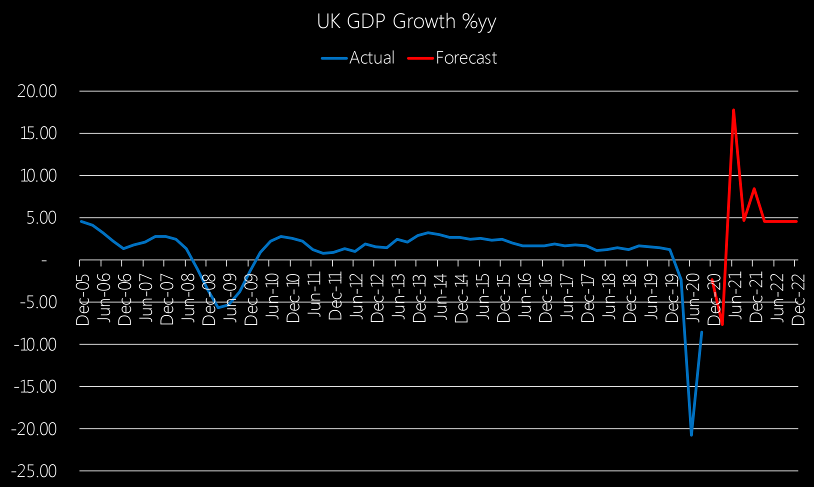
11th January 2021

Vigilance required

- Growth shock looks short and sharp for now
- Even lower for even longer interest rates
- Recovery extended, but vigilance required

Growth shock is short and sharp

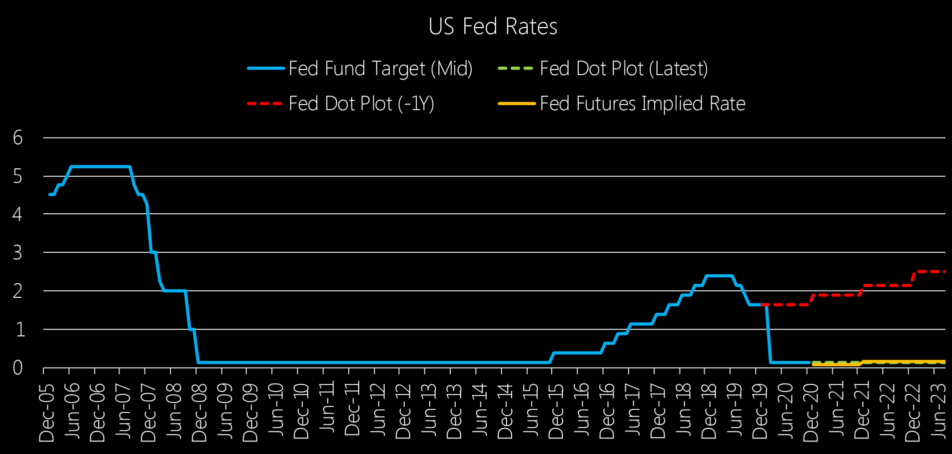
The medium-term outlook for growth points more to a "short sharp shock" rather than a protracted downturn that followed the Global Financial Crisis. However vigilance around economic growth, and ongoing dependency on vaccine rollout, fiscal and monetary policy support remains key.



Source: Elston research, Bloomberg data

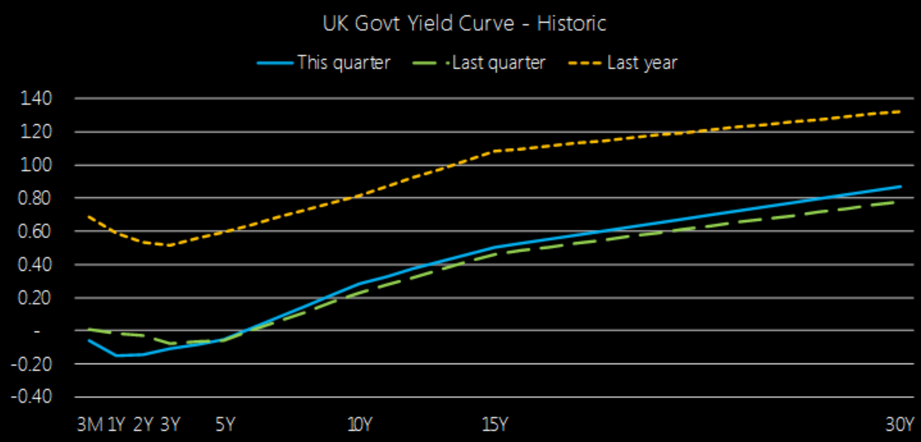
Even lower for even longer interest rates

Even lower for even longer interest rates underpins an accommodative strategy to support recovery: but also has created frothiness in some asset classes.



Source: Elston research, Bloomberg data

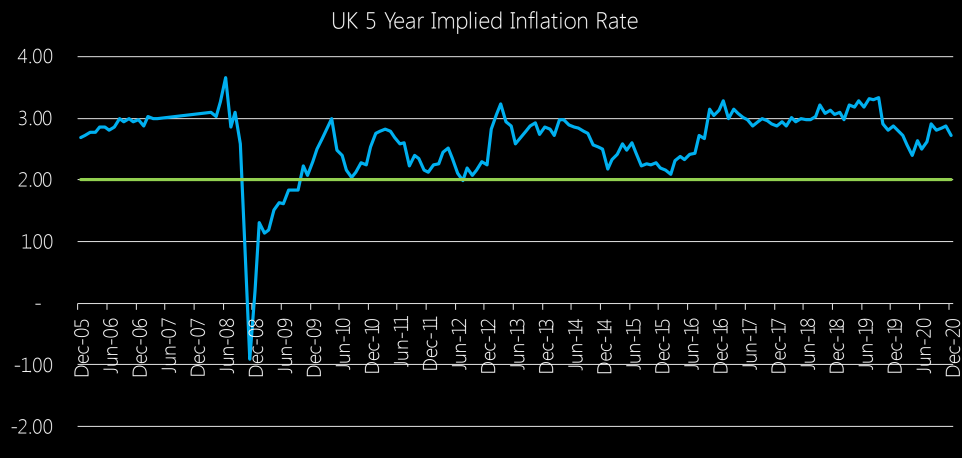
Low nominal and negative real yields is forcing investors into refocusing income exposures, but should not lose sight of quality.



Source: Elston research, Bloomberg data

Inflation in a bottle: for now

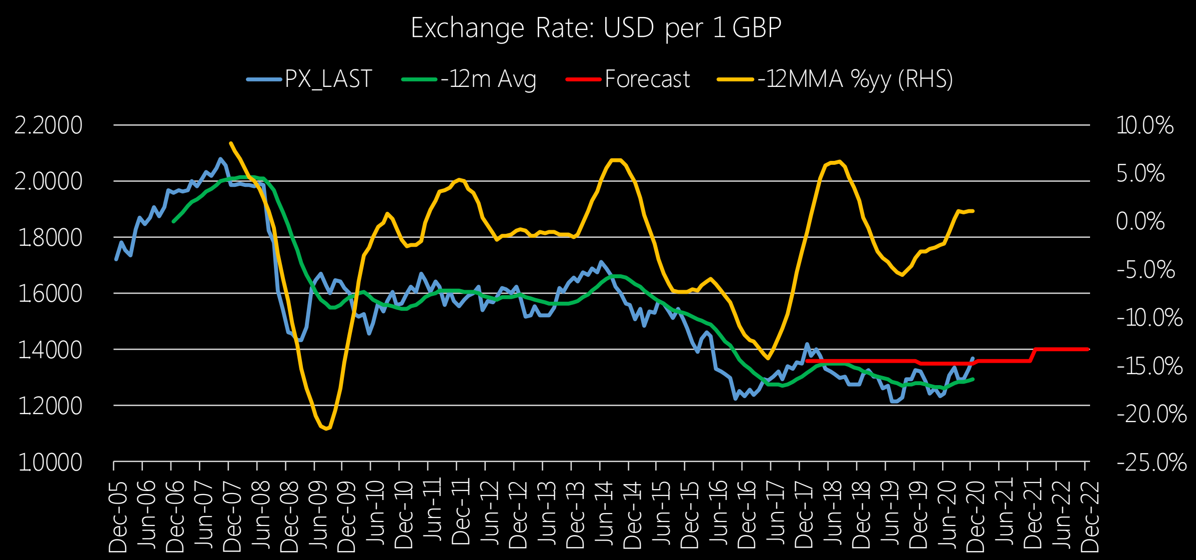
Inflation caught between growths scare on the downside and supportive policy on the upside. Should inflation outlook increase, nominal bond yields will be under greater pressure and inflation-protective asset class – such as equities, gold infrastructure, and inflation-linked bonds can provide a partial hedge.



Source: Elston research, Bloomberg data

Trade deal with EU should reduce GBP/USD volatility

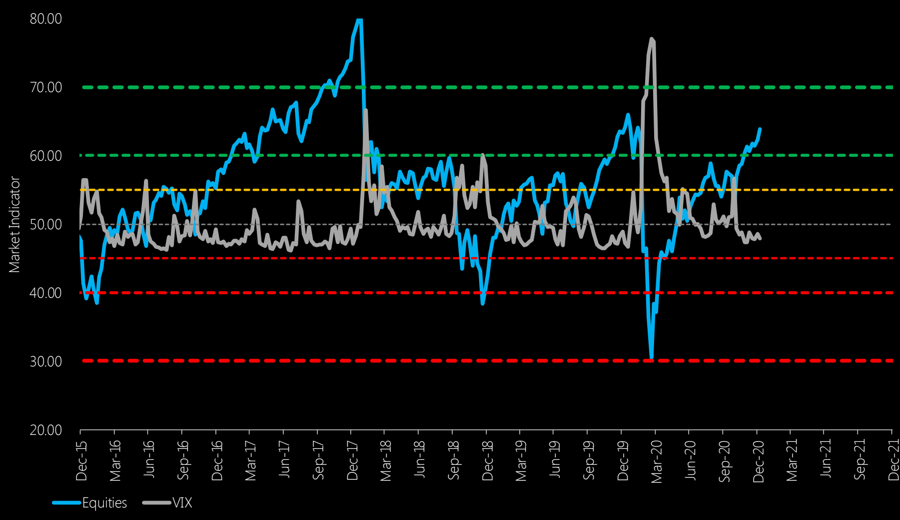
The 11th hour trade deal concluded in December between the UK and the EU should dampen the polarised behaviour of GBP exchange rate, with scope for moderate appreciation, absent a more severe UK growth shock.



Source: Elston research, Bloomberg data

Market Indicators: recovery extended

Market indicators suggest equities are heading into overbought territory and whilst supported by low rates and bottled inflation, are looking more vulnerable to any deterioration in outlook. Incorporating [risk-based diversification]() that adapts to changing asset class correlations can provide ballast in this respect.



Source: Elston research, Bloomberg data

Summary

With respect to 2021 outlook

- Fiscal and policy support should keep growth shock short and sharp
- Inflation looks bottled – for now, but this is the key focus
- Asset price recovery was welcome but vigilance now required

Find out more

For more insights and information on research, portfolios and indices, visit:

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