MULTI-ASSET MARKET VIEW

Performance with principles

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The success of the Covid vaccines and end of lockdowns has led to the developed world enjoying some of its strongest economic growth in decades. This growth, however, is leading to supply constraints and price rises affecting all sectors of the global economy. Central bankers generally seem convinced that this inflation will be transitory but, in the US in particular, we are seeing not only cost-push inflation with goods' prices rising from the sudden springing back of the economy, but also a scramble for workers and wage rises (from leading employers such as Amazon and McDonald's), which could create an inflationary spiral. Despite the gradually more hawkish rhetoric from the US Federal Reserve, on the whole, future guidance by the leading central banks suggests any monetary tightening will be modest and still some way off.

The UK economy is currently enjoying a very strong recovery, supported by very accommodative monetary and fiscal policies. In addition, the banking sector has emerged financially strong, in sharp contrast to after the credit crisis; and consumers have had an increased propensity to save over the pandemic period and consequently stored up a great deal of spending power. Despite this, central banks and market participants seem notably relaxed about inflation because of the perceived transitory-nature of the causes. Gilt yields remain low, helped along by the Bank of England's £450bn of bond purchases since last March via quantitative easing. Taking into consideration ever narrowing credit spreads (the extra amount you get from investing in corporate credit relative to government bonds), it is hard to get too excited about investing in UK bonds at the moment, with a 10-year gilt yield of 0.7% and most investment grade bonds yielding less than 2%. Although the Bank of England seems relaxed about the prospect of inflation being set to exceed 3% in the months ahead, its outgoing Chief Economist, Andy Haldane, has not been so sanguine, lambasting the "dependency culture around cheap money", suggesting some at least believe it could be more persistent.

In our **new Multi-Asset fund range**, we therefore have a tactical bias away from fixed interest towards other asset classes, and on the whole would look to keep our fixed interest exposure relatively short duration to reduce the risk that rising bond yields may have a negative impact on capital values. We continue to find good opportunities to enhance income in this asset class through investment in niche areas including building society PIBS, preference shares, and retail charity bonds. The inclusion of defensively-exposed property REITS, green energy, and social infrastructure funds with high, sustainable and predictable income streams should also enable the funds to reduce fixed interest exposure without increased increasing volatility to the same degree as moving into equities.

Within equities we currently have a bias towards UK equities, which, following Brexit, appears attractively valued compared to other global markets while still well-positioned to benefit from the stronger growth of the post-Covid environment as the UK benefits from its advanced vaccine roll-out. We feel the US market, whilst having achieved superior underlying performance relative to other global markets, is too highly valued and we would therefore have a bias towards more cyclical and value-oriented markets in Europe and Asia.

It is into this environment that we launch our new range of multi-asset funds. Designed to combine our award-winning approach to responsible and sustainable investing and our expertise in stock selection with a dynamic asset allocation process operating within a rigorous risk framework, these funds aim to provide investment solutions for the long term and offer a diversified mix of assets to weather different market environments.

For further information on these funds, call 0800 032 1893 or visit our dedicated multi-asset information page:

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