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Strategic Asset Allocation **2021**

Index

A letter to our investors

by Richard Flax
Chief Investment Officer at Moneyfarm

Dear investor,

After the volatility of 2020, it was something of a relief to turn our attention to our annual Strategic Asset Allocation process. It was a small promise that "this too shall pass" and an important reminder to stay focused on the long term - in our case the outlook for financial markets over the next decade.

2020 looks set to loom large over the next ten years. In the short-term, there's the hope of an economic recovery - driven ultimately by the successful global distribution of a vaccine. Then there is a broad range of longer-term questions - all focused ultimately on sustainability. Will the recovery last? Will governments continue to provide support, and who will pay? How will societies change? And what, parochially, does all that mean for asset prices?

Our Strategic Asset Allocation Process aims to provide a framework for answering some of these questions. And, in some ways, it has a familiar ring to it, despite all the upheaval. Return expectations remain fairly muted, but equities continue to represent the best long-term solution, even in an environment of higher market volatility. The very low starting yield of government bonds suggests that returns in fixed income will be limited, although bonds continue to play an important role in managing portfolio risk.

As a team, we continue to believe that a balanced investment approach is the best way to protect and grow capital for the future. It's a future that remains highly uncertain and we will remain vigilant as we aim to protect our clients' money and take advantage of the opportunities that financial markets will provide.

Yours faithfully,

Richard Flax
Chief Investment Officer at Moneyfarm

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Where are we now?

Five considerations for the future

Five considerations for the future

As a wealth manager, the last year has been complex to say the least. From a financial perspective, it was a year defined by high volatility, plenty of uncertainty and some clear disparities in the performance of different sectors.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Global Aggregate	6%	6%	0%	8%	1%	4%	2%	0%	6%	5%
MSCI ACWI Index	-6%	12%	21%	11%	4%	30%	14%	-3%	22%	14%
MSCI USA Price Return USD Index	3%	11%	30%	21%	7%	33%	11%	1%	27%	18%
EURO STOXX Index	-17%	17%	28%	-2%	6%	22%	18%	-11%	20%	7%
FTSE 100 Index	-2%	10%	19%	1%	-1%	19%	12%	-9%	17%	-11%
MSCI EM Asia Index	-17%	16%	0%	12%	-4%	27%	31%	-10%	15%	25%
MSCI Emerging Markets Latin America Index	-19%	4%	-15%	-7%	-27%	57%	13%	0%	13%	-16%
MSCI World Value Index	-4%	11%	25%	11%	1%	35%	8%	-5%	18%	-3%
MSCI World Growth Index	-5%	11%	25%	13%	9%	23%	17%	-1%	29%	30%
MSCI World Bank Index	-17%	23%	23%	7%	0%	35%	13%	-15%	20%	-14%
MSCI World Information Technology Index	-2%	9%	27%	24%	11%	34%	27%	4%	42%	40%
MSCI World Energy Sector Index	1%	-2%	17%	-5%	-18%	52%	-3%	-10%	8%	-32%

Covid-19 was the obvious antagonist of the year. With deep implications for everything from financial markets to healthcare, the impact of the pandemic has been felt by everyone both inside the financial industry and out.

If you were to take a step back and look at the figures from the year in isolation, though, you wouldn't see too much difference from the years that came before it. MSCI World finished up 5% and global government bonds grew 1% - you wouldn't guess that a global pandemic had brought the world to a standstill. The implications are subtle and require a deeper analysis of a wider set of indicators to build a clear picture.

Our five key considerations for the medium term are as follows:

Market valuations are high across the risk spectrum

While Covid-19 was busy devastating economies globally, some decisive policy intervention allowed for a swift recovery in sentiment on financial markets. Both fiscal and monetary authorities acted promptly to cushion the economic impact of lockdowns and social distancing measures as much as possible. So, while the impact on GDP and other economic measures has been severe, if you take the financial year as a whole you could be forgiven for seeing nothing particularly out of the ordinary.

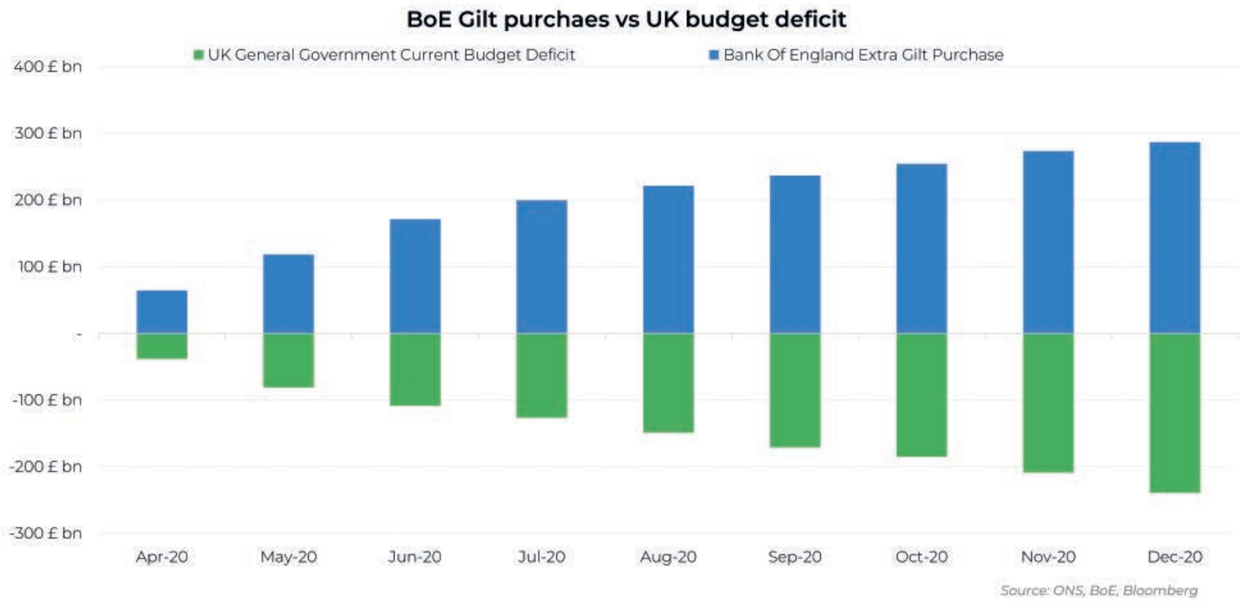
There is the lingering question of whether or not markets have been right to predict an efficient and effective vaccine response, as well as unprecedented monetary and fiscal support. Is it possible that they are simply gambling on low interest rates staying put? These are just two of the many questions we are attempting to answer both in this document and in our daily work.

Enormous policy intervention not only drove nominal and real interest rates to their lowest level in decades but is also anchoring expectations at subdued levels. This has had an impact on the risk-reward appeal of certain asset classes and raised important questions about their role in a balanced portfolio.

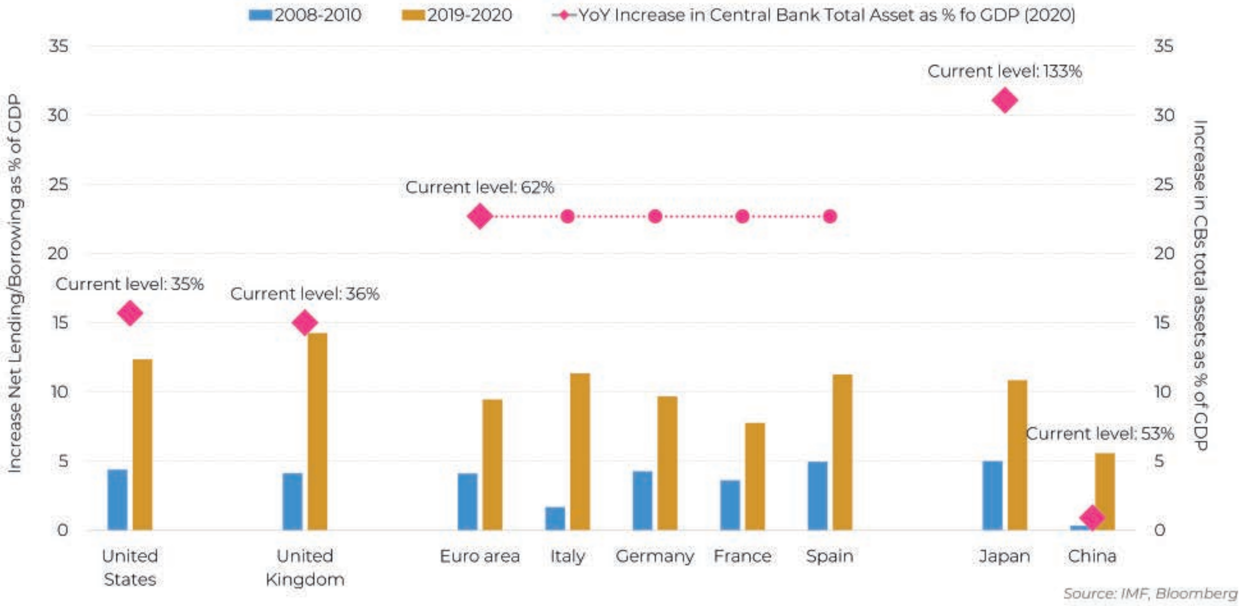
Policy imbalances

This next point is also relevant to the discussion around Covid-19 - that we begin this year with a public sector that's in a markedly different shape than it had been previously. The level of public intervention in Western countries has been unprecedented in both its size and its timing.

While, for the moment, this fiscal easing has relaxed the link between income and economic growth, there are question marks over how long this can be sustained. How and when will governments feel the need to act? We would guess 'later rather than sooner', but the time frame and the policy decisions will be a consideration for asset prices. Going forward, this is another fundamental question that we, as wealth managers, need to address.

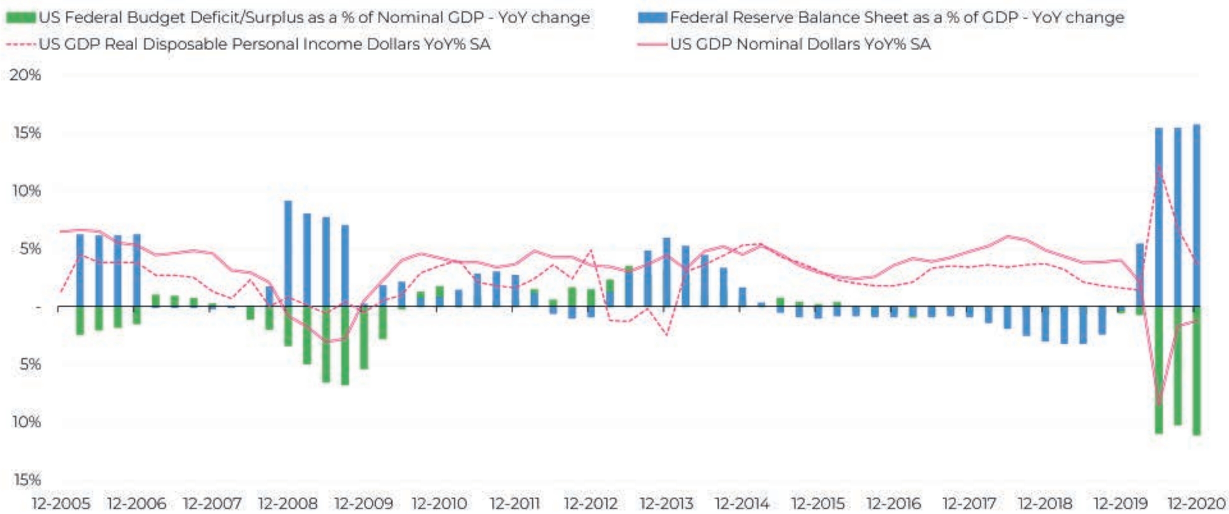


Fiscal policy flexed its muscles aided by central banks



Source: IMF, Bloomberg

US transfer of resources during COVID

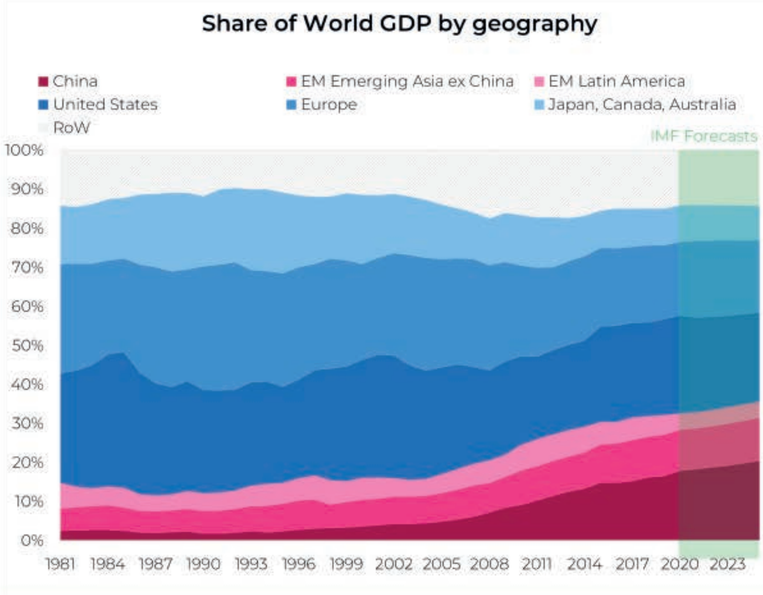


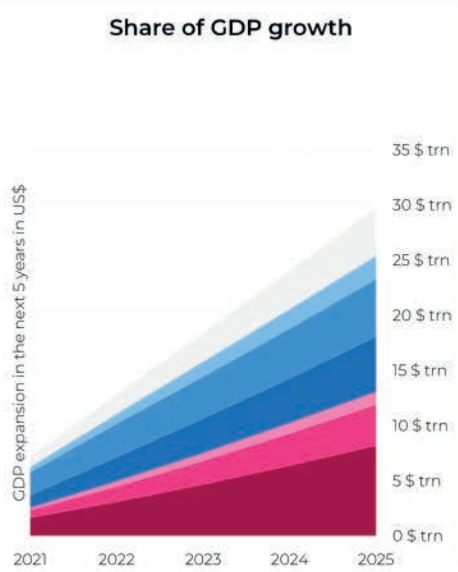
Source: Bureau of Economic Analysis, US Treasury, Bloomberg

Economic growth distribution

One of the key trends of 2020 was that some countries and regions fared better than others in dealing with the pandemic. The 'winner' of this particular geopolitical competition has clearly been Asia, where more amenable healthcare conditions helped to mitigate the impact of the crisis.

Many countries labelled as emerging definitively outpaced more developed areas on a number of different fronts last year. Covid-19 death and infection rates, GDP and market performance were among the clearest indicators of effective handling of the virus. Whether this is the beginning of a broader trend is the third important question we need to consider.





Source: IMF

Deep differences across sectors

The discussion around disparities also applies to sectors. Some parts of the economy have fared better than others throughout the pandemic and some areas of financial markets have performed better than others.

Covid-19 has had profound implications for our working and living habits, with the steer towards remote working just one of the already-established trends that have accelerated over the last year. Changes that you might have expected to take place over the course of years have unfolded in just a few months, something capital markets have reflected.

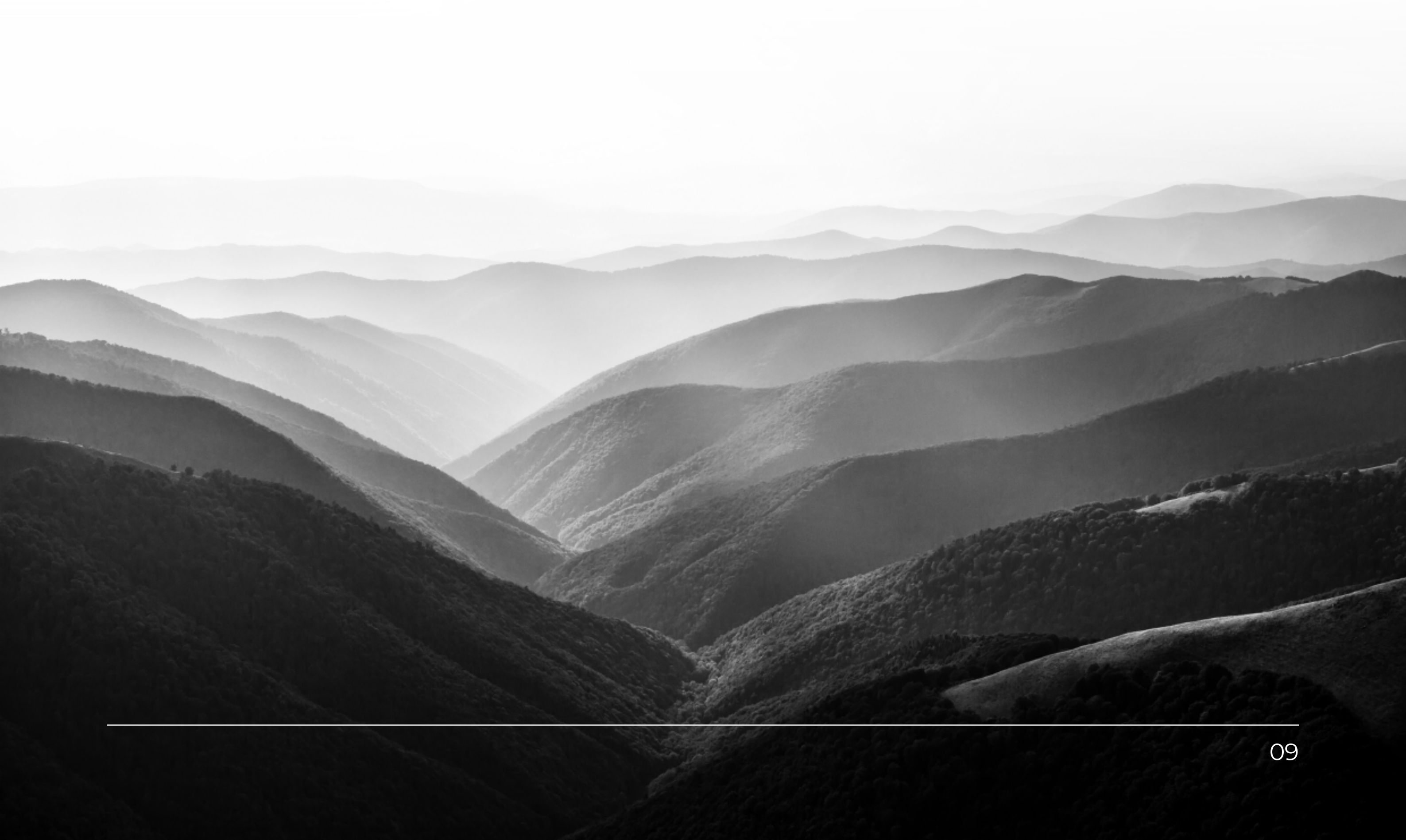
The question here is whether expectations for some parts of the market have become inflated - an important analysis to perform. This is linked to the reasoning around valuations and is something we will be delving deeper into both in this document and in our work.

Inflation remains key

The extent that ample policy support underpins financial valuations depends, at least in part, on inflation remaining well-behaved. With unemployment still high, it is reasonable to think that wage pressures won't be a relevant consideration for a while.

However, certain supply shocks - rising commodity prices and increasing freight rates, etc - could play an important role. Rising inflation could force Central Banks into making a decision - do they accept higher inflation as a price of recovery or bring forward expectations for when monetary policy could begin to normalise?

These are, maybe more so than ever, policy-driven markets. Central bank support, unprecedented government schemes like furlough, potential new regulation in areas like tech and an increased focus on sustainability are all areas that will have a significant impact going forward. These could all drive or disappoint financial markets in 2021 and beyond.



The lasting legacy of 2020

These considerations have changed the way we look at the future - which, by definition, has an impact on our strategic process. The strategic asset allocation (SAA) process is an important opportunity for our Asset Allocation team and our Investment Committee to consider all the relevant information and review the outlook for the medium to long term.

The economic and financial dynamics of 2020 have left a clear mark on the SAA process. It's clear that any long term consequences will be difficult to assess and we do not, unfortunately, have a crystal ball. However, while we run the numbers, we acknowledge that there are a few notable ways in which Covid-19 and its consequences have impacted our SAA process:

Firstly, as we've said and seen before, **many valuation metrics are approaching or exceeding historic levels.** Most loyal readers will be accustomed to this situation, but this year it has taken on an even more complex meaning. **Price ratios for equity, interest rates for fixed income and credit spreads for corporate bonds** have already reabsorbed the economic damage caused by the pandemic.

Many equity indexes are back to or above where they were in January 2020, despite a significantly weakened picture in overall fundamentals. Some sectors saw skyrocketing performances despite only mildly improved fundamentals. **This has an obvious impact on valuations -** which have little room to expand further, leading investors to rely far more on the prospect of earnings growth and dividends.

Fixed income looks even more difficult. Rates across the developed worlds left very little space for future capital gains and yield harvesting. The situation in the sovereign space is tricky, with policy intervention keeping real rates low and inflation expectations now looking very muted.

Also, risk for many asset classes has been revised higher. This takes into account not only the financial crisis of 2008 and 2009 but also the roller coaster swings of February and March 2020. Later in this document, we will explore the consequences for both the volatility assumptions and the asset allocation suggested by the optimisation algorithm.

On a more positive note, it seems that when compared to previous years, we can take into account a strong positive economic cyclicality for the short term in our assumptions. Even if they prove to be disappointing, we can expect 2021 and 2022 to be better than 2020, particularly for some geographies. Needless to say, the traditional environment looks challenging. Now as never before, though, traditional global indexes are hiding a strong dispersion across different geographies/sectors/factors - continuation of this could, however, sustain long term returns.

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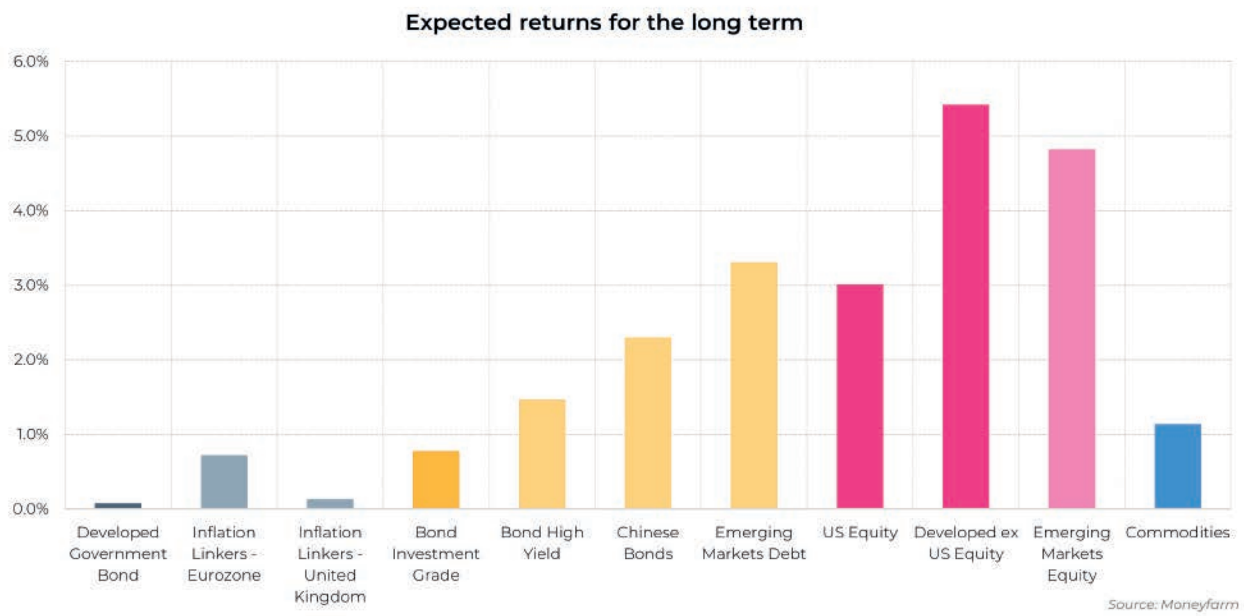
Expected returns 2021-2031

Expected returns by asset class

Expected returns by asset class

The SAA process is a largely mechanical one, based on macro-economic variables and starting valuations. The process is, in part, about minimising any natural behavioural biases or short-term thinking. We apply it across broad regions and asset classes, rather than drilling down into specific sectors and sub-sectors. The construction of the strategic portfolios is based on the projected returns for each asset class and the estimate of expected volatility.

In this next section, we will go into the details of the valuations of the main asset classes that make up the expected returns. The first thing to say is that anyone who read last year's document will know that expected returns for 2020 were not very promising even before Covid-19. U-turns on monetary policy across 2019 and a strong performance in the markets that year had left us with historically high valuations and low interest rates at the start of 2020. These are, let's not forget, the core long-term drivers of any multi-asset portfolio's performance.

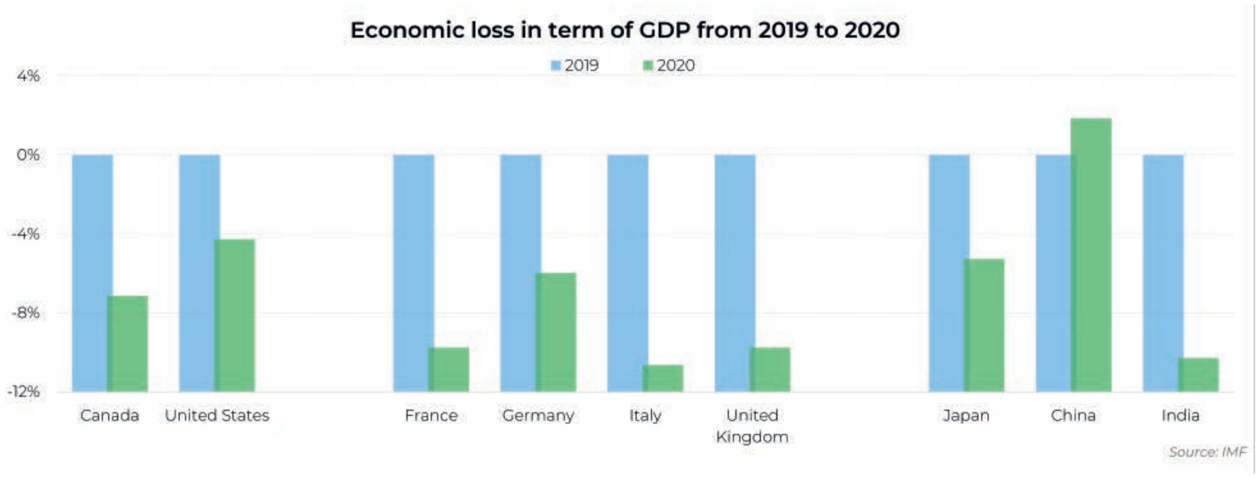


It is hardly surprising that the expected return for some asset classes dropped lower when compared to the previous year. Long-term -10 year - expected returns are fairly similar to those from a year ago, even if it means a greater allocation of risky bonds.

Long-term macroeconomic environment

Compared with the start of 2020, it's difficult to imagine us being in a more different environment. All the talk then was about the end of the cycle, the longest bull market in history and the longest recovery since World War II - albeit far from the most 'productive'.

That cycle came to a screeching halt as Covid-19 took hold. The economic impact has been significant and, while markets have largely left the pandemic behind, huge swathes of global economies have plenty of ground still to make up.



GDP and CPI expectations

This 'room for improvement' gives us some degree of confidence when we predict that 2021 is going to be a year of accelerating economic growth. We'll go into this in more detail when we look at 2021 specifically later in this document.

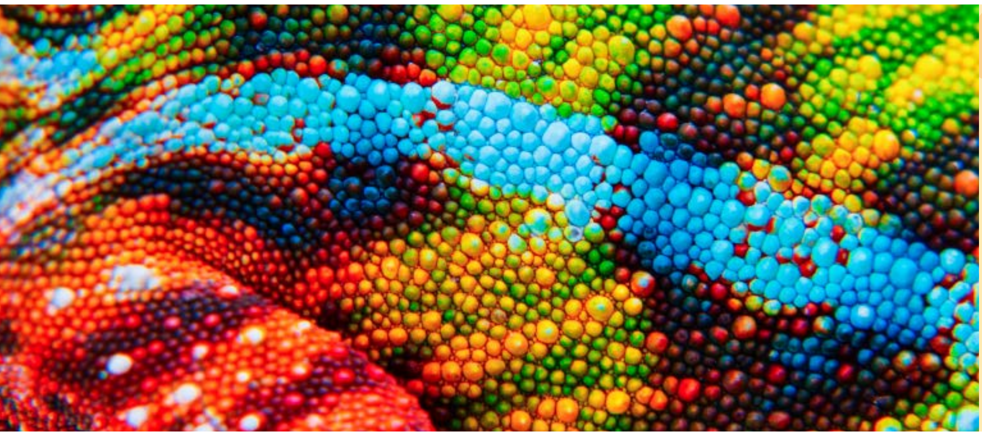
For inflation, the story is pretty much the same. Last year, we demonstrated to our customers how inflation is largely procyclical, meaning it moves in line with the wider economy. In 2020, as GDP across the world shrunk, so did inflation. This year, inflation is likely to pick up somewhat - indeed, inflation expectations have risen since March. In the longer term, growth is expected to normalise back to pre-Covid-19 levels, with emerging markets still leading the charge.

Fixed income

As for fixed income, a below-zero starting yield on a bond can only mean one thing: do not expect much out of it. Just as we said last year, when the starting yield is low, investors are more at risk of seeing capital losses as rates increase.

Monetary policy is anchoring expectations and we expect interest rates to stay low until the end of 2022. The recent move to a symmetrical inflation target gives us some peace of mind in that, in the case of inflation rising above its target, the FED will not rush to hike interest rates.

Across the long term, we expect broad normalisation in line with inflation and economic growth. We do expect this normalisation to be capped by central banks' bond-buying programs and policies, to help governments contain the cost of borrowing. We don't think overall sovereign nominal yields will go above 2%. So, developed market bonds are not an attractive risk-return proposition, per se. Even so, as we saw last year, with inflation behaving cyclically, it's likely that equity and bonds will remain decorrelated, making bonds an important pillar of portfolio construction.



> Across the long term, we expect broad normalisation in line with inflation and economic growth.

Inflation-linked bonds

Inflation-linked bonds are bonds issued by governments of economically developed countries, with their yield tied to a price index. Inflation itself has been the sleeping giant of the past decade for most Developed countries - this has allowed central banks to stimulate economic growth without worrying too much about inflation getting out of control.

There are two key parameters for evaluating an inflation-linked bond. From the point of view of relative return, you consider the efficacy of these inflation-linked securities against that of corresponding, non-indexed alternatives. From the point of view of risk management, it's necessary to consider the ability of these assets to offer protection from sudden price increases. Giving up some of the return for greater protection is, in many instances, justifiable.

How appealing these bonds are can be estimated using the so-called break-even rate, i.e. the level of inflation which makes the nominal bond yields equal to the real ones. If the inflation achieved is higher than the break-even level, the yield of the index bond will be higher than that of the respective nominal bond. In 2020, the impact of the pandemic on growth and inflation have led to the underperformance of 'linkers' against nominal. As the situation normalises and inflation expectations rise, we expect 'linkers' to overperform.

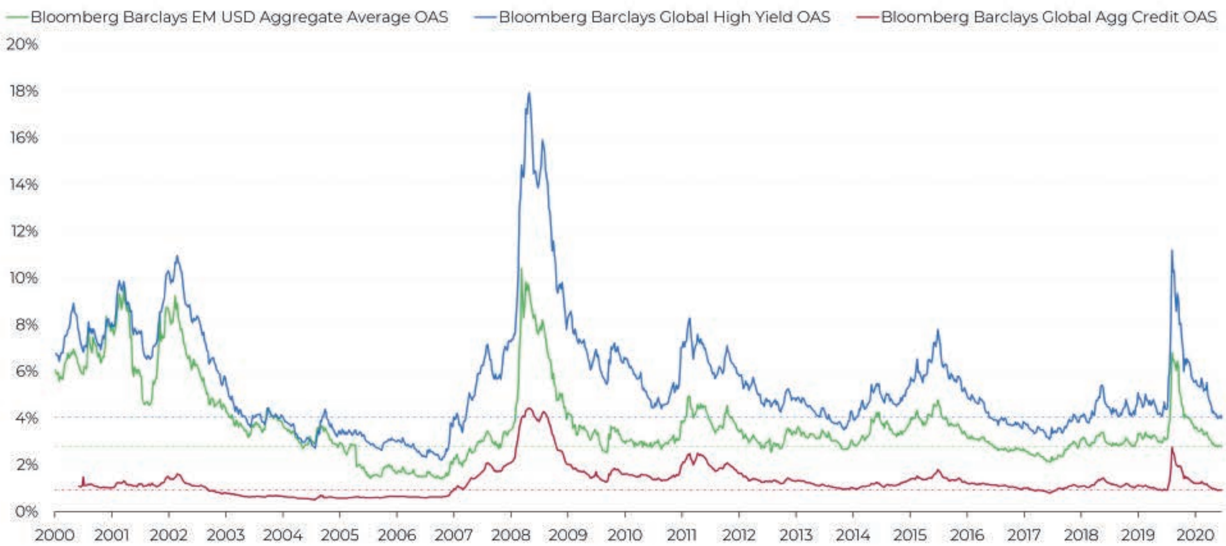
Credit

As sovereign yields go down, so do yields to maturity on risky bonds. On a positive note, though, while price ratios and yield on sovereign bonds are at historic extremes, corporate spreads are sitting at levels consistent with historical averages - though, it must be said, they are far from 'cheap'.

Corporate bonds and emerging market debt offer higher coupon rates than government bonds in developed countries. This is due to the additional risks they carry - the possibility, for example, that one of the companies we lend money to will fail and not pay back its debts. The 'spread' is the additional premium investors need from issuers to ensure a return for these additional risks.

For emerging markets bonds, our universe mainly revolves around the sovereign space. Specifically, we hold bonds issued in US dollars, so the risk profile of this instrument is more reflective of global sentiment than emerging market dynamics. Emerging bonds in local currency are probably the assets changing the most due to the inclusion of Chinese bonds, something we are taking a deeper look at this year.

Corporate spreads of the most relevant indexes in credit



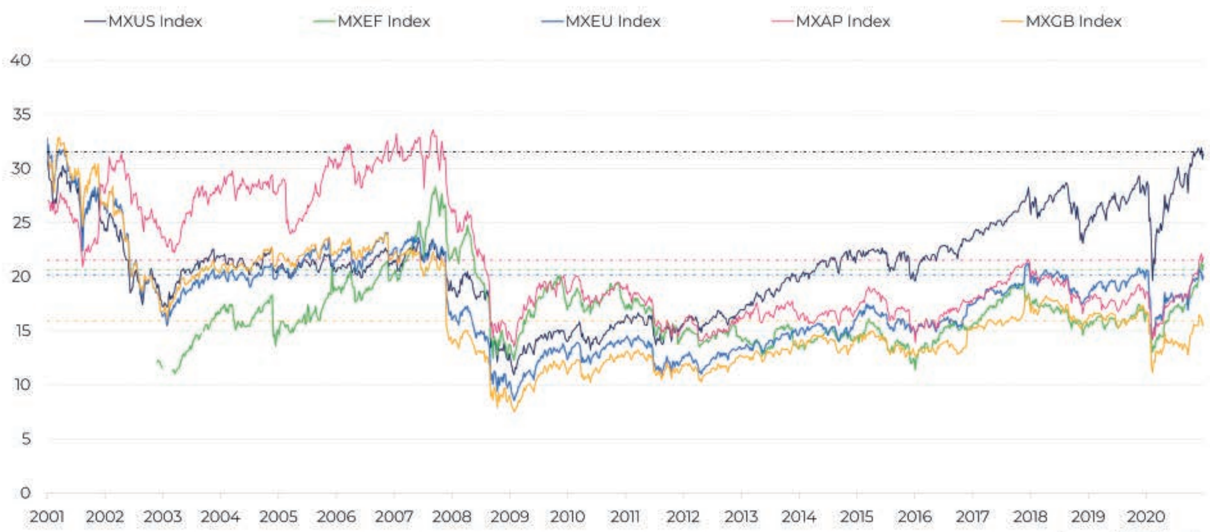
Source: Bloomberg

Equity

As we've explained in previous sections, various dynamics have forced equity valuations higher. The relationship between the cost of securities and the economic activity that underlies them is skewed, lowering the long-term expected return.

In our SAA process, the expected return for equity is driven by three key elements: dividend yield, earnings growth and starting valuation. While the latter isn't looking too positive, dividend yield and earnings growth are cause for optimism. The economic rebound in 2021 is likely to have a positive impact on earnings, lifting expectations for the year.

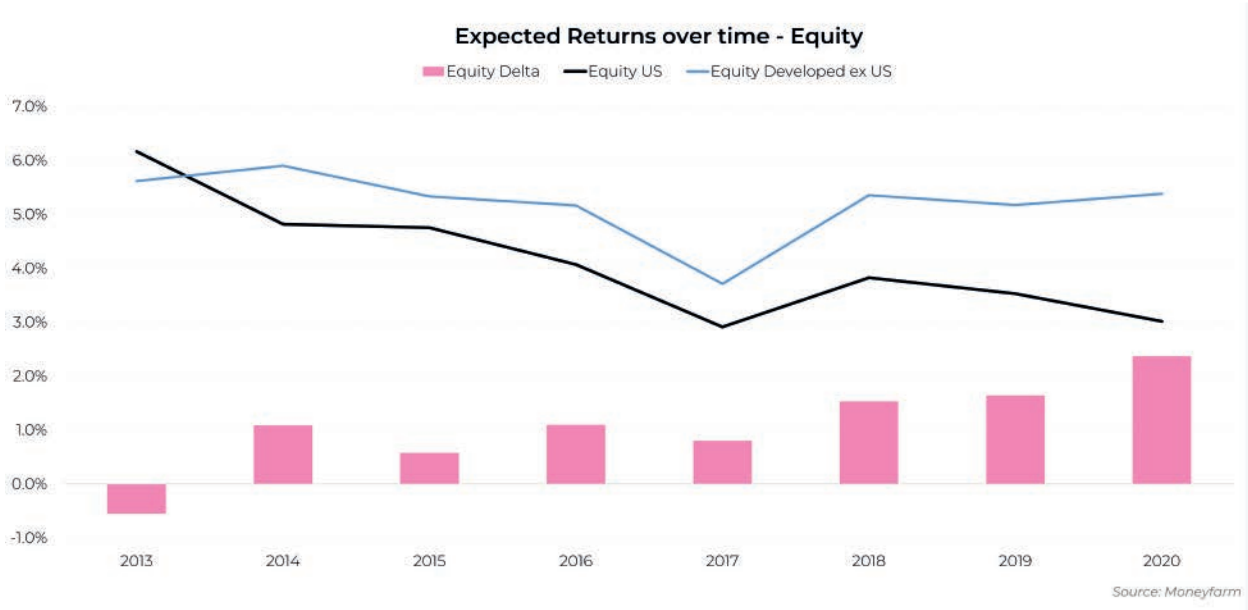
Long Term Price/Earnings for main equity indexes



Source: MSCI, Bloomberg

Generally, corporate and market indicators are pointing to positive expected returns for 2021, particularly for developed countries (excluding the US). These markets, then, offer an attractive risk premium for investors looking to protect their portfolios from inflation in the long term. The final thing to note is that, while not cheap, emerging markets will benefit from the positive economic momentum we expect in 2021.

> Various dynamics have forced equity valuations higher.


Expected Returns over time - Equity
Equity Delta
Equity US
Equity Developed ex US
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
2013
2014
2015
2016
2017
2018
2019
2020
Source: Moneyfarm

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Broadening our horizons

Can emerging markets lift expectations?

Broadening our horizons

Last year, the expected return presented by our traditional asset mix was lower than the year before, particularly in fixed income. There are few nuggets of value to be found in financial markets at present, with valuations high across the risk spectrum. So, we decided to explore changing our asset mix to factor in some recent trends changing the behaviour of certain asset classes, challenging our traditional modelling.

There are two trends that we wanted to explore in our strategic process this year, which we think are relevant for our portfolio management process:

- The divergence of both past performance and future expectations for different geographies and sectors. We've already addressed this in the equity section.

- The importance of China to the global economy and, more importantly, to financial assets.

Can emerging markets lift expectations?

Up until recently, we have looked at emerging markets (EM) as a peripheral part of the investment landscape. This was justified by the overall 'market portfolio', intended as a proxy for global capital markets allocations.

Global listed equities, however, are estimated to be valued at some $60 trillion. £8 Trillion of these are now classified as listed on emerging markets. Global bonds, too, are estimated to represent some $67 trillion. From this, you can estimate $8 trillion or $9 trillion in tradable emerging market debt - the majority of which has come from the opening of the massive Chinese bond market to foreign investors.

If you look at data from the Bank of International Settlements you see that, of the ~$25 trillion in outstanding emerging market bond debt (including non tradable debts), ~$15 trillion is in China. As we've seen before, the majority of this is in local currency and is held domestically. However, with China allowing for foreign investors to hold Yuan-denominated bonds, the landscape for emerging market debt is changing radically.

Chinese bonds - particularly government bonds and policy bank bonds, will merit particular consideration because of their continued addition to the bond benchmarks, including EM benchmarks in 2020. This is likely to result in substantial investor focus and a subsequent increase in flows. Chinese bonds offer both yield and diversification benefits. Chinese bond yields tend to fall between the lower yields of developed markets and the higher yields common in emerging markets, and returns on Chinese bonds have historically displayed relatively low correlation to those in developed markets.

Let's consider the fact that, in just one year, Yuan-denominated bonds became the third-largest allocation in the global benchmark index for fixed income - the Bloomberg Barclays Global Aggregate Index. Local currency bonds will take up a larger portion of the EM debt available to investors, as China opens the debt market to international investors. Given the low expected return in developed countries sovereign bonds, it is unsurprising that investors are looking at the 3% offered by Chinese bonds with some interest. Historically, volatility has been low and decorrelated with other financial asset classes.

There are clear reasons to be cautious about this investment - tight capital controls, a financial environment heavily linked with politics, liquidity and the lack of a fully-developed financial infrastructure to support bond dealing, to name just a few. Even so, it's an asset class that will gather more and more attention, and the added focus on it in our investment process is reflective of this.

For equity, an increase in the weight of Chinese assets is less compelling. Chinese equity markets are essentially split in two: mainland shares and off-shore listed equity. The latter is already a big part of emerging equity indexes, while onshore stocks are being slowly integrated into international benchmarks. Still, we don't see a meaningful different correlation with the rest of the world in either index, and they maintain a volatile profile. Also, the Chinese economy doesn't seem to answer to many different macro factors. In truth, it seems that the EM world is driven primarily by one factor; Chinese growth.

The consensus has been fairly unanimous in forecasting a great 2021 for EM. The normal macro factors are all there: a weaker dollar, stronger economic rebound, stable or increasing commodity prices. Over the long term, it seems overwhelmingly likely that a great deal of economic activity will come from countries labelled as 'emerging'.

Ultimately, emerging assets represent a cheaper alternative to bonds and equities from developed countries. As we've seen, though, expected returns are far from stratospheric. They can be a part of a wider solution, even if there are not to be any free lunches, as it were.

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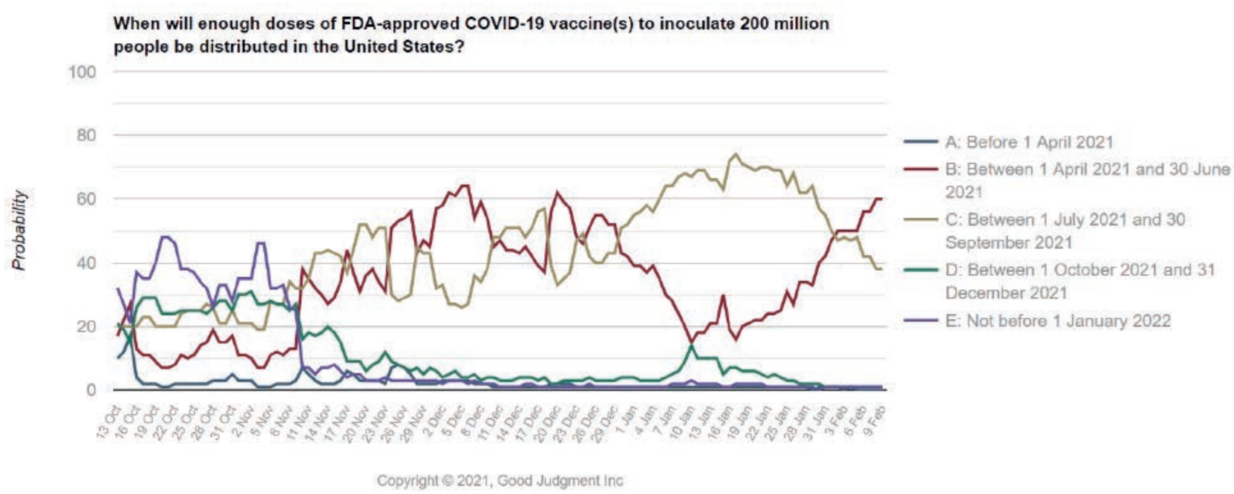
The macro context in 2021

Focused on the reflation trade

The macro context in 2021

If we look ahead to 2021 specifically, we see a year that will be focused on the reflation trade on the back of the vaccines, on supportive policy and on economic rebound. Healthcare will undoubtedly remain front and centre for investors, with the efficacy of the vaccines and the speed of their distribution chief among any global economic concerns.

For the moment, equity valuations suggest that investors are pricing in a speedy recovery. This implies not only that the vaccine will be effective, but that vaccination programs will be effectively deployed in the countries with the biggest impact on global economic growth. The consensus, broadly, is that the summer will see both widespread vaccine distribution and seasonally low transmission rates, allowing economies to get back on track.



Sadly, we're not virologists, so we cannot speculate on the efficacy of vaccines from a healthcare perspective. We look at numbers, news and flows - for the moment, it's clear that governments have made vaccination their number one priority. So, despite the initial difficulties in the rollout, we don't see any meaningful reason to be contrarian here.

For the moment, equity valuations suggest that investors are pricing in a speedy recovery.

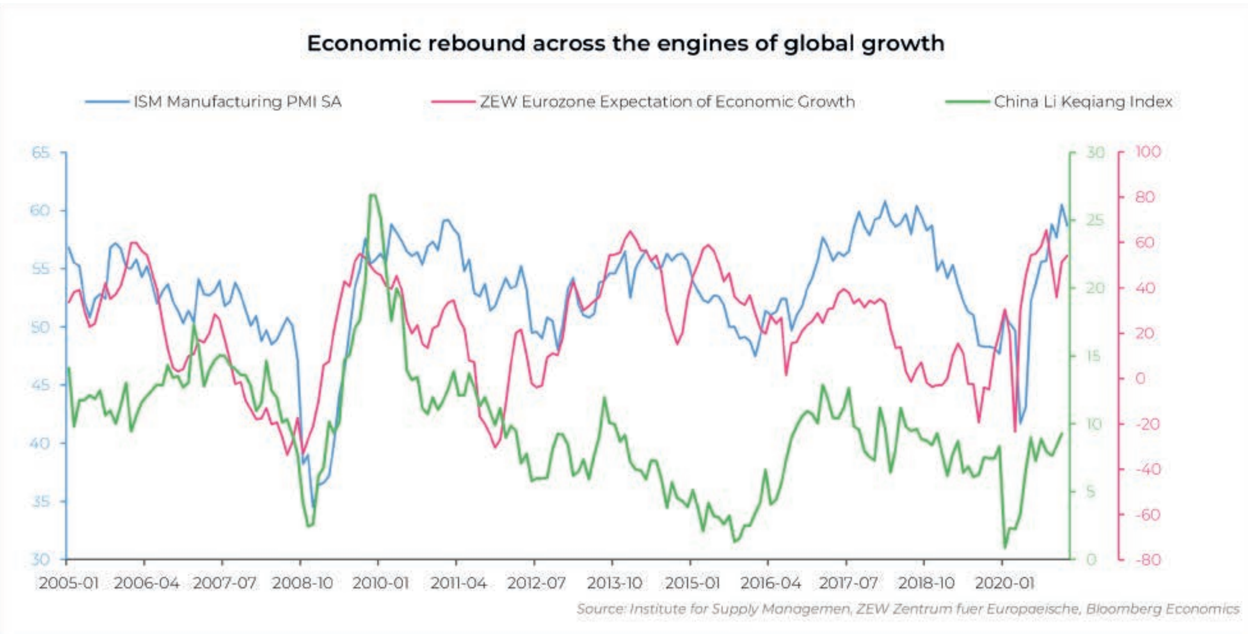
Central bank decisions will be key

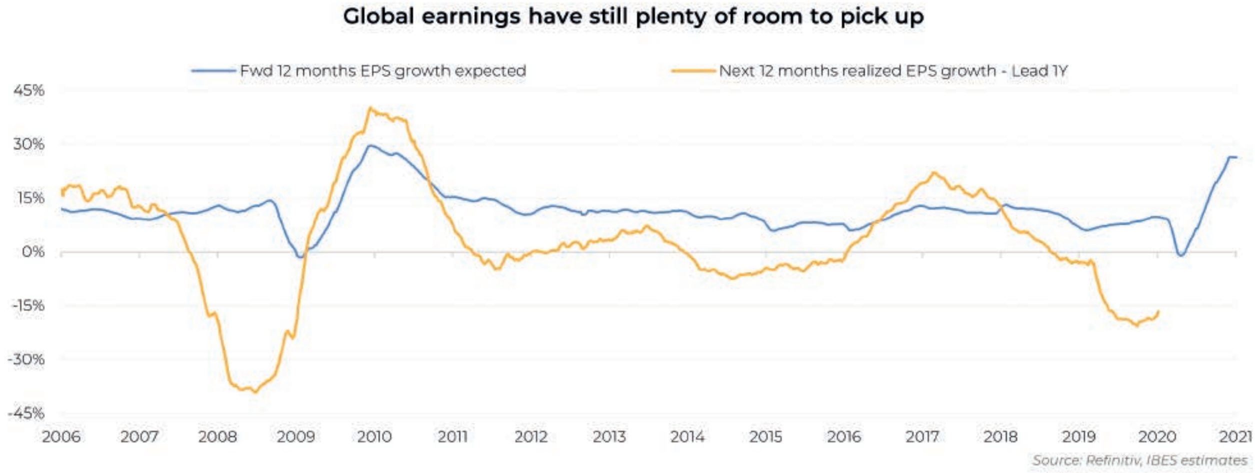
In situations like these, central bankers are an investor's best friend. Policy-makers will be more careful than ever when revising their lax stance, even within the context of a strong economic rebound.

Inflation is the elephant in the room here, but recent economic dynamics and the recent change in the mandate implemented by the FED lead us to three key conclusions:

- Inflation will remain contained for 2021. While there is, of course, the chance we'll see higher inflation in the future, we don't think it poses a significant risk to our position at the moment.
- Even if it's greater than expected, we think any inflation will be procyclical. This will not derail economic growth, nor will it significantly affect correlations within our multi-asset framework.
- Again, even if higher than expected, central banks will react less decisively to rising prices than they have done in the past. This will mean that monetary policy remains accommodative, at least in the short and medium-term.

After previous recessions, the playbook has always been an economic rebound that allows risky assets and cyclical to outperform. Today, leading indicators of both growth and liquidity broadly confirm the reflation narrative. Global trade is already back to pre-Covid-19 levels and industrial production is picking up. PMIs are also steadily above 50 - these are all indications of an expansion of the underlying economy. Even if these expectations are tempered by reality, 2021 is shaping up to be above average in terms of economic performance.





Some of the key themes of 2020 are likely to continue in 2021. The most notable of these are remote working and a greater focus on ESG. The potential for industry disruption brought about by the pandemic has created some robust expectations in more innovative parts of the global economy. It remains to be seen whether these expectations can be met.

Ultimately, our overriding sentiment for 2021 is that there's little to be gained in being contrarian. Of course, stocks look highly rated in some areas and vulnerable to short-term corrections, but accelerations in earnings and abundant liquidity suggest that the downside will be limited and that investors will be quick to time this asset class. 'There Is No Alternative' (TINA) dynamics will persist, forcing investors to chase yield and buy into riskier assets. This will continue until we see a genuine inflation scare or the impact of the pandemic proves to be much harsher than current prices suggest.

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Risk, volatilities and correlations

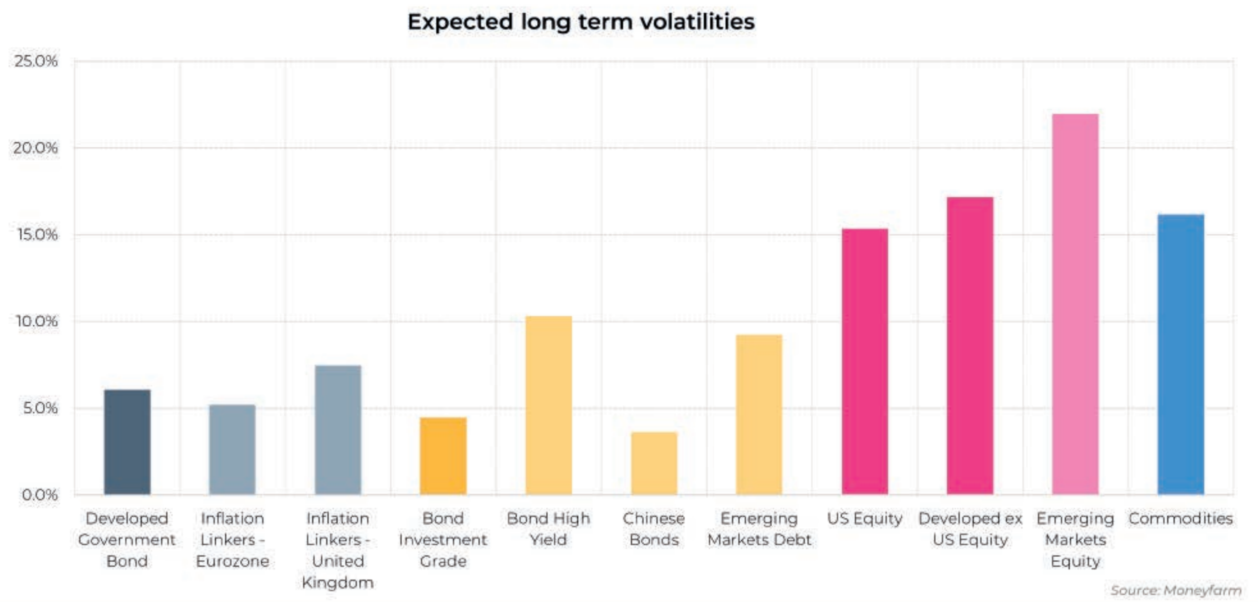
Volatility and correlation

Risk, volatilities and correlations

Now, we come to the final ingredients in the SAA: volatility and correlation. In our opinion, these are the best metrics through which long term investors can understand the risk inherent in different investments.

Historically, correlation between the variables under consideration has proven reasonably steady. The estimation period should, naturally, be consistent with the investment horizon. As long term investors, we look at historical data on a sample long enough to guarantee coverage of a full economic cycle - this way, we can estimate volatility and correlations more thoroughly.

For us, the historical reference sample stretches over the last 20 years, making it a reliable lens through which to distil expectations for the future. Having two economic crises in that sample is, we think, a wise addition, given that we approach 2021 with uncertainty still high. The strong swing seen in 2020 has, of course, had an impact - volatilities assumptions have risen.

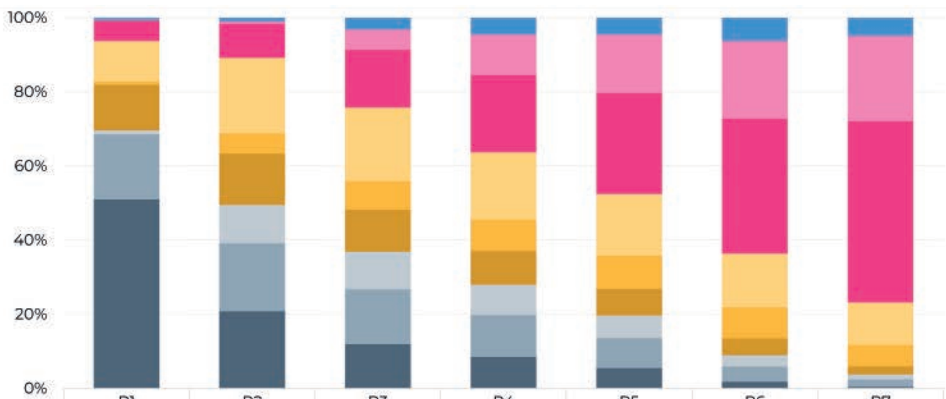


Final stages of the SAA

The final stage of the strategic asset allocation process is the creation of seven portfolios that maximise the expected utility for each investor. Once we have identified the spectrum of risk levels, we select the combination of assets that maximises the expected return for each portfolio.

Finding the optimal composition means simultaneously considering the income component, the risk component and the interdependencies between the different asset classes. To consider these three elements at the same time, we use quantitative tools, created with safeguards against the underestimation of risk.

Quality checks are then performed at both the input and output stages. Each assumption – from the risk level of the asset classes to the estimate of expected returns and the expected benefits of diversification – is subject to verification by the members of the Asset Allocation team, as well as the Investment Committee.



	P1	P2	P3	P4	P5	P6	P7
Global Commodities	1%	1%	3%	5%	5%	6%	5%
Emerging Markets Equity	0%	1%	5%	11%	16%	21%	23%
Developed Markets Equity	6%	9%	16%	21%	27%	36%	49%
Emerging Market Gov. Bonds	11%	20%	20%	18%	17%	14%	11%
Global High-Yield Corporate Bond	1%	5%	8%	8%	9%	8%	6%
Global Investment Grade Corporate Bond	12%	14%	11%	9%	7%	5%	2%
Inflation Linked Bonds - UK	1%	10%	10%	8%	6%	3%	1%
Developed Markets Gov. Bonds	18%	18%	15%	11%	8%	4%	2%
Sterling Cash	51%	21%	12%	8%	5%	2%	0%

* This is the output of our SAA process, not our model portfolios. Model portfolios are managed and rebalanced by our Asset Allocation Team, and are subject to other factors.

Summary

Looking back

- 2020 was a remarkable year in financial markets. It was a year that saw a sharp decline - although consistent with a huge drop in expectations - and perhaps an even sharper recovery.

- Markets (particularly equities) accurately anticipated an impressive response with regard to vaccine development and unprecedented monetary and fiscal support, taking particular comfort in the latter.

The SAA process

- The SAA is a largely mechanical process based primarily on macro variables and starting valuations. We apply it to broad regions and asset classes, rather than honing in on specific sectors and sub-sectors.

- Long-term (10 year) expected returns are fairly similar to those from a year ago.

- Government bonds are expected to deliver low returns over the forecast period.

- Equities are below long-term averages (reflecting higher starting valuations), but we see higher expected returns outside the US (without considering the sector composition).

- Returns from credit (IG, HY and EMD) are higher than government bonds - the risk premium is still intact, but absolute returns are quite low compared to history.

- We continue to assume that Central Banks will provide high levels of liquidity, dampening sovereign bond yields over the period - even if we do see inflation rates in Developed markets converge towards the 2% level over the forecast period.

- We think Central Banks will be slow to normalise monetary policy. The speed of the recovery in inflation will likely have an impact on Central Bank actions, but with more of a lag than in the past.

- Portfolios are optimised using a mean-variance optimisation framework - targeting our volatility targets. Historical volatility has risen, after 2020, and the result has been to lower equity exposures slightly relative to previous years.

Looking ahead to 2021

- Healthcare will remain front and centre in the minds of investors. The course of the pandemic, and its impact on the global economy, will be set against the efficacy of the vaccines and the speed of their distribution.

- Some important themes from 2020 will likely continue in 2021 - notably remote working and ESG. The potential for industry disruption, in the wake of the pandemic, has created some robust expectations in more innovative parts of the global economy. It remains to be seen whether those expectations can be met.

- The equation of ample policy support underpinning financial valuations depends, at least in part, on inflation remaining well-behaved. With unemployment remaining high, it seems reasonable to think that wage pressures won't be relevant for a while.

- Supply shocks - rising commodity prices, increasing freight rates etc - could play an important role. Rising inflation could force Central Banks into a decision - accept higher inflation as a price of recovery or bring forward expectations for when monetary policy could start to normalise.

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