



Global Market View

September 2021

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GUIDE TO RATINGS

Positive View

● Market expected to provide better than normal returns for that market

Neutral View

● Market expected to provide normal returns for that market

Negative View

● Market expected to provide below normal returns, or negative returns

Ratings are not bound by a specific timeframe; they will change when fundamental conditions change



Taper whimper

The much anticipated Fed speech at the Central Bankers' annual convention in Jackson Hole (held remotely on Friday 27th August) provided little new insight into the Fed's plans for monetary tightening. On the contrary, Powell confirmed that tapering of the QE would probably start sometime this year and that interest rates would not be raised for some time thereafter. Equity and bond markets both produced a relief rally, in contrast to the last time tapering of QE was announced in 2013 which produced a market tantrum (sell off).

Inflation was still described as transitory despite much evidence to the contrary (see below), and no indication of the expected transitory period – is it 6 months, a year or longer? “Wait and see” remains the main policy, with Powell apparently keen to be reappointed as Chairman early next year and not wanting to “rock the boat” before then.

Growth slowdown

One area the Fed correctly highlighted was the slowing growth prospects, which are now clearly evident in most real time data release. The Citi Economic Surprise Index shows the trend of actual results against expectations and these have now turned negative globally, most notably in the US and China. What this tells us is that most current economic forecasts have been overly optimistic and actual performance is likely to disappoint over the next 6- 12 months.

Looking at August PMI data (where available) as a proxy for real time economic activity, which remains positive but slowing down for major economies except China, which posted a manufacturing PMI of 49.2. This suggests that manufacturing activity shrank in August in China, the first time since the brief Covid recession in 2020. A different measure of the August services PMI also fell to 47.5 from 53.3 in July. The main reasons given were the usual ones: Covid related curbs, supply bottlenecks, regulatory impacts, and rising prices.

Citi Economic Surprise Index - G10



Source: Refinitiv Datastream/ Key Family Partners SA

Citi Economic Surprise Index - EM



Source: Refinitiv Datastream/ Key Family Partners SA

This picture is consistent with the message from leading indicators some months ago of a forthcoming growth rate slowdown in the world economy. Those indicators remain in negative territory on a global basis, with China clearly taking the lead currently.

Transitory Inflation

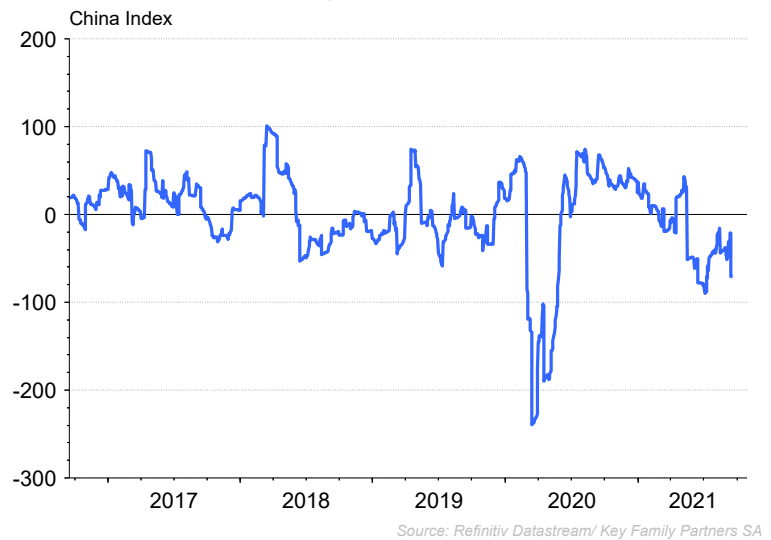
The direction of inflation remains the big debate of the moment. The Fed is in one camp, and many commentators do not agree – including Larry Summers who has been a long-term critic of the current Fed policies, describing them as a “serene” depiction of inflation risks.

One part of the debate is whether wage increases are leading to a “wage-price spiral” in the economy. The chart shows US Employment Costs rising at an accelerating pace year on year. We are watching closely to see if this is transitory and what impact this will have to demand or, if any, to corporate earnings.

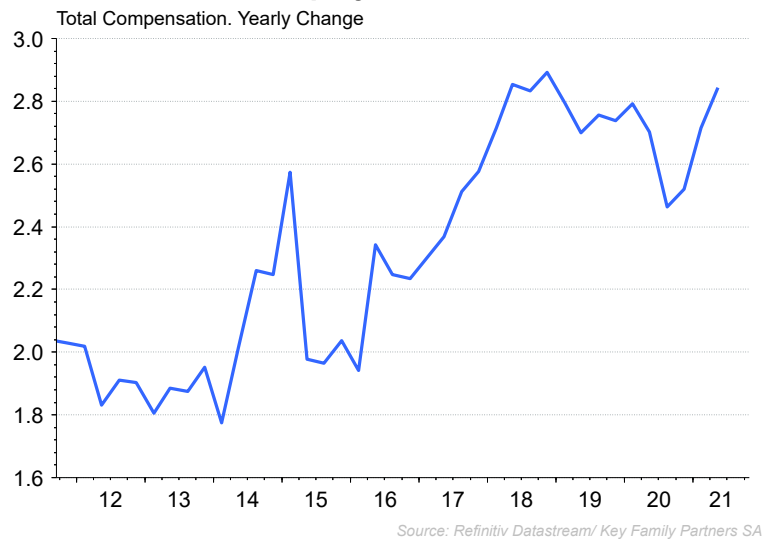
It is not just in the US that inflation has picked up faster than expected. The EU is seeing an equal increase to a 3.0% annual rate, above consensus estimates of 2.7%. The ECB remains firmly in the transitory camp, with no talk of tapering at any time in the foreseeable future.

As the 12 month base effect washes out over the next few months, it is likely that headline inflation will fall somewhat. Whether the other drivers of inflation, namely: supply disruptions, labour shortages, rising commodity prices and widening covid restrictions continue to drive prices higher remains to be seen. As Mark Twain observed: *“It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.”*

Citi Economic Surprise Index - China



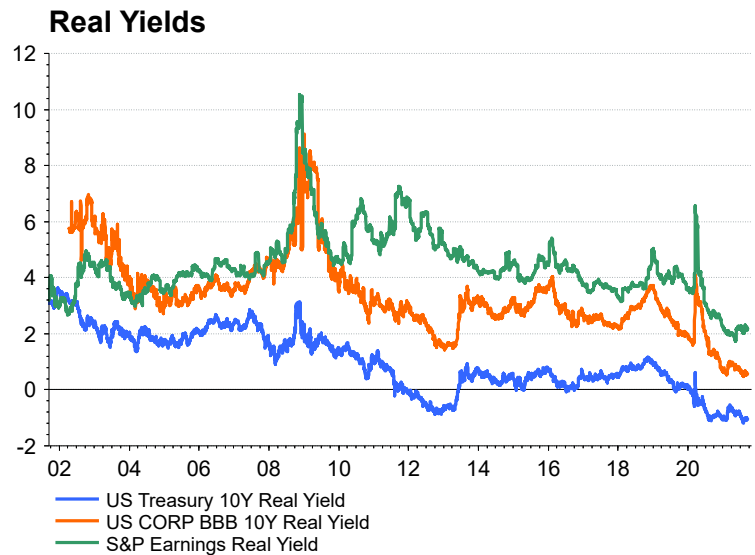
United States, Employment Cost Index



Equity Markets

Equity markets continue to make record highs, particularly in the US, driven mainly by TINA (There Is No Alternative to equities) and momentum from the new Robinhood traders buying on any dip regardless of fundamentals. Robinhood, who offer commission free trading, saw the number of accounts grow from 7.2 million to over 18 million in the year to March 2021.

The Tina argument rests mainly on the fact that nominal Fixed Income yields are so low that we may as well buy equities which offer a higher dividend yield. The real yield of the S&P 500 still shows a positive return, though this risk 'premium' has tightened significantly with the recent rise in the equity markets and inflation. The benefit from equities is still there but much reduced. Any rise in real bond yields will begin to see that benefit disappear. Worryingly, US 10y Investment Grade Corporate Bond yields are at just 0.57%.



Source: Refinitiv Datastream/ Key Family Partners SA

China update

China's political and regulatory reforms show no sign of slowing– the latest include action against excessive after work drinking and limits on children's access to online computer games to 3 hours a week. All these initiatives over the past year add up to a new revolution in China, moving away from the freewheeling markets and society of the past 20 years. The key commonality is further and extensive intrusion into personal and corporate life by the state, with the aid of digital data and technology.

These measures and the recent plunge in the Chinese equity markets prompted George Soros (who knows a few things about markets) to write a headline in the FT: *"Investors in Xi's China face a rude awakening"*. The premise being that Xi does not understand how markets work, but does consider all Chinese companies to be instruments of a one party state.

In summary...

- Despite rising inflationary pressures the Fed has confirmed a very gradual tapering of QE and no rate rises on the horizon. The ECB is even more dove-ish.
- The recovery in the world economy is slowing, most notably in China
- Equity market risk is rising as market breadth shrinks and valuations rise

For investors...

- Maintain diversification discipline including anti-fragile assets (ie commodities and real estate)
- Rotate out of higher risk equity to more value orientated equities
- Keep Fixed income duration short and quality high

GLOBAL EQUITIES

GLOBAL EQUITIES	1 month	YTD	12 month
Global Equity	+2.36%	+14.7%	+25.9%
Global Eq. Ex US	+1.7%	+7.7%	+21.9%

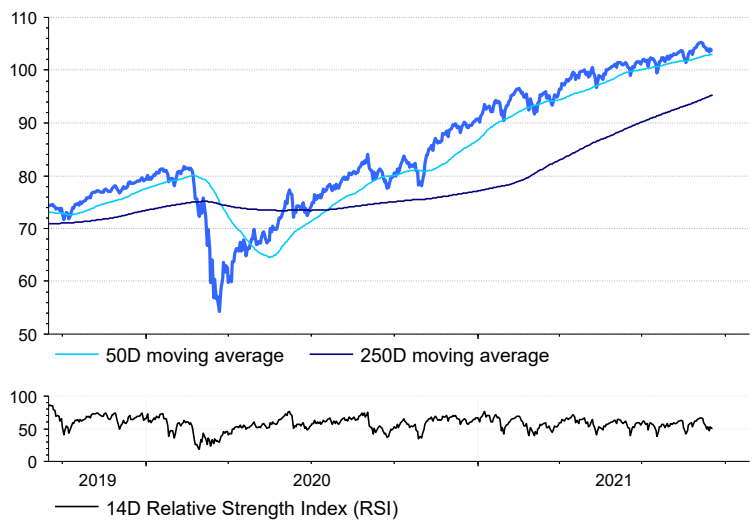
Global equities rose on the month, based on the MSCI All Country World Index, the gain principally coming, once again, from the US. After a mid-month pull back, global equities reached another new high despite signs of a slowing economic growth rate.

Valuations on adjusted **2021** expected earnings was steady at 19.1X on earnings recovery expectations, but this remains elevated on a 10-year average and vulnerable to higher rates. Ex US, the forward P/E is 15.2x.

Overall sentiment remains positive but continues to soften.

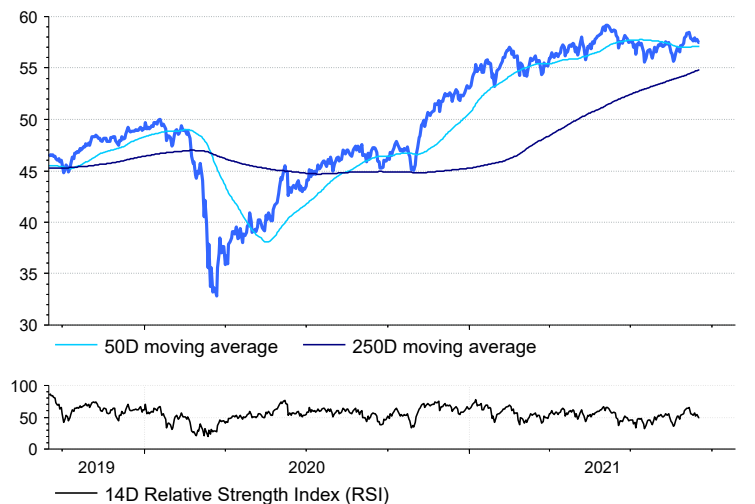
The outlook remains NEUTRAL.

MSCI ACWI



Source: Refinitiv Datastream/ Key Family Partners SA

MSCI ACWI ex-US



Source: Refinitiv Datastream/ Key Family Partners SA

USA



	1 month	YTD	12 month
US Equity	+2.9%	+20.4%	+29.2%

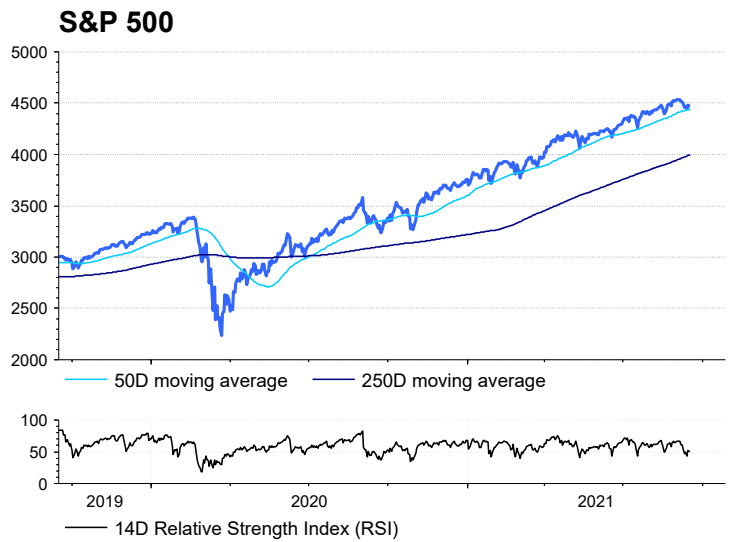
The S&P500 had another positive month. After a sharp sell-off mid-month on pandemic and growth fears, the market recovered and has made new highs.

Economic recovery remains positive but at a slowing rate.

Market sentiment remains positive, but the market is once again approaching an overbought level after correcting mid-month.

Valuations remain elevated at 22.4x prospective 2021 earnings, and at risk if earnings start to disappoint.

The outlook remains NEUTRAL but with some downside risk due to valuation and sentiment.



NASDAQ Comp



	1 month	YTD	12 month
NASDAQ	+4.0%	+18.4%	+29.6%
FAANG+ Index	+3.1%	+16.3%	+29.2%

The NASDAQ and Fang+ indices had a strong month as investors returned to the Growth sectors of the market.

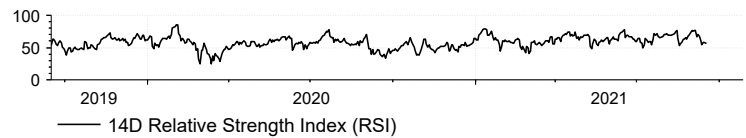
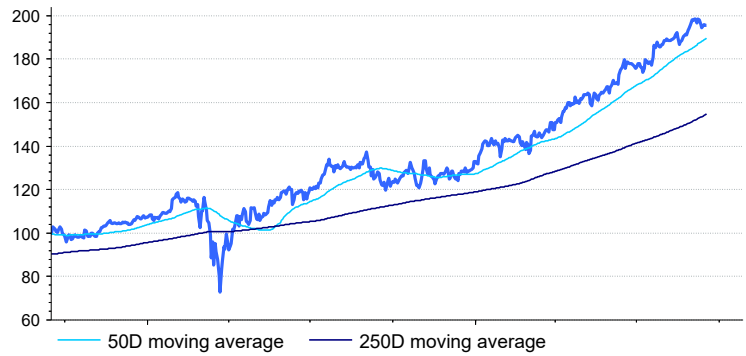
Sentiment remained positive but both markets reached overbought levels once again.

Valuations of both indices rose, to 33.4x prospective 2021 earnings for NASDAQ and 33.1x for the FANG+ index, with both remaining at elevated levels.

Market breadth is worsening raising the risk to the future performance of the market.

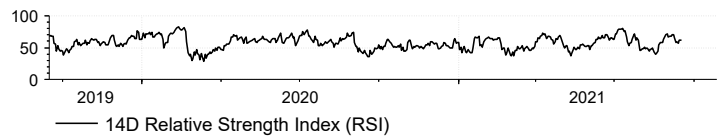
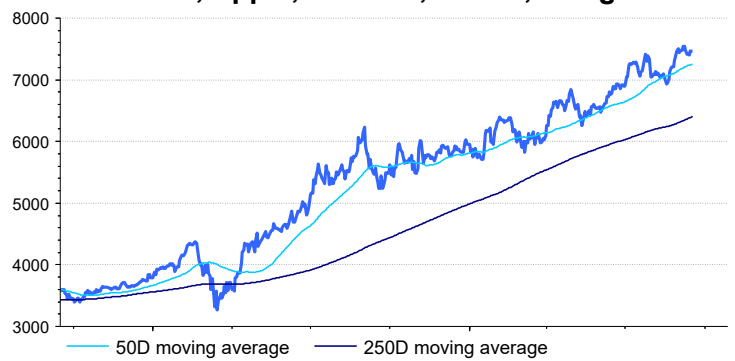
The outlook remains NEUTRAL with downside risk due to the continued overbought level of the market and worsening market breadth.

NASDAQ



Source: Refinitiv Datastream/ Key Family Partners SA

Facebook, Apple, Amazon, Netflix, Google



Source: Refinitiv Datastream/ Key Family Partners SA

EUROZONE



	1 month	YTD	12 month
EZ Equity €	+2.6%	+18.1%	+28.2%
\$	+2.6%	+14.2%	+27.1%

Euro equities had a strong month after a sharp correction mid-month.

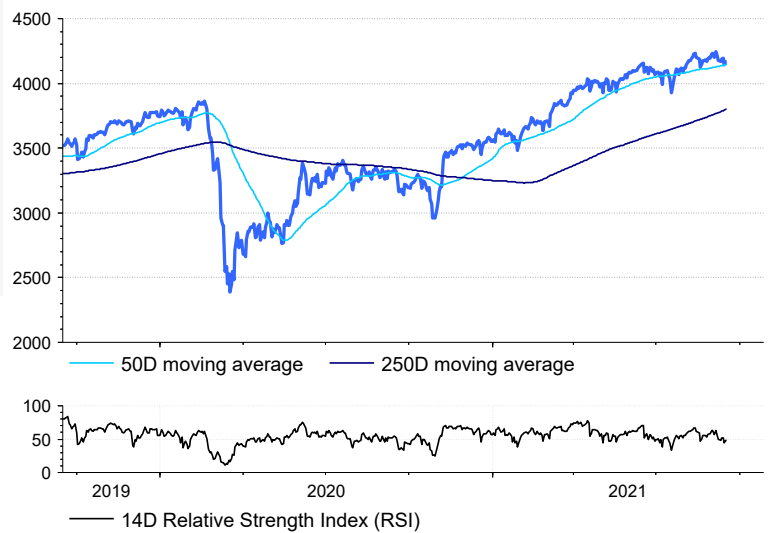
The EZ economy is also likely to slow from its current rapid recovery pace given the global growth rate slowdown likely to be seen in H2

Sentiment has weakened further and now stands at neutral.

Valuation remains elevated at 17.7x prospective 2021 earnings

The outlook remains NEUTRAL.

EuroStoxx 50



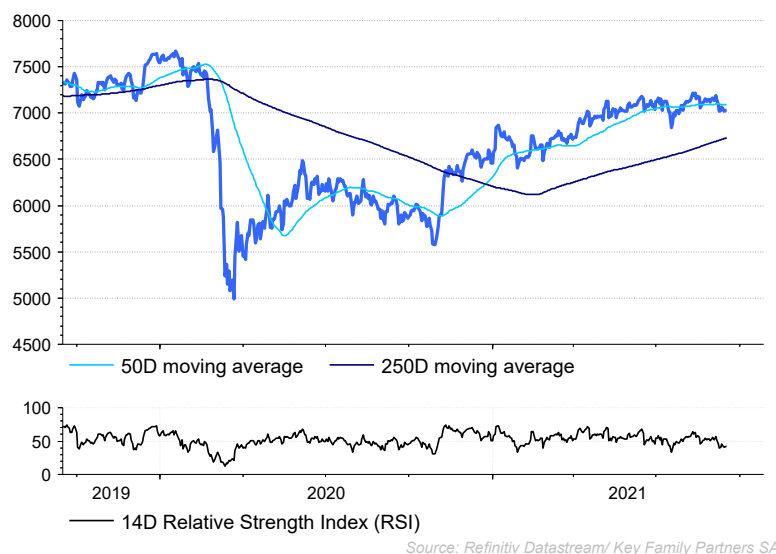
UK



	1 month	YTD	12 month
UK Equity £	+1.2%	+10.2%	+19.4%
\$	+1.2%	+10.9%	+22.7%

The FTSE100 had a positive month on continued pandemic recovery. Market sentiment continued to softened somewhat and is now in neutral territory, while valuation remains very attractive at 12.6x prospective 2021 earnings. Prospective dividend yield is 3.8% Economic recovery continues but a slowdown in both manufacturing and services PMIs have been seen in August. The outlook remains POSITIVE on valuation, but with some downside risk on covid and inflation fears.

FTSE 100



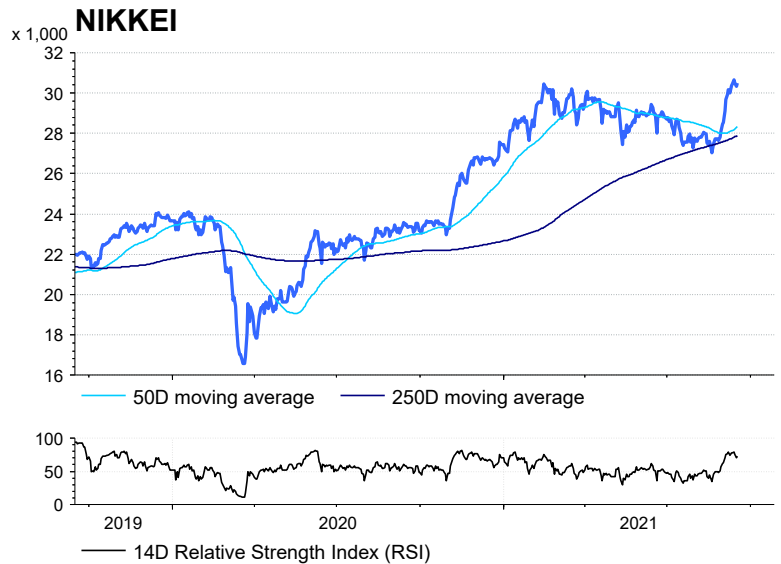
JAPAN



	1 month	YTD	12 month
Japan Equity ¥	+2.9%	+2.4%	+21.4%
Japan Equity ¥	+2.6%	+3.9%	+16.9%

The Nikkei bounced back after the sharp sell off in July. Economic activity remained flat while covid related fears increased.

Market sentiment remained somewhat negative. Valuation fell to 17.2x prospective 2021 earnings. The outlook remains NEUTRAL.



Source: Refinitiv Datastream/ Key Family Partners SA

EMERGING MARKETS



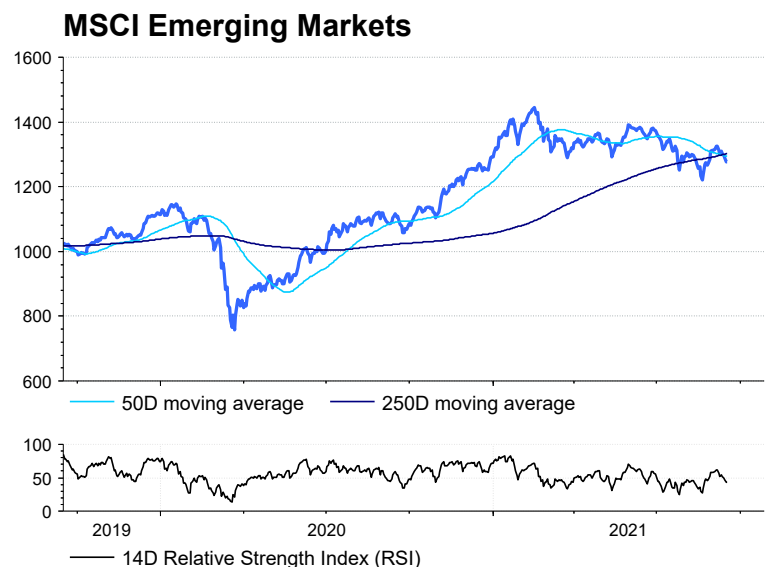
	1 month	YTD	12 month
EM Equity \$	+2.4%	+1.4%	+16.8%
China CSI 300\$	-0.1%	-7.8%	-0.75%

EM equities picked up with China flat but other markets showing some good gains.

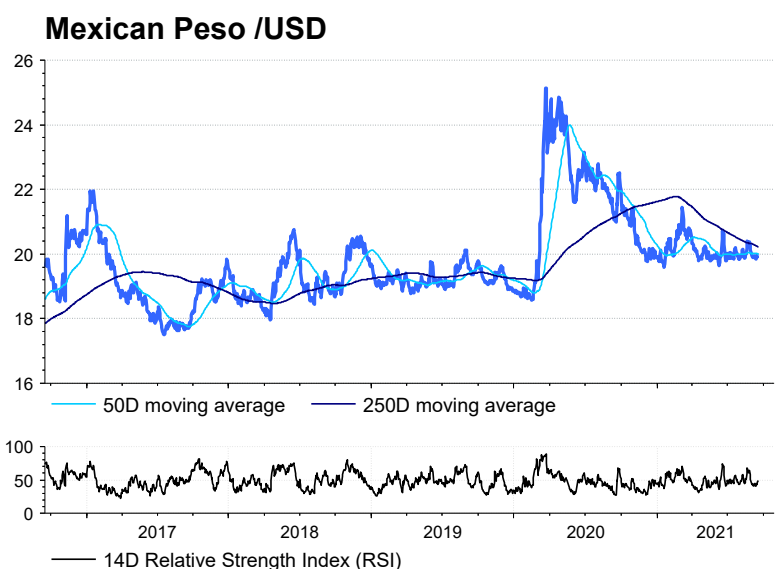
The Mexican market has been one of the strongest globally in 2021, up 21%, and 42% over 12 months, and 54% in USD terms. The Central Bank has started tightening monetary policy in the face of higher inflation (5.8%) and the currency has remained firm. Valuation at 15.2x prospective is above the EM average of 13.7x.

The IMF has launched a \$650bn SDR scheme to help poorer nations combat any withdrawal of liquidity by Fed tapering, providing some underpinning for those nations' economies.

The overall outlook remains NEUTRAL.



Source: Refinitiv Datastream/ Key Family Partners SA



Source: Refinitiv Datastream/ Key Family Partners SA

FIXED INCOME

Developed Government Bonds



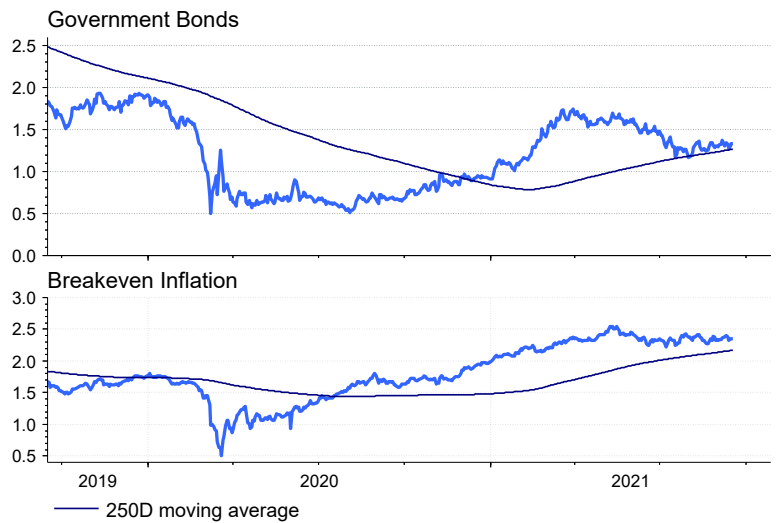
	1 month	YTD	12 month
US			
Treasuries	-0.03%	-1.28%	-1.97%
Total return			

Yields on 10-year Treasuries ended the month slightly up at 1.31%, while long-term inflation expectations were down marginally.

The Powell speech suggests that tapering might start by year end, but with no certainty. If the growth rate starts to slip and employment starts to plateau, QE could be extended – indeed that is what the bond markets are suggesting with market rates remaining so low. However, with inflation on the rise, the Fed will be under pressure “to do something” (ie raise rates).

The outlook remains NEGATIVE long term on rising inflation pressure.

United States (10 Year Yields)



Source: Refinitiv Datastream/ Key Family Partners SA

Investment Grade



	1 month	YTD	12 month
US Inv Grade	-0.12%	-0.03%	+2.72%

Yields on investment grade corporates rose slightly on the back of rising Treasury yields, and spreads rose slightly.

With a slowing economic growth rate, credit risk will rise and we could see spreads rise further in the months ahead. Short term the yield pickup vs Treasuries remains attractive to investors.

The outlook remains NEGATIVE long term with a neutral bias in the short term.

US Investment Grade Yield



Source: Refinitiv Datastream/ Key Family Partners SA

High Yield



	1 month	YTD	12 month
US High Yield			
Total return	+0.44%	+4.47%	+10.07%

US HY bond yields were flat for the month, with spreads falling back to the prior month's very tight level

If the expected slowdown does materialise, then spreads are likely to widen from these ultra-tight levels. In the short term however the yield pickup of 288bps will remain attractive to investors

The outlook remains NEUTRAL.

High Yield

BB-B Corporates



EM Fixed Income



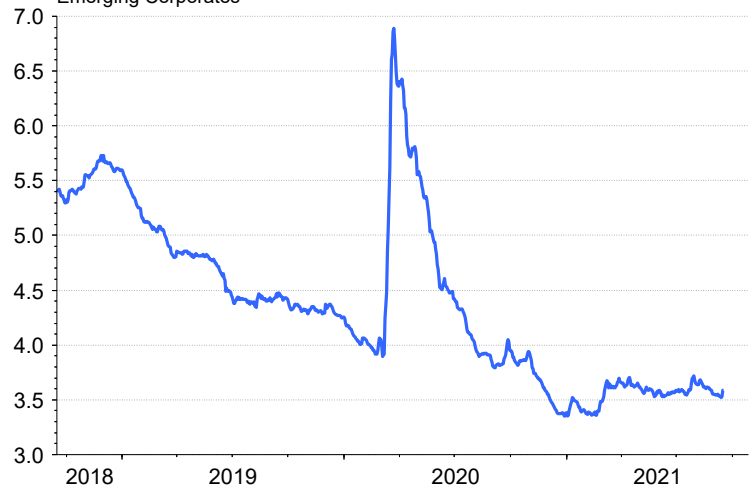
	1 month	YTD	12 month
EM USD			
Agg	+0.93%	+0.49%	+3.69%
Total return			

Yields on EM USD fell back to record low levels after the announcement of the IMF package, which reduces some of the risk from Fed tapering to come. Political risks are seen to be rising with the actions in China, and some commercial debt (eg Evergrande property business) is seen as rising credit risk.

The outlook remains NEUTRAL.

Emerging Market Yield

Emerging Corporates



CURRENCY – USD vs DM, EM

USD vs DM currencies ● / ●

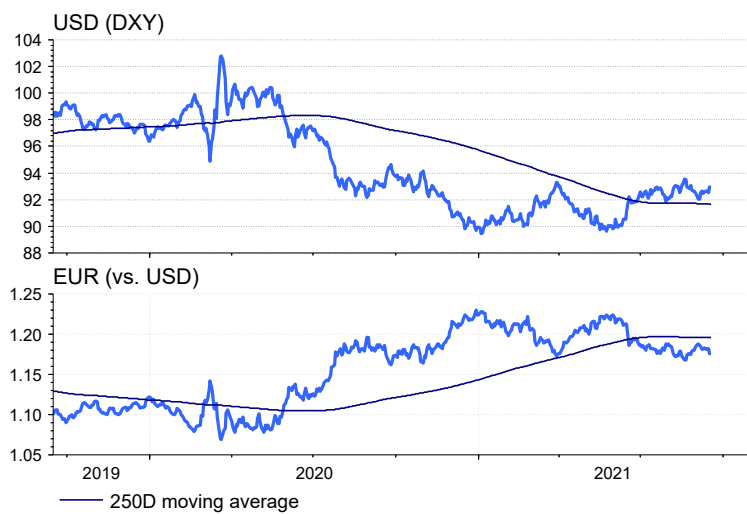
The USD was flat for the month against major currencies.

Sentiment towards the currency has improved and any deterioration in global economic outlook could push the USD higher.

On the other hand the twin deficits continue to blow out, with the trade deficit reaching a new record of \$75.7bn in June. Lower yields on Treasuries also makes the USD less attractive for foreign holders.

The outlook remains **NEGATIVE** but with a neutral bias in the short term.

USD and EUR



Source: Refinitiv Datastream/ Key Family Partners SA

CURRENCY – USD vs DM, EM

USD vs EM Currencies ● / ●

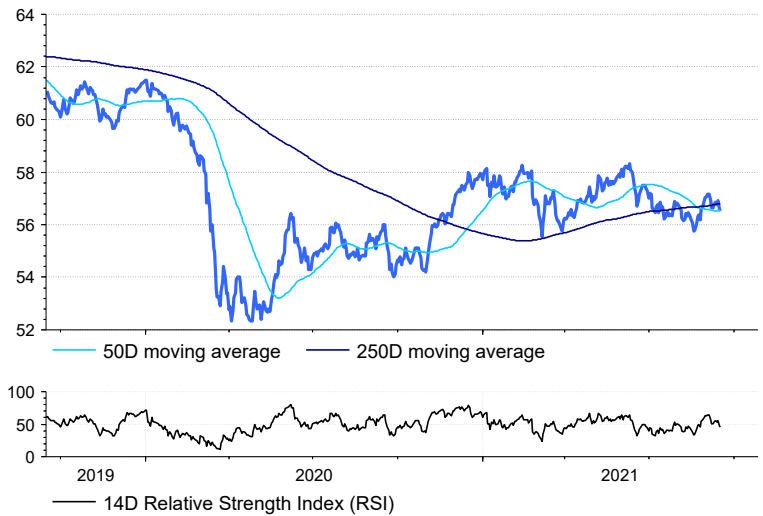
EM currencies were generally flat for the month against the USD.

Sentiment has moved slightly more positive towards the currencies in Latam as governments across the continent start tightening monetary policy.

The CNY on the other hand is looking less attractive on slowing economic growth and a loosening of monetary policy.

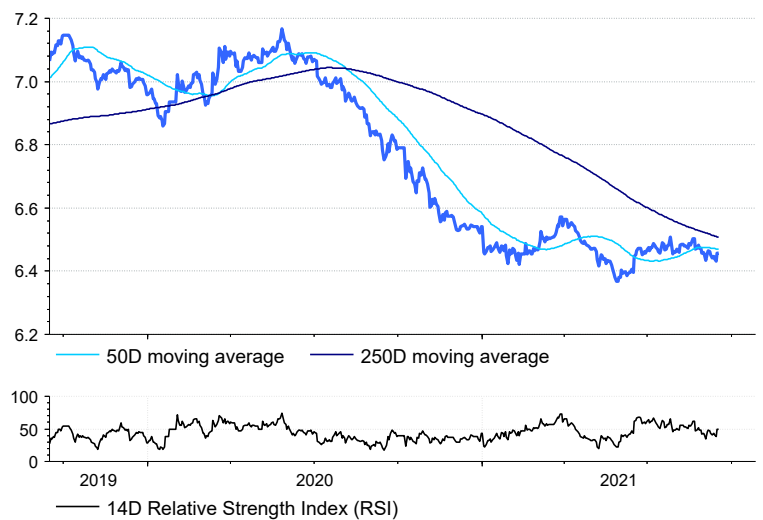
The USD outlook vs EM currencies remains **NEGATIVE** with a neutral bias.

JPMorgan Emerging Market FX



Source: Refinitiv Datastream/ Key Family Partners SA

CNY/USD



Source: Refinitiv Datastream/ Key Family Partners SA

GOLD



	1 month	YTD	12 month
Gold	+0.0%	-4.4%	-7.7%

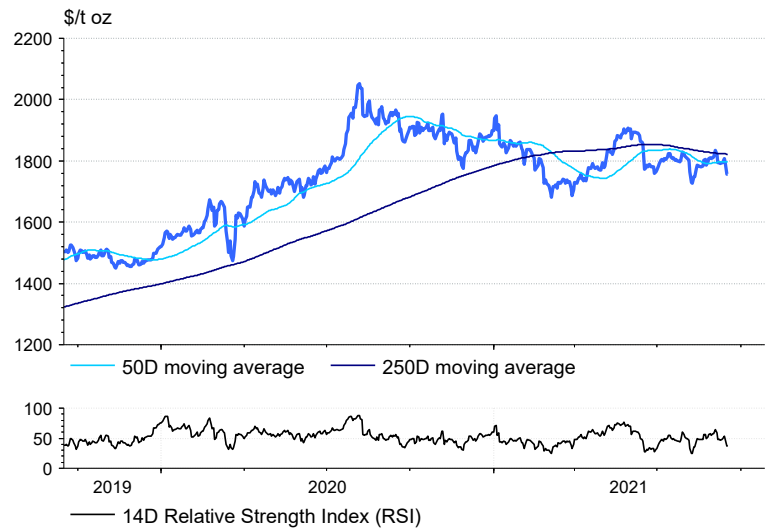
Gold recovered some of its lost ground from the previous month, as real yields on the USD turned more negative once again.

Political risks in EM also add to the attraction of gold as a haven, with gold retail buying in China on the increase

Given the continued uncertainties in financial markets worldwide, gold remains a key diversification asset.

The outlook for gold remains NEUTRAL with a positive bias.

Gold Bullion



COMMODITIES

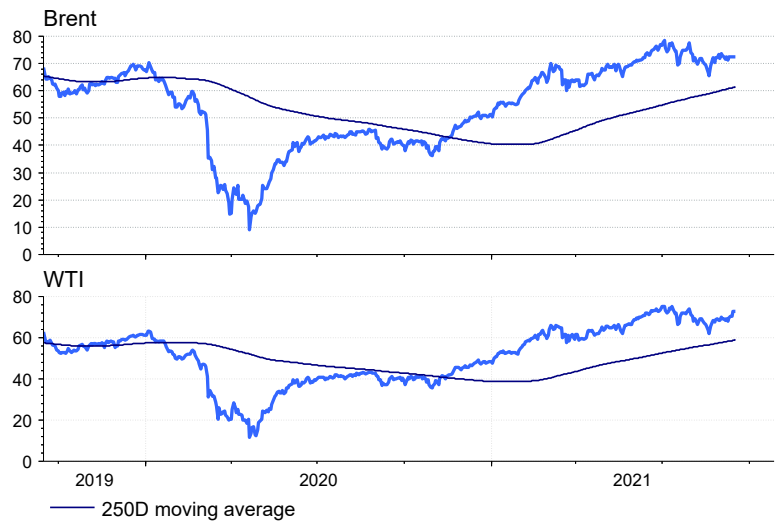
OIL

Oil had a volatile month as uncertainty of the speed of the global recovery grew. By month end it has recovered to \$73/brl, and the upward trend remains intact.

Fundamentals still favour a supply shortfall in the future, but for the moment supply and demand seem in better balance

Market sentiment towards oil remains positive. The outlook for oil remains NEUTRAL with upside potential.

Oil Prices



Source: Refinitiv Datastream/ Key Family Partners SA

METALS

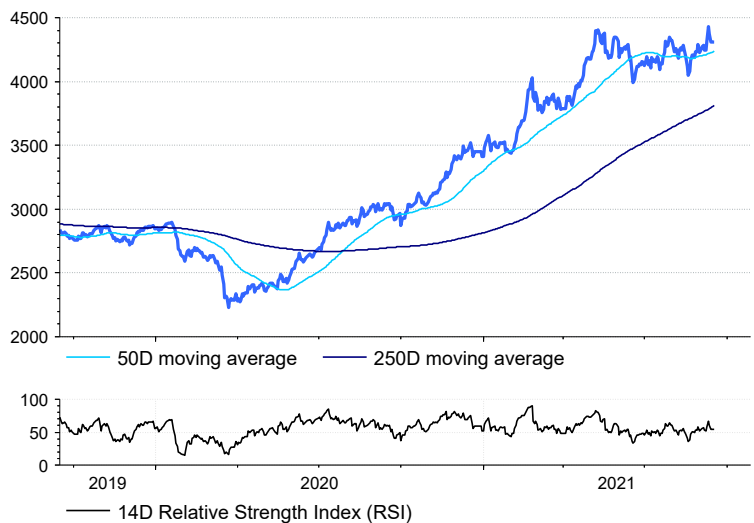
Metal prices were overall flat, including copper on news that China would release some strategic reserves given the elevated price of the metal.

Aluminium, which has similar long term supply issues to copper, continues to rise as demand rises. Aluminium is also an integral part of the electrification drive, as well as having many other industrial uses.

Sentiment towards industrial has moderated slightly but remains fundamentally positive.




The outlook remains POSITIVE.

LME Index



Source: Refinitiv Datastream/ Key Family Partners SA

ILLIQUID ASSETS

Real Estate		To be updated
Hedge Funds		To be updated
Private Equity		To be updated

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