REVIEW 2019

We entered 2019 full of doubts, after the year-end financial markets' melt down, induced by the trade war, the determination of the US Federal Reserve to normalize rates and China's slowdown: and things only got worse with reports that Trump had asked his lawyers to find ways to fire FED chairman Powell. Instead 2019 proved to be extremely good for investors, with all asset classes delivering positive results, including gold. US and Eurozone equities powered higher by about 27%, while the UK and Emerging Markets lagged, being up just 10 to 12%. Markets clearly got a boost from the central banks: the US Federal Reserve and the ECB essentially went back to printing money and cutting rates. But they were not alone: a host of other central banks also cut rates, from Asia to Latin America, the sole country that saw its rates go up moderately was the oil country Norway.

So how do we leave 2019? The downward spiraling manufacturing sector, worsened by the trade war, seems to have at last stabilized its descent, with some green shoots emerging. The services sector and the consumer are in reasonable shape, and helped Europe avoid a recession, and the US deliver decent growth. Capital Expenditure, thanks to the global uncertainties, is non-existent, while earnings' growth is anemic at best, and expectations for 2020 are probably too optimistic, while at the same time companies' margins are shrinking. On Brexit, we hope to know the outcome soon. As Sino-American trade tensions simmer, the ping pong of trade headlines has investors tired of it. Growing income inequalities are fueling the rise of populists around the world. Three quarters of Latin America is facing serious economic issues or straight out bankruptcy, while in Brazil the window of opportunity to implement reforms by president Bolsonaro might close soon. The Middle East is becoming an explosive place, yet again. In Asia the intricated supply chain of technology became apparent, as it got disrupted not only by the US-China dispute, but also by the Korea-Japan one. In Europe the stampede into positive-yielding bonds has left just two countries with positive 5-year yields: Italy and Greece, at 0.5% for both. Gold rallied 15%.

So where were the positives catalysts in 2019? To begin with, as highlighted above, the highly accommodative central banks, in the face of sluggish growth and absent inflation. Next the conviction that both Trump and China have an interest in avoiding an escalation, at least with a mini deal, (what is now called 'phase one'). Another big positive in 2019 has been investor positioning: institutional investors have been almost consistently underweight equities, (compared to the historic norm), throughout the year, and have been forced to chase them as they drifted higher. Meanwhile retail investors, looking at the American Association of Individual Investors readings, seem to have been tossed around all year, reacting to headlines and tweets. In equities, what we also leave behind us, is the significant underperformance of

value stocks versus growth and quality stocks: a whopping 11 to 13%. It is indeed the subject of a big debate, whether 2020 will see a reversal. It is also one of the main reasons behind the huge dispersion of performances in the long only equity mutual funds space. In 2019, gold has been supported on the one hand by lower USD rates, and on the other by central bank purchases: e.g. Russia above all, as it continues to diversify its reserves away from the USD, following international sanctions after the annexation of Crimea, and now joined by China, which started increasing its reserves right after the start of the trade war. The US president is currently undergoing the impeachment process: we think, unless of course a smoking gun is found, and several republican senators decide to abandon the president, that the process is unlikely to succeed in the Senate. It might therefore just end up in being another Trumpian show, with no immediate consequences.

2020 Outlook

Economy

As we have mentioned numerous times in the past, it is clear that the liquidity provided by the central banks will not be enough to lift the global economy from its current weak real growth or soft patch. Fiscal spending is needed, and particularly in Europe. Growing income inequalities are fueling the risc of populist governments around the world, and a change in government, could bring a major change in policy priorities, triggering fiscal spending for social benefit programs or infrastructure. However, from another perspective, this is also needed to address the structural changes in the economy: in developed economies an ageing population is saving more for retirement, while at the same time companies are investing less. This is happening on one side because of global uncertainties, both economic and political, and, on the other, in an era of sharing, because of the emergence of asset-light business models. In Europe, while France did implement some reforms to modernize and energize its economy, Germany still needs to address its crumbling infrastructure, as well as its over-dependence from the car industry. It is clear, however, that the situation needs to be addressed at the European level, setting aside the various nationalisms and sclerosis in Germany. Over in the US the budget is already quite stretched, and of course there is the possibility of another tax gift from the Trump administration ahead of the election: this is unlikely to have an impact on the economy, as most companies, similar to the previous one, will probably spend most of it in shareholder-friendly operations, rather than industrial plans. Obviously, it would be different if a new tax cut is directly aimed at the middle class. As highlighted above, currently the world is experiencing a manufacturing recession, worsened by the trade war, which is compensated by the services sector and the consumer: we expect manufacturing to stabilize at current levels, meaning that next year we should expect timid world real growth, well below what we experienced in past upswings.

CENTRAL BANKS

We believe the ECB is likely to stay pat for 2020, and there is little scope to increase the size of its QE: as highlighted by Draghi first, and Lagarde thereafter, it is up to governments to do the next steps. Over in the US, the Federal Reserve has been combating the headwinds to the US economy created by the trade war. The dynamic in 2020 may be much the same. The economy's fate, central bankers believe, hinges largely on whether Trump can make progress on trade, or at least avoid making things more fraught. That, in turn, will determine what they do with interest rates. Currently the market is implying one rate cut in Q3: we think that China is unlikely to sign a comprehensive deal soon, and therefore we expect a rate cut a bit earlier in the year. China's PBOC will likely continue its gradual easing of financial conditions, via cuts in the RRR and other targeted rates, but probably not very much via its main refinancing rate, as it tries to avoid the creation of asset bubbles like in the past, (property, equities or commodities like steel bars are examples in the recent past).

EQUITY

As the effects of the fiscal reform in the US fade, as companies' margins shrink, and with subdued world growth, equities are unlikely to deliver performances even near those of 2019. However, in an environment of ultra-low or negative yields, investors will continue to be pushed towards equities, and we therefore expect some moderate, positive performance for this asset class.

FIXED INCOME

We believe that most portfolio managers are ill-equipped to master the potential volatility in this asset class, particularly in Europe, where an increasing number of corporates are enjoying free credit. As yields shrink and credit spreads tighten, the move in bond prices, in case of shock, will be exacerbated, especially since institutional investors have been pushed down the curve, in order to find at least a positive yield. To illustrate this, we take an extreme example, Austria's now famous 100 years bond: in case of an interest shock of plus 1%, the bond would deliver an instant loss of 40%! Obviously, the reverse is also true: in case of rates lower by 1%, the bond would deliver an instant 78% profit! We took an extreme example, but in 2019, not being invested in European bonds with maturities between 7 and 10 years, cost investors dearly: they returned 8.6%, while staying invested in the 3 to 5 years maturity term only returned 3%. This is only to say that, even though it is probably the most unloved asset class, we need to be exposed at least partially to it. Knowing that in case of a rate shock, we will also need to react quickly, in one direction or another.

GOLD

Gold will continue to be a good portfolio diversifier, as it no longer has the handicap of having a zero yield, and will continue to be supported by central banks' purchases.

SO, WHAT COULD IMPROVE OR DEPRESS OUR MODERATE POSITIVE OUTLOOK FOR FINANCIAL MARKETS IN 2020?

Potential sources of market volatility:

- Positives:
  - A trade war truce
  - Earnings grow as per analysts' expectations
  - With relaxed rules, fiscal spending finally starts in Europe, with Germany finally bowing to pressure
  - The launch of a European infrastructure fund, on the German Kreditanstalt Fuer Wiederaufbau model, used to rebuild East Germany post reunification, (created to rebuild Germany post WWII)
- Negatives:
  - A radical left democratic candidate leads the US polls in the Summer
  - Hungary breaks away from the EU
  - Hong Kong situation skids out of control with the Chinese army intervening, killing scores of citizens
  - Inflation reemerges globally
  - OPEC+ delivers production cuts, while US oil capex slows shale output
  - A war in Iraq
  - A catastrophic climate event hits the earth
  - Trump announces a tax on all foreign-derived revenue
  - Italy goes to new elections, and Lega's Salvini wins

STRATEGY

Overall Exposure

We are neutral Equities and underweight Fixed Income, Overweight Cash along with a long Gold position, and long protection on the S&P 500, the DAX and the CAC.

Equity: Neutral

Slight Overweight Continental Europe, Neutral UK, Underweight US, Overweight Japan, Neutral Asia ex Japan, Underweight Emerging Markets.

Fixed Income: Underweight

Underweight High Yield in EUR and USD. Neutral Investment Grade EUR along with an Overweight in Investment Grade USD Bonds, Underweight Sovereigns, Underweight EMs. Long Global Inflation Linked Securities, Long Covered Bonds/Mortgage Backed Securities.

Currencies: Neutral/Small long USD

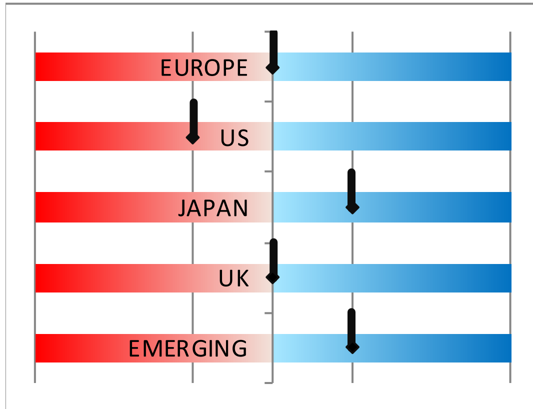
We still have a long USD position, portfolios are hedged against GBP.

Commodities: Neutral

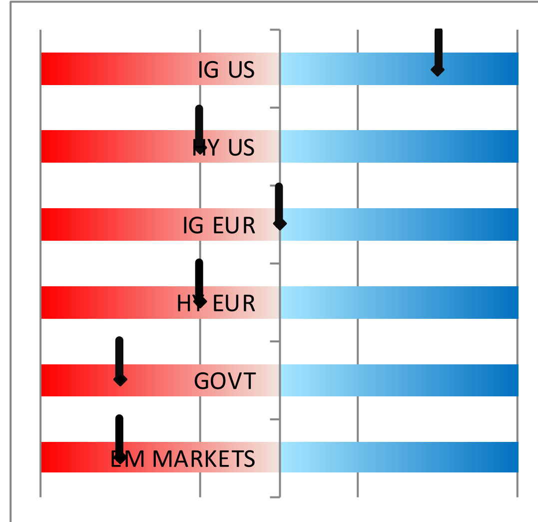
Long Gold, avoid Crude Oil.

CONVICTION THERMOMETERS

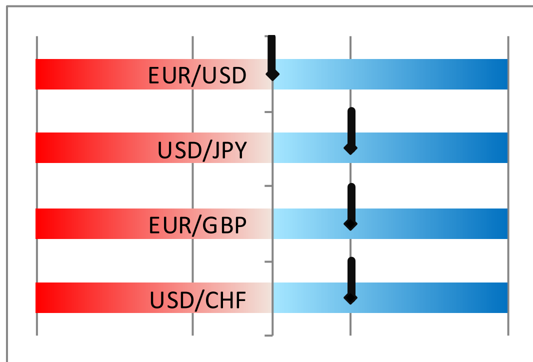
Equities



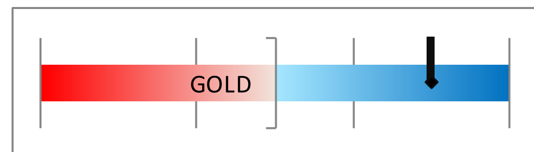
Bonds



Currencies



Commodities



*Negative view / Positive view

MARKET OVERVIEW AS OF 11TH DECEMBER 2019

EQUITIES (local ccies)	Level	5D	MTD	YTD	2018
MSCI WORLD	2 295,02	0,89%	0,17%	24,87%	-8,19%
GERMANY DAX	13 146,74	0,05%	-0,68%	24,51%	-18,26%
FRANCE CAC40	5 860,88	1,10%	-0,66%	27,89%	-8,14%
UK FTSE100	7 216,25	0,39%	-1,77%	12,04%	-8,73%
BELGIUM BEL20	3 920,85	0,83%	0,45%	25,11%	-15,39%
SWISS MARKET INDEX	10 405,31	0,68%	-0,84%	27,56%	-7,05%
EUROPE EURO STOXX 50	3 687,45	0,77%	-0,37%	27,33%	-11,34%
US S&P500	3 141,63	0,97%	0,08%	27,74%	-4,39%
NASDAQ 100	8 402,61	1,30%	0,02%	34,13%	0,04%
RUSSELL 2000	1 631,93	1,14%	0,49%	22,57%	-11,03%
JAPAN TOPIX	1 714,95	0,69%	0,92%	17,51%	-15,99%
MSCI EMERGING	1 058,23	2,11%	1,77%	12,48%	-14,28%
BRAZIL IBOVESPA	110 964	0,60%	2,52%	26,26%	15,03%
MEXICO MEXBOL	43 195,19	2,40%	0,89%	6,64%	-13,81%
RUSSIA MICEX	2 954,40	1,85%	0,69%	33,18%	19,03%
CHINA CSI 300	3 902,75	1,38%	1,94%	32,59%	-23,64%
INDIA SENSEX	40 412,57	-1,07%	-0,93%	13,30%	7,23%
KOREA KOSPI	2 105,62	1,78%	0,85%	3,82%	-15,39%
HONG KONG HANG SENG	26 645,43	2,24%	1,15%	6,82%	-10,55%
AUSTRALIA ALL-SHARE	4 003,03	0,33%	-1,54%	13,49%	-9,51%
SAUDI ARABIA TADAWUL	8 019,77	3,35%	3,51%	7,53%	12,18%

US: Sectors	Level	5D	MTD	YTD	2018
COMMUNICATION SVCS	178,86	0,67%	0,35%	30,57%	-12,53%
CONSUMER DISCRETIONARY	954,67	0,78%	-0,53%	23,79%	0,82%
CONSUMER STAPLES	639,60	0,26%	1,00%	25,90%	-8,39%
ENERGY	436,81	1,30%	1,41%	6,94%	-18,10%
FINANCIALS	500,03	1,30%	0,31%	29,07%	-13,04%
HEALTH CARE	1 154,80	0,31%	0,57%	17,31%	6,47%
INDUSTRIALS	682,25	1,49%	-0,91%	28,26%	-13,32%
INFORMATION TECHNOLOGY	1 540,24	1,76%	-0,15%	43,61%	-0,29%
MATERIALS	375,27	1,68%	0,11%	21,02%	-14,70%
REAL ESTATE	234,70	-1,11%	-1,53%	25,39%	-2,23%
UTILITIES	318,48	-0,24%	0,20%	22,40%	4,11%

EUROPE: Sectors	Level	5D	MTD	YTD	2018
BASIC MATERIALS	2 447,37	0,64%	0,12%	21,29%	-12,23%
CONSUMER GOODS	3 812,08	0,69%	-0,83%	26,56%	-12,39%
CONSUMER SERVICES	1 315,43	1,90%	0,35%	22,22%	-4,89%
FINANCIALS	756,82	0,89%	-0,17%	18,57%	-18,91%
HEALTH CARE	2 911,05	0,94%	-0,05%	29,14%	0,43%
INDUSTRIALS	2 730,82	0,77%	0,05%	34,96%	-12,86%
OIL & GAS	1 333,83	-0,11%	-1,22%	7,02%	0,43%
TECHNOLOGY	1 068,20	1,14%	0,12%	34,10%	-7,69%
TELECOMS	658,14	-0,81%	-3,31%	2,67%	-9,72%
UTILITIES	1 776,69	2,04%	0,36%	27,70%	4,83%

WORLD: Styles	Level	5D	MTD	YTD	2018
QUALITY	2 561,02	1,25%	0,44%	31,89%	-5,50%
MOMENTUM	2 595,54	0,49%	-0,06%	24,54%	-2,76%
VALUE	9 561,41	0,90%	0,41%	18,63%	-10,78%
GROWTH	5 800,50	0,87%	-0,10%	29,73%	-6,74%
VOLATILITY	6 542,09	0,72%	0,07%	23,93%	-6,72%
SIZE	6 253,27	0,82%	0,19%	22,18%	-10,73%
DIVIDEND	3 723,88	0,94%	0,42%	23,61%	-7,73%

FIXED INCOME	Level	5D	MTD	YTD	2018
Pan-Euro 3-5 yrs IG	217,14	0,12%	0,21%	3,09%	-0,08%
Euro Aggregate	266,35	0,08%	-0,09%	6,66%	0,41%
Pan-Euro HY Hedged Eur	391,54	0,41%	0,43%	10,66%	-3,62%
Global Inflation hedged EUR	255,44	0,37%	0,03%	6,11%	-2,62%
US Corp High Yield	2 154,67	0,64%	0,69%	12,85%	-2,08%
EM USD Aggregate TR	1 196,94	0,59%	0,48%	11,96%	-2,46%
EM Aggregate TR Local Ccy	141,05	0,66%	0,51%	7,07%	-3,40%
EUR Banks CoCo Tier 1	140,08	0,60%	0,53%	16,43%	-6,34%
EU GOVT HEDGED EUR	250,46	0,00%	-0,31%	7,24%	0,64%
U.S. Treasury	2 382,42	0,00%	-0,03%	7,43%	0,86%

COMMODITIES	Level	5D	MTD	YTD	2018
GOLD	1 474,88	0,02%	0,74%	15,00%	-1,56%
COPPER	278,25	5,24%	5,32%	5,76%	-20,28%
OIL WTI	58,76	0,56%	6,51%	29,40%	-24,84%
OIL BRENT	63,72	1,14%	2,07%	18,44%	-19,55%

CURRENCIES	Rate	5D	MTD	YTD	2018
EURUSD	1,1130	0,47%	1,02%	-2,94%	-4,48%
GBPUSD	1,3196	0,70%	2,10%	3,47%	-5,62%
USDJPY	108,5600	-0,28%	-0,85%	-1,03%	-2,66%
USDCHF	0,9833	-0,53%	-1,69%	0,12%	0,80%
AUDUSD	0,6876	0,39%	1,67%	-2,45%	-9,73%
USDRUB	63,2793	-1,03%	-1,62%	-9,23%	20,98%
USDCNY	7,0388	-0,16%	0,09%	2,33%	5,28%
USDKRW	1 194,65	0,01%	1,12%	7,06%	4,22%
USDINR	70,8400	-0,96%	-1,25%	1,28%	9,24%
USDIDR	14 045	-0,43%	-0,45%	-2,40%	6,06%
USDBRL	4,1179	-2,12%	-2,82%	6,28%	17,11%
USDTRY	5,8035	0,95%	0,92%	9,72%	39,26%
USDZAR	14,6824	0,61%	0,08%	2,34%	15,86%

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