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CERTAINTY EMPOWERS YOU

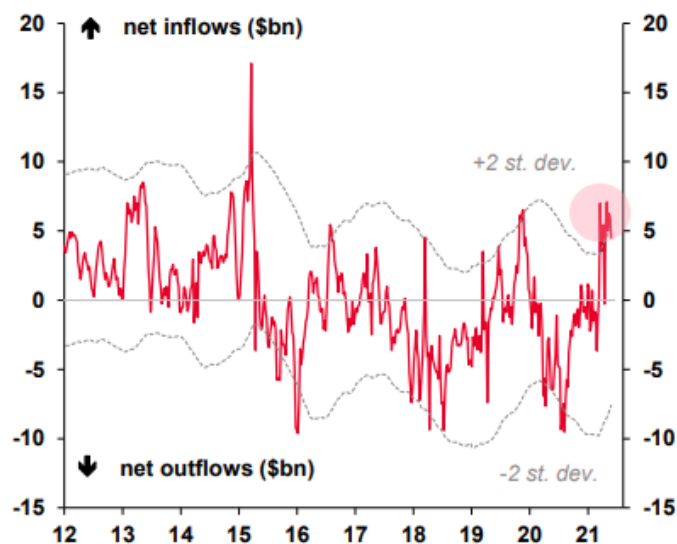
3 global trends to watch for

August 6, 2021

To be forewarned is to be forearmed, and so we thought it's worth sharing some insights on themes that investors should keep an eye on.

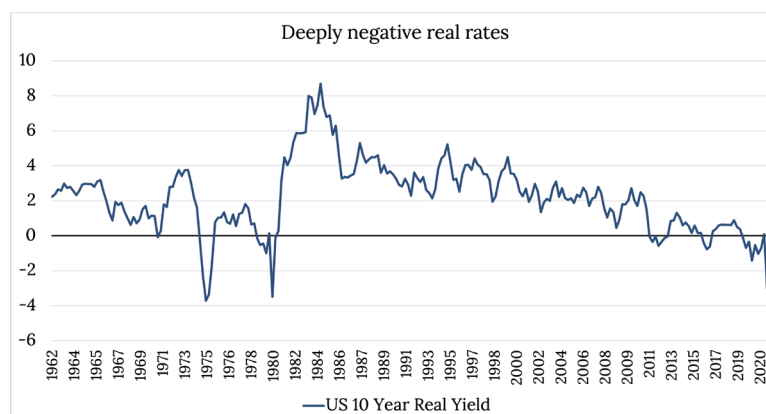
1. Income: this is definitely our specialty, however for 12 months or more the market has not been so interested in this component of total return until - as the below chart highlights - the last six months where it has come back into vogue, with net inflows into income funds well up versus 12 months ago.

EPFR equities - Net inflows into equity income funds



Source: Societe Generale

There are no doubt multiple factors driving this, but with valuations at record highs and interest rates likely to rise at some point, growth equities have little more to give in this cycle. To provide more Wperspective, the US is currently experiencing the lowest real rates (the rate of interest an investor, saver or lender receives after allowing for inflation) in four decades due to unchecked inflation. Should inflation stay at current levels, the real purchasing power of cash will be around 5% lower at the end of this year.



Source: Bloomberg

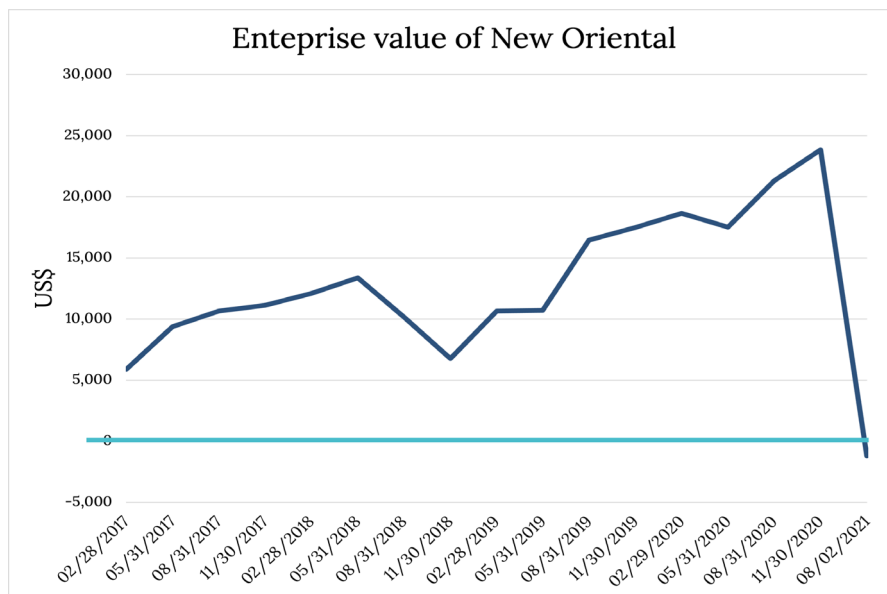


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As we've said before income will likely play a greater role in total return going forward and the market seems to be taking action. Importantly there is still some time.

2. Regulation: This can have a material effect on equities, with China a perfect recent example. Its recent and well-publicised government interventions wiped billions off the value of many companies in the tech sector. Lesser-known industries have also suffered, including Chinese tutoring companies, which are now being forced to go 'non-profit', in turn seeing the value of their companies head south. And in the case of New Oriental, its enterprise value of more than US\$25 billion has dived below zero.



Source: Bloomberg

It's important to remember regulation of this sort isn't confined to China – with the US government reviewing its own tech sector – the driver of so much growth and passive investing over the last 18 months.

3. The Producer Price Index (PPI) program: This measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. The continued upward trajectory not only since the initial COVID downturn but compared to the 10-year average continues strongly. These costs are flowing and will continue to flow through to real economies globally, and are a strong sign that inflation is more than transitory.

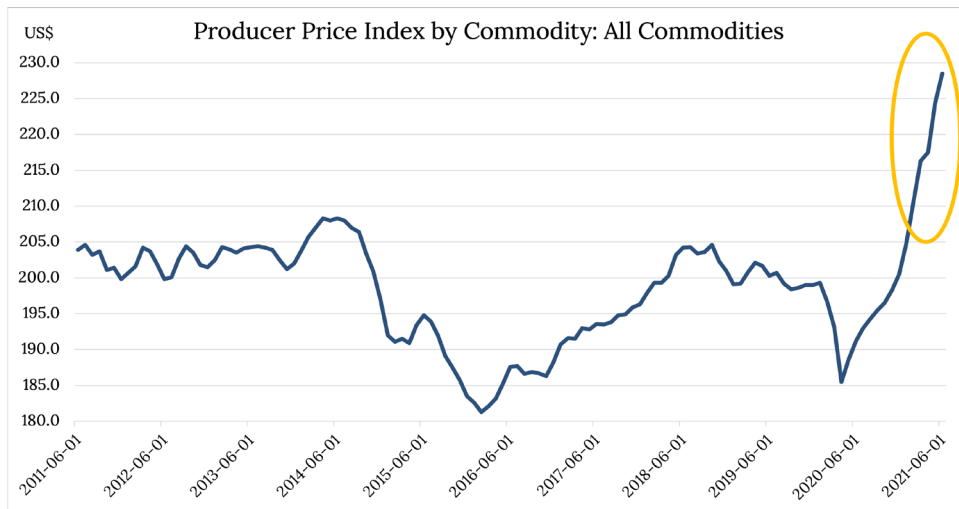


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Source: U.S. Bureau of Labor Statistics

So what to do with these rapid spikes and descents?

Diversify your holdings. Diversify by return type, geography and sector...and be forearmed.