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A Season to be Joyful

As we enter 2021, we have seen over the past couple of weeks:

- Pfizer's and Moderna's COVID-19 vaccines receive both FDA and UK approval, and
- Immediate roll-out of COVID-19 vaccines to front-line and high-risk persons, by United States, United Kingdom and European hospitals.
- The last-minute finalization of the Brexit withdrawal agreement, between Europe and the UK.
- US lawmakers reach an agreement on a further $900 billion stimulus package, including another round of direct payments to households,
- An increase in financial stability for Emerging Markets.

The UK emerging from BREXIT and its COVID-19 slumps

We view the outcome of the vaccine deployment across the UK and the Brexit deal finalizing as positive signals to the UK economy. Relative major indices for the US, EU, and China versus the UK (unchanged since our last update, *The Significance of Stability)*, favour the FTSE index over other leading capital markets. Despite the imposition of new lockdown regulations across the UK, the UK economy continues to stabilize, with companies across all sectors, including healthcare, banking, and mining, recommencing their dividend payout programs. This correlates with our ongoing rotation out of US positions and into UK, Chinese and other emerging market stocks.

	US (S&P & 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	1.00
Price/Cash Flow	14.28	9.23	9.69	6.89
Dividend Yield %	1.65	2.9	2.63	2.75

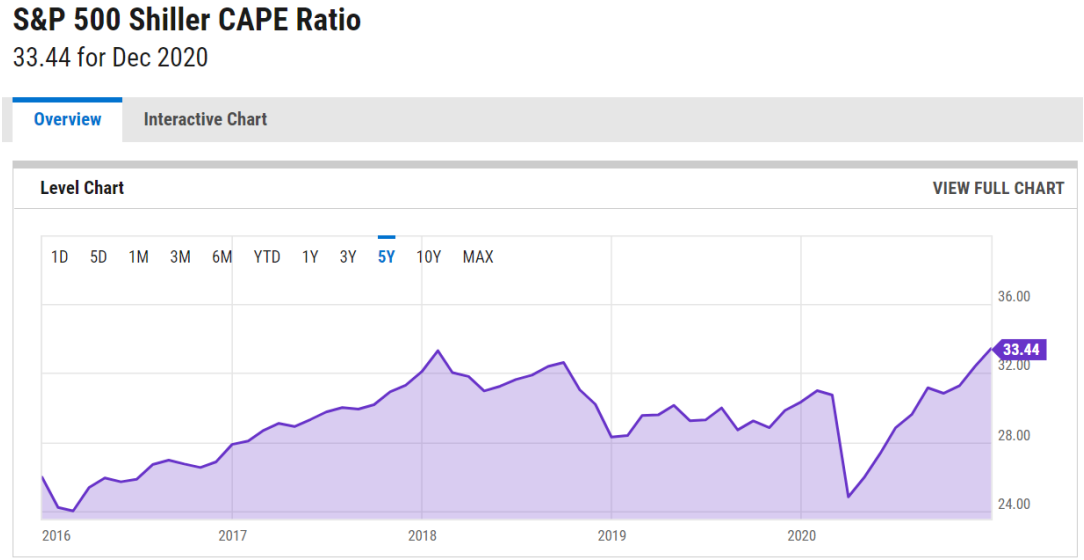
**Comparison between FTSE 100, Stoxx Europe, and the S&P 500 index*

Further fiscal stimulus in the US

US congressional leaders have reached agreement on a further $900 billion coronavirus relief deal. The US Senate resolved differences over the US central bank's lending powers, to allow the Fed to continue lending to corporates, municipalities, and medium size business. On the back of this continued liquidity, we believe interest rates should remain low over the short to medium term, with a return of inflation in the medium term. This reiterates our current overweight position in equities.

S&P 500 Shiller CAPE Ratio

The S&P 500 Shiller CAPE Ratio, also known as the cyclically adjusted price-earnings ratio, is defined as the ratio the S&P 500's current price divided by the 10-year moving average of inflation-adjusted earnings. The index currently sits on 33,44 points – like the index's position in 2018. Based on the CAPE Shiller Index and other relative valuations (refer to the table above) we view US equity valuations as stretched.



Other historical highs, include:

- Significant increases in shares such as Tesla,
- Bitcoin moving through the $20,000 barrier,
- Further compression in corporate bonds yields,
- Recent initial public offerings,
- A return of major mergers,
- A surge in emerging markets, and
- A record breaking $722 billion borrowed funds by investors against their portfolios in November (This tops the previous high of $668 billion in May 2018).

Based on our ongoing analysis and research, asset prices appear stretched. Recent market activity seems to be characterized by increased optimism. Investors appear to be ignoring market fundamentals and bidding up an asset prices beyond their long-term intrinsic value.

Going forward our house view:

- Remain focused on a potential shift out of US markets, into alternative asset allocations with less downside risk.
- Continue to remain bullish in equities for the short-term, favouring alternative markets to the US.
- Continue to apply capital to other sectors and markets, which present increased value, either directly or via exchange traded funds (ETF's). This includes: Emerging Markets ex-China, FTSE listed companies, and The Russell 2000 index.

We believe these markets will continue to benefit from world stability as we enter the recovery stage of the economic cycle.