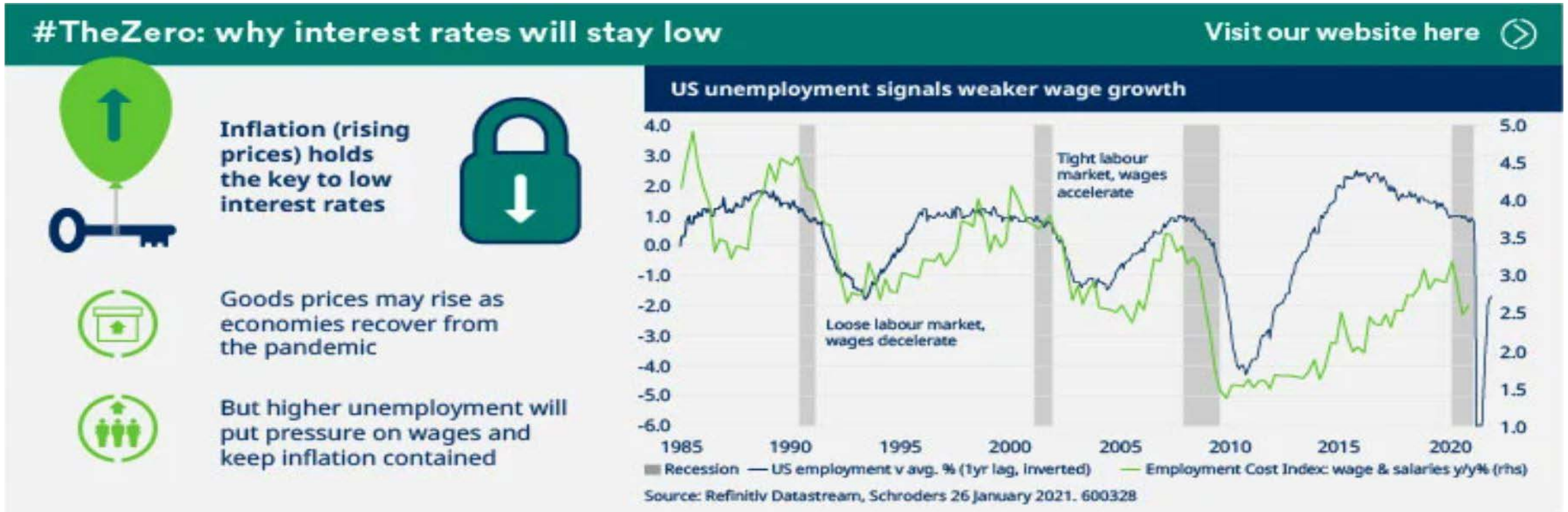
FINURA

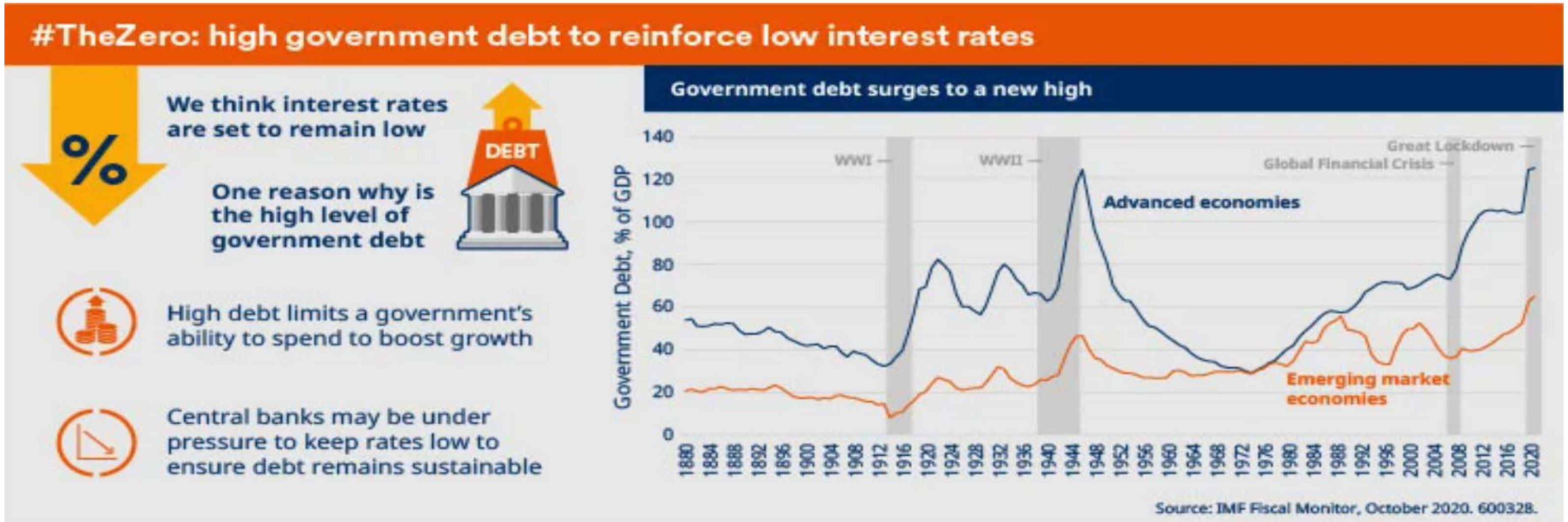
MARKET COMMENTARY
FEBRUARY 2021

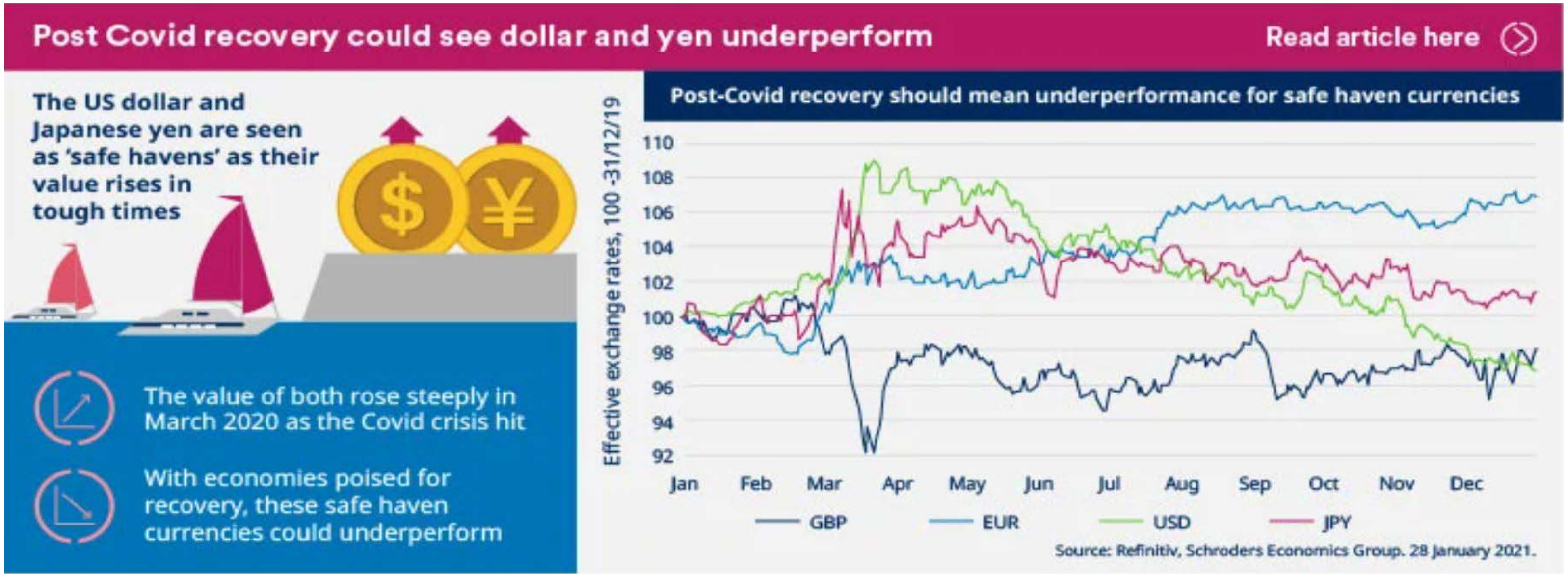
Chartered Financial Planners

Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY







Source: [Schroders as at February 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	●	We remain positive on equities as economies re-open and policy support (fiscal and monetary stimulus used by policymakers to manage economic fluctuations) continues. We do, however, remain cognisant of valuations and incoming inflation data.
Government Bonds	●	Despite a continued pick-up in yields, we still don't see sufficient value to add back exposure. We expect yields to rise further amid the economic recovery.
Commodities	●	Vaccine distribution and solid hopes of additional fiscal stimulus are driving the demand recovery while supply remains pressured by underinvestment across many sectors.
Credit	●	The probability of a vaccinated recovery in the second quarter of 2021 continues to have positive implications for credit, but we see little value in a portfolio context.
Equities		
US	●	Whilst valuations remain at unattractive levels, the region should continue to benefit from government spending and a relatively strong vaccination programme.
UK	● ▼	We remain positive on UK equities, but downgraded our view this month with a strong pound likely to hold back significant market returns.
Europe	● ▼	The region is well-exposed to global activity normalisation, but we have moderated our view given concerns over the vaccine rollout and fiscal stimulus.
Japan	● ▼	We still expect the country's export sectors to benefit from an economic recovery, but we have downgraded this month, expressing our preferences elsewhere in Asia.
Pacific ex-Japan	●	We continue to see potential in this region, particularly within Korea and Taiwan.
Emerging Markets	●	We remain positive with a preference for emerging markets (EM) Asia, but also see potential in commodity exposed regions such as Latin America.
Government Bonds		
US	●	Sentiment has shifted towards higher US yields since January's Senate run-off elections and the prospect of further significant fiscal stimulus.
UK	● ▼	We downgraded our view on UK government bonds as we see little value, particularly in shorter-term bonds which seem excessively overpriced.
Germany	●	It remains difficult to justify owning German government bonds at highly negative real yields.
Japan	●	We remain negative on Japanese bonds as they continue to offer no value in a portfolio context.
US Inflation Linked	●	Inflation breakeven rates have normalised and we remain positive as 'protection' against upside inflation surprises later on in the year.
Emerging Markets Local	●	We remain supportive on the medium-term outlook for EM local bonds, particularly with regards to regions that provide some diversification, such as Korea and Israel.

	Category	View	Comments
Investment Grade Credit	US		Whilst fundamentals remain weak, they are improving with US company earnings so far surprising to the upside. A strong relative vaccine rollout is also supportive.
	Europe		Valuations remain expensive and the vaccine rollout has flattered to deceive thus far, but government support and investor demand should continue.
	Emerging Markets USD		Opportunities still remain in the higher quality EM corporate bond sector, as well as in the upper tier of the government high yield (HY) market.
High Yield Bonds (Non-IG)	US		Fundamentals remain weaker than Europe, but a strong vaccine rollout should help and lending conditions have also improved versus Europe.
	Europe	▼	We have downgraded our view on European HY reflecting concerns over a stuttering recovery and the longer-term impact of the economic recession.
Commodities	Energy	▼	Whilst we remain positive on energy on a fundamental basis, we have downgraded our view this month after the recent strong performance.
	Gold		Stubbornly low real yields and lighter investor positioning suggests some catch-up potential, but we remain on the sidelines for now.
	Industrial Metals		Weakening credit growth and survey data from China is concerning, but ex-China demand should continue to drive prices higher.
	Agriculture		Agricultural prices have continued to grind higher, but we believe the supply and demand picture remains balanced.
Currencies	US $		We remain positive in a portfolio context, but fundamentals have also improved as the Democratic sweep should prompt stronger fiscal policy, lifting relative US growth.
	UK £		Economic data continues to disappoint, but a strong vaccine rollout program could offer some hope for sterling outperformance.
	EU €	▼	We have downgraded the euro to neutral. Policymakers have started to talk down euro strength again with interest rate cuts a potential action.
	JAP ¥	▼	This downgrade reflects the better vaccine story, higher growth, inflation and interest rate outlook for the US. It also reflects the positive yield differential of the US dollar versus the Japanese yen.
	Swiss F		The Swiss franc is under pressure from a stronger US dollar, but it remains attractive versus the euro given the risks from the European vaccine rollout.

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, February 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

A look back at markets in February when optimism over vaccination programmes helped spur gains for shares and commodities.

HIGHLIGHTS

- Global equities gained in February, with lowly-valued parts of the market faring well. Vaccine optimism ultimately trumped fears that a stronger-than-expected economic rebound could alter the trajectory of monetary policy.
- Government bonds saw a sharp sell-off in late February. Corporate bonds outperformed government bonds in the month.
- Commodities gained with energy the best-performing index component as crude oil prices continued to rise.

THE US

US equities survived a bout of turbulence to post gains in February. Fears that a rapid economic recovery would hasten policy tightening rattled bond markets before rippling into equities, especially tech. As the fears receded, markets recovered. Sectors that are most sensitive to the economic cycle – such as energy, financials, and industrials - performed strongly. More traditionally defensive sectors, such as utilities and consumer staples, lagged.

EUROZONE

Eurozone equities gained in February, supported by a strong advance for lowly-valued parts of the market such as banks. The energy sector also posted robust gains. Defensive sectors such as utilities and real estate were among the laggards. Eurozone annual inflation was confirmed at 0.9% for January and GDP was down by 0.6% in Q4 2020. The Italian parliament approved the formation of a new government to be led by former European Central Bank chairman Mario Draghi.

UK

UK equities also performed well, further reversing some of the underperformance suffered during the global pandemic's initial stages. The market responded well to progress on vaccinations. Lowly valued and domestically focused areas outperformed.

JAPAN

Japanese equities rose sharply in early February, before giving up some of the gains. There was some rotation out of growth-style stocks and the market was led by lower quality factors (lower quality stocks tend to have more volatile earnings, weaker balance sheets and lower profit margins). Smaller companies underperformed.

The Covid-related state of emergency should be lifted in early March and the vaccine roll-out is underway following the first regulatory approvals, which were granted in mid-February. Recent strong corporate results have led to upward revisions to estimates and increased expectations for a full corporate earnings recovery.

ASIA (EX JAPAN)

Asia ex Japan equities achieved a modest gain in February. Progress on the global roll-out of Covid-19 vaccines, and the prospect of US fiscal stimulus, boosted investor optimism. However, expectations for higher inflation prompted a sell-off towards the end of the month. India was the best-performing index market as the Union Budget announcement boosted sentiment. Hong Kong and Taiwan, where strong performance from IT stocks supported gains, both finished ahead of the index. Conversely, Pakistan was the weakest index market. China also finished in negative territory, amid weakness from internet stocks.

EMERGING MARKETS

Emerging market (EM) equities recorded small gains. Early progress was driven by vaccine optimism and expectations for US fiscal stimulus, but were partly offset by concerns over stronger growth and higher inflation. A stronger dollar was also a headwind for EM. Argentina was the best-performing market in the EM index. Chile and Peru, aided by commodity price strength, and Greece, where hopes for a recovery in tourism picked up, all outperformed. Brazil was the weakest index market, negatively impacted by policy concerns. China also finished in negative territory and underperformed the index, with weakness from internet and IT stocks dragging on performance.

GLOBAL BONDS

In fixed income, government bonds saw a sharp sell-off in late February, with corporate bonds outperforming. Having risen steadily on expectations of substantial US fiscal stimulus, government yields lurched higher late in the month (meaning prices fell), as a US Treasury bond auction saw muted demand. The US 10-year Treasury yield rose 36 basis points (bps) to 1.43%. Italian government bonds outperformed German, as investors welcomed the appointment of Mario Draghi as prime minister. The UK 10-year yield increased by 49bps to 0.82%, reflecting optimism around the UK's fast vaccine roll-out and plans for easing lockdown.

Corporate bonds outperformed government bonds. Investment grade produced negative total returns amid the global sell-off in yields, but high yield delivered gains. 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. Emerging market (EM) bonds declined overall. EM corporate bonds registered a relatively small decline, outperforming EM sovereigns, and EM high yield produced positive returns. EM currencies weakened in the final week of the month as US Treasury yields rose.

The Refinitiv Global Focus index, which measures balanced convertible bonds, advanced 3.1% compared to the MSCI World equity index's gain of 2.6%. Given the demand for convertibles, valuations rose and the overall asset class is now slightly expensive. At the same time, the weaker technology sector resulted in US convertibles giving up some of their previous high valuations.

COMMODITIES

In commodities, the S&P GSCI posted a robust return as the continued roll-out of Covid-19 vaccinations supported the outlook for a strong recovery in global growth. Energy was the best-performing index component as crude oil prices continued to pick up. The industrial metals component performed well, led by strong gains for copper, often viewed as bellwether for the global economy, and aluminium. The agriculture component achieved a modest gain in the month, boosted by higher coffee, sugar and cotton prices. The livestock component posted a moderate return, with a strong gain for live hogs. By contrast, the precious metals component registered a negative return in the month, with both gold and silver weaker.

TOTAL RETURNS (NET) % – TO END FEBRUARY 2021

	1 MONTH			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	2.6	2.7	0.7	29.3	17.0	18.2
MSCI World Value	4.7	4.8	2.8	16.7	5.6	6.7
MSCI World Growth	0.4	0.5	-1.4	41.2	27.8	29.0
MSCI World Smaller Companies	5.0	5.1	3.1	40.8	27.4	28.6
MSCI Emerging Markets	0.8	0.9	-1.0	36.0	23.1	24.3
MSCI AC Asia ex Japan	1.2	1.3	-0.6	42.0	28.5	29.7
S&P500	2.8	2.9	0.9	31.3	18.8	20.0
MSCI EMU	3.5	3.6	1.7	23.6	11.8	12.9
FTSE Europe ex UK	2.1	2.2	0.3	25.3	13.4	14.4
FTSE All-Share	3.8	3.9	2.0	13.3	2.5	3.5
TOPIX*	1.3	1.4	-0.5	28.0	15.8	16.9

	1 MONTH			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-2.3	-2.2	-4.0	-0.8	-10.2	-9.3
JPM GBI UK All Mats	-3.9	-3.8	-5.6	5.1	-4.9	-4.0
JPM GBI Japan All Mats**	-2.7	-2.6	-4.4	-2.4	-11.7	-10.9
JPM GBI Germany All Traded	-2.1	-2.0	-3.8	7.4	-2.8	-1.8
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-1.6	-1.5	-3.4	5.4	-4.6	-3.7
BofA ML US Corporate Master	-2.0	-1.9	-3.7	2.5	-7.2	-6.3
2.8BofA ML EMU Corporate ex T1 (5-10Y)	-1.1	-1.0	-2.8	11.8	1.1	2.1
BofA ML £ Non-Gilts	-1.2	-1.1	-3.0	10.9	0.3	1.3
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	0.4	0.5	-1.4	10.2	-0.3	0.7
BofA ML Euro High Yield	0.5	0.6	-1.3	16.6	5.5	6.5

Source: Thomson Reuters DataStream.
Local currency returns in February 2021: *3.1%, **-1.0%.
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Source: Schroders, February 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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