



DEUTERIUM

GLOBAL DYNAMIC ALLOCATION FUND

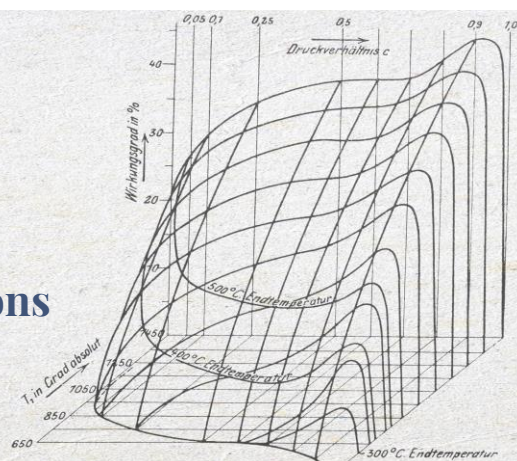
Deuterium Global Dynamic Allocation

QUARTERLY STRATEGY
REPORT Q1 2021

31 December 2020

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DGDA Investment and Economic projections for the post-Coronavirus recovery



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All data in this report are sourced from Deuterium Global Asset Allocation proprietary models.

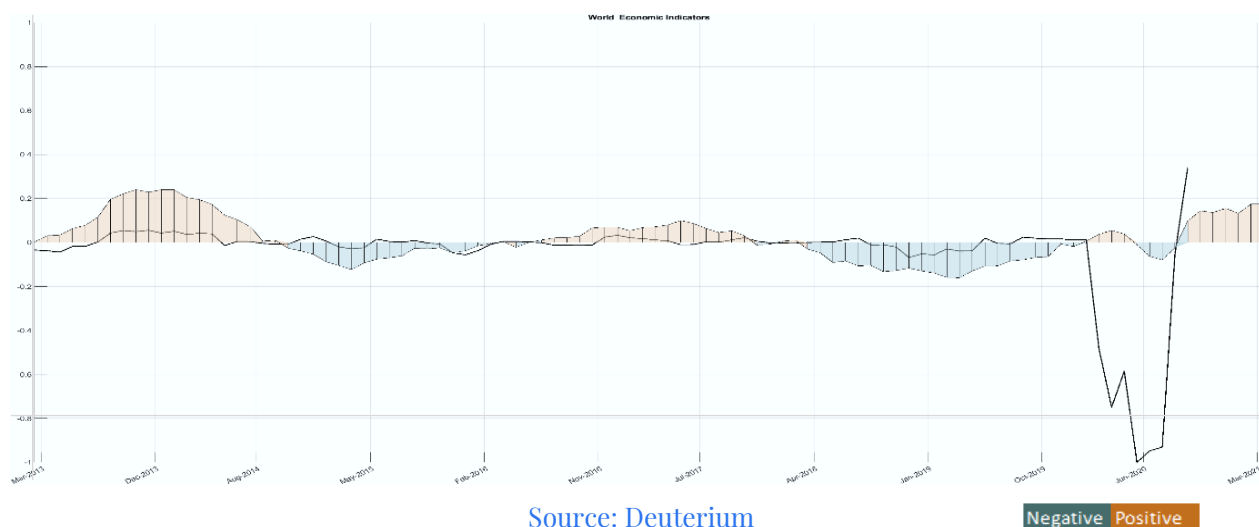
Deuterium Global Dynamic Allocation Outlook for Q1 2021

The outlook for risk assets will remain positive to start the new year, with equity valuations benefitting from a further recovery in global output. Later in Q1 2021, the cyclical rebound and jumps in producer prices nonetheless will put sudden upward pressure on inflation rates and on long term bond yields, with the rise in interest rates bringing pronounced equity market volatility towards quarter end. This is a significant shift away from the global environment of the past several quarters, where share valuations found support in recovering earnings growth while global central banks provided extraordinary liquidity, dropped interest rates, and collapsed credit spreads in a low inflation world. Over the coming quarter, real economy expansion will be the key support for risk-asset valuations even as consumer, producer, and commodity inflation rates rise towards their long-term trends, making uncertain the extent of further central bank interventions.

With broader investor recognition of the global cycle recovery during the first part of Q1 2021, equity market valuations likely will benefit, even if the improvements in the outlook for risk-assets will no longer be as dramatic as over the past few months, with the exception of better financial conditions showing for continental Europe and the UK, whose markets lagged significantly last year. Late in Q1 2021, nominal GDP growth will accelerate as activity and prices pick up in response to last year's massive central bank injections, lifting long term interest rates in line with the cyclical upswing.

By mid-Q1 2021 investors may do well to rein in high allocations to risk assets, given that price/equity and equity earnings yield to bond yield ratios likely will move lower, more in line with historical precedent, when higher interest rates bring headwinds and volatility to equity market valuations.

Deuterium projections show that global output growth will recover and inflation will accelerate in Q1 2021.



World Consumption Acceleration (plain line) & DGDA projections (bars) 6 months ahead

Deuterium Global Dynamic Allocation Outlook for Q1 2021

Vaccine development timelines for Typhoid: 100 years, Measles: 10 years, Covid-19: ten months

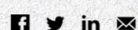
- > 10 billion doses of Covid-19 vaccine have been pre-ordered for 2021
- > Doses bought in billions: EU 1.6, India 1.5, USA 1.0, Covax 0.7, UK 0.4, Canada 0.4, Indonesia 0.3, Japan 0.3, Brazil 0.2, Mexico 0.2

AS OF 30 DECEMBER 2020

More Than 5.1 Million Shots Given: Covid-19 Vaccine Tracker

The U.S. has administered 2.32 million doses—the most of any country so far

Updated: 30 December 2020, 14:30 GMT



Tracking Covid-19 [Vaccine Tracker ↓](#) [Vaccine Contracts ↗](#) [Global Cases ↗](#) [U.S. Cases ↗](#) [U.S. Hospitalizations ↗](#) [U.S. Regions ↗](#)

The biggest vaccination campaign in history has begun. More than **5.1 million doses** in 22 countries have been administered, according to data collected by Bloomberg. Delivering billions more will be one of the greatest logistical challenges ever undertaken.

Vaccinations in the U.S. began Dec. 14 with health-care workers, and so far **2.32 million doses** have been administered, according to a state-by-state tally by Bloomberg.

Source: Bloomberg

- > Testing has reached more than 50% of USA and UK populations, and 40% of major European populations
- > Work from home has become much more a global norm for those business that can support it.

Global Economic Acceleration in Q1 2021

DGDA projections for production, orders, and exports show strong accelerations across all regions in Q1 2021

GLOBAL SHORT TERM PRODUCTION MONITORS (+/- 1) [▲]

● Best — Worst

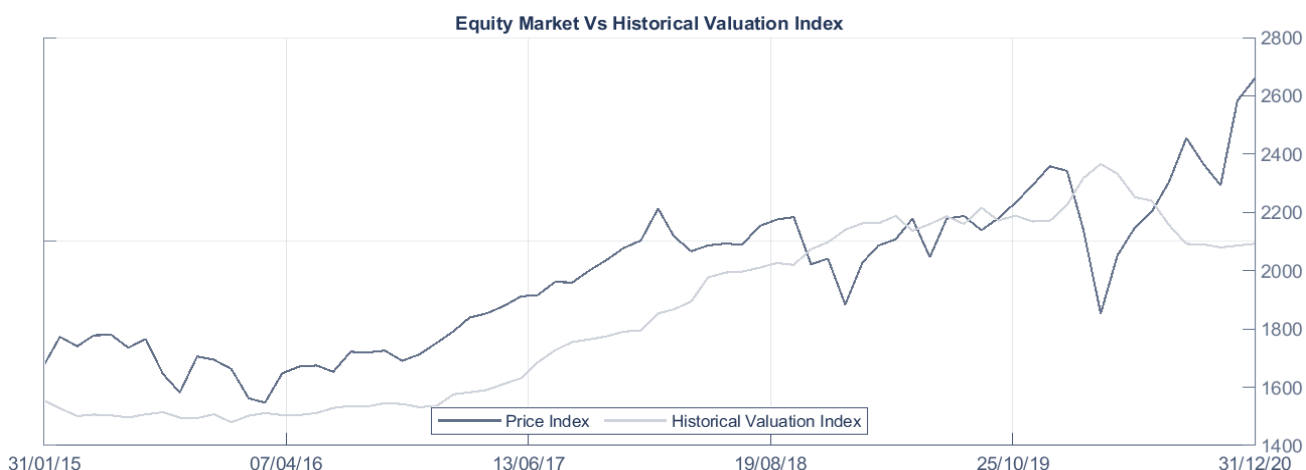
Production Monitor	Production	Orders	Exports	Direction	Average
USA					0.23
Europe					0.07
Japan					0.27
UK					0.15
Canada					0.30
France					0.11
Switzerland					0.18
Germany					0.20
Australia					0.12
Netherland					0.15
Spain					0.25
Sweden					0.11
Italy					0.06
China					0.28
South_Korea					0.31
Taiwan					0.25
Hong_Kong					0.16
Singapore					0.28
Indonesia					0.23
Thailand					0.12
India					0.21
Brazil					0.27
Russia					0.05
Mexico					0.34
South_Africa					-0.23

Source: Deuterium

- > Fiscal measures in the major economies supported the incomes of those faced with labour market shocks, while monetary interventions provided depth and liquidity to the debt markets
- > Rising US bond, housing, and equity markets will support domestic consumption and production as well as Far East output, while European and developing market GDP contractions were so severe that their rebounds will be strong

Equity Markets and Bond Markets are overvalued

Recession effects have brought equity fundamentals much lower than historically associated with current high valuations



Nearly all major equity markets have risen far above fair value, with most European shares as expensive as those in Asia.

Country	Current Price	Target Price	Price Move Required to get to Target Price
World	2659	2092	-21.3%
Majors	2118	1522	-28.2%
United States	3703	3043	-17.8%
EMU	3543	2213	-37.5%
Japan	26657	18116	-32.0%
United Kingdom	6502	4826	-25.8%
Canada	17624	16604	-5.8%
France	5522	4208	-23.8%
Switzerland	10412	11702	12.4%
Germany	13587	9794	-27.9%
Australia	6665	4345	-34.8%
Netherlands	626	657	4.9%
Spain	8112	6150	-24.2%
Sweden	1868	5877	214.6%
Italy	22130	22511	1.7%
Asia Ex Japan	774	501	-35.3%
China	104	65	-37.2%
South Korea	2807	1724	-38.6%

Country	Current Price	Target Price	Price Move Required to get to Target Price
Taiwan	14331	11462	-20.0%
Hong Kong	26387	23704	-10.2%
Singapore	2842	1860	-34.5%
Indonesia	6009	4718	-21.5%
Malaysia	1641	1879	14.5%
Thailand	1486	1290	-13.2%
Philippines	7204	6035	-16.2%
Emerging	1254	1060	-15.4%
India	46974	36551	-22.2%
Brazil	117807	110698	-6.0%
Russia	3246	2290	-29.5%
Mexico	43372	37231	-14.2%
Turkey	1426	1193	-16.3%
Resource	312	211	-32.5%
South Africa	59176	55906	-5.5%
Colombia	520	547	5.3%
Chile	4133	4000	-3.2%
Argentina	51619	59152	14.6%

Source: Deuterium, Bloomberg

Negative Positive

Equity markets in all regions show significant valuation extremes as markets have risen on anticipations of earnings rebounds, while trailing fundamental measures are barely two quarters on from their most severe contraction in a decade. Such overvaluations on trailing price/earnings metrics are typical in the initial recovery quarters following a steep recession, and current equity valuations also benefit from record low worldwide interest rates and tight credit spreads

The start of the new quarter will show good fundamental support for equities, with a neutral outlook for bonds in the USA and Asia, where activity and prices have stabilised more quickly than in Europe or in most developing economies. The difficulties for bonds will appear late in Q1 2021 as consumer prices, goods prices, and commodities prices all begin accelerating across the major regions

A significant rotation in sector performances likely will become evident as the quarter progresses, with pro-cyclical sectors such as industrials, technology, financials, and real estate providing better returns than counter-cycle sectors such as utilities, telecommunications, consumer staples, and healthcare that do poorly in relative terms when faced with rising interest rates

DEUTERIUM GLOBAL ASSET ALLOCATION OUTLOOK FOR Q1 2021

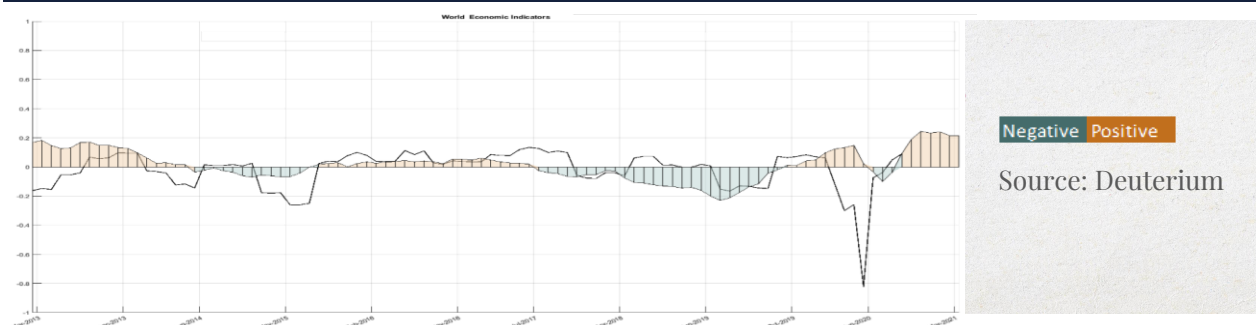
31 December 2020

The shift up in the global cycle will give further support for corporate earnings expectations, and along with fiscal and monetary policies designed to support incomes and output, will continue to benefit risk asset valuations throughout the first part of Q1 2021. Later in the quarter, inflation accelerations will put upward pressure on long term bond yields, and introduce higher market volatility.

The sudden shift in late Q1 2021 away from the well contained inflation pressures that have provided an attractive environment for fixed-income assets, likely will be negative for long duration sovereign bond performance, and doubtless will be problematic for central banks who so far are fully committed to 'whatever it takes' monetary interventions.



The US Federal Reserve, for instance, generated 50% annual growth in US narrow money supply during 2020. **Investors may do well to moderate their allocations to risk assets midway through Q1 2021, at the point where very high equity market valuations will have to adjust to upward pressures on long term interest rates, as the generalised expansions in consumer and industrial activity suddenly extends to higher consumer and producer price inflation.**

Deuterium Global Asset Allocation projections show world production reaccelerating in Q4 2020



World Production Acceleration (plain line) & DGDA projections (bars) 6 months ahead

DGDA Market Projections for Q1 2021

DGDA projections for Q4 2020	At 31 December 2020	Market moves projected for end Q1 2021
USA		
3 Month yields	0.06%	
10 Year yields	0.91%	--
US Dollar Index	89.9	
S&P 500 Index	3756	+
China		
3 Month yields	2.76%	--
Chinese Yuan	0.153	+
MSCI China	109	--
Japan		
3 Month yields	-0.1%	
10 Year yields	0.02%	
Japanese Yen	0.0097	
Topix Share Index	1805	+
EMU		
3 Month yields	-0.76%	
10 Year yields	-0.57%	
Euro	1.22	
Euro Stoxx 50 Share Index	3553	+
UK		
3 Month yields	-0.06%	
10 Year yields	0.2%	
British Pound	1.37	--
FTSE 100 Share Index	6461	+
Commodity Markets		
General	78	
Oil & Energy	20	
Gold & Precious Metals	233	+

Source: Deuterium, Bloomberg

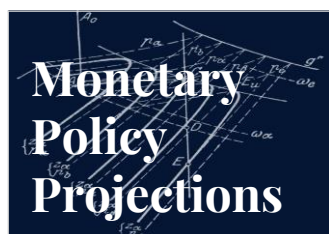
DGDA Global Investment Conclusions

1. The global business cycle will show strong signs of recovery for Q1 2021 while major central bank support continues. Equity valuations likely will benefit from the rapid rebound in global output following unprecedented monetary and fiscal stimulus, until mid-quarter when sovereign bond markets, given higher inflation, will face poorer prospects. This suggests that even as economic growth expands in Q1 2021, the positive effects for risk assets will fade by quarter end when long bond yields rise.



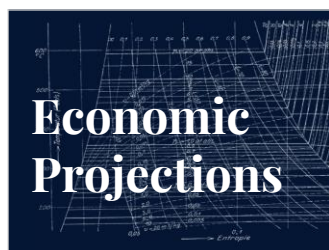
Major Equities	Positive then Neutral +
Developing Equities	Positive then Neutral +
Oil, Industrial Commodities	Positive ++
Major Bonds	Neutral then Negative -
Developing Bonds	Neutral then Negative -
US Dollar	Neutral
Japanese Yen	Neutral --
Euro	Neutral
British Pound	Negative --

2. The US Federal Reserve still is providing extraordinary liquidity to US banks, through the CCFF to the commercial paper market, the MMLF to the money markets, the PDCF to primary dealers, and liquidity lines to an additional nine overseas central banks, even if QE purchases have slowed. The ECB and BoE look to be counting evenly on fiscal and monetary policy interventions to support domestic activity and prices, while the PBoC appears slowing its support for domestic credit growth.



USA	Extraordinary Expansion
China	Expansion
EMU	Extraordinary Expansion
Japan	Extraordinary Expansion
UK	Extraordinary Expansion

3. In Q1 2021 the US and Asian economies will continue to show the beneficial effects on aggregate demand and output of a cyclical rebound, and likely will report evidence of sustained consumer and activity expansions. Monetary and fiscal interventions have maintained sufficient liquidity and income support to have the recovery extend to rising inflation measures.



USA	Expansion
China	Expansion
EMU	Expansion
Japan	Expansion
UK	Expansion

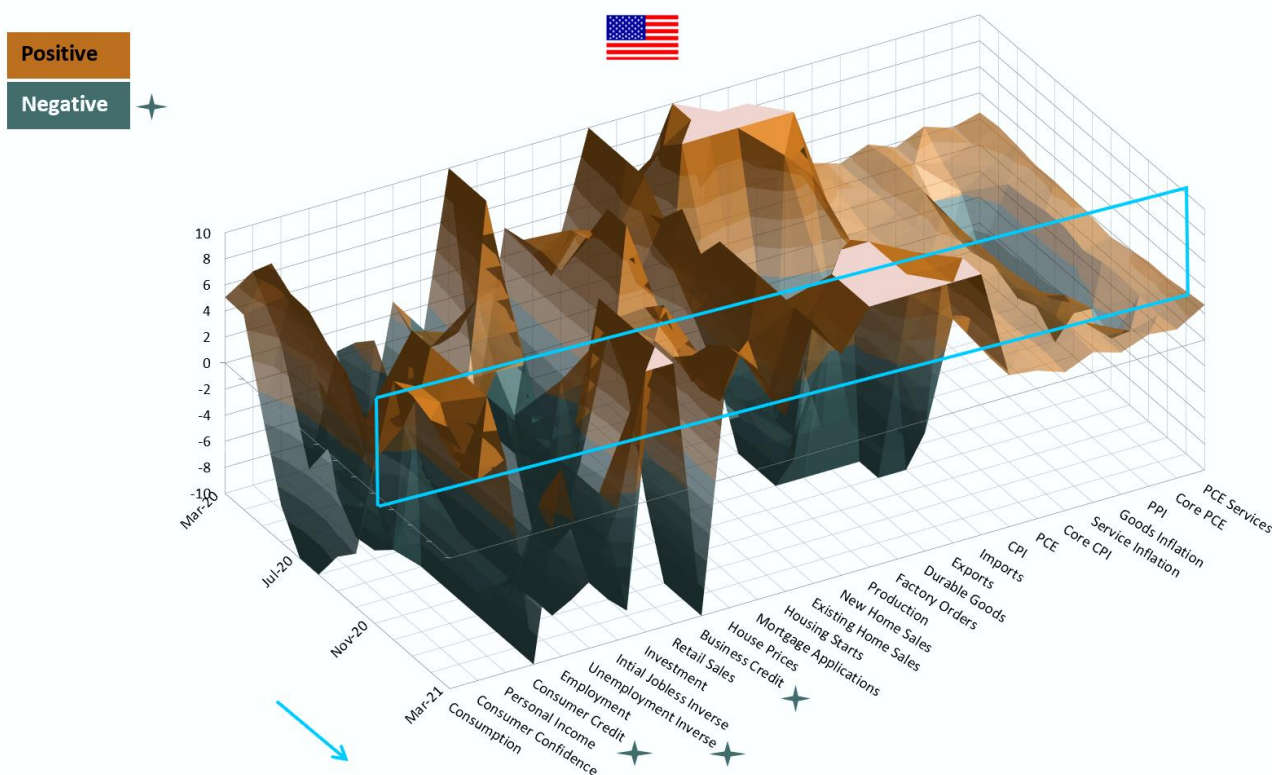
USA Regional Investment Conclusions Q1 2021: DGDA Economic Projection Surfaces

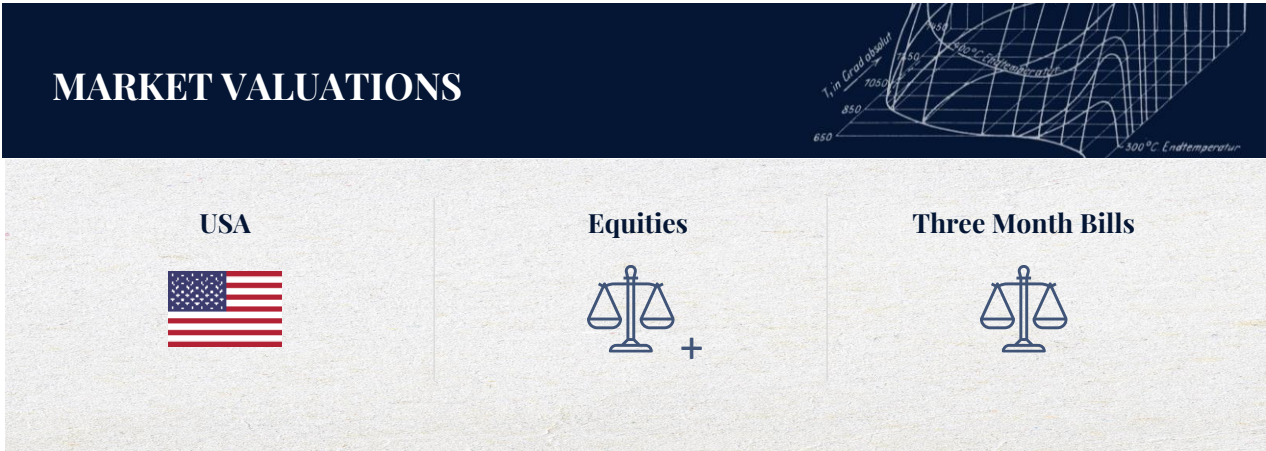


ECONOMIC PROJECTIONS

Deuterium Global Asset Allocation models project that US industrial production and trade growth will recover strongly during the next quarter, with US consumption and personal income showing further rises. US investment growth looks to have bottomed as well, with very strong upturns in housing activity and prices. By end Q1, US inflation will have accelerated, with producer prices expanding year on year, and with personal consumption expenditure inflation up near the central bank's target.

USA Economy Surface Projections Dec-20 to Mar-21

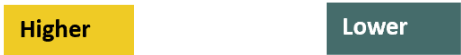




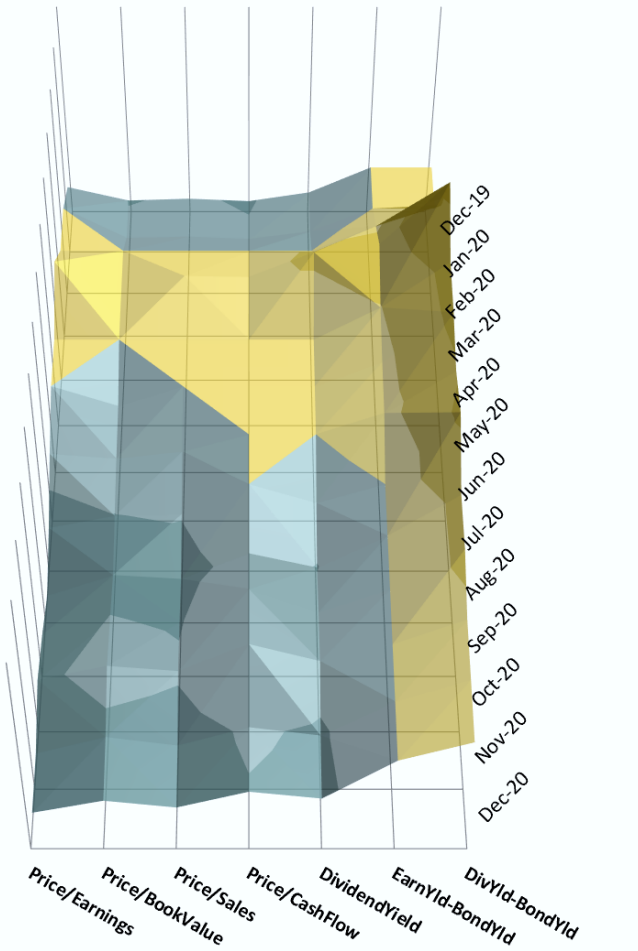
MARKET VALUATIONS

Equity valuation metrics show US shares to be overvalued, yet less so than those for other major markets. Comparisons of US trailing earnings and dividend yields against low but positive US bond yields, with EMU and Japanese equity market fundamentals measured against their negative yields, still show US equities with a significant edge.

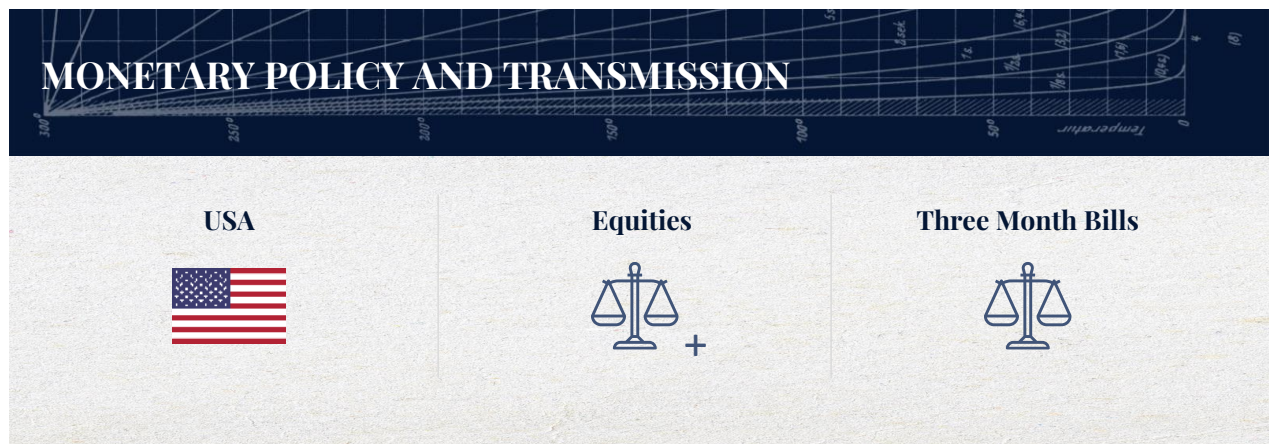
The Federal Reserve’s policy interventions mean that US bond valuations are expensive compared to long term metrics, and are likely to correct. The US Dollar is overvalued on inflation and external account differentials.



USA Equity Valuation Surface Dec 2019 to Dec 2020

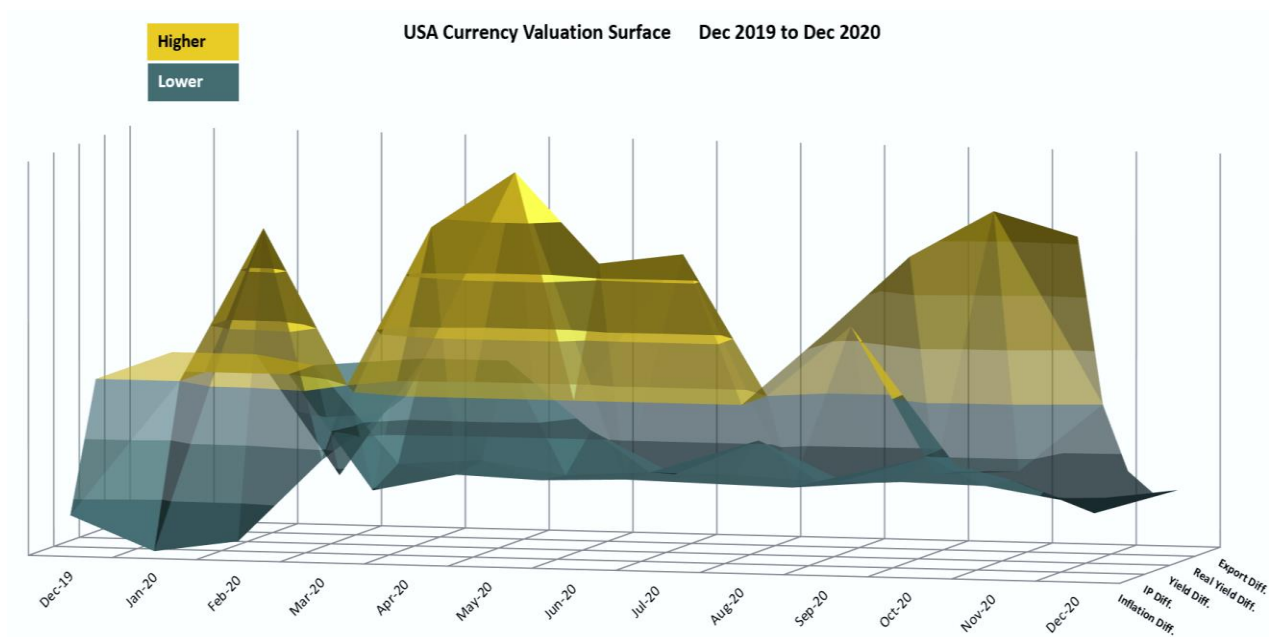


DGDA Models show US equities to be overvalued on standard metrics such as dividend yields, and earnings yields compared to bond yields, given their historical averages



MONETARY POLICY AND TRANSMISSION

DGDA Models suggest that USA inflation will accelerate over the course of Q1 2021, and that while the Federal Reserve will continue to implement extensive policy measures designed to support US prices and output, provide financial system liquidity, and facilitate credit market functioning, long-term yields will face upward pressures.



DGDA Models show the USD to be overvalued on external account and international real yield comparisons

China Regional Investment Conclusions Q1 2021:

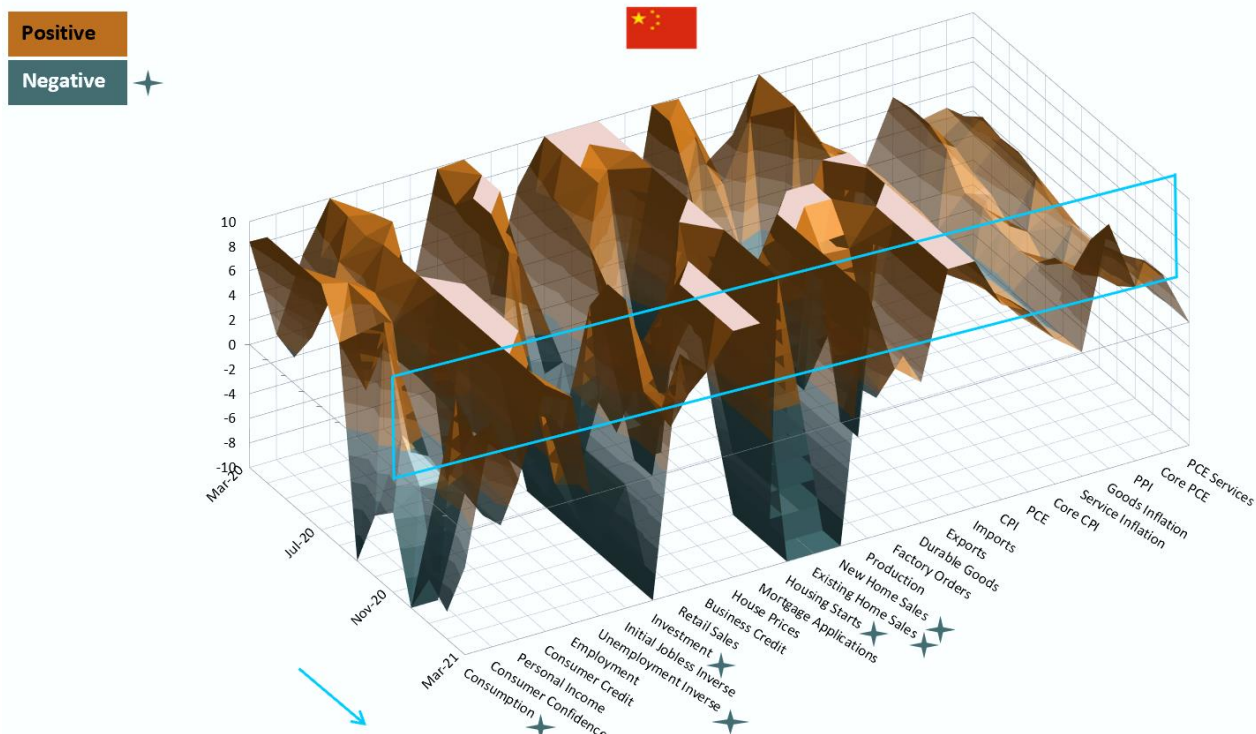
DGDA Economic Projection Surfaces

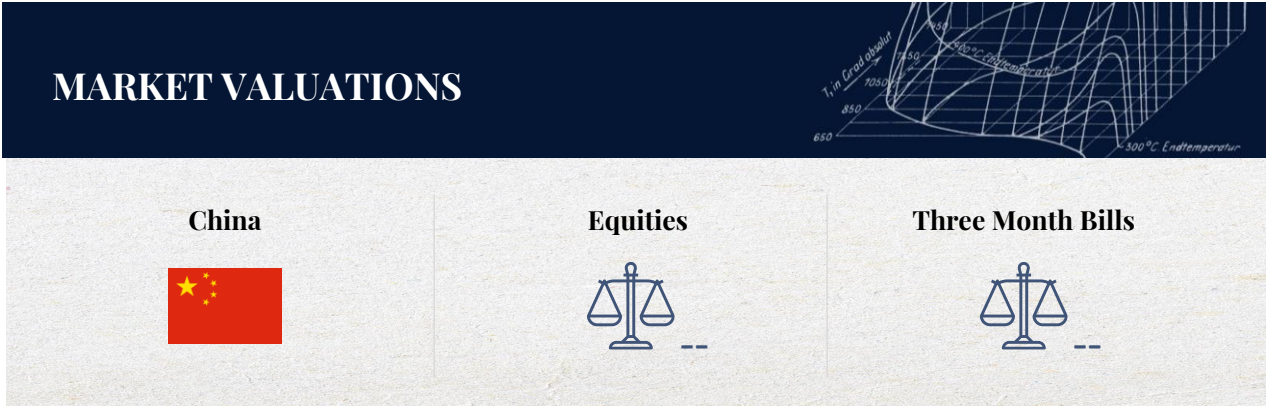


ECONOMIC PROJECTIONS

DGDA Models show that real output growth in China will reflect ongoing support for employment and housing, with consumer credit and retail sales growth still somewhat positive during Q1 2021. Chinese production and external trade look to recover significantly with the global cycle upswing following the coronavirus recession's negative effects on world export growth. Chinese authorities may not be able to maintain loose monetary policy, given that housing price inflation is showing in response to their very substantial loosening over the past year.

China Economy Surface Projections Dec-20 to Mar-21



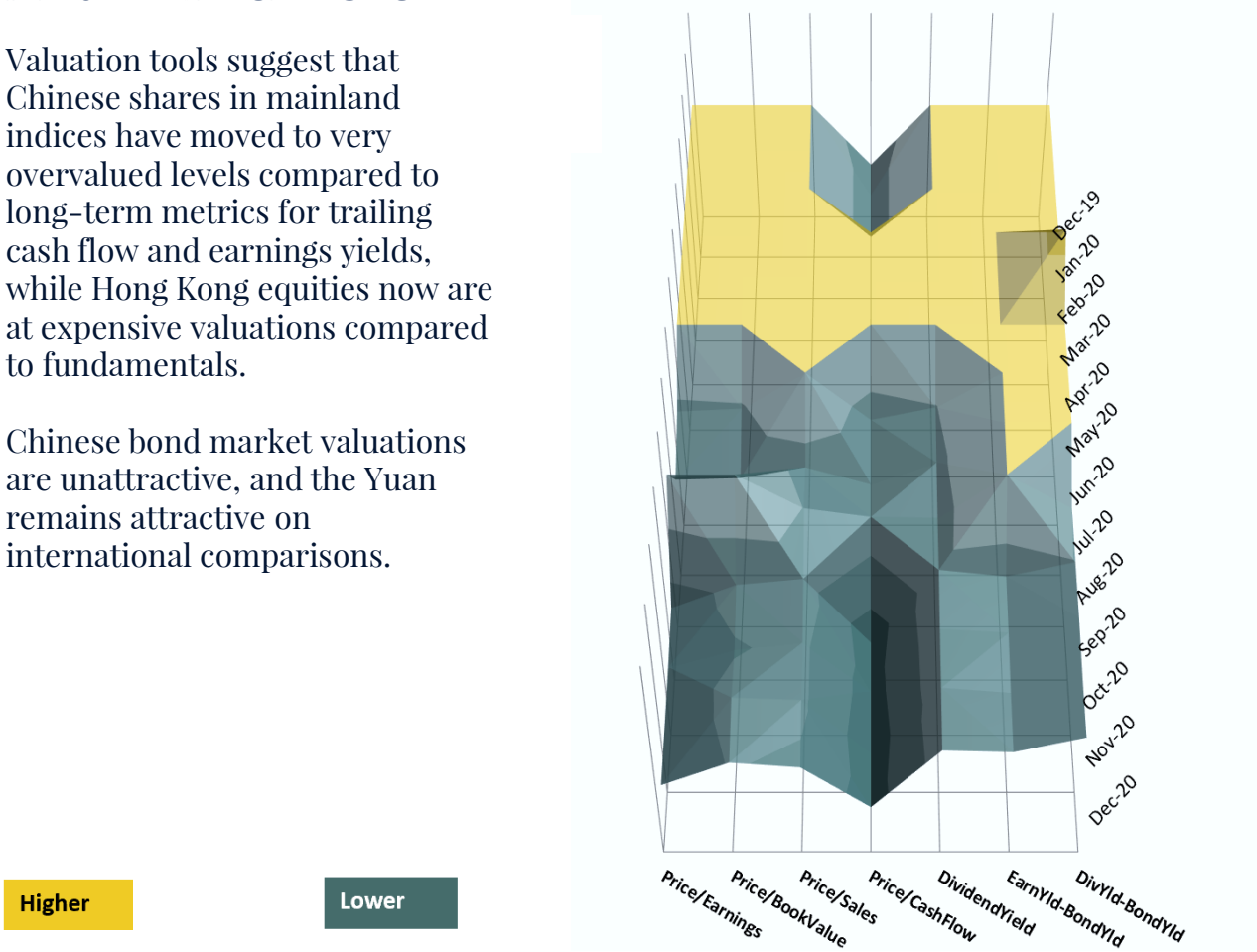


MARKET VALUATIONS

Valuation tools suggest that Chinese shares in mainland indices have moved to very overvalued levels compared to long-term metrics for trailing cash flow and earnings yields, while Hong Kong equities now are at expensive valuations compared to fundamentals.

Chinese bond market valuations are unattractive, and the Yuan remains attractive on international comparisons.

China Equity Valuation Surface Dec 2019 to Dec 2020



DGDA Models show Chinese equities as very overvalued on historical relative yield measures and price ratios

MONETARY POLICY AND TRANSMISSION

China



CNY

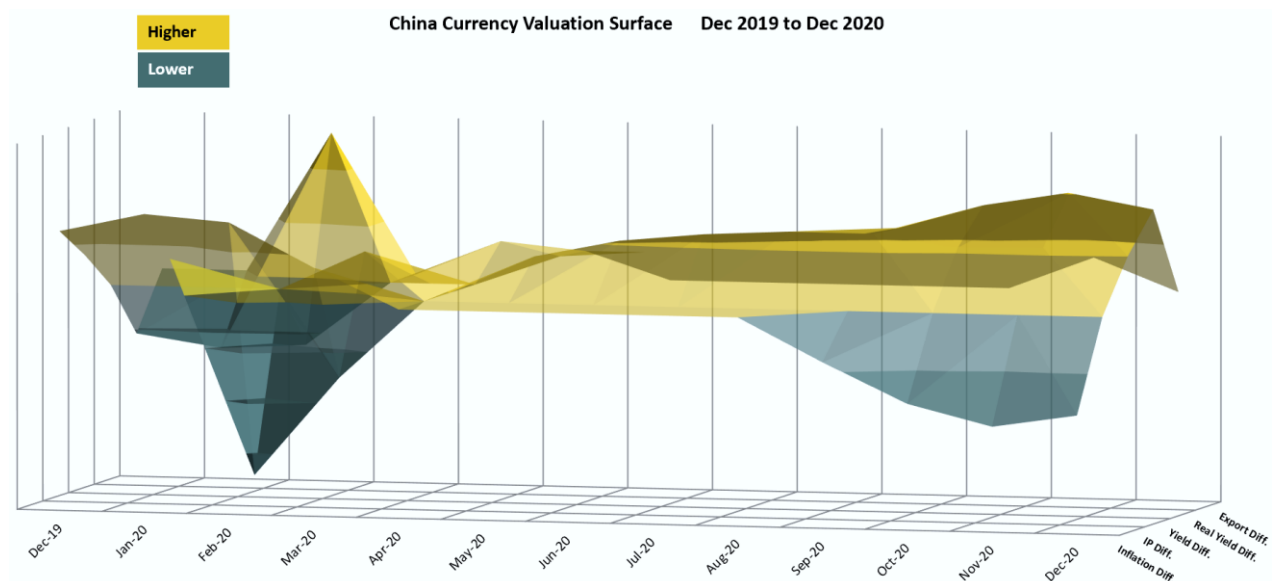


Ten Year Bonds



MONETARY POLICY AND TRANSMISSION

Chinese monetary authorities will have difficulty continuing with the significant steps to expand credit they began implementing last year, increased in response to their original virus outbreak and its subsequent containment measures, and since have augmented with extraordinary measures to provide liquidity for an economic rebound. Monetary transmission channels, which were partially ineffective earlier in this cycle, although now showing positive transmission effects into the real economy, are also reflected in rising housing prices.



DGDA Models show the CNY to be somewhat undervalued on interest rate and domestic cycle comparisons

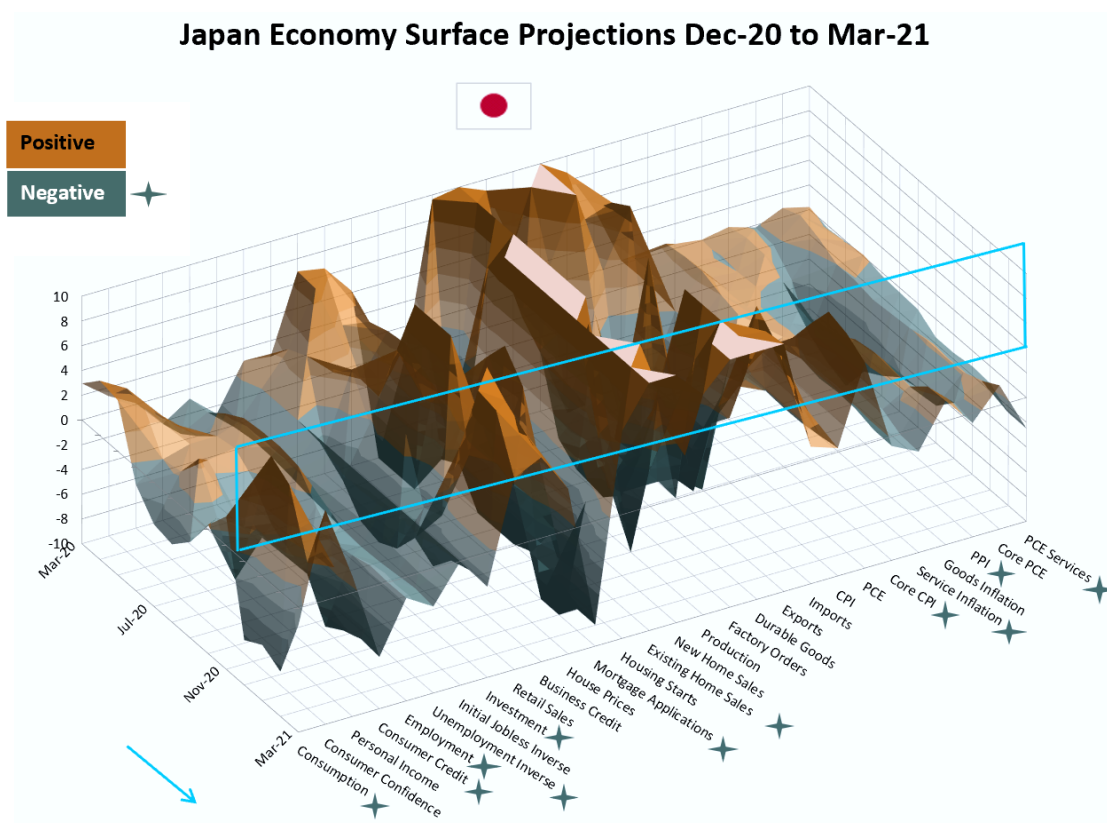
Japan Regional Investment Conclusions Q1 2021:

DGDA Economic Projection Surfaces

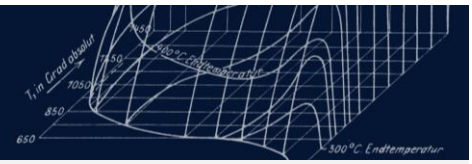


ECONOMIC PROJECTIONS

DGDA Models show less of a downturn for the Japanese economy, with production and trade growth expanding in Q1 2021. Consumption will be less affected by the recent recession as personal income rises, and investment will decline less rapidly as housing growth and expanding industrial output and exports provide support. Japanese inflation measures will show positive consumer price and goods inflation rates, while the stronger Yen will keep producer prices subdued.



MARKET VALUATIONS



Japan



Equities



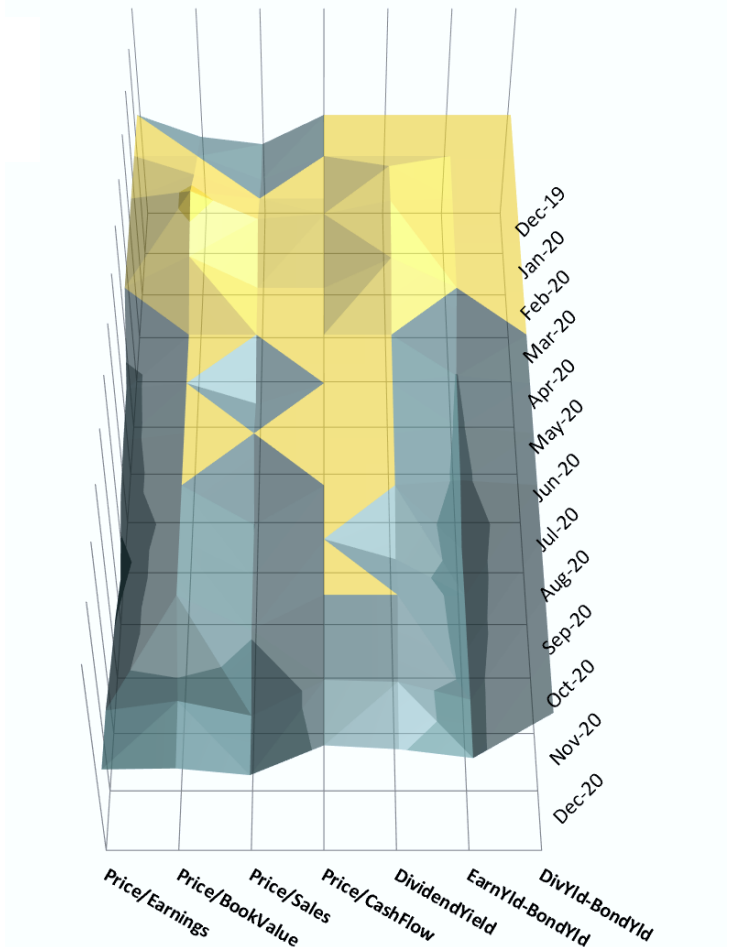
Three Month Bills



MARKET VALUATIONS

Japanese shares, as those for nearly all major markets, are overvalued compared with their historical averages on measures comparing equity earnings and dividend yields to long bond yields. The Yen looks to be very attractively valued.

Japan Equity Valuation Surface Dec 2019 to Dec 2020



Higher

Lower

DGDA Models show that Japanese equities are very overvalued on standard historical metrics

MONETARY POLICY AND TRANSMISSION

Japan



JPY

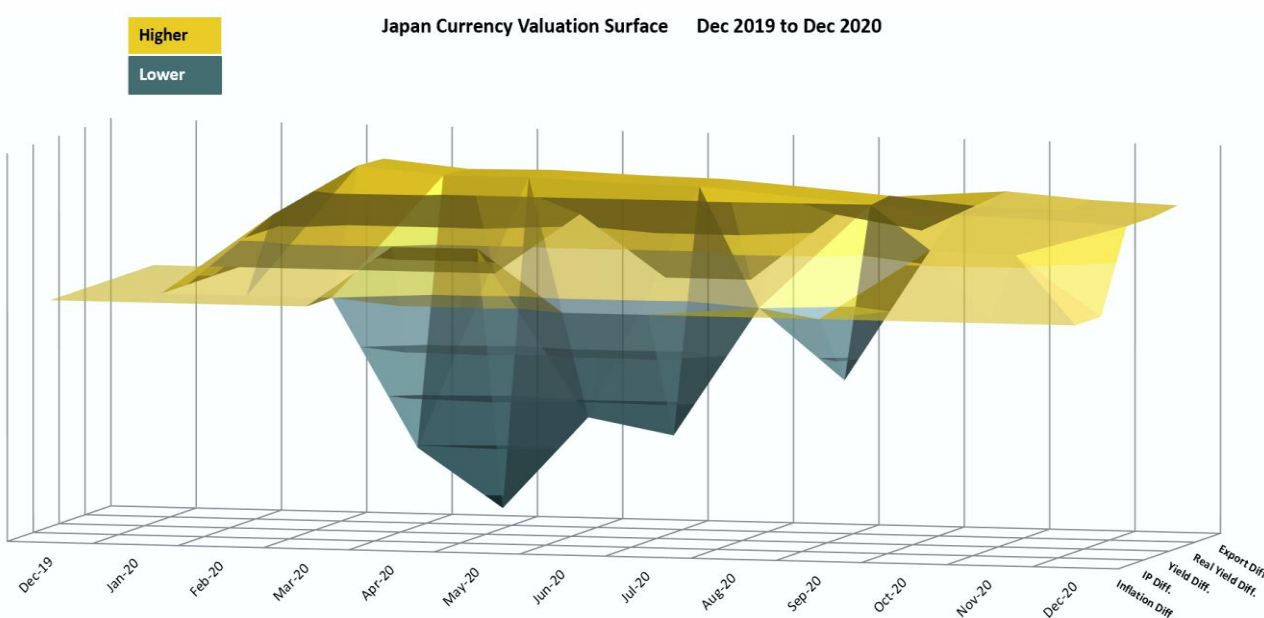


Ten Year Bonds



MONETARY POLICY AND TRANSMISSION

DGDA Models indicate that Japanese monetary policy has continued to be very supportive of prices and real economy growth, in line with policies of the US Federal Reserve and the PBoC. The BOJ also has countered to some extent the implicit deflationary pressures of a stronger Yen.



DGDA Models show the JPY to be attractive on international fundamentals

Eurozone Regional Investment Conclusions Q1 2021:

DGDA Economic Projection Surfaces

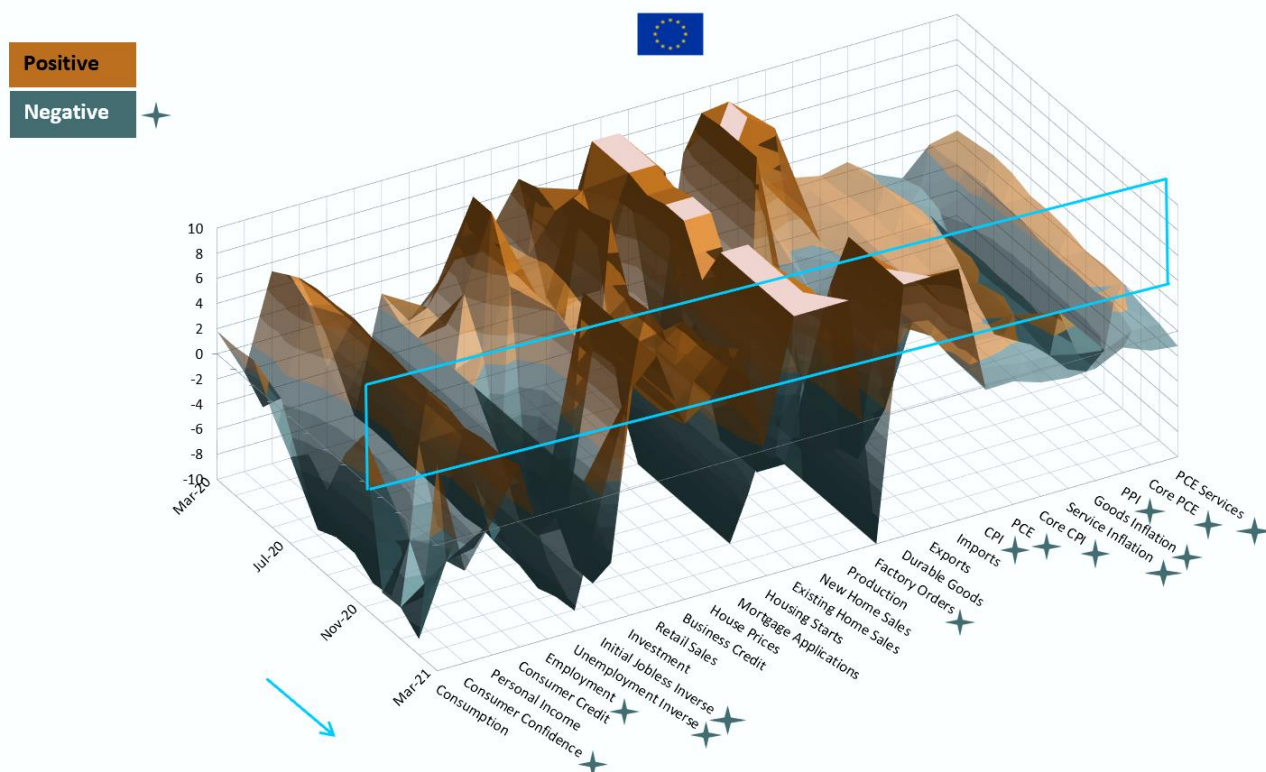


ECONOMIC PROJECTIONS

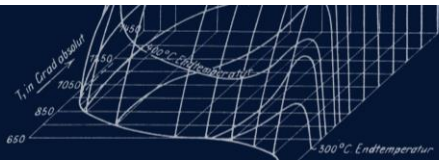
DGDA Models show that economic growth in the Eurozone will return to expansion during Q1 2021, with higher consumption and personal income growth extending to recoveries in retail sales and housing.

After a year of severe weakness in production, factory orders, and durable goods, industrial activity and trade will begin to normalise, moving toward their historical positive contributions to overall output growth, aided by a clearer picture of future relations with the UK. EMU inflation over the coming quarter will remain very weak, with negative pressures still weighing on consumer prices, and with producer prices contracting.


Eurozone Economy Surface Projections Dec-20 to Mar-21




MARKET VALUATIONS




Eurozone



Equities



Three Month Bills



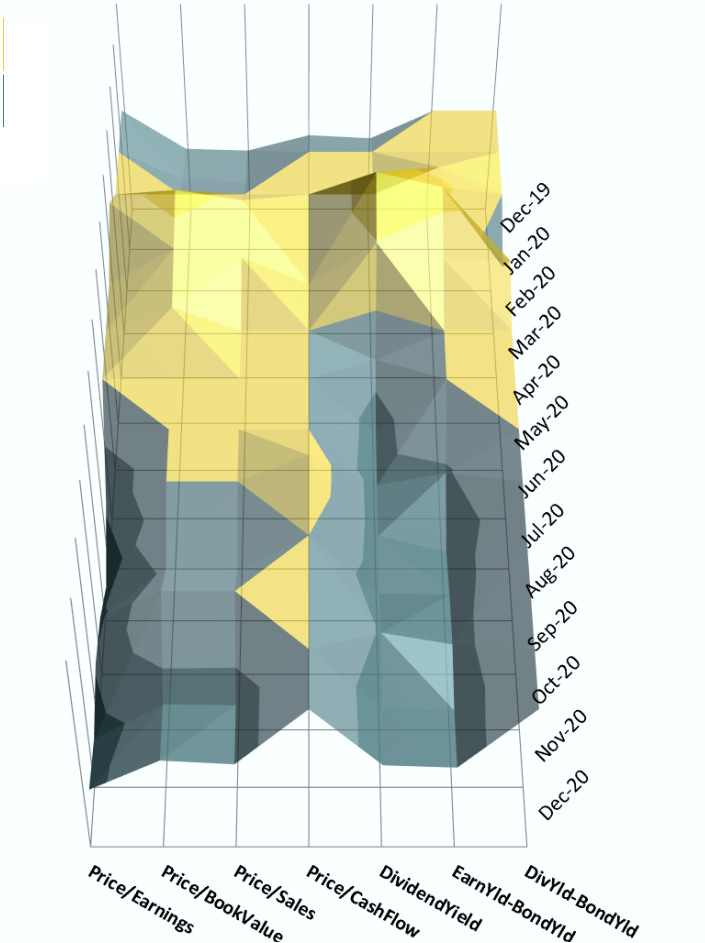
MARKET VALUATIONS

Eurozone equity valuations are unattractive on several measures compared to their long-term averages, and are significantly more so than US shares. This is because European corporate trailing earnings and cash flows compare poorly to their international peers. Bonds look to be fairly valued at present given the Eurozone’s low inflation and output growth, while the Euro is attractive.

Higher

Lower

EMU Equity Valuation Surface Dec 2019 to Dec 2020



DGDA Models show EMU equities to have unattractive price earnings and dividend yield comparisons

MONETARY POLICY AND TRANSMISSION

Eurozone



JPY

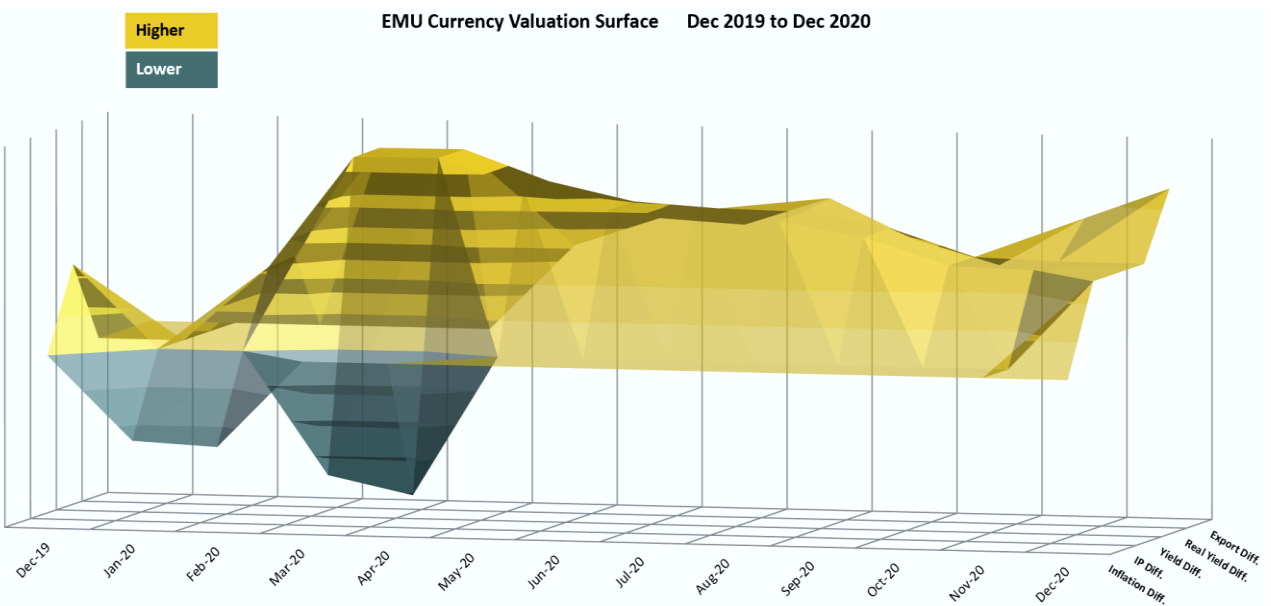


Ten Year Bonds



MONETARY POLICY AND TRANSMISSION

The ECB engaged with significant policy loosening in support of the Eurozone's financial system and output, intervening as did the Federal Reserve for the USA, but at present is showing signs of hesitation as to how much further monetary stimulus is required. The ECB president's calls for additional fiscal measures in the major Eurozone economies have met with a positive response, and Europe's monetary authorities look to continue to implement quantitative easing.



DGDA Models show that the Euro looks to be attractively valued on historical comparisons

UK Regional Investment Conclusions Q1 2021:

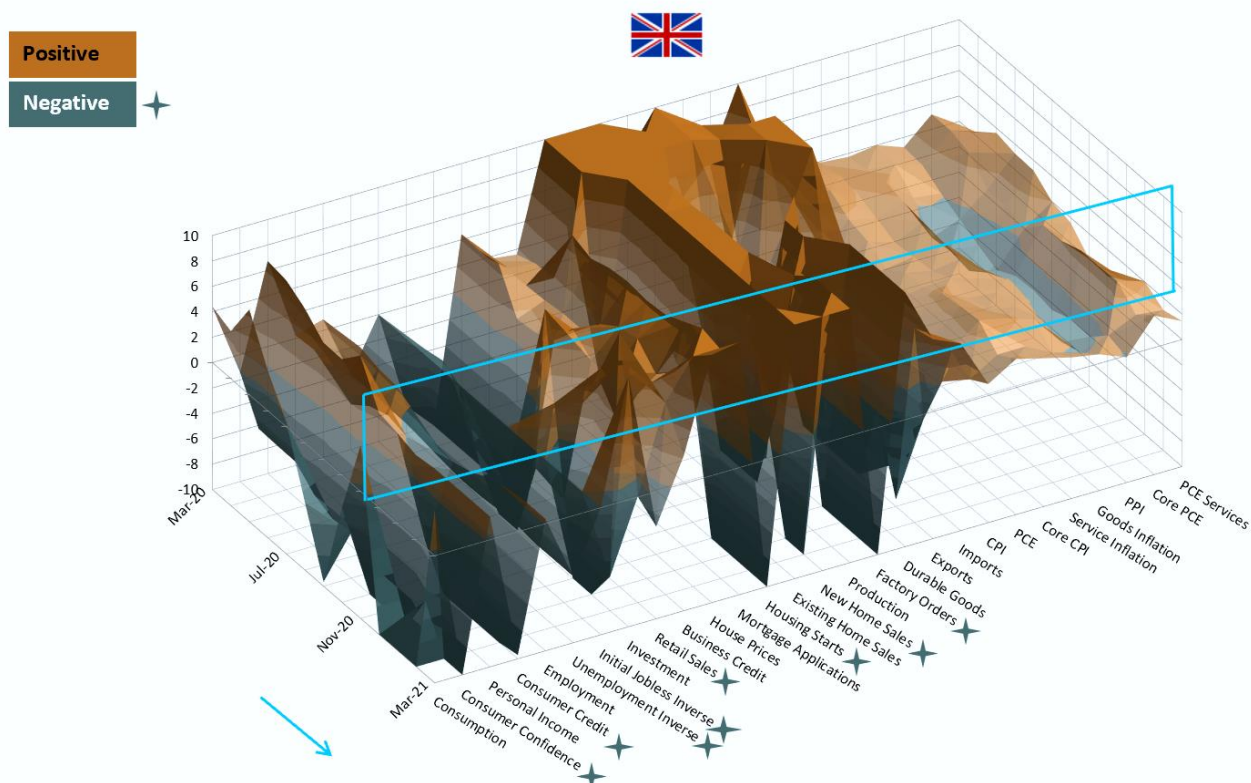
DGDA Economic Projection Surfaces



ECONOMIC PROJECTIONS

DGDA Models still show economic output falling for Britain during Q1 2021, with consumption constrained by weak consumer confidence, and with next quarter's trade impeded by the absence of a resolution to EU trade issues until the last day of 2020. Construction and housing look to expand, with some prospect for growth in production, while the overall outlook for UK investment looks set to improve. UK inflation will remain positive, with consumption, goods, and producer price inflation all moving up during the quarter.

UK Economy Surface Projections Dec-20 to Mar-21



MARKET VALUATIONS



UK



Equities



Three Month Bills

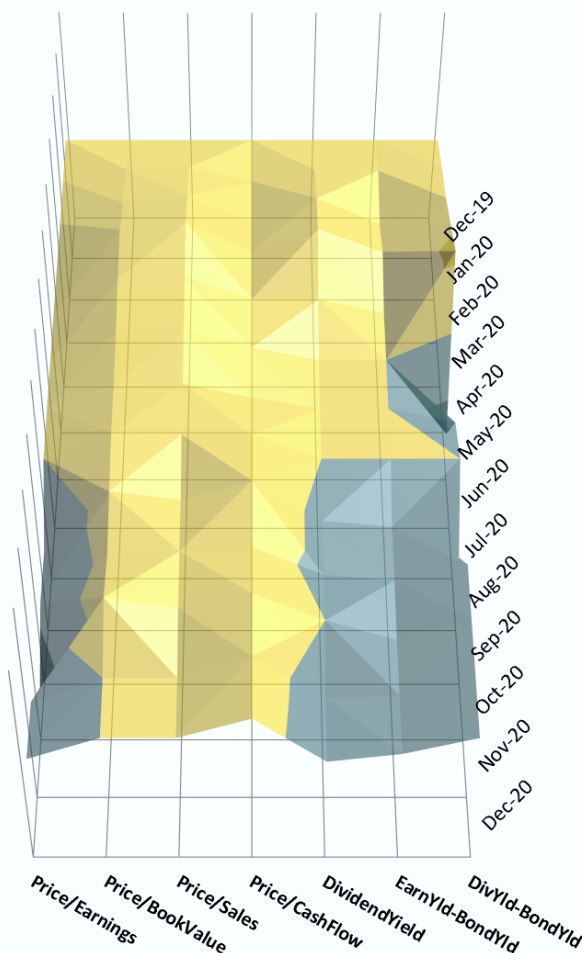


MARKET VALUATIONS

UK shares have fair valuation characteristics, better than those for most major equity markets. The violent contractions in UK GBP, combined with FTSE 100 companies often having global commodity related earnings, has made UK shares reasonably valued across several metrics.

The Pound probably will remain weak, unlikely to recover previous highs regardless of what form the UK's further trade agreements will take, while UK bonds look to have expensive valuations given their low yields in both nominal and real terms.

UK Equity Valuation Surface Dec 2019 to Dec 2020



Higher

Lower

DGDA Models show UK equities to be fairly valued on several measures including price to cash flow and dividend yield comparisons

MONETARY POLICY AND TRANSMISSION

UK



GBP

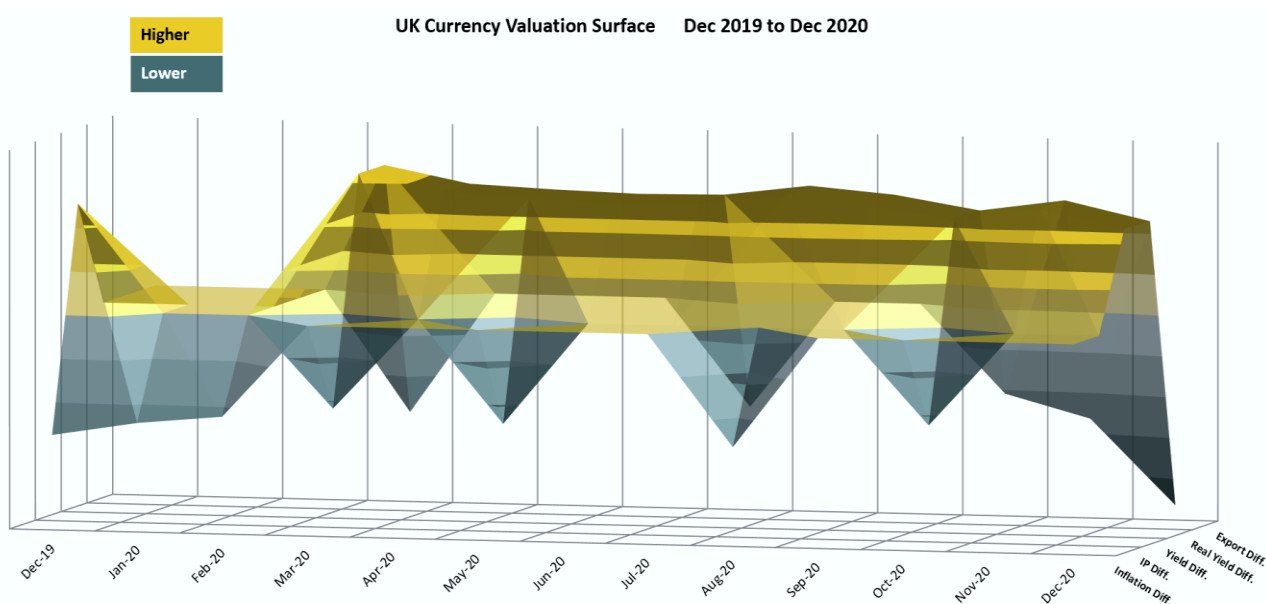


Ten Year Bonds



MONETARY POLICY AND TRANSMISSION

The BOE joined the rest of the world's major central banks in supporting output and prices when the coronavirus recession sent commodity prices into a fall, and global aggregate demand growth into contraction. Sound prospects for domestic political stability and less uncertainty as to the UK's trade relationships with the European Union will allow the UK authorities to set monetary policies adapted to the UK's needs. Further policy loosening may become more problematic as UK consumer and producer price inflation begin to accelerate during Q1 2021.



DGDA Models show the Pound to be somewhat overvalued on international comparisons

Emerging, Far East ex Japan, and Commodity Markets Regional Investment Conclusions Q1 2021



Emerging Equities



Far East Equities



Commodities



ECONOMIC PROJECTIONS

The upswing in global demand will continue to be beneficial for developing market economies that rely upon commodity exports to generate international reserves. Strong, recent, valuation support as world output has rebounded has meant that Brazilian, Mexican, and other developing equity markets, which a few months ago were trading at severe discounts to historical valuations, no longer have a relative valuation advantage compared to major markets. World output and prices will continue to rise, relieving pressure on their external accounts, and lifting their equity valuations in line with the cycle. Economies such as those of Taiwan or South Korea in the Far East region have been among the first to have returned nearly to normal work patterns, and to have maintained their industrial expansions. That will continue to be an advantage in the first part of Q1 2021 while the USA and China continue their economic expansions, and Europe looks to start catching up to the other developed economies.

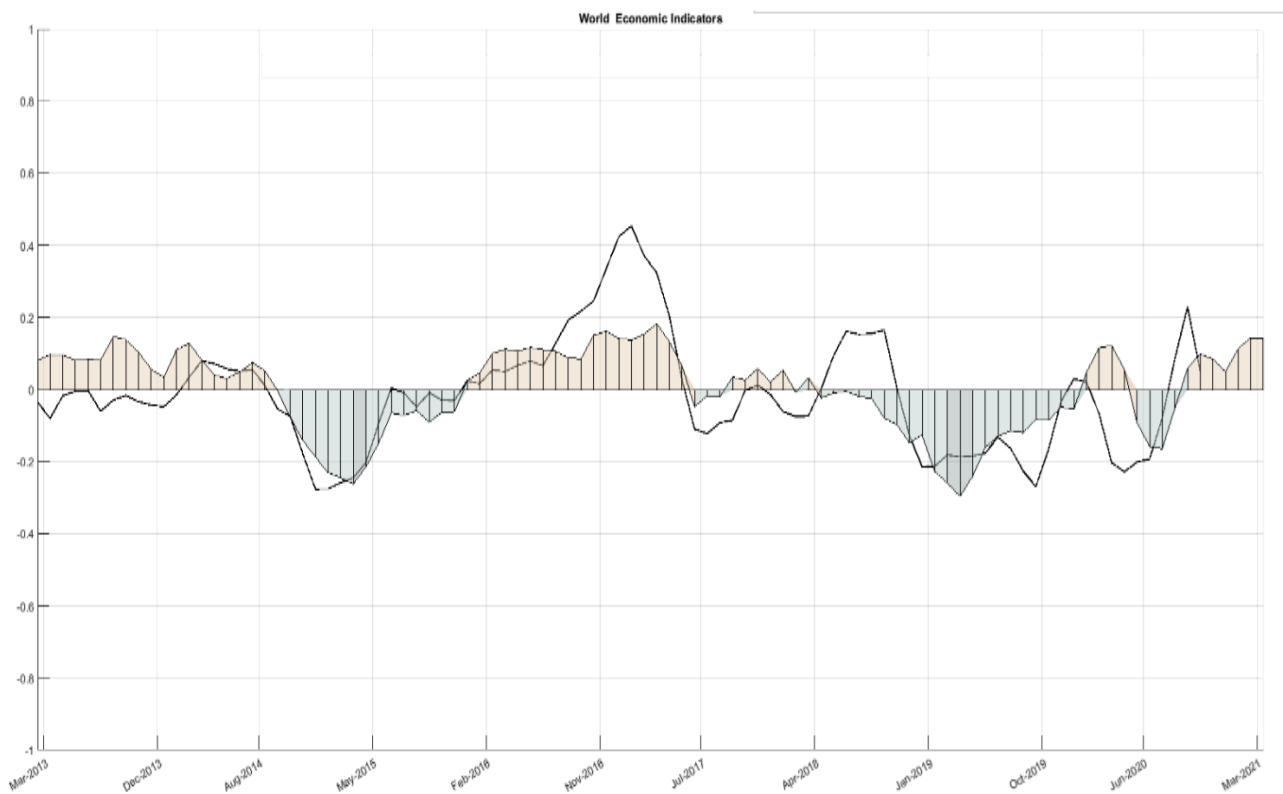
MONETARY POLICY AND TRANSMISSION

Central Banks around the world have aligned their monetary policies to unprecedented loosening, with the Federal Reserve having implemented rapid rate cuts and expanded its balance sheet, the ECB having extended its quantitative easing, and the PBC continuing to provide significant domestic monetary support. More than 50 other central banks, including those for Far East ex Japan countries as well as those for Brazil and Mexico, have joined the global trend to lower interest rates.

MARKET VALUATION AND SENTIMENT

Shares for Far East ex Japan countries such as South Korea and Taiwan are very expensive compared to historical measures, while those of developing markets such as Mexico and Brazil now are showing as moderately expensive as well.

DGDA models show world producer price inflation beginning to reaccelerate late in 2020



World PPI Acceleration (plain line) & DGDA projections (bars) 6 months ahead

Negative Positive



John Ricciardi

Lead Fund Manager and Head of Global Asset Allocation

John is the GDA Lead Fund Manager and Head of Global Asset Allocation for Deuterium. John joined Merian Global Investors as head of global asset allocation in December 2019. John co-founded Kestrel Investment Partners LLP, whose global asset allocation business was acquired by MGI. Prior to Kestrel, John served as the head of asset allocation at Iveagh, where he launched the Iveagh Wealth Fund.

John also founded Bullrun Financial, a pioneer of quantitative portfolio strategies for institutions and advisers and as well as co-founded Cursitor Management, one of the first firms to offer top-down, global asset allocation solutions for institutions. On selling Cursitor to Alliance Capital in 1996, John became head of global asset allocation for AllianceBernstein, with US\$450 billion under management worldwide.

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Download fund data and read investment updates from this fund manager at www.deuterium.us

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