Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**15 July 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

<u>Investment Commentary – July 2021</u>

Stock markets seemingly becalmed.

The investment community remains convinced that a strong global economic recovery is in hand for the rest of 2021 and probably into early 2022. The global economy is of course recovering from a severe setback in 2020 – so some significant numerical increases year on year should be expected. The increase in output in the second half of this year could well amount to say 7% annual rate, in the USA, UK and elsewhere but perhaps rather less robustly in Europe and China. With such a strong economic foundation, the corporate sector should do very well, with profits and earnings per share increasing, perhaps at around 25% per annum in the next year or so. So, a good backdrop for equity markets.

And yet, in the last month or so, the performance of the main investment classes, equities and government securities, has been distinctly lacklustre. The year 2021 started off well enough. Year to date, many markets are up about 15%, with the UK lagging somewhat, no doubt on Covid and continuing Brexit anxieties. The other notable laggards are the “tech stocks” e.g. Amazon, Facebook, Google, Netflix which collectively are up around 5% - but having traded in a narrow range for some months. And government bond markets similarly, where prices have largely stabilised, yet where yields remain very low (around 1.5% p.a. for 10 year maturities in the USA, lower in the UK, and still negative in Germany).

President Biden

There is no doubt that all markets have been re-assured by the "sure-footedness" of President Biden and his administration. His emphasis on getting America back to work, bolstered by an aggressive Covid vaccination programme have helped; as has his constructive attitude to international relations – with the sole exception of China where he has continued the policy of dis-engagement of his predecessor. With this exception, the contrast to the attitudes of Donald Trump is stark.

The key early decisions of the Biden administration have been focussed on a huge further economic stimulus bolstered by actions of the US Federal Reserve (the US central bank); this has as a primary objective to reduce unemployment. There has also been a program of cash hand-outs to those in need, which has already had a material effect on consumer spending. The most recent of these, in April, amounted to about £1,000 per family. The result is that the USA is already recording a robust economic recovery, which inevitably will benefit other parts of the world, by sucking in increasing volumes of imports, including raw materials. The price of oil, for example, has almost doubled since a year ago.

Inflation anxieties

Inevitably, such a huge economic stimulus, and in particular the surge in cash available to the economy has raised fears of rampant inflation. The US Federal Reserve (and indeed every other key global central bank e.g. the Bank of England) has pledged to look through any temporary rise in inflation. The latest "headline" US inflation was 5%, no less. But there were some unusual and seemingly temporary features behind that figure. For example, prices of second hand light vehicles (cars, SUV's) were up 7%, reflecting the shortage of new cars where production has been severely hampered by the lack of computer chips. More generally, there are anecdotal reports of numerous supply chain difficulties and hence price hikes. The Chairman of the US Federal Reserve has repeatedly emphasised its willingness to see such inflation figures as transitory, and one not requiring a dramatic policy response - such as a sharp increase in interest rates. So far, the markets, both equities and fixed interest, seem re-assured by these statements. There are sceptics, so far in a minority. Inflation running out of control remains the most significant risk the stability of both markets.

Conclusion

Often, in the past, markets that have become becalmed subsequently display a significant move, either upwards or downwards. By this, I mean, moves of greater than say 15%. At the moment the markets are in "wait and watch mode". Perhaps, this is merely the usual summer quiet period for markets. Early autumn, if not sooner, is likely to see more lively markets.

Peter Jones
23 June 2021

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.

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