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Citigold

2021 ANNUAL OUTLOOK

NEW ECONOMIC CYCLE, NEW OPPORTUNITIES

CONTENTS

CITI'S TOP THEMES

NEW ECONOMIC CYCLE, NEW OPPORTUNITIES

As COVID-19 unfolded globally in early 2020, shutdowns across much of the world in March and April drove a significant economic collapse and brought an end to the longest economic expansion in history (July 2009 – February 2020). However, with the virus being an exogenous shock, the global economy is expected to recover more quickly and robustly from the COVID-19 led downturn compared to a typical recession.

Investor reaction to COVID-19 has resulted in a sharp dispersion in equity returns. In particular, the "stay at home" equities which benefited from COVID-19 related disruptions including work from home are up 45% in 2020, while "COVID-19 cyclicals" are 35% lower (as of 20 November 2020).

While COVID-19 could still continue to present challenges and socially close industries (e.g. tourism) could remain depressed at the start of 2021, Citi analysts have greater confidence of a broadening in economic activity that could brighten throughout the remainder of 2021. With multiple effective vaccines and large-scale production likely to be in place by mid-2021 in developed countries, a sharp economic expansion of the global economic recovery is expected in the second half of 2021. Following a forecasted 3.9% drop in 2020, global GDP is expected to expand 5.0% in 2021.

In light of this, Citi analysts have increased their overweight position in global equities, preferring Europe, Asia, Japan, Latin America and global small and mid-caps. Within the US, Citi analysts are neutral on large caps given valuations are no longer cheap, preferring small and mid-caps which could catch-up in performance. Away from COVID-19, added allocations to Asia, Europe and Latin American equities also reflect a sharp rebound that is already underway in global trade. Real Estate Investment Trusts (REITs) could also help add diversified exposure to income-oriented assets.

With a large dispersion of returns, COVID-19 cyclicals and small and mid-cap sectors could see a potential rotation as they may be poised for recovery. In the long-term, Citi's strategy is to maintain a commitment to "unstoppable trends" in the Rise of Asia, Increasing Longevity and Digital Disruption. A new long term trend is the rising importance of climate change and ESG investing. As countries strive towards a greener world, climate change investing offers opportunities to capture the potential returns from this transformation.

With a quarter of the world's bond markets trading at negative yields, Citi analysts have further reduced their underweight allocation to global fixed income. Within the space, selective opportunities can be found in high yield debt as well as Emerging Market debt, which could continue to be supported by a recovery from the COVID-19 shock.

While the correlation between gold and equity markets has increased, Citi analysts continue to retain an overweight position in gold as a risk hedge for portfolios with higher inflation and continued easy monetary policy likely to support the precious metal.

COVID-19 itself represents an immediate economic restraint, but it is expected to be less damaging than the initial shock. Recent positive vaccine developments have raised Citi analysts' confidence that a new economic cycle – away from the mere "opening and closing effects" of 2020 – could begin to take hold in early 2021. Hence, while markets may see several setbacks in confidence over 2021, Citi analysts are mindful against market timing as waiting for all of positive vaccine news or political clarity can be costly and impact portfolio performance. A globally diversified portfolio remains important in balancing out potential volatilities in individual markets and asset classes.

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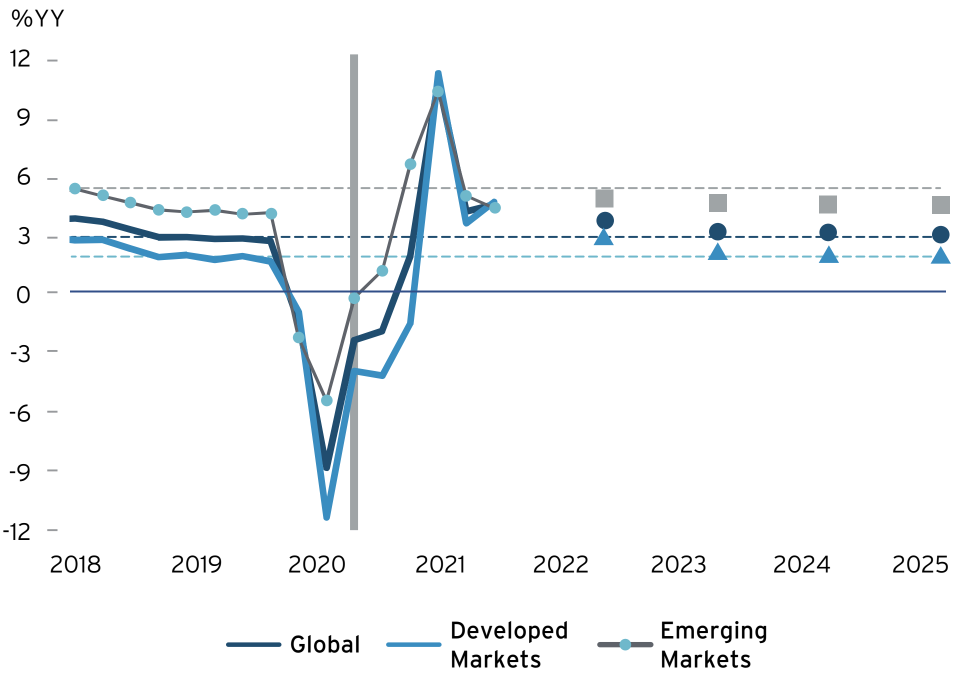
ECONOMY

THE NEW ECONOMIC CYCLE

Key Takeaways

- After an expected 3.9% contraction in 2020, global GDP is expected to grow by 5.0% in 2021. Inflation is anticipated to remain subdued at 2.0% for 2020, rising to 2.2% in 2021.
- By region, Developed Markets GDP growth is expected to rebound to 4.1% in 2021 (from -5.3% forecasted in 2020), while Emerging Markets GDP could grow by a higher 6.2% in 2021 (from -2.0% forecasted in 2020).

GDP Growth Forecasts



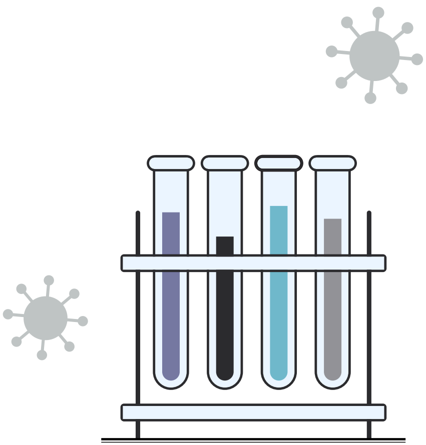
Note: At market exchange rates. Dashed lines are respective long-term averages (2000-2019) Source: Citi. As of 7 December 2020.

Citi analysts think that the turning point in the pandemic could have been the first announcement of a highly efficacious vaccine trial result. Between three major pharmaceutical companies, approximately 5 billion approved doses of COVID-19 vaccines could be available to the world by the end of 2021.

With 9 other vaccines in late stage testing, it is more likely than not that broad vaccination of populations could occur in 2021. Citi analysts see a potential end to the pandemic in the middle of 2021 and this could return the world to a new normal and the full start of a New Economic Cycle in 2021.

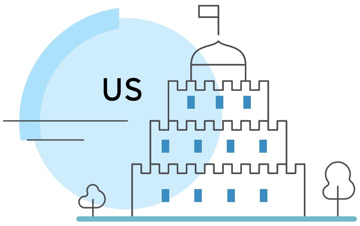
Vaccination is expected to generate a direct positive impact to economies via normalization of mobility. The positive impact of vaccination could be bigger in economies where mobility has been persistently weak. Vaccine supply in 2021 could be prioritized to the Developed Market region, which is estimated to have secured 85% of total pre-orders. The positive impact of vaccination on the Developed Markets' GDP could come earlier on the back of faster vaccine deployment, with a possible bigger impact in Europe, including UK, France and Spain. Also, with mobility already having recovered in East Asia (including China) in mid-2020, the positive impact of the vaccination could be smaller in the Emerging Market region. A faster normalization of the Chinese economy has been driven by the country's management of the pandemic with active health policies, even without herd immunity by vaccination.

In the near term, winter difficulties with COVID-19 still lie ahead and socially close industries such as tourism could remain deeply depressed at the start of 2021. Certain economic activities that lag behind, such as new commercial construction of office buildings and hotels, could continue to drop in 2021. Yet, as the spring unfolds, Citi analysts expect a broadening of economic activity that could brighten throughout the remainder of 2021, leaving the world economy in synchronous recovery through 2022.



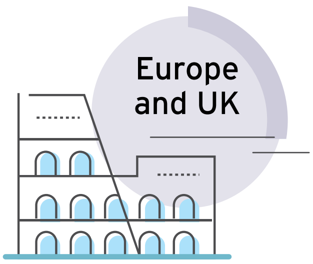
Unprecedented policy easing steps taken by governments and central banks have helped bridge the economic shock induced by the deliberate, widespread suspension of daily activities in response to COVID-19 earlier in 2020. Ultra-easy monetary policy and pent-up demand could help to support the economic recovery going forward.

With this, global GDP could rebound 5.0% in 2021. While the rebound could come quickly, it could be uneven. In addition to the normal growth in the working age population, a safe work environment and safe schools could allow for an unusually strong pace of recovery in the world economy. In the event that demand remains strong, one can expect a more rapid improvement in employment markets, creating a beneficial economic cycle.



- Rising COVID-19 cases and related restrictions could hold back some activity over the end of 2020 and early 2021. However, restrictions or changes to economic activity patterns are unlikely to be substantial enough to put a complete stop to the steady monthly growth in recent months. Thus, after a forecasted drop of -3.4% in 2020, US GDP is expected to rebound to 5.1% in 2021 and the economy could reach pre COVID-19 GDP levels by mid-2021. The unemployment rate peaked at 14.7% in April and has moderated down to 6.7% in November.

  However, the US political backdrop remains uncertain. While Biden has been named President-elect, control of the US Senate remains unclear and will be decided in two run-off elections in the State of Georgia on 5 January 2021. If Republicans win, control of the two chambers of the US Congress will remain divided. Citi analysts think that fiscal stimulus of at least US$1 trn could help provide broad-based support for the US economy prior to a health-solution by mid-2021. With a split Congress, there is likely to be weaker cooperation between the Democrats and Republicans but Citi analysts continue to believe a post-election accord is possible. However, until then, current economic conditions may still generate rounds of fear among investors. Poor fiscal coordination could have a negative impact on the economy at the turn of 2020 and into early 2021.



- While the winter is likely to be tough with significant health and economic concerns, by mid-2021 Citi analysts expect the region to have moved through the worst of the pandemic. Lockdowns are likely to be for shorter periods than compared to 2Q 2020 and measures are also softer. With Asian economies reviving quickly, their import growth from Europe is rising and European and UK exporters are starting to see order books being rebuilt from depressed levels. Fiscal and monetary policy responses also remain accommodative.

  The European Union's (EU) €750bn Recovery Fund is a game-changer and likely to get final ratification by the end of 2020 within the EU's wider budgetary process. There has been great solidarity in the process, paving the way for €390bn grants to weaker periphery countries in 2021. Overall, Citi analysts see Europe's GDP growing by 3.6% in 2021 after a projected 7.3% decline in 2020.

  In the UK, GDP contracted at its fastest rate on record in March and April, falling cumulatively by 25.5%. The rebound then gained momentum over the summer. However, Brexit and COVID-19 remain persistent challenges for the UK. While a rudimentary deal is likely to be agreed upon, this may weigh on growth in early 2021. Citi analysts expect UK's GDP to contract -11.2% in 2020, rising by 4.6% in 2021.

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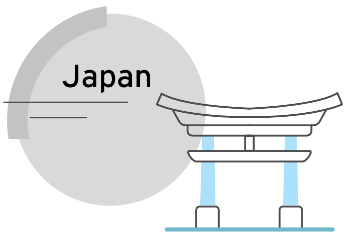
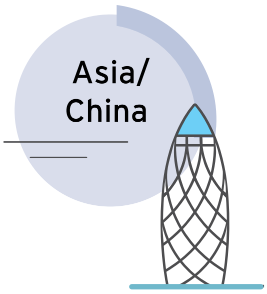
THE NEW ECONOMIC CYCLE / 1



- After an expected 5.1% contraction in 2020, the Japanese economy could grow by 2.0% in 2021. After a temporary pause in Q1 2021 driven by the ongoing renewed surge in COVID-19 cases, Citi analysts expect continued economic expansion in 2021. The economic rebound could be supported by a revival in service consumption and goods exports, while capital expenditure could remain stagnant for a longer period.



- Up until 2021, Citi analysts see a continued divergence of economies with China taking a lead in the recovery. Indeed, China's GDP continued to grow in 2020 (forecast at 2.1%), and rebounding further to 8.2% in 2021 with economic activity having bottomed earlier in 1Q 2020. With extremely low COVID-19 infection rates, the October Golden Week Holiday in China signaled a further normalization with sharp recoveries in tourism and leisure activities. The structure of China's growth is encouraging for two reasons: 1) consumption rebound is gaining momentum; and 2) there is a rebound in investment, which has even larger trade intensity than consumption. On the risks, while less volatile US-China relations can be expected under a Biden administration, it may be unrealistic to expect a Biden administration may reverse much of the Trump administration's current China-directive executive orders and actions. Overall, Asia is expected the lead the global economic rebound in 2021, with GDP forecasted to rise 7.5% after 2020's expected 0.4% decline.

  On 15 November 2020, the Regional Comprehensive Economic Partnership (RCEP) – the world's largest regional free-trade agreement – was signed between the 10-member ASEAN and five of its major trade partners (China, Korea, Japan, Australia and New Zealand). In total, the signing members represent around 30% of global trade and GDP. The RCEP will remove duties of at least 92% on traded goods among participating countries, as well as stronger provisions to address non-tariff measures. Smaller open economies could benefit from better access to final demand markets, which could benefit ASEAN.

1 / THE NEW ECONOMIC CYCLE

- After a 2% expected contraction in 2020, Citi analysts see Emerging Markets' GDP rebounding by 6.2% in 2021. However, political risks are likely to be an important consideration with the region seeing strong election activity in 2021. Argentina, Chile, Ecuador, Peru and South Africa are expected to hold elections. While higher oil prices could be supportive of economic growth in countries like Russia, fiscal gaps as a result of weak growth and additional spending are a risk in countries like Brazil and South Africa. In Latin America, sharp contractions in 2020 could be followed by partial recoveries in 2021 and 2022, but the average growth rate over the next few years could be lacklustre. Citi analysts expect years ahead could require a renewed focus on structural reforms to improve investment incentives.

Risks to the global growth outlook include:

- Resurgence of COVID-19 poses significant immediate economic risks and headwinds to the pace of rebound in consumption.
- An unlikely straight line between vaccines or treatments and the economic recovery. When large populations are vaccinated, there is a risk that side effects could arise in material numbers.
- Scope and timing of fiscal stimulus in the US remains to be determined.
- External demand is a key channel to regain pre COVID-19 growth.
- Policy discord and political risks (*See "6. Politics – Keeping a Mindful Watch"*).

Citi analysts see subdued inflation prospects in 2021, which primarily reflect weak pricing power among firms. Overall, by region, Developed Markets' inflation is expected to stay low at 1.3% in 2021, up from 0.7% in 2020, while Emerging Markets' inflation is projected to decline to 3.3% in 2021, down from 3.7% in 2020.

2

EQUITIES

AN IMPROVING BASE CASE

Key Takeaways

- Positive vaccine developments have boosted Citi analysts' expectations of a likely end to the global pandemic in the second half of 2021. The massive performance dispersion between many "COVID-19 cyclicals" and "COVID-19 defensives" in 2020 leaves room for substantial performance rotation in 2021.
- Overweight global equities: Europe, Japan, emerging Asia and Latin America are preferred. Within the US, Citi analysts are neutral on large caps and prefer small and mid-caps. Global small and mid-cap equities and Real Estate Investment Trusts (REITs) are also favored.
- In the short term, "COVID-19 cyclicals" such as financials and industrials appear attractive as the eventual departure from COVID-19 could see a potential recovery and rotation trade and as central banks continue to maintain their accommodative stance.
- Over the longer term, Citi analysts are in favor of "unstoppable trends" such as The Rise of Asia, Increasing longevity and Digital Disruption. A new addition to the unstoppable trends is New Energy, with Citi analysts expecting renewed urgency on climate change and environmental standards.

In recent weeks, the results of several COVID-19 vaccine efficacy studies have been released, with higher results than base-case expectations of epidemiologists. The availability of vaccines and treatments in early 2021 is great news for humanity and exciting news for investors. With large-scale production and additional vaccines likely, Citi analysts expect a potential end to the global pandemic in mid-2021, with a broadening out of the world economic recovery in the second half of 2021.

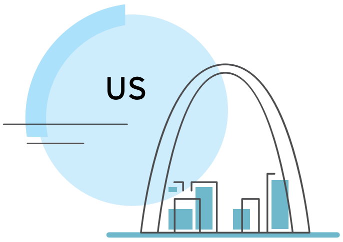
However, the winter could still see a severe impact from COVID-19 across many developed markets. There could be fits and starts and one should not assume a straight line for treatments and the economic recovery with equities likely to remain volatile, as the optimism for 2021 could be tempered by immediate realities and a lack of clarity regarding government support. Nonetheless, the positive vaccine news has boosted Citi analysts' confidence and an overweight allocation to global equities has been further increased. Waiting for all of the positive vaccines news could cost returns and Citi analysts are of the view that investors may want to begin adjusting portfolios for the future.

Regional diversification in equities

The US and China are the largest equity markets to have seen strong gains on technology sector leadership in 2020. However, with a recovery from the pandemic, Citi analysts expect several other regional markets to catch up in the coming 12-18 months as they benefit from the end of trade restraints that preceded COVID-19. Emerging Market equities could also benefit from depressed US interest rates and expected declines in the US dollar. Europe and Southern Asia could also be major beneficiaries of a return to trade normalcy under a Biden administration and these markets are big laggards relative to China.

CITI ANALYSTS EXPECT SEVERAL OTHER REGIONAL MARKETS TO CATCH UP IN THE COMING

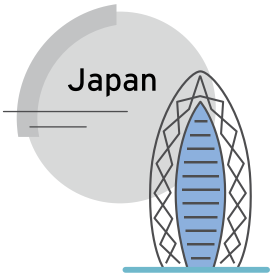
12-18 MONTHS



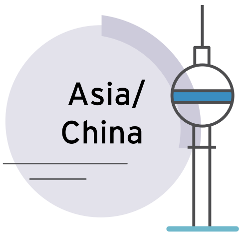
- Citi analysts are neutral on US large cap equities. Rapid policy steps from the Federal Reserve and US Congress have boosted markets after a significant drop in March. Broad market valuations are no longer cheap (trailing 2020 PE of 27.8x), even when pricing in a recovery from the COVID-19 shock. However, this is largely a function of the strong rally in technology-related shares, with the Nasdaq 100 index up as much as 40% in 2020 (as of 27 November 2020). The US could also see governance challenges with likely political paralysis prior to the seating of a new Congress. While these may not collapse the economy as we saw with the fall in March / April, setbacks are likely given that confidence in the markets is fragile. Small and mid-caps are favored as a potential catch-up in performance to large caps in the region.

- European assets have disappointed for several years due to weak growth and political concerns. During the pandemic, the region's stock markets also underperformed, given its small exposures to the technology sector. COVID-19 infections in the region could hold back the near-term pace of recovery. However, looking ahead, Citi analysts expect perception towards Europe to improve, driven by aggressively accommodative policymaking, solidarity that supports weaker periphery countries, reasonable valuations and significant exposures to areas that are favored at a global level (COVID-19 cyclicals, value, mid-caps, high dividend yielders and growers).

- With close to 70% of overseas revenue exposure, UK equities have been hit by a combination of the global economic slowdown earlier in 2020, and a delayed virus containment strategy. Brexit uncertainty had also impacted the region but Citi analysts expect a "bare-bones" trade deal to be agreed on ahead of UK's departure from the EU on 31 December 2020. UK equities are now cheaper relative to the developed market average than it has been for around 50 years, is well supported by dividend yields averaging 4%, and could benefit from the global cyclical recovery.



- Japanese large cap equities appear increasingly likely to benefit from a global trade recovery and subsequent upwards revisions in earnings per share (EPS) in 2021. Even with a transition from an Abe to Suga leadership, the economy benefited from lower levels of virus spreading, less extreme economic shutdown measures, as well as ample stimulus. A lower correlation between equities and the Japanese Yen also makes Japan increasingly appealing as a global rebound opportunity.



- Consistent with a projected recovery in global activity, the International Monetary Fund forecasts global trade volumes to grow by around 8% in 2021, close to a record pace. The composition of consumer spending now favors good exporters, such as China. Housing, recreation and electronics merchandise has seen a demand boom and this has reignited trade growth, with China's imports up 11.6% in 2020 through September, and exports up 8.7%. Broadening away from China, other Asian economies such as those in South-east Asia could also benefit from the global trade rebound. International trade discord is also seen as less likely with a Biden-led US administration. Equities in South-east Asia are still down 13% in 2020 (as of 20 November 2020), lagging behind improvements they have already seen in national export performance data. EPS growth in South-east Asia is also expected to rebound from a 30% YoY decline to a positive double digit rate.

- A brighter cyclical outlook for oil and likely prolonged period of easing by the European Central Bank and the US Federal Reserve is encouraging for the emerging markets of Europe, the Middle East and Africa (EMEA). However, on a relative basis, Citi analysts have a higher conviction in the Latin America (Latam) region. In Latam, Brazil's leading indicators have surged from the COVID-19 period in what Citi analysts think is a prelude to the Brazilian economy's eventual normalization. Yet, Brazil's currency is still down 25% against the US dollar since the outbreak of the pandemic, leaving Brazilian equities off more than 30% in 2020 in US dollar terms (as of 20 November). Given the underperformance relative to other markets, Citi analysts expect the region could "catch up". However, beyond the potential global equity rebound, Citi analysts retain a cautious outlook over the long-term.

Sectors and themes to watch

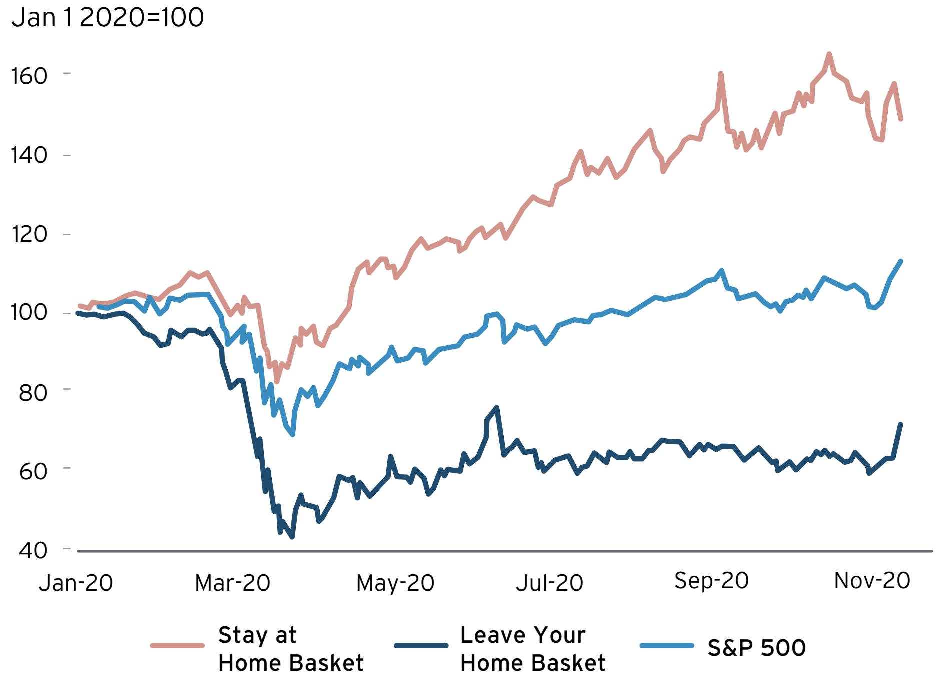
WITH A LARGE DISPERSION IN RETURNS, CITI ANALYSTS EXPECT ROOM FOR
PERFORMANCE ROTATION
IN 2021

Short-Term Recovery – Cyclical Sectors

- COVID-19's arrival starkly divided the world's asset prices, boosting roughly half ("COVID-19 defensives") and sinking the remainder ("COVID-19 cyclicals"). With a large dispersion of returns, Citi analysts expect room for substantial performance rotation in 2021, even if it is only to partially reverse 2020's impact. The most beaten down "COVID-19 cyclical" industries are still 35% lower year-to-date, while the COVID-19 beneficiaries are up 45% (as of 20 November 2020). Over the long-term, Citi analysts like "unstoppable trends" like "Digital Disruption" and "New Energy". However, for the coming year, COVID-19 cyclicals appear unusually attractive with a massive dispersion gap. As vaccines and treatments grow, a rotation to such cyclicals is highly likely to play out as the eventual departure of COVID-19 could mean more significant recoveries in the most impacted industries.

- For instance, large financials have recovered less than some hotels and casinos, firms whose core businesses are most directly impacted by health restrictions. Given their inherent leverage, bank equities trade in line with the worst of the COVID-impacted industries, rather than broad credit conditions across the economy.

US 'Stay at Home' vs 'Leave Your Home' Baskets and S&P 500



Note: "Stay at Home" basket includes names identified to benefit from COVID-related disruptions and a shift to working from home. "Leave Your Home" basket includes Citi Research Buy and Neutral Rated US names in the following sub-industries: Banks, Industrial Conglomerate, Machinery, Oil Gas & Consumable Fuel, Textiles Apparel & Luxury Goods, Energy Equipment & Services, Hotels Restaurants & Leisure, Building Products, Retail Real Estate Investment Trusts, Construction & Engineering, Leisure Products, Airlines, Multiline Retail. Source: Citi. As of 20 November 2020.

Long-Term Unstoppable Trends

DIGITAL DISRUPTION

- Among "COVID-19 defensives" are video conferencing, media, home gaming and e-commerce firms that have seen growth boosted by the nature of the pandemic. The largest and most innovative companies already experienced strong growth before the onset of COVID-19, with the pandemic underscoring their essential nature as a substitute for other business models, accelerating their growth rates and adoption. The very strong performance of large cap technology shares, with the Nasdaq 100 Index up 40% in 2020 (as of 27 November 2020), leaves modest near-term return expectations.

- Even though the pandemic is likely to see its end in 2021, Citi analysts do not expect a fundamental collapse in the technology sector and see "Digitization" as a long-term trend. Instead, software, applications and digital content could continue to gain share of the world economy over time. Sectors like 5G, cyber security, fintech (including e-payments and wealth and banking products), artificial intelligence, data storage (big data) and Internet of Things (IoT) are among the preferred. With the full scale rollout of 5G wireless data networks beginning in 2021, Citi analysts think the age of hyper-connectivity is upon us with a likely large increase in devices connected to the internet and a vast increase in data produced. Near-term beneficiaries include those involved in the 5G rollout, while long-term beneficiaries include autonomous driving, telemedicine and smart cities.

INCREASING LONGEVITY

- As of 2019, the global population aged over 65 stood at 703 mn and by 2050, this is projected to more than double to 1.5 bn. As the population ages in the developed world, the spending habits of this cohort evolves, to the benefit of some companies, including healthcare. Citi analysts note that the healthcare sector has a consistent record of revenues and earnings growth through cycles, but it tends to underperform in the early years of new economic cycles. With a highly divided government and COVID-19 to fight, US pharmaceuticals and broader healthcare equities could see renewed confidence. Despite providing consistent growth and dividend income, this "COVID-19 defensive" sector has been outpaced by the technology rally. The sector is trading at more than 20% valuation discount to the broad US market.

RISE OF ASIA

- Emerging Asia's combination of high savings and investment growth and a rising population is unmatched by any other region. Fast rising incomes and technological development remain lasting drivers of underlying growth. Citi analysts see the emerging Asian middle class consumer as a powerful opportunity for global firms, with Asia likely to account for the vast majority of growth of the world's middle class by 2030. Having suffered the brunt of COVID-19 in the earlier part of 2020, China's domestic economy has begun to behave in a "post COVID-19" fashion with full office buildings and a restoration in airline travel at 90% of pre COVID-10 levels. In 2020, Asia's GDP is expected to overtake the rest of the world combined for the first time since the 19th century and it is seen pulling further ahead over the coming decades. Throughout the first half of 2021, Asian economies also look well-positioned for an anticipated trade and industrial rebound. The region is also home to the world's largest free trade area recently setup under the RCEP.

NEW ENERGY

- The harsh realities and increasing realization of interconnected factors underpinning COVID-19's impact lead Citi analysts to believe that, rather than returning to prior normality after COVID-19, many investors wish to "build back better". Beyond the pandemic, Citi analysts expect renewed urgency around climate change and environmental standards. Economic shutdowns in 2020 dramatically reduced fossil-fuel burning activities, with noticeable benefits. In part of the US for example, nitrogen dioxide levels in the air dropped 30%. Governments worldwide are also actively contemplating "green new deals", including major investment in renewable energy and infrastructure as a way of restating their economies.

- As such, Citi analysts view New Energy as a new long-term unstoppable trend and expect to see continued compelling performance from top-performing ESG (environmental, social and governance) companies, not only as the pandemic plays out, but for generations to come. Between the global pandemic, China's commitment to carbon neutrality by 2060, and US President-elect Biden's climate targets, Citi analysts see a golden opportunity for clean energy. In 2020, electricity from renewable energy became cheaper than that from key fossil fuels for the first time ever and is likely to hasten the greening of energy use over the coming years.

Search for Yield

DIVIDEND YIELDING EQUITIES

- In allocating to equities, Citi analysts further note that broadly, equities are now the higher income generating asset with a dividend yield twice the global bond aggregate yield. Among investors' core portfolios, equities with both growth and income prospects could be considered. Dividend equities, focused on companies that have strong earnings prospects and a history of maintaining dividend payments, is one example.

REAL ESTATE INVESTMENT TRUSTS (REITS)

- Citi analysts favor global equity and mortgage REITs as asset prices collapsed on COVID-19, and forward yields average 6%. US mortgage REITs levels are still down 38% from February's highs despite falling interest rates, and a full recovery could take until 2022 or longer. REITs could also help to add diversified exposure to income-oriented assets. As the economy's landlord, Citi analysts think the real estate sector is likely to continue to recover alongside the global economy, while maintaining above-market dividends along the way. REITs could benefit as people return to offices, consume data, schedule health procedures and shop online, the latter increasing demand for warehouse space.

3 BONDS

WHERE ARE THE RELATIVE YIELD OPPORTUNITIES?

Key Takeaways

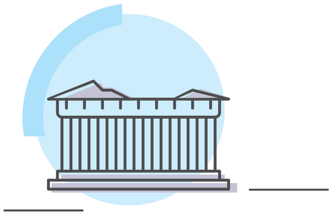
- Global central banks have cut rates swiftly with the onset of the COVID-19 crisis and are likely to keep rates at present lows deep into the coming years of recovery. With a period of structurally low rates upon us, Citi analysts have gone further underweight in global fixed income.
- Citi analysts see selective opportunities in Emerging Market debt and US high yield bonds which could continue to be further supported by a recovery from the COVID-19 shock. However, allocation is kept neutral to avoid overlapping similar risks in equities.

"Sitting it out" in less volatile asset classes such as fixed income used to make the question of "when to invest" easier on investors. From 1981 through the Global Financial Crisis, investors could earn positive real returns in low-risk sovereign bond markets with lower returns, but with about a quarter of the volatilities of equities. After an interlude from 2013-2019 when US real yields rose while European yields stayed negative, US inflation-adjusted yields are now negative again.

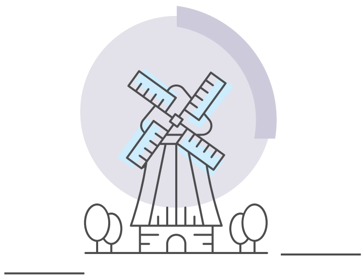
The 40 years post World War II (WWII) was a period of financial repression, which is the act of holding real interest rates artificially low. If one had invested in US 10-year Treasury bonds or held cash at the end of WWII, it would have taken 40 years and 38 years respectively, to begin netting a positive inflation-adjusted return.

Citi analysts think the present period has parallels to the post-WWII period, with the US Federal Reserve likely to keep short-term interest rates atypically low for years. Along with a constructive economic outlook for the next 12-18 months, relative valuations in equities, small segments of credit and capital markets offer better return prospects than broad fixed income and Citi analysts have further increased their underweight allocation to global fixed income.

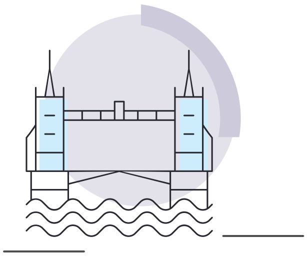
The global bond yield ex-US is 0.65% and 25% of the global bond market trades with negative yields, or nearly $17 trn in negative-yielding bonds. Despite Citi analysts' expectation for modest rate pressure as the US economy recovers, a sustained period of structurally low interest rates is likely to keep the demand for yield elevated.



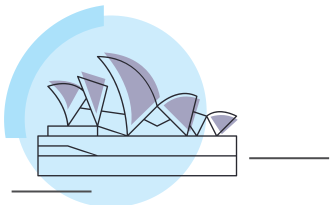
The US **Federal Reserve (Fed)** has lowered policy rates to the zero lower bound in 2020 and markets expect the first rate hike to come no earlier than 2024. The nature of the temporary COVID-19 shock might suggest a short period of economic weakness compared to the Global Financial Crisis when the Fed kept policy rates at zero for seven years. Yet, the Fed has changed its inflation targeting regime indicating a preference for higher inflation over coming years. This suggests the Fed is likely to hold interest rates lower for longer.



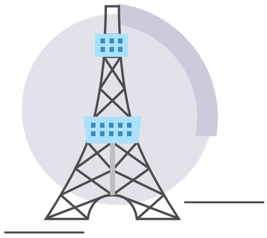
The **European Central Bank (ECB)**'s deposit rates were already at a highly accommodative -0.50% at the start of the COVID-19 crisis. However, the ECB has increased its €750 bn Pandemic Emergency Purchase Programme announced in March 2020 by €600 bn to €1.35 trn in June. This was further increased by an additional €500 bn in December with the end date of purchases extended by nine months through March 2022.



Citi analysts expect significant fiscal support as COVID-19 cases increase and restrictions tighten. However, looking into 2021, the burden is likely to shift to the **Bank of England (BoE)**. The BoE increased their asset purchase program in November 2020 by £150 bn (larger than expected £50 bn) to £795 bn. While there was no material new step toward negative rates, the November meeting summary states that the Monetary Policy Committee (MPC) could use "any action necessary" to achieve its inflation target. While not ruling out a potential negative base rate in 2021, its likelihood has lessened.



The **Reserve Bank of Australia (RBA)** remains committed to not increasing interest rates for "at least three years", with Governor Lowe expressing that the challenge in the next few years will be to ensure enough jobs are created, rather than controlling inflationary pressure. The RBA is not expected to implement negative interest rates, but could continue to expand its quantitative easing (QE) program.

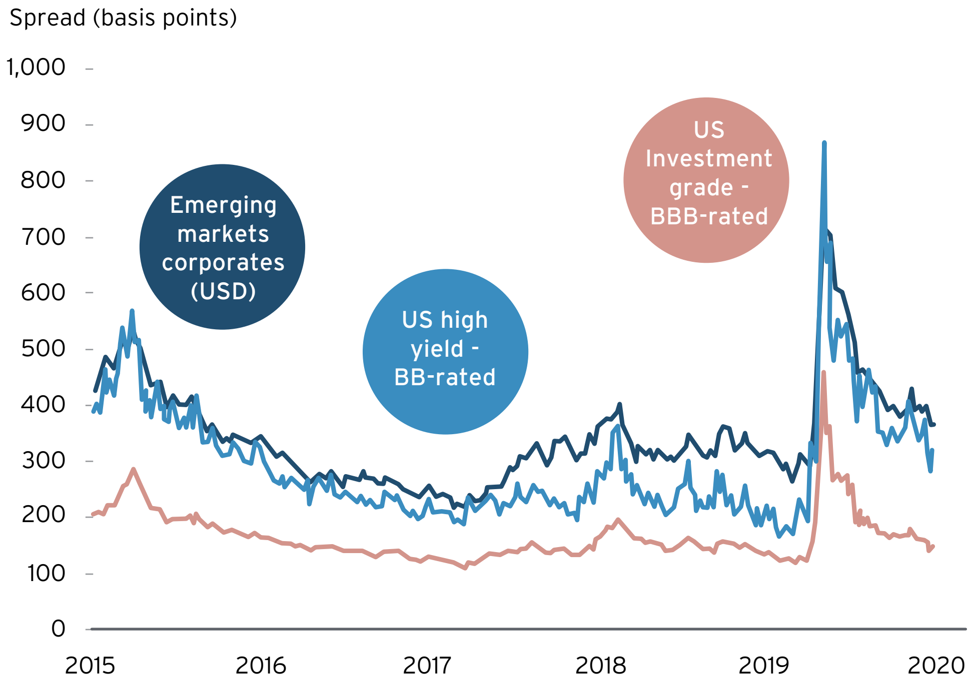


Policy rates are at -0.10% and with the **Bank of Japan (BoJ)** unlikely to move earlier than the Fed on rate hikes, Citi analysts see a strong case for the first hike in Japan only in 2024 or later. Monetary policy is also expected to remain unchanged other than an extension of the COVID-19 related fund-supplying operations.

Reallocating from bonds, but not shrinking from asset allocation

Recovery expectations make a 1% average yield for global fixed income relatively unattractive. Citi analysts are bullish on recovery prospects through 2022. However, that does not lead to an abandonment of risk management. Indeed, the same bullish factors that benefit small caps and Emerging Market (EM) equities could similarly support US high yield and EM borrowers. Yield premiums over US Treasuries for these bond market segments are still wide and could further normalize. However, with the assumption of stronger returns in equity markets, Citi analysts are paring back allocations to neutral to avoid overlapping the same risks in equities.

USD EM Corporate Spreads Offer Value Over US Credit



Source: Citi. As of 20 November 2020.

SOVEREIGN BONDS

US TIPS
AND INTERMEDIATE TREASURIES ARE PREFERRED

- US short-term Treasuries yield a low 20 basis points. With very low duration, these assets do not move up or down in price, and are simply "dry powder" that could lose more than 2% of their value to inflation in the company. Thus, within US sovereigns, US Treasury Inflation Protected Securities (TIPS) and intermediate Treasuries are preferred (overweight and neutral respectively), with the former providing hedging properties. As for European and Japanese sovereign bonds, negative interest rate policies are likely to remain in place in both regions for the foreseeable future and Citi analysts are underweight the segments.

INVESTMENT GRADE (IG)

THE BBB SEGMENT WITH 5-7 YEARS TO MATURITY ARE PREFERRED, HOWEVER INTEREST RATES RISKS ARE RISING

- The Fed's Primary and Secondary Market Corporate Credit Facility (PMCCF and SMCCF) have had a meaningful impact on valuations in US IG credits and have seen a narrowing in spreads. The $750 bn corporate credit facility by the Federal Reserve was widely successful in calming credit markets that had become largely dysfunctional back in March. From the peak in March, US IG index spreads have tightened 265 basis points. However, on 19 November, US Treasury Secretary Mnuchin requested that the Fed return any unused emergency liquidity introduced during the market collapse earlier in 2020. Many of these facilities will also not be renewed and will expire by the end of 2020. In an absolute sense, the Fed had not spent much of the allocation amount (only around 6% as of 19 November 2020). However, the Fed presence alone of being the "buyer of last resort" was the confidence that investors needed to put money to work.

  Citi analysts are overall neutral on the IG space. Within US IG, the BBBs with 5-7 years to maturity are preferred, however interest rates risks are rising. In Euro IG, spread and yields have also similarly recovered, supported by improving risk appetite and ECB purchases. Selective opportunities may exist in lower quality IG and some cyclical sectors.

HIGH YIELD (HY)

- Citi analysts are overall neutral on global HY bonds. With support from the Fed purchases outlined above, US HY spreads have also largely recovered from the global sell-off in Q1 2020, tightening 680 basis points from (March through to 19 November 2020). When gauging value in the HY space, sector composition is a consideration as US HY indices have been weighed down by its larger exposure in "COVID-19 cyclical" sectors. Within the US HY space, Citi analysts also favor the "Fallen Angels", or IG issuers that have been downgraded into HY. These could offer an interesting opportunity, given relative higher quality within the space and longer duration. Distressed ratios (a leading indicator of future defaults) have fallen from 36% to 9.5%.

FALLEN ANGELS

OR IG ISSUERS THAT HAVE BEEN DOWNGRADED INTO HY, MAY OFFER AN INTERESTING OPPORTUNITY

- EU HY spreads could still offer value amid beginning stages of an economic recovery, with EU policies and ECB purchases likely to indirectly support prices. Since March 2020 lows, EU HY has rallied 23%, yet the average yield of 4.0% remains attractive as investors are increasingly challenged in finding compelling yield opportunities.

EMERGING MARKET DEBT

- USD sovereign and corporate spreads have fully recovered. However, with yields between 3-6% depending on region or country, USD EM corporate spreads still look relatively attractive compared to US corporates and offer value in a low or negative yield world with a quarter of the world's fixed income markets trading with yields below zero. Fund flows into EM Debt have also largely recovered from Q1 2020's sell-off. In local currency EM bonds, recent outperformance is largely driven by currency strength and continued USD weakness may help support future returns for unhedged investors.

USD EM

CORPORATE SPREADS STILL LOOK RELATIVELY ATTRACTIVE COMPARED TO US CORPORATES

COMMODITIES

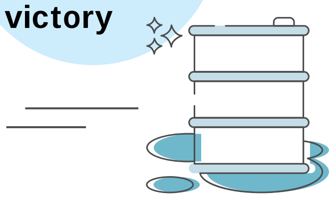
4 IS THE BULL CYCLE IN GOLD STILL INTACT?

Key Takeaways

- Even as OPEC+ tapers its production cuts and encouraging vaccine news boost demand recovery, market balancing for crude oil could remain robust in 2021. Citi analysts expect Brent and WTI prices to average US$54/bbl and US$51/bbl respectively in 2021.
- The current gold bull market may slow but not end provided the Fed's monetary policy stays accommodative and gold prices could average US$1,900/oz in 2021.
- Global decarbonization efforts see increased conviction in copper while coal markets appear to be dependent on Chinese import policies.

On the whole, Citi analysts are positive on the commodity sector for 2021. This coincides with macro-economic forecasts, with full year negative growth of 2020 likely erased by mid to late 2021, with the two largest economies in the world seeing a muted hit (the US) or positive growth (China) in 2020. 2020 has been among the most volatile years for commodities, yet the basic picture for 2021 looks better.

Oil: Subtle geopolitical impacts with a Biden victory



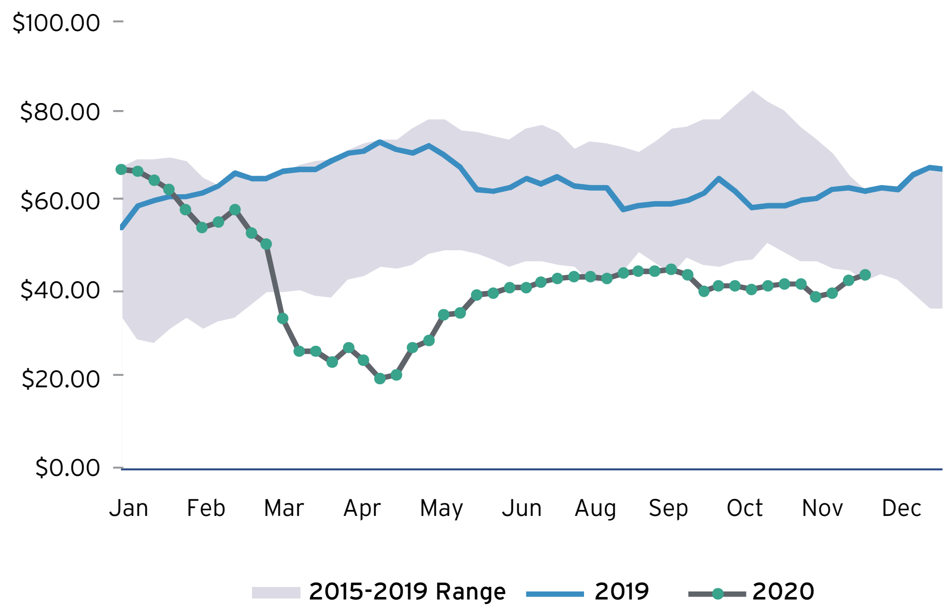
Oil market and geopolitical conditions could drive Russia and Saudi Arabia into greater cooperation in dealing with oil market supply. In particular, Citi analysts think that a Biden presidency could make it more likely that large members of OPEC+ could take a more conservative approach, and depending on whether oil prices remain in the US$30/bbl range, could lead them to cut production further in January 2021.

Market analysts have seen the election of Biden as US President and a potentially rapid return of the US to the Joint Comprehensive Plan of Action (JCPOA) as very bearish for oil prices. However, Citi analysts think it may not be easy for the US and Iran to carve out a basis for negotiation, and Iran's Presidential elections in June 2021 is just one of many barriers to a rapid return to the negotiating table. As such, it appears unlikely that Iranian oil production could rise by more than 500k barrels per day in the first year of a Biden presidency.

Climate change issues are likely to be front and center in a Biden administration. Domestically, President-elect Biden intends to limit new fossil fuel production projects and advocate for the development and production of alternative energy products. Policy outcomes potentially include a 100% clean energy economy, with net zero emissions economy-wide by 2050, but by an earlier 2035 in the electricity sector. However, fossil fuels productions look unlikely to be banned completely, given its contribution to jobs and the economy. Citi analysts note that if the Republicans control the Senate, it could be more difficult to accelerate decarbonization and related efforts.

Encouraging late-stage vaccine trials from pharmaceutical companies could support market sentiment. However, Citi analysts think it is unlikely that any vaccine could be rolled out fast enough on a large enough scale to avoid a deterioration of global oil demand in the near-term. Citi analysts expect oil could still be on a gradual upward trend as financial positioning normalizes while OPEC+ manages supply month-to-month with an eye on prices. Brent and West Texas Intermediate (WTI) average forecasts for 2021 are at US$54/bbl and US$51/bbl respectively.

Brent Crude Oil Price (US$/bbl)



Source: Citi. As of 25 November 2020.

Precious Metals: A slowing bull market cycle in Gold

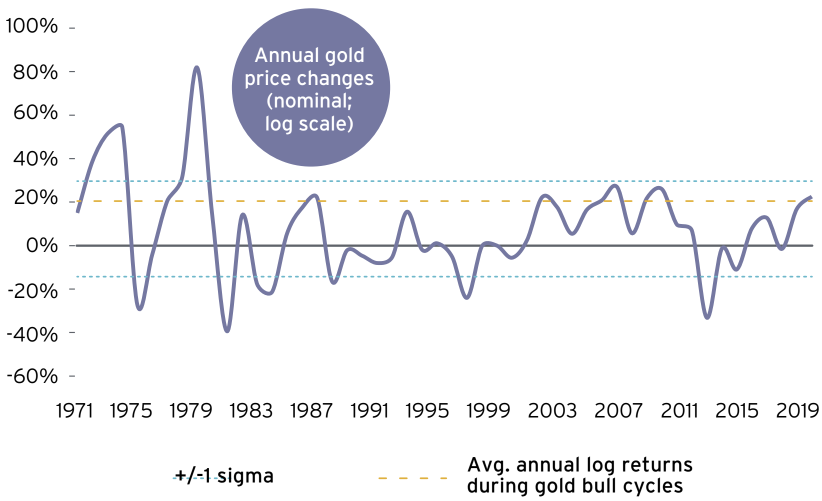
Gold prices have dipped in 4Q 2020 from August highs and from a valuation standpoint, gold has not been priced this cheap to US equities since December 2019. The current gold market cycle, which began in 4Q 2018, has endured for eight consecutive quarters without posting a negative return with 4Q 2020 perhaps the first sustained drawdown.

A depreciation in the USD could catalyze gold investor inflows, coupled with a rebound in Emerging Market retail demand. With a record $16.5 trn in global negative-yielding debt, the opportunity cost of holding a zero-coupon asset like gold has also significantly diminished.

With positive vaccine developments on the COVID-19 front, Citi analysts expect these could slow but not end the gold market bull cycle, so long as the Fed's monetary policy stays accommodative at the zero lower bound - commits to dovish forward guidance and continuing with its QE program. This is Citi analysts' base case for 1H 2021. However, wider vaccine distribution and a growth recovery may see a moderating of prices and QE in 2H 2021.

Citi analysts look for gold prices to move toward US$2,100/oz over the next 6-9 months, before moderating in 2022. Overall, gold prices could average US$1,900/oz in 2021.

Nominal (Annual) Gold Price Returns (1971-2020)



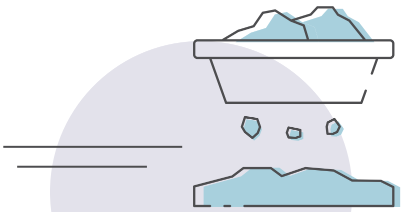
Source: Citi. As of 19 November 2020.

Base Metals: Decarbonization is bullish for copper

Global decarbonization initiatives are likely to be relatively copper intensive, given the high levels of copper required to build renewable power generation, battery storage, electric vehicles, charging stations and related grid infrastructure. In Citi analysts' base case, demand growth from automotive and power infrastructure sectors alone could account for almost three-quarters of global demand growth forecasted over the next 5 years. As such, there is increased conviction in solid copper consumption growth in coming years and copper prices are expected to average US$7,500/MT in 2021.

On aluminium, Citi analysts are bullish for the next two to three years, based on a constructive macro backdrop and a recovery in demand. Chinese aluminium demand is expected to maintain its solid growth, while the rest of the world could also recover strongly, thus tightening aluminium balances in 2021 and 2022. With this, aluminium prices are seen averaging US$2,050/MT in 2021.

4 / IS THE BULL CYCLE IN GOLD STILL INTACT?



Bulk Commodities: A slow transition into medium-term surpluses for iron ore while coal markets could depend on Chinese import policies

Chinese steel demand appears to be the biggest swing factor for the iron ore price outlook. Citi analysts think that a refocus on the domestic market by the Chinese government could mean that steel-intensive sectors remain key pillars for the country's economic growth. Steel-end use demand could rise 1-2% YoY per annum during 2021-2023 compared to an earlier forecast of a modest 1% decline per annum. Steel demand outside of China is also seen increasing 6% YoY in 2021, with growth led by Europe, Emerging Asia and North America. Citi analysts raise their iron ore price forecasts to an average of US$115/MT in 2021. A broadly-balanced seaborne market could allow prices to stay above marginal producers' costs of US$75/MT for 2021 and 2022, while expected surpluses beyond 2022 could then leave prices on a downward trend from cyclical highs.

Coal price paths into 2021 appear to be highly dependent on Chinese import policies. Newcastle thermal coal prices and Australian hard coking coal prices underperformed most industrial commodities in 4Q 2020 due primarily to China's coal import restrictions. Such restrictions are likely to remain the key swing factor for prices into 2021 and 2022. Citi analysts expect coal prices to continue to rebound from cyclical lows to an average of US$65/MT for Newcastle thermal coal and US$130/MT for Australian hard coking coal in 2021.

5 CURRENCIES

A MORE POSITIVE RISK BACKDROP COULD SEE USD WEAKEN

Key Takeaways

- COVID-19 is not beaten yet but vaccine optimism, better COVID-19 news out of Europe and fading US election risk suggest a more positive backdrop for risk assets and FX in 2021. This is expected to put Safe Havens on the defensive including USD but the path to USD weakness is likely to be non-linear.
- Adding to the bearish USD outlook is the Fed's ultra-dovish stance even as the risk backdrop improves. This likely leads to even lower US real yields and a weaker USD.
- China's growth recovery is likely to sustain in 2021, contributing to the recovery in risk assets and FX via a stronger CNY.

A more positive risk backdrop for 2021 suggest a weaker USD but the path is likely to be non linear

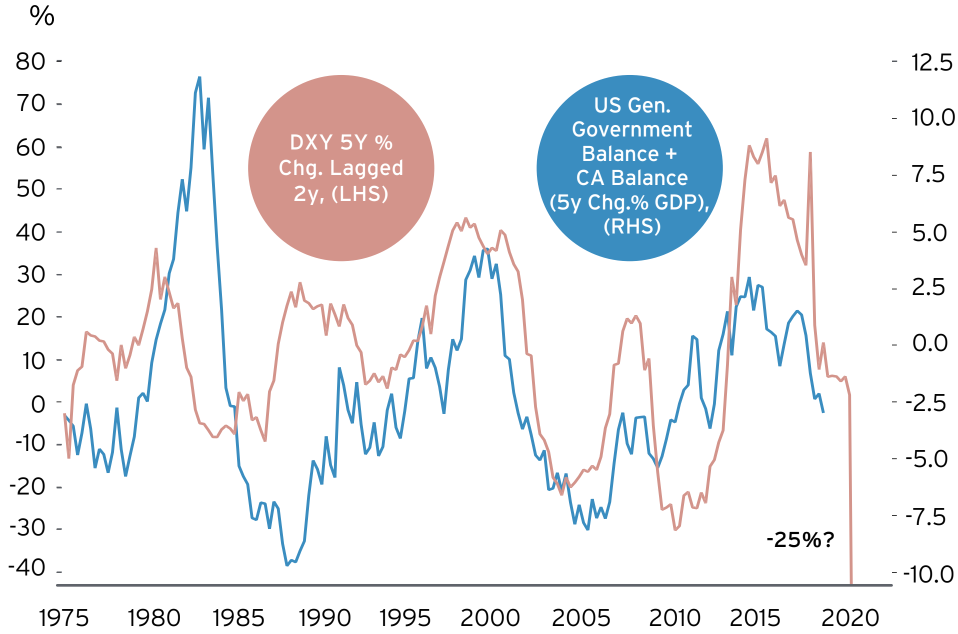
- **Vaccine optimism and the recent better COVID-19 news out of Europe adds to a more risk positive backdrop in 2021** - new COVID-19 vaccines have helped change the risk landscape to one of recovery optimism. Adding to this recovery optimism has been the better news out of Europe on COVID-19 recently as a number of EU member states start to see hospitalization rates flatten.

- **US election uncertainty has now also declined significantly with Citi's base case for a Biden presidency** with a status quo (split) Congress. This combination is likely to retain the loose fiscal / loose monetary mix in the US needed to help build on the recovery in risk sentiment.

- **The Fed's ultra-dovish stance is also expected to contribute to the risk recovery optimism in 2021 as even lower US real yields are likely given the Fed's shift to soft inflation averaging and its commitment to underwrite any shortfall in US fiscal stimulus via additional monetary easing.**

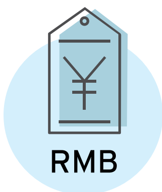
- **A more positive risk backdrop could encourage flows out of Safe Havens (USD, JPY, CHF) into risk currencies (Euro and Commodity Bloc, EM FX) while lower US real yields engineered by the Fed could see offshore investors demand extra compensation on US debt via a cheaper USD. But risks remain** – the worsening COVID-19 outlook especially in the US together with logistical challenges of distributing any new vaccine at scale represent uncertainties that may temporarily disturb the risk positive environment and see a return to tactical demand for USD as a safe haven.

Long Term USD Drivers



Source: Citi. As of 12 November 2020.

China's growth outperformance likely to lead to a stronger RMB

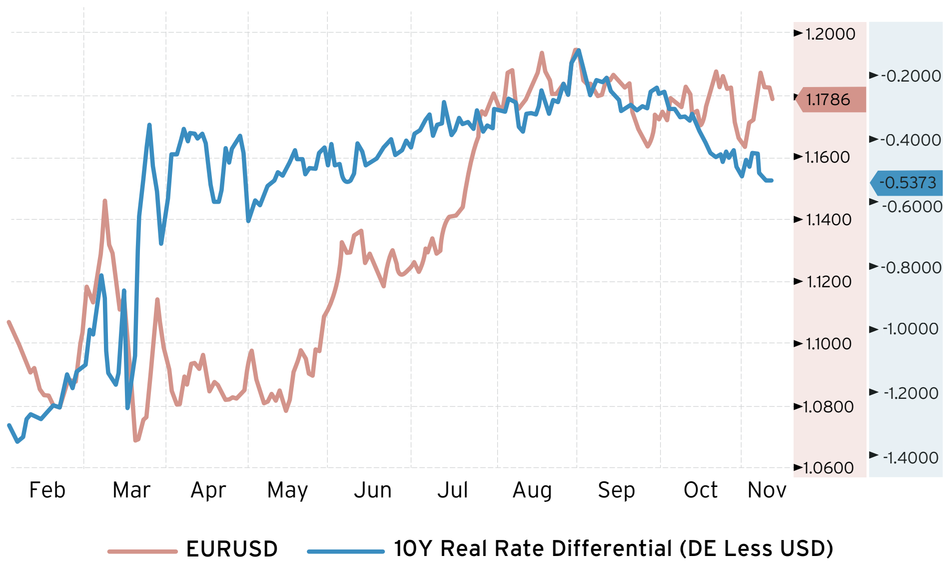


A sustained Chinese economy recovery and high rate differentials to support RMB – The case for a bullish RMB outlook in 2021 continues as a Biden's presidency potentially leads to a more benign US-China trade backdrop to allow China's economic outperformance to continue. Signals from the People's Bank of China (PBoC) also suggest a willingness to tolerate greater RMB strength as recent initiatives to slow its pace have met with mixed results. And with PBoC sounding more hawkish to allow tighter domestic liquidity conditions, this may encourage Chinese corporates to offload USD as they eye improvements in China's current account, portfolio inflows due to international index inclusions and the attractive carry on RMB.

EUR: Improving euro area fundamentals and a strong RMB proxy to support further gains

EUR's recent strength appears to be supported by better COVID-19 news out of Europe while the bigger picture builds on the structural weakness in USD as growth and central bank policy differentials work against USD. Adding to EUR's positive momentum are expectations for less trade friction between the US and China / Europe under a Biden administration and the disappearance of European disintegration risks as EU makes available ample fiscal resources at the country and EU level (Recovery Fund) to fight successive waves of COVID-19.

EURUSD and 10 Year Real Rate Differentials (Europe less US)



Source: Citi. As of 12 November 2020.

GBP: Cheap valuation and lower likelihood of negative rates to be supportive

A likely Brexit deal and virus relief following large scale testing and flattening hospitalization cases in the UK could spur further gains in sterling – Investors remain under allocated to sterling assets while GBP itself remains "undervalued" based on longer term "fair value" models such as PPP (Purchasing Power Parity). Adding to that is a lower likelihood of negative rates from the BoE (though not ruling it out completely) as UK inflation gathers momentum in mid-2021 together with more fiscal stimulus from the UK government to support the strong fiscal/ monetary coordination currently in place. This likely adds to the positive outlook for sterling.

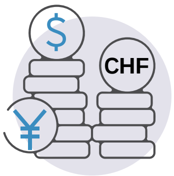
Commodity Bloc: Support from a stronger risk backdrop but dovish central banks to weigh

High-Beta to risk-on – AUD continues to benefit from - (1) the improving risk backdrop; (2) catalysts for negative USD; (3) a more balanced positioning after US-elections; and (4) supportive factors ranging from the improving COVID-19 outlook and strong fiscal support from the Australian government, the recovery in commodity prices to drive trade improvements and RBA's reluctance to cut rates into negative territory. However, the RBA has also expressed concerns about AUD strength and the cash rate is expected to remain at its current 0.1% for at least 3 years. Escalating Australia-China tensions bear watching.

Shift in Reserve Bank of New Zealand's (RBNZ) tone sweeps it up in risk-on momentum – RBNZ's hawkish surprise at its November meeting suggests negative rates are unlikely. This change has quickly seen NZD re-price RBNZ rate expectations. But while NZDUSD could potentially rally further medium-term given the bearish core USD view and positive RMB outlook, it is unlikely to be a relative outperformer within G10 FX as New Zealand is a small export oriented economy highly reliant on foreign capital and needs a lower NZD on a trade weighted index basis to sustain its economic recovery.

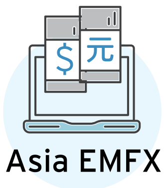
Bank of Canada (BoC) tapering, positive risk momentum and rebounding economy to support CAD – CAD has also benefitted from a more positive risk backdrop and momentum is expected to continue through 2021 versus a structurally weaker USD with added support from a possible further loosening of the Canadian government's fiscal stance amid minimal chances of further BoC easing. Citi analysts forecast a tapering of QE by the BoC in mid-2021 and a policy rate hike in Q1 2022 – adding to CAD's support.

Safe Havens: JPY and CHF stronger versus USD but likely to be on the defensive on non USD crosses; Gold seen outperforming among the Safe Havens on lower US real yields

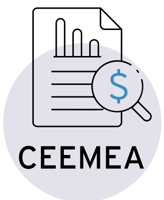


While a more positive risk backdrop is likely to lessen demand for JPY and CHF as safe havens (barring periodic episodes of risk aversion), this is likely to lead to a less constructive outlook against risk currencies (Euro & Commodity Bloc, EM). However, the bias is still likely to be asymmetrically skewed towards JPY and CHF strength versus a structurally weaker USD. **Gold may outperform other Safe Havens (USD, JPY & CHF)** given the Fed's firm backstop on real yields.

EM FX: Stronger in 12 months versus USD



A stronger RMB likely to underpin EMFX strength versus USD - A structurally weaker USD and a stronger RMB are likely to underpin EMFX strength. Within Asia EM, **SGD, KRW and TWD may outperform** while **potential laggards include INR and MYR** where intervention risks are high and the spread of COVID-19 continues to pose headwinds. The Monetary Authority of Singapore (MAS) is less inclined to ease policy further and is therefore unlikely to drive SGD weaker within the band whereas KRW could continue to appreciate due to abundant USD liquidity in Korea and a Biden administration likely bringing more predictability on global trade. TWD could benefit from supply chain diversification from China and its outperformance on COVID-19 while Taiwanese life insurance companies' decision to increase FX risk reserves could reduce their FX hedging demand (less demand for USD).



Strengthening medium term but with elevated risks - RUB has seen renewed pressure due to summer dividend payments and geopolitical risks but there has been a bounce back of late. However, risks remain elevated, including the Biden administration possibly renewing calls to introduce fresh sanctions on Russia and the possible re-introduction of lockdown measures related to COVID-19 may also weigh.

6 POLITICS

KEEPING A MINDFUL WATCH

Key Takeaways

- Global portfolio diversification and asset allocation are important in managing potential volatilities as the global economy navigates out of the pandemic.
- With a new US administration, Citi analysts generally expect less volatile relations between the world's two largest economies of the US and China. However, it may be unrealistic to expect a Biden administration to reverse much of the Trump administration's executive orders and actions.

While Citi analysts are generally optimistic on the impending economic recovery, investors should remain mindful of political risks that could add to potential market volatility.

US

- US political changes are a big deal and there is much to absorb from Congressional results to determine what is eventually possible in terms of tax policy changes and government spending. Citi analysts note that a Biden victory may not actually reduce US policy uncertainty overall, just the chance of renewed trade tensions under President Trump.
- With extensive foreign policy experience, President-elect Biden is expected to rejoin the Paris Agreement and engage multi-laterally with allies. However, the Senate is now the greater uncertainty as Senate elections are not final with the state of Georgia holding a run-off election on 5 January 2021 for two seats. Without a deep "blue wave" shift of many seats in US Congress, Biden's ambitions on infrastructure investments, tax increases and income re-distribution are likely to be scaled back or delayed.
- Citi analysts continue to think that a US-UK trade deal is likely over coming years with talks expected to begin post the US elections. However, in the event the UK reneges on its Brexit commitments, a trade deal is likely to be ruled out.

UK

- Ahead of the UK's departure from EU on 31 December 2020, Citi analysts expect a "bare-bones" trade deal to be agreed on, which in economic terms could only be slightly better for the UK than leaving with no deal under World Trade Organization (WTO) terms. Nevertheless, the symbolism is likely to be positive, leading to further negotiations and likely sub-agreements after Brexit in areas like data sharing, state aid and the environment.

EUROPE

- Initial government and central bank responses were slow and insufficient as the first wave of the pandemic hit parts of Europe like Italy very hard with healthcare facilities very stretched. However there has been government support, central bank support and increasing solidarity across the EU region. The EU's €750 bn Recovery Fund was a landmark achievement, showing solidarity across the EU with €390 bn allocated to the weaker periphery countries, lessening Eurozone breakup risk. However, as the region is in the midst of a second COVID-19 wave, further support measures may be needed to support growth in the region.
- The US and France have reached an agreement to delay tariffs until after the US election with the aim for a broader solution to digital taxes at the Organization for Economic Co-operation and Development (OECD). However, other economies could continue to push for a digital service tax (UK, Italy), in which case tariffs by the US could be expected. If this is the case, the Office of the United States Trade Representative (USTR) may implement another Section 301 investigation into digital taxes by these other trade partners (UK, Italy, Austria, Turkey), and thus represent a potential catalyst for US-EU trade tensions to rise.

KEEPING A MINDFUL WATCH / 6

MIDDLE EAST

- The US has ratcheted up pressure on Iran since President Trump left the 2015 multi-party deal (Joint Comprehensive Plan of Action or JCPOA) that offered sanctions relief in return for caps on the Iranian nuclear program. President-elect Biden has said he wants the US to rejoin the JCPOA, if Iran ends its acknowledged breaches of the agreement. However, Iran's Presidential elections in June 2021 are just one of the many barriers to a rapid return to the negotiating table.
- The Abraham Accords signed between Israel on the one side and the UAE and Bahrain respectively, represent a significant breakthrough. After Egypt and Jordan, the UAE and Bahrain are the only third and fourth Arab countries to normalize relations. Investment and trade in services sectors could stand to benefit the most, while there is also room for an increase in goods trade as well. However realizing this potential could take time with infrastructure needing to be established for large parts of the commercial relationships.

CHINA

- The Trump administration could potentially still pursue China-related policy actions before President Trump leaves office on 20 January 2021. While Citi analysts expect less volatile US-China relations under a Biden administration, it may be unrealistic to expect a Biden administration to reverse much of the Trump administration's China-directed executive orders and actions.

HONG KONG

- China enacted the new National Security Law (NSL) in Hong Kong (HK) in 2020. The implementation of the NSL and three upcoming elections (Legislative Council in September 2021, electoral committee of the Chief Executive in 2021 and Chief Executive in February 2022), could keep politics in the limelight. Furthermore, Citi analysts think that it may be unlikely that President-elect Biden could reverse the executive orders on HK that President Trump has issued. The new US administration's focus on human rights issues could also keep HK's political developments on their radar. The Hong Kong Autonomy Act (HKAA) also stipulates an annual review of HK's human rights and democracy situation, and the risk of secondary sanctions remain.

NORTH KOREA

- In June 2019, US President Trump together with South Korean President Moon Jae-in briefly visited North Korean leader Kim Jong-un at the Joint Security Area, becoming the first US president to enter North Korea. However, efforts to negotiate an end to North Korea's nuclear program appear to have made no substantial progress.

AUSTRALIA

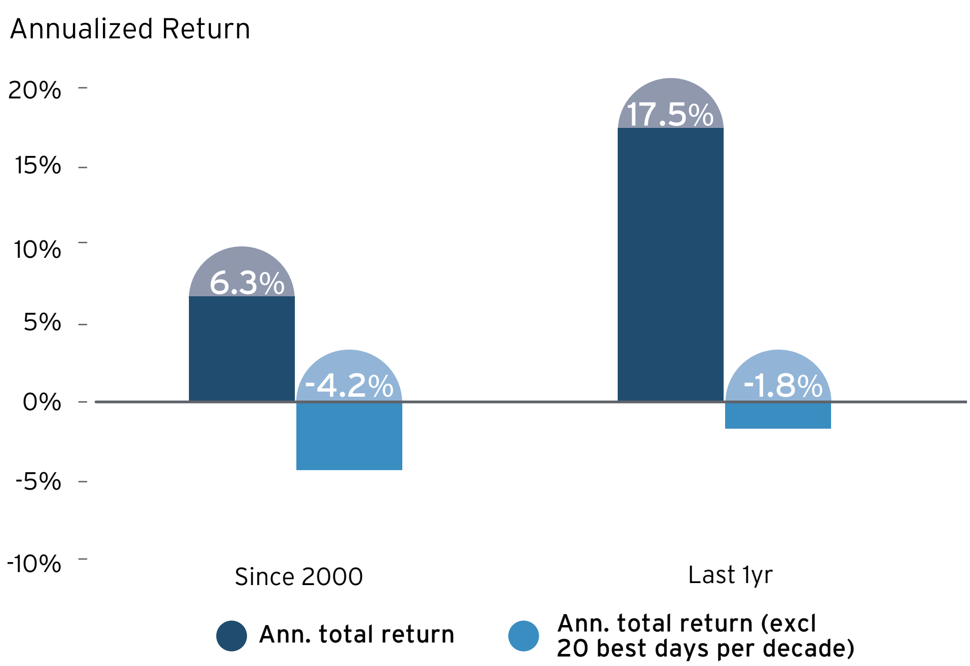
- The diplomatic trade relationships between Australia and China has deteriorated in 2020. China has recently imposed various tariffs on Australian exports, while the long-term risk is that Chinese businesses could be wary of investing in Australia because of ongoing political uncertainty that could jeopardize their interests. Ultimately, Citi analysts think the prospects of a new US administration and the signing of the RCEP are unlikely to materially change Australia-China relations.

6 / KEEPING A MINDFUL WATCH

Political developments remain risks that could impact economies or markets as they recover from the pandemic. Markets are likely to remain volatile as the optimism for 2021 could be tempered by the winter impact of COVID-19 as well as a lack of clarity regarding government support.

Citi analysts do not advocate timing the market – entry points are less important than being exposed to markets, especially at the beginning of a New Economic Cycle. Asset prices can quickly reprice when positive expectations are confirmed by hard data, and waiting for all of the positive vaccine news or clear political outcomes could potentially impact portfolio returns. The 30% drop and subsequent rebound in broad US markets in 1Q and 2Q 2020, which marked history's fastest bear and bull market recovery, are an example of how quickly asset prices can reprice. In 2020, missing the S&P 500 Index's strongest two up-days, which occurred just around the bear-market lows, could have reduced an investor's return by 19.3%.

S&P 500 Total Return, Return Missing 20 Best Days Per Decade, Return Missing Best 2 days of Past Year



Source: Citi. As of 25 October 2020.

ECONOMIC GROWTH & INFLATION FORECASTS

	GDP			Inflation		
	2020	2021	2022	2020	2021	2022
Global	-3.9%	5.0%	3.6%	2.0%	2.2%	2.4%
US	-3.4%	5.1%	1.6%	1.2%	1.9%	2.0%
Europe	-7.3%	3.6%	4.3%	0.2%	0.7%	1.3%
Japan	-5.1%	2.0%	2.3%	0.1%	-0.3%	0.6%
Latin America	-7.2%	4.1%	2.5%	6.6%	8.6%	7.1%
Emerging Europe	-3.4%	3.4%	3.6%	4.8%	5.3%	4.5%
Middle East & North Africa	-4.4%	3.3%	3.6%	4.4%	5.9%	4.5%
Asia	-0.4%	7.5%	5.1%	2.7%	1.7%	2.5%
China	2.1%	8.2%	5.5%	2.6%	1.2%	2.2%
Hong Kong	-5.8%	3.5%	4.2%	0.4%	1.1%	1.7%
India	-7.8%	11.0%	4.0%	6.5%	4.4%	4.5%
Indonesia	-1.5%	3.6%	5.9%	1.9%	1.8%	3.3%
Malaysia	-5.5%	7.0%	6.3%	-1.1%	2.4%	2.2%
Philippines	-8.9%	7.0%	6.3%	2.4%	2.6%	2.8%
Singapore	-6.5%	5.0%	5.6%	-0.3%	0.2%	1.5%
South Korea	-1.2%	3.0%	3.4%	0.5%	1.2%	1.5%
Taiwan	2.5%	3.6%	3.6%	-0.1%	1.2%	1.5%
Thailand	-6.8%	4.0%	4.6%	-0.8%	1.4%	1.2%
Vietnam	2.4%	7.1%	6.7%	3.3%	3.2%	3.5%

Source: Forecasts from Citi. As of 7 December 2020.

EXCHANGE RATE FORECASTS (VS. USD)

	1Q21	2Q21	2Q21	4Q21
Europe	1.21	1.22	1.23	1.24
Japan	107	107	107	107
UK	1.34	1.36	1.37	1.38
Australia	0.75	0.76	0.76	0.76
China	6.41	6.33	6.27	6.21
Hong Kong	7.75	7.76	7.76	7.76
India	73.0	72.7	72.7	73.1
Indonesia	13,726	13,914	13,967	13,907
Malaysia	4.11	4.10	4.09	4.08
Philippines	48.3	48.4	48.6	48.7
Singapore	1.36	1.35	1.35	1.34
South Korea	1,086	1,075	1,075	1,086
Taiwan	28.2	28.1	27.9	27.8
Thailand	30.2	30.1	30.1	30.2

Source: Forecasts from Citi. As of 11 November 2020.

INTEREST RATE FORECASTS

	Current	1Q21	2Q21	3Q21	4Q21
US	0.25%	0.25%	0.25%	0.25%	0.25%
Euro Area Depo Rate	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	-0.10%
Australia	0.10%	0.10%	0.10%	0.10%	0.10%
UK	0.10%	0.10%	0.10%	-0.10%	-0.10%

Source: Forecasts from Citi as of 7 December 2020. Current rates as of 7 December 2020.

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