GLOBAL EQUITY PERSPECTIVES 23 NOVEMBER 2020

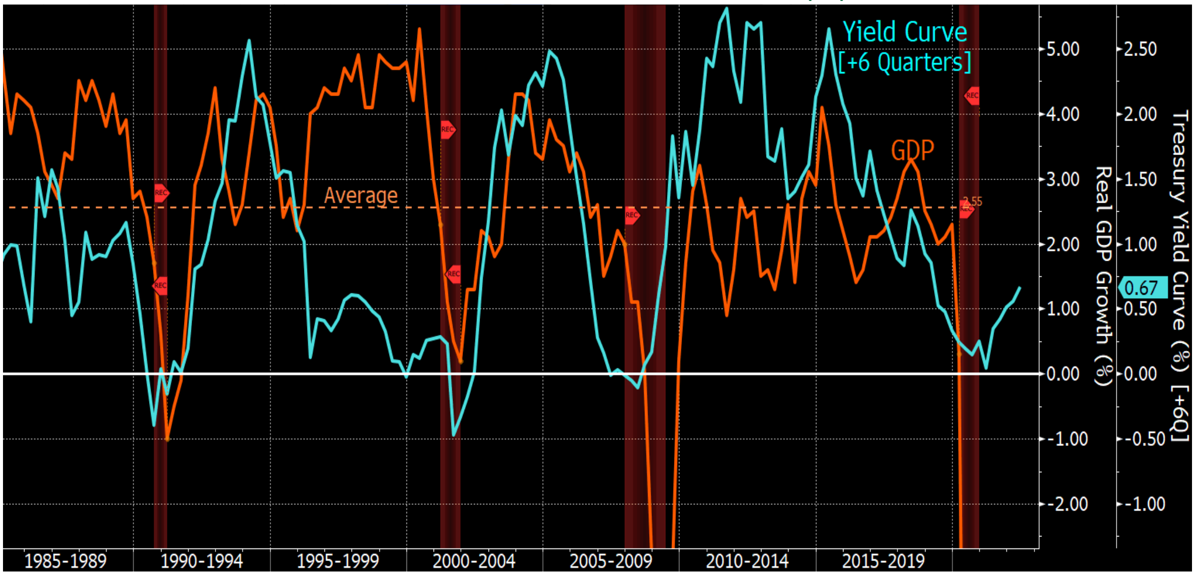
"It is the mark of an educated mind to be able to entertain a thought without accepting it."

Aristotle

1. US RECESSION OVER?

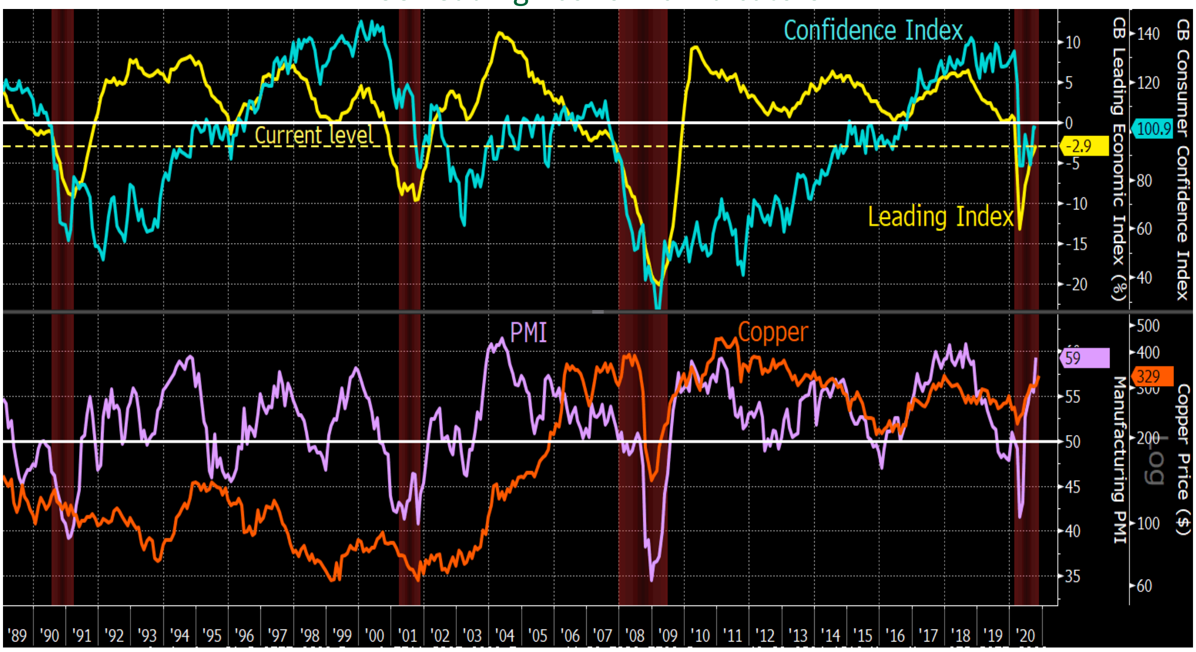
We recently hosted a webinar on the above topic and in this note update some of the charts from the presentation for the benefit of those clients who may not have been able to attend.

US – GDP Growth vs Yield Curve (%)



The US bond market is of the most liquid markets in the world and is very effective in indicating structural economic growth trends. We have advanced the Yield Curve by six quarters in the above chart. It reflects high correlation with GDP growth, with the current trend indicating the potential for good economic recovery.

US Leading Economic Indicators



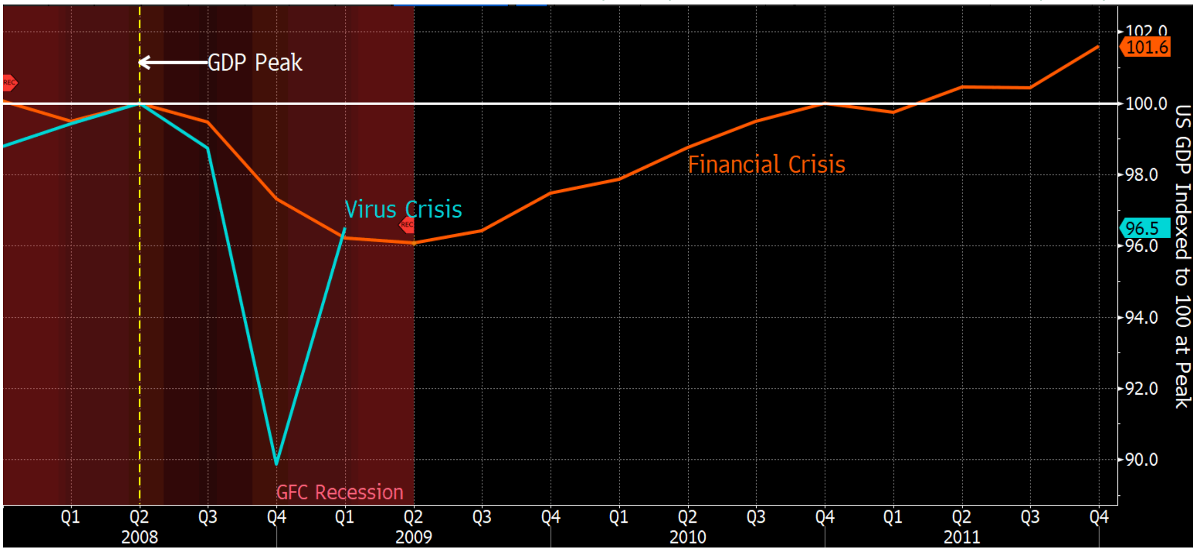
Source: Bloomberg & Stonehage Fleming Investment Management Limited. November 2020. ***Past performance should not be used as a guide to future performance.***

The four different very reliable economic indicators in the preceding chart have tended to bottom in previous recessions, and then recover strongly into the subsequent economic upswings. This is currently happening to all four indicators. Focusing on the Conference Board Leading Economic Index (the most important one, the yellow line), its current value (the yellow horizontal broken line) has historically been associated with positive economic growth. The other indicators deserve a similar comment.

2. RECOVERY EXPERIENCES

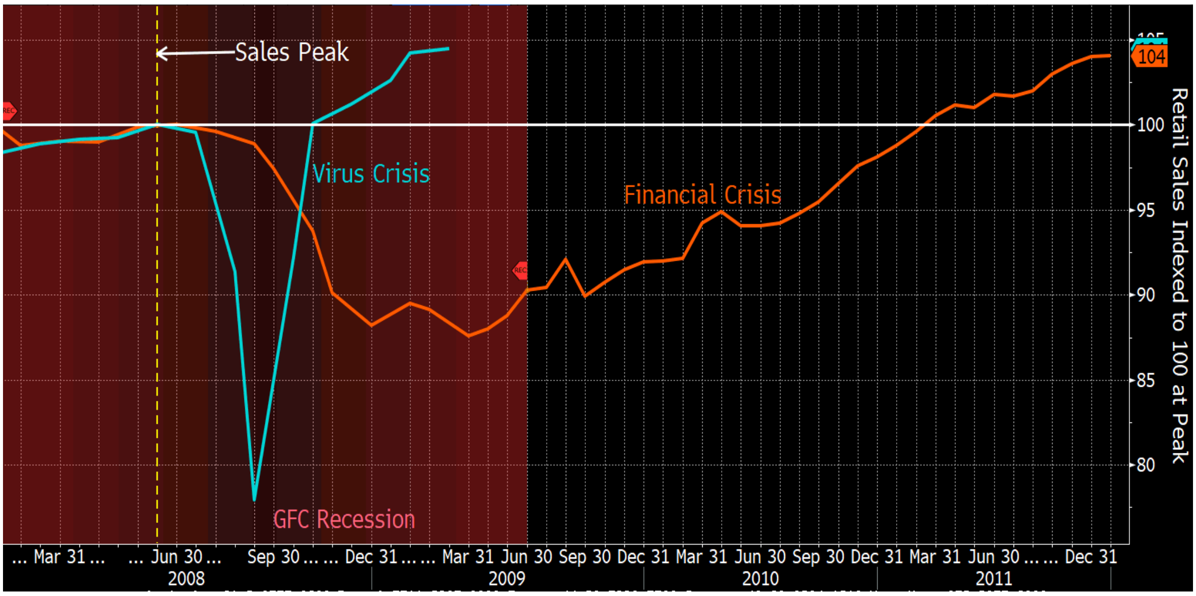
Continuing the above theme, we show a few charts of recovery trends compared to experiences with the previous US recession. We index both the Financial and Virus Crisis data to 100 at the respective dates.

US GDP Pattern – Global Virus Crisis (GVC) vs Global Financial Crisis (GFC)



The current GDP recovery seems to follow a V-curve pattern. It has recovered marginally better than with the GFC – which was at that stage close to the end of that recession.

US Retail Sales – GVC vs GFC



Retail Sales have recovered particularly strongly this time. It also follows a V-curve pattern, and is currently already at a level that took three years to reach following the GFC.

Share prices logically reflect investors' views of the outlook at that time. The next chart compares the GVC and GFC experiences in this context:

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

S&P 500 Index – GVC vs GFC

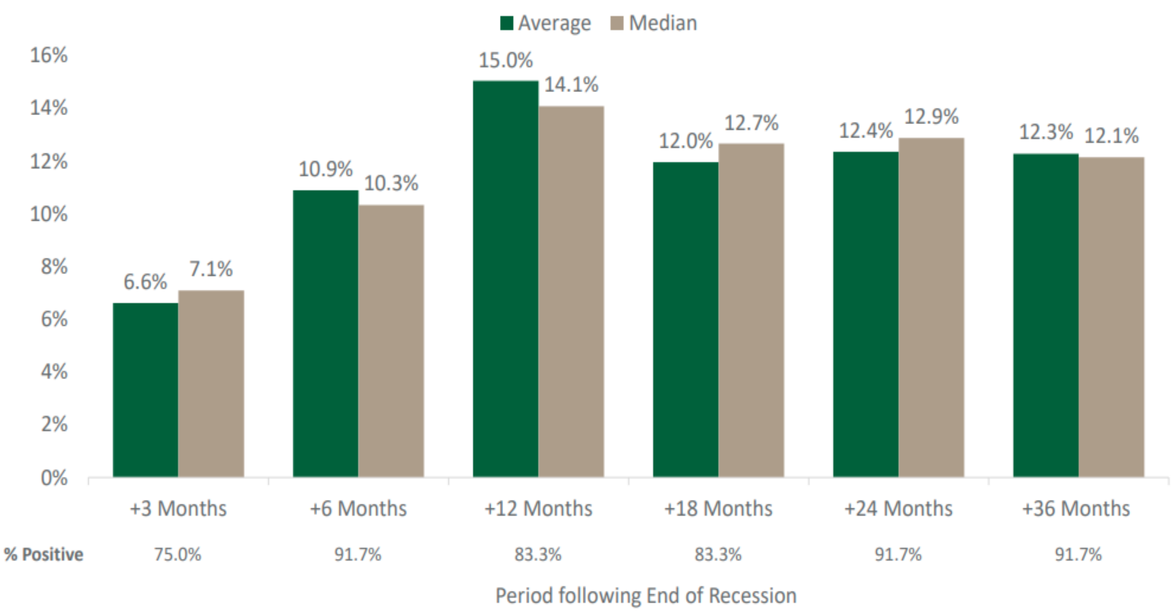
The S&P 500 index has been indexed to 100 at the respective cycle lows. The GVC reading currently is exactly where the GFC reading was at that time. All three of these charts (and others) indicate that the US recession is in process of becoming history.

3. RETURNS FOLLOWING RECESSIONS

The following charts provide historic perspectives of returns following recessionary periods:

S&P 500 – Total Return Following Recessions

Since 1945. 12 Recessions. Annualised for periods >1 year



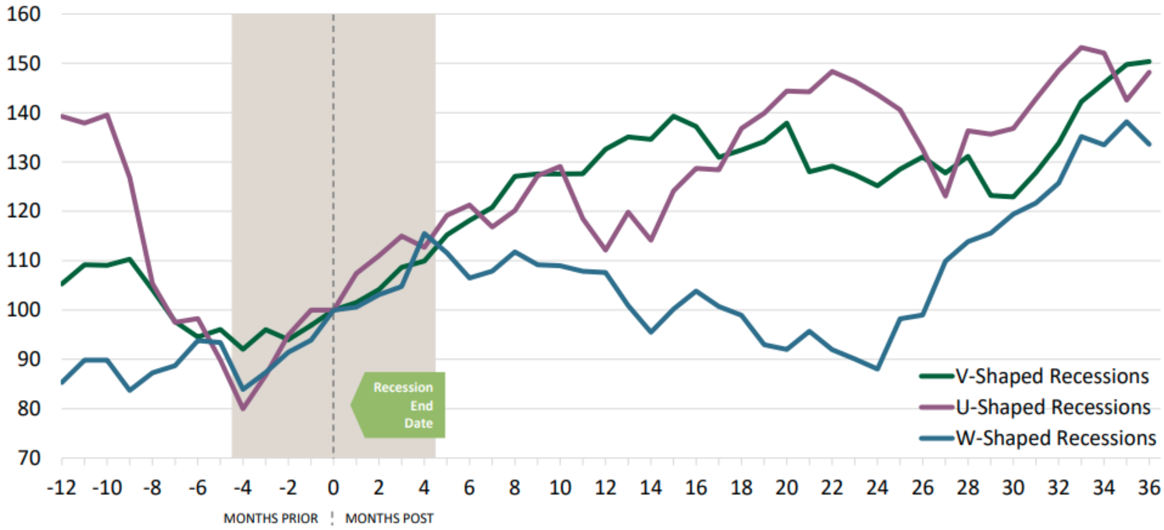
The chart shows the average and median S&P 500 returns after all US recessions since 1945. The outcome has been favourable over all the measurement periods in the chart.

The following chart provides further perspectives under each of a V-shaped, a U-shaped and a W-shaped economic recovery pattern. The indices are indexed to 100 at the end of the recession.

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

S&P 500 – Performance Pre and Post Recessions

Indexed to 100 at end of Recession. Post WWII.

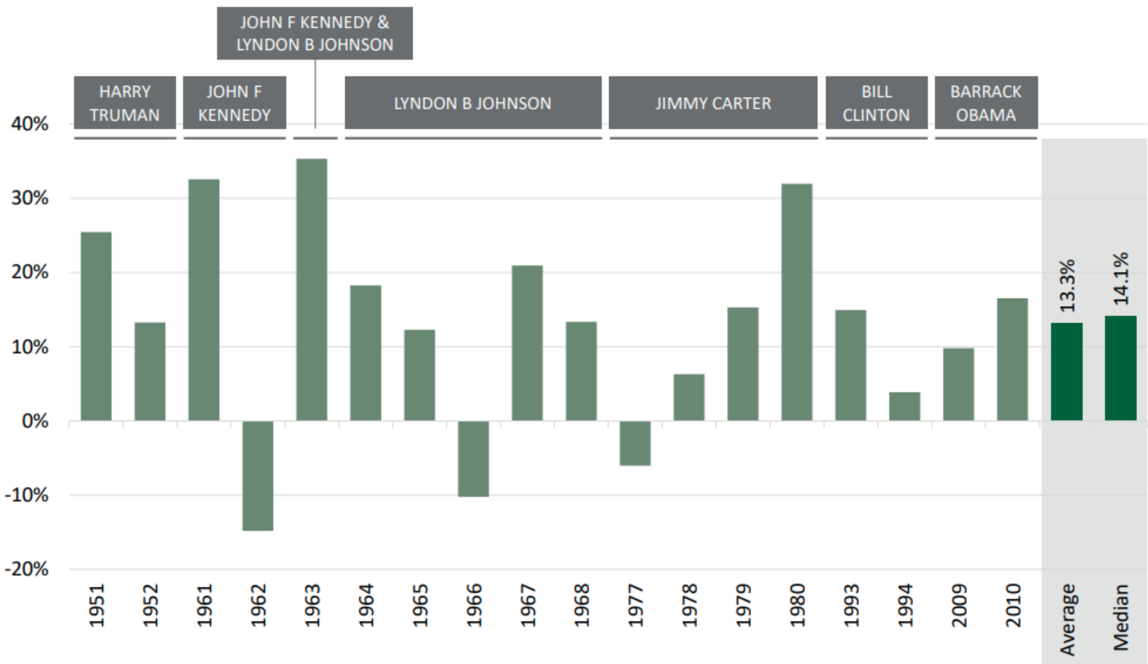


It is striking how similarly the respective performance indices trended for the four months leading up to and following the end of the recessions. On this basis it implies continued recovery in share prices for a while. With a V- or a U-shape economic recovery we may expect continuing share price recovery. The outlook under economic circumstances of a W-shape recovery becomes cloudy for a while, but still ends close to the previous scenarios after three years. With the recent good news on successful vaccines, we put a lower probability to this shape of economic recovery.

4. ELECTION OUTCOME

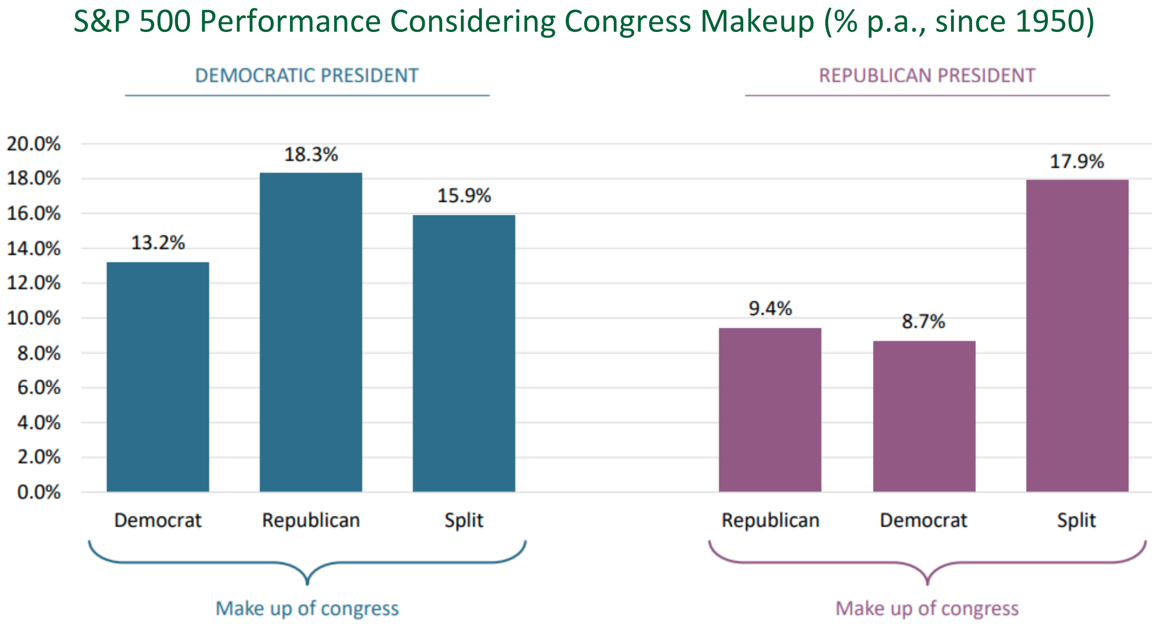
Many investors have uncertainty about the investment outlook under a new US administration. The following charts reflect historic experiences in this context:

S&P 500 Total Return in the First Year When Democrats Control Both the White House and Congress



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

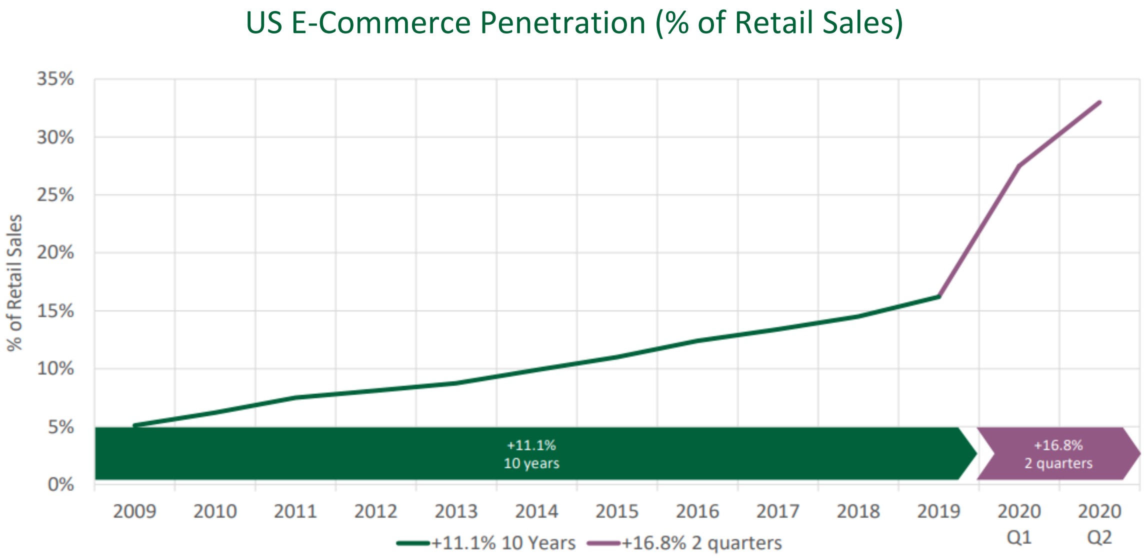
The S&P generally performed well in the first year of a 'blue wave' administration taking office – on average +13.3%. Only on three occasions since 1951 negative returns materialised (under President Kennedy, Johnson, and Carter).



The S&P 500 historically generally delivered better performance under a Democrat administration than under a Republican president. A split Congress delivered better results. A Republican Senate under a Democratic president has the best record in this context. Investors look forward to a final outcome of the recent election.

5. STRUCTURAL INVESTMENT THEMES

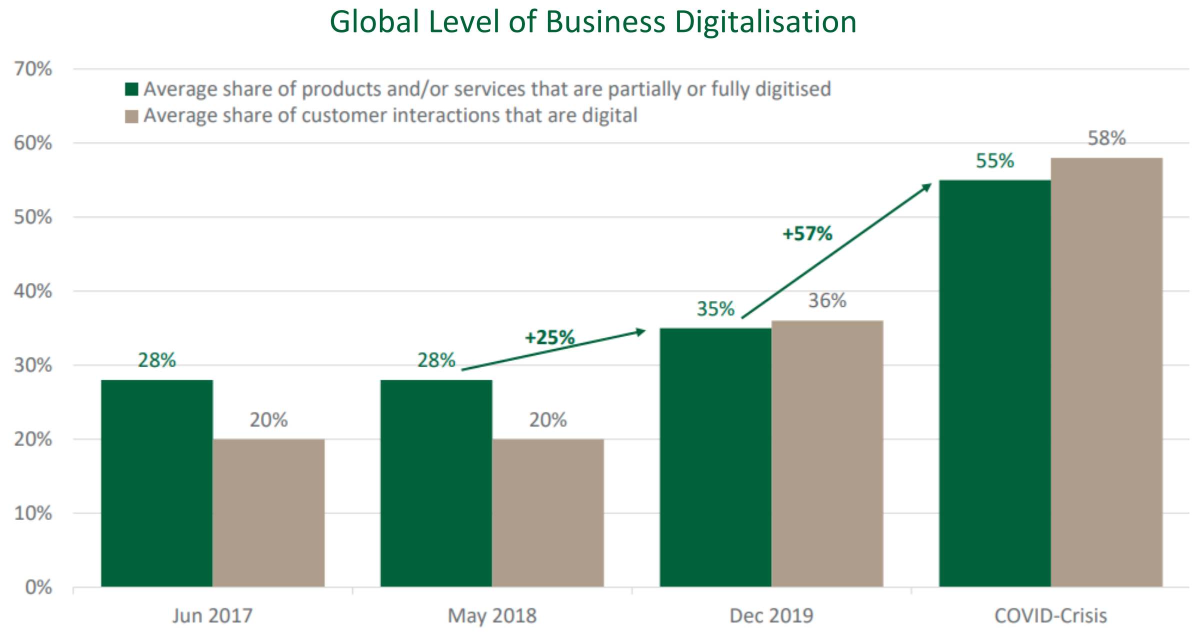
Many investors are hopeful for a strong economic recovery, and wonder whether they should switch to lower quality cyclical investments. We rather invest for sustainable structural growth. We have some reservations about the sustainable level of economic growth the world economy will attain. We believe we have less risk of losing capital in some of the following themes:



Source: US Department of Commerce; McKinsey & Company.

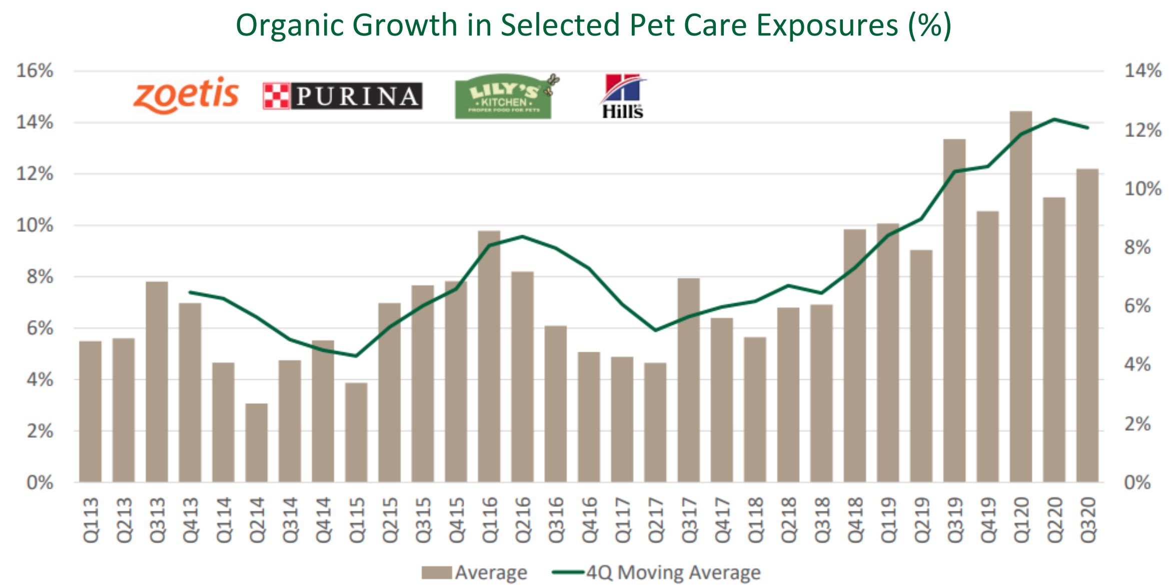
e-Commerce penetration in the US continued to increase over the third quarter. It now has doubled over the last two quarters from 16% to 33%. The structural benefits for the main operators are expected to provide long-term benefits to shareholders.

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



Source: McKinsey & Company

28% of products/services were digitalized in the middle of 2018. That level grew by a quarter to 35% at the end of last year, and has subsequently grown another +57% to 55% during the GVC. This structural growth is expected to continue.



The average organic growth in the pet care divisions of Zoetis, Colgate Palmolive and Nestle historically hovered around a healthy level of 6% (the green line). This has doubled and is expected to continue benefitting from the humanisation of companion animals (an American term for pets).

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

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

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