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INVESTMENT SERVICES

Reeves Market Outlook

January 2022

MARKET OUTLOOK FOR EACH ASSET CLASS AND SUB-ASSET CLASS

Cash

With inflation appearing to no longer be transitory and likely to continue for the majority of the next year, the outlook for Cash is looking pretty bleak. Hence, we have diminished our cash holdings recently. In particular we have removed cash funds from our portfolio due to their lacklustre performance. Additionally, we also expect to see some currency volatility over the next year as we expect global economies to slow slightly, with a more dampened recovery.

Source:

Why we should expect wobbling in global inflation dynamics; https://www.ft.com/content/08276c3e-97ea-44d4-9dca-c5a0ed6b258d

Bonds

Bonds are also suffering this year and don't look like they will improve anytime soon as bonds tend to act poorly at times of high inflation and low interest. So far this year a proportion of bonds (<18%) have provided a negative yield.

Both Cash and Bonds have suffered over the last few years with inflation and QE eroding the real-values and investors rotating to riskier assets such as Equities and Property for greater returns and sturdier hedges to inflation.

Government Bonds

As above, these bonds have been considered the most risk-free assets after cash. Currently they are not providing substantial yields in Western countries (EU, UK and US). Overseas the returns do seem to be higher, but with considerably more risk i.e. Chinese yields are currently about 3%. As long as interest rates stay low, the outlook for UK Gilts and other Government bonds don't look great.

Corporate Bonds

Similar to bonds in general, corporate bonds have had a volatile, if slightly better year. Typically, as these are riskier assets, they have attracted a little more investment from traditional Gilt investors and those seeking returns by taking more risk. With the global recovery likely to be stunted slightly in the New Year and with eventual increases in interest rates we may expect corporate bond yields to increase.

Source:

Global bond markets on course for worst year since 1999;
https://www.ft.com/content/7d11b596-7c0b-453b-a61f-9295d4103634

UK Equity

A lot of investors still hold the belief that UK equity is undervalued currently and also has yet to fully recover from the pandemic. A rotation to value stock could therefore benefit the UK economy top some extent. However, fears of the Omicron Covid Variant and inflation issues could still prove problematic.

Overseas Equity

The US has performed well over the last year, particularly in growth areas like tech, there are concerns looking forward regarding a slowdown in growth and a rotation to value instead. Though, general feeling is that the markets will continue on their run until policy intervention bursts the bubble. The EU on the other hand is looking strong, in particular EU small cap. Though the EU seems to be strong, fears of the Omicron strain of Covid may be yet to come into full effect.

Emerging Markets

Following from the last year, I feel that Emerging Markets are still yet to have a full recovery from the pandemic, this has been due to a mixture of supply chain issues and weaker vaccine programs. Potentially, could be a bit of a rally here when supply chain issues are resolved, particularly in commodity heavy markets. A close eye needs to be kept on policy in these areas as well, particularly in Asia (China & CCP).

Source:

UK equities rise in post-holiday trading;
https://www.ft.com/content/0aa78564-7905-4c1d-b606-0f5dc25f3b5f

Wall Street equities complete longest run of closing highs since 1997;
https://www.ft.com/content/395a9460-8699-43b9-a126-91722a0f9cae

UK and emerging markets are left behind in the 'everything rally';
https://www.ft.com/content/e172857f-320f-43d2-9645-4b0334d33c14

Property

The Property sector in the UK has seen one of the largest booms since 2006. The ONS (Office of National Statistics) Property Index suggests that UK Property values have increased on average by 11.8%. This boom has most likely come from investors requirements for riskier assets and hedges against inflation.

Industrial Property

Industrial property has fared well over the last year, particular with the increased requirements for storage of goods from online retail, positively impacted by the pandemic and subsequent lockdowns. It is unlikely that further lockdowns will occur, however many consumers will probably have noted how easy online shopping is and this error will most likely continue to grow – though not at rates seen previously.

Retail Property

Retail property as the point above suggests has suffered during the pandemic. Many high street shops and hospitality venues have had to close during the pandemic which has subsequently affected rental yields. Following from this, due to the increase in online retail we are likely to see a tail off in physical retail – in the short term we would expect this to increase as more restrictions are lifted, though their future is uncertain if subsequent restrictions are enforced following new strains of Covid.

Office Property

Office space yields have also fallen during the pandemic with a lot of people working from home. This particularly hit large cities like London where it was highlighted that the office spaces were not to modern standards in terms of environmental protection etc. and subsequently require further investment to rectify – though these have been costly and have performed poorly during the pandemic, it very much seems to be the rhetoric of the current Government to encourage people to return to the office instead of work from home.

Specialist

ESG investments have continued to stay strong and are continuing to be supported, particularly in renewable energy technologies. This is widely accepted as a key area for future development. However, investors may become tired of this type of investment if the returns aren't significant, therefore it may be best to exercise caution in regard to overinvesting in this sector.

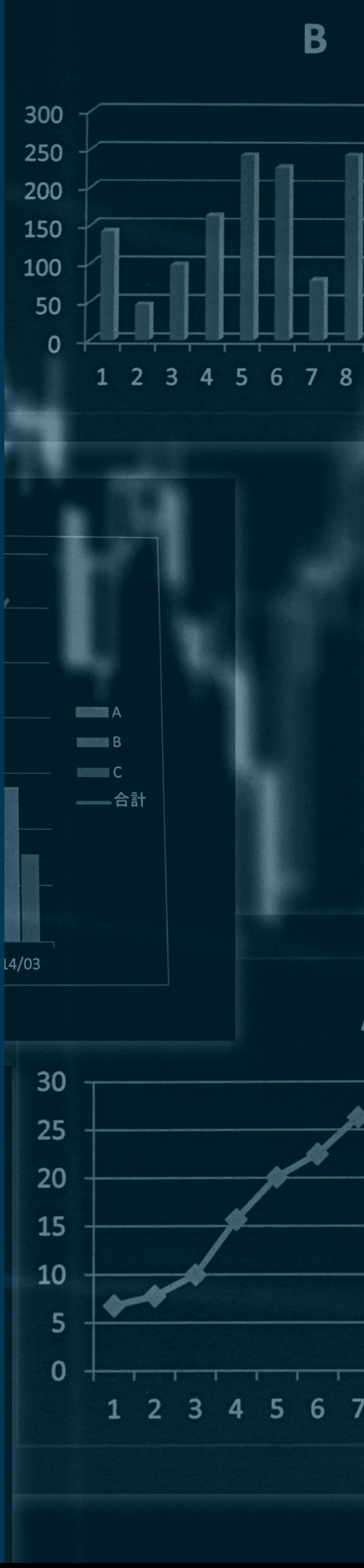
Commodities

With rising inflation, commodities such as precious metals and Gold have traditionally been safe hedges. However, though the conditions for Gold have recently been perfect for it to thrive, it has not done so. There could still be some uncertainty in the markets due to the Basel III implications, though these look like they will actually benefit investors with physically allocated Gold. Looking forward this could be a potential buy, though there is a lot of literature on Gold at the moment.

Source:

A new phase for green investing; https://www.ft.com/content/c2937d7b-98f1-4179-823c-4a58e21f8e30

Will gold have its day as a crisis hedge? https://www.ft.com/content/c48cfd1b-8d99-4f02-be3a-d5917f3b3802



Disclaimer

Pensions are a long term commitment, you may not be able to access your pension funds until the age of 55 (currently), investments can go down as well as up and you might not get back your initial capital. Pension and tax legislation does and can change in the future which could impact your pension.

The value of your investment and any income from it could fall or rise, and you may not get ack the full amount you invest.

Past performance is not a reliable indicator of future results. We always recommend you talk to a qualified financial adviser before making any investment decisions.

The information in this newsletter is the opinion of Reeves Independent Limited only and should not be seen as advice or a recommendation to act. Please seek independent financial advice before taking any action in respect of your pensions or investments.

Sources: Property

UK house prices rise at the fastest pace since 2006;
https://www.ft.com/content/fc33b109-0d7a-426d-ac64-d01a0fb89f12

Can commercial property help investors hedge inflation?;
https://www.ft.com/content/5cae239f-e5f2-4f86-ad87-5e7ffe68776b

Office space shrinks by millions of square feet in England;
https://www.ft.com/content/8c231f78-82c4-4028-91c4-e091b8c4a3f9

Do you have a question for our Investment Team?

If you have any questions about our Portfolio Management Service or questions about your investments, please book a call with our Investment Service Team who will be happy to answer all your questions.

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