Economic & Political Roundup

Monthly roundup | Investment companies | August 2021

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A collation of recent insights on markets and economies taken from the comments made by chairs and investment managers of investment companies – have a read and make your own minds up. Please remember that nothing in this note is designed to encourage you to buy or sell any of the companies mentioned.

Roundup

While inflation concerns are still very much at the top of everyone's minds, investors can't help but feel a bit more optimistic after the misery of this time last year. Demand is still bouncing back and vaccination programmes are still going strong. 29.4% of the world's population has now received at least one dose of a COVID-19 vaccine, while 15% are fully vaccinated according to Our World in Data. In the UK, savers have been given a much-needed boost of confidence.

Global

Inflation still a concern but optimism is contagious

James Dow and Toby Ross, managers of Scottish American, mull the idea that rapidly recovering demand could lead to a sustained bout of inflation, which is already evident from looking at shortages of building materials.

F&C's Paul Niven, however, notes that policymakers and some investors think current rises in inflation are likely to be transitory and that pricing pressures will dissipate in coming quarters.

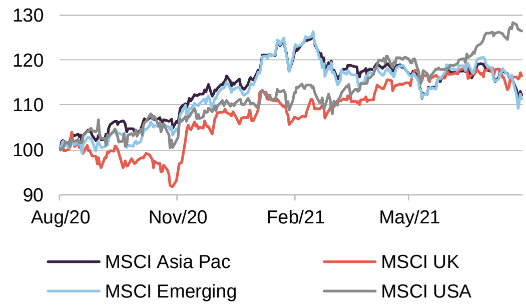
Gregor Stewart, chairman of Alliance Trust, says the pandemic crisis is far from over and so focusing on stock picking over macro factors remains more important than ever.

Exchange rate	31/07/21	Change on month %
GBP / USD	1.3904	0.5
USD / EUR	0.8427	(0.1)
USD / JPY	109.72	(1.3)
USD / CHF	0.9059	(2.1)
USD / CNY	6.4614	0.1

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/08/2020 to 31/07/2021



Source: Bloomberg, Marten & Co

Indicator	31/07/21	Change on month %
Oil (Brent)	76.33	1.6
Gold	1814.19	2.5
US Tsy 10 yr yield	1.2223	(16.7)
UK Gilt 10 yr yield	0.565	(21.1)
Bund 10 yr yield	-0.462	121.1

Source: Bloomberg, Marten & Co

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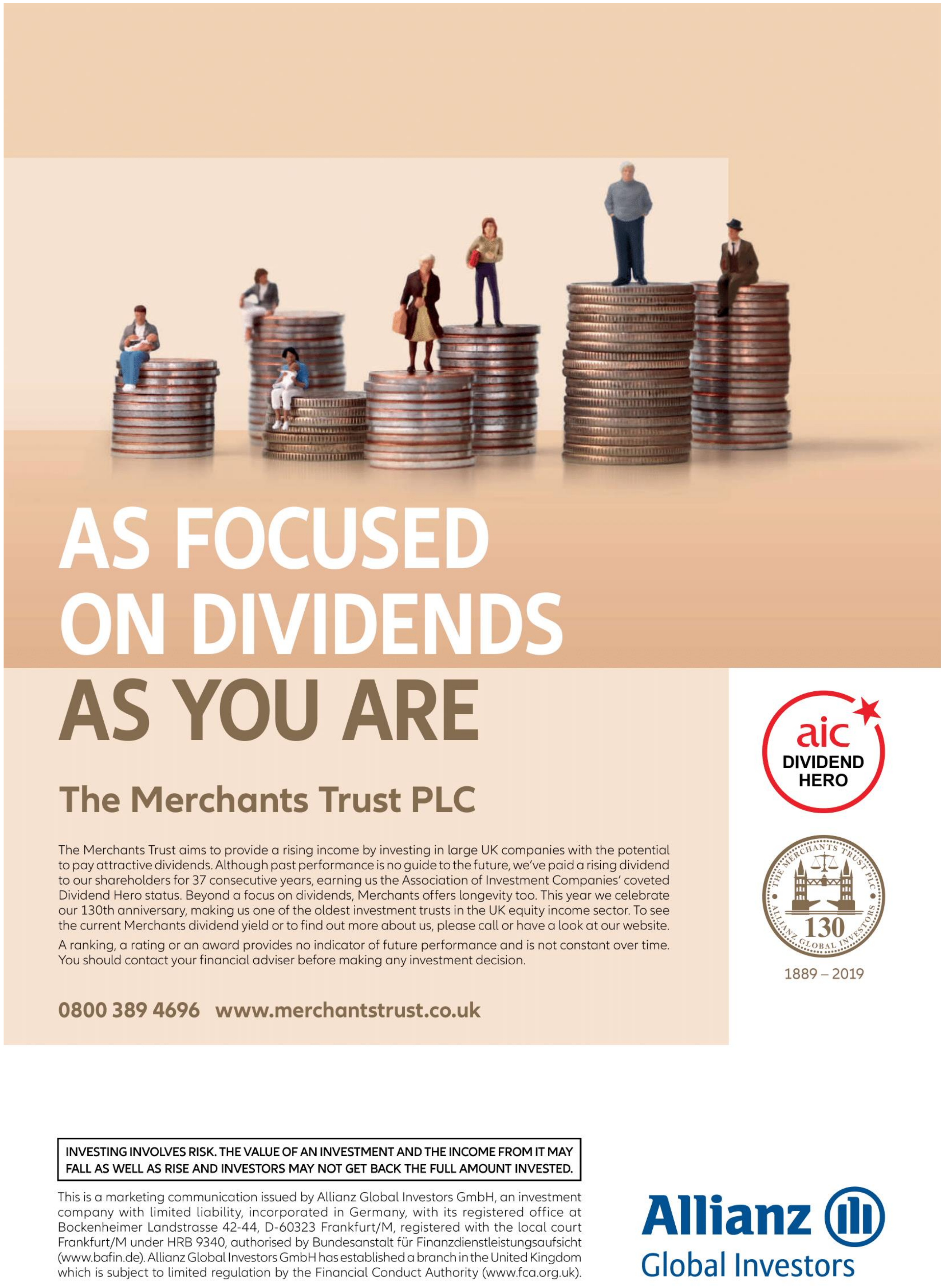
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July's highlights

Global (continued)

Another growing concern for global economies is supply issues.

Brunner's Matthew Tillett points out that companies with highly cyclical earnings profiles have continued to make the strongest gains, thanks in part to a massive leap in earnings expectations from the depressed 2020 level.

Herald's chair, Tom Black, says supply chain issues are our greatest short-term concern. Potential over-ordering for this reason may now be flattering short term demand too.

UK

Law Debenture's managers, James Henderson and Laura Foll, believe the relationship between earnings upgrades and share price performance is strong and has been a more powerful factor in investors' minds than the growing concerns around the pick-up in inflation.

An uplift in sentiment has been good news for share prices and M&A.

Angus Gordon Lennox, chair of Aberforth Split Level Income, says there is genuine confidence that economic activity is rebounding, as investment and consumption increase across the world and that this optimism is reflected in rising share prices and an uptick in the frequency of M&A deals.

The managers of Aberforth Smaller Companies highlight abundant evidence of inflationary pressures such as rising consumer prices and commentary from various companies.

BlackRock Throgmorton's chairman, Christopher Samuel, thinks that the pandemic will have far reaching consequences for many years to come and will change how companies operate and how people interact.

The manager of SVM UK Emerging notes a flow of new business models is disrupting established businesses through new services or innovative technology.

Douglas McDougall, chair of Independent Investment Trust, agrees the most immediate threat to markets is unexpectedly high inflation, but in the longer term the problem of global indebtedness resulting from the financial crisis and the pandemic poses a threat to the stability of the global financial system.

The success of the UK's vaccination programme has given savers a boost of confidence.

The managers of Artemis Alpha feel the rapid roll-out of vaccination programmes across many developed countries has improved sentiment, creating expectations for a strong recovery as excess savings start to be channelled back into the economy.

Miton UK Microcap's chair, Andy Pomfret, says recent trends align with those of earlier decades, when the mainstream UK indices outperformed the US exchange for an extended period, and the share prices of UK microcaps outperformed substantially.

Flexible Investment

Despite a strong recovery, all eyes are on inflation.

Nick Greenwood and Charlotte Cuthbertson, managers of Miton Global Opportunities, have enjoyed the sugar rush triggered by the recovering economy but say all eyes are now on whether inflationary trends are transitory and if central banks are minded to remove the punchbowl.

The manager of JPMorgan Global Core Real Assets says the way we work, live and consume energy is changing and this impacts the investment landscape and presents new and exciting opportunities in the real asset market.

Renewable energy infrastructure

The renewable energy sector is going through paramount changes as economies aim towards net zero emissions.

Shonaid Jemmett-Page, chairman of Greencoat UK Wind, is encouraged by the Prime Minister's ten-point plan for the 2050 net zero emissions target.

The managers of Gore Street Energy Storage highlight changes to renewable energy market regulations and what they will mean for the future of the sector.

Other

We have also included comments on **Japan** from Atlantis Japan Growth; **Asia Pacific** from Invesco Asia and Aberdeen New Dawn; **biotech and healthcare** from BB Healthcare; **commodities & natural resources** from BlackRock Energy & Resources Income and Geiger Counter; **Technology & Media** from Polar Capital Technology and Allianz Technology; **financials** from Polar Capital Global Financials; **debt** from Henderson Diversified Income and TwentyFour Income; **leasing** from Amedeo Air Four Plus; **infrastructure** from Sequoia Economic Infrastructure Income; **infrastructure securities** from Premier Miton Global Renewables; **environmental** from Jupiter Green; **royalties** from Hipgnosis Songs and **property** from SEGRO, Primary Health Properties, Custodian REIT, BMO Real Estate Investments, Unite Group, Capital & Counties and Schroder European Real Estate.

Global

(compare global funds **here**)

James Dow and Toby Ross, managers of Scottish American - 30 July

Markets have short memories. A year ago, the fear was a permanent collapse in demand. As we've discussed above, this demand is now evidently recovering - and so now the concern has turned to whether meeting a rapid increase in demand for all sorts of products and services might unleash a sustained bout of inflation. Indeed, this is already visible from looking at bottlenecks in freight markets, or shortages of building materials.

We don't think we have much to add on what the future path of inflation may be - and we'd caution against trusting those who express too much confidence around this. However, we do strongly believe that over the long run the best defence is likely to be investing in companies where, due to strong underlying demand for their superior products and services, profit and dividend growth is likely to run significantly ahead of whatever the CPI figure might be. Finding these companies continues to be our focus, and to us it seems that the opportunity set is only getting larger and more exciting.

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Paul Niven, manager of F&C - 26 July

We entered the year with optimism that the strong positive momentum in the economy and corporate earnings would persist. Over the first six months, growth expectations continued to rise and stock analysts upgraded their earnings outlook at a record pace. This exceptional earnings momentum, along with the continued supportive policy measures, helped to propel equity markets to new record highs.

The expectation of a resurgent global economy, driven by global progress on the rollout of vaccinations and the reopening of developed economies, led to a sharp rise in commodity prices as investors backed the theme of reflation. Indeed, supply shortages and a sharp increase in demand drove a greater than 50% rise in the price of oil. Rising commodity prices, combined with easy monetary policy and rapidly recovering economic activity, stoked inflationary concerns. Indeed, inflation in the US rose sharply, increasing 5% over the year.

Expectations of a buoyant global economy and rising inflation led to a rise in longer dated interest rates, though absolute levels remain exceptionally low. Indeed, a key debate relates to the outlook for inflation. Thus far, rises in inflationary pressures have been largely attributed to supply pressures, a number of which relate to disruptions in the global supply chain. Policymakers, and most investors, are assuming that current rises in inflation are likely to be transitory and that pricing pressures will dissipate in coming quarters. But the extent of monetary largesse and the enthusiasm with which deficit spending has been embraced by policymakers may have tilted the balance of risks on a structural basis towards modest rises in inflation, albeit within an environment of continued low interest rates.

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Gregor Stewart, manager of Alliance Trust - 23 July

Although great progress has been made in some countries, vaccination globally is uneven and new variants of the virus mean the Covid-19 crisis is far from over. Extremely low interest rates and massive fiscal stimulus by governments are helping to generate an economic recovery, but they could also lead to a sustained rise in inflation. It's equally possible that the recovery could falter and inflationary pressures abate if measures to control the virus lead to new restrictions on economic activity. Given the risks and wide range of potential outcomes, we believe the best results will be achieved by focusing on stock picking rather than trying to time markets and macro factors. If the recovery continues to broaden out, we believe it will provide attractive opportunities for our stock pickers to continue adding value.

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Matthew Tillett, manager of Brunner - 21 July

On the surface, global equity markets have ploughed a steady course upwards since the start of the Trust's financial year in December. A line chart of the MSCI All Country World Index - a broad proxy for global stocks - shows almost uninterrupted gains of 9.2%1. The seeming ease of this ascent belies a more complex picture underneath.

Early November saw the election of President Biden in the US, followed swiftly by news that the Pfizer/BioNtech COVID-19 vaccine trial had proved highly effective. In combination, these events drove a sharp rotation in equity markets. Companies which had all but ceased operating in lockdown saw their share prices skyrocket immediately in the expectation of a quick return to normality. Travel operators, leisure companies and hotels were some of the most obvious beneficiaries. Other cyclical sectors such as banks and energy also recovered.

Equity markets have been trying to process the implications of economic reopening ever since. At a sector level, companies with highly cyclical earnings profiles have continued to make the strongest gains, thanks in part to a massive leap in earnings expectations from the depressed 2020 level. Over six months, Energy and Financials have risen over 20% each, with Materials adding 18%. More defensive sectors like Consumer Staples, Health Care and Utilities are almost flat by comparison.

Reopening has not been universally smooth. Reported links between the AstraZeneca vaccine and a higher rate of blood clots further delayed vaccine rollouts in Europe, coupled with initial disputes over contract terms. Vaccine hesitancy in some nations, as well as new variants of the COVID-19 virus, have further slowed progress. The latest Delta variant of COVID-19 appears to spread faster, although vaccinations remain effective against it. Overall, progress in developed countries such as the US and UK has been far faster than that of developing ones, like India.

Where restrictions are lifting, pent-up demand is bringing consumption back to, and in some cases above, levels seen before the pandemic. At the same time, resurgent demand is contending with lower supply of raw materials, amidst ongoing COVID-19 related supply chain disruptions. The resulting squeeze is driving up prices across the board. Lumber and copper both reached historic highs in recent months, whilst oil prices have fully recovered to pre pandemic levels

Inflation data are starting to reflect this. In May, consumer price inflation in the US and UK reached 5.0% and 2.1%, respectively. Infrastructure plans from central government to "build back better", whether in the US, UK or Europe, only add further fuel to expectations that economies will continue to run hot. For now, monetary policy remains accommodative with central bankers viewing the spike in prices as "transitory". Even so, speculation is growing that support measures may start to be tapered later this year.

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Tom Black, chairman of Herald - 20 July

The period has continued to be overshadowed by the Covid pandemic. Whilst last year our discussions with management focused on the mass transition to working from home and furlough schemes, this year they have focused on the supply chain. There have evidently been changes in consumer behaviour as those still in work have reduced expenditure on holidays, socialising and restaurants, and spent more on home improvements, computer games, internet TV subscriptions and the related devices. The technology sector has obviously benefited from this. There has also been a sharp rise in consumer savings. The latest reported ratio was 19.9% in the UK versus a range of 5-10% pre-Covid, while in the US it is now 12.4% which is double the pre-Covid level.

This suggests that the increase in technology spending may not reverse too much when more normal behaviour resumes. Supply chain issues are however, our greatest short-term concern. Semiconductors have seen the most publicised and acute shortages with those used in the automotive industry a particular issue, but the problem is much wider than that. For example, there are huge increases in the cost of containers particularly from East to West and also delays. Therefore, some manufacturing companies might disappoint in the short term, but our long-term investment philosophy remains. We expect that boards the world over will be more focused on security of supply with increased inventory and more local or dual sourcing. Potential over ordering for this reason may now be flattering short term demand too. We also expect Governments to be thinking far more than they have historically, about strategically important products relating to basic requirements such as vaccines, food and security.

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UK

(compare UK funds **here**)

James Henderson and Laura Foll, managers of Law Debenture - 30 July

The vaccination rollout which has allowed the economy to slowly reopen has been a positive background for equities. The results from companies have, in aggregate, been at the top end of investor expectations. The forward guidance by companies has been supportive of further upgrades in earnings projections. The relationship between earnings upgrades and share price performance is strong. It has been a more powerful factor in investors' minds than the growing concerns around the pick-up in inflation and any consequent future increases in interest rates. Therefore, in spite of concerns around the economy it has been a good period for growth in assets and earnings.

During the first half of the year we have been net buyers of equities as we respond to the opportunities that have arisen. The weighting in the banking sector, for instance, has been increased as they are benefitting from the increased economic activity with their provisions for bad debts proving overly cautious.

The valuation of the UK market is low in an international context as the UK market has been out of favour with international investors for a number of years as a result of concerns over politics and Brexit. These concerns have receded and sterling has stabilised, which has led to a return of investor interest. This has not just been confined to portfolio managers but also to corporates, where takeover activity has increased.

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Angus Gordon Lennox, chairman of Aberforth Split Level Income - 28 July

I am conscious that the virus, in its several variants, is still very much with us and continues to affect how we live and do business. Nevertheless, it does seem that the vaccines have moved the world from apparent disaster to recovery in a remarkably short period of time. There is genuine confidence that economic activity is rebounding, as investment and consumption increase across the world. This optimism is reflected in rising share prices and an uptick in the frequency of M&A deals. In addition, for the first time in several years, UK stockmarkets are not being left behind by their international peers. While challenges remain under the terms of the trade deal with the EU, political uncertainty has diminished.

An emerging consideration which has been widely commented upon is the potential return of inflation. Evidence of inflationary pressures abounds at present, but it is unclear whether this is a temporary or lasting phenomenon. If it proves more than transitory, it could herald a change in market leadership away from the highly valued growth stocks that have flourished under the "lower for longer" interest rate environment since the global financial crisis. Such a development could be helpful.

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Managers of Aberforth Smaller Companies - 27 July

The vaccines have been a catalyst for the reappraisal of this "Britishness" and economic cyclicality, which has boosted the share prices of value stocks. The value style has also benefited from concerns about inflation. Growth stocks, whose valuations are skewed to cash flows generated in the more distant future, are more sensitive than value stocks to increases in discount rates and bond yields. Therefore, to the extent that higher inflation – whether actual or expected – raises bond yields, value tends to benefit relative to the growth style.

Evidence of inflationary pressure is abundant at present. Consumer prices are rising at 3-5% per annum in major western economies, while various gauges of inflation expectations have also risen to their highest levels for several years. These top-down measures are corroborated by commentary from many companies. Second order effects of the pandemic are raising raw material prices and, with some teething trouble from the Brexit trade deal, are constraining supply chains. These may be considered temporary consequences of the pandemic, but they are happening against the background of a continuation of extraordinary monetary policy, massive growth in money supply and trillion-dollar fiscal programmes in the US. In this context, it is somewhat puzzling that government bond yields have not risen further, but the inertia that comes with the conditioning of three decades of disinflation is considerable.

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Christopher Samuel, chairman of BlackRock Throgmorton - 23 July

COVID-19 has clearly damaged the global economy in the short term and disrupted our way of life. There is little doubt that its impact will have far reaching consequences for many years to come and will change how companies operate and how people interact. In response to the pandemic, governments have deployed fiscal stimulus measures and monetary easing the like of which has not been seen in modern times.

More recently, central banks in the US, Europe and the UK have indicated that they will continue with this supportive policy, in the near term at least, and appear willing to allow the global economy and inflation to run a little hotter as the world recovers from COVID-19. This should provide a helpful economic backdrop and one within which high-quality growth companies can continue to prosper.

The pandemic has accelerated changes in and we expect that the financially strong businesses will thrive and take greater market share as weaker competitors fall.

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Manager of SVM UK Emerging - 14 July

The period under review began near the low point for the stockmarket, which reflected the height of investor fear about the pandemic. The bounce in many growth shares was sharp, as it was clear that many companies could quickly adapt their business model to benefit from the change in consumer behaviour. Goods and services that could be purchased online saw increased demand, with a greater interest in sustainability, resilience and the home evident.

New business models are emerging that disrupt established businesses, often winning their customers through new services or innovative technology. But because many young businesses fail it is important to be rigorous in selection and invest only when their business model is proven. Although it is innovation that drives these businesses, they can appear in very traditional sectors: food, legal services and speciality chemicals. They can also be in established businesses that pivot to change the way they do things, perhaps going from selling product as a one-time sale with some after-market support, on to a recurring annual software as a service model. What that achieves in quality and visibility of income streams can create dramatic growth in long term value.

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Douglas McDougall, chairman of Independent Investment Trust - 9 July

With both central banks and governments committed to stimulative policies, the immediate outlook for economic growth appears bright. This is reflected in the fact that many of the world's stockmarkets are trading close to their all time highs and at levels of valuation that are stretched by historical standards. This is less true of the UK than of other countries, but it is unlikely that the UK would escape a general setback in markets. The most immediate threat to markets appears to be that of unexpectedly high inflation becoming embedded, but in the longer term the problem of global indebtedness resulting from the financial crisis and the covid pandemic also poses a threat to the stability of the global financial system. These concerns counterbalance the optimism we feel about the long term prospects of the businesses we own.

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John Dodd and Kartik Kumar, managers of Artemis Alpha - 6 July

2020 was an extraordinary year in stock markets, characterised by immense volatility. Asset prices declined sharply in March when the proliferation of coronavirus became clear. Markets bottomed on 17 March, which happened to be the day that the UK entered its first lockdown. This was as good a reminder as any that the economy does not predict the market; the market predicts the economy.

Central bank commitments to low interest rates and creating liquidity, combined with widespread fiscal support to incomes impacted by stay-at-home restrictions, provided a very positive environment for stocks. November's positive vaccine trial results offered a welcome signal that the duration of the pandemic would be limited. In recent months, the rapid roll-out of vaccination programmes across many developed countries has improved sentiment further, creating expectations for a strong recovery as excess savings start to be channelled back into the economy.

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Andy Pomfret, chairman of Miton UK Microcap - 6 July

The yield on government debt has progressively fallen over the decades, which has been a tailwind for the share prices of major technology stocks, growth equities and other long duration assets. Yet over recent months, the prior trend appears to have been breaking down. Whilst global stock markets have continued to rise this year, the share prices of UK microcaps have tended to outperform ahead of most others.

The recent trend aligns with those of earlier decades, when the mainstream UK indices outperformed the US exchange for an extended period, and the share prices of UK microcaps outperformed substantially. Whilst we shouldn't necessarily expect UK microcaps to outperform every year, this sector appears well-placed for a period of premium returns.

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Japan

(compare Japan funds **here**)

Noel Lamb, investment advisor for Atlantis Japan Growth - 8 July

The most recent Japan economic data have been encouraging, with the manufacturing economy returning to pre-pandemic levels and trade proving to be robust. The Bank of Japan continues to run a loose monetary policy and corporate profit expectations for financial year ended 30 April 2022 suggest a healthy rebound followed by stable expansion. Meanwhile Japanese equities offer attractive value in terms of PER, PBR and dividend yield relative to other major developed markets. However, risks are evident and they may temper optimism for the medium term. In particular, a shortage of semiconductors and a significantly depressed service economy threaten to curb growth. At the time of writing, Japan is still battling Covid-19 and has reimposed states of emergency in several prefectures, while the rate of vaccination has been alarmingly low. Geopolitical tensions in northeast Asia are also still lurking in the background. On balance, however, the lead adviser, Taeko Setaishi, believes that the rebound in corporate earnings during the financial year to March 2022 will underpin the Japanese equity market.

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Asia Pacific

(compare Asia Pacific funds **here**)

Ian Hargreaves, manager of Invesco Asia - 20 July

Despite the recent correction, the valuation of the overall market is still high, and history tells us that future returns are likely to be lower as a result. However, it is important to recognise that there are several mitigating factors. Firstly, the composition of the market has gradually shifted over time towards more asset-light businesses. This explains 20% of the valuation re-rating since 2015. Secondly, there is currently an unusual divergence of valuation across the with some sectors trading well above long term averages but others at or below long-run averages. The market broadly divides between those that have clearly benefitted from the pandemic and those that have seen a greater negative impact on profitability.

This divergence appears increasingly hard to justify and is a source of opportunity for the trust. We have seen extraordinary levels of fiscal and monetary policy support in developed markets, particularly the US. As rising vaccination rates allow more countries to "re-open", it is reasonable to expect a period of better global economic growth, stronger than the anaemic growth that has characterised much of the post Global Financial Crisis period. This implies a broader earnings improvement across the market that we would expect to lead to a narrowing of the valuation discrepancies. There is some evidence in the last few months that this process has begun.

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Donald Workman, chairman of Aberdeen New Dawn - 15 July

More than a year on, we remain in the shadow of Covid-19. Although the situation in the West has been improving, Asia is now battling new and more virulent strains. This is evident from the previous success stories of Singapore, Taiwan and Vietnam, which have re-imposed curbs to counter fresh outbreaks. India, meanwhile, has yet to fully contain its latest wave. All of these developments may delay border re-openings and dampen economic activity, which would exacerbate the uneven recovery. Vaccinations are crucial, but supply and logistical issues mean inoculating a critical mass of populations will take time.

Beyond the pandemic, governments face the challenge of maintaining support for their economies while balancing risks of higher prices and rising debt. Fortunately, most Asian countries have solid fiscal fundamentals that provide room for further stimulus if needed. Reassurance from major central banks to continue their accommodative stances should provide further comfort. The geopolitical situation remains a perennial concern, especially US engagement with China.

While these are very real risks, it is worth remembering that Asia remains largely well-positioned. Knowledge about the virus is more advanced from a year ago. Vaccines are increasingly available. Most governments and companies should be better prepared this time round. Accordingly, the economic disruption from the new outbreaks should be less severe than before.

Looking further ahead, the factors that make Asian companies such attractive long-term investments remain intact. Themes such as technological change, digital adoption and sustainability, may have been boosted by the pandemic but are unlikely to reverse course. At the same time, the evolving aspirations of more affluent societies will fuel demand for everything, from homes and smartphones to insurance and brokerage services.

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Flexible Investment

(compare flexible investment funds **here**)

Nick Greenwood and Charlotte Cuthbertson, managers of Miton Global Opportunities - 19 July

The pandemic has meant that we have not been undertaking our usual tours of the country updating investors. Whilst this activity continued via Zoom and webinars, we look forward to seeing people face to face again before long. Many existing trends have been accelerated by the arrival of Covid-19. Increased interest in investment trusts by self-directed investors in lockdown with their portfolios is one.

Environmental, Social and Governance concerns, including Climate Change, are an ever-growing part of investment. We are also seeing an increase in focus from our underlying holdings on environmental and social concerns. Many trusts, especially in areas such a property, where they have to deal with increasing environment legislation are already working hard to improve their credentials. We are very aware that trusts perceived to be falling behind in ESG will be harshly treated by investors and so this makes up part of our risk assessment when considering investments.

Looking forward we are hopeful that vaccine rollouts significantly reduce the challenges of the Covid-19 pandemic. We are concerned about what the long-term effects will be from the vast liquidity that has been pumped into the financial system. We have enjoyed the sugar rush triggered by this stimulus combined with a recovering economy. All eyes are now on whether inflationary trends are transitory and if central banks are minded to remove the punchbowl.

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Manager of JPMorgan Global Core Real Assets - 8 July

There are many aspects which help define what 'core real assets' are, but one is that they provide essential services which make up the key building blocks and networks of society. As society changes, so will the definition, use of and opportunities within the core real asset market. Societal change is afoot, accelerated by the COVID-19 pandemic and by the adoption of new technologies. The way we work, live and consume energy is changing and this impacts the investment landscape and presents new and exciting opportunities in the real asset market.

Notwithstanding these changes, core real assets are as essential as ever to investors' portfolios. With traditional fixed income yields still near all-time lows, core real assets can help investors seeking income and diversification. In addition, core real assets tend to be inflation sensitive assets with opportunity for upside participation, given the pass-through structure of many of the underlying contracts. Therefore, to the extent an economic recovery leads to levels of inflation closer to historical norms, it should be positive for asset class returns.

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Biotech and healthcare

(compare biotech and healthcare funds **here**)

Paul Major and Brett Darke, managers of BB Healthcare - 19 July

Healthcare is not immune to the Damoclean turpitude of market perceptions regarding political risk, especially when it comes to drug pricing and the health insurers, for whom the disruption wrought by the pandemic has proven a rewarding respite.

However, we remain of the view that, with a contested Congress and an ambitious agenda that is being prioritised ahead of healthcare, the risks of a significant negative surprise during this two year period before the 2022 mid-term elections is low. Thereafter, it probably becomes even more difficult to pass any contentious legislation as the Democrats very narrow majority in the House may be lost.

Regarding the pandemic, expectations are for a normalisation in procedure volumes toward the end of the year and this seems to be well priced, in terms of both valuations and consensus expectations. Currently, this seems a realistic goal since vaccines appear sufficiently efficacious to mitigate the risk of novel variants causing additional spikes in the COVID-19 hospitalisation and death rates (the only things that matter to our minds). Second-generation booster vaccines more finely attuned to these variants are likely to be available before year-end, but we may not need them.

Although utilisation of currently available surgical capacity should continue to improve, we continue to think it unrealistic that system-wide capacity will return to 2019 levels (recall the NHS for example has removed some 20,000 beds to allow for more distancing between patients) until the pandemic is firmly in the rear-view mirror.

With this in mind, backlogs for less urgent procedures may take some time to clear (we think the NHS waiting lists will continue to rise) and we must also factor in the human element: if you were elderly and now enjoying some freedoms having been double-jabbed, would you really want to rush to hospital for that hip or knee op and the attendant 6+ weeks of resting at home? We continue to take a cautious approach to procedural exposure for the Company, focusing on the high acuity (i.e. urgent care) end of the spectrum and eschewing minor procedures and orthopaedics.

We would broadly agree with the notion that the second half of the year could prove more tricky for equity investors than H1 2021 has been. Within this though, healthcare feels well placed to us. The restrictions impacting us all are slowly abating and the innate demand for healthcare services is undiminished. As such, we can be very confident in the broader positive fundamental outlook for healthcare during H2 2021 and beyond and as such, we do not expect healthcare to underperform the wider market in the manner that it did during the first half of the year.

It bears repeating that our strategy of investing into "healthcare change" remains a powerful and compelling one. Healthcare continues to be the secular growth story of our age; there are ever more people and they are ageing. More and more countries are becoming developed economies and scientific progress continues to open up new avenues to relieve the burden of human suffering, raising expectations of what products and services will be available to them.

However, society needs to pay for all of this and the current model is neither easily scalable nor financially sound. If we cannot bend the cost curve and change the delivery paradigm, the services will need to be cut or the system will go bankrupt. Ergo, healthcare must change. There is no alternative. Moreover, the tools, products and services to re-imagine healthcare already exist and can be accessed through the public equity realm, creating a persuasive equity opportunity.

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Commodities & natural resources

(compare Commodities & natural resource funds **here**)

Tom Holl and Mark Hume, managers of Blackrock Energy & Resources Income - 28 July

The recovery in economic activity across the world – in particular in the US and China – has been strong, driven by the potent combination of pent-up demand and government stimulus. For context, the fiscal stimulus response in the US since the start of the COVID-19 pandemic has, according to some calculations, been around four times that seen during the 2008 global financial crisis to counter a negative impact to the economy that was only one quarter of the magnitude. This has created a surplus of demand relative to supply across the majority of commodities and squeezed prices higher. The disruption to logistics and supply chains from the various COVID-19 impacts has exacerbated these deficits and further supported markets.

One interesting aspect of the pandemic has been a strong move from governments, investors and consumers alike to think and act in a more sustainable fashion. This has led to a greater focus on ESG and, in particular, climate change. To this end, the pressure on the Traditional Energy companies to elucidate a clear alignment to Net Zero has accelerated. The result has been some high-profile votes for climate proposals both in Europe and the US. In turn, hydrocarbon companies are rapidly shifting towards 'managed decline' in their legacy oil production businesses. Since consumer behaviours are not changing at the same pace, this has the potential to cause a widening gap between supply and demand over the medium term. This, together with government stimulus, may lead to inflationary conditions - an environment in which resources companies tend to flourish.

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Robert Crayfourd and Keith Watson, managers of Geiger Counter - 6 July

China's recently announced blueprint for development of its power industry confirmed its intent to construct 6-8 reactors a year through to the end of 2025. This will increase generating capacity from almost 50GW at the end of 2021, equivalent to just 2% of its overall installed generating capacity, to 70GW by 2025. With 17 reactors already under construction the nation is well on its way to achieving this interim goal and construction starts over the next five years will lay the foundation for regional capacity to reach 120GW by 2030, exceeding the US in scale.

In the United States, President Biden has flagged intentions to cut US emissions by 50-52% from 2005 levels, double the cut previously targeted by Obama. Seen as a way of achieving ambitious climate goals such as a carbon-free electricity grid by 2035, Biden has included nuclear power in his US$2trn post-COVID, revitalisation plans in which infrastructure and clean energy investment is a core theme. The US has also designated its nuclear power sector as a strategic industry and ratified the establishment of a strategic uranium reserve as it attempts to reduce its dependence on dominant overseas suppliers, notably Russia and Kazakhstan. This move, which has the backing of Democrat and Republican administrations, comes in addition to the wider state roll out of supportive policies such as Zero Emission Credits and has reinforced investor opinion in the region's commitment to the nuclear power sector and contributed to the improvement in investor sentiment. Disruption to Texas power supplies during the February cold snap, which cause around half the state's wind turbines to freeze, exposed vulnerabilities from an over reliance on one form of generation and provided significant impetus to retail investor appetite in the sector.

Other nations have also updated climate targets which helped sustained the positive momentum towards sector equities. In Europe, wider backing for the inclusion of nuclear power in the EU's spending plans, which is also focused on delivering low emission power, was provided as a number of European based NGO groups flagged that the EU's strategy to reduce carbon emissions is inadequate without the inclusion of nuclear. This follows lobbying by a number of EU member states notably including France, Europe's largest nuclear power market, to incorporate nuclear energy in the post-Covid stimulus.

Rising fossil fuel costs, which typically represent two thirds of electricity generation costs, are also helpful for the nuclear sector, providing a more favourable economic tilt for nuclear's inclusion in the energy mix.

Technology & Media

(compare technology & media funds **here**)

Ben Rogoff, manager of Polar Capital Technology - 21 July

The technology sector once again outperformed broader market indices as the Dow Jones World Technology Index returned 46.4% during the fiscal year against the MSCI All Country World Index's +32.6% and the S&P 500's +32.8%. The sector's strong returns are testament to the crucial role it played in allowing the world to operate effectively during the covid crisis.

The fiscal year also saw the NASDAQ 100 index finally recover the entirety of its relative underperformance associated with the dotcom peak and in June - after 20 years, 3 months and 3 weeks - was back level with the performance of the S&P 500. However, the technology sector's outperformance came entirely during 2020, with 2021 proving a more challenging year thus far for the sector as a very different macroeconomic backdrop has put upward pressure on interest rates and downward pressure on growth company valuations. Despite these challenges, the absolute and relative returns delivered by technology subsectors remained impressive and the breadth of the strength was striking. Larger technology companies recovered more quickly coming out of the crisis and the sector's five largest companies reached a new high as a percentage of the S&P 500's market cap by late summer (25%). As market breadth improved into the second half of the year and smaller, more cyclically sensitive companies benefitted from a style rotation in 2021, the large cap index (the Russell 1000 Tech) was surpassed by the smaller cap index (Russell 2000 Tech) during the second half of the fiscal year, finishing up +52.7% for the fiscal year against the Russell 1000's +45.2%.

While the premium valuations enjoyed by technology stocks remain a little above the post-Great Financial Crisis range of c.0.9-1.1x, they remain far from levels seen during the late 1990s bubble when the sector traded in excess of twice the market multiple. However - as we have long argued - aggregate valuations do not tell the whole story because they are diluted by the presence of 'cheap' incumbents like Cisco, HP, Intel and Oracle that trade on forward P/Es of 8-15x. In contrast, high-growth stocks recently traded at valuation last seen in the late 1990s. In part, this reflects their unusual growth profiles and increased relevance in a 'hybrid world'. However, valuations also reflect retail participation, concentrated portfolios and classic late-cycle exuberance that coalesced around long-term total addressable market (TAM) investing which all but obviates the need to justify valuations today. We continue to tread carefully within this cohort of stocks, using recent weakness to gently increase our exposure to what we believe are the most important next-generation assets.

Following the extraordinary speed of development and high efficacy of covid vaccines, the rollout of national vaccination programmes has finally reached a more consistent cadence. President Biden has announced a target of at least 70% of US adults receiving at least one dose by July 4 (from 44% at the start of May) and even in Europe the four largest countries are now vaccinating their populations at the same pace as the US (~5% of the population per week) and should be on track to reach 70% of the population by September. Early data has been extremely encouraging that vaccines work in stemming the spread of covid outbreaks as daily infections are down to seven-month lows in both regions. The vulnerability of populations that are not yet vaccinated has been highlighted by the tragic events in India, where the continued surge in covid cases has outweighed declines in most other regions, with new infections in India now accounting for 40% of new cases globally.

The macroeconomic rebound has been swift as successful containment measures (largely in Asia) and vaccination rollouts (with US, UK and Israel leading the way) have allowed economies to reopen. The IMF now projects real global GDP growth of 6% in 2021 led by strength in the US (+6.4%), and China (+8.4%). Global growth expectations have been revised up from 5.5% at the start of the year due to additional fiscal support in the US and more optimistic assumptions around the success of vaccine rollouts. The 2021 rebound is expected to be followed by 4.4% real GDP growth in 2022, up from +4.2% expected at the start of the year. The rapid descent into and exit from a global recession is testament to its extraordinary nature, and this has fed through into everything from policy response to market performance.

Fiscal policy will provide a major tailwind for US and global growth through 2022. US fiscal spending may now include a $1.8tn human infrastructure plan (American Families Plan) on top of the announced $2.3bn infrastructure plan (American Jobs Plan) and $1.9tn American Rescue Plan passed in March this year.

The $6tn total, if enacted, would bring the total funds allocated post-covid to 28% of GDP. Monetary policy also looks likely to remain very supportive, with the Fed willing to look through the “transitory factors” driving inflation, confident these are being driven by base effects and supply bottlenecks, both of which they believe will be resolved in time. Given the Fed sees the economy being “a long way from our goals” and requiring “substantial further progress” towards full employment and 2% average inflation targets, asset purchases are expected to continue for “some time” at their current rate of $120bn/month and the Fed does not expect to raise rates until after 2023. US real consumer spending (68% of GDP) surpassed its pre-covid level in March, US capital expenditures reached an all-time high led by technology (software, tech equipment, R&D) with industrial capex now following in behind. The March savings rate spiked to 28% on the back of stimulus checks so US consumers are going back out into the economy with their wallets full and household balance sheets in good shape – in stark contrast to their government. This appears to be a supportive backdrop for risk assets returns.

Equity markets have followed the global economy's lead and rebounded rapidly, although this year they have been led higher by reopening and reflation plays rather than by the tech sector which led last year amidst lockdowns and lower interest rates. Global equity markets overall have performed much better than is typical for a recovery and the MSCI World has modestly exceeded its recovery following the 'great financial crisis' (GFC) despite 'only' falling by -34% versus -56% during the GFC. Credit spreads have never tightened more quickly following a recession, nor has an asset bubble or any other financial innovation increased so quickly in value as Bitcoin. Earnings estimates continue to move higher following a strong first quarter reporting season, with earnings tracking 23% ahead of 2019 levels, a record 21ppts ahead of analyst expectations. S&P 500 consensus 2021 EPS has reached $181 (+27%), up from $175 in early April, and is expected to grow a further 13% in 2022 to reach $204 (2020: $142). It has been somewhat unusual this cycle to see upgrades at this point in the year as estimates have typically trended down as growth (outside of the technology sector) has remained muted. It is also worth noting that we may still be relatively early in the upwards revisions cycle as after the GFC, earnings estimates were revised higher for 6-7 quarters; so far, we have only enjoyed four quarters of strong positive revisions. It is possible that we are moving from the 'hope' phase of a new bull market, during which stocks rerate in line with higher earnings growth expectations, into the 'growth' phase where economic growth is strong and earnings grow but returns begin to moderate and valuation multiples can compress.

Valuations look somewhat extended, with the S&P 500 trading at 22.5x NTM earnings, elevated versus history and already capturing three-quarters of recovery earnings. Based on one of our favoured approaches – the so-called Rule of 20 (which deducts Personal Consumption Expenditure (PCE) from 20 to yield a fair value target) US stocks are currently c.20% overvalued when applied to an average of 2021 and 2022 estimates. Other metrics suggests much more significant over-valuation; the Median PE has only been higher during the 1999/2000 bubble while the so-called Buffet Indicator (which compares the value of stocks relative to the economy) suggests stocks trade much higher than in 1929 or 2000. The problem is – as we all discovered early during the pandemic when hand gel traded at 10x so-called fair value – the price of stocks reflects surging liquidity, negative real risk-free rates and the paucity of investment alternatives. Fed Chairman Jerome Powell made this point very clearly in December when he stated "If you look at P/Es they're historically high, but in a world where the risk-free rate is going to be low for a sustained period, the equity premium, which is really the reward you get for taking equity risk, would be what you'd look at". Powell was of course referring to the Fed Model which we have used consistently since the GFC to counter the charge of stock overvaluation. According to this measure, stocks remain c.50% undervalued versus bonds, and nearer to fair value when comparing dividend and Treasury yields.

The inflation outlook remains the market's central focus as market participants position for upward inflationary pressure with a recent BoA Fund Manager Survey revealing that fund managers now consider inflation a greater risk to markets than COVID-19. Mentions of inflation increased >800% y/y in Q1 earnings calls. Shortages are widespread as the global economy deals with a burst of demand from reopening, fiscal stimulus and the release of excess consumer savings, which has not been met by a comparable increase in the supply side of the economy across commodities, finished goods, services, housing and labour. Survey-based measures of prices paid by firms point to significant upward pressure, the Cass Freight Expenditures index has risen 17% since September, the Baltic Dry Index has increased 139% YTD, and car rental prices are now 25% above pre-pandemic levels, having fallen by 20% in 2020. The shortages widely reported in semiconductors and raw materials are being treated as 'bottlenecks' by policymakers (most explicitly the Fed), but US imports are at record highs and many factories and fabs are running at full capacity, which suggests that there is the potential for either supply-side constraints to temper GDP growth or – more likely – room for inflationary pressures to continue to mount as stimulus-charged demand continues.

The ongoing constraints in the labour supply are particularly striking: there are currently 9.7m US workers who are unemployed, and perhaps another 4.6m (per BoA) who left the labour force during the pandemic. US Job openings (JOLTS) are back to pre-pandemic levels, firms are reporting labour shortages, Uber and Lyft are reportedly having to pay sign on bonuses. Some of this is a skills mismatch as firms are struggling to find qualified applicants for high-skilled roles (typical when coming out of a recession), but there are also covid-specific shortages.

As many as 4 in 10 unemployed Americans can today earn more from enhanced unemployment benefits than they did working; some workers may be unwilling to return to face-to-face work until fully vaccinated; some older workers have taken early retirement and childcare issues have prevented some from returning to the workforce.

This appears to be an environment ripe for upward pressure on wages, but also one in which investments in automation will appear increasingly attractive. We know from experience of prior recessions that the rate of job automation increases as the economy recovers and would expect this time to be no different.

Some commentators are calling for a sustained regime change from growth to value stocks given the conditions that have led growth to dramatically outperform value since the financial crisis may have changed. That period witnessed a slow economic rebound post-crisis, persistently low inflation, a relentless decline in bond yields (supportive of long-duration assets) and a sectoral bifurcation in profit growth between TMT sector and other sectors. Today, the macroeconomic environment appears altogether more pro-cyclical than it has been for a generation given strong output growth, extraordinary fiscal support (potentially turbocharging cyclical growth), steeper yield curves, the loosest ever financial conditions, rising commodity prices and the much-discussed return of inflation. It is conceivable that the structural increase in infrastructure spending and higher GDP growth could drive higher returns in more capital-intensive industries and even drive a new (likely Green) capex cycle. Some have suggested that the immediacy of the climate threat means that decarbonisation will be to the 2020s what digitisation was to the 2010s.

However, we are not ready to call the end to disinflation. Rather, we (like the Fed) welcome a little reflation. After all, things would have to be pretty bad if we didn't have some inflation coming through given the magnitude of liquidity that has been pumped into the system and the demand surge from reopening. Output gaps that are not predicted to close until 2025 should help keep actual inflation anchored for now while secular disinflationary headwinds (technology, globalization, debt, demographics) remain formidable.

However, we are also alive to the risk that the pandemic has changed the rules of engagement in ways that we cannot yet fully appreciate. Yields that break out of well-established ranges and/or a return to an inverse correlation between bond yields and stock prices as they were before 1983 would signal the end of the disinflationary era.

There are many risks to our constructive if guarded market view. One of the most significant risks today is that the recovery trajectory fails to meet current expectations due to a setback in the battle against covid caused by vaccine production setbacks, reduction in efficacy, new virus strains and/or any delay in delivering modified vaccines. The recovery may also falter if the consumption boom fails to sustain post lockdown due to the moderation of government support, reflexivity associated with weaker stock markets or because the disequilibrium of savings (concentrated in higher income households) limits the extent of pent-up demand release post pandemic. We may also be disappointed by the pace of normalization which elongates the recovery trajectory with travel unlikely to return to its prior state until we have reached herd immunity worldwide. This would require two-thirds of the population – 4-5bn people – to be vaccinated, unlikely before 2023.

Health passports cannot solve the fact that new mutations may render vaccines less effective. As such, the movement of people may yet follow the path of currencies which remained tightly controlled long after WWII in order to prevent the disorderly unwind of imbalances and the collapse of Sterling. We cannot really know when (or if) travel restrictions will be fully lifted given that it took until 1979 – 40 years after they were introduced – for UK currency controls to be removed. This is non-trivial issue with travel and tourism directly worth $2.9tr in 2019 and (all in) accounting for as much as 10.3% of global GDP.

The recovery trajectory could also be stymied by record levels of debt. Since 1951, high government debt (as well as total credit market debt) has coincided with slower economic growth. In part, this reflects the burden of net interest costs which thankfully are modest today – according to Yardeni, the US government's net interest costs were just $326bn in the twelve months to January 2020. However, these costs will increase sharply to $649bn and $866bn at 3% and 4% respectively. Efforts to reduce fiscal deficits and national debt – real or merely designed to reassure capital markets – will pressure growth too, both directly (less government spending, higher taxes) and indirectly (loss of confidence) once it becomes clearer where the burden of paying for covid will fall. For now, governments (and capital markets) seem comfortable with deficit spending and 'helicopter money' but this may not persist, particularly if inflation becomes more problematic. Innovative ways to replenish state coffers may include wealth and/or windfall taxes.

Higher risk-free rates represents another key risk this year. Initially a happy consequence of record liquidity / stimulus meeting vaccine progress and until recently, higher bond yields were positively correlated with equity markets.

However, this relationship is likely to be tested should rates move inexorably higher, particularly should yield curves continue to steepen. At time of writing, the US 10yr-2yr spread is at 148bps – very close to the all-important 150bp level above which annualized SPX gains fall to 5.8% compared to 11.0% when the spread is between 0-1.5%. Much depends on the inflation outlook which, as discussed earlier, looks more problematic, but (like the Fed) we remain hopeful that it may yet prove transitory.

Other risks include elevated equity valuations (covered elsewhere) which look incompatible with an inflationary backdrop and signs of late-cycle exuberance such as SPAC issuance and retail participation, although this latter risk has been significantly ameliorated by recent weakness in long-duration assets.

Political risk has greatly diminished over the past year as covid took centre stage, the pandemic likely easing the passage of Brexit. Likewise, US-Sino relations were becalmed (aside from the occasional Trump executive order) by the pandemic. Instead, political focus shifted inwards with BLM movements following the death of George Floyd in May reflecting long-term inequalities and diverging fortunes highlighted by covid. However, the ignominious end to the Trump era and the election of the oldest ever President began the necessary process of rebuilding the centre, aided by bipartisan support for fiscal measures that benefited most Americans regardless of colour and creed.

This process played out in the UK too, following the election of Keir Starmer as Labour leader. This healing path looks likely to persist for now, aided by vaccine rollouts, economic recovery and better weather. As governments begin to address who picks up the covid tab, greater redistribution of income should prove galvanizing, while the green agenda is one of the few issues that almost everyone can rally around.

However, once covid is behind us, political risk is likely to re-emerge just as the Grand Alliance began to splinter once WWII was won. What to do with China may become a key focus once the global economy is on firmer footing. With Biden in the White House, the immediate risk of another trade-war dislocation appears greatly diminished. However, a friendlier tone with China will only slow, rather than reverse, a decoupling process that feels inevitable. Likewise, we may see more foreign policy reversals post Trump as the US optically returns to its post-war role as bulwark of the free world, but relations with Iran and a more bellicose Russia will likely test the fortitude of the new Pax Americana.

Technology Outlook

After declining 3.2% in 2020, worldwide IT spending is expected to reach $4.1trn this calendar year representing an increase of 8.4%, in current dollar terms. Despite the 2020 decline in overall IT spending, the S&P technology sector delivered revenue and earnings growth of 6.3% and 7.9% y/y respectively, well in excess of the broader market where revenues and EPS fell 1% and 11% respectively. For 2021, the technology sector is expected to deliver revenue and earnings growth of 12.6% and 21.2% – while the market is forecast to grow at 10.9%/31.7% – respectively.

This largely reflects more difficult comparisons and less incremental leverage with operating margins already at 24% versus industrials at 6.5% and energy at 4.4%. The current market rotation away from growth likely reflects this dynamic. However, after a year that proved the criticality of our sector, tech fundamentals are strong.

With Q1 2021 reporting season largely complete, 86% of technology companies have delivered upside to revenues versus SPX at 76% with an average delta of 5.1% (the highest of any sector). The only fly in the ointment is that the earnings recovery is broad leaving technology sector growth looking less remarkable for now.

Having reached a low of c20x early during the crisis, the forward P/E of the technology sector increased throughout 2020 as the sector took centre stage during the pandemic.

Today, the sector trades at c26.3x - new cycle highs – and well ahead of five (19.8x) and ten-year (16.7x) averages.

Although absolute valuations remain elevated, technology fundamentals are strong while the sector relative rating represents only a c.19% premium to the broader market (2020: 6%), ignoring its balance sheet strength. While the sector's relative growth profile looks less exceptional against a backdrop of (wildly) above-trend global GDP growth, it continues to sport net margins almost twice that of the S&P 500 in Q1'21). As in previous years, the technology sector is unique in boasting net cash.

While the premium valuations enjoyed by technology stocks remain a little above the post-Great Financial Crisis (GFC) range of c.0.9-1.1x, they remain far from levels seen during the late 1990s bubble when the sector traded in excess of twice the market multiple. However – as we have long argued – aggregate valuations do not tell the whole story because they are diluted by the presence of 'cheap' incumbents like Cisco, HP, Intel and Oracle that trade on forward P/Es of 8-15x. In contrast, high- growth stocks recently traded at valuation last seen in the late 1990s. In part, this reflects their unusual growth profiles and increased relevance in a 'hybrid world'. However, valuations also reflect retail participation, concentrated portfolios and classic late-cycle exuberance that coalesced around long-term total addressable market (TAM) investing which all but obviates the need to justify valuations today. We continue to tread carefully within this cohort of stocks, using recent weakness to gently increase our exposure to what we believe are the most important next-generation assets.

We should also acknowledge a few supportive points on technology valuations. First and foremost, it is never easy valuing technology winners, a challenge complicated by recurring business models that (rightly) embolden managements to prioritise growth over profits using LTV/CAC-type frameworks (which, in turn, invites investors to apply a TAM-based approach). While it could be a case of tail wagging dog, private company valuations are also supportive with the likes of Stripe (c$95bn), Databricks ($28bn) and SpaceX ($74bn) in line with or above their listed peers. Finally, with private equity said to be sitting on a record cash pile of $1.5trn, the recently announced $12.3bn acquisition of Proofpoint by Thoma Bravo was highly supportive at an estimated 9.5x forward EV/Sales multiple, significantly above valuations of publicly-traded software-asa-service (SaaS) companies with similar growth profiles.

New cycle update

When the story of covid is retold twenty years from now, one cannot help but wonder what part will be played by the Cloud which "did not break", proving that "life can go on, even when an entire country is in physical lockdown". It enabled collaboration, shopping, business events, entertainment, education and telemedicine at a scale unprecedented in human history. In contrast, on-premise computing looked even more anachronistic, particularly with employees not even on premise. Unable to support vast numbers of remote workers and customers alike, the pandemic acted as a forcing function for companies to adopt the cloud and digitally transform.

Against a backdrop of declining IT budgets, the cloud infrastructure market increased 33% y/y to $142bn in 2020, with the pandemic said to have accelerated the cloud shift by about a year. The market added $10bn of incremental revenues in Q4 alone and ended the year at a $160bn run rate dominated by four vendors – AWS (31% share), Azure (20%), Google (7%) and Alibaba (6%).

However, these numbers are a little misleading because they include private cloud which continues to cede share to shared (public) infrastructure as per our long-held thesis. As such, all of the leading public cloud vendors continue to benefit from

Cloud growth. Amazon Web Services (AWS) still dominates the market as well as Amazon's financials (accounting for c10% of revenues but >50% of operating income) with growth reaccelerating in Q1'21 to 32% y/y. Capping an eventful 2020, Andy Jassy, co-founder and CEO of AWS is set to replace Jeff Bezos as Amazon CEO this summer. Microsoft Azure continues to significantly outgrow the market as preferred supplier to enterprises later to embrace cloud with 50% y/y growth reported in its most recent quarter (although limited disclosure means we have no idea how profitable this growth is). With 19% of enterprises expecting to invest significantly more on Microsoft Azure ahead of all other cloud vendors, Microsoft continues to look well positioned. Greater disclosure by parent Alphabet means we now know that Google Cloud is generating $16bn of annualised revenues and growing 46% y/y in Q1'21. However, the business remains deeply unprofitable which takes some of the shine off its above-industry growth rate although bulls (us included) expect losses to moderate over time as greater scale is achieved. Other players continue to trail; IBM's Red Hat division increased 19% y/y in 2020 while Oracle remains a niche player with just c2% market share, although its demise looks less certain following high-profile wins of both TikTok and Zoom.

Despite the strong growth during 2020, the penetration of cloud workloads has remained in the low-mid 20s with Morgan Stanley suggesting c.26% of application workloads are currently running in the public cloud while Goldman Sachs' estimate penetration at 22%. This is expected to increase to 42% by 2023 which should leave enough growth available for all of the leading platforms for now. When considered alongside software as a service (SaaS), cloud industry revenues grew 30% y/y in aggregate during 2020 to an estimated $220bn. Very few sectors have ever been able to grow at scale like this, reflecting a vastly superior proposition and a massive TAM. After a decade of torrid growth, 40 IPOs and more than $200bn of M&A, the cloud still only explains 13% of the $1.8trn enterprise IT stack and just 6% of the $3.6trn overall IT industry. Driven by ongoing digitalisation, new verticals such as healthcare and education, and with AI, AV and the IoT all in their infancy today, cloud revenues could increase 5x to $1.1trn by 2030. This would take cloud penetration to above 40% and represent a CAGR of 17.5% while the number of cloud platforms at $10bn+ revenue scale could quadruple to 19 from just five today. If this sounds far-fetched, consider that software spending represents just 0.9% of global sales today.

One area that looks particularly well positioned is cybersecurity after the pandemic significantly increased the so-called attack surface due to new devices, new data silos (created by applications such as Zoom and Microsoft Teams) and exponential growth in data traffic. This heightened risk was confirmed by the number of identified attacks reaching 2019 levels by the end of Q220. Then came the Sunburst hack estimated to have directly impacted 18,000 SolarWinds customers worldwide, including the US federal government. Unsurprisingly, cybersecurity was propelled to the no. 1 spending priority for 2021, with the new US administration promising to inject an incremental $10bn into their cybersecurity effort. However, the broader cloud transition (accelerated by WFH) is creating meaningful cross-currents, disrupting the security status quo. Today, there is already a huge divergence between the percentage of workloads in the cloud and the share of security budget being currently spent on cloud protection. While this mismatch represents a significant opportunity for next-generation technologies and vendors, the risk of disruption to incumbents may never have been greater. This has led to a bifurcation in subsector valuations with next-generation vendors such as Cloudflare, CrowdStrike, Okta (all held) and ZScaler (not held) all experiencing significant valuation expansion last year while legacy vendors struggled. We continue to focus on the most exciting areas such as Zero Trust, Identity and Access Management, and Container Protection with our position sizes reflecting the downside associated with elevated valuations. We also hold several second tier / slower growers that should fare well despite the cloud shift. The recent acquisition of (former holding) Proofpoint by PE was a timely reminder of the scarcity value associated with good security assets, even if their glory days are behind them.

After an exceptional 2020, Internet stocks look well placed to consolidate before extending gains enjoyed during the pandemic. The accelerated adoption of ecommerce during 2020 was the most important trend witnessed across the internet sector in 2020. Although growth has moderated post the Q2'20 peak, the step-change in online consumption has forced the world's retailers to pivot their strategy to meet the new customer needs and, in some cases, sell direct to consumer (D2C) for the first time. This ushered in the post-Ketchup digital era as Heinz made the decision to directly sell ketchup online for the first time in 151 years (enabled by the Shopify platform). Traditional brick and mortar retailers have seen their previous challenges amplified by the pandemic with US retail store closures reaching a record in H1 2020 and bankruptcies totalled 30, the largest number since the GFC peak of 2010. The e-commerce shift has been even more pronounced in certain categories such as groceries where in the UK, penetration doubled from 5% in 2019 to over 10% in 2020. The pandemic has also strengthened consumer desire for convenience and immediacy, which is a behaviour unlikely to be reversed quickly. The traditional e-commerce offering has been a two-day delivery window pioneered by Amazon, which has shortened to become a next day offering. The on-demand market takes this further with a sub one-hour delivery window (down to sub-five minutes for ridesharing) which should increasingly appeal to consumers who have been 'reprogrammed' during the pandemic. Food delivery is a good example of how on-demand can create new usecases, aided by the trend of increased work from home.

After a more challenging year for advertising, economic reopening should benefit the leading internet platforms with digital advertising forecast to grow 15.4% in 2021, with upside likely given the permanence of the ecommerce shift and the resulting need for greater spending on digital advertising. The surprising resilience of global digital advertising during the pandemic (+8.2% during 2020) reflected growth in the number of active advertisers across the various advertising platforms. While Facebook added over 2m paying advertisers last year (to reach 10m), this still represents only c.5% of the 200m+ businesses active on Facebook and little more than 1% of the 800m small businesses worldwide. In addition to Facebook, Snap and Pinterest have both witnessed substantial increases in active advertisers on their platforms. However, reopening tailwinds are likely to be buffeted by privacy-related changes introduced by Apple (ID for advertisers – IDFA) and Google (phasing out third-party cookies) that may initially reduce ROI on ad spending. Despite this, we are encouraged by the potential to monetise increased time spent in social media, particularly as the boundaries blur between social media and ecommerce evidenced by the likes of Facebook Shops, Instagram Checkout and Shop the Look on Pinterest and the trend towards 'entertainmerce' - the fusion of entertainment and commerce in the form of live shopping.

This trend is most advanced in China where 'livestreaming' is estimated to have generated c$120bn of revenues in 2020. Finally, we remain excited about the prospects for ondemand media as another clear pandemic beneficiary with more than 80% of US households now subscribing to at least one paid streaming service while 38% of consumers tried a new digital activity or subscription for the first time during the pandemic. As a result, global OTT TV subscriptions reached 1.1bn in 2020, overtaking global pay TV numbers for the first time led by Netflix which added

36m subscribers in 2020 to cross the 200m total subscriber milestone and Disney+ (not held) which reached 95m subscribers having only launched in November 2019.

In contrast, the pandemic created a perfect storm to accelerate 'cord-cutting' with linear TV providers suffering their worst year of subscriber losses yet; by 2024, more than one-third of US households are expected to have cut the pay TV cord. In addition, the pandemic may have also confined the 90-day theatrical window to history as major film studios were forced to consider premium video on-demand (PVOD) and window changes with cinemas shut. Despite these medium-term tailwinds, 2021 may prove a trickier year for streaming platforms due to difficult comparisons and weaker near-term user growth due to earlier 'pull-forward' as evidenced by disappointing recent results from both Netflix and Spotify.

Videogaming stocks enjoyed an exceptional year as people encouraged to stay at home and limit social interaction turned to gaming for entertainment, escapism and socializing. The market is estimated to have grown c.20% to $175bn in 2020 (in stark contrast with North American box office which declined 82% to $2.1bn) driven by more players and greater engagement. Although investors are concerned about the sustainability of growth (as per a number of other WFH winners) the videogaming market is expected to grow 8.2% in 2021 and reach $218bn by 2023 (7.8% CAGR) by which time the number of gamers could exceed 3bn worldwide. Growth this year should be buttressed by sales of next-generation consoles forecast at 30m units in 2021 versus just 6.5m units in 2020 due to component shortages. Pricing should also help with several publishers increasing next-generation AAA console games to $70 versus the $60 price point that has held for the past 15 years. Increased competition for content between platforms could also benefit publishers via lower take rates. Steam has already lowered its commission on the PC platform due to competition from direct-to-consumer channels and EPIC Games (owner of Fortnite) who are currently also challenging the economics of Apple's App Store this time in the courts. While risks remain, undemanding valuations and modest near-term expectations explain our continued exposure to the likes of Activision, Nintendo and Take-Two as well as a small position in Unity Software, a platform used to develop 71% of the top 1,000 mobile games in Q4'20. In addition to our pure plays, we also hold positions in most of the prominent gaming platforms / app stores including Apple, Alphabet, Amazon, Facebook, Microsoft and Tencent. Any of these companies could use stock price weakness to acquire content and follow the lead of Microsoft which in March, closed its $7.5bn acquisition of Bethesda - the second largest deal in gaming history.

In addition to the potential for growth deceleration associated with earlier pull-forward and more difficult comparisons, Internet stocks also face several additional risks. These include new legislation in the US following the Democratic clean sweep such as strengthening the Clayton Act, Sherman Act, or reforming Section 230 of the Communication Decency Act. In addition, DoJ / FTC investigations and antitrust lawsuits remain ongoing although most legal experts anticipate a 2-3 year timeline before final decisions. While we cannot rule out 'break-up' scenarios, we continue to regard them as unlikely, with a series of long and drawn-out legal cases instead our base case. We are also alive to the risk of tax reform, as mooted by President Biden and/or the imposition of additional digital taxes already being rolled out in Europe that address the digitalisation of the global economy. Although these risks appear manageable for now, new legislation introduced in China in late 2020 together with last-minute regulatory intervention ahead of the Ant Financial IPO was a timely reminder of the risk posed by regulation, particularly in countries where change can be implemented without much (any?) legal process.

The fintech space looks exceptionally well-placed to benefit from ongoing ecommerce growth, the broader acceleration of digital payment adoption trends and further penetration of digital technology into financial services. The pandemic saw next-generation companies develop covid-friendly solutions to support merchants including omnichannel and contactless checkout and many were involved in the rapid distribution of government stimulus to individuals and small businesses as incumbent banking infrastructure struggled against intense demand. It also led to an accelerated decline in the use of cash with 2020 results exceeding the previous projection for 2023 while the pandemic is said to have delivered five years of digital payments TAM expansion in just nine months. While ecommerce gains will necessarily moderate in the year ahead, payment pure-plays such as PayPal and Square (not held) should continue to benefit from more users, greater engagement and the development of their digital wallets into so-called 'super-apps' which could lead to a doubling of ARPU. The credibility of the Super App opportunity is supported by the experience in Asian markets while surveys suggest that nearly two-thirds of Americans would consider purchasing or applying for financial products through a technology company's platform instead of a traditional financial services provider. This rises to 81% for Americans aged between 18 and 34 years. This consumer readiness hints at the potential for broader fintech disruption, the prospects of which have been greatly advanced by the availability of cheap, scalable 3P financial infrastructure combined with efficient online customer acquisition which has prompted a flourishing of innovation (and capital raising). This includes a plethora of exciting fintech trends including Neobanks, Banking-as-aService, Payment Facilitators, Buy-Now-Pay-Later (BNPL), Cryptocurrencies, digital currencies and distributed ledger technologies. While these trends are likely to enjoy varying success over the coming years, covid will likely mark the break point between the 'old world' of financial services (dominant incumbent banks, generic offerings, finance a ring-fenced activity) and the 'new world' of financial services (a plethora of specialized players, personalized offerings, finance embedded within other activities). Indeed, we participated in several fintech IPOs during the year including Lemonade (insurance) and Affirm (BNPL) reflecting our excitement about technology-driven disruption. However, we must also consider the unique risks and challenges that fintech brings with it including relatively uninformed buyers (inviting regulation) and more significant downside risks associated with experimentation (aiding incumbents). Nonfinancial companies have a mixed history of moving into full-service finance and apparent difficulty in maintaining returns at greater scale, in stark contrast with the software industry. For now we are treading carefully with our fintech exposure largely explained by PayPal and the networks (Visa, Mastercard) which, after a more challenging year due to reduced international travel, should enjoy higher transaction volumes alongside higher nominal GDP aided by a travel recovery (of sorts) and a higher mix of contactless in-store.

The worldwide economic recovery should also provide continued tailwinds for the semiconductor industry, one of our more economic-sensitive subsectors. After initial covid-related setbacks, the need to support remote work and learning, as well as surging economic activity in China drove a demand recovery throughout 2020 with industry revenues increasing 7.3% y/y reaching $470bn. This was supported by the rollout of 5G smartphones (boosting semiconductor content by c.18%) and lifestyle changes triggered by the pandemic which led a strong automotive recovery and an accelerated transition to electric vehicles by major automotive OEMs. These trends, combined with Intel's ongoing struggle with its 10nm process resulted in a remarkable year for the foundry sector which grew revenues by c.21% y/y to over $75bn. Despite some concerns about potential double-ordering (as lead times extend) and potential US-China trade / IP tension, we remain excited about the outlook for semiconductor companies as these trends and the global economic recovery extend.

We also believe we remain in the early stages of AI-related opportunities that should help the industry continue to outgrow GDP. In the past, the prohibitive cost of analytics has meant that only 1% of data created was analysed, but now machine learning (ML) and artificial intelligence (AI) enables the analysis of massive unstructured datasets at vastly lower cost. According to Open AI, the demand for compute driven by deep learning networks has been doubling every 3.5 months since 2012. The growth of AIrelated workloads should continue to benefit the likes of AMD and Nvidia, which in turn should help TSMC sustain its high market share in leading edge nodes.

We also continue to favour memory chip companies such as Samsung and Micron as leveraged plays on the growth of the so-called data economy. Having taken unprecedented action to reduce wafer input and cutting capex in 2019, this consolidated subsector has maintained capital spending discipline during 2020. In addition, the combination of technology complexity and diminishing output increases during node migration has also led to a structural slowdown of supply growth; DRAM wafer density (measured in Gb/wafer capacity) is expected to grow at just 6% CAGR between 2019-2020, compared to 14% between 2015-2018 and more than 50% pre2013. If the current investment discipline continues, the DRAM market might yet turn into a structural growth market; Gartner currently expects the DRAM industry to generate over $100bn revenue in 2022. We also continue to favour semiconductor manufacturers with exposure to powertrain electrification such as Infineon, Littlefuse and STMicroelectronics while the 5G transition should drive near-term earnings at the likes of Qualcomm, Marvell and MediaTek. While we have recently skewed our semiconductor exposure more towards cyclical segments (where changes in price are more important than volume growth), we also continue to hold a number of companies with unique exposure to high growth subsectors.

Robust semiconductor demand (with shortages in a number trailing-edge nodes due to unexpected PC and automotive-related strength as well as some recent fab outages) should continue to benefit semiconductor equipment (WFE) suppliers. Our own enthusiasm is driven more by higher capital intensity at the leading edge known as Moore's Stress which has seen WFE increase from lowteens to 15.3% in 2020. As we look into 2021, we expect growth to remain robust with China (absent a potential export ban) likely to continue to spend aggressively as it pursues self-sufficiency in semiconductor manufacturing. In addition, TSMC expects to invest $100bn in capex over the next three years (as compared to $25-28bn in 2021) while Intel* plans to enter the foundry market which will see it spend $20bn on two new fabs in Arizona during the next two years, while Samsung is spending $116bn over a decade to expand its own foundry business. This should benefit our front-end equipment holdings such as ASM Lithography, Applied Materials and Tokyo Electron. We are also excited about several back-end equipment vendors due to the trend towards 'chiplet' design – replacing monolithic die with multiple small dies in a unified package – as used by AMD to wrest back CPU share from Intel. Chiplets, together with the use of advanced packaging technologies, are helping the industry contend with Moore's Stress while also making it possible to tailor new chips for different end markets and use cases without expensive tape-outs.

Like semiconductors, the industrial automation (IA) industry has also embraced the opportunities arising from the pandemic while benefiting from the move towards more regional supply chains. Not only has covid accelerated the adoption of factory automation (FA) across a wider group of manufacturers, but it has also triggered urgent reviews of supply chains, many of which have resulted in the trend towards "near-shoring" resulting in further demand for IA. Lastly, changing work patterns have led to an increase in vehicle ownership and surging home capex, both of which provided strong additional IA tailwinds. While overall sector sales remained at a cycle lows due to muted demand from developed markets, 2020 may prove to be one of the best ever years for the industrial automation industry because of TAM expansion driven by widespread, unprecedented urgency of adopting automation. The medium-term outlook looks constructive with the IA market expected to reach $229bn by 2025, up from $152bn in 2020 representing a CAGR of 8.6%. Industrial robots are likely to drive most of the incremental growth due to EV penetration. In addition, supply chain disruption brought on by the pandemic, together with the deteriorating relationship between the US and China has forced companies to rethink their long-term supply chain management strategies, shifting focus towards stability and away from just production costs. It is estimated that up to 30% of Chinese exports are potentially at risk of relocation which would result in $70bn of new capex.

Longer-term, we believe that traditional production lines will be transformed with the ultimate goal of handling a batch size of one due to the integration of machine vision, industrial IoT, real-time analytics and AI. The integration of artificial intelligence into core workflows supports the notion that AI is moving well beyond the R&D stage after years of fine-tuning models, thanks to greater availability of domain-specific datasets and astonishing performance improvements of dedicated hardware. In many ways, 2020 witnessed the industrialisation of artificial intelligence (AI). Natural language processing (NLP) remains a key battleground given its disruptive potential. Open AI upgraded its transformer-based model to GPT-3 in June 2020, which now features 175bn parameters with the potential to mimic how humans perform without the massive datasets normally required for pre-training. Google has pushed the boundary even further by redesigning the routing algorithm to select different parameters for each incoming data sample and enabling a sparsely activated model with an outrageous number of parameters (1.57trn parameters used in Google's mT5-Base model) to be trained. In our view, these breakthroughs represent the beginning of the next generation of AI.

The rapid industrialisation of AI has been particularly pronounced within the healthcare industry. Drug discovery - a $1.25trn industry - is the largest expenditure in drug development. On average, a new drug requires $2bn of R&D and 12 years to develop but the failure rate stands at 90%. The drug discovery journey starts with 1060 estimated drug-like compounds. AI has become the most powerful technology to improve experimental accuracy and perform molecular simulation to accelerate the process of drug discovery. AI-infused drug discovery is projected to become a $40bn market by 2027. Google has continued to finetune its DeepVariant, a convolutional neural network (CNN) based sequencing data analytic model, which can reduce read errors on a 35-fold coverage Illumina whole genome to ~22,000 errors from ~73,000 errors. Google's DeepMind also managed to solve the protein folding problem, a 50-yearold grand challenge in biology. Predicting the 3D structure of a protein based solely on its 1D amino acid sequence has been previously attempted by trial and error using specialised equipment due to the outrageously high number of possible configurations of a typical protein. The near impossibility of the task led to the so-called Levinthal's paradox in 1969 – while proteins fold spontaneously within milliseconds in nature, it would take longer than the age of the unknown universe for researchers to enumerate all possible configurations of a typical protein, estimated to be 10300 possible configurations! However, DeepMind's AlphaFold 2 solved the challenge, predicting the percentage of amino acid residues within a threshold distance from the correction position, with an average error of 1.6 nanometres.

The commercialisation of this technique will fundamentally change drug discovery. The virtual screening (docking) technique has also been dramatically improved by embedding deep learning, which now can process billions of molecular structures in a rapid and accurate fashion. This Deep Docking approach realises up to 100-fold data reduction and 6000-fold data enrichment for candidate drug molecules. It was used to accelerate virtual screening of a 1.3bn compound library to help identify 1000 quality candidate compounds to inhibit the SARS-CoV-2 main protease. The process was completed in one week, compared to three years with previous approaches. Developments such as these further demonstrate the potential of AI to fundamentally change the “hit-or-miss” business model for drug developers, which brings the hope of acceleration in developing drugs for rare diseases that have not been adequately addressed due to high development cost and low return. We continue to believe that the semiconductor and semiconductor equipment industries represent leveraged ways to play AI proliferation with ML-related compute doubling every 3.4 months. By 2025, AI-related demand is expected to account for 20% of total semiconductor demand; semiconductor companies are likely to capture 40-50% of the total value from this technology stack, representing the best incremental opportunity for the industry in decades.

5G also remains an important theme within the portfolio. Infrastructure rollouts began in earnest during 2020 and were not meaningfully delayed during the pandemic which speaks to the perceived strategic and economic importance for this cycle. Whereas previous mobile generations saw value largely accrue to new applications (that make use of the improved speeds etc) rather than the infrastructure providers, this may not be true for 5G where new technologies (such as dynamic spectrum sharing, densification and network slicing) represent significant incremental content opportunities. In addition, the travails at Huawei (with over 30% market share globally) represents a significant opportunity for Samsung (held), Ericsson and Nokia (neither held) to recover lost ground with better pricing dynamics too. However, OpenRAN - a ‘white-box’ solution for the telecom network which separates the software operating system from the underlying hardware may threaten this cosy 5G cycle. As such, our 5G infrastructure exposure is via component suppliers such as Marvell and Lattice Semiconductor. However, we have far greater exposure to smartphones where 5G is expected to account for c.600m subscriptions worldwide this year, almost tripling from the 2020 total. By 2022, 5G subscriptions should surpass 1bn, becoming the de facto standard according to Ericsson. A richer mix of 5G smartphones should held chip companies such as Qualcomm with the new devices said to boost semiconductor content by c.18%.

Having sold more smartphones in the last quarter of 2020 than any company ever before in a single quarter, Apple remains a key beneficiary of 5G adoption. The new technology (included as standard across the iPhone 12 range) has driven a so-called ‘super-cycle’ while helping iPhone ASPs increase by an estimated $170 y/y to $880. In addition, the pandemic appears to have improved iPhone upgrade rates among Apple’s most affluent customers while boosting sales of Mac and iPads which in Q2 increased c.70% and c.79% y/y respectively. Together with iPhone sales that increased 65% y/y, Apple’s Q2 was arguably the best quarter we have ever seen from a mega-cap technology company with revenues +54% ahead of the prior year helping the company to generate a breath-taking $24bn of operating cash flow. As well as proving a harbinger of trickier times for technology / growth stocks, the muted reception to Apple’s blowout quarter reflects likely deceleration ahead with a more evolutionary iPhone 13 cycle and difficult comparisons in every business line looming. In addition, chip supply shortages may cap demand upside for now.

That Apple continues to represent one of our largest holdings while remaining our largest underweight position relative to the benchmark reflects the uniqueness of its investment story. Against a backdrop of a fairly fully penetrated smartphone market, Apple has been able to deliver growth at scale unlike any company we can recall by delighting its customers (and shareholders) with products and services that have transformed our lives. In the past quarter, iPads alone (<10% of overall Apple revenues) generated more sales than McDonalds! Apple's core strength remains its installed base of more than 1bn iPhones and 1.6bn overall active devices at the end of 2020. This vast customer base is engaged, evidenced by 27% y/y growth in its services business last quarter, Apple's highest margin business now accounting for c.19% of total sales. In addition, leadership of ancillary markets such as headphones and smart watches (c.25% market share in each during 2020) reflects Apple's ability to create (and dominate) new product categories to sell to its adoring (and mass affluent) audience with regularity. The recent introduction of AirTags – Bluetooth tags that can be attached to items like keys in order to track them – could become the next billion-dollar business for Apple. Beyond this, Augmented and Virtual Reality (AV/AR) together with autonomous vehicle (AV) represent future opportunities for Apple to address. For now, we are unlikely to change our positioning significantly with upside associated with recent valuation compression offset by greater uncertainty associated with App Store economics (EPIC lawsuit, EU antitrust investigation), difficult WFH-related comparisons and (tail) risk to an estimated $9bn of high-margin payments paid by Google to secure default search engine position on Safari / iOS.

In addition to our core themes, there are a number of emerging themes that we are excited about. One of the most exciting and far-reaching of these is clean energy particularly after a year that saw governments get serious about climate change with112 countries and the EU committing to "Net Zero" targets by the end of 2050 and China pledging to do so by 2060. The election of President Biden brought a recommitment to the Paris Agreement, the EU launched the European Green Deal, while the UK has vowed to "Build Back Greener" after the pandemic. Such policies have resonated with the public while triggering a surge of interest in clean energy stocks, with the roadmaps and improved funding environment providing visibility into which technologies are progressing towards commercial scale. We are particularly excited about the improved prospects for hydrogen – 'an essential element in the energy transition' which could account for 24% of final energy demand and 5.4m jobs by 2050". The first phase of the EU's hydrogen strategy has targeted at least 6GW of green (i.e., entirely carbon free) hydrogen electrolysers which alone amounts to 60x the installed base of hydrogen electrolysers as of 2019. Industry leader Nel ASA (not held) has also announced a $1.50/kg target for producing green hydrogen by 2025 which would represent a 70-75% reduction from today's cost and potentially represent a monumental step toward widespread commercial adoption. The solar industry - already cost-competitive in many parts of the world - also looks well-placed to benefit from the goal of carbon neutrality, not least because green hydrogen requires a renewable energy input. We are also excited about modernisation opportunities in the power grid with an estimated $14trn of investment required globally by 2050 to enable the transition from stable fossil fuel power energy generation to the more intermittent nature of renewable energy. However, the long duration nature of many of these opportunities make them highly sensitive to interest rates which together with elevated valuations (even following recent share price weakness) explains our relatively modest exposure to pure-play clean energy investments today.

However, we have greater exposure to electric vehicles which are likely to represent a critical part of any green solution given that transportation is responsible for almost one-quarter of direct global emissions from fuel combustion.

Together with autonomy and connectivity, we believe that electrification represents the biggest revolution in the automotive industry since Henry Ford unveiled the Model T in 1908. As with many other secular trends, the pandemic accelerated growth with sales of global plug-in electric vehicles (PEV) increasing 43% y/y in 2020 (from 10% in 2019) to just over 3m units. This represented global penetration of 4.2% but more than 10% in Europe. Tesla (held, now sold) significantly outperformed driven by strong execution – nearly 500k deliveries, +36% y/y despite the pandemic and GAAP profitability, albeit dependent on regulatory credits. It also benefited from a number of positive catalysts (Battery Day, S&P 500 inclusion) combined with retail investor enthusiasm. The outlook for continued EV growth looks attractive with IHS expecting volumes to growth at a 52% CAGR to 12.2m units in 2025, while BNEF predicts that 26m EVs will be sold annually by 2030, equating to 28% penetration. This looks more than achievable and should be supported by numerous countries banning internal combustion engines in the 2030-40 timeframe.

Although we no longer hold Tesla (sold in early 2021 largely on valuation grounds) we continue to own small positions in both BYD and Volkswagen – automakers that we believe are well positioned to benefit from the adoption of new energy vehicles. In Europe, VW enjoyed 13% unit share of the PEV market in 2020 and actually outsold Tesla in Q4'20. We also have exposure to several semiconductor companies with disproportionate exposure to EV adoption such as Infineon, the world's leading power semiconductor supplier and supplier to VW with dollar content in a BEV said to be twice that of an ICE vehicle. We also have smaller positions in ST Microelectronics due to its exposure to Silicon Carbide (SiC) opportunities and Littlefuse which stands to benefit from 5x greater dollar content in an electric powertrain versus an internal combustion engine. We also continue to hold factory automation plays like Cognex, which capture the retooling/ building of new production lines for electrification (batteries, lighter/mixed materials).

In addition, we own several companies with exposure to autonomous vehicles (AV) despite our view that mainstream adoption still remains 5+ years away. While AVs are already operating at limited scale in geofenced areas, most OEMs are focused on introducing lower level ADAS to meet regulatory requirements and level 2+ systems which augment, rather than replace the driver. However, the longer-term promise of fully autonomous vehicles remains substantial. Trucking alone is a $4tr market where the driver represents 39% of variable cost per mile while the US market looks ideal for autonomous solutions given that 10% of the nation's trade corridors account for nearly 80% of goods moved. In terms of the portfolio, we hold small positions in Aptiv, a tier one supplier with exposure to both active safety and high voltage electrification, Unity Software which repurposed its game engine for autonomous vehicle simulation and Seeing Machines, which provides driver monitoring systems to the commercial fleet and automotive markets. We also gain exposure to the space through semiconductor companies such as Infineon, STMicroelectronics and NVidia as well as large technology companies like Alphabet and Apple which have optionality in their autonomous vehicle development programs.

Healthcare represents another key emerging area following a remarkable year for the industry epitomised by the discovery of multiple vaccines in just ten months compared to an average development cycle of 10 years. We witnessed an unprecedented level of investment, data sharing and collaboration. In addition, the pandemic has provided the impetus for much-needed behavioural change that is often hard to achieve but, once attained, rarely goes into reverse. For example, telemedicine has evolved from a corporate perk to a vital part of the care continuum even if tough comparisons stymie stock progress of listed providers for now. Pharmacies are also (finally) moving online while the pandemic has greatly advanced the case for home health and remote care utilising wearables, diagnostics and smart home devices. These changes dovetail nicely with the shift towards value-based care in the US, which should accelerate given the drain on resources that covid has caused to a healthcare system now projected to be insolvent by 2024.

The pandemic has also helped to highlight the benefit of minimising any interactions that are invasive, time consuming and labour intensive. This should strengthen the case for molecular diagnostics in mass first-line screening which holds the promise of saving lives and materially reducing healthcare costs. We are focused on the liquid biopsy market for cancer screening, a market valued at c$70bn in the US alone, via a small holding in Guardant Health. Penetration is low today, with usage primarily focused on tumour mutations, but we believe that vastly improved technology coupled with the experience of 2020 have sufficiently tipped the scales in any cost/ benefit analysis. We are also hugely excited about the potential of AI to ease back-office burdens, reduce waste and streamline processes in healthcare settings. The pandemic has also accelerated AI triage, lowering the hurdle (and scepticism) amongst the medical community for these technologies. Combined with ongoing advances in natural language processing (NLP), commercial solutions such as those offered by Babylon Health (private) are likely to be the first of many. Microsoft's recently announced c$20bn acquisition of Nuance Communication – a leader in voice recognition focused on the healthcare domain – reflects this significant medium-term opportunity. We are also excited about the rise of the metaverse, platforms for shared online experiences where people can interact in virtual environments to play, learn and work together. This emerging theme has benefited from the lack of physical gatherings during covid epitomised by the Travis Scott concert within Fortnite watched by 12m people in-game and a further 140m on YouTube. We have a taken a position in Roblox because of its potential as a creative gaming platform where content development is outsourced (meaning the product is constantly evolving) with revenues generated largely via fees on in-game transactions. A recently signed partnership with Hasbro reflects this potential with more than 42m daily active users (DAUs) – mostly younger people - spending 9.7bn hours on the platform during Q1. We also own a starter position in Coursera, a leading online learning platform that serves 77m learners worldwide. We also remain excited about the long-term promise of virtual reality (VR) which represents the apogee of this theme but where adoption remains nascent with just 4.9m units sold in 2020. We are well placed to benefit from any inflection via holdings in Facebook, Unity Software and a tail position in eye-tracking solutions provider, Tobii Technology.

The rise of the metaverse represents one potential future for the widespread adoption of video as an alternative to face-to-face meetings, but the gap between 'where we are' and 'where we could get to' still feels substantial. The muted reception to Apple's 'drop the mic' Q2 and the subsequent narrative shift epitomises the issue facing the technology sector today – victim of its own stunning success unable to prove its durability at a time when other sectors are more straightforward beneficiaries of margin improvement, economic reopening and/or inflation. While some of this is optical (reflecting difficult comparisons from Q2'20 onwards) we may have to wait until 2H22 before the technology sector is able to reassert its superior earnings growth profile.

Despite this, absolute growth should remain robust with the information technology sector currently forecast to deliver revenue growth of 15% and 8% in both 2021and 2022, ahead of the S&P 500 in both years. We expect our own portfolio to deliver revenue growth in excess of this given our growth-centric approach; current bottoms-up models estimate nearer to c20% in both years. As such, we will look to take advantage of any sector weakness as long as it remains driven by adverse rotation and divorced from robust fundamentals. With inflation becoming a key focus for investors, we understand the temptation to declare the end of one investment regime and the beginning of another. Rather than considering the pandemic as last cycle's 'crowning moment', we believe that – in time – it, and a new resulting work modality, will prove the foundation for the next-wave of technology disruption. This will see our sector extend its reach into large and relatively untapped markets such as financial services, healthcare, food and education.

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Walter Price, manager of Allianz Technology - 30 July

While value stocks outperformed growth stocks over the six months, the Fed's more hawkish tone sparked a reversal of the reflation trade in June: technology companies returned to favour, while cyclical stocks, such as materials and industrials companies, lagged.

As the world moves beyond the pandemic, we expect long lasting impacts to consumer behaviour and how companies serve their customers. Even prior to the onset of the pandemic there was an imperative for companies to digitally transform to better serve their customers. We believe the pandemic only accelerated this trend and that technology has become a critical piece for companies to operate more efficiently and to have ongoing engagement with their customers.

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Financials

(compare country specialist funds **here**)

Robert Kyprianou, chairman of Polar Capital Global Financials - 2 July

The combination of economic recovery, rising inflation risks and heavy public debt financing needs all raise the prospect of higher interest rates, probably initially in the form of steepening yield curves as central banks anchor the very short end of the curve for the time being. This combination of growth combined with rising interest rates presents a very favourable background for bank stocks in particular. More broadly, despite its recent re-rating, the financials sector remains good value both on a relative and absolute basis. Finally, with the improved outlook for the sector, and banks in particular, beginning to be reflected in earnings forecasts, and with the perception of risks in the sector moderating significantly, the prospects for dividend growth and share buybacks will be a further positive driver for the sector.

Success in dealing with the pandemic and the path of economic recovery have deviated globally, with the US, the UK and parts of Asia leading the way. Also, the various sub-components of the financials sector have differing exposure to the growth-inflation-rising interest rate outlook. Stock selection will continue to be a key driver of relative performance. The Board remains confident that the Investment Manager has the capability to exploit the opportunities the sector offers on behalf of our enlarged shareholder community.

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Debt

(compare debt funds **here**, **here** and **here**)

John Pattulo and Jenna Barnard, managers of Henderson Diversified Income - 5 July

Volatility and measures of distress in credit markets are at 15 year lows. Credit markets are priced tight but arguably fairly given the remarkably benign outlook. In this market it is more important than ever that we keep focused on sensible income and not get drawn to illusory "fools yield" bonds where the yield is so high you are almost guaranteed to lose capital. We are very mindful of value traps, illiquid, esoteric and exotic credits. The COVID crisis accelerated many of the existing structural themes we have spoken about in previous reports and if anything, in the longer term we see a more deflationary world. We completely understand the markets obsession with inflation but feel it is predominately a cyclical and transitory phenomenon. The modest rise in bond yields may well give us an opportunity to lock in higher yields for shareholders and, reassuringly, in the current environment we feel the annual dividend remains secure.

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Managers of Twentyfour Income - 9 July

While the last quarter of the year initially saw a healthy amount of new issuance, supply tailed off in all sectors other than CLOs as the year drew to a close. Those deals that did come to market during this year saw a very high degree of oversubscription compared to historical levels, reflecting a strong appetite for risk from investors and trading desks. The market appetite has not diminished with the subsequent reduction in supply, setting the stage for positive price performance going forward. Issuance is not expected to outweigh demand based on current indicators, despite expectations of an increase. As mentioned, CLO issuance will remain strong, and existing transactions continue to be refinanced, a trend we expect to continue for the remainder of this year, as various sub-Investment Grade bonds are still trading at a discount, allowing for extra performance for investors.

Risks persist, and, as noted above, a move to a more normal level of support for consumers and corporates as economies reopen will likely see deterioration in loan performance But historically the main risk has been market price volatility, and typically this has been relatively short-lived. At the time of writing, the main focus of fixed income market participants would appear to be the path and persistence of future inflation and the Fed’s response to this. Indeed a policy error or ongoing battle between the Fed and the markets would appear to be the most apparent source of volatility. While the floating rate nature of European ABS might mitigate this, a material drop in risk tolerance in such a circumstance could, if sustained, have the potential to push spreads wider.

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Leasing

(compare leasing funds **here**)

Managers of Amedeo Air Four Plus - 26 July

On 3 February 2021, the International Air Transport Association (IATA) announced full-year global passenger traffic results for 2020 showing that demand fell by 65.9% compared to the full year of 2019. IATA describes this as by far the sharpest traffic decline in aviation history. International passenger demand in 2020 was 75.6% below 2019 levels, while capacity, measured in ASKs, declined 68.1% and load factor fell 19.2 percentage points to 62.8%. Unsurprisingly, domestic demand in 2020 was slightly better than international demand, but was still down 48.8% compared to 2019 levels, while capacity contracted by 35.7% and load factor dropped 17 percentage points to 66.6%.

Despite the underwhelming results in 2021 thus far, IATA estimates that travel demand (RPKs) will recover to 43% of 2019 levels over the year. While that is a 26% improvement on 2020, it is far from a recovery. Domestic markets will improve faster than international travel. Overall passenger numbers are expected to reach 2.4 billion in 2021. That is an improvement on the nearly 1.8 billion who travelled in 2020, but well below the 2019 peak of 4.5 billion. Industry revenues are expected to total USD 458 billion. That's just 55% of the USD 838 billion generated in 2019 but represents 23% growth on the USD 372 billion generated in 2020.

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Infrastructure

(compare infrastructure funds **here**)

Robert Jennings, chairman of Sequoia Economic Infrastructure Income - 6 July

Overall, the infrastructure debt markets are in a much healthier position than they were 12 months ago. Credit quality is improving as economies have emerged from lockdown and uncertainties in different parts of the market have abated.

In particular, we are seeing excellent opportunities in several parts of the market. The first of these is the infrastructure required for the transition to a lower carbon world, such as renewable energy and related projects, electric vehicles, battery storage, and various mass transport projects. Secondly, infrastructure in the telecoms sector remains attractively priced, including assets such as mobile phone towers, data centres and broadband. We have been able to find attractive opportunities to lend in these sectors where traditional bank lenders are unable to provide the required capital. Thirdly, infrastructure projects still find it difficult to source mezzanine or subordinated debt from lenders, and the shortage of this type of capital provides the Company with attractive lending opportunities across a wide range of sectors.

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James Smith, manager of Premier Miton Global Renewables - 30 July

The economic acceleration, exacerbated by the lower investment levels seen over recent years, drove commodity prices higher during the first half of 2021. Of particular relevance for electricity generation, natural gas and coal prices were strong. For instance, in the US “Henry Hub” natural gas prices increased by over 40%.

This in turn has led to higher electricity prices, with gas fired electricity generation having high marginal costs in comparison to renewables and nuclear, making it the key price-setting technology for many electricity markets.

Meanwhile the pullback in renewable energy company valuations provided additional investment opportunities and is to be welcomed. The majority of companies reported healthy earnings and dividends for 2020 despite the pandemic, and we anticipate 2021 will be equally strong.

The long-term investment case for renewables is bright, and we believe that higher commodity and carbon prices could lead to investment opportunities in the second half of the year in those companies with higher power market exposures.

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Renewable energy infrastructure

(compare renewables funds **here**)

Shonaid Jemmett-Page, chairman of Greencoat UK Wind - 29 July

There are currently over 25GW of operating UK wind farms (14GW onshore plus 11GW offshore). In monetary terms, the secondary market for operating UK wind farms is over £70 billion.

In November 2020, in advance of the delayed COP26 conference scheduled for November 2021 in Glasgow, the Prime Minister announced a 10 point plan for the delivery of the 2050 net zero emissions target. A key part of that plan is a 40GW offshore wind target for 2030, supported by the CFD regime. New build onshore wind and solar are also expected to contribute, both on a subsidy free basis and supported by the CFD regime. In general, the outlook is very encouraging.

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Managers of Gore Street Energy Storage - 15 July

GB Revenue Outlook

Electricity transmission and distribution network operations are increasingly complex, due in part to increased penetration of variable renewable energy, with more rapid changes in power generated and increased frequency and power quality stability. As a result, grid operators need to procure capacity that can react quickly to fluctuations in generation and provide frequency and power quality stability. This manifests itself in an ever-increasing demand for battery storage projects which can address the supply and quality issues.

The GB storage market was further incentivized in the reporting period, by certain changes to market regulations in the form of reduced levies on stand-alone storage facilities and a reduction in capacity charges of approximately 30% (location-dependent). Storage is now also exempt from variable 'BSUoS' charges (system charges related to National Grid's balancing of the demand and generation on the transmission system), which could potentially reduce the costs associated with operating storage systems.

(a) Frequency Services:

Frequency services balance supply and demand of electricity to ensure that frequency remains at 50 Hz (+/- 1%). As grid technology increases in complexity, the need for balancing services increases.

Dynamic Containment is a more complex form of frequency response that requires a faster response in the event of a sudden demand or generation loss in order to manage the imbalance in frequency in under a second.

(b) Capacity Market:

The Capacity Market is a stable contract of between one to fifteen years in duration, to deliver power at times of peak demand to the grid. 87 per cent of the GB portfolio participates in the capacity market (as at fiscal year-end) and 100 per cent of the portfolio is expected to participate in the Capacity Market by October 2021.

The Company's GB portfolio benefited in the fiscal year from the highest capacity price awarded to storage at auction to date, with the recent T-4 auction (delivery year 2025/26) generating 2.5X previous revenues.

(c) Energy Trading:

The trading markets provide an opportunity to buy and sell power at attractive rates. Energy storage systems remain well-suited to take advantage of price volatility and the Company opportunistically participates in both Balancing Mechanism actions ('instructions' by the National Grid to registered systems, to balance the network in real-time) and in energy trades between consumers and generators.

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Environmental

(compare environmental funds **here**)

Jon Wallace, manager of Jupiter Green - 6 July

It has been encouraging to see how, over the course of the COVID-19 pandemic, the drivers of green investment have continued to gain momentum. This was by no means assured at the beginning of the review period, and stands in notable contrast to the years following the last major global crisis in 2008/9.

Looking beyond the many headlines of the heightened financial and political capital that is mobilising to address pressing environmental challenges such as climate change, it is now becoming clear that our investment opportunity is entering a new and decisive phase. The continued growth of environmental solutions that have for many years been central to global efforts to address related challenges, such as Clean Energy technologies, will of course continue to play a key role in achieving critical sustainability goals. However, they alone will be insufficient. Developing and applying new, innovative solutions towards 'hard to tackle' sectors of the economy that have to date made little progress transitioning to an environmentally sustainable pathway marks the next major challenge and one that brings with it a new opportunity set.

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Royalties

(compare royalties funds **here**)

Investment advisor for Hipgnosis Songs - 5 July

Whilst we never would have wished for a pandemic to prove our thesis, it has accelerated the consumption of classic songs through streaming and demonstrated exactly what an excellent uncorrelated asset class proven Songs are. Today, as the market has grown from 30 million paid subscribers to music streaming services in the US when we started, to the current 450 million globally, there are over 100 million homes in the United States that are paying for a premium music streaming service. Add in the explosive growth of TikTok, Peloton, Triller, NFTs and other new uses of music that are new income streams, expected to be a material portion of our revenue going forward, and not part of the data on which we buy Catalogues, and the investment case becomes stronger with each passing day. The same goes for emerging markets such as India, Africa and China whose nascent growth in revenues are also not included in the data on which we buy. By the time we get to the end of the decade, there are expected to be 2 billion paid subscribers worldwide.

The pandemic now looks set to lead us into inflation and again we are extremely well placed with Songs as an asset class for our Shareholders to be beneficiaries. With all our Catalogues chosen due to their extraordinary success and cultural importance, we believe extra high levels of streaming demand are a natural feature. As an example, Journey's catalogue has, over the last 4 months, grown from 2.5 million to 3.7 million streams per week on Apple Music and 13 million monthly listeners on Spotify. Don't Stop Believin' on its own now has over

1 billion streams on Spotify alone, both incredible achievements for classic Songs. This accelerated growth leaves us well positioned for the future, with increased expectations for income over the long term. Concurrently, we've felt some temporary decline in our Performance income consistent with the entire industry, but we expect that to turn around by the autumn.

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Property

(compare UK property funds **here**)

David Sleath, chief executive of SEGRO – 29 July

A significant portion of occupier demand continues to arise from the increased use of digital channels by retailers and consumers which, in turn, is driving increased e-commerce penetration and consumption of data across Europe. Although internet sales penetration levels have understandably fallen from their highs as physical retail has reopened, they remain significantly higher than pre-pandemic levels as cultural barriers have been overcome and habits have changed. We believe that the long-term trend towards increased online shopping has been amplified and accelerated by the pandemic and this has given a new impetus to demand for space.

Coupled with that, many customers and logistics suppliers are placing renewed emphasis on supply chain resilience, near-shoring and local sourcing, improved customer service and cost or inventory efficiency which are fuelling increased demand for modern, well-located warehouses – both urban and big box. We expect these themes to continue for some time. More recently we have also seen demand arising from emerging new sectors including creative industries and q-commerce (including rapid food delivery providers).

Record levels of take-up across Europe have resulted in low vacancy rates and in most of our markets supply currently equates to less than a year of take-up. This is resulting in rental growth in our core markets, most notably in urban areas where the combination of a shortage of modern warehouse space, a shortage of land suitable for development and the diversity of the occupier base is most prevalent. Given these strong market dynamics investor demand for well-located, modern industrial assets is likely to continue to grow, putting further upward pressure on asset values.

Steven Owen, chairman of Primary Health Properties – 28 July

The provision of healthcare in the UK and Ireland will need to be transformed over the coming years as the NHS and HSE respond to the long-term requirements of dealing with the COVID-19 pandemic together with the resultant backlog of non-COVID-19 treatments that have been suspended and now need to be addressed. While remote consulting is here to stay, we do not expect it to have a material impact on future space requirements; although useful for an initial triage, it often results in the need for a subsequent physical appointment or is not suitable for all patients, especially the elderly.

In July 2021, the government published a draft Health and Social Care Bill setting out a number of reforms in order to implement the commitments of the NHS England Long Term Plan including the introduction of regional Integrated Care Boards and Partnerships tasked with co-ordinating NHS partners with local government services and budgets such as social care and mental health, in a geographic area, for the first time. The idea being that services are then pushed to the most efficient, cost effective part of the system (whether primary care, hospital or care home) for the best patient outcomes. We welcome these reforms and are hopeful they will lead to further development opportunities in primary care in the medium to long-term.

With many services now expected to move away from hospitals and into primary care facilities together with the NHS's ambition of being the world's first carbon net zero healthcare system by 2045; these changes will undoubtedly require substantial investment into other areas, most notably primary care that will be able to take on the non-urgent and periphery procedures and deal with the long-term demographic trends of populations that are growing, ageing and suffering from more instances of chronic illness.

Richard Shepherd-Cross, manager of Custodian REIT – 21 July

UK commercial property investment activity in the first half of 2021 has been at levels last seen in the first half of 2018, according to a recent report by Carter Jonas, with over £20bn of investment. Market demand has been focused on the industrial and logistics sector where rising prices continue to indicate record low yields, but demand for office investment is resurgent, with Q2 outstripping Q1 and the retail warehouse market is also showing a sharp recovery in investment activity. Colliers reported £1bn of investment into retail warehousing in the first half of the year and, in common with the office sector, Q2 was stronger than Q1.

Investment demand has been matched by occupier activity. In the industrial and logistics sector there is a depth of demand from a range of occupiers which, along with limited supply, restrictive planning and build-cost inflation constraining the pipeline of new development, is leading to sustained rental growth. These factors have resulted in a £20.2m (7.5%) increase in valuation during the Period. In strong regional office locations, where office space is well-matched to occupier demand, rental growth is taking place and many occupiers are starting to plan for post-pandemic working practices. Demand for retail warehousing let off low rents is robust despite, or perhaps due to, pandemic-restricted shopping habits. Challenges remain on the high street, but on prime and good secondary high streets, rents are finding a level which can attract occupiers and maintain occupancy.

Peter Lowe, manager of BMO Real Estate Investments – 26 July

The property market continued to deliver positive total returns over the second quarter with the continuing success of the vaccine roll-out and further relaxation of restrictions contributing to improving consumer, business, and investor sentiment. A note of caution remains around the rising COVID-19 cases, which is continuing to weigh on the manufacturing, retailing and hospitality sectors, with isolation protocols leading to staffing shortages.

As in previous quarters, performance was driven primarily by the industrial and distribution sectors where the weight of investor demand is continuing to generate yield compression with occupational markets offering further support to pricing through leasing activity and rental growth. Yields across all Industrial sub-sectors are trending down in the context of strong occupational fundamentals driving record low vacancy rates and correspondingly attractive rental growth.

The retail sector is showing signs of some stabilisation, with opportunistic investors beginning to call the bottom of the market. There is caution however and sentiment is fragile given the likelihood of further rental decline and occupier fallout as COVID support measures unwind. While the yields are no longer falling at the same rate, valuations remain under downward pressure.

While the nature of the UK's return to work and adoption of flexible working practices remains uncertain vacant space in the office markets is increasingly being taken up and large corporate occupiers are beginning to move to acquire new space. However, this recovery will not be spread evenly across geographic regions and asset types, which is continuing to weigh on the offices sector as a whole.

Richard Smith, chief executive of Unite Group – 27 July

We have growing visibility and confidence over our income for the 2021/22 academic year, reflecting record student demand and an enhanced campus experience this autumn. This underpins our guidance for occupancy of 95-98% and rental growth of 2-3% for 2021/22. There remains a higher risk than usual to occupancy due to uncertainty around international student arrivals, although we have minimal exposure to students currently in red list countries.

We are anticipating record student numbers for the 2021/22 academic year, with UCAS data showing a 4% increase in the number of applicants as at the 30 June deadline compared to 2020/21. A record 43% of UK 18-year-olds have applied to university this year, reflecting growing awareness of the opportunities and life experience it provides. Applications from non-EU students are up 14%, including notable growth from China and India, which has helped to substantially offset the expected decline in EU applications (-43%) as a result of Brexit and COVID-19 travel restrictions.

All Higher Education students were allowed to return to in-person teaching from mid-May and the Government has recently confirmed that there will be no restrictions on in-person teaching and learning in universities from 16 August. A recent student survey by HEPI underlined that in-person teaching remains fundamental to student experience and their perception of value from their course. Universities will continue with blended learning in the Autumn term, albeit with a greater emphasis on in-person teaching in smaller groups, tutorials and practical settings. There remains a risk that student numbers and demand for student accommodation could be impacted by a further wave of COVID-19. In particular, there is uncertainty over international student numbers, given ongoing travel restrictions.

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Ian Hawksworth, chief executive of Capital & Counties – 27 July

Elevated level of enquiries, strong transactional activity and improving sentiment indicate that the worst of the pandemic may be behind us. There remain challenges in the near term, however the return of office workers and opening of nightlife and theatres will help the economy move towards more normal levels of activity. Covent Garden vacancy remains low, although wider vacancy issues across the West End may take some time to be absorbed by the market.

Customer sales data is moving in the right direction with positive trajectory to date and it will be important this continues for the rest of the year to build towards the important Christmas trading period. The pace of rental decline has slowed, and yields are stable reflecting the valuers' view on improving sentiment and the strength of demand for this prime central London estate.

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Jeff O'Dwyer, manager of Schroder European Real Estate - 7 July

The initially slow rollout of COVID-19 vaccines in the EU and the new surge in infections during March and April means that many countries are likely to remain in lockdown or under tight measures to control the spread of the virus. Accordingly, Schroders now expects the recovery in eurozone consumer spending once non-essential shops, bars and restaurants re-open to begin in the second half of 2021. Germany is likely to be the first of the big four countries to get back to its pre-virus level of GDP, thanks to the recent strength of its exports trade with Asia and the US. Italy and Spain, which are more reliant on tourism, may not fully recover until 2023. The rebound in energy and commodity prices means that inflation is likely to accelerate to 2% by the end of 2021, before easing to 1.2% next year. We expect the ECB to leave the refinancing rate at zero and continue with quantitative easing through to the end of 2022.

Looking forward, the real estate sector is becoming increasingly operational, with technology arguably increasing a building's physical life whilst limiting its economic life. This could increase obsolescence and therefore favour buildings in mixed-use, densely populated urban areas that can be adapted to new technologies and changing occupier trends. Occupiers will also require more personalised service levels and increased engagement with landlords so that both can deliver their sustainability objectives.

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