19 January 2021

MEDIA RELEASE

Deliver us from COVID but lead us not to inflation

The outlook for global and Australian markets is positive, according to GSFM and its fund manager partners Munro Partners and Tribeca Investment Partners. They say markets are supported by easy monetary conditions, ongoing fiscal support and global economies which continue on a path towards normality as COVID-19 vaccines are rolled out and the lagged impacts of social restrictions unwind.

GSFM Investment Strategist, Stephen Miller, says markets appear to have priced in a relatively cheery narrative for 2021, but that quiescent inflation is pivotal to that view.

"While ever inflation is quiescent, bond yields remain anchored to their current levels and equity valuations remain well within the realm of plausibility. And it is difficult to conceive of inflation as an imminent threat even with historically extreme levels of monetary accommodation. However, inflation is a medium-term risk and one that bond markets are beginning to focus on.

"Risk markets, however, appear to have become largely inured to the notion that there is any prospect of inflation on the horizon.

"The biggest inflation threat arises from the reversal of the two great structural trends that account for the deflationary tendency of the past three decades: globalisation of labour supply (as well as that for goods and services) and baby boomer workforce participation. Both are on the cusp of reversing."

He says it was the fall of the Berlin Wall in 1989, combined with the dramatic increase in prominence of emerging markets, particularly China, at a time when baby boomer participation in the workforce was at its highest, and female participation was secularly increasing, that constituted a massive global labour supply shock.

"The result of that global supply shock was a decades long decline in wage growth and a structural deflationary trend on a global scale. But that is now coming to an end.

"Potentially exacerbating these emerging structural inflation concerns is a process of deglobalisation and re-regulation. Add to that a disposition on the part of central banks to tolerate temporary overshoots above inflation targets, and it is easy to see why some market-based measures of inflation expectations are on the rise.

"However, it pays to bear in mind that when the US last reached anywhere close to full capacity – when the unemployment rate reached a 50 year low of 3.5 per cent just a year ago - core inflation grudgingly moved to just 2.3 per cent, even if it was in modest accelerating mode.

"But, with the current unemployment rate at 6.7 per cent, capacity constraints – at least in the absence of any severe supply shocks – look some way off."

Nick Griffin, chief investment officer at Munro Partners, says its key Areas of Interest (AOL) – which take in Climate, Digital Enterprise, Digital Payments, e-Commerce and Innovative Health, among others – remain well positioned for 2021.

"2020 changed the way we live our lives. Habits engrained during COVID-19 will stick as the world continues to transition to new ways of shopping, working, learning, consuming entertainment, and paying, and stocks exposed to the areas that have benefitted will be winners.

"Areas such as Digital Enterprise, Digital Payments, and eCommerce should continue to deliver strong upcoming earnings results. These new behaviours have created structural changes and consequently, accelerated growth in many of these areas.

He points to the likes of Paypay, Facebook, Microsoft and Amazon as the winners to date, and says the challenge for investors is to find the next generation of companies that will perform in the new post COVID-19 world order.

"With a backdrop of ultra-low interest rates and worldwide quantitative easing, the case for equities rather than bonds currently remains strong. In addition, with further investment in renewables, batteries and transport and energy efficiency from the EU and a Biden-led presidency we believe Climate, in particular, as an AOL has strong tailwinds.

"The big winner from the Democrats victory in the US elections was Climate. Joe Biden is much more climate focused than his predecessor, and significant policy measures will be put in place that should benefit the stocks exposed.

"The major near-term risk to our broadly positive outlook remains COVID-19. While the vaccines are on the way, we think the equity markets will, for the most part, look through lockdowns as most large companies have the wherewithal to survive and make it through to the other side.

"Where COVID-19 would become a greater concern, would be if there were to be any material setbacks in the roll-out of vaccines, such as loss of public trust, distribution issues, or the like."

Jun Bei Liu, portfolio manager of the Tribeca Alpha Plus fund, expects 2021 to be a positive year for Australian equities, as the "recovery play" comes into its own.

"A solid global backdrop – lead by China but including the US – will also provide a strong tailwind for specific areas of the market, such as commodities, as well as both domestic and internationally exposed cyclicals.

"While risks will remain ever present – and extended valuations for some areas of the market an ongoing threat – both the government and the Reserve Bank of Australia have laid the foundations for a solid economic recovery which will be increasingly supported by an accelerated roll-out of a COVID-19 vaccine.

"Last year's COVID-19 vaccine announcements drove a sharp reversal in the performance of many laggard areas of the domestic equity market such as financials, travel and tourism, consumer discretionary and industrials.

"It also saw a sharp re-pricing in the fixed income market with a dramatic increase in long bond yields and profit taking in many "work from home" winners.

"This reflected increased confidence around the economic outlook, and it is likely that these trends continue through this year as growth normalises.

"This should provide ongoing support for cyclicals, value stocks, small caps and domestic stocks which are globally exposed.

"While growth is currently out of favour, there remain strong structural reasons as to why investors will not abandon this thematic in totality. We expect Australian equities to rise in excess of 10 per cent supported by modest valuation expansion in cyclicals, broad earnings upgrades, continued low interest rates and strong equity inflows as investors hunt higher yields and capital returns."

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GSFM was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with fee-earning assets of CAD$135 billion (as of 31 December 2020). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*
- *Toronto and Boston based Cambridge Global Asset Management*
- *Redpoint Investment Management is a boutique equities manager based in Sydney.*

GSFM represents approximately $17.3 billion funds under management (as at 31 December 2020). For more information about GSFM please visit the website: www.gsfm.com.au