AMR Financial Market Review

Summer Report July 2021

AMR
FINANCIAL MANAGEMENT

Review – Equities & Bonds

Global equities continued their upbeat performance into January following Joe Biden's victory in the US Presidential elections, with the Democrats also gaining control of Congress. This was seen as smoothing the path of Biden's $1.9tn stimulus package and hence commodity and energy sectors rose, while US government bond prices fell as the market digested the likely issuance and possible inflationary pressures. Optimism on the roll-out of coronavirus vaccine programmes led to better performances by cyclical sectors throughout February, in addition good data showed the economic recovery gathering pace as economies reopened. Fourth quarter results from companies were generally well received. Bank of England chief economist Andy Haldane was upbeat on growth, noting that the UK economy was like a coiled spring, but warned that the "inflation tiger is prowling". Inflation data globally had begun to pick up, partly due to rate of change from the low levels reached during the depths of the coronavirus crisis, but also due to supply chain bottlenecks as production capacity reopened and various logistics issues in the shipping industry. Biden's stimulus package was passed by Congress in March, leading to increased inflationary concerns driven by the additional demand at a time when the US economy was already rebounding fast. Despite this, Jay Powell, chair of the US Federal Reserve, reiterated the central bank's accommodative stance and belief that the path of the recovery remained uncertain and patchy, with the economy still far below full employment. Rising coronavirus infections in Europe led to renewed restrictions and weaker European equity markets, and the UK Chancellor increased corporation taxes as he begun the process of paying for the coronavirus-related costs.

April began with a short but sharp setback in equity markets as the US hedge fund Archegos failed, leading to significant losses in holdings such as Baidu, Tencent and Discovery as positions were unwound, which spilled over into other sectors. The price of oil and other commodities rose strongly throughout the period, accelerating in April. First quarter results from the US Technology giants showed that the revenue growth they had enjoyed in 2020 showed little sign of abating, while results also revealed that many companies expected to pass input price increases onto consumers, giving further support to inflationary concerns which led to increased market volatility into May. Federal Reserve meeting minutes hinted that committee members were beginning to discuss tapering the bond buying programme, leading to rises in bond yields and corresponding falls in equities, in particular highly-rated Technology stocks. Conversely, Value-oriented stocks performed better. Despite the rise in bond yields, the 'spread' in yield between government securities and lower rated corporate bonds reached a seven-year low, as investors searched for yield. In June, inflation anxiety continued as data showed rapidly rising prices and improving wages. However, as base point effects were now waning it was considered likely that inflation rates would begin to moderate. Central banks globally repeated their view that inflation pressures were transitory and were not considering tightening monetary policy until the economic recovery meant that employment growth was well-entrenched. Nonetheless, some Fed members had begun to forecast interest rates rising earlier than originally expected, but despite this, equity markets pushed on to record highs, and bond markets recovered some of their modest first quarter losses.

Key Indicators

Equity Market Indices	*30/06/21*	*31/12/20*	*% change six months*	*30/06/20*	*% change one year*
UK – FTSE 100	7037.47	6460.52	+ 8.9	6225.77	+ 13.0
UK – FT ALL Share	4014.74	3673.63	+ 9.3	3438.93	+ 16.7
UK – FT Mid 250	22376.02	20488.30	+ 9.2	17198.66	+ 30.1
UK FT Small Cap	7341.47	6215.49	+ 18.1	5033.72	+ 45.8
USA – Dow Jones	34502.51	30606.48	+ 12.7	25812.88	+ 33.7
USA – S&P 500	4297.50	3756.07	+ 14.4	3100.29	+ 38.6
USA – Nasdaq	14554.80	12888.28	+ 12.9	10156.85	+ 43.3
Japan – Nikkei 225	28791.53	27444.17	+ 4.9	22288.14	+ 29.2
Europe – FT Europe ex UK	255.68	224.32	+ 14.0	200.41	+ 27.6
Asia – FT Asia Pacific ex Japan (£)	779.89	740.89	+ 5.3	633.26	+ 23.2
Emerging – FT Emerging (£)	723.53	683.05	+ 5.9	594.83	+ 21.6
Global – FT AW World (£)	509.28	461.91	+ 10.3	415.29	+ 22.6
Currencies					
£ / $	1.3810	1.3670	+ 1.0	1.2360	+ 11.7
£ / Euro	1.1650	1.1170	+ 4.3	1.1000	+ 5.9
£ / Yen	131.62	141.13	– 6.7	133.30	– 1.3

Sources: FE Analytics and Refinitiv, returns shown in local currency unless otherwise stated, income withdrawn.

It is important to remember that the value of investments and the income from them can fall as well as rise. Past performance is not necessarily a guide to future performance. Investors may not get back the amount invested.

Outlook

After the extraordinary circumstances of last year, the prospect of a return to relative normality facilitated by the work of scientists on vaccines has been welcomed by everyone, and this optimism has been reflected in a substantial economic and market rebound. The scale of the economic rebound has surpassed early expectations and it is therefore unsurprising that there are concerns over inflation given the stimulus that is already in place, together with the stimulus that is yet to be rolled out. It has been many years since developed economies have experienced a prolonged period of inflation, and thus a long time since central banks have had to respond with high interest rates, but it is widely accepted that early action is generally preferable to later action which may need to be more far-reaching. Why then are central banks maintaining this accommodative policy?

Firstly, they believe the inflation data is reflecting transitory factors relating to low 'base point effects', that is, the low levels commodities such as oil reached last year and, as such, these effects will inevitably become less pronounced. Secondly, production capacity has only gradually been brought on stream and supply shortages of key items such as microchips have led to price rises. It is expected that this supply and demand imbalance will abate as production rises. Thirdly, central banks believe that, despite sharp rises in employment, there remains significant 'slack' in the global economy to avoid sustained wage rises which might feed into inflation that requires offsetting policy tightening. In any case, some degree of wage inflation would be welcomed by governments as a means of improving living standards, as well as sustaining consumption-led growth, and giving companies confidence to invest. Central banks are therefore prepared to 'look through' periods of higher than target inflation while the recovery unfolds, preferring to risk an overshoot of inflation rather than policy action which proves to be premature. This would seem to be a prudent strategy given the uncertain path that the world faces with new variants of the virus; despite the vaccine roll-out, we are already seeing renewed restrictions in parts of Asia as the Delta variant spreads and resulting market weakness in affected areas. We therefore expect more market volatility as governments are forced to act to contain infections, and even in the absence of new lockdowns there is evidence that consumer behaviour is affected by rising infection levels. Bond market reaction indicates that central banks have so far convinced markets that policy tightening remains some way off, thus presenting a supportive environment for bonds, albeit one where overall returns will be from interest income rather than capital gains.

The first half of 2021 has seen record levels of mergers and acquisitions activity, much of it led by Private Equity (PE). A particular recipient of this attention has been the UK market, where despite a market recovery, companies still represent good value compared to international peers and there have been thirteen bids from PE companies alone for listed UK companies. We believe that this will continue as long as the UK market continues to trade at what we believe is an unwarranted discount and thus retain our conviction in UK equities.

Governments continue their push toward a more sustainable society and lowering Carbon Dioxide levels. This is an explicit goal of the EU's Coronavirus Relief stimulus package, with billions of Euros aimed at sustainable development, while central banks are exploring new routes of cheap funding for companies engaged in activities that combat climate change. Using the UN Sustainable Development Goals as a template, large institutional investors are putting pressure on companies to improve their credentials in Environment, Sustainability and Governance (ESG), and it is likely over time that companies with good ESG scores will enjoy a lower cost of capital, together with lower costs from carbon offsetting etc. Renewable energy is a key part of this and we anticipate that the theme of sustainability will become an increasingly important fundamental attribute of funds we invest in.

The shift toward online delivery of goods and services looks likely to be a permanent one, with a number of related companies reporting continued growth. This will be of benefit to the well-known Technology sector names, but there are also numerous related areas that will also benefit as companies scramble to invest and improve their online presence, from systems, to digital marketing, distribution, warehousing and also a change in the office environment as more staff partly work from home, as well as investing to bring considerable extra production on stream. In addition, technology will provide solutions for companies as they seek to improve their ESG credentials. As such, the theme of technological advancement remains a key theme expressed through portfolios.

With accommodative central banks and continued fiscal stimulus, we remain optimistic on prospects for markets, with the themes mentioned above together with other long-standing themes such as Asia growth providing opportunities for investors. The uncertain outlook as we learn to live with the virus will lead to periods of volatility, making a balanced portfolio with a combination of both growth and defensive attributes a suitable strategy, in our view.

Key Indicators

Equity Market Indices (£ Total Return)	% change six months	% change 2020	% change 2019	% change 2018	% change 2017	% change 2016	% change 2015
UK – FTSE All Share	+ 11.09	– 9.82	+ 19.17	– 9.47	+ 13.10	+ 16.75	+ 0.98
UK – FTSE 100	+ 10.91	– 11.55	+ 17.32	– 8.73	+ 11.95	+ 19.07	– 1.32
UK – FT Mid 250	+ 10.32	– 4.55	+ 28.88	– 13.25	+ 17.78	+ 6.66	+ 11.17
UK – FT Small Cap	+ 19.44	+ 7.15	+ 18.82	– 9.52	+ 18.15	+ 14.29	+ 9.17
USA – Dow Jones IA	+ 12.28	+ 5.61	+ 19.63	+ 1.83	+ 16.18	+ 37.85	+ 5.23
US – S&P 500	+ 13.79	+ 14.12	+ 25.65	+ 0.96	+ 10.62	+ 32.67	+ 6.58
US – Nasdaq	+ 11.73	+ 40.44	+ 31.42	+ 1.83	+ 20.01	+ 29.86	+ 13.16
EU – FTSE Europe ex UK	+ 10.58	+ 7.11	+ 20.19	– 9.83	+ 15.91	+ 20.03	+ 4.66
Japan – Nikkei 225	– 3.86	+ 17.48	+ 14.99	– 4.34	+ 12.64	+ 24.62	+ 13.29
Asia – FT AW Asia Pac ex Japan	+ 6.20	+ 19.11	+ 14.46	– 8.76	+ 23.04	+ 28.30	– 3.72
Emerging – FT AW Emerging	+ 6.96	+ 11.57	+ 15.48	– 7.96	+ 20.64	+ 34.96	– 10.61
Global – FT AW World	+ 11.13	+ 12.43	+ 21.64	– 3.95	+ 13.24	+ 28.82	+ 3.50
Unit Trust Sectors (Retail, £ Total Return)							
Mixed Inv 0%-35% Shares	+ 1.65	+ 3.67	+ 8.45	– 3.28	+ 4.51	+ 8.28	+ 0.20
Mixed Inv 20%-60% Shares	+ 4.51	+ 2.90	+ 11.64	– 5.15	+ 6.95	+ 9.90	+ 1.12
Mixed Inv 40%-85% Shares	+ 6.74	+ 5.49	+ 15.64	– 6.22	+ 9.78	+ 13.11	+ 2.31
Flexible Investment	+ 7.51	+ 6.63	+ 14.81	– 6.13	+ 10.61	+ 13.54	+ 2.04
UK All Companies	+ 11.75	– 6.15	+ 21.64	– 10.98	+ 13.74	+ 10.71	+ 4.86
UK Equity Income	+ 11.94	– 11.25	+ 19.63	– 10.77	+ 11.05	+ 9.05	+ 5.18
UK Smaller Companies	+ 19.70	+ 5.76	+ 24.86	– 11.76	+ 26.63	+ 7.70	+ 14.68
Asia Pacific ex Japan	+ 5.76	+ 19.25	+ 15.28	– 8.75	+ 24.45	+ 26.88	– 3.52
Europe Excluding UK	+ 9.62	+ 10.51	+ 19.93	– 12.62	+ 17.12	+ 16.32	+ 9.54
Global Emerging Markets	+ 6.11	+ 14.77	+ 16.59	– 11.19	+ 24.47	+ 31.71	– 10.47
Japan	+ 0.29	+ 12.60	+ 16.79	– 11.77	+ 17.45	+ 23.88	+ 16.08
North America	+ 13.68	+ 15.75	+ 24.44	– 1.74	+ 9.47	+ 31.15	+ 4.64
Global Equity Income	+ 10.38	+ 3.81	+ 19.55	– 6.47	+ 11.07	+ 22.51	+ 2.11
Global	+ 10.01	+ 14.70	+ 21.54	– 6.04	+ 14.04	+ 22.27	+ 3.09
Technology & Telecoms	+ 11.40	+ 42.38	+ 29.31	+ 2.80	+ 23.83	+ 25.05	+ 8.15
Property	+ 11.10	– 5.70	– 0.41	+ 2.97	+ 6.34	+ 0.42	+ 7.28
Targeted Absolute Return	+ 2.18	+ 2.49	+ 4.56	– 2.91	+ 2.86	+ 0.02	+ 2.66
Sterling Corporate Bond	– 1.49	+ 7.33	+ 8.64	– 2.34	+ 4.86	+ 8.55	– 0.41
Sterling High Yield	+ 3.07	+ 4.45	+ 11.08	– 3.82	+ 6.20	+ 9.81	– 0.45
Sterling Strategic Bond	+ 0.24	+ 6.69	+ 8.50	– 2.52	+ 4.63	+ 6.91	– 0.43
Money Market	– 0.05	+ 0.44	– 0.36	+ 0.36	+ 0.13	+ 0.25	+ 0.04
UK Gilts	– 5.54	+ 8.24	+ 6.37	+ 0.13	+ 1.48	+ 10.03	– 0.36
UK Index-Linked Gilts	– 2.59	+ 10.49	+ 5.42	– 0.66	+ 1.85	+ 21.64	– 1.32
Global Bonds	– 1.72	+ 5.13	+ 5.16	– 0.53	+ 1.55	+ 12.69	– 1.30
Global Emerging Market Bond	– 0.97	+ 3.40	+ 10.55	– 2.70	+ 3.76	+ 23.95	– 3.71

Sources: FE Analytics, returns in Sterling unless otherwise stated, net income reinvested.

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