

# Asset Allocation In A Post-Pandemic World

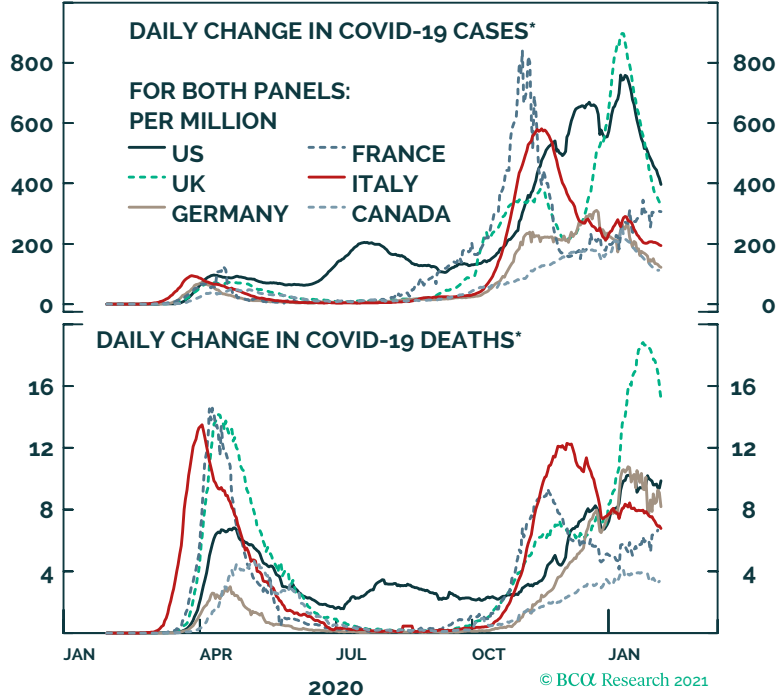
February 2021

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BCA Research  
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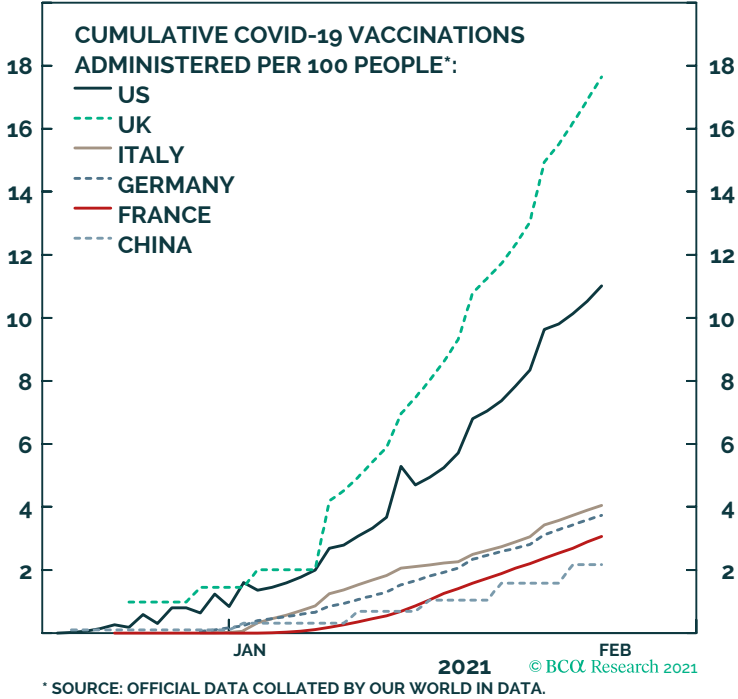
# | The Perfect Combination: Growth And Easy Policy

- Over the next 12 months, growth will rebound...
- ...but monetary and fiscal policy will stay accommodative
- This is a perfect combination for risk assets such as equities
- Favor cyclical stocks, EM debt, inflation hedges
- Long-term impact of COVID: positive for healthcare, bad for (most) real estate

# Worst Of The Pandemic Is Probably Over

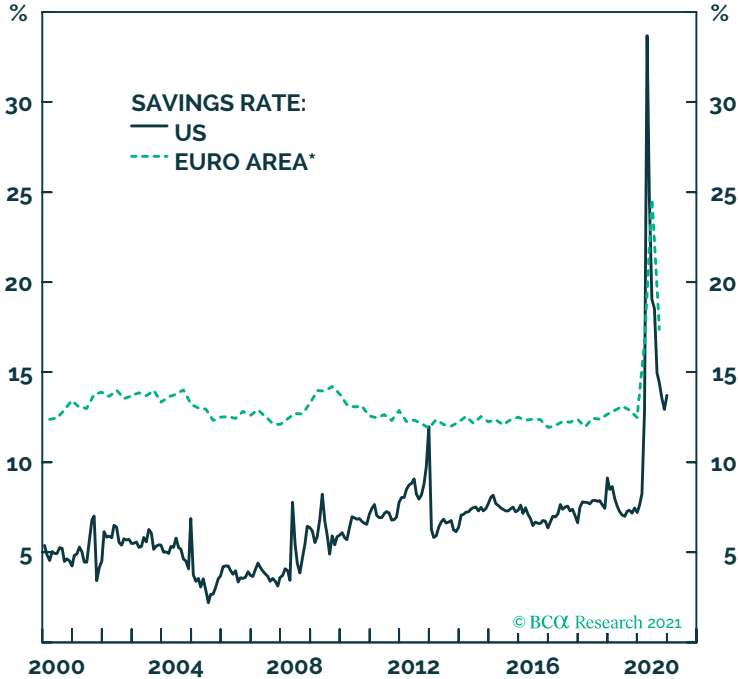


\* SOURCE: CCSE, SHOWN A 7-DAY MOVING AVERAGE.

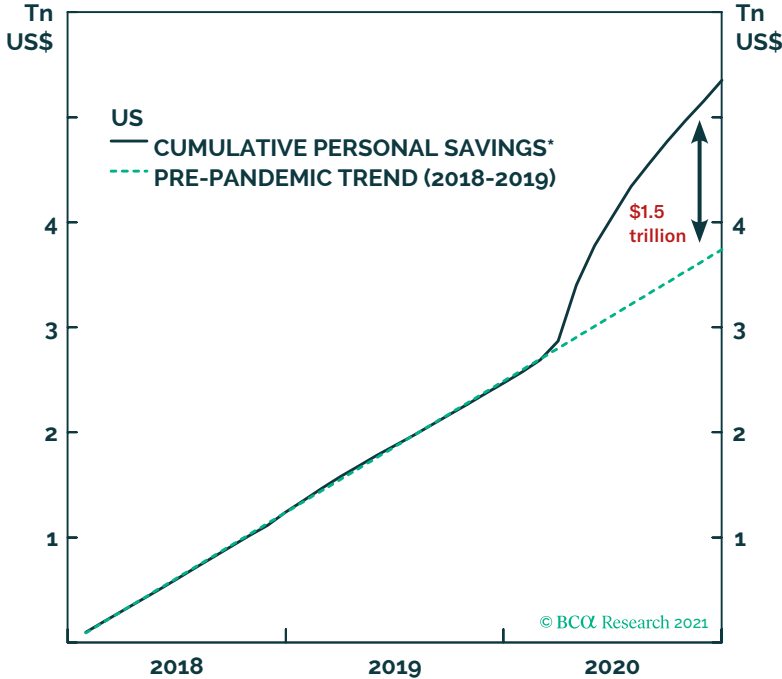


\* SOURCE: OFFICIAL DATA COLLATED BY OUR WORLD IN DATA.

# Pent-Up Consumer Demand Will Be Released

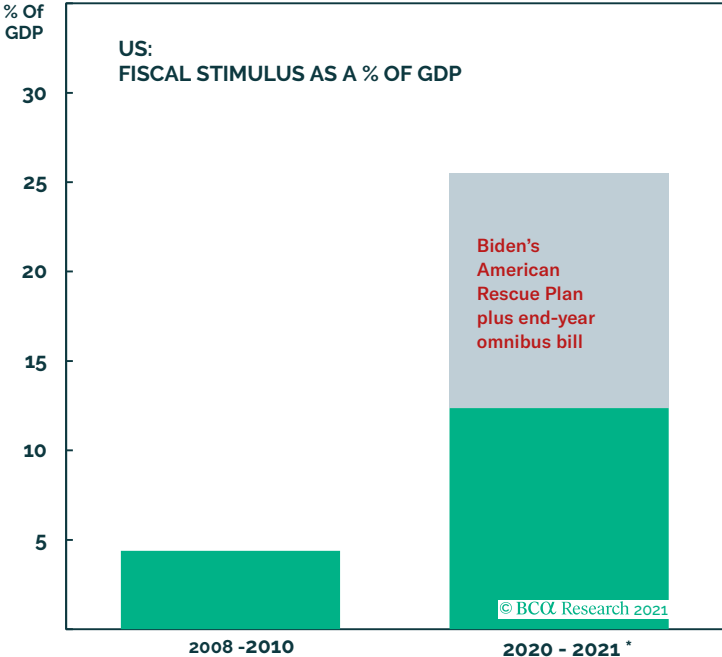


\* SOURCE: EUROSTAT.

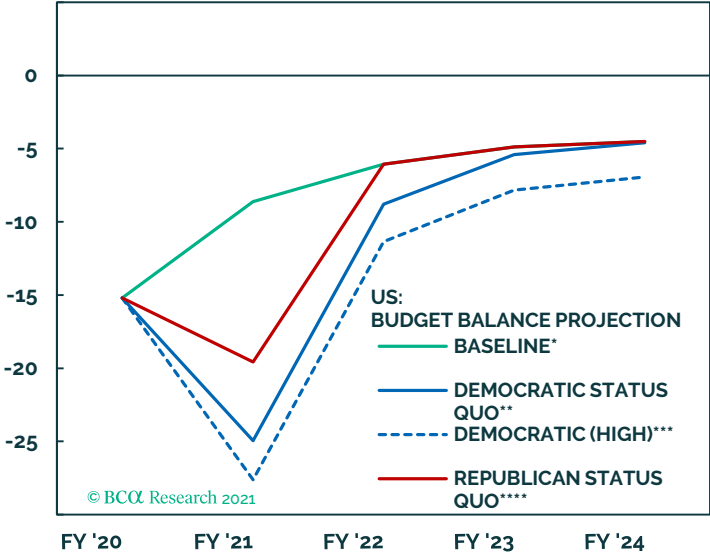


\* SOURCE: BUREAU OF ECONOMIC ANALYSIS. MONTHLY, NOT ANNUALIZED.

# But There Will Be No Fiscal Austerity This Time

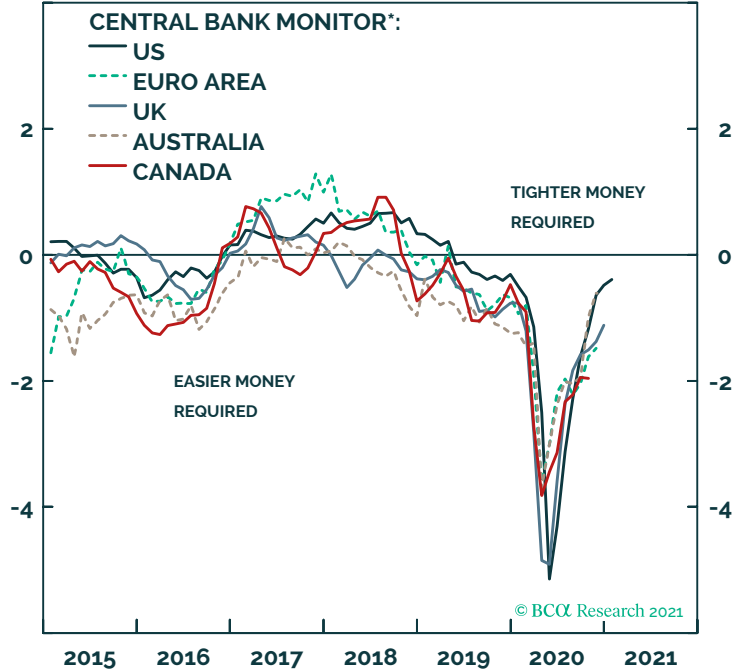
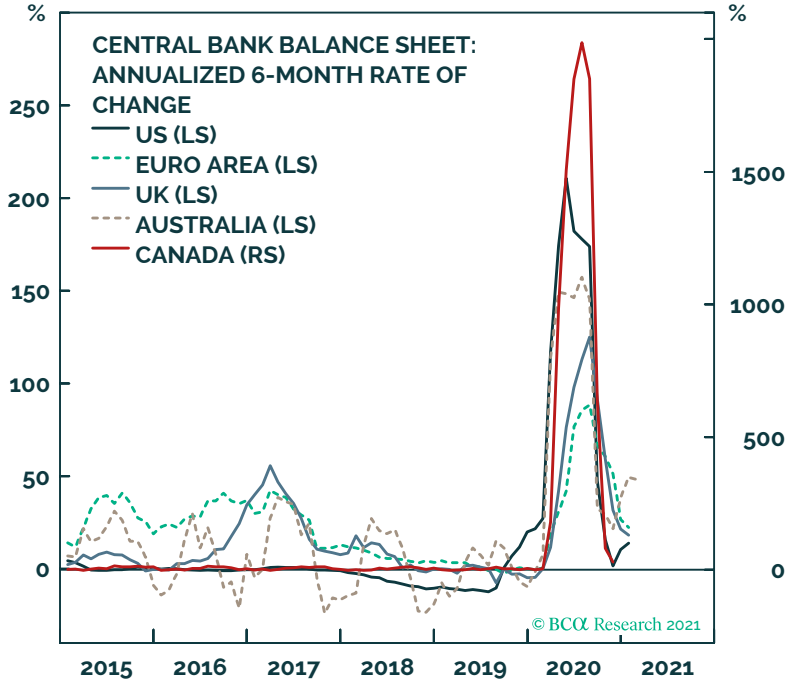


NOTE: CALCULATED AS THE ABSOLUTE VALUE OF THE CHANGE IN OVERALL BALANCE.  
 \* INCLUDES THE \$900 BN OMNIBUS BILL AND THE \$1.9 TN PROPOSED BIDEN AMERICAN RESCUE PLAN.  
 SOURCE: IMF FISCAL MONITOR, OCTOBER 2020 AND BCA CALCULATIONS.



\* BASELINE IS THE CONGRESSIONAL BUDGET OFFICE'S SEPTEMBER 2020 BUDGET PROJECTIONS.  
 \*\* ASSUMES THAT THE \$900 BILLION COVID RELIEF PACKAGE, THE \$1.4 TRILLION CONSOLIDATED APPROPRIATIONS ACT AND THE NEWLY PROPOSED \$1.9 TRILLION BIDEN AMERICAN RESCUE PLAN ARE ENACTED IN FY 2021.  
 \*\*\* ASSUMES THAT IN ADDITION TO THE DEMOCRATIC STATUS QUO, BIDEN'S \$5.6 TRILLION POLICY AGENDA (COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET'S ESTIMATES) WILL ALSO BE ENACTED.  
 \*\*\*\* ASSUMES THAT THE \$900 BILLION COVID RELIEF PACKAGE AND THE \$1.4 TRILLION CONSOLIDATED APPROPRIATIONS ACT ARE ENACTED IN FY 2021.

# Central Banks Will Remain Dovish

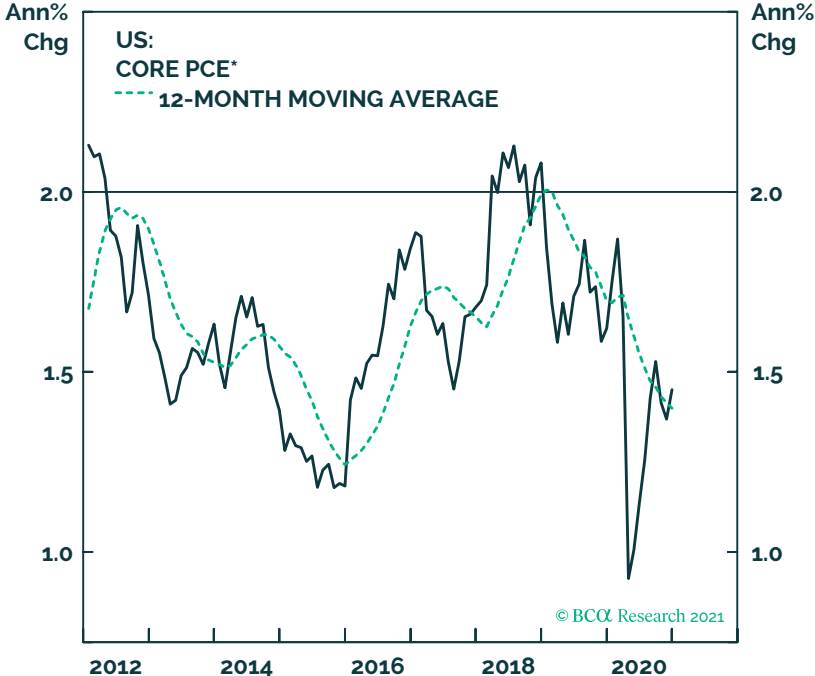


\* BCA PROPRIETARY INDICATOR. READINGS BELOW ZERO INDICATE EASIER MONETARY POLICY IS REQUIRED, AND READINGS ABOVE ZERO INDICATE TIGHTER POLICY IS NEEDED.

# We Are A Long Way From Meeting The Fed's Targets For Tightening

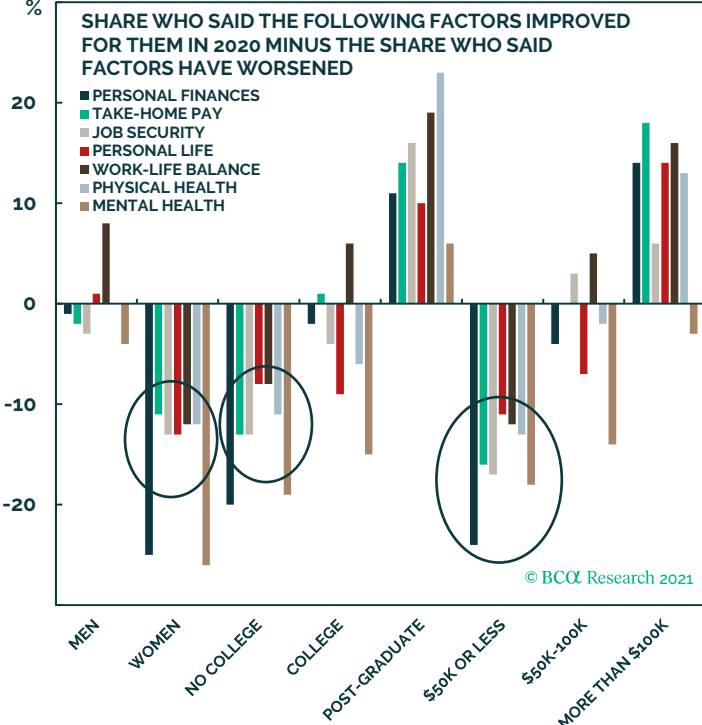
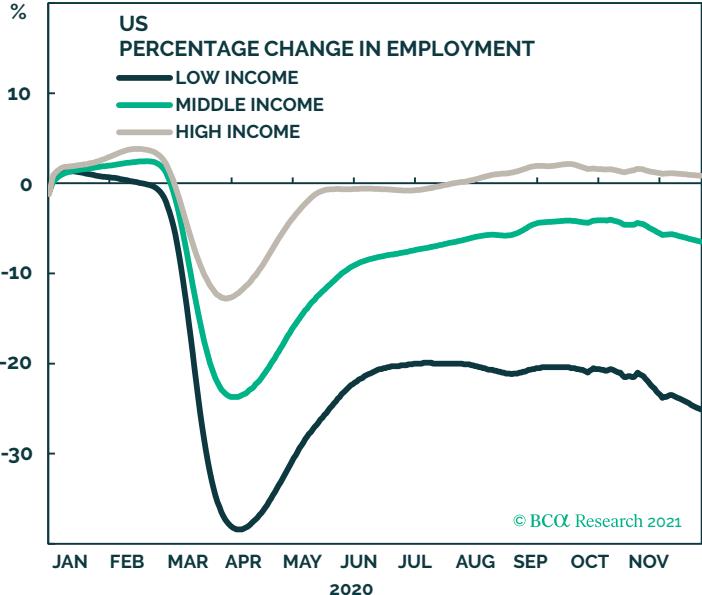
## A Checklist For Liftoff

- 12-month PCE inflation must be 2% or higher
- Labor market conditions must have reached levels consistent with the Fed's assessment of maximum employment
- PCE inflation must be on track to moderately exceed 2% for some time



\* EXCLUDES FOOD AND ENERGY.  
\*\* SOURCE: CONGRESSIONAL BUDGET OFFICE.  
NOTE: SHADED AREAS DENOTE PERIODS OF RISING FED FUNDS RATE.

# Authorities Worry About The K-Shaped Nature Of The Recovery



"THE ECONOMIC IMPACTS OF COVID-19: EVIDENCE FROM A NEW PUBLIC DATABASE BUILT USING PRIVATE SECTOR DATA"; BY RAJ CHETTY, JOHN FRIEDMAN, NATHANIEL HENDREN, MICHAEL STEPNER, AND THE OPPORTUNITY INSIGHTS TEAM. NOVEMBER 2020. AVAILABLE AT: [HTTPS://OPPORTUNITYINSIGHTS.ORG/WP-CONTENT/UPLOADS/2020/05/TRACKER\\_PAPER.PDF](https://opportunityinsights.org/wp-content/uploads/2020/05/TRACKER_PAPER.PDF)

SOURCE: MORNING CONSULT NATIONAL TRACKING POLL, DECEMBER 17-20 2020.



# BCA Research Global Asset Allocation Recommendations

Global Asset Allocation	-	+			
Equities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Fixed Income	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Portfolio Volatility	-	+			
GAA Relative To Benchmark	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Global Equities*	-	+			
US	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Euro Area	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Japan	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Canada	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Australia	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
UK	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
China	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EM Ex China	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Global Fixed Income**	-	+			
Government	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Investment Grade	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
High-Yield	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EM Debt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Duration	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inflation-linked	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Global Sectors	-	+			
Financials	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Info Tech	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Healthcare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Communications Serv.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industrials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Consumer Disc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Consumer Staples	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Materials	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Real Estate	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Utilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

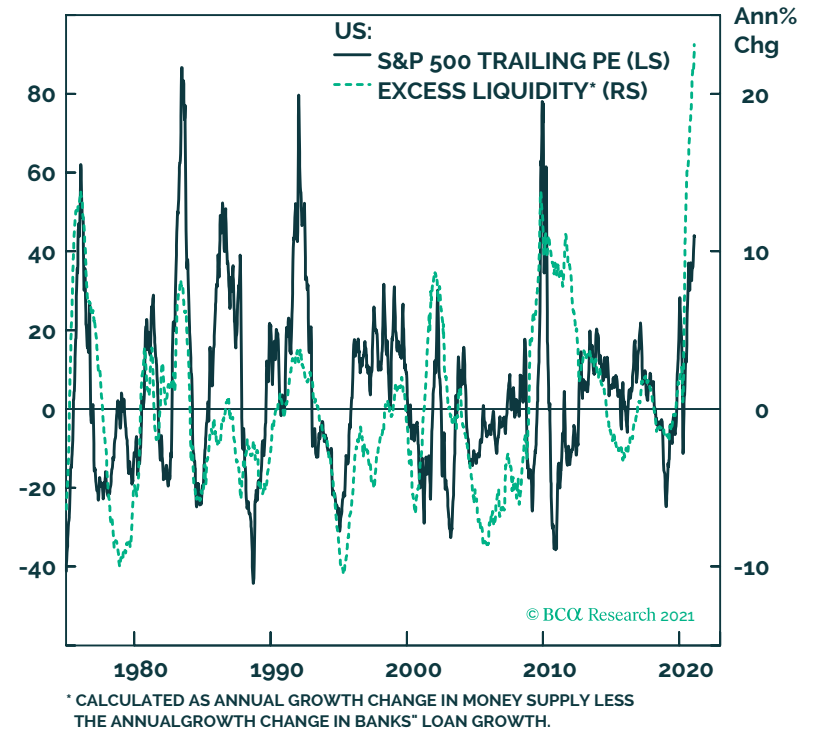
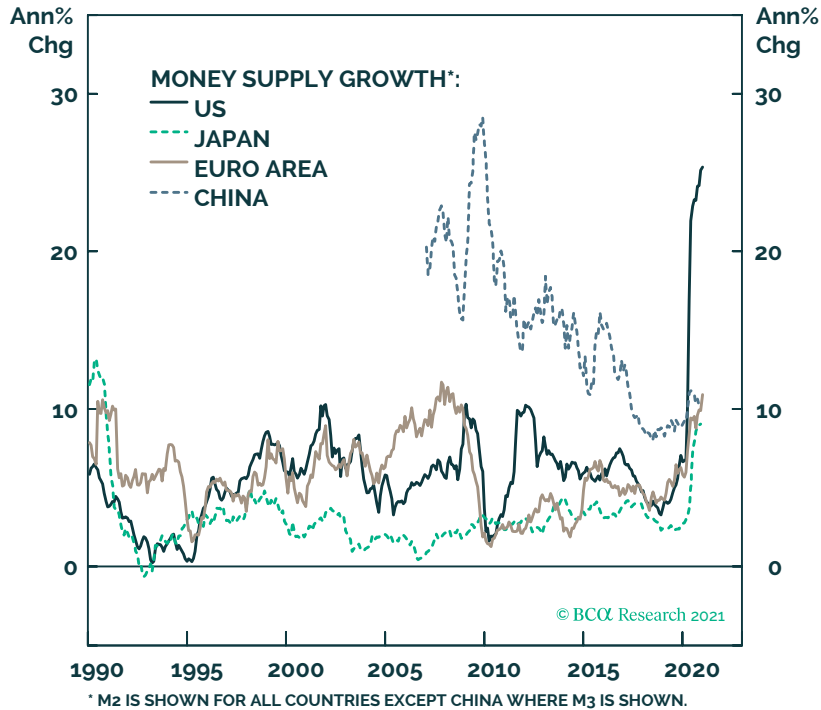
Alternatives	-	+			
Hedge Funds	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Private Equity	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Farmland/Timberland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Structured Products	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Commodities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gold	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Currencies	-	+			
USD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EUR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
JPY	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
GBP	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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CAD	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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EM Currencies	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

■ Previous ■ Current

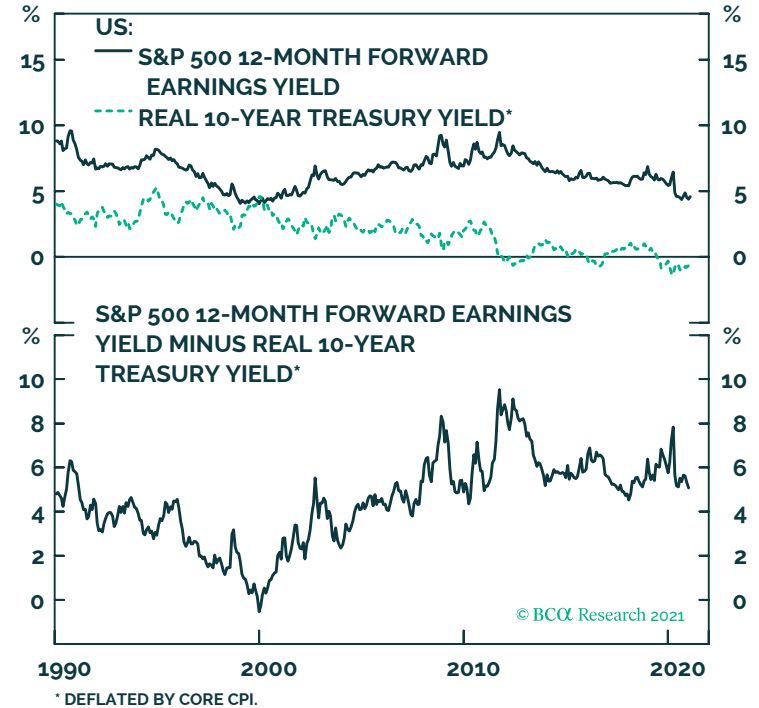
\* RELATIVE TO MSCI ACWI (UNHEDGED).

\*\* RELATIVE TO BLOOMBERG BARCLAYS GLOBAL AGGREGATE.

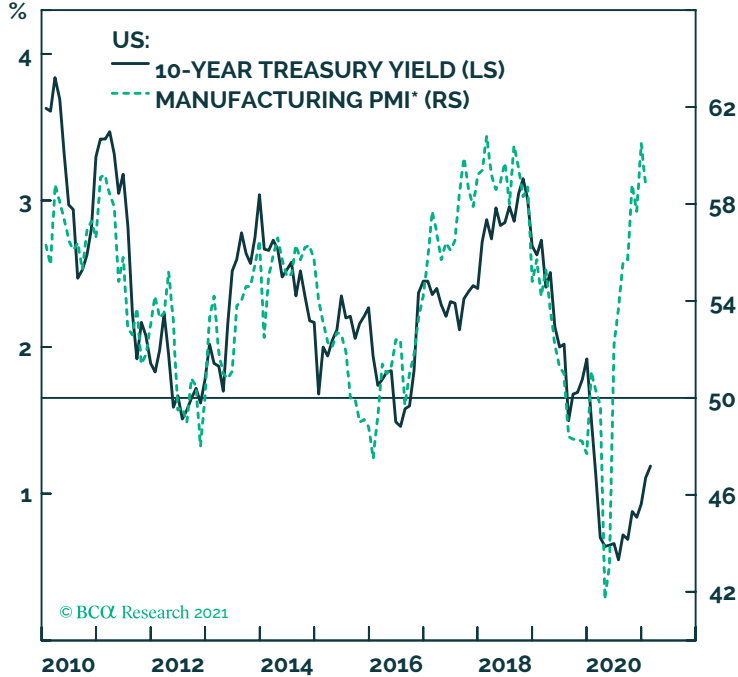
# Liquidity Is Very Positive For Risk Assets



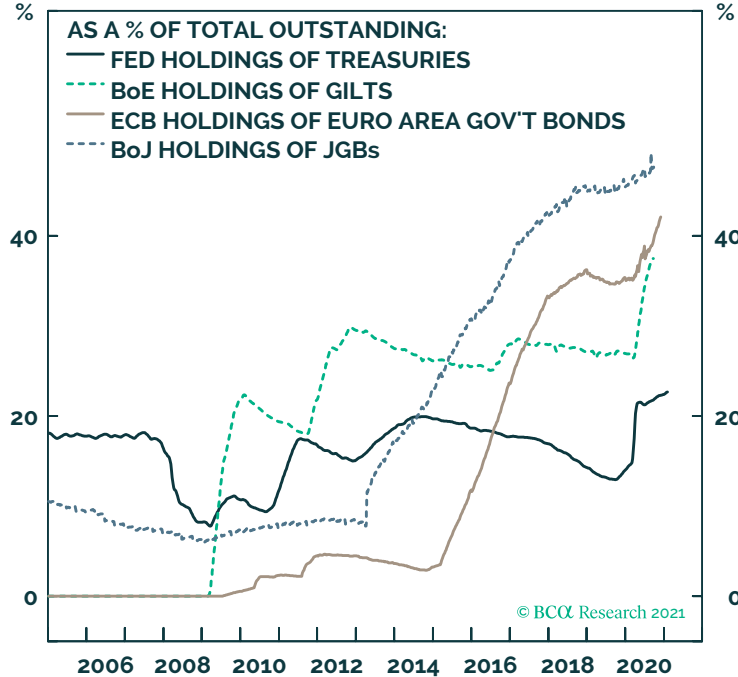
# Yes, Equities Are Expensive - But Not Relative To Bonds



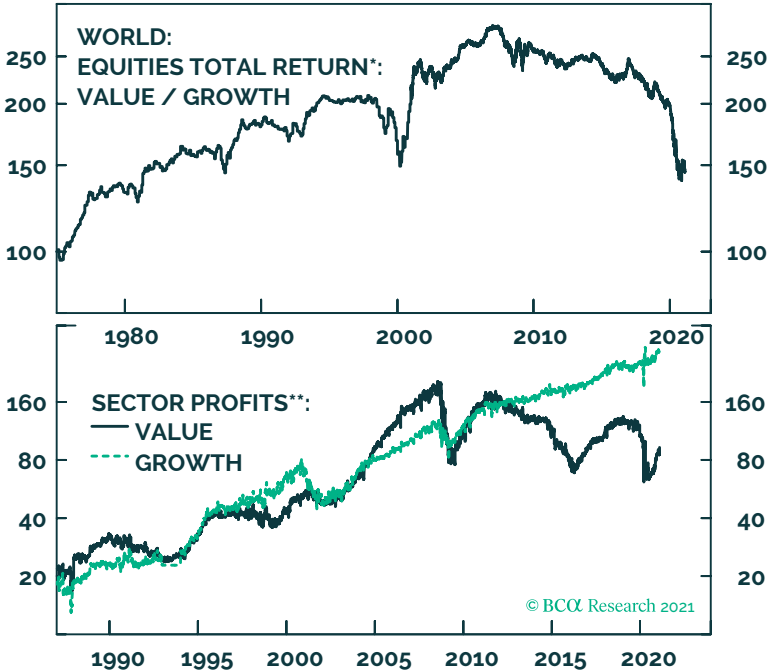
# Long-Term Rates Are Being Held Down By Central Bank Purchases



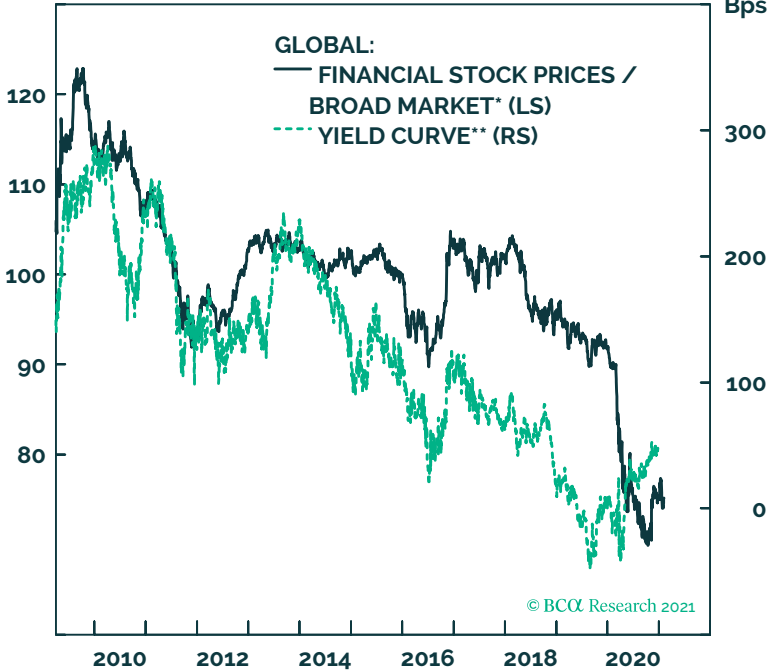
\* SOURCE: INSTITUTE FOR SUPPLY MANAGEMENT.



# Buy Cyclical But Not Deep Value

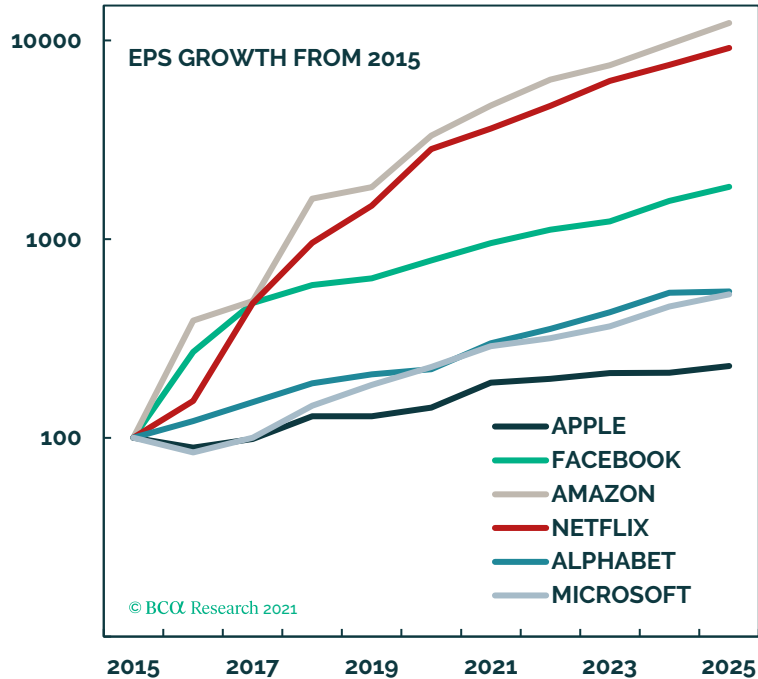


\* SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).  
NOTE: SERIES REBASED TO JAN. 1975 = 100.  
\*\* SOURCE: DATASTREAM MARKET INDICES.



\* SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).  
\*\* G7 10-YEAR GOVERNMENT BOND YIELD MINUS 3-MONTH EURO RATE.

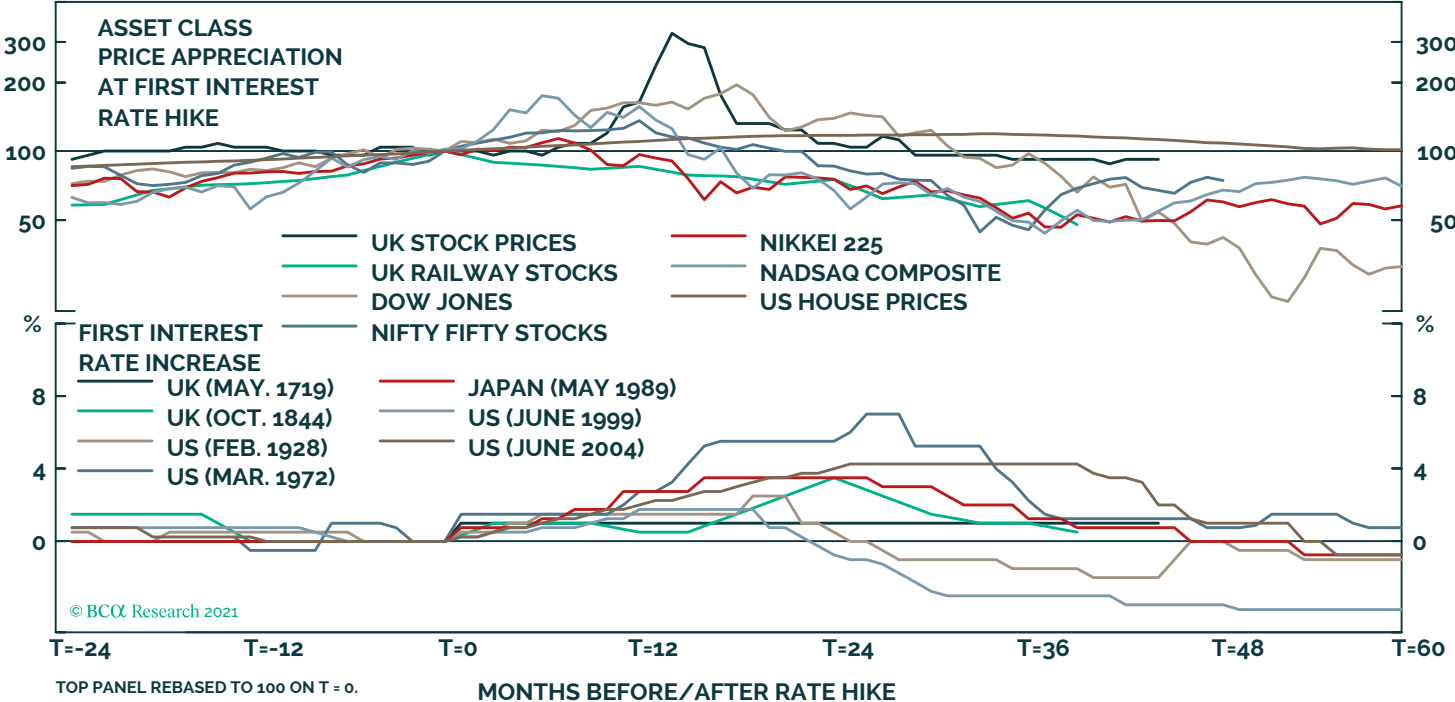
# Tech Companies Are Not Going Ex-Growth Yet



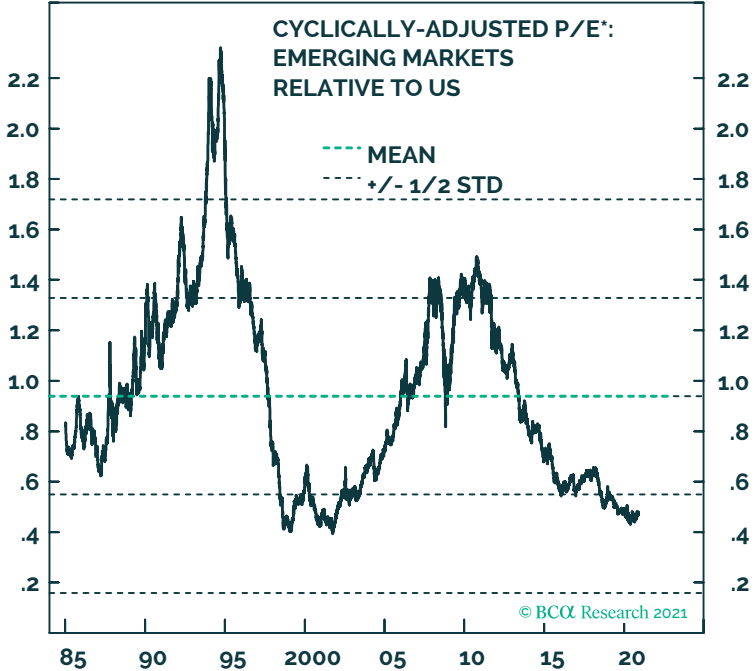
SOURCE: BLOOMBERG FINANCE L.P. NOTE: SERIES REBASED TO 2015 = 100.

AVERAGE ANNUAL EARNINGS GROWTH		
	2015-2020	2021-2025
APPLE	8%	11%
FACEBOOK	60%	19%
AMAZON	128%	30%
NETFLIX	102%	27%
ALPHABET	18%	20%
MICROSOFT	20%	18%

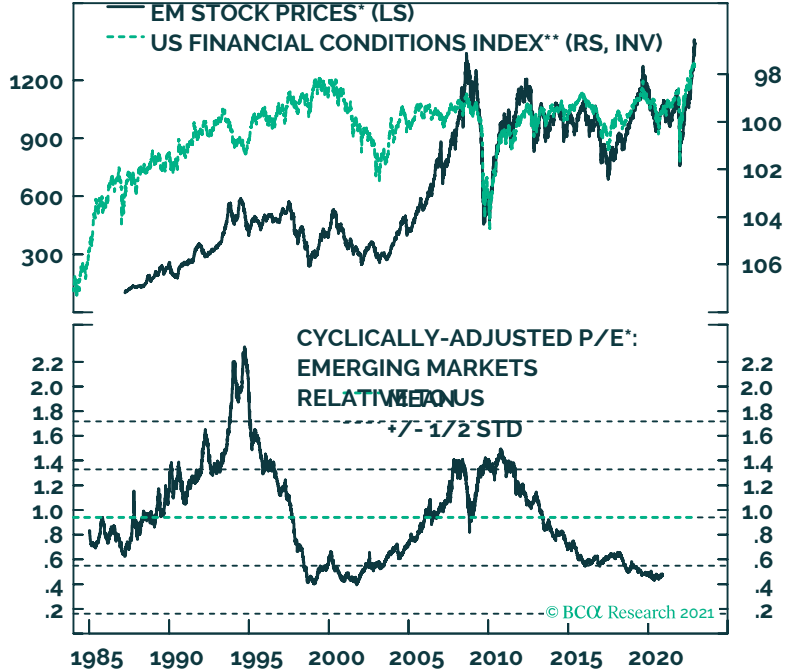
# Bubbles Only Burst When Monetary Policy Is Tightened



# EM Selectively Looks Interesting



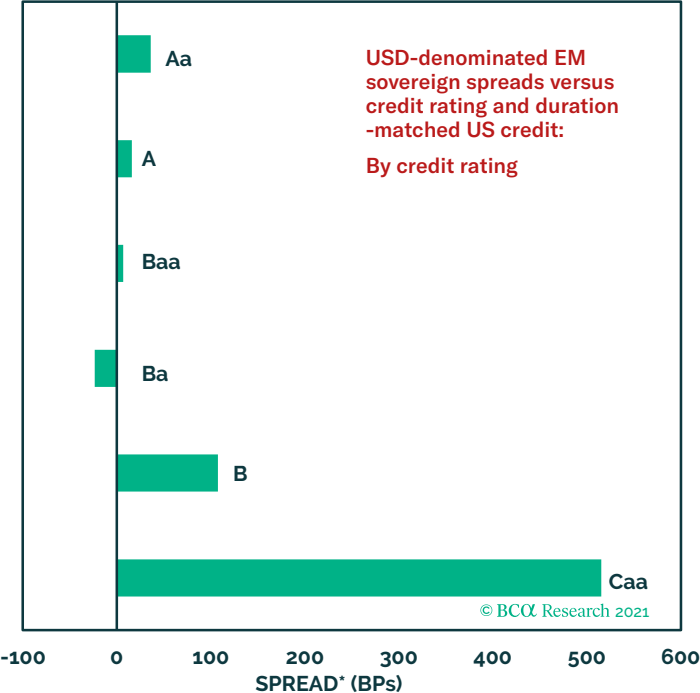
\* BCA CALCULATION; CALCULATED USING EM STOCK PRICES AND EPS IN US DOLLAR TERMS, AND DEFLATED BY US CONSUMER PRICE INFLATION; SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION)



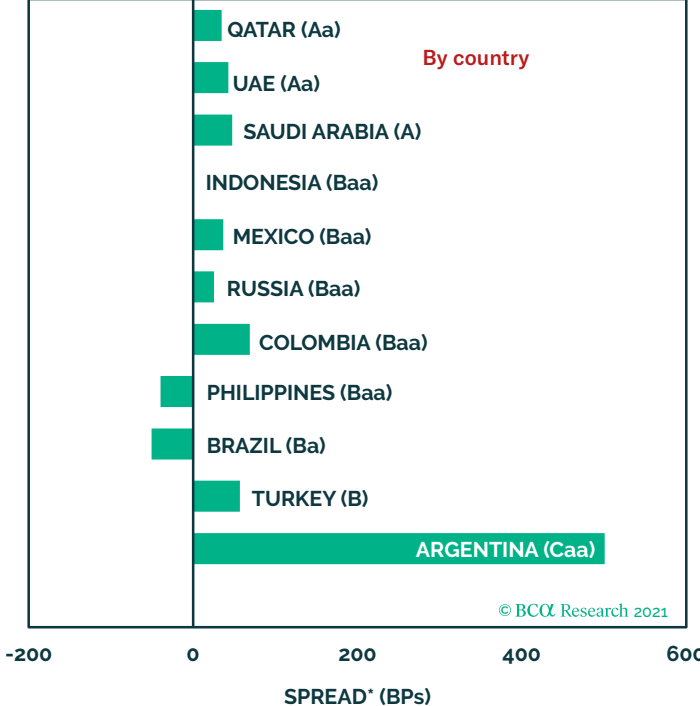
\* SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION); SHOWN IN USD TERMS.  
\*\* SOURCE: GOLDMAN SACHS (VIA BLOOMBERG L.P.)



# But Maybe Debt More Than Equity

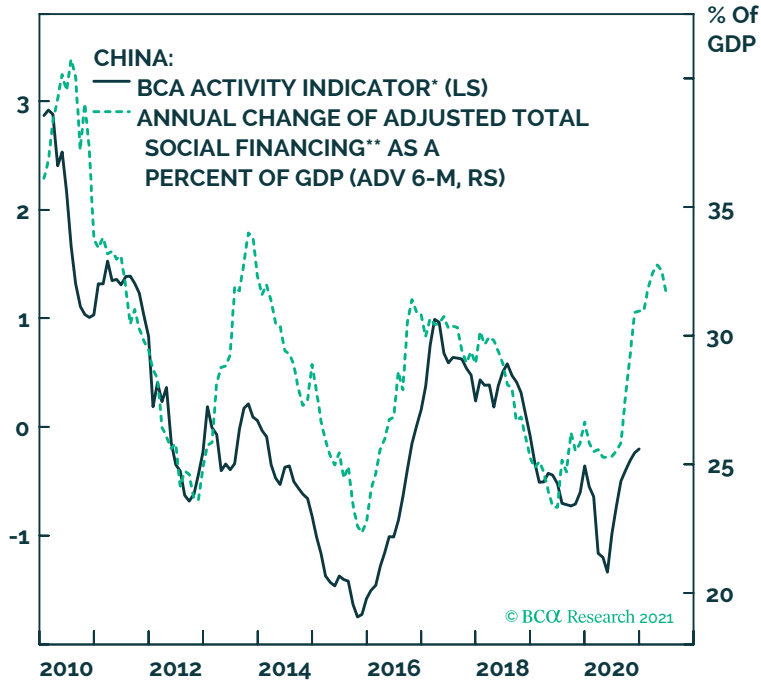


\* SOURCE: BLOOMBERG BARCLAYS INDICES.

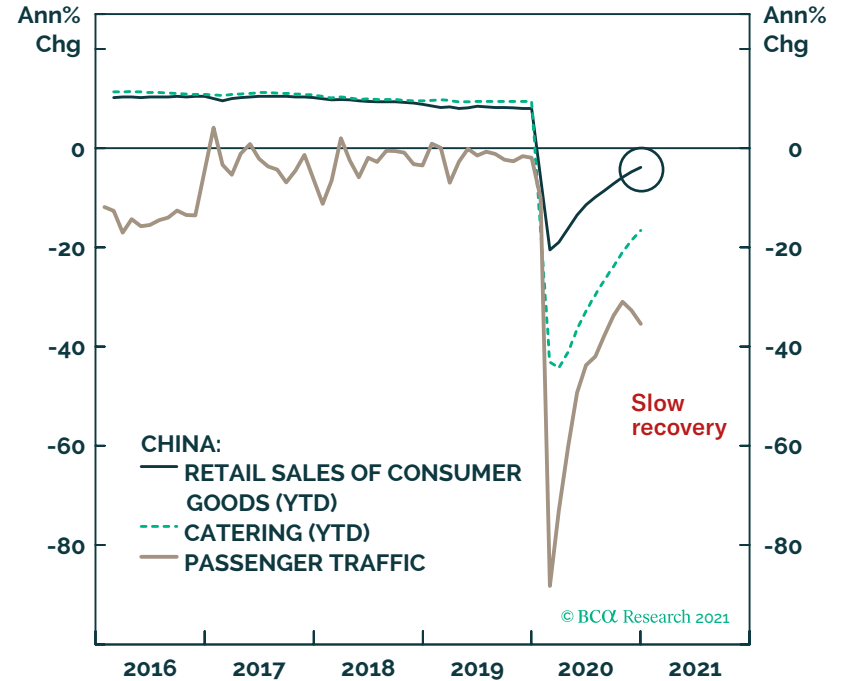


\* SOURCE: BLOOMBERG BARCLAYS INDICES.

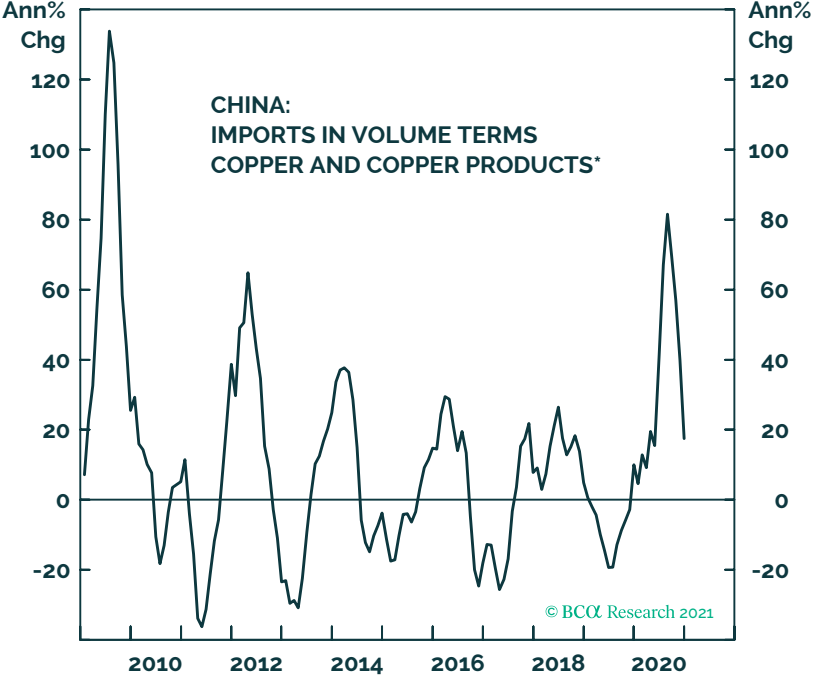
# In The Short Term, Watch Signs Of Slowdown In China



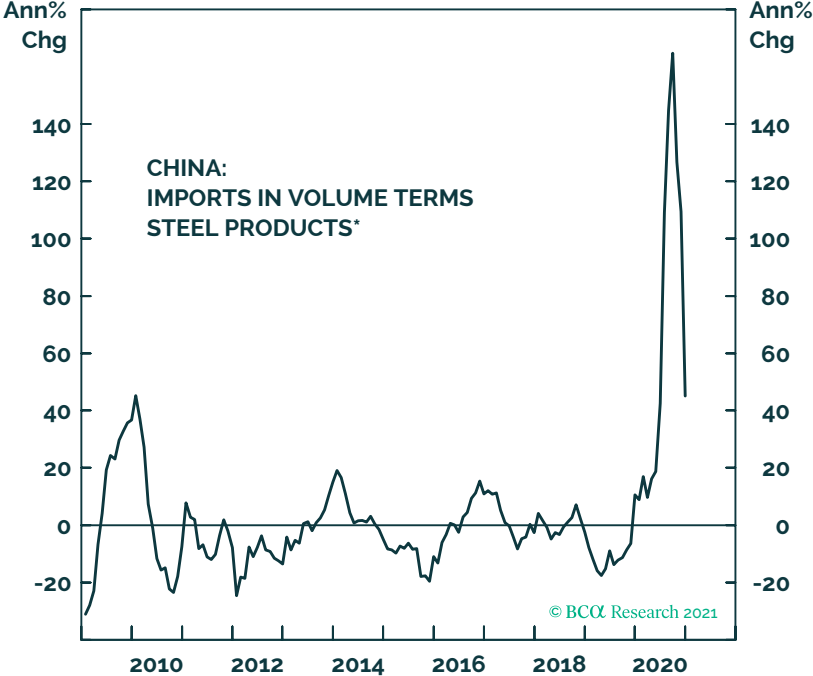
\* SHOWN AS 3-MONTH MOVING AVERAGE; BCA CALCULATIONS.  
 \*\* BCA CALCULATIONS; TOTAL SOCIAL FINANCING EXCLUDING EQUITY, AND INCLUDING LOCAL GOVERNMENT BONDS.



# Which Could Be An Issue For Industrial Commodities

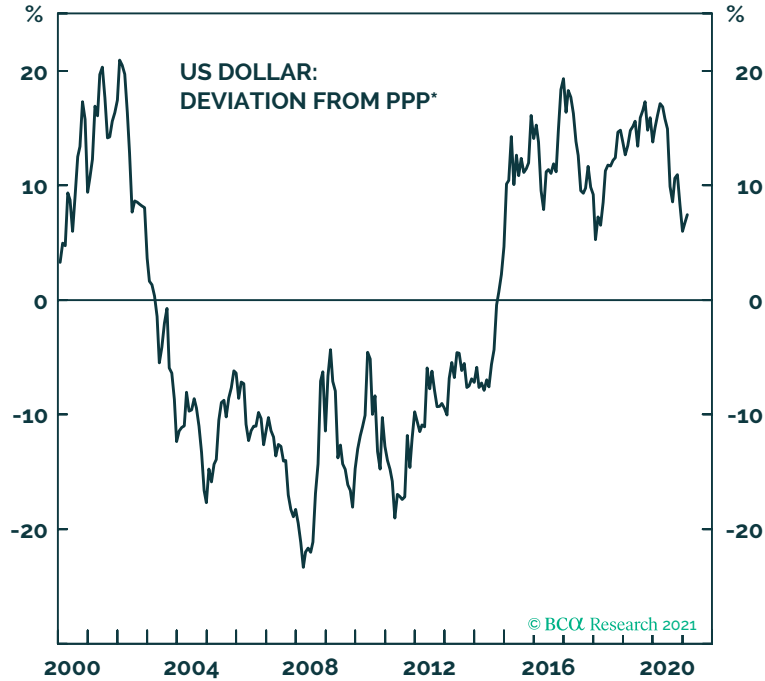


\* SHOWN AS A 3-MONTH MOVING AVERAGE.

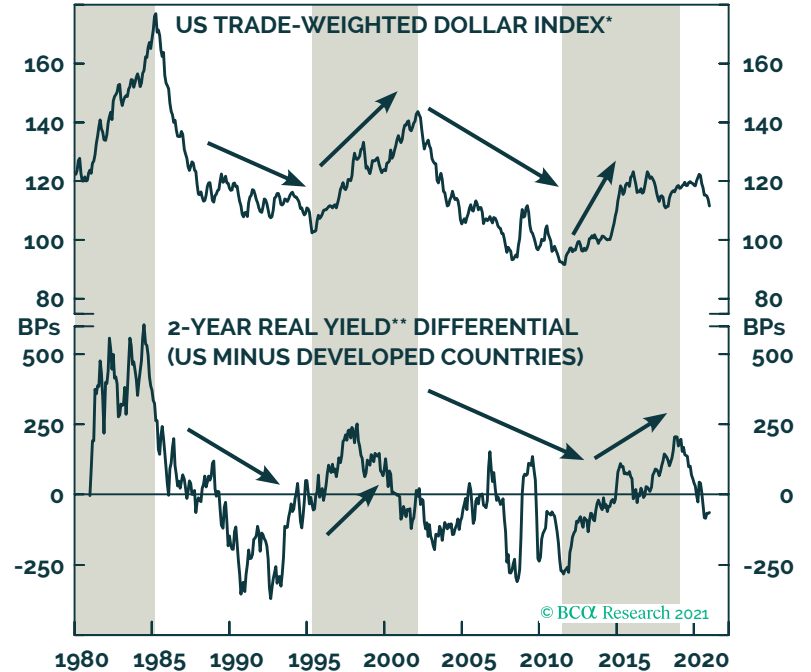


\* SHOWN AS A 3-MONTH MOVING AVERAGE.

# Can The US Dollar Fall Further?



\* BASED ON DXY WEIGHTS.  
SOURCE: OECD.

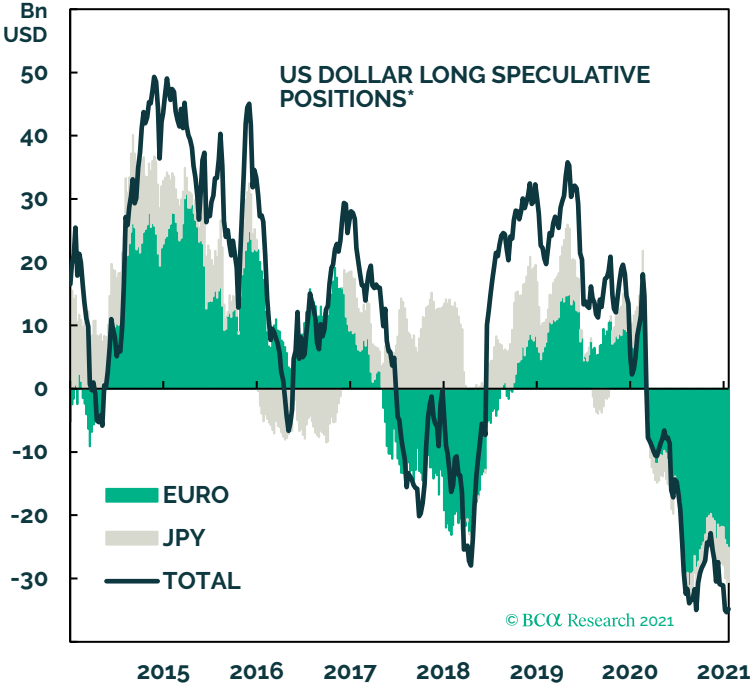


\* SOURCE: BANK OF ENGLAND AND BIS.

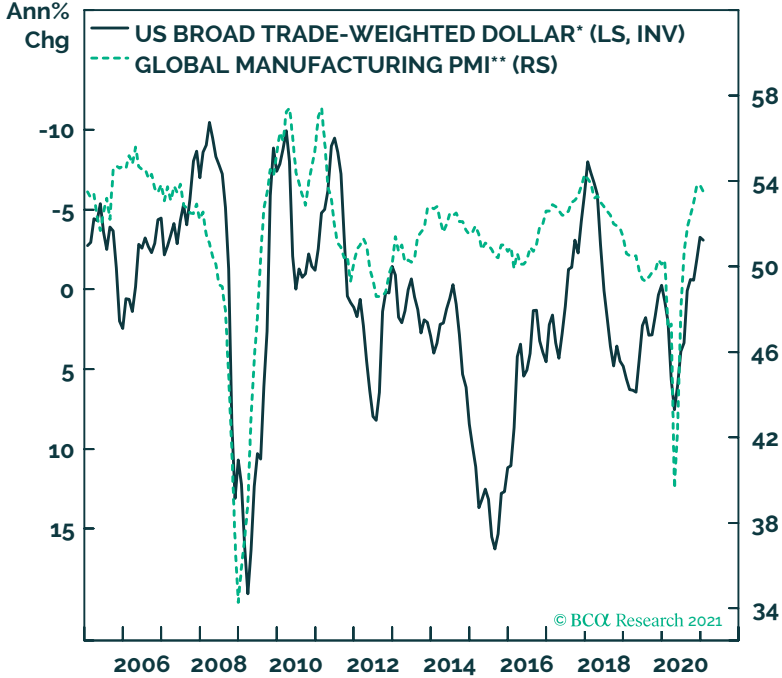
\*\* 2-YEAR NOMINAL YIELD DEFLATED BY CONSUMER PRICE INDEX.

NOTE: SHADED AREAS DENOTE PERIODS OF MAJOR DOLLAR APPRECIATION.

# In The Short-Term USD Might Rebound



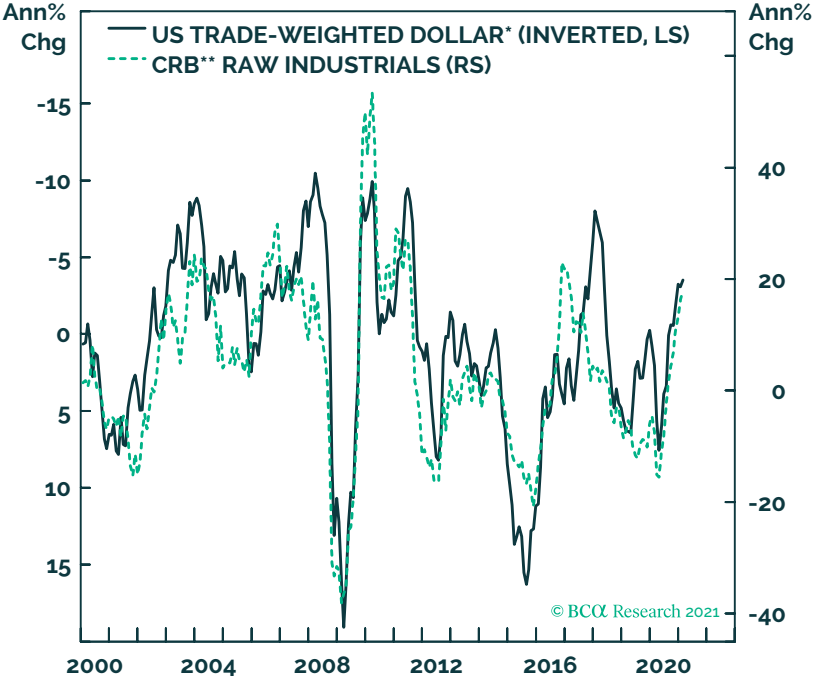
\* NOTE BASED ON CFTC DATA.



\* SOURCE: FEDERAL RESERVE.

\*\* SOURCE: MARKIT.

# US Dollar and Chinese Growth Are The Drivers Of Commodities Over 12-Month Horizon

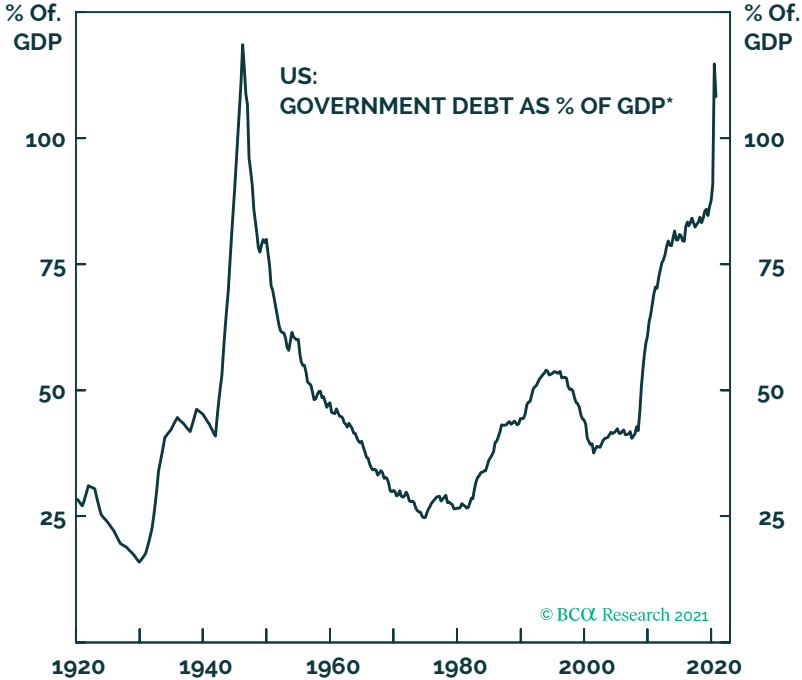


\* BROAD, NOMINAL. SOURCE: FEDERAL RESERVE.  
\*\* SOURCE: COMMODITY RESEARCH BUREAU, INC.

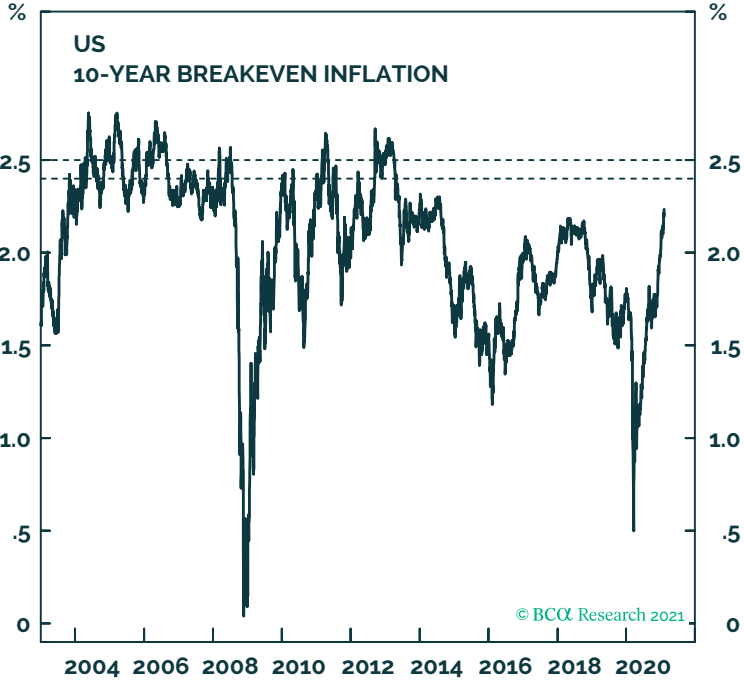


\* CUMULATIVE AGGREGATE FINANCING EXCL EQUITY FINANCING, LGFV SWAP FROM 2015 TO 2018 AND LOCAL GOVT. SPECIAL BONDS ISSUANCE  
\*\* GENERAL (CENTRAL AND LOCAL) GOVT., GOVT. MANAGED FUNDS SPENDING AND SPECIAL INFRASTRUCTURE FUND FROM 2015 TO 2017  
\*\*\* SHOWN AS A 12-MONTH MOVING AVERAGE

# How The World Will Change After COVID

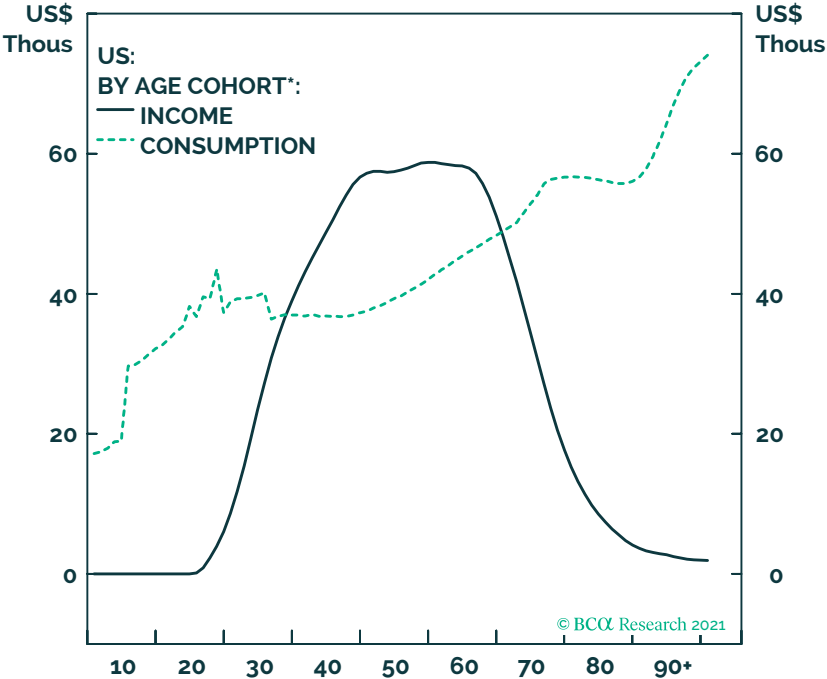


\* SOURCE: FLOW OF FUNDS.

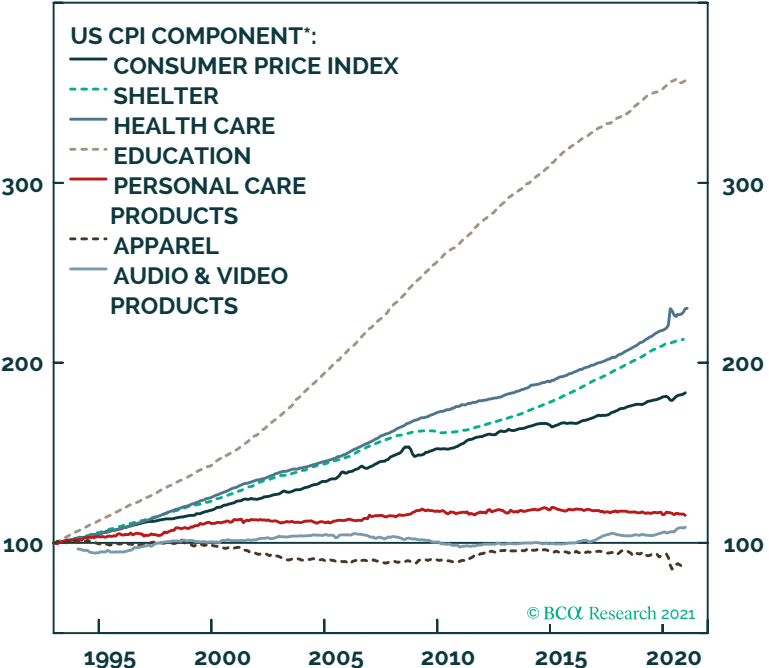


NOTE: DASHED HORIZONTAL LINES INDICATE 2.4% AND 2.5% LEVELS CONSISTENT WITH THE FED'S 2% CORE PCE TARGET.

# High Risk Of Elevated Inflation In The Long Run



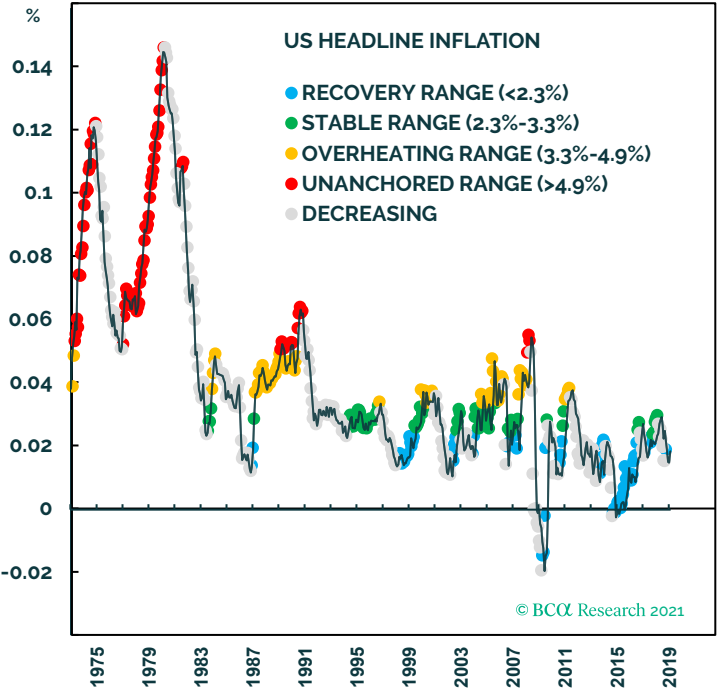
\* SOURCE: UNITED NATIONS, NATIONAL TRANSFER ACCOUNTS.



\* SOURCE: BUREAU OF LABOR STATISTICS.  
NOTE: ALL SERIES SHOWN REBASED TO JAN 1993 = 100.



# Best Ways To Hedge Against Inflation Risk



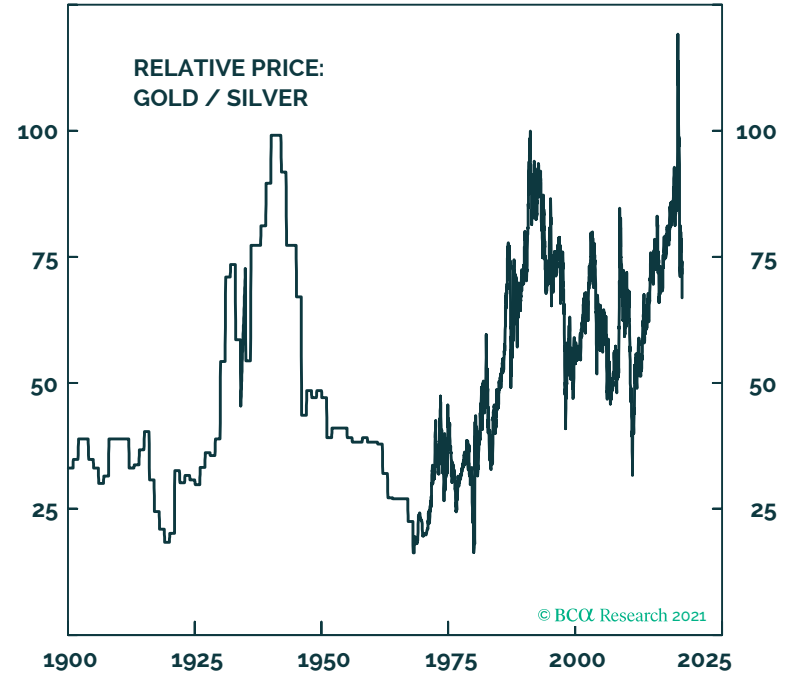
NOTE: PERIODS OF RISING INFLATION ARE DEFINED AS TRENDS OF MORE THAN 12 MONTHS OR CHANGES OF MORE THAN 1% IN THE INFLATION RATE.

PERIODS OF RISING INFLATION				
QUARTILE	1	2	3	4
NAME	LOW INFLATION	MILD INFLATION	HIGH INFLATION	VERY HIGH INFLATION
THRESHOLD	LESS THAN 2.3%	BETWEEN 2.3% AND 3.3%	BETWEEN 3.3% AND 4.9%	MORE THAN 4.9%
ASSET LEVEL HEDGE	EQUITIES	EQUITIES	COMMODITIES / U.S. TIPS	COMMODITIES / U.S. TIPS
EQUITY SECTOR HEDGE	INFORMATION TECHNOLOGY	ENERGY	ENERGY / MATERIALS	DEFENSIVE SECTORS
COMMODITY HEDGE	ENERGY	ENERGY	INDUSTRIAL METALS	GOLD

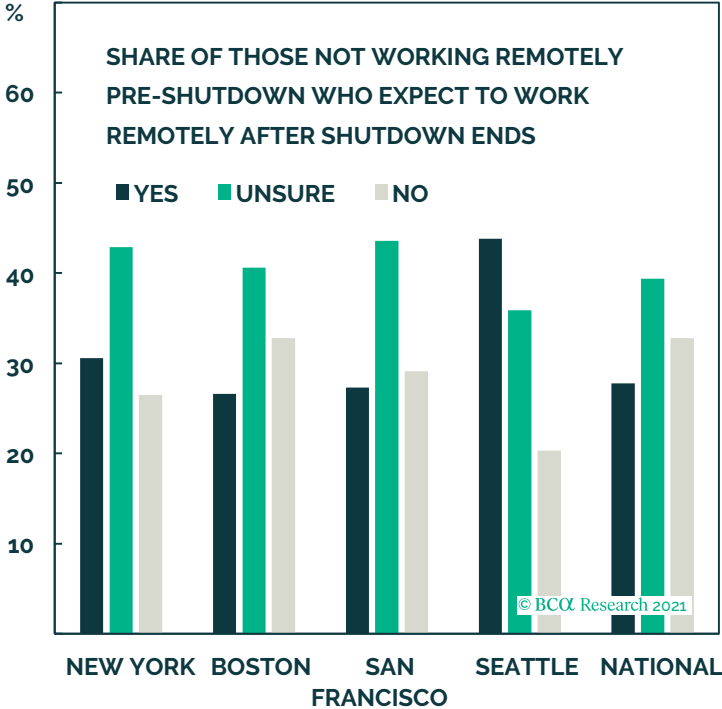
# Silver Looks Better Value Than Gold



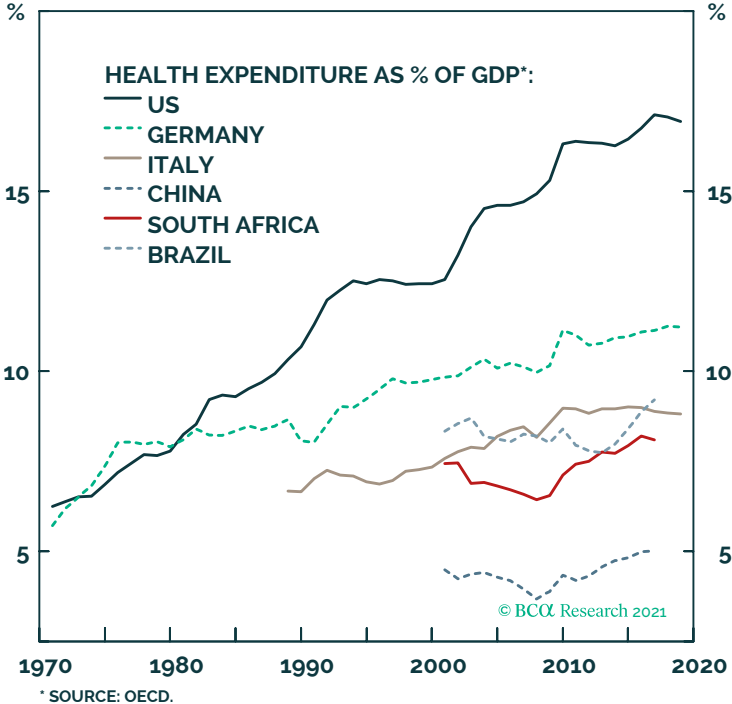
\* DEFLATED BY US HEADLINE CPI.



# Bad For Commercial Real Estate, Good For Healthcare



SOURCE: REDFIN.



## Global Offices

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