

What next for global markets? | Four perspectives



While the economic news has been more downbeat recently, there are still plenty of investment opportunities out there. Four of our managers explain how they are investing in the current economic environment.

The sharp global rebound following the coronavirus recession is stalling amid supply chain bottlenecks and rising inflationary pressures. While global growth reached unprecedented highs in the summer, momentum in the US and China – the world's two biggest economies – is now slowing.

Despite recent economic news being increasingly downbeat, it is important to separate the economic outlook from investment opportunities. We speak to four of our managers about the current macroeconomic environment in their respective regions and how they are investing against this backdrop.

T.RowePriceSM

US – T Rowe Price

Global economic conditions have been volatile and uncertain since the start of the pandemic. While the response from governments and central banks has been unprecedented, there are still plenty of unknowns.

Washington remains at an impasse on most legislation and there could be a significant shakeup in leadership at the Federal Reserve, the US central bank, which could bring more uncertainty.

Our team is keeping an eye on inflation, potential tax increases, and the supply chain as these factors will impact a continued economic recovery. With the tapering of household stimulus payments, we expect consumer spending to slow down, which could impact companies that have performed well over the last 12 months.

Going forward, it will be critical to continue seeking out companies that appear well-positioned with lasting competitive advantages in any market environment, while avoiding firms that face longer-term challenges.

At T. Rowe Price, we believe careful fundamental research will be necessary to find opportunities in the ongoing economic

environment. We will continue to search for investment opportunities in select areas of the market, utilising our bottom-up stock selection approach by working closely with our talented team of investment professionals to identify the most attractive opportunities across the US equity market.

T. Rowe Price manages the Omnis US Equity Leaders Fund and the Omnis US Smaller Companies Fund



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UK – Franklin Templeton

As we move past what is likely the worst stage of the Covid-19 pandemic, the secondary effects of this recovery are beginning to cause concern for investors. Stagflation (when inflation runs high while economic growth slows and unemployment rises) has become a potential threat to the recovery. Since economies have reopened, supply chain bottlenecks and rising commodity prices have caused inflation to rise as supply has not been able to keep up with excessive demand.

In the UK, rising energy prices are likely to drive inflation even higher going into next year. Rapid rises in wages fuelled by labour shortages will also add to inflationary pressure. The unemployment rate at 4.5% is testament to the effectiveness of government policy during the pandemic, but we remain vigilant as to how the employment backdrop evolves going into 2022.

With prices stabilising, central banks have suggested they are in support of raising interest rates to fight inflation, though this may not translate into policy changes. As of October 2021, investors are expecting two to three interest rate hikes in the UK over the next year. With UK gross domestic product 3% below its pre-pandemic peak and the government set to introduce tax rises and rein in its borrowing, raising interest rates could derail any further recovery.

In such volatile times it is as important as ever to remain focused on a robust investment process. At Franklin Templeton, we continue to seek out opportunities from across the UK market, ensuring that the bottom-up stock picking positions the fund with the best chance for success.

Franklin Templeton manages the Omnis UK All Companies Fund and the Omnis UK Smaller Companies Fund



Europe – Fidelity

The outlook for European equities is optimistic over the medium to long term, with accelerating vaccine rollouts improving the prospect of a meaningful reopening of economies.

Confidence is relatively fragile given the risk of new variants of Covid-19, but despite recent sub-par economic data and increasing worry from investors about China, we feel things will improve.

Europe is particularly exposed to a pick-up in global economic activity given its strong exports sector, which in turn is leading to good growth in corporate earnings.

While we have seen a strong rebound in corporate earnings, the well-documented pressures on supply chains and inflationary pressure on households increases the risk of an earnings disappointment in some sectors. The good news is that central banks have continued to signal their support, providing a positive backdrop for investors.

At Fidelity we continue to focus on companies with strong balance sheets that have a record for converting profits into cash and the potential to grow their dividends consistently over the next three to five years. Over the long term these companies remain positive in their outlook.

The European equity market is a diverse, international market with many global firms that have limited exposure to the European economy. To improve the diversity of the fund we have selected many globally orientated stocks where the outlook is not dependent exclusively on how the European economy performs.

Fidelity International manages the Omnis European Equity Leaders Fund

Veritas — Asset Management

Asia – Veritas

The prognosis for the Asian market for the next 12 months is not particularly inspiring. China's economy has started to slow down and it is likely that the rest of the world will follow. The pandemic has caused significant disruption to the global supply chain and it will take a considerable period of time to adjust.

Higher than anticipated energy demand and supply constraints have caused energy prices to soar while oil prices have climbed to multiyear highs. This may lead to higher inflation in the short term and cause the market to worry about higher interest rates.

Globally, company valuations feel high. With central banks set to reduce monthly bond purchases – known as tapering – the market environment is looking increasingly challenging to navigate.

However, it is usually in markets like this where we find opportunities. At Veritas, our focus is on leading companies that benefit from five themes: aspirational Asia, green Asia, connected Asia, healthy Asia and efficient Asia.

Our green Asia theme is a key focus at the moment. Asia is making big strides toward decarbonisation and we see many opportunities to invest in green energy there. Asia is the world's biggest manufacturer of solar power panels, wind turbines and electric vehicle batteries with strong leadership in technology and scale.

Opportunities also exist in e-commerce businesses in Asian nations outside China such as India, Korea and Indonesia. Healthcare in Australia also looks promising as the pandemic is easing globally.

Whilst the macroeconomic backdrop is likely to be challenging, from an investment perspective there are still plenty of opportunities in Asia, which we are excited about.

Veritas manages the Omnis Asia Pacific ex-Japan Fund

Find out more

All of our investment managers are looking to adapt the evolving market environment in order to generate attractive returns for you. Our funds are available as part of well-diversified portfolios that are rebalanced on a regular basis.

If you'd like to find out more information about these funds or have any questions about your investment portfolio, please visit our [website](#) or contact your financial adviser.

www.omnisinvestments.com

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