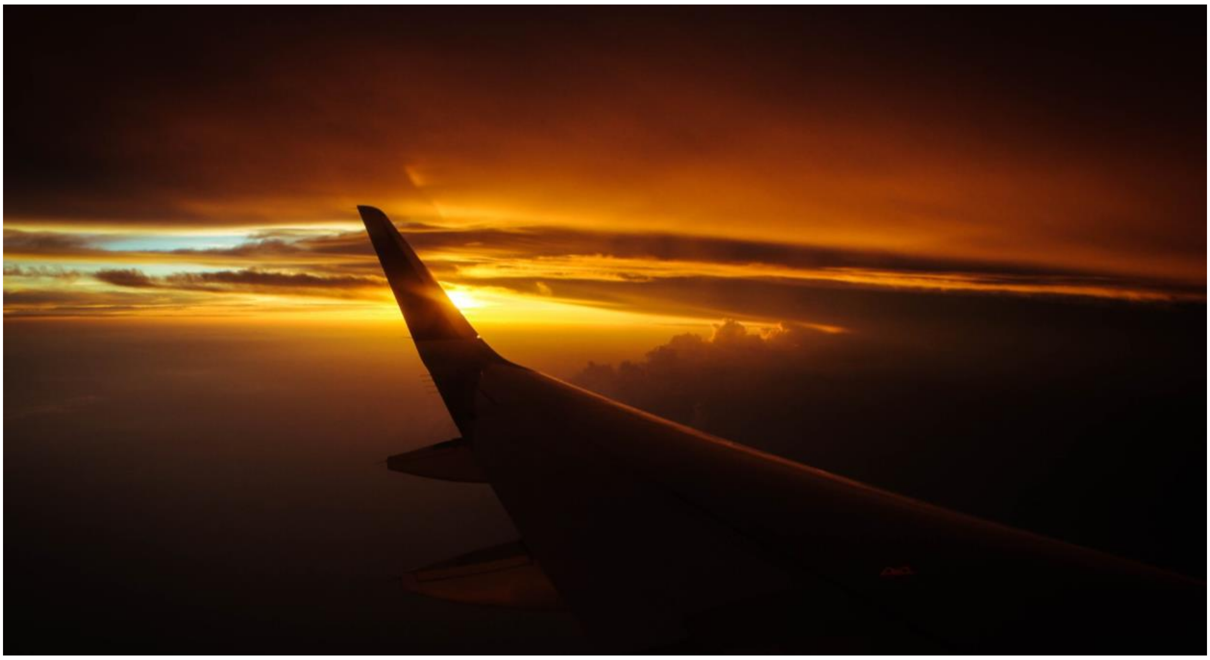

A Year of Healing

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After the year we have just had, I should refrain from making forecasts! Some habits however, are hard to break and so I thought I would pen my thoughts for the year ahead but with the caveat that it should be consumed with more than just a pinch of salt. I really do not need to remind anyone how disruptive 2020 has been. The fact that I am sitting in my study on New Year's Eve writing this piece is telling of how our lives have been transformed this year. Despite the current gloom, there is much to be optimistic about in the year ahead.

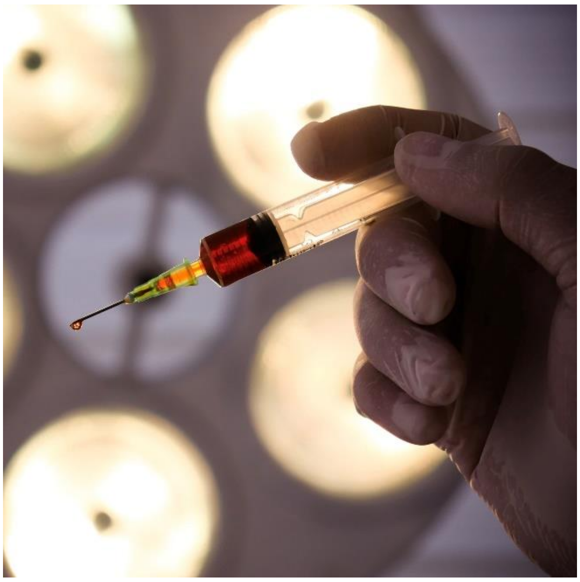
Brexit is now a reality and in less than 24 hours from now we will have left the European Union – with a deal! A new President will move into the White House in three weeks' time; one that is not likely to rely on twitter to communicate with the rest of the world and yet at the same time Joe Biden does not command the necessary majority in the Senate to bring about sweeping tax reforms or antitrust legislation, thereby maintaining the status quo. Meanwhile, vaccines are being approved thick and fast with Astrazeneca joining Pfizer/Moderna as the second vaccine to be approved for distribution in the UK earlier this week. There is now a real glimmer of hope that we could see the current restrictions on their way out permanently by Easter and of life returning to normality in the second half of this year, financial markets simply thrive on this sort of stability and predictability.

CENTRAL BANKS

2021 will see the start of a new economic cycle. Central banks will continue to support the fragile recovery from the pandemic so we should expect interest rates to remain low, probably for several more years to come. Although such loose monetary policy suggests inflation will surely follow, there is plenty of slack in the economy for this not to be the case, that combined with the large output gap means this will not be a real concern for Central Banks. And let's face it, a little inflation would not be such a bad thing for the sheer amount of debt governments around the world have piled up in their efforts at providing relief measures for the pandemic. Such a low interest rate environment will be hugely supportive for risk takers (read equity investors) and borrowers in general and punishing for savers holding on to cash or government bonds.

EQUITY MARKETS

The roll out of vaccines over the first six months of the year should see activity levels returning to normal in the second half of the year. During the pandemic we saw a clear divergence in equity markets with 'stay at home stocks' such as tech, online order processing etc., faring rather well. In the second half of 2021, we expect companies that encourage you to 'go out and spend', like travel, hospitality, consumer discretionary and industrial will emerge as beneficiaries of the



return to normality. Investors should seriously consider repositioning themselves to take advantage of this rotation to cyclical stocks, however, the first quarter can still be quite murky as we see the financial impact from the current lockdown continue to play out. This optimism for the second half of the year is of course not without risks. Easing of restrictions and the economic recovery that is anticipated to follow could be thwarted by any adverse side effects from the vaccine, the duration it will provide us with immunity and any future mutations of the virus itself.

NEW US ADMINISTRATION

It is now clear that the Democrats share the same wariness of China as the Republicans and so we are unlikely to see a total change in direction of US policy on China. Biden however is likely to handle matters with more diplomacy than his predecessor and this change in tone should provide the encouragement for more global trade which will benefit emerging markets, particularly in Asia. Strong global growth coupled with declining yields in the US could see the US Dollar come under significant downward pressure.

LONG TERM TRENDS

The pandemic has seen some of the long-term trends accelerate further. The technology sector is expected to continue doing well, particularly as 5G brings with it more connectivity. There is no escaping the fact that we are all living longer which means healthcare will remain an area where we see continued investment. This has been highlighted even more in the recent pandemic. The move to personalised medicines, virtual consultations with medical experts, the increase in use of wearable monitoring devices and reliance on robotics for the provision of basic care are just some areas that have tremendous potential for development. The fintech sector meanwhile continues to innovate and take market share from traditional financial services companies that are slow to embrace change. With many governments the world over setting ambitious targets for reaching zero emissions and banning the use of fossil fuels for transportation by the end of this decade, we are likely to see the race for clean energy gather momentum. All these trends result from long term shifts in behavioral patterns and evolving demographics. We expect them to continue to play out over the course of this decade.

CONCLUSION

The consensus among economists is that Global GDP Growth in 2021 will range between 4-6% and equities look set to deliver a double-digit growth over the course of the year. If this projection plays out, then sitting on the sidelines will mean paying a heavy price. Whilst the mood is optimistic it is certainly not exuberant when looking at the current subdued levels of economic activity together with the very real prospect of a return to normality by the second half of the year. As the Rumsfeld matrix suggests there is always the risk of ‘unknown unknowns’, such as COVID-19 was at the beginning of 2020, that have the propensity to derail any amount of meticulous planning. We remind our clients of the two key principles that have never lost their relevance when it comes to investing, firstly diversification remains the key to not being wrong footed but just as importantly, time is an investor’s best friend.

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