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HOYL INDEPENDENT ADVISERS

ADVISER TOP 100 FINANCIAL ADVISERS MEMBER Hoyl Independent Advisers Ltd

Hoyl Investment Committee

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Bumpy road ahead but strong economic growth

The second half of 2021 is set to see strong economic growth as vaccine rollouts allow more countries to return to pre-covid levels of activity, fuelled by strong consumer demand, an increase in business investment and, for now, supported by government stimulus packages.

While the US is likely to regain pre-crisis output levels soon, the Euro area won't until 2022. Less supportive government stimulus packages will also help tame growth rates as we go forward into 2022.

However, the global recovery remains uneven as Covid movements diverge. While vaccine rollouts or tight border controls help lower the threat in some parts of the world, allowing social distancing restrictions to be eased, in others, Covid continues to rage. This means government stimulus packages are more of a support to recovery in some countries than others.

Growth within the developed world is likely to be more synchronised as vaccine rollouts progress, albeit with levels of activity and employment closer to full recovery in some economies than others. Looking to 2022, the withdrawal of government support measures will slow down the recovery.

For as long as Covid ravages large parts of the world, and the risk of mutated strains that can evade the vaccine remains, the threat of continued travel restrictions and social distancing measures will remain a real possibility.

Inflation is rising, but on energy base effects (inflation in the corresponding period of the previous year), global supply chain problems and the staggered re-opening of economies.

Supportive government stimulus packages, along with consumer and corporate spending power threaten to keep it elevated and may even push it higher. However, self-sustaining higher inflation rates would be more of an issue and we'd see significant changes in monetary policy regimes. As yet we don't foresee this happening.

We're experts, with many years of shared experience in analysing both fund and market data

We regularly review market trends and fund performance to make sure your adviser is in the best position to advise you when they review your investment portfolio

In this newsletter, we'll share our thoughts on the recent global economy, the effect on investment markets, and what we might expect to see in the coming months

In Brief

- The second half of the year looks set to be a bumpy ride, but we still expect equity markets to continue in an upward path
- The UK economy has bounced back strongly following its phased restart
- As US growth accelerates, worry over US inflation has moved to the forefront
- Euro area is experiencing a bounce-back from its double-dip recession as pandemic restrictions ease
- The global economic recovery continues, as the vaccine rollout makes steady progress and restrictions on activity being eased further in several major developed markets
- Higher inflation may prove more problematic than expected

United Kingdom

As the UK economy continued to reopen following the Covid-19 lockdowns earlier in the year, both the manufacturing and services sectors have seen significant increase in business, with the hospitality sector particularly strong. As Covid restrictions have eased, growth doesn't seem to be as strong, which could indicate the rate of expansion has peaked.

Nonetheless, encouraged by the vaccination programme, easing of restrictions and continued support in monetary and fiscal policies, we still expect further rebound in economic activity this year.

How the UK government deals with the evolving public health situation and unresolved Brexit issues will be important for businesses and their prospects in the months ahead. The ongoing issues with the Irish Sea border could have broader implications in terms of UK-US diplomatic relations and something that could potentially hinder a trade deal between the two countries.

According to the Office for National Statistics the UK gross domestic product (GDP) is estimated to have decreased by 1.5% in the first quarter (Jan to Mar) 2021.

School closures and a large fall in retail sales earlier in the quarter dragged down GDP growth. However, the monthly estimate for April showed a 2.3% increase in activity, the third straight month of growth and the fastest monthly growth since July 2020.

The Bank of England (BoE) maintained its bank rate at 0.1% at its June Monetary Policy Committee meeting and left its target for government bond purchases unchanged at £875 billion.

Headline inflation has increased to 2.5% in the 12 months to June 2021, up from 2.1% to May. Rising prices for clothing, second-hand cars, motor fuel, recreational goods and food and drink consumed outside the home drove the gains.

We believe that as a result of higher energy and commodity prices UK inflation will be above the Bank of England's 2% target for the rest of the year.

The unemployment rate in the United Kingdom fell to 4.8% in the three months ended in May, 0.9% higher than before the pandemic, but 0.2% lower than the previous quarter. Employment within the UK has been supported by the extension of the Coronavirus Job Retention Scheme until 30 September 2021.

United States

Overall, the US economy is in good shape. Consumer confidence reached a 16 month high in June and residential property prices continued to rise. However, we expect the pace of growth in the US to slow a little in the second half, but still remain strong as positive health outcomes drive a broader reopening of the economy.

Income support from enhanced unemployment insurance and fiscal stimulus is helping to drive spending in a second quarter in which growth could approach double digits. However, it's been reported that there's been slower-than-expected job gains due to the enhanced unemployment insurances. The Income support from enhanced unemployment insurance will expire in September as planned.

Real gross domestic product (GDP) increased at a seasonally adjusted annual rate of 6.4% in the first quarter, according to the second estimate by the US Bureau of Economic Analysis.

The US Federal Open Market Committee (FOMC) voted at its June meeting to leave the target range for its federal funds rate unchanged at 0%–0.25% and its bond-buying programme unchanged. A survey of FOMC members, suggested the Fed now foresees the timing of its first post-pandemic rate hikes in 2023, rather than in 2024 as per the previous survey, in March.

Strengthening demand for goods and services as the economy starts to fully reopen, along with supply hiccups in certain industries have seen headline inflation figures rise sharply to 5.40%. However, we believe the supply and demand elements driving the price rises as transitory and expect headline inflation figures above the Federal Reserve's 2% target in the medium term, with price rises moderating towards the end of the year.

Labour market recovery continued in the United States in May as 559,000 jobs were created and the unemployment rate fell to 5.8%. However, employment gains fell short of estimates for a second straight month as momentum slowed in the leisure and hospitality sector, suggesting labour supply constraints, cautious employers, or both.

The Bureau of Labor Statistics' JOLTS report (Job Openings and Labor Turnover Summary) on 8 June revealed there were a record 9.3 million job openings in the United States in April and 6.1 million new hires.

We expect US job growth numbers to be strong as the economic recovery to emerge in the third quarter and people's fears of the virus decline, child-care difficulties ease and supplemental unemployment insurance expires in several states. It's expected that the US unemployment rate will fall back towards 4% by year's end.

Europe

In the second quarter 2021, seasonally adjusted Gross Domestic Product (GDP) increased by 2.0% in the euro area and 1.9% in the European Union (EU), compared to the previous quarter. In the first quarter of 2021, GDP had declined by 0.3% in the euro area and 0.1% in the EU.

However, compared with the same quarter of the previous year, seasonally adjusted GDP increased by 13.7% in the euro area and 13.2% in the European Union in the second quarter of 2021, after a negative 1.3% growth in both zones in the previous quarter.

As restrictions on activity are gradually lifted, we expect a strong rebound in consumption and forecast a full-year growth around 5% and GDP reaching its pre-pandemic level in the first half of 2022.

Headline inflation is expected to be 2.2% in July 2021, up from 1.9% in June. Looking at the main components of euro area inflation, energy is expected to have the highest annual rate in July (14.1%, compared with 12.6% in June), followed by food, alcohol & tobacco (1.6%, compared with 0.5% in June), services (0.9%, compared with 0.7% in June) and non-energy industrial goods (0.7%, compared with 1.2% in June). We expect headline inflation to stay above 2% in the second half of the year, due to the reversal of a value-added tax cut that Germany instituted last year, supply-chain bottlenecks and an increase in demand as economies reopen

The European Central Bank (ECB) left its key rates intact at its June policy meeting, holding its main deposit rate unchanged at negative 0.50%.

The ECB assured markets it sees the rise in inflation as temporary and the central bank will continue with its emergency bond purchases under its €1.85 trillion Pandemic Emergency Purchase Programme (PEPP) until March 2022.

In June 2021, the seasonally-adjusted unemployment rate of the euro area was 7.7%, down from 8.0% in May 2021 and down from 8.0% in June 2020. The European Union's unemployment rate was 7.1% in June 2021, down from 7.3% in May 2021 and down from 7.3% in June 2020.

Japan

We still expect Japan to attain pre-crisis GDP levels by the end of 2021, but the beginning of the year has been disappointing against our expectations.

Japanese exports are just below where they were in the last quarter of 2019 and are growing rapidly in response to global demand. Industrial production is already above pre-pandemic levels, along with consumption of durable goods.

Overall consumption remains only partially recovered, with services spending nearly 20% lower than pre-Covid. Due to weak demand, and as Japan remains a "pursued economy", with better investment returns in most sectors available externally, capital expenditure will remain weak.

China

China's economic growth was lower than expected in the second quarter of 2021. The reopening of economies around the world cut into Covid-19-related exports and the pace of growth in both exports and investment moderated as the government reined in infrastructure and property investment.

Given recent Covid-19 outbreaks have reduced tourism and seen a decline in overall spending, we expect China's road to consumption and service normalisation to be a bumpy ride.

We expect the People's Bank of China to continue its strategy of gradual policy normalisation through means other than outright hikes in the key interest rates. China's policymakers emphasised at a recent Politburo meeting that there wouldn't be a "sharp turn in policy" as economic recovery continues.

We expect policymakers to use 2021 as an opportunity to address medium-term issues such as financial risks. The bank announced on 31 May it would increase the foreign exchange reserve requirement ratio for financial institutions from 5% to 7% in an effort to stem appreciation of the yuan against the US dollar and other currencies, the first increase since the global financial crisis.

Emerging Markets

The global pace of recovery has varied widely, but with an increase in vaccinations and a restart for global capital expenditures, we expect a stronger recovery in emerging markets in the second half of this year.

We continue to forecast full-year growth above 6% in emerging markets, however we're watching virus developments in emerging Asia, where we expect full-year growth above 8%. Recent elections and polls around forthcoming elections are revealing concerns about slow growth and pandemic management in Latin America, where our forecast for full-year growth around 4% wouldn't make up for a contraction of 7.4% in 2020.

Inflation dynamics and rising US interest rates have constrained central banks in emerging markets, where economic growth remains below potential. On 23 July 2021, the Bank of Russia Board of Directors decided to increase the key rate by 1.00%, to 6.50% per annum. Brazil and Turkey have also raised key interest rates in recent months, and Hungary and the Czech Republic may be poised to do so in coming months as price increases accelerate.

Hoyl Model Portfolios

We take a cautious approach when creating and maintaining each of our model portfolios, undertaking thorough regular analysis of funds which are invested in a wide range of different assets, industries and geographical locations. This spread of investments, known as diversification, helps reduce risk while ensuring our clients are only invested in those we believe to be the 'best of breed', able to cope with challenging economic conditions, but also with the potential to outperform other similar funds over the longer term.

Historic Performance Comparison

Simply click on the link below to see performance comparison charts for our latest model portfolio investment strategies for both the last 12 months and 3 years.

https://www.hoyl.co.uk/investment-committee-newsletter

Please remember that while these charts don't take the effect of plan charges into consideration, they clearly show the importance of remaining invested when there's a downturn in investment conditions.

Past performance is of course no guarantee as to what may happen in the future.

Thank you

Thank-you for the trust you continue to place in us to help look after your investments. We trust you find these regular Newsletters interesting and insightful.

You're always welcome to contact your adviser if you have any questions, would like to know more about anything we've mentioned, or need to discuss any financial matter.

Please remember, we're always here to help and advise you, and you should always speak to your adviser if your personal or financial situation should change.

Thank you again, and we wish you all the best for the months ahead.

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