6 May 2021 – Monthly update

Omnis Managed Portfolio Service

Financial markets have been buoyant recently, with leading stock market indices around the world continuing to climb higher, fuelled by hopes of a rapid rebound in global growth. Macroeconomic data is backing up the market's optimism, with mounting evidence that the recovery from the coronavirus pandemic is in full flow – although it has got going in some places faster than others.

The US is leading the way. Consumer spending is already rebounding as Americans treat themselves now that shops and restaurants are open again, and travel restrictions have been lifted. With the latest stimulus checks being released in mid-March as well as consumers' desire to resume their lives, spending is likely to continue to increase over the coming months.

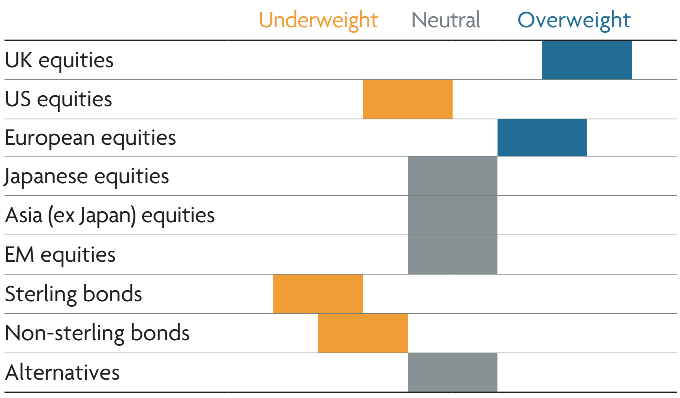
The UK is trailing a few months behind the US due to the third lockdown, from which we are now emerging. Similarly, the recovery is being led by consumers spending the savings they've accumulated while being stuck at home, as well as government support schemes. Continental Europe is continuing to pay the price for being slow to roll out its vaccination programme, although economic activity is holding up remarkably well.

This sequential recovery provides us with an opportunity to take advantage of the different valuations on offer. Notably, stock markets in the UK and Europe are trading at historically wide discounts to the US. We believe now is the right time to invest in these markets ahead of the economic rebound, at which point the valuation gap is likely to close.

There are two main risks. The first is that mutations of the coronavirus could be resistant to current vaccines. If hospitalisation rates increase, then countries may have to reintroduce lockdown measures. The humanitarian crisis in India, which is struggling to cope with a new wave of infections, reminds us this is a global pandemic that affects all of us.

The second risk is inflation, which is likely to accelerate in 2021 as our economies reopen. Yet this is likely to prove a fleeting phenomenon, and not something that will pose a serious, longer-term challenge to markets. Continuing deflationary forces like ageing demographics and global supply chains cast doubt over predictions of a new era of inflation. This means that central banks should be able to keep interest rates anchored at record low levels for some time.

Asset allocation



Investment strategy

The global economic recovery continues, but with policy tightening in China and the prospect of a stronger US dollar, we see better opportunities elsewhere for the allocation of our overweight to equities. We've shifted our allocations in the following ways:

- Removed the overweight positions in Asia ex-Japan and global emerging market equities.We now have a neutral allocation to these markets.
- Increased European equities, largely via the European Equity Leaders fund, in anticipation of the region's recovery.
- Increased exposure US smaller companies, which we expect to benefit as the pace of economic growth picks up.
- Neutralised the underweight to Japanese equities because we no longer believe this market will underperform.

Within fixed income markets, we believe the potential rewards available from investment grade credit do not adequately compensate us for the risks involved and prefer equities. With yields on government bonds remaining so low – and often negative after accounting for inflation – the returns for new buyers are slim. We remain underweight in fixed income assets within the portfolio but we must remember that they remain a useful diversifier in multi-asset portfolios against a variety of risks.

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