Harwood
Wealth Management Group Ltd

Quarterly Update

Q4 2021

IMPORTANT INFORMATION

This document has been prepared for information purposes by Wellian Investment Solutions Limited (part of the Hurst Point Group Limited) and IMS Capital Limited (part of the Harwood Wealth Management Group Ltd).

The information in this document does not have regard to your specific investment objectives, investment risk profile or financial background. Any prospective investor should carefully consider their own financial circumstances before investing in the capital markets. Investors may not get back the full amount invested. If you are in any doubt about your investment decisions, we recommend you seek the advice of an independent financial advisor authorised under the Financial Services and Markets Act 2000, who specialises in advising on the acquisition and sale of investments in financial instruments.

This document does not constitute an offer to buy or sell investments. It is presented solely for your information and is provided on the basis and understanding that neither Harwood Wealth, Wellian or IMS Capital are to be under any responsibility or liability whatsoever except that which it has under the regulatory system. No representation or warranty either actual or implied is made to the accuracy, precision, completeness or correctness of the statements, opinions and judgements contained within this document.

All investments carry risks. The price of funds and other financial investments, and the income derived from them, may fall as well as rise and the amount realised may be less than the original capital invested. There is an extra risk of losing money when investments in financial instruments are bought in a period of high volatility.

Any performance figures, forecasts or commentary are not a reliable indicator of future performance and past performance is not a reliable indicator of future success.

Where this document contains hypertext links to websites that are not operated by us, we do not control such websites and are not responsible for their content. Our inclusion of hypertext links to such websites does not imply any endorsement of the material contained on the websites or of the owners. We are not responsible for the privacy practices nor do we accept any liability in connection with the content of such websites.

The companies below are authorised and regulated by the Financial Conduct Authority:

- Compass Wealth Management Consultants Limited, Active Financial Partners Limited, AE Financial Services Limited, and Argentis Financial Planning Limited (of which IMS Capital is a trading style), part of the Harwood Wealth Management Group.
- Wellian Investment Solutions Limited.

CONTENTS

INTRODUCTION

In the last three months, capital markets in the main continued their upward trajectory, although that was not without a few bumps in the road.

The best performance numbers came from oil, event driven hedge funds and the US stock market – all delivering returns in excess of five percent. At the other end of the performance league table the sovereign bond markets produced negative numbers (including the US and Emerging Markets), with most durations and maturities of the UK Gilt market in particular in the red. A number of emerging market equity indices were poor as well, with the main Brazilian market falling by more than one fifth in the three months to end of October.

Sterling was volatile against the major currencies in the most recent review period which saw it strengthen against the Yen and the Euro, but weaken against the US Dollar.

Three months ago we highlighted the fear of inflation rising and today we continue to highlight this situation. Central Banks around the world have used the word "transitory" for several months – implying the strong rise in the rate of inflation this year was an unusual phenomenon, likely to be temporary in both time and nature and at some stage in the future going to return to levels like we've seen in the recent past.

As has been mentioned previously, inflation is a year-on-year number and a rise in the component parts need to continue to rise for inflation to reach higher levels. Oil prices account for a good part of the inflation "basket"; the oil price rise earlier in the year that added to the inflation number last quarter continued into this quarter too with the price of Brent Crude as measured by the Bloomberg Index up by more than 15%. From an inflation outlook, the oil price needs to continue to rise to much higher numbers for the impact to be the same looking forward, but with the oil price reaching highs not seen for over 7 years and many analysts upgrading their year end forecasts from their original $90 or more certainly puts upward pressure on inflation.

Closer to home, the UK will be hosting COP26 in Glasgow in November with the focus on reducing carbon being emitted to the environment and on keeping to the Paris Agreement which aims to restrict the global temperature increase to 1.5°C above pre-industrial levels. This will need over $100 trillion of investment by governments and corporates as the shift to renewable energy, electrification, efficient use of energy, recycling, weening the world off coal and oil and the circular economy. Expect to see an increasing number of political policies and "green" agenda items over the forthcoming months and years.

There will be potential investment opportunities – for instance in infrastructure – which needs to be updated and upgraded all over the world. Property, for instance, accounts for over 1/3 of carbon emissions according to numerous reports and reducing this number will be incredibly helpful to the cause. Net Zero initiatives will proliferate, and everybody needs to play their part. Investments will rise in "ESG" (Environmental, Social and Governance), "Sustainable", "Responsible" and "Impact" styles and will, by default, become a greater part of the due diligence process when it comes to portfolio construction as the investment community adapts to this evolving world.

Although it feels like market risks are rising, we will always look for the best risk adjusted opportunities to include within the portfolios we manage.

Sector Analysis

Top Performing **31/07/2021 - 31/10/2021**		**Top Performing** **YTD 2020 (31/10/2021)**	
North American Smaller Companies	4.79%	UK Smaller Companies	22.41%
North America	4.49%	North America	20.67%
Japan	3.79%	Property Other	17.40%
Tech & Telecom	3.78%	European Smaller Companies	17.22%
Asia Pacific Including Japan	3.47%	Tech & Telecom	16.24%
Worst Performing **31/07/2021 - 31/10/2021**		**Worst Performing** **YTD 2020 (31/10/2021)**	
UK Gilts	-2.41%	China/Greater China	-9.49%
Global Emerging Markets Bond	-1.68%	UK Gilts	-5.42%
Sterling Corporate Bond	-1.66%	Global Emerging Markets Bond	-2.71%
Sterling Strategic Bond	-0.98%	Sterling Corporate Bond	-2.04%
Global Bonds	-0.73%	Global Bonds	-1.47%

Data from FE fundinfo 2021, dates as above.

FIXED INCOME

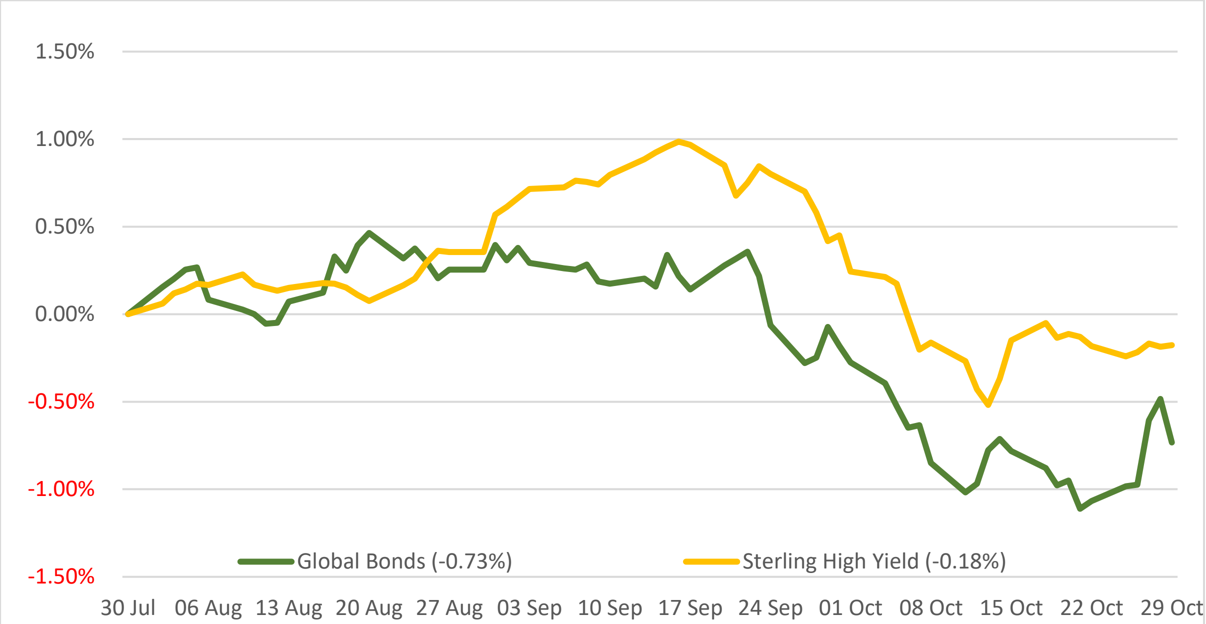
Sterling Bonds

Rising inflation and the subsequent pressure on the Bank of England has meant that UK bonds experienced a high degree of volatility as the period came to an end. In his Budget speech at the end of October, Rishi Sunak declared that inflation in the UK was likely to rise to at least 4% in the new year as supply chain issues show no sign of abating. Almost as soon as the Chancellor had sat down, mortgage rates started to tick up and the next day the papers announced the end of the era of ultra-cheap loans.

Various members of the Bank's rate setting committee, including the governor and the chief economist, have said that they believe that inflation is here to stay and the confidence that the first interest rate rise could come as soon as November has seen yields on 10-year bond yields rally from less than 0.2% up to more than 1.2%. With bond prices moving inversely to yields, their values have dropped as highlighted on the charts below.

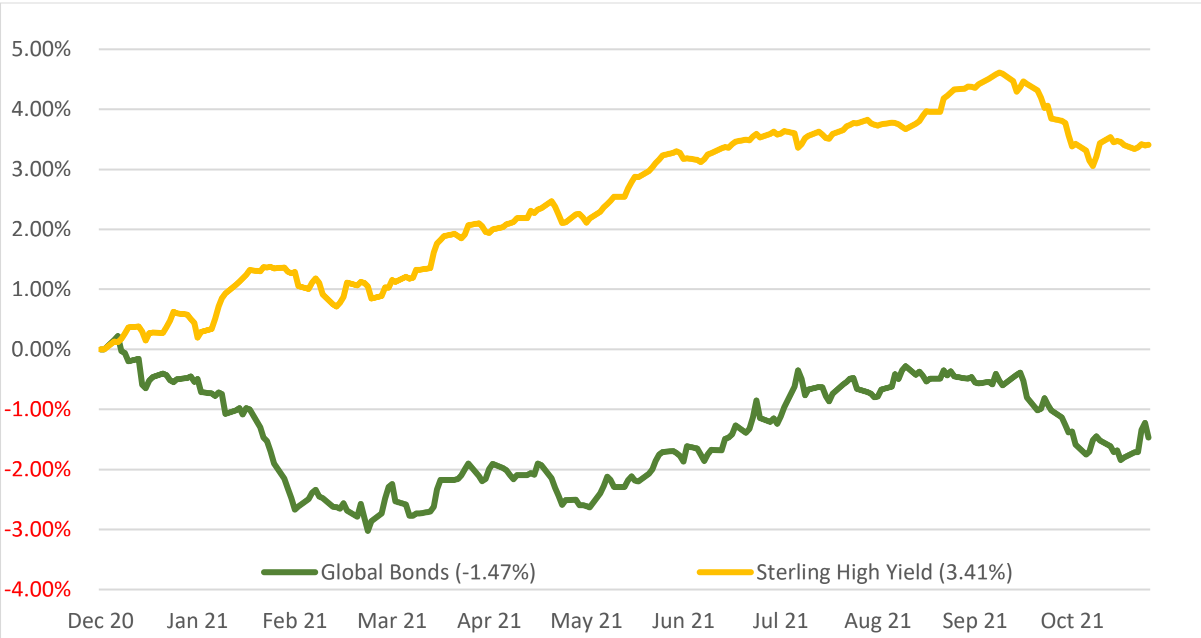
One less reported story connected to the budget was the news that the government planned to cut its sales of new gilts by almost £60bn this year, much more than had been expected. This is thanks to lower than predicted borrowing as a result of the strength of the UK's recovery. This revelation saw the largest falls in gilt yields since the peak of the Covid panic in the spring of last year which did help to cool bond markets by association.

Sector comparison: Global Bonds and Sterling High Yield – 3 month performance



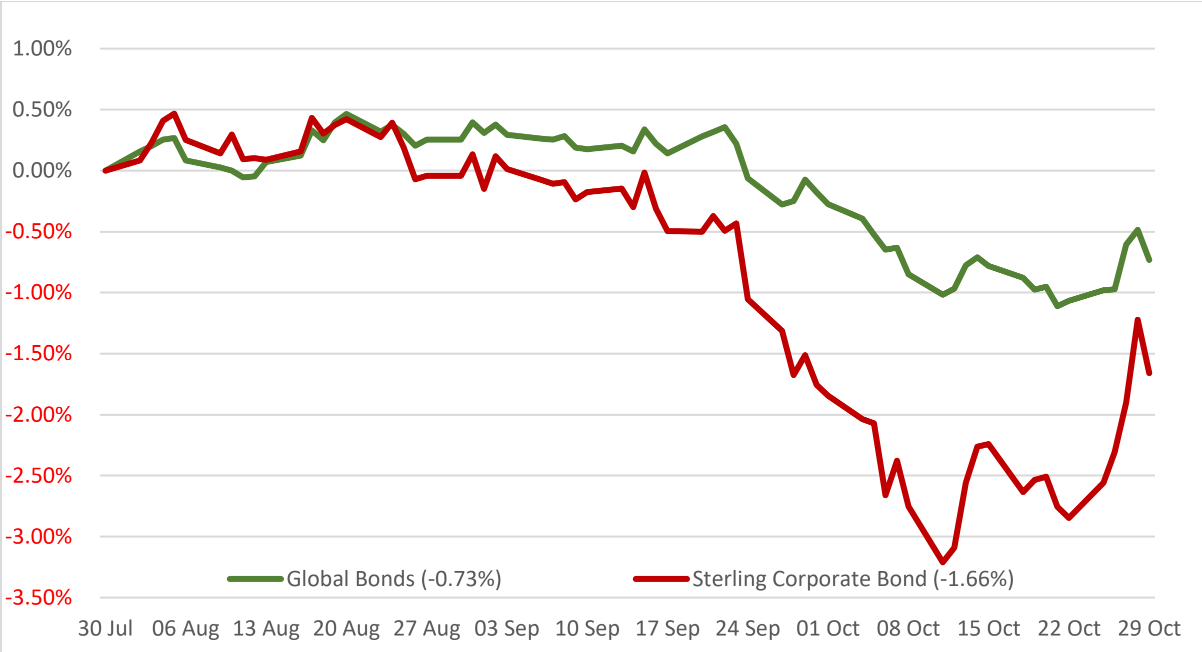
31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling High Yield – YTD performance



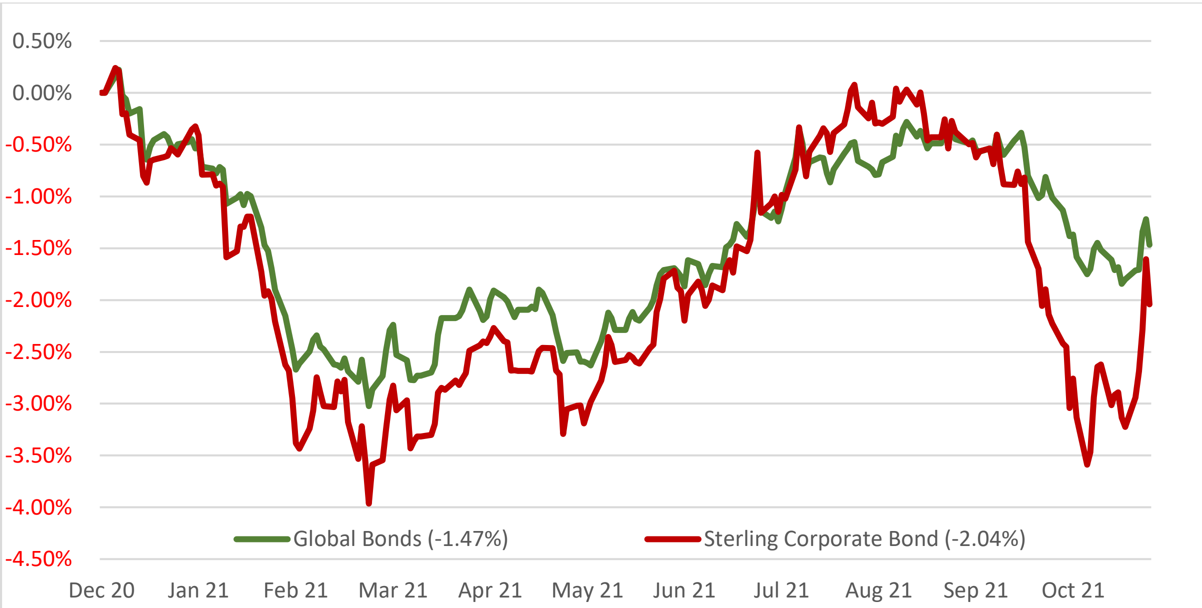
31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Corporate Bond – 3 month performance



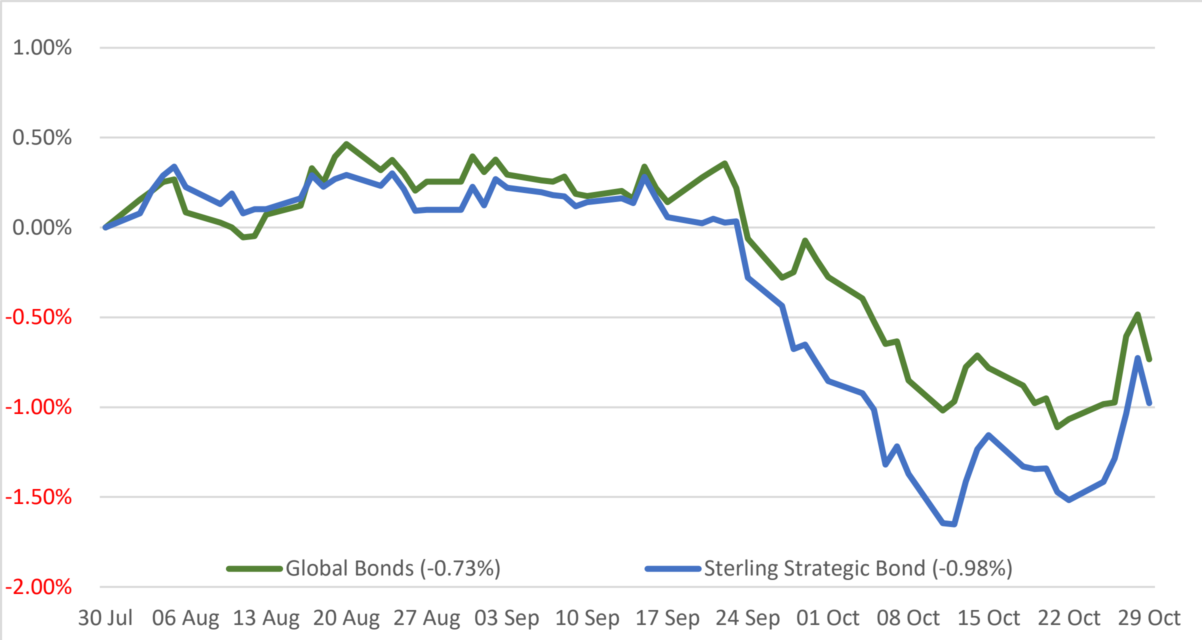
31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Corporate Bond – YTD performance



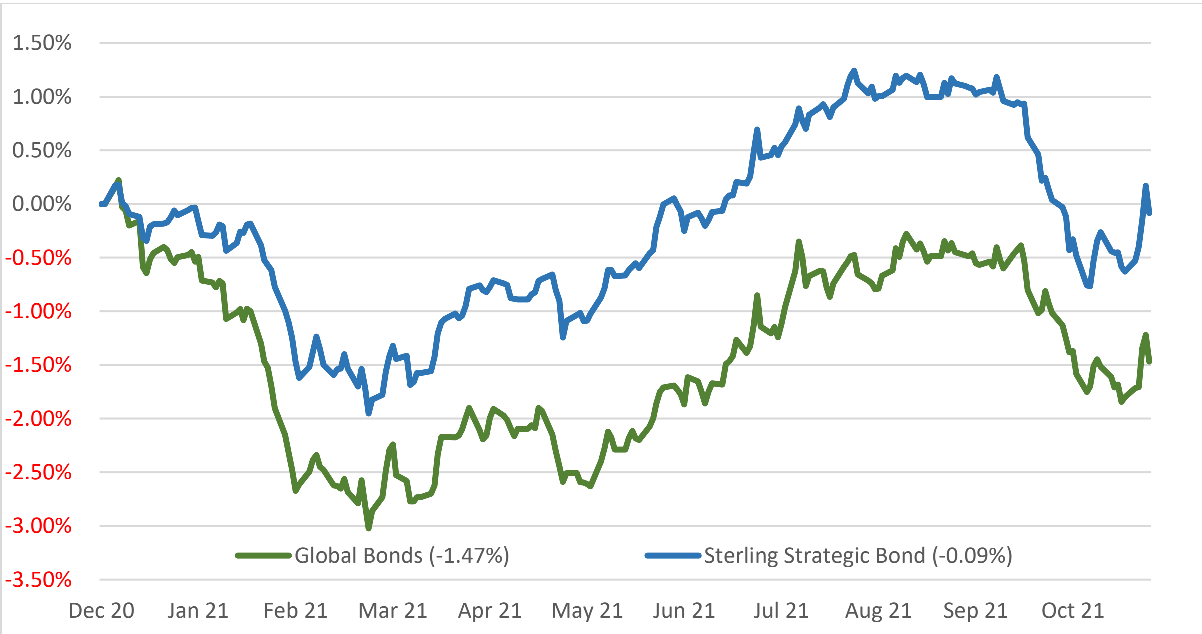
31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Strategic Bond – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Sterling Strategic Bond – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

<u>Global Bonds</u>

After a respite of the previous quarter, rising concerns of higher inflation and more concrete messages from Central Banks about rate rises in the not too distant future have caused a sell-off in government bonds during the third quarter of the year. The price of conventional bonds is sensitive to rising inflation due to fixed amounts of principal and interest payments.

The last quarter was packed with announcements from Central Bank policymakers and column inches of the financial press are increasingly being taken up talking of tapering. In the US, Federal Reserve Chair Powell confirmed that tapering of bond purchases could start as early as this November and the interest rate hike to follow in late 2022. For the most part of the quarter the US 10-year Treasury yield hovered at a lower level, compared to previous months, as it become apparent that the economic recovery started to moderate. The prospects of rising inflation and tighter monetary policy has helped yields climb higher, ending the quarter up 1.57%. With the Fed planning to buy fewer government bonds going forward, yields will find it easier to rise higher, because of reduced demand for these bonds. Not only it would be a grim concept, but would also hit the US bond market which has so far been perceived as a safe haven.

For now, fears that the US government will run out of money have alleviated after the debt ceiling was raised. This is good news and makes it less likely that the US will default on its debt.

In its September meeting, the European Central Bank (ECB) announced it would be slowing the pace of monthly asset purchases through the Pandemic Emergency Purchase Programme (PEPP) it instigated slightly less than two years ago after a rebound in growth and inflation in the Eurozone. As a result, German bund yields rose back to similar levels last seen at the beginning of the previous quarter. Indeed, official data showed that inflation jumped to a whopping 4.1% in October, having been at 3% at the start of the quarter (historically having been persistently low for a very long time). As Eurozone countries continue to battle with rising energy costs and supply shortages, there is a worry that this uplift in inflation may last longer than expected. It will be interesting to see if the ECB will still see it as “transitory” when the December meeting takes place. The fourth quarter is expected to reach its pre-pandemic growth level and GDP growth of around 5% for 2021. Eurozone economic activity continued to be upbeat.

Elsewhere, Norway has tightened its monetary policy, with short-term rate rising to 0.25% from 0%, and a follow up rate rise might follow before the year is through. Norway has a very large Sovereign Wealth Fund and positive current account balance, which is very favorable as it has recovered well after the pandemic.

The outlook for inflation is at the centre stage of discussions; the opinion is still divided on the permanent versus transitory nature in prices. Well known factors, such as technology and globalisation, have kept inflation low for many years, and they are still intact. While some of the above target inflation in the US is due to transitory drivers (such as base effects and used car prices), the gap between the lagging supply and increasing demand is still too narrow. Perhaps it would make sense to be positioned for inflation to last longer.

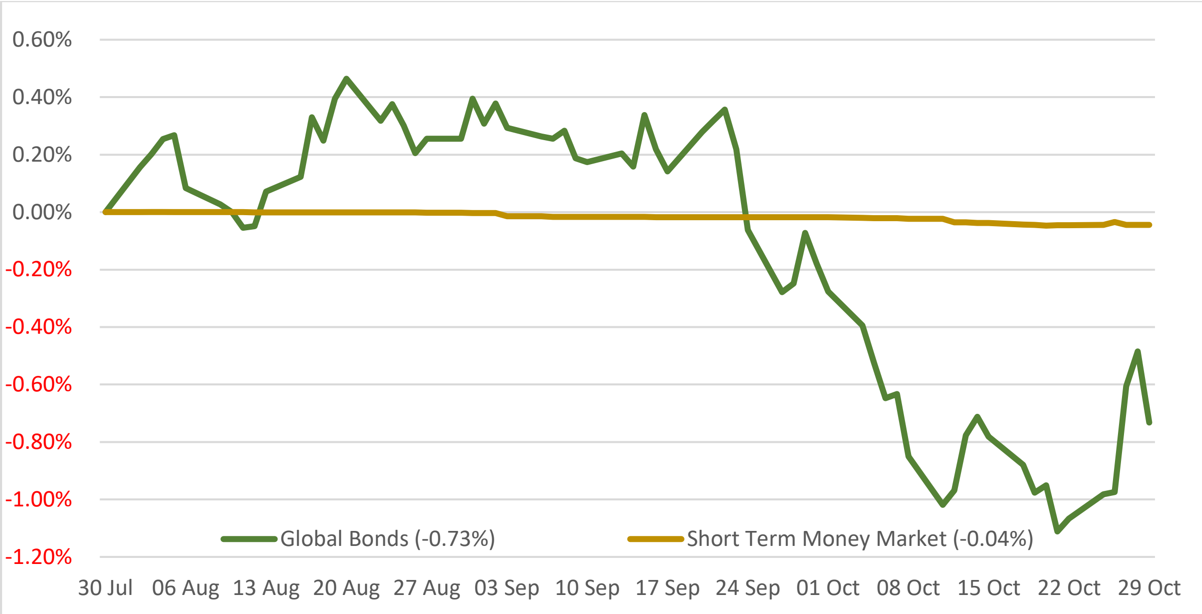
Inflation is the bond investor’s enemy as eats away at fixed coupon payments. TIPS are a treasury bond which is indexed to inflation, and it protects from the negative effects of rising prices and could be seen as a way to protect investments from the ravages of inflation. As inflation rises, the principal value will also rise, however, TIPS usually pay a lower coupon rate than other conventional government or corporate bonds. Conversely, if inflation is lower, the utility of TIPS decrease. If inflation is going to be allowed to run hotter than average, inflation protected securities would make sense as an inflation hedge.

It is possible for Japanese and European investors to earn higher nominal yield from US Treasuries than German 10-year bund (negative yield) and Japanese 10-year bond (yield is close to zero).

Emerging markets bonds have had a difficult year so far. Global trade has slowed due to the pandemic and the recent spread of the Delta variant in some regions of Asia. This, coupled with the Dollar strength, proved to be headwind for emerging markets. Also, various geopolitical issues and political problems caused currency depreciation for a couple of the main emerging market countries. Normally, emerging market countries tap into the global capital markets by issuing debt in US Dollars, therefore currency weakening would imply wider credit spreads on hard currency bonds.

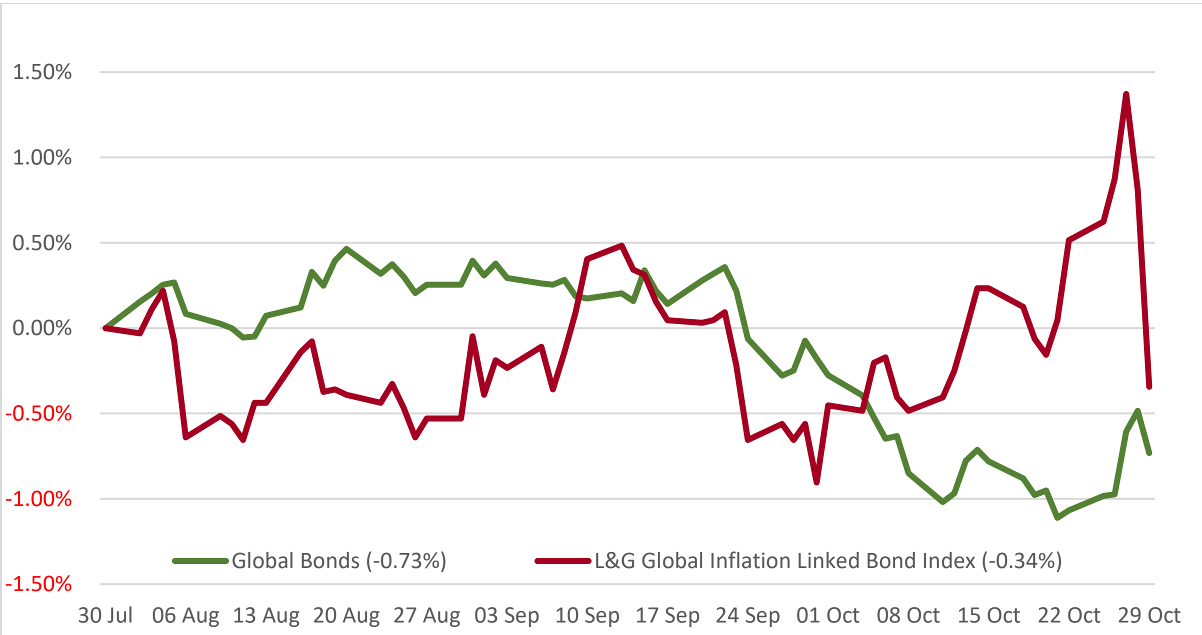
Over the last quarter, global inflation linked bonds registered negative returns but have fared slightly better than global sovereign bonds. Global emerging market bonds have ended the quarter in negative territory, shedding around 1.7%.

Sector comparison: Global Bonds and Short Term Money Market – 3 month performance



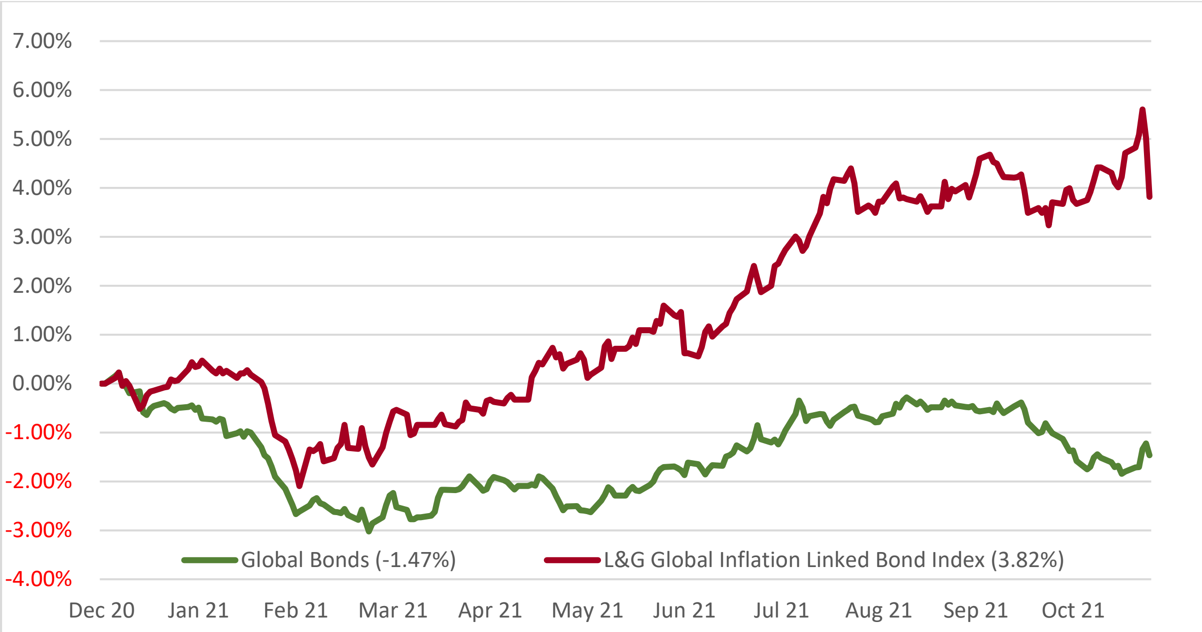
31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Global Inflation Linked Bond Index Proxy – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global Bonds and Global Inflation Linked Bond Index Proxy – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

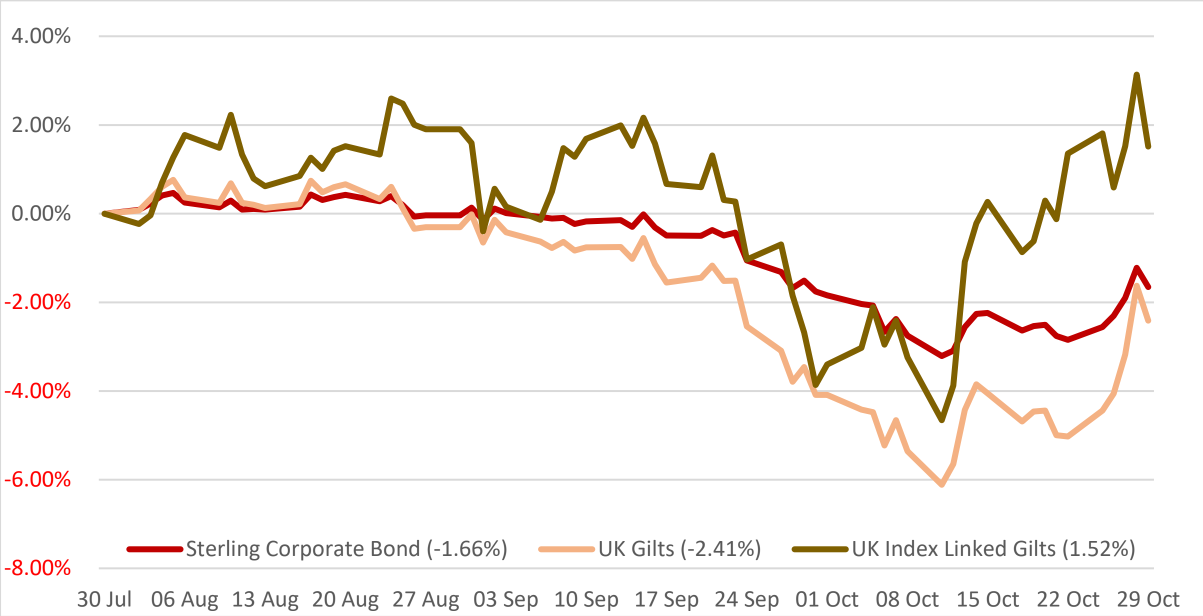
UK Gilts

The last quarter was not a good one for investors as it saw a negative return with as much volatility as global equities – not the safe asset class it is often referred to as. At one point the FTSE UK All Gilts index was down by 6%, before a rally at the end of the period.

The last three months saw deepening inflation concerns and signs from central banks that interest rate rises are drawing closer which prompted a sell-off in government bonds. In the UK, the Bank of England (BoE) delivered a similarly hawkish shift, suggesting that it could put interest rates up before the end of the year, which led to a weakness in the gilt market and saw bond yields move sharply higher, more than reversing the rally from earlier in the year and saw them pass through 1% for the first time in over two years.

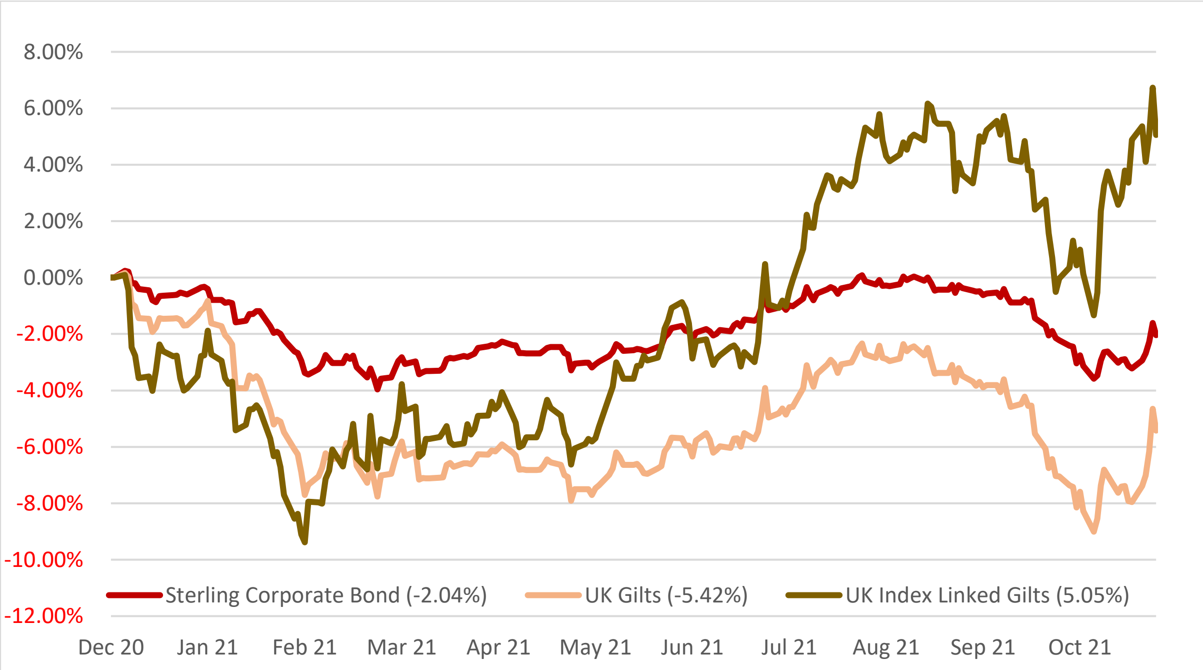
Inflation is remaining stubbornly high owing to the global supply chains, and capital markets seem to be paying attention to this, realising that this may no longer be transitory. Consumer price inflation numbers are rising around the world and are sitting much higher than many central banks price targets – how far the BoE is willing to let this run will be seen. As a result, government bond yields have been rising too, prompting suggestions that we might see a rise in interest rates sooner than we first thought.

Sector comparison: Sterling Corporate Bond, UK Index Linked Gilts and UK Gilts – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Sterling Corporate Bond, UK Index Linked Gilts and UK Gilts – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

DEVELOPED MARKET EQUITIES

UK

The most recent three-month period saw broadly positive returns from the UK market, although the returns from the smaller cap stocks were flat. The three individual months that made up the quarter though were quite different – August was very strong with the main markets up around 3% and the smaller cap names being very strong (up almost 6%). September reversed the gains from the previous month and October broadly flat for smaller cap stocks, and up around 2% for the major markets.

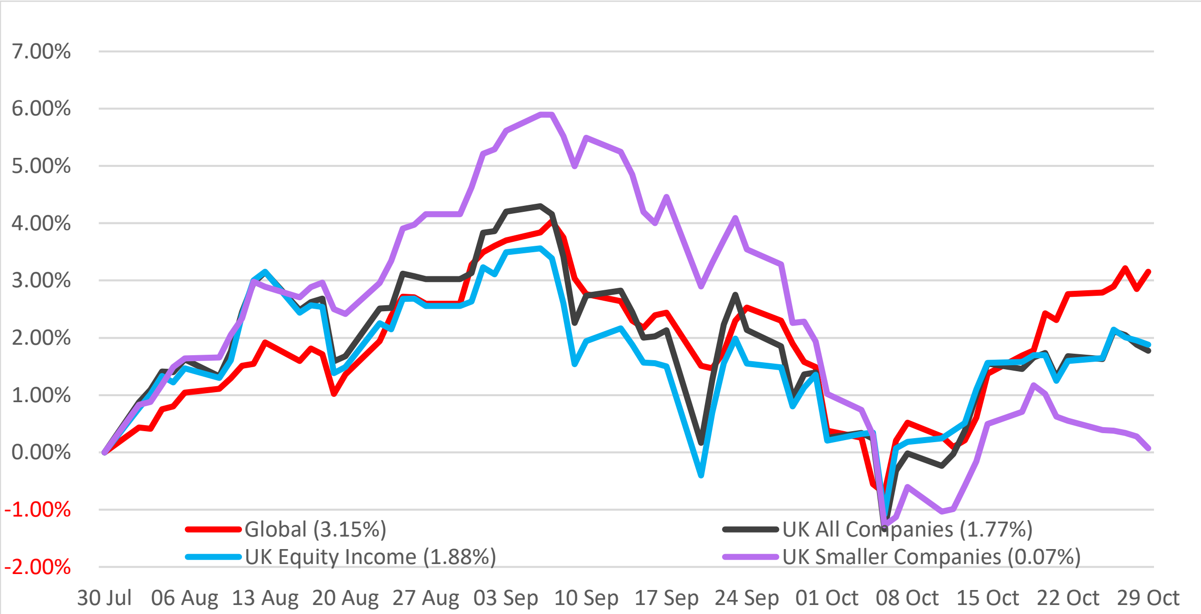
To witness a positive return from the UK market when in the last couple of months the country has experienced panic buying of food and petrol (for shortages that were or were not apparent – I'll leave that up to you to decide…) and rapidly appreciating prices for gas and electricity which suggests an increase in your utility bills rising by an average of £300 for the next twelve months is quite astonishing.

Noises from the Bank of England indicating interest rate rises are on the horizon are getting louder. Inflation in the UK is now ahead of the 2% target (the September rate is 3.10% and forecasts are heading higher for the intermediate term). The current levels of inflation haven't been seen for more than 9 years. Although many believe the present level of higher inflation is "transitory" (most certainly the economic word of the year), the speed in which inflation has hit this number has got many nervous as it was only in February of this year when inflation stood at 0.40%. The Bank of England have been very clever by using the word transitory as it is subjective in nature and can mean many different things to many different people and it gives them plenty of leeway to raise interest rates whilst still, arguably, saving face.

The UK economy continues to recover from the Covid pandemic and lockdown, although it is still a long way from 2019 levels. Huge swathes of the economy are still not operating at 100% capacity and whilst there is a threat that the economy could be closed down again, uncertainty remains. A huge percentage of the population have had at least one dose of the vaccine, but the number of positive cases recorded are rising again. Many companies cut or cancelled their dividend payments to investors in 2020 and there are signs that they are returning to the dividend register again in 2021 – but market commentators are suggesting it will be many years until 2019 levels of dividends have returned.

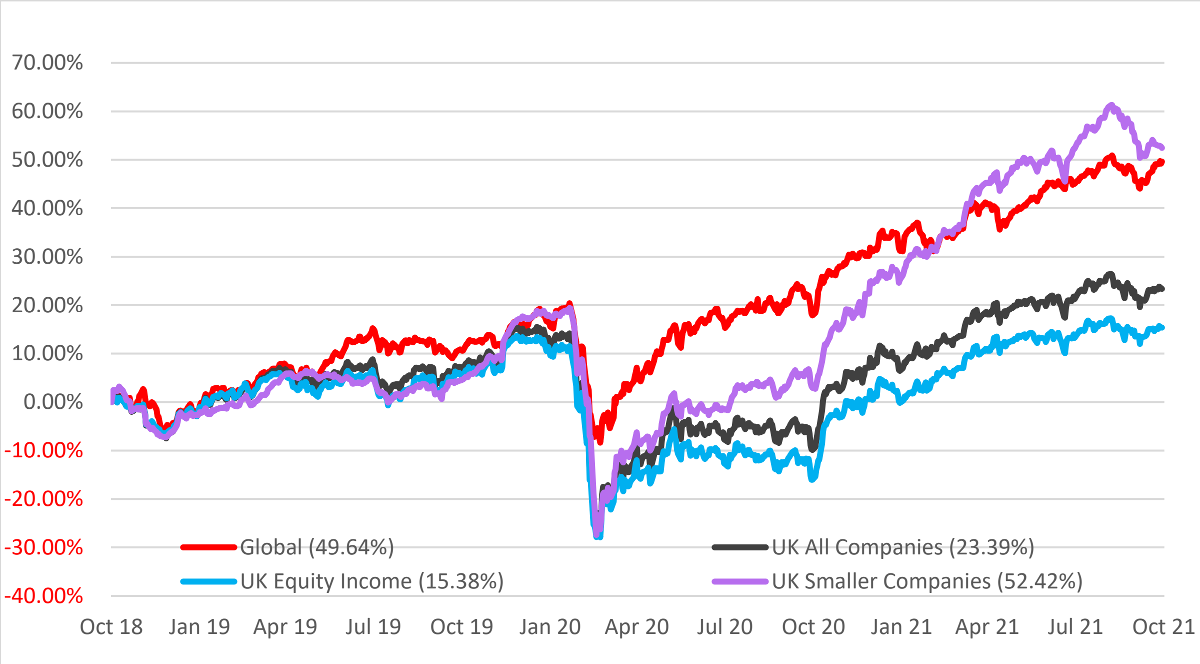
The UK still looks like an attractive place for investment – the valuation multiple of the market is on a very large discount to the US and Europe for instance and both the number and size of merger and acquisition activity taking place show that "animal spirits" in the corporate world are alive and well. The recent situation for the high street supermarket chain Morrisons which ended up in a bidding war is a case in point. There does seem to be a "UK discount" in a large number of industries. For instance, comparable global businesses not headquartered or listed in the UK have a higher share price multiple and at some stage this should narrow. The main reason for the discount? Uncertainty surrounding Brexit.

Sector comparison: Global, UK Equity Income, UK All Companies and UK Smaller Companies – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global, UK Equity Income, UK All Companies and UK Smaller Companies – 3 year performance



31/10/2018 – 31/10/2021 Data from FE fundinfo 2021

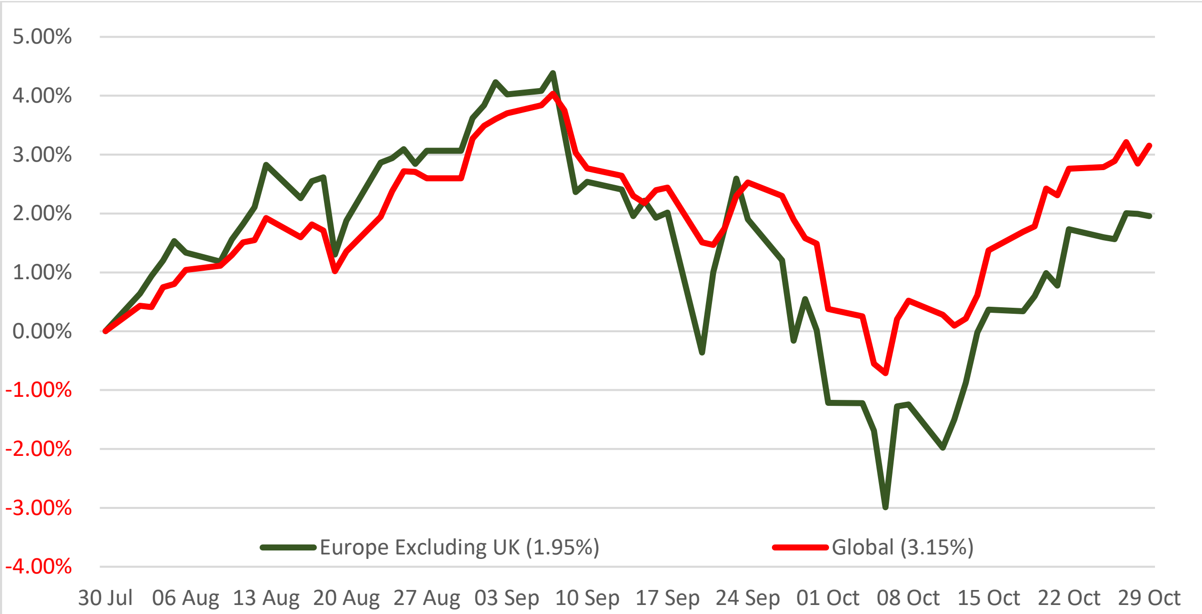
Europe

Along with most of the rest of the world, Europe has struggled with shortages and supply chain issues for much of the quarter. Their issues have been less severe than in other countries, e.g. the UK, due to the ease of sharing workforces across borders, but issues with energy supplies have compounded the challenge. Much of the problem lies with gas supplies from Russia which for its part has insisted that it is not deliberately restricting supplies. This defence has been questioned in light of the fall in gas levels at Russian-controlled facilities in western Europe along with their stated desire to press ahead with the Nord Stream 2 pipeline.

Elsewhere, Germany, which recently celebrated 31 years since reunification, is facing a long wait to see who will take over from Angela Merkel after 16 years in charge. The results of the general election at the end of September left Europe's richest country facing weeks of uncertainty after Merkel's CDU came second to the Social Democrats in a very tight poll. With the Green party having their best ever result, a new coalition will need to be formed with three potential combinations available. It took 6 months for an agreement to be reached when the process was last conducted in 2017 but the SPD, who emerged with the most votes, along with the Greens and Free Democrats have begun coalition talks with the hope of forming a government in December.

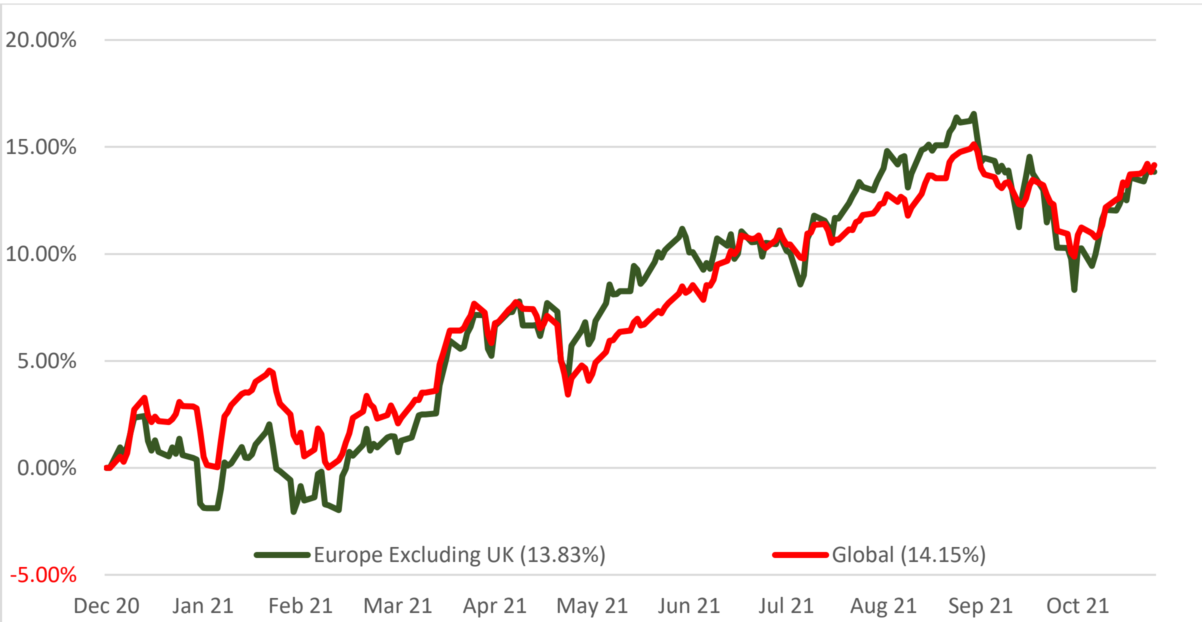
At the end of October attention turned back to Brexit with a dispute over fishing rights highlighting that a multitude of issues remain. With the UK seeking to renegotiate the original agreement, this clash is the disagreement in microcosm. Economically, the continent continues to rebound strongly. Third quarter growth was 2.2%, bringing them closer to the US and China, and they are on track to return to pre-pandemic levels before the year is out. Inflation is also up, however, hitting a 13-year high of 4.1% for October, and economists expect the European Central Bank to begin a formal tapering of their bond purchase programme in December.

Sector comparison: Global and Europe Excluding UK – 3 month performance



31/07/2020 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global and Europe Excluding UK – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

US

After pull back from mid-quarter highs, all major indices have registered healthy returns. As the impact of the Covid-19 Delta variant abates, case numbers are falling substantially and the slowdown in US growth has started to stabilise. This eases the hindrance to the US economy and provides some comfort to investors.

The Federal Reserve (Fed) said it will start reducing its bond buying programme in mid-November. If all goes well, it will end by the middle of next year. Fed Chairman Powell feels America is ready to face the “taper” (the process of winding down quantitative easing). Despite saying previously that the employment picture is key in determining when to rein in the ultra-accommodative policy, in Powell’s September press conference, he made it clear it will not take a stunner of an employment report for taper to begin. To confirm this rhetoric, expectations and actual numbers relating to the US jobs reports have fallen short in the last couple of months.

Employment and supply constraints are taking longer to settle down. So inflationary pressures could linger well into the next year. Core Consumer Price Index (CPI) is expected to be slightly below 4.5% at the end of the year, while headline inflation could see some volatility because of rising crude oil prices to its highest since 2014. Inflation risks are “skewed to the upside”, whereas growth is slightly “tilted to the downside”. The US economy is forecast to grow around 6% (revised down from 7%), a significantly higher than trend growth, bouncing back from the pandemic induced lows of last year.

As for the timing of interest rate rises, Fed members, as shown by the “dot plot”, stay split between 2022 and 2023. It was anticipated that the first post-pandemic interest rate rise will occur mid-2023, implying a hawkish stance on interest rate rises, which could cause short-term volatility for risk assets and strength for the US dollar.

Business investment, a key pillar of economic growth, is much stronger now compared to 2019. Consumption, a key part of global growth, has been the highest in the US due to enormous savings helped by large stimulus checks. Savings have roughly doubled compared to pre-pandemic levels, which has helped consumption and should drive the recovery through next year.

Unlike almost any other recession in history, this time there has been a sharp recovery in the labour market. After the 2008 recession, it took 10 years for the labour market to return to pre-Global Financial Crisis levels. This time, only a year after pandemic, vacancies and job openings are at record highs. Many of these jobs are unfilled causing pressure on wages, which could be inflationary. The labour market slack appears to be due to generous stimulus cheques and people leaving the labour force and not seeking work. However, the amount of businesses that have pricing power to pass on those higher wage cost and energy prices is at a record level, hence this should not be a problem for corporate profits, as sales growth would offset rising wages. Earnings season is well underway in the US, with many companies beating consensus expectations, which is usually a good sign for positive stock market returns.

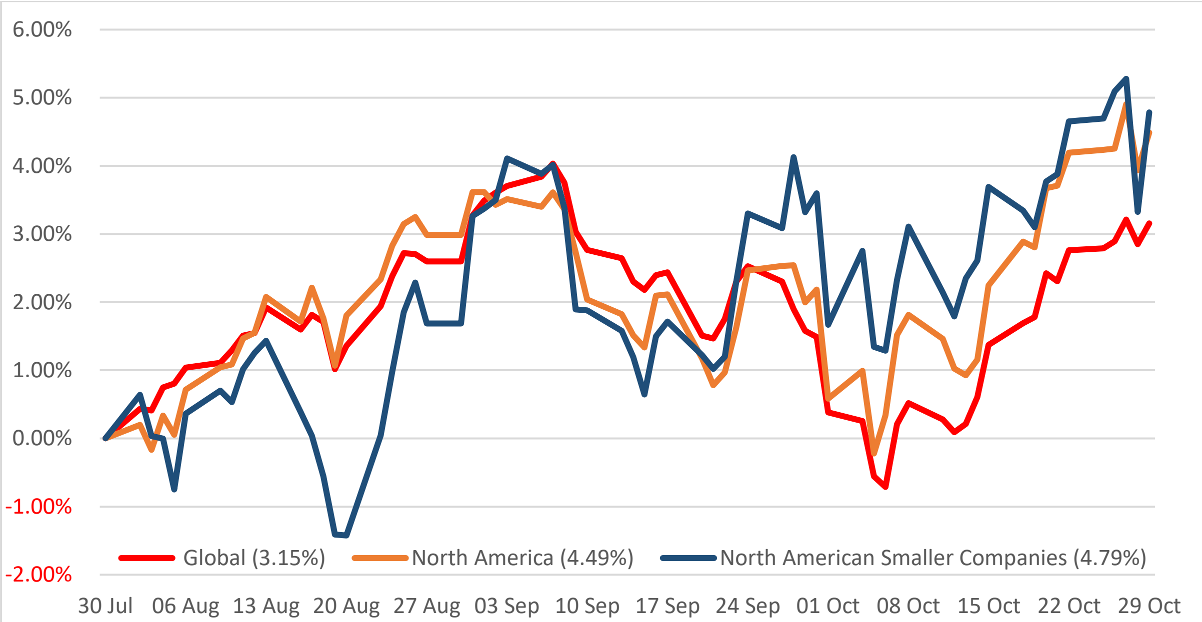
Debt ceiling concerns abated at the end of the quarter, albeit temporarily. Potential debt default and a US government shutdown could come to the fore again in December. Default on its debt by the largest economy would send shockwaves through global financial market. The debt ceiling was raised by $480 billion and currently stands just below $29 trillion. With the backdrop of growing government debt, President Joe Biden's bipartisan Infrastructure Bill worth more than $1 trillion has been delayed. The corporate tax provisions in these fiscal stimulus bills would have a significant effect on financial markets and could shave off around 2% from earnings growth of S&P 500 in the next year.

If 10-year Treasury yields are to move upwards between now and the end of the next year, then value stocks would be expected to reassert themselves and continue to perform strongly as they have done in the last couple of months. This is because growth stocks are priced on their expected earnings further in the future and a rising yield will hit the present value of longer dated earnings more aggressively.

The S&P 500 is widely perceived as the single best gauge of large-cap US equity performance and the 500 component companies in the index account for about 80% of the US market capitalisation. The sector make-up of the S&P 500, with tilts towards information technology and communication services (the growth part sectors of the market), compared to global average have been among the key reasons why the index has performed like it has over the past number of years.

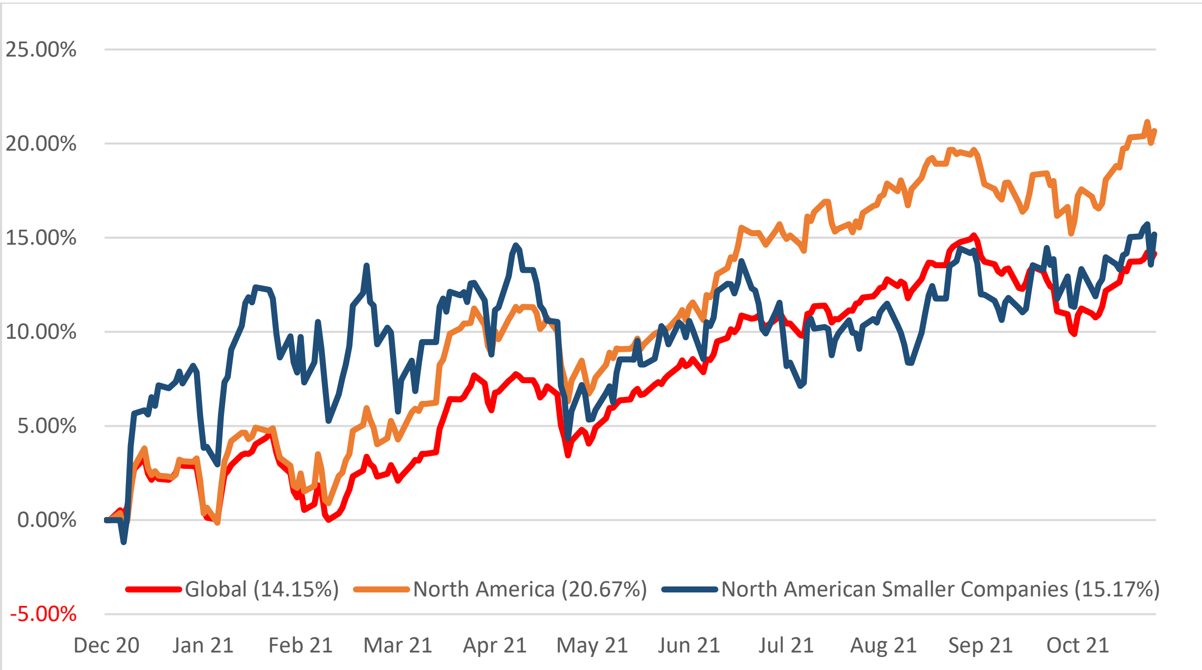
Large-caps outperformed smaller-caps over the last three months and Growth shares outperformed their value counterparts among small and large-caps. The S&P 500 index finished the quarter up over 5%, with financials and utilities stocks coming top and industrials and materials being laggards. Similarly the NASDAQ notched up returns greater than 5.5% for the quarter.

Sector comparison: Global, North America, North American Smaller Companies – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global, North America and North American Smaller Companies – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

Japan

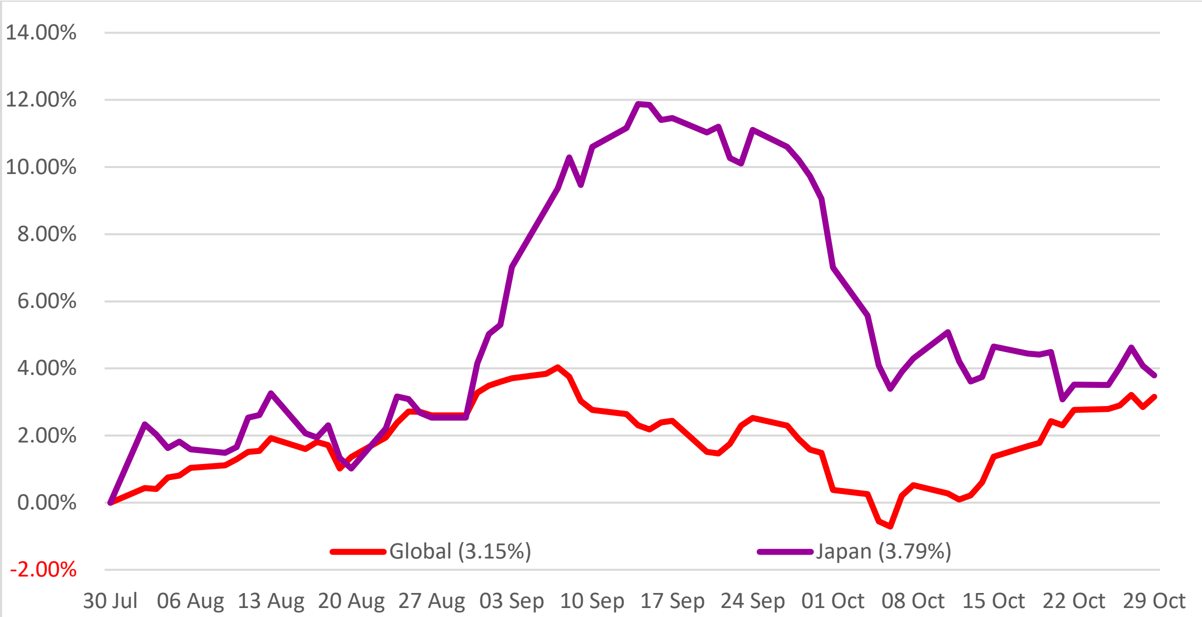
The Japanese equity market rose over the third quarter, outperforming global equities, despite it being a particularly busy one for the Japanese government as it sought to limit the spread of Covid-19 and host an Olympic games that most of the country did not want.

However, the Japanese equity market rallied strongly following the announcement at the start of September by Prime Minister Suga of his intention to step down as party leader. This news reignited foreign interest in Japan and the TOPIX reached a 30 year high. Mr Suga had been appointed to the role just a year ago following the resignation of Shinzo Abe, but after much criticism of his handling of the Covid-19 crisis and other issues his approval ratings dropped to an all-time low. He had been seen as a weak and unpopular leader and was damaging the electoral chances of the ruling LDP in a general election due in November.

By the end of the month, former foreign minister Fumio Kishida was appointed as the new party leader and became prime minister within days because of the LDP’s majority in the lower house. Kishida’s win is seen as one of stability and for not rocking the boat, so no drastic change is expected here. He has proposed a spending package of more than 30 trillion yen in order to achieve economic growth and distribution of wealth, promising housing and education aid. And while Suga was no disaster for the stockmarket, Kishida would be seen as a pro-market prime minister.

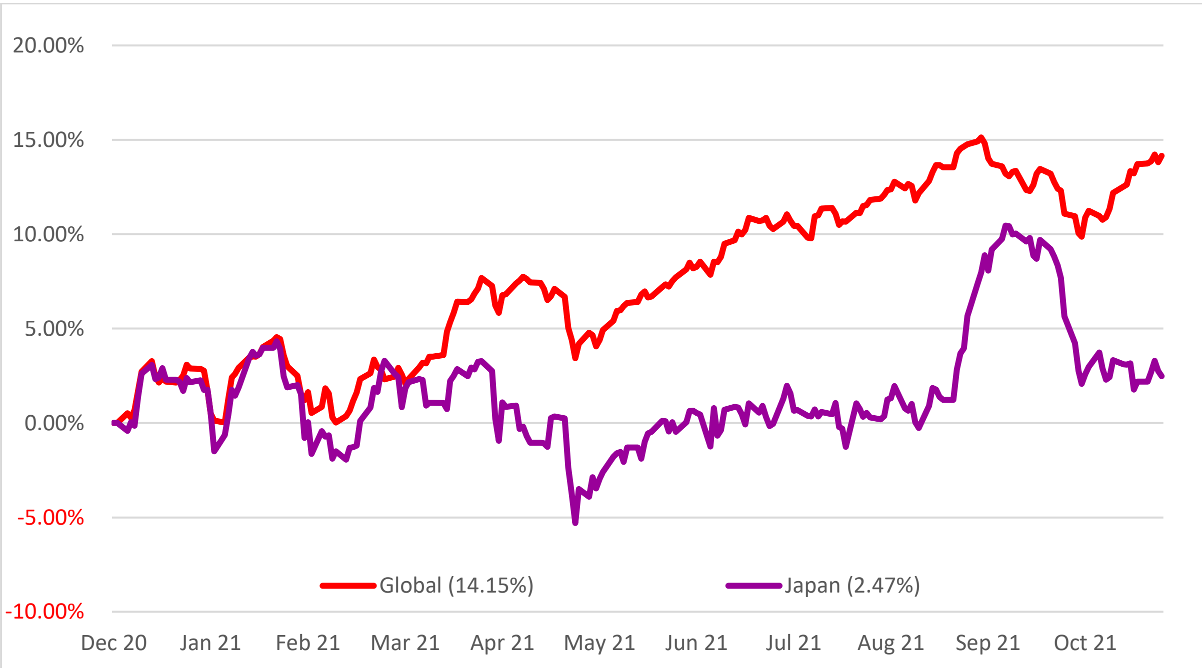
While Japanese markets slipped back in October, the General election at the end of the month provided investors with some cheer as the pro-business LDP led by their new Prime minister scored a bigger than expected victory margin.

Sector comparison: Global and Japan – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global and Japan – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

EMERGING MARKETS

In the last review we discussed that many emerging markets have low vaccination rates in relation to covid and over the last three months it seems many countries have accelerated their programmes and are catching up with many western nations, although large swathes of the African continent are still behind. “Emerging markets” contain about 6 billion people (roughly 85% of the global population) and have been a major proportion of global GDP growth in the last decade or so – for the world to grow, it needs them to operate efficiently and effectively.

We live in a global economy – goods and services are sourced and transported all over the world and due to Covid, supply chains have been massively affected and can have long-lasting impacts on the GDP of all countries. Shortages in the manufacture of semiconductors for instance are having a knock-on effect to the price of new cars (there are fewer being made so demand is higher than supply and prices are rising) and second-hand cars (as those who want a car are having to settle for a used car. Combined with a large number of people who don’t want to use public transport due to Covid and thus demand rises again…) Three of the four largest semiconductor manufacturers are based in the Emerging Markets for instance. If an economy is not diversified and relies only on a few areas – such as commodities or cheap labour then issues arise.

To group a large, diverse number of countries as “emerging markets” and consider them as one is not a great thing to do. For instance, the characteristics of Brazil (economically and politically) are very different to that of Thailand, and Poland is different to Nigeria. Many countries in the Emerging Markets have GDP growth prospects that many Western countries could only dream of, even if these numbers are being forecast down due to the global problems we all are suffering. By and large, if the world is growing, emerging market economies are growing faster. There will always be opportunities, but there is also the potential for contagion – if risks are rising in Brazil, there is a good chance that Mexico, Argentina and Chile will feel these risks too, and the recent change in sentiment in China due to regulatory clamp downs and the Evergrande situation has been felt across these markets of late. Until this is fully resolved, expect price volatility and uncertainty.

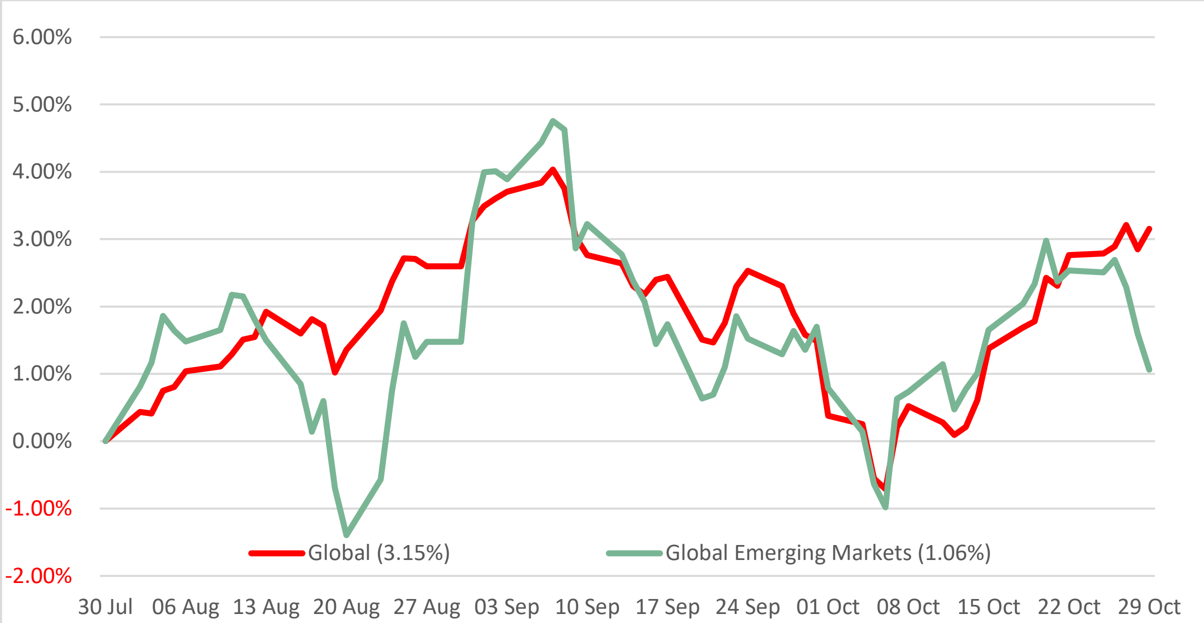
As an interesting aside, in the last three months, due to the strength of the Indian stockmarket, its weight in the World Index is now larger than that of the UK.

China is the dominant player in the Emerging Market indices and accounts for more than 1/3 of the total, and almost half of the index if you add Taiwan to the mix.

Oil prices have risen quite strongly in the last three months, and this will have positive and negative impacts to the emerging markets. The Middle East, many African nations, Russia and Venezuela and a number of other countries will see the benefits as they have oil deposits, whereas many countries that have to import oil to function will see the higher prices as a higher input cost to their manufacturing processes.

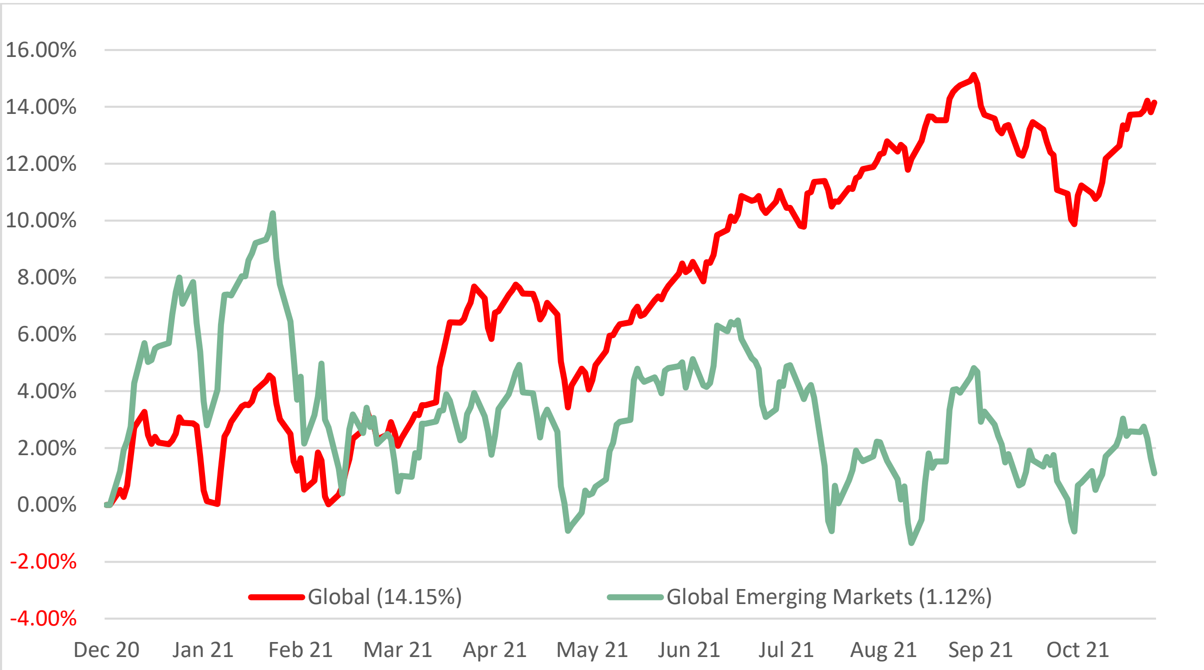
Over the three-month review period, the broad emerging market indices registered small losses, although “frontier markets” were very strong.

Sector comparison: Global and Global Emerging Markets – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global and Global Emerging Markets – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

ASIA PACIFIC/CHINA

Although there are many fabulous companies and countries in the Asia Pacific region; many take their lead from China – and for good reason. China is likely each country's largest trading partner, the dominant economy in the region and the most powerful. So in essence, where goes China, so goes the rest of Asia.

The Asia Pacific Region as a whole registered poor numbers over the most recent three month period, with India being a standout strong performer as it emerges from a debilitating crisis relating to Covid 19. With no real catalyst to spark the strong run, many commentators have argued it was just the market playing catch up and there is validity in that thesis. But, the market is one of the most advanced and liquid in the region and could also have been a beneficiary from the weakness in China where investors wanted to keep exposure to stock markets in the region.

Economic forecasters are starting to pare back growth rates in the region – partly due to rising inflation, partly due to the uncertainty in China, partly due to higher oil prices and many other factors too. In August the Bank of Korea increased interest rates – the first central bank in the region to try and apply the brakes and cool down a strong economy. This doesn't mean the markets are dedicatedly heading south from here – there will always be opportunities. In the main, many Asian countries fared particularly well in the Covid pandemic. Many have both fiscal and monetary policy tools to assist economic slowdowns (unlike the UK, Europe, US or Japan that are either at nil or negative numbers when it comes to interest rates) and GDP numbers typically twice that of the West.

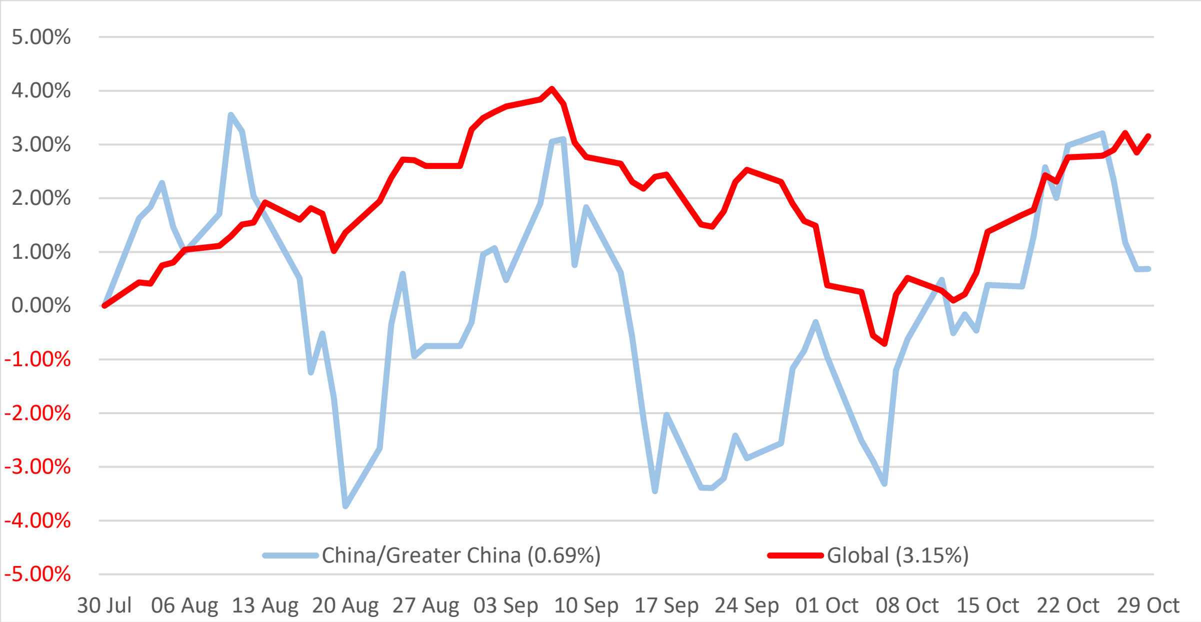
The Chinese authorities effected some significant changes over the last quarter which certainly sent many investors for the door as market volatility increased and stock markets fell. Building on the $2.8bn fine effected on Alibaba earlier in the year, which many saw as a direct attack on Jack Ma (the person who created the company and is one of the world's richest men) and as a warning sign to other wealthy individuals in the country. This quarter the authorities turned their gaze towards the following and clamped down on:

- A concerted effort to ban cryptocurrency mining and transactions,
- Educational businesses could not make profit from their services,
- Internet gaming for the under 18's to be limited to 3 hours per week
- Macau Casinos and their profits
- Closer links between tech companies and the authorities with regards to how data is gathered, disseminated, and used

As can be imagined, investor sentiment turned negative and the guessing game of "which sector is next" came to the fore adding to greater uncertainty and many high profile US investors choosing just to avoid the market as a whole, and telling the world about it….. Chinese Capitalism is not the same as that of the West – the President wants greater distribution of wealth in the country – the top 1% of the wealthiest in China own over 30% of the wealth and it makes sense that the industries above have been targeted. Removing the cost associated with education levels the playing fields between the haves and the have nots, and limiting online gaming time is designed to create greater community harmony. We will watch and see how this develops.

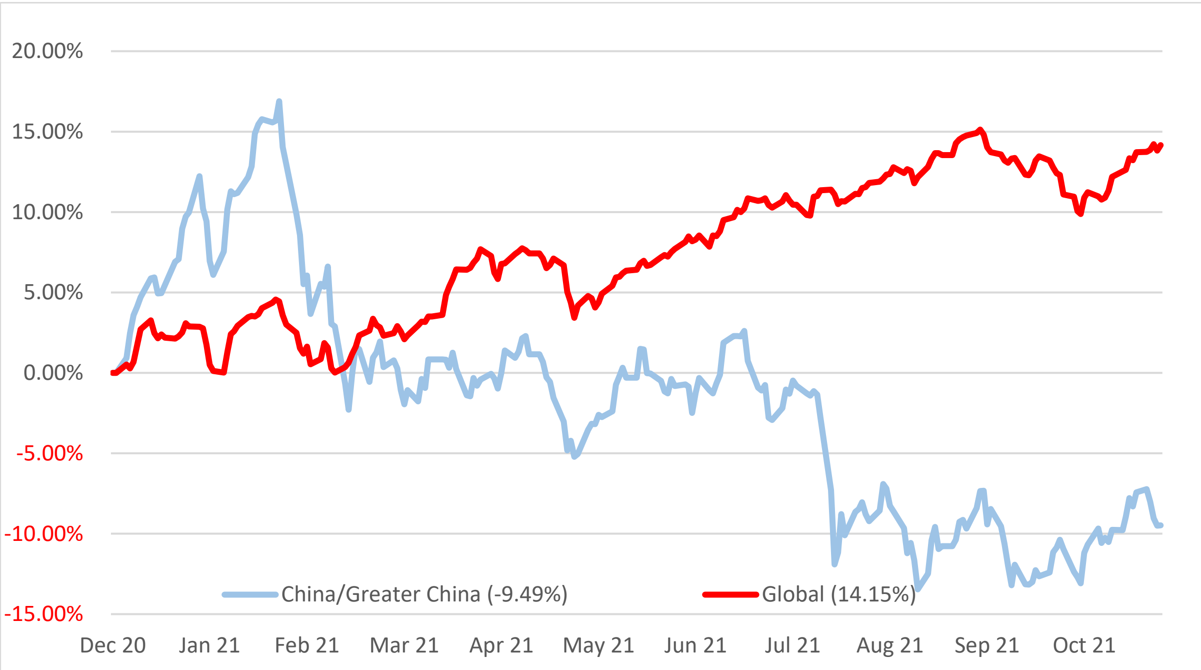
China also suffered from the collapse(*) of Evergrande during the quarter. This property construction business – the second largest in the country – failed to pay the interest payment on some of its $300bn mountain of debt. The odds are before this hit the news, most people had never heard of the company, let alone know how large it is, how much debt it was in and the like, and column inches were written suggesting this could be the final card in the house of cards to bring global stock markets crashing…... In conversations with fund managers over the period, none of them owned the shares of the business with all considering it a weak company in the first place (many were suggesting it should have failed years ago) but either way, should the house come tumbling down many banks would have a large debt burden to bear and this added to negative investor sentiment. The asterisk after the word collapse above was purposeful. Many believed the authorities would let this be another warning signal to the greed of individuals and that the government would step in (which they duly have) although this doesn't mean the issue is resolved.

Sector comparison: Global and China/Greater China – 3 month performance



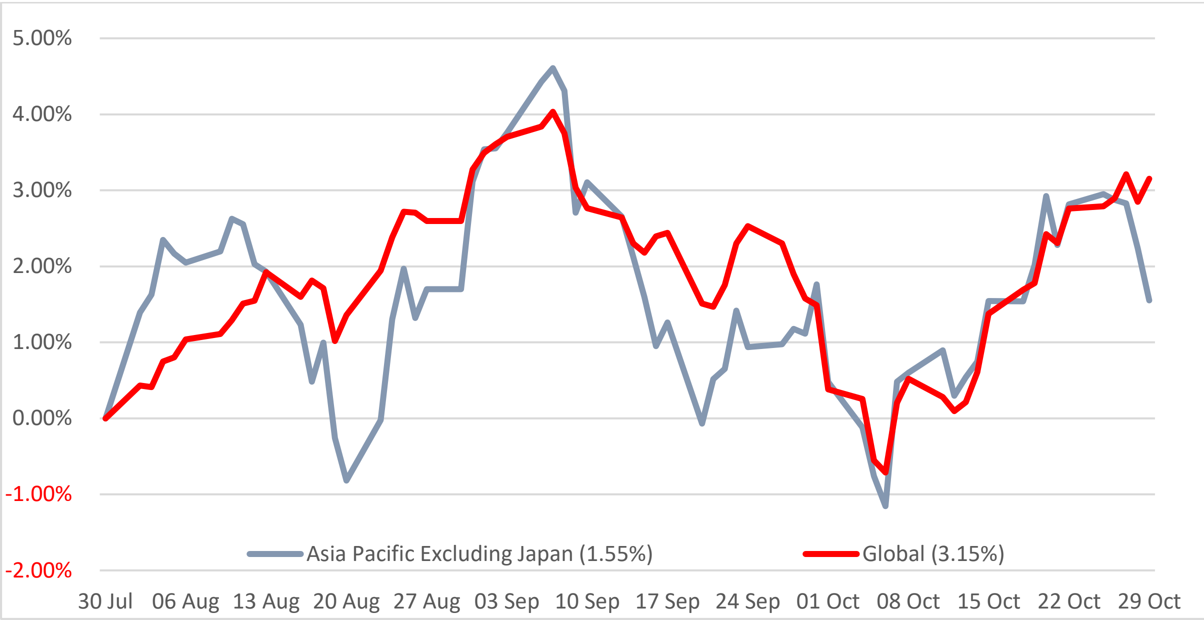
31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global and China/Greater China – YTD performance



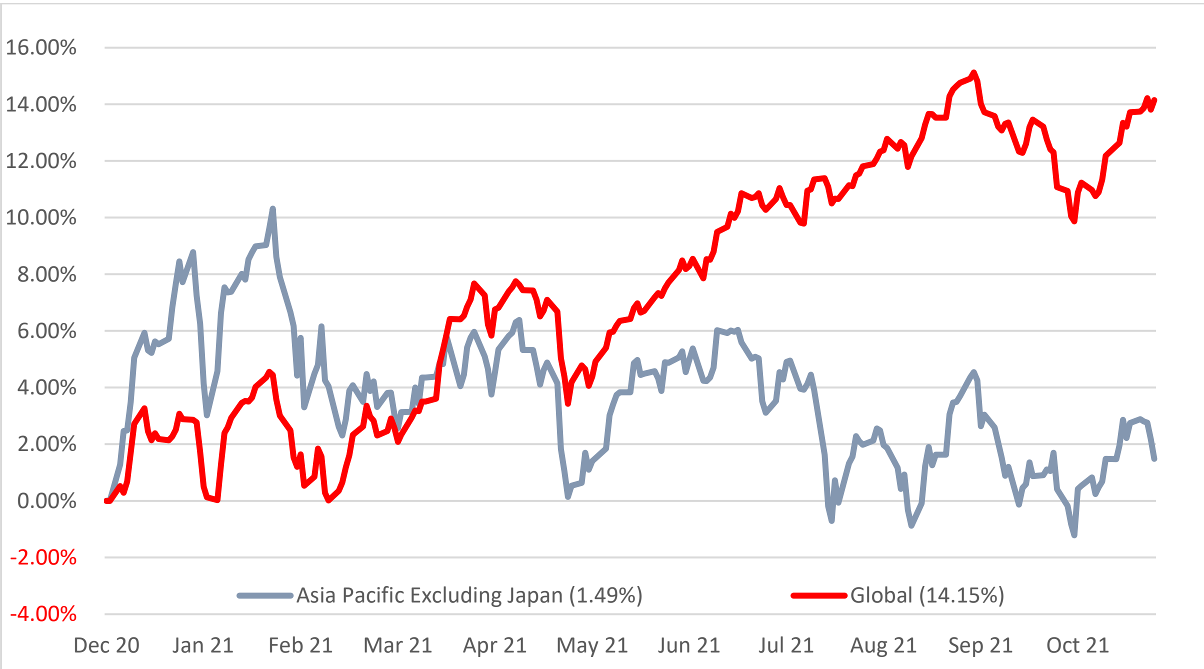
31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global and Asia Pacific Excluding Japan – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global and Asia Pacific Excluding Japan – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

COMMODITIES

As an asset class, commodities are fairly risky, numerous and diverse, albeit the main areas are "energy" (for instance gas and oil), "metals" (gold, silver, zinc) and "agriculture" (wheat, soybean, coffee). Commodities normally react to changing economic fundamentals in different ways to stocks and bonds and this can make them an attractive addition to the creation of a balanced portfolio. Amidst strong demand and shortages in supply, the broad asset class was one of the better-performing during the quarter. Above-trend global demand for commodities will likely sustain, as economies fully emerge from the Covid-19 crisis.

Brent Crude oil has continued to do the heavy lifting for the asset class during the quarter. Its price hit $85 per barrel in October, the highest level since 2018, and a stark comparison to a year ago, where one would have to pay for it to be stored. It is up by around 60% YTD alone. Natural gas prices soared recently, and the reasons are varied, including depletion of existing inventories that were exacerbated by the weather; supply restrictions and unusually high demand in Asia. This has driven demand for gas up quite significantly. It's clear that the gas prices will continue to be volatile but promise of more deliveries from world's largest exporter has helped to send the price of gas slightly lower.

Since the start of the pandemic steel prices spiked a lot, but as productivity improves, supplies will continue to increase as well, and the price pressures should ease. Steel is essential and remains a key material in infrastructure projects so President Biden's administration plan to inject billions of Dollars into infrastructure will be a huge boom to steel manufacturers.

The iron ore price has halved during the quarter, mainly driven by Chinese government crackdown on pollution caused by steel manufacturing, as well as by worries over the prospects of the potential bankruptcy by property developer Evergrande. China is, by far, the biggest importer of iron ore, and both issues mean that there is less overall demand.

One of the key drivers of the gold price is real yields (which is nominal yields minus inflation). Therefore, gold price tends to rise when real yields fall, but faces headwinds when real yields rise. During July the gold price rose but ended the quarter almost at the same price it had begun at, as bond yields started to climb higher in September. Gold is down by about 5% so far this year. Another precious metal, silver, has also declined quite sharply over the quarter.

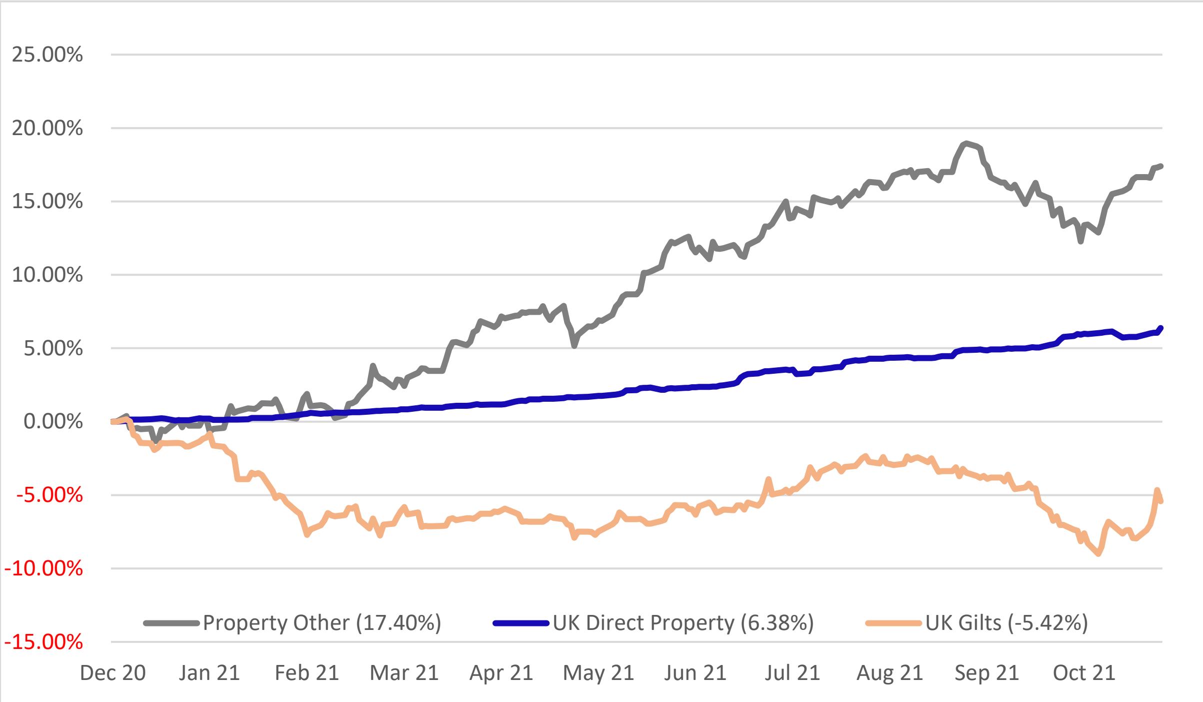
ALTERNATIVE STRATEGIES

UK Direct Property

In what seems like some return to normal, the property sector returned a low positive return for the quarter with a lot less volatility than has been seen over the last few years. Many of us are now back in the office on a more regular basis, visiting the high street and enjoying leisure and entertainment again.

The pandemic has meant there have been structural changes to many property sectors, with office, retail and hospitality being the worst hit. However, there have been other sectors and regions that benefited and are enjoying positive supply and demand characteristics. While there has been a deterioration in retail shopping on the high street, there has been a subsequent increase in online shopping meaning there has been an increase in the demand for logistics and storage space. Where in town shopping centres have seen footfall falling, out of town retail parks have been seeing an increase in volume. Add to these the alternative property areas such as supermarkets, warehouses, care homes, student accommodation and digital infrastructure, there are still plenty of opportunities for property managers to invest in despite the obvious challenges across the sector. Even those more traditional property sectors such as offices are changing so that more flexible office accommodation can be offered, ensuring that they are built fit for purpose by being able to focus on building quality and making sure they meet the latest ESG building regulations, and as such can demand higher rents for those.

Sector comparison: Property Other, UK Gilts and UK Direct Property – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

Cash / Money Markets

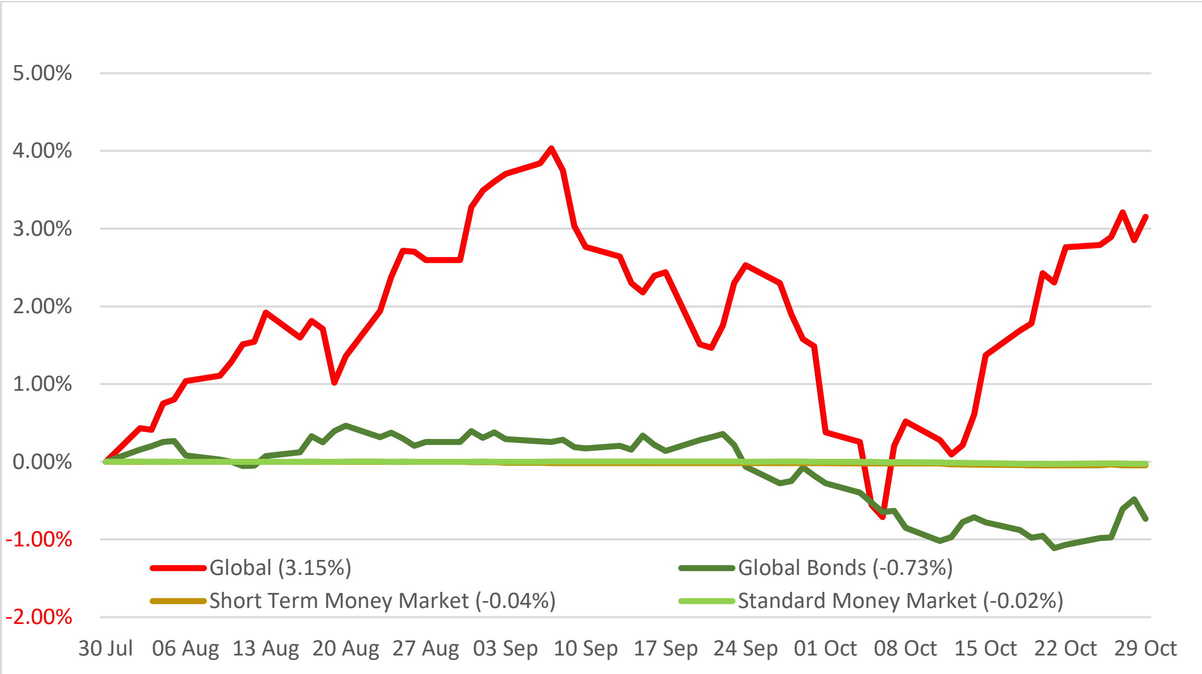
Although it could be argued that writing every three months about what has gone on in the money markets of the world is just a waste of time because rates haven't done anything or delivered returns for many years, it always makes sense to review the money markets. After all, this is the "risk-free" rate and companies and countries need to know this for forecasting purposes.

In the last three months though we have seen inflation numbers starting to surprise many – the latest print in the US for instance is above 5% and the UK above 3% - both significantly ahead of (a) forecasts (b) expectations which could suggest rates are potentially going to be raised to stave off demand and slow the rate of inflation.

It seems the Bank of England are likely to be the first major central bank to blink with many market commentators suggesting rates could rise in early November, although the Federal Reserve remains steadfast in their view that rates will not move until 2023 at the earliest (but, the yield curve, the bond vigilantes and even the governors of the Fed are possibly suggesting a shift higher before then). (If you want to know what the Federal Reserve governors are feeling about interest rates, type "Fed dot plots" into a search engine online and read to your hearts content….) Fed watchers in the US noted that the number of times the word "transitory" was used when referencing inflation in the most recent speeches has been cut significantly from the previous months which ignited fears that higher inflation might well be here to stay, and if it is the case, expect to see interest rates move up.

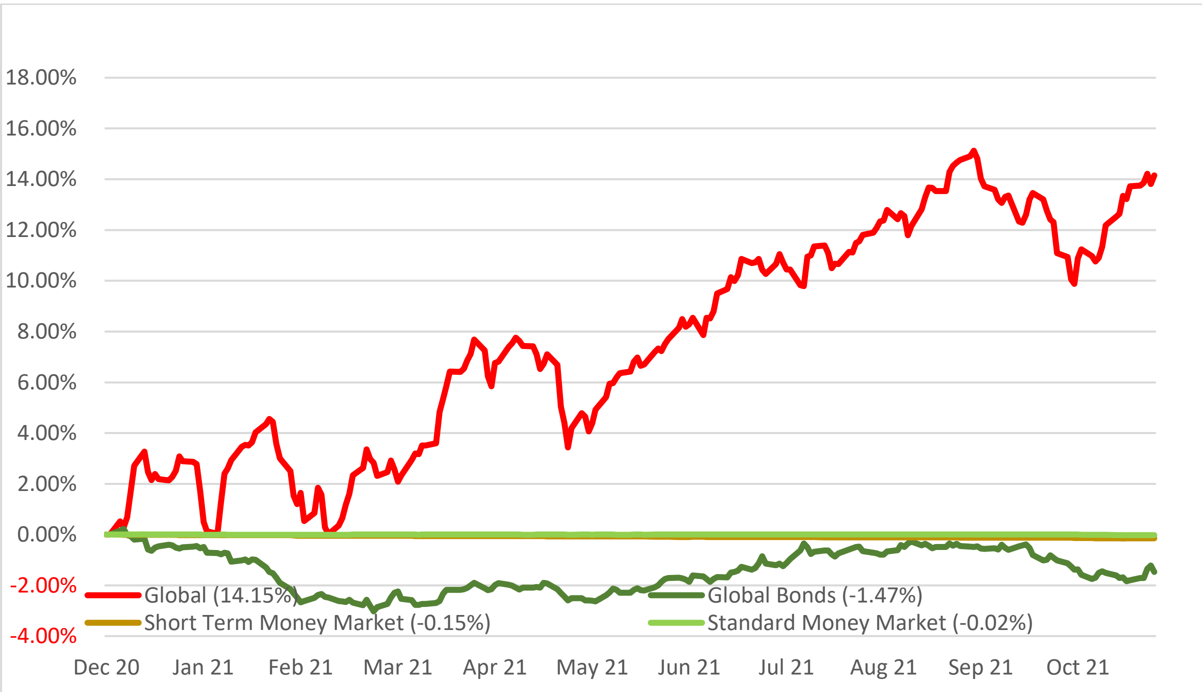
In the last couple of months, Central Banks of Korea, Brazil, Saudi Arabia, Norway, New Zealand, Mexico, Sweden, Hungary and the Czech Republic have all raised interest rates – the next three months might see a few more names to the above list.

Sector comparison: Global, Short Term Money Market, Global Bonds and Standard Money Market – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Global, Short Term Money Market, Global Bonds and Standard Money Market – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

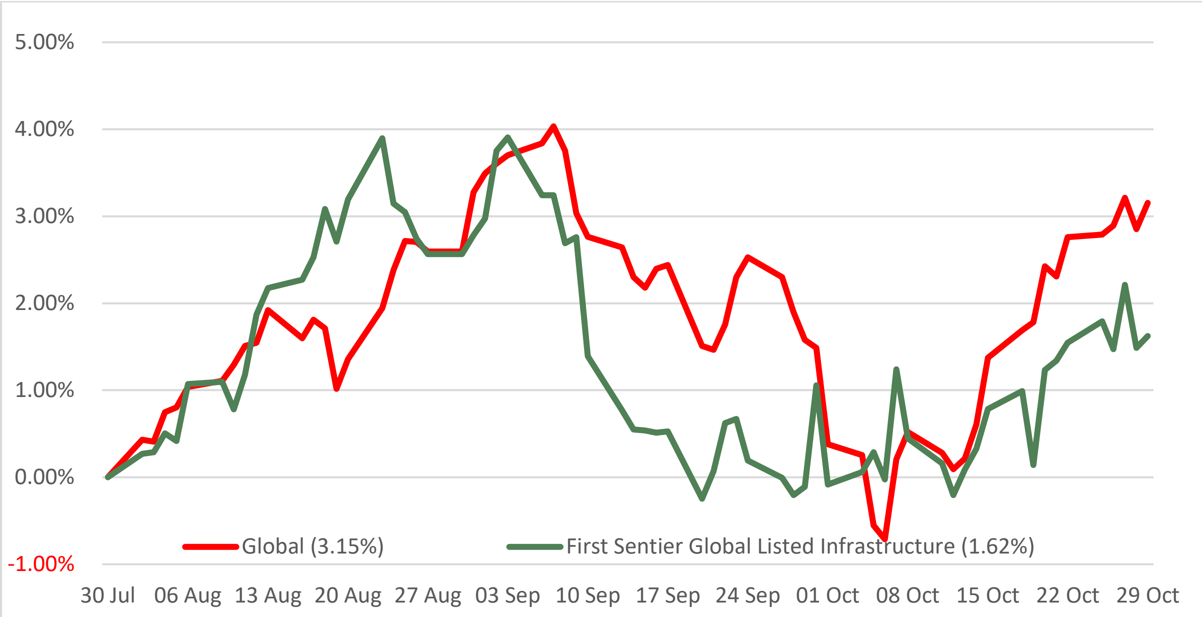
Infrastructure

Infrastructure equities were broadly in-line with the wider global equity market over the quarter and continued to provide an attractive risk and return profile for investors. Pressures in global supply chains, higher energy prices, and fiscal tightening to pay for pandemic support measures have all led to higher forecasts for inflation, and, in parallel, to rising bond yields. The characteristics of many infrastructure stocks, including the limited correlation of earnings with the broader economy and the inflation-linked returns offered by regulated and contracted assets provided some resilience when equity markets moved lower.

Investment in this sector is typically made either directly or indirectly into a broad range of global companies involved in the ownership and operation of infrastructure assets, including, for example, electricity, water, gas, telecommunications, airports, roads, railways, seaports and social infrastructure assets. The pandemic and subsequent lockdowns look to have accelerated existing trends such as remote working, videoconferencing, online shopping and social networking, all of which require reliable, robust high speed fixed and mobile data networks. If electric vehicle penetration is to rise this would require a largescale build-out of EV charging infrastructure across urban areas in developed markets, and this in turn would require significant investments in existing electricity transmission and distribution grids, owned by the regulated utilities. Regulated utilities continue to have a strong income profile while continued growth in renewable generation is seen as a major positive, enhancing the valuation of existing assets and providing wide-ranging growth opportunities.

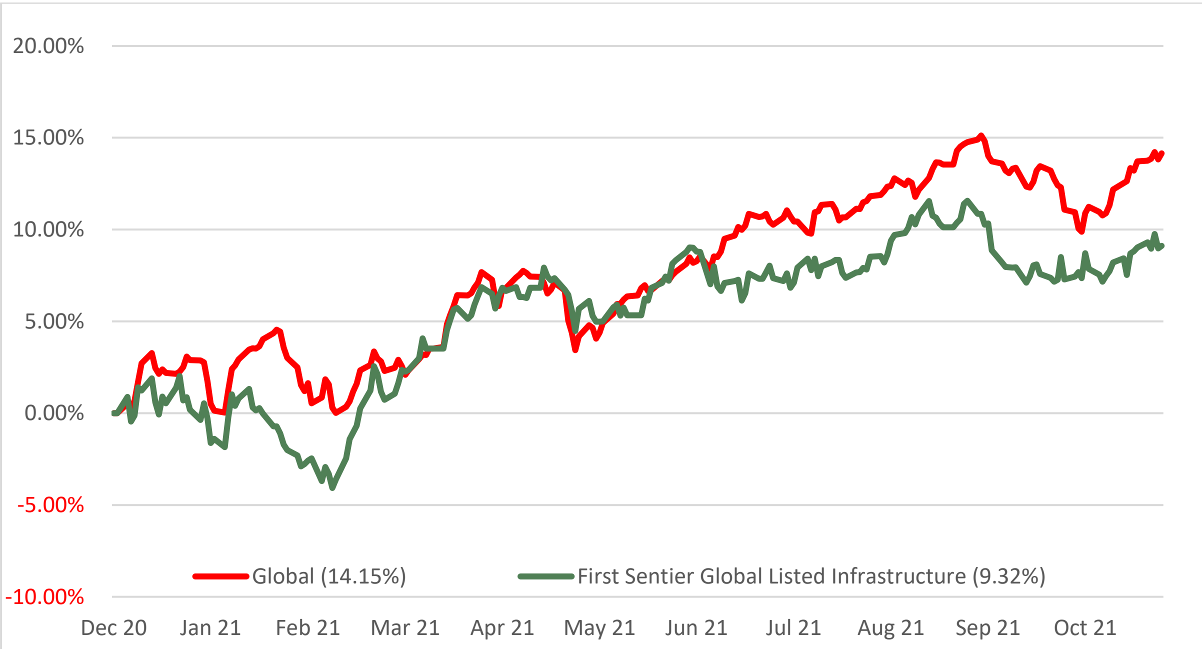
On the other side of the infrastructure story the use of airports and railways have started to pick up again from the extremely low levels seen during 2020 as travel restrictions have begun to be lifted and more commuters have returned to work.

Sector comparison: Infrastructure Index Proxy and Global – 3 month performance



31/07/2021 – 31/10/2021 Data from FE fundinfo 2021

Sector comparison: Infrastructure Index Proxy and Global – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021

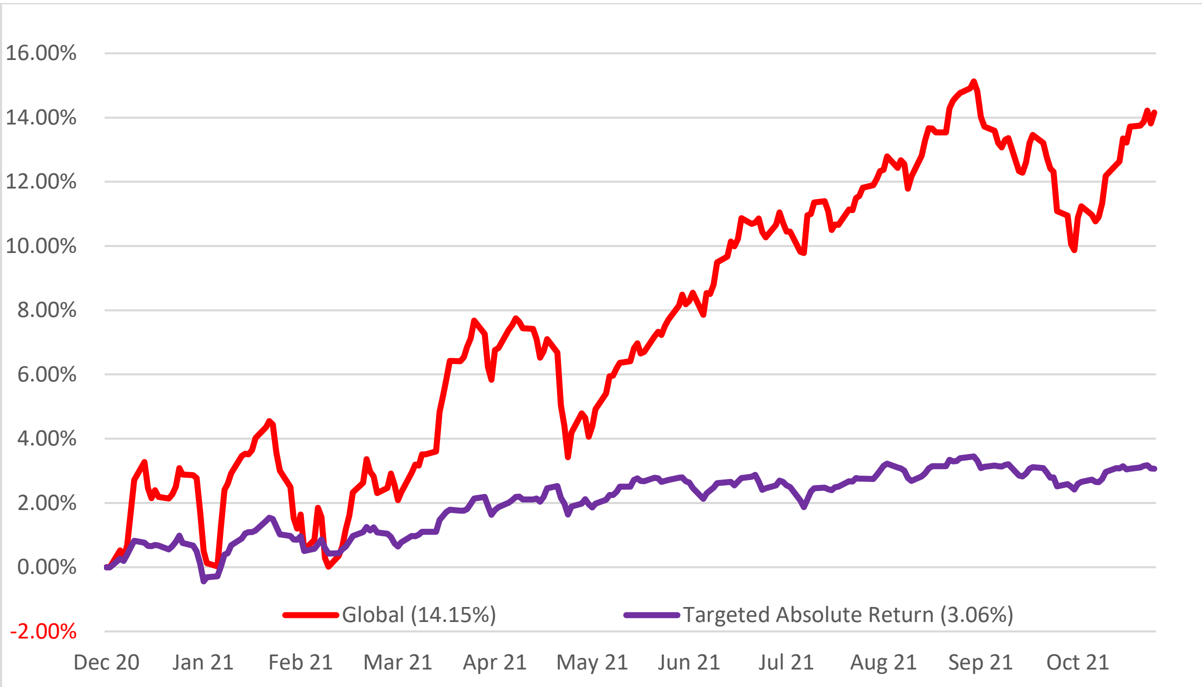
Targeted Total Return

The Targeted Absolute Return sector includes an array of different funds that deploy a variety of strategies, including fixed income securities, equities, property, derivatives, commodities, short selling and other techniques, that are not typical for traditional equity and fixed income funds.

Funds in this sector are generally relatively lowly correlated to traditional equity sectors and over the last six months volatility levels have been more than four times lower, helping to boost diversification.

The return over the period was broadly flat leading to an underperformance versus global equities but an outperformance against UK and international bonds. As ever there was a significant disparity between the top and bottom performers: the best fund over the period returned over 6% while the worst performer came in at over -9%. This highlights the importance of the fund selection process when investing in this sector.

Sector comparison: Global and Targeted Absolute Return – YTD performance



31/12/2020 – 31/10/2021 Data from FE fundinfo 2021