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MODEL PORTFOLIO SERVICE

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ECONOMIC AND FUND REVIEW

As we digest the first quarter of 2021, it is clear that a strong, vaccine-driven recovery is now unfolding around the world. It is US-led but global in scale, synchronised across regions and fuelled by generous monetary and fiscal policies. Thanks to vaccination progress the US and UK have both targeted full reopening on 4 July and 21 June, respectively. However, where vaccine progress has been weaker, we are seeing further lockdowns imposed, Europe in particular. The improving outlook continues to be well received by equity markets, the US market reaching new highs. And with macroeconomic data all pointing towards a synchronised cyclical recovery, underpinned by record fiscal packages and new commitments to climate and infrastructure spending, inflation expectations have surfaced seeing bond yields rise and negative returns in fixed income. Gold also continued to retrace.

Against this backdrop, Barings Europe Select was the strongest performer over the month. We are not fixated on month-to-month performance, but Nicholas Williams and the team at Barings have an exceptional long-term track record in European Smaller Companies and we retain a high level of conviction.

By contrast, Fidelity Index Emerging Markets was the worst performer over the month, driven by a sell-off in Chinese Stocks with MSCI China down some 6.1% over March.

There were no outright fund purchases or sales in March. Within the Sarasin Thematic Global Equity fund, Amazon was purchased and Alibaba was sold. Both companies should continue to benefit from the digitalisation of the global economy, with dominant online retail and cloud businesses in their respective markets. However, following good long-term performance, growing concerns around the governance of Alibaba have, in our opinion, started to outweigh its relatively attractive valuation when compared with Amazon.

OUTLOOK

An improving infection outlook and mass vaccination rollouts mean that hopes of returning to normal are moving towards reality. And while this is undeniably positive news, the challenge of deploying the vaccine globally and for economies and societies to reopen fully, remains significant.

To revive economies, policy makers continue to draw on their playbook from the 2008 Financial Crisis but with greater urgency and scale. Central banks globally have shifted towards a more dovish monetary policy, potentially seeing lower rates for longer and a willingness to sustain higher inflation. Trillions in fiscal stimulus has also been pledged, targeting societal inequality with ‘levelling up’ policies, and industry stimulus such as Biden’s proposed infrastructure package and the UK’s ‘Green Budget’. Crucially, governments’ mentality towards debt has shifted, meaning we’re unlikely to see a return to the austerity that followed the 2008 crisis.

Over the long-term, we expect trends that the pandemic accelerated, such as e-commerce and working from home, are here to stay. Further opportunities will be driven by the shift to a more digital world, automation, climate change mitigation and adaptation, demographic trends and by shifts in consumption patterns in both the emerging and the developed markets.

Beyond the pandemic, there are other challenges we are monitoring closely. Rising inequality is our greatest worry and the consequences of the virus disproportionately affecting lower skilled, lower income populations. Global supply chains are also being tested, already fragile and now facing pressure from accelerating global demand, reshoring production and strategic supply nationalism.

Despite the challenges ahead, we remain positive on the prospects for a cyclical economic recovery in 2021 supported by international vaccination efforts. Ultimately, this combined with continued support from central banks should lead to an attractive environment for risk assets.

IMPORTANT INFORMATION

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