MONACO ASSET MANAGEMENT

Investment Outlook

Q2 2021

Executive Summary

- **Liquidity remains ample and supportive.** Pent-up demand from excess savings and supply-side constraints across most value chains suggest the global economy will be strong for some time. Inflation expectations are likely to keep rising putting upward pressure on the yield curve. At this stage, the main risks to growth are related to Covid strains impacting vaccine campaigns and tighter liquidity conditions; two scenarios we currently don't foresee.

- **Developed credit markets are at historically high valuations.** 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 **real value**.

- The **USD structural bear market is still in play** despite a short-term appreciation of the green-back due to a more effective vaccination campaign in the US. We still recommend selling USD rallies.

- While valuations remain elevated, equities can **benefit from** an environment of **increased economic growth and rising inflation expectations** as earnings expectations keep being revised upward. We favour pro-cyclical sectors based on their relative cheapness. Geographically, we continue to favour **non-US equities**.

- **Commodities** remain one of our **most preferred asset class** based on valuation, the 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, asset class performance was a lot more selective than the broad rallies experienced in H2 2020. The global economic recovery is resurrecting talks about higher inflation, especially in the US. Long-term US inflation expectations are above the Fed's target of 2%. This is happening as significant labour market slack still exists. Despite a slow global Covid vaccine inoculation campaign, we keep a "glass half full" vision for now and expect the current pace of economic recovery to last throughout 2021. We expect US 10-year bond yields to rise to 2% and the US yield curve to steepen further. This shouldn't be negative for equities which we believe could rally another +7% from current levels. Despite elevated valuations, we recommend an Overweight in equity markets. We still like equity markets which are 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 Europe and Emerging Markets. While we warn about the potential underperformance of the US technology sector under the current macro backdrop, we are positive about niche areas such as green technology. We continue to avoid exposure to credit markets due to unattractive valuations. The dollar structural bear market is intact despite the Q1 2021 relief rally. 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. Historically, the May/June period is a complex one to navigate for equity markets. As the asset class with the largest exposure in our portfolios (c. 45%-50%), we need to be remain vigilant.

	Investment Stance						Quarterly
	Very Bearish	Bearish	Neutral	Bullish	Very Bullish		Change*
SOVEREIGN BONDS						**BEARISH DM**	-
US							-
Europe (Core)							-
Europe (Periphery)							-
Emerging Markets							-
CORPORATE BONDS						**BEARISH DM**	-
US High Yield							-
US Investment Grade							-
EUR High Yield							-
EUR Investment Grade							-
Emerging Markets							-
CURRENCY						**BEARISH USD**	-
USD							-
EUR							-
EM							-
JPY							-
GBP							-
EQUITIES						**BULLISH**	-
US							-
Europe							-
UK							-
Japan							-
Emerging Markets							-
COMMODITIES						**BULLISH**	-
Energy							-
Precious Metals							-
Agriculture & Livestock							-
ALTERNATIVES						**BULLISH**	-
Hedge Funds							-
Real Estate							-
Private Equity							-

** 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 Q2 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						**100.0%**
EUR	1.19	0.9%	1.1%	-2.8%	Bullish	10.0%
USD	92.29	-1.0%	-1.0%	2.6%	Bearish	90.0%
Equities						**45.0%**
Developped Markets	**65.97**	**1.7%**	**2.1%**	**7.0%**	Bullish	**31.0%**
Europe	435.98	1.2%	1.5%	9.3%	Bullish	9.3%
North America	4,079.95	3.1%	2.7%	8.6%	Neutral	17.1%
Great Britain	6,907.21	2.0%	2.9%	6.9%	Neutral	1.6%
Asia Pacific	29,708.98	1.1%	1.8%	8.3%	Bullish	3.1%
Emerging Markets	**1,338.76**	**0.3%**	**1.7%**	**3.7%**	Bullish	**10.0%**
Asia Pacific	751.19	0.2%	1.6%	5.3%	Bullish	6.6%
EMEA	260.10	-0.3%	0.5%	7.8%	Bullish	2.4%
South America	2,357.93	2.4%	2.4%	-3.8%	Bullish	1.0%
Thematic						**4.0%**
Asset Allocation	36.13	0.7%	1.1%	5.8%	Bullish	4.0%
Fixed Income						**15.0%**
Europe						**0.0%**
Sovereign	222.51	0.1%	0.0%	-0.7%	Bearish	0.0%
Investment Grade	250.81	0.2%	0.0%	-1.9%	Bearish	0.0%
High Yield	430.41	0.4%	0.3%	2.4%	Bearish	0.0%
North America						**4.5%**
Sovereign/Tips	2,686.76	0.4%	0.4%	-3.9%	Bullish	4.5%
Investment Grade	3,414.72	0.6%	0.6%	-4.1%	Bearish	0.0%
High Yield	2,373.14	0.6%	0.6%	1.5%	Bearish	0.0%
Emerging Markets						**4.5%**
Local Currency	403.16	0.9%	0.9%	-4.8%	Bullish	4.5%
Hard Currency	1,250.27	0.6%	0.6%	-2.9%	Neutral	0.0%
Others						**6.0%**
Convertible	990.15	0.7%	0.8%	3.0%	Bearish	0.0%
Trade Finance	110.39	0.0%	-0.1%	-0.1%	Bearish	0.0%
Broad Funds	537.64	0.5%	0.7%	-3.8%	Bullish	6.0%
Commodities		**0.4%**	**0.4%**	**7.3%**		**12.0%**
Agriculture	80.52	0.1%	0.1%	7.8%	Bullish	1.7%
Energy	23.54	-1.2%	-1.2%	15.9%	Bullish	1.7%
Industrials	146.29	2.6%	2.6%	10.2%	Bullish	1.7%
Precious Metals	216.34	2.1%	2.1%	-7.3%	Bullish	7.0%
Alternatives						**20.0%**
Hedge Funds	1,408.35	0.6%	0.7%	2.0%	Bullish	15.0%
Real Assets	1,934.80	2.2%	2.2%	8.9%	Bullish	5.0%
Cash						**8.0%**

Source. MAM Research, Bloomberg

EUR Based Portfolios

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
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Real Assets	1,934.80	2.2%	2.2%	8.9%	Bullish	5.0%
Cash						**11.0%**

Source. MAM Research, Bloomberg

Asset Class Returns

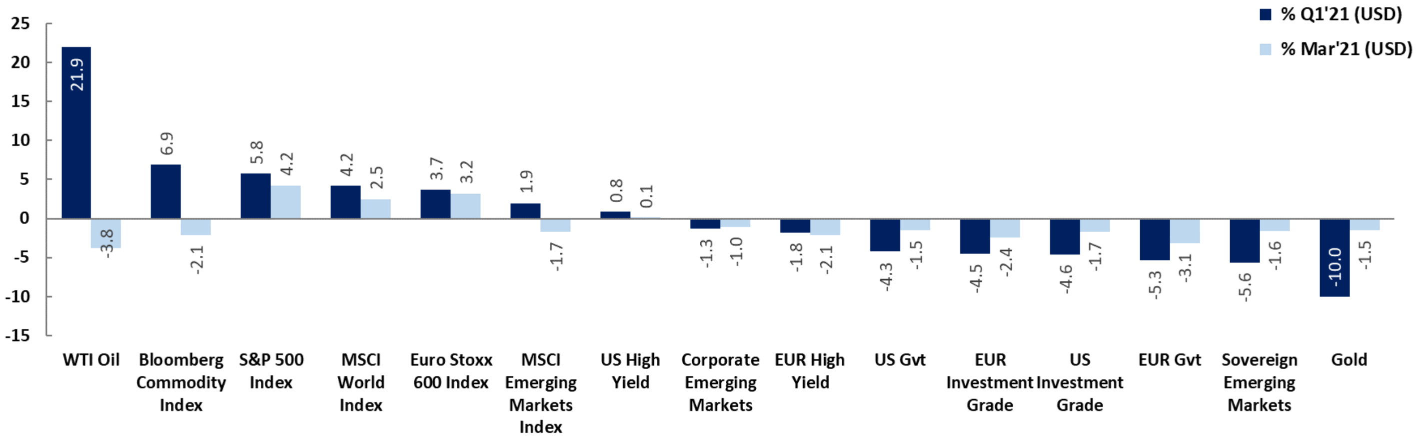
Headlines were dominated by rising bond yields and a value-driven market rally so far this year. Key performance drivers were the Democratic victory in the Georgia runoff, paving the way for further massive US fiscal stimulus, and successful vaccine rollouts in both the US and UK. A common theme driving most moves has been rising optimism about the global growth outlook on the back end of the pandemic and inflation expectations.

Global equities were up 4.2% in Q1 2021, strongly kicking off the new year. It has been over a year since equity markets bottomed and the MSCI World rallied 79% since then and is 18% above pre-Covid highs. The rise in bond yields drove the significant outperformance of financials and value stocks, and further supported by higher commodity prices.

Corporate bonds underperformed as rising inflation expectation and growth outlooks revised higher continued to exert upward pressure on yields, notably long-term ones. The US sovereign index and US corporate investment grade index were down 4.3% and 4.6% (in USD-terms), respectively. The US high yield bond index was the exception (in USD-terms), up 0.8%. A favourable rate differential meant the dollar was stronger this past quarter and weighted on emerging market bonds, which were down by 5.6% (in USD-terms).

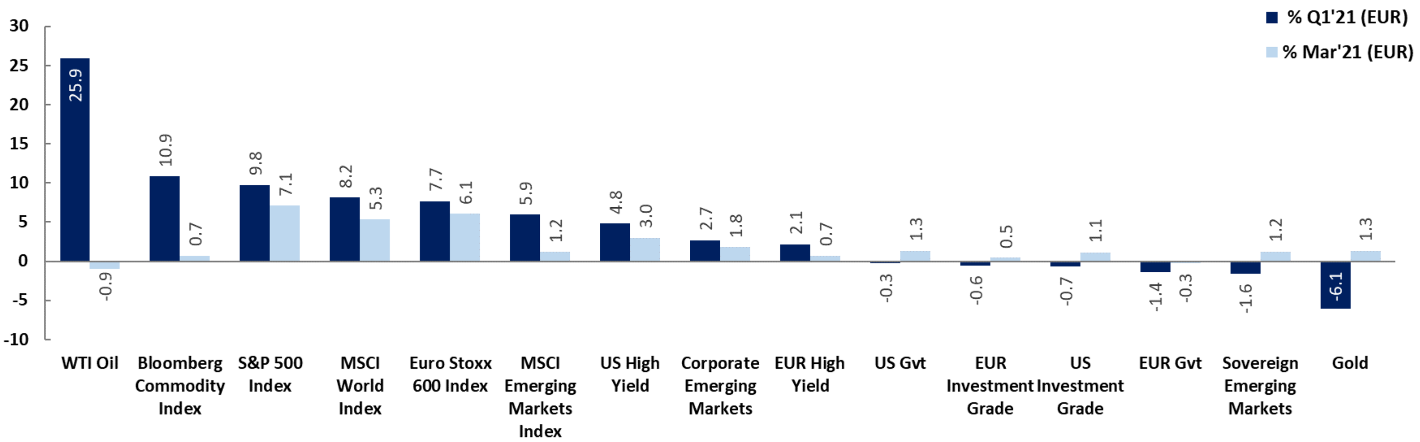
Despite the stronger dollar, commodities were the best performing asset class this quarter with the broad commodity index up 6.9%. The lion share of the move was driven by higher oil prices with WTI Crude up 21.9% and industrial metals with copper and aluminium, respectively up 13.5% and 10.9%. With the dollar stronger, precious metals suffered with gold down 10.0% and silver down 7.5%. However, the weakness should be short lived as we discuss later in the note.

Chart 1. Asset Class Returns March 2021 vs. Q1 2021 (USD Base)



Source. MAM Research, Bloomberg.

Chart 2. Asset Class Returns March 2021 vs. Q1 2021 (EUR Base)



Source. MAM Research, Bloomberg.

MAM Actions

Equities

What have we done?

In Q1 2021 we increased equity market exposure to result to an average exposure of 45-50% in portfolios. We bought call options on the S&P 500 Index, MSCI EM Index and Euro Stoxx 50 Index. We took advantage of the weakness in the green technology sector to buy the Atonra Sustainable Future Fund. We also purchased a number of high-quality SPACs (Special Purpose Acquisition Companies) ahead of a potential merger agreement.

Our strategy going forward?

In Q2 2021 we intend to keep our equity market exposure constant at least through early May. Historically, April is one of the best months for the year for equity markets. That said, some of our short-term market indicators are starting to flash “sell” signals. This may incentivise us to take advantage of a market rally in April to reduce exposure to equities slightly (to 35%-40%).

Fixed Income

What have we done?

We have been bearish on corporate bonds for some time. We haven’t taken any action in this asset class in Q1 2021.

Our strategy going forward?

Our strategy isn’t going to change materially in Q2 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 have selectively added to commodities which have suffered from a stronger USD in Q1 2021 such as Silver.

Our strategy going forward?

We intend to keep exposure to commodities at or around 10-12% of portfolios in Q2 2021. 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 despite a counter-trend rally in the USD.

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?

We increased slightly exposure to hedge funds, ensuring a 20% allocation in portfolios, by buying the Hypernova Fund.

Our strategy going forward?

Our allocation to hedge funds is unlikely to change in Q2 2021

Events

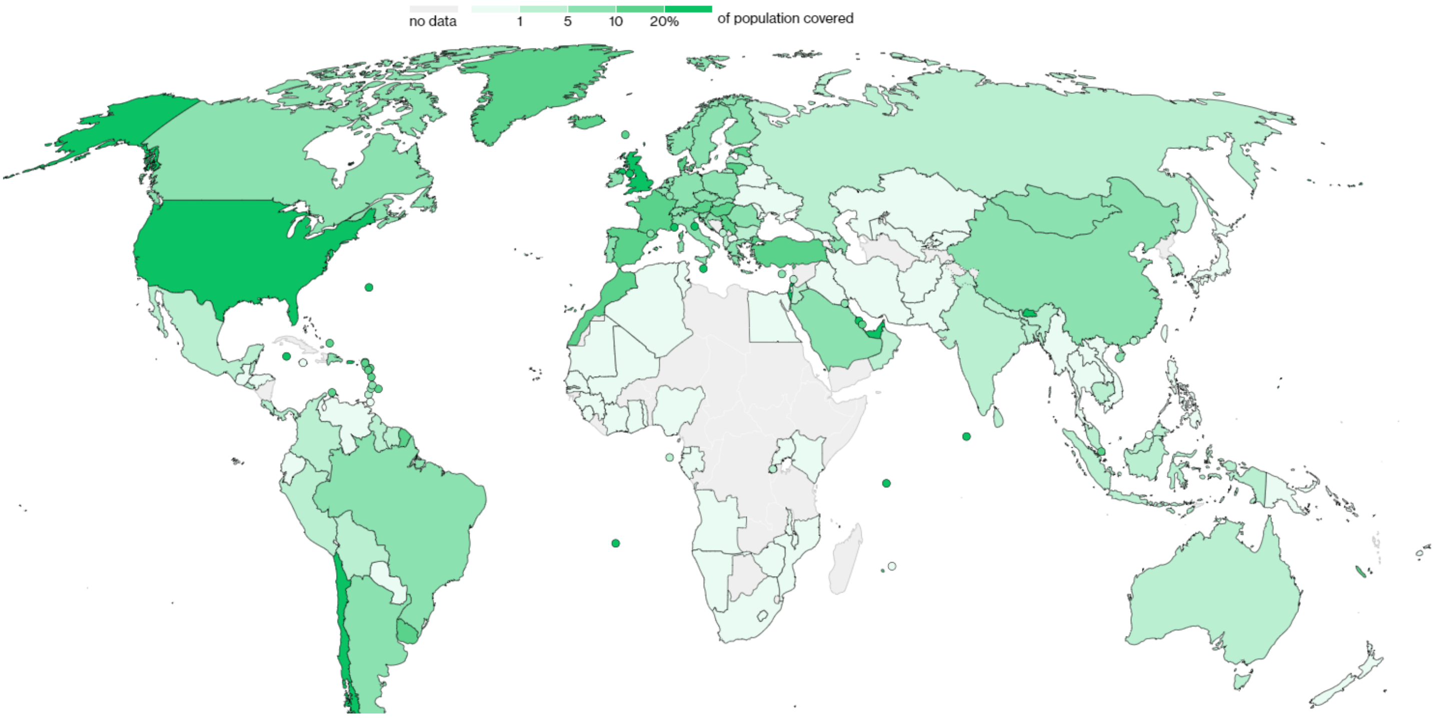
Covid-19 Update: More than 704 Million Shots Given

The biggest vaccination campaign in history is underway. More than 704 million doses have been administered across 153 countries, according to data collected by Bloomberg. The latest rate was roughly 16.1 million doses a day.

In the U.S., more Americans have received at least one dose than have tested positive for the virus since the pandemic began. So far, 171 million doses have been given. In the last week, an average of 3 million doses per day were administered.

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 H2 2021.

However, the current level of vaccination represents only 9.1% of the global population. At the current pace of 16.1 million a day, it would take years to achieve a significant level of global immunity. While we all fret about our lives returning to normalcy, it's now a life-and-death contest between vaccine and virus. New strains threaten renewed outbreaks. It would take very little for a third wave to develop in Q4 2021 and for saturated healthcare systems to lead to another round of lock-downs. In Europe or the US. This seems widely discounted in markets at the moment.



Source. Bloomberg

Economics & Rates

Conclusion. Economic Boom & Liquidity Driven Inflation. Growth leadership should shift from the US to the rest of the word in H2 2021. Europe will benefit from a cyclical recovery in the second half of the year as the vaccination campaign picks up. The surge in M1 points to a sharp rebound in consumption once governments lift current lockdowns. Just like in the US, European household accumulated substantial excess savings. The unleashing of pent-up demand will drive consumption. Financial conditions remain supportive, liquidity abundant, and central banks remain anchored into accommodation. Excess monetary liquidity could be offset by tighter fiscal impetus with new and higher tax rates in the US, a key risk. The yield curve will continue to steepen while, along with higher inflation, real rates will be negative for longer. Continue to favour TPIS (over nominal bonds and floating rate notes) and EM sovereign exposure.

The global economy should continue to rebound from the pandemic throughout 2021. However, so far, it is a two-speed recovery with the US leading the way (ex. China) **(Chart 6)**. Two factors explain why the US outperformed. First, the successful and more efficient vaccination campaign allowed state governments to begin unwinding lockdown rules. Currently, the US administered 49 vaccine shots for every 100 inhabitants. Among major economies, only the UK performed better on the vaccination front. In contrast, Europe is still battling a third wave of infections with policymaker prompted to tighten social restriction measures. Second, the US fiscal policy response has been more stimulative than anywhere else. The $1.9tn stimulus provides larger benefits to lower/middle-class households.

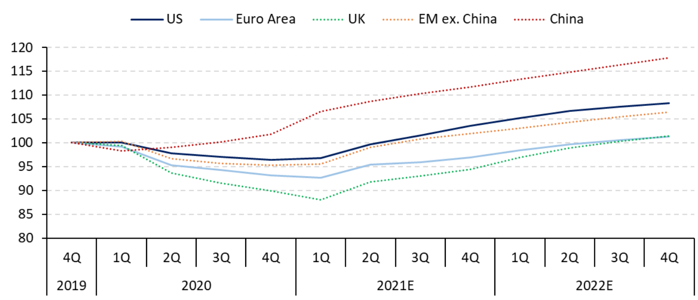
As of February, US households were siting on $1.7tn in excess savings. About two-thirds of those can be linked to reduced spending during the course of the pandemic, with the remaining third arising from increased transfer payments. The recently passed stimulus bill should boost household savings by an additional $300 billion, bringing the stock of excess savings to $2 trillion by April. The cash hoard will support spending while the supply side of the economy continues to face shortages and cannot keep up.

Expect headline inflation to shoot structurally above the Fed's target of 2% over the coming quarters. Nonetheless, near-term interest rate hike risk remains low as central banks are still anchored into accommodation. The median dot for the FFR remained stuck at zero to end-2023. We expect the U.S. 10-Year yields to stabilize in April after a strong move higher, before resuming its gradual rally to 2% in May and/or June 2021 as a result.

The party will end once the liquidity profile in the market changes. We see first signs coming from Asia with China's credit impulse peaking last year **(Chart 7)**. Focus should be on the US where, so far, financial conditions remain lose **(Chart 8)**. There will be a time when the yield curve steepening matters for markets **(Chart 9)**.

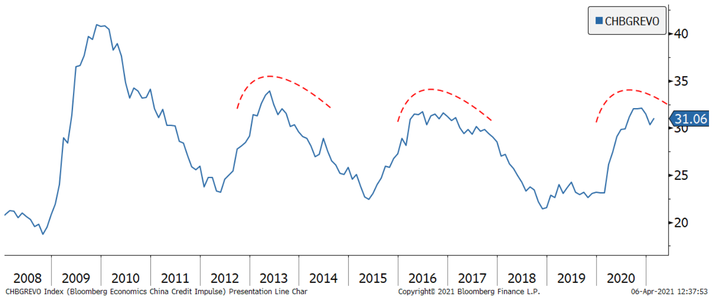
While widening real rate differentials provided near-term support to the dollar, we continue to favour EM sovereign bonds due to more attractive valuations.

Chart 6. A Two-Speed Economic Rebound (GDP, Base=2019)



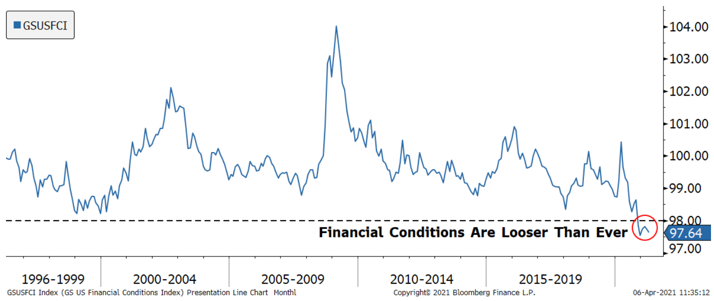
Source. MS Research, MAM Research

Chart 7. China Credit Impulse May Have Peaked



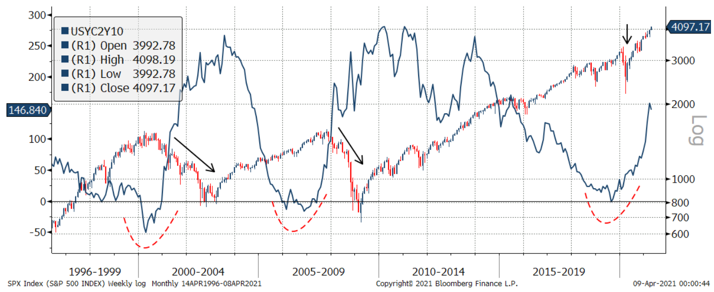
Source. MAM Research, Bloomberg

Chart 8. US Financial Conditions Remain Excessively Loose



Source. MAM Research, Bloomberg

Chart 9. S&P 500 (RHS) vs. US 10-2Yr Yield Curve (LHS) (Monthly)



Source. MAM Research, Bloomberg

Credit

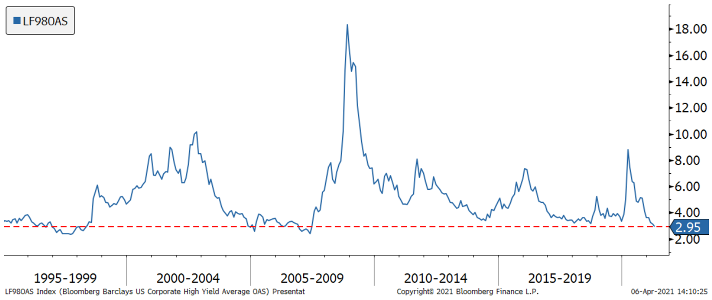
Conclusion. Bearish DM, Favour EM Exposure. We continue to be negative on the corporate credit outlook in developed markets. At current levels, corporate bonds continue to offer an unattractive risk-reward. Considering the current macro economic outlook, spreads appear to be fully priced. Looking back 23 years, bonds trading at current spreads never generated positive returns **(Chart 10)**. Despite our continued negative outlook on developed market credit, we look for opportunities in US high yields bond, which stand to benefit from a pro-cyclical economic environment. However, the opportunity set is increasingly more limited and we are very cautious in our approach since credit spreads tightened, meaning investors need to take longer duration or lower grade exposure for a given level of yield. We favour EM local currency bonds for their more flexible monetary policy, higher growth prospects, cheaper currencies, and cyclicality.

One way gauge the attractiveness of credit is to look at the percentile rankings of 12-month breakeven spreads. For US investment grade corporates, breakeven spreads are currently in the bottom decile of its historic range, hence rather unattractive from a risk-adjusted standpoint. In contrast, US high yield breakeven spreads are currently in the middle of the distribution **(Chart 11, LHS)**, but the risk associated with weaker balance sheet or even zombie companies as a result of the pandemic make the asset class fundamentally less attractive. In Europe, both IG and HY are fairly unattractive **(Chart 11, RHS)**.

Considering how much credit spreads have already fallen, they are unlikely to tighten much further. However, they are not about to widen too significantly either, at least for the time being. Ultimately, the corporate bonds' market behaviour is consistent with the economic reality. Above trend growth, low headline inflation (for now), and accommodative monetary policy create a conductive environment. Default rates, on a 12-month trailing basis, peaked last August and have since then been on a downtrend. As long as inflation expectations remain close to the Fed's target and the yields curve is steep, the somewhat positive outlook is contained to spread products relative to treasuries. In our view, the risk reward on those types of trades is no longer as compelling as it used to be. Until inflation overshoots, the credit market should continue to trade sideways.

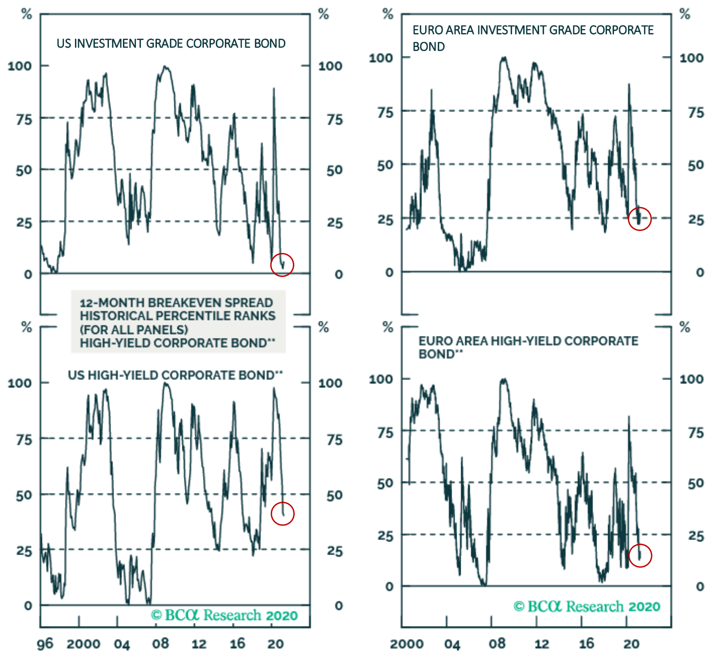
Elsewhere, emerging market corporate credit continues to offer relatively attractive yields at a measure level of risk. Local currencies continue to look cheap on a REER-basis notably in LATAM where the Brazilian Real is almost -2SD cheap and the Mexican Peso is over -1SD cheap. Longer term, our supportive outlook on both the commodity complex and inflation will be supportive to local economic growth. Central banks continue to have room to pair with new waves of infestation and their subsequent economic impacts. As a result, we continue to recommend investors to maintain a certain exposure to emerging market local currency **(Chart 13)** over hard currency bonds. The key risk to our thesis remains a stronger dollar and slower than expected growth in emerging market economies.

Chart 10. US High Yield Credit Spread Index



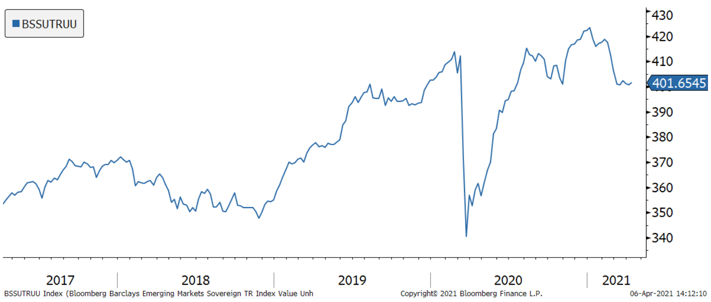
Source. MAM Research, Bloomberg

Chart 11. 12-Month Breakeven Spread Historical Percentile Rank



Source. BCA Research

Chart 13. EM Local Currency Bonds USD Unhedged



Source. MAM Research, Bloomberg

Currencies

Conclusion. Structurally Bearish USD. The US dollar is up 2.92% YTD. Although we see international economic growth picking up in H2 2021, the US economy continues to outperform other developed markets in the second quarter. This should provide short-term tailwinds to the greenback. Nevertheless, structural market dynamics continue to favour a weaker dollar in the long-run and we see the trend resuming in the second half of the year. Our tactical strategy is to buy the euro on dips closer to 1.15 over the course of the quarter. Elsewhere, we consider a tactical trade on the pound against the euro based on an earlier economic rebound following a successful vaccination and supportive flows in the UK. We continue to like emerging market and commodity-driven currencies that should strengthen should our higher inflation and weaker dollar thesis materialize.

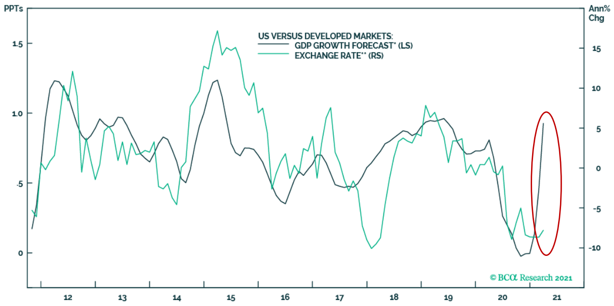
The US is a "low beta" economy with a larger service and smaller manufacturing base relative to most economies. It is highly diversified on both a regional and sectoral level, making it less volatile. The relatively lower cyclicality of its economy has important implications for the dollar. When the US benefits from strong global growth, the rest of the world tend to benefit even more. Yet, this relationship more or less broke down in the last quarter. Rather than lagging others economies in the recovery, the US led the charge with larger fiscal stimuli and successful vaccination campaigns. As economic growth estimates got marked up, the dollar caught a temporary bid **(Chart 14)**. Positive net foreign purchases in stocks were also supportive, despite the negative outflows in treasuries **(Chart 15)**.

However, underlying fundamentals remain dollar bearish. As mentioned, key contributors to the quicker economic recovery relative to other regions of the world was both a successful vaccination campaign and an earlier reopening. Not only was it a highly unusual path to recovery, it is now increasingly more priced in for the US economy. Europe and other regions, on the other hand, are still battling the virus and living under more stringent measures. Their economies have yet to enter the full recovery stages. As international economies enter a "post-pandemic" world and growth accelerates, capital will flow out of the US.

While massive monetary and fiscal stimulus support US consumers, they come at the expense of the dollar. The large twin deficit creates an unattractive environment for the greenback. Moreover, the wide trade deficit raises the supply of dollar-based liquidity in the rest of the world, which will further support global growth. Consistent with the weak balance of payments picture, the greenback remains overvalued by about 10% on a PPP basis and over +0.3 SD expensive on a REER basis **(Chart 16)**.

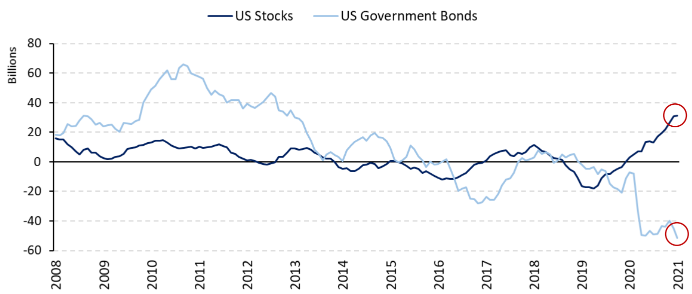
Ultimately, these dynamics favour pro-cyclical currencies such as the euro **(Chart 17)**, poised to benefit by year-end, and commodity-driven currencies. Historically, the dollar weakened whenever fiscal policy has been eased in excess of what is needed to close the output gap. In fine, it may well turn out to be a textbook example of that.

Chart 14. Growth Outperformance A Near Term Tailwind to USD



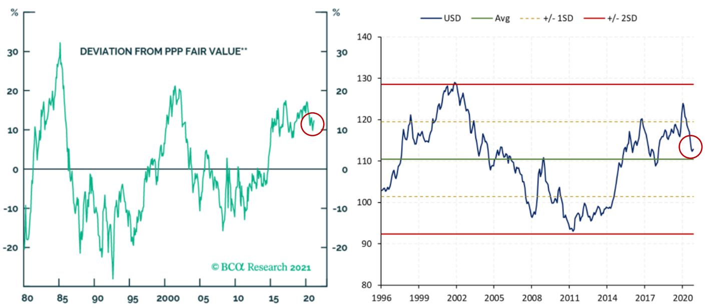
Source. BCA Research.

Chart 15. Net Foreign Purchases (12-Month Moving Avg.)



Source. MAM Research, US Department of Treasury

Chart 16. US Dollar PPP Fair Value & REER Valuation



Source. BCA Research, MAM Research, Bloomberg

Chart 17. EUR vs. USD Exchange Rate (Weekly)

Source. MAM Research, Bloomberg

Equities

Conclusion. Bullish. Despite record high valuations across US equity markets, the current bull trend has legs. Rising economic growth through the unleashing of pent-up demand provides positive earnings revision potential. Value stocks will build on their recent outperformance. We favour banks and economically-sensitive cyclical sectors, while keeping an overweight on non-US equities. Investors will need to be more patient and selective in their approach with the value of active portfolio management increasing substantially. Correlation between stocks, notably in Europe, fell substantially meaning this is a better environment for stock picking. Smaller caps both in the US and rest of the world should be favoured. We continue to aim for a barbel strategy of cyclical and growth factor exposure where, within growth, we prefer select green techs per structural tailwinds.

As mentioned earlier in our note, the end of the pandemic will prop up global growth. Cyclical sectors outperform when global growth is on the upswing. Markets outside the US tend to have more exposure to said sectors (industrials, energy, materials, consumer discretionary) and outperform coming out of a downturn **(Chart 18)**. Many are sceptical in the Eurozone ability to outperform given vaccine delays and a relatively weaker fiscal support. However, it is a key cyclical and value region trading on cheap multiples. The recovery fund will be implemented over the summer and the labour market is resilient, which will benefit the region.

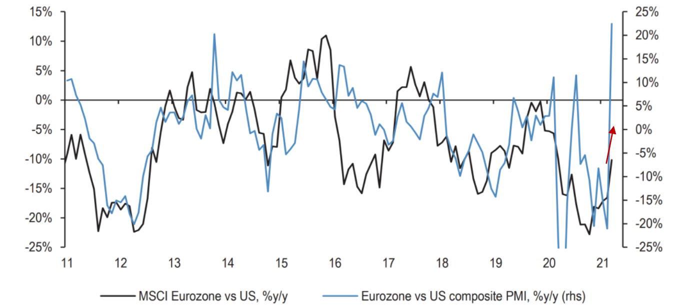
Despite strong moves observed over the past 4-5 months, small caps are still subdued in the big picture **(Chart 19)**.

Our decision to favour non-US, cyclical, and value stocks is reinforced by the prospect of higher corporate taxes in the US where it should be used as a tool to fund a major infrastructure investment program. While tax hikes are unlikely to take down the market, they will drag on the relative performance of US stocks relative to international peers. Cyclical sectors stand to benefit from infrastructure spending. Ultimately, it has the potential to boost growth and lead to a steeper yield curve, thus benefiting banks **(Chart 20)**. In contrast, technology companies (i.e. FAANG) outside the clean energy sectors are more likely to lag, especially if the bill introduces a minimum corporate tax on book income and raises taxes on overseas profits.

At a sector level, EU banks remain the key play on rising yields and steepening of the yield curve. They continue to look very cheap with a 0.6x Price-to-Book **(Chart 21, LHS)**, their balance sheets are resilient this time around, with a lesser need for dilutions, dividends could be reinstated and earnings are moving higher **(Chart 21, RHS)**.

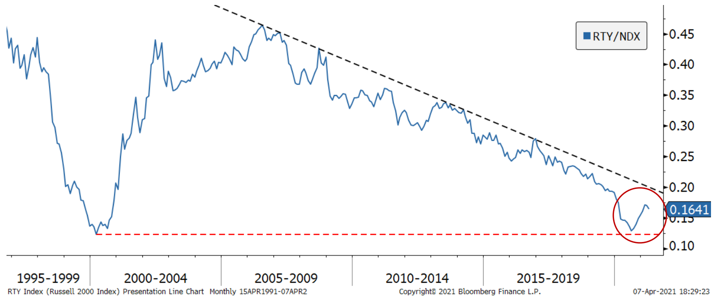
We believe equities have a rather bullish future ahead, yet remain cautious on the level of liquidity in the market and mindful of any sign of tightening. Also, the coming earning season will be very important. We see growing evidence that supply shortages are emerging across the economy, many of which could lead to either margin pressures or missed sales, and look to act on temporary weaknesses.

Chart 18. EU PMI Catch Up Leading Underperformance Gap Close



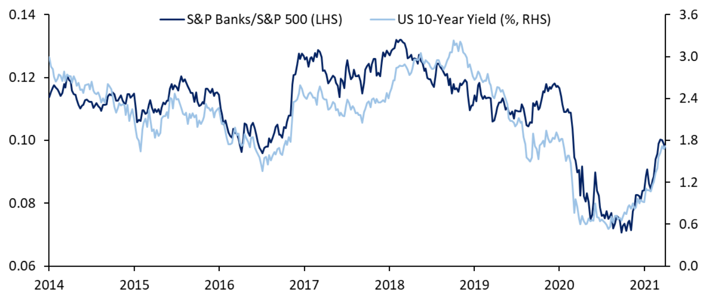
Source. JPM Economic Research, ECB, Markit

Chart 19. Russell 2000 vs. Nasdaq (Monthly)



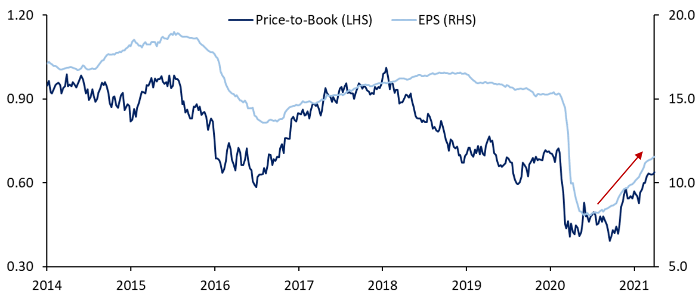
Source. MAM Research, Bloomberg

Chart 20. Banks Relative Outperformance Relies on Higher Yields



Source. MAM Research, Bloomberg

Chart 21. EU Banks Looking Cheap with Good EPS Momentum



Source. MAM Research, Bloomberg

Commodities

Conclusion. Structurally Bullish. Our positive outlook on commodities remain relatively unchanged in the second quarter. Commodities enjoyed considerable tailwinds over the past twelve months. Fiscal and monetary stimulus combined produced an economic recovery that largely looked V-shaped and resulting in a sharp increase in M2 dollar money supply. As a result inflation expectations built up, and the dollar weakened. As discussed throughout our note, we expect the weaker dollar trend to resume in the nearby future. Then, the strong global growth against a backdrop of tight supply should sustain the momentum over the next 12-18 months. Infrastructure spending will bolster the demand for industrial metals. Decarbonization trends will accelerate the shift to green energy solutions (i.e., Solar Panels), thus supporting silver. Anchored nominal rate and higher inflation will push real rates lower and support higher gold prices.

As the dollar resume its trend lower, inflation expectations rise, and short-term nominal yields remain anchored near the zero lower bound as a result of central bank actions, real yields will drop even lower. As a result, we expect the upside trend in gold **(Chart 22)** and silver to resume. Key risk to our thesis nowadays is the direction of the dollar.

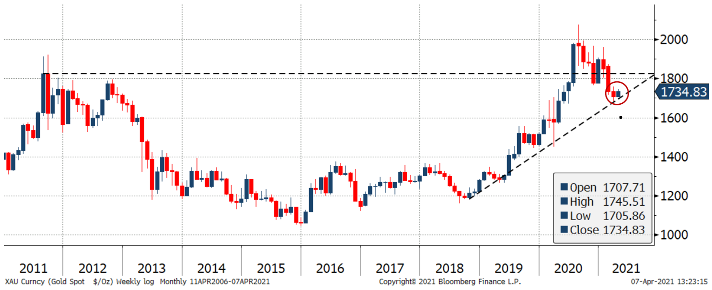
The physical deficit in the metals market, particularly among copper and aluminium **(Chart 23)**, will persist throughout the year. While the boom in EV production represents a long-term threat to oil, it is positive to many metals. A battery powered EV can contain more than 82kg. of copper compared with 23kg. for conventional autos. By 2030, the demand from electric vehicles alone should amount to close to 4mm tonnes of copper per year or approximately 15% of annual copper production.

Strong demand for metals in Asia will also support metals prices. While trend in GDP growth in China slowed, the economy is substantially larger in absolute terms than it was back in the 2000s. In fact, China's annual aggregate consumption for metals is five times as high as it was back then. The incremental increase in the country's metal consumption is double what it was 20 years ago. Arguably, these figures are just China centric, but it gives a sense of the need for metals in a post-covid world while illustrating the tight supply conditions. In Asia, India's economy is expanding which will require infrastructure spending, and a need for metals. In developed markets, whether it is in the US or Europe, similar developments are taking shape. Countries have substantially increased their fiscal deficits and geared spending towards infrastructure, notably in the green economy. This will further bolster the global need for metals. As a result, we can expect the supply and demand imbalance to persist.

Capital investments in the oil and gas sectors have fallen in excess of 50% since 2014. Annual growth in crude oil demand is set to outstrip supply over the remainder of the year, thus providing strong support to the commodity.

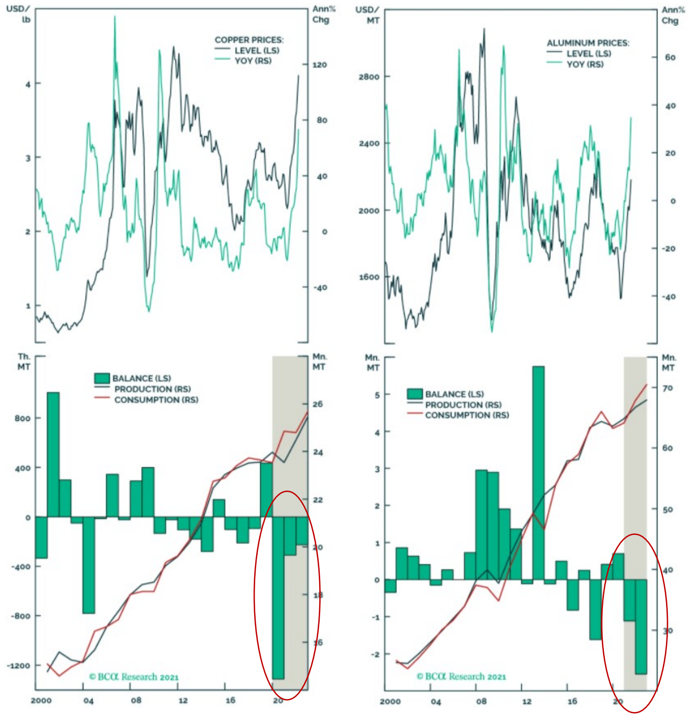
We are structurally positive on carbon emission rights **(Chart 24)** given trends towards decarbonisation, despite prices having rallied substantially in recent months.

Chart 22. Gold Spot Prices (Monthly)



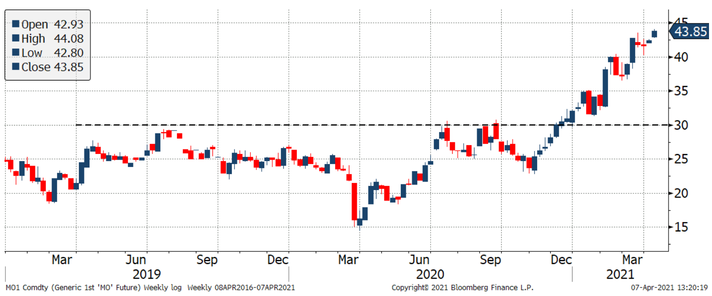
Source. MAM Research, Bloomberg

Chart 23. Copper (LHS) and Aluminium (RHS) in Physical Deficit



Source. BCA Research

Chart 24. Carbon Emission Prices (Weekly)



Source. MAM Research, Bloomberg

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