GLOBAL MATTERS

MONTHLY MARKET UPDATE

OCTOBER 2021

momentum
global investment management

globalmatters

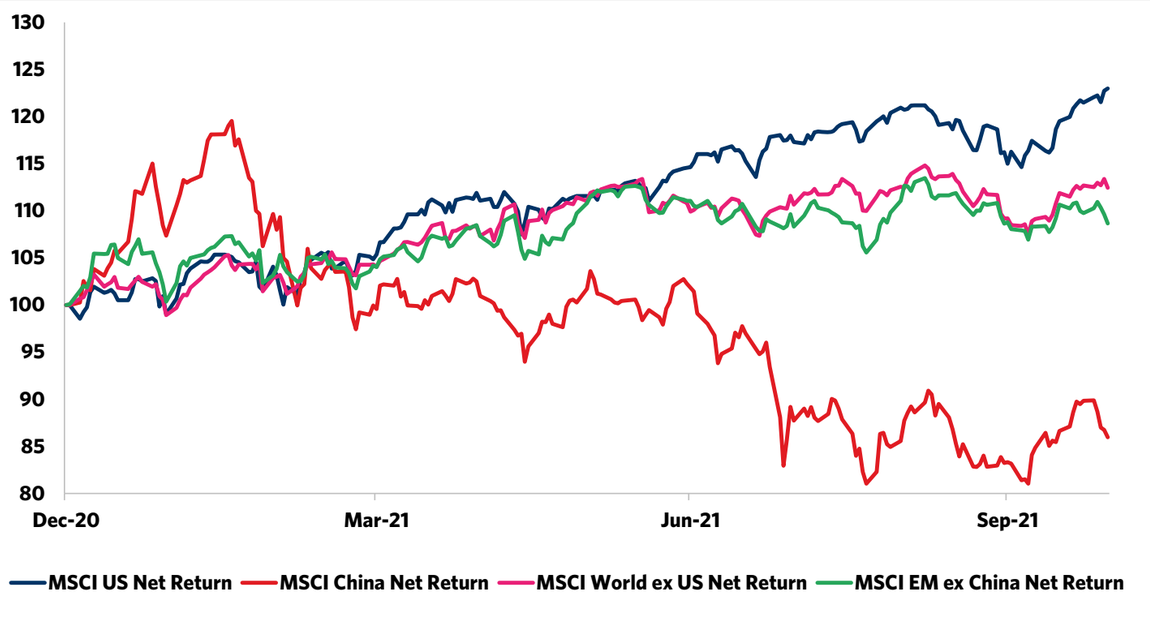
Contents

Global Market Review & Outlook

The abrupt fall in markets in September was equally abruptly reversed in October, with Wall Street enjoying its best month of the year, the S&P 500 returning 7.0% and closing the month at an all-time high. Other markets generally made progress, but could not keep pace with the US; the only major market to fall was Japan, down 1.4% in local currency terms (-3.8% in USD terms), reversing some of its strong outperformance of September in the face of uncertainty ahead of the general election on 31 October. Emerging markets continued their run of underperformance, returning 1.0% in USD terms in October compared with 5.7% from developed markets, leaving their year-to-date returns at -0.3% and 19.4% respectively. However, stripping out the top performer of the major markets, the US, from the MSCI World index, and China, the weakest of the large markets, from the MSCI Emerging Markets index, paints a rather different picture, with returns much closer together. China stabilised in October but has fallen by 14.0% so far this year as its problems, some self-inflicted, mounted.

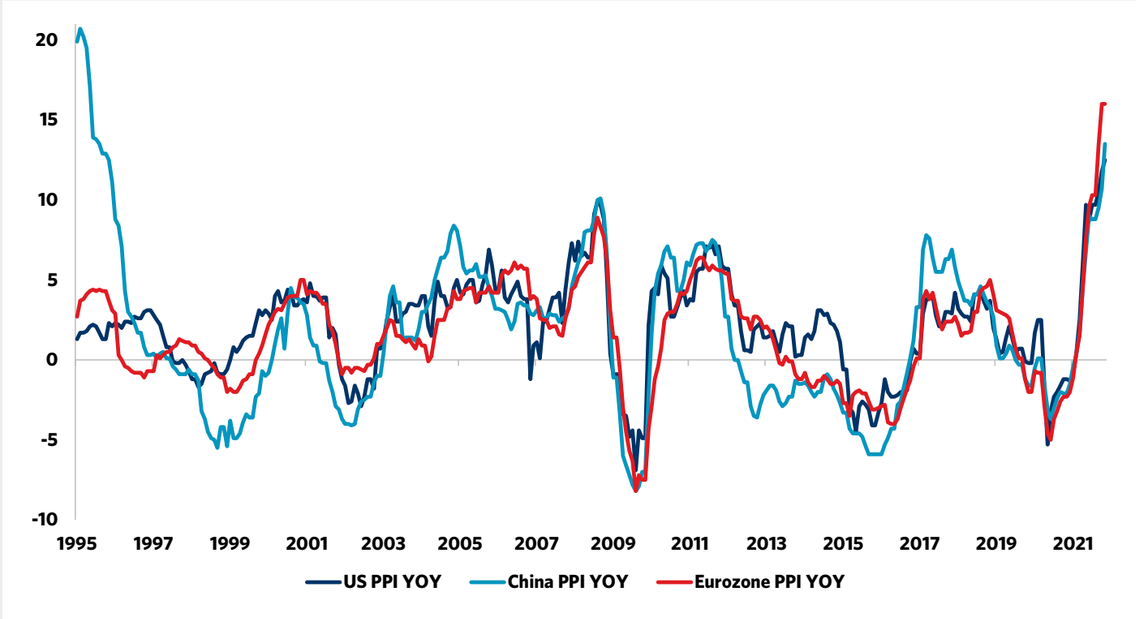
The backdrop to these moves was the continuing rise in inflation, pushed higher by deepening problems in supply chains and production, leading to shortages of many goods and steep rises in input prices. Producer price indices (PPI) globally have been soaring to the highest levels in decades, In the US, the PPI rose to 8.6% year-on-year in September, up from 0.3% a year ago, with larger increases in China, +10.7%, and the Euro Area, +16.0%, the highest on record. Some of this is inevitably finding its way into consumer prices: CPI in the US rose by 5.4% over the 12 months to September, and as with the PPI, a key driver of the sharp rise was the energy component, up 25% over the past year, during which the crude oil price is up by 125%, including a further rise of 8% in September. There is no doubt that the rise in inflation is proving to be steeper and more persistent than expected, testing the resolve of central banks to stick to their 'transitory' view of inflation.

Equity market returns from 31/12/2020 - huge dispersion between US and China



Source: Bloomberg Finance L.P., Momentum Global Investment Management.

Producer Price Indices for US, China and Eurozone - at multi-decade highs



Source: Bloomberg Finance L.P., Momentum Global Investment Management.

Bond markets continued to be held back by concerns about rising inflation and central bank policy tightening. US Treasuries were flat over the month and the global government bond index in negative territory at -0.3%, with the best returns again coming from inflation linked bonds. Over the past 12 months US Treasury Inflation-Protected Securities (TIPs) have returned +7.1% compared with -2.7% from conventional US bonds.

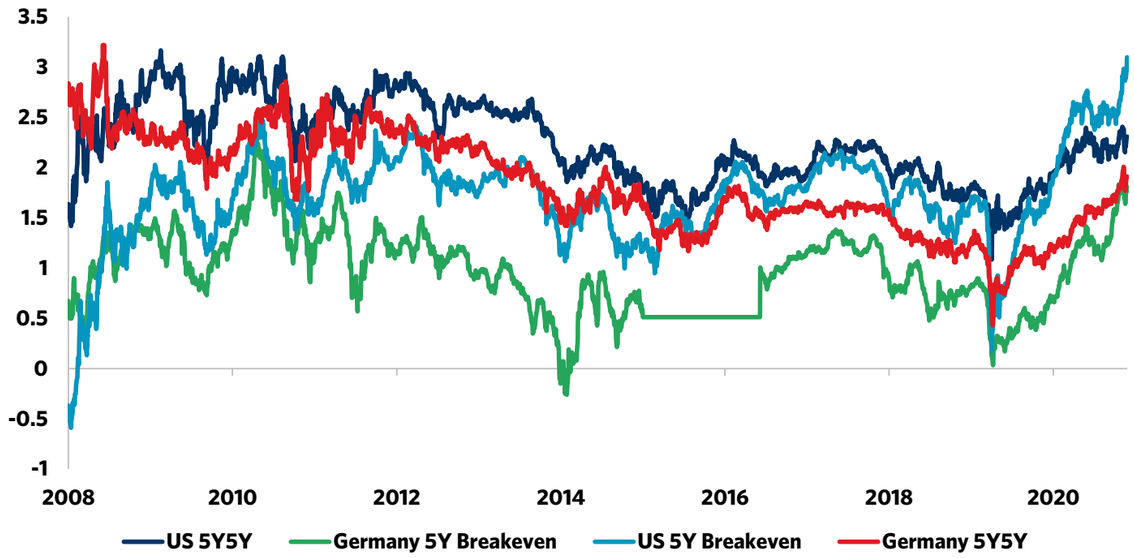
The aggregate returns from bonds mask some very significant moves across the maturity curve. Yields moved higher across all maturities, but with the sharpest rises at the shorter end. Yields on bonds with 5-year maturities rose by 22bps in the US to 0.5%, 19bps in the UK to 0.8%, 17bps in Germany to -0.4%, and even more steeply in Canada, +40bps to 1.5%, and Australia, +79bps to 1.6%, as the central banks in both these countries moved to tighten policy earlier and more aggressively than expected. These moves take 5-year bond yields to close to or above the levels prevailing pre-pandemic, and resulted in a significant flattening of yield curves, a sign of concern that central banks will be forced into early monetary tightening measures in the face of sharply rising inflation.

A number of secondary central banks have signalled an early tightening of policy, but the big four of the Fed, the ECB, Bank of Japan and Bank of England, continue to stress the transitory nature of the inflation rise and to err on the side of caution. The key remains the Fed, which has been laying the groundwork for a reduction in its huge asset purchase programme to begin before the year end, but cautioning about any early rise in interest rates. The difficulty for policy makers is to avoid the risk of curtailing the post-Covid recovery at a time when growth has slowed from the peaks earlier this year, albeit still at high levels, in the face of rising uncertainty around the strength and persistence of inflation, the durability of the economic recovery, and the damage caused by supply chain disruptions and shortages. The possibility of a more sustained rise in inflation together with policy errors remain the key risks for markets in coming months.

"The rise in inflation has been reflected in market expectations, with shorter term inflation breakevens rising materially in recent weeks"

The rise in inflation has been reflected in market expectations, with shorter term inflation breakevens rising materially in recent weeks. However, and crucially for policy makers and investors, longer term inflation expectations have risen by less, and remain within the range of the post financial crisis period, 2-2.5%. The 5 year 5 year inflation line on the chart shows annual inflation 5 years from now over the subsequent 5 years. It is a measure of future inflation which is widely watched by the Fed, and it smooths out the effects of sudden short term price shocks. The 5 year 5 year rate has moved up from the pandemic lows of around 1.3% but at its current 2.2% it is ringing no alarm bells.

Forward inflation expectations in US and Germany - shorter term (5Y) vs longer term (5Y 5Y)



Source: Bloomberg Finance L.P., Momentum Global Investment Management.

Inflation, supply disruption and central bank policy moves have dominated markets in recent weeks. Component and product shortages, difficulties recruiting labour across many sectors and countries, port and factory shut-downs and reduced working have been exacerbated by China's critical energy shortage and enforced cuts in production. Rebuilding supply and distribution chains will take some time, and is expected to continue to be a headwind well into 2022. This combination of factors is now the most widely reported concern of company management and largely accounts for the warnings of reduced shorter term expectations for revenue and earnings growth by many companies in the past month.

China's difficulties this year, triggered by its regulatory clampdown, the over-indebtedness across much of the property development sector, and supply chain issues, compounded now by electricity shortages and outbreaks of Covid leading to local lockdowns – China is one of the few countries still using strict containment measures – have been reflected in a significant slowdown in growth. Q3 GDP grew by 4.9% year-on-year, down from 7.9% in Q2. Despite the challenges, there are no significant signs of stress in China's financial system and the renminbi is one of the few currencies to have appreciated against the USD this year, +1.9% after a rise of 0.6% in October. China has the wherewithal to manage its difficulties, and the steep fall in its equity market this year is creating opportunities for longer term investors.

There are clearly headwinds ahead for markets, especially the risk of higher inflation becoming persistent, and returns are very unlikely to match those of the past 18 months when recovery from the pandemic has been at its steepest. But the fading impact of the pandemic, the gradual normalisation of supply chains, continuing supportive monetary and fiscal policies, and a transition to lower but more sustainable growth rates over the next 12-18 months, make for a broadly benign environment for the corporate sector. While returns will be harder to come by in the months ahead, we therefore remain broadly constructive about risk assets. We should be prepared for some periods of volatility, but we believe we are in a long market cycle and with patience and true diversification investors will be well rewarded in the year ahead.

Market Performance - *Global (local returns) as at October 2021*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	7.0%	5.0%	23.6%	42.3%
United Kingdom	MSCI UK NR	GBP	2.4%	4.5%	16.5%	36.0%
Continental Europe	MSCI Europe ex UK NR	EUR	4.8%	3.0%	21.1%	41.0%
Japan	Topix TR	JPY	-1.4%	6.1%	13.1%[e]	29.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.7%	-0.2%	-0.4%	15.8%
Global	MSCI World NR	USD	5.7%	3.8%	19.4%	40.4%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	3.7%	11.4%	27.8%	73.4%
Emerging Asia	MSCI EM Asia NR	USD	1.3%	-0.4%	-2.9%	11.7%
Emerging Latin America	MSCI EM Latin America NR	USD	-5.3%	-14.4%	-10.6%	21.9%
China	MSCI EM China NR	USD	1.4%	-0.4%	-5.3%	5.6%
BRICs	MSCI BRIC NR	USD	3.2%	-2.0%	-14.0%	-9.2%
Global emerging markets	MSCI Emerging Markets NR	USD	1.0%	-0.5%	-0.3%	17.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.0%	-1.2%	-2.8%	-2.7%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.2%	0.2%	4.6%	7.1%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.2%	-1.1%	-1.0%	2.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.2%	0.3%	4.4%	10.5%
UK Gilts	JP Morgan UK Government Bond TR	GBP	2.2%	-2.5%	-5.6%	-4.5%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.4%	-2.0%	-3.0%	0.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.6%	-2.4%	-3.5%	-3.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.7%	-1.8%	-1.1%	0.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.6%	-0.4%	3.1%	8.2%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.1%	-0.6%	-0.2%	-0.1%
Australian Government	JP Morgan Australia GBI TR	AUD	-3.5%	-5.0%	-5.3%	-6.0%
Global Government Bonds	JP Morgan Global GBI	USD	-0.3%	-2.9%	-5.9%	-3.5%
Global Bonds	ICE BofAML Global Broad Market	USD	-0.3%	-2.5%	-4.7%	-2.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	2.6%	1.9%	6.4%	26.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-0.1%	-1.9%	-4.3%	1.6%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	7.7%	3.5%	31.6%	50.2%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	0.4%	3.8%	12.1%	25.8%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	0.2%	-0.9%	2.0%	13.9%
Global Property Securities	S&P Global Property USD TR	USD	4.7%	1.5%	18.3%	37.1%
Currencies						
Euro		USD	-0.2%	-2.6%	-5.4%	-0.8%
UK Pound Sterling		USD	1.5%	-1.6%	0.1%	5.7%
Japanese Yen		USD	-2.4%	-3.8%	-9.4%	-8.2%
Australian Dollar		USD	4.0%	2.4%	-2.3%	7.0%
South African Rand		USD	-1.1%	-4.2%	-3.6%	6.6%
Commodities & Alternatives						
Commodities	RICI TR	USD	5.4%	10.0%	43.6%	67.4%
Agricultural Commodities	RICI Agriculture TR	USD	3.8%	8.0%	29.2%	46.1%
Oil	Brent Crude Oil	USD	7.5%	10.5%	62.9%	125.3%
Gold	Gold Spot	USD	1.5%	-1.7%	-6.1%	-5.1%
Hedge funds	HFRX Global Hedge Fund	USD	0.9%	1.2%	4.5%	[1]0.1%

Interest Rates	Current Rate
United States	0.25%
United Kingdom	0.10%
Eurozone	0.00%
Japan	-0.10%
Australia	0.10%
South Africa	3.50%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
e=estimate

Market Performance - *UK (all returns GBP) as at October 2021*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	2.3%	4.2%	16.4%	35.6%
UK - Large Cap	MSCI UK Large Cap NR	GBP	2.3%	5.1%	16.4%	35.5%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	2.1%	0.8%	13.6%	32.3%
UK - Small Cap	MSCI Small Cap NR	GBP	-0.3%	0.1%	13.2%	37.5%
United States	S&P 500 NR	USD	5.3%	6.8%	23.4%	34.7%
Continental Europe	MSCI Europe ex UK NR	EUR	2.9%	1.9%	14.1%	32.3%
Japan	Topix TR	JPY	-5.2%	3.8%	1.8%[e]	12.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.2%	1.4%	-0.6%	9.6%
Global developed markets	MSCI World NR	USD	4.0%	5.5%	19.2%	32.9%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.6%	1.2%	-0.4%	10.7%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	2.3%	-2.5%	-5.6%	-4.4%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.6%	-1.2%	-1.8%	-1.7%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-0.1%	-3.0%	-5.3%	-4.7%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	5.5%	-2.8%	-7.3%	-5.4%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	4.6%	0.7%	3.8%	4.4%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	1.8%	1.4%	2.9%	2.4%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	6.3%	0.2%	4.1%	5.2%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.4%	-2.0%	-3.0%	0.0%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.6%	0.2%	-3.0%	-8.2%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.4%	0.3%	-1.3%	-3.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-0.2%	0.3%	4.4%	10.5%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.6%	-2.4%	-3.5%	-3.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.7%	-1.8%	-1.1%	0.1%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	-0.6%	-0.4%	3.1%	8.2%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.8%	-1.3%	-6.1%	-8.7%
Global Bonds	ICE BofAML Global Broad Market	GBP	-0.3%	-2.5%	-4.7%	-2.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	2.6%	1.9%	6.4%	26.5%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-1.7%	-0.2%	-4.5%	-3.8%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	3.0%	3.1%	18.1%	29.7%
Currencies						
Euro		GBP	-1.7%	-1.1%	-5.5%	-6.1%
US Dollar		GBP	-1.6%	1.6%	-0.2%	-5.4%
Japanese Yen		GBP	-3.9%	-2.3%	-9.5%	-13.2%
Commodities & Alternatives						
Commodities	RICI TR	GBP	3.7%	11.8%	43.3%	58.4%
Agricultural Commodities	RICI Agriculture TR	GBP	2.2%	9.8%	29.0%	38.3%
Oil	Brent Crude Oil	GBP	5.8%	12.4%	62.6%	113.2%
Gold	Gold Spot	GBP	-0.1%	-0.1%	-6.2%	-10.2%

Interest Rates	Current Rate
United Kingdom	0.10%
United States	0.25%
Eurozone	0.00%
Japan	-0.10%

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns.
e=estimate

Asset Allocation Views

Main Asset Classes	Change	Negative	Neutral	Positive
Equities	-	○ ○	●	○ ○
Fixed Income	-	○ ●	○	○ ○
Alternatives	-	○ ○	○	● ○

Our Overall View

We continue to favour equities over fixed income in recognition of their leverage to a sustained global economic recovery. Most fixed income remains expensive given the inflationary backdrop but pockets of credit continue to offer some value. Alternatives, including infrastructure and commodities, are attractive for their diversifying qualities as much as the return potential.

EQUITIES	Change	Negative	Neutral	Positive
Developed Equities	-	○ ○	●	○ ○
UK Equities	-	○ ○	○	● ○
European Equities	-	○ ○	●	○ ○
US Equities	-	○ ●	○	○ ○
Japanese Equities	-	○ ○	○	● ○
Emerging Market Equities	-	○ ○	●	○ ○

Equities offer the potential for decent forward returns as the global economy leaves the pain of 2020 behind. Huge stimulus programs, central bank support and pent up consumer demand and savings paint a favourable backdrop. The UK looks attractive as it shakes off its Brexit discount and is well positioned sectorally to benefit from the economic recovery. We also favour Japan on valuation grounds and for the accompanying Yen exposure.

FIXED INCOME	Change	Negative	Neutral	Positive
Government	▼	● ○	○	○ ○
Index-Linked	-	○ ●	○	○ ○
Investment Grade Corporate	-	○ ●	○	○ ○
High Yield Corporate	-	○ ○	●	○ ○
Emerging Market Debt	-	○ ○	●	○ ○
Convertible Bonds	-	○ ○	●	○ ○

Bonds remain expensive today. Sovereign yields have lifted off their lows but remain unattractive given the risk of inflation becoming more entrenched. Inflation linked bonds have marginally better prospects. We remain fundamentally constructive on corporate credit but see limited upside and returns to come mostly from carry in the near term. Convertibles play an important role in multi asset portfolios but look fairer value today.

REAL ASSETS / ALTERNATIVES	Change	Negative	Neutral	Positive
Commodities	▲	○ ○	○	● ○
Property	-	○ ○	●	○ ○
Infrastructure	-	○ ○	○	● ○
Liquid Alternatives	-	○ ○	●	○ ○

Real assets look attractive on both fundamental and valuation grounds, with a bias to infrastructure assets which ultimately should benefit from government policy initiatives. Investors are paid well to wait, and the diversifying qualities, also offered by the more esoteric liquid alternatives allocation, is attractive today in a world of expensive bonds. The backdrop of supply chain disruption and buoyant consumer demand is likely to support commodity prices in the near term.

CURRENCIES *vs. USD*	Change	Negative	Neutral	Positive
GBP	-	○ ○	○	● ○
EUR	-	○ ○	●	○ ○
JPY	-	○ ○	○	● ○

US yields creeping higher makes it challenging for the more rate anchored currencies not to depreciate. Against that, a global recovery tends to benefit higher beta currencies and idiosyncratic factors drive nearer term dynamics helping make Sterling attractive today with the prospect of higher base rates. The Yen has continued to soften but its defensive qualities make it attractive as a portfolio diversifier.

The Asset Allocation views are as of September 2021 and are updated quarterly unless otherwise stated

For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk
T: +44 (0)207 618 1806

Important Notes

Investment Manager - Momentum Global Investment Management Limited (MGIM).

This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States. Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed. The value of investments may fluctuate, and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.