MMWealth
Chartered Financial Planners

Keeping you informed matters

Economic review

April 2021

Chartered
Financial
Planners

Outlook

The Covid vaccine versus virus race continues, giving hope for a strong recovery into the second half of the year, but risks remain including the spectre of higher inflation. Governments and central banks remain alert to this threat but continue with accommodating fiscal and monetary policies.

The first quarter has been volatile for global markets, a far cry from the steady recovery hoped for with the approval of multiple vaccines at the end of 2020. As countries rush to inoculate and reopen their economies, it is news of virus mutations, vaccine efficacy and side-effect concerns that dictates sentiment and direction.

Technical distortions have also made for increased volatility. The year is only three months old, but already there have been two ground-shaking incidents on Wall Street. Retail investor exuberance turned into a David vs Goliath battle in January, with activist investors from the Reddit platform buying shares in Gamestop, leading to big price moves and wobbles across the tech sector.

More recently it was the meltdown created by Archegos Capital Management unwinding, after banks forced it to sell investments accumulated through highly leveraged bets, which has roiled global markets. Regulators are once again in the spotlight for failures which have led to billions being wiped off the stock market overnight from a single investor dumping stock at any price.

There has also been a rotation in underlying markets, with investors buying the Covid losers from last year and taking profits from the “stay at home” winners. Not quite as clear cut as a full growth vs value rotation; liquidity that had been held on the side-lines also started to flow towards out of favour value opportunities that have been significant laggards.

As an inevitable outcome of the amount of government and central bank support throughout the pandemic, inflation is once again on investors’ minds. There is broad consensus for a consumer spending spree this summer as the pent-up demand from lockdowns is released. Where there is no agreement, however, is on whether this will be short term in nature before subsiding to pre-pandemic levels, or whether it will be higher for longer.

Bond yields, the canary in the mine for inflation expectations, have already risen for longer dated bonds, but this also captures the positive outlook for risk assets, with any hint of interest rate increases to counter high inflation surely some years in the future at soonest.

But we are mindful that any sustained inflation can depress total returns in fixed income markets, particularly in the US for example, with President Biden’s $1.9 trillion Covid relief bill. There are also plans for a further $2.25 trillion to spend on a jobs and infrastructure package, but we expect a much more nuanced passage for this bill to progress, especially with the need for tax hikes to pay for it.

So, the question is: if inflation goes higher, will it stay there? There is certainly potential for a rise above central bank targets over the next 6 to 12 months at least, but the gravitational pull is still for inflation to go lower, not higher, in the long term. Our core view is that there is more pent-up demand for a return to normalcy and our pre-pandemic lives, than there is to simply spend our lockdown savings.

It is only the wealthy that will have the capacity to keep on spending, while for the majority, higher prices will soon lead to a fall in demand without a matching increase in wage growth. Unemployment is also a factor to consider as governments remove support schemes such as furlough and business grants.

While companies that prospered through the worst of the lockdowns can continue to do so, it is likely those that have survived on handouts must either survive alone or be allowed to fail going forwards.

For these reasons, among others, we are trying not to obsess about recent market volatility. There will always be unknown events such as those that have impacted markets in the first few months of the year. Combined with the unpredictability of the pandemic and lockdowns, we therefore remain well diversified to reduce some of the more extreme volatility, but also to exploit the widest opportunity set.

Key facts about the world

United Kingdom

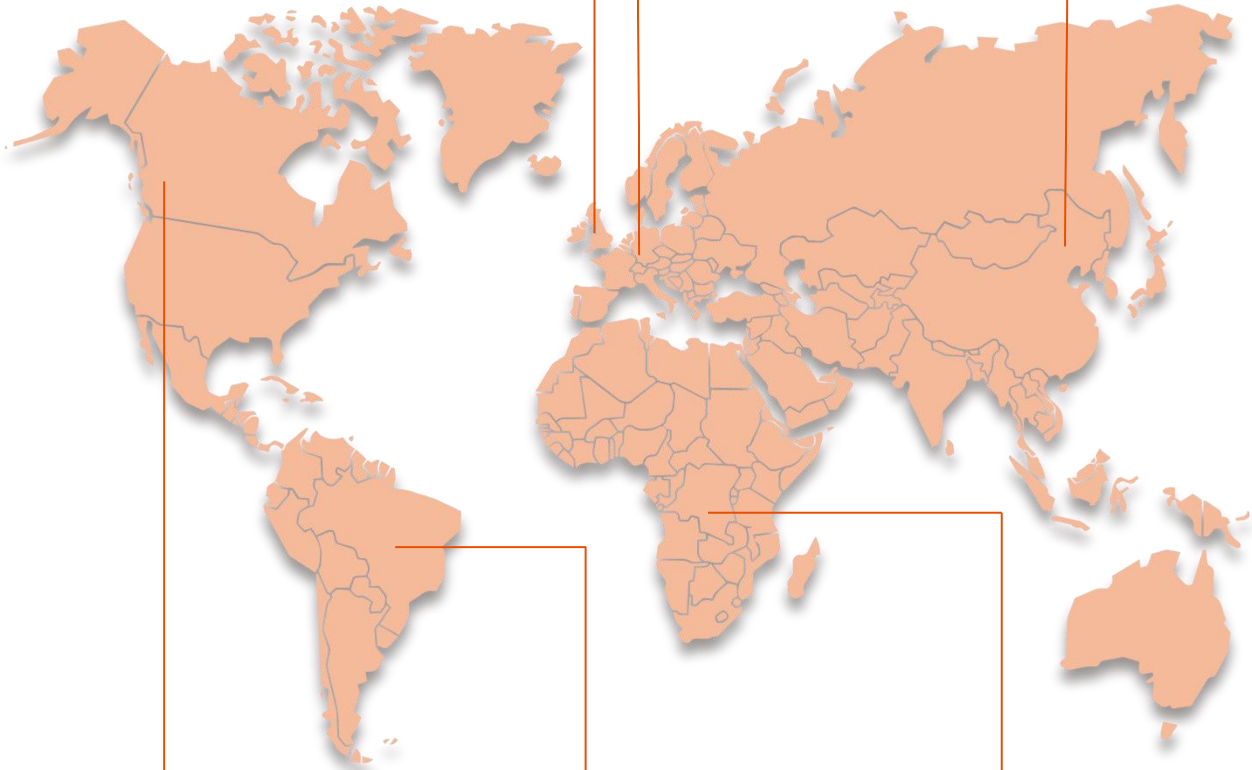
- The successful vaccination programme to date should lead to a solid recovery into the second half and beyond.
- International investors could return to the long unloved UK boosting markets further.

Europe

- The uncoordinated vaccine situation has delayed the economic recovery further.
- Further lockdowns being imposed to combat third wave.

Asia

- Sanctions on China for human rights violations lead to a reversal of gains year to date.
- US recovery (market and dollar) could lead to outflows from EMs.



North America

- Biden hits initial 100 million vaccine doses in first 100 days of presidency, sets new target of 200 million.
- $2.25tn infrastructure package intended to boost economy over next 8 years.
- Fed confirms stimulus plans remain in place until inflation above target of 2-3% and maximum employment achieved.

South America

- Brazilian economy not expected to recover fully in 2021, with significant levels of new daily Covid cases and deaths.
- Lower demand for commodities, such as cocoa and coffee from developed economies in lockdown, impacting prices and income negatively for South American exporters.

Africa

- West Africa's regional exchange, Bourse Régionale des Valeurs Mobilières (BRVM), which links 8 countries with a stable currency, entices more foreign investors.
- Nigeria reclaims Africa's largest oil producer title after repeated militant attacks on infrastructure in the Niger Delta.

MMWealth
Chartered Financial Planners

Q1 Performance Review

Key facts

- Bond yields rise strongly, pricing in economic recovery and inflation expectations
- UK Commercial property exposure under review
- Value strategies and Covid losers play catch up
- UK returning to favour on jab success and ongoing support from Chancellor
- US Dollar weakness impacts short-term performance, but overseas bias remains with US, Asia, and EM equity preference

Bond markets have been highly volatile, with yields rising over the first quarter as prices have fallen. This reflects increased investor appetite for risk assets as the world positions for recovery. Pleasingly, the short duration (1-3 years to maturity) bonds have held up well, with the AXA US and Royal London Short Duration High Yield funds both providing positive returns (+0.8% and +0.7% respectively) against a difficult backdrop.

Property remains an area of concern within strategies, with BMO Commercial Property off c13% in Q1. Having recovered well as the economy began to re-open after the first lockdown, sentiment quickly turned negative again as the second lockdown began, undoing the progress into year end. Commercial values and anything related to retail have remained surprisingly stable despite lockdowns, but we are concerned that this may change once the economy has fully reopened. Property remains under review, with discounts watched closely for any indication that NAVs could suffer a significant rerating to the downside.

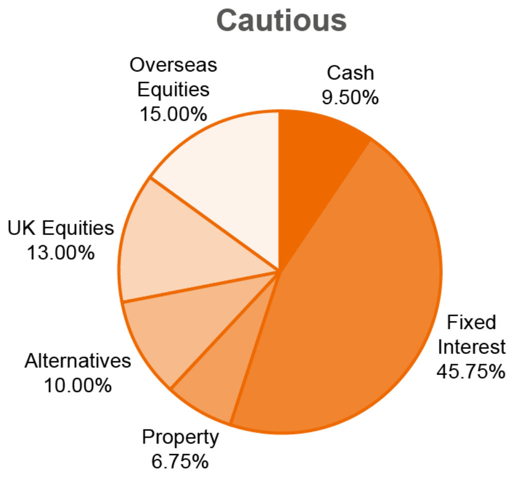
The rotation in equity with more focus on value areas and those industries that have lagged during the pandemic, has also meant the more growth biased strategies that performed well last year have had a tough first quarter. Loomis Sayles US Equity Leaders (+1.4%), JP Morgan Emerging Markets (-3.9%) and Scottish Mortgage (-6.3%) have all been a drag on returns relative to benchmark in Q1. In the UK, smaller company, or growth focused funds (Jupiter UK Smaller, L&G Growth, Finsbury Growth & Income) have been behind target, even as the UK is coming back into favour following the success of the vaccine rollout so far. However, we remain committed to these funds which we believe are well positioned for the long term and the intra-style and industry rotation that has been a feature so far will rationalise over the coming months.

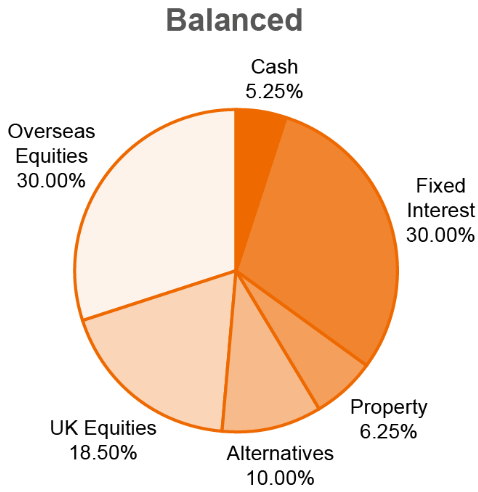
Reassuringly, we have seen positive progress in our most recent addition to ethical strategies of Home REIT, returning c5% as funds from the IPO are deployed into long term accommodation for the homeless. The Fortem Progressive Growth fund also continues to offer lower beta returns in portfolios, offsetting the more extreme volatility we have experienced in recent months.

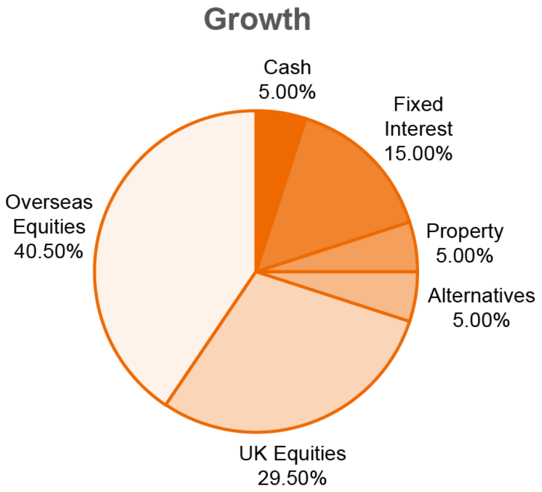
SECTOR	Q1 2021	1 year to 31/03/21	1 year to 31/03/20	1 year to 31/03/19	1 year to 31/03/18	1 year to 31/03/17	5 years (annualised)
IA OE UK Index Linked Gilts	-6.6%	-1.0%	5.3%	6.3%	-0.1%	20.6%	6.0%
IA OE £ Corporate Bond	-3.2%	9.2%	0.8%	3.0%	1.8%	9.5%	4.8%
IA OE Property	0.1%	-2.1%	-2.7%	2.3%	6.6%	-0.7%	0.6%
IA OE UK Equity Income	6.8%	32.6%	-20.7%	3.6%	0.4%	15.3%	4.7%
IA OE UK Smaller Companies	9.0%	67.4%	-18.2%	-2.6%	14.6%	19.1%	12.7%
IA OE North America	4.8%	42.4%	-3.9%	15.8%	0.4%	33.5%	16.2%
IA OE Europe Excluding UK	2.5%	39.7%	-9.2%	-1.2%	5.8%	24.2%	10.5%
IA OE Japan	0.2%	32.0%	-3.6%	-3.5%	9.1%	32.2%	12.1%
IA OE Asia Pacific Excluding Japan	3.6%	48.6%	-11.3%	3.2%	7.2%	35.2%	14.5%
IA OE Global Emerging Markets	2.0%	47.4%	-15.9%	-1.3%	8.9%	35.6%	12.5%

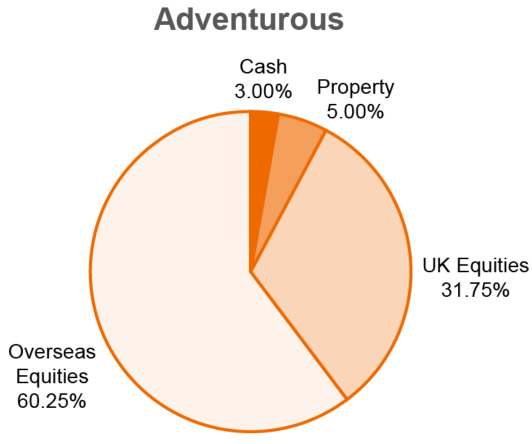
Source: Morningstar, bid-bid pricing. Net income reinvested. Past performance is not a reliable indicator of future results.

The positioning of our strategies

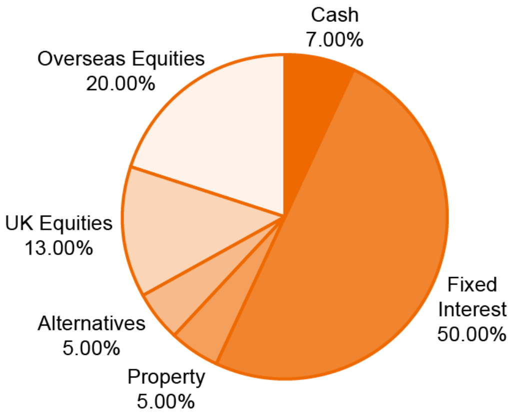




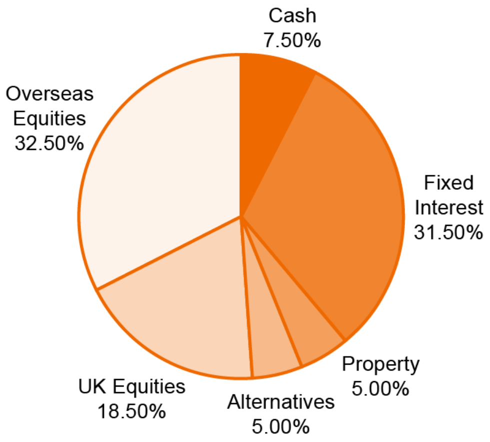




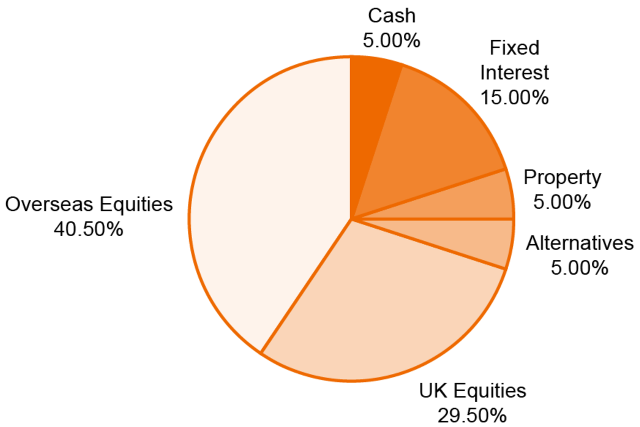
Ethical Cautious



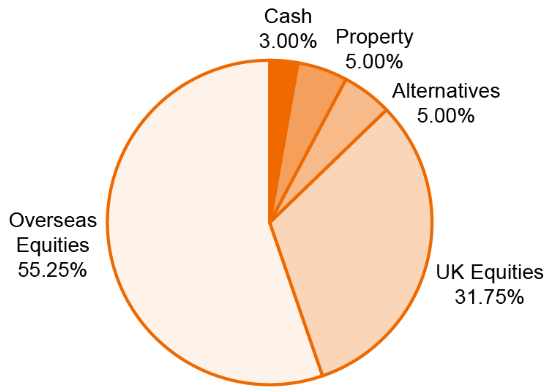
Ethical Balanced



Ethical Growth



Ethical Adventurous



MMWealth
Chartered Financial Planners

Disclaimer

Opinions constitute our judgment as of this date and are subject to change without warning. The value of investments, and the income from them, can go down as well as up, and you may not recover the amount of your original investment. Past performance is not a reliable indicator of future results and forecasts are not a reliable indicator of future performance. Where an investment involves exposure to a foreign currency, changes in rates of exchange may cause the value of the investment, and the income from it, to go up or down. The information in this document is not intended as an offer or solicitation to buy or sell securities or any other investment, nor does it constitute a personal recommendation.

MM Wealth is authorised and regulated by the Financial Conduct Authority. Registration Number: 148496.
MM Wealth Ltd Wellbrook Court, Girton, Cambridge CB3 0NA 01223 233331 info@mmwealth.co.uk