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OXFORDSHIRE COUNCIL PENSION FUND – 10 SEPTEMBER 2021

OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

Report by the Independent Financial Adviser

Economy

1. Although 2021 growth forecasts for US, UK and the Eurozone have been increased, lockdowns have been imposed in many countries because of the spread of the Delta Variant, and vaccination rates outside the rich countries are still very low.

Consensus real growth (%)						Consumer prices latest (%)
	2017	2018	2019	2020	2021E	
UK	+1.6	+1.4	+1.4	-9.9	+5.7 (+5.1)	+2.5 (CPI)
USA	+2.3	+2.9	+2.3	-3.6	+6.0 (+5.5)	+5.4
Eurozone	+2.3	+1.9	+1.2	-7.6	+4.4 (+4.1)	+2.2
Japan	+1.7	+0.7	+0.7	-5.3	+2.2 (+2.7)	+0.2
China	+6.8	+6.6	+6.1	+1.9	+8.5 (+8.5)	+1.1

[2021 estimates: Economist Intelligence Unit. 'Economist' August 7th, 2021]

2. While the annual rate of inflation has risen in all regions - and is expected to reach 4% in UK and US this year - central banks are treating this as a transitory phenomenon and are not currently planning to raise interest rates or slow down the pace of their bond purchases. The European Central Bank has adjusted its inflation target to be close to 2% *either above or below*, whereas previously 2% was the ceiling.
3. In the US, President Biden's \$1trn infrastructure bill has received the agreement of Congress, but the proposed \$1.8trn social security bill has still to make its way through the legislative process.

Markets

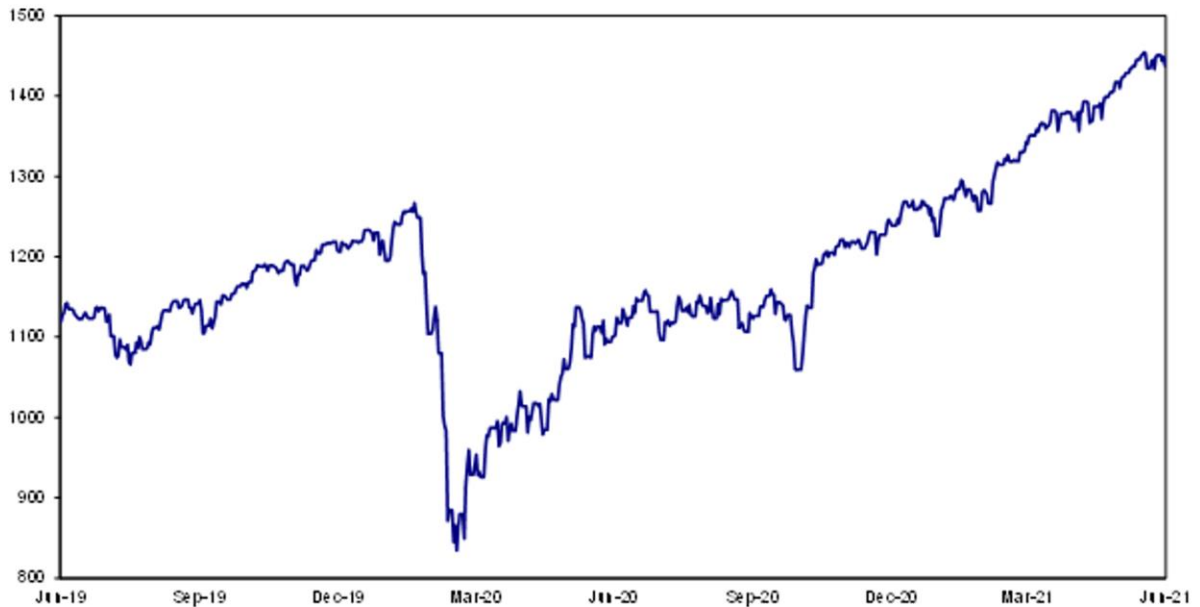
Equities

4. Global Equities gained ground for the fifth successive quarter, led once more by North America, although Continental Europe also reached new peak levels (see graph below). Within Emerging Markets, Korea and Taiwan have each gained nearly 50% in the past year, and India more than 40%, while China is only 12% ahead.

		Capital return (in £, %) to 30.6.21		
Weight %	Region	3 months	12 months	36 months
100.0	FTSE All-World Index	+6.7	+22.6	+35.9
59.9	FTSE All-World North America	+8.3	+25.3	+52.2
6.6	FTSE All-World Japan	-0.7	+9.6	+10.2
13.7	FTSE All-World Asia Pac ex Japan	+3.5	+23.1	+25.5
13.4	FTSE All-World Europe (ex-UK)	+6.9	+19.9	+23.1
4.0	FTSE All-World UK	+4.8	+14.5	-7.7
11.3	FTSE All-World Emerging Markets	+4.3	+21.6	+23.7

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

FT SE World Europe ex UK



5. Of the market sectors, Technology has continued to lead the way, with Energy, Industrials and Basic Materials also strong in the past quarter.

Capital return (in £, %) to 30.6.21			
Weight %	Industry Group	3 months	12 months
4.0	Basic Materials	+5.2	+31.4
22.9	Technology	+11.0	+31.2
13.4	Industrials	+5.5	+30.5
14.0	Financials	+4.7	+23.8
6.1	Consumer Staples	+4.1	+23.5
100.0	FTSE All-World	+6.7	+22.6
3.7	Energy	+7.6	+20.2
15.6	Consumer Discretionary	+5.2	+18.8
11.2	Health Care	+8.8	+8.2
3.4	Telecommunications	+3.0	+3.7
2.8	Utilities	- 0.8	+0.7
2.9	Real Estate	+7.3	N/A

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

6. The strength in the FTSE 250 and Small-Cap indices in the past 12 months has been largely driven by the recovery in previously depressed sectors such as Retail, Travel and Leisure, as well as a surge in parts of the Financials sector.

(Capital only %, to 30.6.21)	3 months	12 months	36 months
FTSE 100	+4.8	+14.1	- 7.8
FTSE 250	+4.0	+30.7	+7.4
FTSE Small Cap	+8.3	+46.5	+24.9
FTSE All-Share	+4.8	+17.7	-4.5

[Source: Financial Times]

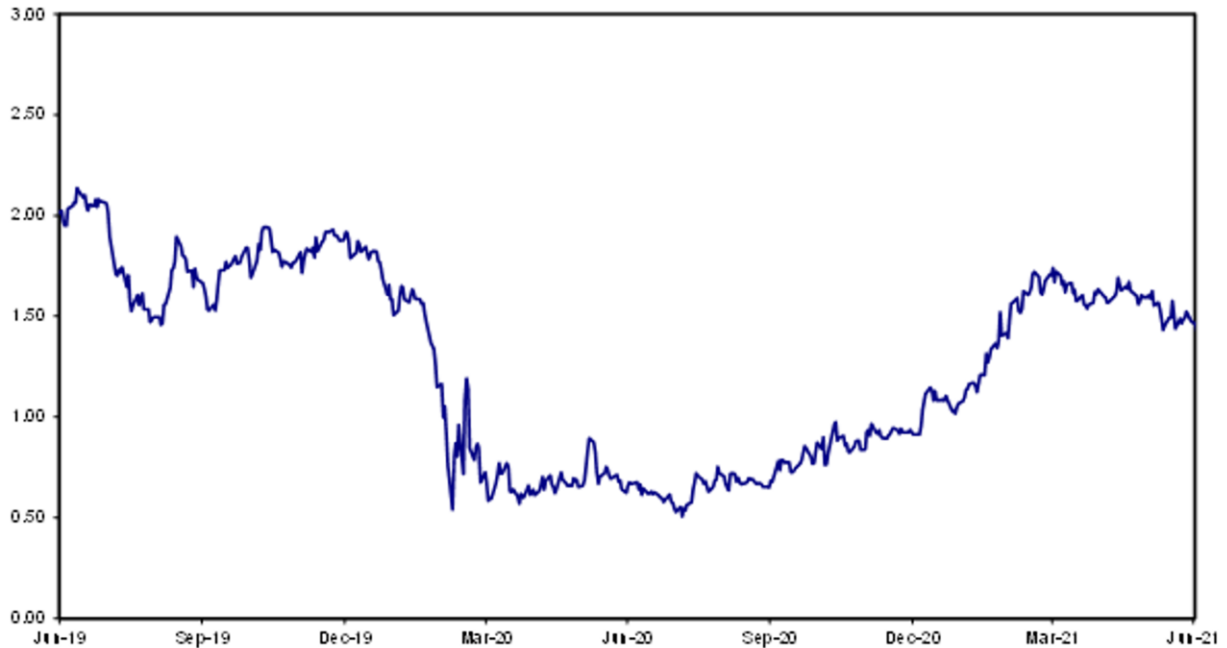
Bonds

7. Although medium-term inflation expectations in the US remained above 2.5%, US Treasury bonds *strengthened* during the quarter, and this trend continued in July. UK and European sovereign bonds also partially reversed their previous declines.

10-year government bond yields (%)					
	Dec 2018	Dec 2019	Dec 2020	Mar 2021	June 2021
US	2.68	1.92	0.92	1.72	1.44
UK	1.14	0.73	0.20	0.84	0.72
Germany	0.24	-0.19	-0.58	-0.01	-0.21
Japan	-0.01	-0.02	0.02	0.01	0.05

[Source: Financial Times]

US Treasury Generic 10 Year



Non-Confidential

Currencies

8. The pound briefly moved above \$1.40, but then retreated and ended the quarter virtually unchanged against the major currencies.

	30.6.20	31.3.21	30.6.21	£ move (%)	
				3m	12m
\$ per £	1.236	1.38	1.381	0.0	+11.7
€ per £	1.100	1.174	1.165	-0.8	+5.9
¥ per £	133.3	152.46	153.33	+0.6	+15.0

Commodities

9. The oil price rose from \$64 to \$75 during the quarter, but fell back in July after the main oil-producing countries agreed to increase production by 400,000 barrels/day each month to meet the increasing demand. Copper reached a 10-year high of \$10,000 per tonne at the end of April, but then fell back to its end-March level (see graph).



Non-Confidential

Property

10. Capital values in UK Property stabilized during the 2nd quarter, and with the weak 2nd quarter of 2020 dropping out of the calculation, 12-month returns were much healthier. Total returns over the past 3 and 12 months in the UK Balanced Funds category (in %) were:

	3 months	12 months
Top quartile	+4.5	+10.2
Median	+4.0	+ 8.3
Lower quartile	+3.0	+ 7.3

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

Outlook

11. The coronavirus pandemic remains a major threat; in many lesser-developed countries the vaccination rate is extremely low, while the spread of the Delta Variant continues to require lockdowns in regions where the virus was thought to have been contained.

12. In the US and Europe, the progress of inflation during 2021 remains the great unknown. Central banks are assuming the rise will be a temporary phenomenon, caused by resurgent consumer demand meeting supply which is hampered by bottlenecks in industrial materials and by labour shortages in certain sectors. This uncertainty is likely to continue into the fourth quarter of 2021 before the situation becomes clearer. The response of central banks will crucially determine investor sentiment in both equity and bond markets.

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August 10th, 2021

[Graphs supplied by Legal & General Investment Management]

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