

NEWTON

Investment
Management

▶ BNY MELLON | INVESTMENT MANAGEMENT

LGC SCOTLAND SEMINAR

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22 October 2020

Please read the important information at the back of this material

Thematic overview – how we see the world

STRUCTURAL ISSUES



4 D's

- Proliferation of **D**ebt
- **D**emographic headwinds
- Technological **D**isruption
- Financialised nature of economy (**D**istortion)



POLICY RESPONSE

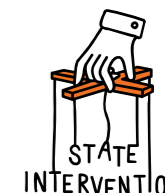
- Fed, ECB, BoJ, BoE, PBC...
- 'Dry powder' running out



CYCLICAL ISSUES



- Late cycle
- Corporate profits elevated
- Dollar liquidity flows
- Heightened leverage
- Inflated valuations



COVID-19

The great accelerator

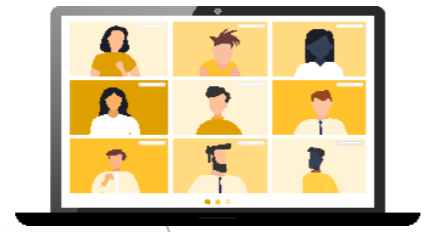
MORE INTERVENTIONIST STATE

‘Build build build’: Prime Minister announces New Deal for Britain



DIVERGENCE BETWEEN WINNERS AND LOSERS

- ✓ Digital
- ✓ Health care
- ✓ Consumer staples
- ✗ Real estate
- ✗ Fossil fuels



GREATER PROMINENCE OF ESG



‘ESG passes the Covid challenge

Investment with a sustainable focus is only likely to grow, wealth managers believe.’

FT, 2 June 2020

“Covid has done more for ESG in 10 weeks than the last 10 years”

Mike Fox, Royal London fund manager.



A fast evolving backdrop

An economic tug of war

REAL ECONOMY



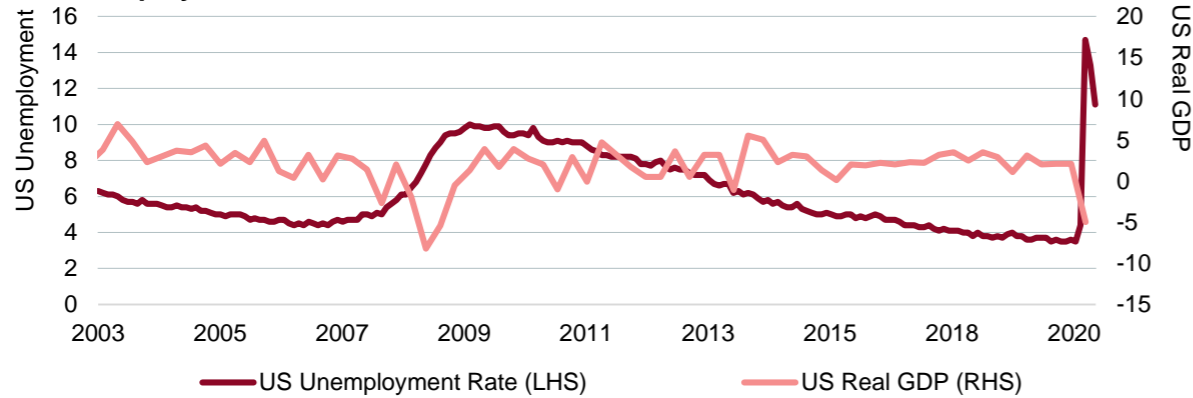
STATE INTERVENTION



L shaped, W shaped, V shaped recovery?

ECONOMIC REALITY

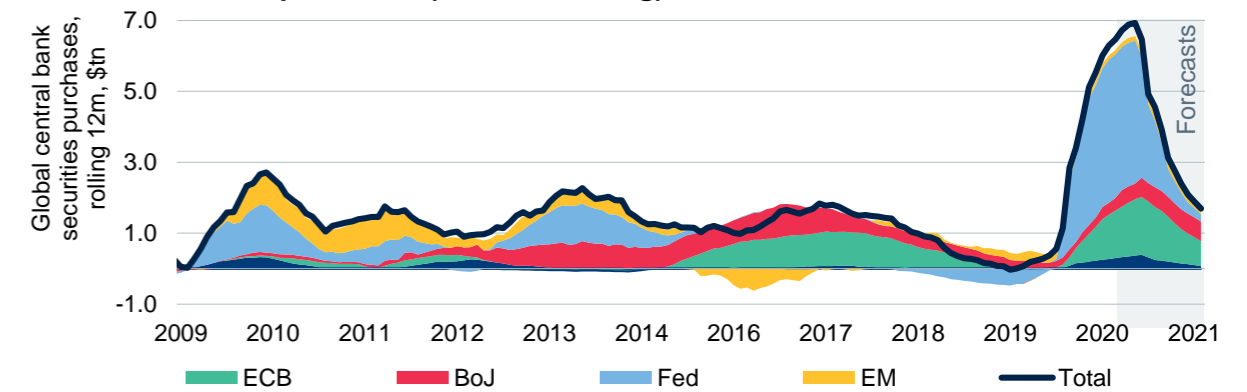
US Unemployment and Real GDP Growth



Source: Bloomberg, 30 June 2020.

THE RISING WAVE OF LIQUIDITY

Central bank asset purchases (\$trn, 12m rolling)



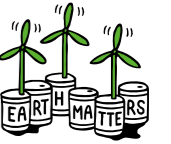
Source: National central banks, Citi Research, FTSE, 31 May 2020.



Unparalleled times

Thematic investment context

Global environmental and resource challenges



Global society is more aware of its impact



The coronavirus outbreak laid bare some of the imbalances that policymakers created over the last decade



Governments and central banks have flooded the financial system with liquidity to facilitate price discovery and market clearing



Further misallocation of capital likely to weigh on productivity and sustainable economic growth



A combination of large scale fiscal expansion and zero interest rate policy is likely to change the inflation outlook



Not all companies will benefit from fiscal largesse to the same extent and solvency risk remains high. Government assistance welcome now, but risk of future government interference in the Board Room and corporate decision making

Elevated economic uncertainty and financial market distortions merit a highly selective and opportunistic investment approach



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