HOYL
INDEPENDENT ADVISERS

Hoyl Investment Committee

December 2020 Newsletter

A Year Like No Other

The continuing impact of Covid-19 means the global economy now faces a deep recession.

People around the world have seen significant changes in their lives and the outlook that will shape and influence each country's response to the virus and recovery remains uncertain.

While the summer months saw a rapid recovery in global activity, as government restrictions were eased, the journey ahead will be challenging, with social distancing and regional shutdowns still likely to be needed to help contain the spread of the virus.

Recent developments in Covid-19 vaccines, including the UK approving the Pfizer vaccine and the anticipated approval of others including Moderna and Oxford/AstraZeneca, has given a more encouraging outlook for both the UK and rest of the world.

National governments have taken bold steps to save both lives and the world economy, with nearly $12 trillion in fiscal actions and around $7.5 trillion in monetary actions.

Our Investment Committee regularly reviews market trends and fund performance

As you'd expect, our experts have many years of experience analysing fund and market data

This means you can be sure your adviser is best placed to advise when you meet to review your investment portfolio

In this newsletter, we'll share their thoughts on the recent global economy

While fiscal stimulus are fading in some countries, China is one of the few parts of the world that appears to be having considerable success in reopening its economy.

Recessions are of course detrimental, but what's been remarkable about this one is how it's generated both winners and losers. Technology and ecommerce companies have maximised the opportunities created by people working from home and have seen their share price and earning expectations improve. However, companies that rely on close social proximity, such as hospitality and leisure have seen their earnings and share prices plunge.

The outlook for risk assets is more positive, with the vaccine news signalling that an end to the Covid crisis is now in sight, but the path to recovery will still be turbulent over the coming months.

So, let's take a closer look at some of the global investment markets and economies, along with some other important factors to consider…

United Kingdom

The UK's Gross Domestic Product (GDP), which is the value of all finished goods and services produced, increased by a record 15.5% in the third quarter when compared with the second quarter, according to preliminary estimates from the Office of National Statistics.

While this increase is due to the relaxing of Covid-19 restrictions, we expect the UK economy to contract in the fourth quarter as tighter restrictions are imposed to tackle a second wave of the virus.

We expect this contraction to be more severe than in Europe, as those sectors most reliant on social activities which have been severely affected by Covid-19, such as leisure, hospitality and tourism, account for a larger share of the economy than in most European countries, so full year 2020 GDP in the UK may contract by between -10% to -12%.

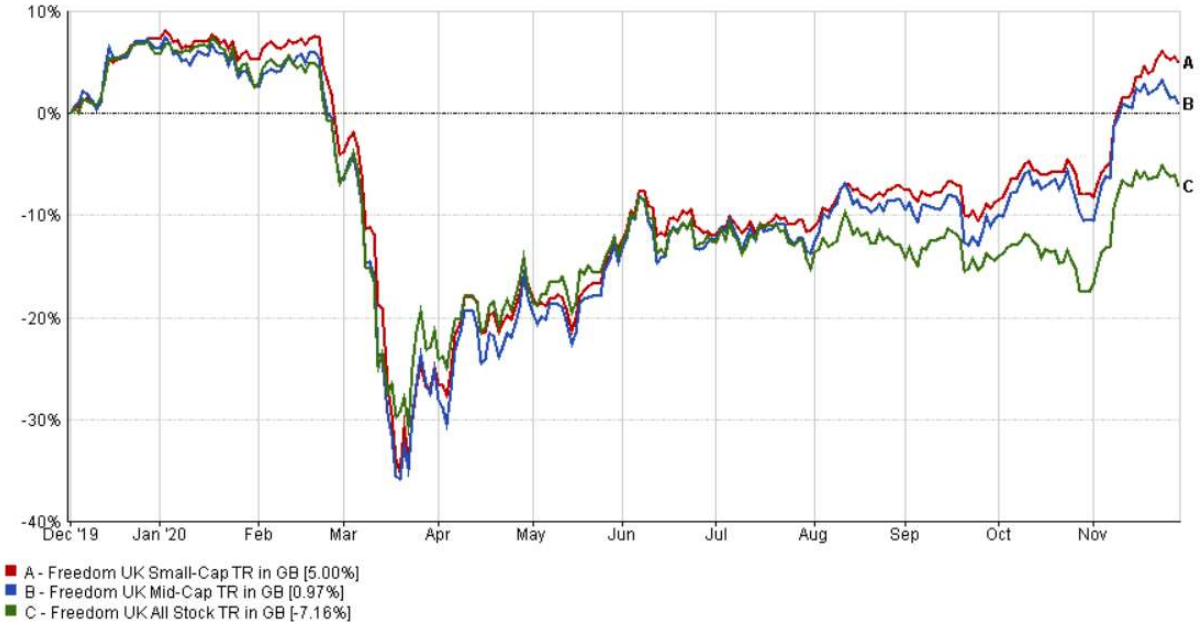
GDP growth could potentially range between 3.4% and 6.0% in 2021, depending on the success of the Covid vaccine rollout and the UK securing a trade deal with the European Union.

The Bank of England maintained its bank rate at 0.1% at its November Monetary Policy Committee (MPC) meeting. The Committee voted unanimously for the Bank of England to continue to increase the purchase for UK government bonds by an additional £150 billion, financed by the issuance of central bank reserves, taking the total stock of government bond purchases to a new target of £875 billion.

Inflation in the UK reached 0.7%, up from a 0.5% rise in September, but remained well below the MPC's 2% target, which largely reflects the direct and indirect effects of Covid on the economy. The Committee expressed its view that inflation would reach the bank's 2% target in 2 years.

In summary, the UK economic output could return to pre-crisis levels by the third quarter 2022, but if further lockdown measures are needed then this recovery could take until the end of 2023.

We've shown the performance of the UK Stocks over the last 12 months below.



Brexit – As the midnight hour draws near, how will Brexit conclude?

The UK officially left the European Union on 31st January 2020, but nothing has actually changed for our economy as the UK entered into an 11 month period of transition. During this time, the UK and European Union were supposed to agree a future trade arrangement, set to begin on 1st January 2021.

Negotiations are proceeding slowly, but significant differences still remain, as discussions have been plagued by the same issues for the last 4 years. The UK wants to regain control, to become fully sovereign, setting its own rules and regulations overseen by British Courts. However, the European Union isn't willing to grant significant access to the single market without guarantees that standards won't be undercut to gain competitive advantage.

Hopefully we'll see a breakthrough and a free trade agreement will be established. If not, the UK will leave and trade on World Trade Organisation terms, which is being referred to as a 'Hard Brexit'.

A Hard Brexit could bring the potential for more tariffs, more paperwork for businesses that trade with the European Union and the possible removal of the UK from European Union supply chains if regulatory conformity can't be guaranteed.

We expect, in order to get a partial trade agreement done, this may involve high level agreements that disguise what's essentially a transition to iron out the finer details.

Such a trade deal is still likely to be disruptive to economic activity in the UK and European Union over the long term. We expect both the UK and European Union will want to minimise the initial disruptions as both economies are still struggling to overcome the Covid-19 recession.

Changes may well therefore be phased in over time, spreading the economic cost over a number of months or years, and meaning the UK can claim the sovereignty to set its own rules and standards without initially making substantial disruptive changes. We'll wait and see…

United States

The United States has voted and the race for the US presidency is now over, with Joe Biden being elected to serve as the nation's 46th president – winning more votes than any other candidate in American history.

We see 2 key policy implications from a Joe Biden victory. Firstly, we expect the incoming president to take a more tactful and less confrontational approach in foreign policy matters, and secondly his intention to re-join the Paris Climate Agreement in an effort to combat climate change.

The economy in the United States grew at an annual rate of 33.1%, according to the first estimate of third-quarter Gross Domestic Product (GDP) from the US Bureau of Economic Analysis.

An increased likelihood of partial Covid-19-related lockdowns and a lack of further fiscal support this year suggest fourth-quarter GDP growth is likely to be in the 2% to 5% range.

The US Federal Open Market Committee voted on 5th November 2020 to leave the target range for its federal funds rate at 0.00% to 0.25%.

The US Federal Reserve is determined to keep borrowing costs low to help the economy recover from the Covid-19 recession and has emphasised the path of the US economy will depend on the course of the Covid-19 pandemic.

Promising news that production capacity for Covid-19 vaccines currently in trial are expected to deliver sufficient doses by early to mid-2021 means further lockdown measures are expected to be rolled back until early 2021.

We anticipate this could mean an increased chance of the economy reaching pre-Covid-19 output levels before the end of 2021.

Below we've shown the performance of North American stocks over the last 12 months.

China

China is still leading the restart in global activity, having managed their Covid outbreaks more effectively. This means their financial markets and economy should return to pre-Covid levels far ahead of both developed and emerging market peers.

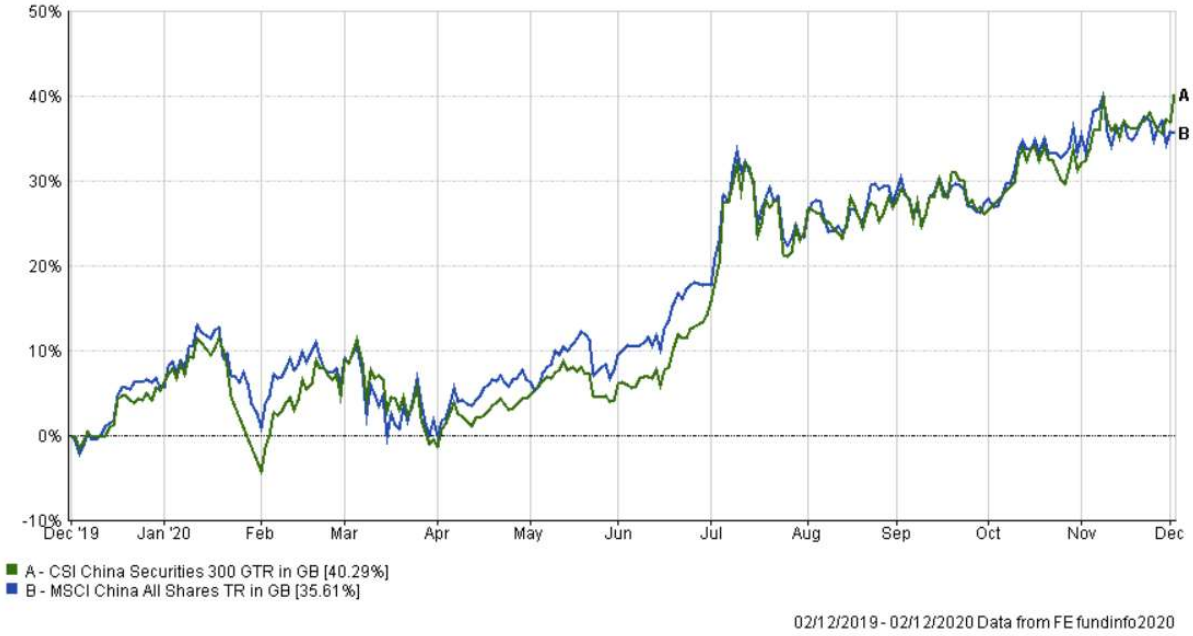
Their strength in exports and domestic consumption mean their growth is likely to be above the global average this year and possibly next year.

China is expected to be one of the only major economies expected to grow positively on average in 2021, with both China and the U.S set to be the dual engines of growth going forward.

Their comprehensive fiscal and monetary policy support has now started to moderate, so the risk of financial vulnerabilities caused by Covid should be contained.

China recently introduced its new “dual circulation” economic development model, which seeks to reduce its reliance on exports and foreign technology and instead look to strengthen domestic supply chains and focus on the domestic market as the main driver of China’s growth.

We’ve shown the performance of China stocks over the last 12 months below.



Europe

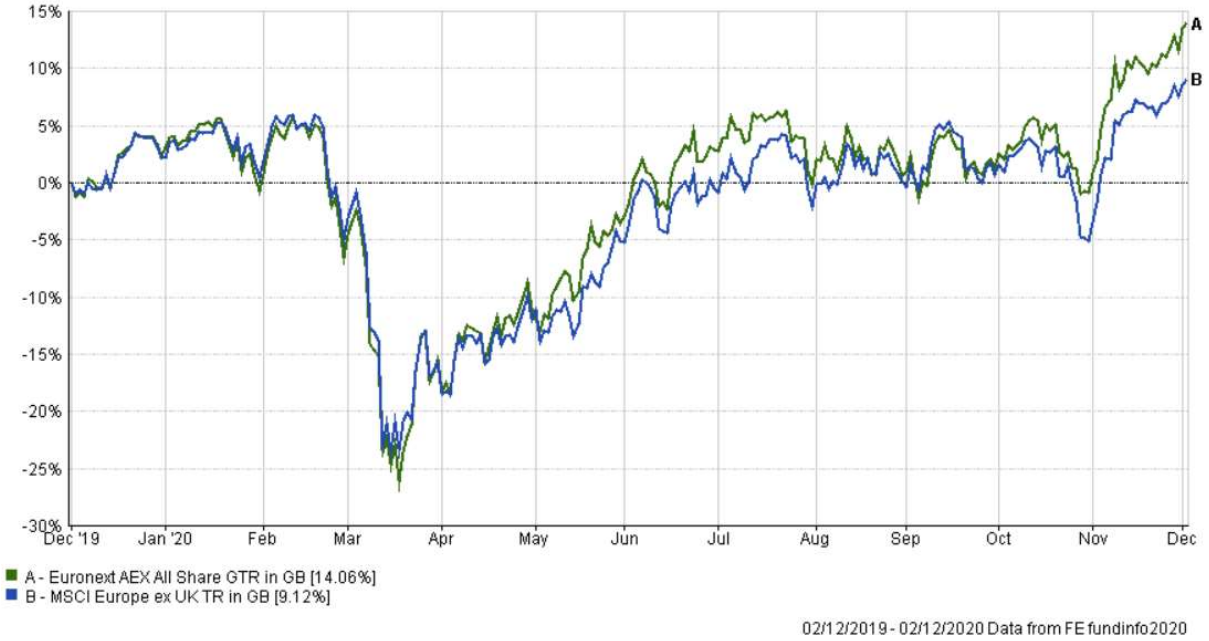
Unfortunately Europe is suffering a second wave of coronavirus infections, with all major economies now reporting new highs in infection rates. Governments have imposed local restrictions in a bid to avoid national lockdowns, but this approach appears to have had limited success, with a number of countries having to re-impose national level restrictions.

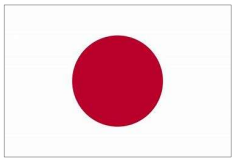
Survey data has highlighted a division between the manufacturing sector, which has continued to recover, and service sectors, which are once again subject to restrictions.

Gross Domestic Product (GDP) in the euro area rose by 12.6% on a seasonally-adjusted basis in the third quarter, compared with the second quarter, according to a preliminary estimate by the European Union's statistical agency. This is the sharpest increase for the indicator on record, following an 11.8% decrease in the second quarter that reflected lockdowns to help stop the spread of Covid-19.

We expect another euro area GDP contraction in the fourth quarter, due to renewed lockdowns, although this should be less severe than the second quarter fall, and full year 2020 GDP contraction of between -6% to -8%.

We've shown the performance of European stocks over the last 12 months below.



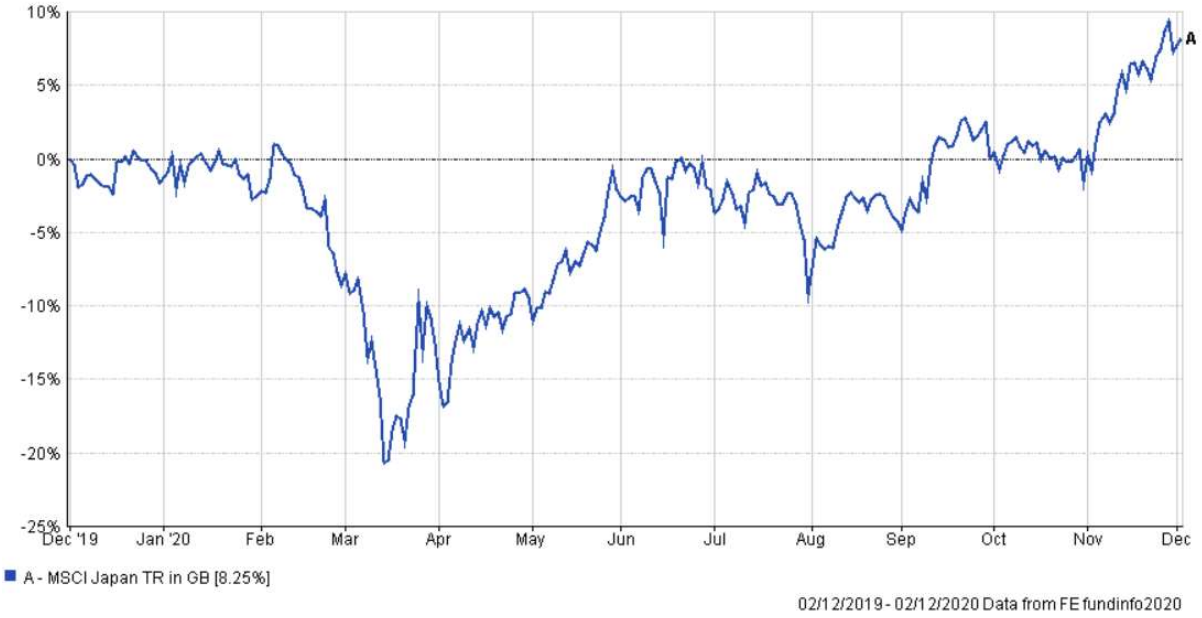


Japan

The economy in Japan grew by 5.0% in the third quarter compared with the second quarter on a seasonally-adjusted basis and at an annualised rate of 21.4%. The first quarterly gain in a year signalled Japan's exit from recession.

The Bank of Japan left its key short-term rate target at negative 0.1% at its October meeting and it's anticipated that they will not cut rates.

Below we've shown the performance of Japanese stocks over the last 12 months.



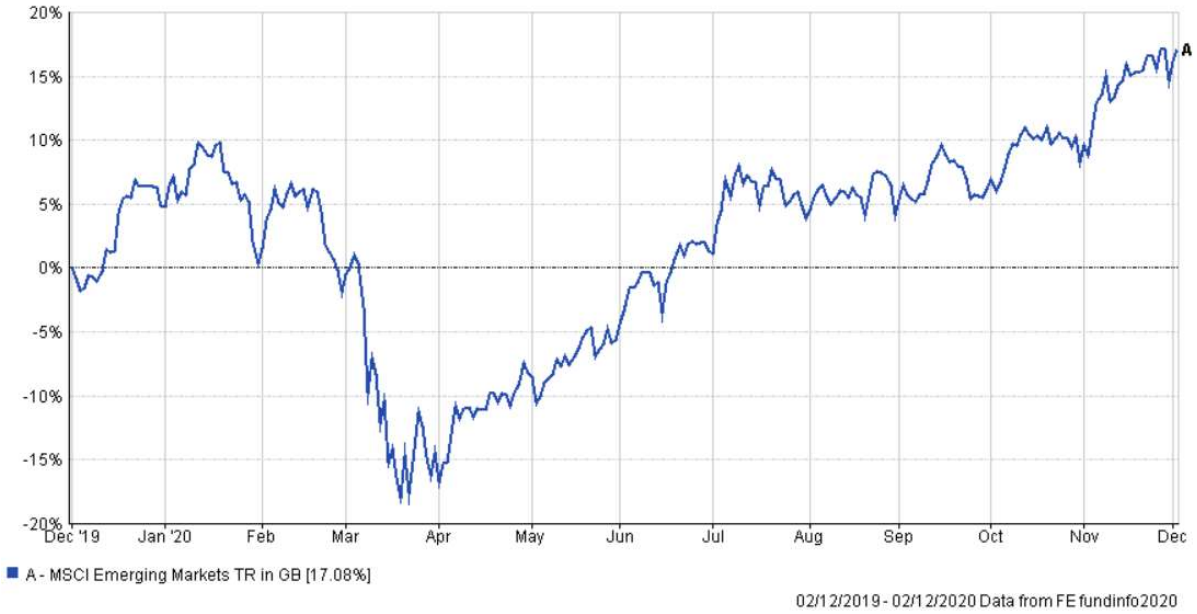
Emerging Markets

The recovery in emerging markets has continued in the third quarter of 2020.

Following a drawdown of nearly 20% in the first quarter and a sharp 18% recovery in the second quarter, the MSCI Emerging Markets Index rose a further 9.6% in the third quarter to climb all the way back to its pre-Covid peak.

Emerging markets owed their positive performance over the past quarter to a more risky approach to global investment. Central banks have kept interest rates low, thereby inspiring investor confidence.

We've shown the performance of emerging markets stocks over the last 12 months below.



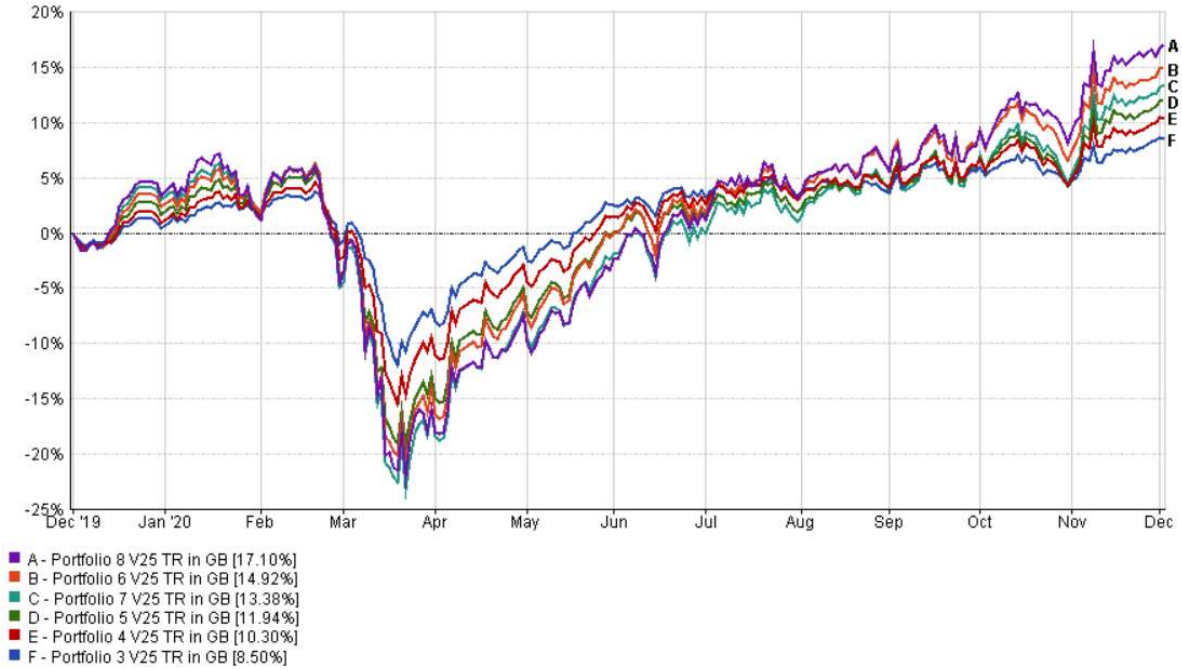
Hoyl Model Portfolios

We keep a degree of caution when selecting funds for our model portfolios, focusing on those funds we believe to be the 'best of breed', and companies with strong balance sheets, which are better positioned to cope in this challenging economic environment.

The chart below shows how our latest Model Portfolio investment strategies have performed over the past year and past 3 years.

Standard Model Portfolios

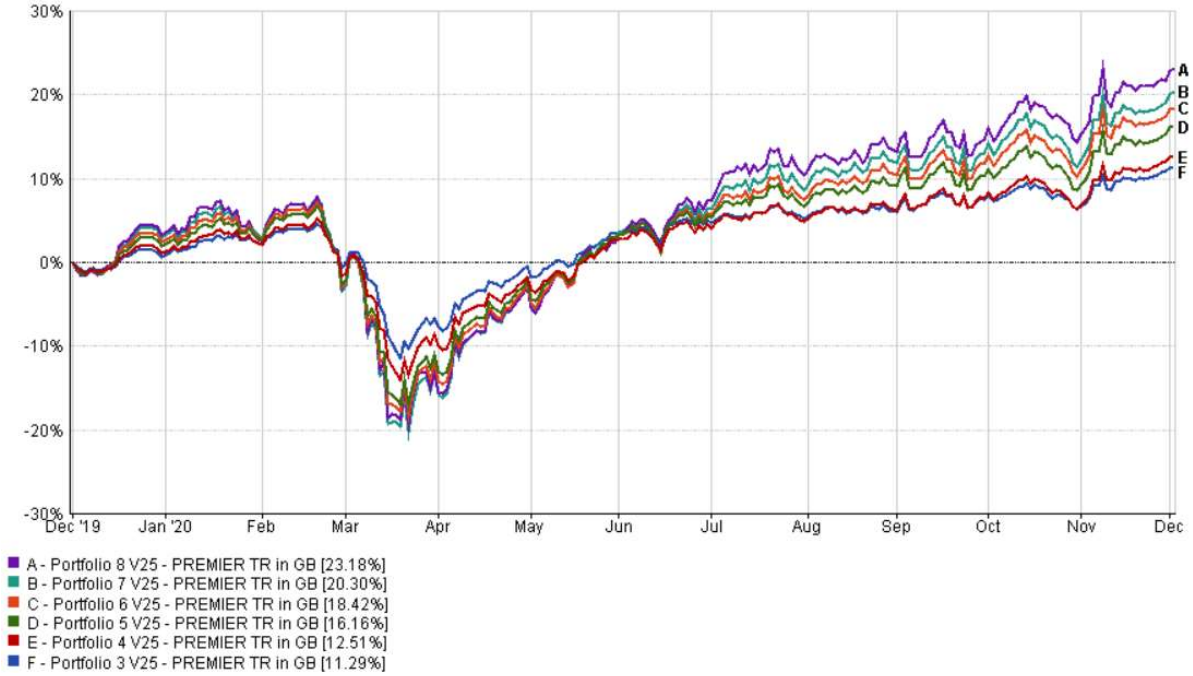
1 Year Historic Performance Comparison



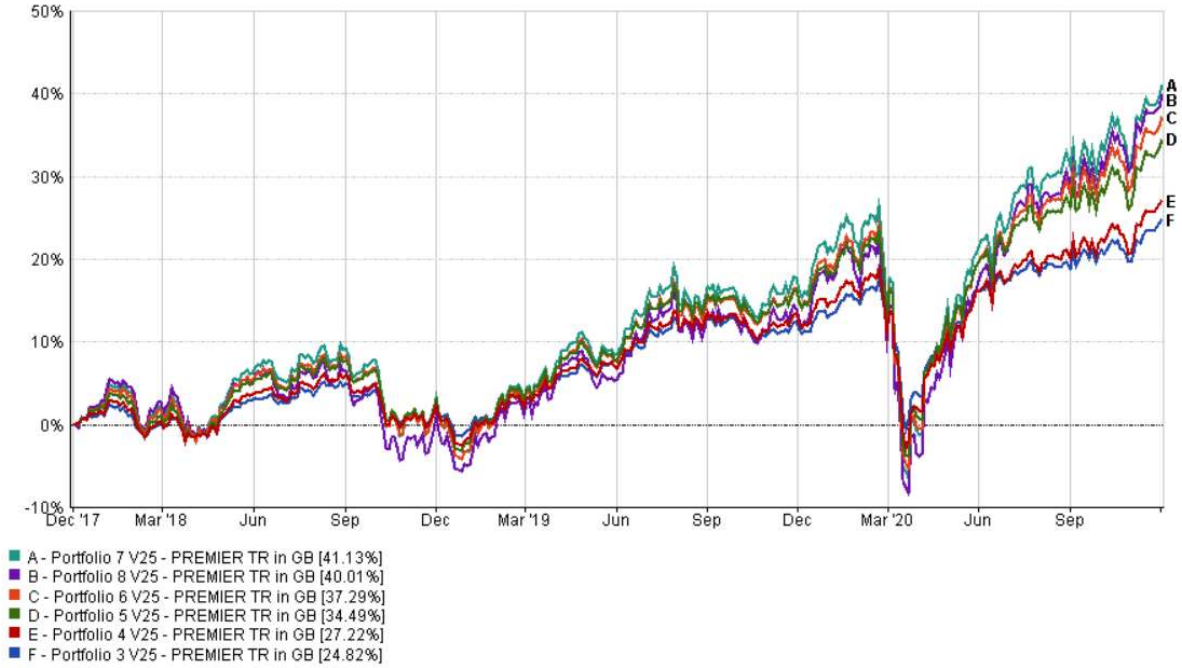
3 Years Historic Performance Comparison

Premier Model Portfolios

1 Year Historic Performance Comparison

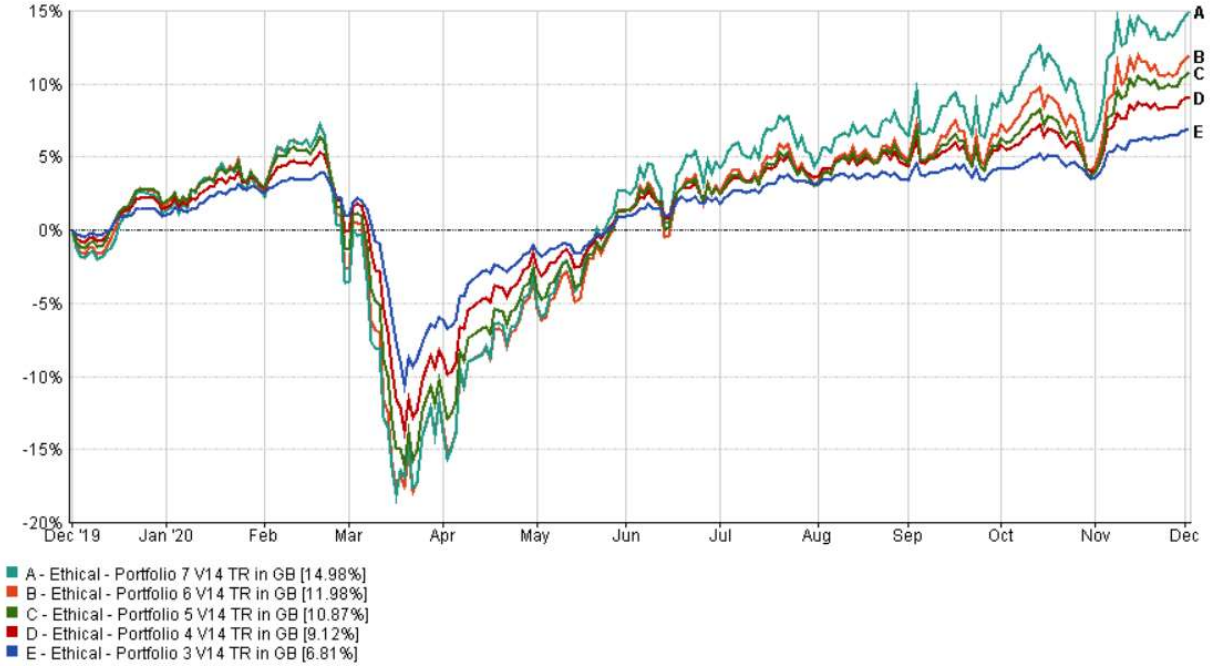


3 Years Historic Performance Comparison

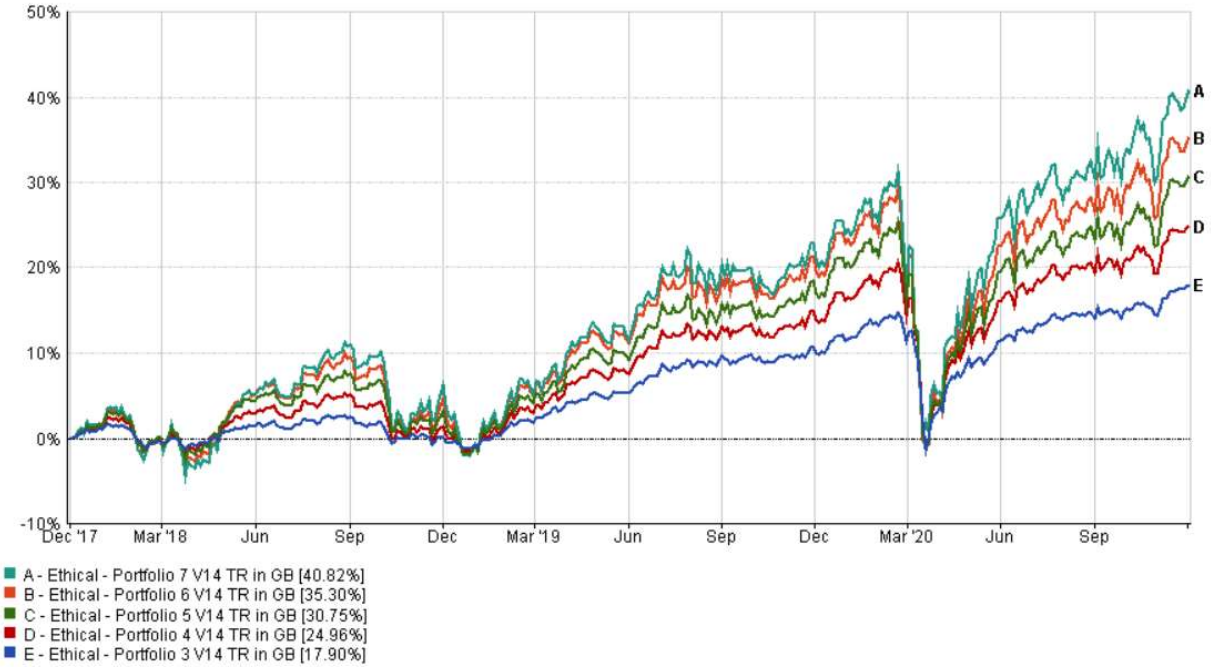


Ethical Model Portfolios

1 Year Historic Performance Comparison



3 Years Historic Performance Comparison



It's important to note that while these charts don't consider the effect of plan charges, they do clearly show the importance of remaining invested during a downturn.

Please remember past performance is of course no guarantee as to what may happen in the future.

Thank you

Thank you for continuing to be a valued client. We trust you've found the information in our newsletter useful, but please get in touch with your adviser if you should have any questions, or would like to know more.

We know coronavirus has brought many changes, both personal and financial, to many of you, but please remember we're always here to help and support you in any way possible.

You should always speak to your adviser if your personal or financial situation changes. They'll be pleased to help you and, as we say here at Hoyl, sound financial advice could be your best investment of all!

Thank you again, and we wish you and your family well for the months ahead.

Contact your Hoyl Adviser on 01263 510 782 to learn more

e-mail support@hoyl.co.uk or visit hoyl.co.uk

Or write to us at PO Box 46, CROMER, Norfolk, NR27 9WX

DISCLAIMER
The value of investments can go down as well as up especially over the short term and you may get back less than the amount you invest. Past performance is not necessarily a guide to future returns. The information provided above is for information only should not be interpreted as investment advice. If you would like personalised advice, or you wish to discuss the contents of this review please contact your Hoyl Adviser on 01263 513 016.

The contents of this review are the thoughts, comments and observations of the Hoyl investment Committee on 28th October 2020 based on information obtained from sources including: FE Analytics, J. P. Morgan, Office for National Statistics, BlackRock, Vanguard, PIMCO, Lazard Asset Management, PWC, and US Bureau of Labor Statistics. We take no responsibility for the accuracy or reliability of the content.

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