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Morgan Stanley Says Go Risk-On and 'Trust the Recovery' in 2021

- Strategists recommend overweighting equities, credit
- Report suggests selling U.S. dollar, sees volatility falling

By Joanna Ossinger

(Bloomberg) -- Morgan Stanley strategists said an expected "V-shaped" economic recovery, greater clarity on Covid-19 vaccines and continued policy support offer a favorable environment for stocks and credit next year.

In an outlook for 2021, a team including Andrew Sheets recommended investors overweight equities and corporate bonds against cash and government debt, and sell the U.S. dollar. Volatility is set to decline, and investors should be "patient" in commodity markets, the strategists said.

"This global recovery is sustainable, synchronous and supported by policy, following much of the 'normal' post-recession playbook," they wrote. "Keep the faith, trust the recovery."



A gauge of global stocks headed toward a record Monday amid optimism that the expected roll-out of vaccines and additional U.S. fiscal stimulus will bolster the world economy. Still, skeptics argue the short-term outlook is challenging as nations resort to lockdowns to fight a resurgence in virus cases and lawmakers bicker over the size of U.S. relief spending.

Morgan Stanley joins JPMorgan Chase & Co. and Goldman Sachs Group Inc. in painting a positive outlook for equities. JPMorgan strategist Marko Kolanovic said U.S. election results create a bull case for markets, while David Kostin at Goldman Sachs expects society to normalize gradually next year.

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The Morgan Stanley team doesn't expect a smooth path upwards and noted that significant challenges remain. Risks include a worse-than-expected Covid-19 winter wave, and a return to austerity in the longer term, according to the note.

Investment calls in the report include:

- A base case for the S&P 500 to reach 3,900 by the end of 2021
- A 10-year U.S. Treasury yield at 1.45% by the end of next year
- The U.S. Dollar Index to weaken about 4% by the end of 2021
- A preference for high-yield credit over investment grade and leveraged loans over high-yield bonds
- A cut in the forecast for gold to \$1,825 an ounce on average for 2021 from a previous \$1,950 on the expected economic recovery

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