1 July 2021 – Monthly update

Omnis Managed Portfolio Service

The post-pandemic recovery remains strong, but while inflation is hotter than expected it should only be temporary. The Fed has considerably raised its expectations for inflation this year and brought forward the timeframe on when it will next raise interest rates. It is now signalling that there could be two rate hikes in 2023, after saying in March there would be no rate rises until 2024.

The economy looks strong and consumer confidence is high, but bottlenecks remain a problem. The unemployment rate continues to hover around 6%, but small businesses are still reporting problems in filling jobs. Labour shortages, caused by worries about catching Covid at work, childcare limitations and generous unemployment benefits, have also become more acute.

UK lockdown restrictions are set to be removed on 19 July as part of the government's plan to return England to economic normality. The vaccine rollout continues to make good progress, but while Covid is past its peak, the number of cases is still alarmingly high.

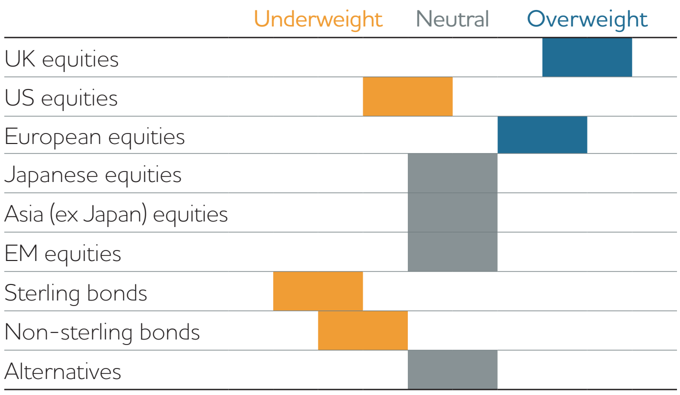
As the economy reopens, the disruption from Brexit is becoming harder to ignore, with supply chain issues likely to increase over the summer. While we have seen wage inflation driven by labour shortages in some areas, across the whole economy it seems unlikely. Domestic inflationary pressures look set to remain temporary and we would be surprised if the Bank of England raised rates. Looking ahead, there is a possibility that tax rates could be raised in the Autumn Budget to pay for the Covid crisis.

Europe is catching up on vaccination rates which means the economies are gradually reopening. The EU has also started paying out cash to countries from its €800bn recovery fund.

While China's economy remains strong, the industrial boom is slowing down. China is currently accepting slower growth and focussing on domestic policy issues, but there might be a case for more expansionary policy next year.

After the initial success of suppressing Covid in the early stages of the pandemic, the slow rollout of the vaccine across Asia has hit reopening. With cases across the region surging, the social restrictions required for a low vaccination rate means countries are now tightening curbs, which has put a dampener on growth. Despite this, Asia is well-positioned to benefit from the global economic recovery. With countries around the world returning to normal, the rise in demand for electronics should help boost exports for semi-conductor manufacturers.

Asset allocation



Investment strategy

With the global rollout of the vaccine progressing well, the economic outlook for the second half of the year looks bright. Thanks to the vaccine rollout Europe's economy is set to grow faster than expected and we remain overweight, across both the European Equity Leaders and the European Opportunities funds.

We have an overweight allocation to the UK, where the outlook continues to improve, and valuations look attractive. With low interest rates hampering fixed income returns we remain underweight across our bond funds. But we are maintaining some exposure to portfolios as they provide the best defence against equity risk.

Amid growing concerns that stocks of larger US companies are overvalued, our allocation to US equities remains underweight, though we remain overweight to our US Smaller Companies fund.

However, despite positive signs for economic recovery we are not out of the woods yet. As the impact of the pandemic stimulus fades and the debt burden mounts in the US, there is a possibility that economic growth could dip next year.

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