Future Money Quarterly Commentary

31st January 2021 – 30th April 2021

This reporting period has witnessed the eagerly anticipated global vaccine rollout beginning with the UK leading the way within G7 economies. The early evidence suggests that the vaccine is highly effective in reducing infection rates and severity. Countries with high vaccination rates, such as Israel and the UK, have been able to scale back restrictions without a further wave of infections, whilst economies yet to introduce effective vaccination programmes, such as the EU, have seen further waves of infections and lock-downs.

The vaccine success has boosted equity markets but caused bond markets to move lower due to inflation concerns being triggered by the prospect of a globally synchronised rebound in economic activity, fuelled by the massive stimulus deployed during economic lockdowns.

Reflecting on the year 2020, investors holding the average medium risk portfolio measured by the IA Mixed Investment 40-85% Shares sector, would have seen a return of 5.32%, belying the significant swings during the period. At the worst point, this sector recorded a loss of 19.71% (to 23rd March 2020) before recovering 31.18%. With equity markets having achieved the perfect 'V' shaped recovery, economic growth is also rebounding, with China already ahead of pre-Covid levels of economic output. The UK is predicted to achieve this by the end of 2021 with growth expected to hit 7.25% for the year, the highest level since 1941.

During the early stages of the pandemic, there was a shortage of personal protective equipment and various hoarding strategies were employed by countries to ensure their needs were prioritised before production rose to meet demand. Similarly, base materials for Covid-19 testing also experienced acute supply difficulties before global production rose to meet the high levels of demand. The same pattern is now occurring in relation to vaccines, however the number of vaccines approved for use is growing and production is also increasing, so we expect this shortage will also be temporary.

Economies currently leading global vaccination efforts have been able to remove restrictions sooner and benefit from an earlier economic recovery. As vaccine manufacturing and deployment accelerate, the recovery will broaden. The risk of variants is also believed to be manageable, as vaccine technology has demonstrated that jabs can be refined and modified quickly and effectively as needed.

During the pandemic, global banks and governments have injected huge quantities of cash to protect the economy from collapse. In the UK, this has included cheap loans, paying wages of furloughed workers, grants and extending the purchase of government bonds by the Bank of England. Notably, consumer savings increased during 2020, as many workers maintained their income but were unable to spend as usual due to economic restrictions.

As investors begin to look forward to a post-Covid environment, concerns about inflation are beginning to increase. There are already signs of inflation due to 'base effect': the distortion caused by abnormally low levels of inflation one year ago as the price of base goods fell dramatically during

the first lockdowns. For example, last year oil prices briefly turned negative on some exchanges as pipeline deliveries overwhelmed demand leading to shortages of storage. Prices have now re-bounded causing inflation measures to jump upwards.

The triangular relationship between inflation, yields and growth stocks has caused a recent spike in market volatility. The elements have worked together positively since the 2008/09 credit crisis to create a steady increase in the value of bonds and growth equities, with the US market being the key beneficiary due to the high prevalence of growth/technology companies. Covid-19 added a further leg to this trend due to the upswing in the virtual economy caused by lockdowns and further stimulus. It is now worthwhile considering the effects of these trends beginning to unwind.

The notable area of vulnerability to a change in a long-term trend is index tracking strategies. Those strategies with an allocation to government bonds are particularly vulnerable as government borrowing has increased since the credit crisis and into Covid-19. Governments have been issuing longer and longer dated debt, keen to lock in historically low borrowing costs for as long as possible. This has skewed the market towards more interest rate sensitive holdings and, of course, tracking funds are obliged to follow the market.

This outlook will lead to clear winners and losers with some expensive growth stocks potentially vulnerable to higher future borrowing costs, even though they may continue to grow revenues.

We expect lower average returns from global assets over the next decade with higher levels of volatility.

Performance over the past three months has remained positive for each Future Money portfolio, with the backdrop of vaccination rollouts fuelling the expectation of economic reopening. With a full year having now passed since the worst stage of the pandemic from the perspective of markets, the subsequent recovery has led to large gains for each portfolio. Over the past 12 months. Future Money Real Value grew by 11.47, Real Growth by 17.15%, Dynamic Growth by 22.97% and Future Money Income grew by 18.30%. Since inception in December 2008, Real Value has achieved an average annual return of 4.85%, Real Growth 6.25%, Dynamic Growth 7.65% and Income 6.44%.

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Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request.

For any information about the Future Money funds please contact the authorised corporate director, Margetts Fund Management Ltd, on 0121 236 2380, admin@margetts.com or at 1 Sovereign Court, Graham Street, Birmingham B1 3JR. A copy of their Terms of Business which relates to investments into the funds can also be obtained using these contact details.

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