

# Six Minute Strategy

## The great reflation

January 2021

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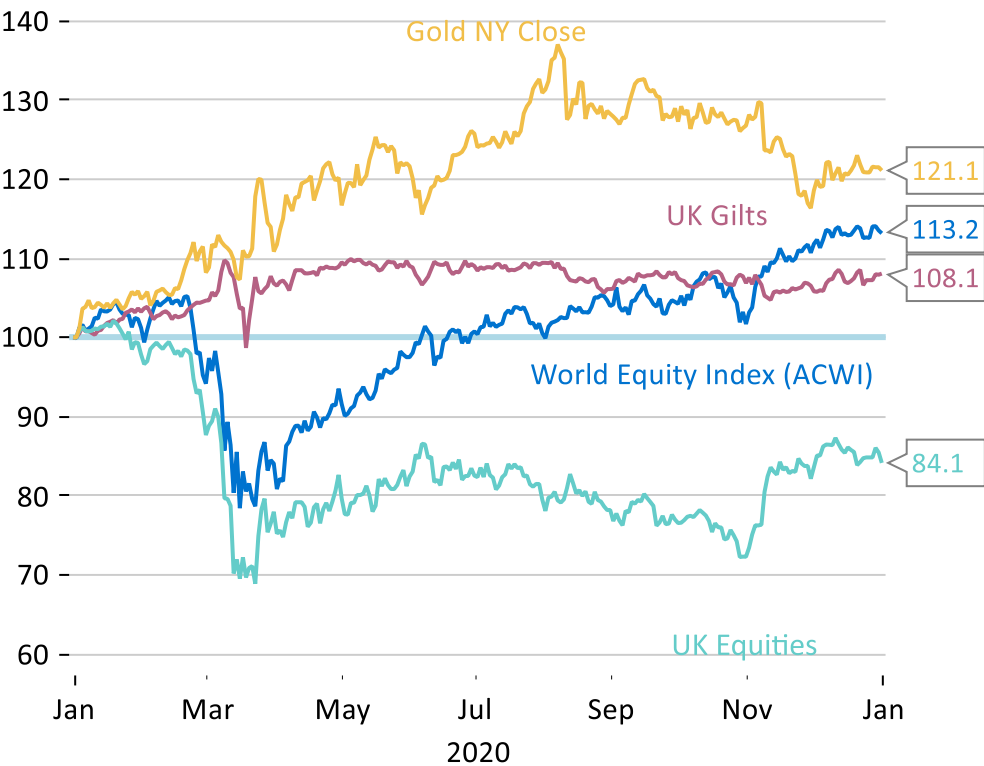
# Markets 2020

Gold just leads equities – UK rallies – volatility close to post-COVID lows

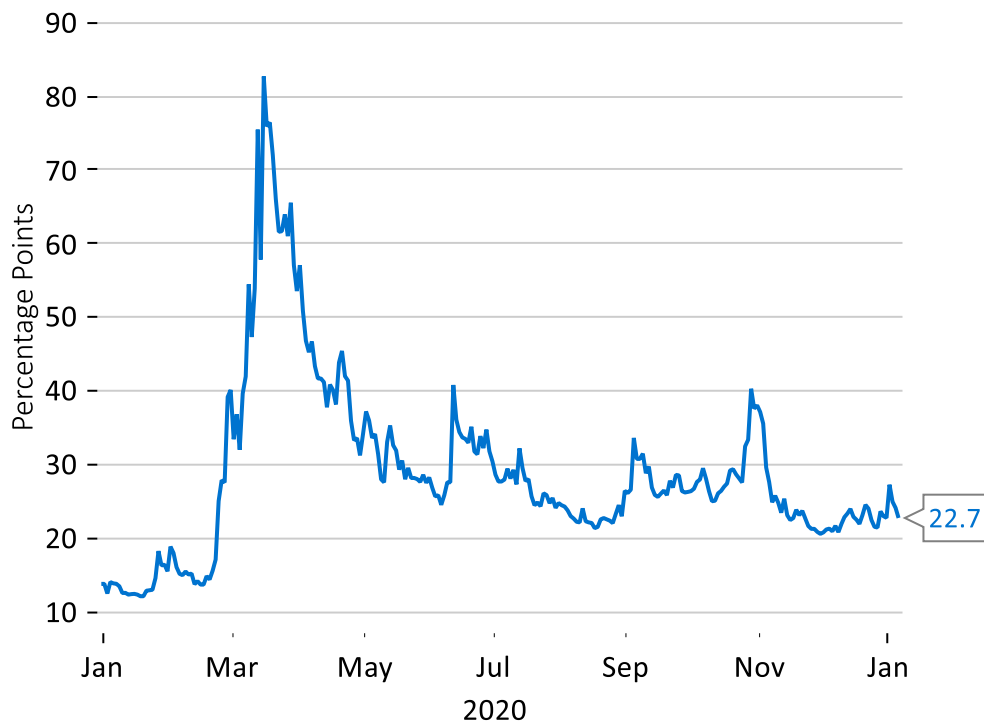
 Equity rally continues on election, Brexit and vaccine news

 Volatility continues to moderate

Global Asset Class Returns 2020 (GBP)



US Equity Volatility Index (VIX)  
2020 to date



Source: Macrobond, 08.01.21

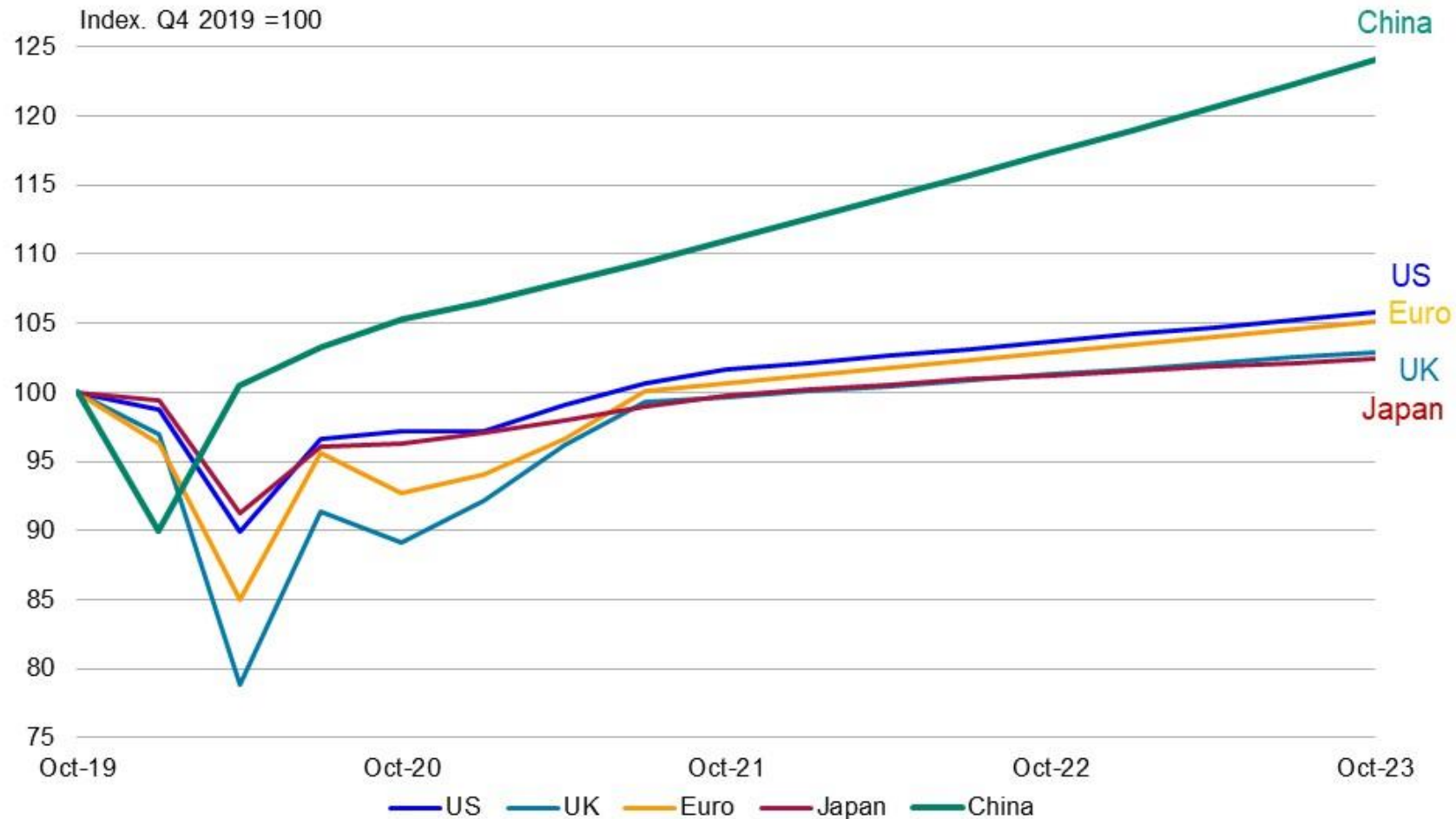
Source: Macrobond, 08.01.21

# Global growth outlook

On average countries will take 2-3 years to heal - China completed this process in just 1 quarter



## Global growth projections - an uneven recovery across regions



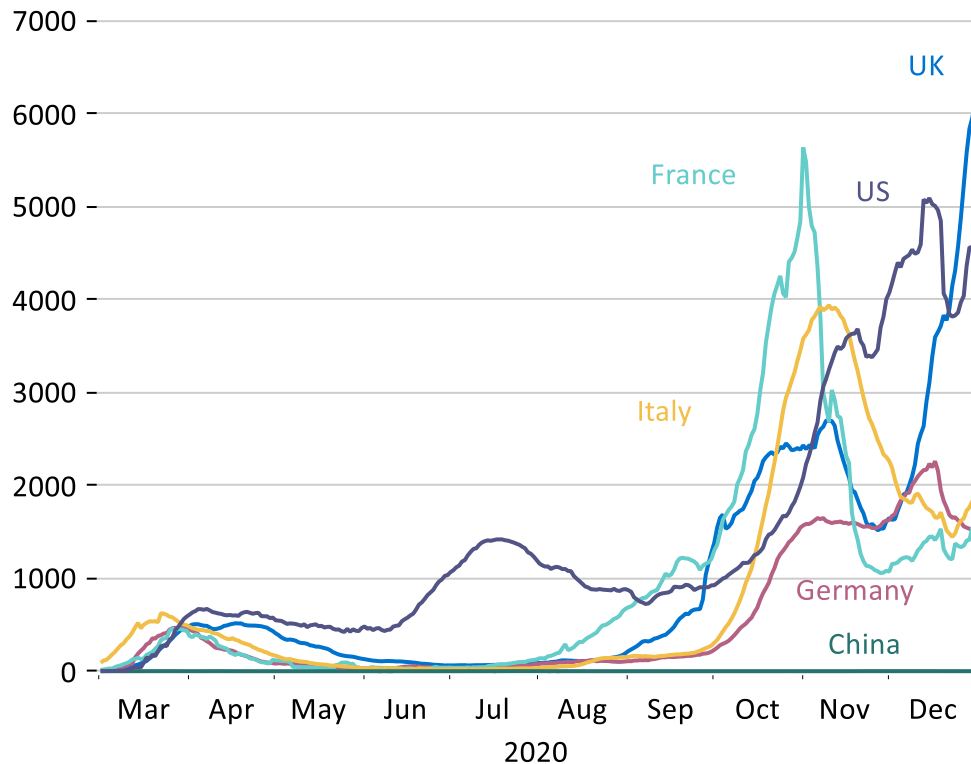
Source: Sarasin & Marcobond

# Surging infections suggest a 'W' shaped recovery in the UK and Europe



Surge in UK and US infections recorded

Weekly Confirmed Cases (per 1mn people)

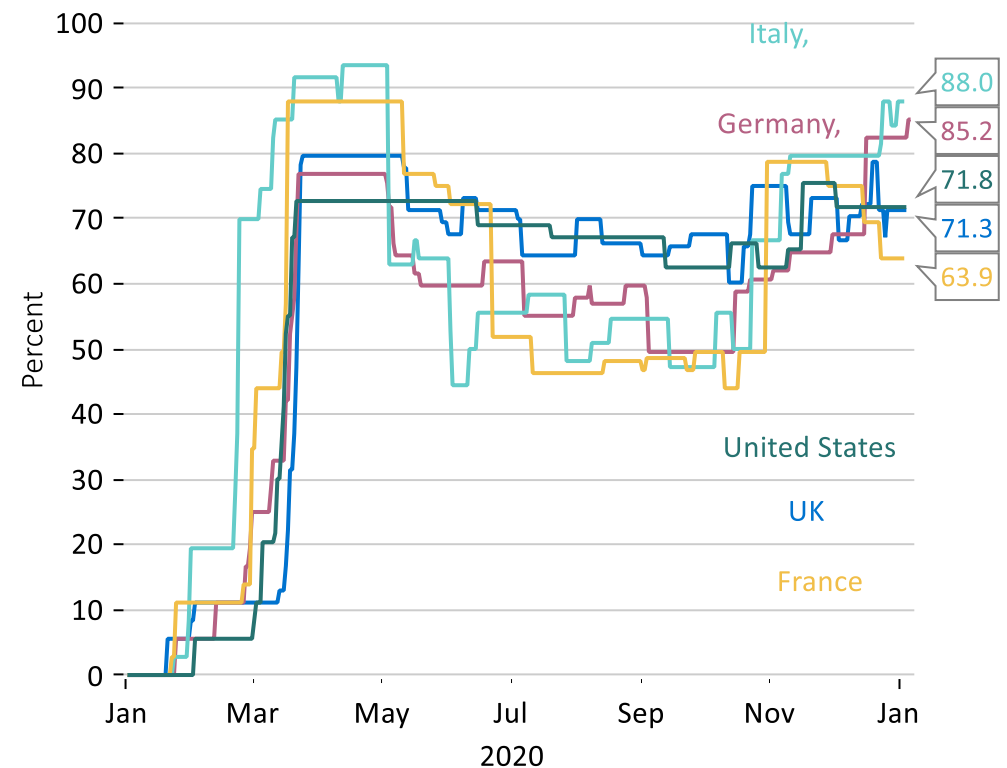


Source: Macrobond, 08.01.21



Lockdown tightening in Europe to spring 2020 levels

COVID-19 Global Stringency Index



Source: Macrobond, 08.01.21



# Recent Events



## 1. Cheap & effective - Oxford Astra Vaccine

- Pfizer and Moderna certainly stole the headlines with 95%+ 'efficacy'
- BUT Oxford/Astra actually good since:
  1. PFE/MRNA classed disease if 2 symptoms observed vs 1 symptom for AZN (62% to 72%)
  2. Placebo was saline/MenACWY meningitis vaccine vs just saline for PFE and MRNA
  3. AZN phase 3 data peer reviewed (Lancet) - PFE & MRNA not yet
  4. Higher efficacy with 12 week interval
  5. **Cheaper and much more robust (distributed at cost in Developed Markets till 1 July 21, in perpetuity in Emerging Markets)**

## 2. US Election - Georgia Senate run offs

First 'surprise of 2021' - Democrats to win both seats



- This is not the “blue wave” the market was worried about pre November. With such a slim margin any legislative changes will depend on support from “moderate” Democratic senators such as Joe Manchin & Kyrsten Sinema
- Biden’s cabinet picks thus far also suggests moderate stance (Yellen as Treasury Secretary)

### But this does mean..

1. Democrats will control the Senate agenda
2. Additional infrastructure & spending package likely to be approved (funded by some tax increases and expansion of deficit)
3. Major tax reform not likely (Manchin voted for Trump tax cuts)
4. Some drug pricing reform could be achieved and moderate expansion of “public option”, but less ambitious than initially proposed pre election

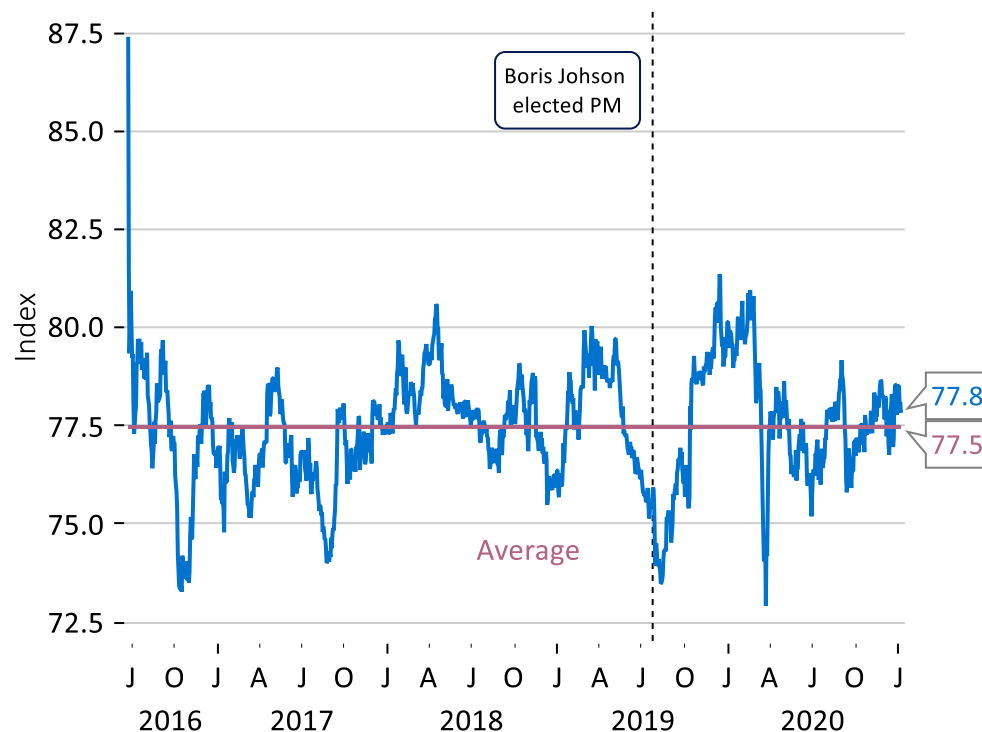
# 3. Thin Brexit deal - largely priced in by sterling

But reduced uncertainty could see unloved UK assets benefit from positive flows



**Sterling index remarkably stable**

**Bank of England Sterling index  
since Brexit Vote**

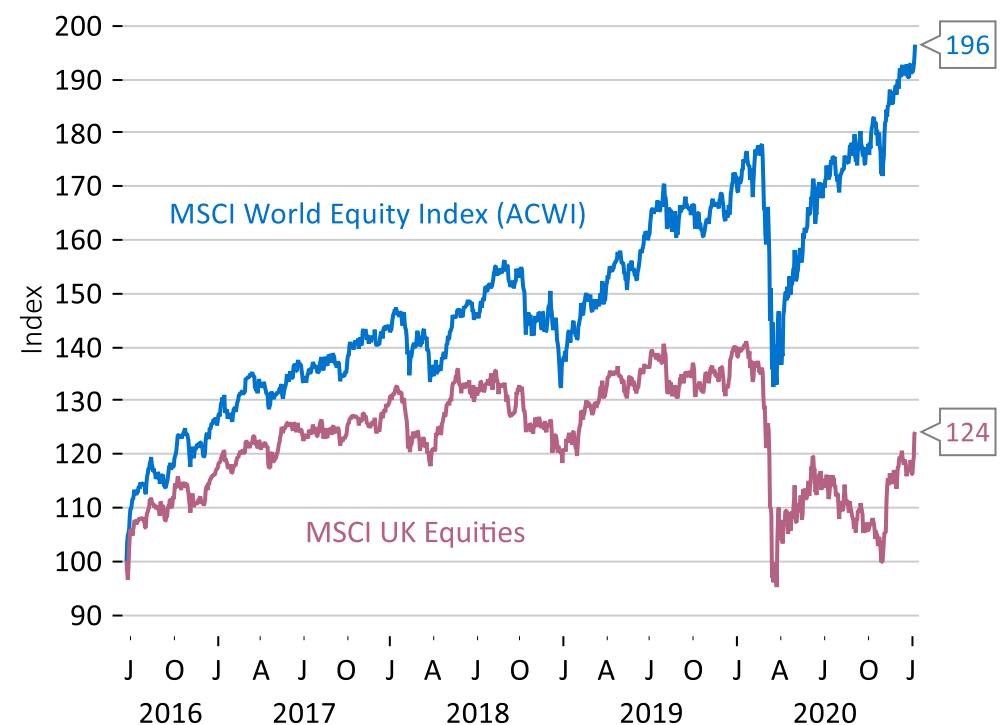


Source: Macrobond, 08.01.21



**An astonishing underperformance of UK assets...**

**UK and Global Equity & FX returns since Brexit Vote  
(23/6/2016)**



Source: Macrobond, 08.01.21

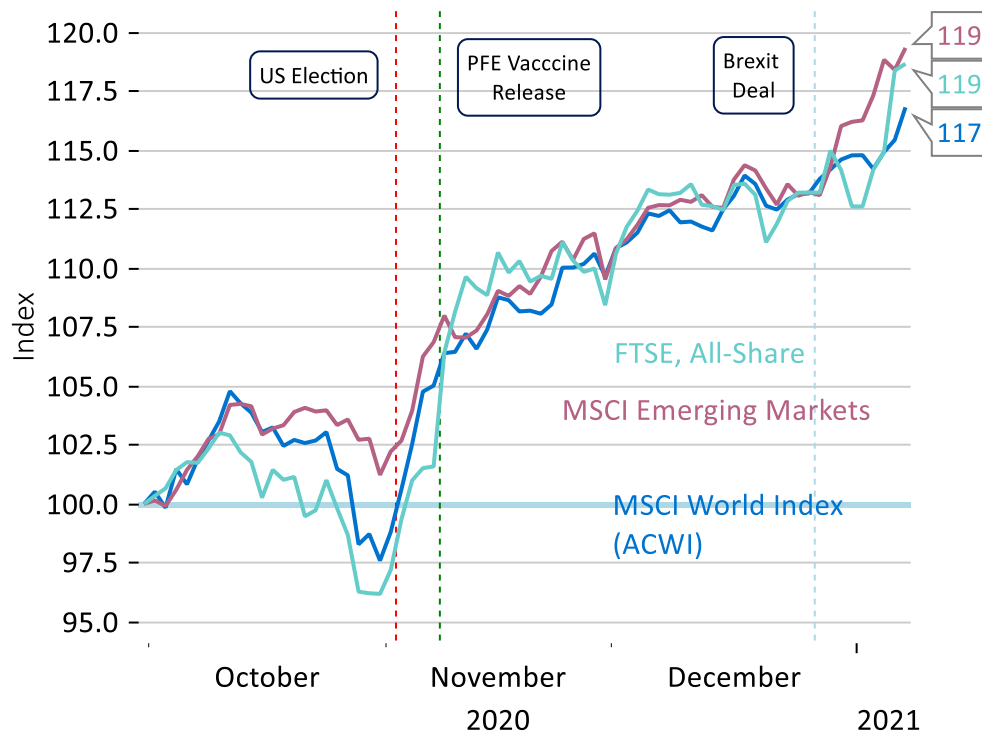
# Q4 2020 - Market rally led by reflation winners

Election, vaccine & Brexit drives extraordinary rally



Global rally led by EM and UK equities

Global Equity Returns Q4 2020 to date  
(30/09/2020=100)

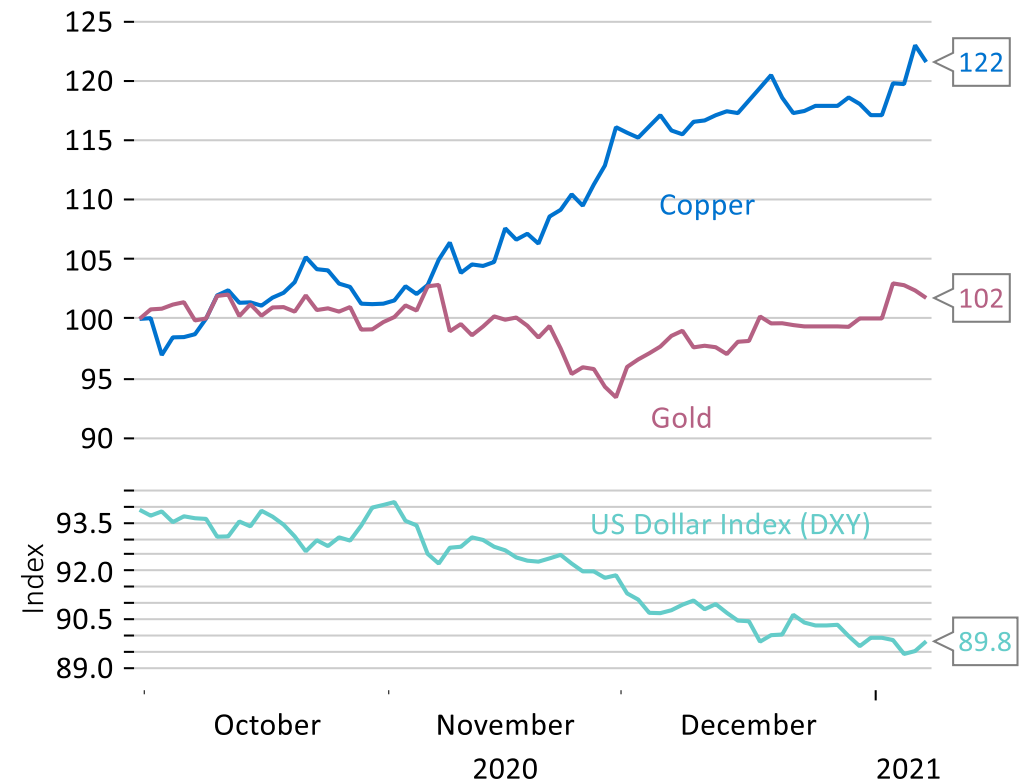


Source: Macrobond, 08.01.21



Copper leads Gold – Dollar Weakens

Returns Q4 2020 to date



Source: Macrobond, 08.01.21




# Global M&A deal volumes down only 6% in 2020 - despite a near freeze in H1 2020



## Largest M&A deals of 2020

### Big Finish

Three of the year's largest M&A deals have come in the last 30 days

Target	Buyer	Value	Payment
<b>IHS Markit</b>	<b>S&amp;P Global</b>	 <b>\$43.5B</b>	<b>Stock</b>
NTT Docomo	NTT	 40.3	Cash
<b>Alexion Pharma</b>	<b>AstraZeneca</b>	 <b>39.1</b>	<b>Cash and Stock</b>
ARM	Nvidia	 34.5	Cash and Stock
Xilinx	AMD	 32.7	Stock
Willis Towers Watson	Aon	 31.4	Stock
<b>Slack Technologies</b>	<b>Salesforce.com</b>	 <b>25.8</b>	<b>Cash and Stock</b>
Speedway	Seven & i	 21.0	Cash
Maxim Integrated	Analog Devices	 19.8	Stock
Immunomedics	Gilead	 19.4	Cash

Source: Bloomberg

Figures measure enterprise value of deal calculated by Bloomberg at time of announcement.

**Bloomberg**

Source: Bloomberg Dec 2020

# Vaccine aids recovery prospects - Central banks remain supportive

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



Global strategy update January 2021

<b>Bonds</b>	<b>Underweight</b> <ul style="list-style-type: none"><li>• UW Government Bonds – upward drift in US and global yields in 2021 - US 10 Yr. Treasury fair value 1.2%</li><li>• UW investment grade credit – after a strong H2 2020 spreads offer little compensation for post COVID risks</li></ul>
<b>Equities</b>	<b>Overweight</b> <ul style="list-style-type: none"><li>• OW Global equities – equity risk premium attractive, earnings have scope to surprise on the upside in 2021</li><li>• OW UK equities – valuations attractive, flow of funds back to UK probable on any Brexit deal</li><li>• OW EM equities – China centric Asia managed COVID well –commodity/energy rally supports other EM</li></ul>
<b>Alternatives</b>	<b>Overweight</b> <ul style="list-style-type: none"><li>• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain</li><li>• Neutral Uncorrelated Alternatives - Gold a hedge against policy error but vulnerable to any reset in rates</li></ul>
<b>Cash</b>	<b>Underweight</b> <ul style="list-style-type: none"><li>• Central Bank commitment to zero or negative yields for multi-year period</li><li>• No currency preference</li></ul>
<b>Risks</b>	<b>Current:</b> Resurgence in virus in Q4 2020 accelerates, disorderly bond markets <b>Longer-term:</b> Economic and social scarring from lockdown, valuations stretched, balance sheet impairments only clear in 2021 and beyond

# Important information

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