MARKET UPDATE

November 2021

Equity markets, whilst generally positive, were mixed for the month of October. The US was towards the top of the pops making high single digit returns; a benefit to our overseas equity allocation, of which the US makes up over 60%. On the weaker side, Japan lagged other global markets with a fairly flat month, although this is in the context of a rather positive quarter which ended in September. Outside of equities, returns from fixed income markets were slightly negative whilst property both in its equity form, and in physical property form, eked out a positive return. As a result of these market gyrations, all model portfolios were positive for the month, with the thematic strategies of Global Horizons and Social Impact leading the way.

SUPPLY CHAIN ISSUES

As has been well documented in the press, upwards price pressures persist due to a multitude of different supply chain factors. We recently quizzed a maritime logistics and container ships expert on the matter who suggested between 5-10% of all maritime cargo ships were in the wrong place, whether that be off the cost of China for Covid related issues, or outside our very own Felixstowe port in Suffolk due to a lack of HGV drivers. The implications of this are clearly inflationary (because demand outstripping supply leads to prices rises), and most analysts and economists forecast this being an issue until at least the second half of 2022. There are, however, the beginnings of some green shoots that are showing some light at the end of the tunnel. In their most recent guidance, Qualcomm, the US semiconductor & software company, said they were having an easier time in finding supply to meet the demand.

WHAT'S MORE STRUCTURAL...

With all the talk of structural this, and supply chain that, every market commentator or investor is seemingly going from overnight epidemiologist during Covid to industrial expert! When we talk about structural shifts in inflation we are talking about the root causes for fundamental, long-term, change in the outlook for inflation. For some time now, we have held the view that the "D's" - Debt, Demographics and Data - represent a powerful deflationary force on the global economy, which will limit the likelihood of an inflation regime change. Whilst that may be our long held view, it is incumbent on us to challenge our thinking. A fly on the wall view of the conversations on the desk would include a lot of talk around the implications of the globe's changing mindset on environmental concerns, and it is becoming clearer that there is reason to believe this is inflationary. According to the IPCC report on climate change, instances of extreme weather are becoming not only more severe, but also more frequent. This has implications for the cost of insurance and the cost of building, but also we are requiring higher standards of production with lower emissions, and improved social considerations for employees. This all contributes to a potential upward force in prices.

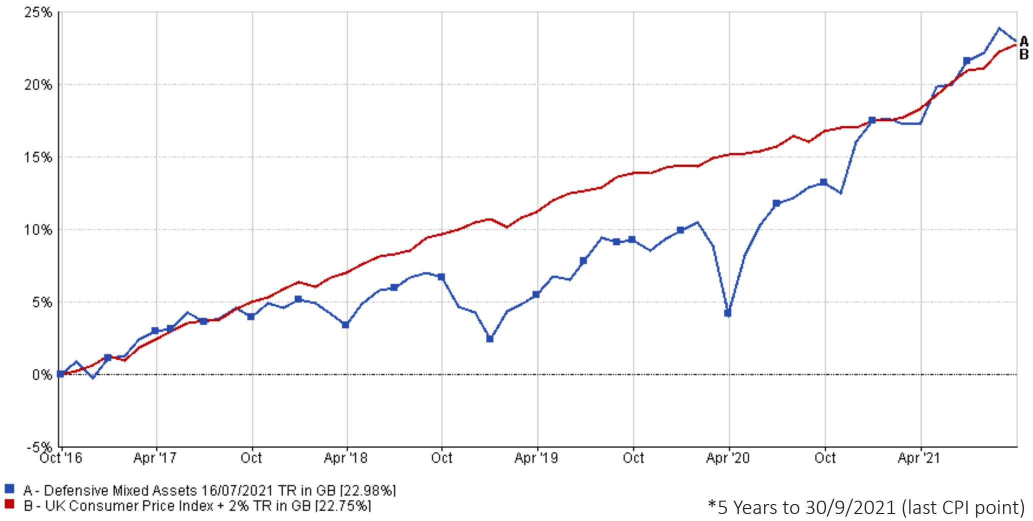
RATE HIKES?

At this point, we must admit to be writing our October update ever so slightly after the month end, but that does give us the benefit of covering the much-anticipated Bank of England interest rate rise. The only stumbling block to that line of commentary is that the rate hike hasn't occurred. The BoE have decided to keep the base rate unchanged; this does make us wonder if monetary policy has become a game of cleverly worded statements rather than actual decisions and implementation. Only two weeks ago, the implied probability (based on market prices of bonds) of a rate hike from the Bank of England was 100%. In other words, the bond market was adamant that it would occur. This is proof once again that predicting interest rate decisions is a fool's errand and building robust portfolios that can weather interest rate moves higher, lower or sideways, is a wise move regardless of your confidence level.

SOCIAL IMPACT MODEL

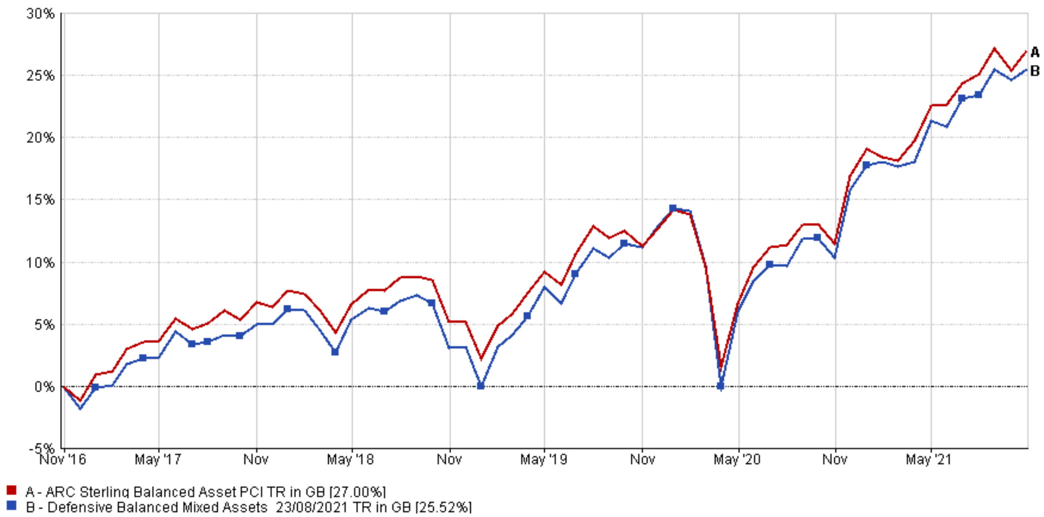
5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

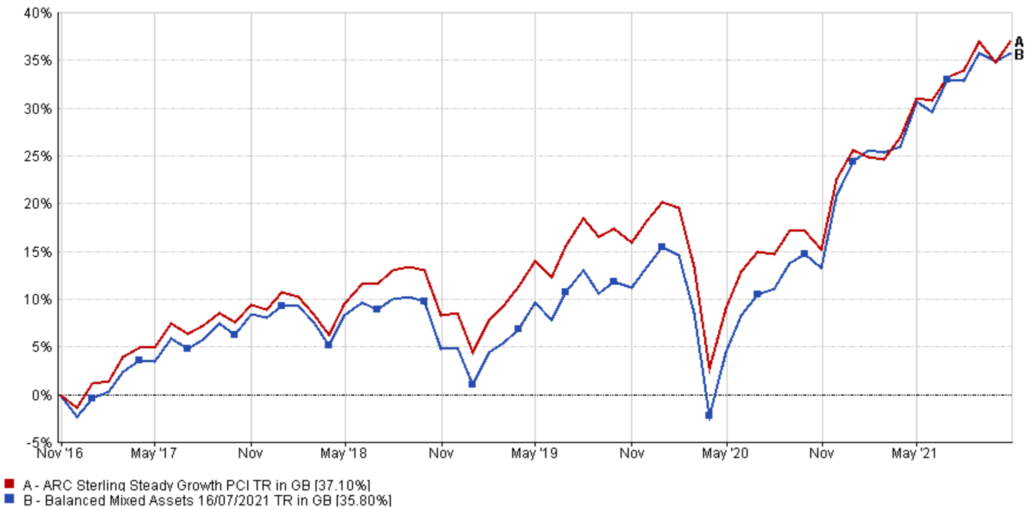


*5 Years to 30/9/2021 (last CPI point)

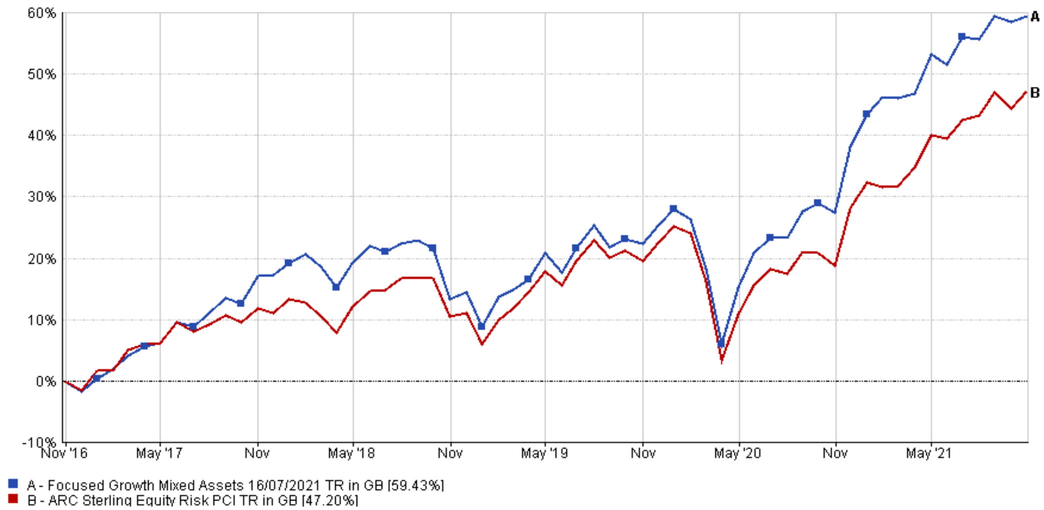
DEFENSIVE BALANCED MIXED ASSETS MODEL



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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