

Six Minute Strategy

So what could go wrong?

April 2021



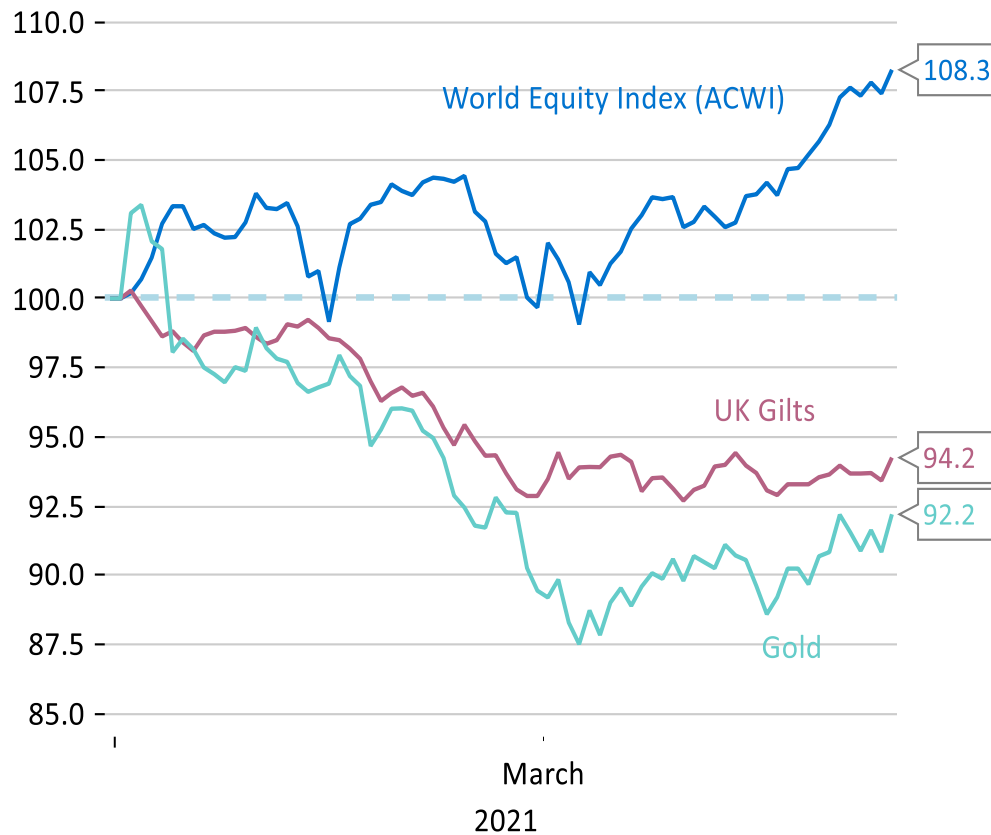
Market performance 2021 to date

Equities lead global asset returns – growth style recovers - VIX declines



Equities rally, bonds & gold decline

Global Asset Class Returns 2020 (£) to date

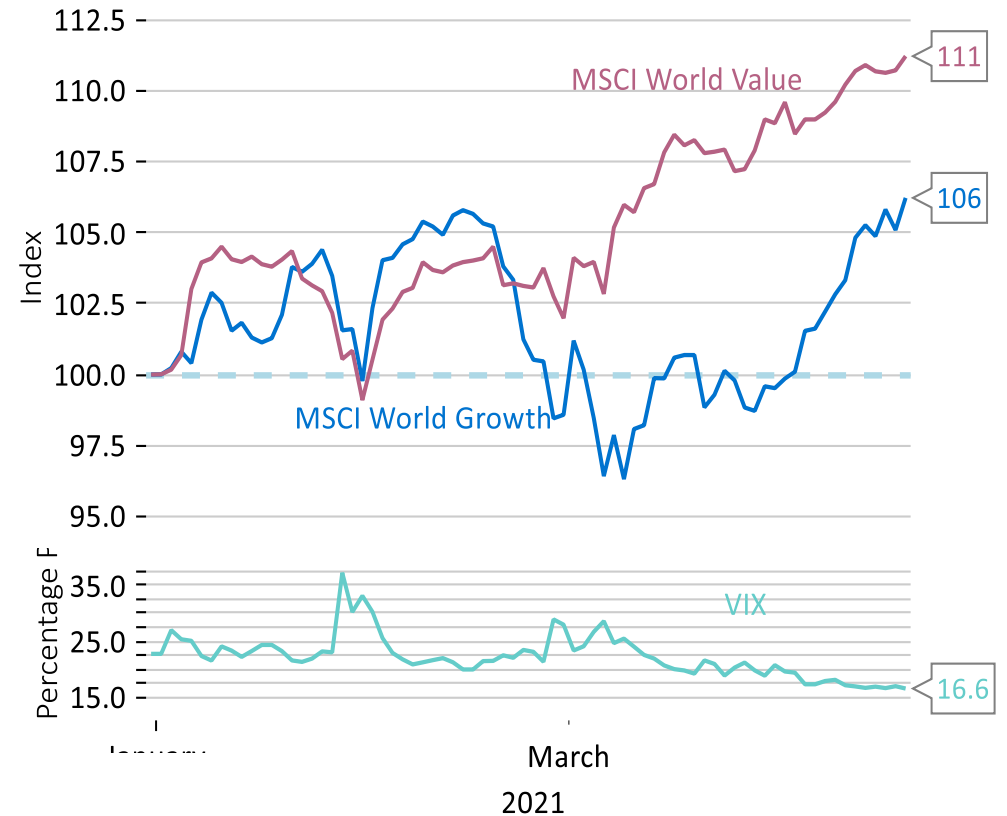


Source: Macrobond, 16.04.21



Value leads growth in 2020

World Equity Style & S&P500 Volatility 2021 to date



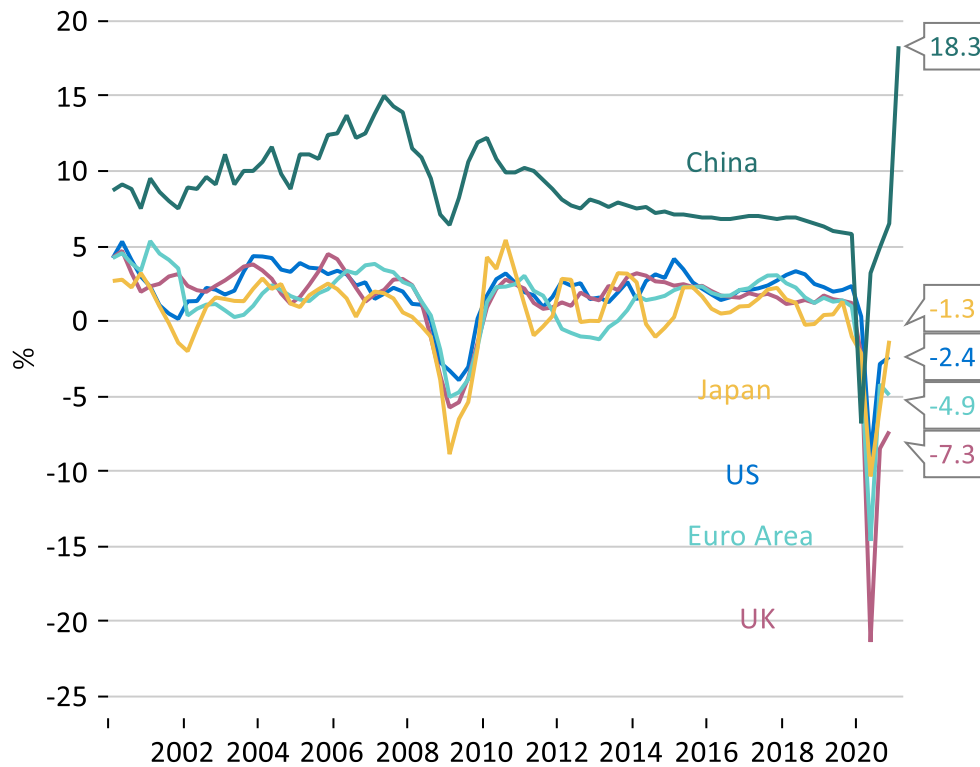
Source: Macrobond, 16.04.21

1. The global recovery is accelerating as vaccine roll-out continues - but the results are unequal



Economic recovery is sharp but at widely differing rates

GDP Growth, % year on year

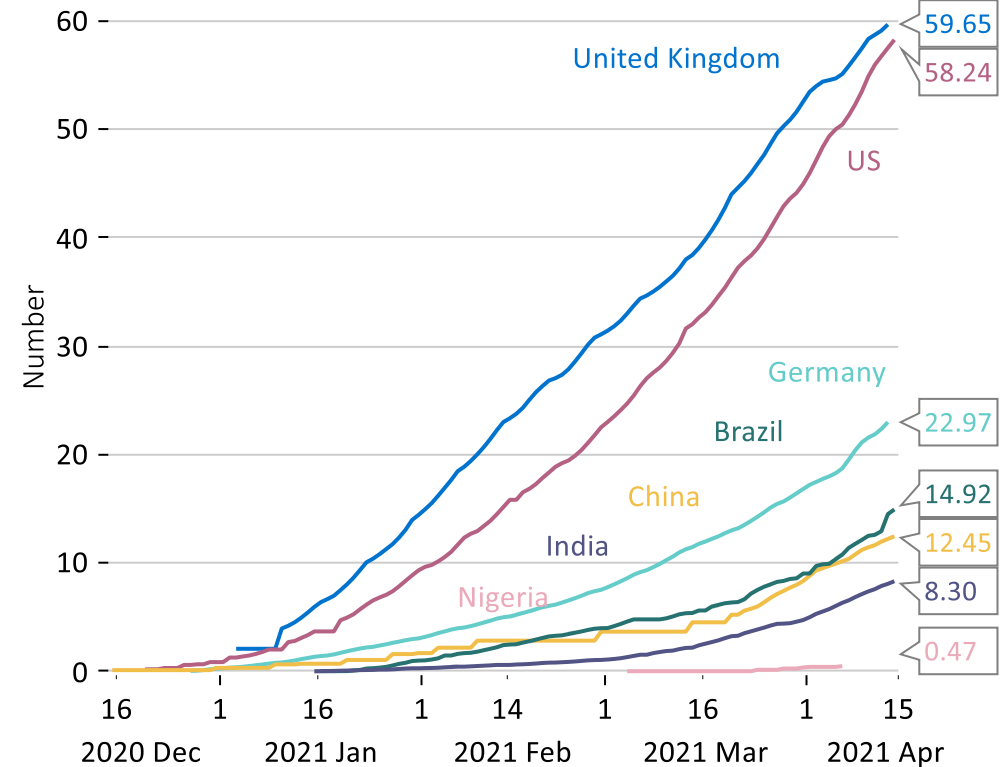


Source: Macrobond, 16.04.21



Huge variation in vaccination rates

COVID-19 Vaccination Doses Administered per 100 People



Source: Macrobond, 16.04.21

'Recoveries are diverging dangerously across countries' IMF April 2020

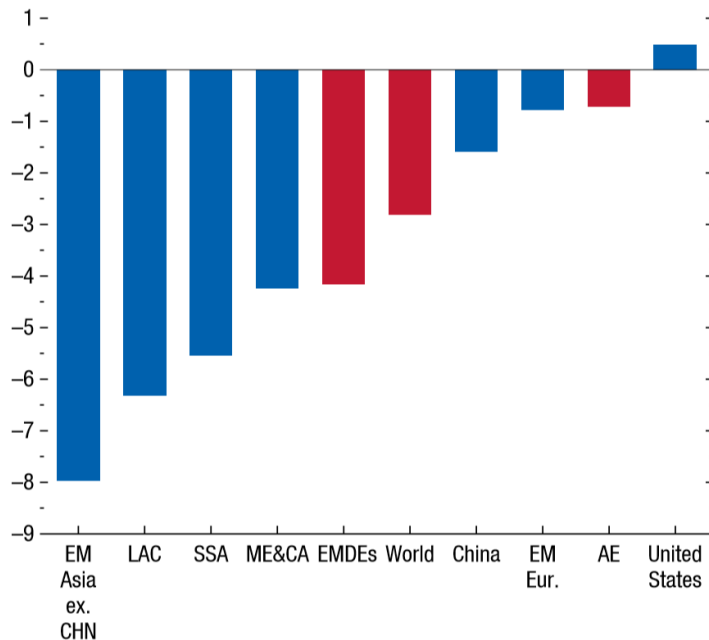
Additional 95m people added to the 'extreme poor' in 2020 & 80m more undernourished



Extraordinary divergence in mid-term growth prospects

Figure 1.16. Medium-Term GDP Losses Relative to Pre-COVID-19, by Region

(Revisions to projected 2024 GDP levels between the January 2020 and April 2021 WEO forecasts, percent)



Source: IMF staff estimates.

Note: AE = advanced economies; EM Asia ex. CHN = emerging and developing Asia excluding China; EM Eur. = emerging and developing Europe; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean; ME&CA = Middle East and Central Asia; SSA = sub-Saharan Africa.

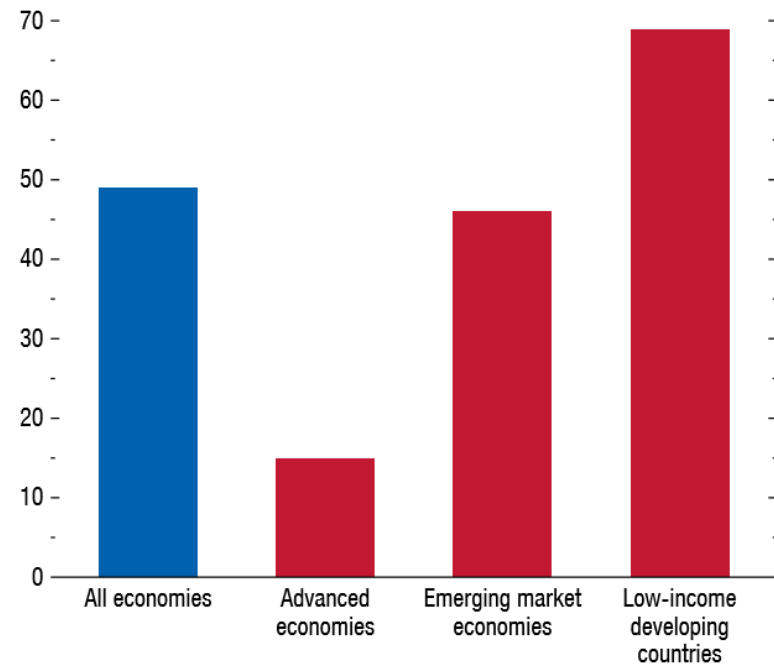


A lack of 'work from home' ability hurts low-income world

Figure 1.9. Global Education Losses Due to the COVID-19 Pandemic

(Average missed days of instruction in 2020)

Education losses have been more severe in low-income developing countries.



Sources: UNESCO-UNICEF-World Bank Survey on National Education Responses to COVID-19 School Closures; and IMF staff calculations.

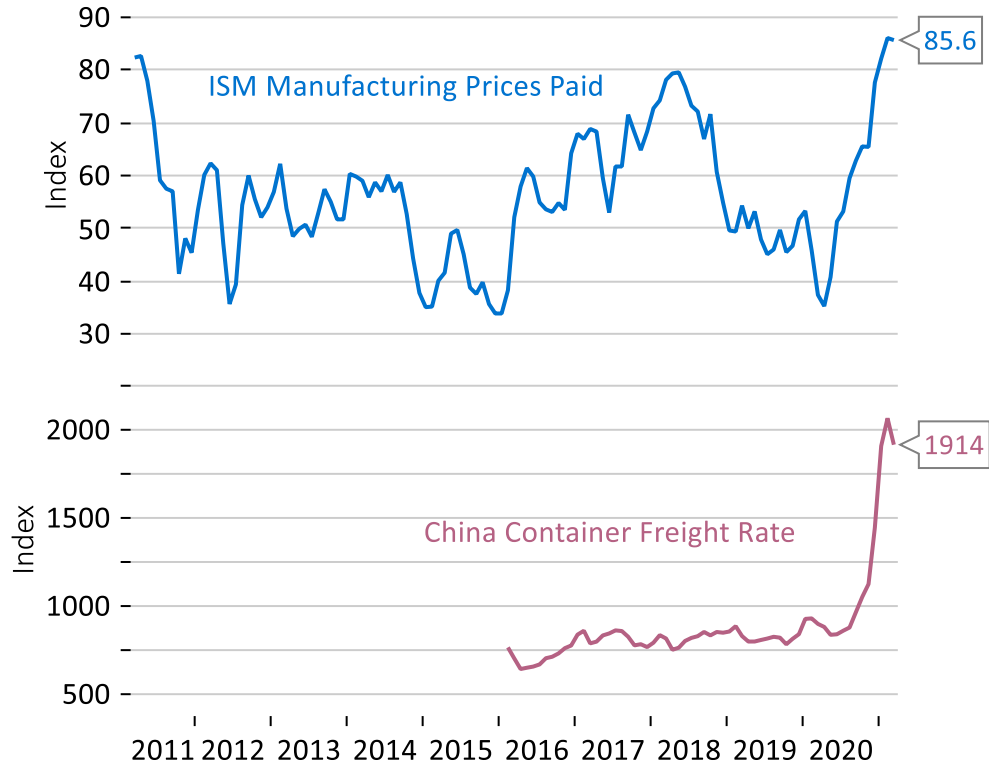
Source: IMF April 2020

2. Inflation: Pricing pressures are rising across manufacturing sector and supply chains are fragile

 US manufacturing prices approaching 20 year high

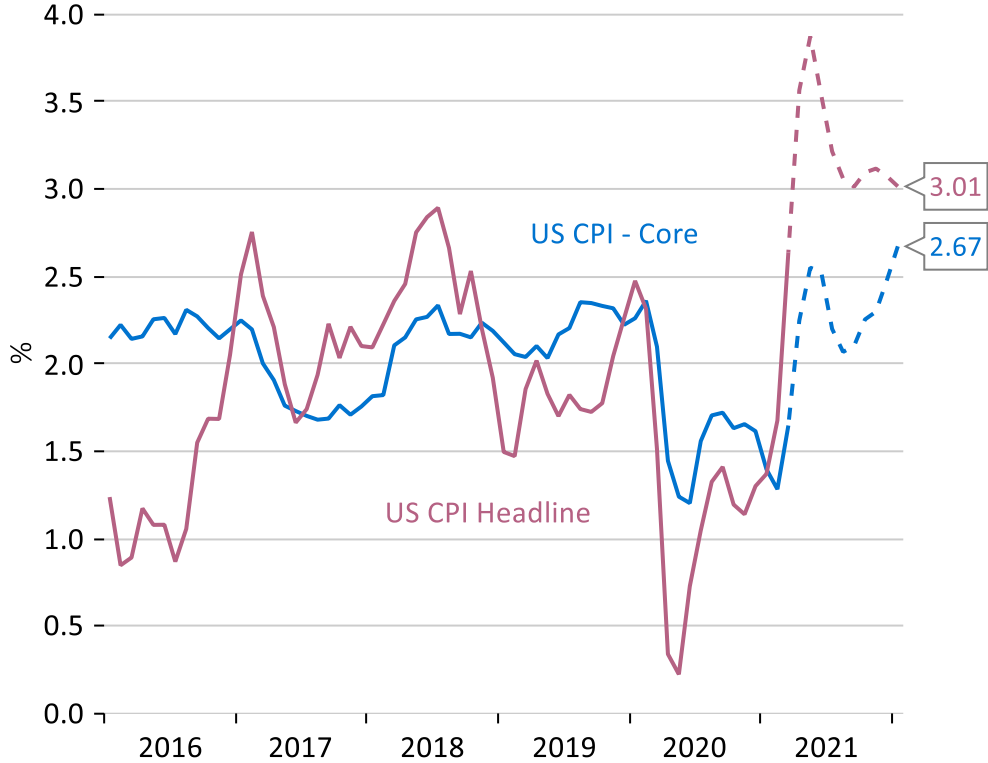
 US likely to stabilise at 2%-2.5% in 2022

Manufacturing and Container rates rising sharply



Source: Macrobond, 16.04.21

US Inflation Forecasts



Source: Macrobond, 16.04.21

3. Market excess: Global debt & equity issuance both at record levels



Extraordinary demand higher yielding debt

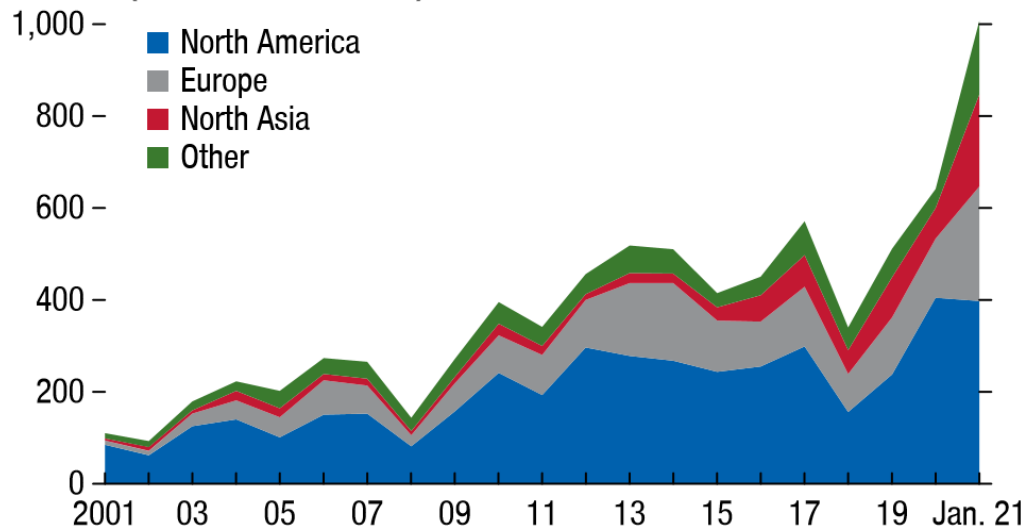


Equity issuance at record levels including US listed SPACs

Figure 1.10. Corporate Funding and Liquidity

The rebuilding of liquidity positions and refinancings have driven bond issuance to record levels.

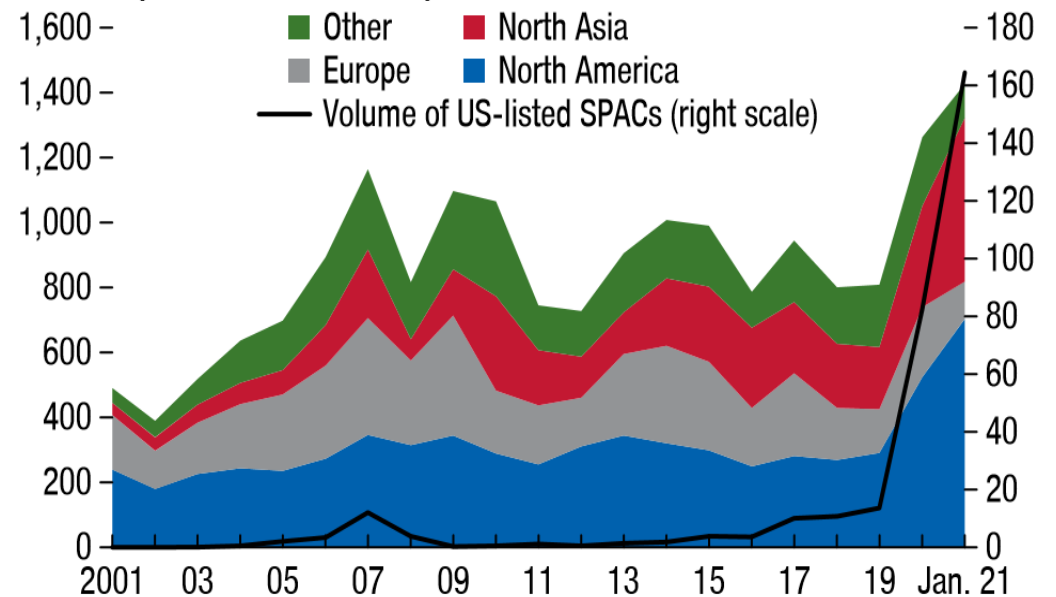
1. Global High-Yield Bond Issuance (Billions of US dollars)



Source: IMF April 2021

Global equity issuance rose to a new high in 2020 as initial public offerings rebounded during the second half of 2020.

3. Global Equity Issuance (Billions of US dollars)



Sources: Dealogic; Morgan Stanley; Preqin; and IMF staff calculations.

Source: IMF April 2021

The vaccine led global recovery gathers pace

Bond yields trend higher – earnings and dividends climb – volatility to rise



Global strategy update April 2021

Bonds	Strong Underweight <ul style="list-style-type: none">• Strong UW Government Bonds – a robust global recovery implies upside risks for yields• UW Investment Grade Credit – yield spreads narrow - UK charity & infrastructure issues offer social impact benefits
Equities	Overweight <ul style="list-style-type: none">• OW Global equities –earnings have scope to surprise - volatility to rise – consider portfolio insurance• OW UK equities – valuations attractive - flow of funds back to UK probable on Brexit deal• OW EM equities – China centric Asia managed COVID well – rest of EM vulnerable with poor access to vaccinations
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• OW Uncorrelated Alternatives – add to gold positions following recent price correction
Cash	Overweight <ul style="list-style-type: none">• Favour cash holdings rather than risk capital loss in bonds• No currency preference given similar macroeconomic policies/rates worldwide
Risks	Current: Unequal distribution of vaccines, disorderly bond markets Longer-term: Inflation pressures become entrenched, central bank policy error, China-Taiwan tensions

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