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CITYWIRE SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2020

MONTHLY PULSE FRIDAY, 31 JULY 2020

REVIEW AND ECONOMIC OUTLOOK

While Europe seems to have taken the COVID19 situation mostly under control – however fragile it might look - the number of newly registered infections in the world keeps growing massively. Adding fuel to the uncertainty fire, the US-China relationship hit a new, but likely not final, low after a bilateral closure of consulates. Still, markets continue to largely ignore the bad news, as seen in the monthly picture. Most major stock indexes rose in July as though nothing extraordinary had been happening, and CFTC S&P500 speculative net positions, while still negative, were slightly higher in the end of July, than in the end of June, and nowhere near the lowest levels observed throughout the pandemic, which reflects a slight improvement in the overall negative US market sentiment. The markets are on the stimulus needle, and this is unlikely to change any time soon.

TACTICAL ASSET ALLOCATION

Liquidity	Overweight
Bonds	Neutral
Equities	Underweight
Alternative Investments	Neutral

MACROECONOMICS

As the number of confirmed COVID19 infections surpasses 17 Mio. and rescue packages run out or expire, governments are pressured to propose more help to citizens and economies. So, the EU leaders this month stroke deal on their greatest unified fiscal action - a EUR 750B recovery fund, about half of which will be distributed in grants to EU-member countries, while the US Senate Republicans proposed a new relief plan worth USD 1T, which, among other things, includes another round of one-time USD 1200 payments and a 2/3 decrease in weekly unemployment benefits. Another highly anticipated July event was the US FED two-day meeting, whose main result was that the rates would be kept at the record-low, near zero level.

Continuing the streak of last month's growth projections downgrades, this month, the EU lowered its forecast for the euro-area economy in 2020 from -7.7% in the Spring Forecast, to -8.7% in the Summer Forecast, with Italy, France, Spain, and Croatia expected to be hit especially hard with a decline of over 10% each. The 2021 euro-area rebound is at the same time expected to be humbler: 6.1% instead of the previously estimated 6.2%. The annualized change of the US GDP was a slightly better than expected, but nonetheless devastating, decrease of 32.9%.

However, some important leading indicators from industrial countries are picking up. Although not surprising as we are coming from very low levels. For now it looks solid and we will see for how long the FED put is going to last.

All this suggests that perhaps there is still chance to see a V-shaped recovery despite all the negative sentiment. After all, as the BoE policymaker Silvana Tenreyro said, “a V in annual data can look like a U in monthly data”.

FIXED INCOME

July was another solid month for Fixed Income. 10yr US Treasuries traded in a narrow range of only 10 bps, around 0.60%. US rates are anticipating a slower economic recovery as 2-30yr yield curve flattened by 15 bps to 110 bps. The looming fiscal cliff combined with persistent high infection rates is giving investors more confidence to buy into the longer end. A good part of this move might come from equity-hedge strategies.

The FOMC meeting delivered the expected dovish statements. Elsewhere in Europe the breakthrough with the EU recovery fund was much anticipated, with Italy's CDS tighter by only 15 bps. Among others, this landmark deal will give Brussel new power to borrow on capital markets.

Credit markets continue to perform well, with US HY tighter by 60 bps. The lower the rating category the higher the tightening was. European HY was not able to follow, closing just a few bps tighter on the month. The hunt for yield is getting more difficult with more than 60% of the USD 60 tn bond universe trading with a yield of less than 1%. Investors are forced to go down the credit curve which is mirrored in record inflows into HY mutual funds.

We are still constructive for credit, although the tightening potential, at such depressed absolute yield levels, is limited. We think that Emerging Market bonds still offer some upside potential as they benefit from a weaker USD. Primary market activity will be reduced in August, which will further squeeze secondary market liquidity.

EQUITIES

The summer rebound, of course, is nowhere near to have compensated for the spring levels, but, at least, it means, that businesses are gradually starting to resume their work. Moreover, the CBOE Volatility Index, derived from the prices of the S&P 500 index options, while still elevated, keeps more-or-less steadily going down, and number of IPOs, while remaining subdued, has seen a significant bounce back since the March lows.

EQUITY INDICATORS

Valuation	Negative
Momentum	Attractive
Seasonality	Neutral
Macro	Negative

The US-China tensions as well as the increase in COVID19 infections will keep investors busy in the coming weeks. The stimulus measures remain in place and reaffirms the focus on quality stocks. Growth/quality names should benefit from suppressed discount rates, whilst more value-driven cyclical areas lack a strong, sustainable economic recovery to act as a catalyst for performance.

Geographically speaking, Europe should profit from easing lockdowns and the credible and coordinated response from the authorities. Eurozone equities have recently started to catch up, but have still lagged significantly since the beginning of the year. Following the recent market recovery, the valuation is now at a 12-month P/E of 17.8x, above the 10-year average of 12.7x.

What certainly speaks for the stock markets is the lack of alternatives. The 10Y UST is yielding 0.50% and the cash market is yielding even less. Furthermore, the central banks are maintaining their accommodative monetary policy.

Nevertheless, we must not forget that the markets do not reflect the poor fundamentals. A strong second wave of infection, combined with local lockdowns, should also present us with another challenge. Only a corresponding drug or vaccine should calm the spirits and initiate a recovery of the global economy.

Looking at weeks ahead we expect more volatile markets as summer holidays usually are linked to thinner trading liquidity. In addition, negotiations between the Democrats and Republicans are likely to intensify when it comes to Federal Unemployment Benefits. More than 30% of Americans would not be able to make for a month without the previous weekly support of $600. A rapid agreement must be found here.

Due to remaining uncertainties we stay underweight in equities with a tilt to the Tech sector.

ALTERNATIVES

What a stellar performance in July for the EUR/USD (more than 5%)! While supported by the normalization of the market liquidity and the partial removal of lockdown measures in Europe, the recovery in the EUR was in large part fuelled by the EU recovery fund. The agreement on the EU summit on debt mutualization is seen as a game changer as there are just many more attractive papers to buy now. But also, the Carry Trade in USD has lost its shine as interest rate differential is almost non-existent. Simultaneously, the USD depreciation was not of a surprise looking at the bazookas coming from the US. However, we have not come to see this strong dynamic and many investors failed to buy into this EUR rally.

Gold has been one of the best-performing assets this year. The upside scenario is due to the US-China relationship which being strained further and new waves of COVID19 are a persistent point of uncertainty. Furthermore, concerns about inflation have returned alongside with broad USD weakness which seems to gather pace. We continue to be bullish on gold, but some short-term retracement cannot be ruled out. But the XAU/USD 2000 per oz level is probably only a matter of time before it is broken.

The OPEC+ has decided to reduce its production cuts in August thanks to high production discipline and the recovery in global demand. There is a risk that the decision was taken too hastily. Even in the most favourable scenario, i.e. without a second severe wave of COVID19 cases, the market will have difficulty absorbing the inventories accumulated in recent months.

US PRESIDENTIAL ELECTIONS

We find ourselves three months away from the United states' presidential elections and therefore need to look at the potential impacts of each candidate's proposed reforms on the US economy. Without going into much detail, it is generally agreed that Joe Biden is leading the race for president. Early polls are in his favour, Trump's approval scores are going down, statistical analysis websites predict the democrat elect to obtain the electoral college majority. Nevertheless, last presidential elections we saw that predictions are not clairvoyant, they may be used as guidance but they do not inspire certainty. Indeed, the S&P's implied volatility futures contracts reflect this uncertainty in a bump in their term structure in the month preceding the elections.

Parallel to the presidential elections, it is also interesting to observe the developments of the composition of the congress. It is thought that the left will take the majority of the seats, meaning more proposals for left-leaning policies. However, their passing or not still depends on the president not vetoing their introduction.

Société Générale outline a few areas where the two presidential candidates differ. Biden wants to increase the corporate tax to 28% from the current 21%, meaning that the state will increase its revenue by an estimated 3.8 trillion but decrease the size of the economy by 1.51%. Trump on the other hand, is content with keeping the status quo. When it comes to energy production using shale, Biden would end leases on federal land as well as put a stop to offshore drilling. This reform is contrary to Trump's withdrawal from the Paris agreement and his "America First Energy Plan" by which he would abide if he is to be elected. Despite Trump's best efforts to roll back environment regulations, clean energy investment surged to a record $78.3 billion in 2019. The two candidates also diverge on their plans for healthcare. Biden wants to expand Medicare while his republican counterpart wants to impose spending cuts on public healthcare. Nevertheless, both parties agree that drug prices should be capped.

In addition, Biden is showing a willingness to fight inequality in America with his proposed increase in capital gains, dividend and wealth taxes on wealthy Americans on the one hand and an increased minimum wage to $15/hr. on the other. Now, what does that mean specifically for equities? Historically, Republican victory is more positive for the S&P in the short term, while Democratic victory shows a delayed rally after 100 days. Also, it is important to note that a democratic victory usually emphasizes the instability of the economy if elections are during times of uncertainty. However, these historical trends may not apply to the current pandemic situation without any precedent. Therefore, drawing conclusions from the past about the whole economy may be futile, rather, individual stocks may bring more benefit. Société Générale recognizes a few industries where investments should be made and some where they are discouraged.

WHICH CANDIDATE ELECTION BENEFITS THE INDUSTRY?

Infrastructure	Both
Alternative energies	Democrat
Old energy	Republican
Consumer stap. & disc.	Republican
Healthcare	Republican
New tech (Platforms)	Neither

The reasoning is that Biden wants to impose limits on drug price increases as well as to authorize the purchase of prescription drugs from abroad. In addition, the increased corporate taxes would be detrimental to low EBIT margin industries like healthcare and materials which for the moment have profited from low median tax rates. As new tech is under scrutiny by international regulators, the US has agreed in principle to impose digital taxation. The specific stocks that stand the most to lose are those with low effective tax rates, low EBIT margins and low credit quality.

To conclude, a republican government is usually expected to have looser fiscal policies, therefore benefitting the economy. Goldman Sachs puts four industries into the group of companies which would immediately benefit from a democrat win, while the republican counterpart has 20. The sectors that depend the most on the result of the election are health care, utilities and industrials as can be seen in their high federal lobbying expense relative to revenues. Although in the current election, industrials benefit from either party. However, as important as the choice of president is, the congress still has a word in the implementation of change. As such, the expected democrat majority in congress means that if Donald Trump is re-elected, we should expect more incremental changes as opposed to substantial legislative policies that have historically passed in case of unified control.

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.

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MARKET OVERVIEW AS OF FRIDAY, 31 JULY 2020, 4:44 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	0.08	0.00	0.03	-1.46
USD 1y Swap	0.22	-0.05	-0.15	-1.55
USD 3y Swap	0.19	-0.04	-0.13	-1.50
USD 5y Swap	0.27	-0.06	-0.14	-1.46
USD 10y Swap	0.54	-0.10	-0.10	-1.35
EUR Overnight	-0.47	-0.01	-0.01	-0.02
EUR 1y Swap	-0.42	-0.06	-0.15	-0.10
EUR 3y Swap	-0.43	-0.04	-0.08	-0.19
EUR 5y Swap	-0.40	-0.05	-0.06	-0.29
EUR 10y Swap	-0.23	-0.06	-0.07	-0.44
CDX Xover 5y	4.40%	-0.76%	-1.86%	1.60%
iTraxx Xover 5y	3.75%	-0.07%	-1.16%	1.68%

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iTraxx Xover 5y	3.75%	-0.07%	-1.16%	1.68%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	6,819	23.6	2.1%	5.5%
S&P 500	3,237	25.4	1.8%	4.6%
NASDAQ	10,774	31.3	0.8%	3.3%
Euro Stoxx 50	3,199	20.3	3.1%	6.8%
SMI	10,053	19.2	3.1%	9.2%
FTSE 100	5,935	18.7	3.9%	13.4%
DAX	12,383	19.5	2.9%	9.5%
MSCI Asia Pacific	167	18.4	2.4%	4.9%
FTSE China A50	15,281	11.8	2.7%	7.0%
MSCI Emerging Market	1,082	17.7	2.3%	5.9%
PH Semiconductor	2,117	23.4	1.6%	3.9%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	4.7%	12.7%	-0.7%	-1.3%
S&P 500	4.4%	11.1%	0.4%	0.2%
NASDAQ	6.1%	19.7%	19.8%	23.4%
Euro Stoxx 50	-1.1%	9.3%	-12.1%	-14.6%
SMI	0.1%	4.4%	-5.4%	-5.3%
FTSE 100	-3.8%	0.6%	-18.5%	-21.3%
DAX	0.6%	14.0%	-4.6%	-6.5%
MSCI Asia Pacific	5.7%	12.8%	0.6%	-2.2%
FTSE China A50	9.5%	13.6%	10.8%	6.2%
MSCI Emerging Market	8.7%	17.0%	1.9%	-2.9%
PH Semiconductor	6.1%	22.3%	18.3%	14.5%

COMMODITY

	Price	FCST 20	FCST 21	Δ Future
Gold	1,959	1723	1759.38	-1.3%
Silver	24.11	17.8	18.33	-11.2%
Platinum	918	852	912.5	-13.0%
Palladium	2,142	2051	1958.75	-23.4%
Crude Oil	40.00	37.5	45	-2.5%
Brent Oil	43.15	41.2	48.9	1.7%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	8.8%	15.6%	23.8%	28.6%
Silver	29.3%	59.9%	32.2%	32.7%
Platinum	7.8%	13.2%	-5.6%	-7.2%
Palladium	8.9%	9.8%	-2.9%	13.0%
Crude Oil	1.7%	51.7%	-22.2%	-30.8%
Brent Oil	4.6%	44.9%	-22.4%	-30.9%

FOREIGN EXCHANGE

	Price	FCST 20	FCST 21	Δ Spot
EUR/USD	1.1836	1.1400	1.1800	-0.3%
GBP/USD	1.3154	1.2800	1.3300	1.1%
USD/CHF	0.9105	0.9400	0.9400	3.2%
USD/JPY	105.66	107.00	108	2.2%
EUR/CHF	1.0776	1.0800	1.1200	3.9%
USD/RUB	74.15	69.57	68.84	-7.4%
EUR/RUB	87.76	80.64	84.18	-4.2%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	5.3%	8.2%	6.7%	5.4%
GBP/USD	6.3%	4.5%	-0.4%	-0.8%
USD/CHF	4.0%	6.1%	5.8%	6.1%
USD/JPY	2.1%	1.2%	2.5%	2.8%
EUR/CHF	-1.2%	-1.9%	-0.8%	0.7%
USD/RUB	-4.0%	0.3%	-13.8%	-16.4%
EUR/RUB	-8.8%	-7.2%	-19.1%	-20.6%

Source: Clarus Capital Group, Bloomberg

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IMPRESSUM

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