



# Investment Strategy Observations

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# Current Market Observations – The Great Re-Opening

## How We Got To Here

- Latest Performance
- Key Drivers
- The Rotation Trade

## Key Themes For 2021

- Covid
- Policy – Monetary & Fiscal
- Re-opening & Recovery
- Too much of a good thing?
- Is It a Bubble?

## Looking Further Ahead

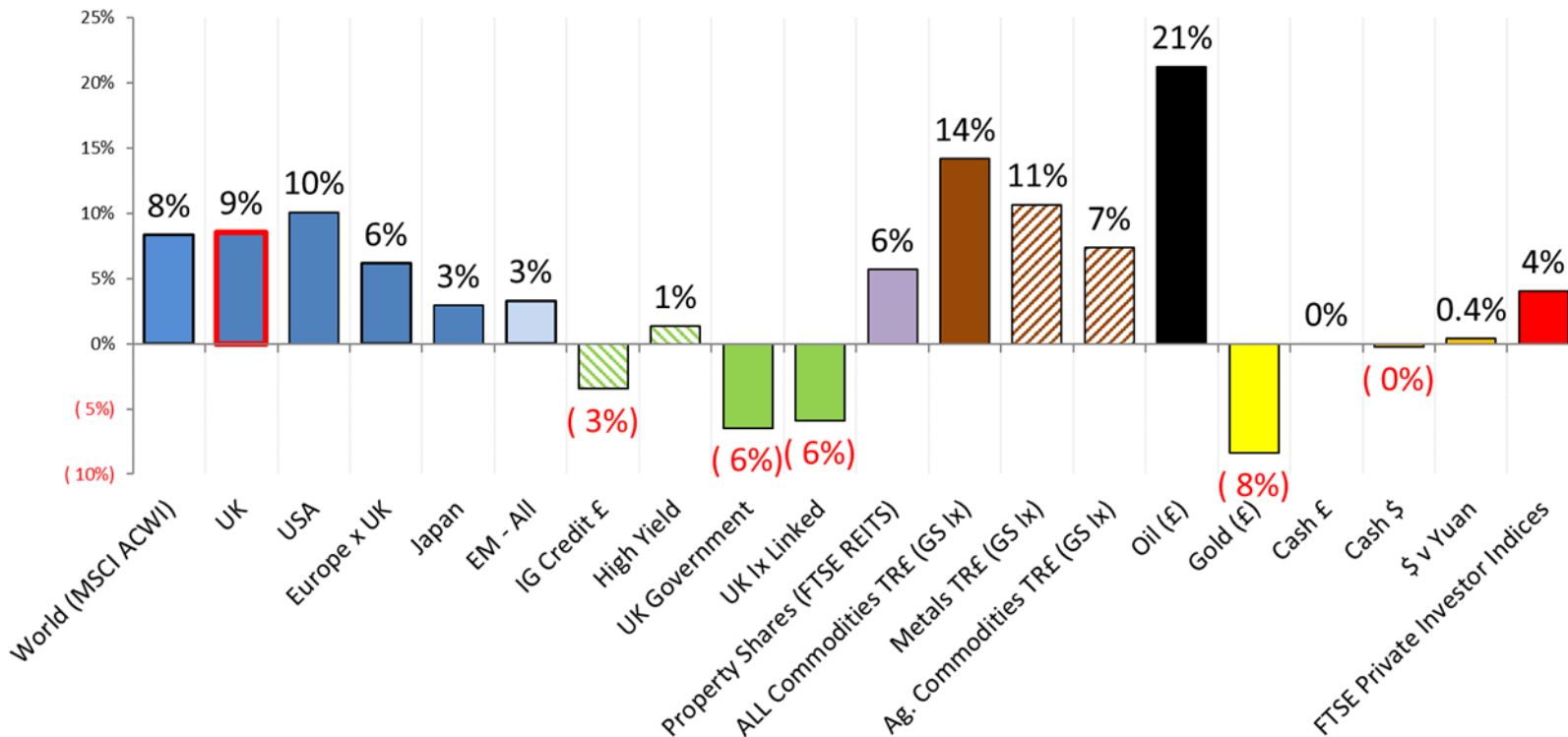
- How Do We Pay For Covid?
- Technology Convergence
- ESG
- Inflation – Be Careful What You Wish For



# The Benefits of a Balanced and Diversified Portfolio

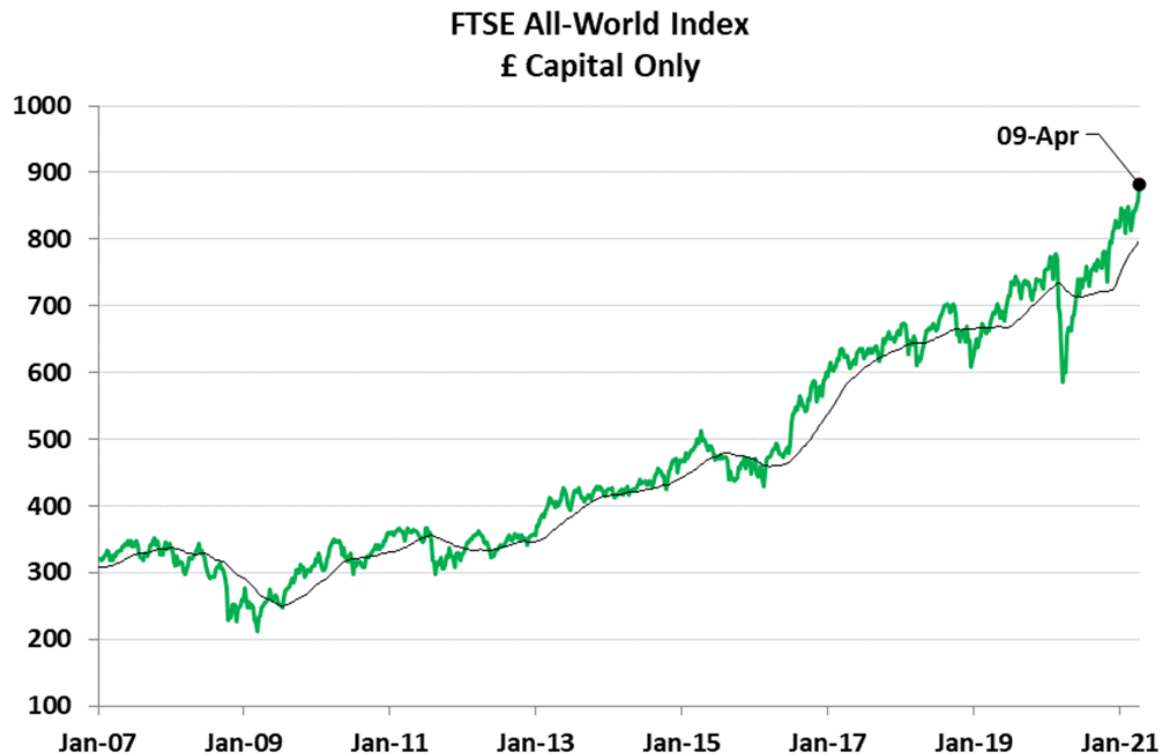
## Asset Class Returns Year-To-Date

Asset Class Performance (£ - Total Return) Year To 09-Apr-21





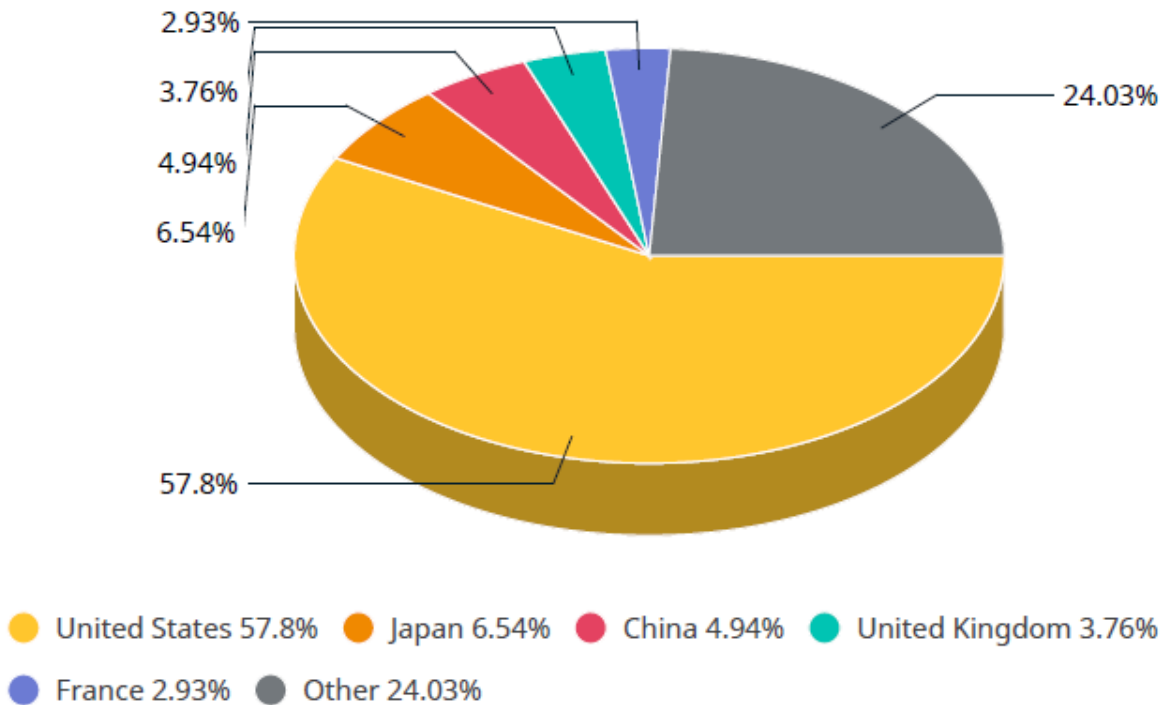
## Boom Time For (Global) Equities





## Driven By The US

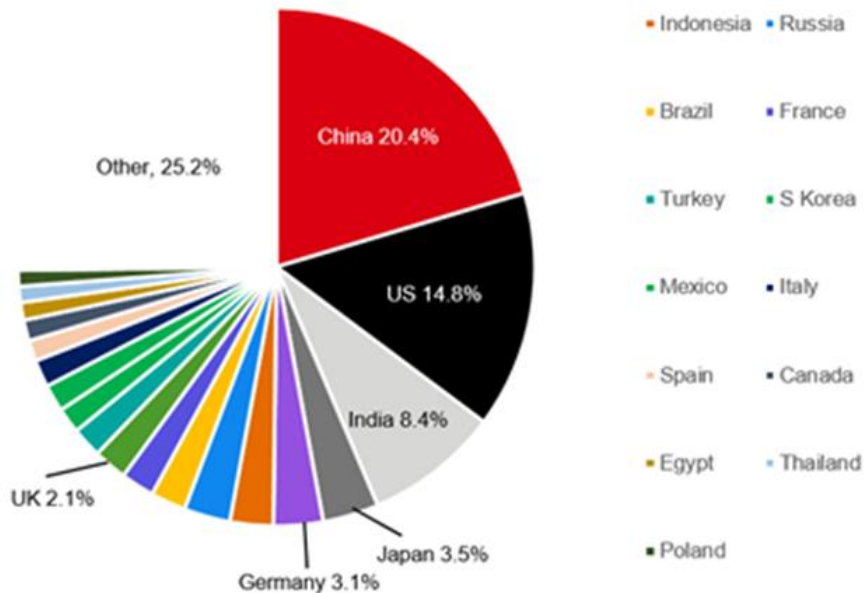
### COUNTRY WEIGHTS





# Who Drives The Global Economy?

Contribution to forecast global GDP growth, 2021-2026



Source: International Monetary Fund, Bloomberg (April 2021)



# Big Pictures Don't Tell The Whole Story

## S&P 500 Sectors YTD

<b>S&amp;P 500 ECO SECTORS IDX</b>		<b>9.92%</b>
<b>All Groups</b>		
1)	<b>S&amp;P 500 ENERGY INDEX</b>	<b>27.33%</b>
2)	<b>S&amp;P 500 FINANCIALS INDEX</b>	<b>19.05%</b>
3)	<b>S&amp;P 500 COMM SVC</b>	<b>13.53%</b>
4)	<b>S&amp;P 500 INDUSTRIALS IDX</b>	<b>13.40%</b>
5)	<b>S&amp;P 500 REAL ESTATE IDX</b>	<b>10.65%</b>
6)	<b>S&amp;P 500 MATERIALS INDEX</b>	<b>10.30%</b>
7)	<b>S&amp;P 500 INFO TECH INDEX</b>	<b>8.72%</b>
8)	<b>S&amp;P 500 CONS DISCRET IDX</b>	<b>8.36%</b>
9)	<b>S&amp;P 500 HEALTH CARE IDX</b>	<b>3.89%</b>
10)	<b>S&amp;P 500 UTILITIES INDEX</b>	<b>3.27%</b>
11)	<b>S&amp;P 500 CONS STAPLES IDX</b>	<b>1.67%</b>



# A Major Shift In Inflation Expectations

## US 10-Year Breakeven Inflation (2016 – 2021)

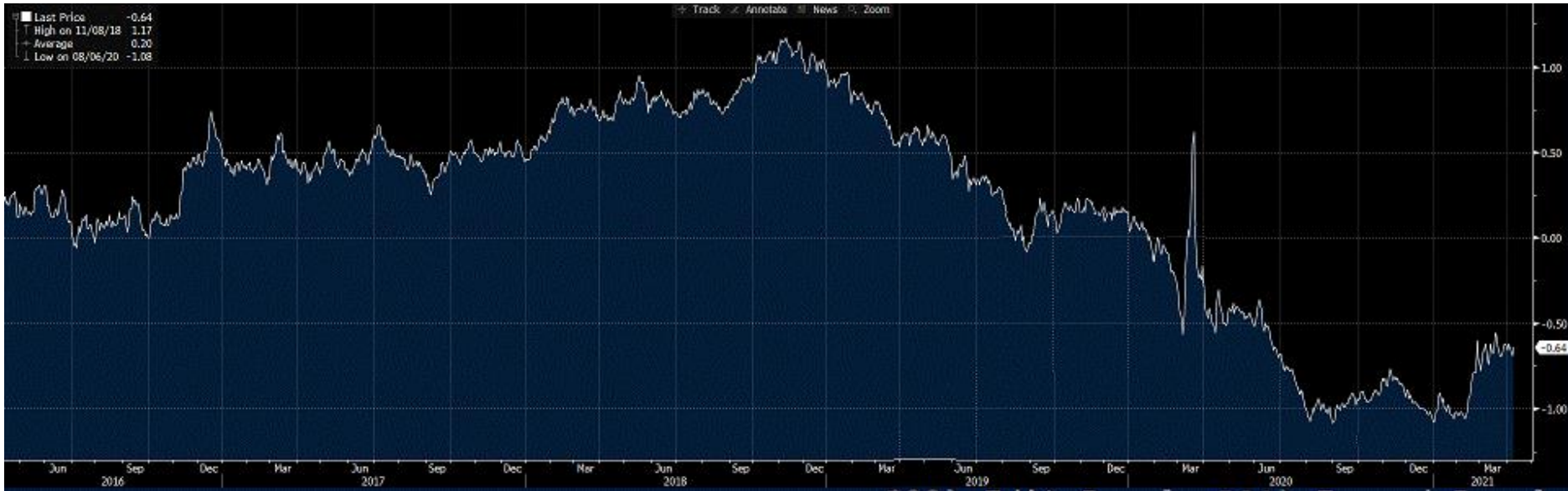






# And A Major Shift In Real Bond Yields

## US Real 10-Year Bond Yield (2016-2021)

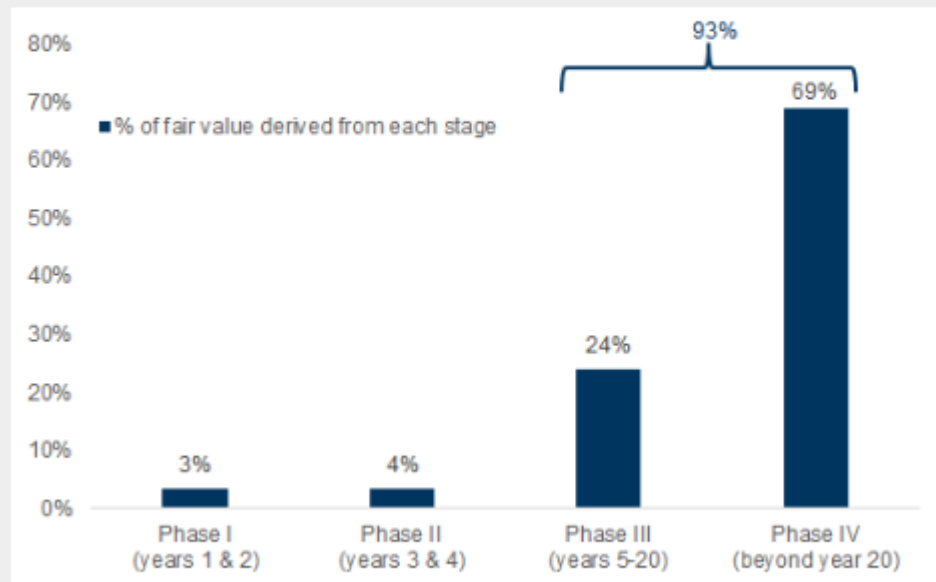




## The “Long Duration” Trade

### Exhibit 6 : Long-term growth assumptions are key in a fair value model: 93% of the fair value comes from phases III and IV

Share of fair value in each phase of our US DDM



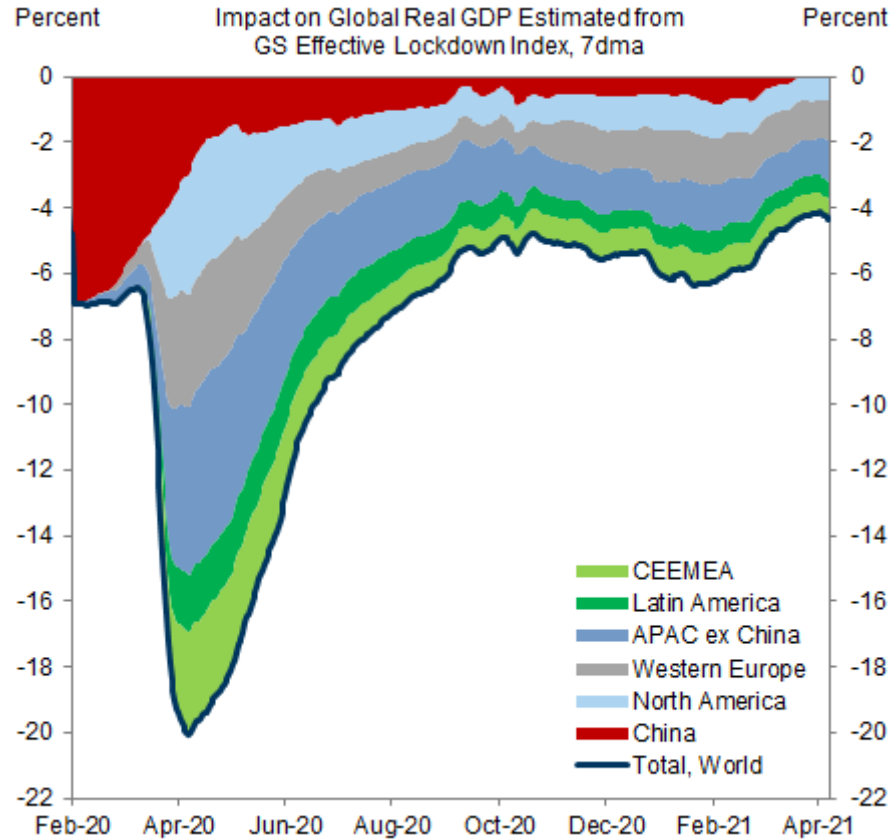
Source: Goldman Sachs Global Investment Research

Source – Goldman Sachs



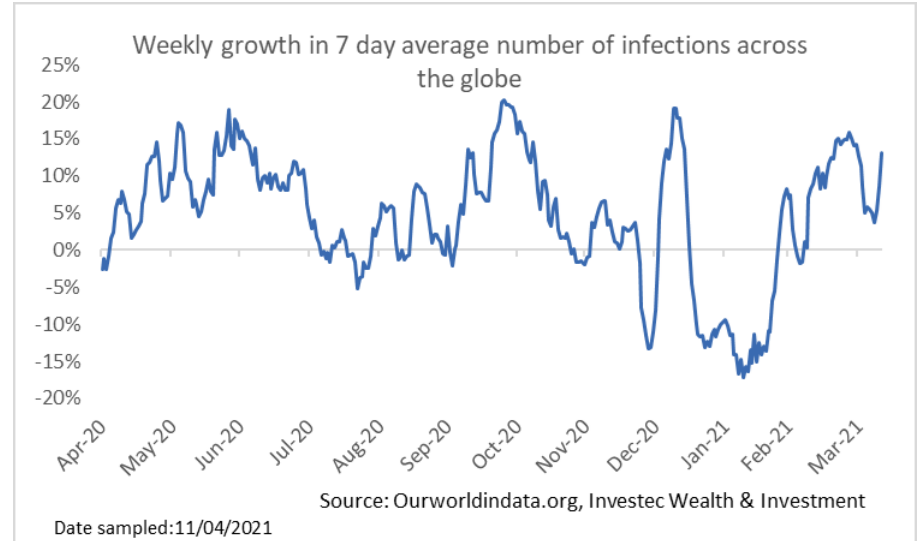
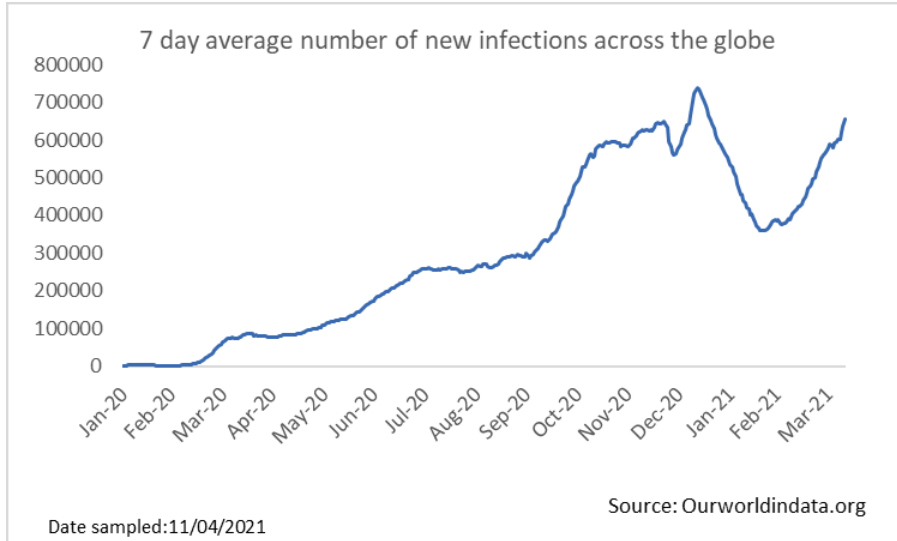


# Global GDP Based On Lockdowns





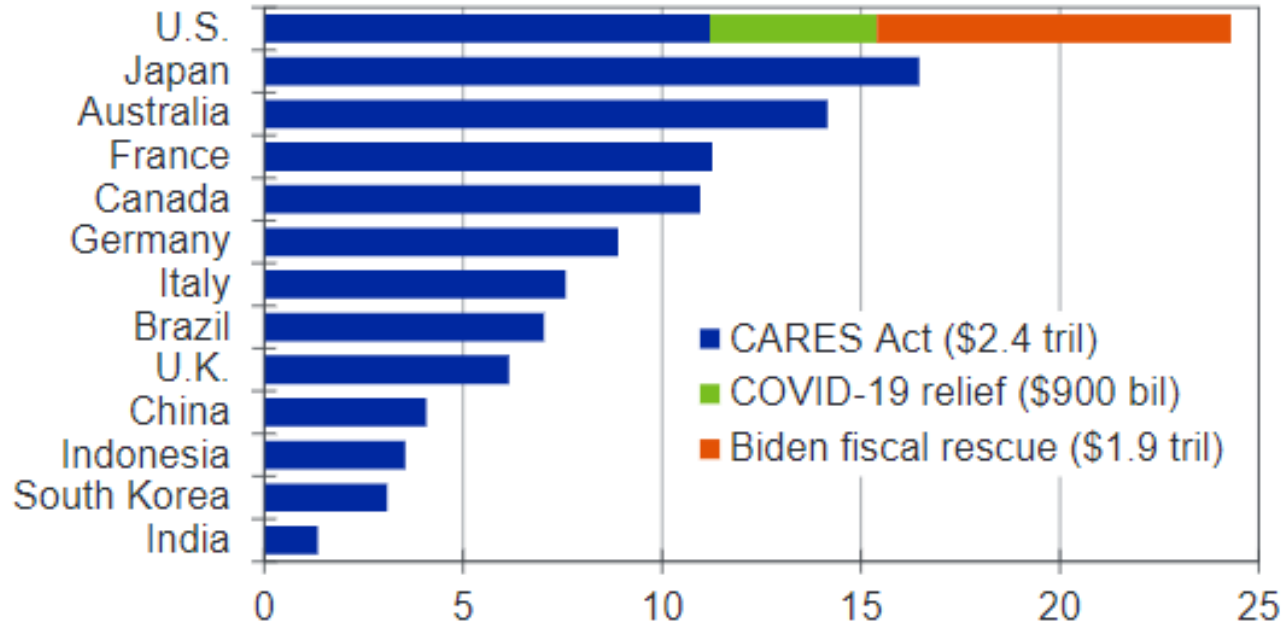
# The Current COVID Situation





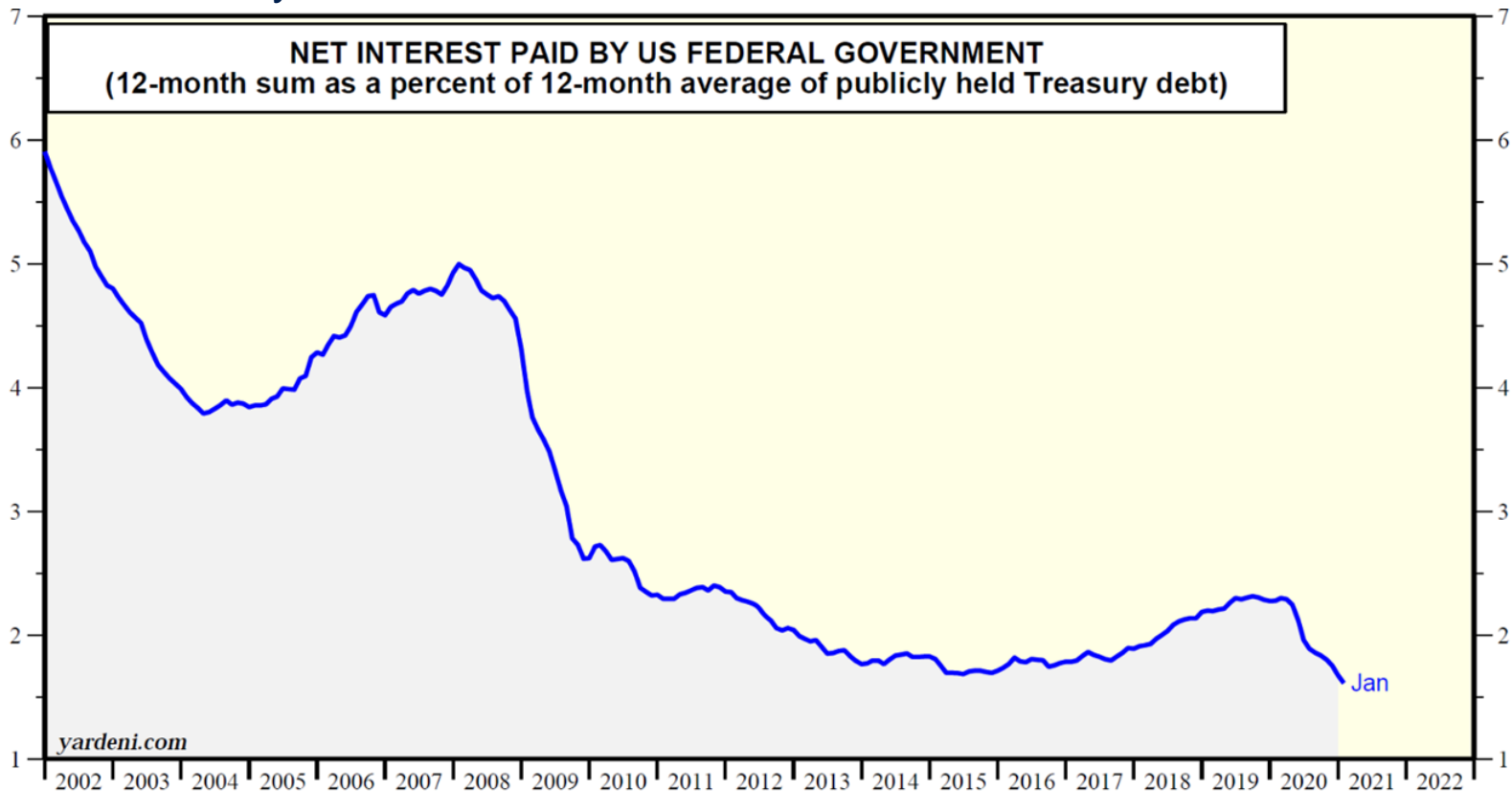
# Fiscal Stimulus League Table

## Fiscal Support, % of 2019 GDP





## Because They Can Afford To



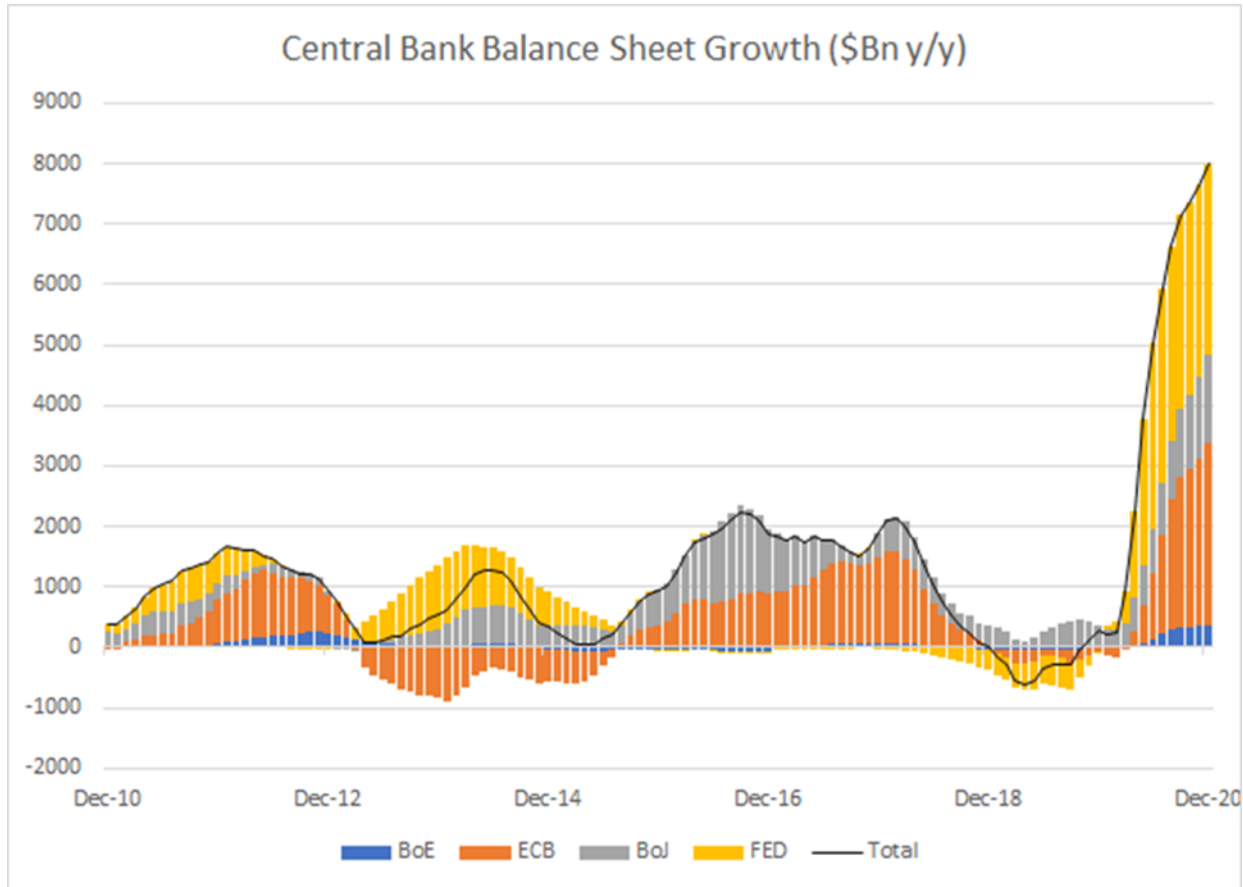
Source: US Treasury Department and Monthly Statement of the Public Debt of the United States.

Source – Yardeni Research





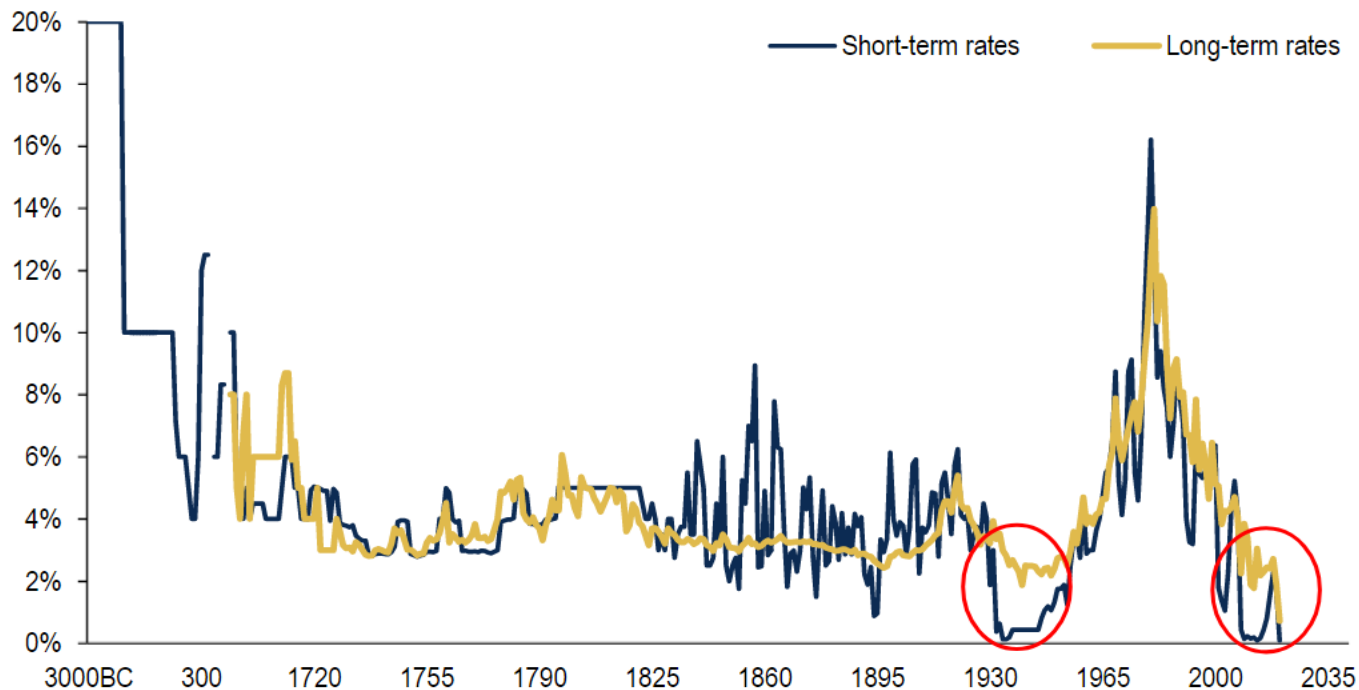
# Central Banks Open The Firehoses



Source – IW&I / Bloomberg Investec



## History Of Interest Rates – 1970s Were Abnormal



**Source:** Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates" (2005), BofA Global Investment Strategy  
BofA GLOBAL RESEARCH

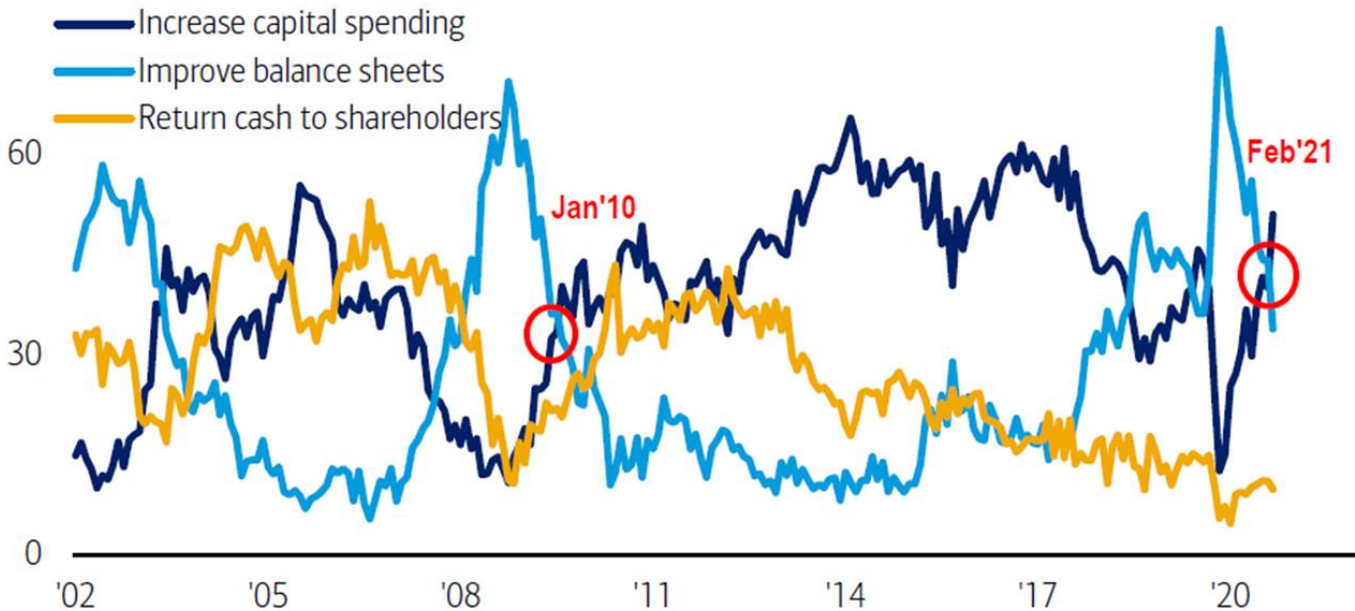




## And Companies Are Being Egged On Too

### Exhibit 4: “Escape velocity” signaled as capex intentions surpassed improve balance sheets

What would you most like to see companies do with cash flow?



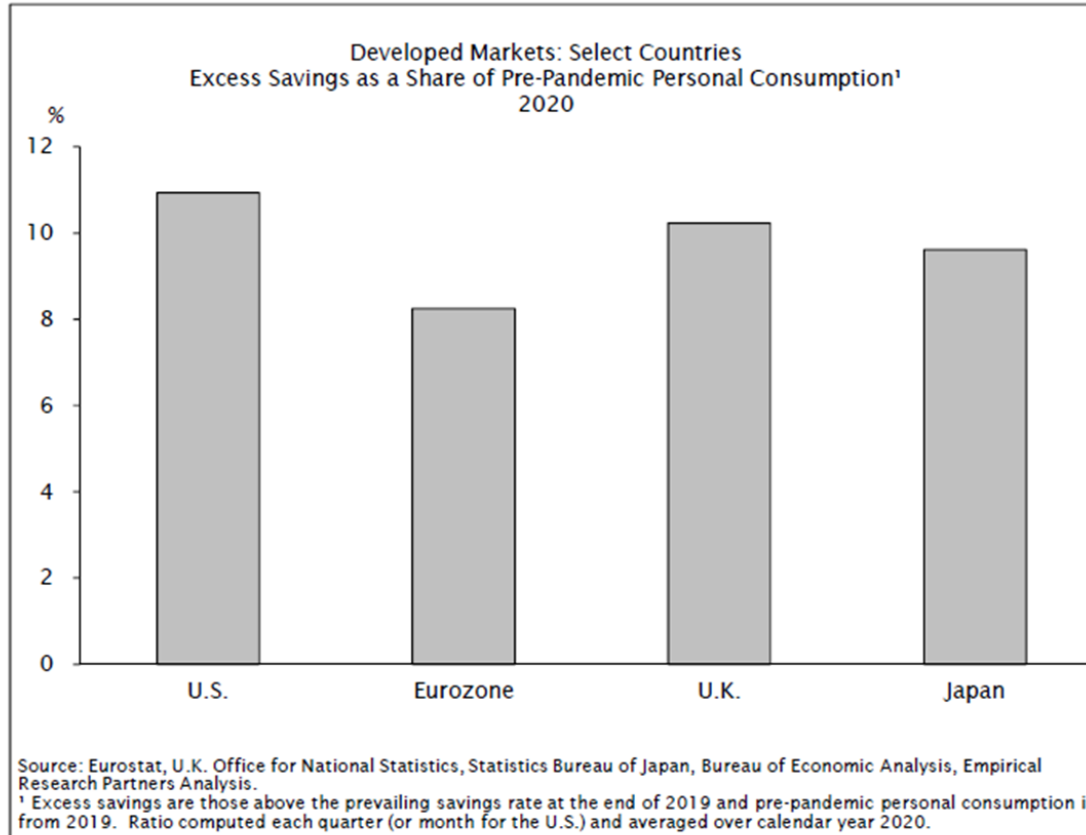
Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Source – Bank of America

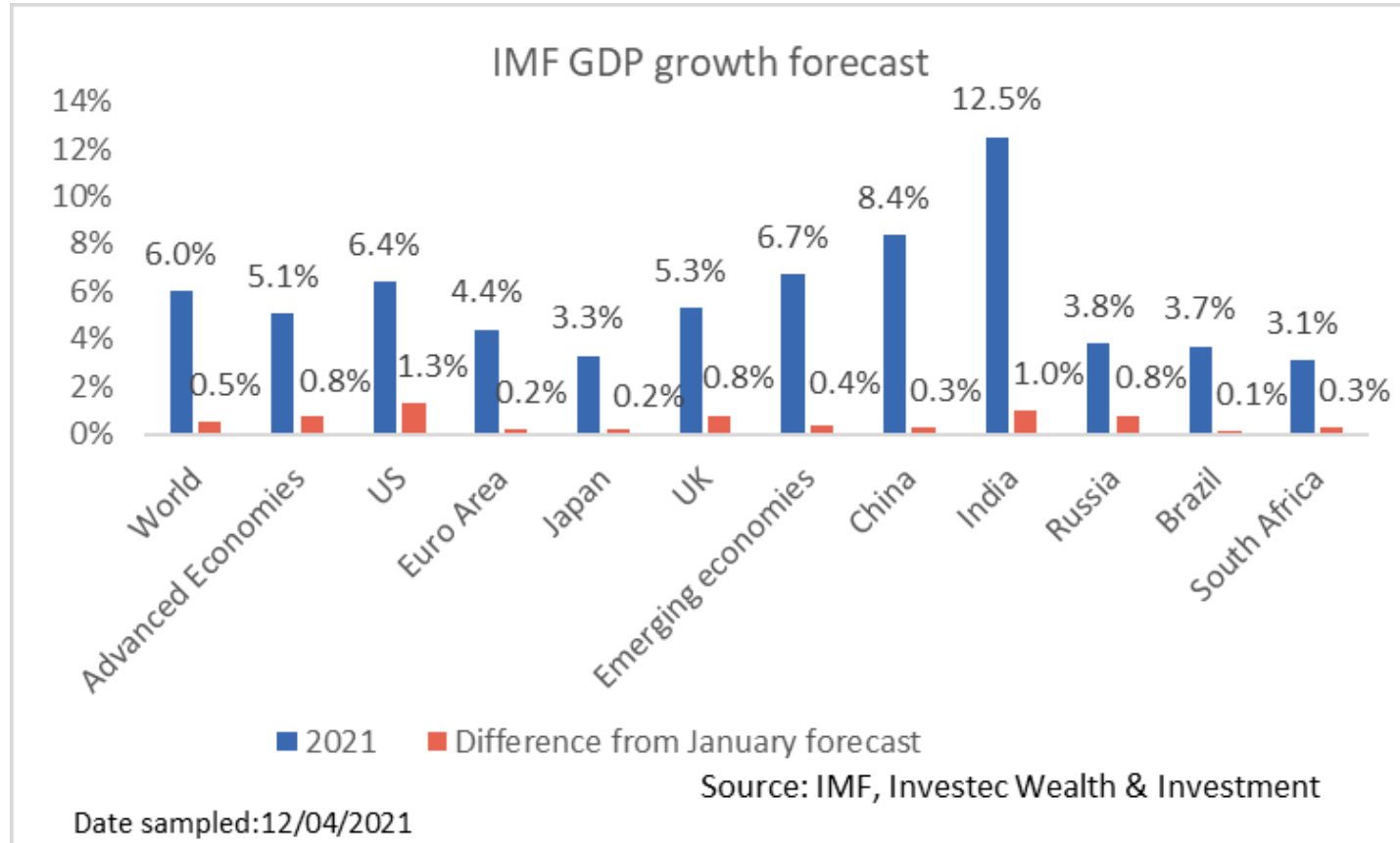


## Consumers Will Join When They Are Allowed – Pent Up Demand



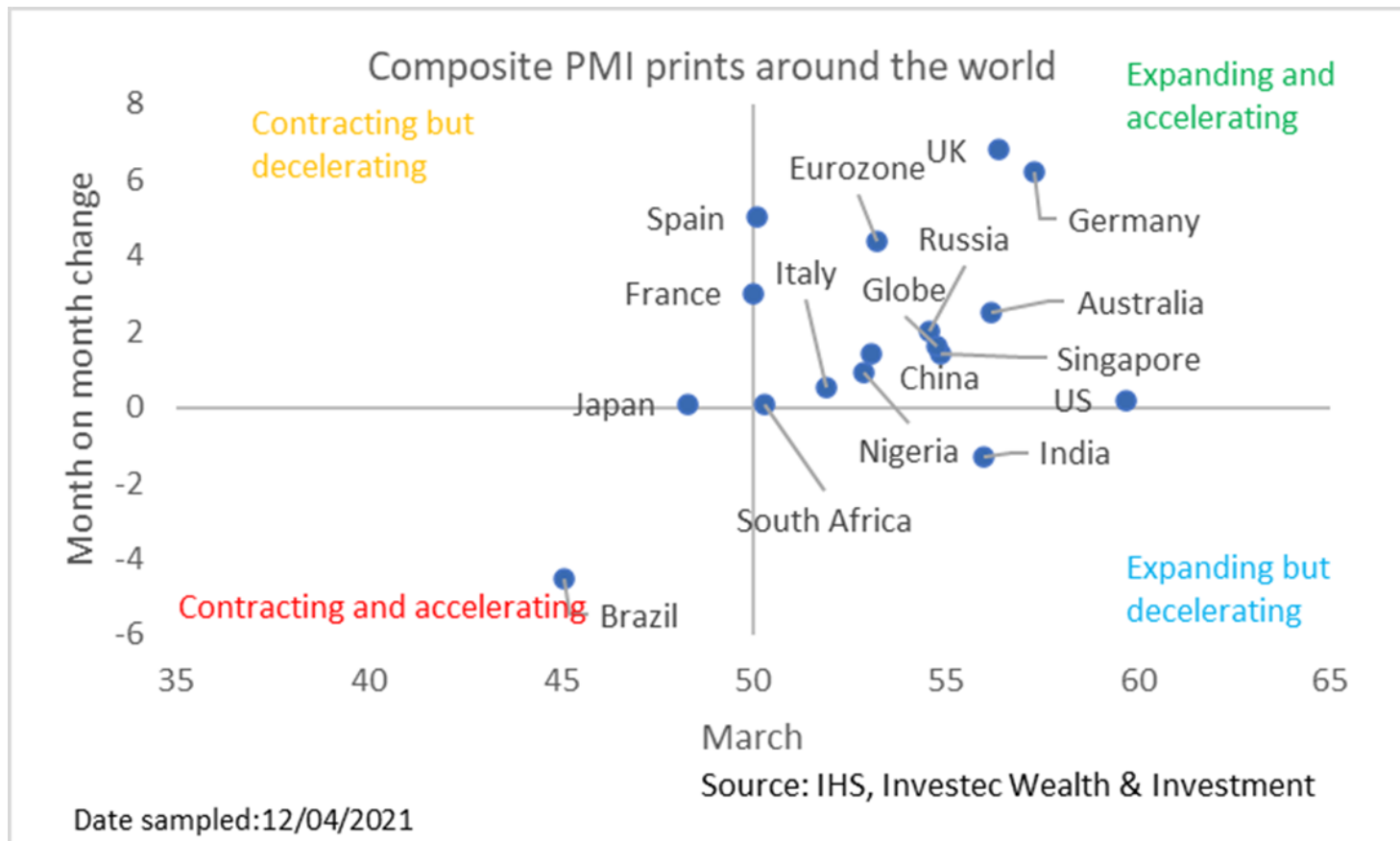


## Latest IMF Growth Forecasts



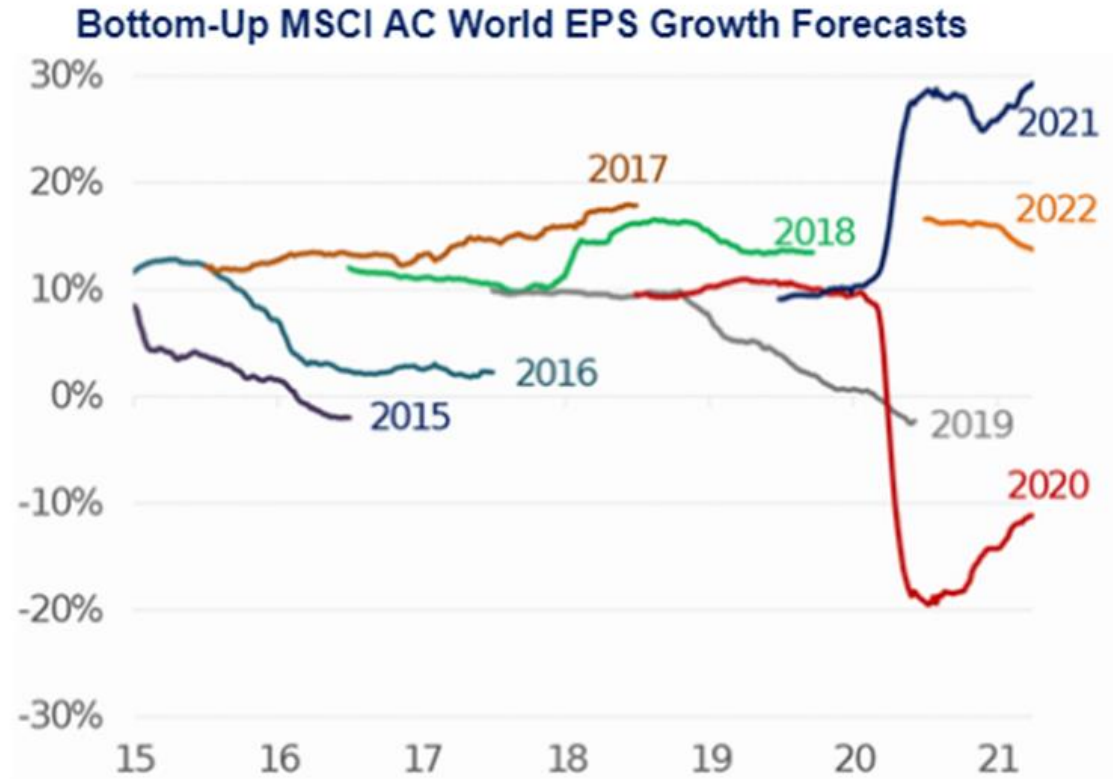


# Purchasing Manager Indices Show Strong Positive Momentum





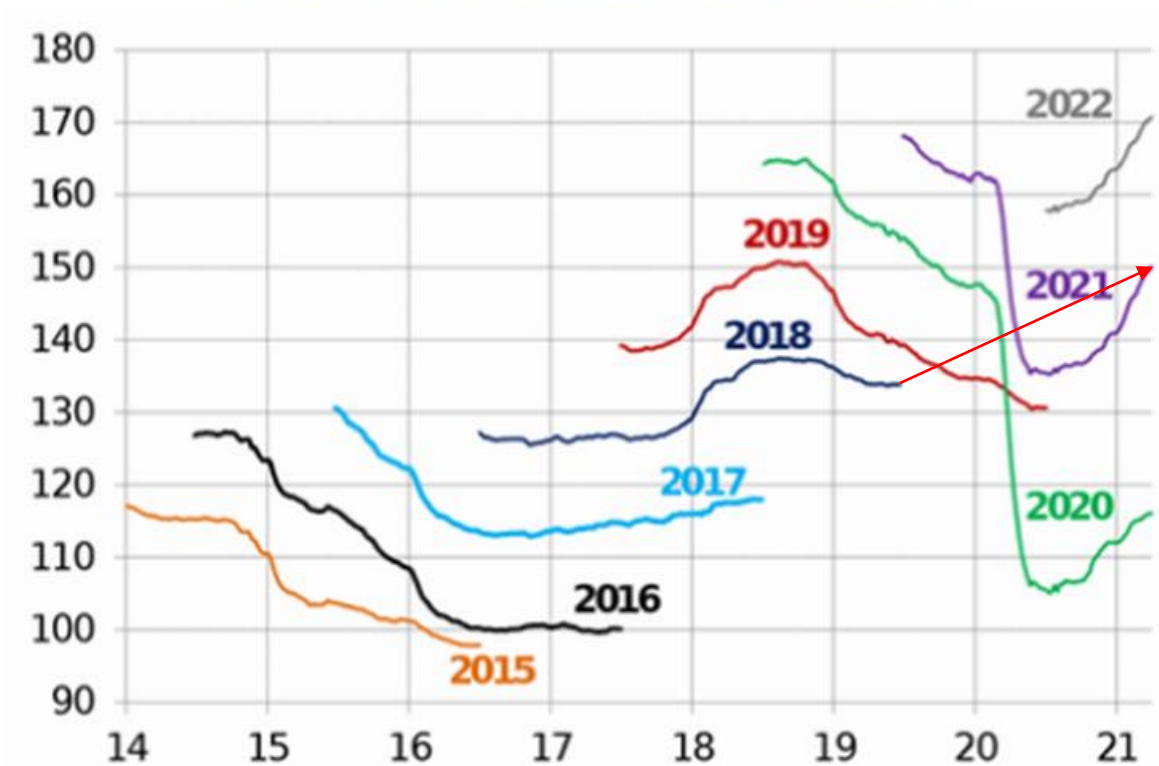
## The Outlook For Global Earnings





## The Outlook For Global Earnings – 2021 F/C +11% vs 2018 Prior Peak

### Bottom-Up MSCI AC World EPS Levels

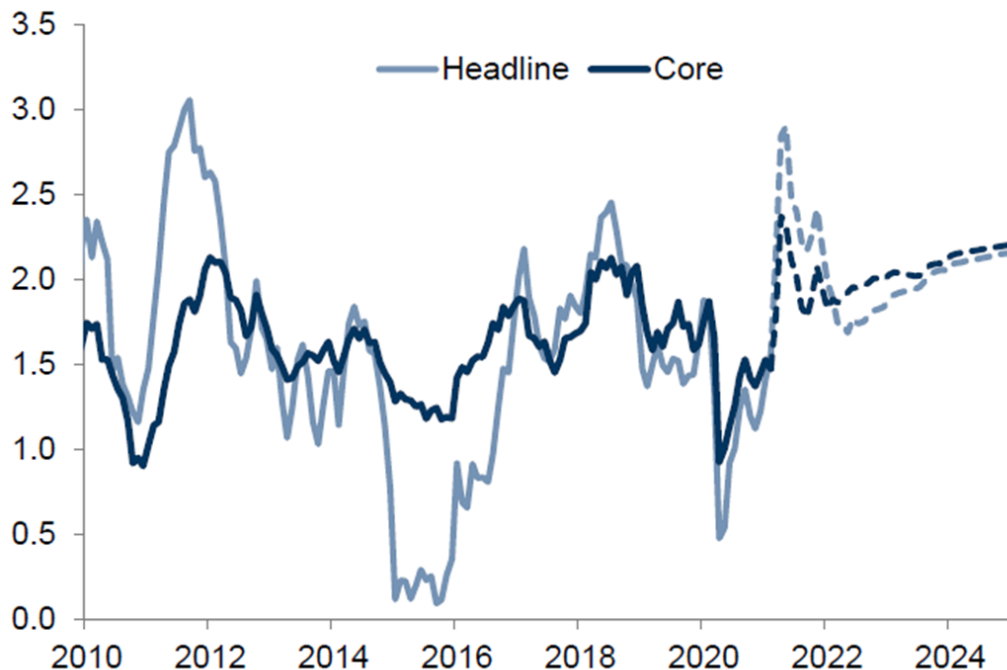




## Here Comes The Inflation Spike – Will It Fall Back?

Core PCE to jump sharply before falling to 1.95% by year-end

Headline and core PCE inflation, % change yoy



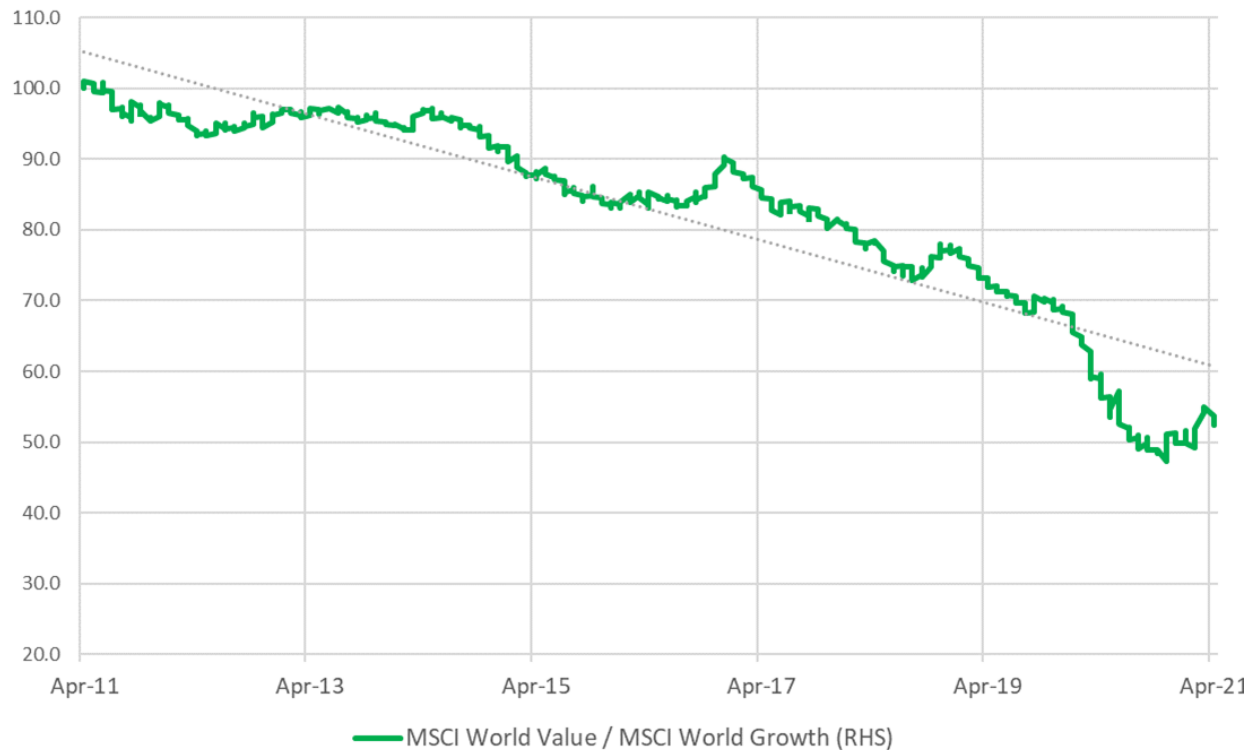
Note: Dotted lines indicate GS forecast.

Source: Department of Commerce, Department of Labor, Goldman Sachs GIR.



# Value vs Growth – More To Go?

Value v Growth







## What Does This Mean For Portfolios?

### **Underweight Government Bonds**

- Preference for Index-Linked/TIPS

### **Fully Committed to Equities**

Tactically - Continued Rotation Ahead

- Short Duration beats Long Duration
- Cyclical beats Defensive
- Value beats Growth
- Greater emphasis on Sectors vs Regions

### **Increased Interest in Alternatives**

- Inflation Hedges
- Volatility Dampeners
- Idiosyncratic Alpha
- Income Generation



## Is This A Bubble?

### No – But Pockets Of Speculative Activity

#### Some Concern

- (Mainly) US Retail
- IPOs
- Thematic ETFs
- SPACs
- Crypto and NFTs
- GameStop
- Archegos

#### Less Concern

- Housing (US)
- Equities
- Credit



## Looking Further Ahead

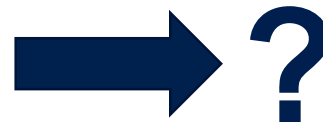
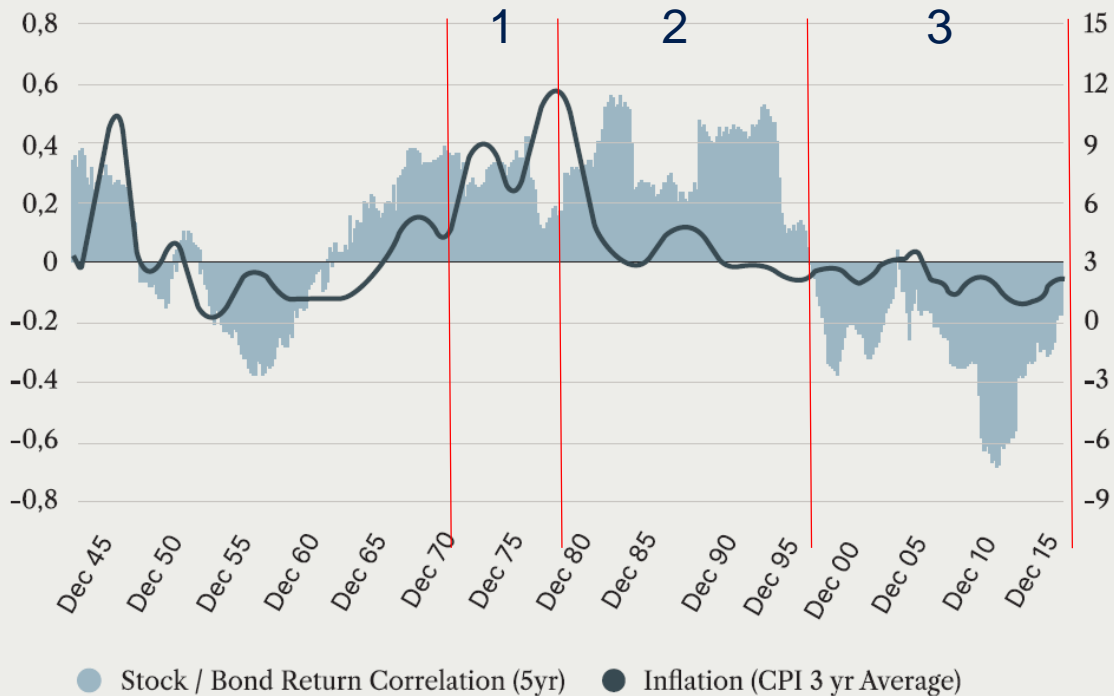
- How Do We Pay For Covid?
  - Austerity – No
  - Grow out of it – Unlikely, but possible
  - Higher Taxes / Wealth Redistribution – Almost Certainly
  - Financial Repression – Quite probably
- Technology Convergence
- Environmental, Social , Governance
- Inflation – Be Careful What You Wish For...



# The Most Important Chart In The Pack?

## What constitutes a “balanced” portfolio?

Stock/Bond Correlation v Inflation



Source: Shiller, Ibbotson, Bloomberg, Investec Wealth & Investment



## Conclusions

- Don't obsess about today's equity market volatility
- Observe the **Stockdale Paradox**
- Ensure that portfolios are sensibly diversified to:
  1. Reduce volatility
  2. Exploit the widest opportunity set
- Consider the effects of potential higher inflation
- This presentation has been declared a Brexit-free zone!



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