

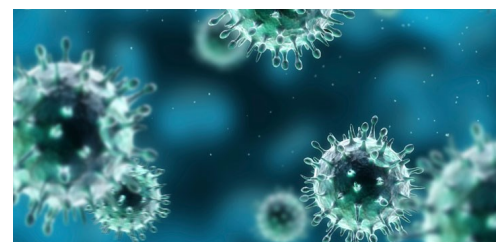
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Beyond Coronavirus



By **Nick Matthews**

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Looking ahead!

For obvious and fantastic reasons it seems reasonable to start looking beyond the current set of restrictions to when society re-opens. We are, as you have read elsewhere, optimistic for the future but cautious for the months ahead and to think everything will work smoothly is over-optimistic.

That said, the future is coming! We want to look at how it will be different and how this will affect us all in very real ways. As everybody knows by now, the most phenomenal amount of money has been created from thin air and used to support government operations, business and jobs across the World. This is not Bitcoin or Dogecoin but is largely digital, not paper, and your Government will know where you are and what you are doing! It will be very difficult to avoid tax and if interest rates are made negative, you will not be able to do anything about it; there will not be any bank notes to put under the mattress.

In the UK almost 30% of people have paid down debt and saved more during the pandemic. In the US people are about to receive another \$1,400 each. The more money being printed, the bigger the global debt accumulated, and such leverage makes it likely to be ever more volatile. So, as we always say: keep cash at hand to see you through the turbulent months ahead.

However, that is for the short term. Now is the time to look beyond 2021 and through to 2025.

After months of lockdown demand is for entertainment, eating out, and possibly a whole lot of retail therapy. But also, for cheap credit, or free money in the US. Reflect on the roaring 20's which was a time of lavish parties, spending and largess built on rising wealth in stock markets, underpinned by extraordinary amounts of new money through cheap credit. It also saw new technologies, electricity being used more widely and cars and rising productivity from basic automation.

More money in circulation, a limited amount of goods and services either because we want more quality, or products produced locally, or because limitations cause relative scarcity, i.e., not enough of everything for everyone, and prices will go up.

Inflation rising to 2-3% is no bad thing primarily because it is the most painless way to address much of the debt problem, and over time it could reduce the cost of housing, it can help increase wages and it can help company profitability and equity prices (so long as you do not invest in stranded industry that has no future). But inflation is no friend to cash or fixed incomes – since we do not expect interest rates to rise to match inflation. Your bank does not need your deposit when there is endless free money from the central bank. It does mean we do not have to pay back the money borrowed since 2010 any time soon, as it becomes a smaller percentage of GDP and provides an excuse to keep borrowing high.

So, where they can governments are going to do two things:

- support people as they find themselves replaced by technology or trends: retail shopping is not coming back, decimated by the convenience of online choices. We need a way to prevent a modern-day Wat Tyler and his Peasants' Revolt after the Black Death as taxes were raised.
- invest in a changing world, and if we are serious about decarbonisation, incentives and support will be required for years to come.

So, the best outcome is moderate inflation but not excessive, with growth supported by government policy as we move through to a more sustainable and environmentally aware lifestyle. I have said before, and it seems clearer than ever, that government has a responsibility to invest in education and training for the 21st Century.

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Beyond Coronavirus continued...

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Taxation then becomes a means of redistribution of wealth rather than a necessity for balancing government books. If climate breakdown is the World's greatest challenge, then managing inequality without bloody revolution (as we saw during the Arab Spring), is society's most important debate.

Certainly, society will change (it always has done and always will) just more quickly, and perhaps in ways we cannot imagine and yet take for granted as they spread without thinking across society. Thirteen years ago, it was the smart phone, this time

it will be lifestyle, quality of food, and maybe meaningful employment.

To bring this to its conclusion, there is little chance then that low interest rates and cheap money along with a larger role for government are coming to an end any time soon. With rising inflation cash will become increasingly unattractive but we are also at the beginning of a new paradigm for society with lessons learned and habits formed over the past twelve months providing the incentives and justification for a healthier, cleaner, and more productive decade ahead.



The year Sustainability Policy went global!



By **Andrew Heath**
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Sustainable and responsible investing captured strong investor demand throughout 2020. The world finally awoke to the need to preserve the Earth and focus upon sustainable policies across all aspects of everyday life. These policies are about meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Investors in the past have been wary of companies that commit to sustainability agendas. Company brands often make pledges to sustainability, but it often takes a long time to achieve those goals. A big part of sustainability for us relates to climate change and decarbonisation. We have barely begun the whole-economy transformation required to avoid the worst effects of climate change, and consequently we believe the structural-growth trend fuelled by decarbonisation is still in its infancy.

This growth opportunity makes sense from an economic perspective as well as from an environmental one as climate change gains more backing from governments and corporates alike. COVID-19 and its impact has enhanced concerns over our existence and made organisations focus upon our wellbeing. We expect the market to grow even further in 2021 and beyond, boosted by the European Green Deal, China's pledge last year for carbon neutrality by 2060, as well as US President Biden's \$2 trillion green energy and infrastructure plan.

On 22 April the US will host a one-day Earth Summit to progress work on decarbonising the world. At the G7 in June, hosted by the UK in Cornwall, the leaders will doubtless discuss the topic again, in preparation for the large COP 26 Conference in the first twelve days of November, hosted by the UK in Glasgow. These conferences matter as they provide public platforms that require Presidents and Prime Ministers to firm-up

their offer to the world in terms of the action being taken to decarbonise their economies.

The US approach to environmental matters under President Biden will be in marked contrast to his predecessor, with the US committing to re-join the Paris agreement. It was clear that climate change was important to Biden during his presidential campaign supported by his pledge to become net-zero by 2050. Of course, campaign manifestos are not policy, but it is likely that the Biden administration will implement further stimuli in 2021 through a strong decarbonisation agenda.

We are also seeing significant change at a company level. Many companies are pledging to become carbon neutral with approximately 60 % of global emissions covered by net-zero pledges. Companies are not only thinking about their own business, they are also extending the focus to their supply chains.

Microsoft has vowed to be carbon negative by 2030. This means that it will pull more carbon dioxide from the atmosphere than it emits each year, partly by using technology such as direct air capture which sucks carbon dioxide from the sky. The company also uses an internal carbon price of \$15 a tonne and bills each internal team for its emissions, which incentivises staff to use less.

We expect momentum in tackling urgent environmental and social issues to continue unabated in 2021, catalysed by regulation and corporate actions. At KMG we have already added several investment funds to our strategies that have a positive impact on the world. This strategy will continue further as we focus upon identifying and investing in quality investments that can harness the huge opportunities being created as we believe they provide outstanding long-term investment

Circular Economy



By **Patrick McIntosh**
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A sideways glance at the so called “circular economy”

There are many articles and observations being made about how to rotate the global economy in such a way that it helps to reshape the evolution of humankind in a positive way where each part of the economy effectively feeds positively in a loop to the next part, and so the whole becomes a self-fulfilling prophecy.

If we look back through history, pandemics do not end abruptly but they peter out and there will be many false starts before we get to a feeling where humans are comfortable to live with a new type of virus, in the same way that we have become comfortable living with existing viruses such as flu.

It is reasonable to assume that the virus will mutate and that reasonably quickly humans will build T-cells, antibodies, and immunity in general so that infection is no more or less than a heavy cold. We are building protection against SARS and Mers and COVID-19, but it is going to be a long slog.

What are humans likely to do in the short term to cope with on-going fear of infection but also resistance to being locked up and restricted in

activity? Well, we suggest that central banks around the world will be supported by their governments to print the necessary money to provide the universal basic income that is required to stave off massive social, mental, and physical poverty and thus avoid human collapse. However, humans will also slowly get fed-up with restrictions and this leads to the next part of the circle because increasingly people will start to understand what has got to happen in order for us to avoid more pandemics, more mutations and more viral implosions. The selfish gene in all of us will finally realise that we are in it together and we can only get out of it together.

Inevitably we will see a change of life. We are becoming increasingly aware that the production of meat in its current, intensive form is detrimental to our health and to the planet and therefore we will move towards alternative meat forms even if grown in a laboratory. Or, alternatively, we will slowly move away from animal products towards plant products which in turn will engender further engagement into how we look after the planet, how we capture carbon and how we do not distribute carbon into the air.

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Wellbeing in Focus



By **Christine Norcross**
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As our awareness of the global pandemic and the resulting lockdowns pass their one-year anniversary it has become the norm for many of us to homework. I was unsurprised to note that according to the Office for National Statistics, mental health problems have worsened across all age-groups in the past year. In adults the proportion of individuals showing signs of depression has almost doubled since the start of the pandemic.

Yet now we have overcome the haze of confusion and disbelief, some of the positives are also notable. Without the morning commute a lot of us are now able to get up and go for a run, take the dog out or do P.E on YouTube with the children, before sitting down to do a day's work.

We are enjoying seeing more of our neighbourhoods and are becoming more invested in our 'local' communities and more altruistic towards those around us who may need support, and who we may never even have noticed before. It really is a silver lining to find these positives in a collective pandemic to which we are all vulnerable, albeit some much more so than others. As you know, here at KMG, we

are passionate about health in all forms. In our team we have fitness pros and runners galore, yet we are also focused on the other side of health and we have all been encouraged to turn off the technology, take a walk, take time out and engage in mindfulness activities.

As the start of this article highlights, of course the past year has not been good for anyone's mental health, but more and more companies are responding and looking at ways to support employees from a health and wellness standpoint. Some companies are endorsing and paying for apps to access virtual GP appointments, meditation and paying for food boxes to encourage healthy eating. Healthcare is changing and is no longer restricted to the four walls of hospitals.

This focus on wellness will surely persist past the pandemic and this trend will tie into the broader theme of value-driven companies. If brands profess a desire to impact society in a positive way, employees are going to expect the actions to extend inwards too.

Circular Economy continued ...

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As Bill Gates observed, what happens in the next 2 years is rarely appreciated but what happens over 10 years becomes very obvious. I suspect that our travel habits will change significantly in the next 10 years alongside our respect for health, diet, exercise and our fellow planetary animals and plants.

We will begin to respect that in the end we are not as clever as we think, and we cannot outfox nature. We will also finally understand that there is not a hidden agenda and conspiracy theories are

nothing more or less than our own individual stupidity, greed, and selfishness.

We humans can and will buy time until the new dawn, but how long will it take? 1/3/5/10 years? We cannot know now, but as we look back through history, we will remember these dark days at some point in the future and relish in the fortune that will be bestowed upon us in a much better, well-educated, harmonious and responsible globalised planet.

Wellbeing in Focus continued...

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Millennials, the largest generation in the workforce, are shaping society and with the transparency that the internet and social media bring, wellness is becoming an unstoppable force. This year every company will likely have to become a health-care company as safe-guarding employees and our clients becomes more and more a core requirement of doing business. Challenges to overcome will range from how best to support the mental health of workers as they juggle home and work responsibilities, ways to mimic face-to-face contact and how managers can take the right precautions to safeguard their own and their team's health.

In January one of the biggest performance-contributors to our portfolios was the LGIM

Healthcare breakthrough Exchange Traded Fund. (This fund is held across all our portfolios barring the lower risk portfolios.) Advanced research across medicine, vaccines, social care and environmental health have of course all been accelerated during the pandemic. Hopefully, this article shows that we have not just seen the broader impact of KMG's investment themes, but we are living them too. During the last 12 months we have learnt the power of perseverance and positivity. Find what works for you: take a break, engage in society in a meaningful way, overcome your digital reservations and embrace this new normal. Alongside the vaccine the green shoots of hope push on through as decisively as the onset of Spring.

Virtual Seminars for 2021



By **Gemma Barker**
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Thank you very much to those of you who kindly gave feedback on our "in conversation with" videos filmed with Grace Blakeley and Julian Jessop in November 2020, in place of our usual Autumn seminars. Although we very much look forward to welcoming you to events in person again one day, in this new world on-line communication is here to stay and we must all keep up to date as much as possible. Some feedback indicated a preference for a more live-style



video presentation next time, which we will endeavour to deliver for you.

Do remember that all of our written and video communications remain available to access on our website www.kmg.co.uk/news if you have missed anything or wish to refer back in the future, and new content is uploaded there on a regular basis. If you have any feedback on our communications we would always love to hear it, and if you have a burning question that you would like us to answer in our next seminar please do let us know!

What does KMG do in a Lockdown?

Not only have we engaged in on-line bingo, quizzes, and meditation, but we have also not given up on expanding our knowledge. Many of the team have taken the lack of social time and put it towards more study and adding to qualifications. Notably both Suzan Harding and Matthew Ellis-Somerville have achieved their Chartered Status – accepted as the highest-level qualification for professional financial

planners in the UK and awarded only to those individuals and organisations meeting the strict qualifying criteria. We are proud not only to have so many Chartered individuals at KMG, but also of being a Chartered Firm. In a time where life has been challenging, we are so very proud of the Team for their continued determination to succeed. Well done to Suzan and Matthew.