ESTATE CAPITAL INVESTMENT PORTFOLIOS

OUTLOOK

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ESTATE CAPITAL

The ability of scientists to develop a Covid-19 vaccine within months is truly remarkable and lifesaving.

As we come to the end of 2020, we have to look back at what we have been through this year, what we have discovered and what we can look forward to.

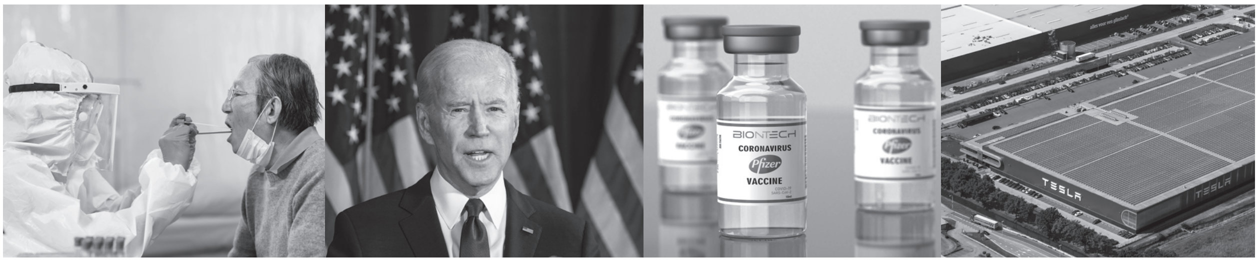
Collectively we have endured loss of liberty, a threat to health and financial uncertainty. Despite the varying levels of competence in national and international leaders on how the Covid crisis has been handled, there are some undeniable and inspirational stories of human courage, compassion and ingenuity. The combined efforts of the world's health workers and the ability of our scientists to develop a Covid-19 vaccine are truly remarkable and lifesaving. It is these strengths that can inspire us as we look forward with ever greater optimism that life as we knew it will return.

Dr Ugar Sabin and Dr Ozlem Tureci are the husband and wife team behind German company BioNTech who, with the backing of US pharmaceutical giant Pfizer, have in a matter of months developed a Covid-19 vaccine that reports a 90% efficacy rate across all age groups. Once approved, vaccination programmes could start in December in the UK.

The UK government has a contract for 40 million doses, which would supply all 3 million healthcare and social care workers and the 12 million over the age of 65 in phase one of a national roll out. If the elderly and vulnerable are vaccinated within a period of a few months then the need for lockdowns will ease as the mortality rates for people outside these vulnerable groups is very low. One of the challenges for the NHS in rolling out the distribution of the Pfizer vaccine is that two doses are required and the drug has to be stored at -75° C.

Pfizer have suggested that they could have 50 million doses ready by the end of December and would be able to produce 1.3 billion doses in 2021. For workers, consumers, businesses and stock markets, this vaccine is seen as a life-restoring game changer. This first breakthrough sent stock markets to new all-time highs.

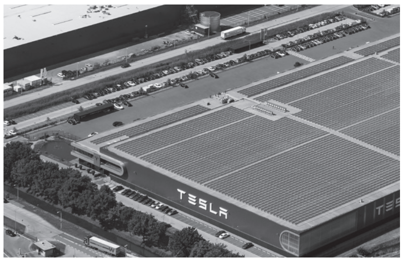
The news of the Pfizer breakthrough was soon followed by the published interim data from the US Moderna vaccine programme which suggested



a 94.5% efficacy rate across all age groups. This vaccine is easier to store and transport and can be kept at temperatures of -20°C. The UK government has ordered 5 million doses from Moderna, enough for 2.5 million people to receive the required two doses. The Moderna vaccine is unlikely to become available in the UK until at least the spring of 2021. This vaccine may still prove to be prohibitively expensive compared to the Pfizer vaccine as the dosage needed is three times stronger. Interestingly, the Pfizer vaccine is expected to be ten times more expensive than the Oxford AstraZeneca vaccine.

Overall, the UK government has spread its vaccine buying risk and ordered 100m doses from AstraZeneca, 40m from Pfizer, 5m from Moderna, 60m from Novavax, 60m from Valneva, 60m from GSK and 30m from Janssen. With seven vaccines ordered, the country should be confident about immunity. Success in this critical roll out will, according to Goldman Sachs, bring about a 6.1% recovery in UK GDP in 2021 and 7.3% growth in 2022.

Where do we go from here?



The advancement of technology and the data/ digital age has accelerated in 2020. The world has embraced more change more quickly that it might have due to the global lockdowns. Governments and corporations around the world have had to adapt, upgrade, and further automate their systems and processes leading to new and growing opportunities for investment and progress. Traditional industries lagged in 2020 until the vaccine announcement restored their potential and a rotation to undervalued sectors started. This will not slow the march of technology but restores the well-being of other sectors.

The next great accelerating transition will be the move from carbon energy to clean energy. Many major corporations are signing up to the Paris Climate Agreement on cardon emissions with a pledge to be carbon free by 2050. With the US set to return to the Paris Accord and the Biden administration wishing to make a big investment in greener, carbon-free energy, this sector is set to accelerate. Traditional oil companies are starting to see the end of oil and are developing their businesses to be renewable energy providers. It is for this reason we have introduced to all our portfolios the iShares Global Clean Energy ETF as our access point to this sector.

As part of the clean-energy agenda, ending the sale of new diesel and petrol cars in the UK by 2030 will bring about important investment. The UK will need to move forward in creating the necessary infrastructure of recharging points and building massive battery factories. The UK is falling behind in commissioning these giga factories. This year, the US has approved 3 giga factories, Europe has approved 2, and China 38. If the demand grows as expected, the UK will need at least four factories built over the next five years. South Wales is hoping to be the first to host a UK giga factory making electric car batteries. Without investment we will be relying upon foreign businesses and imports from Tesla, Panasonic, Samsung and LG.

The global lockdowns ensured that business supply chains were reassessed. Shorter supply chains with lower carbon footprints are growing in attraction. The world requires trade to create growth. Post Covid is not the time for protectionism, isolationism, and trade barriers. With this in mind, fifteen countries in Asia have now formed the world's largest trading block covering nearly a third of the global economy.

The new Regional Comprehensive Economic Partnership (RCEP) is made up of South Korea, China, Japan, Australia, New Zealand and 10 other Southeast Asian nations. The RCEP has taken eight years to negotiate and aims to eliminate a range of tariffs on imports and gives rights over intellectual property, telecommunications, financial services, e-commerce and professional services.

This is the first time that China has signed up to a regional multi-lateral trade pact and is seen as an indication that China is seeking greater influence in the region. China's involvement in the RCEP may be a play to reduce US influence over Japan, who would be a key partner to the US and EU in tackling China about IP theft.

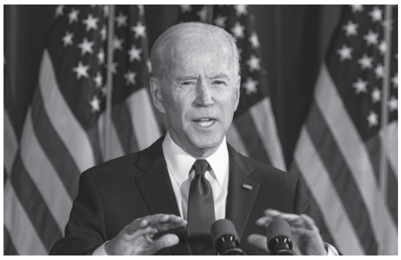
In the spirit of global free trade, we hope that the UK and EU will finalise their agreement in time for mutual ratification and implementation ahead of the end of the transitional period on the 31st of December. Both the UK and EU need to move on with their relationship. With ambition and mutual respect, the new status could flourish and aid our economies. The ratification of a UK/EU trade deal will assist the UK in further agreements, not least with the Biden administration. Mr Biden has made it clear that he wants to see a UK/EU deal that protects the Good Friday Agreement before engaging with the UK. Europe will be pleased that Joe Biden is in the White House and that efforts will be made to ease trade tensions and work together to tackle China's influence.

One of the lasting features of any global crisis is the build-up of massive government debt. By the end of September, the UK had amassed an all-time high of £2.06 trillion of public debt from the first lockdown and government support packages costing £330bn. That equates to 103.5% of GDP which is the highest as a share of the economy since the 1960-61 financial year due to the government's stepped-up efforts to support the economy hit by the global pandemic. Gilts made up the largest component of this debt. At the end of September, there was £1.74 trillion of central government gilts in circulation including those held by the Bank of England (BoE) Asset Purchase Facility Fund. The second lockdown and the extension of the furlough scheme to March 2021 is expected to cost the government a further £150bn in borrowing.

Britain is certainly not alone and the next great post-Covid challenge will be how the world deals with these massive debt levels. Part of that solution will be a shift to a more inflationary world as governments maintain QE programmes and simply print money to fund public spending. With an ever-growing money supply and a recovery in post-vaccine activity, we could see the return of inflation. This will have an impact on fixed interest securities as bond yields will rise to attract buyers and in doing so prices will fall. This may then start a bear market in bonds. Stock markets will like some inflation and rates of 2% would be useful for price rises and profits but higher inflation rates would be a concern.

With interest rates set to remain very low in the developed world for many years to come in order for governments to be able to maintain their debt repayments, unemployment set to rise in 2021, and recessionary pressures in the near term, the immanency of an inflation threat is relatively low. What will be certain however is that as liberty and activity are restored then taxation will rise in order to start to restore public finances.

What can we expect from President Joe?



Joe Biden has been confirmed as the President elect of the USA and will serve as the 46th President. In his acceptance speech, Mr Biden focussed upon healing the divisions within America and the wider world.

We can now expect a more considered, consistent and reliable policy from the White House over the next four years. Mr Biden's main campaign platform was to bring America together, to be a healing candidate that focuses on beating Covid, to re-build the US economy, and to focus on the climate change agenda.

The President-elect and the Democrats in Congress have an ambitious programme to spend US$2.2bn on the economy, healthcare, employment, infrastructure, and clean energy. It is expected that the Democrats will retain the House of Representatives but not secure the Senate.

Markets are feeling positive about the President's stimulus package proposals but are also happy that the Democrats are not expected to take the Georgia Senate seats in the January 5th runoff race. With the Republicans retaining control of the Senate it will mean that moderate Joe Biden will not have to advance a more progressive Elizabeth Warren and Bernie Saunders style policy agenda had the Democrats fully controlled Congress. He can stay true to his middle ground agenda. Biden is expected to return some dignity to the Office of the President and seek to restore some mutual respect and understanding to a divided America.

A Biden White House and a Republican Senate is seen as good news for US stocks. Biden will bring a calmer state to global trade, invest into economic recovery projects, clean energy, and infrastructure development. Added to this policy position, the Federal Reserve is expected to remain supportive through keeping US interest rates between 0% and 0.25% and continuing with its US$120bn per month bond purchases. The Federal Reserve's balance sheet now stands at US$7.1tn.

We have seen that the Covid crisis has accelerated the progress of the digital revolution as the needs of businesses and households have increased the demand for digital services due to lockdown. The next radical change will come in the form of clean energy. Traditional oil companies can either fight this change and hold back progress or embrace change and actively reinvent themselves with their enormous resources. For US energy policy to move away from carbon is a major change and one the world will benefit from. Even if there is a Republican Senate, there will be a permanent shift away from carbon to clean energy.

So, with Joe Biden set to be inaugurated as the 46th President of the USA, what can investors expect from the new Biden Administration?

It is expected that the clean and renewable energy sector will get a boost as Biden has pledged to re-join the Paris Climate Agreement on carbon emissions and also wants the US economy to be completely powered by clean energy by 2050. He has campaigned on the policy of spending US$2tn over 4 years with money going into research and development to speed up green technology.

Healthcare stocks have fallen in value in anticipation of a Democrat victory due to an expected clamp down on drug pricing. However, health insurers are likely to benefit from a Biden presidency as he wants to increase the numbers of Americans who have access to healthcare insurance. Currently a massive 30 million US citizens are not covered by a health insurance plan and Mr Biden is determined to change this.

Beyond the USA, there is likely to be an improvement over trade. US firms that rely on imported goods and parts from China, Asia and emerging markets will benefit from a less confrontational trade relationship. Biden is expected to take a firm line with China but not be as hostile. A Biden administration will likely ease the unnecessary trade tariffs between the EU and US but will not be keen on agreeing a US/UK trade deal until a UK/EU trade deal is concluded. Biden is not pro Brexit, unlike Donald Trump, and wants the Good Friday peace agreement protocols protected by any future trade agreement. Mr Biden has stated his intention to work with other democracies to establish a new order for international trade and to set new rules.

Perhaps the greatest support for stock markets generally will be the US$2.2tn of spending the Biden Presidency has proposed on Covid recovery and other fiscal stimulus.

The Federal Reserve Chairman, Jerome Powell has already supported the policy of further fiscal stimulus. He has recently stated that “Monetary policy and fiscal policy should work side by side to provide support for the economy until it is out of the woods.”

The continuation of the Fed's QE programme, while supporting the economy, weakens the US$. This in turn will reduce the price of US goods internationally and is likely to increase the value of sales for US companies exporting abroad. S&P 500 companies earn 45% of their revenue overseas.

We think that the next phase of the recovery will come from a post-election surge in US spending. This will move investors' focus to industrial, manufacturing, and construction stocks along with clean energy producers. When the industrial sectors begin to outperform the broader market, it is usually a sign of a new business cycle.

A Biden White House and a Republican Senate is seen as good news for US stocks.

We collectively owe £2.06tn.

The further regional lockdowns and national lockdown in England has brought about an alarming increase in permanent job losses that now go beyond the hospitality and service sector. In the summer, the hopes were that the impact of Covid would be relatively short-lived but a harsh reality is now setting in. This virus has been with us for far longer and will scare the economy more than originally expected. Despite these fears, consumer spending has held up and bankruptcies, whilst rising, are lower than expected.

The UK Job Retention Scheme was due to end in October having cost the country £41bn, but has now been extended to the end of March 2021. With 9.6 million people furloughed at any one point since March 2020, the scheme did the vital job of staving off a huge rise in unemployment. On top of the 9.6 million employees supported by the furlough scheme, the Self-Employment Income Support Scheme received 2.7 million claims for the first tranche and another 2.3 million under the second tranche, amounting to payments of £13.7bn.

At the end of October, 66% of people that were on the furlough scheme had returned to work, but 2 million people were still furloughed and their jobs could still be at risk when the scheme ends. The position of the self-employed is more difficult to measure.

The UK job market recovery is not being helped by further lockdowns and deserted high streets. According to the Centre for Cities, vacancy levels have failed to return to pre-pandemic levels in all 63 towns and cities analysed. Aberdeen and Edinburgh recorded the steepest fall in job offerings with a year-on-year decline of 75% and 57% respectively. Overall, UK vacancies are down 46%. Sectors suffering the greatest declines were retail and leisure. The large increase in people working from home has also further deteriorated the situation for retail and catering sectors.

With job vacancies running at such low levels, the struggle to find a job for the 1.5 million people currently unemployed may be compounded as the additional 2 million still on furlough may join them. The UK unemployment rate was 4.8% from July to the end of September. The BoE forecast that UK unemployment will peak at 7.75% in Q2 2021 when the furlough scheme ends and stay at that level for a period of time. The current 4.8% UK unemployment rate is a four year high with 1.6 million fellow citizens without a job.

The firebreak lockdown in Wales and Northern Ireland and the second national lockdown in England are putting massive pressure on families, employers, the self-employed and on public finances.

The Office of Budget Responsibility (OBR) estimates that the full cost of the furlough scheme will hit

£54bn and the self-employment income support scheme will hit £13.7bn. The OBR have projected that borrowing for the full 2020/21 financial year will hit £370bn. This is also forecasted by Capital Economics who expect the UK deficit to come close to £400bn by the end of the financial year in April.

On the back of the decision to place the country into a second lockdown, the Bank of England has extended its QE programme by £150bn to cover the cost of the lockdowns and the extension of the furlough scheme. across all nations of the UK until the end of March. This will mean that some workers could spend 12 months at home rather than working. Although bringing great relief to many households, it also added a further £50bn to the nation's debt with the BoE increasing its QE government bond purchases from £100bn to £150bn.

By the end of September, the UK national debt was over £2tn at 103.5% of our GDP. This is up from 80% of GDP twelve months ago and 35% of GDP in 2008. Between April and September, the government spent £248bn more than was raised in taxes.

The government's gilt issuance is being supported by the Bank of England using freshly printed money. Prior to Covid, the UK QE programme was standing at £425bn as a result of the 2008 financial crisis.I As of November 2020, the BoE's government bond purchases now stand at £875bn The government even at interest rates of 0.1% is still spending £40bn every year on debt servicing costs. We spend the same amount of money on our defence budget each year. Despite public debt reaching heights not seen since the end of World War Two, economists are urging Rishi Sunak to keep spending to aid the recovery as governments can borrow money cheaply.

With our national debt the size of the annual UK economy, we collectively owe £2.06tn. Under normal circumstances, a debt-to-GDP ratio of this size would put off lenders but currently the UK government can issue 10-year gilts with a 0.22% interest rate and the Bank of England will buy them. This is one of the defining benefits of owning your currency. With the Consumer Price Index 12-month inflation rate at 0.5% in September, the cost of borrowing is less than the rate of inflation.

At the end of October, the IMF updated its forecast for the UK and downgraded its most recent projections for GDP growth this year. The IMF expects the UK to shrink by -10.4% this year down from -9.8% they forecasted in early October. This downgrade is a result of second wave lockdowns and growing unemployment.

The Managing Director of the IMF, Ms Kristalina Georgieva, praised the UK's furlough scheme and suggested "that additional fiscal stimulus focused on public investment and improving the safety net" was a good thing in order to "build forward". Ms Georgieva suggested that "the BoE should ramp up QE and that only when the economy was recovering strongly should the government think about spending cuts or tax rises". The IMF does not expect a dramatic drop in UK economic activity as businesses have learned to operate with restrictions and because of the enormous spending by the UK government.

Without doubt a concern is the long-term impact upon the country's businesses and taxpayers long after Covid becomes another flu we have to fight off every winter. The outcome will be very low interest rates for a long time, the encouragement of inflation in the economy, and a tax bill lasting three or four generations.

The UK equity markets have not had a good year. The FTSE 100 has been lagging other leading stock markets due to a combination of the composition of the index as it overweight's energy and banks, the lack of international appetite to invest into UK companies with Brexit unresolved, as well as a poor Covid response. The sectors which have shown a relatively strong recovery during this crisis and have recovered the quickest have been technology, online retailing, and home improvements. These sectors make up 40% of the US S&P 500 but only 8% of the FTSE 100.

On top of these issues the FTSE 100 is the main global index for attractive dividends. This year has seen dividends slashed or suspended to allow companies to contend with the impact of the coronavirus and lockdowns. Q3 dividend pay-outs from UK listed companies were down 50% on Q3 2019. This is an improvement over Q2 when they were down 57%.

Dividend pay-outs are starting to recover with corporations planning to restore dividends in Q1 2021, but analysts are expecting dividend payment to still be down from 2019 by around 10%. Much will rely on the banking sector as it supplies 20% of all FTSE 100 dividends. The recovery of dividends for mining and oil companies will be determined by the improvements in commodity and energy prices. The pace of dividend recovery is therefore not likely to be swift. For these reasons the UK stock market is trading at its largest discount for 40 years.

Despite the arguments in favour of investing in the UK such as value of stock, recovering dividends, a post-Brexit bounce in confidence and pent up activity, we still hold an underweight position in the UK. However, Goldman Sachs are suggesting that a successful roll out of the Covid vaccination programme could bring about a 6.1% recovery in UK GDP in 2021 and 7.3% growth in 2022.

Inflation has the role of reducing the real size of debt as a percentage to GDP.

With little short-term expectations for a rise in inflation due to lower consumer spending, recessionary pressures, and rising unemployment, one might not expect the world to be too concerned about inflation. However, there has been a rise in expectations over future inflation as Covid restrictions are lifted in Asia and due to the levels of expected QE.

The US Federal Reserve recently announced two important changes to its monetary policy framework. The Fed's new approach no longer targets a fixed 2% inflation rate but a moving average of 2% and the rate of employment will play a far less central role in rate setting and monetary policy decisions. This has been interpreted to mean that the Fed would not raise interest rates until inflation was above its 2% target and the US economy had reached full employment.

With the annual US inflation rate falling to 1.2% in October and the Fed rarely hitting its 2% inflation target over the past ten years, it may be easy to ignore the significance of this policy change. However, on the basis of these parameters, the next US interest rate rise may not occur until 2024 or even 2025 as higher inflation and falling unemployment will not trigger a response in the way it once did. A good example of the past approach was in October 2018 when the Fed Chairman, Jerome Powell, announced three interest rate rises were expected in 2019. Markets declined heavily on the news and the Fed had to reverse the policy within 3 months. The consequences are that the Fed may let the US economy run hotter than in the past even if inflation starts to accelerate.

The current super low interest rates are positive for equity markets and bond markets have now stabilised from the high spreads from earlier in the year. But with interest rates so low, any hint of inflation is a concern.

If inflation was to pick up over the next year or so, bond holders would expect a higher yield and a corresponding fall in prices. Due to national debt levels, it would be hard for central banks to lift interest rates even if inflation returns. Ahead of any yield increase, central banks would step in and push yields back with more liquidity. However, over the longer-term governments and central banks need inflation to deflate their debt levels down.

Debt levels are building in the west to the size of whole economies. This is ultimately unsustainable and central banks will have to consider their exit strategies. These options include default, austerity, growth or inflation. Default is the preserve of countries in Latin American and not an option for advanced economies, austerity is politically unattractive, growth is possible and desired but not easy, so inflation becomes the answer. Interest rates will be kept low in order for nation states to maintain their debt repayments. Inflation has the role of reducing the real size of debt as a percentage of GDP.

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The UK and EU will strike a trade deal agreement.

As of early November, there were growing expectations of a free trade agreement to be made between the UK and EU.

The two sides moved into detailed legal text writing after Boris Johnson stood firm on his Withdrawal Agreement deadlines after the European Council meeting on the 15th of October ended without progress and instead with more rhetoric. As a result, the UK government called off any further trade discussions until the EU confirmed that they would agree to a 'Canada-style' free trade agreement. The stance taken at the European Council meeting is now seen by many leading EU figures as a mistake. It only made Boris Johnson more determined to force a deal out of the EU. The EU softened its position and Michel Barnier was sent back in London.

The three issues that have held up the agreement have been fishing rights in UK waters, a level playing field over state aid, and the resolution process for handling trade disputes.

As far as fishing rights are concerned, the new and extended access to UK waters by the current UK fishing fleet is likely to take time to develop. During this period, it could make sense to sell access rights to other countries' fleets. Fishing is a symbolic and political issue rather than an economic one in that it defines sovereignty in the control over one's own waters .

French President Emmanuel Macron has previously demanded that French fishing boats have permanent access to UK fishing waters while other non-fishing nations have reminded him that a no-deal Brexit will mean no access for fishing. His recent comments are starting to look more realistic as he concedes that French fishing boats will not have the same access as before Brexit and that French fishermen could pay for continued access to UK waters. We expect that a deal can be done as the UK has already apparently offered a 3-year transition to annually negotiated quotas for foreign fleets based upon stock levels. This would be similar to the deal that the EU currently has with Norway in regards to fishing.

The issue of a level playing field for state aid is one that ties the UK to the rules and regulations of the EU. The economic case for Brexit is one that breaks free from such rules to establish one's own regulation that best suits your economy, quality, and safety standards. This is the area of negotiations that most concerns German Chancellor Angela Merkel as the UK could use its newfound freedoms to fully compete with mainland Europe in a way not previously pursued.

A zero-tariff free trade agreement would in essence be a continuation of the current status quo. Brussels will surely wish to curtail access to the EU single market to some degree compared to that provided to the remaining EU member states. Membership must have some additional benefits. It is becoming clear that for the UK to retain access to the EU single market, then the UK will need to agree to 'level playing field' rules for access.

The pressure on the UK to secure an agreement with the EU increased when Barbara Wiesel, the former Assistant US trade representative, said that a US-UK trade deal would be delayed by a Biden Administration until the UK relationship with the EU was decided. Joe Biden is sensitive to Irish sentiment within the US and wants to ensure that the Good Friday Agreement is secured within a deal with Brussels. A zero-tariff free trade agreement would ensure that is finalised.

Ireland's Foreign Minister, Simon Coveney, recently said that he hoped a UK/EU deal would be concluded by the end of November. Mr. Coveney suggested that even with a zero-tariff free trade agreement in place there would still be disruption to trade and transportation. The UK and EU are targeting November to get the trade deal agreed and then ratified by EU leaders. The Westminster and European Parliaments would then have time to scrutinize and ratify the deal prior to the end of the transition period.

With over €1tn of annual trade moving between the EU, the UK's biggest trading partner, and the UK, if a deal is not concluded, this would result in Europe as a whole falling behind other recovering economies in the rest of the world.

The €750bn EU Recovery Fund will be inadequate for the size of the problem now facing Europe.

The Governor of the Bank of Italy, Mr Ignazio Visco, has warned that "as the pandemic continues families and business will batten down and massive monetary and fiscal intervention will be needed."

His concerns were echoed by the OECD who have run stress tests on national economies. The worst-case scenario would see national debt in Italy rise by the end of next year to 195% of their annual GDP, 158% for Portugal, and 229% for Greece. Without some form of debt unification within Europe these debt levels are unsustainable. It is becoming clear that the €750bn EU Recovery Fund agreed in the summer will be inadequate for the size of the problem facing Europe. With the recent agreement from Germany, the EU now has the power to borrow capital on the open markets to support fiscal policy. This agreement was meant to be a short-term facility but it is now looking more likely to be a permanent feature. There is a further €500bn of ECB QE planned for December but these figures are modest compared to the response by the Federal Reserve.

Another national lockdown in Spain, Portugal, or Italy leading to a double-dip recession in the southern peripheral nations will bring the issue of national debt levels to a head. The northern bloc of nations including Germany, the Netherlands, Austria, and others, will be under pressure to face up to the ultimate EU decision. Will Europe go forward with a collective budget, banking, and mutual debt policy, in essence a United States of Europe? Or, will the nations have to fend for themselves and independently manage their own debt levels? For this key reason, we are happy again to remain underweight in Europe.

The issue of national debt is not unique to Europe. A debt surge is happening throughout the world. In June this year, the IMF forecast that average global public debt would hit 103% of GDP in 2021, up from 83% in 2019. For developed countries this percentage rises to 132% of GDP by 2021. Much of this new debt has been generated by quantitative easing programmes. Between the US Federal Reserve, Bank of England, Bank of Japan and the European Central Bank, US$3.8tn in new money has been created.

For the Chinese economy to finish this year in growth is a remarkable achievement.

For the first three months of 2020, China's GDP fell by -6.8% due to their national lockdown and the closure of factories and manufacturing plants. In Q2, the economy had started its recovery and grew by +3.2% year-on-year. China has released data which showed continued economic growth for Q3 which was up +4.9% from one year ago. The IMF is forecasting that China will finish 2020 with GDP growth of around 2% with 8.2% growth in 2021 especially if the coronavirus is contained. China appears to be leading the charge for a global recovery based upon these GDP figures.

China has been forthright in bringing coronavirus infection rates down even though there continues to be outbreaks around the country. Their mass testing system has been very impressive. In October, the city of Qingdao tested its entire population of 9 million people in 5 days. In response to an outbreak in Xinjiang province 4.7 million were mass tested in the city of Kashgar. Back in May, Chinese authorities mass tested the 11 million people of Wuhan City where the Covid-19 virus was first detected.

For a country to successfully control the virus, return to a near normal way of life, and then grow its economy to finish this year ahead of 2019 is a remarkable achievement. One key factor of a centrally controlled economy is that employment and job creation are managed and remain stable allowing consumption to be constant. China's economy also received a boost from this years 'Golden Week', the annual October holiday that saw 637 million trips made by Chinese people that week.

Policy makers in China have been advocating a shift from investment-led growth that has dominated the past 20 years to a model driven by domestic consumption. Despite this, capital investment has helped the economy through this Covid year with infrastructure and commercial property investment leading the way. Now it is time for the consumer to pick up the growth.

China will be facing a demographics challenge similar to Japan's in the decades ahead. China's population is set to peak in 2030 and the number of citizens over the age of 65 is projected to rise by 70% over 15 years to 310 million or 22% of the population.

Interestingly, China's home ownership rates are as high as 90%, far higher than the USA at 70% and the UK at 65.2%. A growth industry in China is property letting and management services. China's largest residential property services management company, Country Garden Services Holdings Co

Ltd., posted revenue of US$1.4bn last year which is three times larger than their 2017 results. This is a lucrative and growing market.

As well as a booming property market, Chinese consumers are trading up across different product categories due to growing middle class wealth and urbanisation. Travel and cars are popular with the Chinese middle classes and there has been a move to support domestic over foreign brands due to improving design and quality. This is a theme we have tapped into with our Chinese holdings.

China has been forthright in bringing coronavirus infection rates down even though there continues to be outbreaks around the country.

Japan is well placed to offer investors both upside growth and dividend delivery.

The new Japanese Prime Minister, Yoshihide Suga, used his first policy speech in Parliament to present plans for Japan to become carbon neutral by 2050.

Mr Suga succeeded Shinzo Abe in becoming Prime Minister after Mr Abe stood down in August due to his ongoing health concerns over ulcerative colitis which he has suffered from since childhood. Mr Suga's government will continue with the Abe administration's economic reforms.

Mr Suga's announcement makes Japan the largest economy to commit to net-zero emissions by 2050 since the UK and the EU made the same commitments in 2019. This announcement follows on from China making a similar pledge but with a deadline of 2060.

Japan has turned away from nuclear power after the 2011 Fukushima disaster and has since relied heavily on imported coal to fire its power stations. Mr Suga stated that Japan would fundamentally shift from coal and encourage new technologies such as large capacity energy storage, carbon recycling and advanced solar batteries. From an investment point of view, the clean energy sector has the opportunity to grow rapidly around the world.

Japan has learned from the limitations of its overly bureaucratic government administration during the Covid crisis. The state was not able to respond swiftly enough so it is moving to digitise its public sector services and adding the capacity for public servants to work remotely.

Over the past 5 years Japanese equities have fared well against other stock markets. The Nikkei 225 is up +20% over the past 60 months compared to the Eurostoxx 50 which is down -13%, the FTSE 100 down -12.2%, the Hang Seng up +6.4% and the S&P 500 up +59%. Despite these figures Japanese equities remain significantly underweighted by investors.

Japan is highly dependent upon international trade and manufacturing. It is Japan's international activity that drives equity market movement so as global growth recovers so should Japan's fortunes. As far as

Japanese listed companies are concerned, they are attractive as they are holding net cash as opposed to net debt positions, so can easily grow and maintain dividends.

As a consequence of former Prime Minister Abe's reforms in Japanese corporate governance, a higher level of corporate reorganisation, merger and acquisition activity has occurred recently. This drive to improve governance is focused on repaying record cash balances out to investors.

Japan's equities remain relatively undervalued despite the recent stock market rebound. As the global economy recovers and trade volumes increase, Japan is well placed to offer investors both upside growth and dividend delivery while avoiding the higher valuations found in the US market. Japan's economy is showing the signs of a bounce back in growth for Q3. Asian economies are leading the way as they moved on from their lockdowns earlier. Global demand in electronics, laptops, computers and screens has grown with more people working from home. This has boosted Japan's electronics sector into a so-called 'Zoom Boom'. The bounce back in growth from -8.2% in Q2 to +5% in Q3 is welcome news to new Prime Minister Suga who had avoided a tough lockdown in Japan relying instead upon Japan's spirit of national responsibility.

The long-term outlook for oil is one of decline.

Despite the fall in demand for oil and the resulting volatility in Brent crude oil prices this year, BP has returned to profit in Q3 having posted a massive US$6.7bn loss in Q2. BP profits in Q3 were US$86m but not surprisingly down from the US$2.2bn in Q3 2019. Crude oil started the year at a price of US$66pb, fell to US$19pb in April, and now trades at US$44pb.

BP Chief Executive, Bernard Looney, said that 'despite the challenging environment, the company was performing while transforming'. He also stated that BP will continue to pay a dividend to shareholders.

In line with the UK, EU, and now Japan, BP is planning sharp cuts in carbon emissions and to become 'net zero' by 2050. It aims to ensure that the greenhouse gas emissions from its global operations, including oil and gas extraction, will not release any additional carbon into the world's atmosphere. BP's target is to halve the amount of carbon it produces by 2050. As part of this strategy, BP sold off its petrochemicals business to INEOS for US$5bn in June this year. There is growing alignment for a climate-led surge in capital expenditure.

The share price of the major oil corporations of the world such as BP, Shell, Chevron, and Total are down between 40% and 60% this year. With dividend yields of 5% or more, these stocks look cheap particularly if the post-Covid price of oil starts moving back to anything like the US$65pb it was at the start of 2020. At that price, oil companies are very profitable.

The long-term outlook for oil is one of decline. BP is forecasting that the demand for oil will peak in 2030 and then fall away rapidly as it is replaced by clean and green energy. With oil production then outstripping demand, it will only be the low-cost producers such as Saudi Arabia that will be able to remain in the market.

Oil corporations have big choices to make. It takes considerable investment to develop new reserves. New oil fields are hard to discover and even more expensive to exploit. If demand is set to shrink, an alternative strategy would be to stop seeking new fields and run down the existing ones in order to gain maximum profit from the current asset bank. The cash flow could be re-invested into clean energy sources such as wind, wave, tidal and solar power giving these oil corporations a life after oil and investors a new reason to invest. Alternatively, they could pay out a very attractive dividend for a decade or more.

Investment Grade bonds have been a credit market attraction.

Government bond yields have fallen to record lows due to heavy QE and increased demand this year for safe haven assets. With global interest rates likely to stay low, yield starved investors will need to look elsewhere for income. There has been a general sell-off in US government bonds now that equities have made a recovery. US treasuries were one of the most sought-after safe havens in the spring when the Covid crisis first hit and we held on to our US Treasuries in case of a second wave sell-off.

Developed markets' corporate bonds have been a credit market attraction over the past six months with investors looking for better yields. Central banks' asset purchasing programmes have included both investment grade as well as high-yielding corporate bonds which has helped prices and spreads.

The additional yields on emerging market debt is becoming attractive to investors. This is helped by low inflation expectations and the fact that emerging market economies have done well post crisis. Emerging markets should benefit from the extraordinary amounts of cash being pumped into the global system by central banks. As bond yields fall in developed markets due to QE programmes, the higher yields of emerging market government bonds and corporate bonds look more interesting.

As inflationary pressure is low, now may be a good time to consider emerging market credit particularly Chinese debt.

Chinese fixed income has a low correlation with other developed credit markets due to low foreign ownership, a buy and hold mentality within China's banking system, and China's independent monetary policy. Interest rates in China are currently 3.85%.

It is not surprising that since the beginning of the year the rate of inflation has fallen, but this has now started to recover in Q3 in the UK, Europe and USA. At the moment, inflation-linked credit is not particularly attractive but if growth is maintained in Q4 and into Q1 and Q2 of 2021, then a pick-up in inflation could be considered.

It is against this background that we make our recommendations.

19th November 2020

PORTFOLIO SELECTIONS

Global stock markets, with the help of some US$6tn of government money and central bank stimulus, have made a remarkable recovery from the lows of March.

Our own portfolios have held up very well against the IA national average benchmarks. Our Edition 33 portfolios, while maintaining a relatively cautious asset allocation, benefited from our overweight positions in US, Asian and Chinese markets to supply good capital returns. On the other side of the allocation, we continued to hold US treasuries and UK gilts in case of a weak recovery and second wave sell-off. While these selections were maintained in order to provide a safety net to our portfolios, they have in hindsight lost money. UK gilts lost -4.94% in the past 6 months while US Treasuries are down -1.29% over the same period. Fortunately, our overweight exposure to US, Asian and Chinese stocks positioned us well for the recovery.

As we look forward, we are confident of an improving economy supported by pent-up demand, unprecedented liquidity, and a break-through in Covid vaccination programmes before Christmas. This more optimistic outlook allows us to maintain our overweight positions in the US, China, Japan, and Asia and underweight positions in the UK and Europe.

We have reduced our holdings in US treasuries and UK gilts by extending our exposure to investment grade corporate bonds and a return to some short-dated global high yield credit. These sectors have performed better over the past eight months as compared to government bonds. We do not feel we need the higher security of government bonds to the same extent as we did in the spring.

As for specialist sectors, we are maintaining our relatively modest holdings in gold funds. With equities making a recovery the price of gold has dipped and so have returns on gold funds. In the past three months, the Blackrock Gold and General Fund has fallen -11.45% but has provided good returns prior to that. Gold is an inflation hedge and safe haven asset and will retain its place for these qualities. We have however changed our fund manager from Blackrock to Ninety-One Global Gold. This switch was based upon performance and volatility. Ninety-One has mining interests in Canada, Australia and Africa.

Our holding in the First Sentier Global Listed Infrastructure Fund was expected to perform well this year on the back of higher government infrastructure spending. Unfortunately, the fund has had something of a disappointing year having lost its fund management rating agency status and delivered some disappointing returns. We have therefore reduced its allocation and moved this to the iShares Global Clean Energy ETF based upon ratings, performance, sector, and costs. We expect the clean energy sector to be very well supported by a shift from central governments and leading companies to a low carbon future. This fund grew by 37.73% over the past three months and 84.35% over the past year to 11th of November.

We have maintained our holding in Polar Capital Technology Fund having returned 27.08% over the past six months to 11th of November. We expect the tech sector to continue to prosper but also some reversal in the strength of momentum in this sector as other sectors recover their past positions due to the availability of a Covid vaccine.

We have again avoided any direct holdings in European equity funds but gain European exposure through global funds and sector specialist funds. European markets have fared better than the FTSE 100 over the past six months but we still have concerns over the ECB's ability to create growth and manage national debt levels. We have slightly reduced our UK holdings for 2021 despite the fact that the UK is likely to enjoy a recovery phase with a Brexit deal and an improving outlook for traditional British sectors such as finance, oil, energy, and pharmaceuticals. The FTSE 100 offers attractive valuations and is capable of a late recovery. Sterling currently stands at US$1.33 and is expected to rise to around US$1.35 once a Brexit deal is secured. This strengthening of sterling may initially hit the exporters in the FTSE 100.

We have maintained our investments in Japan as it is well placed to benefit from the improvement in global trade and the growth in technology. Japanese corporations enjoy relatively attractive values and are rewarding shareholders with growing dividend payments. We have switched our Japanese fund manager from Lindsell Train to JP Morgan based upon performance.

Our US holdings are made up of three attractive funds: Baillie Gifford America, T. Rowe Price US Large Cap Growth Equity and Natixis Loomis Sayles US Equity Leaders. All three have added very attractive returns to the portfolio. The respective returns over the past 6 months have been 50.14%, 19.24% and 26.53% to the 11th of November. With the election of President Biden, Wall St is comfortable with the new administration's spending plans knowing they will be trimmed by a Republican Senate and that taxes on US corporations will not rise significantly. The Federal Reserve has stated that it will keep interest rates low even if inflation hits the 2% target and continue to pump US$120bn of cash into the economy each month through the Fed's quantitative easing bond purchasing programme.

As China is likely to be the only G20 nation to achieve GDP growth this year despite Covid, our direct investment into China equity funds has increased. In addition to the well-established FSSA Greater China Growth Fund we have added Baillie Gifford China. These funds have had growth of 22.4% and 40.93% respectively over the past six months. The emerging markets have benefited from a weaker US$ and low oil prices. As global trade resumes so will the outlook for South East Asia. We sold our holdings in India in Edition 33 and are not returning to India in this edition as China is offering greater attraction.

With interest rates higher abroad than the UK's 0.1%, we have sought a higher exposure to global bonds. Our main overseas fixed interest holdings are the M&G Macro Bond and Vanguard Global Bond Index. Both have suffered some loss of return over the past six months due partly to the improvement in equity and price falls.

As of the 11th of November 2020, the best performing funds held in our portfolios over the past 6 months have been:

JP Morgan Emerging Markets	37.89%
Veritas Asian	37.62%
JP Morgan Asia Growth	30.64%
Baillie Gifford International	28.13%
FSSA Greater China Growth	28.02%
Fidelity Asia Pacific	26.49%
Polar Capital Global Technology	27.08%
Natixis Loomis Sayles US Equity	26.53%

The regions and sectors that rebounded from the Covid crisis were Asian, Chinese and US companies as well as the tech sector.

As of the 11th of November 2020, the poorest performing funds held in our portfolios over the past 6 months have been:

Vanguard Long Dated Gilt Index	-8.58%
Vanguard UK Government Bond Index	-4.94%
Vanguard US Government Bond Index	-1.29%

All the above funds were chosen as safe haven assets in case of a heavy second wave fall off in global equities. Fortunately, this has not proved to be the case, but it could have occurred without a working vaccine and with high infection rates. The negative returns did drag performance but our outperforming stock selections compensated.

As far as the 34rd Edition of our portfolios are concerned, across all six portfolios, eight new funds have entered our selections while four funds have either been dropped or substituted. We have done this for several reasons. These being performance related, cost related, or that a fund has lost an analysis rating. There are also sectors that we no longer wish to invest in.

The funds removed are: -	TER
BlackRock Gold and General	.48%
Lindsell Train Global Equity	0.70%
Lindsell Train Japanese Equity	0.76%
Lion Trust Special Situations	0.92%

The funds added are: -	TER
iShares Global Clean Energy	0.72%
Baillie Gifford UK Equity	0.59%
Baillie Gifford Pacific	1.03%
JP Morgan Japan	1.26%
Merian Corporate Bond	0.87%
Ninety-One Global Gold	1.55%
Schroder Sterling Corporate Bond	0.86%
Baillie Gifford China	0.87%

Collectively our six portfolios outperformed their respective benchmarks on 25 out of 30 occasions. This is our best relative performance against the national averages in 16 years.

We are pleased to report that at the time of writing, our six portfolios have performed very well compared to the relevant national Investment Association (IA) benchmarks. The relative performance is measured over six time periods: -
3 Months, 6 months, 1 year, 3 years and 5 years.

Collectively our portfolios outperformed their respective benchmarks on 25 out of 30 occasions which is an 83% competency.

Our performance is reported on the next page of this Outlook report as well as on our website **www.estatecapital.co.uk**

PORTFOLIO PERFORMANCE

The Estate Capital Investment Portfolios

The global balance of investments across different asset classes is the primary driver of portfolio returns.

The Estate Capital Investment Portfolios now offer six risk related investment strategies designed for medium to long-term investors seeking capital growth and income from a portfolio of leading investment funds. The individual funds that make up our diversified portfolios are selected on the quality of the fund manager and both the quality and consistency of past performance.

There is a wide range of asset classes across global markets available to investors. Our portfolios bring together a diversity of global equities, fixed interest securities, cash deposits, commodities, precious metals, infrastructure and property. The global balance of investments across differing asset classes is the primary driver of portfolio returns.

Our asset allocation is built using a fully modelled asset allocation tool. This system is powered by research from actuaries Willis Towers Watson and investment data from Financial Express.

This modelling system offers us great accuracy to build and test the most efficient blend of assets for our six model portfolios. Each new edition of our portfolios is published on our website with fact sheets, performance figures, risk ratings and range of returns.

We benchmark and publish our portfolio performance against the most relevant national averages and are happy to say that our selections have enjoyed an enviable track record.

Cumulative Portfolio Performance from 10th November 2020.

Below are the past five year's gross investment returns for each of our portfolios from 10th November 2020.

Portfolio	*6 months*	*1 year*	*2 years*	*3 years*	*5 years*
Cautious	6.48%	3.47%	9.94%	11.20%	31.20%
Conservative Alpha	8.89%	5.98%	13.87%	15.83%	40.14%
Balanced Beta	8.97%	2.29%	10.11%	9.33%	38.08%
Balanced Alpha	12.68%	8.55%	16.95%	17.85%	52.30%
Speculative Beta	11.33%	3.25%	12.35%	11.86%	51.37%
Speculative Alpha	15.41%	10.08%	18.99%	20.48%	67.87%

Discrete Portfolio Performance from 10th November 2020.

Below are the gross investment returns for each of our portfolios for each 12-month period over the last five years from 10th November 2020.

Portfolio	*2020*	*2019*	*2018*	*2017*	*2016*
Cautious	1.93%	6.68%	0.92%	7.81%	9.02%
Conservative Alpha	3.74%	7.85%	1.24%	10.96%	9.06%
Balanced Beta	-0.49%	7.07%	-0.49%	10.15%	14.22%
Balanced Alpha	5.57%	8.17%	0.56%	12.10%	14.65%
Speculative Beta	-0.14%	7.88%	-0.22%	10.34%	22.04%
Speculative Alpha	6.28%	8.45%	0.86%	14.11%	21.27%

The value of investments can fall as well as rise. Past performance is not a guide to future performance. Cumulative and discrete performance charts show % growth from 10th November 2020 calculated using bid prices with income reinvested into the fund net of tax.

Asset Allocation January 2021 - Edition 34

Portfolio	*Risk*	*Money Markets*	*Fixed Interest*	*Property*	*UK Equity*	*US Equity*	*Europe Equity*	*Asian Equity*	*Japan Equity*	*Global Equity*	*Other Assets*
Cautious	3	19%	48%	0%	6%	7%	2%	6%	1%	8%	3%
Conservative Alpha	4	16%	40%	0%	7%	11%	3%	9%	2%	8%	4%
Balanced Beta	5	11%	37%	0%	8%	19%	4%	9%	2%	7%	3%
Balanced Alpha	6	7%	32%	0%	7%	17%	4%	13%	2%	10%	8%
Speculative Beta	7	6%	27%	0%	12%	24%	3%	16%	2%	5%	5%
Speculative Alpha	8	6%	16%	0%	9%	22%	3%	20%	2%	6%	16%

Perspective Range of Return & Volatility

Portfolio	*Risk*	*Return*	*High*	*Low*
Cautious	3	2.50%	16.50%	-11.50%
Conservative Alpha	4	3.12%	20.78%	-14.55%
Balanced Beta	5	3.69%	25.01%	-17.64%
Balanced Alpha	6	4.36%	29.35%	-20.63%
Speculative Beta	7	4.88%	33.52%	-23.77%
Speculative Alpha	8	5.51%	37.82%	-26.80%

Investment Ratios

Portfolio	*Risk*	*Beta*	*Alpha*	*Sharpe Ratio*	*Info Ratio*
Cautious	3	0.91	6.33	0.74	2.23
Conservative Alpha	4	0.81	9.51	0.88	2.21
Balanced Beta	5	1.01	7.05	0.49	2.26
Balanced Alpha	6	0.87	11.44	0.93	2.37
Speculative Beta	7	0.99	6.86	0.47	2.43
Speculative Alpha	8	1.03	12.83	0.92	2.53

Maximise your returns with a level of risk you're entirely comfortable with.

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