Lincolnshire
COUNTY COUNCIL
Working for a better future

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	**Pensions Committee**
Date:	**18 March 2021**
Subject:	**Independent Advisor's Report**

Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

Recommendation(s):

That the Committee note the report.

Background

Investment Commentary – March 2021

A massive global economic recovery in late 2021?

There is near universal agreement within both the economic community and amongst investment professionals that the world will see a robust economic recovery in the second half of 2021, on the assumption that Covid-19 will be brought under control. Often, any overwhelming consensus of views turns out to be either wrong – or well discounted in market prices. But which is it?

With the exception of China and parts of East Asia which are already seeing economic growth, the western world is largely still in "lockdown", with economic output depressed. The pattern seems to be that manufacturing is already recovering well in 2021, whereas the much larger service sector is still very depressed. Once lockdown comes to an end – and it will be a process, rather than a decisive event – economic recovery should logically be robust. The service sector should rebound quickly from a catch up from work that would otherwise have been done earlier. We are all, no doubt, desperate to get back to holidays, entertainment, exercise and the pub or restaurant? And many people with continuing jobs will have the savings built up in lockdown available to spend. So, from perhaps mid 2021 onwards (and the timing will vary around the world, of course), robust growth in output does indeed look assured.

What could go wrong?

The conditions that will permit such a robust economic recovery include:

- vaccination against Covid-19 continuing at pace, at least in the developed world, to perhaps 50% plus of the population;

- that mutations in the virus do not largely invalidate existing vaccines;

- as growing proportions of the population recover from an attack of the virus and/or are vaccinated, that a measure of "herd immunity" can be achieved, thus reducing the incidence of new Covid-19 cases and hence deaths;

- hospitals across the world are not overwhelmed by future outbreaks; and

- that the world begins to develop a "modus operandi" for living with Covid-19 and its mutations, much as it has done with influenza.

Are these achievable over the course of the summer of 2021 and before the onset of the northern hemisphere winter? The markets seem to think so. And they take comfort from knowing that governments across the globe and their respective central banks stand ready to provide additional financial support – if that hoped for economic recovery does not materialise.

Recent market performance

Global equity markets have shown continued strength so far this year, rising about 5%. The UK remains a laggard, but has shown a positive return so far. In the USA, in late January and early February, there was a frenzy of individual day traders driving the markets in a handful of small stocks to extreme levels. That has now subsided, and more normal trading patterns resumed.

There is a growing level of anxiety among some economists and investment professionals about the future trend in inflation. Some expect it to rise sharply because of the unprecedented financial support provided and as economic growth turns robust, which could lead to supply shortages. There is a clear division of views. However, there has been an adverse effect on bond markets that, in mid-2020, were trading at all time low yields. Bond prices have been falling for most of this year – i.e. yields rising.

For the time being……

"To travel hopefully" seems to be the best policy. All major economies should recover robustly once they come to terms with Covid-19. Bond yields remain low – but have been rising since the turn of the year, a trend that has gathered pace in the past few days. A fresh investment in bonds seems to me to be unattractive and not likely to meet the cost of accruing pension liabilities. The only remaining market with attractive liquidity characteristics is global equities. Yes, there are signs of speculative excess - but equally I do not see significant downside in prices in the coming months. Any vulnerability is likely to see the emergence of “cheap” buyers.

Conclusion

Peter Jones
1 March 2020

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Peter Jones, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

This page is intentionally left blank