2021

GLOBAL MARKET OUTLOOK

CONTENTS

OVERVIEW

OPTIMISM IN 2021

Long-term outlook remains cloudy but 2021 provides rays of optimism for investors.

Whilst 2020 was a year most would choose to forget, it provided the opportunity (albeit without choice) to slow down, reconsider priorities, reconnect with loved ones and learn to manage change — at a monumental pace.

It was a year bookended by bushfires that devastated much of Australia's east coast, and the most contentious U.S. election since 2000. In between, heightened trade tensions simmered away, which, if not for the worst global pandemic in more than a century, would have been the major investment headline of 2020.

For investors, it was a year in which the full menagerie of spirit animals presented to the market. Bulls and bears exchanged blows as volatility reached all-time highs. Some of the largest monthly market falls on record were followed by some of the biggest monthly gains ever seen — as extensive fiscal stimulus was pumped into the system. Dovish central banks supported markets throughout, and President Biden's election to the Oval Office prompted concerns about a return of the fiscal hawk embodied by the expected Republican controlled Senate (which didn't come to be). And of course, amongst all of this was a black swan — the novel coronavirus, COVID-19 — with its impact likely to be felt for years.

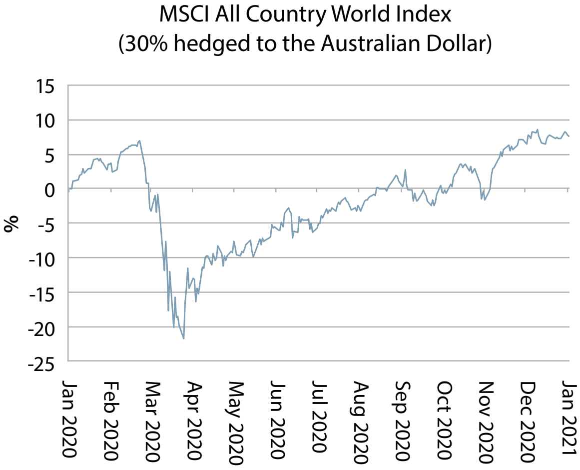
Despite the turmoil, markets remarkably finished above the levels at which they started the year. Whilst equity markets — as measured by the MSCI ACWI (hedged 30% to AUD) — closed 7.6% above where they started the year on 1 January 2020 (chart 1), fundamentals and the economic backdrop changed markedly in that same time.

Whilst positive on the near-to-medium term outlook for risk assets, the stimulus packages that supported a 2020 recovery will eventually need to be funded, global cash rates are virtually zero and globalisation appears threatened for quite some time. As a result, we are now less bullish on the longer-term outlook for capital markets and, in October, reduced the return expectations for our diversified portfolios by 0.5% per annum over rolling ten-year periods.

While the ten-year outlook remains cloudy, the purpose of this document is to focus on 2021, a period in which we now see surprising optimism for investors.

After maintaining an underweight to growth assets for much of 2020, in mid-October we returned portfolios to benchmark ahead of the U.S. election. In November, following a positive election outcome for markets and promising vaccine developments, we shifted to a mild overweight to growth assets as the outlook for a recovery became clearer. We see this positive sentiment continuing in 2021.

CHART 1: MSCI ACWI (30% HEDGED) 2020 PERFORMANCE



Source: Bloomberg, ANZ Chief Investment Office (CIO). As at January 2021.

It is worthwhile noting that without China, the global economy in 2021 would be unlikely to return to its 2019 output level. Despite this, stock markets are now trading at record highs. How is this possible? 2020 exhibited reasons why investors must discern the differences between economies and markets. Whilst the latter is closely connected to the former, forward looking sentiment has been a more dominant driver of market pricing.

There are three key factors why markets are currently holding their ground whilst economies are suffering:

1. After more than a decade of growth, the long feared recession has now transpired and seems unlikely to repeat, at least for some time.
2. The economic recovery is expected to be strong and due to capacity remaining underutilised, brings with it little chance of overheating and the subsequent inflationary pressures that would follow.
3. Central banks loosened monetary policy considerably at the start of the pandemic; and thanks to the lack of inflationary pressure, have been able to further their commitment to promises of lower rates for even longer.

Despite fundamentals continuing to present headwinds, it is the continued promise of low interest rates from central banks and strong company earnings growth (forecast 25-30% earnings-per-share recovery for most markets), which provides the basis for our optimistic view of equities. This has allowed us to increase our target price-to-earnings ratio for 2021. These factors, coupled with TINA (There Is No Alternative), FOMO (Fear Of Missing Out) and rebounding economic activity, should result in upside potential for equities, in the high single-digits — with Asia potentially hitting double digits.

From a style perspective, the arrival of promising vaccine news in late 2020 saw a rotation of assets towards cyclical stocks, and suddenly 'value' was back in vogue. We expect similar rallies to be short-lived in 2021 as low interest rates and economic growth prospects make these rallies unsustainable. As such, we see a modest outperformance for 'growth' stocks this year.

In 2020 we saw considerable evidence of companies acting responsibly, and notably being rewarded for doing so by consumers, their staff and governments. In turn, this drove higher valuations and/or increased profits for these companies, and better returns for those invested in them. We expect this megatrend to continue at an even faster pace in 2021 and beyond. We discuss this further in the Investment Themes section.

Of course significant risks still reside in 2021. The U.S. political landscape and potential for further civil unrest, complications in bringing the pandemic to rest, and trade tensions between Australia and China are the most acute at present. One should not discount natural disasters or geopolitical conflict elsewhere either. Despite this, we believe risks are skewed to the upside as 2021 commences with markets to be propelled higher by profit growth and low interest rates. Following the calamitous events of 2020, we see some optimism in 2021.

I trust this document provides you with an understanding of what we are expecting in 2021. On behalf of ANZ I'd like to take this opportunity to thank you for your ongoing support. We look forward to continuing to assist you with your investment needs this year.

Dan Simpson
Head of Portfolio Management

TABLE 1: INVESTMENT RETURNS

Asset class	2011-2020 annualised returns	2020 returns	2020-2030 forecast annualised returns*
Australian shares	7.8%	1.7%	7.0%
International shares (hedged)	11.9%	10.6%	5.6%
International shares (unhedged)	13.2%	5.7%	5.9%
Emerging market shares	6.6%	7.8%	8.1%
International property	7.8%	-13.3%	5.7%
Infrastructure	11.0%	-3.6%	5.6%
Australian fixed income	5.6%	4.5%	0.7%
International fixed income	5.9%	5.1%	0.4%
Cash	2.4%	0.4%	1.5%

Index information: To 31 December 2020. Australian Shares - S&P/ASX 300 Accumulation| International shares hedged - MSCI World ex Australia Net Index (hedged to AUD)| International shares unhedged - MSCI World ex Australia (Net)| Emerging market shares - MSCI Emerging Markets (Net) in AUD| International property - FTSE EPRA/NAREIT Developed Rental Index ex Australia (hedged)| Infrastructure - FTSE Developed Core Infrastructure Net Hedged to AUD| Australian fixed income - Bloomberg AusBond Composite (0+Y)| International fixed income - Bloomberg Barclays Global Aggregate (AUD Hedged)| Cash - Bloomberg AusBond Bank Bill. Source: FactSet, ANZ PB&A CIO.

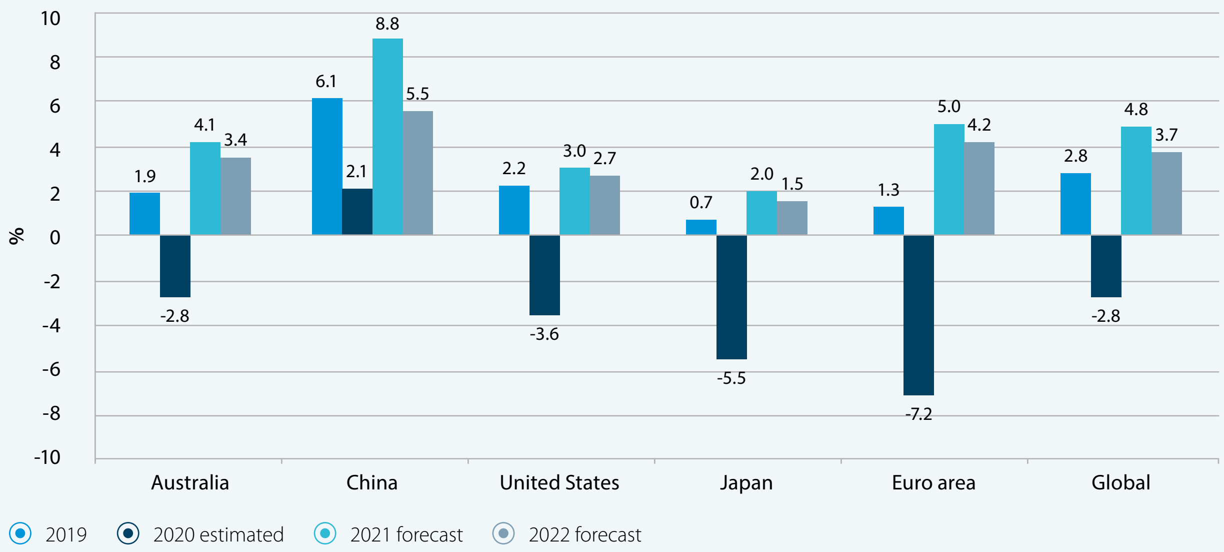
* Annualised returns are forecast through to September 2030 using Mercer capital market aware assumptions (CMA) from September 2020. CMAs are gross of fees and taxes unless otherwise stated. Geometric returns are presented.

ECONOMIC OUTLOOK

VACCINE HOLDS KEY

After a year of extremes in 2020, a robust vaccine led recovery in H2 2021 looks increasingly likely. The calibration of stimulus withdrawal, both fiscal and monetary, will be a significant challenge for policy makers this year and beyond.

CHART 2: GLOBAL GDP GROWTH



Source: ANZ Research, PB&A CIO, December 2020.

2020 saw the largest synchronised easing of policy in history. The increase in money supply across numerous economies was unprecedented and was enough to offset the dire impacts which were forecast for financial markets throughout much of the crisis.

As 2021 commences and the path to immunisation becomes clearer, the withdrawal of stimulus and the manner in which it is conducted will become a critical issue for global markets. The path for a vaccine provides policymakers a roadmap for withdrawal and greater clarity around the timeframe over which stimulus will be necessary.

A vaccine provides hope of a recovery to those sectors most harshly impacted by COVID-19 — including travel, tourism and leisure — and offers businesses and consumers more confidence about longer term decisions. In short, it provides prospects of a return to some form of normality in 2021/22.

Recent vaccine developments point to this crisis being, for the most part, temporary; and whilst not all sectors, regions and income groups will return to pre-COVID-19 levels, the policy easing will likely need to be unwound at some point. The quantification and sequencing of this unwind will be challenging.

Pleasingly, with an exit in sight, the rise in unemployment has been far less sustained for many countries relative to the GFC, which should help ease the path to recovery. China's unemployment rate is already back to pre-COVID-19 levels and the US rate has fallen three quarters since its peak.

Our main focus of stimulus withdrawal is centered on monetary policy. Some central banks, including the US Federal Reserve (Fed) and Reserve Bank of Australia (RBA), have shifted their inflation targets in order to be slower in raising interest rates than previous cycles. This represents a new approach to tackling inflation following the excessively long and low inflationary period since the GFC. As a result, we don't see any global central bank raising interest rates until at least the end of 2022. Later tightening is good for growth, and the embedding of the global recovery. This underpins our perhaps surprisingly optimistic outlook for 2021.

Disclaimer: Components of the 'Economic Outlook' section, associated charts and content relating to the Australian dollar and Commodities on page 24 have been derived from the ANZ Research Quarterly, December 2020.

AUSTRALIA

The Australian economy has rebounded solidly out of the COVID-19 pandemic, thanks largely to significant monetary and fiscal stimulus (topped 13% of GDP in Q3). Australia now appears set for strong growth in 2021 thanks to the containment of the virus and the expectation of a vaccine in H1 2021. As a result, we expect GDP to grow by 4.4% in 2021, reaching its pre-pandemic level by Q3 2021. Consumer and business confidence are now both back above pre-pandemic levels and should support our relatively optimistic outlook for 2021.

The removal of both fiscal and monetary stimulus measures will be a key challenge for policy makers over the next few years with an earlier-than-expected withdrawal of stimulus, remaining a key risk. Whilst these headwinds will present in 2021, a combination of restricted spending through the lockdowns and income support has driven household saving rates to record levels, providing a significant buffer as stimulus measures are withdrawn (chart 3).

The focus for fiscal policy is now a strong private sector recovery, including income tax cuts and substantial investment incentives. Housing finance and construction has recovered strongly, driven largely by owner-occupiers and first home-buyers. Coupled with solid auction clearance rates, strong gains in housing prices through 2021 are now expected. Non-residential construction is, however, expected to remain weak in 2021. Business investment whilst having fallen sharply is expected to recover through 2021 and 2022, as the government's temporary full expensing scheme lifts machinery and equipment spending.

While international borders remain closed, tourism and services exports are likely to remain weak in H1 2021 before a vaccine offers some respite in H2 2021. The heightened trade tension with China remains a key downside risk for the domestic economy in 2021, particularly for exports of education and tourism.

The labour market has now recovered strongly and is expected to continue this trend in 2021 with the unemployment rate to gradually decrease to 6.6% by end-2021. The effective unemployment rate has already plummeted from its earlier extremes and we now believe the official unemployment rate peaked at 7.5% in July 2020. Despite this, an expected increase in participation and labour market underutilisation will limit wage growth and decrease the chances of 'catch up' wage increases. Taking into account inflation forecasts, this means that real wages should fall through much of 2021, reducing households' purchasing power.

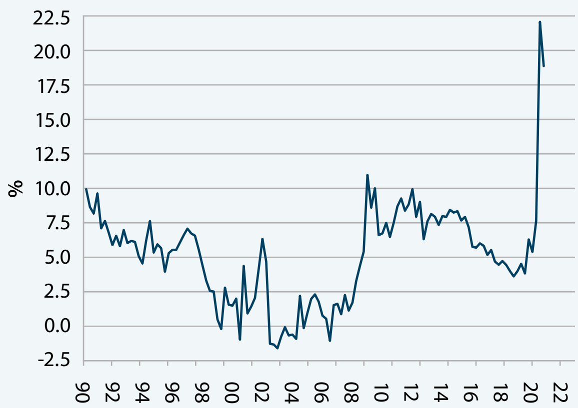
Aggregate demand and faster than expected labour market improvements have resulted in an anticipation of inflation returning a little quicker than previously thought. Though forecast to rise faster than initially expected in 2021, given the subdued wages outlook, we only expect annual underlying inflation to return to pre-pandemic levels by late 2022.

A tightening in monetary policy is implied by the current end dates of the RBA's quantitative easing program (QE) and term funding facility (TFF), however, we look for both the TFF and QE to be extended beyond their existing end dates. Any alteration to the size of these programs will be dictated by the health of the Australian economy and the actions of other central banks.

CHART 3: THE RISE IN THE SAVING RATE GIVES HOUSEHOLDS A BUFFER TO DRAW ON AS FISCAL STIMULUS IS WITHDRAWN

— Household saving rate

Source: ABS, Macrobond, ANZ Research, December 2020.



UNITED STATES

The U.S. continues to grapple with the COVID-19 pandemic, which along with the recent civil unrest and political tension, presents the greatest challenge to its short-term 2021 growth prospects. In the medium-term, risks appear skewed to the upside as a vaccine roll-out and pro-growth agenda from a Biden administration should be supportive for growth prospects in H2 2021. Overall, we expect GDP to rebound by 3.0% in 2021 following an estimated fall of 3.6% in 2020.

The outcomes of the Georgia Senate elections in early January have paved the way for significant fiscal stimulus and infrastructure spending by a Democratic controlled Congress, which should support jobs and income growth until a vaccine is broadly administered. President Biden has begun assembling an impressive economic team including former FOMC Chair Yellen as the Treasury Secretary. The focus of this group will be jobs and we expect they will want to return overall labour market conditions to those experienced pre-pandemic as quickly as possible.

Foreign relations and trade are expected to be beneficiaries of a Biden presidency in 2021 as his strategy is about building mutually beneficial relationships. However, this is unlikely to extend entirely towards China with expectations his administration will continue Trump's assessment that China is a disruptive competitor and security threat. Biden is likely to take a different tact though, seeking to reform strategic alliances in order to place pressure on China. A simultaneous build-up of domestic industries like artificial intelligence and quantum computing to better compete should combine with a bolstering of domestic manufacturing of critical goods to reduce dependence on China.

On the monetary policy front, we anticipate a shift toward greater accommodation from the U.S. Fed in 2021. It is increasingly likely that it will alter the composition of its asset purchases by buying a higher share of longer duration US Treasuries, aimed at placing further downward pressure on long-term yields. Over the course of 2021, a priority for the FOMC is expected to be more detailed forward guidance on their asset purchases.

JAPAN

The Japanese economy grew positively in Q3 2020 (5% q/q) after declining for the previous three quarters. Despite this, output levels remain more than 5% below their Q3 2019 peak. With downside risks prevalent, due to increasing case numbers across the nation, the outlook for the land of the rising sun appears somewhat muted in 2021.

In late 2020, the government released details of a JPY40trn stimulus plan, aimed at promoting domestic activity, given the significant collapse of international tourism. It also included detail on tax-breaks and subsidies for small to mid-sized businesses and funding for green technology. This follows Prime Minister Suga's pledge to have net-zero carbon emissions in Japan by 2050.

Fiscal policy is expected to help lift private consumption at a moderate pace in H1 2021. Economic activity is likely to be bumpy until the end of H1 2021, before improving thereafter as the government seeks to inoculate all citizens by the end of June 2021.

Should the Olympics go ahead in 2021, this should provide additional stimulus for H2 2021 growth.

Contracting household income growth and falling real wage growth, coupled with poor employment prospects, means overall consumption is likely to be benign. Household spending should continue to be multifaceted as goods consumption remains reasonable while services struggle.

The Bank of Japan's (BoJ) preferred measure of core inflation still remains well below its 2% target and was in negative territory in late 2020. The decline has been broadly distributed and points to little prospect of a pick-up in inflation in 2021. As such, the sizeable negative output gap is unlikely to be closed any time soon.

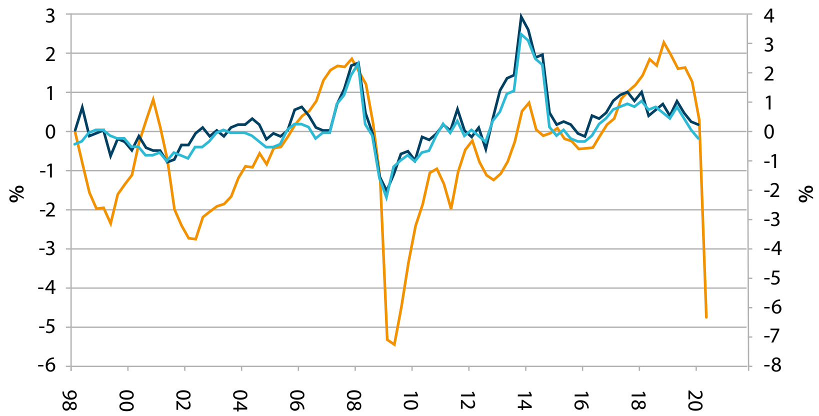
Overall, we expect Japan's economy to recover by 2% in 2021 following an estimated 5.5% contraction in 2020.

q/q = quarter-over-quarter

CHART 4: JAPANESE OUTPUT GAP AND INFLATION

— Output Gap, LHS
— Headline inflation, RHS
— Core inflation, RHS

Source: BoJ, Bureau of Statistics, Macrobond, ANZ Research, December 2020.



EUROPE

The cyclical backdrop to the euro area should improve as 2021 progresses, lockdowns are eased, citizens vaccinated against COVID-19 and sectors inhibited by the virus are allowed to resume normalised activity. The speed at which restrictions are lifted will determine the pace of Q1 growth. However, from Q2 onwards, we expect to see a sturdier and increasingly balanced recovery emerge.

Despite this, GDP is likely to remain below potential for some time, resulting in upward pressure on unemployment and downward pressure on prices, particularly in H1 2021.

The euro area is currently experiencing its longest run of negative inflation since 2009 – and with deflationary pressures remaining, this appears likely to extend into the early months of 2021.

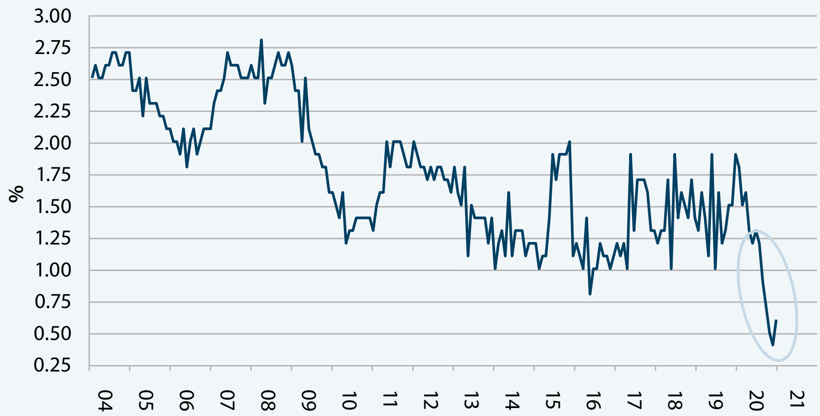
The longer this dynamic persists, the higher the risk it becomes engrained in price-setting behaviour. This would make a return to a sustained trend or above trend growth more difficult once pre-crisis levels of GDP are achieved.

The ECB is expected to complete its monetary policy review this year with a strong case to move the inflation target to 2.0% from the current "close to but below 2.0%".

Fiscal and monetary stimulus should remain expansionary and the region will benefit from a recovery in global trade and diminished trade tensions with the U.S. We forecast real GDP to rise by 5.0% in 2021 with the economy returning to pre-pandemic levels by early 2022.

CHART 5: EURO AREA SERVICE SECTOR DEFLATION IS A MAJOR PROBLEM FOR THE ECB

Source: Eurostat, Macrobond, ANZ Research, December 2020.



CHINA

China has coped with the COVID-19 pandemic remarkably well and in 2021, the economy is likely to have recovered to its full potential. Our conservative assumption is that China's GDP will expand at an average rate of 1.3% q/q sa from Q2 to Q4 2021, the same pace as in Q4 2019. This would take China's GDP up 8.8% sa for full-year 2021.

In March, the State Council will translate the 14th Five-Year Economic and Social Plan (FYP) into a range of quantitative targets and announce them at the National People's Congress (NPC). China failed to release an official GDP target for 2020 at the previous NPC due to the pandemic, and is expected to indicate a soft target using broad language this time round.

China is expected to continue opening up and importing necessities but will focus equally on a broader range of internal economic and social objectives, focused on increasing growth in the region. Tech and innovation are positioned to spearhead this push.

Trade and international relations remains uncertain in 2021 but should be less erratic than under a Trump Presidency. While unlikely to return to pre-Trump levels of diplomacy, the reality is that China remains a crucial part of global supply chains. Despite the pandemic, China's export performance held up well and the nation continues to commit to globalisation as evidenced by the formation of the world's largest trading bloc, the Regional Comprehensive Economic Partnership (RCEP), which was agreed on 15 November. The partnership included Australia and New Zealand as signatories, who despite recent geopolitical tensions continue to endorse China's role in regional trade.

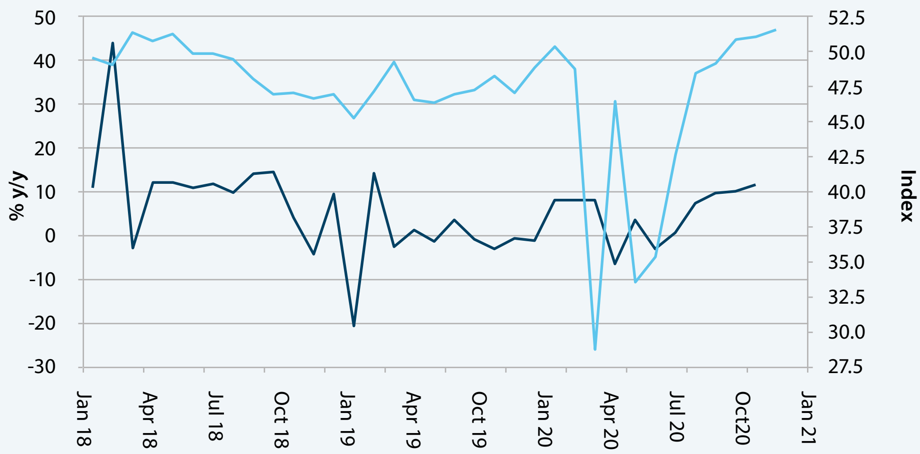
Many top Chinese officials have begun rhetoric surrounding exit strategies from pandemic-related stimulus policies — in 2021, proactive deleveraging is expected to commence. Credit in specific sectors (e.g. property) is likely to be reduced via macro prudential or other targeted measures — slowing China's credit impulse. We are of the view that policymakers will adopt a measured approach to normalisation of monetary policy with interest rates on hold and the central bank to roll over most of its liquidity support measures.

q/q = quarter-over-quarter
sa = seasonally adjusted

CHART 6: CHINA'S EXPORTS

— China Export Trade USD YoY, LHS
— China New Export Orders PMI SA, RHS

Source: Bloomberg, Macrobond, ANZ Research, December 2020.



INVESTMENT THEMES

WHAT TO WATCH IN 2021

2020 forced the globe to change at a rapid pace. In 2021, several themes appear set to continue their acceleration and impact market outcomes accordingly.

SUSTAINABILITY – A MEGATREND FOR INVESTING

Sustainability has become a pervading megatrend that had a substantial impact on investment markets in 2020. It will only become more dominant in 2021 and beyond.

For the last decade or so, there has been a lot of talk about sustainable investing, but little action. Now there is a lot of action. What's more, it is having a snowball effect that we expect to develop into an avalanche. The investment industry has been increasingly aware of the risks posed by Environmental, Social and Governance issues but little was being done in managing investments in line with these ESG concerns. However, as super funds and asset allocators recognise their fiduciary duty in tailoring investments to avoid ESG risks, similar to the management and mitigation of broader market risks, they have become highly active in keeping companies accountable to ESG matters.

Beyond just ESG considerations, sustainability encourages businesses to frame decisions around impact to the environment and society with a longer term focus, rather than based solely around the short term gains of quarterly earnings. Sustainability is no longer just nice to have, it's business critical. Consumers are demanding sustainably and responsibly produced products and services. Workers demand those same attributes from their employers. Governments are waking up to the social and economic costs of irresponsible business practice and looking to price (tax) these externalities. As investors, this means we need to understand how companies fare in the sustainability scale.

Research has shown that companies who are genuine about sustainability are prospering, and those that aren't are suffering.

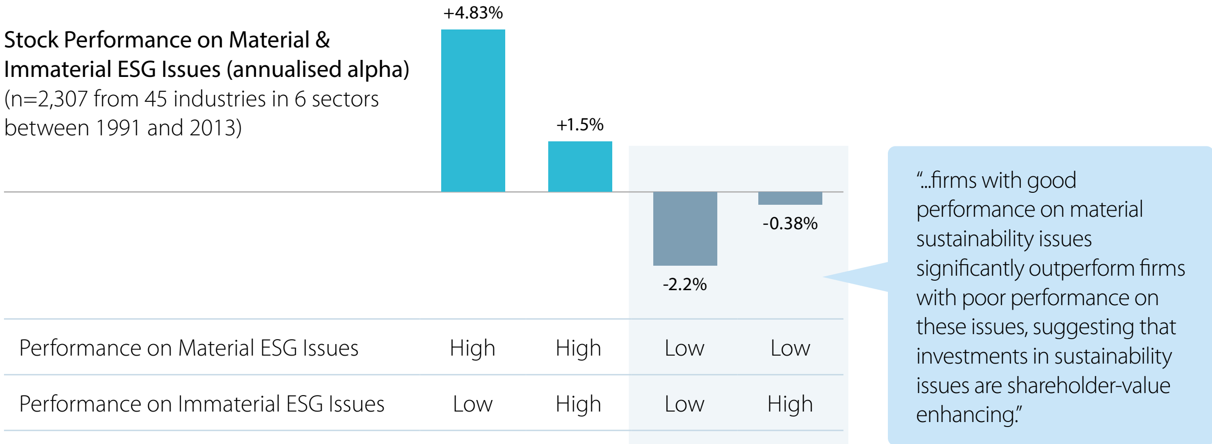
An academic paper, using data collected from 1992-2013, by Khan, Serafeim & Yoon titled 'Corporate Sustainability: First Evidence on Materiality', concluded that firms with good ratings on material sustainability issues significantly outperformed firms with poor ratings on these issues (chart 7).

Amongst other things, investing with a sustainability lens means avoiding those companies whose irresponsible practices will damage their bottom line. A new term has been coined to describe this practice of consumers avoiding individuals and businesses deemed to be acting in an offensive manner: "Cancel Culture". A recent example is anti-Trump consumers acting with their wallets to boycott Mexican food outlet Goya Foods when the company CEO attended a White House event in July and praised Donald Trump. We witnessed a trail of boardroom exits across the globe last year, including Australia, as a spotlight was shone on boardroom accountability by mainstream media. While boycotting brands is not a new phenomenon, the reputational damage and impact to profit margins can have lingering effects.

Climate change action is another significant part of sustainability and in 2020 we saw continued commitments by governments to reach net-zero emissions. These included Japanese Prime Minister Suga's pledge to have net-zero carbon emissions in Japan by 2050 and the UK's announcement that from 2030, the sale of new petrol and diesel driven cars will be banned entirely in the UK.

Whilst blow-ups capture most of the headlines, sustainable investing is not just about managing risks; what's just as powerful, is finding opportunities which profit because their business success is driven by the sustainable megatrend. A good example is Schneider Electric, a French multinational company held by one of our global equity managers, MFS. Schneider's energy management solutions for buildings provide average cost savings of about 30% from reduced electricity consumption. Some see savings as high as 85%. The company unveiled new medium voltage switchgear for commercial buildings that eliminates the need for SF6 gas, which, with a warming potential about 20,000 times that of CO2, is the most potent greenhouse gas.

CHART 7: ESG ISSUES ARE BECOMING MORE MATERIAL



The study tested the effects of the SASB's material factors, accounting for the effects of firm size, market-to-book ratio, profitability, leverage and sector effects.

Source: Khan, M., Serafeim, G. and Yoon, A. (2016). Corporate Sustainability: First Evidence on Materiality. The Accounting Review: November 2016, Vol. 91, No. 6, pp. 1697-1724.

At ANZ Private Banking & Advice, we are responding to the sustainability megatrend in a number of ways, and we're demanding more of our underlying fund managers. We expect all of our active managers to integrate Environmental, Social and Governance (ESG) factors in their investment processes so they can manage risks and exploit opportunities. We also expect that they actively participate in proxy voting and engage with companies on responsible practices, such as Modern Slavery. All of the managers in our diversified portfolios are signatories of the United Nations Principles of Responsible Investing (UNPRI).

Our biggest sustainable investing highlight for 2020 though, was the launch of an impact investment proposition for our wholesale clients. Impact investing is about investing in things which benefit people and the planet, without compromising returns. This has opened up new opportunities driven by strong thematics, such as disability accommodation and regenerative agriculture.

Sustainability used to be something that only the minority spoke about. ESG factors used to be nuisance risks which were barely paid lip service. Now the risks are acknowledged as real and substantial; and a plethora of compelling opportunities which exploit ESG factors have arisen as well. For us, we will be placing even greater emphasis on sustainable investing; not just because it's the right thing to do, but because it also makes sound investment sense.

"TINA – THERE IS NO ALTERNATIVE" (TO EQUITIES)

Return expectations for bonds and equities have fallen to historic lows and efficient frontiers have come down materially as a result (chart 8). The shift for bonds however is the most extreme.

It's consistent with lower growth, lower inflation and subsequently lower yields. Low bond returns 'steepen' the efficient frontier and therefore imply higher allocations to equities. On the other side, higher equity valuations result in even less future return potential.

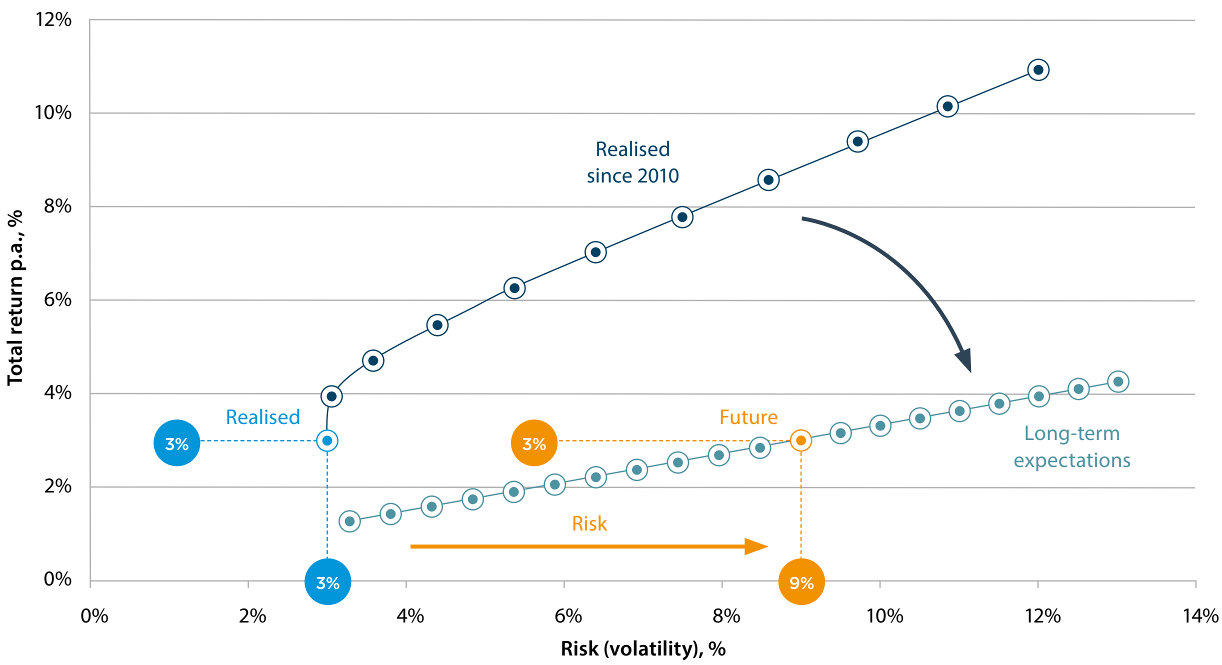
Real return estimates look even more dismal: Rising inflation expectations mean real expected returns are low, and negative for some fixed income segments. Recent history, even throughout COVID-19, has provided strong returns for investors. This is not expected to continue and therein lies the dilemma for investors; where to allocate?

Unfortunately, the COVID-19 market crash in March 2020 brought about some new market dynamics. Diversification, the only free lunch when it comes to investing, was brought further into question. While equities fell sharply and volatility spiked at all-time highs, U.S. Treasury yields (a safe haven) rose at the peak of market meltdown. In layman's terms, correlations increased as nearly all assets headed in the same negative direction (at least for a couple of days). Diversification was hard to find at this time and questions have been raised for the future.

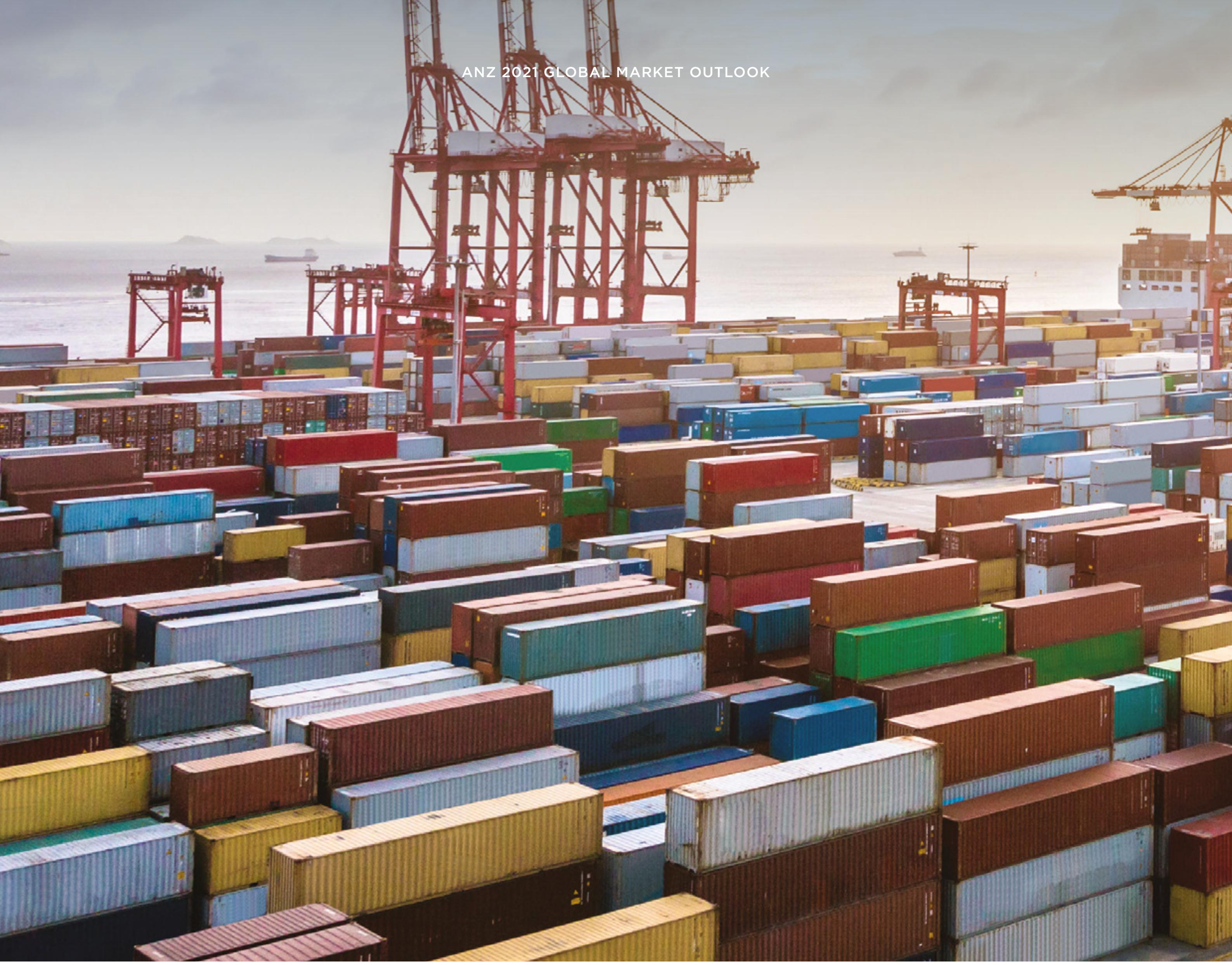
Certainly, there are options to cope with this environment. In the first place, we believe that higher tactical allocations to equities and overweights to government bonds vs. cash may be necessary in order to sustain a certain level of portfolio return while not running excessive risk. Professional strategic asset allocation is critical for ensuring this is done appropriately, avoiding concentration risks and diversifying intelligently by expanding the traditional opportunity set, e.g. allocating to alternatives or private markets. We also believe this increases the benefits which tactical asset allocation can provide, e.g. trade contrarian and generate additional alpha from there.

2020 provided investment houses the opportunity to guide clients through a tumultuous period and we believe the need for this type of management will only increase as market dynamics evolve in the year(s) ahead.

CHART 8: EFFICIENT FRONTIERS ARE SHIFTING LOWER



Past performance is not a reliable indicator of future returns. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis which may prove to be incorrect. Sources: Bloomberg Finance L.P., DWS Investment GmbH as of November 2020.



AUSTRALIA-CHINA SPAT

Late in 2020, relations between Australia and its largest trading partner, China, came to a head. The relationship fell to its lowest ebb, with Australian and Chinese officials exchanging tit-for-tat remarks not dissimilar to those recently reserved for U.S.-China relations.

China's recent trade restrictions on Australian exports including wine, coal, timber, copper, barley and lobster followed the Australian government's decision to block Chinese telecommunications giant Huawei from the 5G network, criticism of China's actions in Hong Kong and its push for an independent inquiry into the origination of COVID-19. Treasurer Josh Frydenberg's decision to prevent the takeover of Australian-based, Japanese-owned dairy and drinks manufacturer Lion Dairy in August 2020 by Hong Kong-listed China Mengniu Dairy appeared to be the tipping point. The rejection of the $600m acquisition came despite the Foreign Investment Review Board and Treasury both supporting the deal.

Make no mistake, the souring relations are a significant headwind for the Australian economy in 2021. However, whilst China can survive without Australian coal, wine and various food exports, it is reliant (at least in the short-term) on Australian iron ore — China's annual imports far exceeding the seaborne supply of non-Australian iron ore.

Any bans on iron ore exports could be disastrous for the Australian economy — exports to China accounted for AUD79bn in 2019, or just over 80% of the total value of Australia's iron ore exports — however China's reliance on Australia and our potential to diversify some supply to other markets reduces any meaningful risk here.

Of greater immediate consequence is the potential second order effects, which could play out as a result of the tensions. If relations haven't improved by the time borders are reopened, there is a risk that tourism and education exports will take further hits. China represented about 27% of the AUD63bn earned from tourism and education

exports in 2019. While Australia could replace large components of the education sector with non-Chinese Asian demand, it is the retail spending and flow-on effects to the domestic real estate market from Chinese students which appear most vulnerable at present.

This topic remains a moving feast. Whilst it is difficult to forecast the impact on the domestic economy and share market in 2021 — as the nuances of the existing relationship and pathways to reconciliation are varied — we believe the likelihood of material risks to the local share market remains relatively low and isolated to a handful of specific stocks within the ASX 300.

Macro and geopolitical uncertainty are a constant for markets; whether it be Brexit, conflict in the Middle East or ongoing trade tensions. Markets frequently over-react to these uncertainties, creating volatility and opportunities for active management to benefit.

Past conflicts between China and other countries — including South Korea and Japan — have generally taken around two years to resolve. While the risks may currently be overstated by some, it is likely China trade tensions will continue to dominate headlines for much of 2021 and potentially beyond.

INVESTMENT STRATEGY

'TINA' SUPPORTS OPTIMISTIC OUTLOOK FOR 2021

With rates anchored at all-time lows, investors seeking positive real returns should support the price of growth assets in 2021.

As mentioned previously, our outlook for 2021 is one of surprising optimism. Governments have reiterated their intention to support economies with further fiscal stimulus. A broader distribution of a COVID-19 vaccine looks probable in H2. Risks which girded markets in late 2020 — the U.S presidential election and trade tensions — appear diminished. Rates are anchored at all-time lows and are expected to remain there for the foreseeable future. And given 'There Is No Alternative' (TINA) for generating real returns, we expect growth assets to continue to outperform in 2021.

This is not to suggest it will be a linear pathway for risk assets in 2021. Far from it. We expect it to be a volatile ride for investors but are confident that equities will continue to provide a better alternative than cash and fixed income this year.

While forecasting relative outperformance for growth assets, return expectations need to be tempered somewhat. With markets currently priced for perfection, we don't expect investors to receive returns in the high-teens and above — like those experienced in some equity markets in 2019 and 2020.

Broadly speaking, in 2021, we believe equity markets are likely to produce returns in the high single-digits — led by Asia, which has potential to hit double digits, thanks largely to its efforts in containing the virus and subsequent recovery.

Domestically, the local share market appears well positioned to continue benefiting from the reopening trade in the early part of 2021 — Miners and the Banks rallied strongly in the latter part of 2020 following the cyclical rotation. While we are currently positioned with a mild overweight to this asset class, this is largely premised on gaining shorter term exposure to 'value' stocks. Generally, our belief is that 'growth' should moderately outperform in 2021. As such we envisage better opportunities elsewhere in developed markets over the course of the year.

Across the remaining major developed markets, we expect the U.S. to outperform both European and Japanese equities — we forecast mid-single digit returns for both. While the unexpected outcome of the Georgia Senate election in early January delivered a narrow majority to the Democrats in both houses and opens the door for tax hikes for corporate America — we believe this possibility is currently overstated. Rather, we now expect even more substantial fiscal spending for the economy — a favourable outcome for some sectors of the market.

Despite currently holding a neutral position in emerging market (EM) equities, we see the greatest upside in 2021 within the asset class. We await better entry points, but with the Asian region expected to provide the strongest returns in 2021, and with Asia representing more than 70% of the overall EM index, we see strong potential for double-digit returns for EM in 2021 — led by China, Korea and Taiwan.

We expect U.S. 10-year government-bond yields to trade at around one percent in 2021 and global government bonds to trend sideways, anchored at historic lows. We continue to advocate for diversification in portfolios and currently favour fixed income — primarily U.S Treasuries and Australian rates — over cash. Given their respective QE programs, we see minimal risk in the near-term and find the yield pick-up, relative to cash, attractive. Further out the risk spectrum, credit markets are expected to offer some attractive opportunities throughout the year.

It is important to reiterate that we expect 2021 to be volatile in parts. Risks, particularly in the first half of the year, are prominent. With valuations already stretched, any downside disappointment concerning a vaccine roll-out could present a risk for markets. Domestically, we face continuing challenges with our largest trading partner, China, and ensuring that the unwinding of any fiscal stimulus, or RBA interest rate support in H2 2021 is calibrated correctly.

Balancing these risks against the potential return outlook and improving macroeconomic backdrop, we enter 2021 with a view of cautious optimism for investors.

TABLE 2: ASSET CLASS PREFERENCES

	Current
Growth assets	MO
Developed market shares	MO
Australian shares	MO
Emerging market shares	B
Real assets	MO
Defensive assets	MU
Australian fixed income	MO
International fixed income	MO
Cash	U
AUD	B

U Underweight MU Mild underweight B Benchmark
MO Mild overweight O Overweight

ASSET CLASSES

CURRENT STRATEGY AND OUTLOOK

AUSTRALIAN SHARES

MO Current

Our current preference is a **mild overweight** to **Australian shares**.

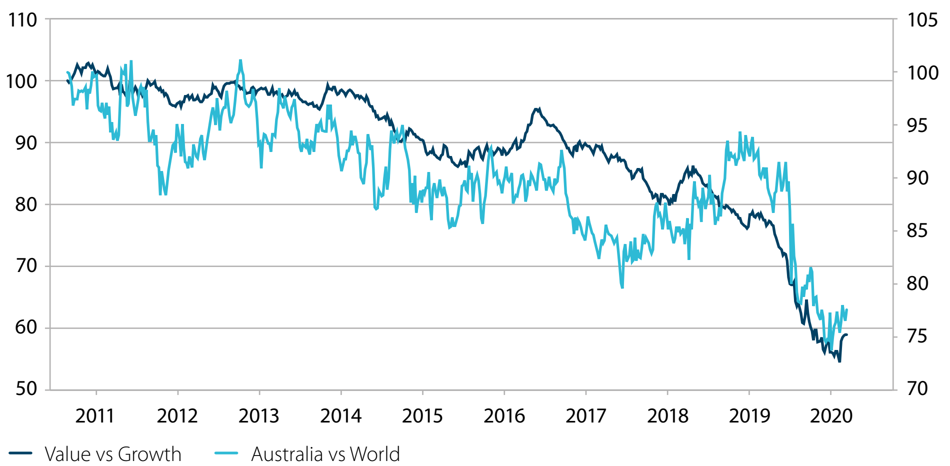
In late 2020 we increased our allocation to Australian equities as US presidential election risks dissipated and COVID-19 vaccine advancements firmed up timelines for a global reopening. The local share market benefited from the rotation towards cyclical assets as heavy-weight 'value' sectors in financials and materials outperformed (chart 9).

In general, Australia's handling of the pandemic has been quite successful relative to global peers and should hold the economy in good stead in H1 2021, before a vaccine is deployed more broadly. Indeed, after some underperformance of Australian equities versus global equity markets in 2020, the positive backdrop from the commodities sector, particularly new highs in iron ore prices, have supported the recovery of late and may continue into the early parts of 2021. Likewise, the leading role of China and the Northern Asian region as a whole, both from an economic and a market performance perspective, will likely be beneficial for Australia. Albeit, the current dispute with China poses a threat to this.

While we do not expect sector and style trends to change fundamentally in 2021, the more cyclical nature of the Australian market is expected to allow the home market to catch up further as global economies reopen and enjoy a cyclical recovery.

Whilst we hold a tactical mild overweight position at the moment, we believe other parts of the Asian and developed market regions are likely to outperform the domestic share market over the duration of 2021.

CHART 9: AUSTRALIA – A 'VALUE' MARKET



Past performance is not indicative of future returns.

Source: Bloomberg Finance L.P., DWS Investment GmbH as of December 2020.

DEVELOPED MARKET SHARES

MO Current

Our current preference is to be **mildly overweight developed market shares**.

As mentioned in our introduction, we shape our equity markets expectations for 2021 with assumptions of a continuation of accommodative fiscal and monetary policy. More critically, we base our forecasts on the arrival of an efficient COVID-19 vaccine allowing a return to 'normality' by the end of 2021.

We forecast 25-30% EPS recovery for most markets and 'lower for longer' interest rates (U.S. 10y 1.0% by year-end 2021). Earnings growth and a low interest-rate environment form the basis for our optimistic view on equities. This allows us to increase our target price-to-earnings ratios. This results in further upside potential, in the higher single-digit percentage range. Despite the likely persistence of some temporary 'value' rallies we expect 'growth' sectors to moderately outperform in 2021.

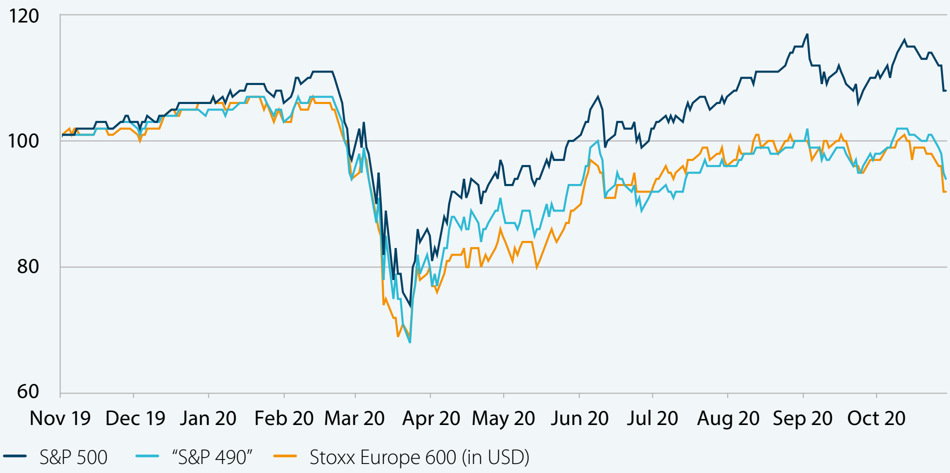
In the U.S., the surprising Democratic sweep in Georgia in early January led to a mandate which is amongst the narrowest in 60 years. Biden won the White House with only 51% of the popular vote (compared to Obama's 53% in 2008), the Democrats' House majority is only 11 seats and their control of a 50/50 Senate only comes via the tie-breaking vote of Vice President Harris. While we expect even higher fiscal stimulus measures to support the economy, thanks to a Democrat-controlled Congress, we believe that fears about major tax or regulatory changes are likely overstated given the narrow majority.

We expect ex-U.S. markets to continue trading at elevated valuation discounts to the U.S., given the lower relative weight of high-growth stocks. Nevertheless, we have mid-single digit total return expectations for European and Japanese equities.

While markets currently seem comfortable to largely ignore valuations, any changes to central bank policy or extended and protracted lockdowns could result in equity market weakness. However, any sell-offs may also provide opportunities for us to allocate further towards equities at more attractive levels.

CHART 10: WHEN 'GROWTH' MAKES ALL THE DIFFERENCE

In %; index, October 2019 = 100



Comparison S&P 500, S&P 500 ex 10 stocks with highest contribution, and Stoxx Europe 600 (in USD) Past performance is not indicative of future returns.

Source: FactSet Research Systems Inc., Bloomberg Finance L.P., DWS Investment GmbH as of November 2020.

EMERGING MARKET SHARES

B Current

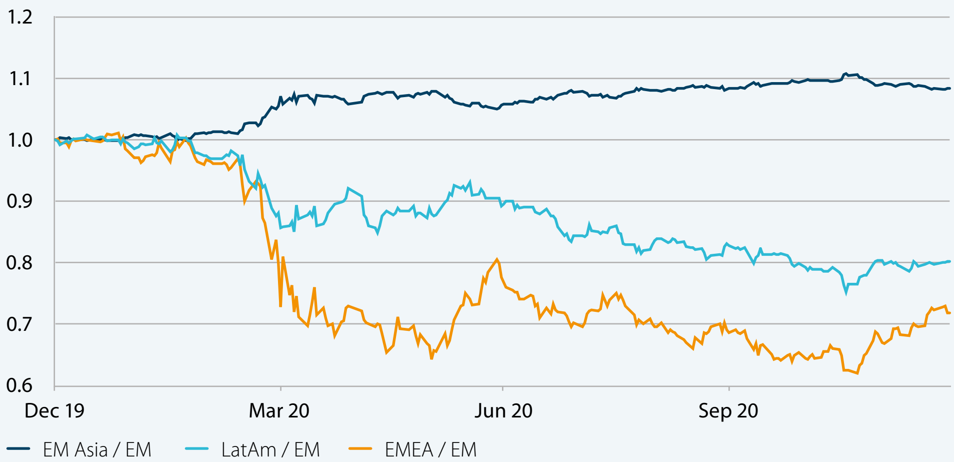
Our current preference is to be **benchmark emerging market (EM) shares**.

EM is mainly driven by the Asian region which represents more than 70% of the overall EM index. While China and the Asian region were first hit by the pandemic in early 2020, they were also among the first to recover. They managed the virus situation significantly better than other regions of EM, thanks in large part to better health care systems. They also did this without amassing significant fiscal debt (no mean feat) which bodes well for long-term growth prospects. EM also has leading companies within the technology sector, the basis for the growth pick-up in the second half of 2020.

An ongoing economic recovery in 2021 should allow for a more cyclical catch up in respective sectors besides the structural growth areas. Asia is our preferred equity region for 2021 — with return forecasts being in the double-digit range —and is expected to continue to outperform within EM, led by China, Korea and Taiwan.

We currently have a neutral stance on EM equities given our more balanced style approach across the entire equity bucket and the fact that recent outperformance has priced some of the positive arguments on the growth and earnings side. From a tactical asset allocation standpoint, we wait for better entry points later in the year to increase our allocation to the asset class, which we view, as the most likely of equity markets to outperform in 2021.

CHART 11: RELATIVE PERFORMANCE OF EMERGING MARKET REGIONS VS. EM BROAD (1Y) – ASIA AT THE FOREFRONT



Past performance is not indicative of future returns.

Source: Bloomberg Finance L.P., DWS Investment GmbH as of December 2020.

LISTED REAL ASSETS

MO Current

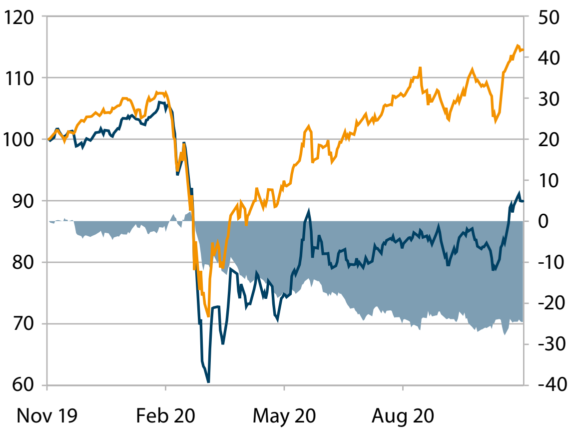
Our current preference is to be **mildly overweight listed real assets**, with the positioning driven by **overweight exposure to Global Real Estate Investment Trusts (GREITs)**.

GREITs massively underperformed global equity markets during COVID-19, with valuations now extremely cheap in a historical context. Our current overweight to GREITs is tactical and is premised on our expectation that they will benefit from the reopening trade.

On a longer term basis, we expect office REITs will remain under pressure due to the COVID-induced working-from-home movement and shopping centres will face headwinds given the structural shift in online shopping. In contrast, there are promising developments in the residential and health care space. For the sector as a whole, dynamics appear to have shifted with negative correlations to value appearing over and previous dependencies on yield changes being weaker.

We are currently positioned with a **mild underweight in infrastructure**. We believe the asset class provides a unique balance of defensive predictability, some resilience to withstand drawdowns as well as higher-beta traits to capture upside swings. We expect defensive regulated assets that are not directly consumer-demand based to hold up well in 2021 as the regulated nature provides greater visibility around long-term risk and return expectations. On the other end, more cyclical oriented "user-pay" sectors provide a differentiated profile and potential return enhancement, such as toll roads and midstream energy. As such, we believe a balanced approach is warranted, with exposure to defensive sectors as well as more cyclical-oriented companies with high quality assets. Near-term, we anticipate broader market volatility to offer tactical opportunities to increase exposure in the asset class.

CHART 12: GLOBAL REITS VS. GLOBAL EQUITIES

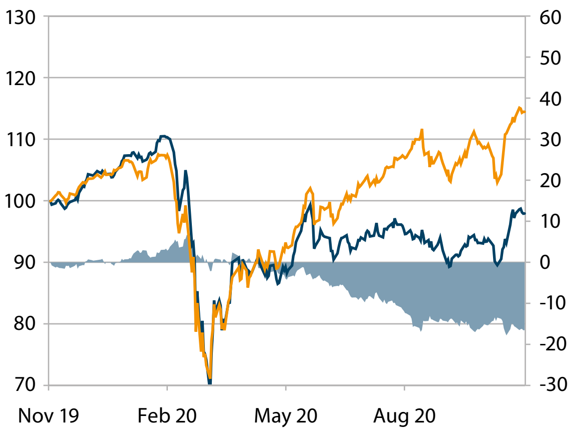


Relative (REITS vs. MSCI World, RHS)

FTSE EPRA/NAREIT Developed — MSCI World TR

Past performance is not indicative of future returns.
Source: Bloomberg Finance L.P., DWS Investment GmbH as of December 2020.

CHART 13: GLOBAL INFRASTRUCTURE VS. GLOBAL EQUITIES



Relative (Infrastructure vs. MSCI World, RHS)

DJ Brookfield Global Infrastructure — MSCI World TR

Past performance is not indicative of future returns.
Source: Bloomberg Finance L.P., DWS Investment GmbH; as of December 2020.

INTERNATIONAL FIXED INCOME

MO Current

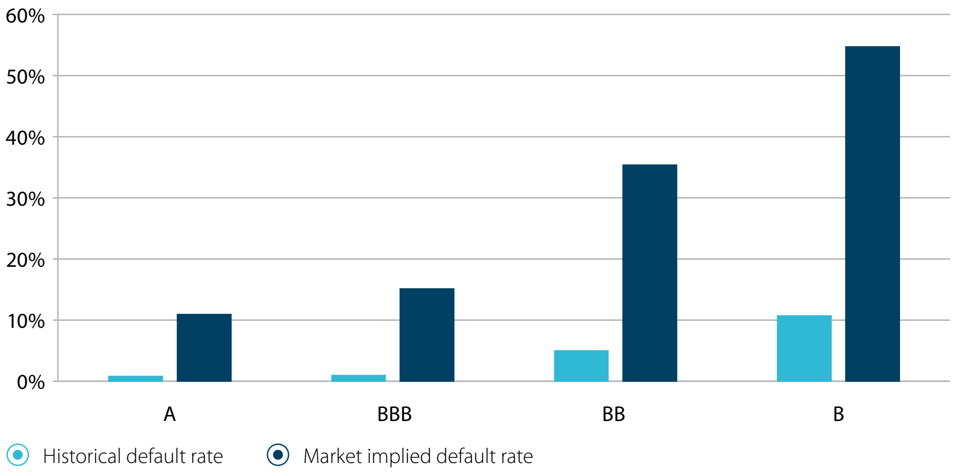
Our current preference is to be **mildly overweight international fixed income**.

Persistence of global output gaps and labour market slack points to inflation risks remaining limited within the forecast horizon – and most likely for some time after. Coupled with this, accommodative central bank policy should keep nominal yields low and real rates in negative territory, ensuring the economic recovery as well as rising levels of fiscal debt can be sustained for a prolonged period.

Over 2021, we see U.S. 10-year government-bond yields trading at around one percent and the yield curve steepening slightly, given central bank impacts on the short and medium part of the curve. We anticipate some movement on the longer end due to the economic uptick and inflation expectations trending higher. We also expect global government bonds in general to move sideways whilst well anchored at historic low levels, with only a slight upward trend. U.S. Treasuries alongside Australian rates remain our preferred exposure within fixed income.

In 2021, credit spreads should benefit from an improvement in the economic backdrop and tail risks diminishing due to vaccine rollouts. The hunt for yield and continued central bank QE programs underpin the preference for credit/carry over sovereigns. In our opinion, corporate bonds and other credit asset classes look set to offer a sound risk-reward profile in 2021. In EM, too, we continue to see good opportunities in selected regions and sectors, against the background of stabilising raw-material prices and the trend for a stable or slightly lower US dollar.

CHART 14: EM SOVEREIGNS – DEFAULT RISKS LOWER THAN MARKETS REFLECT?



Source: FactSet Research Systems Inc., Bloomberg Finance L.P., DWS Investment GmbH; as of November 2020.

AUSTRALIAN FIXED INCOME

MO Current

Our current preference is to be **mildly overweight Australian fixed income**.

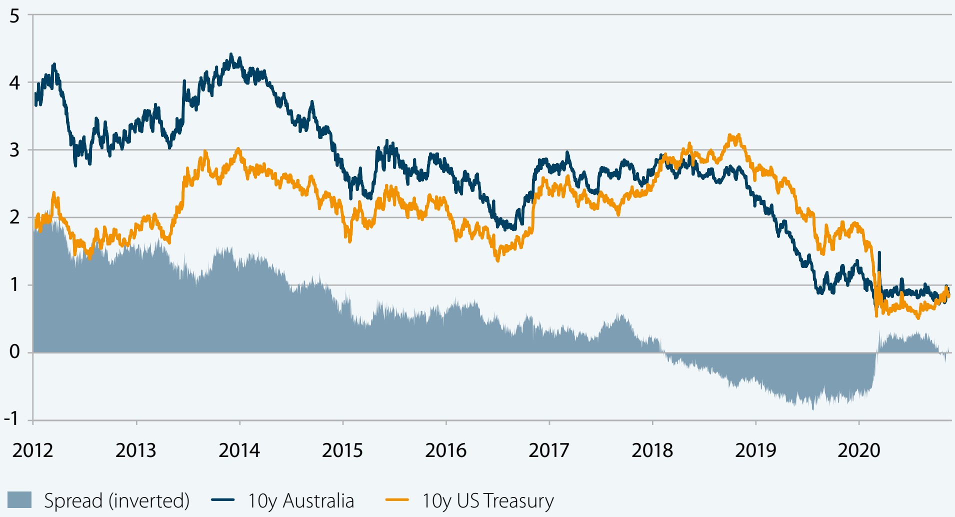
Our overweight position is offset by an underweight position in cash. This is premised on the additional yield pick-up, relative to cash. Given the RBA's QE program, we see little risk for the sector in the foreseeable future.

RBA policy has been focused on easing financing conditions by cutting rates and expanding QE programs. This has been accompanied by 'lower for longer' messaging, although there is dependency on the outlook for jobs and inflation. Given this, rates on government bonds are likely to remain lower for even longer than we thought a year ago, as central banks try to contain the damage of the COVID-19 crisis.

Next to U.S. Treasuries, we like Australian rates in a global context given the steepness of the yield curve and the offering of one of the highest yields amongst developed markets.

In 2021 riskier segments may continue to benefit from the low-interest-rate environment and hunt for yield. Some corporate bond indices have not yet returned to their pre-crisis levels since the market panic early in 2020. We expect significantly lower issuance in 2021, with demand remaining strong. The vaccine-driven cyclical recovery and positive risk sentiment might lead to moderately higher yields in the short term. However, our conviction for 2021 overall remains intact for structural forces to keep yields at low levels.

CHART 15: 10Y AUSTRALIA VS US TREASURY LONGER-TERM (YIELDS IN %)



Source: Bloomberg Finance L.P., DWS Investment GmbH; November 2020.

AUSTRALIAN DOLLAR

B Current

Our current preference is to be **benchmark the Australian dollar**.

Following a tumultuous year, the AUD has emerged as a top performer and has reaffirmed its role as a currency leveraged to investor risk sentiment, enjoying a pronounced appreciation against the U.S. dollar since the March 2020 lows.

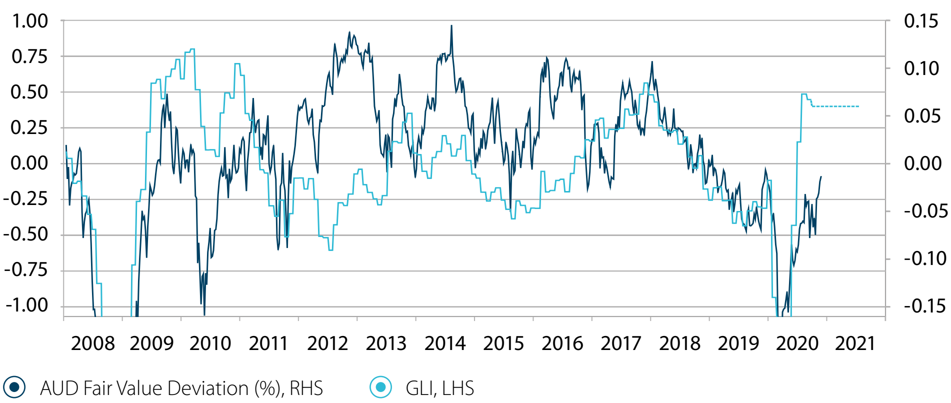
Much like 2020, it is the global setting which is likely to dictate the performance of our local currency in 2021. Geopolitics and trade policy are expected to be more stable in 2021, supporting global trade volumes accordingly. Likewise an extension of the reopening trade which we witnessed in late 2020 should extend at least part way through the year.

This coupled with a lower USD should benefit asset flows into emerging markets and Asia.

One trend from 2020, TINA (There Is No Alternative), should also continue to assist as interest rates remain at record lows and push investors up the risk spectrum. These ingredients are generally a recipe for success for the AUD and we expect 2021 to be no different.

Domestically the economy appears to be in solid shape, relative to others, with solid growth forecast in 2021. Household savings buffers, accumulated during lockdowns and aided by fiscal stimulus measures, should support spending also. Whilst part of the good news is already priced in, we believe there is room for the AUD to rise from its current levels towards 80c by year-end.

CHART 16: GLOBAL GROWTH SHOULD SUPPORT A MOVE ABOVE FAIR VALUE



Source: Fed, Bloomberg, Macrobond, ANZ Research, December 2020.

COMMODITIES

We monitor commodities closely due to their close correlation to the Australia dollar however we do not have a preference for this asset class.

A vaccine led recovery and continued stimulus looks set to provide a supportive backdrop for commodities in 2021. These factors, combined with a weakening USD and supply constraints within sectors of the market, provide a strong base for commodities.

Even against the background of potential inflation risks in the medium-to-longer term, raw materials offer some kind of protection for investors as they represent real assets. Furthermore, the energy and industrial metals sectors should benefit from the economic recovery.

While a risk-on tone in markets — usually a catalyst for weakness in precious metals — could see further rotation away from the safe-haven asset, a weaker USD and combination of low interest rates, higher inflation expectations and rising demand should provide some positive support for the gold price in 2021.

A combination of strong demand and supply side constraints suggest a tight iron ore market in 2021. Chinese stimulus and infrastructure investment should continue to drive demand whilst ongoing supply disruptions from Vale in Brazil and the development of a La Niña weather phase are set to see supply concerns persist.

Oil should be a beneficiary of the reopening trade, having suffered considerably since lockdown measures were first introduced. However, demand for renewable energy presents a significant risk to the price of oil. We expect the price of Brent crude to rise modestly by year-end.

DISCLAIMER

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