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What is the future for UK Investors?

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8th December 2020

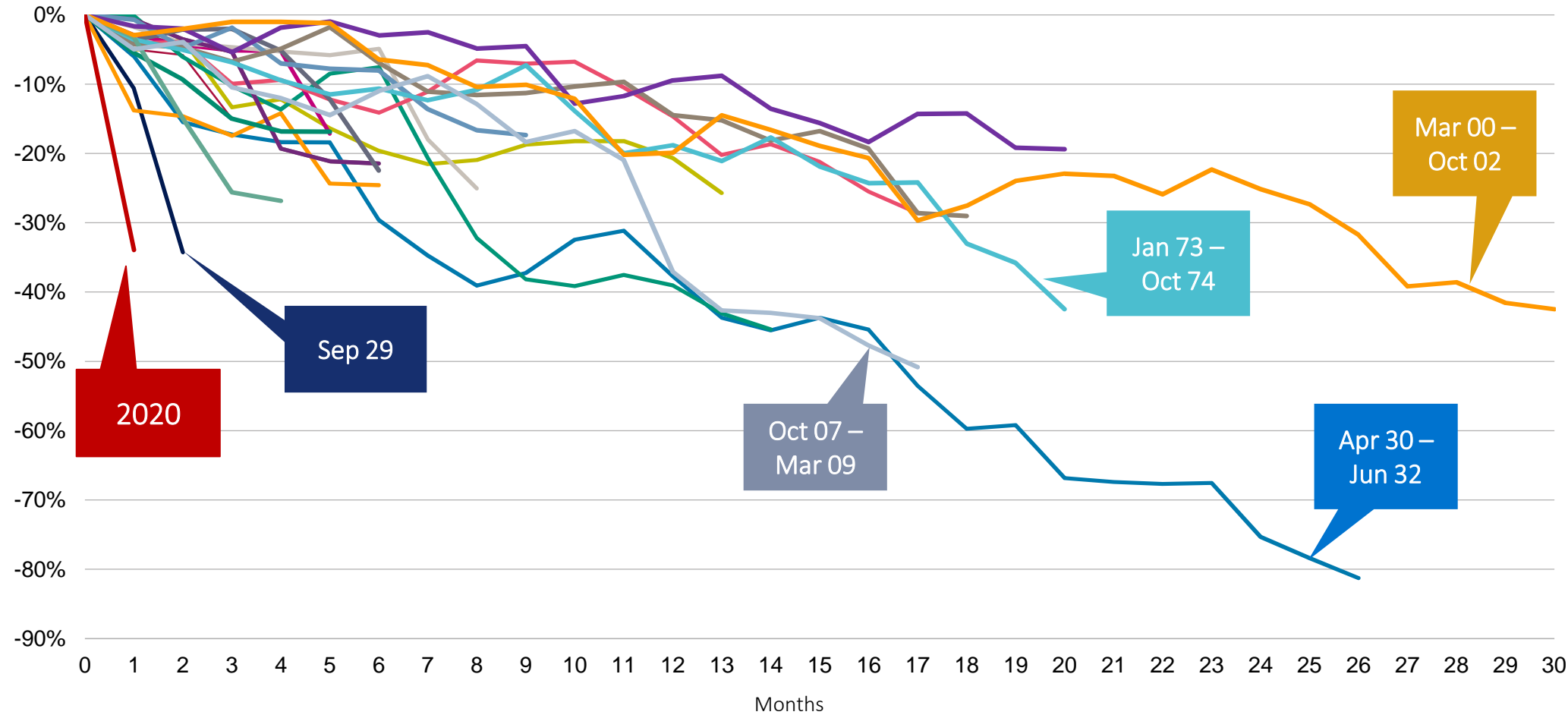
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The year that was 2020

2020 in the context of previous bear markets.....

 **Bear markets**



Average bear market duration: 1.6 years

Average bear market loss: -37%

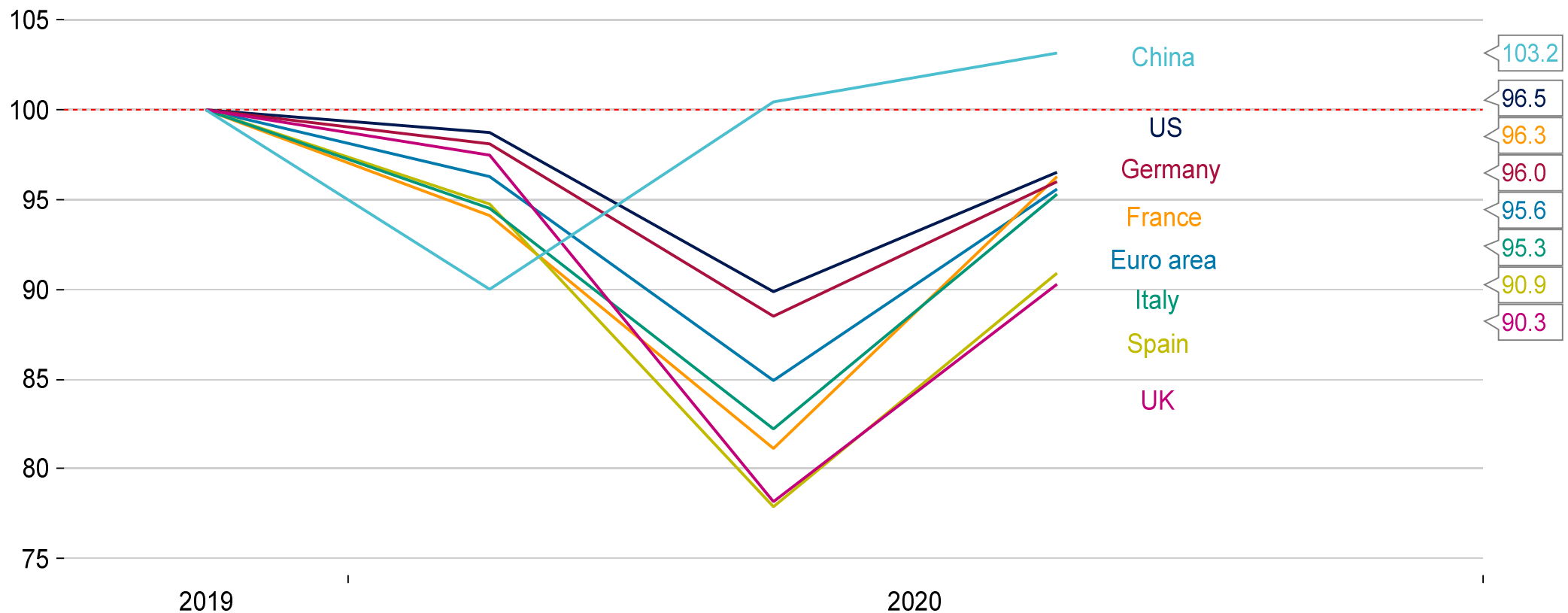
Source: Sarasin & Partners, Yardeni Research Inc, Standard & Poor's, April 2020

Assessing the damage: unprecedented impact on Western economies with UK suffering disproportionately



China's GDP has fully recovered from the COVID19 shock - other economies around 4-10% smaller - Latest GDP data Q3 2020

Gross Domestic Product (100 in Q4 2019)



Source: Macrobond

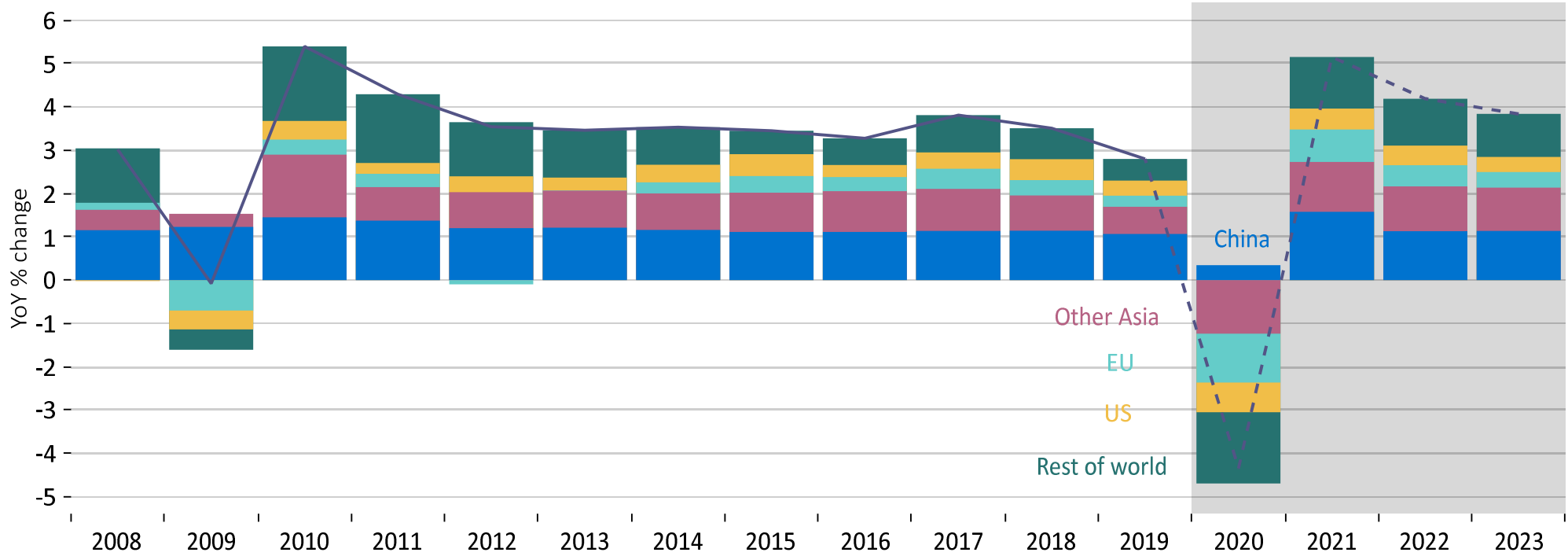
Source: 03.12.20

China's economy has rebounded much faster & will lead the global GDP rebound in 2021



China and other Asia hurt much less by the COVID-19 virus

Contribution to global GDP growth at purchasing-power parity, IMF estimates (shaded)

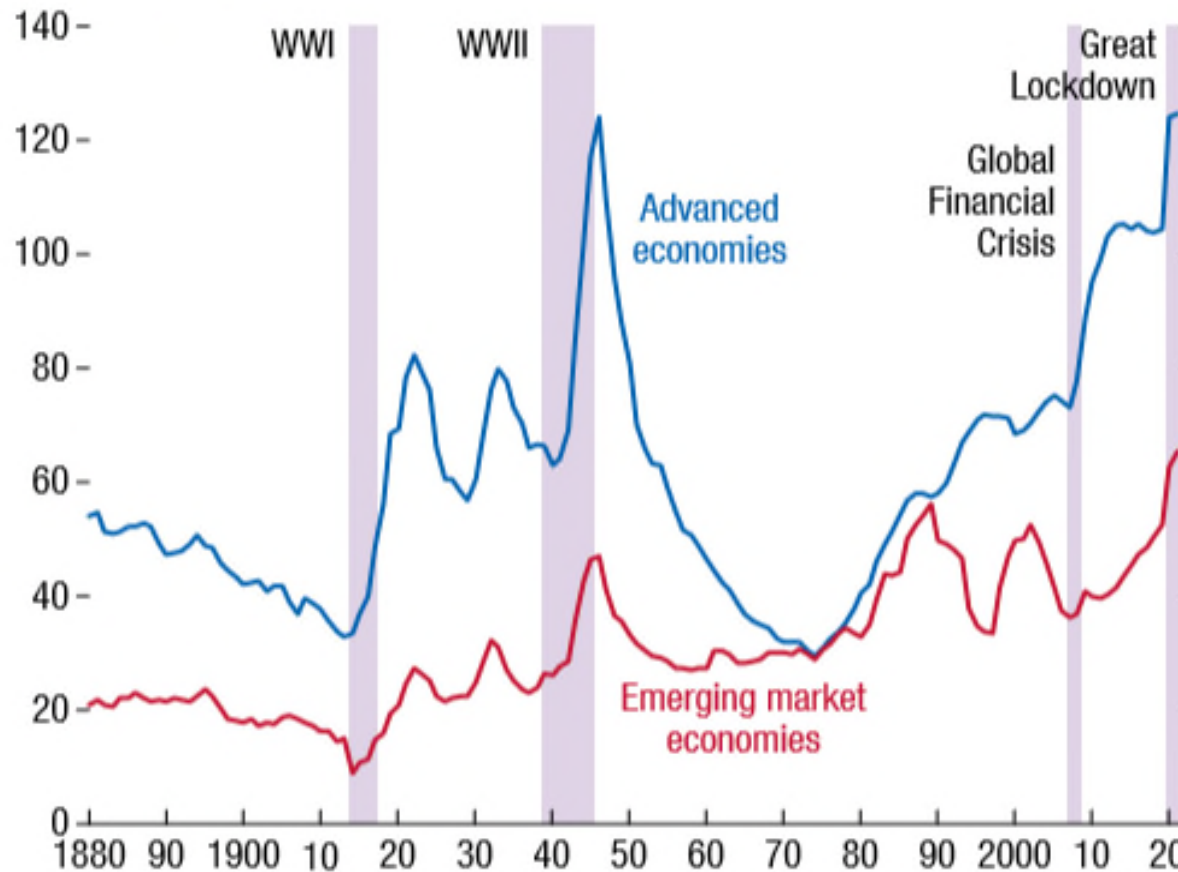


Source: Macrobond, 16.11.20

Public debt rises to 100% of GDP & higher in advanced countries

Government debt rising to near record levels

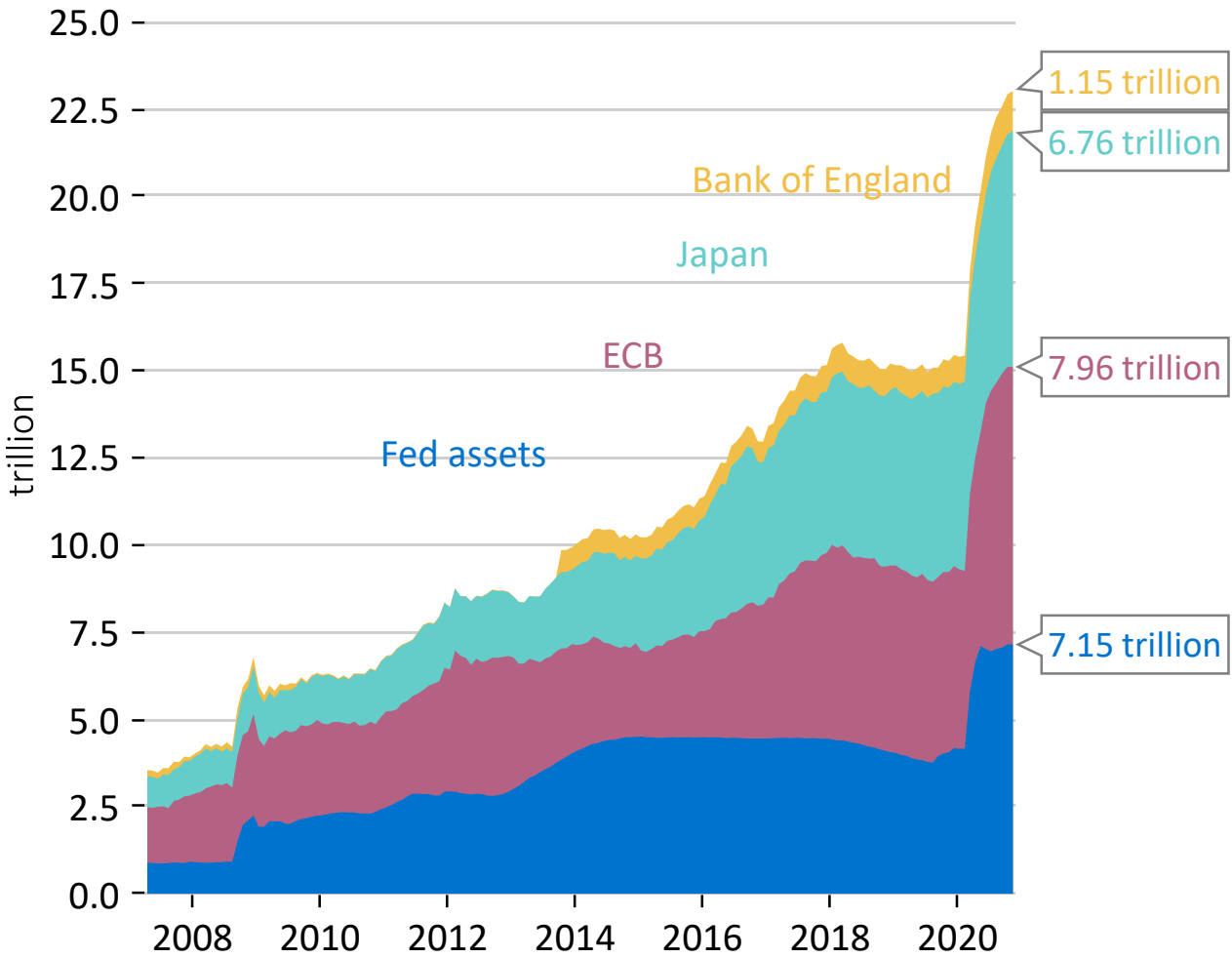
Figure 1.2. Historical Patterns of General Government Debt
(Percent of GDP)



Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook database; Maddison Database Project; and IMF staff calculations.

However central bankers have been determined to support markets

Central bank balance sheet (USD, monthly)

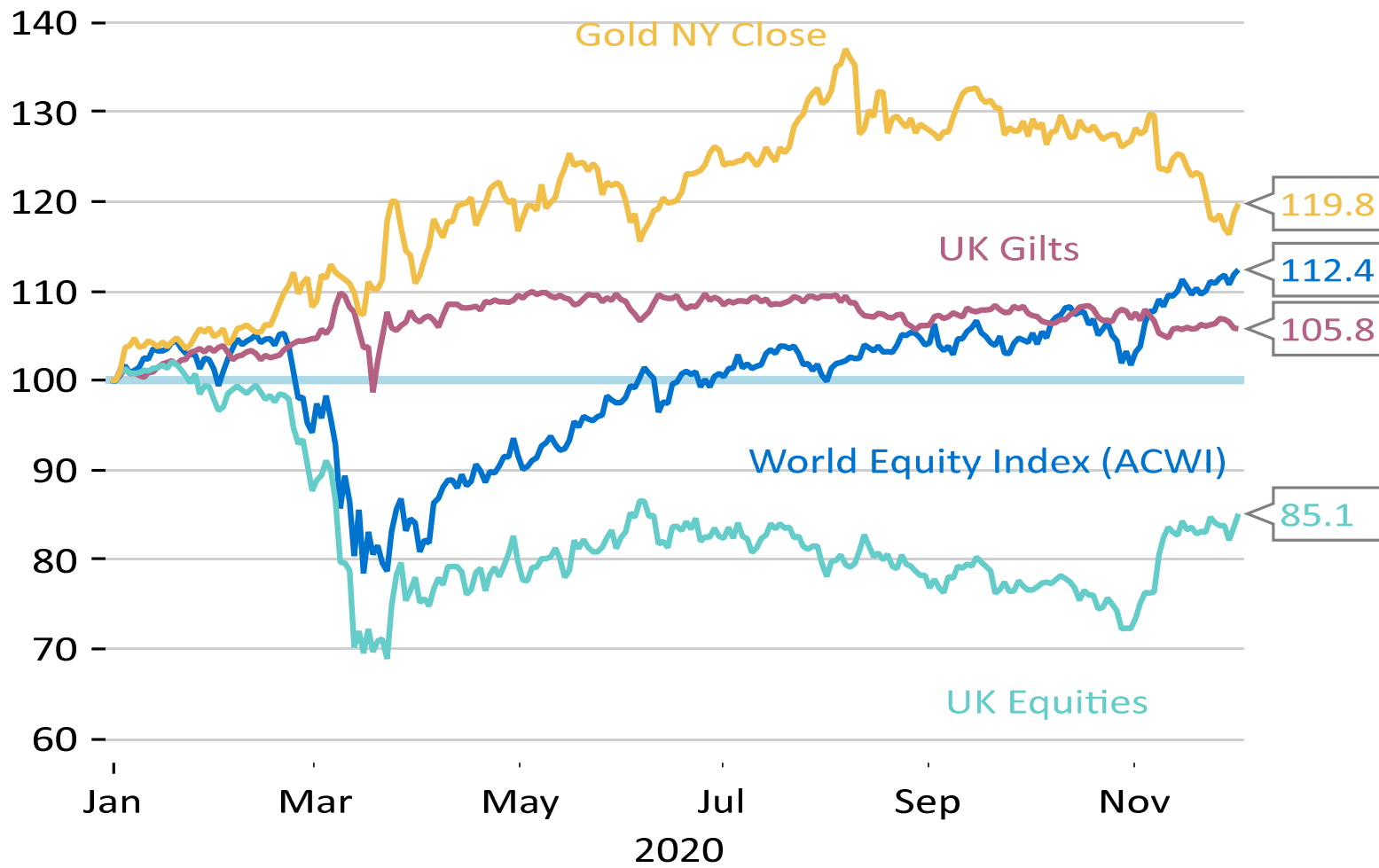


Source: Macrobond

Source: 03.12.20

Markets in 2020

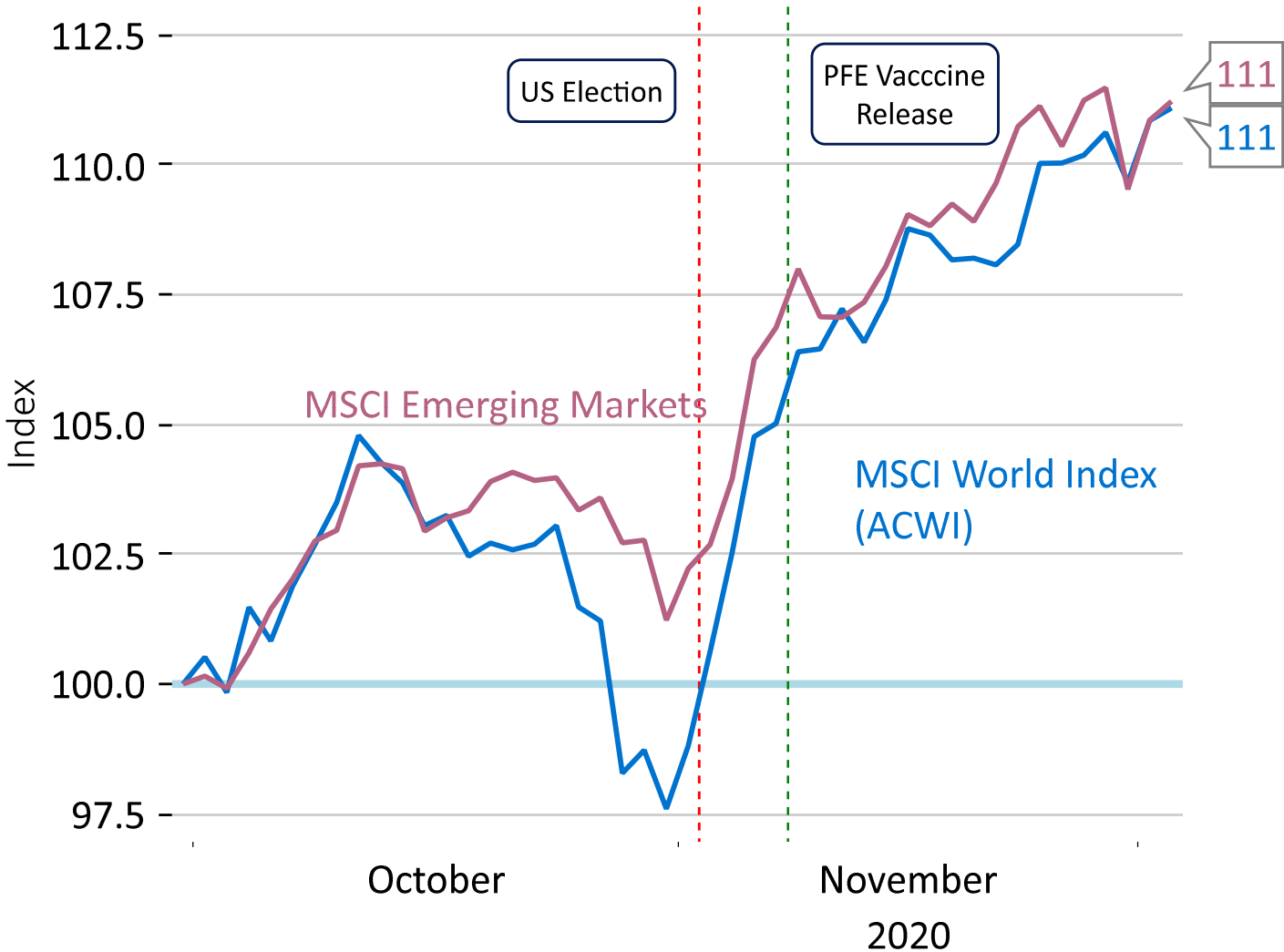
Global Asset Class Returns 2020 (GBP)



Source: Macrobond, 03.12.20

November rally – best month ever?

MSCI ACWI +12.2% (US\$) - best month since data began in 1988

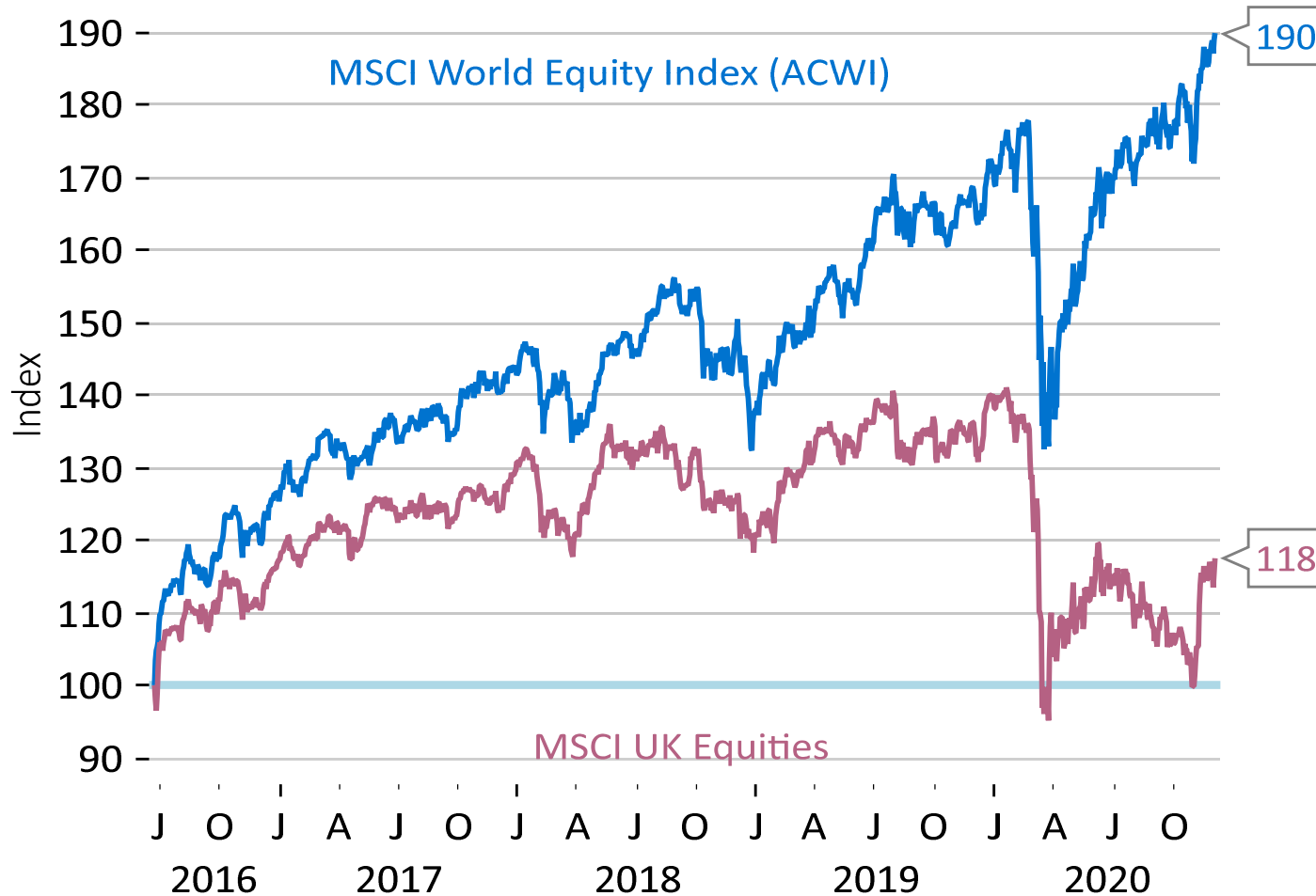


Source: Macrobond, 03.12.20

Performance of UK equities vs Global equities

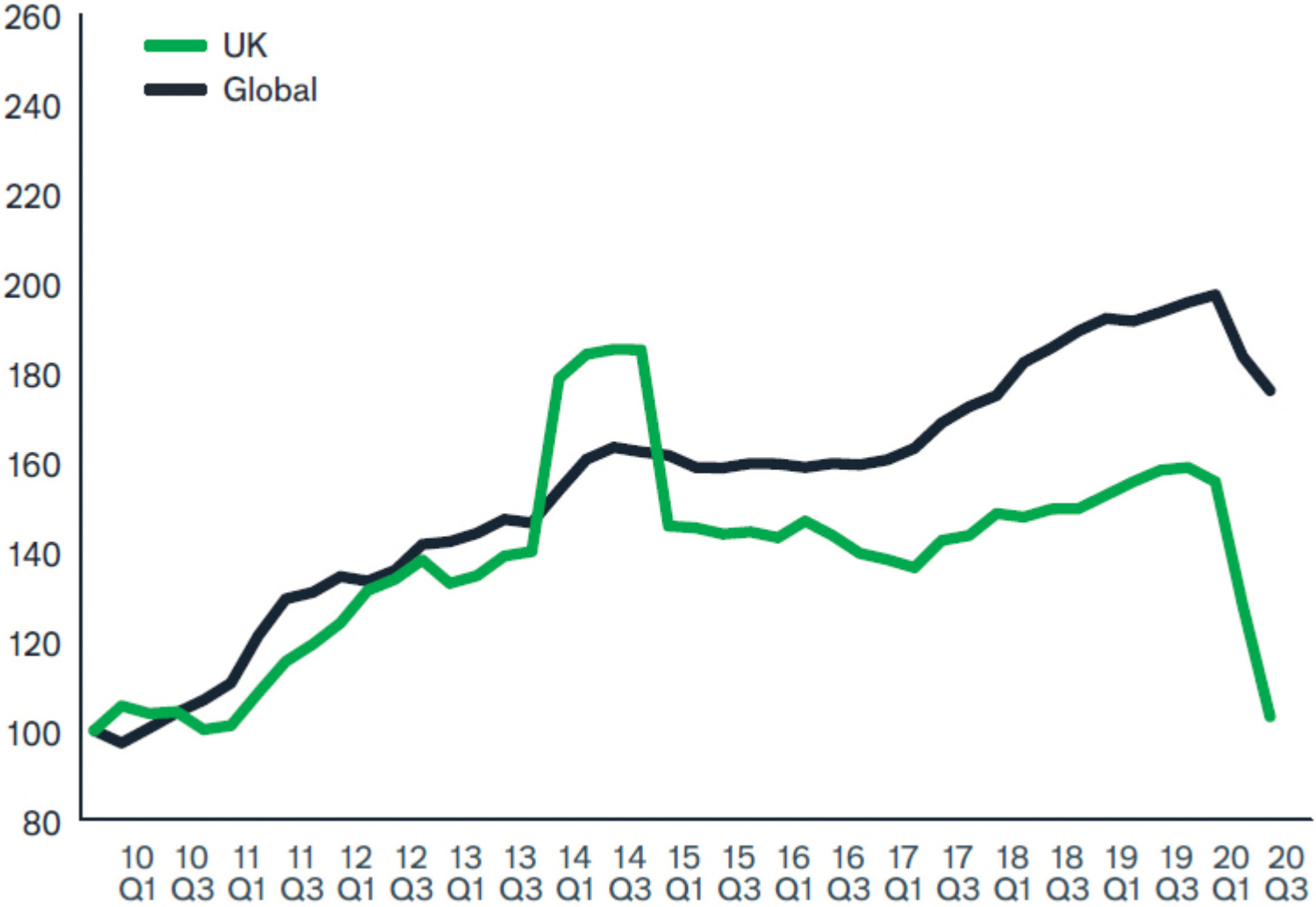
An astonishing underperformance of UK assets...

UK and Global Equity & FX returns since Brexit Vote (23/6/2016)



Source: Macrobond, 03.12.20

Income in 2020 – UK vs Global



Global Dividends fall by circa 20%

UK dividends fall by circa 40%

Source: Janus Henderson Global Dividend Index – 30.9.20

Why has the UK underperformed?

Diversification of capital and income

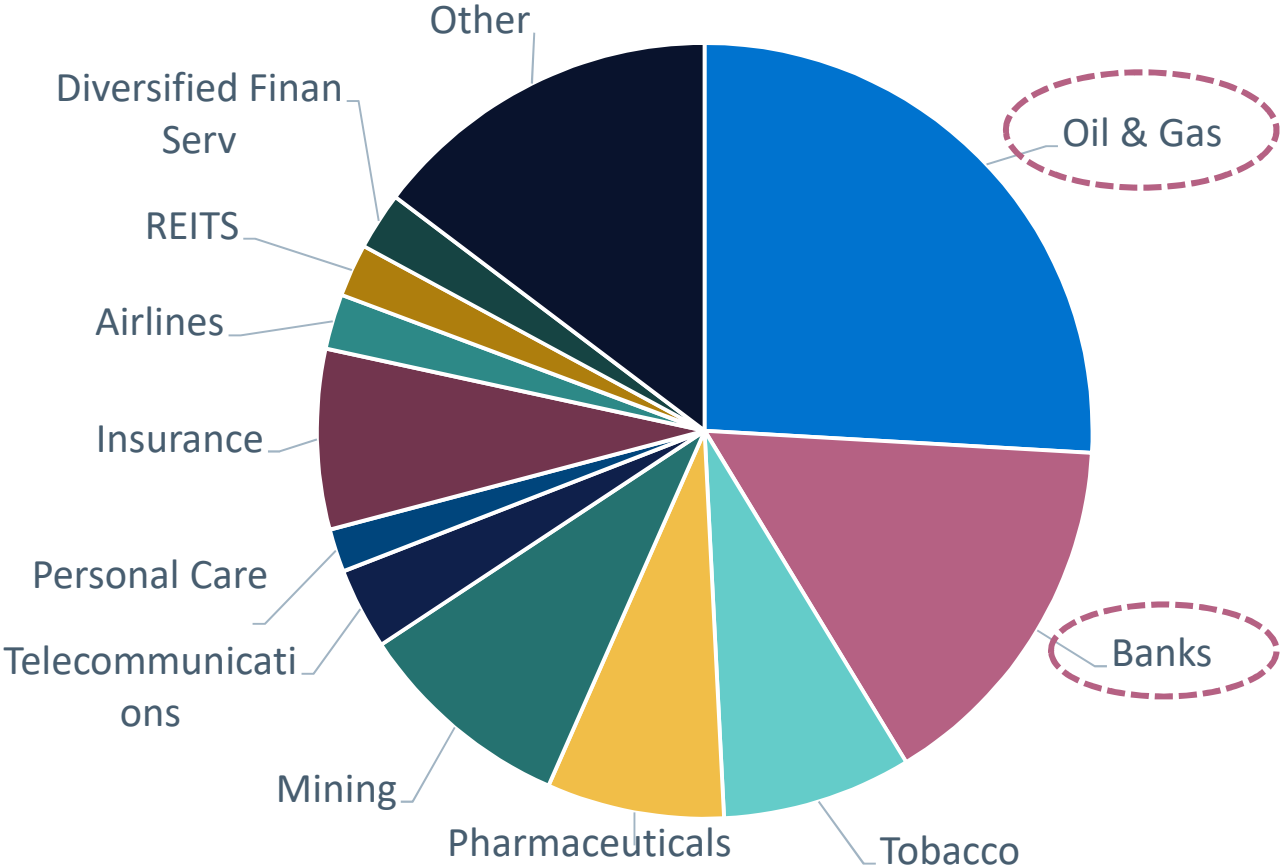
	Global MSCI All Countries World Index	UK FTSE All-Share Index
Energy	5.2	11.8
Materials	4.8	9.3
Financials	16.7	23.4
Real Estate	3.2	3.1
Consumer Discretionary	10.8	8.2
Consumer Staples	8.1	13.1
Utilities	3.3	3.2
Healthcare	11.8	9.3
Industrials	10.3	11.6
Communication Services*	8.7	4.8
Information Technology	17.1	2.0

Source: Bloomberg, 31 December 2019

* The Communication Services sector became effective 21 September 2018. It includes IT, Consumer Discretionary and Telecoms companies. Globally it include Alphabet (Google), Facebook, AT&T, Verizon, Tencent, Walt Disney, Comcast, Netflix, Charter and Softbank

2020: UK dividends cut of between 30% to 40%

UK Equity market: Pre-COVID-19 crisis expected dividend income, by industry sector



The Future

Strategic asset allocation considerations

	Short-term reserves	Medium-term reserves	Long-term reserves
Time frame	0 – 18m	18m – 5yrs	5yrs +
Investment objective	To improve on the returns from cash	A return that at least matches inflation	To maintain the real value whilst providing sufficient income
Greatest risk	The impact of <u>any</u> volatility	The impact of <u>some</u> volatility	The impact of <u>inflation</u>
Implementation	Cash, certificates of deposit and short dated government bonds	Reserves Strategy Predominantly bonds with some risk assets	Endowments Strategy Predominantly real assets with some defensive assets

The challenge for charities

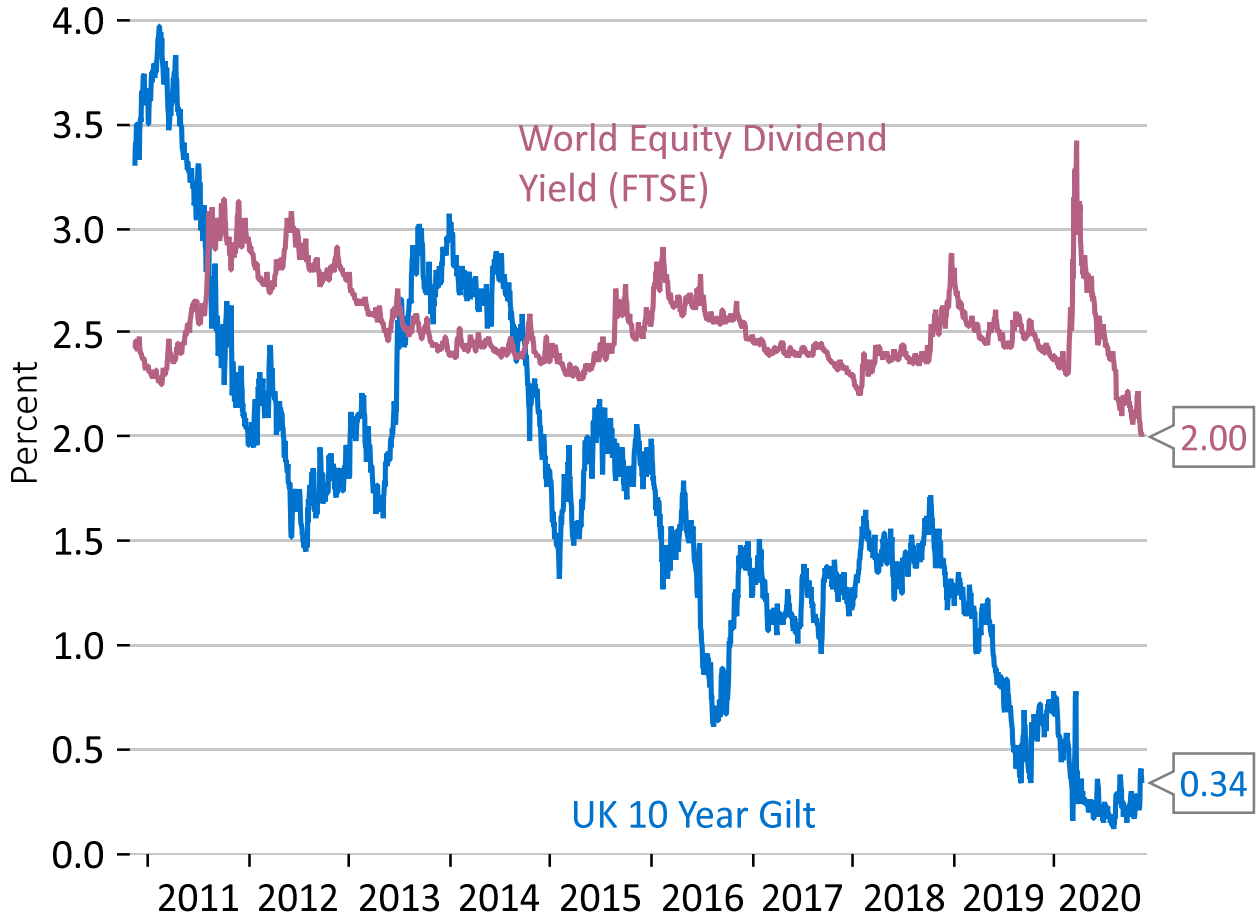
A sustainable and growing income

Real capital growth

Retain equity allocations

Truly sustainable dividend growth highly prized...

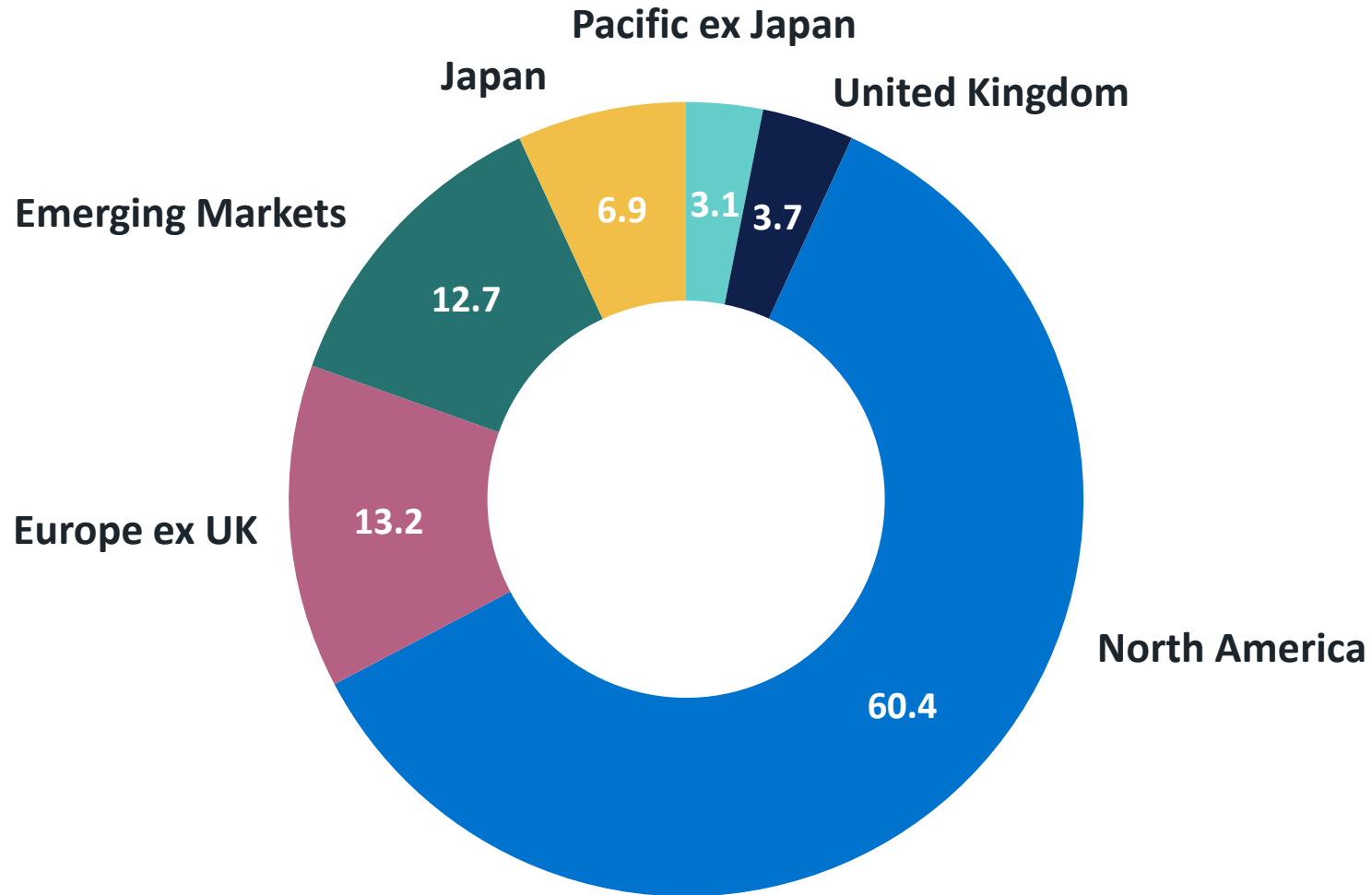
UK Gilt & Global Equity Yield
Last 10 years



Source: Macrobond, 16.11.20

Think globally

Relative size of the global equity markets

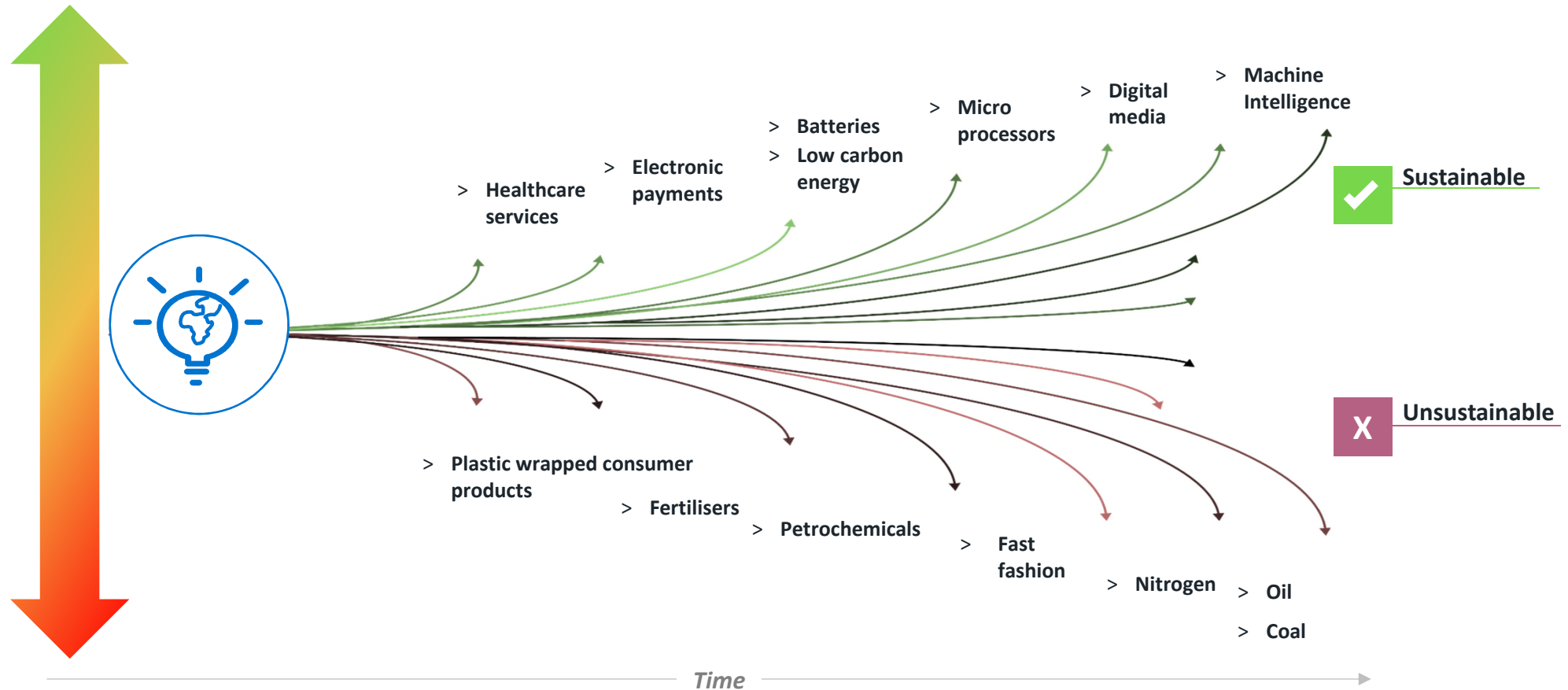


Source: MSCI ACWI Index, 30/11/2020

Focus on long term growth trends



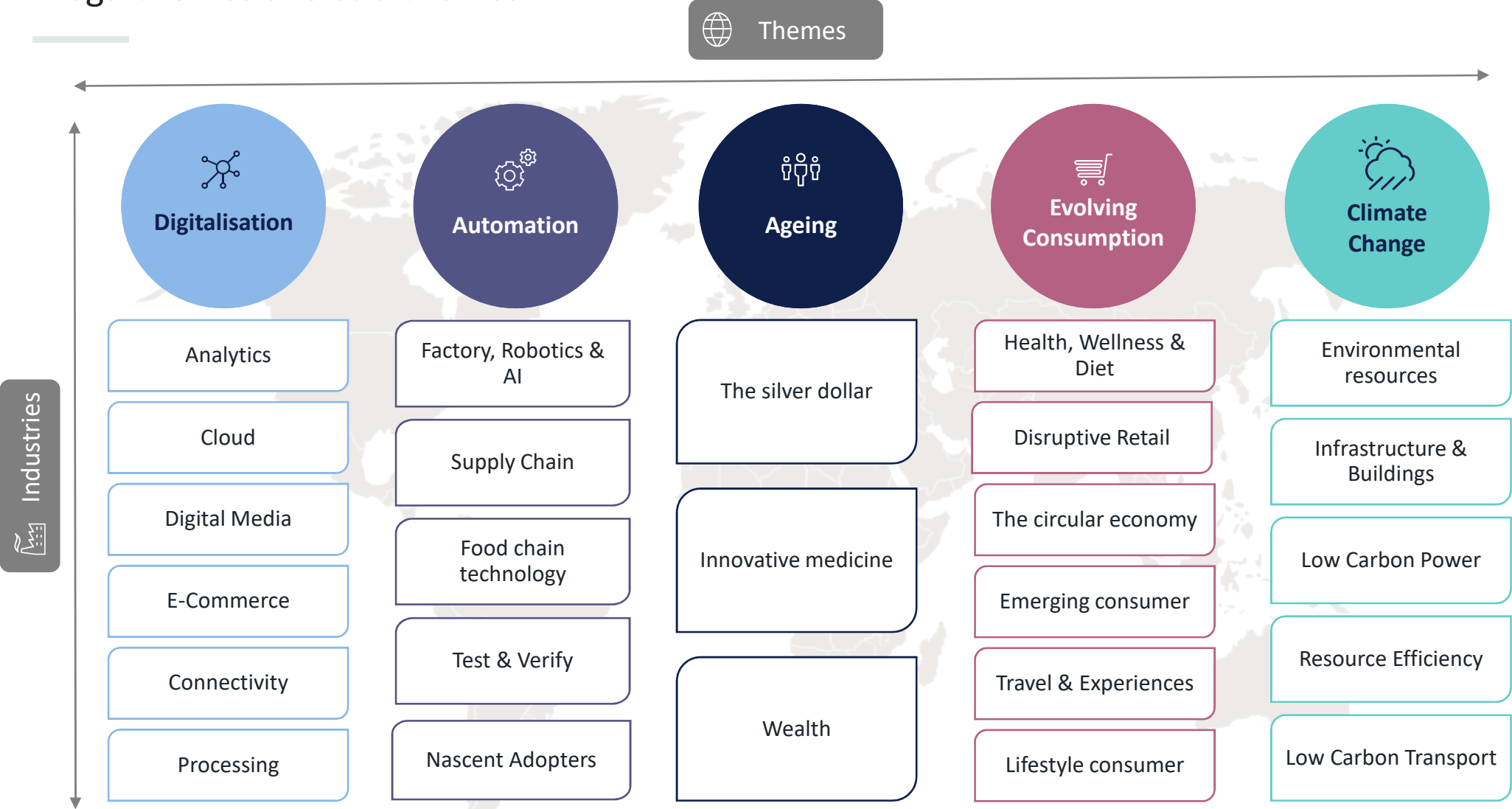
Sarasin forecasts – growth trends



Source: Sarasin & Partners, 2020. chart is illustrative

Global thematic investment

Mega-themes and sub-themes



Summary

- 2020 has been a difficult year
- The UK stock market has been particularly hard hit
- Ensure your portfolios are structured to weather the next downturn
 - *Take appropriate risks*
 - *Look for sustainable income*
 - *Diversify overseas*

Important information

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16.11.20

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