Prime Partners

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MARKET INSIGHT

OCTOBER 2020

CITYWIRE SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2020

Market Analysis

October 2020

Market turmoil returns as the US election approaches

Last month, we said that the easy part was over for the equity markets, after a sharp rally since March 2020.

This observation dovetailed with our intention to maintain a cautious approach to the stock markets; to put our words into practice, we commented at the end of August that we were increasing hedging on our allocations in the form of a put spread warrant.

The developments seen in recent weeks, characterised by equity market consolidation and consequently a return of volatility, have broadly proved us right. It is true that our portfolios have not escaped the negative effects of falling asset prices; however, we have limited our losses through our defensive investment policy.

When we consider the relatively high stock prices and a seriously overbought market, and in view of the excessive optimism of investors, there is no shortage of factors justifying the nearly ten percent drop in the flagship US index, the S&P 500.

From doubts about the sustainability of the global economic recovery, to the resurgence of COVID-19 infections (particularly in Europe), the lack of additional fiscal measures in the United States and the upcoming US presidential election, there are plenty of excuses to explain what we see as a healthy consolidation of the markets.

Of all these explanations, we find the issue of the US elections and the questions concerning COVID-19 to be most compelling.

We are sceptical about the economic justifications for the stock market consolidation. As a matter of fact, it makes perfect sense that the pace of the economic recovery, which has been strong since the end of spring, should start to moderate. Extrapolating from this to fears of a return to negative growth is hard to justify in light of published economic statistics, especially leading indicators.

We are not reconsidering our view of a lasting recovery in the international economy, which should support additional appreciation in equities in the medium term. This general context will be supported by accommodating macroeconomic policies, if we listen carefully to central bankers and the politicians in power!

In an environment where we do not believe that the fundamental conditions have changed, we could not stand by and watch this stock market consolidation impassively. All the more so as in recent months we have frequently mentioned our wish to seize the opportunities that could arise to strengthen our equity holdings.

> "We are not reconsidering our view of a lasting recovery in the international economy."
>
> **FRANÇOIS SAVARY,** CHIEF INVESTMENT OFFICER, PRIME PARTNERS

So, that was exactly what we did at the end of September, when US stocks were hovering at around the 3,200 level on the S&P 500. We therefore reduced some of our equity hedges, in particular for the more aggressive profiles.

Why did we not just remove all hedges?

First of all, because we still refuse to fall prey to blithe optimism, given the prevailing uncertainty and the "exceptional" situation we continue to find ourselves in.

Besides, it is easier to observe a consolidation than to predict how far it will spread or how long it will last!

We therefore prefer to move step by step according to the roadmap we set for ourselves several months ago. To put it another way, we prefer to approach the present

situation with a courageous strategy rather than reckless tactics.

You will appreciate that our desire to increase the equity weighting of our portfolios, while ensuring the most rigorous risk management possible, is at the very core of our thinking.

In this respect, we believe that the State's resumption of its role as key player and architect of the economy and the implementation of the "Green Deal" constitute interesting investment themes.

This issue is particularly topical in Europe after the adoption of the EC Recovery Plan, which will focus on the green economy. We have been hard at work on this theme, which should appear in our portfolios very soon. In addition, including it in our investments will give us a foothold in the "old economy", which will be carried along in a general market upswing, in the wake of confirmation of a lasting economic recovery. In fact, this investment will complement our exposure in related themes: the circular economy and the US infrastructure.

Turning to disappointments for the month of September, we cannot fail to mention gold, which we started recommending several quarters ago.

Certainly, holding large positions in gold has given us no cause to complain since the beginning of the year. However, its price decline in recent weeks has been steeper than expected.

Nevertheless, we are not re-evaluating our interest in gold under the current conditions and looking forward 12 to 18 months. We continue to believe that it will succeed in breaking through the USD 2,100 barrier within that time-frame. Consequently, we have taken advantage of the recent weakness to strengthen gold in some of our investment profiles.

On the subject of currency, the US dollar has appreciated in recent weeks, consolidating the significant losses suffered in previous months.

The conditions seem to be met for a medium-term depreciation of the greenback, regardless of who occupies the White House on January 20th, 2021.

We recommend reducing dollar exposure in the accounts. Our target for it to break through the 1.20 level against the euro remains valid for the next 6 to 12 months. What is more, we are holding to our view that it will approach 1.25 against the euro in 2021.

In conclusion, September sent us "back to the drawing board" once again with our investment policy.

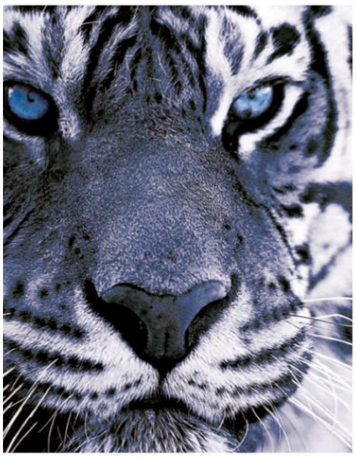
In light of the facts and our analysis of them, we felt that economic and financial developments did not justify calling into question our overall assessment of the situation.

Accordingly, when the consolidation we were expecting materialised, we seized opportunities to reduce the defensive bias of our allocations.

These changes should hardly come as a surprise, since we had flagged our intention to take advantage of such opportunities. Likewise, the fact that we have decided on a step-by-step approach underlines two important aspects of our monthly reports: firstly, our willingness to pursue rigorous risk management, and secondly, the fact that pervasive uncertainty is no excuse for succumbing to blithe optimism.

Lastly, restating our stance on gold and the dollar is evidence of the fact that guarding against excessive recklessness will not dissuade us from imparting clear recommendations to show you that we are anything but fainthearted.

Geneva, 29 September 2020



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