

7th December 2020

The Significance of Stability

Over the past couple of weeks, we have seen:

- Joe Biden elected as the 46th United States President.
- Political stability returning to the US, with President Donald Trump (in spite of his various legal challenges against the outcome of the US election) gradually taking steps towards the process of transferring power to Joe Biden.
- Multiple companies announcing the results of their COVID-19 Phase 3 vaccine trials, with, efficacies of greater than 95%. These companies include Oxford University-AstraZeneca, Moderna and Pfizer & BioNTech.

On the back of these significant events:

- The US 10 Year treasury yield has risen over 100% to 0.95%.
- The S&P 500 has risen immensely to 3699,12 points.

S&P 500 Index

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- The S&P VIX has declined 56% to 20,79%.

CBOE Volatility Index

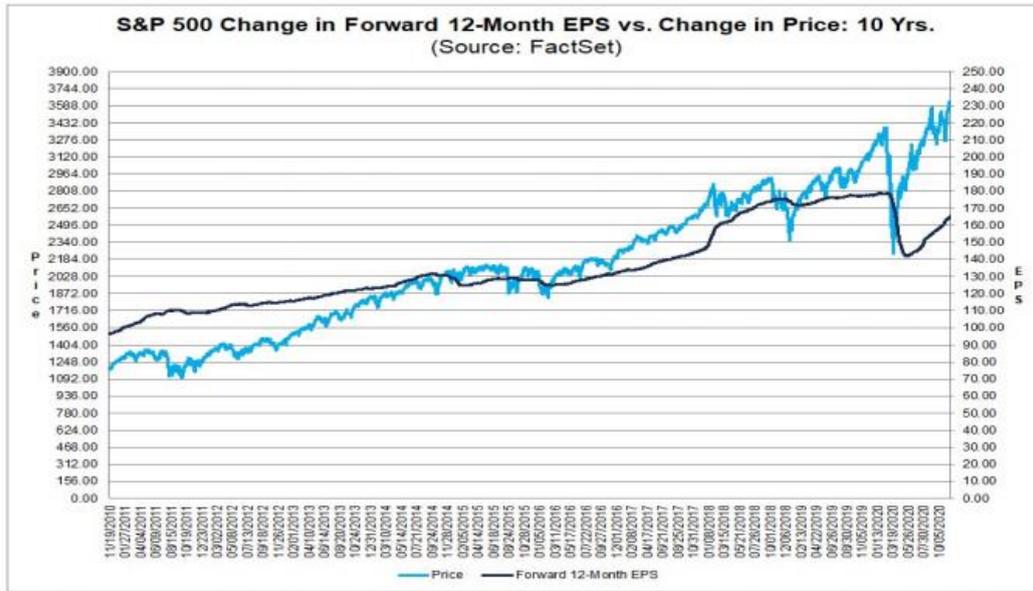
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We view the outcome of the US election and COVID 19 vaccine announcements as significant signals to capital markets. Namely:

- More stable trade relations.
- Increased certainty with regards to overcoming the COVID 19 pandemic.

There has been a broad-based rally (ex-ICT stocks) in equities. We believe the market continues to reprice on the above-mentioned certainty. This is demonstrated by the overall price of the S&P 500 moving ahead 12-month earnings forecasts. Refer below:



On the back of record low interest rates, continued stability, economies returning to pre-2020 capacities, we continue to favour a full allocation to equities, specifically in global cyclicals and healthcare. However, the strong rally in US markets since April 2020, has opened a gap between US markets and the rest of the world. This is demonstrated by the fundamentals, in the table below:

	US - Combined S&P and Nasdaq	Hang Seng	FTSE100	DAX
Price/Earnings	22.06	12.74	16.29	15.3
Price/Book	3.45	1.16	1.64	1.52
Price/Sales	2.57	1.62	1.38	1
Price/Cash Flow	14.28	9.23	9.69	6.89
Dividend Yield %	1.65	2.9	2.63	2.75

The relative risk of remaining overweight in US equities, has increased versus other global markets. Presently we favour China, other emerging markets, and UK stocks (on the back of finality to BREXIT negotiations). We therefore have taken profit on our US exposures and allocated (via exchange traded funds) to Chinese, Indonesian and Vietnamese markets. These economies continue to grow at over 5% per annum and are likely to benefit from easing trade relations with US and a weaker US Dollar.

We have also taken profits on our exposure to Swiss insurance groups (Swiss Life, Zurich Re, Hannover Re etc.). Since we entered these positions in May 2020, these counters have grown over 12%, on the back of the global search for yield. Our clients have earned dividends of approximately 7-8%, for a total return of 19-20%.

As yields rise through 2021, we continue to monitor treasury yields. We expect to decrease our overweight positioning in equities and allocate to treasuries, corporate debt, and property assets.