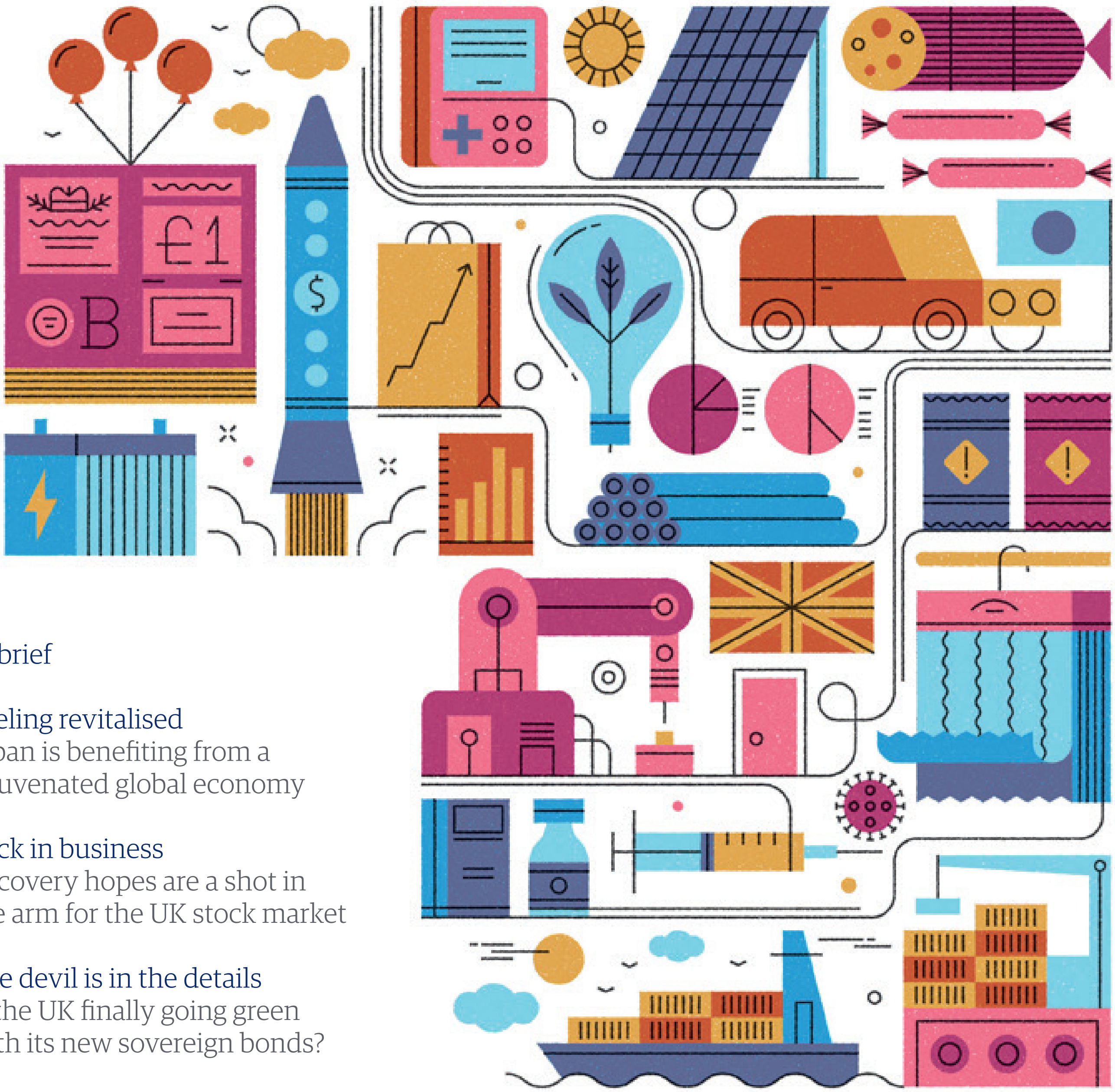
Investment*Insights*

Issue 28 — Second quarter 2021

Who's afraid of bond vigilantes?

As government bond yields rise, investors are pondering just how powerful the post-pandemic rebound in economic growth could be



Rathbones
Look forward

Foreword

This year has started off on a positive note, with vaccination programmes making rapid progress and keeping investors optimistic about the prospects for the global economic recovery. While bond markets experienced some volatility during the first quarter, the situation stabilised towards the end of the period.

In our first article, we explore how benchmark US government bond yields spiked as investors braced themselves for the release of pent-up consumer demand, encouraged by Joe Biden's $1.9 trillion stimulus package. We take a look at where US bond yields and interest rates may go from here, and what that means for equity investors.

Meanwhile, Japanese equities have reached levels not seen for three decades. We explore what's driving this resurgence on page 5, and how the country's stock market is well positioned to benefit from hopes around the global economic recovery – including its significant weightings in cyclical sectors, as well as companies that combine 'growth' and 'quality' characteristics.

The UK has benefited from one of the most successful vaccination programmes and the government has so far stuck to its roadmap for easing lockdown measures. On page 6, we take a look at how the country's impressive progress could pave the way for an early uptick in economic activity and should continue to provide a supportive environment for UK equities.

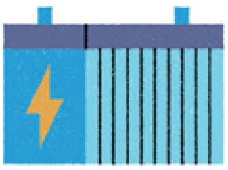
During the recent Budget address, Chancellor Rishi Sunak announced plans for the government to start issuing green bonds, helping to fund the Prime Minister's plan for a "green industrial revolution". On page 8, we explore how popular the new investments may be and how they could be a key part of the UK's journey plans for net zero greenhouse gas emissions by 2050.

In our final article, we examine the challenges posed by planned obsolescence. In order to secure an ongoing revenue stream and deliver profits, businesses deliberately give their products a shorter service life so that their customers continue to replace products. This wasteful practice presents a growing risk to the environment, and we explore the possible solutions that could help protect both profits and the planet.

I hope you and your family remain healthy and safe. We hope to be able to open offices more in the coming months, which should allow more opportunity to meet up. In the meantime, we will continue monitoring how the investment environment is evolving in the wake of the coronavirus pandemic. Please visit rathbones.com to find out more about our latest views.

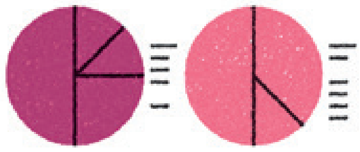
Julian

Julian Chillingworth
Chief Investment Officer



Raising rates too soon would be a bigger threat

Benchmark US government bond yields have been rising in anticipation of the end of lockdown unleashing a tsunami of pent-up consumer demand, powered by a fresh $1.9 trillion stimulus package. Concerns that this will lead to a persistent rise in inflation brought the 'bond vigilantes' out in force, pushing 10-year Treasury yields above 1.60% for the first time since December 2019.



As most states have relaxed lockdowns and continue vaccinating their citizens apace, attention has been turning to just how powerful the rebound in economic growth could be. The Fed is in a delicate position: it doesn't want to put the brakes on the recovery, yet it has to be careful about adding fuel to an economy that may already be running hot. Keeping rates low and lending easy could encourage more borrowing and spending, increasing the amount of money in circulation and pushing inflation higher.

The impact on equity markets

A policy mistake by the Fed could have serious consequences for bond and equity investors. The impact of rising yields on equity markets depends on the speed with which they increase. Our analysis suggests that rising short-term rates matter more for equities than rising long-term (for example, 10-year) yields. In other words, so-called bond vigilantes are not the scourge of equity investors so much as central banks tightening rates too far. Indeed, shorted-dated market rates (indicating market expectations of where interest rates are headed) have actually fallen in the year to date, while the US benchmark S&P 500 has continued its climb to new all-time highs.

Furthermore, our analysis shows that 12-month forward returns for equity markets since 1970 have tended to be positive in periods of rising 10-year bond yields. And even over a range of time periods, higher daily equity market returns were associated with increases in 10-year bond yields (figure 1). That seems logical, given that periods of economic growth would also tend to be accompanied by rising long-dated yields.

Fed keeps loose reins on recovery

Amid the steadily rising bond yields and the quickly recovering American economy, the US Fed chose to do nothing at its March meeting, as widely expected. It reiterated its plan to keep the Fed Funds interest rate between 0% and 0.25% because of concerns about squeezing any economic recovery by prematurely increasing borrowing costs for governments, businesses and households. Fed Chair Jay Powell went as far as to say that short-term interest rates should stay where they are until at least 2024. That's a big call. Three years is a long time, and we've seen how quickly these forecasts can change. Yet the sentiment is stark: the Fed wants to keep loose reins on the US recovery for as long as it possibly can.

This path is possible as long as inflation doesn't get out of control. It seems likely that people will want to make up for lost time after a year of house arrest. Yet it will depend on whether they feel safe to get out and spend – both financially and physically – and whether they have the ability to do so. The coming spike in inflation should prove transitory, in our opinion, because there are many stronger, longer-lasting economic trends that are keeping a lid on inflation (these are explained in greater depth in our recent Investment*Update* on inflation).

Higher interest rates hurt many 'growth' companies' share prices disproportionately, since more of their value comes from the higher profits they are expected to earn far in the future, which are now discounted into today's

Fed Chair Jay Powell went as far as to say that short-term interest rates should stay where they are until at least 2024. The sentiment is stark: the Fed wants to keep loose reins on the US recovery for as long as it possibly can.

Figure 1: The effect of long-dated bond yields on US equities

Higher equity market returns are associated with increases in 10-year bond yields – this makes sense, as periods of economic growth also tend to be accompanied by rising long-dated yields.

	1962–1970	Since 1964	Since 1991	Since 2010	Since Aug 2020 trough in 10-year yield
10-year yield rises	0.0%	0.0%	0.2%	0.4%	0.4%
10-year yield falls	0.0%	0.0%	-0.2%	-0.3%	-0.1%

Source: Refinitiv, Rathbones.

Past performance is not a reliable indicator of future performance.

price at a higher rate. But interest rates are being pushed higher because of greater forecast economic growth and moderately higher inflation. That's not exactly a bad message.

In short, it's not rising yields themselves that can be negative for equity markets, but the reasons why they are rising. If yields are rising because of improving prospects for growth and diminishing prospects of disinflationary pressures, equities are likely to rise. If yields are rising because the market expects the central bank to tighten monetary policy beyond what the economy can bear – or be forced into such a tightening by spiralling inflation – then equities may struggle.

For all the talk of runaway inflation, it is important to note that market expectations of long-term inflation are no higher today than they were at the start of the year. The Fed committee that makes interest rate decisions are unanimous in the view that it's likely to be years before inflation and unemployment conditions are back to a level that meets their criteria for raising rates (figure 2).

As for 10-year yields, we think the central bank would allow them to continue to rise. By year end, 2% would be consistent with a number of analytical frameworks as well as the Fed's long-term guidance. But we don't think it is likely to tolerate another significant rise in real, or inflation-adjusted, yields.

What are the risks?

The key risk to this sanguine view would be a surprising upward spiral in inflationary pressure – a sustained rise well above 3%. Our analysis suggests equities would struggle on a sustained rise in inflation towards 4%, but that would depend on whether GDP growth stays low. We don't think this is likely, but there is uncertainty and we will be looking out for signs of:

i. behavioural change – households and businesses save less than ever before because they now assume the government will always bail them out
ii. greater damage to the supply-side of the economy than anticipated
iii. frontloaded rises in the US minimum wage to $15 an hour (though now taken off the table by the Democrats, at least until the next fiscal year)
iv. unanticipated further fiscal stimulus beyond the $1.9 trillion recently passed, not prompted by deteriorating conditions.

Investing in higher-quality cyclicals

From last summer, we felt it made sense to start tilting away from the more expensive end of the equity market – i.e. defensive growth companies that have benefited most from the pandemic – and introduce some higher-quality stocks in areas that stand to benefit from a broader economic recovery (cyclical sectors). These higher-quality cyclicals tend to sit halfway between growth and value (the latter dominated by bombed-out cyclical shares whose prospects rest solely on the COVID recovery).

Yields could well continue to rise along with inflation over the next few months, and, as noted above, that is likely to weigh on growth companies. Still, we don't think it makes sense to chase the recent enthusiasm for COVID reopening stocks. Although the better-quality cyclicals we favour are no longer trading on discounts, we don't think this will stop them from delivering good returns for a lower level of risk as recovery continues.

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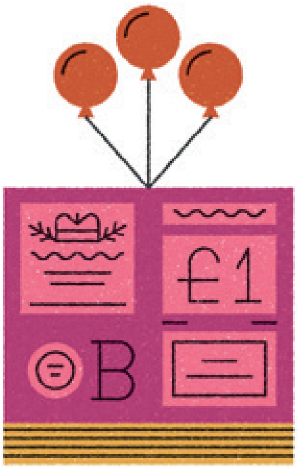

Figure 2: US, UK and German unemployment rates (%)

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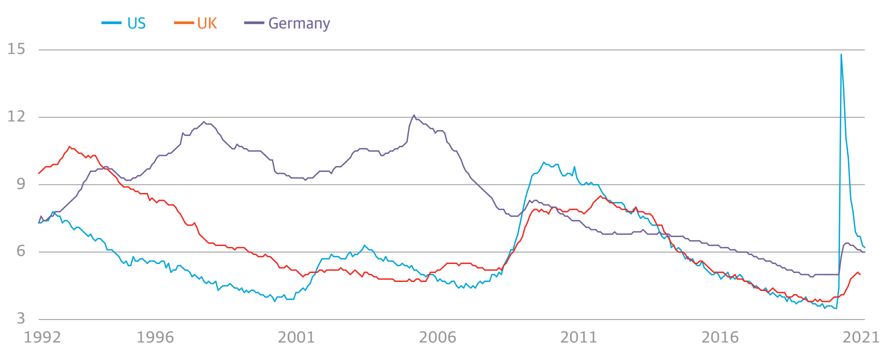

Source: Refinitiv, Oxford Economics.

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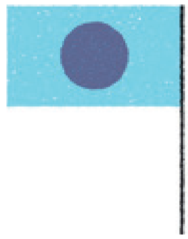


Japan is benefiting from a rejuvenated global economy

Japan's stock market – which tends to do well in global recovery phases – has been a key beneficiary of hopes for a rebound this year as the world gets vaccinated. With a large proportion of companies in industrial sectors that should benefit from a rejuvenated global economy, Japanese equities have reached levels not seen since the nation plunged into a deflationary bust 30 years ago.

Showing resilience

Japan's stock market today is underpinned by an abundance of inexpensive, good-quality and technologically advanced companies. Its resilience since the nadir in March 2020 can be attributed in large part to a favourable combination of factors: significant weightings in sectors that are sensitive to global economic and trade cycles (cyclical) but also companies with characteristics of 'growth' and 'quality' (especially companies with low levels of debt and high cash balances) as well as stable and secure dividends.

One caveat is the strength of the yen – this can be unhelpful for exports, increasing their price in foreign currency terms and making the proceeds less valuable when translated back to the home currency. What the yen will do in the next few months is anyone's guess, but we believe it is likely to appreciate against the dollar over the medium to longer term (see our dollar article from last quarter's Investment*Insights*). This could create some headwinds for Japanese exporters in the months and years ahead.

However, our analysis shows that the correlation between moves in the yen and Japan's equity performance has broken down substantially since 2019. It is no longer statistically significant. Improving corporate governance standards and growing interest in Japan's stock market from international investors are also supportive.

For long-term global investors, Japan offers exposure to an interesting structural productivity growth story – which is still often overlooked (as it was when we wrote about Japan in our July 2018 Investment*Insights*). Its GDP growth per capita has been strong, in no small part due to a thoughtful and wide-reaching series of structural reforms. Return on equity, a measure of the value being delivered to shareholders, has improved dramatically over the last decade. And earnings growth has outstripped that of Europe many times over.

The issues of an ageing population and low birth rate are headwinds to Japan's nominal GDP growth, but that's not what drives profits, especially if you earn them overseas. Japan's oversized national debt could be putting investors off too. However, we don't see these factors negating the benefits of the country's great strides in corporate reform, its thriving service industry and global leadership in digitalisation.

Passing on the baton

Japan's new Prime Minister, Yoshihide Suga, is continuing his predecessor Shinzo Abe's bold approach in strengthening the economy by rolling out plans for public support for digitalisation. This follows Abe's 'three arrows': fiscal stimulus, structural reform and monetary easing to generate inflation and boost growth.

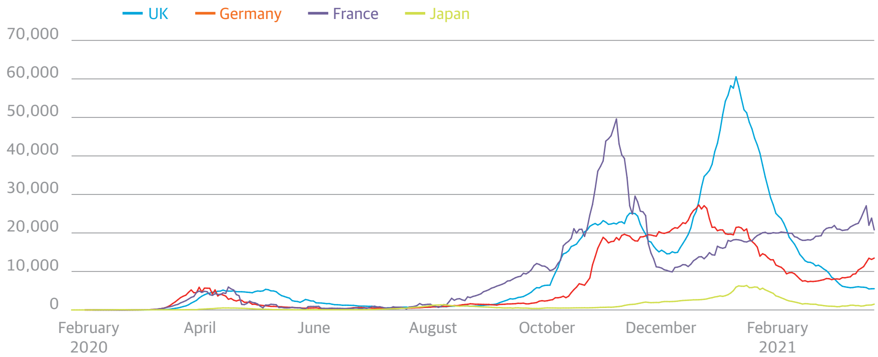
In October 2020, it was confirmed that the country will be committing to reach net zero carbon emissions by 2050, helping the equity market remain attractive as investors focus increasingly on sustainability.

In its handling of the pandemic, Japan has performed relatively well, with one of the lowest infection rates across the developed world (figure 3). The state of emergency at the start of 2021 helped to bring down the rate of new cases, although domestic economic activity has been curtailed during the first three months of 2021, owing to the restrictions on movement. Still, the country's economy should benefit from the strong recovery across the rest of Asia.

Attention will turn to Tokyo this summer and the delayed Olympic Games – an event that will look very different to those in the past. With the world coming to terms with the effects of a global pandemic, Japan looks well placed to build on its own resurgence.

Figure 3: Daily confirmed COVID-19 cases (five-day moving average)

Japan has performed well in its handling of the pandemic, and its stock market has been a key beneficiary of hopes for a rebound as the world gets vaccinated.



Source: Refinitiv.

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Recovery hopes are a shot in the arm for the UK stock market

The UK's impressive vaccine rollout and subsequent dramatic fall in COVID-19 cases, as well as additional support measures announced in the Budget, are driving confidence that the government will manage to stick to its reopening plan. We believe this roadmap gives the country a fighting chance of seeing an early uptick in economic activity, at least compared to the rest of Europe, and should continue to provide a supportive environment for UK equities.

The past year has undoubtedly been challenging for the UK economy, which shrank by a record 9.9%. The country's rapid vaccination programme has boosted recovery hopes, and the Office for Budget Responsibility has upgraded its forecast: it now expects the UK economy to recover to its pre-pandemic size by the third quarter of 2022 – six months earlier than it predicted in November.

We see scope for UK equities to outperform in the short term, as overseas investors who have fled the UK in recent years start to dip their toes back in. The pound could also continue to rally from its historically depressed levels over the long term, and that additional boost for the returns of overseas investors could draw more in. Still, we don't expect a flood of investment into UK equities and the valuation gap relative to other developed markets looks likely to remain wide.

Budget booster

Chancellor Rishi Sunak outlined a swathe of additional stimulus in the March Budget (see our Budget update for more details). Due to the protracted timelines around the lifting of lockdown restrictions, the government has extended its support for workers and businesses. With tax and spending decisions together to tally almost £60 billion in stimulus over the 2021–22 fiscal year, plans were also laid by the Chancellor to start rebalancing the books. The largest tax rise announced at any budget since 1993 was thus pencilled in. Unfortunately, this is likely to coincide with the moment that the economy should be just about to get back on track.

By international comparison, the UK government rolled out an extremely generous support programme in 2020 (figure 4). But it needed to – the UK had the second-worst economic fallout from COVID-19 among the 42 developed and emerging countries that we monitor. It has also suffered the second-worst health outcome to date, as measured by per capita deaths from the virus (after Belgium).

The UK has a larger consumer services sector than most other countries, so it's been more sensitive to lockdown measures. Key industries in the UK were already ailing before the pandemic, while the private sector is also more indebted than that of other countries, increasing its fragility and limiting its propensity to bounce back.

Freeports or hidden costs?

In his Budget, Mr Sunak also announced plans for eight new freeports, which are typically located around shipping ports or airports. As the name suggests, any goods that arrive from abroad are free from tariffs that are usually paid to the government. These tariffs are only paid if the goods leave the freeport and are moved elsewhere in the UK. Otherwise, they're sent overseas without the charges being paid.

Companies within the freeports benefit mainly from cheaper input costs, but they will also benefit from tax advantages, including a reduction in the tax they pay on existing property and new buildings. Employers will also pay reduced national insurance for new staff.

It's hoped that the initiative will regenerate deprived areas by increasing manufacturing, creating jobs and encouraging investment. However, the evidence for their efficacy is decidedly mixed. Their success is dependent on access to infrastructure, skilled labour and capital within the zone, as well as how quickly an agglomeration of interconnected industries can become established. Some opponents argue that freeports don't boost employment overall and that transferring economic

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Figure 4: Direct spending related to the recovery (% of GDP)

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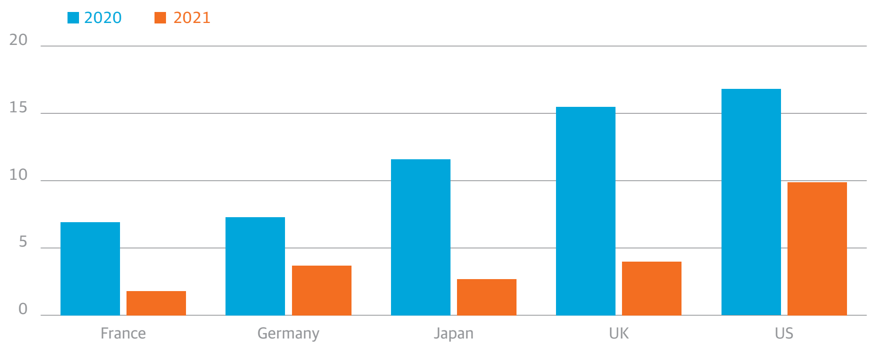

Source: IMF, gov.uk, Deutsche Bank, Refinitiv, Rathbones.

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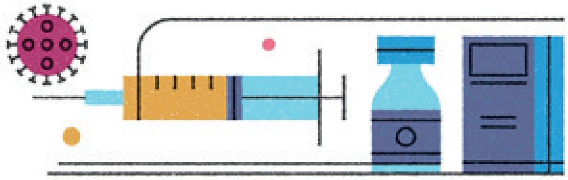

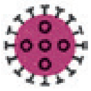

activity from one area to another comes at the expense of the taxpayer. Others also fear that the freeports could facilitate an increase in tax evasion, corruption and crime. UK freeports are nothing new. The EU did not prohibit them and they have been used in Liverpool, the Port of Tilbury and Glasgow Prestwick Airport. There have been seven freeports in use between 1984 and 2012, when UK legislation permitting them was not renewed.

Closing the gap

In the current environment, UK equity valuations look attractive compared with foreign equities across various measures. The gap between the prices of UK and overseas equities relative to their book value (assets minus liabilities) has widened to a degree not seen since the 1970s, when the UK had to ask the IMF for a bailout.

This gap was very small on the eve of the Brexit referendum, and widened as overseas investors shunned UK allocations to an extent never before recorded by surveys of institutional fund managers. But the widening gap was about far more than Brexit. The index's bias towards two structurally impaired sectors – financials and energy – hasn't helped, nor has its exposure to travel and leisure since the pandemic struck

With the most adverse Brexit scenario avoided, a strong global growth backdrop and a first-class vaccination programme, we expect some of that valuation gap to close and the UK to begin to outperform. However, we do not expect it to close entirely. The UK economy is fragile and more at risk of long-term scarring. Large exposures to financials and energy are likely at some point to begin to drag again.

The FTSE 100 no longer has the stable dividend that investors used to rely on (figure 5). Its exposure to industries such as oil and gas and mining may also be a concern for investors who are more focused on incorporating environmental, social and governance (ESG) issues into their processes. Some companies within these sectors could find themselves on the losing side of the low-carbon economy over the long term.

First small steps in a long journey

While a Brexit deal is good news, 80% of the estimated loss in trade from cutting ties with the EU stems from non-tariff barriers to trade, which the agreement does little to resolve. Moreover, the fog of uncertainty is yet to disperse over the UK's outsized trade in services. Negotiations are continuing on several important 'mini-deals', covering issues such as cross-border financial services and the portability of accreditation to other professional services, which could all affect UK equities.

Meanwhile, the Budget brings stimulus today, but tightening further down the line. The risks of baking in a permanent economic loss could begin to weigh on the pound, but long-term currency valuation frameworks suggest the outlook is still one of appreciation. Shorter term, forecasting currency moves is just guesswork. As for UK-listed equities, we see better prospects for companies that earn their revenues overseas compared to those that are reliant on a recovering UK economy.

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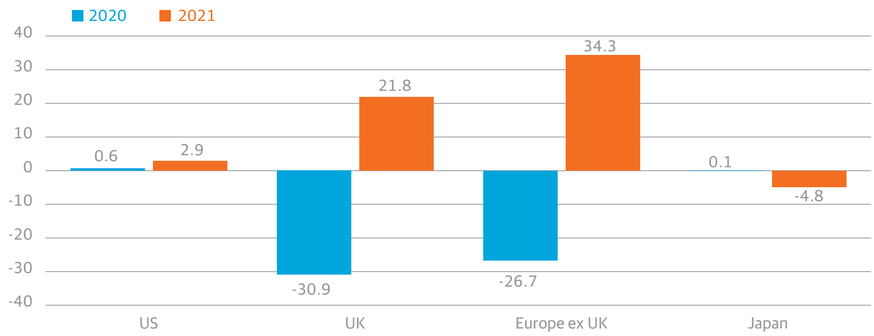
Figure 5: Expected year-on-year growth in dividends (%)

Many UK companies suspended dividend payments in 2020 due to the challenging conditions caused by the pandemic.



Source: Refinitiv.

Past performance is not a reliable indicator of future performance.

Is the UK finally going green with its new sovereign bonds?

One Budget announcement that seems to have been almost universally welcomed is the news that the UK is going to start issuing green bonds. The National Savings & Investments (NS&I) scheme will issue green savings bonds targeted at everyday savers. And at least £15 billion of green sovereign bonds (so-called 'green gilts') will be issued in 2021–22. The money raised will help fund Prime Minister Boris Johnson's 10-point public investment plan for a "green industrial revolution". This envisages that investing in clean energy, transport, nature and innovative technologies will kickstart the UK's journey towards net zero greenhouse gas emissions by 2050.

With other countries already issuing green sovereign bonds (figure 6), it seems the UK government has finally woken up to the idea that these investments could help it meet its climate change goals and objectives. The timing is opportune. The announcement should boost the government's green credentials ahead of the next UN climate change summit (COP26) in Glasgow in November.

There's a lot still to be decided

We've been lobbying for green gilts for years so we're delighted they're on the way at last. But we eagerly await more details. The rules governing the green gilts (and also the savings products) haven't been finalised. We don't yet know how the money raised can be spent or how the government plans to report on that spending and its environmental impact. This framework matters. If the government's definition of 'green' is cast too wide or if it isn't transparent enough about the lasting benefits of the money raised, this could end up undermining investor confidence in the initiative. And, in turn, this could dilute its environmental impact.

How popular will the new investments prove? There's already been some scepticism about the rate of return on offer from the NS&I green savings bond (the NS&I pays as little as 0.01% interest on some of its accounts at the moment). So the yields provided by the green gilts may prove modest compared with traditional gilts of a similar maturity.

But the rates of return may not be a deal-breaker. The Prime Minister is explicitly linking his 10-point investment plan with a "green recovery" from the economic damage inflicted by the pandemic. People may like the idea that the new green investments offer opportunities to invest in the country's future in a green way. (This evokes memories of the sense of civic duty that encouraged people to invest in war savings during World War I and World War II.)

ESG approaches gaining traction

Big bond investors (like ourselves) are seeing huge interest in investment approaches that help meet ESG goals. This impulse has gained such traction that the Bank of England itself recently came under fire to sell out of its bonds issued by oil and gas companies that it holds as part of its quantitative easing (QE) programme. MPs recently wrote to governor Andrew Bailey, claiming that the central bank risks 'creating a moral hazard by purchasing high-carbon bonds and providing finance to companies in high-carbon sectors'.

All this suggests that there's likely to be lots of buying demand for the green gilts when they appear. If this happens, this should encourage more companies and organisations to start issuing green bonds as they recognise the extent of the appetite for such securities. In our view, this should help broaden and deepen our green bond opportunity set. In particular, we hope to see more sterling-denominated green bond issuance as this has been pretty rare so far. Get ready for greener bond markets!

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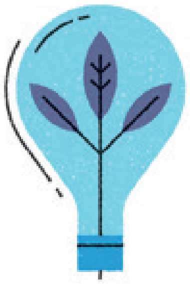
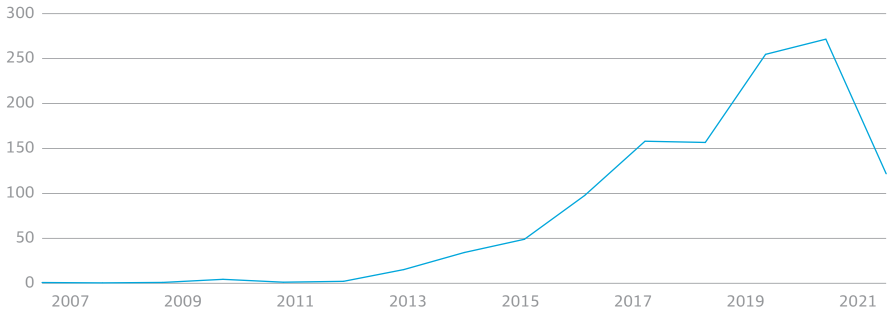


Figure 6: Global green bond issuance to date ($ billion)

Annual green bond issuance had been growing year on year, but levels dropped off in 2020–21 due to disruption caused by the coronavirus crisis.



Source: Bloomberg, Rathbones.

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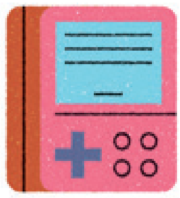


Why we need to stop sweeping e-waste under the carpet

Rathbones' stewardship director Matt Crossman takes a look at the problem of e-waste, a difficult challenge facing businesses, policymakers and investors in the move towards a more responsible capitalism.

There's a fine line between a robust product, and a product so robust no one ever needs to replace it. This is the conundrum at the heart of today's short-term capitalism and one which came into sharp focus when I recently visited a company that produces a sector-leading safety product. This product was truly best in class – it did the job better and was more trusted and more reliable for longer than its competitors. Yet the company has failed to grow, and was eventually bought out at a fraction of its real value.

The product was too good; it lasted too long and was too reliable. Sure, that's nice – but it isn't what investors want to hear. People bought it once, and then didn't need the company in any meaningful sense. There was no ongoing revenue stream, and investors demand quarterly data and ever-increasing profits.

Strange incentives

These are the strange incentives that lead us to make unsustainable or sub-optimal choices. Consumer goods companies are incentivised to make their products wear out faster, and it's a real problem. Figure 7 shows how much waste from discarded electronic appliances such as mobile phones, computers, televisions and electrical appliances – collectively known as e-waste – is being generated around the world. Alongside that, it shows the comparatively small amount of recycling of this waste that's currently happening.

There are four main ways companies can build in a faster replacement cycle - what's known as built-in obsolescence: 'contrived durability', software updates, 'perceived obsolescence' and prevention of repair.

Here are a few examples, which may sound familiar. Contrived durability is a weakness in a key part of a product, leading to reduced durability and regular repair or replacement. Two years ago, in the same week baby Crossman entered the world, our three-month-old washing machine broke down. Newborns require a lot of clothes washing so I was straight onto the repairman who gently broke the news that I was his fifth repair of the week on this model with this part. What was perhaps unusual about this example was that the machine was still under warranty.

You've probably had the experience of a barely old phone that can't run the latest versions of the manufacturer's operating software. These almost untarnished products can do all the things that the most up-to-date device can, but they drive no revenue stream for the company and its shareholders.

Perceived obsolescence is a fascinating area. It's basically clever marketing, where companies create the impression that a device is obsolete when it actually has years of use left in it. Once again, mobile devices are right in the middle of this issue. You have a smartphone that can perform tasks a, b and c; but this shiny new one has an extra megapixel camera, with a 5%-longer battery life. Smart marketing creates a need where there is none, using up more raw materials and creating more waste.

Making obsolescence obsolete

How can we address this deeply embedded and counterproductive characteristic of our economic system? One concept that is gaining traction involves changing the nature of ownership to reduce these perverse incentives.

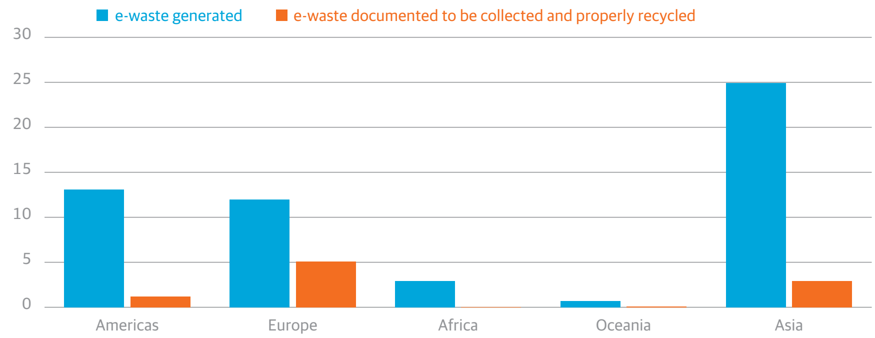
Look at my washing machine, for example. Imagine that instead of buying a product, I bought a 'product service system' – a mixture of product and system. Instead of paying £400 outright for the product every three years and then for all the repairs, I could pay £10 a month and £1 a wash. This would mean the company has an incentive to deliver me a machine that works more reliably and is more easily repaired.

This is just one of many potential solutions that may help businesses and economies grow, providing jobs and generating sustainable returns for investors – all while looking after the planet.

In future editions of Investment*Insights*, we'll continue looking at some of the challenges and opportunities of moving towards a more responsible capitalism.

Figure 7: e-waste and recycling by region (millions of metric tons)

Consumer goods companies are incentivised to make their products wear out faster, generating vast amounts of waste from electronic appliances.



Source: Global E-waste Monitor 2020.

Past performance is not a reliable indicator of future performance.

Financial markets

As vaccines were rolled out and the economic outlook improved, cyclical sectors (those that tend to perform well when the economy is expanding, such as financials and energy) performed well. The rapid progress made by the US and UK in their vaccination programmes means they're likely to be able to reopen their broader economies faster than other areas, including Europe, where vaccinations have lagged.

Tech stocks had a bumper 2020, buoyed by locked-down workers and consumers. But rising bond yields during the quarter weighed heavily on these high-growth companies, whose valuations have been underpinned by low rates. As yields go up, those expected future cash flows of growth companies look less appealing relative to the higher yields available now.

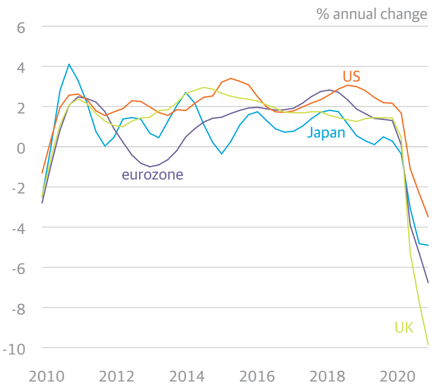
Bond yields spike on inflation fears

Longer-dated government bonds sold off sharply (yields rose) amid concerns about an increase in inflationary pressures as the global economy starts to recover from the pandemic. Inflation is detrimental to bonds because it erodes the real (inflation-adjusted) value of their fixed interest payments. Corporate bond yields also rose over the quarter, but the additional yield they offer over less risky g$$overnment bonds remained at historically low levels, with investors remaining sanguine about the risk of corporate defaults.

Gold has lost some of its attraction as a safe haven and its price has been falling steadily since the start of the year. Rising bond yields also make it relatively less attractive.

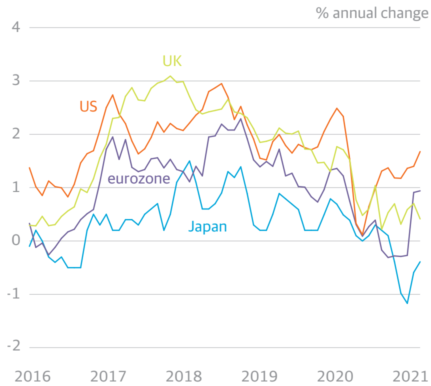
Sterling reached a post-Brexit high above $1.40 in February amid the successful start to the vaccination programme and improving UK economic outlook. But the pound failed to make a decisive break higher, with many longer-term uncertainties remaining over the future of trade with Europe and the UK economic outlook.

GDP growth



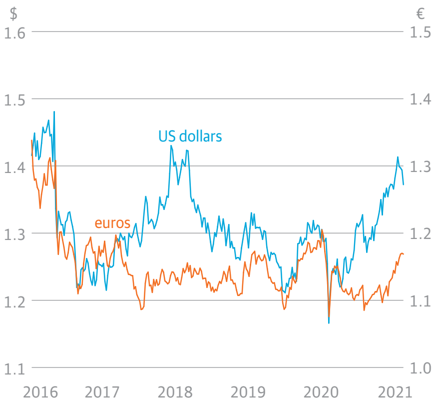
Source: Factset and Rathbones.

Inflation



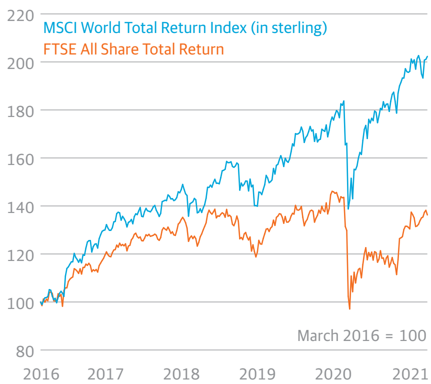
Source: Factset and Rathbones.

Sterling



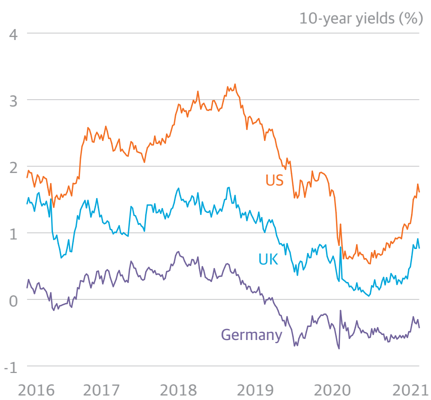
Source: Factset and Rathbones.

Equities



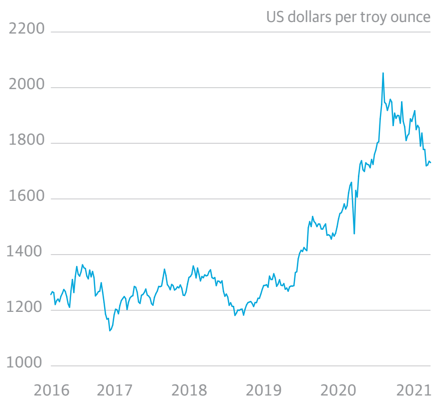
Source: Factset and Rathbones.

Government bonds



Source: Factset and Rathbones.

Gold



Source: Factset and Rathbones.

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Important information

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