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INVESTOR

Economic & Political Roundup

Monthly roundup | Investment companies | December 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

Just when we thought COVID-19 was behind us, the discovery of the new Omicron variant towards the end of November has shaken nerves and markets alike. For the bulk of the month however, investors were most concerned about rising inflation and supply chain issues around the world. In the UK, this has been heightened by a lack of skilled labour, especially in the run-up to Christmas when demand for goods and services is higher than usual. Brent oil, gold, treasuries and gilts all fell as did most markets around the world including the MSCI Asia Pacific, MSCI United Kingdom and MSCI Emerging Markets. The MSCI USA rose by 1.6% in November, continuing its 2021 trajectory, though it will be interesting to see what kind of impact the Omicron variant will have.

Global highlights

Supply chain woes

Kate Fox and Lee Qian, managers of Keystone Positive Change, believe the world is achieving breakthrough science and technological discoveries at an unprecedented pace; and these breakthroughs will reshape how we live and how we care for our environment.

Scottish Mortgage managers, James Anderson and Tom Slater, are optimistic and enthused over the next decade which will see many opportunities as a result of multiple drivers of change from continued digitalisation to the much-needed energy transition.

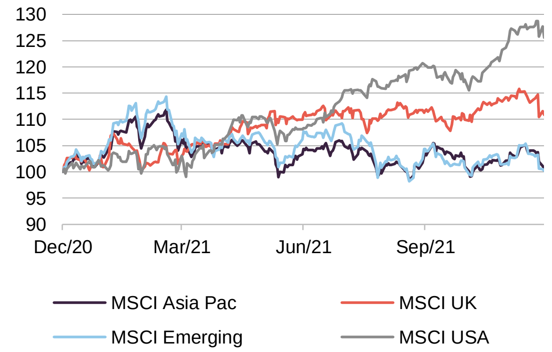
Joe Bauernfreund, manager of AVI Global, says the intertwined themes of inflation, interest rates and growth continue to dominate investor thinking and drive markets.

Exchange rate	30/11/21	Change on month %
GBP / USD	1.3299	-2.8
USD / EUR	0.8819	2.0
USD / JPY	113.17	-0.7
USD / CHF	0.9189	0.3
USD / CNY	6.3645	-0.6

Source: Bloomberg, Marten & Co

MSCI Indices rebased to 100

Time period 01/12/2020 to 30/11/2021



Source: Bloomberg, Marten & Co

Indicator	30/11/21	Change on month %
Oil (Brent)	70.57	-16.4
Gold	1774.52	-0.5
US Tsy 10 yr yield	1.4443	-6.9
UK Gilt 10 yr yield	0.809	-21.8
Bund 10 yr yield	-0.351	228.0

Source: Bloomberg, Marten & Co

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November's highlights

UK

Supply chain disruption is the biggest concern on investors' minds at the moment

The managers of Chelverton UK Dividend say that fears over supply chain disruption, availability of skilled labour and rising inflation have dampened expectations for the year.

Ian McCombie and Milena Mileva of Baillie Gifford UK Growth say they are more interested in the impact of supply chain disruption rather than COVID-19 or temporary cost headwinds.

Jonathan Cartwright, chair of BMO Capita & Income, thinks that there are more issues of potential concern than usual, he also cites global supply chains and rising interest rates.

Montanaro UK Smaller Companies' Charles Montanaro highlights the two market rotations that bookended the six months to 30 September 2021. He thinks that the UK looks attractive as the economy reopens and the overhang of Brexit fades.

The managers of Odyssean have become increasingly confident of the medium to long term value uplift potential of many companies.

James De Uphaugh and Chris Field, managers of Edinburgh Investment Trust, say the bottom-up picture in the UK continues to show signs of health, providing reasons for optimism.

Steve Bates of JPMorgan Elect says liquidity conditions are likely to remain benign which means interest rates will stay low, even as central banks try to engineer a return to normal monetary policy.

Some managers feel the UK economy should be able to adapt to the challenges it faces

Chelverton Growth's David Horner says the UK economy is dynamic and should adapt to the challenges it faces and that there will always be opportunities for nimble businesses operating in niche markets.

The chair of Troy Income & Growth says that there is widespread commodity inflation and many eyes are now fixed on central bankers and the timescale of interest rate rises. This backdrop has been highly supportive for more economically sensitive parts of the UK market, including commodity-linked businesses such as mining and oil & gas.

The manager of Schroder Income Growth says the Covid-19 pandemic has proved to be the ultimate exogenous shock - an unpredictable, global event that has brought economies to a standstill and continues to impact supply and demand, companies and consumers,

Peter Dicks, chair of SVM UK Emerging, says the sharp recovery in the UK economy is creating value in some disruptive businesses.

Fidelity Special Values' manager, Alex Wright, see both risks and opportunities ahead.

The long-term impact of COVID-19 will continue to challenge markets

Ronald Gould, chair of BlackRock Smaller Companies, says the longer-term implications of social and economic disruption from COVID-19 will continue to challenge markets.

Downing Strategic Micro-Cap's chair thinks there is more uncertainty now than there has been for a while.

Europe

The JPMorgan European team discusses how cyclical stocks have enjoyed a spectacular run and discounted much of the recovery.

Supply chain disruption is currently a defining characteristic of European markets too

Stephen Paice and Moritz Sitte, the managers of Baillie Gifford European Growth say in our post-pandemic world, it's clear that supply chain disruption is one of its defining characteristics.

Montanaro European Smaller Companies' chair also believes the aftershocks of the global pandemic continue to reverberate around the world as supply chains strain to support the recovery of demand.

The managers of BlackRock Greater Europe, Stefan Gries and Sam Vecht, expect nominal global gross domestic product growth to remain in a range of 3% to 6% and for interest rates to stay low for a prolonged period of time.

Biotechnology & Healthcare

Worldwide Healthcare managers, Sven Borho and Trevor Polischuk, note how the biotechnology sector has underperformed this year following record numbers in 2020.

The manager of Syncona says it is excited about cell and gene therapies, where data continues to be supportive and offers opportunity for innovative biotech companies.

After a strong 2020, the biotech sector has underperformed this year

Geoff Hsu, manager of Biotech Growth, explains why he exited COVID-19 related stocks shortly after the Delta variant surge and what next for the biotech IPO market.

The investment management team at International Biotechnology think the speed and success of the COVID-19 vaccination programme has had a profound impact on how the developed world was able to mitigate the impact of the pandemic and restore economic confidence.

Other

We have also included comments on **global emerging markets** from Templeton Emerging Markets and Utilico Emerging Markets; **Asia Pacific** from Aberdeen Standard Asia Focus and Schroder Oriental Income; **Latin America** from Aberdeen Latin American Income; **Japan** from Aberdeen Japan; **China** from Fidelity China Special Situations; **India** from Aberdeen New India; **flexible investment** from Personal Assets, Hansa, Caledonia, JPMorgan Global Core Real Assets and Capital Gearing; **technology & media** from Augmentum Fintech; **private equity** from 3i; **debt** from TwentyFour Income; **infrastructure** from HICL Infrastructure, Cordiant Digital Infrastructure and Sequoia Economic Infrastructure Income; **renewable energy infrastructure** from JLEN Environmental Assets and NextEnergy Solar and **property** from Shaftesbury, Helical, Great Portland Estates, British Land, Land Securities, LondonMetric, Urban Logistics REIT, Assura, Custodian REIT, AEW UK REIT and NewRiver REIT.

Global

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

Kate Fox and Lee Qian, managers of Keystone Positive Change - 26 November

Our world is changing, and change needs to happen but must be directed for the better. Despite some tremendous progress over the years which has led to poverty rates declining, longer life expectancy and exciting technological discoveries, our world is facing several significant challenges that are complex and often interlinked, from climate change and biodiversity loss to global pandemics and persistent inequalities. These challenges have been stark this year, with wild fires, heat domes and extreme flooding highlighting the pace at which our weather systems are changing as our home, planet earth, gets perilously warmer. Covid-19 has highlighted how climate change, biodiversity loss and human habits are bringing animal viruses closer to humans and that the way we live - globalisation and urbanisation - is hastening the spread of disease. We have all been in this pandemic but in different boats - those without access to digital devices have fallen behind as education moved online and access to vaccines is not yet universal.

Our academic partners at the University of Sussex and Utrecht University articulate it well and with a refreshingly long time horizon. They describe the previous 250 years as the First Deep Transition, encompassing five great surges of development or technological revolutions: the mechanisation of the cotton industry; the age of steam and railways; electricity and heavy engineering; oil, automobiles and mass production; and telecoms and information. This transition provided great industrial progress and created great wealth but also wicked problems, to which the response will be the Second Deep Transition as we undo the wrongs created over the last 250 years. As we strive to meet the Sustainable Development Goals that aim to address climate change, reduce inequalities and build a more prosperous and peaceful world by 2030, the United Nations describe this as the Decade of Action - but could it be (at least) the century of action?

This might sound rather downbeat. However, we are (concerned) optimists. The world is achieving breakthrough science and technological discoveries at an unprecedented pace; and these breakthroughs will reshape how we live and how we care for our environment.

We don't make any attempts to predict the direction of bond yields or markets. Rather, we try to understand what the next waves of innovation might be and what implications they might have for society and our planet over the next 5, 10 or 25 years. It feels as if we are on the cusp of several waves of innovation and transformation, including the energy transition, electrification, a material revolution, genetics, AI and quantum computing. Each of these waves in isolation are exciting; in combination, they could be incredibly powerful.

Our focus is on identifying the wave makers - the companies driving change and disrupting the status quo - and to play our role in helping the development and scaling of innovative solutions to global challenges by providing long term and supportive capital, something which has sadly become increasingly scarce over the years. By doing so, we step up to our responsibility in steering towards a more sustainable and inclusive future and can identify exceptional businesses that will deliver attractive returns for shareholders. We thank you for joining us on what we believe to be an important and rewarding journey for savers, people and our planet.

James Anderson and Tom Slater, managers of Scottish Mortgage - 17 November

Over short periods, such as the last six months, the market has naturally found various things to worry about. A long-term approach is helpful here. It enables us to focus not on the cacophony of the stock-markets but the more predictable drumbeat of deep underlying progress. It has been the long-term and exponential improvements in computing technologies, genomic sequencing and energy storage that continue to strike us as the most important determinates of long-term returns.

These long-term trends may be too slow to shape financial news headlines in a single period, but they compound over time as they grow in impact. Moreover, the powerful trends in computing technologies appear to not just be continuing but broadening in utility and application beyond the narrow remits of consumer internet to industries larger and far more diverse.

We have no right to claim insight over the possible gyrations of stock markets over shorter time periods. As we anticipate the next decade we are both optimistic and enthused. It strikes us that there are multiple drivers of change and thus opportunity. These include the continuing digitisation of our economy, the intersection of information technology and biology and the much-needed energy transition. Together they provide an opportunity set that is profound and diverse. We look forward to continuing to back the companies and visionaries that drive and take advantage of these powerful long-term trends.

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Joe Bauernfreund, manager of AVI Global - 9 November

It would be a cliché to say the previous year has been unprecedented - as they say, history does rhyme - however, when the first global pandemic in over 100 years brings the world to a halt, I am at a loss to think of a better word. The past 18 months or so have been completely dissonant with any period that has come before - at least in the lifetime of any investment practitioner. The scope of the uncertainty, and associated challenges, has been massive.

As we moved into the second and third quarters of AGT's financial year, the market became increasingly concerned with the prospect of sustained, above-average inflation, generated by both a rebound in economic activity and supply-chain difficulties. Rates initially rose, reflecting inflationary fears, but declined again when the United States Federal Reserve indicated that it stood ready to raise rates if it believed that inflation was at risk of becoming entrenched. In turn, the "value rally" began to peter out and "growth" began to outperform again. To compound matters, this coincided with a change in the regulatory environment in China, with the ruling party expressing a desire to promote "common prosperity".

The intertwined themes of inflation, interest rates and growth continue to dominate investor thinking and drive markets. The optimism that characterised the start of the year has subsided; hopes of reflation have slid to fears of potential stagflation. Concerns about China's regulatory environment and possible contagion from the Evergrande property crisis lurk in the background as potential risks. Yet, markets continue to grind higher, as the successful global vaccine roll-out and accommodative monetary policy conditions continue. In an environment such as this we believe it makes sense to increase the level of portfolio concentration to reflect our most attractive and highest conviction ideas.

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UK

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

Managers of Chelverton UK Dividend - 26 November

Having recovered strongly from the depths of the pandemic, the market has paused for breath over the past 6 months, with fears over supply chain disruption, availability of skilled labour and rising inflation dampening expectations for the full year. It is important to remember that whilst we are small and mid-cap investors, the companies that we invest in are sophisticated in the industries in which they operate. While they are not immune from the well documented short-term problems, they do have the strength and depth of management and technical resource and ability to deal with the worst effects of the issues.

It is likely that companies will need to present a "clean" set of results, unaffected by the pandemic, before they get the credit they deserve for improving their businesses over the course of the downturn, however this gives us confidence over the medium term. Reassuringly dividends are returning to the boardroom agenda, although there is some way to go to get back to pre-pandemic levels of dividend income across the market.

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Iain McCombie and Milena Mileva, managers of Baillie Gifford UK Growth - 26 November

The post-pandemic disruption of global supply chains and the rising spectre of inflation have been the topic du jour in financial markets for much of this year. It is important to frame issues, such as supply chain disruption, in the context of our long-term approach; ultimately, this ought to be a temporary phenomenon and we are more interested in identifying the kind of deep, enduring changes which can enable businesses to deliver sustained above average growth. For example, elevated freight costs are certainly a headache for Boohoo in the short-term and impacted the share price. However, the pandemic has also only reinforced the divide between the structural winners and losers in fashion retail and we think Boohoo is resolutely in the former camp. Whilst the market frets over temporary cost headwinds and post-Covid-19 normalisation, we are more interested in the long-term investments Boohoo has continued to make in its multi-brand platform, investments which are significantly expanding its total addressable market. The impact of supply chain disruption is not uniformly negative. Some businesses and management teams can use periods of turbulence to their advantage, leverage their competitive strengths and put pressure on the competition.

The last twelve months have seen a welcome surge in the UK stockmarket but in relative terms has been less rewarding for growth investors as lower rated stocks have re-rated and performed better. Although the Covid-19 pandemic backdrop is unprecedented, such periods of underperformance for growth investors in the UK are not unusual in our experience and does not concern us unduly. Never forget that disruption and dislocation present opportunities for nimble and far sighted management teams and it usually takes time for this to be widely recognised.

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Jonathan Cartwright, chair of BMO Capital & Income - 25 November

It is fair to say that my second year as Chairman has been very different from the first. This year we experienced the recovery of equity markets following the COVID-19 related collapse the previous year. A look at the revenue and earnings for the year shows very strong rates of growth, but this would be a misrepresentation of the longer-term situation. At the start of the COVID-19 pandemic many companies stopped paying or reduced their dividends.

Whilst the future is always uncertain, it certainly feels at present as though there are more issues of potential concern than usual notwithstanding the initial success of the UK Government's COVID-19 vaccine rollout. At the time of writing, the rate of new COVID-19 infections appears to have abated somewhat in the UK. However, as we are seeing in Europe, the possibility of restrictions being reimposed cannot be ruled out. After the success of the vaccination programmes to date, this would clearly be a retrograde step for social and economic reasons and would not appear to be built into market forecasts.

Globally, supply chains are under enormous pressure, energy prices are soaring and more general inflationary pressure is building. Central Banks are talking about reducing Quantitative Easing and increasing interest rates, while at the same time government debt has risen substantially. None of these points would normally be expected to improve investors' confidence and they certainly give grounds for some caution.

On the other hand, there are clearly opportunities to grasp. It seems likely that supply chain issues will abate, albeit in an uncertain timeframe, thus reducing some inflationary pressure. It also seems unlikely that interest rates will be increased significantly over the short term as there is little logic in trying to stem 'cost-push' inflation by raising interest rates. Having anticipated that conditions would have returned closer to previous normality by now, it is disappointing that has not fully happened, but it surely leaves some recovery potential to come.

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Charles Montanaro of Montanaro UK Smaller Companies - 25 November

The period under review was bookended by two market rotations. In April, we saw the tail end of a Value rally following the approval of the first Covid-19 vaccines in November 2020. As MUSCIT entered its 27th financial year, Growth stocks began to outperform in a rising equity market that was boosted by increasing economic growth revisions. In the UK, as in many developed economies, we enjoyed the strongest GDP growth forecasts since the Second World War. The upward trajectory of markets continued into the summer months as confidence in the economic recovery was bolstered by accelerating vaccination programmes.

Towards the end of the period, the second of the Value rallies began as investors shifted their attention to the risks associated with rising interest rates and emerging pockets of inflation.

Meanwhile, after years of steady outflows from domestic UK equities, the tide appeared to have turned. In the decade to the end of 2020, over £600 million was withdrawn from UK SmallCap funds according to the Investment Association. Since the beginning of 2021, over £700 million has come back to the asset class, an indication that on a global basis the UK looks attractive as the economy reopens and the overhang of Brexit fades.

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Stuart Widdowson and Ed Wielechowski, co-managers of Odyssean - 24 November

The key drivers of uncertainty in markets are supply chain issues, and inflation. On the former, we have engaged with our portfolio companies to understand what direct and indirect supply chain issues they face. The direct impacts (specifically availability of raw materials/components) have been managed well, while indirect impacts are more difficult to predict and plan for: e.g., if you supply a component to a customer, which has shortages in other components from other suppliers, the customer could cut future orders from you until it can secure future supply of other components.

Despite short-term uncertainty, we have become increasingly confident of the medium to long term value uplift potential of many companies. We like companies with the potential to drive improvements in their value through "self-help" - strategic, operational, capital allocation improvements, as well as enhancing their communications with investors. Such change requires a catalyst and often change of mindset and culture. This change typically starts from the top.

We continue to look for situations where there are multiple drivers of capital increase leading to a balanced return, not just sales-driven earnings growth. Likewise, we are not interested in "cheap" stocks with problems, instead looking to pay below our view of the intrinsic value for higher quality companies.

Increased volatility in both directions means we usually reduce and exit positions in portfolio companies when the market value exceeds the intrinsic value and the likely value as a takeover target to a trade buyer. This discipline of pegging intrinsic value to a takeover valuation and selling as our opinion of fair value has been reached, has helped us raise capital during the summer, which we have redeployed during the recent market weakness.

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James De Uphaugh and Chris Field, managers of Edinburgh Investment Trust - 22 November

There is no question pricing pressures are more prevalent now than in other inflationary spikes over the last decade. There are multiple factors behind this. Labour shortages and a surge in demand for products post lockdowns is causing supply chain and freight issues, all of which are likely to be temporary as furlough payments end and nomadic workers resume travels to seek work as restrictions fall away. Meanwhile, oil demand has recovered quicker than expectations. Some OPEC members have struggled to match previous supply levels, however, and the cumulative underinvestment by a more capital disciplined oil industry is creating a tighter supply environment. This suggests sustained high energy prices for the foreseeable future. This will have a short-term impact on inflation, but more of a concern is the negative impact high oil prices have on economic growth. We also must not forget that fiscal policy is set to tighten next year which will also be a drag on growth.

Broadly, inflation is with us well into next year and economic growth is likely to slow due to energy costs, higher interest rates and taxes. In the short term, this is causing a rotation out of bond proxies and growth stocks, into inflation beneficiaries and energy stocks. In terms of the portfolio, we retain selective exposure to the energy sector and take reassurance from the fact that the portfolio is dominated by companies that have pricing power and strategic strength that we believe will afford greater protection against cost inflation. Importantly, we also believe both these energy groups have credible plans to transition to greener energy.

Overall, the bottom-up picture in the UK continues to show signs of health, providing reasons for optimism. The latest business survey data from Lloyds Bank suggest confidence is back at levels last seen in 2017, with improved sentiment across services, manufacturing and construction. Firms are expecting higher staffing levels, higher wages and increased prices over the next twelve months. While these surveys are a few weeks old, they were taken at a time when bottlenecks and shortages were prevalent (albeit with less bite than in recent weeks) and show an encouraging level of optimism following several challenging years.

Moreover, there are several reasons to be optimistic about the outlook for investing in the UK more generally. Indeed, we'd go as far as the say that we believe this is one of the best periods for investing in this market that we have witnessed in our careers (which stretch back to the mid-1980s). The return of the "marginal buyer", which is shorthand for buyers willing to compete for UK assets, is a notable positive. This has been most obvious in the tug of war battles among private equity firms for British businesses - as Morrisons has illustrated. UK-listed companies have started to return capital via dividends with renewed vigour. A flurry of buyback announcements are further evidence of the market's mispricing, in our view. They also speak to the balance sheet strength of many incumbents, including the banks, resources companies and staples businesses, as well as lockdown winners.

Set against this, we are alert to pressures in the domestic economy, particularly for consumers that face a combination of rising taxes and flat - or negative - real earnings growth over the next two or three years.

The UK is widely regarded as a great place to do business with strong companies. The return of overseas/marginal investors boosted by the growing appetite for takeovers from foreign companies or private equity funds, is a positive endorsement of the UK market. Furthermore, the valuation discounts relative to other equity markets highlight the opportunities in UK equities.

At the stock level, we believe the market is materially undervaluing multiple businesses, especially those re-investing cashflows into growth. Overall, we believe the market is taking a short-term view of the prospects for many businesses in the UK, which provides opportunities for investors willing to look through the current macroeconomic headwinds.

Steve Bates, chair of JPMorgan Elect - 19 November

We have never before experienced economic conditions anything like as dramatic as those which have characterised the last 18 months. Conventional forecasting uses historical models to project what will happen in the future. These models are now broken, so wise counsel would be to take all forecasts with a pinch of salt. Nevertheless, the convention in these statements is to prognosticate about the future, so here goes.

Liquidity conditions are likely to remain benign. This means interest rates will stay low, even as Central Banks try to engineer a return to normal monetary policy. This is partly because the world is now so indebted that a rise in rates would hobble the global economy, but also because policymakers believe the current rises in inflation are temporary. Even if they are wrong, it would likely take several years before we know whether higher rates of inflation have become embedded in the economy.

Rising prices and supply disruption will affect corporate margins. The squeeze hasn't started yet, but profit expectations are high and the risk of disappointment is real. On the other side of this coin sits the increasing use of technology in business - so called digitisation. This is a long term trend which should boost productivity across many sectors and thereby offset margin pressure. This mix of influences is broadly positive for global equity markets, although the very high returns of the past year will prove a hard act to follow.

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David Horner, investment manager of Chelverton Growth - 16 November

In the past year we have seen the Country move into a new lockdown, albeit less restrictive and therefore less damaging than the first lockdown of 18 months ago. The arrival of effective vaccines coupled with a successful programme of inoculation, appears to have broken the link between infection and serious illness. The Country appears to be learning to live with Covid-19 and, gradually, we are moving towards some form of normality.

The massive Government support of business has enabled companies to survive through this difficult period. The challenge now is to ensure they develop and prosper within the constraints of an inflationary environment and through the well documented supply chain issues.

The UK economy is dynamic and should adapt to the challenges it faces; there will always be opportunities for nimble businesses operating in niche markets. It is worth recalling that only two years ago the entire narrative surrounded the Brexit process and the necessity to secure a Free Trade Agreement; it is safe to say that this is no longer a subject of discussion.

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David Warnock, chair of Troy Income & Growth - 16 November

My opening statement last year reflected on the extraordinary uncertainty impacting our lives on a global scale. Only a month later, news of viable vaccines broke and markets leapt at the promise of some certainty and a path back to normality. Last November was the best month for the UK equity market in over 30 years. Much of the past year has remained supportive of this dynamic, including the eventual signing of a Brexit deal in December - a subject that amidst a pandemic had become something of a secondary headline. Since February, we have witnessed widespread commodity inflation and many eyes are now fixed on central bankers and the timescale of interest rate rises. This backdrop has been highly supportive for more economically sensitive parts of the UK market, including commodity-linked businesses such as mining and oil & gas, as well as those highly sensitive to interest rates, such as banks.

With good reason, the UK market has been more sanguine and certain over the past year. But looking ahead, it remains a noisy and unusual investment backdrop, with many measures and dynamics distorted by the unprecedented events of the past 19 months or so. The interplay of inflation, interest rates, and global debt burdens will play a central role in markets over the coming months, as will the ongoing disequilibrium in supply chains and commodities, especially energy.

It can often seem that an investment process emphasising resilience and lower cyclicality requires a pessimistic outlook.

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Managers of Schroder Income Growth - 12 November

UK equities performed very well over the 12-month period. For most of the period, global markets were driven by a recovery in cyclical sectors. The outperformance of sectors such as miners, industrials, retail, real estate, energy, and financials reflected the powerful reflation and reopening trends set in train in November 2020 following news of highly effective Covid-19 vaccines. More defensive and staple areas, consumer staples and healthcare, lagged the rise in the market. While there is no doubt Covid-19 impacted the full 12-month period, later lockdowns and restrictions had a lesser impact on economic activity compared to those earlier in the pandemic as firms and individuals learnt to adapt their behaviours.

The Covid-19 pandemic has proved to be the ultimate exogenous shock - an unpredictable, global event that has brought economies to a standstill, one that has and continues to impact supply and demand, companies and consumers, in a multitude of ways. Thanks to a successful vaccine rollout, we could have been forgiven for thinking that things would quickly improve. However, much like the car you leave in the garage over winter, getting started again when the climate improves is never going to be without issues. Whether it's a lack of semiconductors affecting car production or increased shipping costs more generally, numerous industries and companies are being adversely impacted by the bottlenecks and supply chain issues we are witnessing.

Labour inflation has compounded the issue with shortages of skilled workers in particular sectors. In the UK and Europe, the lack of heavy goods vehicle drivers has been notable. Looking forward, these wider supply issues could last until 2022 and cause more lasting inflationary pressures than central banks and governments would like. Among a host of important questions will be how governments assess the security of supply against cost-efficient global supply chains. As investors are increasingly contemplating a global shift for interest rates away from emergency settings, more interesting still is the question of how tightening policy (interest rates and taxation) would be timed and implemented. Tighten too soon and you risk curtailing the economic recovery from the pandemic. Tighten too late and you could see stagflation taking hold, where inflation persists but dampens demand and depresses growth. Governments and central banks will hopefully be looking back at lessons learned from the Global Financial Crisis.

Meanwhile, commodity prices, including those related to oil, gas, metals, sugar and coffee, have risen. Higher raw material costs can feed into steeper prices for producers and consumers, fuelling inflation. Gas prices in the UK, Europe and Asia have soared, compounded by low levels of inventory following last year's cold winter, increased demand worldwide and the switch to renewable energy. This last point highlights one of the few silver linings of the pandemic: the acceleration of disruptive forces that already existed in the realms of technology, energy transition and sustainability. We have already seen disruption to certain industries as individuals reassess priorities, work-life balances and their skillsets, leading to lower labour participation and high levels of vacancies and specific skills shortages. While some shortages and vacancies may be more temporary than others, the lasting "new-normal" behavioural changes will shape industries and provide investment opportunities. As discussed in the activity section above, we have positioned the portfolio to take advantage of a number of these emerging structural tailwinds.

After such a strong rise in markets from the lows of Spring 2020, we would expect markets' progress to become a bit trickier as they navigate the receding liquidity, rates risks, and a peaking of economic growth and earnings momentum.

Peter Dicks, chair of SVM UK Emerging - 8 November

During the period investor focus was on recovery and concerns over inflation, with the best performances in the stockmarket typically from businesses that were expected to benefit from the easing the lockdown. However, the summer saw some interest return to growth businesses, as many traditional sectors were hit by economic pressures, supply disruption and higher energy costs. This seems likely to lead in the short term to higher UK interest rates, but higher energy costs and shortages are likely in time to cool the economy. Nevertheless, the UK economy looks set for strong growth in 2022, with capital expenditure for investment at particularly high levels.

The sharp recovery in the UK economy is creating value in some disruptive businesses. Many of these enter the stockmarket as small or mid-cap, but have potential to be much bigger, growing organically and by acquisition. Some emphasise innovative digital strategies and online services, but others are providing new services in traditional sectors. The portfolio is diversified across a wide range of sectors, but a common characteristic of many portfolio holdings is dominance within a niche.

The portfolio focuses on resilient growing businesses, with low exposure to commodities, oil and banks. These are typically scalable businesses with a competitive edge. The Fund remains fully invested with some additional gearing.

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Alex Wright, manager of Fidelity Special Values - 8 November

The UK economy was one of the worst affected by the pandemic given its dependence on services and face-to-face interaction. The lockdown restrictions caused a very unusual recession whereby companies were unable to operate for varying lengths of time depending on their industries and consumers were not able to spend as much as they normally would, thus leaving them with more disposable income. This has resulted in pent up demand but also supply bottlenecks. Overall, it has translated into very strong corporate fundamentals, as the economy gradually reopened. Through our research and frequent conversations with individual companies, we were able to pick up early on new spending patterns, which favoured areas such as housing, DIY and some specialist retailers, and this benefited performance.

Looking ahead, there are risks but also opportunities. Thanks to the swift vaccine rollout, the Government has now lifted the last domestic COVID-19 restrictions, and fortunately hospitalisations have remained relatively low, as vaccines continue to prove effective in reducing the number of individuals needing treatment. Those fully vaccinated are no longer required to self-isolate if they come in contact with someone testing positive for the virus, which should help reduce staff absences highlighted recently. However, many companies are reporting input cost pressures due to supply chain issues and skill shortages, and these are areas that we are carefully monitoring.

Conversely, the market has been quick to dismiss some of the corporate results and consumption trends seen recently as being temporary, but we believe some of these will be longer lasting and therefore are yet to be fully reflected in share prices. For instance, we believe the need for more space, hybrid working, lower rate mortgages and an expected pick up in the build-to-rent market will continue to support house builders and building materials suppliers. Public outsourcers have performed strongly since the onset of the pandemic, but its shares have underperformed despite winning new long term contracts and coming out of the pandemic much stronger. In fact, across many industries, the pandemic has accelerated restructuring plans, cost cutting and the introduction of new digital/online solutions, as well as significantly shrinking some of the supply in some industries (as companies have ceased trading). As a result, some businesses are emerging from the pandemic in a stronger competitive position.

As economies have reopened and pent up demand is being released, supply chains shortages have become more apparent and input cost pressures are rising as a result. This is because manufacturers have not recovered the lost COVID-19 shutdown production, and transport disruption and staff shortages have made matters worse. This is something we have been monitoring for a while both as a threat and as an opportunity. Having previously added to our housebuilders and building materials exposure to capitalise on the recovery of the housing market, earlier this year we initiated positions in [a] brick distributor and brick manufacturer to take advantage of the fact that bricks were in short supply. Both companies have since been reporting very strong demand and their outlook remains robust for the coming year. The supply of new cars has also been severely hindered by semiconductor chip shortages. The pent up demand from people who were forced to delay their purchases and the lack of stock is pushing up both new and used car prices, and this should also benefit rentals. Overall, our preference for businesses operating in areas where supply has shrunk should also help, as market leaders typically have more robust supply chains and should more easily be able to pass on input cost pressures and capitalise on limited supply.

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Ronald Gould, chair of Blackrock Smaller Companies - 2 November

Despite renewed market optimism in 2021 as the impact of COVID-19 recedes and the world adjusts to living with the virus, the longer-term implications of social and economic disruption will continue to challenge markets. Logistics problems, supply chain disconnects, labour shortages and inflation all present economic headwinds that will create a drag on growth and prosperity for some time to come. Aside from post-pandemic issues, energy costs are set to rise dramatically as the world attempts to contain climate change and ESG (Environmental, Social and Governance) policies continue to drive a shift to green energy supply. The global macro-economic climate is also subject to significant geo-political uncertainty. Against this backdrop it is important to focus on the fact that as the world emerges from COVID-19, many UK businesses are attractively valued and corporate activity is strong. Our portfolio management team remains focussed on financially robust, high quality and market-leading global businesses which are operating in attractive end markets and run by experienced management teams.

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Hugh Aldous, chair of Downing Strategic Micro-Cap - 1 November

Although we can't call markets, we can say that there looks to be more uncertainty than there has been for a while, notwithstanding Covid. Inflation may be, but probably isn't, 'transitory', energy costs are current headlines, shortage of skills is too evident. Interest rates have been exceptionally low for a long time but how to raise them significantly if necessary? If there is an equilibrium, it may not be stable. Expect turbulent weather sooner or later.

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Global emerging markets

(compare global emerging markets **here**)

Chetan Sehgal and Andrew Ness, managers of Templeton Emerging Markets - 24 November

Emerging markets collectively edged down over the six months under review as market sentiment swung between optimism and caution. Although progress in vaccination campaigns and businesses reopening, along with ongoing monetary and fiscal stimulus, aided economic recovery in several parts of the world, others struggled with new COVID-19 variant outbreaks. Many investors were also pricing in the potential for the US Federal Reserve to begin tapering stimulus sooner than expected. China-related concerns, including regulatory curbs and major property developer Evergrande's debt crisis further capped risk appetite. Inflation was another dominant market theme late in the reporting period as supply chain disruptions and higher commodity prices drove up inflation around the globe. The MSCI Emerging Markets Index returned -1.0% in the six-month period under review.

China

China was amongst the weakest emerging markets, losing 14% in sterling terms over the six- month period amidst new COVID-19 outbreaks, increased regulatory scrutiny, power outages and China Evergrande's cash crunch. The government enacted new regulations in a number of industries, including internet and education, which caused considerable investor concern. The regulatory changes in China were announced at a time when the country was seeing a slowdown in its economy and a resurgence in COVID-19 cases, which further weighed on equity performance. However, we believe that China's government remains committed to fostering innovation as an economic growth engine. Whilst the short-term volatility is painful for investors, these cycles have historically not unduly impeded the long-term structural growth of the broader economy.

Another major development in China was China Evergrande Group, one of China's leading property developers, coming under pressure as the company's ability to service its debt became increasingly unviable. The situation, however, remains fluid and we continue to monitor the developments closely. More recently, power shortages across parts of the country stemming from a pickup in industrial activity, tightening emission standards and supply limitations have resulted in factory closures, raising concerns of falling production output in several industries, possibly placing more strain on global supply chains, as well as a wider impact on China's economic recovery. Whilst this will likely have a short-term impact on the economy, we believe that the focus on energy intensity and decarbonisation is likely to continue as China works towards becoming carbon-neutral by 2060.

South Korea

South Korea joined China as one of the largest emerging-market declines, losing nearly 7% during the reporting period. The resurgence of COVID-19 and stricter social distancing measures and weak market sentiment surrounding technology stocks weighed on equity prices. Economically, South Korea's second-quarter gross domestic product ("GDP") jumped to 6% year-on-year growth, partially on the low base effect whilst trade also contributed. Unemployment remained low, despite edging up to 3.0% in September, from a record low of 2.8% in August. Inflation, however, was at its highest level since 2017, with the annual inflation rate at 2.5% in September. During its August meeting, the central bank raised its key interest rate from an historic low of 0.5% to 0.75%; this was the first increase in almost three years, making South Korea the first major Asian economy to tighten monetary policy since the COVID-19 pandemic began. The country is an export powerhouse and several South Korean exporters are of global importance, supplying vital hardware. World-leading semiconductor and battery makers are benefitting from the secular trends of increased computing power and greener mobility-some of which have accelerated due to the pandemic. South Korea's advantages in innovation and intellectual property are evident, whilst the country's internet sector has also been thriving.

Taiwan

The Taiwanese market outperformed the wider benchmark, ending the reporting period with a close to 8% return. Technology's role as a key economic engine in Taiwan has only strengthened during the pandemic. As technology has advanced, semiconductor chips have become a growing part of almost all consumer goods with the semiconductor industry experiencing a cyclical and secular boom as growing digitalisation powers a surge in demand. Historically, many chip designers outsourced manufacturing to key Taiwanese companies such as TSMC with specialised manufacturing prowess and lower costs. Some of these manufacturers are now counted among the largest foundries globally and can partner with and produce chips for clients globally. This collaboration-rather than direct competition-is a key advantage of their business model. Over time their advantage has shifted from primarily cost to intellectual property, with fewer competitors able to progress to the next level of technology. Although the sector, in general, fell from its recent peak on concerns around component shortages and the durability of a price and demand recovery, we maintain a positive long-term view on Taiwan's semiconductor industry.

Russia

Equity prices in Russia remained on an upward trend over the six-month period, returning 29%, making it one of the top three markets in the MSCI Emerging Markets Index. Despite its strong market performance, however, Russia remains one of the most undervalued markets in Europe as well as globally. As of 30 September 2021, the MSCI Russia Index traded at a forward price-to-earnings ratio of 7x, compared to MSCI Emerging Market's 13x and the MSCI World's 19x. Rising oil prices, appreciation in the rouble and a faster-than-expected economic recovery buoyed the stock market. The Russian economy expanded by 10.5% year-on-year in the second quarter of 2021, ending four quarters of contraction. Consumption, supported by the government's stimulus measures, was a key driver of growth, with solid investment growth also supporting the economy. The Ministry of Economic Development raised its 2021 GDP growth forecast to 4.2%, from 3.8%, in late-September, whilst the World Bank upgraded its 2021 forecast to 4.3%, from an earlier estimate of 3.2%. Rising inflationary pressures, however, led the central bank to shift to a monetary tightening policy with interest rates increasing by 2.25% over the six-month period. However, we are of the opinion that's Russia's internally-focused economy and policy flexibility (given twin surpluses in its fiscal and current accounts) continues to provide a conducive environment for companies operating domestically. It has little sovereign debt and considerable foreign exchange reserves, allowing it to withstand most financial shocks. In addition to being one of the best-positioned oil producers globally, the country's new economy is also thriving.

India

With a return of 23%, the Indian market outperformed most of its peers. India started the reporting period with a second wave of COVID-19 infections, which led to the implementation of new mobility restrictions. However, a receding pandemic, continued policy support and a pickup in vaccinations lifted hopes for the economy's recovery, driving India's equity market performance. Strong earnings reports from some companies further boosted investor confidence. Over the longer-term, we expect to see continued growth in Indian earnings due to positive demographics creating long runways for consumer penetration and upgrading, continued private sector penetration in segments like finance and health care, digitalisation from a low base, and supply-chain diversification supported by government policy. Our interactions with the management of Indian companies indicate confidence in the ability to grow their businesses based on industry consolidation leading to improved profitability, a fresh investment cycle, government initiatives seeding new investments in higher value-add areas, and the trend of global supply chain diversification. We remained focused on being selective and identifying bottom-up opportunities based on our assessment of a company's growth, quality and earnings sustainability.

Brazil

A weak third quarter erased Brazil's double-digit second-quarter gains leading the market to end the six- month period virtually unchanged. Appreciation in the Brazilian real, improving vaccination trends, higher commodity prices and better-than-expected first-quarter GDP growth boosted Brazilian equities in the second quarter. In the third quarter, however, fiscal uncertainties, depreciation in the real, increased political noise, rising inflation and pockets of commodity weakness pressured the market. Brazil's monetary policy has been amongst the most aggressive in emerging markets. To curb inflationary pressures, the central bank raised its key interest rate by 4.25% to 6.25%, from a record low of 2.0% in March. Extended lockdown measures, following a third COVID-19 wave, and improving momentum in the vaccine rollout led to a drop in the daily numbers of new cases and deaths in Brazil, allowing regional governments to ease restrictions later in the reporting period. We consider Brazil to be the most dynamic economy in Latin America. The government maintained a bullish economic outlook, raising its 2021 economic growth forecast to 5.3% from 3.5%, supported by expectations of growth in key economic indicators including manufacturing, investment and domestic consumption, and continued vaccination efforts. Moreover, we expect its continued pursuit of structural reforms to contribute to the sustainability of the recovery. Even though the central bank's interest-rate hikes have pressured the equity market, the pipeline of initial public offerings has remained strong. Meanwhile, rising rates could create the potential for Brazilian banks' margins to expand.

John Rennocks, chair of Utilico Emerging Markets - 24 November

It is increasingly evident that the above trend demand surge has stretched logistic chains to breaking point. Even in "normal" conditions most business logistics would be over stretched by the level of demand seen in recent months. Governments largely protected and even strengthened the low- and middle-class financial resilience through the pandemic lockdowns, while as a group their consumption fell sharply during this time. As a result, they have generally emerged financially stronger and are driving an above average demand growth.

With vaccination availability being uneven, businesses are struggling to maintain staffing levels to meet the rising demand. Combined with a perfect storm in the energy markets, the knock-on effects are evidenced by supply shortages, from critical components in the semiconductor chip market through to liquefied natural gas ("LNG"). It is obvious that there are significant logistics and supply chain challenges.

These acute supply shortages and disruptions are leading to significantly higher costs as businesses compete for resources to meet demand. This has pushed cost increases from wages to raw materials and has resulted in a surge in inflation. We expect demand to normalise to long-term trends and as the logistics bottlenecks are resolved that inflation will moderate. However, the under investment over the past decade in commodities and the shift to green energy have left many commodities in short supply. As a result, we can see a bias to the upside of inflation.

The upshot of all the above is heightened volatility across all asset classes. We expect this to remain the case as individual nations are at different points of the pandemic cycle and their policy responses have ranged from "return to normal" to "Covid-19 elimination". This of itself will cause stresses to the logistics for global businesses.

Covid-19 continues to be a global pandemic impacting every continent and every community, and this cannot be over emphasised. It has exposed the stresses and weaknesses in our economies, politics, and social fabric, from disrupted health services, education, business and social activities. The policy response has been to seek to break community transmission of Covid-19, ranging from isolation, lockdowns, to testing, through to vaccination programmes. Vaccination looks to be the best way out and programmes have reached sufficient levels in many economies where opening up is a reasonable step to take.

Economically there have been two parts to the Covid-19 response: central banks have dramatically increased the supply of funding while reducing the cost of capital; and governments have introduced significant support schemes for businesses especially around continued employment and social welfare. These are truly unprecedented steps which have come at a very high economic cost but were needed to balance the stress from the Covid-19 policy responses. As we have seen they have largely worked and today governments and central banks face the unenviable challenge of returning to normal. We expect the next eighteen months will see a withdrawal of Covid-19 support schemes, an end to market support and a return to higher interest rates.

We see the interest rate response as key to markets and their outlook over the coming months.

Over the last year climate change has taken centre stage as the evidence increases that we need to collectively shift our global emissions output to avoid a steady but fatal rise in global warming.

Asia Pacific

(compare Asia Pacific funds **here**, **here** and **here**)

Nigel Cayzer, chair of Aberdeen Standard Asia Focus - 30 November

he past year and more has been an unprecedented time, with the world as a whole having to deal with the shape-shifting Covid-19 virus. And yet, stock markets have continued to mark new highs, even as the pandemic upended everyday routines and threw supply chains into disarray. Stock investors found themselves in a sweet spot, as the largesse of governments and support of central banks not only helped fuel a nascent recovery in the global economy, but also pumped ample liquidity into asset prices.

Asia, the first region to emerge from the depths of the pandemic, was also among the first to mull over monetary policy tightening, especially in markets such as China and South Korea. While regulatory fears in China hit the share prices of a variety of major oligopolistic companies hard, small cap stocks were far less affected. As a result, the MSCI Asia Pacific ex-Japan Small Cap Index, outpaced its large-cap counterpart, rebounding 37.2% over the year under review.

In the reporting period, liquidity and sentiment have continued to underpin equity markets. Governments and central banks unleashed their arsenals to counter the dampening effects of lockdowns, ranging from direct cash transfers to interest rate cuts and asset purchases. With social-distancing measures stifling both consumer spending and businesses, a surfeit of money found its way into financial markets, lifting asset prices. In the summer, with the virus seemingly under control, regional economies reopened and demand returned. But as supply chains ran into bottlenecks, arising largely from mobility restrictions on labour, prices rose across products like smartphones and cars. This boosted companies' bottom lines which, in turn, added to the market euphoria. Subsequently, fresh waves of outbreaks that resulted in localised lockdowns in various countries only slightly tempered investor optimism, as consumers and businesses adapted better to the challenging conditions.

Nowhere was this more apparent than China, one of Asia's two economic giants. It was "first in, first out" of the pandemic for the world's most populous nation, after an aggressive countrywide lockdown in the initial months of 2020. Its economy had mostly bounced back to normal by mid-2020. But by then, Beijing had also decided to set a new policy course, one that would evoke growing consternation among investors. As I intimated in the Half-Yearly Report, Beijing was pivoting from its focus on industry upgrading to spurring consumption through fairer wealth distribution. In the past 12 months, policymakers strengthened their focus on this goal, introducing a raft of reforms across various sectors, from internet and e-commerce, to private tutoring and healthcare. Whilst such measures caused a retreat in the broad stock market indices due to the sheer size of some of the companies involved, the situation proved fortuitous for your Manager, who identified bargains in downtrodden quality names and added to your Company's exposure. The spirit of private enterprise remains strong in China, which after all is the world's second-largest economy. Now boasting a highly developed infrastructure, a well-educated workforce and cutting edge technology, China still presents a great opportunity for the diligent stock picker.

In neighbouring India, the other Asian behemoth that makes up the largest part of the portfolio, stocks jumped nearly 80% in spite of very real challenges, including fresh waves of Covid-19 outbreaks. A fruitful monsoon in late 2020, which supported rural spending, along with a pro-growth Budget in early 2021 lifted stock prices. Even when the country slipped into the death-grip of the pandemic's second wave in April, markets stayed resilient, with investors looking past the immediate crisis on hopes of a quick rebound. Also underpinning share prices were surprisingly good corporate earnings growth, as well as New Delhi's preference to leave mobility restrictions to the discretion of states rather than a one-size-fits-all approach.

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Richard Sennitt, manager of Schroder Oriental Income - 11 November

Equity markets made strong progress through the latter part of last year and the start of 2021, buoyed by improving earnings revisions, expectations of greater fiscal stimulus following the US elections, strong liquidity, a weakening dollar and progress on the development of a number of vaccines for COVID-19. However, in the second half of the period Asian markets lagged global markets. This was in large part due to a significant increase in regulatory announcements coming out of China. Although the biggest market impact was felt amongst the 'internet' names, regulations also impacted a number of other sectors with the authorities becoming much more vocal with regard to 'common prosperity'. Further outbreaks of COVID across the region added to volatility given the relatively low levels of vaccinations compared to some Western economies.

The divergence of returns across the regional markets continued to be high with technology-heavy Korea and Taiwan both up strongly over the period, benefiting from upward earnings revisions driven by ongoing strong export demand for semiconductors and technology products. Australia and Singapore also performed well, aided by a strong recovery in the financials and materials sectors. Of the larger markets, China was the clear underperformer. It started the period robustly as growth names did well, but a marked increase in regulation across a number of sectors impacted the market. Although bouts of regulation in China are not unusual, and areas such as financial stability and national security have always been heavily regulated, there was a significant increase in policy announcements associated with promoting the government's 'common prosperity' agenda. This led to a broad-based sell-off. Smaller ASEAN markets continued to lag, in part hampered by concerns over their relatively low vaccination rates combined with further outbreaks of COVID.

Sector returns across the region also saw a large spread of returns, in part reflecting the recovery in growth seen globally. More economically sensitive sectors such as information technology, materials and industrials as well as some financials did well. Although some of the defensive long duration names in sectors such as healthcare and staples did lag, towards the end of the period we did see some of the more thematic growth names do well as people questioned whether global growth had peaked. The consumer discretionary sector was the worst performing sector in large part due to its heavy weighting in some of the low yielding Chinese e-commerce names which were at the forefront of new regulatory announcements.

Although the broad backdrop points to a recovery in earnings this year, the dividend payment picture across the period was more mixed given its tendency to lag that of earnings. In general, North Asian payments were relatively more robust reflecting the better economic backdrop and exposure to sectors that had not been hit as hard by COVID, such as technology stocks. Financials generally through 2020 were impacted by falling interest rates and uncertainty over credit costs relating to COVID, which, together with regulatory limits imposed on shareholder returns in some countries, saw the sector under pressure from a dividend perspective. This resulted in dividend cuts for financials in a number of markets including Singapore and Australia, although as growth has started to recover these restrictions have started to be lifted and dividends raised. The other headwind for dividends has been the uncertainty over the pace of any recovery given second and third waves of COVID globally, as well as flare-ups regionally, which have resulted in sporadic localised lockdowns, all of which unsurprisingly has prioritised caution. In Taiwan for instance an outbreak did see a number of AGMs being postponed resulting in a delay to some companies' payments of dividends.

Outlook

Asian markets have lagged global ones over the last year. In part this has been driven by what's going on in China both from a regulatory and economic perspective. Regulatory announcements have accelerated to encompass more and more areas of the economy with the mention of 'common prosperity' becoming increasingly common in speeches and the press. This is being driven by concerns over growing inequality being seen across China, where growth may have all but eliminated 'extreme poverty', but the spoils of that growth are not being shared equally. Many of the measures that have been announced are looking to address this and in particular rebalance the benefits of growth towards labour and SMEs and reduce the 'costs' of property, education and healthcare for ordinary people. Although many of these objectives are laudable, for us as investors, the increased regulatory uncertainty makes it harder to assess the future returns that a business can potentially make and, therefore, what valuation we should attach to it. Thus far the direct impact has been mainly on areas of the market where little is available in the way of income such as the internet and education sectors but more recently concerns have arisen in areas including Macau gaming (which saw us selling our Macau name post Company year end) and property stocks. Although we don't believe that the authorities are seeking to eliminate the profitability of the private sector or indeed stop foreign investment into China, it does leave us circumspect in our approach there until we get greater clarity. We are of course still looking for new opportunities that are relatively unaffected by the regulatory changes but have been unfairly caught up in its fallout.

Outside of regulation in China there continue to be concerns over the indebtedness of some property companies, especially the residential developer Evergrande. Given the closed capital account and that the state effectively controls the banks and state owned developers, we believe the issue is manageable. However, policy error remains a risk given the importance of property to GDP and that, unlike many other countries, China has been deliberately keeping policy relatively tight post the COVID crisis. Therefore, given China's economy is slowing, we would expect to see some easing going forward.

Elsewhere in the region there continue to be signs of shortages and rising costs, so a company's ability to pass through cost pressures is key. With price rises being seen globally in many areas, the question of whether inflation will be transitory or more structural remains and it is likely that we will see renewed concerns over tightening and tapering going forward. Although most economies in Asia remain better placed than in 2013 when we last saw a prolonged tapering episode, valuations in some 'high growth' areas may come under scrutiny. Perhaps the biggest risk of rising prices, especially energy costs, is that they have a greater impact on consumer spending than currently expected thus reducing demand for Asian products. In the information technology sector we continue to see some strong long term drivers for growth around digitisation and the roll out of 5G and the 'Internet of Things' but in the near term some areas have disproportionately benefitted from increased demand for product in areas such as work from home.

Whilst vaccination rates for many Asian countries have lagged those of the likes of the UK, we have more recently seen rates increase materially and in some cases surpass that of the UK. Hopefully, this will allow economies to increasingly open up as we go into next year which, aside from the humanitarian benefit, should reduce the number of lockdowns and lost output as well as bringing benefits to countries more dependent on tourism, such as Thailand.

Looking at dividends more broadly, although earnings are recovering there is still some uncertainty as to where near-term payments will go given the path of COVID, especially for companies that benefit from increased mobility. However, we still believe that in most cases this is more a matter of timing rather than these companies' ability to pay. Where dividends had been squeezed in places such as Australia, we have seen payments resume or tick up and in Singapore the banks that had been previously restricted have been allowed to raise their dividends from last year's levels. From an overall fund distribution perspective, the other dynamic to be cognisant of is Sterling whose direction will obviously impact the size of translated dividends, with a stronger Sterling acting as a headwind. Still, it should not be forgotten that overall payout ratios in Asia do not look extended versus some other markets and corporates in Asia remain relatively lowly geared. Furthermore, it should also be remembered that whilst inflation rising faster than expected is not great for equities in the short-term, longer term real asset income sources should look attractive versus the 'return-free risk' that is fixed income.

To conclude, markets have recovered materially from their COVID lows in part due to the recovery that has been seen in global growth. So although markets are trading above their long term average aggregate historic valuations, this reflects the fact that earnings have been revised up significantly during the course of 2021. In the near term we believe further upside to the market is relatively limited given the ongoing regulatory overhang, where valuations sit and given we are at or close to maximum monetary and fiscal accommodation. However, this remains at an aggregate level and when we look across the different industries and sectors there is a much wider range of valuations on offer, as well as a number of companies with attractive and growing distributions.

Europe

(compare European funds **here** and **here**)

Managers of JPMorgan European - 24 November

European Equity markets continued to rally in the six months to the end of September 2021 as the rate of recovery following the Covid-19 induced turmoil of 2020 exceeded expectations. Corporate earnings accelerated, particularly for cyclical and financial companies, which prompted analysts to repeatedly raise their growth forecasts at both a company and a macro level.

However investors became increasingly concerned by the prospect of both rising inflation and the realisation that growth rates cannot keep accelerating for ever. Regarding inflation the crucial question is whether the recent increase is transitory, as the European Central Bank and Federal Reserve have stated, or more structural. It is clear that input prices, particularly energy and commodity related, are rising but so far they have not filtered through to the Consumer Price Index level.

Within the equity market, cyclical stocks - which have enjoyed a spectacular run and discounted much of the recovery - stalled allowing less economically exposed companies to prosper as fears of a slowdown surfaced. The emergence of the Delta Covid variant, supply chain disruptions, particularly in the semi-conductor sector, and increasingly outspoken statements from China which hit some sectors such as technology and luxury goods all contributed to these concerns about the durability of the recovery.

Stephen Paice and Moritz Sitte, managers of Baillie Gifford European Growth - 24 November

It is tempting to focus this report purely on the two years since our appointment as managers. Indeed, there would be plenty to discuss. Covid-19 wreaked havoc with many companies, the economy and stock markets alike. Our shock at the exponential rise of this horrible virus was matched by our amazement at humankind's capacity to devise viable vaccines in record time and bring hope to billions around the world. Too seldom do we harness the power of collaboration and the transformative capacity of innovative technology. Throughout this turbulent period, we've been privileged to witness the adaptability of our portfolio companies, which have largely thrived in a context of chaos and driven strong performance. Tempting as it is to dwell on this, such short-term gyrations tell us little. Most companies' share prices don't change much in the short term. If they do, it's because of an outsized impact from investor emotion and sentiment on valuation multiples. Widen the timeframe, however, and company fundamentals and corporate cultures play much more important roles in value creation. Our recent marketing slogan - 'actual investors think in decades, not quarters' - may sound like righteous admonition, but it is absolutely central to our investment philosophy. Having it written down and so publicly advertised helps galvanise and reinforce a set of behaviours that underpin successful long-term investing.

Widening time frames also means you get to see just how extreme positive returns can be from a few companies able to compound their inherent advantages and benefit from positive feedback loops. Our belief that stock market and portfolio returns are driven by a relatively small number of big winners, or outliers, is now deeply ingrained into our philosophy and might be familiar to some of our shareholders. This has been heavily influenced by academics such as Professor Hendrik Bessembinder whose seminal paper, "Do Stocks Outperform Treasury Bills?" revealed the hidden asymmetry of markets, and the fact that very few companies actually matter. This has encouraged us to be more ambitious in our search for potential outliers and extreme outperformance.

Returning to the present and our post-pandemic world, it's clear that supply chain disruption is one of its defining characteristics. In the UK we have also felt the effects of a truck driver shortage at petrol stations. The problems faced by the road freight industry are not limited to the UK, however. Right across Europe, the industry suffers from a lack of human capital, hyper-fragmentation with more than 400,000 truck companies, inefficient route planning, low asset utilisation and needlessly high CO_2 emissions.

Despite the rich opportunity set Europe has to offer, our industry has not done enough to support our most promising companies. Europe has failed to provide sufficient capital and strategic support to allow enough of our growth companies to scale without worrying about short-term profits. Europe's corporate leaders must also take responsibility for not being as ambitious as their counterparts in other regions. This is changing. Europe's start-up ecosystem is now booming, helped by an influx of funding from venture capitalists around the world. These investors have helped shape the next generation of European outliers and develop strategies to scale and create global champions.

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R M Curling, chair of Montanaro European Smaller Companies - 19 November

After a remarkable year and a half in which the MSCI Europe ex-UK Small Cap Index has approximately doubled in Euro terms, the profit-taking seen in September is perhaps not surprising. The aftershocks of the global pandemic continue to reverberate around the world as supply chains strain to support the recovery of demand in certain areas and input prices begin to rise.

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Stefan Gries and Sam Vecht, managers of Blackrock Greater Europe - 5 November

While the global economy and European markets have shown impressive progress over the course of 2021, our investment approach was again challenged, this time by a shift in market leadership that saw old economy sectors propelling markets higher. Positive vaccine efficacy data released in November 2020 fuelled a powerful top-down narrative revolving around the reopening of economies, vaccine rollouts, inflationary pressures and rising interest rates. This led to cyclical, operationally levered parts of the market – less represented in this Company – such as banks, airlines, auto manufacturers and energy companies seeing significant share price rallies during the first four months of 2021.

As has now become a common occurrence, we were again presented with an eloquent thesis from a broad range of market strategists suggesting permanent regime change and that companies and sectors that had outperformed in the last ten years could not continue to do so. We had shared the optimism around the global economic recovery and been constructive on the outlook for corporate earnings since May last year but, equally, we had been consistent with our view that the post-COVID-19 world would unlikely look very different from the pre-COVID-19 environment. We felt that many of the effects we were seeing in the early part of the recovery were likely to be transitory in nature, which is a view around which markets have increasingly coalesced.

As stated earlier, when it comes to the outlook for the region our base case remains largely unchanged and the likely post-COVID-19 world will not look very different from the pre-COVID-19 environment. We expect nominal global gross domestic product growth to remain in a range of 3% to 6% and for interest rates to stay low for a prolonged period of time caused by secular factors like the high level of indebtedness in the developed world, ageing demographics, as well as the deflationary impact of automation and digitalisation on our economies. What makes Europe more appealing near term is the fact that its recovery has lagged regions such as the US and China. Key European economies such as France, Germany and Spain are still in the process of regaining output lost during 2020. Furthermore, with more fiscal stimulus coming from the EU Recovery Fund as well as spending from individual countries, European equities appear well set to continue recovering into 2022 and beyond.

Beyond 2021, select companies will continue to grow quickly whilst others are likely to struggle with tougher comparatives, mediocre growth and the same structural challenges that plagued old economy industries pre-pandemic. To us, this simply highlights the importance of taking an active approach to investing in European equities. As fundamental stock pickers we will continue to focus all of our research hours on identifying end markets and income streams that lend themselves to value creation on a duration basis. We aim to continue behaving like owners of businesses rather than traders of shares.

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Latin America

(compare Latin American funds **here**)

Richard Prosser, chair of Aberdeen Latin American Income - 10 November

More than one year on, Covid-19 remains the primary determinant of asset prices. Whereas efforts to contain infections and boost economic stimulus were priorities earlier in the pandemic, investors' subsequent focus turned to the brightening prospects for economies and corporate earnings. This was largely triggered by the commencement of vaccination programs, which enabled governments worldwide to loosen restrictions and reopen more sectors. Unfortunately, Latin America lagged the rest of the world in this respect as logistical constraints hindered the initial vaccine rollout in several countries. Nonetheless, I am heartened to note that inoculation rates have broadly picked up, alongside a concomitant decline in caseloads.

Overall, a combination of improving vaccination rates, easing curbs and the impact of prior stimulus efforts contributed to a strengthening economic recovery. The rosier outlook globally provided added stimulus, underpinning a robust rally in commodity prices and benefiting the region's resource exporters. Encouragingly, prospects still appear upbeat, with the International Monetary Fund recently upgrading its full-year GDP growth forecasts for two key markets, Brazil and Mexico.

However, a less welcome consequence of the better than expected rebound was the return of inflation. This was driven by rising food and energy prices, volatile currencies, together with global supply-chain disruptions. Central banks, wary of the price pressures that have long impacted the region, wasted little time in reverting to a tighter policy stance. In this regard, Brazil was the most aggressive, lifting its benchmark rate five times in 2021, from 2% to 6.25%. Mexico, Chile and Peru also raised borrowing costs, with more increases expected. The better news is that, with interest rates near record lows due to the pandemic, there is room for future hikes. These proactive moves, it is hoped, will reduce inflation to more sustainable levels.

Meanwhile, fresh worries in domestic politics added some unease. This was perhaps most evident in Colombia, where large-scale protests erupted violently against a government plan to raise taxes on food and other essentials. The extended unrest sparked a broad-based sell off in the domestic market. Investors also trimmed their exposures to Peru after leftist candidate Pedro Castillo unexpectedly won the presidential election. There were fears about his populist platform, although he appears to have moderated his stance since taking office. It was a similar story in Chile, where the election of a left-leaning assembly to rewrite the constitution raised worries among foreign investors about more radical proposals. In Brazil, heightened tensions between the president and the supreme court amid persistent concern over the country's strained fiscal position hampered the market's gains. By comparison, things appeared calmer in Mexico. In fact, markets there reacted well after voters denied the ruling party a supermajority in mid-term elections, an outcome that bolstered checks and balances against President Andres Manuel Lopez Obrador's government.

Despite these uncertainties, the picture at the company level still looks fairly promising. Crucially, corporate profits largely surpassed forecasts across most sectors lending support to equity prices. Furthermore, new opportunities are emerging that make the investment landscape appear attractive to our Manager. For example, more businesses are now catering to the growing adoption of digital solutions and services, a direct result of the pandemic and associated lockdowns. Another emerging segment is tapping into the global "green" push, encompassing a diverse group of sectors, from renewable power generation to electric vehicles..

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Japan

(compare Japan funds **here** and **here**)

Kwok Chern-Yeh, manager of Aberdeen Japan - 25 November

The Japanese equity market rose over the six months to 30 September 2021. The period was characterised by a strengthening economy and, later, a new government. While Covid-19 remained a threat throughout the period, we ended the half year optimistically.

Early in the period, the Japanese government declared an emergency lockdown in Tokyo and other economic hubs. The coronavirus infection rate undulated through the period, peaking in April, then falling back in June before rising again over the summer. Led by the more infectious 'Delta' variant, cases spiked in August, after the end of the 2020 Summer Olympics, peaking at around 26,000 cases per day. However, this declined sharply, to less than 2,000 cases at the end of September. The state of emergency and quasi-state of emergency were finally lifted in all regions at the end of September, for the first time since April. After a slow start, the proportion of the Japanese population having received two doses of a vaccine reached 60% at the end of September.

On the political front, the Liberal Democratic Party's (LDP) popularity suffered over the summer months. Former Prime Minister Yoshihide Suga was criticised for his handling of the Covid-19 pandemic. Fumio Kishida won the leadership race of the LDP to become Japan's new prime minister on 4 October 2021. The former foreign minister ran against the popular vaccinations minister, Taro Kono, in the run-off vote, having beaten the two female candidates in the first round.

On the economic front, Japan avoided a recession in the second quarter. A rebound in consumer spending defied virus restrictions, while renewed investments by businesses and increased government spending also allowed for an annualised GDP growth rate of 1.9%. Japanese firms boosted investments for a second straight quarter, a sign that companies are looking past the Covid-19 crisis. Private consumption rose 0.9% quarter-on-quarter, overshooting economists' expectations of flat numbers. The Bank of Japan ("BoJ") kept interest rates unchanged throughout the period.

In general, corporate results have been positive. Quarterly reporting has reaffirmed our view that fundamentals remain firm at our holdings. While sustained geopolitical tensions and supply shortage issues hampered a number of industries, our holdings fared well, thanks to their pricing power, ability to procure components and flexibility in adjusting production. Several of our holdings have raised forecasts on the back of firm results and rising confidence.

Prospects for Japanese equities are looking up amid a global economic recovery. A ramp-up in the vaccination rate in Japan and the reopening of economies in North America and Europe should benefit Japanese corporates with local as well as overseas operations. We believe the portfolio is poised to reap the benefits of these developments and that valuations remain reasonable against the improving outlook of our portfolio as a whole.

On the political front, the new prime minister is widely viewed as a centrist politician. During the presidential campaign, Kishida called for a ¥30 trillion stimulus package to revive the economy and vowed to reduce to zero the number of people without access to Covid-19 medical care. He has flagged income inequality as a problem and hopes raising wages could fuel growth. We do not expect major policy shifts as a result of the change in prime minister. The recent general election won by the LDP with a solid majority should provide a reasonable platform for Kishida.

Economically, we remain cautiously optimistic. Bank of Japan Governor Kuroda has been positive on Japan's economy, forecasting growth returning to pre-coronavirus levels by late 2021 or early 2022. Equally, businesses are upbeat about their prospects. The BoJ's Tankan survey of large manufacturers, published just after the period end, showed sentiment at its highest level since 2018. Meanwhile, sentiment among large non-manufacturers also improved. Businesses that have delayed expansion plans are making up for lost time, resulting in a broad-based pick-up in corporate capital expenditure; there is pent-up demand, not only from last year's business disruption, but also from geopolitical uncertainty the year before. There are, however, risks: global inflation, a slowing Chinese economy and a more hawkish interest rate policy from the US Federal Reserve could all spill over and impact Japanese corporate activity.

China

(compare China funds **here**)

Dale Nicholls, manager of Fidelity China Special Situations - 30 November

Well-publicised concerns over increasing regulation were a major factor in the Chinese markets' decline during the reporting period. However, the current regulatory 'cycle' really began in the fourth quarter of 2020 when Ant Financial unexpectedly cancelled its initial public offering (IPO). This was followed by a series of anti-trust related measures in the internet sector, including Alibaba paying a hefty fine of US$2.8 billion. The next area of focus was on data and national security, culminating in a cybersecurity investigation into Didi (which is still ongoing) and the suspension of new downloads of its app. Outside the internet space, we saw policies focused on areas associated with 'common prosperity', which affected the property, healthcare and education industries – also dubbed China's 'Three Mountains'. The after-school tutoring sector was most severely impacted with many businesses unable to survive the restrictions imposed on certain core exam subjects and services.

In trying to understand and analyse the government's actions, I believe it is important to recognise some key points. First, the 'hand' of the government, coupled with regulatory direction and implementation, is core to the investment landscape in any market. This is particularly true in China. Therefore, one needs to be aware of trends and the general direction of policy. We have clearly had periods of tightening in the past, for example, government-imposed restrictions around online gaming in 2018. In terms of future policy direction, it is important to be cognisant of the long-term goals laid out in policy documents like the Five-Year Plan when assessing how the regulatory landscape could change and impact an industry's growth profile.

Second, many of these crackdowns are addressing problems that confront countries globally. Big tech and related challenges around anti-trust and data security are examples, as are the challenges around income inequality. While in many cases we can trace the path of regulation, unlike in most other countries, Beijing's implementation can be swift, which often roils markets.

The property sector has been under the spotlight of both policymakers and investors for some time. Reining in property speculation is a crucial aspect of President Xi's vision of a more equal society – think back to 2017 when he commented that houses are 'for living in, not for speculation'. In this current period of scrutiny, it is worth remembering the second half of 2020 when there was a significant recovery in property sales in response to easy monetary policy being rolled out to stave off an economic slowdown amidst the COVID-19 pandemic. After the strong rebound, new measures were announced to control property developers. Of note, the 'three red lines policy' was imposed to limit developers' leverage, with regulation targeting banks to control their overall exposure to the property sector; and at the start of 2021, a centralised land supply policy was implemented with the aim of controlling and lowering land costs.

At the time of writing, the market remains nervous about the property segment as no concrete plans have been announced by the authorities to assist with the potential defaults of struggling developers – with Evergrande the leading example of the sector's woes (the portfolio does not have any exposure to this company). While it is likely that we will see some developers default, I feel that the systemic risk remains low. Although comparisons to the situation in the US around the financial crisis of 2008 can be drawn, they are very different given the nature of the companies involved and the general control Beijing has over the economy. In terms of Evergrande itself, it remains an evolving situation. My base case is a government led restructuring, with a focus on project completion and asset disposals to meet social obligations.

Broadly speaking, while I do not expect President Xi's drive towards a healthier, less speculative property sector to be reversed anytime soon, one should not be surprised to see some policy fine tuning in the near-term as both property and land sales continue to slow down. All things considered; it is reasonable to expect some level of policy normalisation in the form of faster mortgage release in the not too distant future. More importantly, on the back of a period of tightening, there is significant scope to loosen policy.

The slowdown in the property sector combined with weaker than expected credit growth and the negative impact from the power shortage situation, have had a detrimental effect on the wider economy with annualised gross domestic product growth of only 4.9% in the third quarter of 2021. It should be noted that economists and market commentators are broadly anticipating growth of around 8% overall for the year as China's economy recovers from the effects of the pandemic. Consequently, I believe there is good potential for greater monetary and fiscal stimulus measures towards the end of this year.

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India

(compare country specialist funds **here**)

Hasan Askari, chair of Aberdeen New India - 25 November

Looking at the upward trajectory of Indian equities in the half year under review, it would be easy to overlook the challenges that the nation has endured. The MSCI India Index advanced by 23.4% and was among the best performing markets across Asia and the rest of the world over this period. Several factors sustained the market's momentum, including an improving situation regarding the pandemic and growing confidence in the country's recovery. Healthy buying interest from retail investors, aided by better access to technology, further propelled share prices. Additionally, India, given the quality of its private-sector enterprises, benefited as investors rotated away from China over worries around regulatory tightening across multiple sectors there.

At the start of the period, India was still struggling with a devastating Covid-19 surge, with cases exceeding 400,000 daily at its peak. This not only extracted a massive human toll, but also added immense strain on the healthcare system. Thankfully, things now seem to be under control, with a meaningful ramp up in the pace of vaccinations countrywide underpinning a corresponding decline in infections.

However, asset prices proved much more resilient than during the pandemic's first wave in 2020, with investors now looking forward to a normalising economy. This was supported by the government's decision not to impose a full lockdown, with states opting for more limited curbs instead. Initially, these localised restrictions did temper consumer spending and dampen manufacturing activity. But as larger swathes of the country began to re-open, economic conditions and investor confidence improved swiftly. Notably, upbeat signals in the housing cycle, recovering capital spending, higher tax collections from goods and services and rebounding factory activity all point to an economy in the early stages of a recovery to pre-pandemic levels.

Sentiment also received significant support from several policy initiatives. Perhaps the highest profile of these was the National Monetisation Pipeline (NMP) unveiled by the Finance Minister in August. The government will lease out state-owned infrastructure assets, including roads, railways, airports and power plants, to private operators for a specified period. It then plans to reinvest the returns into new infrastructure projects under the previously announced National Infrastructure Pipeline. The programme does seem promising at first glance. With the central government facing a stretched fiscal position, the NMP provides access to additional income streams to raise the capital required for new infrastructure investment. It could also unlock efficiencies, particularly in areas of asset management and maintenance. While some doubts remain, it will be in the government's interest to appear impartial to avoid criticisms that the programme benefits only certain favoured parties. As is so often the case with India, execution remains key.

There were also other policy changes aimed at specific sectors. Among these was the formation of a "bad bank" to address the perennial problem of bad debt among public sector lenders. The institution will take on stressed assets from these lenders and work with another entity to try and recover their value. This is the latest measure aimed at tackling this issue, encompassing the 2016 Insolvency and Bankruptcy Code and 2018's bank recapitalisation plan. If all goes well, this bad bank should help clean up lenders' balance sheets and provide fresh liquidity, which would bolster credit growth and support economic activity. Whether it will be effective in tackling the root issue of poor lending practices remains to be seen. In this regard, your Manager continues to prefer better capitalised and more conservative private sector banks. Elsewhere, the Cabinet approved a relief package for the telecoms sector, including deferments of unpaid dues and the removal of foreign investment limits. This is expected to bolster the beleaguered telecoms providers which have been embroiled in a long running price war since Jio entered the fray in 2016.

Taken together, all these factors do appear to point to an improving investment landscape. Crucially, these trends are increasingly reflected at the company level. Many businesses adapted adequately to the latest round of restrictions having learnt from their experiences in the initial outbreak. As a result, corporate profits continued to rebound despite the tightened curbs, with many companies forecasting better earnings growth ahead. Additionally, after a prolonged period of caution, the managements of these companies appear more willing to pursue strategic plans for expansion.

The favourable conditions are, in turn, attracting more companies to approach the market for new capital. This has enhanced the depth and vibrancy of the investment universe, with many of these coming from so-called "new economy" sectors, such as the internet and e-commerce. The quality of these listings has also improved and your Manager has taken advantage of the rich pipeline to invest in several interesting names operating in some niche areas.

India's prospects appear brighter given the tailwinds of a stabilising pandemic situation amid a widening vaccine rollout and the continued economic reopening. Nonetheless, some caution is warranted in view of prevailing risks. A key issue that merits monitoring is inflation. There are growing fears that rising food, energy and raw material costs could amplify price pressures. This could, in turn, thwart the demand recovery, weigh on companies' profit margins and hamper the country's growth trajectory. Another concern is that the central bank could begin to normalise its loose monetary policy soon in line with other global peers. For now, though, policymakers have given assurance that any moves will be gradual. Of course, Covid-19 is still a concern, with experiences of other regional countries showing how swiftly the virus can undo previous successes in managing the virus. That said, businesses and the government are much better equipped now to respond to further sudden outbreaks.

On the whole, India's outlook appears promising. Apart from a conducive macroeconomic backdrop, the long term attractions of the market remain intact. Favourable demographics, with a young population and rising income levels, should drive demand across various segments. Government policy appears committed towards addressing the nation's extensive infrastructure needs and expanding opportunities in emerging areas, such as renewable energy. Meanwhile, the recent infusion of high-tech "new economy" businesses has injected excitement into the investment universe. As always, the key is to identify the best of these opportunities that will deliver sustainable long term returns.

Flexible investment

(compare flexible investment funds **here**)

Sebastian Lyon, manager of Personal Assets - 24 November

Investors have been attempting to look through the effects of the pandemic and consider how the economy will recover. Thus far it has been an interrupted journey and we continue to believe that parts of the economy will not fully recover until the middle of this decade. Two areas that continue to show particular resilience, however, are the shifts to the cloud computing and electronic payments.

Central banks want us to believe that the current inflationary pressures are 'transitory'. Whether this is wishful thinking remains to be seen. The base effects of depressed oil prices in April 2020 on inflation figures have long gone and have been followed by supply shocks, as availability of products has been insufficient to meet recovering demand post pandemic. Admittedly, the leaden weight of high government debt levels will weigh for years to come and interest rates are unlikely to rise quickly despite calls to curb inflationary forces. In contrast, the consumer has not been in a stronger financial position for two decades; pent-up demand is translating into spending as pandemic restrictions are removed. As economies re-open, that demand may well strengthen, which may lead to a further phase of inflation taking investors by surprise in 2022/23.

Wage growth will be an important determinant of whether this current bout of inflation is 'transitory'. If wages rise, this is likely to feed the inflationary beast. That said, we do not necessarily see a return to the bogeyman of 1970s levels of inflation when unionised labour had a far stronger voice. For now, we believe it is crucial to remain open-minded, cognisant that markets are not currently discounting structurally higher rates of inflation.

For the past two decades, with a few brief exceptions, we have lived in an era of benign inflation. Central banks, if anything, have been fighting deflationary shocks since the Asian and Long-Term Capital Management crises of the late 1990s and, more recently, the Great Financial Crisis of 2008, followed by the Eurozone debt crisis of 2011. Investors may be ill-prepared for rising interest rates; fixed income investors offered low nominal and negative real returns are being driven to higher-return equities, which supposedly offer 'real' protection.

The discount rate, the basis of which is determined by the 10-year US Treasury yield, is key. Equities have been supported by four decades of falling interest rates. Should this dynamic change, investors may be in for greater volatility as the support from low rates is questioned. This raises uncertainty over the value of the expected growth in earnings from equities, which becomes less precious when eroded by inflation. A battle lies ahead between the 'inflation-protecting' qualities of stocks and the threat of nominal interest rate rises in the future. There is a risk that some 'alternative assets' such as highly geared real estate similarly may not offer much defence.

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Joanthan Davie, chair of Hansa - 23 November

The outlook for stock markets remains challenging, partially as a result of labour shortages, supply disruption creating bottlenecks and Covid-19 which continues to wreak havoc in many countries.

All the above, together with ample liquidity and ultra-low interest rates, are beginning to develop noticeable inflationary trends, creating an increasing amount of pressure for Central Banks to act to prevent inflation getting out of control. None of the above is helped by international tensions, particularly between China and the western democracies led by the United States.

Perhaps one of the bigger surprises has been the sudden appearance of energy shortages as the northern hemisphere winter looms. Striking examples include a cargo of LNG which, in early 2020, was priced at about $10m, is now trading at about $280m, or that oil traded at less than zero one day on the US futures market in April 2020 against a price at the time of writing of approximately $86 per barrel.

To my mind the oil price will remain firm for a number of reasons. On the supply side the search for new reserves and shale production has declined rapidly, whilst demand in the developing countries is rising and global demand is now almost back to where it was before the pandemic started. Whilst inflationary in the near future, this may prove to be the decisive factor to create deflationary forces in the longer-term.

It is very difficult to forecast where and when inflation will peak in the present cycle. All we know for certain is that the present problems of shortages, disruption and quantitative easing which are some of the reasons for noticeable wage inflation, will come to a close to be followed by a surplus of goods which will signal the start of a deflationary period.

On a positive note, it is encouraging to see some commitments being made on a number of issues at the COP26 Climate Change Conference held in Glasgow, particularly the abandonment of deforestation and reductions in methane-emissions. It would be remiss of me not to write about HICL's actions and thoughts on the present ESG debate. On the matter of investment policy, as reported in the Year-end Report, our Portfolio Manager continues to develop its Responsible Investment Policy which the Board supports. As a long-term investor, HCP has a natural desire to be a responsible investor and good corporate citizen. This is reflected in the belief that such businesses and investments are likely to generate superior long-term returns and, furthermore, consideration of such issues is an important element in the assessment of potential risks. The Responsible Investment Policy seeks to incorporate ESG factors into investment decision-making. The Manager is not pursuing an exclusionary policy through negatively screening potential funds or companies and thereby restricting our investment universe, but instead will engage with those companies and funds which they feel are falling short on their responsibilities. However, there is an expectation that our existing investments should take ESG issues seriously, to clearly report on them and to aspire to do the right thing. Additionally, as you may also recall when HICL became domiciled in Bermuda, your Board decided to make the relevant carbon offset payments on travel, which we continue to do through GreenFleet Australia, a leading not-for-profit environmental organisation on a mission to protect our climate by restoring forests.

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Manager of Caledonia - 23 November

Capital markets have recovered strongly following the shock of the Covid-19 pandemic, supported by renewed injections of liquidity by Central Banks. This action has steadied the nerve of market participants whilst much of the world has implemented its response through restrictions followed by vaccination to enable a recognisable quality of life to return to many nations. The response of businesses has been swift and impressive, though the return of strong economic demand has left supply chains struggling to deliver. This basic economic imbalance is resulting in inflation, notably the cost of labour, and is in danger of gaining an upper hand over the deflationary pressures of the past decade or more.

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Managers of JPMorgan Global Core Real Assets - 16 November

In the prior six months, many developed economies made sufficient progress on vaccination levels to allow them to ease COVID-related restrictions significantly - enabling greater mobility and for activity levels to pick up. As a result of this, more economically sensitive parts of the market, such as equities and real estate, rose strongly. The relaxation of pandemic-related restrictions was achieved despite the highly contagious Delta variant spreading across much of the world. Winter brings with it further uncertainty in relation to COVID's transmissibility and if hospitalisations do increase further, the economic recovery could be impeded though, in our view, not derailed.

As a result of the reopening, economic data over the period was generally very strong, especially in the US, which posted an annualised growth rate in excess of 6% in both the first and second quarters of 2021. Although the Eurozone economy contracted by 0.6% in the first quarter, it was able to grow strongly in Q2 owing in no small part to an accelerated vaccination effort. Despite supply side strain, indicators point to continued economic growth over the remainder of the year.

The reopening of economies and the quick rebound in activity has met with some production and transportation bottlenecks - constraining growth and fuelling inflation in some countries. The US consumer price index increased over 5% year on year and whether or not supply side issues can ease and whether inflation will be with us for a while are the big questions for investors. Whilst the Federal Reserve continues to see this inflation increase as transitory, it has recently become slightly more hawkish, as have other central banks, meaning quicker tapering and earlier rate rises are being discussed. Importantly for investors, in an environment where inflation is running above trend, gaining a positive real return is a challenge. As such, assets that can increase their cash flows as a result of inflation or nominal GDP growth - something real assets are typically well positioned to do - should become a valuable quality within investors' portfolios.

The other significant driver of markets in the last six months has been politics and regulation. Examples of what investors have had to deal with recently include: new regulation in China; changing governments in Japan and Germany; and the wide variety of policies in the name of greener, more sustainable economies. Real assets are an asset class where regulation and/or political interference can have an impact and this is something of which we are mindful when we invest. Nevertheless, in our view, diversification across many countries and regulatory regimes remains the best way of protecting a portfolio from these issues and is a major focus of our portfolio construction approach.

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Jean Matterson, chair of Capital Gearing - 12 November

We are now some 18 months into the pandemic, and whilst equity markets have been relatively resilient, there has been considerable pricing volatility below the surface. There is now real evidence of rising inflation in the economy. This increase has arisen from monetary policies and government support and now skill shortages and supply line constraints, generated by the sharp recovery as the economies reopen, which is feeding through to increased labour costs. Inflation is one of our emerging risks and is taken account in how the portfolio is positioned.

There has been some rotation in equity markets globally, away from market leading technology stocks, which have been the beneficiary of lockdown, towards more traditional industries which should recover as the world economies open up again. However, there has been a sharp rise in inflation and there is a likelihood that Central Banks will increase interest rates at some stage, albeit slowly and modestly given the high debt levels.

Market returns have been considerably higher than might have been expected over the last few years, especially with the impacts of a global pandemic to contend with. We do not, however, believe that this relative strength can last indefinitely, although above inflation returns could continue for a while yet. Pricing volatility is higher, and this calls for patient, long term investing, often ignoring shorter-term market sentiments.

We remain steadfastly cautious, given the many challenges in the world, and our priority remains to protect shareholders' capital.

Biotechnology & healthcare

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

Sven Borho and Trevor Polischuk, managers of Worldwide Healthcare - 17 November

The hallmark of equity markets so far in 2021 has been that share price returns are being primarily driven by global factors and events. Whether it be the pandemic "recovery" trade, growth-to-value rotation, large capitalisation companies over small, inflation concerns, interest rate gyrations, or other "factor" influences, the effect of these factors often swamped company specific fundamental factors in moving share prices. As a specialist investor in a highly complex and idiosyncratic industry like healthcare, it was, at best, a frustrating six month period.

Of course, the global pandemic wrought by the SARS-Cov-2 virus has not ended with the administration of billions of COVID-19 vaccine doses worldwide. Despite the explosion of the highly contagious Delta-variant in mid-2021 across continents, global equity markets continued to move higher, with multiple indices reaching record highs in the period.

At a high level, one critical driver of global equities over the past six-months has been investor sentiment about the global economic outlook. Concerns about U.S. tax reform, global inflation, supply chain disruption and unemployment were ignored as stocks moved higher. Recurring waves of COVID-19 infections across the globe were also ignored by investors as stocks once again moved higher. Globally, investor sentiment was buoyed by an economy that was expected to expand at a pace not seen in 80 years.

Overall, we saw an MSCI World Index total return of 10.7% in the half-year period (sterling adjusted). In the U.S., the S&P 500 finished up 9.2% (dollar) on a total return basis. In the U.K., the FTSE All Share total return was 7.9% (sterling). For healthcare, the Benchmark return was 13.0%. Similarly, the S&P 500 Healthcare Sub-Index (sterling adjusted) rose 12.7% on a total return basis.

Following record performance in 2020, the biotechnology sector, and in particular small and mid-capitalisation stocks, has dramatically underperformed the overall market thus far in 2021. With the post-election political overhang, some negative fundamental news flow, and the abundance of "macro" and sentiment factors driving investor behaviour, the sector has materially underperformed to a record extent.

Additionally, investor concerns about news flow from the U.S. Food and Drug Administration (FDA) increased during the period which applied further pressure to biotechnology valuation levels. In 2021, there were several unexpected regulatory trends from the FDA, notably: surprise Complete Response Letters (effectively "non?approvals" of new drugs), clinical holds (halting a clinical trial due to safety concerns), and deferrals on target action dates (when more time is required to review a new drug application). Also, of note, was the stretched workload of the FDA due to COVID-19 related responsibilities, delaying a plethora of clinical trials, advisory committees, manufacturing site visits, new drug reviews, and vaccine reviews.

The controversial approval of Biogen's Aduhelm (aducanumab) by the FDA, despite mixed clinical trial data and a negative recommendation by an external advisory committee, also hurt investor confidence in the agency, leading investors to become increasingly wary of potential regulatory risks and uncertainties in biotechnology.

Further, the Emerging Biotechnology sector has been plagued by several high-profile negative news events in 2021, including multiple late-stage clinical trial failures as well as unexpected safety problems across clinical trials. This includes some safety concerns among high profile new technologies, like gene editing.

Other issues also created headwinds for biotechnology stocks, including modest levels of mergers and acquisitions (M&A) in the period, a paucity of positive clinical catalysts, and a significant "growth-to-value" rotation that resulted in dramatic underperformance of biotechnology stocks (as measured by the S&P Biotech ETF or XBI) when compared to the S&P 500 Index.

Nevertheless, we remain positive on the outlook for the sector, and believe the broad valuation reset within biotechnology could catalyse strategic action from acquirors, which could help reignite investor interest.

We have long espoused the "Golden Era" of innovation that has been the primary creator of value for biopharmaceuticals for nearly ten years now. We have no reason to believe that this is going to change. In fact, the industry's response to the COVID-19 pandemic is just the latest example of the unprecedented innovation and societal benefit that the industry can offer.

Despite not attracting as much headline attention as vaccines, the novel therapeutics developed to treat and potentially prevent the COVID-19 illness are just as impressive as the vaccine initiatives. The development of multiple antibodies, antibody cocktails and anti-virals to reduce the severity of symptoms, prevent hospitalisations, and lower mortality have been critical in the public fight against COVID-19. The re-purposing of many already approved medicines to combat the disease burden has been under reported. Also, the development of oral therapies to reduce illness and prevent death will be another critical arrow in the quiver against the pandemic.

The FDA has certainly been in the spotlight in 2021. From its efforts to combat to COVID-19, to much scrutinised delays for some new drug approvals, to the controversial approval of new Alzheimer's drug, and the on-going lack of an appointed Commissioner; there has certainly been reason for investor concern. But what are the facts?

First and foremost, we expect another near record number of new drug approvals in 2021. With 41 novel approvals in the first three quarters of the calendar year, the Agency has approved one more drug compared to the same time period a year ago and has the potential for 58 approvals in 2021 (source: Washington Analysis). This would be the second highest level of annual approvals of all time and would represent the most productive five-year period in FDA history.

On 7 June 2021, the FDA approved Aduhelm (aducanumab) for the treatment of Alzheimer's disease. However, this unexpected approval set off a maelstrom of controversy given the debatable clinical efficacy of the drug and the fact that an external advisory committee voted against recommending approval of the drug. The ultimate approval debunks the myth that the FDA cannot operate properly or is too conservative in the absence of a full-time commissioner. We believe this view underappreciates the importance of the permanent staff and career employees who do almost all of the primary due diligence on behalf of the FDA.

What else can we expect from the Biden Administration in Washington? Both Medicare expansion and drug pricing reform have featured prominently in debates regarding the social spending bill. The most realistic Medicare proposals being discussed are incremental; including the expansion of benefits and lowering the cost of premiums. In the effort to lower the cost of prescription drugs to patients, there is a notable lack of consensus regarding the preferred size and scope of such reforms. We feel that these disagreements may derail drug pricing legislative efforts completely or produce a significantly watered-down update, either of which would be welcomed by investors.

M&A has been a common industry staple in healthcare for decades, especially in the therapeutics space, and a core part of the Company's investment strategy. The fragmented and heterogeneous nature of the industry, coupled with clinical and technological complexity, will continue to generate many business-development deals. That said, there is an ebb and flow to M&A, a variable cyclicality driven by influences from capital markets, IPOs, and crossovers, plus considerations like valuation, large capitalisation company appetites, and of course, the impact of the pandemic.

The summer of 2021 certainly saw an "ebb" in M&A activity with a total transaction value of only U.S.$6 billion across eight deals. This inflected in earnest in October when Merck announced its intention to acquire Acceleron Pharma for U.S.$11.5 billion. We do expect an uptick in M&A given the limited cash flow disruption for likely acquirors arising from the pandemic, continued solid balance sheets and the positive tone from large capitalisation companies about potential M&A.

In our current and fast-changing society, new and novel technologies abound and have impacted many industries. Healthcare is no exception and technological advances are the primary pillar for our positive outlook on the industry. We see an unprecedented level of innovation across the spectrum, from therapeutics to services, from devices to diagnostics. Moreover, advances in genomics and biotechnology have pushed the therapeutics space to such frontiers that the number of known disease states and druggable targets are at an all-time high. Novel platform technologies have enabled more therapies to target diseases that were previously thought to be untreatable.

Manager of Syncona - 11 November

We remain excited about cell and gene therapies. The data and impact on patients in these areas continues to be remarkable and we believe there continues to be a significant commercial opportunity in these spaces for innovative biotech companies. As development has continued in these fields, there have been some issues identified, namely around safety in some approaches in the gene therapy space and managing manufacturing complexity in cell therapy. We remain confident that industry and regulators will collaborate to support the safe delivery of treatments in these fields, which are often targeting areas of extreme unmet need where therapeutic options are either limited or non-existent.

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Geoff Hsu, manager of Biotech Growth - 11 November

Our initial expectation at the outset of the COVID-19 pandemic was that the biopharmaceutical industry would successfully develop multiple effective vaccines and treatments for COVID-19. This has largely come to pass, and we have been encouraged by the steadily increasing adoption of the approved vaccines. While we underestimated the level of vaccine hesitancy in the population, vaccine mandates and fears over the Delta variant continued to increase the percent of vaccinated individuals in the developed world during the review period. As of 30 September, about 65% of the U.S. population had received at least one dose of a COVID-19 vaccine, and upcoming vaccine approvals in children should further increase this percentage. The recent news that Merck's oral pill, molnupiravir, reduced the risk of hospitalization or death by approximately 50% in patients with mild or moderate COVID-19 suggests the burden of disease from COVID-19 will continue to wane. It is possible that the Delta variant wave will be the last major COVID-19 wave in the U.S., given that most individuals are now either vaccinated or have been infected previously. Widespread vaccination in the developing world continues to be a challenge, but as more vaccines make their way through clinical trials, we expect total manufacturing capacity for COVID-19 vaccines to increase and prices to come down.

During the height of the COVID-19 pandemic, commercial biotech companies with promotion-sensitive products witnessed slower revenue growth since their salesforces could no longer visit physician offices in person. While the Delta variant surge delayed the full resumption of promotion activities for these companies, we expect a sales acceleration in 2022 now that Delta cases appear to be declining in the U.S. Delays in clinical trial commencement and enrollment due to COVID-19 no longer appear to be a significant issue for the industry.

While biotech companies with COVID-19 programs experienced strong performance last year during the height of the pandemic and more recently with the Delta wave, we expect some of the exuberance for those stocks to abate as COVID-19 cases decline. While we transiently held some COVID-19-related stocks during the Delta surge, we largely exited those names as cases continued to decline in the U.S. By the end of the review period, the only remaining COVID-19-related names we owned were Novavax, a company with a protein subunit COVID-19 vaccine with positive Phase 3 results, and two crossover investments in China: Sichuan Clover, a vaccine company developing a protein subunit COVID-19 vaccine, and StemiRNA, a vaccine company developing an mRNA-based COVID-19 vaccine. We were able to make both Chinese investments at a significant discount to their U.S peers.

As COVID-19 continues to wane as a phenomenon, generalist and retail investors who invested in biotech in 2020 primarily due to COVID-19 have reduced their exposure to the space. We believe this phenomenon contributed to the pullback in valuations in small and midcap biotech during the review period but has largely played out. Over the long term, positive developments in non-COVID-19 programs should be able to support growth in the industry, as it has historically.

The IPO market for biotech companies remained robust throughout most of the review period. Appetite for biotech new issues remained healthy, underpinned by commitments from existing crossover investors in those companies. However, the period did witness significant retracements in performance for strong performing IPOs from 2020. Due to the reversion in performance of IPOs from 2020 and the broad selloff in small cap biotech in 2021, investors including us have become more valuation-sensitive for new IPOs, especially those without a near-term catalyst. We continue to participate in the IPO market because those companies are the ones developing the most innovative and novel technologies in the industry.

M&A activity continued in the sector over the review period.

Given the magnitude of the underperformance of small cap biotech from the February highs, we are optimistic that small cap biotech will rebound from current levels. The drawdown that we have witnessed relative to the broader market is on par with the maximum drawdowns we have seen in this market segment previously, and historically such drawdowns have been followed by rallies of outperformance.

Kate Bingham, Ailsa Craig, Marek Poszepczynski and Houman Ashrafian, managers of International Biotechnology - 1 November

The speed and success of the COVID-19 vaccination programme has had a profound impact on how the developed world was able to mitigate the impact of the pandemic and restore economic confidence. Equity markets, particularly in the US, have continued to perform strongly as both fiscal and monetary policies have supported the re-opening of the economies. Joe Biden's victory in the US elections in November 2020 translated into investor confidence in a rapid economic recovery driven by immunisation and trillion-dollar spending plans. This has since been tempered by concerns over waning vaccine protection, new vaccine resistant variants and patchy vaccination take-up in the US and the developing world, as well as the threat of inflation arising from monetary easing. Despite these concerns, US equity markets, as measured by the S&P 500 index, have risen by 26.8% since 31 August 2020.

As the threat of COVID-19 starts to recede across the globe, life is gradually returning to a new normal. While this progress is unlikely to be linear, clinical trials undertaken by biotechnology companies have resumed after being impacted by lockdown and patient concerns over virus transmission have reduced. Companies have adapted to the ongoing challenges and drug manufacturing is also back on track. After such a successful deployment in the developed world, the focus is likely to be on how vaccines can now be rolled out across the rest of the world to cement the global economic recovery.

The tremendous success of the vaccines has boosted the profile of biotechnology companies, making this sector more accessible and understandable for investors. The public now has a clearer understanding of the pace of innovation in the sector and the pathway from drug discovery to approval. While being in the spotlight is helpful for the whole sector, IBT continues to focus on the long-term growth prospects of those disease areas where there remains considerable unmet need, such as the treatment of cancer and rare diseases.

M&A activity remains a key driver of performance for the biotechnology sector as large pharmaceutical and biotechnology companies need to replenish their pipelines as more mature drugs go off patent. The pandemic had an impact on deal making last year, as early stage and complex mergers tend to favour face-to-face interaction and thorough due diligence of the underlying science, both of which were rendered difficult by COVID-19 lockdowns. This slowdown in deal-making is likely to result in a pent-up demand for deals since patents continue to expire despite the pandemic. Most of the innovation is undertaken outside large companies at universities, start-ups and smaller companies which forces larger companies to acquire or license in new technologies from these entities. Nonetheless, some deals, particularly those where the financial rationale was clear or the technology sufficiently advanced to reduce the need for detailed diligence, did go ahead and the Company was well-placed to take advantage of this activity to generate returns for its investors.

Few sectors offer such long-term visibility on their core drivers. In biotech, the key drivers are the pace of innovation, and the growth of the patient universe. It is unquestionable that both the pace of innovation and demographic growth are accelerating, and so the fundamental outlook for the biotech sector is positive. Other drivers are the regulatory environment which is currently reasonably stable and supportive; the political backdrop, especially in the US where the bulk of biotech innovation is undertaken, which is currently relatively benign, albeit with an underlying risk of healthcare reform affecting pricing. The economic outlook is positive as recovery from the pandemic gains' momentum. This gives us cause to be optimistic about the long-term future of the sector, and consequently, the Company.

Investing in biotech companies is investing in the development of medicines that will improve health outcomes for humankind. This is a major driver for the Company in its approach to stock selection and will continue to be so. The world is focusing more on responsible investing and the economic, social and governance (ESG) impact of companies around the world. The Company has recently approved an ESG policy which will form a core part of the investment process and will, in turn, play a role in encouraging significant portfolio companies to focus on their own ESG impact.

As valuations of smaller companies have retracted to more justifiable levels, and lockdowns have eased thereby facilitating due diligence and face-to-face meetings, we expect to see a return to a steady flow of acquisitions in the sector. Larger companies have healthy balance sheets, expiring patents and a need to replenish their pipelines of therapeutics, and they are also ever more conscious of the societal impact of their investments. We hope that our portfolio of companies addressing unmet medical need with strong management, good science and fair valuations will prove to be attractive to acquirors.

Technology & media

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

Neil England, manager of Augmentum Fintech - 22 November

The fintech market, which addresses both the incumbent players as well as new market segments, continues to offer a substantial opportunity for further growth and your Board remains confident that the long-term investor will be well rewarded.

As we continue to adapt to this changing world, the opportunity for fintech businesses remains considerable. It is inevitable that all financial institutions, whether incumbent or new, will be touched by technological developments.

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Private equity

(compare private equity funds **here**)

Simon Borrows, chief executive of 3i - 11 November

Despite the social and economic uncertainty that we have seen over the last 18 months, competition for private assets remains very strong. While we will continue to deploy capital selectively in new and bolt-on investments, we are also in a good position to benefit from favourable market conditions through our realisation pipeline to deliver attractive returns for our shareholders.

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Debt

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

Ben Hayward, manager of TwentyFour Income - 29 November

The second quarter of 2021 started strongly for risk assets, as wider markets stabilised after a weaker first quarter. Stronger economic data prevailed, reflected through employment and retail sales with uneventful central bank meetings followed by communications stating that higher inflation figures would be transitory. Markets remained fairly resilient despite increasing concerns over inflation and some surprising economic data from the US, including one of the biggest misses to the downside in Non-Farm payrolls, in living memory, where the forecast new job creation was 1 million, but the actual figure was 261,000. Concerns around labour shortages, wage inflation, pullbacks in central bank stimulus and taper tantrums prevailed while the Bank of England kept policy unchanged in May 2021, various officials acknowledged that strong growth could lead to an earlier than expected revision in interest rate expectations. Risk markets maintained their solid footing in June 2021 despite the Delta variant of COVID-19 seeing a resurgence in many areas. The Fed acknowledged that discussions on talking about tapering had happened, and dot plots were revised, showing a slight shift in rate hike expectations with markets now pricing in two rate hikes in the U.S. in 2023. The summer months remained fairly muted in risk assets as market participants continued to interpret mixed economic data culminating with the Jackson Hole summit at the end of August 2021. In the much-anticipated speech from Fed Chair Powell, he deviated little from the rhetoric of recent Federal Open Market Committee ("FOMC") statements and gave no further direction on the timing of a potential tapering of Fed purchases, but he did maintain that inflation would be transitory. In the UK, the Bank of England met early in the month and made no policy changes. However, the Monetary Policy Committee did signal they were considering when to implement tighter policy in the future.

September 2021 was a weak month for broader risk-on assets generally, as inflation and tapering weighed heavily on sentiment, and the potential failure of Evergrande added to investor angst. Fears of market contagion grew as Evergrande edged closer to default, and the market grew concerned about the fallout from a messy default and the form of any potential intervention from the authorities. As was largely expected, the FOMC kept policy unchanged but did signal that tapering could begin very soon "if progress continues broadly as expected". The dot plots were updated to show that two more Fed members now expect a first rate hike in 2022, leaving the FOMC split down the middle. Equally, the Bank of England was also in the focus in the run-up to the end of the quarter. The Monetary Policy Committee kept policy unchanged but made some hawkish comments with regard to future possible rates increases.

As previously highlighted, the bond-buying stimulus by central banks supporting many parts of the fixed income market such as corporate investment grade bonds, high yield and covered bonds and US ABS did not extend to European ABS. As a consequence, the spread performance was muted in the ABS market as it lagged others in the latter quarters of last year. However, against this macro backdrop European ABS also saw robust performance since the beginning of the year and also over the current period as the market started to catch up with other sectors. With a strong supply-demand technical still in play, all ABS deals saw vigorous demand across all asset classes, with mezzanine bonds, in particular, seeing multiple levels of oversubscription for new issues as the sector continues to offer an attractive pickup. After a robust first quarter of primary issuance, April and May got off to a slightly quieter start, thereby further underpinning spreads with no supply indigestion, causing a tempering in the trajectory of spreads.

The Primary European ABS market saw a sustained higher pace of issuance throughout June and rounded off H1 2021 with a total supply of around €52bn, which is just below the post-Global Financial Crisis record seen in H1 2018 and resulted in many analysts increasing their year-end forecasts accordingly. Following steady primary supply through July 2021 and a typically quiet August 2021 summer lull, issuance bounced back strongly in September 2021, contributing to the busiest quarter of the year so far. Gross YTD issuance now stands at around €81bn, including €25bn of new issue CLOs. September 2021 itself saw €13bn of placed bonds with RMBS across Europe accounting for the largest sector, followed by CLOs, together with an increase in Auto and consumer deals.

Over the whole period, pricing execution remained generally strong, which set the tone for secondary markets too. The slight weakness in UK RMBS spreads at the end of Q1, due to elevated levels of supply firmly retraced with spread levels passing the tights of the year by the end of May 2021. Positive sentiment prevailed, and the UK market shrugged off concerns around inflation and volatility in wider markets, and any secondary supply in the form of bids wanted in competition ("BWIC") auctions saw good levels of engagement by both investors and bank trading desks. However, the resilience to wider market concerns started to wane into the end of Q3, which saw a slight weakening in secondary markets. CMBS and CLOs remain wider due to the more esoteric nature and underlying structural risks for the former and a steady supply of the latter. In general, however, spreads remain wider than similarly rated corporate bonds, which trade through their pre-COVID-19 levels.

Performance of the underlying European and UK asset pools has been robust throughout the period in both consumer and corporate-backed deals and generally in line with pre-COVID-19 levels. The various different support measures played a part in dampening volatility and maintaining confidence in ABS markets over the period, but it is worth noting, for example, in the bridge-to-let loan ("BTL") sector, after an initial uptake in payment holidays, these reversed very quickly and are now negligible across mortgage pools. Rising house prices this year and better than expected data so far on unemployment have supported the market fundamentals too, but it is likely there will be some increase in arrears over time as measures start to roll off. However, we do not envisage any material credit concerns for the ABS market as a result.

Market Outlook

Technicals in the ABS market are more balanced as we move into Q4, and we expect issuance to flirt with the highs seen over the most recent five years, almost €100bn. This sustained but manageable supply, coupled with periods of macro risk-off moves, is expected to preserve a spread premium by year end. Whilst inflation and slowing growth remains a broad concern for fixed income investors globally, closer to home, the Office for Budgetary Responsibility now expects UK unemployment to peak at 5.2% in 2022, a far cry from the Organisation for Economic Co-operation and Development's 9.7% tier 2 stress test outlined in 2020. This expectation largely reflects how we also expect other European labour markets will fare as they are seeing the tapering of their respective COVID-19 support schemes too. The fundamental performance of ABS pools have been assisted by these policies, so a move to a more normal level of support for consumers and corporates as economies reopen will likely see deterioration in loan performance on a longer-term-basis, but within our base case scenarios.

The Bank of England is expected to be the first of the G7 central banks to raise policy rates, with futures pricing in one hike by the end of 2021 and two by the end of 2022. The fund having exposure to 47% floating rate GBP denominated assets will see this passed through to coupons upon reset. Central to our view for the rest of the year, is to take advantage of a more balanced market to rotate to build longer-term income exposures; using the secondary market and using pockets of value in the primary markets. That said, we expect bank trading desks to have had a steady year and expect liquidity to fade in a typical year-end fashion. Management of liquidity in the short term is a focus as we expect a continued search for yield and shelter from rate volatility to drive a positive start to 2022 for European and UK ABS..

Infrastructure

(compare infrastructure funds here and here)

Ian Russell, chair of HICL Infrastructure - 24 November

The strategic backdrop for infrastructure investment remains positive. Powerful megatrends continue to drive infrastructure delivery, in particular in support of the transition to a lower carbon economy and the pursuit of greater and faster connectivity. Governments across core markets also continue to progress ambitious infrastructure delivery programmes to both stimulate economies post-pandemic and address the systemic ageing of existing infrastructure. Inevitably, the transition from headlines to delivery will take time and require significant private sector input.

The outlook for inflation is expected to remain elevated in core markets. Overall, looking ahead, the Board continues to be encouraged by the signs of continued economic recovery from the Covid-19 pandemic.

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Manager of Cordiant Digital Infrastructure - 24 November

The Digital Infrastructure sector has been a beneficiary of changes in work patterns associated with the COVID-19 pandemic. We do not expect Digital Infrastructure usage patterns to change significantly as global economies begin to recover from this worldwide health emergency: video calls conducted from an office building use just as much bandwidth and data centre capacity as those conducted from a home. In our view, growth rates in the use of digital services should remain above those of the economy in general.

The uncertainty around the form and extent of the economic recovery, and the potential for resurgences in infection rates, are areas of concern. Stubbornly high rates of inflation associated with shortages and struggling supply chains are also a concern, not least as they create issues around maintenance and capital expenditures. However, as noted earlier, these tend to be more than offset by contractual inflation escalators in contracts.

The abundance of capital in global markets has created certain instances of pricing indiscipline and high levels of competition for assets.

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Robert Jennings, chair of Sequoia Economic Infrastructure Income - 24 November

Over the period, capital markets have been focused on risks around global inflation and the prospect of rising interest rates. Inflation (should it persist) is a double-edged sword for lenders. On one hand, the value of loan collateral is likely to increase, and therefore inflation typically has the effect of de-leveraging our borrowers and improving their credit quality. On the other hand, the returns that we can generate may fall in real terms.

Similarly, rising interest rates are a mixed blessing. An increase in short-term rates is clearly simply beneficial for us, since approximately half the portfolio consists of floating rate loans. An increase in long-term rates will temporarily reduce the valuation of our fixed rate loans, although that is merely a timing effect since their valuation will "pull to par" as their maturity date gets closer. The enduring effect of increasing long-term rates will be better pricing on new fixed rate loans. These would quickly start to make a material contribution to returns, given that the average life of our loans is 4.3 years, which means about a quarter of our portfolio is replaced each year.

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Renewable energy infrastructure

(compare renewable energy infrastructure funds **here**)

Richard Morse, chair of JLEN Environmental Assets - 25 November

The resilience shown during the Covid-19 pandemic has reinforced the value of established environmental infrastructure assets and now that economies have fully embarked on their fiscal and regulatory stimulus programmes, the outlook continues to appear promising.

Prompted by COP26, market discussions have been dominated by how pledges can be translated into physical infrastructure. The focus has fallen on the finance sector to facilitate a greener economy. The sector is being asked to direct their capital to help solve environmental issues and it is also being asked to "future-proof" those investments, to plan for climate change scenarios. The latest study by Climate Action Tracker ("CAT"), suggest that global greenhouse gas emissions in 2030 will be double the level needed to meet the Paris agreement target of limiting heating to 1.5C. This stresses the need for firm, irrevocable legislation and sets the tone for the renewable infrastructure market.

During the period, the Climate Change Committee ("CCC") 2021 Progress Report to Parliament has been published. This report notes that lockdown measures led to a decrease in UK emissions in 2020 of 13% from the previous year, although driving reductions in emissions requires sustained government leadership, underpinned by a strong net zero strategy.

Areas the CCC highlight that require particular attention include:

- a heat and building strategy;
- transport, hydrogen, biomass and food; and
- plans to decarbonise energy from waste.

While power price forecasts have rebounded strongly over the short term, it remains to be seen how this will feed into market competition for core renewables. It is anticipated that wind and solar acquisitions will continue to remain challenging from a yield and return perspective. Bioenergy assets remain attractive. We anticipate this sector to come to provide further opportunities.

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Kevin Lyon, chair of NextEnergy Solar - 19 November

The period under review has witnessed continued global economic challenges associated with the ongoing Covid-19 pandemic. In recent months, power prices have reached unprecedented high levels across both the UK and Europe, as countries recover from prolonged periods of economic shutdown alongside global gas shortages.

During the period, extreme energy price volatility led to dramatic increases in UK and European wholesale power prices. The combined impact of low UK wind resource, reduced gas supply and storage levels and outages at UK nuclear and interconnector facilities resulted in the September 2021 UK day ahead auction price monthly average reaching a record of £189/MWh.

We believe that the market environment continues to be favourable. Undoubtedly, the Covid-19 pandemic continues to have a profound impact on the sector and the recent power price surge has the importance of capturing the short-term higher power prices in the Company's hedging strategy. The price for electricity is driven by several factors that are inherently difficult to predict in the current dynamic environment but is ultimately dependent on supply and demand.

As demonstrated by the recent COP26 conference, the UK is setting an example to the rest of the world on how economies can change their energy mix to tackle climate change. The next six months provide an exciting opportunity to invest in both solar and energy storage.

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Property

(compare UK property funds **here**, **here**, **here**, and **here**)

Stephen Hubbard, chair of LXi REIT - 24 November

The outlook for the UK economy is increasingly positive and the government has announced its winter plan for the UK stating the main line of defence as vaccine and not lockdown. The replacement of restrictions with guidance and advice will undoubtedly assist our tenant stakeholders, in particular the hotel and pub operators.

We continue to see a polarisation in cap rates in long income valuations, with those sectors worst impacted by COVID-19 yet to recover fully. The strong trading over the summer months for hotel and pub operators should help to improve investor confidence and there remains the potential for further recovery in these asset valuations.

The prospect of increasing inflation is beginning to concern investors, with RPI now forecast to exceed 4% for 2021. The group's portfolio is well placed to deliver inflation protection for investors with 96% of the portfolio's rent reviews linked to UK inflation or containing fixed uplifts (58% RPI, 17% CPI and 21% fixed).

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Lorraine Baldry, chair of Schroder Real Estate - 23 November

The outlook for the UK real estate market is positive, with economic growth expected to continue, coupled with a supportive interest rate environment. Whilst we expect ongoing divergence in returns across the real estate market, with the industrial sector continuing to outperform over the short to medium term, the polarisation experienced over recent years is expected to narrow as more employees are encouraged to return to offices and sentiment continues to improve towards more resilient parts of the retail sector.

Whilst the outlook is positive, the UK recovery will need to absorb the gradual winding down of government support, and rising COVID-19 case rates over the winter could move the government to redeploy social distancing measures. Supply shortages and rising inflation have also created near-term headwinds that could weigh on activity in the coming months. Whilst this could be disruptive to the recovery, low interest rates and an abundance of capital seeking higher-yielding assets should support demand for good quality real estate.

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Brian Bickell, chief executive at Shaftesbury – 30 November

The global pandemic has been the most disruptive event we have experienced in generations, within a few months bringing unprecedented uncertainties and upheaval in the normal patterns of our lives. The availability of effective vaccines has radically improved the prospects of the crisis receding, but the pandemic may have a lasting effect on behaviours and individuals' expectations and aspirations.

It is too soon to assume the pandemic is now firmly behind us, with the continuing risks of virus variants and further disruption. In the UK and beyond, emerging concerns regarding inflation, shortages of labour, global supply chain issues, debt levels and government finances are now affecting the economic outlook. Meanwhile, the global climate crisis and the imperatives of decarbonisation and sustainability are now the priorities of governments, businesses and communities around the world.

The long-term success of London and the West End reflect their ability to embrace and adapt to challenges and change, drawing on their wealth of talent, creativity and diversity. Despite near-term challenges, they will continue to be a magnet for international businesses, tourists and investment, underpinned by their local and domestic appeal.

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Gerald Kaye, chief executive at Helical – 23 November

We continue to believe that the key trends we have identified of sustainability, wellness, enhanced amenities and technology will be of upmost importance to occupiers and investors within the central London market. Furthermore, these trends are increasingly being shown to be accretive to value, with Knight Frank recently reporting a 12.3% rental premium for achieving a BREEAM "Outstanding" rated building. We also believe that the gap between prime and secondary property will continue to widen, which will enhance the value of our existing portfolio and will provide significant opportunity for us to apply our strategy of redeveloping, refurbishing and repositioning properties that are no longer fit for purpose.

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Toby Courtauld, chief executive at Great Portland Estates – 19 November

Given the cyclical nature of our markets, we actively monitor numerous lead indicators to help identify key trends in our marketplace. Over the last six months, given the continued economic recovery, our property capital value indicators have seen further improvement. We expect investment activity in the central London commercial property market to trend towards more normalised levels and prime yields to continue to come under downward pressure given the continued demand for central London real estate. In the occupational market, given a strong leasing and rental performance of the portfolio in the first half of the year, we have upgraded our rental value growth range for the financial year to 31 March 2022 to between +2% and +5%, predominantly driven by the positive performance of our office portfolio.

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Simon Carter, chief executive at British Land – 17 November

Current market trends reinforce the conviction we have in our strategy. The trend towards more flexible working has clearly accelerated during COVID and office demand is more firmly polarising towards the highest quality most sustainable space. This is exactly what we deliver at all our Campuses, where we also benefit from strong demand from innovative growth sectors. Over the next 12 months, our central case is for rental growth on our Campuses of 0-3% with yield compression likely.

We expect the value play opportunity in retail parks to continue, driven by reducing yields and rent stabilisation including some rental growth for small, well located parks. In shopping centres, valuation decline has slowed, and we expect to see continued yield stabilisation with the rate of ERV decline also slowing. The market for urban logistics assets to support last mile delivery in London remains excellent and we expect continued strong rental growth with further yield compression possible.

The economy continues to recover but we recognise that uncertainties remain in the macro environment, particularly with respect to rising input costs. However, longer term trends including the demand for high quality workspace, omni-channel retail space and urban logistics in London positions us well for the future.

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Mark Allan, chief executive at Land Securities – 16 November

As a result of the success of its vaccination programme, the UK appears reasonably well placed to navigate autumn and winter without needing to revert to lockdowns or other excessively restrictive measures. However, it is by no means certain that this will be the case. In addition, people's behaviour patterns are still difficult to predict; it is challenging to discern short-term 'pent up' demand driven factors from long-term trends; and supply chain disruption is likely to remain an issue for a number of months, raising inflation concerns.

We remain alert to all these risks but, overall, our outlook is one of cautious optimism. We are providing high quality, sustainable office space that is very well aligned to today's customer demands; in our retail portfolio we are generally seeing leasing activity supportive of ERVs for the first time in quite a while and increasing evidence of a 'flight to prime' for which our portfolio is well placed; and we are building real momentum with our mixed-use development activity. With a strong balance sheet, a portfolio suited to changing customer needs and a clear strategy that positions the business for long-term growth, Landsec is well placed for the future.

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Andrew Jones, chief executive at LondonMetric – 18 November

We believe that real estate can continue to offer reliable, repetitive and growing income. At the same time, asset values in our chosen sectors are still being driven by attractive demand/supply fundamentals as consumers continue to shift their behaviours and more occupiers consider just in case logistic strategies rather than just in time in response to a more disruptive world.

Whilst it is not apparent today, we are mindful that at some point in the future speculation will overtake rational thinking and so we continue to adopt a careful approach so that we aren't swept away in the wild enthusiasm. Consequently, we do not believe all distribution warehouses are great, in much the same way that not all retail investments are poor.

As large shareholders ourselves, we have a high degree of alignment and so we will always look to buy right, build right and manage right content in the knowledge that we have invested in the right sectors and own some wonderful buildings that are let to some fantastic businesses.

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Richard Moffitt, chief executive of Urban Logistics REIT - 11 November

The world has changed over the last two years, and we have seen those shifts validate our strategy of focusing on the last mile end of the supply chain within the logistics market. Looking forward, the fundamental dynamics of this market are unlikely to change negatively in the near term. The twin shocks of Brexit and COVID-19 revealed the extent to which supply chains in the UK had been optimised for cost, speed and efficiency, but not resilience. Shocks like the Evergreen Suez blockage, and port delays, dominated the first half of the year, while HGV driver shortages have led to empty shelves in supermarkets and dry petrol forecourts more recently. Supply chain management is often a trade-off between a lean supply chain (fast and at low cost) and a resilient supply chain (able to withstand shocks).

The first half of 2021 was the busiest on record for take up of new space, at 24.4 million sq ft - 82% above long-term average. This beat the previous record set in 2020. Vacancies are down from 20% in 2010 to just 4% in 2021 (source: Savills). When we look at the available stock on the market today, we can see that supply is at its lowest ever level, at approximately 20 million sq ft. The majority of this supply is second-hand space, with grade A and new space making up only a small proportion of available stock (source: Savills).

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Jonathan Murphy, chief executive at Assura – 11 November

The pandemic has highlighted and exacerbated the existing problems that need to be addressed within our primary healthcare infrastructure. With record waiting lists, pressure on the NHS remains high. With an ageing population demand for health services will only grow. With a large proportion of the country's medical centres out-dated and not fit for purpose, the delivery of health services in a community setting that relieves some of the pressure in the system remains extremely challenging. The adoption of technology, in particular for triage and routine appointments, is needed to help relieve this pressure but face-to-face consultations in suitable spaces remains an essential part of delivering adequate clinical services.

Recent government announcements have pledged significant funding to tackle these issues. The Health and Social Care Levy, announced in September 2021, will see £36bn invested over the next three years in clearing waiting lists through increasing capacity within the system. The Autumn Budget pledges £5.9bn of investment in physical infrastructure and equipment, including diagnostics testing facilities and improving IT and digital technology within the NHS.

The recognition of the issues within the system and the increased funding are welcome, and we look forward to seeing how this will flow into the significant required investment in the primary care infrastructure needed to deliver this capacity.

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Richard Shepherd-Cross, investment manager to Custodian REIT – 30 November

The resilience shown by real estate during the pandemic and its strong recovery in the last six months, notwithstanding the threat from new COVID-19 variants, bears testament to continued occupier demand in industrial/logistics and retail warehousing, in particular. In addition, the motor trade has also performed well and we are witnessing a recovery in occupier demand for offices.

Increasingly tenants require properties that meet their environmental and social objectives, never more so than in the office sector, where businesses will need to attract their staff back to the office and away from home. Custodian REIT is poised to meet the demands of its tenants and potential new occupiers, in this regard, investing in EV (electric vehicle) charging on its retail parks and office sites and focusing refurbishment and re-development budgets on environmentally responsible fit out while working with tenants to improve the energy performance of existing buildings.

For so long as we can offer properties to our tenants that are fit for purpose and that lead on environmental performance improvements, we remain confident that the company's diversified portfolio of smaller regional property will continue to deliver the long-term returns demanded by our shareholders.

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Mark Burton, chair of AEW UK REIT - 17 November

The easing of most of the remaining COVID-19 restrictions, combined with the continued rollout of the vaccination programme, has lifted most economists' outlook for the post COVID-19 rebound in the second half of 2021. In light of this, the property market has experienced a gradual recovery, with rent collection levels greatly improving, as cash flow pressures on tenants ease.

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Lena Wilson, chairman of Picton Property – 10 November

We are encouraged by the level of activity across the portfolio, which has been driven in particular by the further opening up of the economy following the easing of lockdown restrictions. Our industrial and retail warehouse portfolio is close to 100% occupancy, with our office portfolio offering the greatest scope for income uplift through further leasing progress.

As businesses continue to return to the office, either full time or on a hybrid basis, we expect office demand to start to improve over the next six months. We anticipate that our assets, following our improvement and repositioning programme, will benefit from increased occupier demand, as businesses increasingly seek better quality accommodation and amenities for their employees.

While we recognise the inflationary pressures in the economy, including supply shortages, a tight labour market and increasing construction costs, we believe this will be offset in assets where the occupational supply and demand balance will continue to support rental and income growth.

Since the start of the pandemic, many UK listed commercial property companies have traded at an increased discount to their net asset values. This divergence in real estate equity pricing is more pronounced in some companies than others and we view the situation across the sector as unsustainable in the long-term. Combined with well-publicised issues in unlisted property funds, we believe there is an opportunity for the market to benefit from some consolidation in order to generate the economies of scale that can be achieved through the removal of duplicated management costs, improved liquidity and greater overall efficiency.

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Allan Lockhart, chief executive at NewRiver REIT – 25 November

Consumer spending continues its rebound and it is clear that, despite an understandable acceleration in online shopping over the pandemic, physical retail remains the dominant channel accounting for almost 60% of non-food sales. Within the grocery sector less than 15% of food sales are performed online and almost 90% of the UK online grocery market is fulfilled from retail outlets.

Outstripping the growth in online retail is click & collect; spend in this area is forecast to increase by £3.1bn in the next five years across all UK retail, rising 45.8% to reach £9.8bn by 2024. This is very supportive for our community centred assets which have the retailers, parking and accessibility required for this type of fulfilment model. Retailers recognise the role of physical store networks as effective fulfilment centres which can also be used to process online returns at reduced costs. Indeed, major retailers are actively encouraging click & collect for economic reasons and multichannel retailers within our own portfolio have highlighted the vital importance of stores to their online sales fulfilment. Amazon, the UK's largest online retailer, also recognises the important role that physical stores can offer in customer engagement through click & collect which is why Amazon is increasing their Amazon Fresh and Amazon 4-star store formats.

Coupled with an improvement in the consumer and retailer backdrop, liquidity in the retail real estate market has shown a clear improvement this year. This is particularly the case in the retail park sector where 2021 is expected to record the second highest deal volume in the past 10 years. Transaction volumes for shopping centres are already three times higher than the whole of 2020. The improving liquidity across the retail asset class, driven by private investors in shopping centres and increasingly institutional investors in retail parks, offers support for further valuation growth.

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