

# Investing: COVID-19 volatility and uncertainty

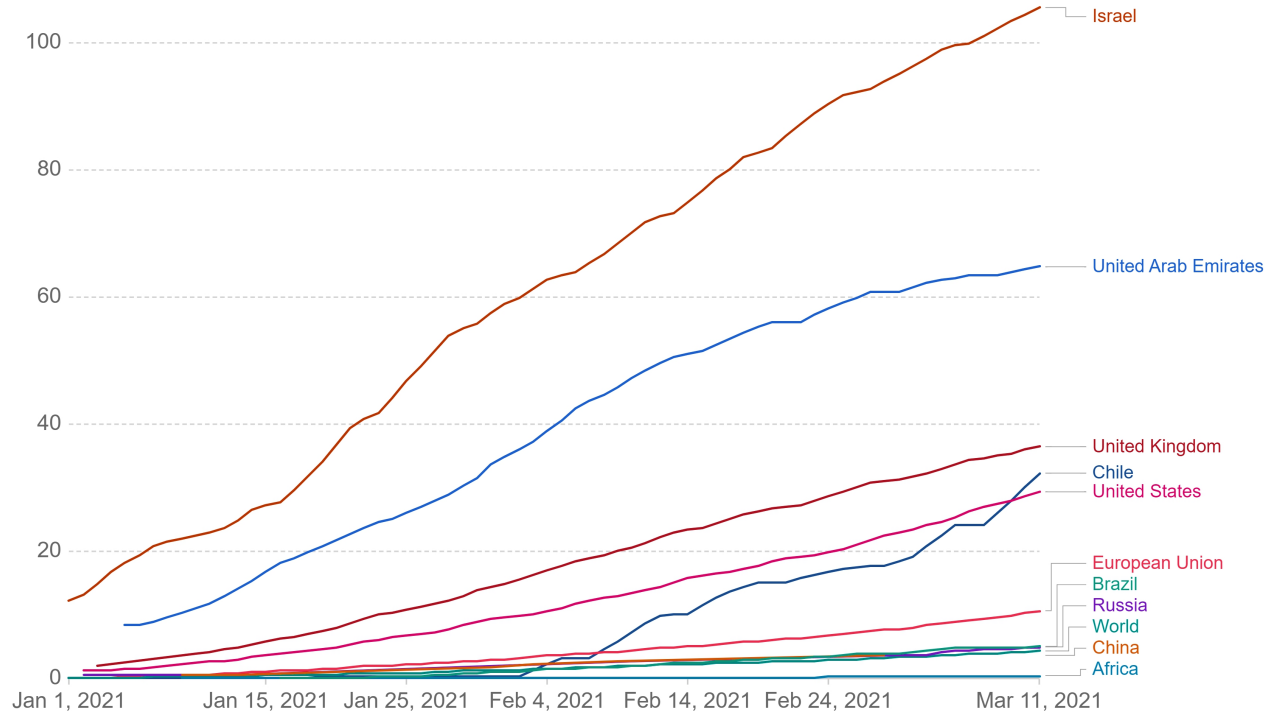
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25 March 2021



# COVID-19 vaccinations

Cumulative COVID-19 vaccination dose administered per 100 people\*

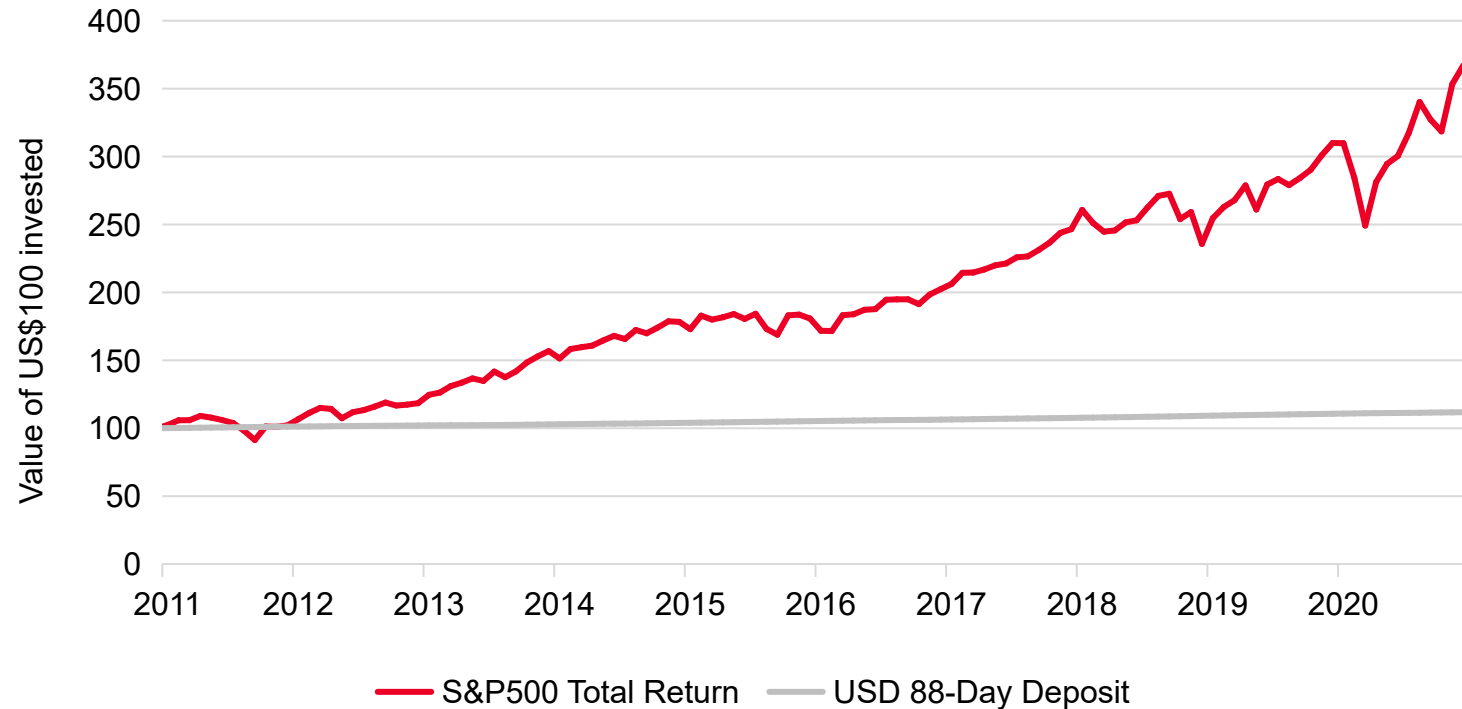


\*This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Source: Ourworldindata.org

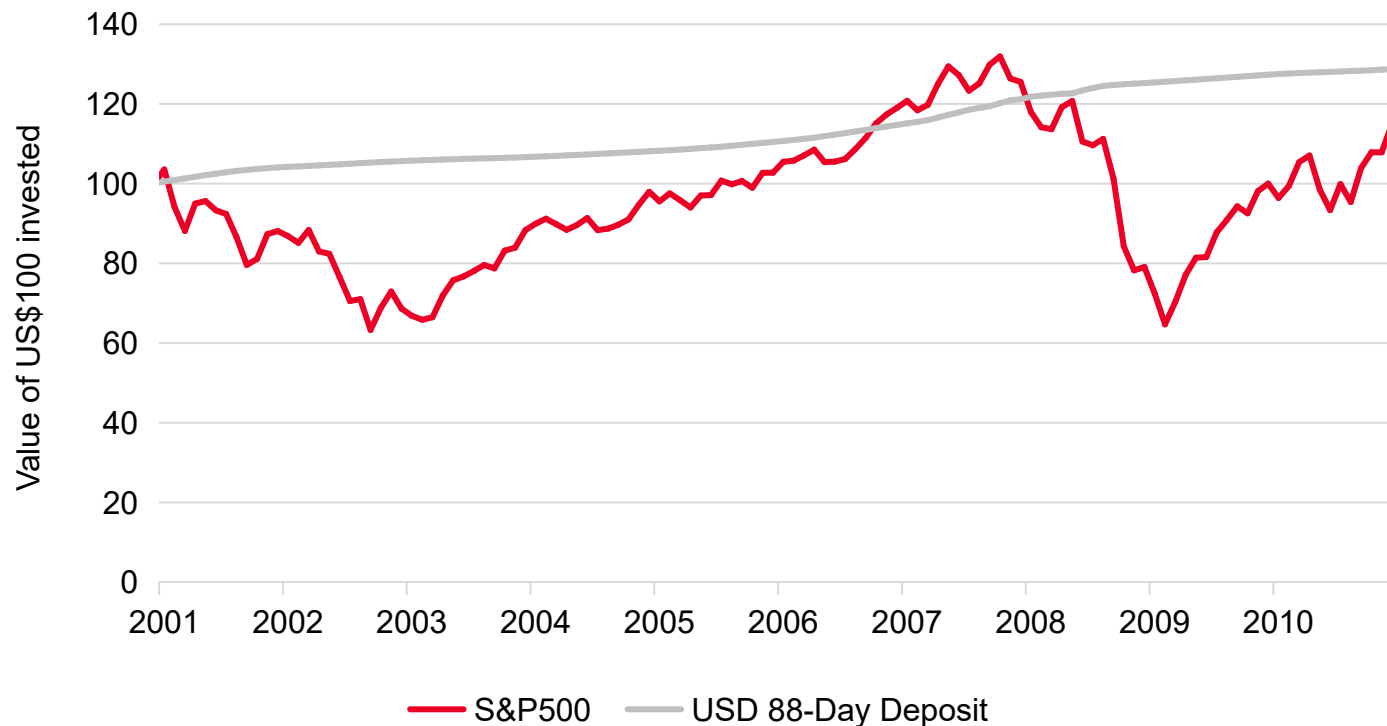
## Rearview mirror investing can be dangerous

Total return in US\$ from Dec 2010 to Dec 2020

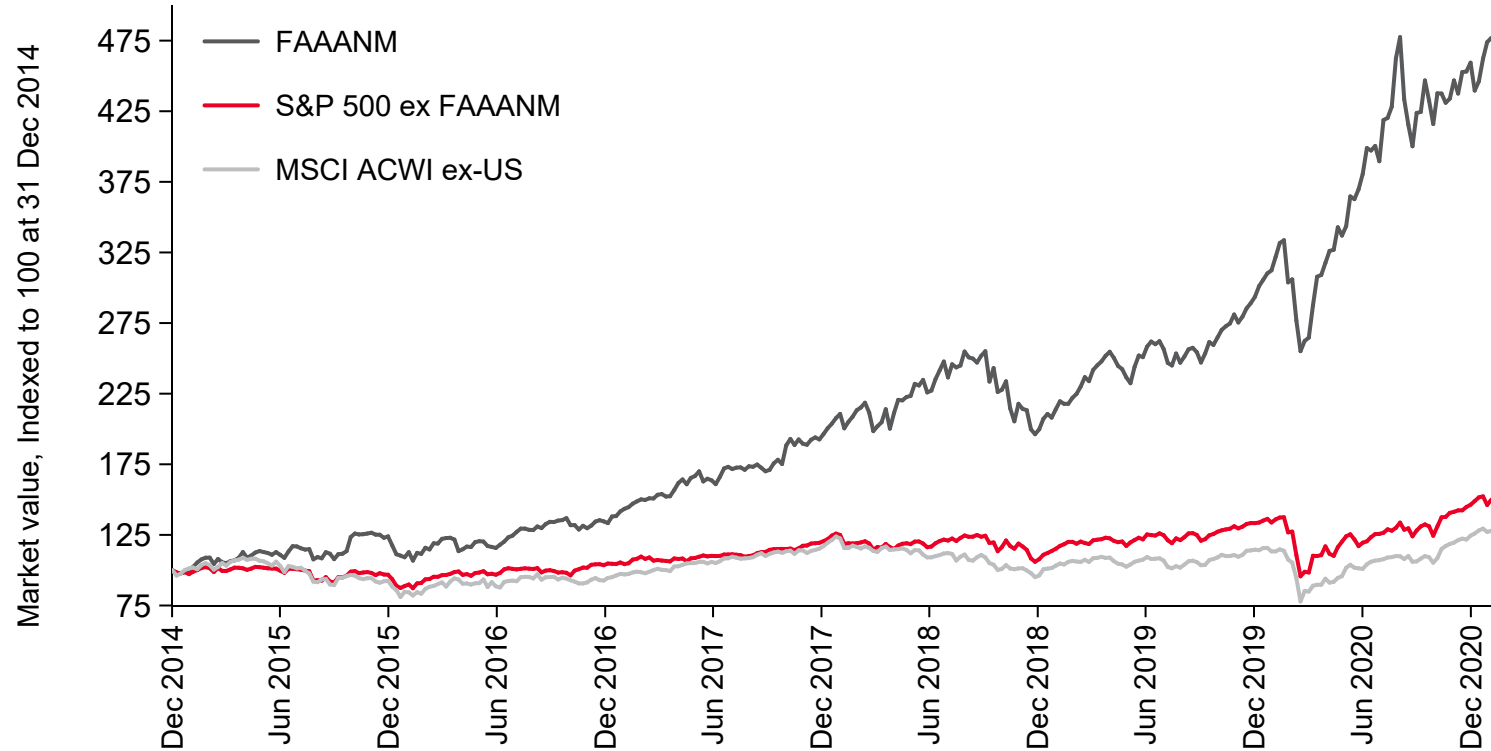


## Rearview mirror investing can be dangerous

Total return in US\$ from Dec 2000 to Dec 2010

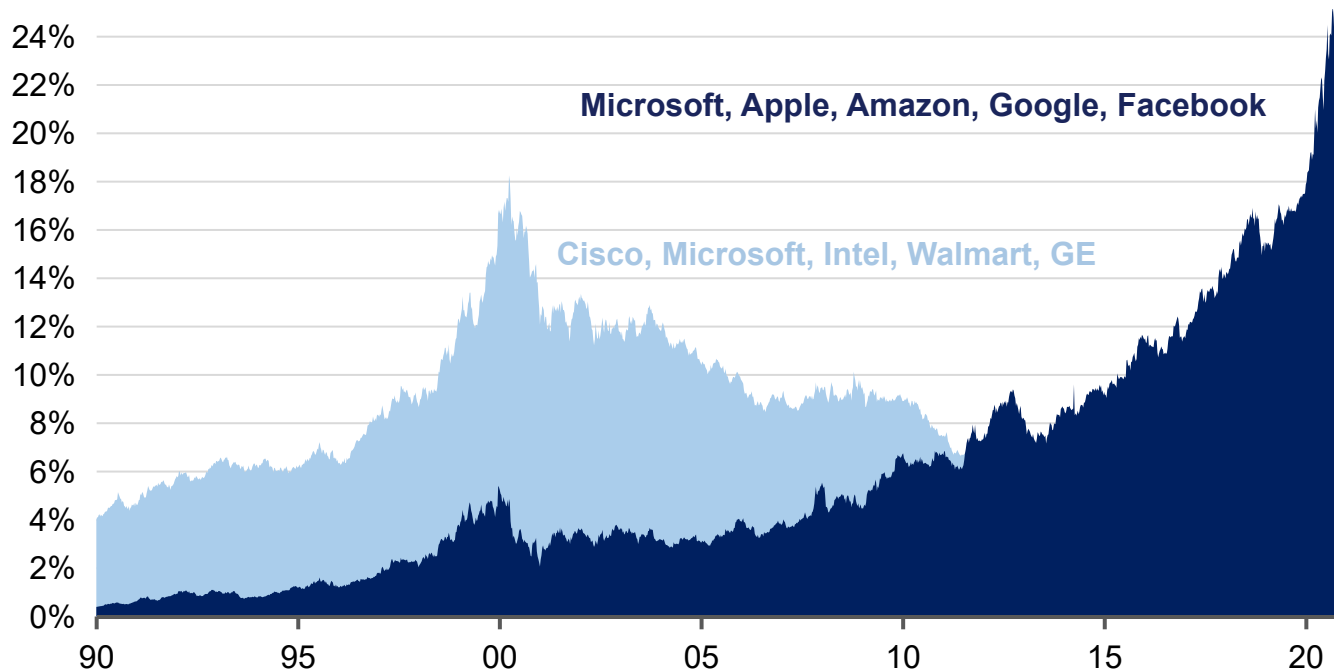


## FAAANM stocks account for most of S&P outperformance

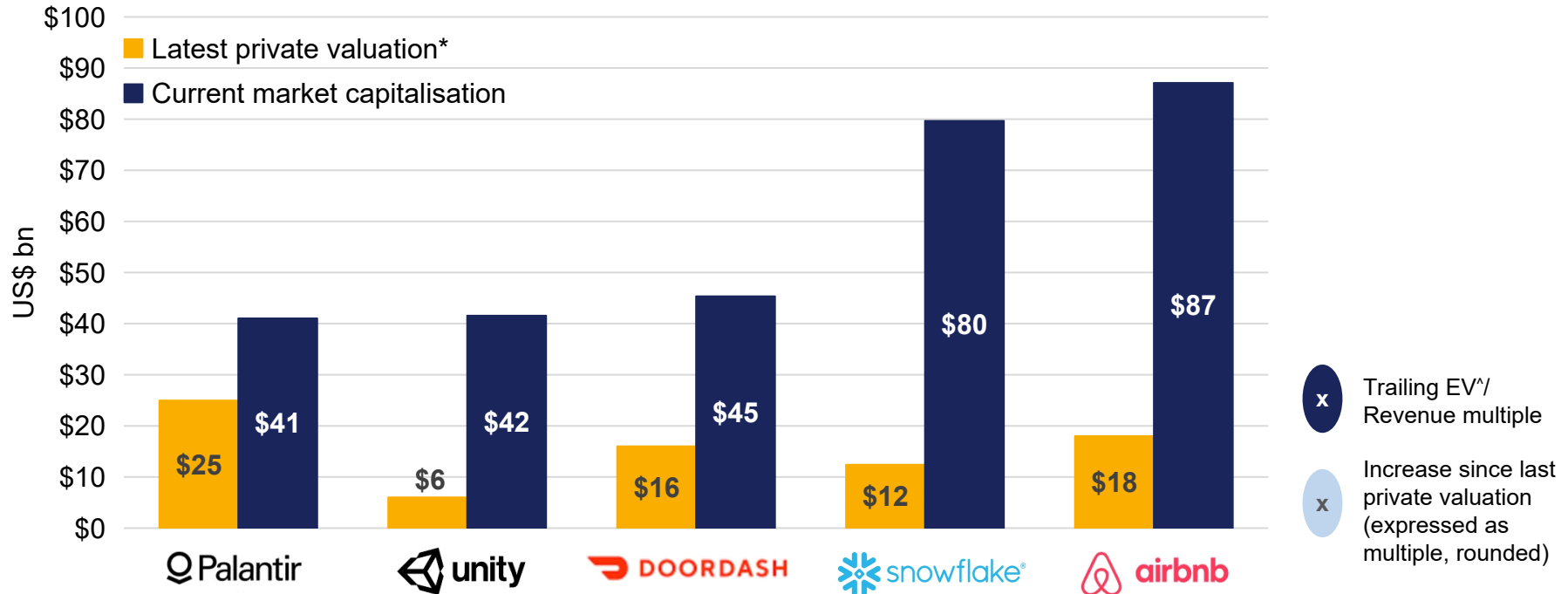


## S&P 500

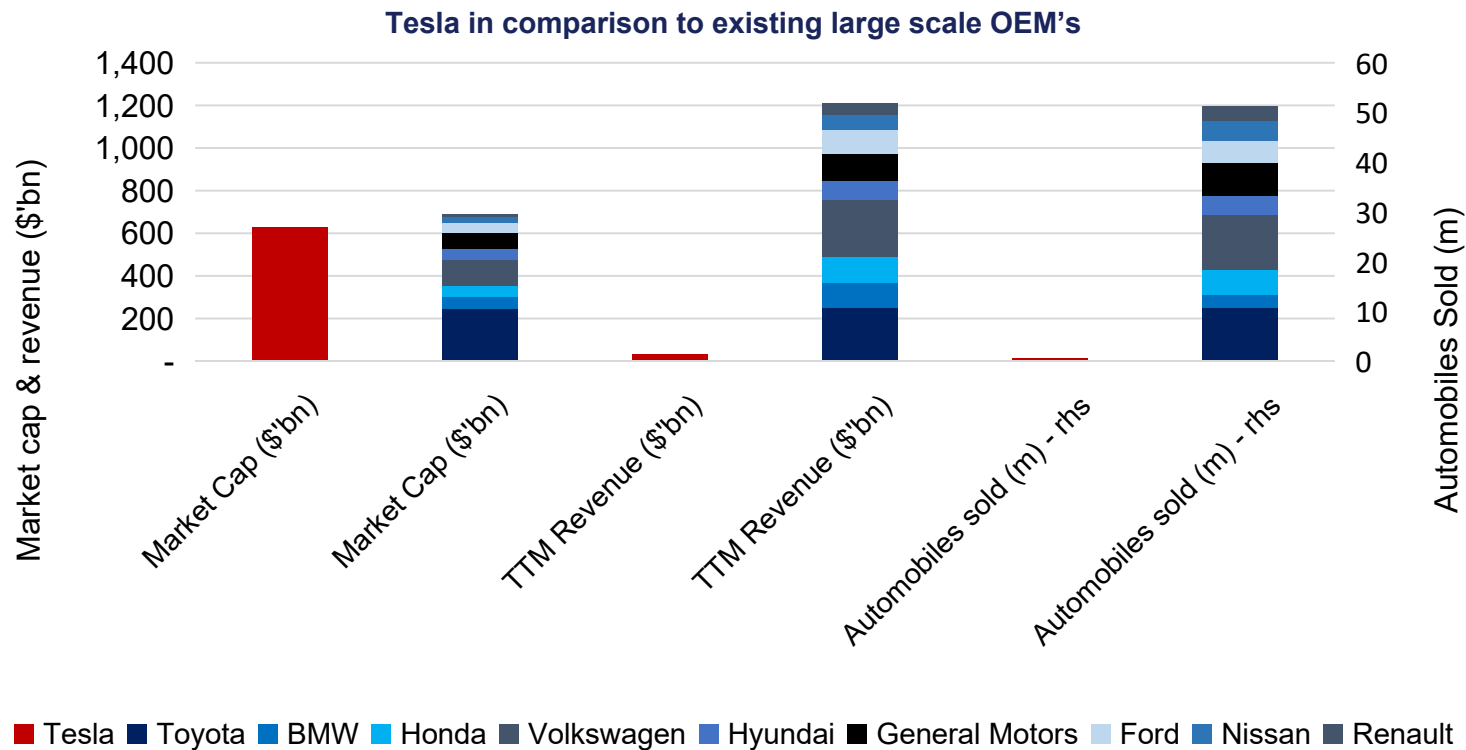
The top 5 shares dominate even more today than in 2000



## Frothy US market: Major tech IPOs appear disconnected from recent private valuations



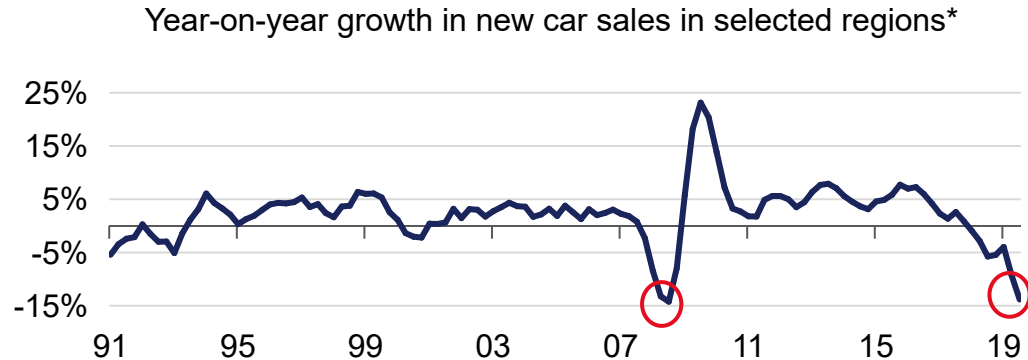
# Auto sector: Massive disparity in valuations





# The auto industry currently faces several challenges

**(1) The cycle** – auto sales have been declining due to decreased demand from China and stagnant demand in developed markets, with further declines in 2020.



**(2) Electrification** - traditional OEMs<sup>^</sup> face threat of disruption from new entrants and stricter emission standards.

**(3) Peak car** – structural decline in private car ownership as users switch to using ride-hailing apps and autonomous vehicles.



# Honda and BMW look better placed than valuations suggest



**HONDA**

## High quality motorcycle business:

- World's largest motorcycle manufacturer
- Consistently earns >10% operating margins
- 75%+ market share in key markets



## Premium brand:

- Well-positioned to meet emissions targets through early and extensive investment in EVs<sup>†</sup>
- Premium brand allows it to pass on higher cost of EVs to wealthy customer base, and earn higher margins and returns on capital

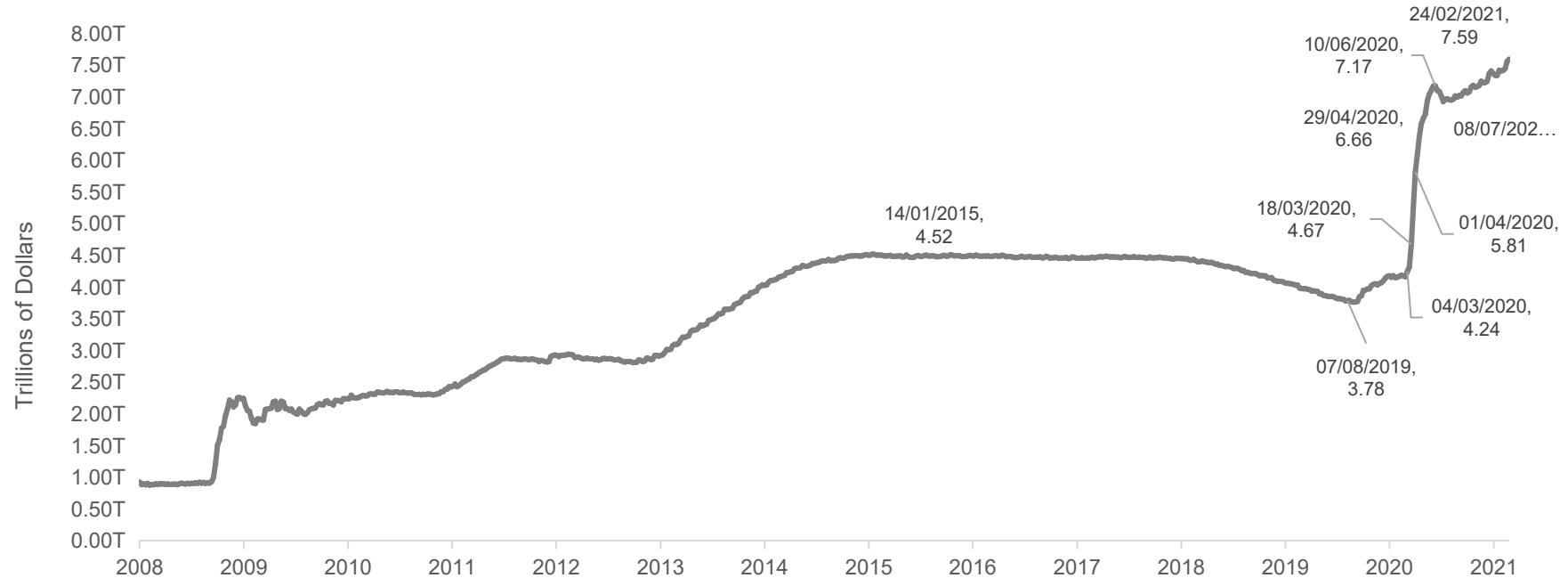
	Honda	BMW	FTSE World Index
Long-term average price to book value*	1.4x	1.8x	2.9x
Current price to book value	0.6x	0.7x	5.3x
Return on equity <sup>^</sup>	8%	15%	16%
Dividend yield	4.1%	4.2%	1.6%
Total return (US\$) <sup>‡</sup>	6.3%	9.6%	7.3%

Source: Bloomberg, FutureCar, Refinitiv, Orbis. \*Long term average price to book value calculated using data as far back as information is readily available. <sup>^</sup>Weighted average return on equity (RoE) over the latest 10 years. Trailing 12 month price to book value and dividend yield. Weighted median values used for the FTSE World Index. <sup>†</sup>Electric vehicles. <sup>‡</sup> Total annualised return in USD from 31 December 1989 to 31 Aug 2020.



# Central bank balance sheet expansion

## The US Federal Reserve's balance sheet



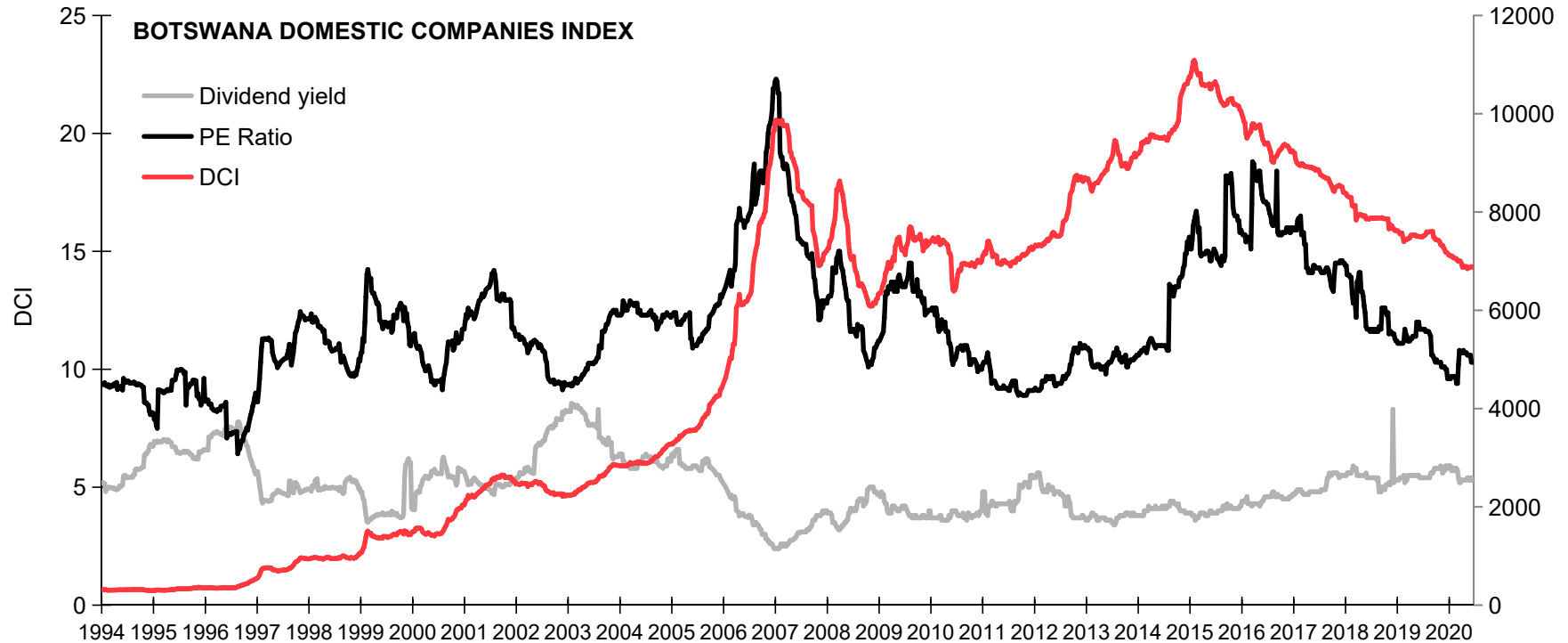


# US interest rates

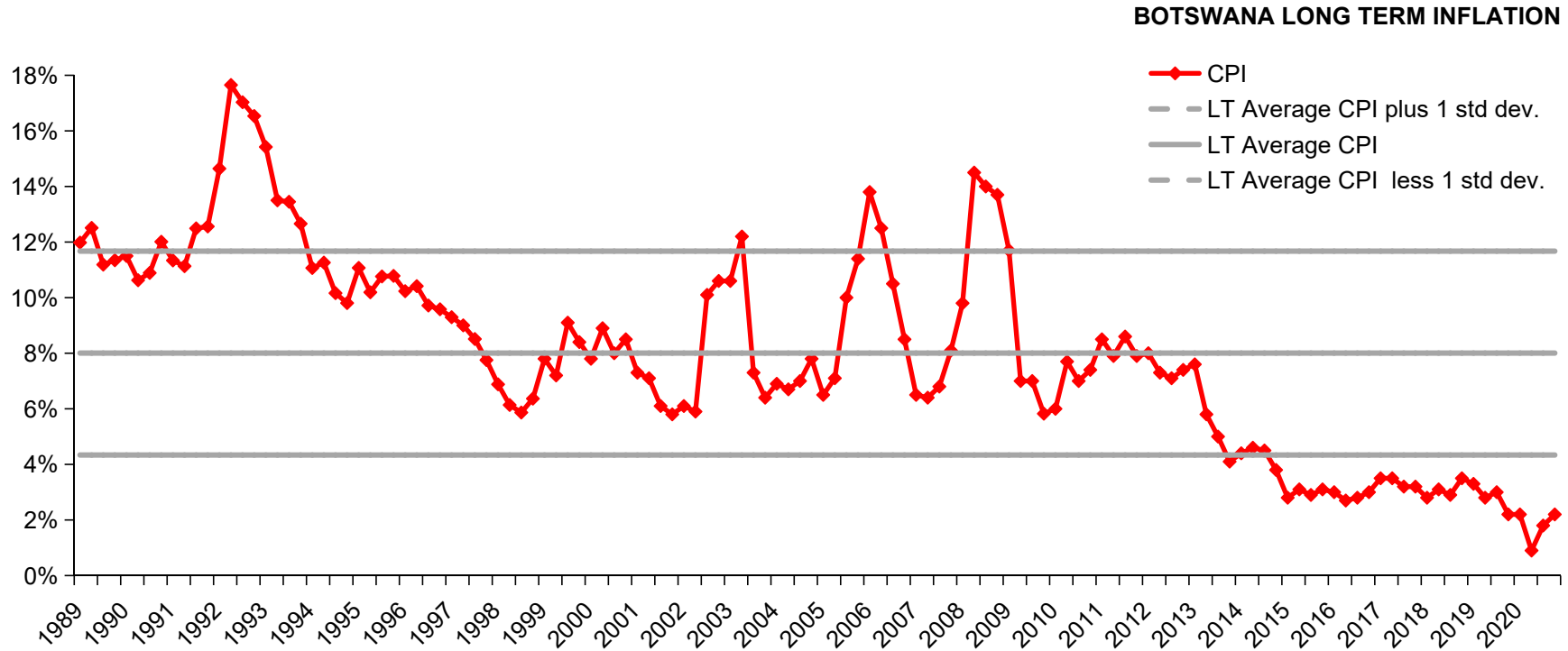
## 10-year US Treasury Bill yield



# Domestic equity



# Fixed interest



**Thank You**





# Legal notes

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