MONACO ASSET MANAGEMENT

Investment Outlook

Q1 2021

Executive Summary

- **Pent-up demand and limited supply** post Covid-19 crisis could lead to a **continued recovery in economic growth** and a substantial **rise in inflation** expectations. We expect the **US yield curve to steepen** which will change the dynamic of financial markets as we have known them for a few years.

- **Developed credit markets are overpriced.** The benefit from a continued recovery in economic growth does not compensate for the headwind of rising long-term interest rates. **Emerging market credit** is the only area left providing **value**.

- The **USD** is at the onset of a **structural bear market** due to the burgeoning US fiscal deficit and a relative improvement of global economic growth. Stretched short positioning means a potential relief rally in the USD in Q1 2021. We recommend selling USD rallies.

- While valuations remain elevated, **equities can benefit from** an environment of **increased economic growth and inflation expectations**. We favour pro-cyclical sectors based on their relative cheapness. Geographically, we continue to **favour Emerging Markets**.

- **Commodities** remain one of our **most preferred asset class** based on valuation, positive impact from a weaker USD and a global economic recovery. We favour energy commodities and precious metals as beneficiaries of negative real interest rates.

Investment Stance Overview

Last quarter, all asset classes continued to build on the swift rally observed in Q3 2020. The election of President-elect Joe Biden and a democratic sweep comforted investors that a large fiscal stimulus in H1 2021 will offset any Covid-19-induced slowdown. A progressive acceleration of vaccination campaigns around the World supports the view that 2021 will display a strong economic recovery. Coupled with supply side constraints, inflation is starting to rise. 10-year inflation expectations are already above the Fed's target of 2%, the highest reading since 2019. This is happening as significant labour market slack still exists. We are concerned that the Covid-19 pandemic marked a turn in the global macro-economic environment with a potential swift return of inflation in the US. This means that the leading asset classes of the last few years may change going forward. We expect US 10-year bond yields to rise and the US yield curve to steepen in this scenario. This is initially not negative for equities which we believe will trade within a +/- 5/10% range. Despite elevated valuations, we recommend an Overweight on equity markets. This is because we recommend exposure to certain areas in equities which are still displaying attractive valuations and have yet to follow US equity markets to all-time highs: cyclical value in the US and International stocks with a preference for Emerging Markets. We continue to avoid exposure to credit markets due to unattractive valuations. The dollar seems to be at the onset of a structural bear market. While a pause in the USD weakness can happen in Q1 2021, the trend remains bearish. A weaker dollar will be supportive to commodity prices. We recommend an Overweight exposure to energy commodities and precious metals. Despite our optimistic view, caution should always prevail. The current bull market in risk assets will stop when prospects of tightening liquidity will marginally appear. We need to watch for early warning signs carefully.

** Change compared with previous months. One arrow means the stance has moved one place to the left or the right, two arrows means a move of two places, etc.*

Model Portfolios

The following model portfolios are based on current positioning at the start of Q1 2021. Considering the volatile nature of financials markets and our outlook, their compositions is likely to change throughout the quarter.

USD Based Portfolios

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
Portfolio Bases						**97.0%**
EUR	1.21	-0.7%	-0.7%	-0.7%	Bullish	10.0%
USD	90.42	0.4%	0.5%	0.5%	Bearish	87.0%
Others						**3.0%**
JPY	103.67	0.3%	-0.4%	-0.4%	Bullish	3.0%
Equities						**45.0%**
Developped Markets	**63.77**	**0.5%**	**3.5%**	**3.5%**	Bullish	**31.0%**
Europe	410.20	-0.2%	2.8%	2.8%	Bullish	9.3%
North America	3,795.54	-0.2%	1.1%	1.1%	Neutral	17.1%
Great Britain	6,754.97	-1.7%	4.6%	4.6%	Neutral	1.6%
Asia Pacific	28,519.18	3.7%	3.9%	3.9%	Bullish	3.1%
Emerging Markets	**1,370.76**	**1.3%**	**6.2%**	**6.2%**	Bullish	**10.0%**
Asia Pacific	755.59	1.0%	5.9%	5.9%	Bullish	6.6%
EMEA	251.17	1.7%	4.1%	4.1%	Bullish	2.4%
South America	2,546.61	1.8%	3.9%	3.9%	Bullish	1.0%
Thematic						**4.0%**
Asset Allocation	35.23	0.9%	3.2%	3.2%	Bullish	4.0%
Fixed Income						**18.0%**
Europe						**0.0%**
Sovereign	223.83	-0.1%	-0.2%	-0.2%	Bearish	0.0%
Investment Grade	255.48	0.2%	-0.1%	-0.1%	Bearish	0.0%
High Yield	422.47	0.0%	0.5%	0.5%	Bearish	0.0%
North America						**3.0%**
Sovereign/Tips	2,760.63	0.1%	-1.2%	-1.2%	Bullish	3.0%
Investment Grade	3,514.54	0.2%	-1.3%	-1.3%	Bearish	0.0%
High Yield	2,345.24	0.1%	0.3%	0.3%	Bearish	0.0%
Emerging Markets						**7.0%**
Local Currency	416.51	-0.6%	-1.6%	-1.6%	Bullish	7.0%
Hard Currency	1,273.11	-0.4%	-1.2%	-1.2%	Neutral	0.0%
Others						**8.0%**
Convertible	970.68	-0.1%	0.9%	0.9%	Bearish	0.0%
Trade Finance	110.43	0.0%	0.0%	0.0%	Bearish	0.0%
Broad Funds	554.99	-0.2%	-0.7%	-0.7%	Bullish	8.0%
Commodities		**1.7%**	**3.8%**	**3.8%**		**12.0%**
Agriculture	78.70	3.7%	5.3%	5.3%	Bullish	1.7%
Energy	21.87	0.9%	7.6%	7.6%	Bullish	1.7%
Industrials	136.39	-0.9%	2.8%	2.8%	Bullish	1.7%
Precious Metals	227.47	1.5%	-2.6%	-2.6%	Bullish	7.0%
Alternatives						**20.0%**
Hedge Funds	1,390.92	-0.1%	0.8%	0.8%	Bullish	15.0%
Real Assets	1,815.00	0.8%	2.1%	2.1%	Bullish	5.0%
Cash						**5.0%**

Source. MAM Research, Bloomberg

EUR Based Portfolios

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
Portfolio Bases						**97.0%**
EUR	1.21	-0.7%	-0.7%	-0.7%	Bullish	92.0%
USD	90.42	0.4%	0.5%	0.5%	Bearish	5.0%
Others						**3.0%**
JPY	103.67	0.3%	-0.4%	-0.4%	Bullish	3.0%
Equities						**45.0%**
Developped Markets	**63.77**	**0.5%**	**3.5%**	**3.5%**	Bullish	**31.0%**
Europe	410.20	-0.2%	2.8%	2.8%	Bullish	12.4%
North America	3,795.54	-0.2%	1.1%	1.1%	Neutral	14.0%
Great Britain	6,754.97	-1.7%	4.6%	4.6%	Neutral	1.6%
Asia Pacific	28,519.18	3.7%	3.9%	3.9%	Bullish	3.1%
Emerging Markets	**1,370.76**	**1.3%**	**6.2%**	**6.2%**	Bullish	**10.0%**
Asia Pacific	755.59	1.0%	5.9%	5.9%	Bullish	6.6%
EMEA	251.17	1.7%	4.1%	4.1%	Bullish	2.4%
South America	2,546.61	1.8%	3.9%	3.9%	Bullish	1.0%
Thematic						**4.0%**
Asset Allocation	35.23	0.9%	3.2%	3.2%	Bullish	4.0%
Fixed Income						**15.00%**
Europe						**0.0%**
Sovereign	223.83	-0.1%	-0.2%	-0.2%	Bearish	0.0%
Investment Grade	255.48	0.2%	-0.1%	-0.1%	Bearish	0.0%
High Yield	422.47	0.0%	0.5%	0.5%	Bearish	0.0%
North America						**0.0%**
Sovereign/Tips	2,760.63	0.1%	-1.2%	-1.2%	Bullish	0.0%
Investment Grade	3,514.54	0.2%	-1.3%	-1.3%	Bearish	0.0%
High Yield	2,345.24	0.1%	0.3%	0.3%	Bearish	0.0%
Emerging Markets						**7.0%**
Local Currency	416.51	-0.6%	-1.6%	-1.6%	Bullish	7.0%
Hard Currency	1,273.11	-0.4%	-1.2%	-1.2%	Neutral	0.0%
Others						**8.0%**
Convertible	970.68	-0.1%	0.9%	0.9%	Bearish	0.0%
Trade Finance	110.43	0.0%	0.0%	0.0%	Bearish	0.0%
Broad Funds	554.99	-0.2%	-0.7%	-0.7%	Bullish	8.0%
Commodities		**1.7%**	**3.8%**	**3.8%**		**12.0%**
Agriculture	78.70	3.7%	5.3%	5.3%	Bullish	1.7%
Energy	21.87	0.9%	7.6%	7.6%	Bullish	1.7%
Industrials	136.39	-0.9%	2.8%	2.8%	Bullish	1.7%
Precious Metals	227.47	1.5%	-2.6%	-2.6%	Bullish	7.0%
Alternatives						**20.0%**
Hedge Funds	1,390.92	-0.1%	0.8%	0.8%	Bullish	15.0%
Real Assets	1,815.00	0.8%	2.1%	2.1%	Bullish	5.0%
Cash						**8.0%**

Source. MAM Research, Bloomberg

Asset Class Returns

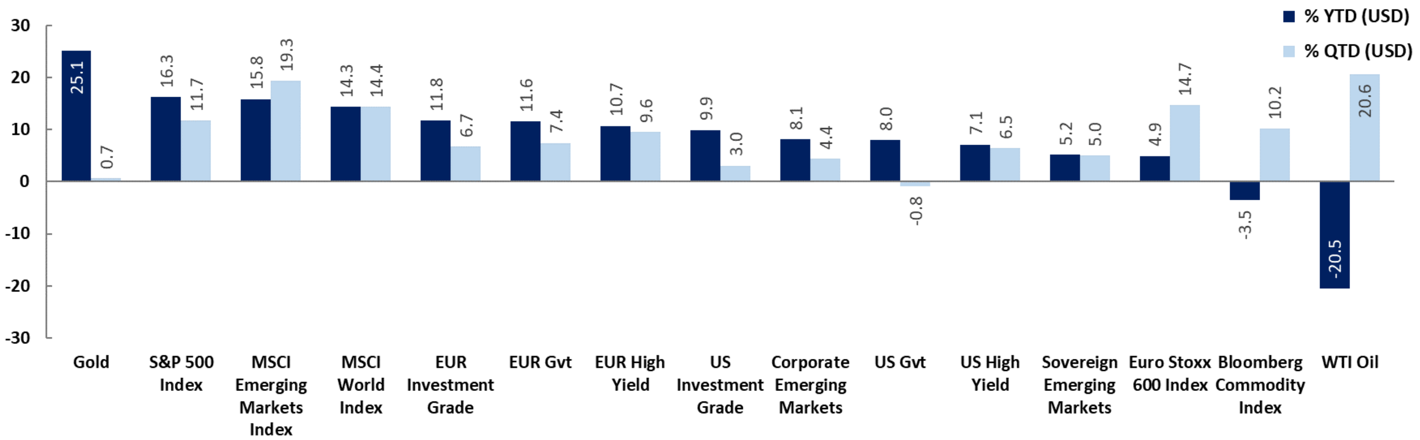
Recovering from one of the most unconventional crises, asset returns were positive across the board for the third quarter in a row. The traditional barometers of economic growth, oil and copper, continued to show strength, rising by +20.6% and 16.0% in Q4 2020, respectively.

Global equities were up 14.4% in Q4 2020, erasing last year's losses. The continuous rally since the initial bounce off from the March lows has been strong, thus confirming investors have been looking beyond the crisis. With vaccines coming online earlier than expected, the economic recovery should continue. Markets observed a strong and swift factor rotation after the presidential election. The move meant cyclical assets (i.e. EM & EU equities) were among the best performers.

Corporate bonds spreads contracted by an additional -116bps last quarter. European sovereign and corporate credit were the best performing fixed income assets this past quarter with the sovereign index up +7.4%, corporate investment grade index up +6.7%, and high yield index up as much as +9.6% (all in USD terms). The weaker dollar and a continuous search for higher yielding assets meant emerging market bonds continued to perform reasonably well, up +5.0%.

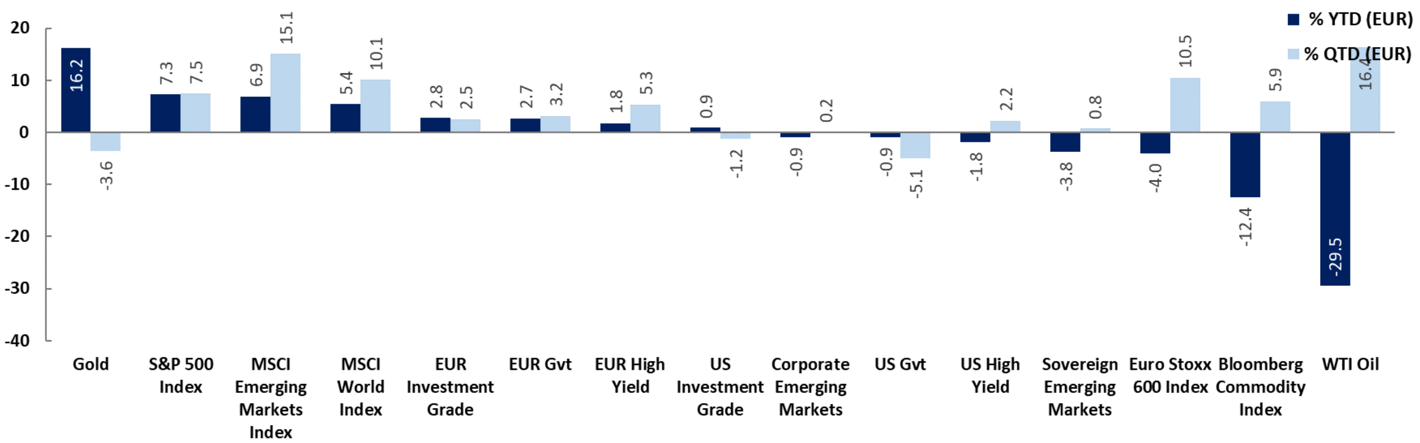
On the other end of the spectrum, gold was relatively flat, but remains one of the best performing asset in 2020. As markets progressively priced-in higher inflation and central banks plan on remaining accommodative deep into 2022, cyclical asset surged and benefited from a post-election rotation. Oil was one of the main beneficiary of said rotation with prices climbing as much as +20.6% while the broad commodity index ended up +10.2% in Q4 2020.

Chart 1. Asset Class Returns Q4 2020 vs. 2020 (USD Base)



Source. MAM Research, Bloomberg.

Chart 2. Asset Class Returns Q4 2020 vs. 2020 (EUR Base)



Source. MAM Research, Bloomberg.

MAM Actions

Equities

What have we done?

In Q4 2020, we kept equity market exposure constant, but operated some changes. We sold broad US and EU equities products to increase allocation to US value stocks by purchasing the iPath Shiller CAPE ETF. We also added to Emerging Market equities.

Our strategy going forward?

In Q1 2021 we intend to increase equity exposure early on to c.45% (for balanced accounts). We believe a significant amount of equity markets performance in 2021 can be front-loaded. To gain exposure we will use a combination of ETFs, Funds and S&P500 Index/Euro Stoxx 50 Index options. The option strategy contemplated is to buy at-the-money call options and sell 10% out-of-the-money put options with a maturity in May 2021.

Fixed Income

What have we done?

We have remained bearish on corporate bonds for some time. We have selectively increased exposure to Emerging Market bonds, the only areas in credit left with value, through the BlueBay EM Unconstrained Bond Fund.

Our strategy going forward?

Our strategy isn't going to change materially in Q1 2021. Our inflation thesis will continue to push us to short US long bond futures in the MAM Macro Hedge Fund.

Commodities

What have we done?

Our bullish view on commodities is structural. As such, we kept our exposures to broad commodities and precious metals constant.

Our strategy going forward?

We intend to keep exposure to commodities at or around 10% of portfolios. We still like precious metals (gold and silver) as beneficiaries of deeply negative real interest rates. We will use any pull-back to add exposure and/or sell put options on gold and silver. Our bullish view on energy means we will remain structurally long WTI Oil and Nat Gas futures in the MAM MHS Fund and look to replicate some of this strategy in portfolios using ETFs.

Currencies

What have we done?

We kept FX allocations broadly unchanged in Q4 2020 as our thesis of a weaker USD played out.

Our strategy going forward?

Our medium-term view of a weaker USD warrants little change in portfolios currently. We may use any short-term relief rally in the USD to sell-down exposures more or use FX options to increase exposure to the weaker USD thesis.

Hedge Funds

What have we done?

The selection of Hedge Funds has been a real value add for portfolio performances in 2020, especially in Q4 with outstanding performances from Io Macro and the Helikon funds. We kept exposure constant to this asset class and underlying investments.

Our strategy going forward?

The Io Macro team is launching a new fund focused on inflation beneficiaries, called Hypernova fund. Based on our view that inflation can rise substantially in 2021, we intend to invest in this fund from the launch in February.

Events

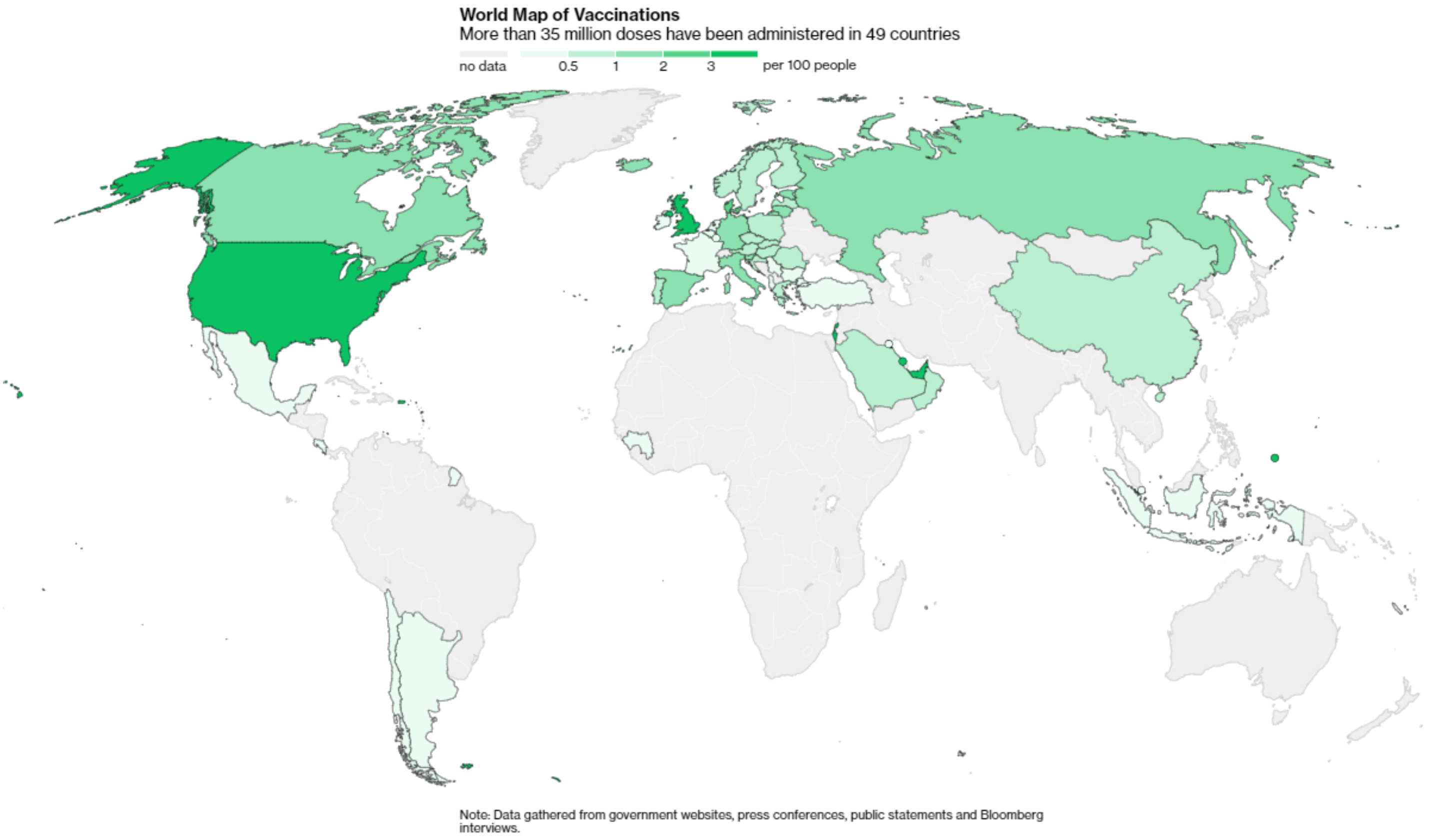
Covid-19 Update: More than 35 Million Shots Given

The biggest vaccination campaign in history has begun. More than 35 million doses in 49 countries have been administered, according to data collected by Bloomberg. Delivering billions more will be one of the greatest logistical challenges ever undertaken.

Vaccinations in the U.S. began Dec. 14 with health-care workers, and so far 11.9 million doses have been given, according to a state-by-state tally by Bloomberg and data from the Centre for Disease Control and Prevention. At least 1.46 million people have completed the two-dose vaccination regime.

With the start of the global vaccination campaign, countries have experienced unequal access to vaccines and varying degrees of efficiency in getting shots into people's arms. Israel's rate of inoculations dwarfs the efforts of other nations, with 23.9 doses administered for every 100 people. Most countries haven't yet given their first shots.

This event is likely to grab investors' attention for the next 6 months. Putting aside concerns about distribution and effectiveness of the vaccine on new Covid strains, this vaccination campaign is a game-changer and at the heart of our positive economic and asset price cycle view in 2021.



Source. Bloomberg

2021 May Mark a Return of Inflation

In a detailed "insights" report published in December 2020, we explained our thesis of higher US inflation in 2021. This is a thesis that still holds today and our conviction level keeps increasing as weeks go by. Recent US inflation and wage growth data supports this view. We will update investors regularly on US inflation risk.

One of Monaco Asset Management strengths in 2020 was adequate selection of hedge funds in the Alternatives section of portfolios. More specifically, the Io Macro fund returned c. +60% in 2020 with low correlation to financial markets. The Io Macro team shares our view on higher US inflation in 2021. In order to fully grasp the investment opportunities presented by a return of inflation in the US in 2021, the Io Macro team is launching a new fund called Hypernova. This fund's strategy will be dedicated to investments benefiting from higher US inflation. It will launch in February 2021. We believe this is an interesting investment in traditional portfolios as an uncorrelated strategy to other investments. We will endeavour to update investors closer to the launch of the Hypernova fund.

Economics & Rates

Conclusion. Inflation Comeback. The economy will strengthen this year as the impact of the pandemic winds down. The most recent vaccine and political news developments led us to revise our outlook to the upside on the speed of the recovery. Indeed, global GDP should revert back to its pre-pandemic growth path by the end of 2021 (e.g. where GDP should have been in the absence of the Covid-19 exogenous shock) vs. 2022 previously. Manufacturing PMI recovered from their through in March 2020 to a cycle high. Services PMI should rebound from March and April 2020 lows when restrictions are lifted and vaccine rollouts allow individuals to revert back to a more "normal" life. Ultimately, this will lead to a significant pant-up in demand as global supply bottlenecks emerge. The risk for higher and sustained inflation is growing with early signs already observable in financial markets (i.e. higher long-term treasury yields). We continue to recommend investors to invest in yield curve steepening related trades. As the global search for yields carries on, we continue to like EM local currency bonds in countries where there is still monetary and fiscal flexibility.

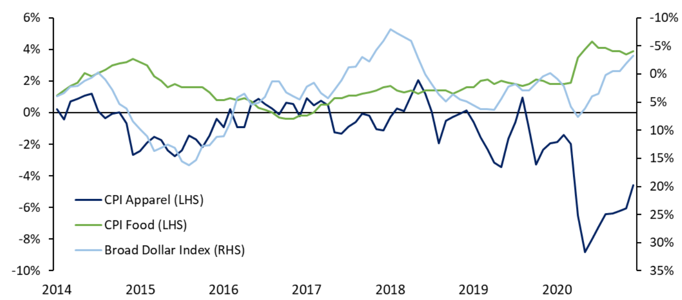
Despite the global economy being on a speedy recovery path, governments are still worried over a "double-dip" recession. The U.S. was planning another fiscal package of $1tn, but the confirmation of a "blue wave" forces us to reconsider. Indeed, we may be looking at a significantly larger stimulus bill including a $2,000 stimulus check (vs. $600) and a massive infrastructure spending bill. On the other side of the Atlantic, Europe pushes its own agenda with a €750bn recovery fund. These stimuli will be on top of large amounts of income subsidies that were thrown into the economy in 2020. Thus far, fiscal policies were primarily focused on giving income support to people. This year, the narrative will change. The emphasis will shift to rebuilding economies. A consequence of this is higher inflation.

Arguably, core inflation was relatively steady in the second half of last year with rates at 1.0% to 1.2% (excl. rent, which is less volatile than most). Yet, these low and stable numbers hide very wide divergences between sectors, most of which can be traced back to the impact of Covid-19 (directly or indirectly). Albeit somewhat noisy in the short-term despite underlying trends, Apparels is a sector were inflation is on the rise **(Chart 6)**.

Inflation is a primary objective to central bank actions. As Milton Friedmann famously said: "Inflation is always and everywhere a monetary phenomenon in the sense that it can only be produced by a more rapid increase in the quantity of money than in output". A good measure of the quantity of money is M1. The "leading" relationship between money creation and inflation is evident post-2001 and 2008 recessions **(Chart 7)**. Short periods of M1 growth above 10% in 2001 and 20% in 2009 helped drive inflation above the 2% threshold. The liquidity expansion orchestrated by the Treasury and Fed during the pandemic is historic in magnitude. M1 growth is +53.2% today! This is more than twice the level in the aftermath of the GFC. This phenomenon is not exclusive to the US. It is global. Hence, we expect yield curves to keep on steepening on higher inflation expectations. Yield curve steepening trades will be prominent, but the yield curve has yet to reach '16 and '18 levels **(Chart 8)**.

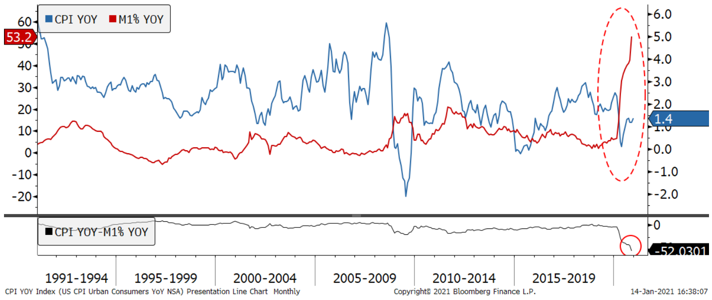
Elsewhere in rates, we continue to like emerging markets local currency bonds **(Chart 9)**. Emerging market economies remain better equipped to weather another virus storm as local central banks have relatively more legroom to further cut interest rates and governments have room to introduce further fiscal support. Then, economies stand to benefit from a shakeup in the supply chain with companies looking to reduce their reliance on China. Ultimately, emerging market currencies continue to trade at a relative discount against the greenback.

Chart 6. Rebound in apparel and food inflation



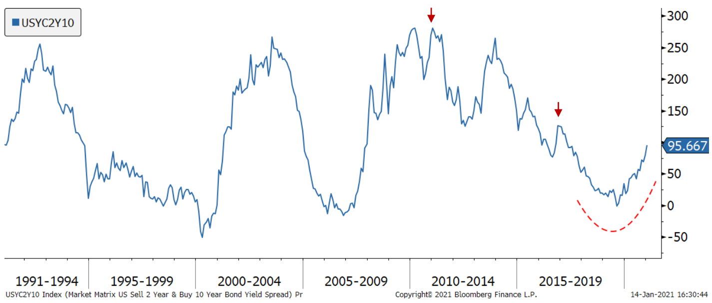
Source. MAM Research, Bloomberg

Chart 7. US M1 Growth (YoY, Red) vs US CPI (YoY, Blue) (LHS)



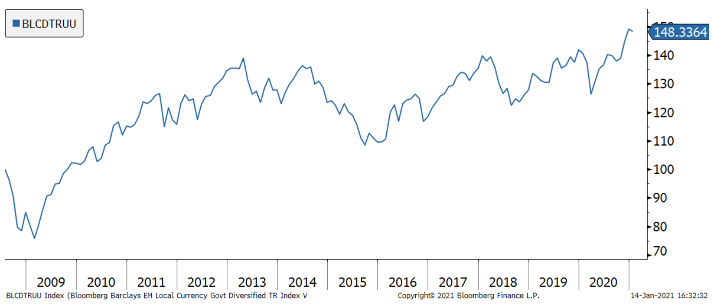
Source. MAM Research, Bloomberg

Chart 8. US 10-2Yr Yield Curve (Monthly)



Source. MAM Research, Bloomberg

Chart 9. EM Local Currency Sovereign Bonds (Weekly)



Source. MAM Research, Bloomberg

Credit

Conclusion. Bearish DM, Favour EM Exposure. We continue to be negative on the corporate credit outlook in developed markets. After the most recent contraction in spreads, corporate bonds continue to offer unattractive risk-rewards. Considering the current macro-economic outlook, spreads appear to be fairly priced at best. Looking back 23 years, bond trading at current spreads never generated positive returns **(Chart 10)**. While central bank policies remain accommodative, we believe corporate bonds have seen their lows in the current economic cycle, notably in the US. Inflation conscious, we continue to favour inflation protected securities (TIPS) over nominal bonds and floating rate notes. As the yield curve steepens further on higher inflation expectations, we look for opportunities in spread products. In spite of our negative outlook on developed market corporate credit, we look for opportunities in European high yield bond, which stand to benefit from a pro-cyclical economic environment (e.g. cyclical industry exposure). Elsewhere, we favour EM local currency bonds for their more flexible monetary policies, cheaper currencies, and cyclicality.

Assuming unemployment reverts back to pre-pandemic levels, inflation should tick-up in the coming years. In fact, we are already beginning to see inflationary pressures in job numbers with the US hourly earnings year-on-year growth rate ticking up to 5.1% in December 2020. Continuously fearful of the zero-lower bound constraint, central banks will continue to pursue policies that could fuel inflation. As such, we expect them to refrain from tightening monetary policies in response to looser fiscal policies. Central banks will be slow to raise rates with market currently anticipating no rate hikes until at least 2023.

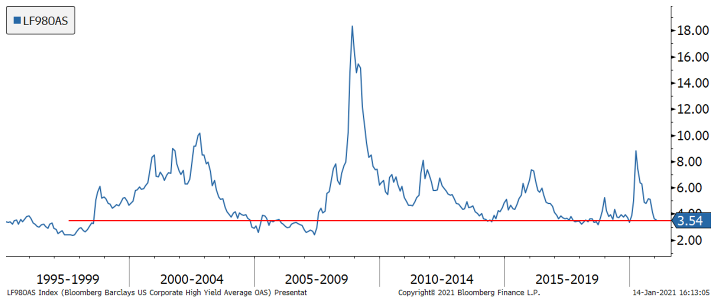
We have been advocating higher inflation for the past 6 months. The media and other financial institutions are only just catching up to this thesis. We believe markets continues to under-price the risk for higher and sustained inflation. Yields have seen their lows in the current cycle. The yield curve is likely to steepen. We read a lot of scepticism and half-hearted views since inflation has been non-existent for over 12-years. However, investors should favour inflation protected securities (TIPS) over nominal bonds. Instead of government bonds, we would instead prefer to increase allocation to spread product set to benefit from a steepening in the yield curves.

Corporate credit spreads fell substantially since the peak of the crisis **(Chart 11)**. However, the recovery could be short-lived as social and travel remains under pressure with the latest wave of restrictions. Fiscal stimulus helped avert a cascade of business failures that normally accompany recessions. Despite a tick up in bankruptcies among large companies shortly after the pandemic begun, 16% fewer companies filled for bankruptcies in the first 11 months of 2020 vs. 2019. Bankruptcy fillings (incl. personal), fell to a 35-year low. The risk for zombie companies runs high.

Despite our cautiousness when investing in corporate credit, European high yield bonds offer more interesting risk-rewards on the back-end of the pandemic on higher cyclical industry exposure (i.e. industrials, financials). We continue to focus on shorter maturity (e.g. 2023-2024) bonds, less sensitive to higher inflation expectations. Yield curves steepening are more likely to have a direct impact on long-duration bonds **(Chart 12)**.

Emerging market corporate credits continue to offer attractive yields. Local currencies continue to look cheap on a REER-basis. Long-term, our positive outlook on commodities and inflation support higher economic growths. Central banks also have more legroom to pair with the prolonged negative impact of the crisis. Therefore, we continue to recommend exposure to emerging market local currency **(Chart 13)** over hard currency bonds.

Chart 10. US High Yield Credit Spread Index

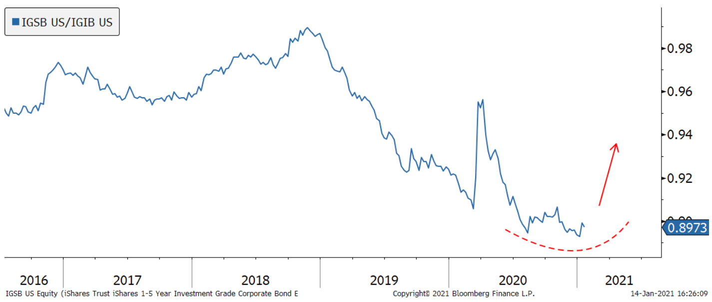


Source. MAM Research, Bloomberg

Chart 11. Commercial Bankruptcies (Chapter 7) (Monthly)

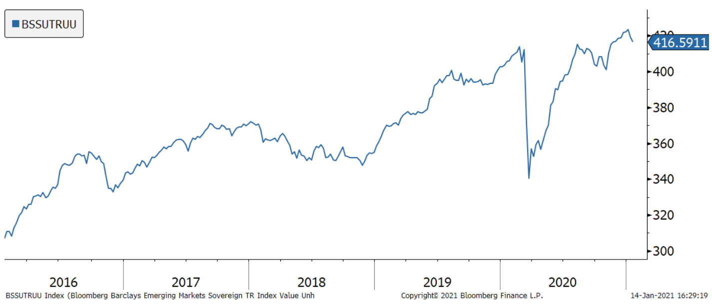
Source. MAM Research, American Bankruptcy Institute

Chart 12. Short-Duration / Long-Duration Corporates



Source. MAM Research, Bloomberg

Chart 13. EM Local Currency Bonds USD Unhedged



Source. MAM Research, Bloomberg

Currencies

Conclusion. Structurally Bearish USD. The US dollar index is up 48bps YTD, but down 12.2% from its peak in March 2020. We remain structurally bearish the greenback. Many, if not all, roads should lead to a weaker dollar in the upcoming economic cycle. However, we do expect some consolidation in the near term after the strong rally in non-dollar currencies. The next catalyst is likely to be the combination of the Fed remaining accommodative, policymakers in Washington passing a new and larger stimulus bill with a double focus on income subsidies and unfractured, higher inflation expectations, and a decline in real yields as a result. Ultimately, economic recoveries lead dollar outflows into more pro-cyclical currencies (i.e. Euro), commodity-driven currencies (i.e. NOK, CAD), and dollar-denominated debt heavy economies (i.e. EM). Among G10 currencies, we favour the Euro for its pro-cyclical attributes and the Yen for its inflation protection. We stay cautious on the Pound on persisting Brexit repercussion uncertainties and a pandemic-hit economy. EM currencies continue to have a compelling story and benefit from a higher correlation to commodities.

The dollar has been and remains a counter cyclical currency that tends to move in the opposite direction to the global business cycle and strengthen when uncertainty and volatility emerges. If the global economy strengthens on an effective vaccine rollout, the dollar should weaken. Additionally, the dollar remains about 13% overvalued on a purchasing power parity (PPP) exchange rate basis. This premium is also reflected in the large US current account deficit, which reached its highest level in Q2 2020 since 2008 and should climb even further in the second half of the year. Despite the slight relief observed in the early innings of 2021, the greenback continues to trade +1SD expensive on a relative exchange rate (REER) basis **(Chart 14)**. Unlike in recent years, the USD is no longer benefiting from higher interest rates. US real yields (-1.5%) have fallen below those of many partner countries because of relatively higher US inflation expectations.

While the European central bank is not in favour of a stronger currency in the union, interest rates are already in negative territory and there is not much it can do in that regard. As the US dollar weakens, the EUR/USD should rise to 1.30 sometime this year. Strong risk appetite and a negative interest rates differential **(Chart 15)** leads investors to remain relatively bullish on European assets.

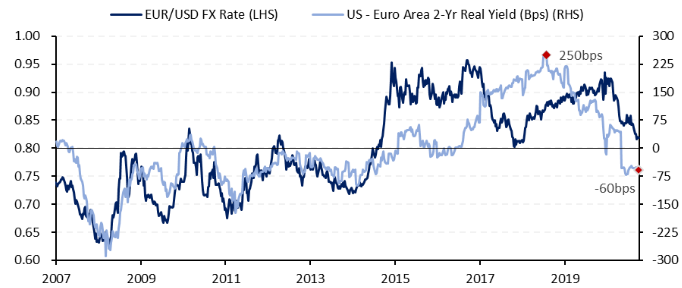
When the Brexit deal was announced last year, the USD/GBP traded as high as 1.37, but since then the currency weakened. The sterling trades at a -1SD discount on a REER basis **(Chart 16)**. Yet, we maintain a neutral view pending further developments. The country is currently facing a surge in virus cases that forced local authorities to impose a new series of social restrictions to curb down the outbreak. Additionally, the next focus will be on the lead up the February Bank of England monetary policy report. Consensus expects the BOE to cut rates and a publish review of the impact of negative rates. Near term, GBP could underperform with UK real yields among the lowest in the G10, meaning sterling assets are less attractive.

We are most bullish about the prospect for emerging market and commodity-driven currencies. Combined with a weaker dollar, stronger global economic growth will support commodity prices this year, which will benefit commodity-driven currencies **(Chart 17)**. Accordingly, we expect oil prices to further recover and natural gas prices to rise, which will notably benefit both the Norwegian krone and the Canadian dollar. Then, a weaker dollar will help oversea borrowers and therefore EM economies with larger amounts of dollar-denominated debt. These already trade at compelling REER-based valuations; for instance both the Mexican peso and Brazilian real trade over -2SD cheap.

Chart 14. US Dollar REER Valuation and US Dollar Index (Weekly)

Source. MAM Research, Bloomberg

Chart 15. Interest Rate Differential vs. USD/EUR FX Rate (Weekly)

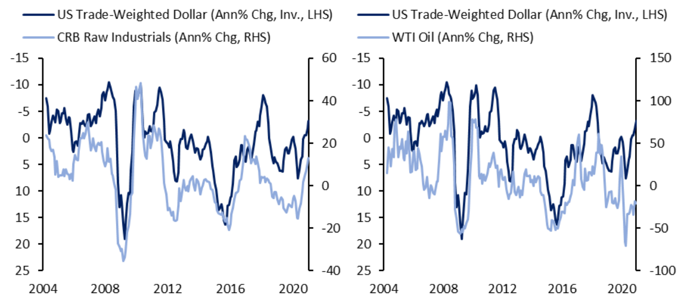


Source. MAM Research, Bloomberg

Chart 16. GBP REER Valuation and USD/GBP FX Rate (Weekly)

Source. MAM Research, Bloomberg

Chart 17. Trade Weighted Dollar vs. Raw Industrials & WTI Oil



Source. MAM Research, Bloomberg

Equities

Conclusion. Optimistic. Equities remain one of our preferred asset class heading into 2021. However, we believe equity market leaders will change this year. Thanks to the drop in interest rates, governments benefit from additional room to run larger budget deficits than in the past. As a result, the sort of fiscal tightening that impeded the economic recovery in the aftermath of the great financial crisis is unlikely to reoccur. The combination of above-trend growth and persistently low short-term rates will support equities. We continue to favour quality value stocks relative to growth stocks. Value will benefit from a steeper yield curve and the easing of lockdown measures on the back-end of the pandemic. The "pandemic trade" is giving way to the "reopening trade". While a first wave of rotation occurred in the aftermath of the US election, we remain in the early innings of such transition. We favour an overweight to international stocks, especially emerging markets on top of our quality value exposure. Furthermore, in line with our bullish view on precious metals and commodities in general, we like exposure to commodity-driven equities (i.e. miners, O&G).

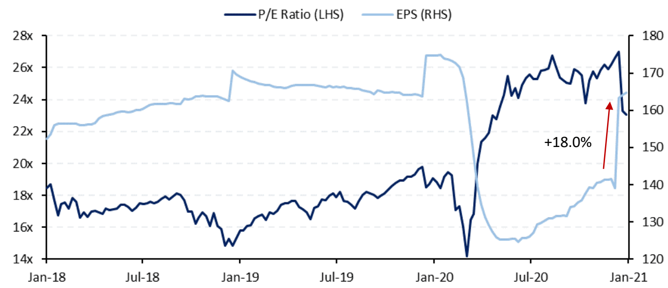
Equity market valuations continue to expand, notably in the US. The S&P 500 Index trades on a 22.5x 2021e P/E ratio. The lion share of equity markets re-rating remains linked to the positive impact of a lower discount rate with the central bank planning to keep rates anchored at current levels until at least 2023. While the discount rate is a factor, short-term EPS expectations do have a material impact on valuations. On a 2022e basis, the S&P 500 Index P/E multiple is actually trending down to 23.0x vs. 27.0x at the end of last year **(Chart 18)**. This re-rating is mostly attributed to higher earnings expectations on the back end of the pandemic with markets pricing a strong recovery on vaccine rollouts. Yet, despite their recent contraction, market are still over 1.5SD expensive (P/E basis). While this is a concern, it does not prevent equities to rally further in the short-term.

Multiple contractions paired with earnings growth in the "growth" phase of the market cycle **(Chart 19)** is why we favour value stocks. Early signs of it already emerged. Value stocks EPS expectations were revised 17.5% higher for 2022 since the end of last year. In contrast, growth stocks EPS expectations were revised a mere 0.57% higher for the same year. Additionally, there is little to no room for additional contraction among value stocks. They already trade at a steep discount vs. growth stocks. A mean reversion scenario remains a possibility. Unanticipated changes in cyclical industry growth and recovery could also surprise to the upside and fuel another rotation trade. Today, we believe companies have been mostly conservative in their guidance for this year and next year. While markets could be assuming the same, risk to the upside prevails.

Value and non-US stocks tend to outperform growth and US stocks, respectively, when the dollar weakens and global growth improves **(Chart 20)**. November marked the first stage of the rotation trade. With value stocks cheaper than at the peak of the dot-com bubble, investors need to be ready to shift from pandemic to reopening trades.

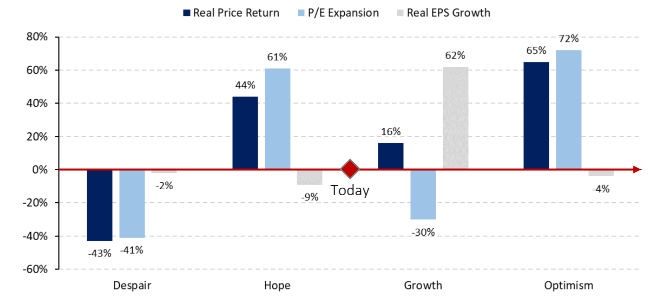
Among cyclicals, as per our bullish outlook on commodities and inflation, we maintain a constructive view on commodity-linked equities (i.e. Miners, O&G). Even after the recent bounce, energy has still underperformed by 30% last year. Historically, this has always seen energy bounce by 20%+. Energy stocks lagged the rebound in oil prices while relative performance has somewhat lagged relative EPS trends. Relative valuations have not been this low since the 1980s **(Chart 21)**. Energy remains amongst the cheapest sectors relative to history. FCF yield in the sector is close to record high. Strong growth data and growing confidence on inflation will support the rotation trade.

Chart 18. S&P 500 Index 2022e P/E Ratio and EPS (Weekly)



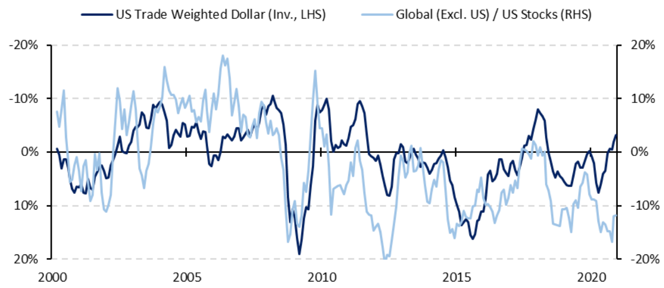
Source. MAM Research, Bloomberg

Chart 19. Phases Across Cycle for the S&P 500 Index since 1973



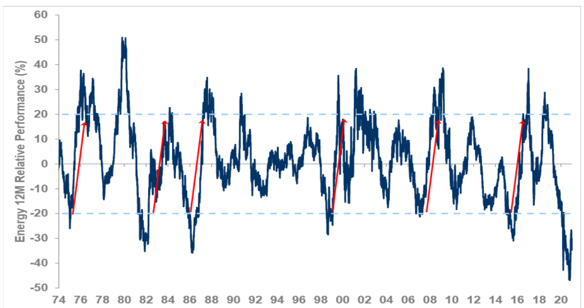
Source. GS, MAM Research

Chart 20. Trade Weighted Dollar vs. Global (excl. US)/US Stocks



Source. MAM Research, Bloomberg

Chart 21. Energy 12M Relative Performance



Source. MS Research

Commodities

Conclusion. Structurally Bullish. Commodities remain one of our preferred asset class with valuations still at record lows. Unprecedented global stimulus, economic activity pick-up on the back-end of the pandemic, higher inflation expectations, and an environment propitious to a weaker dollar in the next economic cycle are all supportive to the commodity complex. We remain long gold with a price target of $2,300/oz. (+25%), yet we continue to favour silver with a price target of $35/oz. (+39%) given supportive industrial applications (i.e. photovoltaic panels) accounting for more than 53% of the total demand for the precious-industrial metal. We continue to believe in some tactical long energy commodity trades when supply/demand expectations swing markets and prices are near or at technically appealing levels. Today, all commodities to the exception of wheat are in a deficit, this is very positive. After a decade of declining prices, the combination of higher inflation, weaker dollar, and a tighter supply set commodities up for a structural bull market. With prices still relative low, the risk-reward asymmetry makes it a compelling opportunity.

Higher inflation remains a key point in our bullish commodities thesis. The intrinsic nature of gold **(Chart 22)** makes it a great inflation hedge. It also tends to fare well when market volatility rises. Gold is a non-yielding asset. Hence, the opportunity cost of holding it rises with higher interest rates. Conversely, when real yields are negative (like today) investors are incentivized to buy the asset. This phenomenon was seen in the 1970s when real yields fell into negative territory. This move supported higher gold prices, which only fell following an extreme increase in interest rates to mitigate inflationary pressures in 1980. Last year, bullish on it, we raised our prices target from $1.950 to $2,300 (+25% vs. spot). Despite the recent consolidation, prices still have a long way to go until they reach a ceiling.

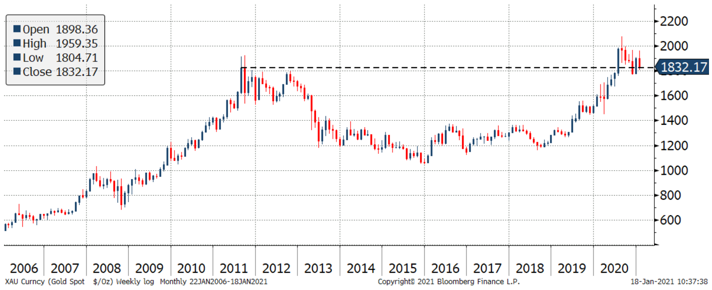
Pushes for environmentally friendly projects and greener energy sources only accelerated since our last note. EV companies are enjoying strong tailwinds and so are other green companies. This has proven and should continue to be supportive to silver prices **(Chart 23)**. As mentioned in the past, the majority of the demand for the commodity can be traced back to its industrial applications (e.g. photovoltaic panels, autos). We maintain our current price target of $35 (c.+39% vs. spot).

Oil stands at a cross road. As the demand recovery expectations waned, key agencies (OPEC, IEA, EIA) made bearish adjustments to their 2021 market balance forecasts. However, in the most recent OPEC+ meeting, Saudi Arabia pledged production cuts offsetting Russia and Kazakhstan production increases. Hence, if compliance is achieved, the global oil market could be in a supply deficit. This would provide further support to prices and, on top of higher inflation, push oil towards $60 **(Chart 24)**.

The unprecedented wave of global stimulus, both monetary and fiscal, continue to put pressure on the dollar and support commodity prices. At an FT Life Event, Jeff Curie (GS Head of Commodities Research) said "every single commodity market with the exception of wheat is in a deficit today". Their desk estimates a substantial deficit through the end of the year and beyond into 2022, which is extremely positive for prices.

The recovering demand is pulling an already tight global supply. Early examples of that were seen in soybean prices **(Chart 25**, partly fuelled by China boosting imports to feed a recovering livestock sector on the aftermath of the African swine fever that decimated its local herds. However, the imbalances do not stop there. The outcome of the Georgia Senate race will allows the incoming administration to pass a large infrastructure spending bill that will prove supportive to industrial metals like copper.

Chart 22. Gold Spot Prices (Monthly)

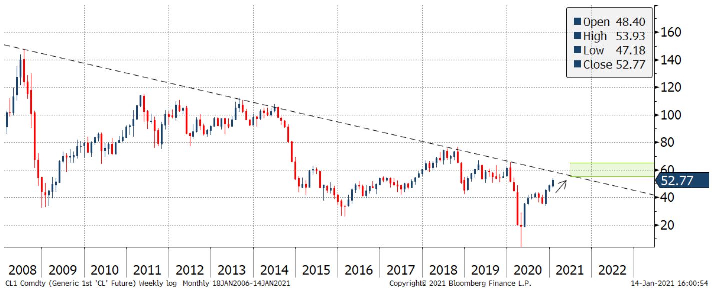


Source. MAM Research, Bloomberg

Chart 23. Silver Spot Prices (Monthly)

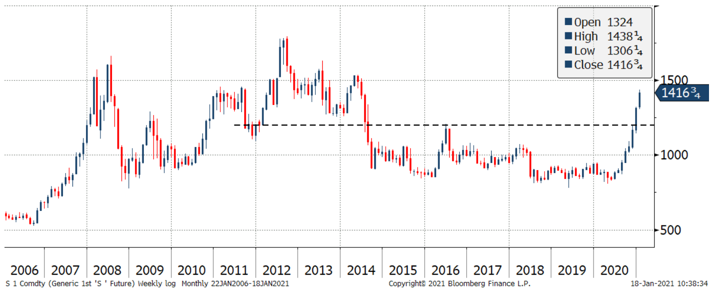
Source. MAM Research, Bloomberg

Chart 24. NYME Crude Oil Rolling Futures Prices (Weekly)



Source. MAM Research, Bloomberg

Chart 25. Soybean Front Month Futures Prices (Monthly)



Source. MAM Research, Bloomberg

Disclaimer

This document has been prepared by Monaco Asset Management (MAM). It gives a general overview of the strategies proposed by MAM.

This document is confidential and is intended solely for the recipient and may not be duplicated, distributed or published either in electronic or any other form without the prior written consent of MAM.

This document has not been reviewed or approved by any regulatory authority. It is not a personal recommendation. It is for your information only and is not intended as an offer, solicitation of an offer, public advertisement or recommendation to buy or sell any investment or other specific product. Its content has been prepared by our staff and is based on sources of information we consider to be reliable. However, we cannot provide any undertaking or guarantee as to it being correct, complete and up to date. The circumstances and principles to which the information contained in this publication relates may change at any time. Once published, therefore, information shall not be understood as implying that no change has taken place since its publication or that is still up to date. Furthermore, MAM is not under obligation to update the information contained in this document.

The information in this document does not constitute an aid for decision-making in relation to financial, legal, tax or other consulting matters, nor should any investment or other decision be made on the basis of this information alone. All recipients of this document are urged to carry out their own due diligence into any investment opportunity. They should form their own assessment and take independent professional advice on the merits of investment and the legal, regulatory, tax and investment consequences and risks of so doing.

We do not guarantee the accuracy or completeness of information which is contained in this document that may have been obtained from or is based upon trade and statistical services or other third party sources.

We disclaim without qualification all liability for any loss or damage of any kind, whether direct or indirect, which may be incurred through the use of this publication.

The above information concern this document and any associated documentation, including the e-mail or cover letter.

MAM is registered with the Monaco Chamber of Commerce and Industry under the number 99S03612 and is approved by the Commission for the Control of Financial Activities under number SAF/99-03.

Monaco Asset Management
Villa Les Fleurs
27, Boulevard Princesse Charlotte
98000 Monaco

Tel. + 377 97 97 64 00
Fax. + 377 97 97 64 01