CITY OF LONDON
Investment Management Company Limited

Developed Markets Quarterly Outlook

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Overview

'Vaccine Nationalism' Harms Everyone

The discovery of COVID-19 vaccines has not proven to be the panacea expected and markets will have to increasingly internalize the notion that fighting the pandemic requires a long term effort. Nevertheless, despite persistent hurdles, an economic rebound is nearly inevitable and economies will certainly fare better in 2021.

The discovery of a vaccine against COVID-19 was supposed to be a game-changer that would quickly bring the world back to 'normality' as we knew it. As such, with eight vaccines approved for distribution in two countries or more, it is no surprise that stock markets kept climbing to new record highs and riskier assets, such as Emerging Markets (EMs), continued to outperform during the past quarter. Yet, markets have also been choppier, recognizing that leaving the virus behind is going to be less straightforward than previously thought.

Chart 1: COVID-19 Infection & Fatality Rates

	Total New Infections		Total Fatalities	
	Nov-Jan	3m/3m, %	Nov-Jan	3m/3m, %
World	**56,626,969**	**99**	**1,028,300**	**98**
DM	29,060,207	230	463,080	334
EM	13,303,387	14	270,676	11

Note: DM includes Australia, Austria, Canada, France, Germany, Hong Kong, Israel, Italy, Japan, Singapore, Spain, Sweden, Switzerland, the UK and the US. EM includes Brazil, China, India, Indonesia, Malaysia, Mexico, Philippines, Russia, Saudi Arabia, South Africa, South Korea, Taiwan, Thailand and Turkey.

Source: Johns Hopkins University

Several issues have arisen. Some factors are temporary and, while likely to be overcome, they risk engendering long-term consequences. A 'dark winter' of rising infections was always expected, but the advent of several more contagious variants and their mutations has upended the effectiveness of some vaccines and complicated national immunization efforts. For instance, if immunizations progress in the presence of widespread infections, they increase the likelihood of harmful mutations developing. This is true both within and across countries and is why the emergence of 'vaccine nationalism' – while perhaps understandable – is so detrimental. As long as the virus has not been brought under control everywhere, it cannot be under control anywhere; unless international travel ceases completely. What is more, if sufficient vaccines cannot be produced in short order, the world could risk 'running behind' the virus forever: already by next year, people may require refresher jabs and/or revaccinations based on modified formulas.

Markets will likely have to increasingly internalize the notion that adopting the vaccines requires a long term effort and they will thus be susceptible to recurrent setbacks following each period of exuberance. What is more, not only will COVID-19 have long term health and epidemiological consequences, but also economic effects. This 'long economic Covid' is at least partly due to the damage done to investment and human capital, according to the World Bank.

These issues aside, economies will certainly fare better in 2021 than last year. Despite persistent hurdles, an economic rebound is near inevitable. The IMF forecasts 2021 growth of 4.3% in Advanced Economies, with several G7 economies expected to gain 5-6% according to private forecasters. The IMF's estimate of 5.1% growth for the US has yet to include the effects of the stimulus program planned by President Biden. Emerging Markets are expected to grow 6.3% this year, despite a mild contraction of just 2.4% in 2020.

Global Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
US	↑			■		
Canada	↑				■	
Eurozone	↓		■			
Switzerland	–				■	
UK	↑			■		
Japan	↓	■				
Australia	–				■	
EM	–				■	

International Equity Allocation Breakdown

	Chg	-2	-1	0	+1	+2
Canada	↑				■	
Eurozone	↓		■			
Switzerland	–				■	
UK	↑			■		
Japan	↓	■				
Australia	–				■	
EM	–				■	

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarter. A dash indicates no change.

Source: City of London Investment Management

Market Strategy: The election of US President Biden has provided a key support to markets for several reasons: 1) it raises the prospects of a more multilateral approach to resolving transnational problems, 2) it increases the chances for a large stimulus package in the US (especially after the Democrats secured the Senate) and 3) it promises more decisive and informed action in the fight against COVID-19. Together, these factors support reflation trades as the recent equity performance and the rise in 10yr US breakeven inflation above the 2% level have demonstrated.

In our country allocation, we thus unravel part of our previous positions: although the market remains expensive, we have become more encouraged by the US outlook thanks to the above factors and upgrade it to *neutral*. By contrast, the Eurozone appears to have fumbled its vaccine rollout and has been downgraded to *underweight*. Other cyclical markets provide more attractive valuations, such as Canada, which is upgraded to *overweight*. We also upgrade the UK to *neutral* on the back of its 'skinny' Brexit deal and shift Japan back to *underweight*.

**This publication reflects asset performance up to 31 January, 2021, and macro events and data releases up to 10 February, 2021, unless indicated otherwise.*

United States

Neutral (Global Index) ↑

Despite some setbacks due to delays in vaccination progress and the emergence of virus variants, the economy will likely rebound strongly.

	3Y history	Latest	
GDP, % qoq saar		4.0	Q4
PMI, index		58.7	Jan
CPI, % yoy		1.4	Jan
Policy rate, %		0.25	Jan
MSCI USA*		-2.1%	Jan
EPS, % yoy		-16.0	Jan
Trailing P/E		30.5	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The political outlook has further improved from the previous quarter as the possibility of protracted gridlock between a Democrat administration and a Republican-held Senate has receded. While not quite the 'Blue Wave,' the win of two Georgia Senate seats by Democrat candidates has made a Democrat majority in the Senate possible, by virtue of a casting vote by the Vice President. In turn, this has raised the odds of a further large-scale fiscal support package, currently pencilled in at $1.9 trn. While the large headline figure is likely no more than an opening shot for negotiations, the ultimate package is nevertheless likely to be large and capable of averting the feared 'fiscal cliff.'

This should be able to cushion the economic downturn that is likely to arise from a renewed rise in infections, even if the planned doubling of the minimum wage does not come to pass. COVID-19 infections accelerated sharply over the past quarter, rising to a daily record of over 850,000 in early January before slowing to less than 100,000 a month later. Yet, even though two different vaccines have been approved for distribution in the US, their rollout has hit severe bottlenecks, implying that only 11% of the population have been inoculated so far. What is more, the UK and South African variants and their mutations – which are more contagious and against which existing vaccines are less effective – have already been recorded in the US.

This has again weighed on economic activity, with GDP slowing in Q4 2020 after an exceptional bounce in Q3: the economy posted a mere 4.0% saar gain in Q4 after a 33.4% rebound experienced the previous quarter. This has left full-year GDP 2.5% below the previous year, a poor outcome but nevertheless better than many forecasts (the IMF expected a 5% contraction). Both consumer spending and investment growth moderated towards the end of the year as the spread of the virus accelerated and the vaccine program failed to take off.

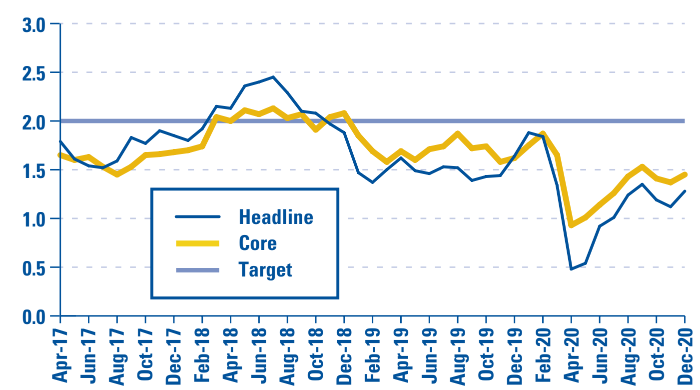
More recently, the nonfarm payrolls report posted a gain of a mere 49,000 jobs in January, after having shed 227,000 jobs the previous month. Nevertheless, the unemployment rate dropped to 6.3%, while the participation rate has remained broadly constant. This puts it on track for the Fed's forecast of 5% by Q4 of this year.

On the other hand, survey indicators posted some strong results in January: while they were slightly lower than the previous month, they remained high at just below 60. This holds for both the services and the manufacturing ISM as well as the Markit equivalents.

While Core PCE picked up ever so slightly to 1.5% yoy in December, it remains solidly below the Fed's 2% target. As a result, the Fed maintained its dovish stance at its recent January meeting, acknowledging the downside risks to growth from the virus.

But downside risks to growth are mostly in the near term, whereas the medium term presents upside risks: progress in vaccination and the fiscal stimulus bill passed in December, together with the new, larger program mooted by President Biden are likely to significantly boost activity later in the year. Distributional issues, the varying effectiveness of vaccines and the need to maintain some form of distancing and barriers will likely mean that it may take longer than one quarter to witness another strong rebound, but the second half of the year is poised for a significant growth acceleration. Private forecasts expect a strong 5-6% gain in 2021.

Chart 2: PCE Price Indices, yoy%



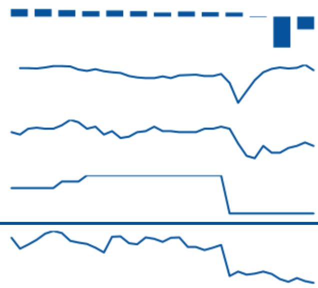
Source: Bureau of Economic Analysis, Bloomberg

Market Strategy: Despite an underperformance of 2.1% points during November-January, the US market remains expensive with a forward P/E of 22, a 15% premium to the MSCI ACWI's P/E. It brings valuations closer to their historical average and, together with the improved outlook under a Biden administration, prompts us to upgrade the US market back to *neutral*. However, despite the anticipated recovery, the US market is defensive in nature and a weaker US dollar is likely to support returns elsewhere. As the pandemic is hemmed in, upside for the key 'new economy' stocks will be more limited.

Canada

OW (Global and Global ex-US index) ↑

Higher oil prices and stronger US demand support the Canadian economy and the equity market.



	3Y history	Latest	
GDP, % yoy		-5.2	Q3
PMI, index		54.4	Jan
CPI, % yoy		0.7	Jan
Policy rate, %		0.25	Jan
MSCI Canada*		-0.4%	Jan
EPS, % yoy		-30.2	Jan
Trailing P/E		23.4	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

The Canadian economy continued to recover in Q4 2020 despite various restrictions being in force. Daily reported infections started to decline in early January, paving the way for a reopening of the economy in February, an upside risk to the consensus expectation of a mild quarterly contraction in Q1 GDP. Meanwhile, the country has ordered the highest doses of vaccines per capita in the world, even though the initial rollout has been relatively gradual.

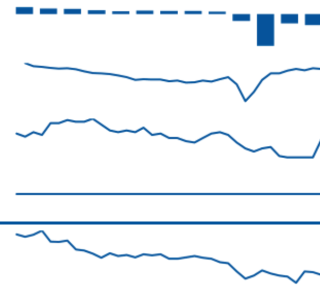
Beyond the short-term fluctuations in activity due to virus-related restrictions, the economy is showing signs of strength. First, retail sales continued to accelerate, up 7.5% yoy in November, supported by high household savings. Second, the US fiscal stimulus provides additional external demand for Canadian goods and services. Third, oil prices are edging back towards the pre-pandemic level, easing a headwind facing the Canadian economy and its equity market. Fourth, Canada's extraordinary monetary easing has boosted the housing market despite a still-elevated unemployment rate. Indeed, the new housing price index rose by 4.6% in 2020 after two years of stagnation. Overall, consensus expects a rebound of GDP by 4.4% this year, following an estimated 5.6% contraction in 2020.

Market Strategy: The forward P/E ratio of MSCI Canada is at an 18% discount to that of the MSCI ACWI, which is substantially below the five-year average of a 5% discount. Rising inflation expectations and bond yields in DM may facilitate a bumpy rotation from growth to value stocks this year, aiding the Canadian market, which is dominated by value stocks. On a sectoral basis, financials (35% of MSCI Canada) benefit from recovering mortgage demand and rising housing prices. In addition, higher commodity prices represent tailwinds for the energy and materials sectors (25% of MSCI Canada). We thus upgrade Canada to *overweight*.

Eurozone

UW (Global and Global ex-US index) ↓

The European recovery struggles with a rise in infections and a stuttering vaccination roll-out.



	3Y history	Latest	
GDP, % yoy		-5.1	Q4
PMI, index		54.8	Jan
CPI, % yoy		0.9	Jan
Policy rate, %		0.00	Jan
MSCI Eurozone*		5.7%	Jan
EPS, % yoy		-56.6	Jan
Trailing P/E		21.7	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Unlike the US, the Eurozone did not experience a rebound in Q3 and yet, it contracted further during the last quarter of the year, albeit mildly. As elsewhere, this reflected the renewed acceleration in COVID-19 infections and the attendant mobility restrictions. However, just as restrictions varied across countries, so did the impact on activity. In Germany, where restrictions were tightened only in December and in Spain where they remained unchanged, growth for the quarter was positive. In France and Italy where regimes were tighter or implemented earlier, output contracted in Q4. Overall, the restrictions appear to have had less impact on activity than in previous such periods last year. At the end of the year, Eurozone GDP nevertheless stood 5% below the end-2019 level.

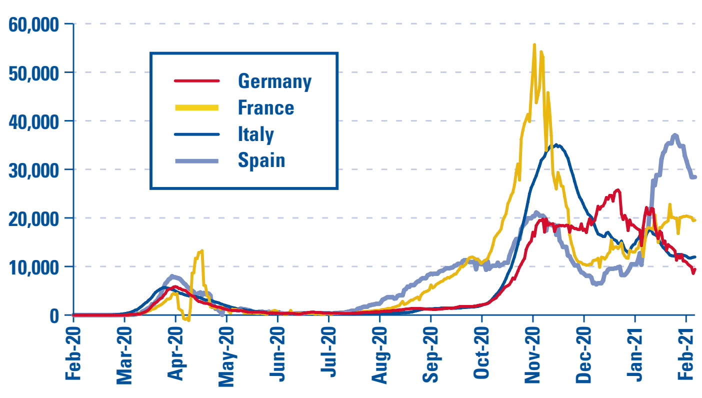
Virus dynamics differ across countries. In Spain, incidences remain at a high level but are moderating, whereas in France they are much lower than in November, but exhibit a rising trend. In both Germany and Italy, the pace of new infections has come off sharply. These differences will continue to inform containment policies and how they affect activity in the months ahead. Vaccination rollout will successively allow government to ease restrictions, with the caveat that immunization does not fully prevent contagion.

Yet, the vaccination campaign in Europe has run into problems, not least due to the inability of AstraZeneca to deliver the number of doses agreed (part of which is produced in the UK and has become the subject of political wrangling). The EU had ordered 300mn doses, with an option for an additional 100mn, but only 40% of the order will likely be delivered in 2021. The Oxford/AstraZeneca jab is crucial for the EU's plans because it is cheaper and requires less intense refrigeration than the mRNA-based vaccines. The shortage puts the goal to immunise 70% of the adult population by this summer into question. What is more, whereas the European Medicines Agency (EMA) has approved the vaccine for all persons aged over 18, member states are diverging in how they will use it. So far, France, Sweden, Poland and Austria have all advised against using the vaccine for people aged over 60 or 65 and German health advisers have called for a similar approach. Given the uncertainty over the virus dynamics and the variety of government policy responses, economic forecasts are particularly difficult for 2021. Consensus expects GDP growth for the year at around 5%, similar to the US.

More recent data suggest similar developments as elsewhere: manufacturing PMIs are running high, while those for services lag (in the Eurozone's cases below 50). Inflation has been particularly subdued, with the harmonised CPI running at -0.3% yoy during the last two months of 2020, before a jump to 0.9% yoy in January. Core inflation has similarly surged from 0.2% yoy in December to 1.4% in January. This reflected not only some technical factors such as basket weight adjustments, but also other one-off effects such as the expiration of the VAT reduction in Germany (cut from 19% to 16% in July 2020). While both inflation measures will likely run higher in 2021 than the previous year due to adverse base effects, they are set to remain below the ECB's target level of 2%.

Regardless, the ECB continues to maintain a very accommodative monetary stance and further expanded its asset purchase programs in December. It raised the target amount of PEPP purchases by €500bn to €1,850bn and extended its purchases by nine months to end-March 2022. At the same time, the regular Asset Purchase Program was cut back to €20bn per month, putting the total monthly amount of purchases to €90bn. It also announced three additional targeted longer-term refinancing operations (TLTRO III) for June, September and December, maintaining the same preferential rate. The measures aim to both keep bond yields low and encourage bank lending directly.

Chart 3: Daily Reported Infections



Source: Johns Hopkins University. 7-day moving average.

Market Strategy: Eurozone equities experienced a strong quarter, outperforming the MSCI ACWI by 5.7% points during the November-January period. The outlook has now dimmed somewhat given the widespread mobility restrictions and the botched vaccine rollout. At the same time, the relatively low valuation primarily reflects the disastrous 57% earnings contraction in the past 12 months. We thus downgrade the Eurozone to *underweight*.

Switzerland

OW (Global and Global ex-US index)

Swiss equities appear cheap relative to global equities and other defensive markets.

	3Y history	Latest	
GDP, % yoy		-1.7	Q3
PMI, index		59.4	Jan
CPI, % yoy		-0.8	Jan
Policy rate, %		-0.75	Jan
MSCI Switzerland*		-4.7%	Jan
EPS, % yoy		1.6	Jan
Trailing P/E		22.9	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Daily COVID-19 cases seem to be on a downward trend in Switzerland after peaking in November. Still, mobility remains limited as various restrictions remain in place, and the tourism-related sectors suffer amidst the serious pandemic situation in Europe. Visits to retail and recreational venues are currently at half the pre-pandemic level, among the worst in DM and EM. The KOF Economic Barometer, a leading indicator of the Swiss business cycle, has sent a similar message. The indicator dropped below the long-term average of 100 in January, the first time since July 2020, dragged down by contractions in accommodation and food service activities.

Manufacturing remains the bright spot in the economy, as suggested by strong PMI data. The economy has been resilient because of this, with a smaller GDP contraction in 2020 (-3.4%) than in the Eurozone or the UK. Economic activity is expected to reach its pre-pandemic level at the end of this year, supported by recovering business investment and exports.

The Swiss National Bank has kept the deposit rate at -0.75% over the past six years and is not expected to change it this year either. It pledges to continue FX intervention to slow the franc's appreciation, despite the US labelling the country a "currency manipulator" last December.

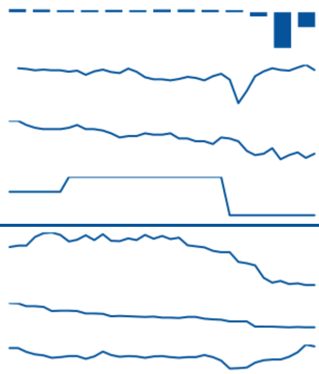
Market Strategy: MSCI Switzerland's forward P/E ratio is at a 6% discount to that of MSCI ACWI. It is substantially below the five-year average of a 6% premium, with the valuation of MSCI ACWI pushed up by the increased expensiveness of US equities. Earnings for Swiss companies have also been quite resilient: forward EPS has recovered to just 4% below its pre-pandemic level, similar to global equities (-2%) and is much better than the double-digit drawdown in cyclical markets. In other words, the Swiss market provides a defensive exposure with resilient earnings, at a more reasonable price (e.g. than the US). Therefore, we remain *overweight* Switzerland.

United Kingdom

NW (Global and Global ex-US index) ↑

While the UK has a headstart on vaccinations, rampant infections will delay the recovery yet again.

3Y history



	Latest	
GDP, % yoy	-8.6	Q3
PMI, index	54.1	Jan
CPI, % yoy	0.6	Jan
Policy rate, %	0.10	Jan
MSCI UK*	-1.3%	Jan
EPS, % yoy	-91.9	Jan
Trailing P/E	21.2	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

A sharp rise in COVID-19 infections forced the government to renew mobility restrictions in November. Yet, cases continued to surge in December, together with more contagious mutations. This forced the government to announce a third national lockdown in early January, set to last until end-February and possibly longer. The lockdown is tighter than previous ones, with schools also closed. The scope of restrictions implies that Q1 GDP will likely contract again and the recovery will be set back further.

Some solace can be derived from the country's vaccination program: the UK currently leads the G7, having inoculated over 19% of the population as of early February. This principally owes to two factors. Unlike other regulatory agencies, the British MHRA quickly provided authorisation for emergency supply of the first three Western produced vaccines, allowing the inoculation campaign to start earlier than elsewhere. And unlike other countries, the government provides vaccinations to all age groups, not only those aged less than 60 or 65 as in many EU countries.

While businesses and households may be better adapted to the restrictions than previously, activity in the UK has fared worse than elsewhere, with both manufacturing and services PMIs having deteriorated more sharply. Part of this may also owe to Brexit, which was finalized at the end of 2020, with a last minute "skinny deal." It provides preferential access to each area's markets, with goods trading free of tariffs and quotas. But a hard customs and regulatory border will separate the UK from the EU as goods face full checks and controls. The services sector has been left outside the agreement, meaning a full exit of the single market without replacement. The OBR estimates that a deal along these lines will come at a cost of 4% of GDP over the next 15 years (relative to EU membership).

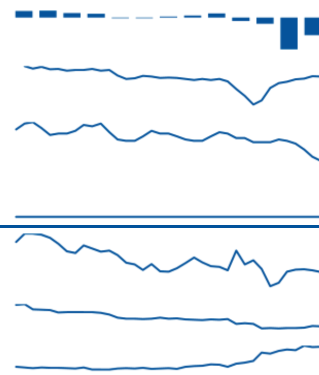
Market Strategy: The UK market is attractively valued and vaccination progress poises it for a recovery, while the worst Brexit risk has been defused. Exposure also provides a hedge for a highly valued tech sector (of which the UK has little), while offering exposure to value stocks. We upgrade UK equities to *neutral*.

Japan

UW (Global and Global ex-US index) ↓

The economic recovery has been lacklustre despite effective control of COVID-19.

3Y history



	Latest	
GDP, % yoy	-5.7	Q3
PMI, index	49.8	Jan
CPI, % yoy	-1.2	Jan
Policy rate, %	-0.10	Jan
MSCI Japan*	-1.0%	Jan
EPS, % yoy	-37.9	Jan
Trailing P/E	29.5	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Japan seemed to satisfy all the criteria that could have led to economic outperformance in the pandemic. Specifically, it contained the virus well compared to other DMs, deployed significant fiscal resources to support households and businesses, and has a relatively large manufacturing base that should benefit from the strong goods demand globally. And yet, the economic recovery has been lacklustre. The manufacturing PMI has stayed at or below 50 over the past two years, signalling a persistent decline in activity. Since the pandemic began, the services PMI has remained in contractionary territory and dipped again due to recent restrictions. Consumer confidence appears even weaker: the index rose from its historical trough in April 2020, but remains below any level of the last decade.

In essence, the consumption tax hike in 2019 and COVID-19 represented a double whammy for the economy. Business revenue suffered from the tax hike, while the pandemic-driven tech boom did not greatly benefit Japanese companies given the increased competition from South Korea, Taiwan and China. Poor demographics mean that a large percentage of the population (28% are over 65) are fearful of the virus and voluntarily reduce mobility and discretionary spending. There is also doubt about how much tourism and advertising revenue the upcoming Tokyo Olympics could generate in the face of the pandemic, travel restrictions and quarantines. Overall, consensus expects only a partial rebound in GDP this year (2.6%) following an estimated 5.3% fall in 2020.

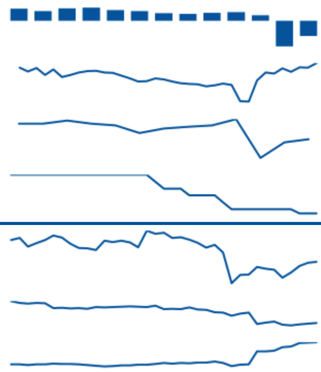
Market Strategy: The forward P/E ratio of the MSCI Japan is at a 9% discount to that of the MSCI ACWI, moderately more expensive than the five-year average of 13%. Forward EPS is still 20% below the end-2018 peak, and yet the forward P/E is at a 10-year high. The economic recovery this year looks mediocre and we therefore downgrade Japan back to *underweight*.

Australia

OW (Global and Global ex-US index)

Australia enjoys a recovering economy, a robust housing market and easy monetary conditions.

3Y history



	Latest	
GDP, % yoy	-3.8	Q3
PMI, index	57.2	Jan
CPI, % yoy	0.9	Dec
Policy rate, %	0.10	Jan
MSCI Australia*	5.9%	Jan
EPS, % yoy	-47.5	Jan
Trailing P/E	39.2	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return.*

Source: Bloomberg

Australia has successfully contained the virus with strict border controls and quarantines, keeping daily infections consistently at a low level since September. That has supported a solid economic recovery as evidenced by the strong data from manufacturing and services PMIs. Exports are also recovering along with rising commodity prices. Consensus expects a significant rebound of GDP by 3.7% this year, more than offsetting the estimated fall of 2.8% in 2020.

Policy support remains ample. The central bank kept the policy rate at 0.1% in February, pledging to maintain it at that level until 2024 and further increasing the size of bond purchases. The government has taken advantage of low borrowing costs and will step up its fiscal support, with the budget deficit expected to expand from an already elevated level of 7.6% of GDP in 2020 to 10% this year. A high household savings ratio – backed by fiscal stimulus – and a historically low interest rate have boosted the housing market. Nationwide dwelling prices have surpassed the pre-pandemic level. In cities less affected by the pandemic, house prices increased by more than 5% last year. Population growth slowed last year due to a sharp fall in immigration, but should gradually normalise once travel restrictions are eased.

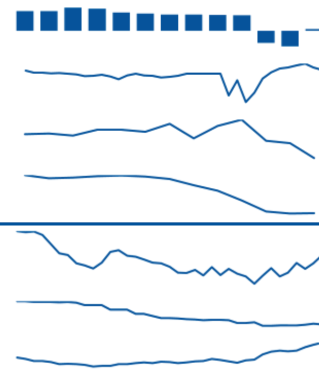
Market Strategy: The Australian dollar appreciated versus the USD in 2020 as a resilient economy offset a significantly reduced interest rate differential. The positive economic momentum also provides a tailwind for Australian equities. Rising housing prices and services activity support sectors such as financials and real estate, which together account for nearly 40% of MSCI Australia. The materials and energy sectors (24%) benefit from rising commodity prices, while industrials and consumer discretionary (11%) are set to receive a boost from an increase in capex and consumer spending. Therefore, we remain *overweight* Australia.

Emerging Markets

OW (Global and Global ex-US index)

EMs are weathering the latest COVID-19 wave better than their DM peers and are poised for strong growth in 2021.

3Y history



	Latest	
GDP, % yoy	0.5	Q3
PMI, index	52.1	Jan
CPI, % yoy	1.7	Jan
Policy rate, %	4.00	Jan
MSCI EM*	3.9%	Jan
EPS, % yoy	-24.7	Jan
Trailing P/E	25.0	Jan

**US$ total return relative to MSCI ACWI. Latest is three-month return. Economic indicators are GDP-weighted with the exception of PMI, which is value-added-weighted.*

Source: Bloomberg

Emerging Markets appear to have weathered the rise in COVID-19 infections better than DMs over the past quarter. New cases rose by a mere 14% in EMs, whereas they more than tripled in DMs. The difference in fatalities is even starker. While there is sure to be some underreporting, this outturn could also simply represent a delay as the new wave of infections, along with its variants, has not yet spread widely. A similar pattern could be observed in Q2/Q3 2020. What is more, the aggregate figure belies important country differences given, for example, the sharp rises in Mexico and Brazil, and the rapid deceleration in India as well as North Asia.

Whether due to a lack of ability or a lack of political willingness, EMs have restricted their economies less so far, and consequently their economies have suffered less in 2020. Similarly, current aggregate PMI readings in EM are holding up better than in DMs. Crucially, the IMF expects EM growth to outperform DM by 200bps in 2021 (at 6.3%), thanks to the solid performance of its biggest economies, China (8.1%) and India (11.5%). Fiscal policy is very divergent across countries and not merely a reflection of available means. Brazil will likely rein in its substantial support somewhat in 2021, but without trying to squash growth. After a long period of prevarication, India has also adopted a stimulative budget for this year. By contrast, Mexico has little room for stimulus and Russia is set to revert to fiscal orthodoxy and budget surpluses.

Market Strategy: Aside from the lack of policy room, the biggest challenge for EMs will likely be the availability of vaccines in the near term and, for some, their domestic distribution capacity. What is more, EM are now more fully priced, having outperformed the MSCI ACWI by 3.9% points during the November-January period. Nevertheless, the broadly reflationary environment which supports risk appetite and the strong health policy response in North Asia argue in favor of a continued *overweight* allocation. ◆

INTERNATIONAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS *(All data shown are as at end-January 2021 unless otherwise stated)*

	Macroeconomic Data													Market Performance				Forecast†	
	% change on year ago				Latest 12 months														
Developed Market	Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2020F**	Trade Balance	Current Account Balance	Foreign Reserves 2021 Latest	Foreign Reserves 2020 Year Ago	Currency vs $ 2021 Latest	Currency vs $ 2020 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/20 US$	Change since 12/31/20 Local	2021 P/E Forecast	3 month Currency vs $ +/-
	%	%	%	%		$ Bns	$ Bns	$ Bns	$ Bns			%		Jan. 31, 2021	Jan. 31, 2021	%	%		
Overweight																			
AUSTRALIA	-3.8	13.9	2.0	0.9	-7.6	49.5	25.3	32.60	50.45	0.77	0.67	0.15	AAA	4.42	4582.90	0.04	0.62	19.4	-
CANADA	-2.8	40.5	-10.0	0.7	-16.0	-26.8	-27.9	76.82	73.61	1.27	1.33	0.25	AAA	6.25	6088.84	-1.07	-0.81	16.1	-
EM****	0.5	n.a.	2.4	1.7	-7.6	621.3	73.5	7726.50	7372.54	1726.40	1643.60	4.00	n.a.	31.83	643.27	3.07	3.81	16.0	n.a.
SWITZERLAND	-1.7	32.1	-5.1	-0.8	-4.1	46.0	56.2	970.22	782.19	0.89	0.98	-0.75	AAA	5.92	15728.55	-2.05	-1.42	18.2	-
Neutral																			
DENMARK	-3.8	22.5	0.1	0.5	-4.1	11.0	26.4	70.25	60.88	6.14	6.85	-0.60	AAA	1.52	39514.30	-3.74	-3.13	24.2	-
ISRAEL	-1.1	38.8	0.1	-0.7	-11.7	-20.2	40.3	171.25	124.25	3.26	3.42	0.09	AA-	0.39	161.42	1.66	2.75	13.7	-
NEW ZEALAND	0.4	68.9	-1.3	1.4	-8.5	1.8	-1.9	12.26	16.80	0.72	0.64	0.15	AA	0.19	805.98	1.30	1.20	40.8	+
NORWAY	-0.1	22.5	-1.2	1.4	-2.2	1.3	7.6	72.80	63.64	8.47	9.30	0.46	AAA	0.37	8498.05	0.06	-0.04	15.8	-
SINGAPORE	-3.8	9.2	14.3	0.0	-14.0	95.2	55.5	349.77	273.54	1.33	1.39	0.31	AAA	0.66	1170.78	0.96	1.37	16.0	-
SWEDEN	-2.5	21.1	1.2	0.5	-4.5	6.3	27.4	45.63	45.11	8.36	9.67	-0.04	AAA	2.15	30492.68	2.23	3.69	19.1	-
UK	-8.6	81.1	-4.7	0.6	-18.5	22.1	-56.0	139.61	137.54	1.38	1.29	0.04	AA	8.77	6132.36	-0.24	-0.69	14.3	-
Underweight																			
AUSTRIA	-4.0	-16.1	0.1	1.2	-10.0	-2.2	14.4	9.65	6.56	1.21	1.09	-0.55	AA+	0.11	3316.42	2.27	2.99	15.1	-
BELGIUM	-4.8	0.8	11.7	0.3	-10.4	-2.9	-3.0	10.98	10.44	1.21	1.09	-0.55	AA	0.60	8794.04	-2.39	-1.69	20.6	-
EUROZONE	-5.1	-2.8	-0.6	0.9	-9.5	3.0	3.3	317.87	302.20	1.21	1.09	0.10	n.a.	19.78	367.72	-2.02	-1.33	16.8	-
FINLAND	-3.0	13.4	-2.5	0.2	-7.5	-2.2	0.3	6.69	6.82	1.21	1.09	0.07	AA+	0.67	1299.58	2.00	2.72	21.0	-
FRANCE	-5.0	-5.1	-4.6	0.6	-10.9	-74.6	-53.3	55.16	51.73	1.21	1.09	2.00	AA	6.66	7071.85	-3.09	-2.40	17.8	-
GERMANY	-3.9	0.4	-0.7	1.0	-6.4	206.9	267.0	36.89	35.99	1.21	1.09	0.10	AAA	5.78	6668.62	-1.83	-1.13	15.7	-
HONG KONG	-3.0	0.8	-7.4	-0.7	-8.5	-43.8	57.1	484.78	434.12	7.75	7.77	0.18	AA+	2.08	73761.35	1.99	1.99	17.3	+
IRELAND	8.1	52.4	28.8	-1.0	-6.7	85.5	5.1	0.95	1.00	1.21	1.09	-0.53	AA-	0.42	451.37	-3.66	-2.98	25.2	-
ITALY	-6.6	-7.7	-2.0	0.2	-11.2	71.0	68.3	46.59	42.71	1.21	1.09	1.31	BBB	1.47	842.89	-3.98	-3.30	13.1	-
JAPAN	-5.7	22.9	-3.2	-1.2	-12.7	7.0	166.6	1312.79	1255.90	104.63	109.69	-0.16	A+	15.70	7723.20	-1.00	0.39	21.6	+
NETHERLANDS	-2.5	35.0	-2.5	1.0	-7.1	65.2	70.4	5.91	4.38	1.21	1.09	-0.55	AAA	2.46	22588.79	2.45	3.17	24.4	-
PORTUGAL	-5.9	1.6	-3.2	0.3	-8.0	-15.9	-2.3	4.74	4.88	1.21	1.09	-0.55	BBB	0.11	190.11	-1.95	-1.25	20.0	-
SPAIN	-9.1	1.6	2.9	0.6	-12.2	-29.3	6.6	56.73	54.46	1.21	1.09	-0.55	A	1.46	2949.51	-4.55	-3.87	16.1	-

*Note: S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast.*
****MSCI All Country World ex USA Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg.*
†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

Source: Bloomberg, CLIM

GLOBAL EQUITY - KEY ECONOMIC AND FINANCIAL INDICATORS *(All data shown are as at end-January 2021 unless otherwise stated)*

		Macroeconomic Data													Market Performance				Forecast†	
		% change on year ago				Latest 12 months														
	Developed Market	Annual GDP Growth	Quarterly GDP Growth QoQ*	Industrial Production Growth	Consumer Price Index	Budget Balance % of GDP 2020F**	Trade Balance	Current Account Balance	Foreign Reserves 2021 Latest	Foreign Reserves 2020 Year Ago	Currency vs $ 2021 Latest	Currency vs $ 2020 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	% MSCI ACWI Net***	Stock Market Index (MSCI ACWI Net) US$	Change since 12/31/20 US$	Change since 12/31/20 Local	2021 P/E Forecast	3 month Currency vs $ +/-
		%	%	%	%		$ Bns	$ Bns	$ Bns	$ Bns			%		Jan. 31, 2021	Jan. 31, 2021	%	%		
Overweight	AUSTRALIA	-3.8	13.9	2.0	0.9	-7.6	49.5	25.3	32.60	50.45	0.77	0.67	0.15	AAA	1.90	4582.90	0.04	0.62	19.4	-
	CANADA	-2.8	40.5	-10.0	0.7	-16.0	-26.8	-27.9	76.82	73.61	1.27	1.33	0.25	AAA	2.68	6088.84	-1.07	-0.81	16.1	-
	EM****	0.5	n.a.	2.4	1.7	-7.6	621.3	73.5	7726.50	7372.54	1726.40	1643.60	4.00	n.a.	13.66	643.27	3.07	3.81	16.0	n.a.
	SWITZERLAND	-1.7	32.1	-5.1	-0.8	-4.1	46.0	56.2	970.22	782.19	0.89	0.98	-0.75	AAA	2.54	15728.55	-2.05	-1.42	18.2	-
Neutral	DENMARK	-3.8	22.5	0.1	0.5	-4.1	11.0	26.4	70.25	60.88	6.14	6.85	-0.60	AAA	0.65	39514.30	-3.74	-3.13	24.2	-
	ISRAEL	-1.1	38.8	0.1	-0.7	-11.7	-20.2	40.3	171.25	124.25	3.26	3.42	0.09	AA-	0.17	161.42	1.66	2.75	13.7	-
	NEW ZEALAND	0.4	68.9	-1.3	1.4	-8.5	1.8	-1.9	12.26	16.80	0.72	0.64	0.15	AA	0.08	805.98	1.30	1.20	40.8	+
	NORWAY	-0.1	22.5	-1.2	1.4	-2.2	1.3	7.6	72.80	63.64	8.47	9.30	0.46	AAA	0.16	8498.05	0.06	-0.04	15.8	-
	SINGAPORE	-3.8	9.2	14.3	0.0	-14.0	95.2	55.5	349.77	273.54	1.33	1.39	0.31	AAA	0.28	1170.78	0.96	1.37	16.0	-
	SWEDEN	-2.5	21.1	1.2	0.5	-4.5	6.3	27.4	45.63	45.11	8.36	9.67	-0.04	AAA	0.92	30492.68	2.23	3.69	19.1	-
	UK	-8.6	81.1	-4.7	0.6	-18.5	22.1	-56.0	139.61	137.54	1.38	1.29	0.04	AA	3.77	6132.36	-0.24	-0.69	14.3	-
	UNITED STATES	-2.5	4.0	-3.6	1.4	-15.8	-678.7	-551.0	44.54	41.54	1.00	1.00	0.16	AA+	57.07	10420.14	-0.96	-0.96	22.6	uc
Underweight	AUSTRIA	-4.0	-16.1	0.1	1.2	-10.0	-2.2	14.4	9.65	6.56	1.21	1.09	-0.55	AA+	0.05	3316.42	2.27	2.99	15.1	-
	BELGIUM	-4.8	0.8	11.7	0.3	-10.4	-2.9	-3.0	10.98	10.44	1.21	1.09	-0.55	AA	0.26	8794.04	-2.39	-1.69	20.6	-
	EUROZONE	-5.1	-2.8	-0.6	0.9	-9.5	3.0	3.3	317.87	302.20	1.21	1.09	0.10	n.a.	8.49	367.72	-2.02	-1.33	16.8	-
	FINLAND	-3.0	13.4	-2.5	0.2	-7.5	-2.2	0.3	6.69	6.82	1.21	1.09	0.07	AA+	0.29	1299.58	2.00	2.72	21.0	-
	FRANCE	-5.0	-5.1	-4.6	0.6	-10.9	-74.6	-53.3	55.16	51.73	1.21	1.09	2.00	AA	2.86	7071.85	-3.09	-2.40	17.8	-
	GERMANY	-3.9	0.4	-0.7	1.0	-6.4	206.9	267.0	36.89	35.99	1.21	1.09	0.10	AAA	2.48	6668.62	-1.83	-1.13	15.7	-
	HONG KONG	-3.0	0.8	-7.4	-0.7	-8.5	-43.8	57.1	484.78	434.12	7.75	7.77	0.18	AA+	0.89	73761.35	1.99	1.99	17.3	+
	IRELAND	8.1	52.4	28.8	-1.0	-6.7	85.5	5.1	0.95	1.00	1.21	1.09	-0.53	AA-	0.18	451.37	-3.66	-2.98	25.2	-
	ITALY	-6.6	-7.7	-2.0	0.2	-11.2	71.0	68.3	46.59	42.71	1.21	1.09	1.31	BBB	0.63	842.89	-3.98	-3.30	13.1	-
	JAPAN	-5.7	22.9	-3.2	-1.2	-12.7	7.0	166.6	1312.79	1255.90	104.63	109.69	-0.16	A+	6.74	7723.20	-1.00	0.39	21.6	+
	NETHERLANDS	-2.5	35.0	-2.5	1.0	-7.1	65.2	70.4	5.91	4.38	1.21	1.09	-0.55	AAA	1.05	22588.79	2.45	3.17	24.4	-
	PORTUGAL	-5.9	1.6	-3.2	0.3	-8.0	-15.9	-2.3	4.74	4.88	1.21	1.09	-0.55	BBB	0.05	190.11	-1.95	-1.25	20.0	-
	SPAIN	-9.1	1.6	2.9	0.6	-12.2	-29.3	6.6	56.73	54.46	1.21	1.09	-0.55	A	0.63	2949.51	-4.55	-3.87	16.1	-

*Note: S&P credit rating shown is long-term foreign currency rating. * % change in GDP on previous quarter, annual rate. **Bloomberg consensus forecast.*
****MSCI All Country World Index Daily Total Return Net. ****IP data from CPB; Currency level from MSCI EM Currency Index; GDP, CPI, budget and interest rate data from Bloomberg.*
†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

Source: Bloomberg, CLIM

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