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# INVESTMENT THEMES Q4 -2020

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# AGENDA

## INVESTMENT THEMES - Q4 2020

1

Where we come from

2

Investment Themes

# GLOBAL GROWTH

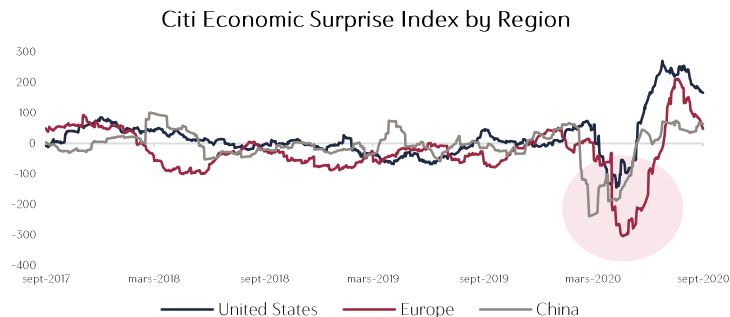
## POSITIVE SIGNALS COME FROM THE CONTINUED RECOVERY OF INDICATORS

The **world economy** is on the way to a clear return to growth in Q3. Faster in the US and China than in Europe, and in turn faster in Germany than in the rest of the Eurozone. Positive signals come from the continued recovery of indicators, economic surprises and earnings revisions stabilization, while the PMI indices in August showed that the lowest point of economic activity has been reached in Q2. A V-shaped recovery hypothesis for the economy in the second half of the year has been confirmed even if the global recovery remains uneven, uncertain and incomplete.

**United States** : We expect strong real GDP growth in the second half of the year. Negotiations on the next tax package have so far failed to produce an agreement, creating new downside risks in the short term.

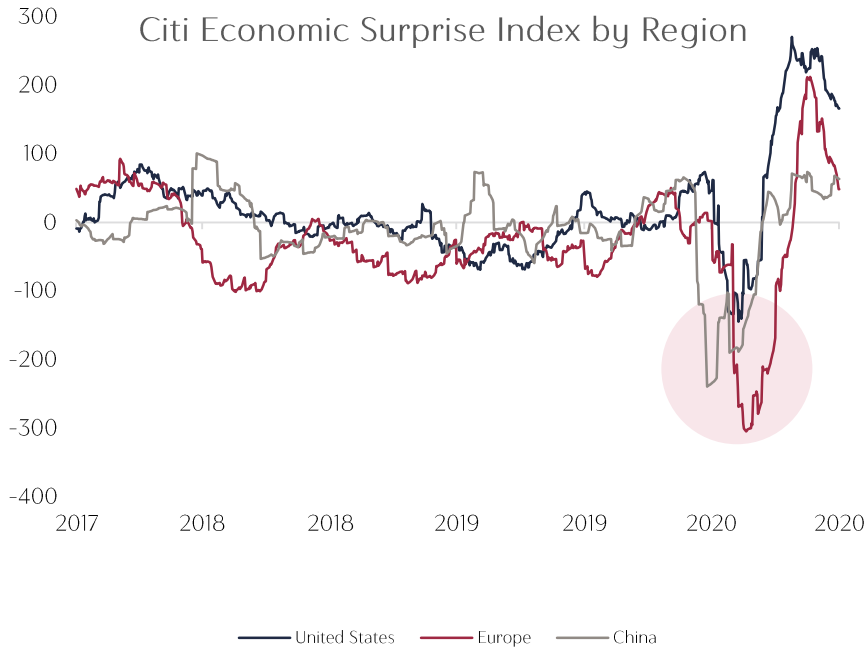
**Euro Area** : Domestic demand is bouncing back significantly: consumer spending increased strongly in June and July, and business investment is recovering. However, economic activity remains well below pre-pandemic levels.

**China** : Chinese GDP growth returned positive in the second quarter, driven by a recovery in production and spending.



Source: Bloomberg, Citi

# FOR ZOOM



Source: Bloomberg, Citi

# FISCAL & MONETARY POLICIES

## ACCOMMODATIVE STANCE

Central Banks and governments all around the world injected into the economy an impressive amount of resources in order to offset the decrease in household income.

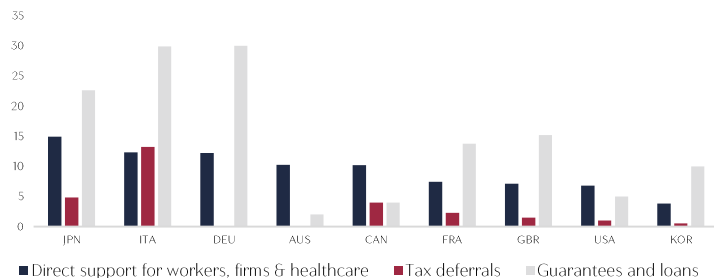
Their stance is expected to remain largely accommodating in the months ahead.

With recovery remaining hesitant fiscal and monetary policy support needs to be maintained to preserve confidence and limit uncertainty.

European Union was able to find an exceptional response, that combines elements of solidarity and vision of the future. The solidarity aspect consists in the provision allocating the funds of the approved package preponderantly to the countries most hit by the pandemic.

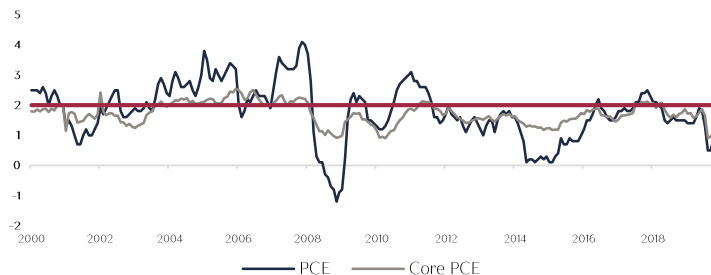
In a widely anticipated move, Powell announced at Jackson Hole that **the Fed would now target inflation “that averages 2% over time”**, so that after periods of persistent below target inflation it will aim to “achieve inflation moderately above 2% for some time.” Under this new framework, the Fed is likely to refrain from tightening rates until inflation overshoots the 2% target.

Official estimates of fiscal support, % of 2019 GDP



Source: OECD calculations based on official estimates. OECD Economic Outlook, Interim Report September 2020

Core Inflation Undershot 2% most of the time



Source: Bloomberg

# MAIN RISKS

## UNCERTAINTY WILL DOMINATE THE LAST QUARTER OF 2020

### GLOBAL

**COVID-19:** The relationship between economic recovery and pandemic is changing. The increase in the number of contagions has led to fewer restrictions on economic activity. Uncertainty remains high; the rise of contagion could jeopardize the economic recovery.

**INFLATION:** Inflation remains low, although food price inflation has accelerated, influencing consumers' perception of inflation. With high unemployment expected for some time, countries where monetary policy remains credible will continue to present a low risk of getting caught in an inflationary spiral

### UNITED STATES ELECTIONS

Election years are polarizing periods in the United States, as societal flashpoints get sorted through the political sifter, and the outlook gets rail-roaded into a right track/wrong track bifurcation. An overwhelming democratic victory could pose a risk to the stock market due to a possible reform and increase in fiscal regulation.

### BREXIT

The eighth round of bilateral negotiations between Michel Barnier and David Frost held in London September 10 ended with nothing to show for it. However, the economic fallout of COVID-19 has partially changed the interests of the two sides. The scenario for the UK economy is particularly fragile; despite the rebound in UK economic growth in July and August, consumers and businesses, who fear the end of government support in the autumn, remains very cautious

### US-CHINA TRADE WAR

American companies in China are feeling increasingly pessimistic about trade tension between Washington and Beijing, according to the American Chamber of Commerce in Shanghai. However, 92% of respondents to a survey said they were committed to remain in the country even as the US-China relationship continues to fracture.

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# OUR POSITIONING

## WE BELIEVE VOLATILITY WILL RISE

Equity markets have recovered most of their losses since the beginning of the crisis with portfolio flows to emerging and developing economies stabilising. The ample liquidity made available by central banks, fiscal stimulus measures and the positive surprise in Europe of the agreement reached on the Recovery Fund could support a further recovery in the equity sector.

We believe that the **rise in volatility** due to the economic consequences of the pandemic and growing geopolitical risks will be a key element in the months ahead.

	Negative	Neutral	Positive
<b>FIXED INCOME</b>			
Sovereign EUR			
Sovereign USD			
Corporate IG			
High Yield			
Emerging Market Sovereign			
<b>EQUITY</b>			
USA			
EMU			
Japan			
Emerging Market			

## MARKET VIEW AND CORPORATE VISION

**Sovereign EUR (-):** Despite the monetary easing, no value is identified in this asset class against largely negative returns in particular on triple A issues (bund -0.50%).

**Corporate IG (+):** The monetary easing could further support the asset class to opt for, especially in Europe, over the most speculative segment (high yield) and government bonds, as corporate IG presents a more interesting risk/return ratio at this stage in which it is difficult to predict how the scenario risks will evolve.

**Equity (+):** The speed and intensity of the market drop has brought certain markets to potentially attractive levels, creating the technical assumptions for a rally. The extensive liquidity provided by central banks, the tax stimulus measures and potential inflows could support another equity rally.

**EMU (+):** The European policy response (Recovery fund and German tax plan) has been somewhat reassuring and is a supportive element of the economic cycle. The stock market is anticipating this recovery.

**Japan (-):** Our view is neutral/negative considering the economic slowdown, despite monetary and fiscal support. We believe that Japanese equities are particularly vulnerable to a Chinese slump even if the BoJ's stance remains accommodating.

**Emerging Market (+):** A weak US dollar and more space for monetary and fiscal intervention foremost in China, mean these economies are better presented to face the recent shock.



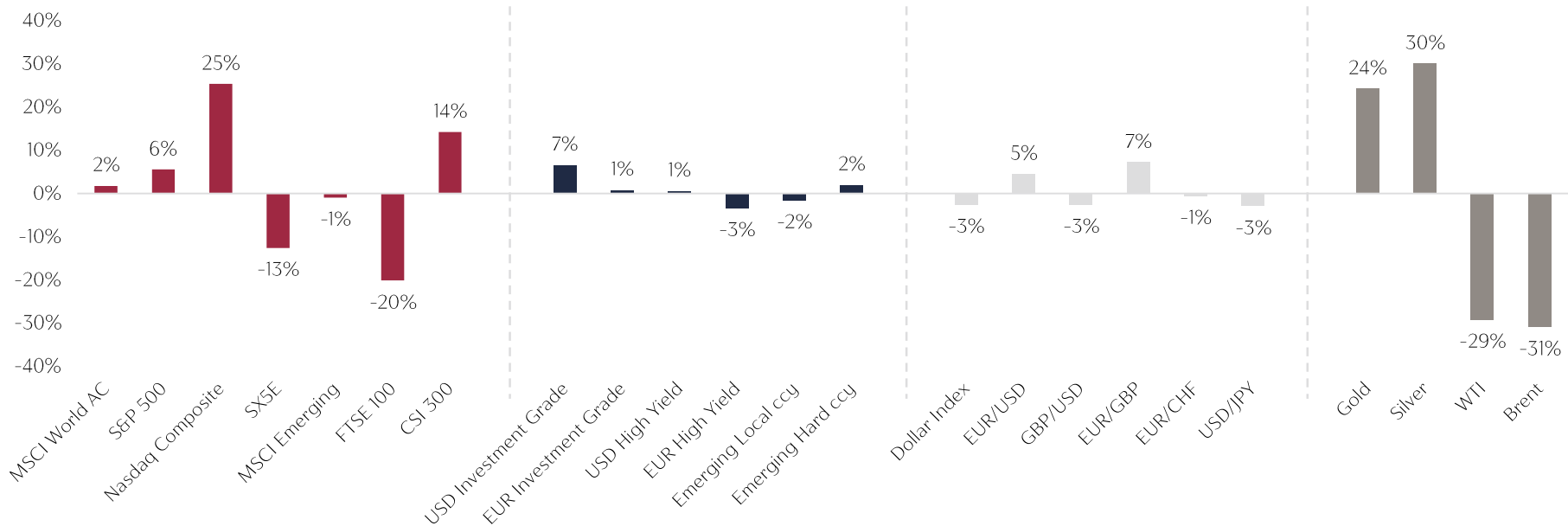
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Japan					
Emerging Market					

# MARKET DASHBOARD

HOW FINANCIAL MARKETS PERFORMED SO FAR IN 2020

Year-to-Date performance of various asset classes



Source : Bloomberg, as of 30.09.2020

# AGENDA

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1 Where we come from

2 Investment Themes

2.1 Beyond the FANG

2.2 Election Times

2.3 European Union Recovery

2.4 Navigate a Volatile Market

# INVESTMENT THEMES Q4 – 2020

## OVERVIEW



### Theme #1 – Beyond the FANG: 5G & E-commerce

5G is the 5th generation of mobile networks that will provide the speed, low latency and connectivity to enable a new generation of applications, services and business opportunities that have not been seen before. The retail e-commerce market has shown a steady and growing trend in recent years, supported by online sales, which are growing strongly.



### Theme #2 – Election Times

Americans will be going to the polls this November against a backdrop of still high unemployment, elevated tensions with China and, potentially, an ongoing, rampant coronavirus pandemic. Joe Biden, the Democratic party candidate, is the current favorite, with the Democrats also seen taking both houses of Congress, though Donald Trump should not be underestimated.



### Theme #3 – European Union Recovery

The new long-term European Union (EU) budget and recovery fund are the key EU instruments for the socioeconomic recovery in Europe after the pandemic. In particular the governance and financing mechanism of the NGEU is so fundamentally different from the EU response after the financial crisis that it may well put the EU on a new trajectory of economic policy-making.



### Theme #4 – Navigate a Volatile Market

With many sources of uncertainty ahead (US elections, US-China trade war, Brexit, Covid-19 second wave...), financial markets are supposed to run into volatile times. Asset allocation plays a crucial role with diversification being the first portfolio enhancer in an environment characterized by dispersion returns. Volatility can be positive if approached strategically.

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# BEYOND THE FANG: 5G & E-COMMERCE

## THEME #1 - INVESTMENT RATIONALE

FANG stocks have been on financial headlines and rewarded shareholders for several years now. In order to diversify your tech portfolio and seize new trends we look at two increasingly popular themes: 5G connectivity and E-commerce.

### 5G Connectivity

5G has been designed to meet the very large growth in data and connectivity of today's modern society, the internet of things with billions of connected devices, and tomorrow's innovations. 5G will boost up the development of smart cities, smart schools and smart homes, smart and safer vehicles, enhance health care and education, and provide a safer and more efficient place to live.

The 5G revolution is expected to transform our lives and business

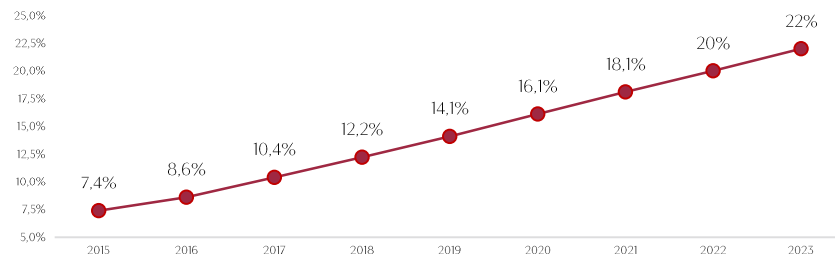


Source: Neuberger Berman

### E-commerce

The Covid-19 pandemic and its lockdown acted as a catalyst for an even more rapid change in consumer habits, further accelerating online trade which is estimated to account, by 2024, for about a quarter of the total worldwide. In this context digital payments and logistics sector for e-commerce are two areas of investment where the potential for growth can be captured in technology and infrastructures, in a market increasingly oriented towards the digital dimension of commerce.

E-commerce share of total global retail sales from 2015 to 2023



Source: Statista

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# ELECTION TIMES

## INVESTMENT RATIONALE

The November 3rd elections have the potential to leave a wide-ranging and long-lasting impact on the economic outlook: from tax and government spending, to trade, regulatory, and healthcare policy.

Amid the pandemic and widespread protests earlier in the year, Biden is now favourite to win in November, which has also given a boost to Democrats' chances of regaining control of the Senate. While his announcement of Kamala Harris as running mate may give him a short-lived bounce in the polls, the race looks set to narrow in the months ahead. If President Donald Trump wins re-election, that would also help Republicans hold on to the Senate, but their chances of winning back the House look increasingly slim, which would leave Congress divided.

A Biden victory together with Democrats regaining control of Congress could lead to a significant increase in taxation and federal spending, as well as a shakeup of both healthcare, trade and regulatory policy could have a major bearing on the sectoral makeup of the economy.

In case of victory, Trump would continue his deregulatory agenda, but so far there are few signs this has meaningfully lifted the supply side of the economy and, in any case, the main factor likely to hold back the economy over the coming years is weak demand.

Anyway, under both candidates, we would expect fiscal and monetary policy to remain exceptionally loose, with the recovery from the pandemic (and the potential for an effective, widespread vaccine) likely to remain the driving force of the economic outlook over the coming years.

Issues	Trump	Biden	
Taxes	Maintain or Extend 2017 tax cuts	Increase taxes on corporate income, high earners, and capital gains	Different
Regulation	Reduce regulation on energy and financial services	Heightened regulation of energy, technology, and financial services	
Energy and environment	Increase energy production	Reduce emissions and increase energy efficiency	
Foreign policy	America First, unilateralism	Renewed emphasis on alliances and multilateralism	
Healthcare	Undo the Affordable Care Act	Protect and build on Affordable Care Act	
Labor	No change	\$15/hr minimum wage, gig economy regulation	Similar
Infrastructure	Favor big infrastructure spending		
Prescription drugs	Reduce cost		
China policy	Tough on China		
Federal budget	Run big deficits		

Sources: Donald Trump and Joe Biden campaign website, J.P. Morgan Private Bank, as of 30.06.2020



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# EUROPEAN UNION RECOVERY

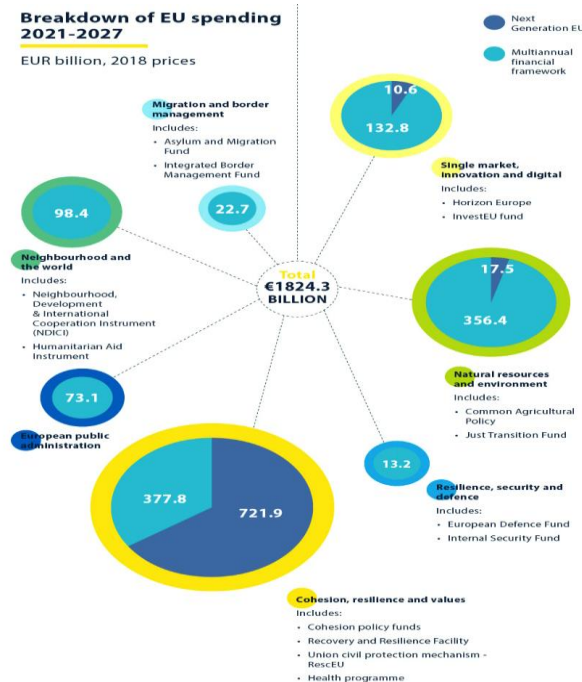
## INVESTMENT RATIONALE

On 21 July 2020, EU leaders agreed on a comprehensive package of €1 824.3 billion which combines the **multiannual financial framework (MFF)** and an extraordinary recovery effort, **Next Generation EU (NGEU)**.

The package will **help the EU to rebuild after the COVID-19 pandemic** and will **support investment in the green and digital transitions**. The package has a high symbolic value: some important taboos - in particular debt mutualisation - have been broken and in the end member states managed to come to a deal providing concrete financial solidarity. This will keep the sovereign spreads in check.

The agreement provides for the European budget to be endowed with **more "own resources"**, i.e. funds raised directly by the Union, including through specific taxes on European taxpayers, and implies a deficit for the EU budget for the coming years, for the first time. The EU budget will be financed by issues on the securities markets for which the Member States will be jointly debtors. This is in fact **an irreversible first step towards a future European fiscal union**.

The agreement will, on the one hand, facilitate a synchronized global recovery and makes the long-term growth more robust, the European Union more stable and the euro more attractive, and on the other hand it compresses (or cancels in the foreseeable future) the risks of Euro break-up, reducing the risk premium for peripheral countries.



Source: European Council website

# DISCRETIONARY MANDATE

## INVESTMENT SOLUTION

### Investment Philosophy

- High conviction, actively managed
- Customized discretionary mandates : risk profile (% invested in equities) is designed for individual customer

### A Clear and Disciplined Methodology

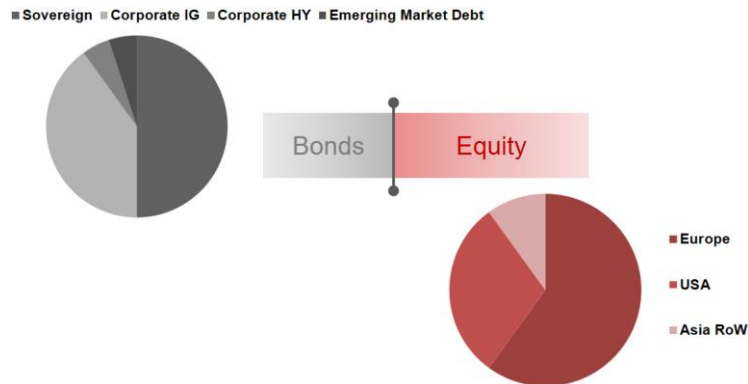
- Equities : 25 equal-weighted stocks with a neutral asset allocation
- Bonds : 12 equal-weighted bonds with duration and curve positioning
- Currency risk : actively managed

### And Specific Mandates

- « High Dividend Yield » Mandate
- Smart Beta « Best in Class » Mandate
- ESG Mandate

### Key Facts

- Created in 1997
- Team of 5 investment professionals based in Monaco
- 4 Portfolio Managers (bonds and equity) + 1 Middle Office
- EUR 1.2bn AUM
- Proven track record over a 20 year+ period



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# NAVIGATE A VOLATILE MARKET

## INVESTMENT RATIONALE

Financial markets are hardly predictable, this holds even more true when many uncertainties, the inability to forecast future events, are ahead.

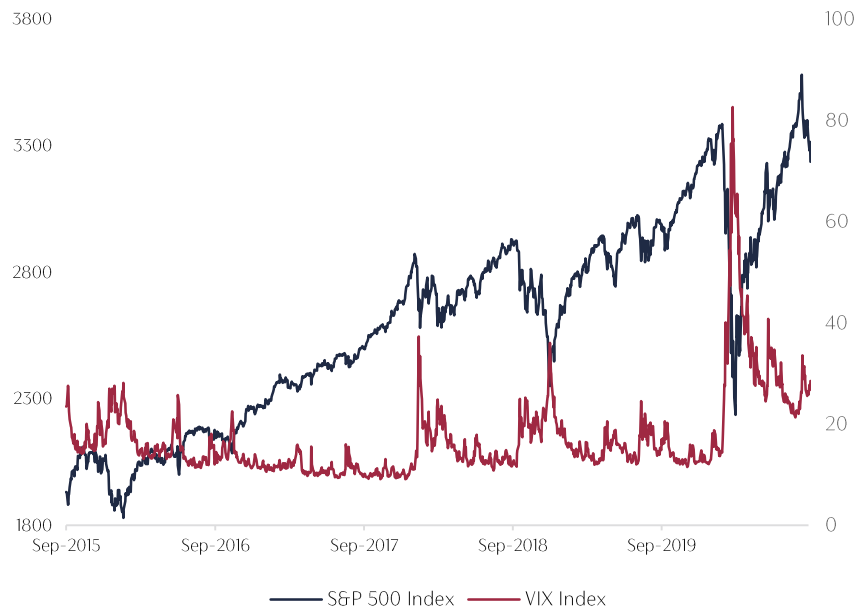
**Volatility**, the range of price changes security experiences over a given period of time, tends to **increase during times of uncertainty** and this makes most investors anxious.

Nevertheless, **volatility can benefit investors of any stripe**. Long-term investors, who adopt a buy-and-hold strategy, can buy stock in a solid company when the price is very low. On the other side, short-term investors perform their strategies when prices seesaw back and forth in a short time frame.

In addition, volatility can be played as an asset class in different ways: by adding a pure exposure to implied volatility to an equity portfolio with the aim to diversify the risk when markets are falling or by investing in the volatility risk premium (selling options to monetize volatility).

With all this in mind, and assuming volatile times ahead, **diversification within and across asset classes provides first of all risk reduction**. Last but not least, investing in a well diversified portfolio and in uncorrelated asset classes **benefits your long term portfolio performance**.

S&P 500 Index (lhs) vs VIX Index (rhs)



Source: Bloomberg

# DISCLAIMER

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