Investment Views

November 2020

Going Green

As we go to print, voting is drawing to a close in the 46th US Presidential election. Whilst Trump's victory was a surprise in 2016, it would be an equivalent shock if Biden does not carry the day. The real question is whether 'Sleepy Joe' wins both Houses of Congress or whether the Republicans hold onto the Senate. If the former, market relief at a clear cut outcome could swiftly be replaced by a more cautious tone as investors fret about the influence of Sanders, Warren and Ocasio-Cortez. A narrow Senate Democrat majority would gift policy leverage to this left-leaning group, especially if Warren is made Treasury Secretary (as widely rumoured).

Whoever wins, spending and stimulus will come before any attempts to raise taxes and shrink deficits. As the delayed impact of the covid "Wave 1" continues to wash over the global economy and the onset of "Wave 2" raises the spectre of a double dip recession in western nations, the only certainty is more fiscal stimulus (government spending). As the heads of the US, UK and European Central Banks have all acknowledged, traditional monetary policy (QE/low rates) is reaching the limits of its efficacy. Indeed, many argue that we have entered a debt deflation where more QE and debt actually depresses growth and inflation. Companies and consumers are now so indebted that they do not respond to low interest rates by borrowing to invest and consume. Rather they use lower interest costs to pay down debt, reducing aggregate demand in the economy and putting downward pressure on prices. In the US it is interesting to note that loans to business have fallen 24% in the year to September, with outstanding consumer credit card debt falling from $857bn on March 3rd to $751bn by 21st October (source: St Louis Fed). This despite near zero interest rates and trillions of dollars of monetary and fiscal support.

Regardless, Central Banks will double down on their existing QE policies; they are trapped. If they moderate or remove the support, interest rates and bond yields will rise, triggering a mass insolvency event. A 1930's redux. As a result, the reflationary mantle now passes to Governments and fiscal policy, with QE moving to a supporting role. We continue to believe that the more direct nature of fiscal stimulus (where funds flow direct to consumers and companies rather than via the banks and financial system) will eventually trigger a reflationary period. This is doubly so if Central Banks encourage profligacy by providing a blank cheque to their political incumbents, printing money to finance expenditure and deficits (so called 'MMT'). However, this could take time as both cyclical (covid recessions) and structural (shrinking populations, the tech revolution) forces are firmly deflationary.

Whilst the timing of any reflation is unknowable, the impact of some of the related policies is far clearer. In particular, we see a huge investment opportunity in the slew of fiscal policies seeking to reduce and reverse climate change.

In 1992, at the UN 'Earth Summit' in Rio de Janeiro, participating nations agreed to take steps to stabilise greenhouse gas concentrations "at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system". It also bound member states to act in the interests of human safety even in the face of scientific uncertainty (source: UN FCCC). These commitments were reaffirmed and extended in the 1997 Kyoto Agreement and the 2015 Paris Accord. Whilst this UN program helps coordinate global action, the fiscal response to the covid downturn is rapidly accelerating the delivery phase of related initiatives.

In Europe, the recent "Green deal" binds member states to spend c. €1trn to cut greenhouse gas emissions to net zero by 2050, echoing a pledge by Japan. In China, President Xi used a September gathering of the UN General Assembly to accelerate China's commitment to carbon neutrality to 2060. Closer to home, beleaguered Boris, a climate change convert, wants a post-Brexit UK to be "the launch pad for the global green industrial revolution". Finally, if Biden does evict Trump, $2trn of his $3trn covid response package is focused on green initiatives under the banner of "Build Back Better". Amongst other things he has pledged to retrofit four million homes, to increase their efficiency; to install a nationwide network of electric car chargers and to switch incentives from fossil fuel production to clean energy. The veracity of the Chinese and US pledges is key; together they account for c. 50% of global carbon dioxide emissions from fossil fuels (source: Economist).

Efforts by the Authorities will also be amplified by a willing private sector. As weather events showcase a rapid deterioration of the climate backdrop, institutional investors are coming under increased pressure to incorporate ESG factors (environmental, social and governance) when making investments. To illustrate the point, the UK's largest pension fund, the National Employment Savings Trust (NEST), is divesting all its fossil fuel exposure and switching £5.5bn into "climate aware" investments. This is not shallow virtue signalling or "green washing"; there is a significant and growing flow of institutional capital into this space. A PWC report forecast that European ESG assets will reach €5.5-7.6trn by 2025, accounting for approximately half of all mutual fund investments.

Finally, unlike the initial enthusiasm for green investing back in the early 2000's, the economic rationale for adopting climate change solutions is now compelling. A decade ago, "going green" cost you money; the converse is now true (or soon will be). As the Bloomberg New Energy Outlook notes, wind and solar are now the cheapest form of energy for 2/3rd's of the world (it also predicts that 57% of all passenger vehicle will be electric by 2040, up from 3% in 2019).

When considering this opportunity, we are not blind to the risks. Front and centre is valuation, where some of the more popular green companies have already been bid up. Many will be cyclical and economically sensitive, arguing for a gradual approach to building exposures. Further out, if the negative consequences of climate change become more frequent and extreme, there is a risk that Governments socialise the profits generated by the solutions. In much the same way that many covid vaccine providers, pressured by society and governments, will be unable to fully monetise any R&D success.

As you will detect, our work on this opportunity leaves us enthused. It offers a compelling structural investment theme regardless of the ongoing economic uncertainty. As such, having protected capital earlier this year, it is one of several allocations that we are actively building during bouts of (inevitable) market volatility.

James Bond R.I.P.

On 31st October, Sean Connery died at his home in the Bahamas. He was 90. Having left school at 13 with no qualifications, Connery had many jobs including milkman, coffin polisher and brick layer before his fortunes changed in 1953. Aged 23, he travelled to London to compete in the Mr Universe body building contest; legend has it that he came third. There he caught the eye of a casting director who helped him land a part in the chorus of 'South Pacific'. His acting career took off.

The original James Bond, he reprised the role in six movies between 1962 and 1971, with a final outing in "Never Say Never Again" (1983). Awarded an Oscar for 'Best Supporting Actor' in The Untouchables, he also won a BAFTA and two Golden Globes. A few Bond facts in honour of the great Scot's passing.

- Having excelled as a young player for Bonnyrigg Rose FC, during the 1950's Connery rejected a £25-a-week playing contract from the manager of Manchester United, Sir Matt Busby.
- Barry Nelson was technically the first person to play Bond. An American actor, he was the iconic spy in a TV adaptation of Casino Royale in 1954. Connery's first outing was 17 years later in Dr No.
- Christopher Lee played Scaramanga in The Man with the Golden Gun; he was also Ian Fleming's step-cousin and regular golfing partner.
- The Bond movie franchise has over 50 entries in the Guinness Book of Records, including Connery's record breaking £1.25m fee to star in Diamonds are for Ever; he donated the payment to the Scottish International Education trust (www.scotinted.org.uk). Other notable entries include the longest speed boat jump (120 ft, Live and Let Die) and the most cannon rolls in a car (seven, Casino Royale 2006).

Policy Matrix Summary

The matrix below is a summary of our current outlook for the various equity, bond and commodity markets that we monitor. It shows areas where we are either positive or negative; for all other asset classes, we have a neutral view. It is not intended as anything other than a high level guide on where we stand at this time.

6-12 Month view	Overall	Equities	Bonds	Alternatives
+	Alternatives Cash	Gold Miners China A Shares Sustainable yield Japan ESG/Impact funds FinTech	Inflation-linked, Emerging Market, China	Gold, Volatility Strategies
–	Equities Bonds	European US Technology	UK European Japanese High Yield	

Market Performance

All performance numbers show % changes except for bond yields which show yield changes.

	31 October 20	-1 Mth	-3 Mth	-12 Mth
CURRENCIES (VS USD)				
GBP	1.2947	0.2%	-1.1%	0.0%
CHF	1.0906	0.4%	-0.4%	7.6%
AUD	0.7028	-1.9%	-1.6%	1.9%
JPY	104.6600	-0.8%	-1.1%	-3.1%
EUR	1.1647	-0.6%	-1.1%	4.4%
BOND YIELDS (10 yr)				
UK	0.26	0.03	0.16	-0.37
US	0.88	0.19	0.35	-0.82
Germany	-0.63	-0.11	-0.10	-0.22
Australia	0.83	0.04	0.01	-0.31
Japan	0.04	0.03	0.02	0.18
EQUITIES				
US. S&P 500 (USD)	3,269.96	-2.8%	0.0%	7.7%
UK. FTSE 100 (GBP)	5,577.27	-4.9%	-5.4%	-23.1%
FTSE Europe Ex UK (local)	245.20	-5.6%	-3.9%	-11.4%
Japan. Topix (JPY)	1,579.33	-2.8%	5.6%	-5.3%
China. Shanghai Comp (RMB)	3,224.53	0.2%	-2.6%	10.1%
HK. Hang Seng (HKD)	24,107.42	2.8%	-2.0%	-10.4%
Australia. All Ords (AUD)	6,133.21	2.1%	1.2%	-9.4%
FTSE Asia Pac ex Japan	585.91	2.3%	3.4%	9.1%
FTSE World (USD)	641.03	-3.1%	-0.6%	2.0%
FTSE World (GBP)	735.02	-3.1%	0.9%	2.1%
COMMODITIES				
Oil (WTI)	35.79	-11.6%	-13.2%	-30.5%
Gold	1878.81	-0.4%	-4.9%	24.2%

Disclaimer/Regulation

Do you receive Investment Views?

If you would like to receive a regular digital copy at the start of each month please email us at UK@bentleyreid.co.uk. Alternatively, Investment Views is available via the Bentley Reid App, which can be downloaded onto Android and Apple devices.

Instructions for downloading the Bentley Reid App on Apple devices:

1. Scan or click the QR code below, or search for 'Bentley Reid' in the relevant App Store. For Apple devices the search must take place in the 'iPhone Apps' section, which sits at the top of the screen, regardless of the device being used. If you search in the 'iPad Apps' section no results will appear.

2. Install the app and click 'Open'.

3. Once the app is installed, to ensure you receive a pop up notification that new publications have been posted, go to the general 'Settings' section on your device and then choose 'Notifications'. Scroll down on the right hand side and select Bentley Reid. In the 'Notification Center' section choose 'On,' the type of 'Alert Style' you would like and then return to the main screen.

Contacts and Regulation

Published and distributed in UK by Bentley Reid & Co (UK) Limited
29 Queen Anne's Gate, London SW1H 9BU, England
Tel +44 (0) 20 7222 8081, Fax +44 (0) 20 7227 8440, Email UK@bentleyreid.co.uk
Authorized and regulated by the Financial Conduct Authority, registered office 29 Queen Anne's Gate, London SW1H 9BU. Registered Number 07602886

Published and distributed outside the UK by Bentley Reid & Co Limited
24 Floor Diamond Exchange Building, 8-10 Duddell Street, Central, Hong Kong
Tel +852 2810 1233, Fax +852 2810 0849, Email HK@bentleyreid.com
Licensed by the Securities and Futures Commission in Hong Kong

The content of this document is for information purposes only. The authors believe that, at the time of publication, the views expressed and opinions given are correct but cannot guarantee this and readers intending to take action based upon the content of this document should first consult with the professional who advises them on their financial affairs. Neither the publisher nor any of its subsidiaries or connected parties accepts responsibility of any direct or indirect or consequential loss suffered by a reader or any related person as a result of any action taken, or not taken in reliance upon the content of this document.