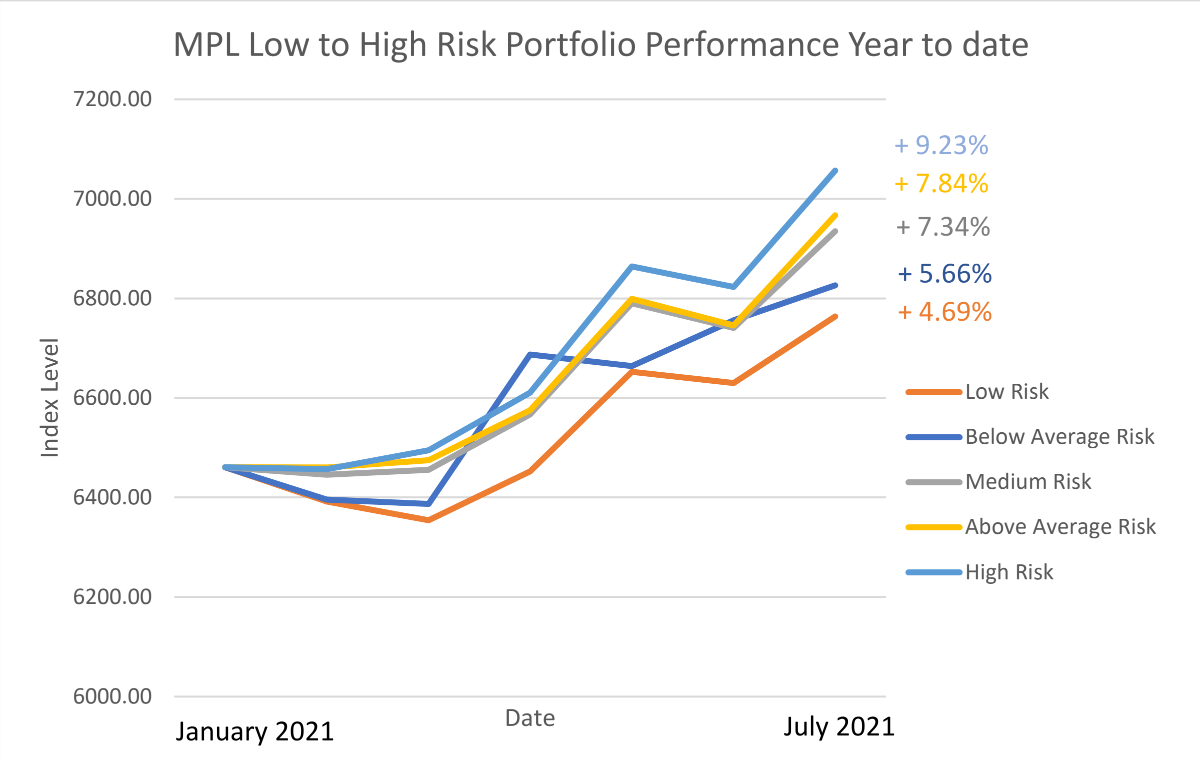
MPL Wealth Management Limited
45 Doughty Street London WC1N 2LR
Tel: 020 7831 4711
Fax: 020 7831 3137
enquiries@mplltd.co.uk
www.mplwealthmanagement.co.uk

It's Half Time

Much has been said so far this year about inflation, indeed Simon has gone into detail in his latest report on this very subject. Whilst financial markets have been volatile in certain periods throughout the first half of this calendar year, our client portfolios have taken this in their stride.



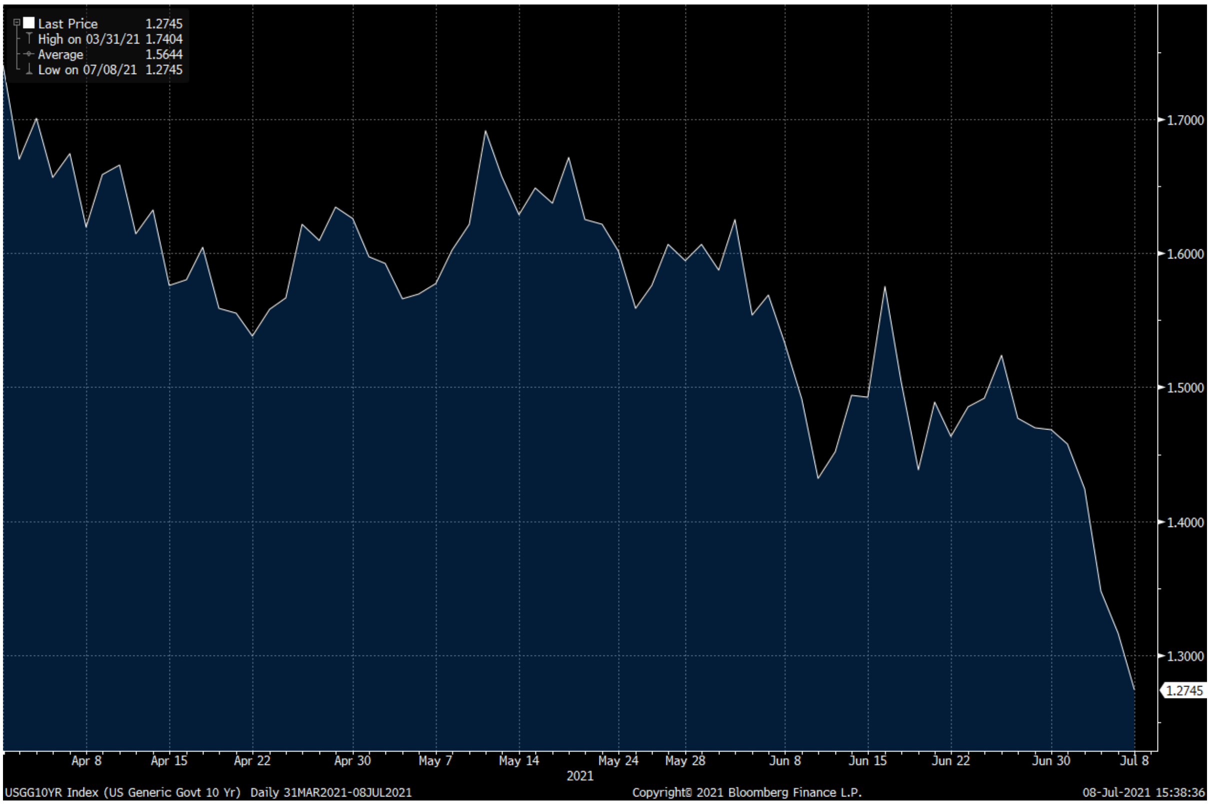
Source: MPL Wealth Management

The primary drivers of capital gain within these portfolios in the period have continued to be those assets which are economically and inflation-sensitive, such as small to mid-capitalised companies globally, along with those in the healthcare and technology sectors. Our bricks and mortar UK commercial property holdings meanwhile have continued to perform well as the economy here continues to recover. One clear beneficiary at least of the structural changes enforced upon the economy by the global pandemic, was the industrial and logistics property sector which continued to benefit from the move to online retailing, which in turn created significantly increased demand for properties in this sector.

For now at least it appears that the financial markets have sided with the US Federal Reserve central banks' view, namely that the spike in inflation (which caused some recent volatility in global financial markets) is transitory in nature and will not lead to more and longer-term systemic inflation drivers.

This market view has been confirmed somewhat in recent days and weeks, by the fall in the US 10-year Treasury yield since late March from a yield of 1.74% to 1.28% at the time of writing.

US Treasury 10-year yield from Late March 2021 to the Present



Source: Bloomberg

What this tells us, is that the expectation that market participants have going forward and regarding the extent to which US interest rates would need to be increased to cool anticipated inflation, is now significantly lower than it was in March. In other words, markets are much more relaxed about future inflationary pressures and the Federal Reserve's attitude to inflation, than was the case a few months ago.

Notwithstanding the US Federal Reserve's comments to the effect that most inflationary pressures are expected to be transitory, the recently released ISM (Institute for Supply Management) Purchasing Managers Index (PMI) for the US for June came in at the lowest reading in four months, with a figure of 64.0 in May reducing to 60.1 in June for the non-manufacturing, or services, sector.

The PMI Index numbers are closely watched monthly indicators of economic activity and provide the markets with an idea of which direction the economy is headed. Any figure above 50 on this scale of 1 - 100 indicates that economic expansion is continuing, thus both the figures for May and June were seen as positive.

However, the decline in the PMI reading from May to June has raised concerns that whilst US economic growth is still expanding, the high rate of that growth seen over the past four months is also transitory. Added concerns about the impact of a further surge in the Covid-19 pandemic as new and more virulent variants take hold, have also been cited as potentially dampening forward economic growth expectations.

As strong economic growth is a major contributing determinant of inflation, the lower PMI figure for June over that of May is a further reason for expectations of higher inflation having been dampened in the short term. This it can be argued gives strength to the view that the current economic environment remains strongly supportive for risk assets (such as equities) on financial markets. This is due to the markets generally favouring stable rather than runaway growth and an inflation outlook that does not call for rapid increases in interest rates.

In the absence of any major threat of interest rate increases until 2023 at the earliest, some equity and bond assets at the very least have had this negative risk lessened, which should enhance their valuations. What this means though, is that we will have to be a little more specific in some areas of our investment approach over the next 18 to 24 months, in continuing to invest in and benefit from specific sectoral capital growth opportunities.

At the half-way point of this year and on a global basis, it appears to us that whilst areas such as technology and healthcare will continue to perform well in terms of capital growth, the standout area is expected to be the Consumer Discretionary sector across most if not all geographic regions. This sector is set to enjoy a decent period of earnings growth as the world attempts to return to normal over the next couple of years, and as frustrated consumers release some of their pent-up spending power.

Going forward, we will be looking to achieve greater exposure to investments in the key Consumer Discretionary areas and will achieve that by reducing exposure to investments such as Exchange Traded Funds, which to date have given us a broader-based or market-wide exposure to various indices and regions.

With kind regards.

Mark Kitson	Simon Weighell	Richard Dawes
INVESTMENT DIRECTOR	SENIOR INVESTMENT MANAGER	INVESTMENT MANAGER