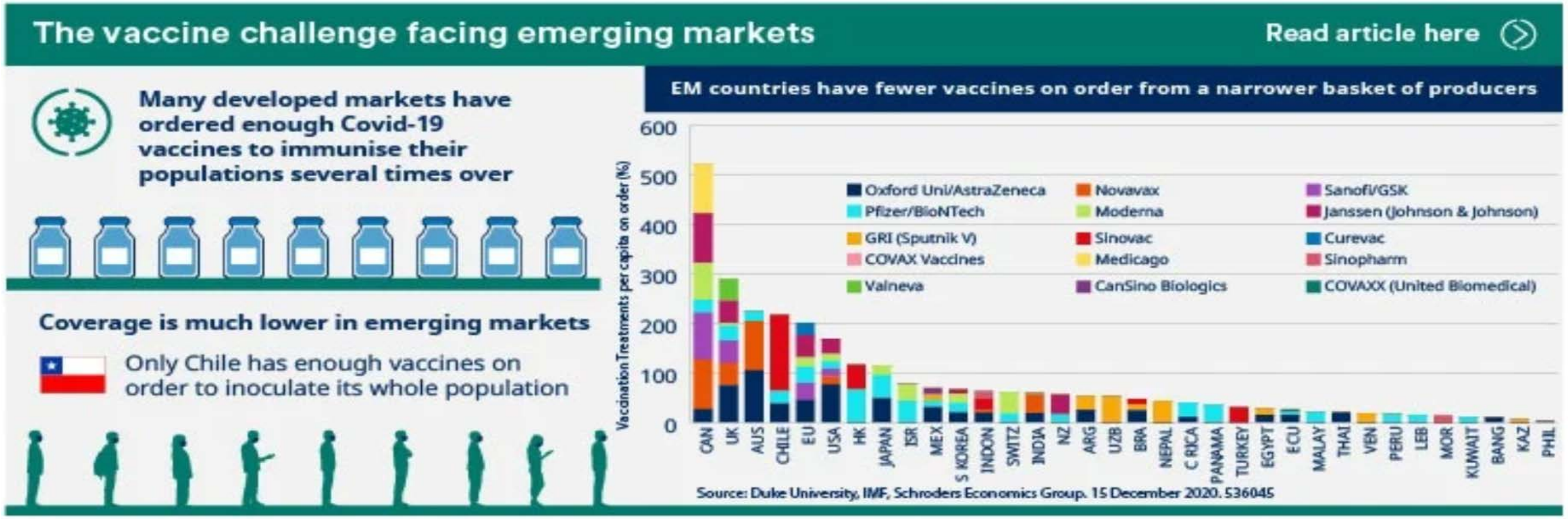
FINURA

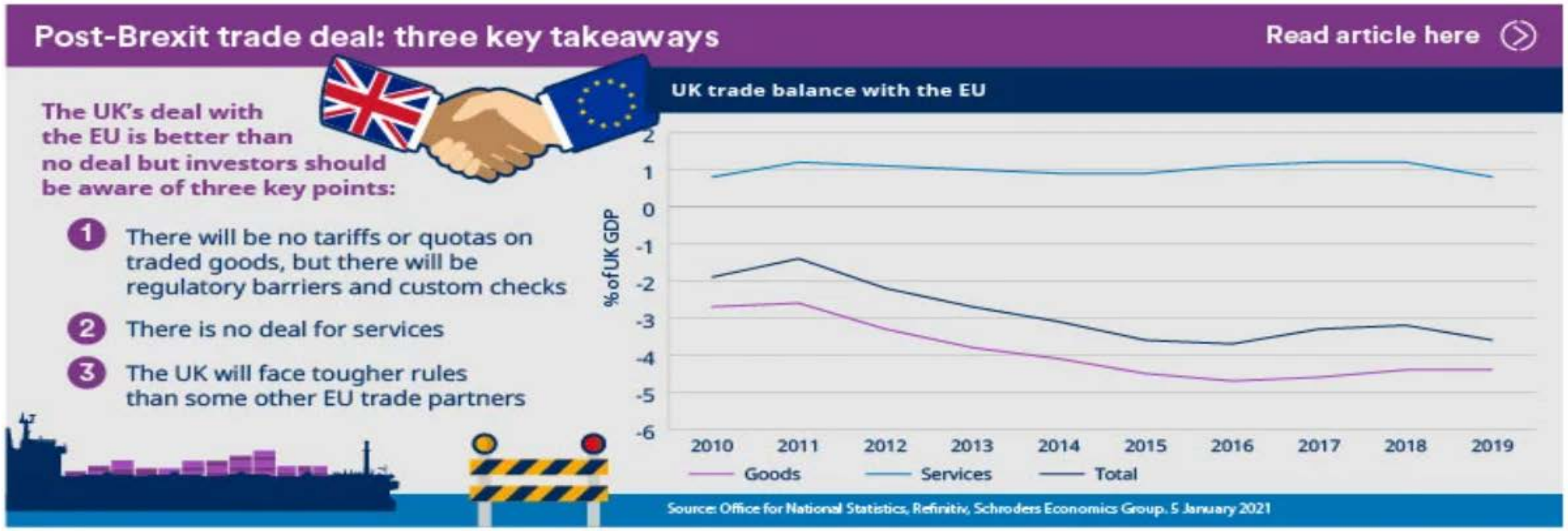
# MARKET COMMENTARY
# JANUARY 2021

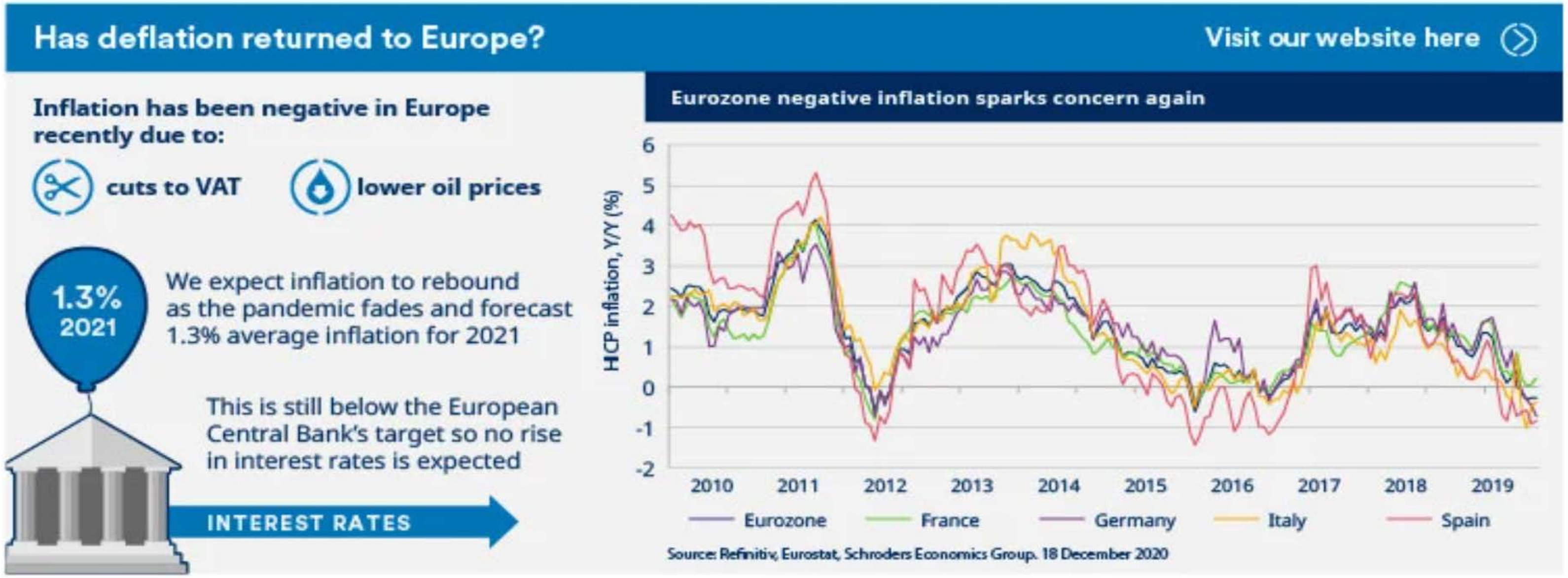
Chartered Financial Planners

Pension TRANSFER Gold Standard

# INFOGRAPHIC: THE GLOBAL ECONOMY






Source: Schroders as at January 2021.

# MULTI-ASSET INVESTMENT VIEWS

KEY

▲ Up from last month ▼ Down from last month

● Positive ● Positive/Neutral ● Neutral ● Neutral/Negative ● Negative

| | Category | View | Comments |
|---|---|---|---|
| Main Asset Classes | Equities | Positive/Neutral | We remain positive as ample liquidity (i.e. readily available funds) is supporting markets and vaccine developments are allowing investors to look ahead to economies re-opening. |
| | Government Bonds | Negative | We remain negative as although yields (the amount of return an investor will realise on a bond) have continued to normalise, valuations remain unattractive. |
| | Commodities | Positive/Neutral | Commodity prices continue to slowly climb higher despite the new wave of lockdowns. We expect this to accelerate as the industrial recovery strengthens. |
| | Credit | Neutral | We remain neutral as although the probability of a recovery continues to boost both fundamentals and risk appetite, we see more growth potential in equities. |
| Equities | US | Positive/Neutral | We remain positive and expect market gains to continue. However, we have a preference for other regional markets. |
| | UK | Positive ▲ | We upgraded UK equities as we expect it to benefit as the global recovery broadens into multinational and commodity-sensitive markets. |
| | Europe | Positive | We remain positive on Europe as it should benefit from the economic recovery with the market dominated by value and 'growth-sensitive' sectors. The strong rebound in China should also be supportive. |
| | Japan | Positive | There is evidence of a strong industrial recovery in Asia and the export-focused industrial components of the Japanese market should benefit. |
| | Pacific ex-Japan | Positive/Neutral | We continue to favour these markets given signs of a recovery in exports and ongoing support from the technology cycle. |
| | Emerging Markets | Positive | The strong rebound seen in Asia supports our positive view, while those regions exposed to the commodity sector should also perform well. |
| Government Bonds | US | Negative ▼ | Yields (the amount of return an investor will realise on a bond) are likely to rise modestly as pent-up demand drives the global recovery and the US government continues to increase spending. |
| | UK | Negative | We remain negative as valuations are unattractive. |
| | Germany | Negative | Germany remains our least favoured market, with valuations still expensive across all the metrics that we measure. |
| | Japan | Negative | We remain negative as the Bank of Japan will continue to keep government bonds in a tight range. |
| | US Inflation Linked | Positive/Neutral | We remain positive as breakeven rates have improved and additional fiscal stimulus are expected following the US election result. |
| | Emerging Markets Local | Positive/Neutral | We remain positive as opportunities still appear in emerging markets (EM), particularly Chinese government bonds. A few markets stand out on diversification grounds, for example South Korea and the Czech Republic. |

| | Category | View | Comments |
|---|---|---|---|
| Investment Grade Credit | US | ● | The US election result and investors' search for viable alternatives to expensive government bonds should be supportive. |
| | Europe | ● | We remain positive as improving fundamentals coupled with high existing cash positions provide potential room for further performance. |
| | Emerging Markets USD | ● | We remain positive on the relatively strong fundamentals in EM corporates, while also seeing some potential value in EM high yield sovereigns. |
| High Yield Bonds (Non-IG) | US | ● | We remain negative as fundamentals are weak, with interest coverage remaining near record lows. However, the recent US election outcome should be supportive. |
| | Europe | ● | We prefer European HY over US due to lower forecast default rates and slightly better fundamentals. |
| Commodities | Energy | ● | Although the new wave of Covid-19 has weakened energy demand, the unexpected cut in supply from Saudi Arabia will help balance the market. |
| | Gold | ● | We remain neutral as we believe gold is vulnerable to rising real yields. |
| | Industrial Metals | ● | Strong metal demand from China has shown signs of weakness, but ex-China demand is likely to pick up as economic activity normalises after the vaccine rollout. |
| | Agriculture | ● | We remain neutral as although Chinese demand remains strong, supply is being hampered by weather risks, and the recent price rises already reflects these factors. |
| Currencies | US $ | ● ▲ | Although a negative view on the dollar is supported by the global recovery story, we are positive in a portfolio context in order to balance out risks elsewhere. |
| | UK £ | ● ▲ | We have upgraded to neutral as US dollar weakness and a Brexit trade deal has seen sterling appreciate. |
| | EU € | ● | European growth indicators have followed the global trend while valuation continues to be cheap, despite recent appreciation. |
| | JAP ¥ | ● | We remain neutral as the yen could strengthen in the short term due to US dollar weakness and growth outperformance, but weaken further out if investors switch to risker assets. |
| | Swiss F | ● | We remain neutral as the Swiss franc continues to perform well and the central bank remains active, despite the US describing it recently as a 'currency manipulator'. |

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Source: Schroders, January 2021. The views for equities, government bonds and commodities are based on return relative to cash in local currency. The views for corporate bonds and high yield are based on credit spreads (i.e. duration-hedged). The views for currencies are relative to US dollar, apart from US dollar which is relative to a trade-weighted basket.

# MARKETS REVIEW

**An overview of markets in January when emerging market equities outperformed their developed market peers.**

## HIGHLIGHTS

- January saw divergent performance for shares, with developed market equities ending the month lower while emerging market equities posted positive returns.
- The month saw volatility from abnormal and targeted trading, along with concerns over the pace of vaccine roll-outs.
- Government bond yields generally rose (meaning prices fell). In the US, the Democrats secured control of Congress to raise expectations of more fiscal stimulus.
- Commodities gained with energy the best-performing index component as Saudi Arabia unexpectedly announced a unilateral cut in output.

## THE US

US equities declined. Unusual and highly targeted trading from a cohort of retail investors contributed to a rise in market volatility, dampening risk appetite that had pushed the S&P500 to a new high.

The volatility overshadowed optimism earlier in the month, stemming from an anticipated fiscal stimulus boost following President Biden's inauguration. The Federal Reserve said the pace of the US economic recovery had weakened. Consumer staples and industrials were amongst the weaker market areas, while energy and healthcare were more resilient.

## EUROZONE

Eurozone shares fell in January. A relatively slow roll-out of Covid-19 vaccines dominated the headlines. Also denting sentiment was political turbulence in Italy that led to the resignation of Prime Minister Conte. The European Commission's consumer confidence survey fell by 1.7 points compared to December. Data showed the German economy grew by 0.1% in Q4 2020, while French GDP shrank 1.3%.

The healthcare and IT sectors posted positive returns. The weakest sectors were real estate and consumer staples.

## UK

In the UK, the FTSE All-Share index posted negative returns in January amid weakness in the financials, industrials and consumer goods sectors. Other sectors saw gains, with oil & gas and basic materials among the best performers.

The roll-out of vaccines picked up speed but lockdown restrictions weighed on economic activity. The composite purchasing managers' index, a measure of service and manufacturing sector activity, fell to 40.6 in January from 50.4 in December (a reading below 50 indicates contraction).

## JAPAN

Japanese equities traded higher in the first half of January, helped by positive statements from the US Federal Reserve, before falling at the very end of the month to leave a total return of just 0.2%. Having strengthened against the US dollar for most of 2020, the yen ended January slightly weaker. Small caps underperformed again in January, having been particularly weak in the first half of the month.

The Japanese economy has dipped back into deflation, although this is currently due to a series of temporary factors, including lower utility prices and mobile phone charges.

## ASIA (EX JAPAN)

Asia ex Japan equities registered a strong gain as the global roll-out of Covid-19 vaccines and expectations for additional US fiscal stimulus boosted investor optimism. However, concerns over a delayed exit from the pandemic contributed to a sharp sell-off at the end of the month.

China, where domestic economic data remained firm, and Taiwan, which benefited from strong performance in technology names, led the index higher. Hong Kong, Singapore and South Korea ended the month in higher but underperformed the Asia ex Japan index.

## EMERGING MARKETS

Emerging market equities recorded a positive return as investors anticipated a return to social normality and economic recovery. This was despite a sell-off towards month end on concerns of a Covid-19 resurgence. The UAE and Egypt were the best performing markets in the index.

China outperformed the index, aided by strong performance from e-commerce and internet stocks. Brazil lagged with currency weakness dragging on returns. Protests held during the month called for President Bolsonaro's impeachment, amid dissatisfaction over the response to Covid-19. India also finished in negative territory.

## GLOBAL BONDS

In fixed income, government yields rose early in the month (meaning prices fell). In the US, the Democrats secured control of Congress to raise expectations of more fiscal stimulus. The US 10-year yield increased by 18 basis points (bps) to 1.09% over the month. The UK 10-year yield trod a similar path, rising just over 13bps, to 0.33%. In Europe, yields rose early on too, but were balanced by perceived hawkishness from the European Central Bank (ECB) and rising political risk in Italy. The German 10-year finishing 5.5bps higher at -0.52%.

For corporate bonds, investment grade credit saw negative total returns. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade. US credit outperformed US Treasuries, while the euro and sterling markets were in line with government bonds. Global high yield credit markets made moderate positive returns, mainly due to income. Hard currency emerging market (EM) debt weakened 1%, while EM corporate and local currency debt was marginally lower.

After a positive start to the year, global stock markets shed their gains and posted a loss for the month. Convertible bonds played to their advantages and participated in the strong first three weeks of trading, then protected well on the downside. The Refinitiv Global Focus index, which measures balanced convertible bonds, advanced 0.3%. With strong demand for the asset class, convertible valuations became more expensive, especially in the US.

## COMMODITIES

In commodities, the S&P GSCI Index posted a strong return as the ramp-up of vaccination programmes in a number of countries boosted hopes of a return to economic normality in 2021. This was in spite of concerns later in the month over a delay to the recovery.

Energy was the best-performing index component as spot crude oil prices picked up. Although OPEC+ modestly increased production in January, Saudi Arabia unexpectedly announced a unilateral cut in output. (OPEC+ is the Organisation of the Petroleum Exporting Countries, plus Russia and nine other oil producing countries). The agriculture component also recorded a solid return. The industrial metals component achieved a small gain; nickel rallied but zinc was firmly down. By contrast, the precious metals component registered a negative return, amid a weaker gold price.

# TOTAL RETURNS (NET) % – TO END JANUARY 2021

| | 1 MONTH | | | 12 MONTHS | | |
|---|---|---|---|---|---|---|
| **Equities** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| MSCI World | -1.0 | -0.3 | -1.4 | 15.5 | 5.3 | 10.8 |
| MSCI World Value | -1.0 | -0.3 | -1.5 | 0.8 | -8.1 | -3.3 |
| MSCI World Growth | -1.0 | -0.3 | -1.4 | 30.3 | 18.9 | 25.1 |
| MSCI World Smaller Companies | 2.1 | 2.8 | 1.6 | 21.7 | 11.1 | 16.9 |
| MSCI Emerging Markets | 3.1 | 3.8 | 2.6 | 27.9 | 16.7 | 22.8 |
| MSCI AC Asia ex Japan | 4.1 | 4.8 | 3.6 | 36.2 | 24.2 | 30.7 |
| S&P500 | -1.0 | -0.3 | -1.5 | 17.3 | 7.0 | 12.6 |
| MSCI EMU | -2.0 | -1.3 | -2.5 | 9.0 | -0.6 | 4.6 |
| FTSE Europe ex UK | -1.7 | -1.0 | -2.2 | 12.5 | 2.6 | 8.0 |
| FTSE All-Share | -0.4 | -.4 | -0.8 | -3.7 | -12.2 | -7.6 |
| TOPIX* | -1.2 | -0.5 | -1.6 | 13.9 | 3.9 | 9.3 |

| | 1 MONTH | | | 12 MONTHS | | |
|---|---|---|---|---|---|---|
| **Government Bonds** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| JPM GBI US All Mats | -1.2 | -0.5 | -1.6 | 4.4 | -4.8 | 0.2 |
| JPM GBI UK All Mats | -1.3 | -0.6 | -1.7 | 7.4 | -2.1 | 3.1 |
| JPM GBI Japan All Mats** | -1.7 | -1.0 | -2.1 | 1.7 | -7.2 | -2.4 |
| JPM GBI Germany All Traded | -1.2 | -0.5 | -1.7 | 10.2 | 0.6 | 5.8 |
| **Corporate Bonds** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| BofA ML Global Broad Market Corporate | -1.0 | -0.3 | -1.5 | 7.5 | -2.0 | 3.2 |
| BofA ML US Corporate Master | -1.2 | -0.5 | -1.7 | 5.9 | -3.4 | 1.7 |
| 2.8BofA ML EMU Corporate ex T1 (5-10Y) | -0.9 | -0.1 | -1.3 | 11.4 | 1.6 | 7.0 |
| BofA ML £ Non-Gilts | -0.5 | 0.2 | -0.9 | 8.4 | -1.1 | 4.1 |
| **Non-investment Grade Bonds** | **USD** | **EUR** | **GBP** | **USD** | **EUR** | **GBP** |
| BofA ML Global High Yield | 0.0 | 0.8 | -0.4 | 7.9 | -1.5 | 3.6 |
| BofA ML Euro High Yield | -0.3 | 0.4 | -0.8 | 12.8 | 2.9 | 8.3 |

Source: Thomson Reuters DataStream.
Local currency returns in January 2021: *0.2%, **-0.3%.
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**Source: Schroders, January 2021: The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Past performance mentioned is not a guide to future performance and may not be repeated. The sectors, securities, regions and countries shown are for illustrative purposes only and are not to be considered a recommendation to buy or sell.**

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