

Six Minute Strategy

The climate imperative – what does this mean for markets?

April 2021



Market performance 2021 to date

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

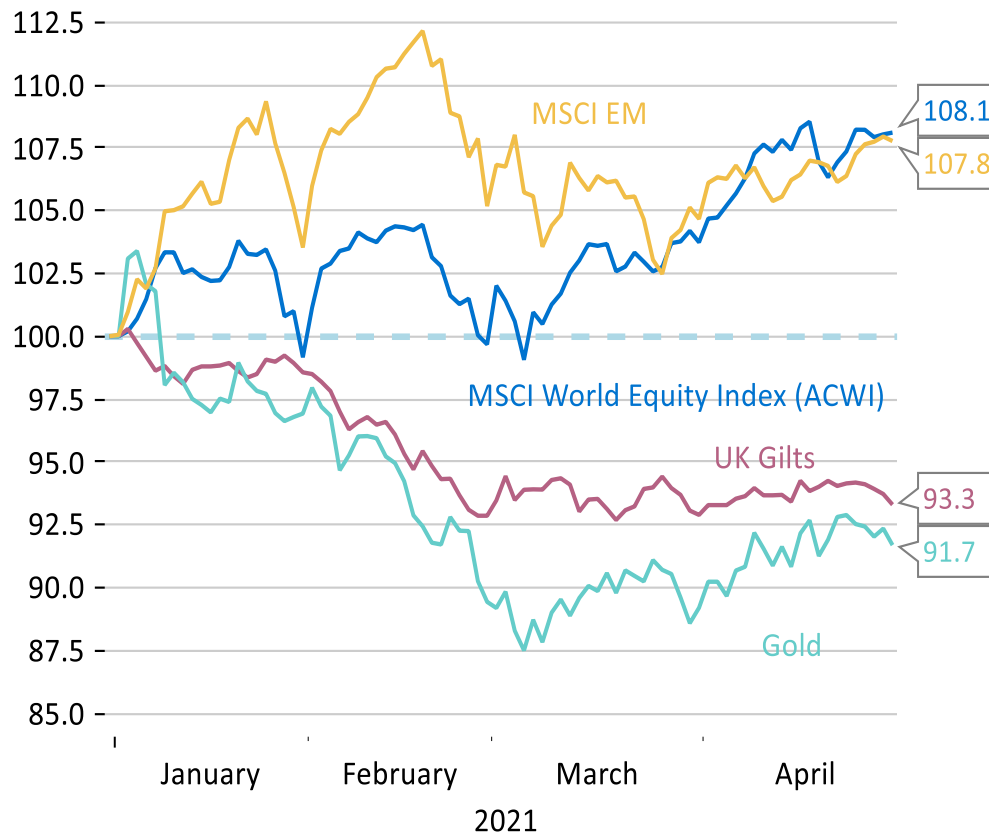


Equities rally, bonds & gold decline



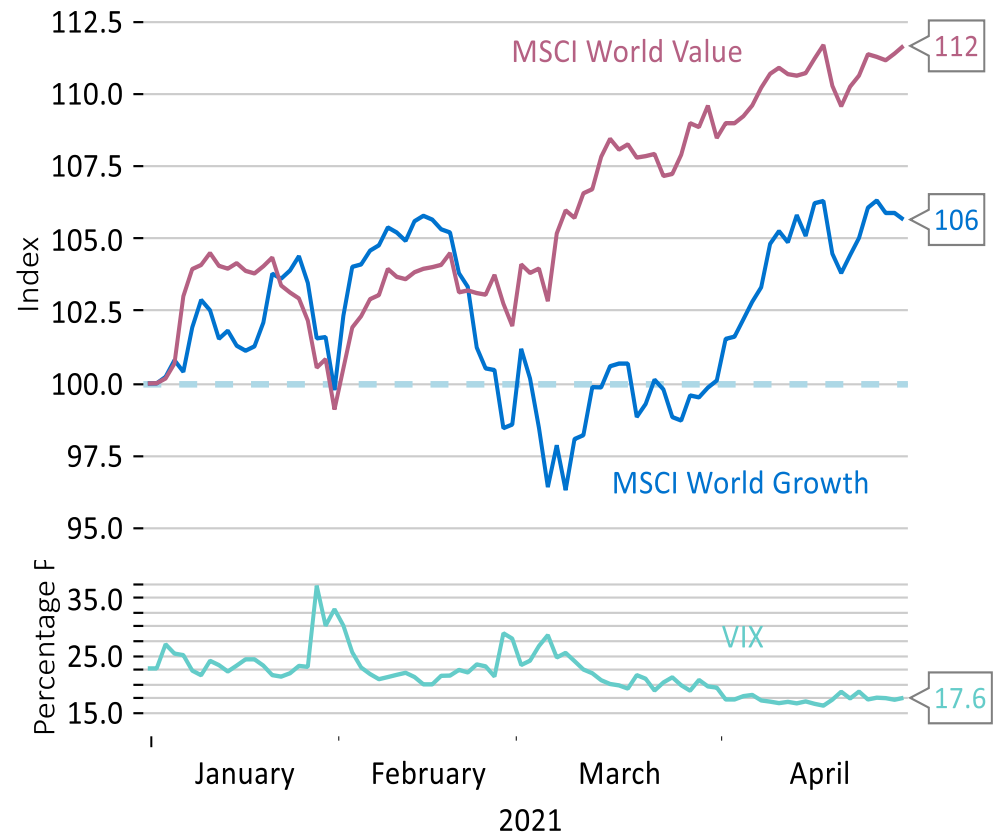
Value leads growth in 2020

Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 30.04.21

World Equity Style & S&P500 Volatility 2021 to date

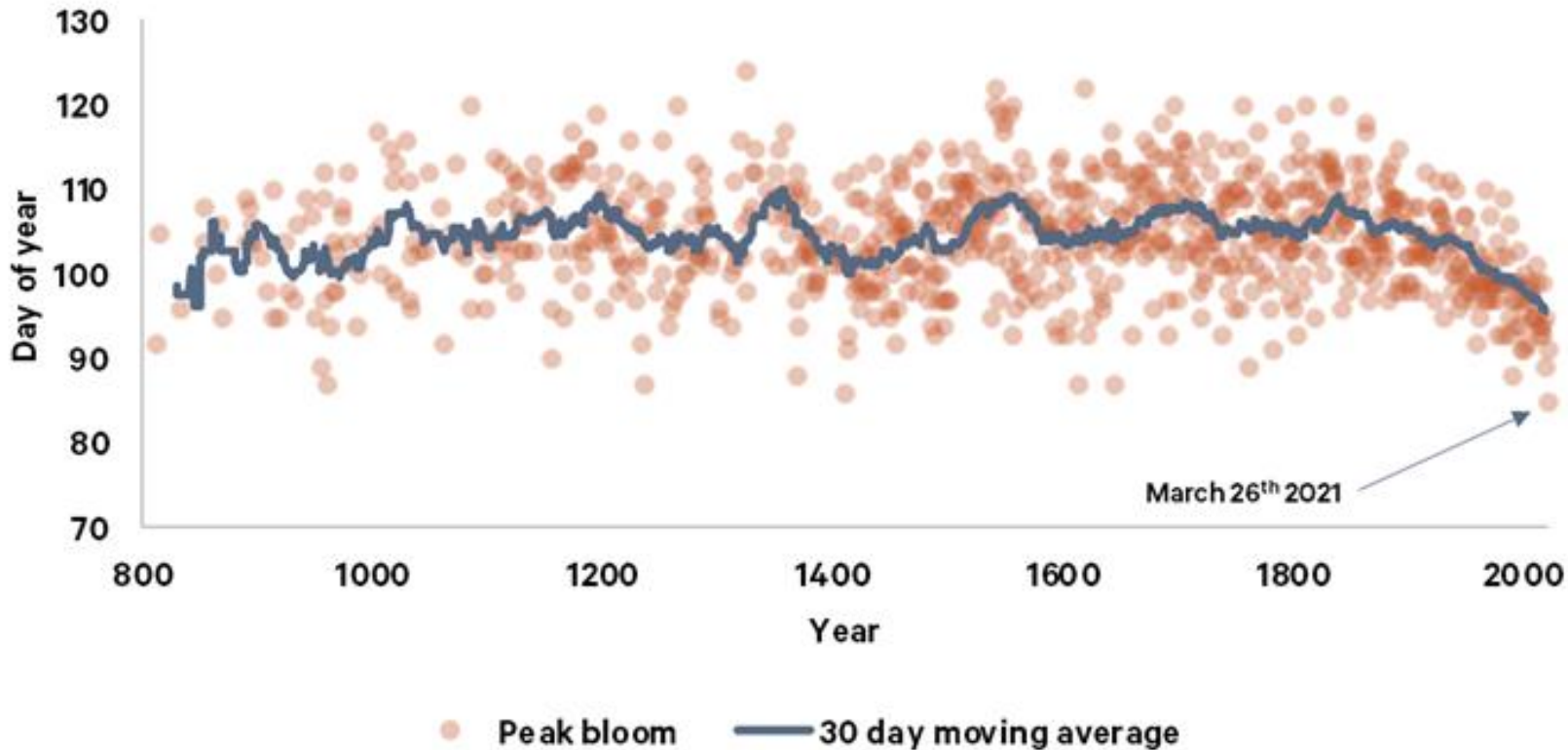


Source: Macrobond, 30.04.21

Cherry blossoms in Japan peak on the earliest date in 1,200



Peak bloom day of cherry blossoms in Kyoto, Japan, 812 to 2021



The time of flowering was stable until the mid 20th century but has shifted steadily earlier in recent decades. This is the ninth year of earlier flowering in a row. There may be some impact from a 'heat island' effect from surrounding buildings but the early flowering is largely attributed to the global warming effects of man-made climate change

Source: [Washington Post](#)

New commitments on climate change mitigation

To mark 'Earth Day', 22nd April, US President Biden hosted a climate summit of world leaders

Key commitments made on emissions:



US: 50% reductions below 2005 levels by 2030



China: Reduce coal use 2026-30 & carbon neutrality 2060



Brazil: 2050 Carbon neutrality (vs 2060 before)



Japan: 46% emissions reductions by 2030 (26% previously)



EU: 55% reductions by 2035 below 1990 levels



UK: 78% reductions by 2035 below 1990 levels



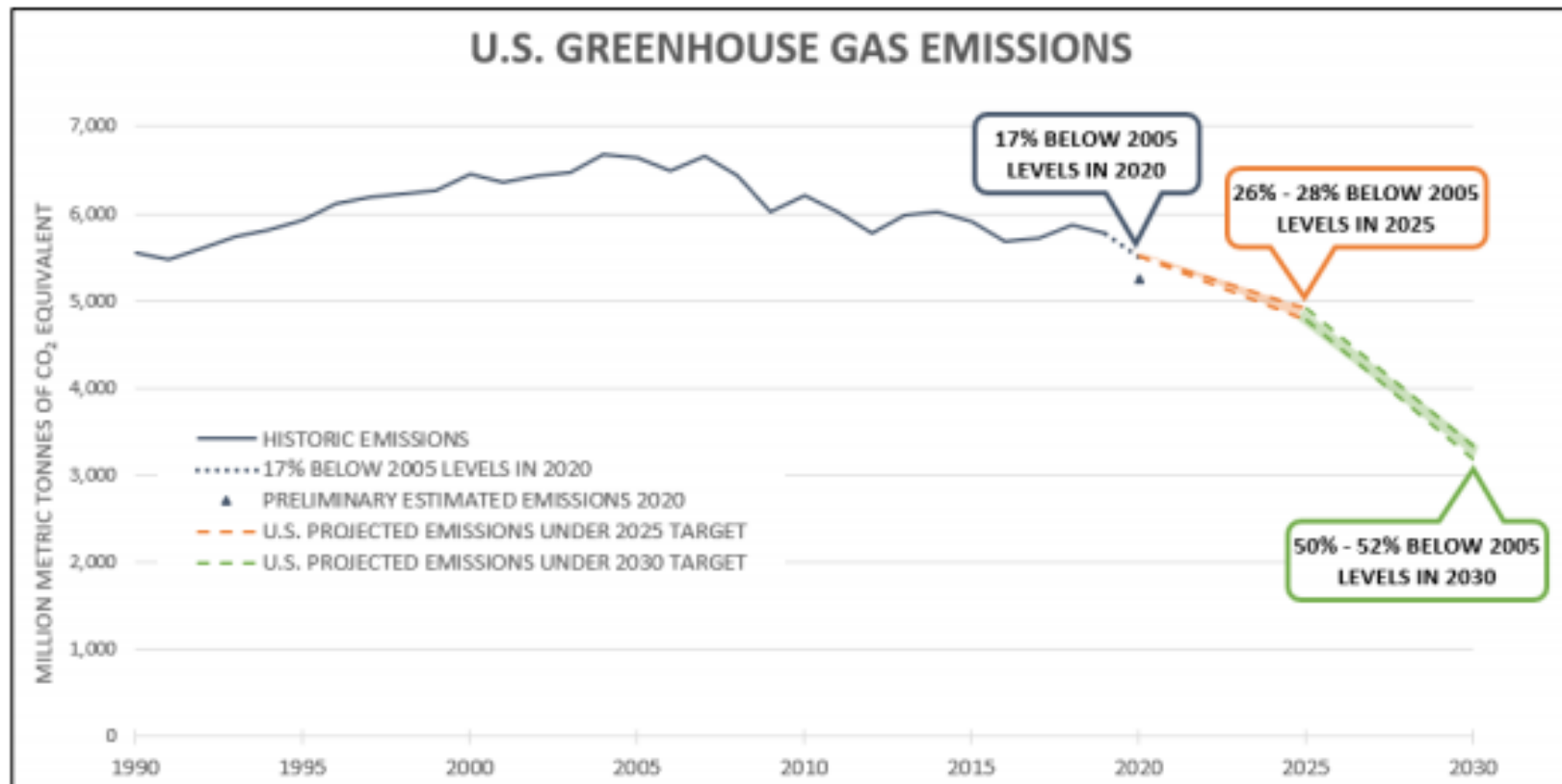
Photo: Wikipedia

So what has happened?

Updated nationally determined contribution, “Reducing greenhouse gases in the United States: A 2030 emissions target”



United States historic emissions and projected emissions under 2030 target



The nationally determined contribution of the United States of America is:
To achieve an economy-wide target of reducing its net greenhouse gas emissions by 50-52 percent below 2005 levels in 2030.

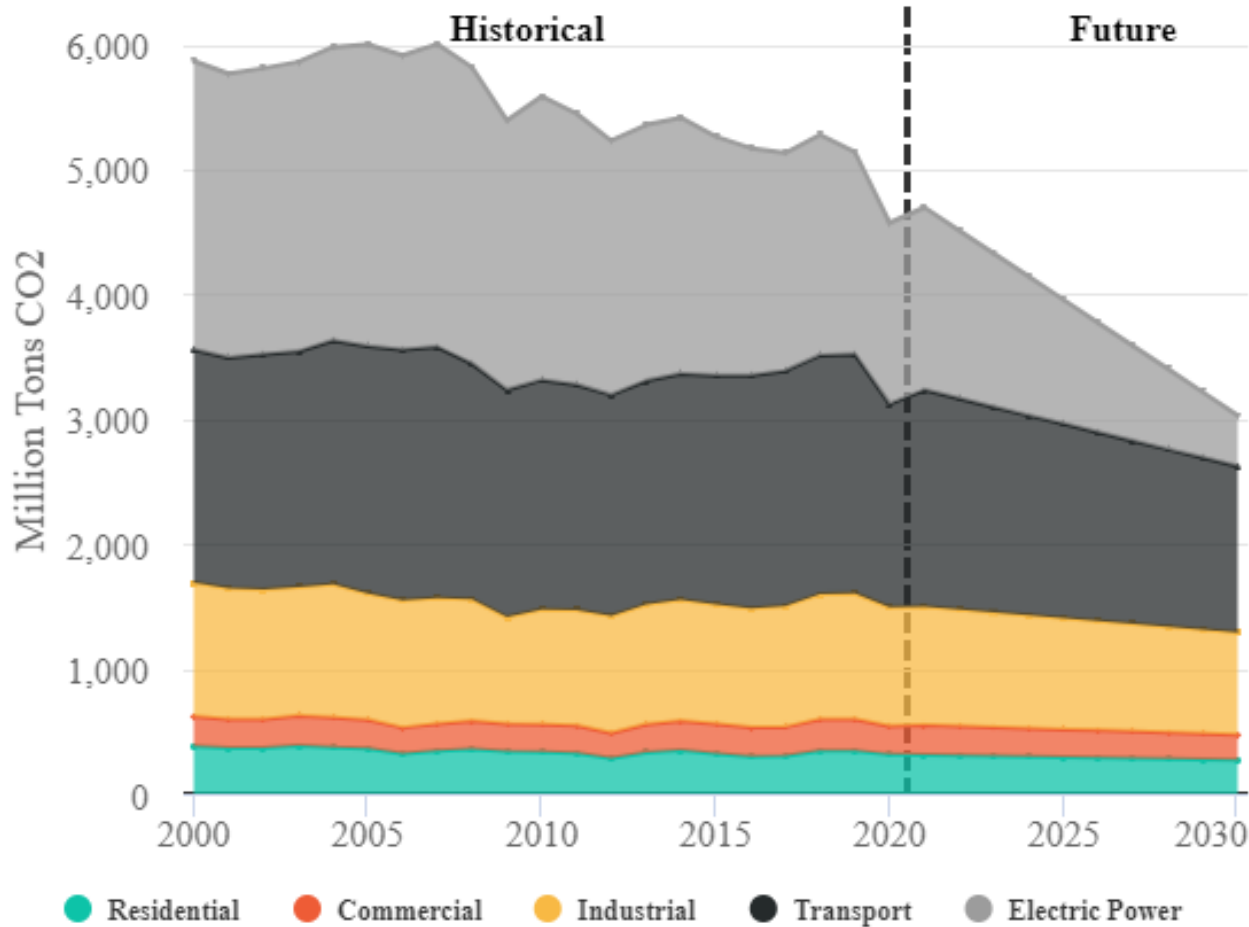
Source: UN Climate Change: <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/United%20States%20of%20America%20First/United%20States%20NDC%20April%202021%202021%20Final.pdf>

What does the US sectoral trajectory look like?

Power & transport more aggressively decarbonised



US CO₂ emissions with ambitious power & transport decarbonisation for ~50% fall versus 2005



Under this scenario by 2030:

- Power sector emissions decline by 83% in 2030 relative to 2005 levels.
- Transport -33%
- Residential - 26%
- Industrial - 19%
- Commercial -10%

Source: Breakthrough Institute 22.4.2021

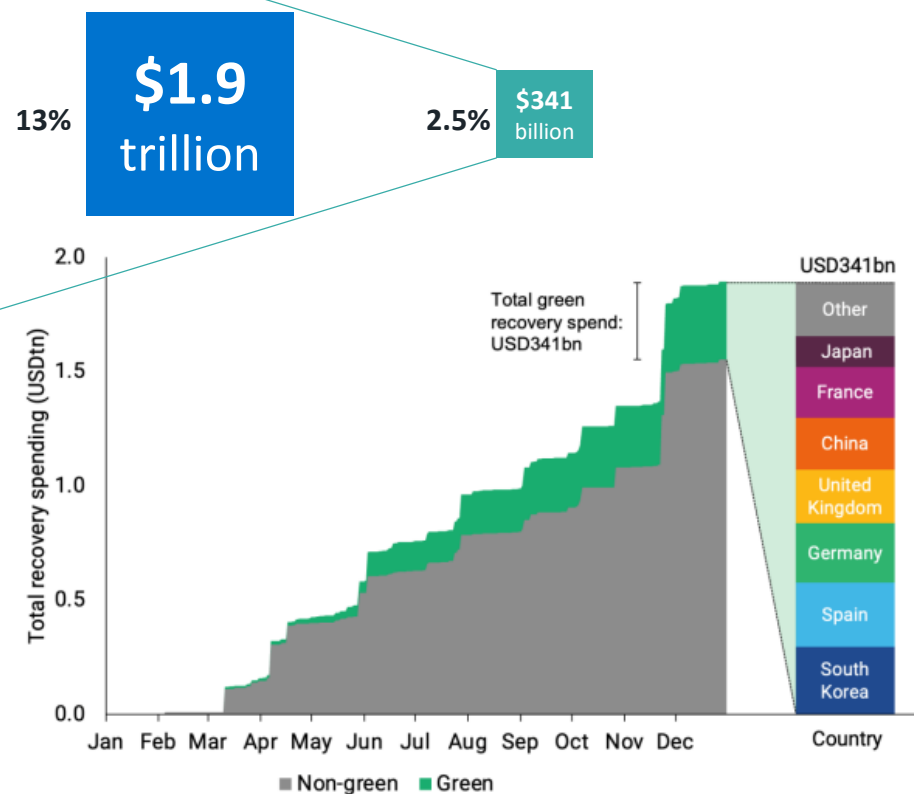
A green big deal...? Are we building back better? Not yet

Governments have taken extraordinary action to tackle an unprecedented emergency, but...

\$14.6 trillion
public spending stimulus

\$1.9tn (13.0%) was for long-term economic recovery

\$341bn (2.5%) was 'green' spending likely to reduce GHG emissions, reduce air pollution, and/or strengthen natural capital



In response to COVID19, the fifty largest economies announced \$14.6tn in fiscal spending in 2020

\$11.1tn was directed to immediate pandemic rescue efforts

Figure 4. Recovery spending over the course of the pandemic with total green spending described by sector and country. Source: Global Recovery Observatory.

Source: UNEP Oxford Smith School April 2021 "Are we building back better?" <https://wedocs.unep.org/bitstream/handle/20.500.11822/35281/AWBBS.pdf>

Climate spending is just beginning & already manufacturing sentiment is at 10 year highs...

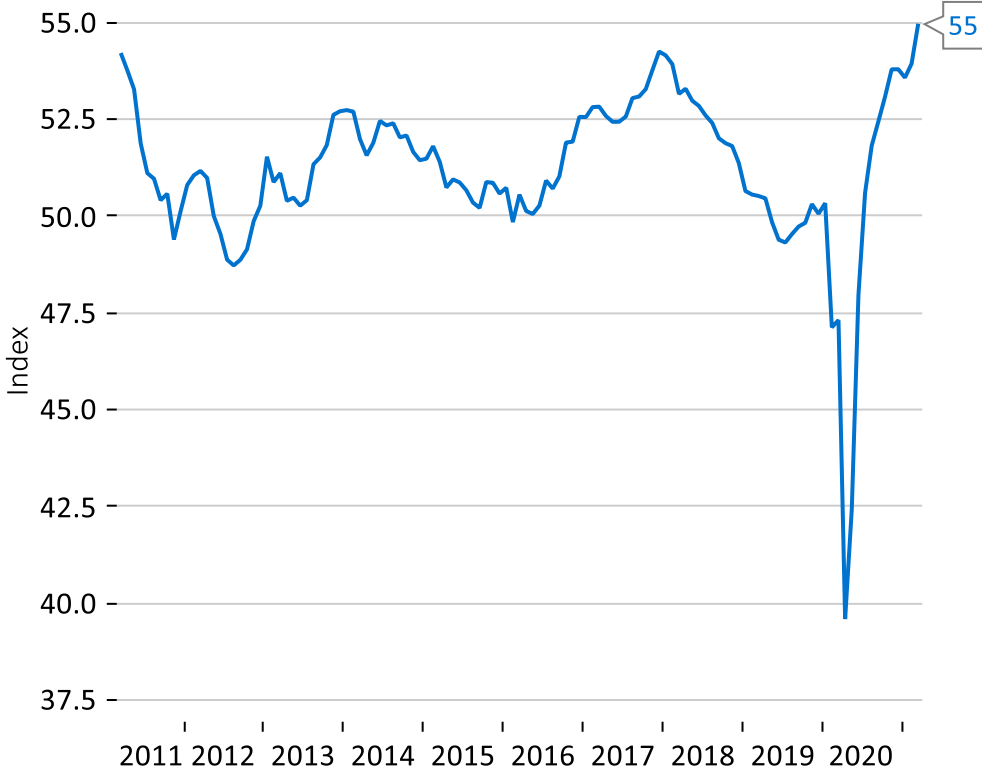


Manufacturing sentiment already at 10 year high

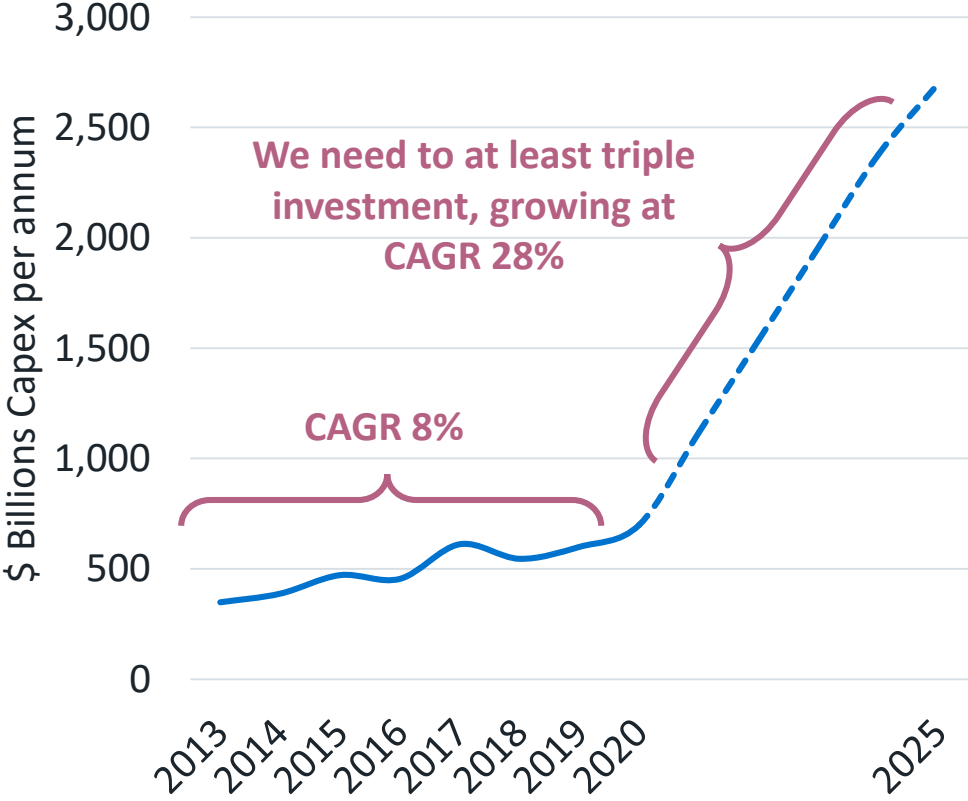


Historic & required global investment in climate agenda

Global Manufacturing PMI (Markit)



Source: Macrobond, 30.04.21



Source: Global Landscape of Climate Finance 2019 & IPCC

Global climate agenda a key factor in asset allocation

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 – massive bond issuance to fund climate agenda – yields/spreads rise
Equities	Overweight <ul style="list-style-type: none">• OW Global equities –earnings have scope to surprise – opportunity for climate focused industrial holdings• OW UK equities – valuations attractive - flow of funds back to UK probable on Brexit deal• OW EM equities – China centric Asia has longer timeframe but huge opportunities for climate investment
Alternatives	Overweight <ul style="list-style-type: none">• OW Other Alternatives– infrastructure and renewables offer inflation + returns from climate transition• 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, risk of disorderly bond markets, physical manifestation of climate change Longer-term: Inflation, central bank policy error, stranded assets & climate disruption to business models

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