



ITI Capital: Investment strategy and ideas for 2021 and 2022

THE YEAR TO REMEMBER AND NEW OPPORTUNITIES AHEAD

- The 2020 “bullish” trend was driven by strong growth in IT-stocks due to the pandemic and hyped-up stocks such as Tesla (+690% YTD).
- The US and Chinese IT sectors have advanced 41% (driven primarily by FAANG which are up 50% on average) and over 65% year-to-date respectively, while the Dow Jones industrial sector (which includes the remaining 495 companies) is up just 5% partly due to exclusion of underperforming Exxon and inclusion of new IT and e-commerce companies.
- Over the next two years, IT sector-driven growth will give way to consistent organic growth driven by cyclicals that benefit from the recovery of service economy and resumption of free travel.
- The 2020 will be marked by two factors: 1) IT-sector has seen the strongest growth since the dot-com boom in 1999, combined market of FAANG exceeds Japan's GDP due to a whopping 70% ytd performance in the absence of clear technological progress and 2) V-shaped recovery after the deepest decline in the industrial, commercial and service sectors since WW2.
- The share of the IT and telecom sector in the US market has risen to a record 40% from 29% in 2019. Majors, including Exxon, which dominated global benchmarks five years ago, account now for 2-3% of the market.
- Active phase of recovery in cyclical stocks to start from Q2 21 and will reach its peak by 2H of 2022. The first real rotation attempt was very short and was made from beginning of November till mid-December.
- We assume that equity benchmarks, including the S&P 500, Eurostoxx 600 and RTS, will grow at a 15% annual rate in 2021 and 2022 on average, driven primarily by the most undervalued sectors, such as global oil and gas, global aviation, aerospace and military, entertainment and banking. Financial sector due to outperformance of Goldman Sachs, JPMorgan, BNP Paribas, Credit Agricole, etc are the top-gainers among cyclical sectors, which is now 8% below the pre-pandemic level.
- On average, cyclical sectors have dropped 30% year-to-date, indicating significant opportunities for the next couple of years.

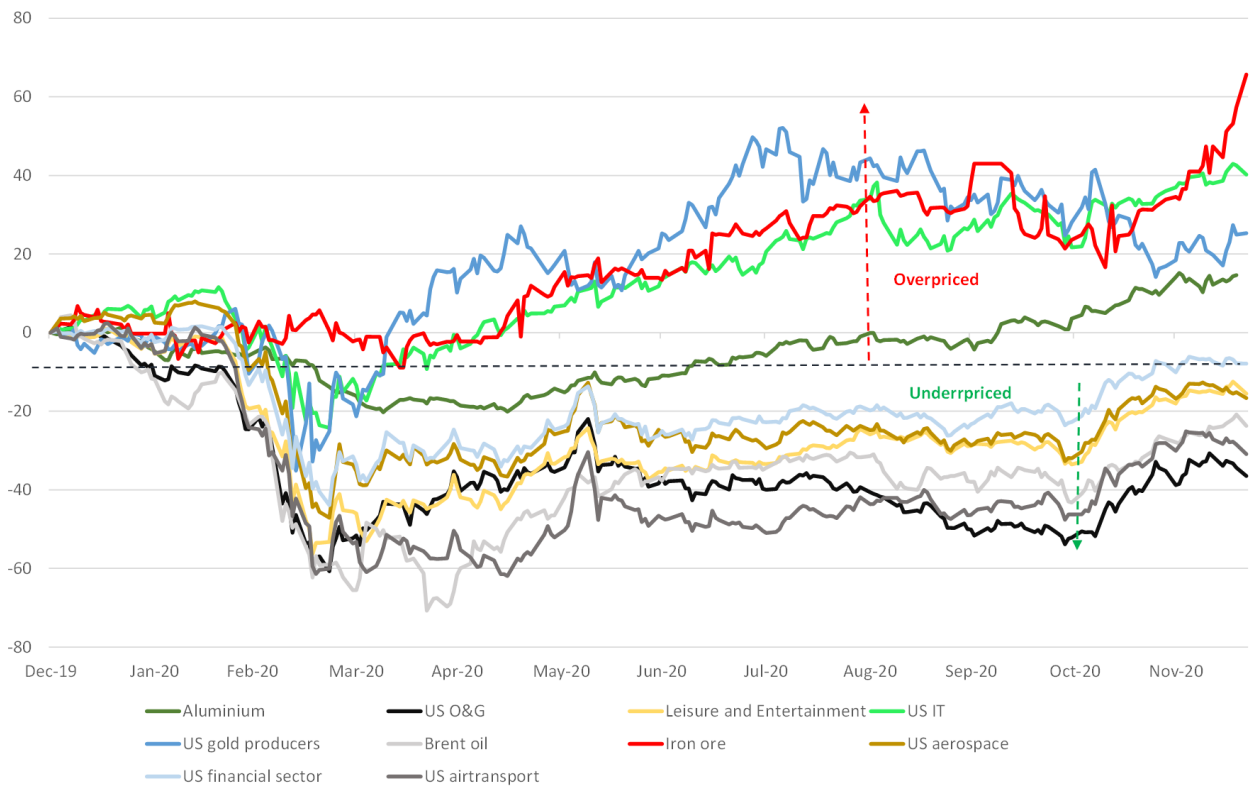
GLOBAL ASSETS FORECAST*

Equity	*Last price	YTD, %	2019	2020	2021
S&P 500	3 700	14	3 221	3 700	4 250
RTSI\$ index	1 378	-11	1 549	1 378	1 500
MOEX index	3 237	6	3 046	3 237	3 700
MSCI EM	1 258	13	1 118	1 258	1 450
MSCI Europe	131	-6	140	131	145
HangSeng	23 794	-16	28 319	23 794	29 000
Commodities		%			
Brent, \$/bbl	50.9	-23	68.4	51.0	60.0
Gold, \$/oz	1 879	23	1 515	1 879	1 800
FX		%			
EUR/USD	1.22	9	1.12	1.22	1.28
USD/RUB	74	20	62.0	73.5	70.0
EUR/RUB	90	30	69.5	89.7	89.6
USD/JPY	104	-5	108.9	104.0	102.0
GBP/USD	1.35	2.1	1.31	1.35	1.45
Key rate		bps			
USA	0.25	-150	1.75	0.25	0.25
Europe	-0.5	0	-0.50	-0.40	-0.40
Russia	4.25	-200.00	6.25	4.25	3.75
Global bonds		bps			
UST 2	0.2	-120	2.1	0.2	0.4
UST 10	0.7	-130	2.7	0.7	1.5
UST spread	52.0	10	64.6	52.0	115.0
Bunds 2	-0.7	-18	-0.6	-0.7	-0.2
Bunds 10	-0.5	-34	-0.2	-0.5	-0.3

Source: ITI Capital, Bloomberg

*as of Friday 25 December close

THE CHEAPEST AND MOST EXPENSIVE ASSETS YEAR-TO-DATE, %



Source: ITI Capital, Bloomberg

OIL & GAS AND AIRLINE STOCKS TO EMERGE FROM MAJOR UNDERPERFORMER TO OUTPERFORMER FROM MID-2021 AND TILL END OF 2022

- Most economists remain optimistic about global growth prospects, pointing to a continued recovery in manufacturing and global trade. Global economic climate should improve materially in 2021. Global GDP is set to grow by 5.2% compared to a 4.4% decline in 2020, the IMF forecasts. The GDP of many developed countries, in particular the US, has recovered 75% of its losses for the first half of 2020 in the third quarter.
- The great rotation, the movement from IT-equities into cyclicals, which began as recently as beginning of November is expected to be in full swing in the second half of 2021, as soon as vaccination covers at least 1+ bln people approximately by the second half of 2021.
- Global oil and gas stocks and air transport (which has fallen by 36 and 31% respectively ytd) is set to become the top-gainers. Hence in commodity market oil will be among the best performers as iron ore (42%), copper (+28%) and aluminium (12%) and other base metals this year on the back of supply constraints, demand for construction and strong overall demand from China.

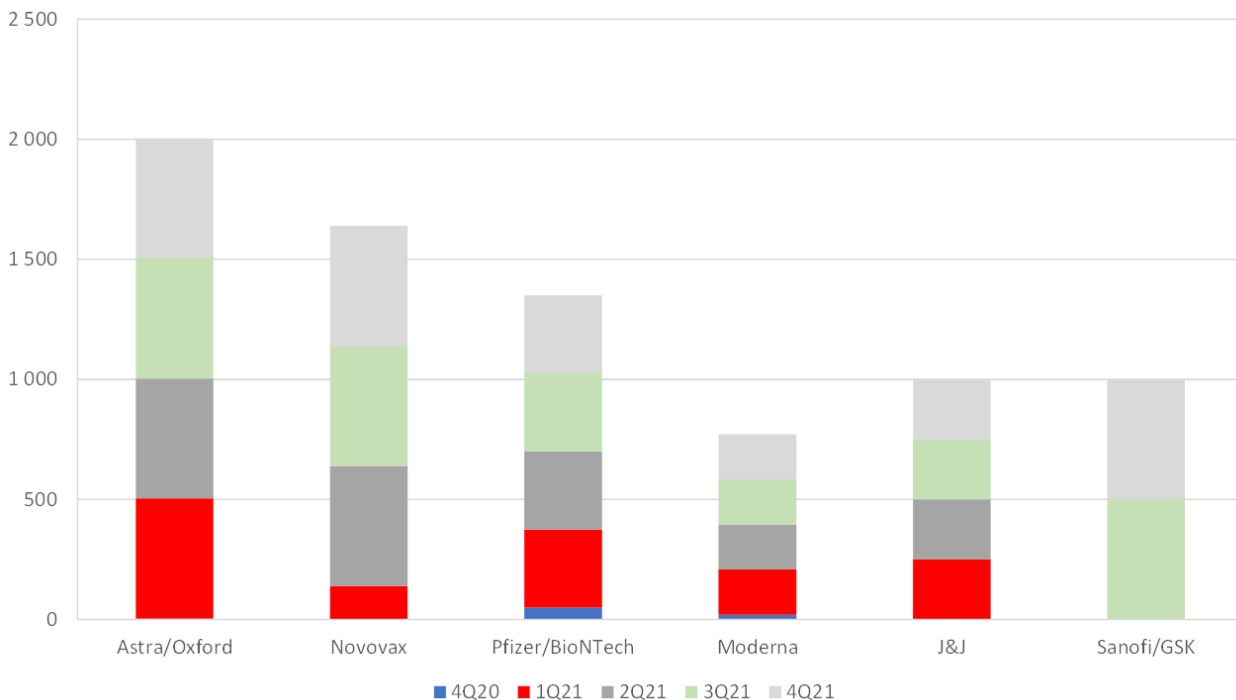
BRENT OIL PRICE FORECAST

Investment banks and agencies	Spot, \$/bbl	Q1	Q2	Q3	Q4	2021	mid-2022	2022
US Energy Department	51.4	47	50.5	51.5	50	49.5		
Goldman Sachs	51.4	47	51	59	60.5	55-63		
JPMorgan	51.4	45	49	51	56	50	67	62
Bank of America	51.4	49	60			50	60	63
Capital Economics	51.4	46	48.5	51.5	54	50	55	
ITI Capital	51.4	47	58	65	61	57.75	65	62

Source: US Department of Energy, Goldman Sachs, JPMorgan, Bank of America, ITI Capital, Bloomberg

- According to the most optimistic forecast by JPM, vaccination is expected to cover 14% of the world's population, or more than 1 billion people, by mid-2021, which is enough to bring mobility to pre-covid levels. However, vaccination should cover at least 60% of the population for things to go back to normal, which will be possible by late 2022 at best.
- Under the best-case scenario, six development teams (Pfizer/BioNTech, Moderna, Astra/Oxford, Novovax, J&J and Sanofi/GSK) will produce around 7-8 bln vaccines by the end of 2021, JPMorgan projects. On average, 75% of those surveyed in developing countries are willing to get vaccinated, compared to 60-64% in developed countries.

ESTIMATED PRODUCTION OF VACCINE AGAINST COVID-19 IN MLN DOZES



Source: Various news reports, JPMorgan, ITI Capital, Bloomberg

DRIVERS OF GREAT ROTATION

- A \$5 trln spending plan proposed by Joe Biden's exceeds \$3 trln from tax hikes by \$2 trln over the next 10 years. Against this backdrop, infrastructure projects are expected to be in great demand.
- The key drivers for the shift to cyclical stocks are the break down of IT monopoly, higher fiscal spending, new tax hikes, ease in global trade tensions.
- US fiscal policy easing, lower risks of trade conflicts escalation and improved global growth prospects.
- Biden's proposal to raise taxes on US companies' foreign earnings is expected to hit IT stocks particularly hard. The US market accounts only for 43.5% of IT companies revenues, compared to 60.3% of all S&P 500 companies, according to FactSet estimates.

WHAT TO BUY?

GLOBAL CYCLICAL STOCKS, EM FX, BONDS AND EQUITIES

- Strong upside and value remain in Brazil and Russian equity markets as they lag behind other export-oriented countries, overall investors shift to cyclicals.
- Mexico is trading just 10% below the pre-covid levels, while Brazil and Russia just under 20%. China is trading 25% above its pre-covid levels due to second largest exposure to IT after the US and is likely to remain in the backward trend due to rotation and as recovery continues in oversold Latin America, Russia, Ukraine, and Kazakhstan. Some troubled regions like Turkey and South Africa are trading near pre-covid levels due to high macroeconomic risks. Turkey is up by 2% year-to-date due to aggressive rate hikes.
- Besides equities, EM FX offers strong upside, especially the Russian rouble which still offers 10% upside till the end of Q121.
- The upside in global O&G particularly in BP, Exxon, Schlumberger, Lukoil, TechnipFMC, ENI, Occidental Petroleum, Gazprom, and others remains high.
- The upside in air transport stocks such as Boeing, American Airlines, Lufthansa, Air France-KLM, AirCanada, Singapore airlines and etc.
- Oil production and service companies are most undervalued currently trading at price levels when Brent oil was \$40/bbl and WTI at \$35/bbl, which implies at least a 20% upside. WTI is a good indicator for US O&G ETF, XLE which is trading as if Brent oil price is \$40/bbl.
- The next in line of biggest upside are consumer stocks such as Coty, Danone, Ralph Lauren. Then there is the entertainment industry, like Carnival, a leading cruise operator, Imaxcorp, Fox corp and etc.
- Financial sector is the most priced segment in cyclicals.
- The current spread between cyclicals and growth stocks has narrowed by 20 pt over the month and now stands below 50%. We expect the spread to narrow by twice by the end of 1H21. Now, despite great rotation, equities continue to extend gains, so spread tightening is limited due to rise in global covid incidence rate, mostly in the US.

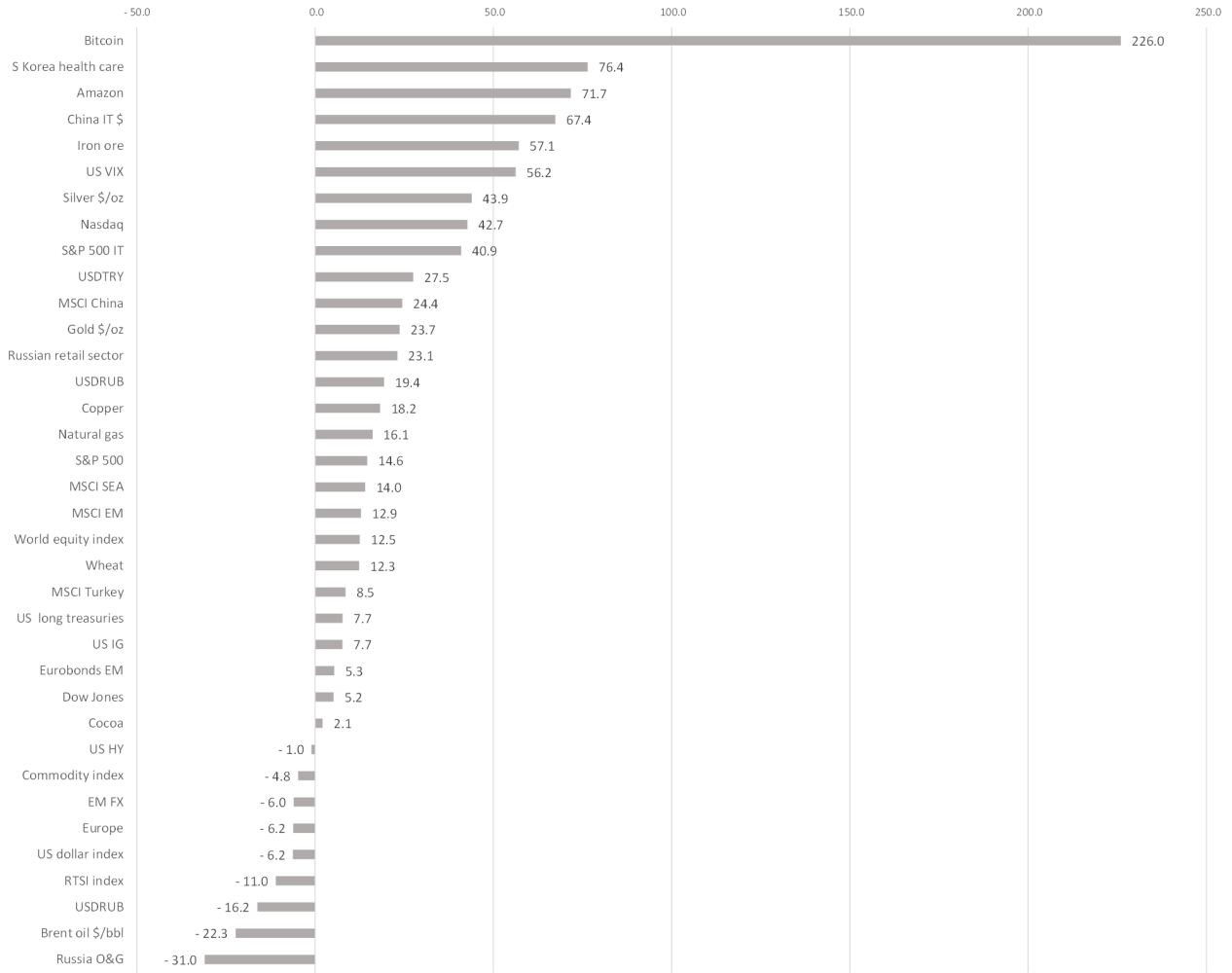
WHAT TO BUY IN DM EQUITY SPACE?

- The UK is the most oversold market in DM space, trading 15% below its pre-covid levels after gaining 18% since the beginning of November, when the great rotation began. The UK was the best performing equity market in DM space over the week (+3%) and over the month.
- The UK remains the key hot spot of Covid-19 in Europe, the country has reached a landmark deal on Brexit with the EU.

OTHER TRADE IDEAS

- In the commodities markets, we generally recommend opening long positions in base metals, palladium, and in oil and gas. Therefore we recommend buying copper, steel, aluminium, oil and natural gas.
- Currency - buy: the rouble, Mexican peso, euro, Brazilian real and South African rand. Opening longs on the pound against the dollar.
- Equities - buy: oil and gas, transport companies, airlines, consumer goods manufacturers, industrial companies and banks.
- Country-wise: EU (Germany, France and Spain), UK, Russia, Brazil, Kazakhstan, India, Japan, Mexico and US.
- Fixed-income instruments with longer duration, high-yield dollar-denominated EM bonds (Latin America, Ukraine, Europe and the US).
- Amongst our favorite list are CreditReal26EUR, Unifin23, JaguarLandRover 26Eur, OmanTelecom28, Sisecam 26, Murphyoil and Pemex29.
- Developed country bonds, spread: Buy: Spain (10Y), Italy (7Y) vs Germany; Sell: Ireland (10Y) vs France.

GLOBAL ASSETS PERFORMANCE, YTD, %



Source: ITI Capital, Bloomberg

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