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Investment Services

Reeves Market Outlook

May 2021

1. Inflows into Exchange Traded Funds see record a 12-month period

More than US$1trn of new cash has gone into Exchange Traded Funds, ETFs, in the past few months, as investors look to gain exposure to the risk-on rally seen since the lows in stock markets in March 2020.

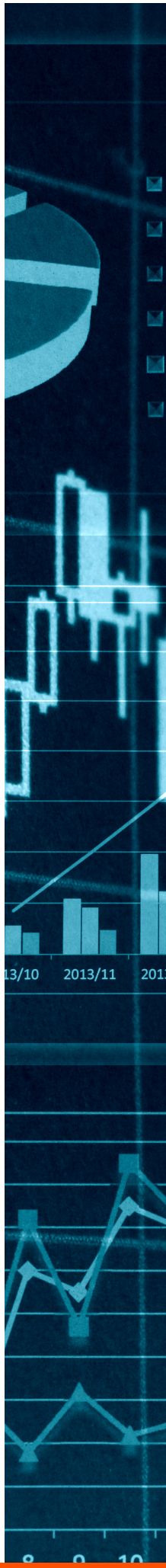
Relevance/Impact

As well as suggesting growing confidence among investors in a strong global recovery post Covid, it also demonstrates a shift in focus the industry has made towards Environmental, Social and Governance, ESG, investing. ETF funds with a sustainable mandate have seen huge inflows, with assets jumping from US$59bn to US$174bn in 2020.

With the shift to ESG only in its infancy and regulations forcing firms to give it greater consideration, the inflows and popularity are set to continue with ETFs offering a simple and cost-effective exposure to ESG products. Inflows into Emissions Trading Schemes, ETSs, and markets as a whole signal confidence in the Covid recovery, but also shows increasing participation from retail investors into markets, catalysed by the low interest rate environment of the last few years. Index funds are particularly popular with these investors, hoping to replicate the consistent returns seen with indexes such as the S&P 500 in the last few years.

Source:

Financial Times (5th April 2021) Inflows into Exchange Traded Funds see record a 12-month period
https://www.ft.com/content/37147f34-d34d-4f8d-9ba2-3bb0b9f30bb3



2. European equities drop as recovery trades run out of steam

European equities drifted lower at the end of last month as investors with strong gains from an economic recovery rally begin to question whether there was enough good news on the horizon.

Relevance/Impact

After hitting an all-time high earlier in the month, the Stoxx 600 index fell 0.4% by late morning in London on Friday April 30. Europe's innoculation rollout has been heavily delayed and the bloc is now struggling to contain a third wave of the virus, which is now hitting European equities and resulting in the dip at the start of May.

Those currently invested in European equities should keep an eye on the developing situation as it may be beneficial to sell before prices continue to drift lower. On the other hand, this may present investors with an opportunity to buy European equities while they are dipping before Europe begins to show stronger signs of economic recovery.

Source:

Financial Times (5th April 2021) European equities drop as recovery trades run out of steam
https://www.ft.com/content/a4cfeb51-f2f4-4e9a-a5f5-bf6e8debe8e9

3. Uneven recovery in UK jobs market

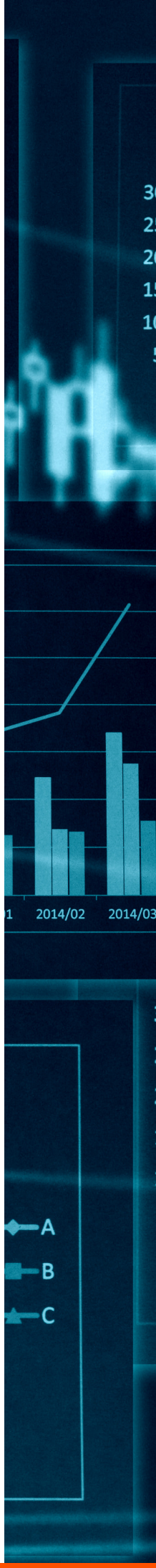
According to ONS figures, hiring in the UK has returned to pre-pandemic levels. However, closer inspection reveals huge disparities in hiring across different sectors.

Relevance/Impact

The hospitality sector has essentially seen 'bidding wars' for trained staff, as businesses across the country prepare to operate at full capacity. However long-term unemployment among young people is at a five-year high, with a lack of job creation and opportunities for graduates over the past year. While the numbers in retail and hospitality are promising, being some of the sectors hardest hit by the lockdowns in the UK, numbers in other sectors need to follow suit to make up for the huge demand for jobs. The lack of openings for graduates is a worrying trend, with firms preferring experienced individuals through covid with remote working making it especially hard to bring less experienced graduates up to speed. Hiring data suggests that recruitment is on its way up across several sectors such as construction, albeit not at the levels seen in hospitality, however numbers will have to pick up drastically to absorb the amount of jobseekers across the country.

Source:

Financial Times (4th May 2021) AUneven recovery in UK jobs market https://www.ft.com/content/421ba3b1-6b48-483e-b0c1-7a788a4d76f8



4. Covid restrictions lifting across US states

Several US states, most notably New York, are expected to lift most covid restrictions by mid-May in light of infection numbers falling sharply and a huge push across the nation to distribute vaccines.

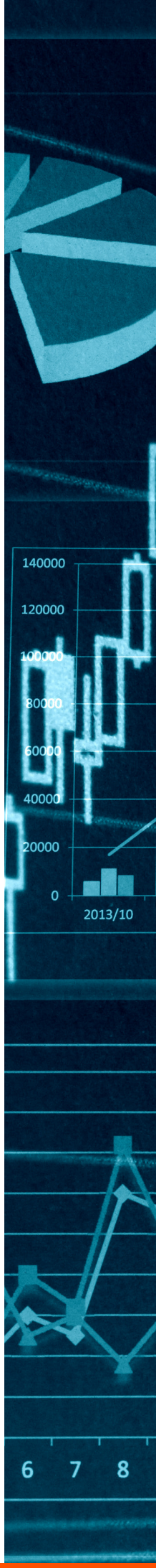
Relevance/Impact

Reopening New York is a significant move in the US, being one of the hardest hit regions at the pandemic's peak. This reopening follows several states which have already eased some or all of their restrictions in light of the success of the US vaccine program and rapid fall in cases since the US winter wave.

Some 247 million doses have been administered in the US, already surpassing Biden's goal of 200 million in his first 100 days in office. These figures mean that now around 44% of Americans have had at least one shot and 32% are fully vaccinated. As well as the Government stimulus being a catalyst for the rally seen in US equities, the initial success of the vaccine distribution has been a factor in market confidence as, for many, it represents the move back to normality. Some states have seen a fall in demand for jabs, with incentives now being offered to encourage the public to get vaccinated, such as promises of relaxed restriction and savings bonds.

Source:

The Guardian (22nd May 2021) US Covid rates stay low as restrictions lifted across the country
https://www.theguardian.com/world/2021/may/22/us-covid-rates-deaths-cases-vaccines-restrictions



5. Global growth versus value

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Relevance/Impact

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value. Value investors actively ferret out stocks they think the stock market is underestimating. They believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond to a company's long-term fundamentals. The overreaction offers an opportunity to profit by buying stocks at discounted prices—on sale.

Value versus growth has been one of the biggest discussions among investors over recent months, with no real consensus on how long the recent value outperformance can last. The volatility of growth, most notably tech, this year, after a prolonged period of record highs, has seen many investors move money into the stocks 'beaten up' through covid which are most likely to benefit from the reopening of economies across the globe.

Although many of the big growth names have posted higher than expected profits through Covid, we are now in an age with extremely high price to earnings ratios, with the high valuations in growth names worrying many investors about the short to medium term prospects of growth. Meanwhile value has experienced years of underperformance, with some analysts predicting it has some way to go yet, while others aren't convinced and see the value rally as a short-term impact of vaccine developments. With this in mind, a well diversified portfolio with exposure to both factors is a sensible place to be, giving exposure to the outperformance of both, while reducing the factor specific risk of a portfolio.

Source:

Financial Times (14th April 2021) Global growth versus value https://www.ft.com/content/979714e5-f93b-4a4c-a445-8b2e8ccef80c

6. UK house prices rise

UK house prices rose by 7.1% compared with a year ago, with available homes not matching demand.

Relevance/Impact

With increased savings during lockdown, coupled with the extended stamp duty holiday, many first time buyers are better placed to afford a home. However, the supply of houses isn't there to match buyers' demand, with prices rising sharply in April, up 2.1% compared with March.

Market commentators are predicting a busy summer season, with further rises in house prices expected. Data suggests that demand for more space in houses has been brought on with people spending more time in their homes than ever and a permanent shift to home working for many. This could prompt more activity in the housing market, especially given the increasing valuations people are getting on their homes. The employment figures could be the most significant factor as to whether the rising prices is a long term trend or a short term 'silly season'.

Source:

BBC News (30th April 2021) SUK house prices rise https://www.bbc.co.uk/news/business-56941162

Do you have a question for our Investment Team?

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