

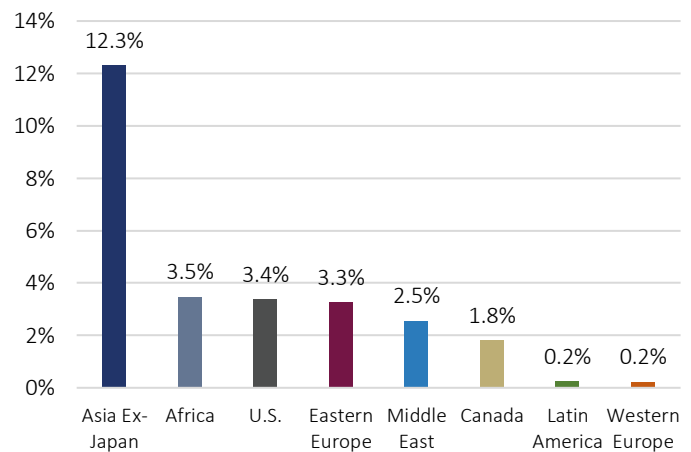
December 2020

The global equity market capitalization broke through US\$100 trillion to all-time highs in December. Credit markets achieved similar feats as issuance swelled and spreads compressed. Even risk-free asset prices attained new heights as long-term U.S. Treasury yields (adjusted for inflation) marked new lows. Naturally these developments are related, with the link being the ongoing COVID-19 policy interventions from central banks and governments. The knee-jerk pattern of ever stronger policy action to underpin markets and consumer confidence has been affirmed yet again. Markets head into Christmas rejoicing these easy financial conditions but bewildered by the incongruity posed by the economic and human hardships of the looming winter lockdowns.

Global growth opportunities

With a limited number of cases and no deaths since May 11, it's safe to say that Taiwan has managed COVID-19 well. Experience and preparation make a difference in fighting epidemics. In fact, Asia has handily outperformed the rest of the developed world in combatting the virus. As it turns out, President Donald Trump's trade war and American isolationism has promoted economic cohesion within Asia, if we set aside Australia. China's latest Five-Year Plan revolves around the concept of dual circulation, which is a reference to rebalancing from export dependency to internal consumption. Meanwhile, competitiveness is improving sharply with the aggressive state-led push in technology, new sectors (e.g. electric vehicle and cloud computing) and the embrace of capital markets. Countries in the region will benefit immensely from these changes. Economies are recovering, confidence is high and stock markets are buoyant across the region, with Japan at thirty-year highs. The Taiwan Semiconductor Manufacturing Company outpacing Intel with innovation captures the vibe. Asia has become the only regional secular growth story for investors.

2020-2022 Forecast Cumulative Real GDP Growth¹



A return to U.S. political normalcy

Markets have taken well to the upcoming Biden presidency with the predictability and relative professionalism that it returns to Washington – both on domestic and foreign policy. Regardless of the Georgia Senate race outcomes in January, the tight national election constrains the Democrats' more progressive agenda and forces the president to the centre. That's another win for markets, but investors may be underestimating the extent to which the new administration harks from an antibusiness camp – particularly in the domain of anti-trust where concerns span far beyond technology. Cash rich corporations hungry for deals would be advised to hunt their targets quickly before a new regime takes hold. Philosophically, the thread through the Biden/Harris team is consistent – support for education, health and opportunity for working class Americans and minorities. The U.S. Federal Reserve and Janet Yellen's Treasury are on precisely the same page. How this social/economic agenda and power shift in Washington impacts industry and the macro environment is yet to be seen.

¹ Source: Bloomberg Finance L.P. based on aggregate private contributor composite.

Digital transformation

COVID-19 forced technological adoption by necessity. A fire has now started that cannot be squelched. Like the virus itself, an unrelenting spread has begun that will envelop the world. The elements are in place for society to mass adopt new technologies that proliferate on existing infrastructure. Digital currency, artificial intelligence and blockchain technology are examples of new layers of digital deepening that will be transformative to business models. Remote work is but one consequence of this – one that will bring a healthy distribution of skills and incomes to different communities. Leaders will pull further ahead, forcing all players in all industries to spend on technological talent and services. It is important to recognize that we are still early in this process of harnessing existing computational power and storage capacities in many fields – including government.

Positioning

One innovation that I am thankful for is the vaccine. The pharmaceutical industry delivered a wonderful gift to the world with staggering speed. Related to vaccine deployment is economic normalization. Our base case is that we begin a multi-year expansion in 2021 fuelled by many engines: consumption rebound, capital investment, energy transition, Chinese consumption, and a housing and inventory cycle. With another U.S. stimulus package in hand, a “smoothish” transition to this normalization appears probable. Recovery will favour equities over bonds and cyclical ones at that, which is where we want to start off in the new year.

Source: CI Global Asset Management and Bloomberg Finance L.P. as at December 23, 2020.



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