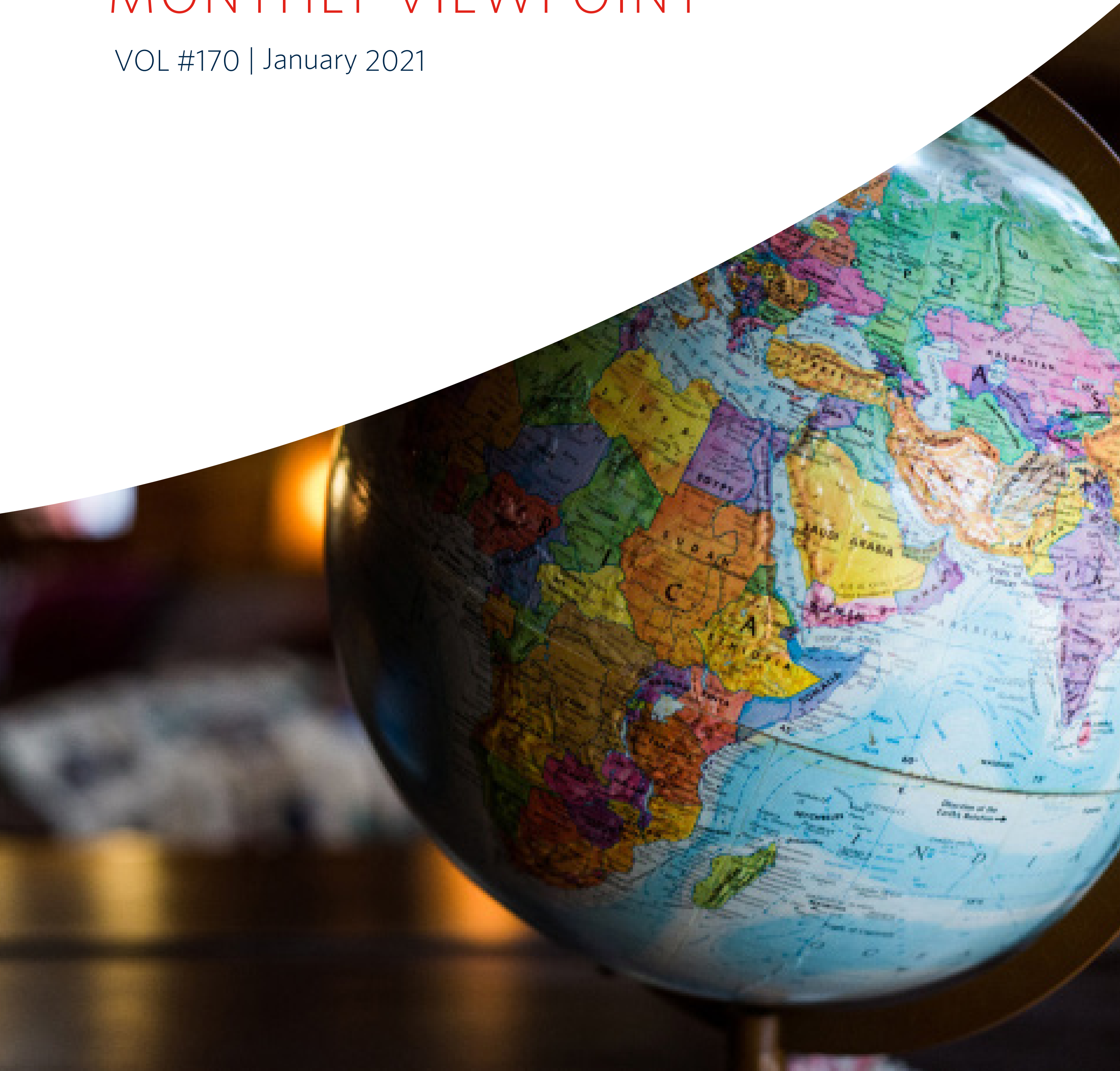
Belvest

momentum
global investment management

# GLOBAL MATTERS
## MONTHLY VIEWPOINT

VOL #170 | January 2021



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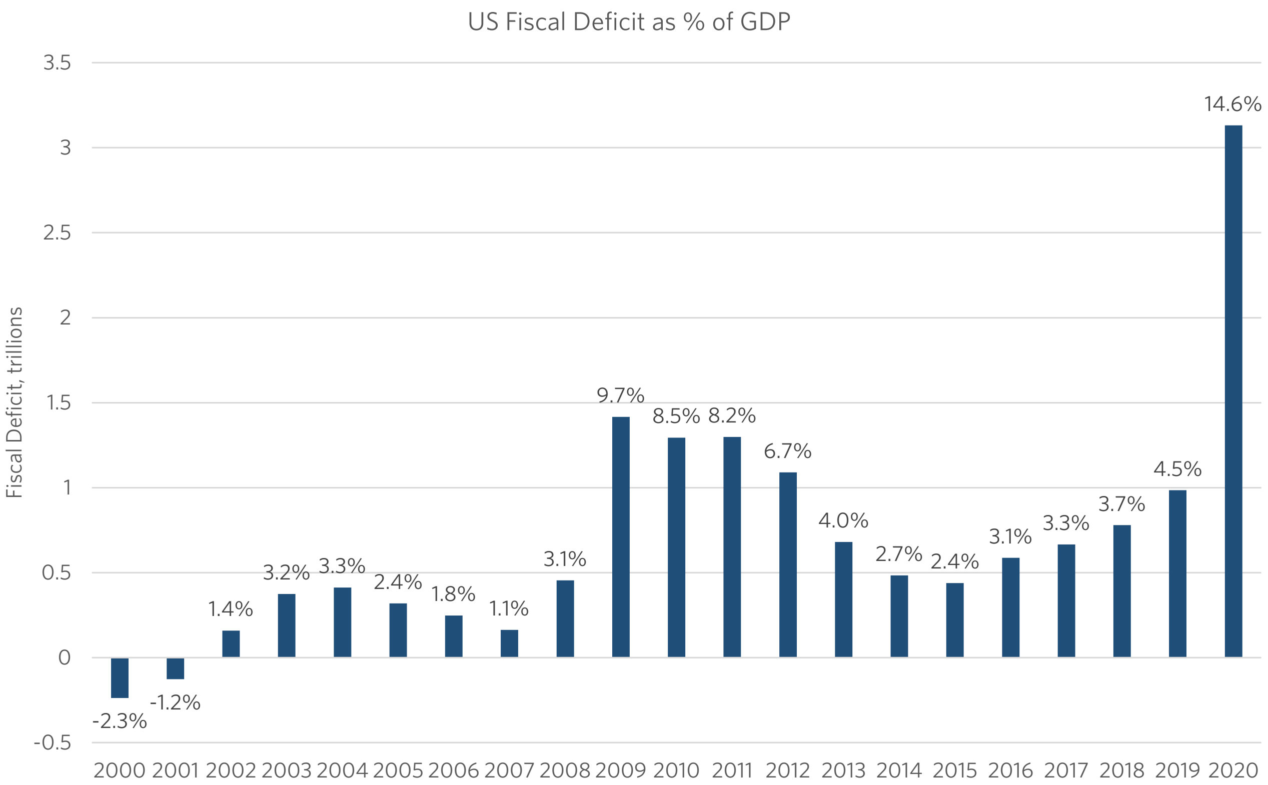
# MARKET REVIEW

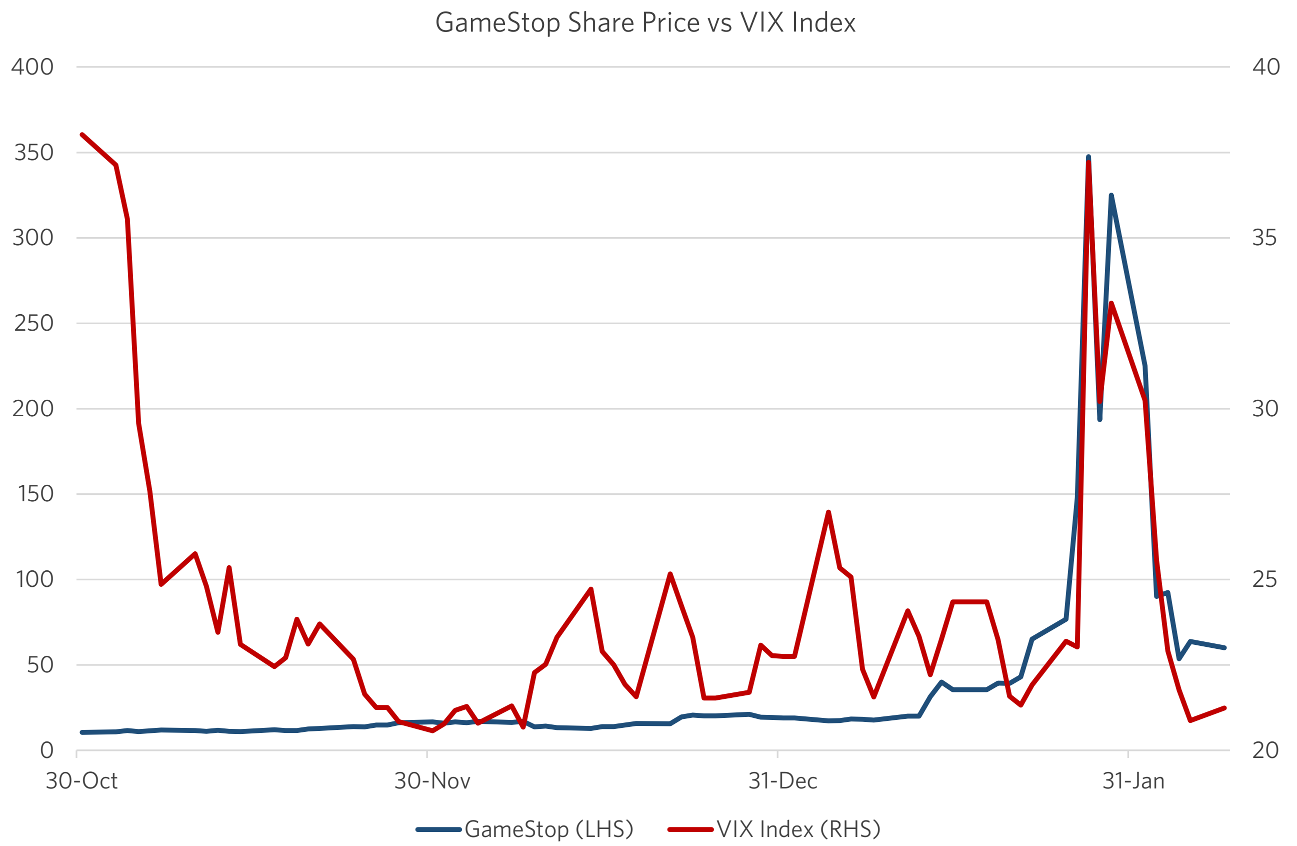
The surge in markets in late 2020, triggered by the positive vaccine news, Biden's success in the US election and the favourable settling of the UK-EU trade negotiations, continued into the new year. Equity markets made a strong start while government bond yields rose. However, optimism waned as January wore on, concerns rising about Covid mutations, the pace of vaccine roll-out, especially in the EU, and the economic damage caused by tightened and extended lockdowns across many parts of the world, most notably Europe. By month end, expectations for a sharp economic recovery had been pushed out to later in 2021. Sentiment was also impacted by the bizarre antics of retail traders in the US driving heavily shorted stocks to nonsensical heights in an attempt to inflict damage on hedge funds, an investment tactic that could only lead to misery for many of those involved.

By month end most equity markets had lost all the ground made in the first 3 weeks, the notable exception being China, the only major economy to record growth last year, which built on its outsize gains in 2020 with a further advance of 7%. As a result, the MSCI World index fell 1% in the month, while China's rise, along with strength in other Asian markets, drove the MSCI Emerging Markets index to a 3% gain. A similar pattern was seen in government bonds, the yield on US Treasuries initially rising sharply on hopes for economic recovery, boosted by prospects of a Biden led fiscal spending spree, before retracing some of the ground as confidence weakened. This still left the JPM Global Government bond index in negative territory for the month, -1.3%, in turn putting pressure on credit markets. However, rising inflation expectations pushed US TIPs to a small positive return, +0.3%, continuing their strong performance of 2020.

The most important political development was the failure of the Republicans to win either of the re-run Senate seats in Georgia, thereby conceding control of the Senate to the Democrats, albeit by virtue of the vice-President's casting vote, and thereby ushering in the 'blue wave' in Washington. This increases the probability of Biden's American Rescue Plan, entailing pandemic support of a further $1.9tn, almost 10% of US GDP, getting passed by Congress without substantial dilution. It also bolsters the chances of Congressional approval for further major spending on infrastructure, climate change and growth initiatives in Biden's Recovery Plan, to be announced in coming weeks. Fiscal packages of this extraordinary scale will be instrumental in providing stimulus to economies emerging from the scars of the pandemic, taking over the prime role of policy support from central banks; here, there is limited room for manoeuvre, with most policy rates at or very close to the lower bound and balance sheets already bloated by massive quantitative easing programmes.

The most extraordinary event, however, was the attempt by retail traders in the US, acting mainly through the WallStreetBets forum and Robinhood trading platform, to inflict damage on hedge funds, focussing particularly on those with substantial short positions in stocks.
The traders' stock of choice for a short squeeze was GameStop, which soared twenty-fold in January to reach a market cap of $34bn at its peak, with short sellers scrambling to limit losses by closing positions. To cover those losses, funds then sold long positions, and arket volatility briefly soared, the VIX index rising in a matter of days from the low-20s to a peak of 37. According to Goldman Sachs' prime brokerage unit, hedge funds' gross exposure was cut at the fastest rate since October 2014. While this could all be described as market noise, unlikely to have a lasting impact, there could be underlying issues of concern, including excess liquidity giving rise to irrational behaviour and bubbles, as well as the social and regulatory implications of small scale investors exposing themselves to such high risk, and question marks about the size and suitability of short selling. For investors entrusted with managing other people's wealth, it highlights the critical importance of sticking to fundamentals, avoiding high risk and speculative short term position taking, ensuring transparency and liquidity, and not being thrown off strategic course by sudden market-moving events with limited implications for underlying economic conditions.






Source: Bloomberg, Momentum Global Investment Management

As the second wave of the pandemic and worries about mutations damage nfidence, disrupt activity and result in extended lockdowns, the first quarter of the year will be tough for many economies. However, recovery has been delayed, not cancelled, and it is notable that economies under lockdown or severe restrictions in mobility are holding up better this time than in the first lockdowns of 2020; furthermore, corporate profits are generally performing ahead of expectations even in this tough environment. The roll-out of vaccines will soon result in eased restrictions and a gradual return to near-normality. While some sectors, such as international travel and related industries, will face longer term headwinds, much of economic activity will recover rapidly, boosted by huge pent-up demand and policy support measures. Corporate profits are set to recover substantially over the next 18 months. This provides a strong backdrop for equity arkets and risk assets generally in 2021 into 2022. While periods of volatility are inevitable, especially given the moves over the past few months and the high valuations in some asset classes and sectors, and risks around inflation and possible central bank policy shifts call for diversification of portfolios, we believe opportunities in risk assets are good for the year ahead.

# Market Performance - Global (local returns)

| | | | To 29 January 2021 | | | |
|---|---|---|---|---|---|---|
| **Asset Class / Region** | **Index** | **Currency** | **1 month** | **3 months** | **YTD** | **12 months** |
| **Developed Markets Equities** | | | | | | |
| United States | S&P 500 NR | USD | -1.0% | 13.9% | -1.0% | 16.6% |
| United Kingdom | MSCI UK NR | GBP | -0.6% | 16.0% | -0.6% | -10.6% |
| Continental Europe | MSCI Europe ex UK NR | EUR | -1.1% | 15.2% | -1.1% | 1.4% |
| Japan | Topix TR | JPY | 0.2% e | 14.7% | 0.2% e | 10.0% |
| Asia Pacific (ex Japan) | MSCI AC Asia Pacific ex Japan NR | USD | 3.5% | 20.4% | 3.5% | 31.6% |
| Global | MSCI World NR | USD | -1.0% | 16.4% | -1.0% | 15.5% |
| **Emerging Markets Equities** | | | | | | |
| Emerging Europe | MSCI EM Europe NR | USD | -2.3% | 32.5% | -2.3% | -11.3% |
| Emerging Asia | MSCI EM Asia NR | USD | 4.3% | 20.1% | 4.3% | 40.2% |
| Emerging Latin America | MSCI EM Latin America NR | USD | -6.7% | 27.2% | -6.7% | -14.8% |
| China | MSCI EM China NR | USD | 3.8% | 15.8% | 3.8% | 27.8% |
| BRICs | MSCI BRIC NR | USD | 7.4% | 13.4% | 7.4% | 46.0% |
| Global emerging markets | MSCI Emerging Markets NR | USD | 3.1% | 20.9% | 3.1% | 27.9% |
| **Bonds** | | | | | | |
| US Treasuries | JP Morgan United States Government Bond TR | USD | -1.2% | -1.1% | -1.2% | 4.4% |
| US Treasuries (inflation protected) | BBgBarc US Government Inflation Linked TR | USD | 0.3% | 2.6% | 0.3% | 9.4% |
| US Corporate (investment grade) | BBgBarc US Corporate Investment Grade TR | USD | -1.3% | 1.9% | -1.3% | 6.0% |
| US High Yield | BBgBarc US High Yield 2% Issuer Cap TR | USD | 0.3% | 6.3% | 0.3% | 7.4% |
| UK Gilts | JP Morgan UK Government Bond TR | GBP | -1.7% | -0.6% | -1.7% | 3.1% |
| UK Corporate (investment grade) | ICE BofAML Sterling Non-Gilt TR | GBP | -0.9% | 2.1% | -0.9% | 4.1% |
| Euro Government Bonds | ICE BofAML Euro Government TR | EUR | -0.6% | -0.3% | -0.6% | 1.8% |
| Euro Corporate (investment grade) | BBgBarc Euro Aggregate Corporate TR | EUR | -0.1% | 1.1% | -0.1% | 1.5% |
| Euro High Yield | BBgBarc European High Yield 3% Constrained TR | EUR | 0.4% | 5.4% | 0.4% | 2.5% |
| Japanese Government | JP Morgan Japan Government Bond TR | JPY | -0.3% | -0.2% | -0.3% | -1.8% |
| Australian Government | JP Morgan Australia GBI TR | AUD | -0.7% | -1.4% | -0.7% | 0.5% |
| Global Government Bonds | JP Morgan Global GBI | USD | -1.3% | 1.2% | -1.3% | 6.3% |
| Global Bonds | ICE BofAML Global Broad Market | USD | -1.0% | 1.8% | -1.0% | 6.3% |
| Global Convertible Bonds | ICE BofAML Global Convertibles | USD | 2.5% | 21.9% | 2.5% | 40.1% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | USD | -1.8% | 4.2% | -1.8% | 2.8% |

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns. e= estimate

| | | | To 29 January 2021 | | | |
|---|---|---|---|---|---|---|
| **Asset Class / Region** | **Index** | **Currency** | **1 month** | **3 months** | **YTD** | **12 months** |
| **Property** | | | | | | |
| US Property Securities | MSCI US REIT NR | USD | 0.1% | 14.3% | 0.1% | -9.6% |
| Australian Property Securities | S&P/ASX 200 A-REIT Index TR | AUD | -4.1% | 7.6% | -4.1% | -17.0% |
| Asia Property Securities | S&P Asia Property 40 Index NR | USD | -0.1% | 11.6% | -0.1% | -8.0% |
| Global Property Securities | S&P Global Property USD TR | USD | -1.0% | 14.7% | -1.0% | -7.7% |
| **Currencies** | | | | | | |
| Euro | | USD | -0.7% | 4.2% | -0.7% | 9.4% |
| UK Pound Sterling | | USD | 0.3% | 5.9% | 0.3% | 3.8% |
| Japanese Yen | | USD | -1.3% | -0.1% | -1.3% | 3.5% |
| Australian Dollar | | USD | -0.6% | 8.8% | -0.6% | 14.2% |
| South African Rand | | USD | -3.1% | 7.1% | -3.1% | -1.0% |
| **Commodities & Alternatives** | | | | | | |
| Commodities | RICI TR | USD | 4.2% | 21.5% | 4.2% | 3.9% |
| Agricultural Commodities | RICI Agriculture TR | USD | 4.8% | 18.5% | 4.8% | 26.2% |
| Oil | Brent Crude Oil | USD | 7.9% | 49.2% | 7.9% | -3.9% |
| Gold | Gold Spot | USD | -2.7% | -1.7% | -2.7% | 16.3% |
| Hedge funds | HFRX Global Hedge Fund | USD | -0.1% [e] | 5.2% [e] | -0.1% [e] | 6.3% [e] |
| **Interest Rates** | | | | **Current Rate** | | |
| United States | | | | 0.25% | | |
| United Kingdom | | | | 0.10% | | |
| Eurozone | | | | 0.00% | | |
| Japan | | | | -0.10% | | |
| Australia | | | | 0.10% | | |
| South Africa | | | | 3.50% | | |

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns. e=estimate

# Market Performance - UK (all returns in GBP)

| | | | To 29 January 2021 | | | |
|---|---|---|---|---|---|---|
| **Asset Class / Region** | **Index** | **Local Currency** | **1 month** | **3 months** | **YTD** | **12 months** |
| **Equities** | | | | | | |
| UK - All Cap | MSCI UK NR | GBP | -0.7% | 15.7% | -0.7% | -10.9% |
| UK - Large Cap | MSCI UK Large Cap NR | GBP | -0.7% | 15.6% | -0.7% | -13.6% |
| UK - Mid Cap | MSCI UK Mid Cap NR | GBP | -0.7% | 15.7% | -0.7% | -3.5% |
| UK - Small Cap | MSCI Small Cap NR | GBP | -1.2% | 20.0% | -1.2% | -2.7% |
| United States | S&P 500 NR | USD | -1.4% | 7.6% | -1.4% | 12.3% |
| Continental Europe | MSCI Europe ex UK NR | EUR | -2.2% | 13.3% | -2.2% | 6.9% |
| Japan | Topix TR | JPY | -1.9% [e] | 8.3% | -1.9% [e] | 9.7% |
| Asia Pacific (ex Japan) | MSCI AC Asia Pacific ex Japan NR | USD | 3.1% | 13.7% | 3.1% | 26.7% |
| Global developed markets | MSCI World NR | USD | -1.4% | 9.9% | -1.4% | 11.2% |
| Global emerging markets | MSCI Emerging Markets NR | USD | 2.7% | 14.1% | 2.7% | 23.1% |
| **Bonds** | | | | | | |
| Gilts - All | ICE BofAML UK Gilt TR | GBP | -1.8% | -0.6% | -1.8% | 3.0% |
| Gilts - Under 5 years | ICE BofAML UK Gilt TR 0-5 years | GBP | -0.1% | 0.0% | -0.1% | 1.1% |
| Gilts - 5 to 15 years | ICE BofAML UK Gilt TR 5-15 years | GBP | -1.0% | -0.3% | -1.0% | 2.3% |
| Gilts - Over 15 years | ICE BofAML UK Gilt TR 15+ years | GBP | -3.1% | -1.0% | -3.1% | 3.8% |
| Index Linked Gilts - All | ICE BofAML UK Gilt Inflation-Linked TR | GBP | -3.1% | -2.5% | -3.1% | 3.5% |
| Index Linked Gilts - 5 to 15 years | ICE BofAML UK Gilt Inflation-Linked TR 5-15 years | GBP | -0.9% | -1.4% | -0.9% | 1.6% |
| Index Linked Gilts - Over 15 years | ICE BofAML UK Gilt Inflation-Linked TR 15+ years | GBP | -4.3% | -3.2% | -4.3% | 4.7% |
| UK Corporate (investment grade) | ICE BofAML Sterling Non-Gilt TR | GBP | -0.9% | 2.1% | -0.9% | 4.1% |
| US Treasuries | JP Morgan US Government Bond TR | USD | -1.6% | -6.8% | -1.6% | 0.2% |
| US Corporate (investment grade) | BBgBarc US Corporate Investment Grade TR | USD | -1.3% | 1.9% | -1.3% | 6.0% |
| US High Yield | BBgBarc US High Yield 2% Issuer Cap TR | USD | 0.3% | 6.3% | 0.3% | 7.4% |
| Euro Government Bonds | ICE BofAML Euro Government TR | EUR | -0.6% | -0.3% | -0.6% | 1.8% |
| Euro Corporate (investment grade) | BBgBarc Euro Aggregate Corporate TR | EUR | -0.1% | 1.1% | -0.1% | 1.5% |
| Euro High Yield | BBgBarc European High Yield 3% Constrained TR | EUR | 0.4% | 5.4% | 0.4% | 2.5% |
| Global Government Bonds | JP Morgan Global GBI | GBP | -1.7% | -4.5% | -1.7% | 2.4% |
| Global Bonds | ICE BofAML Global Broad Market | GBP | -1.0% | 1.8% | -1.0% | 6.3% |
| Global Convertible Bonds | ICE BofAML Global Convertibles | GBP | 2.5% | 21.9% | 2.5% | 40.1% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | GBP | -2.2% | -1.6% | -2.2% | -1.0% |

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns.

| | | | To 29 January 2021 | | | |
|---|---|---|---|---|---|---|
| **Asset Class / Region** | **Index** | **Local Currency** | **1 month** | **3 months** | **YTD** | **12 months** |
| **Property** | | | | | | |
| Global Property Securities | S&P Global Property TR | GBP | -1.4% | 8.4% | -1.4% | -11.2% |
| **Currencies** | | | | | | |
| Euro | | GBP | -0.9% | -1.6% | -0.9% | 5.4% |
| US Dollar | | GBP | -0.3% | -5.5% | -0.3% | -3.6% |
| Japanese Yen | | GBP | -1.6% | -5.6% | -1.6% | -0.3% |
| **Commodities & Alternatives** | | | | | | |
| Commodities | RICI TR | GBP | 3.8% | 14.7% | 3.8% | 0.0% |
| Agricultural Commodities | RICI Agriculture TR | GBP | 4.3% | 11.9% | 4.3% | 21.5% |
| Oil | Brent Crude Oil | GBP | 7.4% | 40.9% | 7.4% | -7.5% |
| Gold | Gold Spot | GBP | -3.1% | -7.1% | -3.1% | 11.9% |
| **Interest Rates** | | | | **Current Rate** | | |
| United Kingdom | | | | 0.10% | | |
| United States | | | | 0.25% | | |
| Eurozone | | | | 0.00% | | |
| Japan | | | | -0.10% | | |

Source: Bloomberg, Momentum GIM. Past performance is not indicative of future returns.

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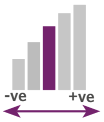
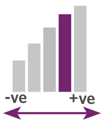
# Equities

## Developed Equities



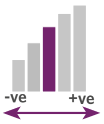

- » 2021 has had a decent start for risk markets and positive sentiment is buoying equity markets. Undoubtedly risks remain to the global economy but recent newsflow has been a tailwind for risk assets and positive developments on the vaccine front from should provide a base for pent up demand and growth later in the year
- » Policy measures remain accommodative and are likely to remain so for some time
- + Despite lofty index valuations in some markets and sectors, global equities still offer selective regional and sectoral value, and a return advantage over bonds
- − Earnings will continue to be impacted, or fail to recover, if vaccine development proves less effective or more difficult to roll out than currently thought

## UK Equities



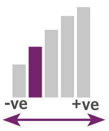

- » Covid 19, and to a reducing extent Brexit, continue to drive risk appetite in the UK today. UK equities rallied into the end of the year as a Brexit deal was agreed and the run continued into January before ebbing more recently
- » The UK market's larger cap constituents are more globally focused than they are UK, and have earnings shielded in large part from FX swings, which makes them less sensitive when/if those issues resurface. Thus the UK is not unattractive when thinking beyond 2020, and the recent style rotation could help UK equities edge higher
- + Most UK assets remain at a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels
- + The UK has lagged the recovery and offers some scope for a cyclically led catch up should the vaccine rollout - now well underway - prove effective
- − The UK has had to deal with a painful resurgence of Covid-19 infections and a third lockdown, in which it remains at the time of writing. The UK high street is already under extreme pressure and lockdown 3.0 does not help
- − The banks and energy heavy UK index may struggle if the recent rotation loses momentum

## European Equities



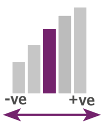

- » Like the UK, and increasingly other parts of the world, Europe is dealing with localised lockdowns as new variants and cases re-emerge. The European Recovery Fund and continued support from the ECB should help support European risk assets through 2021,not least by keeping funding costs low
- + Continued ECB asset purchases and policy stimulus will provide support to risk assets in the region
- − The ECB has little room to manoeuvre with rates at current levels; more devolved fiscal action and helicopter money may be needed longer term

## US Equities



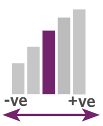

- » With the election behind us, and the vaccine program underway, two major risks have been mitigated. We still view the US market in aggregate as somewhat expensive, but active stockpickers have opportunities today. Headline valuation however keeps the US view in check for now
- + The US remains one of the higher quality markets, and the Dollar something of a haven should the recent positive sentiment wane. It is a natural home for those looking to add to their equity allocations, and that could keep US equities supported despite froth in some places
- + The Fed stimulus is constructive for credit, risk assets and by extension should be constructive for equities
- − US equity index valuations remain elevated vs other regions today, and market activity, including the likes of the GameStop rise and fall, suggests an element of frothiness
- − Trade and geopolitical risks remain and the bipartisan hard line on China may reassert itself as Biden's administration beds in

## Japanese Equities




- » At a high level, and considering demographics and locality, Japan has probably had a better outcome from the virus to date than many might have expected. Prospects look reasonable on a sustained pick up in business activity through 2021 should economic activity continue to rebound
- + BoJ ETF buying remains supportive for Japanese risk assets. Asia has stayed ahead of other global regions in the global Corona-cycle which may help Japan be on the front foot for a more sustained rebound in activity, should it prove to have legs
- − In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities

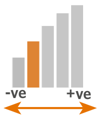
## Emerging Market Equities




- » On a longer term view we remain in favour of EM assets more generally over DM but recognise the continuing risks to developing economies from the Coronavirus, not least in securing and distributing vaccines, and the pressure on local health infrastructure and government budgets
- » EM equities have continued to gain alongside global equities in recent months, proving quite resilient on market weakness, and stand to gain further if a sustained rebound materialises
- + EM currencies remain lower in aggregate than a year ago, but have recovered meaningfully as the panic subsided, recovery gathered pace and the Dollar fell. At a lower level, for businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker revenues that will likely eventuate through 2020
- − Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative

## Fixed Income

**Government**



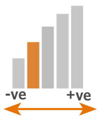

» DM government bond prices remain high/yields low despite the more recent back up in yields. They provide some diversification still but cash may prove a better diversifier until a higher level of yields and steeper curves are reached. Nonetheless, given the back up recently seen, and the increasingly consensus view on a reflationary recovery, government bonds offer a modicum of tactical value today

\+ Quality government bonds remain one of the better diversifiers, over the long term, in a multi asset portfolio, even when they are optically expensive. For that reason we advocate having some exposure despite extreme valuations

− Liquidity in the treasury market has been tested several times over the last year, both in the cash treasury market and repo. This causes some concern, but can be allayed with unlimited Fed firepower, which has been provided

− Any spike in inflationary expectations, increasingly a concern among investors albeit still small, could see 'risk free' bonds sell off sharply, more so now that the Fed has explicitly acknowledged a move to target average inflation over time

**Index-linked**
Relative to government



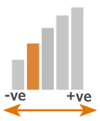

» Inflation linked bonds cheapened in the Covid induced sell off but have rebounded meaningfully in the interim, but still offer some value. Whilst near term inflation risk looks limited, over 5 to 10 years we take a more constructive view and view breakevens more favourably, preferring over pure rate risk in select markets

\+ Index linked bonds are one of the few ways to meaningfully protect against inflation risk, and with the amount of money pumped into the system, and more scope for helicopter style money, it is a more meaningful concern down the line

\+ The Fed's inflation stance has changed, and is likely to mean periods of higher inflation will be tolerated

− Inflationary forces remain muted today, and the reflation trade is becoming an increasingly consensus view

**Investment Grade Corporate**
Relative to government




» Investment grade bond spreads have largely normalised after the recent tightening, but are likely to remain supported. With yields now near new lows though, longer term real returns are threatened

\+ Central bank buying of IG bonds provides a tailwind for the asset class; there may still be some upside on the table

− Liquidity remains a concern, and IG is starting to look rich again. The IG universe remains at greater risk of BBB downgrades

**High Yield Corporate**

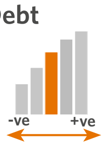

» Like their investment grade corporate cousins, high yield spreads have tightened meaningfully, but still offer some value and a reasonable yield. We are mindful of the more equity like characteristics of the asset class, and continued sensitivity of the (US) index to energy

\+ Maturity profiles have been extended in the recent good years, and rates policy and stimulus measures will be directed to keep credit markets functioning, as evidenced by the Fed stepping in to buy HY ETFs - largely to support 'fallen angels'

− Any further weakness in equity markets, for which there is a real possibility at this time, will likely hit HY bonds more than IG

− There is still a meaningful amount of energy exposure in US high yield markets which remains sensitive to any renewed pressure on oil prices

**Emerging Market Debt**




» The asset class continues to look optically attractive, yields well, and we continue to rate favourably. Risks clearly remain and some EM countries still have concerningly high and growing Covid infection rates, and new variants appearing in Brazil and other countries, so as with EM equity some caution recommended

\+ Despite recent strength we believe EM bonds continue to offer some of the best longer term real return opportunities in bond markets today, and implied default rates look excessive

− Any renewed Dollar strength may weigh on EM assets, with local bonds and FX likely bearing the brunt

− EM governments will come under more pressure if Corona related expenditure and support continues to rise

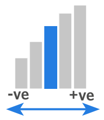
**Convertible Bonds**


» Convertible bonds had a stellar 2020. The perfect outcome for the asset class.
We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, but continue to take profit and pare back allocations to at most a neutral level. This reflects a more tempered view towards growth names which are well represented by the convertible universe

\+ The natural convexity provided by convertibles should continue to provide reasonable protection against any renewed equity weakness

− Any sustained dampening of implied and realised vols to more normal levels may crimp future returns

### Commodities




» The price of commodities moved markedly through most of 2020, and oil's dip into negative territory and subsequent rebound demonstrates the extremes this go to. As the recovery in economic activity continues we would expect some upside but clearly the asset class and individual commodities are highly sensitive to the economic backdrop

» Commodity prices are primarily supply and demand driven (Coronavirus and oil a prime example) and idiosyncratic factors can be as important as the global economic cycle

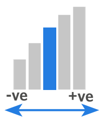
\+ Gold remains a reasonable hedge against risk off outcomes, and both deflationary and inflationary sentiment, as witnessed more recently through the downward pressure on real yields as inflation expectations have ticked higher

\+ Any cyclical upside and a post vaccine ramp up in industrial production should help industrial commodity prices move higher

− Coronavirus weighed on the industrials commodities sector through the first half of 2020, and supply chains may remain challenged, until vaccines are rolled out more widely

− Gold is sensitive to real rates and susceptible to pricing lower on any meaningful move higher in rates, albeit unlikely in the near future

### Property




» Property remains an attractive asset class for investors requiring yield. Rental collections are improving and dividends being reinstated, and the vaccine news is a strong positive for the asset class

» When viewed against high quality, longer duration Sterling assets and inflation linked bonds, UK property holds appeal, with selective industrial, data centres and residential having more attractive fundamentals than certain under pressure retail and office sectors

\+ Premium yields and quality assets should attract capital and provide some floor to prices, notwithstanding recent market turbulence

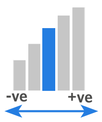
\+ The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios

− As a long duration asset class property remains susceptible to any repricing in long term bond yields

− The retail & office sectors remain under pressure as a result of COVID-19

− Rent holidays and tenants being unable or unwilling to pay pressures cashflow and ability to pay out income, should lockdowns be prolonged

### Infrastructure




» Infrastructure stocks had lagged the Covid rebound and thus remain reasonably attractive today. Their income generating potential should in the medium term support the sector and attract buyers of quality infrastructure assets, at a time when the need for infrastructure capital and investment remains strong in the medium to longer term

» The resurgent 'blue wave' could spur a pick up in infrastructure spending and project

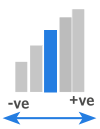
\+ In a multi asset portfolio the usually more defensive nature of the asset class and a degree of inflation protection make the asset class appealing

\+ The asset class offers a decent yield at a reasonable valuation today - both equity and debt flavours

− As a long duration asset class infrastructure remains susceptible to any repricing higher in long term bond yields

− Regulation can work both for and against the underlying investments, and underlying infrastructure stocks remain exposed to these risks

### Liquid Alternatives




» We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles.

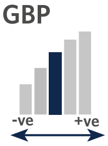
» We favour owning an allocation to a basket of liquid strategies today to provide additional diversification with high quality bonds remaining expensive

\+ These strategies provide additional diversification with reasonable return potential, at a time when other traditional diversifiers, such as treasuries, remain expensive

− The sector is relatively young and growing. Thorough due diligence is vital, and blend is recommended, as idiosyncratic performance can be unpredictable

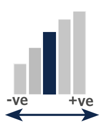
## £/€/¥ Currencies*

### GBP




» 'Cable' can look forward now that a Brexit deal has been secured. We would probably upgrade our view were it not for a still weak economic backdrop, possibility of negative rates and third lockdown. The possible downward bias to base rates, which seems to have been parked after the latest BoE meeting, is unlikely to lift the currency higher anytime soon, but it remains cheap on long term valuation measures

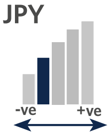
### EUR




» The Euro has shown itself to be the favoured carry currency in recent years and 'Covid covering' has helped support it through the tough times despite the negative rate backdrop in Continental Europe

» In real terms the common currency looks about fair value today but there is no obvious and imminent catalyst for an uplift, and on balance the local fundamental backdrop appears weak which makes the currency largely unattractive today

### JPY




» Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap today. What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk. However with the positive backdrop from global vaccination programmes we will need to see more weakness before taking a more neutral view again



*Currencies views are expressed versus the US Dollar

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