



2020 & Q4 REVIEW: VACCINE HOPES FUEL RALLY

Stock markets crashed in March 2020 as the severity of Covid-19 dawned on investors and economies went into lockdown with equity markets suffering their worst quarter since 2008. However, risk assets have since staged a remarkable recovery fuelled by ultra-loose monetary and fiscal policy, ending the year at record highs after news of successful vaccine trials lifted sentiment (chart 1).

There was massive divergence within asset classes. Technology had a stellar year rising 42% in sterling terms but energy fell 30%. US equities were up 17% but the UK fell 10%, recording its worst performance since 2008 despite a strong Q4 (chart 2). Precious metals rose 22% but energy commodities fell by 45%.

We trimmed our overweight in equities in March but remained neutral or overweight the asset class for the balance of the year and maintained a large overweight in global high yield bonds. We were overweight technology all year and underweight energy and the UK most of the time. We see bumps in the road ahead but we're optimistic on risk assets with unprecedented amounts of stimulus in place and the vaccine likely to deliver an eventual return to normality. Please see the [Investment Clock blog](#) for our latest views.

Chart 1: Asset class performance in a volatile year

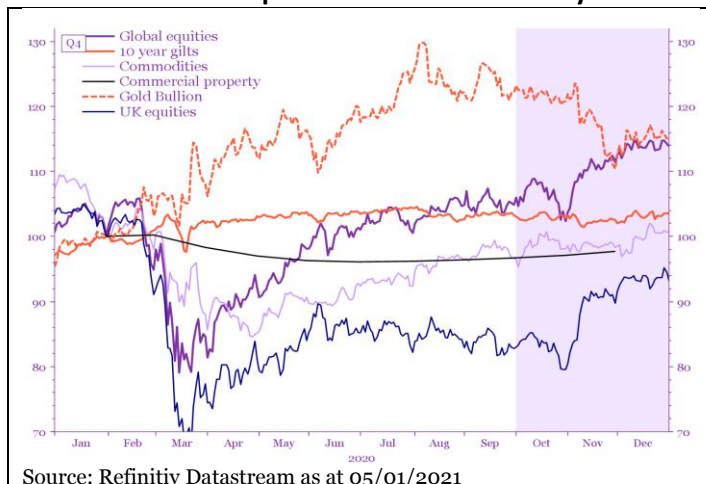
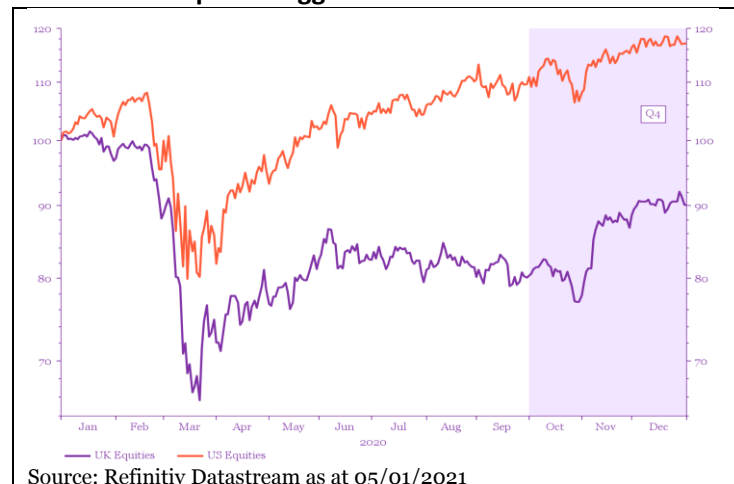


Chart 2: UK equities lagged the US



Past performance is not a reliable indicator of future results.

Table 1: Sterling-based annual returns from major asset classes 2007-2020

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | YTD |
|------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|
| 1 | EM Stocks +37.4% | Gilts +12.8% | EM Stocks +62.5% | EM Stocks +23.6% | Gilts +15.6% | EM Stocks +12.8% | Global Stocks +21.2% | Property +19.5% | Property +13.9% | EM Stocks +35.4% | EM Stocks +21.1% | Property +7.5% | Global Stocks +22.6% | Global Stocks +14.3% |
| 2 | Commodities +14.3% | Cash +5.7% | UK Stocks +30.1% | Commodities +20.5% | Property +8.1% | UK Stocks +12.3% | UK Stocks +20.8% | Gilts +13.9% | Global Stocks +4.4% | Commodities +33.3% | Global Stocks +14.0% | Cash +0.6% | UK Stocks +19.2% | EM Stocks +11.9% |
| 3 | Global Stocks +11.2% | Multi Asset -10.4% | Global Stocks +20.6% | Global Stocks +17.2% | Multi Asset +1.6% | Global Stocks +12.1% | Property +11.0% | Global Stocks +12.2% | Multi Asset +1.8% | Global Stocks +30.3% | UK Stocks +13.1% | Gilts +0.6% | EM Stocks +15.9% | Gilts +8.3% |
| 4 | Cash +6.0% | Commodities -10.9% | Multi Asset +12.6% | Property +14.7% | Cash +0.6% | Multi Asset +7.1% | Multi Asset +7.3% | EM Stocks +7.9% | UK Stocks +1.0% | UK Stocks +16.8% | Property +11.2% | Multi Asset -1.2% | Multi Asset +8.9% | Multi Asset +2.0% |
| 5 | Multi Asset +5.5% | Global Stocks -18.5% | Commodities +5.9% | UK Stocks +14.5% | UK Stocks -3.5% | Gilts +2.7% | Cash +0.5% | Multi Asset +6.5% | Gilts +0.6% | Multi Asset +12.1% | Multi Asset +6.3% | Global Stocks -3.1% | Gilts +6.9% | Cash +0.3% |
| 6 | UK Stocks +5.3% | Property -22.6% | Property +1.9% | Multi Asset +11.7% | Global Stocks -6.9% | Property +2.3% | Gilts -3.9% | UK Stocks +1.2% | Cash +0.5% | Gilts +10.1% | Gilts +1.8% | Commodities -5.7% | Commodities +3.5% | Property -2.0% |
| 7 | Gilts +5.3% | UK Stocks -29.9% | Cash +1.0% | Gilts +7.2% | Commodities -12.7% | Cash +0.6% | EM Stocks -5.3% | Cash +0.5% | EM Stocks -10.3% | Property +2.6% | Cash +0.3% | EM Stocks -7.6% | Property +2.1% | Commodities -6.1% |
| 8 | Property -5.4% | EM Stocks -34.8% | Gilts -1.2% | Cash +0.6% | EM Stocks -18.4% | Commodities -5.4% | Commodities -11.2% | Commodities -11.8% | Commodities -20.3% | Cash +0.4% | Commodities -7.1% | UK Stocks -9.5% | Cash +0.7% | UK Stocks -9.8% |

Source: RLAM, DataStream as at January 2021; property as at November 2020. 'Multi Asset' returns are based on the benchmark weights of Royal London Global Multi Asset Portfolio (GMAP) Growth Fund / Governed Portfolio 5. Indices used are FTSE All World Ex-UK, FTSE All Share, FTSE British Govt Fixed All Stocks, JPM Cash UK 1 month Index, Bloomberg Commodity Index, MSCI UK Monthly Property Index and the FTSE Emerging Markets Index. Total returns in sterling terms.

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MARKETS: A STRONG END TO A MEMORABLE YEAR

- Global stocks ended the year at record highs with hopes of fresh US stimulus and a vaccine roll out fuelling gains in Q4.
- Value stocks like financials outperformed following vaccine news in Q4 but technology stocks remained strong leaders over the year.
- Despite strong returns in Q4, UK stocks lagged well behind their global peers over the year as a whole.
- Falling rates and a risk-on environment saw the US dollar suffer its second weakest year since the financial crisis.

| | 1 GBP buys | Q4 (vs GBP) | 2020 |
|-----|------------|-------------|------|
| FX | | | |
| USD | 1.37 | -5.4 | -2.8 |
| EUR | 1.12 | -1.4 | 5.8 |
| CHF | 1.21 | -1.5 | 6.1 |
| JPY | 141.0 | -3.4 | 2.1 |
| AUD | 1.77 | 1.5 | 6.4 |
| CAD | 1.74 | -1.4 | -1.2 |

| | Rate (%) | chg in Q4 (%) | 2020 (%) |
|----------|----------|---------------|----------|
| CB rates | | | |
| Fed | 0.25 | 0.00 | -1.50 |
| BoE | 0.10 | 0.00 | -0.65 |
| ECB | -0.50 | 0.00 | 0.00 |
| BoJ | -0.03 | 0.03 | 0.04 |

| | Yield (%) | chg in Q4 (bps) | 2020 chg (bps) |
|------------|-----------|-----------------|----------------|
| Bond Yield | | | |
| US 10 Year | 0.91 | 23 | -100 |
| UK 10 Year | 0.20 | -3 | -63 |
| EU 10 Year | -0.57 | -5 | -38 |
| JP 10 Year | 0.02 | 1 | 3 |

As of 31-Dec-20

Multi Asset

| | Local Currency | GBP | | |
|---------------------|----------------|------|------|------|
| | Q4 | 2020 | Q4 | 2020 |
| UK Stocks | 12.6 | -9.8 | 12.6 | -9.8 |
| Global ex UK Stocks | 13.0 | 15.8 | 8.4 | 14.3 |
| Gilts | 0.6 | 8.3 | 0.6 | 8.3 |
| UK Cash | 0.0 | 0.3 | 0.0 | 0.3 |
| UK Property | 1.1 | -2.0 | 1.1 | -2.0 |
| Commodities | 10.2 | -3.1 | 4.2 | -6.1 |

Equity Regions

| | Local Currency | GBP | | |
|------------------|----------------|------|------|------|
| | Q4 | 2020 | Q4 | 2020 |
| UK | 12.6 | -9.8 | 12.6 | -9.8 |
| North America | 12.7 | 20.1 | 6.8 | 16.5 |
| Europe ex UK | 10.4 | 2.7 | 9.2 | 8.6 |
| Japan | 12.3 | 8.9 | 8.5 | 11.1 |
| Pacific ex Japan | 19.0 | 14.6 | 18.3 | 17.6 |
| Emerging Markets | 15.1 | 17.4 | 11.3 | 11.9 |

Global

Equity Sectors

| | Local Currency | GBP | | |
|------------------------|----------------|-------|------|-------|
| | Q4 | 2020 | Q4 | 2020 |
| Consumer Discretionary | 13.0 | 34.9 | 8.3 | 32.8 |
| Industrials | 13.4 | 8.5 | 9.5 | 8.3 |
| Financials | 21.3 | -5.0 | 17.5 | -6.1 |
| Consumer Staples | 5.2 | 6.1 | 1.7 | 5.5 |
| Utilities | 8.3 | 2.2 | 4.4 | 1.4 |
| Healthcare | 6.1 | 12.9 | 1.7 | 11.9 |
| Energy | 21.0 | -28.0 | 17.5 | -30.0 |
| Materials | 14.5 | 18.2 | 12.0 | 17.7 |
| Communication Services | 6.9 | -2.6 | 3.4 | -3.2 |
| Information Technology | 14.2 | 44.1 | 9.0 | 41.6 |

Bonds

| | Local Currency | GBP | | |
|--------------------|----------------|------|-----|------|
| | Q4 | 2020 | Q4 | 2020 |
| Conventional Gilts | 0.6 | 8.3 | 0.6 | 8.3 |
| Index Linked Gilts | 1.2 | 11.0 | 1.2 | 11.0 |
| GBP Credit | 3.1 | 7.8 | 3.1 | 7.8 |
| Global High Yield | 5.9 | 6.1 | 5.7 | 5.0 |

Commodities

| | Local Currency | GBP | | |
|-------------------|----------------|-------|------|-------|
| | Q4 | 2020 | Q4 | 2020 |
| Energy | 2.2 | -42.7 | -3.3 | -44.5 |
| Agriculture | 21.4 | 16.5 | 14.8 | 12.9 |
| Industrial Metals | 14.2 | 16.3 | 8.0 | 12.7 |
| Precious Metals | 2.4 | 25.6 | -3.1 | 21.7 |

Note: Standard indices sourced from DataStream and Bloomberg; Property data as of November 2020.

Investment Risk: Past performance is not a guide to future performance. The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit Risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.



Derivative Risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of this investment.

Interest Rate Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

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