

January 2021

Global Investment Commentary

As Coronavirus cases rose rapidly across the country, the UK found itself entering 2021 with the prospect of more home schooling and grappling for online grocery slots again with a distinct impression of déjà vu.

Economies continued to struggle against the tide of infections and ongoing support from government and central banks was necessary as many countries clamber to get the rate of infection (R number) below one.

Of the developed equity markets, only Asia managed positive returns with the UK, US and Europe all finishing negative for the month. Both corporate and governments bonds also lost ground overall, as did the gold price.

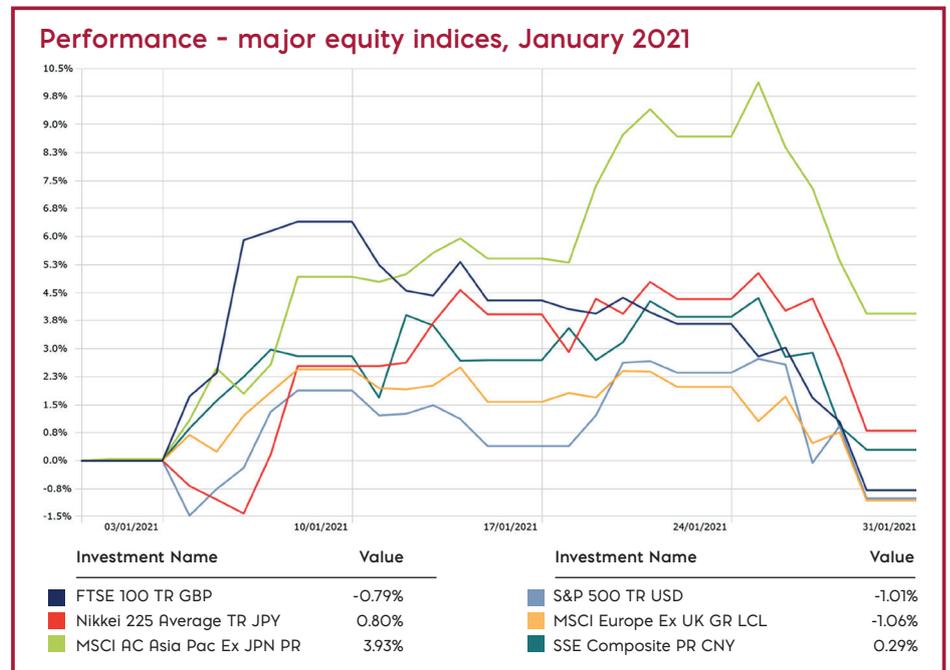
Market Round Up

Performance of major equity markets during January 2021:

UK (FTSE 100)	-0.79%
US (S&P 500)	-1.01%
Europe (MSCI Europe Ex UK)	-1.06%
Asia (MSCI Asia Pac Ex Japan)	+3.93%
Japan (Nikkei 225)	+0.80%
China (SSE Composite)	+0.29%

UK

The IHS Markit/CIPS UK Manufacturing PMI was revised sharply higher to 54.1 in January from a preliminary reading of 52.9, but below 57.5 in December. The reading showed the UK manufacturing sector slowed sharply at the start of 2021 as output growth eased and new orders fell slightly as producers



Source: Morningstar Direct, January 2021

faced weaker inflows of new export work and temporary supply-chain disruptions caused by COVID-19 restrictions and transport delays (especially at ports) following the end of the Brexit transition period.

UK mortgages have soared to the highest level since before the 2008 financial crisis, house prices ended 2020 on a record high and construction activity continued to recover. Although the Services PMI was revised higher to 39.5 in January the reading still pointed to the sharpest contraction in the services sector since May of 2020 due to the impact of restrictions on trade and temporary business closures during the third national lockdown.

Retail sales in the UK edged up 0.3% month on month in December, following an upwardly revised 4.1% fall in November and well below market forecasts.

Still, sales were 2.7% higher compared with February's pre-Covid level as stores reopened after the November lockdown and purchases of clothing surged 21.5 percent.

The UK economy shrank by a further 2.6% in November according to the Office for National Statistics which also highlighted that gross domestic product was 8.5% below its pre-pandemic peak. Whilst there had been some recovery over the prior six months further restrictions have increased the pressure on the economy as the need to roll out vaccinations as swiftly as possible mounts. Unemployment has risen to 5% which is the highest level in five years.

US

Joe Biden was sworn in as the 46th president completing a somewhat tumultuous transfer of power. With US jobless claims back up to levels last seen in August Joe Biden has pleaded for Congress to 'act now' on a new, additional, \$1.9 trillion economic rescue plan to help weather the Covid storm, stabilise the economy, boost testing and the vaccination rollout programme.

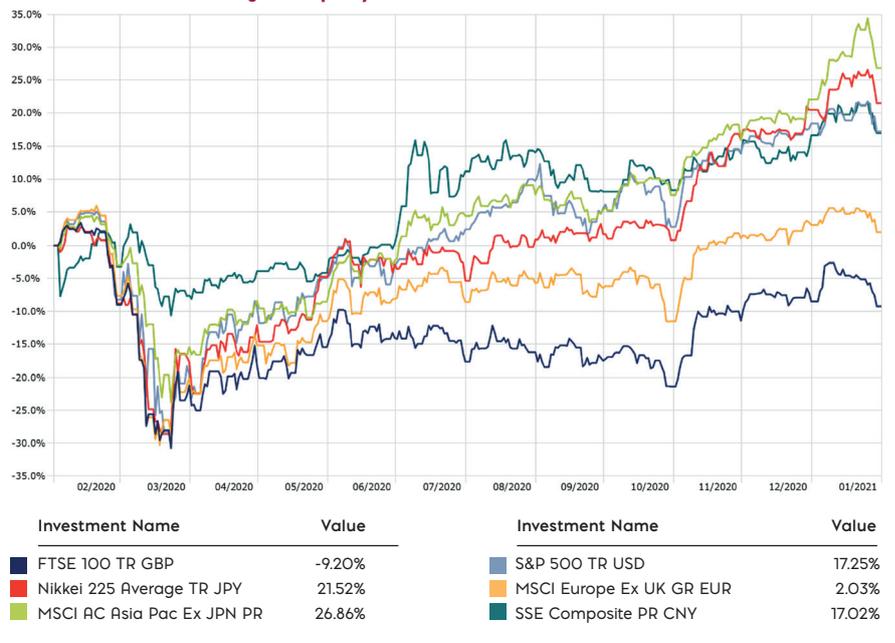
The historic second impeachment of the outgoing president as a result of his encouragement of behaviour that resulted in the Capitol being attacked was welcomed by many and scorned by others. Nonetheless US stock markets enjoyed a brief Biden rally with equities reaching new highs. US inflation is expected to remain subdued.

Europe

Chancellor Angela Merkel has warned of further tough measures up to Easter to defeat the pandemic in Germany. The EU's medicines regulator authorised the AstraZeneca / Oxford University vaccine on 29th January as the area tries to ramp up vaccinations. Meanwhile, Germany's health ministry pushed back on the vaccines efficacy reports.

The IHS Markit flash composite purchasing managers' index for the Eurozone reading released this month was 47.8 reflecting a sharp drop off in Eurozone business activity and demonstrating that most businesses have reported contraction. Services was once again the main drag on the economy, with activity in this sector contracting for a fifth successive month and also at a sharper rate than in December. Manufacturing remained a bright spot, with production rising for a seventh successive month albeit at a slower pace.

Performance - major equity indices, Year to date



Source: Morningstar Direct, February 2020 to January 2021

The European central bank left interest rates unchanged. A weak growth profile and subdued inflation is keeping pressure on the central bank. There is little room to manoeuvre with rates already in negative territory at -0.5% and these appear likely to remain for some time alongside a need for liquidity support.

Conclusion

Performance of major equity markets over 1 year (01 Feb 2020 - 31 Jan 2021):

UK (FTSE 100)	-9.20%
US (S&P 500)	+17.25%
Europe (MSCI Europe Ex UK)	+2.03%
Asia (MSCI Asia Pac Ex Japan)	+26.86%
Japan (Nikkei 225)	+21.52%
China (SSE Composite)	+17.02%

The news flow in January reminded us of two important things. Firstly, governments and central banks are fully committed to support the economy with massive fiscal stimulus and very easy financing conditions.

The two stimulus plans in the US and ongoing supportive comments from the G4 central banks perfectly fit this narrative and give investors reason for optimism.

Second, January showed us that Covid remains a risk. New highly infectious strains and the risk that existing vaccines might be less effective against some mutations remind investors that the bridge to the post-Covid world might be longer than we all wish for, at least in some parts of the world.

After a strong run followed by the recent pause for breath, staying cautiously optimistic but with a balanced portfolio seems sensible during this still challenging period of the pandemic.

Economic Projections (31/01/2021)

Economic Growth

Country/Region	Real GDP YOY Growth (%)		
	2020	2021	2022
UK	-10.60	4.70	5.70
USA	-3.50	4.10	3.40
Eurozone	-7.20	4.30	4.00
Germany	-5.00	3.60	3.80
France	-9.00	5.80	4.00
Japan	-5.30	2.60	2.00
China	2.30	8.40	5.50
India	4.00	-8.10	9.20
Asia	-0.40	5.10	4.90
Emerging Markets	-3.50	3.50	3.50

Source: Bloomberg

Interest Rates

Country/Region	Central Bank Interest Rates (%)		
	2020	2021	2022
UK	0.10	0.10	0.20
USA	0.25	0.30	0.35
Eurozone	0.00	0.00	0.00
Japan	0.00	0.00	0.00
China	4.35	4.35	4.30
India	4.00	3.80	4.15

Source: Bloomberg

Foreign Currency Exchange Rates

Currency Pair	Exchange Rate		
	2020	2021	2022
GBP/USD	1.37	1.40	1.40
EUR/GBP	0.89	0.89	0.90
EUR/USD	1.22	1.25	1.25
USD/JPY	103.25	102.50	106.00
EUR/JPY	126.18	127.00	130.00
USD/CNY	6.53	6.36	6.20
USD/INR	73.07	72.05	73.25

Source: Bloomberg

Risk Warnings

The following is a summary only of some key items in the Prospectus.

Capital is at risk. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment.

Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds.

The Master funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events.

It should be appreciated that the value of Shares is not guaranteed and may go down as well as up and that investors may not receive, on redemption of their Shares, the amount that they originally invested.

Investment in the Company should only be undertaken as part of a diversified investment portfolio. Investment in the Shares should be viewed as a medium to long term investment.

Shares may not be redeemed otherwise than on any Dealing Day.

There will not be any secondary market in the shares of the Company.

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