

## Research and Insights

### Q&A: Paul Xiradis, Ausbil on the Equity Market Outlook for 2021

30 November 2020

**Ausbil continues to forecast a 'u-shaped' recovery profile for the global and Australian economies, further supported by recent developments on the path towards a vaccine for COVID-19. Paul Xiradis, Executive Chairman, Chief Investment Officer and Head of Equities at Ausbil, answers some key questions on the economic recovery, and the outlook for equity markets in 2021.**

#### Q: Can you describe your outlook for the economic recovery?

**PX:** Since the outset of COVID-19, when we seriously analysed what was happening in early 2020, the nature of pandemics, and where the world economy was when the pandemic struck, we have remained of the view that the subsequent economic recovery would be u-shaped, starting in 2020 and extending into 2021. So far, this scenario has played out across the year, and we see an acceleration in the recovery across 2021, and flowing into 2022 and 2023.

There are now four major collaboration groups working on a vaccine. Pfizer/BioNTech, Moderna and AstraZeneca/Oxford University recently announced exceptional trial efficacy rates in the ninetieth percentile, and are on a path towards US Food and Drug Administration approval for emergency use authorisation. These vaccines, and maybe others, could be available in months, initially for front-line health workers and the vulnerable, and then progressively to the general population from early-2021 and onwards.

Developments around a potential vaccine represent a point of inflection on the road to recovery. Ausbil is expecting sustained, multi-year global GDP growth across developed and emerging economies. We have been positioning ahead of this recovery, with a clear focus on the thematics driving growth, while maintaining a steady hand in capturing this recovery with prudent portfolio positioning.

We maintain our outlook for a 'u-shaped' recovery profile for the global and Australian economies, further supported by recent developments on the path towards a vaccine for COVID-19. Of course, this assumes there is no material reversal in the containment of COVID-19, which would slow the recovery. Growth in developed economies is expected to run at an average pace well above their long-term potential estimates as the world pulls out of the pandemic. This pace of growth is expected to drive down currently excessive levels of unemployment, and increase resource and capacity utilisation rates across the economy.

#### Q: What types of businesses are expected to benefit with recovery?

**PX:** We believe the unfolding economic recovery will benefit both growth and cyclical businesses, supported by ongoing accommodative monetary and fiscal policies. We are also seeing the potential for both 'rebound' and 'organic' growth to drive a return to full earnings capacity across industries as they emerge from lockdowns, as the consumer returns to a more balanced pattern of spending, and as the world trends towards a more normalised global trade environment.

The economic recovery outlook is expected to benefit companies across the size spectrum. The vaccine trade, and the broader economic recovery is likely to see all 'boats rise with the tide', no matter how large or small. We expect this year will see companies across the market-cap spectrum return to more normalised earnings profiles for their stages of development.

#### About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and Global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 31 October 2020, Ausbil manage over \$12.1 billion in funds under management.



**Paul Xiradis**  
Executive Chairman,  
Chief Investment Officer,  
Head of Equities

Paul co-founded Ausbil in 1997 as an Australian equities house, building Ausbil into one of Australia's leading investment managers offering Australian and global equity funds. Paul holds the position of Executive Chairman of Ausbil, Chief Investment Officer and Head of Equities. He is responsible for portfolio construction and strategy, and management of the Equities team. Paul has been instrumental in building Ausbil into a multi-billion dollar investment manager. Paul's role includes investment strategy, portfolio construction and input into the investment management of Ausbil's funds. Paul is a member and Chairman of Ausbil's Portfolio Construction Committee. He has been in investments since 1979, gaining experience with companies such as Westpac Banking Corporation's Investment Management Division, Mercantile & General and Legal & General Asset Management. Paul's career has included senior roles in management, investment and portfolio management in the funds management industry.

Advanced economy central banks have underscored the positive growth outlook with their more accommodative conditions and transparent forward guidance. Ausbil's expectation is that interest rates will remain low for even longer, in Australia and globally, benefitting consumers and businesses alike.

#### **Q: What themes do you see driving markets through 2021?**

**PX:** The pandemic accelerated some modern living themes largely around technology, and highlighted the benefit of end-to-end integrated tech-enabled fulfilment and logistics supply chains. We have seen the best businesses across these supply changes benefit this year, especially in growth businesses like software and services, logistics and warehouse real estate, and web-enabled consumer discretionary and staples leaders, but also in some traditional retailing. We think these higher e-commerce adoption trends will continue, though at a more balanced rate as economic growth returns this coming year, and begins to support the return of strong cyclical businesses.

As the economy builds strength, and companies complete their repositioning for a changed world and earnings growth returns, we believe one of the best risk-adjusted opportunities for leverage to a resurging economy is in the banks. Banks are still trading well below their long-term multiples, have experienced less delinquency and bad debts than first thought, and are all well capitalised. With leniency recently expressed by APRA in terms of dividends, we expect a resurging banking sector to return to paying more normalised dividends on the back of a resurging economy in 2021.

We are also excited about the resurgence in other listed cyclicals as the economy recovers, including quality cyclical industrials and construction materials, diversified financials and insurance companies, leaders in quality consumer discretionary, the transition and renewable energy complex, patronage infrastructure assets like toll roads and airports, and quality travel companies.

#### **Q: What role do natural resources play in the economic recovery?**

**PX:** Of a great advantage to Australia's recovery relative to the rest of the world is the current natural resources super-cycle, linked to demand from China, and the resurgence in global demand that is gaining momentum as the world economy recovers. Resources, particularly iron ore, gold and base metals have been outperformers across 2020, largely on continuing Chinese demand.

China's recent 14th five-year plan for 2021 to 2025 is promising to build the country into a technological powerhouse with a robust domestic market. By 2035, China aims to achieve major breakthroughs in core technologies in key areas, to become a global leader in innovation; raise GDP per capita to that of medium-developed countries; and reduce carbon emission to eventually meet China's target to achieve carbon neutrality by 2060.

Much of the demand from China in fulfilling its coming growth plans will require Australian resources, especially across the bulk materials needed to make steel like iron ore and metallurgical coal, and in base metals like nickel and zinc, and the battery materials that underpin the components used in renewable energy and electric vehicles (EVs), such as copper, rare earths and lithium. A Biden Presidency has already promised trillions in spending and benefits packages that support renewable energy investment in the US, which is expected along with European leadership in renewables to spark similar approaches to renewable energy policy globally.

#### **Q: Do you see sustainable investing becoming more important?**

**PX:** One positive thing that has come out of the pandemic is a sharper focus and demand for ESG and sustainable investment approaches. COVID-19 has accelerated changes in work-from-home, transport, travel, education and shopping behaviours that have significant implications and potential for sustainable approaches to investing, and the integration of ESG, as we do, across all investment strategies.

Sectors and companies with high proprietary ESG ratings based on Ausbil's extensive modelling, and demonstrating strong forward ESG momentum across any thematic, offer returns with a broader consideration of risks, improving overall risk-adjusted returns. This includes sectors such as technology, health care, renewable energy, electric vehicle and battery-linked metals, select leaders in consumer staples and consumer discretionary, high-quality industrials, and transition energy, amongst others.

#### **Q: Can you describe the risks and their mitigation as we move into 2021?**

**PX:** Though we are confident economic recovery will continue, the risks are live and fluid, and the pandemic has not been contained yet, so focus remains intensely on the quality of all balance sheets, access to liquidity and a clear path to earnings growth outperformance. One important macro consideration on which Ausbil maintains an ongoing watching brief is the possibility that global economies recover 'too successfully' prompting authorities to reconsider rates and inflation outlooks, though we do not currently see this as a risk for 2021 and into 2022.

Geopolitics and trade tensions remain one of the key non-pandemic risks to recovery. A lot has been written about trade tensions between the US and China, and Australia in part. With a new presidency, we may see some of this tension subside. In terms of Australia, we expect some softening in tensions, especially given China's multi-decade need to source key bulk commodities and metals from Australia.

Our portfolios have been positioned for a clear path to recovery, but with some volatility and uncertainty along the way. While we see 2021 as promising a good year in equities, this is still a time to invest in only the best quality companies, which exhibit superior underlying earnings growth and strength, in order to achieve longer-term outperformance.

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