

# MACRO OUTLOOK AND INVESTMENT PERSPECTIVES

January 2021

**Indriatti van Hien, ACA, CFA**  
Portfolio Manager

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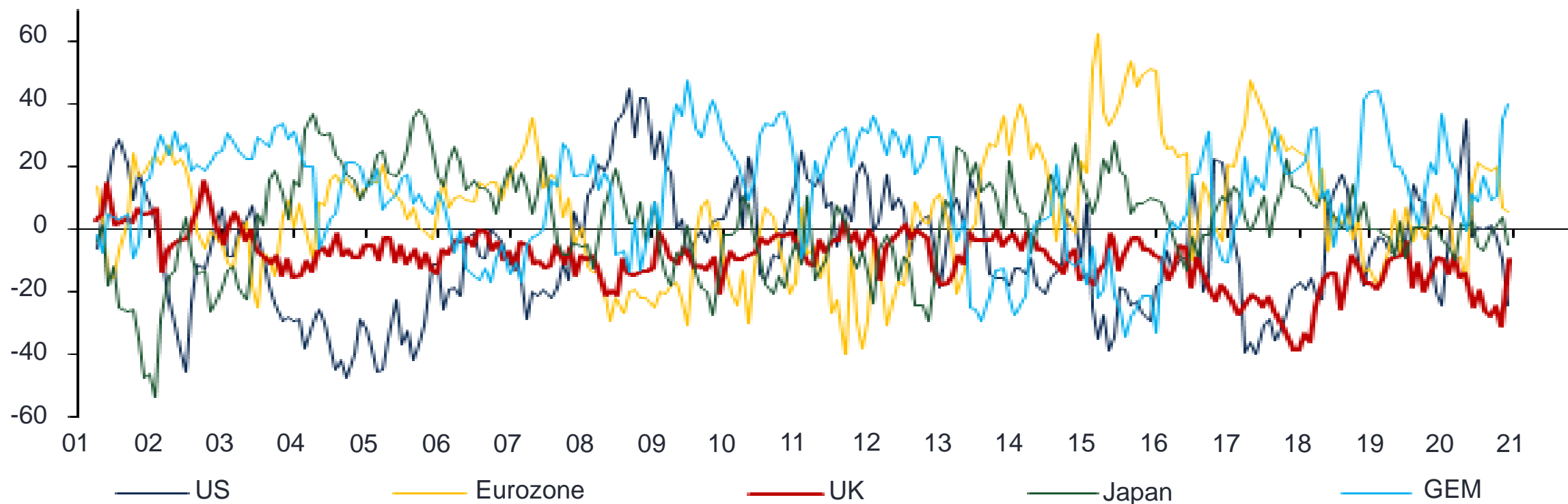
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# INVESTING IN UK EQUITIES

We have been here before

Over the next 12 months, which region would you most like to overweight/underweight?

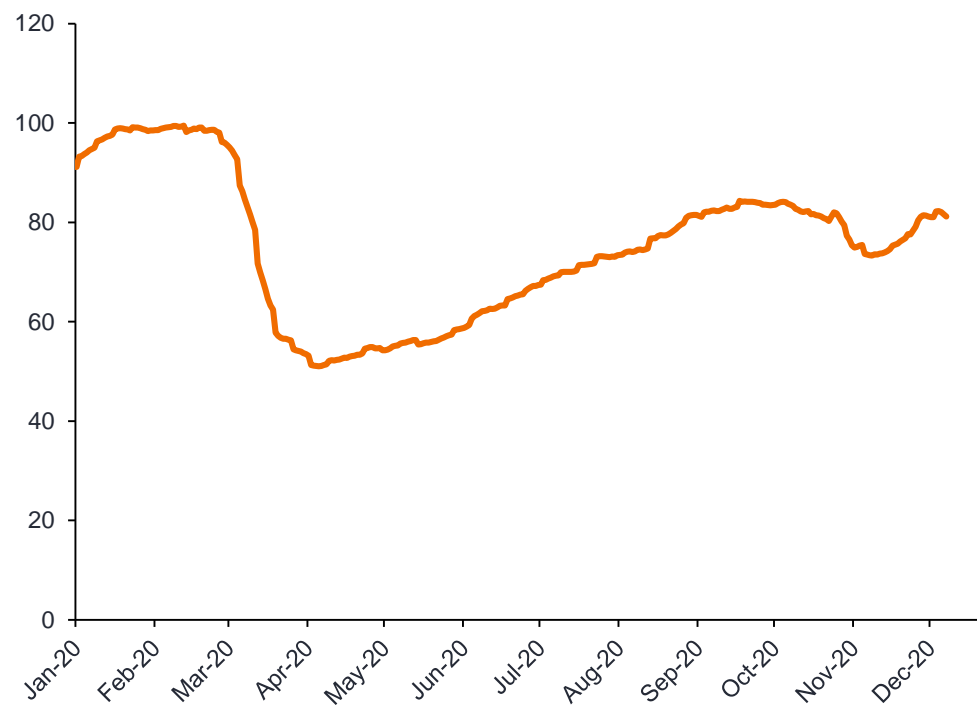


Source: Bank of America, Global Fund Manager Survey, as at 15 December 2020

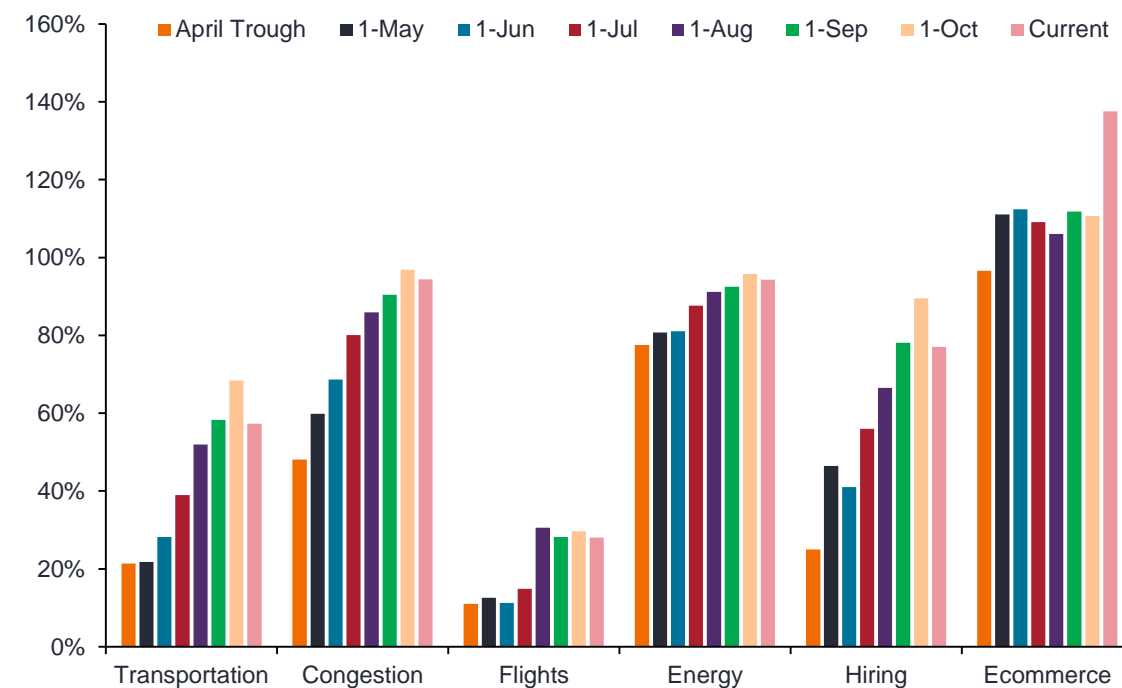
# VIRUS

An unprecedented demand shock

## UK Economic Activity Radar (EAR)



## UK EAR: Breakdown of indices vs pre-COVID levels



Source: Jefferies, as at 31 December 2020

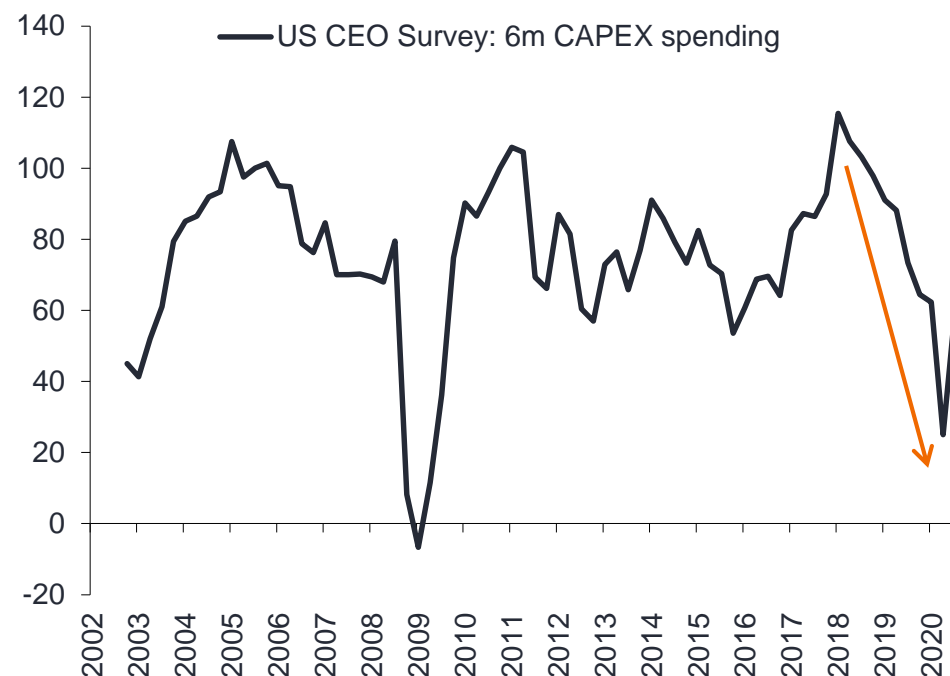
# VACCINATIONS

Animal spirits and some

## Inventories have to be rebuilt from record lows



## CAPEX needs to be restarted after a 3 year hiatus

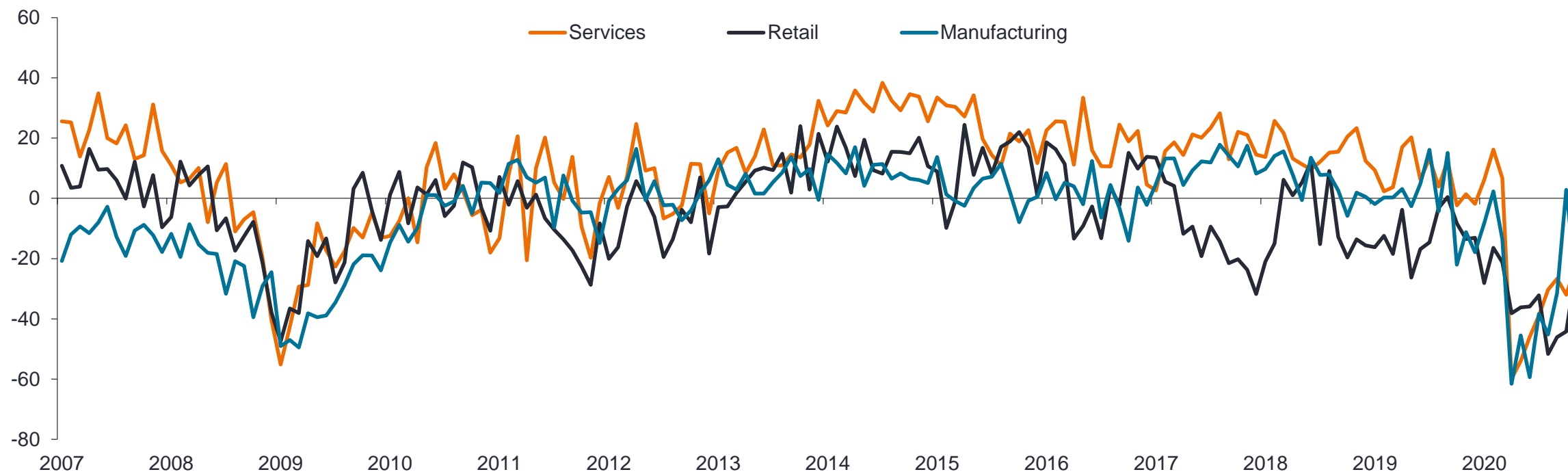


Source: Exane BNP Paribas Estimates, as at 9 December 2020

# VACCINATIONS

Animal spirits

## UK employment expectations

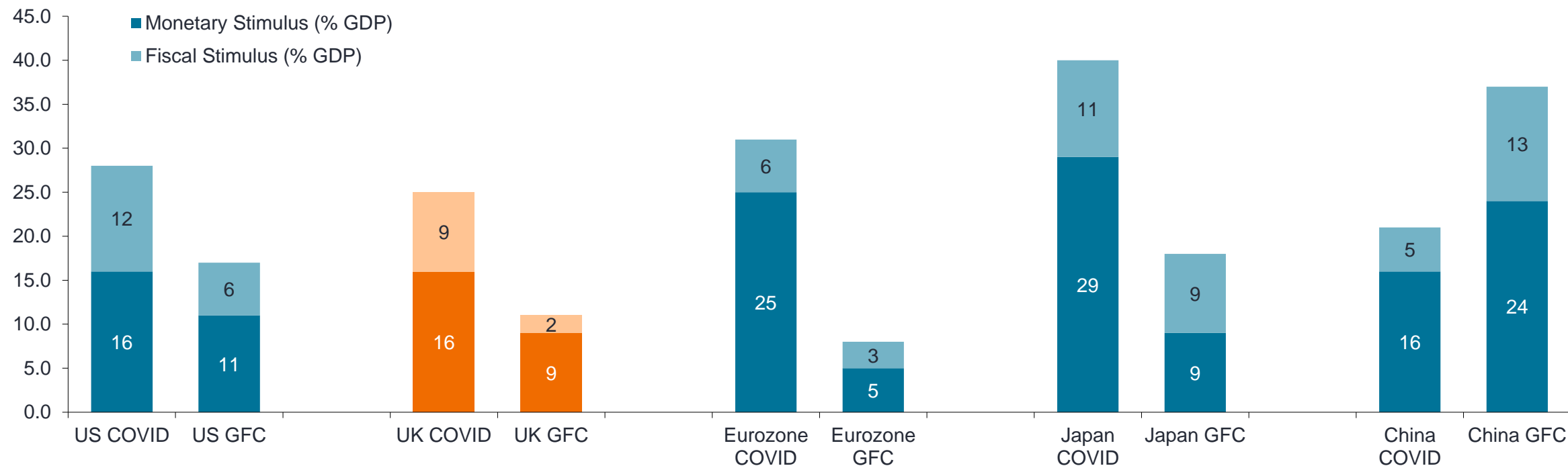


Source: Exane BNP Paribas Estimates, as at 30 December 2020

# V-SHAPED RECOVERY

Monetary and fiscal policy remains supportive

## Government response: COVID vs. Global Financial Crisis (GFC)

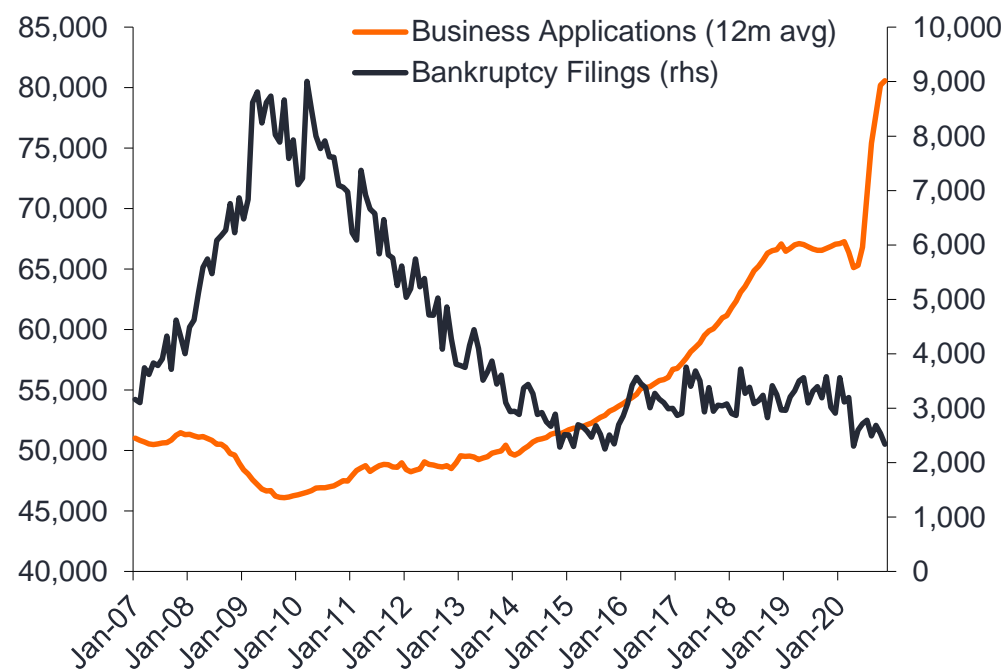


Source: Exane BNP Paribas Estimates, as at 9 December 2020

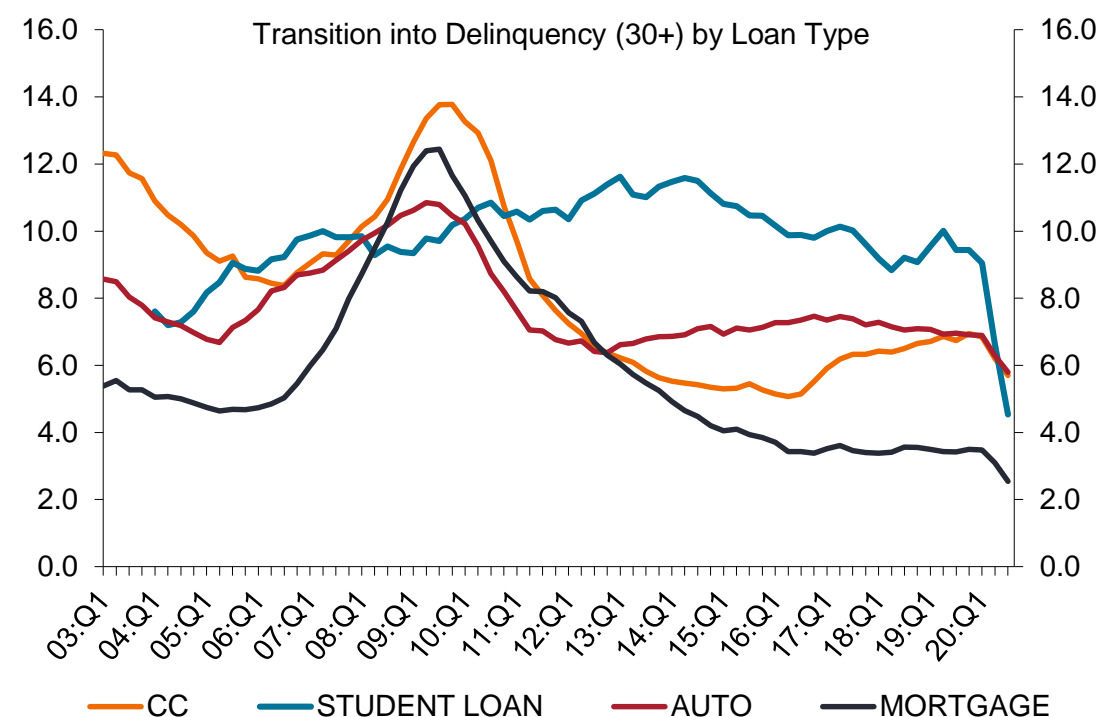
# V-SHAPED RECOVERY

There is no credit crisis

## US bankruptcies still low, new business applications soaring



## US delinquencies have collapsed

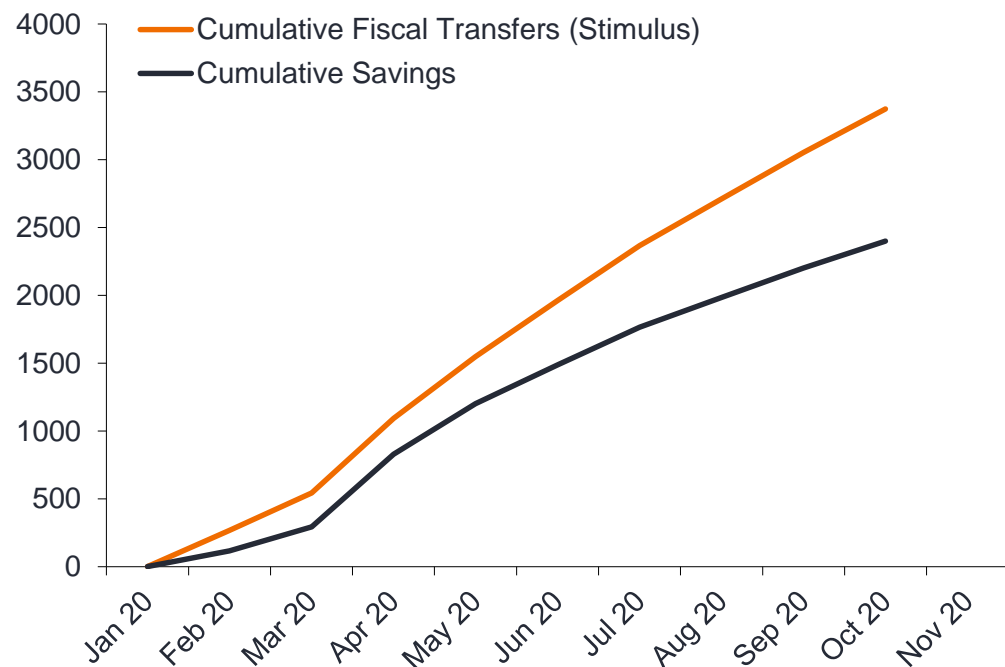


Source: Exane BNP Paribas Estimates, as at 9 December 2020

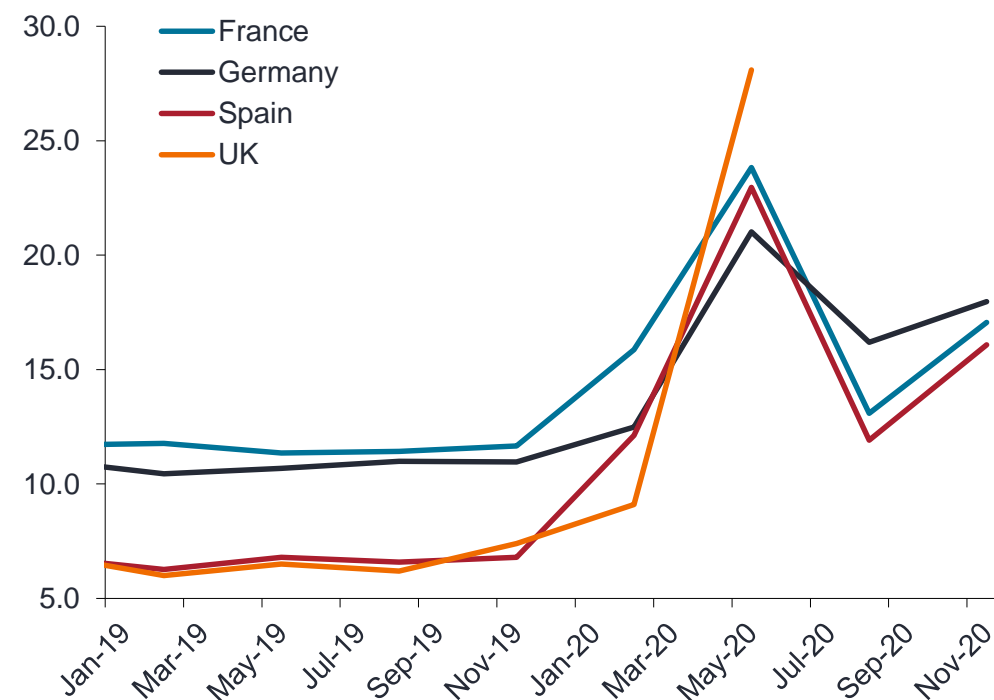
# V-SHAPED RECOVERY

Consumers have dry powder

**US Consumers have accumulated \$2T of savings this year (10% of GDP), waiting to be spent**



**Household savings rate (%)**



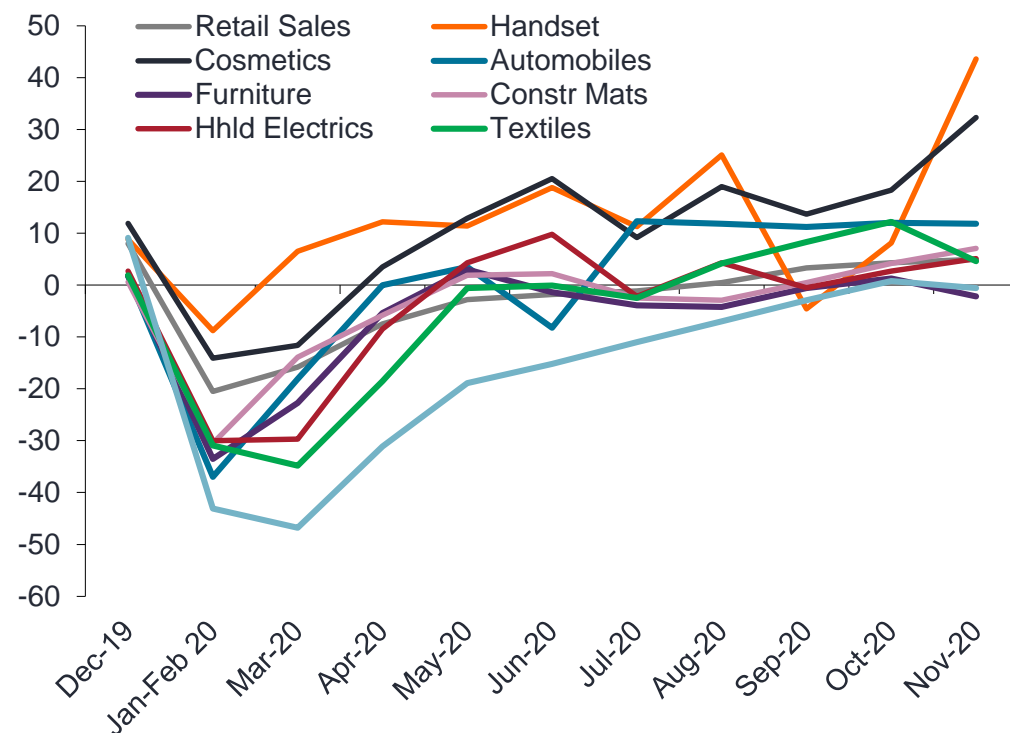
Source: Datastream, Exane BNP Paribas estimates, as at 9 December 2020



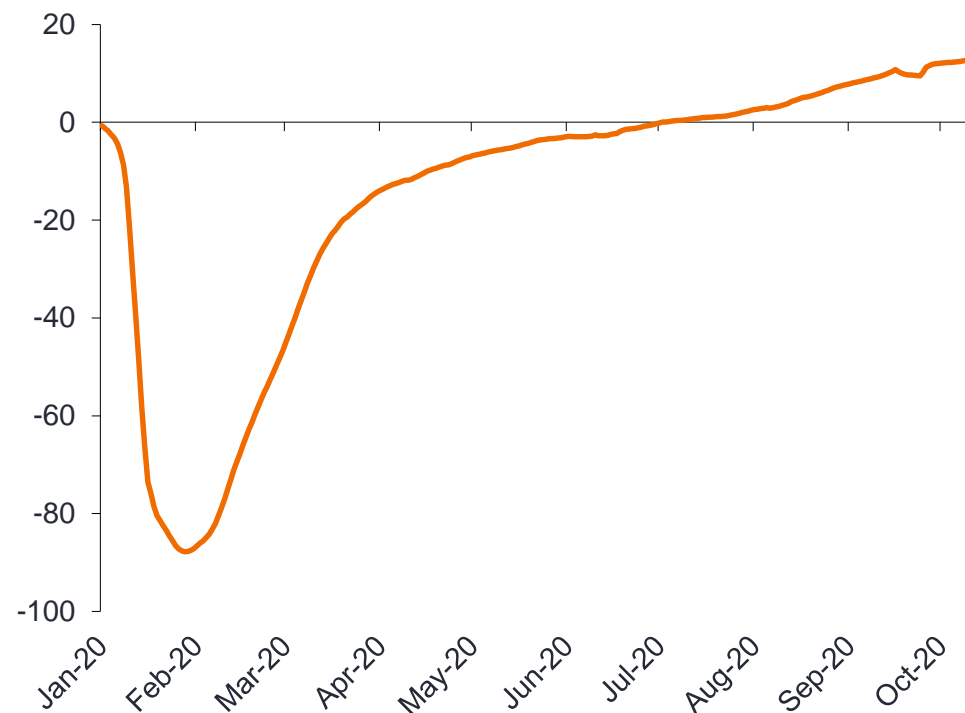
# V-SHAPED RECOVERY

It all happened in China first

China retail sales by category (YoY %)



China catering – number of operations



Source: Datastream, Exane BNP Paribas estimates, as at 9 December 2020

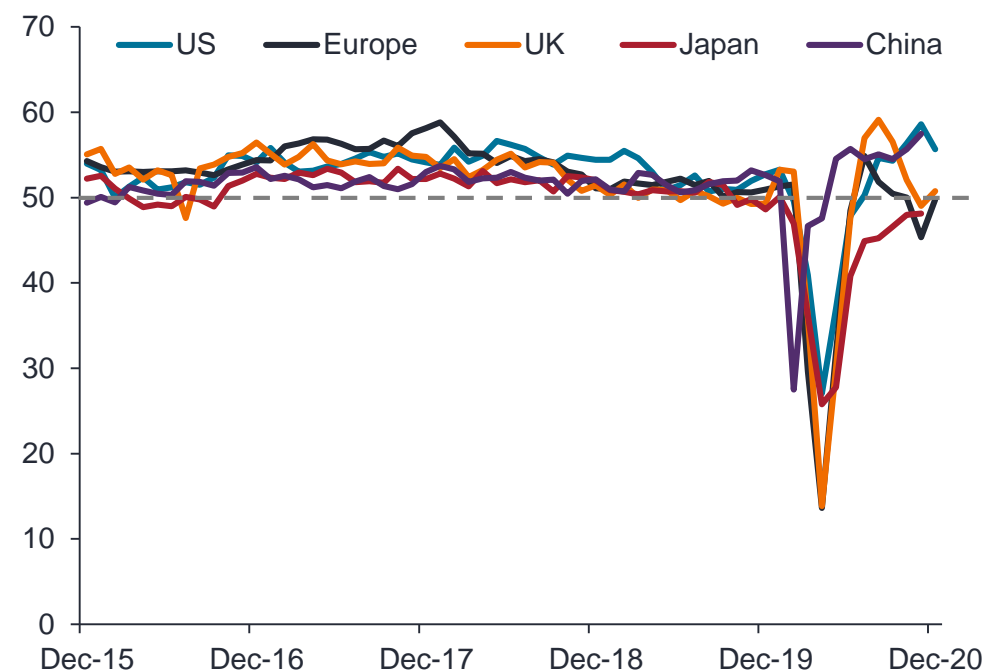
# V-SHAPED RECOVERY

## Global growth estimates

### Real GDP Growth (%Y)

	2019	2020E	2021E	2022E
Global	2.9	-3.5	6.4	4.4
US	2.2	-3.5	5.9	4.1
Euro Area	1.3	-7.2	5.0	3.9
UK	1.5	-11.4	5.3	5.5
Japan	0.7	-5.2	2.4	2.4
EM	4.3	-2.0	7.4	4.7
China	6.1	2.3	9.0	5.4

### Composite PMI



Source: Bloomberg, Morgan Stanley, as at 30 December 2020

# V-SHAPED RECOVERY

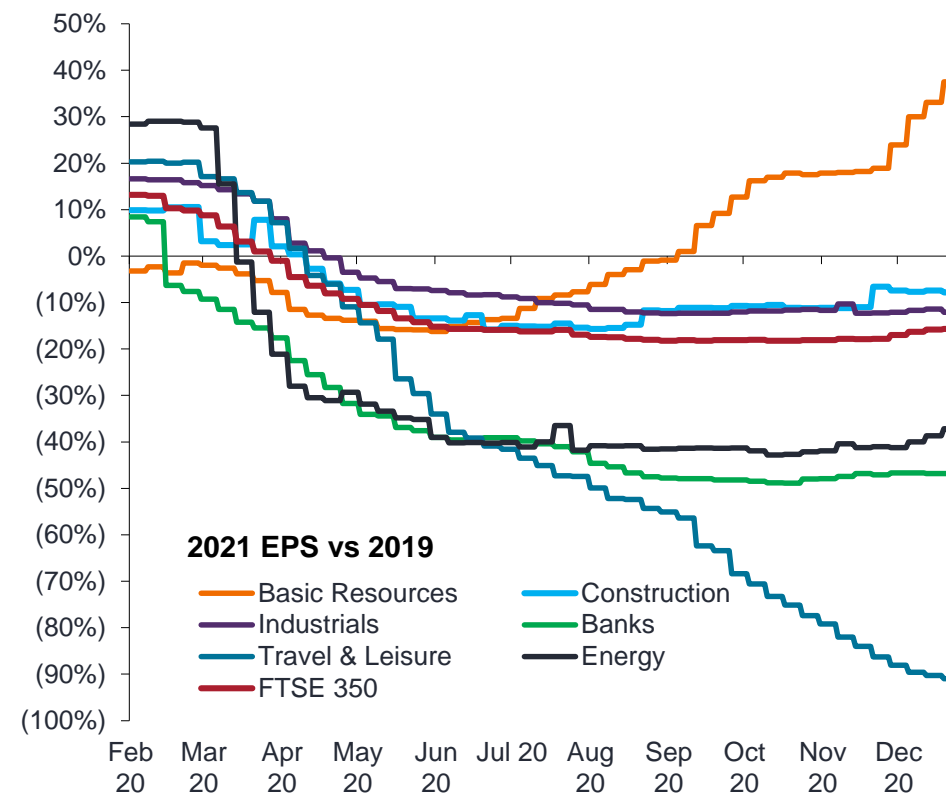
## Earnings growth underestimated

EPS estimates for many of the COVID afflicted sectors might be too low, compared to China

Earnings Growth Sectors	MSCI Europe		MSCI US		MSCI China	
	2021 vs 2019	2022 vs 2019	2021 vs 2019	2022 vs 2019	2021 vs 2019	2022 vs 2019
Energy	-39%	-6%	-105%	-110%	-30%	-10%
Consumer services	-38%	0%	-110%	-119%	69%	127%
Banks	-33%	-15%	-26%	-5%	-1%	7%
Transportation	-21%	13%	40%	69%	-20%	0%
Capital goods	-11%	6%	-10%	8%	17%	30%
Software & services	-7%	5%	24%	42%	300%	458%
Consumer durables	-6%	10%	50%	75%	14%	36%
Food & beverage	-3%	6%	8%	16%	53%	70%
Autos & parts	-2%	25%	23%	49%	170%	237%
Commercial services	-2%	9%	11%	25%	48%	77%
H/H Pers Prd	-1%	6%	19%	27%	36%	47%
Telecom services	3%	17%	-2%	3%	7%	13%
Food/drug retail	4%	11%	3%	14%	27%	47%
Insurance	6%	15%	10%	20%	-2%	13%
Materials	6%	11%	15%	28%	29%	39%
Healthcare equipment	7%	21%	23%	35%	40%	68%
Pharma/Biotech	9%	21%	21%	31%	59%	109%
Diversified financials	15%	37%	4%	19%	37%	54%
Utilities	17%	25%	0%	6%	21%	33%
Tech hardware	21%	40%	20%	33%	45%	75%
Retailing	32%	70%	32%	63%	61%	107%
Semiconductors	44%	76%	18%	34%	52%	88%
<b>MSCI Benchmark</b>	<b>-6%</b>	<b>9%</b>	<b>6%</b>	<b>24%</b>	<b>27%</b>	<b>45%</b>

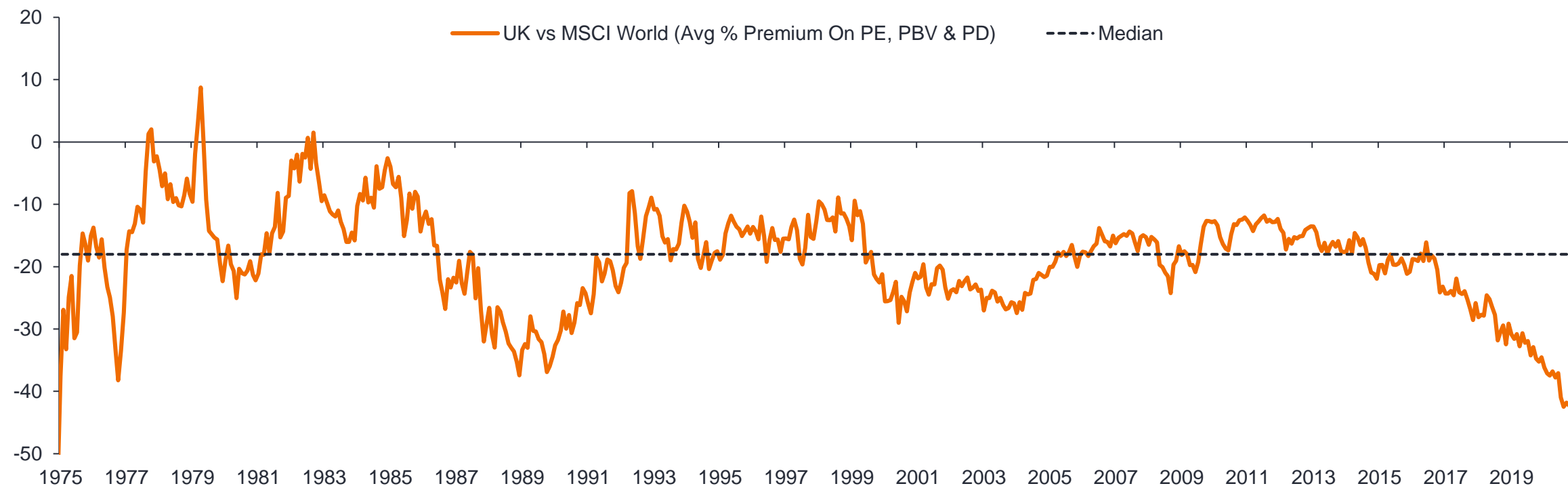
Source: Exane BNP Paribas Estimates, as at 9 December 2020

UK consensus estimates for 2021 EPS appear far too conservative



# VALUATION

## UK vs MSCI World average valuation premium



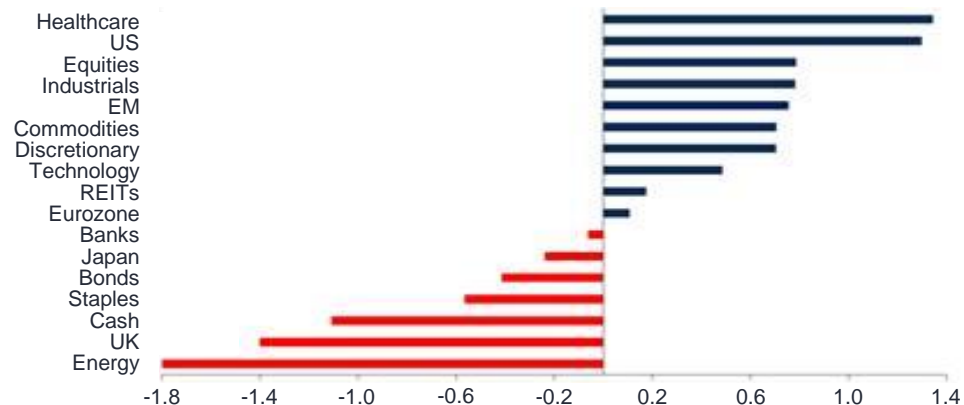
Source: MSCI, IBES, Morgan Stanley Research, as at 30 November 2020

Note: Average relative valuations use 12M forward data where available (forward P/E data starts in 1987) and trailing data where forward P/E not available.

# VALUATION

More dry powder

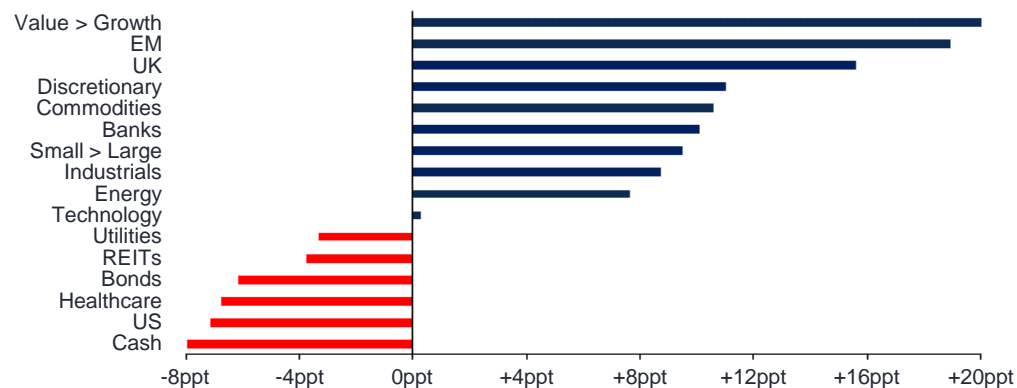
UK remained one of the Survey's top underweight in November



Cash as % of AUM in Large/All-Cap actively managed funds

	UK	Europe	US	GEM	Other DMs
2007	2.5%	3.5%	3.1%	3.7%	2.8%
Feb 2020	5.1%	3.3%	2.5%	4.0%	4.1%
Apr 2020	6.5%	4.1%	3.3%	4.0%	3.9%
Prior month	6.8%	3.6%	2.1%	3.7%	5.8%
Present	6.2%	3.6%	2.5%	3.9%	5.8%

FMS Investors rotate to value and EM and out of cash and the US in December



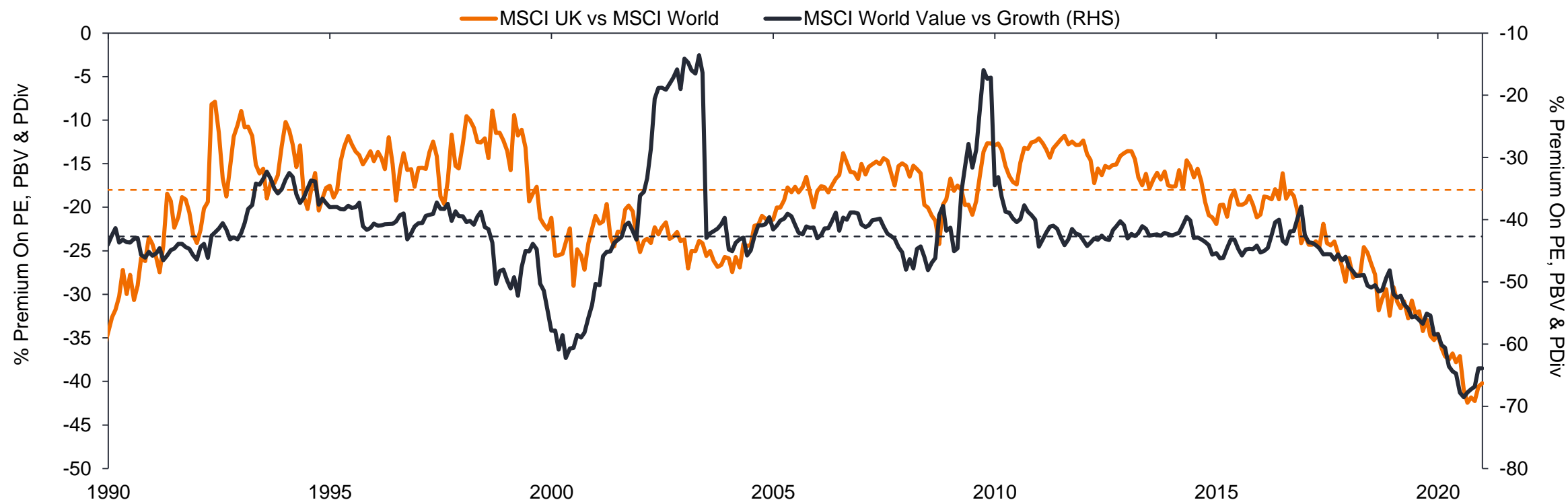
Source: Bank of America Merrill Lynch, as at 15 December 2020

Source: Morningstar, J.P. Morgan calculations, as at 29 December 2020

# VALUATION

## Taking a call on style rotation

UK relative valuations have shown a tight link with that of global Value vs Growth



Source: Morgan Stanley, as at 24 December 2020

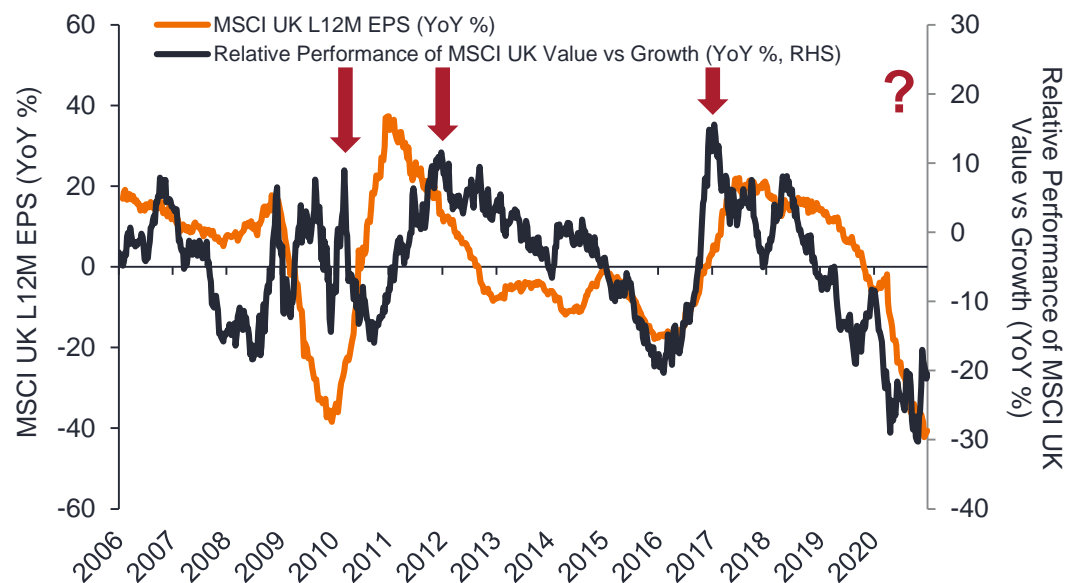
# VALUE

An understatement to say the style is out of favour

Actively Managed Large/All-Cap Funds	30th June 2007			30th June 2019		
	Value	Growth	Core	Value	Growth	Core
United Kingdom	64%	9%	28%	45%	32%	23%

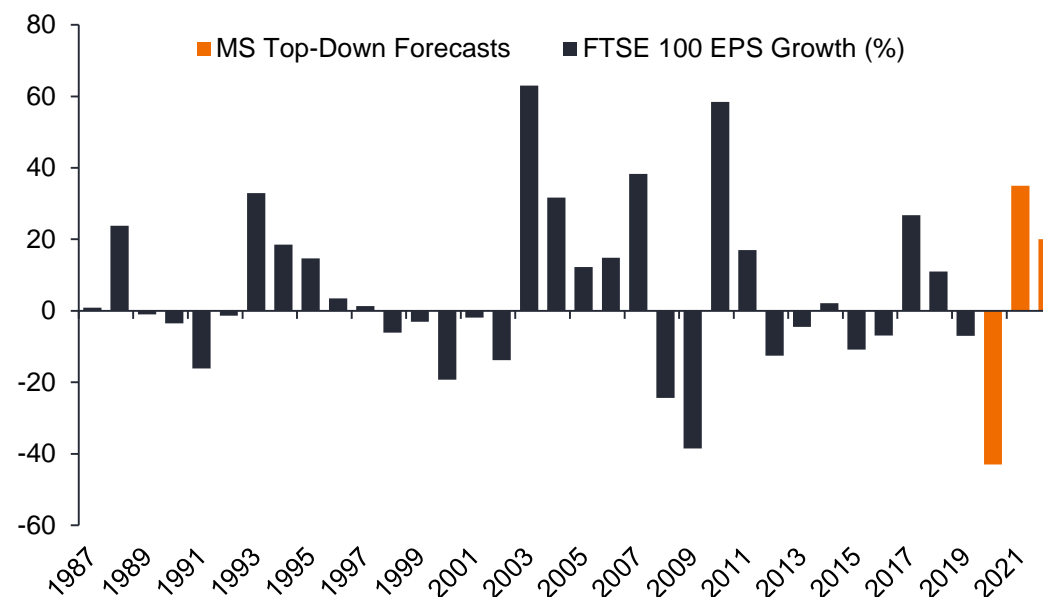
Source: Morningstar, J.P. Morgan calculations, as at 29 December 2020

**Relative valuation of Value vs Growth has hit an all time low & recovery phase tends to be best for Value**



Source: Morgan Stanley, as at 30 December 2020

**Earnings are inflecting**



Source: Morgan Stanley, as at 30 December 2020

# THE B WORD

We should probably talk about Brexit

## The Good

- “No deal” averted
- Expectations of increased business and foreign direct investment

## The Bad

- This is a “hard brexit”
- Non-tariff barriers likely to be a drag on growth over time
- No equivalence granted for financial services

## The Reality

- Businesses and consumers can start to plan and spend accordingly
- Expect a resurgence in M&A
- Valuations already reflect long-term GDP impact
- It is a sideshow to the COVID-19 recovery in the short-term

Source: Janus Henderson Investors, as at 31 December 2020



# CONCLUSION

## Key themes and risk scenarios

### Macro continues to be uncertain

- Short-term COVID-19 demand shock persists
- Economic recovery in sight, timing and magnitude remain unclear
- Implications for inflation of supportive monetary and fiscal policy
- Expectations are still low
- Scope for positive revisions to global economic growth forecasts

### Micro fundamentals are positive

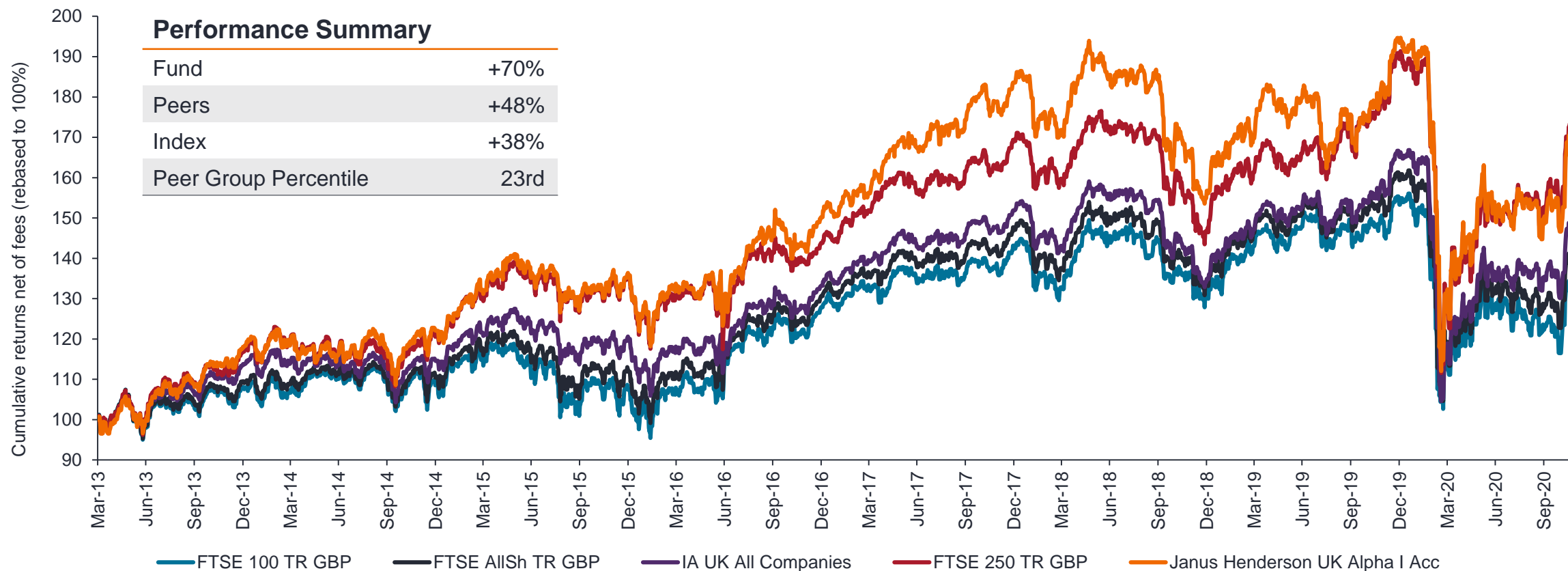
- Historic stock market valuations continue to be attractive
- Balance sheets in good order
- Potential for listed companies to emerge from this pandemic with stronger market positions

### Risks

- Execution of global vaccine roll-out
- Threat of further virus mutations / lockdowns
- UK/ EU transition to new trading relationship
- Implications of a Biden Administration
- FX volatility

# TEAM TRACK RECORD

Stock picking is key



Source: Janus Henderson Investors, as at 30 November 2020.

Note: Fund: I share class, cumulative, net of fees, in GBP, midday pricing.

Performance was rebased on 31 March 2013, after a two month transition period which saw a restructuring impact of >2.5% of performance.

**Past performance is not a guide to future performance.**

# APPENDIX

# BIOGRAPHY



**Indriatti van Hien, ACA, CFA**  
Portfolio Manager

Indriatti van Hien is Portfolio Manager of UK equities at Janus Henderson Investors, a position she has held since 2016. Indriatti joined Henderson in 2011 as a UK equity analyst. Prior to Henderson, she was with PricewaterhouseCoopers, where she qualified as a chartered accountant.

Indriatti graduated with a BA degree (Hons) in modern history and economics from Oxford University. She is a Chartered Accountant (ICAEW) and holds the Chartered Financial Analyst designation and the Investment Management Certificate (IMC). She has 14 years of financial industry experience.

Source: Janus Henderson, as at 31 December 2020

# JANUS HENDERSON UK ALPHA FUND

## Discrete Performance (%)

	I Acc GBP (Net)	Index	Peer Group Benchmark
31 Dec 2019 – 31 Dec 2020	-4.95	-9.82	-6.14
31 Dec 2018 – 31 Dec 2019	23.36	19.17	22.37
31 Dec 2017 – 31 Dec 2018	-14.60	-9.47	-11.15
31 Dec 2016 – 31 Dec 2017	22.20	13.10	14.05
31 Dec 2015 – 31 Dec 2016	10.63	16.75	10.95

### Index

#### FTSE All Share Index

##### Index usage: Comparator

The FTSE All Share Index is a measure of the combined performance of a large number of the companies listed on the London Stock Exchange and includes large, medium and smaller companies. It provides a useful comparison against which the Fund's performance can be assessed over time.

### Peer group benchmark

#### IA UK All Companies

##### Peer group benchmark usage: Comparator

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Source: Janus Henderson Investors, as at 31 December 2020.

Note: Investment objective: The Fund aims to provide capital growth over the long term (5 years or more).

Index: FTSE All Share Index, usage: comparator. Peer group benchmark: The Investment Association (IA) usage: comparator

**Past performance is not a guide to future performance.**

## Contact us

201 Bishopsgate, London, EC2M 3AE, United Kingdom  
janushenderson.com



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