N&V
NEWS & VIEWS H1/2021

A new momentum

Speeding the move towards economic recovery

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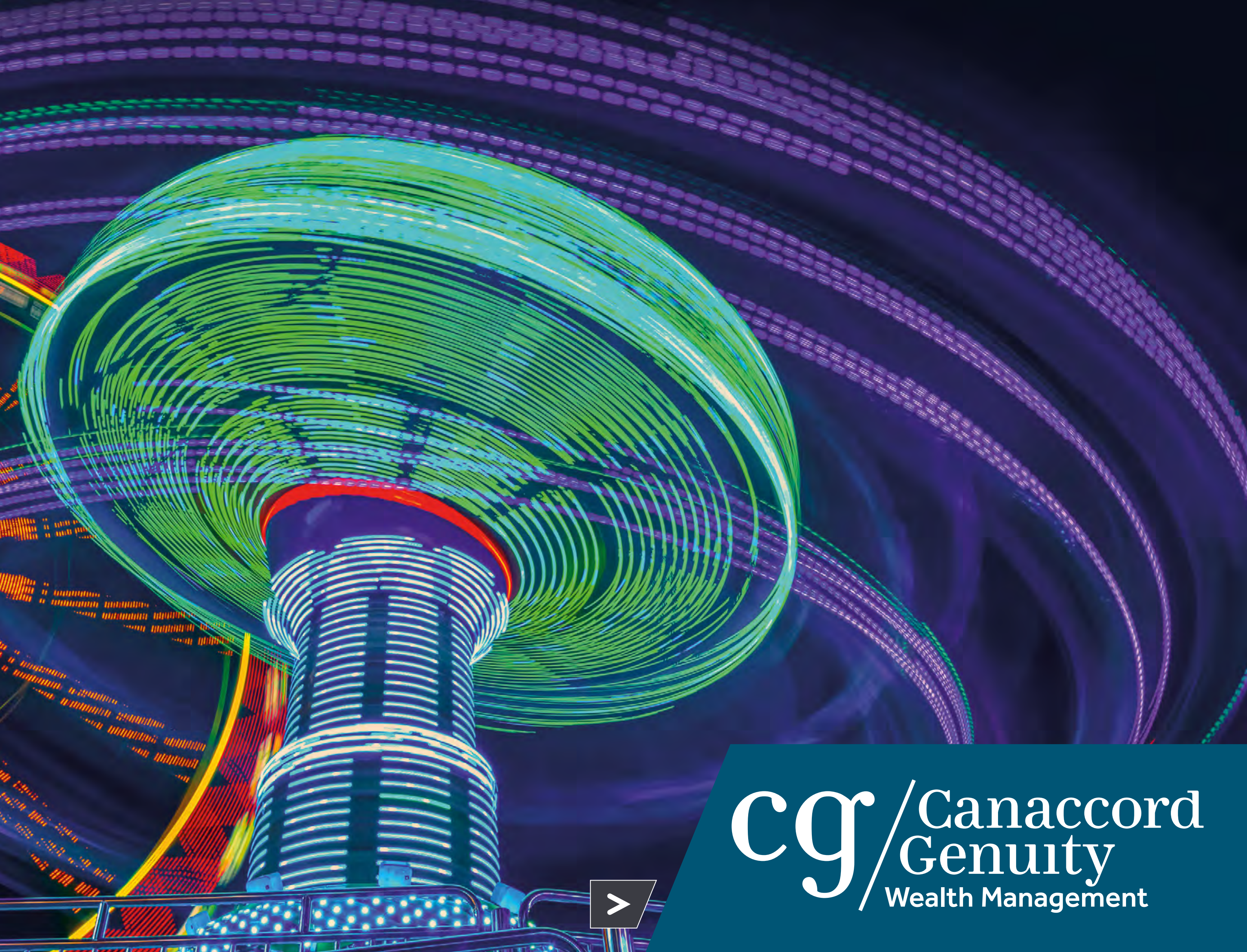

Canaccord Genuity
Wealth Management

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David Esfandi, Chief Executive Officer

Justin Oliver, Deputy Chief Investment Officer, International

Michel Perera, Chief Investment Officer

Richard Champion, Deputy Chief Investment Officer, UK

Patrick Thomas, Head of ESG Investments

Mike Alford, Senior Wealth Adviser

Welcome

It was this time last year that we were all coming to terms with facing the worst ever pandemic in the modern era. Little did we know then just how much our day-to-day lives would be turned upside-down and I know, speaking from personal experience in the UK, just how much the recent lockdown easing has been welcomed – reunions with family and friends have been a wonderful reminder of normal life and the importance of face-to-face human interaction.

At Canaccord, we have felt exceptionally fortunate to have been so resilient – largely thanks to our people, systems and technology - as we have continued to operate effectively throughout the last year. That's not to say reactivity and adaptability haven't become fundamental aspects of our strategy – and I expect many of our new ways of working will continue in the years ahead. As we look forward to the future, it is important we anticipate any further changes that are needed in our business and discretionary client portfolios in response to the ongoing situation and transition to the 'new normal'.

Our recent client Zoom update with Canaccord Genuity's US-based Chief Market Strategist, Tony Dwyer and Michel Perera, Chief Investment Officer hinted at the new momentum taking hold. Despite some market commentators fearing the effects of inflation, soaring global debt levels and even the end of a bull market that's only just begun (all of which we cover in this edition of News & Views), they reiterated the supporting evidence for a more positive longer-term outlook. From different geographies and sectors, to value vs. growth and ESG, they discussed the current strategies we are implementing in our clients' discretionary portfolios to take advantage of the many opportunities for investors against the current economic backdrop.

You are invited to our next Zoom update on 13 May, where Head of ESG Investments, Patrick Thomas will be joined by two leading fund managers to explore the game-changing innovations altering the ESG investment landscape. Do contact your wealth manager if you would like details of how to join us for what's likely to be a fascinating event. In this publication, Patrick looks at the area of cybersecurity and the new and exciting opportunities that are opening up as the sector undergoes massive growth which has been accelerated further by COVID-19.

This edition of News & Views comes at a time where cautious optimism is starting to prevail. While much is still unknown about what the future holds, our articles demonstrate how we can help you to consider your options and maximise the opportunities available. Many individuals have had to rethink their financial plans; some who are finding that increased savings and funds are in fact negatively impacting their tax planning position. Mike Alford, Senior Wealth Adviser explores on page 23, retirement planning options for high earners facing complex pensions rules. If you are concerned that the last year has altered your circumstances or affected your financial plans, our expert wealth planners can help so please do get in touch with them.

Finally, you may have seen the recent announcement that we are extending our wealth management services into Scotland through the highly respected and long-established investment manager, Adam & Company. We would like to warmly welcome our new Adam & Company clients and colleagues to Canaccord.

We hope you enjoy this edition of News & Views. If you have any questions about anything in this issue, or about your portfolio or plans for the future, please contact us. Finally, I wish you all the best of health. Stay safe; we hope to see you soon.

David Esfandi, Chief Executive Officer CGWM

Justin Oliver,
Deputy Chief
Investment Officer,
International

Inflation matters

Inflation is currently the most important indicator to monitor when it comes to financial markets. Now, more than ever, inflation matters. It matters because it determines which financial assets we might wish to hold, and those we should avoid. And it matters because central banks will be making key decisions, which will have a pronounced effect on all of our lives, based on their inflation forecasts. Inflation is not just a theoretical, abstract construct. It has real world implications which we need to analyse and consider.

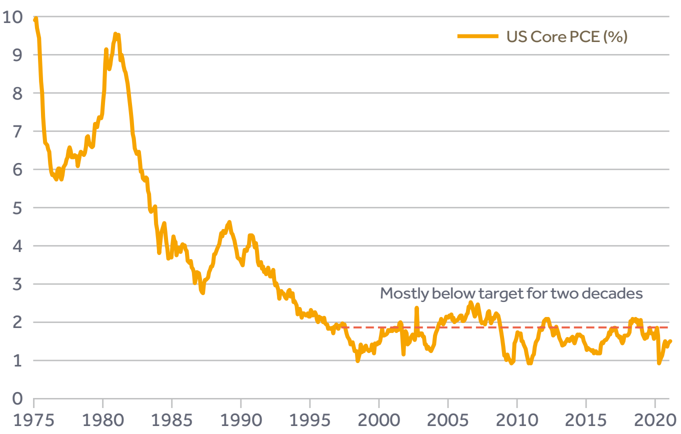
Is inflation a problem?

Not at the moment. In fact, for the past 20 years in the US, the problem has rather been the lack of it. Current central bank orthodoxy is that inflation at or around 2% is an appropriate target. Too high an inflation rate – as per the 1970s – eats away at savings and runs the risk of spiralling ever higher. Inflation is pernicious; it can quickly soar out of control and cause considerable instability, both for society as a whole and in financial markets.

On the other hand, too little inflation, or outright deflation, brings with it a host of other problems; just consider Japan's economic performance over the past 30-40 years.

A 2% inflation target is a comfortable middle-ground: a goldilocks level. Unfortunately, it hasn't proved an easy target to meet. The preferred inflation measure of the US Federal Reserve (Fed) is the US Core Personal Consumption Expenditure (PCE) Index. For the past 20 years, the Fed has had great difficulty in maintaining inflation of 2%.

US Core Personal Consumption Expenditure



Source: Bloomberg

Have recent events altered the inflation dynamic?

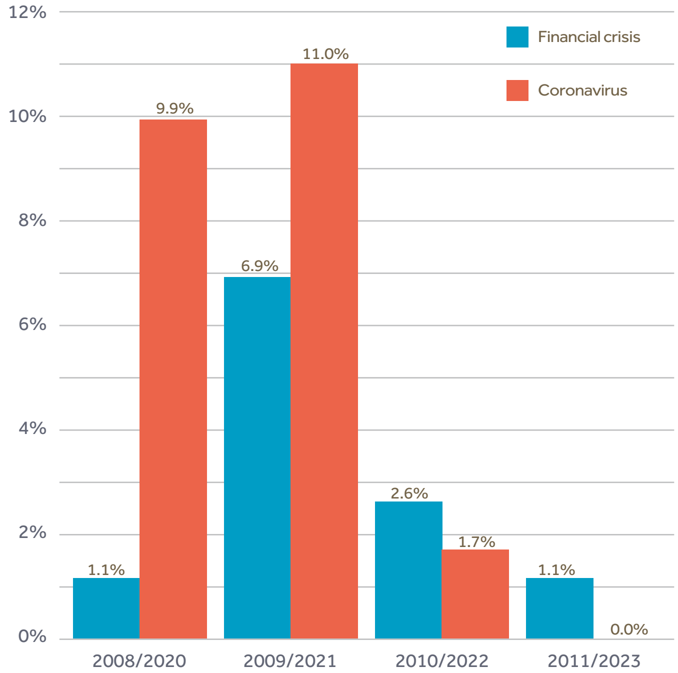
The short answer is yes. The longer answer is still yes, but with the caveat that we're not quite sure in which direction yet. And therein lies the crux of the problem. We can make convincing arguments for why inflation may become a serious problem. We can make an equally persuasive case that inflation rates might not markedly change and that in two or three years' time we may look back at our inflationary concerns and wonder what all the fuss was about.

In this article we are restricting our comments to the US, but many of these arguments can be applied to the UK, Europe and parts of Asia.

Why might inflation become a serious problem?

The simple answer is because of money; more specifically, the trillions of dollars which are being poured into the US economy by the Fed and US Government. Even before President Biden's latest US$1.9trn stimulus package, US$8.5trn had been either spent or made available in coronavirus-related support from monetary and fiscal policy. This equates to nearly 40% of the size of the entire economy. Government support in 2020 and 2021 far exceeds the action taken in response to 2008's global financial crisis.

Fiscal policy support as a % of GDP (fiscal year)
Global financial crisis vs coronavirus

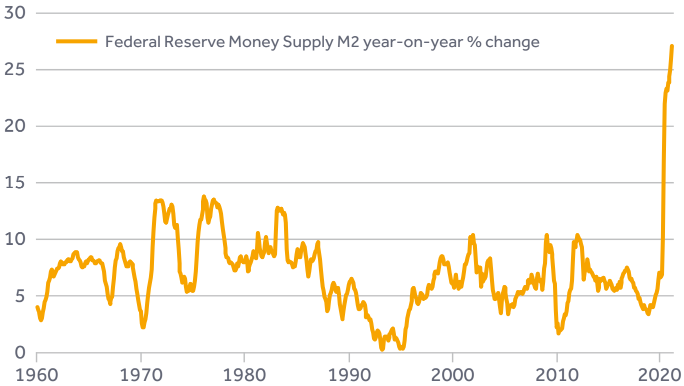


Source: Strategas

President Biden's American Rescue Plan hands US$1,400 to nearly 80% of the US population. While these payments will be used for a variety of purposes, we expect significant spending and debt reduction to feature prominently. All this money will go somewhere, and it is reasonable to conclude that a massive surge in consumer demand will be a primary outcome. Economics 101 concludes that a response to substantially increased demand is higher prices.

Another way in which the impact can be evaluated is to look at the year-on-year percentage change in the M2 Money Supply. This is a measure of how much money is within the US economy – in this case in the form of cash, bank deposits and broad money aggregates – and is viewed as an indicator of future inflation. The chart speaks for itself.

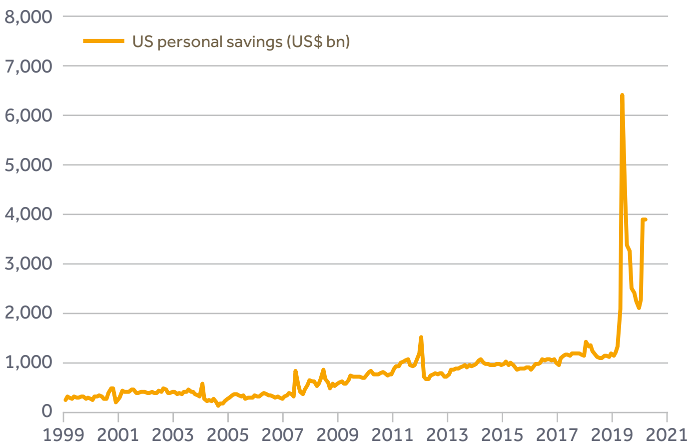
Federal Reserve Money Supply M2



Source: Bloomberg

Many households have built up significant savings during the pandemic; at the end of January 2021, household savings in the US stood at US$3.9trn and even a modest deployment of this sum implies a significant surge in demand.

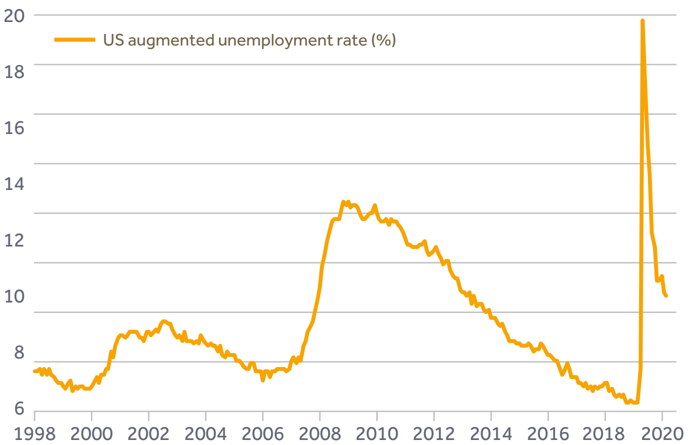
US personal savings



Source: Bloomberg

There are many other arguments for higher inflation, the most significant of which is that the Fed is telling us that it is prepared and content for inflation to move higher and won't proactively intervene to prevent this. The recent move to an average (rather than precise) inflation target means that periods where inflation has undershot its target must be compensated for by a period where inflation exceeds 2%. The Fed's priorities have shifted from controlling inflation to maximising employment. When Paul Volcker became Fed Chair in 1979, he vowed to vanquish inflation – unemployment be damned! Now, Fed Chair Jerome Powell has turned this on its head.

US augmented unemployment rate



Source: Bloomberg

Is higher inflation a foregone conclusion?

Yes and no. This year, inflation will inevitably be higher simply due to year-on-year base effects. In March 2020, a barrel of oil cost US$22. In February 2021, it stood at US$66. It's a mathematical certainty that inflation will accelerate over the coming months.

However, it's the outlook beyond the summer which is of most interest. The global economy will continue to recover in 2021, but some of the economic damage will take years to repair. If inflation was not a problem when the unemployment rate stood at 6.3%, why is it going to be a problem when the rate is likely to remain well above this level for quite some time?

Demographics, secular stagnation, technology and automation are all arguments put forward to suggest inflation will not be a problem in the future.

What will the actual outcome be?

Convincing arguments can be made for either scenario, but the fact is that no-one truly knows. However, even with this uncertainty, no problem is insurmountable; it's simply a case of developing a strategy which can deal with the various potential outcomes. And that's what we're determined to achieve on behalf of our discretionary investment management clients.

Investment considerations

There is almost no financial environment where holding cash is likely to be the best investment option and cash is already being eroded in real terms. If inflation accelerates, policymakers are unlikely to react quickly and real yields (the difference between interest rates and inflation) will fall further. Realistically, the situation will get worse, not better.

It may be prudent to incorporate some form of inflation protection. This could be in the form of gold, US Treasury inflation-linked bonds or commodities. It's also difficult to argue for the merits of holding low-yielding nominal bonds, particularly government issues. Fundamentally, they are not particularly attractive now, let alone if inflation accelerates.

Finally, the cyclical bull market in stocks is only likely to end when inflation moves to such a level that central banks are forced to raise interest rates. This is not a risk in the near term and equities are one of the better options for protecting against inflation in a low interest rate world. However, it may be appropriate to moderate exposure to growth stocks, such as technology, while increasing exposure to value areas, including financials.

The best decision in 2021 may be to hedge against the risk of higher inflation, while remaining exposed to assets which can continue to deliver attractive returns in a variety of investment environments. In this regard, equities remain the most attractive asset class.

Michel Perera,
Chief Investment
Officer

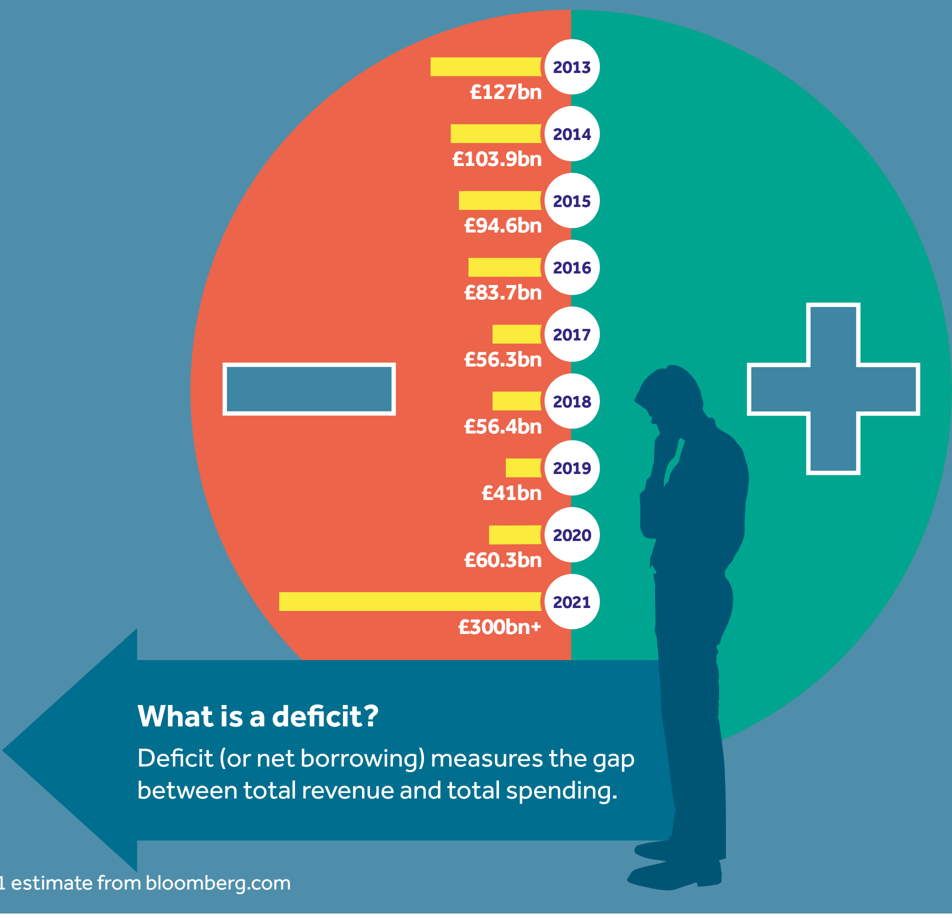
Should investors be worried about soaring global debt?

The response to the coronavirus pandemic has been an unprecedented increase in global debt. Governments and companies have borrowed exponentially to help economies, households and businesses survive the economic damage caused by lockdowns and societal restrictions.

Unfortunately, global debt has already been on an uptrend for decades. In the UK alone, the economy was burdened with heavy debts well before COVID-19 reached us (see graphic on next page).

Budget deficits have been piling up without governments having enough surplus to bring the debt down (with the notable exception of Germany). This time around, the cure for the COVID-19 economic crisis is to 'make the economy whole' after its losses during the pandemic. This involves governments giving money to people and companies to protect them from unemployment, default or bankruptcy. Never has there been so much fiscal support for the economy in the US, UK, Europe or Japan, apart from during world wars.

How has COVID-19 impacted the UK government deficit?



What is a deficit?

Deficit (or net borrowing) measures the gap between total revenue and total spending.

Source: All figures are from ons.gov.uk except the 2021 estimate from bloomberg.com

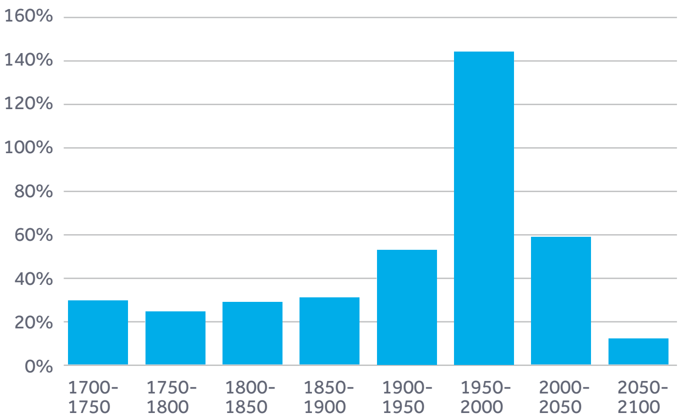
What does this mean for world economies?

Will the world be engulfed by an unsustainable debt tsunami? How can debt levels be brought down – and will there be an impact on investors?

After both WWI and WWII, governments around the world were similarly crippled by debt. On that occasion, it was brought down as a percentage of the economy thanks to the massive economic expansion of the post-war eras. The debt was instrumental in boosting growth but also fed into inflation.

Do we have the same opportunity for growth now? Probably not: populations are older, there is no major reconstruction effort and our standard of living is already high. Indeed, global demographic growth (which broadly determines economic growth) was the highest in history during the 1950-2000 period, enabling countries to pay down their debt quickly, whereas the 2000-2050 period is expected to grow less than half as fast.

World population growth by 50-year periods



Source: www.worldometers.info

The Japanese effect

The worry is that this could lead to 'Japanisation': namely no growth, deflation, depressed people and falling demographics. In the UK, the Chancellor has announced spending to create a budget deficit in the amount of 20% of GDP between this year and next, while the US has approved total spending of 25% of GDP between last year and this year.

However, we should point out that between 1942 and 1945, US budget deficits reached 80% of GDP, so we are still in modest territory here!

Budget deficits as a % of GDP

	2020	2021	2022	All 3 years
USA	15.6%	13.9%	7.0%	36.5%
UK	12.1%	9.6%	5.2%	26.9%
Germany	6.1%	4.3%	2.0%	12.4%
France	10.9%	7.4%	5.2%	23.5%
Japan	10.5%	8.0%	5.4%	23.9%

Source: Bloomberg consensus

Will we see a repeat of austerity?

The last cycle was marred by austerity, which is now a dirty word in the UK and most European countries. Economies barely recovered as central banks were giving money with one hand and governments were taking it away with the other. It is a brave finance minister anywhere who will attempt to balance the budget in the next few years via austerity, let alone start paying down the debt. Nevertheless, some effort in that direction will take place, *The cost of debt can rise, but only moderately: the US debt service is currently 1% of GDP and is expected to double to 2% over the decade but still settle below where it was in the 1980s and 1990s.*

if only to pay lip service to fairness, equality and redistribution by raising taxes. This may well happen in the US with corporate tax rates, capital gains and marginal income tax rates, if Biden can maintain a majority in the Senate.

After WWII, capitalist US had 90% marginal tax rates, while taxes were also very high in the UK and Europe. Could that happen again? In the UK, the Chancellor has announced an increase in corporate taxes starting in 2023 and a freeze on tax reliefs elsewhere to target individual taxpayers (a 'stealth tax'). Maybe in the future, capital gains and inheritance taxes could rise and there could be an online sales tax. It's very hard for both a government and a central bank anywhere to say publicly that debt should be ignored, so there will be moves in taxes to address this.

Is cheap debt the answer?

Right now, the UK can borrow long term below 1%, the US below 2%, and both can reinvest the money into their economy. If their economies grow faster than these rates and also have some inflation, the borrowing cost will be easily absorbed and the debt ratio could fall back to more acceptable levels without tax increases.

Although it's highly unlikely we'll see a repeat of the post-war years' expansion, the expected economic growth in the US and the UK over this year and next adds up to 10%. Growth will obviously taper over time but could still be way above borrowing costs for many years, helping shrink the debt-to-GDP percentage, as happened post WWII.

The cost of debt can rise, but only moderately: the US debt service is currently 1% of GDP and is expected to double to 2% over the decade but still settle below where it was in the 1980s and 1990s.

Following the 2008 financial crisis, there was much talk among economists about which level of debt could stifle growth. Many economists agreed on 90% of GDP. Since then, many countries have exceeded that percentage without any noticeable reduction in their growth rate, so we have to assume that there is no magic number. Instead the relevant factor is the comparison between economic growth and borrowing cost (as with any company taking on credit to invest).

The issue may well be one of creditworthiness beyond simple debt ratios – i.e. do lenders trust the sovereign borrowing country? The US often benefits from a Teflon reputation, given that it borrows in its own currency, which the rest of the world needs. Japan's debt levels are off the scale, but 96% of Japanese government bonds are owned domestically, so the risk of a run on them is seen as minimal. European Union members are often basking under the German sun, with weaker credit countries expected to be bailed out by the strongest EU members.

Which brings us to the UK. As a country with its own currency, the UK can borrow without foreign exchange risk but, given its large twin deficits (trade and budget), the government has to satisfy investors, whether domestic or foreign, that it will be able to repay its debts. The UK's creditworthiness has often been perceived as higher than strict economic criteria would dictate, owing to an image of economic seriousness and political stability. How long will we be able to keep that gilt-edged status?

What about inflation?

Inflation is a popular way to reduce debt in the economy – so against the backdrop of high debt, rising prices should be welcome as a way to clip the potential tax burden. When investing in corporate bonds, though, there is the concern of companies being 'crowded out' by government borrowing. For a more in-depth discussion of the effects of inflation, see Justin Oliver's article on pages 4-7.

In conclusion

High government debt should not normally be a major concern for investors. Although governments around the world will be working hard to reduce their debt burdens, the risk to investors is low.

However, we believe the biggest impact on individuals will be via tax.

Michel Perera,
Chief Investment
Officer

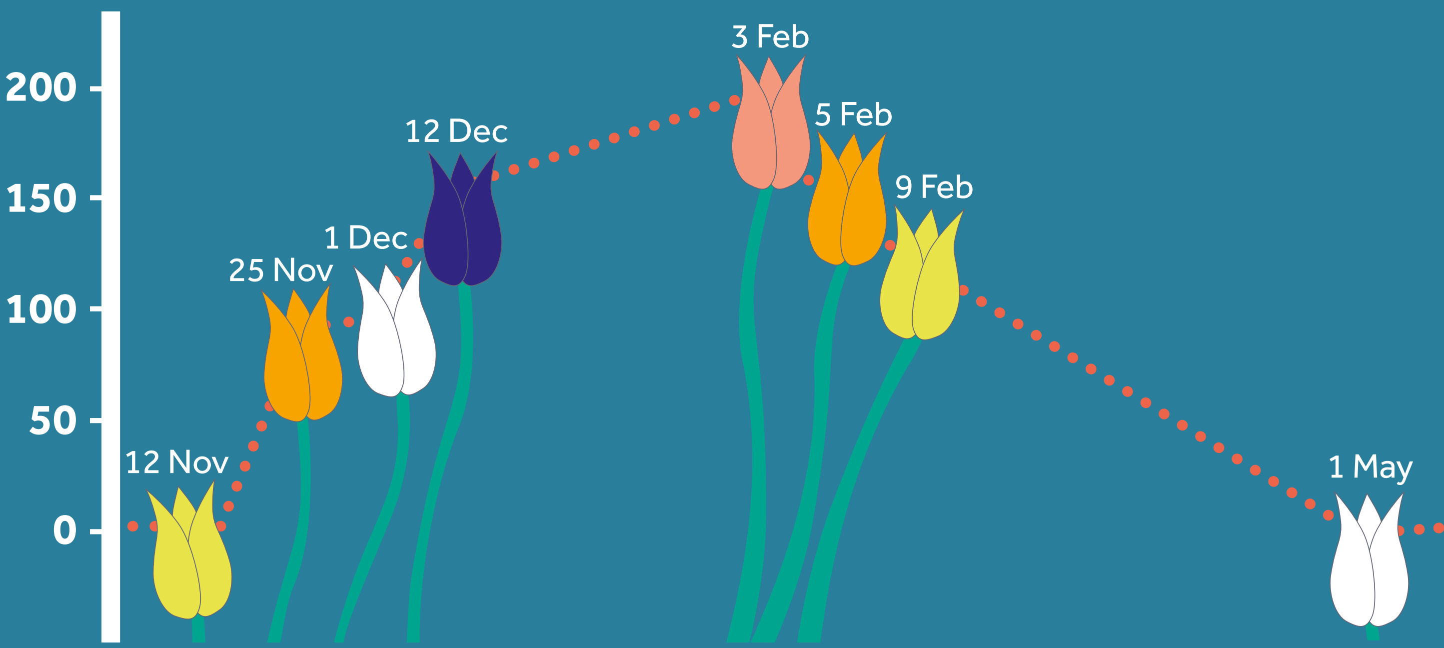
Are markets in bubble territory?

In his 1841 book 'Extraordinary Popular Delusions and the Madness of Crowds', Charles Mackay describes the history of bubbles, from the 17th-century Tulip Craze in the Netherlands to the 18th-century South Sea Bubble in England. He didn't know about the bubbles that would come later: railways in the 19th century, radio in the 1920s, the dotcom bubble, subprime mortgages and so on.

Essentially, the concept of a bubble is an exaggerated fear of an overbought market in any asset class. Logically, if people are talking about bubbles all the time, chances are there is no bubble. The 17th-century Dutch merchants never thought tulips were in a bubble. That's why there was one.

The first known economic bubble

1636-37 – the tulip price index



Source: history.com/news/tulip-mania-financial-crash-holland

Why some market commentators believe we might be experiencing bubbles at the moment

At the time of writing, there is a lot of cash in the economy, due to money supply, fiscal spending and savings during the pandemic. As markets continue their rise, some commentators have pointed to signs of excess, even going so far as to suggest we are entering bubble territory. They point to:

- Huge upward movements in bitcoin and other cryptocurrencies
- The increasing number of 'Special Purpose Acquisition Companies' (companies set up and floated on markets with the express purpose of acquiring other companies)
- The proliferation of takeovers and initial public offerings (IPOs)
- The extraordinary gyrations in previously very unpopular and heavily shorted companies such as GameStop in the US, based on recommendations on internet forums
- Heady valuations in popular technology companies
- Huge rises in many ESG (environmental, social, governance) related themes
- The apparently exponential growth of Tesla stock and the fact that its CEO, the visionary Elon Musk, is now one of the world's richest men, with a paper value that recently touched US$200bn[1] (speculation has it that he will be the world's first trillionaire).

Which assets might be in a bubble now?

Cryptocurrencies come to mind. The use of blockchain for cryptocurrencies is uncontrolled, unregulated, dominated by a small number of founders, subject to complicated induction rules and inherently vulnerable to security breaches, with many instances of bitcoin having been lost or stolen. There are also no valuation metrics to rely on, so blockchain is impossible for investors to value.

The risk for cryptocurrency investors is that it could simply be regulated away. In the UK, the Financial Conduct Authority (FCA) is stopping retail investors from buying cryptocurrencies; India is planning to ban them. China is launching a digital currency controlled by its own central bank; the US Federal Reserve is researching a similar idea.

Given how much illegal money (the proceeds of crime, tax evasion and anonymous money) is lodged in cryptocurrencies, there is probably a point where governments will get involved, stop the anonymity, and start taxing gains, transactions or wealth to prevent damage to the economy.

Will cryptocurrencies then be brought into the mainstream by institutional investors, packaged so that retail investors can buy them? Can anything keep rising at this rate without imploding? At what point is it a tulip? As an investor, should you get involved unless you can afford to lose everything?

[1] As Tesla's Market Cap Crosses US$800 Billion, Musk's Wealth Zooms Past US$200 Billion – goodreturns.in/news/as-tesla-s-market-cap-crosses-800-billion-musk-s-wealth-zooms-past-200-billion-1196937.html?story=1

> *What is interesting amid investors' comments is how many people think we are coming close to the end of an economic cycle which has only just begun.*

Are there other potential bubbles in the broader equity market?

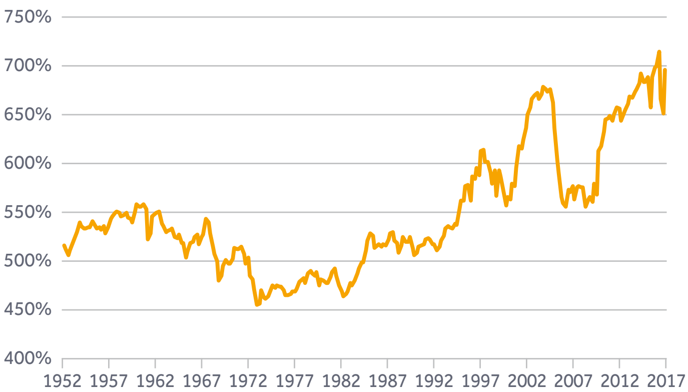
It is possible that people diagnosing bubbles right now may be older investors who have not kept up with the evolution of the economy and markets. They want markets to go back to where they were 30-40 years ago, so they can find a winning strategy again. Equity valuations may also be affected by two factors:

- Analysts are not good at valuing shares of companies that grow very fast
- In these fast-growth businesses, some companies succeed beyond expectations and others go bankrupt; the whole point is picking the right ones rather than haggling over their share price.

Interestingly, the main market concern about the five or six largest and most expensive US stocks has partly been dealt with by the market, since they have fallen compared to other sectors and shares. Markets are providing a self-correcting mechanism for high stock valuations.

What is interesting amid investors' comments is how many people think we are coming close to the end of an economic cycle which has only just begun. Yet fiscal and monetary authorities are trying to make sure that this cycle goes on for a very long time so that unemployment goes down to its previous lows. If there is a bubble, it's in bubble forecasts!

Households and non-profit organisations
(net worth as a percentage of disposable personal income)



Source: US Federal Reserve

It is incongruous that many investors believe the whole stock market is in a bubble when governments and central banks are throwing vast amounts of money at the economy, individuals are sitting on all-time-high savings and household net worth, companies' debt service costs are at historic lows and the labour market is starting to heal. This is not the textbook definition of a bubble, except maybe in some very specific corners of the markets.

How can investors protect themselves from potential market bubbles?

Diversified portfolios tend to combine cheap and expensive assets, with the cheap ones expected to rebound with economic growth and the expensive ones continuing to perform when global growth recedes. The relative ratio of these investments can move tactically and is designed to achieve the right mix of upside potential and downside protection.

Valuations and money flows are just two of the factors we scrutinise daily to make sure that none of our discretionary portfolio investments is about to meet that fate. This behaviour came in handy during the COVID-19 pandemic as we scrutinised every single investment to make sure it could survive the lockdowns.

Are we in bubble territory now?

Minuscule interest rates, rebounding economies, a consumer primed to spend: at the moment, for equities, it really is a case of TINA (there is no alternative). Normally at times like this, the role of central banks is to take away the punch bowl just as the party is getting started. But with the shock of COVID-19, the worst ever pandemic faced by world economies in the modern era, those bankers are in no hurry to end the cycle now.

So, pockets of irrationality? Yes. Bubble? No.

Richard Champion,
Deputy Chief
Investment
Officer, UK

Beyond the rising sun – new opportunities in Asia

We have taken significant positions in Japanese equities in our clients' discretionary portfolios for some time now, highlighting changes to corporate culture, strong balance sheets and a wide range of interesting companies listed there.

But the Far East has far more to it than just the land of the rising sun – in fact, equities from other Asian countries are attractive in their own right for many reasons:

- Emerging middle classes in China, India, Indonesia and elsewhere are driving big growth in consumption
- The region is blessed with many exciting and world-leading technology companies
- Economic growth is stronger than pretty much anywhere else on the planet
- Asian countries have generally handled the COVID-19 pandemic better than the developed western economies
- Although Asian governments have long been seen as laggards in matters environmental, there is now burgeoning evidence of changing attitudes to ESG (environmental, social, governance) factors in the area
- Last but not least, a weaker US dollar has traditionally been seen as a positive for the performance of equities in Asia in particular, but emerging markets more generally.

This combination of factors makes for a powerful investment case, and one we are happy to support.

Of course, we have to remain highly aware of the threats to this comfortable view. From a western perspective, there are very legitimate concerns about how human rights are handled, especially in China. Investing in companies that sell products made by forced labour is inherently problematic, indeed immoral, and the US and others have accused China of genocide over the treatment of the Uighur population in Xinjiang province. From a broad cultural perspective, there is a developing cold war between the liberal, democratic norms we in the west have grown used to after the second world war, and the state-centred, collectivist view of freedom espoused in China and elsewhere.

Espionage, unfair trading practices, intellectual property theft and selectively closed markets, allied with vast economic development in China, mean that there is now a war of civilisations. The established western-centric order of the second half of the last millennium is going head to head with a re-emerging China, which looks likely to become the world's largest economy in the next decade or so for the first time since the 1500s. Should we invest in an economy that is our adversary in this war?

Despite these concerns, the answer for us is an unequivocal yes.

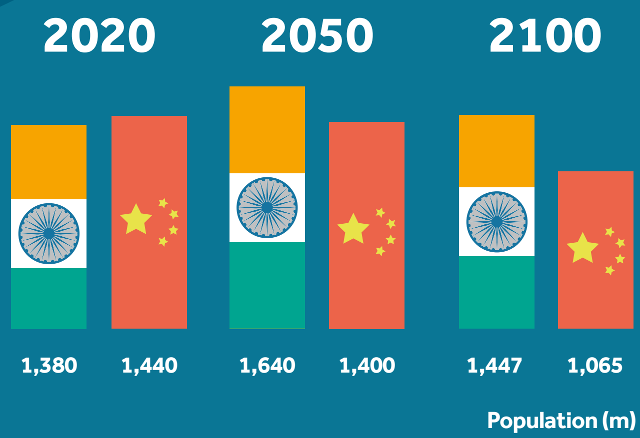
Concentrate on the positive

First, let's look at the demographics that support this. We all know that China's population growth is decelerating, largely because of the 'one child' policy of the late 20th century. Indeed, the population there is expected to peak in around 2040. However, more widely in the region population growth is still strong. India, with a population today of 1.39 billion, should overtake China (1.45 billion) by around 2035, according to UN estimates. Nor should we forget countries like Indonesia (population 275 million), Pakistan (224 million), Philippines (111 million) and Vietnam (100 million), among others.

Combining these countries and other smaller regional states creates a bloc comparable in size to China and India by 2050. Populations may shrink in China and India in the second half of this century, but we think the growth we are likely to see over the next 30 years will help underpin investment in the region over our current time horizon.

More important for investors, however, is the growth in the middle classes, where the propensity to spend on a wider range of goods, rather than predominantly just food, increases markedly. Over the longer term this trend opens a huge consumer opportunity for companies. Some estimates have the value of spending power in the Chinese and Indian middle classes growing to US$14.1trn and US$12.3trn respectively by 2030. This compares with an estimated US middle-class spending power over the same timeframe of US$15.9trn.

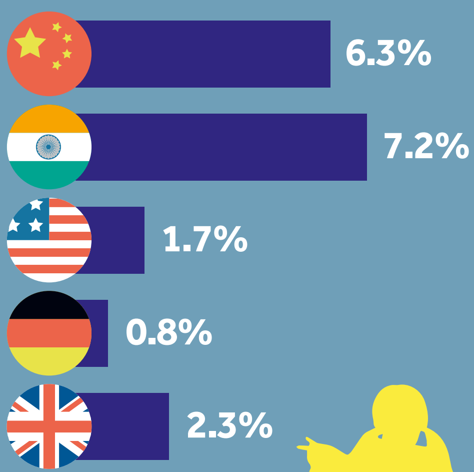
The growth of Asia



India's population is likely to overtake China's by around 2035, according to UN estimates.

Source: population.un.org/wpp/Download/Standard/Population

By 2030, the GDPs of both China and India are predicted to grow far more than those of western nations.

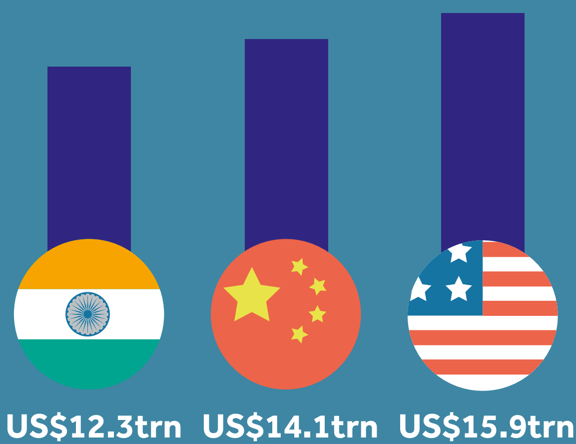


Source: CEBR

While India and China combined will see continued population growth up to 2050, the rest of the region will grow far more rapidly.

Source: population.un.org/wpp/Download/Standard/Population

By 2030, middle class spending power in India and China will begin to rival the USA.



Source: nextbigfuture.com/2020/01/global-middle-class-passing-4-billion-in-2020.html

Going for growth

The second factor influencing our view is economic growth. 2021 is expected to be a bumper year for growth across the world, as economies recover from the pandemic. However, long term, the trend rate of growth in Asia will far outstrip developed markets such as the US, Europe and the UK, driven by population growth and that growing middle class.

According to the Centre for Economics and Business Research (CEBR), a leading UK-based economic forecasting consultancy, Chinese GDP is expected to grow at just over 6% per annum up to 2030, and India's by a little more than 7%. This compares with 1.7% and 2.3% for the US and UK respectively. This would make China 10% larger than the US, and India very comfortably larger than the UK or Germany by that time.

This growth advantage is likely to be boosted by recently signed trade agreements within the region, such as last year's Regional Comprehensive Economic Partnership (RCEP). This includes 15 countries, from China and Japan to Australia and New Zealand, in a bloc with a larger GDP than either the EU or the United States-Mexico-Canada trade deal enacted in 2020.

Talking technology

The third fundamental reason for investing in the region is the strength of the technology sector there. Asia isn't just the world's primary manufacturing centre, it is now a leader in intellectual property.

Whether this is in China (with Alibaba in online retail, Tencent in social media or Baidu in search), or in Taiwan (TSMC in semiconductors), or Korea (with Samsung in mobile phones and semiconductors), Asia now has a wealth of very powerful, strongly growing technology names in world-leading positions. Technology as a broad sector is now almost as large in the region at just over 25% as it is in the US (nearly 40%).

Growth has been bolstered by the emergence of an army of science graduates from regional universities, especially in China. These companies are benefiting from powerful secular global growth trends in artificial intelligence, cloud computing, quantum computing, solar energy, electric vehicles, 5G mobile technology and new applications for social media; all areas where Asia enjoys strong competitive advantages.

Ethical improvements

Fourth, despite deep concerns over human rights, especially but not exclusively in China, the region is nonetheless seeing improvements in ESG factors that we think will support equities in the area. China is now deeply concerned about the impact its economic growth is having on the environment and remains a signatory and supporter of the Paris Climate Treaty. It is also working at a regulatory level to improve the transparency of reporting amongst its largest companies.

Elsewhere, in India there is slow progress towards better corporate governance backed by structural reform that makes businesses more secure. This isn't to say we are starting from an ideal point, and human rights certainly need to be considered carefully, but the direction of travel is towards better, rather than worse.

Finally, at times when the US dollar is falling in value, it is often the case that assets in less developed markets do better. This is because the dollar is often treated as a safe-haven currency, while assets in emerging Asia are seen as attractive or 'risk-on'. It also reflects in part the portfolio flows seen at such times, where investors are allocating more towards markets in the area, and therefore need to buy local currencies to settle their trades. We are seeing signs now of quite persistent dollar weakness, which we think further underpins our view.

Is Asia an attractive area for investment?

Asia's population continues to grow, and it is a region where economic development is now building very significant middle classes, ready to spend on discretionary goods rather than just essentials. In addition, it has a large, well-diversified and world-leading technology sector making it potentially attractive for investors.

On top of these reasons to have a position in our clients' discretionary portfolios, the region benefits from improving governance and environmental protection and being in the right place and right time as far as currency is concerned.

This is not a recommendation to invest or disinvest in any of the companies, funds, themes or sectors mentioned. They are included for illustrative purposes only.

Patrick Thomas,
Head of ESG
Investments

It would be a crime not to – investment opportunities in cyber security

Safe internet connectivity has become as essential and everyday as central heating. As our lives – personally and professionally – become increasingly digitally connected and we leave more and more traces online of what we have searched for, bought, downloaded, uploaded, shared, written, and even said – cyber security has become an urgent necessity.

For investors, it means new and exciting opportunities are opening up from massive growth in the cyber security sector.

Firstly, the companies involved in this space are not the generic big tech behemoths where we see greater regulation risk and slowing innovation.

Secondly, cyber security is a very different type of technology investment compared to an area like social media; this theme is not simply a play on global advertising revenue. For businesses, cyber security has become vital mission-critical expenditure regardless of the economic scenario prevailing.

A trend accelerated by COVID-19

The coronavirus lockdowns spurred cyber criminals to concentrate even harder on penetrating corporate networks and stealing data. The move to working from home, where staff used their own under-protected systems, exposed vulnerabilities and opened up new opportunities for hackers. During 2020, every business in the UK faced an average of 686,961 online attacks on its systems – one every 46 seconds – a 20% rise on 2019 figures. According to SonicWall analysis published in July 2020, ransomware attacks rose by 20% in the first six months of 2020, while other research found that web app attacks rose by an incredible 800%[1].

[1] itpro.co.uk/security/cyber-attacks/358276/2020-the-busiest-year-on-record-for-cyber-attacks-against-uk-firms

How cybercrime is leading to innovation and providing investment opportunities

All this criminal activity means that cyber security spending is set to grow. As new attack methods emerge, new countermeasures are developed, creating a cyberboom. According to Cybersecurity Ventures, cybercrime will inflict damages globally in 2021 totalling US$6trn, up from US$3trn in 2015[2]. That includes costs associated with the damage and destruction of data, stolen money, lost productivity, theft of intellectual property, theft of personal and financial data, embezzlement, fraud, post-attack disruption, forensic investigation, restoring hacked data and systems, and reputational harm.

These issues are being compounded by new technologies, such as cloud computing, artificial intelligence, the Internet of Things (IoT) and 5G. These technologies create new points of vulnerability and allow different kinds of attack. The IoT market alone, which includes connected devices ranging from cars and factory assembly lines to baby monitors and traffic lights, is expected to reach 25 billion devices by 2021, according to data compiled by Gartner. Cybersecurity Ventures believes a business will fall victim to a ransomware attack every 11 seconds by 2021, up from one every 14 seconds in 2019, and one every 40 seconds in 2016.

Individuals, companies, governments and other institutions are demanding new and better cyber protection to ward off future attacks, shore up their existing cyber defences, assess attack and intrusion analytics and keep their systems secure. Enterprises are also spending heavily on IT security measures that help respond to new privacy regulations, such as Europe's General Data Protection Regulation (GDPR).

Get on message with this new growth market

As methods of communication have evolved over time, so has the information communicated. 'Messages' today include almost anything from preferences, photos, movies, transactions and health records to other personal information. This compares to recent history when:

- One could only find a person's address and phone number via the Yellow Pages
- Bank records were only in your bank or in your home
- Government identification was kept at the relevant records office or in your wallet/purse
- Medical data could be found at your doctor's office and, if you requested a copy, your home.

Other personal information, such as when and where you might go for your morning run, your taste in music or television programmes, or your favourite restaurants, was generally private. Now, search engines like Google allow companies and, by extension, governments to record every topic searched by every user, including the time and the place where it happened. Social media companies have taken this to a whole other level. What's more incredible is that all this information has been provided voluntarily.

The point is that as our lives become increasingly digitalised, more and more information – some of it quite personal – exists in cyberspace, where it is potentially accessible by those with nefarious intent.

This all translates into one thing: security spending, creating a cyber security growth market.

How can investors seek exposure to cyber security opportunities?

Fortunately, there are scores of exciting and innovative companies whose function is to protect us online, and investors can find opportunities to invest in them via a number of exchange traded funds (ETFs), where the underlying selection of companies is compiled by a team of experts.

We believe cyber security is a fundamental theme set to shape our future which is why we seek investment exposure to the area on behalf of our discretionary clients. If you are new to Canaccord Genuity Wealth Management or if you would like to find out more about our approach to investing in cyber security, please get in touch.

Protect yourself from fraud

Your financial wellbeing and security are important to us. Unfortunately, with one persuasive phone call or convincing email, a clever fraudster can trick you into handing over your money.

Fraudsters try to appear as genuine as possible and we are aware that they are using the Canaccord Genuity name, logo and office address in an attempt to engage and exploit unsuspecting clients.

If you are suspicious about an email or phone call, where the Canaccord Genuity Wealth Management name and branding may be being used fraudulently, please do not reply or give away any of your personal details. Report it to fraud@canaccord.com and call your investment manager straight away.

For more information, call us or visit: canaccordgenuity.com/wealth-management-uk/market-updates/fraud-warning/

[2] cybersecurityventures.com/cybercrime-damages-6-trillion-by-2021/

Mike Alford,
Senior Wealth
Adviser

Retirement options for high income earners

In this world of ours very little stands still. The same can be said for the pensions landscape, as rule changes over the years have made retirement options for high income earners harder and harder to navigate.

High earners are faced with ever more restrictions and potential pitfalls, making it vital to understand the rules and seek specialist wealth planning advice. Calculating your 'adjusted income' for example, can be complicated but your wealth adviser can do this for you. You could also be affected by the lifetime allowance (currently capped at £1,073,100), the annual allowance (currently capped at £40,000) and the tapered annual allowance (which can reduce to just £4,000 for individuals with 'adjusted income' over £312,000).

Luckily, there are tax-efficient options available to high earners wanting to save for retirement.

1. ISAs

Since their launch, ISAs have been a phenomenal success story. A few years ago, research identified more than 1,000 ISA millionaires in the UK, and this number has certainly expanded since. ISAs allow you to place £20,000 each year in a tax-free wrapper (£40,000 for a married couple), and the compounding effect plus a supportive market over time can make a real difference.

2. Spreading investments between spouses

Putting a portion of your investment capital in your spouse's name makes a lot of sense. It allows each of you to take advantage of your respective tax positions and allowances and could boost your net position.

3. Offshore bonds

An 'offshore bond' is a tax-efficient investment wrapper set up by a life insurance company in a jurisdiction with a favourable tax regime, such as the Isle of Man or Dublin. Because any growth in the investments held within the bond is not subject to UK tax, it can be a useful way to top up retirement savings, although foreign taxes may be deducted at source.

It is possible to withdraw up to 5% of your original investment each year for 20 years without incurring an immediate income tax liability. If the 5% allowance is not used in a given policy year, the unused allowance carries forward to the next policy year on a cumulative basis. This enables you to select the most opportune time to incur a tax charge.

If your investment strategy or circumstances change and you need to switch your underlying investments you will not incur any tax charges – unlike in the UK, where there is a capital gains tax (CGT) liability when selling or buying underlying investments.

If you need to surrender an offshore bond policy, you can choose the most advantageous time to help manage the level of tax, and you can also choose to assign segments of the bond to other family members to help with estate planning. When portions of the bond are assigned to someone, the chargeable gains are taxed at their individual tax rate, which could be particularly beneficial if they are a non or basic rate taxpayer.

4. Venture capital

The government is committed to making the UK one of the best places to start, finance and grow a business in Europe. Incentivising private investment into smaller businesses through enterprise investment schemes (EIS) and venture capital trusts (VCT) is part of this strategy.

VCTs are companies listed on the London Stock Exchange. They are run by fund managers and typically invest in unquoted and/or smaller AIM-listed companies (AIM is a sub-market of the London Stock Exchange). EISs are direct investments in unquoted companies. EIS and VCT investments attract tax reliefs – provided the investment managers keep to certain rules – but also carry a high level of investment risk. There are limits to how much you can invest and the tax relief available is subject to a minimum holding period.

Our dedicated blog on EIS and VCT investments delves much deeper into the details: https://www.canaccordgenuity.com/wealth-management-uk/news-and-insights/vct-and-eis-explained/. EIS and VCT investments are complex and therefore specialist wealth planning advice is required.

If you have a higher income, multiple or large pension pots or more complex requirements, retirement planning can be complicated – and there are many rules just waiting to trip you up.

5. Family investment companies

A family investment company – a limited company whose shareholders are family members, funded by the founder via a loan – can be a tax-efficient way of investing money. Income generated by the company will be subject to corporation tax of 19% and shareholders only pay tax when the company distributes income.

This is a complex area and therefore specialist wealth planning and tax advice are required.

Tax-efficient ways to help your family

As well as saving for retirement, you might want to consider ways to reduce your tax liabilities while helping your family.

Junior ISAs

The junior ISA allowance has recently risen from £4,368 to £9,000. This is a good way of introducing young people to the world of finance and helping them understand what can be achieved through disciplined saving. They can access their ISA after their 18th birthday.

Pensions for children

The earlier you start building a nest egg for a child or grandchild, the more it can compound over time.

It is not linked to your earnings, and you can contribute up to £3,600 per tax year. This figure includes basic rate tax relief at 20% (i.e. £720 – even though your child is a non-taxpayer). This results in a net cost of £2,880. Access is available once they reach the age of 55.

Talk to us about tax-efficient retirement options for high earners

If you have a higher income, multiple or large pension pots or more complex requirements, retirement planning can be complicated – and there are many rules just waiting to trip you up. If you'd like to ensure you are making the most of pension allowances and consider alternative ways to save for your future, our wealth planning team is here to help.

At Canaccord Genuity Wealth Management, we offer retirement advice via our independent wealth planners. To find out more, please get in touch with us on +44 02 7523 4500 or email wealthmanager@canaccord.com to book a free consultation.

Investments in VCTs and EISs should be regarded as high risk as they invest in small companies with shares that are highly illiquid and can be hard to sell. They are only suitable for UK resident taxpayers who can tolerate higher risk and have a time horizon of greater than five years. They attract tax reliefs provided the underlying managers keep to certain rules.

The tax treatment of all investments depends upon individual circumstances and the levels and basis of taxation may change in the future. Investors should discuss their financial arrangements with their own tax adviser before investing.

The tax treatments set out in this communication are based on our current understanding of UK legislation. It is a broad summary and cannot cover every circumstance and it does not constitute advice.

Discover our **can-do** approach

If you'd like to talk to us about any of the topics or issues discussed in News & Views, please contact your wealth manager, or email us at **marketing@canaccord.com**.

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