19th May 2021

Market Rotation

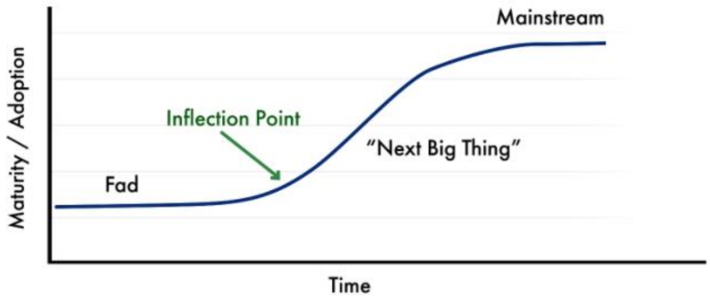
Investing in 5G

Over the past decade, smart phone platforms, have been a significant catalyst for growth within the technology sector. Mobile networks have developed from 2G to 4G. We are now in the midst of a global roll-out of 5G networks, devices, and other related technologies.

There are many benefits to 5G technology over the current 4G networks. This includes:
- Speeds of up to 100 times faster,
- Lower latencies (Time lag), and
- Wider 'freeways' that can carry more data.

5G technology is expected to further revolutionize global communications. The speed and ease undoubtably will improve your work experience and productivity, whether using a laptop or mobile device. This will allow data to flow almost instantaneously between one device to the other. Examples include the 4G peak download speed sitting at 125Mps and its latency at 50 milliseconds and the 5G having at 2,500Mps and less than 2 milliseconds.

This has given rise to a new investment mega-theme, for wealth managers to consider and against which, to allocate capital. Within this sector there are many ways that one can invest, including the wireless carriers, T-Mobile, Verizon, and AT&T; device makers, such as Apple Incorporated; and/or hardware and networking equipment suppliers such as Nokia-Siemens.



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5G Technology is still in its infancy. It is expected to take several years for the full effect of the technology to roll out, to the next generation of mobile devices and services. This sector represents a significant opportunity for investors over the next decade and as a house we are looking to take advantage.

Environmental, Social, and Governance (ESG) Investing

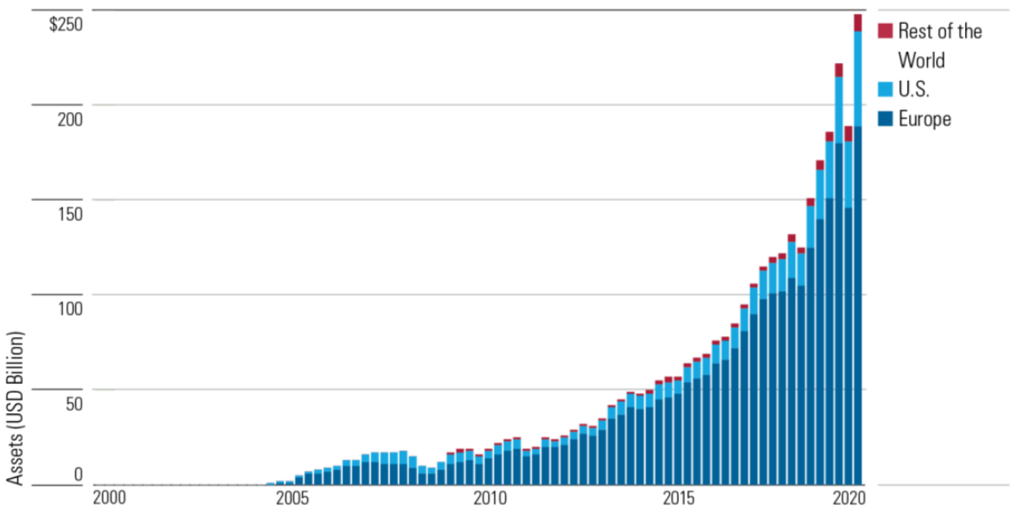
ESG investing is the umbrella term for investments that seek positive returns both in financial value and in long term environmental sustainability. There is no exact consensus to the criteria for ESG investing. However, investors increasingly are analyzing stocks based on the non-financial data, including:

- Environmental Impact (e.g. Carbon Emissions),
- Social Impact (e.g. Employee satisfaction),
- Governance attributes (e.g. Board structure).

The objective for investors in analyzing ESG components, is to reduce exposure to investments that pose greater ESG risks and place pressure through the cost of funding, on corporations to become more sustainable.

We are witnessing a society that is driven towards more sustainability measures and public consciousness. This is driving the demand in investors, mainly millennials, for ESG investments. Due to this increasing demand we are witnessing some of the major incorporations prioritizing ESG in their business strategies and looking to increase their ESG score that is now one of the top aspects to a good stock. With COVID 19, Black Lives Matter and Climate Change all occurring within the last two years, there has been a major push from the younger generation in a global sustainability movement. This renewed focus being taken by investors is forcing governments to address this and change the attitudes of major firms across the globe.

Exhibit 1 Global Passive Sustainable Fund Asset Growth by Region



Source: Morningstar Direct, Morningstar Research. Data as of 06/30/2020.

The results speak for themselves with investors injecting their income into funds that aim to help the environment and promote social good. The amount of funds injected into this sector doubled from 2019 to 2020. These sustainability funds captured $51,1 billion (refer to the chart on the previous page) of net new money from investors in 2020 with 2019 only receiving $21 billion. We can see that the millennial generation is starting to change and influence the way investors and businesses allocate capital.

The Fed Dot Plot

The United States Federal Reserve (the *Fed*) publishes a quarterly chart, called the Dot Plot. This chart plots each of the projections, for federal overnight borrowing rates paid by commercial banks to the Fed (the federal funds rate), for the 12 members of the Federal Open Market Committee (FOMC). Each dot on the graph represents a members view of what the federal funds rate should be at the end of the calendar year and in the longer term. The US central bank uses this to signal the outlook for interest rates for each of the next three years and the long term.

Presently, the market remains focused on the rising inflation rates, due to significant money creation and the resultant rapid recovery in the world economy. Investors increasingly are looking to the Fed possibly raising interest rates. The Fed has indicated that it will allow inflation to run at an average of 2%. They have stated publicly, that despite the recent rise in inflation, interest rates will be kept low to assist in the economic recovery. However, the possibility of hyperinflation returning, remains a risk on the back of a too-swift recovery in the US economy. The market has been challenging the Fed, but per their latest Dot Plot chart below, they have remained on target with no consensus for a rate hike through to 2023.

With the recent push in inflation, we believe that treasuries yields will continue to rise, owing to the strong correlation between treasury yields and inflation. Higher commodity prices have led to pricing increases in consumer staples, which could lead to further wage inflation. We therefore remain in favor of equities, however keeping our sectoral allocations within their set weightings, in anticipation of inflation.

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