MARKET COMMENTARY NEWSLETTER

Q2 2021

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New for 2021

Alan Beaney
Chief Executive
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With all of the external influences on markets recently (Brexit, COVID etc), we have taken the opportunity to produce a short video review of the past 12 months and also where we see markets heading in the near future. Please click on the image below to view the video:

2020/21 Markets Overview with Alan Beaney

Alan summarises what has happened to investment markets in the past 12 months, and where we see them heading in the near future.

We are also delighted that Oliver has been awarded a AAA rating by Citywire, putting him in the top 2.5% of Fund Managers in the Citywire universe. Full details can be found on the Citywire Wealth Manager website.

If you would like to know more about our investment propositions, or to discuss a particular client's requirements, please do let us know.

The World According to Glenn…………

Glenn Meyer
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Inflation: The Spectre at the Feast

As a teenager in the 70's I clearly remember lamenting how the price of flared jeans consistently rose more rapidly than I could save to buy a pair. My solution, as a nascent homo economicus, was to expand my personal balance sheet by obtaining credit from my mum and to enter the "buy now pay later" age with interest payments in the form of additional washing up duties. Klarna eat your heart out, because more than 45 years ago, in one fell swoop I was instantly the coolest kid on the block and felt pretty smart too, because to me the provision of a washing up service was better than low cost credit, while the benefit to the family seemed to be immense (or maybe that was just the amount of washing up I had to do).

I paid off the debt fairly quickly and immediately began saving for the purchase of my first car, only to be worried that I would never be able to afford to buy petrol for it and the bigger worry that my motoring needs would not be deemed important enough to allowed to buy fuel when petrol rationing coupons were issued in the UK in 1973. This raised a rather more important question; what to do if, in the event of rapid price rises because of supply interruption, the pricing mechanism results in a below optimal distribution of an essential good? At the time a lot of economists and policy makers were war babies and had grown up to see how rationing, other than by price, could be an effective means of managing limited supply and excess demand. As it happens petrol rationing in the 1970's didn't happen, partly because the price rise from the first oil shock accelerated North Sea Oil production and by the time of the second oil shock in 1979 Britain was a net exporter of oil.

The notion of bringing forward future consumption by borrowing money to buy things today is now so well established that on a global basis private debt has risen sharply to around 165% of GDP according to the Institute of International Finance. Servicing this debt may be affordable when interest rates are at rock bottom, but private individuals cannot simply print more cash to fund rising interest costs the way governments can. And it is this concern that is troubling many economists and policy makers, even if markets have been sanguine in their response to the recent press conference where Jay Powell, chairman of the US Fed, said that he and his colleagues were beginning to think about thinking about when to start reducing the $120bn a month asset purchase programme and that US interest rates are now expected to see two increases in 2023 (a year earlier than previously expected). So why so sanguine?

The answer surely lies in the expected economic growth rate post the pandemic recovery period. Major economies around the world are now forecast to show a sharp recovery this year (to a level above pre-pandemic output) followed by more modest growth in 2022. Inflation is likely to show a similar trajectory as, although unemployment may be relatively low and will lead to modest real wage growth, the absence of widespread collective bargaining (which led to huge numbers of strikes in support of high wage demands in the 1970's) is most likely to result in modest wage growth, partly funded by productivity gains from new investment. In short, we are most likely to see a scenario akin to the 1960's, when the economy was allowed to run moderately hot with low to mid-single digit inflation for most of the decade and productivity grew on incremental gains from the introduction of new technology.

In this scenario equity investments should continue to perform relatively well, but bonds may struggle in a rising interest rate environment and commercial property is likely to return to earning investors modest real rent returns after being reset to take out some unaffordable leases. On a regional basis the UK is likely to do relatively well compared with other major markets, because it continues to trade at a lower multiple of future earnings expectations and, in times of rising inflation, it is better to invest in areas where you are rewarded immediately (both through dividends and the low p/e ratio represented by the current share price) rather than by hoping to be rewarded for showing long term patience that the promise inherent in the high multiples of growth stocks will eventually be realised in earnings.

This scenario fits our current asset allocation but we shall continue to watch like hawks for any changes in the mood music. After such a strong recovery from the lows of last Spring some short term investors may be tempted to cut and run but, in the absence of any indication that high inflation could really take hold (which would be bad for equities, bonds and property), we intend to continue on our tried and tested path of maintaining effective broad diversification in asset and geographic allocation, by maintaining some exposure to both "value" and "growth" investment styles and by buying market dips to add to relatively undervalued areas.

The long term record from following this strategy is very strong and the recovery from the lows of the early pandemic period, across all our strategies, is among the strongest periods of relative return that I have seen so far in a 40-year career.

AIM / IHT Portfolio Service update

Oliver Brown
Investment Director
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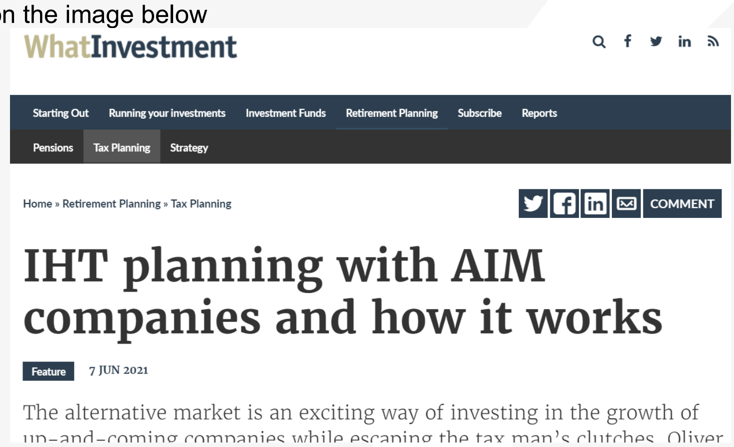
The AIM market has enjoyed a strong start to 2021 alongside global equity markets. It has been a beneficial place to invest in recent years, significantly outperforming the FTSE All share. The AIM market is an exciting place for investors right now as many of these smaller, nimbler companies, have the opportunity to benefit from the change of living and working that has occurred as a result of the pandemic. Our primary opportunities process helps provide the equity investment required to pursue this growth. In another busy period for fund raisings, Surface Transforms, a designer and manufacturer of carbon ceramic disc brakes for the motor industry, was added to the portfolio. We are seeing some very attractive opportunities in the IPO market which has enjoyed a strong start to the year. Supreme (distributor), TinyBuild (video games), Virgin Wines (online drinks) and Parsley Box (online ready meals) were all purchased at IPO and have made strong starts as listed companies. Profits were taken on FRP Advisory. We received cash following the takeovers of Codemasters and IMImobile.

This is an example of the holdings in a client portfolio as at 31st March 2021 (exact stock selection and sector weightings for a new client portfolio may be different from this illustration):

Accrol
Anexo
ASOS
Breedon
Brooks Macdonald
Creo Medical
Jet2 Group
Diaceutics
Elixirr Consulting
Essensys
Gamma Communications
Gateley Holdings
IMImobile
Impax Asset Management
Infrastrata
ITM Power
Johnson Service Group
Knights
Marlowe
Midwich
MJ Hudson
Parsley Box
Source Bio International
Surface Transforms
Strix Group
Sumo Digital
Supreme
Team17
TinyBuild
Venture Life
Watkin Jones
Virgin Wines
Young & Co Brewery

I also recently wrote an article for 'What Investment', focusing on how the AIM market can be used as a legitimate IHT planning tool. Please click on the image below



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COMMENT

IHT planning with AIM companies and how it works

Feature 7 JUN 2021

The alternative market is an exciting way of investing in the growth of up-and-coming companies while escaping the tax man's clutches. Oliver

The historic performance (after fees) of the **RCBIM AIM / IHT Investment Service** to 31st March 2021 was:

	Last Quarter	1 Year	Since inception 1st May 2018
RCBIM AIM / IHT Investment Service	7.19%	69.25%	41.01%
FTSE AIM All Share TR Index	3.69%	76.89%	17.09%

How we have performed (as at 31st March 2021)

The historic performance (after fees) of the RCBIM Core portfolios, across the 7 risk profiles, to 31st Mar 2021 was:

Risk Category	Portfolio	Last Quarter	6 months	1 year	3 years	5 years	10 years
Defensive*	RCBIM Managed Funds	1.02%	7.61%	18.36%	14.25%	28.34%	66.33%
	RCBIM Direct Equity	n/a	n/a	n/a	n/a	n/a	n/a
	ARC £ Cautious	0.09%	3.81%	11.54%	10.85%	19.50%	38.67%
Conservative*	RCBIM Managed Funds	2.12%	10.81%	21.94%	12.82%	29.34%	71.94%
	RCBIM Direct Equity	n/a	n/a	n/a	n/a	n/a	n/a
	ARC £ Cautious	0.09%	3.81%	11.54%	10.85%	19.50%	38.67%
Cautious	RCBIM Managed Funds	1.21%	9.86%	19.77%	7.87%	21.74%	n/a
	RCBIM Direct Equity	0.36%	9.46%	17.40%	7.99%	22.34%	n/a
	ARC £ Cautious	0.09%	3.81%	11.54%	10.85%	19.50%	38.67%
Cautious Balanced	RCBIM Managed Funds	2.80%	13.18%	26.50%	12.00%	32.00%	85.60%
	RCBIM Direct Equity	1.98%	12.92%	24.27%	12.04%	32.98%	n/a
	ARC £ Balanced	1.09%	7.08%	18.50%	15.39%	29.71%	57.04%
Balanced	RCBIM Managed Funds	3.94%	16.05%	32.20%	14.95%	39.32%	94.51%
	RCBIM Direct Equity	3.10%	15.74%	29.12%	14.68%	38.91%	n/a
	ARC £ Steady Growth	2.10%	9.78%	24.79%	20.75%	41.63%	76.80%
Balanced Growth	RCBIM Managed Funds	4.80%	18.29%	36.94%	17.42%	45.05%	104.48%
	RCBIM Direct Equity	4.60%	18.55%	36.00%	14.50%	40.30%	98.90%
	ARC £ Steady Growth	2.10%	9.78%	24.79%	20.75%	41.63%	76.80%
Growth	RCBIM Managed Funds	5.52%	19.50%	40.16%	19.95%	53.13%	106.73%
	RCBIM Direct Equity	4.98%	19.89%	38.00%	20.96%	n/a	n/a
	ARC £ Equity Risk	2.90%	12.06%	31.72%	26.20%	52.91%	93.31%

(* Data for Defensive & Conservative strategies is indicative only and was obtained from FE Analytics)

The historic performance (after fees) of the Portcullis Asset Management Overseas Focused portfolios, across the 7 risk profiles, to 31st Mar 2021 was:

Risk Category	Portfolio	Last Quarter	6 months	1 year	3 years	5 years	10 years
Defensive*	Portcullis AM Managed Funds	-1.80%	3.68%	12.91%	16.91%	27.89%	56.31%
	ARC £ Cautious	0.09%	3.81%	11.54%	10.85%	19.50%	38.67%
Conservative*	Portcullis AM Managed Funds	-0.88%	6.36%	18.99%	20.26%	35.50%	65.24%
	ARC £ Cautious	0.09%	3.81%	11.54%	10.85%	19.50%	38.67%
Cautious	Portcullis AM Managed Funds	-0.14%	8.45%	24.08%	22.87%	41.51%	71.44%
	ARC £ Cautious	0.09%	3.81%	11.54%	10.85%	19.50%	38.67%
Cautious Balanced	Portcullis AM Managed Funds	0.72%	11.15%	31.44%	25.52%	49.32%	83.10%
	ARC £ Balanced	1.09%	7.08%	18.50%	15.39%	29.71%	57.04%
Balanced	Portcullis AM Managed Funds	1.23%	12.47%	34.75%	27.63%	53.99%	88.03%
	ARC £ Steady Growth	2.10%	9.78%	24.79%	20.75%	41.63%	76.80%
Balanced Growth	Portcullis AM Managed Funds	1.72%	13.95%	39.16%	28.65%	58.05%	93.44%
	ARC £ Steady Growth	2.10%	9.78%	24.79%	20.75%	41.63%	76.80%
Growth	Portcullis AM Managed Funds	1.96%	14.79%	41.88%	29.17%	62.29%	94.69%
	ARC £ Equity Risk	2.90%	12.06%	31.72%	26.20%	52.91%	93.31%

(All data for Portcullis Asset Management Overseas Focused strategies is indicative only and was obtained from FE Analytics)

Portcullis Asset Management is a trading name of RC Brown Investment Management, and has been created to manage the Overseas Focused Portfolio range, following a specific request from a Financial Adviser firm wanting a more global bias.

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