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MARKET INSIGHT

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Waiting has been pointless, and the feeling of déjà-vu cannot be ignored.

A writer faces many constraints when drafting a monthly newsletter. Political events are just one consideration, especially when the event in question occurs early on in the period.

The US election led us to delay the production of this missive, in the hope that we would have a clearer view the morning after. Unfortunately, such is not the case at the time of writing.

Over the coming few days we will see how the US political landscape is shaping up for the next four years, and whether the process for naming the victor ends up in the Supreme Court. Without wishing to play this down, especially in the short term, the absence of a clear result merely adds to the uncertainty surrounding the general situation in which we have found ourselves these past few months.

Once again, October brought high volatility to equity markets, as shown in pressure on the VIX index. While the index didn't return to the peaks of March 2020, its rise was sudden and sharp, beyond what we saw in September, for example.

The vast majority of the blame lies with COVID-19 developments, in Europe and the United States in particular.

The acceleration of the pandemic's second wave, partial lockdown measures in Europe, and the associated risks to the global economic recovery, weighed on investors' minds.

The absence of a decision on a new fiscal stimulus package in the United States, and the run-up to the presidential election, were other factors in stock markets' consolidation over the second half of October.

Does this mean we have seen a fundamental shift that should prompt us to reconsider the emphasis of our investment policy?

"Keeping a cool head isn't easy."

FRANÇOIS SAVARY, CHIEF INVESTMENT OFFICER, PRIME PARTNERS

The first part of the answer can be found within the economy. The key question is whether we need to revise our core scenario of a square root recovery for the coming quarters, given the developments with the pandemic. Admittedly, Europe will see its business suffer in the last quarter of 2020 and will post negative growth. Overall, though, we don't think the medium-term recovery is threatened given the strength of leading indicators for manufacturing activity. And while services, which are closely linked to consumer spending, cannot escape from the measures taken by governments, the impact will be much slighter than in the first half of the year.

This positive view of economic developments is all the more justified for other leading economies (US, Japan, China) given the much better handling of the pandemic in China and Japan, and the lack of any widespread lockdown measures in the United States.

Generally speaking, while a return to sustainable medium-term growth will be more erratic over the coming months, it should still be a reality at a global level.

Put simply, we do not believe that the economic facts cast doubt on our investment choices, whether these regard our negative assessment of the dollar, our conviction about the appeal of gold, or our moderately positive view of equities for the months ahead.

The equity question leads us to consider some facts about the Q3 20 reporting season, which is now well under way.

As expected, recent publications have confirmed the general improvement in profits that had been taking shape. A return to positive (y/y) earnings growth over the next few quarters seems likely.

and this will give stock markets some noticeable medium-term support.

Obviously shares are far from cheap, which may explain the recent waves of consolidation, triggered by some excessive P/E ratios. As in October, falls may be steep when investors start thinking about realistic valuations again.

However, with the liquidity glut persisting and earnings forecasts improving, we doubt whether investors' search for entry points to equities will ease up over the coming months. In other words, we have not yet reached the end of a period in which traders are clearly motivated by "fear" of missing out when markets pick up.

However, as we have been saying for several months, ongoing periods of high volatility are inevitable as there are so many sources of uncertainty. This will lead to more consolidation, as stock markets' ability to grow multiples significantly is limited.

We are therefore sticking with our decision to favour equities over bonds in a diversified allocation. This has been the basis of our strategy for several months.

However, our choice is part of a general approach in which we are not overweighting equities in our portfolios. As during recent dips, we are looking to seize opportunities but only within reason and when prices are attractive.

As we steer a path through stock markets' erratic performances, we are still focusing on the medium term. In this respect, the thematic approach that we have been following closely for some years remains highly appropriate.

As we announced last month, we have introduced an investment based on the State's resumption of its role as key player and architect of the economy, and on the Green Deal being rolled out in Europe.

In doing so, we have somewhat reduced our portfolios' dependence on the technology theme, rather astutely it turns out as the leading stocks of recent months experienced a rather more difficult October.

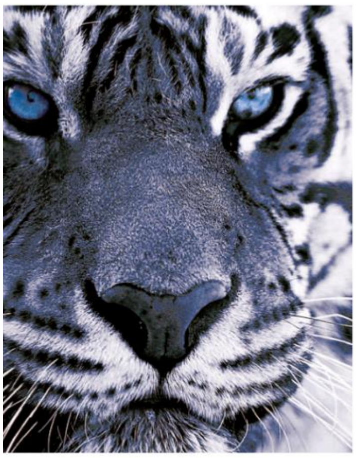
To conclude, as the issues surrounding the US election may not be resolved for a few days, and could even end up before the Supreme Court, it is not easy to keep a cool head.

As things stand, we do not want to bet on the final outcome of the presidential election. We will consider the facts as and when they arise.

A look at fundamentals and the level of uncertainty suggests that we should keep going as we are.

We will have to be more vigilant than ever, and approach each situation with an open mind. We do not want to change the direction of our investment policy for the time being. If we were to change our mind based on the US presidency issue, we would not hesitate to let you know.

Geneva, 4 November 2020



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