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QUARTERLY MARKET OVERVIEW – JANUARY 2021

"To expect the unexpected shows a thoroughly modern intellect."

— Oscar Wilde, An Ideal Husband

As we entered 2020, there was not a great deal that concerned us.

We felt the China/US trade tensions would calm down as the first agreement was set to be signed, there was optimism that Brexit would be sorted in some form and that any recession was unlikely.

We also thought Trump would be re-elected (Nicola didn't!!!) and perhaps the Democrats would take the Senate.

How wrong were we!!!!

2020 was a year where history that normally takes decades, happened in weeks (and even days).

This is not an exhaustive list but 2020 was where we saw Australian bushfires, the Trump impeachment trial (part 1!), tensions between US and Iran, the first agreement between China and the US to play down the trade tensions, Harvey Weinstein's conviction, an Ebola outbreak in the Congo, George Floyd, Colston protests, climate change marches, Hong Kong / China tensions, Beirut explosion, California wildfires, Biden and Harris campaign, and new vaccines for a new virus were researched at an accelerated rate as a pandemic unfolded.

I am sure there is much more that can be added to this list, but it is incredible that overlaying all of this we had COVID which caused a global recession, which we are unlikely to ever have seen in our lifetime, as well as the fastest stock market crash and recovery that followed.

As the first three months of the year changed the whole of 2020, the last three months gave us hope for 2021. There were winners and losers in 2020, no more so than Trump (YAY!). He was *almost* certain to be re-elected. Three months (and a global pandemic) changed all of that, with Biden winning the election, the Democrats taking control of the House, and in the last few days the Senate.

It is worth reflecting that Kamala Harris is the first female, first black and first South Asian Vice President-elect. There is a possibility she could become President.

As the election news sunk in, we had vaccine Monday, and like waiting for a bus we saw three vaccines complete phase 3 trials in 2020. What is amazing is that vaccines can normally take 10 years to produce, and COVID was an unknown virus in early 2020. The efficacy of between 70% and 95% is amazing when we consider the flu vaccine is just 40% to 45%.

If all that was not enough, Brexit was taken right to the wire. It is a messy deal, but Boris pulled it off at the last minute and it was done in such a way that both sides could claim victory.

In this update we will try to unpack some of the themes, but the big question is what does 2021 hold for us?

We are only a couple of weeks in and it has been full of drama. As I write this, Trump has been impeached for a second time, after inciting the storming of Capitol Hill where Biden's presidency was being confirmed. On our side of the pond, further lockdowns were imposed in the UK as well as the vaccine rollout to fight against the new COVID variant.

But there is hope; the UK is one of the leading countries in vaccinations and we will cover what that means, and there is confidence within markets that economies can and will recover during 2021 and 2022.

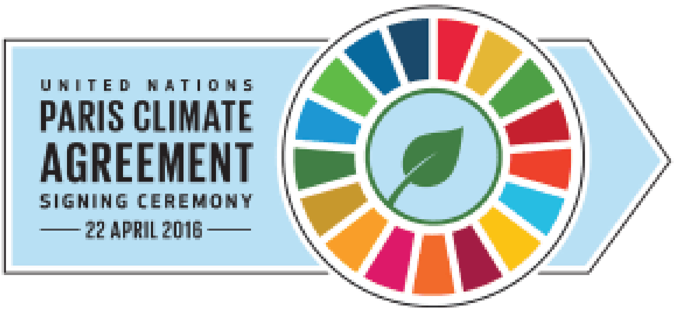
In summary, what we would like is a peaceful year and thus far we have not seen much calm. However, as the vaccine program gains momentum we can look to the future and start to return to some form of normality.

The markets and economies have had a re-set, and this could set us up for the 21st Century 'roaring twenties'. As we say every year, always expect the unexpected but we are cautiously optimistic for 2021.

George Ladds

George Ladds, Director, January 2021

SUSTAINABILITY



Through much of 2020 the momentum behind sustainable investing grew exponentially.

The EU Support Package approved at the end of December 2020 specifically covers fair climate and digital transitions, as well as 30% of EU funds set aside to fight climate change. In the US, the Democrats want to push through a Green Agenda, and in the UK, Boris Johnson announced a 10-point plan which included a ban on combustion engine sales by 2030 as well as making London "the global centre of green finance".

China is likely to announce in its next five-year plan further details on climate and energy targets. These are likely to include a higher share of non-fossil fuels in the energy mix, reduction of CO2 emissions per unit of GDP, carbon cap for the power sector, reduction of fine particle pollution in key cities and greater forest coverage. China is already the largest market for electric cars and is aiming that 25% of all new car sales by 2025 will be electric.

Although we have focused on the drive from governments there a growing number of investors and individuals who want to make a difference with their money and are much more environmentally conscious and socially aware.

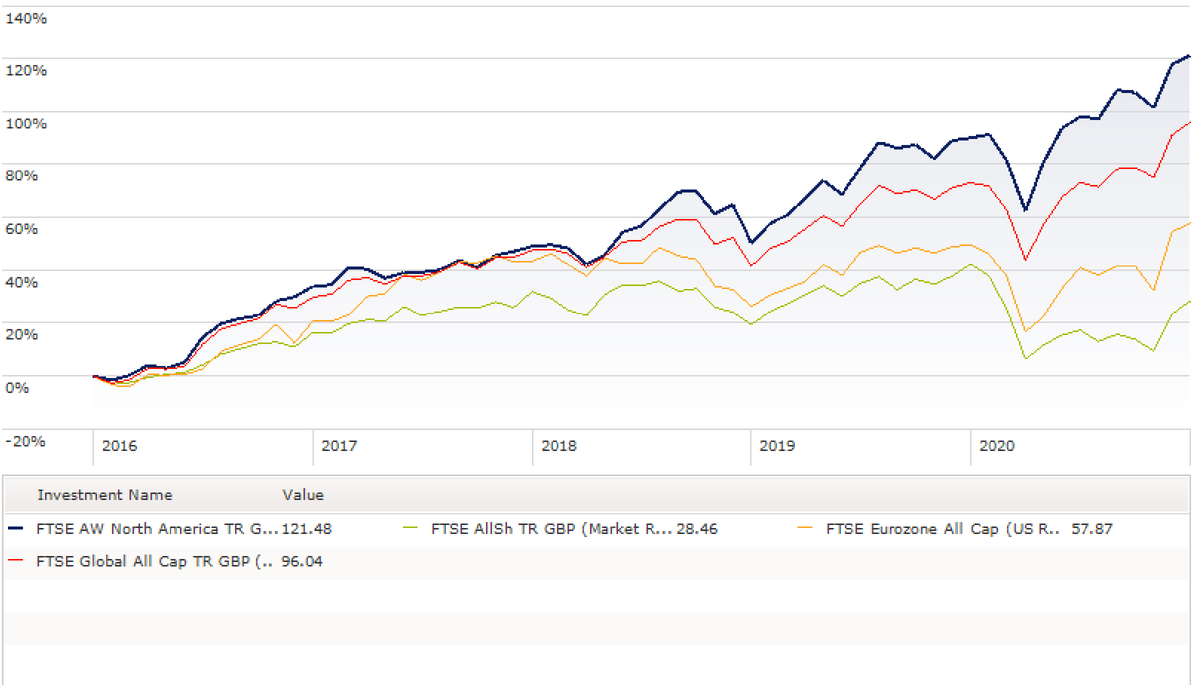
Furthermore, we are expecting guidance from our regulatory body (FCA) this year on how we must build this into our advice process.

It is therefore becoming clear that changes will go across every sector and companies will need to adapt or they will be left behind. We can see investment houses scrambling to adapt investment processes to include a sustainable element, and the investment universe is become greater. At the same time, we know the FCA is scrutinising all new funds to ensure they are doing what they say.

In summary, this is a theme that has been growing over the last few years but 2020 accelerated this. Governments looking to kick start economies are putting money into green infrastructure and this is something that will be a multi decade theme. During 2021 we will certainly see more guidance from governments and regulatory bodies, and we will share these on a quarterly basis and through more regular blogs.

US, EUROPE & UK

Five year returns 1 January 2016 – 31 December 2020



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It is very easy to be consumed by COVID especially as we are seeing an acceleration of cases especially in the US, UK, and Germany. There are real concerns about hospitalisations and deaths and that these could exceed previous levels.

But we know there is light at the end of the tunnel. The UK is one of top countries in vaccine distribution and is expected to vaccinate 50% of the population by April. It is expected by mid-February 20% of the UK population will be vaccinated, this group accounts for 90% of the COVID deaths and will start to ease the pressure on the health service.

There is therefore optimism that restrictions could start to be eased by March / April with removal of restrictions across the developed world by mid-year.

In terms of markets there are regional differences, and the UK has had a slower stock market recovery because of its composition being weighted towards financials, materials, and energy. Vaccine Monday saw the best day for value stocks since records began. It has meant that the FTSE climbed to 6,484 by the end of the year and is now over 6,800.

The big cloud hanging over the UK over the last 4 years has been Brexit. We were told a deal was going to happen by people in the know but it seemed leaving it until the 24th of December worked for everyone so there was little time to debate. You cannot write a 2,000-page document in 24 hours! It was a messy agreement with a degree of compromise but one that both sides can claim victory.

It provides a form of stability, but it is important to note there is a termination clause which can be triggered by either side at any point and there is a review clause after five years. Also, financial services (which makes up 7% of GDP) and data adequacy remain unresolved. On the plus side we have a tariff free deal and the UK get 65% of the total fish catch!

The UK market has been unloved, and many have avoided investing in the UK. However, the UK is now the fifth largest economy in the world overtaking India. In addition to the EU, the UK has recently signed a trade deal with Japan and agreed 32 trade continuity agreements with other negotiations in place. Sterling has not recovered yet, and it is expected that the UK will become attractive to foreign investors.

From an investment viewpoint the UK is likely to benefit from the recovery in global markets. There is also a significant amount of household cash which has been saved during lockdown which could generate a mini-boom, and there is now stability with the trade deal with the EU. Certainly, over the next couple of years the UK has the potential to return strongly for investors.

The US has provided entertainment in 2020, it started with an impeachment trial and almost a guaranteed second term for Trump. Then COVID hit and that changed everything. Incumbent US Presidents do not tend to be re-elected during a recession. My view was that Trump would somehow survive but, in the end, Biden took the crown. However, the new administration will face a lot of challenges in a heavily divided US.

The markets reacted negatively in the run up to the election as they thought Biden would have a clean sweep. In the end it seemed that they would not take the Senate which settled things down. But an orderly transition of power was evidently not going to happen as we saw in the first few days of the year. The actions of Trump since losing the election no doubt contributed to what happened with the remaining two senate seats.

The senate is tied at 50/50 with Kamala Harris having the deciding vote. To be able to do anything significant the Democrats would need 60 seats. For this reason, the markets have remained upbeat on the back of this result. This is initially contra intuitive because the Democrats like to do market unfriendly stuff like increase regulation and taxes.

But the wafer-thin majority they hold means a lot of centrist cooperation on the stimulus package and infrastructure, but none of the more radical stuff that Elizabeth Warren or Bernie Sanders might like.

The reality is that much of the focus is about getting the economy moving again. This means getting a stimulus bill approved (meaning more money to the US consumer) and implementing the climate change ambitions and infrastructure. With the move to average inflation, it is likely the Fed will allow things to run “hot” and therefore interest rates are unlikely to rise at least for 3 years and possibly a lot longer.

The Democrats’ slimline majority means tax changes are unlikely in the near term (and they would likely endanger the recovery), and broader reforms in healthcare and technology may not get enough support. This all means that the outlook for the US appears positive.

In the EU, the big thing to watch is their Pandemic Recovery Fund. This is important for a couple of reasons. The first is that this agreement amounts to EU leaders collectively borrowing money to fuel spending needed to overcome the economic scars of the coronavirus outbreak. It is the collective part that is key and bringing states together in a way that has never been seen before.

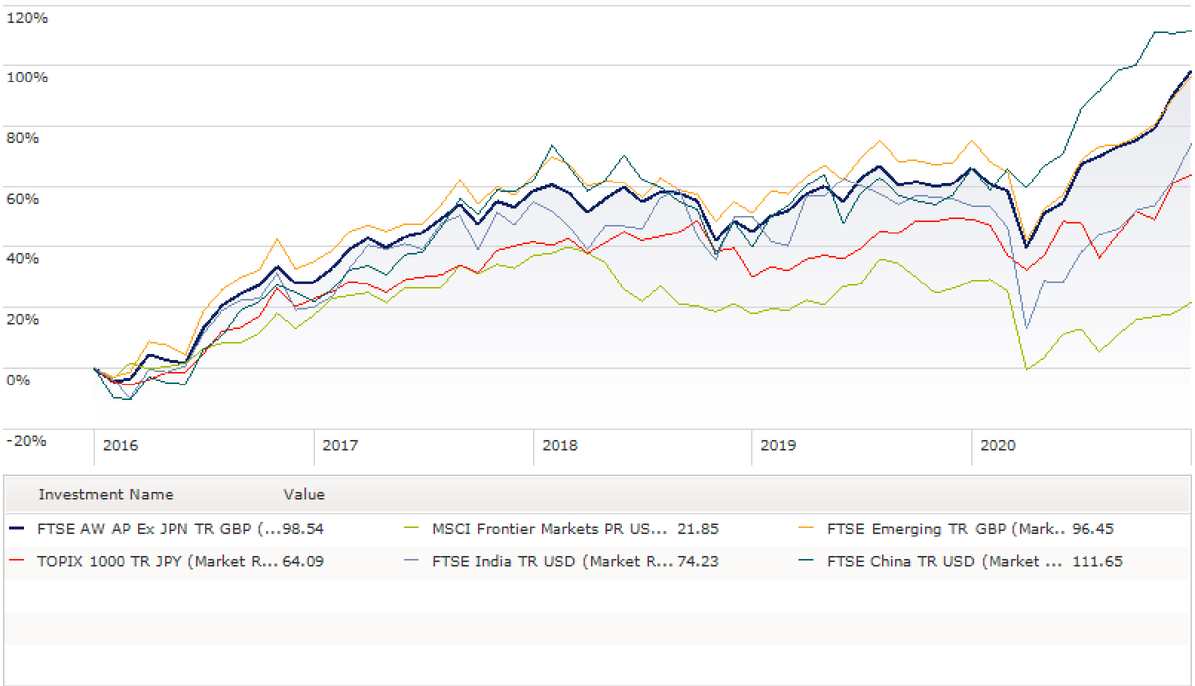
The second part is that 37% of the funds must be used on green transition and 20% towards digital transformation. The balance will be used across reducing social and territorial inequality, boosting economic cohesion, improving crisis-preparedness and investing in education. The money will be available from the Summer, and although the EU is behind the UK on vaccinations it is expected to vaccinate 50% of its population by June.

The combination of this recovery fund, greater cohesiveness, Brexit and vaccinations means that the future for Europe is positive. Like the UK, Europe is undervalued compared to the US. Many of the economies have fallen under the losers of COVID and could benefit as economies recover and people start to spend.

In summary, we always knew this would be a long, dark winter and a further lock-down in the UK plus the scenes from the US have made the start of 2021 hard. However, assuming the vaccination programme gathers momentum to the levels projected then there are significant reasons to be positive across the US, Europe and UK.

EMERGING, ASIA AND FRONTIER MARKETS

Five year returns 1 January 2016 – 31 December 2020



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When we look at regions the clear winners have been emerging markets and in particular Asia (and China). There is a great deal of debate on how accurate the data is from China, but many of the people we speak to have people 'on the ground' and what they are seeing is what is being projected to the outside world. There is also access to mobility data and this shows what is happening, so for example subway traffic is only down around 6%.

It seems unlikely that China would be able to get the whole population to lie, and there would be no benefit to doing this. One of things China has done very effectively is to protect borders where travellers coming in are expected to remain in a hotel until they have a negative COVID test.

We have been extremely positive about Emerging Markets and in particular Asia for some time and we think this could be the decade for these regions. 1 in 5 of the world's population live in China and India is nearly 20% of the world's population. These regions offer long term growth opportunities at a reasonable price and certainly valuations do not appear stretched compared to the US.

Although there has been significant increase in people coming out of poverty in China, there are significant opportunities and growing urbanisation will likely see an explosion in the rising middle class and the transition to a consumer driven society. Nearly 60% of China's exports were to other Asian and Emerging Economies with the balance to Europe and the North America. It is expected that over time the focus will shift even more in favour of Asian and Emerging Economies which supports the decade of Asia and Emerging Markets.

The table below shows the top ten economies in 2020 and projected in 2030:

2020	2030
1. United States 2. China 3. Japan 4. Germany 5. United Kingdom 6. India 7. France 8. Italy 9. Canada 10. South Korea	1. China 2. India 3. United States 4. Indonesia 5. Turkey 6. Brazil 7. Egypt 8. Russia 9. Japan 10. Germany

Currently 60% of the top ten is from the West, by 2030 this is projected to be just 20%.

India is behind the curve in terms of rising middle class compared to China, but in a similar way the growth in urbanisation is set to see a significant uplift in that area. This in turn will increase consumer spending and shift balance towards a more consumer focused economy.

There is a great deal of negativity about how India has dealt with the virus. It is worth considering that India is the largest manufacturer of vaccines in the world and has barred the exporting to other emerging economies until they have been able to vaccinate their population. This means that they are likely to recover quicker than other economies and are expected to vaccinate 50% of their population by December (considering the numbers this is amazing).

In summary, we have mainly focused on China and India, but these are the two biggest economies. The way many Asian economies have dealt with the virus and the fact that they have benefited in terms of supplying equipment means they are already ahead of those economies still trying to recover. Mixed in with lower debt levels and a faster growing middle class means that the next decade could well be about Emerging Markets and in particular Asia.

CASH

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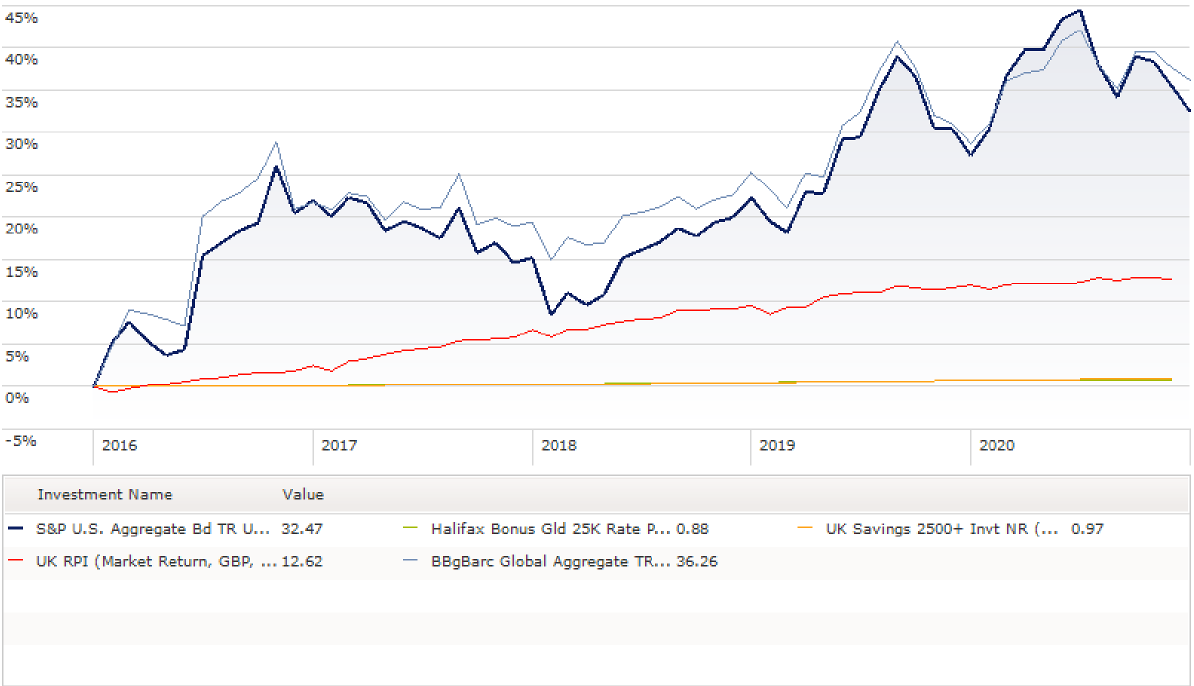

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For the last ten years we have said that interest rates were not going up anytime soon. It is likely to be around 3 years before there is any movement in rates and it is likely to be 5 years plus.

In the last month it has become clear that Government Bonds no longer offer value to investors and will be negative yielding investments over the next 10 years.

This means cash and government bonds mixed with inflation will remain a negative producing asset class and that is not going to change.

CONCLUSION

This was always going to be a difficult season, but if we look further out there are reasons to be positive. Asia / Emerging Markets offer exciting opportunities and is ahead of the curve compared to many Western Economies. The UK is likely to get a Brexit bounce but also benefit from a fast vaccine roll out and a rotation towards losers of the COVID crisis. The election in the US has produced a goldilocks scenario and, in the EU, a cohesive recovery plan is a signal for a positive future. Additionally, we have seen governments placing climate change at the heart of the reset. The world will be very different in ten years' time!

There will be bumps in the road, but we could well see a super bull cycle (running from the last ten years into the next ten years). But, in the short term some of the risks to consider:

1. COVID losers – not all COVID losers will recover. For example, Ryanair is likely to be a winner from this through careful management of cash but that does not mean every airline will recover. Another example is Cineworld, coming into the crisis there were concerns over acquisitions, those concerns have not gone away but at the same time people's habits when it comes to watching films are likely to have changed so will it survive is the big question.

   So, the risk is that we assume that Vaccine Monday meant that all the losers would become winners in 2021, and all the winners in 2020 will become losers. There needs to be a careful balance to select those companies whether in the winners or loser's category, who will be long term winners and survivors.

2. Inflation – there are concerns that the recovery is faster than expected and inflation runs away. We then face a temper tantrum 2 as central banks move quickly to slow things down.

3. Variant of the virus – this is a concern. We have seen variants in the UK and South Africa. However, we understand that vaccines are working against this new strain although it may be easier to spread. This is a risk, but the efficacy of the vaccines is extremely high, and indications are that it might reduce the efficacy but not to a level that would stop the roll out.

4. Roll out – the roll out programme is gathering pace with 50% of the population in the UK and US expected to be done by April, Canada by May, EU and Australia by June, Russia and Japan by July, Brazil by August, China and Mexico by October and India by December. Any delay or problems could slow any recovery

In summary, there are risks and probably the greatest of these is the variant of the virus and the added pressure on the NHS, but there are significant opportunities. 2021 and 2022 will likely see the path to recovery combined with low interest rates and loose monetary policy favouring equities.

Source: Charts have been sourced from Morningstar. Any reference to a fund or share is not a recommendation to buy or sell that asset. Past performance is no guide to future performance and investments can fall as well as rise.