Marlborough International

February 2021

Global Investment Commentary

Another month characterised by extremely easy money, very low or negative interest rates, and the prospect of continued quantitative easing and central bank actions to counter rising bond yields.

President Biden assuming control has changed little about US-Sino relations which is perhaps surprising but it has brought a stimulus package of nearly $2trn dollars or almost 10% of US GDP and a growing sense that significant inflationary pressure is being injected into an economy which is already projected to recover by nearly 5% this year.

The S&P 500, the Dow Jones, and the Nasdaq all set all-time highs this month before giving back some of their gains, with this being most marked in the Nasdaq with companies like Tesla declining a little over 20% and Amazon 8.5% in the month. Conversely Financials, Real Estate, and bombed out retailers, hospitality shares, and airlines were driven higher by a more positive belief about the end of the Pandemic.

Elsewhere investors are predicting that Chinese stocks will extend their Bull run boosted by World Economic recovery and a more predictable if not necessarly friendlier relationship with the US. The EU Covid vaccination roll-out has been disastrous placing significant pressure on Merkel, Macron, and Draghi and we are now seeing growing dissent from individual countries within the EU on this and a number of other issues, in particular the EU's decision to take legal action against five member states (including Germany) for rule breaking. There are also signs of a growing trend towards nationalism and anti-European sentiment with Le Pen projected to win the preliminary round of the French Presidential elections.

In post Brexit UK the vaccination roll-out has been spectacularly successful to the extent that an end to lock down is in sight and the vaccination program organisers predict that the entire adult population could be offered a vaccine by the end of September. That just leaves the Chancellor to plan a way of beginning to pay down some of the Covid related debt which has taken UK National Debt above £2trn for the first time.

Finally global fixed interest markets are already factoring higher debt costs in future as inflationary pressures build and the future funding needs are going to require higher rates leaving independent central bankers struggling to reassure that higher interest rates are potentially years away.

Against this wider backdrop an active approach to asset selection could be key as investors seek to balance the economic recovery, equity market valuations, inflation concerns, and monetary policy. There are clearly risks present in today's markets but bulls were generally rewarded in February.

Market Round Up

Performance of major equity markets	February 2021	Year to date
UK (FTSE 100)	1.6%	0.8%
US (S&P 500)	2.8%	1.7%
Europe (MSCI Europe Ex UK)	2.6%	1.5%
Asia (MSCI Asia Pac Ex Japan)	-1.2%	4.6%
Japan (Nikkei 225)	4.8%	5.6%
China (SSE Composite)	0.7%	1.0%

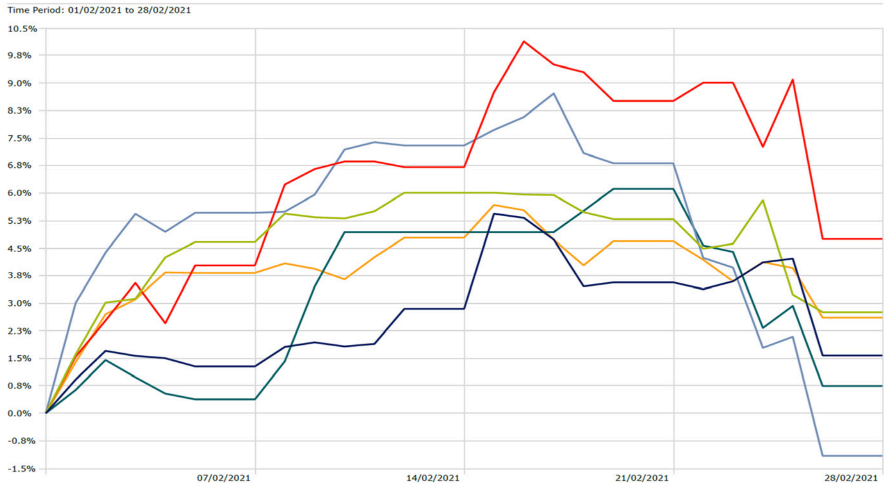
Source: Morningstar Direct

US

The corporate earnings season in the US was overall positive with 75% of S&P 500 companies reporting higher than anticipated revenues and earnings in the 4th quarter of 2020 which represents the highest position in more than a decade (Factset - source) with profits overall growing by 3.2% year on year. However future earnings guidance was more of a mixed bag with only 63% of S&P 500 companies who provided guidance being positive which suggests an overall favourable outlook but within which uncertainty remains. Meanwhile respondents to the Bank of America (BofA) Global Manager Survey were overwhelmingly bullish with average cash balances as low as 3.8% with BofA identifying that Wall Street's Bullishness has now become a reliable contrarian sell signal!

Coupled with bond yields heading higher in response to inflationary expectations and general fears that we have not seen the worst of unemployment and we have a recipe for increasing market volatility with the VIX (the industry's expectations for market volatility over the coming 30 days) jumping to 27 vs the long term trend value of approximately twenty. To put this in context it reached 80 during last March's significant falls!

February 2021 - World Markets



Investment Name	Value	Investment Name	Value
FTSE 100 TR GBP	1.6%	MSCI AC Asia Pac Ex JPN PR	-1.2%
Nikkei 225 Average TR JPY	4.8%	MSCI Europe Ex UK GR LCL	2.6%
S&P 500 TR USD	2.8%	SSE Composite PR CNY	0.7%

Source: Morningstar Direct, February 2021

Sell Side Indicator

BofA US Equity & Quant Strategy Note: Buy and Sell signals are based on rolling 15-year +/- standard deviation from the rolling 15-year mean. A reading above the red line indicates a Sell signal and a reading below the green line indicates a Buy signal.

UK

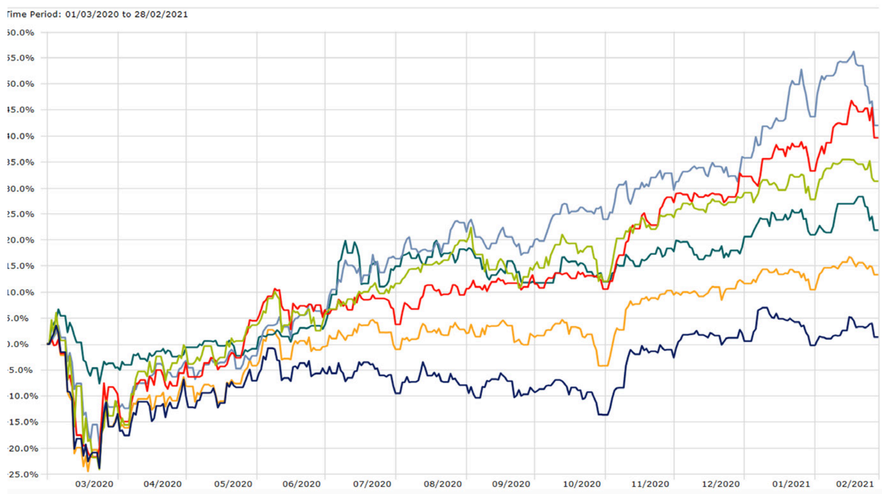
At home we have a Budget on the horizon that is expected to see tax rises to begin the process of normalising the government's finances whilst at the same time not acting to kill off the recovery which is now projected to be 4.6% this year and 5.5% next, following last year's 10% economic contraction. The FTSE 100 index produced a relatively positive 1.6% over the month and is up 0.8% since the beginning of the year. In parallel figures from the Bank for International Settlements (BIS) show sterling up by 3.18% since the beginning of 2021 against a basket of the world's other major currencies.

Whilst it is self-evidently the case that the UK markets are influenced by the same global head and tail winds as the other main markets the UK has not experienced the growth seen by some of the world's leading markets over the past five years in the main due to Brexit uncertainty. Therefore whilst the FTSE 100 Index is only up by 5.6% over this period, the Euro Stoxx Index (SXE) is up 18.86%, MSCI Asia Pacific Index is up 63.4%, the Shanghai Index is up 72.5%, and finally the S&P 500 index is up 90.55%. On this basis and particularly for international investors they have the ability to buy shares in UK businesses for cheaper valuations relative to international counterparts (e.g. a UK Bank is cheaper to buy than a US or Chinese Bank) and so on a trend basis there is every chance that with the uncertainty of Brexit removed there is a real possibility that the valuation of UK companies will "normalise" and gravitate upwards.

Europe

European equity markets began 2021 in an enthusiastic mood with the pattern the same as that seen in the back end of 2020 with the double promise of further stimulus measures, to offset the damage done by the pandemic, combining with an economic resurgence as vaccine programmes allow economies to re-open. In many ways the beginning of the rebound was possibly further away as new strains of the virus and increasing rates of infection prompted countries such as Germany and Italy in particular to announce further restrictions. As this reality dawned on market participants the rally fizzled out.

12 Month Performance



Investment Name	Value	Investment Name	Value
FTSE 100 TR GBP	1.3%	S&P 500 TR USD	42.0%
Nikkei 225 Average TR JPY	39.6%	MSCI Europe Ex UK GR EUR	13.3%
MSCI AC Asia Pac Ex JPN PR	31.3%	SSE Composite PR CNY	21.8%

Source: Morningstar Direct, March 2020 to February 2021

China

Investors are predicting Chinese stocks will extend their Bull run boosted by world economic recovery. Goldman Sachs has projected a 20% rebound in Chinese Corporate profitability and Chinese regulators are wooing foreign investors with accelerated moves to open up Chinese markets, and Blackrock, JPMorgan and Vanguard have already boosted their exposure to Chinese equities this year. In HSBC's survey of the Top 1000 Global Investors, in relation to equities, 71% of them suggested an intention to increase portfolio exposure to China. Separately UBS Global has stated an expectation that we will see a rise in Chinese household assets in domestic equities. All of the forgoing points to a positive Chinese equity market but we should not discount a worsening in US-Sino relations linked to US attempts to defend its economy and also to lead on human rights issues, in particular the Chinese treatment of their Muslim Uighur minority.

The past twelve months in world markets

Performance of major equity markets over 1 year	1st March 2020 to 28th February 2021
UK (FTSE 100)	1.3%
US (S&P 500)	31.3%
Europe (MSCI Europe Ex UK)	13.3%
Asia (MSCI Asia Pac Ex Japan)	42%
Japan (Nikkei 225)	39.6%
China (SSE Composite)	21.8%

Source: Morningstar Direct

Asia

Asia was the first region to enter the covid crisis and is the first to exit, with the majority of the countries in the region open for business and getting back to work. The region has also seen, so far, the most effective response to the epidemic. Importantly, Asian countries are generally returning to normality and the modest financial stimulus and monetary response observed across the region is in stark contrast to the many trillions of dollars being deployed by western economies. For much of the developed world, such profligacy will be a major financial burden for years to come, leading to slower growth and potentially weaker currencies.

The majority of Asia looks attractively placed in comparison.

Conclusion

Between February and March 2020 the main western markets fell significantly in response to very real concerns relating to the impact on the world's economy (and we suspect wider society) of covid. However from 23rd March 2020 onwards these equity markets all rallied strongly seemingly on the basis of a re-assessment of the impact of covid and a belief that whilst the pandemic was indeed damaging, the longer term effects were likely to be quite limited and markets could look towards the development of effective vaccines, the end of lockdown, and a return to normality. The only uncertainty being the timing of this perceived reality. Whilst we now find ourselves perhaps closer to the end than the beginning of the covid pandemic it is perhaps the case that greater consideration needs to be given to the proposition that some of the pandemic effects could actually be permanent, or may take significantly longer to resolve, and could be very costly. For example we do not really know the true unemployment picture and this will only be revealed when state funded furlough arrangements are unwound and companies are forced to make permanent cuts to their workforce. Similarly companies will have ceased trading during the pandemic with no one to step into their shoes and when the pandemic is over and demand picks up we will find that we have capacity constraints which will lead to price increases. As a subset of this scenario we will also have situations such as exist with the airlines where they were forced to mothball or completely retire whole swathes of their fleets (BA for example retired all of its Boeing 747s) and when people start flying again it will be with airlines with reduced capacity, with large debts accumulated under lockdown, and every reason to increase prices. This inflation, whilst initially desirable as evidence of accelerating economic activity, and the effect it has on the real value of government debt, will ultimately lead to higher interest rates and a significant dampening effect on post pandemic economic growth.

As things stand markets have largely or entirely made up their 2020 losses, the pandemic is drawing to a close, and major market participants are positive about the future. We should however not overlook the fact that we are not yet out of the woods, there is still room for more pandemic shocks associated with new Covid variants, and that the full impact of the virus on jobs is perhaps not fully revealed to us. On this basis whilst we would echo a broadly positive analysis it should be on the basis that it would only be sensible to also keep in mind the risks and uncertainties that still exist.

(Economic Projections 28/02/2021)

Economic Growth

Country/Region	Real GDP YOY Growth (%)		
	2020	2021	2022
UK	-10.2	4.6	5.5
USA	-3.5	4.9	3.7
Eurozone	-7	4.2	4.1
Germany	-4.9	3.4	3.9
France	-8.1	5.8	4
Japan	-4.8	2.7	2.1
China	2.3	8.4	5.5
India	4	-7.5	10
Asia	1.4	5.7	5.7
Emerging Markets	-0.6	5.2	5.2

Source: Bloomberg

Interest Rates

Country/Region	Central Bank Interest Rates (%)		
	2020	2021	2022
UK	0.1	0.1	0.2
USA	0.25	0.3	0.35
Eurozone	0	0	0
Japan	0	0	0
China	4.35	4.3	4.3
India	4	3.95	4.25

Source: Bloomberg

Foreign Currency Exchange Rates

Currency Pair	Exchange Rate		
	2020	2021	2022
GBP/USD	1.37	1.4	1.42
EUR/GBP	0.89	0.88	0.88
EUR/USD	1.22	1.23	1.25
USD/JPY	103.25	104	107
EUR/JPY	126.18	127	131
USD/CNY	6.53	6.38	6.25
USD/INR	73.07	72.8	73

Source: Bloomberg

Risk Warnings

The following is a summary only of some key items in the Prospectus.
Capital is at risk. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment.
Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds.
The Master funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events.
It should be appreciated that the value of Shares is not guaranteed and may go down as well as up and that investors may not receive, on redemption of their Shares, the amount that they originally invested.
Investment in the Company should only be undertaken as part of a diversified investment portfolio.
Investment in the Shares should be viewed as a medium to long term investment.
Shares may not be redeemed otherwise than on any Dealing Day.
There will not be any secondary market in the shares of the Company.

Regulatory Information

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