GDIM Discretionary Fund Managers

Issue 2 - April 2021

Investment Market Review & Outlook

An end to the misery of the COVID lockdowns looks to be finally in sight, despite the setbacks of the first quarter of 2021. Reported cases of COVID-19 are dropping consistently and the prospect of a return to normality is getting closer, so the outlook is naturally brighter. However, concerns have turned to the effect of the extraordinary monetary and fiscal stimulus that has been implemented and whether we are facing a resurgence in inflation in the near future as global growth begins to take off again.

UK Economic Data

2020/2021	RPI (%)	CPI (%)	Unemployment (%)	GDP Growth* (%)
October	1.3	0.7	4.9	
November	0.9	0.3	5	Q4 = -7.3%
December	1.2	1.4	5.1	
January	1.4	1.4	5	
February	1.4	0.9		Q1 † = 2.1

**Based on percentage change on previous quarter* *†TradingEconomics Estimate, 2021*

Economy

The start of the year brought an optimistic outlook but reality ended up being somewhat disappointing as markets dipped on fears of future inflation and renewed lockdowns in some places. Inflation could come as a result of increased activity, but we do not feel that this poses a risk to assets or will lead to an increase in interest rates this year or next.

US, UK and European central banks all re-iterated their reticence to raise interest rates, even in the face of higher prices, and issued guidance that showed the first increase will be some way off. The extraordinary monetary support (quantitative easing) that has maintained markets' credibility during this period will also continue for the foreseeable future.

In the US, stimulus payments to individuals started being distributed over the quarter, and is expected to make an immediate impact. Plans for a huge infrastructure plan have also come to light, but will be a few years away yet. We are already seeing the early potential impact in the form of increased demand, with US consumer confidence levels hitting new highs in March.

The UK's vaccination programme has been a success with ever-increasing numbers of people (approaching 50% at time of writing), having had at least the first jab, and hospitalisations falling significantly. Vaccines are continuing to be rolled out across the world and, despite a setback in European programmes, early economic data suggests that European business confidence is very positive, shown by their levels of investment. It is notable that the recovery has, so far, mostly been in the manufacturing sectors and services still are yet to come, and we anticipate that travel and leisure stocks will reap the benefits of increased personal freedoms over the summer.

In March, both France and Italy were compelled to introduce new lockdown measures in response to increasing hospitalisations and much of the rest of continental Europe is in similar shape. Overall, the largest European countries have a vaccination rate of only around 10% so they may be some way from lifting all restrictions.

In Asia we are seeing continued strength overall with some economies in much better shape than others. The improved earnings from many companies are driving overall growth and we are excited for the prospects for China, India and South Korea especially.

Fixed Interest

Bond markets reacted to fears of higher inflation in the future, falling more than might have been expected and pushing their yields higher. Although this occurred faster than we would have predicted or liked, this is a natural reaction to increased activity. We believe that, while consumer demand and activity will increase, the higher levels of unemployment and relatively low levels of output, especially while de-stocking occurs (the sale of the stock built-up while it could not be used or sold), should prevent inflation from rising significantly.

Our highest quality bonds – those issued by the governments of the UK, US and Europe – are some of the most sensitive to interest rates, and these suffered considerably over the previous quarter, which is unusual for what is normally the most protective element of portfolios.

One element of the bond market that has performed very well so far this year was the higher-yielding sector. These bonds tend to have a correlation to equity markets, but they defied the falls to produce a positive return. This was mainly down to careful active management and the generous levels of income derived from them.

Interest rates are not likely to increase in the next couple of years, which anchors the prospect for yields. Therefore, we believe that bonds should not continue to depreciate and remain a vital component of a risk-diverse portfolio.

Equities

The first quarter of the year brought muted positivity and was marred by pockets of volatility in both equities and bonds. The best returns came from the UK, US and some emerging markets, with the most challenged regions being South America and some peripheral European countries. The UK did well over the quarter as commodities rallied and sterling was strong. Our exposure to smaller domestic companies performed particularly well, rallying from lower levels than their larger counterparts.

Consumers around the world will benefit directly from the stimulative measures that governments and central banks are implementing. The increased spending likely to result from this should show up in company earnings, and ultimately their share prices. We are wary of what the end of these support measures may mean for household incomes and employment levels and this is something we will watch closely.

We have been shifting our exposures in many portfolios to benefit from a synchronised global recovery, and we have moved particularly toward smaller companies and more economically sensitive areas as these are usually the main beneficiaries of a pick-up in growth.

Our risk has increased at the last two rebalances and we continue to believe that this positioning is appropriate for the environment we see ahead of us.

Since the beginning of the year, so-called 'value' stocks have performed better than their counterparts. These are stocks that have been out of favour and are therefore perceived to be better value to buy and typically they include sectors such as banks, commodities and telecoms. They have performed well recently, but these cycles tend to last less than 6 months and are not supported by longer-term drivers, so while we may have some exposure, this is not a theme that we will try and chase.

Similarly, the recently maligned 'growth stocks' that have contributed so much over the last few years are out of favour, but we do not believe that the structural drivers that led them to lead markets for so long have disappeared.

Commodities

It was a strong quarter for oil despite a slight drop toward the end of the period caused by fears over a resurgence in COVID-19 cases. This resurgence in cases, coupled with talks of travel bans being extended, reduced the demand for oil, although this may only be short-term as vaccine roll out programmes continue.

As investor optimism remained high, gold continued to fall during the period, far below the highs of $2,000/oz we saw in the second half of last year. However, fears of inflation could well keep gold buyers motivated and help to push the price back towards these record highs towards the end of 2021.

Base metals such as copper, steel and tin rallied over the quarter as we continue to move into a more environmentally friendly future. These metals are heavily involved in the production of electric cars and renewable energy, and therefore we see this rally continuing as the world continues to improve its sustainability. This is an area we are closely monitoring to see if opportunity arises.

Conclusion & Outlook

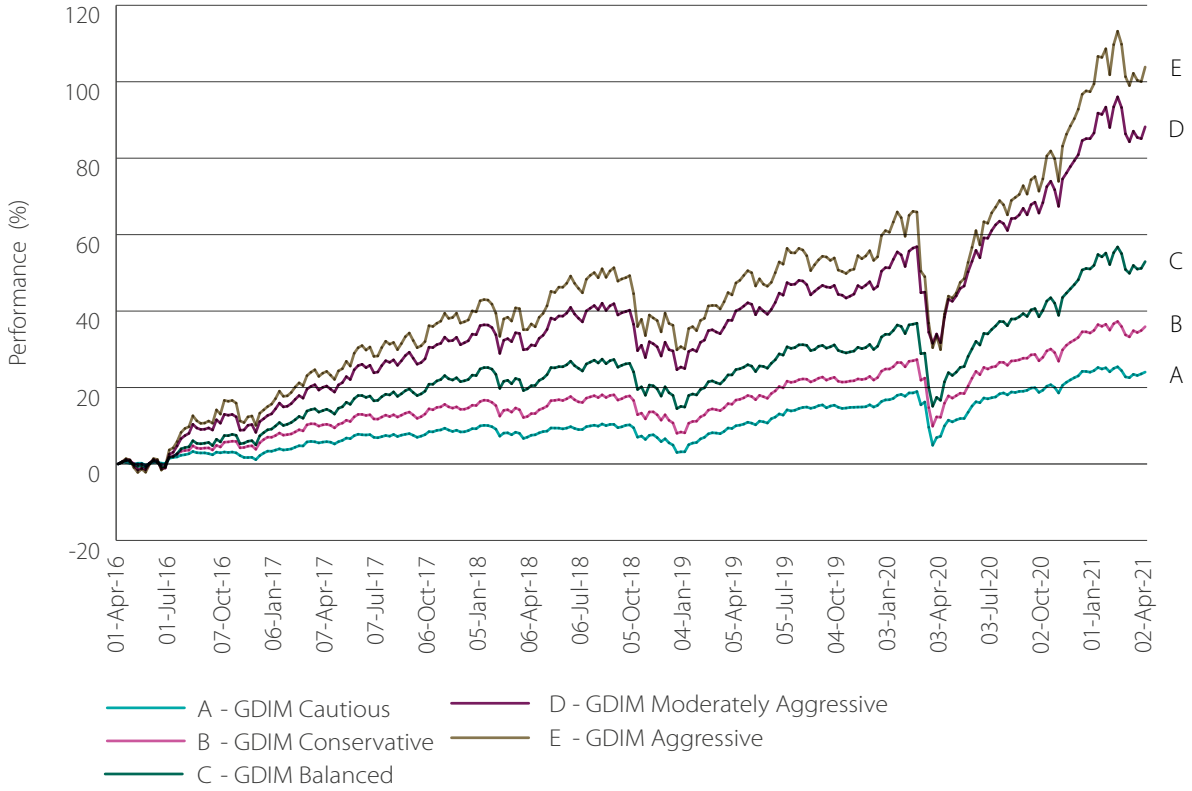
Coming out of lockdown, we are looking forward to and positioning for better economic times ahead. The forecasts, even based upon quite cautious criteria, show a return to normality that brings with it higher spending, more activity and a return to growth. While we are pleased to see such positive indicators, we also know that the life-support that is keeping the economy going must come to an end at some point and this will inevitably come with risks and volatility.

Looking further ahead, we will be looking to invest in themes that will serve us well in the troubles over the near term, and meaningfully contribute to society in the long-term. Industries related to electric cars, hydrogen, renewable energy infrastructure, 5G rollout, cloud computing and healthcare are all part of our portfolios and will be for some considerable time to come.

We know that even the best of markets are plagued with falls and bouts of volatility and we do not expect this year to be any different – the key is keeping enough defensive assets in portfolios.

GDIM Investment Committee
April 2021

Five-Year Performance of GDIM Investment Model Portfolios



These figures are representative of the performance of GDIM's 5 Whole of Market Investment Model Portfolios, initiated on the 17th April 2009 and re-balanced in-line with the latest portfolios whenever changes were recommended. Graph shows performance over 5 years to the 2nd April 2021. Performance does not reflect trading in actual accounts (and is therefore gross of all management fees, except fund charges). Data provided by Financial Express 2021. Past performance is not representative of future returns. Capital may fall as well as rise and you may not get back the full amount invested.

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