MARKET OVERVIEW

Introduction

- The first half of 2020 has seen the largest contraction in global economic activity in many decades
- The global economy started to recover around May as containment measures were eased and the extensive fiscal and monetary support began to take effect
- However, more recently the global recovery has slowed and become more uneven, with infection rates rising again in some countries
- The future path of the global recovery remains highly dependent on the containment of the virus
- A full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities
- The path forward will also depend on the policy actions taken at all levels of government to provide relief and to support the recovery for as long as needed
- Ten coronavirus vaccine candidates are currently in late-stage testing, according to the World Health Organization. Four of them are being evaluated in U.S. phase 3 clinical trials, with a fifth set to join the group soon. Covid vaccine developers are hoping that government regulators will grant emergency-use authorization for vaccines soon after any successful Phase 3 trial

Global financial conditions

- Global financial conditions have remained accommodative, supported by substantial fiscal and monetary policy stimulus
- Central banks continue to emphasise that they will maintain the current easy stance of monetary policies for some time and provide further stimulus if required
- The US Federal Reserve has announced that, following a comprehensive review of its monetary policy framework, it will now pursue a flexible average inflation target and increase the emphasis placed on achieving maximum employment. Most commentators have concluded that this implies the Federal Reserve will maintain a stimulatory monetary policy stance for longer than initially thought and until inflation is moderately above 2 per cent for some time
- Government bond yields have remained historically low across advanced economies
- Inflation expectations have increased steadily to be around the levels at the beginning of 2020

Equity Markets

- Equity prices in major markets increased further over the September quarter
- This partly reflected the fact that the fall in corporate earnings in the first half of 2020 has been smaller than initially feared
- Investors have also appeared to expect the declines in corporate earnings to be short-lived
- The high level of equity prices has also reflected low discount rates, consistent with the low level of bond yields
- Performance of equity markets for periods ended 30 September 2020:

Index Performance*	3 Months	6 Months	12 Months	FYTD
ASX 200	(1.4%)	14.6%	(13.0%)	(1.4%)
S&P 500	8.5%	30.1%	13.0%	8.5%
Nasdaq Composite	11.0%	45.0%	39.6%	11.0%
FTSE 100	(4.9%)	3.4%	(21.0%)	(4.9%)
DAX	3.7%	28.4%	2.7%	3.7%
MSCI Europe	3.9%	22.9%	(3.7%)	3.9%
Nikkei 225	5.6%	24.4%	8.2%	5.6%
Shanghai Composite	8.0%	17.2%	11.0%	8.0%
A-REIT	6.7%	26.2%	(19.9%)	6.7%

** Excluding impact of currency movements*

Bond Markets

- With the outbreak of the coronavirus, central banks worldwide announced several actions to support households and businesses, and to keep markets functioning
- These actions included the reduction of official interest rates to effectively zero, and the implementation of unlimited bond purchase programs (quantitative easing)
- As a consequence, global government bond yields fell quite sharply during the March 2020 quarter
- After the falls during the March quarter, bond yields remained relatively steady since then given the continued intervention in bond markets by central banks
- Since the end of 2019, the Australian 10-year government bond yield has fallen from 1.20% to 0.90% and the US 10-year Treasury yield has fallen from 1.92% to 0.69% with both touching lows in March of 0.61% and 0.50% respectively

Currency Markets

- During the September quarter, the AUD strengthened by 3.6% against the US dollar and mixed against other major currencies. Over the last 12 months, the AUD strengthened by 5.3% against the U.S. dollar and strengthened against other major currencies except against the Euro
- Part of the strength of the Australian dollar reflects the depreciation of the U.S. dollar against other major currencies. It also reflects the high iron ore price

Currencies	FX Rate				Change		
	30-Sep-20	30-Jun-20	31-Mar-20	30-Sep-19	3 Month	6 Month	12 Month
A$/US$	0.7108	0.6863	0.6175	0.6749	3.6%	15.1%	5.3%
A$/Euro	0.6058	0.6111	0.5605	0.6171	(0.9%)	8.1%	(1.8%)
A$/CNY	4.8425	4.8523	4.377	4.8086	(0.2%)	10.6%	0.7%
A$/JPY	74.99	73.94	66.85	72.74	1.4%	12.2%	3.1%
A$/GBP	0.5538	0.5586	0.5006	0.5488	(0.9%)	10.6%	0.9%

Commodity Markets

- Demand for oil flatlined for much of the September quarter, keeping crude oil prices near US$40 a barrel and challenging the global energy industry heading into the final months of the year. Analysts say prices are still too low for many producers to profitably extract oil, forecasting more bankruptcies and mergers and acquisitions in the month ahead
- Copper prices advanced toward a multiyear high in mid-September after data showed China's economic recovery is gathering momentum. China accounts for roughly half of global copper demand, making its manufacturing sector a primary driver of prices. Copper is a key component of everything from electric vehicles to smartphones
- This calendar year ranks as one of the best on record for investors in gold, with futures prices up almost 24% for 2020 after hitting an all-time high in August. Though gold's detractors through the ages are numerous and prominent, including the likes of Warren Buffett and John Bogle, the events of this year are giving new life to those who insist the aggressive monetary policies of central banks points toward the inevitable debasement of currencies like the U.S. dollar.
- Gold has been a prime beneficiary of the U.S. Federal Reserve's determination to leave borrowing costs at historically low levels to stimulate the economy after the shock of Covid-19. Chairman Jerome Powell formalized this stance in August, saying the central bank had dropped its longstanding practice of pre-emptively raising rates to head off higher inflation. For decades after Paul Volcker's Fed raised interest rates to tame inflation in the early 1980s, boosting real yields, the fact that gold paid no dividend or coupon counted against it. Now, with real yields on government bonds back below zero, gold's lack of income is not such a drawback.
- There is no evidence that gold acts as a reliable hedge against inflation over time periods other than those spanning centuries, said Campbell Harvey, a finance professor at Duke University, citing a 2013 paper that he co-wrote. Nor has the idea of owning bullion in case the U.S. government defaults made sense since President Nixon ended the convertibility of dollars into gold in 1971, according to Prof. Harvey

RISKS

Expansion of Central Bank Balance Sheets

- Central Banks globally have expanded their balance sheets greatly since March this year
- These balance sheet expansions were generated by the implementation of quantitative easing programs (QE), that is, the purchases by central banks of government bonds, corporate bonds, mortgage-backed securities and other assets
- QE is a form of unconventional monetary policy to stimulate the economy by:
  - Lowering interest rates across the yield curve
  - Providing liquidity to financial markets and borrowers
  - Intervening to normalise disrupted markets
  - Increasing money supply
  - Another consequence of QE is that it can devalue the relevant domestic currency
- Central banks cannot force banks in their country to increase their lending activities nor can they force borrowers to seek loans. If the increased money supply created by QE does not work its way through the banks and into the economy, quantitative easing may not be fully effective (it will always be effective in lowering interest rates though)
- If central banks increase the money supply, it can create inflation. The worst possible scenario for a central bank is that its QE strategy may cause inflation without the intended economic growth. An economic situation where there is inflation, but no economic growth, is called stagflation
- Commentary about the U.S. Federal Reserve's balance sheet expansion:

Federal Reserve's balance sheet
US$ billions

	28-May-08	29-Apr-15	24-Apr-19	11-Mar-20	12-Aug-20
Total assets	**906**	**4,471**	**3,928**	**4,312**	**6,957**
U.S. Treasury securities	491	2,460	2,154	2,523	4,320
Agency mortgage-backed securities	0	1,719	1,583	1,372	1,934
Other assets	415	292	191	417	703
Total liabilities	**866**	**4,414**	**3,889**	**4,273**	**6,918**
Federal Reserve notes	788	1,316	1,681	1,771	1,957
Deposits held by depository institutions	27	2,581	1,473	1,780	2,828
U.S. Treasury, General Account	4	245	399	372	1,635
Other liabilities	47	272	336	350	498
Total capital	40	57	39	39	39

Remarks:

- From 2008 until 2015, to stimulate the U.S. economy after the GFC, the U.S. Federal Reserve implemented a QE program by purchasing bonds, mortgages, and other assets
- This had the effect of increasing the asset side of the Federal Reserve's balance sheet, from US$900 billion to about US$4.5 trillion
- The Federal Reserve's liabilities (that is, money supply), primarily Federal Reserve notes and money on deposit by U.S. banks at the Fed, grew by the same amount, and stood at over $4.4 trillion by 2015
- The goal of this program was to lower interest rates, provide liquidity to financial markets and for banks to lend the increase in money supply to stimulate economic growth
- The program was partly effective because banks held onto much of that money as excess reserves ("Deposits held by depository institutions" in the table above totalling US$2.58 trillion) and did not on-lend the increase in money supply

- For a period from 2015 to 2019, the Federal Reserve started to shrink its balance sheet but due to the negative impact on the economy, reversed course by mid-2019 with a gradual expansion
- The next phase of rapid balance sheet expansion through a QE program by the U.S. Federal Reserve started with the onset of the coronavirus pandemic in March 2020
- Within a short period of five months, the asset side of the Federal Reserve's balance sheet expanded from US$4.3 trillion to about US$7.0 trillion
- It is worthwhile to note that money supply before the GFC totalled about US$800 billion; that number is now about US$7 trillion (an almost ten-fold increase)
- Of the US$7 trillion in total money supply, about US$2 trillion flowed through to the real economy (represented by the increase in Federal Reserve notes); the balance is held by banks at the U.S. Fed as excess reserves, and by the U.S. Treasury in its bank account with the U.S. Fed (the U.S. Fed is the U.S. government's bank)
- The U.S. Treasury made use of the historical low interest rates to raise money to fund its future budget deficit; about US$1.6 trillion of that money is held by the U.S. Treasury in its account with the U.S. Federal Reserve. Over time this amount of money may flow to the real economy as and when the U.S. Treasury pays its bills generated by budget deficits
- Excess reserves totalling about US$2.8 trillion held by banks on deposit with the U.S. Federal Reserve may also flow through to the real economy if there is an increase in demand from borrowers for more funds
- The dramatic increase the size of the U.S. Federal Reserve's balance sheet creates a long-term risk to the economy and financial markets; it is a slow-ticking time bomb that the U.S. Fed will have to diffuse over time
- The risk is that the U.S. Fed may run out of time to orderly shrink its balance sheet over time. An inflation shock will cause the U.S. Fed to take action to reduce money supply to bring inflation under control. Such action(s) will lead to higher interest rates and reduction in liquidity, and may disrupt financial markets
- An added risk is that the U.S. Federal Reserve's change in policy to pursue a flexible average inflation target, may cause it to fall "behind the curve" in its fight against inflation and leading to more severe actions down the road

Public Debt at record levels

- Spending by the world's governments to fight the coronavirus and the global economic downturn will increase public debt to a record level, the International Monetary Fund said, adding that more will be needed to assure a full recovery
- Governments have committed $11.7 trillion, or 12% of global output, as of September 11, the IMF indicated in its semi-annual Fiscal Monitor report. That will drive up budget deficits by 9% of gross domestic product on average this year, with cumulative public debt approaching 100% of global GDP
- The U.S. budget deficit tripled to a record $3.1 trillion in the fiscal year that ended September 30. As a share of economic output, the budget gap in fiscal year 2020 was about 16%, the largest since 1945 when the country was financing massive military operations to help end World War II
- U.S. Federal government debt totalled 102% of gross domestic product, the first time it has exceeded the size of the economy in more than 70 years
- Given the record high levels of public debt, there is a risk that a higher interest rate environment may cause governments to restore balance sheets through restrictive fiscal policy that will have a negative impact of future economic growth

ASSET ALLOCATION

Positives to consider

- Central banks continue to emphasise that they will maintain the current easy stance of monetary policies for some time and provide further stimulus if required
- Governments remain committed to provide relief and to support the recovery for as long as needed
- Ten coronavirus vaccine candidates are currently in late-stage testing, and government regulators should grant emergency-use authorization for vaccines soon after any successful Phase 3 trial
- Government bond yields and official interest rates have remained historically low across advanced economies
- Inflation expectations have increased steadily to be around the levels at the beginning of 2020

Negatives to consider

- The future path of the global recovery remains highly dependent on the containment of the virus
- Central banks continue to expand their balance sheets through unconventional monetary policy tools such as QE programs. QE as a monetary policy tool is untested and the long-term implications of QE are unclear. Conventional monetary policy thinking implies that inflation risks have increased significantly due to the dramatic increase in money supply by central banks
- For central banks to unwind their balance sheet expansion without having some negative impact on the economy and financial markets seems unlikely
- Over time, central banks will have to unwind their balance sheet expansions to a degree. They need to have stronger balance sheets to provide support during the next crisis. It is difficult to envisage a situation where central banks keep on expanding money supply from one crisis to the next without devaluing fiat money (that is, without triggering high/hyperinflation)
- Spending by the world's governments to fight the coronavirus has increased public debt to record levels, and more fiscal stimulus will be needed to assure a full economic recovery
- Given weak balance sheets of both central banks and government, the risk of a "hard landing" some time in the future has increased
- Low interest rates have inflated all asset prices, and an environment of higher interest rates will have the opposite effect; it will deflate asset prices

Conclusion

- Global financial conditions remain accommodative, supported by substantial fiscal and monetary policy stimulus
- The future path of the global recovery remains highly dependent on the containment of the virus, but we anticipate that effective vaccine(s) against the coronavirus will be available before or by mid-2021
- We expect a solid economic recovery in the second half of 2021 continuing into at least the first half of 2022
- We anticipate equity markets will perform reasonably well during this recovery phase
- Even though we see heightened risks in the investment environment driven by unconventional central bank policies and very high levels of government debt, our view is that these risks will become more apparent to investors over the medium term (that is, not within the next 18 months or so)
- We expect equity markets to remain volatile going into the U.S. election, and continue to be driven by news flow in respect of vaccine development and the rate of coronavirus infections
- Interest rates will likely remain at historical low levels for at least the next 2 years
- We recommend increasing the allocation growth assets (equities) by 3% for the following reasons:
    - Our view is that equity markets should perform reasonably well over the next 12-18 months
    - Returns from defensive assets will remain low for the next 2 years driven by interest rates that will likely remain at historical low levels for that period
- Our position remains to favour U.S. equities over Australian or global equities
- We anticipate the AUD to weaken somewhat against the USD over the next 12 months driven by lower iron ore prices as Brazil supply comes back on stream

ASSET ALLOCATION

31-October-2020

40/60	Strategic Asset Allocation	Range	Tactical Asset Allocation	Tactical Tilt	Previous Allocation	Change
Cash	5.0%	0% - 100%	5.0%	0.0%	5.0%	0.0%
At Call Cash	0.0%	0% - 100%	4.0%	4.0%	5.0%	(1.0%)
Bank Term Deposits	30.0%	0% - 60%	27.5%	(2.5%)	27.5%	0.0%
Mortg Backed Debt Securities	5.0%	0% - 40%	7.5%	2.5%	7.5%	0.0%
Corporate Debt Securities	20.0%	0% - 60%	13.0%	(7.0%)	15.0%	(2.0%)
Total Defensive	60.0%		57.0%	(3.0%)	60.0%	(3.0%)
Australian Equities	15.0%	0% - 60%	6.0%	(9.0%)	5.0%	1.0%
Global Equities	15.0%	0% - 60%	26.0%	11.0%	24.0%	2.0%
AREITs	10.0%	0% - 30%	8.0%	(2.0%)	8.0%	0.0%
Total Growth	40.0%		40.0%	0.0%	37.0%	3.0%
Alternatives	0.0%	0% - 20%	0.0%	0.0%	0.0%	0.0%
Other (Hybrid Securities)	0.0%	0% - 10%	3.0%	3.0%	3.0%	0.0%
Total Other	0.0%		3.0%	3.0%	3.0%	0.0%
Total	100.0%		100.0%	0.0%	100.0%	0.0%

50/50	Strategic Asset Allocation	Range	Tactical Asset Allocation	Tactical Tilt	Previous Allocation	Change
Cash	5.0%	0% - 100%	5.0%	0.0%	5.0%	0.0%
At Call Cash	0.0%	0% - 100%	4.0%	4.0%	5.0%	(1.0%)
Bank Term Deposits	25.0%	0% - 60%	22.5%	(2.5%)	22.5%	0.0%
Mortg Backed Debt Securities	5.0%	0% - 40%	7.5%	2.5%	7.5%	0.0%
Corporate Debt Securities	15.0%	0% - 60%	8.0%	(7.0%)	10.0%	(2.0%)
Total Defensive	50.0%		47.0%	(3.0%)	50.0%	(3.0%)
Australian Equities	20.0%	0% - 60%	11.0%	(9.0%)	10.0%	1.0%
Global Equities	20.0%	0% - 60%	31.0%	11.0%	29.0%	2.0%
AREITs	10.0%	0% - 30%	8.0%	(2.0%)	8.0%	0.0%
Total Growth	50.0%		50.0%	(0.0%)	47.0%	3.0%
Alternatives	0.0%	0% - 20%	0.0%	0.0%	0.0%	0.0%
Other (Hybrid Securities)	0.0%	0%-10%	3.0%	3.0%	3.0%	0.0%
Total Other	0.0%		3.0%	3.0%	3.0%	0.0%
Total	100.0%		100.0%	0.0%	100.0%	0.0%

60/40	Strategic Asset Allocation	Range	Tactical Asset Allocation	Tactical Tilt	Previous Allocation	Change
Cash	5.0%	0% - 100%	5.0%	0.0%	5.0%	0.0%
At Call Cash	0.0%	0% - 100%	4.0%	4.0%	5.0%	(1.0%)
Bank Term Deposits	20.0%	0% - 60%	17.5%	(2.5%)	17.5%	0.0%
Mortg Backed Debt Securities	5.0%	0% - 40%	7.5%	2.5%	7.5%	0.0%
Corporate Debt Securities	10.0%	0% - 60%	3.0%	(7.0%)	5.0%	(2.0%)
Total Defensive	40.0%		37.0%	(3.0%)	40.0%	(3.0%)
Australian Equities	25.0%	0% - 60%	16.0%	(9.0%)	15.0%	1.0%
Global Equities	25.0%	0% - 60%	36.0%	11.0%	34.0%	2.0%
AREITs	10.0%	0% - 30%	8.0%	(2.0%)	8.0%	0.0%
Total Growth	60.0%		60.0%	0.0%	57.0%	3.0%
Alternatives	0.0%	0%-20%	0.0%	0.0%	0.0%	0.0%
Other (Hybrid Securities)	0.0%	0% - 10%	3.0%	3.0%	3.0%	0.0%
Total Other	0.0%		3.0%	3.0%	3.0%	0.0%
Total	100.0%		100.0%	0.0%	100.0%	0.0%

70/30	Strategic Asset Allocation	Range	Tactical Asset Allocation	Tactical Tilt	Previous Allocation	Change
Cash	5.0%	0% - 100%	5.0%	0.0%	5.0%	0.0%
At Call Cash	0.0%	0% - 100%	4.0%	4.0%	5.0%	(1.0%)
Bank Term Deposits	15.0%	0% - 60%	8.0%	(7.0%)	8.0%	0.0%
Mortg Backed Debt Securities	5.0%	0% - 40%	7.5%	2.5%	7.5%	0.0%
Corporate Debt Securities	5.0%	0% - 60%	2.5%	(2.5%)	4.5%	(2.0%)
Total Defensive	30.0%		27.0%	(3.0%)	30.0%	(3.0%)
Australian Equities	30.0%	0% - 60%	21.0%	(9.0%)	20.0%	1.0%
Global Equities	30.0%	0% - 60%	41.0%	11.0%	39.0%	2.0%
AREITs	10.0%	0% - 30%	8.0%	(2.0%)	8.0%	0.0%
Total Growth	70.0%		70.0%	0.0%	67.0%	3.0%
Alternatives	0.0%	0% - 20%	0.0%	0.0%	0.0%	0.0%
Other (Hybrid Securities)	0.0%	0% - 10%	3.0%	3.0%	3.0%	0.0%
Total Other	0.0%		3.0%	3.0%	3.0%	0.0%
Total	100.0%		100.0%	0.0%	100.0%	0.0%

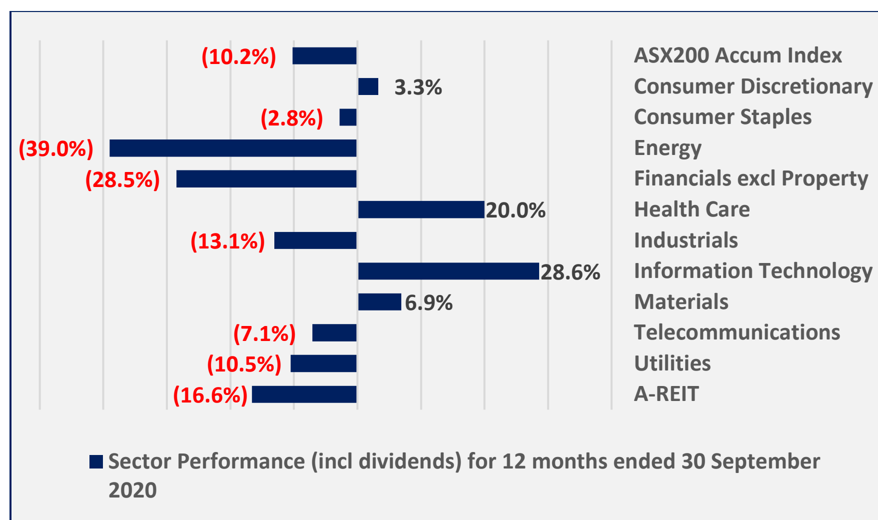
ASSET ALLOCATION

80/20	Strategic Asset Allocation	Range	Tactical Asset Allocation	Tactical Tilt	Previous Allocation	Change
Cash	5.0%	0% - 100%	5.0%	0.0%	5.0%	0.0%
At Call Cash	0.0%	0% - 100%	4.0%	4.0%	5.0%	(1.0%)
Bank Term Deposits	5.0%	0% - 60%	3.0%	(2.0%)	5.0%	(2.0%)
Mortg Backed Debt Securities	5.0%	0% - 40%	5.0%	0.0%	5.0%	0.0%
Corporate Debt Securities	5.0%	0%-60%	0.0%	(5.0%)	0.0%	0.0%
Total Defensive	20.0%		17.0%	(3.0%)	20.0%	(3.0%)
Australian Equities	35.0%	0% - 60%	26.0%	(9.0%)	25.0%	1.0%
Global Equities	35.0%	0% - 60%	46.0%	11.0%	44.0%	2.0%
AREITs	10.0%	0% - 30%	8.0%	(2.0%)	8.0%	0.0%
Total Growth	80.0%		80.0%	0.0%	77.0%	3.0%
Alternatives	0.0%	0% - 20%	0.0%	0.0%	0.0%	0.0%
Other (Hybrid Securities)	0.0%	0%-10%	3.0%	3.0%	3.0%	0.0%
Total Other	0.0%		3.0%	3.0%	3.0%	0.0%
Total	100.0%		100.0%	0.0%	100.0%	0.0%

95/5	Strategic Asset Allocation	Range	Tactical Asset Allocation	Tactical Tilt	Previous Allocation	Change
Cash	5.0%	0% - 100%	4.0%	(1.0%)	5.0%	(1.0%)
At Call Cash	0.0%	0% - 100%	0.0%	0.0%	0.0%	0.0%
Bank Term Deposits	0.0%	0% - 60%	1.0%	1.0%	3.0%	(2.0%)
Mortg Backed Debt Securities	0.0%	0% - 60%	0.0%	0.0%	0.0%	0.0%
Corporate Debt Securities	0.0%	0% - 10%	0.0%	0.0%	0.0%	0.0%
Total Defensive	5.0%		5.0%	(0.0%)	8.0%	(3.0%)
Australian Equities	42.5%	0% - 100%	33.0%	(9.5%)	32.0%	1.0%
Global Equities	42.5%	0% - 100%	54.0%	11.5%	52.0%	2.0%
AREITs	10.0%	0% - 30%	8.0%	(2.0%)	8.0%	0.0%
Total Growth	95.0%		95.0%	0.0%	92.0%	3.0%
Alternatives	0.0%	0% - 20%	0.0%	0.0%	0.0%	0.0%
Other (Hybrid Securities)	0.0%	0% - 10%	0.0%	0.0%	0.0%	0.0%
Total Other	0.0%		0.0%	0.0%	0.0%	0.0%
Total	100.0%		100.0%	0.0%	100.0%	0.0%

SECTOR ALLOCATION

Sector performance for the 12 months ended 30 September 2020



Comments:

- Although the above chart shows sector performance of the ASX, the general trend was the same for most markets including the U.S.
- Information technology, Healthcare, Materials and Consumer Discretionary outperformed, and Energy, Financials, and Industrials underperformed over the last 12 months

Views about Sector performance for the next 12 months

- Although we anticipate equity markets performing reasonably well during the recovery phase over the next 12 months, there will likely be a significant difference in performance by sector (as was the case over the previous 12 months)
- **Comments for each main sector:**
    - **Consumer Discretionary**
        - Consumer spending recovered relatively quickly after a sharp drop in the first few months after the coronavirus outbreak
        - However, consumer spending habits changed dramatically driven mainly by containment measures mandated by governments
        - Spending on air travel, hospitality and entertainment dropped sharply whilst spending on computers, TVs, gaming etc. increased sharply
        - As economies start opening up next year, consumer habits should reverse again with more spending on travelling, entertainment, hospitality and less on technology and home entertainment
    - **Consumer Staples**
        - Consumer staples benefited from consumers spending more time at home but was disadvantaged by less spending by the hospitality sector (restaurants, pubs and businesses in general)
        - The net impact overall was not that significant and although trends will reverse over the next 12 months, we do not expect a material change in overall spending on consumer staples

- **Financials**
  - Financials were significantly impacted by the coronavirus pandemic. Banks had to increase their provisioning for bad debts sharply, impacting earnings negatively. In addition, low interest rates reduced net interest income and earnings
  - During the recovery phase, we expect bank earnings to increase quite sharply driven by a reduction in bad dets and by an increase in loan growth due to more favourable economic conditions
- **Materials**
  - Materials performed relatively well driven mainly by a high iron ore price (Chinese fiscal stimulus and supply issues out of Brazil)
  - We expect over time for the iron ore price to drop by about 20-30% as and when Brazil supply comes back on stream and the Chinese government reduces stimulus measures
  - Prices for other commodities should recover, and copper, and to a certain extent aluminium, should benefit over the long term from the switch to electrical cars
  - We anticipate the net effect for Materials to be neutral
- **Energy**
  - Oil prices dropped significantly due to the coronavirus pandemic driven mainly by a reduction in air travel and a slowdown in global trade
  - During the recovery phase, air travel should increase, and oil prices should recover somewhat (increase supply from Libya is a negative)
  - However, structurally over the longer term the outlook for oil is negative, driven by the switch to electrical cars
- **Healthcare**
  - Going forward, healthcare should benefit from a normalisation in elective surgery
  - Introduction of successful vaccines should provide a further boost
- **Technology**
  - Technology benefitted from the switch to work/study at home, and from a change in consumer spending more on technology and less on travel and entertainment
  - We anticipate a reversal of trends somewhat during the recovery phase
  - However, over the longer term, Technology will benefit from continued innovation in cloud, machine learning, the internet of things and artificial intelligence

Conclusion about Sector allocation for the next 12 months

- No motivation to be overweight in the Materials or the Energy sectors
- Reduce exposure to Technology somewhat and to Consumer Discretionary
- Increase exposure to Financials
- Maintain exposure to Healthcare and Consumer Staples