>futureMoney

9th December 2021

Market Update

Market Standstill?

On 25th November the FTSE 100 closed at just above 7,300. At the time of writing on 9th December the FTSE 100 is just above 7,300. A quiet couple of weeks in markets then? Not quite. On 26th November the FTSE, along will other major equity markets from around the world, fell heavily as fear spread regarding the Omicron covid variant which was rapidly developing in South Africa.

An Unknown Foe

With a large number of mutations there is serious concern that the variant will evade the immunity provided by previous covid infection or vaccinations. Since the covid vaccinations were first announced in November 2020 the caveats accompanying any positive sentiment have always related to the potential emergence of a vaccine resistant variant. While Delta proved more transmissible than the original virus, thankfully a strong reaction from the vaccines still existed, meaning that economic confidence could remain. Omicron, however, has sparked fears that this time could be worse. Certainty over how damaging this may be was in short supply and therefore equity markets fell, fearing a return to widespread lockdowns.

Betting on the Bright Side

Yet, while public concern has continued to develop over the past two weeks and politicians, too, are growing more cautious with restrictions returning to various degrees, investment markets have been in recovery mode. This is due to preliminary data and anecdotal evidence suggesting that while Omicron is likely to be more transmissible than other versions of the virus, vaccines are still expected to have some impact and the severity of cases so far appear relatively mild. Now, of course, this confidence could quickly reverse if wider data studies over the coming weeks suggest that there is greater risk of serious illness than previously thought. Currently, however, equity markets are taking the view that while some restrictions will be needed, these are unlikely to be to the same degree as the full lockdowns which decimated economies throughout much of 2020 and into early 2021. Markets are therefore vulnerable to further losses if bad news emerges, but instead are taking the view that Omicron will not be as disruptive as the initial waves of the virus.

Hospitality Bearing the Brunt

'Plan B' has just been announced for England, with further mask requirements, covid-passes and working from home. This will no doubt cause notable damage for some areas of the hospitality sector (particularly those that service office workers), yet it is not likely to derail the overall economy. Once again, if conditions worsen and restrictions tighten then sentiment will surely worsen, but the current restrictions aren't yet viewed as unpalatable by investment markets.

Wait and See

We are therefore in a period of uncertainty, where we must wait to see if/how Omicron changes the trajectory of our civil liberties and therefore of the economy. The Bank of England will clearly be watching developments and while they may surprise us with an interest rate rise when they meet on 16th December, on the basis of continued labour market strength, the emergence of Omicron makes it more likely that they too will take a wait and see approach to its impact. If the variant turns out to be worse than currently expected it is unlikely that they will raise rates in their next meeting (February) either, but if by that point the health picture is manageable, an interest rate rise seems likely. As ever over past two years, the path of the virus will trump near all else.

Evergrande

As discussed in previous editions of this newsletter, the property development firm Evergrande has been a dominant story for Asian investment over the past six months. Owing $300bn and being short of cash, the firm has been inching towards collapse as those debts have become due. Given the size of the firm, the fear is that if this company goes down, it could trigger a domino effect across China's property sector which could ultimately bring down the world's second largest economy, in much the same way that the collapse of Lehman Brothers heralded the start of the Global Financial Crisis.

Stepping In

Our view on this situation is that such a crisis is likely to be averted with the Chinese government unwilling to let such contagion set in and importantly able to take the steps necessary to avoid it. While things could still turn sour, it appears that Beijing is now stepping in to support the economy while allowing a potential controlled collapse of the firm. Earlier this week it was announced that state representatives have taken a majority of seats on a newly formed risk management committee within the firm, showing that Beijing wants to be central to the decision making process. Also announced this week was a change to requirements in the banking sector which will have the effect of easing conditions in the economy, allowing credit to grow. Once again, this action is clearly designed to boost confidence at a difficult time.

Recovery

With such clear management of the system and with a financial toolkit that allows significant state intervention, it seems likely that while Evergrande may be allowed to collapse, the Chinese economy looks set to cope. With this it is our view that Asian equities, which have struggled this year on the back of the Evergrande saga, look better positioned for recovery in 2022.

9th December 2021

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice. This information is aimed at professional advisers and should not be relied upon by any other persons.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change.

It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested.

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.

Issued by Future Money Ltd

Future Money Limited is authorised and regulated by the Financial Conduct Authority

Future Money Ltd

Henry Wood House · 2 Riding House Street · London · W1W 7FA

0203 4570 387

www.futuremoney.co.uk