2020
Celebrating 10 years of MPS

Investment Committee Update

March 2021

General Overview

As mentioned in our recent commentary that was attached to this month's Everything Ethical email, there has been a rise in market volatility brought about by expectations of a strong economic rebound. Bonds have sold off causing yields to rise, which has led to a general rotation away from growth and into a number of value sectors. The pricing in of a full recovery continues, but with this comes huge expectations that must be met.

Some of the ESG stocks that have been star performers over the last year have not been shielded from this move, and we have seen a re-rating in many of the sectors associated with positive impact. For instance, stocks associated with renewable energy have re-traced, take Vestas Wind Systems (a core holding in portfolios) as an example, it has seen a 35% decline from its January peak to its March low. As seen in our annual review, one of the largest exposures in portfolios is towards alternative energy, as a result, portfolios have declined further than conventional indices whilst sectors we screen out, such as oil and gas, have rallied strongly so far in Q1. In an almost opposite move to last year, investment losses have increased as you move up the spectrum of capital.

USA

The Biden administration continues to push through its plans to reflate the economy, with the approval of a further round of stimulus of circa $1.9 billion. This includes another round of stimulus cheques, and whilst it will provide much needed support for individuals who find themselves out of a job or have seen their income decline, it will for many consumers add to the growing war chest to spend in the economy.

The economic data from the US has largely been supportive of an economy bouncing back, and last Friday's non-farm payrolls confirmed this. Comments from Federal Reserve Chair Powell in the month still highlighted concerns in the economy, however comments that inflation is ahead, albeit temporary, is a concern for duration assets.

We sit around our neutral level for exposure to North America and the committee expressed no desire to change this allocation. We await further news on Biden's green deal, however with the huge fiscal support just announced, we do have a slight concern that the big green deal may not fully materialise.

UK

As commented on previously, we see the UK leading the way out of this pandemic amongst G7 nations. We have previously added exposure to the UK, but will be looking to increase this further in time. As can be expected with a Conservative government, the UK has moved ahead to now start to looking how it will eventually pay the bills, although the budget at the start of March offered extended support through to September. It went some way in providing companies and furloughed staff the support to weather the next few months. It also encouraged the likes of R&D spending and innovation from SMEs to ensure the UK remains competitive, and we feel this will provide the UK a further economic boost. Housebuilders and infrastructure

are also obvious beneficiaries, and we continue to favour investments in this space, remaining committed to investments in new and affordable housing, as well as socially and environmentally positive infrastructure.

EU

The situation in Europe remains dire. The vaccine rollout has been a failure and has led to a number of public disputes, with the UK and Australia to name two. With Mario Draghi now Prime Minister of Italy, it will be interesting if more is made of trying to save the Union, but issues are beginning to bubble away. The likes of Austria and Denmark have turned to Israel for their vaccines, highlighting their frustration with the EU plan. Whilst German officials are reportedly furious with the EU's favouring of France's Sanofi vaccine that hasn't materialised. Germany no doubt remains the safer place to invest on the continent, but as we have said in the past, the important auto-industry is still struggling to play catch up in the Electric Vehicle race.

There is the potential we may begin to see uprisings from the populous who once again feel disillusioned with the EU project, a potential issue for markets moving forward as we have German elections this year and French elections in 2022. Post investment committee meeting we have seen state elections in Rheinland-Pfalz and Baden-Wurtemburg (Germany), former heartlands of the ruling CDU, which have pointed to a new possible direction with a Green, SPD and FDP coalition looking likely to take control in these states and be a possible model for the autumn.

For obvious reasons, we avoid the European auto sector. Companies in the region who do business on a global scale are preferred, so their economic reach is far beyond the continent and to areas such as Asia. The European Central Bank met post the investment committee meeting and announced a step up in bond purchases as well as a reiteration that rates will remain low until inflation reaches target. The announcement was an obvious positive for businesses and households but negative for the banks, and has done nothing to change our view on the region.

ROW

China have just set a growth target of 6% for the coming year, which to some was a slight surprise given the bounce in expectations across the globe in general. For example, the OECD is expecting growth of around 5.6% globally, so China's targets seem modest in comparison, although don't forget they were one of the few economies that recorded positive growth last year. Nonetheless, it shows that they expect their economy to get back to normal quicker than most. China does have many issues surrounding ethics and human rights, so we have to tread very carefully in the region. Nonetheless, the positivity is good for the Asia and beyond, and Singapore, which is said to be the Canary in the coal mine when it comes to pinpointing economic growth in the region, has posted some better than expected GDP numbers for the fourth quarter, resulting in an upgrade for 2021.

India is expecting a contraction of around 8% this year, however a strong rebound is expected in 2022, in fact the OECD predicts India's economy to be the fastest growing in the world next year at 12.6%. This is obviously dependent on the vaccination drive that has already begun, but signs of a recovery are already there, with recent PMI data and exports better than expected. India has a massive workforce to call on to get the economy moving forward, and fiscal support and an emphasis on Made in India makes it our favoured country for exposure in the region. Although the headlines we have seen recently regarding treatment of farmers is causing some alarm, and we continue to monitor the situation. The reforms change the way farmers sell, price and store their produce, opening up the market to private investment, something which some economists say will improve farmer's livelihoods and income by attracting investment and technology.

Global Interest Rates

Yields have risen on the view that we will get accelerated growth and higher inflation, meaning policy may not stay as accommodative as markets expect. As rates are near rock bottom, the next moves in interest rates are likely to be up, but we don't see that any time soon, despite risks to inflation creeping up.

Asset Allocation – no change

The overall consensus from the committee was to leave current asset allocation as it was for now. We have been underweight fixed income since the summer as we felt the downside protection was limited given where yields had reached post Q1 2020. The recent sell off we have seen in bonds was rapid, and added to the market gyrations, nonetheless we do expect some further downside to come, although prices have stabilised for now, and if anything, we may see a short-term rally in fixed income before any further selling persists. As a result, we are monitoring price levels and looking for an opportunity to cut back further in due course.

In general, we favour equities, with a neutral view on US stocks, selective picking on European names, with a bias still to UK companies where we have seen a move into previously undervalued names, a move which we think has more room to run. We think the re-rating in a number of impact stocks as mentioned will present buying opportunities, and we have already spoken to a number of managers in that space that have already begun to increase their exposure to selective names.

Infrastructure assets in the UK, with their inflation linked long term pricing mechanisms should perform well, as mentioned previously. Housebuilders should benefit also from the changes in mortgages announced by the UK Chancellor in the Budget, as a result, a slight shift from global infrastructure to UK focussed names seems a prudent move in the coming weeks.

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Company Information

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