The After-Trump Era

After such an extreme year like 2020, the investment strategy to follow in 2021 will be challenging to say the least.

Being slightly optimistic, we can expect a return to normalcy during the year with continuing stimulus from governments and central banks that will help the world economy recover.

Financial markets and particularly equity markets have already anticipated and started the New Year with a lot of optimism and valuations that clearly do not stand on the cheap side.

Therefore, dispersion that has marked 2020 will likely continue this year. In this regard, we continue to favor the value sector, Small & Mid-Caps, Europe and Emerging Markets.

On the fixed income side, given the low level of nominal rates, yield and carry hunting will continue to support High Yield and Emerging market bonds as well as Investment Grade as all still provide yield-pickup versus government bonds.

Nevertheless, the fixed-income asset class is clearly less attractive now and alternative buckets will have to be develop in portfolios with a focus on funds less correlated with traditional asset classes.

After a decent move in 2020, the euro and the US dollar will likely stay in a range. Markets have anticipated the After-Trump Era, acknowledging that the Biden administration will favor a weaker dollar, which is now the case.

Sterling could be the winner following the Brexit Deal while gold will continue to be supported by the negative yielding environment.

2020 Review

2020 ended on a positive note but the past year will go down in history as one of the most volatile year for financial markets. After the brutal collapse of stock markets following the Covid crisis during the first quarter, financial markets recovered sharply but unequally according to geography and sectors leading to a large dispersion.

Equities were the asset class where we saw the biggest dispersion in 2020. Like the usual suspect, the US equity market did much better relative to the rest of the world. The Nasdaq was the best performer at +44% supported by the mega-tech companies and the Russell 2000 index (small and mid cap) for once, outperformed the S&P 500 index. Chinese equities and more broadly Emerging markets had positive returns. The Japanese equity market also had a good year, with the Nikkei 225 Index, up +16% in 2020. European markets were once again lagging with the FTSE 100 Index the worst performer, down -12.7% and the EuroStoxx 50, down -4.5%. The SMI Index managed to end modestly positive at +0.9%.

Among the sectors, Information & Technology, Consumer Discretionary and Telecommunication were the winners in 2020, returning respectively +42.2%, 32.2% and 22% followed by Materials and Healthcare at +17.6% and 10.6%. On the other side, the Energy sector was the most impacted by the Covid crisis, collapsing by nearly -37% while Real Estate and Financials were down circa – 5 to -6%.

Fixed Income wise, US 10 year yields fell almost 1%, divided by 2 while German 10 year yields fell further into negative territory, down 40 bps over the period to -0.58%. After a large widening move in March, US and European investment grade and high yield spreads, ended the year nearly unchanged as if nothing had happened.

2020 was marked by a broad US dollar weakness. The US dollar Index lost nearly -7% and underperformed all major currencies. The Emerging currencies were the worst performer with the JP Morgan Emerging currency Index down -5.7% versus USD. However, 2020 was also “The” year for the single currency. While the euro ended unchanged against the Swiss franc, it has performed against all the G10 currencies and appreciated almost +10% versus USD.

Regarding commodities, again, we observed some dispersion. While the Bloomberg Commodity Index was down -4.2% over the year, Gold skyrocketed 24.4% and Oil prices fell 21%..

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD
S&P 500	3 744	0.45	1.54	3.38	11.33	15.88
Nasdaq	12 896	0.36	0.69	5.72	15.48	43.73
Russell 2000	1 981	1.12	-0.43	8.87	31.41	18.75
Euro Stoxx 50	3 577	-0.12	2.28	2.42	12.01	-4.49
Stoxx 600 EUR	401	-0.06	2.59	3.08	11.16	-3.48
FTSE 100	6 583	-0.30	2.59	5.05	12.21	-12.73
SMI	10 709	0.25	3.91	2.22	5.12	0.86
NIKKEI 225	27 444	-0.45	3.47	3.82	18.37	16.01
MSCI EM Index	1 267	1.15	1.45	5.12	17.08	13.65

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	89.697	-0.33	-1.06	-2.36	-4.46	-6.94
EUR-USD	1.2296	0.38	0.89	3.09	4.91	9.66
USD-JPY	103.04	-0.52	-0.51	-1.23	-2.37	-5.41
USD-CHF	0.8828	-0.16	-0.63	-2.96	-4.32	-9.49
EUR-CHF	1.0854	0.21	0.26	0.13	0.55	-0.02
GBP-USD	1.3605	0.76	0.83	2.12	5.30	2.63
EUR-GBP	0.9038	-0.37	0.06	0.95	0.38	6.40
JP EM FX Index	57.90	-0.09	0.88	2.73	6.21	-5.71

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	0.93	-0	-1	10	25	-98
Germany	-0.58	-1	-3	-1	-5	-39
UK	0.21	-1	-8	-10	-2	-62
SWITZERLAND	-0.55	-1	-3	-3	-6	-8
Japan	0.02	-0	1	-1	1	3
US IG Spread	103	-2	-5	-7	-42	2
US High Yield spread	325	0	-32	-60	-183	-2
EUR High Yield spread	352	1	-7	-28	-135	34

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	77.5	0.46	1.19	4.17	9.33	-4.23
Gold Spot $/OZ	1887.2	0.48	0.76	6.20	0.07	24.38
Crude Oil WTI	48.1	0.15	0.21	6.02	19.52	-21.27

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	22.5	-0.62	-1.77	1.89	-14.83	8.68

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD
S&P 500	3 743.9	0.45	1.54	3.38	11.33	15.88
UTILITIES	313.9	0.43	1.35	-1.19	4.00	-4.39
ENERGY	288.5	1.62	1.94	5.14	26.83	-36.79
TELECOM	221.4	-0.00	2.29	2.83	13.26	21.89
CONS STAPLES	691.5	-0.03	1.25	0.74	4.90	6.88
REAL ESTATE	226.4	0.94	0.96	0.23	3.38	-5.81
CONS DISCRET	1 304.1	0.40	2.32	2.57	7.98	32.22
MATERIALS	454.1	1.38	1.46	1.94	13.51	17.68
HEALTH CARE	1 314.0	0.38	1.41	2.95	6.74	10.59
INFO TECH	2 290.7	0.25	0.78	5.66	11.50	42.18
FINANCIALS	484.5	0.50	2.36	4.77	21.05	-5.25
INDUSTRIALS	746.6	0.88	0.86	0.72	14.74	8.58

Source Bloomberg | 30.12.2020

Macro Update : Inflation, Covid, Vaccine and Biden

1- Economic activity Update

The Manufacturing sector around the world, as shown by the Manufacturing PMIs, continues to recover while services made a pause and even stepped back in Europe on the back of the new soft lockdown measures. The fourth quarter has ended on a positive note with globally some resilience in the manufacturing and services sectors. The new soft lockdown measure in Europe announced in November had less visible impact than the first lockdown in March last year. As expected, the manufacturing sector continued to recover in the US, Europe and the UK, while it stabilized in China and more broadly in emerging markets. The services sector is also resilient globally and the strong rebound in Europe over the month underlined the fact that lockdowns are manageable in terms of economic activity. The perspective of more severe lockdowns like recently in the UK could deteriorate the global economy during the first quarter 2021, although vaccination campaign efficiency and timing will be crucial.

It is interesting to note that since the onset of the pandemic and given the extraordinary amount of stimulus notably from the CARES Act, the US saving rates have increased in 2020 to levels not seen since 50 years. This represents plenty of spare cash to deploy if/when we return to normalcy. Therefore, we can expect a surge in consumer spending over the course of the year.

2-Inflation and Real Yields

The perspective of higher inflation in 2021 that could lead to higher rates seems to be the subject in every discussion. Given the fresh new amount of debt issued in 2020, there is no doubt that inflation is a key risk for financial markets.

First, inflation results of a price increase that has to be persistent and built into expectation about future price increases. Therefore, a pick-up in inflation in 2021 following the Covid crisis should not, in our view be considered as a new durable high inflation environment, especially if we consider the base-effect from the inflation drop in 2020. A one time price increase is not inflation.

Manufacturing PMIs continue to recover.

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Global	42.4	47.9	50.6	51.8	52.4	53	53.8	53.8
USA	43.1	52.6	54.2	56	55.4	59.3	57.5	60.7
Europe	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2
Switzerland	42.1	41.9	49.2	51.8	53.1	52.3	55.2	58
UK	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5
China	50.6	50.9	51.1	51	51.5	51.4	52.1	51.9
Emerging	45.4	49.6	51.4	52.5	52.8	53.4	53.9	52.8

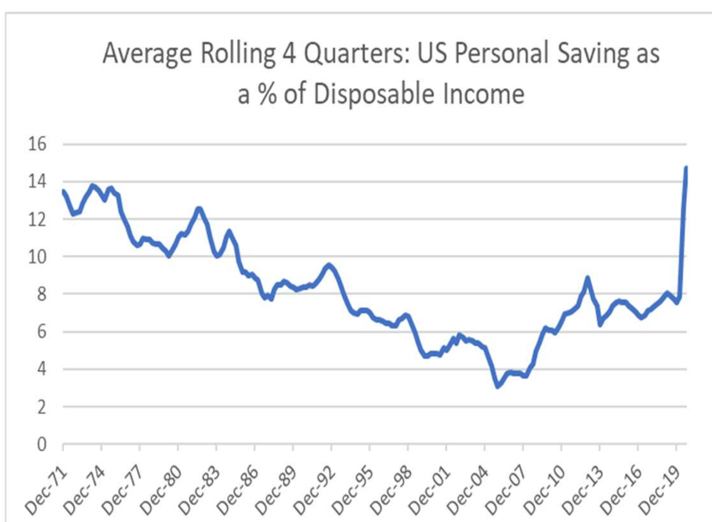
Source Bloomberg

Services PMIs: Stabilization despite some lockdowns.

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Global	35.2	48.1	50.7	52	52	52.9	52.2	51.8
USA	45.4	57.1	58.1	56.9	57.8	56.6	55.9	57.2
Europe	30.5	48.3	54.7	50.5	48	46.9	41.7	46.4
Switzerland	36.2	49.1	51.6	51.7	55.1	50.4	48	48
UK	29	47.1	56.5	58.8	56.1	51.4	47.6	49.4
China	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7
Emerging	41.4	49.3	49.4	51.5	53.2	54.5	54.4	53.9

Source Bloomberg

US Saving Rates at a 50 years high



Source CGE

Macro Update : Inflation, Covid, Vaccine and Biden

Inflation expectation has already picked-up and the recent upward move in US nominal yields confirms investor concerns on an overshoot in inflation. However, the last Fed Minutes report suggests that the Federal Open Market Committee remains unbothered by inflation for now and the shift towards an average inflation measure confirms that the Fed is willing to accept a one-time price increase without going immediately to a maturity extension of debt purchase nor a tapering. Instead, the Fed underlined a stronger than anticipated economy that now is slowing with the virus remaining the main significant risk. In this context, we expect real yields to stay in negative territory for now, despite the potential inflation rebound for the year to come.

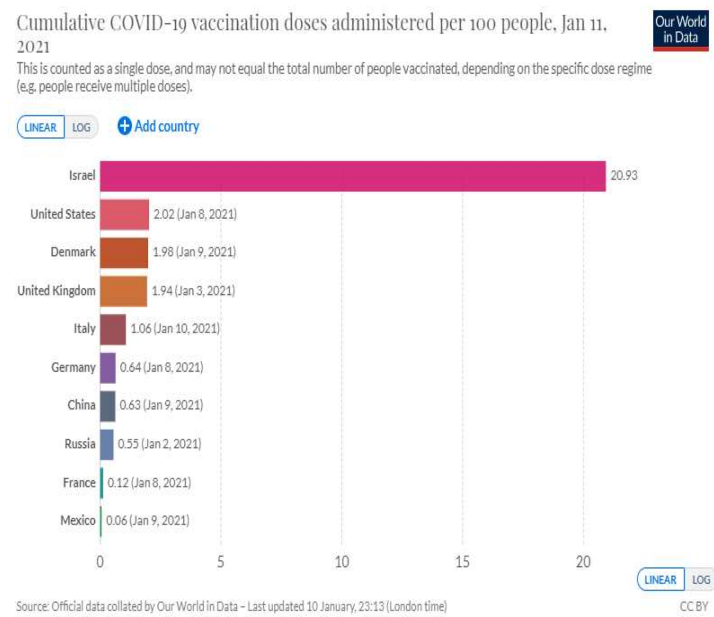
From lows, inflation expectations rose above 2%.

Source Bloomberg

3-Covid and Vaccine

The third Covid wave is now a reality and new European lockdowns, like in the UK for example, will affect the global economy for the coming weeks/month. Nevertheless, those concerns are now overshadowed by the vaccination campaign. We tend to believe that the most important statistic to follow now is the number of vaccination doses administered per 100 people in each country. This data, available on a daily basis should be scrutinize closely as a barometer for the timing of a return to normalcy. Therefore, we expect optimism/pessimism from investors to be driven by the efficiency of the global vaccination campaign.

Covid 19: The most important data to follow.



4-Biden and finally a blue wave

The blue wave finally materialized after the Georgia Senate races. Democrats will take control of the US senate once Kamal Harris is sworn in as vice-president on 20 January.

Now, the Biden economic team, led by Janet Yellen, the first female Treasury Secretary, will be unconstrained by Congress. Therefore, their program will emphasize Keynesian fiscal spending and redistribution to reduce inequality which means that higher taxes on both corporates and elevated personal income should be expected.

Yellen's partnership with the Fed will be powerful with a strong commitment to overshoot on inflation and full-employment with further Fed quantitative easing to be expected. The US international economic policy under Biden will mark a return to a pre-Trump era as Yellen backs Free Trade while on the regulation front, Janet Yellen has already advocated for a new Dodd-Franck which could surprise the market hawkishly.

Equity strategy

When a pandemic hits the world economy and leads to a sharp contraction in corporate earnings, thereby triggering QoQ GDPs in developed markets to fall by 10%, pushing millions of people into unemployment and destroying hundreds of thousands of existences not many would expect equities to perform well. But that's exactly what happened in 2020: both the MSCI World index and the MSCI World All Country index ended the year approx. 14% higher. The Nasdaq index even rose by 43.64%. How is that possible?

The pandemic was an exogenous shock and with a quick and appropriate response via monetary and fiscal policy, many countries managed to avoid the worst.

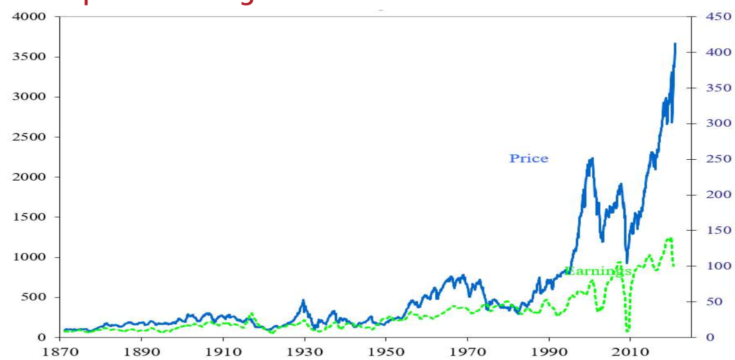
Although we know that equity markets are a big discounting machine looking far into the future, the strong and quick rebound of equities is astonishing.

To better understand what is happening it is worth taking a step back and to have a look at longer time-periods. In a recent article, noble-prize winner Robert J. Shiller writes that (US) equities are indeed at historically expensive levels. Even the cyclically adjusted P/E ratio (CAPE) of the S&P 500 is above 33, levels only seen before the great depression and during the dotcom bubble. The gap of real prices to real earnings has reached a record level.

Never before, however, have interest rates been so low. And therefore, the excess (earnings-) yield of equities (equity risk premium) is currently still attractive, at least in relative terms to other assets classes, e.g. bonds. Rober Shiller concludes by writing that although equities are expensive, there may be drivers in place which could keep equities expensive and expected future returns for equites around 10% p.a. all else equal are still possible going forward.

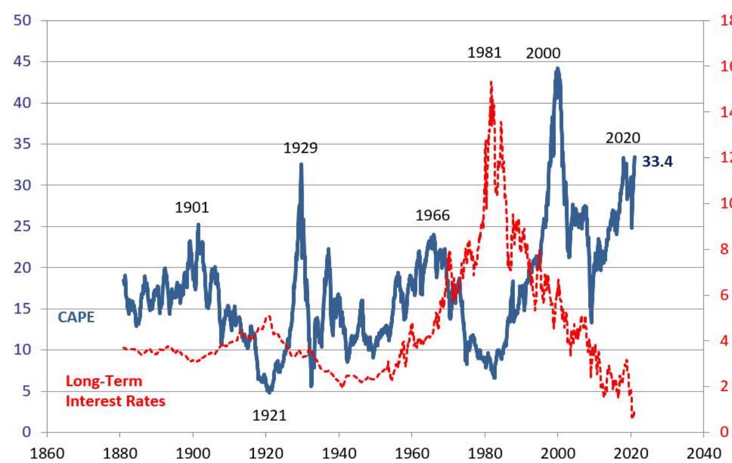
We recommend a constructive (neutral to overweight) position in equities. We recommend to overweight Europe, value and mid- & small-caps. Value should benefit from slightly rising longer rates and mid- & small-caps provide a way to avoid extremely expensive tech large caps and offer access to fairly priced cyclicals which still have room to rebound.

Real S&P Composite Stock Price Index vs. Real S&P Composite Earnings



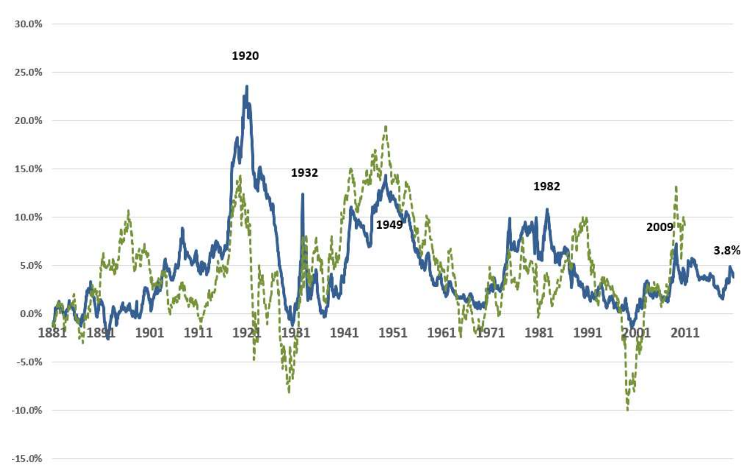
Source: Robert J. Shiller

Shiller S&P 500 CAPE and US Long-Term Interest Rates



Source: Robert J. Shiller

Excess CAPE Yield and Annualized Subsequent 10 Year Total Returns



Source: Robert J. Shiller

Fixed Income Strategy

Was 2020 the last year it was worth being long duration? Only time will show. For now, the monetary response to the pandemic is still needed and driving fixed-income markets, firmly anchoring the short end of the curve around zero. At some point, the credibility of these policies will be tested. But until then, yield-hungry money will continue to pile into riskier credit. Default rates seem to have peaked in 4Q20 and we recommend to keep exposure to investment grade credit, high-yield and senior loans as all still provide an attractive yield-pickup versus risk-free rates. Emerging Market spreads still look attractive and we recommend to have an exposure to this sub-asset class as well.

Inflation expectations are back at their 2019-levels. The next move will depend on the evolution of the economic outlook. Both the economic outlook and the changes in inflation expectations will impact the longer end of the curve. Therefore, while we think that an allocation to treasuries is part of a well-diversified portfolio (be it only as a complement to cash), we recommend to keep duration low.

While we recommend to keep exposure to credit/spread risk in portfolios, we also acknowledge that this asset class is losing attractiveness due to low yields. Therefore certain alternative strategies may complement existing fixed-income allocations going forward.

Finding alternative investments to the less attractive fixed income asset class has been one of our priority and we are now able to provide a list of funds offering not only diversified returns but also less correlation with traditional asset classes.

US Default Rates (grey), ex-energy (blue) and distressed ration (green)

Source: Muzinich & Co

German (lhs) and US (rhs) Breakeven Inflation 10y

Source: Muzinich & Co

FX & Commodity strategy

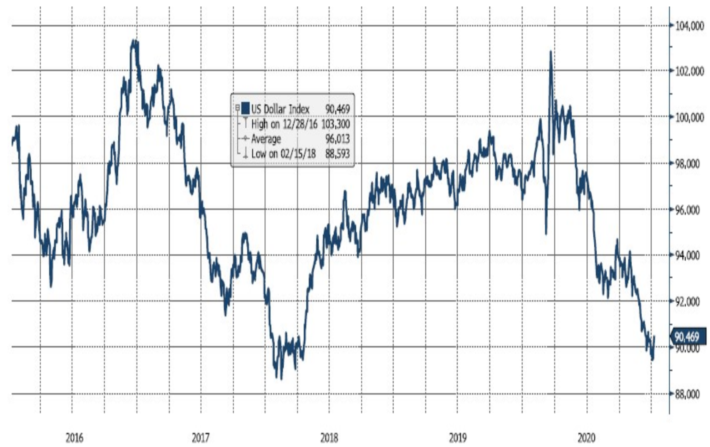
The political impact of Democrats gaining control of the Senate should bring more freedom for Biden to implement his presidency, meaning a weakening of the Dollar. Therefore, we should continue to see a slight uptrend in the pair EUR USD (which has already reached a new high at 1.2349 since the beginning of the year. However, the downtrend of USD could be limited by the US yields that are heading higher as the 10-year Treasury yield is now above 1%. In addition, it would be wise to not forget the safe haven appeal of the USD: a collapse in market sentiment with the Covid 19 situation far from being resolved could reinstate interest in the USD (and JPY and CHF to some extent) at the expense of the EUR. Consequently, the support EUR/USD should be placed at 1.20 and resistance around 1.25.

The next question is therefore, until which level the ECB will tolerate the negative impact of a strong EUR on the Eurozone trade position and its inflation rate? Now, that we see the 1.20 level surpassed, the ECB could ease monetary policy still further in the first quarter 2021, but compared to 2020 it will likely fail to bring EUR down.

Over the past few months, fundamentals based on Brexit and Covid -19 have been the main driver for GBP price movement. This trend will surely continue over 2021, as reflected by the slight momentum on the sterling that followed the Brexit agreement at the end of 2021 and now the pressure due to the new drastic lockdown in the UK. However, as the UK is now moving faster than other countries in vaccinating its population, a successful and rapid campaign could send the Starling higher by next spring and summer.

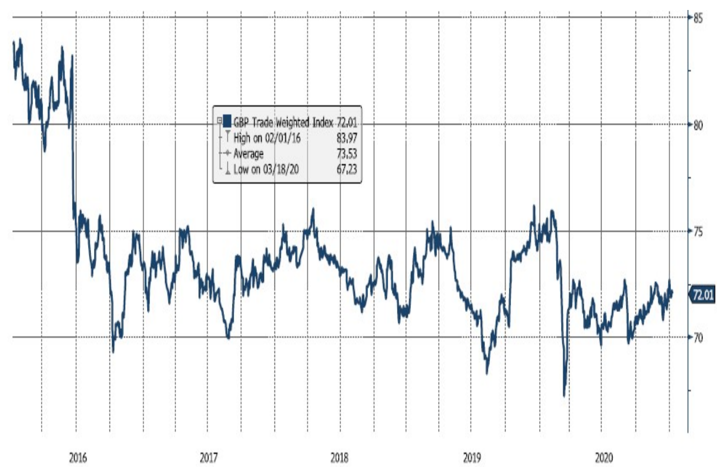
If overall the market seems to see Gold in a bullish trend over 2021, two opposite factors could lead its real move: Firstly, the inflation outlook in major economies is remaining subdued, Central Banks should keep their commitment policies extremely loose. The Fed might keep dovish action unless there is a dramatic jump in inflation data and in that case, the gold index (XAU/USD) could gather bullish momentum. This suggests that investors shall not give up on gold in the near future. On the other hand, optimism on a potential return to normality could make risk-sensitive assets more attractive and dampen the demand for the yellow metal. With accommodative monetary policy and possible fiscal stimulus as the broad macro environment, gold should still see support for prices to move higher.

The US Dollar near a 5 years bottom.



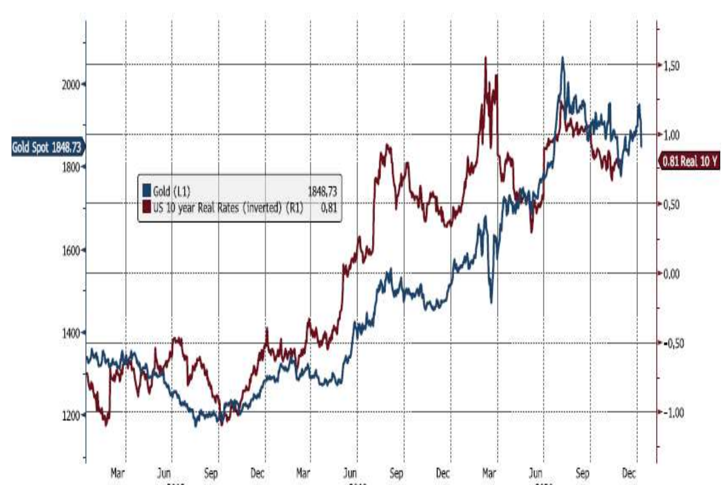
Source Bllomberg

Sterling has further room to appreciate.



Source Bloomberg

Low yield environment supports Gold.



Source Bloomberg

By choosing Cité Gestion, you will benefit from our unique business model which sets us apart from most traditional wealth managers. Learn more on our website : www.cité-gestion.com

And follow us on LinkedIn to stay connected to all market news and perspectives.

Disclaimer and important information

This document has been published in Switzerland by Cité Gestion SA, Geneva, a custodian and securities dealer subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not intended for distribution, publication or use in any jurisdiction where such distribution, publication or use would be prohibited, and is not directed to persons or entities to whom it would be unlawful to send such a document. All information provided in this document, in particular opinions and analyses, is for information purposes only and should not be construed as an offer, advice or recommendation to buy or sell any particular security or to enter into any transaction. Nor does this publication constitute - and should not be construed as - an advertisement for a particular financial instrument. The risks associated with some investments are not suitable for all investors and a precise assessment of the risk profile must be made. Nor should this document be construed as legal, accounting or tax advice. Although Cité Gestion SA makes every reasonable effort to use reliable and complete information, Cité Gestion SA makes no representation or warranty of any kind that the information contained in this document is accurate, complete or up to date. Any decision based on this information must be made at the investor's risk and Cité Gestion SA declines all responsibility for any loss or damage that may result directly or indirectly from the use of this information. United States: Neither this document nor any copies thereof may be sent, taken or distributed in the United States or given to a US-Person. This document may not be reproduced (in whole or in part), transmitted, modified or used for public or commercial purposes without the prior written consent of Cité Gestion SA.