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Spotlight on...

Chief Investment Officer's outlook

For professional investors only

27 April 2021



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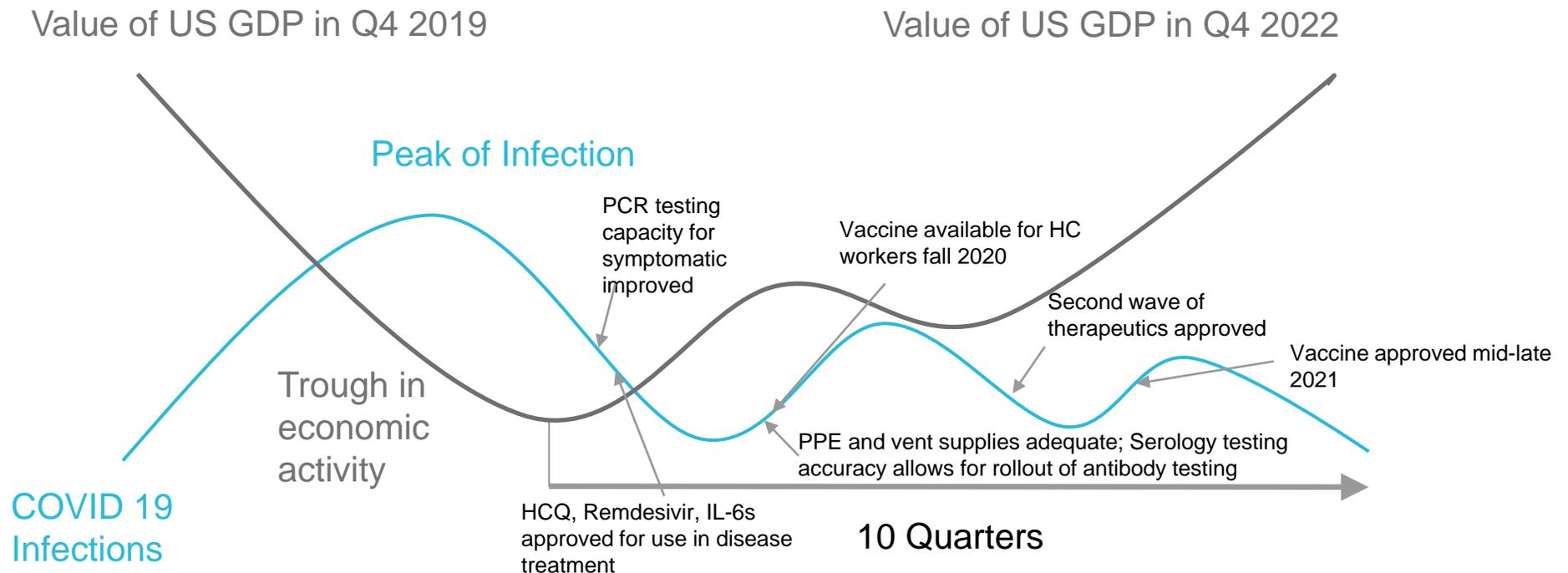
Overview

- Looking back: economic activity and recovery
- Fiscal stimulus
- UK and Europe
- Inflation: permanent or temporary?
- Structural trends
- Investing against this backdrop

Throwback – interplay of infection and economic activity

Our stylised perspective accelerated

The “U” shape recovery



- We anticipate one or more rebounds in COVID-19 until the vaccine is widely distributed, but each subsequent peak should be more muted.

Uneven recovery

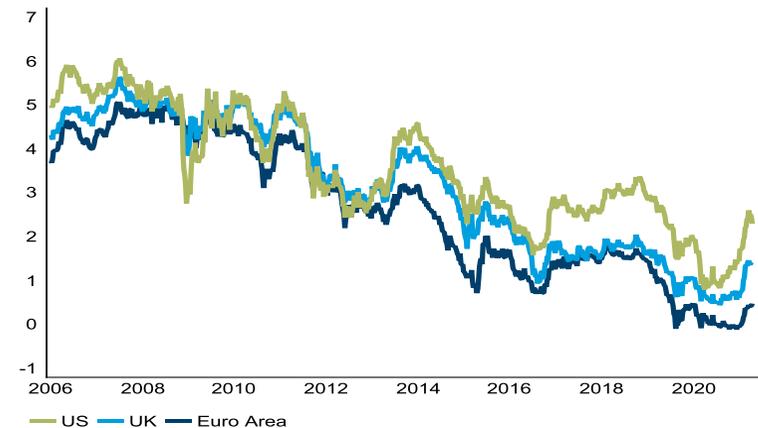
Regional disparity evident

- The strength of recovery projected to vary significantly across regions depending on:
 - initial response to the pandemic,
 - access to medical interventions,
 - effectiveness of policy support,
 - exposure to cross-country spillovers and
 - structural characteristics entering the crisis

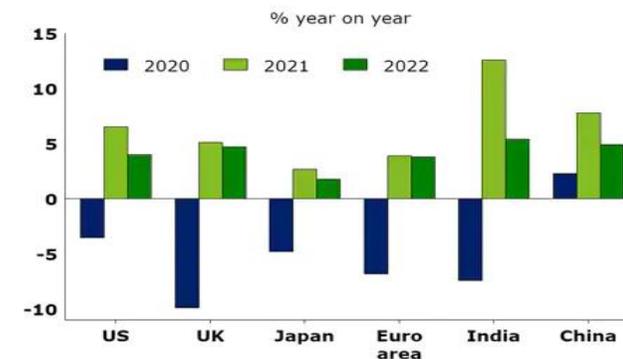
- Bond yields backing up and expectations of inflation rising

- China's rebound to date has led the world, driven by their pandemic response and quicker return to 'normalisation'

5y5y swap rates



OECD GDP forecasts



Source: IMF estimates and Refinitiv Datastream, as at April 2021.

Fiscal stimulus – all systems go

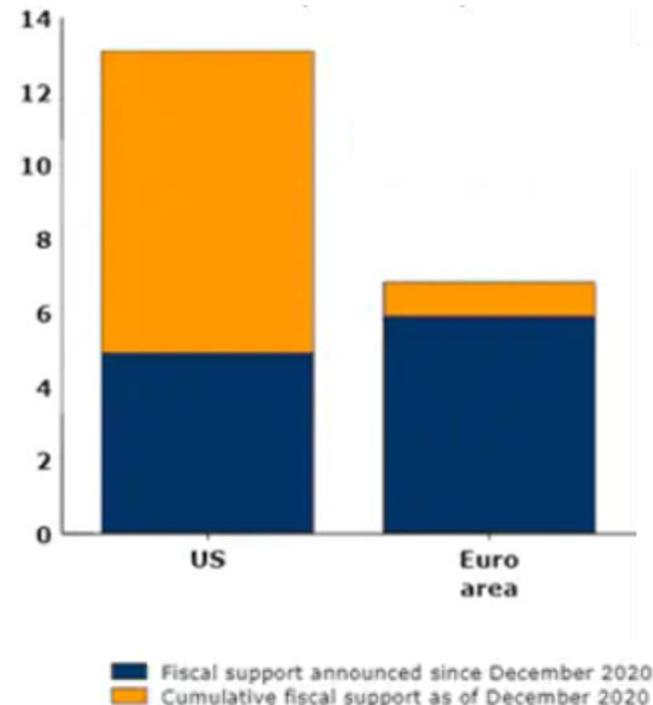
US leads global fiscal response

- Significant fiscal stimulus to the US economy:
 - US\$1.9 trillion ‘American Rescue Plan’
 - Infrastructure-oriented programme estimated to be over US\$2 trillion
 - Potential to boost US GDP growth by 3-4 percentage points and global growth by 1 point

- UK extended fiscal support for businesses and households in his 2021 budget.

- Smaller GDP downturn than H1 2020 and strong economic rebound as restrictions are eased, supported by the vaccine rollout, extended UK fiscal support and the boost to global growth from the large US fiscal stimulus.

US Euro area imbalance
% points of GDP, OECD calculations

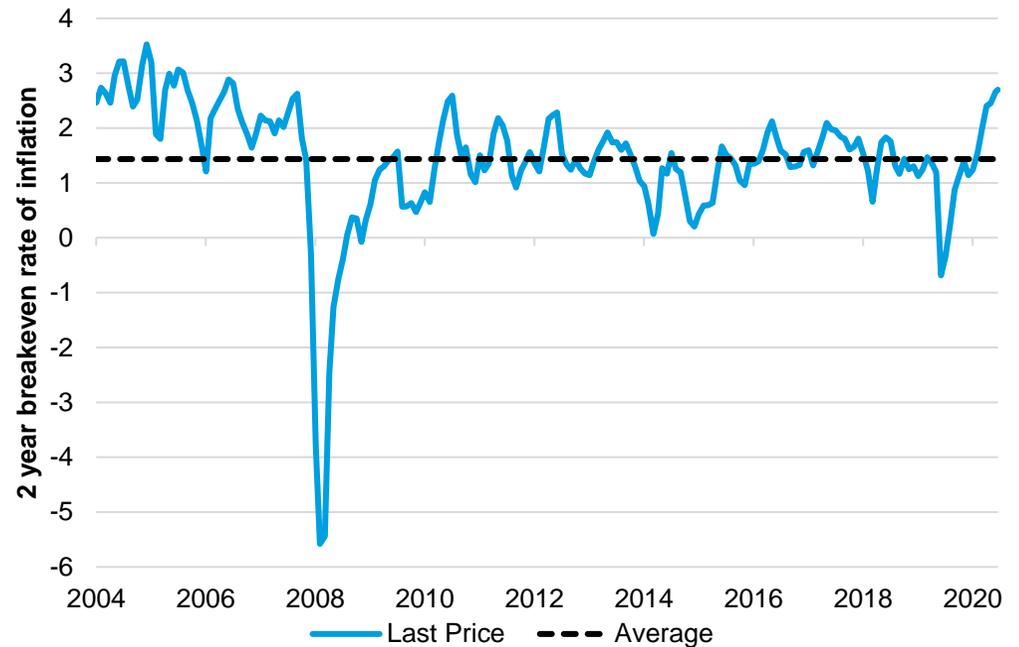


Source: Hutchins Center calculations from Bureau of Economic Analysis and Congressional Budget Office and Deloitte, as at March 2021.

Inflation – what next?

- Inflation expectations: Transient or here to stay?
- US inflation target 2%
 - Deflation or high inflation?
- Fiscal stimulus impact
- Low growth, low inflation environment:
 - CPI +0.6% March 2021 leading to 2.6% year on year inflation rate
 - Energy prices rose over 9%, hotel rates were up nearly 4% while car insurance rose over 3%.
 - As the economy reopens, pent up demand for services and supply shortages are expected to add to base effects to force inflation higher - in the short term.
 - Long term (10 year) inflation expectations have risen but not by as much (around 1.75%) and have barely moved in the last few weeks
 - Long-term secular forces of disinflation remain in place: the effects of globalisation, technology, demographics and deunionisation have not been unwound and inflation is likely to remain low in the longer term.

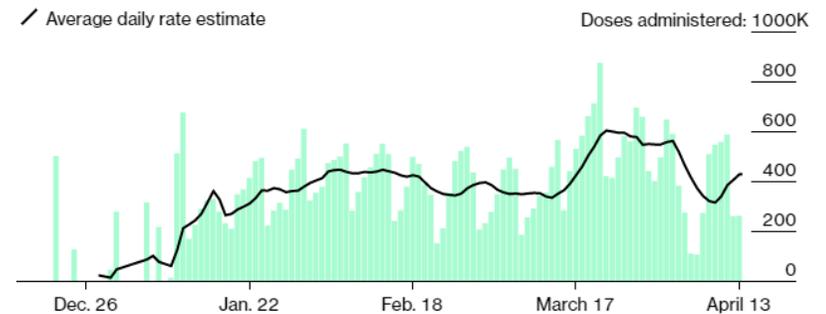
2-year breakeven rate of inflation



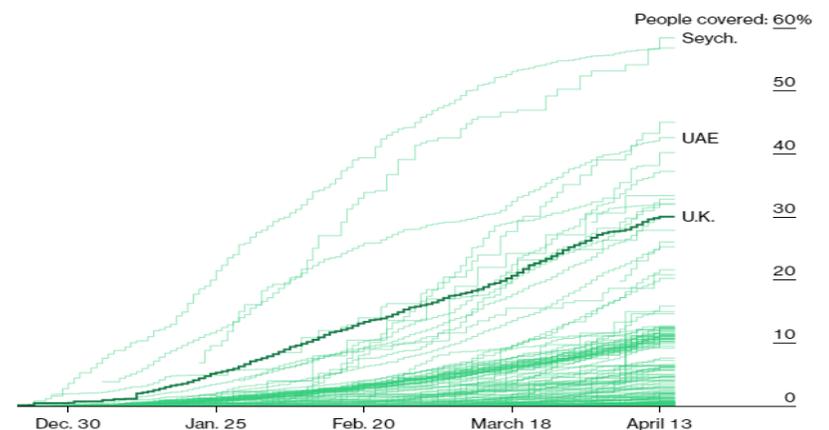
2021 so far: UK and Europe

- Vaccine rollout provides economic boost...
 - The UK has now administered 39 doses per 100 people, compared to 33 doses in the US and a considerable lag of 11 doses in the EU, according to the Bloomberg Vaccine Tracker with UK set to be one of first major countries to immunise the recommended level of 75%.
 - Potential wider and earlier end to COVID-related social and economic restrictions in the UK, allowing the country to make up some of the economic ground lost to peers.
 - Recent market gains are driven by optimism over economic performance as economy begins to re-open.
 - The IMF revised its UK growth forecasts for 2021 higher by 0.8%, while the latest construction sector data points to a rapid expansion.
- ... but structural and idiosyncratic factors faced by the UK keep us cautious:
 - Remote working: continued impact on local economy
 - Distribution of wealth: savings versus unemployment

UK daily vaccination rate



UK April 2021: 40m doses, 30% population



Source: Columbia Threadneedle Investments and Bloomberg, as at March 2021.

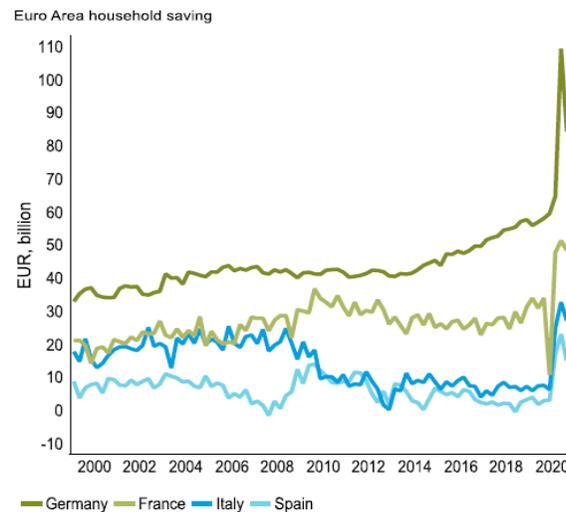
Structural Trends: what are they and why are they important?

- Consumer behaviour: spend versus save
 - Labour market and unemployment rates, savings and the cost of debt against interest rates
 - Change in consumer behaviour
 - Ageing Population: focus on healthcare and savings and the move to online shopping
 - Millennials: environmental and health conscious
 - Technological advancements: agile working, e-commerce, cash to card

Precautionary saving



But potential to unwind quickly



Key Disruptors:

- Digitalisation and e-commerce
- Millennial behaviours
- Health and environmental conscience
- Explosion of small brands
- Enhanced supply chains

Source: EC, ECB, and Columbia Threadneedle Investments, as at January 2021.

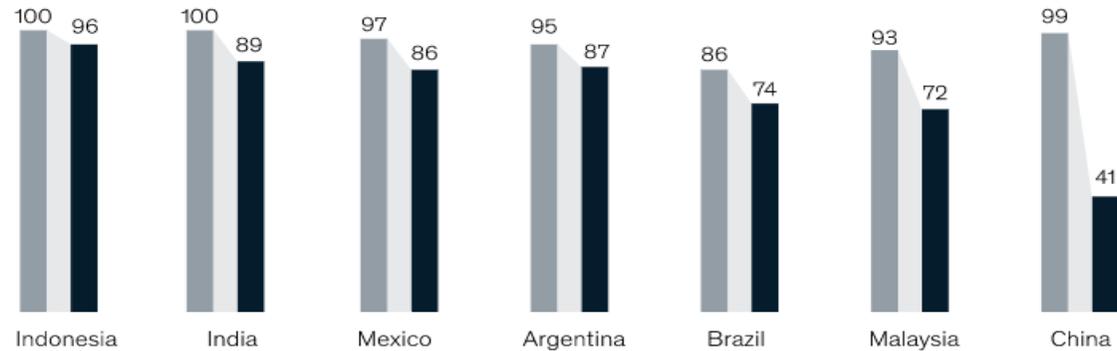
Cash to Card acceleration

- 2020 events and trends changed global context for digitalisation of finance
- For payments, this change happened **4-5x** faster than before

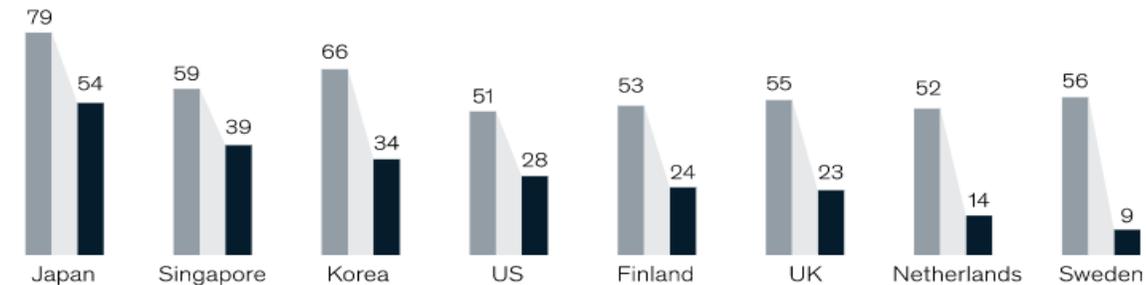
Cash usage by region, % of cash used in total transactions by volume

Emerging markets

■ 2010 ■ 2020 estimated



Mature markets



Source: Global Payments Map by McKinsey

Source: McKinsey, as at October 2020.

Green stimulus



The opportunity

- To achieve net zero requires a “green” transition across energy, mobility, housing, agriculture and heavy industries
- The OECD estimates that >US\$6 trillion investments per annum are needed by 2030 to transition to a sustainable, low carbon world
- The energy sector is one of the low hanging fruits to achieve decarbonisation targets contributing ~40% of global emissions
- Green investment priorities include renewables, green hydrogen, electric vehicles and buildings renovation

US\$921 billion in green stimulus approved to date

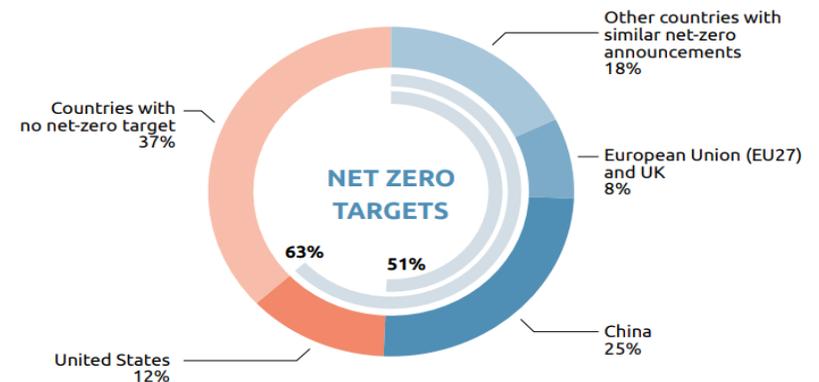
By country



*France and Germany additional to EU due to significant contribution.

Source: BNEF, February 2021 Note: figures only include green stimulus that has been officially approved.

- In the race to net zero, countries have announced huge green stimulus packages



Countries commitments towards net zero materially increased in 2020 covering 60% of global GHG emissions

Investing against this backdrop

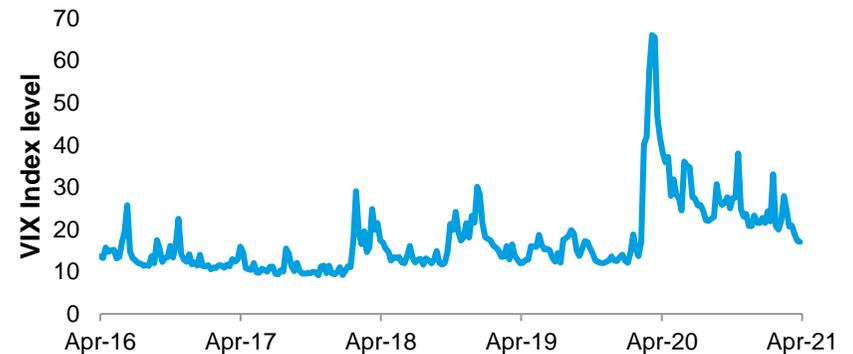
How are we allocating assets?

- Real yields backed up over the last five months with an apparent rotation into value
- Long term, we believe economic growth will subside and continue to favour quality and sustainable growth companies
- Fixed income investors may underweight bonds and maintain short duration in a rising rate environment
- Markets have been digesting a period of exceptionally resilient business and consumer sentiment data.
- US employment report sizeable job gains and a decline in the unemployment rate contributing to fears of rising inflation and pushing yields higher

Rotation evident



Chart of the week: VIX equity market volatility, 2016-2021



Source: Columbia Threadneedle Investments and Bloomberg, as at 9 April 2021.

Recap

- Economic recovery around the world has occurred at differing rates but markets have followed similar trends
- Fiscal stimulus: US, UK and Europe have all benefitted from huge stimulus packages
- Inflation: is the current surge a transient phase or long-term?
- Looking forward: economic boost impacted by structural trends
- Investing: short-term versus medium/long-term

How did ...
When are ...
Where is ...
Who is ...
Can I ...
Will there ...
Should we ...
How can ...
Tell us ...



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