BARRATT & COOKE
STOCKBROKERS SINCE 1880
WWW.BARRATTANDCOOKE.CO.UK
TELEPHONE: 01603 624236

	1/7/19	5/10/19	1/1/20	5/4/20	1/7/20	5/10/20	1/1/21	5/4/21	1/7/21
FTSE 100	7426	7155	7542	5416	6170	5943	6461	6737	7037
FTSE All Share	4057	3933	4196	2958	3411	3327	3674	3849	4015
Dow Jones (US)	26600	26574	28538	21053	25813	28149	30606	33527	34503
S&P 500 (US)	2942	2952	3231	2489	3100	3409	3756	4078	4298
Nikkei 225 (Japan)	21276	21410	23657	17820	22288	23312	27444	30089	28792
PIMFA Balanced	1632	1643	1679	1389	1574	1581	1677	1718	1778

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
Avast	Admiral	Dechra	CME Group	Cordiant Digital Infrastructure I/T
Bunzl	BHP Group	Fevertree	Coloplast	Fidelity European Values I/T
Diageo	Reckitt Benckiser	GB Group	Ecolab	JP Morgan Emerging Markets I/T
Experian	Rio Tinto	Liontrust A M	Lonza	JP Morgan Global EM Income I/T
LSE	Royal Dutch Shell	LondonMetric	Masimo	APAX Global Alpha I/T
Rentokil	Severn Trent	NCC Group	Microsoft	Smithson I/T
Rightmove	SSE	RWS	Nike	TR Property I/T
Smith & Nephew	Unilever	Spirent	Novo Nordisk	3i Infrastructure I/T

Ahead of his time

It seems a long time ago that we bid farewell to a true gentleman. HRH Prince Philip was 'old school', charming, quick witted and a man of principle. It was only after his death that I became aware of his incredible foresight. This tremendous man was a pioneer of conservation and striving for a greener planet.

In 1970 His Royal Highness is quoted as saying:

> "The conservation of nature, the proper care of the human environment and general concern for the long-term future of the whole of our planet are absolutely vital if future generations are to have their existence on this earth".

It is incredible to note that he said this just five years after the undisputed scar on today's environment was created, the plastic shopping bag, which was invented in Sweden in 1965. If only his advice had been heeded at that early stage.

My other real hero was the outstanding Rachel Blackmore. I make no apologies for mentioning her in consecutive newsletters as she followed up her win in the Champion Hurdle with the ride of a lifetime to secure victory on Minella Times in the Grand National.

In other news

We saw six football teams (I am loathe to call them the top six with the inclusion of Arsenal and Tottenham yet not FA Cup winners, Leicester, or Norwich), show their true 'colours' of selfish greed; but this fire was quickly extinguished by the football community.

Finally we saw Joe Biden re-emerge in Cornwall of all places. I hope he went surfing at Polzeath, the scene of many happy childhood memories.

How on earth did the press waste two weeks of our life over a strip of wallpaper?

BARRATT & COOKE IS THE TRADING NAME OF BARRATT & COOKE LIMITED REGISTERED IN ENGLAND No. 5378036
REGISTERED ADDRESS: FIRST FLOOR SUITE, 2 HILLSIDE BUSINESS PARK, BURY ST. EDMUNDS, SUFFOLK IP32 7EA
BARRATT & COOKE LIMITED IS AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY
who are based at 12 ENDEAVOUR SQUARE, LONDON E20 1JN

I thought the mud-slinging north of the border between Sturgeon and Salmon was bad enough, but the Dominic Cummings, Boris Johnson, Matt Hancock airing of dirty laundry lacked even more class.

And of course, England beat the Germans! As I write this newsletter England are about to face Denmark – I feel like "It's coming home" but fear the Italian Eurovision/Euros double.

COVID-19

I'll keep this brief. The vaccine rollout has been a great success and has enabled us, like a tortoise, to gradually poke our heads out of hibernation. If the promises are to be believed we shall not experience solitary confinement again.

I am not going to pass too much judgement on Matt Hancock but, suffice to say, the images took me back to teenage parties in barns across Norfolk. They were indeed amazing days, but possibly not appropriate when you are responsible for social distancing rules?

It is brilliant to have the whole Barratt and Cooke team back in the office where I really have noticed a positive atmosphere, much of which has come from those who felt most anxious prior to their return. I am grateful to all for embracing the return with great gusto.

ESG

Out of respect to Prince Philip I would like to delve deeper into the merits of ESG investment, both where it is clear (through a labelled product) and undefined.

As you will be aware from previous newsletters, we have launched an ESG service where we exclude investment into companies which breach Environmental, Social and Governance standards and invest into companies which are actively contributing to a sustainable society in sectors such as natural food stuffs, renewable energy and those which have a philanthropic culture.

Of course our disciplined, repeatable investment process is conducted on all potential investment ideas, irrespective of whether the stock is considered for inclusion within an ESG focussed portfolio or not. Currently companies which display 'good' credentials are deemed more attractive to the market and with the wave of money flowing into the ESG investment universe this has caused share prices, in some sectors, to be pushed to a premium. Conversely, those companies which are considered 'bad' may experience continued selling pressure, causing share price weakness. It is not entirely this binary as the discounted present value of future cashflows is ultimately the determinant of share price trajectories, but nonetheless the ESG 'angle' has created important market forces and therefore is a significant part of our overall evaluation process.

With such forces it is important that we resist the temptation to invest at any cost. More recently we have been seeking to increase our exposure to the renewable energy sector but have felt for some time that share prices had got ahead of themselves. However, when the share price of Orsted fell back 35% from its one year high we took the opportunity, where appropriate, to add this stock (or SSE, which pays a much higher income) to client portfolios.

We accept that 'ESG' means something different to everybody, and different people will draw their line of tolerance in a different place i.e. is BP 'bad' because it is an oil stock or 'good' because it is doing more than any oil major to embrace cleaner energy? Is Rio Tinto 'bad' because it mines for metals or is it 'good' because these commodities are then used in the construction of wind farms or in battery technologies striving for a carbon neutral world? Where is the line on intensive farming where we have increasingly more mouths to feed but a greater responsibility to the planet? Each of these questions has a plethora of answers and if you personally would like to restrict a certain sector your advisor will be happy to arrange this for you.

What Barratt and Cooke will not do is "greenwash" which is the practice of portraying a stock/service as following good principles when in fact it is not. There are some ESG funds which have spurious definitions of what is acceptable with the underlying investments in such funds seemingly not aligned with ethical values. If a client adopts our ESG portfolio service the investment universe is, correctly, significantly narrower but ultimately the portfolio will be aligned with your ethical values.

Suffice to say, we fully endorse and welcome all the principles behind ESG where factors such as worker rights, corporate governance and animal welfare should be given as much credence as the use of the combustion engine. We continue to strive to uncover attractive opportunities within these parameters, both for ESG labelled portfolios and those that aren't and truly believe such companies offer attractive returns over the medium to longer term.

Traditional valuation metrics

As previously confirmed, CWLB fully retired from Barratt and Cooke at the end of March so I thought this newsletter would be an apt time to look at some of the valuation metrics which he has used to provide much of the fibre to these newsletters over many years. P/E (Price/Earnings) ratios and dividend cover remain under consideration in our investment process, along with more technical, forward looking metrics such as discounted cash flow analysis, return on capital employed and PEG ratios. I thought it might be reassuring for a few readers to know that whilst my father is no longer involved in the business his staples remain an integral component in portfolio construction.

Taken from the July 2011 newsletter:

"With the FTSE 100 below 6000 points, we still feel leading UK equities offer reasonable value":

PE	*11.3x*
Yield	*3.1%*
Dividend Cover	*2.9x*

Fast forward exactly 10 years and those metrics today 5/7/21 stand at:

PE	13.7x
Yield	3.0%*
Dividend Cover	1.5x*

*Based on 2020 numbers which were heavily impacted by Covid-19, with significantly lower earnings and consequently dividends (the 3.0% yield is the lowest level for 10 years, reflecting dividend cuts made in 2020). On a forward looking basis (using consensus estimates for 2021) the FTSE 100 dividend yield is 3.9% and dividend cover is 1.9x

During this 10 year time period those metrics have averaged:

PE	14.2x
Yield	3.9%
Dividend Cover	1.8x

whilst there have of course been significant fluctuations with 10 year high/lows:

PE	22.2x/ 8.9x
Yield	5.8%/3.0%
Dividend Cover	2.9x/1.4x

Observations:

- UK equities have become a little less attractive in terms of income but stand on reasonable price to earnings metrics. Reasons for this have been reported in newsletters throughout the last 10 years, including the effects of QE (Quantitative Easing), TINA (there is no alternative – to equities i.e. with interest rates very low) and currency movements, in addition to idiosyncratic factors.

- Despite the peaks and troughs of the FTSE 100 over the past decade the dividend yield is currently almost exactly the same (although 31 of its constituents have changed).

- However dividend cover has been gradually decreasing, almost on a yearly basis, illustrating that dividend growth has outpaced earnings growth. This has been particularly evident in sectors which investors have relied on for dividend income, namely the banking and oil & gas sectors. In some cases dividends became uncovered (i.e. the dividend became greater than the earnings in the year, you may have heard us refer to these as 'yield traps').

- Covid-19 clearly had a significant impact on earnings and dividends in 2020 but we have seen, and continue to see, companies resume dividend payments and in some cases are paying higher dividends than pre-pandemic.

- With earnings also expected to recover strongly, the FTSE 100 on a forward looking basis (see 2021 yield and cover estimates above) looks relatively good value, although there is limited 'quality' in this index and nothing is certain, we are not out of the woods yet…

The inflationary impact of the economic reset by Edward Sidgwick

As the global economy continues to emerge from perhaps the most significant economic experiment on record (with differing degrees of self-imposed economic shutdowns), there are clear signs of 'creaking' as the reset button is increasingly firmly pressed.

Two such examples of this are the effects of recovering economic activity on labour markets and broader supply chains:

- Labour markets - supported by policies such as furlough in the UK, labour markets are surprisingly tight, with unemployment rates returning to pre-pandemic levels. As employers seek to (re)hire additional staff, plugging staffing gaps, competition is high and wages are rising.

- Supply chains – companies typically ran down their inventories in 2020, reflecting the significant uncertainties on future trading. As many companies now enjoy a return to prior (or higher) levels of activity, there is a 'double whammy' impact on supply chains of satisfying increasing orders, whilst also re-stocking inventories. As supply chains are being tested, prices are rising.

Coupled with surging demand as virus-related restrictions are eased, this helps to explain why inflation rates are reaching recent highs, particularly in the US where the Consumer Price Index increased by 5.0% in May (prices in May 2021 were 5.0% higher than in May 2020), the highest rate of inflation since 2008. Underlying the headline index level, there have been some extraordinary examples of staggering price rises, particularly in commodity markets, perhaps none more so than that of lumber for which prices peaked at $1,670 per thousand board feet in May 2021, up from under $300 in March 2020.

In the UK, the Consumer Price Index rose by a more modest 2.1% in May, only marginally higher than the Bank of England's 2.0% target. (The Retail Price Index, the reference for index-linked gilts rose by 3.3% in May). However, inflation is widely expected to continue to increase in the months to come. The 'house view' from the Bank is that the CPI measure of inflation will peak at around 3% later this year, before tapering in 2022. With this in mind, the Monetary Policy

Committee (whose role it is to set interest rates) continue to agree that rates should be kept at a record low (of 0.1%), avoiding choking off a recovering economy. The only dissenting voice was that of Andy Haldane (the outgoing chief economist at the Bank) who voted in favour of the Bank tapering quantitative easing, fearing that inflation could well rise higher than expected, perhaps to as much as 4% by Christmas.

Whilst there is little doubt that inflation will continue to rise over the coming months, key to the debate is whether these inflationary pressures are entrenched (e.g. a wage-price spiral, as witnessed in the 1970s) or transitory, with the outcome having profound implications on investment markets and portfolio construction. We will continue to review our stance as the newsflow evolves, but we are currently minded to side with the view that current inflationary pressures are mostly transient in nature.

It is important to remember that inflation is a year-on-year calculation. Today's prices are therefore being compared to those in July 2020, not far off the covid-19 induced economic trough. This time next year (should we see continued progress against covid-19 and an associated economic recovery), the worst of the covid-19 impact should have dropped out and these year-on-year comparisons will be somewhat different. Indeed, already, there is good evidence of supply chains normalising and commodity prices stabilising (the aforementioned price of lumber has returned to $760 as sawmills have increased production to take advantage of higher prices).

Meanwhile, there remain very significant deflationary forces at play, perhaps none more so than the impact of technology and innovation, and we expect these forces to keep a check on overall inflation. Consider, for example, the deflationary impact that renewable energy generation is likely to have on power prices in the long term, given the near-zero marginal cost of generation.

In the context of a slightly higher inflationary backdrop, we have positioned portfolios accordingly:

- Fixed interest – we favour index-linked issuance where appropriate (on which interest and redemption values are linked to inflation), whilst opting for relatively short-dated issuance (less vulnerable should interest rates start to rise to suppress higher inflation).

- Equities – our preference remains for high quality companies with large and growing addressable markets and strong economic moats (competitive advantages), with sufficient pricing power in order to 'pass on' higher input costs to their customers. The global consumer brands companies (Unilever, PepsiCo, Estee Lauder et al.) are a prime example of companies we view as well positioned in this environment.

- Alternatives – 'hard assets' typically help to hedge against higher inflation, hence we continue to believe that gold has a role to play within portfolios as a diversifier to equity risk, as well as property and infrastructure.

- Cash – where cash is held available for investment, we are continuing to review opportunities.

Final thoughts

At the risk of sounding slightly 'grumpy' I thought I'd share with you my major concern as we commence the final stage of unwinding social distancing. As alluded to earlier, I am very grateful to our staff for embracing the return to office based work. We are of course fortunate as the purchase of an additional building has enabled us to be strewn across many rooms with plenty of plastic screens and buckets of hand sanitiser. Furthermore, I am grateful to everyone for the enthusiasm and energy which they have displayed in their return to work and I can sincerely say that there is a bit of a buzz in the office.

I have however been questioned by many friends on our stance to get everyone back in, not on a Covid-19 safety aspect but on a functionality basis where I often hear "I can do my job at home" and "I'm more productive at home".

My question is can you do your job at home? I, personally, can do portfolio management from home, I can chair Board meetings via Microsoft Teams, I can resolve administrative queries via e-mail, I can 'meet' clients via Zoom, but the question is, is this my job in its entirety? The answer is a categorical NO, it's 70% at best. So where is the balancing 30%?

a. Logistics - where the printing and signing of letters, taking delivery of post such as cheques and ISA forms, the stuffing of envelopes at 5th April (yes, we all do it from time to time) all fall on someone else who has to be 'in'.

b. Setting a Culture and Corporate Governance – where amongst other things we need to see our colleagues to support, discuss, help and be helped. Of course one can arrange a Teams meeting for these things but in my experience it rarely happens and it's not as 'ad hoc' as it needs to be.

c. Training – stockbroking like many other industries is reliant upon the passing on of knowledge (it is coincidental that I wrote the piece on P/E ratios earlier and now I find myself penning this). There are of course formal training functions that can be employed via the internet however I learnt more about stockbroking at Torrie and Co in Edinburgh when I was 21 by listening to telephone calls or chatting at "the water cooler" than I ever did at my desk. The best form of training for our graduates (and we have some talented ones) is to hear our conversations with you, our clients. Not only do they learn how to construct portfolios but also about clients' appetite for risk and reward.

One of our non-executive directors sent me a fabulous article titled:

"If you want to get on you've got to go in"!

I have always said, to our staff and clients alike, that I will not let Covid-19 define us. We will learn from it but revert to (almost) where we were and then from that point make positive changes where appropriate. Maybe this stance is a little archaic but I see it as responsible as I'm afraid the morphing into a stay at home culture is one I have so many fears over; plenty of which on a humanitarian basis are far greater than those listed above.

Conclusion

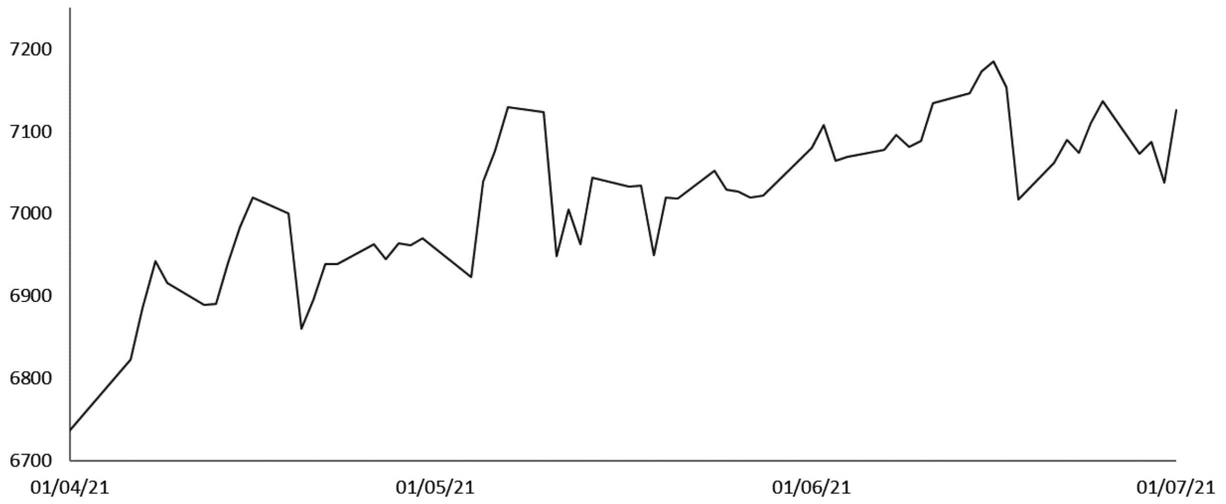
I started this newsletter with HRH Prince Philip and his foresight into the importance of conservation and think I'll finish it simply with a thank you to his widow Her Majesty The Queen. If our great nation can show an ounce of your stoicism ma'am, we will be in good order for many years to come.

WJB
05/07/21

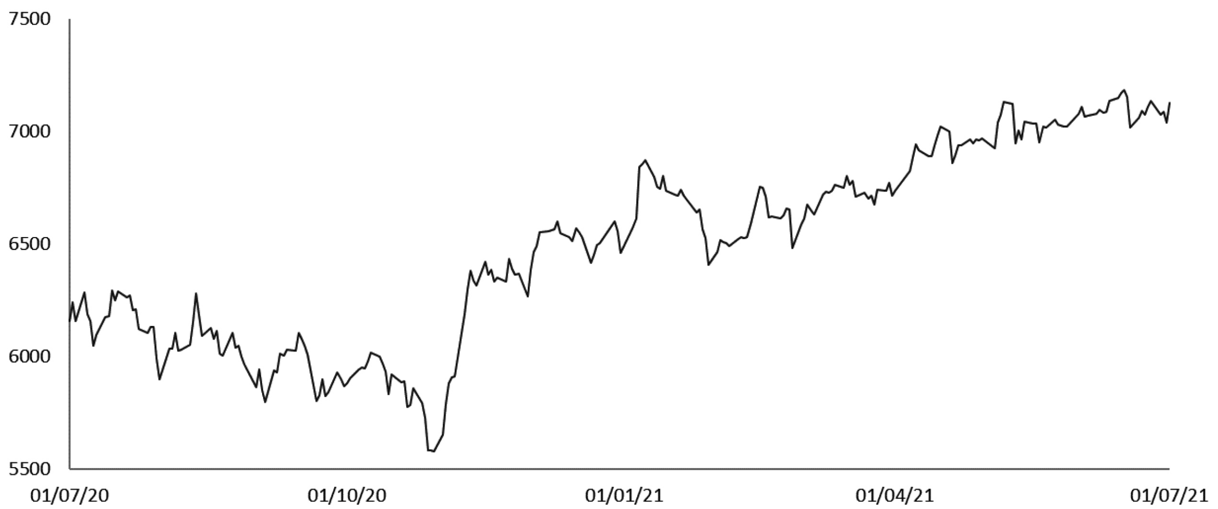
REGULATORY DISCLAIMER: This newsletter is provided solely to enable clients to make their own investment decisions. The information within this newsletter does not constitute advice or a personal recommendation, or take into account the particular investment objectives, financial situations, or needs of individual clients. It may therefore not be suitable for all recipients. If you have any doubts as to the suitability of this service, you should seek advice from your investment adviser. The past is not necessarily a guide to future performance. The value of investments and the income from them can fall as well as rise and investors may get back less than they originally invested. Certain Investment Trusts will permit using gearing as an investment strategy. Gearing is a strategy which involves borrowing money to increase holdings of investments or investing in warrants or derivatives. Such a strategy is likely to result in movements in the price of the relevant security being amplified significantly and may be subject to sudden and large falls in value and investors may get back nothing at all. Any tax rates and reliefs are those currently applying, are dependent on individual circumstances, and could be subject to change. All estimates and prospective figures quoted in this newsletter are forecasts and are not guaranteed. Within our advisory service we offer advice on a wide range of investments including shares, corporate bonds, gilts and managed funds. Within the RDR our advisory service is recognised by the FCA as a 'restricted' service as we do not offer advice on the whole of the financial planning market which includes products such as life policies and personal pension schemes. Barratt and Cooke is the trading name of Barratt & Cooke Limited. Registered in England No. 5378036. Barratt & Cooke Limited is authorised and regulated by the Financial Conduct Authority, who are based at 12 Endeavour Square, London E20 1JN.

SOURCE: Proquote and FTSE International Limited ('FTSE') © FTSE 2021. 'FTSE®' is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under licence. All rights in the FTSE indices and /or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and /or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

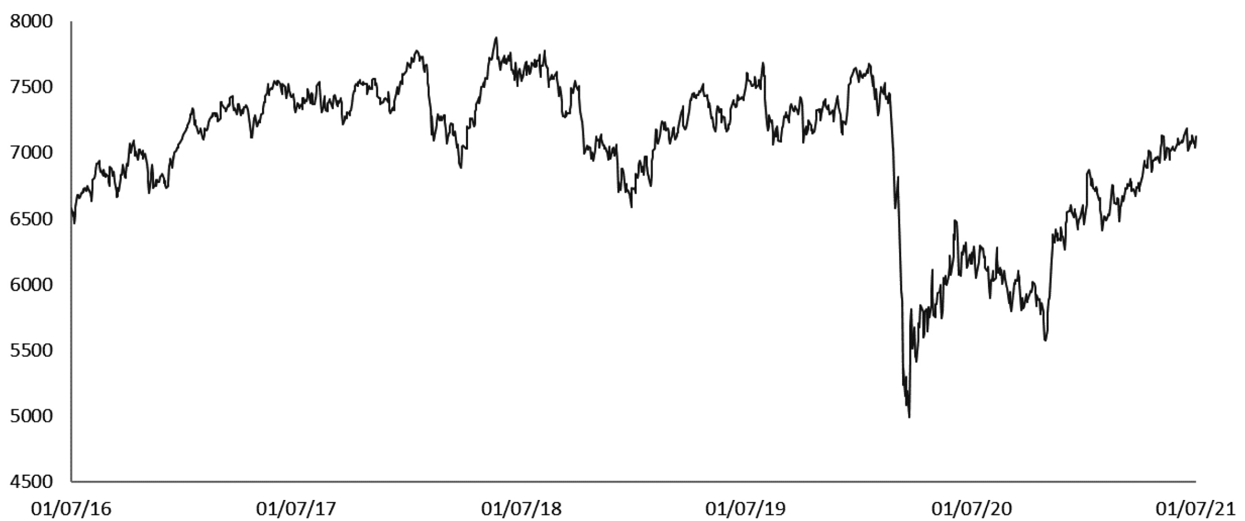
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Proquote