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OXFORDSHIRE COUNCIL PENSION FUND – 11 JUNE 2021

OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

Report by the Independent Financial Adviser

Economy

- The US economy registered strong 1.6% growth in the first quarter of 2021, and the Fed raised its full-year growth forecast to 6.5%, but in Continental Europe GDP contracted for the second successive quarter as coronavirus restrictions were tightened. Despite a fall of 1.5% in GDP in the first quarter, the successful rollout of vaccinations in the UK has allowed the Bank of England to increase its growth forecast for 2021 from 5% to 7.5%.

Consensus real growth (%)						Consumer prices latest (%)
	2017	2018	2019	2020	2021E	
UK	+1.6	+1.4	+1.4	-9.9	+5.1	+0.7 (CPI)
USA	+2.3	+2.9	+2.3	-3.6	+5.5	+4.2
Eurozone	+2.3	+1.9	+1.2	-7.6	+4.1	+1.6
Japan	+1.7	+0.7	+0.7	-5.3	+2.7	-0.1
China	+6.8	+6.6	+6.1	+1.9	+8.5	+0.4

[2021 estimates: Economist Intelligence Unit, 'Economist' May 8th, 2021]

- The US Congress passed a \$1.9trn spending package in February, and President Biden has since proposed a \$2.3trn infrastructure spending bill and a \$1.8trn expansion of the social security safety net. Meanwhile the Federal Reserve has maintained its \$120bn/month asset purchase programme.
- In the UK Budget on March 3rd, the Chancellor announced no immediate tax rises, but said that personal income tax thresholds would be frozen for four years from April 2022, and that Corporation Tax would rise from 19% to 25% in April 2023. Government borrowing reached £350bn in the tax year, and is still expected to be £234bn (10.3% of GDP) in the coming year as Covid support funding continues.

Markets
Equities

4. Equities rose steadily during the quarter, notably in those regions where the incidence of new coronavirus cases was tapering off as a result of vaccinations and lockdown measures. Several markets (including the US – see graph below) have surpassed their pre-pandemic peak levels. The extent to which the UK market has under-performed against Overseas equities during the past three years is apparent from the following table.

	Capital return (in £, %) to 31.3.21			
Weight %	Region	3 months	12 months	36 months
100.0	FTSE All-World Index	+3.4	+36.8	+35.1
59.1	FTSE All-World North America	+4.5	+40.3	+53.9
7.2	FTSE All-World Japan	+0.3	+23.7	+14.3
14.0	FTSE All-World Asia Pac ex Japan	+1.7	+41.5	+22.9
13.4	FTSE All-World Europe (ex-UK)	+2.0	+31.6	+16.5
4.1	FTSE All-World UK	+4.1	+18.9	-4.6
11.3	FTSE All-World Emerging Markets	+1.6	+37.4	+14.7

[Source: FTSE All-World Review, March 2021]



5. The resurgence in the prices of oil and minerals has boosted the Energy and Basic Materials sectors, while Technology has declined from its peak level.

Capital return (in £, %) to 31.3.21			
Weight %	Industry Group	3 months	12 months
4.1	Basic Materials	+4.8	+57.3
22.0	Technology	+2.8	+53.9
13.6	Industrials	+5.4	+49.4
15.8	Consumer Discretionary	+0.8	+39.0
100.0	FTSE All-World	+3.4	+36.8
6.3	Consumer Staples	+1.2	+36.4
14.3	Financials	+7.4	+32.8
3.6	Energy	+14.1	+31.2
2.8	Real Estate	+3.7	+16.5
11.0	Health Care	-1.3	+14.2
3.5	Telecommunications	+2.8	+8.4
3.0	Utilities	-0.8	+7.9

[Source: FTSE All-World Review, March 2021]

6. The UK saw a continuation of the recent pattern of the smaller-capitalised stocks outperforming the larger companies.

(Capital only %, to 31.3.21)	3 months	12 months	36 months
FTSE 100	+3.9	+18.4	-4.9
FTSE 250	+5.0	+42.5	+10.6
FTSE Small Cap	+9.1	+59.1	+21.2
FTSE All-Share	+4.3	+23.3	-1.6

[Source: Financial Times]

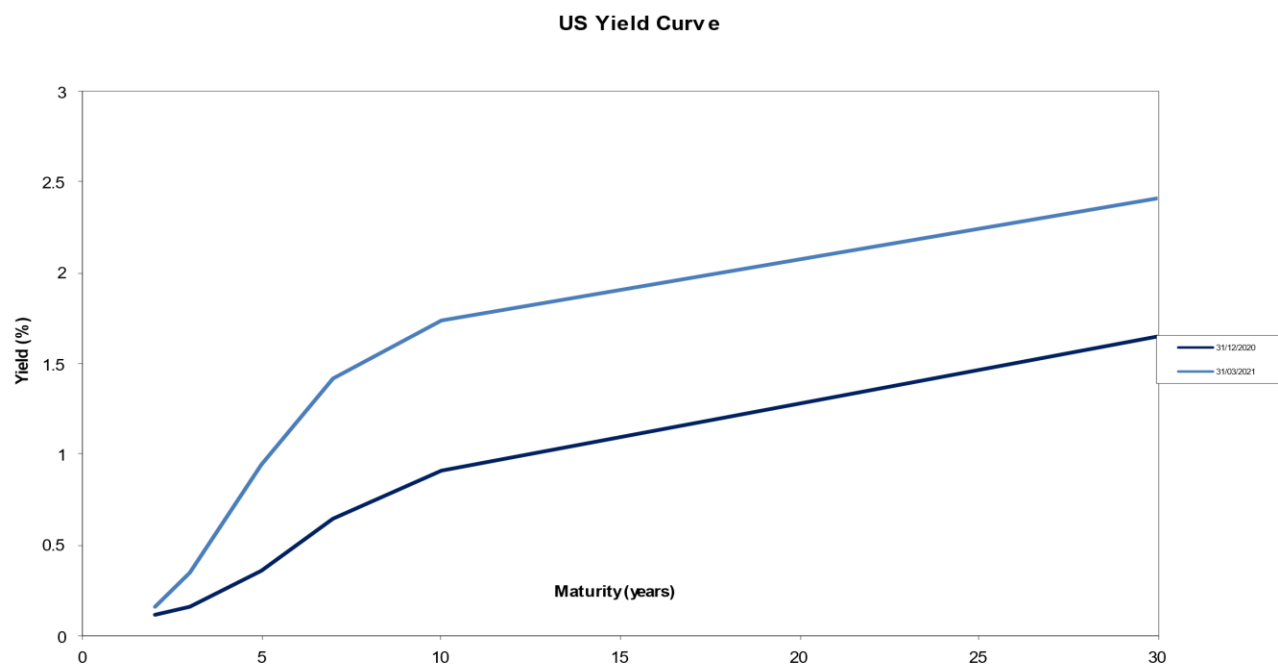
Bonds

7. The scale of the US Government spending plans passed and proposed has awakened fears that inflation will return, with the Fed still committed to its policy of low interest rates and quantitative easing. This in turn has caused a sharp rise in

the US Treasury yield curve, as shown in the graph below. This rise in yields has been mirrored in the UK and European bond markets.

10-year government bond yields (%)	Dec 2018	Dec 2019	Sept 2020	Dec 2020	Mar 2021
US	2.68	1.92	0.69	0.92	1.72
UK	1.14	0.73	0.23	0.20	0.84
Germany	0.24	-0.19	-0.52	-0.58	-0.01
Japan	-0.01	-0.02	0.01	0.02	0.01

[Source: Financial Times]



Non-Confidential

Currencies

- The pound strengthened slightly against the dollar and more sharply against the euro and the yen during the quarter.

				£ move (%)	
				3m	12m
	31.3.20	31.12.20	31.3.21		
\$ per £	1.24	1.367	1.38	+1.0	+11.3
€ per £	1.13	1.117	1.174	+5.1	+3.9
¥ per £	1.339	141.13	152.46	+8.0	+13.9



Non-Confidential

Commodities

- The oil price rose by 25% during the quarter, reaching \$64 in March, and copper and iron ore prices rose to record levels in May as industrial demand recovered.

Property

10. Capital values in UK Property have fallen during the past year, so that it is only the rental yield which has pushed total returns into positive ground. Total returns over the past 3 and 12 months in the UK Balanced Funds category (in %) were:

	3 months	12 months
Top quartile	+2.6	+3.4
Median	+2.0	+2.3
Lower quartile	+1.3	+1.2

[Source: Association of Real Estate Funds, March 2021].

Outlook

11. Although the threat of the pandemic appears to be receding in some parts of the world, the devastating situation in India, as well as in other countries, shows that there is a continuing need for wider dissemination of vaccines and optimism about the resumption of travel and commerce will need to be tempered with caution.
12. The scale of the additional spending proposed by the US Administration, taken with the commitment of the Federal Reserve to low interest rates and quantitative easing, has heightened fears of rising inflation, which could necessitate higher interest rates and bond yields. This has caused nervousness in equity and bond markets, and is likely to remain a concern as economic growth accelerates during the remainder of the year.

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May 14th, 2021

[Graphs supplied by Legal & General Investment Management]

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