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Investment policy Q1/2020

English Version

BancaStato

USA and China still on focus with markets pushed by the liquidy

Investment Policy

The "trade war", despite the fluctuating trend, seems destined to find a solution on a pragmatic, partial and temporary basis, especially in view of the crucial electoral year for the re-election of President Donald Trump in November 2020. The Federal Reserve Policy (FED), after the trend reversal and the failure to normalize in 2019, with subsequent cuts in the reference rates, it now appears to be oriented towards stability and wait-and-see position. The recent US macroeconomic data are positive and the recession fears that had been registered in recent months have faded. The position of China remains decisive, both in terms of economic trends and in response to fiscal stimulus and currency "orientation" implemented by the authorities. The Chinese scenario is also affected by the uncertainty surrounding the evolution of the turbulence in Hong Kong. In Europe, the change at the top management of the European Central Bank (ECB) between Draghi and Lagarde does not entail any significant changes: monetary policy remains ultra-expansive and unconventional, both in terms of rates and purchases of securities, given the weakness of the economic situation and political and institutional uncertainties that in various countries continue to slow down the fiscal policies that would be necessary. A start could come from Germany, thanks to its trade surplus. The Swiss National Bank (SNB) also maintains its policy of negative rates, with growing criticism and controversy against them and the bubbles they feed, for example in real estate. Negative rates also dominate in Japan, alongside even more pronounced government support initiatives.

In the United Kingdom the overwhelming victory of the Conservative Party of Boris Johnson reduces the uncertainty on Brexit which can start its realization.

In this context, our investment policy remains marked by positivity, especially in relation to equity, although uncertainties, economic data, political and geopolitical events will generate some volatility in the coming months. Positivity stems from the fact that all central banks will continue to focus on further rate cuts. The Fed's policy could turn towards a new quantitative easing even if perhaps in different forms than in the past. In this context, those who could benefit the most are the emerging markets that have a greater space of appreciation.

Outlook

The US economic scenario remains favorable both in absolute terms (GDP, unemployment at the lowest level of the last 50 years, consumption and the real estate market) and in relative terms compared to other areas. Some concerns remain on the public and private debt frontfor its medium to long term sustainability. Europe stagnates and Germany, in its role as the continental "locomotive", loses strength, while outbreaks of political crisis emerge, for example in Italy and Hungary; the Catalan matter with Madrid remains open while the protest movement in France grows.

Within the general scenario, if the trade war between Washington and Beijing may have caused some slowdown in trade and global growth, it has benefited other areas, including mainly those in South East Asia, as well as South Korea and Taiwan.

Macro

US growth, employment and inflation are in line with the objectives of the FED which, during 2019, made three rate cuts and huge injections of liquidity into the short-term money market. The inversion of the yield curve, which had caused fears of a possible recession, has returned to normal and the picture has progressively normalized. For the electoral phase that will be completed in November, a series of initiatives taken by the Trump Administration can be foreseen in order to favor its re-election: tax reliefs for companies and individuals, support for agriculture, as well as a partial trade agreement with Beijing, but counterbalanced by possible retaliation against Europe. We do not believe that the impeachment initiative could result in a concrete danger of removal of the President. The scenario is destined to remain uncertain for Europe, despite the confirmation of the ECB's ultra-expansive policies, in the absence of strong fiscal initiatives, while for Asia and emerging markets the macroeconomic conditions are positive, favored by monetary policies expansive.

Fixed Income

The ECB's accommodating policy supports asset prices, while distorting the perception of risk and fueling dangerous bubbles. The focus is on political uncertainties in Italy, and not only, and on their effects in terms of yield differentials (spread). In the area of investment grade bonds, some yields still seem interesting, especially overseas. For US bonds, durations up to 7 years are preferable, high yields offer opportunities if carefully selected, even in the presence of a risk due to the high level of debt. The same strategy must be adopted for emerging market, which are interesting in terms of diversification. Overall, active management is preferable in line with the evolution of the market and the inclusion of securities with variable yield (floating rate notes) as protection against possible inflationary accelerations.

Equities

The preferred asset class also for 2020 is equity which, despite the rally, still has the best risk / return ratio. The drivers that favor the asset class are the accommodating policy of the central banks, the abundant liquidity, the solid trend of profits in many sectors, the corporate buy-backs, the probable support initiatives taken overseas, the improvement of US-China relations. If at the moment the favorite geographical areas are the United States and Asia, the extension of fiscal stimulus could also make the Eurozone and Japan markets attractive, where consumption is in recovery. The Swiss equities remain interesting for its defensive characteristics and high dividends, with the pharmaceutical sector in the foreground.
Speaking of Asia, particular attention must be paid to India which, despite many political, social and structural difficulties, records a growth of more than 5% per year, a favorable demographic trend thanks to the share of young people, a strong propensity for technological innovation, and broad initiatives to support the economy on the public side.
The global scenario also favors the so-called “frontier markets”, characterized by relatively narrow listings and with access restrictions, but with strong potential. Among these we note Vietnam, whose growth rate reaches 7% per year and which is among the biggest beneficiary of the US-China trade war.

Alternative Investments

Long / short strategies continue to be valid, at least in their “long” component of the portfolio, and the increasing volatility has favored those instruments that have made it their investment objective.
As for raw materials, their performance depends strongly on the evolution of China, which alone represents almost 50% of the market. Many prices in metals and soft commodities area could recover over the next year. Among the precious, palladium, a “hybrid” metal, has experienced sustained growth thanks to its uses in cutting-edge technologies, such as batteries. Gold, supported by the return of many investors to defensive positions, through ETFs, and purchases by central banks, is affected at the time by the continuing relative strength of the dollar but nevertheless represents an important tool for protecting and diversifying the portfolio.
Oil is conditioned by the uncertainties of demand and supply, to which the OPEC and other producing countries, including Russia, have recently responded with further cuts in production. The prospects of American shale oil appear uncertain, since it has to deal with difficult financial situations and poor investments. Instead, the initial listing of the energy giant Saudi Aramco, the largest and most profitable company in the sector, with a capitalization of 2 trillion dollars, was a great success. The operation, currently limited to the domestic Riyahd market, should be followed by listings on important international markets.

Forex

Despite Washington’s “polluted” political climate, high levels of US debt and the Fed’s wait-and-see position, the positive economic picture and yield spreads continue to be less favorable is US Dollars, both against the euro and against other currencies. Equally strong is the Swiss franc, which fails to return steadily above 1.10. Political and geopolitical crises could accentuate its reinforcement, frustrating the SNB’s mitigating strategy. Interesting, within carry strategies, the Norwegian krone, thanks to the fundamentals of the country and the role of its energy resources, the Australian and New Zealand dollars, thanks to the benefits deriving from a strong integration with the Chinese economy.

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