B Capital SA
Rue Jean-Calvin 14
1204 Geneva
Switzerland

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

Thursday 22 April 2021

B Capital Commentary and Outlook Update 2Q2021

At the start of 2021, the pandemic continued to be the focus for investors as 84m infections and a wobbly start to vaccinations programmes kept everyone alive to the risks of long-term shutdowns in the global economy. For the travel and leisure sectors it is certainly the worst of all possible worlds with 2020 wiped out and the rest of this year still looking uncertain as total cases have now leapt over the quarter to 143m. Yet stocks rose across all regions and yields are climbing, with a general sense that soon the COVID-19 disaster will be behind us.

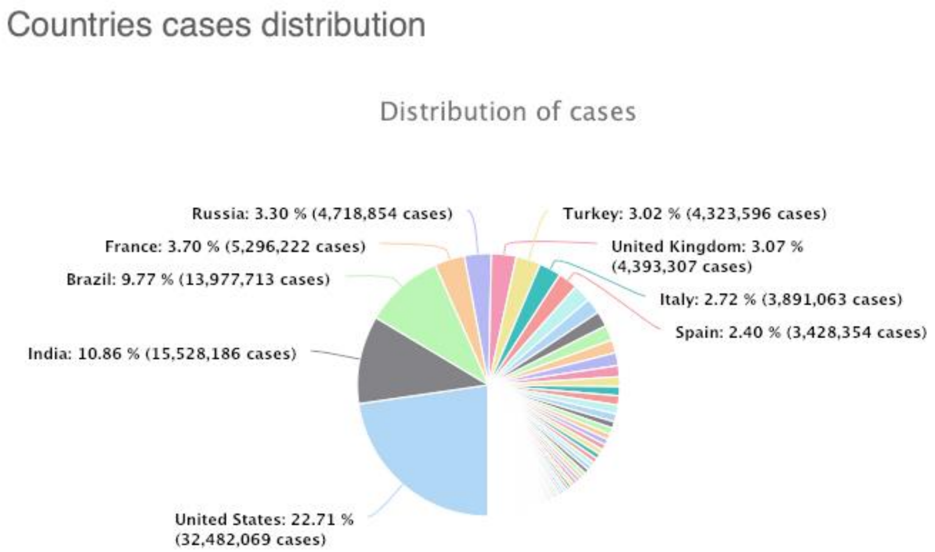

Fig 1 - Global Distribution of COVID-19 Cases. Source - worldometers.info

continued

continued

The FOMC meeting on 17 March 2021 issued messages of support for markets, principally those in the US, explaining that stimulus is still needed in great amounts and that it would be watching out for a sizeable reduction in the region's unemployment rate, which naturally should then feed into healthier consumption and broad economic stability. Inflation, said Jerome Powell, was not today's worry and loose monetary policy will continue. Many markets, including equities and EM, have benefited from these record loose financial conditions and, more generally, investors' use of the liquidity supply underpinned by central banks' ultra-supportive policies. The good news is that this has allowed many companies and corporates to refinance themselves, pushing debt problems down the road and enabling quite a bit of financial engineering that has benefited investors much more than the man on the street. But it does expose market segments to liquidity risks and, as we have seen on a few occasions in the recent past, this is not just an issue for the traditionally less liquid segments.

Inflation should pick up as a result of this clear policy action and we think that this will be noted by markets over the year, resulting in higher yields and some bumps in the journey for equities. Will there be a bond sell-off like 2013 when we saw the "taper tantrum"? In fact, during the first quarter there was a whiff of panic as yields on the 10 Year began a march higher, leaving the more recent long bond purchases looking very dicey. Inflation in the US may well get close to 4% this summer, which is double the Fed's target rate and it will be a headline grabber when this happens. Benign inflation, when consumers get out spending, is a good thing, especially after the shock of 2020, and equities are a good way to benefit from this as companies pass on higher prices to clients. On the other hand, inflation needs to be under control and higher rates are a natural sequitur to cool things down. The balancing act by the Fed will be to boost the economy enough that it can withstand some rate rises in 2022. It's not the end of free money just yet but the ultra-low interest rate phase will probably start to end sometime soon and that will bring some volatility.

Where are markets headed for into Q2 and the rest of 2021?

Looking at the US still, at the end of the first quarter, 94 of S&P 500 Index companies had issued EPS guidance for the quarter. Of these 94 companies, 34 have issued negative EPS guidance and 60 have issued positive EPS guidance. The number of companies issuing negative EPS guidance is well below the five-year average of 66, while the number of companies issuing positive EPS guidance is well above the five-year average of 35. If the guidance trend continues it will mark the highest number of S&P 500 companies issuing positive EPS quarterly guidance in over a decade and a half. At corporate sector level, the Information Technology sector has the highest number of companies issuing positive EPS guidance and positive revenue guidance of all the 11 sectors.

continued

B Capital SA, Rue Jean-Calvin 14, 1204 Geneva, Switzerland. Tel +41 (0)22 317 7823, Fax +41 (0)22 545 7714.

continued

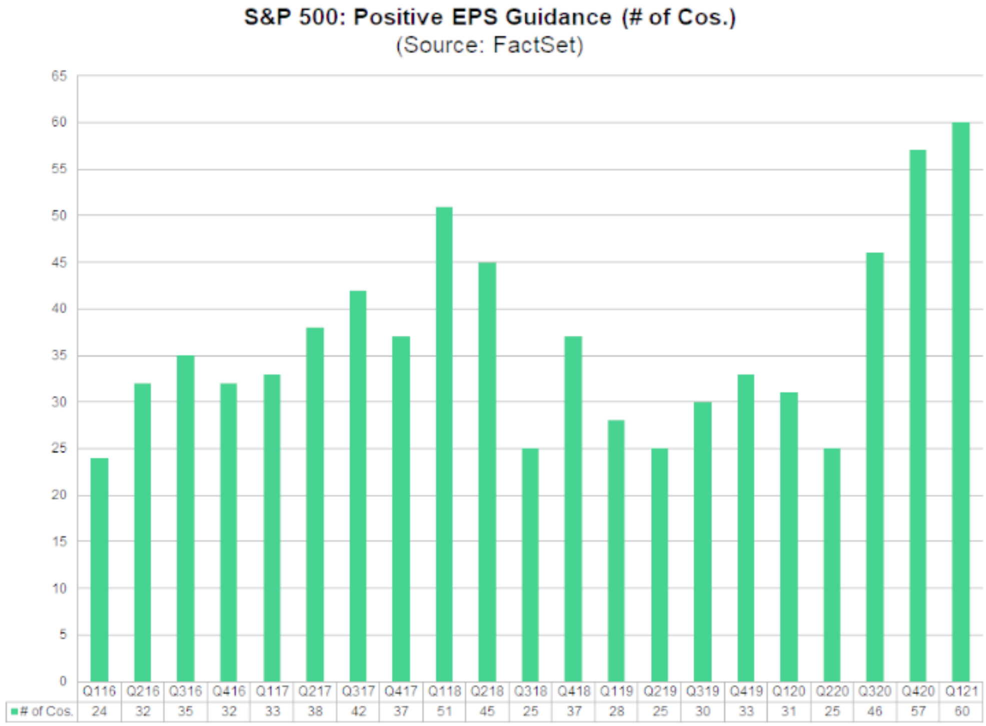

Fig 2 - S&P500 Index : Companies Issuing Positive EPS Guidance Climbs

Globally there is plenty of uncertainty ahead, as always, and at the time of writing a new worry out of India has surfaced as variants of the virus threaten the path out of lockdowns. It is hard to predict anything with confidence because we simply do not know the future, but I like the theme which Citibank has called "unstoppable trends". It means that although economies may accelerate and slow down, some trends are going to continue and if we focus on these we have a higher probability of achieving better outcomes. Tech, healthcare, renewable and cleaner energy are some of these at a business level, while the expansion of the Asian economies at the macro level is another. In the background, we look at the most likely outcome for global growth to give us the direction of travel for our investments.

The IMF global outlook has been revised upwards in April and is now close to the B Capital prediction in the last quarter of 2020, suggesting that growth will reach 6% in 2021 before moderating to 4.4% in 2022. The world economy contracted by -3.3% last year which is much less than was originally anticipated during 2020. The reasons are twofold; an early approval and distribution of vaccinations compared to WHO guidance, and secondly powerful monetary and fiscal support across all regions.

In Asia, Premier Li Keqiang hailed China's recovery from an "extraordinary" year. "A target of over 6 per cent will enable all of us to devote full energy to promoting reform, innovation and high-quality development," Li said, adding that Beijing would "sustain healthy economic growth" as it kicked off the new five-year plan. GDP soared 18.3% in the first three months of the year from a year ago, China's National Bureau of Statistics reported last week.

continued

B Capital SA, Rue Jean-Calvin 14, 1204 Geneva, Switzerland. Tel +41 (0)22 317 7823, Fax +41 (0)22 545 7714.

continued

Stimulus measures and growth revisions upward will likely cheer equity markets but will give bond investors some headaches. Yields may rise further and at the long end the volatility will pick up as duration is wound back to add protection. That means the bond market sell off in February this year will probably be repeated as economies heat up and attention turns to interest rate rises. To prepare for this bond duration should be shorter and we continue to favour investment grade issues at the lower end of the credit rating ladder, centred around BBB+. Precious metals are a counter to inflation worries and for some they represent an alternative to cash or a hedge against equity market risk. Overall, we see it as a play against a weakening dollar and fiat money generally and a source of returns with low correlation to equity markets. So far this year prices have fallen a little after a strong performance in the preceding period. In our view however, prices should pick up this year even as investors consider more risk and are potentially switching to cryptocurrencies; new instruments that are seeing a certain amount of mania right now. The Fed and the White House both expect any pickup in inflation this year to be temporary and just in case it isn't, precious metals should capture the upside.

Lastly, it's worth remembering that none of us know what the future holds but we should recognise that the ability to navigate the difficulties and attain progress is one of the most powerful attributes of humankind. As investors, it pays to keep the faith and remain invested for the long-term, even during periods of higher anxiety such as we have seen for the last year. Fortune does indeed favour the brave.

Lorne Baring
Managing Director