8 April 2021 – Monthly update

Omnis Managed Portfolio Service

Economies around the world are recovering unevenly from the pandemic. China has led the pack because it suppressed the virus quickly. Meanwhile, the US and UK are rebounding owing to a combination of fiscal stimulus measures and efficient vaccination programmes. In contrast, the European Union has yet to put its relief fund to work and many countries are struggling to contain a third wave of the virus.

Despite the uneven recovery, we believe the situation will improve, and continue to have an overweight allocation to equities in portfolios. As lockdown measures relax, businesses will have more opportunities to make profits, which should push up their share prices. There are a couple of risks. The first is that virus mutations could lead to further lockdowns, although we think this is unlikely.

The second risk is that inflation could get out of control, which would force central banks to increase interest rates. We also think this is unlikely. The recent sell-off in government bonds reflects concerns that an economic boom could reignite inflationary pressures, and inflation is almost certainly going to rise as spending on services and restaurants surges when lockdowns end.

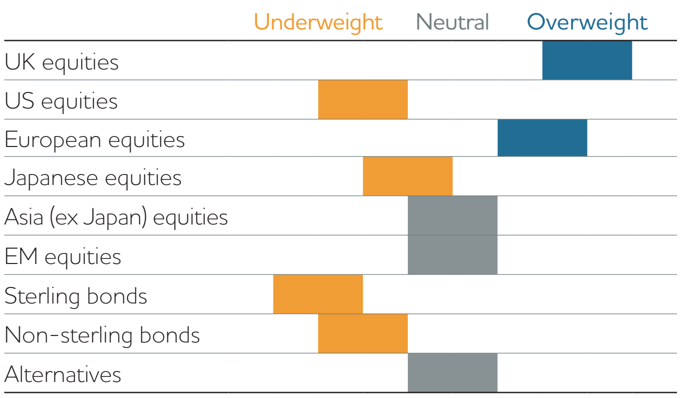
However, it's likely to prove a fleeting phenomenon, and we don't think it's something that will pose a serious, longer-term challenge to the economic recovery or financial markets. Continuing deflationary forces including ageing demographics, technological innovation and efficient global supply chains cast doubt over predictions of a new era of higher inflation.

Why it pays to be active

As active investors, we're able to tilt away from sectors and regions that are affected by rising inflation and the potential for higher rates, and favour those that can benefit most from the recovery. Notably, since November last year there has been a general shift away from technology stocks, which profited from the stay-at-home economy, and towards cyclical companies.

On a regional basis, US stock markets are more susceptible to rising rates and less sensitive to the improving economic outlook. They've already performed well during the lockdowns, with the technology giants driving them higher. On the flip side, we think smaller US companies are well positioned to grow their profits as the domestic economy improves.

Asset allocation



We have an overweight allocation to the UK, where the outlook continues to improve and valuations still look attractive. Although Europe is paying the price for its slow vaccine rollout, we believe now is a good time to invest in a market that has lots of sectors that should benefit from the recovery. In contrast, China's central bank is draining money from the financial system, which we believe is a headwind for emerging markets across Asia.

Investment strategy

As the global economic recovery continues and with policy tightening in China and the prospect of a stronger US dollar, we see a broader set of opportunities for our overweight allocation to equities, and have made the following changes:

- Decreased our overweight positions in Asia ex-Japan and global emerging market equities.
- Increased allocations to European equities across both the European Equity Leaders and European Equity Opportunities funds. Europe's recovery has been delayed by a slow vaccine rollout and this is reflected in attractive valuations. Yet we expect the region to benefit from a competitive euro and a global cyclical recovery.
- Increased our allocation to smaller US companies. We expect domestic-focused smaller US companies to continue to benefit from US reflation.

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