NLP Financial Management Ltd

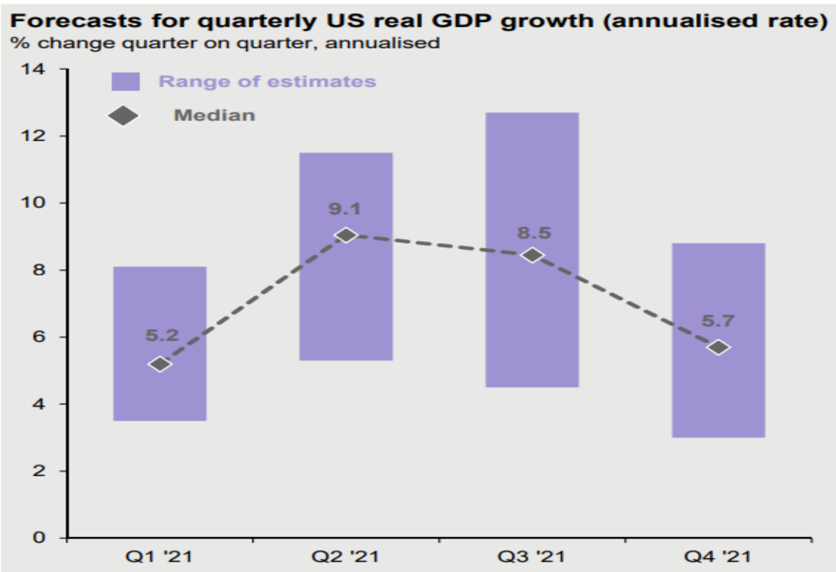
Investment Monthly Update - March

14th April 2021

Successful vaccination programmes continued to roll out in the UK and the US, but there are concerns about new variants emerging as well as rising cases throughout Europe and in developing markets such as India, Brazil and Chile. Biden's $1.9 trillion American Recovery Plan was passed by the House at the start of the month, and we were presented with the $2.2 trillion infrastructure and jobs package at the end. The twin themes of rising bond yields and an equity rally in the sectors due to reopen after lockdown persisted. Global equity markets had a positive month and were digesting the scale of the rescue packages as well as the potential for the return of inflation earlier than expected. Many investors reflected on the anniversary of the market crash of last year.

Markets March saw the MSCI World Index up 4.8% in sterling terms, as was the MSCI USA 5.1%, the UK 4.1%, Europe 4.7% and Japan 2.5%, but Asia -1.2% and emerging markets -0.2% were down. In the bond markets, prices for global government and corporate bonds were affected by inflation concerns and the rise in the US Treasury 10 Year Bill yield to 1.75% which is up from its low of 0.5% last year. This has pushed bond yields up and prices down towards the month end reflecting investor worries. While UK gilts were down -0.1%, index-linked gilts were up 1.9%. UK corporate bonds were off -0.1%, global corporate bonds were off -0.3% whilst emerging market debt was down -1.6% in sterling terms.

Economic rebound The graph below shows the forecasts for the US economy this year on a quarterly basis. There is plenty of pent-up spending power for goods and services with many parts of the economy due to reopen again during the year. Market commentators are now expecting growth to be at the top end of the ranges.



Source: J P Morgan Asset Management Market Watch Update 7.04.21

UK The International Monetary Fund has revised its forecast for GDP growth for this year to 5.3% and the economy is expected to return to pre-crisis levels by mid-2022. As we approach the next phase of the reopening plan on 12 April, leisure, travel and entertainment sectors are seeing increased activity and there are improving sentiment indicators for the service sectors. According to the Office for National Statistics, data shows that credit and debit card spending is rising strongly again.

Europe Stock markets rose during the month as sectors such as energy and financials responded to the reopening of the economies and the prospect of higher inflation is better news for the banking sector. Car makers, travel and leisure sectors also rallied taking the broad Euro Stoxx 600 index above its pre-pandemic high of last February. However European Commission President Ursula von der Leyen warned of 'the start of the third wave of the pandemic' as lockdowns resumed in France and Italy. This will cause an inevitable slowdown in the recovery rate of the mainland economies.

US The new Covid relief package of $1.9 trillion was passed by Congress. The $1,400 per person stimulus cheques and unemployment benefits will help households and could lead to a rapid wave of 'revenge spending' across the summer. We also saw the release of the 'once in a generation' $2.2 trillion infrastructure and jobs package which has climate change at its heart and will target roads, railways, bridges, housing, hospitals and care facilities, schools, broadband networks, and electric vehicle charging points. The spending plans will be spread across eight years and will be paid for in part by a rise in corporation tax up to 28% as well as taxes on big technology companies and fossil fuels. The International Monetary Fund has revised its forecast for the US to 6.4% this year up from 5.2%. Estimations of GDP growth this year are at the upper end of the 6-8% range. The outlook for long term inflation remains benign although a temporary spike is widely expected given the price collapses seen last year. The US Federal Reserve reiterated its intention to continue its policy of government and federal bond asset purchases up to 2024.

China Chinese consumer spending and manufacturing output continued to grow at a sharp pace. An interesting reflection of the pace of the Chinese recovery over the past year has been the creation of 210 new billionaires in the areas of technology, online retail, video streaming and entertainment as well as specialist manufacturing. However, there was a sell-off amongst technology stocks with Beijing financial authorities warning of a potential asset price bubble. The sector will be subject to further scrutiny and will face tighter regulation.

Rising global commodity prices reflect the positive outlook for growth. Oil rose to $70 per barrel, its highest price since last March and copper reached over $9,000 per tonne, an 8-year high, which reflects the growing demand for raw materials, commodities and energy. These price indicators provide further evidence of a potential uptick in inflation later this year.

Portfolios We saw a reversal of the rally in undervalued parts of the markets, such as travel, leisure and hospitality, as growth stocks in the technology and healthcare sectors reasserted themselves towards the month end. Sterling rose against the dollar but fell against the Euro and the Yen, affecting the value of some of our holdings. Our infrastructure holdings and the new positions in UK small and medium sized companies responded well and provided the best returns during the month, together with our European, US as well as some global and UK special situations exposures. Asia and Japan returns were subdued following the sell-off in the Far East. Our global strategic and emerging market bond funds were most affected by concerns over the rise in US Treasury bond yields, but index-linked gilts, asset-backed securities and some higher yielding names along with the group of alternative strategies were mildly positive.

Andrew Graham - On behalf of the Investment Committee

NOTE: This material has been written for information purposes only and must not be considered as financial advice. Data as at 31st March 2021.