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Investment policy Q4/2020

English Version

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Stand by looking at the virus and Washington

Investment Policy

The fears of a Coronavirus "second wave", with possible new lockdowns, the delays in the realization of a vaccine, the uncertainties that still surround the economic recovery, weigh on the scenario. The first acute manifestation of the virus, in March, with the sharp fall of the markets, was followed by a strong rapid recovery phase, supported by massive monetary and fiscal interventions. Now it gives way to greater caution. To feed this "sentiment", in addition to purely economic and financial factors, there are also those of a geopolitical nature, including the renewed frictions between the US and China, sanctions against Iran, and of a political nature, starting with uncertainty over the vote in the US presidential election in November.
As part of the investment policy and asset allocation, positions are therefore maintained pending greater visibility in macro and even micro terms. An increasingly topical theme is that of "sustainability" in the selection of issuers of products and instruments to be included in portfolios and mutual funds. Sustainability in climatic, environmental and social terms is a relevant factor at a strategic level, with an impact that certainly also increasingly affects the yield and riskiness of financial assets.

Outlook

While not neglecting the possibility of new serious consequences of the pandemic and negative repercussions for the economic situation and the markets, we believe to be more likely a health scenario that is progressively under control and the emergence of recovery, supported by abundant liquidity and the climate of confidence instilled by central banks, already in the first quarter of 2021, with particularly positive peaks in China and the United States.
Monetary and fiscal support should limit business bankruptcy and support employment even in the transition phase. However, the labor market appears more fragile in Europe than in the United States.

Macro

Central bank policies are still central to the macroeconomic picture. The Federal Reserve of Washington (FED) maintains an ultra-expansive strategy, with virtually unlimited Quantitative Easing, also with the purchase of corporate bonds, including the so-called "falling angels", securities of historic and prestigious companies in temporary difficulty. The recent speech by its President Jerome Powell then marked an important turning point, which blocks the policy of the preventive increase in reference rates, leaving potential inflation free to exceed the fateful threshold of 2%. Rates therefore appear destined to remain within the 0-0.25% threshold for a long time, in fact negative in real terms compared to the limited current inflation. The reaction to the change made by the Fed is for the moment positive even if it is destined to weaken the greenback. President Trump's Republican Party has on its agenda a new fiscal stimulus package for about a trillion dollars and other moves are not ruled out before the November electoral challenge.
Unprecedented maneuvers have also been implemented at European level with the European Central Bank (ECB), which has deployed many instruments and the European Commission which launched the Recovery Fund, on whose use and whose real effects the attention of observers is now focused.
At the center of the scene, there is now the imminent American electoral appointment, which currently sees the democratic candidate Joe Biden ahead of Donald Trump, who could nevertheless recover, supported by internal initiatives and by the evolution of the international geopolitical context. A democratic victory would lead to greater regulation in the financial sector, tax reforms to the detriment of companies and affluent segments of the population and reforms in the health and energy fields.
In terms of growth, the turning point of the new year may mark a positive trend reversal, with China and the United States ahead of Europe and Japan, within a scenario also marked by a slight inflationary recovery.
In China, the positive outlook appears supported by the manufacturing indices which, after the collapse in February due to the lockdown, returned to positive territory, like the services index.
It should be emphasized the growing contribution that Beijing makes to global growth in terms of GDP, from 33% in 2017 to now almost 40%.

Fixed Income

The sector is characterized, in general terms, by a further narrowing of spreads as an effect of supportive monetary policies which, in addition to bringing benefits, distort the perception of risk on some public (in particular peripheral countries) and private issuers. Even on US bonds, despite the massive purchase interventions by the Fed, uncertainty about the inflationary evolution and the post-electoral political future weighs heavily. However, the risks of default are mitigated given the willingness across parties and institutions to save "corporate America" and the resulting employment, and this makes the sector particularly attractive. For investor selectivity is in any case a must.

Quality issues from emerging markets, which benefit from low interest rates and the weakness of the US dollar, appear interesting. However, short durations are preferable and in particular for dollar bonds, even if the risk of a rate hike is far off on the horizon.

Equities

After the rapid and sustained rally, the time has come for caution, for sideways in a picture of heightened volatility. The correction of the “FAANG” technology stocks, which had driven the indices towards rising peaks, brought prices back to more sustainable levels, albeit still high. But abundant liquidity and a gradual recovery of the real economy are still able to sustain the rally that has resulted in exuberance several times, although much more rational than that of 2000.

Europe, after a good recovery in the wake of Wall Street, is now in danger of being penalized by the new waves of infections and the consequences of a euro that is too strong on exports.

The Swiss market remains attractive due to its defensive character, the strength of the pharmaceutical sector and the good level of dividends from various groups, and a new interest is emerging in Japan, which remains attractive in terms of valuation.

In spite of everything, China is among the markets to be preferred also given the great reaction capacity it has shown this year.

As for investment themes, within a broader theme of sustainable finance, we favor the so-called "green mobility", that is linked to alternative energies, and the sectors linked to the aging of the population, within the framework of solid financial situations.

Alternative Investments

Hedge funds with long/short strategy take advantage of rising volatility. Oil is affected by uncertainties linked to demand and affected by the pandemic. Even on the supply side, the enlarged OPEC shows varying levels of adherence to the agreements signed in terms of production cuts. The price is consolidating around 40 dollars a barrel for Brent. However, low prices and lockdowns have led to a collapse in investments in the sector, both for American shale oil and for traditional plants, and this could affect supply in the medium term, when demand should recover, causing new upside pressures on the market. The sustainability issues that many governments are dealing with are another unknown on the horizon.

Gold, despite the momentary corrections due both to sales aimed at compensating for losses on other asset classes, and to the strengthening phases of the greenback, benefits from all the favorable conditions, from low rates to the geopolitical framework and health picture with its uncertainties.

Forex

The underlying trend of the US dollar remains negative, further conditioned by the prospect of zero rates for a long time to come. The break of the level of 1.19 against the euro could be significant, obviously without prejudice to the possible negative developments in Europe at an economic, financial, health and political-structural level.

In Switzerland, the National Bank (SNB) expands the balance sheet towards new all-time highs in an attempt to counter the appreciation of the franc, which remains in the 1.05-1.10 area against the euro.

The Bank of Japan (BOJ) adopts a monetary policy that to define accommodative is just an understatement, given the well-established practice of unconditional distribution of money and the purchase of all kinds of financial instruments (helicopter money).

There are also currency opportunities in emerging markets for investors seeking long-term returns.

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