

Six Minute Strategy

An uneasy calm

June 2021

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



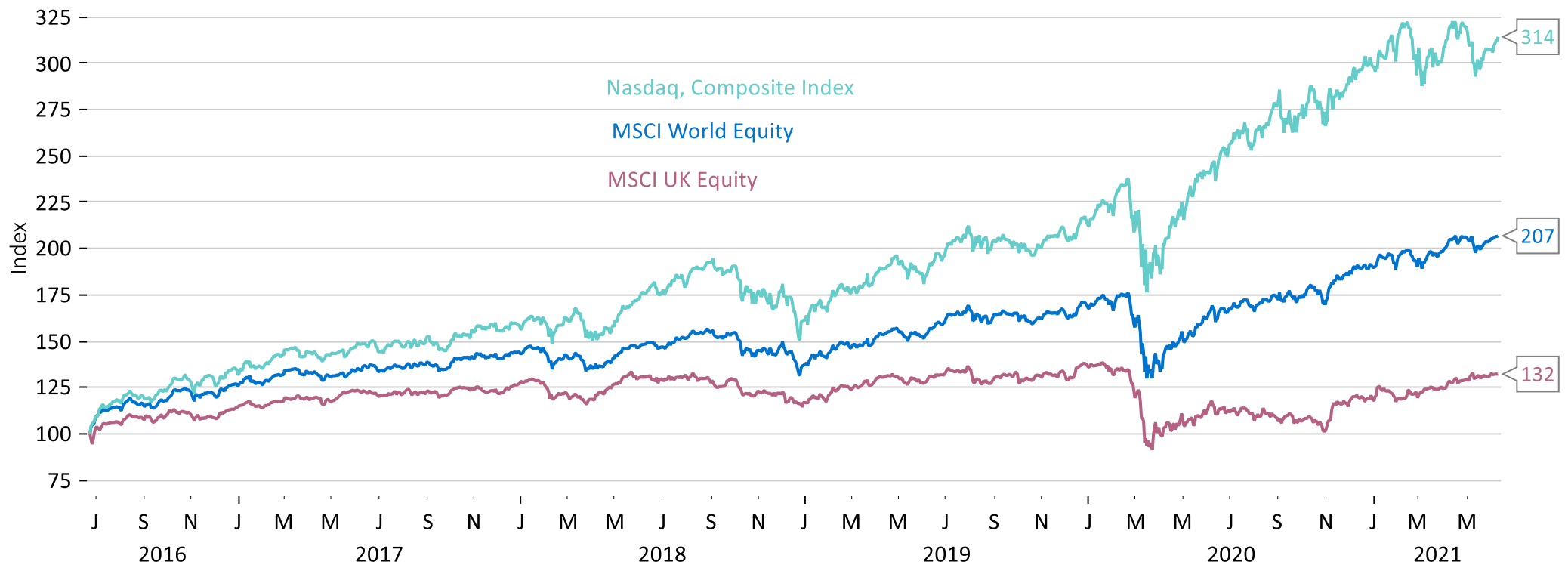
UK assets

Strong vaccination & employment data supportive of UK equities



UK equity underperformance since 2016 extraordinary

Global Equities since the Brexit Referendum (23/6/2016 = 100)



Source: Macrobond, 11.06.21

2021 global growth likely to be the strongest since 1973 as vaccine roll out continues

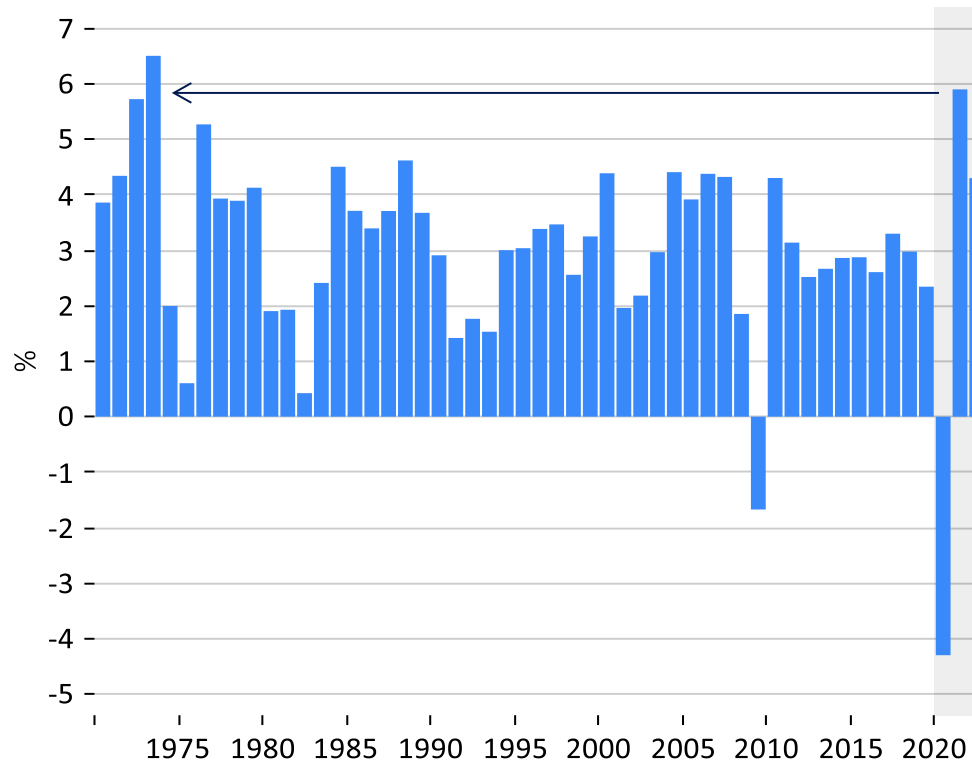


2021 global growth forecast of 6% strongest since 1973



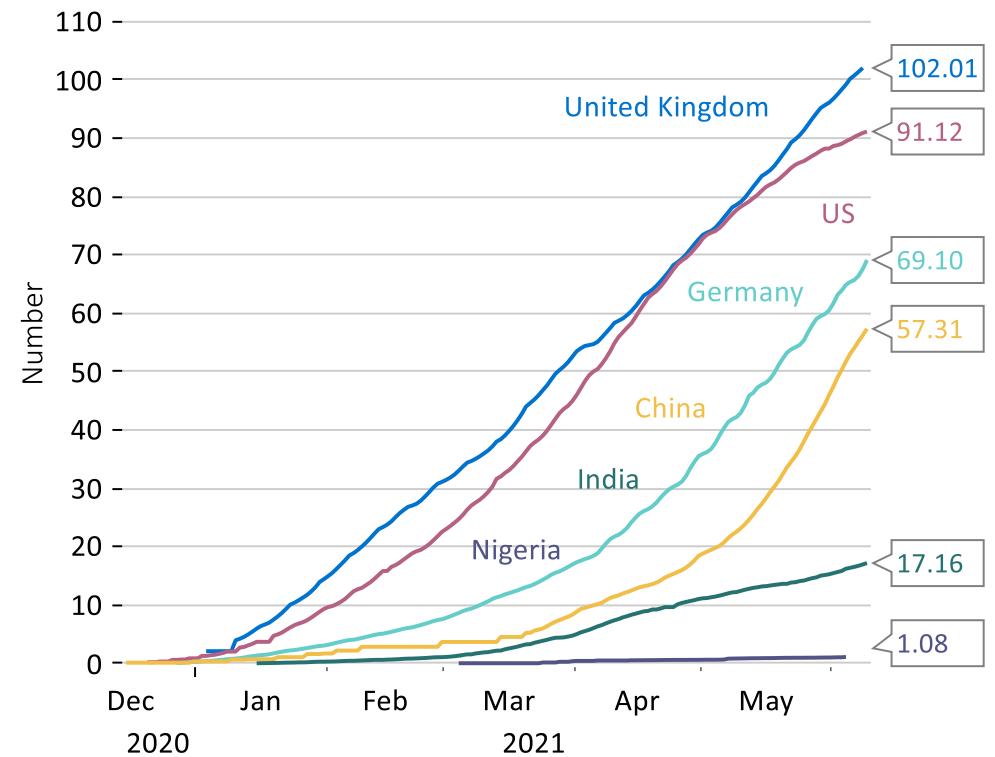
Vaccination rates accelerate – poorer countries need supply

Global GDP, USD, real



Source: Macrobond, 11.06.21

COVID-19 Vaccination Doses Administered per 100 People



Source: Macrobond, 11.06.21

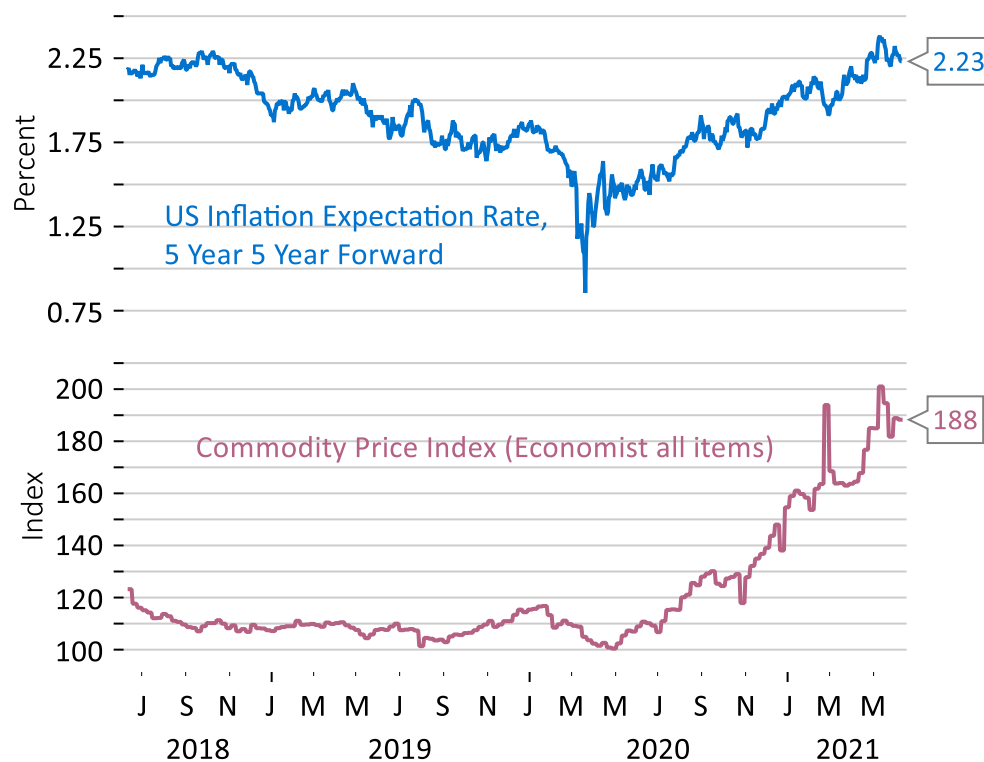
Global inflation dashboard

Some signs of commodity prices peaking – rise in US core rate concerning



Inflation expectations & commodity prices peaking?

Inflation Expectations and Commodities

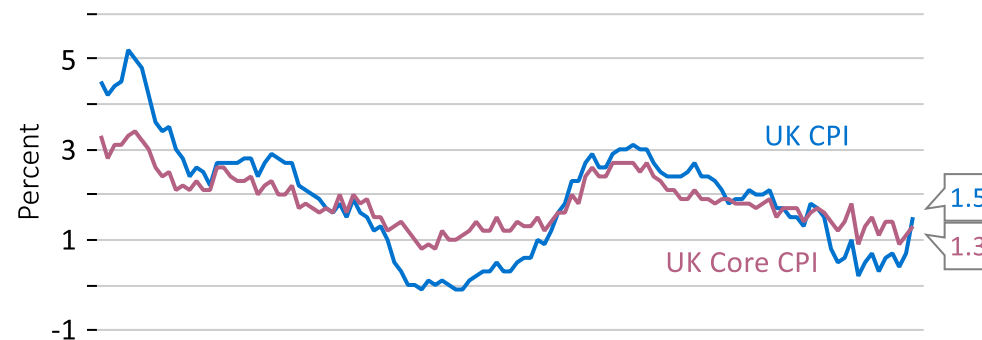


Source: Macrobond, 11.06.21

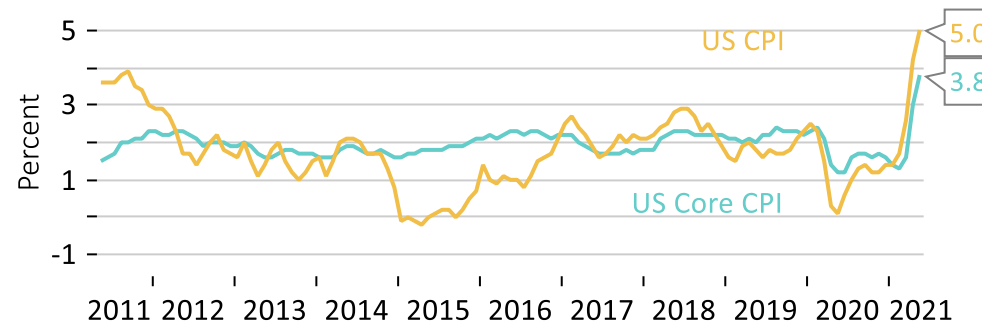


US core and headline rate climbs

UK inflation



US inflation



Source: Macrobond, 11.06.21

Policy response

With 8m US jobs lost the Federal Reserve can still wait – but inflation risks are not all transitory



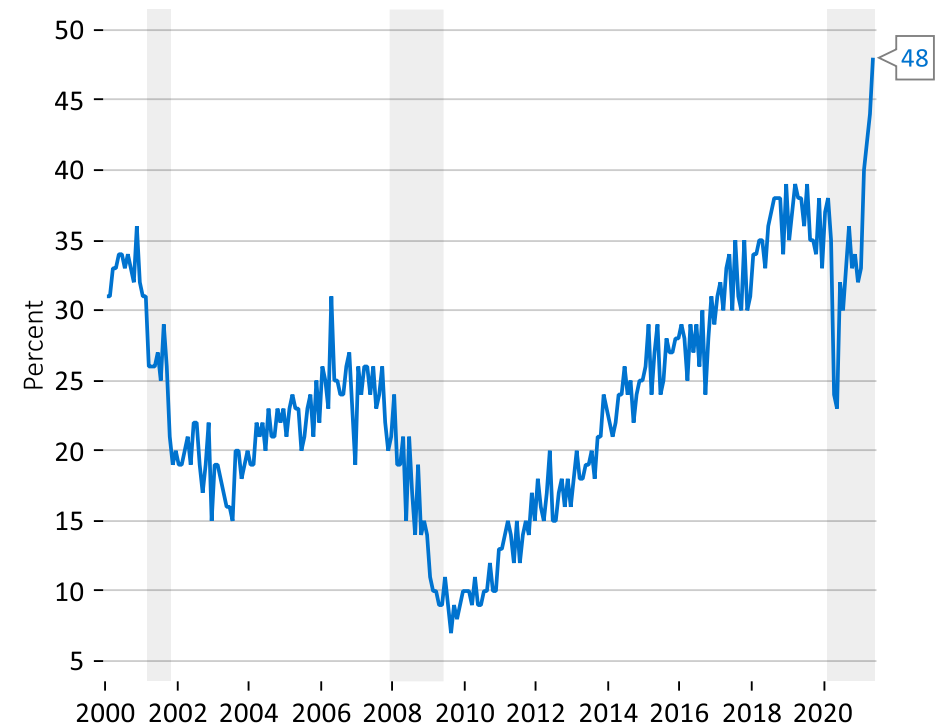
Why might inflation be more permanent?

1. Shortages give producers pricing power - they will be reluctant to let this go of right away.
2. Wage increases for new workers may cause firms to raise wages for existing workers in order to keep them.
3. The pandemic has caused firms to restructure their supply chains - bottlenecks may last longer than currently anticipated.
4. Cash rich consumers appear increasingly price insensitive as economies reopens (demand and supply are inelastic)



For specialist labour the market is extremely tight

US Job Openings, Positions Not Able to Fill Right Now



Source: Macrobond, 11.06.21

Volatility continues to fall for equities and bonds

A global recovery but with central banks not yet ready to tighten

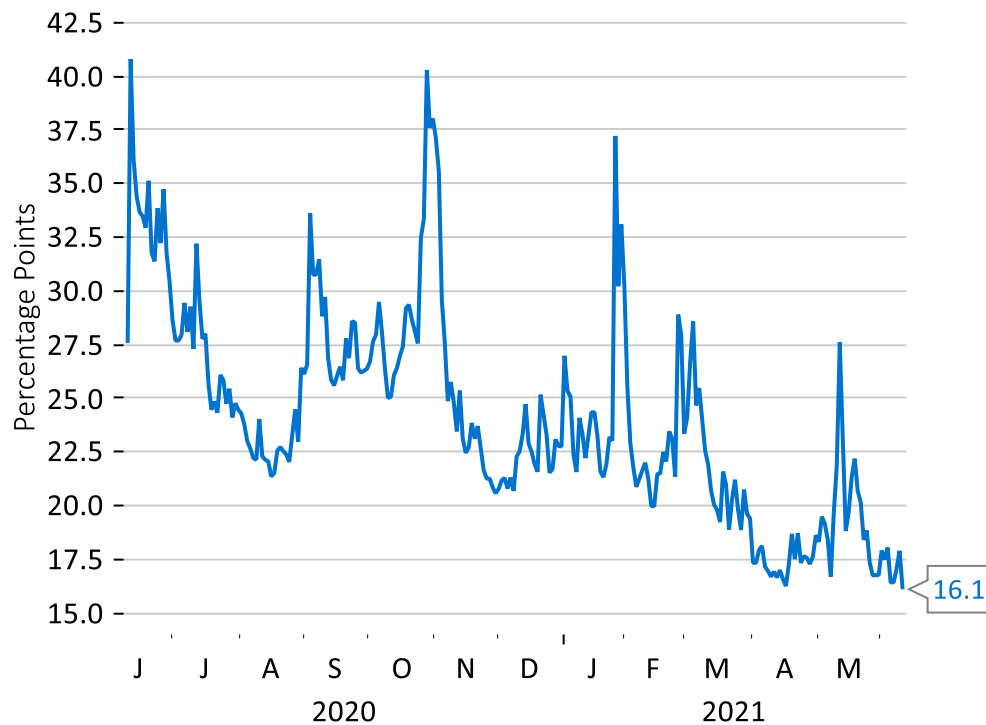


Equity volatility close to pre-COVID lows



Bond volatility falls despite inflation threat

US Equity Volatility (S&P500)



Source: Macrobond, 11.06.21


US Treasury Bond Volatility (Move Index)



Source: Macrobond, 11.06.21

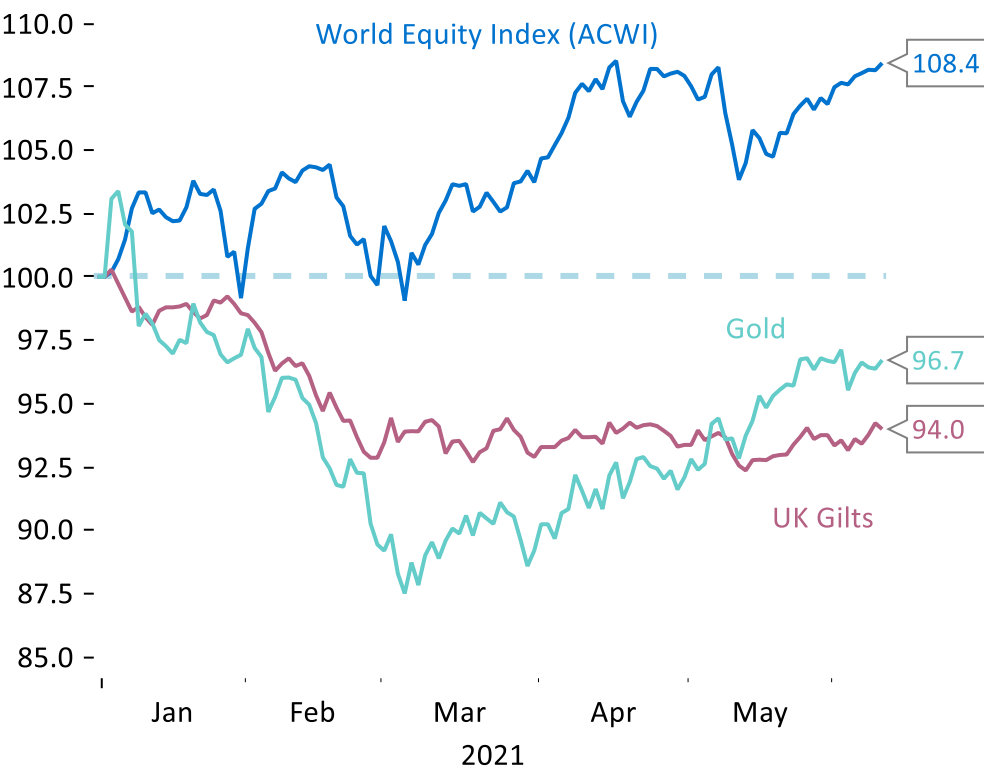
Equities: Market performance 2021 to date

Equities lead global asset returns – value style outperforms

 Equities rally, bonds & gold decline

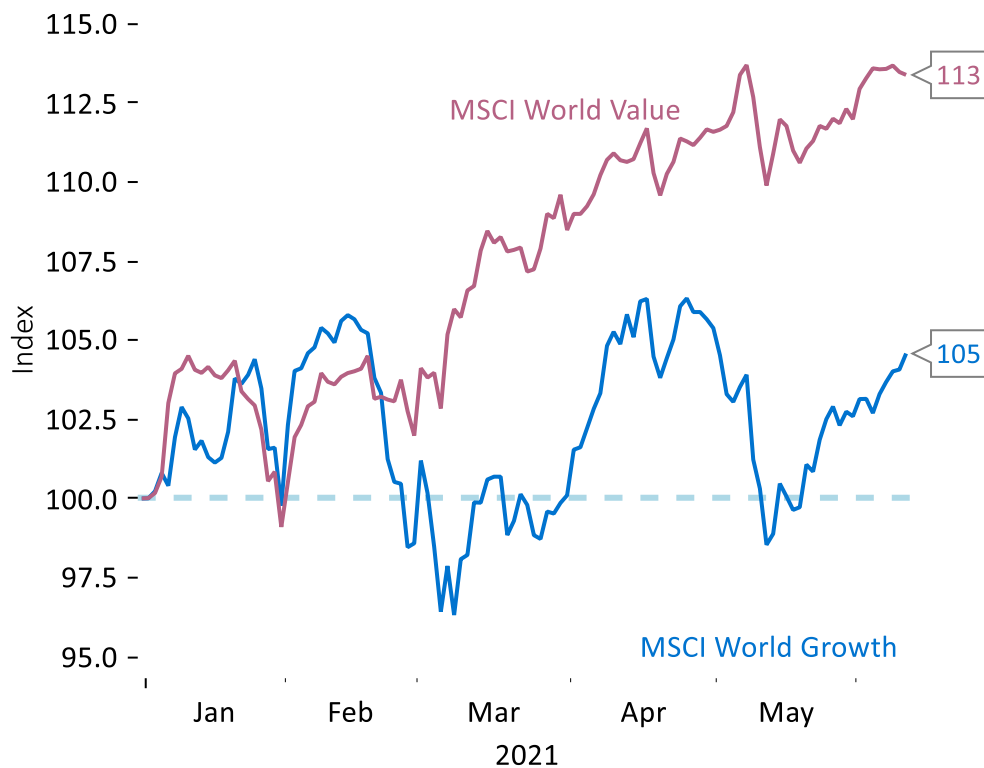
 Value lead widens over growth

Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 11.06.21

World Equity Style 2021



Source: Macrobond, 11.06.21

The vaccine led global recovery gathers pace

Bond yields trend higher – earnings and dividends climb – inflation risks rising



Global strategy update June 2021

Bonds	Strong Underweight <ul style="list-style-type: none">• Strong UW Government Bonds – a robust global recovery implies upside risks for yields• UW Investment Grade Credit – yield spreads narrow – UK charity & infrastructure issues offer social impact benefits
Equities	Overweight <ul style="list-style-type: none">• OW Global equities –earnings have scope to surprise – volatility to rise – consider portfolio insurance• OW UK equities – valuations attractive – flow of funds back to UK probable on Brexit deal• OW EM equities – China centric Asia managed COVID well – rest of EM vulnerable with poor access to vaccinations
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• OW Uncorrelated Alternatives – add to gold positions following recent price correction
Cash	Overweight <ul style="list-style-type: none">• Favour cash holdings rather than risk capital loss in bonds• No currency preference given similar macroeconomic policies/rates worldwide – Sterling hedges remain
Risks	Current: Unequal distribution of vaccines , disorderly bond markets Longer-term: Inflation pressures become entrenched, central bank policy error, China-Taiwan tensions

Important information

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