
Kamco Invest hosts webinar discussing the market outlook for 2021 and investors' sentiments

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Kamco Invest hosted a webinar discussing the market outlook for the year 2021 and the impact of the new White House administration with senior representatives from Amundi, one of the top ten global asset managers, and Kamco Invest.

Faisal AlOthman, Director of Third-Party Solutions at Kamco Invest, moderated the discussion with Kenneth Taubes, Chief Investment Officer of Amundi – US, Lotfi Ben Lazrak, Director of Institutional Clients at Amundi - Middle East, Conor McCarrick, Senior Credit Analyst & Strategist EM Fixed Income at Amundi - Dublin, and Ljubomir Krispinovic - Vice President, Equity & Fixed Income at Kamco Invest.

AlOthman commenced by highlighting the value of views from industry experts considering the impact of the political, economic and health events on capital markets. As specialists in offering a broad spectrum of innovative portfolio construction and management services to high net worth and institutional clients, we believe such events provide insight on asset classes across various industries, both regionally and internationally, to make well-informed investment decisions.

AlOthman discussed several key topics with panelists including outlook for 2021, changes expected in US policies, short and long-term impact on US fixed income and equity markets, views on oil from

a global and GCC perspective, and where regional institutions have been deploying, amongst others.

Taubes believes that promising vaccine announcements represent a potential watershed event for the US economy; not only should it have a positive impact on near-term sentiment, but it could propel a return to a more normal economy in 2021. The positive momentum within the economy may propel fourth quarter GDP growth higher than consensus, potentially diminished by record COVID-19 infections and the low probability of the quick passage of additional fiscal stimulus.

In the US, GDP should further benefit from passage of additional fiscal stimulus of approximately USD1 trillion early into the Biden administration, pending the outcome of the Georgia Senate race. While significantly lower than what was contemplated under a “Blue Wave”, this package would combine COVID-related stimulus with some elements of Biden’s platform, including infrastructure spending. Taubes noted that it is unlikely Biden will be able to enact most of his proposed tax increases, and their absence will further bolster corporate earnings and by extension, increase employment.

Taubes mentioned that the US investment grade and high yield markets are modestly attractive, while emerging market sovereign debt and currencies offer more attractive relative value. Within emerging markets, Asian securities and currencies may outperform, as China leads the world out of recession.

Equities continue to be more attractive than fixed income because earnings yields through October exceeded investment grade corporate yields, and the gap between dividend yields and the 10-year Treasury yield was the largest since the 1950s. The 2021 economic recovery should drive a rotation from the mega-cap growth stocks towards more cyclical growth and cyclical value stocks. Taubes added, “Over the long term, we believe US equities could potentially outperform non-US developed markets given greater profitability. In the near term, however, non-US stocks may benefit from the tailwinds of improving growth, led by China and the US, the diminishing intensity of the pandemic, and a rotation from growth to cyclical stocks”.

With “Climate Change” being one of the top four priorities for Biden, this may extend into the investment arena with a greater focus on ESG (Environment, Social, Governance) mandates and company ESG profiles. While a divided government will limit the most aggressive policies of Democrats, including the Green New Deal, the power of the executive branch to increase regulation should bring meaningful pressure on companies to improve their ESG profiles. Taubes expects that the divided government, with its more moderated response to environmental policy, may make the most economic sense for US long-term revenue growth, operating margins, and capital efficiency. This outcome may help explain the current increasing momentum for US ESG.

Krispinovic noted that the lack of support for US shale producers will put positive pressure prices by curbing supply, which in turn will be positive for the GCC region. Over the last decade, the weight of the energy sector in equity indices has fallen significantly from approximately 20% of the index. Now it only represents a low single digit's weight in the S&P 500 index. This could quite possibly change in the wake of an increase in oil prices at some point in the future once the supply/demand imbalance passes through.

McCarrick expects a USD50/bbl average Brent price over 2021, increasing from below USD50/bbl during the first six months due to the ongoing weak demand to above USD50/bbl in the second half of the year impacted by the improved demand following the vaccine rollout. The focus of Biden's administration on environmental objectives should be supportive of OPEC objectives by slowing US hydrocarbon production growth at the margin. An ongoing strong relationship between the US & Saudi is expected to support the continuation of OPEC's role as swing producer.

Krispinovic and McCarrick agree that relative oil market equilibrium will be maintained over 2021 as OPEC continues to act as a swing producer. Production surprises to the upside from oil producing countries such as Iran and Libya or the downside will be met with further production restraint from OPEC.

Ben Lazrak sees investors worried and confused about the impact of Covid-19 on financial markets. As investors try to get used to a new normal as ESG criteria is expected to play an even more important role. In a way, the pandemic has opened eyes to things that really matter and mainly people and the planet. Governments, institutions, and the younger generation are now more concerned about environmental issues such as climate change.

The pandemic has accelerated the trend toward investments that take climate, society, and company structures into account. Companies integrating an ESG approach recognized by investors and ESG funds have been more resilient in the recent crisis period. "We believe that the recent trends we have observed on ESG assets will continue and amplify in the months to come".

Ben Lazrak added, "In regard to traditional assets, we have seen this year significant inflows into global equities and high yield bond strategies. Biden's victory removes some overhang on Emerging Markets. While we stay positive on Asian equities, we now believe the Covid-19 situation in South America is improving amid a possibility for laggards to catch-up. We are also positive on Emerging debt, particularly high yield as it should do well considering Biden's victory and vaccine availability".

AlOthman concluded the session by emphasizing the importance of contemplating the future to take necessary actions with regards to protecting or enhancing one's portfolio. For every challenge lies an

opportunity and Kamco Invest positions itself to guide its clients through the multitude of challenges ahead.

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