SEASPRAY PRIVATE
Wealth Management Solutions

2021

HALF-YEAR INVESTMENT REVIEW & OUTLOOK

H1 21

Introduction

Since the release of our 2021 Investment Outlook in January as we expected, we have seen vaccination roll-outs accelerating and lockdown measures gradually easing. As western countries have fully vaccinated the vulnerable within their populations and are now providing vaccines for adults of all ages, we are really starting to see some light at the end of the tunnel.

With global equities now well above pre-pandemic levels, we acknowledge that there will be pullbacks along the way. However, we would argue that risk assets can still move higher, driven by a combination of robust earnings growth, still-attractive valuations relative to bonds, and accommodative central banks who are reluctant to tighten policy prematurely and stifle economic growth.

Amid our optimistic bias for the medium to long term, we believe at Seaspray that opportunities will continue to present themselves within specific asset classes as we move through the summer and through H2 2021. Looking ahead to the second half of the year, the global economy looks well positioned to register a significant rebound in activity. As we advance out of the recovery phase of the economic cycle, monetary policy remains supportive but the extreme elements of it will be withdrawn at some stage.

Historically, equity markets continue to make progress and are the asset of choice during such transitions but, unsurprisingly, the rate of return is normally lower than that of the initial recovery phase.

	1 Month	3 Month	YTD	1 Year
Equity Indices				
S&P 500	3.27%	4.55%	16.08%	35.21%
DAX	-0.67%	2.34%	13.87%	20.92%
EuroStoxx 50	-2.68%	1.30%	13.91%	20.24%
ISEQ	-0.96%	0.87%	9.78%	29.23%
FTSE	-1.78%	0.44%	8.76%	11.70%
Nikkei 225	-3.50%	-5.53%	2.04%	23.38%
Multi-Asset Funds				
Aviva Cautious (Risk 3)	1.09%	2.25%	3.84%	9.10%
Irish Life MAPS 3	1.24%	3.03%	7.09%	13.16%
New Ireland iFunds 3	0.40%	0.95%	2.25%	6.09%
New Ireland PRIME 3	1.33%	2.70%	5.55%	8.56%
Zurich Prisma 3	1.31%	2.45%	5.35%	9.90%
Aviva Strategic (Risk 4)	1.49%	3.30%	8.54%	17.33%
Irish Life MAPS 4	1.80%	4.21%	10.15%	17.91%
New Ireland iFunds 4	1.06%	2.06%	6.16%	12.56%
New Ireland PRIME 4	2.44%	4.62%	10.63%	16.22%
Zurich Prisma 4	2.69%	5.20%	11.24%	20.38%
Aviva Dynamic (Risk 5)	1.78%	4.14%	12.47%	24.37%
Irish Life MAPS 5	2.18%	4.83%	12.27%	22.64%
New Ireland iFunds 5	1.77%	3.48%	11.03%	21.07%
New Ireland PRIME 5	3.03%	5.42%	14.49%	22.30%
Zurich Prisma 5	3.76%	6.98%	15.48%	28.60%
Currencies				
EUR/USD	-0.87%	-1.37%	-3.37%	3.29%
EUR/GBP	-0.08%	-1.56%	-4.31%	-6.01%
GBP/USD	-0.76%	0.21%	1.02%	9.93%
USD/JPY	-0.02%	1.32%	6.72%	2.98%
Fixed Income				
US 10yr	-0.259	-0.268	0.392	0.704
Bund 10yr	-0.100	-0.084	0.226	0.123
Irish 10yr	-0.158	-0.102	0.339	0.055
Gilt 10yr	-0.103	-0.127	0.448	0.499
Commodities				
Gold	2.36%	2.71%	-4.68%	-2.03%
WTI Crude Oil	1.17%	13.32%	48.12%	77.06%

SOURCE: SEASPRAY, JULY 2021.

Equities

The MSCI World index is now over 25% above its pre-pandemic levels from February 2020, leading some investors to wonder if upside may be limited from here. However, we believe equity indices can and likely will move higher, driven by a combination of robust earnings growth, still-attractive valuations relative to bonds, and highly accommodative central banks. While the pace of gains should in theory slow somewhat, the outlook still remains positive with upside of high single to double digits expected over the next 12 months – supported by each of the above-mentioned factors.

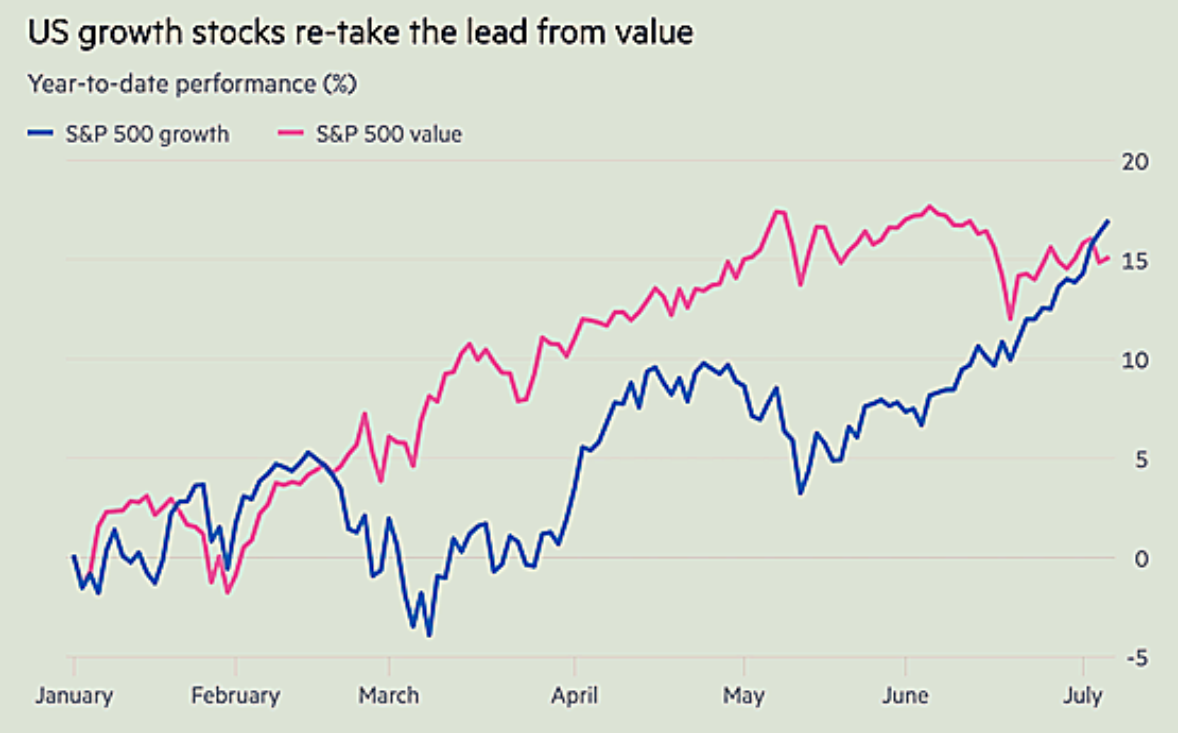
We expect the economy to remain in a boom state as re-openings continue. Yet we acknowledge financial markets are anticipatory, and we are increasingly starting to see that many of the easier to spot, early-cycle investment opportunities have been acknowledged and exploited by now. Stocks selling at the deepest discount, the highly levered names, have outperformed the most since November. While there is still a continued case for value as an inflation hedge, it may be time to start looking toward midcycle beneficiaries — and chief among them are quality stocks.

High-quality companies are generally highly profitable, low leveraged franchises with pricing power. They manage their balance sheets and cash flows effectively, demonstrate strong accounting credibility and return capital to shareholders in a disciplined way. Where we see value investors look for good companies at great prices, quality investors look for great companies at reasonable prices. The good news is you don't necessarily have to choose one style outright – a portfolio built on value and quality will help you navigate even the stormiest of investment seas in our opinion.

Equities

Since the first vaccine announcement back in November, and against a backdrop of rising inflation expectations and bond yields, there was a significant rally in the cyclical & value stocks most sensitive to the early-stages of the economic recovery including energy, materials, industrials and financials. Although we have seen growth/technology rebound in recent weeks (below chart) as medium-longer duration bond yields trended lower, this may not be sustainable over the summer if the inflation uptick is 'transitory for longer' and if GDP readings surprise to the upside.

Moves like this would put upward pressure on real yields, this is an environment in which cyclicals would usually perform well. The inclination may be to buy the most economically sensitive cyclical stocks at the moment for some investors. It was a tack we took early, when news of effective vaccines in November laid the foundation for a strong recovery. But markets are forward looking. While we still see upside in deep value and cyclicals, we think it is prudent to start rotating to higher quality in both the value and growth arenas.



SOURCE: BLOOMBERG, FINANCIAL TIMES

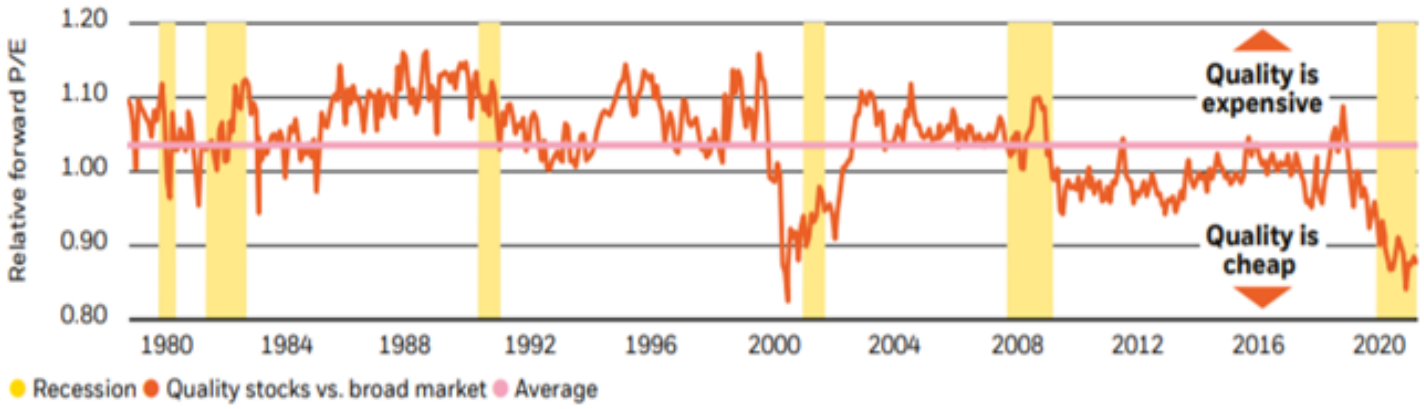
" While the pace of gains should in theory slow somewhat, the outlook still remains positive with upside of high single to double digits expected over the next 12 months ....."

Our analysis of quality stock performance and valuations during both the pandemic and longer time horizons is increasing our conviction around the emerging opportunity, and we see potential for quality to rerate higher in H2. As the economic cycle evolves, the market will look ahead to more normalized growth rates, and investors are likely to grow more cautious amid concerns around taxes, inflation and the timing of central bank shifts.

The chart below shows the valuation of the top quintile of quality US stocks vs the valuation of the broad-based Russell 1000 index, with valuation being measured by a 12-month forward-P/E ratio. A value below 1.00 indicates quality is cheaper than the market, with recessionary periods in yellow and the average being illustrated by the horizontal pink line.

Quality at a discount

Price-to-earnings ratio of quality stocks vs. broad market, 1979-2021



SOURCE: BLACKROCK, REFINITIV, IBES, IDC, NBER

Equities contd.....

Beyond the short-term tactical opportunity, we also see a longer-term structural case for maintaining a quality bias. We looked at monthly data dating back to 1978 and found that the higher-quality cohort of stocks outperformed the broad market 60% of the time (in 6 out of every 10 months). On a rolling 12-month basis, the outperformance rate jumped to 76%. The only time quality did not maintain its edge was in the early emergence from recession, with the past six months having played exactly to that script. This period also set the stage for an attractive entry point into an investment style that, from here forward, could lend some portfolio resilience as this unusual, and potentially fast-moving, economic and market cycle unfolds. In times of some doubt, we see prudence in taking the quality route. The case is bolstered today by unusually attractive pricing.

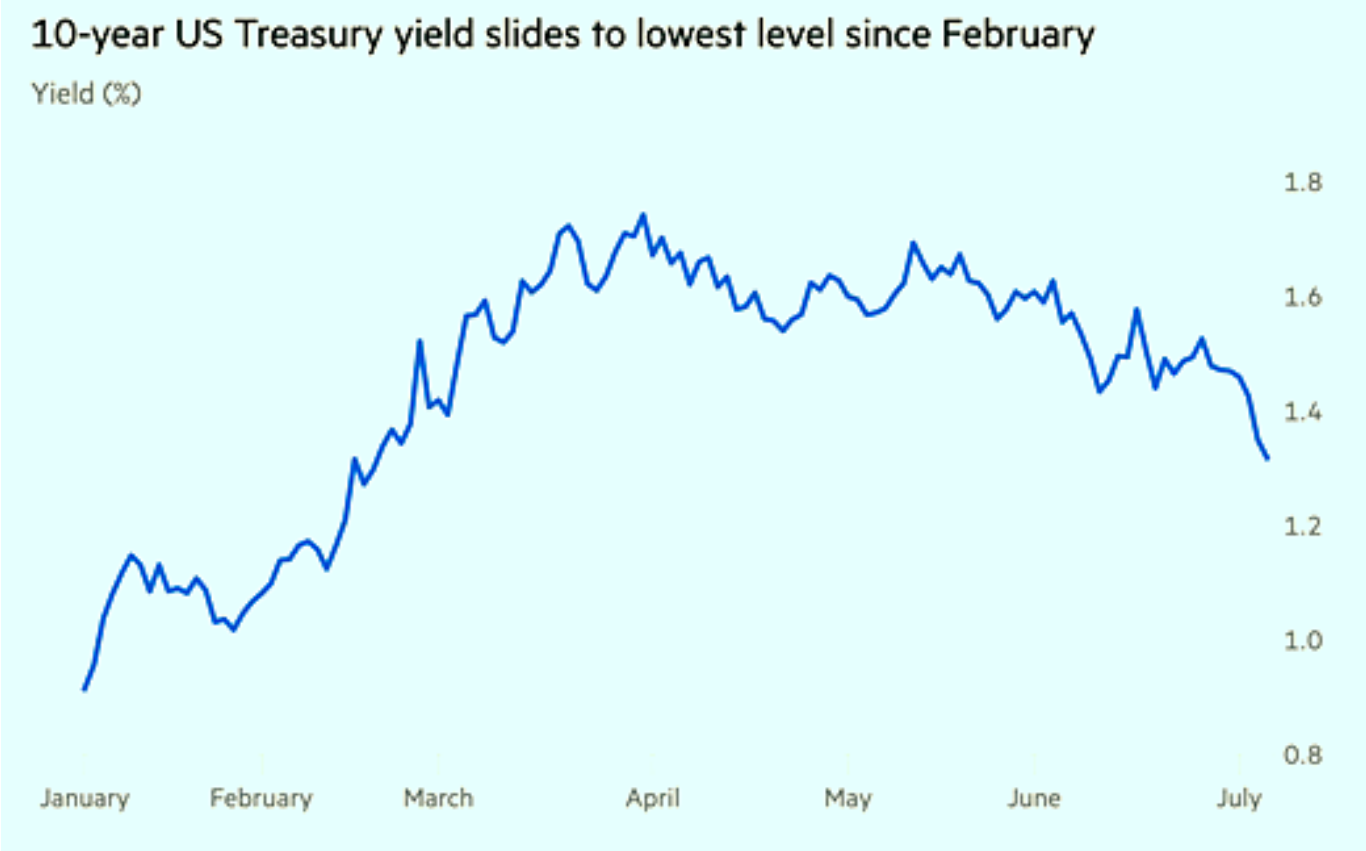
Despite low relative valuations for quality stocks, the opportunity is not limited to the value universe. Both value and growth investors are finding an abundance of quality companies with durable business models, pricing power to pass on rising costs, deep competitive moats and earnings that are less vulnerable to higher tax rates.

We would like to reiterate our preference for European equities. Positives for the region at present include:

- Cheap valuations relative to history.
- Relative outperformance as global economies recover plus strong European growth forecasts.
- Currently lagging slightly at this stage of the recovery cycle.
- Europe is underweighted in many portfolios and could benefit hugely from investor flows during H2.
- Support of the €750bn EU Recovery Fund.
- Region has greater exposure to value stocks, should they continue to outperform.
- One of Europe's main assets is its leadership in ESG. European companies have higher ESG scores than most other markets globally, and we believe that there is real political and cultural emphasis on this area which is going to position European companies well to capture increasing flows into this area during the remainder of 2021 and into 2022.

Bonds

We understand that bond markets in Q2 were somewhat puzzling for many investors. In past cycles, yields would have risen as we travelled towards the change in monetary gears, as they did during Q1. The recent moves lower in yields, especially with regard to US Treasuries, have been baffling. One theory is that bond markets have already priced in much of the strong reopening-related data, while at the same time investors' concerns have eased regarding longer-term inflation. Going forward, it may be the case that economic data will need to surprise to the upside relative to expectations for yields to break upwards. We still expect yields to track higher, but an important part of our outlook was that the rise in yields would be orderly. The recent action in the bond markets gives us some comfort on this.



SOURCE: BLOOMBERG, FINANCIAL TIMES.

We expect that long-term interest rates will have modest upside into H2 as global growth continues to improve. Our modelling suggests a range of 1.5% - 2% for the benchmark US 10-year over the remainder of the year. Closer to home, Eurozone bonds offer little or no long-term value. We continue to favour corporate bonds over sovereign debt. Our bond positions are well below the middle of their ranges whilst the duration of these bonds is below the industry benchmark. Corporate bonds have been increased at the expense of sovereign bonds over the last 12 months.

Global Economy & Inflation

Despite the impact from the Covid-19 pandemic, the first half of the year from a global macroeconomic and markets point of view, while not without its challenges, was generally encouraging. On the macro front, we actually saw the majority of economic releases from the main economies surprising to the upside and beating their respective expectations. One factor behind this was that these economies proved more resilient than had previously been envisaged by analysts and investors alike, and were better able to adapt to restrictions in place to contain the virus during the first two quarters. Meanwhile, as we progressed through this period, the underlying data suggested that an improvement in activity was beginning to take hold. This occurred against the backdrop of an ever-increasing vaccine rollout, thereby allowing restrictions to be eased, as well as a supportive policy environment, both from a fiscal and monetary stimulus perspective.

Looking ahead to the second half of the year, the global economy looks well positioned to register a significant rebound in activity. However, risks of course still remain given the nature of the virus. This includes those in relation to the still-slow vaccine rollout in most developing economies and the risks that delays inoculating all parts of the world could lead to vaccine resistant virus mutations, necessitating the re-imposition of restrictions. Another key focal point for markets in H2 will be in relation to inflation and whether central banks are proven to be right in their widely held view that it will be transitory. Indeed, monetary policy and specifically the Federal Reserve will be in focus over the coming months. With the recent meetings of the European Central Bank and Bank of England indicating that neither institution is really considering any near-term policy changes, the Fed and their tapering of monthly asset purchases is very much the centre of attention. If the US economy continues to improve in the next few weeks, we suspect guidance on the start date for tapering could come from the Fed at their September meeting. This would likely see the start of a tapering of QE around the end of this year or in early 2022.

At some point, the post-COVID-19 surge in economic activity will run its course. In advance of that, markets should begin to focus on a return to a more moderate growth environment, although with somewhat higher inflation than we saw in the aftermath of the Global Financial Crisis. As this macroeconomic backdrop comes into view, high-quality growth companies will likely resume their outperformance. We still believe there is room for the value trade to run, but as we have alluded to in our previous update, we will adjust clients' portfolios as we see the shift occur back to growth names.

> ***"On the macro front, we actually saw the majority of economic releases from the main economies surprising to the upside and beating their respective expectations....."***

Developed nations' governments continued to ease Covid-related mobility restrictions over the course of Q2, leading activity levels to pick up. Economic data over the last three months has also been very strong, especially in the US, which posted an annualised growth rate of 6.4% for Q1. Although the Eurozone economy contracted by 0.6% in the first quarter, leading economic indicators, such as PMI business surveys, have reached multi-year highs in many regions. These indicators point to a strong economic rebound having taken place in Europe in the second quarters. Overall, we would argue that global growth will remain strong in the second half of the year.

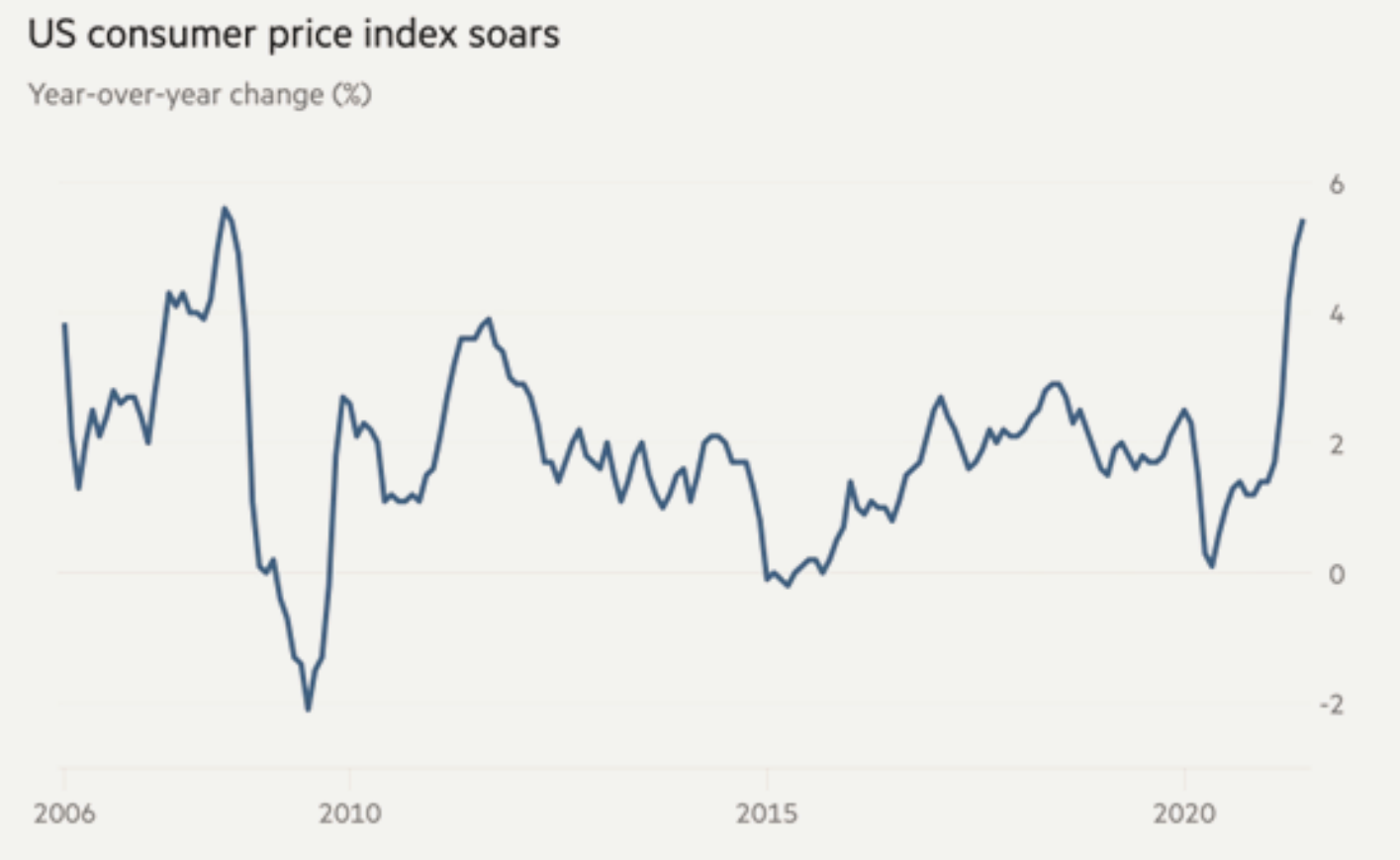
We are open to the fact that the pace of the US' GDP growth could have peaked during Q2, while non-US economic growth will likely accelerate and hit its peak in Q3, as Europe, Japan, and emerging markets excluding China all accelerate to reach peak growth rates. This divergence may drive a rotation from US-facing to global-facing cyclical stocks, and present tailwinds to companies that are levered to Europe's reopening. While we have thus become even more constructive on the Eurozone growth outlook, we are monitoring the downside risk stemming from the spreading of the Delta variant, which could potentially force countries to slow down further with regard to reopening or even reverse the lifting of some mobility restrictions. This is an ongoing situation and we will continue to communicate any related risks to our clients through our investment updates, both on a daily and monthly basis.

When we think about inflation, we must remember that we spent a decade after the GFC worrying about the potential of slipping into a deflationary environment.

Signs that we are leaving that period behind us would be good for the growth potential of the global economy so we should not get overly concerned if we see the potential inflation rate being lifted by 1% or so.

In addition, the idea that increasing inflation undermines financial markets, and equity markets in particular, is only true if it spurs a significant response from central banks – if they were forced to bring in tight monetary policy which could in turn bring the economic expansion to an end. However, in the US, the Fed has made it clear it wants to see inflation above target on a sustained basis before it moves from its accommodative stance. That still appears some way off. The bond market, which is usually the great inflation watcher, has actually strengthened in the last month, bringing yields lower. If there was truly some deterioration in the inflation outlook this would not have happened. The bond market seems more confident that the inflation pressures are transitory.
Inflation will likely continue to dominate the market narrative through the remainder of the year, particularly as both headline and core inflation in the States run above the Fed's 2% target. For investors, the most consequential issues will be the Fed's reaction to higher inflation and strong economic growth and how bond yields respond. The Fed continues to assert that the rise in inflation as the pandemic winds down is transitory and therefore should not prompt any changes to interest rate policy.

Recently we saw the June US CPI reading come in at 0.9% m/m versus 0.5% forecasts, with the Core CPI figure (which excludes food and energy) also at 0.9% m/m, vs its 0.4% estimates. When compared to the same month last year, the index soared by 5.4%, surpassing expectations for 4.9% while the core figure was up 4.5%. Jerome Powell has so far succeeded in steering the Fed and financial markets towards his view that this inflation surge will be fleeting. However, confidence in that judgement could be called into question should we continue to see similar readings such as last week's, as the months go on into H2. We see it as likely that annual inflation figures could be peaking in the United States, prices are surging as the economy reopens properly along with ongoing supply bottlenecks which are being met with strong pent-up demand, and base effects from this time last year.

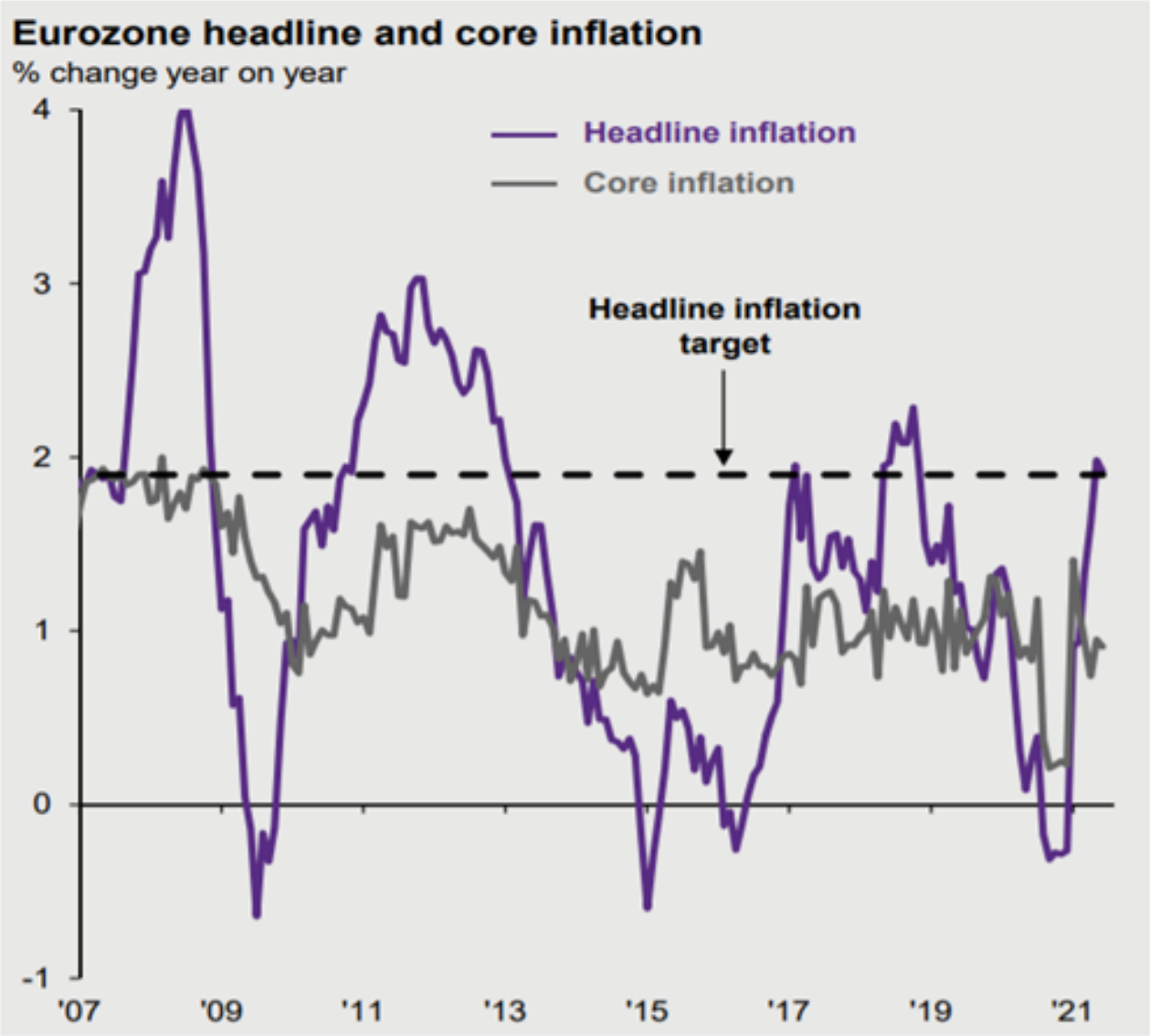


SOURCE: US BUREAU OF LABOR STATISTICS, FINANCIAL TIMES.

While the Federal Reserve continues to see this inflation increase as transitory, it has become slightly more hawkish, indicating that tapering is being discussed. We continue to believe that what goes on in the US economy, US markets, and what the Federal Reserve decide to do, are extremely important. The size of the US capital markets means that their influence on other economies and other markets is significant, without a doubt.

Eurozone inflation has dipped for the first time in nine months due to slower growth in the price of energy and services, although many analysts expect it to pick up pace again in the coming months as vaccination numbers increase and Delta becomes less of a concern for the region. The single currency bloc saw an annual rate of inflation of 1.9% in June, down from a more than two-year high of 2% in May.

Core inflation fell from 1% to 0.9% last month. Prices of non-energy industrial goods grew at a faster rate, but this was outweighed by drops in services and energy inflation. Most economists expect eurozone inflation to resume its upward path in the second half of this year, taking it above the ECB's 2% target and fuelling the debate over how long its ultra-loose monetary policies should continue.



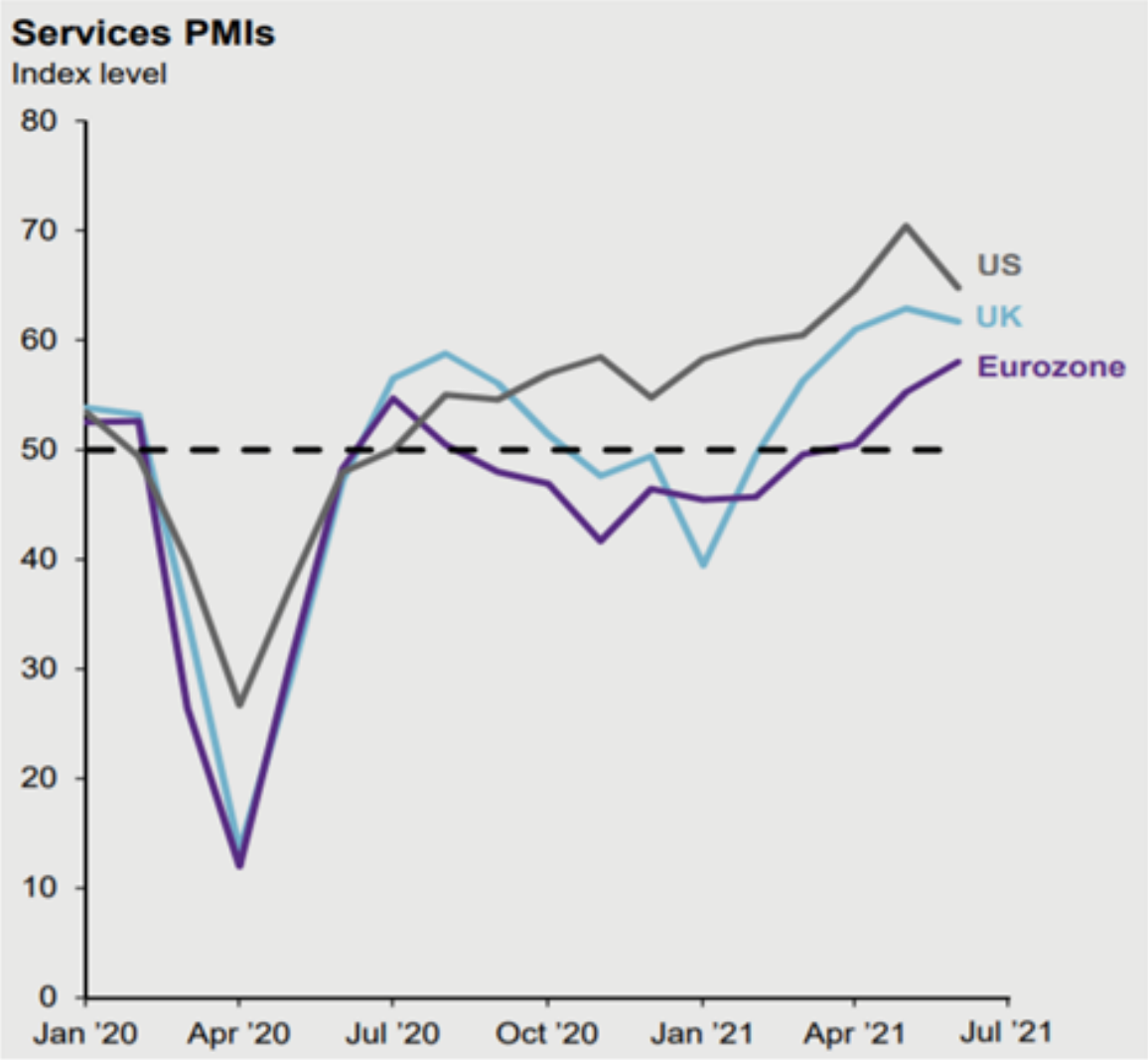
SOURCE: EUROSTAT, REFINITIV DATASTREAM, JP MORGAN ASSET MANAGEMENT

Regions

European Union.

We expect both the EuroStoxx50 and EuroStoxx600 indices to outperform the S&P 500 in 2021. Europe's exposure to financials and cyclically sensitive sectors such as industrials, materials and energy, and its relatively small exposure to technology, give it the potential to outperform in the post-vaccine phase of the recovery when economic activity picks up and yield curves in Europe steepen.

We believe an economic boom is likely coming soon in the Eurozone as lockdown restrictions are eventually fully eased and travel resumes. The Eurozone's manufacturing PMI for June remained above the 60 mark, consolidating the positivity seen from May's record figure. The region's services PMI figure was also supportive, coming in at 58.0, its highest result since early 2018. Europe's services sector has lagged somewhat (below chart), as the makeup of the eurozone economy and the intricacies of some restrictions left it more exposed throughout COVID-19. Business confidence continues to improve in the region, and as lockdown restrictions are gradually eased, we are likely to see boom-like economic conditions over the next few months.



SOURCE: MARKIT, JP MORGAN ASSET MANAGEMENT.

European corporate earnings were strong in Q1 and should pick up further in Q2, supporting risk assets in the region. Additionally, the pace of vaccination has picked up substantially in Q2, and the European Commission has now released its "Digital Covid Certificate" that allows travel throughout the EU in time for the crucial July/August holiday season. Meanwhile, the ECB continues to provide monetary support through its various asset purchase programmes, communicating that they will likely be slower to hike rates and tighten policy than the Federal Reserve across the Atlantic.

Regions contd....

United States

We expect another six months of robust economic growth for the US, through H2 of this year. Real GDP growth of around 7% for 2021 would mark the best outcome for the US' economy since 1984. Corporate earnings are also climbing higher - S&P 500 earnings growth shattered expectations in the first quarter earnings season (52% result vs. 24% expectations), and we expect the results for the second quarter to be considerably stronger as the re-opening progresses. Strong earnings delivery is critical for the US market, which scores as expensive on a range of standard valuation measures.

US inflation came in much hotter than many investors' expected in the spring. The combination of supercharged demand (in part from federal stimulus checks) and disrupted supply (bottlenecks and pandemic impacts), and base effects from year-on-year comparisons have created inflationary pressures in the short-term for the United States. However, as demand likely moderates into next year and the supply side fully heals, we expect core inflation to moderate back towards the Fed's target.

Regions contd....

United Kingdom

We believe the UK is set for a strong rebound in both GDP and corporate profits as it recovers from the dual headwinds of Brexit and the pandemic. The UK market is overweight the cyclical value sectors, such as materials and financials, that are benefiting from the post-pandemic reopening. Financials should also be boosted by the improvement in interest margins from a steeper yield curve as the Bank of England moves closer to lifting interest rates, although we don't expect the BOE to necessarily move before the Fed.

The UK, as reflected by its FTSE 100 index, is the cheapest of the major developed equity markets by most valuation metrics, and this should help it deliver higher returns than other markets over the next decade. Around 70% of UK corporate earnings come from offshore, so one near-term risk is that further sterling strength dampens earnings growth. The other risks are mostly around policy missteps - for example, early tightening by the BOE or a premature move to fiscal tightening before the recovery is entrenched.

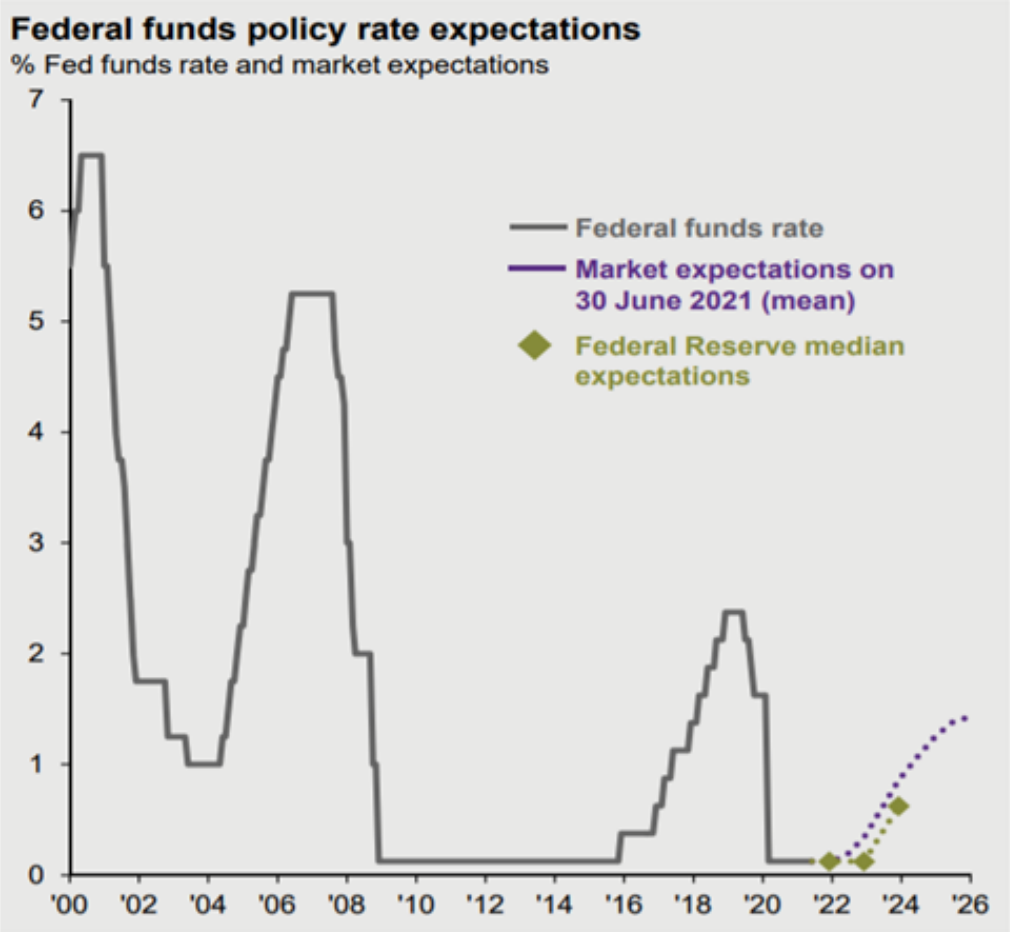
Taking a quick look at monetary policy, the Bank of England left interest rates unchanged in June but did allude to the fact that the economic backdrop continues to improve. We saw both manufacturing and services PMIs for the United Kingdom falling slightly in the latest reading, but still both remain robust at 64.2 and 61.7 respectively. The Composite PMI rose to 62 in May, the highest level since the start of the series in 1998, indicating a very strong expansion of business activity lifted by both main sectors. UK business activity rose to its highest level in decades while retail sales soar as its economy continued to reopen and consumer spending accelerated in recent months.

Monetary Policy

US- Federal Reserve

Volatility increased as risk assets sold off in the days following the Federal Reserve's June release, pushing the VIX briefly to $21.82, after the central bank came out slightly more hawkish than many market participants had expected. While monetary policy and rates were left unchanged, as was widely forecast, it is now becoming apparent that policymakers in the US are beginning to shift their view on when the bank will look to hike rates.

The Fed's median forecast, which is illustrated on the below chart, is now for two rate hikes (50bp) during 2023, with 13 of its 18 officials going for some form of move in 2023 versus just 7 of 18 when they were last polled back in March. Previously the Fed had been signalling that it was more likely to be 2024 before the first rate hike was to come into effect. In addition, 7 of 18 officials are now opting for a 2022 rate increase vs the previous 4 just four months ago. The central bank's longer-run forecast remains at 2.50%.



SOURCE: BLOOMBERG, US FEDERAL RESERVE, JP MORGAN ASSET MANAGEMENT.

Monetary Policy

US- Federal Reserve contd.....

Meanwhile, on the issue of QE tapering, in the press conference, Fed Chair Powell advised to think of the meeting as the "talking about talking" about considering the matter. He emphasised that reaching the standard of substantial further progress in the economic recovery for tapering to begin "is still some ways off". Chair Powell guided that in the coming meetings discussions on tapering will take place. He once again highlighted, though, that the Fed will provide advance notice before announcing any decisions to make changes to its purchases.

Looking at the updated economic forecasts, the median number of the committee now views inflation rising at a faster pace than its round of forecasts in March: now expecting the core personal consumption expenditures (PCE, the Fed's preferred inflation metric) to come in at 3.0% this year vs its previous forecast for 2.2%. These inflationary pressures are then expected to alleviate, seen falling to 2.1% in 2022. The Fed's median GDP estimate is now a robust 7% for this year, compared to previous 6.5% forecasts, with unemployment expected to fall to 4.5%, in line with prior expectations.

Since the meeting, markets have been quick to react to comments from different Federal Reserve officials, at least on an intra-day basis. We have seen the Fed Chair Jerome Powell state that the central bank plans on taking their time with regard to tightening monetary policy: "We will not raise interest rates pre-emptively because we fear the possible onset of inflation. We will wait for evidence of actual inflation or other imbalances."

Questions over the direction of monetary policy and the speed of any future changes have become front and centre in investors' minds as of late, considering that central banks' extreme dovishness and easy-policies have been the main driver of equity prices since the onset of the pandemic. We feel we should also not lose sight of the fact that the Fed has a dual mandate to target both inflation and employment; and employment numbers are still well below the levels seen prior to the pandemic, so in theory the Fed will be slow and steady with regard to any tightening from this point, and risk assets should not be spooked but rather have ample time to adjust and price-in future Fed moves. Total employment in the US remains a significant 10 million below the pre-Covid level at present.

Monetary Policy

EUROZONE- ECB

On the 10th of June we saw the release of the European Central Bank's latest monetary policy statement, with markets reacting well and volatility remaining low as no surprises came about during either the initial release or the press conference held by ECB President Christine Lagarde. The bank steered the course for the time being, and made no changes to its language with regard to asset purchasing, stating that purchases will be conducted "at a significantly higher pace than during the first months of the year", fearing that any retreat in its currently elevated flow of stimulus would accelerate an already worrisome rise in borrowing costs and choke off the still early-stage recovery.

SOURCE: BLOOMBERG, ECB, JP MORGAN ASSET MANAGEMENT.

Monetary Policy

EUROZONE- ECB contd.....

Importantly, the ECB upgraded its main economic projections for the second time this year, as vaccine rollouts sped up across the continent and individual economies continued to lift harsh restrictions. The central bank is now forecasting Eurozone GDP to increase by 4.6% this year and 4.7% in 2022, versus its March expectations for 4% and 4.1%. Inflation is now expected to come in at an average of 1.9% for the region followed by 1.5% next year, versus previous forecasts for 1.5% and 1.2% respectively.

More recently, we have seen the minutes from the bank's June meeting with no major surprises here either. We do note that the ECB has now stated that it will not make the same mistakes as it did in 2011, when it last raised its interest rates just as the Eurozone debt crisis began. The ECB will now have a 2% inflation target and has pledged to tolerate any slight overshoots. This is more clear than the central bank's previous rhetoric of "below, but close to, 2% over the medium term", and slightly differs from the Fed who will actively seek to push inflation above 2% for some time.

"The central bank is now forecasting Eurozone GDP to increase by 4.6% this year and 4.7% in 2022.."

Monetary Policy

UK- BOE

The Bank of England's June Monetary Policy Committee (MPC) meeting concluded as expected with no changes to policy settings. The bank's main interest rate remains at its historic low of 0.1%, while it also left unaltered the size of its QE programme, at £895bn. There was unanimity within the MPC on its decision in relation to interest rates. Meanwhile, there was a majority 8 to 1 vote to leave its asset purchases at their current size.

The overall message from the June meeting statement and minutes was one of confidence regarding the region's economic outlook. The BOE noted that since its May gathering, developments in the global economy have been "somewhat stronger than anticipated", with activity expected to pick up more quickly than was forecast during Q2. The bank acknowledged that global price pressures have started to be reflected in consumer price inflation in advanced economies. In terms of the UK economy itself, the BOE said that news on activity and inflation since its May meeting had mostly "been to the upside". It stated that the further easing of restrictions in recent months has seen the recovery in activity become most evident in the consumer facing services sector.

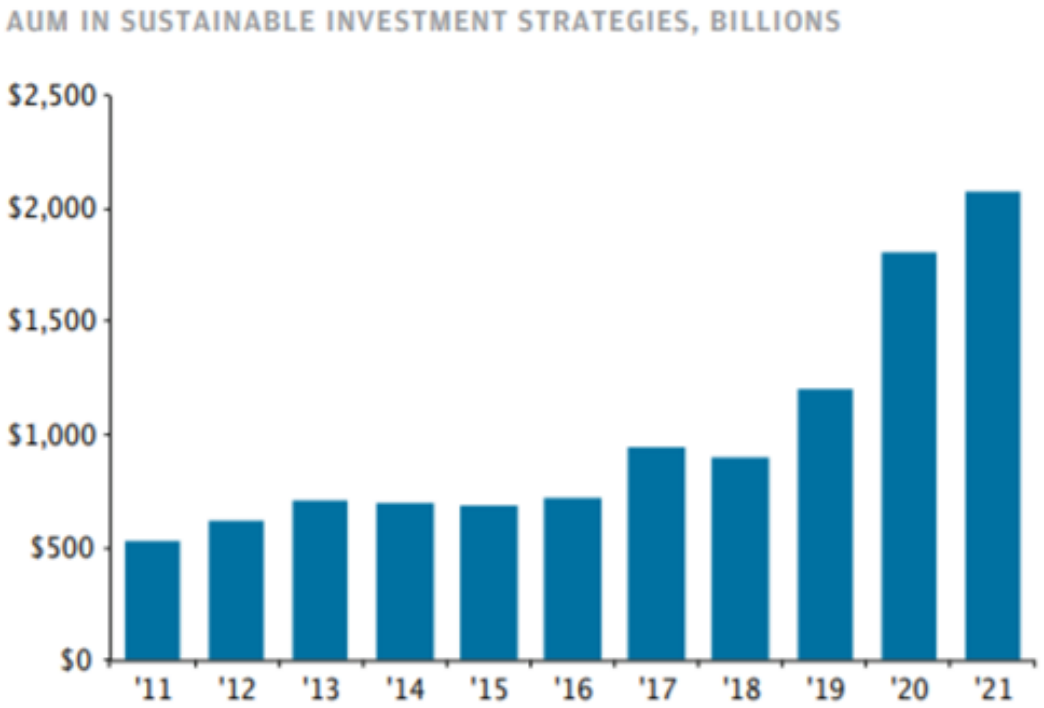
The MPC's most recent set of macroeconomic projections for the UK economy were contained in the May edition of its Monetary Policy Report. These projections represented upgrades with regard to the near-term outlook. It revised higher its GDP growth forecast for this year to 7.25%, up from the previous 5%. However, there appears to be upside risks to this forecast now given that last month the MPC stated that it had moved higher its expectations for the level of GDP in Q2 by around 1.5% compared to what it was anticipating in May.

A final word on ESG

We believe that sustainable investing, measured by ESG factors, is likely to be a decade-defining theme and can enhance portfolios by mitigating risk and harnessing the opportunities that come from growth and change, particularly environmental and social shifts.

Momentum is building from all of the major players in the global economy. Policymakers are strengthening commitments to reach net zero carbon emissions, consumers are increasingly opting for more sustainable choices particularly in transportation, energy and food consumption, and finally: corporations are responding to changing consumer preferences by adapting products, services and supply chains.

In recent years, sustainable investment strategies have clearly appealed to investors of all sizes more and more. Roughly $205 billion has flowed into ESG strategies globally YTD, notably bringing assets under management (AUM) to $2.1 trillion, as can be seen on the below graph. Regulators are taking note as well, with the EU imposing sustainability-related disclosures on financial services firms. With momentum from many different angles coming together around sustainability, we believe it can create powerful opportunities for portfolios going forward.



SOURCE: MORNINGSTAR, JP MORGAN ASSET MANAGEMENT.

In addition, the Biden administration has put climate policy, action and regulation back in focus for capital markets thus raising carbon related risks for investors. In our view this further strengthens the investment case for having an integrated ESG lens within our investment portfolios as we transition to a lower carbon economy.

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