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Judging Dr Martens and Moonpig post-IPO hype

The two stocks have just reported earnings but share overhangs still cloud the stock prices near-term

One fund manager recently told me they would never invest in a company when it first joins the market, instead preferring to wait a year or so before considering it, even if it meant losing out on 10% or 15% of gains for ones that were successful.

You often see companies list on a stock market accompanied by bold ambitions, which creates a buzz around their IPO (initial public offering). By waiting for a year before investing, this hype can die down and investors can judge a company purely on its performance.

We're now at the stage when two high-profile IPOs have settled down to life as listed companies and have reported financial results, namely **Dr Martens (DOCS)** and **Moonpig (MOON)** which listed in early 2021.

Their shares have been quite volatile since listing although both are trading above their IPO offer price.

It is common to see the same pattern with IPOs – they shoot up in the first few weeks on the market, then fall back as initial investors bank a quick profit, upon which longer-term investors take a position and the shares go back up.

In the case of Dr Martens and Moonpig we've not seen much of that second leg-up, perhaps because the market seems to be fearing the end of lock-up periods involving pre-IPO shareholders.

Both companies were backed by private equity firms when they came to the stock market, and these investors were barred from selling more shares until 180 days after the IPO date, unless special permission was given. Directors and other staff were barred from selling until 365 days after listing.

We often see selling once lock-up agreements expire, such as with cyber-security group **Darktrace (DARK)** recently. Some of the big private equity investors in Moonpig sold a chunk of shares in August and again in October but interestingly this hasn't happened at Dr Martens. Is it just a matter of time?

These lock-ups act as share overhangs – the market senses there will be selling and speculative investors get out before it happens, depressing the share price. You then get selling by the pre-IPO investors once the lock-up ends causing further price weakness.

Both Dr Martens and Moonpig issued results on 9 December meaning we now have a better idea if they are living up to the hype which accompanied their IPOs. Both are attractive investments – it's just a question of whether you want to wait for the lock ups to expire before committing your money.

Dr Martens fell nearly 7% on its results amid shipping delays in the US, however the company was upbeat about the future and profit is growing. It is an attractive business making good returns.

Moonpig's shares jumped 6% after it said annual revenue for the current year would be at the upper end of the previous guidance range. There appears to be a structural shift towards buying cards online. Gifting is also becoming a bigger contributor to its earnings, thereby diversifying its income. Customers are loyal and are spending more frequently.

While revenue couldn't match last year's stellar period when lockdown encouraged so many people to buy cards via their phone or laptop, strategically Moonpig is certainly living up to the hype.

Investors eye last minute Santa Rally on the markets

There are some interesting signals coming from US shares

There could still be time for the traditional 'Santa Rally' on stock markets, spurred on by the latest encouraging data from South Africa on the Omicron variant and positive technical evidence that US shares are building up a head of steam.

Case levels in the Gauteng region of South Africa appear to have peaked slightly earlier than projected.

Encouragingly there has only been a slight uptick in the number of deaths compared with the Delta variant with an estimated 640 in total compared with 15,400 confirmed deaths from Delta according to the National Institute for Communicable Diseases.

This opens the possibility that Omicron may be far less severe than its Delta cousin, giving market sentiment a boost.

Before Omicron the S&P 500 was regularly making new highs, but the number of stocks participating in the rally was low. In fact, over half the S&P constituents were down more than 10% from their highs at the end of November according to Reuters.

This technical weakness seems to have given way to more broad-spread participation recently which is usually a sign of strength. For example, the percentage of stocks in the S&P making five-day highs has improved from zero to 80% in the last week.

The balance of advancing minus declining stocks, a measure of market breadth, has improved from minus 80 to plus 80. Technical analysts interpret sharp reversals as possible capitulation points. [MGam]

Vanguard expands LifeStrategy fund range with ESG options

Popular fund range to use sustainable metrics

PENNSYLVANIA-BASED investment firm Vanguard, which manages $8.4 trillion in global assets across more than 400 funds, has expanded its popular LifeStrategy range with new products aimed at investors wanting to include ESG (environmental, social and governance) factors in their process.

The new SustainableLife range consists of three actively managed multi-asset funds with an ESG screen as well as a global sustainable equity-only fund, all managed by US investment firm Wellington.

The three multi-asset products offer investors a 40-50% equity fund, a 60-70% equity fund and an 80-90% equity fund, with the remainder of each portfolio in bonds. All three products have a 0.48% ongoing charge and account for the ESG credentials of each firm in the portfolio.

The manager will use four sustainability principles: favouring firms with a commitment to net zero carbon emissions by 2050, in line with the Paris Accord; excluding firms which may have a negative societal impact, such as thermal coal and tobacco; fostering engagement on material ESG issues; and insisting on strong corporate governance.

The standalone Vanguard Sustainable Equity Fund also carries a 0.48% ongoing charge and will use sustainable investment criteria such as the net-zero commitment to 'help investors balance their personal values with their financial goals as interest in sustainable investing continues to grow' according to the firm's European head of ESG strategy, Fong Yee Chan. [IC]

Ocado winning robot wars but UK sales have disappointed

There has been a breakthrough in a legal fight with Autostore but the business needs to do better elsewhere

UK online grocery delivery firm **Ocado (OCDO)** won a major victory in a patent infringement battle with Norwegian robot maker AutoStore, prompting its shares to jumped nearly 10% on 14 December.

This helped to make up for disappointing fourth quarter trading figures from its joint venture with **Marks & Spencer (MKS)**.

The legal case started last year when AutoStore said it would sue Ocado for infringing its technology patents and would ask the court to ban imports of Ocado robots into the US.

Ocado uses robots in its warehouses to pick customer orders, a critical part of its solutions platform which it has licenced to US grocery firm Kroger and others around the world.

The UK firm launched a countersuit against AutoStore claiming the latter had infringed its intellectual property rights with regards to both its new Blackline robots and its Router operating software.

The International Trade Commission ruled that three of the four AutoStore patents were invalid and a fourth hadn't been infringed, while AutoStore dropped its fifth patent claim the night before the trial.

'Autostore is set to appeal the judgement, with a finding due in April, but this looks like a fairly comprehensive ruling in favour of Ocado, setting a precedent not only for the ITC's final findings, but also similar action being played out in the US district court and UK high court,' say analysts at Numis.

'Together, whilst not definitive across all cases, we see the court verdict as a crucial step in rebuilding investor confidence in the long-term outlook for the business.'

Shares in Ocado have drifted downwards

this year after slow progress with winning new customers for its robotics technology, despite the pandemic emphasising the importance for grocery providers to have robust sorting and packing services for online orders. This backdrop should in theory have played to Ocado's strengths and driven more business. The legal battle with AutoStore has also weighed on investor sentiment.

For its UK retail joint venture with Marks & Spencer, revenues for the three months to November were down nearly 4% to £548 million against a market forecast of £600 million.

Sales growth was also held back by a shortage of staff, particularly at the start of the quarter in the logistics business, while Ocado also flagged cost inflation due to rising energy prices.

Customer acquisition has been strong with almost a million people now signed up, and sales of Marks & Spencer products through the system continue to grow, reaching nearly 30% of the average basket.

Ocado expects its 'best-ever Christmas' and a return to mid-teens percentage revenue growth in 2022 thanks to new sites opened during this year. [IC]

BuzzFeed IPO flops while LadBible's listing is a success

The two digital media businesses have contrasting fortunes as they become listed entities

The disastrous reception to BuzzFeed's US stock market debut earlier this month didn't stop fellow digital publisher and LadBible owner **LBG Media (LBG:AIM)** from having a successful listing on the UK market on 15 December.

LBG Media priced its IPO (initial public offering) at 175p and its shares advanced to 195p in early trading on the first day of dealings. It raised £30 million in new money and may target acquisitions following the success of its 2018 purchase of UniLad. The company has also expressed an interest in disrupting traditional broadcasters as well as expanding into the US.

LadBible's strategy is to create viral content via its website and social channels to secure advertising revenue. It also delivers branded content for organisations ranging from Pepsi Max to Cancer Research.

After an initial jump at its IPO, BuzzFeed's shares were trading 39% lower after their first week of trading. Special purpose acquisition company 850 5th Avenue Partners had raised $287.5 million to buy a business, but investors accounting for 94% of the money pulled out when they discovered BuzzFeed was the target.

BuzzFeed's revenue rose 27% during the first nine months of this year, but that pace decelerated to a 20% year-over-year advance for its latest quarter. Individuals spent 602,248 hours consuming BuzzFeed content through the first nine months of this year, a 10% increase over the same period a year earlier. [MGar]

Market not sure about Rentokil's $6.7 billion deal merits

Pest control and cleaning services firm makes a splash with takeover of US rival

AFTER INITIALLY receiving garlands from the market with a rising share price, investors quickly became more circumspect on hygiene services and pest control firm **Rentokil's (RTO)** $6.7 billion deal for US rival Terminix.

While the strategic logic of the deal is clear, creating a global market leader with a particularly strong footprint in the US and with annual cost synergies of $150 million identified, Rentokil CEO's Andy Ransom's use of the word 'transformational' to describe the deal could make him a hostage to fortune.

So-called transformational deals have a track record historically of destroying as much shareholder value as they create.

Also, the combined entity could attract the attention of US competition regulators – something Rentokil experienced in the UK with its acquisition of Cannon Hygiene and **Mitie's (MTO)** pest control unit.

This raises the prospect of a protracted transaction which diverts management resource and time away from the day-to-day running of the business.

The deal for Terminix is structured so Rentokil will pay around $1.3 billion in cash and the rest in its own stock, which carries greater weight after a 20% advance for the shares in the last 12 months. Rentokil has benefited from strong demand for its hygiene and cleaning expertise during the pandemic. [TS]

Could Tesco or Sainsbury's be in the market for Boots?

Supermarket giants and private equity would be interested if the high street chemist goes under the hammer

Whispers that US retail pharmacy behemoth Walgreens Boots Alliance is putting Boots up for sale suggests an interesting 2022 for Britain's best-known high street chemist.

Speculation is swirling as to who might buy the 172-year-old health and beauty retailer, which would be valued at about £6 billion according to calculations from investment bank Cowen.

Walgreens Boots Alliance has stated its more pointed focus on North America and healthcare, so a Boots spin-off or IPO shouldn't be ruled out. Neither should a sale to private equity or a trade sale to another retailer.

Shore Capital believes a wide range of businesses will take a good look at Boots, whose relevance as a healthcare provider and distributor has grown during the pandemic with the NHS under increased pressure.

In Walgreens Boots Alliance's fourth quarter, Boots' UK like-for-like pharmacy sales increased 11.4% year-on-year amid stronger demand.

Private equity funds would almost certainly be interested in Boots, while Asda's owners, the billionaire Issa brothers backed by private equity firm TDR Capital, remain deal hungry and could be potential buyers.

Shore Capital points out the UK supermarkets 'could harvest amongst the most significant benefits' by buying Boots, although the biggest barrier to a potential acquisition by the supermarkets would be the unpredictable UK Competition and Markets Authority.

Nevertheless, the broker suggests **Tesco (TSCO)** and **Sainsbury's (SBRY)** 'should take a good look' at Boots, noting that their respective CEOs Ken Murphy and Simon Roberts are both former

Boots executives.

Supermarkets would have access to 'synergies that a spin-out or a financial buyer that is not fusing Boots to an associated business do not', notes Shore.

Boots is run by former **Currys (CURY)** boss Sebastian James, who is reversing years of under-investment in the store estate, shuttering underperforming sites and investing in modernising key outlets. Encouragingly, Boots' fourth quarter digital sales more than doubled compared with pre-Covid levels.

Still a trusted brand in the UK, Shore Capital also flags Boots' desirable position in the luxury fragrance market, which has been boosted by the demise of Debenhams and other department stores. As Shore puts it, Boots 'enjoys the patronage' of brands such as Chanel, Clinique and Lancome that are refused access to the supermarkets.

Boots is also believed to own 30%-to-40% of its 2,200-plus stores and holds more than 1,200 pharmacy licences. As the Government caps the number of licences for each local area, Boots boasts the predictable cash flows that are prized by private equity firms or which would certainly be attractive to supermarkets. [JC]

Buying opportunity as Adidas gets set for growth

Sportswear giant trades at a big discount to US rival Nike

Recent share price weakness in Adidas has created an attractive buying opportunity in one of the world's leading sportswear brands.

The German trainer and sports apparel maker trades at a substantial discount to its main rival Nike.

Its US counterpart has a larger share of the market and has stolen a march on Adidas in certain areas but the gap between the latter's forward price to earnings ratio of 28 times and Nike's 40 times (based on consensus forecasts) looks too large.

We see scope for two of the key issues which have dogged Adidas' shares in recent months to ease, namely a Chinese boycott and Covid-related production issues in Vietnam. This should allow the market to focus on its growth strategy and some specific near-term catalysts.

Along with Nike, Adidas is part of a duopoly in the global sportswear market. These companies' brand strength and distribution capacity are in a league of their own, creating very strong barriers to entry and helping to protect their profitability.

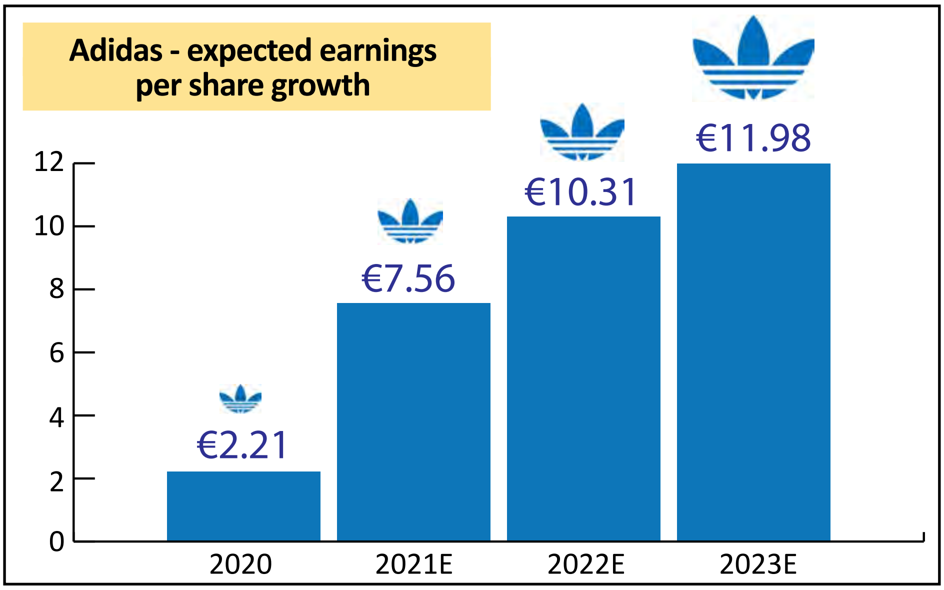
'ATTRACTIVE LONG-TERM GROWTH'

While the two businesses are often compared with each other, investment bank Berenberg says 'market share is not a zero-sum game, and both Adidas and Nike continue to take share, underpinning attractive long-term growth'.

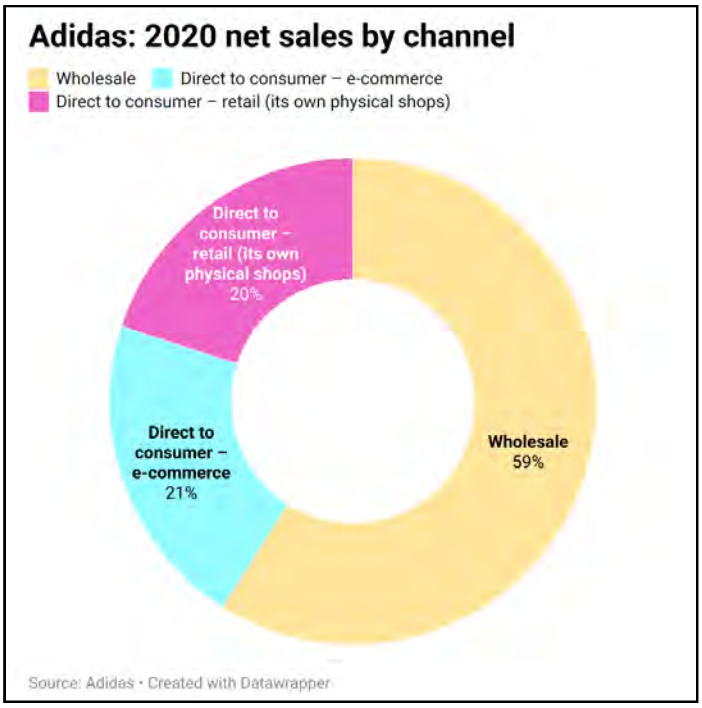
For Adidas, Berenberg forecasts a compound annual growth rate in earnings per share between 2021 and 2025 of 20%. It sees this being driven by improved profitability as Adidas sells more of its products direct to consumers.

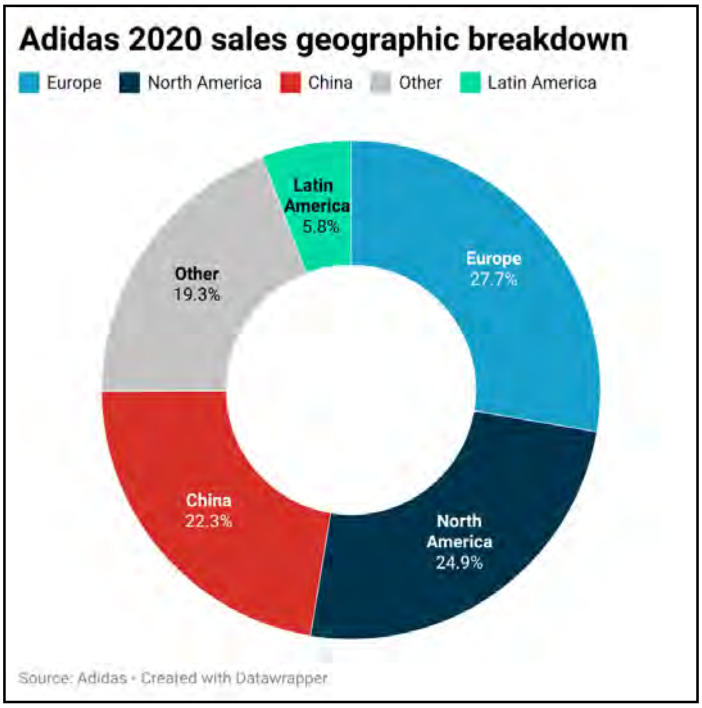
In December Adidas completed its second share buyback of 2021 – with returns to shareholders through buybacks and dividends highlighted by the company as a key component of its 'Own the Game' investment strategy. This was unveiled in March 2021 and sets the agenda out to 2025.

The 'Own the Game' strategy includes targets to double



Source: Company reports, Berenberg forecasts





e-commerce sales to as much as €9 billion and increase revenue by up to 10% a year. Also, by 2025 direct to consumer sales are expected to account for half of all sales, compared with 41% in 2020.

NEAR-TERM CATALYSTS

As well as this exciting medium-term growth potential there are some obvious catalysts in the coming 12 months which we think could help get Adidas' shares running in the right direction.

An 'Innovation Day', delayed thanks to Covid considerations from December 2021 to March 2022, should help boost investor confidence in the company's product pipeline as it will be a chance for Adidas to go into detail about its growth plans.

Also happening in the first quarter of next year, Adidas expects to complete the $2.5 billion sale of Reebok to Authentic Brands Group with a decent chunk of the proceeds being returned to investors.

Finally, the winter World Cup in Qatar at the end of 2022 should provide a shop window for the brand, given it is the kit manufacturer for several of the top teams due to compete at the tournament.

Qatar's human rights record makes this a somewhat controversial event and Adidas is also having to balance human rights concerns in China with an aspiration to capitalise on what is one of its fastest growing and most substantial markets.

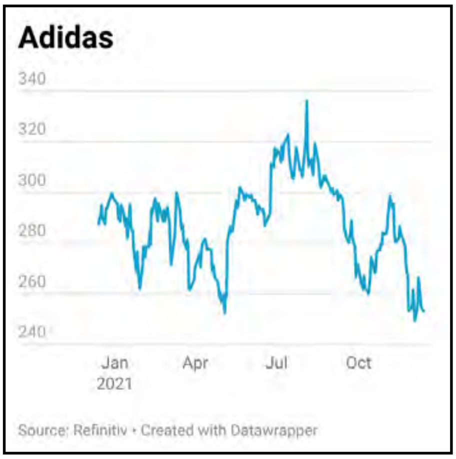
CHINA BOYCOTT

Adidas has been boycotted in mainland China along with other Western brands after raising concerns about forced-labour allegations involving Uighur Muslims in the Xinjiang region.

The company faces a difficult balancing act of not damaging its brand by being soft on human rights issues while also not alienating Chinese consumers. The Beijing Winter Olympics in February, where Adidas is kit manufacturer for the German and British teams, is a potential flashpoint.

Covid-linked manufacturing problems in Vietnam look like they are starting to alleviate, reflected in Lego's recent announcement of plans for a new $1 billion facility in the country.

Investors buying the shares need to understand that market sentiment is weak towards Adidas for the above reasons, and for recent downgrades to earnings forecasts. However, some of the best returns can be made from buying shares when others have lost interest. We think it's worth taking the plunge with this company now. [TS]



Tristel is a long term winner in infection prevention

The shares have been hit by short-term issues but its market opportunity has arguably got bigger

TRISTEL BUY
(TSTL:AIM) 492p
Net assets: £226.5 million

Shares in infection prevention and contamination control specialist **Tristel (TSTL:AIM)** are trading just above pre-Covid-19 levels. This is despite the company's total addressable market increasingly significantly, driven by increased awareness and demand for infection prevention caused by the pandemic.

There is significant pent-up demand for patient examinations which were put on hold during the pandemic. Resumption of examinations should see the company get back to growth after the temporary lull in 2021.

More importantly, the company has barely scratched the surface of the global market opportunity for its patented products. The strategy is to replicate UK success overseas and increase the global footprint.

There is good growth potential in India and South Korea from the company's recently approved high-level disinfectant Tristel Duo ULT for ultrasound devices.

In the US Tristel is perusing marketing approval to sell its high-level disinfectant for ultrasound probes and ophthalmic devices. It has appointed Parker Laboratories to manufacture and supply the products and hopes to submit its regulatory application by 30 June 2022.

Tristel's products are used by hospitals and laboratories to effectively and safely disinfect non-invasive medical devices used in ophthalmology and endoscopy and any device which needs disinfecting between uses.

The company has patented chlorine dioxide formulae that are recognised by regulatory bodies worldwide as high level and safe to handle disinfectants.

The unique products come in the form of wipes and foams which means they can be applied manually. The company generates its revenues by selling consumables.

Competitors on the other hand sell machines which use liquid soaking chemicals or gaseous vapours to protect the user from the disinfectant.

Tristel's unique products and patent protection give the company competitive advantages which should support increased penetration of the global market over time.

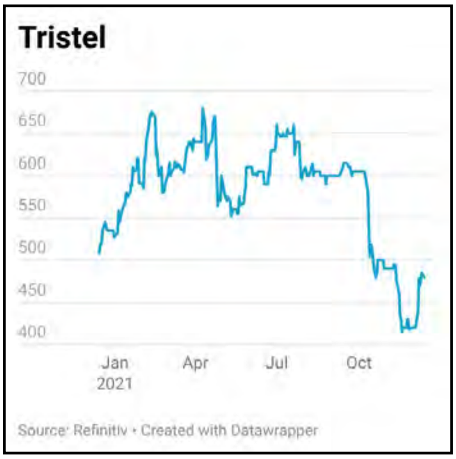
Recent share price weakness is due to a combination of temporary factors which have impacted the business in the past 18 months.

Hospitals over-stocked all disinfectant products amid panic buying at the beginning of the pandemic which caused a build-up of inventories.

During the lockdowns most outpatient departments were closed as priority was given to Covid patients which impacted volumes of device consumables sold by Tristel, although sales of surface disinfectants compensated in the early part of the pandemic.

As the world normalises post-pandemic, increased awareness of the need for effective, safe infection control should provide a durable tailwind for Tristel.

It made £5.4 million adjusted pre-tax profit in the year to June 2021, down from 2020's £7.1 million. FinnCap forecasts pre-tax profit will move up to £6 million in 2022 and progress to £6.4 million in 2023. [MGam]




We'll do the active investing.
You live your active lifestyle.

CHEMRING

(CHG) 291p

Loss to date: 7.3%

Original entry point:

Buy at 314p, 5 August 2021

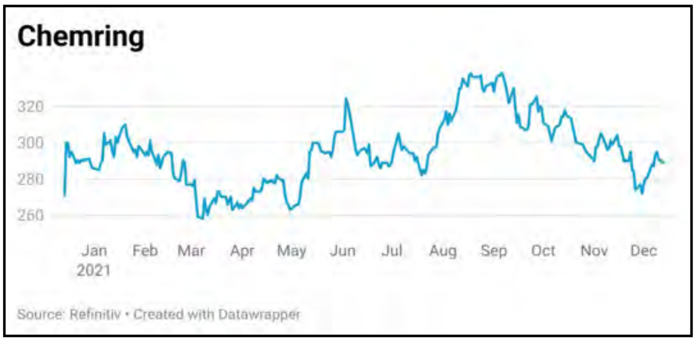
WHILE THE SHARES may not have budged off the back of **Chemring's (CHG)** full year results (14 Dec), we were encouraged by signs of underlying progress. In particular, improvement in margins reflects the company's transition to a higher quality business.

For the year to 31 October, pre-tax profit rose to £48.8 million from £43.3 million year-on-year, while revenue slipped 2% to £393.3 million.

Its operating margin rose to 14.6% from 13.6%. This primarily reflected the growth of its higher margin operations, including the cyber security division which particularly excites us, and the continued focus on improved operational execution throughout the group.

The outlook for 2022 was left unchanged, although the company has a strong order book and a very robust balance sheet leaving it well positioned at the start of its new financial year.

Numis analyst Richard Paige noted: 'Chemring has delivered its third consecutive year of organic growth, with further good cash conversion and strong order growth as the strength and quality of earnings improves and track record builds. He says 'momentum remains strong' within the business.



SHARES SAYS: ↗

The market hasn't yet caught on to the transformation afoot at Chemring but we think this is just a matter of time. Stay positive. [TS]

SSE

(SSE) £16.14

Gain to date: 4.4%

Original entry point:

Buy at £15.46, 3 June 2021

ACTIVIST INVESTOR ELLIOTT Advisors has broken cover after building a stake in utility company **SSE (SSE)** and written to the chairman, urging the company to renew investor confidence following an extended period of poor shareholder returns.

Elliott believes SSE missed a trick to unlock £5 billion of value via a listing of its renewables business which it claimed could have also contributed to the firm's £12.5 billion funding plans and established SSE as a leader in renewables.

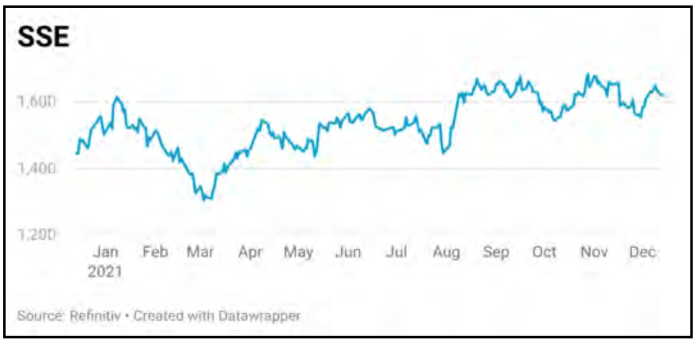
The activist appears to have a good point given the apparent healthy investor appetite for renewable assets, while raising equity is arguably a sensible way to finance long-term investments.

SSE instead plans to sell 25% of its transmission and distribution businesses to support the accelerated investment in renewables, which Elliott said lacked ambition.

In its defence, SSE argues that spinning off the renewables business would result in a loss of scale and diversity while incurring unnecessary costs.

The activist has criticised SSE's corporate governance framework and is urging the company to appoint two new independent directors with renewables experience.

Despite the criticism, the activist believes SSE's shares could be worth £21.



SHARES SAYS: ↗

Appearance of an activist should keep management focused on delivering shareholder value. SSE remains a 'buy'. [MGam]

SOMERO ENTERPRISES

(SOM:AIM) 521.9p

Gain to date: 100.7%

Original entry point:

Buy at 260p, 24 September 2020

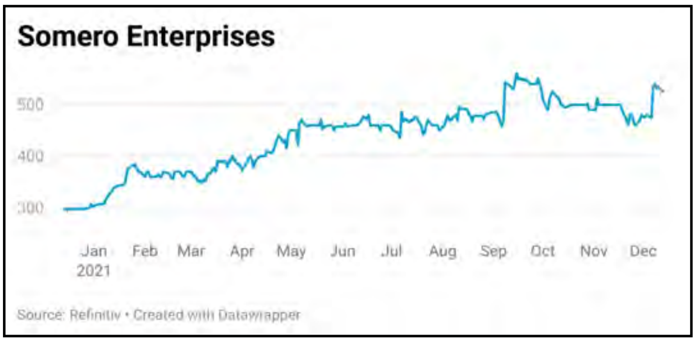
THE SURGE OF online shopping continues to seed demand for **Somero Enterprises' (SOM:AIM)** concrete flooring flattening kit and its share price. The stock is up more than 65% this year but there could be nearly 50% of further upside over the next 12 months if analysts have crunched their numbers right.

Last week the company raised its 2021 growth guidance thanks to surging demand recovery in its key US market as the economic bounce back continues. Somero designs and manufacturers top of the line laser-guided concrete floor flattening equipment that is becoming vital for the acres of automation-laden warehouse space needed as more businesses embrace digital commerce.

Somero told the market on 6 December that strong momentum has continued right through the second half of the year and it will now beat previous revenue and profit expectations.

Guidance was lifted by 8% for revenue and by 7.2% for profit, and the company should have $39 million net cash at the end of December.

That's great news for dividends which are forecast to increase a $0.10 this year to $0.449, with forecasts for next year implying an income yield of 7.4%.



SHARES SAYS:

Somero remains a highly compelling capital growth and income investment, and the company could easily become a buyout target. Keep buying the shares. [SF]

abrdn

Income options from across the pond

- Dividends across the region look far healthier today than they did in 2020
- Companies are still being careful to reinstate dividends only when earnings have recovered
- Inflation will be an important consideration for income investors in the region

From Canadian mining companies at the top, to Brazilian government bonds at the bottom, the Americas offer a smorgasbord of income options. As economies recover, which are the areas of greatest opportunity in the region?

Dividends across the region look far healthier today than they did in 2020, even if it wasn't hit as hard as Europe and the UK. Fran Radano, manager of The North American Income Trust, says that the majority of sectors have recovered: "Last year, most commonly we saw a suspension of share repurchases and continuation of dividends. In our trust, we only had one cut, it was 14% and they've subsequently raised it twice. But dividend growth has resumed across the region."

He says weakness was confined to consumer-facing companies or companies with weaker balance sheets and excessively high payout ratios. Even here, with the exception of some travel and leisure companies, dividends have returned.

Martin Connaghan, manager on the Murray International Trust, says that in most cases, dividends have been reinstated in response to higher earnings: "Companies are still being careful to reinstate dividends only when earnings have recovered. The exception is those companies in real sweet spots, such as those in mining, which are paying special dividends because demand and pricing looks good." This may help explain the strength of Canadian equity markets, which are heavily weighted in mining companies.

In bonds, it is a mixed picture. Viktor Szabo, manager of Aberdeen Latin American Income Fund, says there has been considerable volatility in the region's government bond sector. The Brazilian 10 year bond yield, for example, has moved from 7% at the start of the year to over 12%. He adds: "There has been a huge inflationary shock as a result of base effect and supply side factors. There are bottlenecks in the supply chain and Brazilian rate hike expectations have shot up aggressively. Political noise in areas such as Peru and Chile have also contributed to rising bond yields."

Inflation

The direction of inflation will exert influence on all types of income in the region. It is at historic highs abrdn

in both the US, where it has been above 5% since May, Canada, where it hit 4.4% in September and across Latin America.

Viktor says inflation remains a significant risk for fixed income markets and has reduced duration (i.e. the sensitivity of a bond's price to changes in interest rates) and moved into inflation-linked bond markets (which are now well-developed in Brazil, Chile, Columbia and Uruguay) in response to higher inflation figures. However, he believes that inflation is probably at its peak.

"It is quite clear that if inflation numbers are rising month after month, investors will start to price in rate hikes. Our expectation is that inflation is mostly like to peak around now, avoiding a big shock. Inflation is likely to come down and that will pare back rate expectations. It is very hard to agree with the current market pricing, which is suggesting a 10% interest rate for Brazil in a year's time. This would be really bad for the economy and we don't see it happening."

Fran believes inflation may be more persistent in the US than is currently expected by the market. He adds: "We look at inflation two ways. Some transitory effects are supply chain-related and should resolve, but with loose fiscal and monetary policy, inflationary pressures could be sustained for some time. Wages are structurally higher." To deal with this, he is focusing on those companies with pricing power, such as Railroad Union Pacific and Texas Instruments.

On Murray International, Martin and the team have incorporated companies that can benefit from inflation such as real assets and commodities. This is, in effect, a hedge for higher input costs in other areas of the portfolio. He believes companies with pricing power and differentiated brands also offer some defence against inflation. In the portfolio, they hold Lithium producer Sociedad Quimica Y Minera De Chile and Brazilian mining group Vale, for example, along with Taiwan Semiconductor and Samsung Electronics.

Valuations

There is still good value to be found in income assets across the Americas. In common with the rest of the world, dividend paying companies continue to be out of favour and therefore offer scope for a re-rating as dividends resume. Even though the start of the year saw value strategies recover, which included many income stocks, growth has still outpaced value for the year to date. However, Fran believes that markets may eventually start to adjust their view given that income stocks were "extreme laggards" last year.

Fran says he has a mix of defensives and growth in the North American Income portfolio: "We have a well-diversified portfolio and not a lot of big sector bets. We have exited areas such as telecoms, which we see as slower growth, bond proxy-type stocks. We have reduced utilities but have relatively high consumer staples and healthcare positions. On the margin, we are a bit more defensive. Our top 15 names make up over half the portfolio, a reflection that the portfolio is starting to concentrate in key names."

For Latin American fixed income, yields remain high. Viktor says he will look to add back duration once inflation peaks. "Latin American fixed income will be very attractive proposition, but we have a little time to wait."

Risks remain. The reversal of US monetary policy will affect the whole region, as will the potential for a policy mistake by leaving monetary policy too loose for too long. Higher taxes may dampen consumer spending, while the Covid virus continues to loom in the background. However, income assets across the region look well priced, with stable income and earnings.

Companies selected for illustrative purposes only to demonstrate abrdn's investment management style and not as an indication of performance.

Important information

Risk factors you should consider prior to investing:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.
- Movements in exchange rates will impact on both the level of income received and the capital value of your investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- The Company invests in emerging markets which tend to be more volatile than mature markets and the value of your investment could move sharply up or down.
- Certain trusts may seek to invest in higher yielding securities such as bonds, which are subject to credit risk, market price risk and interest rate risk. Unlike income from a single bond, the level of income from an investment trust is not fixed and may fluctuate.
- With funds investing in bonds there is a risk that interest rate fluctuations could affect the capital value of investments. Where long term interest rates rise, the capital value of shares is likely to fall, and vice versa. In addition to the interest rate risk, bond investments are also exposed to credit risk reflecting the ability of the borrower (i.e. bond issuer) to meet its obligations (i.e. pay the interest on a bond and return the capital on the redemption date). The risk of this happening is usually higher with bonds classified as 'sub-investment grade'. These may produce a higher level of income but at a higher risk than investments in 'investment grade' bonds. In turn, this may have an adverse impact on funds that invest in such bonds.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends with match or exceed historic dividends and certain investors may be subject to further tax on dividends.

Other important information:

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2021: record year for IPOs but which ones were the best or worst performers?

On average IPOs have performed well this year, but 2021 has also seen its fair share of flops

It has been a busy year for IPOs (initial public offerings) in the UK with over 110 companies coming to the stock market, raising over £14 billion according to the London Stock Exchange, far outstripping the £9.3 billion raised last year.

This follows similar trends seen in international markets, making 2021 the busiest year of IPO activity in over 20 years according to consultant EY.

London maintained its ranking as the biggest venue for IPOs across Europe by value of funds raised with eight international companies choosing London to list shares.

RARE UK TECH LISTING

The Main Market saw the biggest ever direct listing of a major technology company after money transfer firm **Wise (WISE)** listed in July with an £8 billion market capitalisation.

In a direct listing, no fresh funds are raised, and the company doesn't have to pay often expensive fees to investment banks to underwrite and market the shares.

Wise came to the market at 800p which means investors buying at the opening price would be underwater by around 4% at the current price of 769.4p.

AIM'S BIGGEST LISTING

Beauty products disrupter **Revolution Beauty (REVB:AIM)** was the biggest listing on the AIM market after it raised £300 million in July giving it a market capitalisation of £495 million.

Retail investors were not given an opportunity to invest at the IPO price of 160p, and the shares rose 3% on the first day of trading. Investors buying at the higher price have since lost 27% while institutions buying at the IPO price are down around a quarter.

RETAIL DISADVANTAGE

Data provided by the London Stock Exchange and analysis by *Shares* shows that retail investors have fared much worse than institutional investors in the IPO market over 2021.

Year to date the average gain since listing has been 25% based on the IPO placing price (i.e. the price available to institutional investors taking part in the offer). However, the average gain was only 10% based upon the market opening price on the first day of trading, being the first chance for retail investors to get involved.

That means retail investors have lost out to the tune of

15% on average by not being given access to IPO offers, in general.

IPO DISAPPOINTMENTS

Some shares struggle to maintain upwards momentum after they list. They can often retrace or stall following early excitement and the cannabis stocks are a good example.

Medicinal cannabis companies were given the green light to go public by the Financial Conduct Authority late last year. **Cellular Goods (CBX:AIM)** came to the market at 5p per share and the opening price was an astonishing 20p as investors raced to get hold of the shares.

They have subsequently fallen back to 7.7p leaving retail investors nursing losses of up to 61% if they bought at the top, while investors who were able to purchase at the IPO price are sitting on gains of 55%.

BEST PERFORMING LONDON-LISTED IPOS IN 2021

	IPO Price (p)	% Change since IPO	First Day Change %
BENS CREEK	10	**255%**	20%
CORNISH METALS	7	**214%**	39%
AUCTION TECHNOLOGY	600	**147%**	23%
BELLUSCURA	45	**122%**	9%
LIGHT SCIENCE TECHNOLOGIES	10	**121%**	10%
SAIETTA	120	**117%**	5%
NIGHTCAP	10	**90%**	5%
ARECOR THERAPEUTICS	226	**81%**	5%
DARKTRACE	250	**74%**	40%
LIKEWISE	25	**64%**	10%
OXFORD NANOPORE TECHNOLOGIES	425	**55%**	28%
CELLULAR GOODS	5	**55%**	300%
AVERAGE OVER ALL 2021 IPOS		**25%**	**15%**

Source: Shares, London Stock Exchange. Data to 8 Dec 2021 • Created with Datawrapper

Best and Worst

Cyber security artificial intelligence firm **Darktrace (DARK)** joined the market in April amid some fuss about its links to Mike Lynch who is embroiled in a fraud trial.

The IPO price was cut to get the float away and the shares subsequently jumped 40% on the listing price of 250p and very quickly climbed to around £10 before collapsing back to the current 434p. Despite the drama, the shares are still up a respectable 74%.

After Peel Hunt initiated research on the stock with a sub-500p price target, profit taking set in, while insiders cashed in some of their shares adding to selling pressure.

The best performers have been firms operating in the resources sector. **Bens Creek (BEN:AIM)**, which operates metallurgical coal mines in the US and listed in the middle of October, has seen its shares rise 255% from the IPO price.

Shares in strategic metals miner **Cornish Metals (CUSN:AIM)** have risen 214% since listing in February.

Two of the companies which did offer shares to retail investors at IPO have been among the worst performers. These are food delivery companies **Deliveroo (ROO)** and **Parsley Box (MEAL:AIM)**, down 32% and 77% respectively.

Parsley Box, which delivers ready meals to the over 60s, came to the market in March at

WORST PERFORMING LONDON-LISTED IPOS IN 2021

	IPO Price (p)	% Change	First Day Change %
PARSLEY BOX	200	**-77%**	3%
CIZZLE BIOTECHNOLOGY	10	**-64%**	15%
ALPHAWAVE	410	**-58%**	0%
CORNERSTONE FS	61	**-56%**	2%
IN THE STYLE	200	**-49%**	14%
SERAPHINE	295	**-42%**	3%
VICTORIAN PLUMBING	262	**-40%**	16%
DELIVEROO	390	**-33%**	-15%
MADE.COM	200	**-32%**	0%
SPECTRAL MD	59	**-32%**	5%

Source: Shares, London Stock Exchange • Created with Datawrapper

200p. The shares gained 3% at the market open on its first day of dealing but they faltered in July after the company warned of slower sales growth following the relaxation of Covid-19 restrictions.

Food delivery company Deliveroo had one of the worst IPO debuts on record after dropping around 30% from the 390p listing price as investors balked at its dual class voting structure while there were also concerns over increased regulation protecting its workers' rights.

By **Martin Gamble**
Education Editor

Two charts that show why you should ignore China's index

By Robin Parbrook, fund manager, Schroder Asian Total Return Investment Company

Despite the doubters, China has not become uninvestable. But which Asian stock market has performed best since the MSCI China index was launched in 1992?
Clue: it's not China.

Following the regulatory crackdown and increased government intervention in markets, I am frequently being asked whether the Chinese stock market is now uninvestable for overseas investors.

Or, as the more bullish investors claim, with economic growth set to exceed developed economies, is a significant strategic weighting in Chinese shares merited?

The first comment we always make here is investors must remember that stock market returns and economic growth do not correlate, particularly in the case of emerging markets.

The chart below is one we often refer to. It shows that the best performing stock market in the 20th century was Australia, closely followed by Sweden. Neither had anywhere near the best economic growth rate (using real per capita GDP growth) over that period.

Returns versus GDP in the 20th century

Why was this? Clearly, returns on a stock market reflect the returns of the stocks listed in that market. The quality of those companies (management, industry and countries in which they operate etc) will define returns.

Even where we have domestically-orientated stock markets, returns will be affected by proper legal systems and protection of property rights. This at least in part explains why stock markets based in countries with sound government and independent legal systems like Australia and Sweden have done well.

What about more recent performance in Asia - does the thesis still hold true?

The following chart has the respective MSCI returns (all in US dollars) from December 1992 when the MSCI China index was first launched.

As can be seen, the MSCI China has had the poorest returns over the period. The index is still actually below its starting level and even with dividends reinvested has only returned 1.9% p.a. over 30 years.

Our colleagues on the Japanese equities desk in London were particularly cheered to note that over this period the MSCI Japan has produced more than double the return of the MSCI China at 164% vs 75%.

Asian market returns in USD since the launch of the MSCI China Index (31 December 1992

Index	Price change (%)	Total return (%)	Annualised (% p.a.)
MSCI Australia	345.2	1,892.30	11
MSCI India	701.5	1,128.20	9.1
MSCI Hong Kong	321.9	949.7	8.5
MSCI Taiwan	352.4	849.8	8.1
MSCI Korea	412.4	699.6	7.5
MSCI Singapore	152.2	525.5	6.6
MSCI Indonesia	137.1	384.3	5.6
MSCI Malaysia	46.3	241.8	4.4
MSCI Philippines	68.2	198.2	3.9
MSCI Thailand	21.3	167.7	3.5
MSCI Japan	72.3	164	3.4
MSCI China	-10.8	75	2

Source: Bloomberg, as at 7 October 2021

Past performance is not a guide to future performance and may not be repeated.

The best performing market by some margin over the period is the MSCI Australia, which has returned 1892% or 11% p.a., which is actually slightly more than MSCI USA.

The ASEAN markets with a history of relatively poor capital allocation and government interference have offered mediocre returns, whereas those countries with better property rights and legal protection and few state-owned enterprises (Hong Kong, Taiwan and Korea) have done materially better.

Only India, where private sector banks and domestic entrepreneurs have been allowed to operate with less government interference, has really lived up to the emerging market promise.

Clearly on a long-term basis it would be hard for me to claim a large strategic weighting is justified to Chinese equities. This based on, firstly, past experience and, secondly, the fact that regulations appear to be moving China away from a market economy with property rights, to a socialist economy with a larger state.

So, does this mean China is uninvestable?

No, it does not, but clearly buying a Chinese ETF to us looks an extremely unappealing long-term investment.

For some time, we have thought large parts of the Chinese market are uninteresting to us as Asian equity investors. These being the state-owned enterprises (banks, telecoms, utilities), heavy industry and mining (ESG and overcapacity), and real estate (overcapacity, opaque balance sheets, demographics).

This has left us focussed on internet stocks, insurance, selected healthcare, higher-end manufacturers and technology stocks and consumer-related names. What the current regulatory barrage has done is cause us to re-evaluate the exposure we want to have to internet, insurance and healthcare stocks as clearly some of them will become more regulated as their priority moves to helping achieve “common prosperity”.

So, China hasn’t in my mind become uninvestable.

Instead, the range of industries and stocks we are interested in investing in has become narrower, and the valuation we are willing to pay for certain stocks is lower, reflecting the new risks.

Many active China fund managers, including our esteemed colleagues Jack Lee and Louisa Lo, have demonstrated you can make good returns by investing in Chinese equities.

The key in China is to ignore the overall index as so much of it is fundamentally unattractive and instead really focus on stock picking. The universe in China is large so - despite regulatory concerns - many good investment opportunities exist.

For more information on investment trusts at Schroders, subscribe to our newsletter.

Fund managers pick their top stocks for 2022

The selection includes an automotive group, a big tech firm and an electronic monitoring leader

In the first of a two-part series *Shares* talks to a range of fund managers about the stocks they like for 2022. Covering both UK and overseas markets, the experts offer a range of ideas spanning technology and banking to leisure and automotive sectors.

The second part of the series (to be published on 23 December) will reveal a selection of fund managers' biggest disappointments for 2021 and why their investment thesis didn't play out as expected.

Samantha Gleave co-manager

Liontrust European Growth Fund (B4ZM1M7)

STOCK PICK: DAIMLER (DAI:ETR)

From the perspective of Liontrust's 'Cashflow Solution' investment process, German auto firm Daimler continues to score very well. This includes a top decile score for its momentum/growth, a good cash return score, and it is sitting in the top decile on recovering value and contrarian value.

The business, which owns Mercedes Benz, is showing good momentum following the disruption from Covid, with the order backlog at a record level.

A significant cost restructuring programme is underway including a 20% reduction in its fixed cost base.

Finally, as it moves to become a luxury, electric carmaker, Daimler's trucks business has just been demerged with a separate stock market listing.

James Henderson co-portfolio manager

Henderson Opportunities Trust (HOT)

STOCK PICK: SPRINGFIELD PROPERTIES (SPR:AIM)

Springfield is solely a Scottish housebuilder. There has been less house price inflation in Scotland than in much of the rest of the UK. This means there is a bit of catch-up happening.

There is real demand for good quality housing in Scotland and Springfield is the market leader. It is developing villages and building outside the major cities.

Springfield recently made a very good acquisition of a private housebuilder that completes its geographical spread in Scotland. It has a large land bank, and it should achieve good margins on its house price sales.

Dan Nickols
head of strategy

Jupiter's UK small and mid-cap team

STOCK PICK: DE LA RUE (DLAR)

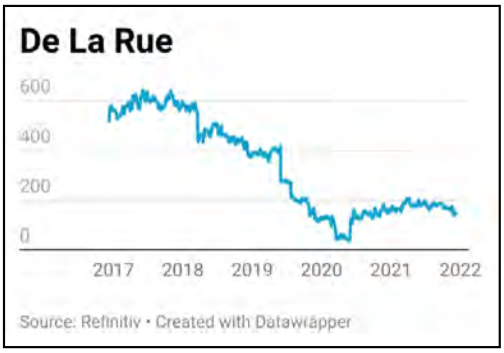
I am optimistic about De La Rue going into 2022. I think this company is misunderstood by the market – the perception is that as a producer of banknotes, its future will be negatively impacted by the switch to cashless payments.

This view ignores the global perspective, where banknotes remain the main form of exchange, particularly for largely unbanked populations.

Moreover, there will be a powerful shift towards the use of polymer banknotes and De La Rue is a global leader in this space.

The company also has expertise in so-called authentication products which, for example, protects brand owners against counterfeit goods.

The business is under strong new management who have delivered a successful turnaround and the balance sheet is sound. Despite this, the shares (based on consensus forecasts, which we consider to be realistic) trade on a lowly price to earnings multiple of 9.1 for the year ending March 2022, falling to 7-times for March 2023. As the company delivers against these forecasts, an upwards rerating should follow.



Stephen Yiu
fund manager

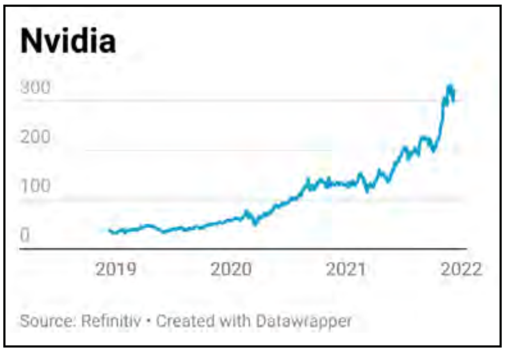
Blue Whale Growth Fund (BD6PG78)

STOCK PICK: NVIDIA (NVDA:NDQ)

You may not have heard of Nvidia but there is a chance you're already a regular user of one of the many services its silicon chips enable. These include video recommendations on TikTok, grammar checks in Microsoft Word and augmented-reality shopping experiences on Facebook.

Nvidia's premium processors were initially used for graphics-heavy computer games but their ability to accelerate the speed of data processing was quickly discovered by the major cloud service providers such as Amazon Web Services, Google Cloud Platform and Microsoft Azure. They have now become the gold standard for running apps and processes in the cloud.

I believe Nvidia's opportunity lies at the confluence of three major secular trends over the next decade – artificial intelligence, augmented reality and 5G – all three of which drive increasingly higher demands on processing power, something Nvidia is well-positioned to supply.



Charles Montanaro
fund manager

Montanaro UK Smaller Companies (MTU)

STOCK PICK: **WATCHES OF SWITZERLAND (WOSG)**

My choice is for a company that will benefit as the economy reopens with a gradual return to pre-pandemic times: Watches of Switzerland.

The UK's largest luxury watch retailer operates in both the UK and US with leading brands such as Rolex, Cartier, OMEGA, TAG Heuer, Breitling, Audemars, Piguet, Tudor and Patek Philippe.

The recent Bond film *No Time to Die* saw sales of the Omega Seamaster Diver 300M 007 edition go through the roof.

Growth should continue thanks to five new stores in the US bringing the total to 36 in 12 states; an increasing perception of watches as an investment alongside art or wine; consumers with plenty of cash to spend; and a return to travel which should boost airport/tourism sales.

Its share of Rolex sales has quadrupled to 50% in the UK over the past decade driven by an astute and ambitious management team with high aspirations.

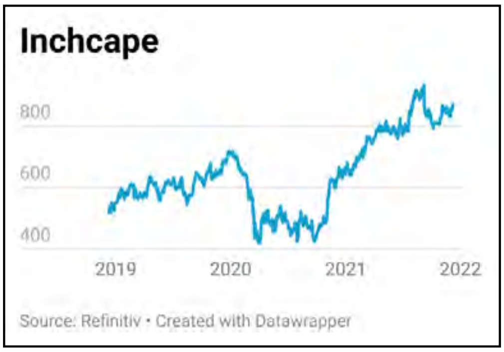
Charles Luke
fund manager

Murray Income Trust (MUT)

STOCK PICK: **INCHCAPE (INCH)**

One stock in the portfolio with bright prospects for next year is car distributor Inchcape. Firstly, I think the company's distribution business is of higher quality than the market gives it credit for, given its high returns on capital, close customer relationships and attractive margins.

Secondly, I think the growth potential of the business is also not widely understood. It has exposure to high growth markets, distribution consolidation opportunities, the ability to increase aftermarket profits, potentially larger M&A activity given the company's strong balance sheet, with all of that accompanied by an attractive dividend yield and modest price to earnings multiple.



Richard Penny
fund manager

TM CRUX UK Special Situations Fund (BG5Q5X2)

STOCK PICK: **XP FACTORY (XPF:AIM)**

The share I am most optimistic about for 2022 is XP Factory, previously known as Escape Hunt.

The company has done a transformational deal to buy Boom Battle Bars, a leisure-led bar operation not dissimilar to Flight Club and Putt Shack.

For some time, I have been looking for a hospitality or leisure play that can take advantage of the exceptional property deals that have become available post pandemic.

Boom Battle Bars has an advanced pipeline of 22 sites, many opening in 2022. There are extremely attractive deals from landlords including 50% to 75% of fit out costs, up to two-year rent-free periods and 30%-plus discounts to previous rental levels.

I do believe the Boom Battle Bars concept is attractive to consumers, but the property deals are what can really transform XP's economics.

While I do not believe these shares are for widows and orphans, two of the companies' new sites at Oxford Street and the O2 centre in London have the potential to justify the purchase price recently paid.

Thomas Moore
fund manager

ASI UK Income Unconstrained Fund (B79X967) / ASI Income Focus Fund (BD9X6D5)

STOCK PICK: **GLENCORE (GLEN)**

Miner and commodities trader Glencore appears well positioned looking ahead to 2022.

The green revolution will drive increased demand for some of Glencore's key commodities, including copper, cobalt, nickel and zinc.

At the same time, we see supply remaining constrained, driving up the prices of these commodities.

At spot commodity prices, Glencore trades at a free cash flow yield of over 20%. In other words, it would generate its entire market capitalisation in cash in just five years, highlighting the significant value we see in the shares.

Abby Glennie
fund manager

ASI UK Mid-Cap Equity Fund (B0XWNT2) / ASI UK Opportunities Equity Fund (B7LZCR3)

STOCK PICK: **BIG TECHNOLOGIES (BIG:AIM)**

We believe this company has bright prospects for 2022 and beyond. Big Technologies listed in recent months, and is a global leader in electronic monitoring, led by the founder Sara Murray who also founded Confused.com.

It has market leading technology in an industry where there is strong potential to disrupt incumbents who often only hold their position due to being part of larger services businesses.

The reliability of its product drives a better outcome for both the offenders and the welfare authorities. Compliance improves, the quality of experience is better, and the cost of tagging and monitoring individuals is lower due to fewer faults and a simple to implement product.

The company already has contracts in a range of countries around the world. We believe these provide revenue visibility as they will repeat, and it will continue to win new work. It also has opportunities to use the technology in health and care markets.

Simon Edelsten
co-manager

Mid Wynd Investment Trust (MWY) and Artemis Global Select Fund (B568S20)

STOCK PICK: **YASKAWA (6506:TYO)**

Currently the US is the main economy recovering from lockdown. Despite further virus variants delaying recovery, over the next year we expect more economies to pick up.

The best potential may be in Asia, where companies are determined to invest in growth and improve the quality of their products. We therefore expect our Japanese automation holdings to see strong growth in income next year.

A lot of these companies have seen extremely good orders coming in, but they've not been able to fulfil those orders because of supply chain issues. Over the next 12 months the blockages should lift.

We have high hopes for the automation theme in the year to come and a company like Yaskawa, the world's second largest manufacturer of robots, is central to this theme.

Michael O'Brien portfolio manager

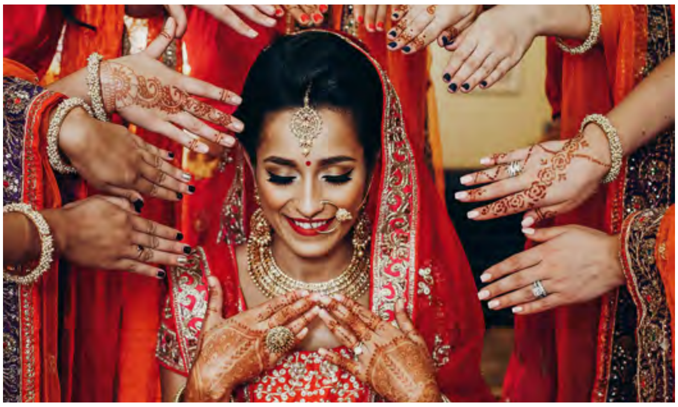
Fundsmith Emerging Equities Trust (FEET)

STOCK PICK: **PB FINTECH (543390:BOM)**

At Fundsmith we rarely buy companies when they first come to the stock market, but we have bought a stake in PB Fintech. It operates the PolicyBazaar platform and is the largest online distributor of life and health insurance to retail customers in India.

Since inception in 2008 PB Fintech has increased its share of the overall insurance product market to 7% and its share of the online segment is 65%.

Its operationally geared business model places it in good stead to grow returns strongly, especially given that revenue growth has averaged 35% over the last three years despite the pandemic.



PB Fintech is well placed to benefit from population growth, increased income and changing purchasing habits and the sector in which the business operates is forecast to grow at an annual compound rate of c.20% over the course of this decade.

Rajendra Nair portfolio manager

JPMorgan Indian Investment Trust (JII)

STOCK PICK: **HDFC BANK (HDFCBANK:NSE)**

While the near-term outlook of India is undoubtedly dependent on the trajectory of the pandemic, the investment case for the asset class remains compelling in the long term.

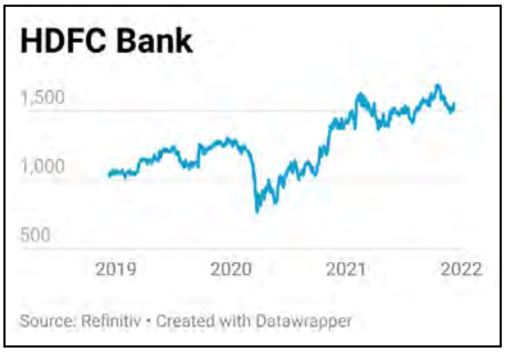
After a period of weak earnings over the past few years, India has been forecast to deliver the fastest growth rate of any major country over the next decade. With over 480 million Indians under the age of 20 — considerably more than the entire 370 million population of Northern America — the working age population of India is also set to grow strongly.

Moreover, as India remains an early-stage growth economy, we are continuing to identify superior growth opportunities with a long-term horizon. In this context, financials, particularly private banks, are the biggest holding in the JPMorgan Indian Investment Trust.

The market for financial products in India is growing rapidly. Well-run Indian private banks have the unique opportunity to grow across economic cycles by gaining market share from weaker state-owned banks.

We've had a long-term overweight in private sector banks, such as HDFC Bank, India's largest private sector lender. During the pandemic, despite financials being in the eye of the storm, HDFC proved its resilience and continued to gain market share.

We believe this opportunity remains intact and we remain very optimistic on HDFC's proposition over the long term.



WHAT TO EXPECT IN 2022

Outlook for markets, inflation, interest rates, earnings, dividends and more

A year ago *Shares* said it was feeling more optimistic about the year ahead. Despite inflationary pressures, stock markets overall have delivered good rewards for investors in 2021 and Covid vaccines have helped to restore some sense of normality.

As we move into 2022, the outlook is still upbeat although there are plenty of factors which could trip up markets.

This article pieces together all the key issues and offers various opinions from the *Shares* team and experts in the investment world as to where you might want to put your money, and the risks to consider.

It is intended to provide food for thought rather than a precise investment plan. It should help with your own investment research and make you better informed for the 12 months ahead.

By **The Shares Team**

WHAT WILL HAPPEN TO INFLATION IN 2022?

Federal Reserve chairman Jerome Powell spooked markets this month when he suggested inflation may no longer be as 'transitory' as previously thought.

With US inflation hitting levels not seen in three decades and Chinese producer prices rising at the fastest pace in 26 years, policymakers and business leaders are right to be concerned.

Yet the arrival of the Omicron variant may have handed governments a 'Get Out Of Jail Free' card.

As UBS Wealth Management chief economist Paul Donovan points out, the response to Omicron doesn't need to be the same as in March last year. Vaccination programmes are well advanced around the world, and there is no need to implement widespread lockdowns.

Just as manufacturers slammed on the brakes last year, consumers found themselves time-rich and cash-rich thanks to government handouts, creating a massive supply-demand imbalance which led to strains on the global supply chain, which fed through into higher prices.

Without the same level of disruption or welfare, Omicron could be a deflationary force. The reaction of the Brent crude oil price, which dropped 15% within days, was extremely telling.

Moreover, companies have adapted to the supply chain squeeze and evidence suggests consumers have pulled forward their spending, so the inflationary impulse could be much weaker. [IC]

WHAT IS THE OUTLOOK FOR INTEREST RATES?

The US Fed was already facing a tricky 2022 even before the Omicron variant appeared as it tries to walk a fine line to keep the economy bubbling along while also removing emergency liquidity and normalising monetary policy.

Earlier in December, Fed chairman Jay Powell said the US central bank would discuss speeding up the removal of asset purchases. This means interest rate rises could start earlier next year than previously thought.

The key question for investors now is how high Fed policy rates will go and according to fund manager David Roberts at Liontrust Asset Management, the bond market is pricing in a peak far below the Fed's assumption of 2%, implying only a couple of rate rises.

Economist Mohamed A. El-Erian is in the camp which believes the US economy is far too indebted to withstand more than a couple of interest rate rises.

At the other end of the spectrum economists at Bank of America believe the economy is strong enough to allow the Fed to hike more aggressively.

In the UK, the Bank of England was scheduled to decide on rates today (16 Dec). We wouldn't be surprised to see it hold off from putting up rates amid near-term uncertainty from the Omicron variant, and instead put up them up in the first quarter of 2022 assuming Covid pressures ease. [MGam]

WHAT'S ON THE AGENDA FOR TAX?

There is a risk that increasing tax burden acts as a brake on UK corporate profitability, economic growth, and job creation.

According to independent fiscal watchdog the Office for Budget Responsibility, taxes are now at a level not seen since the early 1950s. This follows the decision by chancellor Rishi Sunak to increase taxes by £40 billion.

On 7 September 2021, prime minister Boris Johnson announced the National Insurance contributions rate will rise by 1.25 percentage points at the start of the new tax year in April 2022.

This additional cost for employers may act as a disincentive for additional hiring and job creation. Furthermore, the intended increase in corporation tax from 19% to 25% in 2023 is the first attack on company profits since Labour chancellor Denis Healey raised corporation tax in 1974 in the wake of the three-day week.

The decision to freeze personal income tax allowances from April 2022 until 2026 is not a positive move for individuals. It means more people will be paying taxes as wages rise. [MGar]

WHAT ARE THE KEY GEOPOLITICAL RISKS TO CONSIDER?

There are sufficient issues bubbling away for geopolitical tensions to be a major risk to global markets in 2022.

First there is an increasing risk that technology decoupling between the US and China becomes more pronounced.

Competition between the US and China is heating up as both countries are focused on mitigating vulnerabilities.

The US Senate has passed industrial legislation aimed at enhancing US competitiveness in critical technologies, and the Securities and Exchange Commission is increasing disclosure requirements for Chinese companies listed in the US.

This pressure between the two global superpowers has culminated in the ride hailing company Didi saying it will delist from the New York Stock Exchange. This marks a disconcerting acceleration in China's decoupling from American capital markets.

The second key geopolitical risk is that China takes military action to accelerate reunification with Taiwan, or more forcefully asserts claims in the South China Sea.

In early October, 38 Chinese military jets crossed into Taiwanese airspace as Beijing marked the anniversary of the founding of the People's Republic of China. In response Taiwan scrambled fighters to warn away the Chinese aircraft.

Then there are heightened tensions between Russia and Ukraine. Speculation is growing that Russian troops are ready to invade the country, possibly as soon as January. [MGar]

WILL GREEN/ESG FACTORS REMAIN IN VOGUE?

A key coda of the COP26 climate change summit in Glasgow in November was the part of the agreement which required countries to come back to the table to revisit and strengthen their 2030 emissions targets by the end of 2022.

This should help give focus to the market's sustainability and environmental considerations as we move through the course of next year.

Janus Henderson's global head of ESG investments Paul LaCoursiere says: 'ESG investing is evolving at an unprecedented pace and we see no reason to expect this to slow in the year ahead.'

Bank of America commodity strategist Michael Widmer points out that revised emissions targets may have implications for metals prices as it will remind people that 'the more aggressive you are with targets, the more mined commodities you need to maintain a modern lifestyle'.

In other words, there will be greater demand for the raw materials required for electric vehicle and renewables infrastructure. [TS]

WHAT IS THE OUTLOOK FOR EARNINGS GROWTH IN 2022?

There is a great deal of noise in the stock market, largely stemming from the uncertainty surrounding new Covid variants, potential lockdowns and inflation. But when push comes to shove, it is the earnings and cash flow companies generate that drive stock markets and share prices in the long-run, and the outlook for earnings is good according to many analysts and fund managers.

Goldman Sachs estimates that FTSE 100 earnings will grow 9% in 2022, nearly twice the 5.1% UK inflation figure for November, and almost three times that of next year's projected 3.3% average.

Berenberg sees 10% to 15% growth in earnings per share for stocks in Europe in 2022. 'Equity markets tracked earnings in the 2003-2007 period; since then, equity markets have more closely tracked liquidity, especially over the past 18 months. Further share price gains from here require either another excess liquidity injection (unlikely, in our view) or earnings to take the baton and support equities.'

The investment bank says earnings revisions remain positive, with medium-term earnings growth expectations also looking supportive. It says delivery of these growth expectations should be positive for equity markets, but flags key risks as including more supply chain disruption and inflation/margin pressure.

James Rutland, who manages funds for Invesco, believes that GDP could surprise on the upside in 2022, especially in Europe, and that would be very positive for share prices.

'Corporate earnings expectations remain modest, so I anticipate upgrades to company forecasts as better GDP flows through to sectors,' he says. [SF]

DIVIDENDS WILL BECOME MORE IMPORTANT

There is a growing view among market experts that returns from equities could be a lot less in 2022 than we saw this year, with dividends making up a more significant proportion of those returns.

'High valuations today imply low returns, that's across all asset classes,' says James Harries, manager of Troy's **Trojan Global Income Fund (BD82KP3)**. 'A lot of the areas which traditionally paid an income are being disrupted and they need to be avoided. You need to focus on businesses that have sustainable competitive advantages, are not subject to technological disruption, but are still able to pay and grow dividends.'

Savita Subramanian, equity strategist at Bank of America, says dividend growth has lagged earnings growth because companies were hesitant to be too generous with dividends during the pandemic because of the less certain environment. That might change.

Examples of dividend yields in major markets

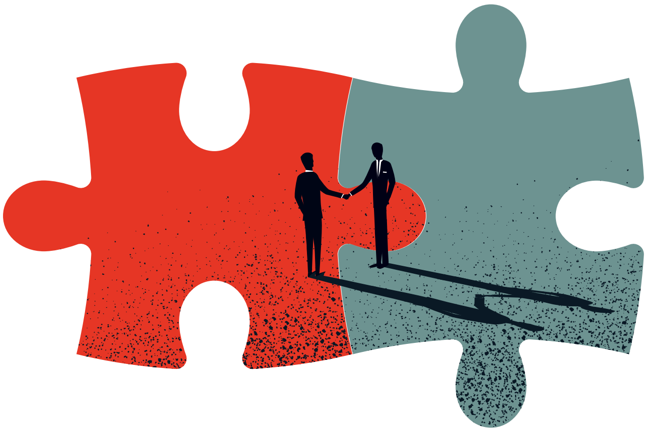
Bovespa (Brazil)	8.5%
Moex (Russia)	6.6%
FTSE 100 (UK)	3.4%
TSX (Canada)	3.1%
S&P BSE Sensex (India)	2.9%
Dax (Germany)	2.2%
Cac 40 (France)	2.2%
S&P 500 (US)	1.7%
CSI 300 (China)	0.9%

Data on 10 Dec 2021
Source: Refinitiv • Created with Datawrapper

She says: '40% of the gains of the S&P 500 have been from dividends since the 1930s. Today, dividends are depressed, but we are forecasting that dividends grow twice as fast as earnings in 2022.'

Although there are still supply chain and inflationary pressures, most companies will no longer be worried about severe Covid-related disruption and so they might have more confidence to raise dividends in 2022.

'Companies are in a good position to deploy their excess cash in any number of ways, including investing in their businesses, making acquisitions, paying down debt, buying back shares or distributing more to investors via dividends,' comments Sue Noffke, head of UK equities at Schroders. [DC]



THE OUTLOOK FOR MERGERS AND TAKEOVERS IN 2022

We've just had a banner year for global mergers and acquisitions as the world economy bounced back from pandemic-induced lockdowns in 2021 and these animal spirits look set to persist well into 2022, with technology and asset management among the most sought-after industries.

Theta Global Advisors' Chris Biggs sees 2022 being 'a historic year' for mergers and takeovers as a large amount of uncertainty melts away that has lingered from Covid and Brexit. He says: 'It is a perfect storm of returning optimism, loosening restrictions and undervalued firms.'

Alex Wright, manager of **Fidelity Special Situations (B88V3X4)** and **Fidelity Special Values (FSV)**, points out UK equities remain significantly undervalued compared to global markets and reasonably valued in absolute terms. He comments: 'This has been reflected in a meaningful uptick in M&A activity.'

In 2022, he believes we are likely to see more bids if valuation discounts compared to overseas companies do not close.

Shares expects to see additional bids for constituents of the FTSE 250 index, known for being the most dynamic segment of the UK stock market and going through an exceptionally busy period for M&A. [JC]

WHAT'S THE OUTLOOK FOR US STOCKS IN 2022?

The US stock market has derated this year, despite appearances, and growth next year could be slower while inflation continues to rise.

Despite all the challenges thrown at the US this year – supply chain issues, soaring inflation, a Chinese crackdown on tech stocks and signs of the end of easy money – the S&P 500 index still managed to post a 20% advance between January and October.

Meanwhile, earnings have risen almost 30% this year, ahead of forecasts and ahead of the stock market, which means US shares are actually cheaper than they were a year ago.

Operating margins for the S&P 500 are expected to have hit an all-time high of almost 13% in the third quarter, so is this as good as it gets?

Analysts at Bank of America are forecasting a 2022 year-end level for the index of 4,600, meaning no change from today's level. Beneath the surface however, they see earnings rising 6.5% and dividends rising at twice that rate, with industrial spending taking over from consumer spending as the main driver of the economy.

Consumers have plenty of cash, but they have already splurged on 'stuff' and higher energy costs will crimp future spending, whereas companies have under-invested for over a decade and need to invest in supply chain improvements and technology, in particular automation given the sharp upward trend in labour costs.

Berenberg states that US mid-caps now look more attractive than large caps, saying they are cheaper, have higher earnings per share growth and surplus free cash flow.

Across the entire market, autos, travel and leisure, energy and technology have the strongest earnings per share growth expectations over the next one to three years. [IC]

WHAT'S THE OUTLOOK FOR UK STOCKS IN 2022?

There's no doubt the UK equity market is cheap, yet while the S&P 500 has soared 27% this year, the FTSE 100 is up just 11% so far, meaning the valuation gap between UK and US stocks has widened even further.

According to Sue Noffke, head of UK equities at investment manager Schroders, the UK stock market is now trading at a discount of more than 40% to its global peers, the biggest divergence in over 30 years.

Valuation by itself isn't a catalyst – what's needed is for companies to deliver strong earnings growth. The good news is they have plenty of cash to invest in their businesses and grow, the bad news is the FTSE is laden down with large stocks with low growth prospects.

Mid-caps are likely to see better growth, as they have historically, and the wave of M&A which has swept the UK this year shows that corporate insiders and outside investors think the market is still cheap, especially with sterling weakening.

The key to sentiment is inflation and interest rates. If supply side challenges ease and the Omicron variant depresses consumer demand, inflation should ease and the Bank of England may hold fire on raising rates until later next year, giving investors the green light to buy equities. [IC]

WHAT'S THE OUTLOOK FOR EUROPEAN STOCKS IN 2022?

According to data from Barclays the CAPE ratio – a metric devised by economist Robert Shiller which divides market prices by 10-year earnings – for Europe at the end of October was somewhere inbetween the UK (17.5) and the US (39.1) at 24.

Putting the obvious risks posed by Covid variants to one side, the first half of 2022 could see the momentum in European stocks continue, with quarterly earnings likely to continue to grow compared with a disrupted start to 2021.

However, things could get trickier as the year progresses as the European Central

UK shares unloved with relative valuations extremely low in a historical context

Source: Schroders, Morgan Stanley Research.
1 January 1988 to 30 November 2021. MSCI UK versus MSCI World.
Valuation ratios: PE = price to earnings, PBV = price to book value, PD = price to dividends

Bank tightens the purse strings and earnings comparisons with the second half of 2021 prove more demanding.

There is the potential for help from already sanctioned government stimulus. Invesco's head of European equities John Surplice says: 'In Europe, the disbursement of EU "recovery" funds has only just begun and can be much more meaningful in 2022.' [TS]

WHAT'S THE OUTLOOK FOR EMERGING MARKET STOCKS IN 2022?

Many investors are bullish about emerging markets for 2022, hoping to play a vaccinations-driven catch-up trade and that sentiment towards China will improve amid further easing measures and that we've seen the worst of regulatory interference.

There is also optimism with regards to India, which is benefiting as companies seek to reduce risk by diversifying supply chains beyond China and with the Indian government now prioritising growth over reform.

However, Gary Greenberg, Federated Hermes' head of global emerging markets, is more cautious on emerging markets for several reasons. He points out monetary tightening in the US looks increasingly possible, which would strengthen the dollar and weaken those emerging economies reliant on foreign portfolio inflows.

Vaccination progress is also likely to remain pedestrian in many emerging market countries, holding back economic progress. Greenberg also warns that 'many of the most attractive business models in emerging markets are highly rated, and vulnerable to derating if US interest rates rise (as are their global peers)'.

Also cautious on emerging markets is Jeremy Podger, manager of the **Fidelity Global Special Situations Fund (B8HT715)**. 'Unlike developed markets, they have not seen a rise in underlying profitability over the past several years and most EM countries have not had the fiscal flexibility to boost their economies through the pandemic,' says Podger. 'They appear relatively cheap, but not to the extent seen at the height of the tech bubble in 2000.' [JC]

WHERE SHOULD YOU INVEST YOUR MONEY IN 2022?

Having spoken to a wide range of experts for this article, there were some shared views among many of the commentators with regards to where investors might want to put their money in 2022.

For equities, a preference has been given to quality companies which are generating lots of cash today, rather than in the future.

'Quality is the best hedge against volatile markets, and a Fed hiking cycle means that cash is moving from being worthless to worth something,' says Savita Subramanian, equity strategist at Bank of America. 'Our preferred sectors generally sport high free cash flow and high quality. Within large companies we would focus on those with stable and growing dividends that will benefit rather than be hurt from inflation.'

She likes the energy and financial sectors for dividends and healthcare for secular growth at a reasonable valuation.

Technology companies that provide products and services to help automation could be interesting places to invest. Companies may well spend more on capital expenditure and the current inflationary pressures will have spurred boardrooms to discuss the long-term benefits of automation.

Be careful with technology stocks that do not make a profit as there is a growing view these could fall out of favour with investors next year.

Bank of American favours value over growth, referring to when you can pay a cheap valuation to access companies that offer more modest levels of growth today rather than paying up to access potentially faster levels of growth in the future.

JPMorgan also sees an opportunity with value stocks. It says: 'Investors should avoid recency-bias. The performance of growth stocks dominated the last cycle. But the macro backdrop looks more akin to the 2000s cycle than the post-Global Financial Crisis cycle. We should remind ourselves that in the 2000s cycle it was value that outperformed.'

The asset manager says investors should not abandon growth altogether. Some technology stocks will continue to benefit from structural trends such as digital and technological transformation. 'But investors must remain wary of stocks trading on high valuations that have been primarily driven by the plentiful liquidity conditions that central banks have provided. In a world where the tide of liquidity begins to turn, these names are likely to struggle the most.'

We're in a rising bond yield environment and that could trigger a rotation in the market with investors switching out of certain sectors and into others. JPMorgan says financials, industrials, energy, materials and consumer discretionary tend to outperform the broader market (as measured by the MSCI AC World index) when bond yields are rising. Technology, healthcare, utilities and consumer staples are among the sectors that have historically underperformed in this environment, along with real estate.

Interestingly, Invesco argues that real estate investment trusts have the potential to make the best returns in 2022. '(Real estate) may suffer a loss of demand for office and retail space as a result of Covid-19, but we find the yields to be attractive and expect growth to resume as economies recover,' says the asset manager.

WHAT SHOULD YOU OWN IN DIFFERENT SCENARIOS?

Invesco has created a list of assets to own depending on the backdrop, as well as the likelihood of each scenario happening in 2022.

Its base case is moderating growth and transitory inflation which, in its view, favours owning emerging market assets, real estate, credit (mainly high yield bonds) and a mixture of quality andcyclical equities. [DC]

Invesco's view: what to own in different scenarios

BASE CASE: moderating growth and transitory inflation
Probability: 60%
Favoured assets in this scenario include:
emerging markets, real estate, credit, equities (price momentum and quality factors, technology, financial services, basic resources, retailers)

STAGFLATION: recession and high inflation
Probability: 15%
Favoured assets in this scenario include:
inflation-linked bonds, equities (gold miners, low volatility), gold

BENIGN DISINFLATION: high growth and low inflation
Probability: 15%
Favoured assets in this scenario include:
equities (consumer discretionary, technology, growth, quality), real estate, high yield credit

RECESSION: recession and low inflation
Probability: 5%
Favoured assets in this scenario include:
government bonds, gold, defensive equities (utilities, low volatility)

BOOM: high growth and high inflation
Probability: 5%
Favoured assets in this scenario include:
industrial commodities, emerging market assets, real estate, equities (industrials, basic resources, banks and value)

Source: Invesco, November 2021

WHAT ARE THE RISKS TO THE CONSENSUS OUTLOOK?

The consensus view seems to be that markets will muddle through next year, navigating higher inflation and higher interest rates while earnings growth – which has surpassed all expectations this year – returns to a more normal level.

Among the more obvious risks to this scenario are further lockdowns due to new, more virulent Covid strains, unexpectedly weak corporate earnings which cause markets to derate, a credit crisis in the Chinese property sector as banks withdraw lending in the wake of Evergrande, and a full-blown conflict over Ukraine or Taiwan.

However, the strategists at Saxo Bank have their own, more outrageous suggestions, which not everyone will like.

Most striking is the call that US inflation could top 15% by 2023 due to double-digit wage hikes as companies struggle to replace workers lost during the pandemic.

In a repeat of the late 1960s, the Federal Reserve may misjudge how 'hot' it can let the labour market run before it raises interest rates, resulting in a dramatic wage-price spiral. When it does finally react, it will have lost credibility.

Just as troubling, the Saxo team suggest that the US mid-term elections next November could end with no clear winner, creating a constitutional crisis which without question would send US Treasury bills, stocks and the dollar crashing. [IC]

Five expert tips for choosing a fund manager

We asked the expert fund selectors at Willis Towers Watson what they look for when they're trying to identify a winning fund…

For ordinary investors, choosing a fund can be a major challenge. We are told that past performance is not a guide to future returns, but it can be very tempting to ignore that advice and for many this is the first point of call (in our view erroneously) when it comes to deciding where to invest their hard-earned savings.

Clearly, a strong track record has its appeal, but a rigorous approach to choosing a fund – considering more than just performance – is essential.

Willis Towers Watson (WTW) is responsible for choosing the fund managers who run the underlying funds for **Alliance Trust (ATST)**, a £3bn investment trust which offers a diversified and actively managed exposure to global equity markets.

We asked them for some tips on doing the job properly…

People power

WTW place a great degree of emphasis on the culture of the companies they choose as asset managers.

WTW prefer to partner up with asset managers that are comfortable running concentrated mandates (not all are), have a longer-term horizon and look at risk as a permanent loss of capital as opposed to the risk relative to the benchmark.

The calibre of the people, and the resources they have access to are one factor to consider here, and the stability of the team behind the fund is another. Understanding how the team is incentivised, and rewarded for success, can help to identify managers whose interests are aligned with those of their investors.

Research and resources

Analysis of the market in which a manager operates – and particularly any structural headwinds that they may face – is a good starting point before one moves on to examine the resources which they have access to when it comes to making money in that market.

Understanding the resources that a fund manager has access to helps to establish the competitive advantage that they might have, which is a crucial element of success according to WTW, but a large team of analysts isn't necessarily evidence of a superior manager. WTW say: "It is not only the resources but also their investment style, capacity, what area of the market are they playing in and are these likely to face any structural headwinds going forward impacting the competitive advantage."

Is the investment process clear?

A key 'red flag' for investors should be that a manager does not appear to have a clearly defined philosophy because, without one, there is no way to prove that any previous success was not more a matter of luck than strategy. Making sure that the manager sticks to the process they have defined, once the fund is in your portfolio, is equally important.

Portfolio construction

Portfolio construction has a significant impact on performance. A very high number of holdings can offer the benefits of diversification, but can make it difficult for strong performance from any single holding to make much difference to the overall portfolio return – muting performance overall.

Everything is relative, unless it isn't

Some funds are managed with a 'benchmark agnostic' approach, meaning they are managed with little regard for what the index is doing, while others are managed with a 'benchmark aware' strategy – which means their managers will have limits imposed on their exposure to stocks and sectors designed to ensure the fund they manage remains aligned with the performance of the benchmark in question.

It is important to understand the manager's approach before you invest because if a manager does not pay heed to a benchmark, you may find yourself in a position where the fund is not keeping pace with the market in which it invests – and this may be for good reason if the manager is able to explain their reasoning (see investment process).

Conclusion

Choosing an investment is a complicated process and these points only scratch the surface. Other issues to consider include size, the nature of a fund's underlying shareholder base, currency exposure, gearing, hedging, and charging structure, for example. A typical 'due diligence' report for a professional investor considering an investment can easily run to 10,000 words.

For many people, with busy lives and many responsibilities aside from looking after their investments, relying on the expertise and resources of a team of dedicated fund selectors – and accessing it through an investor-friendly wrapper like Alliance Trust – might be the more straightforward option.

Click **here** to read our detailed research on Alliance Trust

RUSS MOULD
AJ Bell Investment Director

Five key charts for 2022 (and beyond)

Looking at some key potential scenarios for the 12 months ahead and how to track them

No-one, not even central bankers, knows what is ahead of us in 2022, and whether inflation, stagflation or deflation will result from the combination of the pandemic, lockdowns and supply-chain chaos on one side, and massive amounts of fiscal and monetary stimulus designed to boost demand on the other.

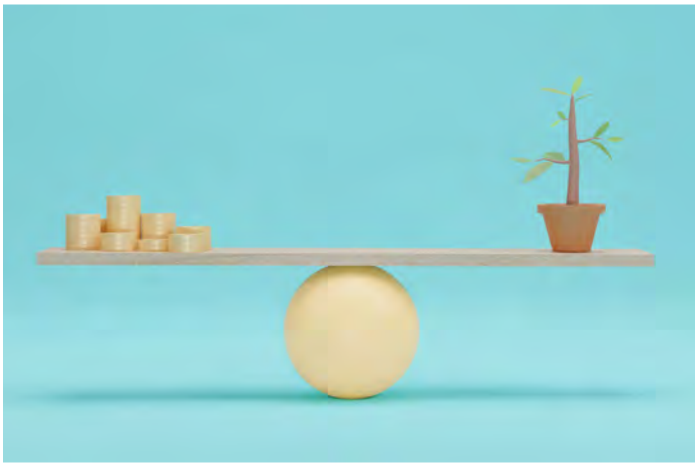
Going 'all in' on one scenario is probably not going to be good idea and portfolio construction will need to address range of outcomes, as frankly anything is possible (especially given the likelihood of central bank and government interference action). Keeping an eye on the following charts – and investment decisions – may help investors sense which way the wind is blowing so they can try to obtain the best possible risk-adjusted returns for their portfolios

'VALUE' VERSUS 'GROWTH'

For want of a better turn of phrase 'growth' has outperformed 'value' for the thick end of a decade, thanks to the prevailing, low-growth, low-interest-rate, low-inflation fog which has enveloped the globe.

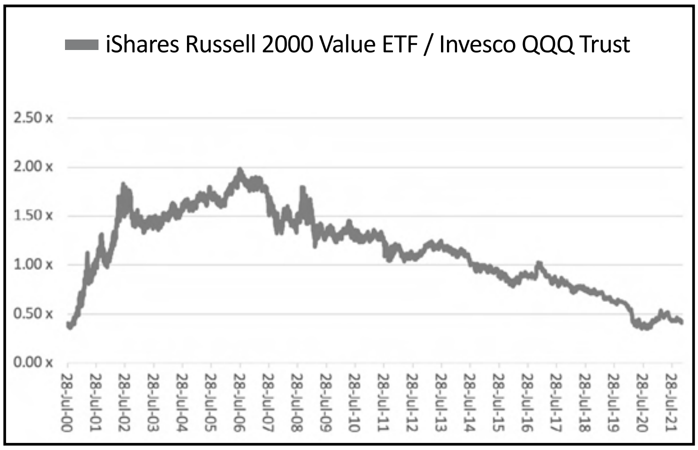
If that environment persists, firms which are seen as capable of providing secular trend increases in sales, profits and cash flows (or maybe even just the first one) will remain highly prized. If it changes, and inflation and strong nominal GDP growth take over, then there would be no reason to pay high multiples for secular growth when cyclical growth (or 'value') would be available at much lower valuations. Industrials and banks could then lead the charge.

One way of measuring whether this shift in leadership is happening is by comparing the performance of the Invesco QQQ Trust, packed



with growth stocks, against the iShares Russell 2000 Value ETF. If the line goes up, value is doing better, and vice-versa. Value's latest attempt for glory is petering out a little, perhaps owing to worries over Covid variants and the effects of higher prices and clogged supply chains on economic activity.

Will 'value' finally end its underperformance relative to growth?



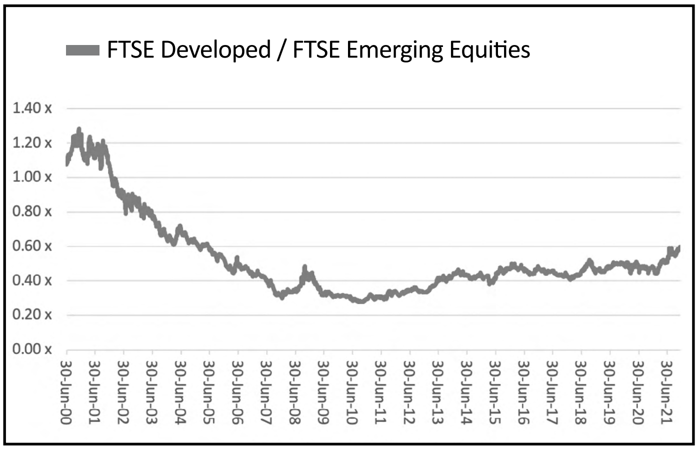
Source: Refinitiv data

RUSS MOULD
AJ Bell Investment Director

'DEVELOPED' VERSUS 'EMERGING' MARKETS

Emerging markets dominated for the first decade of this millennium but developed ones have subsequently ruled the roost. Demographics, debt-to-GDP ratios and the possible trend toward 'onshoring' in the West are all factors here but it seems reasonable to expect export-driven emerging markets to fare relatively well if global growth rates pick up. Any attempts by China to loosen monetary policy and stoke growth could also help emerging markets, where the Shanghai market has a big weighting.

Will emerging markets come back into fashion?



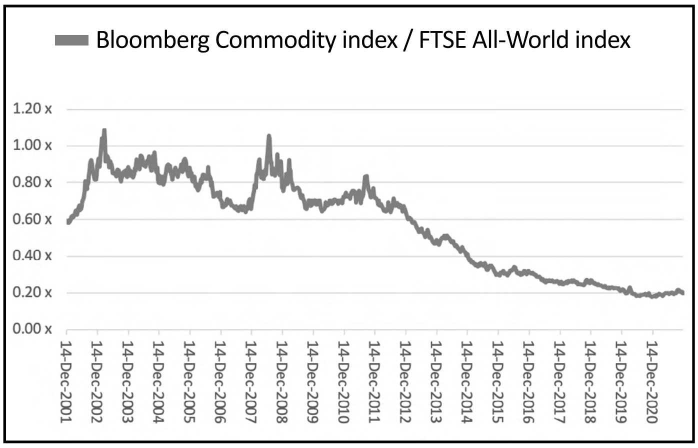
Source: Refinitiv data

REAL AND PAPER ASSETS

Looking at the relative performance of the Bloomberg Commodity and the FTSE All-World (equity) index, commodities and 'real' assets outperformed between 2000 and 2010 but equities and 'paper' assets have dominated since.

Again, this trend could be reasonably expected to continue if we stay stuck in a low-growth, low-rate, low-inflation world. But if inflation (or maybe stagflation) take hold, 'real' assets could come to the fore for three reasons: they could be stores of value; central banks may keep printing money but they cannot print oil, gold or property; and investment in finding new resources is dwindling thanks to pressure from politicians, investors and the public alike amid environmental concerns.

Will 'paper' assets continue to outperform 'real' ones?



Source: Refinitiv data

ALL THAT GLITTERS

The subject of 'stores of value' and 'haven assets' can lead to heated debate. It is hard to argue that Bitcoin is a store of value, given the wild price swings of the last five years, and the same accusation can be levelled at gold. Neither produces a yield. And both trade way above their marginal cost of production.

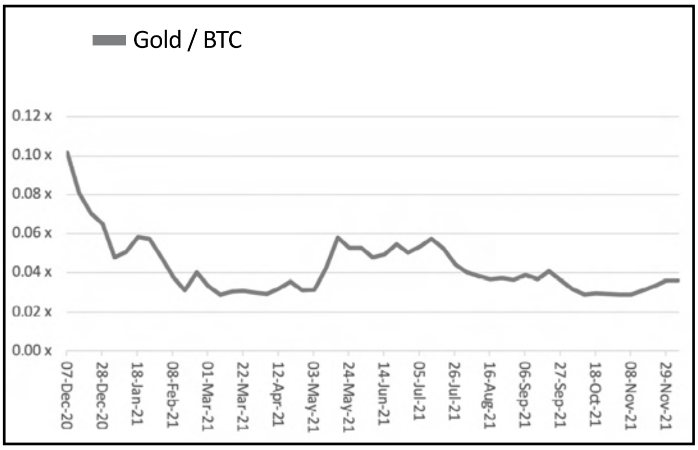
Yet rampant deficit creation by governments and money printing by central banks (in an attempt to effectively monetise and fund the extra debt) do

RUSS MOULD
AJ Bell Investment Director

persuade many to make an investment case for one or the other (although rarely both).

Gold did next to nothing and underperformed Bitcoin again in 2021. But its role as a haven during times of great uncertainty – when it looks like the authorities are not in control – could come into play if inflation gallops higher. The gold price relative to Bitcoin makes for an interesting chart but the metal may remain dormant if inflation fizzles out.

Will gold ever outperform Bitcoin?

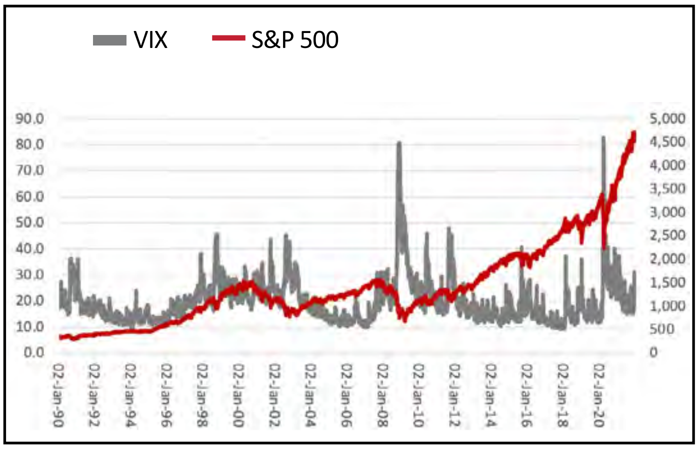


Source: Refinitiv data

CHOP AND CHANGE

After a brief foray to 30 on news of the Omicron variant, the VIX, or 'fear,' index which gauges future volatility in the US stock market, is trading pretty much in line with its long-run average of 19. If markets retain their faith in central bank control, inflation remains subdued and the variant passes by, fear will likely dissipate. But if inflation takes hold and confidence in policy makers ebbs, volatility may make its long-awaited comeback.

Keep an eye on the 'fear' index



Source: Refinitiv data

Fantasy M&A: could these deals happen or are they a step too far?

Shares considers a range of possible tie-ups that have strategic logic

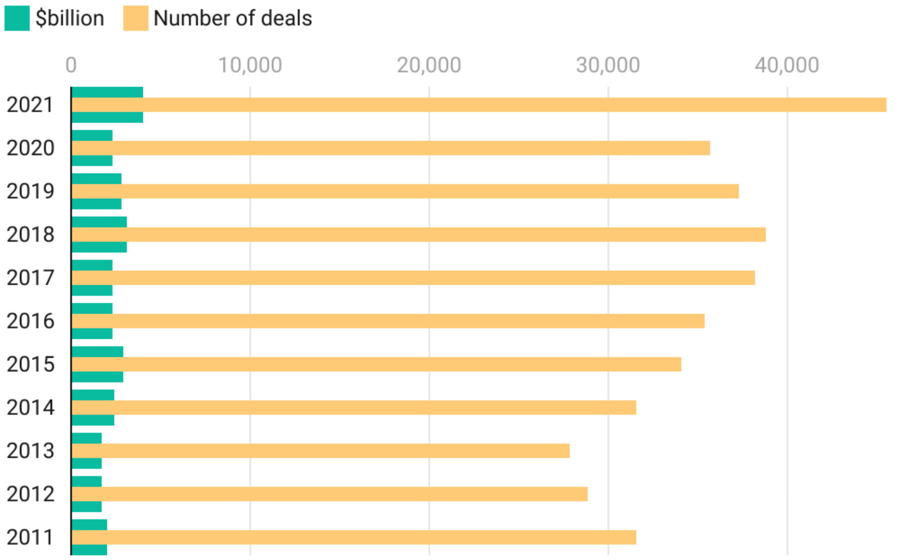
This year will be the biggest ever for global M&A, with records smashed across categories, according to data from Refinitiv. The number of takeovers may have fallen off a cliff in the initial stages of the pandemic bit, yet the bounce-back has more than compensated. The third quarter of 2021 was the biggest on record and the fifth consecutive quarter to top $1 trillion of M&A deals, the data provider says.

Private equity buyers have been very busy, splashing $839.6 billion this year on buyouts, with UK names like Morrisons, John Laing, Ultra Electronics and Stock Spirits all departing the stock market.

Some sizeable deals were not surprising. **AstraZeneca (AZN)** paying £27.5 billion for hematology, neurology and cancer treatments developer Alexion fits with its own current strategy.

Similar could be argued for Salesforce's $27.7 billion purchase of messaging platform Slack (extending its enterprise software remit) or S&P Global's $44 billion acquisition of market researcher IHS Markit, the latter a chase for data that has echoes of **London Stock**

A decade of deals



*2021 – First three quarters

Source: Refinitiv • Created with Datawrapper

Exchange's (LSE) own purchase of Refinitiv.

Others came out of the blue. Few, for example, would have predicted digital payments company Square buying Jay-Z's music streaming venture Tidal, and what about Philip Morris' bolt from the blue move into healthcare.

The Marlboro cigarettes firm's £1 billion purchase of the UK's Vectura means it will in future profit from treating the very illnesses its own products cause, and had some wags pondering if private hospitals and funeral services might be next to complete the circle.

Predicting takeovers is notoriously difficult but *Shares* has had a stab, picking our best 'fantasy M&A' deals that, we believe, could happen.

Readers should note, these are labelled 'fantasy' deals for a reason. They are just our own ideas and are not based on any inside knowledge or hard information.

Nonetheless we have tried to give an impression of the likelihood of any deal happening through the use of a sliding scale.

Microsoft buys Roblox

4/5

(chance it happening, 5 high, 1 low)

If the metaverse is the next big thing, according to Facebook-owner Meta Platforms, Microsoft has a first mover advantage in owning Minecraft. It could turbocharge this position by acquiring Roblox. The metaverse involves digital representations of people who interact at work and play. Elements of this virtual world are already present in both Minecraft and Roblox, and Microsoft owning these two brands would also give it a dominant position in the market for younger gaming fans. Strategically buying Roblox would be a clever move but it wouldn't come cheap. It currently trades on 84 times EV/EBITDA and has a $67 billion market value. [DC]

Netflix buys Enthusiast Gaming

4/5

In a similar move, streaming TV giant Netflix is really excited about gaming, believing it could be the secret sauce to keep subscribers hooked on its service, and eSports is a play on that theme. Enthusiast Gaming operates a growing media and content platform for video games and eSports fans. It reported revenue growth of 165% year-on-year in the third quarter, reaching $43.3 million. Total US unique visitors reached 47.8 million in October 2021 which puts Enthusiast Gaming in second place as the most-visited gaming property, right behind Amazon's Twitch and ahead of Roblox and mobile games creator Zynga. [SF]

Could these M&A deals happen?

Buyer	Target	Likelihood (out of 5)
AstraZeneca	Amryt Pharma	3
Tesco	B&M	3
Caterpillar (merger of equals)	Deere & Co	4
Netflix	Enthusiast Gaming	4
Apple	Netflix	3
M&S	Ocado's stake in their JV	3
Apple	Peloton	3
Microsoft	Roblox	4
Amazon	Udacity	4
LVMH	Watches of Switzerland	3

Source: Shares • Created with Datawrapper

Apple buys Netflix

3/5

It may sound outlandish but even Netflix could become a takeover target. Apple TV is the laggard in the streaming space as it lacks substantial content with mass-market appeal.

While subscription numbers are improving, the easy way to leapfrog the competition is to buy Netflix. According to Refinitiv, Netflix has a $285 billion enterprise value which is the market value of its shares and net debt. Apple has about a fifth of that figure in cash and shouldn't have any problem raising the rest via debt or equity.

Offering discounted Netflix subscriptions to those with an iPhone, iPad, iMac or Macbook would help keep people loyal to the Apple ecosystem, and most likely bring in new customers as well. [DC]

Apple buys Peloton

3/5

Apple could change tack and home in on hardware. Peloton would kill two birds with one stone, expanding services revenue and deepening Apple's connection to health. Apple is fixated with building best in class products and Peloton

certainly has that reputation, and there is also likely to be a large crossover of iPhone-owning Peloton subscribers, strengthening its ecosystem perimeters, and tying in neatly with the Apple Watch too.

Apple also has the device supply chain scale to put a serious dent in manufacturing costs of Peloton's bikes, treadmills, plus possible new products – a rowing machine would be an obvious extension. [SF]

Amazon buys Udacity

4/5

As students balk at the cost of a higher education experience provisioned digitally, many may turn to lower-cost options. With a partnership between AWS and Udacity already in place, Amazon could capitalise by bringing the company in-house, expanding the e-learning platform's largely vocational 'nanodegree' offerings. In the process, Amazon would secure a pipeline of technical talent, deepen consumer trust, and begin the process of disrupting education, one of the few markets large enough to be worthwhile. [SF]

Caterpillar merger of equals with Deere & Co

4/5

There is significant logic to a merger between construction and mining kit manufacturer Caterpillar and agricultural equipment maker Deere & Co.

Caterpillar has more end-market and geographic diversification and, as a result, there would be opportunities to use its existing channels to sell Deere & Co's hardware in new territories. Deere & Co's strong track record for innovation could also be employed to revamp Caterpillar's own product portfolio, and because the two serve different industries, any deal would have a decent chance of clearing anti-trust regulations. [TS]

M&S buys Ocado's stake in their joint venture

3/5

When **Marks & Spencer (MKS)** announced back in 2019 it was buying 50% of online delivery firm **Ocado's (OCDO)** UK retail operations for £750 million, many investors thought it had paid over the odds. But as the pandemic proved, online delivery is the future, and M&S is sitting on half of a potential gold mine. Taking full control of the venture would create its own delivery platform while it could potentially offer access to third party retail brands, ones that don't compete with it. Ocado would ask a pretty penny for its 50% stake but given its own hefty investment plans for its robotic solutions business, it could use the cash injection to good effect. [IC]

AstraZeneca buys Amryt Pharma

3/5

Over the last year AstraZeneca has made a big push in rare diseases, one of the fastest growing areas within healthcare. These can serious, even life-threatening diseases that affect only a small percentage of populations. Last year Astra purchased US rare disease specialist Alexion for $39 billion and in September 2021 it exercised an option to take control of Caelum Biosciences in a deal worth up to $500 million. **Amryt Pharma (AMYT:AIM)**, worth around £430 million, would be a useful bolt-on for Astra given its significant drug development pipeline and a profitable commercial business. [MGam]

LVMH buys Watches of Switzerland

3/5

High-flying **Watches of Switzerland's (WOSG)** success will not have gone unnoticed by LVMH, the luxury goods conglomerate which now owns Tiffany, the US jewellery retailer

famed for its engagement rings and ties to Hollywood glamour. Given growing global demand for luxury goods, Watches of Switzerland, which sells Rolex, Omega, TAG Heuer and Breitling watches as well as high-end jewellery, would be a complementary fit for Tiffany and benefit from LVMH's unrivalled marketing ability. [JC]

Tesco buys B&M

3/5

Should the variety goods value retailer continue to bag UK market share at pace, **B&M (BME)** could prove irresistible to a bigger competitor, and **Tesco (TSCO)** would be an obvious candidate. Tesco would be better off swallowing disruptive, expansionist B&M now rather than wait for it to grow bigger and more competitive as shoppers flock to its bargain-priced groceries and general merchandise, a move that would help the supermarket chain maintain its lead over rivals, while potentially warding-off private equity interest itself, which is clearly eying the space with interest, as proved by Morrisons' takeover by CD&R this year. [JC]

Best performing investment trusts in 2021

We also reveal the closed-ended funds that struggled this year

In the end 2021 proved a rewarding year for stock markets as vaccines were rolled out and economies began to recover from the worst ravages of the pandemic.

In the early part of the year, growth was shunned for value before bouncing back into fashion as the year progressed.

On the whole, this was a volatile period, with investors contending with concerns over inflation and the rising interest rates to supply chain snarl-ups and, more recently, the emergence of the Omicron variant.

Scrutiny of the year's best-performing investment trusts reveals some clear themes, with private equity and natural resources funds featuring prominently and country specialists focused on Asian nations enjoying contrasting fortunes.

THE TOP PERFORMING INVESTMENT TRUST

Shares has crunched the data from FE Fundinfo between 1 January to 3 December to reveal 2021's best performing investment trusts. Leading the pack was **Geiger Counter (GCL)**, a constituent of the AIC's (Association of Investment Companies) Commodities and Natural Resources sector.

Managed by Keith Watson and Robert Crayfourd, Geiger Counter delivered a 96.8% total return during a momentous year for the uranium mining sector, leaving its shares trading at an 11.8% premium to net asset value at the time of writing.

The trust was bid up as financial markets became more acutely aware of the supply and demand imbalances in the uranium market, which has led to sustained higher pricing. Investment trust research firm QuotedData said Geiger Counter 'captured the explosive performance of the sector' and 'handsomely' beat its closest peers.

Crayfourd and Watson insist that nuclear power is benefiting from a positive swing in sentiment in its direction. They add: 'Both governments and investors are increasingly aware of the need for nuclear power, both as a non carbon-emitting energy source and to provide baseload power in support of the green energy agenda.'

They point out that whilst renewables are 'an ever-increasing component of energy supply, production is

BEST PERFORMING TRUSTS OF 2021

TRUST	TOTAL RETURN (%)
Geiger Counter	96.8%
Chelverton Growth Trust	82.1%
Vietnam Holding	74.0%
Africa Opportunity Fund	71.2%
BMO Private Equity	58.2%
Riverstone Energy	57.6%
NB Private Equity Partners	57.0%
AEW UK REIT	53.0%
Sirius Real Estate	50.6%
GCP Student Living	47.4%
Tritax Big Box	46.4%
Ashoka India Equity	44.5%

1 Jan to 3 Dec 2021, total return in GBP

Source: FE Fundinfo • Created with Datawrapper

Geiger Counter invests in uranium exploration and production stocks

intermittent in nature, making nuclear an essential part of the energy mix, especially in meeting emissions targets.

'We think that the current supply deficit is unsustainable and will drive a continued recovery in the uranium price, which will bring new projects into production.'

Geiger Counter's managers also believe demand growth will be driven by a build-out of new reactors led by the emerging regions of China and India, which are focusing on improving air quality.

'The portfolio has a strong bias towards small and mid-cap uranium mining companies and this reflects our view that these types of company generally have superior growth prospects (for example, production improvements or improvements in reserves) and, generally being less well researched, it is also where the closed-end nature of the company allows us to take a longer term view,' they add.

IN SECOND AND THIRD PLACE WERE…

Hot on Geiger Counter's heels with a 82.1% total return was **Chelverton Growth Trust (CGW)**, managed by David Horner and David Taylor, which invests in companies listed on London's main board and AIM with a market cap at the time of investment of up to £50 million.

Horner and Taylor seek out companies they believe are at a 'point of change' and also put money to work in unquoted firms where there is a likelihood of the shares becoming listed on AIM or the investee company being sold.

The portfolio recovered strongly in the financial year to August 2021, with net asset value per share increasing by 42% to 57.62p as the fund outperformed the 37.47% gain from the benchmark MSCI Small Cap UK Index.

However, in recent years, tender offers and buybacks have reduced it to an unviable size and so the board is reviewing ways to return cash to shareholders in the most effective way; expect an announcement in the early part of 2022.

In third spot with a 74% gain was **Vietnam Holding (VNH)**, the Dynam Capital-managed country specialist which grew its net asset value per share by 99.3% in the year to June 2021, outperforming the Vietnam All Share Index's total return by 7.3% in US dollar terms.

A high-conviction, concentrated portfolio, Vietnam Holding offers investors exposure to Vietnam's leading IT and telecoms services company FPT Corporation, steel producer Hoa Phat and financials such as Vietin Bank, VP Bank, Military Bank and Sacombank.

Manager Craig Martin says 2021 has been a stand-out year for Vietnam and Vietnam Holding in many ways. 'Not only have we seen a very strong performance in our net asset value and share price, but we have been able to do more, measure more and report more on our responsible investing initiatives,' he comments.

Martin also points out domestic investors have driven the Vietnam stock market to record highs 'on the back of surging levels of liquidity and, with our team on the ground, we have been able to nimbly navigate the opportunities, and position our concentrated portfolio at the junction of great growth and reasonable valuations.'

Martin is excited by the prospects for 2022 as Vietnam 'gets back to its multi-decade GDP growth trajectory of 6% to 7% per annum'.

HONOURABLE MENTIONS

Other trusts that produced large total returns in 2021 included **Riverstone Energy (RSE)**, up 57.6% as recovering global commodity prices booted portfolio valuations and the fund continued to reposition its portfolio away from commodity price-exposed oil and gas investments and towards opportunities offered by the transition away from fossil fuels.

Private equity trusts **HgCapital (HGT)** and **HarbourVest Global**

SELECTION OF WORST 2021 TRUST PERFORMERS

TRUST	TOTAL RETURN (%)
DP Aircraft 1	−74.3%
The Biotech Growth Trust	−27.2%
Baillie Gifford China Growth	−25.3%
Syncona	−18.8%
Edinburgh Worldwide	−18.0%
BlackRock Latin American	−15.6%
Fidelity China Special Situations	−14.6%
Baillie Gifford Shin Nippon	−12.9%
Greencoat Renewables	−8.4%
Lindsell Train Investment Trust	−8.2%

1 Jan to 3 Dec 2021, total return in GBP

Source: FE Fundinfo • Created with Datawrapper

Private Equity (HVPE) posted impressive returns of 39.5% and 39.3% respectively, though they were eclipsed by **BMO Private Equity Trust (BPET)** and **NB Private Equity Partners (NBPE)**, which generated returns of 58.2% and 57% respectively in the period under review.

Elsewhere, income-seekers sought out industrial buildings manager **AEW UK REIT (AEWU)**, German business parks investor **Sirius Real Estate (SRE)** and **Tritax Big Box REIT (BBOX)**, the large-scale logistics warehouse investment company benefiting from the e-commerce boom, with all three funds achieving total returns around the 50% mark.

And 2021 proved a banner year for **Ashoka India Equity (AIE)** and **India Capital Growth Fund (IGC)** as India outperformed even the US market, despite suffering from one of the deadliest waves of the pandemic earlier in the year, as well as for **Mobius Investment Trust (MMIT)**, the investor in dynamic small and mid-sized companies in emerging and frontier markets.

IN THE DOGHOUSE

The year's worst performers included aircraft leasing group **DP Aircraft 1 (DPA)**, which lost 74.3% during the period and has plunged to an all-time share price low as Covid continues to impact the aviation industry.

Concerns over the Chinese Communist Party's regulatory crackdown weighed on the Chinese markets in 2021, accounting for the negative total returns delivered by **Baillie Gifford China Growth (BGCG)**, which lost more than 25% of its value and **Fidelity China Special Situations (FCSS)**, down the best part of 15%.

An unexpectedly disappointing performer was **Lindsell Train (LTI)**. Its 8.2% decline reflected a weaker period of performance from the trust, managed by 'buy and hold' investor Nick Train. Recent performance has been impacted by underweight exposure to software/platform technology and having no exposure to capital intensive manufacturing, while a number of the fund's biggest holdings have suffered share price weakness, including **London Stock Exchange (LSE)**, **Unilever (ULVR)**, Heineken, **AG Barr (BAG)** and Nintendo.

Over the long term, the trust's performance is impressive, boosted by strong returns from its cornerstone holding, the investment manager Lindsell Train Limited. 'I will not make flippant or complacent predictions about prospects for Lindsell Train Limited, as we experience arguably the worst period of relative investment performance in our 20-year history,' commented Train in Lindsell Train's recent results statement.

'As Gerald Loeb (author of *The Battle for Investment Survival*) reminds us; we know that winning the investment battle is not easy and takes discipline and seriousness of intent. We assure you, we remain disciplined and serious in our efforts to invest in assets with the potential of protecting or enhancing the real, after-tax purchasing power of your savings.'

By **James Crux**
Funds and Investment Trusts Editor

How much can you put in a SIPP and still draw an income from it?

Our resident expert helps with a question on annual allowances and drawdown

Am I able to continue investing £3,600 per year into my SIPP while, in parallel, taking an income (pension) from my SIPP pot?
Malcolm

Tom Selby, AJ Bell Head of Retirement Policy says:

The most someone with little or no UK relevant earnings can save in a pension each year and still get tax relief is £3,600 (inclusive of the tax relief). As this is the figure you have mentioned, I'm going to assume these are your circumstances.

For those with earnings above £3,600, the personal contributions that benefit from tax relief are capped at 100% of those earnings. It's worth noting that when we say 'relevant earnings', this covers things like salary and bonuses. It does not include dividends, pension income or most types of rental income.

For completeness there are several other annual pension saving allowances that may be relevant to some readers.

The annual allowance looks at total contributions each year – including personal contributions, employer

contributions and tax relief – and is set at £40,000. Any contributions over the annual allowance will result in a tax charge.

If you are a very high earner you might be affected by the annual allowance 'taper'. This taper will kick in if you have 'threshold' income above £200,000 and 'adjusted' income above £240,000, with your annual allowance reducing by £1 for every £2 of adjusted income above £240,000, to a minimum of £4,000 for anyone with adjusted income above £312,000.

You can read more about the taper – including what counts towards threshold and adjusted income – in this excellent guide.

In addition, if you flexibly access taxable income from your fund this will trigger the MPAA (money purchase annual allowance), reducing your annual allowance for SIPPs and other money purchase pensions from £40,000 to just £4,000.

There should be nothing stopping you saving £3,600 a year in a pension while simultaneously taking an income from it. However, if you significantly increase your contributions after taking a tax-free lump sum you could fall foul of HMRC's 'recycling rules'.

You can read more about tax-free cash recycling here.

Once you have accessed your pension you can continue contributing, although once you have taken a flexible withdrawal of taxable income the £4,000 MPAA will permanently apply.

Provided you intend to keep contributing £3,600 gross a year then this shouldn't be a problem, although if your circumstances change in the future and you want to boost your contributions the MPAA could become a factor.

The only other thing to remember is that after your 75th birthday any pension contributions you make will no longer qualify for pension tax relief, so you might want to consider saving in other products such as ISAs.

House price boom presents problem for Lifetime ISA savers

Surging property market puts homes out of the reach for people using the vehicle

House prices in the UK are rising at the fastest rate since before the financial crisis, with no signs of the market slowing down since the stamp duty holiday ended.

The latest Halifax House Price Index shows that on a quarterly basis, the house price growth of 3.4% over the past three months is the highest since the end of 2006, with property prices rising an average of almost £1,700 a month since the pandemic began in March 2020.

There are many reasons for the hike in prices. First, the so-called 'race for space' during the pandemic, where months spent confined to their homes mean people realised they needed a larger property. This was fuelled by the fact that many people saved a lot of money in lockdown, which they could then put towards a deposit.

The stamp duty holiday was also thought to have fuelled people moving, although there are few signs the market has fallen off a cliff since the tax break ended. Cheap mortgage rates are another factor, with record low borrowing costs meaning more people can buy a home for the first time or upgrade their property.

Average house price change since April 2017 Lifetime ISA launch

Region	Increase
North West	32%
East Midlands	29%
Wales	29%
Scotland	28%
West Midlands	26%
Yorkshire and the Humber	26%
Northern Ireland	25%
South-West	24%
North East	24%
South-East	18%
East of England	18%
London	7%
UK wide	**23%**

Source: UK House Price Index • Created with Datawrapper

THE LIFETIME ISA ISSUE

While the boom in prices is good news for anyone selling up, it presents a problem for some first-time buyers. Many will be using a Lifetime ISA to buy their first property, with the Government bonus on the accounts helping to boost deposits. But you can only use the ISA if the value of the property you're buying is £450,000 or less. Some using a Lifetime ISA face being priced out of the market by the limit.

When the Lifetime ISA launched in April 2017 the average UK house price was £219,000, but it has since shot up to £270,000, according to figures from the UK House Price Index. Despite that, the limit for those using the Lifetime ISA to help fund their deposit has remained at £450,000.

On average, house prices across

the UK have risen by 23% since April 2017, and if the Lifetime ISA limit had increased in line with this it would sit at £553,725 today – more than £100,000 higher.

Even if the property limit was pegged to the CPI measure of inflation, it would have increased by 10% since launch, meaning it would have risen to £495,000.

Those buying in London and the south-east are most likely to hit the upper Lifetime ISA limit, as property prices are more expensive in these regions. The average house price in London now stands at £507,000, almost £60,000 more than the Lifetime ISA limit.

While £450,000 is a high house price and would seem unattainable for many people, more and more first-time buyers are buying properties above this limit. Last year 11% of first-time buyers bought a home worth £400,000 or more, compared to 8% in 2017, while 5% of first-time buyers bought a property worth £500,000 and above last year, compared to 4% in 2017.

HOW THE LIFETIME ISA WORKS

You can use a Lifetime ISA to buy your first home or save for later life. You must be between 18 and 39 to open an account. You can put in up to £4,000 each year, until you're 50, and the Government will add a 25% bonus to your savings, up to a maximum of £1,000 per year.

You can withdraw money from your ISA if you're buying your first home (worth up to £450,000); aged 60 or over; or terminally ill, with less than 12 months to live. If you withdraw the money for any other reason you'll face a withdrawal charge of 25% of the entire pot.

If you're using the Lifetime ISA to buy your first home you need to ensure the property costs £450,000 or less, you've had the Lifetime ISA open for at least a year before you buy the property, you use a conveyancer or solicitor to act for you in the purchase, and you're buying with a mortgage.

WHAT HAPPENS IF I EXCEED THE LIMIT?

Anyone who exceeds the £450,000 limit will be hit with the 25% exit charge on the Lifetime ISA, as their purchase will no longer be within the rules. This is the case even if they go £500 over the limit, so buyers need to beware the price of the property doesn't creep up during negotiations.

If someone had contributed the full £4,000 annual limit since the Lifetime ISA launched they'd have saved £20,000. This would have been topped up by £5,000 from the Government bonus, making a healthy £25,000 deposit. If they then faced that 25% exit penalty, because they exceeded the £450,000 limit, they'd have to pay an exit charge of £6,250 – and face a last-minute scramble to make up that shortfall.

By **Laura Suter**
AJ Bell Head of Personal Finance

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