Investment Report

December 2019

Strategy overview

At the end of November, the Dow Jones in the United States reached its 101st all-time high since Donald Trump was sworn in as the 45th President of the USA. “Everybody is getting rich”, was his response. However, it is well known that the US president has a relaxed relationship with the vérité. In fact, about 10% of the wealthiest Americans own about 84% of shares, which also includes pension funds. Consequently, only a minority are profiting from the stockmarket rally.

“The Dow Jones achieved its 101st all-time high since Donald Trump was sworn in on 20 January 2017.”

DJ Industrial Index since 20 January 2017 – Inauguration

Recently published economic data essentially provide grounds for optimism. In our opinion the global downturn has come to a halt. In particular, pressure on manufacturing sectors has eased. Due to the reactivation of bond purchasing programmes by central banks, markets are once again being supplied with plenty of liquidity. In an environment with geopolitical momentum

“In our opinion the global downturn has come to a halt.”

where the economy is bottoming out, risky investments are performing broadly positively.

Progress has been reported in the talks between the USA and China, although the so-called Phase 1 deal is still pending. In this event, emerging markets could make up some of their lost ground against other equity markets, because earnings estimates and economic growth should benefit. As far as "Brexit" is concerned, it would appear that the Tories are set to secure a majority and that Boris Johnson will implement the withdrawal agreement that was finalised with the EU in mid-October.

"The Phase-1 deal between the USA and China is not yet done and dusted."

In November, rising economic optimism helped most stockmarkets achieve significant price gains and consequently in some cases new record highs, which is why we remain essentially positive when it comes to equities. This has also increased the short-term risk of a correction, however, which is why we are maintaining a neutral equity weighting. We also remain positive about gold, despite the recent correction of around 3% in November. Support continues to be supplied by low real interest rates and gold purchases made by certain emerging market central banks.

"Unchanged positioning relative to the previous month."

Politics

North American primaries are due to begin with the caucuses in Iowa in less than two months' time. A clear challenger for President Donald Trump has not yet emerged. Former Vice President Joe Biden is heading national surveys with a clear lead, although the left-wing Senator Elizabeth Warren overtook him for a short time in October. However, Biden's age of 77 years is again becoming an issue, and his role in the Ukraine affair makes him vulnerable.

"USA – primary caucuses are set to begin in about two months."

Biden's lead can be explained predominantly by Warren's collapse in support amongst the party faithful. A few weeks ago she published her plan to fund an obligatory state health insurance fund "Medicare for all" without tax increases for the middle classes, which met with strong opposition. Many voters seem to have realised that the "Medicare for all" concept for millions of Americans, which has long been popular at grassroots level, would mean the loss of their private health insurance.

"Elizabeth Warren's collapse in national surveys."

The 37 year-old mayor of the small town of South Bend in Indiana – Pete Buttigieg – has recently made impressive gains in popularity. He is the only contender who, along with Biden, Sanders and Warren, averages double-digit scores in national surveys. Even more significant for Buttigieg is the fact

"An outsider has become one of the favourites – at least for the present."

that he is heading the field in Iowa with 24 percent. He also heads the field in New Hampshire, although with a less clear margin. Their importance is limited because Iowa and New Hampshire represent only 65 out of a total of the around 4,000 delegate votes that are to be cast. The early primary states are at least symbolically of great importance, however. They represent the first ballot-box test after months of campaigning. States such as Nevada and South Carolina then follow.

Iowa and New Hampshire are interesting from a historical perspective, because since 1992 nobody became a Democratic presidential candidate who had not won in Iowa or New Hampshire. Buttigieg adroitly presents himself as representing the moderate wing of the party, and it is no coincidence that he is benefiting from Warren's difficulties.

"Since 1992, no one has become a Democratic presidential candidate unless they won in Iowa and New Hampshire."

In the health policy field, one of the most important issues for voters, Buttigieg is arguing for a government healthcare provider as an alternative to private providers. He calls this model "Medicare for all who want it", which would not represent a regime change, but instead would open up proven Medicare insurance cover to all population groups. Buttigieg is a skilful communicator, endeavours to unite the country and shrewdly leverages dissatisfaction with the establishment. The question of whether Buttigieg is a serious aspirant for the presidency, or just a bearer of hope, will be settled relatively early in the first quarter of 2020.

"It will become apparent in Q1 2020 whether Buttigieg is a serious presidential candidate."

Economy

The US economy grew more strongly than had previously been assumed in the past third quarter. Growth was revised upwards in the second GDP estimate to 2.1% from the original figure of 1.9%. GDP growth in the second quarter had amounted to 2.0%. The upward revision relative to the initial estimate was mainly due to higher inventory build-ups and, to a lesser extent, a lower contraction in corporate investment. Private consumption, on the other hand, grew 2.9% as had been reported in the first estimate. However, the US economy's growth rate slowed further from 2.7% in Q1 to 2.3% in Q2 to reach 2.1% in Q3. This means the US economy is still growing robustly and slightly faster than its potential.

"The US economy grew more strongly than had previously been assumed in the past third quarter."

Chinese purchasing managers' indices produced positive surprises, posting increases across the board. The official PMI Manufacturing Index climbed from 49.2 to 50.2 points and for the first time since April is listed above the critical level of 50 points. The official PMI Services Index posted a significant gain, rising from 52.8 to 54.4 points, its highest level since March of this year.

"Purchasing managers' indices in China post unexpected gains."

All in all, these are surprisingly robust indicators which, taken on their own, point to somewhat stronger economic growth.

Economic growth in India continued to slow during the third quarter of 2019. This amounted to 5.8% in the first three months of the year, and 5.0% in the second quarter, but fell to 4.5% in the third quarter. This represents the weakest rise in GDP seen in seven years. The decline in investment growth, which rose by only 0.5% year-on-year, was one of the main reasons for the fall. The contribution made by consumption, on the other hand, recovered somewhat from the low in the last quarter, but remains modest by historical standards. Private consumption grew by 5.1% over the past year. Government consumption, which grew 15.6% relative to the previous year, had a supporting effect. While exports fell 0.4% over the past year, imports dropped 6.9%. This resulted in a relatively high positive net trade balance contribution. Although we are not expecting the downturn to worsen any further, we do not think there will be a noticeable improvement until mid-2020 at the earliest.

"India's economy is continuing to lose momentum."

Equity markets

28.95%, 27.63% and 27.80% are the respective rises in the SPI, S&P 500 and Euro Stoxx 50 as at the end of November, including dividends. Of course, these are extremely impressive figures. It is also good to note that the upward movement is quite broadly supported, that is to say, a variety of sectors contributed towards this. Essentially, we are confident that stockmarkets have further upside potential over the next few months. The past has taught us that stockmarkets often achieved excellent performance in an environment of economic stabilisation when monetary policies were still expansive. It is, of course, difficult to ascertain whether markets are already in this timeframe and are adhering to the historical pattern.

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It is clear, however, that markets have already priced in a great deal of optimism. This is corroborated by technical indicators such as the RSI, which now signals an overbought situation or an overstretched upward trend for most markets. In an environment of this nature, there is a heightened risk of a short-term counter-movement. Worse-than-expected economic data or failure to reach agreement in the trade dispute could trigger a correction. In our view, the scenario of a significant stockmarket correction is currently unlikely.

"Technical indicators such as the RSI show an overbought situation."

Bond markets

As anticipated by markets and addressed in a previous Investment Report, the US Federal Reserve cut its key interest rate by 0.25% for the third time in October. However, it signalled a break in its rate cuts in order to assess the impact of the monetary easing to date. The result was profit-taking on government bonds. However, the decline in inflation that has been apparent for a number of months in both Europe and the USA is essentially supporting bond markets. Corporate bonds benefited from the satisfactory third quarter corporate results. This confirmed the better performance of corporate bonds compared to government bonds that has been recorded since the start of the year. The resumed expansion of the balance sheets of the US Federal Reserve and the European Central Bank in recent weeks also triggered a search for higher-yielding bonds, which tends to provide greater support for corporate bonds than for government bonds.

"Corporate bonds versus government bonds."

Commodities

For the first time in about 70 months, in September 2019 the United States exported more oil on a monthly basis than it imported. The US Department of Energy estimates that the US net surplus will remain unchanged in the coming year. This is a situation that Washington had long been wanting to see. The goal of energy independence was formulated under President Nixon back in the early 1970s.

"Nixon's unfulfilled dream finally comes true, but brings with it new problems."

The fracking revolution is the driving factor. The production of oil and gas from shale hugely increased US energy self-sufficiency. Dependency on foreign energy sources is declining, which has far-reaching consequences. For example, the importance of the Organisation of Petroleum Exporting Countries (OPEC) is decreasing. In addition, the US trade balance is benefiting from the dwindling energy imports. Another positive aspect is the fact that the CO_2 balance in the USA has improved, because cheaper gas has replaced dirtier coal in power generation. For the USA, energy independence also means there is less reason to safeguard stability in the Middle East at great expense. The biggest net importer of oil is now China, so the burden of worrying about energy security is now increasingly falling upon Beijing.

"Dependence on foreign energy sources has decreased significantly, with a number of consequences."

In our view, a total withdrawal of Washington from regions such as the Middle East would not be advisable. As the revenues of many oil-producing states have fallen on account of low prices, the risk of instability and potential conflicts has increased. While it is advisable for every country to free itself from dependency on the petrodollar, the transition can be difficult to

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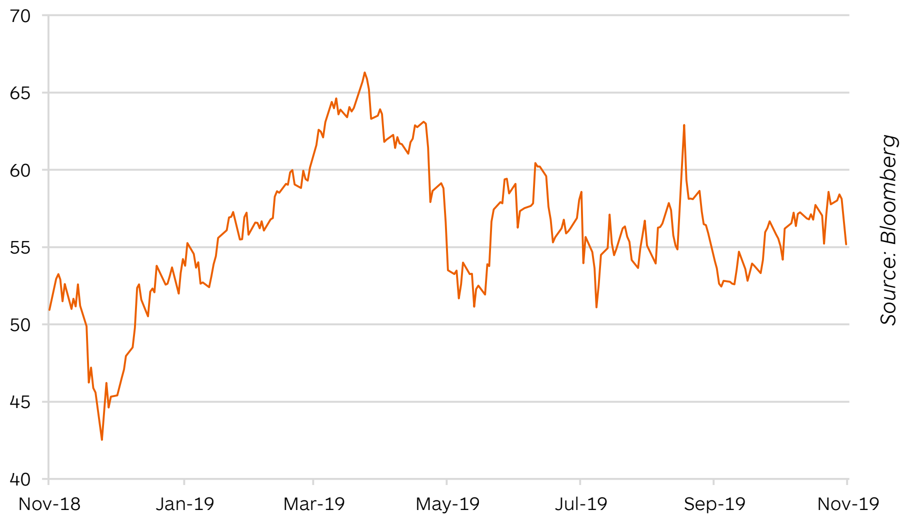
achieve. The effects will also be felt in the USA. For the United States, oil autonomy also means that the shift away from fossil fuels will become a less urgent matter for Washington. As a result, the US may feel less pressure to develop new forms of energy and energy systems that pave the way for the electrification of society. Greater independence does not, therefore, necessarily solve all problems.

Parallel to stockmarkets, oil prices have also shown gains in recent weeks. At present it is difficult to say whether the range of around USD 50 - 60 per barrel of WTI that existed since early summer can be broken. Key factors are not merely the development of global demand, which in winter often depends on temperatures in the northern hemisphere, but above all whether OPEC's production cut will be prolonged further.

"Will the WTI oil price break through the USD 50 – 60 band?"

Oil price (WTI)



FACTUM

Currencies

There are essentially a number of factors that suggest the euro will strengthen. The likelihood of a cyclical upswing is rising, political risks are declining and the ECB needs to monitor closely the risks of its own policies. Nevertheless, the euro is under pressure against the Swiss franc. The reason is not merely the downward trend of the euro against the US dollar, which has been evident for several years. This was brought about above all by stronger economic growth in the USA relative to the Eurozone. Economic growth in Switzerland has also outperformed that in the Eurozone, although it has recently slowed somewhat. In recent weeks, the Swiss National Bank reaffirmed its determination to intervene in the foreign exchange market if necessary, in order to prevent the Swiss franc from becoming too strong. For its part, the US dollar continues to exhibit a volatile sideways trend against the Swiss franc that has persisted for months.

"There are essentially a number of factors that suggest the euro will strengthen."

Market overview 29 November 2019

Equity indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,493.24	2.68	28.64
SPI	12,676.11	2.75	28.95
Euro Stoxx 50	3,703.58	2.81	27.80
Dow Jones	28,051.41	4.11	23.05
S&P 500	3,140.98	3.63	27.63
NASDAQ	8,665.47	4.65	31.93
Nikkei 225	23,293.31	1.60	18.68
MSCI Emerging Countries	1,040.05	-0.13	10.51
Commodities			
Gold (USD/fine ounce)	1,463.98	-3.24	14.15
WTI oil (USD/barrel)	55.17	1.83	21.49
Bond markets			
US Treasury Bonds 10Y (USD)	1.78	0.08	-0.91
Swiss Eidgenossen 10Y (CHF)	-0.61	-0.05	-0.36
German Bundesanleihen 10Y (EUR)	-0.36	0.05	-0.60
Currencies			
EUR/CHF	1.10	0.16	-2.10
USD/CHF	1.00	1.40	1.84
EUR/USD	1.10	-1.20	-3.92
GBP/CHF	1.29	1.29	3.26
JPY/CHF	0.91	0.00	1.92
JPY/USD	0.01	-1.34	0.11

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