



NEWSLETTER

Sébastien Gyger, Chief Investment Officer

“Gold glitters”

The world is suffering a sudden and unprecedented crisis that has brought forth massive responses from governments and central banks. The heads of 27 European countries have managed to agree on a EUR 750 billion recovery plan, which is unprecedented in that the European Commission will be borrowing on the EU’s behalf and distributing the funds in the form of loans and grants. In the United States, Republicans and Democrats have begun negotiating a new fiscal stimulus plan. With the increase in new Covid cases, higher-frequency economic indicators suggest that the economic recovery is running out of steam. So, the situation on the health and economic fronts is not about to return to “normal” until a vaccine is available on a large scale. **Against this backdrop, we are keeping our portfolios well diversified. We raised our gold exposure early in the month and continue to believe in the importance of examining the quality of assets in the portfolios and of business models.**

Market trends

In July, the markets were in an unusual configuration, with major asset classes – equities, bonds and precious metals – rising in lockstep. We note that Gold turned in its best month since 2011 (10.8%, USD 1975.9/ounce). Conversely, the dollar’s downward trend accelerated (DXY -4.1%, EUR/USD +4.8%, from 1.124 to 1.178). Bond yields continued to fall to a surprising degree (-13bp to 0.53% in 10-year US paper), given that the equities continue to rally, as they have since late March. Corporate debt outperformed government bonds and sent US high yield back to level on the year to date. Equity gains (+5.3% by the MSCI All Country) mask wide regional disparities, with emerging markets continuing to outperform (+8.4%, led by domestic Chinese shares), gains in the US (S&P 500 +5.5%, Nasdaq +6.8%), but declines in Europe (Stoxx 50 -1.8%) and Japan (Nikkei -2.6%).

Market performance as of 31 July 2020

STOCKS MARKETS	LEVEL	CHANGE SINCE	CHANGE SINCE
	07.31.2020	06.30.2020	12.31.2019
Index			
MSCI World	2305.0	4.69%	-2.27%
USA			
Dow Jones Ind	26428.3	2.38%	-7.39%
S&P 500	3271.1	5.51%	1.25%
Nasdaq Comp	10745.3	6.82%	19.76%
Europe			
Euro Stoxx 50	3174.3	-1.85%	-15.24%
SPI (Switzerland)	12407.4	-0.23%	-3.35%
CAC 40 (France)	4783.7	-3.09%	-19.98%
DAX (Germany)	12313.4	0.02%	-7.06%
FTSE 100 (UK)	5897.8	-4.41%	-21.81%
Japan + Emerging			
Nikkei 225	21710.0	-2.59%	-8.23%
CSI 300 (China)	4695.1	12.75%	14.61%
MOEX Index (Russia)	2911.6	6.14%	-4.41%
S&P BSE Sensex (India)	37606.9	7.71%	-8.84%
Ibovespa (Brazil)	102912.2	8.27%	-11.01%

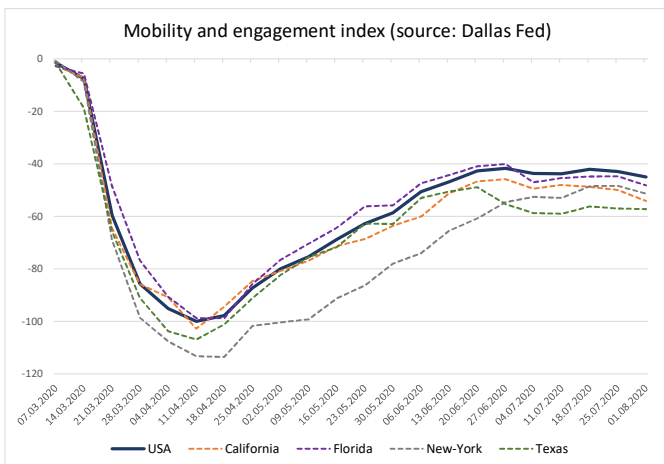
BONDS & ALTERNATIVES MARKETS	LEVEL	CHANGE SINCE	CHANGE SINCE
	07.31.2020	06.30.2020	12.31.2019
Rates			
Germany 10 y	-0.52	-7 Bps	-34 Bps
France 10 y	-0.19	-8 Bps	-31 Bps
Italy 10 y	1.01	-25 Bps	-40 Bps
US 10 y	0.53	-13 Bps	-139 Bps
Debt			
Investment Grade US	336.3	2.78%	6.70%
Investment Grade Europe	259.8	1.50%	0.29%
High Yield US	2198.3	4.69%	0.71%
High Yield Europe	395.8	1.77%	-4.15%
Emerging Debt	897.4	3.70%	1.76%
Currencies			
EUR/USD	1.18	4.84%	5.04%
EUR/CHF	1.08	1.09%	-0.90%
USD/CHF	0.91	-3.63%	-5.56%
Commodities			
Crude Oil (WTI)	40.3	2.55%	-34.05%
Gold	1975.9	10.94%	30.22%

Economic highlights

Trump's TikTok tactics. On national security arguments, Trump wanted to ban TikTok, the Chinese video-sharing platform, in the US. He then gave Microsoft until 15 September to acquire it. Finally he demanded that the US Treasury receive "a lot of money" in the deal. Trump is mired in his inconsistencies, Beijing reports an extortion and the two superpowers move up a notch in the "Cold War".

A historic moment for Europe. In a previous letter, we had highlighted that the recovery plan put forth by France and Germany opened up a new chapter in EU history. The agreement finalized on 21 July is considerable economically (EUR 750 billion euros in loans and grants) and politically (as it is being supported by Germany, which thus far refused the idea of mutualizing debt). The agreement opens the door to a more consistent and more "federal" set of fiscal policies and, hence, marks a big step forward in European construction.

Is the US recovery running out of steam? Real US GDP plunged by an annual rate of 32.9% in the second quarter, the worst decline since the Second World War. Activity improved in May and June but continues to be driven by developments in the pandemic. With the resurgence of Covid cases in major states, high-frequency indicators, such as weekly jobless claims and mobility trends, suggest the economic recovery is losing its momentum. As long as a vaccine is not widely available, the return to a "normal" health and economic situation is therefore compromised.



The Fed has kept its monetary policy unchanged and confirmed that it has no plans to change its key rates until at least 2022. Powell reiterated that a new easing could be necessary if the pandemic were to derail the US recovery. The Jackson Hole symposium, scheduled in virtual form for 27-28 August, will provide additional indications on monetary support measures that could still be taken.

The measures taken by governments remain indispensable.

The pace of new stimulus has fallen drastically in the past three months (according to the University of Oxford index, which includes wage guarantees and deferred tax and payroll liabilities). As social distancing measures are still in effect in most regions and in some places have even been ramped up (as recently in Australia, Italy, the UK and Germany), the risk of long-lasting job losses remains very high. This shows how necessary it is for governments to maintain their support for a longer period of time, including in the United States, where Congress is negotiating on a new assistance to help households, businesses and communities.

A glittering month for gold, which turned in its best performance since 2011, with an 11% gain, and a dark month for the dollar, which had its worst showing in a decade, with a 4% decline. Three factors are driving the dollar down: 1) real US interest rates are now below non-US rates; 2) the US fiscal deficit is huge and growing (historically, this has been bad news for the dollar and good news for gold); and 3) investors have been less bearish on the euro since the pan-European recovery plan was announced. As a result, the gold price is being driven up by real interest rates that are low or even negative in some parts of the world and by a weak dollar. We believe that the case for gold has been strengthened by the current monetary "flooding", which is raising the specter of depreciation in certain currencies and by increasingly perceptible tensions between the US and China on the trade, technology, financial and geopolitical fronts.

Investment decisions

In bonds, we have taken back on credit risk in order to tap into spreads that offer some attractive entry points in the aftermath of the crisis. In equities, we continue to recommend a diversified regional exposure, including in emerging markets, Europe and Japan, which offer exposure to the cycle. We continue to overweight quality companies having solid balance sheets and competitive business models. In the wake of the announcement of the Franco-German stimulus plan, we are not underweighting European assets. **Gold continues to draw in heavy inflows. It offers attractive opportunities for diversification in our multi-asset portfolios and, most of all, the case for it is bullish based on the aforementioned scenarios. We raised our gold exposure early in the month.**

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