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*From economics to investment strategy*

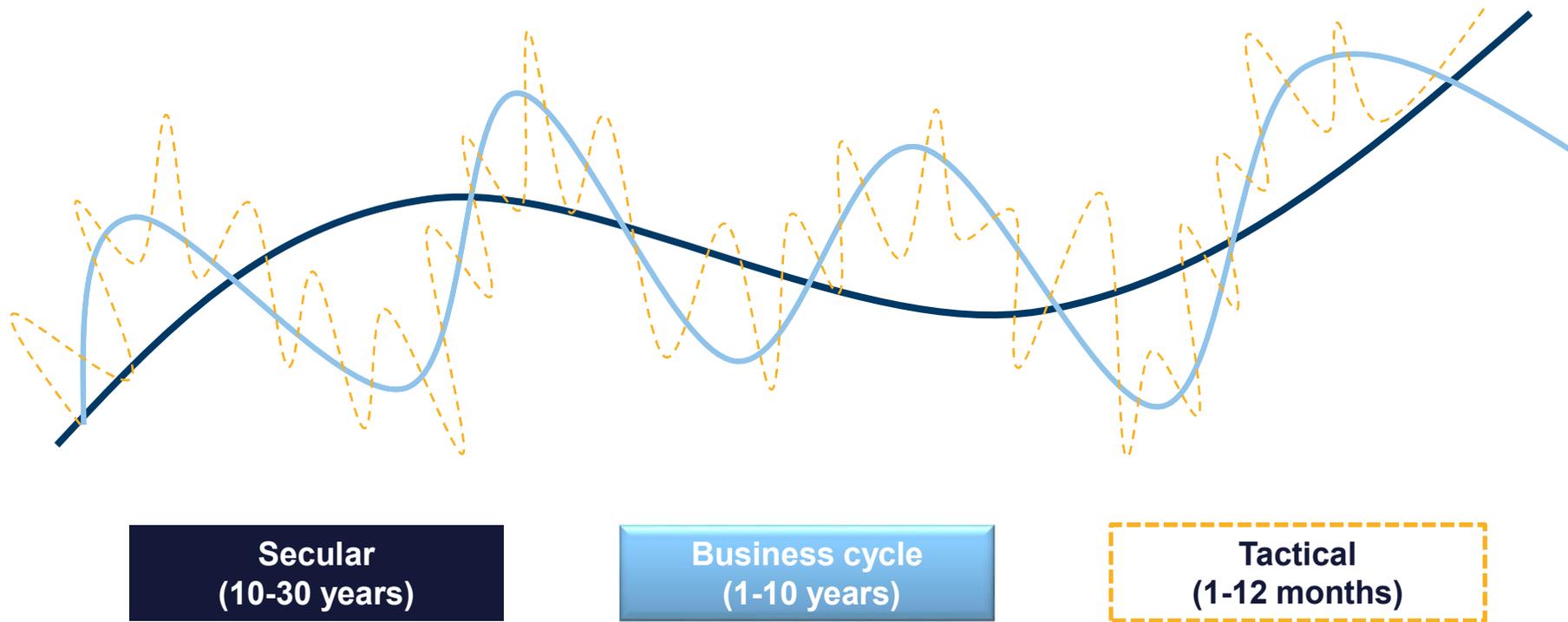
Janet Mui, Investment Director – July 8, 2020



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*What drives investment  
performance?*

# Short, medium and long-term factors



Source: Brewin Dolphin.

The value of investments can fall, and you may get back less than you invested.



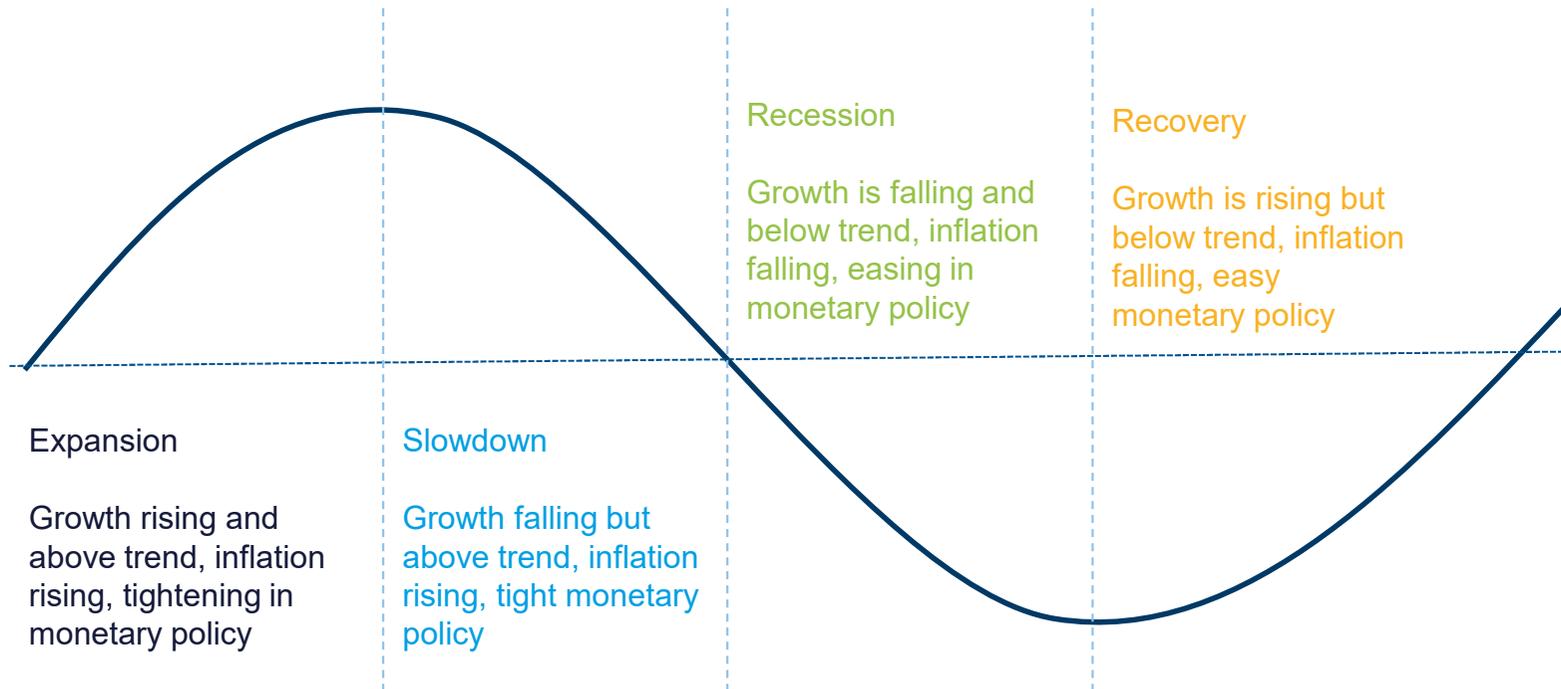
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## *Business cycle investing*

Slowdown, recession, recovery, expansion

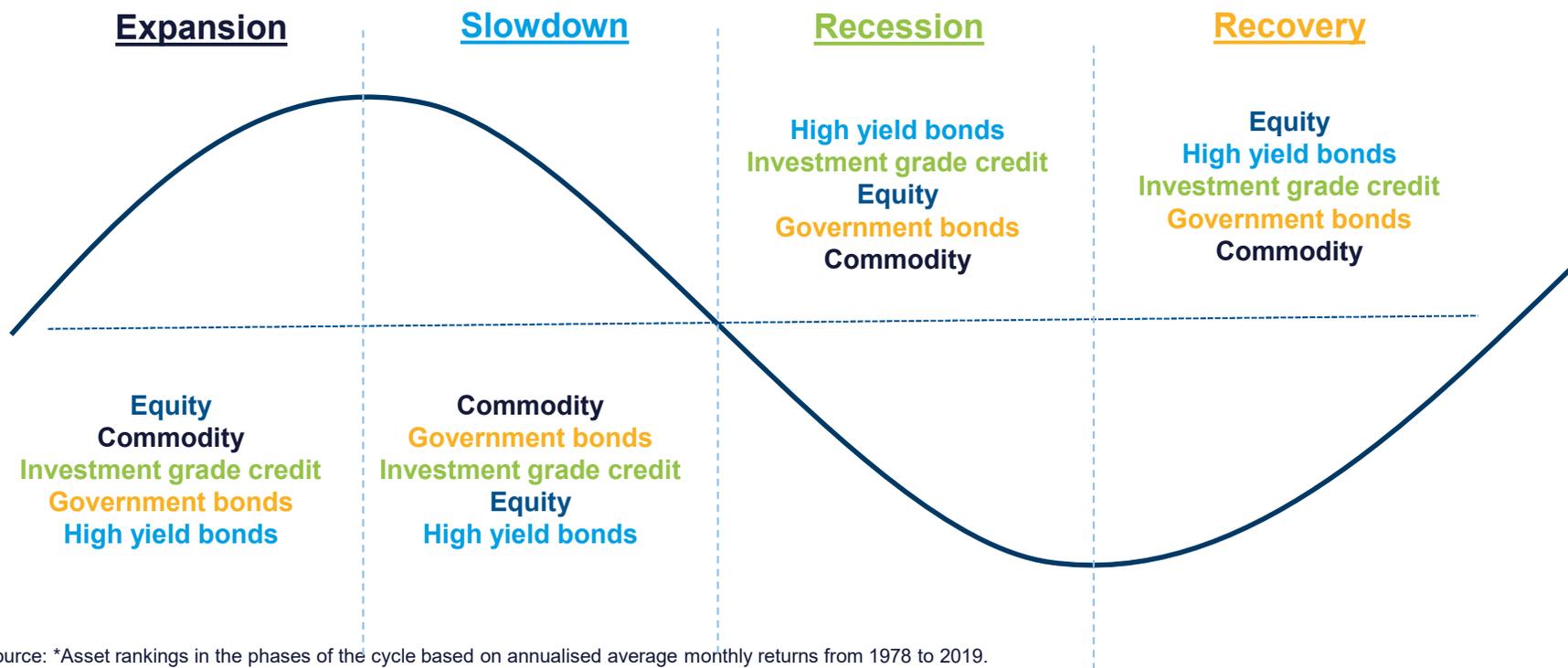
# Stylised business cycle

Business cycle  
(1-10 years)



Source: Brewin Dolphin.

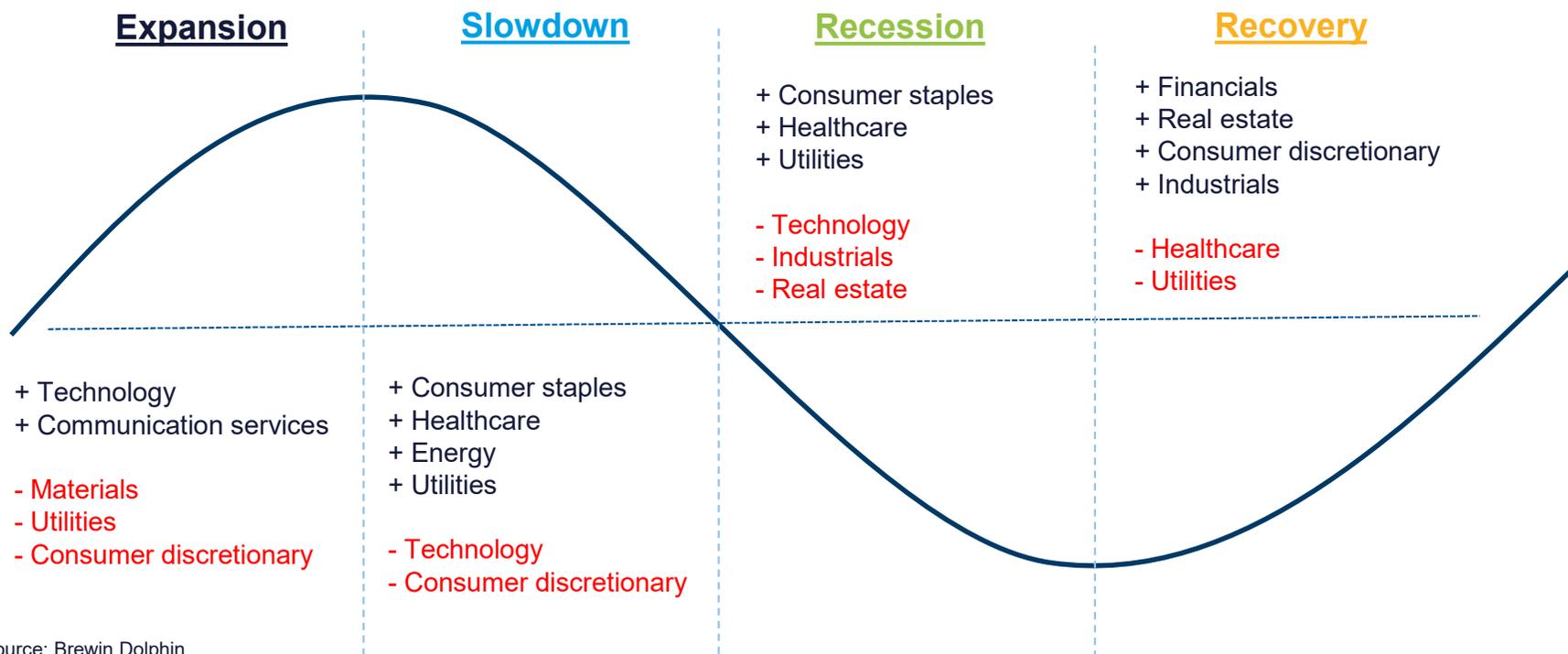
# Relative asset class performance in a business cycle



Source: \*Asset rankings in the phases of the cycle based on annualised average monthly returns from 1978 to 2019.

No investment is suitable in all cases and if you have any doubts as to an investment's suitability then you should contact us.

# Relative sector performance in a business cycle



Source: Brewin Dolphin.

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# Tracking macro indicators for the business cycle

Business surveys	Consumer surveys	Manufacturing activity	Housing	Financial conditions
<ul style="list-style-type: none"><li>• Purchasing manager indices</li><li>• Business confidence</li><li>• Hiring and wage surveys</li></ul>	<ul style="list-style-type: none"><li>• Consumer confidence</li><li>• Job and wage expectations</li><li>• Consumption of durables</li></ul>	<ul style="list-style-type: none"><li>• New orders</li><li>• Industrial production</li><li>• Durable goods orders</li></ul>	<ul style="list-style-type: none"><li>• Building permits</li><li>• New home sales</li><li>• Mortgage applications/ approvals</li></ul>	<ul style="list-style-type: none"><li>• Credit growth</li><li>• Money supply growth</li><li>• Short-term interest rates</li></ul>

Source: Brewin Dolphin.

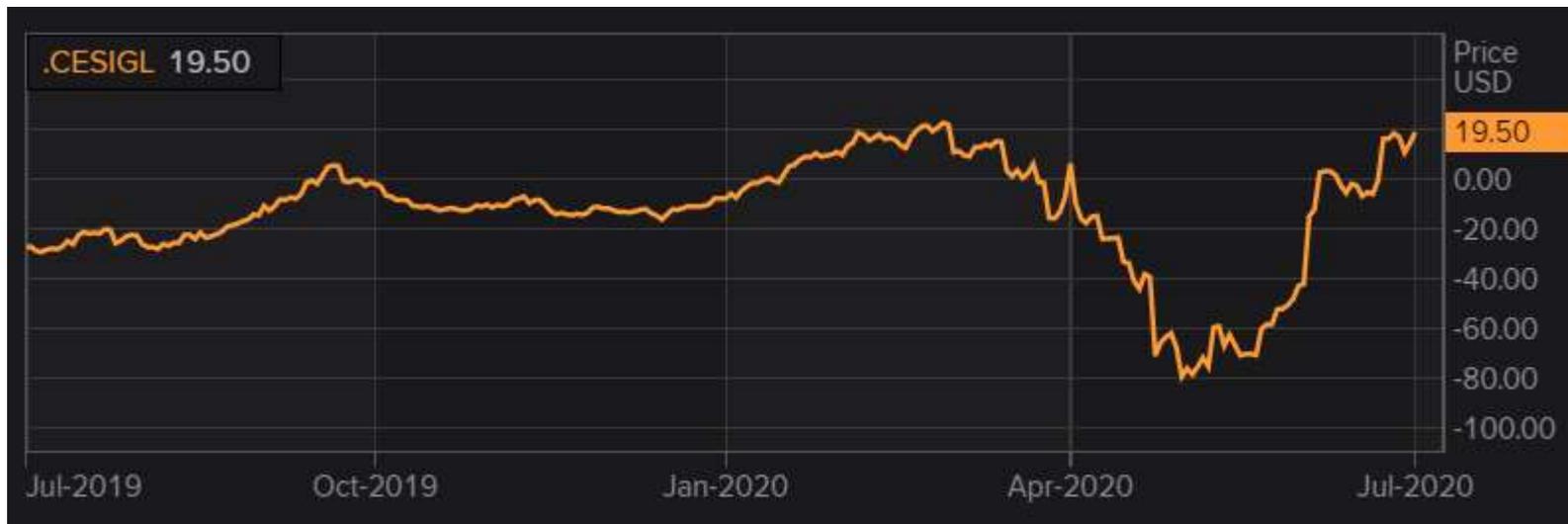
## *Tactical investing*

Signals, technical, sentiment, positioning

# Tactical factors – economic surprises

Tactical  
(1-12 months)

## Citi economic surprises – global



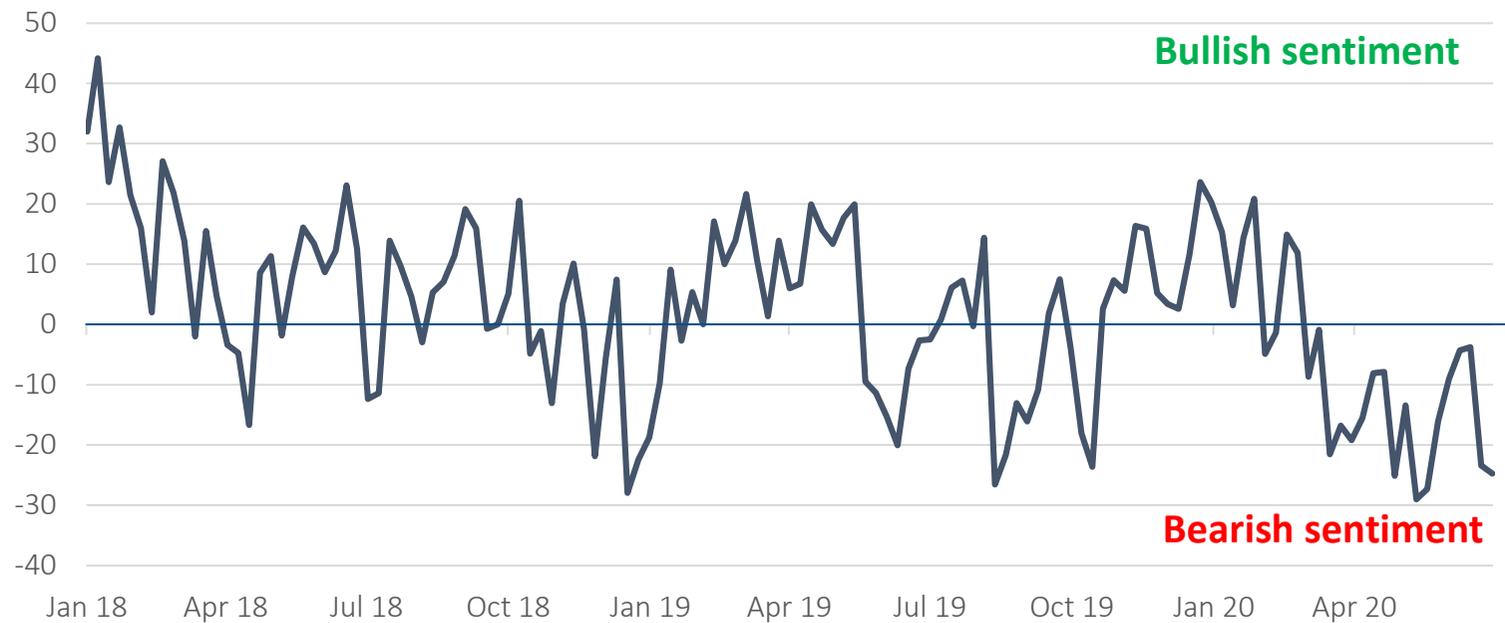
Source: Refinitiv Datastream.

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# Tactical factors – sentiment

**Tactical  
(1-12 months)**

## AAll bull-bear indicator



Source: Refinitiv Datastream.

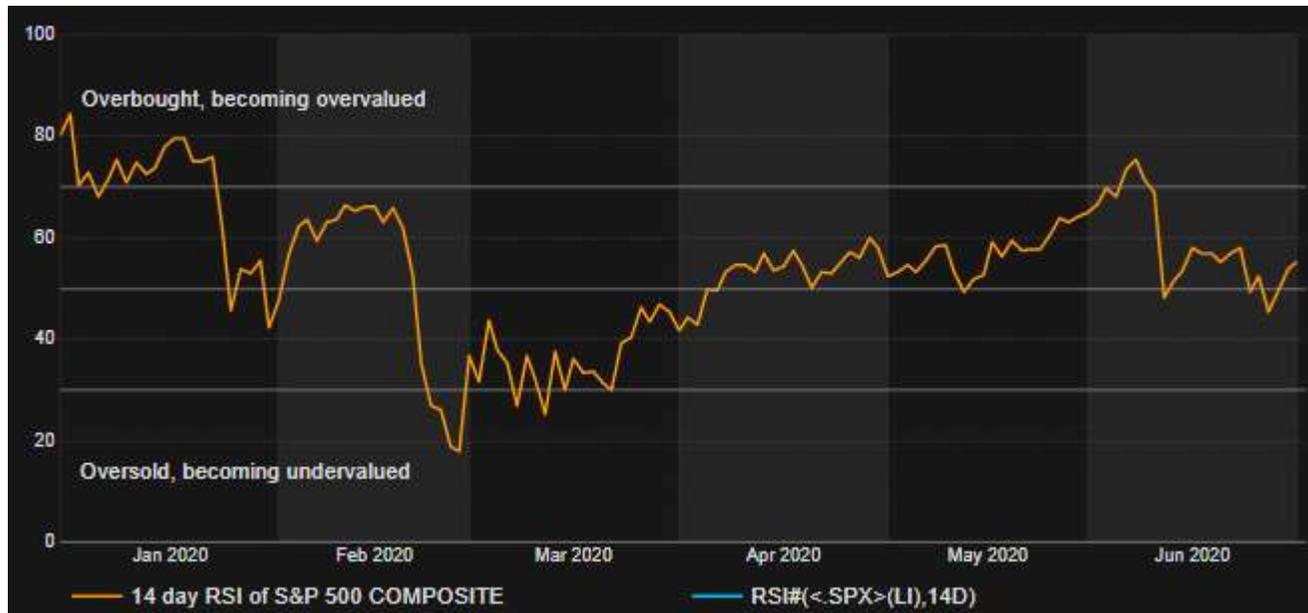
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# Tactical factors – technicals

Tactical  
(1-12 months)

## S&P 500 – Relative Strength Indicator (RSI)



Source: Refinitiv Datastream.

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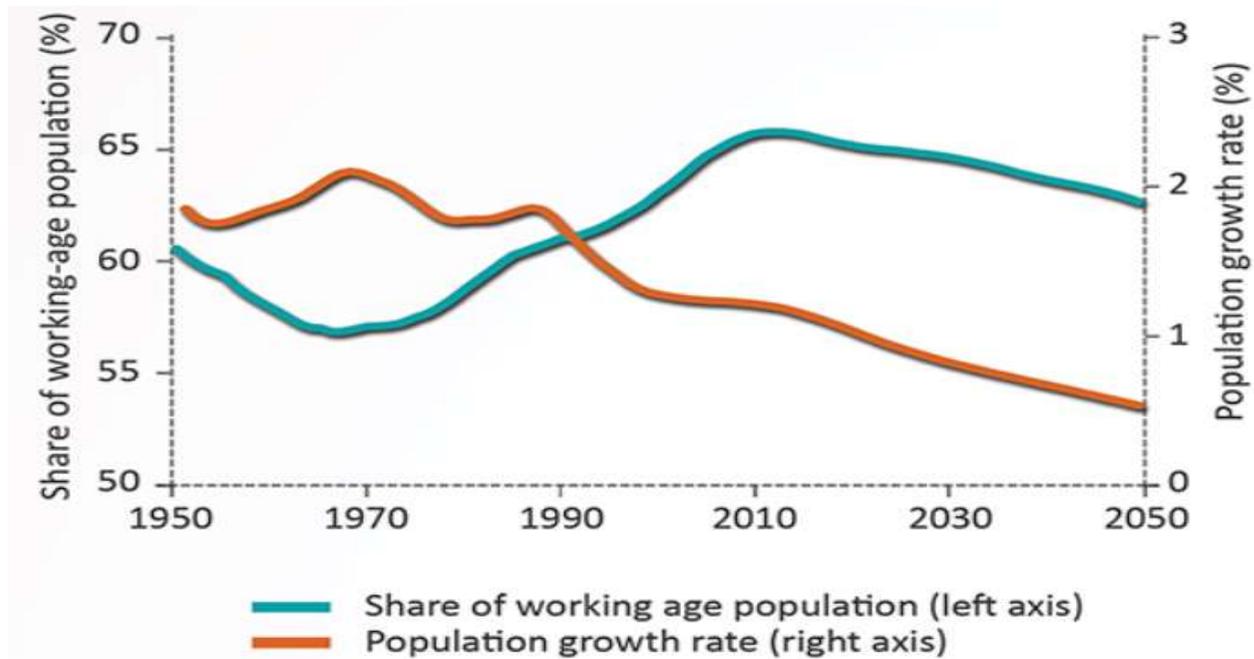
## *Secular trends*

Demographics, debt, technology

# Demographics – Aging population

Secular  
(10-30 years)

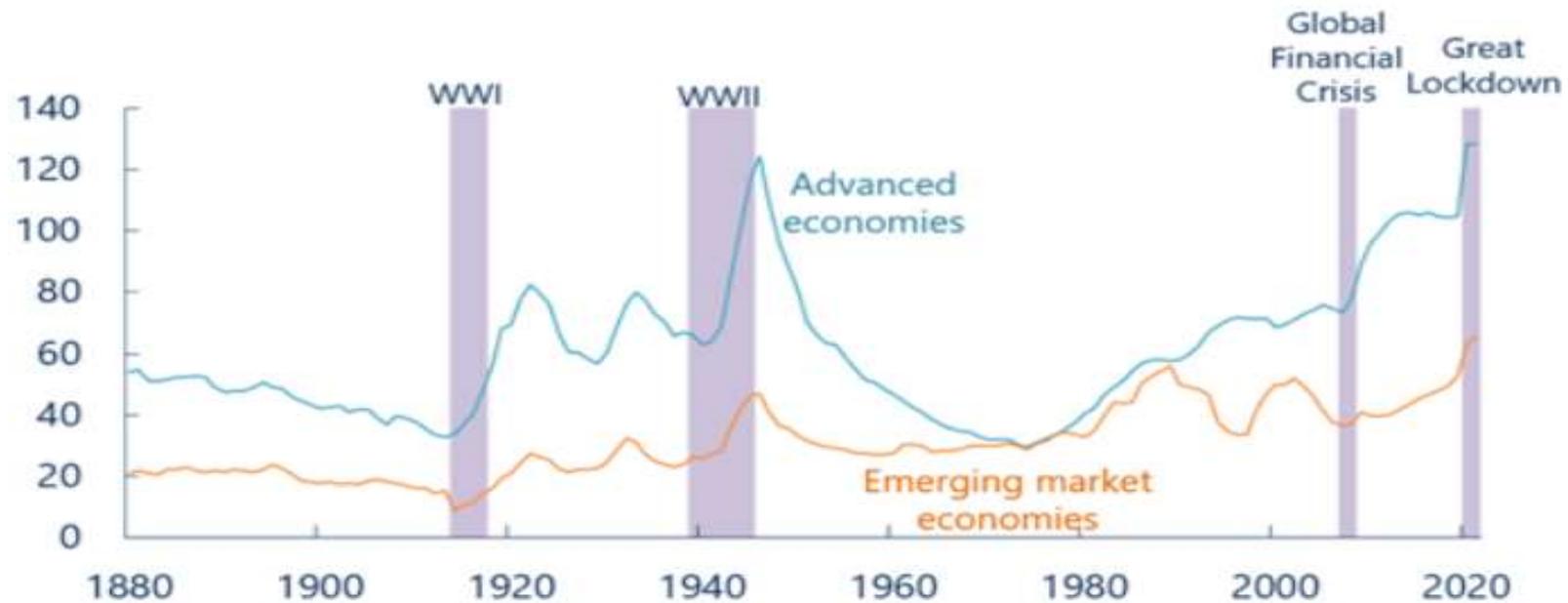
Working age population has peaked and population growth is slowing



Source: World Bank.

# Debt – Record debt burden may constrain growth

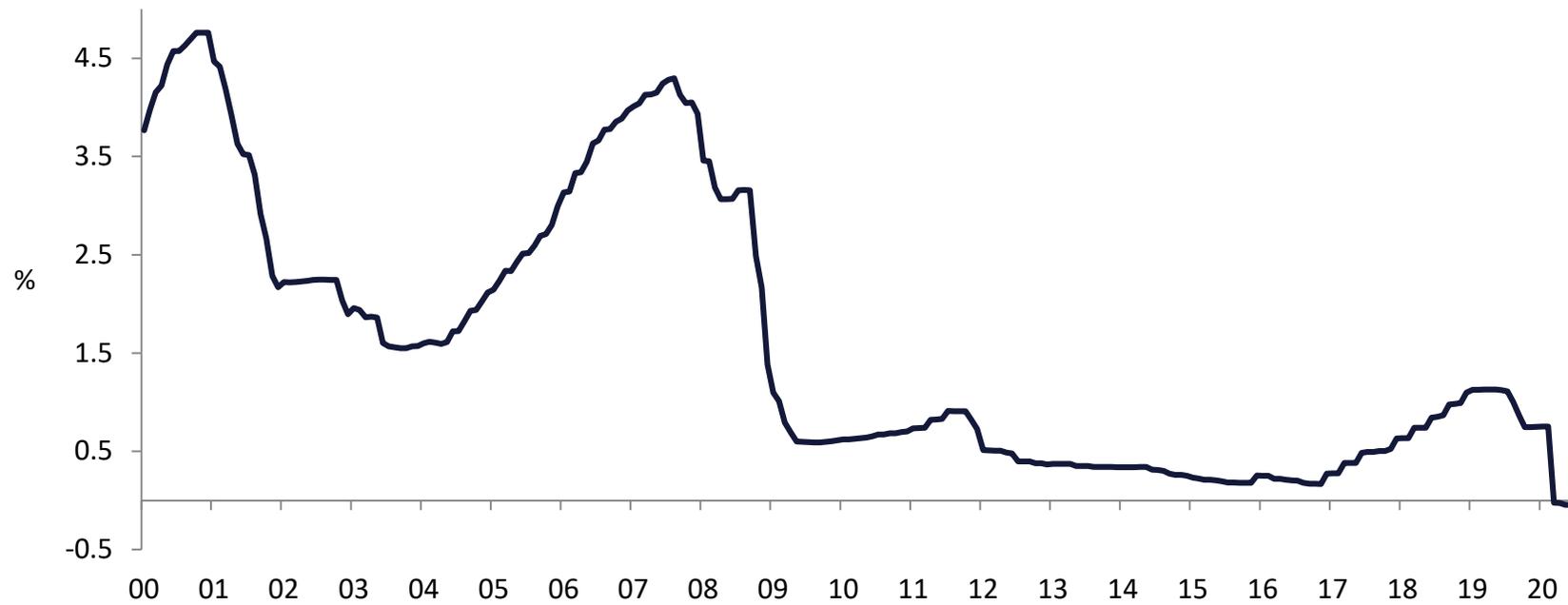
Global public debt is expected to exceed the post-World War II peak (% of GDP)



Source: IMF.

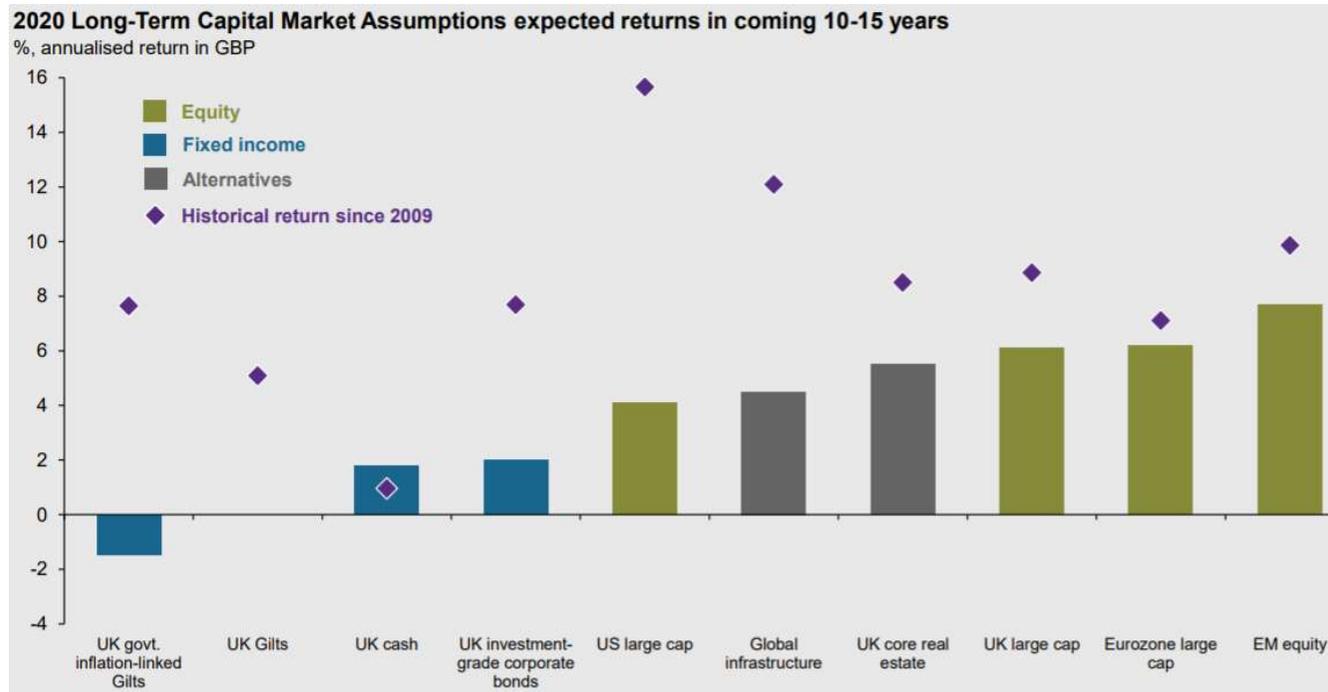
# Structurally lower growth – Zero rates for longer

Developed markets' weighted average policy rate (%)



Source: UBS.

# A lower-return world...



Source: JPMAM.

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# Technology – the fastest growing sector

Largest companies by market cap (1999 vs 2020)



Source: Brewin Dolphin.

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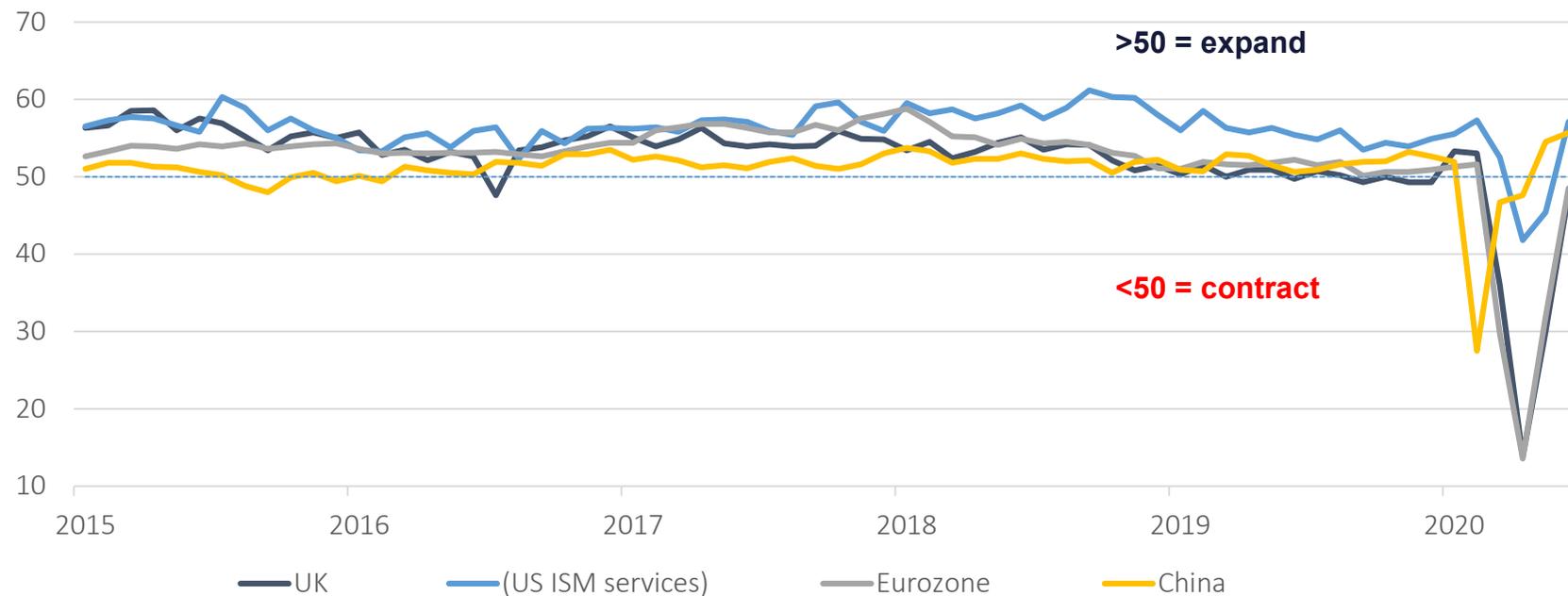


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*What does it mean for  
investment strategy in the  
world post Covid-19?*

## Phase 2: Recovery – Welcoming economic data

### Business surveys – Purchasing Manager Indices (composite)



Source: Refinitiv Datastream.

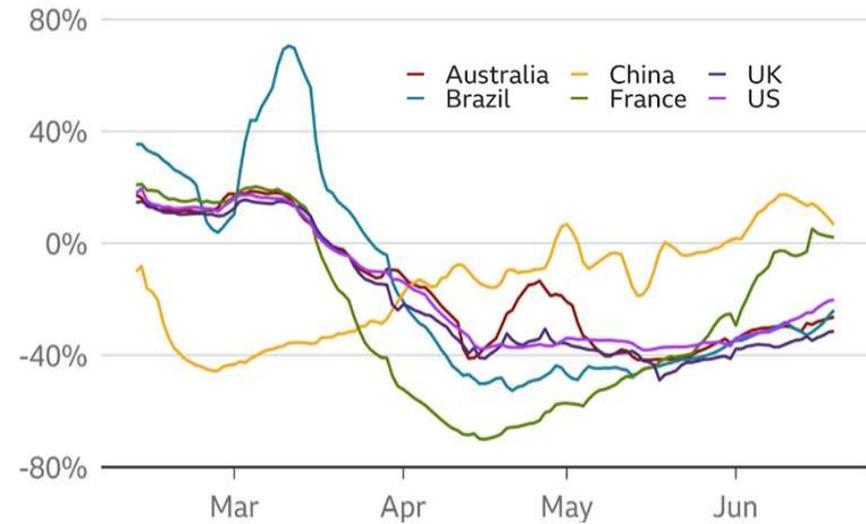
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# Recovery – Business confidence on the mend

## IFO business expectation for 6 months ahead



## LinkedIn hiring rate by country (% YoY)



Source: Refinitiv Datastream, LinkedIn (June 29, 2020).

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# A stylized roadmap of the economic outlook

## Phase 1: Survival

## Phase 2: Recovery

## Phase 3: The new normal



- We are past the worst
- Use of all policy tools to minimise the cost of the lockdown
- Ensure the survival of businesses and jobs

- So far, encouraging signs of recovery
- Stimulus to support the recovery
- Shape of recovery will depend on the survival of businesses and how a 2<sup>nd</sup> wave is managed

- Higher debt burden may restrain growth
- Low return world and TINA\*
- Secular trends favour the technology sector

\*TINA: There Is No Alternative.

# Summary of macro and investment views (July 2020)

## Macro views

- Green-shoots in the economy, but gradual recovery
- Supportive monetary and fiscal policy cushions growth
- Risks: Second wave, economic scarring, US election, geopolitical tension

## Investment views

- Equities to move modestly higher on a 12-month view. Added to US and Asia-ex Japan equities
- Cutting exposure to gilts
- Prefer corporate bonds to government bonds
- Negative on UK property
- Positive on gold as portfolio diversifier

Equities  
+

Bonds  
-

Alternatives  
-

Cash  
+

Source: Brewin Dolphin.

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*Thank you*

Questions?

# Speaker's biography



Janet Mui

Investment Director

Janet Mui is Investment Director at Brewin Dolphin. As part of the research team, Janet is responsible for the commentary and communication of Brewin Dolphin's macro/investment views to clients and the media. She is a frequent guest at the BBC, Bloomberg and CNBC on macro discussions.

Janet joins Brewin Dolphin from Cazenove Capital, the wealth management division of Schroders, where she was global economist within the investment strategy team. During that time, she was part of the investment committee and acted as the company's chief spokesperson on macro issues

With a first-class degree in economics from London School of Economics and an MBA from Cambridge University, Janet speaks Cantonese and is fluent in Mandarin. She is a CFA charter holder.

# Disclaimer

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