I hope you had a lovely Easter and this shorter week has been a good one. If you have got your space booked in the garden of your local pub on Monday I hope the weather improves or you at least remember to take a blanket with you.

According to one retail analyst they are expecting sales in physical shops to leap by 48% when the lockdown restrictions are further eased next week so we await to see how the pent up demand leads to increased profits and higher equity prices. I am indebted to my colleague Michael Gallant who this week brought to my attention the attached article in the Times newspaper about how this financial crises is different from those that have gone before and how we might look back on it.

This week I I return to my trusted combination of Brewin Dolphin's 'Markets in a Minute'. In the US, the S&P 500 crossed the 4,000 threshold for the first time, last week ending the shorter four-day trading week up 1.1%. European shares also rose to near record highs, as optimism about the global recovery outweighed concerns about extended lockdown restrictions. I also attach a link below to the video in which Janet Mui, Investment Director, discusses how the stabilisation in bond yields could boost technology stocks, which suffered in the first quarter of the year. Janet also explores the latest global growth forecasts from the International Monetary Fund and what they mean for investors.

Markets in a Minute 7 April 2021 (vimeo.com)

And the hattrick from Brewin Dolphin this week is the latest version of their commentary on market sentiment entitled 'Fear & Greed – A Market update'.

We continue to watch closely the proposed sale of LV= to private equity firm Bain Capital and this week a group of MPs has criticised it, describing the deal as "rushed" and "wholly unnecessary". A report published on 7 April by the All-Party Parliamentary Group for Mutuals (APPG), detailing the findings of an inquiry into the planned demutualisation, concluded that the leadership of the insurer had "not been open and transparent" with its members about its intentions. In response to the report, a statement from LV=, said that it was "disappointed by the report" and that the insurer had been clear to its members that the strategic review and subsequent proposed transaction with Bain Capital had been "solely driven by their long-term interests." We watch the developments with great interest and will bring you further news when we can.

I have the usual Tatton weekly for you, but as a bonus I bring you a video market update from Lothar Mentel, Tatton's CEO and Chief Investment Officer in which he discusses the potential market risk of the recent losses of Greensill, Archegos and Credit Suisse, residual market fear of bond yields, and the use of Bitcoin as an asset by fund managers.

Please click here to watch: https://tattoninvestments.com/video-updates/

At JB Wealth we are always trying to bring you useful information and hopefully you will find the attached copy of our Financial Planner for 2021/22, with details of your annual allowances and some planning tips to consider. If you have any questions or queries about this or any of the other points raised in this bulletin please contact your usual JB Wealth adviser.

For any golf fans out there I hope you enjoy your Masters weekend, and for everyone enjoy the added freedoms that the week ahead brings and stay safe.

Ian

Ian Luck
Financial Adviser

Comparing notes

"The Covid crisis of 2020-21 was economically less damaging than the global financial crisis of 2008-09. Discuss, with reference to macro-policymaking."

Generations of economics students are going to have to sweat over that essay question.

Fortunately for them, the International Monetary Fund has already come up with some early notes. The answer, it claims, is that the earlier crisis will turn out to have been far more destructive.

Five years after the financial crisis, global GDP was 10 per cent below where it had been predicted to have been before the banks imploded. The pandemic hit to output, meanwhile, is shaping up to be a modest 3 per cent over five years.

It may not feel like that. The second crisis has been much more profound in the way it has disrupted and changed daily life. But the fiscal and monetary policy response has been much greater. And while Covid has clobbered high-contact industries such as hospitality and transport, large tracts of the economy have sailed through.

Mind you, to achieve this relatively benign outcome, the IMF has pencilled in two fabulous years of GDP growth — of 6 per cent and 4.4 per cent for the world in 2021 and 2022, and of 5.3 per cent and 5.1 per cent for the UK, a gallop rarely achieved before.

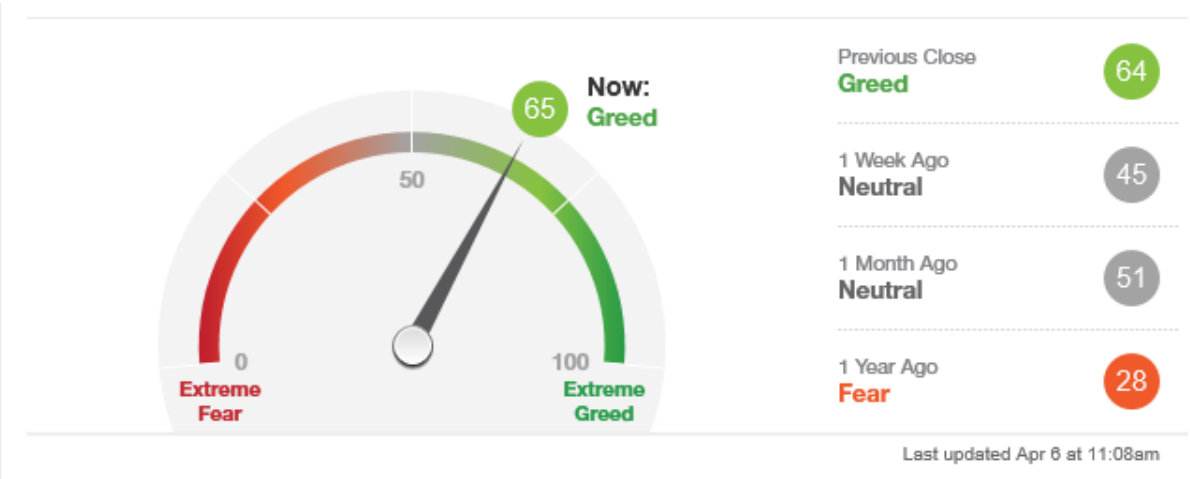
Then there are the headwinds of higher public debt, more constrained corporate balance sheets and missed education that could slow growth for decades to come. Essay-writers should bear in mind Zhou Enlai's supposed verdict on the French Revolution nearly two centuries after it took place: too early to tell.

Fear & Greed – A Market Update

The last year is already fading quickly into the rear-view mirror and, as new life blooms around us, our thoughts are shifting to the year ahead rather than the long and hard winter behind us. So, too, have stock exchanges cast off the gloom of a seemingly endless series of lockdowns.

How are things at the moment?

You may be familiar with the Fear & Greed indicator, produced by CNN Money. This starts with the basic premise that the major factors driving short term moves in share prices are the two most basic of human emotions – fear and greed. When investors are fearful, they will tend to sell – often irrationally – while after a period of strong gains, investors can often become irrationally greedy, paying scant attention to prices, leading to potentially overextended stock market levels. Both sit at extremes of behaviour and the purpose of the dial is, by looking at a number of different indicators, to come up with an indicator of where we sit at present



The current level shows markets are feeling optimistic, but not necessarily excessively so. Those with longer memories and harder nerves might remember that last March, at the peak of the pandemic, the dial sat in single figures, highlighting the complete collapse of confidence that shares suffered. Since that period, however, stocks have rallied extremely sharply, with many markets hitting multi year high levels.

What is going on? I thought we were still all in the middle of a pandemic?

Indeed. However, it is important to understand that share prices – to some extent – discount "today" and look forward to tomorrow. This is why you sometimes get periods of heightened volatility when perceptions of the future shift. Back in March, everything slammed to a halt so suddenly and the future was so uncertain that it was impossible to price – hence the sharp falls. In the period immediately after these falls, markets began to realise that there were some companies that were actually doing rather well out of the chaos – internet delivery companies, video conference software and so on – and these sectors led the recovery. This recovery was very narrow as, for many industries – especially hospitality and travel – conditions remained extremely stressed. The discovery of a number of vaccines represented a sea change and their rapid (or not so rapid in Europe) rollout has enabled markets to begin to look to the sunny uplands of a covid free – or at least covid controlled – future.

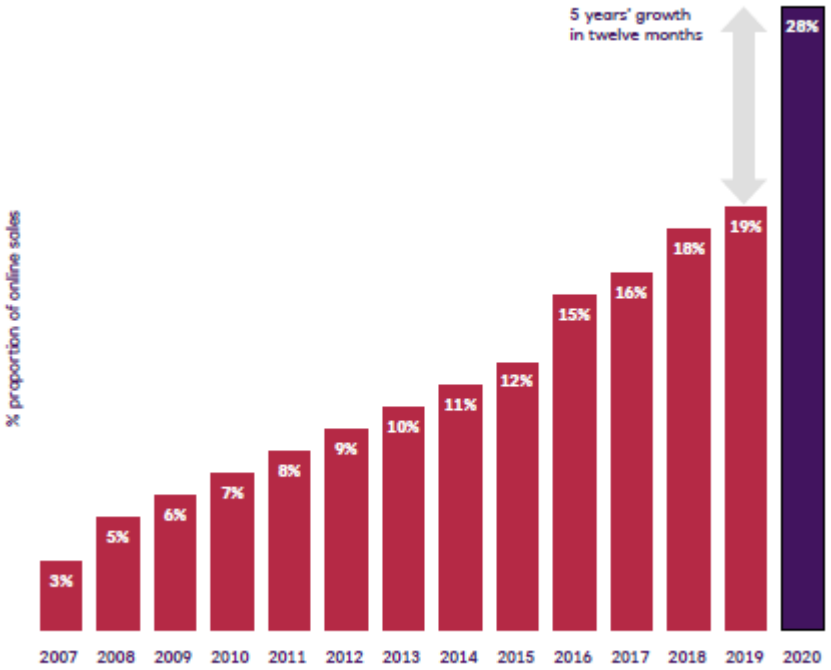
So, is that unpleasant volatility all behind us then?

I am afraid not. Recoveries rarely move in straight lines and there is plenty of opportunity for disappointment on the journey back to normalcy. Dates for international travel, for example, have proved to be a moveable feast making the share prices of hotels and airlines spectacularly volatile. However, one thing we do know is that people will go on holiday at some point, that they are quite likely to fly there and stay in hotels when they arrive. The bigger question is when and whether the companies involved have enough resources to survive another disjointed holiday season without having to raise more funds from shareholders. This story is being replayed across a number of sectors and across the world and is creating swings in the stock markets, as money pours into these "recovery" shares out of the companies that have done well over the last year.

Is this a permanent shift back to value?

This depends slightly on who you ask! Some investors feel that growth companies have had their day and that the kind of companies that did very poorly last year are set to have their own day in the sun. Others argue that there are companies at the cutting edge of change who will continue to transform the world in which we live. For my part, I suspect the reality lies somewhere between these two extremes. There are, undoubtedly, pockets of value and companies who will recover. However, it is equally true that some of the changes that we have seen over the last year are going to be more enduring than others. Will the shift to online shopping change as shops reopen? Yes, probably, but will all of the spending that had shifted online shift back to bricks and mortar retailers?

Figure 9 Online sales have accelerated by five years in the space of 12 months



Source: ONS, Retail Economics

The above chart shows how online sales as a percentage of sales had already been steadily increasing over the many years – the pandemic has just, essentially, "fast forwarded" the process. These same trends were apparent, too, with time working in an office environment

against time spent working from home or in business travel being supplanted by “virtual meetings”. There will, inevitably, be some switch back, but some of these changes will become permanent.

Is this a good thing or a bad thing?

Only the future will tell you whether it is a good thing or a bad thing. What is important to recognise is that it is a “thing” that isn’t going to disappear. Part of this process means that there will be winners and losers – companies whose business models become fatally disrupted or who are unable to adapt to reflect these new realities. Equally, there will be those who can capitalise on these new opportunities. Sometimes, when there is so much change around, it can feel overwhelming. The first mobile payment system was set up by Coca-Cola who, in 1997, invented a machine where you could pay for your drink by sending the machine a text message. Roll forward less than twenty-five years and you barely need cash any longer! The difference now, is maybe, the pace of change which has been greatly helped by the economic environment post the financial crash of 2007/8.

How did this help?

Essentially, we have had a period of extraordinarily low interest rates, which has made financing innovation inexpensive and investment decisions far easier to justify. This period was also characterised by historically low inflation, which enabled governments to maintain interest rates at these low levels. This was, of course, easy enough to justify, given the vast amounts of government borrowing and extremely sluggish economies, suffering the hangover from the debt fuelled binge of the mid Noughties. Perhaps China’s greatest export over this period was deflation, as a seemingly endless supply of cheap goods emanating from Asia kept prices in the developed world subdued.

Now, the situation has changed somewhat. China is no longer simply a supplier of cheap, mass produced goods to the “developed” world, but a dominant economy in its own right and one that, in many ways, does not suffer from some of the same problems as the West.

Should I be worried about inflation?

As a saver, you should <u>always</u> be worried about inflation – taxation without legislation as Milton Friedman described it. Cash Saving Account rates are at record lows as most savers know only too well. The National Savings Income Bonds – the <u>Income</u> Bonds – issued by NS&I pay just 0.01%, meaning a saver with £10,000 would receive an income of just £1 per year. Meanwhile, even after the last year, the annualised Retail Price Index shows inflation at 1.4%.

Will we see inflation go up? Almost certainly, as the effect of last year starts to wear off. Restaurants, for example, are likely to open with reduced capacity, with a huge demand and with debts that need repaying. Prices are almost certain to rise. However, will this feed into an inflationary loop? This, I doubt. To see that, you would need to see higher prices leading to higher wages, leading to higher prices and so on. At the moment, while the unemployment rate is seriously flattered by furlough schemes and government action to protect jobs, these will start to run off over the rest of the year, meaning a ready supply of staff. This does not feel like an environment in which wages are going to rise sharply. Tax rises are also likely to come later in the year and these, too, can have a deflationary effect on the economy.

Does that mean interest rates are going up?

Well, I feel fairly safe in saying they aren't going down. Government bond yields (essentially, what the government has to pay to borrow) have risen, largely as there is a realisation that the level of borrowing has had to rise dramatically over the last year. However, although the economy is likely to recover sharply as things reopen, it is likely to remain some way below its level before the pandemic for some time to come and nobody is going to want to choke off any emerging growth by putting interest rates up too soon. On balance, I suspect we will have these lower rates for a little while yet.

I thought I would have less to worry about this year!

Markets will always find something to be concerned about. Are there pitfalls ahead? Certainly. Vaccine squabbles with the EU reflect the acrimonious state of relations between Britain and the EU as does the situation with the new border somewhere in the middle of the Irish Sea. China is becoming increasingly assertive and using the strength of its central government to target some western companies over what it sees as meddling in its internal affairs. The laughable traffic jam in the Suez Canal shows how dependent global trade is on just a few key points.

A Stock market without worry is like Ant without Dec. If there is nothing to worry about you can rely on investors to find something. Against this background, we find that a rigorous focus on a basket of qualitative companies and funds as part of a well diversified portfolio has proved to be an excellent source of returns over time and I am sure that it will be no different this time.