Prime Partners

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MARKET INSIGHT

DECEMBER 2020

CITYWIRE SWITZERLAND TOP 50 INDEPENDENT ASSET MANAGERS 2020

Market Analysis

December 2020

Euphoric mood on the markets as thoughts turn to life after COVID-19

November was a historic month for stock market performance, which saw double-digit growth (of around 13%) in the final fortnight. In hindsight, the market consolidation we saw in September and October seems like a bad dream.

Two factors drove equities' return to favour: firstly, Joe Biden's victory in the US presidential race, which was clear and unequivocal, and secondly – maybe even more importantly – developments as regards COVID-19 vaccines potentially hitting the markets in the coming months.

This latter point was crucial because it fostered an "aggressive" attitude among market participants, who were inclined to look beyond the second wave of the pandemic as it raged around them. The prospect of the global economic outlook recovering for good in the medium term (6–12 months) prompted investors to "rush into" risk assets.

In this context, the outperformance of value stocks relative to those labelled as growth stocks is the best proof of this surge of optimism regarding the economic recovery. Despite slowing somewhat at the end of the month, the recovery of cyclical stocks is undoubtedly a central feature of the stock markets' recent momentum.

It is true that leading economic indicators (PMI), especially in China and the USA, were already grounds for hope in terms of the medium-term outlook. Good news on the COVID-19 vaccine front acted as a catalyst for positive sentiment among market participants.

Over the past few months, we have argued that the economic recovery will be stronger than the jabbering naysayers would have us believe.

> "Over the past few months, we have argued that the economic recovery will be stronger than the naysayers are predicting."
>
> **FRANÇOIS SAVARY,** CHIEF INVESTMENT OFFICER, PRIME PARTNERS

Holding to this view – by relying on the accuracy of the economic data and avoiding the potential pitfalls that losing our nerve amid the uncertainty could bring – has not necessarily been easy on a day-to-day basis.

Looking back, we have not gotten everything right over the course of this unique year. However, quickly concluding that the political and monetary authorities would pull out all the stops to provide a cycle of super-liquidity was a pivotal choice for our strategy. This paved the way for our portfolios' performance to bounce back strongly from spring onwards.

Similarly, our assumption that market sentiment would fluctuate erratically allowed us to avoid excessive volatility in our allocations over recent quarters.

We may come to regret not having been more aggressive, but we are still of the view that risk management justified our actions.

They say "hindsight is 20:20"; managing asset allocation reminds us of this fact every day. 2020 was an extremely instructive year in this regard.

With the holiday season fast approaching, we have two sources of satisfaction.

Firstly, there is the positive performance of our allocations up to late November, which shows that we managed to plot a course through these unchartered waters.

Next, we did not sacrifice the portfolio volatility management to achieve our goal. In fact, volatility fell in 2020 as the months went by. In other words, we never lost sight of the fact that forgetting about the risks inherent to asset

management is no way to hunt for yield.

As we set out in our monthly insights, we adjusted our investment strategy over time in light of specific developments, and our guiding principle was a determination to invest in equities at the expense of the bond component. November was no exception.

Political developments in the United States and announcements regarding COVID-19 vaccines led us to strengthen our equity exposure (opening a position in Japanese shares and increasing certain existing positions) at the expense of our bond holdings.

We believe that the prospect of a worldwide economic recovery in the medium term is grounds to continue the reallocation process we have been engaged in over the last few quarters.

It surely goes without saying that risk management remains our priority. This may have been a bumper month for the stock markets, but it is still legitimate to question valuation levels. We're certainly not suggesting that equities are a bargain!

We felt that it was logical, therefore, to reduce our exposure to corporate debt so as not to pile risk on top of risk. This seemed even more appropriate in light of the fact that we have made no secret of our desire to increase our exposure to the cyclical stocks over recent months. In this respect, our decision to invest in a return to economic interventionism in Europe has proved satisfactory since its introduction in October.

A strong performance by convertible bonds, which we have favoured in 2020, underpins our portfolios' yields.

We are mindful of the fact, though, that this type of investment entails a not-insignificant equity risk when it comes to managing portfolio volatility.

Turning to forex, we were gratified to note the weakening of the US dollar, which has worsened in the last few weeks. We continue to recommend limiting dollar exposure since we are still of the view that the fundamentals are not looking good for the greenback.

This belief prompted us to successfully introduce an investment assuming a drop in USD to some of our strategies at the start of November.

Questions are being asked about gold in light of its disappointing trajectory since August's highs. This selloff must be considered in the context of investors' more positive view of the financial and economic outlook.

We have maintained our gold positions because we continue to believe that it is in the midst of a logical consolidation phase.

Moreover, the fundamentals remain positive as regards gold pricing. Whether we focus on the weakening of the dollar, low real interest rates or the risk of an uptick in inflation in the medium term, there are plenty of strong arguments in favour of patiently holding on to our gold positions.

To conclude, although the scale of the stock market rally in November came as something of a surprise, decisions we had taken previously allowed us to benefit from this rise.

Furthermore, announcements regarding the various COVID-19 vaccines prompted us to strengthen our exposure to the equity markets because we knew not to underestimate the importance of these developments.

The fact that the changes brought on by the health crisis are a strong argument in favour of heightened equity exposure in the portfolios in the long term also influenced our thinking.

Conversely, the fundamental conditions still seem just as inauspicious for bonds given that over USD 17 trillion in debt now comes with negative yields.

As we have constantly had cause to repeat in this monthly publication, these are the perfect conditions for erratic movements in asset prices (volatility).

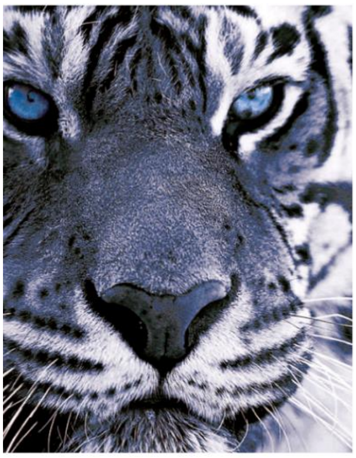
The super-liquidity cycle in which we find ourselves, political, economic and financial uncertainty, and instinct-driven market sentiment all suggest equities will not continue on their upward trajectory indefinitely.

However, if the COVID-19 crisis has taught us one thing, it is that just as a light at the end of the tunnel is possible on the economic front, we have to block out the naysayers and their (still) overly pessimistic view of the world.

Maintaining an ability to plan for medium-term scenarios while steering clear of short-term pitfalls remains the most difficult part of asset allocation. As we enter the final month of the

year, we remain entirely focused on this challenge.

Geneva, 30 November 2020



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