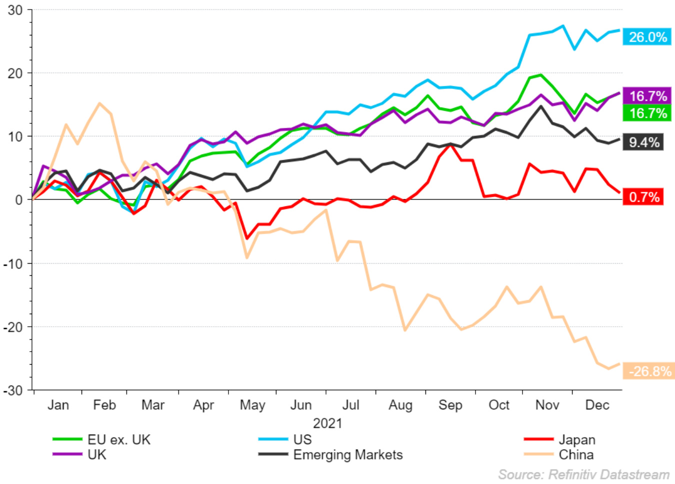
market matters

The themes that bubbled throughout 2021 continued in the final quarter — Covid-19, inflation, supply chain issues, high equity valuations, central bank policy changes and plenty more to keep financial journalists in the jobs for a little while yet.

Chart 1 Equity Market Performance (%)



Thankfully, in some cases, the context in which these themes are being discusses is different to this time last year — in 2021 we have just had one of the greatest rebounds of economic growth in history!

Chart 1, shows equity market performance in major regions throughout 2021, using the Datastream Total Market equity indices.

As you can see most equity market continued to rally, with the US standing out head and shoulders above the rest. The equity markets shown in Chart 1 have been buoyed considerably throughout the year by the strong earnings generated by companies, on the back of strong consumer demand following the great reopening of society throughout 2021.

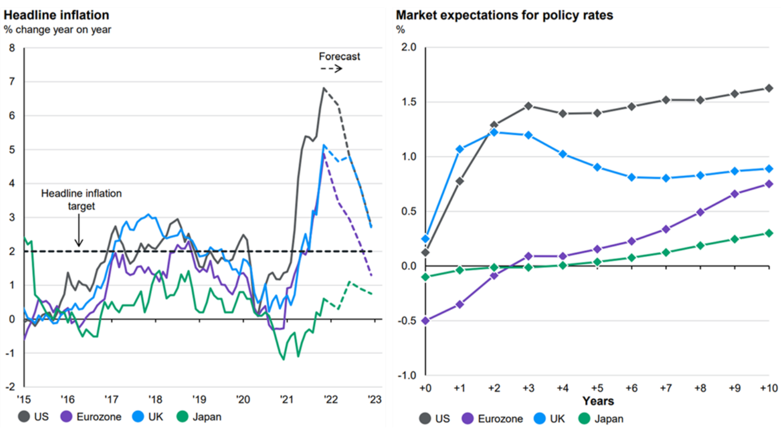
However, there have been notable bouts of volatility too, especially at the end of November when markets tried to digest news on the Omicron variant. A decreased vaccine efficacy and higher transmissibility led to a spike in equity market volatility but as data on the variant indicated a lower incidence of severe disease, there was once again hope that the world economy may continue it's path to recovery.

Fixed income performance over the fourth quarter of 2021 was less to write home about as markets continued to perform poorly due to rising inflationary data and hints that central bank policies may become less accommodative in the future.

The most salient thing that weighed on markets in the fourth quarter of 2021 was inflation, and considerations of how central banks may combat it after the US reached the fastest levels of inflationary increase in 40 years!

For the majority of the year central banks insisted that inflation would be transitory and that they would prioritise the managing unemployment over the ill effects high levels of inflation can impart on an economy.

Chart 2 – Source: JP Morgan Q4 2021 Guide to Markets



On the left hand side of Chart 2, we can see spikes in the level of inflation in 2021, with the UK posting a figure of 5% and the US coming in with a huge 6.8%!

The worries of inflation being more 'sticky' and less transitory than originally expected have been acutely felt with continued supply chain issues as producer prices and delivery times continued to soar in the final quarter.

This level of inflation, and the inflation forecast to last throughout 2022, led to action as policy makers. On the right hand side of Chart 2, the UK interest rate has already been raised to 0.25% and the US is expected to take interest rates closer to 1% by the end of 2022 — this time last year, the Fed had been banking on keeping rates at 0% until the end of 2023!

This hasn't gone unnoticed by markets, and the change in stance on previously accommodative central bank policy will almost certainly lead to an interesting and challenging 2022.

Gemini Asset Management Limited
Gemini House, 71 Park Road, Sutton Coldfield, West Midlands B73 6BT
T: 0800 255 0123 E: info@gemini-assetmanagement.com W: www.gemini-assetmanagement.com

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.

Discrete Performance (%) to 31/12/2021										
Name	3 months	Sector	YTD	Sector	1 Year	Sector	3 Years	Sector	5 Years	Sector
GDP 3 Historical IA Sector	0.8	1.0	4.4	2.8	4.4	2.8	18.2	16.1	23.1	17.7
GDP 4 Historical IA Sector	1.2	1.8	6.9	7.2	6.9	7.2	26.0	24.1	31.5	26.2
GDP 5 Historical IA Sector	1.7	2.7	9.1	10.9	9.1	10.9	35.1	35.3	42.7	39.7
GDP 6 Historical IA Sector	1.8	2.7	9.9	10.9	9.9	10.9	41.6	35.3	50.2	39.7
GDP 7 Historical IA Sector	1.6	2.7	10.5	10.9	10.5	10.9	47.8	35.3	58.0	39.7
FTSE All Share	4.2		18.3		18.3		27.2		30.2	

Source: Financial Express Analytics data 31/12/2016 – 31/12/2021. 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 IA Mixed Investment 0-35% Shares; GDP 4 is compared to IA Mixed Investment 20-60% Shares; and GDP 5, GDP 6, and GDP 7 are compared with A Mixed Investment 40-85% Shares.

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 changes made to the Discretionary Models during quarter 4 2021, which are outlined below. There are no recommended changes for the Advisory models this quarter.

Asset Class Changes										
Asset Class	Risk 1	Risk 2	Risk 3	Risk 4	Risk 5	Risk 6	Risk 7	Risk 8	Risk 9	Risk 10
Cash/Money Market	100.0%	55.0%	21.0%	15.0%	12.0%	8.0%	0.0%	0.0%	0.0%	0.0%
Fixed Interest	0.0%	33.0%	52.0%	40.0%	24.0%	15.0%	8.0%	7.0%	0.0%	0.0%
Property	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	0.0%	0.0%
UK Equity	0.0%	10.0%	14.0%	19.0%	23.0%	25.0%	35.0%	20.0%	15.0%	3.0%
North American Equity	0.0%	2.0%	8.0%	11.0%	17.0%	18.0%	15.0%	8.0%	6.0%	7.0%
European ex UK Equity	0.0%	0.0%	0.0%	5.0%	5.0%	6.0%	7.0%	7.0%	6.0%	0.0%
Japanese Equity	0.0%	0.0%	4.0%	4.0%	6.0%	7.0%	7.0%	7.0%	6.0%	0.0%
Asia Pacific ex Japan Equity	0.0%	0.0%	0.0%	4.0%	5.0%	9.0%	12.0%	23.0%	25.0%	27.0%
Global Emerging Markets Equity	0.0%	0.0%	0.0%	0.0%	5.0%	10.0%	14.0%	26.0%	40.0%	60.0%
Global Specialist	0.0%	0.0%	1.0%	2.0%	3.0%	2.0%	2.0%	2.0%	2.0%	3.0%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Fund Changes		
Sector	Sell	Buy
UK Equity	Troy Trojan UK Equity Income	Artemis UK Select
Japanese Equity	Baillie Gifford Japanese Equity Income	Fidelity Japan Index
Japanese Equity	Baillie Gifford Japanese	iShares Japan Equity Index

Asset Allocation Changes:

Given changes in sentiment towards fixed interest, we reduced exposures in most models with the difference predominantly moved into cash for the lower risk models. In Risk 7 & Risk 8 we reduced fixed interest in favour of developed market equity.

We increased our overweight position in cash due to the continued exclusion of property. Liquidity remains a major issue for traditional bricks and mortar property funds -- which had been forcibly & mandatorily suspended during the Covid-19 pandemic – and as such Gemini Wealth Management's (GWM) Investment Committee decided to maintain the underweight to property.

The changes to the models will result in the following allocations for each level of risk. Those highlighted green indicate an increased allocation, red a reduced allocation with the remainder unchanged.

Fund Changes:

UK Equity — Artemis UK Select replace the Troy Trojan UK Equity Income fund
We believe the Artemis fund will add greater diversification in terms of style and holdings in UK equity portion of the portfolios. This has been presented to and agreed by the members of the GWM Investment Committee.

Japanese Equity — Removal of Baillie Gifford funds in favour of currently held index funds
We believe there to be an opportunity to reduce portfolio costs by only holding a passive fund within Japan, allowing us to also benefit from any cyclical recovery. This has been presented to and agreed by the members of the GWM Investment Committee.