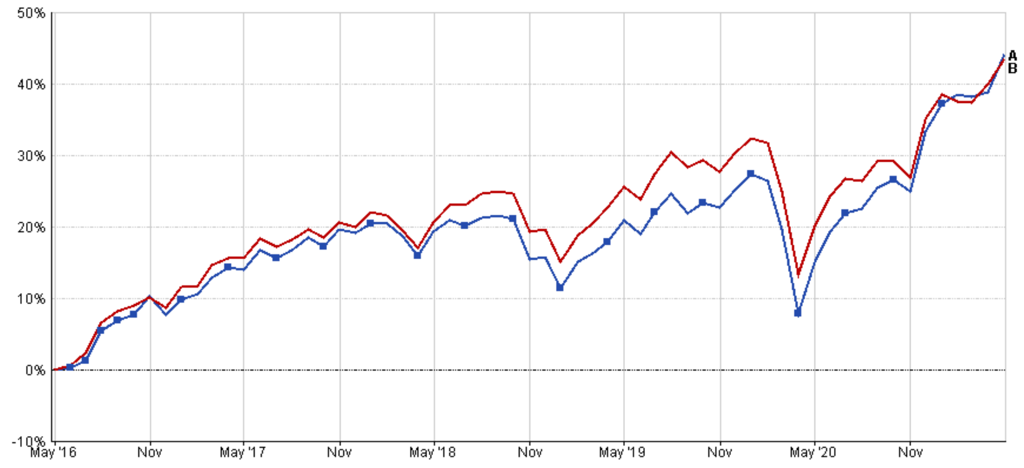


*5 Years to 31/03/2021 (last CPI point)

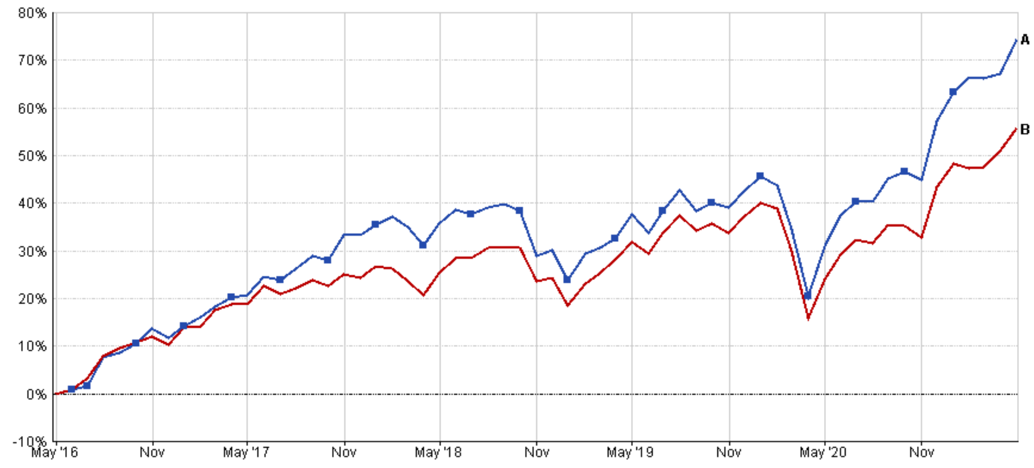
DEFENSIVE BALANCED MIXED ASSETS MODEL



BALANCED MIXED ASSETS MODEL



FOCUSED GROWTH MIXED ASSETS MODEL



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

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