BRI Wealth Management PLC

October 2021

The world has witnessed a historic shift in working patterns and policies due to the COVID-19 pandemic. While some companies used to offer the option of working from home as a perk, it has now become the norm for most businesses to offer some form of flexible or hybrid working arrangements. Monday 13th September marked my first day back in the office since 24th March 2020 and I, like many others around the country, am getting used to this new normal.

Developed market equities were broadly flat over the quarter after a moderate decline in September erased the quarter's prior gains. However, this still leaves developed markets sitting on strong returns year to date with the US market up nearly 16% since January 2021, the UK market up 12% and the European market up 10%, albeit from a relatively low base.

Since the news that a successful COVID-19 vaccine had been created on what has been dubbed 'Pfizer Monday', 9th November 2020, we have seen a remarkable rebound in global markets. This rebound continued throughout July and August. However, we've seen a mood shift in September as investor sentiment turned slightly more cautious due to fears over inflation, China and the US debt ceiling.

Positive momentum for markets persisted throughout July and August, powered by a combination of factors: positive corporate earnings, improving economic activity, and continued accommodative government policy. These forces working together enabled markets to look past a further increase in global COVID-19 Delta variant cases.

Come September, we found many of the positive factors that supported stocks earlier in the quarter beginning to fade, and risk appetite softened leading U.S. equities to snap a 7-month winning streak. Corporate commentary turned more cautious; profit warnings that cited supply chain constraints and margin compression came from multiple industries, and that caused investors to become more concerned about the short-term outlook for corporate earnings. Economic data from August showed that the rise in COVID-19 cases had weighed slightly on the economic recovery around the world; however, recession risk remains low. Expectations for ongoing earnings growth in the coming years still point to the upside for equity markets.

There was one country that dominated the financial headlines throughout the quarter: China. The Chinese market fell -17% over the quarter, and due to their dominance as an emerging market constituent pulled this index down too (-6.5%) despite some markets, such as India (+12.6%), continuing to perform well. The negative news from China seemed relentless. First, the Chinese government attempted to introduce new regulations focused on the technology and education sectors. China's move to turn private tutoring companies into non-profit organisations worried some investors, who started to question whether similar actions could be applied to other sectors. This was quickly followed by enhancing regulations on the technology sector, focused on improving antitrust laws and improving data security. These policies are aimed at striking a more equitable balance between private enterprise and the public good. Finally, news of the potential insolvency of Chinese property giant Evergrande further weighed on investor sentiment.

Away from China, the risk of inflation continues to play on many investors' minds. UK inflation rose to 3.2% in August, the highest rate since March 2012. Energy prices soared over September and continued supply chain bottlenecks indicated that inflation pressures could be persistent. US inflation has appeared to stabilise at around 5%, still the highest level since 2008.

The Federal Reserve (the Fed) announced that it will soon begin to slow the pace of its asset purchases, with purchases set to come to an end around the middle of next year. The Fed also released its projections for interest rates over the next few years, with the central expectation now being for US interest rates to increase to 1.75% by the end of 2024. The pace of rate increases was faster than the market had been pricing in, resulting in a rise in Treasury yields in the days following the Fed's September meeting. Meanwhile in the UK, the Bank of England (BoE) delivered a similarly hawkish shift, suggesting that a rate rise could come early next year. UK government bond yields moved sharply higher.

In Japan, Prime Minister Yoshihide Suga, whose popularity had declined, announced that he would not lead the Liberal Democratic Party (LDP) into the November general election. His successor, Fumio Kishida, is now seen as likely to lead the LDP to victory in that election. This was received positively by the Japanese market, which rallied at the news.

Overall, equity markets have proved resilient to the wave of COVID hospitalisations that took place over the summer in many countries. The hawkish shift from the Fed and BoE, along with hopes that we may be at a point where most people have either been vaccinated or already infected with COVID, shows that we are moving towards normality again.

As investor Howard Marks famously said, 'You can't predict but you can prepare.' At BRI we take an active approach to ensure that portfolios remain well-balanced to weather short-term volatility. We remain committed to stewarding your capital over the short, medium, and longer term and remain confident in the medium- to long-term outlook for markets.

Written by:
Tom Hopkins, IMC, ACSI
Portfolio Manager

You can't predict but you can prepare!

BRI Wealth Management plc
BRI House
Elm Court
Meriden Business Park
Meriden
CV5 9RL

Telephone: 01676 523550
Email: invest@brigroup.co.uk

www.brigroup.co.uk

@BRIWealth

INVESTORS IN PEOPLE

BRI Wealth Management plc is authorised and regulated by the Financial Conduct Authority.The price and value of investments and the income, if any, from them can fall as well as rise.Past performance of investments is not necessarilya guide to future performance. Changes in rates of exchange may adversely affect the value of non-UK shares. Tax relief and the beneficial tax treatment of certain investments may not continue in the future.

This commentary has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell a security. It does not purport to be a complete description of our investment policy, markets, or any securities referred to in the material. Please note that this commentary may not be reproduced, distributed, disseminated, broadcasted, sold, published or circulated without prior consent from BRI Wealth Management plc. Whilst everycare is taken over the content of this newsletter, no responsibility is accepted for errors andomissions that may be contained herein.