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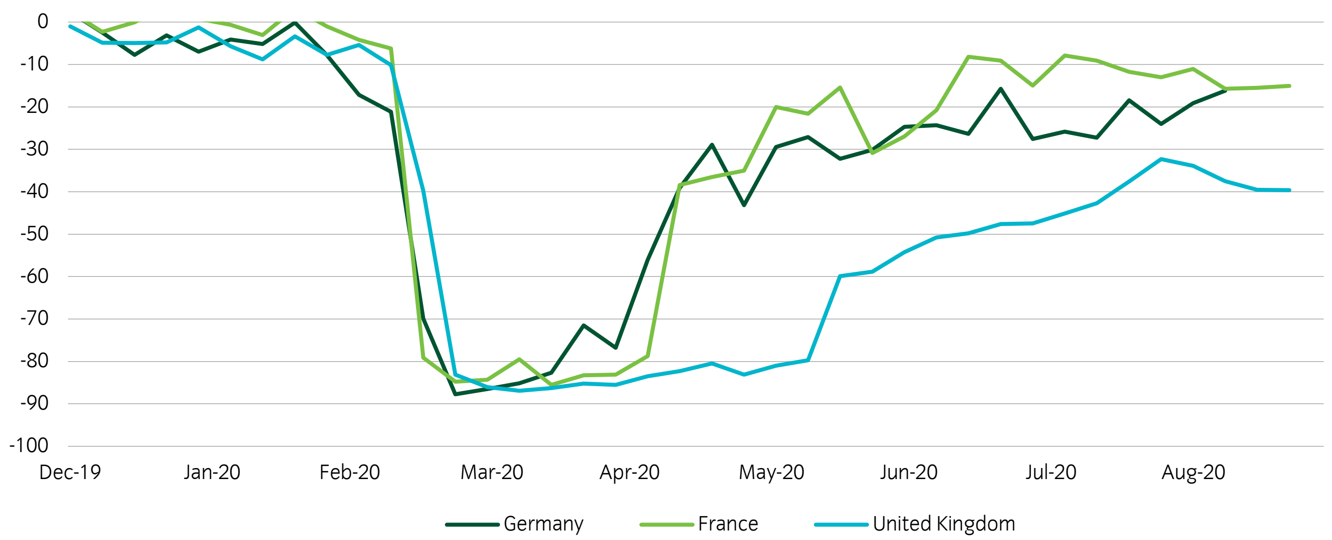
Q3 AND SEPTEMBER 2020

MULTI-ASSET MONTHLY
INSIGHT BROAD OPPORTUNITIES STRATEGY (USD)

SUMMARY

The third quarter of 2020 saw a continued recovery in risk assets although the rate of recovery moderated. Indeed, there were considerable divergences in asset class performance. US equities led returns – driven by technology names. Selected Asian markets also advanced. But elsewhere, risk-asset performances were mixed, with several European equity markets giving up ground over the quarter. Rate markets were quiet while other fixed income returns were also modest. Our strategy positioning was well diversified, and this was reflected in all our high-level groupings contributing to returns over the quarter. Looking forward, we expect the economic recovery to continue, aided by easy monetary policy. But in the next few months, colder Northern hemisphere weather complicates the virus picture and we expect price action to be more two-way than in the early part of the recovery as economic momentum also moderates.

Figure 1: Retail footfall illustrates economic recovery, but uneven and incomplete



Source: Insight and Bloomberg as of September 30, 2020.

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ECONOMIC AND MARKET REVIEW

The third quarter of 2020 saw an economic recovery after global output collapsed in the first half of 2020. The easing of lockdown restrictions unsurprisingly unleashed a wave of pent-up demand, allowing activity to jump from the seizure induced by shutdowns that affected most of the world economy.

Based on OECD estimates, global output in Q2 2020 was over 10% lower than at the end of 2019 while global trade fell by over 15% in the first half of 2020. Declines were much greater in some areas. For example, parts of Europe saw declines in excess of -20%, where lockdowns were more restrictive and where economic disruption was greatest.

The recovery is under way and, in many areas, has been perhaps stronger than the consensus had hoped. But in the words of Christine Lagarde, President of the European Central Bank (ECB), the rebound is uneven and incomplete (see Figure 1).

China has led from the front, with activity returning to pre-pandemic levels going into Q3, boosted by infrastructure spending and a pick-up in manufacturing activity. This has been helpful in stabilizing commodity prices.

Parts of Asia have also held up better than initially feared. Services have been disproportionately affected by COVID-19 and those economies more exposed to the rebound in industrial production and trade have benefited, at least in a relative sense. Countries that are more reliant on consumption and services have had a patchier recovery. The US has enjoyed a solid rebound with manufacturing, again, leading the recovery. Some other areas of the economy are performing particularly strongly, for example housing (new home sales hit a 14-year high in July) and autos. These areas have benefited from a sharp move lower in interest rates and the demographics of demand for these sectors are driven by people who are less directly affected by the COVID-19 crisis. With government emergency support holding up incomes and consumption subsidies, household saving rates jumped in Q2 2020 by as much as 10% to 20% according to the OECD. In the US, some estimates suggest around 75% of those that have lost work were actually better off than they were before, given the additional support they received in addition to unemployment benefits.

This support has boosted household spending post lockdown and has contributed to a meaningful, albeit partial, recovery in other areas of the economy such as unemployment.

US credit card data showed that by mid-September (Figure 4), household spending on services, travel and entertainment remains at painfully low levels but expenditure, at an aggregate level, is close to flat relative to a year ago, with consumers switching their spending power towards home improvement and online technology purchases.

Figure 2: Three-month moves (volatility adjusted)

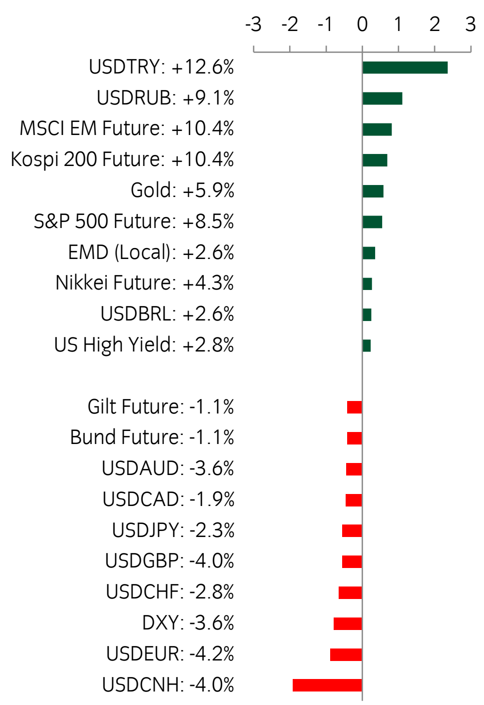
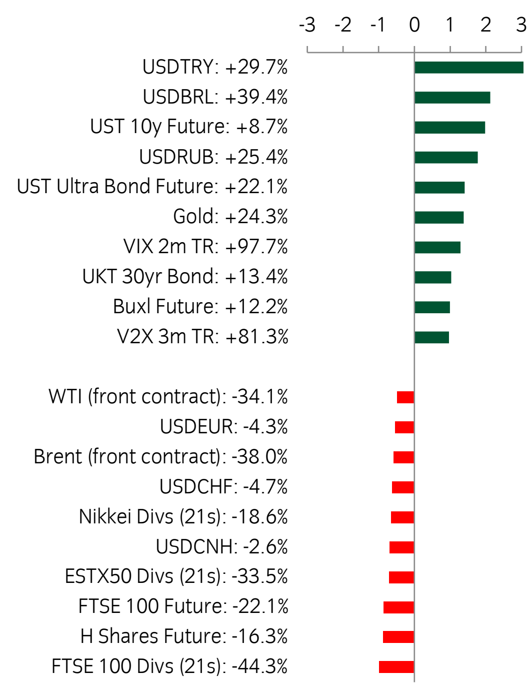
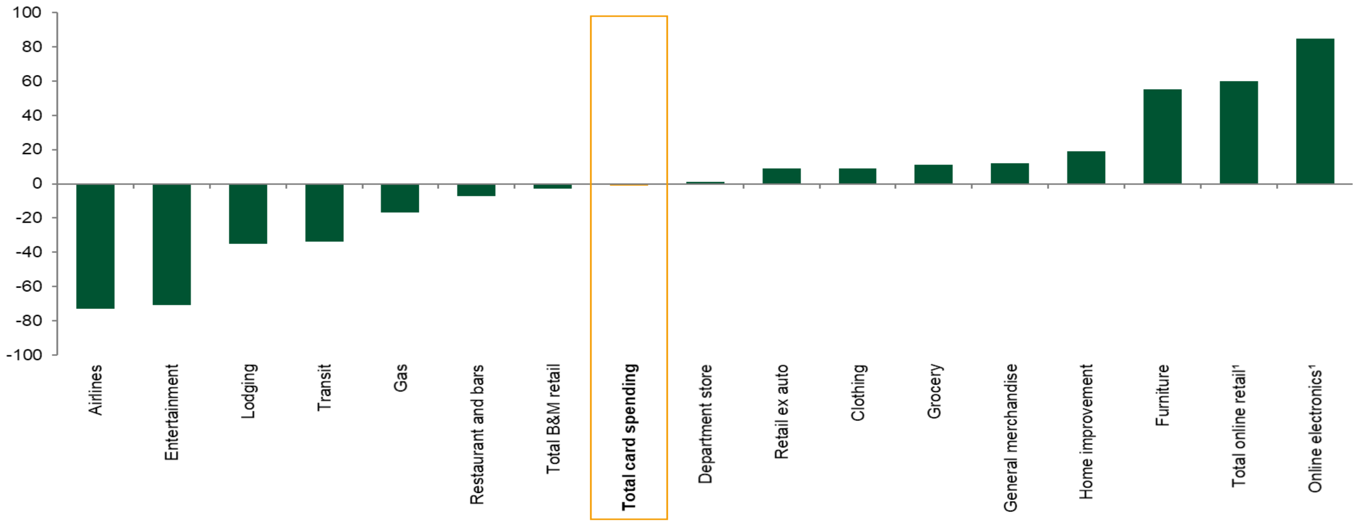


Figure 3: Year-to-date moves (volatility adjusted)



Source: Bloomberg and Insight. Data as of September 30, 2020. The price movement of each asset is shown next to its name. The data used by the bar chart divides the price movement by the annualized historical volatility of each asset.

Figure 4: US consumer activity – year-on-year credit card spending (mid-September 2020)



Source: Insight and Bloomberg as of mid-September 2020.

This switch in spending patterns makes sense. Reduced spending on airlines, entertainment and lodgings reflects changes in consumer behavior resulting from fears of face-to-face interaction and/or ongoing government restrictions. But what we have seen is a powerful substitution effect. Of course, the ability of households to purchase unlimited quantities of household goods, furniture and online electronics questions the sustainability of this trend as does the impasse regarding further fiscal support and it now seems unlikely that we will see progress this side of the presidential election.

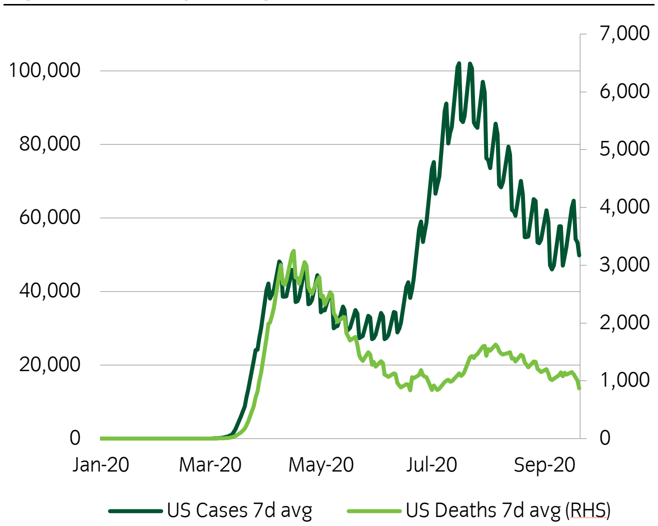
The US data and narrative described above appear to explain much of the story of how the major economies have thus far come through the COVID-19 crisis. Global PMIs back above 50 tells us little about how much lower economic activity is now, relative to pre-crisis. As we noted last month, a PMI path of 50 → 20 → 50 → 50 is representative of a decline in data without a subsequent recovery to where we started.

A PMI path of 50→ 20 → 80 → 50 is representative of decline, then a recovery in the data (but to what extent the PMIs don't quantify explicitly). It is the amount of time that they spend above 50 which determines the recovery shape ('V' or otherwise).

Of the composite (manufacturing and services) PMIs we track, 70% remain above 50 as of the start of October. However, the trajectory of recovery was challenged in September as a second wave in virus cases started to impact economic activity.

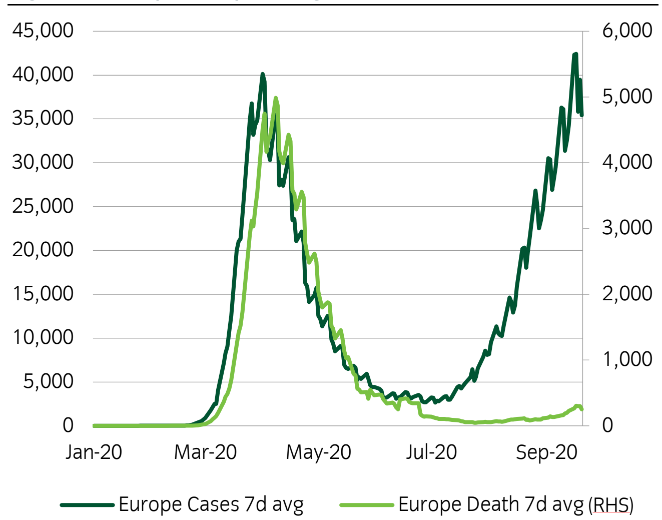
Of course, each country's COVID-19 experience is different. In the US there was a second wave of infections – heavily concentrated in the sunbelt states – in July and August, which has to some degree relented. In Europe, however, having implemented rigorous lockdowns, virus numbers fell very sharply but the subsequent reopenings have seen cases spike upwards to the point where case numbers are close to, or have surpassed, their March/April peaks.

Figure 5: US 7-day average coronavirus cases vs deaths



Source: Insight and Bloomberg as of September 30, 2020.

Figure 6: Europe 7-day average coronavirus cases vs deaths



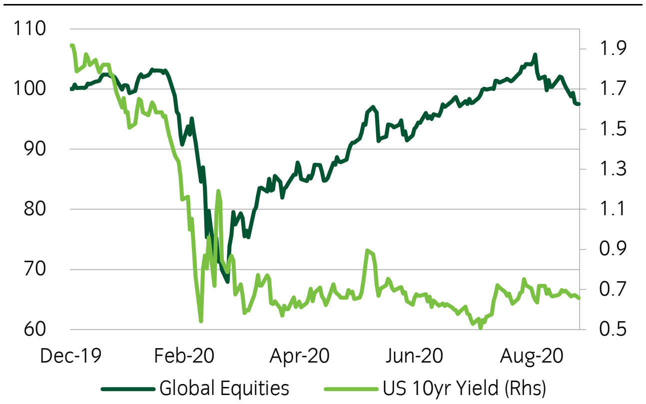
Source: Insight and Bloomberg as of September 30, 2020.

There may be a range of factors contributing to these statistics. First, testing rates are now far higher than earlier in the year. The lack of transmission from case growth to fatalities is notable, and a possible source of hope. Of course, it may simply be that deaths will rise sharply with a lag. But many of the most vulnerable are already deceased, and those who remain vulnerable are probably following safe distancing protocols. Hospital treatments of the virus have no doubt improved considerably, even as we wait for a fully formed vaccine. Finally, we know that many of the new cases are among younger-aged cohorts who are less likely to be seriously affected. If these people end up mixing with more vulnerable groupings, then fatalities will rise with more of a lag and this fear is one factor leading to more targeted lockdowns as the northern hemisphere enters the colder months where respiratory diseases are more prevalent.

The market response to these developments has been consistent with recent COVID behaviors where rates of change seems to be the most important driver of risk against a backdrop of plentiful liquidity where policy settings are locked on easy.

On the central bank front, in its much-awaited strategy review, the US Fed played down the need for yield-curve control, but by focusing on some form of average inflation targeting the implication is clear – that we can expect a 'lower-for longer' interest rate trajectory. Similarly, the ECB continued to argue for the need for ongoing monetary support. In the words of the chief economist, "inflation remains far below the aim and there is only partial progress in combating the negative impact of the pandemic on projected inflation dynamics". Faced with the additional threat of Brexit, the Bank of England confirmed that negative interest rate policy was in its toolkit even if the hurdle for going there was not yet met. Against this background, government bond yields traded within relatively narrow bounds (see Figure 7) while the rebound in risk assets continued to the point that, by early September, the MSCI World Index had recouped all its losses seen in the coronavirus crash. The nature of this recovery is remarkable and smashes any historical precedent.

Figure 7: US Treasuries – locked in a narrow range by policy



Source: Insight and Bloomberg as of September 30, 2020. Global equities represented by the MSCI All World Index.

Figure 8: A record-breaking equity market recovery

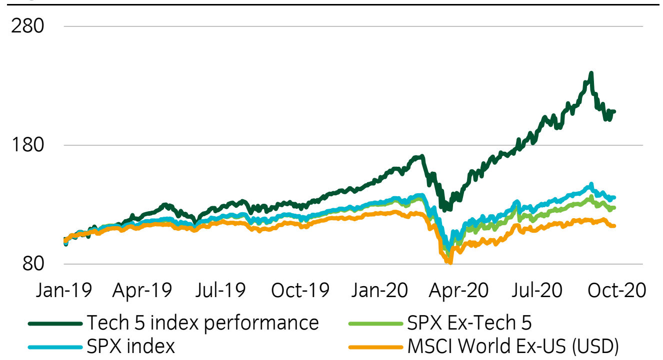
S&P 500 drawdowns of more than -30%	Recovery time to previous high (months)
Sep-29 to Jun-32	268
Mar-37 to Apr-42	45
Nov-68 to May-70	22
Jan-73 to Oct-74	69
Aug-87 to Dec-87	19
Mar-00 to Oct-02	55
Oct-07 to Mar-09	48
Current	5

Source: Insight and Bloomberg as of September 30, 2020.

Figure 8 puts these moves into context. It has taken five months for markets to regain their highs. Looking at falls of a similar magnitude (-30% or more), the previous fastest recovery was after the 1987 crash – when it took 19 months. On the six occasions since the Great Depression we have seen moves of a similar scale, the average recovery time for the S&P 500 Index has been 43 months – or a shade over 3½ years.

The end of September saw the most significant correction in the COVID-19 recovery, in part because of a likely moderation in the recovery story in the months ahead. The second waves of infection are bringing with them local lockdowns which are likely to trigger more permanent damage as companies adjust to a longer recovery trajectory. At the same time, the easy gains driven by the release of pent-up demand from the lockdown period are fading while the forthcoming US election appears to be delaying fiscal action besides being a source of political uncertainty. Part of the pull-back may also have been triggered by positioning getting over-extended as investors chased the risk rally. As we highlighted in Figure 4, there have been clear winners and losers during the COVID crisis, but the degree to which some of the US large cap tech names had rallied was reminiscent of the dot-com era. Indeed, as we have noted before, the combination of a collapse in underlying corporate earnings combined with a record-breaking recovery leaves stock-market valuations in an uncomfortable place, plentiful liquidity notwithstanding. In that regard, heightened sensitivity to signs of an economic relapse make sense.

Figure 9: US tech titans



Source: Insight and Bloomberg as of September 30, 2020.

STRATEGY PERFORMANCE

Q3 Review: The strategy delivered a positive return over the quarter, with all four main components contributing positively. Total return strategies were the largest positive contributor over the quarter. Option positions designed to capture upside risk in equity markets contributed most to returns in July and August, notably in US equities driven by a better-than-expected US earnings season. As the strength of the risk-asset rally moderated from the second quarter, positions designed for range-bound markets produced positive returns in each month of the quarter.

Within fixed income, investment grade exposures, which we had increased in Q1, were again the largest driver of performance. The search for yield remains a powerful driver, especially with government bond yields close to their all-time lows. Government bonds were also a positive contributor and continued to act as a defensive asset in the context of a multi-asset strategy. This is unsurprising given inflationary concerns remain muted and central banks maintain their accommodative stance. We are, however, cognizant their potential defensive impact has declined. We are therefore seeking additional diversifying exposures. Having tactically increased our equity exposures in the first half of the year, we retained exposure at around 20%. A continued recovery in economic activity, government plans to further reopen the economies, together with continued central bank and fiscal support helped drive most equity markets higher. Indeed, some of our adjustments, such as raising our US equity exposure over UK equity exposure, contributed positively over the quarter. Our infrastructure holdings started the quarter well, continuing their recovery from earlier in the year, but gave back some performance later in the period.

September Review: We ended the quarter with a negative return for the month of September, as equities detracted in the broader risk-market pull back, and the other main components of the strategy were broadly flat. Government bond holdings offset the negative returns from high yield and emerging market debt. Infrastructure holdings were a small negative as some prices weakened ahead of planned placings. Within option-based positions, those targeting more positive market movements detracted slightly, but were offset by positive contributions from positions designed for more volatile and range-trading environments.

Table 1: Performance as of September 30, 2020[1]

	1-month return (%)	3 month return (%)	1 year return (%)	3 year return (%p.a.)	5 year return (%p.a.)
Insight broad opportunities strategy (gross)	-1.32	2.12	-2.24	2.98	4.49
Insight broad opportunities strategy (net)	-1.38	1.93	-2.97	2.23	3.82
3-month USD Libid	0.01	0.04	1.00	1.81	1.40

Table 2: Performance as per calendar year[1]

	YTD (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)
Insight broad opportunities strategy (gross)	-4.97	14.99	-3.38	11.31	5.63	-1.51
Insight broad opportunities strategy (net)	-5.50	14.13	-4.10	10.73	5.10	-2.00
3-month USD Libid	0.53	2.28	2.27	1.19	0.66	0.22

Figure 10: Performance of the Insight broad opportunities strategy (USD) since launch

Source: Insight Investment. As of September 30, 2020. Performance is rebased as of December 31, 2004, as a result of a change in investment team leadership. Performance shown is the track record of Insight's overall multi-asset strategy and is intended to illustrate the team's capabilities. 1Past performance is not a guide to future performance. Investment in any strategy involves a risk of loss. All figures are in USD terms. Net figures are net of 0.5% annual management charge to December 31, 2017 and net of 0.75% annual management charge thereafter. The Insight broad opportunities strategy (USC0840) is shown net of investment management fees and reflects the reinvestment of dividends and/or income and other earnings. Please refer to the important disclosures and index description at the back of this document. Performance presented is that of the Insight broad opportunities strategy which may be managed by an affiliate of Insight North America LLC (INA) and should not be viewed as the performance of INA. Please refer to the disclosures and index definition at the back of this document. The quoted benchmark does not reflect deductions for fees, expenses or taxes. The benchmark is unmanaged and does not reflect actual trading. There could be material factors relevant to any such comparison such as differences in the volatility, and regulatory and legal restrictions between the index shown and the strategy.

STRATEGY ACTIVITY

Q3 Review

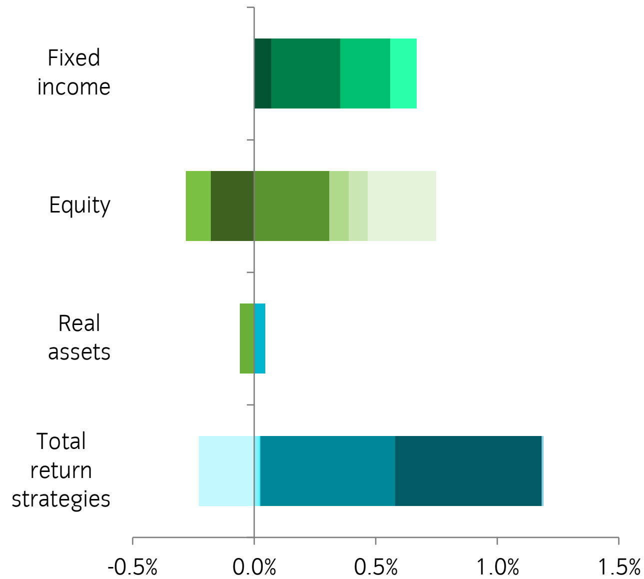
This quarter our active management was set against a background where economies continued their recovery from the collapse in the first half. And despite a rising second wave of virus cases, mortality rates – at least for now – are relatively contained, which has helped easing of lockdown restrictions. This provided a support for risk assets and maintained government bonds yields in a relatively contained range.

In terms of broader asset allocation, we made minor changes during the quarter, mainly reducing our government bond holdings early in the period. Given the better economic data early in the quarter, we increased the cyclical weight via small additions to commodities, US high yield and emerging market debt. It has also been notable that despite the run-up in stock markets, implied volatility has been rising, and not just around the US election period. This provides an attractive backdrop for options positions and we continued to build a return profile that could make money in a wide range of market moves.

With an uneven recovery underway, we sought to capture increased opportunities in relative-value trades. We added cross-country government bond positions, including US treasuries vs German bunds (a carry trade with potential for spread tightening should the pandemic situation deteriorate), and Italy vs Germany (as risk-free rates continue to dive deeper into negative territory and with the EU recovery fund agreed, peripheral spreads should experience a positive technical environment).

Considering the likely moderation in the recovery story in the months ahead, we added positions aimed at benefitting from more range-bound markets, which were particularly helpful towards the end of the quarter.

Figure 11: Q3 Strategy Attribution



Data for Q3 2020. Attribution data is given for a representative portfolio that adheres to the same investment approach as Insight's broad opportunities strategy. Gross of fees, in GBP.

September Review

Strategy positioning ended the quarter with a pro-cyclical bias, albeit marginally below our historic average. We have been active in replacing some option positions that expired. We have also been active in adding a wide variety of relative value positions in currencies, fixed income and equities where we see attractive opportunities. The total return strategies part of the strategy has been positioned for a broadly sideways market move in which it should earn an attractive level of carry

Figure 12: Trades put on in the month

- Relative value: FTSE 100 Index versus FTSE 250 Index, USD vs AUD, JPY vs AUD, USD vs MXN, USD vs JPY currency
- Added Australian government bonds, reduced German government bonds
- Increased US high yield exposure
- Range-bound positions added for US, European, UK and emerging market equities
- Upside positions on US, European, Japanese and emerging market equities.

Figure 13: Trades expired / closed in the month

- Expired option positions on a range of currency and equity markets
- Closed rangebound position on UK equities
- Closed upside positions on European and French equities
- Decreased European investment grade credit exposure

ECONOMIC AND MARKET OUTLOOK

ECONOMIC OUTLOOK

At the start of Q3 2020 we concluded that we were in a window where positive incremental news-flow provided support for more cyclical investment opportunities and for much of the quarter this held true. Now the question is, with pent-up demand fading, second wave infections rising and political uncertainty taking center stage, can the recovery endure?

Virus developments

Part of the answer depends on the extent to which authorities reimpose restrictions on activity during a period where virus cases will undoubtedly be on the rise as we enter the colder months in the northern hemisphere when respiratory diseases are most prevalent. Most authorities are aiming to strike a balance of keeping their economies open while ensuring virus numbers do not over-stretch their healthcare systems.

As noted above, while the number of reported cases has already risen in many countries, death rates and hospitalizations, while edging up have not (thankfully yet) moved up to what we saw in the first wave. We touched on some of the possible reasons why this may be the case, but should these trends continue, say because herd immunity is building, it will be interesting to see whether governments move to embrace less restrictive, more localized approaches to virus spikes. Complete lockdown has an enormous economic cost, as would the exponential spread of the virus. Between those extremes there is an optimal point – the restrictions required at this point prevent a complete recovery but are consistent with the smallest shortfall to pre-COVID growth potential. Estimates of the current activity shortfall vary, as do estimates for the year – the OECD forecast global GDP to contract by 4.5% in 2020. Many countries are likely to see a shortfall of around 5%-10% of the pre-virus level of GDP.

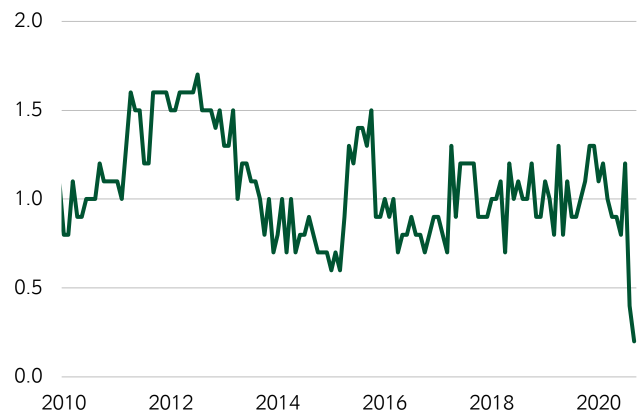
History suggests that if the fallout from the pandemic becomes entrenched (business failures occur on a large scale or we see significant and sustained increases in unemployment) then a swift recovery becomes much less likely. The extraordinary nature of the policy response (both in size and speed of implementation), has thus far been effective in limiting such scarring that normally occurs in deep recessions. In many countries, those support mechanisms have been extended into Q1 2021 but in others, notably the US and the UK, the latest round of support offers less protection and the number of companies reporting large scale job losses is on the rise.

Central bank watch

Global central banks have set the long-term risk-free rate at an exceptionally low level and made it clear that it will stay there for some considerable time. This is rightly seen as a requirement for a sustained recovery. The Fed's focus on some form of average inflation targeting reinforces a 'lower-for longer' interest rate trajectory and this theme is echoed by the major central banks.

The ECB has raised the prospect of also shifting to an inflation targeting approach or, at least, in being more explicit that there should be symmetry around achieving their inflation goal. Given core eurozone CPI for September fell to just 0.2% – a record low – they have much work to do (see Figure 14). As mentioned earlier, the Bank of England is publicly debating the effectiveness of negative interest rates as an effective policy tool.

Figure 14: Eurozone core inflation



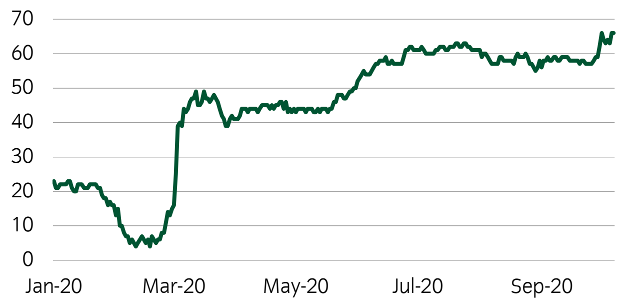
Source: Insight and Bloomberg as of September 30, 2020.

Central banks are unlikely to publicly state that they are running out of policy options to provide further support and indeed, quantitative easing is a powerful tool both in terms of anchoring interest rates and in financing government spending/deficits. Beyond that, policy meetings are unlikely to be a source of surprise in the months ahead. But, testifying before Congress, the US Fed Chairman was at pains to stress that further action – at all levels of government – was needed and that there were limits on what the Fed can do. Similarly, ECB President Lagarde was recently equally explicit in suggesting that, from here, fiscal policy will have to do much of the heavy lifting in this recovery.

Austerity measures introduced after the global financial crisis to reduce deficits were controversial and in many cases, counterproductive. Given this experience, few governments are likely to try and withdraw support too early. However, to the extent that a yet-to-be-determined proportion of private-sector activity has been permanently lost, it could be some time before private sector activity returns to pre-COVID levels, and for some industries or sectors the loss to output will be permanent. A sustained period of government support to underpin the economic recovery appears a clear requirement, but even taking this into account, hard adjustments are likely to be required and lies behind those arguing for a tapering in the scale of emergency relief.

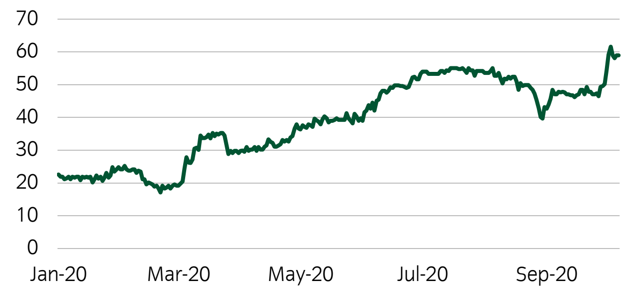
Of course, these decisions lie in the sphere of politics and in the US further fiscal support has been caught up in election dynamics, while in the UK, Brexit continues to complicate the policy backdrop.

Figure 15: Probability Biden to win the Presidential Election



Source: Insight and Bloomberg as of September 30, 2020.

Figure 16: Probability Democrats to win clean sweep of Congress



Source: Insight and Bloomberg as of September 30, 2020.

Markets don't like uncertainty, and in that regard, a protracted and contested US election result would be the most awkward from a market perspective. Historically, presidential elections have not been market-moving events, but of course 2016 was, and President Trump's policies have benefited big business.

There is a simple view that a Trump victory would be good for equity markets and a Biden victory bad. Our guess is that narrative is too simplistic. A clear Democratic victory might lead to a change in that narrative towards the benefits of broad-based stimulus, a more constructive re-engagement with the rest of the world as offsets to the specter of higher taxation. Recent polls have been moving in favor of the Democrats and while they are expected to hold the House, the probability of them winning a Senate majority has also picked up. That said, these polls were before the president was diagnosed with COVID-19 and, as the 2016 election demonstrated, President Trump has a habit of doing better than the polls would suggest.

With regards to Brexit, EU and UK trade talks are intensifying and with the EU summit in mid-October we should soon get a sense of whether some form of deal is possible. Trust is in short supply, damaged by the UK's decision to introduce legislation overriding parts of last year's withdrawal agreement, but we still believe that some form of deal is likely. However, given the timescale involved it is difficult to envisage anything other than a very limited accord.

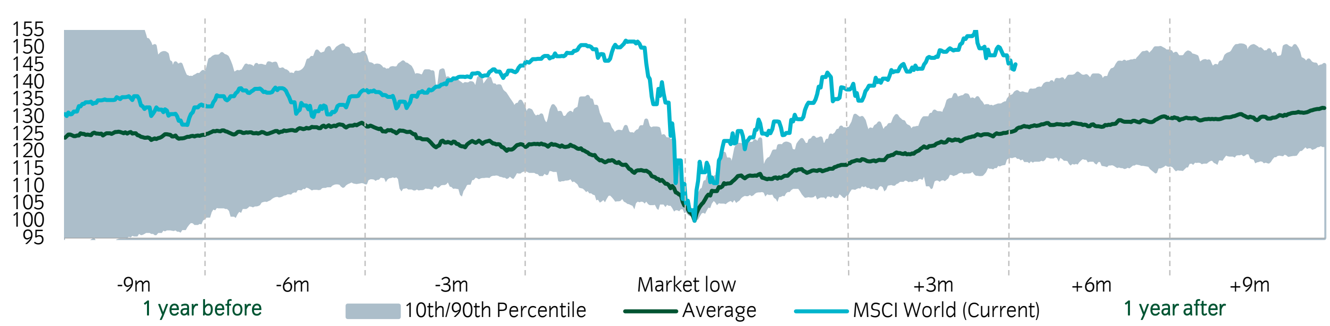
Talks will no doubt continue into 2021 as it is in all interests to have a functioning trading relationship, but it seems inevitable that we will end the year with something that, in 2016 parlance, would have been described as a 'hard Brexit'.

MARKET OUTLOOK

As we noted last quarter, we have been in a window where the positive incremental news-flow has provided support for more cyclical investment opportunities. As Figure 17 shows, this has allowed the MSCI World Index to bounce sharply (largely driven by the US) although many equity indices remain significantly below their highs. Indeed, as we showed in Figure 8, the nature of this recovery is remarkable and smashes any historical precedent.

Of course, the second half of September saw something of a relapse as virus fears resurfaced – casting doubt on the speed of the recovery story. As we noted last month, beyond the index moves, some of the drivers of return have been even more dramatic. The mega-cap (US technology) names have been clear winners in the COVID-19 crisis and the consumer-spending data we showed in Figure 4 is testimony to the point. But the extent of their leadership has been extreme. In that context, a pullback in some of the tech Titans is arguably a healthy development in a market advance that has been remarkably narrow.

Figure 17: MSCI World Index around 'bear' market periods since 1970



Source: Insight and Bloomberg between January 1, 1970 and September 30, 2020.

More generally, our expectation remains that, in the months ahead, the news-flow will highlight greater divergences after the initial post lockdown bounce in activity and in markets. Virus news will never be far from the headlines over the winter period and vaccine hopes will periodically come to the fore. We anticipate that the recovery will be ongoing, but after the initial bounce progress may well be slower with periods of apparent relapse.

The final September PMIs painted a picture of an ongoing global recovery but the 0.5 point rise in our global manufacturing aggregate was offset by a -0.4 point fall in our global services aggregate so that our global composite reading edged lower (to 52.1). The reversal in services was most apparent in Europe, where the re-imposition of restrictions has been most evident.

The relative resilience of manufacturing activity makes sense – it is less affected by renewed activity restrictions. But it remains to be seen how long these divergent trends can hold and labor market conditions appear to be worsening as companies begin to adjust to what are seen to be longer-term demand shifts in a post COVID-19 world.

For markets, rates of change matter. Last month we highlighted the challenge – specifically the scale of the economic contraction and partial recovery – in interpreting economic data. We noted earlier that although global PMIs are back above 50, this tells us little about how much lower economic activity is now, relative to pre-crisis. They do however tell us about rates of change, and that, from an asset-allocation perspective, has been helpful even during this unique crisis.

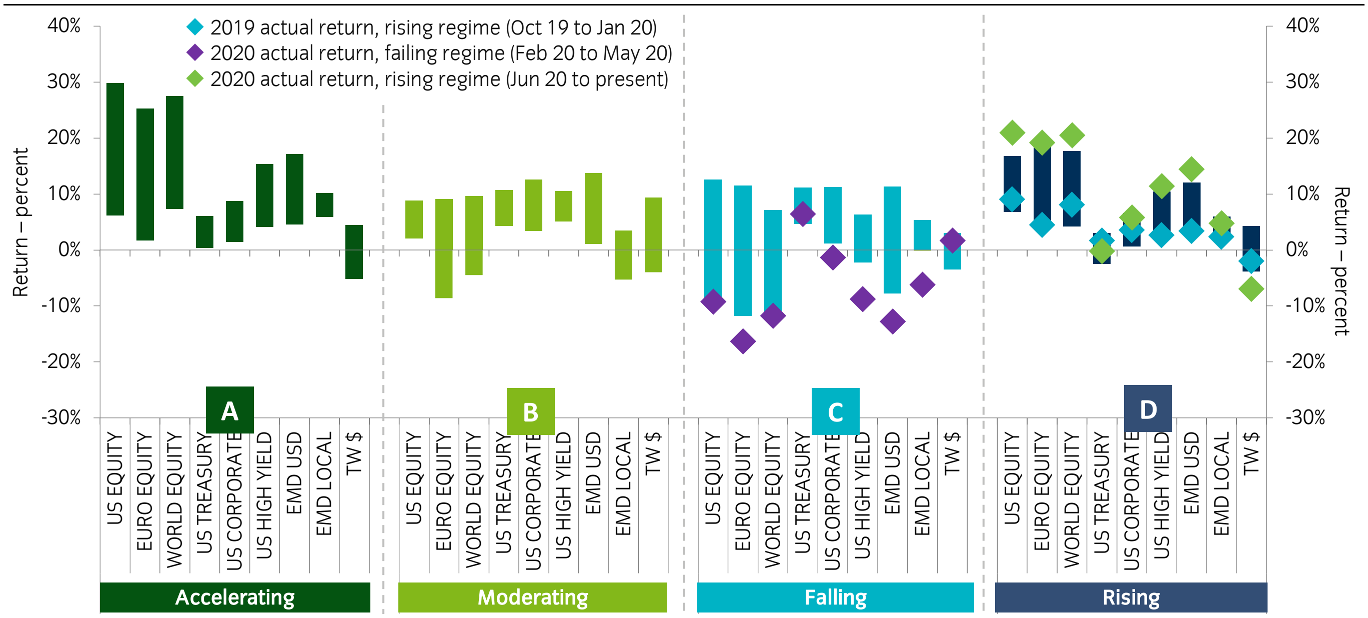
Figure 18 illustrates this in relation to our PMI regime framework which regular readers will be familiar with. The framework shows how various asset classes tend to perform in different economic environments or regimes. For all the uniqueness of the current crisis, the direction and magnitude of the asset-class moves have not been out of sync with market history – it's just the speed of the moves have been.

Regular readers will also be aware of the valuation concerns we have raised in recent months and we are not alone in raising such misgivings. Indeed, our worries have not diminished. The strength of the equity market rebound combined with the likely collapse in corporate profitability leaves most markets on an uncomfortable valuation platform.

We will not repeat our analysis shown in previous reports, but we see little to dissuade ourselves that equity-market valuations are uncompelling or that that low interest rates, in themselves, have been associated with stock markets trading 'rich'. At the same time, we are mindful that valuation extremes can persist for some time and that catalysts are needed to trigger valuation adjustments. The most likely such catalyst would be a material deterioration in the growth backdrop. In that regard, our approach to managing our exposure to risk assets is likely to remain tactical.

In recent months, we talked about TINA ('there is no alternative') as a driver for equity flows. The rationale does not rely on lower interest rates to validate higher equity valuations, but simply implies that investors have 'nowhere else to go' in their search for return, which guides them towards equity and other riskier investments.

Figure 18: PMI (ISM) growth regimes

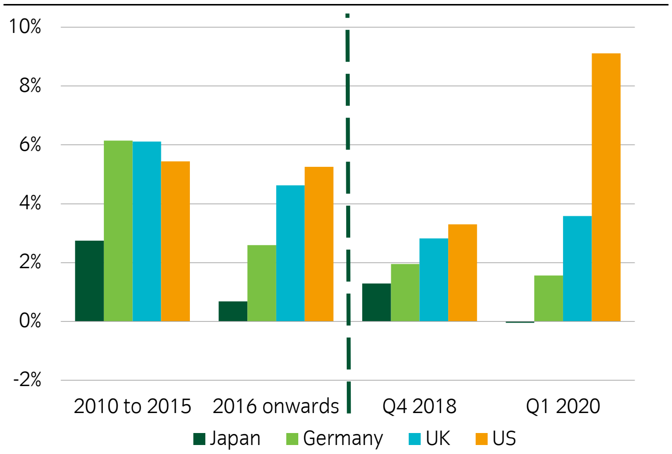


Note: As of September 30, 2020. Bars show the range of asset returns from 25th to 75th quartile. Equity market data is from 1973. Treasury and corporate bond data from 1973. High yield bond data is from 1986. EM USD and local debt data is from 1993. Trade weighted USD data is from 1973.

From a fixed income perspective, the policy response of financial repression involves anchoring government bonds yields at exceptionally low levels for an extended period. This clearly has implications both from what we can expect from government bonds from a simple return perspective and, from a multi-asset standpoint, what we can expect from them as a diversifying asset.

In Figure 19 we show two sets of returns. On the left-hand side, we show returns either side of 2016 when German and Japanese yields converged at zero. Of course, the closer government bond yields are to their effective or practical lower bound, the less return potential they have, and this is self-evident in the chart. The right-hand side shows the government bond returns from the same assets during the two biggest 'risk-off' periods post 2016.

Figure 19: Government bonds performance in different environments

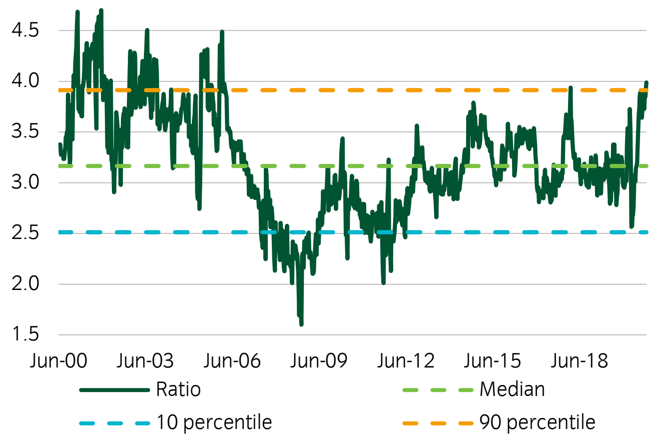


Source: Insight and Bloomberg as of September 30, 2020.

Our best guess is that, barring a big rise in inflation, the negative correlation between equities and bonds will probably hold as it has done for the last 20 years so government bonds still have a place in a multi-asset strategy. But it's difficult to ignore the conclusion that, from the current yield levels, the return outlook for government bonds is modest. Moreover, the lower yields go, the less powerful a hedge they are likely to be. As Japanese bonds illustrated in Q1 2020, when the central bank's policy shifted to yield-curve control, the government bond in question can lose its appeal from a diversification standpoint.

From a credit perspective this highlights the underlying pressure on risk-seeking investors to engage further up the risk spectrum. Early in the COVID-19 crisis, we shifted our asset allocation towards investment grade credit as an attractive asset class from a valuation (spread) standpoint with the additional comfort of central bank support. In the early stages of the recovery investment grade spreads have come in but as Figure 20 illustrates, spreads at the riskier end of fixed income (in this case US high yield) look attractive in a relative sense.

Figure 20: Global high yield/investment grade spread

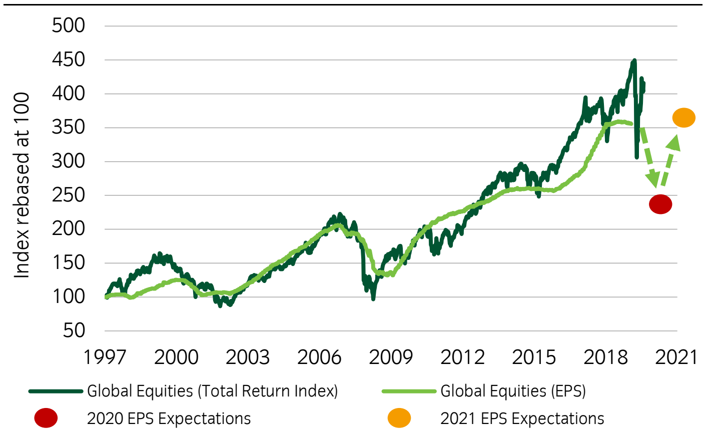


Source: Insight and Bloomberg as of September 30, 2020.

Of course, the thesis works so long as attention is focused on the return on capital rather than the return of capital, which is what dominates when risk aversion comes back to the fore.

In that regard, the Q3 2020 earnings season will provide an update on the impact the crisis is having on corporate profitability. In the US, expectations are for headline earnings-per-share growth of -22% year-on-year (yoy), which represents a considerable pickup from the nadir of -33% yoy last quarter. A similar pick-up is expected in Europe, but from much lower level with Q3 expectations here at -38% yoy vs -52% yoy in Q2. The key takeaway from last earnings season was the ever-growing divergence in fortunes between the large-cap technology firms and the rest of the market. Indeed, this trend is expected to continue this quarter, with earnings in the US technology sector only expected to fall -1.5%. We will be particularly focused on aggregate share-price reaction, which can shine a light on whether positioning looks stretched, and management guidance, which has been notable for its absence in the 'post-COVID' world. From a valuation perspective, a quick rebound in earnings is key if the current lofty gap between equity market prices and earnings is not to correct in an uncomfortable manner.

Figure 21: Global earnings



Source: Insight and Bloomberg as of August 31, 2020.

STRATEGY POSITIONING

After an unprecedented fall in risk assets – in terms of speed – we have seen a record-breaking bounce. As discussed above, we expect the economic recovery to continue, aided by easy policy. But in the next few months, colder northern hemisphere weather complicates the virus picture and we expect price action to be more two-way than in the early part of the recovery as economic momentum also moderates. Against this background, we continue to see asset-class behaviors as split between two groups:

- Assets with explicit or implicit policy support:
  - developed market government bonds
  - developed market investment grade credit, US high yield
- Asset with a higher sensitivity to eventual economic outturn:
  - equity markets
  - emerging market debt, FX

For the second group of assets, the risk/reward outlook is dependent on the interaction between policy support, the real economy and the extent the recovery can be translated into corporate profitability and we think a nimble approach is appropriate.

From a return-seeking perspective, we have held our equity weightings relatively steady to capture some upside potential and we do not envisage large changes to our positioning. Having built up strategic holdings in investment grade credit and US high yield, valuation considerations make us minded to trim our investment grade holdings. At the margin the attraction of the investment grade credit edges lower as spreads have tightened but demand for the riskier end of fixed income is likely to remain solid given the anchoring of the risk-free rate.

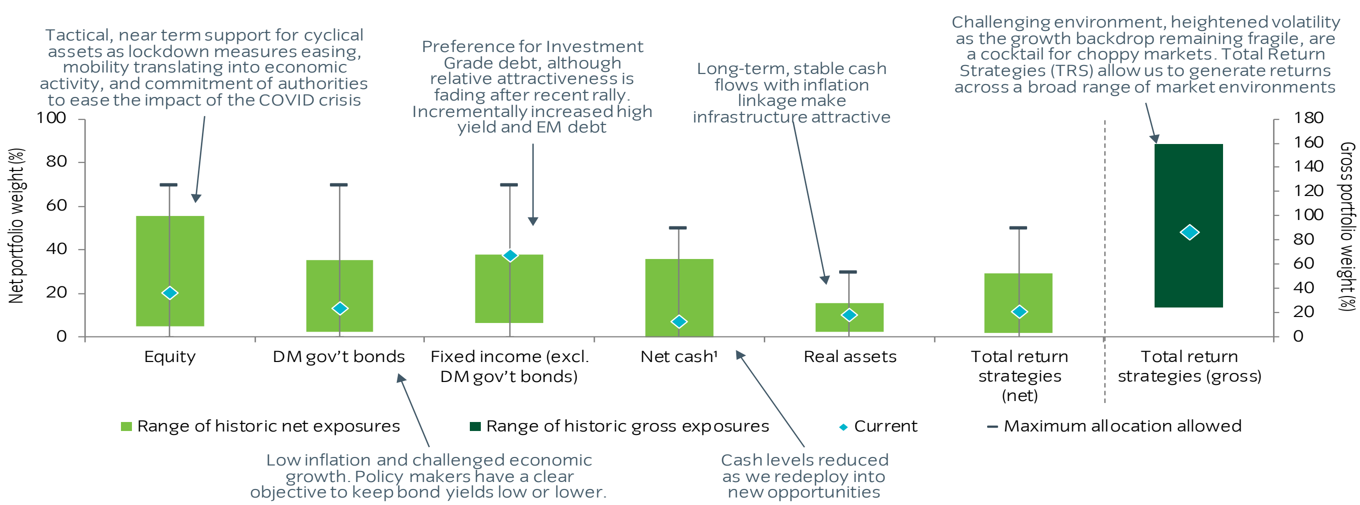
In terms of our broad beta management, the interaction of equity markets and government bond markets is an important consideration. As noted earlier, while we expect them to help in a risk sell-off, the extent of support is likely less than when yields were higher (and therefore had more room to fall).

In that context, we continue to search for new investments that have diversifying pay-off profiles. Total return strategies are one area where we see a number of such opportunities. We are also thinking about adding alternative investments and asset classes into our mix.

Convertible bonds are one such example. They offer an attractive combination of the downside protection of fixed income if equities decline, with the option of converting into equity if equities rise. Convertibles usually have a better risk/reward profile than combining equities and debt, which means they have historically had an attractive Sharpe ratio.

Currencies again offer an alternative source of diversification. Beyond the broad US dollar moves which tend to move in tandem with risk-on and risk off, idiosyncratic drivers of performance are evident, as are anti-cyclical hedges both in FX and commodity space that no longer are affected by the high carry costs which have historically weighed against them.

Figure 22: Asset allocation



Please refer to the risk disclosures at the back of this document. As of September 30, 2020. Data is given for a representative portfolio that adheres to the same investment approach as Insight's broad opportunities strategy. Data is shown from inception of that vehicle (September 2009). Positions are shown on a net basis apart from total return strategies which are shown both net and gross.

[1] Cash: Includes cash at bank, FX forwards and money market instruments.

THE INVESTMENT TEAM*

Insight's broad opportunities strategy is managed by a team of 11 dedicated investment professionals. They sit within Insight's investment division which comprises over 200 front-line investment professionals. The team is able to harness investment ideas from all the specialist investment units within the firm ensuring that the strategy benefits from a rich source of investment ideas. The team is specialised in asset allocation, macroeconomic analysis and portfolio construction and has developed a clear and transparent investment process that allows ideas to be channelled into a robust portfolio specifically designed to meet its objectives.

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Performance numbers used in the analysis are gross returns. The performance reflects the reinvestment of all dividends and income. INA charges management fees on all portfolios that they manage, and these fees will reduce the returns on the portfolios. For example, assume that $30 million is invested in an account with INA, and this account achieves a 5.0% annual return compounded monthly, gross of fees, for a period of five years. At the end of five years that account would have grown to $38,500,760 before the deduction of management fees. Assuming management fees of 0.25% per year are deducted monthly from the account, the value at the end of the five-year period would be $38,022,447. Actual fees for new accounts are dependent on size and subject to negotiation. INA's investment advisory fees are discussed in Part 2A of its Form ADV. A full description of INA's advisory fees are described in Part 2A of Form ADV available from INA at www.adviserinfo.sec.gov.

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3-month USD Libid: Libid (the London Interbank Bid Rate) is the average interest rate at which major London banks borrow eurocurrency deposits from other banks. Libid is calculated through a survey of London banks to determine the interest rate at which they are willing to borrow large eurocurrency deposits. 3-month USD Libid is calculated as a monthly return based on the average month's daily 3-month USD Libid annualized rates. The average is deannualized and then compounded on a daily basis for the month.

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