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2021 INVESTMENT OUTLOOK

A BRIEF OVERVIEW

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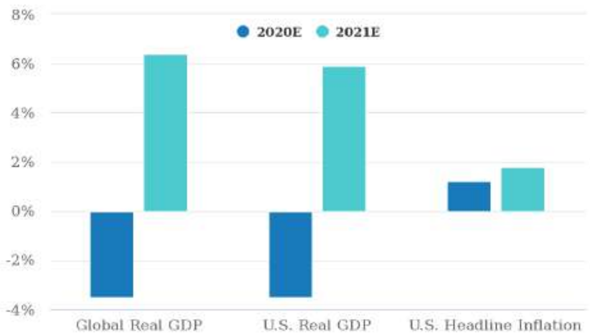
After a year of social and economic disruption arising from Covid-19 pandemic, we think 2021 investment outlook will be denoted by recovery and return to normality. Though 2020 risks are still threatening investors'confidence, the major asset classes will benefit from the rebound in economic growth and global trade.

GLOBAL ECONOMY

The outbreak of Covid-19 characterized 2020, a year which marked historical records in terms of economic contraction and unemployment. The global lockdowns have definitely altered the economy as well as our social and working life. However, the recession and the subsequent bear market were different to prior economic downturns. Many economies, supported by unprecedented policy tools, recovered sharply and, on the wave of the US elections outcome and vaccine optimism, equity indexes hit all times highs.

Yet, the possibility of a third wave of Covid-19 and new mutations of the virus generates uncertainties about a durable and comprehensive economic reopening.



Source: Morgan Stanley Research Forecast

A concrete response to the pandemic along with the continued policy support will set the foundation for economic expansion and earnings growth, without triggering much rise in inflation.

EQUITIES

Moving into 2021, the greatest concern is about the sustainability of the equity markets' rally.

Traditional valuation metrics, such as price-to-earnings ratio, appear upward biased due to the ultralow yield environment and policy makers' interventions, which helped reducing risk aversion of investors. Additional fiscal stimulus and business reopening are expected to result in earnings per share growth, leading to stabilization of multiples across long-term historical averages.

With the economy as well as earnings recovering, firms' cumulative cash balances are reaching a peak, which will allow companies to resume buyback programs to further support the market growth.

Small-cap stocks, which dropped further than large-cap amid the spread of Covid-19, will be the ones which will benefit the most from the monetary and fiscal support and will provide better returns over the long term.

As regarding geographical considerations, the Eurozone could outperform the US over the course of 2021, thanks to its higher cyclical sensitivity. In particular, on the back of an already discounted uncertainty and a favorable Brexit deal, UK could represent an appealing buy opportunity. EM equities will be dominated by Asia, which is expected to deliver attractive returns given the current containment of Covid-19 cases and the robust economic recovery of China.

FIXED INCOME

With developed market central banks keeping rate at the lower bound and trying to increase inflation expectations above target, the ultralow yields trend is very likely to persist also in 2021, at least in real terms.

Yields remain attractive in Asia, where governments are more reluctant to cut rates and spreads have kept being consistent, partly due to the declining underlying US government bond yield.

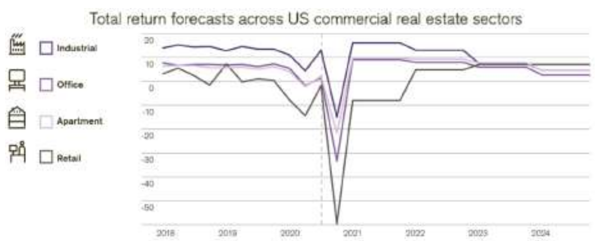
Source: ICE BofA Asian Dollar HY Corporate Index

During 2020, companies tapped the bond market at an unprecedented pace, mainly to pursue a defensive strategy of having a liquidity cushion in case things got worse. In 2021 many issuers could use this cash to repay debt and enhance credit ratings. Moreover, on the back of the gradual global recovery and very supportive monetary and fiscal policies, further spread tightening will take pace.

For these reasons, the high-yield compart should provide better investment opportunities compared to investment-grade corporates across all regions.

ALTERNATIVES

In 2021, real estate will surely benefit from the expected economic recovery and low interest rates. However, a sectorial view must be applied. In fact, potential lockdowns and the subsequent trend of working from home will affect negatively demand for retail and office space, while industrial, logistic, data centers and communications tower will be the major beneficiaries.



Source: Datastream, NCREIF, PMA, Credit Suisse

Market volatility is expected to persist in 2021 with increased trading range, which should help multi-strategy hedge funds to enhance their returns, therefore offering a viable option to diversify and enhance portfolios' risk-return profile.

Disruption caused by Covid-19 shock incentivized innovation in many traditional sectors, creating potential for venture and growth investment. Moreover, many distressed PE vehicle arose across the most damaged industries. Bearing in mind the trade-off in liquidity due to the typically long term commitment, private equity could represent an interesting structural investment opportunity, as well as private credit and NPLs, which are expected to deliver significant yield.

COMMODITIES

The year 2020 was very messy and volatile for commodities. Gold reached a new all times high while oil prices turned negative for the first time. On the back of this context, the 2021 outlook for commodities is rather nuanced. In fact, while commodity prices tend to rise in the early stage of recovery, this trend will probably be accompanied by high dispersion.

If progressive economic rebound along with inflation expectations are broadly supportive for commodities, on the other hand, negative development of Covid-19 pandemic and potential trade disputes and tariffs can affect negatively activity and commodity demand.

A supportive factor could be the USD weakening trend, which should provide a helping hand to the commodity segment.