FORWARD LOOKING ECONOMIC COMMENTARY

Market conditions are particularly challenging at present. Global growth is slowing. Interest rates are low and assets, both equities and bonds, are highly priced relative to historical averages. Quantitative easing measures implemented at the start of COVID-19 are running thin. Despite the emergence of potential vaccines, the ongoing disruption to domestic economies will continue for some time.

There is improved market sentiment as President-elect Biden has officially won the US election and promising initial results from three vaccine providers were announced. The market volatility is at its lowest levels since August and global equity markets have seen rallies.

However underneath the positivity lies concerns for potential investors. Interest rates around the world are trending higher and government bonds have gone from being risk-free return to return-free risk. The strategic case for holding nominal government bonds has materially diminished with yields closer to perceived lower bounds. Such low rates reduce the asset class's ability to act as ballast against equity market selloffs. Equities continue to get more expensive and quantitative easing and fiscal stimulus measures are losing their effect.

Rising interest rates spell out lower valuations and more expensive assets, leading to a potential market correction in the coming year. A stagnant market could lead to more sideways movement than an upward trend and returns for the foreseeable future remain low across most traditional asset classes.

Portfolio resilience has to go beyond broad asset class diversification alone. We believe investors should consider alternative return sources that can provide potential diversification. We believe the adoption of sustainable investing is a tectonic shift carrying a return advantage for years to come – and the coronavirus shock seems to be accelerating this shift.

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