Winter
2021

market outlook.

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Marshall Zoing
EXCELLENCE IN WEALTH MANAGEMENT

contents.

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The UK Economy

Returns from the UK equity market were exceptional over the quarter, from the 31st October 2020 to 31st January 2021, the larger company focused FTSE 100 gained 14.89%, whilst the mid-sized company index (FTSE 250) gained by 17.51% and the pound appreciated 5.88% versus the US dollar.

A Brexit trade deal was finally reached on Christmas Eve, this benefited the share prices of domestically focused companies, as did the resulting rise in the pound. UK equities also benefited from a rotation towards value companies and a rise in oil prices (energy represents a large part of the UK equity market).

Many parts of the UK have been, and most remain, under strict coronavirus lockdowns. Consequently, UK GDP will be constrained at the beginning of 2021, as services is the dominant contributor and the most impacted by the lockdowns.

Forward looking surveys (The Purchasing Managers Index) indicate a contraction in services (which is to be expected), however, other areas of the economy remain in expansion (such as manufacturing) and services are likely to bounce back, once the current restrictions are lifted.

Despite the recent rally, the UK equity market is still trading at attractive valuations relative to other global equity markets. Moving forward, this discount could narrow as large part of the uncertainty, which have weighed on UK equities in recent years, have concluded positively. Additionally, the UK is leading the way relative to other nations, in terms of its coronavirus vaccine programme. If successful, the vaccine programme should ensure that, once the current restrictions are lifted, the UK economy will be able to fully reopen, and more importantly, remain open.

The Japanese Economy

Approximately 100 days into his leadership, Prime Minister Yoshihide Suga is beginning to lose traction, with his decision making and communication to both the public and Japanese Parliament appearing questionable. A further drop in his approval ratings follows his lack of explanation to parliament as to why he blocked the appointment of 6 academics to the Science council, as well as him implementing a large travel subsidy programme to promote domestic business… during a pandemic!

Arguably the biggest threat to growth in the Japanese economy this year is the failure to contain the virus, and the potential for a subsequent further delay to the Olympics (already a year behind).

Employment data has been robust in spite of the backdrop, with the job to applicant ratio stabilising at 1.06 jobs per applicant, and the jobless rate dropping to 2.9%.

With funding being pumped into tourism (albeit questionably), in addition to the pandemic driven stimulus, further boosting the current record breaking stimulus package of the last decade… domestically focused smaller companies look the most attractive from both a valuation and an under researched point of view.

The Emerging Markets & Asia Economy

From a valuation perspective, the Emerging Markets and Asian regions are some of the most attractive globally. With the lack of domestic level furlough schemes that arguably mask issues within economies, the majority of the 'pain' from the pandemic was felt in the data last year. In China, exports continue to exceed expectations, manufacturing continues to expand, and retail sales and inflation are on the up!

Whilst much of the Emerging Markets and Asia look attractive, it is region specific. South American countries such as Mexico and Brazil continue to struggle to find their feet. This is primarily due to the regimes in charge struggling to put in place adequate measures to curtail the spread of the virus, as well as questionable policy implementation. Both leaders AMLO (Mexican President) and Bolsonaro (Brazilian President) have also questioned President Biden's election victory in the US, bringing in to question relations between the US and two of the largest South American economies going forward.

Whilst India suffered from much uncertainty through 2020 and the pandemic, following the recent budget, the opportunity set over the long term appears immense. With the demographic of India sloped towards the younger population, the survival rate from Covid is much higher than anticipated. In addition, the budget has not just carved out funding for the pandemic, but also put aside $42 billion in funding for investment in the energy and infrastructure space, as well as increasing import tariffs in order to boost domestic manufacturing. This is good for domestic businesses, employment, and wage growth.

China will likely benefit from the change in US leadership, as although US President Biden will likely maintain trade pressure on the Chinese economy, the approach will be consistent and the relationship less volatile. This has seen China do little by way of stimulus, likely awaiting America's next move. In December however, China extended support measures for smaller businesses that included loans and repayment deferral schemes, which will aid domestic businesses and ultimately domestic growth.

The US Economy

January 20th 2021 saw the inauguration of Joe Biden as US President. Almost immediately, we saw some stability return to global politics, and indeed the addressing of the pandemic, with one of his first acts as leader being to reinstate the US in the World Health Organisation. This was coupled with the reversal of a number of other key decisions made by his predecessor that included policies on the economy, environment and immigration.

President Biden continues to push for a large pandemic relief bill that would see $1.9 trillion injected into the economy. Whilst he has stated he will bypass the Senate Republicans to push the bill through, there will continue to be a short term stalling to much needed stimulus.

Whilst valuations appear high in many of the large cap areas, with the market viewing names such as Microsoft, Apple, Alphabet etc. as 'safe harbours', with policy and support packages rife in the economy, these names will likely continue to offer an element of stability. However, opportunities in the smaller companies' space look attractive going forward with compressed valuations looking to be supported by stimulus.

Growth names still look more attractive over the short to medium term, with the pandemic and policy stifling opportunities in the banking and energy sectors.

Due to the imminent support packages, we are likely to continue to see an element of distortion to US employment data, sales data, and ultimately inflation, over the short to medium term. Despite this, unemployment has dropped to 6.3%, and whilst inflation and wage growth are not where the Federal Reserve wish them to be, they remain robust.

The European Economy

The European Central Bank (ECB) further boosted its pandemic stimulus programme by 500 billion, taking it to 1.85 trillion. Whilst this is supportive for markets, they left themselves flexibility, stating that they would not utilise it all should finance conditions become more favourable.

Valuations are some of the most favourable in the western world, however one has to be cognisant of the level and longevity of the current and future monetary stimulus programmes, in addition to the sector makeup of the region. This sees a third of the economy made up of financials and industrials, areas that have suffered amidst the pandemic, with financials specifically suffering from the prolonged low rate environment... and with rates looking to stay lower for longer, this could see them compressed for some time to come. However, opportunity sets remain rife in many other sectors.

Whilst lockdowns continue across Europe, and the pandemic weighs on the majority of economies globally, we saw a spark of positivity with German Chancellor Angela Merkel announcing plans to vaccinate all German citizens by the end of September.

We maintain that the pandemic has tightened the bond within the European Union, adding to future stability and support of member countries.

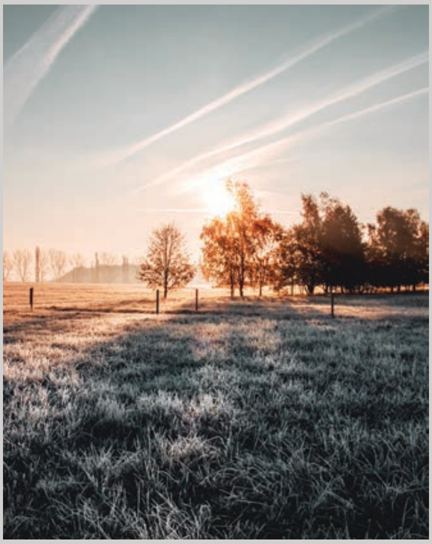
Fixed Interest

Large parts of the fixed interest market remain explicitly supported by central banks. This means any downside should be limited, and whilst central bank support remains, liquidity should also be quite strong.

While economic conditions remain tough for many, it is important to note record issuance in 2020 has left companies with substantial liquidity to deal with short term economic weakness.

Given low starting yields, government debt is unlikely to provide the same magnitude of diversification benefits it has in previous risk off periods.

Although pockets of value do remain, in general, corporate debt is expensive. Whilst it does offer better value than developed market government debt, equities are likely to offer better returns in the medium term.



If you would like to discuss this or any other aspect of your portfolio, please do not hesitate to contact us on **01423 501 401,** Monday to Friday 9am-5pm or you can email us at **info@mzltd.co.uk**

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