

Six Minute Strategy

Is market leadership finally turning?

13 November 2020



COVID vaccine – the tip of the iceberg?

What we know so far



- The Pfizer COVID vaccine, developed with BioNTech of Germany “prevents 90% of COVID infections” - could get an EUA* on 17 November
- Markets were looking for 60% – 70% impact and getting lower as each day passed with still no data, so 90% is very good
- Others:
 - Moderna data should be out very soon too and if this is a class effect then the efficacy is likely to be good too.
 - Astra/Oxford is also progressing OK but has had more issues with safety (which may or may not be connected to the vaccine). Both less ‘fiddly’ in terms of storage & dilution than Pfizer.
- There will likely be bottlenecks in getting vaccinations done, but manufacturing is already very much in place - distribution still a Herculean Task (8 billion doses for global herd immunity)

Vaccine could the end risk of a Third Wave,

Business can plan for full resumption, Pent-up consumer demand released?

Source: Sarasin – 9.11.20 EUA= Emergency Use Authorisation

New lockdowns suggest a 'W' shaped recession – can the vaccine reverse this?

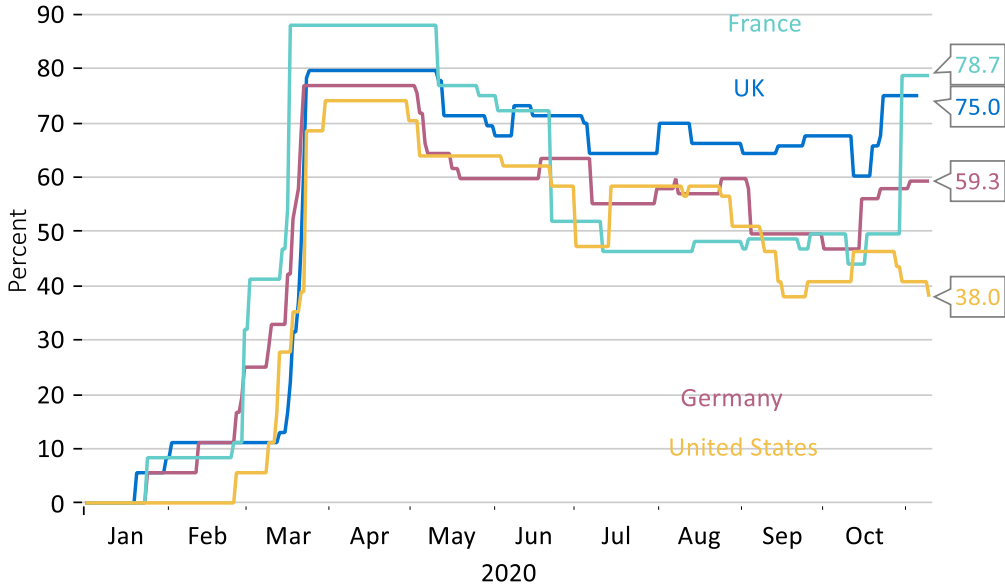


European lockdowns close to April peaks...



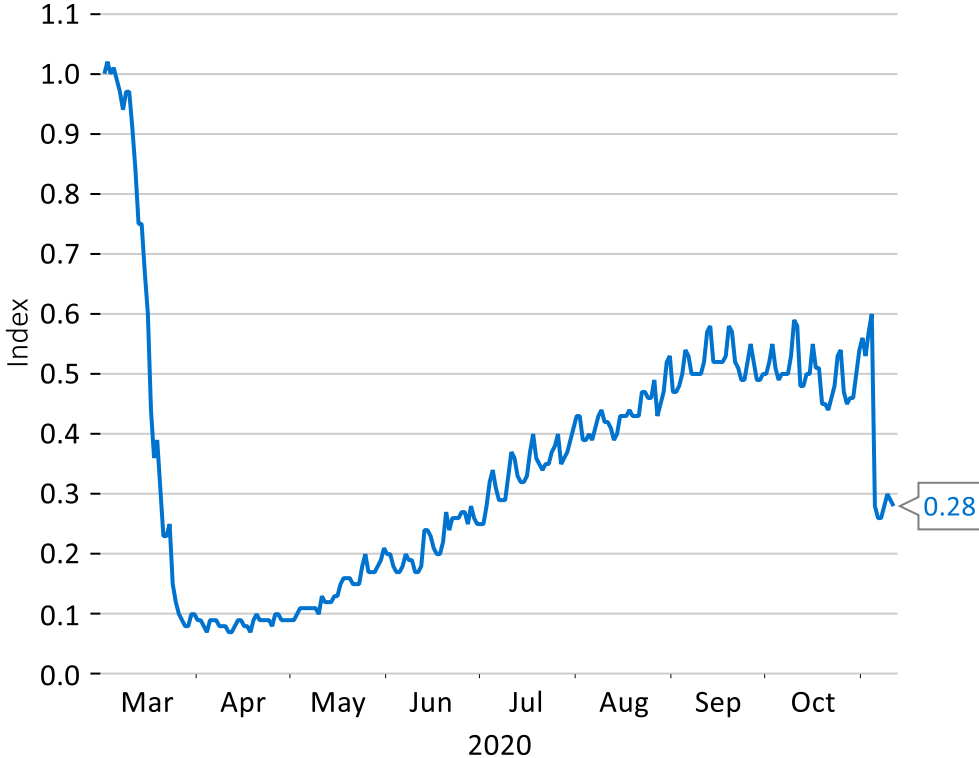
Fall in London mobility less severe than Q2 2020

COVID-19 Global Stringency Index



Source: Macrobond, 12.11.20

London Citymapper Mobility Index



Source: Macrobond, 12.11.20

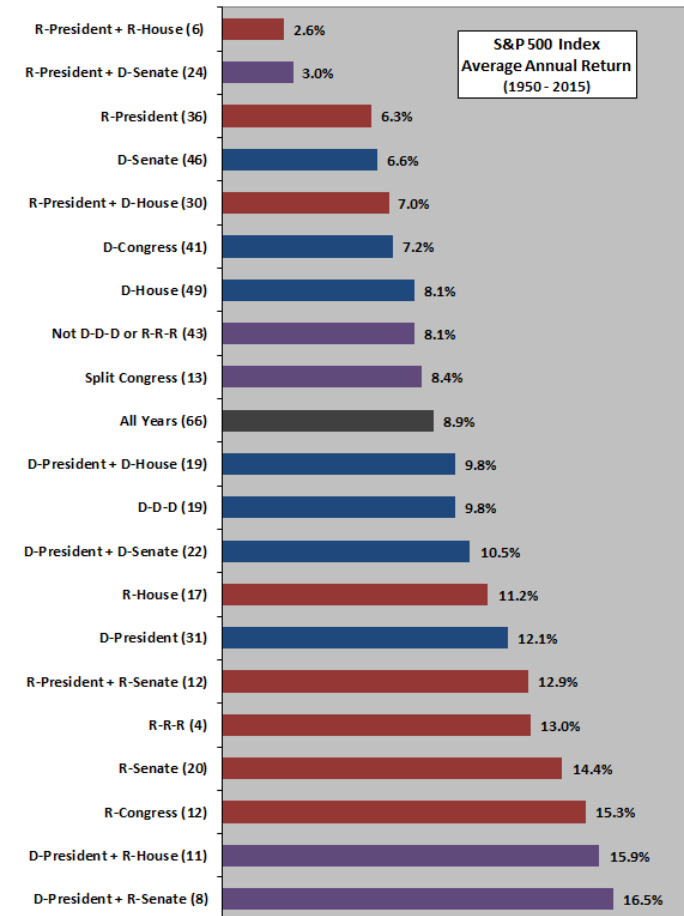
US Election

No blue wave, no blue sweep, more a blue ripple...



- With a Biden win we end up with a centrist Democratic President likely hamstrung by a marginally red Senate & a less blue house.
- Biden outperformed the Democratic Party in Senate & House: the US is more conservative, more right of centre than the Party.
- Fiscal activism less likely – a market friendly outcome?
- 2022 Senate races become key focus – legislative checkmate till then.
- The big if is a peaceful transition...

Divided US government is generally good for markets...



Source: cxoadvisory November 2020

Last week's surge in value stocks was one of the largest since the 1980's*

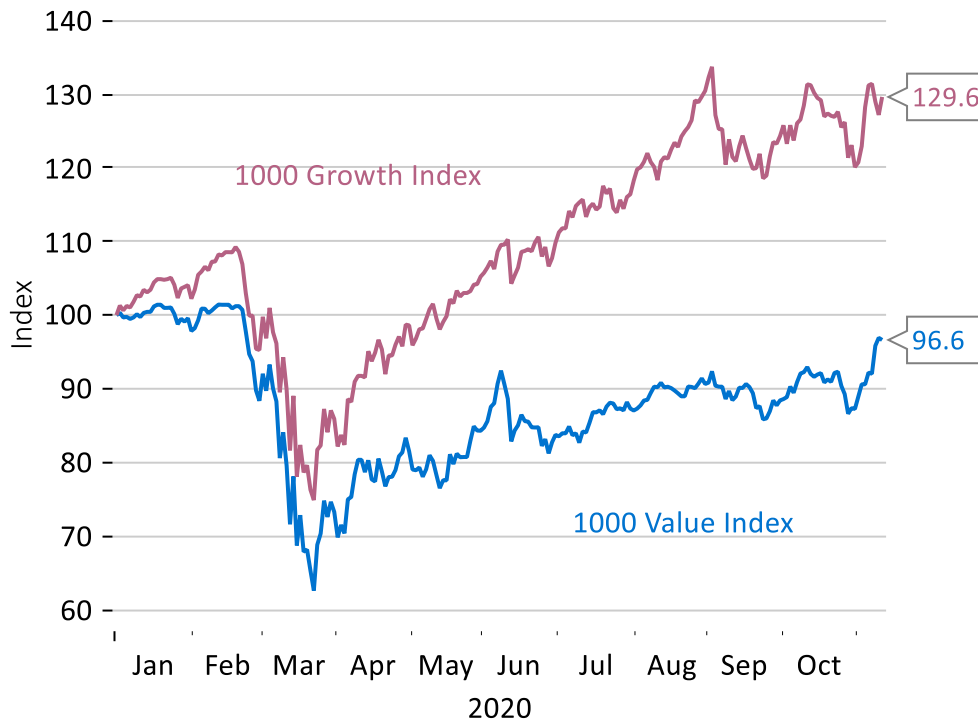


US growth stocks still dominate returns in 2020



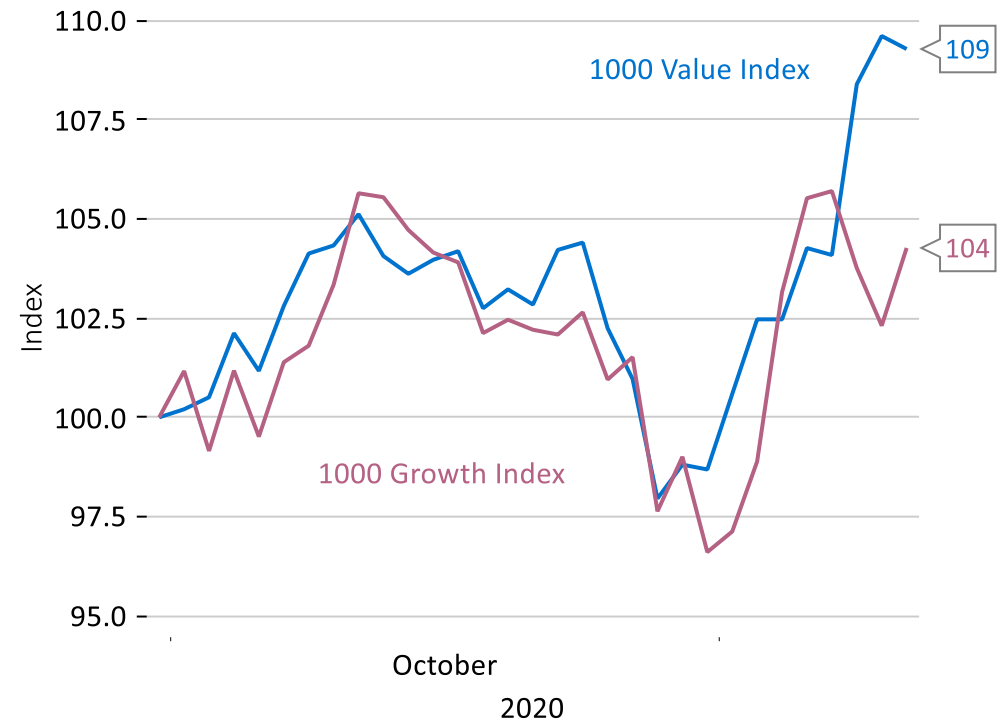
But last weeks rally in value was one of the largest on record

US Russell Equity Indices
2020 Year to date



Source: Macrobond, 12.11.20

US Russell Equity Indices
Q4 2020 to date



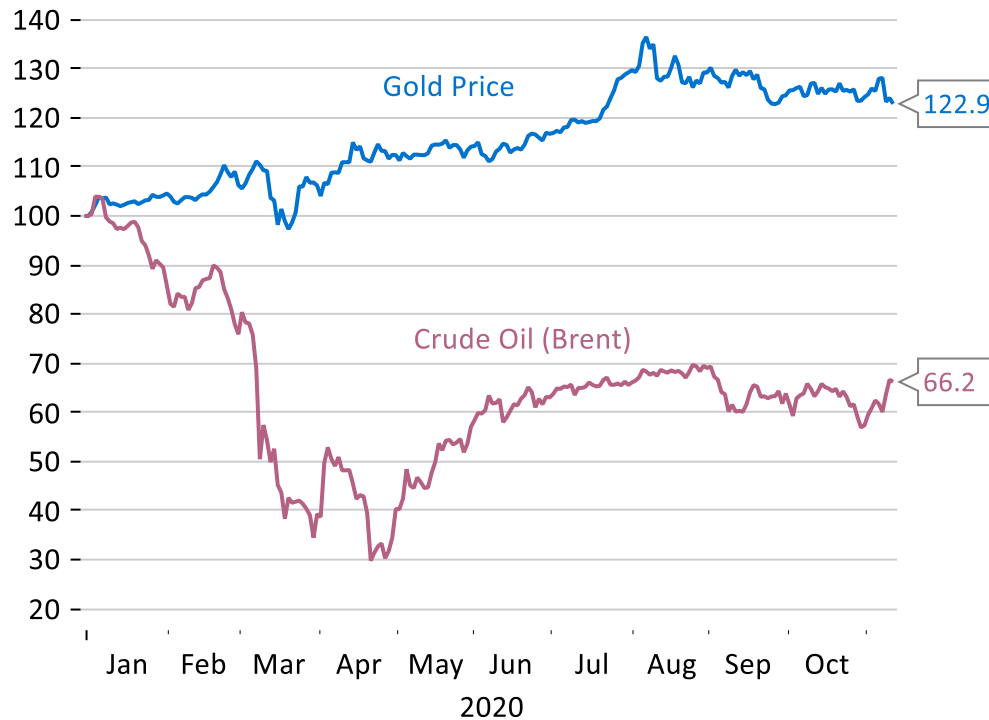
Source: Macrobond, 12.11.20

Recovery hopes from a vaccine lift oil and trigger falls in gold...



Strong outperformance of gold over oil in 2020

Oil and Gold
2020 Year to date

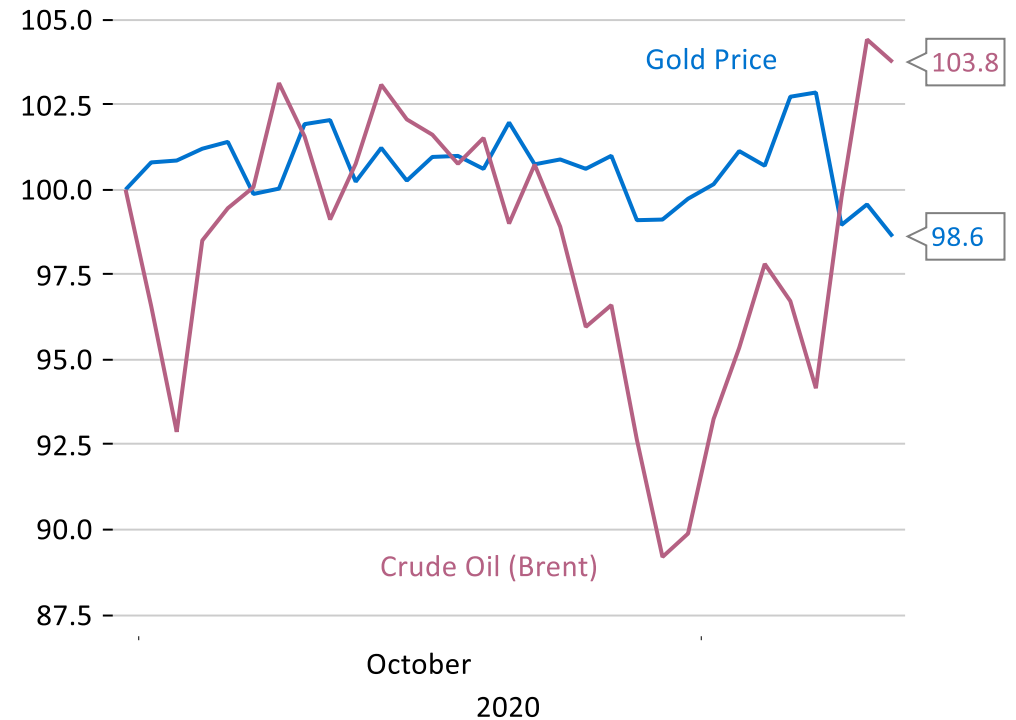


Source: Macrobond, 12.11.20



Note sharp reversal on vaccine news

Oil and Gold
2020 Q4 to date



Source: Macrobond, 12.11.20

1. Asset prices have been inflated by super-low rates – can this continue if bond yields rise?

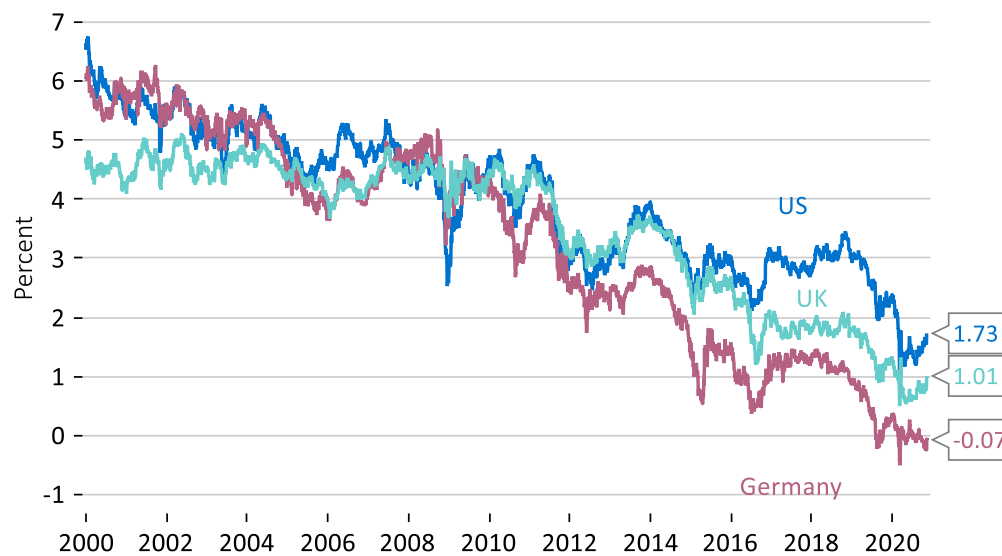


The time value of money has disappeared...



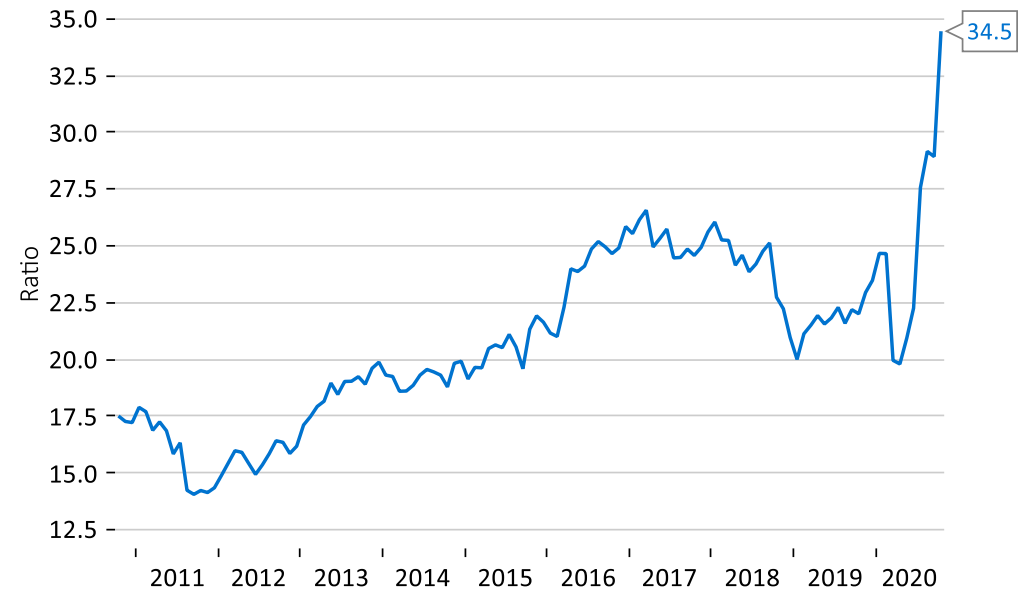
Resulting in higher multiples for long-term growth stocks

30 Year Bond Yields



Source: Macrobond, 12.11.20

United States S&P 500 Index, P/E Ratio



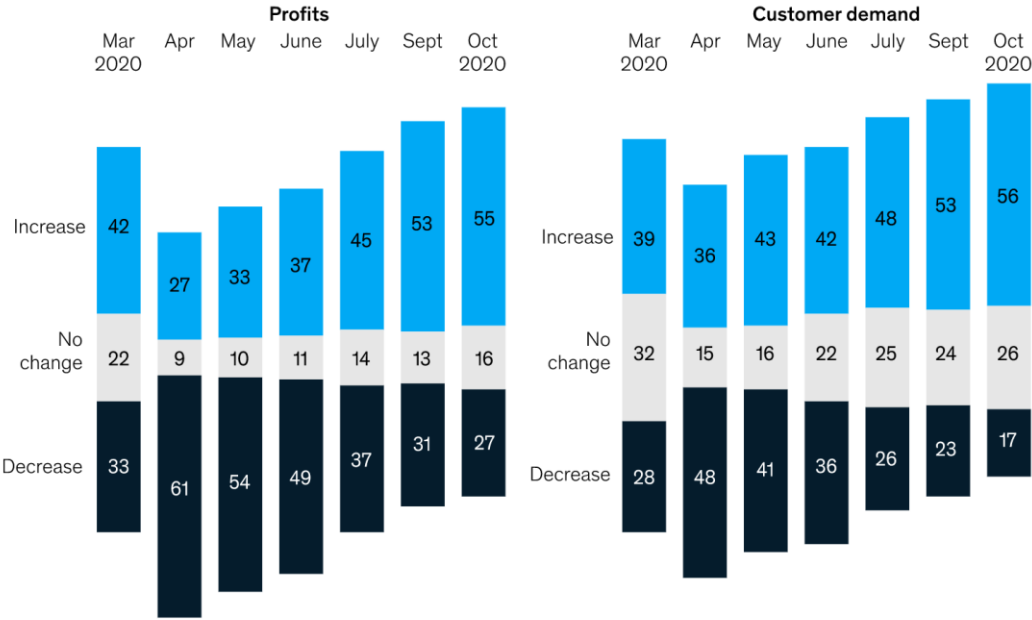
Source: Macrobond, 12.11.20

2. Despite rise in COVID-19 cases global executives are becoming more positive

 Monthly survey of 2000 business leaders around the world by McKinsey

Executives report ever-more-positive expectations for their companies' profitability and customer demand.

Expected changes at respondents' companies in next 6 months, % of respondents¹

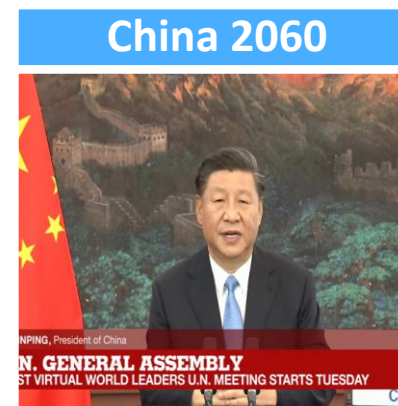
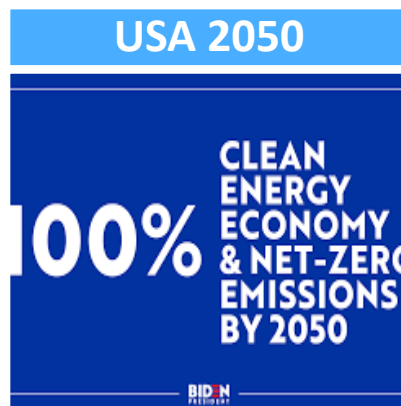


¹ Respondents who answered "don't know" are not shown. Questions were asked only of respondents working for private-sector organizations. In Mar 2020, n = 1,060; in Apr 2020, n = 1,940; in May 2020, n = 2,290; in June 2020, n = 1,985; in July 2020, n = 1,900; in Sept 2020, n = 1,010; and in Oct 2020, n = 2,041.

McKinsey & Company

3.The policy stars continue to align...

Significant developments in net zero target setting



Economic risks still daunting but the vaccine offers a road to recovery...

Fiscal and monetary policy the most expansionary in post-war history



Global strategy update November 2020

Bonds	Neutral <ul style="list-style-type: none">• UW Government– repression of yields offers little value• OW investment grade credit – yield premium still meaningful plus central bank support• Caution High Yield and EM debt
Equities	Modest Overweight <ul style="list-style-type: none">• OW Global equities – equity risk premium attractive, thematic earnings recovery expected 2021• Neutral UK equities – valuations attractive, flow of funds back to UK likely on any Brexit deal• Neutral EM equities – China economic recovery strong, COVID scarring in rest of EM but valuations attractive
Alternatives	Overweight <ul style="list-style-type: none">• Neutral Other Alternatives– infrastructure and renewables returns attractive but liquidity issues remain• OW Uncorrelated Alternatives - Gold as hedge against unprecedented policy stimulus & debt build-up
Cash	Strongly Underweight <ul style="list-style-type: none">• Central Bank commitment to zero or negative yields for multi-year period• No currency preference
Risks	Current: Resurgence in virus in Q4 2020 accelerates, contested US election, no-deal Brexit Longer-term: Economic and social scarring from lockdowns, volatile retail investment flows, surge in global defence budgets & rising conflict risk

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