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ROYAL LONDON
ASSET MANAGEMENT

Markets rebound into 2022

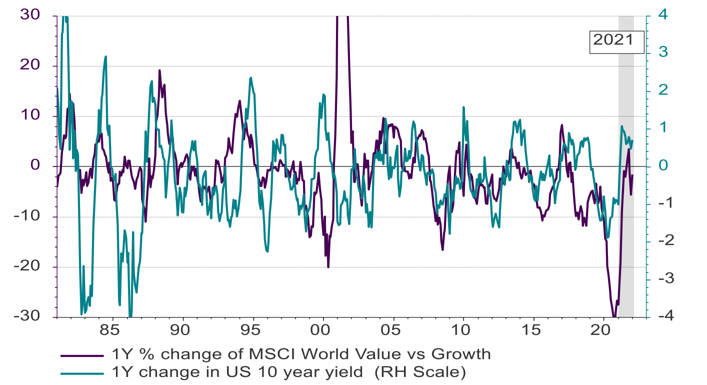
2021 and Q4 review

2020 was good for simple Balanced Funds. In 2021, we saw a catch up for the more diversified multi asset approach we favour with commodities beating all-comers and UK real estate posting strong double-digit returns (Table 1).

Strong corporate earnings data, resilient macro data and adaptation to life with the virus saw equity markets record another strong year of returns. However, in contrast to recent years, the composition of stock market gains in 2021 was more broad-based, with value stocks outperforming over large parts of the year against a backdrop of rising bond yields (Chart 1). A late sell-off on news of the Omicron variant proved short lived, as stocks rebounded to end the year at fresh highs. Commodities dipped into year end, however, as investors assessed the likely impact on activity.

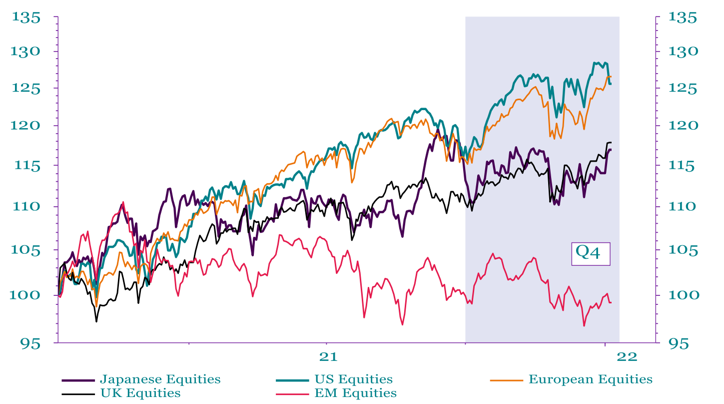
Our tactical positioning has added value since the Covid lows, helped by a strong preference for US equities over Emerging Markets, which lagged as concerns over regulation and the Evergrande crisis weighed on sentiment in China (Chart 2). We bought dips during the sentiment panics. Please see the Investment Clock blog for our latest views.

Chart 1: Value vs Growth & Change in US Bond Yields



Source: Refinitiv Datastream as at 04/01/2022

Chart 2: US and Europe led markets higher in 2021



Source: Refinitiv Datastream as at 04/01/2022

Table 1: Sterling-based annual returns from major asset classes 2011-2021

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Gilts +15.6%	EM Stocks +12.8%	Global Stocks +21.2%	Property +19.5%	Property +13.9%	EM Stocks +35.4%	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%
2	Property +8.1%	UK Stocks +12.3%	UK Stocks +20.8%	Gilts +13.9%	Global Stocks +4.4%	Commodities +33.3%	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%
3	Cash +0.6%	Global Stocks +12.1%	**Multi Asset +15.1%**	Global Stocks +12.2%	**Multi Asset +2.9%**	Global Stocks +30.3%	UK Stocks +13.1%	Gilts +0.6%	**Multi Asset +16.9%**	Gilts +8.3%	UK Stocks +18.3%
4	**Multi Asset -2.4%**	**Multi Asset +10.6%**	Property +11.0%	**Multi Asset +9.5%**	UK Stocks +1.0%	**Multi Asset +20.1%**	**Multi Asset +12.2%**	Global Stocks -3.1%	EM Stocks +15.9%	**Multi Asset +2.9%**	**Multi Asset +17.7%**
5	UK Stocks -3.5%	Gilts +2.7%	Cash +0.5%	EM Stocks +7.9%	Gilts +0.6%	UK Stocks +16.8%	Property +11.2%	**Multi Asset -3.8%**	Gilts +6.9%	Cash +0.3%	Property +15.4%
6	Global Stocks -6.9%	Property +2.3%	Gilts -3.9%	UK Stocks +1.2%	Cash +0.5%	Gilts +10.1%	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%
7	Commodities -12.7%	Cash +0.6%	EM Stocks -5.3%	Cash +0.5%	EM Stocks -10.3%	Property +2.6%	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%
8	EM Stocks -18.4%	Commodities -5.4%	Commodities -11.2%	Commodities -11.8%	Commodities -20.3%	Cash +0.4%	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%

Past performance is not a reliable indicator of future results. Source: RLAM, DataStream as at January 2022; property as at November 2021. 'Multi Asset' returns are based on the benchmark weights of Royal London Global Multi Asset Portfolio (GMAP) Growth Fund / Governed Portfolio 5. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Markets: Stocks end a strong year at highs

- Commodities were the strongest asset over the year, followed by stocks and property. Gilts sold off.
- Regionally, the US stock market led the way and the UK broadly kept pace, but emerging markets barely rose.
- Value sectors like energy and financials were as strong as technology with defensive sectors underperforming.
- Bond yields ended the year higher but were relatively unchanged over Q4.
- Sterling ended the year at the strongest level in two years, while the Japanese yen sunk to its weakest level since 2017.

FX	1 GBP buys	%chg Q4 (vs GBP)	2021
USD	1.35	-0.5	0.9
EUR	1.19	-2.2	-6.1
CHF	1.23	2.0	-2.0
JPY	155.7	-3.7	-9.5
AUD	1.86	0.1	-4.8
CAD	1.71	-0.2	1.9

CB rates	Rate (%)	chg in Q4 (%)	2021 (%)
Fed	0.25	0.00	0.00
BoE	0.25	0.15	0.15
ECB	-0.50	0.00	0.00
BoJ	-0.02	0.03	0.02

Bond Yield	Yield (%)	chg in Q4(bps)	chg 2021 (bps)
US 10 Year	1.51	2	60
UK 10 Year	0.97	-5	77
EU 10 Year	-0.18	2	39
JP 10 Year	0.07	0	5

As of 31-Dec-21

	Local Currency		GBP	
Multi Asset	**Q4**	**2021**	**Q4**	**2021**
UK Stocks	4.2	18.3	4.2	18.3
Global ex UK Stocks	7.1	21.6	6.2	20.1
Gilts	2.4	-5.2	2.4	-5.2
UK Cash	0.0	0.0	0.0	0.0
UK Property	3.8	15.4	3.8	15.4
Commodities	-1.6	27.1	-2.0	28.3

	Local Currency		GBP	
Equity Regions	**Q4**	**2021**	**Q4**	**2021**
UK	4.2	18.3	4.2	18.3
North America	10.0	26.9	9.6	28.1
Europe ex UK	6.9	24.5	5.1	17.4
Japan	-1.4	13.2	-4.9	2.5
Pacific ex Japan	2.2	11.6	2.1	8.2
Emerging Markets	-0.5	1.8	-1.4	1.0

	Local Currency		GBP	
Global Equity Sectors	**Q4**	**2021**	**Q4**	**2021**
Consumer Discretionary	6.7	11.7	5.6	10.2
Industrials	6.4	20.5	5.1	17.6
Financials	3.6	27.7	2.8	26.3
Consumer Staples	8.6	14.3	7.9	12.7
Utilities	10.9	13.6	9.9	12.0
Healthcare	6.9	20.1	6.3	19.1
Energy	3.5	39.9	2.6	38.8
Materials	7.7	18.9	6.7	16.3
Communication Services	-2.4	3.5	-3.6	0.6
Technology	12.9	29.2	12.1	28.9

	Local Currency		GBP	
Bonds	**Q4**	**2021**	**Q4**	**2021**
Conventional Gilts	2.4	-5.2	2.4	-5.2
Index Linked Gilts	4.9	4.2	4.9	4.2
GBP Credit	0.3	-3.1	0.3	-3.1
Global High Yield	-0.4	2.0	-0.4	2.0

	Local Currency		GBP	
Commodities	**Q4**	**2021**	**Q4**	**2021**
Energy	-13.0	52.1	-13.4	53.5
Agriculture	6.3	26.7	5.8	27.8
Industrial Metals	8.6	30.3	8.1	31.5
Precious Metals	4.3	-6.1	3.9	-5.2

Note: Standard indices sourced from DataStream and Bloomberg as at January 2022; Property data as at November 2021.

Investment risks – RL GMAP fund range

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM Techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

Exchange Rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Emerging Markets risk: Investing in emerging markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.

Fund investing in Funds risk: The fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stockmarket conditions and the fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the fund itself, may be deferred or suspended.

Liquidity and Dealing risk: The fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the fund, or receive less than may otherwise be expected when selling your investment.

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