# ESTATE CAPITAL INVESTMENT PORTFOLIOS
## OUTLOOK

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ESTATE CAPITAL

# *The implications of rising inflation should not be underestimated.*

Financial markets have been making strong gains this year. This growth is on the back of the expected economic rebound particularly in the second half of 2021 and on into 2022. Equity markets have hit new highs in the US, UK and Japan.

The S&P 500 hit a high of 4232 on 10th May having grown 444.4% over a 12-month period. The Nikkei 225 broke through 30,000 points, up 44.7% over a 12-month period. The FTSE 250 hit a high of 22,735 points on 10th May while the FTSE 100 broke through the 7,000 mark at 7,136. Both up 39.7% and 19.7% respectively over the past year.

Overall equity markets continue to be supported by ultra-low interest rates, massive government spending, most of which is still to hit the real economy, and by improving earnings growth as the global economy opens. As far as performance going forward is concerned, we feel that this will be impacted by the roll out of vaccination programmes and infection rates, the speed of any rise in future levels of inflation and the Federal Reserve's management of interest rates and inflation.

Markets have priced in all the good news so have been prone to exhibit days of volatility when bad news is prominent, like the worsening of the Covid 19 situation in India, the Philippines and Brazil. This raises doubts as to whether the recovery is really secure. Subject to an improving roll out of the vaccine across the developed world, we would expect a good recovery.

One feature of a strong recovery is the outlook for inflation. Having been dormant for long periods of time, the US bond markets reacted to the expected onset of inflation. The US 10-year treasury yields rose sharply up to 1.75% in mid-March but fell back to 1.56% by late April as immediate concerns abated. The forward indicators show that yields are likely to rise further over the year ahead with some analysts suggesting 2.5%.

There is evidence that price rises have started to emerge. Annual US inflation was recorded as 2.6% in March. This is a significant rise from February's 1.7%. This increase was however a result of current oil prices, which 12 months ago were exceptionally low. If oil and food were taken out, then the 'core' inflation rate has not moved very much. The general feeling is that the US is heading for 'core' inflation above the Federal Reserve's 2% target.

Even with recent US 10-year treasury yields rising to 1.75%, real yields will offer little compensation against inflation expected over 2%. Bond markets are still being influenced by massive central bank purchases so any mis-step on policy or even the communication of policy could cause a correction.

The Fed's current position is to maintain the current

0.25% interest rates until 2023 and manage any inflation increases through the tapering of the Quantitative Easing (QE) programme. Fed Chairman Jerome Powell has gone on record as saying 'that price pressure is not expected to be particularly large or persistent this year'. The rise in the oil price and the pressure linked to growing demand is seen by the Fed as transitory and not permanent. The Fed have said it is likely to be over a year before inflation and unemployment conditions are back to the level that meets the criteria for raising rates. Any suggestion of tightening early would create a problem that the world should avoid.

Up until late February, interest rates had stayed low relative to growth and inflation expectations. Equity prices were supported by historically high multiples of corporate earnings and by ultra-low bond yields. The companies that flourished were growth stocks particularly in the tech sector. Since late February, equity markets became more volatile and those with high PE ratios and indebtedness came under greatest pressure due to the spike in bond yields. With growth stock being more impacted by the rise in rates our portfolios suffered more at this time than the national averages.

Stock markets recovered from the correction in late February and early March's as concerns over US inflation and the Feds policy subsided somewhat. This resulted in 10-year treasury yields falling to under 1.6%.

The bond market concerns are focused on the USA, where fears that the Biden US$1.9tn Recovery Plan is too large, especially coming after last year's US$3.1tn stimulus programme and the awaited US$2tn infrastructure and clean energy plan. On top of these three federal stimulus packages, the market senses that pent up private demand is enough not to be easily absorbed into the economy and could create supply chain constraints.

Accelerating global demands are putting pressure on stretched supply chains. Producers are struggling with shipping and port handling delays, while manufacturing surveys across the world show longer delivery times and rising prices. In some sectors such as semi-conductors there are outright shortages holding back car manufacturing. Against this backdrop, we expect firms to pass on these costs to customers. There is some expectation from fund managers and economists that US inflation could hit 4% by the summer and average 2.6% in 2021. While these price increases may only be transient due to the slack in the labour market, the implications of rising inflation and interest rates should not be underestimated. For this reason, we will be adding inflation protection into our portfolios.

# *We expect a good 2021 recovery.*

The quarter one upswings in equity markets were boosted by news that China posted a record 18.3% growth in economic activity in the year to the end of March, that the US$1,400 stimulus cheque being paid directly to all US adults is now being felt in US retail sales and the US jobless numbers fell to 6%, their lowest level since March 2020. Two leading barometers of economic activity are the prices of copper and oil. Copper prices on the London Metal Exchange are up 18.4% at US$9,382 per tonne so far in 2021 while Brent Crude Oil is up 25.2% at US$68pb.

These factors had a part in propelling the S&P 500 to a record high of 4232 on 10th May. The S&P 500 is now 25.2% up on its pre pandemic value of February 2020 while the Dow Jones, Germany's Dax and France's CAC indexes have all overtaken their pre pandemic values. In the UK it is the domestically focused FTSE 250 that has performed well and closed at record highs recently. This illustrates the general confidence in the central banks and the vaccine roll out but markets are also sensitive to any setback which has resulted in risk on/risk off volatility over recent months.

There has been a noticeable rise in new car sales particularly in Europe. In March 1.3m new cars were registered in Europe alone. Tesla is the leading brand for electrical vehicles (EV) accounting for 16% of global sales, but the traditional car manufactures are now quickly catching up. While only 4% of cars on UK roads are currently electric powered, this will soon change as legislation, incentives and charging infrastructure develop.

The sale of new petrol and diesel cars will be stopped in Britain from 2030 which is only nine years away. It is predicted that by 2030, Volkswagen will be the biggest EV producer. VW already produces as many electric cars as Tesla but has yet to start manufacturing its own batteries. Recently VW has stated that it should be able to reduce the cost of battery units to less than Tesla and move 80% of its vehicle production to EV alone by 2030.

Traditional car brands are catching Tesla up in battery technology with Toyota, VW, Hyundai and Honda making significant progress in solid state, lithium sulphur and lithium oxide batteries. Supporters of Elon Musk point out at Tesla's ambition to become the biggest car company in the world will support further growth in its share price having already risen by 743% in 2020. Some analysts see Tesla as more of a battery, software and technology company than a car manufacturer.

It comes as no surprise that oil companies such as

Shell are diversifying their activities away from oil and investing in hydrogen technology, clean energy sources and carbon capture systems.

Throughout lockdown there has been a general falling in the demand for credit and lending. This is usually a bad sign for banks and the economy in general. Due to lockdown, companies and households have been paying down debts rather than taking on new ones. JP Morgan has reported that its loan book is 44% of its deposits value while last year it was 57%. This indicates that there is significant headroom for new borrowing and banks will be eager to lend.

Economic activity should continue to grow in 2021, particularly in the second half when the roll out of mass vaccinations and the massive fiscal stimulus in the US will come through in corporate earnings. We are aware that there is a sector rotation going in on and that portfolios will need to reflect these trends. The sector moves that are relevant currently is a greater allocation to financials as this sector profits are linked to raising yields while the energy and commodity sectors are enjoying a cyclical upswing. The demand for industrial metals will improve as government infrastructure and clean energy programmes start to take off.

The continuing opening up of economies should maintain a style rotation from high growth to traditional value stocks. Sectors like finance, energy and commodities are picking up but technology stock have recently lagged. This is one reason that the FTSE 100 has improved and is seen as inexpensive relative to other stock markets.

The issue that may knock the global recovery off track is a significant third wave of infections in major economies, that the vaccination roll out hindered by supply or vaccine production protectionism, that trade tensions between US and China develop and any early tightening of stimulus as US inflation takes off. We are aware that emerging markets could be impacted by China's tightening and the strengthening of US$ and any increase in US bond yields.

# *Growth rate forecasts are being upgraded for this year and next.*

Fund management groups have been upgrading their forecasts for GDP growth for this year and next. The latest consensus is a 5.3% growth in global GDP in 2021 and 4.6% in 2022. The main change to the Q1 forecasts is President Bidens massive US$1.9tn Rescue Plan boosting US and global growth. The forecast upgrades were positive for the UK and Japan but not for Europe where new and extended lockdowns and slower vaccination rates have recently hampered their recovery.

These growth forecasts are not driven by a fiscal boost from China as has been a consistent theme in the past as Beijing has started to tighten its monetary policy. The fiscal boost this time is coming from the USA in the form of President Biden's US$1.9tn Rescue Plan and the new US$2tn infrastructure and green energy plan. In Europe the long negotiated €750bn EU Recovery Plan worth 5.4% of GDP is unfortunately still not likely to be distributed until Q4. This along with the slow vaccine roll out has delayed European recovery. In Japan, the Government of Prime Minister Suga has launched a 1.1% of GDP Covid recovery measures and a 3.3% of GDP infrastructure, digital and green energy initiative.

There should be sufficient slack in the world economy to absorb a strong rebound this year. The Fed will not want to signal any changes to interest rates until well into 2023 when the recovery will be more established and US employment back to the pre-pandemic levels of under 4% unemployment. The Fed has offered assurances that it expects price rises this year to be transitory and not result in structural inflation.

US stock valuations are looking historically rich and are now not so well supported by very low bond yields. The rise in US bond yields in February and March was a response to stronger growth forecasts which is a favourable environment for equities. We expect equity markets to do well in the near term but due to the on-going threat to global health and liberty and the build-up of debt the road will be bumpy. We have seen evidence of this throughout the past few months.

We remain positive about equities given that corporate earnings are expected to improve from strengthening global activity. The outlook for US value stock, UK, Europe and Japan is appealing but we are sensitive to growth restrictions in emerging markets and China. Within our equity holdings we have retained sector exposure to sustainable energy, technology and infrastructure and added financials, property, natural resources and insurance as these sectors are expected to do well.

The broader global impact of the vaccine roll out and the US fiscal packages means there is scope for further rises in the US 10-year treasury yields and this should impact bond prices. For this reason, we are going defensive on duration. We are reducing our holdings in US and UK government bonds and moving to short dated and inflation linked credit. High yielding bonds are attractive due to falling default rates and the ability to withstand some inflationary pressures.

# *The outlook for US equities is positive as earnings recovery stretches into 2022.*

## *The number of new Covid cases has certainly declined in the US since the dramatic improvement in vaccination roll out rates since Joe Biden took office.*

The effective roll out as of 10th May is that 78% of the US adult population have receive at least one jab. The Biden administration has certainly accelerated the vaccine roll out and has set a target for 90% of all US adults to be offered a first jab by the start of June. This dramatic change in vaccination fortunes and the near 13% of GDP in fiscal stimulus agreed by Congress looks set to deliver a faster recovery in activity than expected at the beginning of 2021. Analysts are now forecasting a 6.5% growth in US GDP in 2021 and 4.5% for 2022.This is in line with the IMF projections.

The overall outlook for US equities remains positive with economist forecasting a corporate earnings recovery stretching into 2022. The recent rise in US treasury yields has provoked a rotation in markets with capital leaving high price 'growth' stocks and indebted tech stocks and has moved to traditional 'value' stock. This is one reason for the S&P 500 outperforming the Nasdaq by 11.8% to 8.5% since the start of 2021. These moves have hurt our portfolios more than the national averages as we have held an overweight in US growth stock and tech stock and an underweight in value stock indexes like the UK and Europe. We think the biggest moves on US yields this year are likely to be behind us and there is therefore an opportunity for growth stock to recover some ground. We expect US treasury yields to rise over the course of the year but not spike which is what caused the earlier correction.

The big tech and high PE growth stock are still seen as expensive even after the late February and early March corrections. The vaccination roll out is now allowing the sectors that were originally worst hit by lockdowns to now come back and start to enjoy recovering earnings. We expect the high level of cash savings plus the fiscal stimulus cheques sent to every adult to push up consumption. The forthcoming US$2.3tn infrastructure and renewable energy plan will support industrials. Therefore, we are going to direct some of our US holdings into traditional value stock to pick up on this theme.

The US earnings season was notable for the number of companies whose first quarter earnings were above expectations. This was particularly true of the leading American banks that posted excellent profits.

The health of the US consumer is a clear and reliable measure of economic wellbeing. US spending is a key driver of the global economy. US household debt is at its lowest level for 11 years. This factor along with available credit facilities, high household savings and pent-up spending will bring about a surge in consumer demand.

## United States

The Democrat sweep of the White House and Congress in November 2020 has resulted in a massive fiscal stimulus package being passed into law. This will generate US growth and by extension global growth for the remainder of 2021 and well into 2022. The packages comprise of unprecedented flood of government relief payments amounting to US$5.6tn or 26% of annual GDP. US$3tn is to be spent on infrastructure, green investment and social spending.  The total fiscal spending in the US over a seven-year period could amount to a staggering US$8.6tn or 40% of US GDP when including the quantitative easing programmes.

The immediate benefits will be felt in the households and businesses of America but the long-lasting impact will be the massive new additional public debt levels issued to fund this spending. This level of debt has not been seen since WW2 and will require the major central banks to retain ultra-low or negative interest rates for the foreseeable future. The great challenge to all central banks, starting with the Fed, is how to confront the growth in the economy and the expected inflation with the pressure to keep rates low.

Given this conflict, the credibility of the Fed will be tested by markets. This was first seen in February with bond yield rises. Despite the Feds commitment to keep rates low, we do expect to see markets test the Feds resolve as the economy re-opens. The massive fiscal stimulus is likely to fuel a very strong economic rebound. Some analysts are suggesting the IMF forecast for US GDP growth for this year of 6.5% is modest.

America has witnessed spikes in inflation in the past. A good example is the late 1960 when government overspending pushed inflation to 6% and resulted in monetary policy being excessively tightened. Over the ensuing twenty years both equity and bond markets suffered the consequences and only commodities and property gained.

The spending levels of the Lyndon Johnson era is dwarfed by that of Joe Biden. The current stimulus packages will start to support the poorer in US society who most need the help, then moves onto US infrastructure that badly requires upgrading and then onto clean energy which has to be the future. This spending spree is occurring while interest rates are 0.25% and the Feds QE programme buys up US$120bn per month of bond assets.  The Fed is forecasting that US inflation will average 2.4% this year before falling back to 2% in 2022.

The Fed expects globalisation and technology advancements to hold down prices. Observers and analysts are torn between expecting excessive inflation forcing the Fed and other central banks to tighten rates and lose credibility with a resulting market fall or be able to manage their way through this with the tapering of QE in 2022 and a rate rise in 2023 when the economy is more able to absorb them. For our part we are taking some inflationary protection measures into the new portfolios.

# *The average property price in Wales is up 8.4%.*

The UK's impressive procurement and vaccine roll out has resulted in a dramatic fall in Covid cases, hospitalisations and deaths. These improvements in the nation's health have helped ease lockdown restrictions earlier than expected.

It is the UK success in the vaccination programme along with the additional £250bn of government spending on Covid relief and stimulus packages that have helped the UK stock market improve over recent months. This is particularly true of the domestic FTSE 250 index. The FTSE 250 hit a high of 22,735 points while the FTSE 100 broke through the 7,000 mark to hit 7,136 on the 10th May. Both indexes are up 39.7% and 19.7% respectively over the past year. UK equity valuations are also attractive compared to overseas companies across a number of metrics meaning a catch up in value is expected.

The FTSE 100 has been somewhat overlooked since the June 2016 Brexit Referendum as compared to other major developed markets. The nature of the FTSE 100 is predominantly value stock rather than growth stock and has fallen behind on that basis alone.

Now that a no deal Brexit was avoided at Christmas and that the UK/EU trade volumes are recovering from early disruption, a strong growth environment and first-class vaccination programme is likely to result in a further pick-up in UK stock values. As the world returns to something of a normal, the traditional companies will recover. Banking, mining and commodities, pharmaceuticals, and energy companies will become more popular, which is the primary make-up of the FTSE 100.

As the UK has a larger consumer service sector than most other countries, it was more sensitive to lockdown. As a result, UK GDP fell 9.8% in 2020 as compared to 6.6% in the Eurozone and 3.5% in the USA. This deeper fall gives a far greater opportunity for bounce back. The IMF is now predicting a 6% recovery in 2021. Investec have predicted growth for the UK as 7.3% and the Eurozone at 4.4% this year. This revision of fortunes is based upon the speed of the vaccine achieving herd immunity, the household savings rate, business confidence and the significant government support packages. The UK is on track for a 5% growth in GDP in Q2. Some analysts are suggesting that the UK could be the growth economy of 2022.

UK inflation moved up from 0.4% in February to 0.7% in March as a result of higher petrol prices and transport costs. The Bank of England has forecasted that inflation could reach 1.9% by the end of 2021. Other economists have predicted that UK inflation could hit 2% far sooner as price growth is on an upward trajectory.

We do not expect the BoE to risk a financial crisis by increasing interest rates to dampen inflation growth. The competent management of interest rates and inflation will challenge all central banks over the months and years ahead.

The initial disruption to exporters and importers at UK ports was a concern in January as the ONS reported a massive 42% slump in UK exports to the EU. However, it now seems that exports have returned to close on 2020 levels. Given that large parts of Europe are still in lockdown means that these figures can yet improve. The UK will probably return to pre-Covid GDP levels before the Eurozone.

UK exporters are coming to terms to the additional Brexit red tape. There has been a 20% fall in exports going through France and in particularly Calais and a 38% increase in exports entering Europe via Antwerp. The main French ports have been less helpful to UK exporters who are now finding more attractive alternatives.

The UK residential housing market is booming with March transactions at the highest monthly level since records began in 2005. The Covid crisis does not seem to have dampened the property market, in fact it may have enhanced it with the stamp duty holiday and people reconsidering where they live as home working patterns are becoming more established. The average property price in Wales is now £180,000, up 8.4% on 2020.

The ONS have confirmed that at the end of Q1 UK government borrowing had hit £303.1bn mainly used to support workers incomes and the economy. This figure equates to 14.8% of UK GDP and is the highest level of national debt since 1945. Borrowing in 2020/21 is £250bn larger than 2019/20 and was as much as £28bn in March alone. However, due to the recent boost in business activity and retail sales, this figure is less than the £400bn economists had feared back in 2020. This will mean that the Government will not need to rise so much debt. The Debt Management Office plans to issue £252.6bn of gilts in 2021/22, this is £43.3bn less than the published in the Budget.

The overall national debt is now £2.131tn or 97.7% of UK GDP. The debt repayment cost to the taxpayer on this borrowing was £38.8bn in the 2020/21 tax year. Interestingly this is down from £48.1bn in 2019/20.

The buoyant housing market has earned the Treasury £1.3bn in stamp duty taxes in March despite the stamp duty holiday on houses valued under £500,000. Business confidence is rising as evidenced by the Markit PMI Survey jumping to 60 points in April as compared to 56.6 points in March. Capital Economics expect that the UK recovery to result in UK GDP to be 3.7% higher than its pre pandemic level at the end of 2022 and Oxford Economics expect the economy to grow by 7.2% this year.

# *The Chinese economy grew 18.3% in the twelve months to March.*

*The Chinese economy grew 18.3% in the twelve months to the end of March 2021. This is a remarkable recovery from last year. This 18.3% growth comes on top of the news that the Chinese economy fully recovered its GDP to its pre-pandemic levels in 2020. China was the only G20 nation to achieve this.*

Analysts are however suggesting that the majority of the recovery growth has already been achieved as quarter-on-quarter growth rates are now slowing. The Chinese authorities are already tightening their monetary policy in order to avoid the overheating of their economy.

The famous Chinese consumer has spent 34.2% more in the first three months of this year than the first quarter of 2020 as shops fully re-opened. Industrial output was also up 14.1%. Despite these gains, analysts are now predicting that a number of business sectors will slow as the Chinese authorities reduce their fiscal and monetary support. Industrial activity may not maintain its current growth with the removal of measures that have stimulated the domestic Chinese economy.

Future growth from China however, will be more dependent on export demand as the rest of the world recovers. The US/China trade relations will also have an impact as many developed economies are starting to consider Western supply chains and the sensitivity of procurement particularly in technology.

China has set itself a growth target of 6% for 2021 but interestingly some analysts are forecasting a growth of 7.7% in 2021. But from 2022 GDP is expected to decline to 5.5% as China's one child policy starts to play out on its aging population, its high levels of national debt and falling productivity growth. The IMF have forecast GDP growth of 8.4% for 2021.

China's property market bubble is becoming a concern as house prices in the major cities as compared to average incomes are becoming twice the multiple of property in the UK or US. Property is expensive and outside the reach of young couples. Beijing is likely to take steps to rein in borrowing on residential property in order to dampen property prices. This is part of the Chinese authorities tightening of monetary conditions earlier than other nations as they have already enjoyed a boom in growth.

The first in / first out nature of China's Covid response has enabled them to show impressive early GDP figures but the Chines stock markets such as the Shanghai CSI 300 or Hong Kong Hang Seng have hardly moved over this year suggesting that China's will be hard pushed to keep growth going.

The economic approach between the West and China seems to have reversed. After the 2008 financial crisis, China implemented an unprecedented policy of stimulus and easing, while the West took a more austere approach. In this post pandemic period, it is the USA that is entering an unprecedented policy of stimulus and easing while China is starting to tighten.

Economists are warning that China is hiding a big unemployment problem. The number of Chinese workers without meaningful employment has shot up to 17%. These predictions are far above the official jobless figure of 5%. Commentators have often voiced their concerns about the accuracy of these official figures. Workers in China's state-run companies have often been employed to support government statistics but even this seems insufficient now.

With the world wishing to move to a lower carbon footprint, the reliance upon fossil fuels for heating and transport will fall, but the demand for the metals needed for electric car batteries and clean energy such as cobalt, lithium, vanadium, tin and copper will only increase. China has a global dominance in the processing of cobalt, nickel and rare earth metals.

For this reason, the West are working to reverse China's control of these essential metals. For the US and Europe to be successful in the production of batteries for electric vehicles and renewable energy, being self-sufficient in this supply chain will be important.

Access to the companies mining these metals is somewhat limited from an investment point of view. The future mining of rare metals in the southern fiords of Greenland is a good example. About 25% of the world's rare earth metals are found there. These are the key metals for the development of electric vehicles and wind turbines. The proposed mining by Greenland Minerals which is an Australian company owned by the Chinese is being blocked by local politicians. The supply chain battle is one we can see developing when the needs of the climate, corporate profit and local communities are not aligned.

# *Pfizer costs $14.70 per jab while Astra Zeneca is $2.15.*

*The likelihood of an early Eurozone recovery from the Covid crisis was put into perspective by many of Germany's top economic institutes as they cut their forecast for German GDP growth this year mainly due to third wave lockdowns and a delayed vaccination roll out.*

Europe has not been efficient in its vaccination programme with 34% of Europeans being offered one or more jabs by 10th May as compared to 79% in the UK. Germany's Health Minister Jens Spahn has warned that the pandemic is not under control and is threatening the German health system. This third wave will delay the re-opening of the German economy and will risk longer economic scarring.

The decentralised German health system praised for its early efficiency when dealing with the first lockdown and the treatment of Germany's ill, has since turned into a slow moving and inefficient administration without central records or clear national planning for the roll out of its vaccination programme.

European virologists are suggesting that politicians need to be careful about any early relaxation of lockdowns with a third wave still impacting much of Europe. The undermining of the Astra Zeneca vaccine has damaged vaccine confidence on top of what was a badly managed procurement process. This is having a far longer impact on the people and businesses of Europe than should have been expected. This has been a costly error by the EU for not having been better prepared.

Despite the continent being hit by a third wave and both the Astra Zeneca and Johnson and Johnson vaccines having concerns raised over the risk of rare blood clots being a side effect, there are signs that the European roll out is picking up a pace. The EU has so far vaccinated 34% of its adult population with either one or two doses and has a stated target of inoculating 50% of adults by the end of July. Despite the disagreements over the supply of the Astra Zeneca vaccine, the EU has confirmed the supply of 250m doses of Pfizer in Q2. The daily vaccination rate in Germany is now ahead of that in the UK because local GPs have been enlisted into the roll out. Germany has now vaccinated 41% of its adult population with either one or two jabs.

France is the most vaccine sceptical country in Europe. The World Economic Forum has found only

40% of French adults wanted a jab as compared to 77% in the UK. While these figures will rise with evidence of vaccine success, as it has in the UK, any national resistance to the roll out will impact herd immunity and allow Covid to circulate. Despite these findings, France has so far vaccinated 37% of its adult population.

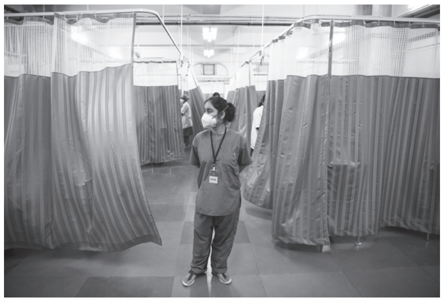
The EU has also announced it has signed a new deal with Pfizer to deliver 1.8bn doses of the BioNTech vaccine. This order will be enough to inoculate 450m EU citizens for the next 2 years. This deal has however sparked concern that the poorer countries in the world are being priced out of the vaccine. The Pfizer vaccine is difficult to store and dispense and is more expensive. Astra Zeneca and Johnson & Johnson have committed to not making a profit from the pandemic while Moderna and Pfizer have not. Based upon published costs the order of 1.8bn doses could cost the EU US$14.70 per jab as compared to US$2.15 for the Oxford Astra Zeneca jab. That is a very expensive decision.

The fiscal stimulus plan in Europe will provide a positive but more modest boost to growth than that on offer in the US and UK. The EU has committed in invest by way of grants and loans €750bn or 8% of GDP with payments starting in Q3 2021. This time scale may be put back due to the on-going legal challenge from the German Constitutional Court that the EU Recovery Fund is in breach of EU treaties and therefore violates the German Constitution. Any ruling in favour of the Court will restrict the European Commission from being able to independently raise capital in the future. The longer-term problems for the EU remain the thorny issue of debt union across the eurozone countries.

Analysts are however giving a more positive forecast for European growth over the next two years due to the acceleration in vaccine roll out supported by the €750bn EU Recovery Fund being implemented later this year and an expected €500m of unspent household savings being released into the retail market. The fiscal support on offer from the much EU heralded Recovery Fund is still far less than that required but analysts are suggesting a 3.6% growth for the eurozone in 2021.

The traditional value style of European stocks saw the Euro Stoxx 50 outperform may other leading indices with growth of 13.1% year to date to 10th May.

# *How has it gone so badly wrong for India?*



*On 23rd April India reported 332,730 new cases of Covid infection and a record 2,263 deaths. Hospitals were forced to stop admissions due to chronic oxygen shortages. Hospitals with desperately ill patients simply ran out of oxygen and had to resort to manual ventilation to keep people alive. The same pressure at the entrances to hospitals was happening at crematoriums.*

How has it gone so badly wrong for India, having done so well to first control the virus and start mass vaccination programmes for the world most populated country?

In early March India Health Minister Harsh Vardham declared that India was 'in the endgame' of Covid. India was exporting vaccines and helping neighbouring countries like Bhutan to full inoculation. With falling new infection rates to under 11,000 per day and death rates of under 100, India thought it had beaten the disease.

At the end of March elections took place in India in five states with 186m eligible voters. Political campaigning and mass rallies were allowed without safety protocols on social distancing or the use of face masks. Religious gatherings and festivals were also allowed with the now inevitable consequences. In March India played England in two cricket tests in front of a packed 130,000-seater stadium in Gujarat.

While the R rate soared, election campaigning continued along with religious gatherings. The over optimism of early success against the virus led to complacency among the people and authorities.

Within a month the country was in the grip of a massive second wave. By the second week of April the daily infection case count was over 100,000 per day and 1600 people lost their lives. Hospitals were overwhelmed and vaccines were being traded on the black market. These daily figures are now three times higher.

The much-praised Serum Institute of India, the world's largest viral producer confirmed it could not match demand. India placed an export ban on the Astra Zeneca vaccine being exported from the country. The USA is sending 60m doses to India over the next few weeks.

Like the rest of India, Delhi, Kolkata and Mumbai are in lockdown and the country is on the red zone travel list.

Not surprisingly the Indian stock market has been falling over recent weeks. The Bombay Stock Exchange Sensex Index stood at 49,849 on 1st March and on the 10th May was 49,502 a fall of -0.6%. Given the crisis the country is facing this is remarkable.

# *The Japanese stock market has reached values not seen for 30 years.*

Japan has handled the original Covid pandemic relatively well and a second national state of emergency at the start of January helped bring down the infection rate. Unfortunately, Japan is suffering a third wave resurgence of the virus prompting further lockdowns and restrictions.

Japanese stock market prices are reaching values not seen for the past 30 years. The Nikkei 225 crossed over the 30,000 point for the first time since August 1990. The characteristics that have favoured the stock market is that Japanese companies are high quality with low levels of debt, high cash balance sheets and stable and secure dividends.

The Bank of Japan has maintained its negative interest rates and increased its monetary easing policy. The weakening Yen has helped equities but the third wave of Covid infections has hit business confidence.

With the pound strengthening and Yen weakening the repatriated sterling gains for UK investors from Japan have been diluted by currency exchanges.

The general outlook for Japanese companies is very good as the world restarts to trade but we are concerned about the very low rates of vaccination roll out in Japan. Their vaccination rate per population as of 10th May was 3% while the UK was 74%. This situation is not helped by the fact that Japan has no vaccine manufacturing capacity of its own at present.

Japan's stock market is influenced by global trade and any factor influencing the levels of economic activity will have an impact. Since April we have seen the Nikkei 225 fall in value as the Asia region is confronted by high contagion rates, low vaccine roll out rates, and more lockdowns.

*Japanese stock market prices are reaching values not seen for the past 30 years.*

# *GDP in developing countries is forecasted to be around -8% lower by 2024.*

It is becoming clear that the world will emerge from the Covid crisis at differing pace. The availability of mass vaccination and government stimulus spending will ensure a two or even three speed recovery between the nations of the world. The high cost of vaccination programmes is leaving little left for aid and recovery initiatives.

Covid has certainly hit emerging markets hardest. The IMF is forecasting that GDP in developing countries will be around -8% lower by 2024 that it would have been without the pandemic. This compared to the average developed country that is forecast to suffer a -1% decline.

The MSCI Emerging Markets Index has been falling over the past 3 months due to the ongoing challenges over vaccination rates and also due to the Shanghai CSI 300 and Hong Kong Hang Seng falling as Beijing starts to withdraw stimulus. Unlike virtually all other economies that are investing in infrastructure and supporting their domestic economies with stimulus packages, low interest rates and quantitative easing, the Chinese have started to tighten their monetary policy. As China was first into and subsequently first out of the Covid crisis, the Chinese economy is further ahead and now facing overheating. This has resulted in money leaving the Chinese and emerging markets bond markets. This has also coincided with an increase in US bond yields. Investors can get higher returns in the West and do not need to venture to emerging markets.

The significant increase in Covid 19 cases in India has certainly hit the country's recovery. India had been leading the way in vaccine production through the Serum Institute of India mass producing virals for global export and free aid for Bhutan. Since late March India has seen an unprecedented increase in infection rates, hospitalisations and deaths. In Brazil the public health and political crisis is quickly becoming an economic one.

# *Early 2021 has been a tough period for fixed income investors.*

*Quarter one was a tough period for fixed income investors and particularly for government bond holders. Yields rose in most government bond markets as the roll out of vaccines improved the chances of an economic recovery sooner than previously expected. The largest yield rises were in the US and UK as they are making the greatest progress.*

Bond yields have therefore been in focus in the past few weeks as the US 10-year treasury yield rose to 1.75% on market expectations over US inflation and the Federal Reserve expected policy towards containing inflation.

While bonds yields have risen since the start of the year, in recent weeks some stability has occurred and yields have fallen to under 1.6% and continued to stay there. However, risks remain that US bond yields will be forced to rise as the year unfolds and this will then challenge both bond and equity markets.

The easing of nerves over inflation is perhaps a small victory for the Fed as it did not react to the original 10-year treasury yield spike and stood by its policy to only intervene once the recovery sees the US unemployment rate fall back to its pre-pandemic levels and only withdraw support when a sustained growth path is achieved.

The Fed has been clear that its monetary policy will be accommodating for the foreseeable future but observers are expecting inflation to cause policy makers to tighten sooner than they may want to.
A lot will depend upon whether the Fed will stick to its policy that price rises expected this year may prove to be only transitory and not lead to structural inflation with excessive wage demands. Every sign so far is that Jerome Powell and Janet Yellen will stick to their policy and look at employment rates before prices. Interestingly US unemployment rated rose from 6% in March to 6.1% in April.

There is evidence that price rises have started to emerge. Annual US inflation was recorded as 2.6% in March. This is a significant rise from February's 1.7%. This increase was however a result of oil prices which 12 months ago were exceptionally low. If oil and food were taken out then the 'core' inflation rate has not moved very much. The general feeling is that the US is heading for inflation over its 2% target. The market focus is firmly on the Feds outlook and its ability to navigate the difficult challenges of managing impending inflationary pressure while maintaining low interest rates.

From a portfolio point of view, we are conscious of the impact of rising yields will have on bond prices and particularly longer dated credit. We moved out of the majority of our long-dated credit in Q1 but wish to now reduce our US and UK government bonds exposure further and move our fixed interest holdings to short dated and index linked credit as this will cope with any future rises in bond yields better. We will maintain our strategic bond holdings.

The position over emerging market credit is more complex due to currency fluctuations, rising inflation and Covid infection rates. Higher US yields will put pressure on emerging market bond yields to also rise and result in a fall in prices.

*Covid has certainly hit emerging markets hardest.*

# *Property funds are offering improving returns, asset diversity and an alternative to bonds.*

The shift to online retail during the pandemic will continue and that sales in retail stores will not immediately return to pre pandemic levels quickly. Retail insolvencies have reduced the attractiveness of city centres and retail parks. It is expected that shop rental values will fall a further 20% over the next three years so that retail real estate offers poor value for investors.

In the short term, it is expected that office demand will remain subdued and that office rents will fall by 5% in many leading cities in 2021 particularly as much sub-let space will become available.

2020 saw a record demand for warehousing, driven by on-line sales and stockpiling ahead of Brexit. While this stockpiling will ease with time, demand has stayed strong this year and likely to get stronger. It is therefore expected that industrial rentals will grow by 2% each year for the next three years.

Analysts are suggesting a return of around 5% on UK commercial property in 2021could be expected. The industrial sector being the best performer with retail the weakest. In 2022 it is expected office space will also pick up.

Many well-known, established and popular UK property funds have been shut for transactions for the best part of a year. This situation known as 'gating' stops investors selling their holdings when asset prices are under threat in order to protect the fund and remaining investors from having to sell real estate assets at depressed values. The closure of these funds has now started to be lifted so that units in the fund can at last be traded.

In the past we have held so called 'bricks and mortar' funds of direct property holdings but due to the problems caused to investors by 'gating', we moved our property holdings to a land and property securities index fund which trades openly every day, avoiding the problem. We have not been investors in property funds for a while but are now happy to return on the back of improving returns, diversity and as an alternative to bond holdings. Property offers some protection against inflation.

It is against this background that we make our recommendations.

10th May 2021

# PORTFOLIO SELECTIONS

Our last Portfolio Edition 34 was researched and built in November and December 2020 when the outcome of the expected recession, the furlough programme extension, the vaccine roll out and Brexit were all unknown but important considerations. We positioned our portfolios for the expected equity growth on the back of recovery and in particular we retained our successful US and tech stock holdings. We added the iShares Clean Energy Fund that had performed particularly well in 2020 and was expected to continue to do so on the back of President Biden's US$2bn infrastructure and clean energy plan. We also maintained our long-dated gilt and credit holdings as an insurance against the recovery or vaccination roll out not going to plan. This was a distinct possibility at the time so we hedged this risk with some protection.

When the US 10-year treasury yields rose to 1.75% in late February our overweight exposure to US and tech stock as well as our new clean energy holdings lost money in a significant correction in value. Our long-dated gilts were in particularly impacted by duration risk due to the threat of future inflation eroding real yields and therefore fell in value. Our portfolios were hit by this unexpected correction more adversely than the relevant national averages. We took action to limit any future duration risk on our long-dated credit by recommending a fund switch to short dated and high yielding bond funds but retained our equity holdings as we expect a significant recovery will bring good returns to these holdings. For the period from February our portfolios have underperformed the respective national average benchmark. This underperformance will take a little time to recover but we expect the portfolios to do so, particularly with this rebalance now taking place. We are alert to the potential impact of rising inflation will have upon central banks policy positions. If US inflation races ahead of expectations and causes the Fed to signal an earlier than expected tightening of policy, the subsequent rise in bond yields and fall in bond prices plus the flight to the US$ will hit risk assets and particularly high-priced growth stock. Our expectations are that the Fed will seek to manage bond yields by additional purchasing and keep short term rates virtually zero.

With the now accelerating vaccine roll out in Europe and the opening up of the Eurozone economy, we think that European equity markets will respond with attractive growth. The EU Recovery Fund, whilst not as potent as its US equivalent will also aid the recovery. The leading corporations of Europe are benefiting from a post lockdown world and should therefore enjoy a recovery phase. We have therefore added a direct European equity fund to our holdings in Allianz Continental Europe Fund.

The Asian markets have shown a strong recovery from the lockdowns of last year. Countries like Australia, New Zealand and Singapore have been a leading example of effective lockdown strategy. We have retained our holdings in Asian markets but have reduced our positions in both China and emerging markets. This decision is due to the tightening of monetary policy in China and the expected slowing of growth, the knock-on effect in regional markets plus the differing degrees of vaccination rates and continued national and regional lockdowns still in place in many developing countries. We have retained our holdings in FSSA Greater China Growth but sold our positions in Baillie Gifford China We retain JPM Emerging Markets but at a reduced allocation.

We made a mistake in purchasing the iShares Clean Energy Fund in January. The timing was poor. This fund had enjoyed remarkably good returns having grown by 99% in the past twelve months. This whole sector has been growing in importance and is set to receive considerable backing from government spending on clean energy. The sector is seen as an attractive longer-term investment. The US 10-year treasury yield spike in late February prompted a sell off in tech stock and any highly leveraged growth stock. This hit the clean energy sector just after we had invested in it and resulted in a -26.18% fall in value in the three months of February, March and April. The iShares Global Clean Energy fund has proved to be exceptionally volatile and would now prefer a different access point to this market. We firmly believe that this sector is worth investing in. It represents along with artificial intelligence, the next industrial revolution. The global transition from oil and carbon fuel to electrical transport, wind, solar and wave power generation will be a major investment theme for government and corporations for several decades. We have decided to cut our losses, as US treasury and bond interest rates are expected to rise so may cause further volatility in this particular fund. We have partly reduced our overall allocation and have invested into sustainable energy through Guinness Sustainable Energy and Baillie Gifford Positive Change Fund. Both funds have strong track records, rated with more consistent and less volatile returns. My apologies to investors for a selection that has undermined returns recently.

We have reduced our holdings in Japan due to the recent poor fund returns mainly because of GB£ and ¥ currency exchange rates. The general outlook for Japanese companies is very good as the world restarts to trade. We are concerned about the very low rates of vaccination roll out in Japan. There vaccination rate per population as of 10th May was 3% while the UK was 74%. This situation is not helped by the fact that Japan has no vaccine manufacturing capacity of its own at present. We have retained but reduced our holdings in JPM Japan.

The US equity market is generally overvalued and many investors consider it expensive. We have held overweight positions in the US for over 15 years and this has served investors well. Due to Joe Bidens stimulus packages giving unprecedented levels of support to American households and businesses we expect the US economy to recover more than any other in 2021. Therefore, we are retaining our overweight exposure but have shifted some of the emphasis in our holdings from growth stocks to value stock in the form of the JPM US Equity Income Fund by reducing our holdings in the Baillie Gifford American Fund, Natixis Loomis Sayles US Equity and T. Rowe Price US Large Cap Growth.

We have returned to the global property securities market after a gap of some 18 months. The iShares Global Property Securities fund offers a developed worldwide real estate exposure. The commercial property markets have been hit hard by lockdown, online retail and home working. All factors that have had an impact upon demand and rentals, while warehousing has been the growth sector. With economies now re-opening the property market has picked up as it has been undervalued for the past year. An additional factor is that the bond market is not offering worthwhile returns so as an alternative to bonds, the property securities market should offer better returns.

Our specialist equity selections aim to give a broader sector diversity above geographic diversity to our portfolios. We have therefore looked at sectors we expect to do well going forward. We have retained and increased our holdings in First Sentier Global Listed Infrastructure due to the expected expansion in the infrastructure sector, the funds recent performance and its low volatility. We have reduced but maintained our exposure to the clean energy and sustainable energy markets with new holdings in Guinness Sustainable Energy and Baillie Gifford Positive Change Fund. We have reduced our holdings in Polar Capital Technology Fund as these funds holdings are highly valued and sensitive to treasury yield rate rises. Due to the potential of US inflation and yield rises we have invested into the Jupiter Financial Opportunities Fund, Polar Capital Global Insurance and JPM Natural Resources Fund. All funds we have held before in the portfolios. We expect a late cycle commodity rally on the back of electric cars, battery technology, clean energy and the demand for metals. These positions offer some additional inflation protection if needed. We feel that while equity markets are expected to rise, replacing our gold holdings with copper and other in demand metal makes sense.

We have increased our UK holdings. We have for a few years held underweight positions in the UK as the FTSE 100 underperformed other developed stock markets. The increase in our UK allocation is due to the rising expectations for the UK economy. The FTSE 100 has been long overlooked by international investors and is very much undervalued relative to other stock markets. The UK is expected to be one of the leading growth economies in 2021 and 2022. Our focus in the UK is mainly on the domestic market via the FTSE 250 index through both the Jupiter UK Mid Cap Fund and the Franklin Templeton UK Mid Cap Fund. While the Artemis Income Fund focuses on FTSE 100 dividend producing stock.

Our fixed interest holdings have moved to shorter dated durations. We have retained holding in the Vanguard global bond Index and the Royal London Short Dated Global High Yield Funds but have added some short-dated index linked holdings and short dated investment grade credit. These moves are to reduce the risk on yields of future inflation. These new holdings sit alongside our strategic bond holdings that offer a broad range of managed mandates.

As of the 6th May 2021, the best performing funds held in our portfolios over the past 6 months have been:

| | |
|---|---|
| Baillie Gifford Pacific | 14.86% |
| Aberdeen UK smaller Companies | 14.66% |
| Lindsell Train UK Equity | 13.01% |
| FSSA Global Listed Infrastructure | 11.37% |
| Baillie Gifford UK Equities | 11.30% |
| Natixis Loomis Sayles US Equity | 11.21% |

The regions and sectors that rebounded from the Covid crisis and continued to do well through 2020 and into 2021 due to large government stimulus, low interest rates, effective lockdowns and vaccination programmes where Asia, US and UK and this has resulted in strong equity returns.

As of the 6th May11th 2021, the poorest performing funds held in our portfolios over the past 6 months have been:

| | |
|---|---|
| Ninety One Global Gold | -22.12 |
| Vanguard Long Dated Gilt Index | -8.24% |
| M&G Macro Bond | -6.17% |
| iShares Global Clean Energy | -5.14% |
| Vanguard UK Government Bond Index | -4.94% |
| Vanguard US Government Bond Index | -3.42% |

In the main the above funds were chosen as safe haven assets in case of a damaging third wave fall off in global equities. Fortunately, this has not proved to be the case, but it could have occurred without a working vaccine and with high infection rates. The negative returns did drag performance. The US Treasury yield spikes of late February and early March hit the performance of our longer dated credit and US treasuries particularly.

As far as the 35th Edition of our portfolios are concerned, across all six portfolios, eighteen new funds have entered our selections while twelve funds have either been dropped or substituted. We have done this for several reasons. These being performance related, cost related, or that a fund has lost an analysis rating. There are also sectors that we no longer wish to invest in.

| The funds removed are: - | TER |
|---|---|
| iShares Global Clean Energy | 0.72% |
| M&G Global Macro Bond | 0.86% |
| Vanguard UK investment Grade Bond Index | 0.13% |
| Lindsell Train UK Equity | 0.71% |
| Vanguard US Government Bond Index | 0.17% |
| Baillie Gifford China | 0.78% |
| Baillie Gifford Pacific | 1.03% |
| Baillie Gifford UK Equity Alpha | 0.56% |
| Royal London Ethical Bond | 0.55% |
| Aberdeen Standard Life UK Smaller Companies | 0.99% |
| Jupiter Investment Grade Bond | 0.97% |
| Ninety-One Global Gold | 1.65% |

| The funds added are: - | TER |
|---|---|
| Royal London Short Duration Global Index Linked | 0.27% |
| Aegon Strategic Bond | 1.21% |
| Royal London Investment Grade Short Dated Credit | 0.24% |
| Royal London Short Duration Credit | 0.35% |
| Allianz Continental Europe | 0.82% |
| iShares Global Property Securities Equity Index | 0.28% |
| JP Morgan US Equity Income | 0.97% |
| Jupiter UK Mid Cap | 1.07% |
| Artemis Income | 0.97% |
| Baillie Gifford Positive Change | 0.79% |
| Franklin Templeton UK Mid Cap | 1.17% |
| Guinness Sustainable Energy | 0.95% |
| JP Morgan Natural Resources | 1.27% |
| Jupiter Financial Opportunities | 1.70% |
| Polar Capital Global Insurance | 1.10% |
| Schroder Asian Income | 1.04% |
| HSBC FTSE 100 index | 0.19% |
| Threadneedle American Smaller Companies | 2.05% |

*Collectively our six portfolios outperformed their respective benchmarks on 20 out of 33 occasions. This is our weakest relative performance against the national averages in 17 years.*

We are disappointed to report that at the time of writing, our six portfolios have performed very well compared to the relevant national Investment Association (IA) benchmarks over time periods over one year. However, our more recent relative performance has been hurt by our exposure to Clean Energy and Tech stock as well as long dated credit. The relative performance is measured over six time periods: - 3 Months, 6 months, 1 year, 3 years and 5 years. Collectively our portfolios outperformed their respective benchmarks on 20 out of 33 occasions which is an 61% competency.

Our performance is reported on the next page of this Outlook report as well as on our website **www.estatecapital.co.uk**

# PORTFOLIO PERFORMANCE

## The Estate Capital Investment Portfolios

The Estate Capital Investment Portfolios now offer six risk related investment strategies designed for medium to long-term investors seeking capital growth and income from a portfolio of leading investment funds. The individual funds that make up our diversified portfolios are selected on the quality of the fund manager and both the quality and consistency of past performance.

There is a wide range of asset classes across global markets available to investors. Our portfolios bring together a diversity of global equities, fixed interest securities, cash deposits, commodities, precious metals, infrastructure and property. The global balance of investments across differing asset classes is the primary driver of portfolio returns.

Our asset allocation is built using a fully modelled asset allocation tool. This system is powered by research from actuaries Willis Towers Watson and investment data from Financial Express.

This modelling system offers us great accuracy to build and test the most efficient blend of assets for our six model portfolios. Each new edition of our portfolios is published on our website with fact sheets, performance figures, risk ratings and range of returns.

We benchmark and publish our portfolio performance against the most relevant national averages and are happy to say that our selections have enjoyed an enviable track record.

*The global balance of investments across different asset classes is the primary driver of portfolio returns.*

## Cumulative Portfolio Performance from 7th May 2021.

Below are the past five year's gross investment returns for each of our portfolios from 7th May 2021.

| *Portfolio* | *6 months* | *1 year* | *2 years* | *3 years* | *5 years* |
|---|---|---|---|---|---|
| Cautious | 0.87% | 8.37% | 8.52% | 12.15% | 30.86% |
| Conservative Alpha | 2.17% | 12.25% | 13.03% | | |
| Balanced Beta | 5.01% | 14.57% | 11.99% | 15.20% | 43.51% |
| Balanced Alpha | 6.38% | 21.60% | 21.51% | 25.11% | 62.91% |
| Speculative Beta | 7.73% | 19.58% | 16.82% | 20.41% | 58.14% |
| Speculative Alpha | 4.23% | 20.69% | 20.56% | 25.87% | 72.97% |

## Discrete Portfolio Performance from 7th May 2021.

Below are the gross investment returns for each of our portfolios for each 12-month period over the last five years from 7th May 2021.

| *Portfolio* | *2020* | *2019* | *2018* | *2017* | *2016* |
|---|---|---|---|---|---|
| Cautious | 8.37% | 0.13% | 3.34% | 5.49% | 10.61% |
| Conservative Alpha | 12.25% | 0.69% | | | |
| Balanced Beta | 14.57% | -2.26% | 2.87% | 6.08% | 17.43% |
| Balanced Alpha | 21.60% | -0.07% | 2.96% | 8.82% | 19.66% |
| Speculative Beta | 19.58% | -2.31% | 3.08% | 6.60% | 23.20% |
| Speculative Alpha | 20.69% | -0.11% | 4.41% | 9.85% | 25.10% |

The value of investments can fall as well as rise. Past performance is not a guide to future performance. Cumulative and discrete performance charts show % growth from 7th May 2021 calculated using bid prices with income reinvested into the fund net of tax.

## Asset Allocation June 2021 - Edition 35

| *Portfolio* | *Risk* | *Money Markets* | *Fixed Interest* | *Property* | *UK Equity* | *US Equity* | *Europe Equity* | *Asian Equity* | *Japan Equity* | *Global Equity* | *Other Assets* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cautious | 3 | 17% | 51% | 3% | 4% | 7% | 2% | 3% | 1% | 5% | 7% |
| Conservative Alpha | 4 | 15% | 40% | 4% | 7% | 9% | 2% | 6% | 1% | 6% | 10% |
| Balanced Beta | 5 | 10% | 32% | 4% | 11% | 12% | 2% | 6% | 2% | 11% | 10% |
| Balanced Alpha | 5 | 6% | 29% | 3% | 9% | 15% | 3% | 8% | 1% | 11% | 15% |
| Speculative Beta | 7 | 5% | 26% | 4% | 12% | 16% | 3% | 7% | 2% | 11% | 14% |
| Speculative Alpha | 8 | 4% | 17% | 4% | 11% | 17% | 3% | 11% | 2% | 14% | 17% |

## Perspective Range of Return & Volatility

| *Portfolio* | *Risk* | *Return* | *High* | *Low* |
|---|---|---|---|---|
| Cautious | 3 | 2.43% | 16.28% | -11.43% |
| Conservative Alpha | 4 | 3.02% | 20.35% | -14.31% |
| Balanced Beta | 5 | 3.62% | 24.49% | -17.25% |
| Balanced Alpha | 6 | 4.19% | 28.46% | -20.08% |
| Speculative Beta | 7 | 4.74% | 32.27% | -22.79% |
| Speculative Alpha | 8 | 5.31% | 36.19% | -25.57% |

## Investment Ratios

| *Portfolio* | *Risk* | *Beta* | *Alpha* | *Sharpe Ratio* | *Info Ratio* |
|---|---|---|---|---|---|
| Cautious | 3 | 0.94 | 0.07 | 0.11 | 0.88 |
| Conservative Alpha | 4 | 0.70 | 0.09 | 1.53 | 0.64 |
| Balanced Beta | 5 | 0.95 | 0.06 | 0.18 | 0.95 |
| Balanced Alpha | 6 | 0.79 | 0.23 | 0.48 | 0.88 |
| Speculative Beta | 7 | 0.91 | 0.05 | 0.30 | 0.96 |
| Speculative Alpha | 8 | 0.89 | 0.23 | 0.49 | 0.87 |

*Maximise your returns with a level of risk you’re entirely comfortable with.*

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