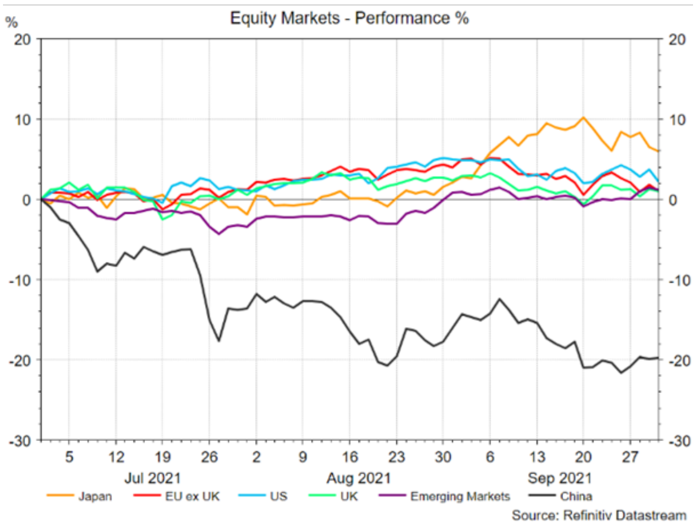
marketmatters

Figure 1



The third quarter of 2021 has been one of moderation for most equity markets around the world (as seen in Figure 1). The exception to this has been the Chinese equity market which has sold off considerably following worries over a slowdown in the Chinese economy, the overt governmental interference with businesses, and the increasingly common mantra of 'politics before markets' pressed by the Chinese government.

Naturally these worries spooked investors but there are still plenty of positives to take from the rest of the world in quarter 3: The recovery out of the covid-19 recession continued (albeit at a slower pace than seen earlier in the year); corporate earnings around the world continued to grow positively; and the vaccines and population immunity continued to show positive influence as hospitalisations and deaths remained low whilst countries continued their path to pre-covid normalisation.

In other news, bond markets performed poorly during quarter 3 on the back of the high levels of inflation that have been generated in 2021 so far — as we have noted a few times, bonds typically perform poorly in environments of high inflation for two reasons:

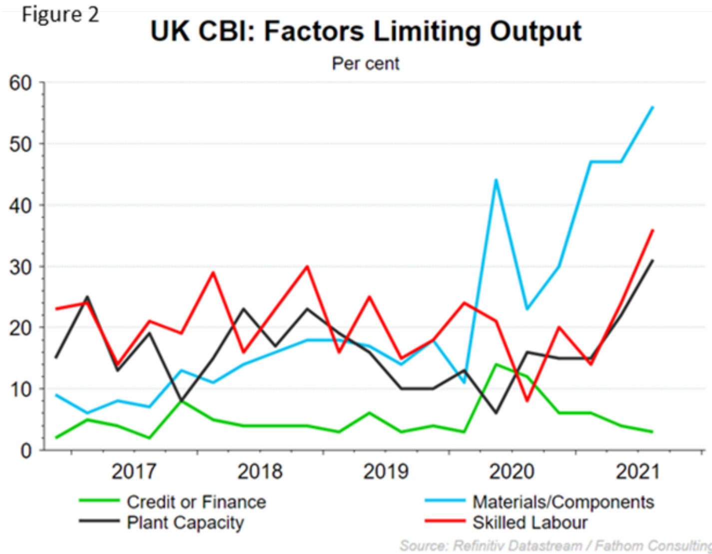
The first is because inflation erodes away real investment returns, so assets which typically have a lower return profile tend to be less desirable leading to investors selling them and sending their price down.

The second reason is because of the expected actions of the central banks. Typically, if inflation is running too high, central banks will seek to bring it back down to manageable levels. They do this through various means but the main tool in their toolbox is to increase interest rates. When rates go up the price of the bonds will fall as the price of a bond is inversely proportional to the bond's yield.

Much of the high level of inflation we are experiencing is due to supply side effects as price of inputs to the production of a good or a service have soared due to supply chain damage incurred throughout 2020 & 2021. You can see notable real world supply chain issues in many sectors & regions around the world, from the labour shortage to the tanker blockages in the Suez Canal.

Figure 2 shows the results of a survey conducted by UK CBI and highlights the factors that manufacturers see effecting the output their companies can generate. Effectively, this is a 'real -world' piece of data which acts as a proxy to show which factors are most heavily influencing the supply-side price inflation caused by the supply chain damage incurred in the last couple of years.

Figure 2



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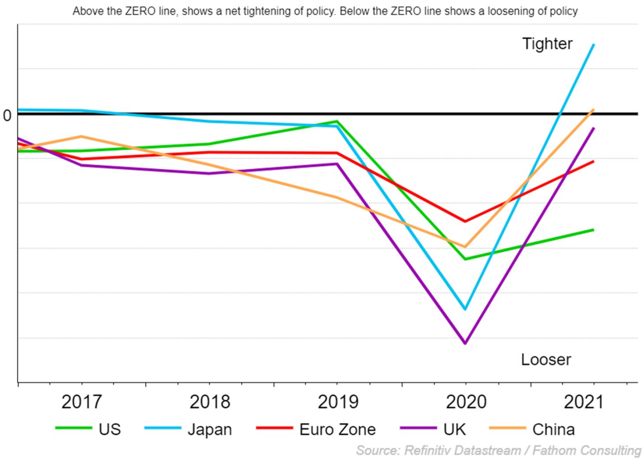
We see that materials/components are the greatest concern for producers with the scarcity and therefore the costs of inputs to production increasing notably in the last year.

It wouldn't have escaped your attention that during the last few months, energy prices have soared but along with this the prices of other factors of production such as raw materials or microchips have also increased drastically. All of this is largely due to supply issues and as such has posed a considerable issue for various industries as they have to pay 'whatever it takes' in order to get their hand on the factors of production needed to produce their goods and services.

It is important to note that not all hope is lost though! In the past, companies have proven to be exceptionally adaptable in trying times and in quarter 3 of 2021, many have been investing heavily in order to try to boost capacity, bring in more skilled workers or implement new technological solutions to try and help address some of these issues.

In quarter 3, as price increases started to materialise, central banks & governments began to change their tune on much of the pro-stimulus rhetoric which has been exceptionally effective at mitigating much of the economic and financial damage throughout the pandemic so far.

Figure 3 **Fathom Macroeconomic Policy Indicator**



Here, in Figure 3, we use the Fathom Macroeconomic Policy Indicator to depict whether macroeconomic policy, accounting for both fiscal and monetary stimulus, is either 'loose' or 'tight' in various regions.

When policy is described as 'loose' it is essentially designed to stimulate the economy out of a recession and achieve appropriate levels of economic growth and inflation. This may be through the implementation of low interest rates or quantitative easing on the monetary policy side, or through tax breaks and government spending schemes such as the Furlough Scheme on the fiscal policy side. When policy is described as 'tight', it is designed to put the breaks on an economy, slowing down the rate of economic growth and inflationary pressures.

When you weight up both fiscal and monetary stimulus in various regions, the Fathom Macroeconomic Policy Indicator for some regions -- including the UK – shows a net effect of 'tighter' policy which should start to slow down economic activity, and the pace of inflation. This is a marked change from anything we have seen in years and shows policy makers are starting to change their stance on their stimulating policies, as the spectre of inflation began to loom larger in quarter 3.

Portfolio Performance

The table below shows performance of Gemini Asset Management's (GAM) discretionary risk rated portfolios over the course of the last 5 years. The table is based upon GAM's existing discretionary models looking back and so only takes into account the asset allocation and fund changes made since March 2017 i.e. since the models were created. The data prior to March 2017 simulates the performance based on the historical asset allocation for risk rated portfolios constructed by our independent actuary, Dynamic Planner, and uses the respective Investment Association Sector averages for the portfolio's holdings The table compares performance of GAM's Discretionary Models against the FTSE All Share to demonstrate the importance of spreading risk through diversification. Whilst a direct comparison of GAM's portfolios with an equity index such as the FTSE All Share is not like for like it does give an indication of volatility and performance differences on a risk-adjusted basis.

Discretionary Performance (%) to 30/09/2021										
Name	**3 months**	**Sector**	**YTD**	**Sector**	**1 Year**	**Sector**	**3 Years**	**Sector**	**5 Years**	**Sector**
GDP 3 Historical IA Sector	1.4	0.1	2.3	1.7	6.5	6	13.9	11.8	23.9	16.5
GDP 4 Historical IA Sector	1.6	0.9	4	4.5	10.2	12.2	19.3	15.3	32.5	25.6
GDP 5 Historical IA Sector	1.7	1.3	5.6	6.6	14.2	16.6	25	21.3	44.6	39.4
GDP 6 Historical IA Sector	1.3	1.3	6.6	6.6	16.5	16.6	27.8	21.3	53.1	39.4
GDP 7 Historical IA Sector	1.1	1.3	7.6	6.6	19.2	16.6	30.9	21.3	62	39.4
FTSE All Share	2.2		12.4		27.9		9.5		29.8	

Source: Financial Express Analytics data 30/09/2016 – 30/09/2021. Past performance is not a reliable indicator of future results. All figures given do not include any initial, on-going or product provider fees.

The sectors used as comparators with the portfolios are the respective Investment Association Mixed Investment sectors. Gemini's GDP 3 is compared to the IA Mixed Investment 0-35% Shares sector; GDP 4 is compared to the IA Mixed Investment 20-60% Shares sector; and GDP 5, GDP 6, and GDP 7 are compared with the IA Mixed Investment 40-85% Shares sector.

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

Asset Allocation and Fund Review:

The Gemini Asset Management investment team reviewed the existing asset allocation model in conjunction with the recommendations and capital market assumptions put forward by our independent actuary, Dynamic Planner. As a result of this there were no changes made to the asset allocation models or the funds during the third quarter of 2021.