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Dickie's View November 2020

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Richard "Dickie" Hodges, Manager of the Nomura Global Dynamic Bond Fund, provides his view of the fixed income market environment:

- Our medium- to long-term view of markets remains positive – we believe that current and future waves of both fiscal and monetary policy will drive risk markets higher, even though economic recovery will take longer.
- With further progress towards a vaccine for Covid-19 and the US election behind us (barring legal disputes) several waves of uncertainty have been removed from markets, and risk assets can move higher once more.
- We expect to see inflation feed into the global economy as fiscal stimulus continues and the recovery begins, but this is not a topic for the immediate future.

Strategy & Positioning – Looking Forward

Our medium- to long-term view of markets remains positive – we believe that current and future waves of both fiscal and monetary policy will drive risk markets higher, even though economic recovery will take longer.

With progress on the vaccine for Covid-19 and the US election now behind us, markets are free to resume their upward trajectory.

However, surely the greatest remaining risk surrounds Covid. We have said previously that that future lockdowns are likely to be more limited in scope or geography than during the first wave and, although the restrictions being brought in the UK and across Europe are severe, they are less severe than in Spring 2020.

The risk of a delay in the approval or (more probably) the distribution of a vaccine is serious, in our view. We suspect that a vaccine that Western medical authorities are comfortable with will be released and distributed, but a delay to that would weigh on markets. Further progress on a vaccine is likely to see capital markets move higher.

As we have repeatedly stated, we expect to see inflation feed into the global economy as fiscal stimulus continues and the recovery begins. When it does, Central Banks have indicated that they are ready to let it run. It is not likely to surface yet, however. Even when it does, the associated steeper yield curves that we expect will make government debt affordability problematic. It is reasonable to expect some form of yield curve control. Again, not yet.

Richard “Dickie” Hodges

Dickie Hodges began his career in 1986 at Chase Manhattan Bank in Fixed Income operations, before joining Natwest Investment where he was responsible for management of a number of specialist investment funds employing derivatives and cash instruments to implement quantitative strategies.

He spent 18 years at Gartmore where he was Head of Pan European Portfolio Construction with responsibility for both their SICAV European Corporate Bond Fund and their SICAV European Bond Fund.

Prior to joining Nomura Asset Management in November 2014, Dickie held the role of Head of High Alpha Fixed Income at Legal & General Investment Management, managing its “Dynamic Bond Trust” – an unconstrained fixed income fund which he managed from its inception in 2007 until April 2014.

For further information, please contact:

Name	Company	Telephone
Sophie Bright	Nomura Asset Management U.K. Ltd.	+44 (0) 7917 598 355 sophie.bright@nomura-asset.co.uk
Fiona Harris / Andreea Caraveteanu	Quill PR	+44 (0) 20 7466 5059 fiona@quillpr.com andreea@quillpr.com

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