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# A MOMENT IN MARKETS – THE NEXT 12 MONTHS

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Looking past the noise in the short-term, the following forces may prove to be pivotal in shaping the course of markets over the next 12 months:

## The economic recovery

Is it a V? Is it a U? Regardless of what letter we assign to it, a steady economic recovery is already underway globally as highlighted by third quarter GDP data from US, Europe, and China. These economies, however, are still recovering from the contraction earlier in the year and are far from making new gains compared to pre-pandemic levels. This process is expected to continue and, if the recent vaccine announcements deliver on their promise, growth could accelerate in 2021 – supported further by a US fiscal stimulus. Sectors distressed due to lockdowns, such as energy, travel and leisure, financials, and real estate will likely take a much-needed sigh of relief.

## With growth comes inflation

As economic activity gathers steam, inflation is likely to rise. This too is happening already and will probably continue in the year ahead. With central banks – notably the US Federal Reserve (Fed) – expected to remain accommodative allowing inflation to rise beyond the usual 2% target, investors will need to consider how to grow or preserve the real value of their assets. Broad commodities and gold are likely to be best placed to complement equities in diversified portfolios to achieve an inflation hedge. This will be especially true as dollar weakness may persist on account of the Fed remaining accommodative in the year ahead.

## China's 14th 5-year plan

In its recently announced 5-year plan for 2021-2025, China's 'dual circulation policy' aims to tap into growth from both the domestic economy as well as international trade. A renewed focus on science, technology, and innovation has been emphasised with mentions of semiconductor chips, 5G, artificial intelligence, and autonomous vehicles as key building blocks. This bodes well for the raw materials which feed these technologies, i.e. industrial metals such as copper, nickel, and silver to name a few. Potentially better US-China ties under Joe Biden's leadership may provide tailwinds to this commodity sector.

## Thematic shifts are unlikely to reverse

In some ways, the global pandemic accelerated certain megatrends – e.g. the need for improved connectivity and cloud computing applications to enable numerous economic activities to continue operating effectively – even during lockdowns. Improvement in air

quality for many cities – as cars, trains, and airplanes got parked – has catalysed the discussion around cleaner sources of energy sparking investor interest in things like battery solutions driving the electric vehicle revolution. Many such shifts are expected to continue progressing even in a post-pandemic world.

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