GLOBAL EQUITY PERSPECTIVES 7 SEPTEMBER 2020

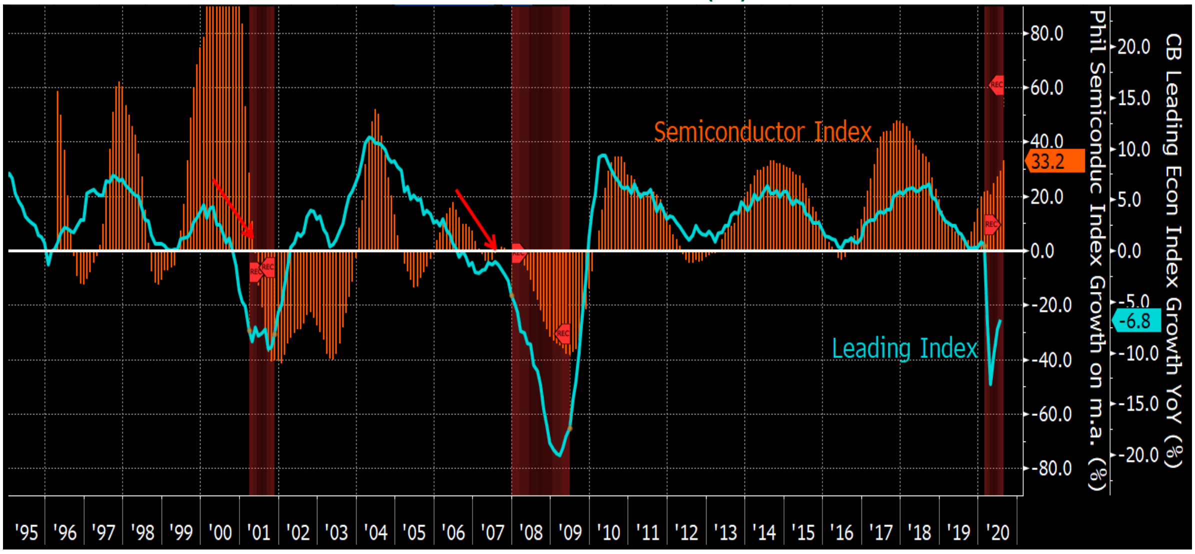
"Doing the best at this moment puts you in the best place for the next moment."

Oprah Winfrey

1. ECONOMIC RECOVERY

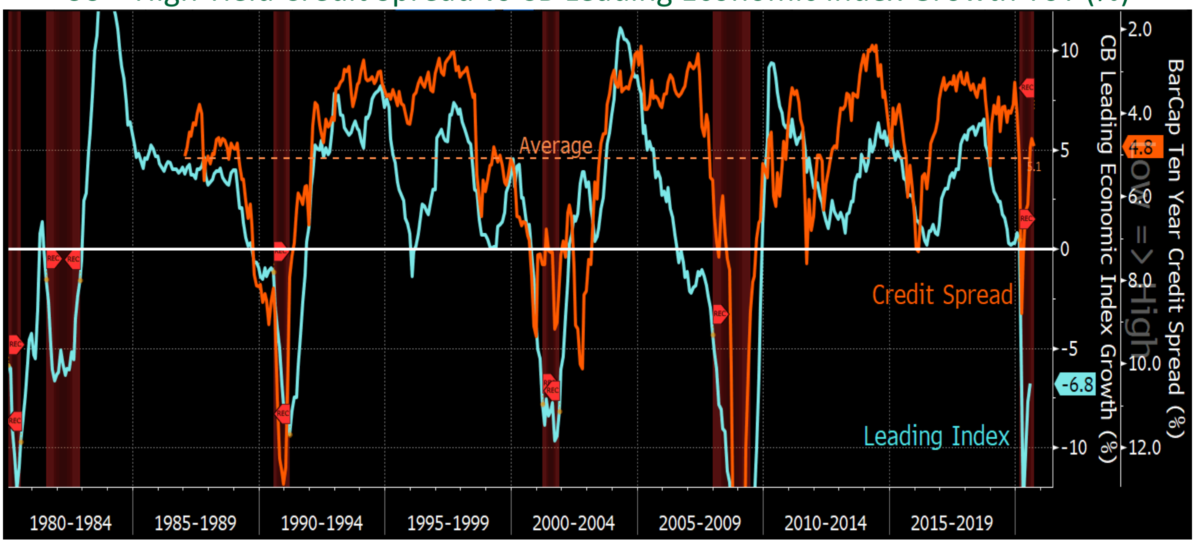
US leading economic indices continue to be on a clear recovery track:

US – Conference Board (CB) Leading Economic Index vs Philadelphia Semiconductor Index Growth YoY (%)



The Conference Board Leading Economic index is recovering off a low base and comparable to its trend in late 2009. The above semiconductor index has remained strong through the Virus Crisis and is already growing at a handsome rate. Whilst the new normal economic environment favours this sector, its trend correlates well with the Leading Index signaling that equity investors can look forward to a more favourable economic environment.

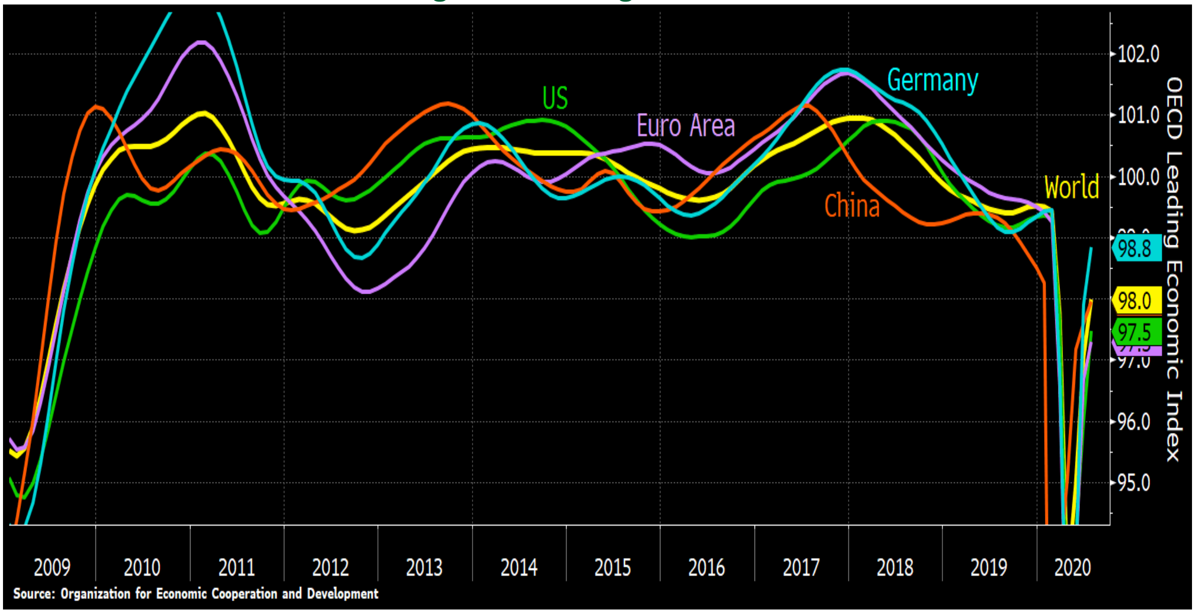
US – High Yield Credit Spread vs CB Leading Economic Index Growth YoY (%)



The High Yield Credit Spread correlates well with the Leading Economic Index and has already recovered to its long-term average level. This bodes well for a further recovery in the latter – which is already tracking its own recovery in late 2009.

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

OECD Regional Leading Economic Indices



All the major OECD regional Leading Economic Indices are recovering well. Germany seems to be the furthest on this recovery track, with the overall World and China indices following closely. All these indices seem to be closely tracking the late 2009 trend well. On this basis 2021 should experience similar constructive economic trends as in 2010.

2. US MANUFACTURING

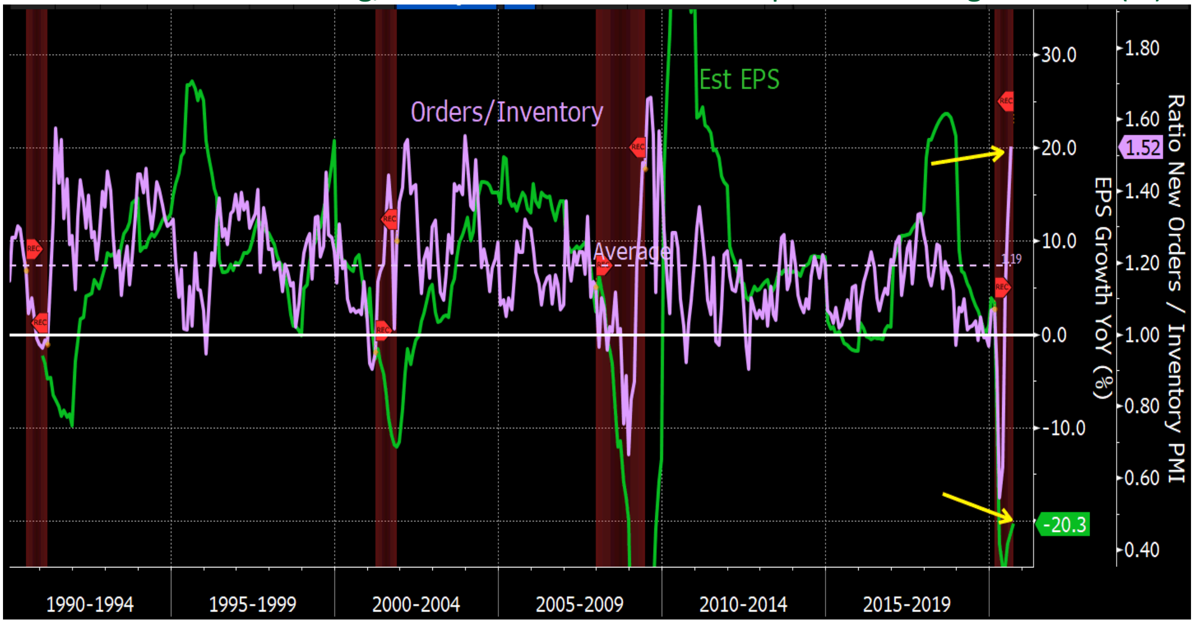
The Institute of Supply Management indices of US Manufacturing data provide valuable information:

US – ISM Manufacturing PMI Index vs S&P 500 12m Expected Earnings Growth (%)

The PMI index has already recovered well – its most recent reading is well above its long-term average level. This is a positive sign for US economic recovery. It correlates well with S&P 500 earnings growth, which is currently still in the doldrums. On this, basis we can expect earnings to recover well into next year.

The following chart reflects the ratio of ISM Order data against Inventory data, along with S&P 500 earnings growth. This ratio is currently close to historic high levels, way above the earnings growth (see the yellow arrows), which then indicated strong earnings growth to follow. This also confirms our statement above of a constructive earnings outlook for the coming quarters.

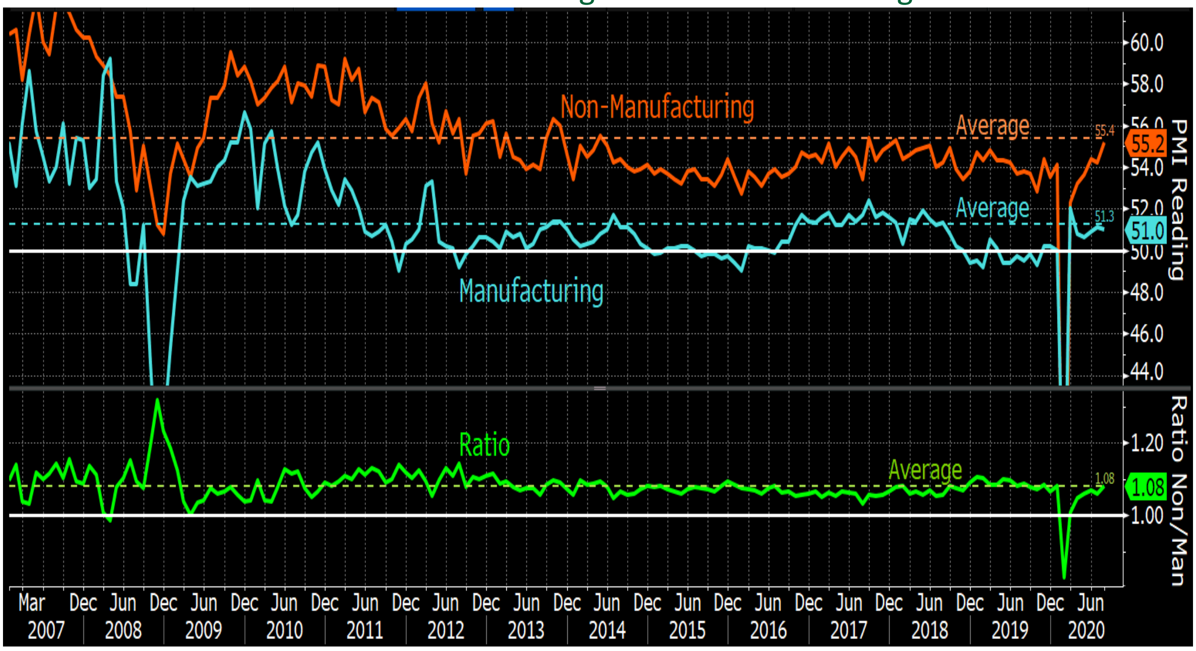
US – ISM Manufacturing/Orders Index vs S&P 500 Expected Earnings Growth (%)



It is striking that the current recovery trends compare well with the late 2009 experiences. That was a good time for higher equity exposure.

3. CHINA ECONOMY

China – Federation Manufacturing & Non-Manufacturing PMI Indices

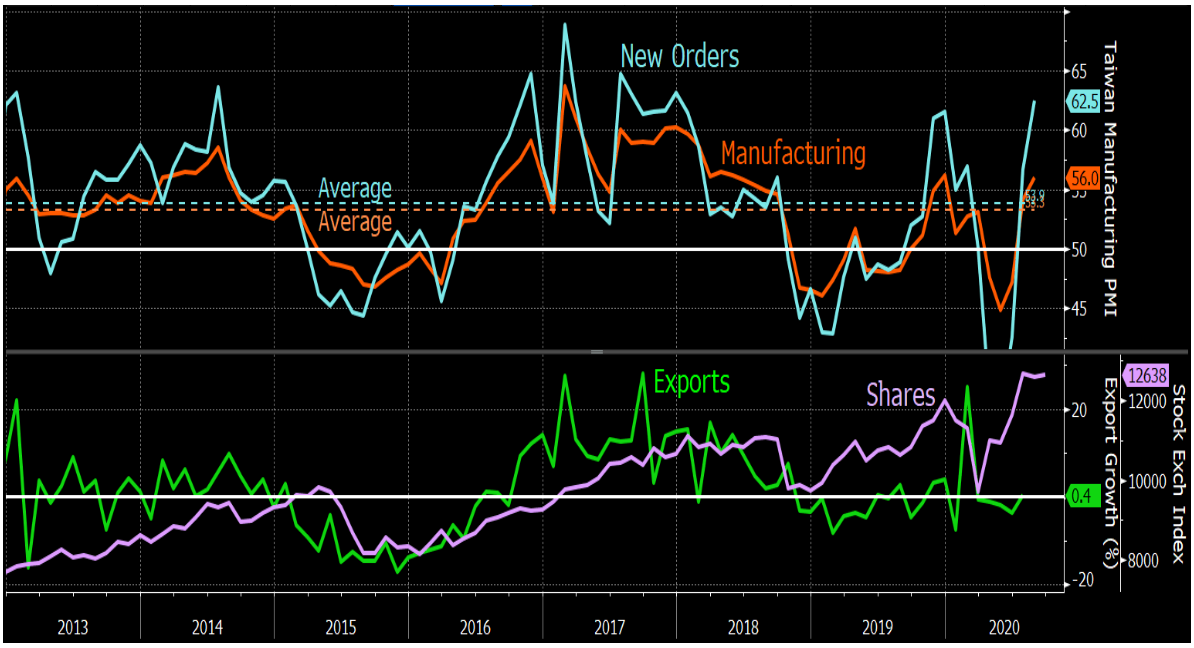


Both China's Manufacturing and Non-Manufacturing indices have already recovered to levels close to their respective long-term averages, with the ratio between the two series on its long-term average levels. This indicates the Chinese economy getting closer to normalization. Interestingly, the current independent Markit Manufacturing Index is well above the Federation's reading in the above chart.

We also follow Taiwan's economic data closely. Their economy is quite dependent on exports to China – almost a quarter of their trade is with the mainland, the largest of any country. The following chart reflects their PMI and export data.

Both their Manufacturing and New Orders PMI indices are above their respective long-term average levels, with the latter close to historic record levels.

Taiwan – ISM Manufacturing and New Orders PMI Indices, Exports Growth (YoY, %) and Stock Market Index



Taiwan's exports, strikingly, have been stable through the virus crisis. It has recently started growing again. Their stock market has recovered to record levels.

It seems Taiwan's economy is getting in a good shape and may reflect a growing Chinese economy on its doorstep.

4. WORLD TRADE

A weaker Dollar 'oils the wheels' of the global economy. We already see a positive result in world trade in this context:

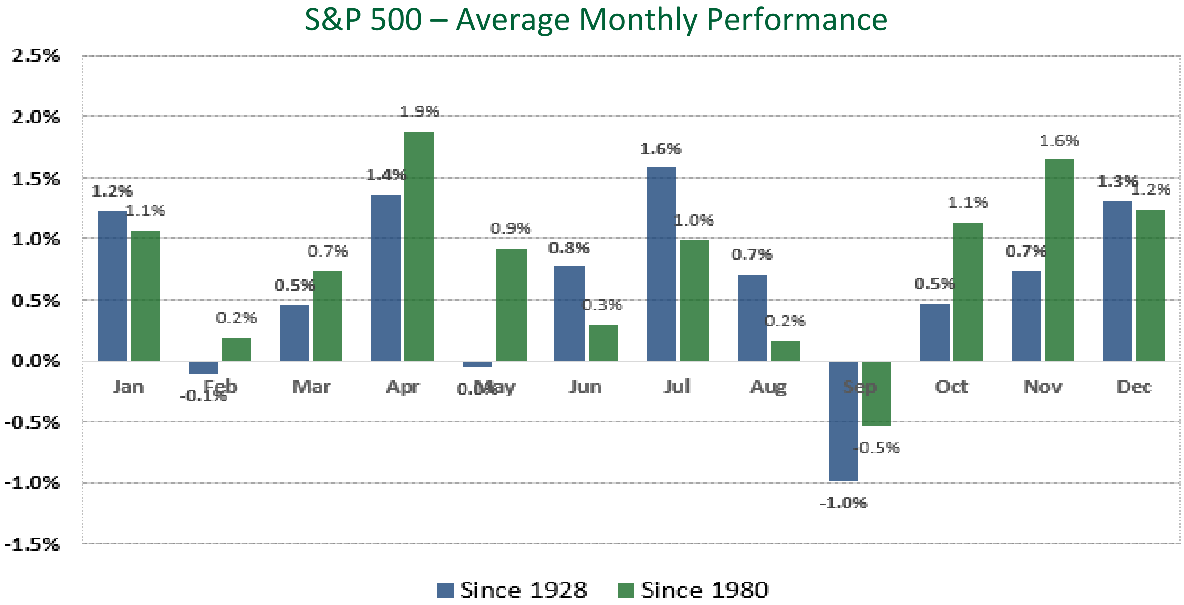
World Trade – Indexed to 100 at The Credit Crisis and Virus Crisis Outbreaks

The trade volumes are indexed to 100 at the time of the Financial Crisis and Virus Crisis events. In the case of the former, it took three quarters to start recovering and two years to recover to those levels at the beginning of the crisis. In the current case, it has already started recovering after one quarter, and is already at the same level of recovery after a year in the case of the financial crisis. It seems that world trade currently recovers much more swiftly than during the Financial Crisis.

Source: US Department of Commerce & Stonehage Fleming Investment Management Limited. September 2020. ***Past performance should not be used as a guide to future performance.***

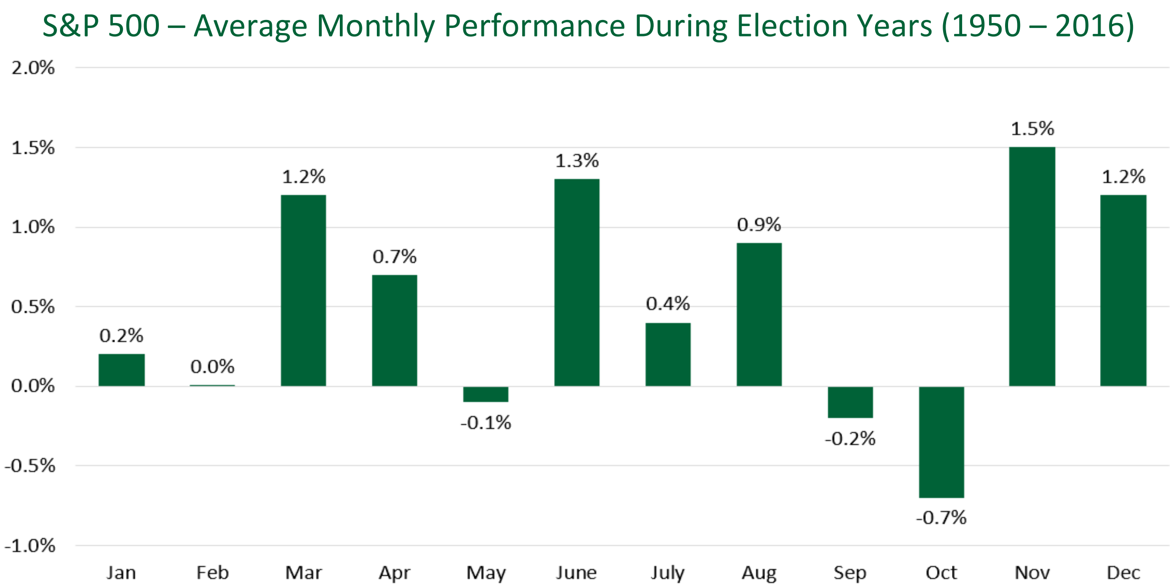
5. SEASONAL PERFORMANCE

We are at the tail end of the traditional weak summer season.



Both July and August delivered strong S&P 500 performances this year (+5.5% and +7.0% respectively), the latter contrary to tradition. Historically, September has been the weakest month, with all the months in the last quarter delivering strong performances.

The obvious question is whether US election years deliver similar results.

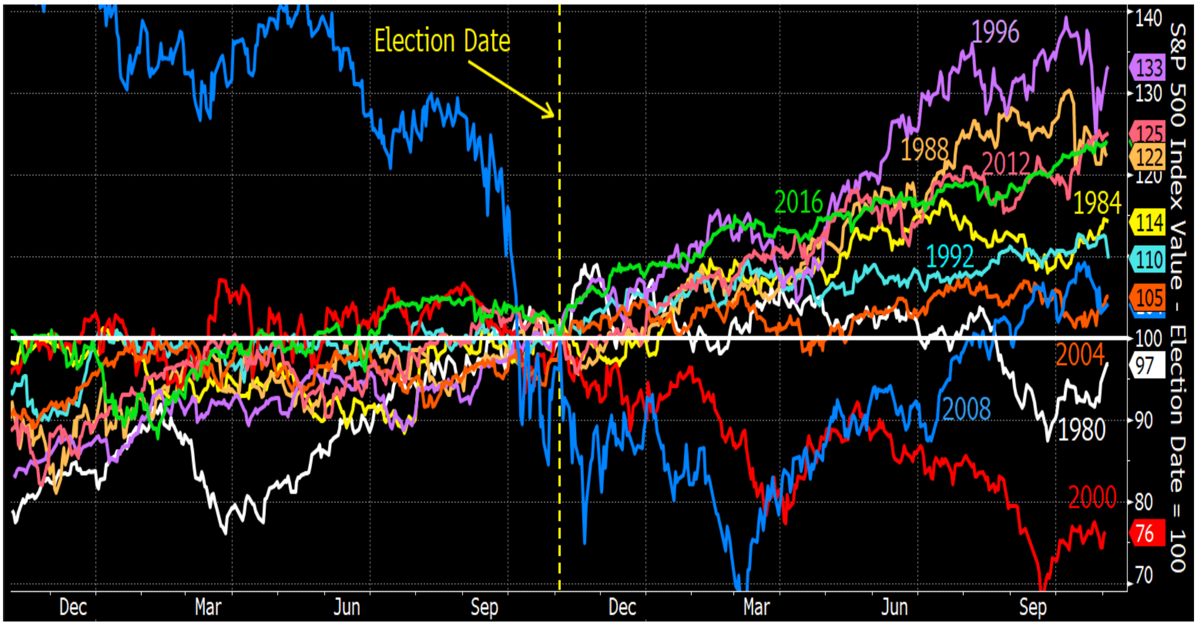


The monthly performance during election years up till August deliver quite similar results, with September also a negative month (but more mildly so). The major difference with other years is that October has delivered by far the weakest results during election years, clearly because of the uncertainties politicians cause in their election campaigns. Nevertheless, following that, November and December then continue being of the strongest months in the year. On this basis, investors can look forward to good buying opportunities in the current two months.

US elections happen on the first Tuesday in November. The following chart reflects the S&P 500 performance in the run-up to all elections since 1980, and then the performances in the following calendar year.

Source: US Department of Commerce & Stonehage Fleming Investment Management Limited. September 2020. ***Past performance should not be used as a guide to future performance.***

S&P 500 – Price Indexed to 100 on Election Date



We draw the following conclusions from the chart:

- All election years delivered positive results in the run-up to the election (barring the Financial Crisis year).
- All years following the election year delivered positive results (barring the Tech bubble year; a 5.4% dividend yield can be added to the 1980 election year outcome).

Whilst election years often cause electorate and investor uncertainties and anxieties, the capital market outcomes have predominantly been favourable.

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Source: US Department of Commerce & Stonehage Fleming Investment Management Limited. September 2020. ***Past performance should not be used as a guide to future performance.***

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