

Six Minute Strategy

Preparing for the recovery

5 February 2021

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



Current situation

Near record investor optimism for recovery challenged by the reality of new lockdowns

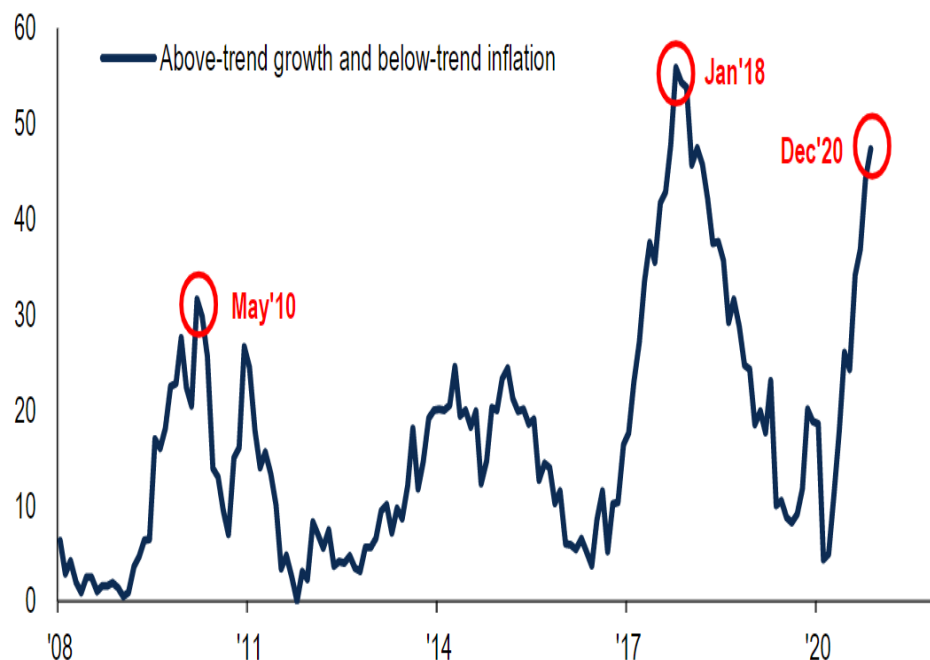


Recovery optimism close to Decade highs



Lockdown tightening in Europe to spring-2020 levels

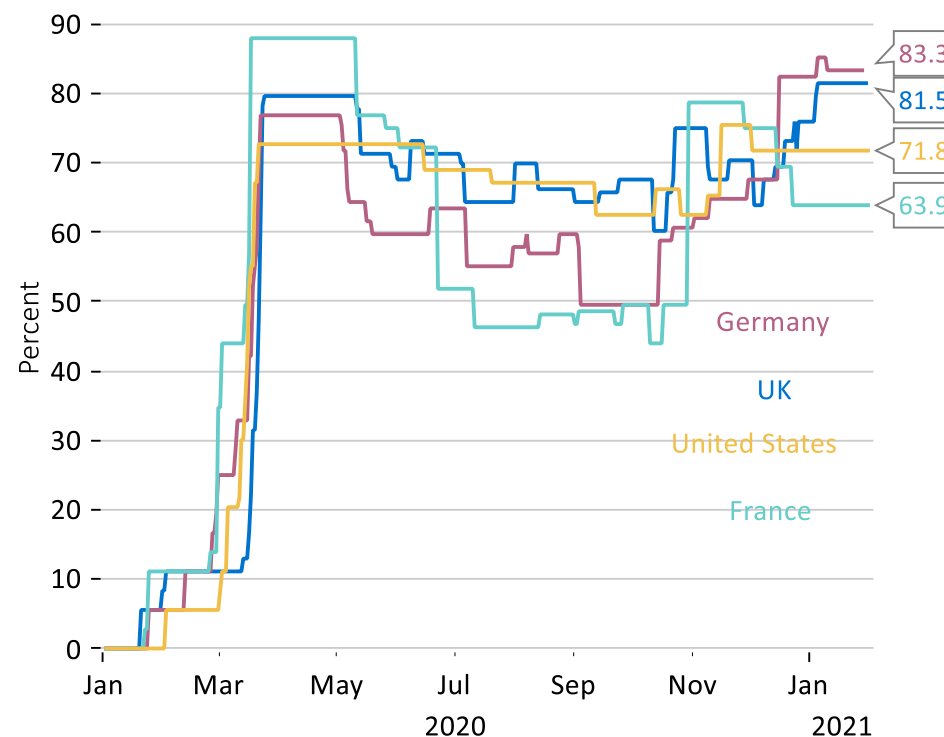
Exhibit 3: Optimism (above-trend growth & low inflation) surpasses GFC recovery but below '18 peak



Source: BofA Global Fund Manager Survey

Source: BofA Dec 2020 Fund Manager Survey

COVID-19 Global Stringency Index



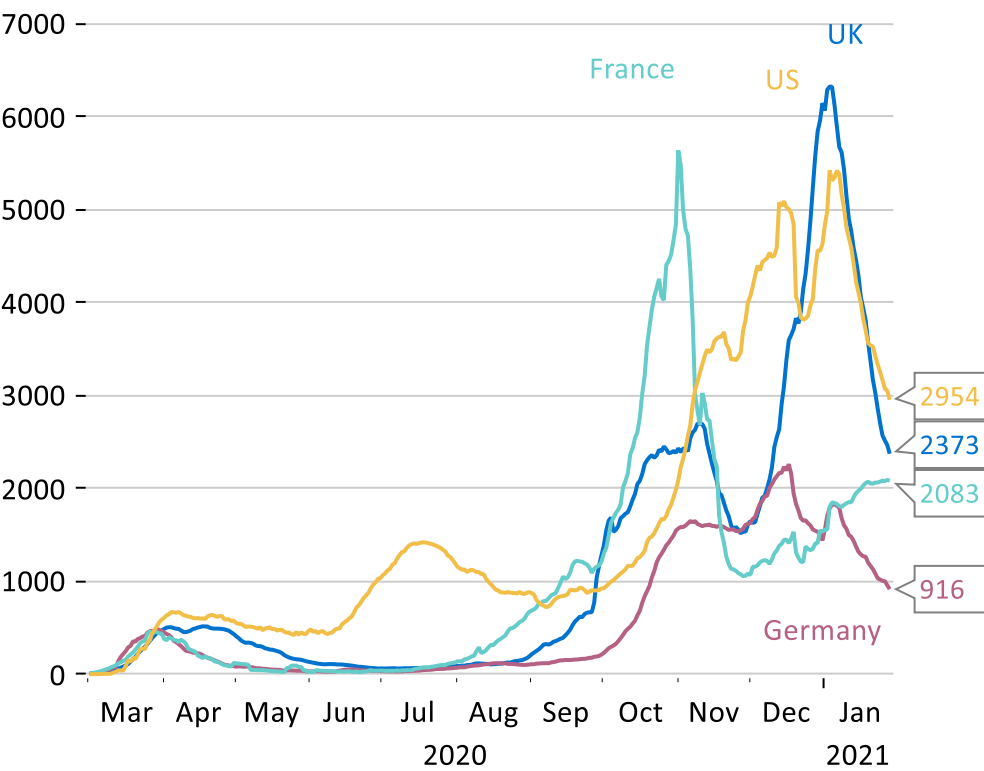
Source: Macrobond, 05.02.21

1. COVID Infection rates

US and UK declining while vaccination roll out continues unequally

UK and US confirmed cases falling

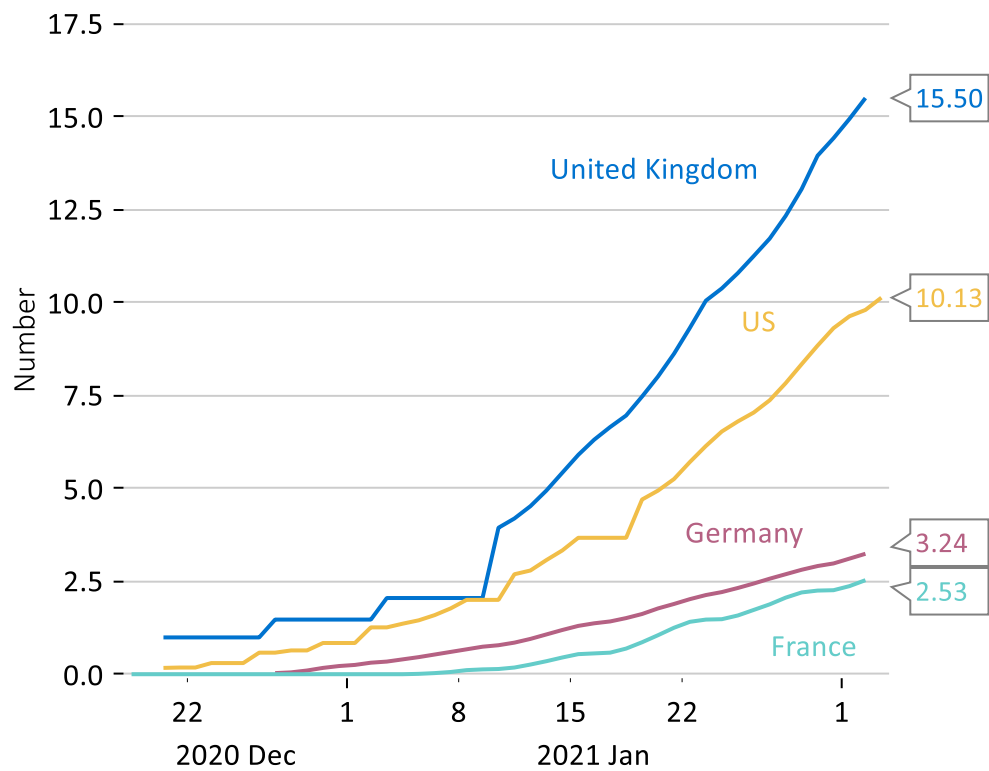
Weekly Confirmed Cases (per 1mn people)



Source: Macrobond, 05.02.21

Vaccine programmes accelerate led by UK

COVID-19 Vaccination Doses Administered per 100 People

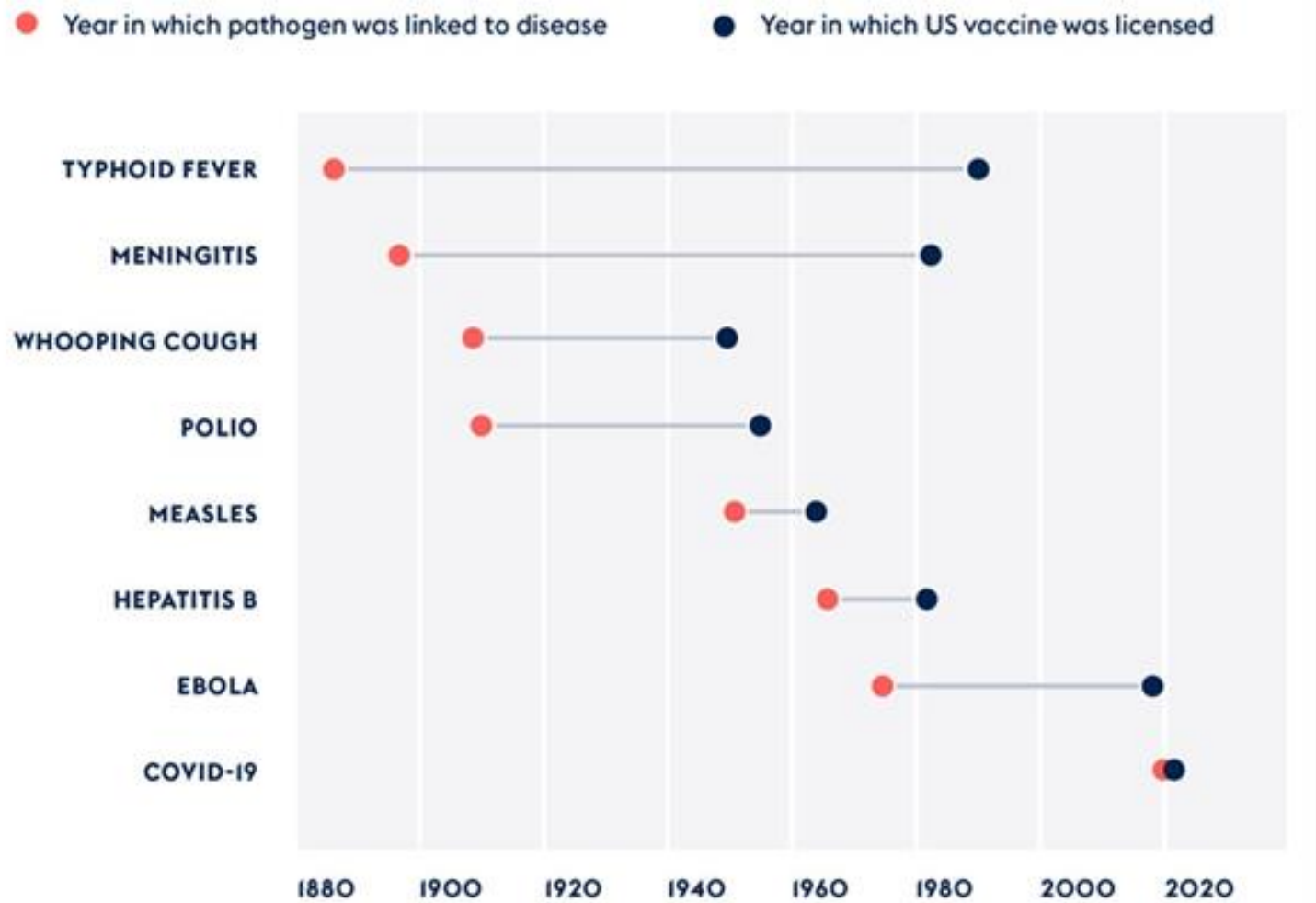


Source: Macrobond, 05.02.21

Incredible vaccine progress



Rapid progress in vaccine innovation



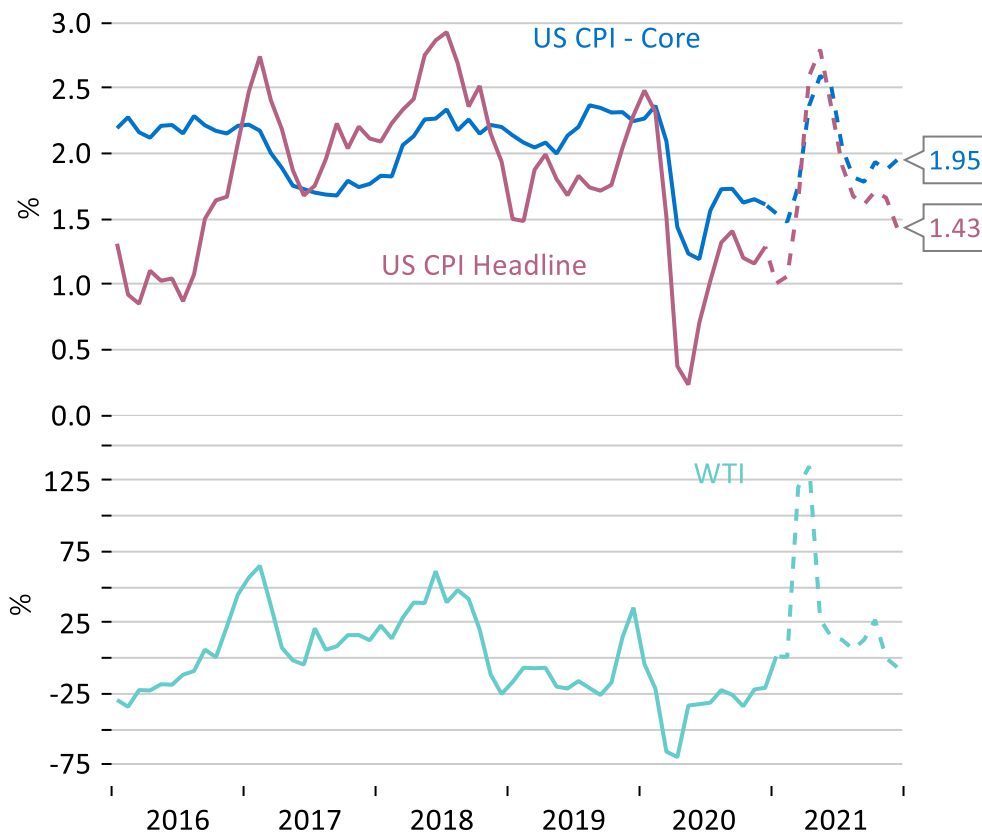
Source: Our World in Data, Feb 2021

2. Inflation

To rise sustainably unit labour costs need to climb (they normally fall post recession)



US CPI is expected to rise to at least 2.5% by mid year

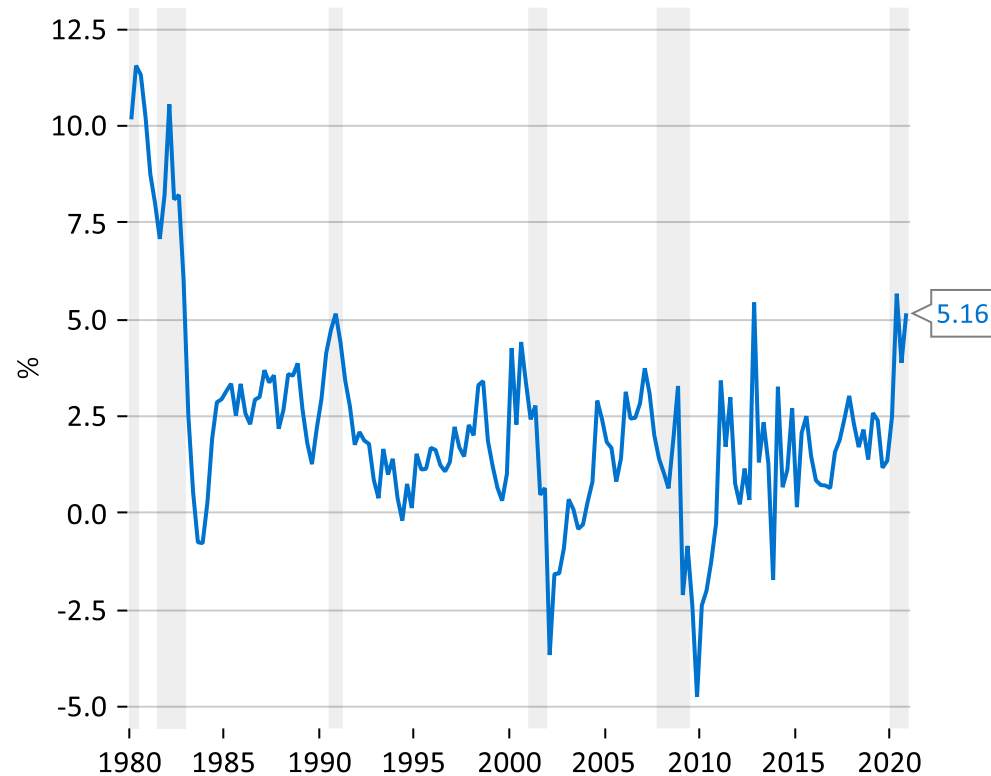


Source: Macrobond, 05.02.21



Unit labour costs tend to *fall* post recessions

Unit Labour Costs (US recessions shaded)



Source: Macrobond, 05.02.21

3. Retail investor behaviour

Retail investors favouring call options & most shorted equity names

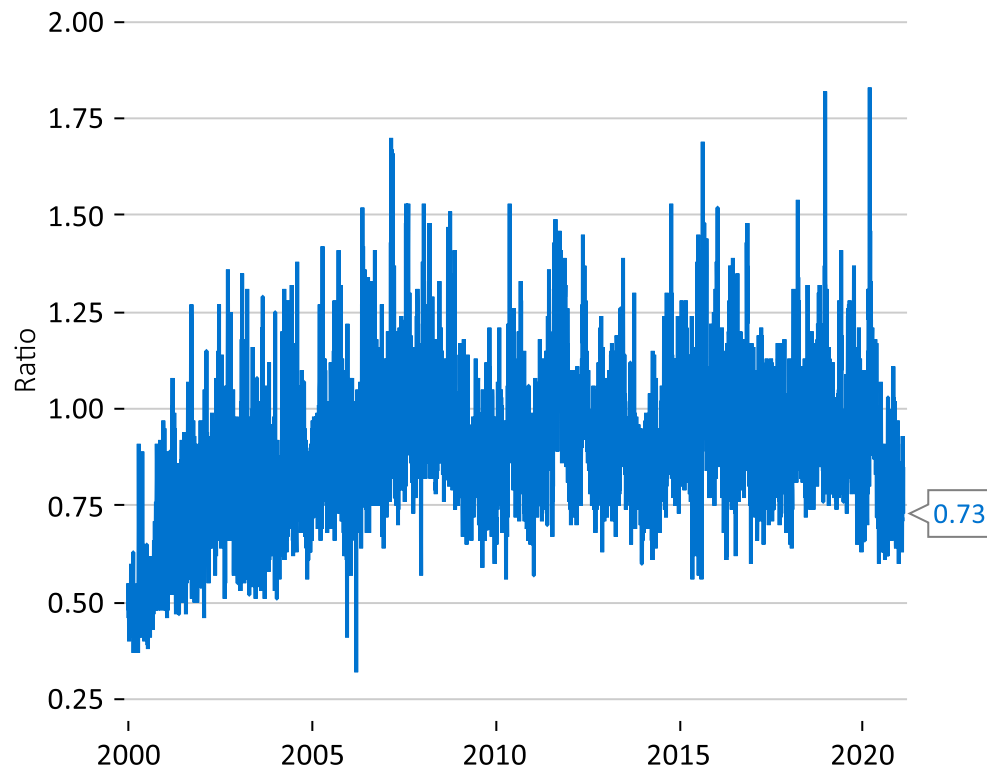


Put/Call ratio at extreme driven by retail demand



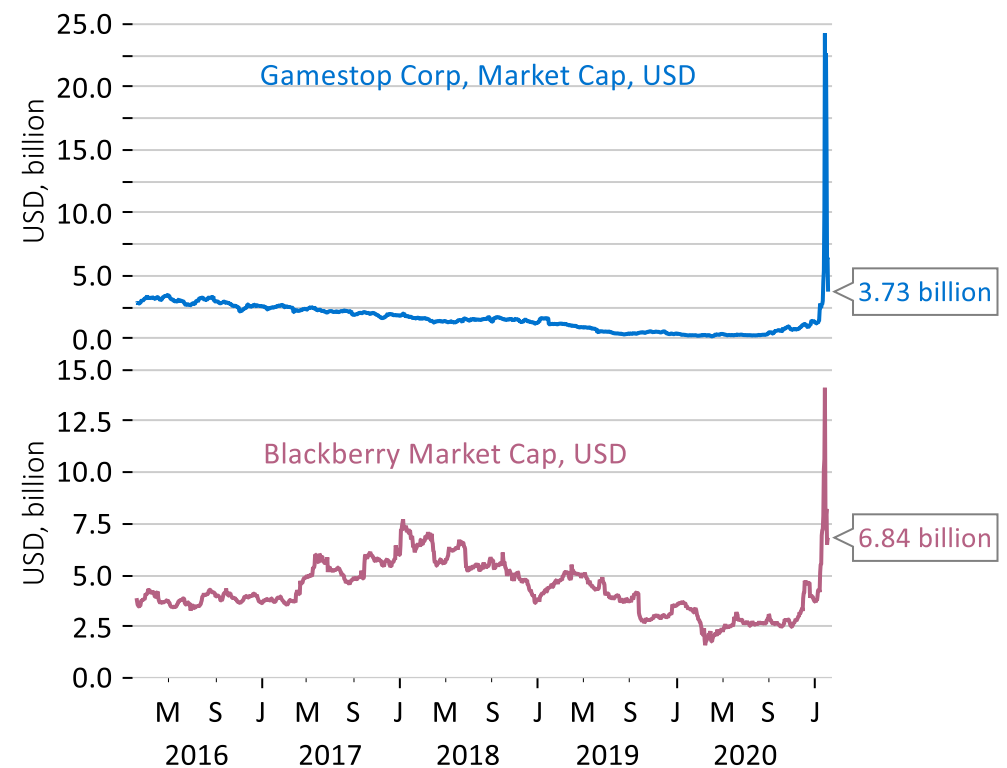
Reddit traders chasing most shorted names

US Put/Call Ratio (CBOE)



Source: Macrobond, 05.02.21

Market Capitalisation



Source: Macrobond, 05.02.21

Source: BofA Dec 2020 Fund Manager Survey

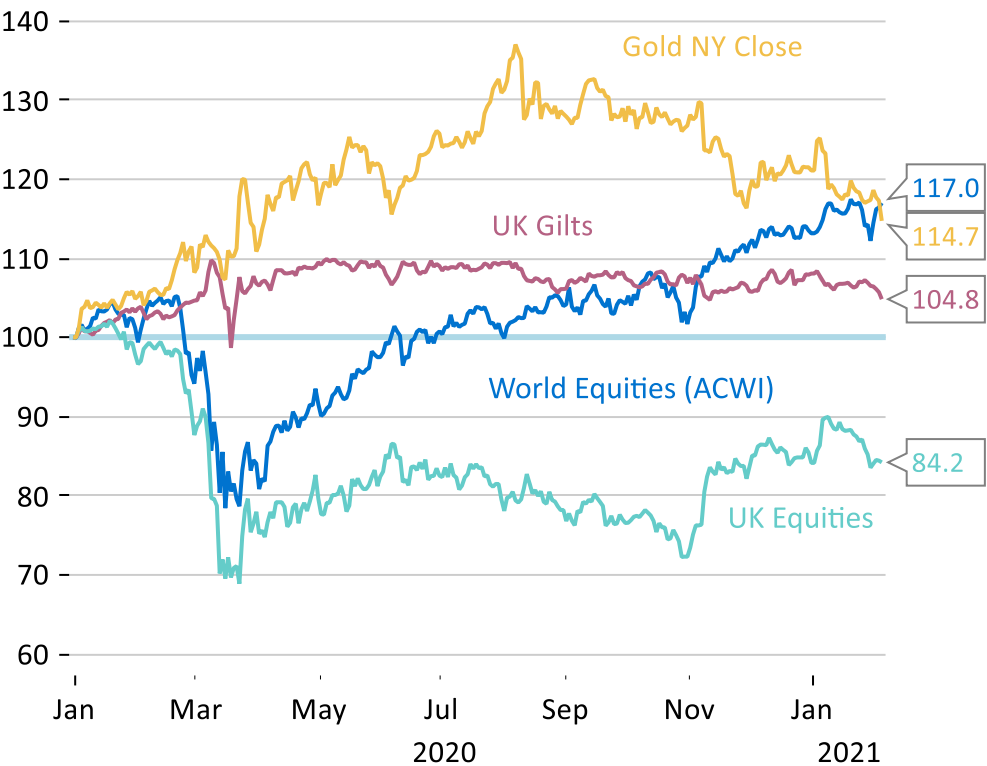
Markets 2020 to date

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

 Equity rally continues on election, Brexit and vaccine news

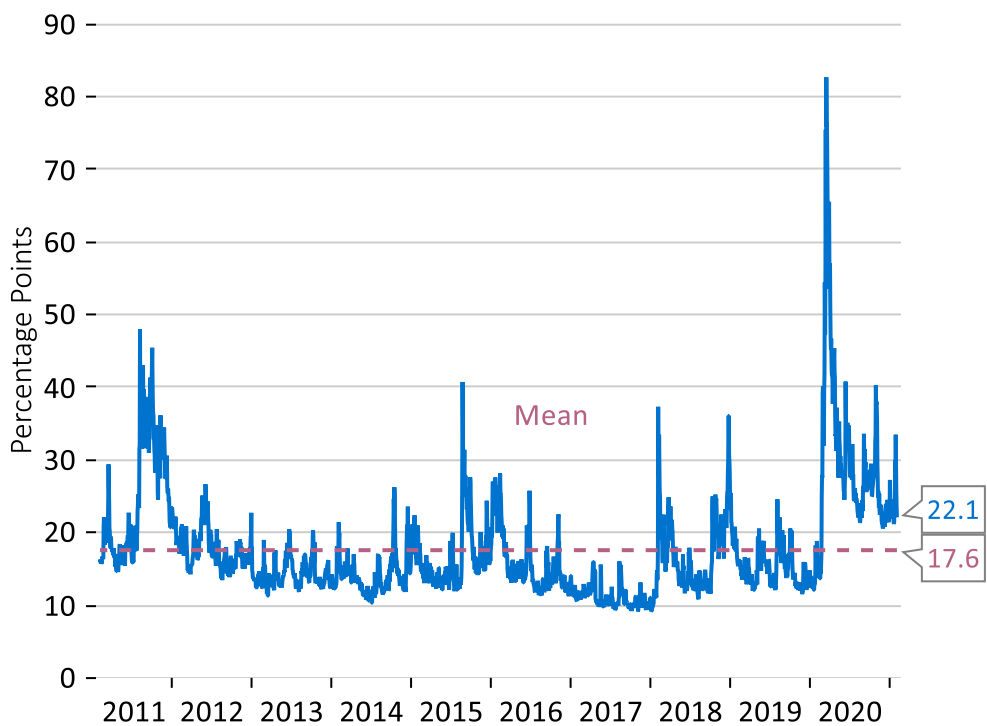
 Volatility still stubbornly high

Global Asset Class Returns 2020 (GBP) to date



Source: Macrobond, 05.02.21

US Equity Volatility Index (VIX)
2020 to date



Source: Macrobond, 05.02.21

Vaccine aids recovery prospects & central banks remain supportive

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



Global strategy update January 2021

Bonds	Underweight <ul style="list-style-type: none">• UW Government Bonds – upward drift in US and global yields in 2021 - US 10 Yr. Treasury fair value 1.25-1.5%• UW investment grade credit – after a strong H2 2020 spreads offer little compensation for post COVID risks
Equities	Overweight <ul style="list-style-type: none">• OW Global equities – equity risk premium attractive, earnings have scope to surprise on the upside in 2021• OW UK equities – valuations attractive, flow of funds back to UK probable on Brexit deal• OW EM equities – China centric Asia managed COVID well –commodity/energy rally supports other EM
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables beneficiaries of fiscal spend - liquidity issues remain• Neutral Uncorrelated Alternatives - Gold a hedge against policy error but vulnerable to any reset in rates
Cash	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, disorderly bond markets Longer-term: Economic and social scarring from lockdown, valuations stretched, balance sheet impairments only clear in 2021 and beyond

Important information

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