GLOBAL EQUITY PERSPECTIVES 2 NOVEMBER 2020

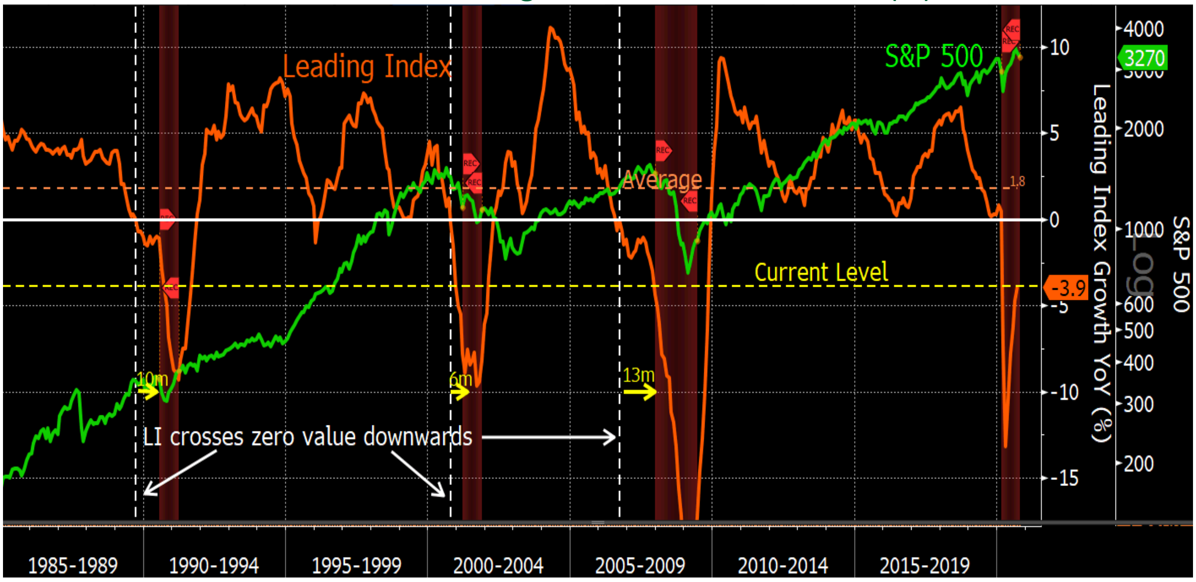
*"Storms make the oak grow deeper roots."*

*George Herbert*

# 1. GLOBAL ECONOMY

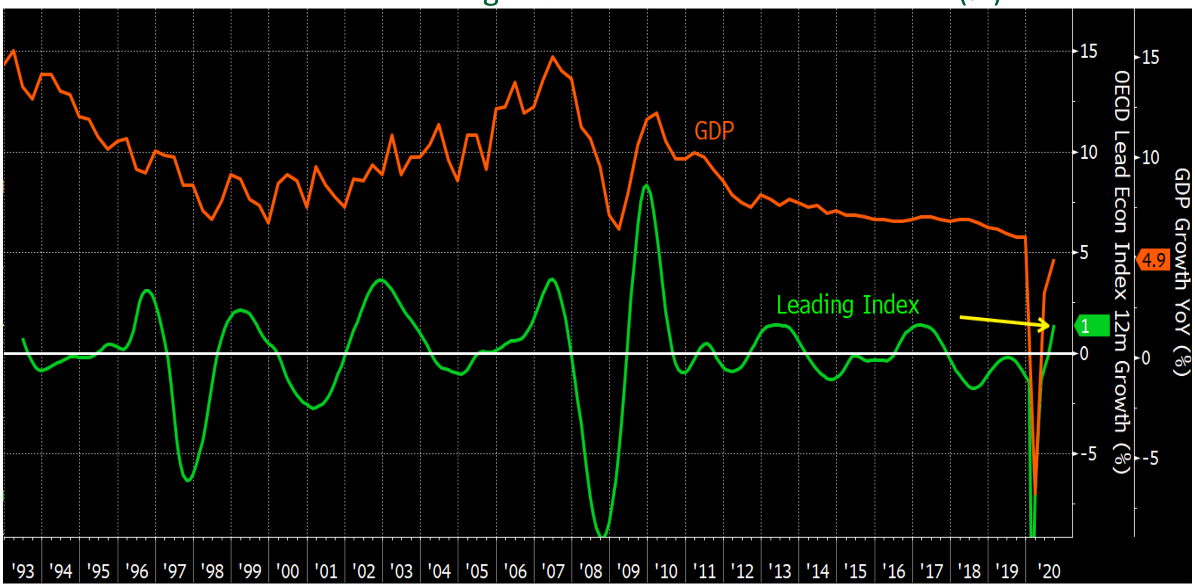
The following charts consider the outlook for the world's two largest economies:

## US - Conference Board Leading Economic Index Growth (%) vs S&P 500




The recovery of the US Conference Board Leading Economic Index seems to remain well on track. Its current level is already at a level historically associated with the early stage of a new economic growth phase (see the yellow line on the chart).

## China – OECD Leading Economic Index vs GDP Growth (%)




The growth in the OECD Leading Economic Index for China is already in positive territory (see the yellow arrow in the chart). Their economic growth reflects a sharp V-shape recovery pattern. It is already growing at almost 5%, approaching last year's growth levels. This strong performance of the world's second largest economy offers solid support for global economic stability.

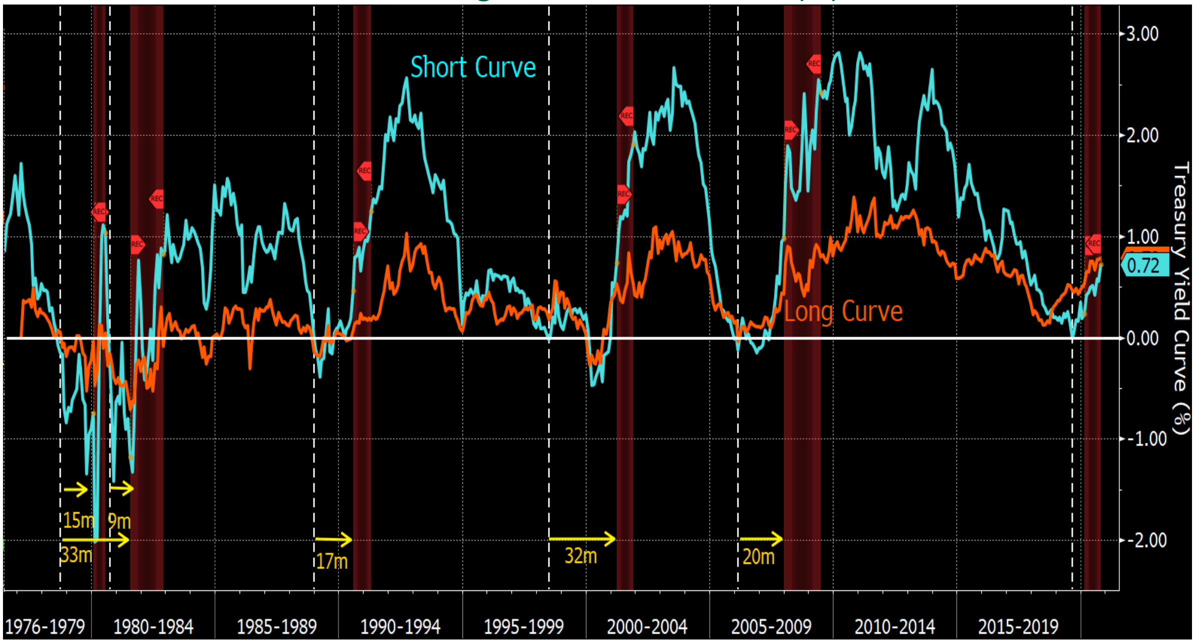
*Source: Bloomberg & Stonehage Fleming Investment Management Limited. November 2020.* ***Past performance should not be used as a guide to future performance.***

## 2. US YIELD CURVE

Changes in interest rates, and specifically trends in the yield curve, historically reflected the bond market's perceptions of changes in the economic outlook.

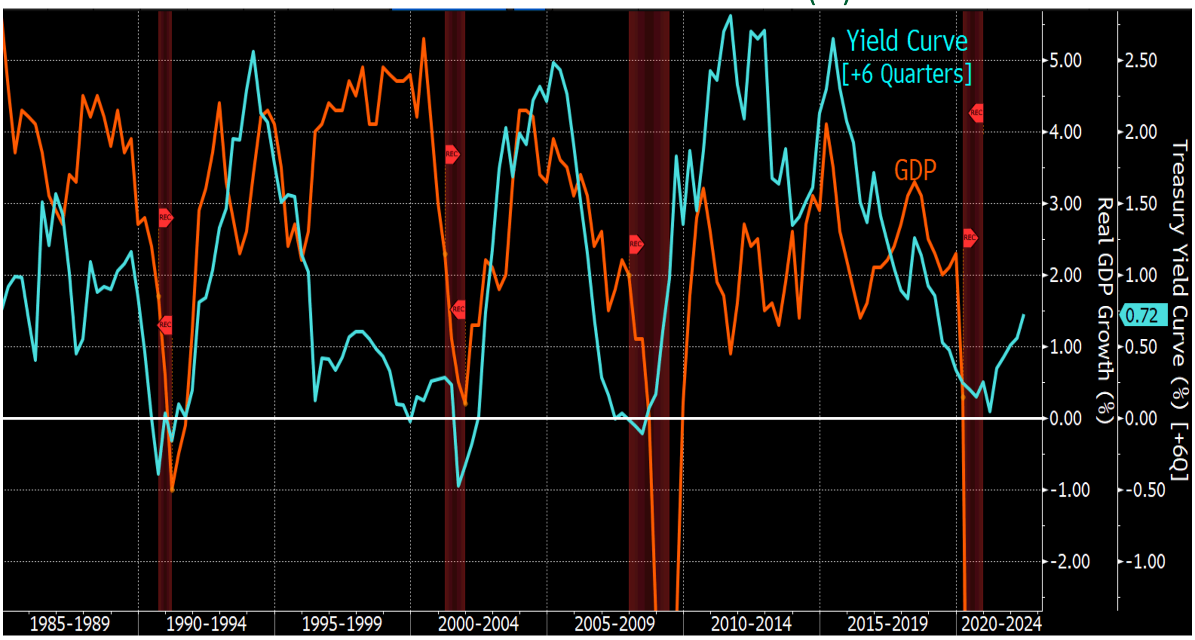
The ten-year Treasury yield has recovered from a low of 51 basis points in August to the current 87 basis points, reflecting an improving economic outlook. We have also updated our yield curve charts:

US – Long & Short Yield Curves (%)




The yield curve did not invert this time before the recession as it has historically done, warning of an upcoming recession (nobody could foresee the upcoming virus crisis). The curve has, though, started steepening at the end of last year, and is continuing this trend. This is typical behaviour through a recession and the early stage of a new economic upswing.

US – Short Curve vs GDP Growth (%)




We have advanced the yield curve by six quarters in the above chart and compared its trend with GDP growth. There is clearly a direct positive correlation. The current trend of the yield curve, on this basis, implies a structurally recovering US economy.

*Source: Bloomberg & Stonehage Fleming Investment Management Limited. November 2020.* ***Past performance should not be used as a guide to future performance.***

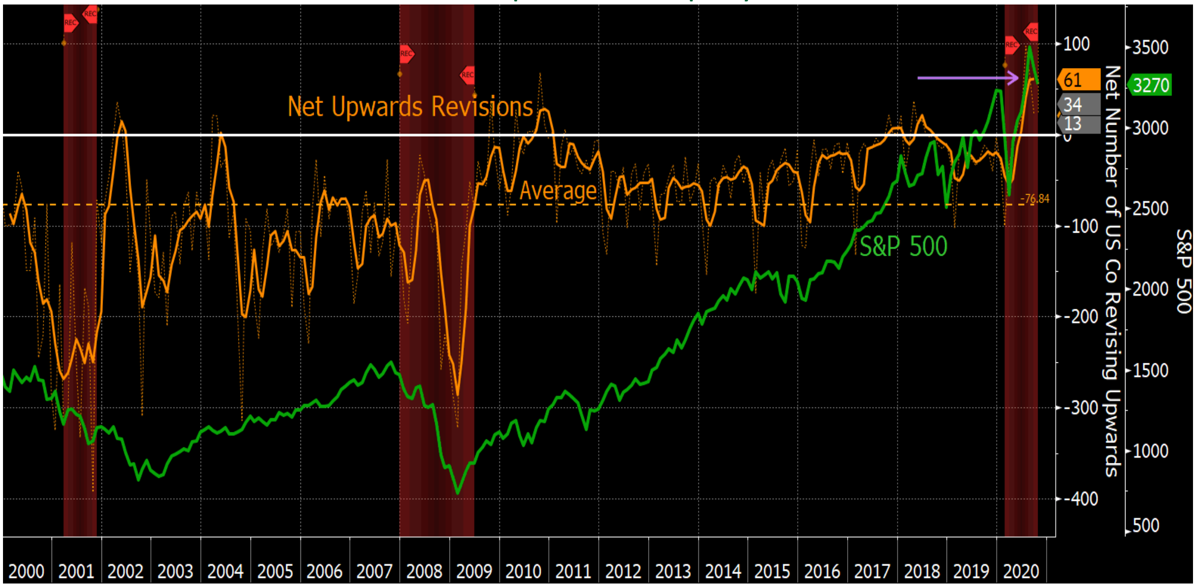
## 3. EARNINGS SEASON

The earnings season is in full swing. Almost two thirds of the S&P 500 and just over half of the European Bloomberg European 500 (BE 500) constituents have already reported.

| | S&P 500 3Q2020 Results (30 Oct 2020) | | | Bloomberg BE 500 3Q2020 Results (30 Oct 2020) | | |
|---|---|---|---|---|---|---|
| | Growth | Surprise Factor | # +ve Surprises | Growth | Surprise Factor | # +ve Surprises |
| Sales | -2.5% | 2.0% | 74.8% | -11.8% | -2.3% | 28.8% |
| Earnings per Share | -10.8% | 11.0% | 87.7% | -21.6% | 16.0% | 49.7% |

The US results are generally much better than expectations. Three quarters of the results exceeded Sales expectations and almost ninety percent exceeded Earnings results. Further to this, the surprise factors are close to the absolute result levels, implying in essence results being half as bad as expected. The experiences in Europe are much worse than in the US, both on an absolute level and in terms of expectations. Shareholders of US companies have good reason for celebrating.

S&P 500 – Number of Upwards Company Revisions vs Index




Along with the positive US results season, the number of S&P 500 constituents that revised their respective outlooks positively is currently at a record level. This is clearly supportive of investor sentiment.

S&P 500 12 Month Forward Earnings Expectations vs South Korea Exports (%)

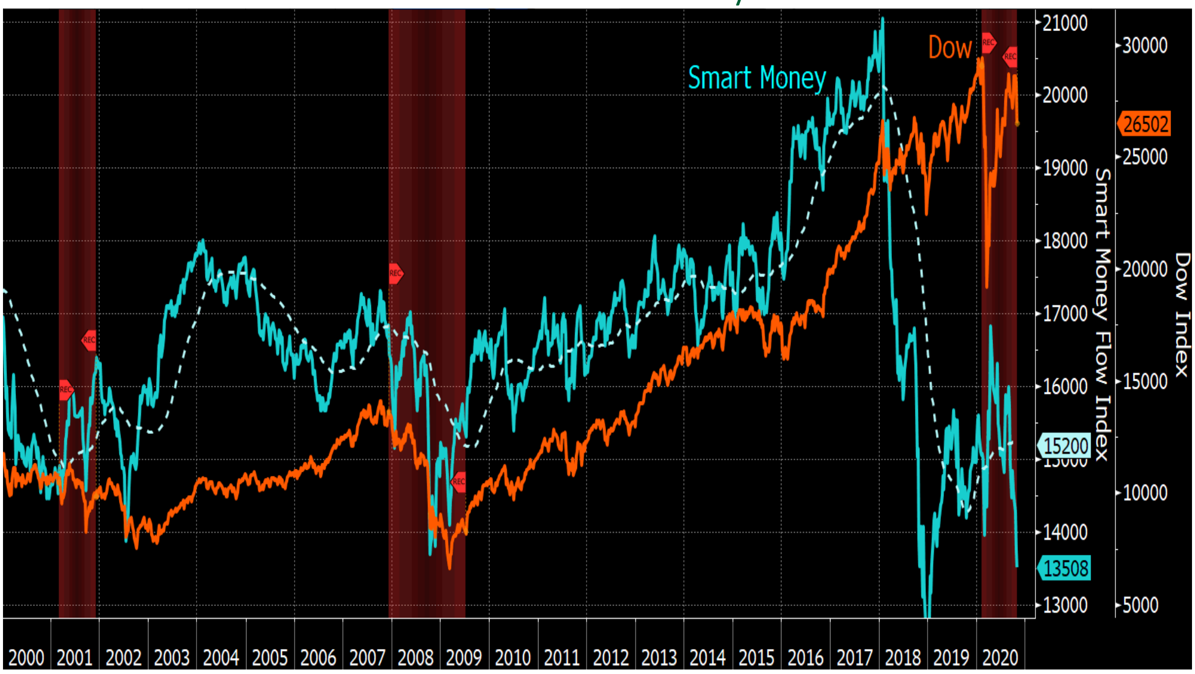

*Source: Bloomberg & Stonehage Fleming Investment Management Limited. November 2020.* ***Past performance should not be used as a guide to future performance.***

As reflected in the preceding chart, consensus S&P 500 earnings expectations have turned for the better. It has a strong correlation with South Korean exports, which have recovered well and are growing at +8%. On this basis we can expect earnings to accelerate its recovery process.

## 4. TECHNICAL PICTURE

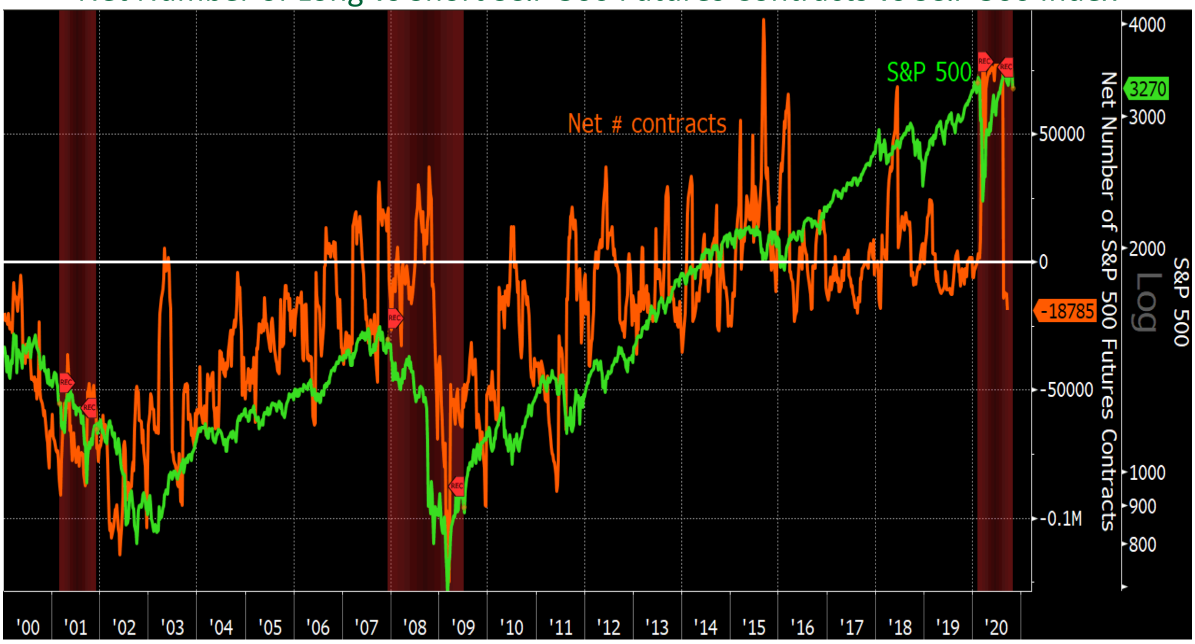
New virus lockdown risks and the imminent US election cause investor anxiety and volatility. We consider a few technical indicators in this context:

Dow Index vs Smart Money Index




The Smart Money daily operators are currently taking a negative short-term stance. The Smart Money Index is close to a record low. Such levels have historically indicated buying opportunities.

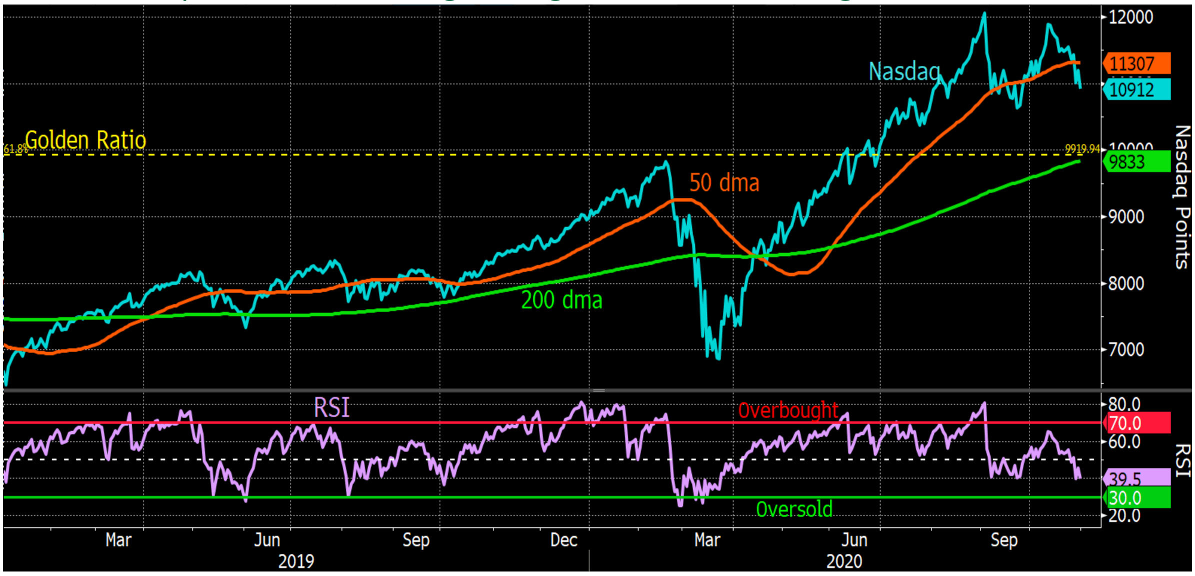
Net Number of Long vs Short S&P 500 Futures Contracts vs S&P 500 Index




The S&P 500 Futures market has recently moved sharply from a strongly positive to a negative stance to the tune of a net Short number of 18,000 contracts. This is quite a large number, and has historically indicated better buying than selling opportunities.

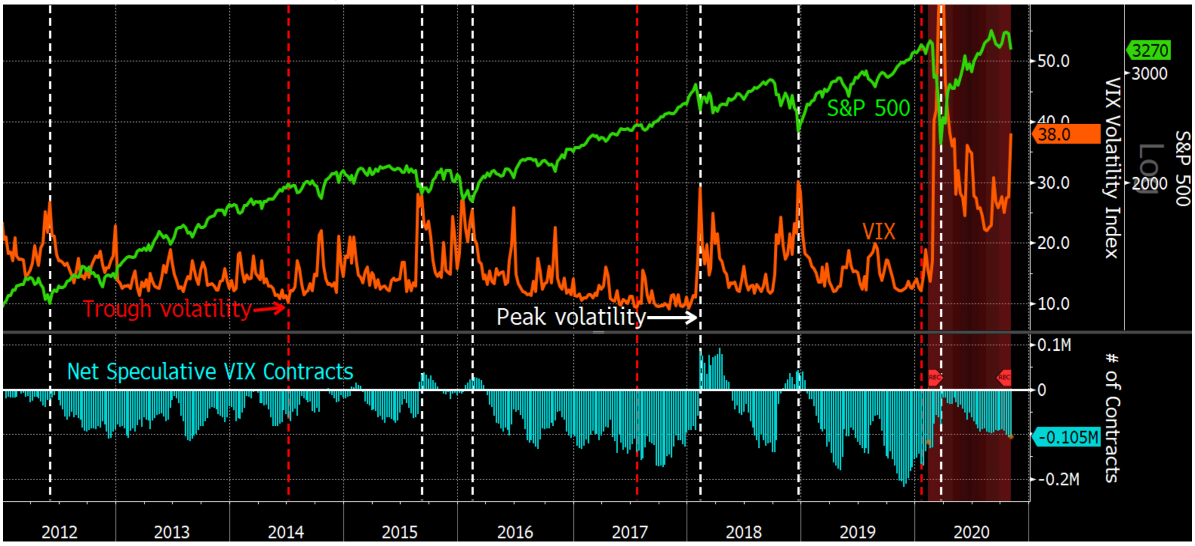
*Source: Bloomberg & Stonehage Fleming Investment Management Limited. November 2020.* ***Past performance should not be used as a guide to future performance.***

## Nasdaq Index with Moving Averages and RSI Overbought/Oversold Index




The Nasdaq index has dropped through its 50-day moving average and is still 9% away from its next technical support level. Its RSI reading is well below a neutral level and is approaching attractive buying levels.

## VIX Volatility Index vs Net VIX Futures Contracts and S&P 500




The VIX Index spiked last week, well above pre-recession peak levels. It indicated buying opportunities at those times (see the white vertical lines). It is striking, though, that this time the VIX Futures market currently is very short volatility (see the blue bars). This indicates the volatility is expected to be relatively short-lived.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*Source: Bloomberg & Stonehage Fleming Investment Management Limited. November 2020.* ***Past performance should not be used as a guide to future performance.***

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