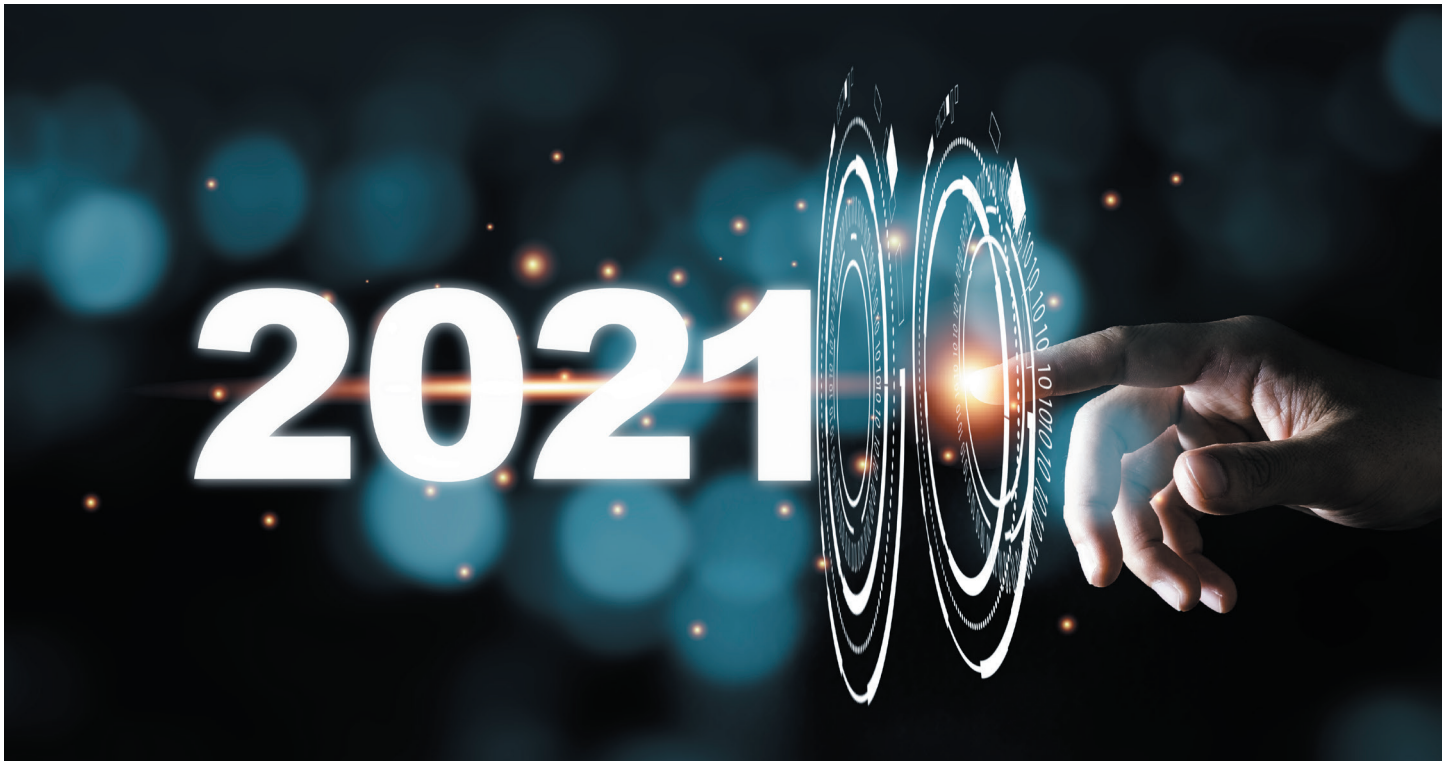
OUTLOOK 2021: A BRIGHTER FUTURE AHEAD



As we enter a New Year, the world is still wrestling with the Coronavirus pandemic. Looking back to the beginning of 2020, the year followed on from a reasonably strong performing 2019, and this momentum certainly continued for most of the first quarter. It was not until late-March when the world comprehended the dangers of Covid-19 and its high contagiousness which forced nations into lockdowns and subsequently caused markets to fall.

2020 saw the conclusion of the US Presidential election and Brexit deal negotiations.

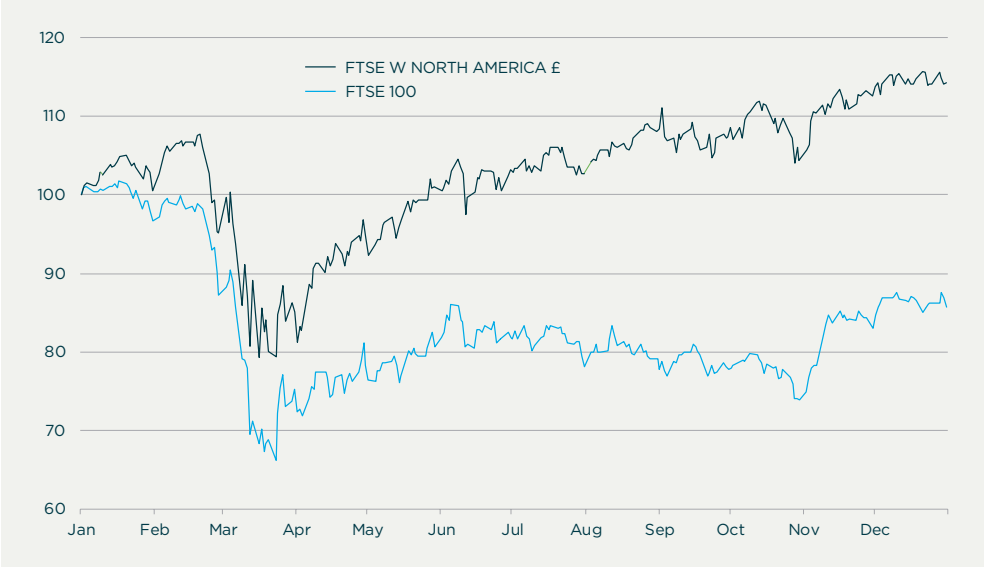
FTSE 100 struggled to recover finishing 2020 at -14.3% while North American equities were up 14.3%.

For the most part, markets did eventually recover and the first quarter of 2021 follows a positive end to 2020 as many regions and sectors managed to rectify the losses experienced in March 2020. Additionally, many of the geopolitical events such as the US Presidential election and Brexit deal negotiations, which dominated the headlines for most of the year, were completed by the year's end, resulting in slightly more certainty for the year ahead.

The FTSE 100 is still yet to fully recover from its losses experienced at the end of Q1 2020, finishing the year at -14.3%, which includes its peak-to-trough of -30% between February and March. The UK market certainly lagged behind global peers as North American equities finished the year in the green having climbed 14.3% and with most of the emerging markets also performing well. This US performance was significantly driven by the technology sector with the likes of Amazon and Netflix all benefiting from the transition of working from home. While the Covid-19 vaccine continues to be rolled out globally, national lockdowns remain prominent across Europe and the Americas, suggesting sectors impacted by Covid-19 will continue to struggle in the first half of 2021.

FTSE 100 had a difficult year but gathered momentum in the final months.

Chart 1: FTSE 100 and FTSE North America 2020 Performance



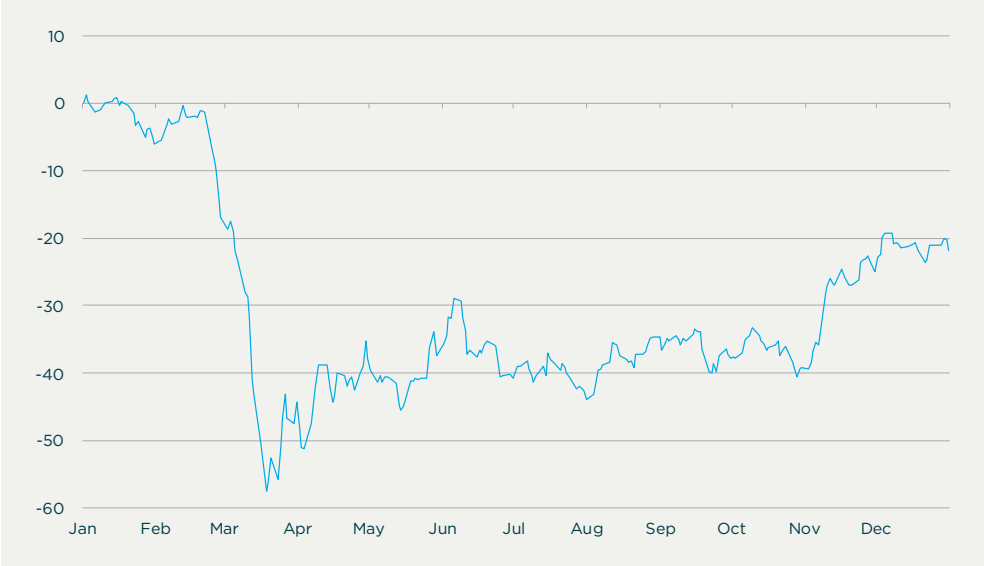
Source: Refinitiv Datastream, January 2021

Marathon not a sprint

We will likely be facing a longer-term economic recovery as opposed to a short to medium term one. Some sectors that have been impacted by government-imposed restrictions, such as consumer facing industries, may never fully recover. However, once lockdowns begin to ease – hopefully for the last time – retail, hospitality and travel industries will likely bounce back as customers try to return to some pre-Covid normality.

FTSE 350 Travel and Leisure index failed to fully recover from its near -60% fall in March 2020.

Chart 2: FTSE 350 Travel & Leisure 2020 Performance



Source: Refinitiv Datastream, January 2021

The UK surpassed the £2 trillion debt mark.

In 2020, investors have undoubtedly benefited from the government and central bank interventions which helped markets significantly. Quantitative easing and furlough schemes ensured business liquidations and job losses have been kept to a minimum, but will this come at a future cost? The short answer is yes, however, it might not be immediately. For the UK, surpassing the £2 trillion debt mark means tax rises are pretty much inevitable as the UK finally picks up some growth momentum following a thin Brexit deal being negotiated. Answers to how we are going to be paying for this in the immediate future will be given at the next budget in March.

Change of luck

There are a couple of factors that do benefit the UK market including the completion of a last minute Brexit deal. While it may not be the best deal for the UK, it could also be viewed as not being the worst either. Additionally, some dividend payments will likely return this year after 445 companies listed on the London Stock Exchange had to cancel, cut or suspend dividend payments in 2020.

A Brexit deal was one of the biggest uncertainties in 2020 alongside the US Presidential election which also came to a conclusion. A Democrat victory means Joe Biden will become the 46th President of the United States when he is sworn into office on 20 January.

While former US President Donald Trump did not surrender without a fight, the final nail in the coffin for the Republicans was the Democrat's win of the two available Senate seats. This means President Joe Biden has a better chance at implementing his sustainable agenda as well as rolling out a larger stimulus package which is still yet to be detailed.

The change in power in the US will turn it from a very inward looking country, "focusing on making America great again" to rebuilding its international relationships with the likes of China which will also be looking for a monumental year. The Asian powerhouse will be eager to pick up its exports as well as benefit from international investments as Chinese A-Shares and government bonds are to be included in several flagship indices this year, increasing the access for foreign assets into the country.

China's dominance, not only in Asia but globally, is likely to continue growing. Despite a notable impact on its exports during the recent crisis, China was the only major economy to expand in 2020 as its GDP grew by 2.3%. Over the next 10 to 15 years, China's middle-class consumers are estimated to double to 600 million, nearly twice the size of the US's entire population. More disposable income will result in more money going into domestic luxury consumer, travel and hospitality sectors. This is a similar theme for the wider Asia region as the continent is estimated to account for 87% of the next billion middle-class entrants. This is in tandem with roughly 1 billion Asians expected to urbanise over the next 20 years as well as 60% of megacities estimated to be located in Asia by 2025.

Politically, there are some influential elections taking place this year including Scotland and Germany. Scotland's election expected to take place in May will be important to see how its relationship with the rest of the UK will continue while Angela Merkel is bowing out of politics after 16 years as Chancellor of Germany having stepped down as leader of the Christian Democratic Union in 2018. Merkel's successor will have a big responsibility in leading Europe's largest economy and so it will be interesting to see this impact on the rest of the continent. In France, Emmanuel Macron has another year left as President, but 2021 could play a vital role in his campaign next year depending on his management of Covid-19.

From a portfolio construction standpoint, diversification will be key as we hopefully come out the other side of the Covid-19 turmoil this year. A new Presidency in the US looks to offer good investment opportunities while Asia prospects look promising given the long-term consumer trends. The UK has completed a Brexit deal and begun to effectively roll out the Covid-vaccine, however, its economic recovery remains challenged having suffered significantly by the lockdown's impact on consumer services. Furthermore, gold played its role as the go-to safe haven in 2020, as its increase in demand saw its valuation surpass $2,000/oz for the first time in history, reaching $2,070/oz at its peak. The yellow metal may also be a popular diversifier this year but one would hope that we do not have another external jolt to the global economy. This diversification may help to minimise shocks from anymore unknowns before the attention moves away from trying to tackle the spread of Covid-19 seen over the past 10 months to how we are going to pay for it.

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