

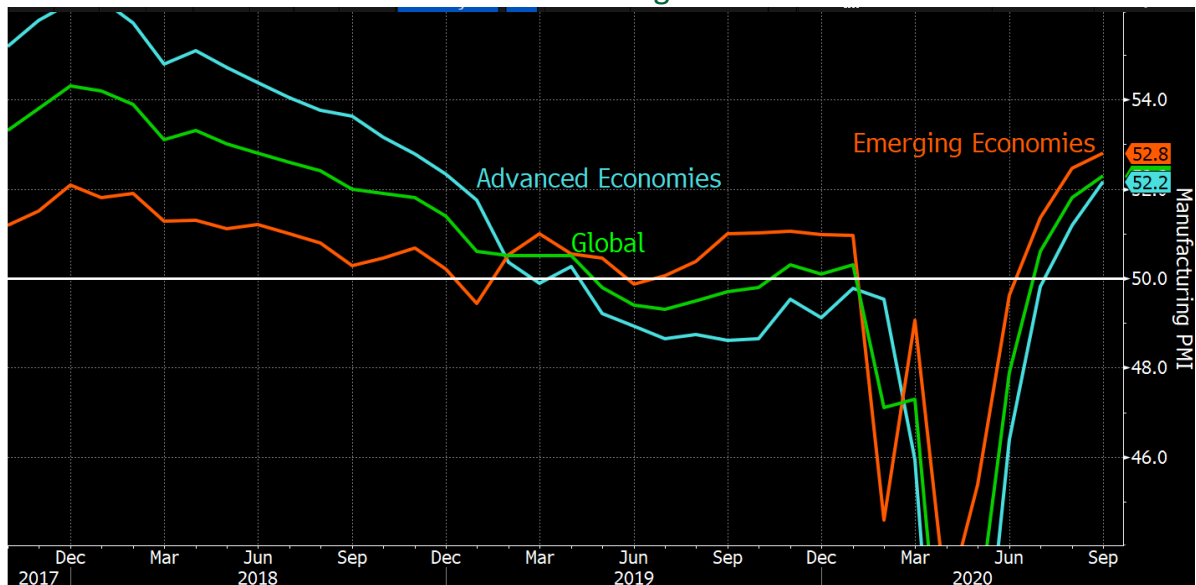
*"Do the best until you know better. Then when you know better, do better."*

*Maya Angelou*

## 1. GLOBAL ECONOMY

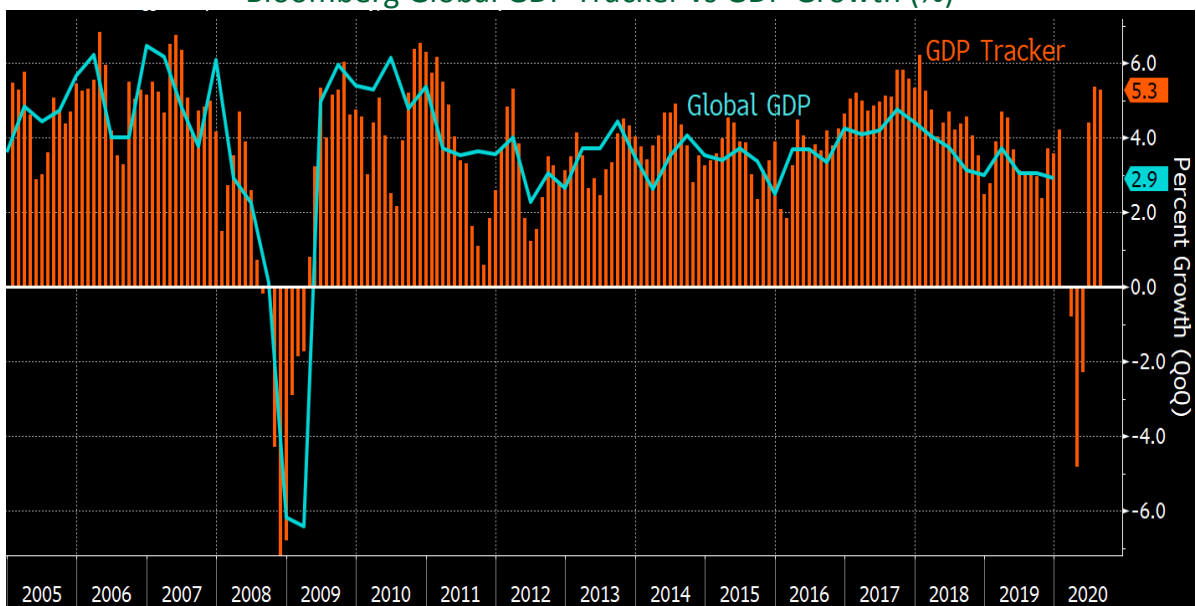
The global economic outlook is clearly important for us as strategic investors.

Markit Manufacturing PMI Indices



All of the Global, Advanced Economies and Emerging Market PMI Indices have recovered well from their low bases during the virus lockdown periods. They all have expansionary readings or more than 50 and reflect recovering economies. It seems Emerging Markets are leading in their recovery.

Bloomberg Global GDP Tracker vs GDP Growth (%)



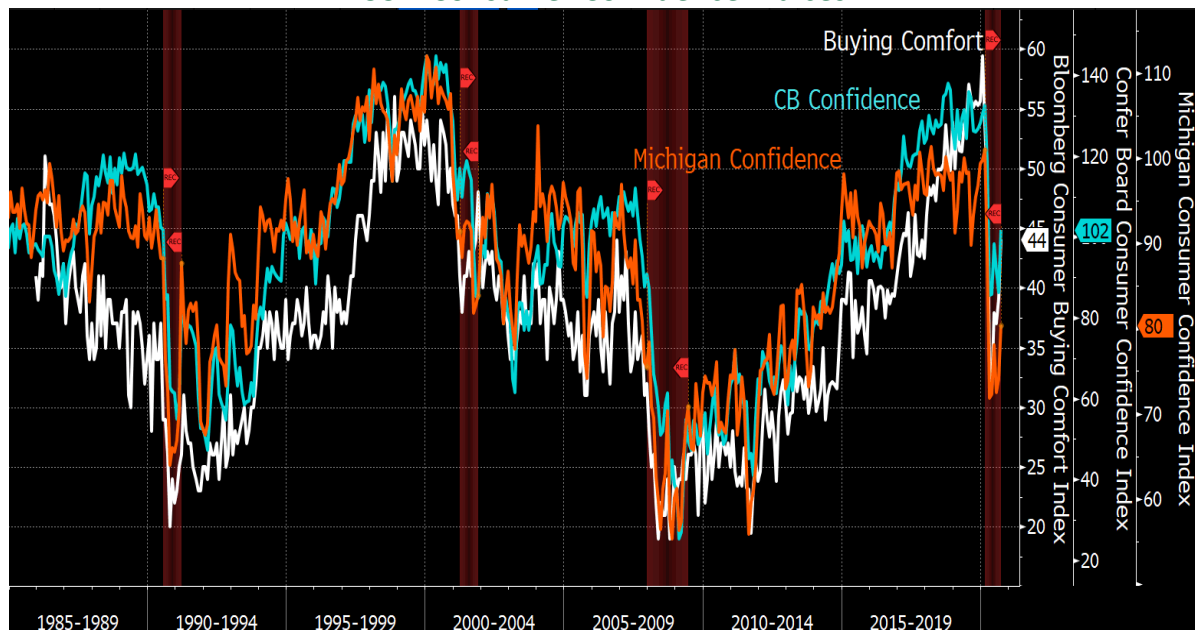
The Bloomberg Global GDP Tracker Index has recovered well. It has a good historic record in forecasting global economic growth. On this basis, we can expect the global economy to also recover with a positive trend for the foreseeable future.

*Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. Past performance should not be used as a guide to future performance.*

## 2. US ECONOMY

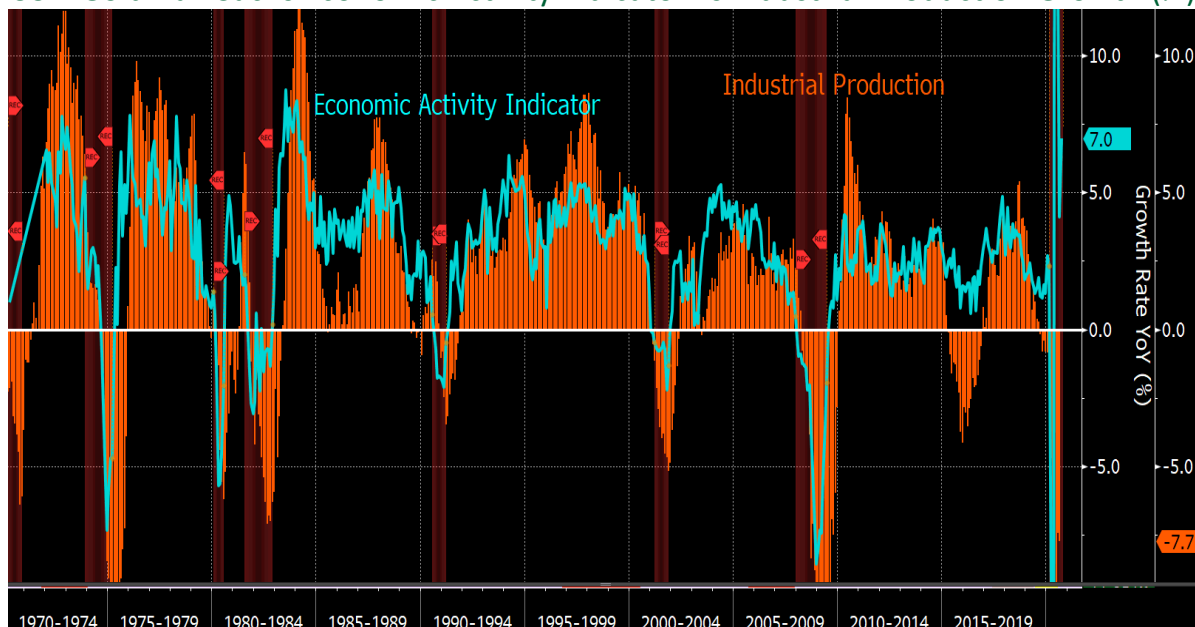
Consumption is currently at a record ratio of 74% of the US economy (it used to be 70%). Consumer behaviour therefore continues to be critical to assess the economic outlook.

US – Consumer Confidence Indices



We reflect in the above chart two different, but equally highly valued Consumer Confidence Indices, along with a Buying Comfort Index. They are all recovering well from recent lows. Further, importantly, they are already at 2014 levels, which was well after the Financial Crisis. This is ascribed to their current strong financial positions relative to their situation with the Financial Crisis and bodes well for further recovery.

US – Goldman Sachs Economic Activity Indicator vs Industrial Production Growth (%)



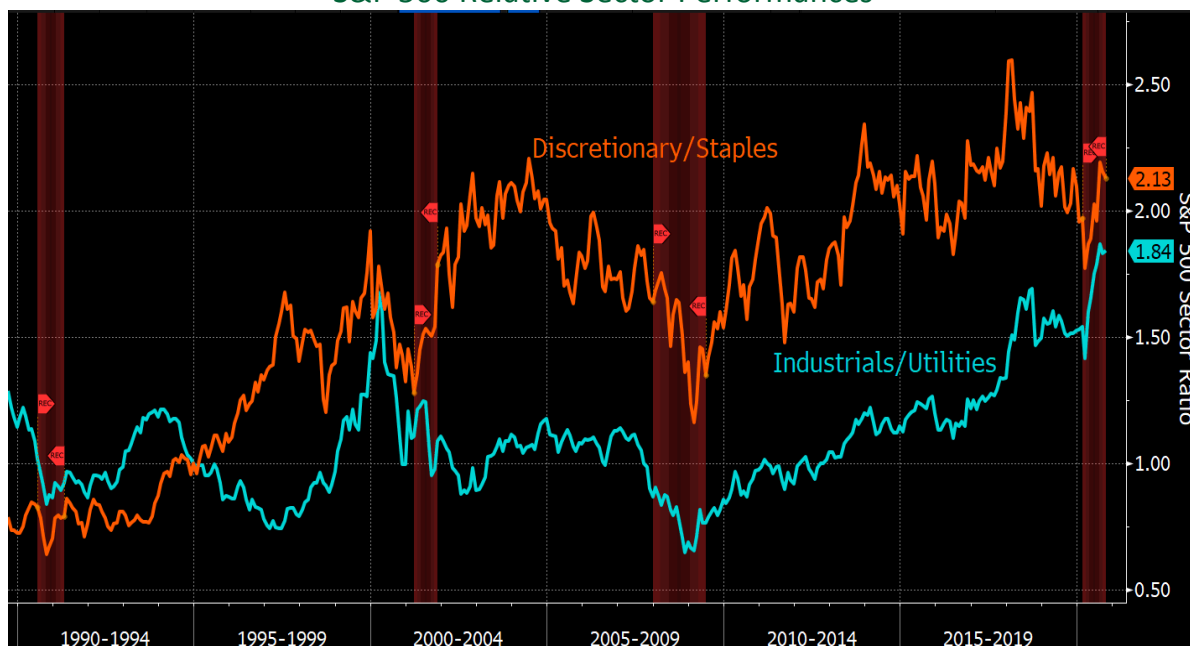
The above Economic Activity Indicator has recovered well, and is currently at elevated levels. It is a good leading indicator for Industrial Production. The latter is still in the doldrums, but we can expect it to bounce back well.

The relative performance of particular sector indices is also helpful to consider investors' perceptions of economic activity. The following chart is helpful in this context:

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. **Past performance should not be used as a guide to future performance.**



### S&P 500 Relative Sector Performances

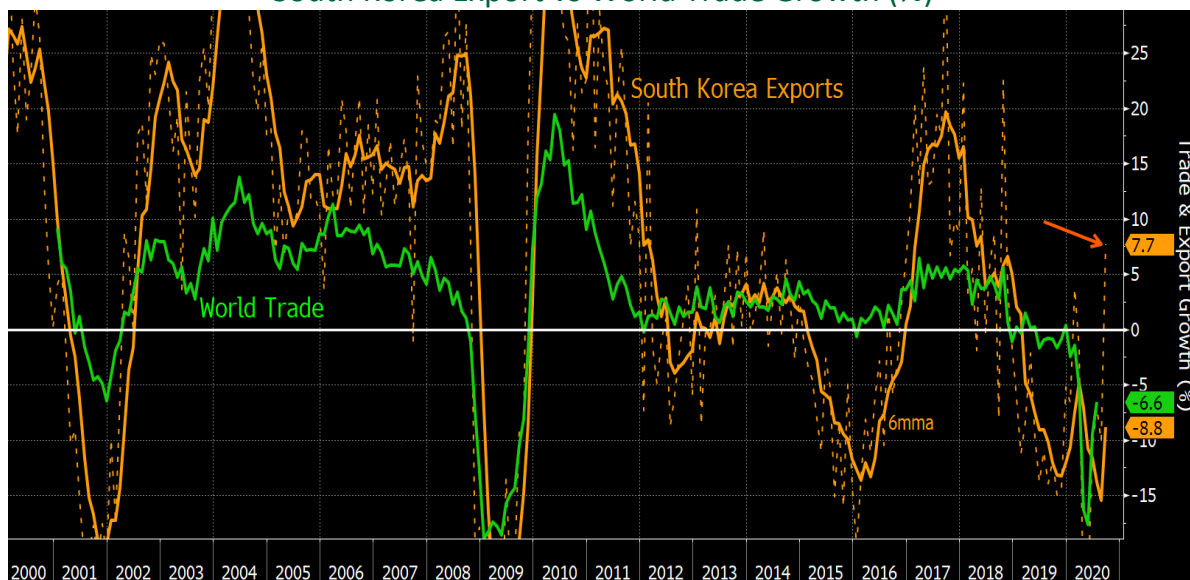


The two relative charts are good indicators of investor confidence of improving economic growth. It is striking how strong both the relative Consumer Discretionary and Industrial sectors are already performing. They have historically had similar performances going into new economic upswing phases. On this basis, it seems we are in process of entering a new economic upswing.

## 3. TRADE

Data on trade activity is helpful in understanding the general economic environment.

### South Korea Export vs World Trade Growth (%)



South Korea's exports are a good barometer of world economic circumstances – most of their exports are in the form of cyclical consumption. Their exports also act as a leading economic indicator.

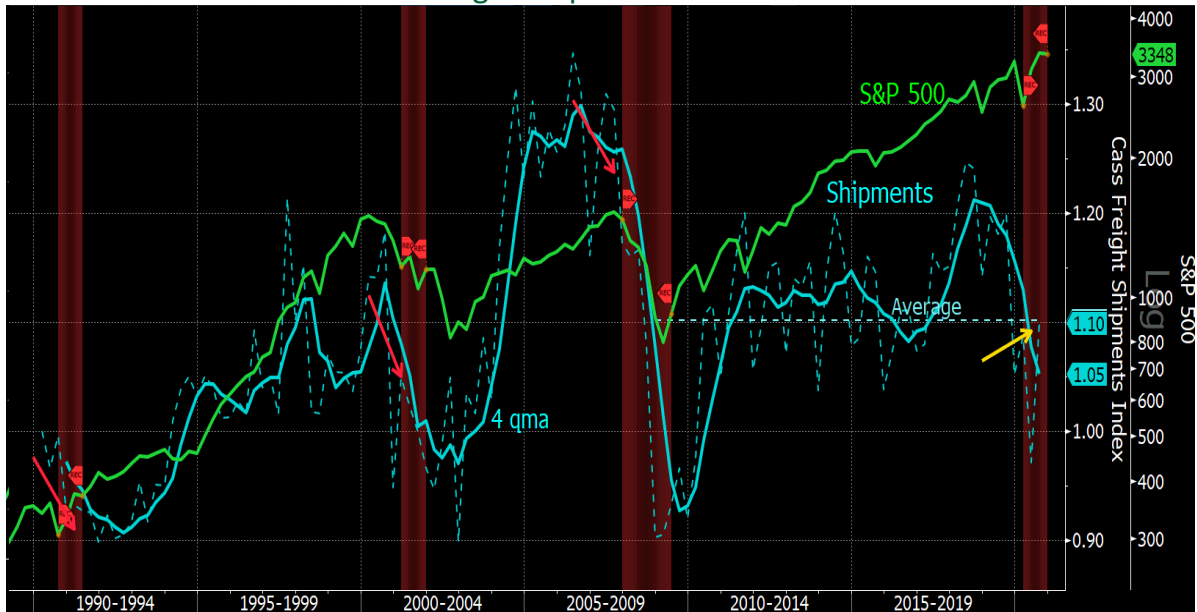
The solid exports line in the chart reflects six month moving averages. It has dropped materially with the virus crisis, but seems to be forming a bottoming out pattern. The latest monthly reading (the dotted line) is growing more than seven percent. World trade is following a similar pattern and shows some signs of recovery.

The chart on the following page reflects data of goods shipments in the US:

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. **Past performance should not be used as a guide to future performance.**



## US – Cass Freight Shipments Index vs S&P 500

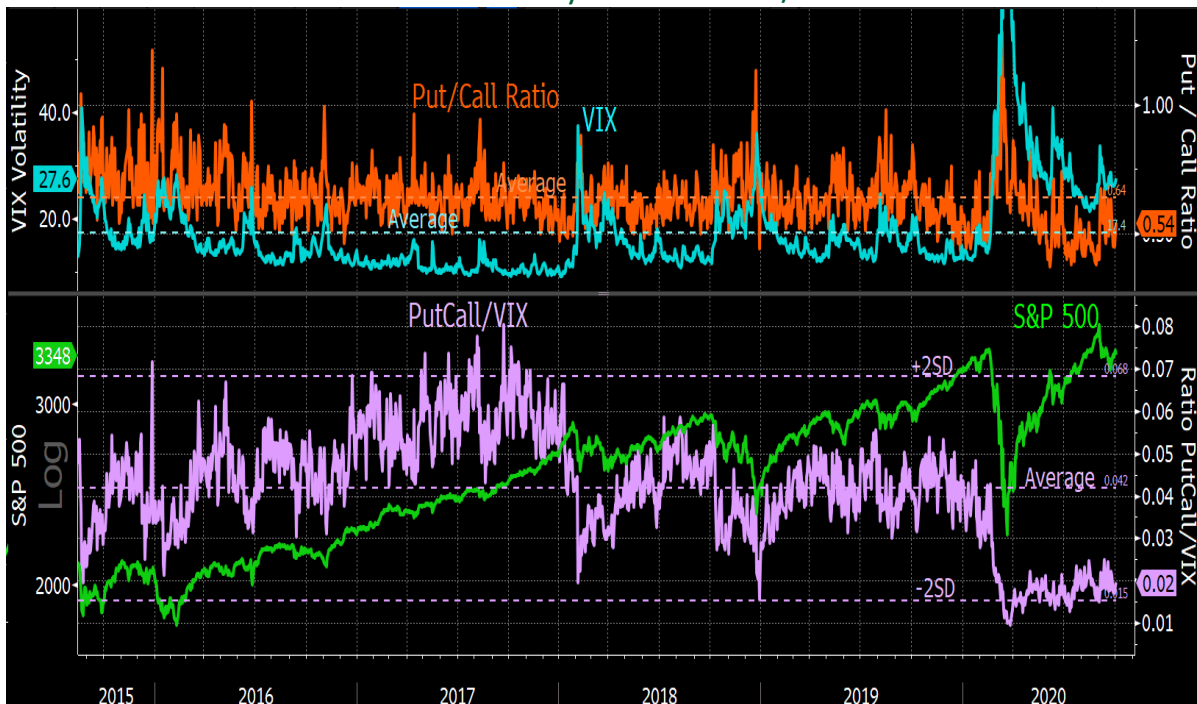


Quarterly US freight data has recovered to its average since the Financial Crisis (see the yellow arrow in the chart), which is above the last four quarters average. On this basis, it seems therefore that the US economy is also in process of recovering.

## 4. VOLATILITY

Stock market volatility remains at elevated levels following the Virus Crisis shocks, currently over a half above average:

### S&P 500 VIX Volatility Index and Put/Call Ratio



Against this, the Equity Put/Call ratio remains at relatively low levels, currently about 15% below average (the orange line in the chart). This implies that investors remain confident in the market despite the volatility.

We apply the ratio between these two series as a technical indicator (the bottom section of the above chart). It has historically provided strong buy signals when it approached its -2 Standard Deviation level. It has remained at this level since the break of the Virus Crisis.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. **Past performance should not be used as a guide to future performance.**



## 5. TECHNICAL PICTURE

We follow several technical indicators. Most of them provide a similar message:

S&P 500 vs Number of New Highs & Lows and RSI Overbought/Oversold Index



The number of S&P 500 constituents currently at new high or new low share price levels are very limited (middle section on the above chart). The RSI is currently at a 50 reading (lower section of the chart). These indicators reflect a fully neutral technical picture.

This neutral picture implies the potential for the market to continue its normal performance pattern during US election years, being a soft October with a potentially stronger year end.

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Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. **Past performance should not be used as a guide to future performance.**



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