L&G Mixed Investment Funds

MONTH IN FOCUS

THE HEADLINES

- **The Bank of England is now the largest holder of UK government bonds (gilts)…**
- **…COVID-19 vaccine rollout continues…**
- **…but infections in India surge and the Indian variant of the virus begins to spread overseas.**

MARKET OVERVIEW

April was another strong month for risk assets as economic data continued to exceed expectations, with commodities and real-estate investment trusts (REITs) performing particularly strongly. In the UK, the Bank of England became the biggest holder of UK government bonds (gilts) as it continued its quantitative-easing programme, overtaking overseas investors, pension schemes and insurance firms. The COVID-19 vaccine rollout continued apace in the UK as the government looks set to stay on track for the data-dependent, scheduled easing of social-distancing measures. The same is true in the US, where Joe Biden completed his first 100 days in office in April, although the US is further ahead in terms of reopening in most states.

Commodity prices surged in April, with oil and copper benefitting from the ongoing global recovery. The rebound is also causing supply bottlenecks, with for example chip shortages affecting the tech sector. REITs had a second consecutive month of strong returns. Several equity markets experienced healthy returns, with the US being a standout performer as it continued its impressive vaccine programme. Turning to fixed income, sovereign bonds in developed markets experienced mixed performance, with several markets generating positive returns, such as the US and Australia, somewhat offsetting previous months' negative returns.

FUND PERFORMANCE REVIEW

The Mixed Investment Funds produced positive returns in April. The funds with more exposure to equities fared better than the funds with more bond exposure, as economies continuing to reopen was a key driver of strong equity returns.

We invested in the newly launched L&G Quality Equity Dividend ETFs in the Income Funds. The three ETFs follow indices designed by LGIM in partnership with FTSE Russell that seek quality in the underlying companies, looking for those with strong and consistent dividend characteristics while excluding those facing significant ESG risks.

We also added a position in South African government bonds in the mid-risk funds, which we consider attractive due to a steep yield curve (bond yields being much higher than cash rates) and after an increase in yields since January.

Lastly, we decreased our exposure to the Global Inflation Linked Bond Fund in the low-mid risk funds to reflect our view that we do not expect the pickup in inflation, which is reflected in market pricing, to be persistent as per the outlook below.

RECENT PORTFOLIO CHANGES

SOUTH AFRICAN BONDS, US DOLLAR

GLOBAL INFLATION LINKED BONDS, MEXICAN PESO

MARKET OUTLOOK

We have progressed through the early stages of the economic cycle, coming out of a deep recession; this is typically a very supportive time for equity markets. Over the short term, we expect the reopening of economies and a degree of normalisation. Policymakers have been supportive on both the monetary and fiscal fronts, and we expect this to continue over the medium term. Given this, we maintain our positive view on risk assets. Even if this cycle plays out more quickly than the previous one, we believe it's premature to expect equities to price end-of-cycle dynamics at this stage. The end-cycle is too distant and too uncertain, in our view, meaning recession risk is low.

The big talking point among investors in recent months has been inflation, particularly in the US. A sustained pickup in inflation would be a likely catalyst for central bankers to consider hiking interest rates. If the Federal Reserve tapers bond purchases or raises interest rates earlier and/or faster than what is currently priced into markets, this could lead to a selloff in both bonds and risk assets. However, we do not expect a sustained pickup in inflation beyond an initial rise in the transitory period, perhaps enhanced by some supply bottlenecks. We also do not think central banks will respond to this initial rise in inflation; in the unlikely event that we do see this, we believe it is more likely to occur in 2022. Therefore, despite the low starting point for yields, we hold a neutral medium-term view on duration following recent months' yield rises – i.e. we believe it is difficult to see bond yields rising significantly from here.

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