Belvest

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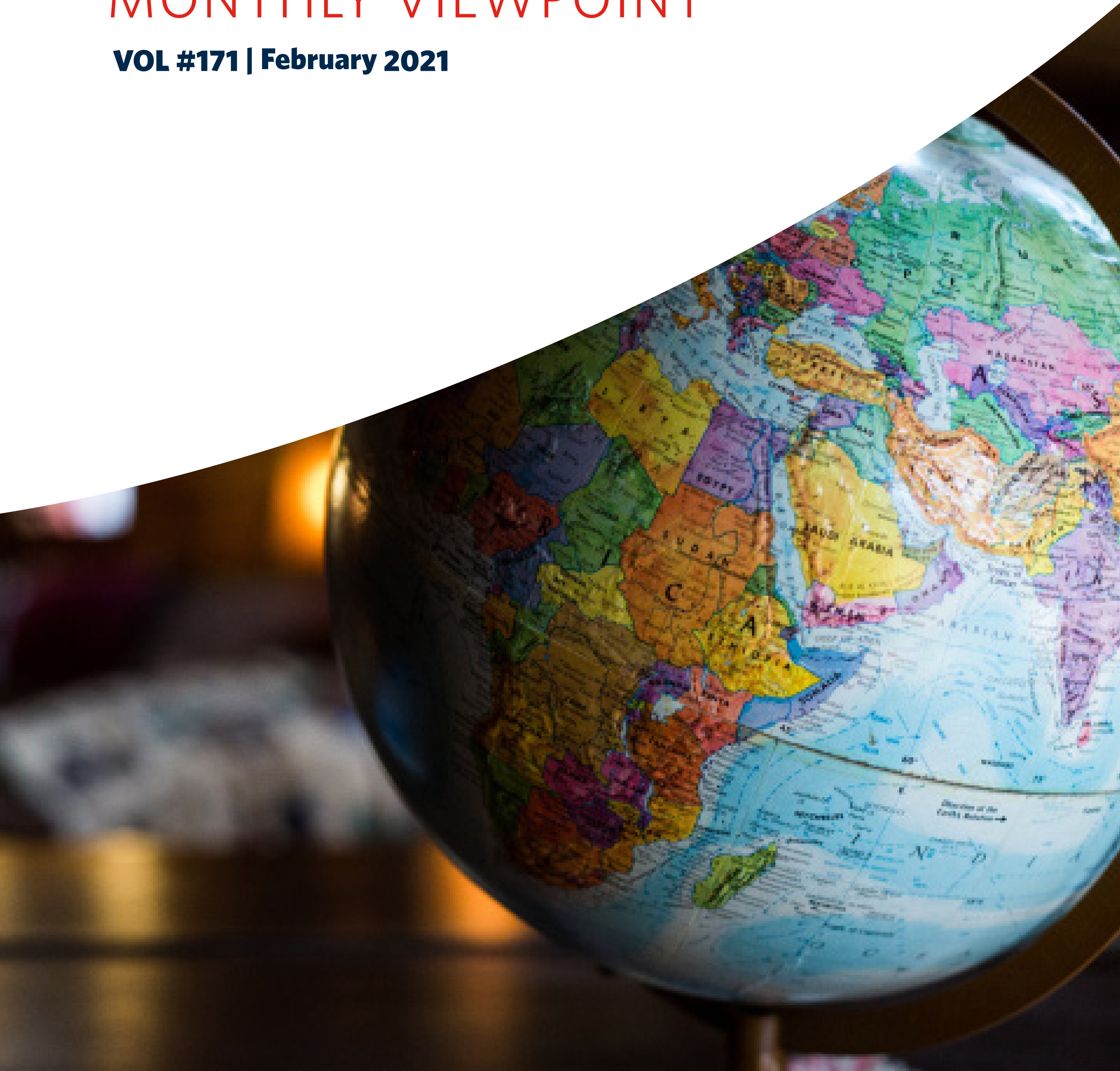
GLOBAL MATTERS
MONTHLY VIEWPOINT

VOL #171 | February 2021



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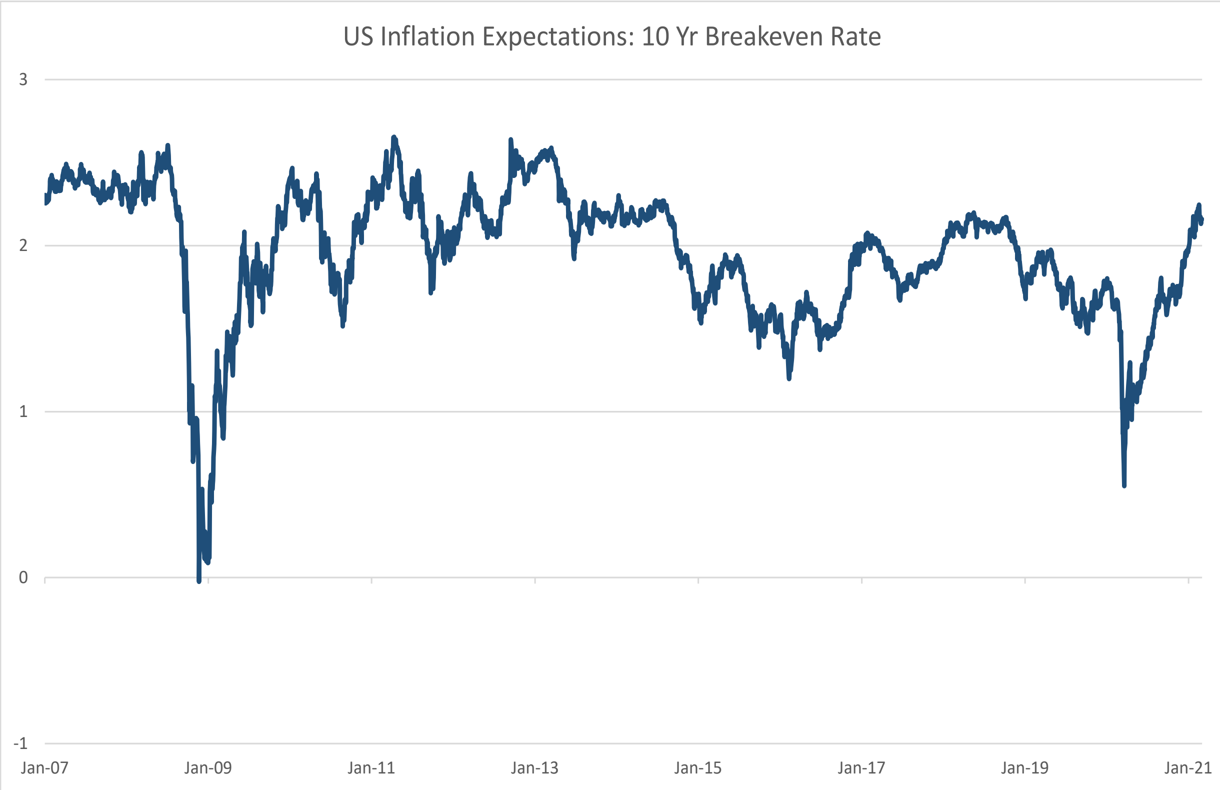
MARKET REVIEW

One year ago coronavirus began to ravage the global economy and stock markets. The ensuing recession was the worst since the Great Depression, yet over those 12 months global equities have returned almost 30%, despite a 35% decline in the initial few weeks of the pandemic. Emergency policy support on an unprecedented scale underpinned markets, more recently turbo-charged by the extraordinary success of the vaccine development and roll-out programme. The narrative has moved to the scale of the economic recovery ahead and its implications for inflation: the reflation trade has been gathering pace and came to dominate markets in February.

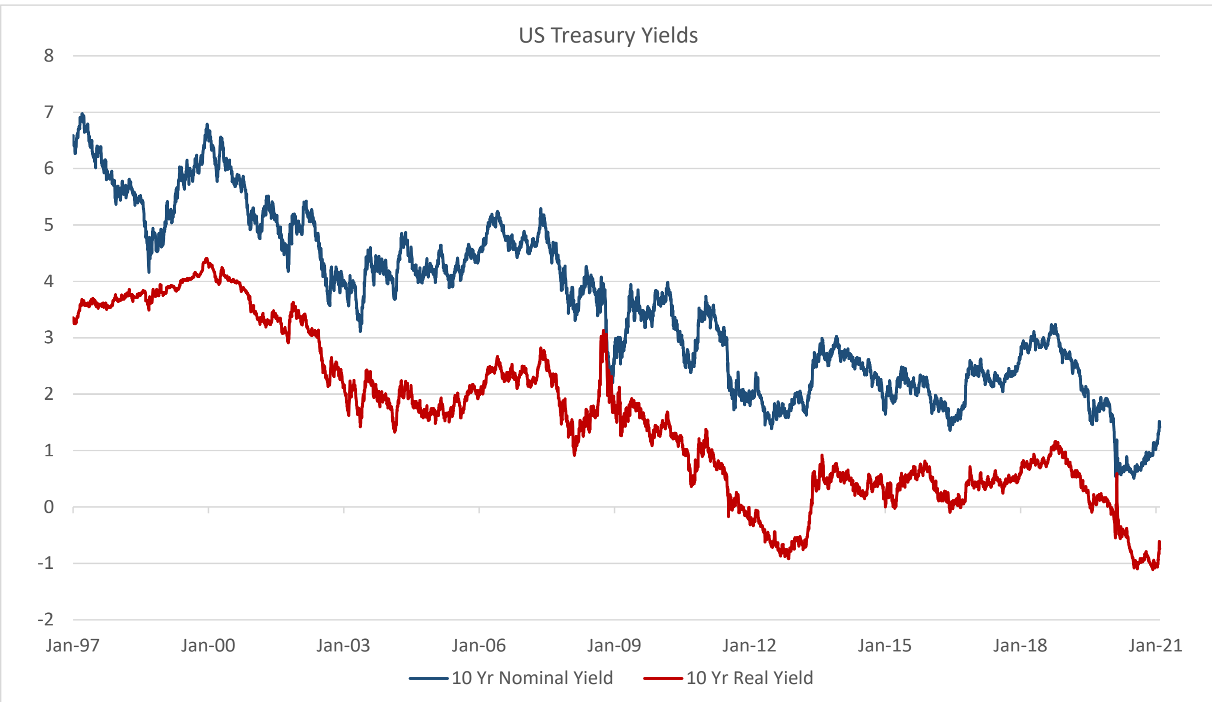
Confidence in recovery has been growing since the vaccine news and Biden's election success in early November, and was boosted in February by encouraging data showing economies are weathering the current covid restrictions better than expected, by some lifting of those restrictions, especially in the US, by rising consumer and business confidence, and by the increasing likelihood that Biden's pandemic fiscal package of $1.9tn will pass through Congress successfully and speedily. A substantial proportion, some $1tn, of the package consists of direct aid to households, and is likely to provide an immediate and sizeable boost to the economy, which is now expected to return to its pre-pandemic levels during the second half of 2021. With the Federal Reserve reaffirming its dovish stance, asserting that the increase in inflation as the economy strengthens in coming months is not likely to be large or persistent, and inflation risks are still to the downside, investors rotated into areas most exposed to the recovery and away from those considered vulnerable to stronger growth and a pick-up in inflation.

Prime among the latter were government bonds. Yields had been steadily rising in recent months: after reaching all-time lows of 0.5% in August 2020 the yield on 10 year US Treasuries had moved up to 1% by the end of January then surged a further 35bps in February to reach 1.4%. Driving yields this month, however, was a significant rise in real yields, in contrast to preceding months when rising inflation expectations pushed yields up. Nearly all the 35bps move in February was reflected in real yields – although this should be kept in perspective as real yields are still well into negative territory at -0.7% on 10 year bonds. Nevertheless the pace and size of the shift was enough to worry investors, raising concerns that the scale of the recovery ahead, fuelled by fiscal largesse in the US, and the Fed's ultra-dovish approach, could combine to cause a damaging rise in inflation.



Source: Bloomberg, Momentum Global Investment Management

Bonds sold off, with the biggest falls at longer maturities: shorter term interest rate expectations and yields remained anchored given the Fed's intent to keep rates at current levels until the end of 2023. However, this caused a further steepening of the yield curve, with 10 year Treasuries yielding 1.4% more than 2 year maturities by the end of February, whereas a year earlier the difference in yield had been close to zero.



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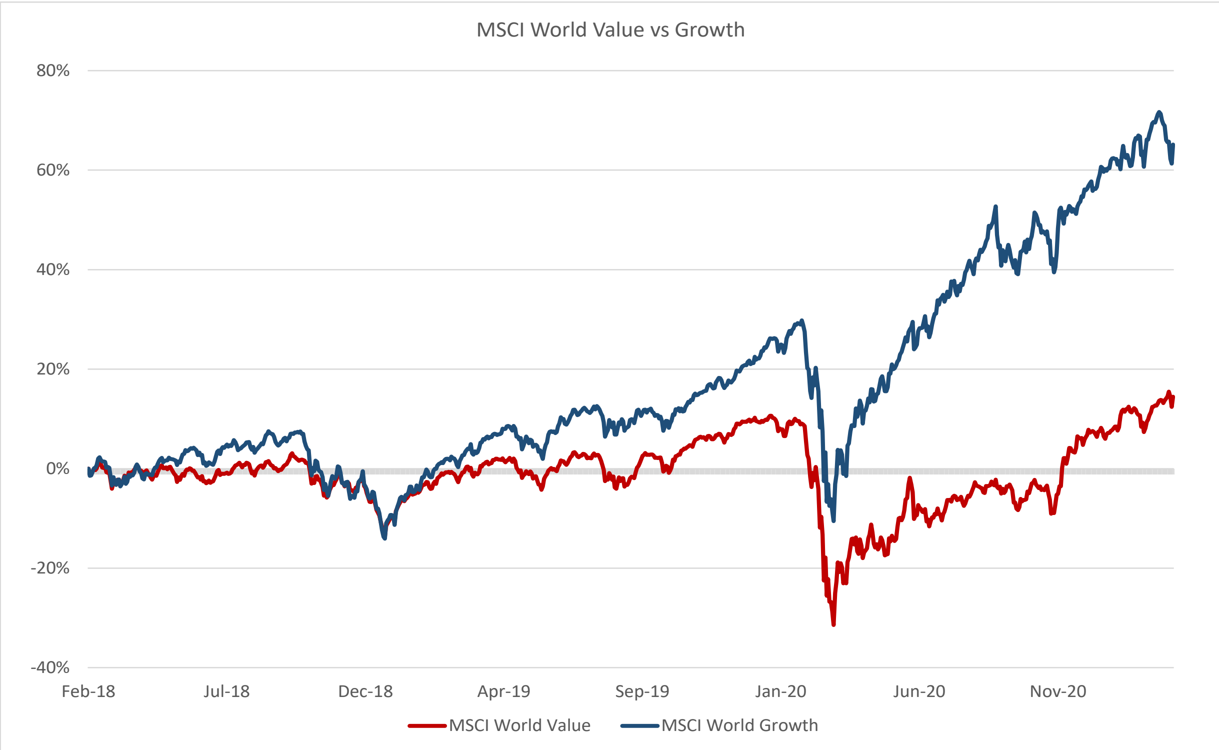

Source: Bloomberg, Momentum Global Investment Management

Commodity markets reflected the shift in circumstances. Precious metals sold off as real rates rose, with gold down over 6%, whereas industrial metals rose sharply, copper up 16%, and the oil price was up 18%, taking it back to pre-pandemic levels, as demand improved and drawdowns of inventories accelerated in the face of supply constraints.

Events in February have been significant. The rise in yields on bonds, both nominal and real, was material, and sends a warning signal. Inflation expectations have increased sharply in recent months, and there are worries that the release of huge pent up demand as covid restrictions are eased will be fuelled by the extraordinary amounts of fiscal stimulus in the US, as well as extremely dovish Fed policy, with no signs of any shift in policy for a considerable time. While very positive for the global economy – expectations for growth this year are being steadily upgraded by forecasters – and the corporate sector, especially in the most economically sensitive areas, it raises concerns that inflation will rise significantly and be more persistent than due simply to the base effects of last year's near zero price rises. This in turn could trigger further rises in bond yields and potentially a shift by the Fed away from its ultra-loose policy; rising inflation, higher yields and a 'taper tantrum' have been our biggest risk factors for 2021.

However, we need to keep the risks in perspective. Inflation expectations have risen but have returned essentially to pre-pandemic levels and at around 2.1% over 10 years are in line with Fed targets. There remains ample slack in economies and employment levels are well below pre-pandemic levels. Bond yields have risen but from the lowest levels in history and are still well into negative territory in real terms (as well as nominal terms in many Eurozone markets). Financial conditions remain very easy and liquidity is abundant. With one of the biggest economic recoveries in history to come in the second half of 2021 into 2022 these do not appear to be the conditions for a sustained fall in risk assets. We expect bouts of volatility such as that of the past few weeks, and we are still cautious about bond markets, but yields on longer dated maturities are beginning to return to more realistic levels, and equities offer good opportunities to participate in the recovery, especially in value sectors, which seem set to recover some of their underperformance against growth stocks of the past few years.

Market Performance - Global (local returns)

			To 26 February 2021			
Asset Class / Region	**Index**	**Currency**	**1 month**	**3 months**	**YTD**	**12 months**
Developed Markets Equities						
United States	S&P 500 NR	USD	2.7%	5.5%	1.6%	30.6%
United Kingdom	MSCI UK NR	GBP	1.8%	4.4%	1.2%	-0.1%
Continental Europe	MSCI Europe ex UK NR	EUR	2.2%	3.2%	1.1%	12.1%
Japan	Topix TR	JPY	3.1%	6.4%	3.4% e	26.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.4%	11.9%	4.9%	39.3%
Global	MSCI World NR	USD	2.6%	5.8%	1.5%	29.3%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	1.3%	9.4%	-1.1%	5.1%
Emerging Asia	MSCI EM Asia NR	USD	0.9%	12.7%	5.3%	45.7%
Emerging Latin America	MSCI EM Latin America NR	USD	-3.0%	1.3%	-9.5%	-6.0%
China	MSCI EM China NR	USD	-0.3%	8.9%	3.5%	31.9%
BRICs	MSCI BRIC NR	USD	-1.0%	9.2%	6.3%	43.1%
Global emerging markets	MSCI Emerging Markets NR	USD	0.8%	11.5%	3.9%	36.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-2.3%	-3.7%	-3.4%	-0.8%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.8%	-0.4%	-1.6%	5.8%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.7%	-2.6%	-3.0%	2.8%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.4%	2.6%	0.7%	9.3%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-5.6%	-5.7%	-7.2%	-4.0%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-3.0%	-2.4%	-3.9%	1.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.9%	-2.4%	-2.5%	-0.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.8%	-0.7%	-0.9%	1.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.6%	1.8%	1.1%	5.1%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-1.0%	-1.3%	-1.3%	-3.6%
Australian Government	JP Morgan Australia GBI TR	AUD	-4.5%	-5.5%	-5.1%	-5.1%
Global Government Bonds	JP Morgan Global GBI	USD	-2.4%	-2.6%	-3.7%	2.5%
Global Bonds	ICE BofAML Global Broad Market	USD	-2.0%	-1.9%	-3.0%	3.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	2.6%	12.0%	5.2%	47.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-3.7%	-3.6%	-5.4%	-0.2%

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns. e= estimate

			To 26 February 2021			
Asset Class / Region	**Index**	**Currency**	**1 month**	**3 months**	**YTD**	**12 months**
Property						
US Property Securities	MSCI US REIT NR	USD	3.9%	7.4%	4.1%	2.1%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	-3.2%	-8.0%	-7.1%	-15.2%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	6.9%	6.2%	6.8%	3.7%
Global Property Securities	S&P Global Property USD TR	USD	3.5%	5.8%	2.5%	3.1%
Currencies						
Euro		USD	-0.5%	1.2%	-1.2%	9.5%
UK Pound Sterling		USD	1.6%	4.6%	1.9%	8.7%
Japanese Yen		USD	-1.7%	-2.1%	-3.0%	1.5%
Australian Dollar		USD	0.8%	4.9%	0.2%	18.3%
South African Rand		USD	0.3%	2.4%	-2.8%	3.5%
Commodities & Alternatives						
Commodities	RICI TR	USD	9.2%	20.3%	13.8%	22.1%
Agricultural Commodities	RICI Agriculture TR	USD	4.6%	17.9%	9.6%	38.0%
Oil	Brent Crude Oil	USD	18.3%	39.0%	27.7%	30.9%
Gold	Gold Spot	USD	-6.1%	-2.4%	-8.7%	9.4%
Hedge funds	HFRX Global Hedge Fund	USD	1.5%	3.8%	1.3%	9.4%
Interest Rates				**Current Rate**		
United States				0.25%		
United Kingdom				0.10%		
Eurozone				0.00%		
Japan				-0.10%		
Australia				0.10%		
South Africa				3.50%		

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns. e=estimate

Market Performance - UK (all returns in GBP)

			To 26 February 2021			
Asset Class / Region	**Index**	**Local Currency**	**1 month**	**3 months**	**YTD**	**12 months**
Equities						
UK - All Cap	MSCI UK NR	GBP	1.8%	4.1%	1.0%	-0.2%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.2%	3.9%	1.4%	-2.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	0.4%	4.4%	-0.3%	6.0%
UK - Small Cap	MSCI Small Cap NR	GBP	4.0%	10.0%	2.7%	10.5%
United States	S&P 500 NR	USD	1.0%	1.0%	-0.5%	19.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.0%	-0.1%	-2.2%	12.7%
Japan	Topix TR	JPY	-0.5% [e]	-0.4%	-2.4% [e]	17.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.4%	7.1%	2.7%	27.5%
Global developed markets	MSCI World NR	USD	0.8%	1.4%	-0.6%	18.4%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.0%	6.8%	1.7%	24.5%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-5.8%	-5.9%	-7.5%	-4.3%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.7%	-0.6%	-0.9%	0.1%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-3.8%	-3.8%	-4.7%	-2.4%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-9.7%	-10.0%	-12.5%	-8.1%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-5.1%	-7.6%	-8.0%	-3.6%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-2.7%	-3.4%	-3.6%	-1.8%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-6.7%	-10.1%	-10.7%	-4.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-3.0%	-2.4%	-3.9%	1.3%
US Treasuries	JP Morgan US Government Bond TR	USD	-4.0%	-8.0%	-5.6%	-9.3%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.7%	-2.6%	-3.0%	2.8%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.4%	2.6%	0.7%	9.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-1.9%	-2.4%	-2.5%	-0.5%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.8%	-0.7%	-0.9%	1.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.6%	1.8%	1.1%	5.1%
Global Government Bonds	JP Morgan Global GBI	GBP	-4.1%	-6.7%	-5.8%	-6.2%
Global Bonds	ICE BofAML Global Broad Market	GBP	-2.0%	-1.9%	-3.0%	3.3%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	2.6%	12.0%	5.2%	47.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-5.3%	-7.7%	-7.4%	-8.6%

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns.

			To 26 February 2021			
Asset Class / Region	**Index**	**Local Currency**	**1 month**	**3 months**	**YTD**	**12 months**
Property						
Global Property Securities	S&P Global Property TR	GBP	1.7%	1.3%	0.3%	-5.7%
Currencies						
Euro		GBP	-2.1%	-3.1%	-3.0%	0.8%
US Dollar		GBP	-1.6%	-4.3%	-1.9%	-8.0%
Japanese Yen		GBP	-3.3%	-6.4%	-4.9%	-6.7%
Commodities & Alternatives						
Commodities	RICI TR	GBP	7.3%	15.2%	11.4%	11.8%
Agricultural Commodities	RICI Agriculture TR	GBP	2.8%	12.9%	7.3%	26.3%
Oil	Brent Crude Oil	GBP	16.3%	33.1%	25.0%	19.8%
Gold	Gold Spot	GBP	-7.8%	-6.6%	-10.6%	0.1%
Interest Rates				**Current Rate**		
United Kingdom				0.10%		
United States				0.25%		
Eurozone				0.00%		
Japan				-0.10%		

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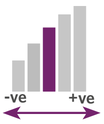
Equities

Developed Equities



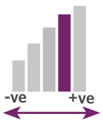
» 2021 has had a decent start for risk markets and positive sentiment is buying equity markets. Undoubtedly risks remain to the global economy but recent newsflow has been a tailwind for risk assets and positive developments on the vaccine front from should provide a base for pent up demand and growth later in the year

» Policy measures remain accommodative and are likely to remain so for some time

+ Despite lofty index valuations in some markets and sectors, global equities still offer selective regional and sectoral value, and a return advantage over bonds

− Earnings will continue to be impacted, or fail to recover, if vaccine development proves less effective or more difficult to roll out than currently thought

UK Equities



» Covid 19, and to a reducing extent Brexit, continue to drive risk appetite in the UK today. UK equities rallied into the end of the year as a Brexit deal was agreed and the run continued into January before ebbing more recently. Nonetheless they remain one of the better performing markets year to date

» The UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, which makes them less sensitive when/if those issues resurface. Thus the UK is not unattractive when thinking beyond 2020, and the recent style rotation could help UK equities edge higher

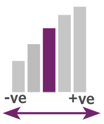
+ Most UK assets remain near a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels

+ The UK offers some scope for a cyclically led catch up should the vaccine rollout continue to proceed succesfully and the roadmap out of lockdown plays out as guided by the government

− The UK is only just starting to edge out lockdown - and not for the first time. The UK high street is already under extreme pressure and any withdrawal delay - or worse, a return - would be damaging to growth expectations

− The banks and energy heavy UK index may struggle if the recent rotation loses momentum

European Equities

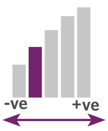


» Like the UK, and increasingly other parts of the world, Europe is dealing with localised lockdowns as new variants and cases re-emerge. The European Recovery Fund and continued support from the ECB should help support European risk assets through 2021,not least by keeping funding costs low

+ Continued ECB asset purchases and policy stimulus will provide support to risk assets in the region

− The ECB has little room to manoeuvre with rates at current levels; more devolved fiscal action and helicopter money may be needed longer term

US Equities



» The vaccine programme is well underway in the US and Biden's $1.9trn stimulus plan has recently passed. This provides a positive backdrop for the US as the economy returns to a new normality. We still view the US market in aggregate as somewhat expensive, but active stockpickers have opportunities today. Headline valuation however keeps the US view in check for now, and recent price moves in growth stocks following yield increases should be viewed as somewhat healthy

+ The US remains one of the higher quality markets, and the Dollar something of a haven should the recent positive sentiment wane. It is a natural home for those looking to add to their equity allocations, and that could keep US equities supported despite froth in some places

+ The Fed stimulus is constructive for credit, risk assets and by extension should be constructive for equities

− US equity index valuations remain elevated vs other regions today, and market activity, including the likes of the GameStop rise and fall, and something of a SPAC frenzy, suggests an element of frothiness

− Trade and geopolitical risks remain and the bipartisan hard line on China may reassert itself as Biden's administration beds in

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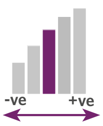


» At a high level, and considering demographics and locality, Japan has probably had a better outcome from the virus to date than many might have expected. Prospects look reasonable on a sustained pick up in business activity through 2021 should global economic activity continue to rebound

+ BoJ ETF buying remains supportive for Japanese risk assets. Asia has stayed ahead of other global regions in the post Covid cycle and Japan is well placed to benefit from local and global demand as the rebound in economic activity, fuelled by pent up demand, continues

+ The Japanese equity market looks relatively attractive on a valuation basis

− In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities

Emerging Market Equities

» On a longer term view we remain in favour of EM assets more generally over DM but recognise the continuing risks to developing economies from the Corona virus not least in securing and distributing vaccines, and the pressure on local health infrastructure and government budgets

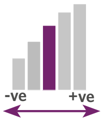
» EM equities have continued to gain alongside global equities in recent months, proving quite resilient on market weakness, and stand to gain further if a sustained rebound materialises

+ EM currencies remain lower in aggregate than a year ago, but have recovered meaningfully as the panic subsided, recovery gathered pace and the Dollar fell. At a lower level, for businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020

− Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative newsflow and any reversal in the recent pick up in sentiment, would likely crimp returns
Recent Dollar strength has proved to be a headwind to the recent strong EM run

Equities

Developed Equities



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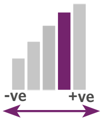

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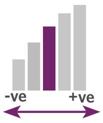

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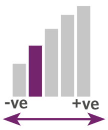

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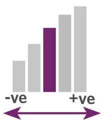

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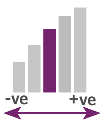
\+ The Japanese equity market looks relatively attractive on a valuation basis

– In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities

Emerging Market Equities



» On a longer term view we remain in favour of EM assets more generally over DM but recognise the continuing risks to developing economies from the Corona virus not least in securing and distributing vaccines, and the pressure on local health infrastructure and government budgets

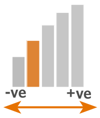
» EM equities have continued to gain alongside global equities in recent months, proving quite resilient on market weakness, and stand to gain further if a sustained rebound materialises

\+ EM currencies remain lower in aggregate than a year ago, but have recovered meaningfully as the panic subsided, recovery gathered pace and the Dollar fell. At a lower level, for businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020

– Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative newsflow and any reversal in the recent pick up in sentiment, would likely crimp returns
Recent Dollar strength has proved to be a headwind to the recent strong EM run

Fixed Income

Government



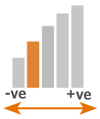
» DM government bond prices remain high/yields low despite the more recent back up in yields. They provide some diversification still but cash may prove a better diversifier until a higher level of yields and steeper curves are reached. Nonetheless, given the back up recently seen, and the increasingly consensus view on a reflationary recovery, government bonds offer a modicum of tactical value today

\+ Quality government bonds remain one of the better diversifiers, over the long term, in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having some exposure depsite extreme valuations

– Liquidity in the treasury market has been tested several times over the last year, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower, which has been provided

– A continued spike in inflationary expectations could see 'risk free' bonds continue to sell off sharply, as has been the trend in recent weeks

Index-linked
Relative to government



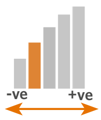
» Inflation linked bonds cheapened in the Covid induced sell off but have rebounded meaningfully in the interim, but still offer some value. Whilst near term inflation risk looks limited, over 5 to 10 years we take a more constructive view and view breakevens more favourably, preferring over pure rate risk in select markets

\+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk, and with the amount of money pumped into the system, and more scope for helicopter style money, it is a more meaningful concern down the line

\+ The Fed's inflation stance has changed, and is likely to mean periods of higher inflation will be tolerated

– Inflationary forces remain muted today, and the reflation trade is becoming an increasingly consensus view Inflation linked bonds are senstive to rising real rates

Investment Grade Corporate
Relative to government

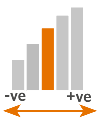


» Investment grade bond spreads have largely normalised after the recent tightening, but are likely to remain supported. With yields now near new lows though, longer term real returns are threatened

\+ Central bank buying of IG bonds provides a tailwind for the asset class; there may still be some upside on the table

– Liquidity remains a concern, and IG is starting to look rich again. The IG universe remains at greater risk of BBB downgrades

High Yield Corporate



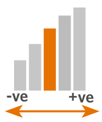
» Like their investment grade corporate cousins, high yield spreads have tightened meaningfully, but still offer some value and a reasonable yield. We are mindful of the more equity like characteristics of the asset class, and continued sensitivity of the (US) index to energy

\+ Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning

– Any further weakness in equity markets, for which there is a real possibility at this time, will likely hit HY bonds more than IG

– There is still a meaningful amount of energy exposure in US high yield markets which remains sensitive to any renewed pressure on oil prices

Emerging Market Debt



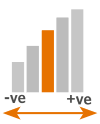
» The asset class continues to look optically attractive, yields well, and we continue to rate favourably. Risks clearly remain and some EM countries still have high Covid infection rates, and vaccine rollouts are lagging developed markets, so as with EM equity some caution recommended

\+ Despite recent strength we believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, and implied default rates look excessive

– Any renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt

– EM governments will come under more pressure if Corona related expenditure and support continues to rise

Convertible Bonds

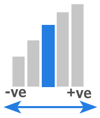


» Convertible bonds had a stellar 2020. The perfect outcome for the asset class.
We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, but are mindful of the growthier profile of the underlying companies and the risk to pricing, hence more neutral today

\+ The natural convexity provided by convertibles should continue to provide reasonable protection against any renewed equity weakness

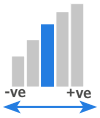
– Any sustained dampening of implied and realised vols to more normal levels may crimp future returns

Commodities



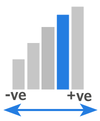
- » The price of commodities has moved a lot through 2020 and early 2021, and oil's dip into negative territory and subsequent rebound demonstrates the extremes this go to. As the recovery in economic activity continues we would expect some upside but clearly the asset class and individual commodiites are highly sensitive to the economic backdrop
- » Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle
- + Gold remains a reasonable hedge against risk off outcomes
- + Any cyclical upside and a post vaccine ramp up in industrial production should help industrial commodity prices move higher
- − Coronavirus weighed on the industrials commodities sector through the first half of 2020, and supply chains may remain challenged, until vaccines are rolled out more widely
- − Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in real rates, something we've seen recently

Property



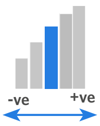
- » Property remains an attractive asset class for investors requiring yield. Rental collections are improving and dividends being reinstated, and the vaccine news is a strong positive for the asset class
- » When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property holds appeal, with selective industrial, data centres and residential having more attractive fundamentals than certain under pressure retail and office sectors
- + Premium yields and quality assets makes the asset class attractive
- + The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios
- − As a long duration asset class property remains susceptible to any repricing in long term bond yields
- − The retail & office sectors remain under pressure as a result of COVID-19
- − Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income, should lockdowns be prolonged

Infrastructure



- » Infrastructure stocks had lagged the Covid rebound and thus remain reasonably attractive today. Their income generating potential should in the medium term support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment remains strong in the medium to longer term
- » The recent passing of Biden's $1.9trn stimulus programme could provide a tailwind
- + In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing
- + The asset class offers a decent yield at a reasonable valuation today - both equity and debt flavours
- − As a long duration asset class infrastructure remains susceptible to any repricing higher in long term bond yields.
- − Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks

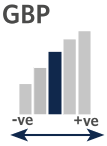
Liquid Alternatives



- » We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles
- » We favour owning an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds remaining expensiv
- + These strategies provide additional diversification with reasonable return potential, at a time when other traditional diversifiers, such as treasuries, remain expensive
- − The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable

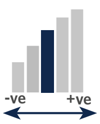
£/€/¥ Currencies*

GBP



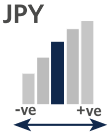
- » 'Cable' can look forward now that a Brexit deal has been secured. The possible downward bias to base rates, which seems to have been parked after the latest BoE meeting, is unlikely to lift the currency higher anytime soon, but it remains somewhat cheap on long term valuation measures

EUR



- » The Euro has shown itself to be the favoured carry currency in recent years and 'Covid covering' helped support it through the worst of 2021 despite the negtive rate backdrop in continental europe.
- » In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today

JPY



- » Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap and following the currency's steady year to date decline a more neutral stance is appropriate today
What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk.

For more information, please contact your adviser or alternatively contact:

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