Our investment themes for 2021

Our four crucial investment themes for 2021 are politics, COVID-19, technology regulation and investing for income. The articles in this leaflet demonstrate why we have chosen each of these themes, and share our thoughts for the year ahead.

You can read fuller, more detailed versions of the articles, and watch short explanatory videos, on our website at canaccordgenuity.com/wealth-management-uk/investment-themes.

We will be delighted to discuss any of these topics with you, and explain how they could influence investments in 2021.

Politically motivated – how politics and investments work together

Political developments are among the most important influences on markets. Even political predictions, uncertainties or rumours can cause fluctuations. That's why we always keep a close eye on the political world, to ensure we can predict shifts and changes and mitigate their effects on our discretionary clients' investments.

What will happen in 2021? Populism and partisanship are still rife in the US, the UK and many European countries. China is increasing its global strength and influence, and we are witnessing a challenge to the technological, military, commercial and financial supremacy of an existing superpower (the US) that rarely happens – but it's happening now.

Brexit will weigh on the UK economy – the economic cost of the EU divorce can only be made up if the UK's trade deal with the EU is successful in its implementation and complemented with further comprehensive agreements with other nations. This might require more bandwidth from trade specialists and a decade to complete. But it also offers investors great opportunities, and stock picking will be paramount.

As governments need to balance the books, taxes may well rise – and not just in the UK. While this may impact your individual financial situation, it also matters politically because the income gap is closely related to the electoral divide and can lead to politics veering towards the extremes.

President-Elect Biden's appointment of veteran John Kerry as climate change envoy highlights how much importance he places on the environment. The 2050 net zero emissions target will require bold government policies which could point us in the direction of ESG (environmental, social and governance) investment opportunities.

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Stay politically aware

As investors, could you simply spread your money around the world, or will it now be impossible to mix and match? You can no longer rely on US or European shares to give you access to Chinese market growth. Instead you need to be more direct and creative – although the governance in many Chinese firms is not of the standards we are used to. We will be introducing these ideas into our discretionary portfolios.

After five years of political tension in Western democracies, we may finally be able to look forward to a period where we can concentrate on selecting investments without second-guessing the implications of politicians' bombastic words. However, other political risks will doubtless emerge.

Read the full article on our website at canaccordgenuity.com/wealth-management-uk/news-and-insights/politics-and-investing-2021 to learn more.

How COVID-19 is impacting the world of investment

The coronavirus will continue to dominate economic developments in 2021. At the turn of the year, the world was caught between the devastation wrought by the virus and the successful development of vaccines, bringing hope of a re-emergence of economic health.

However, two key considerations that could create head and tail winds in individual economies are speed of access to the vaccine, and the willingness of a country's population to be vaccinated. For example, while France may be negatively impacted by a widespread unwillingness to accept a COVID-19 vaccination, it will benefit from relatively early and widespread vaccine access.

The development of vaccines is a positive for equity markets, and the bigger question relates to internal market dynamics – principally the rotation between growth and value stocks and/or previous coronavirus winners and losers. We believe the rotation from growth to value stocks will persist, and that value stocks will perform well this year. They typically do well when growth has been scarce but is recovering, and when longer-term interest rates are rising more quickly relative to shorter-term rates. We can reasonably expect both conditions in 2021.

While many sectors and stocks can be viewed as cheap on a relative basis, there are likely to be many 'value traps' within these areas. These are stocks which are cheap for a reason and could become even cheaper, creating a deceptive illusion of value.

Similarly, certain growth areas have not shared in the general outperformance of growth stocks, driven by large technology companies and businesses benefiting from a working from home/staying at home environment. For investors, stock picking will, as ever, be key.

Recovery in Asia

We expect Asia and China to lead the way economically, helping the Asian stock markets to outperform. Meanwhile, the US dollar will continue to decline – and all these developments will have implications for investors.

Adapt to survive

Our Canaccord Genuity experts will continue to monitor economies and markets around the world and keep a close eye on the vaccine rollout. If we have learned anything from 2020, it is to be prepared for the unexpected – so we will ensure we are ready to adapt our investment strategies for our discretionary clients if the outlook changes.

Read a more in-depth article on our website at canaccordgenuity.com/wealth-management-uk/news-and-insights/investment-outlook-2021 to find out more.

What are value and growth stocks?

Investors looking for 'value' seek out stocks which they believe have been undervalued by the market, and are trading for less than their intrinsic worth. They are viewed as trading at a lower price than justified when measured against metrics such as earnings, profit margins or sales.

'Growth stocks' are shares in companies that the investor expects can grow at a faster rate than either the overall economy, other industry segments, or their competitors. Very often, shares in these types of company would be viewed as 'over-valued' by 'value' investors, as the share price includes an implied premium in recognition of the expected faster growth rate.

Just too big? Will the technology titans hit a wall of regulation in 2021?

Tech companies seemed to be a beacon of hope in the stormy markets of 2020. They achieved stellar performances during lockdowns, thanks to the trends for working at home and using tech to communicate with loved ones and maintain business relationships. Will this success continue?

At Canaccord Genuity, we naturally keep a close eye on the tech sector. Technology is a massively powerful secular trend, so of course it has to be included in our discretionary clients' investment portfolios. While we can't ignore tech giants like Amazon, Apple or Microsoft,

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there are also plenty of smaller companies that provide interesting opportunities.

What are the pros and cons of investing in tech? Given tech's performance in 2020, are values likely to plummet in 2021? Should we invest in Chinese tech companies, given China's record on human rights and government interference? You'll find the answers to these questions in our more in-depth article at canaccordgenuity.com/wealth-management-uk/news-and-insights/technology-investments.

The perceived abuses of market dominance and the societal harm caused by the sheer size of the big tech companies have engendered calls in the West – and in China – for increased regulation and even for them to be broken up. Many large tech companies have used their market positions to buy up potential competitors, bringing complaints of anti-competitive behaviour.

This will not necessarily be a bad thing for investors. Using Facebook as an example, it is possible to envisage a scenario under which separately listed Instagram, WhatsApp and Facebook businesses might end up more valuable than the original combined company. In Amazon's case, if regulators forced the separate listing of the rapidly growing Amazon Web Services business, investors might end up better off.

Nonetheless, the increased focus on regulatory pressure on the tech titans comes at a difficult time for investors when valuations in the sector are high. It would be no surprise to see a pause for breath even without the pressure increasingly exerted on them by lawmakers and regulators.

Technological expertise

In all this focus on splitting up or controlling the largest names in technology, we must not lose sight of the very powerful secular trends underpinning the sector: artificial intelligence, cloud data storage, quantum computing, 5G mobile technology and the internet of things. All these technologies are growing very rapidly – exponentially in some cases. Whether Apple, Alphabet/Google, Amazon, Facebook and the like can harness these developments themselves, the long-term attractions of gaining exposure to them remain in place.

We are constantly looking for new opportunities in tech companies, from vast empires to small independent start-ups. We also protect our discretionary clients' portfolios by keeping a careful lookout for lurking dangers.

Interest rates: the hunt for investment income

Last year was an incredibly challenging one for investors seeking income. Savers are having to accept more and more risk for less and less reward in order to generate even a moderate yield.

Cash, in particular, has lost its allure. To be worth holding, it needs to offer returns above inflation – and it's a long time since that was true. Interest rates are being held down by a mountain of government debt, and this is unlikely to change any time soon.

One reason that interest rates and bond yields won't rise meaningfully in 2021 is that we can't afford them to. The response to the coronavirus pandemic has been an unprecedented increase in global debt. Governments and companies have unleashed a debt tsunami to enable economies, households and businesses to survive the economic damage caused by lockdowns and societal restrictions.

In fact, interest rates could actually fall further in some countries. They will only rise if growth accelerates so much that the danger of further economic retrenchment is over, or inflation increases so much that to leave it unchecked would threaten financial stability. Both conditions are nowhere near being met.

Consider moving cash balances into equities

Right now, we believe it makes sense to take a close look at your asset allocation. You may need to discard underperforming cash balances and consider moving more into equities – preferably those which offer yield and the potential for dividend growth. Happily, equities are one of the few assets which currently offer a yield above inflation, and there are still some attractive opportunities available.

For example, the UK equity market looks cheap relative to its global peers, and it is both under-owned and out of favour. In 2021 this underperformance is likely to begin to reverse, with dividend-paying stocks in particular being in greater demand.

Of course, comparing cash with other opportunities is like comparing apples with pears – the ultimate no-risk investment is cash. The value of stocks and shares fluctuates, often significantly, and any dividend stream is not guaranteed, so investors need to be careful about the sectors and stocks they invest in.

Our specialists ensure discretionary client portfolios are allocated and diversified effectively. We use our expertise to identify alternative income-producing options, including equity investing, and recommend bottom-up global stocks and funds.

Read our full article at canaccordgenuity.com/wealth-management-uk/news-and-insights/income-generating-investments-2021 to find out more.

Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The investments discussed in this document may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and, if in any doubt, should seek advice from an investment adviser.

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