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Spotlight on...

Chief Investment Officer's outlook

For professional investors only

21 September 2021





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Overview

- Current environment: economic activity

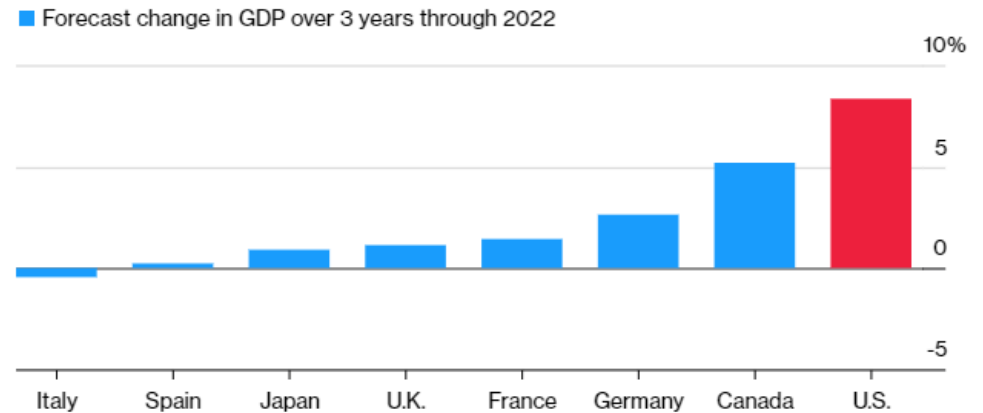
- What's happening in the markets?
 - Economic growth
 - Capex and investment of companies
 - Inflation
 - China's regulatory clampdown
 - Investing against this backdrop: Cyclicalit

- Responsible Investment and the impact of policy changes

Economic activity and growth

- The European Central Bank – scaling back of Fiscal stimulus
 - Pace of economic recovery determined by COVID cases and vaccination programmes
- Economic growth is estimated to reach 5% in 2021
- Corporate earnings have proven very resilient and the big rebound has helped to sustain valuations
- Evolving strains of COVID-19 provide some uncertainty
- Recovery rates continue to differ although strong economic growth remains in global forecasts

The U.S. recovery has been faster than other developed economies



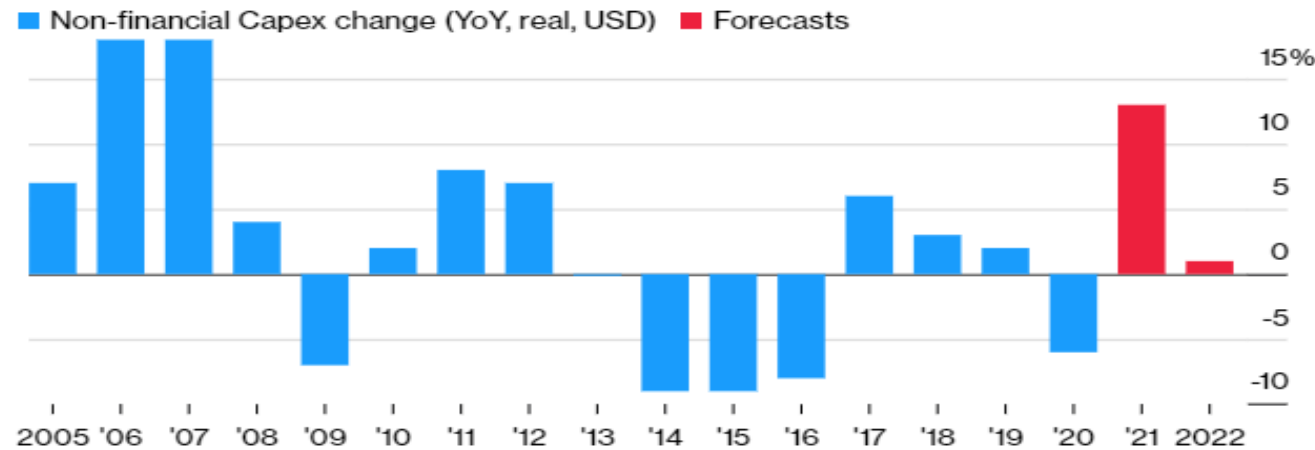
Source: International Monetary Fund

There are some concerns that the flattening of the yield curve is an end of cycle move, with defensives and long duration growth stocks doing much better, suggesting that the Federal Reserve has already made a policy mistake in indicating tightening too early.

How are companies responding?

- Some forecasts suggest that global investment will reach 115% and 121% of pre-recession levels by the end of 2021 and end of 2022, a much **faster recovery** than previous downturns.
- **Mergers and Acquisitions:** Investors confidence is buoyed by companies continuing to buy others.
- Globally, corporate capital expenditure (capex) is expected to jump 13% this year, with growth in all regions and broad sectors – especially in semiconductors, retail, software and transportation.
- In the US, business spending on equipment, structures and software has averaged an annualized 13.4% in the year through the second quarter – the strongest pace since 1984.

S&P's latest estimate suggests that capex will surge 13% this year



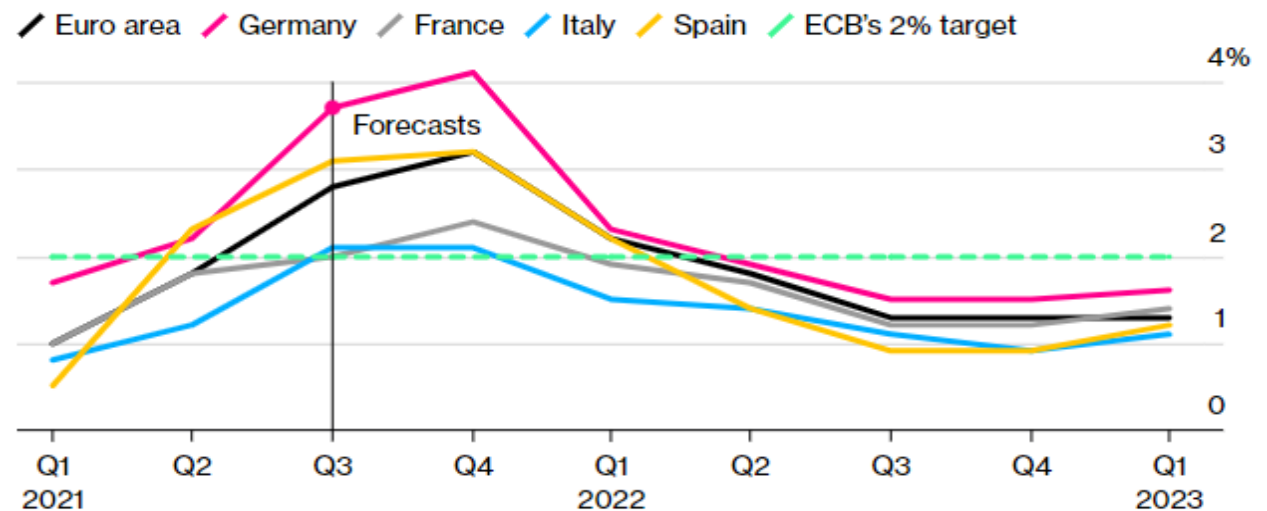
Source: S&P Global Market Intelligence, S&P Global Ratings
 Note: Universe is Global Capex 2000

Inflation: transitory... but persistent

- The latest COVID wave in Asia and ensuing lockdowns has further exasperated supply chain disruptions leading to input cost and price hikes.
 - Extreme anomalies seen in global markets, in the US used car prices for several models are now higher than their new car equivalents.



Economists predict Euro area inflation will peak in Q4



Inflation has remained higher for longer than anticipated and the general view that it will be transitory has been tested, yet we see continued economic growth and steady bond markets as the yield curve continues to flatten and credit spreads are stable.

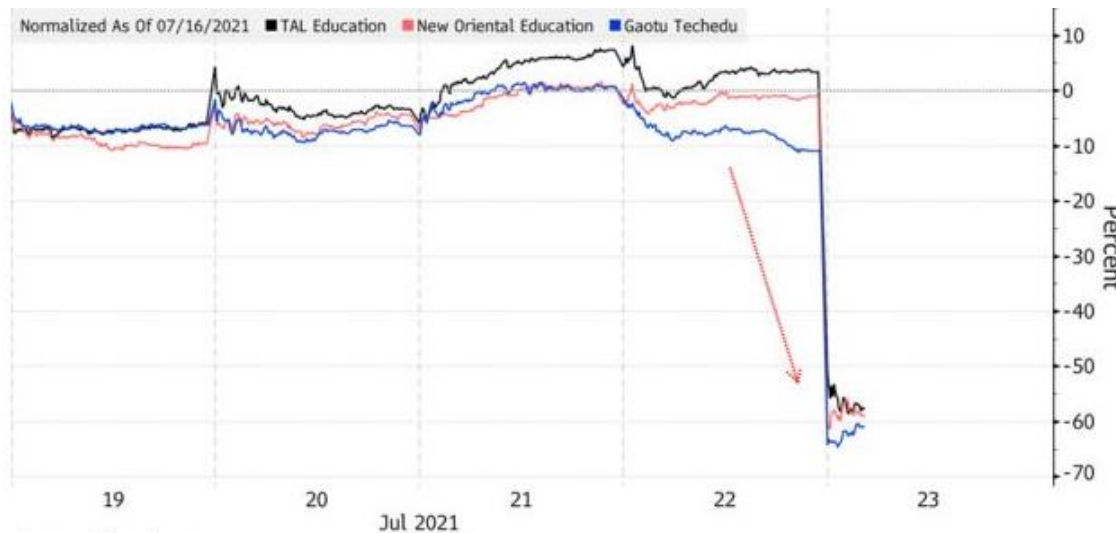
Source: Columbia Threadneedle Investments and Bloomberg, as at September 2021.

China's regulatory clampdown

How is it impacting global investors?

- China's government's focus is on long-term financial stability, improved corporate governance, welfare, reduced inequality, increased domestic demand and national security.
- Over the past year Chinese authorities have launched regulatory programmes including a sweeping overhaul of their US\$100 billion education tech sector, banning companies that teach the school curriculum from making profits, raising capital or going public.

Chinese education stocks plunge amid possibility of being forced to become non-profit



Source: Bloomberg

Source: Bloomberg, as at August 2021.

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Investing against this backdrop

How are we allocating assets?

- **US equities** enjoyed a streak of monthly gains to the end of August which is the longest run since January 2018.
 - We continue to see a very strong recovery, especially in **cyclical sectors** which suffered the most through 2020.
 - The strength of the **rebound** in economic activity has played an important role in the high earnings growth rate.

- Fears of slowing growth and potentially higher **inflation** and interest rates have seen European equities markets slow. Against this backdrop, more growth-oriented counters have been favoured.



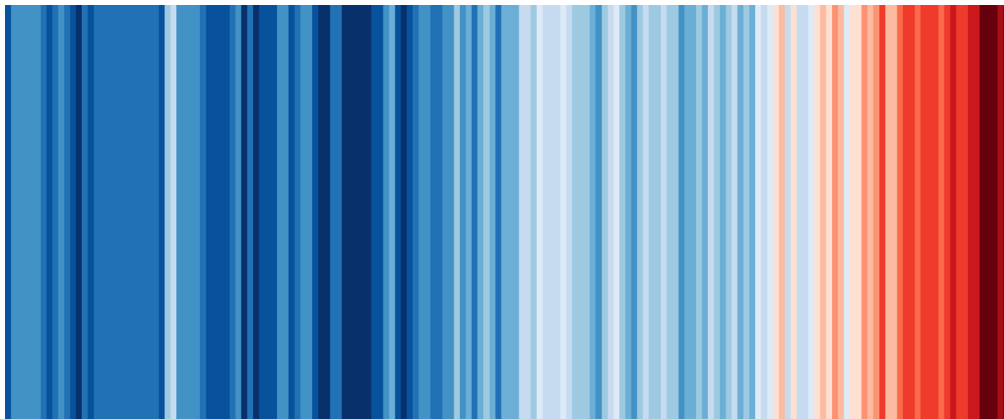
Long term, we believe economic growth will subside and we continue to **favour quality and sustainable growth** companies.

Responsible Investment

- **Sustainability** is increasingly a key driver of customer demand for products and solutions as the race against climate change continues and “green” transition plans are successfully implemented in Autos and utilities sectors. Now oil and gas companies are expected to do the same, with investor and government pressure on these companies starting to build both in Europe and in the US.
- At Columbia Threadneedle we recognise the importance of supporting the green agenda and ensure our investments contribute to combating climate change through alignment with the SFDR regulation and broader climate policies.

Global average temperatures, 1850-2020

Each stripe is one year, blue stripes are cooler years, red stripes are warmer years.



Source: Columbia Threadneedle Investments, as at September 2021 and <https://showyourstripes.info/>

Recap

- Economic recovery around the world continues at varying rates.
- Fiscal stimulus: very strong earnings growth as a result of generous stimulus packages.
- Inflation: impact from anticipated withdrawal of monetary stimulus and the yield curve steepening then flattening.
- Looking forward: a reasonable growth environment with policy changes to accommodate a green agenda.

How did ...
When are ...
Where is ...
Who is ...
Can I ...
Will there ...
Should we ...
How can ...
Tell us ...



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