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Investment policy Q4/2019

English Version

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Central banks against the global slowdown risks

Investment Policy

Trade tensions between Washington and Beijing, for which some negotiation glimpse can be seen, could extend to Europe, with the fears of an economic slowdown that they determine. Therefore we expect a further accentuation of the expansionary monetary policies by the main central banks, including the Federal Reserve, urged by a President who wants a more expansive stance at all costs.
If we also consider the geopolitical risks, still high in various areas of the world, from the Persian Gulf to Venezuela, from Argentina to Hong Kong (China's famous "golden door"), it is not surprising that investors pursue in some ways "extreme" strategies: maintaining a "safe heaven" risk profile by favoring large shares of liquidity and safe haven assets, or, on the contrary, accepting risky strategies in order to achieve expected returns in line with their historical expectations. Our asset allocation responds to an intermediate logic that we believe can represent a good balance between risk and return.

Outlook

As said, the trade war underway can find, at least partially, a short-medium term pragmatic solution, also because we are now approaching the American pre-election phase, which could lead to other positive fiscal initiatives, not only for the companies but also for employees. China itself, whose GDP has contracted, will implement new initiatives to support its economy and export, not excluding a further "guided" devaluation of the yuan. A move to be implemented, however, in a cautious manner, such as to favor the inflow of foreign capital, given that the Chinese financial market is now open and the currency of Beijing aspires in the future to an increasingly global role. The same is true for the US dollar, which is not too strong to harm exports or to discourage international flows to both Wall Street and the bond market. US dollar is, at the moment, the only one able to provide appreciable returns with adequate risk levels.
At the center of the scenario, once again, remain central banks: the Washington Federal Reserve (FED), despite the targets for GDP, inflation and employment have been largely achieved, could "satisfy" Trump (and the markets) in a preventive anti-recession strategy, even if questionable, with a further cut of 25 basis points before the end of 2019.
The European Central Bank (ECB) is instead forced to an ultra-expansive policy, returning to quantitative easing, and to the purchase of bonds and perhaps even shares, given the weakness of the euro area and the difficulties of Germany.
Although the Swiss National Bank (SNB) did not maneuver during the September meeting, it could try to have even more negative interest rates, regardless of the serious consequences they would have for the banking and social security sector, and for savings in general.

Macro

The US economic data, as mentioned, remain positive, with a limited slowdown in the economy but without recessionary signals. Inflation is around 2%, in line with the objectives of the Fed.
In Euroland, domestic demand is holding up while exports have slowed down and confidence is deteriorating. The 2019 GDP has been further lowered and inflation is stagnating below the target.
Switzerland has maintained a good growth rate but a sharp slowdown in GDP in 2019 is expected (+ 0.7% compared to + 2.5% in 2018).
China, which has seen a deceleration over the past few months, is set to recover in the second half of the year, thanks to the support measures decided by the Government, and the A shares remain attreactive. Other Asian countries, such as South Korea, Taiwan and Vietnam, have benefited from the Chinese slowdown and the trade war, whose economy is experiencing a real boom.
For Japan, a significant recovery in domestic consumption should be noted.

Fixed Income

The fixed income sector has seen, in recent months, inflows from the stock market, despite the fact that the returns provided are insignificant, if not zero or negative. It is estimated that around 15 trillion dollars of public and corporate bonds have negative returns, and that the volume may exceed 20 trillion if the Federal Reserve lowers rates before the end of the year.
The investor must, therefore, choose between renouncing to yield andhoping only in an appreciation of the security, or search for more "exotic" and risky issuers in the high-yield area.

The same government securities of the euro area are actually living, in terms of valuation, a "bubble" that does not reflect the risk-return ratio they carry. Just think of the ultra-optimistic reaction of the markets in the aftermath of the outbreak of the Italian political crisis.
Good alternative results can be found in the emerging markets and convertibles sectors, which allow to benefit from the equity rally with some protection in the event of market failure. In any case, short duration euros must be preferred, but in the dollar area it can be extended up to 7 years.

Equities

Shares still represent the preferred asset class, albeit with a more cautious approach and a higher level of volatility. The interest is still towards the US market where, after the correction below the threshold of 2850 points, the S&P500 appears destined to recover in the coming months, with the progress of the electoral campaign for the US presidency, supported by macroeconomic data, good corporate profits in many sectors, buybacks and probable tax initiatives to be launched by the Administration.
European markets are still interesting, and, in theory, remain the most attractive in terms of valuations, but struggle to catch up. The Chinese market is catching up and remains well set for the coming months, as well as the Asian markets in general. The outlook is also good for the Swiss market, and for the pharmaceutical sector in particular, which seems to be able to digest appreciation of the currency. Among the most interesting topics to consider are those related to demographic dynamics and related goods and services.

Alternative Investments

The increased volatility that affected some of the asset classes favored some hedge funds, for example those active in long-short strategies.
On gold, now firmly positioned above the threshold of $ 1500 an ounce, investor interest has returned. The rally challenged the traditional negative correlation against the US dollar, thanks to economic and geopolitical uncertainties, as well as the massive purchases made by some central banks (in particular, in decreasing order for 2019 Russia, Poland, China, Turkey, Kazakhstan and India).
Oil has seen a fluctuating trend, subject on the one hand to fundamental pressures and uncertainties, regarding the evolution of the offer. The continuation of the cuts by OPEC and Russia, together with the Venezuelan and Libyan crisis, did not have the strength to raise the price, as instead happened on the occasion of the escalation of tension in the Gulf, where in its eastern end of Hormuz transits one sixth of the entire world production of crude oil and one third of that coming from the region. Iran, who is accused of such attacks, has been subjected to heavy US sanctions and has threatened to close the Strait. On the other hand, for Saudi Arabia and other producers, not to mention OPEC's "hawks", the "ideal" price is between 70 and 75 dollars per barrel, so as to allow investments and balances in public budgets and, for Riyahd, to favor the next domestic and international listing of its giant Saudi Aramco.

Forex

Further rate cuts by the Federal Reserve may undermine the strength of the US dollar, which however continues to be favored by a rate differential in its favor, especially if Beijing decides to devalue the yuan and if the ECB appears to be particularly expansive and unconventional in its monetary policy.
The Swiss franc, close to 1.10, seems to return at least partially to its role as a safe haven, in competition with the Japanese yen, challenging the interventions of the SNB and the Bank of Japan, which still maintains an extremely accommodating policy.
When the uncertainty of the Brexit will be overcome, whatever the outcome of the process launched by the new tenant of Downing Street, the pound, for long neglected by investors, can return to appreciate, also because the fundamentals of the United Kingdom remain quite positive, as also illustrated by the latest data on the real estate market and employment. It is not excluded that, once the critical phase is over, the Bank of England will opt, in contrast with the other central banks, for a rise in the reference rates.
For the investor looking for greater diversification, opportunities for carry, starting therefore from a low-cost debt base, can turn to the Norwegian krone, linked to the oil price, the Australian and New Zealand dollars, more connected to the dynamic Chinese economy.

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