Investment Strategy

January 2021

TABLE OF CONTENTS

Graph sources: Bloomberg/BBGI Group

INTRODUCTION

Letter to investors – Investment climate

- Health measures necessitated by the 2nd wave threaten growth in the short term
- Covid-19 factor no longer influencing financial markets
- Reduced political risks and uncertainties
- New BFM paradigm supporting enthusiasm and risk-taking
- Central banks vaccinating markets against high valuations

Q4 began with renewed optimism on the health front, which was gradually confronted with a more worrying reality in most European countries as well as in the United States. The oft mentioned and much feared 2nd wave had materialised, and its scale was pushing many governments to revise their health strategies. With the avowed aim of "saving" the festive season, various new lockdowns were implemented throughout Europe, in the UK and elsewhere. In Europe, these new government restrictions are likely to plunge the economy into a temporary downturn that could reach -2.5% in Q4. In the US, it is not so much a 2nd wave than a continued spread of the epidemic at a sustained pace that could slow down the economic recovery at the end of the year. Overall, Q4 will not be as positive as forecasters had hoped. We believe that in most countries we are likely to see a further economic downturn. This could be temporary, provided that the beginning of the year is not marked by severe lockdown measures made necessary by the negative effects observed after the year-end festivities. It is likely, however, that if this were to be the case, financial markets would end up worrying about it. For the time being, however, it must be noted that the Covid-19 factor is no longer influencing the stock markets. Pfizer and Moderna's announcements regarding the exceptional efficacy ratios of their respective vaccines as well as their availability faster than expected have already been sufficient to reassure investors regarding the probable end of the epidemic, even if everyone agrees that it will take several quarters for the vaccination campaigns to reach enough people to allow a return to normal in our societies. The last quarter of 2020 was above all the scene of major political upheavals in the US, as well as in Europe, which had a significant impact on financial markets. First of all, major uncertainties were removed in the US by the election of the Democratic candidate, which is likely to bring a little more visibility to the government's strategy over the next four years. In the short term, his election is also a guarantee of more decisive support for the economy and the American population thanks to a willingness to support growth and the energy transition, in particular by increasing government spending and budgets. In Europe, the withdrawal of the veto on the recovery package obtained in December by the German Chancellor is also an essential step forward that finally marks the beginning of the implementation of economic support measures decided upon six months ago. As in the US, European economic recovery will be achieved through support for the energy transition. Furthermore, the last-minute agreement on the implementation of Brexit by 31 December 2020 also puts an end to significant uncertainty, even if the British government and people have certainly not yet measured the consequences of this event. In Asia, the new free trade agreement opens up new prospects for regional development, while Joe Biden's future presidency is also seen as probably more favourable to world trade than the policy pursued by Donald Trump. The last few weeks have therefore clearly been favourable to reducing political and geopolitical uncertainties.

The new fiscal and monetary policies support the enthusiasm of investors who are now almost completely unconcerned about the possible repercussions of the Covid-19 pandemic. In the urgency of the health crisis, lockdown measures had to be accompanied by support policies at various levels, starting with monetary policy measures. A new paradigm has emerged that will last well beyond 2021. Indeed, while on the one hand central banks acted quickly by lowering their key rates and/or implementing bond purchase programmes to lower long-term rates as well, governments for their part opened their purse strings to broadly support their economies and populations. Rising budgets and deficits are the obvious consequence for governments of the management of the health crisis, but for central banks it has meant the explosion of their balance sheets and the accumulation of government debt in a great wave of debt monetisation at the global level. We believe this trend will last and provides many investors with the assurance that interest rates will remain persistently low and that liquidity will be provided to support the expansion of financial markets and valuation multiples. The year 2020 thus ended calmly and with some assurance that 2021 will return to growth, profits and positive stock market performance. October marked the end of several months of profit-taking ahead of the US elections and heralded an extraordinary rebound in risky assets in November in a powerful "short covering rally" that involved all financial assets. The latter lost some of its intensity in December, but optimism remained high, such that financial markets ultimately posted moderate growth in the last month of the year. Interest rate markets (+1.34%) were still very much influenced by central banks' asset purchase programmes. Swiss real estate investments benefited from the situation (+6.06%) but also saw their average premium approaching the extreme level of 40%. Enthusiasm remained more moderate in the international real estate market (+3.08%), which slightly underperformed international equities (+4.24%). Commodities (+5.97%) and private equity (+6.66%) benefited more significantly from the improved economic outlook for 2021. Risky assets benefited from a euphoric stock market climate at the price of now often high valuation levels. Caution is therefore logically once again called for in this context.

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Graph sources: Bloomberg/BBGI Group

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