

Private  
Clients

# Market Perspectives

February 2021





## Foreword

**As a new US president takes charge, COVID-19 vaccines roll out around the world and several equity markets hit fresh highs, investors start the year in optimistic mood. That said, this year is likely to be volatile, as seen with the current tug of war between retail investors and Wall Street, and much can go wrong.**

As the president tackles the effects of the pandemic, he proposes a \$1.9tn relief package. This would help support short-term US growth prospects. Green infrastructure investments and more big tech-related regulation are also likely to be high on the Democrat's agenda. As vaccinations roll out apace, we now expect the economy to expand 6.2% this year.

Equities welcomed the president and his spending plans with a 'Biden bounce'. Some investors may be hesitant to invest at stretched valuations, by some measures. However, with low bond yields, the equity risk premium points to equities being fairly valued. Investing in the asset class still seems a sensible decision for long-term investors. As the idea of a "reflation" trade gains traction, slightly increasing the cyclical of portfolios looks attractive, while keeping in mind the overarching need for "quality".

Meanwhile, the splurge in stimulus spending is helping to fuel rising inflation expectations in bond markets. The recent steepening in the rate curve bears this reflation trade out. A recovery backed by monetary and fiscal support is likely to help lift prices. But rises are likely to be contained. BB-rated bonds are performing well and should keep doing so. That said, carry looks like being a key driver of returns, while also making the most of volatile periods.

And with the president set to make the US economy greener, stimulus spending is likely to boost sustainable infrastructure investment. Biden's rejoining of the Paris Accord on his first day in office sets the change of tone. The impact of America taking tougher climate change measures would create potential portfolio risks and opportunities. Investors might consider reviewing their exposure to them.

Many traditional equity and bond investment strategies are having a tough time in an era of low rates and stretched valuations. While a bear market seems unlikely, a correction may be near. While timing a correction is unpractical, diversification can play a role in aiming to preserve wealth in sell-offs. Gold, hedge funds and private markets seem attractive diversification candidates. The assets promise positive returns through the cycle while usually providing an asymmetric risk/return profile to portfolios.

**Jean-Damien Marie  
and Andre Portelli,**  
Co-Heads of Investment, Private Bank



## Contents

- 4 Can Biden revive America?
- 6 Brexit – where are we now?
- 8 Beware misleading valuation metrics
- 11 Keep calm and carry on
- 13 Alternatives to strengthen a portfolio
- 15 Green plans for the US
- 18 New year, new strategy?
- 20 Is it time to look beyond the pandemic?

### Contributors

Henk Potts, London UK, Market Strategist EMEA  
Jai Lakhani, London UK, Investment Strategist  
Julien Lafargue, CFA, London UK, Head of Equity Strategy  
Michel Vernier, CFA, London UK, Head of Fixed Income Strategy  
Gerald Moser, Zurich Switzerland, Chief Investment Strategist  
Damian Payiatakis, London UK, Head of Sustainability and Impact Investing  
Olivia Nyikos, London UK, Responsible Investment Strategist  
Alexander Joshi, London UK, Behavioural Finance Specialist  
Narayan Shroff, India, Director-Investments



Henk Potts, London UK, Market Strategist EMEA

## Can Biden revive America?

Amid a pandemic and domestic tensions, how might the US be reshaped by the new Democratic administration and what might it mean for growth prospects?

Joe Biden formally became the 46th President of the United States on 20 January, ushering in a new era of politics that will have ramifications for both domestic policy and international relations.

### Blue wave

While the Democrats suffered unexpected losses in the House at November's presidential election, had an extended wait for results and required a pair of run-off elections in the Senate, a win is a win.

With full control of Congress, Democrats seem more likely to confirm the Biden administration's nominees, control the Congressional policy agenda with the power to call hearings and overturn some of the Trump administration's deregulatory efforts, as well as pass some of Biden's major policy initiatives.

Given the 50-50 split in the Senate, with Vice President Kamala Harris serving as the tie-breaking vote, and a slimmer House majority, moderate Democrats may block legislation that leans too far left. Issues such as eliminating the legislative filibuster or expanding the Supreme Court are very unlikely to gain traction, in our view, given opposition from some centrist Democrats, but discussion of limiting the legislative filibuster may return.

### Legislative agenda

The president has laid out an ambitious \$1.9tn relief plan, that is close in size to the CARES Act enacted in March and is on top of December's \$900bn relief package<sup>1</sup>. Its aim is to control the virus, boost consumption and provide support for low paid workers, small businesses and state services.

The Biden administration will likely aim to secure enough GOP votes to bypass the legislative filibuster. If they are unable to gain Republican support, Congressional Democrats may use the budget reconciliation process to pass legislation. This is an expedited process that allows Congress to advance certain tax, spending and debt limit legislation with a simple majority.

Lowering the rate of infections and fatalities, delivering the vaccine, providing virus-related assistance and transitioning to a post-pandemic return to society is the number one priority for the Biden administration and will likely occupy the majority of the first half of 2021.

### Stimulus measures

In terms of economic support, the stimulus package proposes another round of direct cheques to individuals which could be as much as \$2,000. It also suggests increasing a weekly federal unemployment benefit to \$400 and extending it through September. The package provides help for state and local government to meet the shortfall from the low tax take and higher spending. Additionally, \$170bn is assigned to support the reopening of schools. There are also funds to increase loans and grants for small businesses and a proposal to increase the minimum wage to \$15 an hour<sup>1</sup>.

The size of the package will clearly come at a cost. As a consequence, the fiscal deficit is projected to increase to more than \$3tn, or 14% of gross domestic product, this year<sup>1</sup>.

### Infrastructure package

US infrastructure policy is a patchwork of federal and state policies with programmes funded by a number of different sources which is widely viewed as underfunded and ripe for bipartisan reform.

Over the course of the campaign and since his victory, Biden has argued for significant infrastructure spending with elements of climate change policy to "build back better". Biden said he would focus a large segment of his spending plans on upgrading US infrastructure to make it more environmentally friendly and sustainable. He has called for significant investment in surface transportation, water systems, electricity grids, broadband and transit networks.

While we do not expect a \$2tn infrastructure package, as proposed during the campaign, we do think a multi-

<sup>1</sup>A look at what's in Biden's \$1.9 trillion stimulus plan, The New York Times, January 2021 <https://www.nytimes.com/2021/01/14/business/economy/biden-stimulus-plan.html>

year spending package with bipartisan support could be possible. If the administration is unable to secure GOP votes, it may use budget reconciliation to pass infrastructure measures.

#### More active regulatory posture

The Biden administration is likely to implement a more active regulatory approach as a way to enact its policy agenda. While the president has not been as vocal as some other Democrats, he has voiced concerns about the former administration's approach to deregulation. Not only are potential increases in financial penalties possible, but there may be significant regulatory policy changes.

From a sector perspective, climate-related sectors such as energy may experience some of the most significant changes, as the Biden administration will likely aim to enforce existing regulations, reverse deregulation efforts and prosecute alleged wrongdoing.

For “big technology” we are likely to see increased focus on issues related to anticompetitive conduct; antitrust laws and enforcement levels. Legislation faces an uphill challenge, but expect enforcement agencies to more heavily scrutinise and regulate the industry.

#### Labour relations and healthcare

Throughout last year's election campaign, Biden advocated stronger labour protection laws and collective bargaining, some of which may be enacted without Congressional legislation.

He wants to make it easier for workers to organise and collectively bargain with their employers, change the designation of some workers as independent contractors, hold executives personally liable when they interfere with organising efforts and ban “right-to-work” laws. He has also proposed establishing a Task Force on Coal and Power Plant Communities to help secure benefits for coal miners and their families.

We expect the Biden administration likely will use regulatory power to implement a host of healthcare policy objectives to combat COVID-19, as well as strengthen the Affordable Care Act and remove barriers, such as reopening enrolment, increasing funding for marketing, and hiring “navigators” to help people sign up for coverage.

#### Trade, foreign policy and international cooperation

Policy proposals and comments suggest that a Biden administration will pivot towards a multilateral posture, with an emphasis on strengthening the post-second world war international order.

Biden likely will also focus on protecting technologies that are critical for US innovation and national security; embracing a policy of competition and deterrence toward China; and, in a post-pandemic world, mitigating national security-related supply chain risks. His national security and diplomatic nominations signal a shift from President Trump's “America First” agenda.

#### Growth outlook

The president's aggressive stimulus package will support America's immediate growth prospects. It should temporarily supplement income and government spending while the economy is being weighed down by the pandemic.

The speeding up of a vaccine rollout should reduce new coronavirus cases, help to revive service industries that are particularly sensitive to social distancing and assist in restoring employment back to pre-pandemic levels. We now anticipate that the US economy will grow at 6.2% this year and the unemployment rate will fall to 4% at year end.

“We now anticipate the US economy will grow at 6.2% this year and the unemployment rate will fall to 4% at year end”

Despite the faster than previously projected recovery, inflation is anticipated to remain subdued this year before gaining momentum in 2022. The US Federal Reserve's new inflation framework allows for periods when inflation can moderately overshoot the 2% target. As such the central bank is expected to keep rates close to zero through 2023. However, a tapering of its asset purchases could start in early 2022.



Jai Lakhani, London UK, Investment Strategist

## Brexit – where are we now?

With the EU and UK agreeing a Brexit trade deal, just what has been agreed? While the deal makes UK assets more investible, caution still seems warranted when investing in UK assets.

The EU and UK agreed the Trade and Corporation Agreement in an impressive ten months. Compromises from both sides on contentious issues, such as fishing and the level playing field, were key to this.

On fishing, the EU will forgo 25% of the value of stocks taken from British waters, to be phased in over five and a half years. On level playing field requirements, Ursula Von Der Leyen has claimed an “effective tool” is in place to react when fair competition does not occur.

Agreeing a deal was arguably more important in terms of how the future trading relationship between the two regions develops. The deal also appears to indicate a reluctance on both sides for diplomatic tension.

### Time to allocate to UK assets?

The questions many investors find themselves asking are “What now?” and “Is it finally the time to invest in UK assets?”.

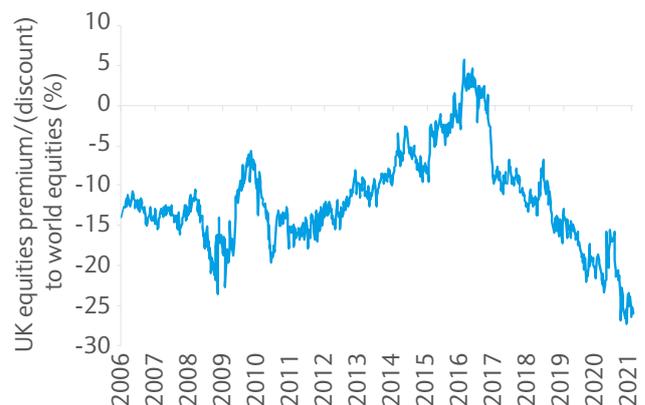
It would be fair to say that Brexit uncertainty has weighed heavily on sentiment towards UK equities. With a deal, visibility has improved relative to a World Trade Organisation (WTO) type of exit and exposure to the region remains low, leaving room for further inflows and a potential re-rating.

“Exposure to the region [UK] remains low, leaving room for further inflows and a potential re-rating”

It is worth noting that even with a trade agreement that avoids harsh WTO terms and ensures “zero tariffs and quotas on all goods that comply with the appropriate rules of origin”, many would argue that this Brexit deal is a relatively hard one with businesses needing to adapt to changes in processes and procedures.

### Headline valuations look attractive

Trend in the premium or discount of UK versus world equities since 2006



Source: DataStream, Barclays Private Bank

The deal secures a tariff-free, quota-free trading relationship. Despite this, non-tariff barriers for goods and especially services will increase.

### Rules of origin

The “rules of origin” point is the main regulatory barrier, with finished goods having to be predominantly produced in the UK or EU in order to avoid tariffs from the other one. For instance, clothes taken from China by the UK and sold in EU member countries are not considered UK goods, but Chinese goods and would therefore be subject to tariffs.

“The “rules of origin” point is the main regulatory barrier, with finished goods having to be predominantly produced in the UK or EU in order to avoid tariffs”

This could also be an issue in the future for electric cars which, as it stands, from 2027 would need to have at least 45% of their production based in the UK or EU to avoid 10% tariffs. Electric car battery cells account for 35-50% of the production process and predominantly originate from outside Europe in China, South Korea and Japan.

Furthermore, some reports suggest that UK fishing exporters may be struggling to access the eurozone market. These teething issues will probably take time for businesses to adjust to.

#### [Skinny deal](#)

The deal seems notably thin with regards to trade in services. It goes beyond the WTO provisions in some respects (such as facilitation of short-term business trips and temporary secondments of highly-skilled employees).

However, talks on the (automatic) mutual recognition of professional qualifications, passporting rights for financial services and data adequacy remain areas that need to be agreed. Furthermore, the deal has no provisions for collaborative financial regulation in the financial services sector. Such a provision is, however, in place for Canada and Japan with the EU.

#### [More to do](#)

On the one hand, the deal offers a platform for the UK and the EU to cooperate in a new relationship for years to come. It also provides much needed clarity for businesses and leaves room for further improvement with review clauses, joint committees and ministerial partnerships. On the other hand, there are still decisions to be made and the trade deal will allow the UK-EU relationship to evolve.

When answering the question “Is it finally the time to invest in UK assets?”, investors should probably tread with caution and lean towards active management and a tilt towards quality companies as we enter a new trading paradigm between the two regions.

“Investors should probably tread with caution and lean towards active management and a tilt towards quality companies as we enter a new trading paradigm between the two regions [UK and EU]”



Julien Lafargue, CFA, London UK, Head of Equity Strategy

## Beware misleading valuation metrics

As many equity markets hit record highs, some earnings ratios are flashing red and investors may be hesitant to invest. However, with bond yields still relatively low, there remains good reason to invest in equities for the long term.

Going into this year, the consensus narrative was one of economic recovery, strong earnings growth and continued fiscal and monetary support. While this combination may be a “nirvana” for stock markets, demanding valuations often get in the way, leaving many investors hesitant. While traditional valuation metrics might appear unappealing, their relevance looks limited in the current, low interest rate, environment.

### The art of valuation

When valuing a company, investors can use a plethora of metrics based on revenues, profits, cash flows, earnings per share or dividends. Given the large choice available, it is easier to defend either the bull or the base case for investing in the company by picking the ratio that best illustrates the investment rationale.

When it comes to broader indices however, earnings per share is often preferred as the metric is widely available (both on a trailing and forward looking basis), easy to understand and seemingly comparable across sectors and geographies.

### Stocks have rarely been more expensive

On a price-to-forward earnings ratio (P/E) basis, the most widely used valuation metric, global equities have rarely appeared richer than they are today. Indeed, the MSCI All Country index trades at around 20 times the earnings expected by the consensus over the next twelve months.

Looking at monthly data from 1988, this level is in the 90th percentile of all observations. In other words, global equities have only been more expensive for 10% of the time in the last 33 years. The same can be said for most local equity indices (see chart). At face value, there seems little incentive for investors to buy into the market at this stage and many prefer to “wait for a better entry point”.

### Equity market P/Es

The 12-month forward price-to-earnings figure, and its ranking against available historical data, for world, emerging market, European, US and Chinese equity markets

	Current 12m forward P/E*	Percentile**	Starting date
MSCI AC World	20.1	90	1988
S&P 500	22.6	95	1987
STOXX Europe	18.0	87	1999
FTSE-100	14.9	70	1987
MSCI Emerging Markets	15.9	86	1998
MSCI China	16.2	92	1995

\*12-month forward price-to-earnings ratio

\*\* Based on monthly observations since starting date

Sources: Datastream, Barclays Private Bank

### The limits of P/E ratios

While P/E ratios globally seem elevated, arguably they offer little insight. Indeed, there appear three main flaws with relying solely on the ratio to inform investment decisions. First, as an aggregate measure encompassing perhaps thousands of constituents, index-level P/Es are influenced by the composition of the market they represent. As such, comparing the ratio across decades fails to account for the significant constituent changes in indices over that time.

As an example of the first flaw, at the end of last year, electric carmaker Tesla joined the S&P 500 with a 2% weighting in the index. Given the company’s market capitalisation and lofty P/E of 370, this addition, all else equal, lifted the index’s P/E by about 0.5 points. The emergence of many large, higher-growth technology companies this century has further distorted historical comparisons, in our opinion.

### Seeing the whole picture

Another issue with P/E ratios is that, just like many other valuations metrics, they ignore crucial elements that should be factored in when trying to assess the attractiveness of any investment. These include long-term growth prospects, the cost of capital and the opportunity costs arising from making any investment decision.

The above shortfalls come on top of potential accounting drawbacks associated with reported earnings figures, which sit at the bottom of the profit and loss account and can be subject to many adjustments.

### P/E ratios don't dictate returns

Finally, and maybe most importantly, P/E ratios aren't usually a good predictor of returns. Valuations are generally mean-reverting and arguably are more likely to contract than to expand from current levels. Yet, this does not necessarily mean that equities are headed for a correction. Indeed, earnings (and dividends) tend to be a much more important driver of returns. As long as earnings can outgrow the multiple contraction, then investors should experience positive returns (see chart).

**“Finally, and maybe most importantly, P/E ratios aren't usually a good predictor of returns”**

### Finding value without P/E

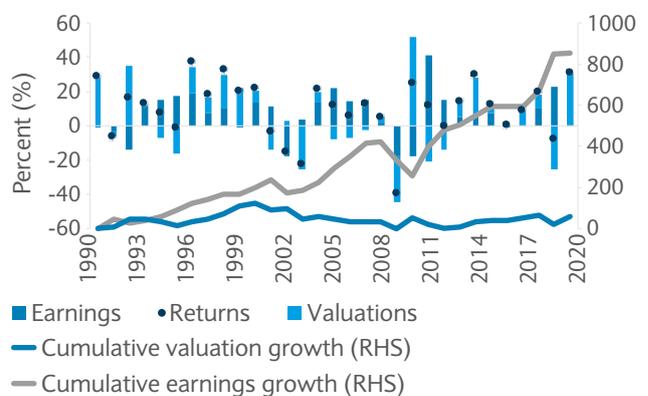
Because P/E ratios aren't reliable valuation tools, especially in the current context of extremely low interest rates, our focus has been on alternative metrics. When it comes to evaluating specific stocks, return on invested capital (ROIC) may be more preferable as it successfully overcomes the effect of capital structure on companies' performance. In addition, when measured against the weighted average cost of capital (WACC) – which de facto includes the impact of changes in interest rates – ROIC allows investors to assess the business' ability to generate value for shareholders.

### Equities offer value versus bonds

For broader indices, and because ROIC may be less relevant for certain sectors, the equity risk premium (ERP), or the difference between expected earnings yield (the inverse of the forward P/E ratio) and the yield on risk-free instruments such as Treasuries, may be preferable. In our view, the ERP

### Composition of S&P 500 returns

The trend in earnings, earnings growth, valuations, valuations growth and returns for the S&P 500 since 1990



Source: Datastream, Barclays Private Bank. January 2021

is most relevant for asset allocators as they are required to choose whether to invest in stocks or bonds.

On the back of the US presidential election and the subsequent Senate runoffs in Georgia, the odds of significantly higher fiscal stimulus have risen. As a result, the yield on 10-year Treasuries has risen steadily, recently breaking above 1%.

The increased Treasuries yield has pushed the ERP below 350 basis points (bp), its lowest level since mid-2018. However, based on this metric, equities remain much more attractive than risk-free bonds and much less expensive than they were in the early 2000s. Back then, the P/E ratio was at a similar level to today but the ERP was -200bp.

**“Based on [the ERP], equities remain much more attractive than risk-free bonds and much less expensive than they were in the early 2000s”**

### Beware 10-year yields above 1.6%

The ERP is in the middle of its historical range in percentile terms (see chart, p10). This suggests that equities can still generate positive annualised returns over the next five years.

It would be more concerning if the ERP fell below its 40th percentile (see chart). In absolute terms, and all else equal, that equates to a spread of 250bp to 275bp. To achieve that, the US 10-year government bond yield would need to climb above 1.6%, the S&P 500 forward P/E ratio would need to expand to above 25, or a combination of both.

By itself, a 10-year bond yield of 1.6% isn't necessarily bad for equities. As long as higher rates are the result of more growth, both in economic activity and companies' profits, equities may still perform well.

Timing is important too, as it usually takes at least a few quarters for earnings growth to emerge. If the 10-year bond yield rises too soon, and too fast ahead of the improvement in earnings, then the ERP would likely contract to dangerous levels.

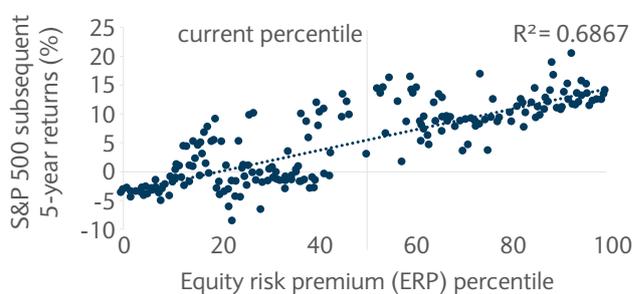
#### Staying invested

In this context, we think being invested is still the best course of action. As the idea of a "reflation" trade is gaining traction among investors, we are inclined to slightly increase the cyclicality of equity portfolios. However, we would maintain a strong preference for "quality" (or strong ROIC) over any other factor, including what some may refer to as "value". From a sector's perspective, this would translate into increased exposure to the industrials complex, moving away from staples and other bond proxies.

"As the idea of a "reflation" trade...gains traction among investors, we are inclined to slightly increase the cyclicality of equity portfolios"

#### ERP and future S&P 500 returns

Ranking of the ERP against historical data and implications for S&P 500 returns



Source: Datastream, Barclays Private Bank. January 2021



Michel Vernier, CFA, London UK, Head of Fixed Income Strategy

## Keep calm and carry on

Many investors seem to expect much stronger inflation and higher rates. While somewhat higher rates seem possible, this is likely to be contained. Earning carry and profiting from volatility could be key to generating returns this year.

With the US Federal Reserve committed to keep the policy rate at 0.25% through to 2023, yields have trended higher since August. This has translated into a steepening of the rate curve with the difference of the 10-year yield and the 2-year yield now 100 basis points (bp). Meanwhile, the difference between the 30-year and 5-year yield is 140bp, the highest level in five years. But to what extent can the long end of the rate curve break away from the short end?

### Reflation trade?

The steepening rate curve has been mainly driven by higher breakeven yields, the market implied expectations for inflation. This is raising concerns of a new era of high inflation. While inflation is likely to pick up from depressed levels, a recovery in breakeven yields does not necessarily mean that real inflation will follow.

Historically, breakeven yields have been, to a large degree, simply a reflection of risk sentiment during periods of market stress. The chart plots the US 5-year breakeven yield against US high yield bond spreads (inverted), highlighting their strong correlation, in particular during crisis periods and during subsequent recovery phases.

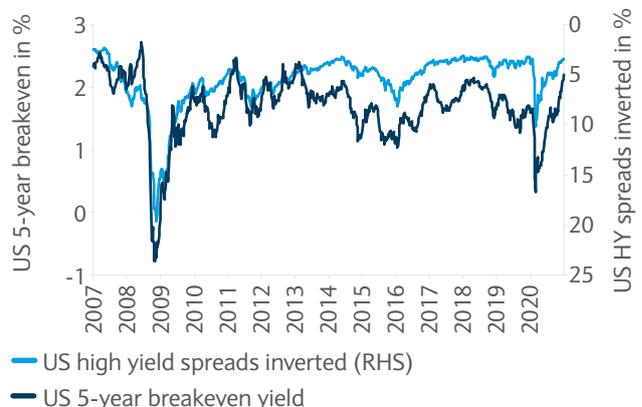
Once high yield spreads fully recovered, the upward trend for breakeven yields seemed to end. The current move may follow a similar pattern with the recovery in breakeven appearing to be mostly a function of improved risk sentiment and less an indication that a new era of excessive inflation has arrived.

### Inflation, stronger, but not excessive

The prospects of a recovery, a US central bank that tolerates higher inflation more and excessive growth in the monetary base increases the risk that inflation builds.

### US high yield spreads tighten and US breakeven yields on the rise

Relationship between US high yield spreads and breakeven yields since 2007



Source: Bloomberg

Consensus expectations among economists and those implied by financial markets point to stronger, but not excessive, inflation in two to three years. The forecast for the US consumer price index (CPI) in 2022 lies between the more bullish predictions and more defensive views of leading investment houses that range between 1.7% and 2.5%.

Inflation swaps suggest an increase of US CPI from 1.4%, to between 2.1% and 2.3% by December 2027. Considering that PCE inflation (personal consumption expenditure), the Fed's preferred inflation indicator, trades roughly 30bp below CPI on average, this provides hardly any environment of a desired overheating. Even a recovery, implied by most parts of the market, does not seem to make a case for rate hikes in the near future.

### Risk of more steepening seems limited

Larger US-treasury supply through \$1.9tn of additional fiscal stimulus, recently suggested by Joe Biden, seems to be the remaining justification for steepening at the long end of the yield curve. The Fed is likely to absorb a large part of the supply by increasing duration and expanding the balance sheet. While some further steepening is possible, the justification for this seems limited. More to the point, higher rate spikes open up opportunities to lock-in yields.

### But how to capture higher yield?

The challenge for investors is how to achieve returns in the bond market in the short term. Lower trending rates have been the largest driver for positive performance in bond markets in 2020.

Rates are unlikely to trend lower from here, meaning carry (the yield over the respective government bond yield) seems the most important driver for returns going into 2021. At current levels spreads represent the biggest building block for the overall yield: for US investment grade segment over 50% of yield, sterling over 80% and in euro 100% given negative rates.

With spreads across investment grade, high yield bonds and emerging market bonds close to record tight levels, overall yields and respective return prospective seem underwhelming. But markets as well as spreads are unlikely to remain static, especially during an early phase of recovery. Volatility has the potential to pick up, leading to higher spreads and potentially higher yield opportunities.

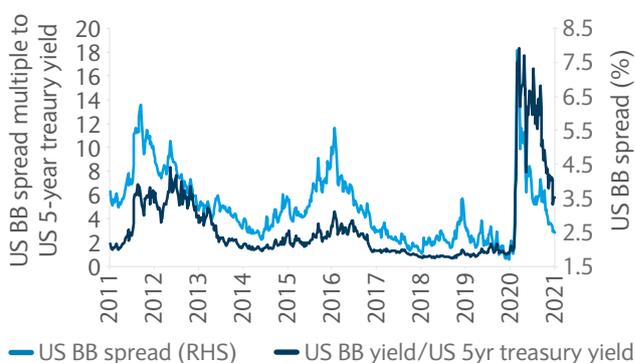
### BB-rated bonds stand out

A segment of the bond market that stands out are BB-rated bonds. In the US, the sub-segment was the best performing one in the US high yield bond market last year returning 10.14%. The average spread, 245bp, is currently at the lower end of the range over the last 10 years, though two factors could lead to further compression.

Firstly, the relative yield advantage over government bond yields, as opposed to the absolute spread, is at the highest level since 2012. Admittedly, this is more a result of depressed yields rather than wider absolute spread levels. That said, should a gradual recovery materialise and a low rate environment persist, institutional flows will likely spark further spread compression. Previous periods (such as 2013 and 2016) have shown that such trends can last for two years or more (see chart).

### US BB-spreads still high on relative basis

US relative and absolute BB-spreads since 2011



Source: Bloomberg

Secondly, the quality of the BB-segment has improved in quality during the crisis. While default rates may not have reached the peak, defaults were concentrated in single B-rated (5.8%) and CCC-rated bonds (20.6%) last year. By contrast, BB-rated bonds did not experience any default, according to rating agency Moody's.

The events of last year had a positive side-effect, the quality of the BB-segment improving. The BB-segment now entails larger and more established, well-known and downgraded BBB-rated (fallen angels) names. At the same time more vulnerable issuers were downgraded from BB to single B or lower given the tough economic conditions resulting from the pandemic.

As re-iterated in our Outlook 2021, volatility in spreads as well as spikes in rates may open further opportunities to lock in yields and secure carry returns. Selection and focus remains key.



Gerald Moser, Zurich Switzerland, Chief Investment Strategist

## Alternatives to strengthen a portfolio

With many asset valuations seemingly expensive and rates likely to remain low, it may be time to diversify traditional holdings with alternatives.

### Diversifying away from 60-40

From a portfolio perspective, balancing the returns' objective with the risks' constraints is key to be positioned appropriately.

In several recent articles, we discussed the fading power of a traditional 60-40 portfolio (or 60% invested in equities and 40% in government bonds). While that combination offered powerful diversification for many decades, a few developments in recent years have hindered its effectiveness.

Low interest rates, central banks' focus on growth and stretched valuations have respectively hit income prospects for government bonds, tightened correlations with equities and lowered likely capital appreciation for fixed income. An unwelcome cocktail of factors for those using the allocation strategy to weather financial market downturns.

And while we do not expect a bear market in the near term, diversification can be handy during a correction. Indeed, every bear market starts as a correction but underlying imbalances then push the correction into a much longer period of underperformance for growth-sensitive assets. For this reason, while looking at corrections in retrospect is easy, it is important to remember that being invested during a correction can feel uneasy. This is why any properly diversified portfolio should be built to weather any sort of volatile events.

### Corrections typical in a bull market

Considering the strong performance of global equities in recent months – up around 20% since early November – a correction seems likely in coming months. In fact, it is typical to see on average a 10% correction every year during a bull market.

“It is typical to see on average a 10% correction every year during a bull market”

Considering the stage in the recovery, this has often been a period during which markets' sentiment often wavers. After the worst period has been weathered, markets initially rebound strongly. But once the initial relief is over, markets can become more jittery until the overall direction is clearer.

### Learning from previous sell-off recoveries

Taking a look at the 2003-2004 and 2009-2010 periods, two recent episodes when the S&P 500 recovered from a large sell-off, in both instances markets troughed in March of the first year before significantly rebounding for around 12 months. In 2003, equities rallied 45% before experiencing a correction in February 2004. In 2009, the markets rose 70% before selling off in January 2010. In comparison to those two episodes, the S&P 500 has climbed by around 70% since troughing in March.

In both 2004 and 2010, equities experienced not one, but two corrections of around 7% during the year. But overall, the S&P 500 finished up 9% and 13% respectively in those years. Indeed, all corrections were short-lived, only lasting between one and three months. And markets recovered from the losses equally rapidly. Those corrections offered little, if any, opportunity to enter markets as they were short-lived.

Overall, dissecting all bull-market corrections (excluding those which turned into a bear-market) in US equity markets since 2000, the average correction lasts 1.5 months and the market recovers in less than three months from reaching the bottom (see table on p14). The velocity and violence of those turns probably makes it futile to try and time them and it seems preferable to stay invested throughout while diversifying portfolios in assets which offer relative outperformance during those periods.

## Anatomy of US equity corrections since 2000

	Length (in months)		S&P 500	Gold	HFRI Equity market neutral
	Correction	Recovery			
Average	3.5	6.9	-14.5%	3.0%	0.1%
Average (ex bear markets)	1.5	2.6	-10.8%	0.7%	-0.2%
Median	1.4	2.8	-9.2%	1.0%	0.0%
Average rolling annual performance (2000-2020)			5.5%	10.9%	3.1%
Average rolling standard deviation (2000-2020)			16.2%	16.3%	3.8%

Source: Bloomberg, Barclays Private Bank

### Alternatives for diversification

Hedge funds, gold and private markets are all alternatives asset classes that should be part of diversified, “all-weather” portfolios. The table looks at the performance of alternative assets, such as gold and several hedge fund strategies, which in theory should not be correlated with equities when the latter is selling off.

The data suggests that the three alternatives are good diversifiers when it is most needed, such as during sharp downturns. On average, gold returns are slightly positive during corrections while those from market neutral hedge funds tend to be flat. However, this is against a backdrop of equities losing more than 10% on average.

At the same time, it is worth noticing that gold, hedge funds and private market assets offer positive returns on average through the cycle. The average rolling annual performance of gold since 2000 is 11% while a market neutral hedge fund’s benchmark delivers 3%.

### Coming to the rescue

Government bonds are providing little, if any, income for investors, indeed offering negative cash flow in much of Europe. As such, there are likely to be opportunities to improve the risk/return profile on a portfolio through the cycle by adding alternatives.

Gold, hedge fund strategies with low beta (like market neutral, macro multi-strategy or low net equity long-short) and private markets are a case in point. With a special focus on managers’ selection when it comes to private markets and hedge funds, those alternatives strategies can offer a much needed asymmetric risk/return profile to a portfolio.

Damian Payiatakis, London UK, Head of Sustainability and Impact Investing  
Olivia Nyikos, London UK, Responsible Investment Strategist

## Green plans for the US

With climate change a key priority for the new US administration, what might the potential implications be for your portfolios?

During his campaign, President Joe Biden called climate change an “existential threat” and framed addressing climate change as way to grow jobs, also addressing the economic impact of the pandemic.

While his full plans and initiatives have not yet emerged, and will still face many challenges, investors should assess how to mitigate transition risks and search for sector opportunities that the new administration will likely drive.

### A greener direction

Over the last four years, Donald Trump withdrew the US from the Paris Accord and issued numerous executive

orders to ‘roll back’ President Obama’s environmental policies (112 by one account<sup>1</sup>).

In a Biden presidency, the environment is set to move up the federal agenda. Along with the pandemic, economic recovery and racial equity, climate change is one of four stated priorities of his administration.

Biden has selected, for both environmental and wider economic roles, experienced and knowledgeable environmentalists, pointing to a prioritised climate agenda across US federal government (see table<sup>2</sup>).

### Biden appointees with climate change background

Office	Name	Background
National Climate Advisor	Gina McCarthy	NRDC president, former EPA administrator, led Obama-era climate policy efforts, including the Clean Power Plan.
Special Envoy for Climate Change	John Kerry	Former secretary of state, negotiated international climate efforts under Obama, signed Paris climate accord.
Energy Secretary	Jennifer Granholm	Former Michigan governor, advocated use of renewable energy and EV technology during auto industry recovery.
Interior Secretary	Deb Haaland	Congresswoman from New Mexico, has promoted climate, environment and public lands protection.
Environmental Protection Agency Administrator	Michael Regan	Secretary of North Carolina Department of Environmental Quality, leads state’s climate change interagency council.
Director of the National Economic Council	Brian Deese	Former Senior Advisor to Obama on climate and energy, Global Head of Sustainable Investing at Blackrock.
Council on Environmental Quality Director	Brenda Mallory	Southern Environmental Law Center regulatory policy director, former EPA and CEQ counsel, environmental lawyer.
Deputy National Climate Advisor	Ali Zaidi	Former Office of Management and budget official, lawyer focused on sustainability and climate change.

<sup>1</sup> The Trump Administration Rolled Back More than 100 Environmental Rules. Here’s the Full List. New York Times, Updated 20 January 2021 <https://www.nytimes.com/interactive/2020/climate/trump-environment-rollbacks-list.html>

<sup>2</sup> Biden plans to fight climate change in a way no US president has done before, The Conversation, 12 January 2021 <https://theconversation.com/biden-plans-to-fight-climate-change-in-a-way-no-u-s-president-has-done-before-152419>

The resultant impact of this swing in policy and personnel will likely to be felt throughout federal and local government and a spectrum of industries.

### Implementing the ambitious agenda

Biden's campaign agenda sets out the aim of establishing the US as a net-zero-emissions economy by 2050, decarbonising American electricity and halving carbon footprint of buildings in 15 years, and delivering this with a \$2tn green investment plan.

The above goals look set to be driven through executive powers, fiscal policy and international engagement.

### Resetting the government

As he did on 20 January, using executive orders to reverse many of President Trump's environmental policies since 2016 may be a relatively quick first step for the new administration. But many of those policy changes could take time to implement.

Perhaps most importantly, the president required government agencies to more fully incorporate climate considerations in project calculations, notably changing in the social cost of carbon, a monetary figure that seeks to capture the negative externalities from a tonne of carbon emissions. While seemingly small, it could be a highly influential change, because this figure is used federal agencies to base their decisions on regulation and approvals.

With his subsequent orders on 27 January, other similar executive actions have added, such as making climate a national security priority for federal government, or conserving about 30 percent of all federal land and water by 2030, or pausing new leases for natural gas and oil development on federal lands and waters.

### More focus

His power to appoint conservation-minded officials into key roles across government should realign federal agency focus, authority and priorities. These officials with re-empowered federal bodies can drive considerable changes in a range of industries.

For example, the Environmental Protection Agency (EPA) could raise fuel economy standards that incentivise a shift to electric vehicles. The Federal Energy Regulatory Commission could set rules to integrate renewables into the grid and accelerate deployment of battery storage capacity. Also, the agency could further explore ways to support state initiatives on carbon pricing.

The Securities and Exchange Commission could push for companies to disclose climate risks, incentivising increased investment towards cleaner energy. The Department of Labor's oversight of some pension funds could do the same. These steps could raise the cost of capital for fossil fuels and lower that of green energy but also increase general awareness of carbon in the markets.

### Greening the pandemic stimulus

Like many other countries, the US's forthcoming spending packages to revive the economy could take on a distinctly green hue. Within Biden's \$1.9tn proposal, is an integrated green jobs plan with pledges to create "millions" of new jobs by "greening" the following sectors: infrastructure, the auto industry, transit, power sector, buildings and housing.

The plan also attempts to tackle environmental justice, supporting a "just transition" for workers whose carbon-intensive jobs are affected, supporting disadvantaged communities and supporting labour unions' right to organise and bargain for fair wages.

### Back at the table

Rejoining the Paris Accords was one of the campaign promises on which Biden delivered on the first day of his presidency. However, resigning in itself is primarily symbolic.

This likely puts the US back to where it was four years ago. At that point, US greenhouse gas emissions were flat and it was not on track to meet its nationally determined contributions (NDCs), which set maximum national greenhouse gas emissions totals by a certain date.

The new set of NDCs for the US will require a steep cut in emissions, especially to meet the net zero target by 2050. In addition, the NDCs will need to be sufficiently ambitious to assure green groups at home and key international counterparties that the US can regain a leadership role in setting the global climate agenda.

### Investor risks and opportunities

As the new US administration refocuses on climate to help deliver its commitments and transition to a lower carbon economy, investors should be on the lookout for risks and opportunities in their portfolios.

As we've explained in prior Market Perspectives, climate breakdown generates broadly two kinds of material financial risks for portfolios – physical risks arising from acute or chronic changes in weather patterns, and transition risks arising from the shift to a low carbon economy.

With renewed, and accelerated, emphasis on climate change by the US, risks for investors will emerge primary in latter category over various horizons.

### Key risks

In the short term, policy risks are likely to be to the fore given the potential shifts in governmental regulation, standards and approvals. The administration's withdrawal of support for the Keystone XL pipeline is a clear example of how quickly a change in government stance can affect the value and viability of commercial enterprises.

In the short to medium term, companies may face increased technology and legal risks. With fiscal policy and regulation supporting new technologies that enable a transition to a low-carbon, energy-efficient economic system, winners and losers likely will emerge. Additionally, potential costs of lawsuits and payouts could increase with calls for the establishment of an Environmental and Climate Justice Division, at the Department of Justice, to prosecute anti-pollution cases and cases brought by communities disproportionately affected by climate change.

Finally, increased momentum around a green agenda may increase market risks as purchasing decisions for companies and consumers shifts supply and demand for certain commodities, products and services.

### Uncovering growth opportunities

While portfolios face investment risks, focusing on green investment opportunities with a longer time horizon may help investors to endure short-term volatility and find growth prospects too.

In Outlook 2021, we reviewed how many national efforts across the world to stimulate green growth could generate various entry points across three trends. These include addressing climate change and energy needs, reducing environmental footprint and conserve biodiversity and ecological systems.

Three specific sectors seem worth watching in coming months to see how much they are influenced by President Biden's policies. Even though current plans don't delve into specifics on how the goals might be achieved, or how they might emerge after being through the policymaking process.

### Green infrastructure and housing

At its core, Biden's climate plans link the environment with potential jobs growth to help overcome the economic impact of the pandemic. This has included calls to create employment by building greener infrastructure, improving energy efficiency in buildings and constructing 1.5m new sustainable homes. As well, it proposes upgrading green community infrastructure in terms of water and waste systems and electricity grids.

The aim is to modernise 4m buildings and 2m homes over four years as well as providing incentives and financing to electrify home appliances and install more efficient windows.

### Transportation

Biden's plan calls for overhauling the American transportation industry to reduce pollution by creating more public transit and pushing for more hybrid and electric vehicles (EV). Among other ideas, proposals include giving citizens rebates to trade in petrol vehicles, incentivising auto companies to offer more zero-emission vehicles, and investing in EV charging stations.

The president also has proposed zero-emissions public transportation in cities with 100,000 or more residents. This would include light rail networks and installing infrastructure for pedestrians and cyclists.

### Energy

No transition plan or NDCs is achievable without addressing the energy sector. The president's aim is to eliminate carbon from the US power sector by 2035. Already, many utilities are setting goals net-zero carbon by 2050, but support in the form of incentives and research likely will be needed to accelerate the process.

Additionally, the aim is to spur greater investment in solar (utility scale, rooftop and community) and onshore and offshore wind turbines while continuing with nuclear and hydropower options.

The intention is to encourage new energy technologies through more research investment and tax incentives for carbon capture storage and to reduce the cost of green hydrogen to the cost of conventional hydrogen within a decade.

### It's not easy being green

However, the new administration's stance on climate will face headwinds and risks. Democrats hold slim Congressional majorities, with several key representatives from carbon intensive states, and environmental plans may face opposition from certain Democrats and likely most Republicans. In addition, some of the more than 200 federal judges that were approved under the Trump administration could block federal bodies from acting too expansively.

Whatever the reality, the direction and rate of US activity on climate change has categorically shifted for at least the next four years. And investors should take note and prepare their portfolios for the likely opportunities and risks from this structural change.

**“Whatever the reality, the direction and rate of US activity on climate change has categorically shifted for at least the next four years”**



Alexander Joshi, London UK, Behavioural Finance Specialist

## New year, new strategy?

A new year may be a fresh start, but that doesn't mean that your previous investment thesis is out of date. Periodically reviewing a portfolio is sensible, but so is making constrained and thoughtful changes for the long term.

### New year, new me

This year may not have started as many would have liked, as COVID-19 spreads quickly through populations. The start of a new year is often a time of optimism, providing an opportunity to look at your life and build on the previous year. Finances and investments are naturally a key pillar of this review for many.

At the same time, investment houses regularly publish their outlooks and top investment ideas for the year ahead, which can give the impression that you should be re-positioning portfolios. The world does not, however, suddenly change when the clock strikes midnight on 1 January and render existing allocations out of date.

### Review, but not too much

Periodic monitoring of portfolios can help identify potential investment risks or opportunities from likely longer term themes and ideas. Additionally, the market will always provide shorter term, tactical, opportunities should they appeal.

Making too many changes to a portfolio, however, can be detrimental. Market timing is extremely difficult. Furthermore, trading too much can introduce or exacerbate behavioural biases that can weigh on portfolio performance.

### Beware of trading too much

People have a tendency to be overconfident about their own abilities. In investing behaviour, overconfidence has been shown to induce investors to trade excessively, to the detriment of returns.

Psychological research demonstrates that, in areas such as finance, men are more overconfident than women. Using account data for over 35,000 investors, men have been found to trade 45% more than women. Trading was found to reduce men's net returns by 2.6 percentage points a year and by 1.7 percentage points for women. Transaction costs were not enough to explain the reduction.

The return patterns can be explained by factors such as difficulty in evaluating the many stocks available to buy, distraction by outside sources such as the financial media and selling far more previous winners than losers. Moreover, market timing is a significant challenge for all investors.

### Problems of market timing

Trying to time the market can be risky. One reason people do this is explained by probability matching, in which subjects match the probability of their choices with the probability of reward when they vary.

Suppose one has to choose between two rewards: A that pays out on 70% of occasions, and B on 30%. The rational maximum-payoff strategy would be to follow the first option, which pays off seven times out of ten. The matching strategy consists of choosing A 70% of the time and B on 30% of occasions, which should pay out approximately six times out of ten (calculated as  $(0.7 \times 0.7) + (0.3 \times 0.3) = 0.58$ ). The maximising strategy outperforms the matching strategy. However, most animals match probabilities.

When there is little chance of knowing the next result, the maximising strategy is the one that rewards most often. In terms of whether to stay invested or not on a monthly basis, historical data of investing in developed market equities suggests those that stay invested were rewarded approximately 60% of the time. Other strategies were unlikely to perform better.

### A random walk?

Financial markets are not entirely random. Indeed, there may be occasions when investing in or withdrawing from the market is justified. However, given how difficult timing is for even professional investors, it may be wise for short-term tactical tilting to represent a small proportion of a portfolio.

Large and frequent portfolio turnover is likely to underperform against staying the course with long-term investment trends. A core-satellite strategy may be a

prudent approach when making opportunistic plays to enhance returns alongside an existing core allocation.

“A core-satellite strategy may be a prudent approach when making opportunistic plays to enhance returns alongside an existing core allocation”

#### Active management

While individuals may be subject to behavioural biases, having a portfolio managed by a team of investment professionals following a robust investment process is likely to reduce the impact of individual biases. Following a thorough investment process usually further reduces the impact of group biases such as herding.

Investors paying for active management may, understandably, want to see their money being actively managed to justify the fees. However, investing success is not just about what an investor holds, but also what they do not hold. Not investing in a sector or company tends to be an active decision.

A quality active manager continually assesses the investment case for companies in and out of a portfolio. As such, low portfolio turnover is not necessarily bad. What is usually more important is the process, the buy and sell rules or discipline, and a long-term objective.

#### Actions you may want to consider

As part of an annual review, there are some actions which are often overlooked that investors may want to consider:

**Rebalancing** – As the values of some investments rise and others fall, portfolio allocations can stray away from planned and create unintended over or underweights. Small reallocations can be used to take profits and rebalance portfolios while staying invested.

**Diversification and hedging** – Investing does not have to be a binary, in or out, decision. Thoughtful diversification and hedging instruments can help to stay invested while maintaining discipline and lowering beta if required.

**Cash** – As well as reviewing allocations, you may want to take stock of cash positions. Holding cash may seem like a passive choice. It is actually an active decision to not be invested.

For investors retaining cash for tactical deployment, the longer it is kept on the sidelines, the stronger the case for having invested due to the opportunity cost of inflation. The potential returns forfeited from waiting for more attractive entry points can be significant. Phasing in investments may help nervous investors, but while this can provide a smoother ride, it typically comes at the cost of lower returns than if the cash was invested immediately.

#### Staying invested

When trying to meet long-term goals, getting and staying invested is likely to be the best course of action. The start of the year did not mark the end phase of the pandemic, as some hoped for. Such uncertainty might make it difficult to stay invested or put more cash to work. The start of the year is a good time to discuss such concerns with an advisor and put in place measures to allay concerns. Investing is like having a difficult conversation: it's best not to hold off for another day.



Narayan Shroff, India, Director-Investments

## Is it time to look beyond the pandemic?

Barclays Private Bank discusses asset allocation views within the context of a multi-asset class portfolio. Our views elsewhere in the publication are absolute and within the context of each asset class.

A year on from COVID-19 rearing its head and it remains the main driver of financial markets and influencer of much Indian policy. As public commitments to mitigate the impact of the pandemic rise, fiscal authorities are witnessing revenue shortfalls. The resulting expansion in the Indian government's market borrowing programme is placing additional pressures on domestic banks.

### Managing business

India's borrowing programme in the shadow of the virus seems to have been managed smoothly so far, with the lowest borrowing costs in 16 years and an elongated maturity. Companies have also raised substantial funds from financial markets in accommodative financing conditions. The funds have been mainly used for deleveraging balance sheets and building precautionary buffers.

As growth takes root, the private sector's capital expenditure cycle is likely to revive as existing capacity is utilised and new capacity is added. This will add pressure on the financial system to help growth among Indian businesses.

Meanwhile, the disconnect between certain segments of financial markets and the economy is being accentuated, both globally and domestically. The seemingly stretched valuations of some financial assets pose risks to financial stability. Banks and financial intermediaries need to be cognisant of these risks and potential spillover effects in an interconnected financial system.

### Financial stability report

The governor of the Reserve Bank of India's (RBI) financial stability report presented on 11 January looked at the opportunities and uncertainties that are likely to face investors this year. The key macro factors, like historically low interest rates, a stable external account and some room for more fiscal stimulus, would appear to be a tailwind for growth.

Gross domestic product (GDP) is expected to grow by 9.2% this year, compared with a contraction of 7.2% in 2020. The more positive growth backdrop also stems from the benefits of various reforms seen in recent years, like implementing goods and services tax, the Insolvency and Bankruptcy Code, lower of corporate tax rates and performance-linked incentive schemes for select industries, such as electronics. The benefits of these reforms are yet to be fully realised.

### Economic indicators looking hopeful

High frequency indicators like mobility, purchasing managers' indices, industrial activity and auto sales have steadily improved since June 2020. Meanwhile, government spending, which was lagging in the first half of financial year 2021, showed some pick up as lockdown restrictions were removed. Spending on construction is picking up and heading quickly towards pre-pandemic levels, aided by government spending.

Exports have slowed as re-stocking needs slow. Consumption spending is improving on the back of pent up demand, despite weak employment numbers. These trends seem likely to continue this year, potentially supported by lower interest rates. The vaccine rollout being seen in many countries is encouraging, though a fresh sharp acceleration in COVID-19 infections remains a key concern and could dent recovery hopes.

### Union budget: spot on, execution is key

India's Union budget 2021 stood out for its bold focus on growth through increased outlays on capital expenditure even at the cost of deviating from the prescribed fiscal glide path for five years. An estimated fiscal deficit of 9.5% of GDP in financial year (FY) 2021 and 6.8% in FY 2022 is higher than consensus, though look achievable. The capital expenditure outlay for FY 2022 has been increased by 35% year on year with ambitious plans across Infrastructure, Healthcare, Agriculture, Manufacturing and allied sectors.

Big plans have been announced on divestments and privatisation of key public sector undertakings and also large-scale asset monetisation of operating public assets. Reforms include attempts to attract foreign and domestic funding, including setting up of a Development Finance Institution, further reforms for real estate investment trusts and infrastructure investment trusts and plans to allow infrastructure development funds to issue tax efficient zero coupon bonds.

There are also plans to create an Asset Reconstruction Company and Asset Management Company (ARC - AMC) akin to a “Bad Bank”, which can help speed up the resolution process and free up lenders to focus on taking new credit risk exposures. Again, execution remains key.

#### Quality equities remain preferred

Equity markets have, to some extent, discounted the economic recovery, the Sensex having almost doubled from its March lows. The outlook for equities seems positive, on hopes of a stronger reflationary impulse, with policy rates likely to be “lower for longer” globally, and the seemingly improving demand environment.

Indian equity markets continue to receive more foreign inflows. This trend will probably persist given the strength of the revival in the economic activity and corporate earnings. We are, however, wary of valuations that seem to be expensive. It may be worth considering taking some profits. This prompted a move mid-January in our tactical stance on Indian equities to neutral from overweight.

We continue to prefer “quality”, sustainable businesses with strong earnings growth momentum. While the gap in valuation between large capitalised (cap) and small or mid-cap equities has narrowed in recent months, small and mid-cap stocks seem preferable as the recovery in equity markets continues to broaden.

#### Currency and inflation considerations

The RBI continues to purchase US dollars to defend the rupee amid a deluge of dollar inflows. This led to record levels of surplus liquidity in the system and saw money market rates fall sharply and distort the yield curve. The central bank’s 14-day reverse repo of 2tn rupees seems to be oriented towards managing overnight liquidity and normalising short-term rates.

Turning to inflation, this seems likely to trend lower in coming months. For now liquidity should remain ample. The RBI will probably remain accommodative and keep rates unchanged in coming months as the economic revival will require continued policy support now.

#### Bond markets turn cautious

The increase in fiscal deficit targets, higher government borrowing and fears of crowding out will weigh on bond market sentiment, despite the RBI’s accommodative stance. While flows from foreign institutional investors into bonds have been negative in recent months, domestic flows should remain buoyant, keeping demand-supply dynamics on an even keel.

For now, we expect the RBI to “do what it takes” to support the economic recovery with low rates and retain our preference for quality bonds, preferably in the 3 to 6-year maturity bucket. As short-term rates flatten, the yield curve is expected to flatten. The key risk remains that the fiscal trajectory, as outlined in the Union budget, disappoints.

#### Asset allocation

As the effects of, and uncertainty around, the pandemic linger as the economy revives, allocating assets with appropriate diversification remains key. Like last year, this one is likely to experience periods of elevated volatility too.

At such a time, an allocation to global equities and gold with a preference for alpha opportunities over beta seems to make sense. While gold is traditionally held by Indian households, increasingly domestic investors are discovering the attractions of investing in global equities, with a bias to US and Chinese markets.

As we prepare for a post-pandemic world, private assets may offer ways to diversify portfolios while accessing many investment themes set to play out in this period. Some of the themes will occur in areas like pharmaceuticals and healthcare, technology, chemicals and consumer goods. Also, the nascent Indian REITs and infrastructure investment trust market should continue to perform well.

**Investments can fall as well as rise in value. Your capital or the income generated from your investment may be at risk.**

This document is for information purposes only. It is general in nature and does not take into account specific investment objectives, financial situation, knowledge, experience or particular needs of any particular person. It should not be relied upon in considering the merits of any particular transaction. It does not constitute a prospectus, offer to buy or sell, invitation or solicitation to buy or sell or invest in or refrain from investing in securities or other investment products. It may provide an introductory summary of products or services that we may potentially provide, and you should consider whether any of those may apply to your own circumstances and needs.

It is not intended to provide the sole basis for any evaluation of securities or any other instrument, which may be discussed in it. The information in this document is not investment, tax, legal, accounting, regulatory or other advice, and you should consider seeking advice tailored for your own circumstances, including any impact an investment may have on your personal tax position from your own tax adviser. You have sole responsibility for the management of your tax, accounting, legal and regulatory affairs including making any applicable filings and payments and complying with any applicable laws and regulations. We have not and will not provide you with, and you should obtain your own, independent, tax, accounting, legal and regulatory advice.

Any offer or entry into any transaction with Barclays as a party, requires Barclays' subsequent formal agreement which will be subject inter alia to internal approvals and execution of binding transaction documents. Terms and conditions if any herein are indicative and subject to change and/or negotiation between us. Full details of final terms and conditions will be contained in a prospectus or offering or other document.

Investment products may be subject to investment risks, including, but not limited to, market and currency exchange risks, fluctuations in value and possible loss of principal invested. Where investments are concerned, past performance does not predict or guarantee future performance. Investments can fall as well as rise in value. Your capital or the income generated from your investment may be at risk. The value of any investment may also fluctuate as a result of market changes.

Although any content in this document from other sources is believed to have been obtained from sources which are reliable, we neither represent nor warrant its accuracy or completeness, nor the timeliness or reliability of such information set out herein. Where information in this document has been obtained from third party sources, we believe those sources to be reliable but we do not guarantee the information's accuracy. Information set out herein may be incomplete or condensed. Barclays is not responsible for information stated to be obtained or derived from third party sources or statistical services. Any past or simulated past performance including back-testing, modelling or scenario analysis contained herein is no indication as to future performance. No representation is made as to the accuracy of the assumptions made within, or completeness of, any modelling, scenario analysis or back-testing. You should carry out your own due diligence and verification of such information accordingly. This document may become outdated and/or its contents subject to changes at any time and without prior notice to you, and in that regard, we are under no obligation to update or correct this document or inform you in relation to any such changes to the contents herein. Any estimates and opinions from Barclays as may be included in this document constitute our judgement as of the date of the document and may be subject to change without notice, and we have no obligation to provide revised estimates or opinions.

Unless expressly stated, products are not guaranteed by Barclays Bank PLC or its affiliates or any government entity.

This document is not a product of the Barclays Research department. Any views expressed may differ from those of Barclays Research.

This document is strictly confidential and may be being made available to selected recipients only. It may not be reproduced or disclosed (in whole or in part) to any person without our prior written permission. Barclays or its affiliates may act upon or use material in this publication prior to publication. The manner of distribution of this document and the availability of the products and services may be restricted by law or regulation in certain countries and persons who come into possession of this publication are required to inform themselves of and observe such restrictions.

Barclays Bank PLC ("Barclays"), its affiliates, and their respective directors, employees, and agents ("Barclays Group") make no representation or warranty as to the accuracy, completeness, timeliness or reliability of the contents of this document. To the maximum extent permitted by law, no member of the Barclays Group accepts any liability whatsoever for any direct, indirect or consequential losses (in contract, tort or otherwise) (including, without limitation, any liability arising from fault or negligence on the part of any of them) for any loss whatsoever arising from the use of or reliance on this document or its contents or otherwise arising in connection with it.

The contents of this document have not been reviewed or approved by any regulatory authority.

Barclays offers wealth and investment products and services to its clients through Barclays Bank PLC registered in England and operates in India through its subsidiaries, including Barclays Securities (India) Private Limited (BSIPL), Barclays Wealth Trustees (India) Private Limited (BWTIPL) and Barclays Investments & Loans (India) Private Limited (BILIPL). BSIPL is a company incorporated under the Companies Act, 1956 having CIN U67120MH2006PTC161063. BSIPL is registered and regulated by the Securities and Exchange Board of India (SEBI) as a Portfolio Manager INP000002585, Stock Broker INZ000269539 (member of NSE and BSE), Research Analyst:INH000001519; Depository Participant with the National Securities & Depositories Limited (NSDL): DP ID: IN-DPNSDL- 299-2008, Investment Adviser: INA000000391. BSIPL is also registered as a Mutual Fund Advisor having AMFI ARN No. 53308. The registered office of BSIPL is at 208, Ceejay House, Shivsagar Estate, Dr. A. Besant Road, Worli, Mumbai – 400 018, India. Telephone No: +91 22 67196363. Fax number: +91 22 67196399. Compliance Officer contact details: Name: Mr. Anupam Mohaney, Contact number: +91 22 61754000, E-mail: bsiplcompliance@barcap.com. Investor Grievance E-mail: bsipl.concerns@barcap.com. Website: www.barclays.in/bsipl. BWTIPL is a company incorporated under the Companies Act, 1956 having CIN U93000MH2008PTC188438. BWTIPL is a Corporate Agent (Composite) of (i) HDFC Standard Life Insurance Company Limited and (ii) ICICI Lombard General Insurance Company Limited, under IRDA Registration Code CA0078. The registered office of BWTIPL is at 208, Ceejay House, Shivsagar Estate, Dr. A. Besant Road, Worli, Mumbai – 400 018, India. Telephone No: +91 22 67196363. Fax number: +91 22 67196399. Email Address for corporate agency (insurance) matters: xwealthindia@barclayscapital.com. Email Address for other matters: wealthindiatrust@barclays.com. Grievance Officer contact details: Name: Ms. Poonam Mirchandani, Contact number: +91 022 6719 6359, E-mail: bwtipl.concerns@barclays.com Website: www.barclays.in/bwtipl. BILIPL is a company incorporated under the Companies Act, 1913 having CIN U93090MH1937FTC291521. BILIPL is registered and regulated by the Reserve Bank of India (RBI) as a Non Banking Finance Company (NBFC): Registration no.B-13.02176. The registered office of BILIPL is at. Nirlon Knowledge Park, Level 10, Block B-6, Off Western Express Highway, Goregaon (East), Mumbai - 400063, India. Telephone No: +91 22 61754000. Fax number: +91 22 61754099. Grievance Redressal Officer contact details: Name: Mr. Ruzbeh Sutaria, Contact number: +91 22 61754244, Grievance E-mail: bililcompliance@barclayscapital.com. Website: www.barclays.in/bilil.

[privatebank.barclays.com](http://privatebank.barclays.com)

Go further,  
Reach higher,  
See beyond.

