BearBull
Global Investments Group

Investment Strategy

July 2020

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Graph sources: Bloomberg/BearBull Global Investments

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- Disturbing dichotomy between financial markets and the real economy

The second quarter of 2020 will have been one of the best quarters for equity markets, which, despite the confinement of populations, posted among the best quarterly performances in the last twenty years. The stock market's sharp rebound beginning in April is reminiscent of the Q1 2019 rally following the stock market panic of the last months of 2018. This complete trend reversal occurred extremely quickly and, in some cases, almost completely erased the losses of February and March.

As the global pandemic took hold in February and gained momentum, the expected effects on financial markets began to materialise and quickly led to stock market panic and one of the fastest and most intense bear markets in recent history. A few weeks later, as the pandemic spread across Europe and began to affect the United States and other regions more markedly, the containment measures implemented in most countries were already stoking strong fears regarding the immediate future of global economic growth. And yet, as confined populations observed the effects of the ongoing health crisis in anguish, and as economic statistics began to indicate its dramatic effects on growth, the pandemic had already stopped scaring active investors. This renewed sense of optimism was likely boosted not so much by the hope for a future vaccine or treatment for Covid-19 as by the massive injections of liquidity by central banks. Central banks' rapid reactions were indeed decisive in reassuring financial markets.

We already mentioned in our previous "Investment Strategy" that the strength of their commitment to adopting flexible monetary policies for the long term would be such as to reverse negative investor sentiment. In the meantime, central banks' key interest rate cuts and massive asset purchases, which had already initially led to a flattening of yield curves, have been reinforced, thus providing further visibility on the evolution of monetary policies in 2020 and 2021. On the government side, the various support and economic stimulus plans already announced during the stock market shock were also expanded and will likely provide greater support for the economic recovery expected in the second half of the year.

The Covid-19 crisis will clearly have lasting repercussions on government budgets and fiscal policies. A new paradigm has been established that will support a lasting increase in public spending and its logical consequence, the forced monetisation of the debt issued via central banks' unlimited asset purchases. In this health context marked by an increase in cases and deaths in the world, with official figures now reaching 11.4 million infected people and 533,000 deaths, financial markets very quickly looked far beyond the trough and bet on a solid and rapid economic recovery. In the US in particular, which has recorded close to 2,900,000 cases and more than 130,000 deaths, markets have continuously astonished observers with their lack of reaction to the deterioration of events, both locally and internationally. Indeed, the S&P500 was up +12.8% in April, already posting its best monthly performance since 1987. Since the low point reached in the third week of March, the magnitude of the rebound was even greater, approaching +35% for the S&P500 and +31% for the SPI index.

In six weeks, the March correction was erased, and at the end of June, stocks recorded their best quarter since 1998 with a +20.5% rise for the S&P500, +17.78% for the SX5E index and a +9.86% rebound for the SPI. However, most of the increase occurred at the beginning of the period, since after the strong rally in April, May and June were characterised by low volatility and weak stock market trends for most asset classes. The performance of most equity markets in May and June was thus modest, and it was only thanks to a surge in the last two trading days that they managed to remain positive in June. In rate markets, the performance of Swiss franc bonds (+2.15%) and international bonds (+3.32%) was also modest. Central banks' actions nevertheless still played a stabilising role with regard to yield curves, with the Australian and Canadian dollar markets, followed by emerging markets and high yield, benefiting most from this context at the end of the quarter. Swiss real estate was little affected by the Covid-19 crisis, while international real estate (+9.93%) as well as private equity (+23.4%) and hedge funds (+6.06%) recouped part of their Q1 losses. The rise in the markets and the almost euphoric stock market climate associated with it now stand in very sharp contrast to the still very uncertain health and economic environments that continue to prevail, suggesting a return to a cautious investment strategy. On a macroeconomic level, growth will undoubtedly bottom out in Q2, while hopes of an economic upswing in Q3 are now strengthened by the gradual deconfinement underway in most regions.

Nevertheless, we believe that this economic recovery will remain modest in H2. Hence, the sense of optimism observed at the beginning of the summer already seems excessive to us, especially since, even if 2021 is given a boost by very accommodative budgetary, fiscal and monetary policies, growth over two years (2020-2021) will barely be positive. The same will undoubtedly be true of corporate profits, which in this context will only be able to compensate in 2021 for the losses of 2020. How then can we figure that financial markets, which are now trading at levels close to those prevailing before the Covid-19 crisis, represent an opportunity? After suggesting caution in January, our strategy note at the beginning of April recommended a return to risky assets. However, following the extraordinary rebounds in financial asset prices in recent months, we recommend adopting a slightly more defensive equity strategy once again, due in particular to the fact that valuations have returned to very high levels.

Alain Freymond
Chairman
BearBull Global Investments Group

Graph sources: Bloomberg/BearBull Global Investments

BIG PICTURE

Main convictions

- The economic shock of Covid-19 will have lasting effects
- A new paradigm prevails in terms of fiscal policy
- Ultra-accommodative monetary policies until 2022
- Forced monetisation of government debt and inflationary risks

The economic shock of Covid-19 will have lasting effects

The seriousness of the health crisis was largely underestimated by the vast majority of investors, politicians and experts. It took the Italian shock for Europe to become concerned about the risks of a pandemic and the development of the health crisis in Europe for the US to become aware of the risks of transmission of the pandemic to North America.

The perception of the economic aftermath of the health crisis has also gradually shifted, ultimately affecting all populations and governments. While initially the health crisis and the economic shock induced by the partial or total containment of economies seemed likely to be limited in time, understanding the mechanisms involved eventually convinced us of the lasting nature of certain impacts.

Q2 was quickly perceived as the period that would concentrate all the health and economic issues before a rapid normalisation and revival of economic activity. It now appears that the return to normal will ultimately take place only very gradually and that the effects of Covid-19 on work organisation, social relations and health imperatives will be more long-lasting.

Current expectations for GDP in 2020 and 2021 show that, in most cases, it will take until 2022 to return to the GDP levels of the end of 2019. The optimism associated with the current deconfinement and with hopes for a vaccine should be tempered by these more realistic expectations.

A new paradigm prevails in terms of fiscal policy

The health crisis and the exceptional safety measures taken by governments have paved the way for a new paradigm in terms of fiscal policy. Austerity is no longer fashionable, and the issue of passing on debt to future generations is likely to be put on the backburner indefinitely. The most urgent concern has been above all to safeguard employment, social cohesion, businesses and, of course, the population's health. While forcing people to comply with more or less strict confinement measures, governments were also aware of the extremely damaging potential effects on their economies. However, in the face of the health risks, the only effective solution had to be implemented together with support measures, the huge costs of which would inevitably increase public deficits and debt.

The Covid-19 health crisis had the particularity of developing similar effects in most countries, so that support, compensation and financing measures as well as recovery plans were ultimately adopted by all. Within a few weeks, these have already been adjusted upwards and extended in time. All countries have thus implemented mechanisms to mitigate the recessionary impact of the crisis.

The new paradigm is therefore totally oriented towards fiscal pragmatism, whose effects on national debt ratios are already partially known. State indebtedness in relation to GDP will likley increase in 2021 by an average of +20%.

While in the short term this trend does not seem to frighten creditors, let us wager that, in the medium term, all else being equal, required returns may well increase.

Ultra-accommodative monetary policies until 2022

Central banks spoke out and acted to calm the rising panic. Rates are now close to or below zero in the US, Europe, Japan and Switzerland. In the US, the Fed's normalisation of rates has been forgotten and has given way to a policy of very low rates that is unlikely to be called into question for a long time. The massive asset purchase programmes have been revised significantly upwards and further expanded to include assets other than government bonds. The ECB doubled the size of its asset purchase programme from EUR 750 billion to 1,350 billion. In the US, the Fed also undertook to increase its purchases of Treasury securities and decided to buy corporate bonds as well. Monetary policy will therefore remain accommodative in order to keep financing costs very low. Central banks will increasingly act across their yield curves with this objective in mind.

Forced monetisation of government debt and inflationary risks

To respond to governments' urgent need for liquidity, central banks actually have no choice but to acquire new debt issued by the former to finance economic support measures relating to the health crisis. Without the action of central banks, the increase in countries' financing needs would undoubtedly not have been met by the usual networks on the same terms. When these financing requirements emerged as an obvious necessity during the crisis, market rates jumped at first. It then took the intervention of central banks to lower interest rates through asset purchase programmes. Central banks will continue to buy government debt issuances for as long as necessary to ensure reliably low interest rate financing.

Return of investor complacency regarding "risky" assets

Complacency has clearly returned to financial markets in recent weeks. After fearing the apocalypse, investors now swear by liquidity. The massive increase in the international money supply and central bank asset purchases ensure that interest rates will remain persistently low. However, the injections of liquidity also act as a powerful boost to financial markets, which are no longer worried at all about the possible return of a second wave of Covid-19, a likely more gradual than rapid recovery in economic activity and, above all, the once again very high valuation levels of financial assets.

Graph sources: Bloomberg/BearBull Global Investments

Complacency has indeed returned to financial markets, which are no longer taking risks into consideration, but seem, on the contrary, ready to indulge in the speculative practices that had ultimately driven the markets into zones of irrational overvaluation in February before plunging them into the fastest "bear market" in history.

Unexpected consequences for capital markets

For capital markets, the drop in key rates and the risks of a lasting slowdown after the initial shock of a temporary economic contraction are factors that support the view that yield curves will remain rather flat in most currencies. Initially, the Covid-19 crisis drove short- and long-term rates downwards once again, even though the initial context for 2020, Covid-19 notwithstanding, seemed rather to support a gradual increase in long-term rates.

Beyond this first reaction of expecting key rates to fall, the expected rise in public deficits in conjunction with the monetisation of government debt through cash injections by central banks is likely to lead to new investor concerns and requirements. An explosion of debt and deficits is likely to have an impact on required yields. In parallel, rising economic uncertainty and the increasing risks of issuer bankruptcies and defaults will also have an impact on the yields now required by lenders.

Several months ago, we highlighted the similarities between the extremely low risk premiums in 2008 and in late 2019, which are synonymous with extreme investor complacency and major risks of a brutal return of volatility for financial assets. The expected readjustment is taking place, as these risk premiums are rapidly rising, in the high yield segment in particular.

Repositioning opportunities on risky assets

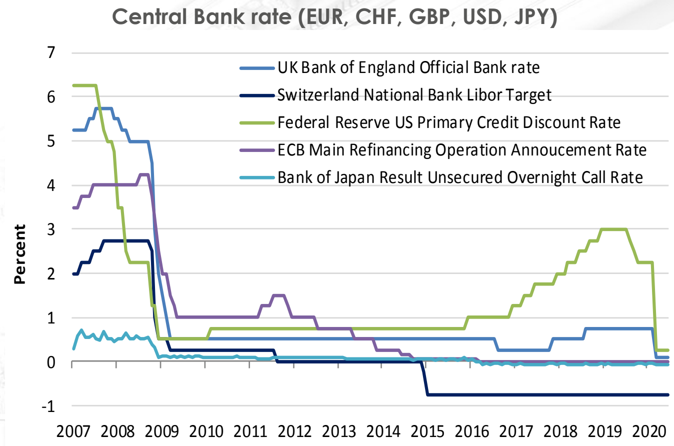
Although it seems difficult to imagine right now, as the crisis is still very present in industrialised countries, that the global economy will recover from the pandemic, it is nevertheless quite certain that this is what will happen in Q2 in Asia, and in Q3 in the rest of the main developed economies.

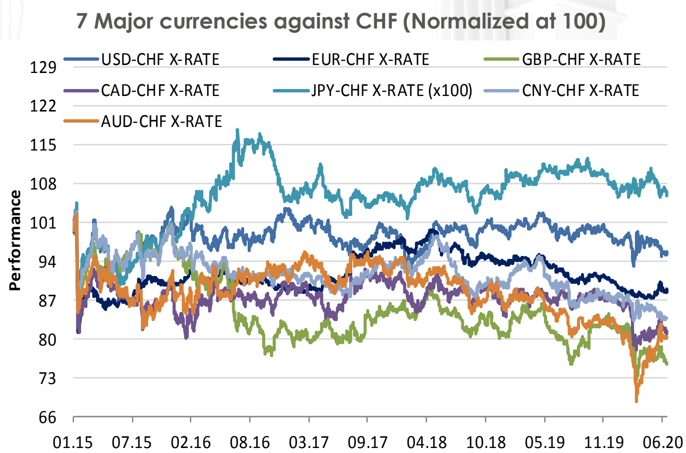
In a matter of days, the euphoria that we decried at the start of the year as irrational investor complacency was replaced by a phase of major readjustment of expectations. A wave of panic swept across all asset classes without distinction, as the spectre of a large-scale global recession became the consensus scenario.

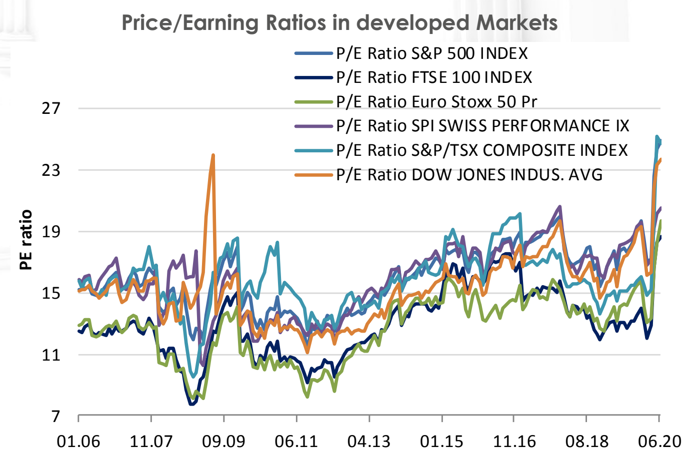
Today, after value adjustments of close to -35% on international equity markets, the question is now obviously whether valuation levels are still excessive or whether they constitute opportunities for long-term repositioning.

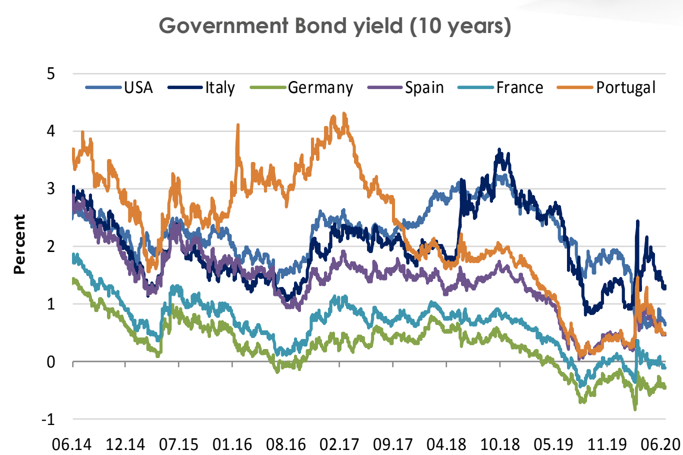
The main obstacle to opting to reinvest liquidities and purchase risky assets at the moment is the absence of visibility with regards to the economic recovery and the capacity of listed companies to weather this crisis and avoid a long-term negative impact on their business.

Nevertheless, we now believe that most risk and opportunity analysis factors point to a risk/return ratio that is favourable to a partial repositioning at least on assets offering long-term gains. Indeed, we reckon the support measures taken by governments and central banks will swiftly meet the current and future needs of the economy in the short term. We consider that, while not all parameters are showing the green light, the -35% correction in valuations certainly constitutes a sufficient level of adjustment for a temporary health crisis and economic impact.









Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Global Outlook

- Fear gives way to hope and even euphoria
- US GDP contraction in Q2 followed by sharp recovery
- European recovery supported by stronger social safety nets
- Switzerland is resisting better and is likely to rebound by +5% in Q3

Fear gives way to hope and even euphoria

On a macroeconomic level, it is now clear that investors are no longer scared by the pandemic at the beginning of H2. The announcements made by governments and central banks have completely reassured investors, who are now convinced that the main negative effects of the pandemic are over. The consensus among economists also anticipates an economic recovery as early as Q3, while being relatively more cautious about the form this will take. In view of the rises in equity indices over the last few months, financial markets seem convinced of a solid V-shaped recovery.

This type of rapid and powerful economic recovery seems particularly optimistic to us given the rather gradual deconfinement underway and the dramatic impact on the organisation of our societies that will continue to affect important sectors of the global economy. For several months now, we have been anticipating a recovery in the second half of the year that is likely to be more limited than that expected by financial markets. Fear has therefore, in our opinion, given way to excessive hope regarding economies' ability to rebound. It is doubtless unreasonable to think that GDP will return to 2019 levels before 2022. It therefore seems unlikely to us that these expectations will be confirmed by economic reality in the coming months. The risks of disappointment are therefore high and could well be the cause of future, potentially drastic moves to sell “risky” assets and take profits after the excellent performances of recent months.

US GDP contraction in Q2 followed by sharp recovery

The health situation in the US was still very worrying in July with an ever-increasing number of cases and a further acceleration in infections (over 2,950,000 cases) and deaths (over 130,000), which led some states to shut down certain public spaces such as bars and beaches. Deconfinement in the country was maybe implemented a little too quickly and without sufficient supporting measures, raising new uncertainties about the evolution of the epidemic. On the economic front, Q2 results will certainly be negative, but the evolution of unemployment in recent weeks now seems to be the key factor determining investor mindset. The explosion in unemployment in April and May, which had pushed up the number of unemployed people from 1,784,000 on 13 March to 24,912,000 on 8 May, was followed by a return to employment for a number of Americans since then.

The number of jobseekers declined by over 5,000,000 people, which supports expectations of a solid economic recovery in Q3.

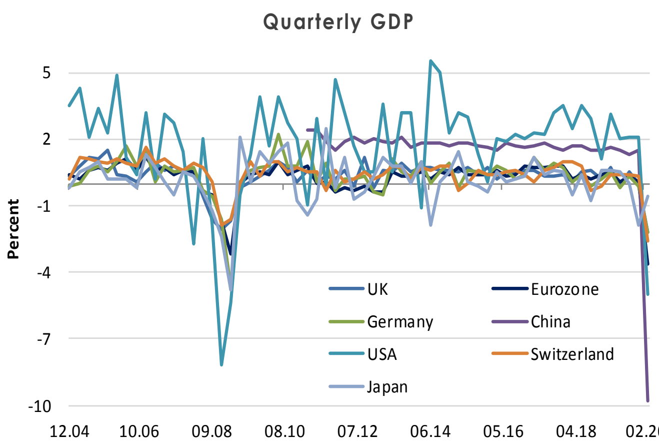
GDP growth at the end of 2020 is nevertheless expected to be around -6% and to be followed by a +3% recovery in 2021. The political situation in the US in an election year could play an important role in the coming months in assessing the economic conditions that could prevail in 2021 depending on the results of the elections in November.

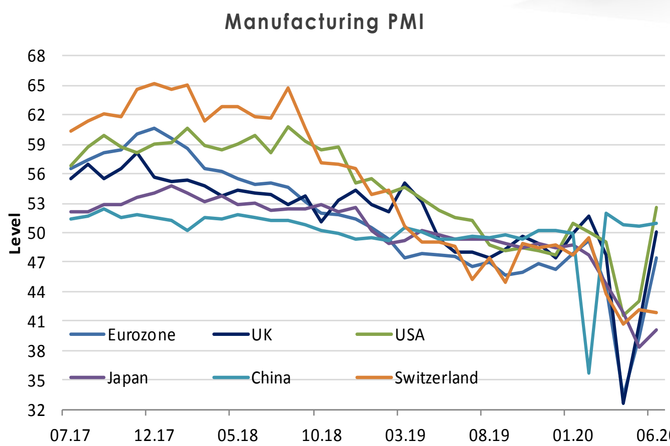
European recovery supported by stronger social safety nets

GDP growth in Q1 suffered a shock as expected, contracting by -3.6%. GDP estimates for Q2 are obviously more dismal, putting the fall in Eurozone GDP at -12.3%. A solid recovery of +8.3% is then expected for Q3, followed by +2.8% in Q4. Nevertheless, for the year as a whole, GDP is expected to remain down by a steep -8.1%. In this context, leading indicators have already rebounded sharply from their low points in April and point to a logical recovery of economic activity in the wake of the ongoing deconfinement.

Indeed, the composite PMI index for the Eurozone rebounded from its April low (13.6) to 47.5 in June, just under the growth threshold of 50. Confidence has strengthened across the board, improving the outlook for both services (47.3) and manufacturing (46.9).

The ECB will increase the size of its balance sheet by nearly 30% and exceed EUR 6,000 billion by 2021. The size of the PEPP is considerable for the European Union. The ECB is thus clearly signalling its support for the European economy in the face of the Covid-19 crisis. It will also lend European banks an additional 1,300 billion at negative yields.





Graph sources: Bloomberg/BearBull Global Investments

The increase in public spending, which is essential to protect businesses and individuals affected by this crisis, will thus weigh heavily on national budgets in the Eurozone and on deficits in 2020, but it could well become institutionalised for several years and develop expected positive effects on the economic recovery.

In the next few days, the EU 27 will have to agree on a recovery plan of EUR 1,800 billion for 2021-2027. Initially, this plan included EUR 750 billion to support the most affected countries, regions and sectors and EUR 1,100 billion in EU spending on various common policies.

The recovery in Europe could thus be supported both by forceful budgetary, fiscal and monetary policies, as well as by more protective social safety nets, which may have preserved purchasing power and employment during the crisis more effectively than in the US in particular. The economic upswing could thus be stronger than expected, but the year will end with a contraction of around -8% and could be followed by a recovery of +6% in 2021.

Switzerland is resisting better and is likely to rebound by +5% in Q3

In international comparison, we believe the -2.6% decline in the Swiss economy in Q1 can actually be considered a real success in view of the performance of our main neighbours and that of major developed economies.

A -10.3% contraction of Swiss GDP in Q2 is quite likely, even though the deconfinement started to be implemented in June. Most leading indicators logically point in the direction of a severe recession in Q2. However, it is difficult to envisage a return to normal as early as Q3.

On the private consumption side, consumers are expected to return, but we doubt that consumption will return to pre-crisis levels. Businesses will not be able to make up revenues lost in H1. The economic recovery, which could be significant with growth of close to +5% in Q3, could also be insufficient to ensure the survival of certain businesses and SMEs kept alive by government aid.

There is therefore a high risk of an increase in bankruptcies and unemployment at the end of Q3. These prospects will likely put a damper on the recovery in consumption and investment.

We nevertheless remain confident regarding the Swiss economy's ability to rebound in the second half of the year.

Positive Chinese growth in 2020

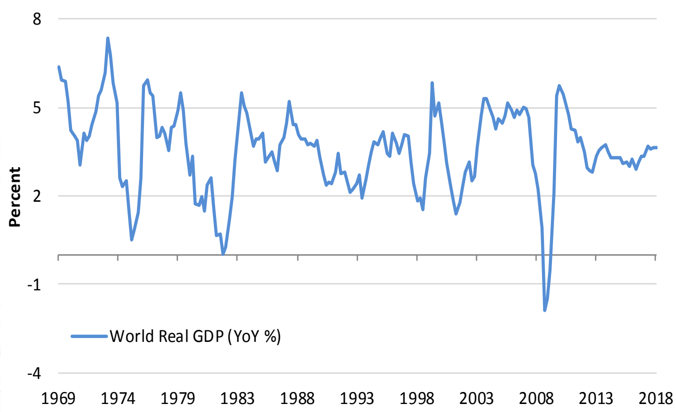
China's economy could already rebound by +9.6% in Q2 and continue to grow at a reduced rate of +4.3% in Q3 2020. For the year as a whole, China's GDP could be one of the very few to post an increase (+2.5%) thanks to three quarters of growth that could offset the fall in Q1.

The end of the recession was confirmed in May with a further increase in industrial production year-on-year (+4.4%). Consumption is proving to be the Achilles' heel of the recovery due to consumers' persistent vulnerability. Retail sales are down, and investment in capital goods is still not recovering. The recovery is currently being driven by the industrial sector.

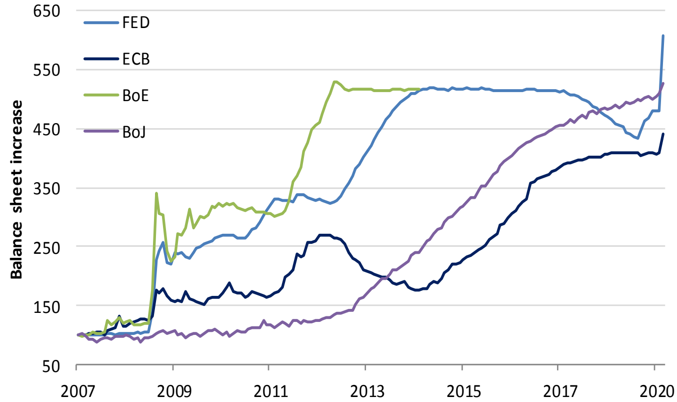
Given the international context, which is still very much affected by the Covid-19 crisis, domestic consumption has certainly lacked the dynamism to compensate for weak external demand. Having said that, China will likely benefit very soon from the deconfinement in other countries and a recovery in international demand. The upsurge in Covid-19 cases in June has undoubtedly given rise to new concerns about the possible emergence of a second wave that would plunge the country back into uncertainty.

China too implemented significant economic stimulus measures, and leading indicators such as the PMIs still point in June to strengthening activity. China's economy could rebound by +7% in 2021.

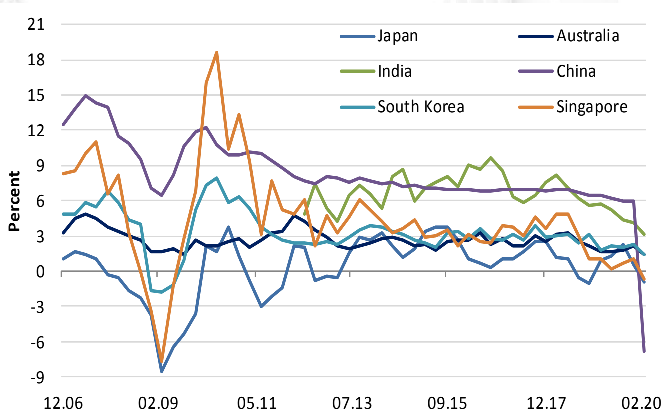
World Real GDP Growth



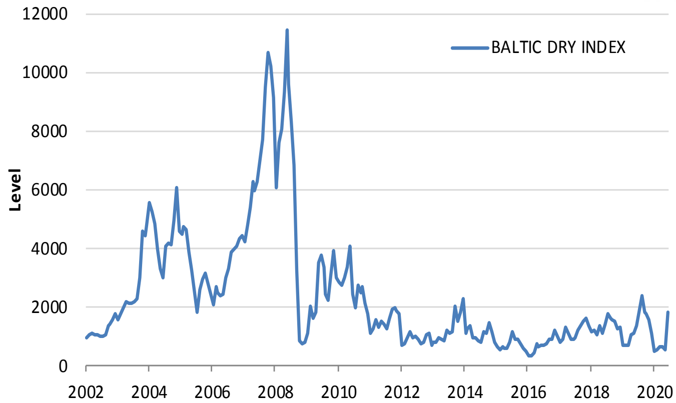
Balance sheet increase



GDP Growth rates in Asia



Baltic Dry Index



Graph sources: Bloomberg/BearBull Global Investments

Recession likely to worsen in Japan before a recovery in Q3

Japan was largely spared by the Covid-19 pandemic with approximately 17,000 cases and 900 deaths. The health crisis initially remained relatively constrained in Japan, justifying the absence of severe containment measures, but the population largely complied with the government's calls to minimise social interactions and population movements.

Household consumption had therefore logically slowed down by the end of the quarter, while exports fell due to the decline in international demand. Japanese companies reacted fairly quickly by cutting back on investment.

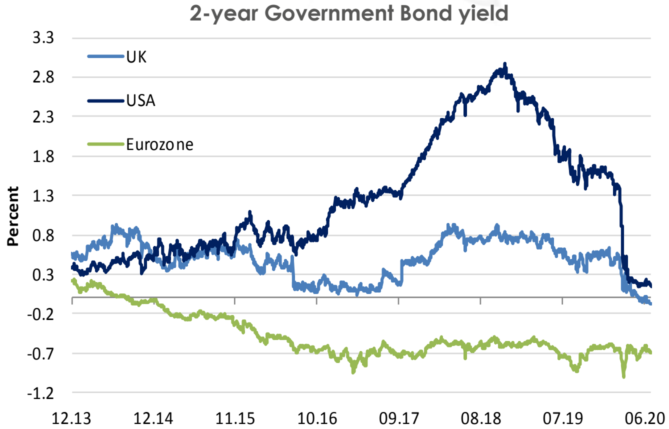
In April-May, however, the government finally had to declare a state of emergency due to the resurgence of Covid-19 cases, causing household consumption to ultimately fall by -11.1% in April. GDP is expected to sink into recession with a decline of more than -20% in Q2 and a decline of about -4% over 2020 as a whole.

The historic plunge of the manufacturing PMI index to 38.4 and the services PMI index to 21.5 in May, well below the growth threshold of 50, is consistent with the economic collapse underway in Q2.

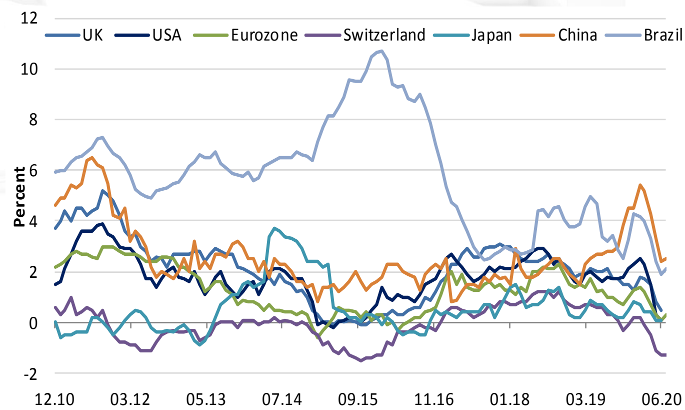
The accelerating fall in industrial production from -3.7% in March to -9.1% in April is also consistent in this context. The forecast for industrial production in May (-4%) is still negative but is likely to return to positive growth in June (+4%).

We expect a probable recovery in leading indicators in June. In the current context the visibility of the economic outlook remains particularly low, but the gradual recovery in economic activity in June after two months of confinement in most countries and particularly in China will have a positive impact on Japan's economy and its exports. After a -4% drop in GDP in 2020, the recovery in 2021 could reach +3%.

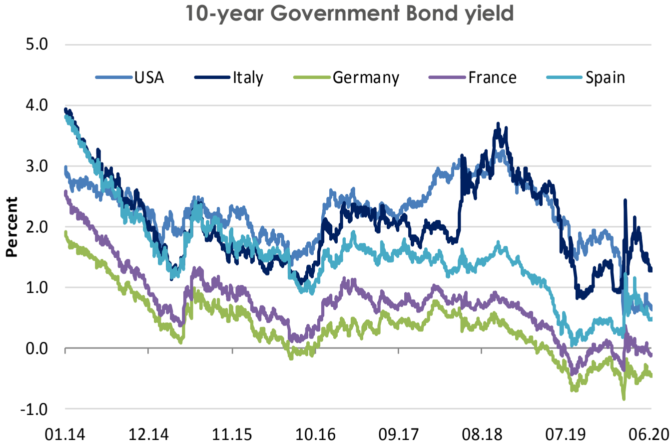
2-year Government Bond yield



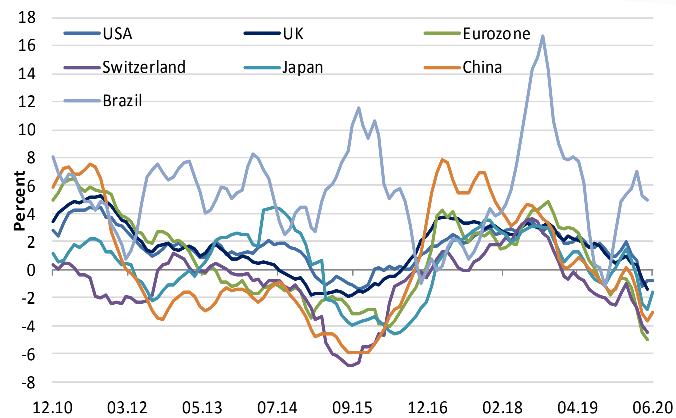
Inflation - CPI Indices



10-year Government Bond yield



Inflation - PPI Indices



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United States

- Annualised GDP contraction of -32% in Q2?
- Towards an institutionalisation of yield curve control by the Federal Reserve?
- Excessive optimism in equity markets
- Has the Fed exhausted its creativity?

Annualised GDP contraction of -32% in Q2?

A few weeks ago, we mentioned how difficult it was to assess the extent of the economic contraction in Q2 before the summer. The nature of the shock was so exceptional that an assessment of the impact in Q2 also seemed less essential to us for managing investment risks and opportunities than determining the likelihood of recovery of the world's largest economy in H2. At this time, the latest GDP contraction estimates for the quarter that ended on 30 June point to a likely -32.6% collapse in economic activity in the US according to a panel of 71 economists. Given the broad easing of lockdown measures since the end of June, GDP is expected to be up by +18% in Q3.

The recovery is then likely to continue in Q4 at a reduced rate of +6 absence of a second wave of Covid-19. Over 2020 as a whole,Us GDP is expected to contract by –5.5%. The US recession thus already seems over, as we enter the second half of 2020 with rather solid GDP growth prospects. However, we must remain cautious given that the recovery taking place will still not allow us to return to a level of GDP similar to that of 2019 before 2022.

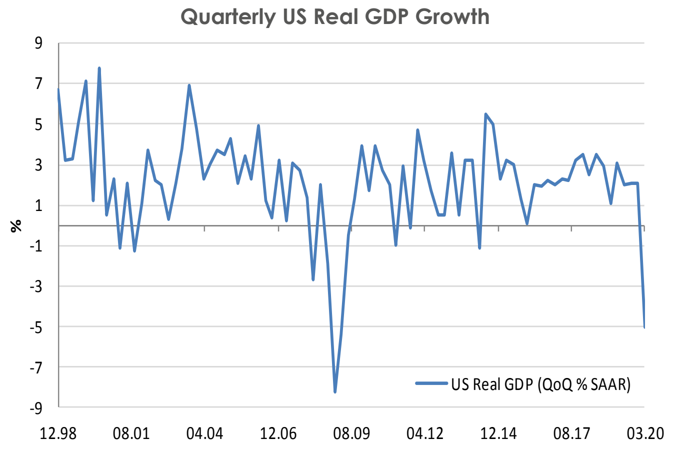
US consumption, which still accounts for nearly 70% of GDP, is key to shoring up economic recovery prospects. The return to the job market of around 5 million people in June following 2.7 million in May is a positive factor in this respect, supporting the sense of optimism in financial markets.

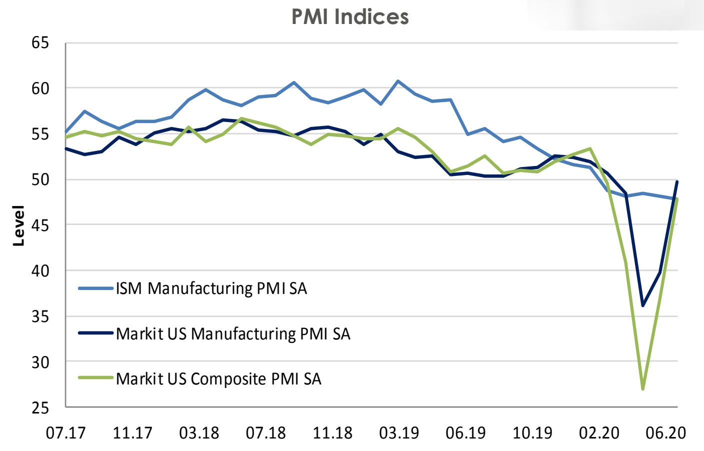
It remains to be seen whether this trend will be sustainable and whether it will quickly put the 20 million new job seekers recorded in May back to work. In this context, we are currently witnessing one of the greatest historical divergences between the direction of the real economy, expected to slow down significantly over the 2020/2021 period, and the euphoric stock market, which is undoubtedly largely driven by the substantial increase in central bank liquidity and the hopes of a rapid rebound in corporate profits.

Towards an institutionalisation of yield curve control by the Federal Reserve?

The Federal Reserve acted vigorously in response to the seriousness of the risks that the health crisis posed to the US economy by lowering its key rates to zero and announcing a new bond purchase programme of around 700 billion. Since then, the Chair's statements have provided reassurance regarding the Fed's willingness and ability to act to implement appropriate monetary policies without limits.

During Q2, the increase in the size of the Fed's balance sheet from USD 4.15 trillion to USD 7.169 trillion effectively attested to this very active strategy aimed at supporting government spending and ensuring low rates across the entire US Treasury yield curve. Will the Fed's new monetary policy standard soon officially involve the introduction of a systematic policy of controlling interest rates across the entire yield curve?





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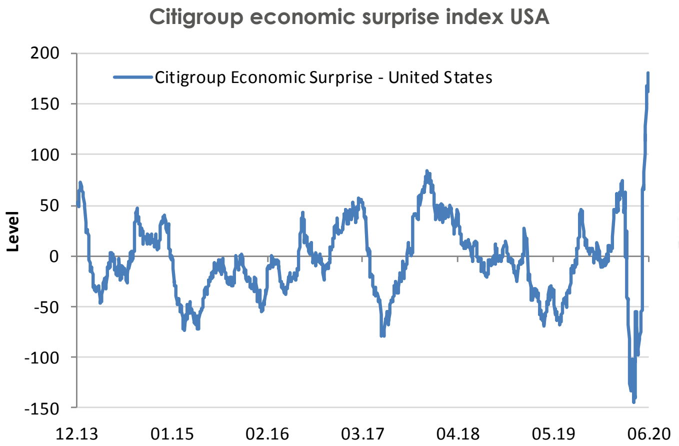
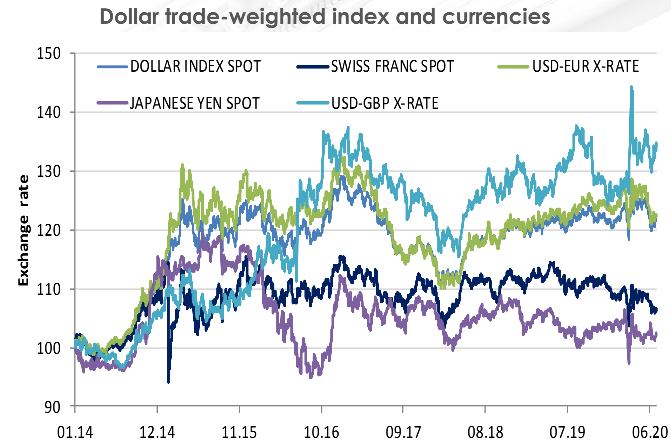




The asset purchase programmes set up by the Federal Reserve several years ago were already aimed at controlling long rates in addition to the traditional policy of steering short rates using key rates. This strategy was nevertheless limited in time and scope by the stated objectives and limits of the asset purchase programmes.

However, with the current expansion in the US budget's financing needs, the Fed has been forced to react very vigorously in recent weeks by massively increasing its capacity for action and by expanding its debt purchase plans, which in just a few months has led to extraordinary growth in its balance sheet (+72%).

From now on, it may have to maintain this policy over the long term by institutionalising its long-term interest rate management in its strategy. The explosion of US debt to cope with the Covid-19 crisis clearly appears to be a major new long-term risk in the event of a rise in interest rates. It could indeed have very damaging consequences for the dollar in particular.

Consequently, the US central bank will no doubt have to integrate the steering of long rates and, more broadly, of the entire yield curve into its monetary policy. This would logically imply the continuation of the current upward trend in its balance sheet. Among the expected effects of systematising interest rate control across the yield curve as a whole, we should mention the possible disappearance of any reaction to any form of resumption of inflation or deterioration in public finances.

Disappearance of volatility in US interest rates

The fall in ten-year Treasury yeileds from 2% in d ecember 2019 tp 0.31% at their lowest point on was historic and came just before the Fed's decision on 15 March to lower its key rates to their lowest level in history to counter the devastating economic effects of the lockdown imposed by the Covid-19 crisis.

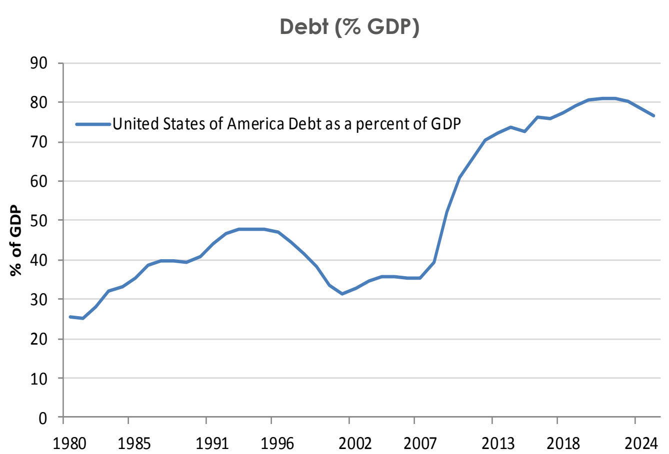
Since the end of March, dollar interest rates have been completely under the Federal Reserve's control, which has been particularly effective in steering its action to keep US Treasury yields at the desired levels.

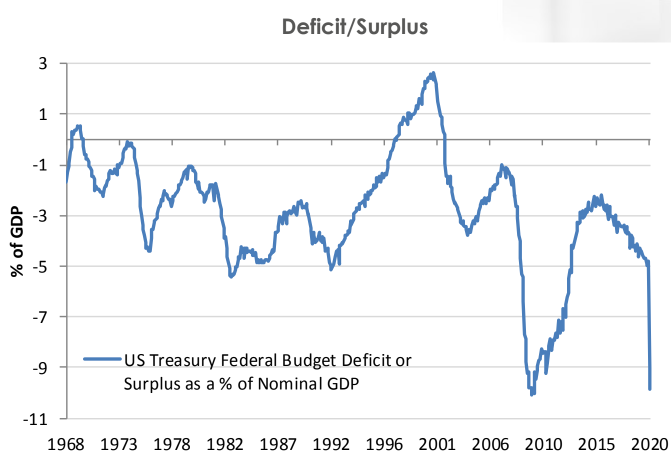
Ten-year Treasury yields have remained virtually unchanged for the past three months at 0.65%, and the ten-day volatility of the Treasury yield has fallen sharply since the peak reached on 16 March. US rates will no longer react to the growing budget deficit, as the Fed seems determined to act to keep yields under its control. They may also no longer react to improving economic conditions and a resumption of growth in the coming months.

Although dollar rates are very low, they remain higher than rates in euros, yen and Swiss francs across the yield curve. This positive yield differential is likely to ensure an inflow of capital in favour of the dollar and the US bond market. International investors looking for diversification and yield should therefore still favour the US.

The current situation in the capital markets has become a little more complex since the central banks have taken drastic measures to support governments' financing needs.

For several weeks now, we have been seeing an institutionalisation of what can be considered a monetisation of government debt. The consequence of this policy could be the maintenance of low rates on all yield curves and thus indirectly a global environment characterised by the absence of yield, or even negative yields in a growing number of interest rate markets.

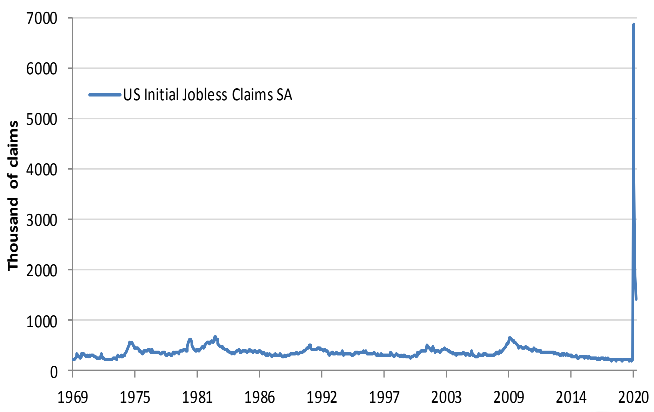




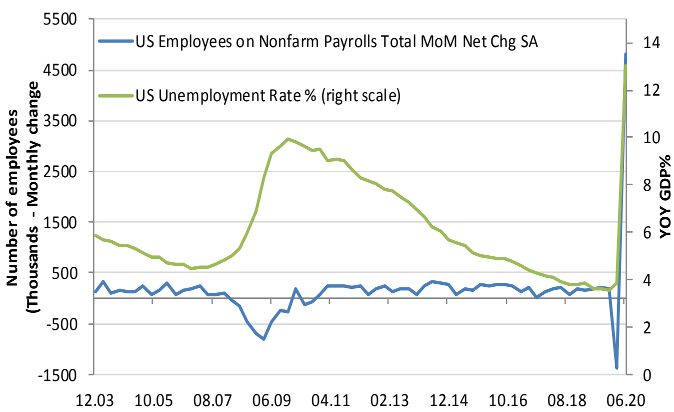
Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

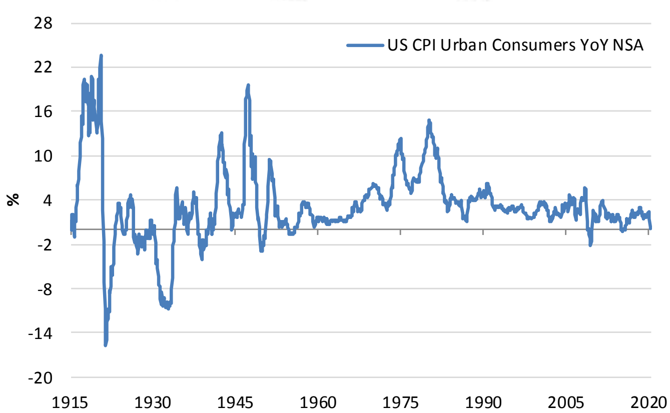
US Jobless Claims



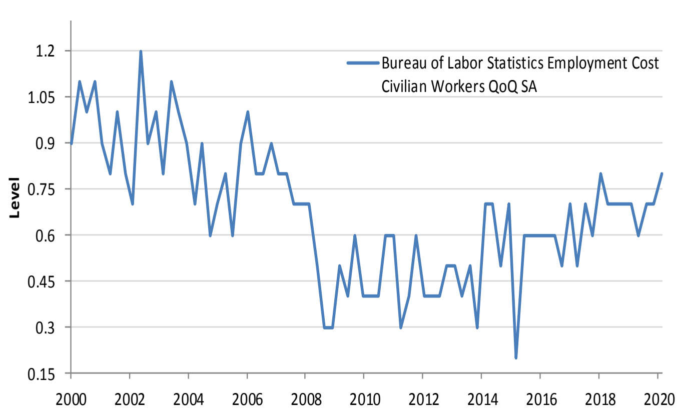
Non-farm Payrolls (MoM) and Unemployment rate



US Inflation (1914-2018)



Employment Cost Index



Graph sources: Bloomberg/BearBull Global Investments

US equities are once again trading at PEs well above their historical average, which may be justified by the particularly low level of interest rates. However, at current levels we see little room for disappointment in corporate earnings.

The current consensus for Q2 earnings is -44% (Y/Y), but equity markets remain invariably focused on the future. Sales are expected to be down -12% and will be accompanied by a margin contraction of 400 basis points to just 6.8%.

A few months before the 2020 elections, Democrats seem to have more than a 60% chance of winning the presidency and the Senate, as well as an 85% chance of winning the House of Representatives. Jo Biden's policies if elected could reduce expected corporate profits by 10% in 2021.

We believe that the current complacency, especially regarding certain tech stocks, cannot last. The risk/return ratio does not seem attractive to us, and we suggest reducing exposure to US stocks in the expectation of better opportunities.

Opportunities have also been reduced in the corporate segments since the publication of our strategy in April, when we mentioned investor interest in this segment due to the attractive positive risk premiums.

This is no longer the case. The improvement in the investment climate in recent months has also been favourable for the high-yield segment and emerging market bonds. In this context, opportunities are reduced, and the contraction in risk premiums does not mean that we are willing to implement yield pick-up policies that are risky from our point of view.

The dollar remains the preferred currency

The dollar is no longer supported by a short-term interest rate differential in its favour since the two monetary policy changes implemented by the Federal Reserve in March. On the long end of the yield curve, however, somewhat of a spread in its favour remains, particularly on ten-year Treasury yields (0.7%), which remain significantly higher than the yields observed on government bonds in euros, francs or yen, for example.

However, the dollar retains its role as a safe haven in times of uncertainty, particularly when published economic statistics turn out to be poor or uncertain. In recent weeks, the start of the deconfinement process in the US, the improvement in leading indicators and the rebound in employment have been factors supporting risk taking.

Improved sentiment and better economic figures have therefore tended to penalise the dollar, while the risks of a new lockdown and a second wave of contagion have tended to favour the greenback.

The economic and health environment in the US remains uncertain and, in this context, caution could still benefit the dollar. The dollar's weighted exchange rate is likely to rebound and approach 99-100 again, while the US currency should depreciate against the euro and appreciate slightly against the franc.

Excessive optimism in equity markets

Perhaps even more so in the US than in other countries, liquidity seems to be the determining factor in equity markets' advance in recent weeks. More recently, employment statistics showing the number of jobseekers dropped by around 5 million have also supported the enthusiasm of investors, who are once again prepared not to look too closely at actual economic and business conditions.

Deconfinement logically raises hopes for a return to normal economic activity, but we believe that we will have to be patient before we can expect to return to a level of employment similar to that of January before the health crisis. PMI indices logically point to a recovery, but it seems to us quite premature to anticipate a return of consumption to previous levels.

The prospect of sustained low interest rates is certainly very favourable for the economy, but the shock experienced by the various economic agents over the last few months cannot be absorbed so quickly.

In the US, GDP is expected to grow by -5.5% in 2020 and +3.9 in 2021. Compared with two-year forward expectations at the beginning of the year, the growth deficit remains extremely large, provided that 2021 keeps its promises.

US equities are once again trading at PEs well above their historical average, which may be justified by the particularly low level of interest rates. However, at current levels we see little room for disappointment in corporate earnings. The current consensus for Q2 earnings is -44% (Y/Y), but equity markets remain invariably focused on the future. Sales are expected to be down -12% and will be accompanied by a margin contraction of 400 basis points to just 6.8%.

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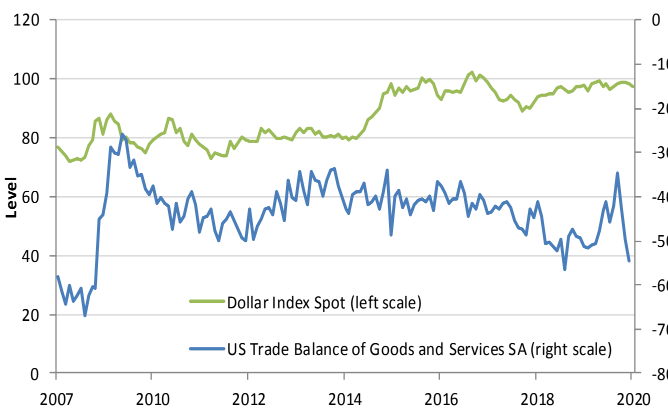
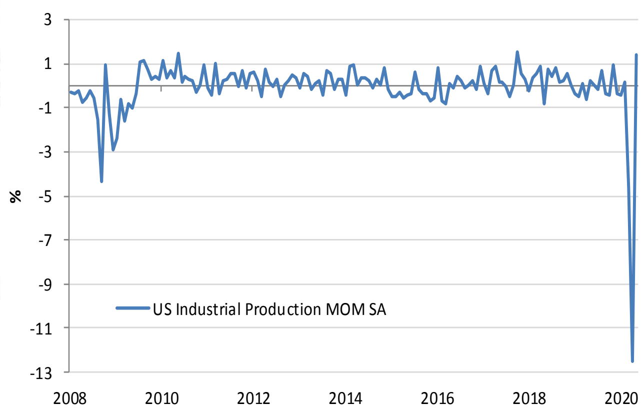
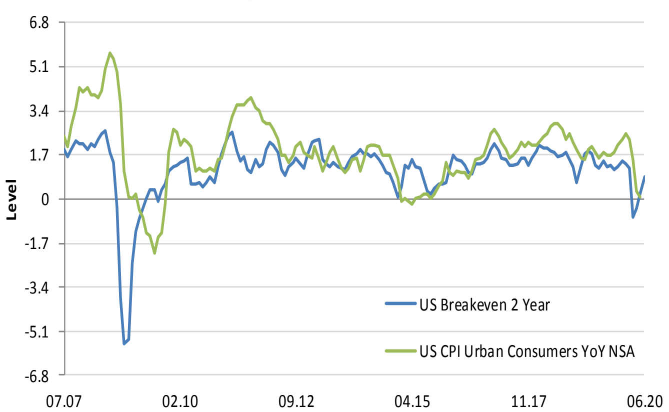
US Trade Balance of Goods and Services



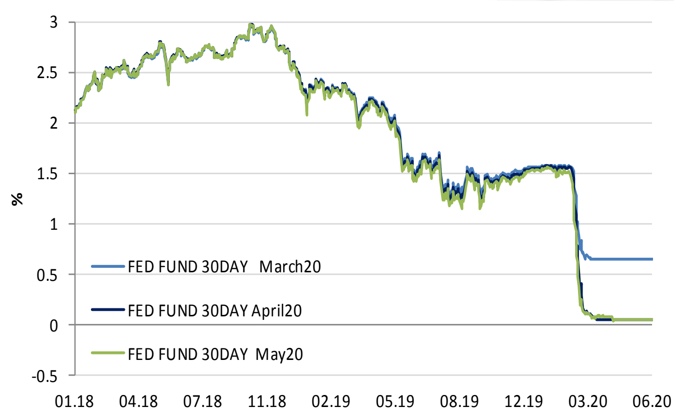
US Industrial Production



US Expected Inflation and CPI

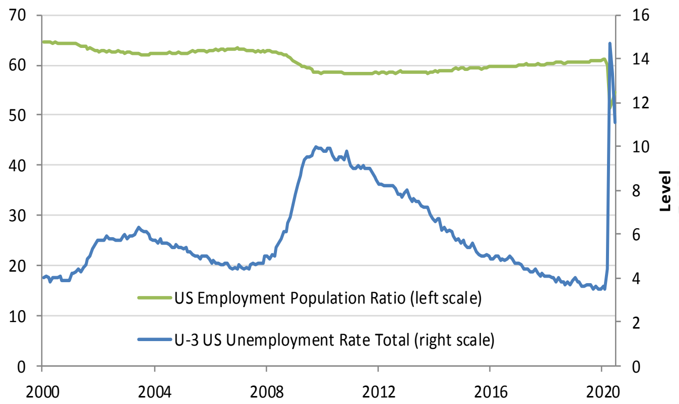


Fed Funds Futures

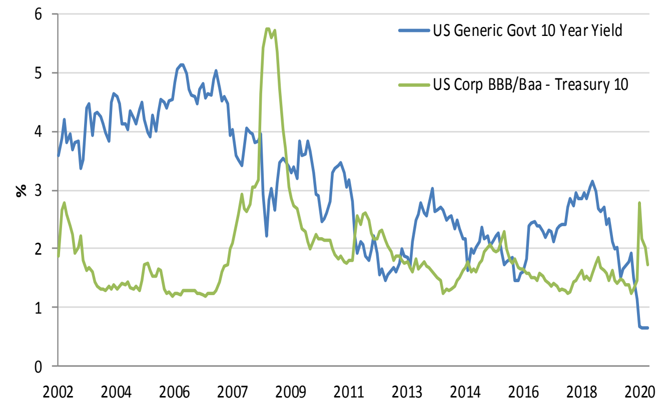


Graph sources: Bloomberg/BearBull Global Investments

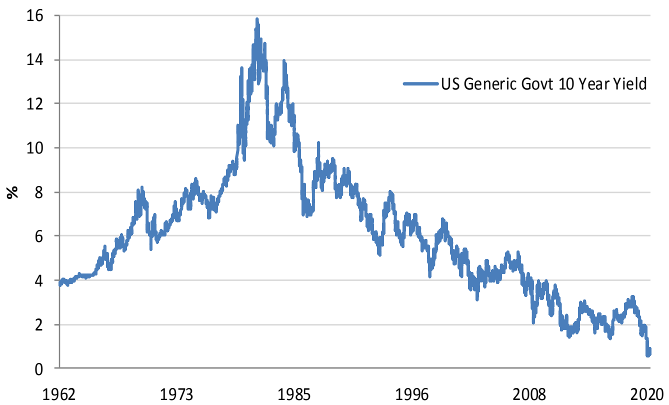
US Unemployment rate and Employment Population Ratio



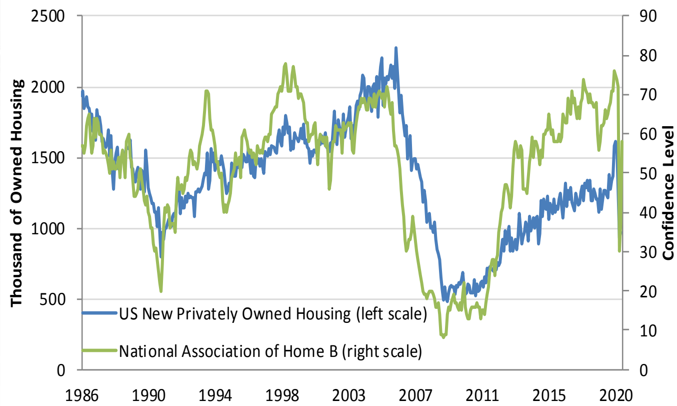
Yield spread Us Treasury - BBB 10 year



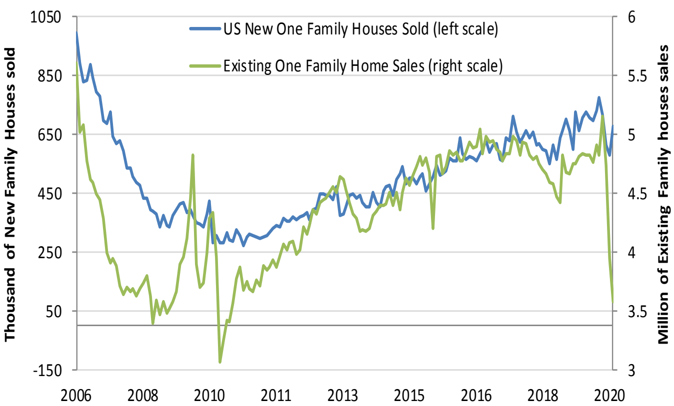
US Government Bonds 10 year yield



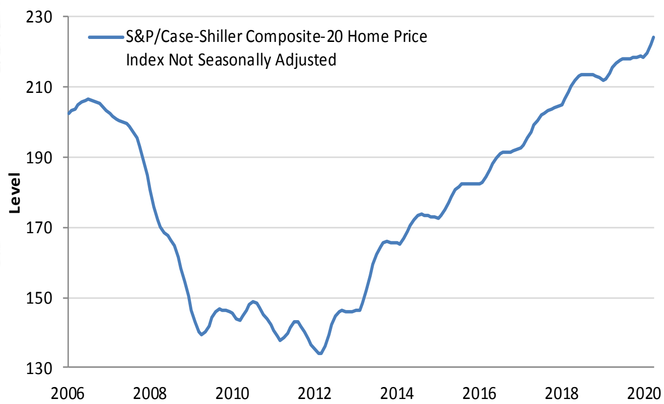
US New Privately Owned Housing and NAHB USA



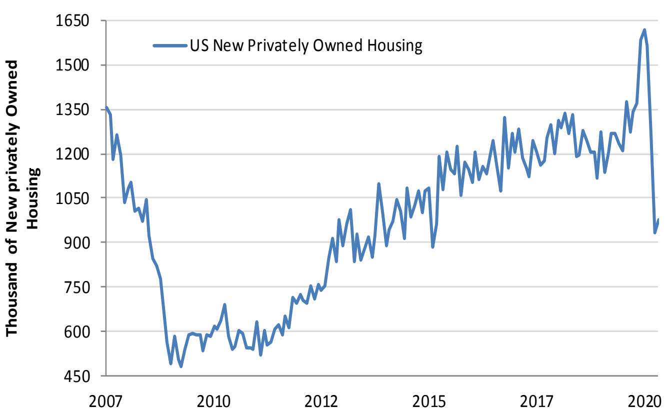
Sale of US New and Existing Family Houses



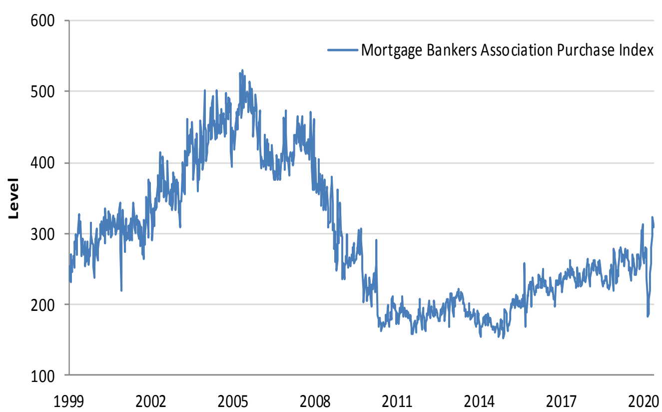
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Switzerland

- Switzerland withstands Covid-19 shock more successfully
- SNB remains discrete but active
- Beware, euphoria already replacing panic

Switzerland's GDP contracts more sharply in Q1 than experts expected

The State Secretariat for Economic Affairs (SECO) published our country's growth figures for Q1 2020, showing a -2.6% contraction in seasonally-adjusted GDP. Switzerland's economy also suffered the effects of the global health crisis, with a drop in activity far more significant than the declines observed in the financial crises of the last 40 years.

In 2008-2009, the recession that hit our country resulted in a negative growth of –1.9% in Q4 2008 and –1.6 in Q1 2009.

The current situation is thus clearly worse than the recession that followed the financial crisis in 2008. While experts' estimates had gradually drawn a more positive potential trajectory in the last few months, estimating the impact of the Covid-19 crisis on GDP in Q1 at between -1.5% and -2.1%, the results published by the SECO seem more dismal than expected. However, it should be noted that it was particularly difficult to derive a precise estimate given the highly unusual situation.

The SECO logically notes that the coronavirus pandemic and the measures taken by our government to contain it severely limited economic activity in March. Moreover, the collapse in international economic activity also contributed to the drop in GDP by hampering our export industries.

Most GDP components thus posted negative contributions except for public services and finance. The services sector was heavily hit by confinement measures and the closing of public facilities. The Swiss hotel and restaurant industry already suffered a heavy blow, posting a record drop in revenues of -23.4%, primarily due to the "disappearance" of foreign tourists.

Transport and communications posted their worse results of the last 40 years with a -5.5% contraction, while retail (-4.4%) was also affected by the reduction in demand.

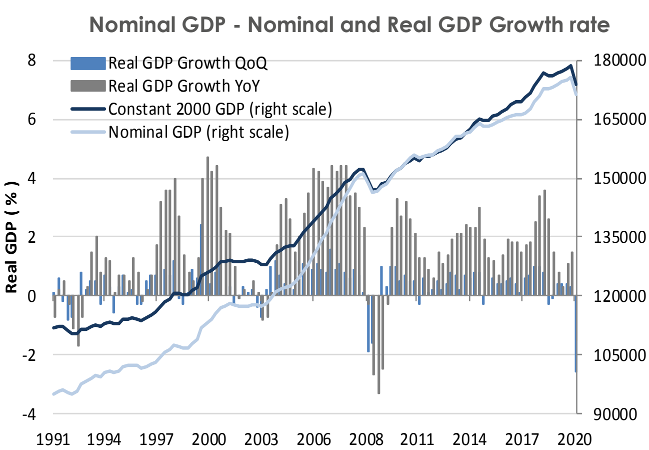
The usually stable healthcare sector (-3-9%) was hampered by the fight against the pandemic and the mobilisation of teams and means to the detriment of the usual activities and procedures, which were postponed due to the extraordinary mobilisation.

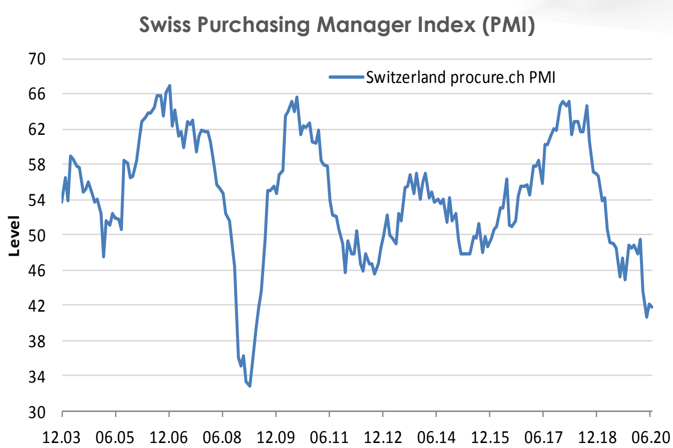
Theoretically, international economic conditions were not favourable to Switzerland's economy. However, the latter nevertheless benefited from a +3.4% increase in merchandise exports, while imports decreased by -1.1%. The picture is less positive for services, as exports dropped by –4.4% and imports by –1.2%

Drop in GDP in Q1 is actually due to only two weeks of confinement

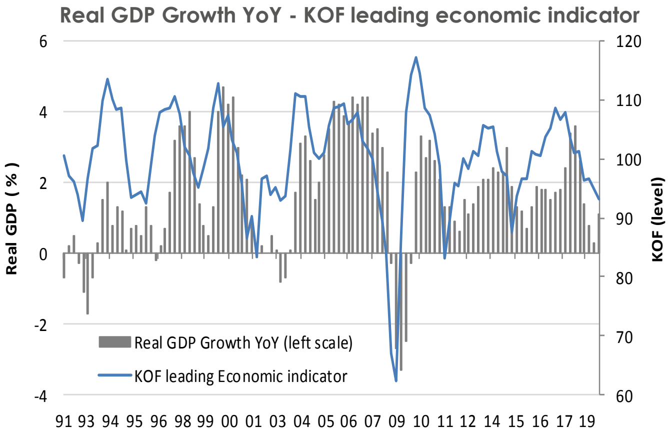
The economic and health situation was relatively normal for 10 weeks before the introduction of measures to contain the pandemic. In only two weeks between 17 and 31 March, the measures taken by the Federal Council massively affected private consumption, which dropped by -3.5% over the quarter, which gives an idea of the major impact recorded over just two weeks. The impact on investment was also radical with a -4% contraction in demand for capital goods. Government consumption, up 0.7%, was a rare positive domestic component. Overall, final domestic demand recorded its sharpest decline in 40 years (-2.6%) in the wake of a confinement that was rather light in comparison with the strict lockdowns in Italy, Spain and France.

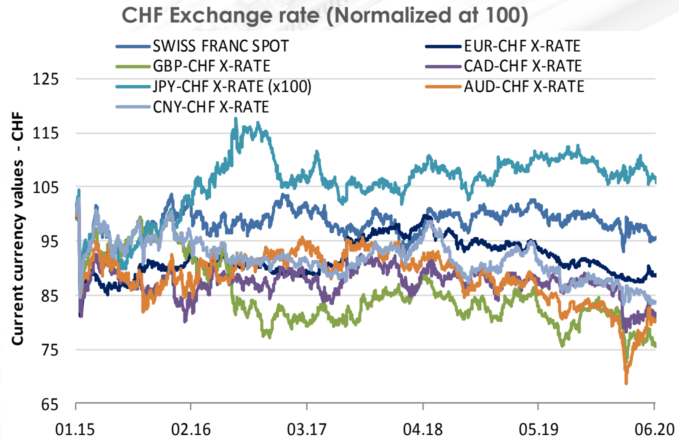
The impact is thus particularly stunning, considering the limited number of days involved during the period under review.





Graph sources: Bloomberg/BearBull Global Investments





Switzerland withstands Covid-19 shock more successfully

Switzerland's main economic partners also suffered a sharp deterioration of their economic and health situations. Logically, sensitive economic sectors such as watchmaking and the machine and precision instrument industry were also affected by a reduction in international demand. The industrial sector thus posted its sharpest decline since the massive rise of the franc in 2015.

By international comparison, we believe the -2.6% drop of Switzerland's economy in Q1 can actually be considered as a major success with regards to the performances of our largest neighbours and of major developed economies. Indeed, the initial figures published for Italy (-5.3%), France (-5.3%) and Spain (-5.2%) point to much more dire performances. With regards to the UK (-2%), Germany (-2.2%) and Austria (-2.5%), for example, confinement measures similar to ours had similar effects. As for the US (-5% annualised), which had barely begun putting in place limited confinement measures in certain states, the impact seems particularly severe. In Asia, Japan (-0.6%) and Australia (-0.3%) do not seem too badly affected, while China posted a logically expected impact of -9.8% over the quarter.

Further -10% shock to GDP in Q2?

By the end of Q2, Switzerland's economy will thus have suffered almost two months and a half of confinement in a regional economic context heavily affected by the safety measures implemented by the various European governments to fight the pandemic. In view of the contraction posted in Q1, a -10.3% contraction in Switzerland's GDP in Q2 is rather likely, even if the confinement measures start being lifted in June. Most leading indicators logically point in the direction of a severe recession in Q2 without being able to predict a subsequent recovery in activity for the moment. The estimated growth shock at this time certainly exceeds the more optimistic initial estimations.

However, this shock has broadly been taken into account since March and will thus not be considered as a surprise during the next reporting period in the summer.

The risks we predicted of a rapid deterioration of leading indicators throughout Q1 materialised and are now likely to stabilise. The manufacturing PMI index dropped from 49.5 in February to 40.7 in April before stabilising in May at 42.1. For the KOF, the leading indicator collapsed from 101.7 to 53.2 in May and shows no sign of recovery yet. In the current context, it is not surprising that consumer confidence, which was already at risk in March (-10), is in freefall in Q2 (-40). Logically, retail sales also posted a 19.9% yoy drop.

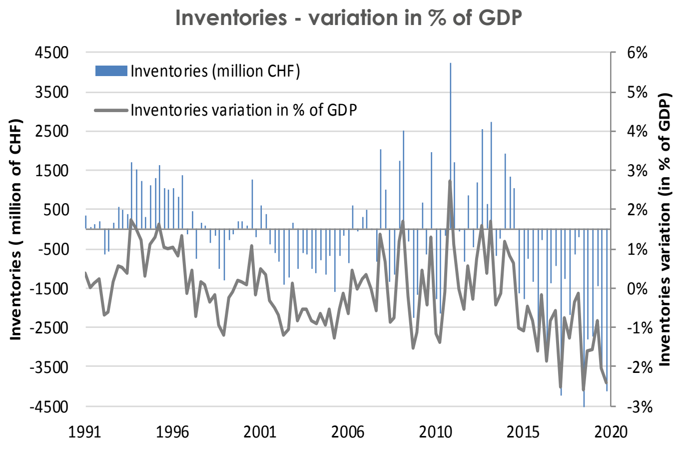
What prospects for H2?

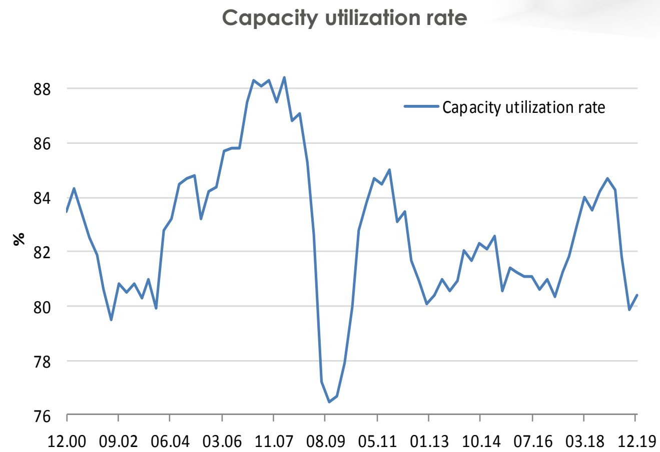
The magnitude of the economic contraction in Q2 will certainly have to be analysed, but the main issue now pertains to recovery prospects in the second part of the year. The gradual deconfinement will undoubtedly be well under way at the start of the summer in Switzerland. Nevertheless, it is hard to imagine a return to normal in Q3 already.

Regarding private consumption, although consumers are expected to return, we doubt that consumption will return to a pre-crisis level. Businesses will not be able to make up H1 revenue losses.

While the unemployment rate has remained relatively stable in our country (3.4%) during the crisis due to work-time reduction implemented by the authorities, the risks of seeing another trend develop in September are substantial.

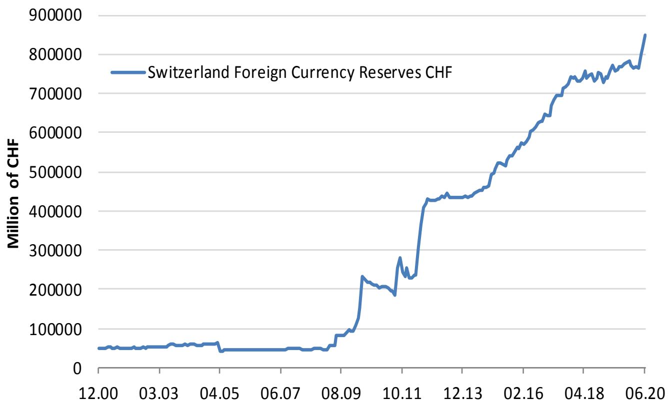
Indeed, an economic recovery that could be significant and close to +5% in Q3 may also be insufficient to ensure the viability of certain companies and SMEs just barely being kept afloat by government aid.



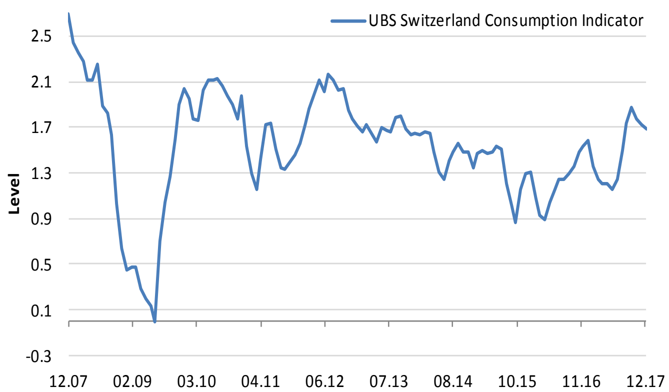


Graph sources: Bloomberg/BearBull Global Investments

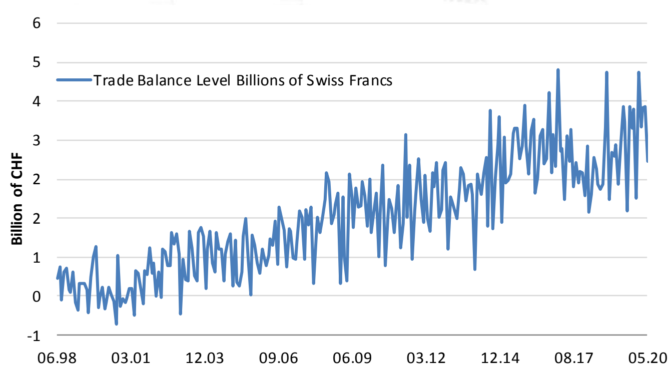
SNB Foreign Currency Reserves



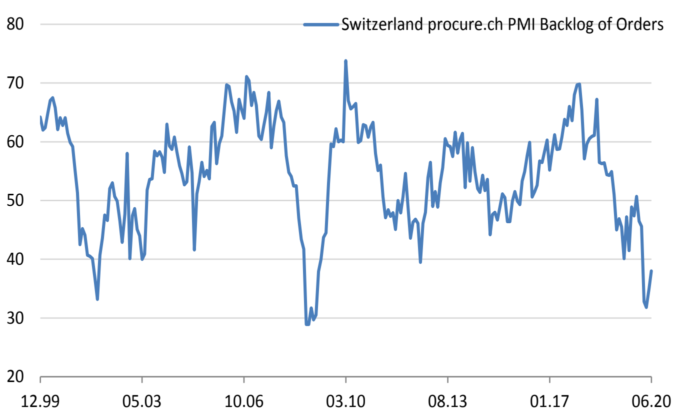
UBS Switzerland Consumption Indicator



Trade Balance level



Backlog of Orders



Graph sources: Bloomberg/BearBull Global Investments

SNB remains discrete but active

Unlike other central banks, the SNB kept a relatively low profile during the Covid-19 crisis. The Swiss franc only marginally appreciated against the dollar and the euro. However, it is mainly thanks to the stability of its monetary policy and its discretion that the SNB set itself apart from other central banks.

While the ECB, the Fed and the BOJ flooded financial markets with fresh money and a string of shock announcements, the SNB increased its overnight domestic deposits from 500 to 594 billion without any spectacular announcement and increased its currency reserves from 763 to 816 billion. The SNB did not change key rates during the crisis, and there was no new monetary strategy inspired by the asset purchase programmes initiated by the other central banks.

Clearly and unsurprisingly, the SNB's monetary policy, which aims to hinder any appreciation of the franc against the euro, has thus not changed. Shifts in US key and long-term rates have reduced further still the yield spread on which the SNB has based its weakening strategy for the franc and slightly disrupted its policy. The end of the crisis is likely to be conducive to a weakening of the franc.

Shift in outlook for rates

The first half of the year will have been characterised by a complete change in growth expectations and outlook for long-term rates. The development of the health crisis in China into a global pandemic triggered a drop in government yields and a rise in risk premiums for other issuers during the financial panic in March, a trend that has nevertheless weakened significantly since then.

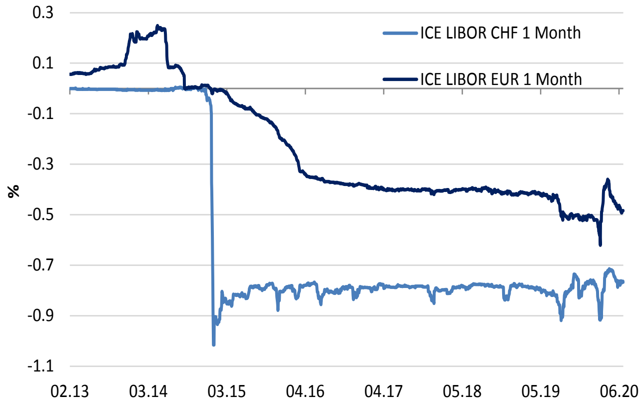
The economic context going forward is likely to once again trigger changes in expectations and drive new increases in long-term yields. Long-term rates in Switzerland do not have the benefit of a central bank asset purchase programme. Prices will thus not be driven by central bank demand and will be determined only by economic prospects and institutional and private investment demand. After an initial deflationary phase, we cannot exclude a rise in inflation and in the Swiss government's long-term rates above zero in the medium term.

Beware, euphoria already replacing panic

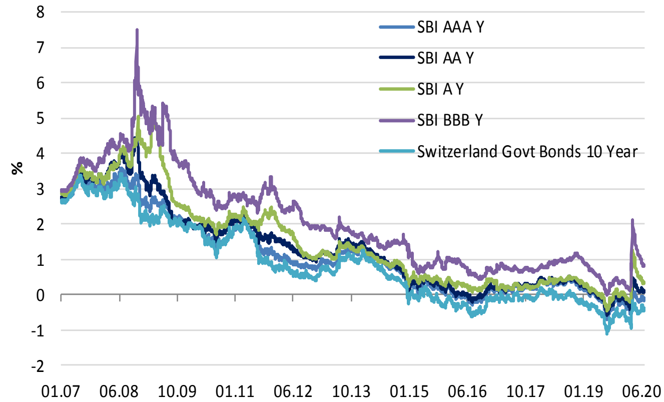
Although we recommended caution in January, Swiss equities benefitted from the general euphoria before succumbing to complete panic in March. In late March, we took note of the extreme pessimism by highlighting repositioning opportunities at reasonable valuation levels.

A few weeks of gradually regained enthusiasm will have been enough for Swiss equities to return to their pre-crisis levels. Euphoria is thus once again present, driven by prospects of a quick return to normal and the promise of abundant liquidity. Profit growth will nevertheless not resume so quickly, and at 20.6x expected earnings, valuations once again appear high and justify profit-taking.

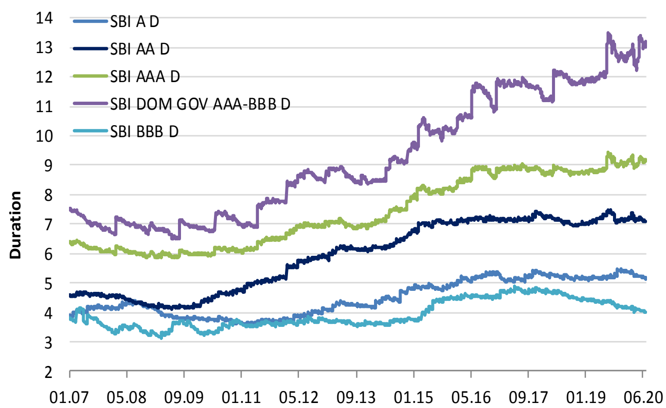
Libor spread rates 1 month



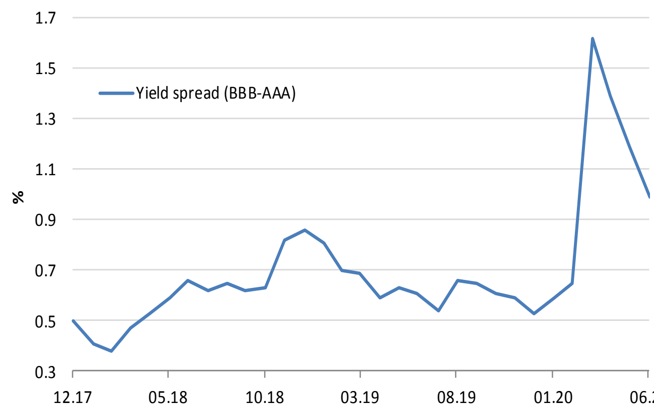
Yield (Government, AAA, AA, A, BBB)



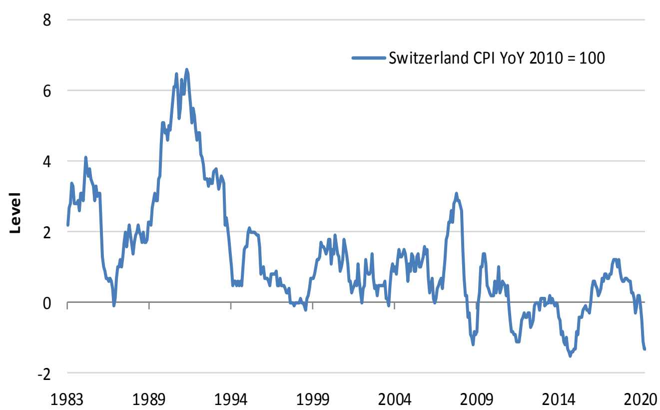
Duration of Swiss bonds



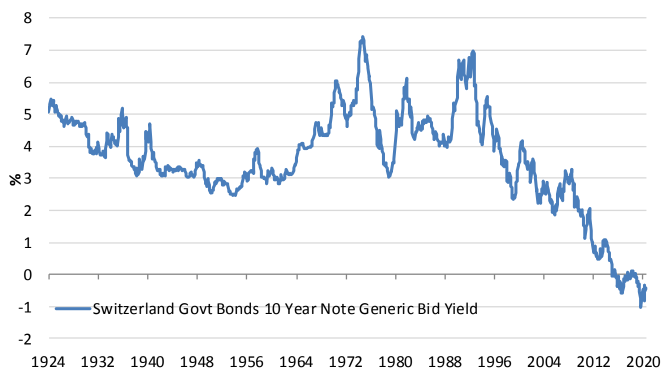
Yield spread



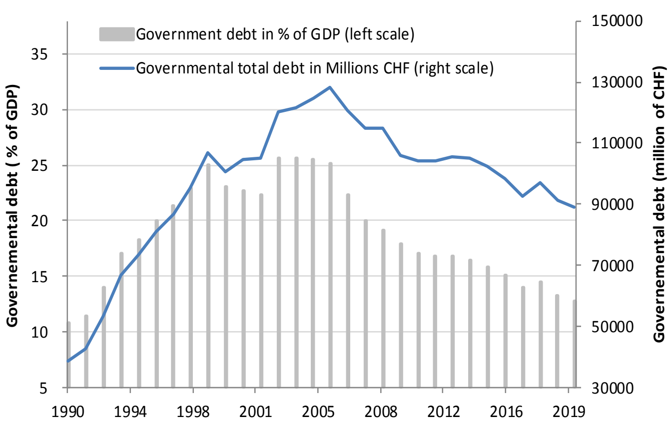
Inflation CPI



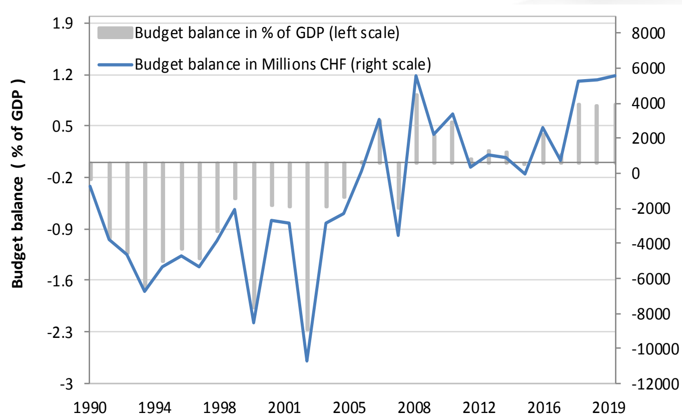
Government Bonds 10 year yield since 1924



Switzerland Government total debt



Switzerland Budget Balance



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Eurozone

- ECB is on every front
- ECB lends banks an additional EUR 1,300 billion at negative yields
- Q2 will mark the low point of European growth

ECB is on every front

The European Central Bank surprised observers by announcing in March the urgent implementation of a new EUR 750 billion support plan called PEPP for Pandemic Emergency Purchase Programme. The ECB has since, as we expected, increased the size of its asset purchase programme by 600 billion for a total of EUR 1,350 billion at this time.

It will therefore see its balance sheet increase by almost 30%, exceeding EUR 6,000 billion by 2021. The size of the PEPP is considerable for the European Union. The ECB is thus clearly signalling its support for the European economy in the face of the Covid-19 crisis.

On the other hand, the ECB has not changed its key rates, although it has broadened its support for the economy by further easing its monetary policy. The time horizon for net asset purchases has been extended to the end of June 2021, but it is likely that the ECB Governing Council will have to extend and maintain its expansionary policy beyond 2021 and for as long as necessary.

The ECB's action therefore represents just under 15% of the aggregate GDP (EUR 9,691 billion) of the Eurozone's 19 member countries, a considerable amount that will have lasting effects on financial markets.

The ECB already holds a significant portion of European sovereign debt and is injecting EUR 20 billion per month. The Covid-19 crisis has considerably increased the financing needs of European states already this year, but European government debt issuance is expected to continue to grow significantly in 2021.

The ECB's government debt purchases will therefore follow the evolution of these needs and will certainly increase beyond the amounts mentioned above, all the more so as the ECB will also have to broaden its support programme by revising its allocation rules and the universe of eligible debt.

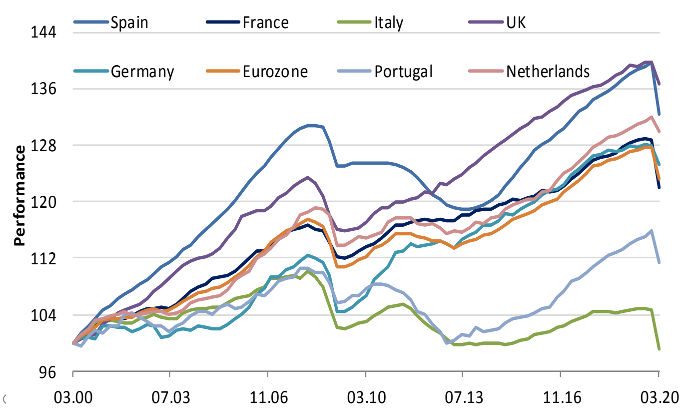
For example, the ECB already bought 100% of the new bonds issued by the Italian government in April and May (approximately EUR 50 billion), which has helped stabilise the yields on Italian debt. The ECB has thus already taken some liberties given the urgency of the crisis by buying more Italian debt than allowed by its rules, to the detriment of Germany in particular. While the ECB has already purchased around EUR 300 billion worth of government bonds under the PEPP, it has also acquired nearly EUR 220 billion worth of bonds issued by companies such as Airbus, Danone and Schneider since November 2019 and will continue to do so.

ECB lends banks an additional EUR 1,300 billion at negative yields

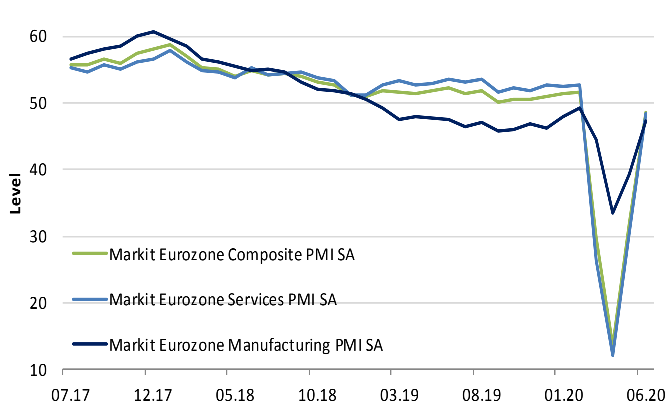
Banks literally rushed to the ECB to take advantage of the open offer of negative-yield financing. Demand reached EUR 1,300 billion, a record for this type of programme, due to the negative yields offered by the ECB on long-term loans. Nearly 750 banks participated in the TLTRO programme, which offered particularly favourable financing conditions to banks on condition that they maintain their pre-crisis level of lending to companies.

The ECB's TLTRO programmes aim to provide banks with liquidity to lend to businesses and households. The EUR 1,300 billion in loans complements the EUR 1,350 billion of asset purchases mentioned above. The ECB is therefore very active on all fronts, trying to provide the bank liquidity that was lacking in 2008 when the financial crisis broke out. In terms of monetary injections, only about half of these loans constitute new liquidity injections, if we consider that the other half represents the renewal of amounts under the previous TLTRO.

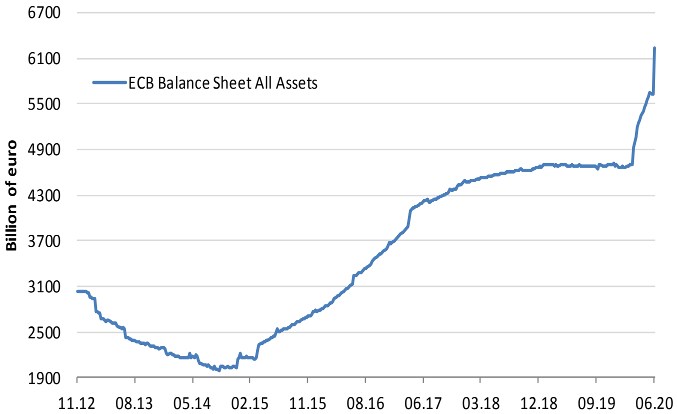
GDP Growth - Eurozone



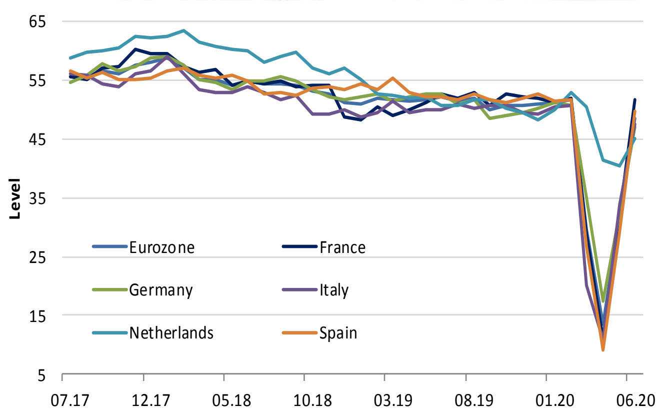
PMI (Manufacturing, Services and Retail) - Eurozone



ECB Balance Sheet



Composite PMI



ECB underwrites the fiscal expansion of European states

The ECB thus acted successfully to prevent yields from rising in Eurozone countries deemed riskier, such as Italy and Spain. While it is still difficult to fully assess the impact of the Covid-19 crisis on the 2020 and 2021 budgets of euro area countries, there is no doubt that budget deficits and financing needs will continue to increase significantly. The ECB will also be impacted by the European economic recovery plan currently being discussed, which could lead to a common spending plan at the end of July to finance the EU's economic recovery after the health crisis. The EU heads of state and governments are expected to reach a decision in mid-July on the proposal for a historic recovery plan, which has been negotiated for several weeks and which should be considerable in scope.

The increase in public spending, which is essential to protect businesses and individuals affected by this crisis, will thus weigh heavily on national budgets in the Eurozone and on deficits in 2020, but it could well become institutionalised for several years.
An already completely predictable consequence will be the increase in government indebtedness, which will undoubtedly lead to a rise in yields on the public debt of peripheral countries in the absence of the ECB's active support.

A EUR 1,800 billion recovery plan with a historical political profile

In the next few days, the EU 27 will have to agree on a recovery plan of EUR 1,800 billion for 2021-2027. Initially, this plan will include EUR 750 billion to support the most affected countries, regions and sectors and EUR 1,100 billion in EU spending on various common policies.

The European Commission proposes to finance this plan through a loan obtained by the Commission on behalf of the EU. One third of the funds obtained would be made available to the countries hardest hit by the health crisis in the form of loans and the other two thirds would be distributed in the form of subsidies. Repayment of the loan is likely to be made thanks to European Union financial resources, e.g. through the introduction of new, specific taxes.

France and Germany already announced their support for the recovery plan on 18 May, but the plan still has to be accepted by net contributor countries such as Austria, the Netherlands, Denmark and Sweden, which will likely be reluctant to increase their net contributions. Germany's approval is, however, the clearest step towards building a more fiscally unified Europe, a major step for the European Union and for the euro.

German Chancellor Angela Merkel seems to have convinced the German Constitutional Court to reverse its decision to counter the ambitious project she is pursuing with Emmanuel Macron to pool European debt.

The outline of the future recovery plan is certainly still far from established, and negotiators will undoubtedly need a few more weeks of intense work to reach a consensus agreeable to all 27 member states. Nevertheless, it could well be a very important step for the credibility of the EU and for the euro.

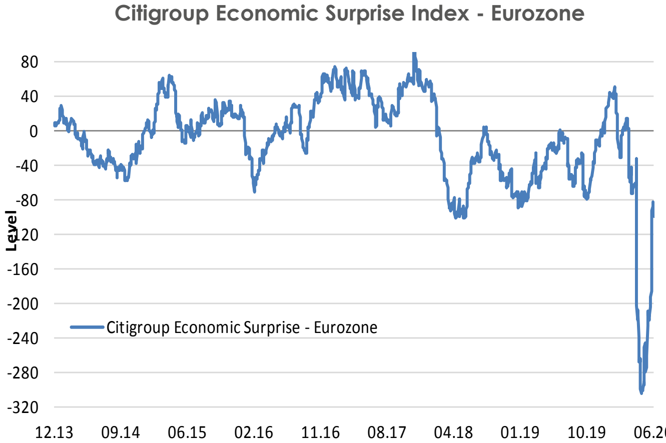
Monetisation of public deficits, inflation and real yields

The ECB is therefore in the process of monetising public spending and is about to reinforce its action in this direction by buying an increasing amount of new public debt. The debt ratio of EU states will rise from 100% to 120% fairly quickly.

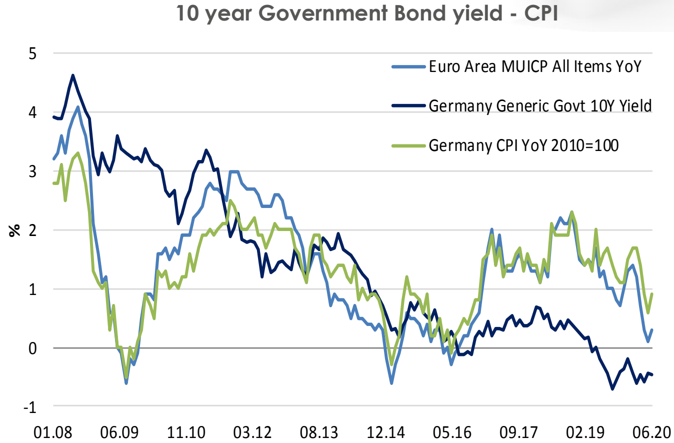
The risk of an increase in the money supply is thus significant and is likely ultimately to have inflationary consequences.

Let us note that, in the Eurozone, the monetary base had already increased by 200% during the financial crisis. From EUR 1,000 billion in 2008, it has now reached more than EUR 3,100 billion. By deciding to monetise close to 1,300 billion in new government spending, the ECB is agreeing to once again increase its monetary base very significantly. However, the ECB is not the only one to be acting this way, since US policy is already following this strategy.

Citigroup Economic Surprise Index - Eurozone

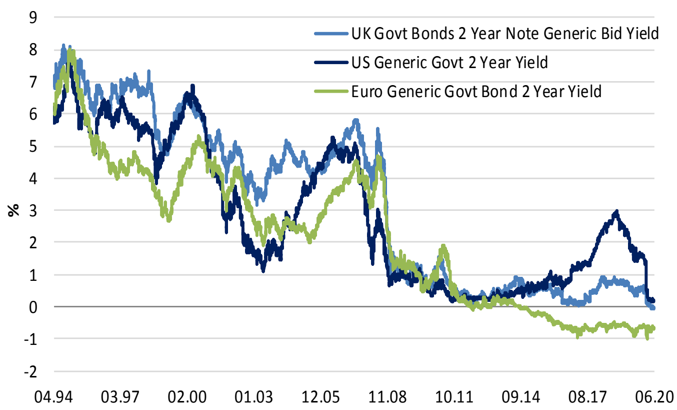


10 year Government Bond yield - CPI

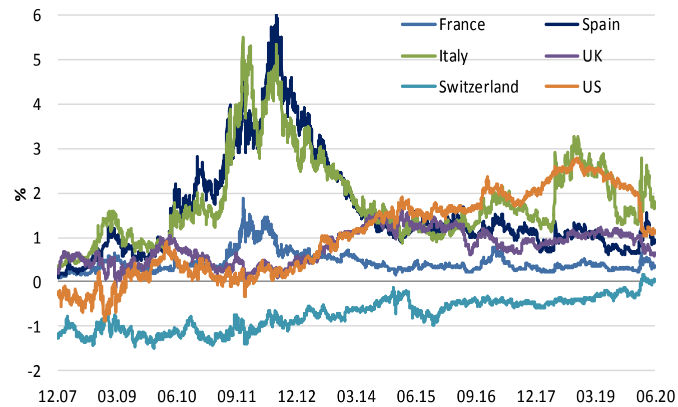


Graph sources: Bloomberg/BearBull Global Investments

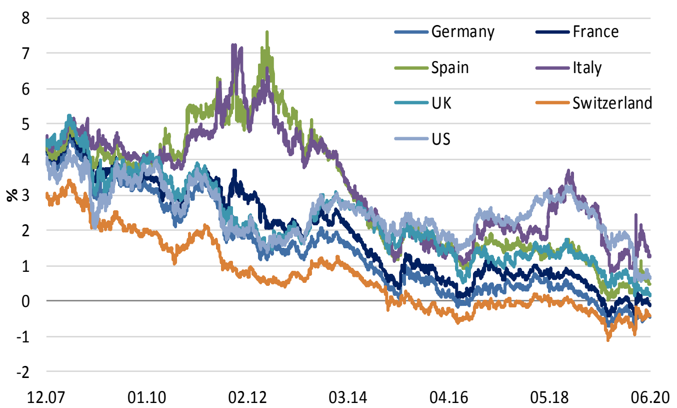
2-year Government Bond yield (US, Euro, UK)



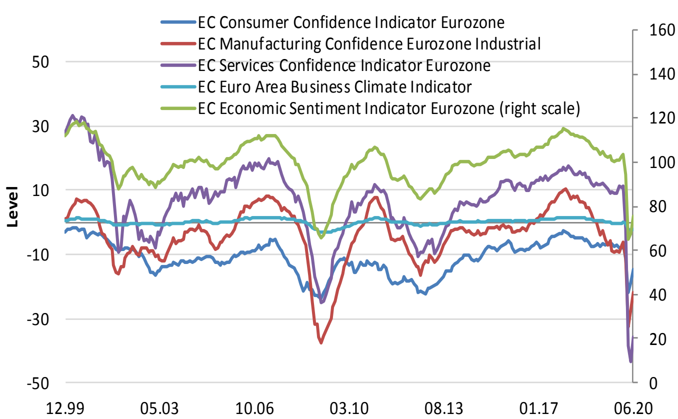
Risk premium - Government vs. Bund



10-year Government Bond yield



Economic Confidence Index



Graph sources: Bloomberg/BearBull Global Investments

Q2 will mark the low point of European growth

GDP growth in Q1 suffered a shock as expected, contracting by -3.6%. GDP estimates for Q2 are obviously more dismal, putting the fall in Eurozone GDP at -12.3%. A solid recovery of +8.3% is then expected for Q3, followed by +2.8% in Q4.

Nevertheless, for the year as a whole, GDP is expected to remain down by a steep -8.1%. In this context, leading indicators have already rebounded sharply from their low points in April and point to a logical recovery of economic activity in the wake of the ongoing deconfinement. Indeed, the composite PMI index for the Eurozone rebounded from its April low (13.6) to 47.5 in June, just under the growth threshold of 50. Confidence has strengthened across the board, improving the outlook for both services (47.3) and manufacturing (46.9).

Risks of a steepening ECB-controlled yield curve

Euro yields had initially plunged at the height of the stock market panic in March before rebounding sharply, including on German debt, when the economic support to businesses and households announced by governments raised fears of an increase in the indebtedness of European states.

Since the announcement of the ECB's PEPP, it has become clear that a rise in government debt ratios would not cause a significant increase in the yield required by investors. Indeed, the ECB's action has been clearly interpreted as an action to stabilise at low levels relative and absolute yields among the various Eurozone countries.

The euro may benefit from the European recovery plan

The euro appreciated by +7% against the yen, +5% against the dollar, +2.5% against the pound sterling and finally +3% against the Swiss franc (1.05 to 1.09) at the end of May, before sliding back to 1.0650.

The start of deconfinement in the Eurozone is somewhat favourable to the European currency, which could benefit from a faster return of consumption in Q3. Above all, the European currency could benefit from the pooling of debt in Europe, which would strengthen the long-term credibility of the EU and the euro.

Relatively more attractive equities in Europe

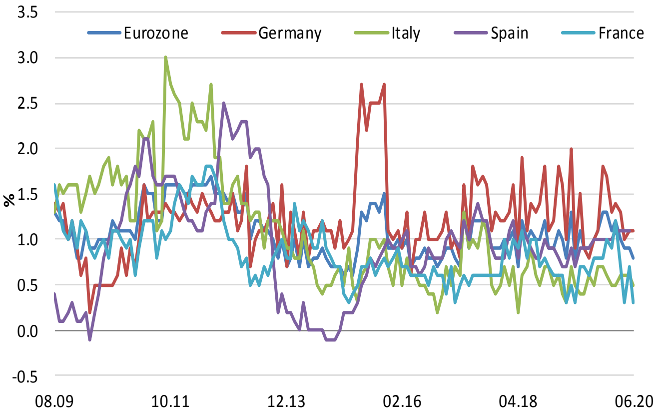
Three months ago, at the height of the stock market panic, we noted that, although the health crisis would have undeniable economic repercussions in 2020 and 2021, the valuation levels reached after the fall in share prices of around -40% already presented medium-term investment opportunities with regard to European stocks.

At the end of March, valuation levels for European companies stood at 10.4x 2020 earnings compared to 14.3x for S&P500 stocks. Now, after a share price increase of +46%, the SX5E (Stoxx50) index is trading at around 20x 12-months forward earnings.

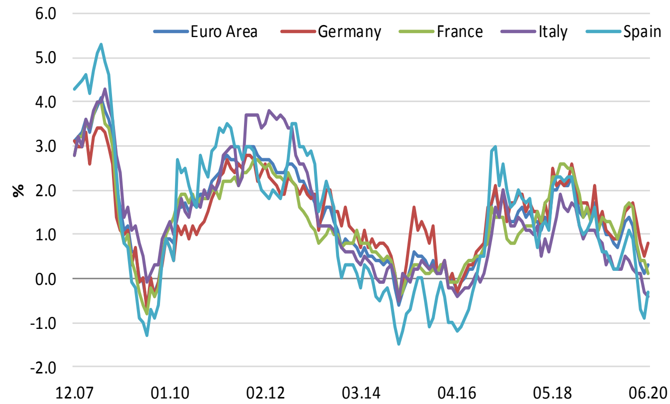
Relative valuation levels remain favourable, with a 20% premium over the S&P500's PE (25x). At the end of June, the European market remained 15% below its level at the start of the year and benefitted from an attractive yield (+2.8%). In the short term, however, European equities are likely to consolidate during the summer after an almost uninterrupted rise in share prices over the last three months.

We are now recommending a reduction in exposure to European equities, but beyond the risks of short-term profit-taking, the European recovery programme should then have a positive impact on European equity markets.

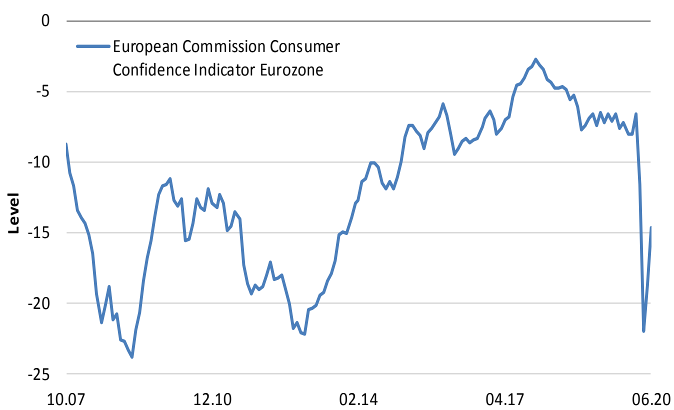
Eurostat CPI - Core Inflation (Eurozone, YoY)



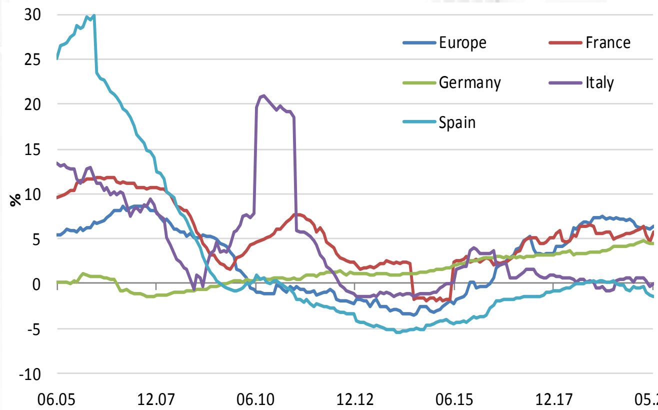
Eurostat CPI - all items (Eurozone, YoY)



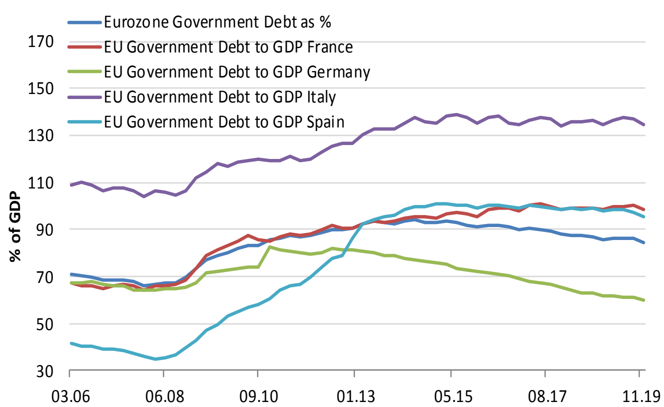
Consumer Confidence - Eurozone



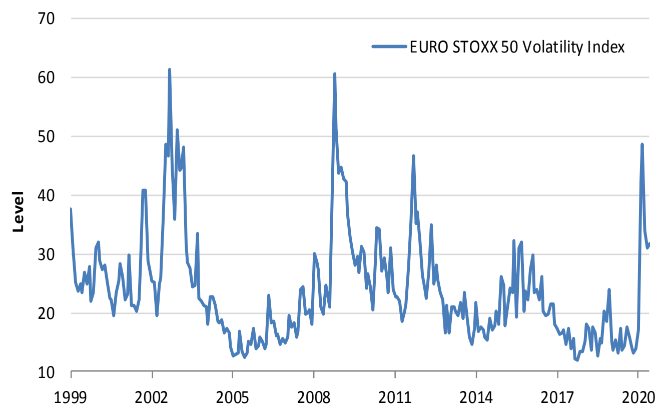
Loans to households (Eurozone - YoY)



EU Government Debt



Euro Stoxx 50 Volatility Index



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Kingdom

- The UK's economy is headed for the worst economic recession in Europe
- Exceptional governmental measures for a unique situation
- First issuance of negative-yielding government bonds
- Fundamentals still in favour of British equities and real estate

The UK's economy is headed for the worst economic recession in Europe

The UK's economy contracted by -20.4% in April, wiping out close to 20 years of GDP growth in a few weeks. The collapse is greater than estimated by the consensus (-18.7%). April was indeed the first month of confinement in the country, following Prime Minister Boris Johnson's decision to finally adopt measures to protect the UK population that were adapted to the health situation, after several weeks of damaging political procrastination.

These results are not surprising. Indeed, we mentioned in previous analyses that the UK could well be the most affected country in Europe due to its weaker intake and reaction capacity in the face of a deteriorating health situation in the country.

The UK has indeed been the hardest hit in Europe, recording the highest death rate (42,000). From an economic point of view, this result may well have a longer-lasting effect on consumer mindset and behaviour. Demand may indeed be affected and dampened for a longer period of time.

In this context, the OECD believes that the UK's economy may well be the most severely affected among the economies of industrialised countries, with a recession of -11% in 2020, which would be the sharpest economic contraction recorded in the country since 1709, i.e. more than 300 years ago.

The UK has thus been hit by one of the most severe health crises in Europe and one of the sharpest economic recessions in its history. In the current context, the issue of Brexit has been pushed into the background, although it is far from resolved. The likelihood of a no-deal Brexit before the end of the transition period in December has thus increased significantly. Discussions between Brussels and London are at a standstill due to the current crisis, and it is increasingly difficult to expect any quick and significant progress in this context. The UK's economy will have a hard time withstanding both a recession in 2020 and the shock of a brutal exit from the EU in 2021. The current situation thus poses a significant challenge for the Prime Minister as well as for the BOE, which is likely to further boost its action to support the economy.

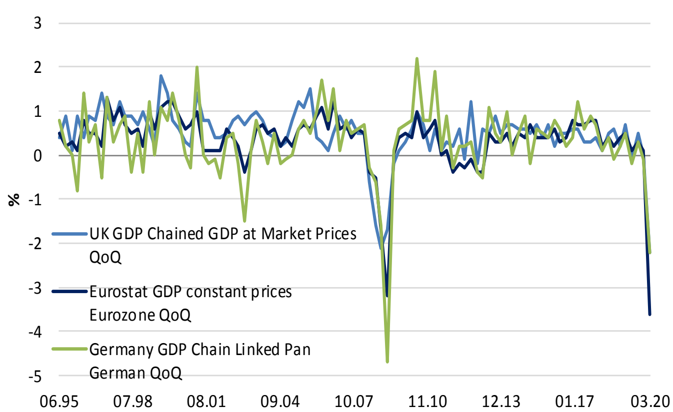
Intense shock in April, the worst is probably over

The contraction in April (-20.4%) was caused by massive reductions in activity in most economic sectors. The food and hotel sectors posted the sharpest drop (-88.1%), followed by the construction sector, which also collapsed by -40.1%, a plunge barely superior to that of the leisure (-39.7%) and education (-33.6%) sectors. Industrial production logically collapsed by -20.3% over a month in this context and by -24.3% over a year. The situation is similar for manufacturing output, down by -24.3% and -28.5%.

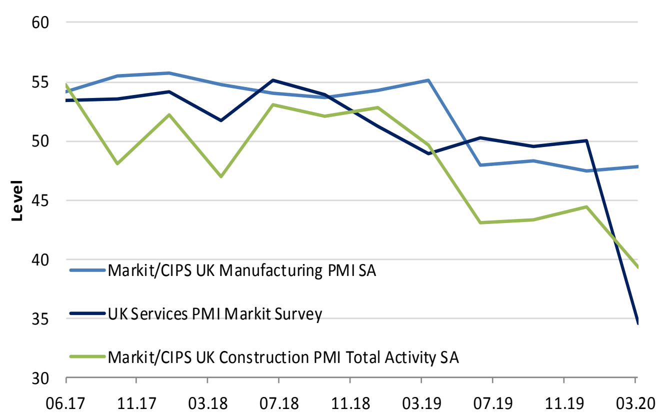
the situation is even more dramatic in the construction industry, which suffered a -40.1% correction over a month after a -5.9% drop in March and -44% versus last year. Retail sales logically also suffered, dropping by -18.1% in April, hand in hand with the confidence of consumers, who are increasingly worried about losing their jobs when the support measures eventually end.

The situation in the employment market in April had positively surprised observers with a surprise rise in employment over three months that contradicted projected job losses of 110,000 jobs. These figures were surprising and have since been corrected with the loss of 429,000 jobs in April and the announcement in June of a very sharp increase in unemployment benefit claims (+1,500,000) during the confinement period, with total claims now in excess of 3,000,000. This probably masks a situation that is undoubtedly worse, as will no doubt become clear in the next few months. The unemployment rate, which was expected to rise by 4.7%, finally remained stable at 3.9%. Moreover, wage growth in the private sector was negative in April.

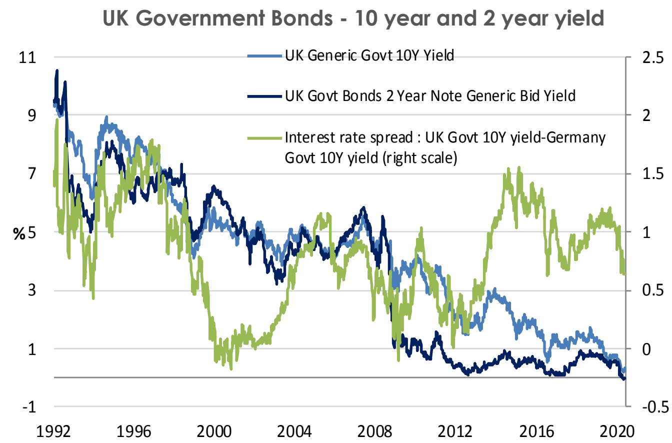
Quarterly GDP Growth - UK

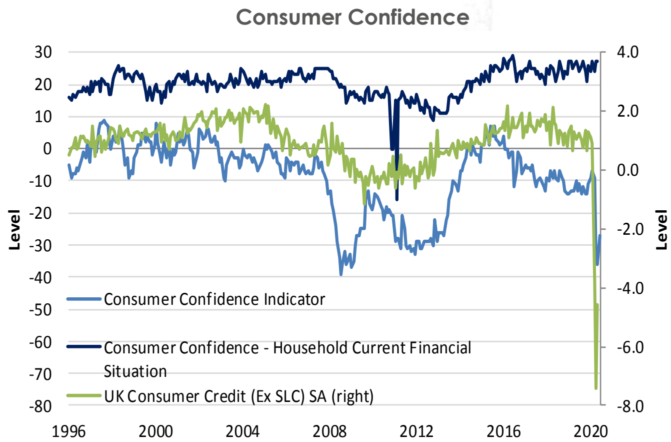


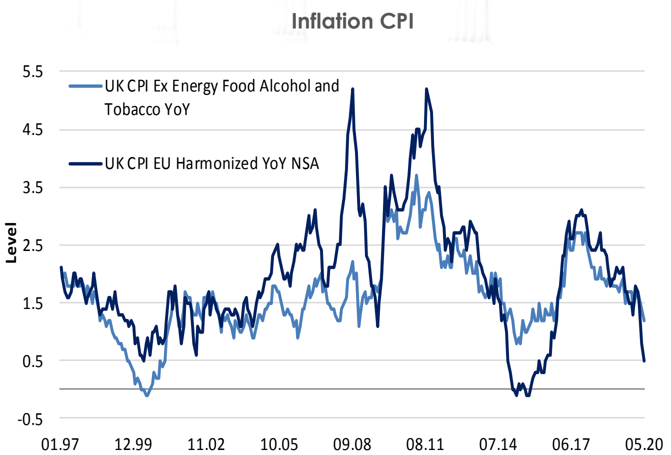
Manufacturing, Services and Construction PMI - UK

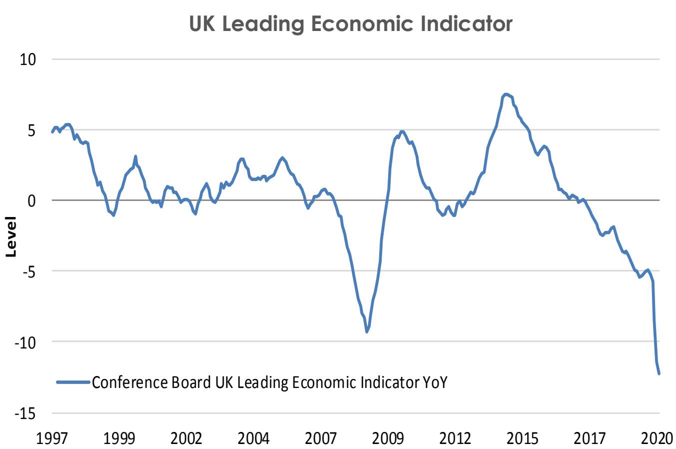


Graph sources: Bloomberg/BearBull Global Investments









Graph sources: Bloomberg/BearBull Global Investments

Exceptional governmental measures for a unique situation

Boris Johnson's government finally also adopted economic support measures, which were implemented in the last quarter as the seriousness of the health and economic situation became clear. A first stimulus package of GBP 30 billion aiming to support economic activity already weakened before the outbreak of the Covid-19 crisis, was accompanied by other measures, including loan guarantees in the amount of GBP 330 billion, i.e. 15% of the UK's GDP; in addition, close to GBP 20 billion in corporate tax cuts were announced so far this year.

In the UK as in most countries, after a decade of measures to support growth almost exclusively carried out by central banks, the merits of fiscal stimulus measures in the face of the Covid-19 crisis and the necessity of supporting the efforts of the already very active central banks by adopting more direct support measures for the real economy were suddenly made clear.

The BOE must go further to support the UK's economy

We expected the BOE to cut rates at the start of the year in the context of Brexit, but it is the urgency of the global health crisis that drove the British institution to adjust its key rates more quickly, lowering them by 50 base points, from 0.75% to 0.25%, and then to 0.1%. The BOE now has little room for manoeuvre and will likely wait before lowering its key rates to zero. Nevertheless, it could announce a increase in its asset purchase programme more quickly to act across the whole yield curve. The BOE is thus likely to announce a new, additional bond-buying programme that could amount to GBP 100 billion, which would bring its government bond and corporate debt purchase programme to 745 billion.

Nothing to expect from leading indicators?

PMI leading indicators rebounded sharply in May from their April lows, probably suggesting that April was the worst month in terms of GDP growth in 2020. The manufacturing PMI index reached a low point of 32.6 and improved significantly in May (40.7), much like other indicators, e.g. the services PMI (13.4 to 29), the construction PMI (8.2 to 29.4) and consequently, the composite PMI (13.8 to 30). The worst of the recession is very likely over, although these indicators' respective levels do not point to a future recovery.

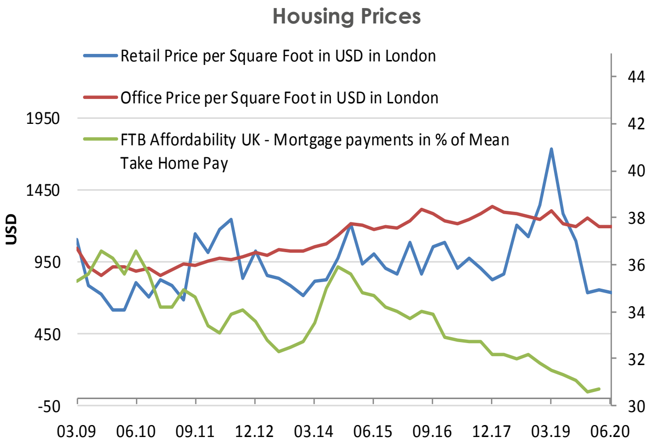
The exceptional support measures put in place by the government and the central bank have not yet developed any major effects on the confidence of economic agents. The lockdown has gradually started to ease, but a few months or even a few quarters will be needed before the situation truly returns to normal. GDP growth in Q2 will remain negative, and no recovery is expected before the third quarter.

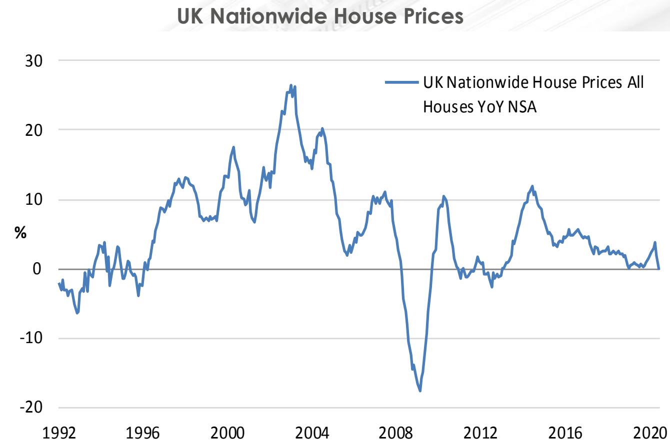
First issuance of negative-yielding government bonds

UK inflation dropped to its lowest level in four years in May. The consumer price index for the month of May posted its weakest 12-month progression (+0.5). The drop in energy prices was a determining factor. This element, which occurred in the context of a sharp contraction of GDP, will certainly give the BOE a little more leeway. In this economic environment, the British government was able to issue its first negative-yielding bond in May.

At the height of the pandemic, the government issued GBP 3.8 billion in short-term bonds (2023) at a yield of -0.003%. The UK thus joins the closed circle of countries that can issue negative-yielding debt, this despite the high degree of uncertainty regarding the country's political and economic future.

Given the magnitude of the budget deficit following government interventions in the fight against the devastating economic effects of Covid-19, the government is forced to borrow to finance its rising deficits.





The UK government's ten-year yields have remained relatively stable and close to zero for three months, except for a short stressful period in March, which was marked by some very high volatility on sterling yields, temporarily bouncing from 0.2% to 0.8% before stabilising once again at 0.2% in June.

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At these levels, we believe capital markets in British pounds are still rather unattractive. The risks of holding GBP bonds seem sufficiently significant in this context to avoid taking positions in this market. In this uncertain context, we recommend international investors avoid any exposure to capital markets in GBP and position themselves in other bond segments.

Stabilisation of the pound sterling

The GBP to USD exchange rate has not seemed particularly penalised by the above-mentioned drop in yields. In the last four weeks, the pound has even appreciated temporarily by +5% against the US dollar, remaining stable against the euro and the Swiss franc. The UK's economy has nevertheless been heavily hit by the current crisis, and prospects of a recovery are no better than in other countries.

The British pound is not backed by a favourable economic environment and is thus likely to be affected by the ongoing risks of a no-deal Brexit.

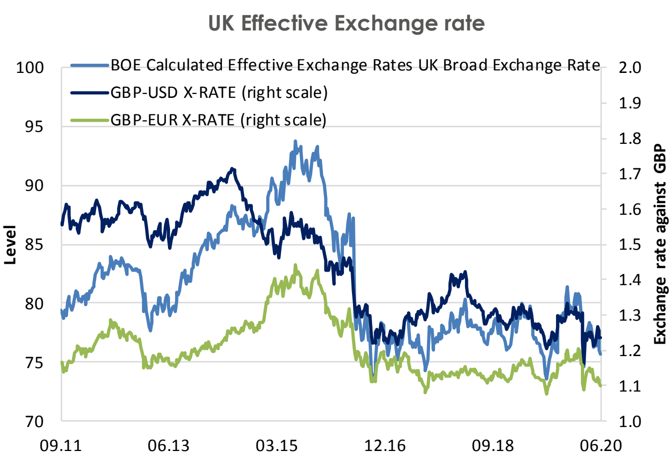
We do not expect any significant or quick recovery in the exchange rate in this context and anticipate a stabilisation of the pound above 1.10 against the euro and 1.20 against the Swiss franc.

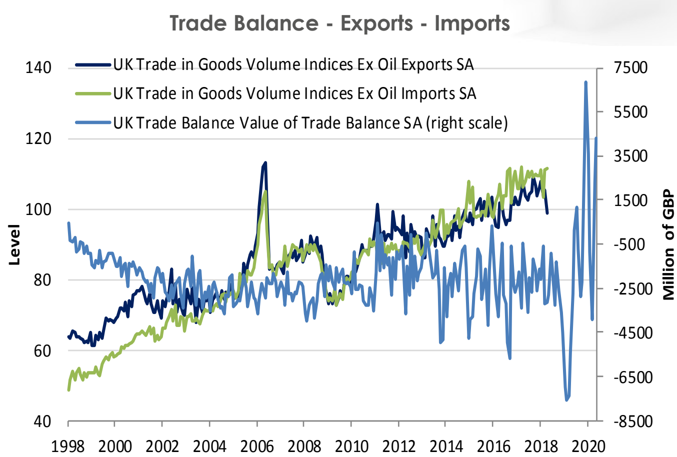
Fundamentals still in favour of British equities and real estate

Since our last recommendation at the end of March to once again acquire positions in the British real estate market and purchase FTSE100 stocks, as they were too heavily penalised by the stock market panic relating to Covid-19, a price recovery of approximately +30% occurred in these two asset classes. From a relative point of view, these price recoveries were a little less significant than in other regions. The two asset classes thus still have some room for growth.

The FTSE100 index is now being traded at a little over 13x expected 2021 earnings and 19x 2020 earnings. In Europe, equity market valuations are a little more generous, which is likely to favour a positive relative performance of British stocks.

The dividend yield of 4.45% is also significantly higher than in other European markets, where dividends lie a little under 3%. In this context, we believe that British equities may still garner investor interest for stocks with higher yields and more reasonable valuations.





Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

MACROECONOMIC SCENARIO

Japan

- Record budget approved to support Japan's economy
- Record -21.9% drop in exports
- BOJ unlikely to change current policy for the next few weeks
- Depreciation of yen to continue in 2020

Japan's GDP resisted well to Covid-19 in Q1 2020

The Japanese government has revised its estimates for Q1 GDP growth, which may have dropped a little less than initially expected, namely by only -0.6% instead of -0.9%, or by -2.2% on an annual basis, significantly better than the estimated -3.4% annualised contraction. The revision does not really affect data relating to household consumption (-0.8%) or exports (-6%), and mainly concerns non-residential corporate investments, which are actually estimated to have increased by +1.9% over the period instead of the previously calculated decrease (-0.5%).

This positive revision must be put into perspective because of the very likely imprecision of certain statistics that are difficult to collect in these times of Covid-19. Japan thus already slipped into recession in 2020 following economic contractions in the last two quarters, as GDP had already declined by-1.8% in Q4 2019.

However, recession is likely to take a turn for the worse in Q2 2020

Japan has been largely spared by the Covid-19 pandemic, with some 17,250 cases and 919 deaths. The health crisis remained relatively l imited initially in Japan, justifying the absence of strict confinement measures, although the population complied to a fairly large extent with the government's calls to reduce social interactions and population movements as much as possible. Household consumption thus logically slowed down at the end of the quarter, while exports collapsed due to the drop in international demand. Japanese companies reacted quite quickly by cutting back on investments.

Nevertheless, the government had to declare a state of emergency in April-May due to a resurgence of Covid-19 cases, driving household consumption down by -11.1% in April. GDP is likely to slide into recession with a drop in excess of -20% in Q2 and a decline of approximately -4% over the whole of 2020.

Record budget approved to support Japan's economy

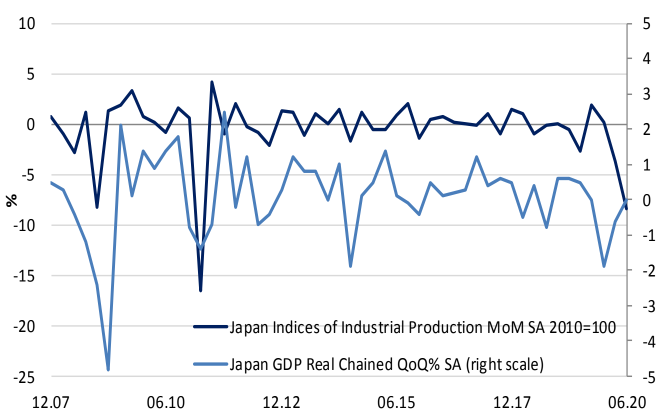
Shinzo Abe's government had already announced measures to try and stimulate the economy at the end of 2019, which were followed at the start of the year by further measures aiming to support small and medium-sized enterprises. In June, Japan's MPs adopted a new record budget to support the economy. Indeed, the lower house of the Japanese parliament signed a record new extraordinary budget of approximately USD 300 billion in order to finance a second economic support plan. A third or so of this budget will be allocated to financing a government fund to provide zero interest rate loans to struggling small- and medium-sized enterprises, in addition to the Bank of Japan's new lending mechanisms. The rest will serve to finance various measures, including helping businesses to pay their rent and their partially unemployed employees, subsidise municipalities in crisis, bolster the healthcare system and medical research, and offer bonuses to healthcare workers, cash-strapped students and single-parent families.

This budget, which lies at the heart of a massive second economic support plan, weighs in at close to USD 1 trillion. Altogether, state support to the countries' businesses and households is likely to reach USD 2 trillion, essentially in the form of loans.

Expected rebound of leading indicators

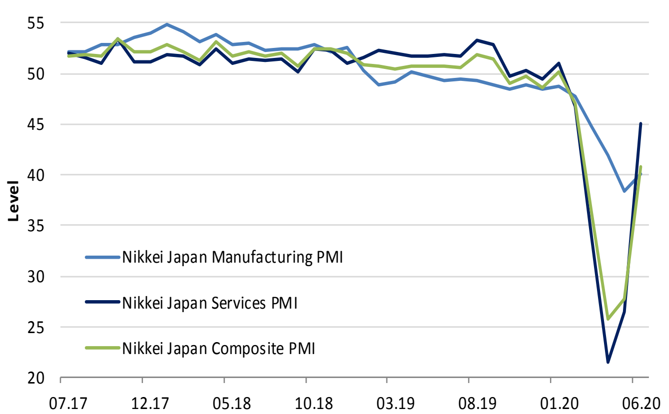
The historic plunge of the manufacturing PMI index to 38.4 and of the services PMI index to 21.5 in May, far below the growth threshold of 50, is consistent with the ongoing economic collapse in Q2. The accelerating decline in industrial production from -3.7% in March to -9.1% over the month of April is also coherent in this context. The outlook for industrial production in May (-4%) is still negative, but growth is likely to turn two months of confinement in most countries, will have a positive impact on Japan's economy and its exports.

GDP and Industrial Production

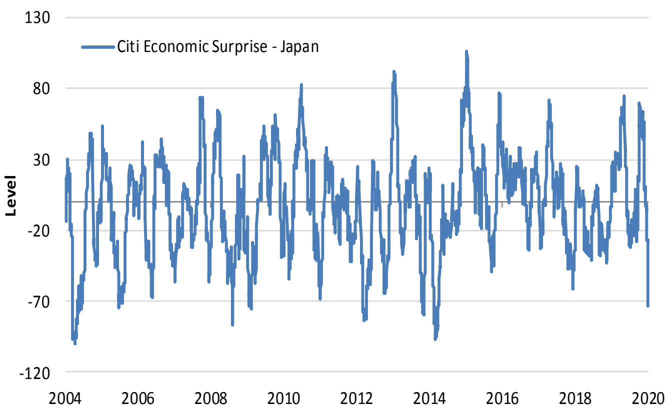


Graph sources: Bloomberg/BearBull Global Investments

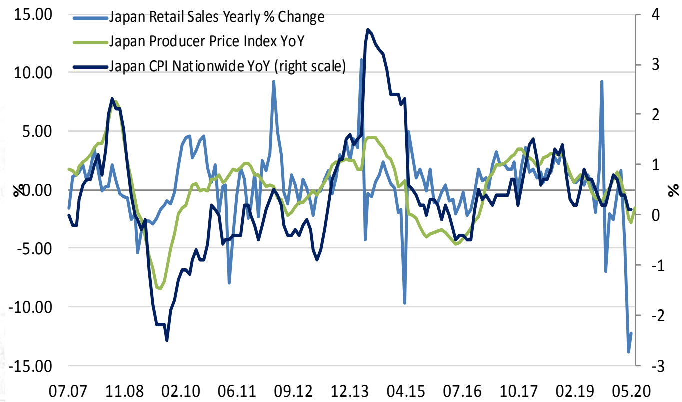
Composite, manufacturing and Services PMI - Japan



Economic Surprise Index



Inflation (CPI and PPI) and retail sales



Record -21.9% drop in exports

Japan's foreign trade balance deteriorated further in April due to a record drop in exports estimated at -21.9% (-11.7% in March) and a decline in imports of -7.2% over the same period. The trade deficit (seasonally adjusted) is now close to three times as large as in March. Japan's trade balance has deteriorated with the large majority of the country's trade partners. Existing trade deficits have increased, such as the deficit with China, which has doubled to reach 552 billion yen. In terms of trade surpluses, the positive balance with the US has decreased by two thirds in one month to 181 billion yen.

Likely pick-up in private consumption and public spending in Q3

Department store sales were further hit by the health crisis, falling by -76.1% in April in a logically more pronounced trend than that observed in supermarkets, where sales dropped by -4.5%. Despite the sharp collapse in consumer confidence in April, the rebound observed in May also hints at a more favourable third quarter. Public spending is also likely to add a positive contribution in the coming months with the implementation of various government measures.

BOJ unlikely to change current policy for the next few weeks

The Bank of Japan decided to act to try and quell the wave of panic that also affected Japan's financial markets in March by announcing it would double its purchases of Japanese equity index ETFs, increasing the sum earmarked for these purchases to JPY 13 trillion, i.e. USD 112 billion per year. After this first measure, the BOJ also announced it would increase its corporate debt purchases by JPY 2 trillion until September as well as collateralised loans by JPY 8 trillion. In the last few months, the BOJ has purchased government bonds without limit, extended its ETF purchase programme to include REITs, and launched a lending programme for a total value of USD 700 billion.

During this period, improved sentiment and rising equity markets drove long-term interest rates slightly upwards, pushing them to their highest level since April 2019. The BOJ is unlikely to consider this progression as liable to hinder its objectives.

The Bank's action has helped stabilise financial markets and avoid additional deterioration in confidence, already undermined by the health crisis.

Key rates will likely remain unchanged in June, and the BOJ has pledged to provide all required liquidity to banks and the economy through its asset purchase programme.

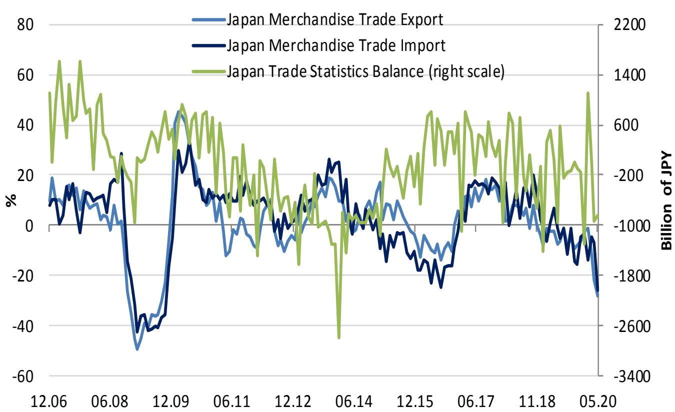
Depreciation of yen to continue in 2020

The volatility of the JPY/USD exchange rate rebounded sharply during the financial crisis in March. First, the yen benefitted from a 'safe-haven' effect, appreciating by almost +10% against the dollar from 112 to 102 yen before returning to its previous equilibrium level at the end of the month. Since the start of the year, the yen has ultimately remained relatively stable at around 107 yen to the dollar.

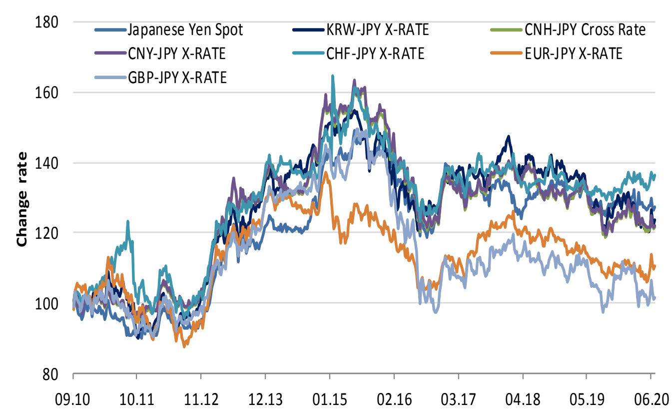
During the Covid-19 crisis, the yield spread between dollar and yen short-term rates narrowed dramatically. The nominal rate spread favourable to the dollar at the start of the year has thus disappeared, thereby reducing the positive impact of this factor on the outlook for a weaker yen. Nevertheless, Japan's economy still needs a weaker yen to increase the competitiveness of its exports sector, hampered by the global health crisis.

We have not changed our outlook for the yen, which remains fundamentally bearish for 2020. A weak yen remains an essential condition for Japan's activity to pick up and inflation to recover. The stability of Japan's currency since the start of the year against the US dollar is likely to be followed by a decline in the near future.

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

China

- Leading indicators at their highest level, confidence is returning
- Chinese growth positive in 2020
- The yuan can still appreciate in 2020
- Potentially very gradual monetary policy easing

Leading indicators at their highest level, confidence is returning

Industry profits were rising again, at +6% year on year in June, after a weak May (-4.3%) and the -34.9% collapse seen in April. Looking since the start of the year, the -19.3% drop in May (five months) constitutes an improvement compared to the -38.3% result in March (compared to the same period in 2019). This improvement is due to the bounce back in industrial production in May (+4.4% YOY), which was up on April's figures (+3.9% YOY). The trend seemed to continue and gain strength in June, mirroring the manufacturing PMI index (50.9), which was a little more robust than in May (50.6).

The non-manufacturing segment did even better, with a result of 54.4, which is well above the growth zone around 50. In terms of leading indicators for exports, the sub-segment remains below 50, but bounced back noticeably to 42.6, there again suggesting an upcoming recovery in exports and international demand. The composite PMI index moved up from 53.4 to 54.2 in June, but data regarding the job market show a still sluggish situation, with the job segment remaining well under 50.

The Chinese economy is doing better, but no balance has yet been reached between supply and demand. Production has started up again, but spending and international demand have not yet caught onto the trend, although we are already seeing positive signs of locked -down economies opening back up to Chinese exports. Exports could recover in June and post slight year on year growth (+1%); the export component of leading PMI indicators did bounce back in June.

Chinese growth positive in 2020

The Chinese economy could bounce back by +9.6% as early as the 2nd quarter and continue to grow at a slower pace of +4.3% in the 3rd quarter 2020. Across the year as a whole, Chinese GDP could be one of the few to post some growth (+2.5%), thanks to three quarters of growth, which might compensate for the drop in the 1st quarter. It was confirmed that the economy was pulling out of recession in May, with industrial production continuing to rise (+4.4%) year on year. Spending is proving the Achilles heel of the recovery due to consumers' continued vulnerability.

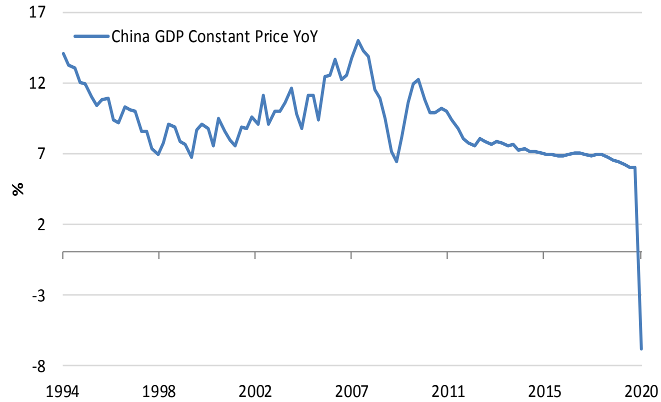
Retail sales are down and investments in capital goods have still not picked up. In June, leading indicators suggested that spending continues to improve, and that a positive result can be expected for retail sales in June. However, it will compare badly to the +8% growth over the same period in 2019. For the time being, the recovery is being driven by the industrial sector. In an international context still very much affected by the Covid-19 crisis, domestic spending has certainly lacked the momentum to make up for weak foreign demand.

That said, China will certainly very soon benefit from other countries easing lockdown and from international demand recovering, although the rise in Covid-19 cases in June sparked fresh concern regarding the possibility of a second wave that could plunge the country back into uncertainty again. Equally, in China there has been significant economic stimulus and leading indicators, such as the PMI, were still pointing to an increase in activity in June. The Chinese economy could bounce back by +7% in 2021.

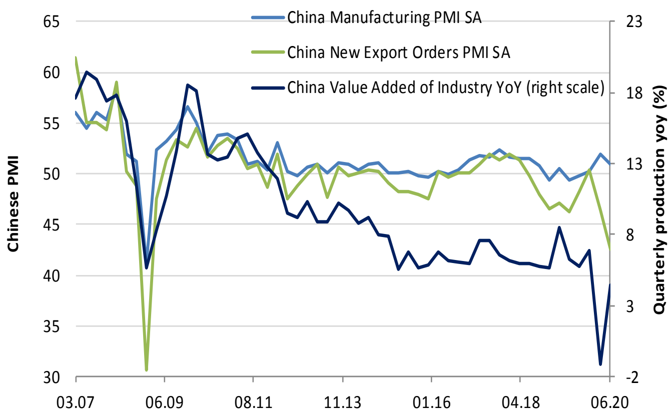
Potentially very gradual monetary policy easing

The PBoC should not effect radical change in its monetary policy in the 2nd half of the year given the current context of a recovery in Chinese growth and probably in international demand. Reserve ratio requirements for banks in China could, however, be reduced by 50 basis points. Interest rates should be lowered very gradually and get back to a reduction rate of around 5-10 basis points.

YoY GDP Growth

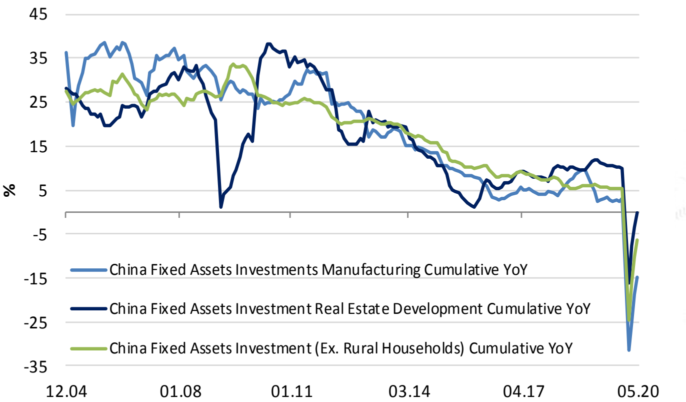


PMI and Industrial Production



Graph sources: Bloomberg/BearBull Global Investments

Real Estate, Infrastructure and Industrial Investments (YoY)



Exports and Imports (YoY)

The Chinese Central Bank launches a digital currency: DC/EP

July will go down in Chinese currency history as marking the first tests of the PBoC issued digital currency. The government has indeed put in place its policy of creating a virtual currency, which, at the risk of disappointing their fervent supporters, is not a copy of Bitcoin or other crypto currencies. Instead, it is a traditional style, though digital, currency, issued by the central bank with the aim of facilitating trade in yuan, and also of countering the US dollar's power. DC/EP stands for Digital Currency Electronic Payment, and the currency will be incorporated into a mobile application after having been tested in several large Chinese cities.

The yuan still has room to appreciate in 2020

Chinese currency reserves have risen slightly again, and stand at US$ 3,112 billion, in an environment characterised by slight appreciation of the yuan. In 2015, China had reduced the total amount held in its currency reserves by around US$ 4,000 billion to US$ 3,000 billion, and has since maintained them at this level, which is considered sufficient. The Chinese economy has already started a rather robust recovery, after a difficult 1st quarter, as we had expected. The PBoC seems pleased with the current pace of the economic recovery in the 2nd quarter and has seen no need to ease its monetary policy a little further.

The gap in the recovery cycle is working in favour of China, which recovered from the public health crisis a few weeks ago. Today, the yuan is benefiting from a more favourable economic climate than in most other countries and from the appeal it derives from its status as a reserve currency from being one of the currencies in the International Monetary Fund's Special Drawing Right. In this regard, it should also be underscored that it can also still benefit from investors' interest in it as the reserve currency offering the best yield of all those in the SDR.

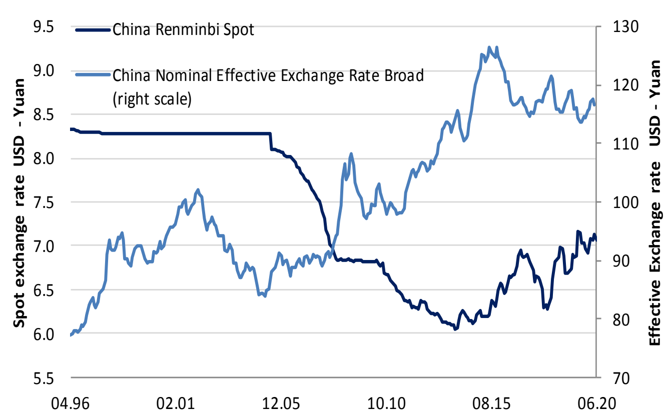
For the time being, the PBoC has managed to keep the yuan/USD exchange rate within a fluctuation band of between 6.8 and 7.2 yuan to the US dollar. It is currently in the middle of this bracket and could appreciate over the coming months, pushing back up against the 6.8 yuan to the USD mark.

The Chinese equity market is once again heading towards stock market capitalisation of 10 trillion US dollars

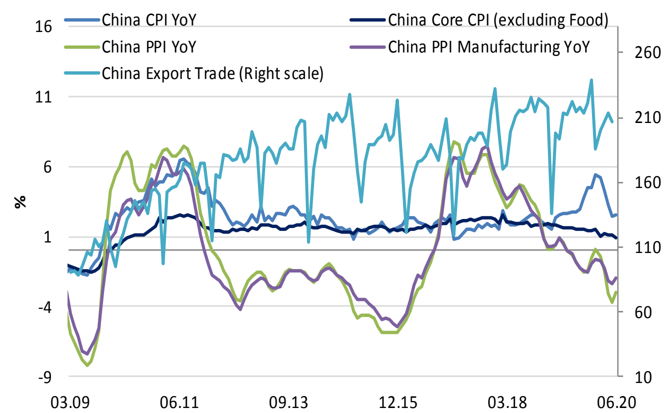
The Chinese economy contracted severely in the 1st quarter 2020, but this did not last as one might have expected. The economic recovery in the 2nd quarter seems robust and should be confirmed in the second half of the year in order to reassure us that the current situation will last. Nonetheless, in this rather difficult macroeconomic context, with the public health crisis in China seemingly not entirely under control, the recent upward trend on Chinese equities has accelerated in exceptional fashion.

After a brief bear market in March, Chinese equities have leapt +39% and have once again hit the mythical US$ 10 trillion valuation mark, a peak that they have already surpassed in yuan, with a valuation of more than 66 trillion yuan. The historic high on Chinese equities in June 2015 is on the point of being rewritten. However, it should not be forgotten that in the months that followed that high, Chinese equities dropped more than 50% due to profit taking and forced sales to rebalance portfolios that were too heavily indebted. Today, there is much less leverage in this sense than in 2015, which partially reduces the risk, but the various actors' sentiment is particularly optimistic and is certainly pushing investors to take still ill-considered risks.

Effective Exchange rate and USD/Yuan



Inflation CPI - Core CPI



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Arab Emirates

- Revised GDP Projections
- First PMI Reading in expansion territory since start of the year
- Moody's revise outlook to negative on eight UAE Banks
- Cash buyers buying Dubai properties at lowest valuations in a decade

UAE Economic Highlights

The Corona virus pandemic did not spare the UAE economy during the last quarter and its negative effects will certainly weigh on the UAE's economy in the second half of this year. The UAE economy has been hit hard by two large and reinforcing shocks. First, all seven emirate reported confirmed cases of the corona virus which led the UAE government to take strong containment measures, reinforced by fears of further contagion that led to an almost total shutdown of the UAE economy. In addition, the external shocks resulting from the global slowdown, as direct consequence of the of the pandemic, have impacted the value chain both globally and in the UAE by significantly reducing consumer demand as well as demand particularly for vital sectors of the UAE economy such as tourism, construction, hospitality and retail. During the last quarter, UAE companies continued to adjust by cutting costs with the rate of job losses accelerating to one of the quickest seen in recent history of the country.

Second, the sharp plunge in oil prices since start of the year put further pressure on the UAE economy. In fact, as major oil exporting nation, the UAE has been hit with a double whammy of much lower oil prices and significantly reduced demand for oil.

Revised GDP Projections

With global economy slipping into recession following the global pandemic, in line with other GCC oil exporting countries, the UAE economy is projected to record negative real GDP growth in 2020. According to the latest World Economic Outlook report of the International monetary fund (IMF), the real GDP in the UAE is forecast to slip to –3.50% compared to +1.30% recorded in 2019. The non-oil economy is expected to contract by 4.10 per cent in 2020 with a sharp slowdown in the second quarter before a gradual recovery through the rest of the year.

The slump in UAE's GDP growth compares however favorably with projected GDP contractions expected in advanced economies including the USA (-5.9 per cent), japan (-5.2%), the UK (-6.5%), Germany (-7.0 per cent), France (-7.2%), Italy (-9.1%), and Spain (-8.0%). Furthermore, despite the gloomy projections, the IMF has forecast a relatively strong rebound of the UAE's economy with real GDP growth of 4.6% expected in 2021.

Given the country's relatively slow economic release schedule, we expect a sharp contraction of the UAE GDP in the second and third quarter of this year before a gradual recovery towards the end of this year.

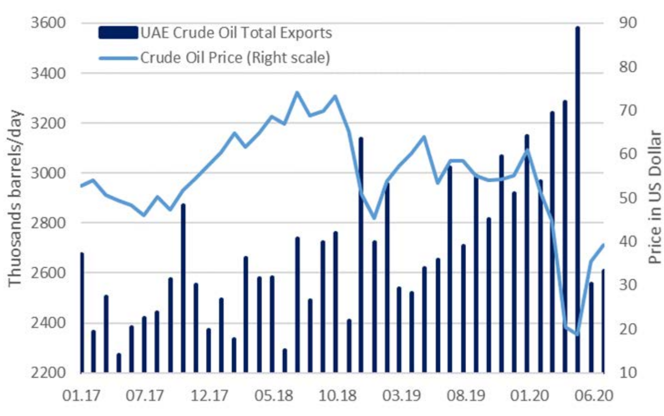
First PMI Reading in expansion territory since start of the year

The UAE was among the first countries to respond globally to COVID-19 pandemic, given its status as the business hub of the Middle East, and its exposure from hub airports and majority expat population.

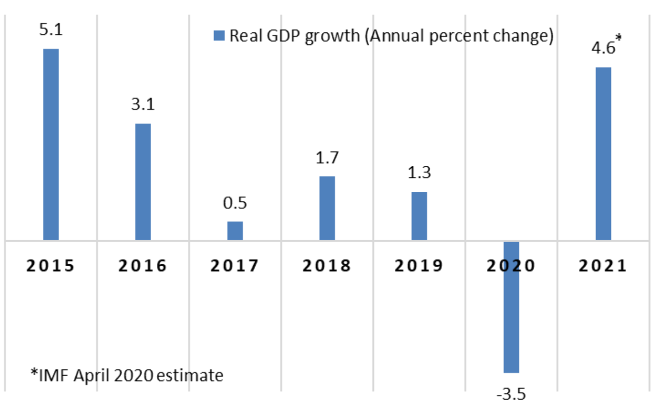
The country was also swift in implementing one of the most stringent containment policies internationally by imposing strict lockdown measures to stem the spread of the virus that was eased in late April. Abu Dhabi on its part has extended the lockdown period by banning entry and exit from the emirate despite the UAE lifting curfew on June 24.

With confinement measures being eased gradually across most Emirates, the month of April may have been the low point of the UAE's economic recession as the monthly purchasing managers index (PMI) series showed declines to record lows. The seasonally adjusted HIS Markit UAE PMI, which covers manufacturing and services, fell to 44.1 in April from 45.2 in March before rebounding to 46.7 in May and 50.4 in June, which constitutes the first reading in expansionary territory this year.

Oil Prices YTD and export volume UAE



Real GDP Growth UAE



Graph sources: Bloomberg/BearBull Global Investments/International Monetary Fund

Moody's revise outlook to negative on eight UAE Banks

On June 19th, rating agency Moody's changed its outlook to negative from stable for eight banks in the United Arab Emirates amid the coronavirus (COVID-19) outbreak. S&P analysts also highlighted that combination of factors such as low oil prices, economic impact of coronavirus on regional economies and deterioration in asset quality could weaken bank profitability in the UAE and GCC region. The eight banks are Emirates NBD, Abu Dhabi Commercial Bank, Dubai Islamic Bank, Mashreq Bank, HSBC Bank Middle East, Abu Dhabi Islamic Bank, The National Bank of Ras al-Khaimah and National Bank of Fujairah. Moody's affirmed the banks' ratings but said the change of outlook reflected "the potential material weakening in their standalone credit profiles, amid a challenging operating environment in the UAE due to the coronavirus outbreak, low oil prices and pre-existing economic challenges".

Moody's justified the revised credit outlook as direct result of expected downward pressure in profitability and loan quality due to deteriorating operating conditions resulting from low oil prices and the impact of coronavirus (COVID-19) outbreak. Both leading rating agencies have warned that economic impact of coronavirus and the low oil prices are likely to result in margin erosion and loan impairments for banks resulting in rating action.

The rating agencies expect also loan quality to be further put at test and cost of risk to increase for UAE banks weighing on their profitability over the coming 12 to 24 months. It shall be noted that these structural weaknesses within UAE and wider GCC banks are not new and in 2019 banks' asset quality indicators had already started to show signs of weakness. On the other hand, the sizable cut in interest rate is also expected to further reduce the UAE banks' net interest margin (NIMs) since gross yields earned on loans will decline more than the funding cost paid on deposits.

While GCC banks traditionally benefited from robust capital and liquidity buffers, Moody's believes all the region's banking systems credit quality exhibit vulnerabilities that are broadly in line with the relative creditworthiness of their sovereigns. Banks in Bahrain and Oman are the most vulnerable in this respect. According to Moody's analysts, Bahraini banks will face growth, profitability and potential asset-quality challenges, as well as declining liquidity levels. Omani banks, meanwhile, will experience further strain on their asset quality and profitability, exacerbating difficulties stemming from extended payment cycles. However, going forward, Moody's consider that the immediate effect of the sustained period of lower oil prices would be on the liability side of the balance sheets of UAE banks due to reduced deposit inflows from UAE government and government related entities which represent approximately a third of overall bank deposits.

Cash buyers buying Dubai properties at lowest valuations in a decade

Property sales in Dubai have increased following the easing of COVID-19 related lockdowns and social distancing measures. This enabled cash buyers to aggressively secure investment properties, some of which, priced below their intrinsic value or replacement cost.

According to a recent report published by the consultancy firm ValueStrat, cash sales transactions for the whole month of June were up by 26% compared to May. According to the Dubai Land Department (DLD), 13'590 sales transactions have taken place within the first five months of 2020 worth AED 27.8 billion dirhams (USD 7.56 Bn).

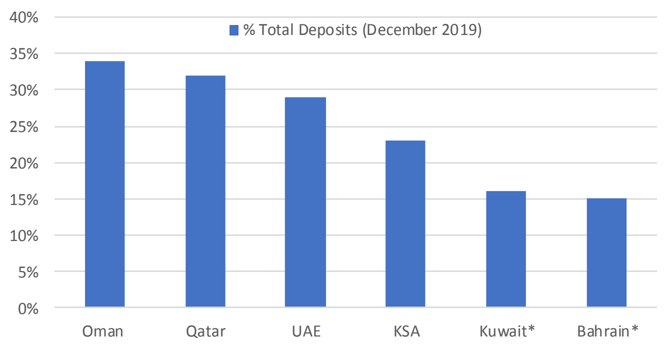
Real estate capital values in Dubai continued to soften, with prices hitting their lowest level in a decade. Plummeting real estate prices is certainly a major demand driving factor since buyers tend to favor completed properties at heavily discounted prices over off-plan properties. As of June, buyers could easily find a home for sale at less than AED 2 million (USD 544'000) with an average price per square foot of AED 881 (USD 240). The average gross yield stands at 6.39% according to property monitor.

On the supply side, despite ambitious handover plans, new supply is likely to be delayed further and fall short of earlier estimates especially given the current situation. Going forward, while we welcome the UAE Central Bank initiative early this year to ease restrictions on Loan-to-Values (LTV) for first time home buyers, we expect more government initiatives to be rolled out to increase transparency, boost confidence and ultimately provide a floor to falling property prices. We also expect developers offer ever-more aggressive more attractive payment plans to entice demand further.

In the near term, it is likely that ongoing pandemic's effects will continue put pressure on property values in the second half this year. Prolonged economic headwinds due to oil price tensions on the other hand will pose significant challenges to the local economy potentially leading to further consolidation in the job market and negatively affect property values.

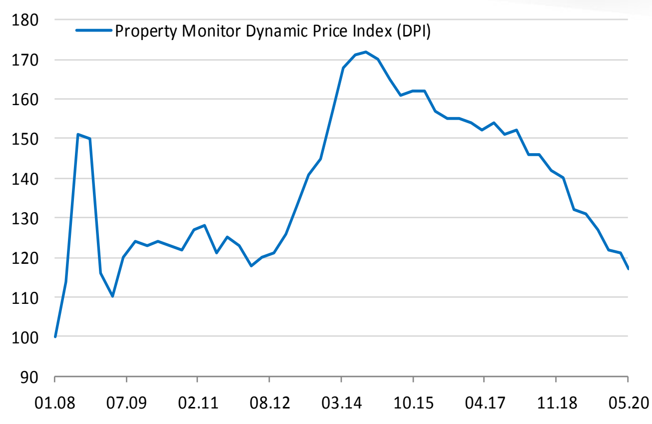
However, in the medium term, we believe that there is pent-up demand for Dubai property from both local and international investors. Falling property values and lower cost of living in Dubai could offer unique investment opportunities for sophisticated investors whom benefit from in-depth market knowledge and deal sourcing ability. Dubai is uniquely positioned to reinvent itself once again and take advantage of the current challenging environment both regionally and internationally to reinforce its position as the business and trading hub of the Middle East. Dubai like all global cities face immense challenges but 'No city exists in the present tense' wrote James Stephens in 1923, and nothing could more aptly describe Dubai.

Concentration of Government and Government Related entities' deposits in GCC Banks (% of total deposit), December 2019



(*)Data of Bahrain and Kuwait as of November 2019. For Kuwait, deposits from government-related entities such as government-owned companies with independent budgets are reported as private-sector deposits.

Dubai Property Price Index



Graph sources: Bloomberg/BearBull Global Investments/Central banks data/Property Monitor

MACROECONOMIC SCENARIO

Emerging Markets

- Widespread reductions in key rates over the quarter
- Return to positive economic growth expected as of the second half of the year

Economic situation by country

In terms of global prospects, the Covid-19 pandemic is still causing a marked slowdown in growth. In this context, despite considerable fiscal and monetary measures in the large economies and only moderate volatility on financial assets, the environment remains difficult for emerging economies.

Brazil - data published on Brazilian economic activity for the first quarter show a sharp drop in GDP since 2015 (-1.5%), revealing the first signs of the pandemic's impact. Recent indicators suggest that economic activity will contract to an even greater degree in the second quarter, and uncertainty regarding economic recovery in the second half of the year remains high. The Monetary Policy Committee believes that various inflation yardsticks come in under levels that would allow them to hit the inflation target within the relevant timeframe for monetary policy. Indeed, inflation forecasts for 2020, 2021 and 2022 collected by the Focus Survey stand at 1.6%, 3.0% and 3.5% respectively.

The current situation still calls for exceptionally strong monetary stimulation, although it is not certain how much room for manoeuvre there is left, and there is probably not much. In light of the baseline scenario, the balance of risks, and the wide range of information available, Copom decided to lower its Selic rate to 2.25%. The Committee believes that this decision reflects its baseline scenario for future inflation, as well as higher than usual uncertainty in the balance of risks, and that it is compatible with inflation heading towards its target within the relevant timeframe for monetary policy, which includes 2021. At its upcoming meetings, the Committee will continue to evaluate the impact of the pandemic, but predicts that any potential adjustment to current monetary stimulus would be supplemental.

Russia - The Bank of Russia has decided to reduce its key rate by 100 basis points to 4.50% and will look at whether it needs to drop its key rate again at its next meetings, evaluating how inflation and the health of the national economy develop particularly carefully.

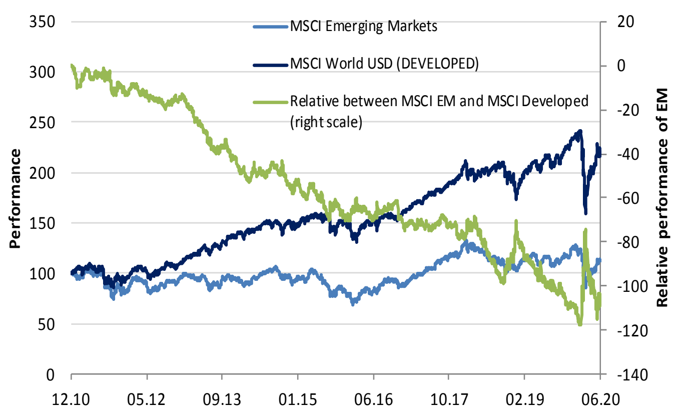
Inflation for this year and for the first half of 2021 will be particularly influenced by the sharp drop in domestic and foreign demand in the second quarter. The deflationary effect of weak demand has been fortified due to the prolonged enforcement of restrictive measures. The influence of a weaker rouble and the episodes of increased demand for certain groups of products in March are now weaker again.

According to preliminary figures, the latest annual growth rate for consumer prices stands at around 3.1%. Over the coming months, consumer price growth will be held back by the rise in the rouble in May and the beginning of June, against a backdrop of stabilising global financial markets and a rise in crude oil prices. Given current deflationary factors, there is a risk that inflation may significantly dip below the 4% target in 2021.

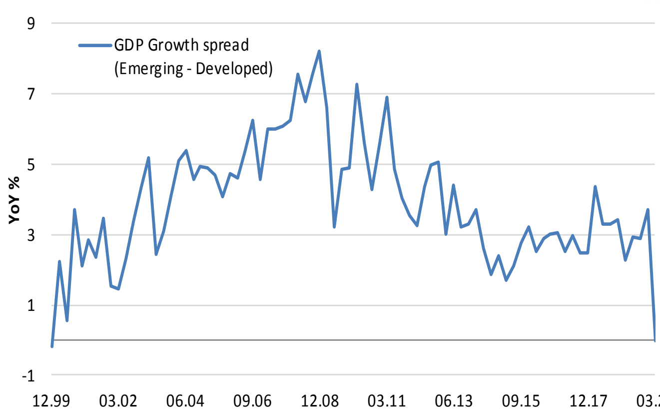
The Bank of Russia's decision regarding its key rate aims to limit this risk and keep inflation close to 4%. The downward pressure of restrictive measures on economic activity is more extensive than the Bank of Russia had previously anticipated. The services sector and manufacturing posted a significant drop in commercial activity, with a considerable contraction in the number of new orders on foreign and domestic markets, as well as a fall in investment. The gradual easing of restrictions in May and June will help spending-oriented sectors to gradually find their feet again.

However, recent surveys of such companies show a strong inclination towards caution. GDP may have contracted more in the second quarter than initially thought. At the same time, the Russian economy is supported by the supplementary measures of the Russian government and the Bank of Russia, which aim to attenuate the economic effects of the coronavirus pandemic. In these circumstances, GDP should fall to between -4% and -6% in 2020, before getting back into growth territory in 2021-2022.

Emerging and Developed Markets - Performance



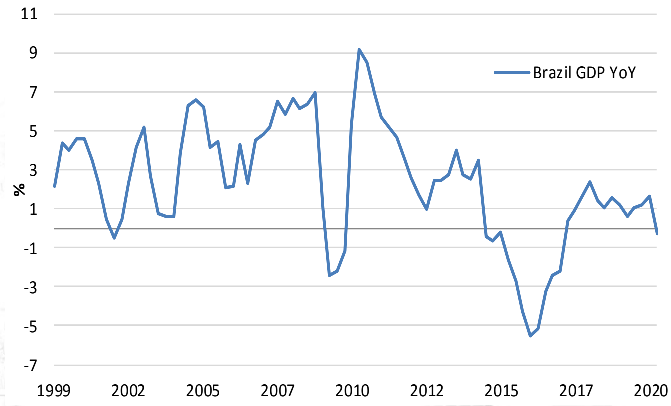
GDP Growth spread



Graph sources: Bloomberg/BearBull Global Investments

GDP (YoY) - Russia

GDP (YoY) - Brazil



India - For the time being, inflation prospects are still very uncertain. As supply lines open back up over the coming months as lockdown is gradually eased, the unexpected rise in inflation on foodstuffs in April should be tempered. The forecast of a normal monsoon is also a good omen for food inflation. Weak global prices for metals and other industrial commodities should keep input costs low for national companies. Feeble demand could keep up the pressure on baseline inflation (excluding food and fuel), although persistent disruptions in supply make short term prospects uncertain.

These factors, coupled with favourable base effects, should make their impact felt and bring global inflation back in under target in the third and fourth quarters 2020. In terms of growth prospects, economic activity excluding agriculture should remain depressed in the first half of 2020 due to the extension of lockdown. Economic activity should start to recover in the third quarter and then accelerate in the fourth quarter, as supply lines gradually get back to normal and demand gradually recovers. For the year as a whole, there is even greater uncertainty regarding how long the pandemic will last and how long social distancing measures will likely be kept in place.

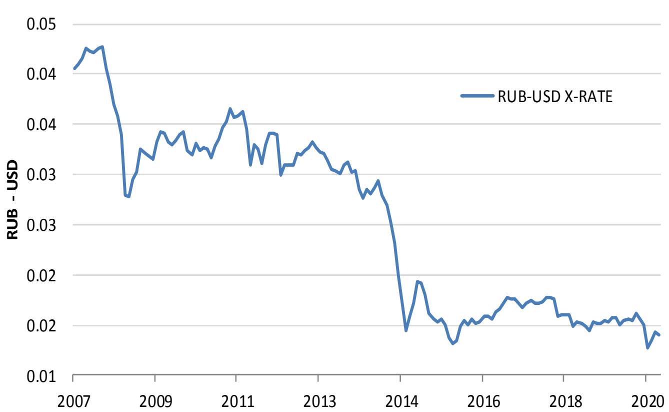
As such, risks of a slowdown in domestic growth remain high. However, upward drivers of growth could be triggered if the pandemic is contained and social distancing measures are lifted sooner than expected. The Monetary Policy Committee is of the opinion that the macroeconomic impact of the pandemic is turning out to be more serious than initially expected, and that various sectors of the economy are being subjected to extreme stress. The impact of the shock has been aggravated by interruptions to supply and the squeeze on demand interacting with each other. As various measures put in place by the government and the Central Bank aim to attenuate the negative impact of the pandemic on the economy, financial conditions need to be eased further.

The political room for manoeuvre in responding to growth concerns must be used as quickly as possible to shore up the economy, whilst also leaving space to bolster the recovery in economic activity when it materialises.The Central Bank decided to reduce its key reverse repo rate from 4.40% to 4.0%. It has also decided to maintain its expansionary position for as long as needed to revitalise growth and mitigate the impact of Covid-19 on the economy, whilst also ensuring that inflation remains within +/-2% of its 4% target.

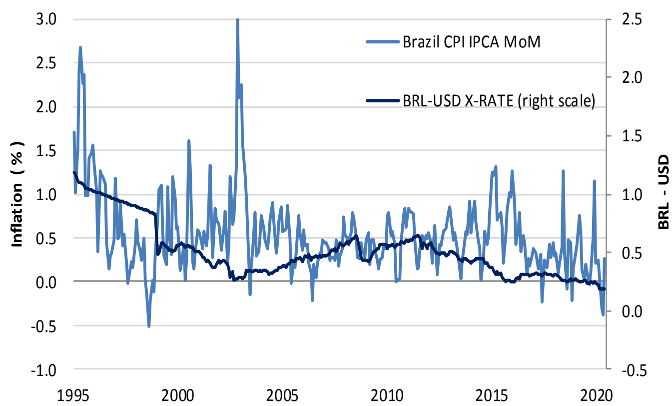
South Africa - The Central Bank is currently predicting a 7.0% contraction of GDP in 2020, compared to its 6.1% forecast in April. Even if the lockdown is eased over the coming months, investment, exports and imports should drop off significantly across the year as a whole. The easing of restrictions will bolster growth in the short-term and certain high frequency economic activity indicators are already showing a spending recovery. However, it will take time to get back to pre-pandemic activity levels. GDP is expected to rise by 3.8% in 2021 and 2.9% in 2022.

The South African Central Bank is forecasting consumer price inflation of 3.4% for 2020 and 4.4% in 2021 and 2022. Currently, the global risks affecting inflation prospects seem to be ebbing, but less noticeably compared to March and April. Inflation of production prices and foodstuffs seems to have hit its lowest point. Crude oil prices remain low, but have recovered somewhat. Inflation risks linked to monetary depreciation should remain low and their impact should be slow. However, the price of electricity and other administered prices are still concerning. In this context, the Committee decided to reduce the reverse repo rate by 50 basis points, bringing it to 3.75%. The trajectory of key rates over the forecast period generated by the quarterly projection model predicts two 25 basis point reductions in the key rate over the next two quarters of 2020. Monetary policy can ease financial conditions and improve households' and businesses' resilience to the economic implications of Covid-19. Other than seeking to relax interest rates, the Central Bank has eased the regulatory requirements on banks and taken sweeping measures to guarantee sufficient liquidity on national markets. These measures aim to free up more capital for financial institutions' loans to households and companies. However, monetary policy alone cannot improve potential economic growth rates or reduce budgetary risks. These need to be remedied by putting in place prudent macroeconomic policy and structural reforms that generally reduce costs and increase investment opportunities, growth potential, and job creation. Such measures will further reduce the constraints that are currently affecting monetary policy and its transmission to the economy as a whole.

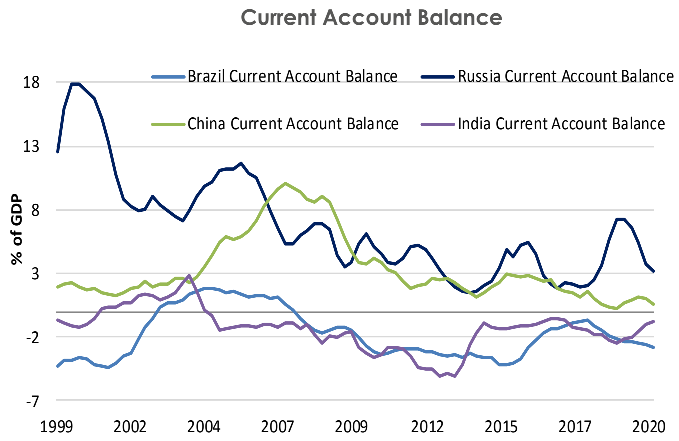
Ruble VS USD

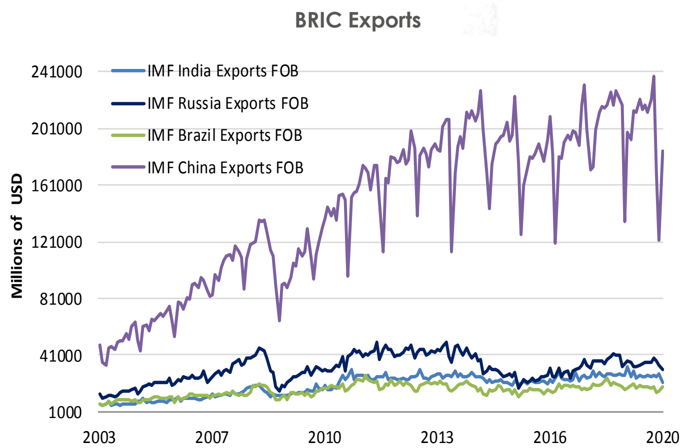


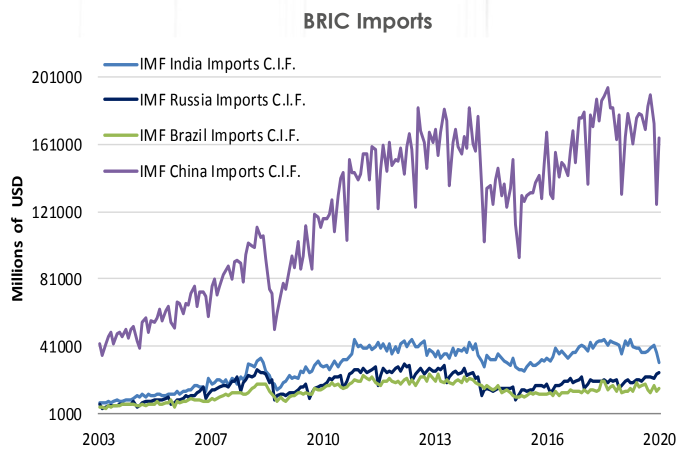
Inflation and Exchange rates



Graph sources: Bloomberg/BearBull Global Investments







Colombia - The board members of Colombia's Bank of the Republic have highlighted the reduction in inflation across all of its indicators. The variation in the CPI fell below the target (2.85%), while the indicator for inflation excluding food dropped off sharply (1.84%). Inflation forecasts for the end of this year put inflation at even lower levels.

The board members considered that monetary policy direction could give an extra boost to economic activity without compromising the inflation target, the financing of the current account deficit, or the macroeconomic balance.

The board took a majority decision to reduce the benchmark interest rate by -0.25% to 2.5%. This decision takes into consideration the fact that, in light of the current rate of real intervention, the room for manoeuvre of monetary policy must be recalibrated as new information is collected from macroeconomic and financial variables in order to prevent dangerous imbalances in the economy in the long-term.

Graph sources: Bloomberg/BearBull Global Investments

Mexico - Mexico's Central Bank lowered its key interest rate for the ninth time running on 25th June 2020, reducing it by 50 basis points to 5.0% as the market had expected, bringing borrowing costs to their lowest level since November 2016. Political decision makers underlined the significant impact of the coronavirus pandemic on production activity as well as developments to the financial impact, but noted that inflation is still close to its target for the end of 2020.

Indonesia - The Bank of Indonesia dropped its key interest rate for the third time this year; it was lowered by 25 basis points to 4.25% on 18th June 2020, in line with market forecasts. The Central Bank believes there is room for further rate drops and that the timing will depend on the global situation and the need to keep the Indonesian rupee stable. GDP is expected to contract in the second quarter 2020, while recent developments have shown that the pressure is starting to ease. The economy should contract by between 0.9% and 1.9% in 2020 and grow by between 5% and 6% in 2021.

Taiwan - Taiwan's Central Bank kept its key rate at 1.125% on 18th June 2020, whereas the market had forecast a 12.5 basis point drop. With the national epidemic under control, and fiscal and monetary easing starting to bear their fruit, the Taiwanese economic system has stayed on the right track overall. Despite significant uncertainty regarding global economic prospects, domestic demand should push the economy towards a slight recovery. Furthermore, the weakening of inflationary forecasts should be temporary, and prices should stabilise in the second half of the year.

Turkey - The Turkish Central Bank left its key rate at 8.25% at its latest meeting in June, surprising markets, which had forecast a 25 basis point drop. This confirms that the rise in costs due to the pandemic has led to some increase in base inflation indicators, despite the restrictive effects of global demand conditions. Political decision makers have also stated that the deflationary effects linked to demand will recur more frequently over the second half of the year as normalisation continues. Activity should continue to find its feet, while the forecast bounce back in exports and low prices for commodities will prop up the current account balance over the coming periods.

Romania, Czech Republic, Poland, Hungary - Romania's Central Bank lowered its benchmark interest rate by 25 basis points, to 1.75%, bringing borrowing costs to their lowest level since December 2017. In light of the high levels of uncertainty surrounding economic and financial developments, the board of the Romanian Central Bank has upheld its decision to suspend the calendar of monetary policy meetings that had previously been announced; monetary policy meetings will be organised as and when necessary.

The Czech Central Bank left its key rate unchanged at 0.25% as expected, after having lowered it by 75 basis points at each of the previous two meetings.

The Polish National Bank left its key rate at the record level of 0.1%, in line with market expectations, following three consecutive reductions in March. In May, the year on year inflation rate dropped to 2.9%, heading towards the medium-term target of 2.5% set by the central bank.

The Hungarian Central Bank dropped its key rate by 15 basis points, to a historic low (0.75%), surprising markets which were expecting no change. This decision comes after the annual inflation rate hit its lowest level for more than two years (2.2%), coming in under the 3% target.

PROSPECTS AND STRATEGIES

Graph sources: Bloomberg/BearBull Global Investments

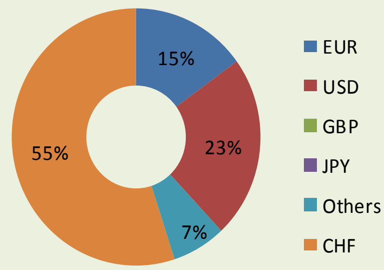
PROSPECTS AND STRATEGIES

Currencies

- Probable weakening of the franc after the health crisis
- The euro may well benefit from the European recovery plan
- The dollar remains the preferred currency
- The yuan may still appreciate in 2020

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↗	↗							
USD vs JPY	↗	↗							
GBP vs USD	↘	↘							

Currency allocation - CHF portfolio



Tactical Allocation

- Underweight CHF
- Favor USD, AUD and CAD
- Take back exposure in euros
- Avoid JPY and GBP

Probable weakening of the franc after the health crisis

Unlike other central banks, the SNB kept a relatively low profile during the Covid-19 crisis. The Swiss franc only marginally appreciated against the dollar and the euro. However, it is mainly thanks to the stability of its monetary policy and its discretion that the SNB set itself apart from other central banks. While the ECB, the Fed and the BOJ flooded financial markets with fresh money and a string of shock announcements, the SNB increased its overnight domestic deposits from 500 to 594 billion without any spectacular announcement and increased its currency reserves from 763 to 816 billion. The SNB did not change key rates during the crisis, and there was no new monetary strategy inspired by the asset purchase programmes initiated by the other central banks. Clearly and unsurprisingly, the SNB's monetary policy, which aims to hinder any appreciation of the franc against the euro, has thus not changed. Shifts in US key and long-term rates have reduced further still the yield spread on which the SNB has based its weakening strategy for the franc and slightly disrupted its policy.

The end of the crisis is likely to be conducive to a weakening of the franc. Indeed, if we consider that the strength of the franc likely results from its safe haven status during the recent period of greater financial market turbulence and economic uncertainty, a gradual return to normal in Q3 is likely to reduce external demand for our currency. Moreover, the prospects for economic recovery in Switzerland in H2 could prove to be lower than those of the Eurozone and the US in particular and thus weigh on the value of the franc against the euro and the dollar.

The euro may well benefit from the European recovery plan

The euro appreciated by +7% against the yen, +5% against the dollar, +2.5% against the pound sterling and finally +3% against the Swiss franc (1.05 to 1.09) at the end of May, before sliding back to 1.0650. The start of deconfinement in the Eurozone is somewhat favourable to the European currency, which could benefit from a faster return of consumption in Q3. But Above all, the European currency could benefit from the pooling of debt in Europe and the recovery plan of EUR 1,800 billion. France and Germany already announced their support for the recovery plan on 18 May, but the plan still has to be accepted by net contributor countries such as Austria, the Netherlands, Denmark and Sweden, which will likely be reluctant to increase their net contributions. Germany's approval is, however, the clearest step towards building a more fiscally unified Europe, a major step for the European Union and for the euro. German Chancellor Angela Merkel seems to have convinced the German Constitutional Court to reverse its decision to counter the ambitious project she is pursuing with Emmanuel Macron to pool European debt.

The outline of the future recovery plan is certainly still far from established, and negotiators will undoubtedly need a few more weeks of intense work to reach a consensus agreeable to all 27 member states. Nevertheless, it could well be a very important step for the credibility of the EU and for the euro. A strengthening of the euro against the Swiss franc and the dollar seems likely in this context.

The dollar remains the preferred currency

The dollar is no longer supported by a short-term interest rate differential in its favour since the two monetary policy changes implemented by the Federal Reserve in March. On the long end of the yield curve, somewhat of a spread in its favour remains, particularly on ten-year Treasury yields (0.7%), which remain significantly higher than the yields observed on government bonds in euros, francs or yen, for example. However, it retains its role as a safe haven in periods of uncertainty, particularly when published economic statistics prove to be poor or uncertain. In recent weeks, the start of the deconfinement process in the US, the improvement in leading indicators and the rebound in employment have been factors supporting risk taking.

Improved sentiment and better economic figures have therefore tended to penalise the dollar, while risks of a new confinement and a second wave of contagion have tended to favour the greenback. The economic and health environment in the US remains uncertain and, in this context, caution could still benefit the dollar. The dollar's weighted exchange rate is likely to rebound and approach 99-100 again, while the US currency is likely to depreciate against the euro and appreciate slightly against the franc.

Graph sources: Bloomberg/BearBull Global Investments

Stabilisation of the pound sterling

The GBP to USD exchange rate has not seemed particularly penalised by the drop in yield differentials since the Q1. In the last four weeks, the pound has even appreciated temporarily by +5% against the US dollar, remaining stable against the euro and the Swiss franc. The UK's economy has nevertheless been heavily hit by the current crisis, and prospects of a recovery are no better than in other countries. The British pound is not backed by a favourable economic environment and is thus likely to be affected by the ongoing risks of a no-deal Brexit.

Depreciation of yen to continue

The volatility of the JPY/USD exchange rate rebounded sharply during the financial crisis in March. First, the yen benefitted from a 'safe-haven' effect, appreciating by almost +10% against the dollar from 112 to 102 yen before returning to its previous equilibrium level at the end of the month. Since the start of the year, the yen has ultimately remained relatively stable at around 107 yen to the dollar. During the Covid-19 crisis, the yield spread between dollar and yen short-term rates narrowed dramatically. The nominal rate spread favourable to the dollar at the start of the year has thus disappeared, thereby reducing the positive impact of this factor on the outlook for a weaker yen. Nevertheless, Japan's economy still needs a weaker yen to increase the competitiveness of its exports sector, hampered by the global health crisis. We have not changed our outlook for the yen, which remains fundamentally bearish for 2020.

A weak yen remains an essential condition for Japan's activity to pick up and inflation to recover. The stability of Japan's currency since the start of the year against the US dollar is likely to be followed by a decline in the near future.

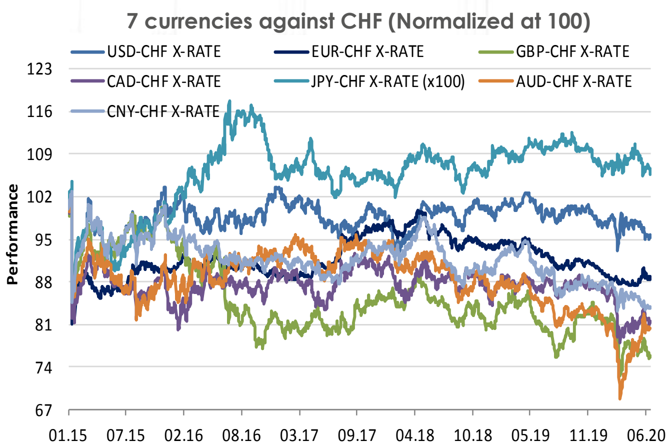
The yuan may still appreciate in 2020

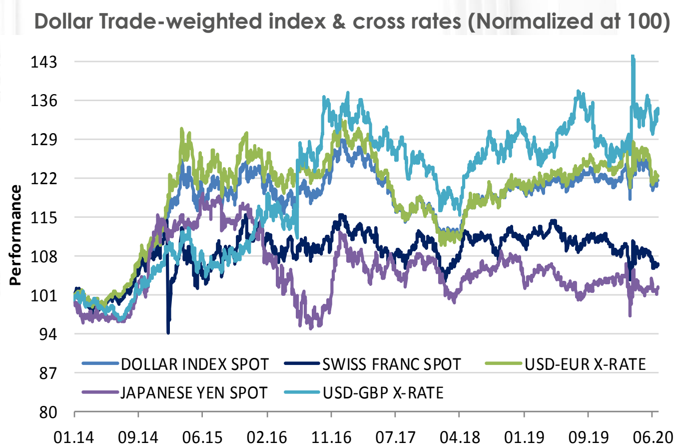
China's foreign exchange reserves increased a little further to USD 3,112 billion in an environment characterised by a slight appreciation of the Chinese currency. China had reduced the total amount of its foreign currency reserves in 2015 from around USD 4,000 billion to 3,000 billion and then maintained this level as adequate.

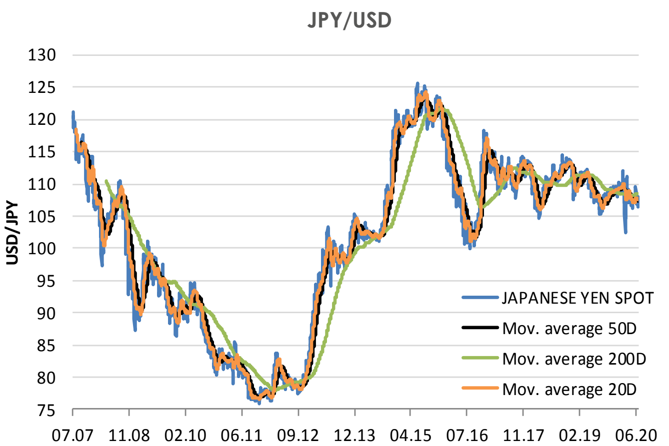
China's economy is already in a rather solid recovery phase after a difficult Q1 in line with our expectations. The PBoC seems satisfied with the current pace of economic recovery in Q2 and did not see any need to ease its monetary policy any further. The lag in the recovery cycle is favourable to China, which has been recovering from the health crisis for several weeks.

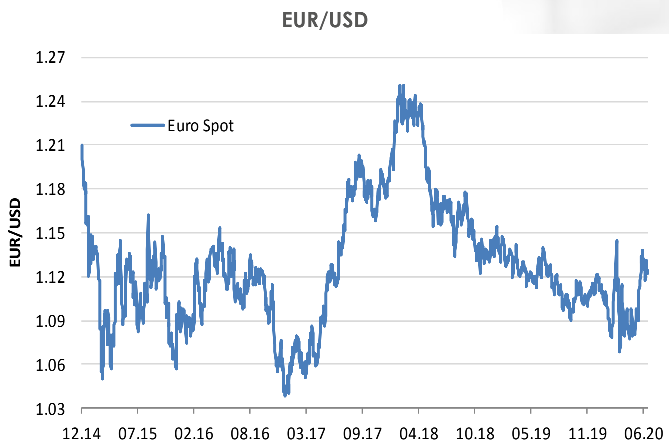
The yuan is now benefiting from a more favourable economic climate than most other countries and from the appeal of its status as a reserve currency, since the Chinese currency is part of the International Monetary Fund's Special Drawing Rights. In this respect, it should also be noted that it may also benefit from investors' interest in the reserve currency offering the best return among SDR currencies.

For the time being, the PBoC has managed to keep the yuan/USD exchange rate within a fluctuation band of between 6.8 and 7.2 yuan per dollar. The exchange rate is currently at the centre of this fluctuation range and may well appreciate in the coming months by returning to test the 6.8 yuan/USD level.









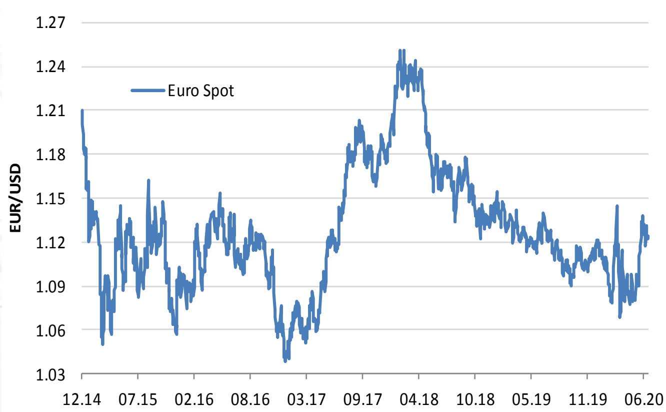
Graph sources: Bloomberg/BearBull Global Investments

CURRENCIES

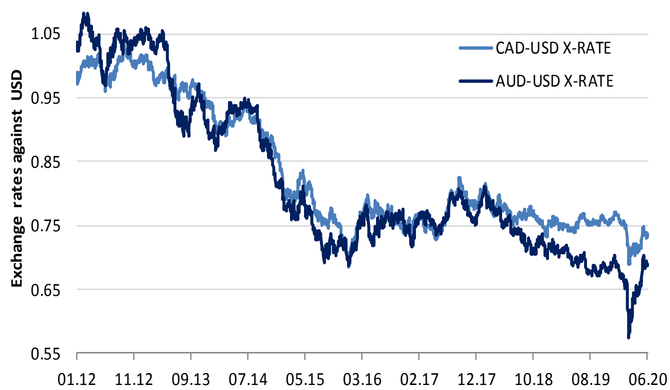
30.06.2020

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.1	-0.7	1.2	1.8	0.2	0.2
CHF-USD X-RATE	1.1	-0.3	1.5	1.5	2.2	2.2
GBP-USD X-RATE	1.2	-1.0	0.5	-0.2	-6.5	-6.5
JPY-USD X-RATE	0.0	-1.3	-0.1	-0.4	0.7	0.7
CAD-USD X-RATE	0.7	-0.2	1.5	3.6	-4.3	-4.3
AUD-USD X-RATE	0.7	-0.4	3.5	12.6	-1.7	-1.7
RUB-USD X-RATE	0.0	-3.4	-1.5	10.3	-12.9	-12.9
CNY-USD X-RATE	0.1	-0.1	1.0	0.2	-1.4	-1.4
INR-USD X-RATE	0.0	0.1	-0.1	-0.3	-5.7	-5.7
BRL-USD X-RATE	0.2	-5.7	-2.3	-4.7	-26.4	-26.4
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.9	0.3	-1.5	-1.4	-2.0	-2.0
EUR-CHF X-RATE	1.1	-0.4	-0.3	0.4	-2.0	-2.0
GBP-CHF X-RATE	1.2	-0.7	-1.0	-1.6	-8.4	-8.4
JPY-CHF X-RATE (x100)	0.9	-1.0	-1.6	-1.8	-1.5	-1.5
CAD-CHF X-RATE	0.7	0.1	0.0	2.1	-6.3	-6.3
AUD-CHF X-RATE	0.7	-0.1	2.0	11.0	-3.5	-3.5
RUB-CHF X-RATE	0.0	-3.1	-3.0	8.7	-14.7	-14.7
CNY-CHF X-RATE	0.1	0.1	-0.4	-1.2	-3.5	-3.5
INR-CHF X-RATE	0.0	0.0	-1.6	-2.3	-8.1	-8.1
BRL-CHF X-RATE	0.2	-5.5	-3.9	-6.5	-28.2	-28.2

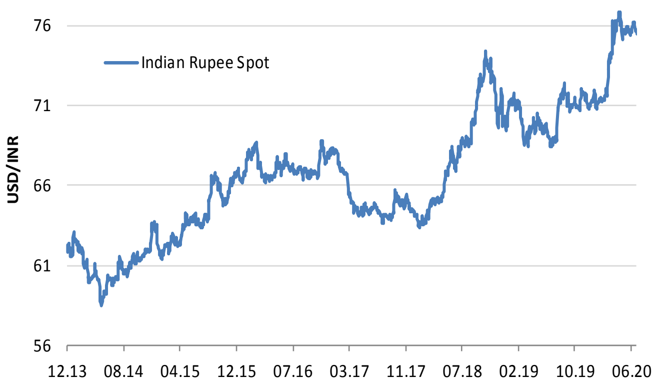
EUR/CHF - USD/CHF



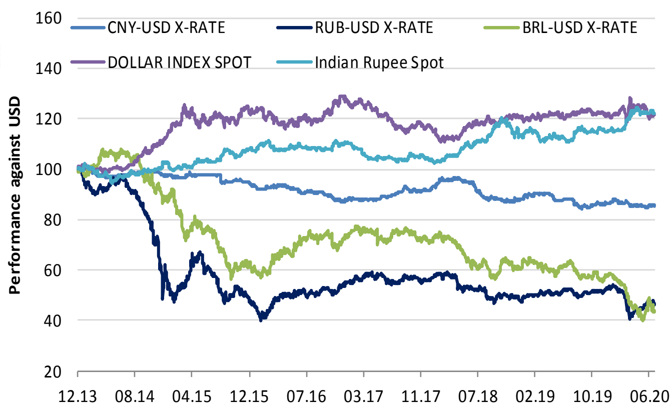
CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)

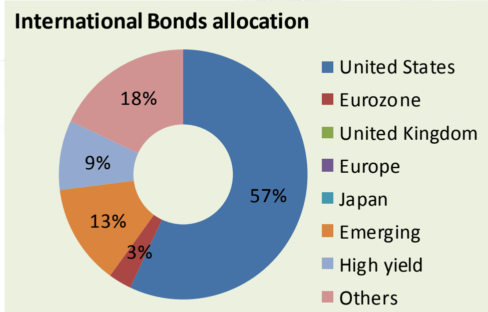


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Bonds

- Dead calm in interest rates
- No more volatility in US rates
- ECB is on every front to keep rates low
- Towards an institutionalisation of yield curve control?



Tactical Allocation

- Marginalize allocation to the eurozone
- Overweight US bonds
- Repositioning on segments "Corporate"
- Reduce exposure to high yield and emerging

BONDS (Areas/currency)	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Switzerland	→	↘							
United States	→	↘							
Eurozone	→	↘							
UK	→	↘							
Europe	→	↘							
Japan	→	↘							
Emerging	→	→							
Other (AUD, CAD, NOK...)	→	→							

Dead calm in interest rates

Interest rate markets remained particularly stable during the quarter and showed very little response to economic statistics and reports on the evolution of the pandemic. In most industrialised countries, growth prospects changed little during the quarter and logically still pointed towards a severe recession. Uncertainty during the quarter therefore mainly concerned the extent of the recession in various countries, but this did not have a greater impact on yields than was already the case at the height of the financial crisis in March. The bond purchase programmes formulated and implemented by the main central banks are largely responsible for the dead calm observed in the dollar, euro and yen markets especially. In the US, ten-year rates have hardly fluctuated, remaining between 0.6% and 0.75% for the past three months. German federal government rates have fluctuated a little more around an average yield of -0.45%. In Japan, long rates were even more stable, fluctuating mainly between 0% and 0.05%. The dead calm of recent months is likely to continue under the influence of regular and targeted action by the central banks.

No more volatility in US rates

Since the end of March, dollar interest rates have been completely under the control of the Federal Reserve, which has been particularly effective in steering its action to keep US Treasury yields at the desired levels. Ten-year Treasury yields have remained virtually unchanged for the past three months at 0.65%, and the ten-day volatility of Treasury yields has fallen sharply since its March 16 high. US rates will no longer react to the growing budget deficit, as the Fed seems determined to keep yields under its control. They may also no longer react to improving economic conditions and a resumption of growth in the coming months. Dollar rates, although very low, remain higher than rates in euros, yen and Swiss francs across the yield curve. This positive yield differential should ensure an inflow of capital in favour of the dollar and the US bond market. International investors looking for diversification and yield should therefore still favour the US.

ECB is on every front to keep rates low

The European Central Bank surprised observers by announcing in March the urgent implementation of a new EUR 750 billion support plan called PEPP for Pandemic Emergency Purchase Programme. The ECB has since, as we expected, increased the size of its asset purchase programme by 600 billion for a total of EUR 1,350 billion at this time. It will therefore see its balance sheet increase by almost 30%, exceeding EUR 6,000 billion by 2021.

Graph sources: Bloomberg/BearBull Global Investments

The size of the PEPP is considerable for the European Union. The ECB is thus clearly signalling its support for the European economy in the face of the Covid-19 crisis. On the other hand, the ECB has not changed its key rates, although it has broadened its support for the economy by further easing its monetary policy. The time horizon for net asset purchases has been extended to the end of June 2021, but it is likely that the ECB Governing Council will have to extend and maintain its expansionary policy beyond 2021 and for as long as necessary. The ECB's action therefore represents just under 15% of the aggregate GDP (EUR 9,691 billion) of the Eurozone's 19 member countries, a considerable amount that will have lasting effects on financial markets. The ECB already holds a significant portion of European sovereign debt and is injecting EUR 20 billion per month. The Covid-19 crisis has considerably increased the financing needs of European states already this year, but European government debt issuance is expected to continue to grow significantly in 2021. The ECB's government debt purchases will therefore follow the evolution of these needs and will certainly increase beyond the amounts mentioned above, all the more so as the ECB will also have to broaden its support programme by revising its allocation rules and the universe of eligible debt.

BOND INDICES (local currency)

30.06.2020

	Name	Last price	Curr.	Total Return Performance 7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	140.0	CHF	0.4	0.2	2.2	-0.5	-0.5
UE BONDS	Barclays EuroAgg	267.9	EUR	0.3	1.0	2.4	1.2	1.2
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	143.8	EUR	0.0	0.2	0.2	-0.3	-0.3
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2361.5	USD	0.3	0.6	2.9	6.1	6.1
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.6	USD	0.0	0.7	4.4	1.2	1.2
EMERGING BONDS	JPMorgan Emerging Markets Bond	591.8	USD	-0.2	3.5	12.9	-2.6	-2.6
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	526.9	USD	-0.4	0.9	3.3	3.0	3.0
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	267.9	EUR	0.3	1.0	2.4	1.2	1.2
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	155.5	CHF	0.3	0.7	6.3	0.5	0.5
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	8077.9	EUR	-0.3	1.3	6.5	-1.4	-1.4
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	148.3	USD	-1.4	1.2	10.5	-5.0	-5.0
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	14.3	USD	-1.0	0.9	10.0	-2.1	-2.1

1) Short & Medium-term (1-5 years)
2) Emerging Bonds (Corporate)
3) Emerging Bonds - Eastern Europe

For example, the ECB already bought 100% of the new bonds issued by the Italian government in April and May (approximately EUR 50 billion), which has helped stabilise the yields on Italian debt. The ECB has thus already taken some liberties given the urgency of the crisis by buying more Italian debt than allowed by its rules, to the detriment of Germany in particular. While the ECB has already purchased around EUR 300 billion worth of government bonds under the PEPP, it has also acquired nearly EUR 220 billion worth of bonds issued by companies such as Airbus, Danone and Schneider since November 2019 and will continue to do so. In the medium term, the yield curve in Europe will therefore certainly remain under the control of the ECB, which has sufficient capacity to act to prevent a rise in interest rates that would be logically demanded by the market in the new context of massive fiscal expansion linked to the Covid-19 crisis. Euro yields are therefore likely to remain low, and existing risk premiums between euro area countries may well be further reduced if the EU's recovery plan to pool part of government debt is accepted.

Risks of a steepening ECB-controlled yield curve

Euro yields had initially plunged at the height of the stock market panic in March before rebounding sharply, including on German debt, when the economic support to businesses and households announced by governments raised fears of an increase in the indebtedness of European states. Since the announcement of the ECB's PEPP, it has become clear that a rise in government debt ratios would not cause a significant increase in the yield required by investors. Indeed, the ECB's action has been clearly interpreted as an action to stabilise at low levels relative and absolute yields among the various Eurozone countries.

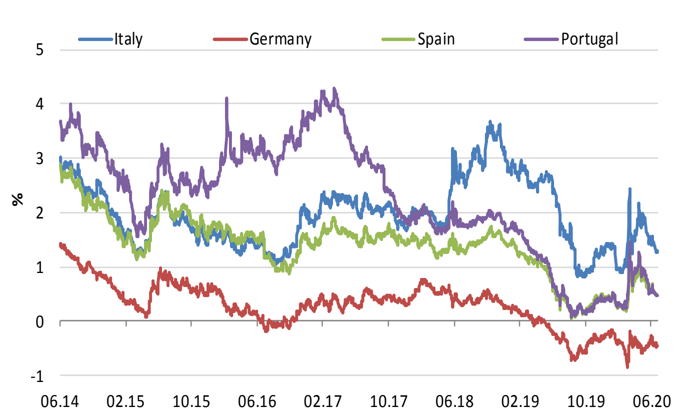
First issuance of negative-yielding government bonds in pounds

UK inflation dropped to its lowest level in four years in May. The consumer price index for the month of May posted its weakest 12-month progression (+0.5). The drop in energy prices was a determining factor. This element, which occurred in the context of a sharp contraction of GDP, will certainly give the BOE a little more leeway. In this economic environment, the British government was able to issue its first negative-yielding bond in May. At the height of the pandemic, the government issued GBP 3.8 billion in short-term bonds (2023) at a yield of -0.003%. The UK thus joins the closed circle of countries that can issue negative-yielding debt, this despite the high degree of uncertainty regarding the country's political and economic future. Given the magnitude of the budget deficit following government interventions in the fight against the devastating economic effects of Covid-19, the government is forced to borrow to finance its rising deficits. The UK government's ten-year yields have remained relatively stable and close to zero for three months, except for a short stressful period in March, which was marked by some very high volatility on sterling yields, temporarily bouncing from 0.2% to 0.8% before stabilising once again at 0.2% in June. At these levels, we believe capital markets in British pounds are still rather unattractive. The risks of holding GBP bonds seem sufficiently significant in this context to avoid taking positions in this market. In this uncertain context, we recommend international investors avoid any exposure to capital markets in GBP and position themselves in other bond segments.

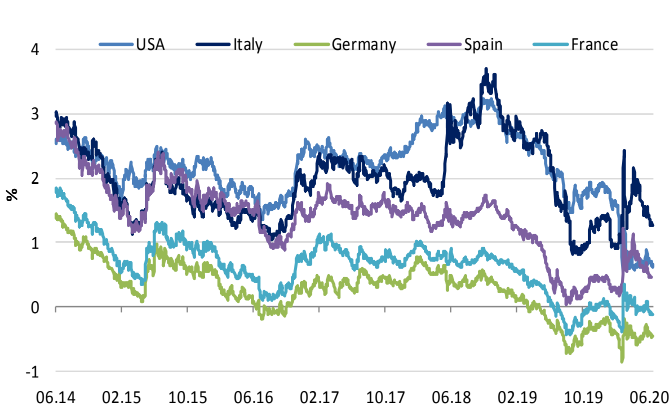
BOJ unlikely to change current policy

The Bank of Japan decided to act to try and quell the wave of panic that also affected Japan's financial markets in March by announcing it would double its purchases of Japanese equity index ETFs, increasing the sum earmarked for these purchases to JPY 13 trillion, i.e. USD 112 billion per year. After this first measure, the BOJ also announced it would increase its corporate debt purchases by JPY 2 trillion until September as well as collateralised loans by JPY 8 trillion. In the last few months, the BOJ has purchased government bonds without limit, extended its ETF purchase programme to include REITs, and launched a lending programme for a total value of USD 700 billion. During this period, improved sentiment and rising equity markets drove long-term interest rates slightly upwards, pushing them to their highest level since April 2019. The BOJ is unlikely to consider this progression as liable to hinder its objectives. The Bank's action has helped stabilise financial markets and avoid additional deterioration in confidence, already undermined by the health crisis.

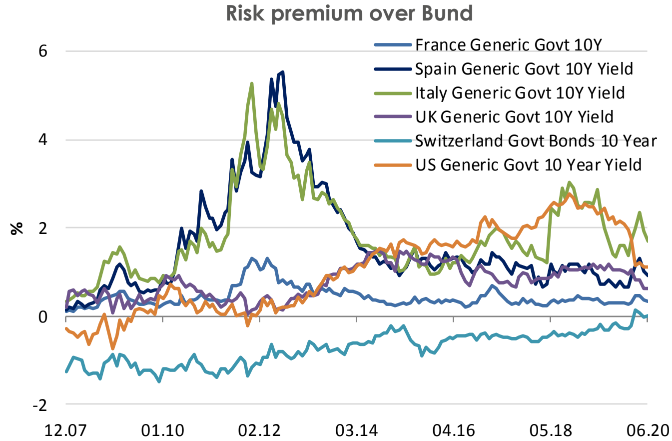
European Bonds (10 year yield)



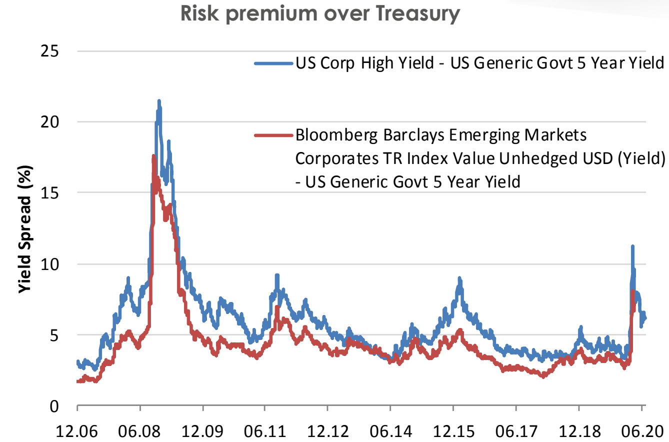
10 year yield



Risk premium over Bund



Risk premium over Treasury



Graph sources: Bloomberg/BearBull Global Investments

Towards an institutionalisation of yield curve control?

Will the new monetary policy standard for central banks involve the introduction of a systematic policy of controlling interest rates across the entire yield curve? The asset purchase programmes introduced by the main central banks several years ago were already aimed at controlling long rates, in addition to their traditional policies of steering short rates using key rates. However, this strategy was limited in time and scope by the stated objectives and limits of the asset purchase programmes.

With the current boom in government fiscal policies, however, central banks have been forced to react very vigorously in recent weeks with massive increases in their capacity to act and exceptionally broad new debt purchase plans, causing their balance sheets to grow extraordinarily in just a few months. From now on, they may have to maintain this policy over the long term by institutionalising their long-term interest rate management in their strategy.

The boom in government debt to deal with the Covid-19 crisis clearly appears to be a major new long-term risk in the event of a rise in interest rates. It could indeed have very damaging consequences for governments' financial stability and credibility and the confidence of their creditors. Consequently, central banks will probably have to add to their monetary policy objectives the steering of long-term rates and, more broadly, of the yield curve as a whole. This would logically imply the continuation of the current upward trend in central bank balance sheets.

Among the expected effects of the systematisation of rate control over the entire yield curve, we should mention the possible disappearance of any reaction to any form of resumption of inflation or deterioration in public finances. In the euro area, this type of policy is likely to remain limited as long as the European Court of Justice requires the ECB to limit its asset purchase programmes to 33% of outstanding public debt.

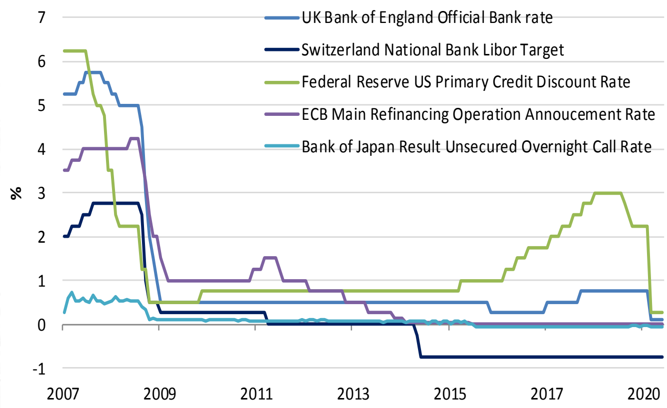
However, in Japan, the central bank already seems to be following such a policy without naming it, and it cannot be ruled out that other central banks may also be tempted to implement a similar form of yield curve control. The US could certainly be a credible candidate.

Bond investment strategy

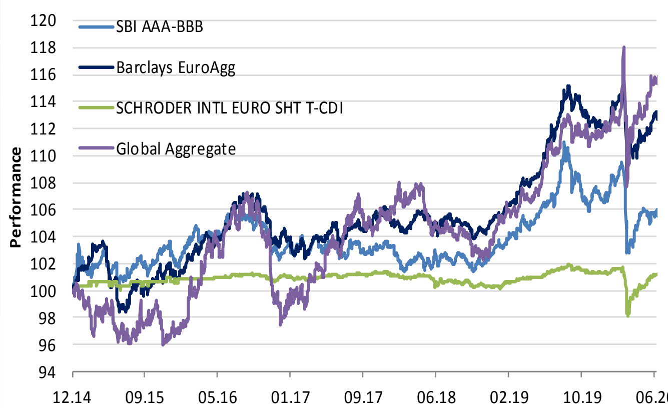
The current situation in the capital markets has become even more complex since central banks have taken drastic measures to support the financing needs of governments. For several weeks now, we have been witnessing the implementation of an institutionalisation of what can be considered as a monetisation of government debt.

The consequence of this policy may be the maintenance of low rates across all yield curves and thus indirectly a global environment characterised by the absence of yield, or even negative yields in a growing number of interest rate markets. The risk of a rise in interest rates is now low in the medium term, but investment opportunities are reduced and mainly involve less secure debtors. Within the group of countries with an investment grade rating, the US offers a low but positive return and is likely to keep attracting capital from the Eurozone and Japan. Opportunities have also diminished in the corporate segments since the publication of our strategy in April, when we mentioned investor interest in this due to the attractive positive risk premiums. This is no longer the case.

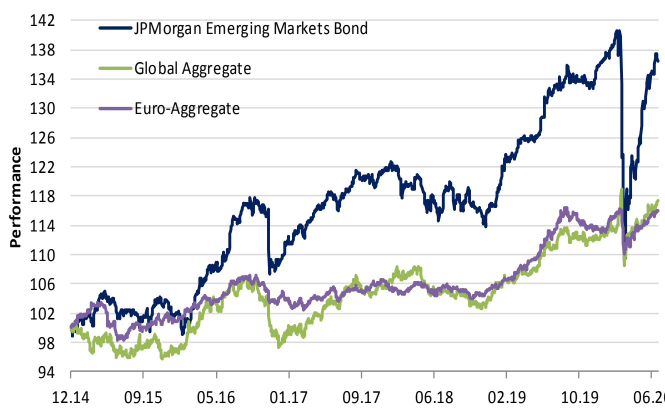
Central Bank rates (EUR, CHF, GBP, USD, JPY)



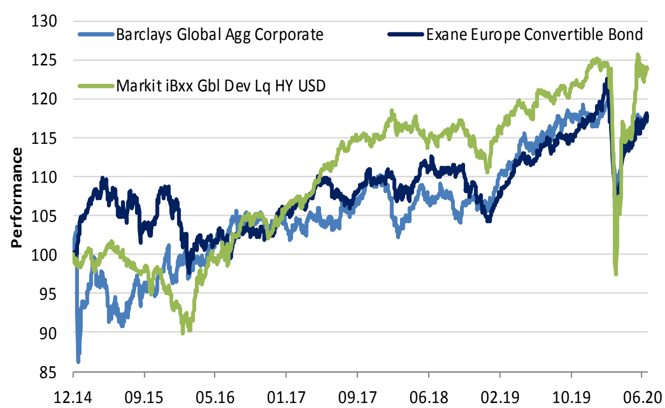
YTD Performance of Bond Indices 1- 5 years (Normalized at 100)



Emerging Bonds - Performance (Normalized at 100)



Eastern Europe Bonds - Performance (Normalized at 100)



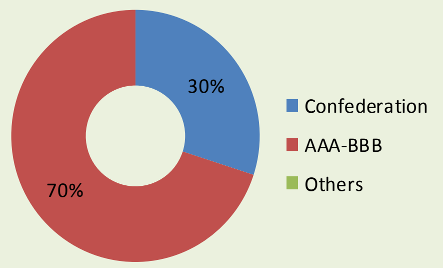
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Bonds

- Perspective reversal for Swiss rates
- There will be no debt monetisation in Switzerland
- Swiss franc investment opportunities disappearing fast

Swiss Bonds allocation



BONDS Type of Debtor	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Governement	↘	↘							
Corporate (IG)	↗	↗							
Others	↘	↘							

Tactical Allocation

- Underweight Swiss Government Bonds
- Overweight the "IG" segment
- Short durations

Perspective reversal for Swiss rates

The first half of the year will have been characterised by a complete change in growth expectations and outlook for long-term rates. The development of the health crisis in China into a global pandemic triggered a drop in government yields and a rise in risk premiums for other issuers during the financial panic in March, a trend that has nevertheless weakened significantly since then. The economic context going forward is likely to once again trigger changes in expectations and drive new increases in long-term yields. Long-term rates in Switzerland do not have the benefit of a central bank asset purchase programme. Prices will thus not be driven by central bank demand and will be determined only by economic prospects and institutional and private investment demand. After an initial deflationary phase, we cannot exclude a rise in inflation and in the Swiss government's long-term rates above zero in the medium term.

There will be no debt monetisation in Switzerland

The Swiss franc capital market will likely continue to be an exception among developed markets. It has already been influenced since 2015 by a monetary policy aimed at preventing an appreciation of the franc and thus by negative key rates of -0.75% impacting the entire yield curve. It will probably remain an exception in the general trend of monetary policy changes taking place in the Eurozone, the US, Japan and the UK, particularly through the increasingly intense development of government debt purchase programmes. In Switzerland, the SNB's action is focused on managing the euro/Swiss franc exchange rate, which is the driving force behind the increase in its balance sheet.

Therefore, perhaps in contrast to countries wishing to more closely manage the yield curve, in Switzerland the capital market could remain flexible and free to take into account macroeconomic data without the influence of central bank policy.

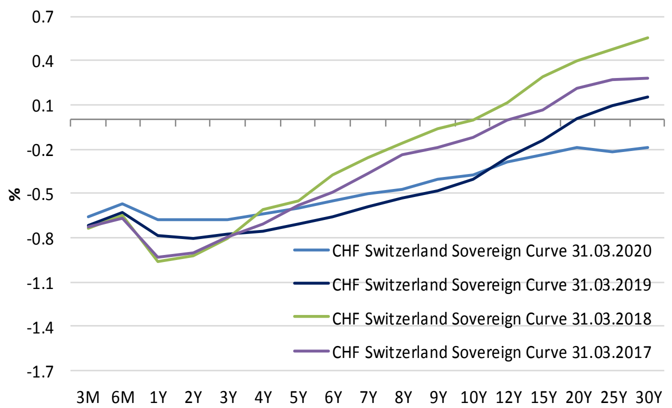
Swiss franc investment opportunities disappearing fast

A few weeks ago, we wrote with satisfaction about the reconstitution of risk premiums observable in the Swiss franc capital market, particularly in the BBB and non-investment grade segments. Indeed, the increase in yields following the stock market panic in March had boosted risk premiums by around 200 basis points. Even though the yields of AAA-rated issuers also rose by 0.5%, the expansion of risk premiums once again reached the attractive threshold of 150-175 basis points. The phenomenon deserved attention in the context of the temporary crisis we were anticipating at the time.

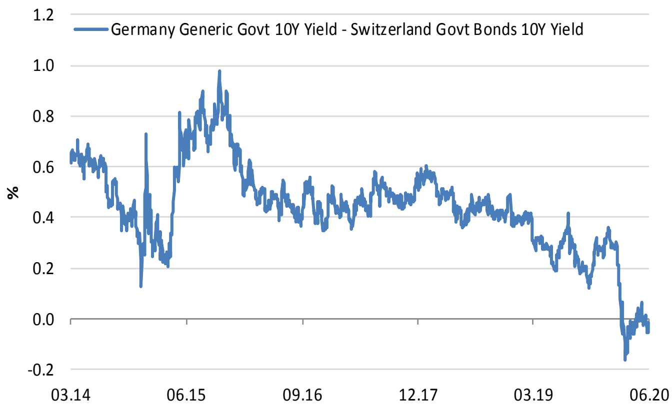
The improvement in the stock market climate during Q2 quickly deflated these premiums by attracting new investors to the segments concerned. Yields on Swiss government bonds remained stable during this period, e.g. 10-year government bond yields fluctuated slightly around -0.35%, while yields on corporate bonds fell again.

The BBB investment grade segment benefitted substantially from this trend and saw its average yield fall from 2.12% in March to just 0.84% at the end of the quarter. Risk premiums' margin for contraction seems to us to be low at this level.

Switzerland Sovereign Yield Curve

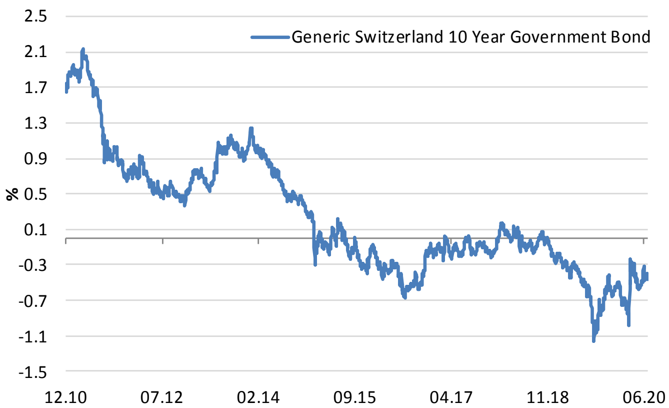


Long rates Yield Spread (German Bund - Swiss Confederation)

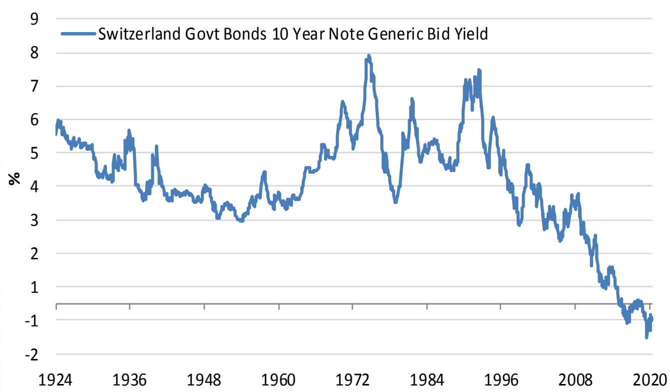


Graph sources: Bloomberg/BearBull Global Investments

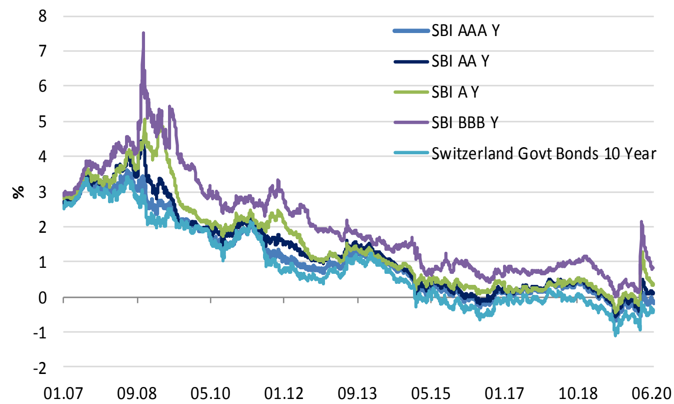
Switzerland Government Bond yield (10 year)



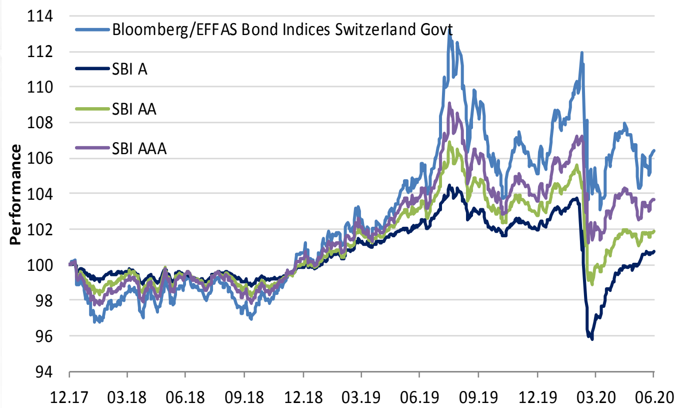
Switzerland Government Bond yield (10 year) since 1924



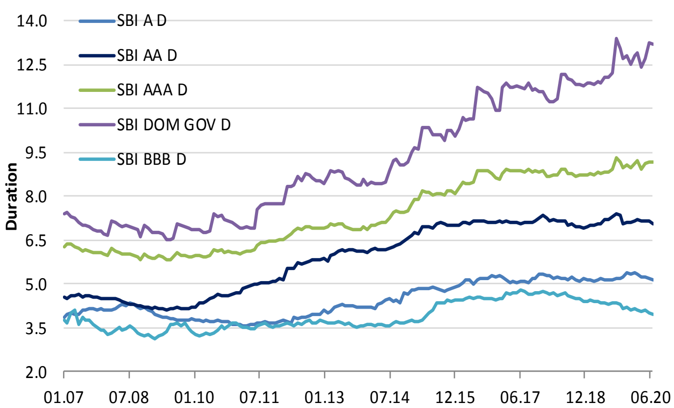
Yield by debtor type



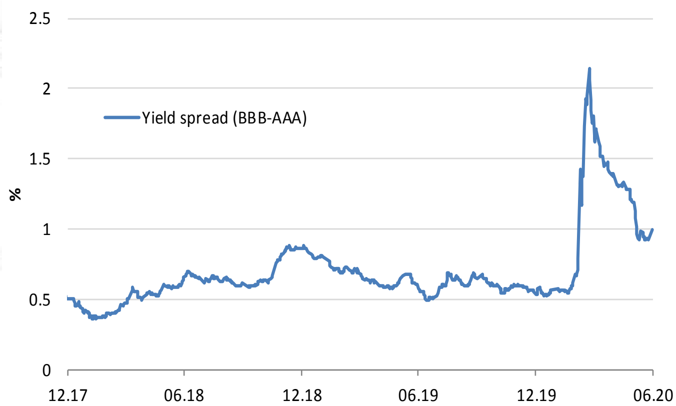
Performance of Swiss Bonds (Normalized at 100)



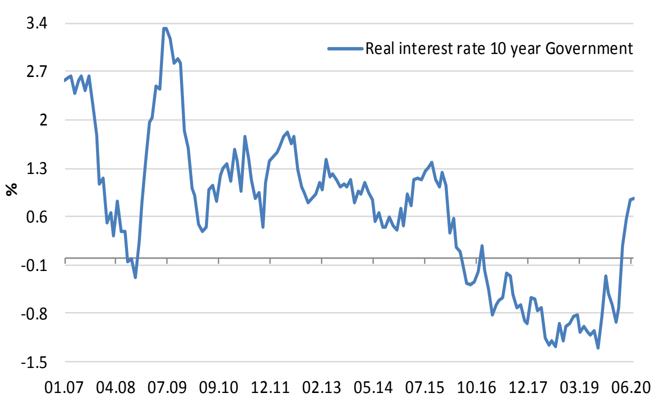
Duration of Bond Indices



Yield spread



Real Interest Rates



SWISS BOND INDICES (CHF)

30.06.2020

			Total Return Performance				
N° ISIN	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	1.0	CHF	-99.6	-99.6	-99.6	-99.6	-99.6
SBI A-BBB	137.6	CHF	0.1	0.7	3.5	-1.5	-1.5
SBI AA-BBB	136.7	CHF	0.2	0.4	2.7	-1.2	-1.2
SBI AAA-AA	140.2	CHF	0.5	0.0	1.7	-0.2	-0.2
SBI BBB	149.9	CHF	0.0	0.8	3.3	-1.8	-1.8
SBI AAA-BBB	140.0	CHF	0.4	0.2	2.2	-0.5	-0.5
SBI DOM GOV AAA-BBB 1-3P	65.7	CHF	0.0	-0.3	-0.7	-1.7	-1.7
SBI DOM GOV AAA-BBB 3-7P	84.7	CHF	0.2	-0.2	-0.1	-1.3	-1.3
SBI DOM GOV AAA-BBB 7+ P	136.8	CHF	1.7	-0.6	2.3	1.3	1.3

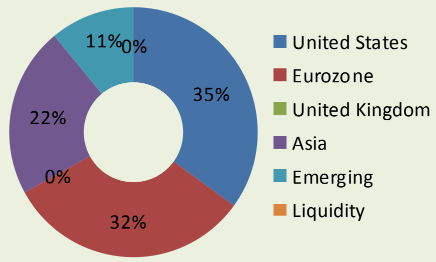
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Real Estate

- Limited reaction of securitised real estate in Q2
- Arbitrage opportunities persist in the medium term
- Increase in flow of funds to the real estate sector
- Still one of the best diversification options

International Real Estate allocation



Tactical Allocation

- Maintain international real estate exposure
- Reduce Europe to the benefit of the United States

REAL ESTATE Areas	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↗	↗							
United States	↗	↗							
Eurozone	↗	↗							
United Kingdom	↗	↗							
Asia	↗	↗							
Emergents	↗	↗							
Liquidity									

Limited reaction of securitised real estate in Q2

The end of Q1 was particularly tough for international securitised real estate, which ended up succumbing to growing concerns and investor sell-offs, falling even more sharply than equity markets. Indeed, international securitised real estate indices had collapsed by -28.5% at the end of March, a much sharper correction than the -21% drop in international equity indices. Unfortunately, the improvement in the investment climate was not enough to restore the relative performance of international real estate compared to equities in Q2. While the rally in equity markets was rapidly taking hold, securitised real estate investments were struggling to regain positive momentum.

The +9.9% rebound in the EPRA NAREIT World Index proved to be half as strong as that observed in equity markets (+19.3%). Relative performance therefore de facto deteriorated during the quarter, as the six-month performance of real estate was still sharply down (-21.4%), while equities were down barely -5.7%. Investor interest has therefore not yet focused significantly on this asset class, whose regional performances were fairly homogeneous over the quarter in question. Rebounds in Europe (+10.3%) and the US (+11.6%) were the most significant, while markets in Asia (+8.4%), emerging countries (+6.3%) and the United Kingdom (+4.8%) made only small relative recoveries.

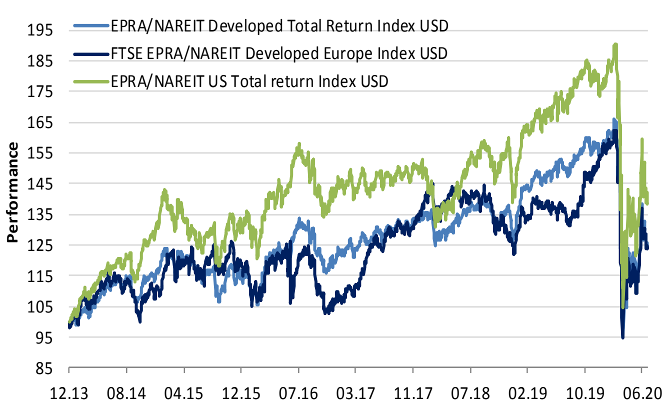
Securitised real estate therefore recorded the worst performance biannual among the main asset classes, with relatively narrowly dispersed results of -21.4% for the overall index, with the European markets being the least penalised (-17.6%) and the UK market the hardest hit (-24%).

The reaction of real estate indices was therefore rather limited in Q2, while financing costs were lowered in most countries across the yield curve, which should be a favourable factor both for the valuation of real estate investments and for the prospects of diversification and higher returns than those obtained in capital markets.

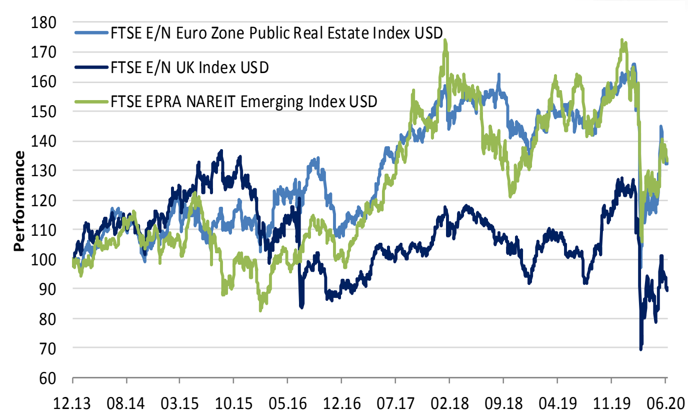
Arbitrage opportunities persist in the medium term

While equity markets seem to have already reached a price appreciation threshold, international securitised real estate still seems to us to be suffering from persistent uncertainty about the sustainability of rents and profitability. The rise in equity markets was supported by a logical and rational revaluation of stock prices after the panic in March as it became possible to better understand the risks of recession and the possible effects on corporate profits for 2020 and 2021. It was also supported subsequently by the abundant injections of liquidity by central banks that found their way to the financial markets.

EPRA Nareit - USA, Europe, Global (USD)



EPRA Nareit - Eurozone, United Kingdom, Emerging (USD)



Graph sources: Bloomberg/BearBull Global Investments

However, international real estate has not yet benefited from these factors and is perhaps still unfairly affected by competition from equities and, above all, by the continuing uncertainty regarding the ability of tenants to pay rent in a recession. Looking beyond the current quarter, it seems unlikely to us that the health crisis and its temporary economic effects could have a major impact on all revenues linked to real estate markets. We believe that arbitrage opportunities are still intact in the medium term and expect securitised real estate to out perform in the second half of the year.

Central banks are injecting trillions that will also favour real estate

The impact of Covid-19 on the global economy will likely have maxed out in Q2, while the massive injections of cash and the decline in financing costs will have visible positive effects on the resumption of growth in the coming months in most countries and will revive momentum in the real estate sector for a time, which was slowed or even halted by the containment measures in particular. Over the next few quarters, the liquidity factor will make a strong comeback, and deconfinement will revive real estate activity. Nearly USD 10 trillion will flow into the global economy, the multiplier effects of which will certainly be favourable to direct real estate and international securitised real estate investments.

No need to fear a remake of 2008 for international real estate

While the global recession seemed to be the first logical consequence of the Covid-19 crisis in Q1, the impact on the real estate sector remained to be determined. A lasting recession would have a very negative impact on the demand for real estate and the prices of listed securities. A rapid recession with only limited effects on the real investment power of households and companies would, on the other hand, have only a limited impact. While Q2 2020 appears likely to see the worst of the economic shock, it is also quite possible that the recovery is already underway and will continue normally at a sustained pace over the next few quarters. The worst seems therefore to be over, and we do not believe it makes sense to fear that consequences in 2020 will be similar to those observed in 2008 after the subprime crisis. The temporary nature of the current crisis will also be offset by the massive support measures put in place, which have already begun to produce their effects on the economic recovery. In this environment, we believe that property prices are likely to stabilise, although current conditions and in particular the likely temporary nature of the crisis should not lead to forced sales and significant declines in value.

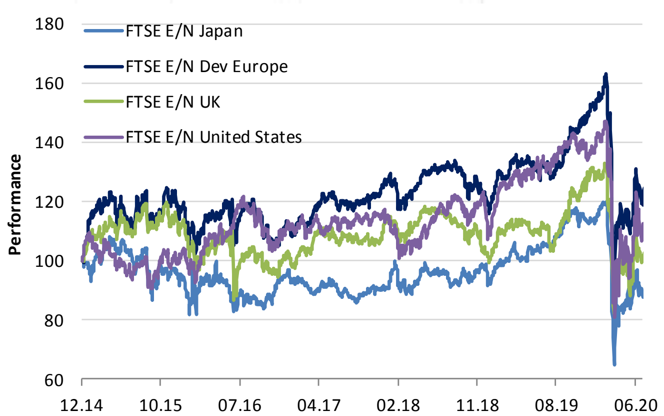
The most likely scenario now is that the economic shock is over and that governments will support consumption and mortgage financing for individuals especially.

Increase in flow of funds into real estate

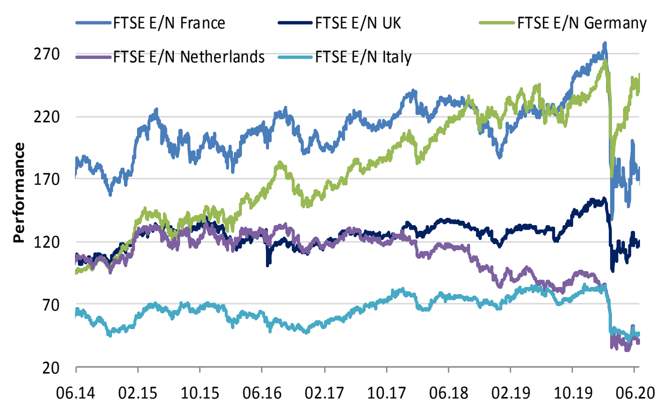
After likely falling victim to asset reallocations to risk-free investments such as government bonds and cash in March, we believe that securitised real estate is likely to benefit more broadly from the improved investment climate. While investors initially favoured equities, which may have been more clearly undervalued due to the stock market panic, securitised real estate is likely to regain favour in a second phase. In terms of valuation and risk, securitised real estate now seems to be well placed in comparison with bonds and equities.

Falling bond yields, now close to zero, leave little room for a continuation of the trend, and on the equities side, high valuation levels at around 25x earnings do not encourage risk taking either. The shift in positions and asset allocations away from fixed-income investments and towards indirect real estate investments will quickly resume and intensify over the next few weeks. The fall in the prices of these investments has also widened the yield differential vis-à-vis bond yields.

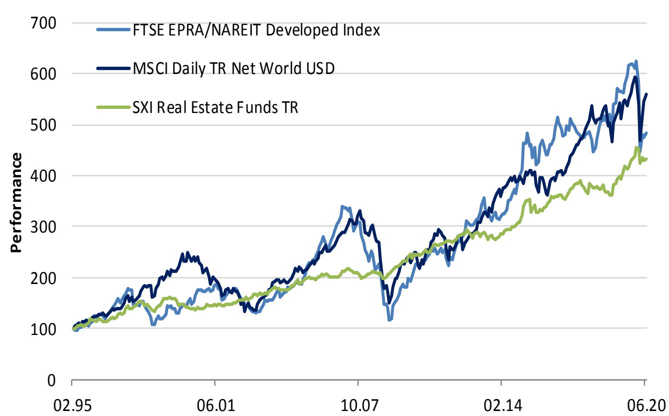
Real estate markets (local currency)



European real estate markets (local currency)



Long-term Performance : international real estate, swiss real estate and international equities (local currency)



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.06.2020				Total Return Performance				
ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2475.9	USD	-1.8	3.1	10.2	-21.1	-21.1
DEVELOPED	EPRA/NAREIT Dev TR USD	4620.5	USD	-1.6	2.7	10.3	-20.9	-20.9
DEVELOPED EUROPE	FTSE E/N Dev Europe	1921.8	EUR	-2.3	1.0	6.4	-21.2	-21.2
EUROZONE	FTSE E/N Euro Zone	2202.3	EUR	-2.1	2.9	10.3	-17.6	-17.6
USA	FTSE E/N United States	2512.6	USD	-0.4	3.3	11.7	-20.7	-20.7
DEVELOPED ASIA	FTSE E/N Dev Asia	1356.9	EUR	-2.4	0.8	6.1	-20.6	-20.6

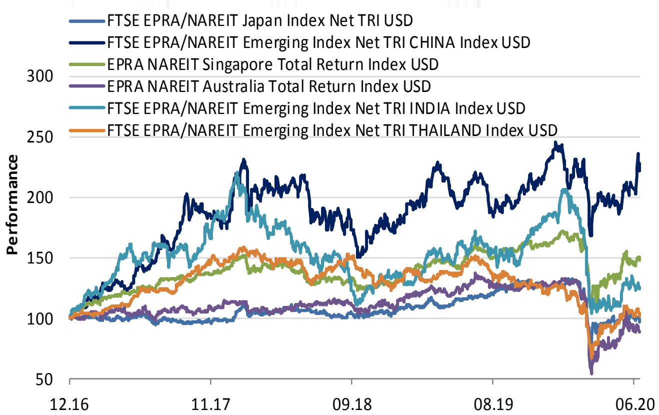
Graph sources: Bloomberg/BearBull Global Investments

International real estate still one of the best diversification options

Securitised real estate certainly rebounded in Q2, but as mentioned above, the rise in prices still seems to us to be timid compared to the increases in value observed in other asset classes. In the absence of a lasting recession, the profitability of real estate investments still seems favourable to us at this time. The emergence of teleworking will undoubtedly have some effect on future demand for office space, but we do not believe that a radical change in corporate behaviour is likely to occur quickly. Household incomes have been affected by rising unemployment in the US, but in Europe, social measures have helped to limit redundancies. The ability of households to acquire property is therefore certainly not fundamentally challenged by the few weeks of contraction in supply.

At current price levels, we suggest resuming an overweight tactical allocation after what we believe were unjustified corrections in the prices of indirect real estate investments in Q1. International real estate investments were unfairly penalised during this wave of widespread panic that hit all asset classes. The performance of real estate investments will not be affected by the Covid-19 crisis, and the global economic recession is expected to be only temporary as it is in fact only due to political decisions to implement partial or full lockdowns in certain countries. The 2020 crisis is not due to a real estate crisis, so it will not have similar effects on direct and indirect real estate prices. The flow of funds that strategically shifted from bonds to indirect real estate has no reason to stop.

Real estate markets (USD)



On the contrary, it should quickly resume to take advantage of the current more favourable conditions. In terms of tactical positioning, we favour the real estate markets of countries or regions that can count on the action of powerful central banks and the commitment of governments with sufficient means to implement effective fiscal and budgetary measures. Our regional allocation therefore favours the US and continental Europe.

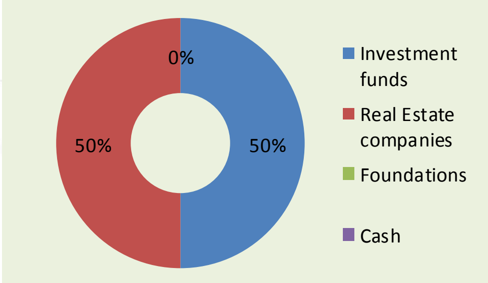
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Wide disparity in performance of securitised real estate
- Net adjustment of real estate company premiums
- Attractive returns and limited risks

Swiss Real Estate allocation



REAL ESTATE Switzerland	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Investment funds	↗	↗							
Real Estate companies	↗	↗↗							
Foundations	↗	↗							
Cash									

Tactical Allocation

- Repositioning on investment funds
- Overweight listed real estate companies

Wide disparity in performance of securitised real estate

While Swiss real estate investment funds and real estate companies collapsed together during the stock market panic in March, falling by -21% and -27% respectively, only investment funds have since experienced a very significant rebound. The +13.7% increase in investment funds contrasts with the limited +7% rebound in real estate companies. The latter are still down -16% since the beginning of the year and -24.7% since their peak on 25 February. The disparity in performance is therefore very significant, since investment funds are down only slightly this year (-3.3%), losing -10.5% since their valuation high in February. At the end of Q1, we recommended taking advantage of the investment opportunities that presented themselves in the investment fund segment. After highlighting the irrational movements in prices and premiums prior to this period of correction and valuation adjustment, we therefore recommended in mid-March a repositioning on Swiss real estate investment funds as a more reasonable diversification option due to the premium and price corrections, while at the same time suggesting a more wait-and-see stance regarding real estate companies. Today, premiums have risen again as prices have risen, but we still see investment funds as a diversification opportunity.

Net adjustment of real estate company premiums

The rebound in investment fund prices mainly occurred before the end of March, so that during the quarter the SXI Real Estate Funds TR index remained surprisingly stable, hovering just around a central value of 420. The average real estate investment fund premium therefore did not rise sharply, moving from 25% to 26.5% over the period, and now lies slightly above its historical average of 15-20%. The fall in premiums was more marked in the real estate company sector, falling from 50% in February to 22.8% at the end of March and 12.6% in June.

Attractive returns and limited risks

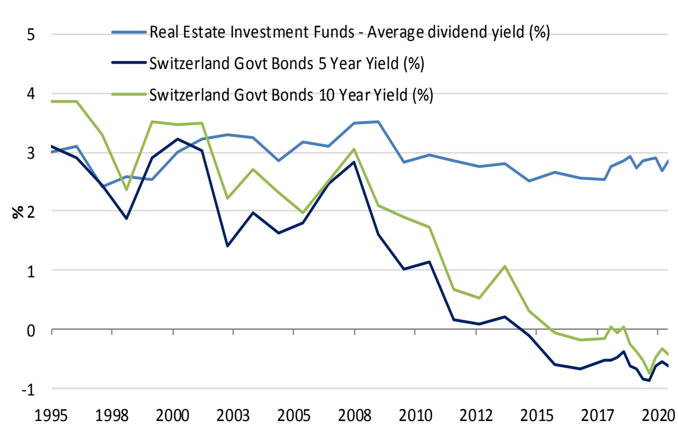
The direct return on real estate investment funds is still attractive and averages +2.9%, while the return on real estate companies averages +3.7%. While the Swiss real estate market could have suffered considerably in the absence of effective management of the health crisis in our country, it now seems that the management of this crisis and the support and accompanying measures taken by the Federal Council have limited the negative effects on the sector. In this new, less pessimistic context, it should however be noted that the consequences of the teleworking episode of the last few months will be significant for the office real estate market. This segment of the market will suffer in the future from a probable trend towards a reduction in the office space required by companies. We believe that current levels are still attractive for sustainable diversification in Swiss securitised real estate.

SWISS REAL ESTATE

30.06.2020 — Total Return Performance

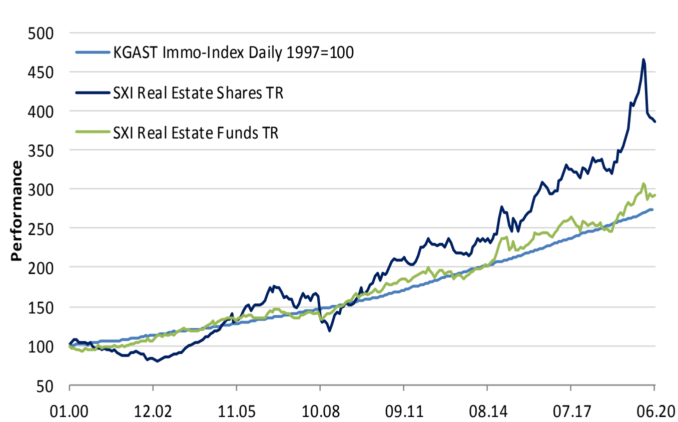
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	429.1	2.8	0.3	1.9	-1.6	-1.6
SXI Real Estate Idx TR	2883.4	-0.7	-0.9	-2.8	-11.9	-11.9
KGAST Immo-Index	307.6				2.3	2.3

Government and Real Estate Yield



Graph sources: Bloomberg/BearBull Global Investments

Performance of Swiss Real Estate

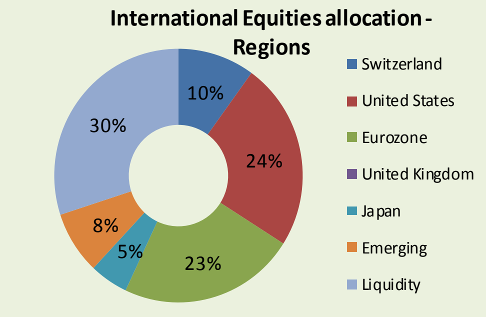


BearBull Global Investments Group

PROSPECTS AND STRATEGIES

International Equities - Regions

- Beware, complacency returns to equity markets
- High valuation of US equities
- Relatively more attractive equities in Europe



Tactical Allocation

- Reduce risk and equity allocation
- Increase Liquidity

EQUITIES REGIONS	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Switzerland	↘	↗							
United States	↘	↗							
Eurozone	↘	↗							
United Kingdom	↘	↗							
Japan	↘	↗							
Emerging	↘	↗							
Liquidity									

Beware, complacency returns to equity markets

Barely three months after the stock market panic in February-March and the fastest and most intense bear market in history, investors are once again complacent and euphoric. Complacency has clearly returned to financial markets in recent weeks in view of the irrational performances of some stocks, sometimes in the space of just a few days. After fearing the apocalypse, investors now swear by liquidity. The massive increase in the international money supply and central bank asset purchases ensure that interest rates will remain persistently low. However, the injections of liquidity also act as a powerful boost to financial markets, which are no longer worried at all about the possible return of a second wave of Covid-19, a likely more gradual than rapid recovery in economic activity and, above all, the once again very high valuation levels of financial assets. Complacency has indeed returned to financial markets, which are no longer taking risks into consideration, but seem, on the contrary, ready to indulge in the speculative practices that had ultimately driven the markets into zones of irrational overvaluation in February before plunging them into the fastest “bear market” in history.

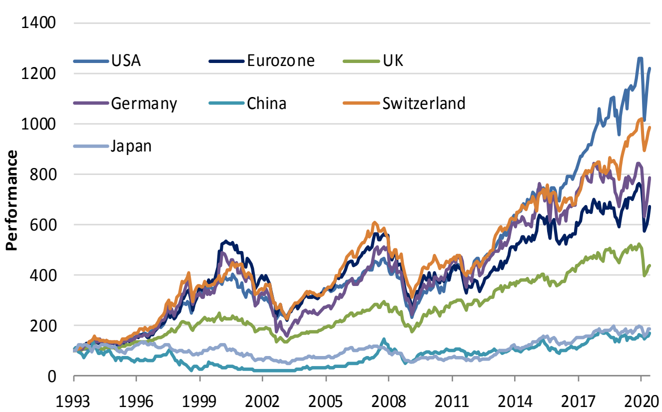
It is true that massive injections of liquidity always ultimately boost financial markets, as has already largely happened in recent months. In this health context marked by an increase in cases and deaths in the world, with official figures now reaching 11.4 million infected people and 533,000 deaths, financial markets very quickly looked far beyond the trough and bet on a solid and rapid economic recovery.

In the US in particular, which has recorded close to 2,900,000 cases and more than 130,000 deaths, markets have continuously astonished observers with their lack of reaction to the deterioration of events, both locally and internationally. Indeed, the S&P500 was up +12.8% in April, already posting its best monthly performance since 1987.

Since the low point reached in the third week of March, the magnitude of the rebound was even greater, approaching +35% for the S&P500 and +31% for the SPI index. In six weeks, the March correction was erased, and at the end of June, stocks recorded their best quarter since 1998 with a +20.5% rise for the S&P500, +17.78% for the SX5E index and a +9.86% rebound for the SPI. However, most of the increase occurred at the beginning of the period, since after the strong rally in April, May and June were characterised by low volatility and weak stock market trends for most asset classes. The performance of most equity markets in May and June was thus modest, and it was only thanks to a surge in the last two trading days that they managed to remain positive in June. The end of the quarter nevertheless turned out to be a little slower and in relative continuity with the month of May, marked by a loss of upward momentum.

The rebound in equity indices stands in sharp contrast with the persistently high level of economic uncertainty. Earnings expectations for listed companies have been reduced, but valuations remain very high because of the sharp increases in share prices. The liquidity injections provided by central banks therefore remain the main factor behind investors' renewed sense of optimism. However, In the absence of visibility on 2020 and 2021 earnings, valuations (PE) of 24.9x for the S&P500 and 19.1x for the SMI, for example, do not encourage risk taking.

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)

Graph sources: Bloomberg/BearBull Global Investments

At the beginning of the year, equity markets were driven by earnings expectations of +10% for 2020 and 2021, and valuations in terms of price-to-sales and enterprise-value-to-EBITDA ratios were already high and similar to those observed 20 years ago before the start of the bear market in 2000. Investors did not seem swayed by rational factors, accepting increasingly less rational risk taking due to the lack of alternatives. Today, the price-to-earnings ratios of US (25x), European (20.5x), Japanese (22.4x), British (18.5x) and Chinese (15.9x) equities are once again close to and sometimes higher than those prevailing at the beginning of the year. However, 2020 and 2021, which were expected to be years of relatively solid GDP growth and rising corporate profits, will certainly not live up to these expectations. The Covid-19 shock will have a negative impact in 2020 far greater than the expected recovery in 2021, taking into account of course the monetary, fiscal and tax policies already in place to support the economy. Consequently, we can only be wary today of the rebound in the markets, even though we anticipated and mentioned it in our previous "Investment Strategy". Although at the height of the stock market panic in March we identified investment opportunities and recommended repositioning in equity markets to take advantage of a probable recovery, we now once again recommend caution and suggest a reduction in equity exposure, after the at times considerable rises in equity indices.

Relatively more attractive equities in Europe

Three months ago, at the height of the stock market panic, we noted that, although the health crisis would have undeniable economic repercussions in 2020 and 2021, the valuation levels reached after the fall in share prices of around -40% already presented medium-term investment opportunities with regard to European stocks. At the end of March, valuation levels for European companies stood at 10.4x 2020 earnings compared to 14.3x for S&P500 stocks. Now, after a share price increase of +46%, the SX5E (Stoxx50) index is trading at around 20x 12-month forward earnings. Relative valuation levels remain favourable, with a 20% premium over the S&P500's PE (25x). At the end of June, the European market remained 15% below its level at the start of the year and benefitted from an attractive yield (+2.8%).

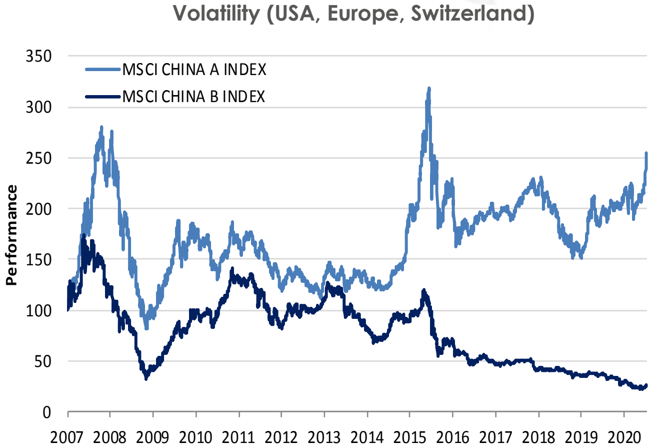
In the short term, however, European equities are likely to consolidate during the summer after an almost uninterrupted rise in share prices over the last three months. We are now recommending a reduction in exposure to European equities, but beyond the risks of short-term profit-taking, the European recovery programme should then have a positive impact on European equity markets.

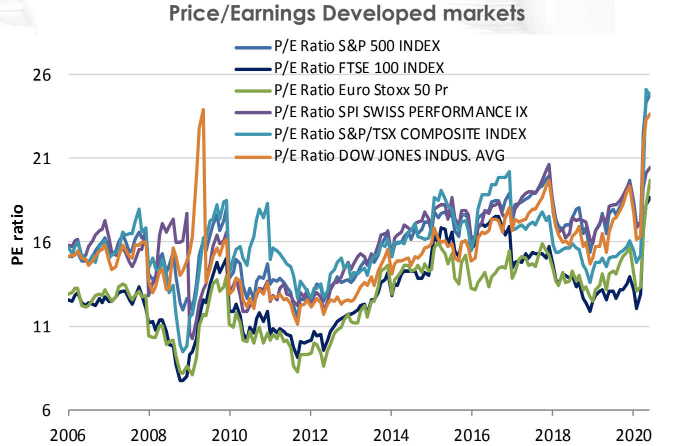
High valuation of US equities

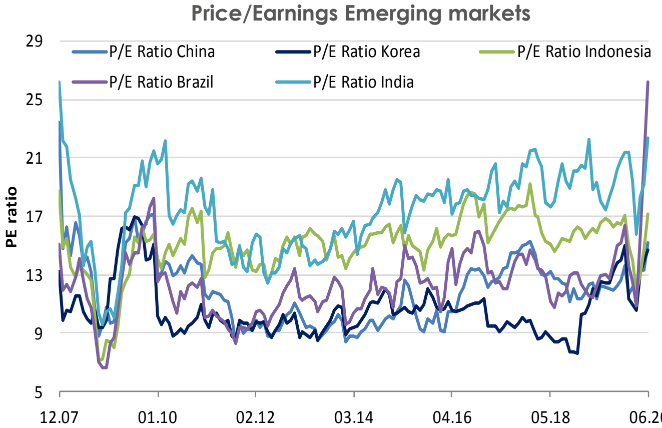
Perhaps even more so in the US than in other countries, liquidity seems to be the determining factor in the equity markets' advance in recent weeks. More recently, employment statistics showing the number of job seekers dropping by around 5 million has also bolstered the enthusiasm of investors, who are once again prepared not to look too closely at actual economic and business conditions. The deconfinement logically raises hopes for a return to normal economic activity, but we believe that we will have to show patience before we can expect to return to a level of employment similar to that of the month of January prior to the health crisis. PMI indices logically point to a recovery, but it seems to us quite premature to anticipate a return of consumption to previous levels.

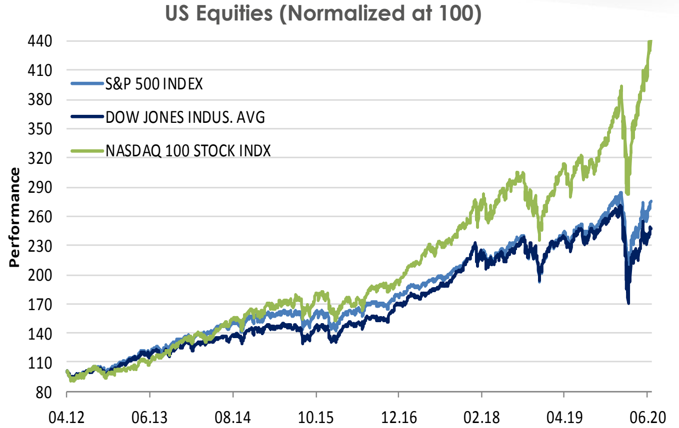
The prospect of sustained low interest rates is certainly very favourable for the economy, but the shock experienced by the various economic actors over the last few months cannot be absorbed so quickly. In the US, GDP is expected to grow by -5.5% in 2020 and +3.9% in 2021. Compared with two-year forward expectations at the beginning of the year, the growth deficit remains extremely large, provided that 2021 lives up to its promises.

US equities are once again trading at PEs well above their historical average, which could be justified by the particularly low level of interest rates. However, at current levels we see little room for disappointment in corporate earnings. We believe that the current complacency visible in particular with regard to certain tech stocks cannot be sustained. The risk/return ratio does not seem attractive to us, and we suggest reducing exposure.









Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

Beware the now excessive valuations of the Nikkei

At the end of March, we recommended taking positions in Japanese equities whose share prices had largely factored in the above-mentioned various risks relating to the Covid-19 crisis for the second quarter. Following the correction of more than -30% in stocks that took into account these risks, we then believed that Japanese equities offered interesting repositioning opportunities.

Now, after two months of stock market recovery, risks once again seem higher. In terms of valuation, Nikkei stocks are traded at more than 23x expected earnings for the next 12 months and 17x expected 2021 earnings, for a dividend yield of 1.9%.

Expected earnings per share in 12 months for Nikkei stocks now stand at 1,000. They still stood at 1,132 per share at the start of the year. The rise in PE ratios is partly due to the contraction of approximately -13% in earnings expectations for the next 12 months. However, the +40% performance of the Nikkei index since its lows in March, one of the strongest among stock market indices worldwide, seems essentially driven by hopes of a recovery in H2 as well as the central bank's liquidity pledge.

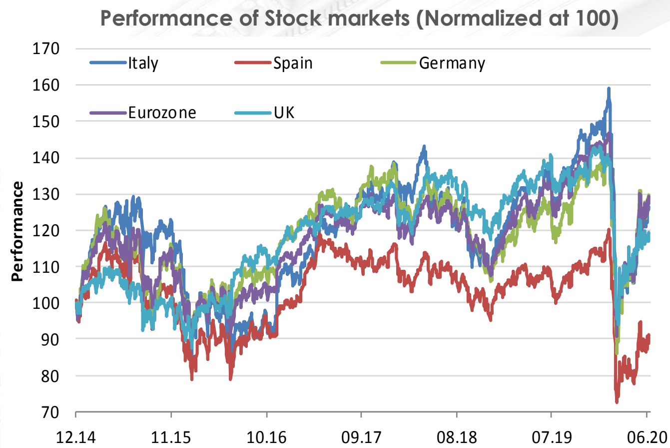
The Nikkei index has thus practically erased the drop that began in late February and has once again reached high valuation levels, to our minds. Hence, we now believe the time is right to reduce equity risks and once again take profits on Japanese equities.

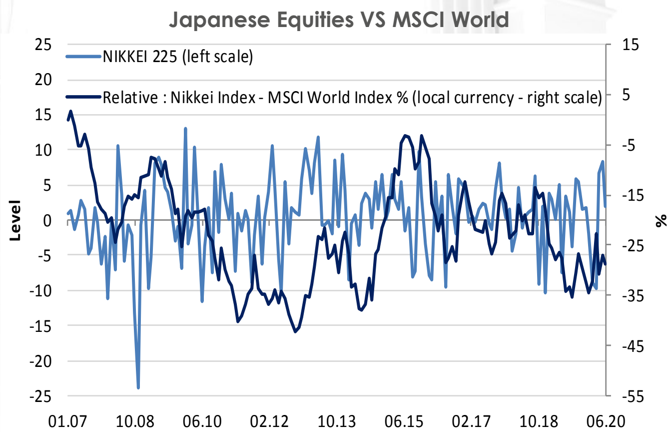
Fundamentals still in favour of British equities

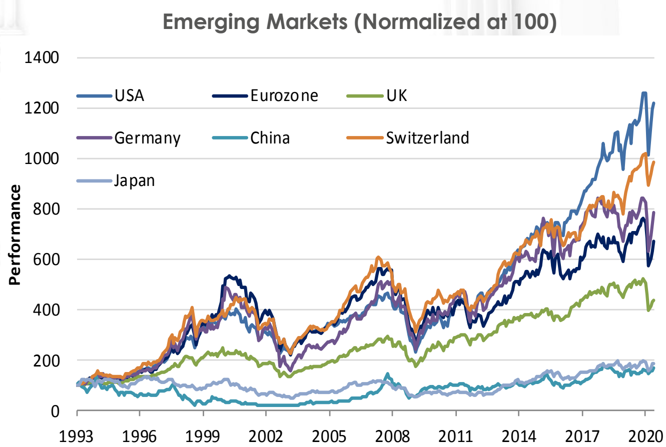
Since our last recommendation at the end of March to once again acquire positions in the British real estate market and purchase FTSE100 stocks, as they were too heavily penalised by the stock market panic relating to Covid-19, a price recovery of approximately +30% occurred in these two asset classes. From a relative point of view, these price recoveries were a little less significant than in other regions.

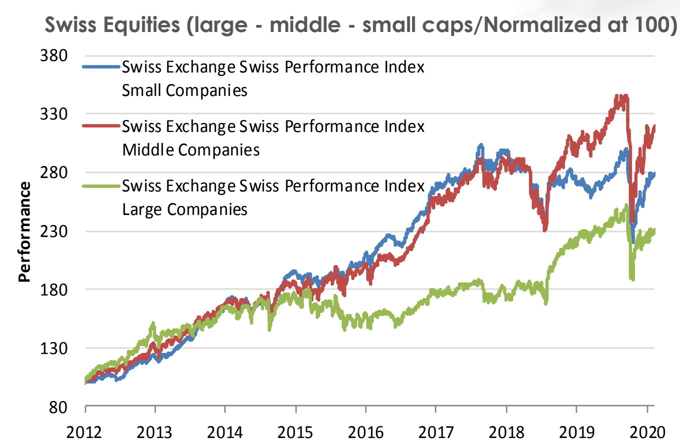
The two asset classes thus still have some room for growth. The FTSE100 index is now being traded at a little over 13x expected 2021 earnings and 19x 2020 earnings. In Europe, equity market valuations are a little more generous, which is likely to favour a positive relative performance of British stocks.

The dividend yield of 4.45% is also significantly higher than in other European markets, where dividends lie a little under 3%. In this context, we believe that British equities may still garner investor interest for stocks with higher yields and more reasonable valuations.









EQUITIES - BY REGION (local currency)

30.06.2020		Total Return Performance						
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	12436.0	CHF	-1.8	1.6	9.9	-3.1	-3.1
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	4330.2	CHF	-0.3	1.3	14.5	-6.7	-6.7
EUROPE	STXE 600 € Pr	360.3	EUR	-1.9	3.1	13.9	-11.7	-11.7
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	393.1	EUR	-1.8	1.3	18.7	-15.6	-15.6
UK	FTSE All-Share Index	3410.9	GBP	-2.5	1.5	10.5	-17.4	-17.4
USA	S&P 500 Index	3100.3	USD	-1.0	2.0	20.5	-3.1	-3.1
USA SMALL-MID CAPS	RUSSELL 2500	595.7	USD	-0.3	2.9	26.6	-11.1	-11.1
JAPAN	NIKKEI 225	22288.1	JPY	-1.0	2.0	18.0	-4.7	-4.7
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	814.7	JPY	-1.6	-0.5	12.8	-9.2	-9.2
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	513.2	USD	-1.3	8.2	18.5	-6.0	-6.0
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	866.0	USD	-1.3	7.1	29.8	-7.8	-7.8
EMERGING	MSCI EM	995.1	USD	-1.8	7.4	18.1	-9.7	-9.7
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	6511.1	USD	-1.5	2.6	19.4	-5.8	-5.8

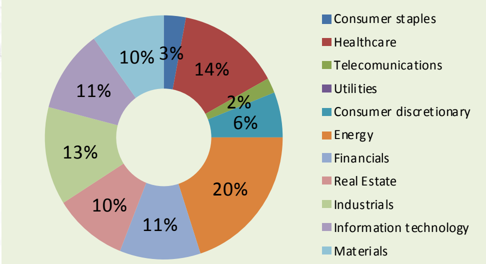
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Sectors

- Overweight defensive stocks
- Overweight the healthcare, consumer staples, telecommunications and gold mining sectors
- Underweight the tech sector

International Equities allocation - sectors



Tactical Allocation

- Underweight digital stocks and technology
- Overweight healthcare, consumer staples, energy and gold mines

EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↘	↗							
Healthcare	↘	↗↗							
Telecommunications	↘	↗							
Utilities	↘	↗							
Consumer discretionary	↘	↗							
Energy	↘	↗↗							
Financials	↘	↗							
Real Estate	↘	↗							
Industrials	↘	↗↗							
Information technology	↘	↗↗							
Materials	↘	↗↗							

EQUITIES - BY SECTOR

30.06.2020 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	280.6	USD	-1.5	4.7	30.0	1.5	1.5
CONSUMER STAPLES	MSCI WORLD/CON STPL	233.8	USD	-1.4	0.7	8.9	-5.4	-5.4
ENERGY	MSCI WORLD/ENERGY	123.8	USD	-4.3	-0.9	17.0	-35.2	-35.2
FINANCIALS	MSCI WORLD/FINANCE	95.5	USD	-2.6	3.1	13.3	-22.7	-22.7
HEALTHCARE	MSCI WORLD/HLTH CARE	280.6	USD	-1.4	-1.3	14.7	1.7	1.7
INDUSTRIALS	MSCI WORLD/INDUSTRL	237.6	USD	-1.3	2.3	17.6	-13.0	-13.0
MATERIALS	MSCI WORLD/MATERIAL	248.6	USD	-0.7	4.0	26.0	-7.0	-7.0
REAL ESTATE	MSCI WORLD/REAL ESTATE	195.4	USD	-1.4	1.8	11.9	-14.0	-14.0
TECHNOLOGY	MSCI WORLD/INF TECH	352.5	USD	-0.2	7.2	31.3	14.1	14.1
TELECOMMUNICATION	MSCI WORLD/TEL SVC	75.6	USD	-2.8	0.7	19.2	-1.5	-1.5
UTILITIES	MSCI WORLD/UTILITY	135.7	USD	-1.2	-1.2	6.5	-8.0	-8.0

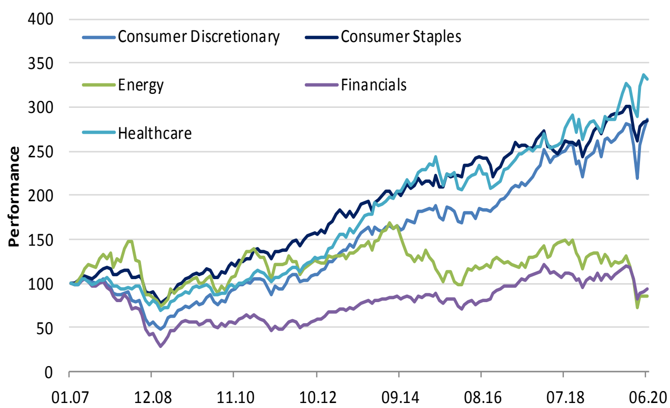
The last quarter was particularly favourable for tech stocks, largely perceived as immune to the Covid-19 crisis and the economic slowdown of 2020. The Nasdaq index is one of the few equity markets to have risen above its year-end 2019 level, ultimately posting a +16.9% increase over the first six months of 2020.

Our sector strategy still favoured a defensive approach in the second quarter, focusing on the healthcare, consumer staples and telecommunications sectors. Nevertheless, among the sectors that could present opportunities in terms of valuations, and considering the risks of a weakening economy, REITs and the energy sector seemed attractive to us, while we were underweight the still very highly valued tech sector. Underexposure to the latter, the best-performing sector in the quarter under review (+31.3%), was offset by the excellent performance of the consumer staples sector, which posted similar results (+30%). The materials sector was the third best performer (+26%), followed by telecommunications in 4th position and healthcare, up +14.7%. Our international sector positioning therefore benefited quite significantly from the stock market rally, which supported the rise in our overweight sectors.

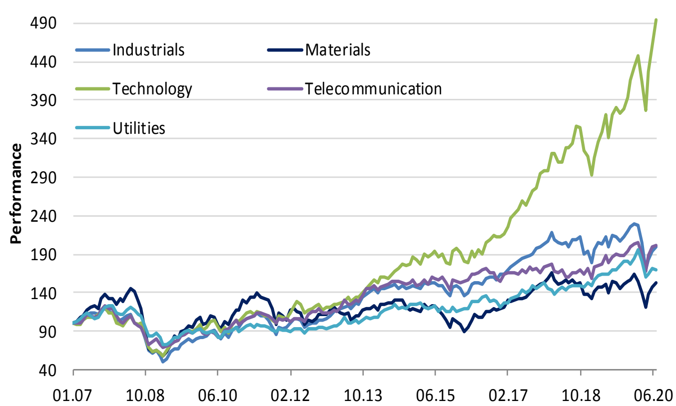
In the expected context of likely temporary equity market consolidation in the coming months, we now recommend adopting a defensive sector allocation strategy.

The tech sector, at times extremely highly valued, was favoured by investors in the last quarter, but its valuation levels should now impede its ability to maintain the same pace of growth. This market segment is therefore underweight in our sector allocation for the coming quarter. We continue to overweight healthcare, consumer staples, telecommunications and materials, especially the gold segment.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)



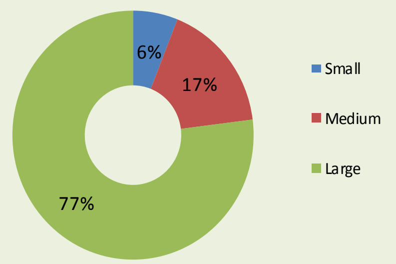
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Equities

- Beware, euphoria already replacing panic in Switzerland too
- Continue to overweight Swiss market

Swiss Equities allocation - size



Tactical Allocation

- Maintain a globally defensive approach
- Favor the « blue chips », reduce small and medium values

EQUITIES capitalization	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Small	↘	↗							
Medium	↘	↗							
Large	↘	↗							

Beware, euphoria already replacing panic in Switzerland too

Although we recommended caution in January, Swiss equities benefitted from the general euphoria before succumbing to complete panic in March. In late March, we took note of the extreme pessimism by highlighting repositioning opportunities at reasonable valuation levels. A few weeks of gradually regained enthusiasm will have been enough for Swiss equities to return to their pre-crisis levels. A certain sense of euphoria is thus once again present, driven by prospects of a quick return to normal and the promise of abundant liquidity. The SMI large-cap index did not rise much, however, after a first rebound phase of around +30%. It continued to trend up, but with low volatility around the 1,000 point level. The SPI index, which includes all Swiss stocks, also rebounded by +35% since its low point on 16 March. However, the Swiss market does not have the same advantages and favourable conditions as the American and European markets in terms of monetary policy. The SNB has certainly remained very attentive to risks of the franc appreciating and has logically maintained its policy of weakening the currency in the face of growing international demand for Swiss francs in times of uncertainty. The low interest rate policy is being maintained, but the absence of a programme to purchase Swiss government bonds will not curb a likely limited rise in yields linked to the expansion of public debt in Switzerland. GDP growth should pick up in Q3 and enable the Swiss economy to end 2020 with a decline in activity of -5.5%. The recovery expected for 2021 (+4%) is unlikely to mitigate the decline in activity recorded in 2020, and we will have to wait until 2022 to return to a GDP level similar to that of 2019. Companies listed in Switzerland are likely to benefit from the improvement in international economic conditions, but it seems to us that current levels may already incorporate this anticipation. Profit growth will nevertheless not resume so quickly, and at 20.6x expected earnings, valuations once again appear high.

Continue to overweight Swiss market

In this stock market context, which overheated somewhat at the beginning of H2, the Swiss market's valuation levels are similar to those of the main developed markets, while the market still benefits from specific advantages that allows it to remain among the best performers among the developed markets.

Indeed, in the current economic and political environment, Swiss equities retain some key strengths. The Swiss market is generally perceived as a defensive market, in particular due to the weight of its three major blue chip companies, Novartis, Roche and Nestlé. The pharmaceuticals and food sectors are defensive segments par excellence that may appeal in 2020 to investors and strategists seeking to position themselves in solid defensive stocks. A selection process seeking high-quality defensive blue chips with attractive dividend yields in a currency considered strong will probably not leave Switzerland out.

In this sense, an equity allocation should very logically be composed of more defensive stocks. The Swiss market is home to a large number of stocks with a high cash-flow generating capacity by international comparison. Swiss companies are well managed, benefit from a stable political environment and are often leaders in their respective fields. They are thus likely to be sought after by international investors for these characteristics and for the visibility of their earnings growth.

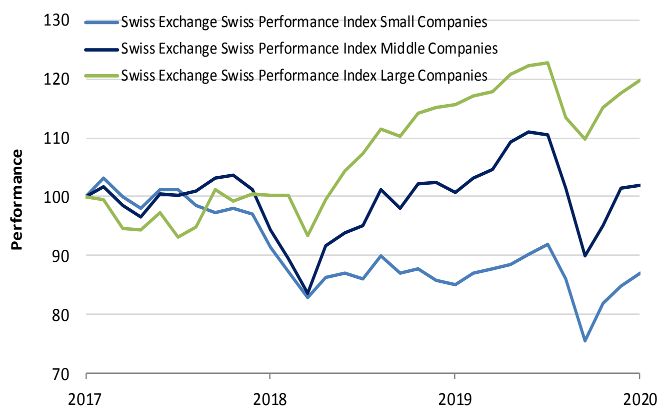
Return of short-term risks

The rally in financial markets as a whole and in Switzerland in particular is based primarily on liquidity and a surge in investors' appetite for risk. The lack of alternatives is unlikely to be a sufficient reason to justify increased risk taking. Yet this is what is driving the rise in equities and their valuations. The current loss of momentum may already be a sign that investors are losing interest in assets that are now more highly valued than they were at the end of March. As far as we are concerned, we believe that the earnings outlook has weakened and is clearly lower than estimated at the beginning of the year. The real economic context thus leaves little room for a continuation of the upward trend in equities in the near term, and we therefore recommend a reduction in the allocation to equities.

SWISS EQUITIES - Capitalization

30.06.2020	Total Return Performance					
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	12436.0	-1.8	1.6	9.9	-3.1	-3.1
SPI SMALL COMPANIES INDX	24090.6	-1.3	2.5	15.2	-3.6	-3.6
SPI MIDDLE COMPANIES IDX	16882.8	-0.5	0.5	13.4	-8.2	-8.2
SPI LARGE COMPANIES INDX	11959.0	-2.1	1.7	9.0	-2.0	-2.0

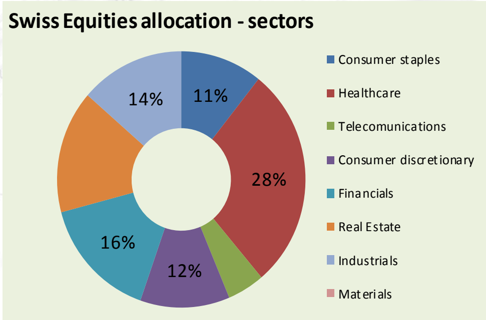
Swiss Equities Performance



Graph sources: Bloomberg/BearBull Global Investments

Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	↘	↗					■		
Healthcare	↘	↗↗					■		
Telecommunications	↘	↗			■				
Consumer discretionary	↘	↗			■				
Financials	↘	↗↗					■		
Real Estate	↘	↗↗						■	
Industrials	↘	↗↗				■			
Materials	↘	↗	■						



Tactical Allocation

- Overweight healthcare, consumer staples and insurances
- Underweight telecommunications and materials

Reduced arbitrage opportunities

The loss of momentum in the Swiss equity market over the last few weeks comes after the spectacular stock market rebound in April and confirms our analysis that pointed to a sharp decline in the number of arbitrage opportunities that presented themselves in March. In terms of the outlook for share price increases over the next 12 months, we believe that the SMI now has very little room for appreciation.

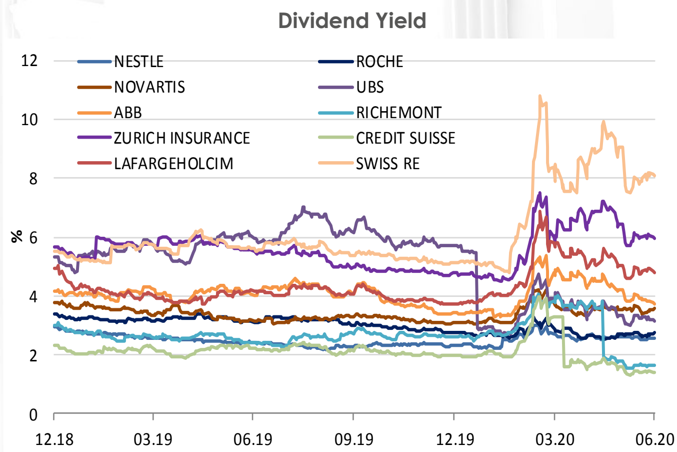
Among the "ultra-blue chips", Nestlé's upside potential seems limited to +5%, well below the upside potential of Roche (+13%) or Novartis (+17%). The two healthcare stocks are therefore to be favoured within this segment.

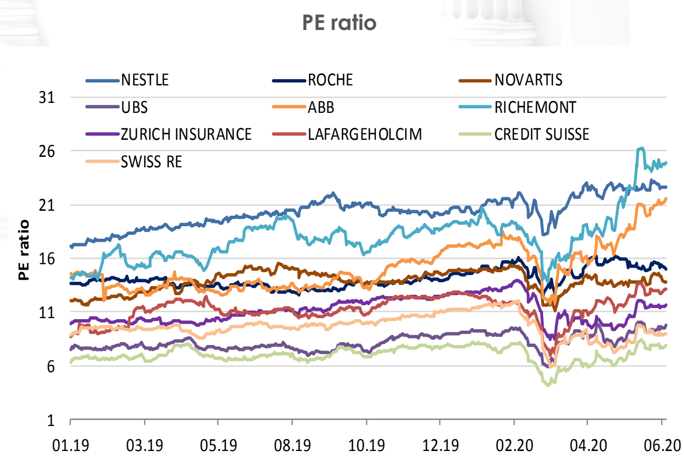
As for the other SMI blue chips, their potential share price increase over 12 months is of only +3% on average. The best prospects are focused on banking and insurance stocks, whose upside potential is similar to that of the healthcare sector. Insurance stocks seem to have better earnings visibility, and we suggest focusing on Swisslife, Swiss Re and Zurich Assurance. Among other stocks, we favour Lafarge, Adecco and Swatch.

Dividends from Swiss companies seem assured

The earnings outlook has weakened and is clearly lower than estimated at the start of the year, and the margin for upside since the low points in March has decreased significantly.

Nevertheless, the risks of a decrease in dividends distributed for the 2020 financial year have been mitigated in recent weeks. The expected yields for Swiss Re (+7.9%), Zurich Assurance (5.9%), Swiss life (+4.3%), Lafarge (4.7%) and Adecco (5.7%) are also significantly above the SMI average of 2.9%.

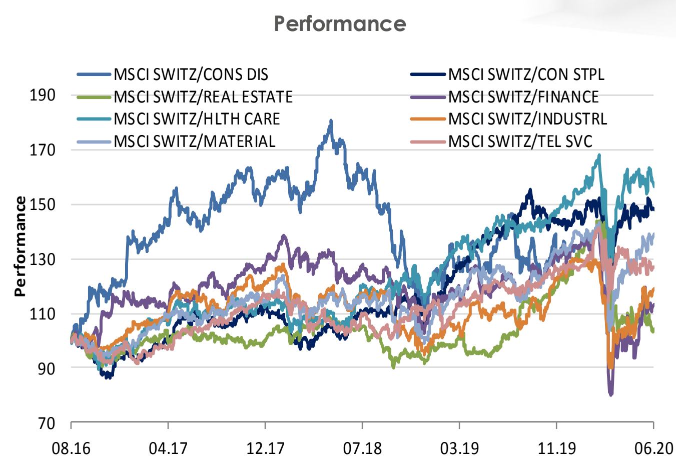




SWISS EQUITIES - BY SECTOR

30.06.2020 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	208.6	-2.7	6.2	10.7	-25.3	-25.3
MSCI SWITZ/CON STPL	343.8	-1.5	0.5	7.2	2.2	2.2
MSCI SWITZ/FINANCE	49.1	-0.1	7.2	14.8	-15.2	-15.2
MSCI SWITZ/HLTH CARE	183.2	-3.7	-1.4	5.8	1.8	1.8
MSCI SWITZ/INDUSTRL	175.2	0.6	6.4	16.5	-7.9	-7.9
MSCI SWITZ/MATERIAL	337.6	1.0	5.4	17.3	0.0	0.0
MSCI SWITZ/REAL ESTATE	1019.7	-1.5	-2.0	-7.5	-20.1	-20.1
MSCI SWITZ/TEL SVC	93.7	-0.5	-0.8	-0.6	0.8	0.8



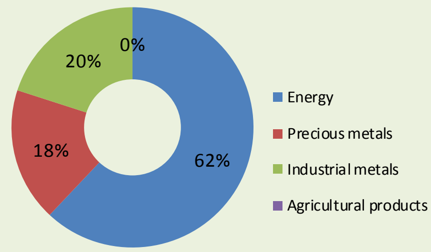
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Commodities

- Commodities are finally finding their feet again
- The upward trend is set to last
- Lull on the cards for crude oil prices
- Central banks are boosting precious metals

Commodities allocation



Tactical Allocation

- Overweight precious and industrial metals
- Underweight agricultural products and energy segment

COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Energy	↘	↗↗							
Precious metals	↗	↗							
Industrial metals	↗	↗↗							
Agricultural products	↗	↗							

Commodities are finally finding their feet again

The first half of 2020 was particularly turbulent on commodity markets. At the start of the year, international economic prospects were rather robust, and forecasters were not unduly concerned by the coronavirus in China. It looked set to be a good year for commodities, but the lockdown in the city of Wuhan and the reclassification of the epidemic to a pandemic quickly quashed those by-then obsolete forecasts. Fears of a recession hit industrial metals as hard as they hit equity markets, and at the same time, the energy sector was suffering a first shock due to surplus supply because demand had suddenly evaporated during lockdown. The 2nd quarter saw an unbelievable black swan event on the American crude oil market, which will go down in history. Luckily, crude oil's dive into negative ground was only very short-lived, but the effects on how production and supply are organised in the United States will last for much longer. Global commodity indices fell considerably over six months (-36.3%), despite the +10.5% bounce back over the last quarter. The incredible +91.7% rise in crude oil prices over the period was the main factor outshining the rises of +12.7% on industrial metals, +12.9% on gold, and +30.3% on silver.

The upward trend is set to last

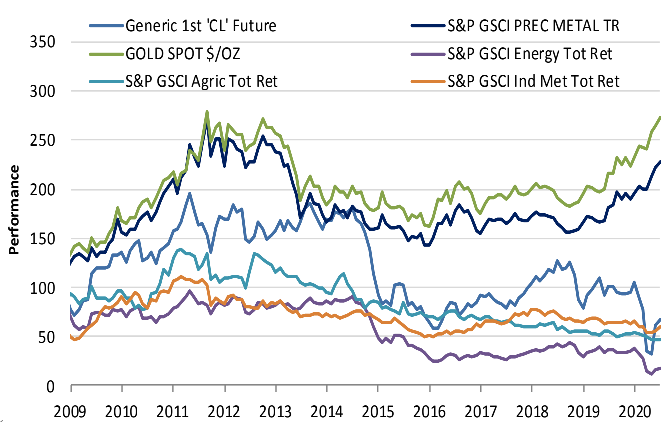
As we had already noted in our April strategy document, the worst has already passed for commodities, the timing is still right to take part in the upward trend that really seems to have taken hold since the start of May. Crude oil and industrial metal prices suffered significant corrections in the 1st quarter; the drop in WTI oil was absolutely extraordinary. The investment climate has improved since central banks and governments announced support measures, and this improvement is now starting to affect investor sentiment and their forecasts for the commodity segment.

The recovery in activity in China and concrete signs of Chinese commodity buyers returning have helped change prospects, which are now much more positive for all market segments. The energy sector has survived its historic black swan and is now posting impressive, regular price rises. Industrial metals are finally benefiting from renewed Chinese demand, whereas precious metals are benefiting from the new monetary conditions applied by central banks, which should also bolster the upward trends seen on gold and other metals. We recommend overweighting commodities, particularly industrial metals, which seem to have upward price momentum, unlike crude oil prices, which may weaken and post a temporary price consolidation over summer.

Lull on the cards for crude oil prices

The US crude oil market saw a historic black swan in April, and although concerns were particularly high at that time, the dive into hitherto unseen negative ground was not followed by further jolts. The WTI futures market normalised and the physical market gradually recovered some sense of equilibrium. Fears that this episode would cause a market collapse and major supply problems were quickly ruled out. However, there has already been a major impact on the way production is organised in the United States and the number of shale oil companies declaring bankruptcy has increased. The collapse of Chesapeake, one of the big players, demonstrates the difficult situation. American crude oil prices bouncing back to US$ 40 is certainly not enough this time to dig many of those in the sector out of their financial difficulties. The number of wells operating in the United States dropped by -60% between March and June, returning to similar activity levels to June 2016. In March, we had stated that it was likely that United States production would fall, which is what has happened, with a drop from 13 to 10.5 million barrels per day.

Commodities



Graph sources: Bloomberg/BearBull Global Investments

COMMODITIES (USD)

30.06.2020 — Total Return Performance

Nº ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	6511.10	USD	-1.50	2.65	19.36	-5.77	-5.77
GLOBAL	S&P GSCI Tot Return Indx	1650.8	USD	-1.3	5.1	10.5	-36.3	-36.3
WTI CRUDE	Generic 1st 'CL' Future	39.3	USD	-2.7	10.7	91.7	-35.7	-35.7
BRENT OIL	Generic 1st 'CO' Future	41.2	USD	-3.5	16.5	81.0	-37.7	-37.7
NATURAL GAS	Generic 1st 'NG' Future	1.8	USD	7.0	-5.3	6.8	-20.0	-20.0
OR	GOLD SPOT $/OZ	1781.0	USD	0.7	2.9	12.9	17.4	17.4
ARGENT	Silver Spot $/Oz	18.2	USD	1.5	1.9	30.3	2.0	2.0
AGRICULTURE	S&P GSCI Agric Indx Spot	267.7	USD	1.5	1.8	-2.4	-11.3	-11.3
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	301.9	USD	1.5	7.7	12.7	-6.9	-6.9

BearBull Global Investments Group

US production has therefore decreased by -20% and stands at September 2018 levels. Inventories increased, as expected at the outset, and seemed to stabilise in June. The gradual easing of lockdown in many countries, and renewed demand for crude oil within that context, which is also shaped by reduced production in OPEC countries, has certainly already helped crude oil prices to rise to US $40. We are maintaining our forecast of crude oil prices north of US $50 in the second half of the year, though we believe that there is once again a risk of consolidation from current levels.

Central banks are boosting precious metals

At the start of the year, we believed that gold prices should be propped up by a recovery in investment demand, sparked by a desire to shield oneself from the risk of a rise in volatility on financial markets after an absolutely exceptional year in 2019. The public health crisis and the flash bear market in February and March bolstered a movement that was already underway, driving demand for safe-haven assets beyond the previous 2012 peak. Since the stock market panic, demand for physical ETFs has increased by +18%, and gold prices have risen by +22%, heading above the US$ 1,800 per ounce threshold at the start of July. We believe that our forecast of gold prices rising towards US$ 1,900 per ounce is still very much relevant.

Central banks' change in monetary policy and the massive liquidity injections into the financial system are clearly factors that are propping up price rises on gold. More than ever, gold appears to be the ideal alternative to the currencies of countries monetising their debt and will clearly play a defensive role against inflation once current monetary policies start to have an inflationary effect, probably in the second half of 2021. The other precious metals are benefiting from the same conditions. As such, silver should continue to climb, taking its price to US$ 23 per ounce, whilst prospects for platinum could help it reach up to US$ 1,000 per ounce.

The easing of lockdown is breathing new life into industrial metals

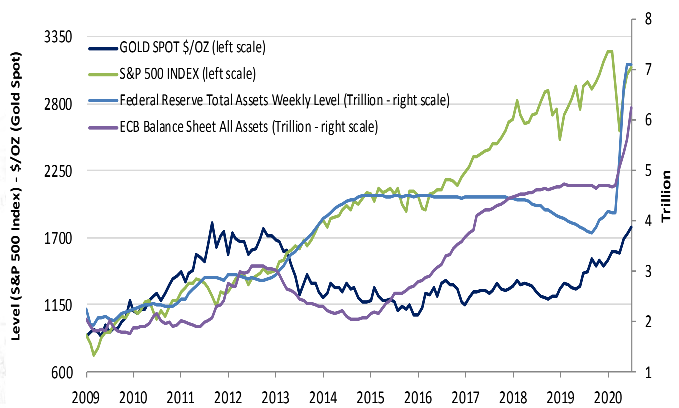
Industrial metals were greatly affected by the shock of the collapse in economic prospects due to the public health crisis and the lockdown. In the initial phase of the improvement in the investment climate in April and May, which had pushed equity markets northward, industrial metals still were not drawing any benefit from the return of investors, who were undoubtedly still not entirely convinced as to the real likelihood of an economic recovery in the second half of the year.

At that time, we believed that the perception of the impact of the public health crisis on the Chinese and global economy should soon improve and spark renewed interest in industrial metals.

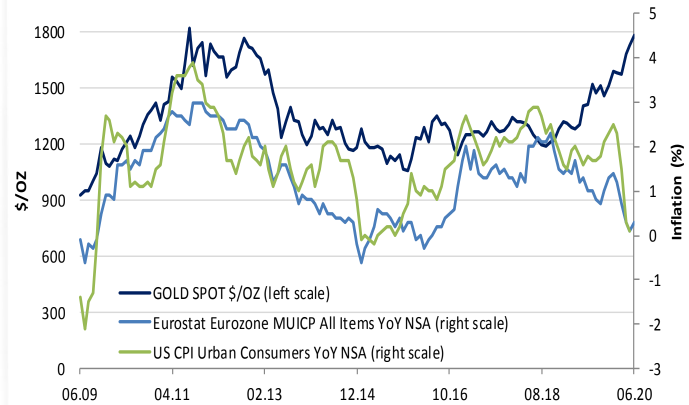
This is now taking place in this segment of the commodity market. Since the end of lockdown and with the Chinese economic recovery, the S&P GSCI Industrial Metals Index has finally benefited from the change in forecast, growing +5.6%. In the end, economic stimulation measures convinced investors that a significant improvement in the fundamentals of copper, zinc, and other industrial metals was likely. With around 50% coming from China, the Chinese recovery is already strengthening demand, which has been stimulated by low prices.

The drop in production in producer countries during the crisis has limited supply. There is currently a production deficit compared to demand for most basic metals. We believe that the price rise should continue and head towards the average prices for 2019. We are still recommending exposure to industrial metals.

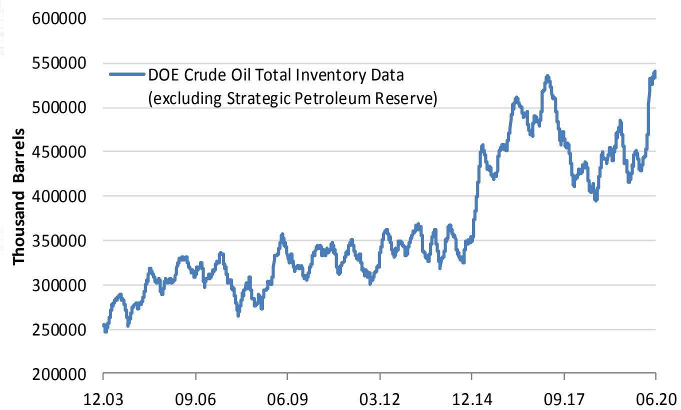
Gold and Global liquidity



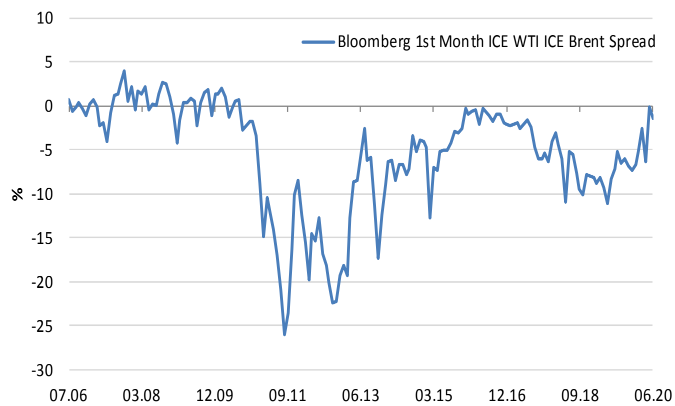
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Hedge Funds

- Stable performance over the first half of the year

Stable performance over the first half of the year

The global hedge fund index bounced back by +6.2% over the last three months, largely making up for the -6.9% slide seen in the first quarter. As such, despite the economic and financial conditions at the start of this year, this asset class should only post a slightly negative correction (-1.1%) for the first half of the year.

As regards the different strategies, there is sometimes wide disparity in terms of performance since the start of the year. Indeed, despite a considerable rebound (+8.1%), the equity hedge strategy has remained well in the red over the first six months (-6.3%). However, whereas macro/CTA management managed to remain stable in 2020 (-0.7%), relative value arbitrage and event driven strategies are closing the first half of the year on positive ground, at +1.1% and +1.6% respectively.

Private Equity

- Private equity back on track in the second quarter

Private equity back on track in the second quarter

The impressive bounce back in private equity over the last three days of March (+28%), following a significant correction of nearly -50%, continued through April and May (+20.9%), before it then moved somewhat horizontally in June (+2.1%). As such, private equity posted quarterly growth of over +20% since 31st March (+23.4%), continuing its repeated roller-coaster performances.

In terms of the different regions, the United States (+29.5%) posted the greatest growth over the quarter, with an increase of almost +30%. The results for Europe (+15.9%) and the United Kingdom (+11.8%) are more modest.

HEDGE FUND INDICES (USD)

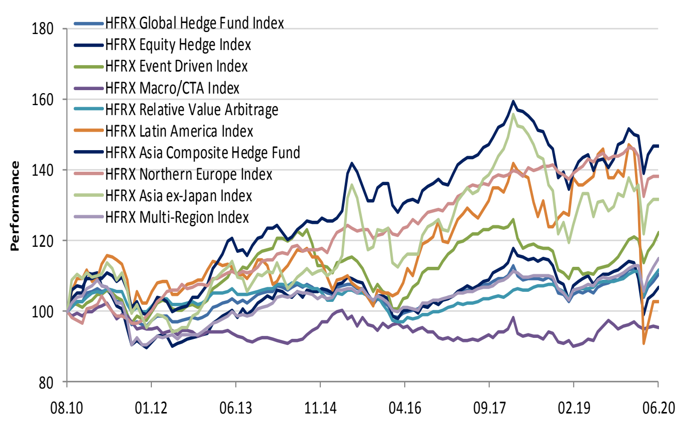
30.06.2020				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1278.4	USD	-0.2	1.8	6.2	-1.1	-1.1
EQUITY HEDGE	HFRX Equity Hedge Index	1194.1	USD	-0.3	2.2	8.1	-6.3	-6.3
EVENT DRIVEN	HFRX Event Driven Index	1644.0	USD	-0.1	2.7	7.5	1.6	1.6
MACRO/CTA	HFRX Macro/CTA Index	1172.1	USD	0.1	-0.3	0.5	-0.7	-0.7
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1261.4	USD	-0.2	1.8	6.9	1.1	1.1
LATIN AMERICA*	HFRX Latin America Index	1771.3	USD	-	5.6	19.6	-26.2	-26.2
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2430.2	USD	-	2.7	8.4	-0.8	-0.8
NORTHERN EUROPE*	HFRX Northern Europe Index	2051.5	USD	-	2.6	7.1	-2.9	-2.9
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2585.1	USD	-	4.0	12.3	-0.6	-0.6
MULTI-REGION	HFRX Multi-Region Index	1431.7	USD	-0.3	2.2	8.8	2.6	2.6

* Subject to one-month lag

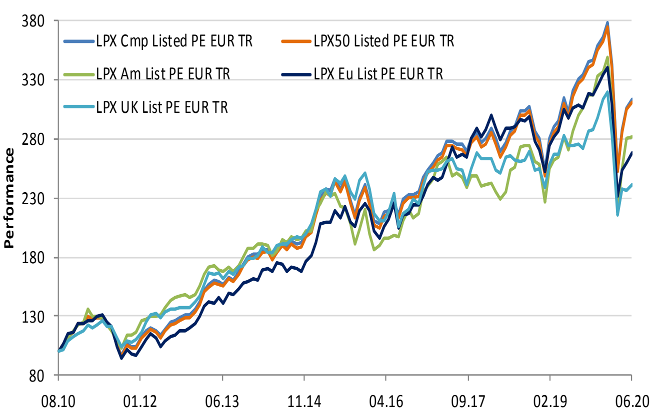
PRIVATE EQUITY INDICES (EUR)

30.06.2020				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	260.7	EUR	-0.5	2.2	23.4	-14.4	-14.4
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2462.8	EUR	-0.6	2.1	23.4	-14.2	-14.2
USA	LPX Am List PE EUR TR	374.9	EUR	-0.8	0.3	29.5	-16.2	-16.2
EUROPE	LPX Eu List PE EUR TR	856.3	EUR	-0.8	3.2	15.9	-20.0	-20.0
UK	LPX UK List PE EUR TR	269.8	EUR	-1.5	1.8	11.8	-23.2	-23.2

Hedge funds

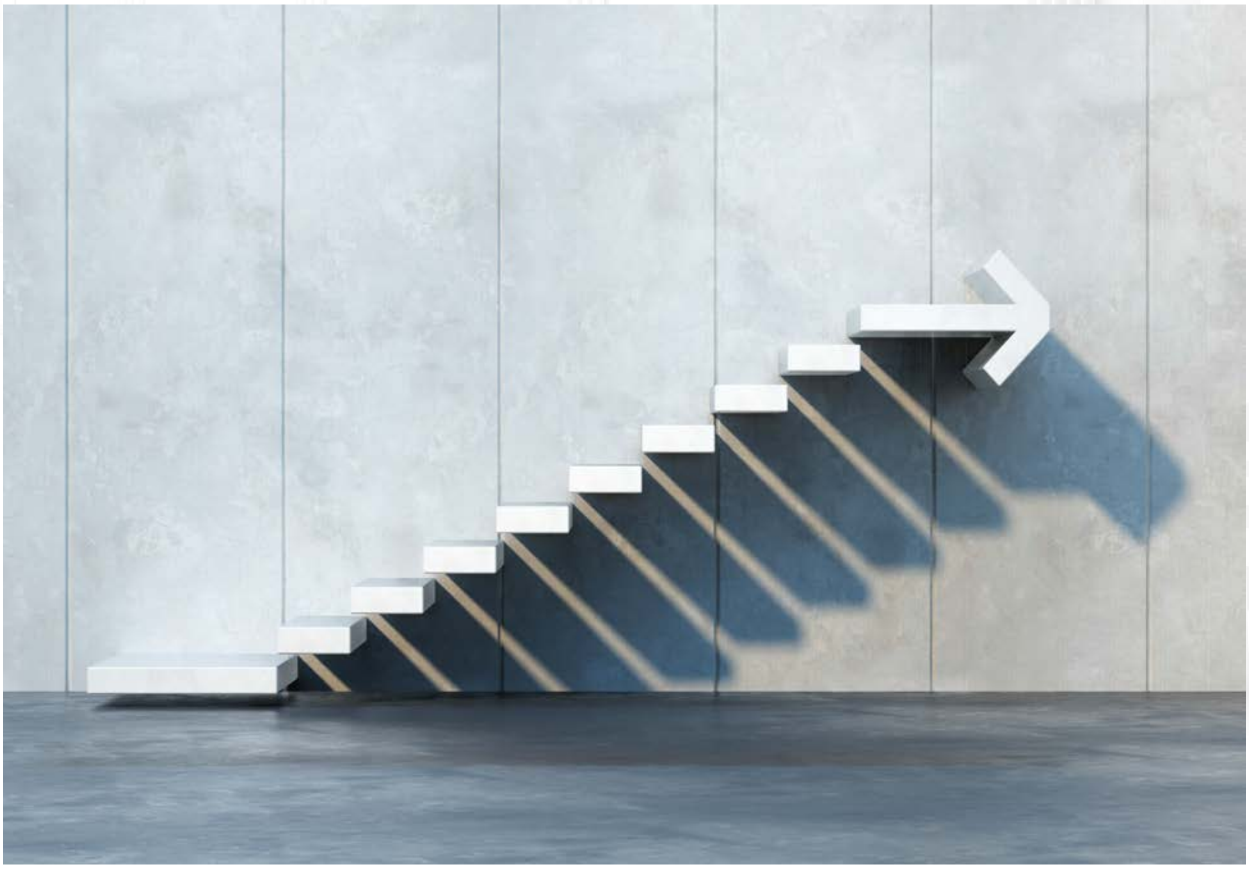


Private Equity



Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY & ASSET ALLOCATION



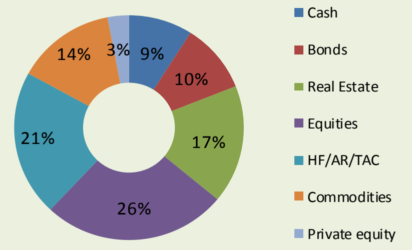
Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - CHF

- Fewer opportunities on the credit market
- Equity market valuations high again
- Precious metals are still a favourite
- Renewed weakness on the Swiss franc

Asset allocation - CHF portfolio

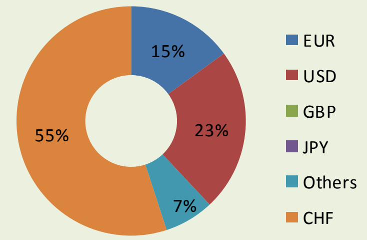


Tactical Allocation

- More constructive defensive strategy
- Reduce risky assets, increase liquidity

ASSETS	Expected Return 3months	Expected Return 1year	underweight ---	underweight --	underweight -	neutral =	overweight +	overweight ++	overweight +++
Cash	↘	↘						X	
Bonds	→	↘		X					
Real Estate	↗	↗				X			
Equities	↘	↗			X				
Hedge funds	↘	↗				X			
Commodities	→	↗				X			
Private equity	↘	↗			X				

Currency allocation - CHF portfolio



Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), complemented by other, diversified, tradable assets (commodities, hedge funds, private equity). At the start of this quarter, tactical allocation is not as useful as it was a few months ago. We believe that the equity segment is now riskier again and likely to see profit taking and value adjustments. Opportunities in the bond segment have become scarce, whereas international real estate can still offer attractive diversification. Precious metals are also still a favourite in a once again slightly more uncertain context.

Bonds

Bond markets have taken into account the effects of the global public health crisis on GDP growth prospects. Government bond yields changed very little over the 2nd quarter due to central banks' efforts through their security purchase programmes. Yields are once again very low and there is therefore a very small chance that they will increase significantly over the coming months. The disruption seen on the credit market pushed rates beyond the levels seen just before markets fell, and pushed risk premiums for the corporate, high yield and emerging market segments back up. Unfortunately, they quickly shrank, and in doing so made diversification in these sectors automatically less interesting. We recommend a cautious bond strategy and reduced overall exposure, prioritising investments in US dollars and short maturities.

Equities

It had already been announced that equities were bouncing back at the end of March, and this developed in the second quarter, surpassing all expectations in a still very uncertain public health context. Economic prospects remained gloomy in the 2nd quarter, and S&P 500 companies could post a very significant contraction in profits. After we recommended reinvesting in equities in mid-March, our current analysis of the situation suggests that valuation levels are once again high. This has persuaded us to once again recommend reducing the overall risk of diversified portfolios by lowering exposure to equities.

Commodities

Commodities also did well in the 2nd quarter, thanks to the spectacular rise in WTI oil prices. Precious and industrial metals also benefited from investors' change in sentiment, and will draw even greater benefit from the economic recovery in the second quarter. Precious metals are an ideal buttress against any further tumult on equity markets.

Real estate remains the main alternative to rate markets. We are prioritising real estate markets in countries and regions which can rely on powerful central banks and the action of governments with sufficient means to put in place effective budgetary and fiscal measures.

Currencies

Covid-19 has temporarily increased demand for Swiss francs, but we believe that it will decrease as the public health situation improves. The US dollar is still the priority currency, despite the clear narrowing in the yield differential that had been seen up until the current crisis emerged.

Market performances - Q2 2020

		Q2 2020 local	Q2 2020 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		-1.4%		-2.0%	
EUR/CHF		0.4%		-2.0%	
GBP/CHF		-1.6%		-8.4%	
JPY/CHF		-1.8%		-1.5%	
Equity markets					
World	MSCI World USD	19.4%	17.6%	-5.8%	-7.6%
Europe	DJ Stoxx 600	13.5%	13.9%	-12.1%	-13.8%
Eurozone	DJ Eurostoxx 50	16.0%	16.5%	-13.6%	-15.3%
	MSCI Europe S.C.	17.8%	18.3%	-16.4%	-18.0%
Germany	Dax 30	23.9%	24.3%	-7.1%	-8.9%
France	Cac 40	12.3%	12.7%	-17.4%	-19.1%
United Kingdom	FTSE 100	8.8%	7.0%	-18.2%	-25.1%
Switzerland	SPI	9.9%	9.9%	-3.1%	-3.1%
	SMI	7.9%	7.9%	-5.4%	-5.4%
	MSCI Swiss S.C.	17.8%	17.8%	-4.6%	-4.6%
North America	SP500	20.0%	18.2%	-4.0%	-6.0%
	Nasdaq	30.6%	28.8%	12.1%	9.9%
	Tse 300	16.0%	18.4%	-9.1%	-14.8%
	SP600 Small C.	21.5%	19.7%	-18.5%	-20.2%
Japan	Nikkei 225	17.8%	15.7%	-5.8%	-7.2%
Emerging	MSCI EMF USD	17.3%	15.6%	-10.7%	-12.5%

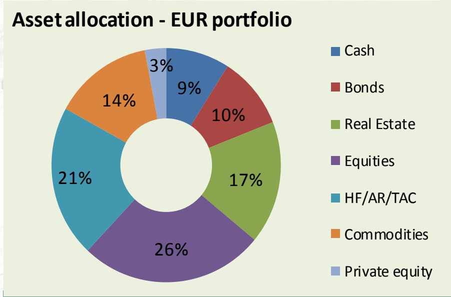
		Q2 2020 local	Q2 2020 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		-0.68%			
EUR		-0.42%			
USD		0.30%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	2.0%	0.6%	4.1%	2.0%
Europe	Euro Ser-E Gov > 1	1.7%	2.1%	2.0%	0.0%
United Kingdom	UK Ser-E Gov > 1	2.6%	1.0%	9.7%	0.4%
Switzerland	SBI Général AAA-BBB	2.2%	2.2%	-0.5%	-0.5%
	SBI Govt.	1.8%	1.8%	1.3%	1.3%
USA	US Ser-E Gov > 1	0.5%	-1.0%	8.7%	6.5%
Japan	Japan Ser-E Gov > 1	-0.6%	-2.4%	-0.9%	-2.4%
Emerging	J.P. Morgan EMBI Global	11.2%	9.6%	-1.9%	-3.8%
Miscellaneaous					
	LPP 25 Index	5.1%	5.1%	-1.7%	-1.7%
	LPP 40 Index	6.9%	6.9%	-2.5%	-2.5%
	LPP 60 Index	9.5%	9.5%	-3.8%	-3.8%
Real Estate CH	DB RB Swiss Real Est Fd	2.9%	2.9%	1.0%	1.0%
Hedge Funds	Hedge Fund Research USD	6.4%	4.9%	-1.1%	-3.1%
Commodities	GS Commodity USD	10.5%	8.9%	-36.3%	-37.6%

Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

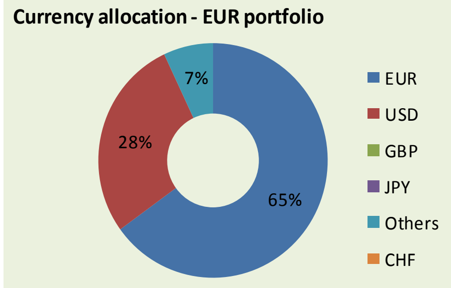
Diversified portfolio: Medium Risk - EUR

- Fewer opportunities on the credit market
- Equity market valuations high again
- Precious metals are still a favourite
- Return in grace of the euro



Tactical Allocation

- More constructive defensive strategy
- Reduce risky assets, increase liquidity



ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (EUR Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	↘	↘							
Bonds	→	↘							
Real Estate	↗	↗							
Equities	↘	↗							
Hedge funds	↘	↗							
Commodities	→	↗							
Private equity	↘	↗							

Asset allocation

The core of our investment strategy is made up of traditional liquid assets (liquidities, bonds, equities and real estate), complemented by other, diversified, tradable assets (commodities, hedge funds, private equity). At the start of this quarter, tactical allocation is not as useful as it was a few months ago. We believe that the equity segment is now riskier again and likely to see profit taking and value adjustments. Opportunities in the bond segment have become scarce, whereas international real estate can still offer attractive diversification. Precious metals are also still a favourite in a once again slightly more uncertain context.

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Real estate remains the main alternative to rate markets. We are prioritising real estate markets in countries and regions which can rely on powerful central banks and the action of governments with sufficient means to put in place effective budgetary and fiscal measures.

Currencies

The Euro has been punished by the extent of the public health crisis However, we believe that the Euro should recovery and be bolstered by the European recovery plan. The US dollar remains attractive, despite the clear narrowing in the yield differential that had been seen up until the current crisis emerged.

Market performances - Q2 2020

		Q2 2020 local	Q2 2020 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		-1.8%		-0.2%	
CHF/EUR		-0.4%		2.0%	
GBP/EUR		-1.9%		-6.6%	
JPY/EUR		-2.2%		0.5%	
Equity markets					
World	MSCI World USD	19.4%	17.2%	-5.8%	-5.9%
Europe	DJ Stoxx 600	13.5%	13.5%	-12.1%	-12.1%
Eurozone	DJ Eurostoxx 50	16.0%	16.0%	-13.6%	-13.6%
	MSCI Europe S.C.	17.8%	17.8%	-16.4%	-16.4%
Germany	Dax 30	23.9%	23.9%	-7.1%	-7.1%
France	Cac 40	12.3%	12.3%	-17.4%	-17.4%
United Kingdom	FTSE 100	8.8%	6.7%	-18.2%	-23.6%
Switzerland	SPI	9.9%	9.5%	-3.1%	-1.2%
	SMI	7.9%	7.5%	-5.4%	-3.5%
	MSCI Swiss S.C.	17.8%	15.7%	-4.6%	-4.8%
North America	SP500	20.0%	17.8%	-4.0%	-4.2%
	Nasdaq	30.6%	28.3%	12.1%	11.9%
	Tse 300	16.0%	18.0%	-9.1%	-13.2%
	SP600 Small C.	21.5%	19.3%	-18.5%	-18.7%
Japan	Nikkei 225	17.8%	15.3%	-5.8%	-5.3%
Emerging	MSCI EMF USD	17.3%	15.2%	-10.7%	-10.9%

		Q2 2020 local	Q2 2020 EUR	YTD local	YTD EUR
Interest rates (3 months)	*(level)*				
CHF		-0.68%			
EUR		-0.42%			
USD		0.30%			
JPY		-0.05%			
Bonds markets					
World	Citi Gr Global Govt.USD	2.0%	1.7%	4.1%	6.1%
Europe	Euro Ser-E Gov > 1	1.7%	1.7%	2.0%	2.0%
United Kingdom	UK Ser-E Gov > 1	2.6%	0.7%	9.7%	2.4%
Switzerland	SBI Général AAA-BBB	2.2%	1.8%	-0.5%	1.5%
	SBI Govt.	1.8%	1.5%	1.3%	3.3%
USA	US Ser-E Gov > 1	0.5%	-1.3%	8.7%	8.5%
Japan	Japan Ser-E Gov > 1	-0.6%	-2.7%	-0.9%	-0.4%
Emerging	J.P. Morgan EMBI Global	11.2%	9.2%	-1.9%	-2.1%
Miscellaneaous					
	LPP 25 Index	5.1%	7.1%	-1.7%	0.2%
	LPP 40 Index	6.9%	9.0%	-2.5%	-0.6%
	LPP 60 Index	9.5%	11.7%	-3.8%	-1.9%
Real Estate CH	DB RB Swiss Real Est Fd	2.9%	2.9%	1.0%	2.9%
Hedge Funds	Hedge Fund Research USD	6.4%	4.5%	-1.1%	-1.3%
Commodities	GS Commodity USD	10.5%	8.5%	-36.3%	-36.4%

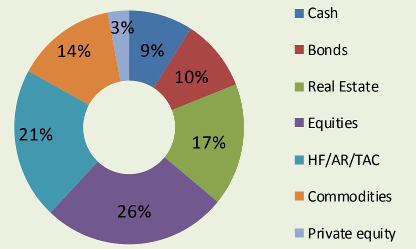
Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - USD

- Fewer opportunities on the credit market
- Equity market valuations high again
- Precious metals are still a favourite
- The dollar remains secure, but the euro is attractive

Asset allocation - USD portfolio

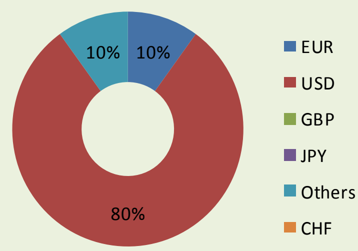


Tactical Allocation

- More constructive defensive strategy
- Reduce risky assets, increase liquidity

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (USD Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	↘	↘						■	
Bonds	→	↘		■					
Real Estate	↗	↗				■			
Equities	↘	↗			■				
Hedge funds	↘	↗				■			
Commodities	→	↗				■			
Private equity	↘	↗			■				

Currency allocation - USD portfolio



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Real estate remains the main alternative to rate markets. We are prioritising real estate markets in countries and regions which can rely on powerful central banks and the action of governments with sufficient means to put in place effective budgetary and fiscal measures.

Currencies

The US dollar really lived up to its role as a safe haven asset during the Covid-19 crisis, despite the collapse of the yield differential before the Fed decided to drop its rates. An end to the public health crisis could temporarily weaken the US dollar, though it will remain a safe bet. The Euro, however, has regained momentum, and attractiveness.

Market performances - Q2 2020

		Q2 2020 local	Q2 2020 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		1.5%		2.2%	
EUR/USD		1.8%		0.2%	
GBP/USD		-0.2%		-6.5%	
JPY/USD		-0.4%		0.7%	
Equity markets					
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	SBI Govt.	1.8%	3.3%	1.3%	3.5%
USA	US Ser-E Gov > 1	0.5%	0.5%	8.7%	8.7%
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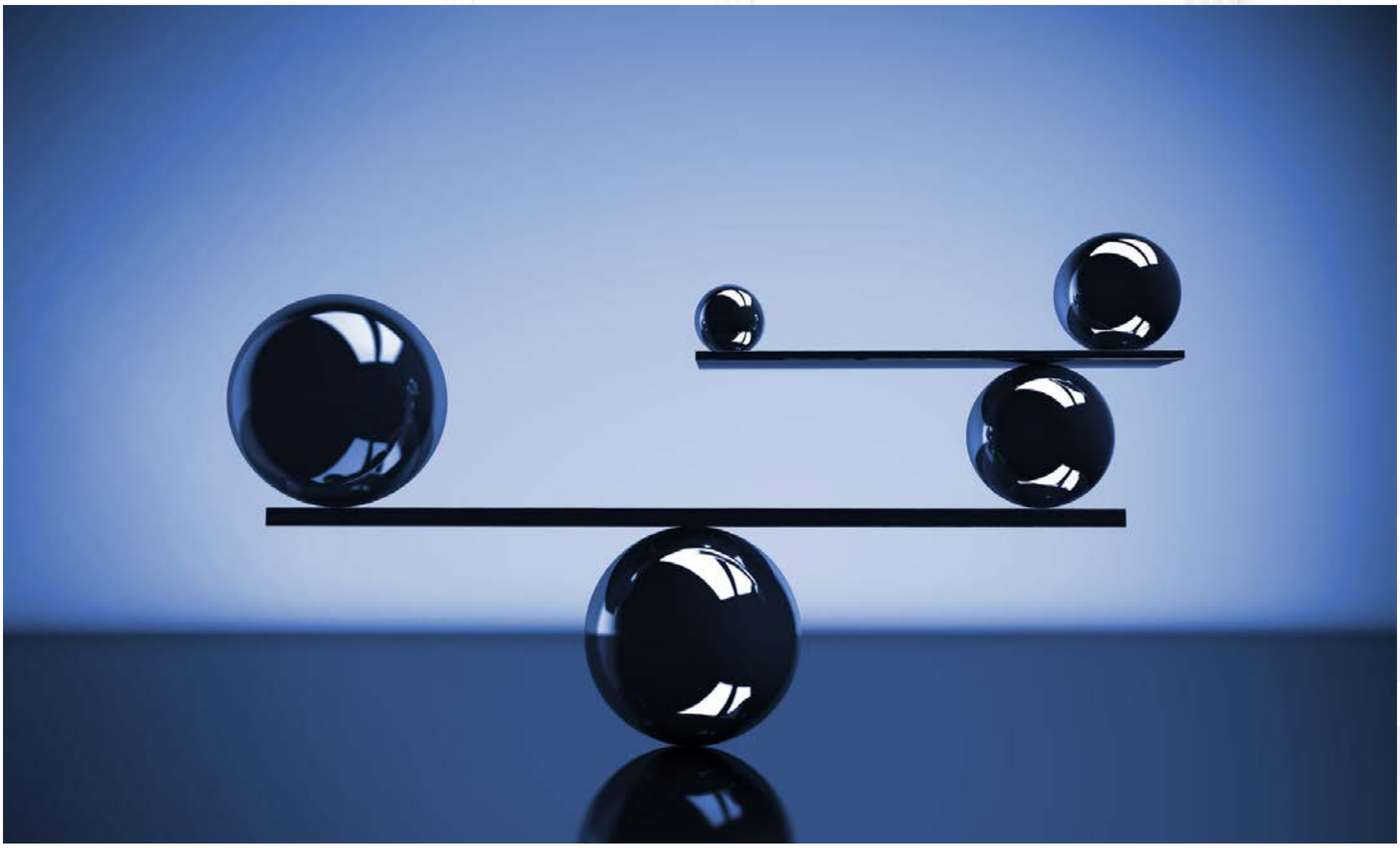
	LPP 60 Index	9.5%	11.9%	-3.8%	-1.7%
Real Estate CH	DB RB Swiss Real Est Fd	2.9%	2.9%	1.0%	3.1%
Hedge Funds	Hedge Fund Research USI	6.4%	6.4%	-1.1%	-1.1%
Commodities	GS Commodity USD	10.5%	10.5%	-36.3%	-36.3%

Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME
FOCUS



Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME

Rise in gold fuels rise in silver, platinum and palladium

- Stock market panic temporarily weighed on precious metals in March 2020
- Gold and silver: essential insurance policies
- Platinum and palladium: attractive prospects
- Most key factors for precious metal prices are favourable

Stock market panic temporarily weighed on precious metals in March 2020

Precious metal prices did not escape the occasionally intense fluctuations in value that affected all financial assets during the health crisis that has shaken the planet these last few weeks. Gold, despite always being considered as the ultimate safe haven, was also affected by the wave of panic that overwhelmed financial markets in March. The -14.7% drop in gold prices between 9 and 16 March probably took many investors by surprise, although undoubtedly less than the massive collapse in silver prices, which dropped by -40% during the same period.

Platinum (-44%) as well as palladium prices (-44.7%) literally crashed, defying all logic, also driven by a wave of irrational panic on the one hand, and by forced sales by certain market participants on the other. The irrationality of this stock market behaviour became obvious quite quickly for gold prices, however, which soon rebounded, erasing in only a few days the losses generated by the panic selling in March. While financial assets and equities in particular rebounded somewhat from their lowest levels in the last week of March, gold prices went through the roof and soon exceeded their peak level of USD 1700 per ounce reached at the beginning of March to soar above USD 1,750.

Only a few days were necessary for gold to regain its value as ultimate safe haven just as financial markets were beginning to move into a recovery phase.

Gold prices thus resumed trending upwards and have now reached their highest level since their low of USD 1,046 per ounce on 3 December 2015, only 10% under their previous historical high of USD 1,921 per ounce reached on 6 September 2011.

While gold made a triumphant if logical comeback in the last few weeks, the changes in the prices of other precious metals were not correlated to that of the yellow metal. Indeed, after a first relative rebound far less significant than that of gold at the end of March, silver, platinum and palladium prices stabilised at levels far below those observed before markets collapsed in March.

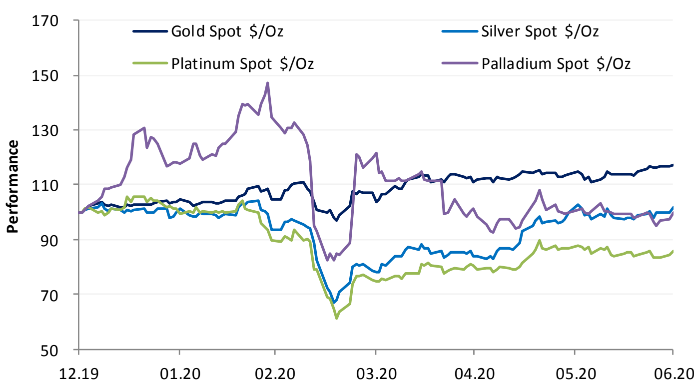
While precious metals had posted positive year-to-date performances before the health crisis, only gold (+14.8%) further boosted its positive performance, while palladium (0%) finally stabilised after some very strong volatility. As for silver (-4.5%) and platinum (-13%), they are still down significantly after a second phase of revaluation that benefitted silver in particular.

Most key factors for precious metal prices are favourable

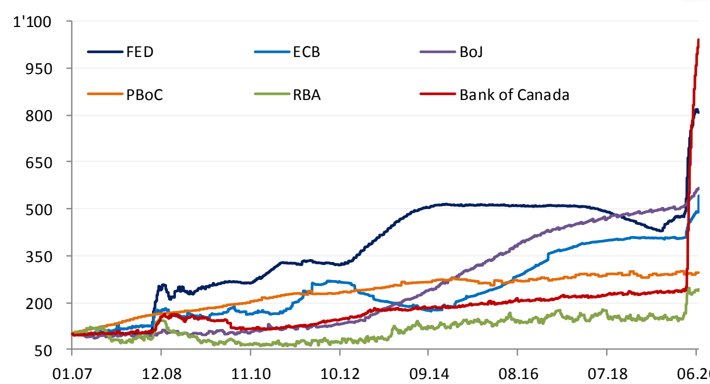
Most key factors driving the prices of gold and other precious metals are actually increasingly favourable. Among the main factors supporting a long-term bullish trend, let us first note the persistence of low or even negative nominal interest rates in the main industrialised countries. Real interest rates are also negative, due both to nominal yields close to zero and to declining, yet still positive, inflation.

Gold market fundamentals are clearly positive with demand exceeding supply likely for the foreseeable future. This imbalance favouring higher prices is also predicted for silver, palladium and platinum. Investment demand, which rose very sharply in the gold market, is also likely to intensify in other markets. The renewed tensions between the US and China have also exacerbated geopolitical risks a little further in a political context made more difficult since the Covid-19 crisis.

Gold, Silver, palladium, platinum (YTD 2020)



central banks balance sheets



Graph sources: Bloomberg/BearBull Global Investments

China's assertiveness towards Hong Kong and Taiwan these last few days heralds a cold war whose consequences may potentially be more serious than the economic fears relating to trade tensions in 2019. The major reorganisation of multinationals' supply chains currently unfolding is likely to reshuffle the cards among the actors of globalisation and cause a reduction of globalisation's deflationary effects.

The fight against Covid-19 will also have changed a significant parameter in the management of national budgets and debt levels. Getting out of the crisis will require a massive rise in budget deficits and debt levels.

To end this list of positive factors for precious metals, the monetisation of increased sovereign debt is inevitable and entirely shouldered by central banks. The liquidity injections already thought to be close to USD 10 trillion will likely rise further still in 2021. The consequences of these various factors for inflation leave little room for doubt in our minds. After a short deflationary phase during the collapse of growth in Q2 2020, we are likely to see a significant upswing in inflation in the next few quarters.

Finally, while the VIX index, a stress indicator for equity markets, already seems to point to a normalisation of the situation, we actually believe that high equity valuations have already substantially increased the risks of consolidation of stock indices.

Over a few weeks, investor sentiment went from euphoria in January to panic in March to then return just as quickly to a surprising sense of optimism despite the still very uncertain context for many economic sectors.

In this climate of high uncertainty, which could trigger new waves of profit-taking at any moment, precious metals still retain prospects for growth and seem perfectly well suited to help stabilise diversified portfolios in case of a return of the bear market for risky assets. In this context, we reiterate our favourable positioning towards gold and precious metals.

Narrowing of the price differential between gold and silver

It is not easy to try and rationalise a definition of the ideal ratio between the prices of gold and silver, even based on a historical analysis all the way back to Antiquity. Indeed, this ratio has changed quite significantly through time without us being able to easily determine an objective equilibrium ratio.

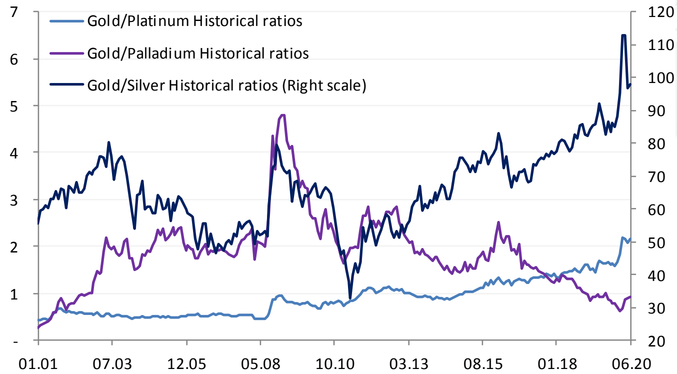
The value of gold compared to silver can also depend on the usefulness of one or the other for industrial and technological needs. However, beyond these considerations, we believe that the fluctuations in the ratios of the price of gold to silver as well as to platinum and palladium actually depend on the fundamentals of physical supply and demand and especially of shifts in investment demand and in how much investors consider precious metals a store of value in times of crisis.

Initially positive investor mindset and investment demand for gold

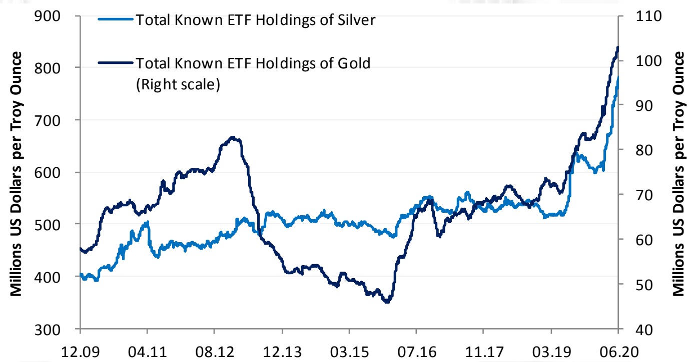
In the last few weeks, we have noticed some quite usual behaviour from investors seeking safe haven during times of growing uncertainty, which are nevertheless certainly considered as temporary. The first reflex is usually to seek to balance out portfolio risks by reducing exposure to risky assets in favour of stable assets like gold. In this first phase of the analysis, the need for protection is not perceived equally by all, and many sceptics thus do not participate in the trend.

Gold is usually the first precious metal to benefit from investors' fears and their return to risk-off mode . At first, the rise in gold corresponds to this influx of funds relating to investment demand. Momentum drives price increases and the further influx of funds more than fundamentals. The success of the long-gold strategy suggests other similar strategies, extending to other precious metals such as silver, which then seem cheap from a relative point of view As investment demand expands with the growing uncertainty, diversification into other precious metals becomes necessary to meet the rise in demand. Silver then seems easier to monetise due to its smaller denomination of coins than gold.

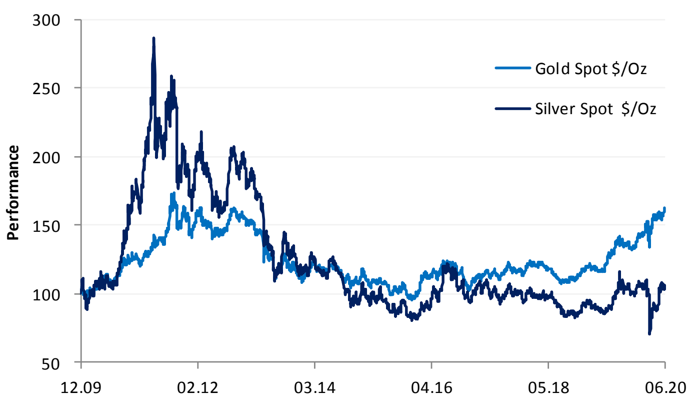
Historical ratios



Total holdings Gold & Silver Physical ETF



Gold and Silver 2010.2020



Graph sources: Bloomberg/BearBull Global Investments

Gold and silver: essential insurance policies

Since 1 January 2016, investment demand measured in gold ounces held by ETFs that invest in physical gold has increased together with the rising price of gold. From the low point of 46 million ounces reached at the end of December 2015 (price of gold USD 1,046), investment demand doubled in four years to return by the end of 2019 to the same level it had reached in 2012 when gold peaked at USD 1,921.

Investment demand for physical gold has also grown steadily since the beginning of the year, only stopping for a week mid-March.

It has now exceeded its November 2012 levels of 82.4 million ounces and is about to exceed the record figure of 100 million ounces. Despite the recent rise in gold prices, investment demand for physical gold is still likely to grow in the current context, which will remain uncertain for a while yet. Gold prices are likely to rise and exceed their 2011 peak of USD 1,921 per ounce to reach USD 2,000 in 2020. Negative real yields are favourable to gold, and higher inflationary expectations will reinforce demand for a store of value.

The gold/silver price ratio is at a historical high and points to an upcoming phase of normalisation probably based on an expansion of demand for silver as a store of value. Investment demand as measured by ETF holdings in physical silver showed spectacular growth in 2019 already, which has increased further still in 2020, representing a 42% rise over 15 months.

Both precious metals are trending upwards, but the normalisation of the gold/silver ratio will necessarily require a more significant revaluation of silver prices, which are still far from returning to their 2012 high of USD 50. At USD 17 per ounce, silver has a significant margin for progression and could initially already reach USD 22 in 2020. Hence, we believe silver offers the better prospects.

Platinum and palladium: attractive prospects

These two precious metals have been particularly affected by the Covid-19 crisis and prospects of a global recession. Fears of a collapse in global economic activity have strongly influenced investors' perceptions of the outlook for industrial demand for these two metals. Platinum and palladium prices are quite closely associated with the fate of the global automobile sector.

The unprecedented drop in vehicle sales in all countries affected by the pandemic and the lockdown thus logically had a massive impact on stock market prices in March.

However, the recovery in automobile production in China to 75% of its capacities in March must be taken into account. China represents 25% of the total demand for palladium.

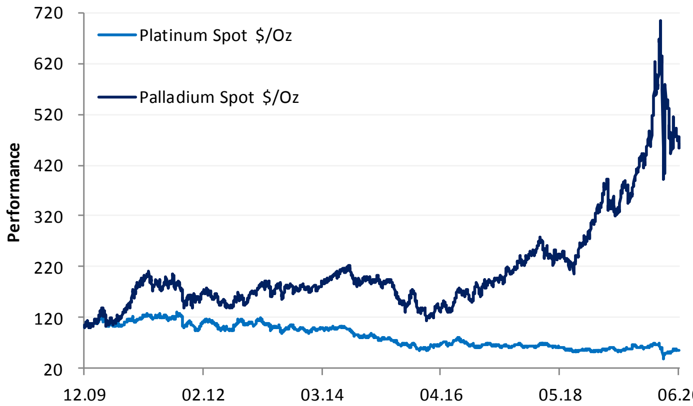
Demand for platinum relating to the automobile sector represents approximately 33% of total demand, while it represents 85% of the demand for palladium. The decision to close mines in South Africa and Zimbabwe (80% of market shares) for nearly one month will reduce the supply of platinum and palladium in 2020.

Furthermore, the generalised tightening of CO2 emission standards will also have an impact on the increase in demand for platinum and palladium for catalytic converters. The palladium market is in a situation of structural deficit in 2020 corresponding to approximately 15% of demand.

We believe that despite the reduced production of vehicles in Q2, the palladium market will still be characterised by excess demand. However, excess supply of platinum relative to demand is likely to curb price growth for the latter.

Palladium prices might reach USD 2,600 and progress by +30% in 2020. Platinum could progress by +20% to USD 1,000.

Ten-year US Treasury rate



Graph sources: Bloomberg/BearBull Global Investments

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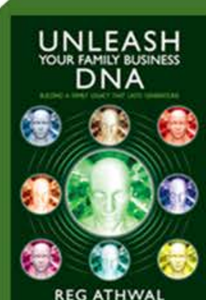

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