

Six Minute Strategy

**The recovery continues but
divergences are widening**

20 August 2021



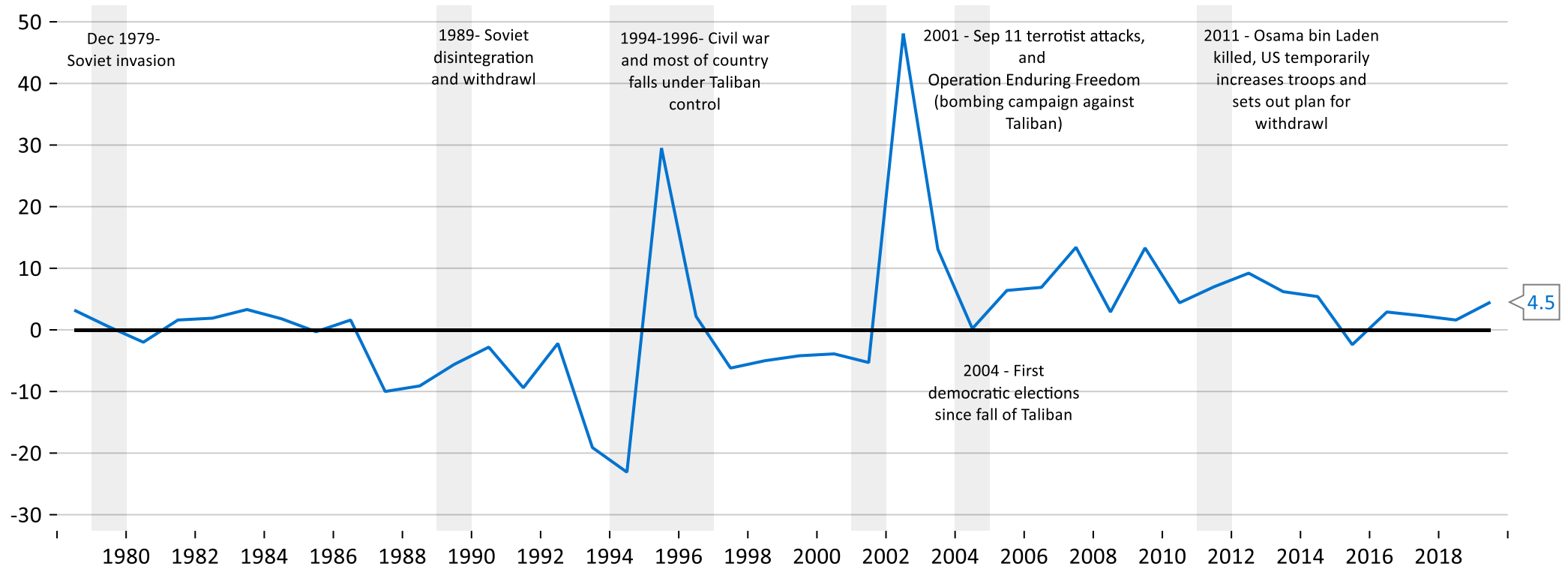
Afghanistan – The economy through its tumultuous history

‘The economy is shaped by fragility and aid dependence’ World Bank March 2021



GDP growth rates had started to stabilise over the last decade

Afghanistan, GDP growth, annual %



Source: Macrobond, 20.08.21

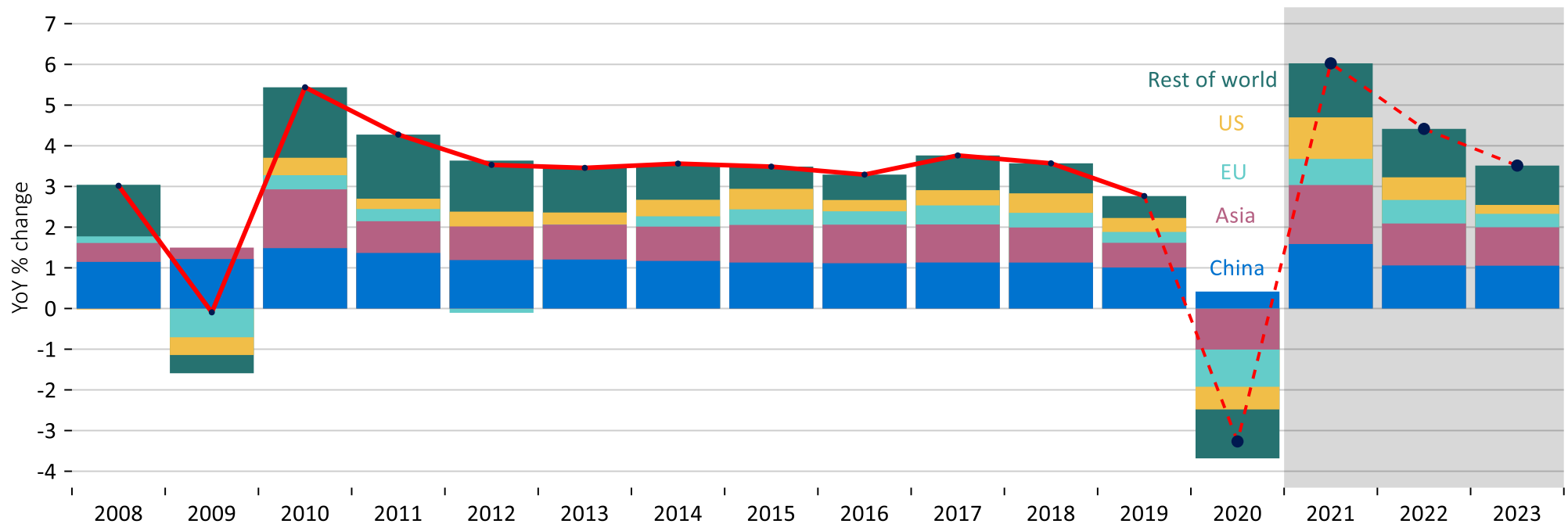
Global economic outlook

Upward revisions to global growth on the back of stronger US stimulus, vaccinations & adaptation



Global growth outlook (PPP terms)

Contribution to global GDP growth at purchasing-power parity, IMF forecasts (shaded)



Source: Macrobond, 20.08.21

Key risks: 1. Delta variant & rising inflation

Now hurting US consumer confidence

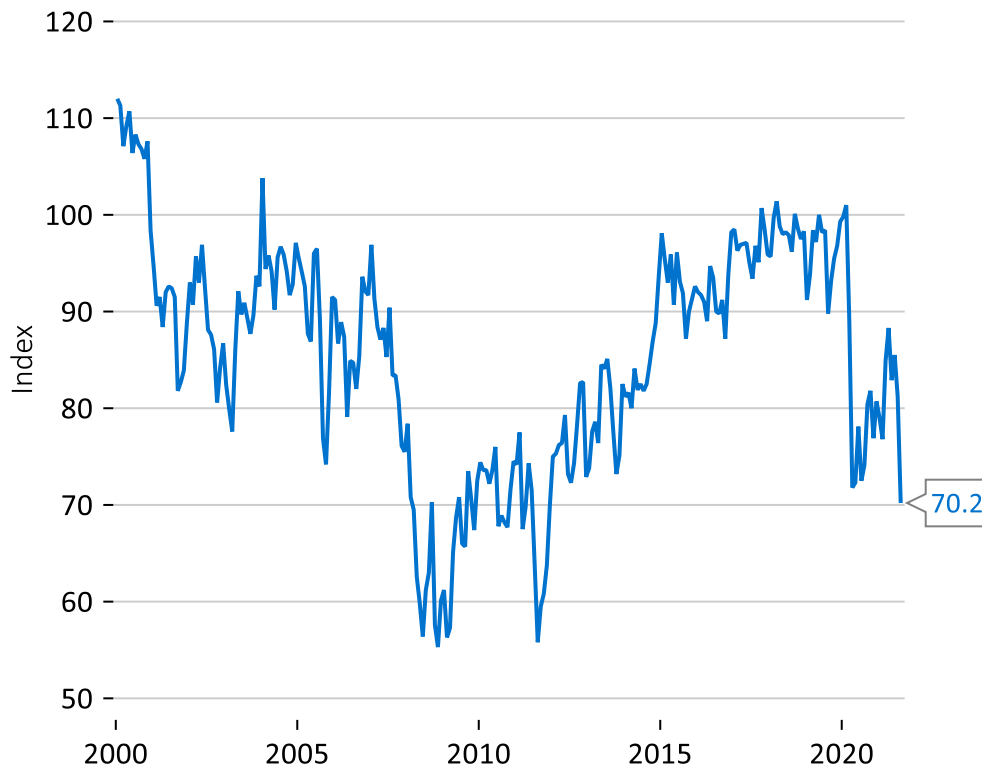


Worst consumer confidence report in 11 years



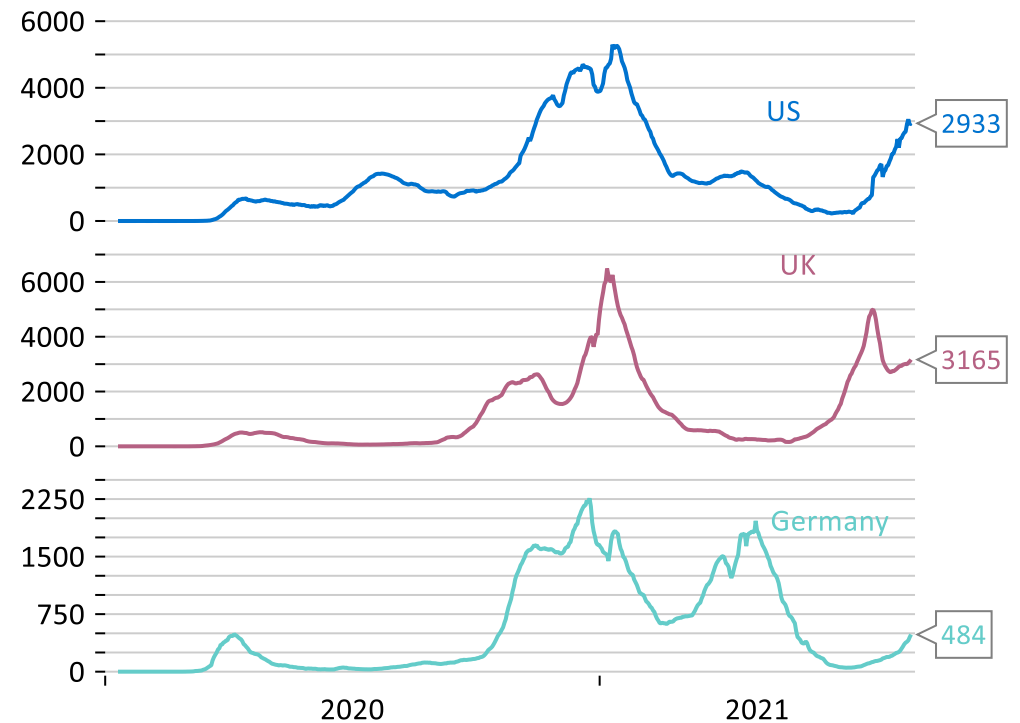
Delta variant – cases trending higher

University of Michigan US Consumer Sentiment Index



Source: Macrobond, 20.08.21

New Covid-19 cases (per 1 million people) in the last 7 days



Source: Macrobond, 20.08.21

‘An emotional response from dashed hopes that the pandemic would soon end’

US Consumer Sentiment Report, August 2021

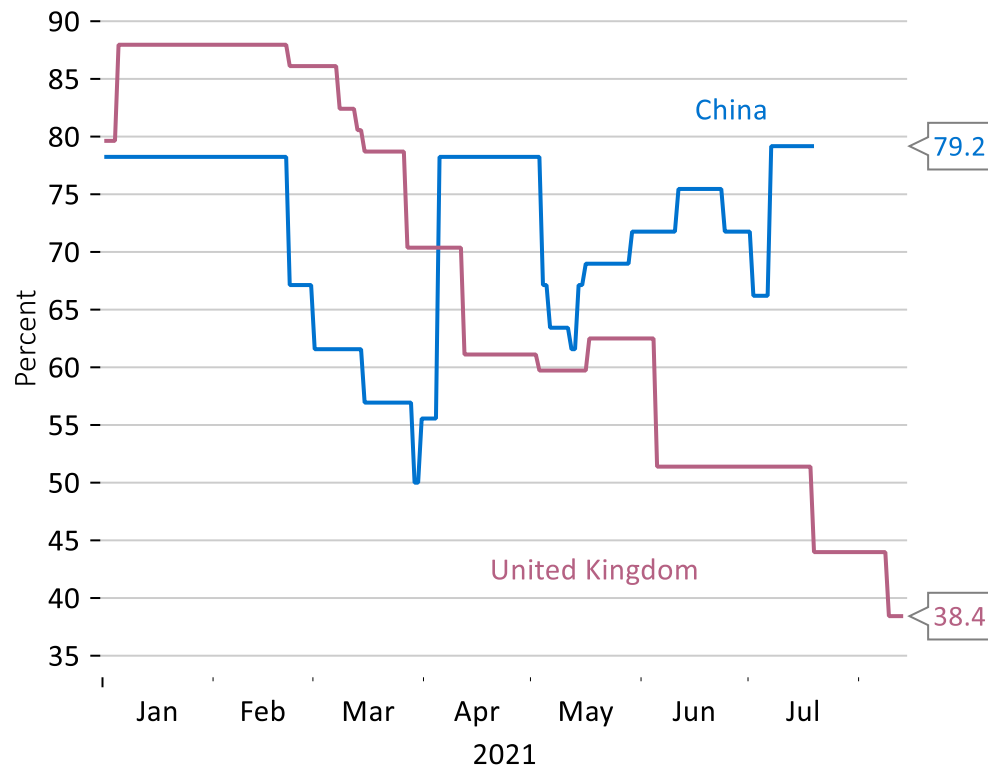
2. China Slowdown

July activity was weaker-than-expected, driven by COVID restrictions & floods



COVID stringency data – Chinese lockdown tightens

COVID-19, Stringency Index

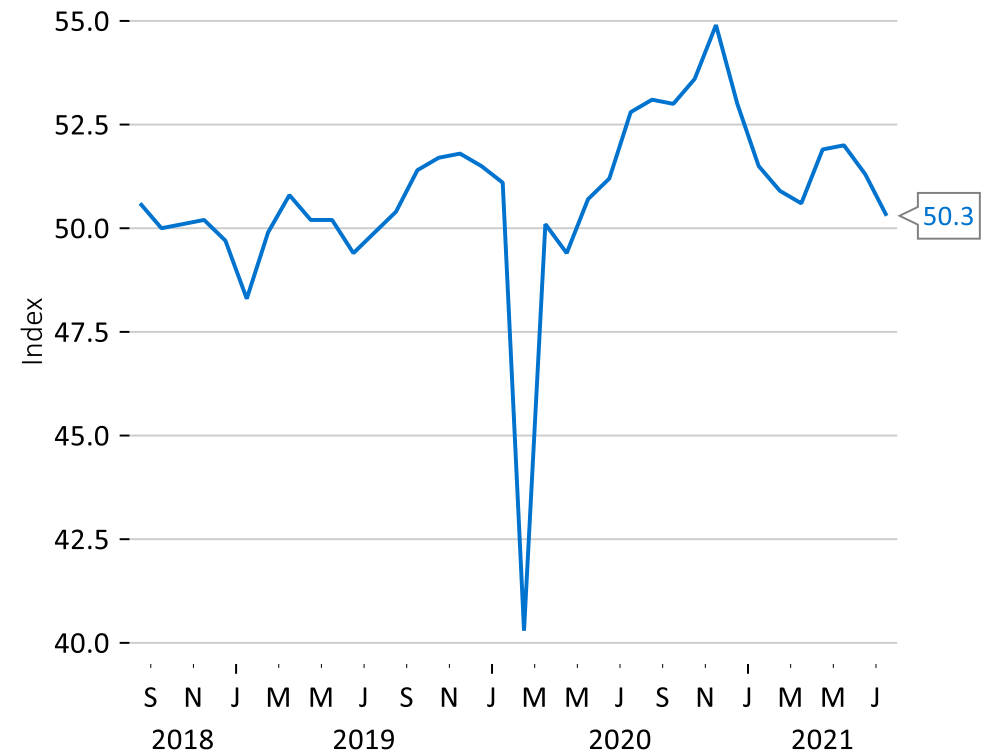


Source: Macrobond, 20.08.21



China manufacturing sentiment weakens

China Business Survey Manufacturing (IHS Markit)



Source: Macrobond, 20.08.21

3. Emerging world

Alarming gaps now opening between advanced & emerging economies

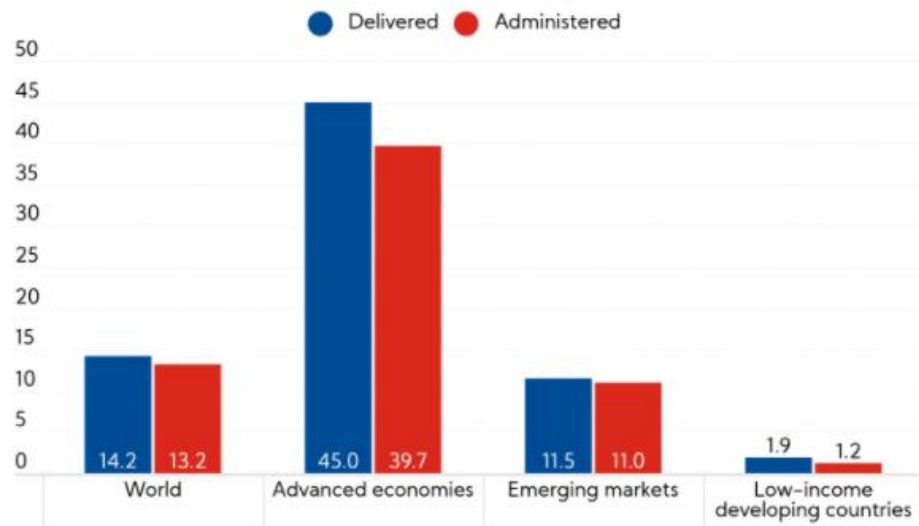


Vaccine response hugely skewed to developing world

Two-track pandemic

Close to 40 percent of the population in advanced economies has been fully vaccinated, compared with 11 percent in emerging market economies and just 1 percent in low-income developing countries.

(vaccine courses as a percent of the population, as of July 19, 2021)



Sources: Haver Analytics; Our World in Data; Airfinity; and IMF staff calculations.
Note: Two doses generally assumed for a full course of vaccination, except for J&J and CanSino.

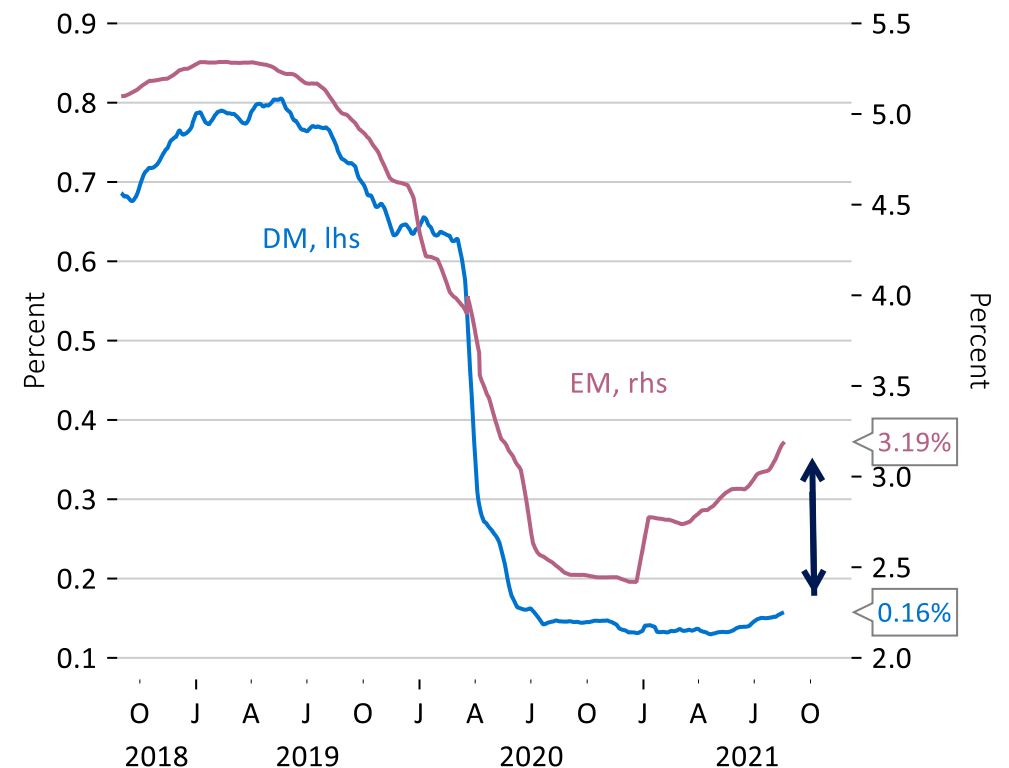
IMF

Source: IMF July 2021



EM countries already forced to tighten as inflation rises

Mean Short term rates: Emerging vs Developed



Source: Macrobond, 20.08.21

- Brazil, Hungary, Mexico, Russia and Turkey have all lifted interest rates in 2021

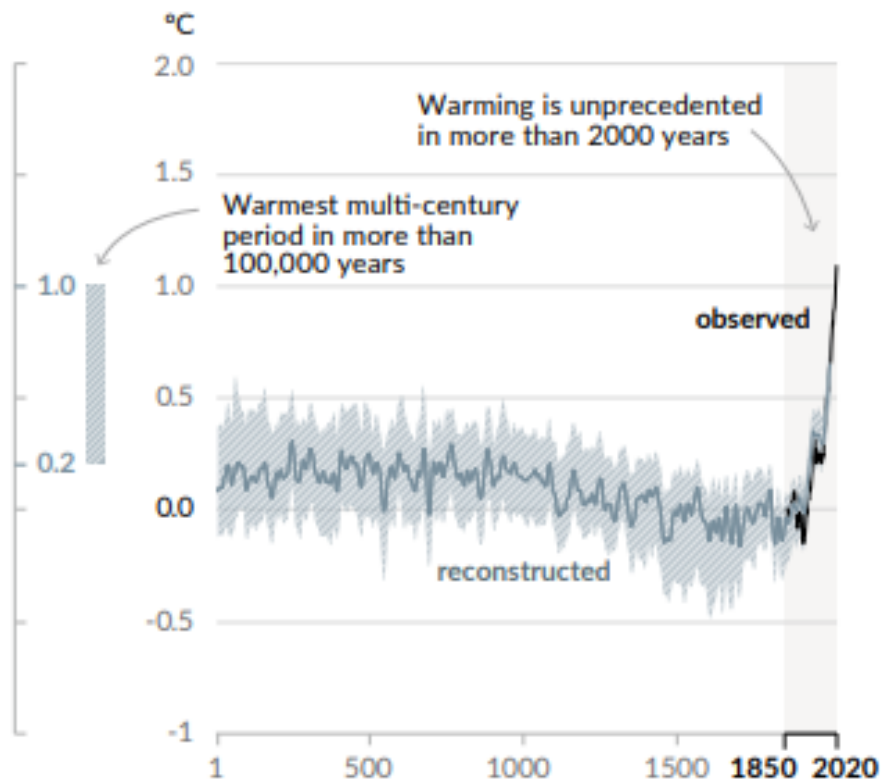
4. Climate – we are seeing unprecedented global warming

Each of the last four decades have been successively warmer than any decade that preceded it since 1850

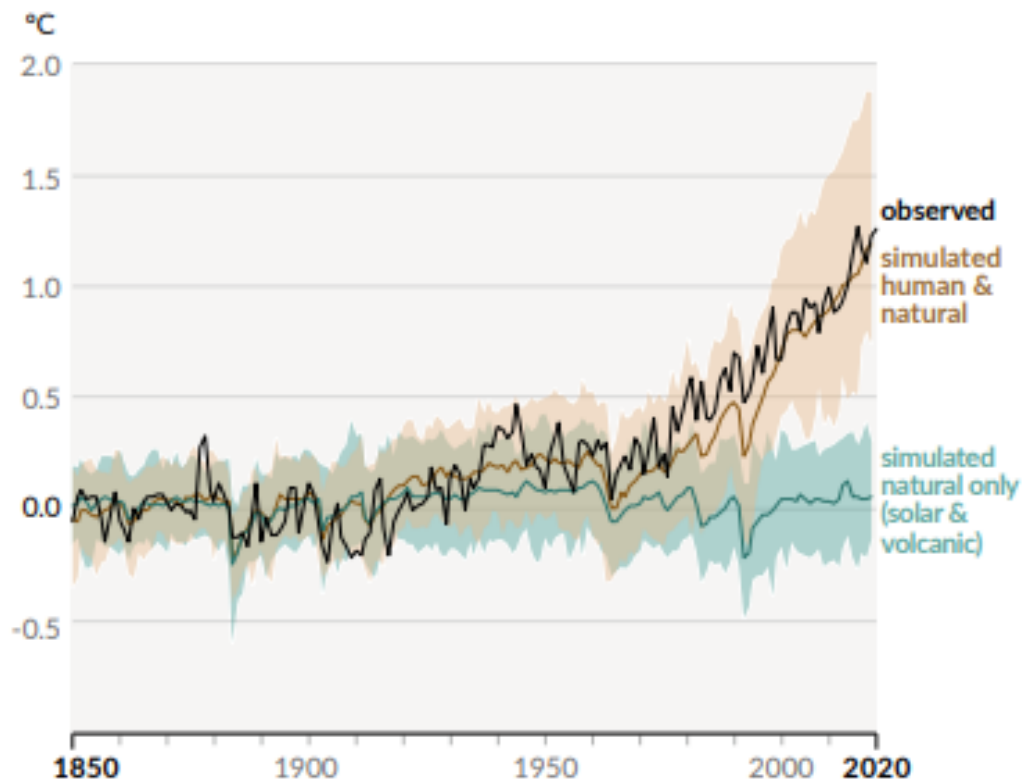


Changes in global surface temperature relative to 1850-1900 – IPCC

a) Change in global surface temperature (decadal average) as reconstructed (1-2000) and observed (1850-2020)



b) Change in global surface temperature (annual average) as observed and simulated using human & natural and only natural factors (both 1850-2020)



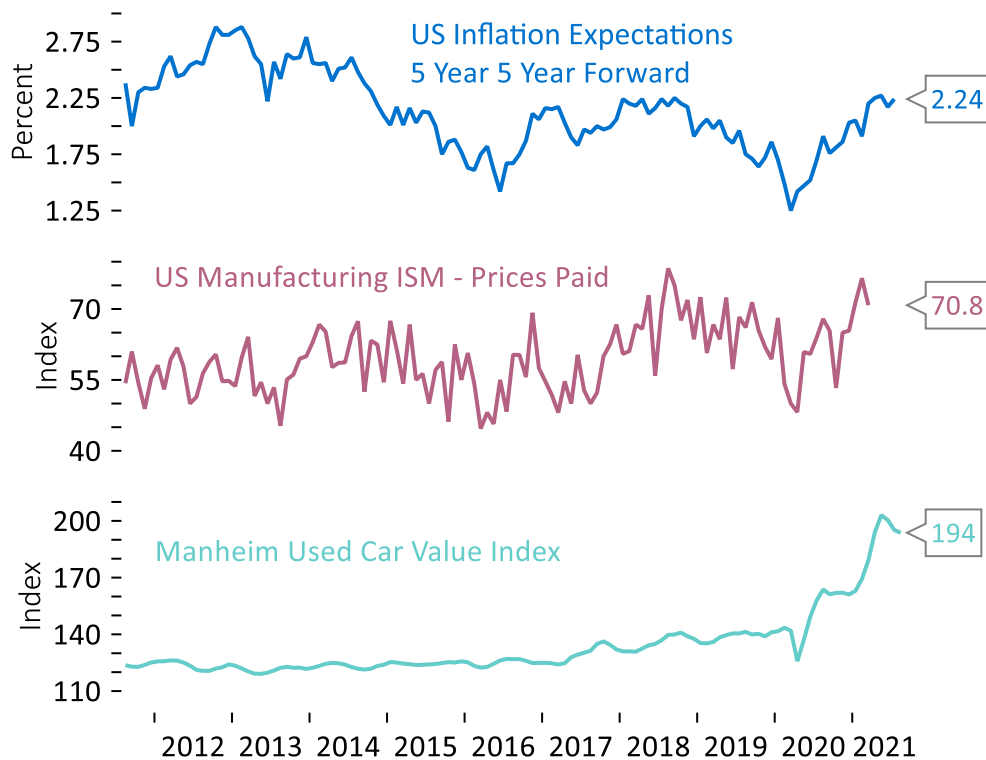
Source: IPCC Sixth Assessment Report August 2021

Inflation outlook

Some early signs of pricing pressures easing as used car prices start to level off

Inflation indicators peaking?

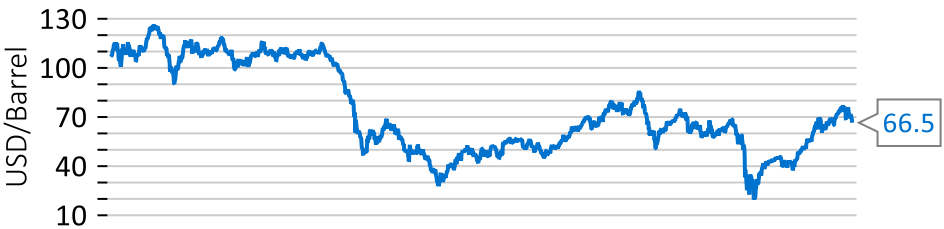
US Inflation Indicators



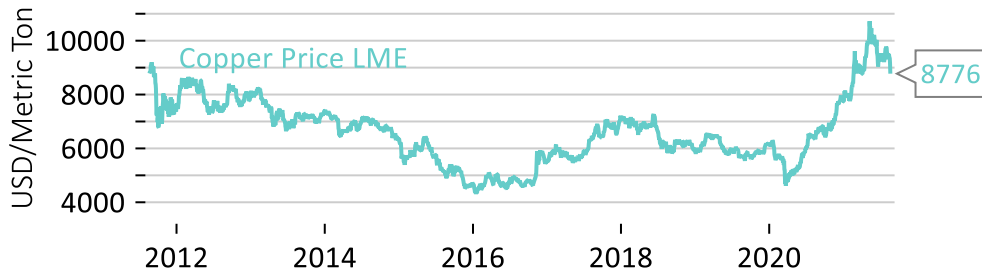
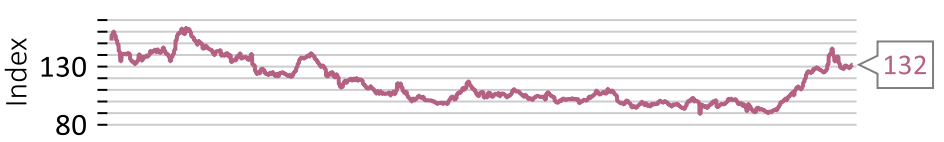
Source: Macrobond, 20.08.21

Commodity prices peaking

Oil Price (Brent)



Food Prices (Economist Index)




Source: Macrobond, 20.08.21

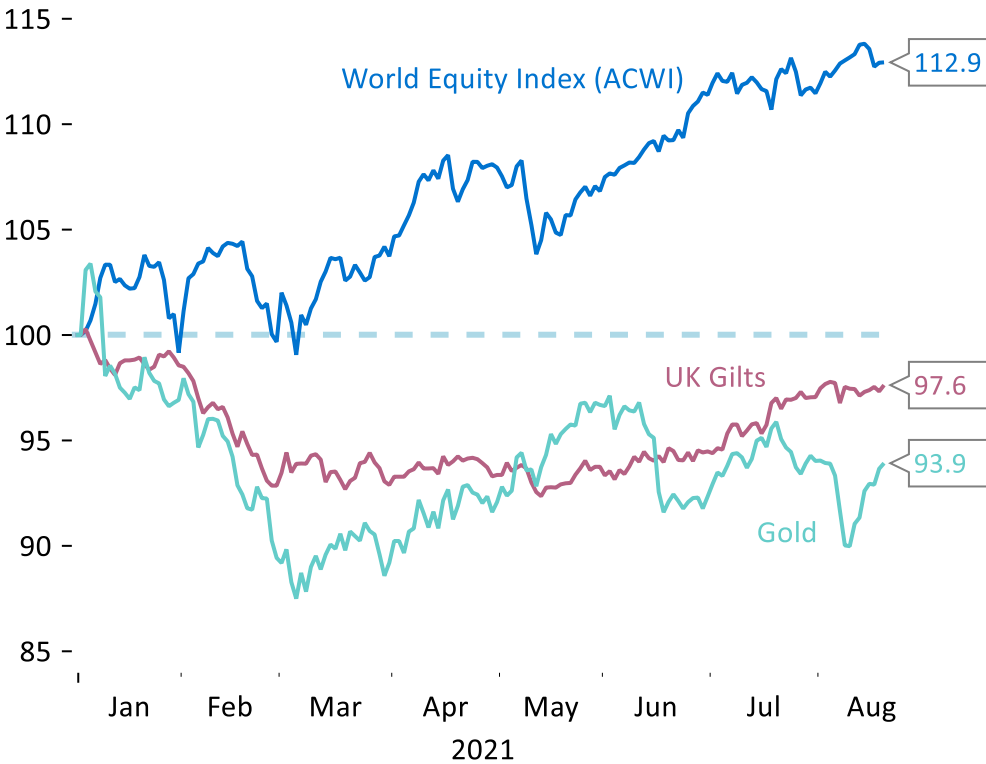
‘Higher auto prices accounted for half the increase in the core US CPI in Q2 2021’
HSBC, August 2021

Equities: Market performance 2021-to-date

Equities lead global asset returns – growth style catches up – volatility rebounds

 Equities rally, bonds & gold decline

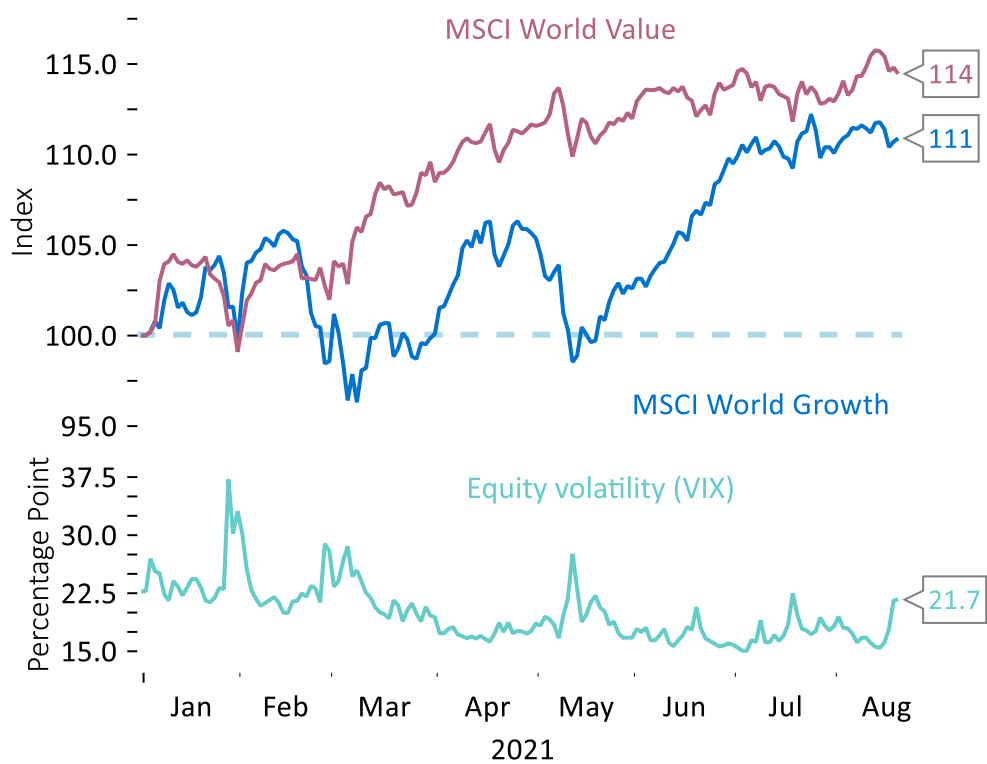
Global Asset Class Returns 2020 (£) to date



Source: Macrobond, 20.08.21

 Value lead widens over growth – volatility rebounds

World Equity Style 2021



Source: Macrobond, 20.08.21

Strong earnings momentum and generous financial conditions still favour risk assets



Global strategy update August 2021

Bonds	Strong underweight <ul style="list-style-type: none">• Strong UW government bonds – economies running ‘hot’ implies upside risks for yields• UW investment grade credit – yield spreads narrow – UK charity & infrastructure issues offer social impact benefits
Equities	Overweight (Neutral for Target Return) <ul style="list-style-type: none">• OW Global – continued QE by central banks and negative real bond yields supports valuations• OW UK – dividend support attractive – fund flows return as Brexit deal settles
Alternatives	Overweight <ul style="list-style-type: none">• OW other alternatives – infrastructure and renewables beneficiaries of fiscal spend – liquidity issues remain• OW uncorrelated alternatives – gold positions as hedge against policy error
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• Consider portfolio insurance
Risks	Current: Unequal distribution of vaccines, disorderly bond markets, valuations stretched Longer-term: Inflation pressures become entrenched, central bank policy error, China tensions with US/Taiwan

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