THE SCOTTISH Investment Trust

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# THE CONTRARIAN

ANALYSIS AND INSIGHT FROM **THE SCOTTISH INVESTMENT TRUST**

AUTUMN 2021

## ABOUT THE SCOTTISH INVESTMENT TRUST

At The Scottish, our experienced team actively manages a high conviction, global investment portfolio with the aim of generating above-average investment returns over the longer term for our investors.

Our contrarian approach is benchmark agnostic and aims to benefit from profitable opportunities in any market environment.

Founded in 1887, the trust has a long tradition of providing shareholders with an accessible, low cost way to invest in companies from around the world, whilst further boosting returns through the provision of a growing dividend.

The Scottish has grown its regular dividend every year for the last 37 years. Our independently managed, closed-ended fund structure allows us to be patient with our investments.

# The price is rising

**Not that long ago, if you'd suggested that inflation might be a concern, people would have looked askance. Even at the start of this year, investors were more worried by deflation – no surprise given the excess supply of goods and services that was supposed to be building during lockdowns. But perspectives have since shifted dramatically.**

Despite a slight easing in economic activity as the Delta variant hit, there's no doubt that inflation is simmering. Prices are rising, with the US Consumer Price Index up by 5.3% in the year ending last August.

The main factor driving this is the policy response to the Covid crisis. The pandemic was a 'black swan' event, and most commentators agree that massive stimulus was required to keep the world's economies afloat. One of the side-effects of this, however, was a massive increase in the supply of money.

That, of course, is nothing new. Quantitative easing – the printing of money – has been employed since the global financial crisis of 2008. Since then, central banks have struggled to drive inflation up to their targets. So what's different this time?

The stimulus that followed the financial crisis was mainly employed to 'save' the financial system. That stimulus stayed within financial markets, where an unintended consequence was the propping up of asset prices.

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## The price is rising

This time, the new money has reached the real economy through stimulus cheques and furlough payments – which the recipients have been eager to spend.

On top of that, there are structural changes underway worldwide. It turns out that, contrary to expectation, stockpiles were depleted during lockdowns. This, when combined with current pent-up demand, has caused huge bottlenecks in the supply chain. In addition, high demand for shipping has caused ports to clog up, adding to the inflationary pressures.

Companies have also discovered that they were overly reliant on a small number of links in their supply chain. A prime example of this is the dominance of a small number of microchip manufacturers. These components are crucial to electronic devices, from smartphones to cars. The lion's share of these chips are made by Taiwan Semiconductor Manufacturing Company (TSMC), which is struggling to keep pace with demand. Customers are prepared to pay a premium for the chips they need – but this is reflected in increased prices for the finished goods. In future, the lowest-cost solution to supply may not be the best, adding to pricing pressure.

Then there is a human behavioural element. After long lockdowns and time spent on furlough, many people are not terribly keen to return to work. Employers are offering more attractive terms to lure employees back to the workplace, leading to wage inflation. Higher wages must eventually feed through to the inflation indices as employers recoup their costs.

> *inflation could be "greater and more enduring than anticipated"*

Despite the mounting pressure, central bankers have argued that inflation will prove to be transitory. This stance has started to shift, with Jerome Powell, the Federal Reserve's chairman, acknowledging at the end of September that inflation could be "greater and more enduring than anticipated". The change in attitude is further evidenced by an expectation, from the Fed, of three interest-rate hikes before the end of 2023.

While it is difficult to say that equities are 'cheap', it can be noted that they look attractive relative to other asset classes.

Companies that can pass on price increases to their customers should be better equipped to thrive in these inflationary conditions.

Undoubtedly, some of the current inflationary pressures will fade, but not all, in our view. We think that inflation will prove persistent and that investors would be prudent to ensure that their portfolios are positioned accordingly.

October 2021



# Investment team

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**JAMES WEBB**
Investment Manager

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# Laying the foundations for learning

## How investing can help you tackle tuition fees

**"Education costs money," the renowned statistician Claus Moser once said, "but then, so does ignorance."**

Those of us who are parents or grandparents are likely to agree. We want our children or grandchildren to do well in life, and we see education as a springboard for their success. We know that it can be a costly business, so we're keen to help them out financially as much as we can.

It's alarming, then, that those we aim to help may be falling out of love with learning. According to research by the Association of Investment Companies, young people are growing disenchanted with the costs of university education, with the pandemic playing a big part in this trend. Nearly 90% of students believe that Covid has made university education poorer value for money – largely because of the lack of face-to-face interaction with their tutors and peers. Less than half view degrees as good value for money, and more than a quarter planning to study at university have considered not going because of this.

This is not the whole story, the costs associated with university tuition alone are daunting. Prospective students in England expect to finish their course with an average debt of around £38,000. This estimate is probably on the optimistic side, with students graduating in 2020 being, on average, £45,000 in debt. Unfortunately, students are less optimistic than their parents, who expect the average debt to be just shy of £25,000.

Of course, the debt incurred through tuition fees is just part of the cost involved in attending university. Living expenses can be considerable – especially if part-time work isn't an option. Overall, it is safe to say that most of us need to adjust our expectations of how much a university will cost – and how much help our children or grandchildren might need.

This is likely to be true even for those who have put cash aside diligently throughout the student's school years. However, those who have opted to invest instead may be able to make life for their children and grandchildren much easier.

Why? Well, investing can offer considerable advantages over simply depositing cash. Saving is a good thing, but if you're leaving your money in the bank at a time when interest rates are extremely low, it's not working as hard for you as it could. In addition, the effects of inflation can erode the value of your money, such that your bank balance may be worth less, in real terms, than what was deposited.

By investing your money, you can avoid the effects of inflation and harness the power of compound interest – so that the gains made on investments make further gains. Historically, the stockmarket has more than compensated for inflation, and you can partially offset the peaks and troughs of the market by investing smaller sums regularly over a long period rather than investing in a lump sum.

*" investing can offer considerable advantages over simply saving your cash "*

All of this takes time, so it's not something that should be put off. As an illustration*, an investment of £5,000 in the average investment company at a child's birth in 2003 would have delivered a total return of £39,646 by 2021 (with all dividends reinvested). Alternatively, a £50 monthly investment for 18 years would have returned £37,383 on the same basis. If that monthly investment had been £100, it would have translated into £74,767.

Those figures would make a considerable dent in a student's university debt. And it's important to remember that investing is potentially for everyone – not just those 'in the know'. With a wealth of low-cost platforms available online, it's never been easier to invest. Our learning hub (www.thescottish.co.uk/learning-hub) has a selection of useful material to help demystify the process.

At The Scottish, we agree with Claus Moser's idea. Education is too important to ignore – and prudent investing can make university debt a great deal less daunting.

October 2021



*Source: AIC/Morningstar. Share price total return to 30 June 2021. Originally quoted by the Association of Investment Companies (AIC).

# Steps to Investing

## 7-day email course to get you going

What's the best way to learn something new? For those with busy lives and little free time, learning a bit every day is a tried-and-tested formula for success.


Of course, when it comes to investing and personal finance, it can be daunting and difficult to know where to start. To that end, we're sharing a course that slots easily into your day (only 7 days!) – and one which will hopefully whet your appetite to learn even more about investing.

It is brought to you by Steps to Investing, a jargon-free learning platform curated by Simon Longfellow and Marcus de Silva.

They have over 30 years of industry experience combined, resulting in a collaboration that's engaging and informative, and different to anything else out there. The course is easy to digest, with bite-size lessons that are emailed to you daily.

We believe that investing can be for everyone – and learning about the basics is the first step in building long-term wealth.

**To find this course, and more educational materials, please visit www.thescottish.co.uk/learning-hub**

## More ways to connect with The Scottish

Please be assured that we are operating as normal during this Covid-19 pandemic.

Our latest company announcements are published on the Regulatory News Service and our website **www.thescottish.co.uk**
If you have any queries you may contact us by telephone, email or post, and if you'd like to hear from us more frequently, please subscribe for our monthly email via **www.thescottish.co.uk/subscribe**

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