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English Version

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Beyond the storm, in search of the "V-Shape" recovery

Investment Policy

The blows of the pandemic, the fears of a "second wave", the uncertainties about its economic and social effects, still weigh on the scenario, but the underlying trend of the markets remains marked by optimism, albeit mitigated by reasonable caution. Central banks are still at the center of attention and, beyond the progressive expansion of their ultra-expansive and unconventional monetary policy actions, they also perform fiscal policy functions, compensating the inactivity of certain governments. If it is true that monetary and fiscal interventions inevitably lead to an increase in deficits and debt, it is equally true that, for the moment, this variable is not considered critical by the markets, also because the context is exceptional, even more than that of 2008-2009 when the crisis was triggered by finance, while today it has a strong impact on the real economy. On a political level, the need not to compromise recovery and employment appears to be prevalent, postponing stabilization plans to better times.
In general, what happened in the past months has led to a lowering of the risk profile of many investors, but the progressive reopening of the economies, the good tone of the markets and the emergence of interesting investment themes then reversed the trend, without prejudice the need for a careful selection of instruments and the quality of their issuers.

Outlook

While the horizon is still uncertain, markets face a moderately positive economic trend, especially for the United States. Expectation and desire point to a marked recession followed by a recovery perhaps more rapid and broader than estimated when the epidemic appeared. In fact, in the USA, production, consumption and employment data turn out to be better than expected, fueling the hope of a "V shaped" rebound. For its part, Wall Street has rewarded the responsiveness of the Federal Reserve (FED), whose powerful campaign of liquidity injections with the purchase of public and corporate fixed income securities proved to be decisive. In addition, the Fed still has two arrows on its bow, which could be used in case of need. On the one hand, the Central Bank could purchase equity securities or ETFs, in addition to High Yield bonds, in an "unlimited" form. A policy, however, already deployed by its counterpart the Bank of Japan and also by our SNB. The FED could also be able to control the Treasury yield curve, setting rates over the various maturities and dispelling fears of an inflationary and deflationary nature.
The situation of the European Union is very different, where the large monetary support instruments put in place by the European Central Bank (ECB), higher than expected (PEPP even increased to 1,350 billion euros), and the possible purchase option of "non-investment grade" securities face highly critical economic situations, as in the Italian case, and factors of political and institutional disagreement between partner countries. All this makes their implementation difficult, which is more tortuous and less targeted than that of the US FED.

Macro

The relatively positive picture of the US is accompanied by the beneficial effects that the support decided by Beijing are having on the Chinese economy. While remaining tied to exports, it counts increasingly on the growth of internal consumption and quality production. Globally, the critical factor represented by the transpacific trade war is always present but less incisive. Beyond the impromptu skirmishes and the curtains often set up for domestic politics, Washington and Beijing are dominated by pragmatism and their systems, although different, are more complementary than they might appear. On the other hand, Europe is increasingly proving to be the weak link in the international context, both in economic and institutional terms. The UK, for its part, could soon end the uncertainty created by the long and tormented Brexit process.
Of course, the second half of the year will be dominated by the electoral results, now apparently uncertain and favorable to the democratic party, in the USA. If this faction wins, on the basis of what has been said so far, an increase in the tax burden on the upper classes and greater regulation of the financial sector could be expected.
Given Trump's large delay in the polls, which in addition to Coronavirus has had to deal with social tensions, it is likely that with the approach of the presidential elections in November, the White House will put forward initiatives in the tax field, for infrastructure investments and other such moves to fill the current consensus gap from Biden. It is not excluded that even geopolitical events, such as the escalation of tension with Iran in the Persian Gulf, may be a further element of consensus towards the current Administration.

Fixed Income

Even in this market, the powerful action of the Central Banks has contributed to favoring stabilization, particularly in the investment grade sector, while risks tend to increase in the segments of the issuers of lesser quality, more subject to default situations. For emerging market issues, the relative strength of the US dollar, albeit eased, may still be a risk factor, although some currencies

linked to the recovery in commodities may be interesting. Equally interesting are the government issues of those emerging countries best positioned in terms of financial and commercial fundamentals, such as China and the Asian countries.
Overall, the predominant interest is for investment grade issues, including those which, after belonging to this category, then had to give in to the difficulties caused by the pandemic. These are the so-called Fallen Angels, to which the FED launched a support action in April.
We consider relatively short maturities preferable, given that the evolution of the market has effectively eliminated the correlation between yield and duration.

Equities
The stock market rally surprised many but, as mentioned, has played positively, at least on Wall Street, thanks to the reactivity of the FED, the huge mass of liquidity injected into the system, the possibility of further intervention in case of need and macro and business data better than expected in the darkest moment of the pandemic. A sideways phase cannot now be ruled out, together with possible profit taking, which could however represent opportunities for establishing new medium-long term strategic positions.
The vision for the US market remains positive, with a particular interest in the entertainment, technology and e-commerce sectors. We recall that the performance of the NASDAQ index has been, since the beginning of the year, far superior to that of the broader indices such as the S&P 500. The Chinese and Swiss markets are equally interesting, also by virtue of its defensive profile, emphasized by the strong presence of the quality pharmaceutical and food sectors, in addition to the good level of distributed dividends. The Japanese market, penalized in the first part of the year, now appears attractive in terms of valuations.
A European agreement on the Recovery Fund also allows a recovery of the European sectors that have been most penalized. In spot light of telecommunications, utilities, industrial and insurance groups, in addition to activities related to the general theme of population aging.

Alternative Investments
In the commodities sector, the progressive reopening of economies has positively influenced the price of oil, as have the further cuts decided by OPEC extended to Russia and other non-historical members. Although uncertainty factors related to demand remain, support has come from the degree of compliance of the OPEC producers and the crisis of a part of the US shale oil, which is removing the mirage of the country's energy independence from Gulf imports. All of this occurred after the confusion on the futures market, with negative technical prices on some maturities. The tension with Iran and uncertainty about the evolution of the situation in Libya and Venezuela also influence the crude market. While other raw materials are recovering, a good anticipatory sign of industrial recovery comes from the BDI (Baltic Dry Index), which records the evolution of sea freight rates for dry loads on the main world routes. The BDI marks + 74% since the beginning of the year despite the fall in the spring due to the pandemic.
But the commodity that attracts investors the most today is gold, a valid asset in a "complex world" and capable of covering various situations, deflationary and particularly critical inflation, for financial or geopolitical reasons.

Forex
The positive evolution of commodities also benefited the currencies related to them, such as the Norwegian krone and the Canadian dollar, as well as those most related to China, including the Australian dollar.
In the euro-dollar ratio, which remains in a trading range of 1.08 to 1.14, the loss of the yield differential of the greenback and the vigorous actions taken by the ECB have for the moment strengthened relatively the common European currency.
The Swiss franc in this quarter of crisis has been successfully maintained by the SNB within the 1.05 level against the euro, at the expense of large purchases of the common European currency that have brought the reserves of our central institution to the hyperbolic figure of 810 billion francs (almost 120% of GDP).

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