QUARTERLY MARKET OVERVIEW – APRIL 2021

"If I can live through this next six months…what comes next will be marvellous."

— *The Blessed Madonna, Fred Again*

With Spring in the air, and light at the end of the COVID tunnel, there is a real sense of optimism.

The year started with a clean sweep in the US elections for the Democrats, the storming of Capitol Hill and Trump being impeached (again). Biden is now safely in the driving seat and determined to drive through his plans for change with a $1.9 trillion Coronavirus Relief package and plans to introduce a $3 trillion infrastructure and jobs package.

We knew this would be a long hard winter, but we never expected it to be this hard!

There may be many things the Government can be blamed for, but the vaccine rollout programme is amazing. 88% of deaths come from the phase 1 group of circa 32 million people and these should all have had their first doses by mid-April, with the remaining 21 million by the end of July.

On 20th March 752,308 people were vaccinated in the UK, and currently 27,997,976 people have had the first dose (this will have changed when you are reading this). Restarting the economy seems very much on the cards.

Currently the UK is using two vaccines, AstraZeneca and Pfizer; Moderna is expected to begin deliveries in April which would bring the total to three. The UK also has orders with Novavax which has had successful stage three trials, as well as Johnson and Johnson; the dates of when these are available are unknown at this stage.

The EU have messed up their vaccination programme by arguing over whether vaccines are safe, as well as poor distribution (not using local doctors' surgeries like we did in the UK for one).

Italian newspaper 'La Stampa' claimed there was a plant in Rome holding 29 million doses for the UK, which was proved to be false. There is clearly tension between EU member states as they see economies like the UK and the US rolling out successful programmes. These cause significant implications as the ineffective programme of vaccinations has meant further lockdowns, civil unrest and more importantly a delay in the economic recovery.

Away from vaccines, markets have been volatile.

Part of this has been driven by concerns on the Fed's ultra-loose policy stance which sent yields up, the volatility caused by GameStop short selling and then a move away from growth to value stocks. COVID winners like Amazon have seen share prices drop back, whereas the opposite is true for some stocks as the market reprices them on the back of economies opening.

Touching on GameStop, this is a small retail company selling/trading video games, consoles and the like. At one point its shares were $5 and then they reached around $500, but the company was never worth this. Trouble started when some hedge funds 'shorted' their position by borrowing the stock and placed bets on a falling share price to buy back when the price was lower (to lock in profits). Private investors pushed up the price by also buying shares, 'short squeezing' those hedge funds who borrowed the stock to buy it at hugely inflated prices, thus inflicting massive losses on them. Other hedge funds also shorted the stocks they thought those managers in trouble would have to sell. This in turn created volatility within the market for a short time, but it cost some funds billions of dollars.

The vaccine rollout is important, as is the protection against the different strains, which in part determines how the market reacts. The EU will get on track with its vaccine programme, but if their economies miss out on the lucrative summer season any recovery will take longer. Despite this the OECD have upgraded global growth expectations, especially in the US after the Biden Relief package.

There is also a sense of optimism that economic damage in the latest round of lockdowns has not been as bad as previous lockdowns. Previous recessions did not see the level of private savings across many economies and with this a pent-up demand to spend; even a fraction of this will help economic recovery globally.

In previous updates I have been hopeful that summer European holidays would be on the cards. I am not so hopeful now given the state of the EU rollout, which will delay their recovery, but it will come. On the flip side there are signs that the UK is likely to recover quicker than expected and the level of savings could help revive the economy especially if people stay in the UK for their holidays. The US has also turned a corner, and there continues to be positive signs from emerging markets. Those economies who come out first will get a head start in the global recovery.

It is worth reflecting on the move to cheaper value stocks which we still believe is short-term. Fundamentally companies need to grow. Cineworld as an example had problems coming into the crisis; they have increased debt; they face changing consumer habits and yet their share price is increasing (still below previous highs). This is not sustainable long-term. As investors we still fundamentally believe in quality long term growth stories and managers who can invest into this.

To conclude, there are many factors at play and economies will come out of this at different speeds, we know there are things that could derail recoveries, but we remain optimistic for the future.

The tagline for this quarter's report comes from a song I have heard recently, by an artist called 'Fred Again' and it seemed fitting now.

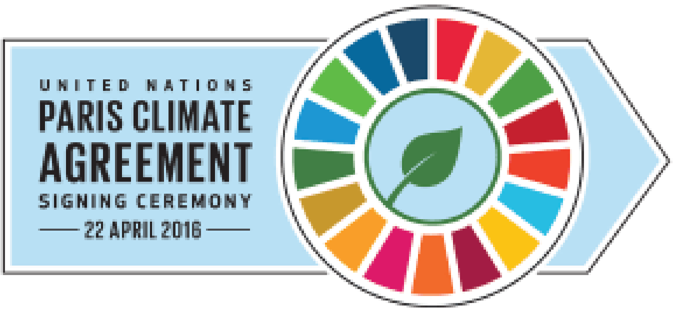
"If I can live through this next six months...what comes next will be marvellous."

Let's hope so!

George Ladds

George Ladds, Director, April 2021

SUSTAINABILITY



COVID has accelerated many themes, but it has also increased inequalities creating a growing focus on society and the world around us.

We mentioned that Governments are using the recovery to invest in green infrastructure. If the US approves its $3 trillion infrastructure and jobs package, much of that money will go into the green economy.

We recently spoke to an investment team about hydrogen and how currently 99% is developed via fossil fuels and is around 2.2% of global greenhouse emissions. But hydrogen has a ready-made market, and the use of renewables and electrolysers delivers green hydrogen. It does not make commercial sense to use in cars, but it does in energy intensive industries and heavy-duty transportation.

Electric Vehicles (EV) have seen market share go from 0.1% in 2011 to 3.2% in 2020. Europe has superseded China as the motor for EV growth and Germany is leading that charge. The numbers seem small, but the pace of change is only going one way.

In 2011, 35% of Americans had a smart phone, in 2019 this was 81%. In 2002, 62% of Americans had a mobile phone and this is now 96%. In Brazil, between 2015 and 2018, smartphone usage in the 18-34 age group went from 61% to 85%, and in the Philippines the same group went from 31% to 74%. This demonstrates change can happen very quickly.

Challenges exist with EV for example with the grids, re-charging, travel distance etc but this is all being improved, and costs are gradually coming down. Additionally, Governments are focusing infrastructure into this area.

Away from Hydrogen and EV a recent People's Climate Poll was done across 50 countries and half the world's population. This revealed that while younger people (under 18) were more likely to say climate change is an emergency, other age groups were not far behind, with 65% aged 18-35, 66% aged 36-59 and 58% those over 60.

Furthermore, the survey indicated that in 8 out of 10 countries with the highest emissions from the power sector, the majority backed more renewable energy.

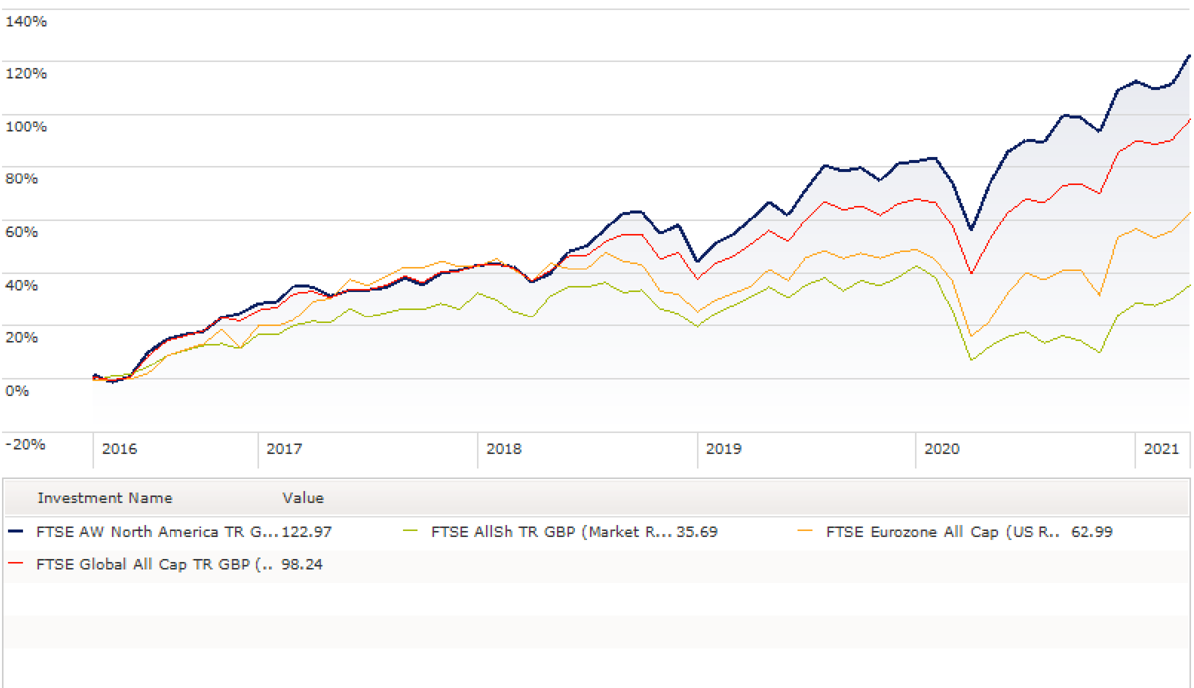
In 4 out of 5 countries with the highest emissions from land-use change and enough data on policy preferences, the majority supported conserving forests and land. 9 out 10 of the countries with the most urbanised populations backed more use of clean electric cars and buses, or bicycles.

At a recent UN conference delegates argued that economies must introduce social protection policies, including progressive taxation in favour of low-income families as well as public spending to support vulnerable populations. COVID has widened the inequalities with poorer households being hit the hardest. Pressure is building through unrest and bodies like the UN to create fairer societies.

In summary, the drive for change and money to make it happen must come from governments. COVID has delivered that opportunity, and the latest People's Climate Poll shows there is a strong appetite for this to happen. Although a fairer society seems a long way-off it cannot be ignored, and changes will come. We continue to see this as a multi-decade theme.

US, EUROPE & UK

Five year returns 1 April 2016 – 31 March 2021



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It is worth starting with Europe, then the UK and the US. We have seen that Europe is struggling with the virus and more lockdowns will delay the recovery. One of the biggest impacts is the damage to the tourist season. If the summer season is delayed or effectively cancelled this will damage the recovery in countries like Spain, Portugal, and Greece.

The French population is one of the most sceptical in taking the vaccine and this does not help in the drive to open economies. Their concerns over the Oxford (AstraZeneca) vaccine and a general delay in moving the programme forward means they are global laggards. On 22 March, 45.21% of the UK population had had at least their first vaccine, in the EU this is just 13.59%. Germany is on 12.96%, France 12.66%, Netherlands 11.06%, Spain 13.52%, and Greece 14.09%.

The tension between the UK and the EU is worth monitoring as the latter tries to get back on track, with the latest changes causing problems over the Irish Border which forced the US to intervene. Their plan to block components of the jab will further jeopardise EU / UK relations, and perhaps even damage the EU standing globally.

Moving forward, if the EU can get themselves into order then the fiscal stimulus should help in rebuilding the economies and the recent China deal is positive. At the heart of the agreement, it improves conditions for European companies doing business in China, creating jobs in both areas and gives Beijing an incentive to cooperate with Europe. This is a shrewd move by the Chinese as it splits the West and makes it harder for the US to build allies against the Chinese.

The UK has had teething problems post-BREXIT, especially around documentation requirements and food producers seem to be hardest hit. It is worth reflecting on the negativity around the UK's aim to join a trade bloc of 11 Asian countries. The UK exports 42.6% of goods to Europe and imports 51.8%. Germany, Netherlands, France, and Ireland are their main export partners.

Some of the biggest areas of exports are business services, finances services and travel, as well as goods such as petroleum and petroleum products, motor vehicles and transport equipment. With 57.4% of exports across the world it makes sense to focus on some of the fastest growing economies. It is easy to think the best markets are the EU and the US, but the fastest growth is coming from elsewhere. Coupled with the speed of the UK vaccination programme all of this could be good for the UK going forward.

The vaccination rollout has been incredible and to complete the first phase by mid-April would be an amazing achievement, and for everyone to have a first vaccine by the end of July is far beyond expectations. The Moderna vaccine arrives in April plus two others awaiting approval. The rollout could be completed ahead of schedule even with supply delays.

However, the UK faces high unemployment and much uncertainty, but savings have increased and there is pent-up demand so opening could see a mini boom in the retail sector. The budget helped with continued support measures and using taxes rather than spending cuts to balance the books. The danger long term is that increased corporation tax could make the UK an unattractive base for foreign companies.

The other danger to the UK compared to places like Japan, Italy and Germany is that we have a lesser personal savings culture (fewer people can save) which means we are more dependent on foreign capital and this could bring problems down the line.

The lack of holidays abroad this year for Brits will divert money away from countries like Greece and Spain but will help our economy considerably.

Turning to the US, probably the best thing to happen was Trump losing the election. The vaccine rollout is gathering pace with 38% of the population already covered. Even with a wafer-thin majority the Democrats have shown they mean business and want to push through more radical policies. The $1.9 trillion package far exceeded many people's expectations.

It was felt this would be watered down but the main item excluded was the increase in minimum wage. $1.2 trillion is expected to be distributed in the form of $1,400 stimulus payments per person being sent to eligible recipients in addition to the $600 paid in December, enhanced employment aid, rental assistance, food stamp benefits, money for childcare and tax credits, more assistance for small businesses and aid for states and schools.

And it does not stop there! There are plans for a $3 trillion infrastructure and jobs package. The US will put everything into rebuilding the economy and with a strong vaccination programme, the OECD have revised growth expectations upwards in for the US.

However, all this must be paid for and there are concerns that taxes could increase which may stall any recovery. In terms of the markets Tesla put 8% of its reserves into cryptocurrency and if the likes of Microsoft, Facebook, Twitter, and Google all did the same this could trigger a bull market. The fear is that it could impact shares as they invest, but also if the bull market ends, this might further destabilise markets overall.

Ultimately the trade war between China and the US did not return 'American jobs' as they were lost to other parts of the world and it increased the trade deficit with China. That said, China is still reliant on the US for some technology, but the speed of development means this is changing rapidly. China has also been quick to secure trade deals with local economies and the EU, which isolates the US further.

China's top diplomat and US Secretary of State met in Alaska recently which was the first meeting of the superpowers since Biden was elected. The meeting suggests a readiness to at least entertain an engagement process and set a new tone after the Trump era.

This quote sums it up well.

"It's like a couple that's been separated, and both want a divorce," said Jeff Moon, president of Moon Strategies and a former National Security Council official. "But they realise they have to stay together for the kids."

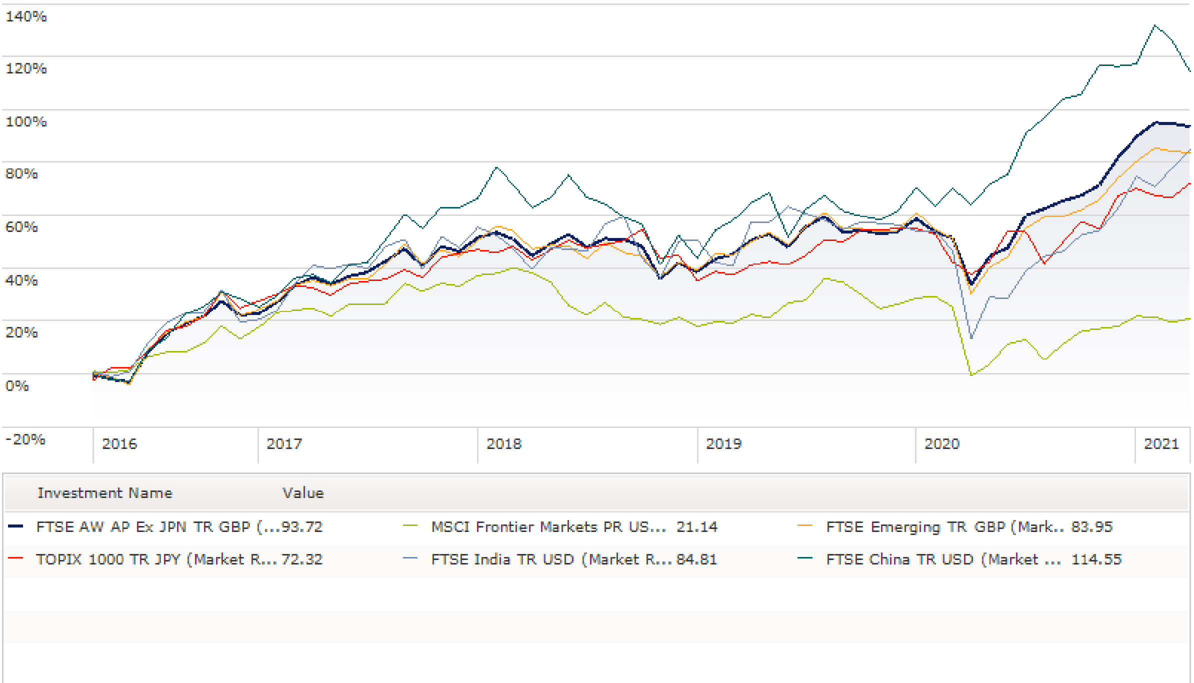
In summary, we think the outlook for the UK is positive and this is supported by upgrades in UK growth. Pent-up demand could set in place a mini boom especially if the only holiday destination is the UK. Longer term, the reliance on foreign capital and uncompetitive corporate taxes could stymie growth in the years to come.

The US is in a strong position and the impact of recovery measures and the vaccination programme indicates stronger than expected growth projections. But we should not underestimate the risks of potential tax rises, cryptocurrency and a weakening in US/China relations.

The EU will take longer to recover especially if those economies reliant on the holiday season miss out but the recovery package plus the deal with China are both positive in the long-term.

EMERGING, ASIA AND FRONTIER MARKETS

Five year returns 1 April 2016 – 31 March 2021



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It is important to recognise that although the outlook for Asia, Emerging and Frontier markets is positive there are countries and regions that have suffered. There will be increased unemployment especially in industries with lower wages and this hits women and young people hardest.

For smaller states, sovereign debt may become an issue, and for poorly managed corporates who have taken on more debt again this may be a problem especially if the process of recovery takes longer. There is also a disruption in containers/shipping and therefore the supply of goods around the world which will take time to correct.

We have indicated the need to address inequalities. It is therefore worth reflecting that there are still many good news stories. The Sydney Opera House resumed live performances and the city of Melbourne recently hosted the Australian Open tennis tournament with fans (mostly) in attendance.

Japan is back to planning the delayed 2020 Summer Olympics (without fans), while China focuses on the Beijing 2022 Winter Games. In India, some cricket games with England were played with fans in attendance. Having been hit by COVID-19 first, Asia is also recovering first.

China announced its 14th five-year plan which includes 8 major targets – keep major economic indicators within an appropriate range, above 7% annual growth in research and development spending, keep urban unemployment rate within 5.5%, raise urban residents to 65% of the population, increase life expectancy of Chinese citizens by 1 year, promote green development, promote the high-quality development of the Belt and Road and usher in new stage in building a Peaceful China.

There are 1.44 billion people in China, which is the size of South America, Europe, the US and Canada and Australia and New Zealand combined. The sheer numbers and the move to the global middle class demonstrates the potential for growth. India is not far behind with 1.38 billion people.

India has recently announced that 500 million people will be provided with government sponsored health insurance, which could result in one of the fastest growing healthcare markets in the world. It is estimated that 10 million people are migrating to cities each year and more investment into cities could see the Indian real estate market worth around $1 trillion by 2030. India also perplexed investors by escaping a second wave of coronavirus and the economic recovery is progressing faster than forecasters had expected.

Another area to watch is digitalisation in South East Asia (SEA; Philippines, Thailand, Indonesia, Malaysia and Vietnam). 70% of the region's 583 million citizens are now online and SEA is quickly emerging as the next digital giant. The SEA internet economy has more than tripled in size since 2015 and this is due to a younger user group (average age 30.2 years old), 50 million new entrants to the global middle class by 2022 and 100 million new e-commerce users added since 2015.

Away from Asia, Chile is one of the fastest growing economies in Latin America and has pre-ordered more than 90 million vaccine doses which is enough to fully vaccinate its population twice. Where the West has stuck to Western manufacturers only, Chile was shrewd to back China and the West. Chile has vaccinated 46% of its population. In comparison, Brazil is around 7% and Mexico 4%. This country is likely to come out of the pandemic faster than its neighbours and for a fast-growing economy this is positive.

In summary, there will be economies that are damaged by the global crisis and there will be more poorly managed companies that do not survive. However, the longer-term outlook is very bright. China still has significant room to grow, and even if relations with the US do not improve, they have sealed strategic deals with other global partners and the US is becoming less important to them especially once they catch up on tech areas like semi-conductors. India and the SEA areas will also be vital contributors in the years to come.

Latin America will always be tricky, but Chile shows that change can and does happen. Even in Brazil they are looking at better ESG with gender diversity becoming a focus within Brazilian companies. They might seem to be slower in catching-up, but the world is changing, and these are areas to watch.

CASH

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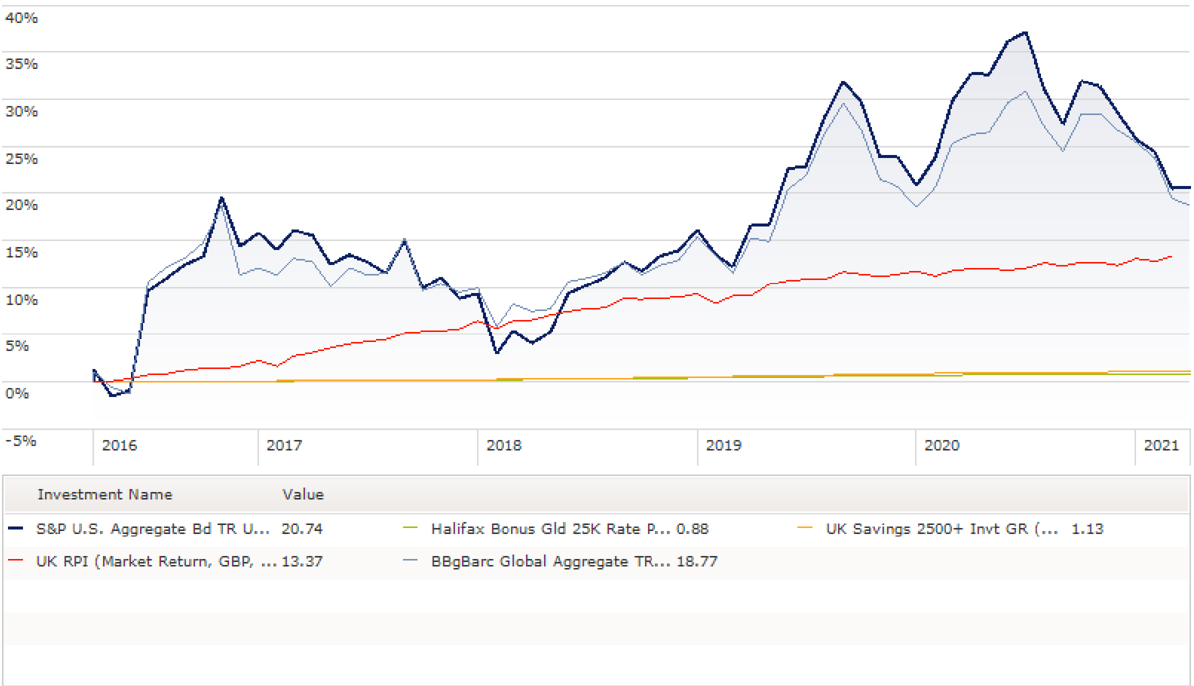

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This year has not been good for bonds with negative returns. Governments need interest rates to remain low to maintain the ability to repay debt. There has been a lot of debate about the traditional 60 / 40 investment model, which is 60% equities / 40% bonds, and the feeling is that the bond element needs to be diversified to include other asset classes like infrastructure, property etc.

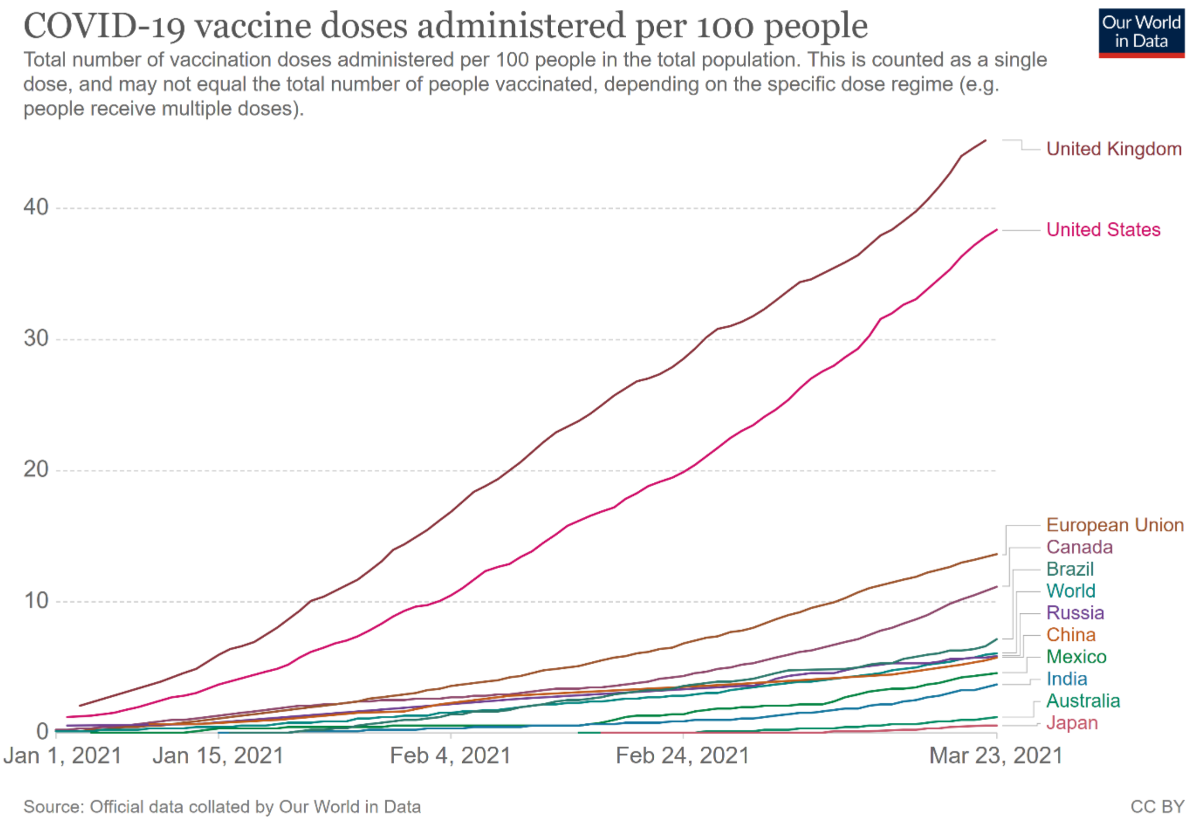
In terms of cash, it seems unlikely we will have negative interest rates in the UK, but nothing has been ruled out. If this happens effectively people will be paying establishments to hold their cash.

We have always said that everyone should hold some cash for the short term (no less than 3-6 months' income) but holding large sums of unused cash in the hope that rates to go up, is unlikely to see a 5% interest rate again.

CONCLUSION

It has been a long hard winter but there are signs of that there is light at the end of the tunnel. In terms of the vaccine programme, it is worth looking at the table below (by the time this comes out things will have changed again!):

	50% of population estimate	Current (23 March)
UK	End of April	45.21%
US	End of April	38.34%
Canada	End of May	11.19%
EU	End of June	13.59%
Australia	End of June	1.11%
Russia	End of July	5.90%
Japan	End of July	0.55%
Brazil	End of August	7.16%
China	End of October	5.76%
Mexico	End of October	4.60%
India	End of December	3.68%



As we can see, those economies hardest hit who have put in place an effective vaccine programme are more likely to strongly recover this year. You can also see why foreign travel is seeming less likely this year as to achieve the estimated 50% seems a tall order.

Having said all of that, we are heading in the right direction. The UK has challenges in the long term but short-term could see a mini boom as people come out of the lockdown and look to spend. If foreign holidays are not on the cards, then this almost certainly will benefit the UK.

In the US, Biden's recovery package(s), the vaccination programme and the investment in the economy shows why growth expectations are rising. The EU faces challenges and it will be slower to recover, especially in countries missing out on tourism again.

Emerging Markets (Asia, Africa, and Latin America) is mixed; some countries have done very well in containing the virus and therefore have come out stronger. Others will have suffered from the global slowdown. China, India, and South East Asian countries should all continue to prosper longer term.

Just to wrap-up there is a rotation away from the COVID winners to the COVID losers however fundamentally many COVID losers went into this in a poor shape, and this has not improved. Additionally, the environment has changed as have people's habits and this may mean areas of growth have disappeared. We think the rotation is short term and over the longer-term good quality growth companies will contribute more to performance.

There are of course risks; we can see the impact on slower vaccination programmes which means the speed of recovery especially in the EU will be slower, and there are concerns on the variants and further waves of infection. Longer term inflation is a worry and whether the markets react negatively to turning off QE too early and rising interest rates. We should also watch out for short term noise like rising yields, cryptocurrency, and short-term traders (GameStop). But overall, we should feel positive that the end is in sight.

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.