Investment outlook

23rd October 2021

We are pleased to work closely with a number of investment managers as well as our fund research partner, RSMR, giving us a range of views on the outlook for investments.

Beyond the general outlook, the most common questions clients have are around understanding the impact of inflation and how long will it last; how far will interest rate rises go, and are the equity markets “too expense” and due to fall.

The managers at the optimistic end of the outlook see the post Covid recovery continuing apace, fuelled by loose monetary policy. There is an unbelievable amount of capital looking for a home, and this will find its way into equity markets supporting further investment returns. The pessimists see stagflation (high inflation and no growth) and difficult times ahead, but they are in a minority.

One of the best explanations I’ve heard of the current inflationary environment was made In an interview with Lionel Barber (What Next podcast) by Mark Carney, the former Governor of the Bank of England, who said it is far easier to shut an economy than it is to restart it, and this creates “friction” which leads to inflation. This is heightened in the UK by Brexit trade issues and in particular wage rises fuelled by labour shortages. So as we sit in the UK we are feeling inflation far more than the rest of the world, and it’s harder to keep a global perspective that is more important to investment return expectations.

Interest rates will rise but central banks are acutely aware that letting them rise too far would cause an effect the economy can’t afford. Therefore the expectation has to be that returns on cash will be well behind inflation for the foreseeable future.

Many managers still believe that equities offer the best opportunities looking forward, as fixed income and cash offer very little reward for what is an increasing risk should interest rates rise. Structural changes during the pandemic have benefitted certain sectors although the level of earnings growth in these areas is felt to be past its peak as we enter a new economic period. The US market is seen by many as overvalued with the UK and Europe offering better opportunities. What we haven’t seen for some time, is any meaningful volatility in markets, which is “normal”.

In summary, we think there are reasons to be cheerful about the outlook for returns, but that more volatility should be expected. It reinforces our view that our clients’ investments should be in multi asset solutions, where the manager has the ability to react to developments and move around asset classes to suit circumstances, as no one can ever accurately predict what will happen and invest with that in mind.

Furthermore, we continue to believe in clients holding a cash buffer such that they could use this if it wasn’t prudent to sell an investment at a low point and ensure any short term expenditure needs are covered by cash. In this way invested assets can be held for the longer term and periods of volatility can be tolerated.