<u>*Global ThematicDiary*</u>

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A NEW AND DANGEROUS PHASE

On April 1st –with a **-26%** *Blitzkrieg* collapse in global equity markets- we described a simple battle plan for Covid. An *acceleration* in existing multi-year trends would favour the equities of quality companies in tech, healthcare, household hygiene, FMCG and e-consumption. The casualties would be yesterday's men: old economy companies, bricks-and-mortar retail, over-leveraged balance sheets, complex global supply chains. Finally, buy gold –up to 15% of portfolios- as a portfolio stabilizer in a mad, "Modern Monetary Theory", money-printing world.

On 30th May, after a **+20%** up move in global indices, we wrote about global geopolitical changes, exemplified by China's *Anschluss* in Hong Kong. Add a domestic tilt to portfolios: domestic consumer franchises, domestic public infrastructure, domestic defence spending, domestic producers. Hold fast to quality. Hug gold again.

We are now entering a new phase. New phases bring new leaders, new Siren voices. Don't fall for them.

It is the turn of laggards -lower quality equity sectors- to catch up. *Success in equity investment is won or lost at the sectoral level*. Sectors and themes are more powerful than value or fashion, both notoriously slippery friends.

Nothing shows this better than the out-performance of a growth sector (the S&P IT sector, in **green**) over a lower quality one, banks (the S&P Financials index, in **blue**). Despite near identical Covid Crisis falls, **tech** has massively outperformed **financials**, both before and after the March collapse. Dozens of other charts (large cap v small cap, healthcare v oil and gas, internet retail v airlines etc) would make the same rather obvious point.

After the recovery from the 23rd March lows (*supreme irony: the very date that many countries went into social and economic "lockdown"*) and the **-6%** mini-crash last Thursday, we see stock markets as being in a redistribution phase as "shareholder regret" kicks in. Nervous Nellies who regret holding equities will either exit altogether ("*phew, I'm out!*"), or switch money into "cheaper", lagging sectors like banks, oils, real estate, airlines. Optimists will do something similar except that they'll be more inclined to hold onto the quality (tech, healthcare, FMCG) that has stood them in good stead. These bulls will regret not holding lower quality sectors if their relative outperformance starts to slip. So lower quality could out-perform higher quality for a while. But….Caution!

A man-made Frankenstein (*Modern Monetary Theory*, which means hiring monetary policy to do the job of fiscal policy) is ringing an early bell for "stagflation" (low growth plus inflation). There may not be enough global demand or monetary velocity to revive stagflation…..yet. But survivors of the 1970s know what this implies for portfolios at the end of the day: inflation-proof growth equities, index linked bonds, real assets and……gold.
