Prospect Wealth.

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Dear Client

2021 Midyear Outlook

We have come through the other side of the Covid-induced share market dip. In fact, since the severe downturn in share markets in February and March last year, major economies and investment markets have roared back and many investors have enjoyed healthy returns.

The world's major economy, the USA, suffered a 3.5% decline in gross domestic product in 2020 but is expected to grow by 6.4% this year and by 3.5% in 2022.

So - where to from here? Some commentators are worried about inflation coming back and reserve banks countering this by increasing interest rates. This would push up the prices we pay for most things and make borrowing more expensive – further reducing the money we have to spend and slowing the economy. This would have the effect that the Government's income falls and this could translate into reduced spending on health, education and other Government services.

However, most experts believe that while inflation will increase, it will be short-lived and when economies are fully opened up again, inflation will revert to a healthy 2% p.a.

So, the big picture looks positive and many investment managers have been investing with confidence in the sectors that will benefit from a resumption of long-term growth.   These sectors include the 'covid recovery' segments such as the financial, energy and travel companies. Many fund managers too have been investing in the long-term growth sectors such as cloud services, digital payments and streaming services – all powered by semiconductors.

I have also observed that many managers are placing more importance on companies that pay regular dividends. Dividends are a sign that the company is earning cash profits and realise they need to reward shareholders for investing in them.

Most of us are also invested in bonds as well as shares. These are like term deposits issued by Governments and companies but, unlike bank term deposits, bonds can be sold before the term expires.   While the returns are usually lower than for shares, bonds play an important role in our portfolios by delivering positive returns - even when share markets decline.

There was a concern that bond returns would be negative as interest rates inevitably rise. However, analysis shows that, while lower, returns from bonds are still positive during periods of rising interest rates.

Taking all this into account, the immediate future looks promising for investments

Read Full Client Update

As always, please contact me if you want to talk about your investments or if you want your investments reviewed.

Best regards

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