

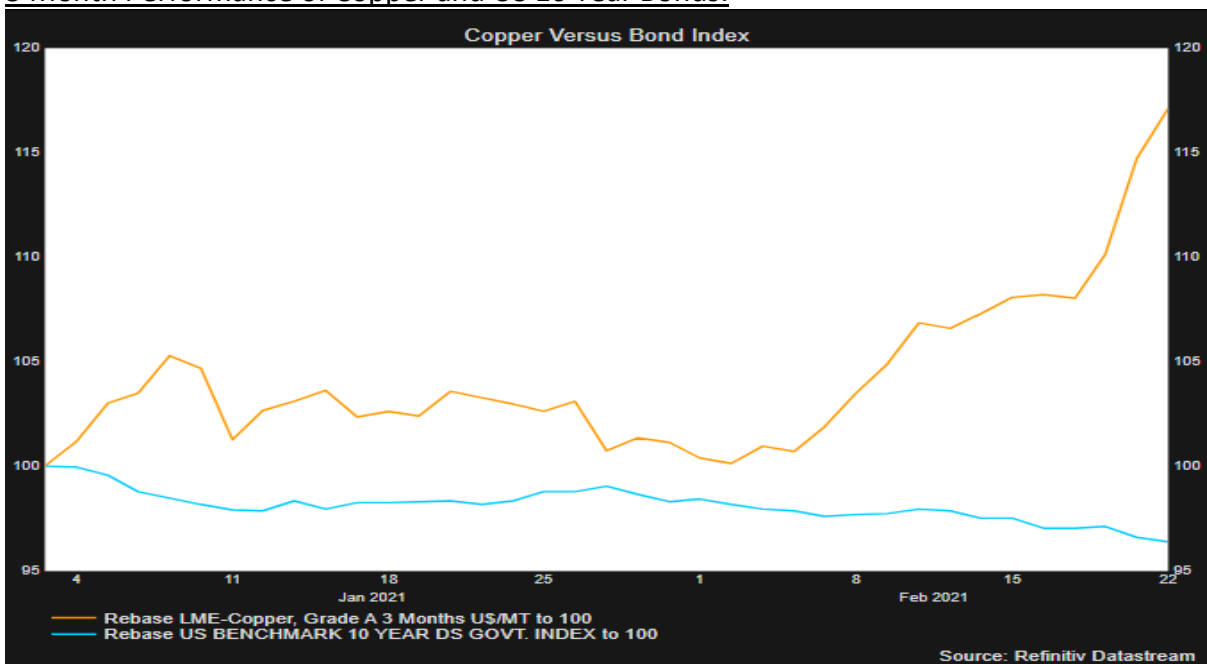
## The Start of the Great Rotation?

It is twelve months since the coronavirus pandemic spread across the world causing unimaginable damage to economies and stock markets. However, its only in the last few months that the real effects of the pandemic and the accompanying response by policy makers are becoming clear – that the crisis is set to be a bridge from the deflation environment that took hold post the Global Financial Crisis to a more inflationary environment. This means one of the greatest moves in financial markets may be under-way – a rotation away from deflationary assets such as fixed income, “bond-proxy” equities and expensive technology stocks into assets that perform better in a more inflationary environment such as commodities, financial stocks, and industrial stocks. The evidence is all around us.

### ➤ **Commodities are significantly out-performing US Government Bonds:**

Copper is rallying (+15%) as US Ten Year Bond prices are sinking (-4%). As inflation gets priced into markets it is no surprise to see commodities rallying and bond yields increasing.

### 3 Month Performance of Copper and US 10 Year Bonds:



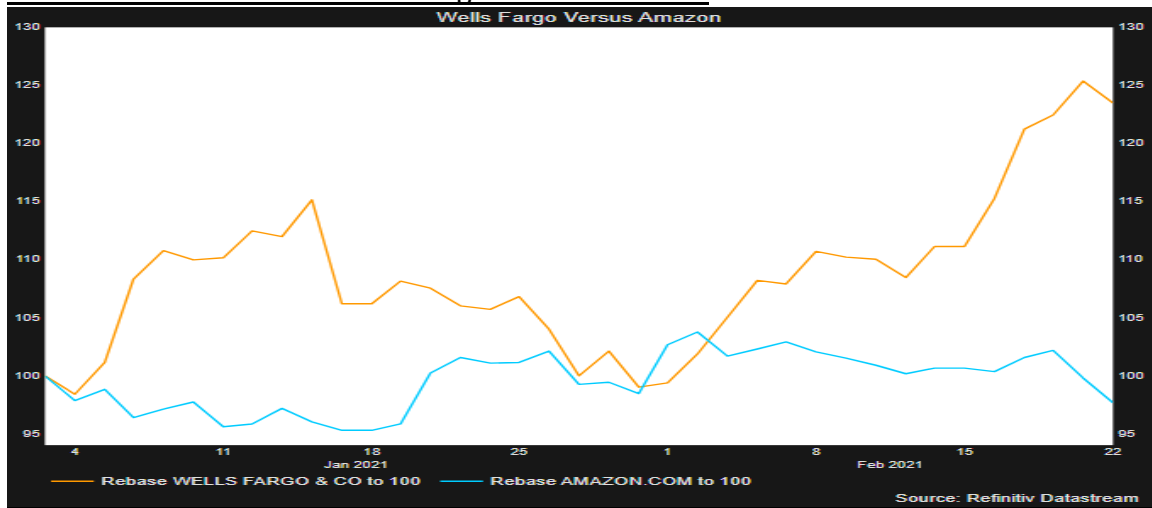
42 Fitzwilliam Place, Dublin 2. T: +353 1 662 3001 F: +353 1 661 9871 [appianasset.ie](http://appianasset.ie)

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 Directors: Eugene McCague, Patrick J Lawless, Enda McKenna, Pat Cox, Greg M Lawless, Patrick A. (Tony) McArdle  
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➤ **Financial Stocks are Out-Performing Technology Stocks as Bond Yields Rise**

Wells Fargo is up 24% YTD as Amazon struggles. Rising bond yields are positive for Banks' earnings and negative for the valuation of long duration companies (those whose profits are expected to be significantly higher many years in the future).

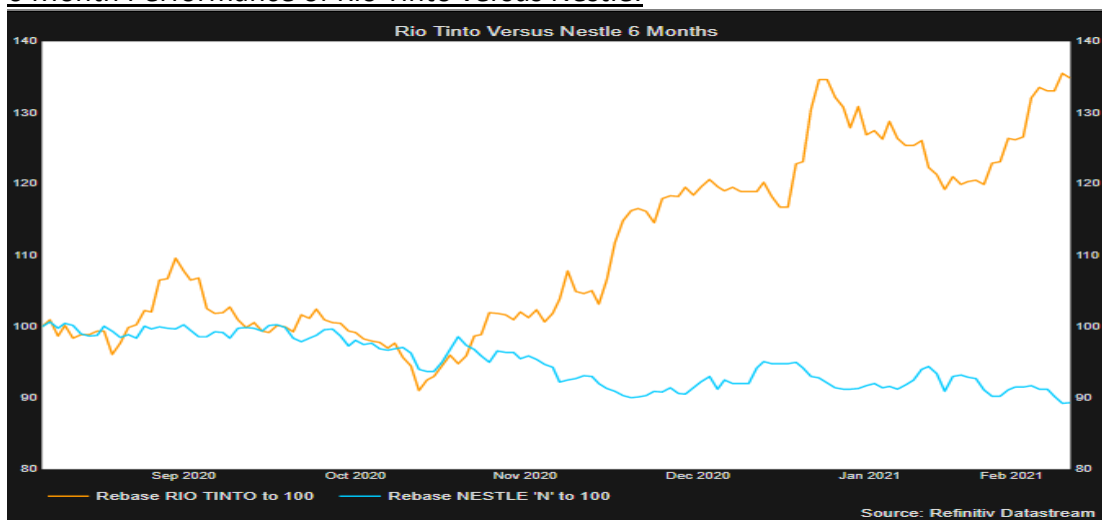
**3 Month Performance of Wells Fargo and US Amazon:**



➤ **Commodity Stocks are Out-Performing Bond Proxy Stocks**

Rio Tinto has out-performed Nestle by 48% over the last 6 months – Rising iron ore prices are buoying the Rio Tinto share price – is the market wondering can Nestle keep its margins up in a rising cost environment or is it just waking up to its high valuation?

**6 Month Performance of Rio Tinto versus Nestle:**

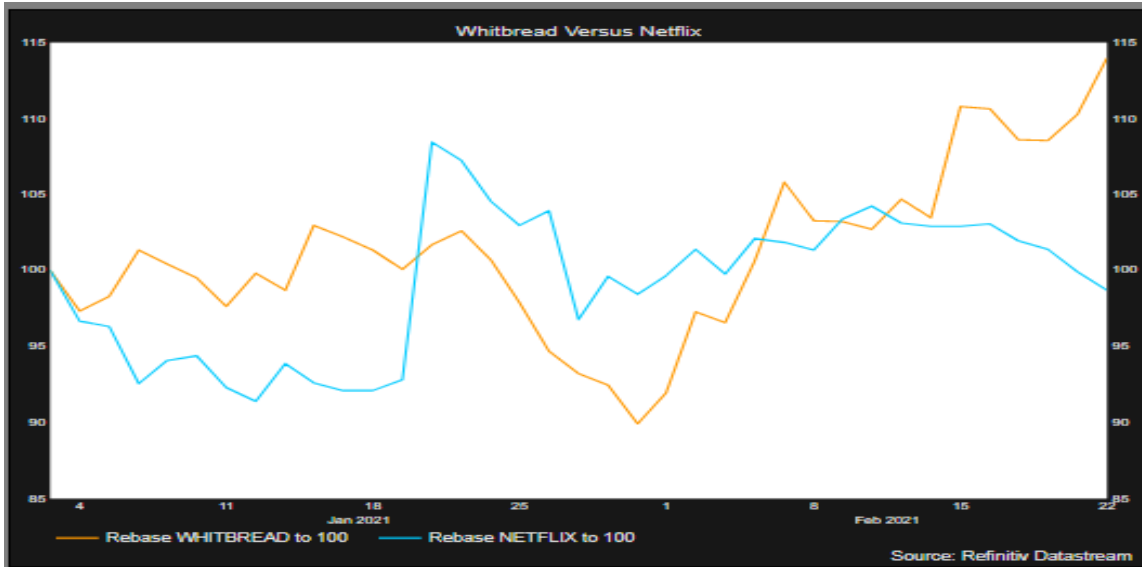


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➤ **Cheap “Back to Normal” Stocks are out-performing Expensive “Stay at Home” Stocks**

Whitbread, the owner of Premier Inns is seeing its share price go up as momentum in Netflix fades away.

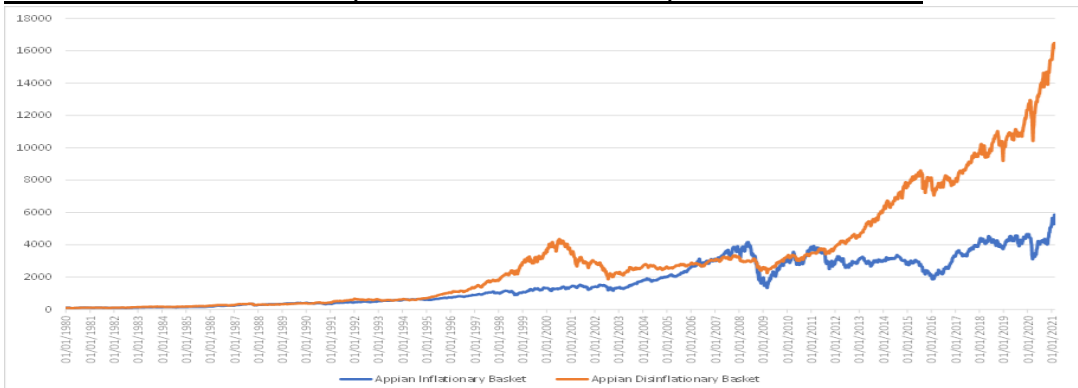
**3 Month Performance of Whitbread and Netflix:**



**Can These Trends Continue?**

We believe they have only just begun and that this is the beginning of a multi-year rotation in markets, which most investors are unprepared for. Most investors have been conditioned to believe that the “deflation” assets are safe over the last forty years. If the current trends continue these beliefs look set to be shattered. The right question is whether the performance gap between inflationary assets and deflationary assets as shown in the chart below will close either by a fall in the value of the deflation assets of 65% or a rise in the value of the inflationary assets by 280%. We suspect the answer is a bit of both as investors rotate away from the deflationary assets in financial markets and into inflationary assets.

**Performance of Inflationary Assets and Deflationary Assets since 1980:**



Source Eikon Refinitiv, Appian. Inflationary Basket: US Banks, Gold Bullion, MSCI EAFE Index, S&P GSCI, Silver (Handy and Harman), UK Mining Index. Disinflationary Basket: 10 year German Bond Index, US Dollar Index (DXY), US Technology Index, US Pharmaceutical and Biotech Index.

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## Appian AM NAV's Fund Prices 29-01-2021

NAV		MTD	QTD	YTD	SI
		%	%	%	%
AMAF	157.0488	0.49%	0.49%	0.49%	57.05%
AGDGF	198.4038	-0.24%	-0.24%	-0.24%	98.40%
AGSCOF	196.4559	2.48%	2.48%	2.48%	96.46%
AIF	118.9285	0.60%	0.60%	0.60%	18.93%
AELF	102.9625	-	-	-0.10%	2.96%
ABPF	123.67	-	-	0.00%	23.67%

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### Warnings

- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**

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