Monthly Commentary

May 2021

Market update and portfolio positioning

As economies gradually reopen, we expect global growth to improve, with demand remaining at elevated levels, and consumers eager to enjoy leisure activities and return to a sense of 'normality'. Whilst the tragic consequences of the pandemic continue in parts of the world, the pace of the vaccine rollout in others has given hope for a return to 'normal'. Higher growth will also be supported by a continuation of the enormous fiscal and monetary efforts provided by policy makers.

In the US, President Biden has used the pandemic to introduce radical changes going beyond what is required to recover from the pandemic. Following the $1.9 trillion American Rescue Plan to boost the economy, Biden has proposed a further $2.25 trillion American Jobs Plan aimed at improving US infrastructure, and another $1.8 trillion American Families Plan to invest in areas such as healthcare, childcare, education and research. Higher taxes for both corporations and the wealthy would fund these packages. However, Biden needs all 50 democratic senators and the Vice-Presidential vote to get the proposals passed, which may prove difficult. In any case, markets seem relieved that the latest plans appear more fiscally neutral. Equity markets, in particular, have also been supported by what many see as Biden's greatest achievement in his first 100 days: the vaccine rollout. The speed of the rollout has enabled the US economy to reopen much faster than many other countries around the world.

The loosening of restrictions and reopening of economies in countries with more successful vaccine rollouts, such as the US and UK, has driven a boost to consumer spending. As the world attempts to operate with certain precautions, this has led to numerous supply-demand imbalances. The release of pent-up demand in combination with supply constraints has led to soaring prices for a number of commodities. Central banks, however, continue to view any inflationary pressures as transitory. This was reiterated by the Bank of England's (BoE) Monetary Policy Committee, deciding to maintain their bond purchase targets and low interest rates. We are seeing a rapid pick-up in expected demand, accelerated by the likes of Biden's American Jobs Plan on expected infrastructure spending; however, expectations for global green infrastructure spending is compounding the issue. The shortage of commodity supplies will no doubt provide a further boost to inflation this year and next. Rising costs may squeeze margins for certain manufacturers; however, over the medium to longer term, as production ramps back up, commodity prices should come back down, as many futures markets are already indicating. We continue to side with the central banks' view that this bout of inflation is temporary, exacerbated by supply-demand imbalances, with many of the pre-pandemic deflationary forces of globalisation and technological innovation still in place.

We have decided against making any changes to the Model Portfolios following the recent above-average inflation print in the US. High headline inflation has been one of our key predictions for the last six months or so, and we have been actively positioned for this situation. Whilst the figure is above market expectations, we still believe that the surge in inflation is transitory and will fall back to lower levels.

Within the portfolios we have inflation protection via US Treasury Inflation-Protected Securities (TIPS) indirectly via our holdings in Troy Trojan, CG Absolute Return and directly via the CG Dollar Hedged Fund (100% TIPS). In our view, these are one of the best investments in terms of hedging inflation. We also own some infrastructure assets across the portfolios such as Lazard Global Listed Infrastructure that have explicit inflation-linking embedded into contracts and pricing.

Equities have also proven to be a strong hedge against inflation, especially good quality companies that are able to pass on costs to consumers. We have been favouring the likes of Evenlode Global Income and Fidelity Global Dividend which provide access to these kind of high quality companies at a ‘fair’ price. In the fixed income space, we have moved to favour active managers such as the Allianz Strategic Bond fund which is able to take advantage of market dislocations, rather than high yield or passive funds.

While we expect a strong recovery in activity, we see both upside and downside risks to economic growth projections. If manufacturers are unable to source the materials they need, this will slow production in the short term, which in turn may slow the pace of economic recovery. We continue to expect central banks not to tighten in response to a rise in inflation this year; for that to happen, we would need a full recovery and clear signs of a more sustained rise in inflation. Even if that were to happen, the rising debt pile has made economies more sensitive to rate rises. As a result, the ultimate normalisation of rates is likely to be slow and the peak in interest rates is likely to be at a much lower level than in previous cycles. This is likely to remain supportive for both equities and corporate bonds.

Model Portfolio Service (MPS) performance and volatility as at 30 April 2021

	Target*			Five year annualised	
	Volatility %	Return % pa	Maximum Loss %	Volatility %	Return %
Defensive	2 to 4.75	3 to 4.5	-5.0	4.16	5.16
Cautious	4 to 7	4.5 to 6	-9.1	5.19	6.17
Balanced	5 to 9	5.2 to 7.5	-13.5	7.38	8.15
Growth	8 to 13	6 to 8	-19.0	9.34	9.39
Adventurous	10 to 16	7 to 10	-25.0	10.93	10.11
Strategic Income	Annual target income of 3.5%				

* **Where targets are given, these are for indication purposes only; the actual figures achieved could be more or less than the ranges given.** Quarterly figures are net of underlying fund costs but gross of all other charges. Other charges include the LGT Vestra discretionary management fee, the platform custody charge, all adviser charges and where applicable any transaction costs (e.g. trading charges).

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

Key market data (as at 30/04/21)

Asset class	Level	1m %	3m %	6m %	1y %	3y %	5y %	YTD %
Equity indices (total return) *								
FTSE All-Share (GBP)	3984	4.3	10.6	28.5	25.9	7.7	39.9	9.7
S&P 500 (USD)	4181	5.3	13.0	28.9	46.0	67.1	121.5	11.8
Euro Stoxx 50 (EUR)	3975	1.8	14.8	35.4	38.7	20.9	48.5	12.7
Nikkei 225 (JPY)	28813	-1.3	4.8	26.4	44.9	36.0	96.6	5.7
MSCI World (USD)	2939	4.7	10.9	29.1	45.3	48.5	92.2	9.8
MSCI AC Asia Pacific ex Japan (USD)	696	2.8	2.0	22.9	48.5	32.1	91.0	5.6
MSCI Emerging Markets (USD)	1348	2.5	1.7	22.9	48.7	24.3	81.2	4.8
10 year bond yields **								
UK	0.84	0.0	0.5	0.6	0.6	-0.6	-0.8	0.6
US	1.63	-0.1	0.6	0.8	1.0	-1.3	-0.2	0.7
Germany	-0.20	0.1	0.3	0.4	0.4	-0.8	-0.5	0.4
Japan	0.10	0.0	0.0	0.1	0.1	0.0	0.2	0.1
Commodities (USD)								
Gold	1769	3.6	-4.2	-5.8	4.9	34.5	37.0	-6.8
Oil	67	5.8	20.3	79.5	166.1	-10.5	46.7	29.8
Currency								
GBP-USD	1.38	0.3	0.8	6.8	9.8	0.4	-5.8	1.1
GBP-EUR	1.15	-2.2	1.8	3.3	0.0	0.8	-9.7	2.7
EUR-USD	1.20	2.5	-1.0	3.2	9.7	-0.5	4.2	-1.6
USD-JPY	109.31	-1.3	4.4	4.4	2.0	0.0	2.7	5.9

Sources: Bloomberg, ICE, London Stock Exchange, MSCI, Standard & Poor's, Stoxx Tokyo Stock Exchange
* Performance is given on total return indices, but the levels are for the main indices.
** Displayed as absolute changes in yields, rather than percentages.

MPS positioning as at 15 April 2021*

	Defensive	Cautious	Balanced	Growth	Adventurous	Strategic Income
Fixed Income	**44**	**40**	**27**	**17**	**7**	**38**
AXA US Short Duration High Yield Bond	8	6	3	4		7
Jupiter Strategic Bond	8	7	7	5		7
M&G Strategic Corporate Bond						6
IP Corporate Bond						6
Muzinich Global Tactical Credit	4	4	3	3		5
Vanguard US Govt Bond Index	8	8	4			
Neuberger EM Debt Blend				2	4	4
CG Dollar Hedged	10	9	6	3	3	3
Alliance Strategic Bond	6	6	4			
UK Equities	**8**	**12**	**17**	**16**	**15**	**15**
L&G FTSE UK 100 Index		2	3			
Merian UK Smaller			3	6	6	
Threadneedle UK Equity Income	3	3	4	4	3	4
Marlborough Multi Cap Income						3
Schroder Income Maximiser						4
RWC Enhanced Income						4
CF Lindsell Train UK Equity	3	3	3	4	4	
Liontrust Special Situations	2	4	4	2	2	
International Equities	**20**	**29**	**46**	**62**	**76**	**45**
North America	*6*	*5*	*13*	*13*	*19*	*8*
Schroder US Equity Income Maximiser						8
Morgan Stanley US Advantage	3	3	6	6	7	
T Rowe US Smaller Companies			4	4	4	
L&G US Index	3	2	3	3	3	
M&G North America Value					5	
Asia Pacific & Emerging Markets	*2*	*6*	*11*	*18*	*20*	*9*
Baillie Gifford Japanese Smaller Companies				3	5	
Schroder Asian Total Return	2	2	3	4	5	
Schroder Asian Income Maximiser						7
Stewart Investors Asia Pacific Leaders		4	4	3	2	2
Morgan Stanley Asia Opportunity			4	5	5	
Impax Asian Environmental				3	3	
Global	*12*	*18*	*22*	*31*	*37*	*28*
Fundsmith	5	6	7	8	8	6
Morgan Stanley Global Brands Hedged			4	5		
Morgan Stanley Global Brands Equity Income						3
Brown Advisory Global Leaders	2	3	3	4	4	
Fidelity Global Dividend Unhedged	3	5	5	5	6	
Fidelity Global Dividend Hedged						7
Lindsell Train Global Equity						4
Evenlode Global Income		2	3	2	2	2
BG Global Discovery					3	
Polar Capital Global Insurance Fund				3	4	
L&G Tech					4	
Lazard Global Listed Infrastructure	2	2		4	4	6
RobeccoSAM Smart Materials					2	
Alternatives	**17**	**16**	**7**	**3**	**0**	**0**
Absolute Return	*17*	*16*	*7*	*3*	*0*	*0*
BlackRock Global Event Driven	3	4	3			
Artemis US Absolute Return	5	4				
Troy Trojan	5	4	4	3		
CG Absolute Return	4	4				

Cash / Liquidity Funds	**11**	**3**	**3**	**2**	**2**	**2**
BlackRock Cash	9	1	1			
Cash	2	2	2	2	2	2

*This date reflects the most recent asset allocation for the MPS portfolios.

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