

Belvest

momentum
global investment management

GLOBAL MATTERS

MONTHLY VIEWPOINT

VOL #172 | MARCH 2021

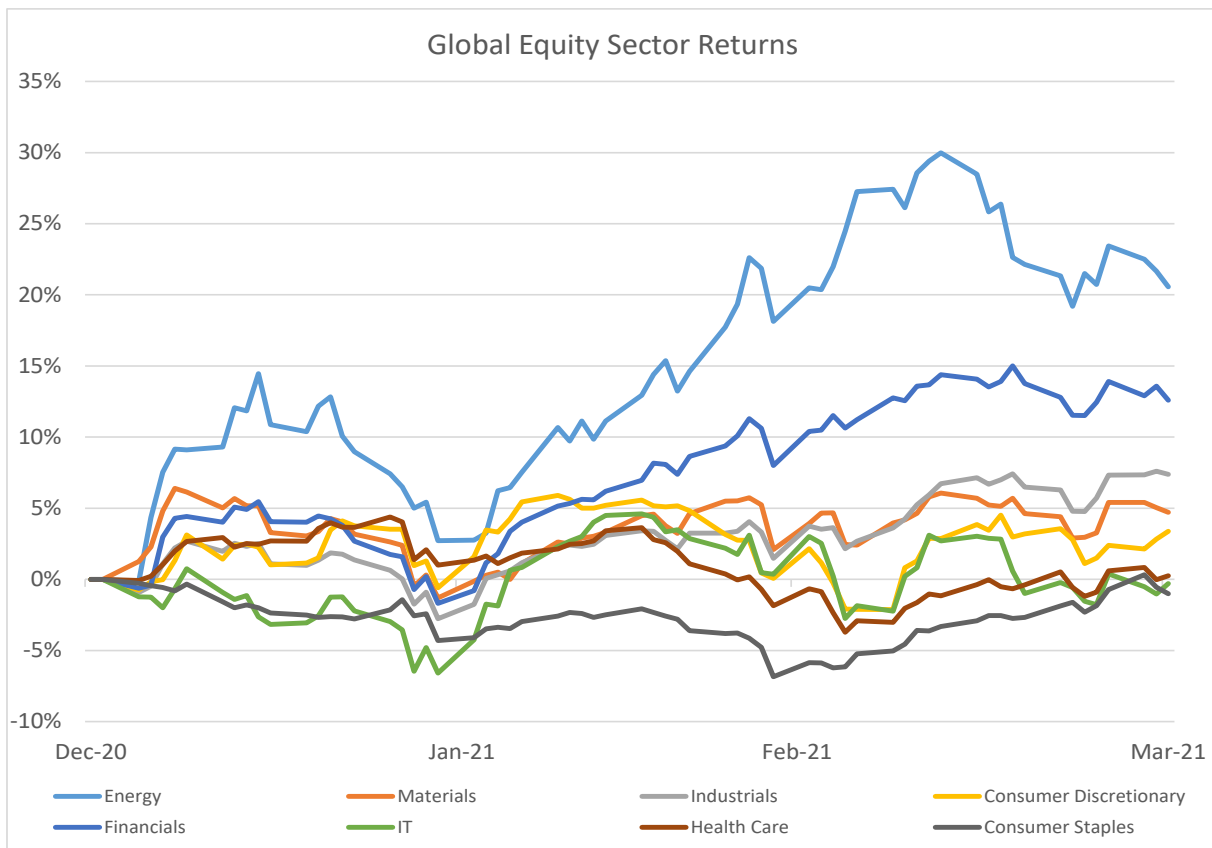


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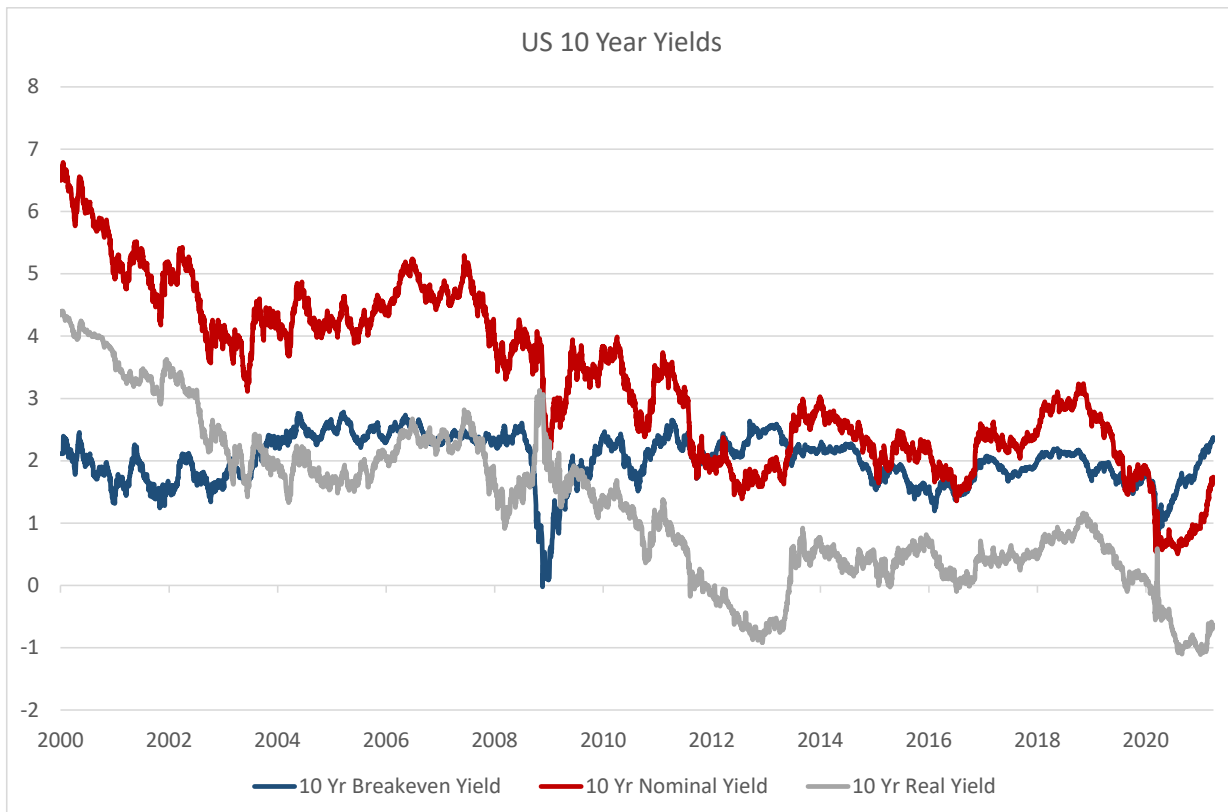
MARKET REVIEW

While the vaccine news in early November was arguably the critical turning point in this cycle, providing light at the end of the pandemic tunnel, it was only in the first quarter of 2021, 12 months from the pandemic’s onset, that investors began to price in the recovery ahead and a return to post-pandemic normality. The recovery and reflation trade took hold, manifest most clearly in sharp falls in bond markets, suffering one of their worst quarterly returns in decades, and in a big rotation in equity markets, from the pandemic winners, in e-commerce, the digital and online world, to those sectors which have suffered most from lockdowns and restricted mobility. Over the quarter, global equities returned 4.9%, but within that, the sectors most sensitive to economic recovery produced substantial returns, including energy +22% and banks +19%, while those which had benefitted from the pandemic, such as IT, healthcare and consumer staples, were flat.



Source: Bloomberg, Momentum Global Investment Management

In contrast to equities, bonds had a torrid quarter, reflected in the yield on the 10 year US Treasury, the world’s key discount rate, almost doubling, from 0.9% at the end of 2020 to 1.74% by the end of March. Unlike the more modest rise in yield which had taken place in the latter months of 2020, which was driven entirely by rising inflation expectations, in recent months it was also a rise in real yields which drove the market. Inflationary expectations moved up over the quarter from 2% to 2.37%, but real yields rose from around all-time lows of -1.1% at year end to -0.63% by the end of March – a move which occurred in a three week period from mid February to early March.

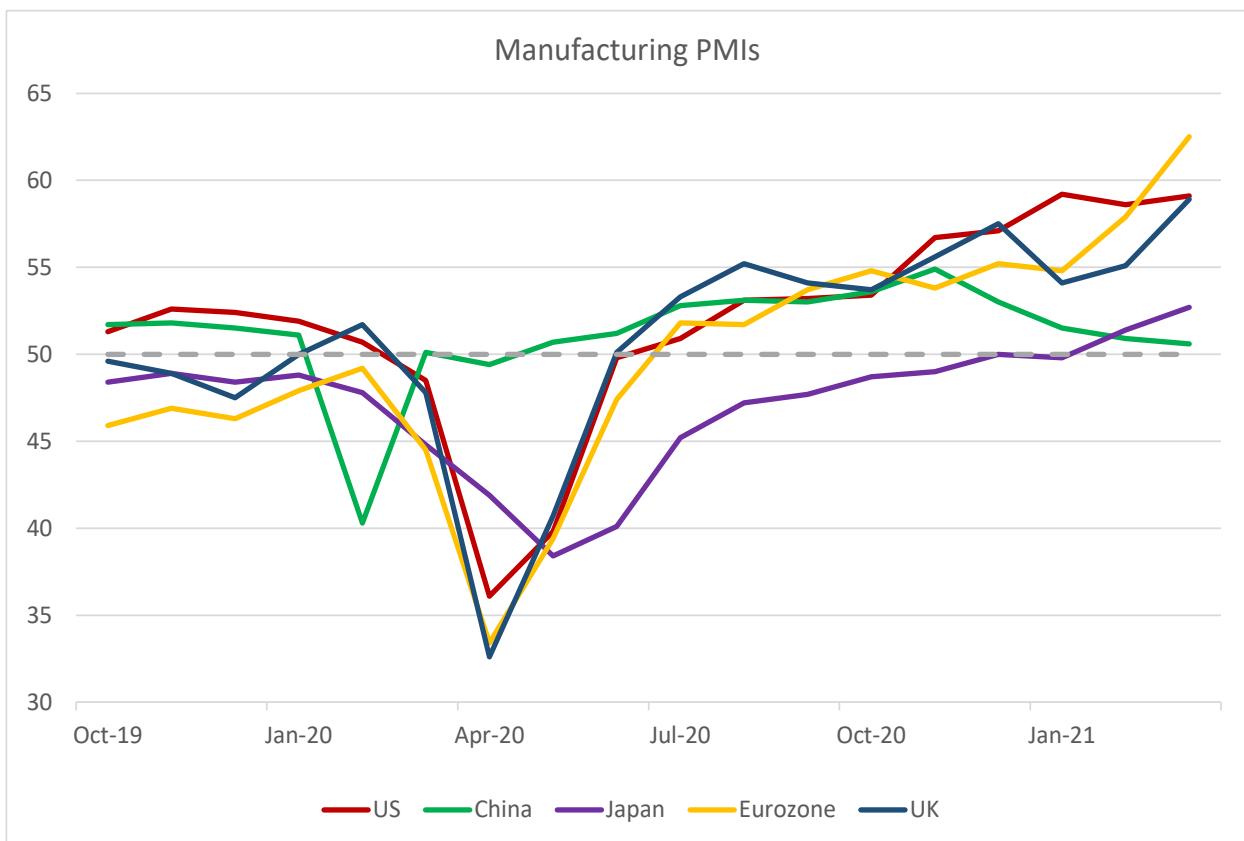


Source: Bloomberg, Momentum Global Investment Management

The speed and sharpness of the move rattled investors and triggered a setback in safe haven and risk assets alike, but was most marked in longer duration bonds, with the 30 year Treasury bond recording a return of -16% in Q1; in gold, which fell by 10% over the quarter; and in highly rated growth equities, which had led markets higher over the past year but suffered sharp falls in the face of the rise in the discount rate, with the NYSE FANG+ Index (representing the fastest growing US mega cap stocks) falling by 17% from peak to trough during the quarter.

The key factors driving these shifts, and which are central to prospects for the remainder of the year, are:

1. Growing confidence in the success of the vaccination programme, enabling lockdowns and mobility restrictions to be eased. While by no means universal, with the vaccine fiasco in the EU failing to prevent a third wave of the pandemic, extended lockdowns and a delayed recovery across much of the continent, the extraordinary success of the vaccine roll-out across the US and UK points to the way out of the pandemic and has already led to an easing of restrictions in those countries.
2. Clear signs of rising consumer and business confidence, with leading indicators across most major economies moving sharply higher during the quarter and pointing to strong growth ahead.
3. Activity levels stronger than expected, especially in the world's two largest economies, the US and China, but also across Europe, Japan and the developing world. Purchasing Managers Indices, a reliable barometer of future growth, have moved well into expansionary territory.



Source: Bloomberg, Momentum Global Investment Management

4. The Democrat's success in winning the two outstanding Senate seats in early January enabled Biden to push rapidly through virtually all of his planned pandemic fiscal stimulus package. The \$1.9tn package is equivalent to a 9% boost to national income, with much of the stimulus made available almost immediately. The \$1400 cheques for nearly all adults are already being distributed and will help to turbo-charge the recovery underway. The President is now working on the next \$2tn package, focussed on infrastructure spending and the green economy, which is expected to be approved later this year.

5. The Federal Reserve's commitment to its ultra-loose policy, and preparedness to look through the spike in inflation ahead. Like most forecasters, the Fed raised its growth expectations for the US this year, to 6.5%, and is expecting a pick up in inflation as recovery takes hold, but views this as transitory, pointing to a global shortage of demand and the inflation dynamics of the past quarter of a century being essentially intact. Importantly, the Fed has shifted its policy stance to focus on observables rather than estimates, from pre-emptive to reactive, and continues to expect to keep interest rates at current levels to the end of 2023, and to maintain its bond buying programme at the rate of \$120bn per month until substantial progress has been made towards the goals of 2% stable inflation and full employment.

6. To cap all this policy support, the easing of lockdowns in the weeks and months ahead is set to unleash huge pent up demand. During the enforced lockdowns, savings levels have built up substantially: the US household savings rate has soared to 20%, with some \$1.6tn of excess savings built up during the pandemic, equivalent to 7% of national income. At the same time, household wealth has remained robust as equity markets have moved to new highs and the housing market has been strong. With businesses also expecting to increase investment, the stage is set for an economic boom globally.

Against this backdrop, corporate earnings will rise substantially in 2021, with consensus forecasts predicting over 40% growth in S&P 500 earnings per share. Even if those levels prove to be optimistic, we expect equity markets to move higher over the year, driven by earnings growth rather than higher valuations.

We remain alert, however, to the risks ahead. The roll-out of the vaccines faces hurdles, all too evident in the EU and in developing countries. The extent of long-term scarring from the pandemic will only become clearer in the months ahead, but some sectors, especially in travel and hospitality, face structural challenges. The huge public debt overhang built up in the past year is a longer term drag on growth and could become a more urgent problem if bond yields rise further. The US-China relationship is problematic, not in any material way lessened with Biden as President, and now more likely to be across a united front with US allies. And perhaps most importantly as 2021 progresses, there is the risk of a sizeable pick-up in inflation.

That inflation is set to rise in coming months is beyond dispute, not least due to base effects, as well as the economic boom arriving at a time when there are certain supply shortages. Even if the higher inflation proves to be transitory, which is our central view, it could lead to a further jump in bond yields, triggering a sharp sell-off in markets. The Fed, and other central banks, have the tools to deal with a persistent rise in inflation but deploying those tools would be damaging for the economy and markets. Rising inflation, higher yields, policy mis-steps and a 'taper tantrum' remain our biggest risk factors for 2021.

Within markets we are also aware of some signs of excess. Valuations in the tech and digital sectors have become stretched, and the spate of highly valued IPOs and SPACs is a warning, as is the surge of retail buying and the recent collapse of highly leveraged hedge fund Archegos Capital. China has successfully emerged from the pandemic and its economy has recovered strongly, but the Chinese authorities are now trying to rein in asset bubbles and reduce risk in their financial system, including measures to reduce credit growth. The impact on markets in China has been swift, with the equity market down 6% in March, losing all the ground made up in the early weeks of the year and making it the worst performing major market so far this year.

Inevitably, then, we expect bumps along the way as we head into and through the economic boom to come. However, we need to keep the risks in perspective. Inflation expectations have risen but have returned essentially to pre-pandemic levels and are causing few concerns among central banks. There remains ample slack in economies and employment levels are well below pre-pandemic levels. Bond yields have risen but from the lowest levels in history and are still well into negative territory in real terms. Financial conditions remain very easy and liquidity is abundant. With one of the biggest economic recoveries in history ahead, these do not appear to be the conditions for a sustained fall in risk assets. We expect bouts of volatility and we are still cautious about bond markets, but yields on longer dated maturities are beginning to return to more realistic levels, and equities offer good opportunities to participate in the recovery, especially in value sectors, which have only in recent months begun to recover some of their underperformance against growth stocks of the past few years.

As ever, true portfolio diversification, including defensive assets and a range of equity styles, will be the best way to mitigate the risks and enhance returns, and most importantly it will be vital to stay invested; the highly promising prospects for 2021 should reward investors and we see any setbacks as a good opportunity to add to portfolio risk.

Market Performance - Global (local returns)

To 31 March 2021						
Asset Class / Region	Index	Currency	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	4.3%	6.1%	6.1%	55.6%
United Kingdom	MSCI UK NR	GBP	3.8%	5.0%	5.0%	20.0%
Continental Europe	MSCI Europe ex UK NR	EUR	6.6%	7.7%	7.7%	38.7%
Japan	Topix TR	JPY	5.7%	9.3%	9.3%	42.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-2.1%	2.7%	2.7%	58.6%
Global	MSCI World NR	USD	3.3%	4.9%	4.9%	54.0%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	1.7%	0.7%	0.7%	38.6%
Emerging Asia	MSCI EM Asia NR	USD	-3.0%	2.2%	2.2%	60.1%
Emerging Latin America	MSCI EM Latin America NR	USD	4.6%	-5.3%	-5.3%	50.1%
China	MSCI EM China NR	USD	-3.5%	-0.1%	-0.1%	48.6%
BRICs	MSCI BRIC NR	USD	-6.3%	-0.4%	-0.4%	43.6%
Global emerging markets	MSCI Emerging Markets NR	USD	-1.5%	2.3%	2.3%	58.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-1.3%	-4.6%	-4.6%	-5.1%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-0.3%	-1.8%	-1.8%	7.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.7%	-4.6%	-4.6%	8.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.2%	0.9%	0.9%	23.6%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-0.2%	-7.4%	-7.4%	-5.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.3%	-4.1%	-4.1%	7.0%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.2%	-2.3%	-2.3%	2.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	-0.7%	-0.7%	8.8%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.5%	1.6%	1.6%	22.0%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	0.8%	-0.5%	-0.5%	-1.0%
Australian Government	JP Morgan Australia GBI TR	AUD	1.1%	-4.1%	-4.1%	-4.0%
Global Government Bonds	JP Morgan Global GBI	USD	-2.0%	-5.7%	-5.7%	0.4%
Global Bonds	ICE BofAML Global Broad Market	USD	-1.8%	-4.8%	-4.8%	3.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-3.1%	1.9%	1.9%	62.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.9%	-7.2%	-7.2%	8.8%

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

To 31 March 2021						
Asset Class / Region	Index	Currency	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	4.3%	8.5%	8.5%	36.1%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	6.5%	-1.1%	-1.1%	39.6%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	1.0%	7.9%	7.9%	21.9%
Global Property Securities	S&P Global Property USD TR	USD	2.8%	5.4%	5.4%	34.6%
Currencies						
Euro		USD	-2.9%	-4.0%	-4.0%	6.3%
UK Pound Sterling		USD	-1.1%	0.8%	0.8%	11.0%
Japanese Yen		USD	-3.8%	-6.7%	-6.7%	-2.9%
Australian Dollar		USD	-1.4%	-1.2%	-1.2%	23.9%
South African Rand		USD	2.3%	-0.5%	-0.5%	20.7%
Commodities & Alternatives						
Commodities	RICI TR	USD	-2.4%	11.1%	11.1%	51.0%
Agricultural Commodities	RICI Agriculture TR	USD	-1.9%	7.5%	7.5%	43.8%
Oil	Brent Crude Oil	USD	-3.9%	22.7%	22.7%	179.4%
Gold	Gold Spot	USD	-1.5%	-10.0%	-10.0%	8.3%
Hedge funds	HFRX Global Hedge Fund	USD	-0.1%	1.2%	1.2%	16.1%
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 31 March 2021						
Asset Class / Region	Index	Local Currency	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	4.1%	5.2%	5.2%	20.0%
UK - Large Cap	MSCI UK Large Cap NR	GBP	4.0%	5.5%	5.5%	13.8%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	4.0%	3.8%	3.8%	41.8%
UK - Small Cap	MSCI Small Cap NR	GBP	3.2%	6.0%	6.0%	48.8%
United States	S&P 500 NR	USD	5.4%	4.9%	4.9%	39.8%
Continental Europe	MSCI Europe ex UK NR	EUR	4.7%	2.4%	2.4%	33.5%
Japan	Topix TR	JPY	3.0%	0.5%	0.5%	24.4%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-1.1%	1.6%	1.6%	42.5%
Global developed markets	MSCI World NR	USD	4.4%	3.8%	3.8%	38.4%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.5%	1.2%	1.2%	42.3%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	0.0%	-7.5%	-7.5%	-5.7%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	0.1%	-0.8%	-0.8%	-0.2%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-0.1%	-4.8%	-4.8%	-3.2%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	0.1%	-12.4%	-12.4%	-10.3%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	1.8%	-6.4%	-6.4%	2.5%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	0.8%	-2.8%	-2.8%	0.0%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	2.5%	-8.5%	-8.5%	3.6%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-0.3%	-4.1%	-4.1%	7.0%
US Treasuries	JP Morgan US Government Bond TR	USD	0.1%	-5.5%	-5.5%	-14.7%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-1.7%	-4.6%	-4.6%	8.7%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	0.2%	0.9%	0.9%	23.6%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	0.2%	-2.3%	-2.3%	2.3%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	0.2%	-0.7%	-0.7%	8.8%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.5%	1.6%	1.6%	22.0%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.0%	-6.7%	-6.7%	-9.8%
Global Bonds	ICE BofAML Global Broad Market	GBP	-1.8%	-4.8%	-4.8%	3.5%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-3.1%	1.9%	1.9%	62.0%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	-0.9%	-8.2%	-8.2%	-2.3%

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

		To 31 March 2021				
Asset Class / Region	Index	Local Currency	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	3.9%	4.2%	4.2%	21.0%
Currencies						
Euro		GBP	-1.8%	-4.8%	-4.8%	-4.2%
US Dollar		GBP	1.0%	-0.9%	-0.9%	-9.9%
Japanese Yen		GBP	-2.7%	-7.5%	-7.5%	-12.5%
Commodities & Alternatives						
Commodities	RICI TR	GBP	-1.4%	9.9%	9.9%	35.6%
Agricultural Commodities	RICI Agriculture TR	GBP	-0.9%	6.3%	6.3%	29.2%
Oil	Brent Crude Oil	GBP	-2.9%	21.3%	21.3%	151.0%
Gold	Gold Spot	GBP	-0.5%	-11.0%	-11.0%	-2.7%
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.

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 news flow 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. Nonetheless they remain one of the better performing markets year to date
- » 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 near a multi decade discount to the global index. Long term investors can buy into some great UK businesses at today's levels
- + The UK offers some scope for a cyclically led catch up should the vaccine rollout continue to proceed successfully and the roadmap out of lockdown plays out as guided by the government
- The UK is only just starting to edge out lockdown - and not for the first time. The UK high street is already under extreme pressure and any withdrawal delay - or worse, a return - would be damaging to growth expectations
- 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



- » The vaccine programme is well underway in the US and Biden's \$1.9trn stimulus plan has recently passed. This provides a positive backdrop for the US as the economy returns to a new normality. 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, and recent price moves in growth stocks following yield increases should be viewed as somewhat healthy
- + 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, and something of a SPAC frenzy, 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 had a better outcome from the virus to date than many might have expected, albeit vaccination rates are amongst the lowest in the world. Prospects look reasonable on a sustained pick up in business activity through 2021 should global economic activity continue to rebound, and the recent rise in Covid rates be contained
- + BoJ ETF buying remains supportive for Japanese risk assets. Asia has stayed ahead of other global regions in the post Covid cycle and Japan is well placed to benefit from local and global demand as the rebound in economic activity, fuelled by pent up demand, continues
- + The Japanese equity market looks relatively attractive on a valuation basis
- In a protracted risk off scenario Yen strength resulting from its safe haven status would hurt Japanese equities

Emerging Market Equities

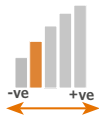


- » On a longer term view we remain in favour of EM assets more generally over DM but recognise the continuing risks to developing economies from the Coronavirus, not least in securing and distributing vaccines, and the pressure on local health infrastructure and government budgets
- » EM equities have 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 are now higher in aggregate than they were a year ago, having recovered meaningfully as the panic subsided, recovery gathered pace and the Dollar periodically softened. At the more granular level, for businesses that earn foreign income this translates into better earnings that helps in some way to offset weaker 2020 revenues
- + Valuation in aggregate continues to look attractive today
- Emerging markets remain prone to bouts of volatility and flow reversal at times of heightened perceived risk. Negative news flow or any reversal in the recent pick up in sentiment would likely crimp returns
- Periods of Dollar strength has proved to be a headwind to the recent strong EM run



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 are reached. Nonetheless, given the back up in curves and yields 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 diversifier's 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
- A continued spike in inflationary expectations could see 'risk free' bonds continue to sell off sharply, as has been the trend in recent weeks

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
- Inflation linked bonds are sensitive to rising real rates

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
- 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 high Covid infection rates, and vaccine rollouts are lagging developed markets, so as with EM equity some caution recommended
- + 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

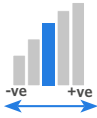


- » Convertible bonds had a stellar 2020. The perfect outcome for the asset class. We continue to favour an allocation to convertibles in a multi asset portfolio for the convexity the asset class brings, but are mindful of the grow their profile of the underlying companies and the risk to pricing, hence more neutral today
- + 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



Real Asset / Alternatives

Commodities



- » The price of commodities has moved a lot through 2020 and early 2021, 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
- + 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 real rates, something we've seen recently

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 makes the asset class attractive
- + The longer duration qualities of the asset class make it a good diversifier over the long term within multi asset portfolios
- + The reopening of non essential businesses in the UK after the recent lockdown is a boost to sentiment in the retail property sector
- 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 recent passing of Biden's \$1.9trn stimulus programme could provide a tailwind
- + 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

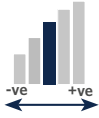


- » We define this section as less/non-directional, absolute return type strategies that seek to capture long term risk premia or market mispricings, and includes hedge fund alternatives/systematic strategies in predominantly UCITS vehicles.
- » We favour owning an allocation to a basket of liquid strategies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



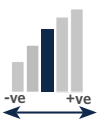
Currencies*

GBP



- » Cable' continues to flirt with the 1.4 handle and marks a strong turnaround over the last year. The possible downward bias to base rates, which seems to have been parked after the latest BoE meeting, is unlikely to lift the currency significantly higher anytime soon, but it remains somewhat cheap on long term valuation measures

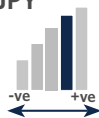
EUR



- » The Euro has shown itself to be the favoured carry currency in recent years and 'Covid covering' helped support it through the worst of 2021 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, and the Covid vaccination programme at best patchy, which makes the currency somewhat unattractive today

JPY



- » Rate differentials continue to offer little reason to buy the Yen. However, in real terms the Yen remains cheap and following the currency's steady year to date decline a more neutral stance is appropriate today
- » What sets the Yen apart from Sterling and the Euro is the currency's diversifying qualities at times of risk, and following a period of sustained weakness we raise our view a notch as a sensible defensive allocation

*Currencies views are expressed versus the US Dollar

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