



Equities

Equity indices are expensive. But that is mostly driven by a narrow pocket of very large tech companies that have stock prices far from their earnings. Many tech stocks are priced for perfection, and with little consideration for competition and regulation. Once you step away from the expensive pockets of the market, there are opportunities for good investment. There are many companies with strong balance sheets, solid earnings and great prospects for earnings growth. These tend to be the businesses that were overlooked during the most recent tech-boom and the Covid-19 crisis, and in sectors more related to the real economy, for example financials, industrials and materials.

SEI client investment strategist, Cai Rees

Equities are expected to be an attractively priced asset class in 2021, particularly when considering the potential for a re-acceleration of activity and interest rates

Market predictions

► **Expert views on the 2021 trends for equities, property, fixed income and infrastructure**

still remaining low in absolute terms. However, 2021 will be a delicate year with markets remaining vulnerable to sentiment and rotation. Equity portfolios will need to be agile and capable of balancing between short-term bursts of performance in certain traditional sectors and the long-term vision of capturing growth opportunities focused on sustainability. On the one hand, continuing positive conditions as we recover from the effects of the virus are expected to enable many companies to recover rapidly. This will create challenges for active managers due to rotation effects. On the other hand, sustainability led considerations and perhaps a different post-Covid world will lead to

structural changes, planting the seed for strong business models differentiation.

Lombard Odier Investment Managers head of UK institutional clients and solutions, Ritesh Bamania

2021 is likely to be another strong year for equities. The economic recovery that will follow the widespread adoption of the vaccines in the developed world, when combined with ongoing monetary support from central banks, should provide goldilocks conditions for equity markets. The main risk to this outlook is that the economy recovers faster than expected, which would allow central banks to begin tapering their support. In 2021, FAANGM (Facebook, Apple,

Amazon, Netflix, Google and Microsoft) stocks should continue to outperform compared to the rest of the market. However, if the real economy picks up faster than expected this could prove to be an opportunity for markets such as the UK with exposure to banking and commodities that have struggled to recover the ground lost in March 2020 at the height of the pandemic.

Barnett Waddingham
principal and senior investment consultant, **Chris Binns**

As confidence builds in the recovery, we expect stock level considerations to reassert themselves as 2021 rolls on. This will mean greater scrutiny of the post-Covid intra-industry competitive landscape. Those companies

that made the best of the crisis by using it as a catalyst to get their house in order – either by cutting organisational fat, accelerating their digital transformations or engaging opportunistic M&A amongst other things – should begin to demonstrably pull away from their peers for their stock specific fundamentals rather than their sector label.

Should a reasonable level of inflation transpire as we expect, then companies with strong current cashflows and pricing power dynamics also stand placed to do well. This should be to the benefit of companies with higher than average dividend yields that had a particularly tough 2020. Normally in pronounced market sell-offs, high dividend stocks, supported by their income characteristics, display defensive characteristics, however this episode proved to be the exception to the rule. Uncertainties about suspended or cut dividends has continued to hold this group of companies back. We believe that they still have significant recovery

potential and that their longer-term properties – competitive total returns accompanied by lower volatility and defensive drawdown characteristics – remain intact.

Ninety One strategist, **Sahil Mahtani**

Property

We continue to believe the most resilient opportunities are to be found in rented residential property, senior living and logistics assets. However, as competition for assets in these areas tends to be fierce, identifying specific assets that can be acquired at a price that offers a fair compensation for the risks will require an even more forensic and granular approach.

More opportunistic strategies could look at picking up quality assets in potentially over-sold segments where long-term structural drivers remain robust. This could be hotels or student housing, given we can find comfort in the tenant quality in a challenging solvency environment. Long-leased assets with strong tenant covenants, particularly in alternative sectors, should be interesting in the current environment.

Aberdeen Standard Investments, head of European research – RE investment research, **Craig Wright**

Investors in commercial real estate have the most difficult task ahead of them as they try to figure out how much our current ‘remote’ way of living and working is a permanent change and how much we will return what it was like before the pandemic broke out. How will demand for offices change? What is the interaction between working from home and more space required in offices to maintain safe distance? How will the high street be affected as many retailers go bankrupt? Will we see a return of the local high street, a sector in long-term decline, if we are working from home more often? And finally will people want to move away from larger populated cities like London for a better and more

comfortable life?

RisCura head of research, **Faisal Rafi**

The death of the office has been exaggerated. Offices will remain the preferred place for innovation, collaboration, and communication providing its accessible, high quality. However, the need for occupational flexibility means that landlords will increasingly need to learn to operate or outsource to others. Locations with strong creative industries and professional services, buildings that are environmentally sustainable and designs that allows for a mix of office and remote teams to collaborate will be key to success.

In the industrial and logistics space, take up will be dominated by the swapping by retailers from expensive high street occupational costs into cheaper methods of getting goods to the consumer. These companies have the potential to pay higher rents than traditional industrial users given the savings they can make. With a shortage of supply, rents will grow and the development of new assets will deliver disproportionately attractive returns, given relatively low planning and development risk. For investors, investment in industrial assets is forecast to deliver the highest sector-based returns, but the challenge will be buying the assets.

In the retail sector, food and home improvement and discounters fared well in 2020. These retail warehouses are underpinned by strong sales for now, but in the longer term with lower occupational costs and the potential for last-mile logistics from these sites. Logistics units on the edge of towns will replace the high street as the final link in the physical chain for moving goods to the consumer. Other industrial units will also benefit from post-Covid and Brexit onshoring as we build new supply chains.

Lastly, in the residential market, the attraction of inflation-linked income will fuel the nascent private-rented sector, with it becoming a mainstream

institutional asset class and values rising as yields fall to reflect demand and lower risk premiums. This is the sector we predict the most evolution in the coming years.

Fiera Capital head of UK real estate, Alex Price

Fixed income

The 'search for yield' environment is likely to persist as easy monetary policy will keep yields low for longer. This scenario generally tends to be supportive for illiquid and also for liquid high beta credit, ie where the bond rating is at the lower end of investment grade and/or where the rating is below investment grade. For example, we see value in Covid-sensitive sectors such as autos and in going down the capital structure to invest in fundamentally solid companies. However, this requires enhanced risk monitoring. In particular, a sustainability-led focus will need to be at the forefront of investment decision making. On one hand, sustainability will add resilience to portfolios by identifying companies and countries best suited to the demands of a low carbon, low temperature, and a resource-scarce global economy. On the other hand, sustainability will also help identify themes and sectors that are expected to do well and benefit from a transition towards a circular, lean, inclusive and clean economy.

Lombard Odier Investment Managers head of UK institutional clients and solutions, Ritesh Bamania

Fallen angels are often misperceived as crisis-only opportunities riddled with risk, but we feel the reality is starkly different, as fallen angels represent the highest quality segment of high yield, and have delivered a high return, low-risk value proposition. We see this trend continuing throughout 2021 and for years to come, with another £300 billion of investment-grade bonds on the precipice of being downgraded to fallen angels. Investors should be considering

this area of fixed income, as fallen angel investments have delivered a higher return profile than investment grade and have been a large driver of income in 2020. We believe this will remain an attractive opportunity following the pandemic recovery and we expect this segment to bear more fruit in the years to come.

Mellon (Part of BNY Mellon) head of fixed income efficient beta, Paul Benson

We believe that credit spreads will continue to fall as central bank purchases continue to be extended and the economic recovery begins to take hold during 2021. The high default levels predicted at the start of the pandemic have failed to materialise, largely because of government support, and so we believe current spreads provide more than adequate compensation for the risk of defaults going forward.

Barnett Waddingham principal and senior investment consultant, Chris Binns

Chinese government bonds offer an interesting alternative to developed government bonds. The People's Bank of China has continued to state its desire to avoid at all costs unconventional policies and negative interest rates. It will continue to apply a more conventional policy framework focused on policy transmission versus targeting the quantity of money hence changes in yields should be correlated to the growth outlook. China is a creditor nation and having opened up its bond market to foreign investment, it now has the second most liquid government bond market in the world. Having risen in response to the strong recovery the country has experienced, Chinese bond valuations are currently at medium term fair value levels.

Ninety One strategist, Sahil Mahtani

Infrastructure

Significant investment in sustainable

infrastructure is expected from many governments' economic plans to build back better through a green-led recovery. Advancing offshore wind, shifting to zero emission vehicles, investing in carbon capture technologies and driving the growth of low-carbon hydrogen are just some of the areas where governments have pledged ambitious plans. We expect delivering on these green goals will require substantial private investment in both debt and equity. We also expect to see infrastructure debt opportunities to cut the carbon footprint of more traditional infrastructure portfolios.

Macquarie Infrastructure Debt Investment Solutions co-head, Kit Hamilton

Currently, there is lots of discussion around the need to revitalise the public-private model of project delivery to continue to build and renew infrastructure at a time when governments are even more fiscally-challenged. In fact, the need for job creation associated with an infrastructure build is looked at as a critical component of economic recovery after the pandemic. Record low interest rates across all developed economies continue to underpin valuations in the sector.

Critical changes and new technologies will continue to accelerate in infrastructure. This includes faster deployment of fibre connectivity in telecommunication networks and adoption of renewable energy in electrical grids and associated supporting technologies such as batteries. The importance of constant communication with management teams and operators has been further reinforced during these uncertain times. Strong relationships with lenders, regulators and other stakeholders is now more critical now than ever.

Fiera Private Alternative Investments CIO, Marc-André Desjardins

➤ **Written by Laura Blows**