RAYMOND JAMES

Stay Optimistic

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"I was quiet, but I was not blind" - Jane Austen, *Mansfield Park*

The fifth month of 2021 will not go down as an important month for global investors. Most equity and bond market investors made some positive - but relatively modest - gains during May. And whilst COVID-19 vaccination progress across many countries has been notable over recent weeks, the general economic outlook across the U.K., United States and Europe has recently improved. Certainly underlying confidence for the rest of this year and into 2022 has improved over recent weeks.

Financial markets almost always look many months into the future. Over the last few decades one often quoted forward multiple was the 'rule of twenty' valuation target, which combined next year's equity market multiple plus the consumer price inflation indicator. Whilst the last thirty or forty years have seen plenty of opportunities to make attractively timed investments, this has been less statistically apparent over the last year, especially in recent months.

So how should investors move forward? Looking through other periods of time when such combined valuations were hard to justify, the best opportunities came from careful investment selections. Whilst the scope for material global emerging market shifts during the rest of the 2020s remains potentially highly impactful, the same could apply over the next six to twelve months in markets positively surprising further in their COVID-19 vaccination and general economic recovery progress. Scope for such surprises still remains apparent.

Another change may relate to inflation. Certainly there has been plenty of debate in recent weeks about consumer price inflation, especially as many comparisons with a year ago can be markedly different. What has gained less interest however has been the sharp fall in the velocity of money over the last decade. There are many reasons for such changes but it has certainly allowed many central banks around the world to be currently less worried about rising levels of debt or financial stimulus efforts. However, even just a little bit of upward change in inflation over the rest of this decade has the scope to cause new issues for investors. Already some may have noted an observation earlier in the month that the prices of raw materials that go into a range of morning staples, have already risen sharply over the last year or so.

As always there will be plenty of changes to monitor and appraise over the next few months as well as the next few years. Considerable progress improvement in many geographies over the summer months still appears likely, but the summer months will still be full of important updates. As noted a month ago, history over recent decades suggests that September has been a volatile month for investors. For this year the progress in reopening up the summer period across many parts of the world is going to be very important. In short the key for investors for the next few months is not just a warm temperature or even more of an ability to go on holiday. What matters more is what has already been priced in for global economies and investors.

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As written by Jane Austen in Mansfield Park "I was quiet, but I was not blind". The investment game is always about continually thinking and looking forward. It is always pleasant to observe that recent months have performed well. It is even more important to also to be opportunistic about the future too. There are still reasons to be optimistic for this summer beyond a warmer temperature and an opportunity to take a holiday.

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