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State of Play

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Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. As the penultimate stage of the unlocking roadmap allows us to socialise indoors, will investors rotation from growth to value companies continue?

Socialising comes in from the cold

Finally, after months of restrictions preventing pubs, restaurants, gyms and cinemas from serving people indoors, social guidelines were relaxed on Monday (17 May) and many took the opportunity to celebrate with family and friends. However, the UK Government has warned outbreaks connected to the Indian variants of COVID-19 may mean a delay to the final stage of the roadmap (when all legal restrictions are due to be lifted on 21 June). The pandemic in India has triggered concerns that another wave could strike just as restrictions are being lifted which could cause these variants to spread quickly, especially amongst the younger generation who are yet to receive their vaccinations.

According to the British Retail Consortium (BRC), total UK footfall in shops was down 40% in April when compared to 2019 (pre-pandemic). Whilst April saw non-essential shops reopen and consumers return, the slight increase on the March data shows encouraging signs but shoppers are slow to return to shopping centres and seem to prefer retail parks where the stores tend to be much larger and shoppers can park directly outside the store. Throughout the pandemic the shift to online shopping has been accelerated when compared to the last few years and it remains to be seen how much of this change in behaviour continues for the long-term. Helen Dickinson OBE and BRC Chief Executive, said: 'Growing consumer demand and footfall in the months

ahead will be vital for the survival of many retailers, as they start to see costs increasing as stores reopen and colleagues return from furlough. With full business rates relief ending in England in June, the ongoing rates review needs to deliver on its objectives to reform the broken rates system and reduce the financial pressures on retailers, otherwise many stores and viable jobs will be under threat'.

Employment rises for the fifth month in a row

The employment market continues to show signs of recovery, with companies hiring staff and delaying layoffs in anticipation of the economy reopening. According to the Office for National Statistics (ONS) payrolls increased by 97,000 between March and April, the fifth month employment has risen. The unemployment rate unexpectedly dropped to 4.8% in the three months to March with redundancies falling by a record amount and vacancies recovering to above pre-crisis levels. 'The latest figures suggest that the jobs market has been broadly stable in recent months, with some early signs of recovery', the ONS said. Chancellor of the Exchequer, Rishi Sunak, said: 'While sadly not every job can be saved, nearly two million fewer people are now expected to be out of work than initially expected – showing our Plan for Jobs is working'. The furlough scheme remains important with more than two million people still being paid by the scheme which is due to end in September.

Growth or value – what does it all mean?

Ever since the financial crisis in 2008 the measures taken by governments and central banks have provided the ideal environment for the shares of growth companies to outperform those of value companies. Very low interest rates combined with quantitative easing, where central banks print new money and use this to buy bonds from banks and the market, have pushed investors to take more risk. When bond prices are very high and their yields are very low, investors seeking better returns look to shares instead, creating a bigger demand which in turn drives share prices even higher.

Whilst the start of the pandemic saw share prices drop dramatically last February and March, the subsequent reaction of policy makers was swift and record breaking, supporting share prices, especially growth companies. With vaccination programmes picking up pace globally, albeit with some countries more advanced than others, the prospect of economies reopening has seen a significant rotation from growth to value ever since the first successful vaccine announcements in early November last year. The big question for many investors is will this trend continue?

Back to basics

How would you define a growth or value stock? You hear these terms associated with value and growth investing, but you might not fully understand what they mean. There are no hard and fast definitions, but many investors agree on some general criteria that define these two types of investments:

- **Growth stocks** are those companies that are considered to have the potential to outperform the overall market over time because of their future potential.
- **Value stocks** are classified as companies that are currently trading below what they are worth and thus could provide a better return over the long-term.

In terms of the outlook, some market commentators would point to the enormous financial stimulus and additional quantitative easing which will support the growth sector further over the next year or so, especially with central banks signalling huge restraint in hiking interest rates regardless of any future inflation spike. However, whilst interest rates have been at record lows for over a decade, with only a small increase prior to the pandemic, the reopening of economies, the pent-up demand combined with potential supply shortages for products and the largest cash savings balances waiting to be spent by consumers, we could experience much higher inflation than we have been used to. Markets believe central banks will have to act eventually to turn down the heat on rapid economic growth by increasing base interest rates - the key question being, when? Markets will continue to make their own assessment based on trends, data, and consumer activity.

Regardless, future investor outcomes are still largely dependent on the path of the pandemic and our ability to overcome its global spread. Historically, there have been periods, such as the late 1990s, when growth stocks have done well and other periods when value stocks have outperformed growth stocks. Many experienced investors would argue that you should always hold both types to diversify portfolios and ride the changing market conditions throughout the life of a typical investment cycle.

Market update

The combination of better than expected employment data and the continued momentum in the successful vaccination roll-out has helped a sharp rise in the value of pound sterling against other foreign currencies to continue. Pound sterling is now valued just shy of $1.42 and €1.16 which represents a significant rise against the lows seen over the last 12 months of 17% and 8% respectively. Strength in pound sterling has traditionally hurt the largest companies listed on the FTSE 100 as over two thirds of their earnings are in foreign currencies. The UK Index has recently broken back through the 7,000 barrier but has struggled to make ground beyond. It is much more traditional than other major indices like the S&P 500 in the US, as most of the sector make up is dominated by the value and cyclical companies described earlier. Ever since the vaccine announcements the UK stock market has recovered well against other markets having lagged significantly since the EU Referendum result in 2016 which saw investors move their money to other markets due to concern about the Brexit uncertainty. The rotation to value and cyclical companies has helped this recent run but it is unclear whether this rotation will continue beyond the next few months, only time will tell.

Find out more!

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Note: Data as at 18 May 2021.