GLOBAL EQUITY PERSPECTIVES 14 JUNE 2021

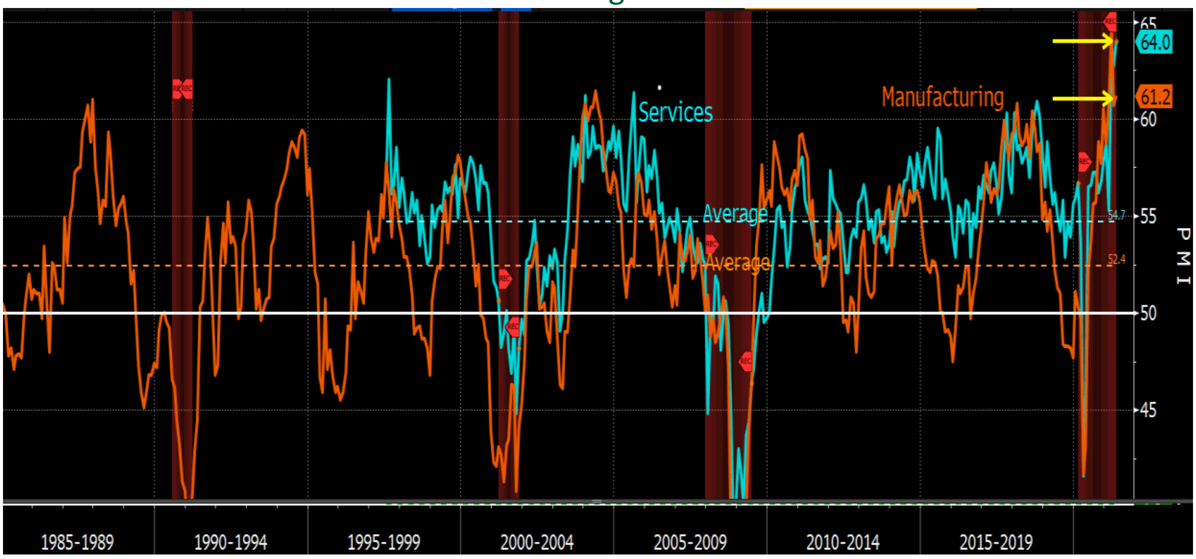
"I have just three things to teach – simplicity, patience, compassion. These three are your greatest treasures."

Lay Tzu

1. ECONOMIC RECOVERY

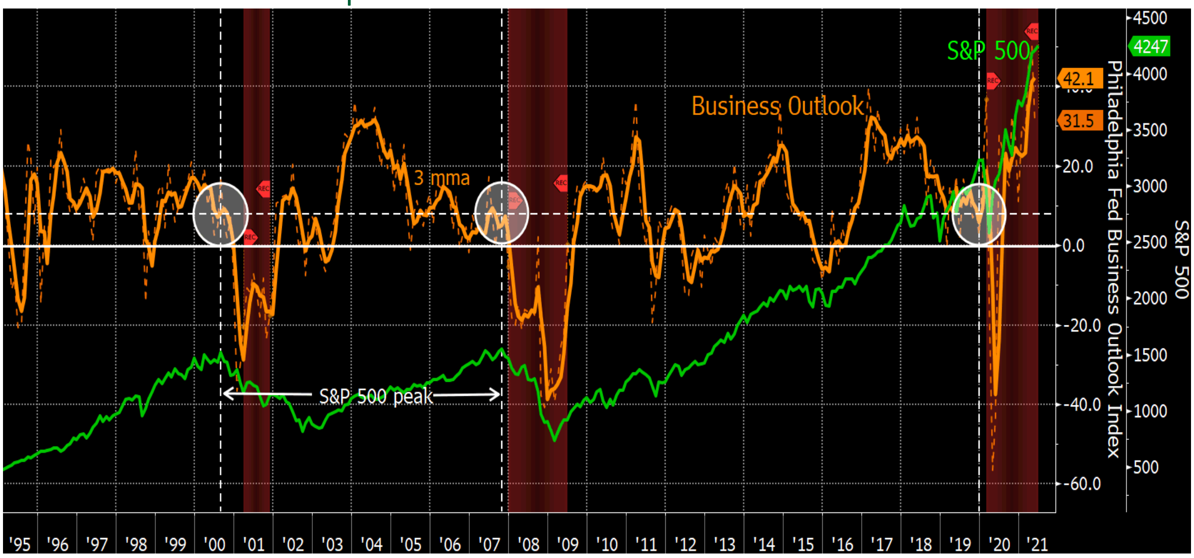
It seems the US economic recovery is well on track – in fact, chances are growing that it may turn out to be the strongest recovery from a recession considering the following charts:

US – ISM PMI Manufacturing and Services PMI indices



Both the Manufacturing and Services PMI indices are currently on pre-Pandemic record levels. This is also happening in the shortest period following a recession, implying a sharp V-shape economic recovery.

Philadelphia Fed Business Outlook Index vs S&P 500



The above Business Outlook Index reflects a similarly positive picture – it is also on a pre-Pandemic record reading currently. It implies strong earnings recovery on its way. US shareholders have reason for optimism for solid operational performance to reflect in results.

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

2. US HOMEBUILDERS

We have updated our charts on US Homebuilders. As we discussed in a previous note, data in this sector is a good leading economic indicator.

US – Homebuilders' Confidence Index vs S&P Homebuilders' Share Price Index

Strikingly, the above Homebuilder's Confidence Index is currently also on a pre-Pandemic record level. Their Share Price Index is currently over 50% above its pre-Pandemic peak level very early in the new economic cycle. This confirms high optimism in this sector about the US economy.

3. US CONSUMER

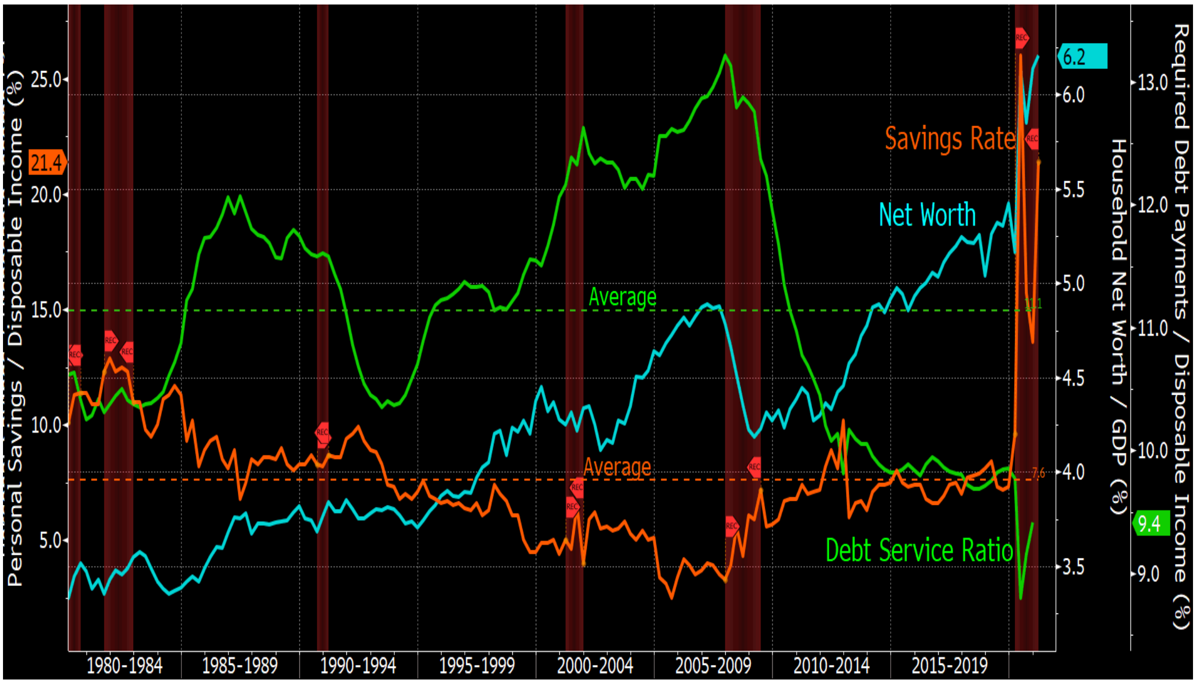
Seeing the importance of domestic consumption for the US economy, many wonder about the consumer's ability and willingness to spend. The following charts reflect on this theme:

US – Conference Board Consumer Confidence Index vs S&P 500

The above Consumer Confidence Index reflects valuable data. First and foremost, it dropped to around average levels only during the Pandemic. It has since recovered halfway to the record level it was prior to the Pandemic. This reflects some conservatism on consumers' side, with room for further recovery as they build comfort in the new economic cycle.

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

US Households – Financial Health

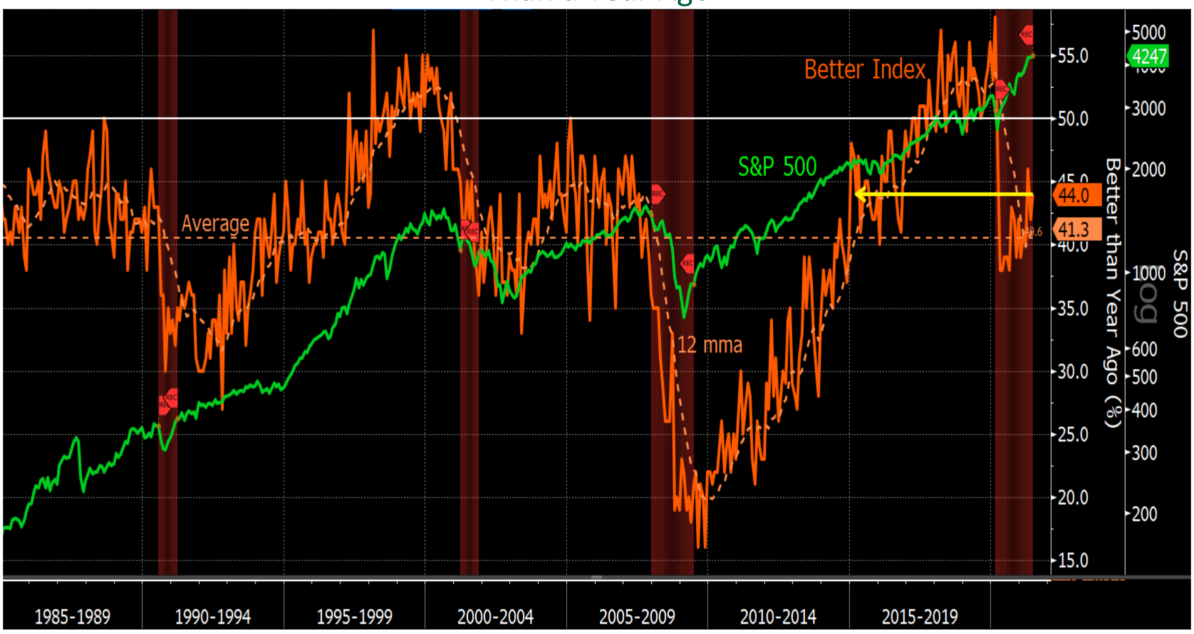


As the above chart reflects, US households are currently in a healthy financial position:

- Their Net Worth ratio is at a record level (the blue line). It is also at a record absolute level (not reflected in the chart), currently 17% above the level a year ago (it was then stable).
- Their Debt Service ratio is in single percentage digits (9.4%), at a record pre-Pandemic low level. Their Debt/ Asset ratio is at a record low of 12.9% (not reflected on the chart).
- Their Savings Rate shot up during the pandemic, despite their strong balance sheets.

The combination of these aspects clearly reflects a strong foundation for the US economy.

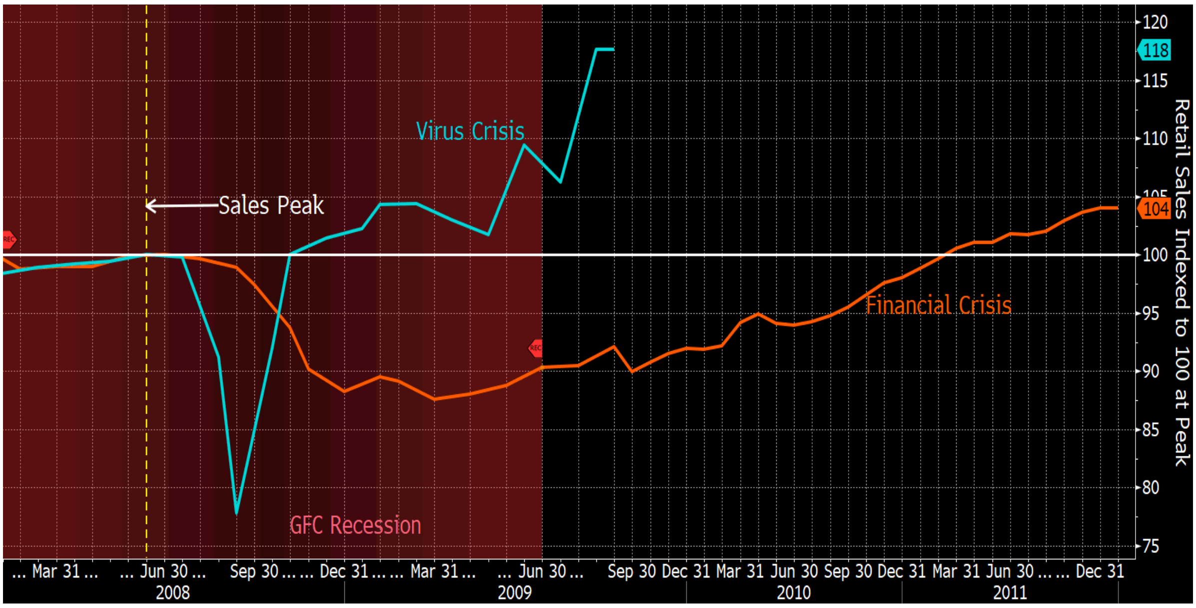
University Of Michigan Survey – % of Households Feel in a Better Financial Position Than a Year Ago



The above Feeling Better Financially Index reflects a much better position following the current recession than with previous ones, but still a level of reservation to go out and spend. Strikingly, as a separate point, the absolute number of job quits in the US is currently 9% above the pre-Pandemic level. Seeing the above information along with those in the earlier paragraphs of this note, we believe the next moves in this index can be upwards.

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

US Retail Sales – Indexed to Peak Level Immediately Before the Financial and Virus Crisis

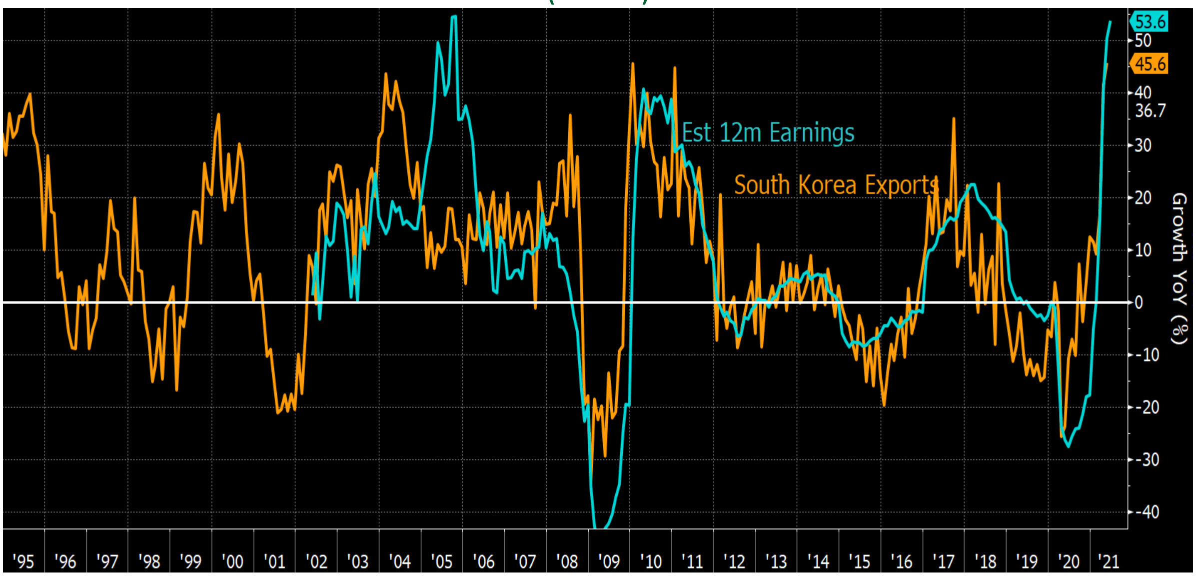


Despite the apparent conservative US consumer, US Retail Sales are already 18% above its pre-Pandemic peak (the blue line in the above chart). This is more than a quarter above the result with the Financial Crisis on a comparable basis (the orange line). We believe this is an early indicator of the impact consumption will have on the US economy.

4. EARNINGS POTENTIAL

We have a wealth of information to share around earnings recovery. The following chart is a good overall summary in this context:

South Korea Export Growth vs Consensus Earnings Growth for MSCI World AC Index (YoY %)



South Korean exports (specifically, because of the nature of those goods) and World Trade are good indicators of global economic conditions and therefore earnings potential. World Trade is currently 10% above its level when the pandemic stuck, while South Korean exports are booming, currently growing at a record level of +46%.

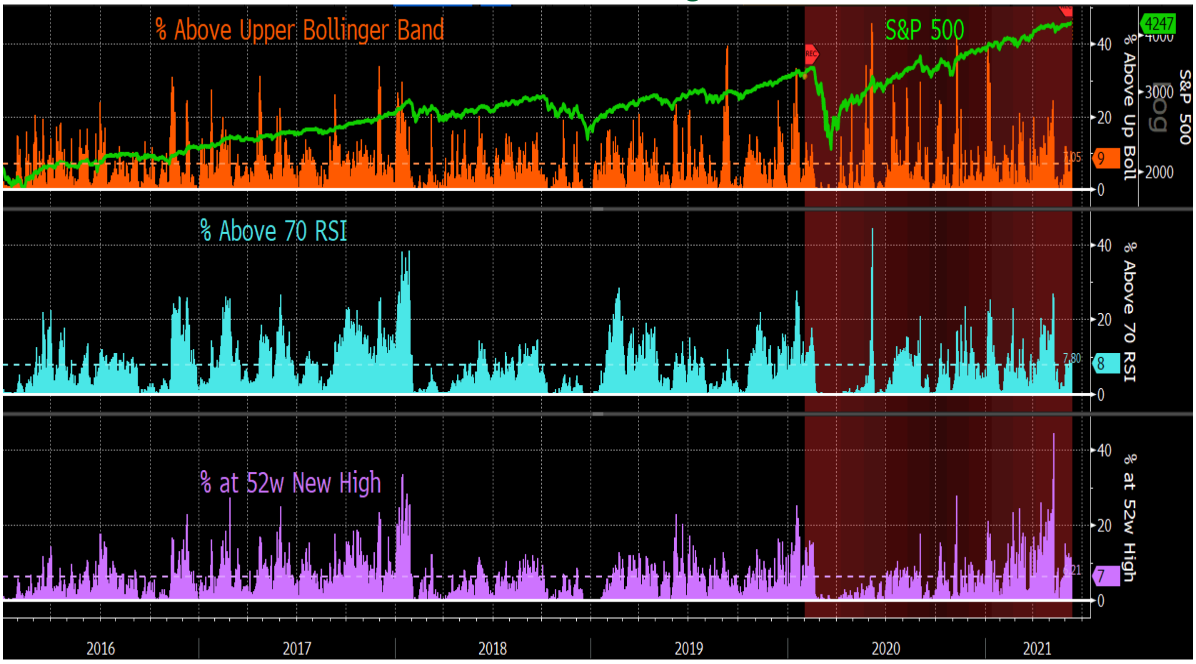
Consensus earnings growth expectations for the MSCI World AC Index is currently +54%. This can cushion share prices for a while.

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

5. TECHNICAL PICTURE

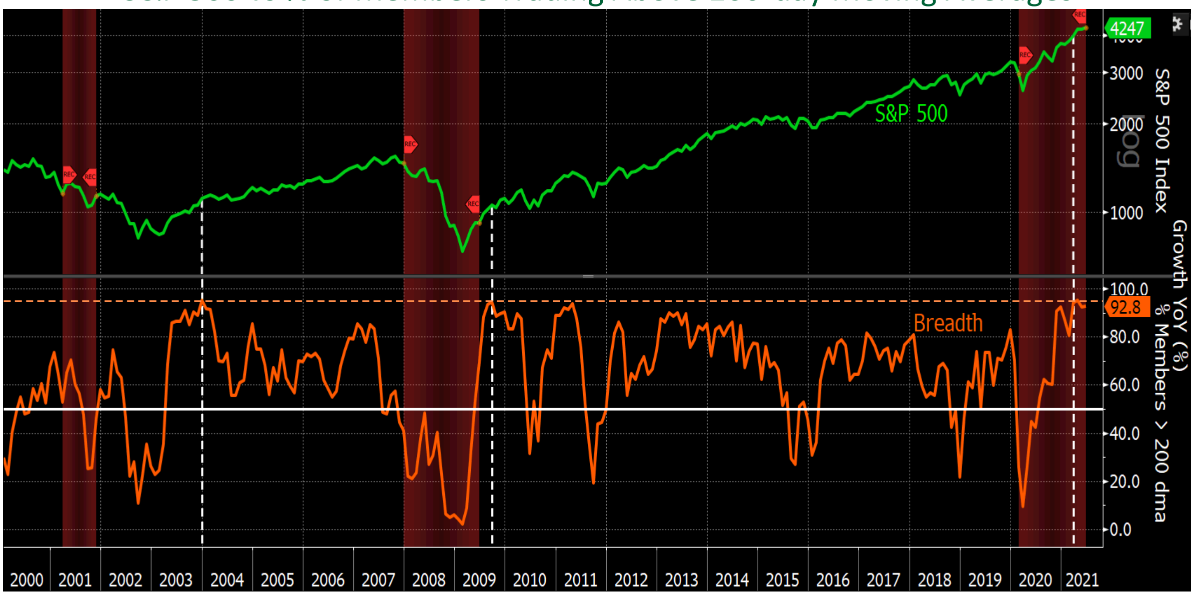
There is little doubt that the market has run hard and may appear overbought considering its further short-term potential. The following charts shed some further light from a technical perspective:

S&P 500 – Percentage of Members Trading Above Upper Bollinger Bands, 70 RSI's and 52 Week Highs



The above chart reflects three different potential overbought metrics, along with each's average levels over time (the dotted horizontal lines). Strikingly, all three metrics are currently close to their respective averages and do not reflect materially overbought situations.

S&P 500 vs % of Members Trading Above 200-day Moving Averages



The market breadth data in the above chart reflects the overall level of investor optimism. Too much optimism can spell danger. That said, the data seems more effective as a contra indicator buy signal when the breadth is very narrow (low readings). It has happened only three times this century that 95% or more of the number of S&P 500 members trade above their respective 200-day moving averages (reflected by the vertical lines). All those times have been relatively early in the positive economic cycle and have been followed by a rising market.

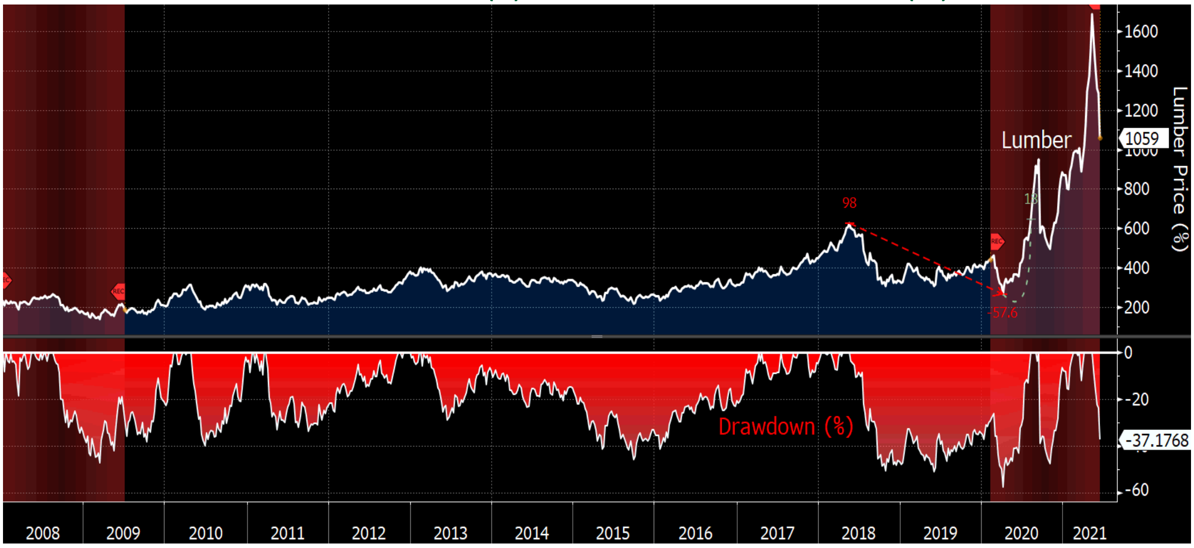
All said, technically the market does not seem to be as overbought as may have been feared.

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

6. BOND MARKET

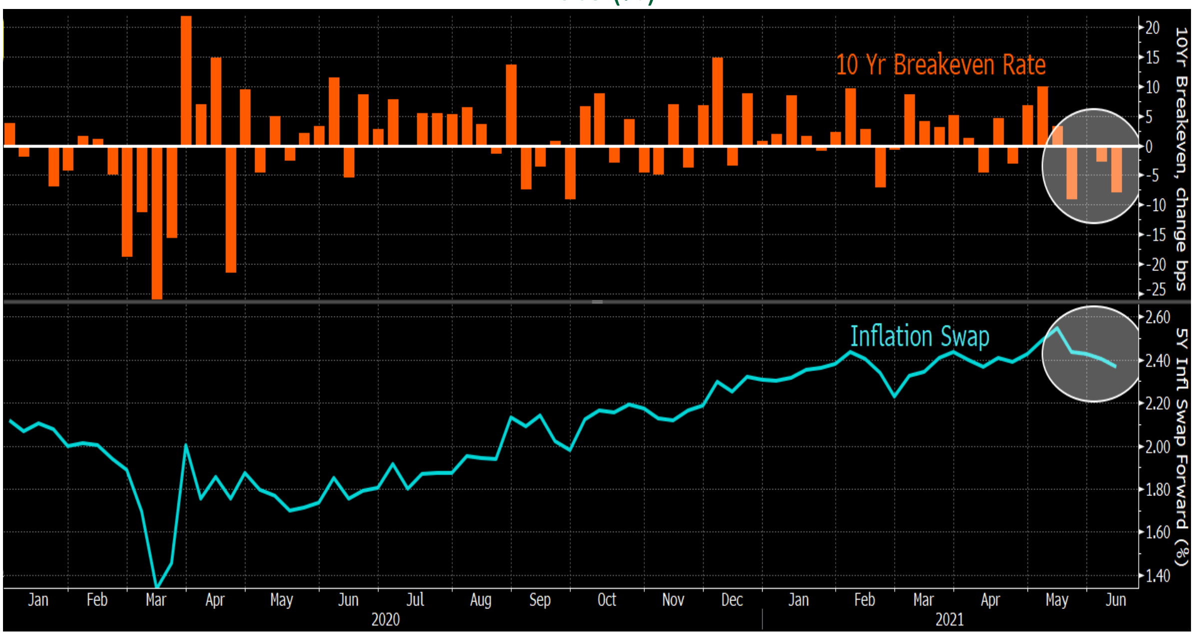
The US Bond market is the world's most liquid market and the best barometer of changing investor perceptions. It is striking that, irrespective of general headline comments of high risk for sharply increasing rates, the Ten-Year Treasury Yield has turned lower and already broken its technical 50-day average support downwards. The following charts are relevant in this context:

US Lumber Price ($) and Maximum Drawdown (%)



The lumber price exploded during the pandemic because of supply line issues with strong demand. Demand continued growing strongly, but it seems some supply issues are being addressed with the result that the price has already dropped by over a third. This can be a first signal of supply line issues becoming water under the bridge.

US – Ten Year Breakeven Rate Weekly Change vs Five Year Inflation Swap Forward Rate (%)



It is striking how both the Breakeven and the Inflation Swap Forward rates have receded over the past four weeks. The Federal Reserve, amongst others, take cognizance of the latter in their deliberations. Along with this, the Copper/Gold ratio has also receded recently which ties in well with the lower moving Bond yield.

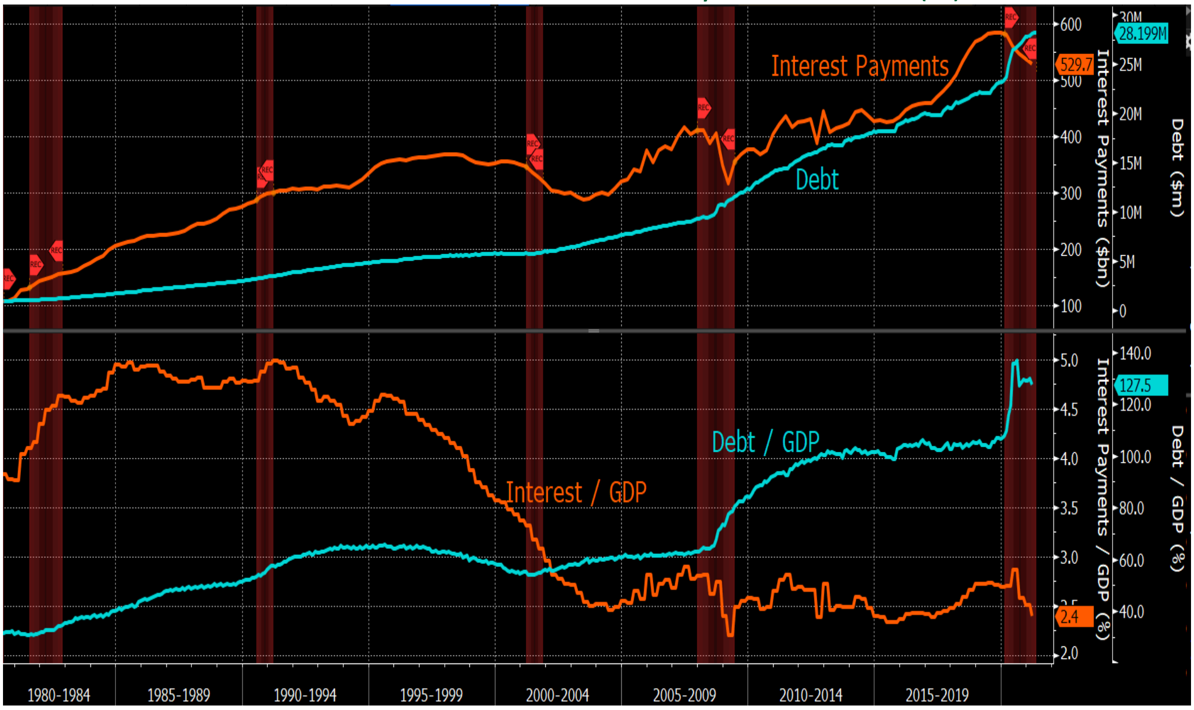
We are not, by any means, implying that inflation and higher bond yield risks are receding. Our point is mainly to warn against excessive pessimism on this front.

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

7. BIDEN BOOST

President Biden seems to have the support from the other G7 nations to implement his aggressive stimulatory package and 'carry on spending'. Many investors are concerned about the potential consequences for US debt levels. The following chart provides some perspectives in this context:

US - Federal Debt and Interest Payments vs GDP (%)



Federal Debt levels have further increased sharply through the pandemic (blue line, top chart). As a percentage of GDP, it has also increased to unprecedented levels (blue line, bottom chart).

Despite lower interest rates, interest payments continued to increase since the Financial Crisis, up to the Pandemic. It has since started to recede (orange line, top chart). As a percentage of GDP, though, it has been relatively flat since the Financial Crisis (orange line, bottom chart). On this basis, it is currently close to a record low.

This chart makes it clear why continuing low interest rates are so critical for the US administration to be able to stimulate their economy. The alternative scenarios can be bleak.

Gerrit Smit
Partner - Head of Equity Management
Stonehage Fleming Investment Management Limited

15 Suffolk Street
London
SW1Y 4HG

T +44 20 7087 0000
Email gerrit.smit@stonehagefleming.com
www.stonehagefleming.com/gbi

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

RISK DISCLOSURE

This communication has been prepared for information only and is not intended for onward distribution. It is neither an offer to sell, nor a solicitation to buy, any investments or services. This communication does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients.

Any information which could be construed as investment research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Further it is not subject to any prohibition on dealing ahead of the dissemination of investment research

All investments risk the loss of capital.

The value of investments may go down as well as up and, you may not receive back the full value of your initial investment.

Past performance should not be used as a guide to future performance.

Changes in the rates of exchange between currencies may cause the value of investments to go up or down in the reporting currency.

In general, underlying investments denominated in foreign currency are not hedged back into the reporting currency. Among the factors that may influence currency values are trade balances, the levels of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Returns may increase or decrease as a result of currency fluctuations. Values may also be affected by developments relating to controls and restrictions on foreign currency remittance of proceeds of investments in a non-sterling jurisdiction.

Whilst every effort is made to ensure that the information provided to clients is accurate and up to date, some of the information may be rendered inaccurate by changes in applicable laws and regulations. For example, the levels and bases of taxation may change. Any reference to taxation relies upon information currently in force. You should note that the bases and rates of taxation may change at any time. Tax treatment depends upon the individual circumstances of each client and may be subject to change in the future.

In addition to the information provided by Stonehage Fleming Investment Management Limited you may wish to consult an independent professional.

It has been approved for distribution in South Africa and those countries of the EEA where distribution is permitted by:

Stonehage Fleming Investment Management Limited
15 Suffolk Street
London
SW1Y 4HG

Stonehage Fleming Investment Management Limited is authorised and regulated by the Financial Conduct Authority and registered with the Financial Sector Conduct Authority (South Africa) as a Financial Services Provider ("FSP") under the Financial Advisory and Intermediary Services Act, No 37 of 2002 (FSP No: 46194). Approved for distribution in Jersey by affiliates of Stonehage Fleming Investment Management that are regulated for the provision of financial services by the JFSC.