Investment Strategy Update

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Upward momentum continues in US equities, with higher volatility

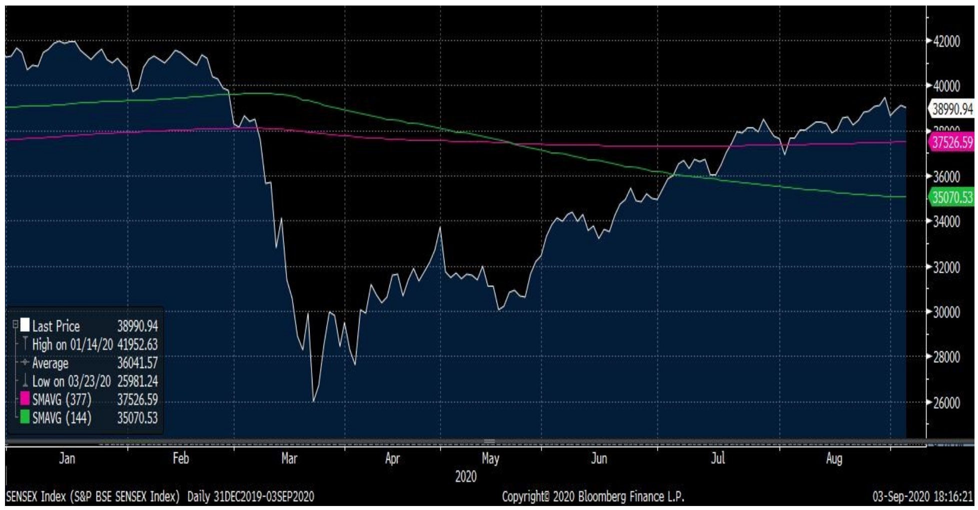
♦ **The S&P 500 closed up 1.5% to a new record; the NASDAQ Composite rose 1.0%**

♦ **As mentioned yesterday, a dollar rally seems likely; the ECB may well weaken the euro**

♦ **The FAB AAC remains slightly u/wt in global equities, and o/wt in IG bonds and gold**

The global equity bellwether, the S&P 500, closed at yet another new all-time high, on clearer confirmation that US Treasury Secretary Mnuchin had restarted talks with senior Democrats led by Nancy Pelosi regarding the extension of relief to unemployed Americans. Also helpful was news that Sanofi's coronavirus vaccine is apparently making good progress, and in trials. In addition the US private sector ADP jobs report for August came in at 438,000 new jobs created, versus Bloomberg expectations of 1 million, helping bonds and pushing the yield of the 10-year Treasury down to 0.66% - supportive of equities. In Europe the yield on the German 10-year Bund fell to -0.478%, partly on the back of an FT article referring to the views of ECB officials, suggesting they will increase monetary accommodation in response to still-weak Eurozone economy. Of course they also want to get the euro down, to help facilitate exports. Meanwhile back in the US, the latest 'Real Clear Politics' polling reading puts Biden at 49.8%, and Trump at 42.4%, so markets cannot yet totally write the President off. All these factors are causing volatility to increase; the VIX index has rallied to 26.21, from the 22 level. **Finally in this section we should add that the Caixin Services PMI for China came in at 54.0 for August and exactly in-line with expectations. That is private sector data, and also good news for the rest of the world.**

Chart : India BSE Sensex Index YTD



India released its first quarter GDP figures for its fiscal year 2021 a few days ago, and the data was well below expectations, with the economy contracting by 23.9%, vs. expectations of a contraction of about 18%. The country implemented a very strict lockdown to counter the coronavirus during the quarter. Manufacturing output declined by 39.3%, and services by 20.6%. However, agricultural output increased by 3.4%, and the government sector's by 16.4%. Fortunately there are now signs of economic recovery. **Vehicle output, rail freight, and other high-frequency indicators point to this having begun in July. However, the extent of the contraction in Q1 and the assumed gradual pace of the recovery will result in India posting an overall contraction in GDP in the region of 6.8% for the 2021 fiscal year.**

Covid-19 cases in India continue to rise, and the country just recorded the highest global number of new cases of nearly 84,000. India will soon overtake Brazil as the worst-hit nation after the US. The total related death toll stands at almost 68,000. However the death rate per head is one of the lowest in the world, and India is easing lockdown restrictions.

Separately, it is being helped by being a main beneficiary of trade and political disputes between the US and China. **Apple is shifting some of its manufacturing to India, and the iPhone 11 model is going to be manufactured there.**

India is becoming a more attractive destination for global FDI. Indian equity markets saw USD 4 billion of net foreign investment in the June quarter, after it became clear the recovery was underway. Equities are still down by 5.49% for the year-to-date in dollar terms, compared to 2.30% for the MSCI EM index. Historically India has traded at a premium multiple, with a five-year average trailing PE multiple of 24.91 times. **Indian equities (based on the SENSEX index) are currently trading at a PE of 18.23x for the 2022 fiscal year, based on earnings growth of 29%. This makes for a very attractive PE-to-Growth ratio of 0.63.**

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