INVESTMENT UPDATE & OUTLOOK

QUARTER 1, 2021

PPM WEALTH

Global Markets & Economy Update

2020 was led by the impact of Covid-19 and the destruction it caused on the global economy. As we come to the end of Q1, we are pleased to see virus cases decreasing, mass vaccinations forthcoming and the economy rebasing along with what has become the new norm as we look at what changes – both economic and behavioural – will dominate the trajectory for the remainder of 2021.

Bullish optimism at this juncture has been led by massive stimulus programmes and key overhangs subsiding, namely the US election and concerns over the vaccine rollout.

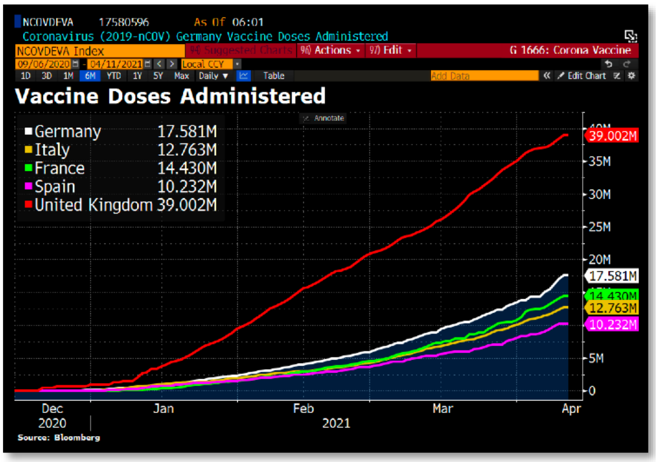
Stronger investor positioning into Q4 2020 and Q1 2021 has been supported by improving macro data.

Quarterly Market Performance Barometer

	Return %		
Equities	Q1 2021	Q4 2020	1-Year
U.S. Market	6.01	14.23	61.35
Dividend Focus	9.18	10.09	38.27
Global ex-U.S.	3.58	17.28	51.53
Developed ex-U.S.	4.15	15.97	48.44
Emerging Markets	2.64	20.08	60.30
Fixed Income			
U.S. Core Bond	-3.39	0.67	0.63
U.S. Government	-4.34	-0.83	-4.75
U.S. High-Yield	0.85	6.37	23.93

	Return %		
Top Morningstar Sector Indexes	Q1 2021	Q4 2020	1-Year
Energy	30.67	29.00	84.05
Financial Services	13.01	21.37	66.81
Basic Materials	11.27	16.36	84.95
Bottom Morningstar Sector Indexes			
Healthcare	2.47	9.53	37.97
Consumer Defensive	2.43	7.62	36.11
Technology	1.94	14.58	72.03

Source: Morningstar Direct.

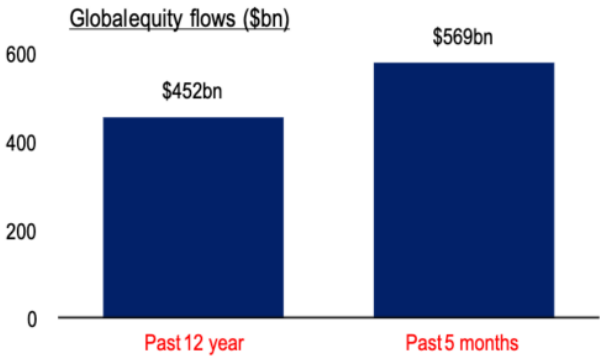


While fixed income had a challenging time with a sharp rise in bond yields, equity inflows have remained strong as expectations of a pick-up in growth momentum into Q2 gave support to riskier assets.

Q1 also confirmed the collective power of retail trading having the capacity to wrong foot many funds that were on the short side of popular trades. This highlights that short-term price action can be driven by euphoria and populism, not by equity or macro analysis and fundamentals.

Inflows to stocks past 5 months > inflows prior 12 years

Inflows to global equity funds, $bn



Source: Bank of America

Following the sharp increase in money supply, inflation has a key concern for investors in Q1 and led to some investor flows out of growth into value.

US

In the US, President Biden announced a $1.9 trillion fiscal stimulus package and an additional $2 trillion plan in infrastructure spending. These measures, together with the fast deployment of the vaccine and macro data improving, raised expectations that the US may be the only G10 economy to reach pre-Covid production levels in 2021.

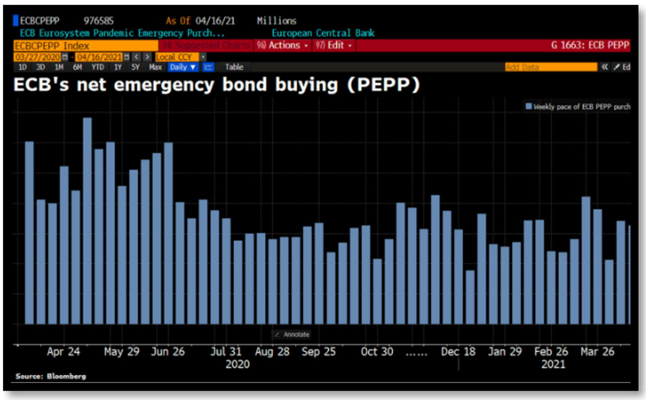
US equities advanced in Q1 with energy, financials, and industrials among the top performing sectors whereas technology and consumer staples lagged.

Rising Treasury yields and a growing consensus that the US economy can lead the world out of the pandemic lifted the dollar index (DXY) by 3.6% while general expectations of a gradual normalisation of interest rates contributed to asset price appreciation and valuations above historical averages.

Eurozone

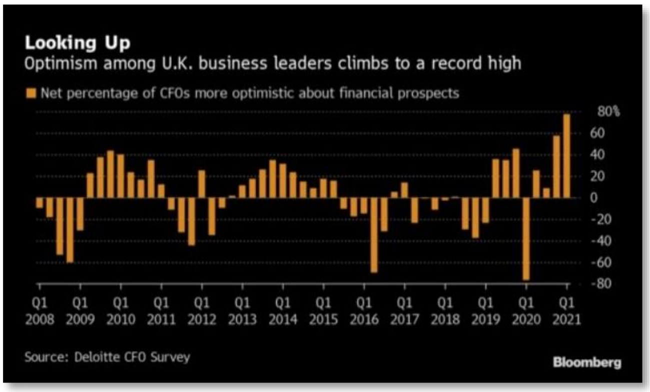
European equities delivered gains for the quarter with energy, financials, and consumer discretionary being top performers supported by hopes for global economic recovery and higher earnings. On the other hand, this optimism penalised the more defensive sectors such as real estate and utilities which underperformed.

The ECB has announced a €750bn (expanded to €1.85tr) Pandemic Emergency Purchase Program (PEPP) targeting private and public sector securities and extended the horizon for net purchases under the PEPP to at least the end of March 2022. This has softened the Covid impact and, despite new lockdown restrictions in some countries, the macro data looks positive with flash PMI for March signalling strong growth at 62.4.



UK

Flows into the UK market have continued to be strong in Q1 as Brexit concerns dissipated and forward-looking data for the economy improved.
The FTSE 250 has now reached new highs and, albeit the FTSE 100 still lags, we see that in UK markets large-cap value sectors have also started to increase with materials, energy, and financials among the best performing sectors.



Japan

The recovery in Japan started strongly and growth surprised to the upside after robust quarterly results. Cyclical sectors led the market and the consistent weakness of the yen against the US dollar, in addition to a less severe economic contraction than expected, also improved sentiment.
In Q1, exports continued with a positive tone which in turn supported the manufacturing industry, with the PMI printing 52 in February, its highest reading since December 2018.
Although the recovery has been swift, Japan’s lockdown measures have been exceptionally strict and economic activity has yet to reach previous highs.

EM & Asia ex Japan

The MSCI EM Index advanced in Q1 despite lags in vaccine programmes, the rise of US Treasury yields and the US dollar strength which negatively impacted EM economies.
The MSCI Asia ex Japan Index also delivered positive returns reflecting continued optimism by investors despite the reintroduction of lockdowns in some countries.
Growth in China has remained one of the most positive recoveries in the last six months and looking to emerge stronger from the pandemic. Recent macro data signalled a recovery in exports and domestic demand, but prospects for policy normalisation and regulatory uncertainty for some industries diminished sentiment. The equity market closed the quarter in negative territory.

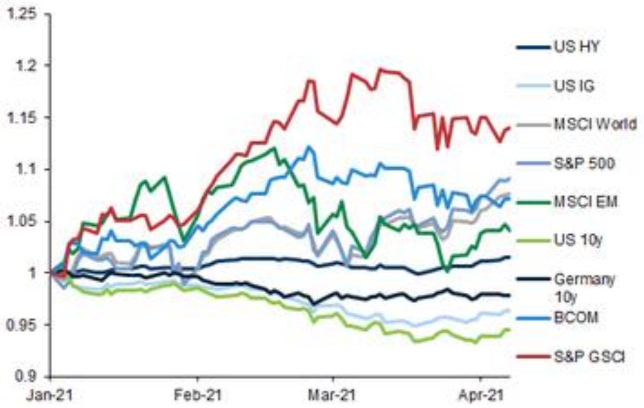
Global Fixed Income

Investors within the general fixed income market have encountered a tough start to the year and the outlook remains challenging. Bond yields rose sharply in Q1.
The yield on the US 10-year Treasuries has almost doubled on inflation concerns and the UK 10-year yield also rose markedly by 0.65% to 0.88%.
In Europe, we saw a similar picture due to lags in the vaccine deployment and political uncertainty.

Corporate bonds outperformed government bonds. Investment grade posted negative returns while high yield delivered a modest positive performance supported by an overall increasing enthusiasm towards risk.

Commodities

Despite US dollar strength, commodities advanced strongly in Q1 as the global roll-out of vaccines continued to encourage investor optimism for economic recovery.



Source: Bank of America

Crude oil continued to be volatile with the price rising from $48.52 at the start of 2021 to $59.16/barrel at quarter end amid higher demand and tightening production.
Industrial and agricultural sectors also did well with aluminium, copper, corn, and soybeans among top performers.
Finally, recent Fed talks regarding the positive economic outlook, confidence in the employment numbers and thoughts around inflation being transitory have been major factors that led to the underperformance of precious metals (gold and silver).

ESG (Environmental, Social & Governance)

The ESG-based investment market continued to expand in Q1 and is set to double in 2021. Many corporates and funds now clearly state their credentials that attempt to demonstrate the broader roll out of criteria as stipulated within the UN SDGs (United Nations Sustainable Development Goals).
This trend is supported by the Biden administration with its climate change legislation (green infrastructure spending, increased environmental regulations, and mandated corporate climate disclosures) and by an overall increased sense of responsibility of investors.
At PPM, we have a broader approach to responsible investing which incorporates ethical investing, ESG integration and sustainability. We have an active bias towards investments that deliver a real-world positive impact to the environment and society.

Investment Outlook

The regional economic differences of the crisis have been stark, leading to a large divergence in the recovery profile across different sectors whilst those companies benefitting from secular growth trends have experienced a pullback. Into Q2 we see scope for the economic recovery to continue and those regions that have so far lagged due to slower vaccinations rollouts to catch up.
Investors have been quick to rotate out of historical winners into more economically sensitive sectors (oil, retail, and travel) which should continue during Q2. We acknowledge that as the vaccine rollout gains further momentum, this will continue to support the case for the current rotation from growth to value. We have actively increased our exposure to selected cyclicals and reopening beneficiaries whilst also using the recent pullback in secular growth names to allocate towards our core long-term investment themes.
Innovation is continually evolving much quicker each year alongside the adoption of new technology. This next phase of tech led growth will have greater impact as it is now coupled with stricter ESG demands that will force companies to meet responsible standards. In turn

investor allocations will be forthcoming to those companies that are making a conscious approach to climate change and better corporate behaviour. However, we are aware of concerns regarding concentration risks that may in turn also lead to heightened valuation risks.
In the US, equity valuations remain stretched, but the huge stimulus programme coupled with the progressive reopening of the economy should increase earnings growth. Cyclical sectors should be the first to benefit from an improving 2021 outlook.
We are positive for the UK, although it is difficult to quantify the impact of the government stimulus and the forthcoming withdrawal of the furlough scheme. Companies with stronger balance sheets that can also benefit from sector consolidation, less regulatory constraints and healthy dividends should support our positive view.
If the value-growth rotation continues and global demand accelerates, then EU equities should attract greater inflows. European equities trade at a significant forward P/E discount to the US which gives real scope for narrowing as the economic outlook improves. However, considering the fractured nature of the European vaccine rollout programme that could halt or inhibit a sharp recovery.
We are moderately positive on Japan. The country continues to exhibit challenging demographic issues and arguably less secular growth-oriented equity markets. However, with global growth looking strong for at least the next couple of quarters this should be supportive for the Japanese economy and assets.
In China, the risk that the recovery has already reached its peak remains and we are aware of the possibility that any Q2 weak macro prints could disappoint the market. On the political side, we do not see much risk from Biden to follow the same aggressive tone as Trump which should improve sentiment.
The narrative for EM will continue to be influenced by the fragmented rollout of vaccine programmes and Covid-19 containment measures alongside fluctuations in both commodity and currency markets.
We continue to favour alternatives (versus traditional fixed income) such as renewables and digital infrastructure in sourcing sustainable income which also provides scope for moderate capital returns.
However, we continue to hold exposure to selective credit opportunities with exposure to sectors that remain attractive on a risk-adjusted basis and are supported by strong economic tailwinds.
We are positive on broad based commodities. Seasonally Q2 is historically strong and China demand is back to pre-pandemic highs which should give some support to the overall asset class.
The oil market should be favoured by some weakness in the US dollar and ultra-loose monetary policy alongside the pickup in manufacturing, general commodities, and travel demand as the economy reopens.
Precious metals have struggled as the equity market recovers but we still see value in adding at the right price.
This overall economic backdrop should translate into higher corporate profits and a positive forward-looking earnings trajectory which in turn is expected to boost equity prices, but simultaneously increases the prospect of higher rates and inflation. As we have discussed, this is not a precursor for equity market weakness but may limit gains for some fixed income assets.
Double digit earnings recovery (from a contraction in 2020), rising equity dividends versus bonds and higher GDP growth should allow comfort in long-term value assumptions. Furthermore, as rates remain low and economic policy accommodative until the recovery is complete, this supports our positive view on equities.

Some key questions and risks remain such as:

- What will the economic landscape look like post pandemic?
- When the recovery is in its latter stages, who will be taxed to pay the debts?
- Is the action of central banks artificially supporting equity prices and keeping volatility constrained?

With bouts of volatility to be more common, we continue with our investment process and ability to react to changing market conditions through our Tactical Asset Allocation (TAA) and manage portfolios within pre-defined risk levels. Through our Strategic Asset Allocation (SAA), we are confident in our ability to achieve strong risk-adjusted returns over the long term and provide downside protection.

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