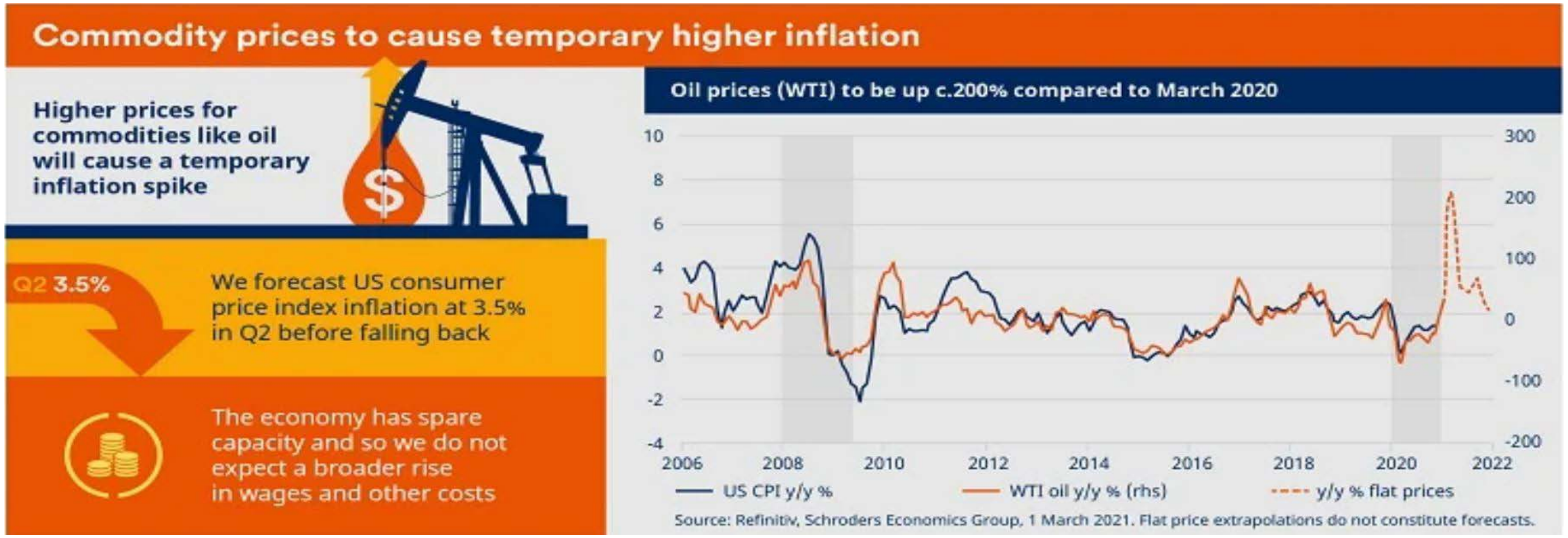
FINURA

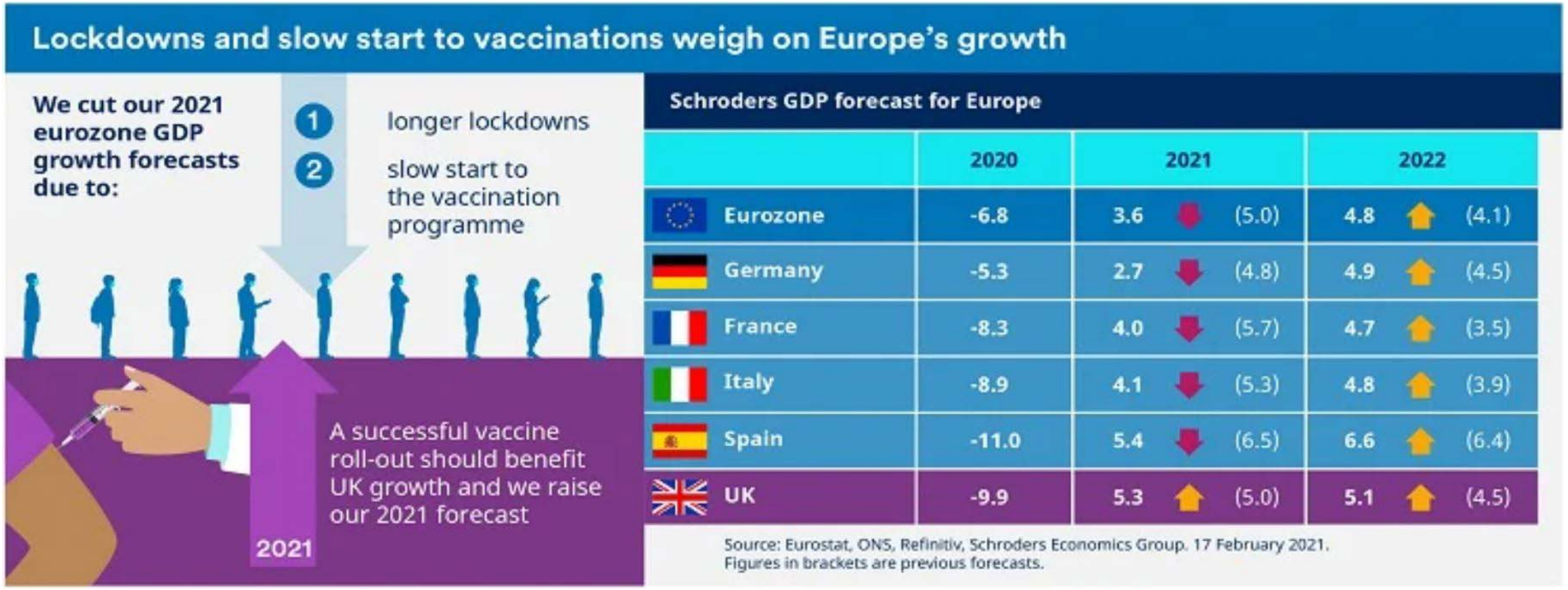
MARKET COMMENTARY MARCH 2021

Chartered Financial Planners

Pension TRANSFER Gold Standard

INFOGRAPHIC: THE GLOBAL ECONOMY





	2020	2021		2022	
Eurozone	-6.8	3.6 ↓	(5.0)	4.8 ↑	(4.1)
Germany	-5.3	2.7 ↓	(4.8)	4.9 ↑	(4.5)
France	-8.3	4.0 ↓	(5.7)	4.7 ↑	(3.5)
Italy	-8.9	4.1 ↓	(5.3)	4.8 ↑	(3.9)
Spain	-11.0	5.4 ↓	(6.5)	6.6 ↑	(6.4)
UK	-9.9	5.3 ↑	(5.0)	5.1 ↑	(4.5)

Source: Eurostat, ONS, Refinitiv, Schroders Economics Group. 17 February 2021.
Figures in brackets are previous forecasts.

Source: [Schroders as at March 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 believe in the fundamentals of equities over the medium-term. We recognise, however, the risk that rising real rates pose to equity valuations, given they are a key component of the discount rate for calculating today's value of companies' future cashflows.
	Government Bonds	Negative	Yields have risen sharply since January. The global impact of the vaccine roll-out and the US fiscal package, however, mean there is still some scope for further modest rises (bond prices fall as yields rise).
	Commodities	Positive/Neutral	We remain positive as commodity prices continue to rise. Vaccine distribution and solid hopes of additional fiscal stimulus are driving the recovery in demand.
	Credit	Neutral	The probability of a vaccine-led recovery in the second quarter of 2021 continues to have positive implications for credit, but we continue to see little value.
Equities	US	Neutral ▼	The risk-return profile has deteriorated with rising real yields pressuring the technology/growth heavy market. We continue to favour economically sensitive sectors within the US.
	UK	Neutral ▼	The UK is attractive given its economic sensitivity and cheap valuations. The strength of the pound, however, is weighing on a market with high foreign revenues.
	Europe	Neutral ▼	The region is well positioned to benefit from any normalisation of the global recovery but is behind on vaccine delivery. Fiscal support also remains as a headwind.
	Japan	Positive/Neutral	We still expect the country's export sectors to benefit from the economic recovery.
	Pacific ex-Japan	Positive/Neutral	We continue to favour these markets, particularly Korea and Taiwan, given signs of recovering exports and ongoing support from the technology cycle.
	Emerging Markets	Positive/Neutral ▼	We remain positive on emerging market (EM) equities where the growth exposure in the index is diversifying to our other positions.
Government Bonds	US	Negative	Sentiment has shifted towards higher US yields since January's Senate run-off elections and the approval of the legislation for further significant fiscal stimulus.
	UK	Negative ▲	We have reduced our negative score on the UK market following a poor start to 2021 with valuations now more attractive.
	Germany	Negative ▲	Similarly, to the UK, we have reduced our negative score as valuations have improved. We acknowledge the German market remains challenged given negative real yields.
	Japan	Negative	We remain negative on Japanese bonds as they continue to offer no value in a portfolio context.
	US Inflation Linked	Positive/Neutral	The yield difference between nominal and inflation-linked US government bonds (breakeven rates) have normalised. We remain positive as they offer "protection" against any upside inflation surprises that may emerge later in the year.
	Emerging Markets Local	Negative ▼	We prefer EM Asia where inflationary pressures are more muted. Overall, we have downgraded as the rest of the EM universe does not look particularly attractive.

	Category	View	Comments
Investment Grade Credit	US	● ▼	We have downgraded our score, due to very tight valuations in the US investment grade sector, together with less supportive technical factors.
	Europe	●	We remain positive. Technical factors and fundamentals are more supportive compared to the US market.
	Emerging Markets USD	● ▼	We have taken the opportunity to downgrade EM corporate investment grade credit following recent tightening in credit spreads. The credit spread is the margin that a company issuing a bond has to pay an investor in excess of government yields and is a measure of how risky the market perceives the borrower to be.
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 remain concerned about the lack of a co-ordinated recovery programme and, should banks continue to tighten lending criteria, rising insolvency risk.
Commodities	Energy	● ▲	We have upgraded our view as OPEC+ – an alliance between OPEC members (Organization of the Petroleum Exporting Countries) and other oil producing states – surprised the market this month by keeping supply steady. Saudi Arabia also continues its voluntary cut.
	Gold	●	We continue to remain on the sidelines for now. We believe gold is oversold and await the Federal Reserve's (Fed) intervention to cap yields.
	Industrial Metals	●	Weakening credit growth and survey data from China are concerning, but ex-China demand should recover strongly as global activity normalises, driving prices higher.
	Agriculture	● ▲	We upgraded as 40% of US corn is used in the production of ethanol, where demand is expected to rebound strongly as the world reopens. Chinese soybean orders are also up threefold from last year.
Currencies	US $	●	Our view is based on the dollar offering diversification, US growth momentum outpacing other developed markets, and an earlier pick-up in US inflation and yield differentials.
	UK £	●	Economic data continues to disappoint, but a strong vaccine rollout programme could offer some hope for sterling outperformance.
	EU €	●	We see signs of European Central Bank dovishness compared to the Fed's comfort with higher yields. We expect the growth differential will widen following Europe's lacklustre vaccine progress.
	JAP ¥	●	Our negative view on the Japanese yen continues to reflect the better vaccine story, higher growth, inflation and interest rate outlook for the US. In addition, it reflects the positive yield differential of the US dollar versus the yen.
	Swiss F	●	The Swiss franc is under pressure from a stronger US dollar. It remains attractive, however, versus the euro given the risks from the slowness of 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, March 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 Q1 when vaccine roll-outs and US spending plans helped lowly-valued shares make strong gains.

HIGHLIGHTS

- Global equities advanced in Q1, supported by the roll-out of Covid-19 vaccines and news of further US fiscal stimulus. Lowly-valued parts of the market fared well, as did smaller companies
- Government bond yields rose (meaning prices fell). Corporate bonds outperformed government bonds.
- Commodities gained with the energy component boosted by stronger demand

THE US

US equities gained in Q1, despite starting uncertainly. Unusual, highly targeted trading activity saw markets rattled in January, before recovering as optimism over significant government stimulus took root.

President Biden first confirmed a fiscal stimulus package of $1.9 trillion, which was followed up with an additional promise of $2 trillion in infrastructure spending. Energy, financials and industrials made strong gains. Technology and consumer staples lagged.

EUROZONE

European equities advanced in Q1. Hopes of global economic recovery supported sectors that fared poorly in 2020, such as energy and financials. Consumer discretionary stocks also performed well, notably car makers as Volkswagen announced ambitious electric vehicle targets. Underperformers were defensive areas that are less tied into the economic recovery, such as utilities and real estate.

The flash manufacturing purchasing manager's index (PMI) for March reached a record high of 62.4, signalling strong growth. However, rising Covid infection rates in some countries, and new lockdown curbs, cast doubt on the prospects for services, notably tourism.

UK

UK equities performed well. Lowly-valued, economically-sensitive areas of the market extended the recovery seen since November. This was reflected in a very strong performance from materials, energy and financials. Banks performed particularly well amid better-than-expected results and a sharp increase in bond yields as the global economic outlook improved.

A number of domestically focused areas of the market also outperformed as the forward-looking data for the UK economy improved. The IHS Markit/CIPS composite PMI rose in March to 56.6 (flash reading). This signified the fastest rate of expansion for seven months ahead of the easing lockdown measures towards the period end.

JAPAN

Japanese equities continued to rally as visibility on the corporate profit recovery improved after a strong set of quarterly results. Sentiment was also helped by the consistent weakness of the yen against the US dollar. The market was led by cyclical sectors and lower quality value style stocks, partly in response to early indications of changes in global interest rates and inflation expectations.

There is now an increasing likelihood of the Tokyo Olympics being held, although the government confirmed that international spectators will not be allowed to attend.

ASIA (EX JAPAN)

The MSCI Asia ex Japan Index recorded a positive return amid continued investor optimism for a return to economic normality. However, sentiment weakened towards the end of the quarter as slower vaccination rollouts led to the reintroduction of lockdown restrictions in some countries. The best performing markets in the index were Taiwan, where strong performance from IT names supported gains, and Singapore, where banks underpinned returns.

The Philippines was the weakest index market. A sharp rise in daily new cases of coronavirus resulted in tighter restrictions, weighing on the outlook for the services-oriented economy. In China, expectations for policy normalisation, regulatory uncertainty for certain industries, and ongoing geopolitical concerns dampened sentiment.

EMERGING MARKETS

Emerging market equities (EM) registered a positive return in Q1. This was despite weakness later in the quarter as EM vaccine programmes lagged developed markets. A pick-up in daily new cases of Covid-19 led to renewed activity restrictions in some countries. Meanwhile, a marked increase in US Treasury bond yields pressured higher growth areas of the equity markets and accompanying US dollar strength was also a headwind for EM.

Chile, aided by copper price strength, and a strong start to vaccine roll-out, was the best-performing index market. Turkey, where the central bank governor was unexpectedly replaced, recorded a sharp fall and was the weakest index market. Brazil and China also finished in negative territory.

GLOBAL BONDS

Bond yields rose markedly in Q1 amid swift continued rollout of Covid-19 vaccinations, particularly in the US and UK, and expectations of a large US economic stimulus. It was the second worst quarter since 1980 for US Treasuries, with other markets also seeing large moves.

The 10-year US Treasury yield rose from 0.91% to 1.74%, while the 2-year yield rose only modestly. As such, the yield curve steepened, indicating rising growth expectations. The UK 10-year yield increased by 65 basis points (bps) to 0.88%.

In Europe, where the vaccination programme is some way behind the US and UK, the German 10-year yield increased from -0.57% to -0.33%. Italy's 10-year yield rose from 0.52% to 0.63%, which reflected some political uncertainty. Spain's rose from 0.06% to 0.34%.

Corporate bonds outperformed government bonds. Investment grade made negative total returns, the US dollar market particularly, as yields rose. High yield produced moderate positive returns amid healthy risk appetite and rising growth expectations. 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.

Convertible bonds, with a bias towards growth and IT companies, did not participate significantly in equity market gains. The balanced Refinitiv Global Focus index showed a steady gain of

0.8% (in US dollars) for the quarter. The primary market remained very active with a volume of more than $60 billion of new paper coming to the market. Valuations cheapened, partly driven by lower demand for US convertibles.

COMMODITIES

In commodities, the S&P GSCI Index rallied strongly in Q1 as the global roll-out of Covid-19 vaccines continued to spur investor optimism for economic recovery. This was in spite of a stronger US dollar.

Energy was the best-performing index component, driven by strong performances from unleaded gasoline and Brent crude on the back of higher demand and continued controls on supply. Industrial metals also recorded a robust return, led by strong gains for aluminium and copper. The agricultural sector achieved a positive performance, with robust gains for corn and soybeans.

The precious metals component was lower, with sharp declines recorded by both silver and gold.

TOTAL RETURNS (NET) % – TO END MARCH 2021

	3 MONTHS			12 MONTHS		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	4.9	9.2	4.0	54.0	43.8	38.4
MSCI World Value	9.6	14.1	8.6	48.3	38.4	33.3
MSCI World Growth	0.2	4.4	-0.7	58.2	47.7	42.2
MSCI World Smaller Companies	9.4	13.9	8.4	81.4	69.4	63.1
MSCI Emerging Markets	2.3	6.5	1.3	58.4	47.9	42.3
MSCI AC Asia ex Japan	2.7	6.9	1.8	57.3	46.9	41.4
S&P500	6.2	10.5	5.2	56.4	46.0	40.5
MSCI EMU	4.7	9.0	3.7	54.2	44.0	38.6
FTSE Europe ex UK	3.4	7.6	2.4	50.1	40.1	34.9
FTSE All-Share	6.2	10.5	5.2	41.0	31.6	26.7
TOPIX*	2.1	6.3	1.1	38.9	29.6	24.8

	3 MONTHS			12 MONTHS		
Government Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-4.6	-0.7	-5.5	-5.1	-11.4	-14.7
JPM GBI UK All Mats	-6.5	-2.7	-7.4	5.0	-2.0	-5.6
JPM GBI Japan All Mats**	-7.0	-3.2	-7.9	-3.3	-9.7	-13.1
JPM GBI Germany All Traded	-6.4	-2.5	-7.2	5.5	-1.5	-5.2
Corporate Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-0.4	-5.2	11.8	4.3	0.4	-0.4
BofA ML US Corporate Master	0.6	-5.4	9.3	2.0	-1.8	-0.6
2.8BofA ML EMU Corporate ex T1 (5-10Y)	-0.8	-5.6	18.8	10.9	6.7	-0.8
BofA ML £ Non-Gilts	0.8	-4.1	19.0	11.1	7.0	0.8
Non-investment Grade Bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	4.0	-1.0	25.7	17.3	12.9	4.0
BofA ML Euro High Yield	1.6	-3.4	31.0	22.3	17.7	1.6

Source: Thomson Reuters DataStream.
Local currency returns in March 2021: *9.3%, **-0.5%.
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