April 2021

Developed Markets Leading the Charge

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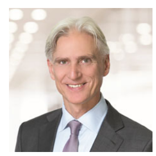

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Global equities continued their move up, closing March positive at 2.7% (MSCI ACWI in USD terms), with the Euro Stoxx 50 closing up a healthy 7.9% (EUR) and the S&P 500 up 4.4% (USD). The Russell 2000 started to lag ending the month at 1.0% (USD)[1]. The end of the month saw supply chains disrupted by a giant container ship, the Ever Given blocking the Suez Canal and the collapse of a US family office led to some temporary volatility amongst Financials.

Developed Markets leading the charge: The US's relatively fast vaccine roll out sets it on course to lead re-opening and growth again. It has not experienced some of the bumps that continental Europe has, with first supply issues and then a temporary suspension of one of the vaccines. Excluding China, many emerging markets will have to wait longer for the vaccine and for their economies to fully re-open and normalise. Further good news for the US came in the form of additional stimulus, as the $1.9 trillion The American Rescue Plan Act of 2021 passed[2]. In addition, President Biden will reveal the $2 trillion US infrastructure plan, anticipated to be funded by tax hikes.

Tug of war: That said, whilst volatility is currently relatively low, there are still reasons to be cautious. There appear to be divergent expectations. Many corporations are issuing record amounts of stock – implying they

The index performance is provided for illustrative purposes only and is not meant to depict the performance of a specific investment. **Past performance is no guarantee of future results.** See Disclosure section for index definitions.

1. Bloomberg, 31 March 2021.
2 www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/

think pricing is high and that this is a good time to sell. At the same time, there are record equity flows, meaning investors think prices are low enough to be attractive to buy. At $313 billion, global equities experienced the largest quarterly inflow on record[3]. This is like a tug of war between market participants who have divergent views and is a fragile situation in principle. We have not yet had a correction in valuations, meaning equities could be vulnerable and we do expect another leg down particularly in high-multiple growth stocks, though pinpointing the timing is challenging.

Investment Implications

Although US 10-Year Treasury yields appear to have stabilised at approximately 1.7%[4], we still remain concerned about rising bond yields, while a potential shift in the willingness of central banks to suppress bond yields could be negative for equity valuations. Given this risk, we lowered equity exposure, whilst within equities we reduced any growth bias, as we expect investors to position towards cyclical recovery stocks at the expense of growth stocks. Even if the pace of rate rises slows, upcoming tax headwinds, as well as the valuation gap, could still support a continuation of the rotation into value.

US Small Caps

We took profits on this position, moving from overweight to neutral as the valuation gap between small and large caps has narrowed. The price rotation has largely played out compared to past cycles. In addition, earnings revisions have been lagging large-cap peers and negative earnings are at elevated levels. Finally, leverage has increased compared with large caps and so when interest rates rise, this should have a larger relative impact on small cap margins.

Global Clean Energy

Towards the end of March, we closed our remaining position in Global Clean Energy. The case for outperformance in 2021 has diminished. Despite the positive structural growth story and the pull-back in renewables over the course of February, we think structural growth expectations are already embedded in valuations. Moreover, utilities are likely to remain under pressure from a combination of rising bond yields and growth-like valuations.

EUR/USD

We moved from positive to neutral on the euro relative to the US dollar. The outlook for the US dollar has improved, as the US in our view is likely to lead the global recovery, thanks to better access to vaccines and greater fiscal support. The Eurozone's Current Account is holding up well compared to the twin deficit in the US. Nonetheless, the additional debt-funded US fiscal spending will likely be a catalyst for better growth in the region. The US dollar is also gaining support and reversing last year's depreciation trend. It is now better supported by the increase in yields, both nominal and real.

3. GS Research Division. EPFR Global.
4. Bloomberg, 7 April 2021.

Tactical positioning

We have provided our latest tactical views below:

Asset Class	--	-	=	+	++
Equity					
US			■		
US Small Cap			■		
Eurozone			■		
Germany				■	
UK				■	
Japan			■		
Asia ex Japan				■	
China A-Shares			■		
Emerging Markets			■		
LatAm			■		
Global Infrastructure			■		
Global Property			■		
Global Clean Energy			■		
Global Financials				■	
Global Conventional Energy				■	

Asset Class	--	-	=	+	++
Fixed Income					
IG Credit			■		
US High Yield			■		
European High Yield			■		
EM Sovereign Debt HC			■		
EM Sovereign Debt LC			■		
US Treasuries		■			
US Inflation			■		
German Bunds		■			
EU Peripheral Bonds			■		
JGBs			■		
Commodities					
Gold			■		
Industrial Metals			■		

Source: MSIM GBaR team, as of 31 March 2021. For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor.

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Euro STOXX 50 Index: Provides a blue-chip representation of supersector leaders in the Eurozone.

MSCI All-Country World ex USA Index (MSCI ACWI): A free-float-adjusted market-capitalization index that is designed to measure equity market performance in developed and emerging markets, excluding the United States.

S&P 500 Index: The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.

Russell 2000 Index: Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

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