GLOBAL MATTERS

MONTHLY MARKET UPDATE

May 2021

momentum
global investment management

globalmatters

Contents

Global Market Review & Outlook

Confidence in economic recovery continued to mount in May, with most data and forward indicators pointing to a period of exceptional growth underway. Confirmation from data releases and empirical evidence that this is being accompanied by a sharp rise in inflation caused some investor nervousness during the month, but dovish signals from the Federal Reserve assuaged those concerns and underpinned a continuation of the reflation trade in markets while, somewhat surprisingly, holding bond yields in check.

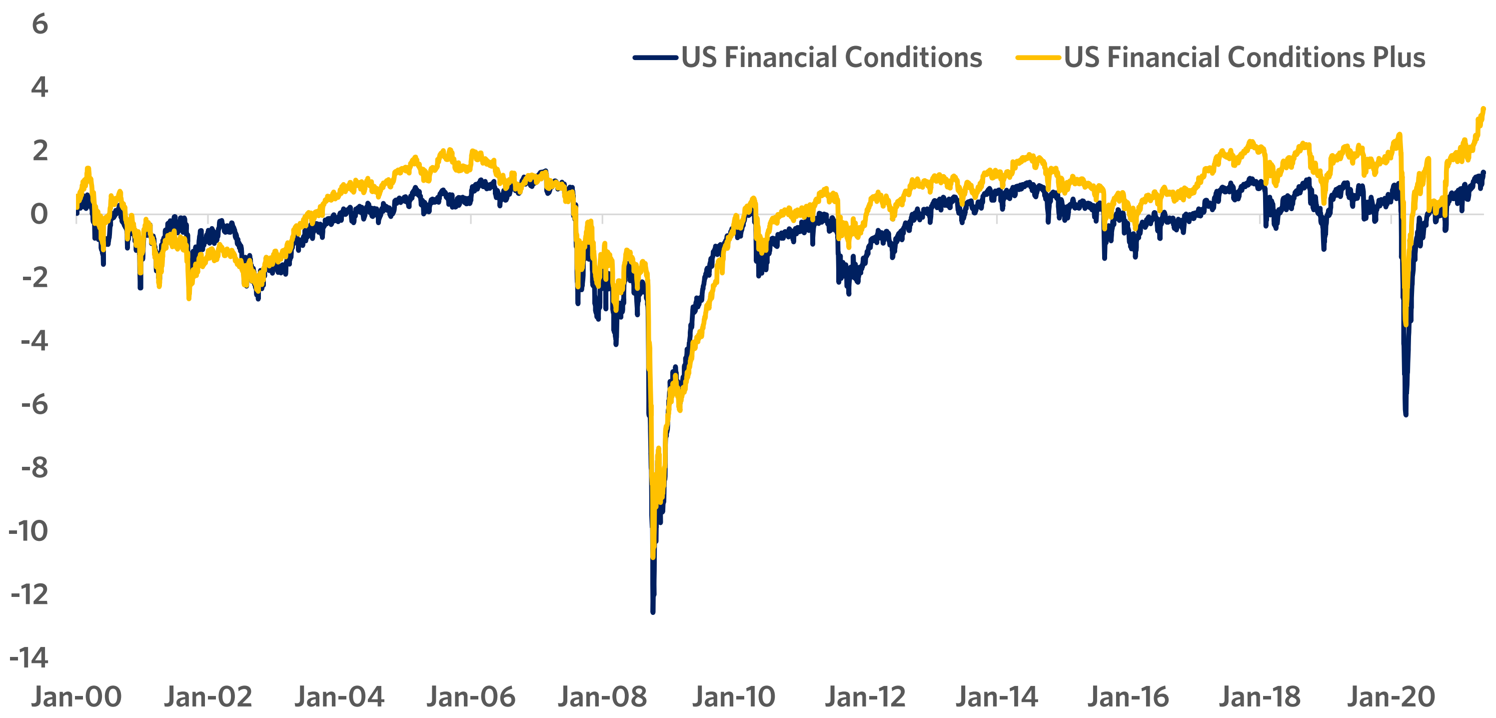
The US and global equity market indices again reached new all-time highs during May, with the S&P 500 up 0.7% and MSCI World +1.4%, but markets were led by those thought likely to benefit most from the recovery, with Europe ex UK returning 2.6%, Japan 1.4% and the UK 1.3%, the latter restrained by sterling's strength (all figures in local currency terms). Those sectors with the greatest recovery potential outperformed, MSCI World Banks up 5.9% and MSCI Value +2.7%, while MSCI World Growth stocks fell marginally, -0.3%, and the tech heavy Nasdaq index fell by 1.4%. Emerging markets benefitted from a weaker dollar and rising commodity prices and returned 2.3% over the month. Within that, Asia underperformed, held back by second waves of coronavirus sweeping through several countries, in turn triggering renewed restrictions, and by some evidence of slowing growth in China.

Bond markets were steady, with yields on US Treasuries drifting slightly lower over the month, driven by a fall in real yields as 10 year breakeven inflation moved up to 2.45% at month end from 2.41% at the end of April. US Treasury inflation protected bonds again outperformed, up 1.2%, but the best performance came in emerging market bonds, +1.5%.

With sharply rising demand and signs of supply shortages, industrial metal prices in general continued to strengthen, with copper up 4.4%, but precious metals led the way with the gold price up 7.8%, recovering most of the ground lost earlier in the year.

Inflation remains the market's key concern, with all eyes on the US. April inflation numbers came in much higher than expected, with CPI up 0.8% on the month, taking its year-on-year rise to 4.2%, the highest since the financial crisis. Core CPI, which more closely reflects the underlying trend, rose by 0.9% on the month, and 3.0% year-on-year, a level not seen since 1996. Producer prices have risen by 6.2% over the past year, and the Fed's preferred measure of inflation, core personal consumption expenditure, is up 3.1%, the fastest rate since the early 1990s. Inflation expectations moved above 2.5%, their highest for 8 years, and markets wobbled on the news. However, the Fed maintained a steadfastly dovish tone after the figures, insisting that the rise in inflation will be transitory and talking down any suggestions of early policy tightening. The assurances had the desired effect, with inflation fears easing, bond yields falling and equities rising.

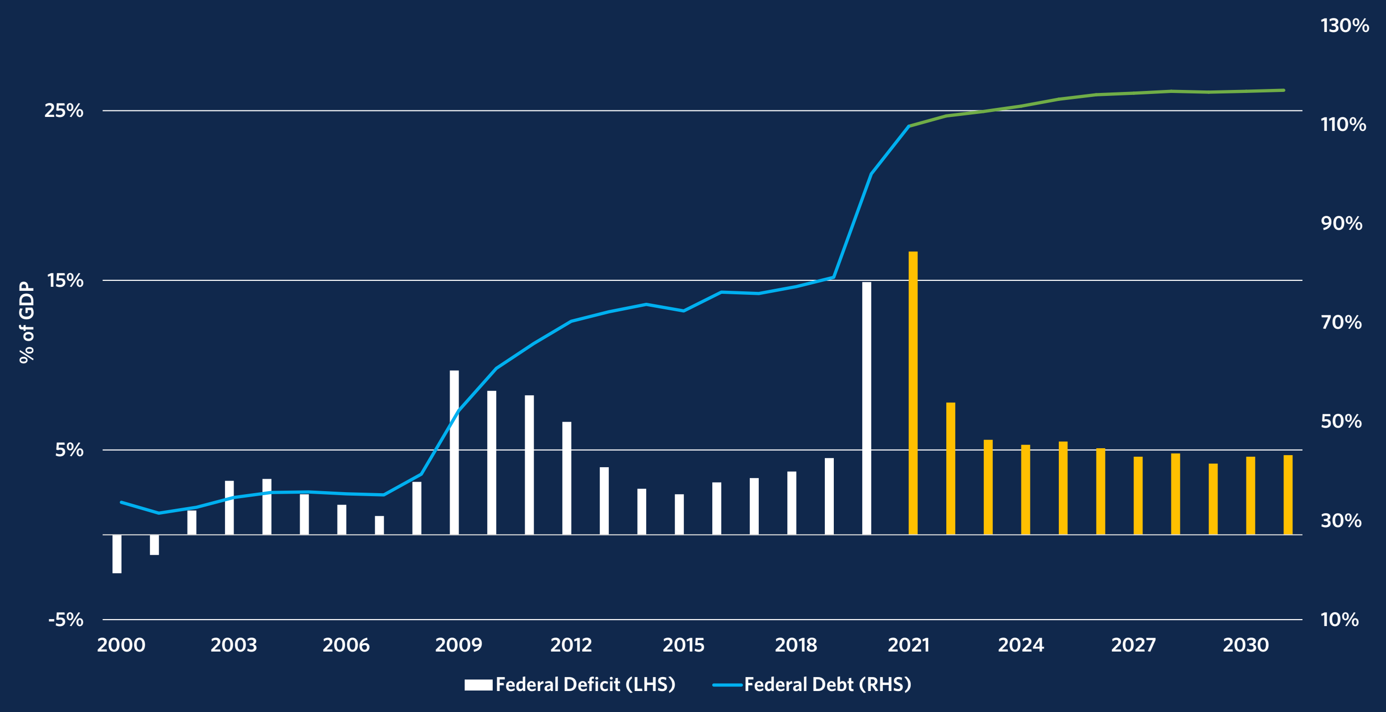
US Financial Conditions



Source: Bloomberg Finance L.P, Momentum Global Investment Management. The Bloomberg U.S. Financial Conditions index tracks the overall level of financial stress in the U.S. money, bond and equity markets to help assess the availability and cost of credit. The Bloomberg U.S. Financial Conditions Plus index includes indicators of asset-price bubbles including tech share prices and the housing market.

Increased confidence in the global economic recovery has been fuelled by Biden's fiscal spending, building on the pandemic relief programme of $1.9tn already largely distributed, with far-reaching plans to extend the social safety net, support jobs, families, education, healthcare, infrastructure, clean energy and the environment. The broad proposals have been set out in Biden's Federal budget for 2022, an ambitious plan calling for over $6tn of Federal spending, with increases each year thereafter through to 2031. If enacted in full, which seems unlikely given the Democrat's narrow majority in both houses of Congress and the Republican's early resistance to some of the spending and tax raising initiatives, this would result in fiscal deficits over $1tn each year over the next decade, the highest sustained levels of spending since WWII, representing more than 5% of GDP each year on average and increasing Federal debt to 117% of GDP.

Federal Deficit and Federal Debt as a % of GBP



Source: US Office of Management and Budget, Momentum Global Investment Management

One consequence of the extraordinarily loose fiscal and monetary policies in the US has been an easing of financial conditions to around the lowest levels this century, and reflected in a weaker dollar. On a trade weighted basis the dollar fell by 1.6% in May, taking the decline since its peak this year in late March to 3.7%, returning it to the levels of late 2020. Over the past year the dollar has declined by 9% on a trade weighted basis; over this period the euro is up 10%, sterling 15%, the Swiss franc 7%, the Chinese renminbi 12%, with only the yen of the major currencies down, a fall of 2%. Some emerging market currencies, which suffered sharp falls in early 2020 as the pandemic struck, have enjoyed notable recoveries, with the South African rand up 28% over the past year.

Sterling has been buoyed by the end of Brexit uncertainty, the removal of political uncertainties as the ruling Conservative party has consolidated its electoral advantage over the opposition, and the success of the vaccination programme leading to prospects of a huge economic recovery; the pound has been the best performer of the major currencies this year, up 4% versus the dollar. In contrast the yen has surprised on the downside, down 6% year-to-date, weighed down by weaker than expected growth and a troubling second wave of the virus together with an extremely low vaccination roll-out. Sterling continues to offer reasonable value with the economic recovery in its early stages, while the longer term safe haven characteristics of the yen make its current level relatively attractive. The strength of the renminbi triggered a response from the Peoples Bank of China in May to try to restrain its rise, a delicate balance for the authorities given the continuing frictions between the US and China.

US Dollar Index

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

We are in the early stages of the global economic recovery and see a wide range of opportunities ahead, especially in those parts of markets which will benefit most from that recovery. Fiscal and monetary policies remain extremely loose and supportive of risk assets. But the picture is clouded with some uncertainty. The virus remains a threat, especially across the developing world, and the race between vaccination roll-out and the spread of virus mutations continues to present challenges. The greatest concern now, however, is the nature of the inflationary surge as recovery progresses; will it be transitory as central banks believe, or will it prove to be persistent? Our central view is that inflation will peak in coming months as base effects fade and pent-up demand is satisfied, but we recognise that the pressures on the supply side are likely to take some time to be resolved, and could underpin an uncomfortably long period of above-target inflation. Given this uncertainty, portfolio diversification is more important than ever, taking advantage of the opportunities in equities while retaining protection against a period of inflation at higher levels than we have experienced through the past 20 years of disinflation.

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

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	0.7%	10.6%	12.4%	39.6%
United Kingdom	MSCI UK NR	GBP	1.1%	9.3%	10.6%	18.1%
Continental Europe	MSCI Europe ex UK NR	EUR	3.3%	12.4%	13.6%	32.1%
Japan	Topix TR	JPY	2.6%	5.4%	8.9%	27.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.6%	1.2%	6.2%	49.8%
Global	MSCI World NR	USD	1.6%	9.8%	11.5%	40.8%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	9.7%	13.6%	12.4%	30.1%
Emerging Asia	MSCI EM Asia NR	USD	-0.1%	-0.7%	4.6%	50.5%
Emerging Latin America	MSCI EM Latin America NR	USD	7.2%	16.3%	5.2%	47.4%
China	MSCI EM China NR	USD	2.2%	-0.1%	3.4%	42.0%
BRICs	MSCI BRIC NR	USD	-0.7%	-5.6%	0.3%	36.7%
Global emerging markets	MSCI Emerging Markets NR	USD	1.1%	2.1%	6.0%	49.3%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	0.3%	-0.1%	-3.6%	-4.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	1.2%	2.5%	0.9%	7.0%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	0.8%	0.1%	-2.9%	3.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.3%	1.5%	2.2%	14.9%
UK Gilts	JP Morgan UK Government Bond TR	GBP	0.5%	0.8%	-6.4%	-7.7%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.3%	0.7%	-3.2%	2.3%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.1%	-1.0%	-3.4%	0.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.1%	0.1%	-0.8%	4.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.2%	1.4%	2.4%	12.7%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.0%	1.0%	-0.3%	-0.7%
Australian Government	JP Morgan Australia GBI TR	AUD	0.4%	2.1%	-3.1%	-2.8%
Global Government Bonds	JP Morgan Global GBI	USD	0.6%	-0.4%	-4.1%	1.1%
Global Bonds	ICE BofAML Global Broad Market	USD	0.6%	-0.1%	-3.1%	2.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-1.1%	-1.7%	3.4%	43.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	1.5%	1.5%	-4.0%	4.9%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	0.9%	13.6%	18.2%	37.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	1.6%	11.3%	3.4%	20.0%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.5%	1.5%	8.4%	20.5%
Global Property Securities	S&P Global Property USD TR	USD	1.8%	10.3%	13.0%	34.3%
Currencies						
Euro		USD	1.4%	1.0%	-0.2%	9.8%
UK Pound Sterling		USD	2.6%	1.8%	3.8%	14.9%
Japanese Yen		USD	-0.5%	-3.0%	-6.0%	-1.9%
Australian Dollar		USD	-0.1%	0.1%	0.2%	15.7%
South African Rand		USD	5.3%	9.8%	6.7%	27.5%
Commodities & Alternatives						
Commodities	RICI TR	USD	2.1%	8.7%	23.8%	59.6%
Agricultural Commodities	RICI Agriculture TR	USD	-1.4%	8.6%	19.0%	57.5%
Oil	Brent Crude Oil	USD	3.5%	5.3%	34.4%	97.1%
Gold	Gold Spot	USD	7.6%	9.8%	0.3%	10.0%
Hedge funds	HFRX Global Hedge Fund	USD	0.3%	1.8%	3.2%	13.4%

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 GIM. Past performance is not indicative of future returns. e=estimate

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

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	1.3%	9.7%	10.9%	18.7%
UK - Large Cap	MSCI UK Large Cap NR	GBP	1.6%	9.6%	11.1%	15.1%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	0.1%	9.1%	8.8%	28.3%
UK - Small Cap	MSCI Small Cap NR	GBP	0.5%	9.8%	12.8%	37.3%
United States	S&P 500 NR	USD	-1.9%	8.6%	8.1%	21.2%
Continental Europe	MSCI Europe ex UK NR	EUR	2.1%	11.5%	9.0%	26.0%
Japan	Topix TR	JPY	-0.5%	0.6%	-1.9%	8.3%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.0%	-0.6%	2.1%	30.0%
Global developed markets	MSCI World NR	USD	-1.1%	7.9%	7.2%	22.2%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.5%	0.3%	2.0%	29.5%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.5%	1.0%	-6.5%	-7.7%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.1%	0.2%	-0.7%	-0.5%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	0.4%	0.5%	-4.3%	-4.1%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	0.6%	1.9%	-10.8%	-13.1%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	2.8%	5.6%	-2.8%	-3.4%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	1.3%	1.8%	-1.9%	-2.4%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	3.6%	7.8%	-3.7%	-4.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	0.3%	0.7%	-3.2%	2.3%
US Treasuries	JP Morgan US Government Bond TR	USD	-2.1%	-1.5%	-7.0%	-16.5%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.6%	-1.3%	-6.3%	-9.6%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.3%	1.5%	2.2%	14.9%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-0.1%	-1.0%	-3.4%	0.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-0.1%	0.1%	-0.8%	4.5%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.2%	1.4%	2.4%	12.7%
Global Government Bonds	JP Morgan Global GBI	GBP	-2.0%	-2.1%	-7.8%	-12.3%
Global Bonds	ICE BofAML Global Broad Market	GBP	0.6%	-0.1%	-3.1%	2.9%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-1.1%	-1.7%	3.4%	43.8%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-1.1%	-0.3%	-7.7%	-9.0%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	-0.8%	8.3%	8.6%	16.5%
Currencies						
Euro		GBP	-1.2%	-0.9%	-3.8%	-4.5%
US Dollar		GBP	-2.7%	-1.9%	-3.7%	-12.9%
Japanese Yen		GBP	-3.1%	-4.8%	-9.4%	-14.6%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-0.5%	6.8%	19.0%	38.4%
Agricultural Commodities	RICI Agriculture TR	GBP	-4.0%	6.7%	14.4%	36.6%
Oil	Brent Crude Oil	GBP	0.9%	3.4%	29.3%	71.0%
Gold	Gold Spot	GBP	4.8%	7.8%	-3.6%	-4.5%
Interest Rates				**Current Rate**		
United Kingdom				0.10%		
United States				0.25%		
Eurozone				0.00%		
Japan				-0.10%		

Source: Bloomberg Finance L.P. , Momentum GIM. Past performance is not indicative of future returns.

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 looks expensive today against the reflationary backdrop but pockets of credit offer some value. Alternatives, including in favour infrastructure, 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. Yields have lifted off their lows but remain unattractive at current levels, notably so in the quality sovereign bond space. Inflation linked bonds have marginally better prospects but the easy gains there have been made. We remain fundamentally constructive on higher yielding 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 reasonably 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.

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 making Sterling attractive today. The Yen has already weakened meaningfully this year and its defensive qualities make it attractive as a portfolio diversifier.

For more information, please contact:

Anastasiya Volodina
Distribution Services

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

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. 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.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

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, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally 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.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

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.