B Capital SA
Rue Jean-Calvin 14
1204 Geneva
Switzerland

Tel +41 22 317 7823
Fax +41 22 545 7714

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B Capital 2020 Market Review & 1Q2021 Investment Outlook

A strange year. 2020 had barely begun when, on 23rd January, the Chinese authorities imposed a quarantine in Wuhan after a novel coronavirus that had possibly come from animals in a market (but more likely came from a laboratory) started to infect the people of Hubei province. We barely need to recap the rest of the year as the COVID-19 virus has become the pandemic headlining daily news, easily compared to the Spanish flu outbreak of 1918 but thankfully not as deadly, touching everyone's lives around the world.

Markets fell some -34% in 12 trading sessions in March, a precipitous fall that was so fast that there was little time to react, and which made the 6 month decline in the depths of the 2008/9 Global Financial Crisis look distinctly glacial in pace. It reminded us that news is now so quick to arrive in our phones and devices and trading can be executed so rapidly with online platforms that when investors feel the need to react it can be brutally swift, even if often tactically wrong. Active funds bore the brunt of massive outflows while once again low-cost passives (ETF's) benefitted from asset rotation.

Heading into the crisis, we had already built up cash and also a year previously had added to precious metals in case of a slowdown in the global economy, with an eye on inflation at the same time. This helped smooth the heavy drop in equities and gold and silver are showing good profits today.

We believed back in 1H2020 that the broad constriction of economic activity would be met by rapid central bank efforts to ease monetary policy and so it was. In fact, the concerted efforts of the central banks and the politicians to ease rates, initiate monetary stimulus and to devise grand furlough schemes and offer grants was more impressive than we had guessed. Not all governments grasped the nettle early enough and those that took aggressive action to lock down found themselves with much better outcomes than those that dithered or denied the reality, such as the US and Brazil, whose presidents scoffed until they too coughed.

The financial markets went from fretting over a new depression akin to the early 1930's, to optimism that carried US equity indices to double digit returns for the year and lessened the losses in Europe significantly. The MSCI World finished the year +15%, driven by the technology and healthcare sectors while some sectors such as transport, hospitality, and energy lagged significantly.

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Trends that had already started were accelerated by the sudden change in human behaviour around the world. E Commerce has been the prime beneficiary of course, but a more subtle change should be noted as well. Businesses and sectors that had invested in digitalisation reaped the rewards of developing new channels for their customers. An example is the adoption of online portals by some supermarkets which saw unprecedented volumes of new customers and spent much of the year struggling to meet demand. Alas, retailers without a smart 'click and buy' platform found themselves left behind in analogue purgatory.

Asset allocation favouring equities remains in our view the best means to make money over the next two years and beyond. The vaccine news in early November 2020 was a welcome game changer and, combined with better and faster widespread virus testing, is a reason for optimism. The world economy will grow in 2021 at around 5% and could even accelerate faster. Some major risk events have now passed by, most notably the US Presidential election and finally Brexit.

The outgoing US President has brought shame on himself in recent weeks, stirring up fatal violence in Washington but this, from an investor's point of view, has sealed his fate as a historic figure, no longer a risk as he may even be banned from future public office. Relief is palpable.

In Europe, Brexit is finally done and although it is a rough and ready outcome it is also another hurdle for investors to put in the rear view mirror. Trade has certainly been damaged in the short term but the importance now of a more federal Europe that can focus on growth with less distractions cannot be understated if the bloc has any chance of keeping up with its more agile peers such as America and Asia. Could this be the year when Europe looks to growth and ceases to look inwards at its fault lines?

What we know about global growth is that there are huge stimulus packages already under way. Trillions of dollars are being transferred from government balance sheets to the economy. That will benefit the people, as it is intended, and companies will see a strong upswing in volumes if they are positioned to handle them. How governments will reduce the sovereign debts they are creating is another question entirely but, in short, it fixes the problem of today and presumably inflating the debt away is one option, combined with new taxes on the middle classes and companies is another.

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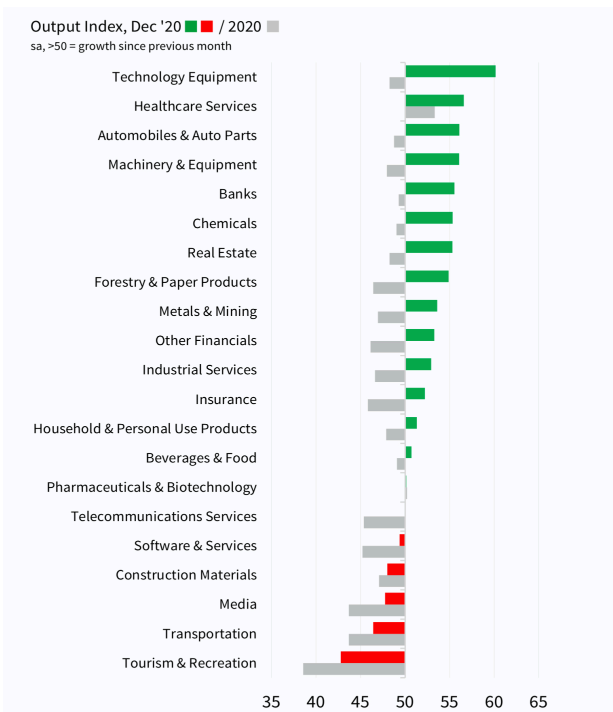

Fig 1 - Growth For Most. PMI Readings By Sector Globally (Jan 2021)
***Source - IHS Markit**

So, we continue to counsel investors to keep the faith with equities and even to increase allocations to such risk assets as we see more growth indicators turn green.

PMI's as a leading indicator are showing the way with readings in the high 50's in many regions.

As always, it feels like there is much to worry about but in fact there is less now than at any time in 2020. We don't know exactly how the virus will be suppressed, nor do we know when the next political spat with Iran, the Middle East, China or Russia might occur.

It was 'time in the market' that paid off last year and as we cannot easily predict the next bout of volatility it will pay off again in future.

We will continue to refine the allocations within equities to adapt to the changing outlook and the continuation of the themes we have already identified.

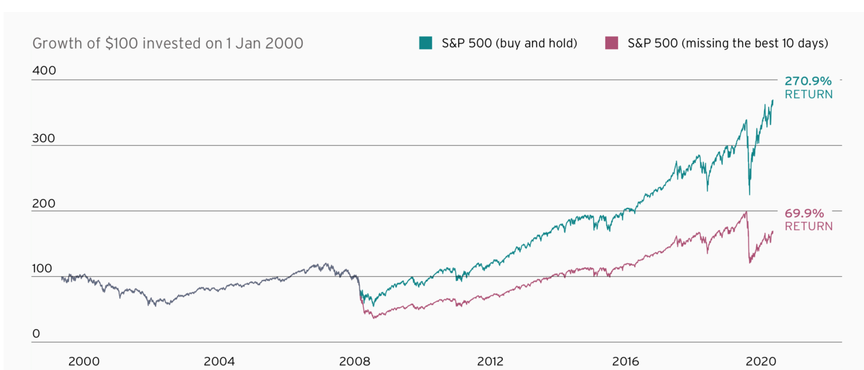

Fig 2 – "Time In The Market" - S&P500 Index 'Buy & Hold' Performance vs S&P500 Missing The Best 10 Days
***Source - Citi**

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We continue to refine the allocations within equities to adapt to the changing outlook and the extension of the themes we have already identified. No doubt the tech beneficiaries of the crisis will face questions over the steeper growth rates of last year but at the same time there is in our opinion a sense that the pandemic just accelerated changes that were already under way and which have some way to run yet. In addition to our broad MSCI core holdings, we focus on a range of companies that are technology enabled and robust such as the top 100 companies listed on the Nasdaq as well as those that will benefit quickly from the huge recovery packages coming down the pipe such as smaller companies in the Russell 2000 Index in the US.

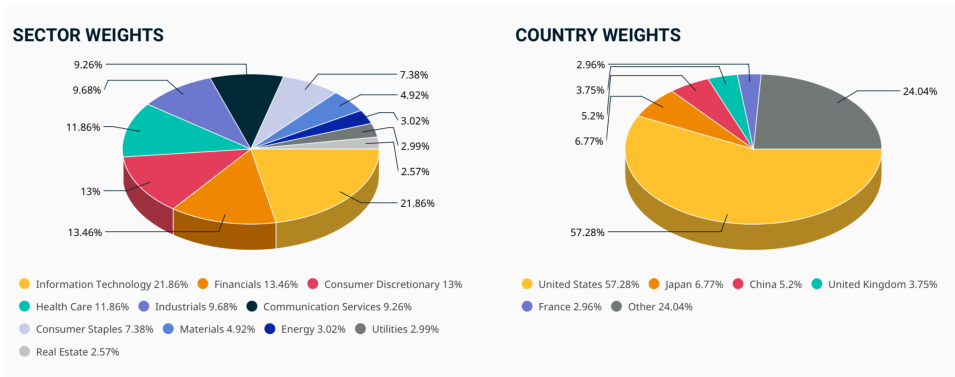

Fig 3 - The MSCI All World Index By Sector & By Country
***Source MSCI**

The growth rate in China and its ability to manage the pandemic very well on a relative basis also naturally leads to optimism for its corporate sector. This is expressed in the portfolios through a low-cost index tracker following Chinese blue chip companies listed in CNY on the Shenzhen and Shanghai Stock Exchanges. There are potentially higher returns in the mid cap sectors in China but accounting and governance are significantly more opaque at this level, presenting risks which outweigh the benefits.

Over time it is certain that China will become the world's largest economy, and its share of the world's stock markets will grow from a mere 5% today. We anticipate weighting further assets towards Asia in recognition of the potential there, while remaining balanced in our approach towards regional risk.

Overall, in 2021 we will witness a continuation of the recovery for the global economy and, supported by stimuli and vaccines, personal lives and business activity will improve together. For specific recommendations, clients should log into the B Capital investment online portal. We wish everyone a healthy start to the year and we are working hard to deliver another profitable year for investors.

Lorne Baring
Managing Director

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