THOMAS MILLER INVESTMENT

Investment Commentary

April 2021

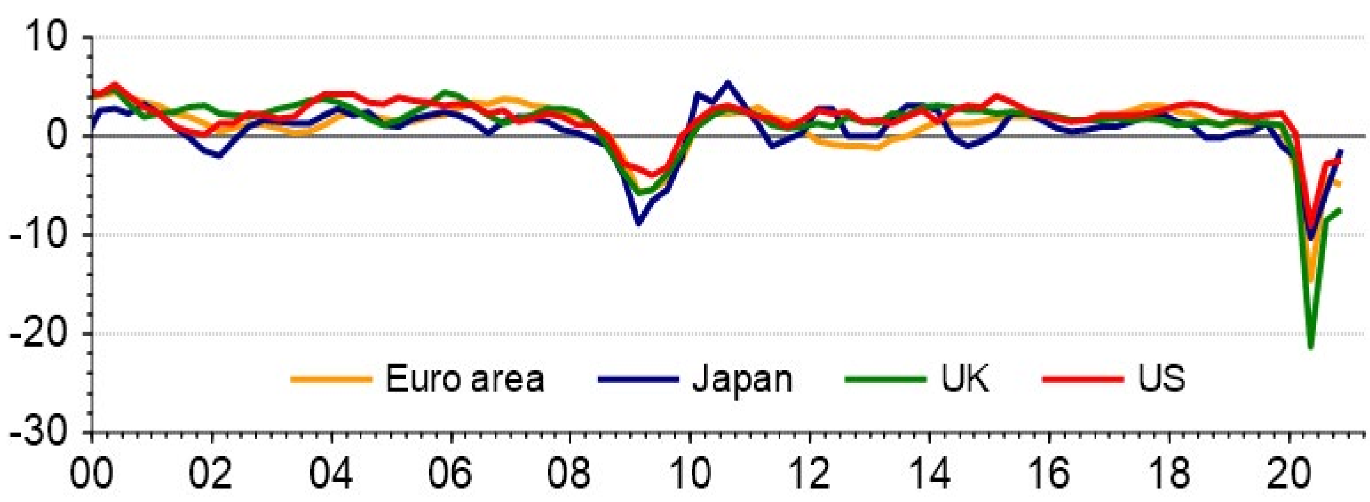
Recent economic developments

■ Economic reports over the past month have confirmed that the global economy continues to recover. Indeed, in a recent research report, the International Monetary Fund (IMF) flagged its expectation for a stronger economic recovery in 2021 as Covid-19 vaccination programmes progress. The IMF raised its forecast for world economic growth in 2021 to 6% from the 5.5% forecast published in January. Likewise, the global GDP forecast for 2022 was raised from 4.2% to 4.4%. The IMF noted that its upward revisions were driven by "additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility." Importantly, the organisation cautioned that elevated levels of "uncertainty surrounds this outlook, related to the path of the pandemic, the effectiveness of policy support to provide a bridge to vaccine-powered normalization, and the evolution of financial conditions."

■ One important development in recent weeks has been how major central banks have addressed investors' concerns about the trajectory of future monetary policy in light of expectations of improving growth and rising inflationary pressures. In this context, in the US, Federal Reserve (Fed) officials signalled that they expected to keep interest rates close to zero until at least 2024, despite upgrading their GDP growth forecasts because of an accelerating vaccine rollout and a sizeable fiscal stimulus.

■ In support of their position, Fed officials argue that the US economy requires ongoing monetary policy support because the path ahead remains uncertain and a full recovery remains distant. Nevertheless, the Fed upgraded its forecast for US GDP growth for the full year 2021 to 6.5% from the 4.2% projected in December. The Fed also forecasts that the headline unemployment rate will fall to 4.5% by the end of 2021 — 100 basis points lower than the forecast published in December. While the spectre of elevated inflation has spooked some investors in recent weeks, the Fed's view is that near-term consumer price increases will prove to be temporary.

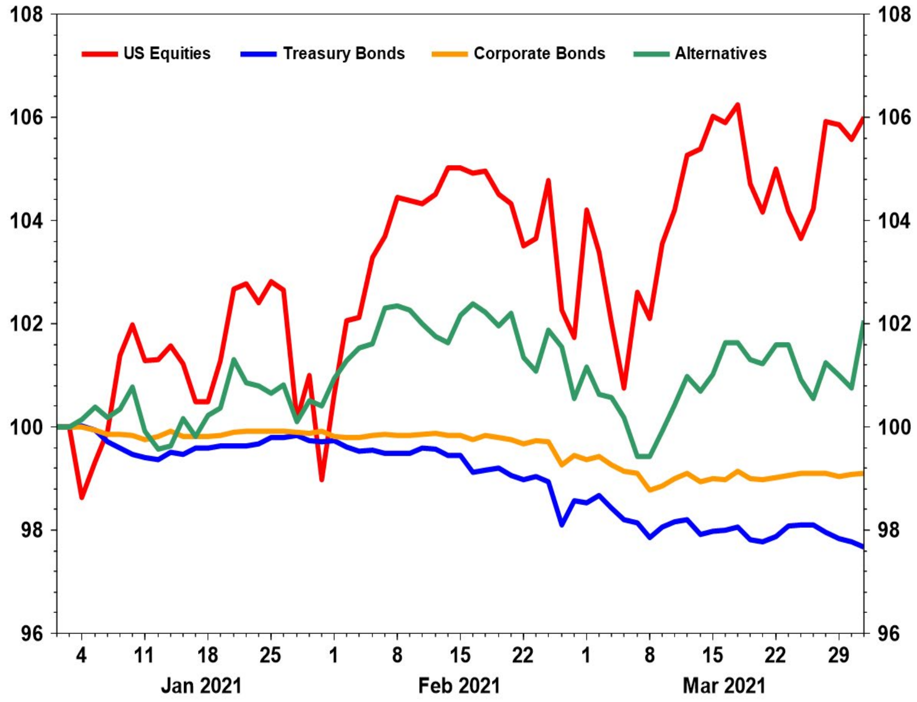
Chart 1: Gross Domestic Product (GDP, four-quarter percentage changes) Across Selected Economies



Source: Refinitiv Datastream

■ In the UK, a notable recent development was the Bank of England (BoE) Monetary Policy Committee's unanimous vote to keep its main lending rate at 0.1% and maintain its target of asset purchases at £895 billion. The BoE mirrored the dovish tone set by the US Fed on the prospect of future tightening of monetary policy. The statement highlighted that, "the Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably". The BoE expects annual inflation to return to around 2% in Q2 2021, reflecting the recent rise in energy prices and an anticipated increase in consumer spending.

Chart 2: Year-to-Date Performance For Selected Assets



Source: Refinitiv Datastream

■ Financial markets responded positively to the combination of improving economic outlook, expanding vaccination programmes and ongoing policy support. Over the month, the S&P 500 posted a gain of 4.2%. Major European stocks also closed significantly higher in March 2021. The best performing sector was energy, followed by financials. Technology stocks lagged. It was also notable that value stocks outperformed their growth counterparts across the market cap spectrum, and small caps outperformed large capitalisation stocks. Chart 2 shows the performance of a range of assets that serve as proxies for the components of a balanced, multi-asset portfolio.

■ In the fixed income markets, US government bond yields rose to pre-pandemic levels (and bond prices fell) and the US Dollar rallied in March. Corporate bonds performed well, with high yield in particular generating strong returns.

■ Within alternative investments, global real estate and listed infrastructure stocks led the gains in March 2021. Crude oil took a breather, as a rising US Dollar and increasing inventories paused the positive run that started in November 2020. Likewise, ongoing US Dollar strength and higher real yields weighed on gold prices during the month.

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