Tailwinds

SPRING 2021

Introduction

Firstly, we hope that you and your families are well and that there is at last a sigh of relief as we can meet with loved ones once again. Here at Vobis we are very much looking forward to seeing our clients face to face from the summer onwards.

When we last wrote we were still very much living with significant restrictions and little did we know Christmas 2020 was to become a very different one for many, if not all of us. We entered 2021 under lockdown but there were signs of positivity as the vaccination rollout programmes in the UK and the US progressed.

The shifting sands described in the last Vobis Views looked at the rotation out of growth led sectors such as technology towards themes that looked undervalued such as the UK economy. This was very much played out in the 1st quarter of this year where many of the undervalued sectors have revalued at a sensible level. At one point in the quarter the rotation was significant enough to see a sharp selloff in growth sectors that had done so well through the crisis but by the end of the quarter and into the second quarter, the sharp selloff in areas like technology and sustainability had over sold and looked to be undervalued themselves.

Whilst the sands will continue to shift, we think these will be less prevalent as markets turn to some sense of normality and what will come will be a tailwind that will accelerate global growth over the next 12 – 18 months.

Looking back

We took the decision to make changes to the portfolios in November of last year. We were right to increase the level of participation in equities, in particular the UK recovery theme with the direct exposure in UK Value and Opportunity funds for which the portfolios have been justly rewarded.

Furthermore, reducing our defensive positions left us in the right place to benefit from continued global market rallies on the back of ever increasing positivity. We are yet to see what inflationary impact there will be post Covid and as such the move from short dated gilts to absolute return managers saw the overall returns marginally improve. We would like to see an increase in the returns in the defensive assets we moved into.

Covid-19

It seems remiss to not, once again, review the Covid-19 position. As we go to press in the UK more than 33m people have received their first vaccination, and a further 10.5m the second.

We have one of the most successful vaccination programmes globally and the numbers of positive tests and deaths have returned to September 2020 levels. Lateral flow tests have enabled the return to schools, and we are on the cusp of being able to take a break away from home, albeit within our own shores.

But this is far from the case in Europe, with France and Germany increasing their lockdown measures and reports out of India show a recent surge with the Indian mutant as well as Brazil's reporting data which makes for terrible reading. This highlights the importance of being prudent because of the investment needed in vaccination development and funding the NHS as it tries to deal with millions of patients requiring non Covid treatments.

Theme review

Technological advancements | Backed in 2014

We continue to believe that advancements in technology present investment opportunities and the new fund introduced holding next generation technology has outperformed the more established tech fund, but only marginally year to date. We remain firm backers of this theme over the medium to long term as robotics, artificial intelligence and automation drive development and growth opportunity globally.

Healthcare innovation | Backed in 2014

Over the longer term we see aging population as a driver for growth within the sector but the last 12 months have catapulted this sector into the public eye and seen a shorter term growth cycle. The sector was at the forefront of technological and medical advances during 2020 and, as one of the UN Sustainable Development Goals, has seen a lot of attention as the health gap between the developed and developing nations was further highlighted. We continue to use Schroders as our fund manager for this trend.

Resource scarcity | Backed in 2014

We continue to back Pictet with their Clean Energy and Water funds. These themes are intrinsically linked. Energy is itself required to make water resources available for human use and consumption (including irrigation) through pumping, transportation, treatment, and desalination. A growing global population and drive for sustainable planning will drive the resource theme going forward.

Theme review

Urbanisation | Backed in 2014

Our core theme for this trend has been to invest clients' capital in a fund that looks to technology and infrastructure opportunities under the title Smart Cities via the team at Pictet. This has not changed.

Change in economic power | Backed in 2014

The last decade has been dominated by US market performance but we believe that the next decade may belong to Asia. Growth prospects underpinned by urbanisation and the growth of the middle class will drive domestic and consumer led markets. In addition, the signing of the Regional Comprehensive Economic Partnership (RCEP) in November 2020, which saw a free trade agreement between 16 countries including China, India, Japan as well as Australia and New Zealand, will offer significant opportunities to the region. There is no change to Ballie Gifford, who we believe are one of the best Asian fund managers.

Sustainability | Backed in 2018

We introduced this trend back in 2018 and continue to see two key reasons for this with investor demand and a sharper focus on the UN Sustainable Development Goals both from the industry and sovereign states. We continue to invest in the Royal London and Janus Henderson sustainable fund managers for this trend.

Theme review

UK Value and Opportunity | Backed in 2020

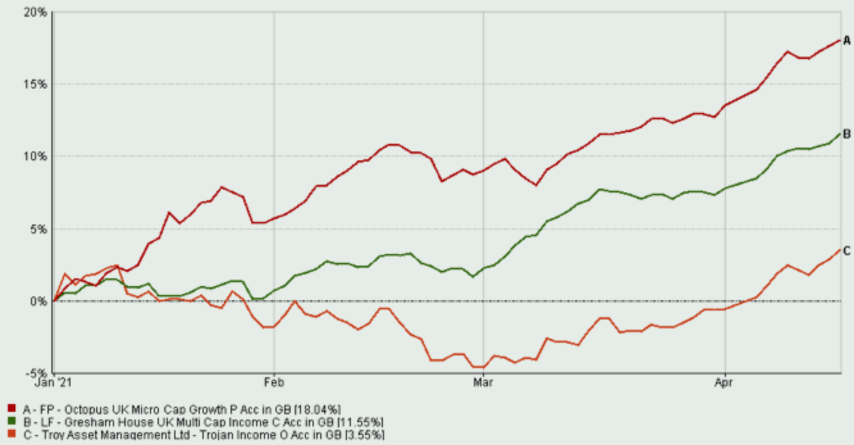
Back in November 2020 we added UK Value and Opportunity to our portfolios and the first quarter's performance of this year has seen a value-led equity market rally in the UK. We were right to believe in opportunity in the value and smaller cap sectors across the UK and more recently the larger cap sector. With a successful vaccine programme underway in the UK and the lessoning of lockdown, we are seeing a strong rebound in consumer goods, manufacturing expanding and the service sector re-opening.

The 'opportunity' or small cap stocks have performed extremely well, with the Octopus Micro Cap fund up over 12.5% in Q1 and Gresham House Multi Cap up over 7%.

UK Value, represented by Troy Trojan Income fund lagged behind 'opportunity' as this fund represents the larger UK growth companies. We expected some lag in terms of performance. Q1 saw the fund dip into negative territory but this has recovered to post a positive return of 3.55% year to date. This was expected as the FTSE 100 also broke the 7000 barrier for the first time in over a year and marked a big milestone in the UK's pandemic recovery.

We have mentioned before that the UK markets lagged behind the 'covid recovery' of Wall Street's main indices and the FTSE 100 is still some way off the all time closing high of 7,877 in May 2018 so we remain cautiously optimistic that the Troy Trojan Income Fund and UK sector as a whole will continue this upward recovery trend. The caveats being management of interest rates and keeping inflation under control.

Performance Year to Date

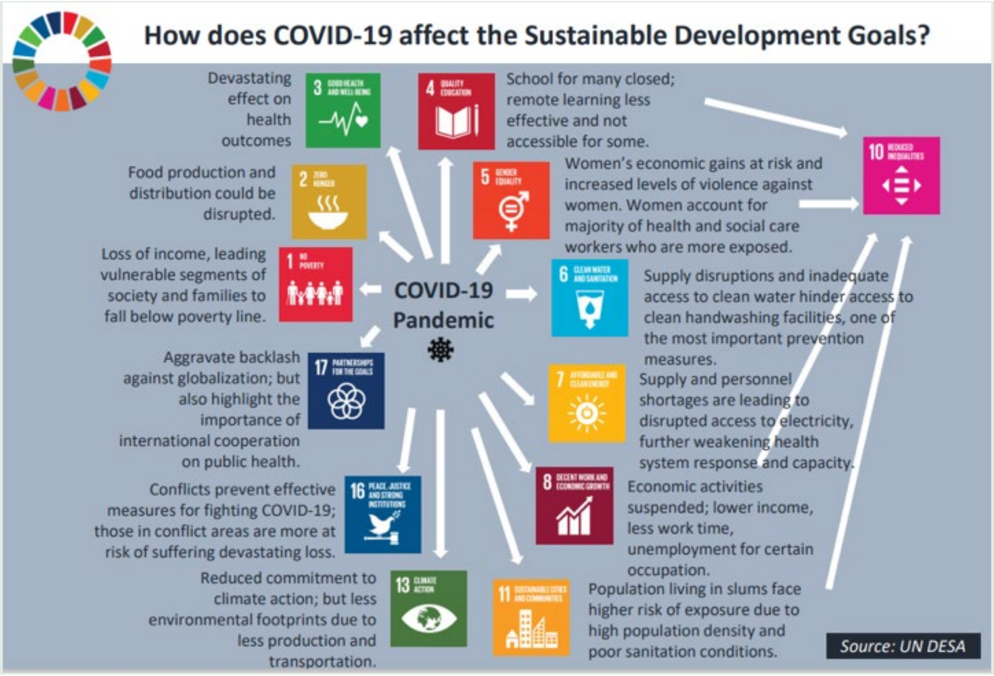


31/12/2020 - 16/04/2021 Data from FE fundinfo2021

Impact review

Over the last 12 months the impact and resultant effects of Covid-19 effectively supercharged the sustainable and positive impact sectors both in terms of performance and investment. Indeed, sales of sustainable mandates topped £1bn for the first time on record in October 2020 and total assets under management in socially responsible strategies reached £38.4bn which accounted for 3% of the industry as a whole (Source Investment Association (IA)).

Sustainable investing is a forward looking approach that aims to deliver long term sustainable financial returns in a fast changing world. Whilst we benefitted from a strong end to 2020 the reality and impact of the pandemic to this sector is now being counted and the cost to society being calculated.



Whilst this may create a setback to meeting the UN Sustainable Development Goals (UN SDGs) time frame of 2030 the global recovery post pandemic will be positive for investment opportunity and the key trends for 2021 look set to be the circular economy, bio diversity, healthcare, technology and clean energy.

Those invested in one of our Impact portfolio ranges will know that whilst we look to our carefully selected fund managers and investment houses who often use the UN SDGs as a framework for their management, at Vobis we have taken this one step further and introduced the Positive Change Economies as pillars to impact investing.

What are the Positive Change Economies (PCEs)?

PCEs represent the investment opportunities with the aim of generating capital positive returns alongside having a positive impact which, in the past, was viewed as a trade off against investment performance. This is no longer the case. Our Impact portfolios are constructed using PCEs alongside experienced fund managers in this space. A summary of the economies are detailed below for your information:

Blue

This economy encourages stewardship of our oceans and water resources. Aiming to improve human wellbeing and social equity alongside reducing environmental risks, ecological scarcities and clean water. This is a theme which we have supported since 2014 and with the growing global population, energy transition, and change in dietary habits, our reliance on the oceans is set to increase. Sustainable, forward looking management of the oceans will secure and protect this key resource and provide investment growing opportunities.

Social

By using the United Nations Sustainable Development Goals as a framework for investment, goals include ending poverty and hunger, ensuring good health and well being and achieving gender equality, affordable and clean energy and reducing inequality for all, transportation, treatment, and desalination. A growing global population and drive for sustainable planning will drive this theme.

Climate

The climate economy focusses on supporting governments, businesses and society to make better informed decisions on how to achieve economic prosperity and development whilst addressing the need of climate change. With the worlds superpowers on board to reduce CO2 emissions and reach net-zero climate impact by 2030, the message is very clear. There is a need to take urgent action to combat climate change and its impact and investment will enable this to happen.

Circular

An economy aimed at eliminating waste and ensuring the ongoing use of resources. By repairing, recycling and remanufacturing, the aim is to minimise the use of resources going in and pollution and waste coming out. The positive impact is immense as resources are kept in use for as long as possible, whilst extracting the maximum value from them. Systems are then used to recover and regenerate at the end of product life. In the US alone an estimated USD 2 trillion is generated by circular manufacturing in revenues. (Source JP Morgan)

Did you know?

Carbon Literacy is ‘an awareness of the carbon dioxide costs and impacts of everyday activities, and the ability and motivation to reduce emissions on an individual, community, and organisational basis’.

Sending an email adds an estimated 4g of CO2 to the atmosphere and, should you send 65 emails a day, is the equivalent of driving a car 1km. And if you add an attachment to this you’ll add a further 50g of CO2 and five of these will equate to burning 120g of coal.

(Source Phys.org)

Return to Yield / Income

Companies were quick to cut the levels of dividends payable at the height of the Covid pandemic and the Bank of England was quick to ban all UK banks from paying dividends to investors. AJ Bell reported that FTSE100 listed companies axed £50billion worth of dividend payments as they looked to conserve cash reserves and shore up their balance sheets during 2020.

However, with the economy beginning to recover, many companies are starting to announce that they will resume payments to shareholders this year. City AM recently reported that dividend yields on FTSE100 companies may rise by as much as 24% this year but so far 'restored payments' reported in February 2021 amount to just £2.8billion but this looks set to rise as momentum gathers. Banks are still awaiting the green light to re-start their payments. According to a recent article in The Times, the BoE and the major banks are currently 'bartering' a dividend deal. This deal would allow them to make shareholder pay outs as long as their loss absorbing capital buffers are strong and they continue to extend credit to the real economy.

Whilst they may not return to the 2019 levels there should be a considerable improvement from 2020. Analyst consensus forecasts predict a 3.8% dividend yield from the FTSE100 companies over 2021, which provides greater opportunity than cash and Government bonds, albeit with capital risk. Whether companies will take this opportunity to lower their pay-outs will remain to be seen as well so this must be taken into consideration.

We are looking closely at options for investors seeking consistent and reliable income stream with a risk managed approach. Concern will be focused on economic outlook which is still uncertain and the dreaded 'double dip recession' could once again force companies to preserve capital rather than pay out to investors.

We are monitoring the return to a natural income portfolio and working alongside investment houses and fund management teams that have long and established track records and strong equity research desks. Analysts can drill down the fund holdings, look at technicalities such as earnings cover and balance sheets and in turn we can interpret these results and create a model portfolio where yields levels and risk offer the best options for our clients.

We will be in touch with clients where natural income is important once we are comfortable with the reintroduction of this portfolio approach.

Inflation

Inflation refers to the rise in the prices of most goods and services of daily or common use, such as food, clothing, household energy and transport. It measures the average price change in a basket of commodities and services over time with 'deflation' being the opposite, a fall in the price index of this basket of items. Therefore with rising inflation you see a decrease in the purchasing power of 'your' unit of currency.

As the purchasing power of a currency unit decreases, the impact of the cost of living increases. When inflation is high, the cost of living gets higher as well, which ultimately leads to a deceleration in economic growth.

Recently, expectations for inflation have risen and this has resulted in a recent sell off of the UK Government bond market. However, as reiterated by Bank of England, any rise in inflation is likely to be only temporary. As a result any rise in interest rates is unlikely until well beyond 2023 and then probably of only a modest nature.

Prior to the pandemic, there had been deflationary pressures. Both Europe and Japan have had near zero interest rates for many years without seeing any inflation. In the US, pre pandemic record low unemployment proved not to be inflationary and with many jobs likely to be lost permanently, it will take a long time to achieve full employment again.

Globalisation has kept costs down and, while there are concerns about supply chains, this will remain a deflationary influence.

The Bank of England forecast in February that inflation would reach 1.9% by the end of 2021 but many economists now expect it will exceed its 2% target before then predominantly on energy related tailwinds.

But will this last into 2022? We suspect inflation is more likely to drift lower, suggesting the pressure on the Bank of England to tighten policy again will be fairly modest.

Why is this important?

The range of investments held in our portfolios react differently to increases in inflation and the subsequent interest rate rises. For example, growth companies who borrow see their borrowing costs rise and as such are less profitable and carry a higher risk of being unable to pay their ongoing debt costs whereas corporate bonds that are not index linked are less valuable and the price can move downwards

A steady rise to the Bank of England target of 2% is OK but a rapid increase in inflation and interest rates would necessitate swift changes to your portfolio.

Summary

We summarised our last Vobis Views with a positive look towards 2021 and we continue to believe in this view but as always there are bumps in the road.

We continue to adapt to the changing and challenging circumstances of Covid-19 and so far have seen such positive news regarding the UK's vaccination programmes and the opening up of the country. The shops are filling up, pub gardens ring with the sound of chat once again and the M25 is back to a standstill.

For the moment, inflation looks well contained, but if there is a significant shift in inflationary expectations, this would have ramifications for you and your portfolio and as such steps would be taken to counter this.

With the fiscal stimulus set to boost spending, significant pent-up consumer demand, non-existent returns from cash and a genuine feeling of optimism for the awakening of the global economy, 2021 could just see strong growth taking markets to higher levels.

We will consider the introduction of new themes, tactical alterations and new fund managers that have different styles to those we already hold as the year progresses and our position managing our in house models leaves us nimble to react depending on the speeds of the tailwinds.

As always we will communicate with you prior to any adaptations we wish to make and in the meantime if you have any questions then please contact the investment team or your wealth adviser.

Regards,

Sarah Lockington

VOBIS VIEWS

Let's talk

ADMIN NO.

01482 780 167

SEND US AN EMAIL

info@vobiset.com

VISIT OUR WEBSITE

www.vobiset.com