STONEHAGE FLEMING

GLOBAL EQUITY PERSPECTIVES 12 APRIL 2021

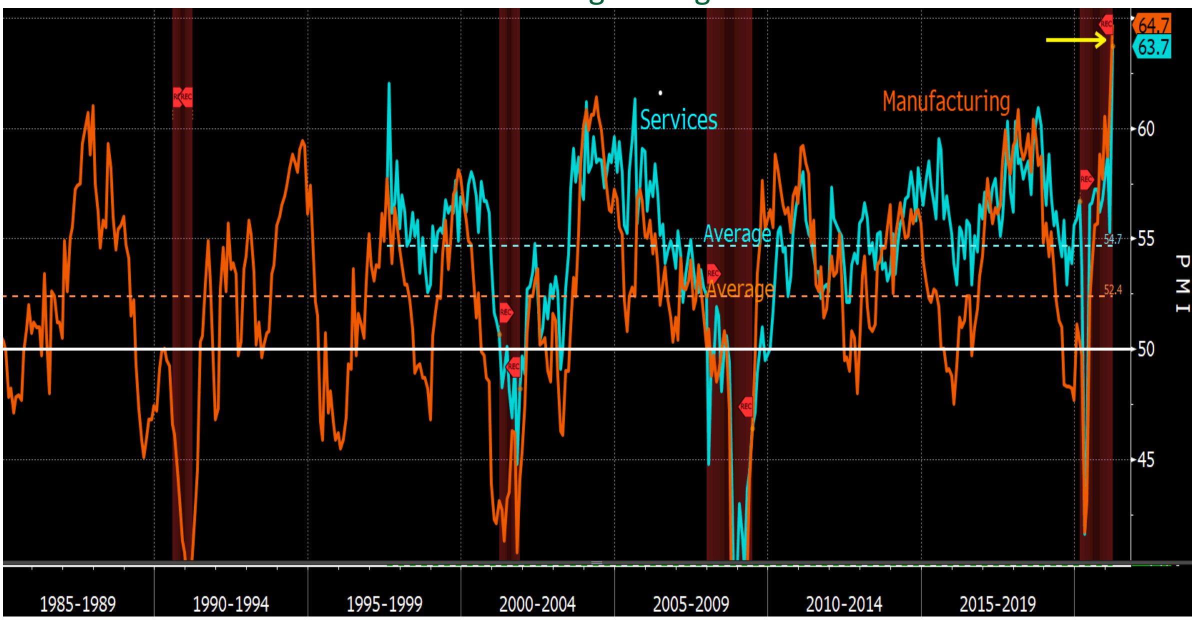
"I don't have opinions about things I know nothing about."

Prince Philip

1. ECONOMIC OUTLOOK

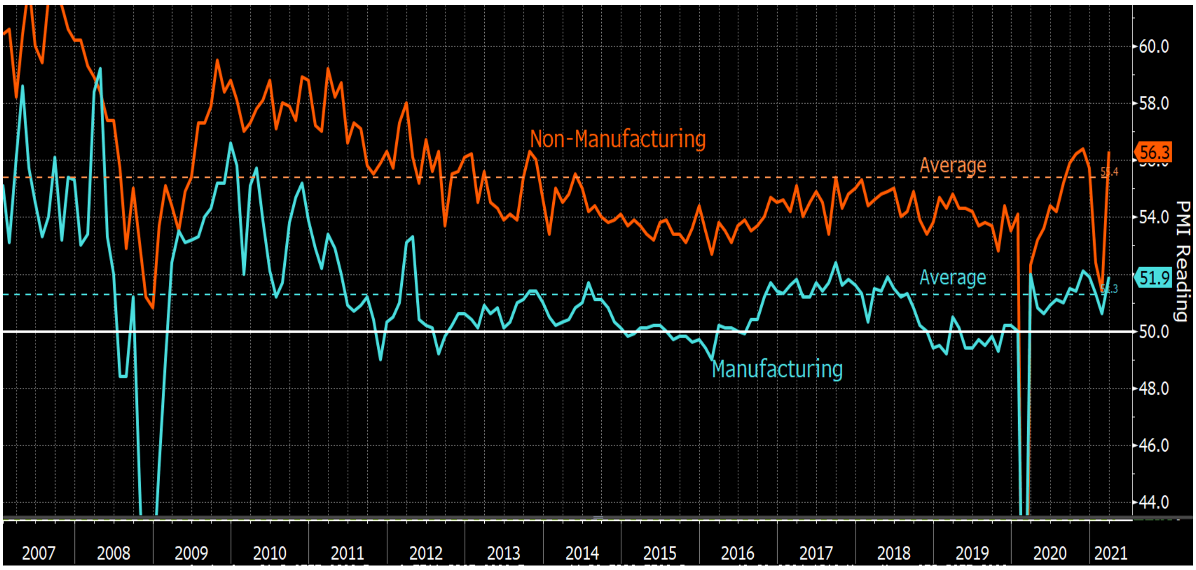
The US economic outlook currently seems particularly strong considering the following chart:

US : ISM Purchasing Manager's Indices



Both the Manufacturing and Services PMI indices have spiked recently, with both currently at their respective historic peak levels. This reflects high optimism about the level of imminent overall US GDP recovery.

China Federation PMI Indices



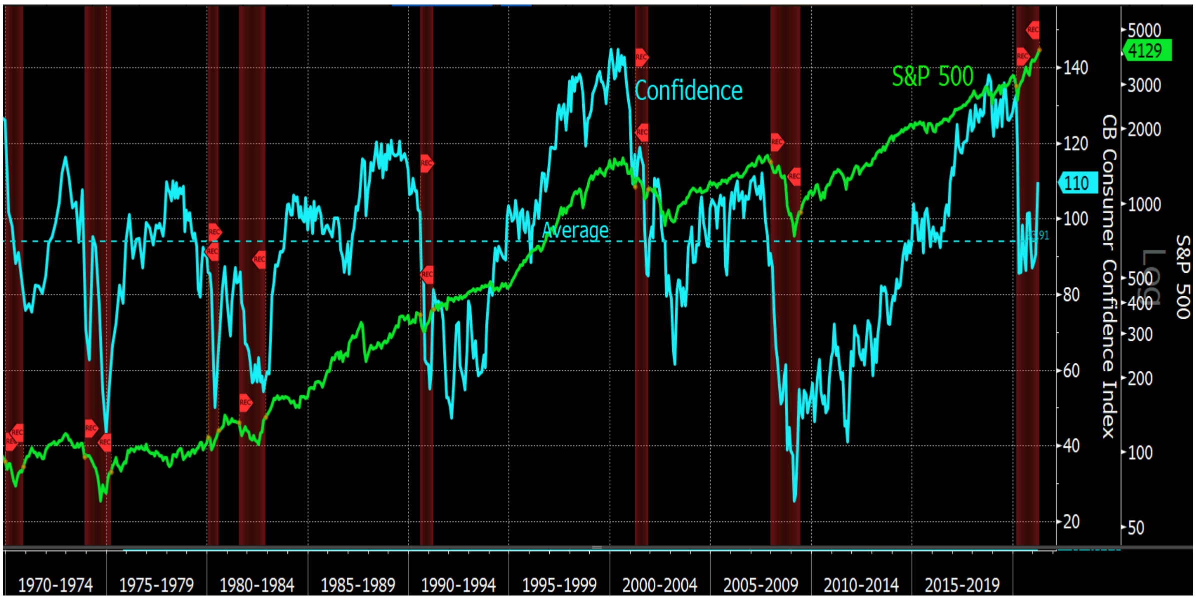
Both China's Manufacturing and Non-Manufacturing equivalent PMI indices have recovered strongly after their recent drops. Both are well above their respective averages. The world's two largest economies are in a new phase of synchronised growth.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2021. ***Past performance is not a guide to future performance.***

2. US CONSUMER

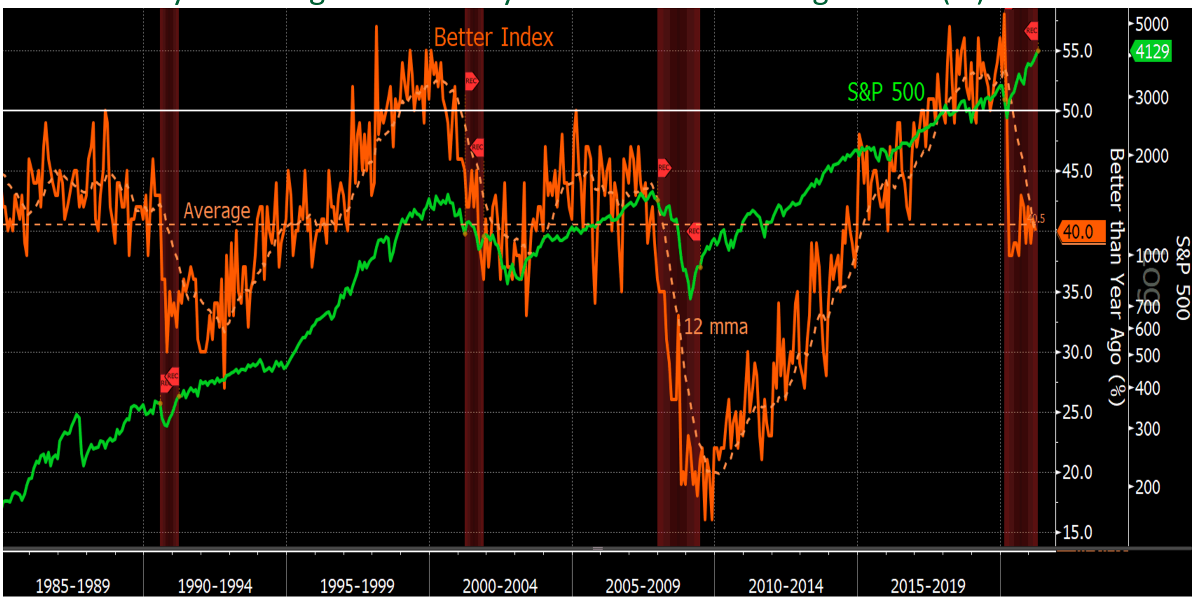
As consumption makes up almost 70% of US GDP, consumer confidence is critical for sustained economic growth.

US – Conference Board Consumer Confidence Index S&P 500



Whilst the consumer confidence index in the chart took a sharp drop with the virus crisis, it dropped only to historic average levels – much higher than with previous recessions. It stayed at that level for a while, but has spiked up with its most recent reading.

University of Michigan Financially Better Than a Year Ago Index (%) vs S&P 500



The above chart reflects an index of consumers' perceptions of their financial positions. Its reaction in comparison to the financial and virus crisis, is similar to the above Confidence index. It has though, stayed at a level of 40% of the population feeling they are in a better position currently than a year ago. This reflects a cautious consumer, even though households' balance sheets are strong with debt service ratios at record low levels and their net worth continued to grow through the recession (the last reading at +10%).

The Bloomberg Consumer Buying Comfort Index also followed a similar pattern to the above, but as with the Confidence Index, its most recent reading also spiked. We form opinion that the US consumer is in a good position to resume its critical contribution towards US economic growth.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2021. ***Past performance is not a guide to future performance.***

3. US CORPORATE BOND MARKET

Sentiment in the corporate bond market is a good indicator of overall investor sentiment.

US – High Yield Corporate Bond Yield Spread vs S&P 500

The above chart reflects the spread between the US High Yield Bond market yield and the yield on Ten Year Treasuries (presented on an inverse scale). The spread has narrowed sharply to a mere 2.4%. This reading is a three-year record low, and close to an all-time record low.

US - High Yield Option Adjusted Yield Spread vs S&P 500

We last presented the above chart during the virus crisis as the energy market collapsed. The Corporate Bond spread of the Energy market has narrowed to 4.3%, well below the average of 5.4%. The spread in the rest of the Corporate Bond market (Ex Energy) has dropped to record low levels.

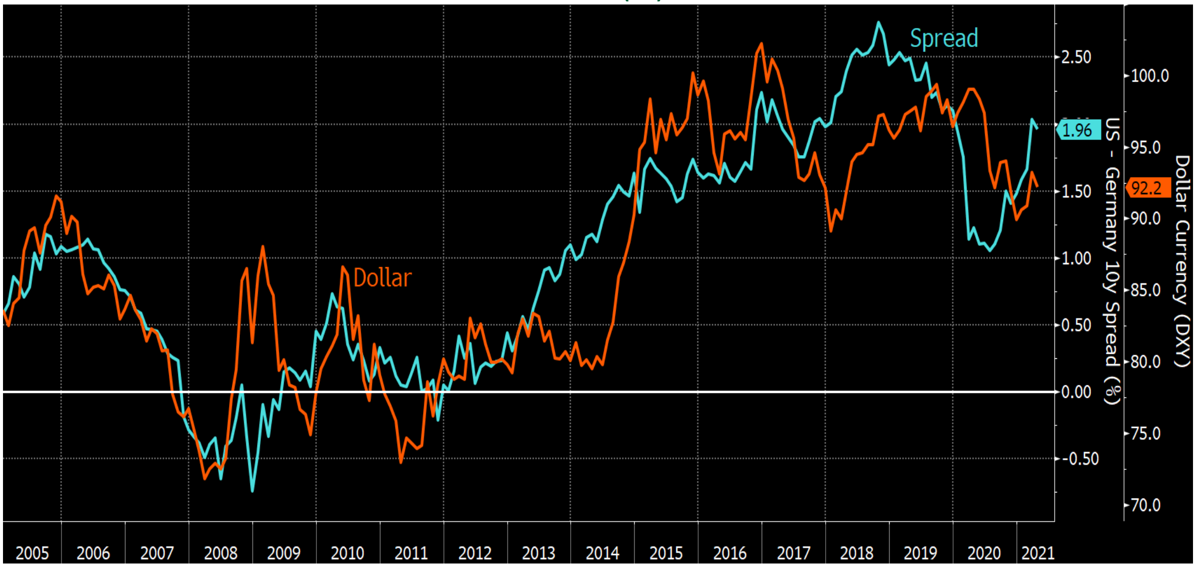
The Corporate Bond market clearly reflects high investor optimism. Such low spreads historically have lasted for a while. We are, though, also conscious that the current level of spreads has earlier led to equity market weaknesses subsequently. The general level of interest rates going forward clearly can play a role in this context as well.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2021. ***Past performance is not a guide to future performance.***

4. DOLLAR CURRENCY

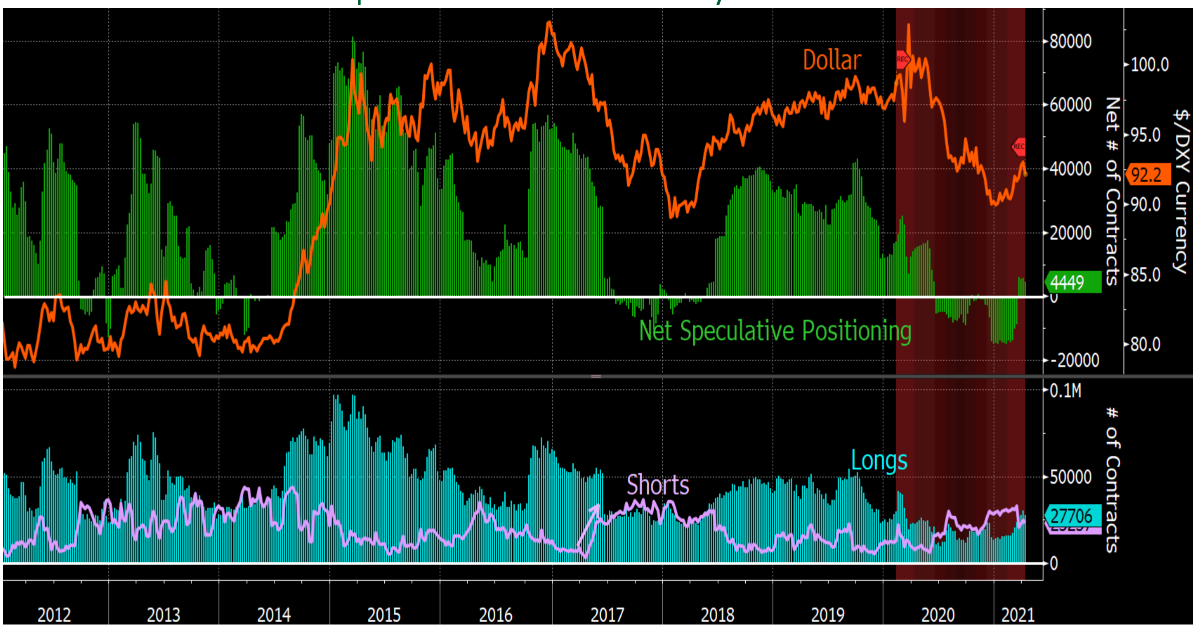
The US twin deficit school of Dollar bears clearly have good arguments for their case. We believe, though, that other administrations are not all in much better positions and that further arguments in this context need to be considered.

Dollar Currency vs Spread between US and Germany Ten-Year Government Bond Yields (%)



The Bond Yield spread in the above chart narrowed during the Virus Crisis and led to Dollar weakness. The spread has since increased again following rising US interest rates. Chances are therefore for this spread not to narrow materially in the foreseeable future and that we may expect some Dollar support in this context.

Dollar vs Speculative Dollar Currency Futures Contracts



The above chart reflects the Dollar currency compared to the number of speculative Long and Short Currency Futures contracts. The green bars reflect the net number of contracts.

There is a clear correlation between the currency value and the net number of futures contracts. Strikingly, the dollar weakened, and negative net number of positions were taken as the virus crisis unfolded. The futures positioning has recently moved into positive territory (the green bars). This may continue to support the Dollar as growth in the US economy accelerates. Technically, the Dollar chart is not far from it 'Golden Cross' positive break.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2021. ***Past performance is not a guide to future performance.***

5. TECHNICAL PICTURE

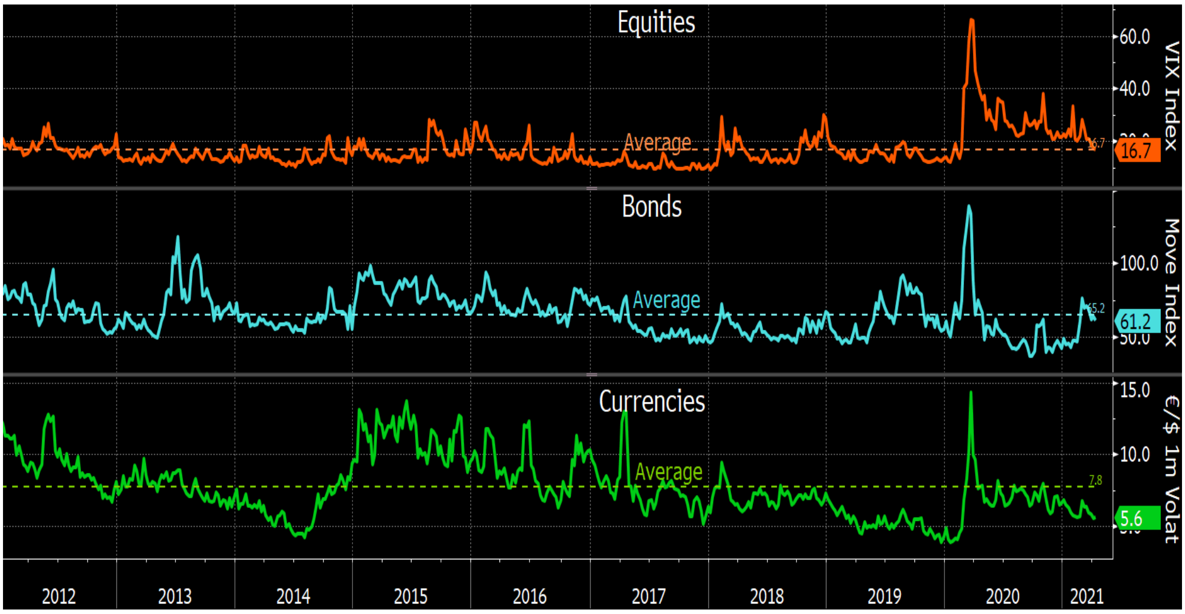
The S&P 500 is technically in a strong position considering several barometers. Most of them appear very constructive and some already are technically 'fully valued', whilst only few have crossed the truly overbought red line yet:

S&P 500 – Price Index vs 50- and 200-Day Moving Average, and Premium to the Latter

The index is well beyond its 'Golden Cross' test and has been trading at around a 15% premium to its 200-day moving average for a while (the bars in the bottom section). This level has over the recent past been followed by corrections (see the orange arrows), whilst the market continued to rise since 2013 and the premium stayed at elevated levels for long. We have, though, to be conscious if it potentially enters overbought levels on some technical indicators in the coming weeks or months.

In the interim, investors are fortunate with calmness in the main asset class markets currently:

Main Asset Class Volatility Indices



The VIX Equity volatility index has just returned to its average level and is therefore not stretched. Some more volatility returned to the Bond market (the MOVE index), but it is off a very low base and is also on its average level currently. Currency markets seem very calm, considering the €/$ Volatility Index.

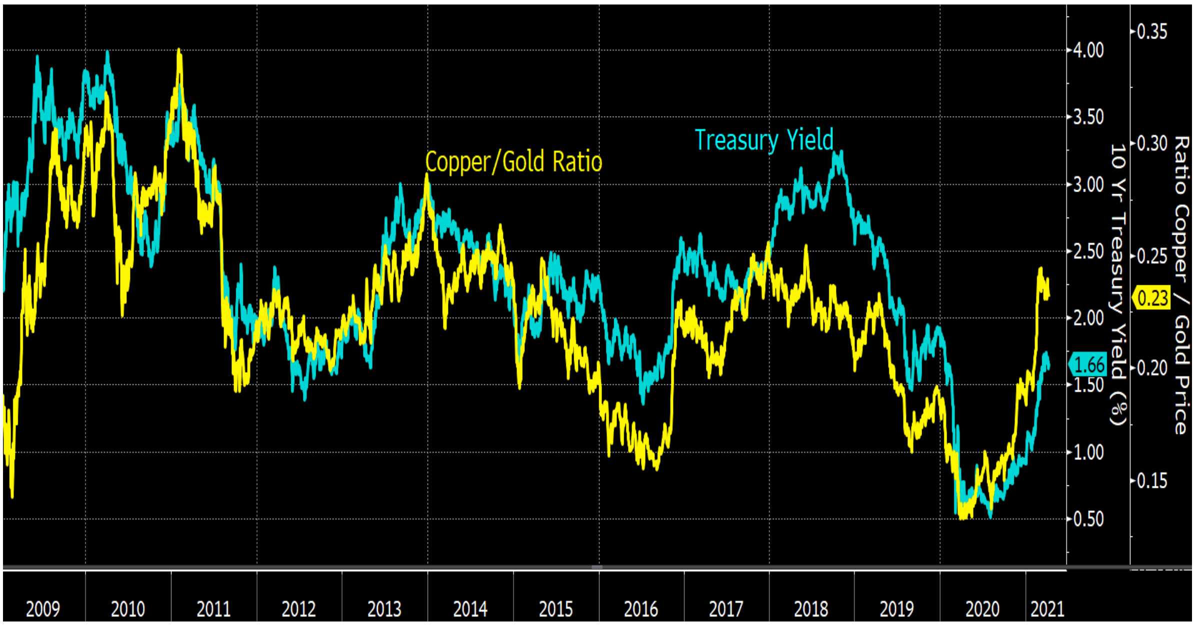
Overall, markets are technically very sanguine currently. This, though, does not leave much room for absorbing materially negative surprises, should that happen. We are very conscious of the fact that peak US PMI data is at times followed by temporary weaker stock market performance.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2021. ***Past performance is not a guide to future performance.***

6. CORRELATIONS

Investors are often intrigued by certain correlations in the financial markets. The one below makes good logical sense to us:

Ratio Copper/Gold vs US Treasury Yield (%)



The Copper/Gold index has run hard, and is close to the higher levels since the credit crisis. Developments around green energy and electric vehicles of course has much to do with this. It is, though, striking that the ratio has been treading water for a month already. Very interestingly, this seems to reflect also in the Treasury market with the yield treading water at its lower levels over the past ten years.

This may well be just a brief pause in an extended new cycle. With all the positivity in the markets (as reflected in our previous paragraphs), we have also been around long enough to know we should not totally ignore such pauses.

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Source: Bloomberg & Stonehage Fleming Investment Management Limited. April 2021. ***Past performance is not a guide to future performance.***

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