Monthly Investment Update
April 2021

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Performance Update

Investors have decided that a rapid rollout of vaccinations, the subsequent reopening of the global economy and the unprecedented amount of "money printing", will ensure that companies will deliver strong profits over the next few years.

Biden announced a further $2.25 Trillion stimulus package, this time to be spent on infrastructure. This is clearly good news for that sector and we expect further stimulus packages to be announced, thus helping to support higher stock market prices.

We are seeing previously leading sectors like technology, underperform somewhat, as some of the companies that struggled in 2020, begin to outperform. The so-called "value" companies are thus outperforming the "growth" companies.

Fears that the economy will run "too hot" with inflation and that interest rates will rise too quickly, have not dampened down the enthusiasm for stock markets. We are seeing inflationary pressures in the commodity markets, with copper nearly twice as expensive as a year ago. The oil price has also risen considerably recently, despite all the talk that renewable energy is the future. The oil price was below $20 last year and is now back at $60.

The bond market has moved in the opposite direction and we have seen the worst quarterly fall since 1980. However, the yield on bonds is now back to pre-pandemic levels and you can now obtain over 1.7% per annum for the next 10 years by buying US Government Bonds. This is becoming much more attractive and could lead to money moving out of equities and back into bonds. Gold had another difficult month and has fallen as bond yields have risen.

The performance of the main markets we invest in over the last month, 6 months and 1 year is shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
FTSE 100	4.16	16.37	21.91
MSCI World	4.71	12.04	38.43
S&P 500	5.73	11.31	39.80
Euro Stoxx	4.68	15.32	40.49
Nikkei 225	-1.58	12.62	35.43
Emerging Market Equities	-0.20	14.72	42.34
Corporate Bonds	0.05	-0.04	9.02
UK Gilts	0.38	-7.34	-5.92
Gold	0.40	-15.79	-6.20

Please note that these figures do not include the platform or our fees.*All figures are sourced from Financial Express to 31.03.2021.

Investment Overview

The good news continues to flow through, with the USA and UK well on the way to vaccinating their population and fully opening up their economies. The savings rate has been extremely high over the last year, which means that when the economy does fully re-open, we will see economic growth surge higher. This is helping the sectors that were hit hardest during the pandemic, to recover.

In addition, the Biden administration unveiled plans for a further $2.25 Trillion stimulus package, this time to be spent on infrastructure. This has helped global stock markets move higher in March, with the main US stock market hitting an all-time high. Even though Europe is behind on the vaccination roll-out, their stock market has now fully recovered from the losses of last year.

Even the collapse of Archegos, which lost $20 billion from betting on certain companies continuing to grow, has not caused investors to panic. Only Credit Suisse and Nomura appear to have been hit by this and so far, there is little signs of contagion. Finally, Government Bond yields continue to rise, but they are still only at the levels they were before the pandemic, so have not yet caused investors to panic. We therefore continue to have economic conditions that support equities, namely low interest rates, Goldilocks inflation, pent-up consumer demand and central banks/governments continuing to support the economy.

The below chart is very interesting as it shows the performance of the average UK Government Bond fund (blue line) against the average UK Equity fund (green line) over the last 3 months:

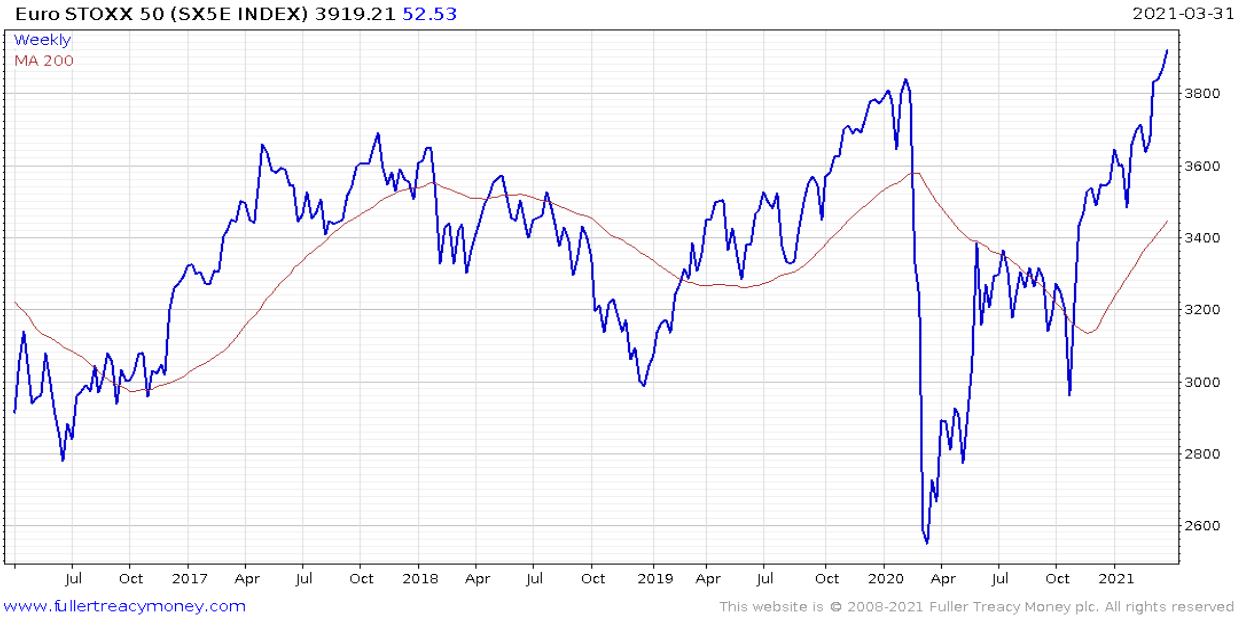
As you can see they have been going in opposite directions and this sums up perfectly what has been happening over the last quarter – stock markets have been going up and bonds have been going down.

Asset Class Review

This section will give you an insight into our current thinking and we have included some charts that we believe look interesting.

Europe- fully recovered

Despite all of Europe's troubles in rolling out the vaccine, the European stock market has fully recovered to the level seen pre-COVID. It is now at the highest level since 2007, in which the index rose above 4500. Europe has an abundance of engineering companies and those that are associated with "clean" energy are doing particularly well.



US - at an all-time high

While Europe has just risen above pre-COVID levels, the US is now nearly 20% higher and is at an all-time high. The US houses many of the world's greatest and most valuable companies. The 4000 level on the S&P 500, is being discussed as a potential barrier for this market and one that will act as a ceiling. If it breaks above this level shortly, then we can expect it to advance much higher. Round numbers tend to act as ceilings and floors, something we have discussed in previous updates.

The US 10 year bond yield continues to rise

This is the most important investment chart, especially now as we are seeing yield rising quickly. The chart shows the yield (income) that you can get by investing in bonds issued by the US Government over the next 10 years. As the US Government is considered the safest investment in the world, this is known as the risk-free rate and everything else is priced from this. If the risk-free rate goes up, then you need higher returns from other asset classes to make it worth investing in. While it has gone up significantly, we have only just returned to the pre-COVID level. A move above 2% might cause stock markets to be very volatile, but at the moment, investors do not seem to be concerned.

Gold is struggling

During periods of uncertainty, gold tends to perform well and you can see from the chart how it moved higher during 2020. However, as soon as it broke 2000, it started to fall and is now in a clear downward trend. Gold doesn't like higher yields and when we compare this with the above chart, it's interesting to note that yields began to rise as gold started to fall.

In Summary

Stock markets are currently on a strong upward trend and are enjoying the positive news flow, particularly in terms of the vaccine rollout and the continuation of money printing in the US. Not every asset class is going up, though, and we are seeing falls in the traditionally safe havens of bonds and gold. While higher bond yields have been fine until now, there is a risk that if they rise too quickly, stock markets could be adversely affected.

The Future of Banks

In this section we look at how the banking sector may evolve in the future. This is designed to encourage you to think about how the continual exponential growth in technology will impact our lives and understand how our investment strategies may also evolve.

The Old Banking Model

Remember the days when you could walk into a branch and the staff knew who you were? You could deposit and withdraw large sums of cash, sort out your travel money, discuss any banking problems and ensure any large transaction was correct. The model was based on trust. In return, the bank would then sell you products that they thought you needed, but the model began to break down when they sold you products that you didn't need, like PPI. As more and more of us turn to online banking, the branch network has been cut dramatically, with 50 branches closing per week since January 2015. Do we now need a high street bank? Will there be a day when we no longer use cash? The internet has led to considerably squeezed margins for banks, as it is now easy to find out which company offers the best savings rates and mortgage deals. This means that more and more consumers are moving away from the inertia that led to big profits for the banks.

The Challenger Banks

New banks such as Revolut, Monzo and Starling have become known as "Challenger Banks". They are trying to challenge the dominance of the big four banks by offering cheaper deals, more flexibility and a better service with the use of better technology. One of the main benefits so far has been in the use of foreign exchange, in which you can pay for every foreign transaction on your challenger card and not pay any commission or currency spread. Hopefully we will be able to use these again soon! The good news is that the UK is leading the way in operating challenger banks. Your new bank is essentially an app and consumers benefit from the cost savings this brings.

FaceBank, GoogBank and AppleBank

Currently the big banks have details of every transaction we make, but do not use any of the data to help us or market to us. Companies like Facebook and Apple, know where we are, who are friends are and profile each of us so that they can market to us. What would happen if Apple, Google and Facebook opened a bank, paying each of us £20 per month to bank with them? They would then help us reduce our expenditure and offer us deals tailored to our needs. For example, Apple bank would know that we go to Starbucks for a coffee with the same person at around 11 am on Thursdays. Next week they could send us both a text at 10am, informing us that Café Nero were offering a free cake with every coffee. We would get a better deal, Apple would make money from Café Nero and Café Nero would make money from us – a win, win, win.

FaceBank would be able to group together friends with similar interests and then send them all the same offer. For example, we would all get a message inviting us to the theatre, sporting event or restaurant at the same time and sitting next to each other. We would simply click one button and our social life would be organised for us! Finally, they would be able to analyse our bills and send us a simple message in which we just have to say "yes", so that our electricity, gas, internet, mortgage, mobile phone and groceries deals were switched, hassle-free, to a cheaper provider, in an instant.

While this all sounds like "big brother" and an imposition on our daily lives, the big technology companies are already looking to enter this space. They have the technology and the cash that banks are lacking. Apple has nearly $200 billion in cash which could be used for their mortgage business to generate reliable returns for the company. For a consumer, if you can save money, receive more targeted deals, easily book experiences with your friends and get paid to do all this, there is an obvious attraction to the "new" banking system.

Summary

The exponential growth of technology in our lives will revolutionise many businesses and sectors going forward. Banking is just one of these. This will mean we will see winners and losers, with many companies unable to embrace the new world and other companies, (many of them not even formed yet), making huge returns for their investors. Therefore, we need to have a flexible approach to investing and the ability to follow a process that hopefully ensures we have more winners in our portfolios, than losers. In understanding this, we are already one step ahead.

Final Comment

Equity markets are in a clear, upward trend and our portfolios are benefitting. The S&P 500 is now at record levels and this is driving other stock markets higher. Even Europe, with its problems rolling out a vaccination programme, is experiencing a strong recovery in its stock markets.

As the global economy opens up and growth rebounds, the price of bonds are falling. We have experienced the worst, quarterly loss from Government bonds, since 1980. However, yields are now back to pre-pandemic levels.

We remain bullish about our portfolios for the following reasons:

- The roll-out of vaccinations will help to reopen the global economy and we are set to have some of the strongest economic growth figures over the next few quarters.
- The US has passed another stimulus package and will do whatever it takes to support the economy.
- The savings rate has been extremely high during lockdown for those who have remained employed, so this could be a catalyst for a surge in spending in the economy. For example, expect to see restaurants and hotels being fully booked over the summer.
- The Brexit deal has removed much uncertainty and is beginning to boost the UK economy as confidence returns. In fact, it's beginning to boost UK manufacturing as we can no longer be so reliant on Europe to deliver essential goods such as vaccines.
- Those companies that have survived this year are likely to have implemented cost savings and may find less competition due to other companies falling by the wayside. Therefore, the profitability of some of these could increase significantly. This is simple Darwinian theory being applied to economics.
- Interest rates are likely to remain low for a long time to encourage a small increase in inflation. This would allow companies to borrow and invest for growth and as long as inflation doesn't spiral out of control, would allow them to raise prices and therefore profits.

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