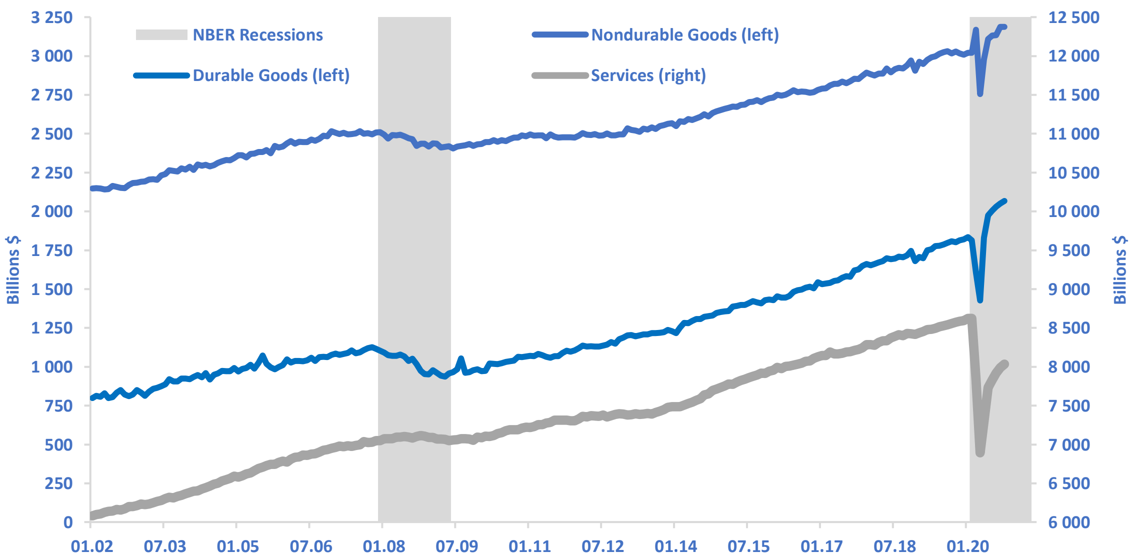
Despite the exceptional global health crisis and its surprising aftermath such as the rapidity to develop vaccine and the stellar performance of risky assets in 2020 against all odds, the year 2021 will start with the legacies of 2020 at least in the beginning. The world economy is heading into a multi-year recovery process aiming at restoring the loss in GDP especially in the service sector (see graph). Central bankers with a *007 no time to die* attitude and politicians enacting large fiscal deficits will set the scene to save the economy and preserve confidence. Above all, structural changes on how we live, work and interact will defy simplistic predictions. The linear set of forecasts that makes the consensus expectations looks like a poor guide to a sound investment policy. It will hardly presume what will happen in 2021 and how we need today to structure portfolios to prove resilient to risks and agile in the recovery. Nevertheless, the state of the consensus is a starting point for the investment policy but is too-average-to-be-true and needs judgement and distance. Most of the market strategists expect:

- **A definite recovery** towards medium term real growth trend (p.a. in parenthesis) lead by China (6%) and its trade neighbours followed by the US (2%) and Europe (1.5%) with little fear of inflation as long as economic slack remains.
- **Central banks will be very careful to withdraw too early** their below or close to 0% official interest rates and their innovative and flexible interventions in financial assets. Bonds experts have in mind a Pavlovian higher forecast (1% + yield) on 10 years US Treasury notes and a stable to negative view on USD.
- **Positive to very positive views on risk assets** (IG, HY and equities), with higher marks on EM and Private equities.

US Real personal Income



Source: Datastream, US Bureau of Economic Analysis, NBER, Billions of 2012 Chained prices in USD. ABN AMRO Investment Solutions.

By and large, these average predictions are dominated by large institutions and have dubious track records for instance in predicting the capital markets trends or the currency markets. As an excuse, it is common acceptance that the environment will remain very uncertain(sic) with large possible deviation to initial forecasts. Despite these honest doubts, the search for yield and growth investment machines will remain strong as we leave the lockdown days behind, also considering that a large sway of investors missed or entered lately in markets over 2020.

At Omega Wealth Management, we believe that there is value in questioning the consensus and preparing with a set of effective diversifiers in the portfolio. As of today, two fundamental macro questions could have consequences yet undefined:

- **The behavioural effects of the stop-and-go** created by the C19 waves and the social measures to stop the virus proliferation before the vaccines are rolled out and/or immunity is reached can be underestimated. It can frustrate the forecasts, maintain a high saving rate, retard the catch-up in consumption and generate volatility in energy prices. Stimulative policy may be partially effective, but **infrastructure spending** can be a solid pilar. In the corporate world, cash flows may be more relevant than CAPEX and investors will continue to bid for growth strategies. The **rotation into value stocks and laggards may be more incidental than essential.** While we may see a high frequency rotation between growth and cyclical stocks, the **demand for growth stocks and safe assets** will likely coexist. The genuine demand for bonds will challenge the dump consensus prediction of rising 10 UST yield above 1%!
- **The second question relates to the consequences of the trade regionalisation** between Asia (led by China), Europe and the US, the Biden administration will change in terms of style but will remain tough in substance vis-à-vis China, the arch rival in technologies and international trade. Facade multilateralism can coexist with trade tensions with a possible alignment of interest of US and Europe (including the Brexiting UK). This lays the ground for a **new age of diversification** as the rules of competition have shifted and accelerated at the same time with manyfold innovations but with considerable differences between countries, cultures, markets and sectors.

At Omega Wealth Management, in such a complex and high energy environment, we believe that the necessary investment skills in implementing an investment plan should include:

- **Momentum strategies** as long they are delivering earnings and economic sense
- **Preparing for rotation between style, size and factors,** to avoid reacting too late
- **A capacity to manage known risks** derived from as a sudden shift from the consensual scenario
- **Considering tail risk strategies** to mitigate the effect of resurgence of unknown risks.

This is the broad scheme that will support the diversity behind the strategies assembled in our clients' portfolio. Diversification is not a free lunch anymore; it has to be built and secured.

OMEGA
WEALTH MANAGEMENT

Rue du Rhone 42
1204 Geneva, Switzerland

Phone +41 22 884 33 93
E-mail: info@omega-wm.com
Web: www.omega-wm.com