

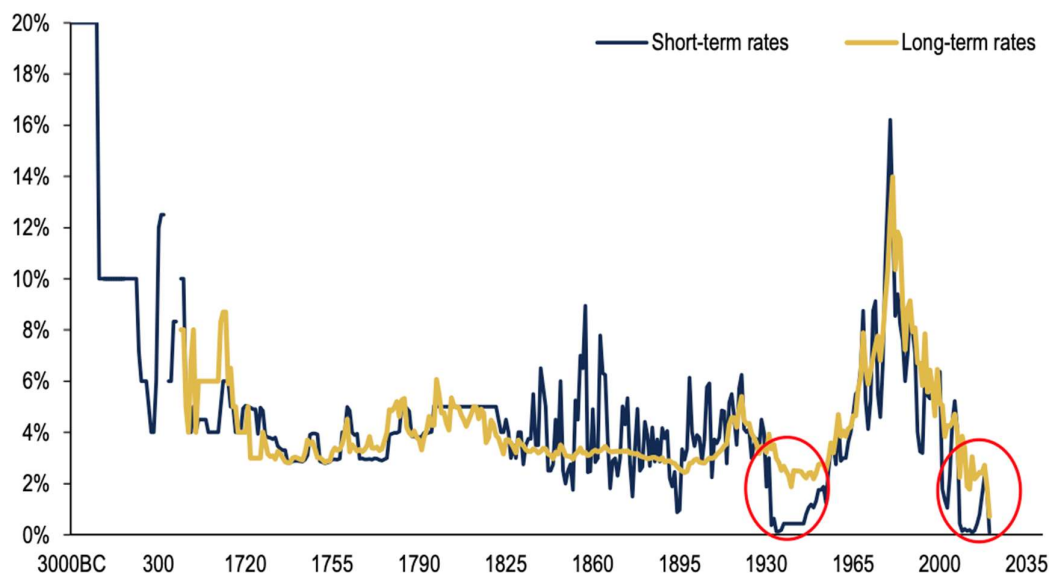
Monthly Commentary 2nd March 2021

February was good for stocks and bad for bonds. World equities rose more than 2% on aggregate, with the euro area and Japan doing the best (>4% returns) and emerging markets lagging (up only 1%). Bonds, especially US Treasuries (down 2.3%), took it on the chin. Commodities were mixed, with crude oil up a solid 17.8% but gold falling massively (-6.1%). The USD was slightly stronger, and sterling was the strongest major currency. Do we dare mention Bitcoin? FYI it was up almost 39%.

What is happening to bonds, and why it's important?

Below, from Merrill Lynch, is an intriguing 5,000-yr graphic of bond yields through the ages up until the end of 2020. We seem to have hit rock bottom and it was bound to be that bond yields have run out of runway and the only move was up.

Interest rates since 3000BC



Source: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates" (2005), BofA Global Investment Strategy
BoFA GLOBAL RESEARCH

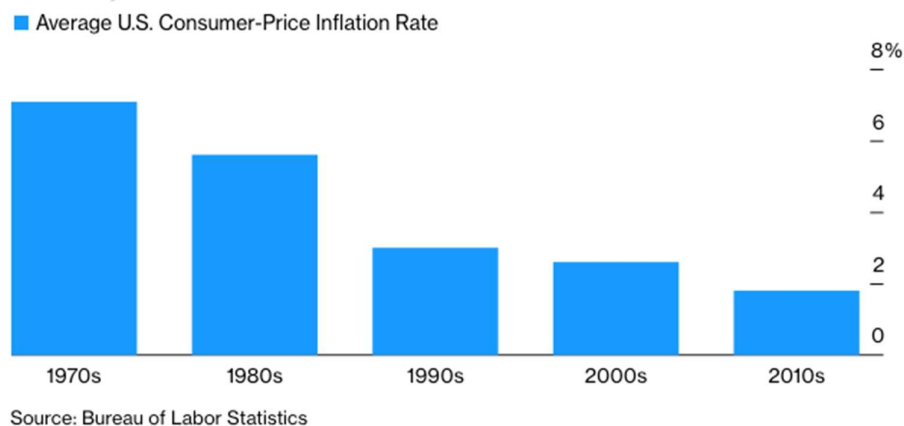


Bonds, and especially US Treasuries, the safest and most liquid of all bonds, fell hard and are already down 3.4% so far this year. UK Gilts fell even harder and are already down 7.3% so far in 2021! This is a monumental move in such a short period of time. Corporate investment-grade bonds are also suffering.

This rout in bonds could be the markets signaling that they fear much higher inflation, which cannot be good. Not good for stocks either, as they get competition from higher yields and at some point, asset allocators decide to shift to a higher bond weighting.

Yet, extensive research from Merrill suggests that rising bond yields can (and have in the past) coexist with higher equity values. And while competition for equities might start at yields for the 10-yr US treasury bond of around 1.75%, it is when they cross the 4% threshold that it becomes more serious and can lead to equities starting to feel pain. We see 4% yields as pretty far off. With continuing massive fiscal and monetary stimulus, a lot of cash on the sidelines and expected corporate profits that will be very strong, we believe equity markets will be well supported, even if volatility rises (deeper corrections).

As for the secular outlook for inflation, it is a matter of much debate. Below is what has happened to inflation in the US in the last 50 years. Is it a trend?





Investment strategy

It's still very difficult to navigate all the issues and arrive at a perfect strategy. For example, "Finance 101" says that a balanced-risk investor should have a roughly proportional mix of equities and bonds (the famous "60% equities-40% bonds" mix is often used by most asset allocators). And the bond component is made up almost entirely of solid (investment-grade) bonds or bond funds. For those of you who have read the previous page, it is obvious that in a rising-yield environment, bonds do not only not offer the safety to complement (riskier) equities, but they can indeed inflict losses on investors, as they have so far this year. Do we then just sell the bonds before we lose more? But what if rates do as they did in Germany and Switzerland, where they went firmly into negative yields, thus giving investors good gains, even with starting yields near zero?

As a journalist from the Wall St Journal recently wrote, *"If only financial markets came with traffic signals: indisputable indicators of when it is safe to keep going, when you need to slow down, when you must stop. Imagine how much easier investing would be if you could rely on such green, yellow or red lights. Unfortunately, these unambiguous signals don't exist"*.

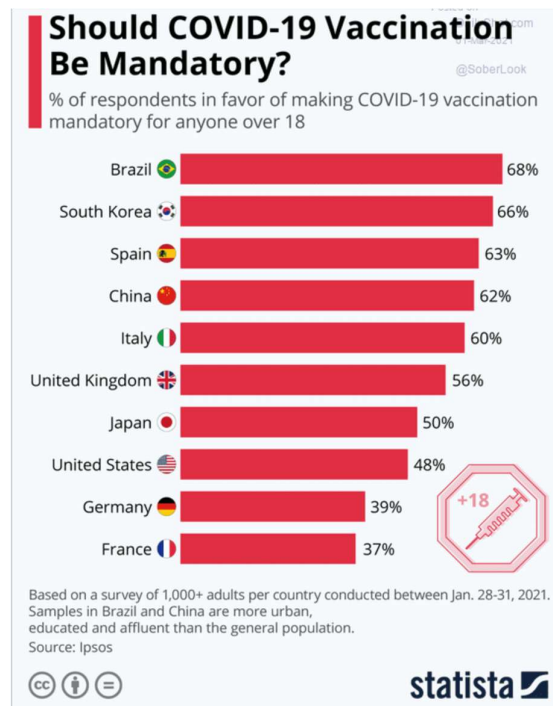
So, like a broken record we will keep saying that we'll invest your assets based on your tolerance for risk and try our best to stick to quality.



Covid and vaccines

The good-news/bad-news on the Covid front comes daily. Vaccines are slowly giving us increasing hope that the end is closer, but about ten thousand people are still dying every day.

On the next page are attitudes of the citizens of different countries with regards to whether the Covid-19 vaccinations should be mandatory. Make your own conclusions.



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