BearBull
Global Investments Group

Investment Strategy

October 2020

"THERE IS A BEAUTY THAT REMAINS WITH US AFTER WE'VE STOPPED LOOKING." | CORY RICHARDS, PHOTOGRAPHER AND EXPLORER, WEARS THE VACHERON CONSTANTIN OVERSEAS.

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TABLE OF CONTENTS

Introduction
4 Letter to Investors - Investment climate

« Big picture »
5-6 Key Convictions

Economic scenario by region
8-10 Global Outlook
11-15 United States
16-19 Switzerland
20-23 Eurozone
24-26 United Kingdom
27-28 Japan
29-30 China
31-32 United Arab Emirates
33-35 Emerging markets

Prospects and strategies by asset class
38-40 Currencies
41-43 International Bonds
44-45 Swiss Bonds
46-48 International Real Estate
49 Swiss Real Estate
50-52 International Equities - Regions
53 International Equities - Sectors
54 Swiss Equities
55 Swiss Equities - Sectors
56-57 Commodities
58 Alternative Investments - Hedge Funds & Private Equity

Global strategy - Asset allocation
60 CHF Portfolio
61 EUR Portfolio
62 USD Portfolio

Investment theme - Focus
64-66 A new paradigm for hydrogen stocks

Graph sources: Bloomberg/BearBull Global Investments

INTRODUCTION

Letter to investors – Investment climate

- Investors and the general population were dangerously cavalier over the summer
- Second wave of Covid-19 now on the horizon
- Confidence remains inordinately high in financial markets
- Exiting the economic crisis could be slower than expected
- Political uncertainty in the US has not been factored in

A certain carelessness made a dangerous comeback in 3Q 20 on the public health front and in financial markets. In China, it seemed like the Covid-19 crisis was already over, while in Europe, for instance, assurances regarding the effectiveness of various forms of lockdown seemed to herald a return to normalcy in June. In the US, the situation remained tense, with the death toll exceeding 200,000 people. Nevertheless, optimism and insouciance seemed justified, as the lockdowns had been eased before the summer, and more relaxed policies, based essentially on respecting preventative measures, had been put in place. The risks of a second wave were obviously not completely eliminated during this period, but a second wave seemed, probably mistakenly, more manageable than the first one. The end of the shortage of masks and sanitiser and the frequent announcements regarding positive progress in the search for vaccines and cures further stoked the feeling that the crisis was ending, especially since statistics also pointed to a sharp decrease in the spread of the virus in many European countries. As summer turns to autumn, it's back to a much more worrisome reality with regards to the pandemic. Indeed, statistics are showing a resurgence of virus activity and propagation virtually everywhere. The US president has continued to show a complete lack of concern following his brush with the virus, while unease is increasing among the general population, as governments are announcing new measures to counter the renewed risks of overcrowding in healthcare facilities as flu season approaches. People now seem to be realising that the pandemic is far from being under control and that its impact on public health and on the global economy will be significant for another few quarters. Not so in financial markets, however, where a certain euphoria still prevails. Most financial assets continued to trend upwards over the past quarter, as they did in the previous quarter, not in the least affected by renewed risks relating to the resurgence of the pandemic. The liquidity supplied by central banks seems sufficient to provide reassurance and is contributing significantly to investors' still very nonchalant outlook. US tech stocks' spectacular rise in August may be the clearest manifestation of the optimism prevailing in financial markets over the summer. The generalised collapse of growth in most economies in Q2 has not been a source of concern, as confidence in the ongoing recovery and in the unconditional support of central banks and governments has grown further. In interest rate markets, yields eased further still, and the performances of global indices were thus slightly positive in Switzerland (+0.86%) and internationally (+2.66%), driven by the high yield segment, up +4.28%. The guarantee that central banks will continue to purchase assets appears to be the key factor driving this trend. With regard to securitised real estate, persistently low interest rates bolstered share prices in Switzerland (+4%) and internationally (+1.8%), but the risk of vacancies in the commercial sector is hampering recovery in this segment. International equity markets (+7.93%) were the biggest beneficiaries of the summer's heedlessness, essentially due to the rise in US tech stocks, which drove up global indices like the S&P500 (+8.93%) as well as emerging markets (+9.65%). As for commodities (+4.61%), they benefited from the rise in industrial metals (+9.78%) and precious metals (+4.61%). Non-traditional assets such as private equity (-1.04%) and hedge funds (+2.74%) did not shine over the period. As for currencies, the franc strengthened against the US dollar (+2.79%) and the yen (+0.52%) but weakened against three other reserve currencies, namely the euro (-1.43%), the pound (-1.3%) and the yuan (-1.12%). Q3 thus closed on fairly positive performances for most financial assets, in a still very optimistic investment climate. However, just a few weeks away from the US presidential election, uncertainties seem more and more significant on both the public health and economic fronts. While a global economic recovery is indeed underway, driven in particular by the economic upturn in China, and leading indicators in many other countries are promising, the nature of this recovery in 2H2020 and 2021 still has to be assessed more concretely. As we mentioned previously, the stimulus packages announced in Q2 will likely still have to be followed by further support measures for as long as necessary to counter the devastating economic impacts of the pandemic. In the US, President Donald Trump announced that there would be no agreement on such a package before the elections on 3 November, at the risk of causing the recovery currently underway to falter. In addition, his posturing regarding whether he would accept the results of the election is also concerning, as it clearly suggests that he will contest those results and that the latter will not be confirmed swiftly in November. Just a few weeks before the end of the year, such political uncertainty should not be overlooked given the persistently high valuations of financial markets and the significant public health and economic risks. In the 2000 presidential election opposing George W. Bush to Al Gore, the results in Florida were contested, as Bush had obtained just 537 more ballots than Gore, enabling him to claim 271 Electoral College votes nationally, just 1 more than required to win the election. After a month-long legal battle, the Supreme Court stopped the recount with a 5 to 4 vote, thus declaring George W. Bush the 43rd president of the United States. Financial markets did not particularly appreciate this period of uncertainty, which saw the S&P500 and the Nasdaq drop by around -10% and -28%, respectively, between 8 and 30 November.

Alain Freymond
Partner & CIO
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Graph sources: Bloomberg/BearBull Global Investments

BIG PICTURE

Main convictions

- The second wave of Covid-19 could slow the economic recovery
- The US elections will strengthen the new global fiscal paradigm
- Policy rates will remain very low for a long time
- Moving towards a complete monetisation of new government debt
- The US presidential election could change everything in November

The second wave of Covid-19 could slow the economic recovery

The various lockdowns and other preventative measures implemented by governments caused significant economic contractions in 2Q 2020. The easing of lockdown restrictions in various countries successively at the beginning of Q3, when the pandemic seemed under control, ended up recreating conditions that fuelled the pandemic over the summer. Obviously not all countries are equal in the face of these recent developments. While in the US tensions remained high throughout, in Europe some countries are already seeing a rapid progression of the much-feared second wave as of early autumn. In this context, it now seems clear to most political leaders that another series of general lockdowns would not be tolerable economically. Further lockdowns are thus not desirable and will be avoided as long as possible. However, it may not be possible to avoid ever more penalising restrictions, which will have substantial economic repercussions over the next few months and into 2021. Financial markets rose over the past six months based on expectations of a forthcoming resolution of the public health crisis and its economic consequences. Results for 3Q2020 may conceivably live up to these expectations, but the risks of disappointment are now increasingly likely over the coming months. The current economic situation is once again undercut by the onset of the second wave of Covid-19, in spite of strong monetary and fiscal support. The risk of another global economic slowdown must thus be taken into account more seriously as the year comes to a close.

The US elections will strengthen the new global fiscal paradigm

The Covid-19 pandemic has already completely altered fiscal doctrines in many countries over the past months, but the onset of a second wave will significantly strengthen this trend. The political measures implemented to protect populations against the virus turned out to be extremely costly. The initial impact on national budgets is already substantial, and government deficits will likely continue to expand. In a large number of countries, fiscal austerity is no longer in fashion. The aim is no longer to restrain the growth of national debt and find a solution to the transfer of debt to future generations but rather to safeguard the economic system and avoid social collapse and the pauperisation of parts of the population. The US presidential election on 3 November could thus strengthen this new global fiscal paradigm. The election of Democrat Joe Biden and his running mate Kamala Harris would have a significant impact on the management of the Covid-19 crisis, which will still be ongoing when the next president takes office in January 2021. Joe Biden's programme would no doubt have a significant impact on US government spending and debt. The election of Joe Biden would bolster this new global fiscal paradigm by initially favouring an increase in spending before trying to rebalance the budget by raising taxes.

Policy rates will remain very low for a long time

Central banks intervened swiftly as the public health crisis broke out to control the incipient panic taking over financial markets in March. Monetary policies were quickly adjusted to reassure financial markets and the people affected. Policy rates were lowered, approaching 0% or even venturing into negative territory. Over the quarter, the situation remained relatively stable, and interest rate steering policies remained unchanged in most developed countries. Absent a significant global economic recovery, this situation should be deemed the new normal. While at the short end of the yield curve the situation seems unlikely to change for at least several quarters, at the long end the situation is a little more uncertain. Indeed, shifts in long-term yields will depend essentially on the situation regarding government and corporate financing needs, net new issuance, and central banks' capacity to absorb the latter.

Moving towards a complete monetisation of new government debt

Governments' additional financing needs to contend with the direct and indirect costs of the Covid-19 crisis were announced fairly accurately and ultimately fairly rapidly after the crisis broke out. The US (2.2 trillion dollars), European (1.8 trillion euros), Japanese (1.1 trillion dollars), Chinese (1 trillion dollars) and other stimulus packages will thus weigh heavily on government budgets and debt levels. These amounts will indeed be added to the trillions in regular funding that these governments rely on to finance and close their annual budgets. Thus, in the extraordinary context of 2020, the onus will be on the respective national or regional central banks to finance these new liquidity needs. These central banks' balance sheets had already ballooned in response to the 2008 economic crisis, and in 2020 they once again expanded substantially and are expected to swell further still with the likely growth in national financing needs in 2021. The Bank of Japan and the European Central Bank already increased their balance sheets by 1.4 trillion and 2 trillion dollars, respectively, while the assets of the US Federal Reserve grew to 3 trillion dollars. The central banks are in an irreversible headlong flight forward and are unlikely to stop adding new government debt issuance to their balance sheets any time soon. Long-term interest rates are thus likely to remain under central banks' quasi absolute control, as they have been throughout the last quarter. However, governments' financing needs will continue to grow, potentially testing central banks' resolve and the enthusiasm of private investors.

Some are already going down that route, while the additional financing needs of the US are politically determined. Democrats and Republicans are thus engaged in a tug-of-war regarding the outlines of a new stimulus package: the former are calling for 3 trillion dollars in spending while the latter want to limit it to 1 trillion dollars. Talks were unsuccessful and were moreover undermined by Trump's statement that nothing would be decided before the elections. Nevertheless, the US Treasury Department was already estimating its needs at an additional 3 trillion dollars to avoid an economic downturn over the next few months. Continuing failure to come to an agreement would have negative consequences for the US economy, which could then deteriorate once again in Q4.

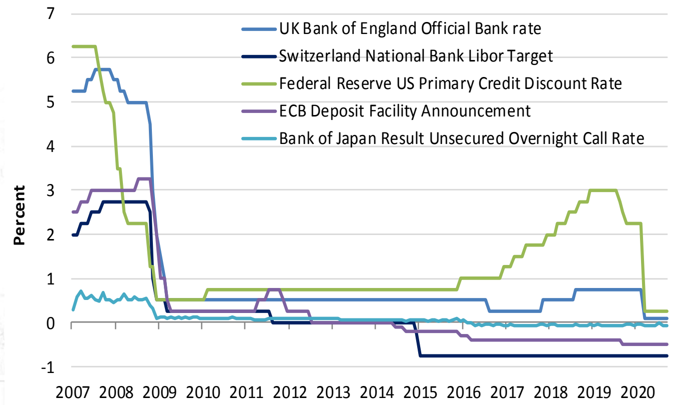
Graph sources: Bloomberg/BearBull Global Investments

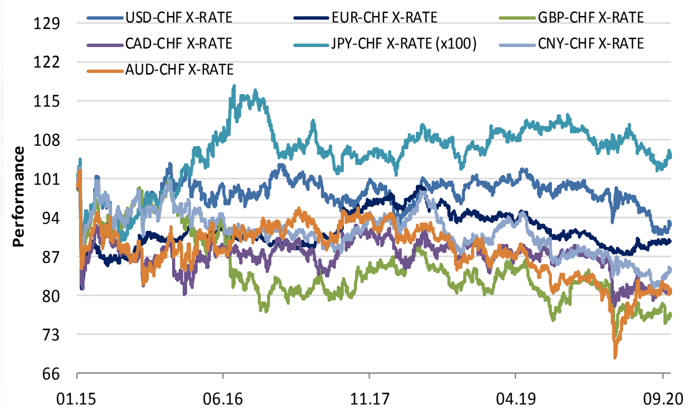
The US presidential election could change everything in November

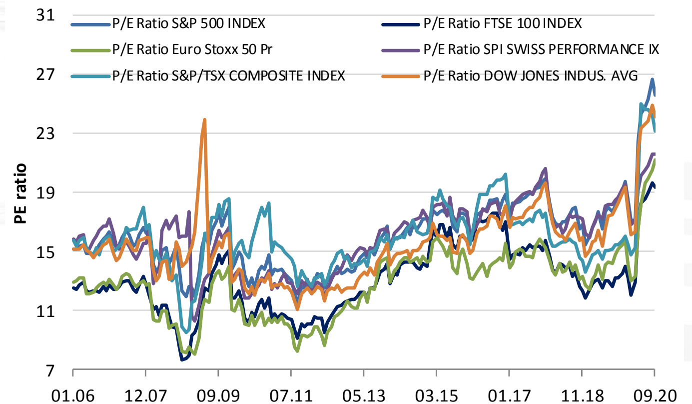
In a few weeks, the US presidential election could trigger a change in outlook and a reassessment of risks and opportunities in financial markets. As in 2016, the Democratic candidate, Joe Biden, is ahead in national polls three weeks before the 3 November election. However, this may not be sufficient to win against the outgoing president, even if Biden seems to be maintaining a comfortable lead, for now. We often forget that the US system is based on the number of electors in the Electoral College and not on the absolute number of ballots obtained. In 2016 Hillary Clinton had garnered 2.87 million more votes than Trump, but Trump won thanks to a majority of electors due to wins in a few key states. Hence, it is critical to be able to estimate what states are likely to tip the majority of electors in favour of the Democrats or the Republicans in 2020 to determine whether Trump once again has a chance of being elected without winning the popular vote. Electoral speculations notwithstanding, it would seem that the risk of contested election results is in fact a significant new factor of uncertainty to be taken into account. It is indeed more and more likely that results will be contested following the election and that this will lead to a new phase of uncertainty just a few weeks before the end of the year. In 2000, Gore's legal challenge ultimately resulted in the election of George W. Bush following a 5-4 decision by the Supreme Court. Trump's nomination of a new justice to the Supreme Court just before the presidential election Is thus particularly sensitive give the current context. The uncertainty that lasted a little under a month drove the S&P500 down by -10% and the Nasdaq down by -28%. The end of the year is thus likely to be beset by uncertainty, due also to other factors such as fiscal implications for corporates and individuals, whose tax rates will increase significantly under a Democratic president.

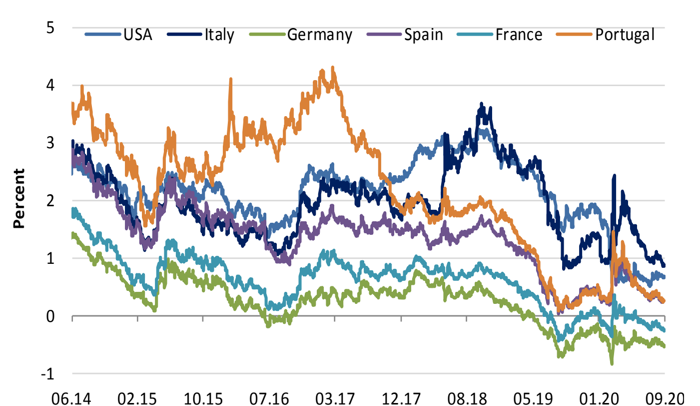
Taxes are likely to rise, threatening financial markets

Current analyses do not seem too concerned by the risks of an increase in US taxes, perhaps because this negative factor could well be offset by the positive impact of expanded economic support and by a further expansion of the US budget deficit if Biden is elected. It is true that an economic stimulus of approximately 7 trillion dollars would bolster the economy and corporate sales, but raising corporate taxes from 26% to 33% would also have negative consequences for earnings growth and could easily reduce current estimates for 2022 by -10%, down to only $171 per share for the S&P500. Current earnings expectations for 2021 have already reached $168, approximately +10% above the $155 12-month forward estimate. It is likely too early to take this possibility into account. However, given US equities' already rich valuation levels, this and other uncertainties could add up and push the needle into the risk-off zone over the next few weeks.









Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Global Outlook

- Global GDP growth to slow in Q4
- Overly optimistic expectations for pre-election GDP in the US
- Economic slowdown in the EU
- Relatively solid growth outlook for Swiss GDP
- Everything seems hunky-dory in China

Global GDP growth to slow in Q4

Unfortunately, Q4 has started off with another acceleration of the pandemic in a number of countries. The general easing of lockdown restrictions in Europe over the summer created conditions conducive to a new wave of infections. The intermingling of people in certain geographic zones and the return from holidays in September contributed to renewed spread of the virus. Europe is now once again at the epicentre of reported new cases with worrisome increases in some countries such as France. The situation in the US is also troubling, as case numbers continue to increase in most states.

As expected, the easing of restrictions virtually everywhere since the beginning of the summer boosted economic growth in Q3. However, we note a somewhat generalised slowdown in September, which is likely to continue in Q4 in most countries. While financial markets seem convinced that the outlook for the economy is strong and the effects of the abundant liquidity injections in various developed economies will be uniformly positive, we believe the risks of an economic slowdown at year-end are high. Things are not likely to return to normal for a long time, and a temporary reversal in the global economic recovery seems more likely than a solid v-shaped recovery. Our global scenario rests upon a two-stage economic recovery.

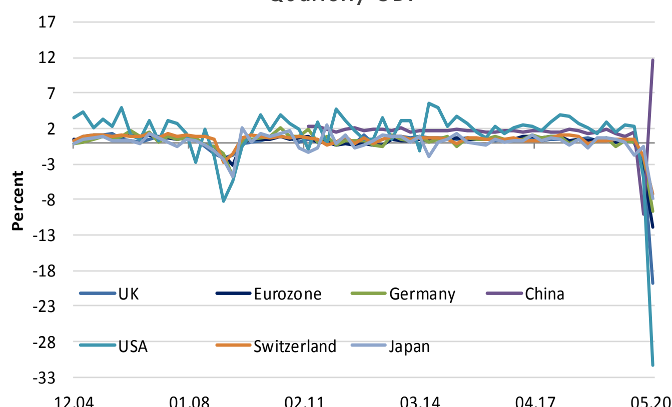
The dip in the ongoing recovery will likely intensify with the second wave of the epidemic materialising in early autumn. The downturn will likely be followed by further support measures by central banks and governments, which will expand budget deficits in the short term but will likely ensure a steadier and more lasting recovery in 2021.

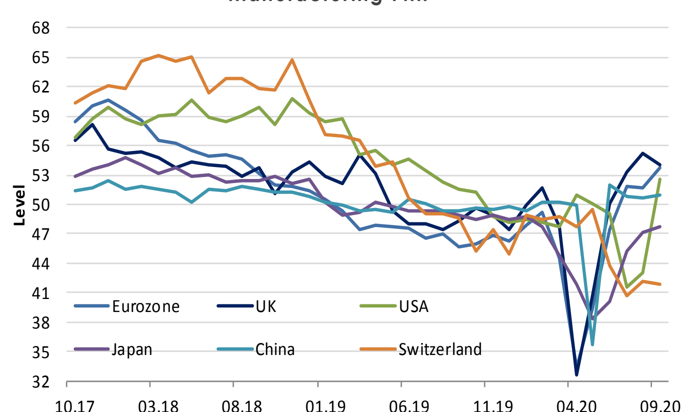
The autumn and winter will still be difficult before a gradual return to "normal". Investor expectations are probably already too optimistic and will likely be followed by some disappointment on the economic front.

Overly optimistic expectations regarding pre-election GDP in the US

Economists' consensus forecast for US economic growth in 3Q2020 was revised upwards from +25% to +29.9%. Should this prediction bear out, these results would almost completely erase the -32.8% (annualised) collapse in Q2. Given the public health context in Q3 in the US, where the number of Covid-19 cases and deaths has increased, the consensus seems optimistic. Leading indicators have certainly progressed, suggesting a sharp pick-up in activity and exceeding their pre-Covid levels both with respect to the services PMI (54.6) and the manufacturing PMI (53.2). However, the unemployment rate, at 7.9%, is still only midway between the 4% reached in March and the 14.7% peak reached in April. While workers side-lined during the initial shock are clearly returning to the job market, this return is gradual and far from universal. More worrying still, new job creation is losing steam, falling from 4.781 million in June to 661,000 in September.

Given the loss of momentum in job creation and the only partial offset by unemployment benefits, which expired in July, household consumption will not be sufficiently strong for GDP growth to be as positive in Q3. Liquidity injections by the Fed have been significant, and its balance sheet has indeed ballooned to support the increase in federal debt, while the US budget deficit will likely reach 3,700 billion dollars in 2020, or close to 20% of GDP, in short the largest deficit since the Second World War. In 2008, during the system-wide subprime crisis, the deficit grew to "only" 1,4000 billion dollars. The risks of disappointing growth in H2 thus seem substantial in this context, even if Trump would welcome such convenient news on 29 October, just before the presidential election on Tuesday, 3 November.





Graph sources: Bloomberg/BearBull Global Investments

Economic slowdown in the EU

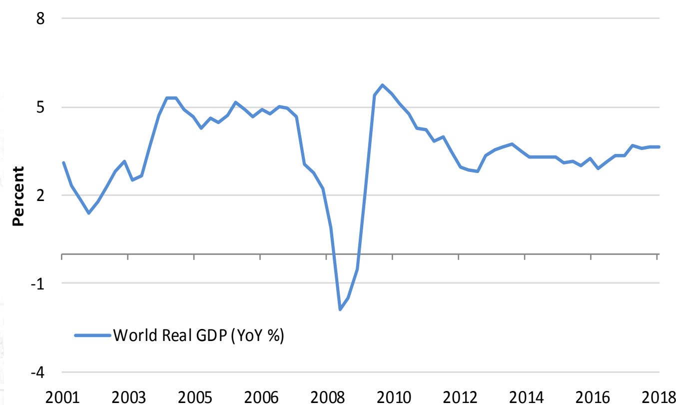
Optimism is more measured with regards to European GDP growth, which already seems to be flagging following what was likely a sharp upturn at the beginning of Q3. European industrial output slowed sharply over the summer, after an initial jump in May, but it could ultimately turn out to be only very slightly positive in September. Nevertheless, PMI leading indicators are pointing to an even stronger recovery than in the US, with sharp increases in the manufacturing PMI indicators from 33.4 in March to 53.7, the highest level reached since September 2018, and in the services PMI indicators from a record low of 12 in March to 48 in September, though slightly down over three months. The unemployment rate grew only slightly between March (7.2%) and September (8.1%), which is always a positive factor in terms of household consumption. The +9% pick-up in growth expected in Q3 will obviously not erase the -11.8% contraction of the previous quarter.

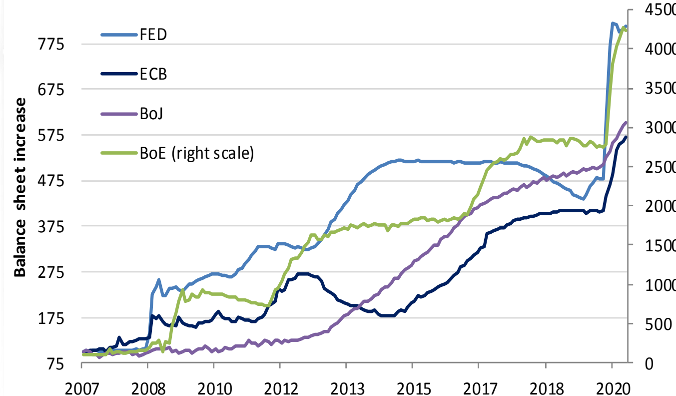
The year will likely end on much slower growth in Q4, in particular if the current resurgence of the pandemic has a lasting impact on the consumption climate in the largest EU economies. At the end of the year, public health measures will likely affect some service sectors more than others, but overall there is not much likelihood that European GDP will strengthen significantly over the next few months. The ECB will likely have to intervene again to shore up European countries' stimulus packages and announce new support measures. It will probably announce an increase in its PEPP programme from 500 to 600 billion euros. In this environment, European GDP will likely contract by -7% in 2020, followed by a +5% upturn in 2021.

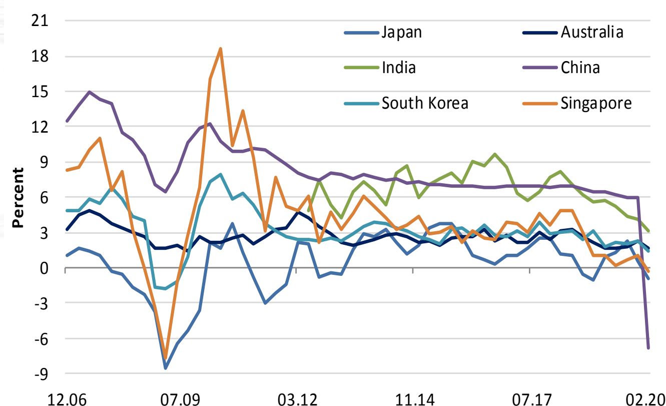
Relatively solid growth outlook for Swiss GDP

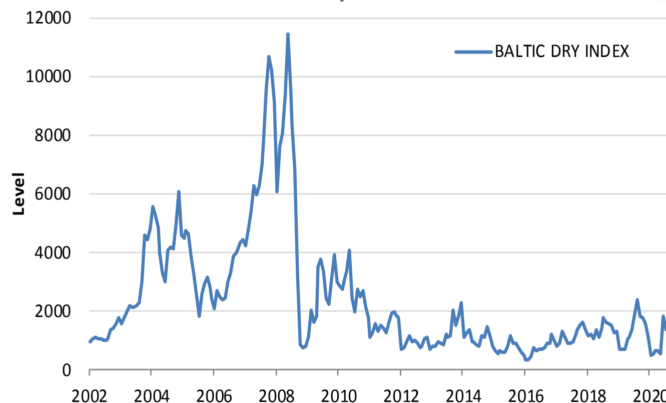
After a -10.5% contraction in GDP in H1, a clear recovery from Q3 onwards is now probable. Most leading indicators now point to a significant recovery in GDP in Q3, which could approach +5.5% in that quarter and +1.5% in Q4 2020. The manufacturing PMI index for August (+51.8) is back above its theoretical growth threshold (50) after hitting a low point of 40.7 in April. These results are also supported by the order book component, which proved to be even more solid (53.7). This trend was further confirmed by the rise in the services PMI, which stood at 51.7, a clear recovery from its April low of 21.4. As for the KOF leading indicator, which had collapsed from 101.7 in February to 49.5 in May, it rebounded in just three months to 110.2, its highest level since August 2010.

Consumer confidence is also back almost to its pre-Covid levels, jumping from -39.3 to -12, despite still hesitant retail sales. The favourable outlook for H2 is essentially based on expectations of a global economic recovery following the gradual easing of lockdown measures in the main developed economies and the return of "normalised" activity with no new risk of widespread ockdowns, as many governments have already announced that further lockdowns are not an option. While a second wave still seems possible, it should not be of the same nature and is unlikely to have the same devastating effects.









Graph sources: Bloomberg/BearBull Global Investments

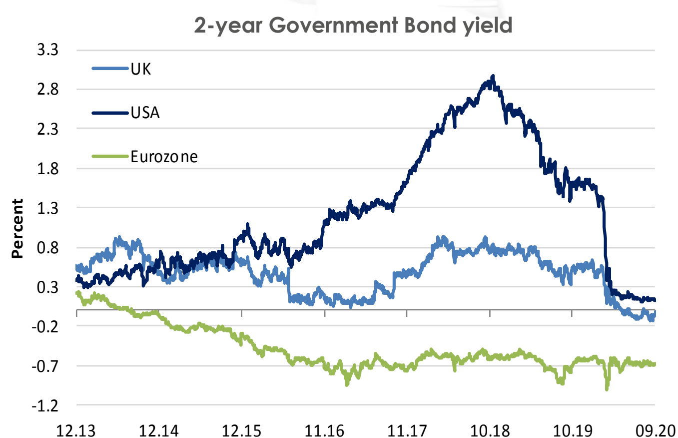
Everything seems hunky-dory in China

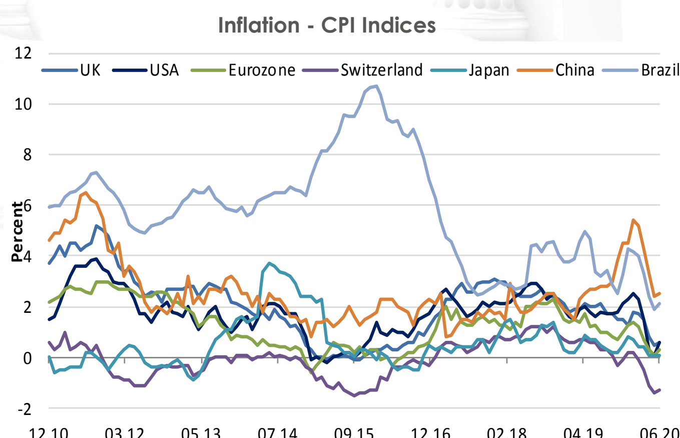
The Chinese economy appears to be back on track and will probably post GDP growth of around +3% in Q3, following a +1.5% rebound already in the previous quarter. PMI leading indicators are on the mend since March and have been stabilising since then. In March, the manufacturing PMI, at 52, had already exceeded its January levels (50), after reaching a record low of 36 in February. The non-manufacturing indicator surprised on the upside, increasing more than expected over the last few months and reaching its highest level since 2012. The Chinese recovery thus seems to be gathering steam and involving an increasing number of sectors. Industrial corporate earnings, which had fallen precipitously, albeit temporarily, from December 2019 through March (-34.9%) year-on-year, recovered rapidly to then stabilise at +19.1% yoy in August. Exports also resumed a clear upward trend after the brief shock in Q1, with a sharp increase of +9.5% yoy at the end of August. The economic slowdown expected in developed countries will have an impact on output and exports in Q4. Chinese GDP is still anticipated to progress at the lively pace of +1.5% in the last quarter, to close the year on overall growth of +2%.

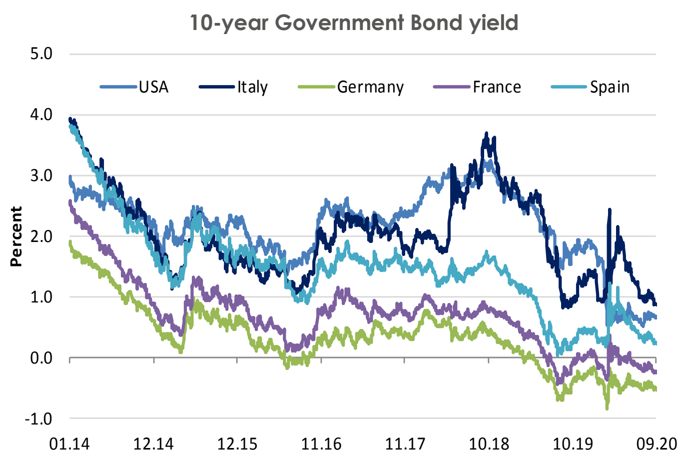
Japanese leading indicators point to an only modest recovery in H2

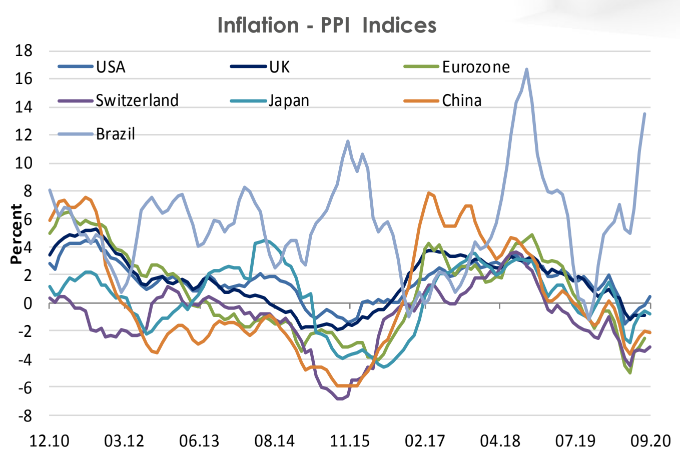
The economic recovery already under way in China in Q2 (+11.5%), which seems to have continued at a sustained pace during the summer, will certainly be a major support factor for Japanese growth in Q3. The Japanese export sector is indeed likely to quickly benefit from the return of China's external demand, which is likely to have a positive impact on Japan's GDP in Q3. Japanese exports to China grew by 8.2% in July and 5.1% in August. A rapid resumption of exports to China but also to the United States is clearly a positive sign for the current quarter. Industrial production, up 8.7% in July, also recorded its strongest ever monthly growth rate since the statistic was first published in 1978. The Japanese economy is likely to ultimately contract by only -5.7% over the whole year thanks to the ongoing recovery in Q3, with GDP expected to grow by +15.4% (SAAR), then by +5% (SAAR) in Q4. It should then continue to recover at the slower pace of +2.5% in 2021 and +1.7% in 2022.

The historical plunge to 38.4 in the manufacturing PMI index and to 21.5 in the services PMI index in May, well below the growth threshold of 50, was consistent with the economic collapse observed in Q2. However, the strengthening of these indicators since June now confirms the trend observed during the summer of an upturn in economic activity and industrial production in particular. The manufacturing PMI index is steadily strengthening, without yet reaching the growth threshold of 50, but shows clear positive momentum. On the services side, uncertainty remains after a sharp initial recovery, which had led to a rebound to 45 in June, and which has not been followed since by the hoped-for revival of optimism. Consumer confidence has not shown any real change in sentiment either in recent months and is still well below the levels of recent years despite a slight improvement early in the summer. The leading indicators for construction are still gloomy as well, so economic growth in Q3 will likely depend mostly on the current recovery in industrial production and exports, as it is not expected to be strongly supported by domestic demand.







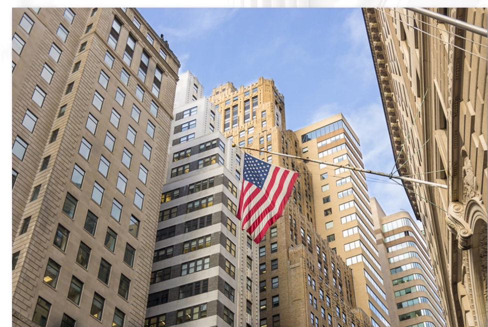


Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United States

- Second wave of Covid-19 could slow US economic recovery
- Over-optimistic expectations for US GDP?
- Massive, sustained and unconditional support from the Fed
- Full monetisation of US Treasury issuance?



Second wave of Covid-19 could slow US economic recovery

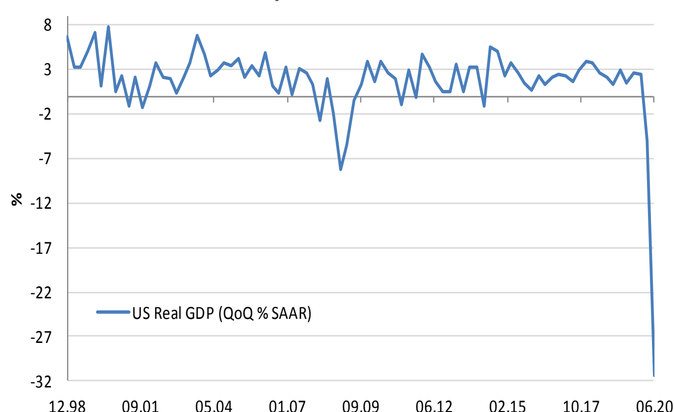
The various lockdowns and other preventative measures implemented by governments caused significant economic contractions in 2Q 2020. The easing of lockdown restrictions in various countries successively at the beginning of Q3, when the pandemic seemed to be under control, only recreated the conditions for a resumption of the pandemic during the summer. Obviously not all countries are equal in the face of these recent developments, but in the United States tensions have remained high, and the public health crisis still seems far from being under control. US President Donald Trump's consistently optimistic statements since the beginning of the health crisis about the US' ability to rapidly discover and produce effective vaccines and treatments do not change the harsh current reality.

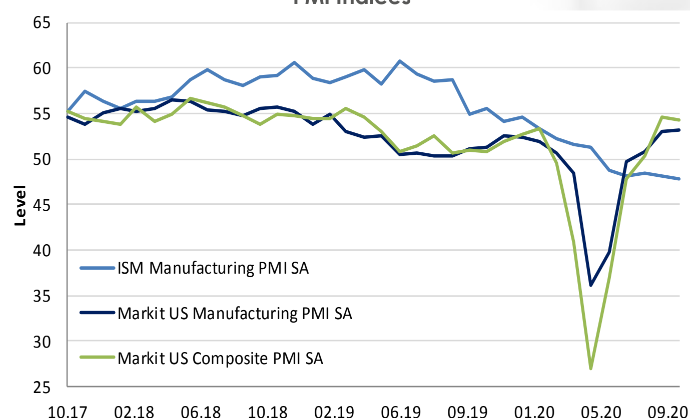
The epidemic is still spreading, and the death toll now exceeds 200,000 people in the US. The president's contraction of the virus and his rapid recovery have even reinforced his conviction that Covid-19 is not so dangerous and that there is no need to be afraid of it. In this context, however, it now seems clear to the vast majority of American political leaders that another general lockdown period would not be economically bearable. A further lockdown is therefore not desirable and will be ruled out for as long as possible in most states. However, it may be impossible to avoid increasingly penalising new restrictions, which would have a severe impact on the economy in the coming months and into 2021. Financial markets rose over the last six months in anticipation of a forthcoming resolution of the public health crisis and its economic consequences. Results for Q3 2020 may live up to these expectations, but the risks of disappointment are now more and more likely in the coming months. The current economic situation is therefore still very fragile despite the strong support of monetary and fiscal policies. The risk of a further economic slowdown in the US at the end of the year must therefore be considered more seriously.

Over-optimistic expectations for US GDP?

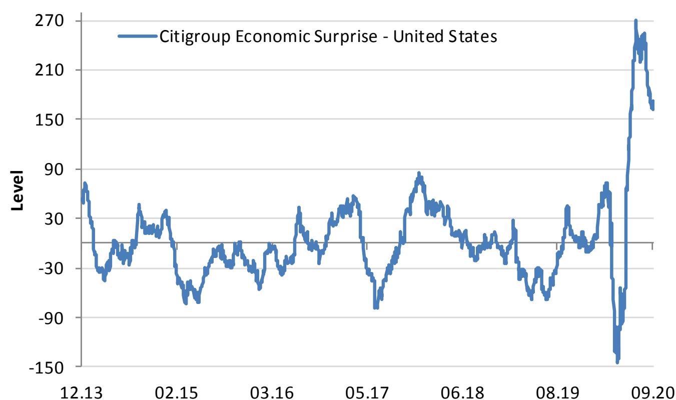
Economists' consensus forecast for US economic growth in Q3 2020 was revised from +25% to +29.9%, a result which, if true, would almost totally erase the -32.8% collapse observed in Q2 on an annualised basis. Given the public health context of the third quarter in the US, which saw an increase in the number of Covid-19 cases and deaths, this prediction seems optimistic. Leading indicators have certainly improved, pointing to a clear recovery in activity, and both the services PMI (54.6) and the manufacturing PMI indices (53.2) are above their pre-Covid levels. Nevertheless, the unemployment rate of 7.9% is still halfway between the 4% level reached in March and its peak of 14.7% reached in April. The return to the labour market of workers who were displaced during the initial shock is visible, but it is gradual and still far from complete.

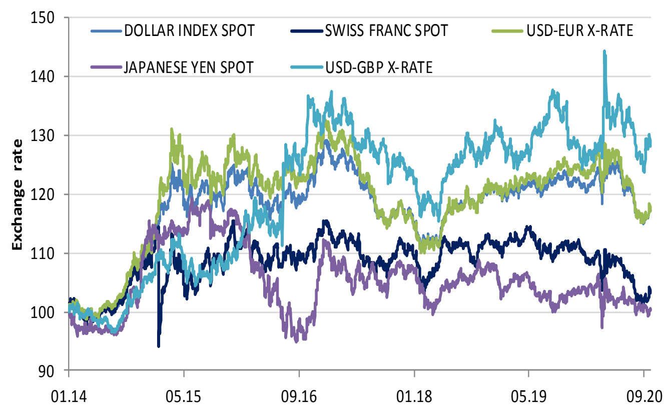
More worrying still, the number of new jobs created is losing momentum, with job creation falling from 4,781 million in June to 661,000 in September. Given the loss of momentum in job creation and the only partial compensation by unemployment benefits, which expired in July, household consumption will not be sufficiently strong for GDP growth to be as positive in Q3.





Graph sources: Bloomberg/BearBull Global Investments





The Fed's injections of liquidity have been significant, and its balance sheet has indeed surged to support the increase in federal debt, while the US budget deficit will certainly reach USD 3,700 billion in 2020, or nearly 20% of GDP, quite simply the largest deficit recorded since World War II. In 2008, during the systemic subprime crisis, the deficit was "only" USD 1,400 billion. The risks of disappointing growth in the second half of the year thus seem significant in such a context, even though Donald Trump would welcome such convenient news on Thursday 29 October, right before the presidential election on Tuesday 3 November.

US elections will reinforce the new fiscal paradigm

The Covid-19 pandemic has already completely changed fiscal doctrines in recent months, but the onset of a second wave will significantly strengthen this trend. The political measures implemented to protect populations against the virus turned out to be extremely costly. The initial impacts on the US budget have already been impressive and no doubt will continue to widen the US Treasury deficit in the coming quarters. Fiscal austerity is no longer in fashion. The aim is no longer to slow the increase in national debt and provide a solution to the transfer of debt to future generations but rather to safeguard the economic system and avoid social collapse and the impoverishment of part of the population. The American presidential election on 3 November could thus reinforce this new fiscal paradigm.

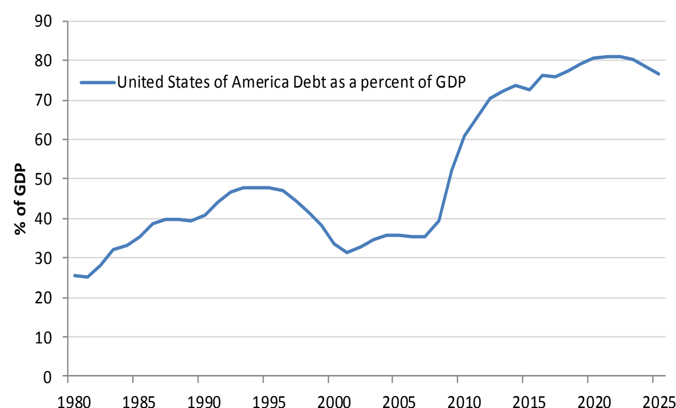
A victory for the Democrats would have the notable consequence of increasing public spending to implement an economic stimulus programme, including support for the American population, estimated at USD 7 trillion. The election of Democrat Joe Biden and his running mate Kamala Harris would therefore have a significant impact on the management of the Covid-19 crisis, which will still be ongoing when they take office in January 2021.

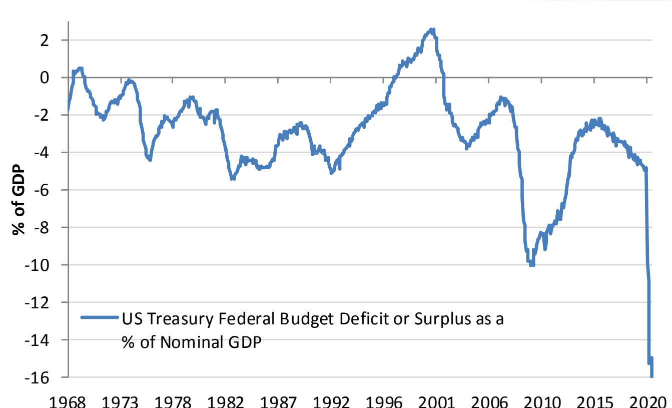
Joe Biden's programme would therefore quickly have a significant first impact on government spending and debt by initially encouraging an expansion of government spending before attempting to rebalance the budget by substantially raising taxes.

Rising taxes threaten financial markets

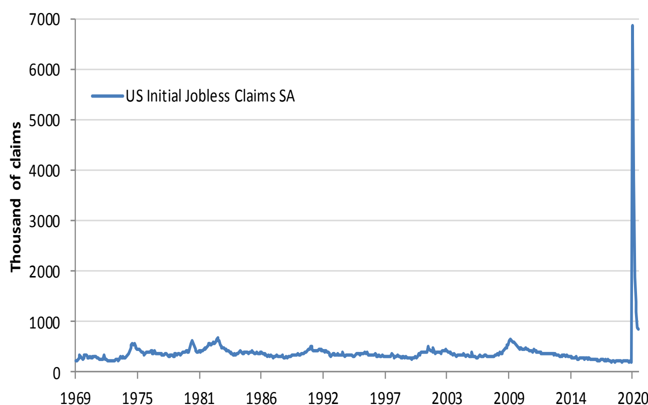
Current analyses do not yet seem to be paying much attention to the risks of an increase in US taxes, perhaps because this negative factor may well be offset by the positive effects of broad economic support and a further expansion of the US budget deficit should Biden be elected.

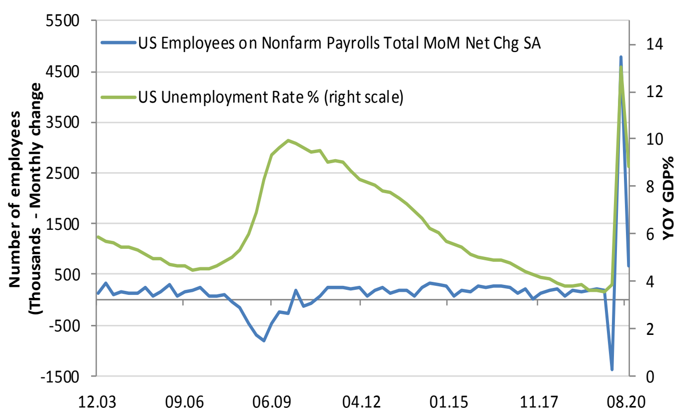
It is true that an economic stimulus estimated at USD 7 trillion would bolster the economy and corporate sales, but an increase in corporate taxation from 26% to 33% would also have a negative impact on earnings growth, which could easily reduce current estimates for 2022 by -10%, to only $171 per share for the S&P500. The current earnings estimate for 2021 is already $168, about +10% above the $155 12-month forward estimate. It is probably too early to consider this possibility. But in the context of what we believe to be the already rich valuation levels of US equities, this uncertainty could well add to the others and tip the cursor towards the risk-off zone in the coming weeks.

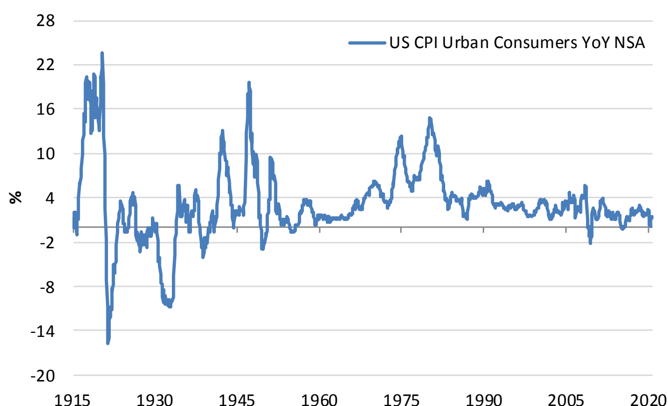


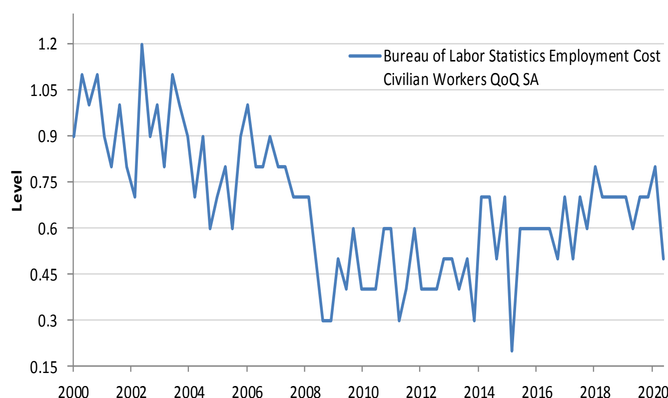


Graph sources: Bloomberg/BearBull Global Investments









Graph sources: Bloomberg/BearBull Global Investments

Massive, sustained and unconditional support from the Fed

The Fed intervened quickly during the health crisis to control the onset of panic that gripped financial markets in March. It very quickly adjusted its monetary policy to reassure financial markets and provide all the liquidity required to avoid a systemic crisis. Key rates were lowered, approaching 0%, while the asset purchase programme allowed the 10-year Treasury rate to converge, falling from 1.95% at the beginning of the year to 0.5% in early August.

During the quarter, the situation remained relatively stable, the Fed's key rate steering policy remained unchanged, and its asset purchases were commensurate with financing requirements.

In the absence of any real acceleration in the US economic recovery, this situation should be considered as the new normal. While on the short end of the yield curve the situation seems unlikely to change for several quarters at least, the situation on the longer end is a little more uncertain. Indeed, the evolution of long-term yields will depend essentially on the situation regarding government and corporate financing needs, net new issuance and the Federal Reserve's capacity to absorb the latter.

Full monetisation of US Treasury issuance?

Governments' additional funding needs to meet the direct and indirect costs of managing the Covid-19 crisis were announced fairly accurately and finally quite quickly after the crisis broke out.

The initial US stimulus package of USD 2.2 trillion will therefore weigh heavily on the US budget and debt levels. These trillions will be in addition to the trillions of dollars of ordinary financing that the US Treasury already relies on to finance and close its annual budget.

Thus, in the exceptional context of 2020, the financing of these new liquidity needs will be ensured above all by the US central bank. The Fed's balance sheet had already ballooned in response to the economic crisis of 2008, but in 2020 it is expected to increase further still with the likely growth of financing needs in 2021. The Fed has thus increased the size of its assets by USD 3 trillion, and the latter may well continue to grow at the same pace in 2021.

The US central bank, like other major central banks, is engaged in an irreversible headlong rush and will probably not stop adding new federal debt issuance to its balance sheet any time soon. Long-term rates are therefore likely to remain under the almost absolute control of central banks, as they have been throughout the last quarter.

However, governments' financing needs will continue to grow, potentially testingcentral banks' resolve and the enthusiasm of private investors. Some of them are already well on their way, while the additional financing needs of the US are emerging and depend on the desired policies.

The Democrats and Republicans have thus engaged in a face-off on the outline of a new stimulus package, which should be USD 3 trillion according to the former and USD 1 trillion according to the latter. Negotiations have not been successful and were undermined by Trump's announcement that nothing would be decided before the elections.

The US Treasury Department, however, already estimated its needs at an additional USD 3 trillion to avoid another economic downturn in the coming months. Continuing failure to come to an agreement would have harmful consequences for the American economy, which could then deteriorate once again in Q4.

US presidential election: a game changer?

In a few weeks the US presidential election could trigger a change in outlook and a reassessment of risks and opportunities in financial markets. As in 2016, the Democratic candidate Joe Biden is ahead in the national polls with three weeks to go before the November 3 election.

However, this may not be enough for him to win against the incumbent president, although he appears to have a comfortable lead for the time being. It is often forgotten that the US system is based on the number of electors in the Electoral College, not the absolute number of ballots obtained. In 2016 Hillary Clinton had won 2.87 million more votes, but Trump won by a majority of electors thanks to a few key states.

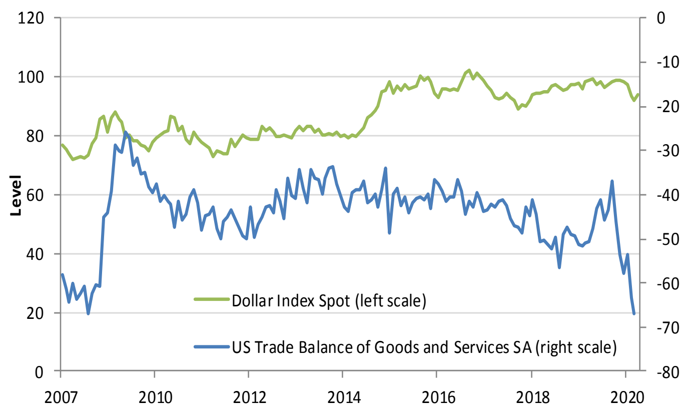
Therefore, it is still crucial to be able to estimate which states are likely to swing the majority of those electors in favour of the Democrats or the Republicans in 2020 in order to estimate whether Donald Trump still has a chance of being elected this year if he does not get a majority of the vote.

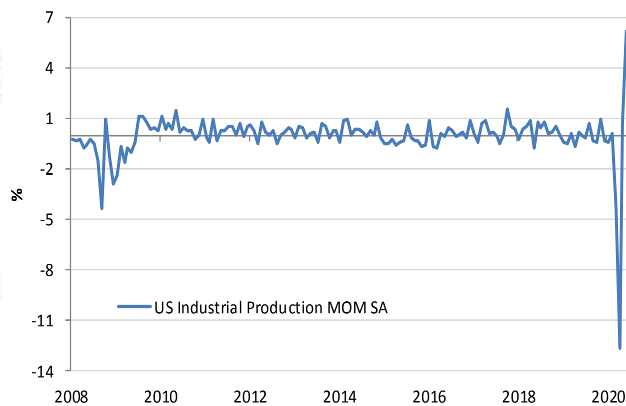
But beyond electoral speculation, it would appear that the risk of a challenge to the election result is in fact an important new factor of uncertainty to consider Indeed, it is increasingly likely that the results will be contested following the vote and that this will lead to a new phase of uncertainty a few weeks before the end of the year.

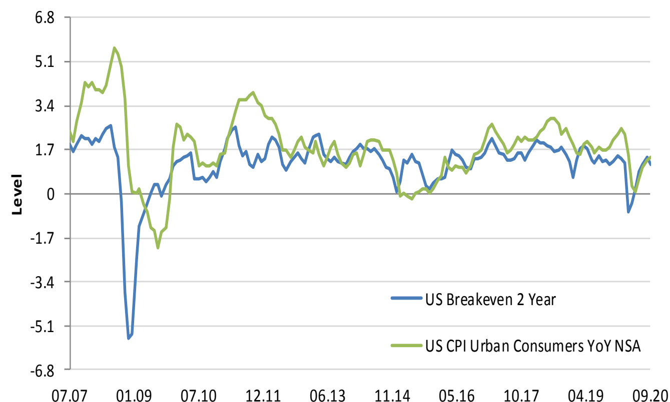
In 2000, Gore's legal challenge had finally led to the election of George W. Bush following a 5 to 4 decision by the US Supreme Court.

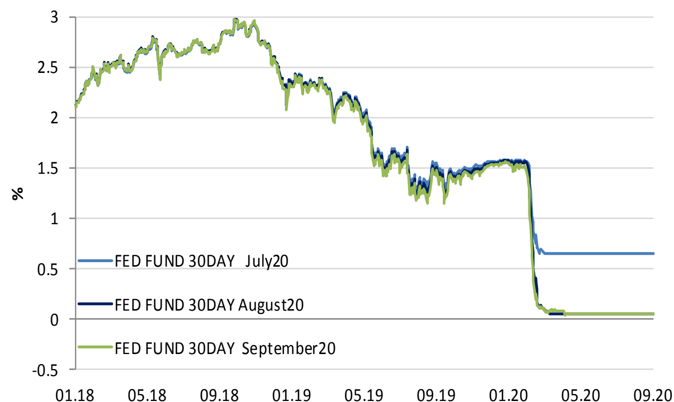
The appointment of a new Supreme Court justice by Donald Trump just before the presidential election is particularly sensitive in the current context. The uncertainty that had lasted a little over a month had caused the S&P500 index to plunge by -10% and the Nasdaq by -28%.

The end of the year could therefore look more uncertain also because of the tax implications for companies and individuals who could see their tax rates increase significantly in 2021.



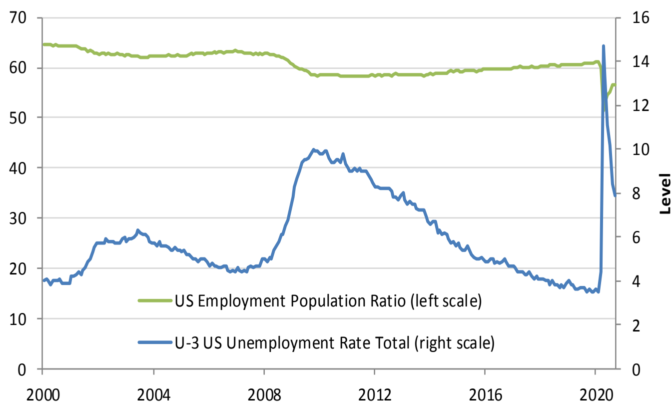




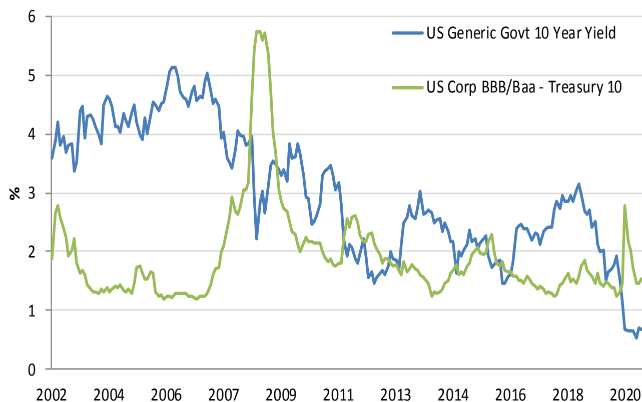


Graph sources: Bloomberg/BearBull Global Investments

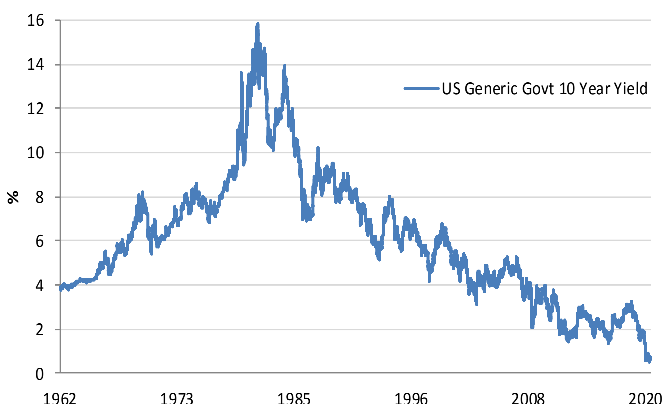
US Unemployment rate and Employment Population Ratio



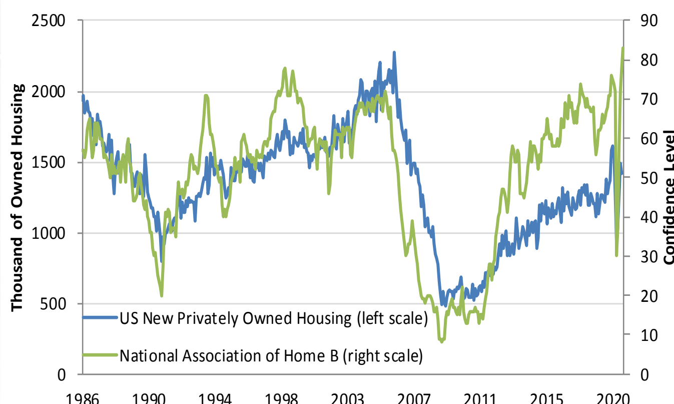
Yield spread Us Treasury - BBB 10 year



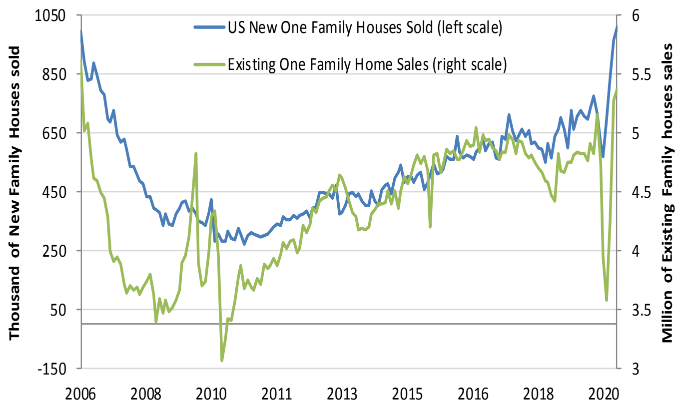
US Government Bonds 10 year yield



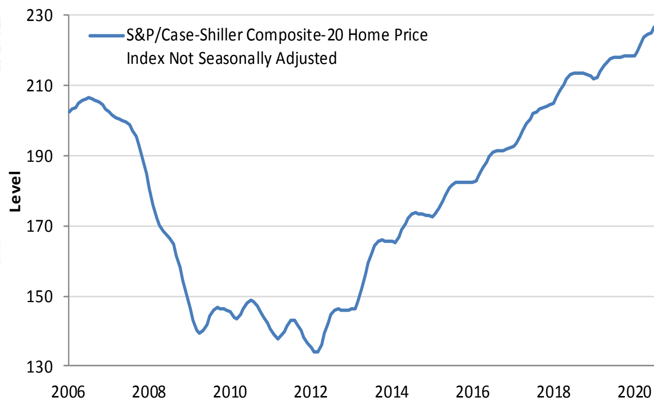
US New Privately Owned Housing and NAHB USA



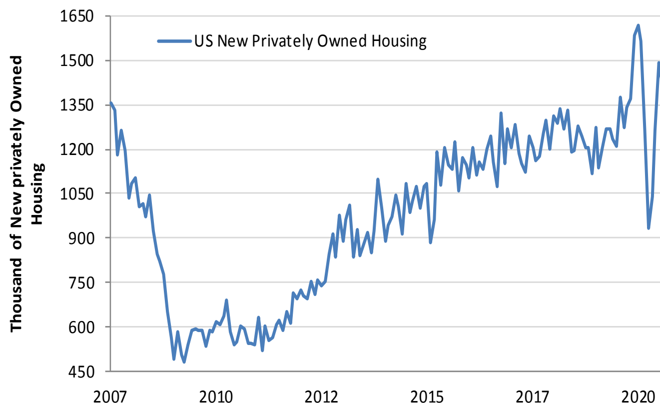
Sale of US New and Existing Family Houses



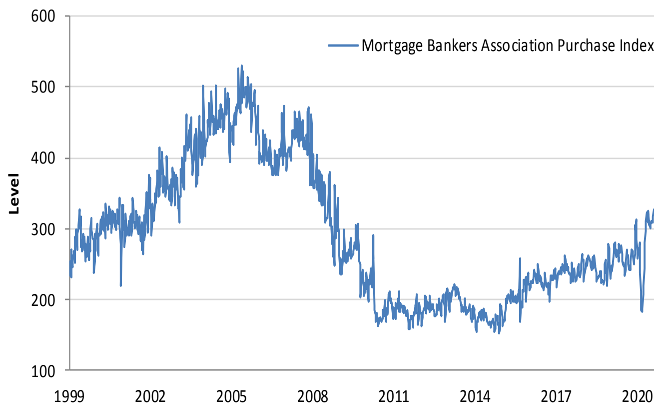
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Switzerland

- Swiss GDP falls by -8.2% in Q2
- Switzerland better withstands the shock of Covid-19
- Solid growth prospects in H2 for Swiss GDP
- SNB maintains a policy distinct from that of the major central banks

Swiss GDP falls by -8.2% in Q2

The State Secretariat for Economic Affairs (SECO) has published the Q2 2020 growth figures for our country, which show that seasonally adjusted real GDP contracted by -8.2% after a -2.5% decline in the previous quarter. Unsurprisingly, Switzerland's economy is clearly feeling the effects of the global health crisis and the partial lockdown implemented during this period, with the largest quarterly decline since these statistics were first published in 1980. However, the economic downturn is somewhat less severe than expected, with Switzerland performing better than most industrialised countries. By international comparison, Switzerland appears to have been somewhat more resilient in the face of the crisis and the general recession caused by the protective measures taken by governments and health authorities. The cumulative fall in GDP of -10.5% over just two quarters in 2020 is therefore logically much more severe than that recorded during the last contraction observed (-3.5%) between Q4 2008 and Q1 2009. The SECO logically notes that the coronavirus pandemic and the measures taken by our government to contain it severely limited domestic economic activity from March to June. Moreover, the international economy's plunge also contributed to the decline in GDP by penalising our export industries, with the exception of the understandably strong performance of the pharmaceutical sector.

The sectoral composition of the Swiss economy has made it possible for the overall economy to fare better in Switzerland, thanks in particular to the greater weight of the healthcare/pharmaceuticals segment. The pharmaceutical sector, which managed to increase its sales given the health context, thus partially offset the shock suffered by the other manufacturing sectors, which declined by -9% overall. During the quarter, most components of GDP posted negative contributions, with the exception of public services, up very slightly by +0.2%. Sectors sensitive to international economic conditions suffered considerably due to weak external demand. Thus, sales in the machinery, precision instruments and watchmaking sectors in particular fell sharply in conjunction with the -9.4% drop in merchandise exports.

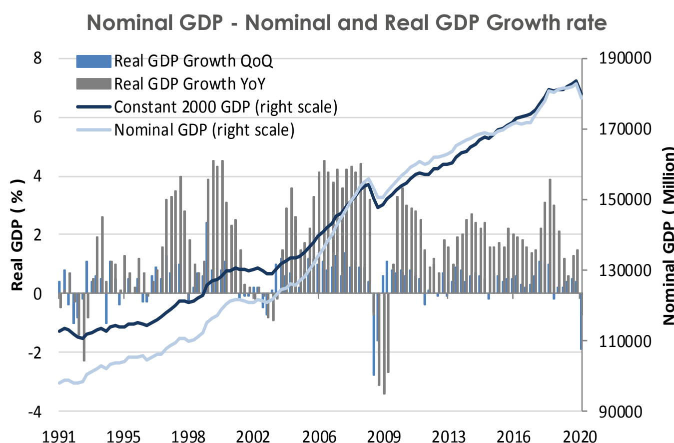
The second quarter was even more difficult for the service sectors, which were more severely affected by the health measures, the lockdown and the closures of public establishments required by the pandemic. The Swiss hotel and restaurant industry had already been hit hard at the end of Q1, recording a historic decline in turnover of -23.4%, but Q2 really called into question the very survival of an exponential number of establishments as value added for the sector dropped by a further -54.2%.

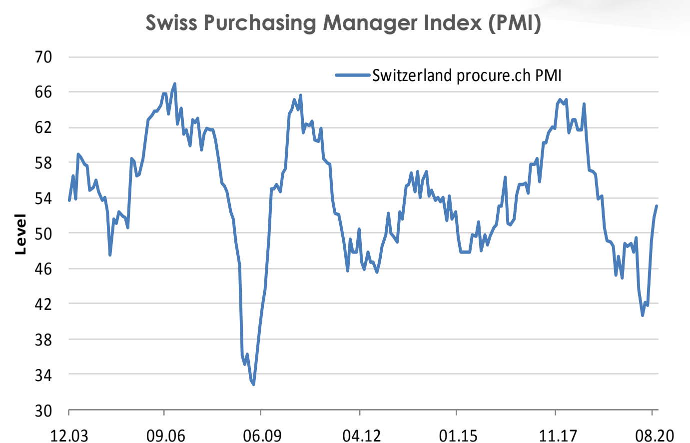
Transport and communications were also battered by the slowdown in activity, posting a second contraction of -21.7%. Trade was logically more resistant to the pandemic and saw its turnover decrease by -3.6%. The healthcare and business services sectors posted an overall decline of -8.6%. Investment in construction (-4%) and capital goods (-11.7%) also declined across the board. Services exports (-15.9%) fell de facto more sharply than goods exports (-9.4%), but the decline in final domestic demand (-7.4%) also led to a greater reduction in imports of goods (-14.3%) and services (-22.2%).

The relatively lower share of tourism-related services in Swiss GDP vs. French, Italian, and Spanish GDPs in particular ultimately had a smaller impact in our country.

Switzerland better withstands the shock of Covid-19

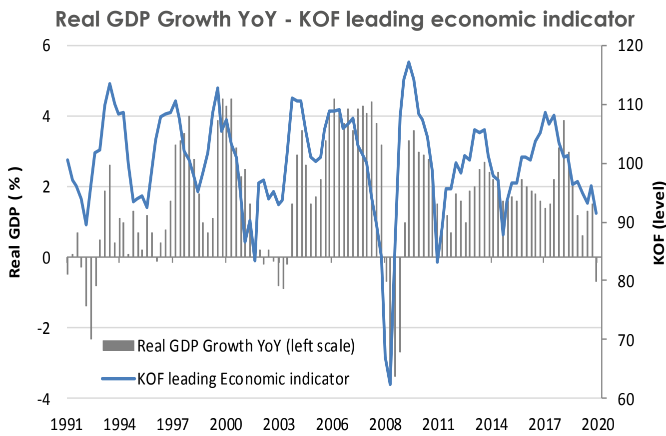
Switzerland's main economic partners have also experienced a sharp deterioration in their economic and health situations. Logically, sensitive economic sectors such as watchmaking or the machine or precision instruments industries were therefore affected by a decrease in international demand. The industrial sector thus recorded its strongest decline since the massive rise of the franc in 2015. By international comparison, the -8.2% decline in the Swiss economy in Q2 can in fact be considered a real success in our view, given the performance of our main neighbours and of the major developed economies.

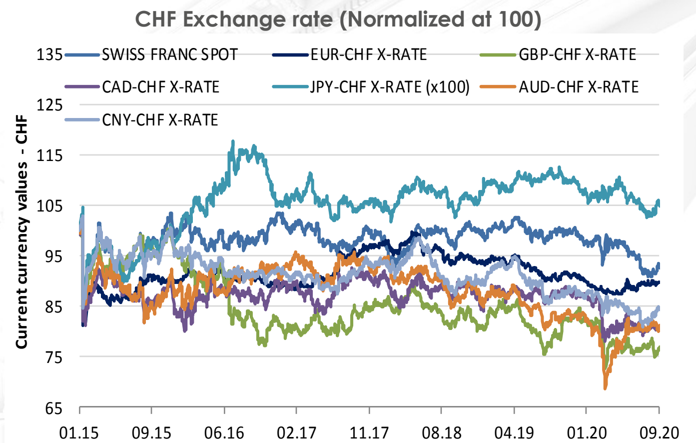




Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group





Indeed, the initial figures published for Italy (-12.8%), France (-13.8%), Spain (-18.5%) and the UK (-20.4%) show much more dismal performances. With regards to Germany (-10.1%) or Austria (-10.7%), for example, lockdowns similar to ours had similar effects. As for the US (-9.1%), the management of the health crisis, often considered catastrophic, did not, however, lead to any excessive economic slippage. In Asia, India was hit hard with a -25.2% drop in GDP, while contractions in Japan (-7.9%) and Australia (-7.1%) were similar to that in Switzerland. China already seems to be in a completely different growth zone thanks to a rebound of +11.5% erasing the -9.8% fall of the previous quarter.

Solid growth prospects in H2 for Swiss GDP

After a -10.5% contraction in GDP in H1, a clear recovery from Q3 onwards is now probable. Most leading indicators now point to a significant recovery in GDP in Q3, which could approach +5.5% in that quarter and +1.5% in Q4 2020. The manufacturing PMI index for August (+51.8) is back above its theoretical growth threshold (50) after hitting a low point of 40.7 in April. These results are also supported by the order book component, which proved to be even more solid (53.7). This trend was further confirmed by the rise in the services PMI, which stood at 51.7, a clear recovery from its April low of 21.4. As for the KOF leading indicator, which had collapsed from 101.7 in February to 49.5 in May, it rebounded in just three months to 110.2, its highest level since August 2010.

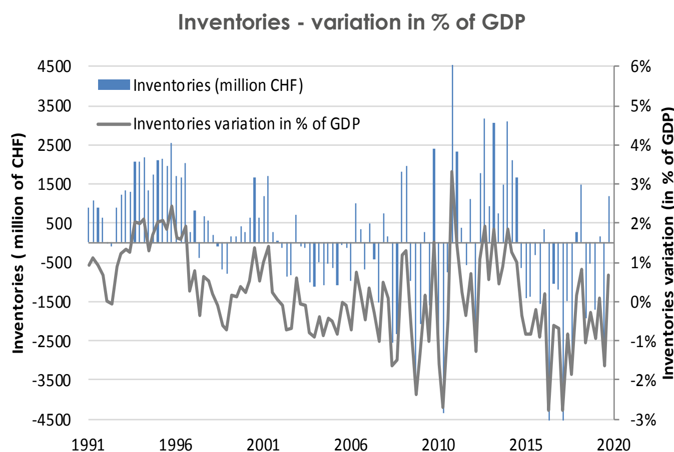
Consumer confidence is also back almost to its pre-Covid levels, jumping from -39.3 to -12, despite still hesitant retail sales. The favourable outlook for H2 is essentially based on expectations of a global economic recovery following the gradual easing of lockdown measures in the main developed economies and the return of “normalised” activity with no new risk of widespread lockdowns, as many governments have already announced that further lockdowns are not an option. While a second wave still seems possible, it should not be of the same nature and is unlikely to have the same devastating effects.

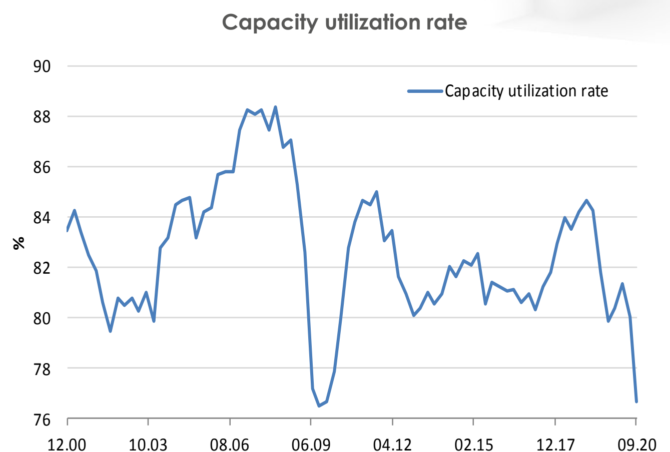
The SNB maintains a policy distinct from that of the major central banks

The SNB has remained relatively discreet in recent months and has not changed its monetary policy, unlike other major central banks, which have been more active in supporting the economy in their respective countries. Key interest rates remained unchanged in Switzerland, and no asset purchase or further liquidity injection strategy was envisaged in Q3. The Swiss franc continued to appreciate somewhat against the dollar and the yen, as uncertainties diminished and financial markets resumed their upward trend, although it weakened against the euro. Sight deposits rose further to 635 billion as of mid-September, while foreign exchange reserves have remained stable at around 848 billion since June. The SNB has not changed its course and is still trying to curb any further appreciation of the Swiss franc against the euro. The downward trend in US policy rates and long-term interest rates has further narrowed the yield differential on which the SNB’s strategy of weakening the Swiss franc is based and has somewhat disrupted its policy. The end of the crisis should, however, be conducive to a further weakening of the Swiss franc already under way since mid-May against the European currency (-2.5%).

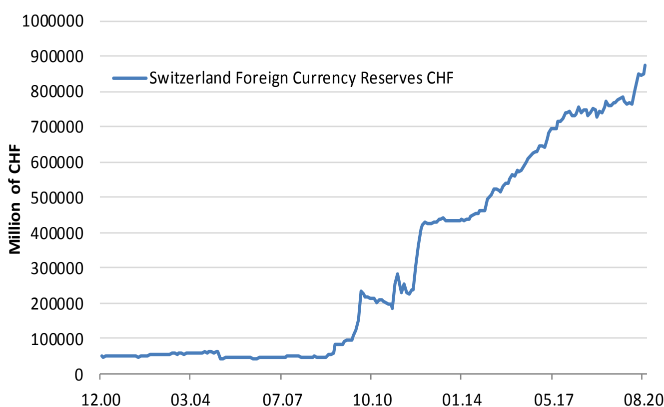
Temporary new paradigm in fixed income markets

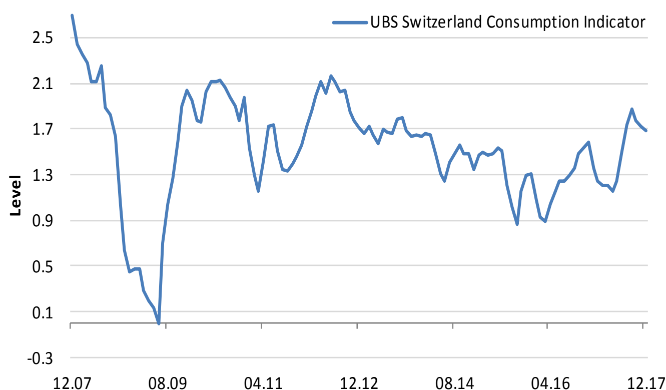
Interest rate markets in Switzerland have partly followed trends in international markets in recent months. While the outbreak of the health crisis had initially significantly lowered government yield curves in most countries due to legitimate concerns about growth prospects, yields on various maturities rose relatively quickly in response to fears of rising debt in connection with the fiscal policy decisions of most governments in industrialised countries. Swiss interest rate markets were also affected by this global trend in March and then in April, with 10-year yields recording an initial decline of around 25 basis points followed by a 60 basis point recovery, bringing them back close to 0%. However, Swiss interest rate markets have not reacted as much to more recent trends in the US and the Eurozone in particular. While central banks in these two regions clearly maintained and reinforced the downward pressure on yields, the lack of SNB intervention in Switzerland left market forces free to find an equilibrium.

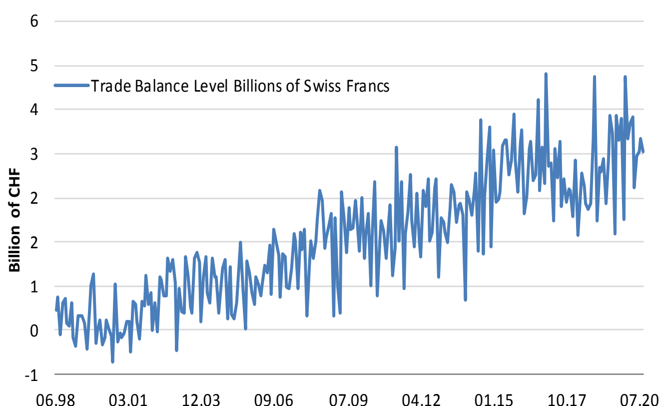


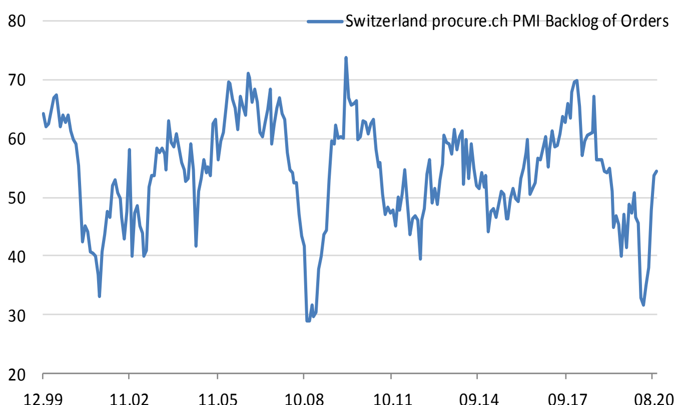


Graph sources: Bloomberg/BearBull Global Investments









Graph sources: Bloomberg/BearBull Global Investments

De facto, the Confederation's 10-year yields have remained rather stable in recent months and are still below zero at -0.45%. As for investment grade Swiss franc bonds, the same uncertainties had led to a rapid increase in yields of almost 150 basis points in March and a rise in risk premiums, which we described at the time as a fresh window of opportunity to take new positions in the corporate Swiss franc segment. The BBB-10-year Confederation risk premium had at the time jumped from 1% to 2.46% and was at a ten-year high.

A few months later, while the Confederation's yields remained relatively unchanged, the influx of capital into corporate bonds in particular has squeezed yields and the risk premium, which now stands at 1.1%. The new paradigm that emerged in Swiss interest rate markets in March has already changed significantly. We believe that while the risk premium could contract by a few more basis points in the coming months, repositioning opportunities are no longer attractive at current levels.

With regards to government bonds, it is likely that the international environment, characterised by monetary policies involving massive asset purchases, will continue to keep interest rates low for some months to come, indirectly influencing the Swiss market.

We will probably have to wait for a real economic recovery and the beginning of 2021 before expectations become more negative for bond markets. Immediate risks of a rise in interest rates are relatively small in our country, but so are opportunities.

The forthcoming economic environment is again likely to trigger changes in expectations and launch a new phase of rising long-term yields, since following current deflationary conditions, it is not impossible that in 2021 inflation may pick up and Switzerland's long-term interest rates rise once again above zero.

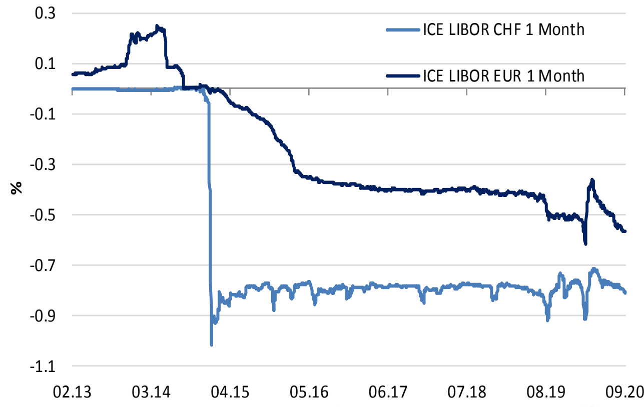
Risk-reward ratio again unfavourable to Swiss equities

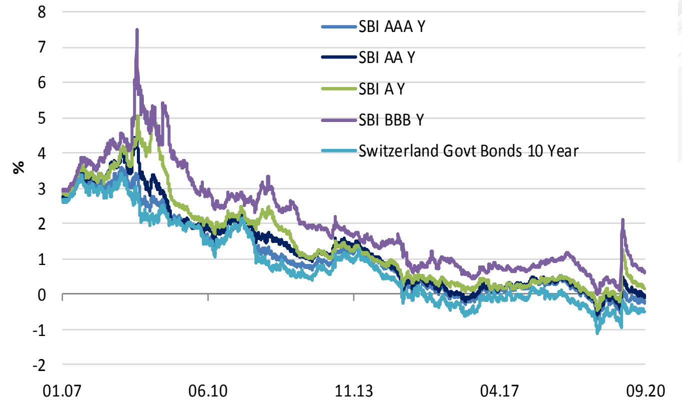
While at the end of March we noted the extreme pessimism of the investment climate by pointing out the opportunities for repositioning in Swiss equities at reasonable valuation levels, the current level of the Swiss stock market, on the other hand, prompts us to recommend caution once again.

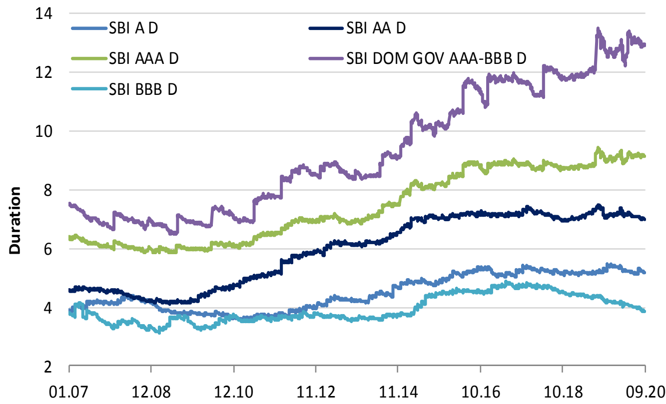
The rise in share prices predicted in March has largely materialised, although price levels are once again similar to those prevailing in January when growth expectations for 2020 and 2021 were above +4%/year globally.

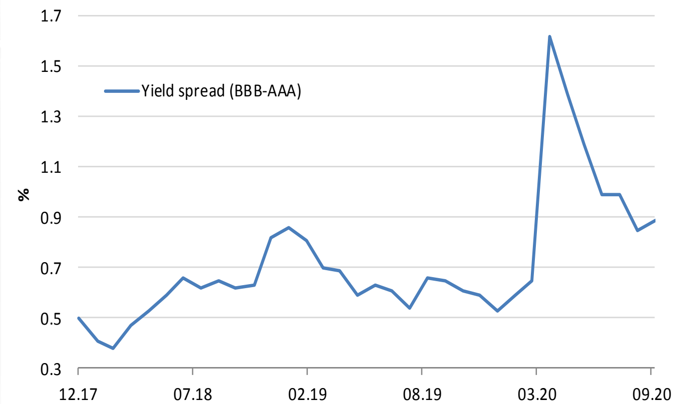
Today, it is clear that instead of cumulative growth of +8% over two years, world GDP will have to wait until 2022 to return to its pre-Covid levels. The SMI's PE is once again above 20x for the current year and 17x for 2021.

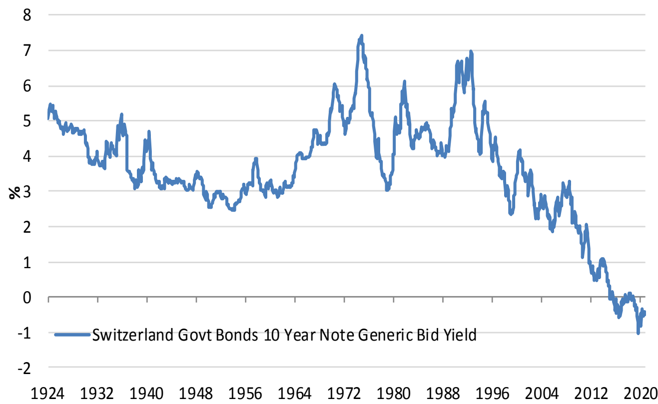
In a context characterised by abundant global liquidity, it is not impossible that the current trends will continue, but the risks of temporary consolidation now seem present once again and therefore suggest a return to prudence.

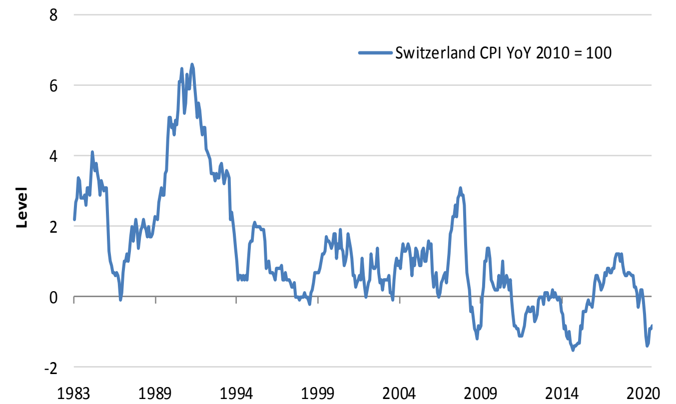


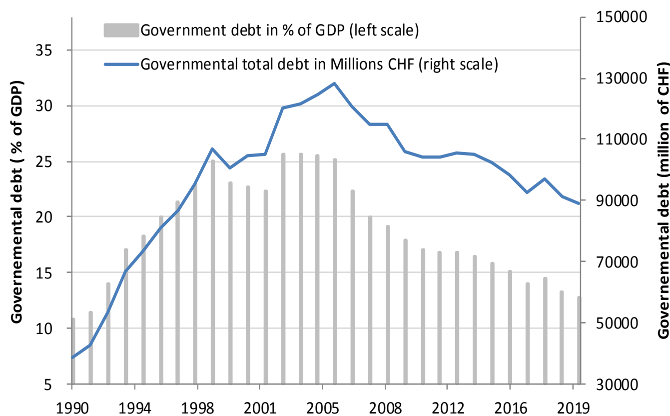


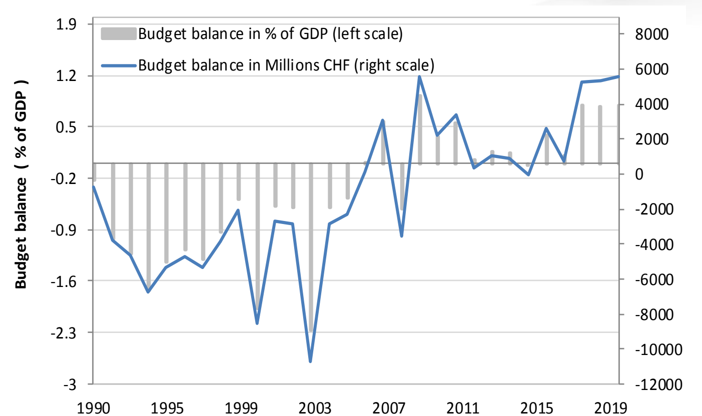












Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Eurozone

- Economic downturn in the European Union
- EU rules on public debt will have to be rethought
- ECB is monetising public debt and supporting businesses
- Sovereign debt spreads and yields decrease

Economic downturn in the European Union

European GDP growth already seems to be flagging after the probable sharp recovery at the beginning of Q3. European industrial production slowed down significantly during the summer after an initial rebound in May, but could finally turn out to be only slightly positive in September.

However, PMI leading indicators point to an even stronger recovery than in the US, with manufacturing PMI indicators rebounding sharply from 33.4 in March to 53.7, the highest since September 2018, and services PMI indicators rebounding from an all-time low of 12 in March to 48 in September, albeit in slight decline over three months.

The unemployment rate increased only slightly between March (7.2%) and September (8.1%), which continues to support household consumption.

The +9% rebound in growth expected for Q3 will logically not erase the -11.8% contraction observed in the previous quarter.

2020 is expected to end on much slower growth in Q4, particularly if the current resurgence of the pandemic once again has a lasting impact on the consumption climate in the main countries of the European Union.

The very clear rebound in consumer sentiment observed in recent months is still less than that which prevailed before the health crisis, but it has nevertheless coincided with a recovery in consumption and retail sales during the summer, which could weaken significantly in Q4.

At the end of the year, health measures will probably affect certain service sectors more than others, such as transport and sectors linked to tourism, restaurants, hotels and events.

From this point of view, the recent evolution of the pandemic in Europe is worrying in terms of the outlook for the last quarter of 2020.

The strengthening of public health measures in a growing number of cities already implemented in France, for example, partial lockdowns in other European countries and the surge in cases recorded in recent days do not presage a strengthening of the economic situation at the end of the year. Overall, Europe's GDP is therefore unlikely to strengthen significantly over the coming months. Quite the opposite.

Germany shores up European growth

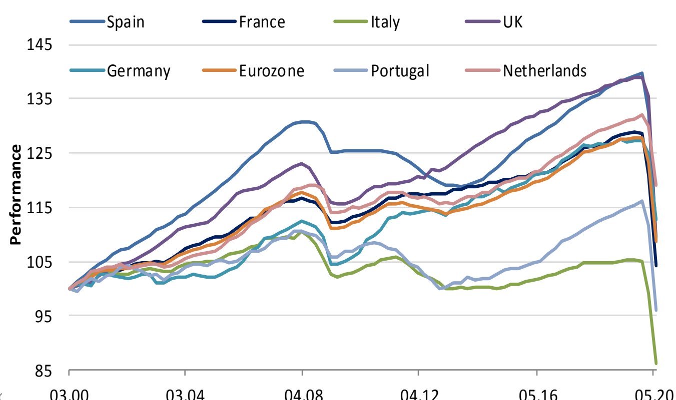
Despite a probable recovery of +9% in Q3 for EU countries, the expected slowdown in Q4 could lower the pace of economic recovery to below +2%.

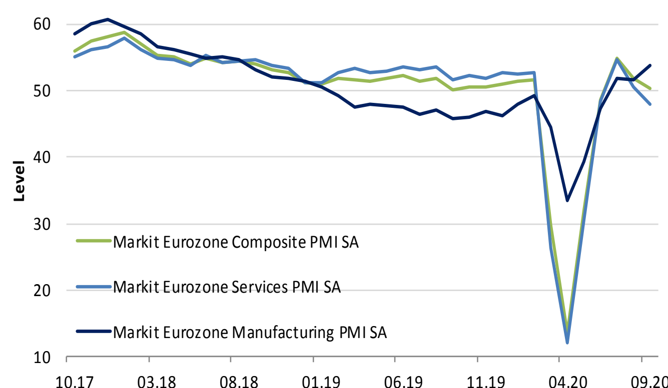
Over the year, Europe's GDP might therefore fall by almost -8% before a possible recovery of +5.5% in 2021. In 2020, growth in Spain will decrease the most (-12%), while France and Italy's GDP will fall by -10%. Germany, on the other hand, is expected to withstand the crisis better and only decline by -6%, shoring up the European economy as a whole.

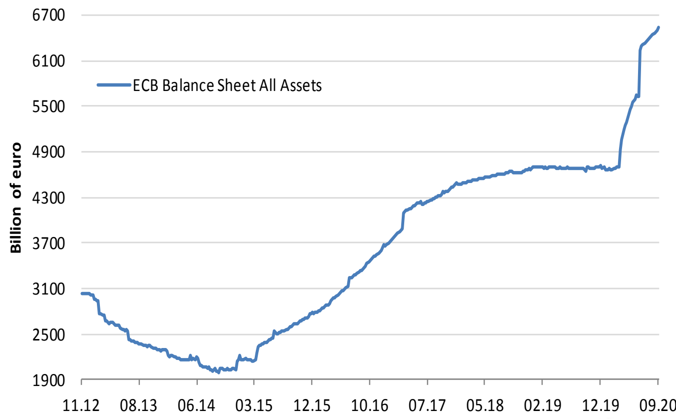
EU rules on public debt will have to be rethought

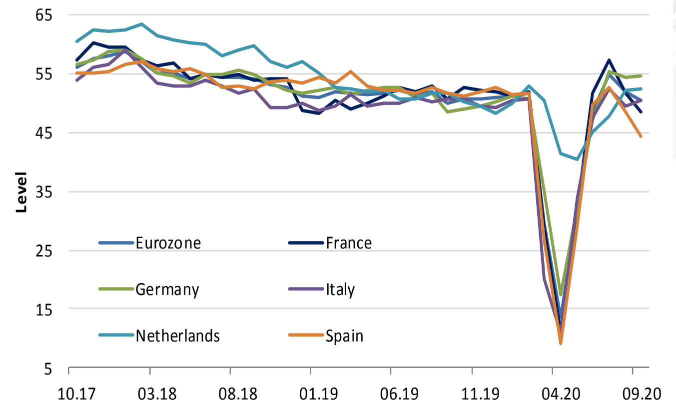
After having logically suspended in March enforcement of the rules of the Stability and Growth Pact (SGP) until 2021 in the face of the pandemic and the economic support measures taken by the European States, the European Union will have to look into a new definition of the applicable rules with regards to capping public deficits and national debt.

Indeed, a new mechanism will have to be found to replace the rules that required limiting the annual public deficit to 3% of GDP, the structural deficit to less than 0.5% of GDP and public debt to 60% of GDP. For the time being, the Franco-German "couple" disagrees on this subject, with Germany wishing to reinstate them after the Covid-19 crisis, while France wishes to replace them with a new formula.









The first steps taken in recent weeks towards coordinated funding at the European level could offer an avenue to explore. As long as the ECB finances the debt of European States by monetising their debt, one could imagine that budgetary solvency would be assured, but in the long term, the ECB's policy will eventually become more conventional. New budgetary rules will necessarily have to be invented to replace the previous ones, which will certainly not survive the Covid-19 crisis when Italy's public debt already exceeds 130% of its GDP.

Germany leads in terms of government aid

The European Commission has announced that it will extend until Q3 2021 the easing of restrictions on government aid granted to struggling businesses (temporary support), which would otherwise have expired on 31 December 2020. Once again, not all countries will be able to support their respective economies in the same way. The wealthiest countries in the European Union, especially Germany, will certainly be able to defend and support struggling businesses better than other countries with shakier public finances.

Indeed, Germany is very much ahead of the other States thanks to its superior capacity for action. Since March, German state aid has accounted for more than 50% of the total aid authorised by the European Union. Italy and France each accounted for only 15% of the EUR 3 trillion in reported state aid, which is furthermore three times more than Spanish aid (5%).

ECB is monetising public debt and supporting businesses

In accordance with its Pandemic Emergency Procurement Programme (PEPP) announced in March, the ECB is now intervening on a potential volume of EUR 1,350 billion. Corporate securities purchases have been substantial in recent months, as the ECB has decided to intervene in various sectors such as energy, services to public authorities, transport, aeronautics, the automobile industry and air transport.

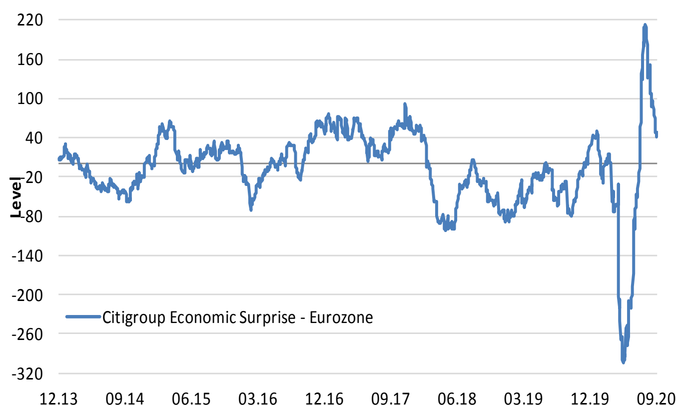
The ECB's action has certainly led to a reduction in credit spreads, which had risen sharply in March, and has thus stabilised certain segments of the credit market in Europe.

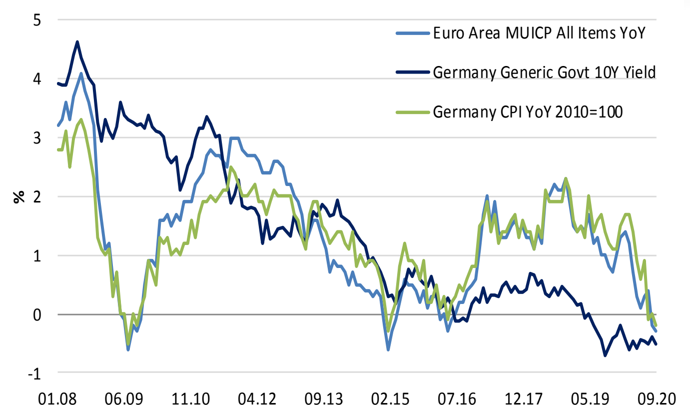
The ECB has therefore acquired investment grade corporate bonds and sovereign debt. It has already purchased nearly USD 700 billion in sovereign debt in the first nine months of the year, while new government issuance did not reach USD 400 billion during the same period. The ECB's PEPP therefore finds some paradoxical limitations in the ultimately relatively low level of current, insufficient government issuance. While the ECB has succeeded in its first wager to restore a certain serenity in the capital markets, it may well be tempted to perpetuate this greater and more flexible capacity for action, which was initially intended to be exceptional and temporary.

Sovereign debt spreads and yields decrease

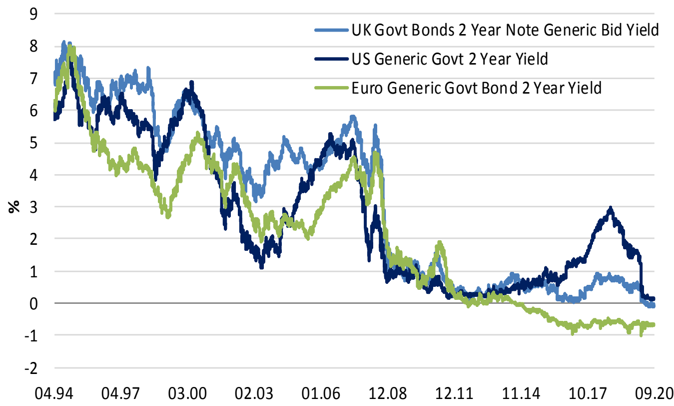
The PEPP has been in operation for several months and has effectively been controlling the evolution of sovereign bond yields in Europe. After the first tensions regarding government bond yields observed globally in March and the explosion of spreads, particularly on peripheral sovereign bonds, the trend was towards lower yields and spreads. Over the last three months, German bond yields fell marginally, ending the quarter at -0.55%, while Italian bond yields fell from 1.25% to 0.65%.

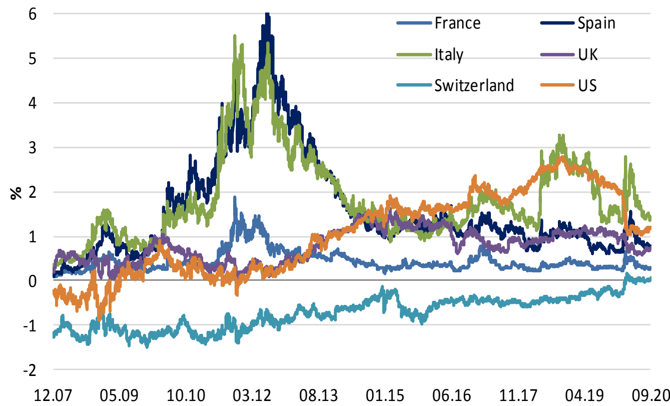
Overall, credit spreads with Germany fell by about 50-60 basis points for Italy (120 bps), Spain (70 bps), Portugal (70 bps) and even France (26 bps). The yield spreads between European state debtors are thus once again close to those prevailing before the outbreak of the Covid-19 crisis.

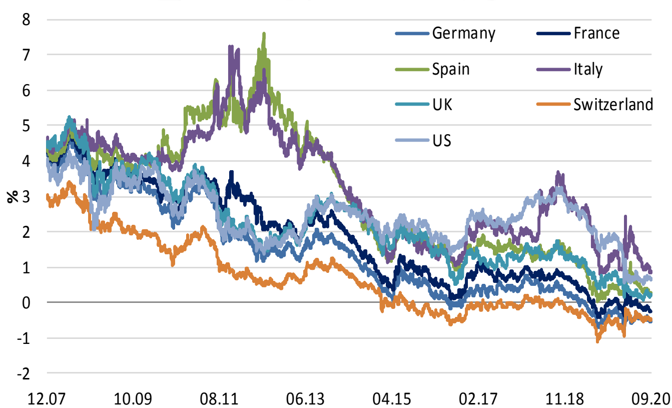


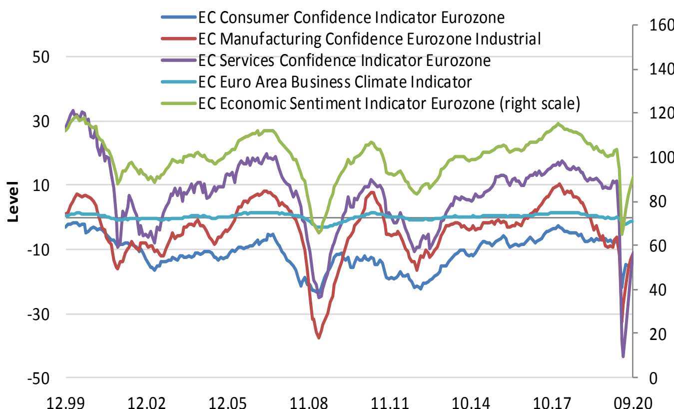


Graph sources: Bloomberg/BearBull Global Investments









Graph sources: Bloomberg/BearBull Global Investments

21 July agreement strengthens the euro

Credit spreads had clearly already narrowed between German yields and 10-year US Treasury yields in March when yields had rapidly fallen by almost 150 basis points in the US. The interest rate differential then stabilised in favour of the dollar to remain close to 125 basis points at the end of the quarter. The 5% increase in the euro against the dollar between May and June could be explained at first glance by the narrowing of the spread observed in March.

But it already seemed to us in June that the European currency would benefit in particular from the change in outlook that the agreement of 21 July, allowing the Commission to borrow in the markets to finance Community expenditure, a first form of mutualisation of government debt in Europe, could bring about for the European currency by strengthening its long-term credibility.

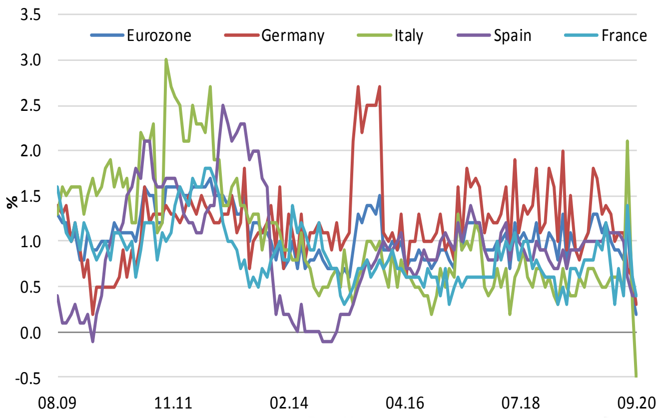
We were expecting a phase of progression of the euro against the dollar, which partly occurred during the summer with a second wave of appreciation against the dollar that pushed the exchange rate from 1.12 to 1.20. Today, after this progression of around +7%, we believe that a temporary consolidation would be justified. The euro could thus weaken temporarily towards 1.15 before resuming an upward trend.

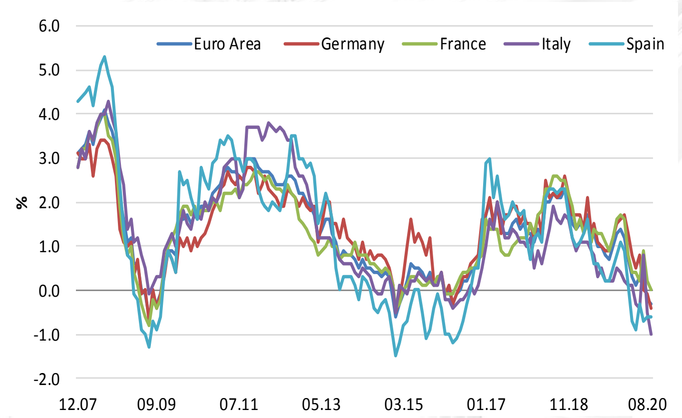
Significant consolidation risks for European shares

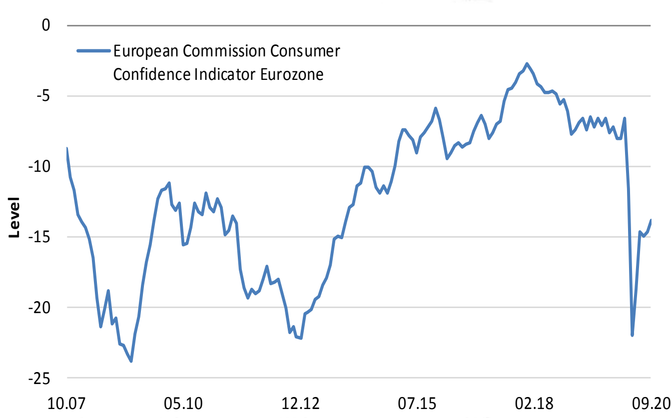
At the end of March, we noted that although the health crisis would have undeniable economic repercussions in 2020 and 2021, the valuation levels reached after the fall in prices of around -40% already presented medium-term investment opportunities for European stocks.

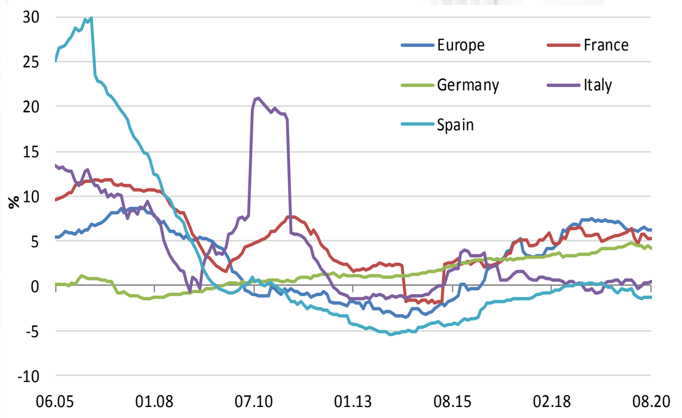
The subsequent revaluation of European equities allowed the Stoxx50 index to rise by +50% between the extreme points of March and July. The concomitant rise in the PE from 10.4x 2020 earnings to around 21.5x compelled us during the summer to adopt a more cautious attitude in anticipation of a likely new phase of consolidation, which has since partly materialised. European equities have not risen since the end of June and ended Q3 on a slight decline of -1.25%.

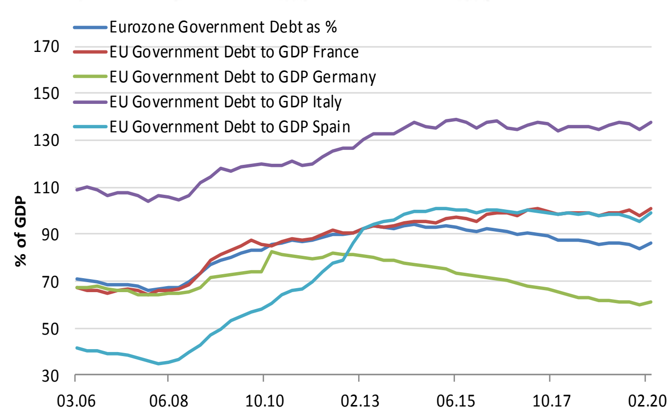
We still recommend underweighting European equities in the current, more uncertain context, firstly because of the worsening health situation in Europe and a less favourable economic outlook for Q4, but also because the overall uncertainty surrounding the US elections on 3 November may rapidly shift investor sentiment to the risk-off zone and cause new profit-taking on risky assets.

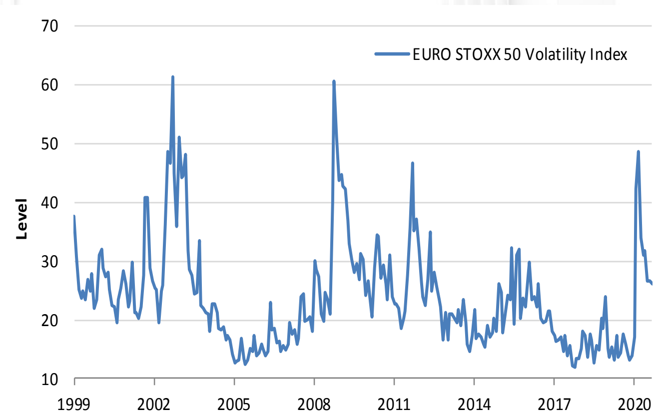












Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Kingdom

- A no deal Brexit is on the horizon, the worst-case scenario is becoming increasingly likely
- 4th quarter GDP looks to be shakier than it seems
- The BoE is preparing to cut its key rates
- Negative prospects for sterling

A no deal Brexit is on the horizon, with the worst-case scenario becoming increasingly likely

The next few weeks will be crucial in hoping for the United Kingdom and the European Union to reach a last-minute deal. Although Prime Minister Boris Johnson set himself a 15th October deadline to complete negotiations with the EU, the European Council has still left the door open to discussions continuing for a few extra weeks until mid-November. The United Kingdom left the EU on 31st January 2020, with EU rules applying until 31st December 2020. The aim of this transition period was to enable both parties to negotiate the terms of a trade agreement which would set out the rules for their future relations. A few weeks shy of the deadline, the EU is clearly exasperated by the UK's strategy, although despite everything, they very likely want to achieve a positive outcome to the current clash. On 1st October, the EU initiated legal proceedings against the United Kingdom, after Westminster cast doubt on the EU-UK Withdrawal Agreement. They consider that the British Internal Market Bill passed by Members of Parliament knowingly violated the terms of the Brexit agreements in force, and in doing so violated international law.

The leaders of the 27 member states of the EU will certainly want to take a firm line and should soon announce that the progress made in discussions with the United Kingdom is insufficient to reach a deal. As such, we could soon be facing no deal at a time when the economic situation is already very tricky. Without an agreement, customs duties will be brought back and will apply to all trade between the two parties, valued at 1 trillion euros a year. The EU will wait and see how the British position develops on the three key issues: governance issues, guarantees of fair rules on competition, and fisheries rights.

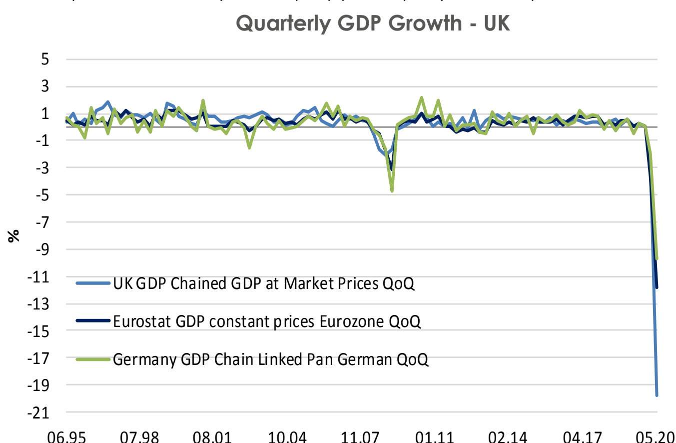
Disappointing growth in the 3rd quarter

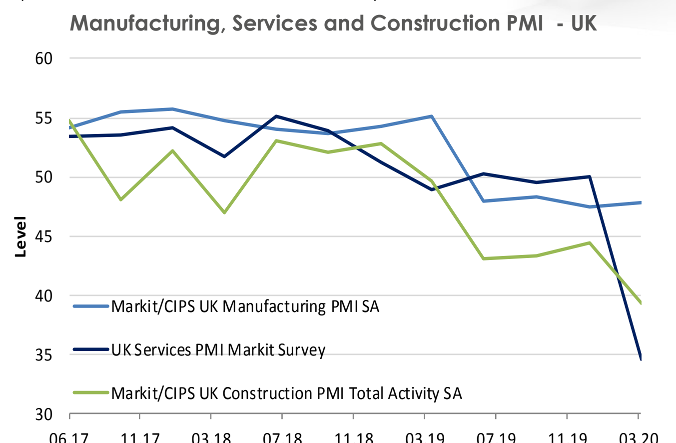
The United Kingdom posted the worst economic contraction in its history in the 2nd quarter, with a -20% drop in GDP. However, hopes of a 3rd quarter recovery were propped up by more optimistic leading indicators in June and July. Although July gave forecasters some cause for comfort, with +6.4% monthly GDP growth, August quickly dampened forecasts of a robust recovery in the 3rd quarter. Indeed, the expected economic recovery tailed off sharply in August, with just +2.1% growth over the month- barely half what forecasters had predicted. The slowdown came just as the government and the central bank were undertaking an economic support process, which was supposed to enable a more robust recovery. The situation seen in August is worrying and shows that monetary policy support and the substantial cuts to VAT have given the hotel, bar, and restaurant sectors little help in returning to growth, right when the health crisis was at its lowest ebb since the start of the pandemic. The manufacturing and construction sectors showed stability more than any real growth.

4th quarter GDP looks to be shakier than it seems

Recent statistics seem to once again point to the slowdown continuing in September. Industrial production trod water again in August after having bounced back considerably in May and June. The construction sector is on the same track, and is losing steam, with just +3% growth over the period. With the current resurgence of Covid-19 cases and new restrictions placed on these sectors, it is likely that economic growth will be hobbled even further over the coming weeks. Equally, the British government recently indicated that it had not ruled out the possibility of another national lockdown, with cases having crossed the 500,000 mark and curfew measures in place in certain areas. In this specific context, the power struggle surrounding Brexit raises new questions on the impact of no deal on the British economy. The prospect of a no deal Brexit before the end of the transition period in December is significantly increasing the risk of the recovery collapsing again at the end of 2020 and in 2021. However, although this scenario is becoming more likely, it is still not investors' main scenario.

Consensus growth forecasts still stand at +2.7% for the 4th quarter and -10% for the whole of 2020. They could be cut back significantly if no improvement is seen on Brexit and the pandemic.





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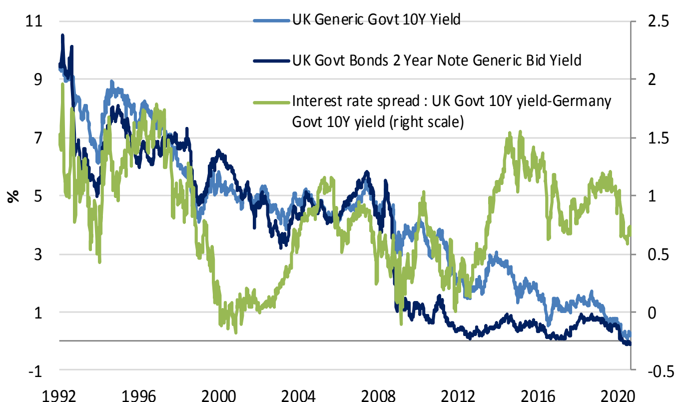
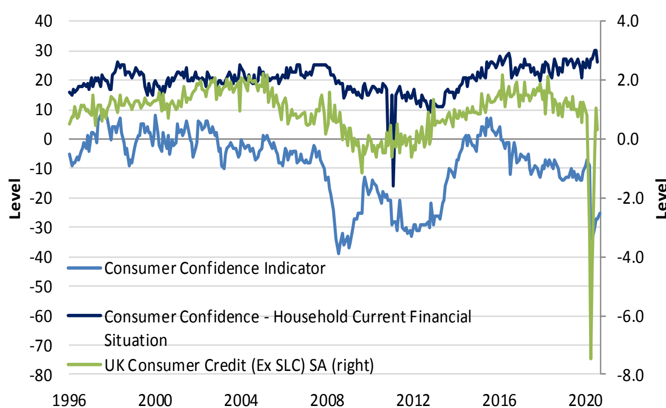
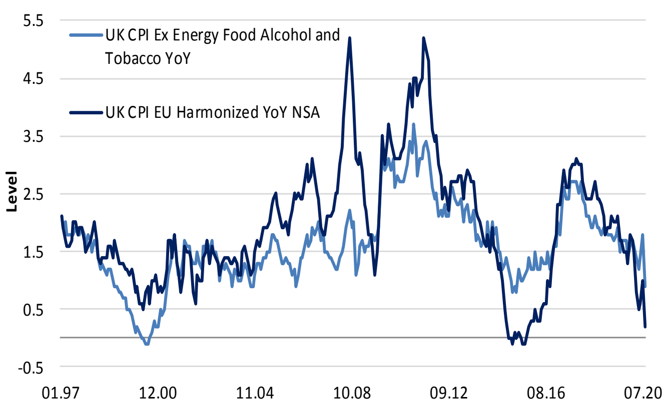
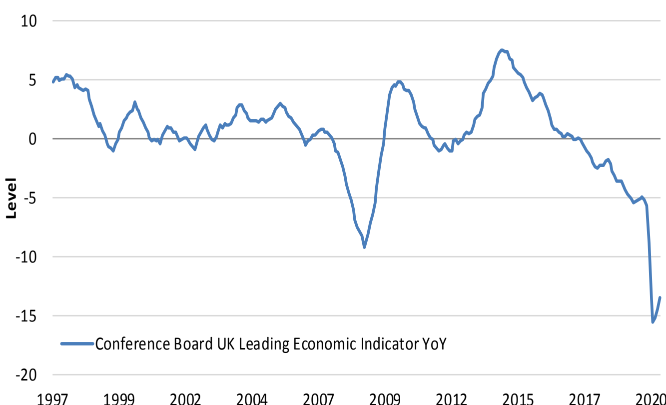








Graph sources: Bloomberg/BearBull Global Investments

Confidence is yet to return

Consumer confidence seems to be recovering gradually, but remains extremely low, well under the average for the last five years. Households are still more worried about losing their jobs once emergency support measures are no longer in place, and naturally are concerned by the 4.5% increase in unemployment in August. There were more dismissals in August, with 153,000 job losses, which is five times the consensus estimate. Nearly 500,000 jobs have been lost since February.

At the end of October, the government will certainly change the criteria for accessing help and will likely provide more targeted support. The jobs market will then see significant adjustments which could clearly be exacerbated by a no deal Brexit. For a few weeks, pressure has been growing for new economic support measures to be adopted. The BoE will also certainly have to act to support the economy, as well as preparing for potentially more assertive action if no deal Brexit becomes the main scenario in the 4th quarter.

Leading indicators are misleadingly optimistic

Leading PMI indicators have bounced back considerably from their lowest points in April, suggesting that April was the worst month for GDP in 2020. The manufacturing PMI index hit a low point of 32.6, but was back well above 50 in September (54.1) at its highest point for the last few years. The same is true of the services PMI. It is showing solid optimism and bounced back from 13.4 to 56.1, whereas the construction PMI took off from 8.2 to 56.8. These impressive leaps would suggest a rather robust economic recovery in normal times. However, we doubt that in the current context they point to a real recovery. We therefore do not think that the theoretical optimism shown by these indicators is reliable.

The economic and political situation in the United Kingdom is still extremely uncertain as it currently stands, even if the EU and the United Kingdom reach a deal. If, however, a no deal Brexit happens, it is highly likely the economy will collapse again in the first quarter 2021.

The BoE is preparing to cut its key rates

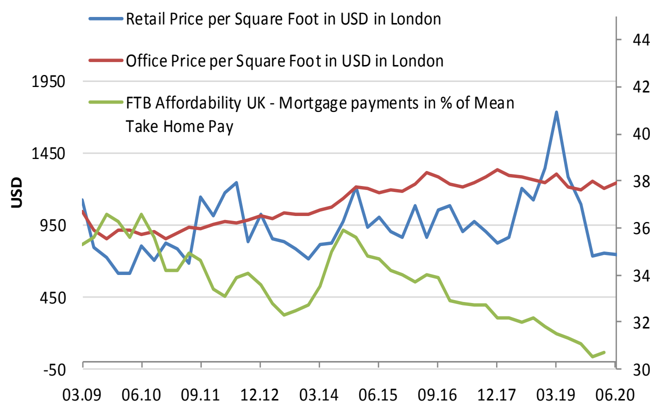
In light of the exceptional difficulties the British economy is facing and the risk of a no deal Brexit, the Bank of England is wondering about and preparing to cut key rates and apply negative rates. It had reduced its rates from 0.25% to 0.1% during the coronavirus crisis in March and since then has only had limited room for manoeuvre. Although this measure is considered a last resort, the BoE now seems to be seriously considering it, particularly if there is a no deal Brexit. The Bank might announce that it is stepping up its asset purchase programme earlier in order to intervene across the whole of the interest rate curve. As such, the BoE should announce an additional bond purchase programme, which could amount to 100 billion GBP.

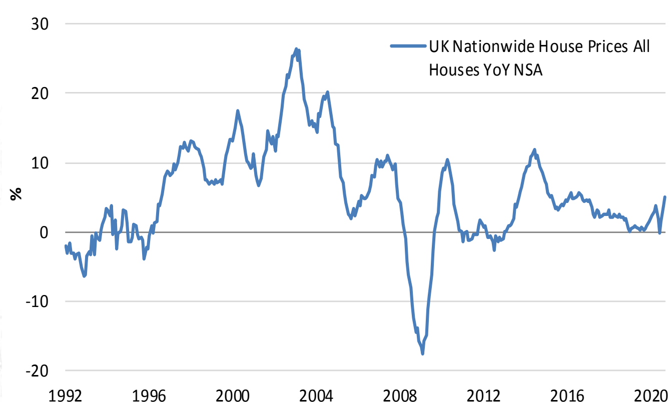
Long rates remain close to zero

Since May, the British government has been able to borrow on a short-term basis due to negative yield. The yield on three-year sovereign bonds has remained negative since then, standing at between -0.05% and -0.1%. Ten-year British government yields have remained relatively stable, at close to zero, for the last three months, with the exception of a short period of stress in March. It saw very high volatility on yields in pounds sterling, which temporarily leapt from 0.2% to 0.8%, before stabilising at 0.2% again in June.

At these levels, the capital market in sterling still does not seem very attractive. We believe that the risks associated with holding bonds in pounds sterling are high enough in the current context to avoiding this market.

In this very uncertain context, we recommend international investors avoid any exposure to the capital market in GBP and invest in other bond segments.





Negative prospects for sterling

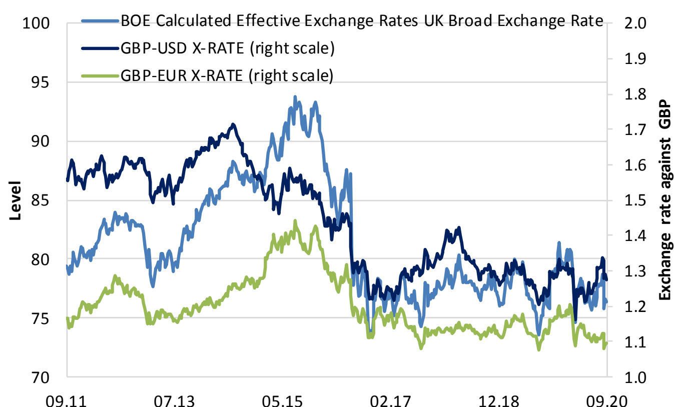
The USD/GBP exchange rate stabilised somewhat over the last quarter. Overall, it has been stable since the start of the year, after significant fluctuations when the coronavirus crisis broke out. Since then, the fall in yields discussed above has only slightly affected the USD/GBP exchange rate. Sterling is not being propped up by a favourable economic environment. On the contrary, it should be further punished by the risk of a no deal Brexit. However, it has remained relatively stable against the Euro and the Swiss franc since the end of June.

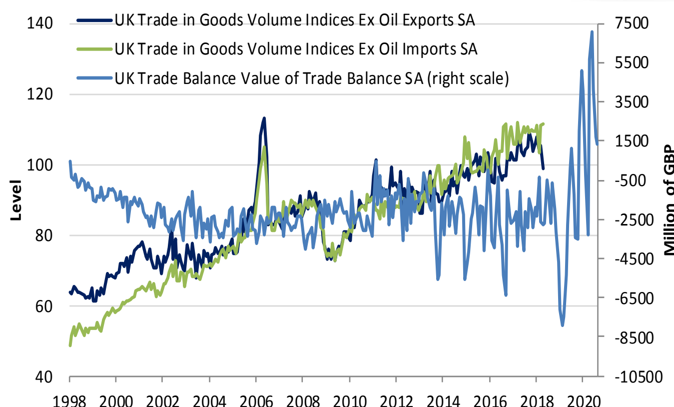
The introduction of negative key rates, a more severe dip in the British economy, and the prospect of a no deal Brexit should, however, put pressure on the pound over the coming months.

British equities are paying the price of chaotic politics

Financial markets are wary of the effects of a second potential lockdown in the United Kingdom. It could put a question mark over the fragile economic recovery that was taking shape after GDP's historic nosedive in the 2nd quarter. Since our last recommendation at the end of March to reinvest in the equity market, which had been punished too severely by the stock market panic linked to Covid-19, there had been a +30% recovery in prices. Since then, prices have regularly crumbled away, and British equities have posted one of the worst performances of the year among developed markets; they are still down nearly -27% as it currently stands.

In this environment, the FTSE 100 Index is currently trading at just over 13 x expected profits for 2021, and at 19 x 2020 profits, which is considerably lower than the valuation levels of other European markets. However, bearing in mind the higher risk of the economy shrinking and sterling falling, these differentials are not great enough to justify overweighted exposure to British assets, which are still under pressure from the prospect of a no deal Brexit. We recommend relatively low allocation levels currently.

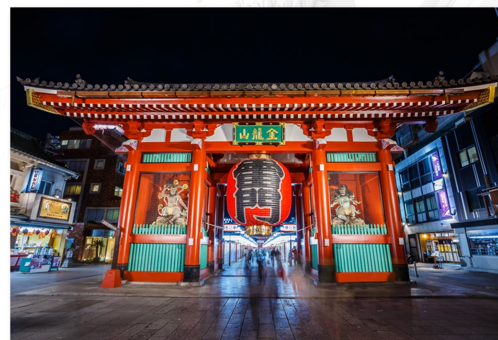




Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Japan



- The change in prime minister will have no influence on Japan's economic policy
- Japan's GDP contracted more sharply than expected in Q2 2020
- The Japanese economy is already benefiting significantly from China's recovery

The change in prime minister will have no influence on Japan's economic policy

The appointment of a new prime minister in Japan following the resignation of Shinzo Abe for health reasons is not expected to have a significant impact on the Japanese government's economic policy. Mr. Yoshihide Suga, 71, a loyal follower of Shinzo Abe, was elected as the new prime minister by parliament and is likely to ensure the continuity of his predecessor's policies. Indeed, he faithfully served and advised Shinzo Abe for many years and therefore knows the workings of the Japanese bureaucracy inside and out. While the composition of the government has undergone some changes, the son of former LDP Prime Minister Koizumi (Environment) is joined by Shinzo Abe's brother, who joins Defence, while Motegi (Foreign Affairs) and Aso (Finance) remain in place. The key issues for Japan remain the same, and the priorities of the new prime minister will be foremost to manage the health crisis, climb out of the economic recession and deal with the issue of the Olympic Games postponed to the summer of 2021. The ultra-accommodative monetary policy will undoubtedly be maintained, as will the massive fiscal stimulus plans, which are essential for economic recovery.

BoJ Governor Kuroda is likely to remain at the head of the central bank until the end of his term in 2023. The BoJ is the main lever to counter the effects of the pandemic and support economic recovery through its ultra-accommodative monetary policy, which will remain unchanged following the replacement of Shinzo Abe by Mr. Suga.

Japan's GDP contracted more sharply than expected in Q2 2020

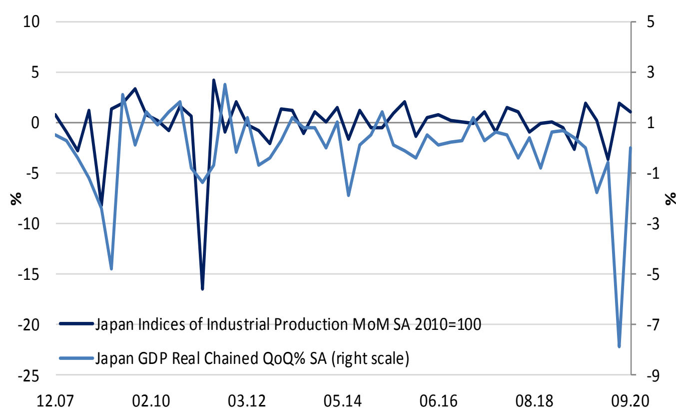
The Japanese government announced a greater than expected fall in GDP in Q2 2020, with a decline of -7.9% after revision of the initial estimate, for an annualised contraction of -28.1%. This is now the third successive quarterly decline in GDP in Japan, which is sinking deeper into recession. Investment spending (-4.7%) was revised downwards, while inventories of unsold merchandise and consumer goods rose by 0.3%, potentially reducing the prospects for a recovery in output in Q3. Exports of goods and services fell by a further -18.5% over the period, while imports remained relatively stable (-0.5%). The collapse in Japan's GDP is the largest recorded since 1955. Consumption also fell and does not seem to be showing clear signs of recovery in Q3, as indicated in particular by the further -8.3% decline in household expenditure and -7.9% fall in private consumption, with negative contributions from the travel and food components. In this context, domestic demand contracted overall by -4.9%.

Household consumption remains particularly fragile since the increase in the VAT in October 2019. It is still very much affected by restrictions and changes in consumption practices linked to the health crisis and is struggling to regain momentum. On the public expenditure side, the Japanese government has announced its commitment to support spending and consumption, but the contribution to GDP remains insufficient for the moment. Japan therefore suffered a significant GDP contraction of -10.3% over the last three quarters. Fortunately for Japan's economy, Q3 2020 is looking brighter.

Japan's economy is already benefitting significantly from China's recovery

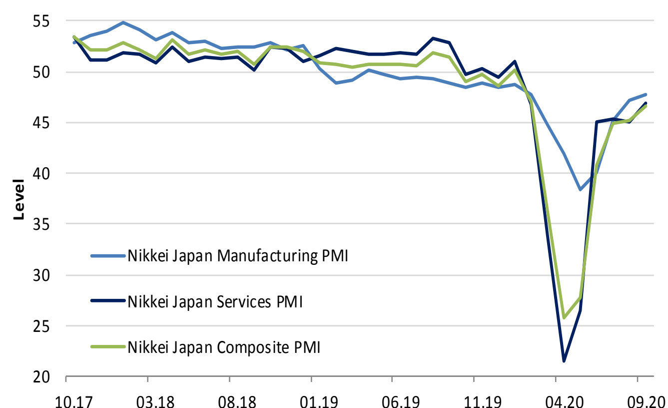
The economic recovery already under way in China in Q2 (+11.5%), which seems to have continued at a sustained pace during the summer, will certainly be a major support factor for Japanese growth in Q3. The Japanese export sector is indeed likely to quickly benefit from the return of China's external demand, which is likely to have a positive impact on Japan's GDP in Q3. Japanese exports to China grew by 8.2% in July and 5.1% in August. A rapid resumption of exports to China but also to the United States is clearly a positive sign for the current quarter. Industrial production, up 8.7% in July, also recorded its strongest ever monthly growth rate since the statistic was first published in 1978. The Japanese economy is likely to ultimately contract by only -5.7% over the whole year thanks to the ongoing recovery in Q3, with GDP expected to grow by +15.4% (SAAR), then by +5% (SAAR) in Q4. It should then continue to recover at the slower pace of +2.5% in 2021 and +1.7% in 2022.

GDP and Industrial Production



Graph sources: Bloomberg/BearBull Global Investments

Composite, manufacturing and Services PMI - Japan



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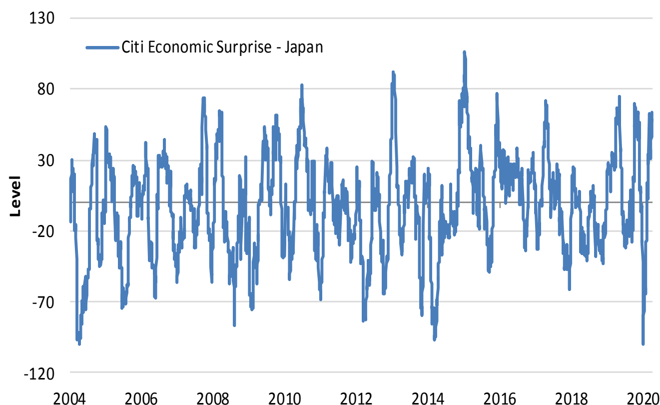
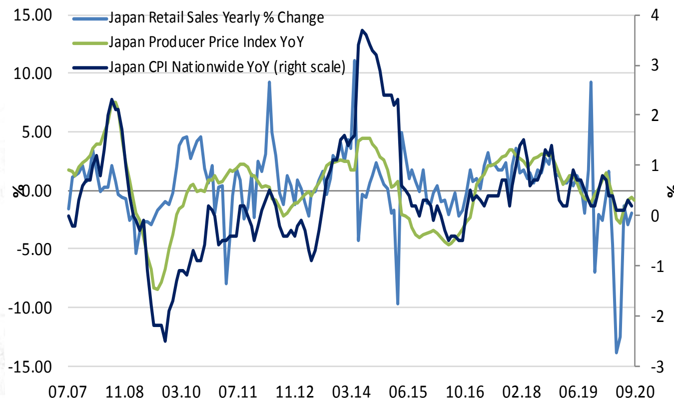




Leading indicators point to a timid recovery in H2

The historical plunge to 38.4 in the manufacturing PMI index and to 21.5 in the services PMI index in May, well below the growth threshold of 50, was consistent with the economic collapse observed in Q2. However, the strengthening of these indicators since June now confirms the trend observed during the summer of an upturn in economic activity and industrial production in particular. The manufacturing PMI index is steadily strengthening, without yet reaching the growth threshold of 50, but shows clear positive momentum. On the services side, uncertainty remains after a sharp initial recovery, which had led to a rebound to 45 in June, and which has not been followed since by the hoped-for revival of optimism. Consumer confidence has not shown any real change in sentiment either in recent months and is still well below the levels of recent years despite a slight improvement early in the summer. The leading indicators for construction are still gloomy as well, so economic growth in Q3 will likely depend mostly on the current recovery in industrial production and exports, as it is not expected to be strongly supported by domestic demand.

Return of trade surplus for Japan

Japanese exports are benefiting from the recovery in China and are likely to benefit in the coming months from a revival of international demand. The deepest point of the crisis seems to have been reached in May, and the situation for the Japanese export sector has improved since then. On the imports side, a weak domestic economy and low energy prices explain the relative stability of imports, which are still down -20.8% year-on-year, while exports are now posting better results, with a fall of -14.8% over the same period. The trade surplus thus increased from 11.6 billion yen already in July to reach 248.3 billion yen in August.

The BoJ is not expected to change its current policy in the coming weeks

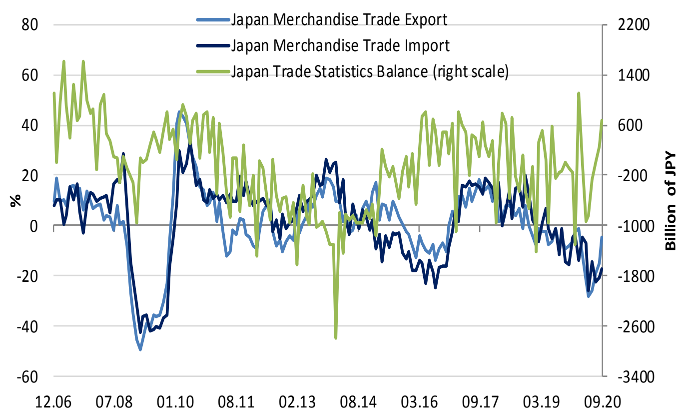
The Bank of Japan now seems a little less pessimistic in its assessment of the economic situation in Japan. At its last meeting in September it kept its key rates unchanged at 0.1% as expected. It also confirmed the continuation of its "unlimited" asset purchase policy, thus underlining that its very aggressive monetary policy strategy was not in question. The new prime minister elected by parliament on Wednesday also confirmed that he considered Mr. Kuroda's monetary policy to be entirely appropriate to deal with the current issues and challenges facing Japan's economy. The BoJ emphasised that its perception of current and developing trends in Japan's economy had improved, noting that an improvement in the international situation would clearly have a positive impact on production and exports. It also noted the gradual improvement in domestic consumption but remained cautious regarding the short-term outlook. The bank will thus likely keep its key rates close to zero until at least 2023.

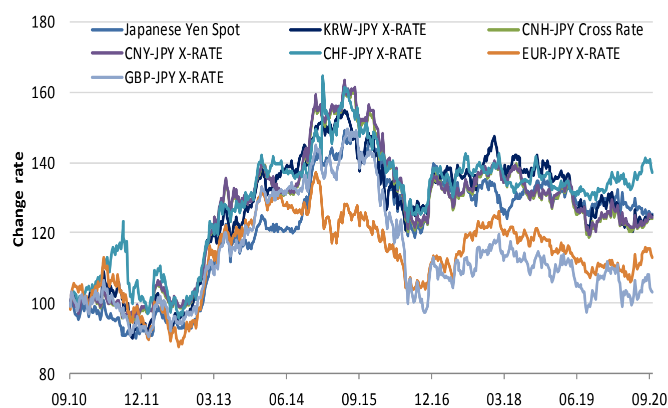
Dead calm interest rate markets and inflation

Inflation in Japan declined again in August with the consumer price index rising by only 0.4% year-on-year. Weak domestic demand contributed to the lack of pressure on prices, while the relative appreciation of the yen against the dollar since the beginning of the year significantly lowered import costs. There is therefore still no inflation in sight in Japan, and interest rates may remain stable and close to zero across the entire yield curve. The Japanese government's ten-year yield is thus still at 0.015%, practically unchanged since the beginning of the year.

Japan's economy still in desperate need of a weaker yen

The weakening of the yen, which had been underway since September 2019, was called into question when the health crisis erupted, after depreciating by around -7.5%. The volatility of the yen/USD exchange rate of more or less 10% over just a few weeks unfortunately gave way to a new appreciation of the Japanese currency of about +6.5%.Despite the gradual reduction in health, economic and financial uncertainties in recent months, the yen is still perceived as a safehaven. The disappearance of the yield differential between dollar and yen rates has certainly contributed to this trend. However, Japan's economy still needs a weaker yen to increase the competitiveness of its export sector, which is still very heavily affected by the fall in world demand. We are not changing our outlook for the yen, which remains fundamentally bearish for 2020.





Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

China

- Everything seems hunky-dory in China
- Clear uptick in China's foreign trade
- Foreign trade returns to surplus
- The rise of the yuan is justified by stronger fundamentals

Everything seems hunky-dory in China

The Chinese economy seems to have recovered and will probably register further GDP growth of around +3% in Q3 after having already rebounded by +1.5% in the previous quarter. PMI leading indicators have been on the road to recovery since March and have been stabilising since then. The manufacturing PMI index already exceeded in March (52) its January level (50) after reaching a low of 36 in February. The non-manufacturing indicator, for its part, has surprised on the upside by progressing more than expected in recent months, reaching its highest level since 2012. The Chinese recovery is therefore likely to strengthen and seems to be involving a growing number of sectors. The profits of industrial companies, which had fallen precipitously, albeit temporarily, from December 2019 through March (-34.9%) year-on-year, quickly recovered to then stabilise at +19.1% yoy in August. Exports have also clearly resumed trending upwards after the short shock of the first quarter and were up again by 9.5% yoy at the end of August. The economic downturn expected in developed countries will certainly have consequences on production and exports in the last quarter. But Chinese GDP is still expected to grow at the lively pace of +1.5% in the last quarter to end the year on overall growth of +2%.

Clear uptick in China's foreign trade

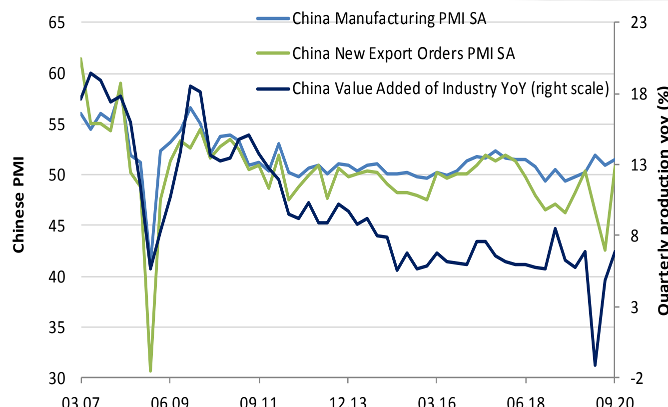
Chinese exports posted their fifth consecutive monthly increase in September after a more difficult period at the beginning of the year. China exported nearly USD 240 billion worth of goods in September as global demand was gradually recovering. This represents a very significant increase since March, when exports hit a low point of only USD 185 billion. In September the value of exports to the US, but also to other trading partners, was the highest since November 2018. International demand for products directly or indirectly related to the global health crisis contributed significantly to this result.

China has benefited greatly from the increase in global demand for health protection products and other products needed for teleworking. It also benefited from the lockdown of competing emerging countries that were no longer able to supply global demand due to restrictions. Textile exports, including protective masks, have thus jumped by around +35% since the beginning of the year. Without this, Chinese exports would have been smaller, but the growth in Chinese exports ultimately far exceeded expectations and the growth in world trade as a whole. The reopening of some economies in Asia has also had a significant impact on their demand and on Chinese exports. Overall, the strongest demand came from the United States and Asian countries, while it was significantly weaker in Europe and Japan.

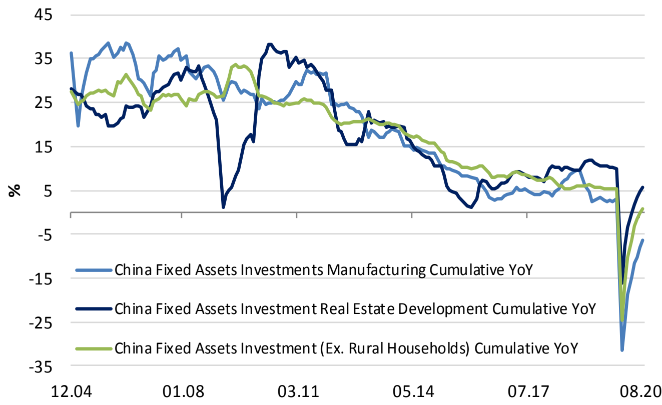
In the coming months, Chinese exports should initially benefit from the normalisation of demand from industrialised countries and return to a rate of export growth more in line with the prospects for recovery in global demand.

With the revival of consumption and investment in China, imports have also soared. While they had fallen to USD 144 billion in May, they ended up surpassing the USD 200 billion mark in September.

At the low point in international trade a few months ago, China registered global transactions (exports and imports) of around USD 350 billion. The current trade volume of USD 440 billion dollars has thus rebounded sharply by +25% in just a few months.



Graph sources: Bloomberg/BearBull Global Investments



Foreign trade returns to surplus

The results recorded by Chinese foreign trade have therefore positively surprised observers who were not expecting an increase of +9.9% yoy in exports and a rise of +13.2% in imports. The trade surplus therefore stood at 37 billion dollars in September and USD 326 billion since the beginning of the year. The rise in imports could be temporary and due to a readjustment of production chains in the technology and telecommunications sector, notably because of the new sanctions imposed on Huawei. But it is essentially due to the return to full capacity of the Chinese production apparatus, requiring various raw materials. Imports of copper, for example, have progressed by nearly +50% yoy and those of agricultural products have jumped by nearly +25%. Domestic demand for consumer products also seems to be recovering, as suggested by the +66% yoy surge in imports of cosmetic products.

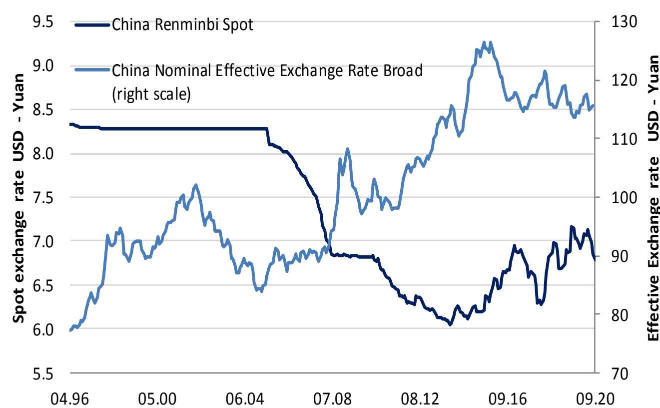
The rise of the yuan is justified by stronger fundamentals

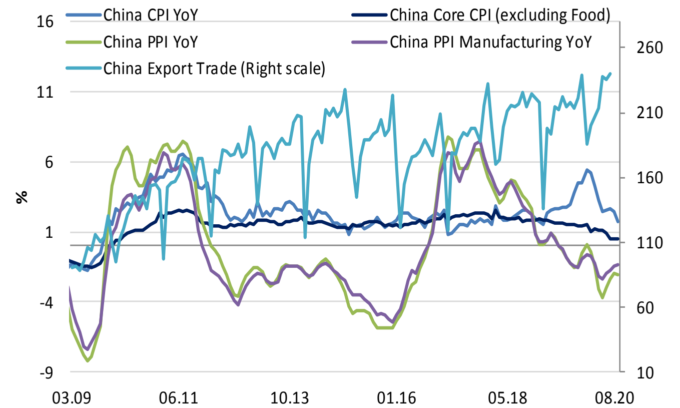
The Chinese central bank should be reassured by the evolution of the economic situation in China, which has strengthened in recent months. Economic indicators continue to point towards a revival of both industrial production and exports, as well as domestic demand, which should continue in Q4. The return of consumption into positive territory in August bodes well for an improvement in confidence. Growth in Q3 is likely to exceed +5% over 12 months. China's economy is therefore on the way to achieving the impossible with growth for FY2020 expected to be above +5%, with real GDP above +2%. The PBOC will continue its economic support policy by injecting necessary liquidity and is likely to maintain the financing rate at 2.95%. The time for normalisation has not yet come. In the capital markets, the yield on Chinese sovereign bonds has been rising since April (2.5%) and now stands at 3.2% on the ten-year. China's economy is clearly in better shape than those of other industrialised countries, which are still being held back by health measures, and yuan yields still offer an attractive premium against both the dollar and the euro. The essential conditions seem to us to be in place to justify the relative strength of the yuan and to see a continuation of its revaluation in the coming months.

Chinese equities benefit from increased corporate profitability

Chinese equities posted the best performance among global equity indices since the beginning of the year, rising by +17% in yuan, largely outperforming the S&P500 (+8% in dollars). This performance is boosted by the growth in corporate profits in 2020. While profits of Chinese industrial companies plunged by -38% in March compared to a year ago, the overall result of -4.4% in August is almost positive and emphasises the complete turnaround that has taken place in recent months. Expressed in yuan, the reversal of the trend is impressive and shows an increase in profits from CNY 371 billion in February 2020 to CNY 613 billion in August. The increase in profits in August is thus +19.1% year-on-year and is the fourth consecutive increase in profit growth for Chinese industrial companies. Chinese companies have completely reversed their situation, posting the strongest yoy increase in profits since June 2018 and one of the best yoy performances in the last ten years.

By international comparison, the rise in Chinese share prices is therefore justified by the reversal of the trend in corporate profits, expected to be up over the year as a whole, which will not be the case in the vast majority of other equity markets. The rise in prices therefore seems more legitimate and could be more sustainable and justified than those occurring in other markets, which will see corporate profits collapse in 2020. The rise in Chinese equities was therefore only marginally supported by an expansion of PEs in 2020, which was the main factor behind the rise in prices in most developed markets. In the short term, we believe that the Chinese market could also be affected by a change in investors' risk perceptions. However, in the medium term, Chinese equities seem to have attractive characteristics with a valuation level of 16x 2020 earnings and 14x 2021 earnings.





Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

MACROECONOMIC SCENARIO

United Arab Emirates

- Lower than projected economic growth forecast for the UAE
- The UAE economy on a fragile recovery path from the pandemic
- Positive PMI reading but Employment figures continues to contract
- UAE Property Prices have fallen the most compared to the rest of the world

Lower than projected economic growth forecast for the UAE

The Corona virus pandemic did not spare the United Arab Emirates' economy this year and its negative effects are expected to weigh further on the country's growth prospects. This has led the International Monetary Fund (IMF) to further revise its projections for the UAE's economic growth forecast due to impact of Covid-19 on the country's vital sectors such as real estate, trade and tourism alongside fall in oil prices, projecting a 6.6 per cent contraction for this year and a recovery of 1.3 per cent for the next year. The IMF had initially projected a 3.5 per cent contraction for 2020 and a 3.3 per cent growth in 2021 for the UAE in its World Economic Outlook report issued in April. The UAE central bank also revised its economic projections lower. According to the CB UAE the economy would likely contract by 5.2 per cent this year, revising a previous 3.6 per cent contraction forecast, as virus containment measures hurt vital sectors such as trade and tourism.

On the inflation front, the UAE is expected to witness negative inflation of 1.5 per cent this year. However, the country's current account balance is expected to stay in the positive territory at 3.6 per cent and 7.5 per cent for 2020 and 2021, respectively, based on the latest IMF World Economic Outlook released early October.

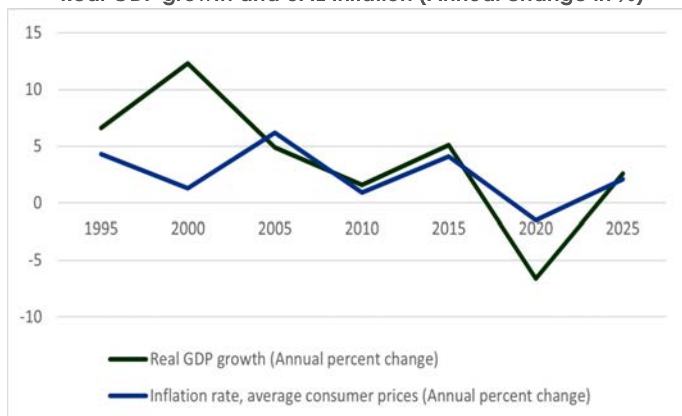
The UAE economy on a fragile recovery path from the pandemic

The UAE economy has been on a steady recovery path from the pandemic with the last three months seeing some tangible improvements. Real estate, trade and tourism recorded increased demand as the containment measures imposed earlier were progressively lifted with some sense of normality beginning to spring back. However, with the advert of the autumn in the northern hemisphere, the fears of an anticipated second wave of Covid-19 are becoming a reality around the globe over, including in the Middle East where most countries have been recording a rather dramatic resurge in Covid cases.

Therefore, despite drastic testing and social-distancing measures implemented by the UAE government, the UAE's economy is again at a crossroads. The increased number of infections could potentially lead to increased unemployment rates in the last quarter of 2020. A potential second blow to the country's economy would definitely prove much more painful as the UAE's economy would receive the next blow while it is still trying to counter the adverse effects of the first one. Further movement restrictions and localized lockdowns could therefore lead some of the businesses that subsisted the first wave, thanks to their ability to survive beyond the lockdown through strict cash-flow management, to resort on further redundancies and cost-cutting measures. Additional job losses could in turn carry a very negative impact on the wider economic cycle and prevent those who lost their jobs during the first wave of the pandemic to nurture any hope of a sustainable recovery in the job market.

On the other hand, It is no secret that a second wave of the global pandemic would also have adverse effects on oil demand by decreasing the likelihood of any planned hikes in output from the OPEC+ which as result would likely to be pushed to late Q1 2021. The EIA expects Brent Crude to average USD 41 per barrel in the second half of the 2020 and USD 47 per barrel in 2021. So far, the UAE government alike those of most developed countries, seems reluctant to provide businesses with additional stimulus packages whereas in our opinion such measures could definitely help the country maintain the current job levels and most importantly prevent further damage to the wider economy. In light of lower than expected recovery in oil prices, the UAE government will have to find the right balance between budgetary orthodoxy and the need for increased government expenditure to instill confidence in consumers, businesses, and the markets, which would thus encourage investment and economic recovery.

Real GDP growth and UAE inflation (Annual change in %)



Coronavirus cases confirmed daily in UAE

Graph sources: Bloomberg/BearBull Global Investments / International Monetary Fund / Our World in Data

Positive PMI reading but Employment figures continue to contract

The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, recorded a positive reading of 51.0 in September from 49.4 in August, going above the 50.0 mark that separates growth from contraction for the third time in four months. This was the highest PMI reading for the last 11 months but remains well below its 54.1 average last year since firms continued to shed jobs amid cash flow issues and concerns over renewed restrictions to contain the novel corona virus. In addition, the growth in new orders can mainly be attributed to companies offering larger discounts and pent-up consumer demand amid softer coronavirus-related restrictions.

Concerns about a weak outlook for the economy and ongoing cash-flow issues for companies led to a further cut in employment over the last quarter. As result, employment figures continued to contract for the ninth consecutive month despite September's employment index reading of 47.7 which constitutes a marked improvement on August's reading of 41.5.

Worrying spike in number of coronavirus infections in the UAE

With a second wave of the Covid-19 pandemic underway across the globe, there are worrying signs that coronavirus infections in the United Arab Emirates are once again rising in a possible 'second wave' that could jeopardize the recovery witnessed so far in trade, tourism and real estate prices. On Wednesday 14th of October, the UAE reported an all-time high of 1'431 Covid-19 infections, a marked increase from the average of 400-600 cases recorded at the beginning of last quarter. One could rightly argue that increased testing could explain the spike in number of registered cases. On the other hand, the resumption of on-site work and air travel was also followed by the new school year. As result, more tests are naturally being conducted than ever before; thus, more new cases are discovered. In fact, the UAE figures at the forefront of the global efforts in combating the virus based on the scale of testing relative to the scale of the outbreak. Based on the latest rolling 7-days average figures compiled by Our World in Data, the UAE had performed as of 15th of October more than 11'300 daily tests per million habitant against slightly more than 122 confirmed cases per million habitant. That being said, in case resurgence in the number of confirmed coronavirus cases, the UAE alike European nations, might have to resort to implanting temporary and localized lockdown measures to curb the number of infections and avoid further damage to its economy.

UAE Property Prices have fallen the most compared to the rest of the world

Residential prices in Dubai and Abu Dhabi have fallen the most when compared to 150 cities around the world, according to the latest Knight Frank Global Residential Cities Index for the second quarter of 2020. Residential values in Abu Dhabi fell by 8.3 percent and Dubai by 6.6 per cent over the past 12 months. This compares to the average annual price growth of 3.4 per cent across the 150 cities analyzed.

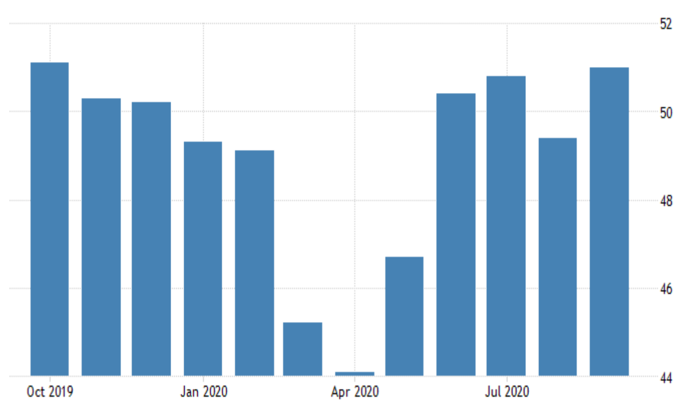
The recent data comes in sharp contradiction to the so far prevailing strategy of 'build it and they will come' that prevailed in the UAE until early 2019. In fact, in recent years, most developers engaged in a frenetic and fierce competition that led a rather significant supply overhang, mostly located in secondary locations, in anticipation of the Expo 2020. As a result, the real estate market in the UAE entered 2020 already battling sluggish market conditions long before the Covid-19 further shook the market. The combination of the subsequent lock-downs coupled with the postponement of EXPO 2020 further added to the uncertainty leading to projects being delayed and both values and rental yield softening further. Against the backdrop of these developments and adverse market conditions Arabtec, which helped build the Louvre Abu Dhabi and the world's tallest skyscaper, the Burj Khalifa in Dubai filed for bankruptcy while another Dubai-listed construction firm, Drake&Scull, is working under the UAE bankruptcy law to reach an agreement with its creditors in an out-of-court process. These developments will certainly weight on future supply since it curtails a significant capacity on the builders side.

Property Headline Numbers Might Not tell the full story

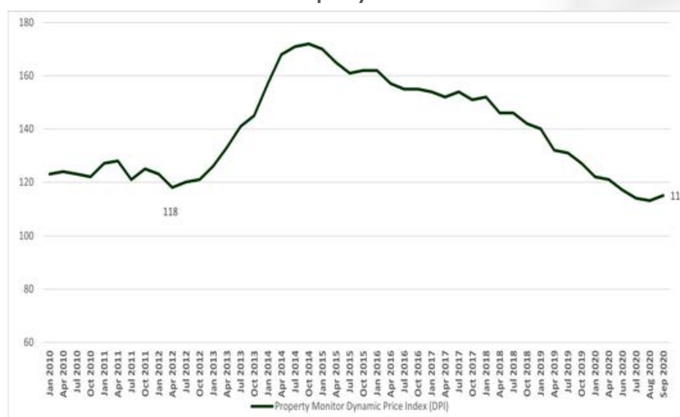
As of September 2020, average residential prices in Dubai stood at AED 823 per square foot, the lowest since last decade's historic lows of April 2012 following the global economic crisis according to the latest data published by Property Monitor. The prevailing price points for prime residential assets, in Dubai in particular, compare favorably to other global cities. A recent study by UBS shows that Dubai's real estate market remains fairly priced compared to other major cities in the world after seeing six consecutive years of falling values after reaching a peak in 2014.

Although one cannot exclude further declines in average property prices in Dubai and Abu Dhabi in the fourth quarter of this year, it is important to highlight that Dubai's and Abu Dhabi's real estate markets are made of a collection of micro-markets where headline numbers might not tell the full story. Our base scenario therefore pleads for further declines, although at a slower pace, in both capital and rental values in secondary locations where most of the upcoming supply is located. However, based on the recent uptick in Dubai Property Price index in particular, in our opinion prime locations such as Downtown Dubai, Dubai International Financial Centre (DIFC), Dubai Marina and Palm Jumeirah are closer to a bottom price that could further take shape early in 2021 helped by lower price points, increased sentiment from first time buyer/end-users and increased levels of demand from international investors for the High End segment of the market.

UAE Purchasing Managers' Index (PMI)



Dubai Property Price Index



Graph sources: Bloomberg/BearBull Global Investments/Trading Economics/ Property Monitor

MACROECONOMIC SCENARIO

Emerging Markets

- Continued expansionary monetary policies
- Increased uncertainty about the strength of the economic recovery in Q4

Economic situation by country

The IMF's current forecast calls for world gross domestic product to contract by about -4.4% this year, although the overall economic outlook has improved somewhat. As expected, second-quarter GDP results for most economies were clearly negative. At this stage, the recovery in Q3 is expected to be strong, but uncertainties are increasing regarding Q4, which may well be significantly weaker. The Covid-19 outbreak has had major health, social and economic impacts, making it difficult to forecast national and global economic activity. The compilation of accurate economic statistics has been and will continue to be very difficult. In recent months, many authorities have chosen to wait for new data to assess the situation and the speed of economic recovery before making further adjustments. While capital flows to emerging markets have resumed following the outflows in March and April, the current environment does not encourage more risk taking.

Brazil — Leading indicators suggest that Brazilian economic activity is recovering at a faster pace than average for emerging countries, due in particular to the effectiveness of the government programmes that have been put in place, although there is still significant uncertainty as to the magnitude of growth in the coming months.

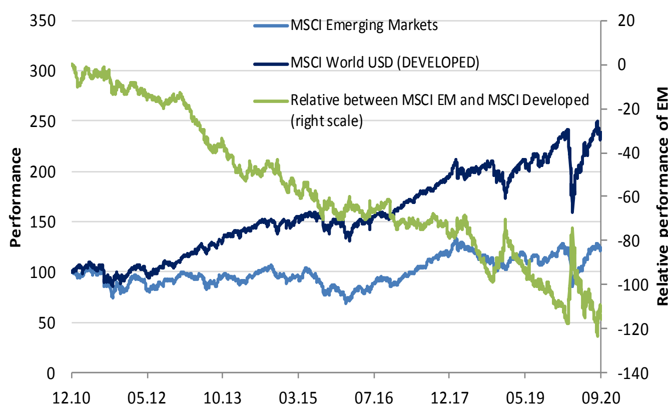
The inflation forecast for the current year (1.9%) has been revised slightly upwards since the last quarter, while the forecasts for the following two years are still 3.0% and 3.5%, respectively. Consumer prices are expected to rise in the short term due to a temporary increase in food prices and a partial normalisation of some service prices in the context of a recovery in activity and mobility.

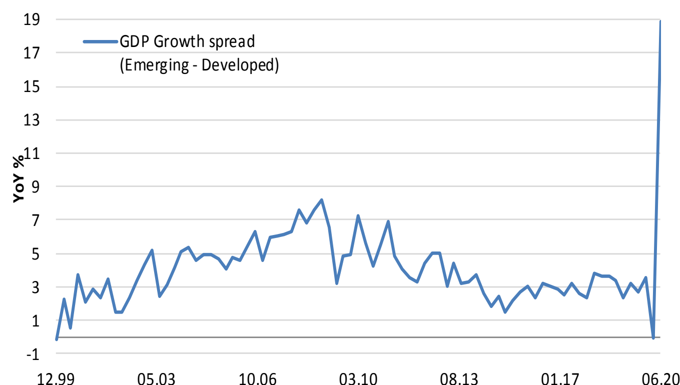
Given the current environment, the Copom unanimously decided to maintain the Selic rate at 2.0%. The Committee considers that this decision reflects its baseline scenario for future inflation and a higher than usual variance in the balance of risks, and is consistent with the convergence of inflation towards its target.

The Monetary Policy Committee discussed a possible lower limit for the Brazilian key interest rate and its impact on prudential and financial stability issues. For the majority of Copom members, this limit should be significantly higher in emerging economies than in developed countries due to the existence of a risk premium justified by greater fiscal and economic uncertainties. In this context, the Brazilian Central Bank considers that the current level is already close to the level at which further interest rate cuts could be accompanied by asset price instability. Current economic conditions continue to call for a strong monetary stimulus, but for reasons of prudence and financial stability the remaining leeway is likely to be small.

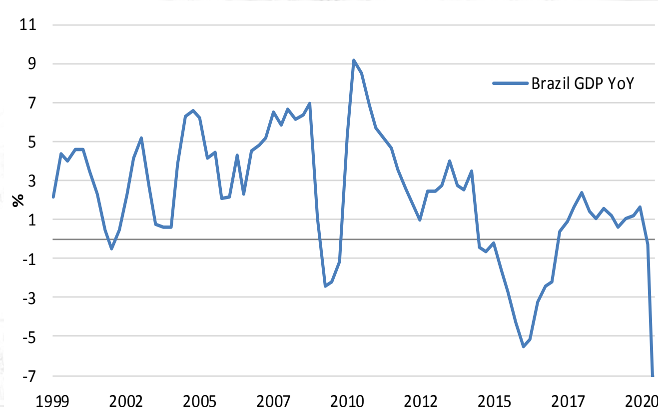
Russia — In September, inflation (3.7%) was slightly higher than the Bank of Russia's forecast as a result of a vigorous recovery in demand after the lockdown as well as the weakening of the rouble due to increased volatility in financial markets and higher geopolitical risks. The risks of a significant downward deviation of inflation from its 2021 target remain limited thanks to the decisions already taken on key interest rates and the accommodative monetary policy pursued, but may be felt in particular through an increased propensity of consumers to save. According to the Bank of Russia forecasts, annual inflation is likely to reach 3.7%-4.2% in 2020, 3.5%-4.0% in 2021 and remain close to 4.0% thereafter.

GDP for Q2 declined by -8.0% in annualised terms but still remains slightly higher than initially expected. The recovery is strongest in sectors driven by consumer demand. However, weak external demand remains a drag on economic activity, whose recovery is expected to continue at a more gradual pace, depending on the next budgetary measures as well as the evolution of the pandemic in the world and in Russia. The recent reduction of the key interest rate to 4.25% in September will continue to support the economy this year and next.





Graph sources: Bloomberg/BearBull Global Investments



India— Supply chain disruptions due to Covid-19 persist, with implications for food and non-food prices. A more favourable outlook for food inflation may emerge due to a large rabi harvest mitigating cereal prices. Moderate increases in minimum support prices for kharif and monsoon crops are also supportive of a lower inflation outlook. Nevertheless, risks of price increases remain, such as the increase in domestic taxes on petroleum products, leading in particular to higher prices at the pump. Taking these factors into account, headline inflation, currently at 7.3%, could remain high this year and is expected to ease in the coming year.

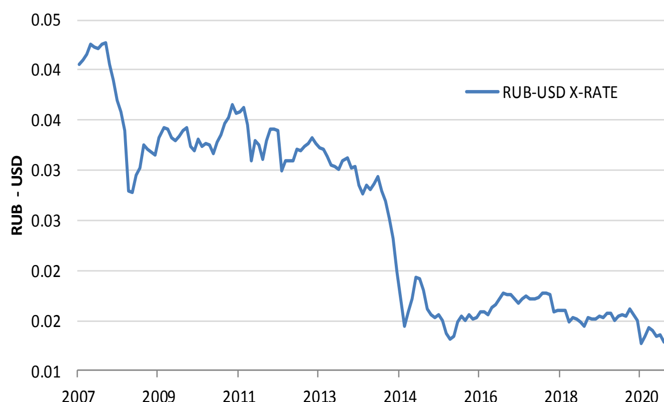
As regards growth prospects, the recovery of the rural economy is expected to be robust, thanks in particular to progress in kharif sowing. Manufacturing firms that responded to the Reserve Bank's Industrial Outlook Survey expect domestic demand to recover gradually and to be sustained until Q1 2021. On the other hand, consumer confidence has declined, and external demand is expected to remain anaemic under the weight of the global recession and the contraction of international trade. As a result of the above factors, GDP growth is expected to be negative for the year as a whole, following a contraction of -25.2% in Q2.

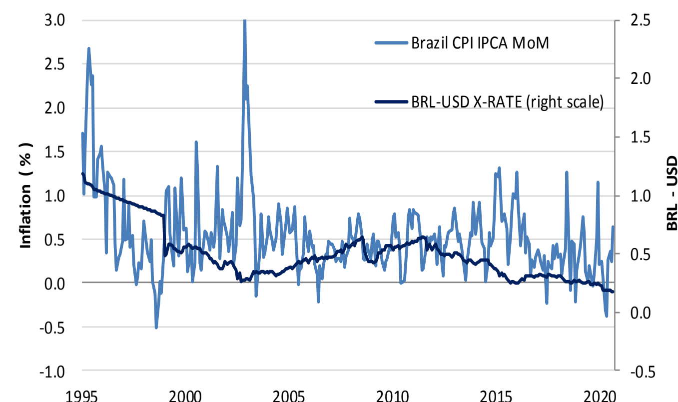
In these circumstances, supporting the recovery of the economy is of paramount importance in the conduct of Indian monetary policy. In pursuit of this objective, the monetary policy stance is likely to remain accommodative for as long as needed to revive growth and mitigate the impact of Covid-19 on the economy. While there is still room for manoeuvre with regards to monetary policy, the Committee believes that it is important to use it judiciously and opportunistically to maximise its beneficial effects on economic activity. The Reserve Bank has therefore decided to keep its key interest rate unchanged at 4.0% and to remain attentive to incoming data, in particular a sustained reduction in inflation, in order to use the remaining room for manoeuvre to support economic recovery. In the meantime, the cumulative reduction of 250 basis points since February 2019 is having a knock-on effect on the economy, lowering interest rates in the money, bond and credit markets.

South Africa— The Reserve Bank is now forecasting a contraction of GDP of -8.2% in 2020, against contractions of -7.3% in July and -6.1% in April, but the decline in Q2 is now followed by revised projections for a stronger rebound in Q3 and Q4 2020. Continued easing of the lockdown policy is supporting economic growth with indicators pointing to a recovery in economic activity from the extremely low levels of April and May. However, a return to pre-pandemic production levels is expected to take time. Due in particular to a sharp decline in investment, growth estimates for 2021 (+3.9%) and 2022 (+2.6%) have been lowered.

The Reserve Bank's forecast for consumer price growth is 3.3% in 2020, while forecasts for 2021 (4.0%) and 2022 (4.4%) were revised downwards. The risks affecting the inflation outlook appear to be balanced. Global producer and food price inflation appears to have bottomed out and oil prices remain low, while South African food price inflation is expected to remain contained. Inflation risks associated with currency depreciation are expected to remain moderate and pass-through is expected to be low. Although there are no obvious demand pressures, electricity and other administered prices remain a concern.

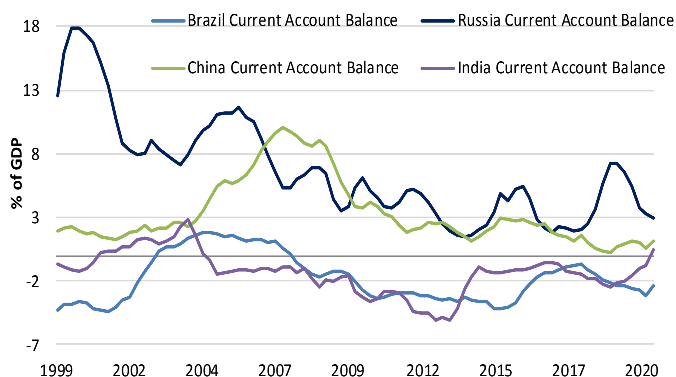
In this context, the Monetary Policy Committee decided to keep the key interest rate unchanged at 3.5%. The expected path of key rates in the quarterly projection model shows no decrease in short-term repo rates but two rate increases in Q3 and Q4 2021. Monetary policy has eased financial conditions and improved the resilience of households and firms to the economic implications of Covid-19. In particular, regulatory capital relief has supported lending by financial institutions to households and enterprises.

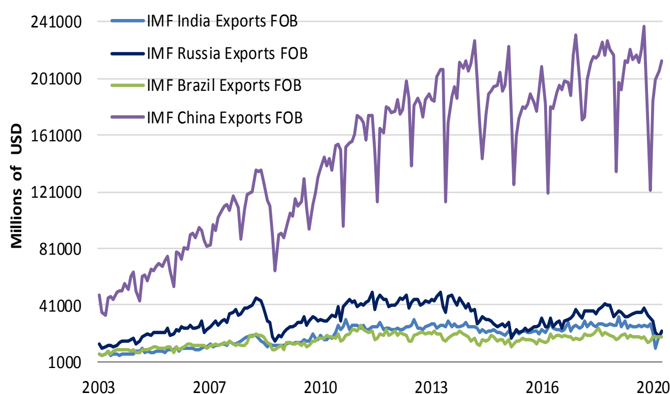


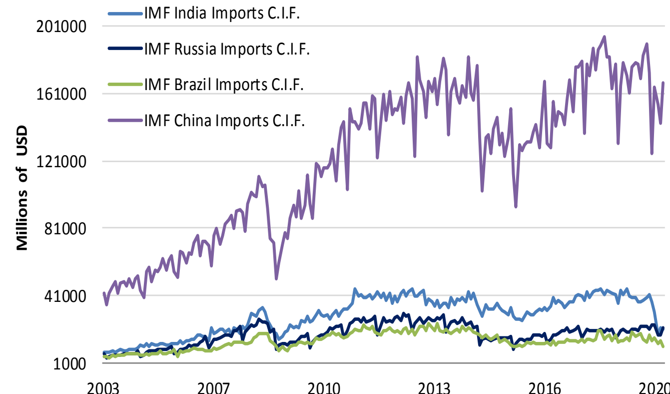


Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group







Colombia— The national economy is facing a strong contraction estimated at between -6% and -10% for 2020 by the technical staff of the Colombian Central Bank, highlighting the difficulty of forecasting in an environment characterised by a high level of uncertainty. Indeed, the possibility that the epidemiological dynamics, which were favourable in the last weeks of Q3 may be reversed, as observed in some countries, cannot be ruled out. The national unemployment rate (19.8%) is sending a positive signal, as it registered a slight decline, but the labour market and household disposable income continue to suggest a marked deterioration in the situation. The latest measure of inflation (1.97%) remained below its target of 3%, while inflation expectations also suggest levels below 3% for 2021 (2.75%) and 2022 (2.05%). The Board of Directors of the Colombian Central Bank decided by a vote of four to three to reduce the benchmark interest rate by a quarter of a percentage point to 1.75%, supported by the need to provide an additional stimulus due to the low level of inflation recorded and projected.

Mexico— The Bank of Mexico cut its benchmark interest rate for the eleventh consecutive meeting on 26 September 2020, lowering it by 25 basis points to 4.25% and bringing borrowing costs to their lowest level since August 2016. Economic activity in Mexico began to recover in June and July, despite an environment of uncertainty. Annual inflation rose from 3.3% in June to 4.0% in September, above its 3.0% target, due in particular to higher energy prices.

Indonesia— The Bank of Indonesia maintained its 7-day repurchase agreement rate at 4.0% at its October 2020 meeting, in line with market expectations and in order to maintain the stability of the domestic currency in a context of low inflation and to ensure liquidity. The Indonesian economy shrank by -4.2% in Q2 2020, while the market was expecting a decline of -3.5%, after a fall of -2.4% in Q1. This is the third consecutive quarter of contraction as well as the most pronounced.

Taiwan— The Central Bank of Taiwan maintained its key rate at a record level of 1.125% on 17 September 2020. Policymakers noted that the economy is gradually recovering from the impact of the coronavirus pandemic and that national economic growth would gain momentum in the second half of the year. The Committee forecasts a GDP increase of +1.6% this year and +3.28% in 2021. Inflation is likely to stabilise in the second half of the year, supported by a rebound in international commodity prices and a recovery in domestic consumer spending.

Turkey— The Central Bank of Turkey raised its one-week benchmark repo rate by 200 basis points to 10.25% at its September meeting, surprising markets that had been expecting rates to stay unchanged. Policymakers said the decision was aimed at restoring the disinflation process and supporting price stability, as the Turkish lira had reached historically low levels. The central bank also said that economic activity recovered sharply in Q3 thanks to gradual normalisation measures and a strong boost from credit, while the inflation rate was higher than expected.

Romania, Czech Republic, Poland, Hungary— The National Bank of Romania lowered its benchmark interest rate by 25 basis points to 1.5% on 5 August 2020, pushing borrowing costs to their lowest level ever. The annual inflation rate rose to 2.5% in September, and policymakers expect it to remain stable in the upper half of the target range for the rest of the year.

After already cutting rates by 200 basis points at the beginning of the year to support the economy affected by the coronavirus epidemic, the Czech National Bank kept its benchmark two-week repo rate unchanged at 0.25% on 23 September 2020, as expected, after inflation fell to 3.2%, slightly above the upper limit of the central bank's 1% to 3% tolerance margin.

The National Bank of Poland maintained its benchmark rate at a record level of 0.1% at its October meeting in a context of deep economic recession and growing inflationary pressure. The annual inflation rate rose to 3.2% in September, remaining above the central bank's medium-term target of 2.5% for the eleventh consecutive month.

The National Bank of Hungary kept its base rate unchanged at 0.6% on 22 September 2020, as expected, despite the increase in the annual inflation rate to 3.4% in September, above the medium-term target of 3.0%.

Graph sources: Bloomberg/BearBull Global Investments

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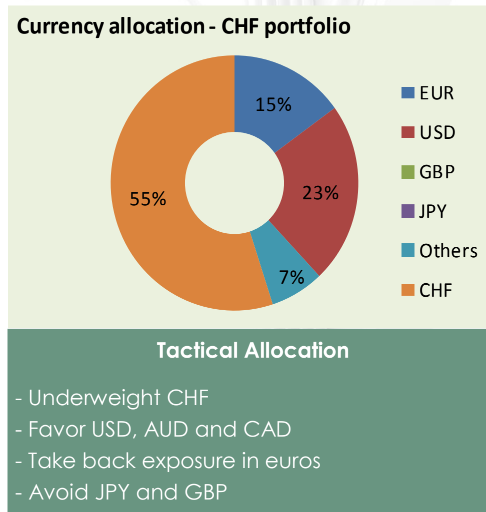
PROSPECTS AND STRATEGIES

Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Currencies

- The SNB is maintaining a policy distinct from that of the major central banks
- 21 July agreement strengthens the euro
- The dollar remains the preferred currency
- The rise of the yuan is justified by stronger fundamentals



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	↘	↘							

The SNB is maintaining a policy distinct from that of the major central banks

The SNB has remained relatively discreet in recent months and has not changed its monetary policy, unlike other major central banks, which have been more active in supporting the economy in their respective countries. Key interest rates remained unchanged in Switzerland, and no asset purchase or further liquidity injection strategy was envisaged in Q3. The Swiss franc continued to appreciate somewhat against the dollar and the yen, as uncertainties diminished and financial markets resumed their upward trend, although it weakened against the euro. Sight deposits rose further to 635 billion as of mid-September, while foreign exchange reserves have remained stable at around 848 billion since June. The SNB is not changing course and is still trying to curb any further appreciation of the Swiss franc against the euro. The downward trend in US policy rates and long-term interest rates has further narrowed the yield differential on which the SNB's strategy of weakening the Swiss franc is based and has somewhat disrupted its policy. The end of the crisis is, however, likely to be conducive to a further weakening of the Swiss franc, which has already been under way since mid-May, against the European currency (-2.5%).

21 July agreement strengthens the euro

Credit spreads had already clearly narrowed between German yields and 10-year US Treasury yields in March when yields in the US had rapidly fallen by almost 150 basis points. The spread then stabilised in favour of the dollar, remaining close to 125 basis points at the end of the quarter. The euro's rise of around 5% against the dollar between May and June could be explained at first glance by the narrowing of the spread observed in March. But it already seemed to us in June that the European currency would benefit in particular from the change in outlook that the agreement of 21 July, allowing the Commission to borrow in the markets to finance Community expenditure, a first form of mutualisation of government debt in Europe, could bring about for the European currency by reinforcing its long term credibility. We were expecting a phase of progression of the euro against the dollar, which partly occurred during the summer with a second wave of appreciation against the dollar that pushed the exchange rate from 1.12 to 1.20. Today, after this progression of around +7%, we believe that a temporary consolidation would be justified. The euro could thus weaken temporarily towards 1.15 before resuming an upward trend.

The dollar could well regain its role as a safe-haven currency

The dollar weakened somewhat during the previous quarter as both the economic outlook and the perception of market risks seemed to improve. The dollar thus lost its attractiveness as a safe haven in a stock market climate that once again favoured risk taking, despite a yield differential that was often still in its favour, although reduced by the convergence of the monetary policies of the main developed countries on both short and longer maturities. Today, the economic recovery that was beginning to take shape thanks to the massive support of governments and central banks appears much more fragile and uncertain. The return of economic uncertainty at the beginning of the autumn is obviously linked to the emergence of a second wave of the Covid-19 epidemic in a growing number of countries, which calls into question the short-term economic outlook. In the United States, it is far from certain that Democrats and Republicans will be able to agree on the next stimulus package before the elections, even though it seems indispensable to support the recovery underway. In this once again more opaque environment, the risks seem once again to outweigh the opportunities in financial markets. The uncertainty that could also mar the results of the elections on 4 November could further increase investor anxiety with only a few weeks to go before the end of the year. The demand for dollars as a safe haven is therefore likely to increase again in this perspective. Our forecast is positive for the US currency, which could appreciate by +3% to +5% before the end of the year.

Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

Negative outlook for the pound sterling

The USD/GBP exchange rate stabilised somewhat during the last quarter and has been broadly stable since the beginning of the year after having fluctuated significantly at the outbreak of the health crisis. Since then, the decline in yields mentioned above has had little impact on the USD/GBP pair. The British currency is not supported by a favourable economic environment and should on the contrary still be penalised by the risks of a "no-deal Brexit". However, it has remained relatively stable against the Euro and the Swiss Franc since the end of June.

However, the introduction of negative key interest rates, a more intense downturn in the UK economy and the prospect of a "no-deal Brexit" are likely to put pressure on the UK currency in the coming months.

Japanese economy still in desperate need of a weaker yen

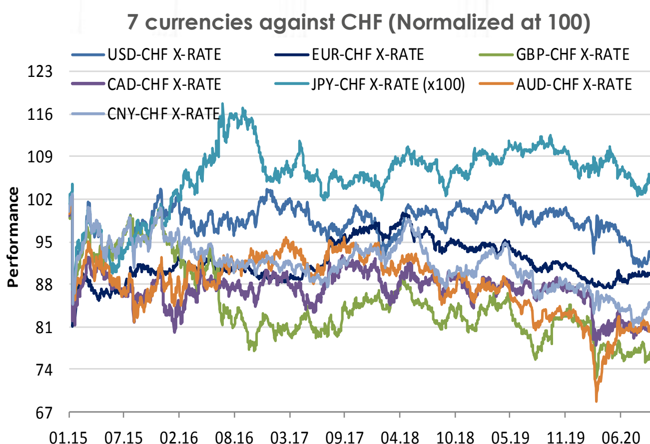
The weakening of the yen, which had been underway since September 2019, was called into question when the health crisis erupted, after depreciating by around -7.5%. The volatility of the JPY/USD exchange rate of more or less 10% over just a few weeks unfortunately gave way to a new appreciation of the Japanese currency of about +6.5%.

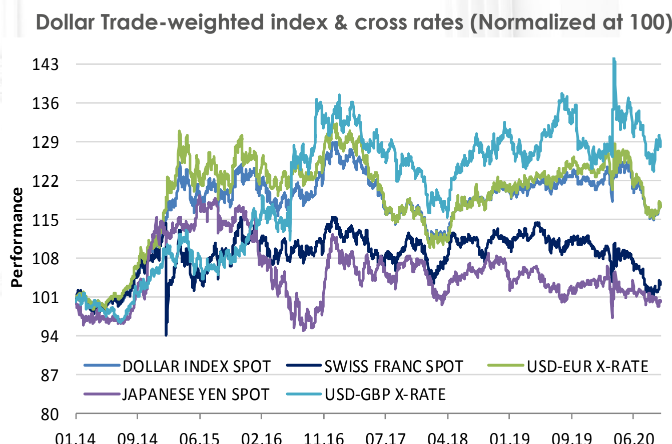
Despite the gradual reduction in health, economic and financial uncertainties in recent months, the yen is still perceived as a safe haven. The disappearance of the yield differential between dollar and yen rates has certainly contributed to this trend. However, the Japanese economy still needs a weaker yen to increase the competitiveness of its export sector, which is still very heavily affected by the fall in world demand.

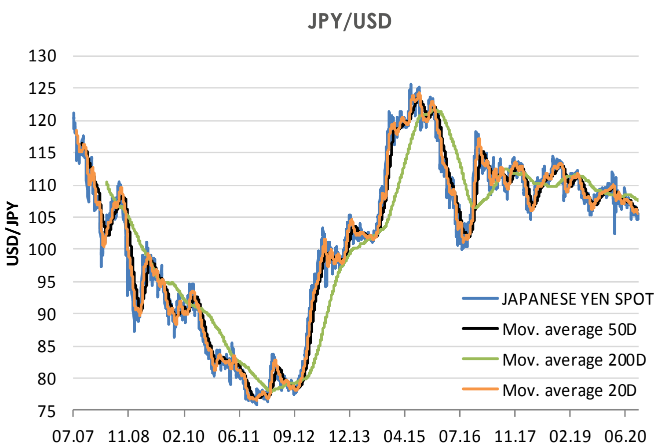
The rise of the yuan is justified by stronger fundamentals

The Chinese central bank should be reassured by economic development in China, where the situation has strengthened in recent months. Economic indicators continue to point towards a revival of both industrial production and exports, as well as domestic demand, which is likely to continue in Q4. The return of consumption into positive territory in August bodes well for an improvement in confidence. Growth in Q3 is likely to exceed +5% over 12 months. China's economy is therefore on the way to achieving the impossible with growth for FY2020 expected to be above +5%, with a real GDP above +2%.

The PBOC will continue its economic support policy by injecting the necessary liquidity and is likely to maintain the financing rate at 2.95%. The time for normalisation has not yet come. In the capital markets, the yield on Chinese sovereign bonds has been rising since April (2.5%) and now stands at 3.2% on the ten-year. China's economy is clearly in better shape than those of other industrialised countries, which are still being held back by health measures, and yuan yields still offer an attractive premium against both the dollar and the euro. The essential conditions seem to us to be in place to justify the relative strength of the yuan and to see a continuation of its revaluation in the coming months.







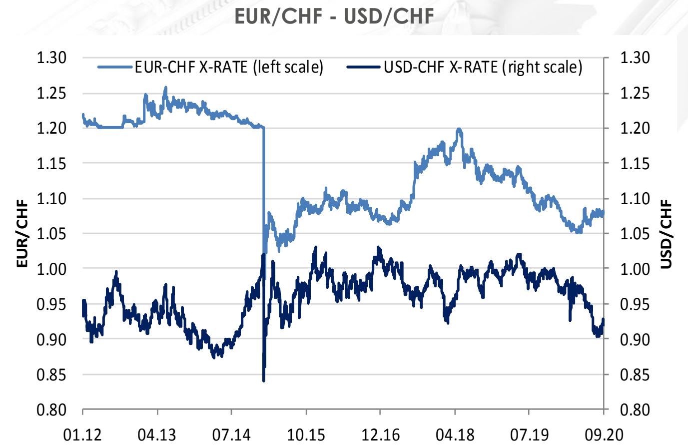
Graph sources: Bloomberg/BearBull Global Investments

CURRENCIES

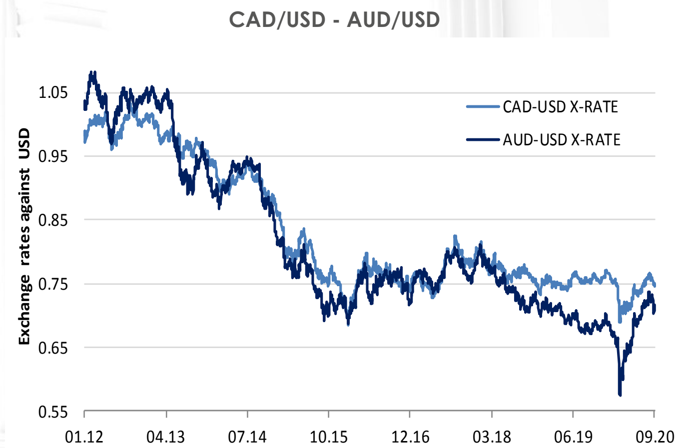
30.09.2020

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.2	0.5	-1.8	4.2	6.9	4.5
CHF-USD X-RATE	1.1	0.3	-1.9	2.7	4.9	5.1
GBP-USD X-RATE	1.3	1.5	-3.4	3.6	4.4	-2.5
JPY-USD X-RATE	0.0	-0.1	0.4	1.9	1.6	3.0
CAD-USD X-RATE	0.8	0.5	-2.0	2.0	6.6	-2.5
AUD-USD X-RATE	0.7	1.3	-2.9	3.6	18.0	2.0
RUB-USD X-RATE	0.0	-0.8	-4.7	-9.0	1.3	-20.1
CNY-USD X-RATE	0.1	0.3	0.8	4.1	4.5	2.5
INR-USD X-RATE	0.0	-0.2	-0.5	2.3	3.8	-3.5
BRL-USD X-RATE	0.2	-0.2	-2.0	-5.1	-6.3	-28.3
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.9	-0.3	1.9	-2.6	-4.7	-4.7
EUR-CHF X-RATE	1.1	0.2	0.1	1.4	2.0	-0.6
GBP-CHF X-RATE	1.2	1.2	-1.5	0.9	-0.4	-7.2
JPY-CHF X-RATE (x100)	0.9	-0.4	2.3	-0.8	-3.1	-2.0
CAD-CHF X-RATE	0.7	0.2	-0.2	-0.7	1.6	-7.2
AUD-CHF X-RATE	0.7	0.9	-1.1	0.8	12.4	-2.7
RUB-CHF X-RATE	0.0	-1.1	-2.9	-11.4	-3.3	-24.0
CNY-CHF X-RATE	0.1	-0.1	2.7	1.3	-0.3	-2.4
INR-CHF X-RATE	0.0	0.0	1.6	0.0	-0.8	-8.1
BRL-CHF X-RATE	0.2	-0.6	-0.6	-7.9	-10.9	-32.0

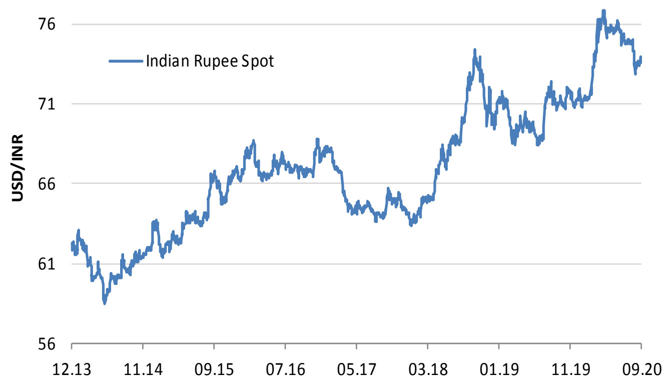
EUR/CHF - USD/CHF



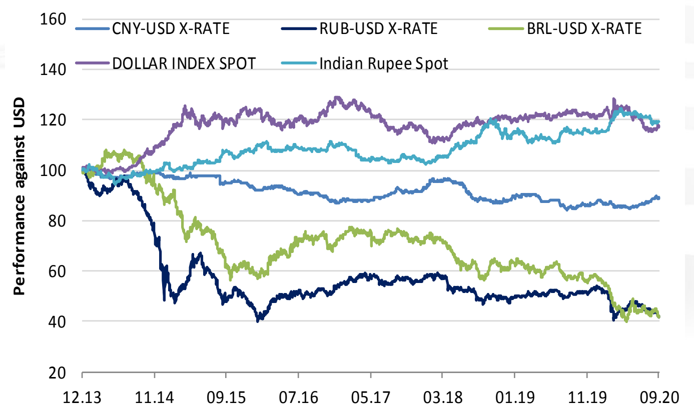
CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)



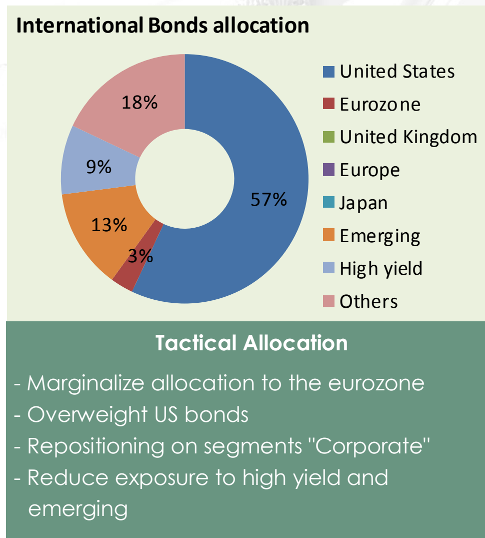
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Bonds

- Capital markets dominated by central bank purchases
- Total monetisation of Treasury issuance?
- Spreads and yields on sovereign debt decrease
- Low potential for long rates in the UK

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



Massive, sustained and unfailing support from the Fed

The Fed acted quickly during the health crisis to control the onset of the panic that gripped the financial markets in March. It very quickly adjusted its monetary policy to reassure financial markets and provide all the liquidity needed to avoid a systemic crisis. It lowered key rates to close to 0%, while its asset repurchase programme enabled the 10-year Treasury yield to converge, falling from 1.95% at the beginning of the year to 0.5% in early August. During the quarter, the situation remained relatively stable, the Fed's rate steering policy remained unchanged, and its purchases of securities were commensurate with financing requirements. In the absence of any real acceleration in the US economic recovery, this situation is likely to be considered the new normal. While on the short end of the yield curve the situation seems unlikely to change for several quarters at least, the situation on the longer end is a little more uncertain. Indeed, the evolution of long-term rates will essentially depend on how the situation evolves in terms of government and corporate financing needs, net new issuance, and the Federal Reserve's capacity to absorb them.

Total monetisation of Treasury issuance?

Governments' additional funding needs to meet the direct and indirect costs of managing the Covid-19 crisis were announced fairly accurately and ultimately quite quickly after the crisis broke out. The initial US stimulus package of USD 2.2 trillion will therefore weigh heavily on the US budget and debt levels. These trillions will be in addition to the trillions of dollars of ordinary financing that the US Treasury already relies on to finance and close its annual budget. Thus, in the exceptional context of 2020, the financing of these new liquidity needs will be ensured above all by the US central bank. The Fed's balance sheet had already ballooned in response to the economic crisis of 2008, but in 2020 it will expand again at an even higher pace and is expected to increase further still with the likely growth of financing needs in 2021. The Fed has thus increased the size of its assets by USD 3 trillion, and the latter well continue to grow at the same pace in 2021. The US central bank, like other major central banks, is engaged in an irreversible headlong rush and will probably not stop adding new federal debt issuance to its balance sheet any time soon. Long-term rates are therefore likely to remain under the almost absolute control of central banks, as they have been throughout the last quarter.

However, governments' financing needs will continue to grow, potentially testing central banks' resolve and the enthusiasm of private investors. Some of them are already well on their way, while the additional financing needs of the US are emerging and depend on the desired policies. Democrats and Republicans are thus locked in a struggle to define a new stimulus package, with the former calling for 3 trillion and the latter for only 1 trillion dollars. Negotiations have not been successful and were undermined by Trump's announcement that nothing would be decided before the elections.

The US Treasury Department, however, has already estimated its needs at an additional USD 3 trillion to avoid another economic downturn in the coming months. Continuing failure to come to an agreement would have harmful consequences for the American economy, which could then deteriorate once again in Q4.

BOND INDICES (local currency)

30.09.2020 — Total Return Performance

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	141.2	CHF	0.0	0.8	1.2	3.2	0.4
UE BONDS	Barclays EuroAgg	271.9	EUR	0.0	1.0	1.9	3.9	2.8
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	143.9	EUR	0.0	0.1	0.1	0.3	-0.2
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2376.1	USD	-0.1	-0.1	0.6	3.4	6.8
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.6	USD	0.1	0.0	0.7	4.3	2.1
EMERGING BONDS	JPMorgan Emerging Markets Bond	605.5	USD	0.1	-2.0	1.9	17.0	-0.3
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	541.0	USD	0.1	-0.4	2.6	6.0	5.7
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	271.9	EUR	0.0	1.0	1.9	3.9	2.8
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	155.4	CHF	-0.7	1.2	0.1	6.3	0.4
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	8259.1	EUR	-0.2	0.4	2.3	9.2	0.8
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	155.7	USD	0.1	-2.1	4.7	17.2	-0.2
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	14.6	USD	0.1	-0.3	3.2	13.5	1.4

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

Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

ECB is monetising public debt and supporting businesses

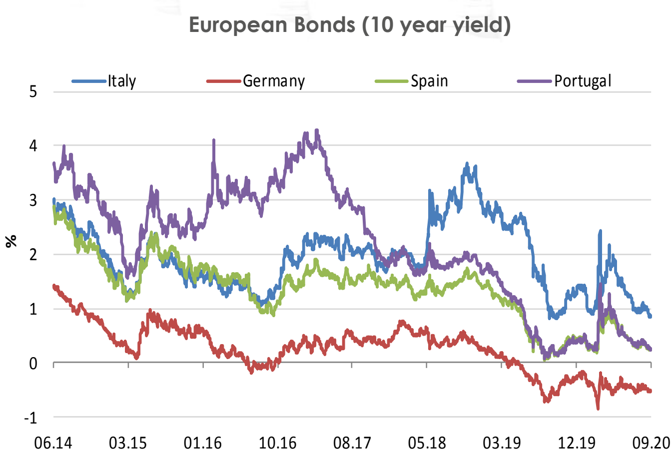
In accordance with its Pandemic Emergency Procurement Programme (PEPP) announced in March, the ECB is now intervening on a potential volume of EUR 1,350 billion. Corporate securities purchases have been substantial in recent months, as the ECB has decided to intervene in various sectors such as energy, services to public authorities, transport, aeronautics, the automobile industry and air transport. The ECB's action has certainly led to a reduction in credit spreads, which had risen sharply in March, and has thus stabilised certain segments of the credit market in Europe. The ECB has therefore acquired investment grade corporate bonds and sovereign debt. It has already purchased nearly USD 700 billion in sovereign debt in the first nine months of the year, while new government issuance did not reach USD 400 billion during the same period. The ECB's PEPP therefore finds some paradoxical limitations in the ultimately relatively low level of current, insufficient government issuance. While the ECB has succeeded in its first wager to restore a measure of serenity in the capital markets, it may well be tempted to perpetuate this greater and more flexible capacity for action, which was initially intended to be exceptional and temporary.

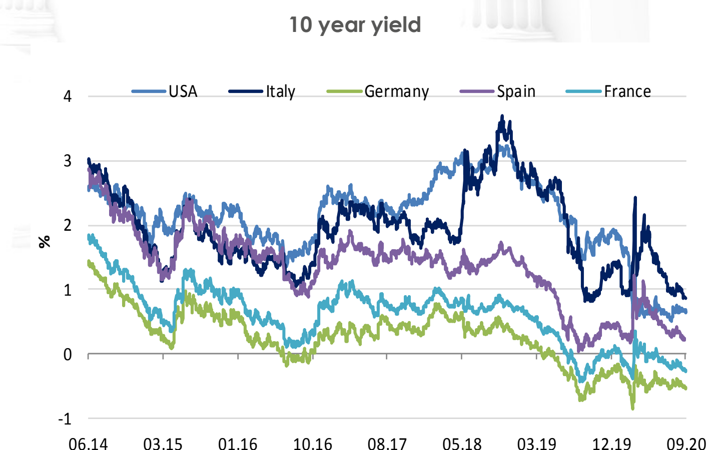
Spreads and yields on sovereign debt decrease

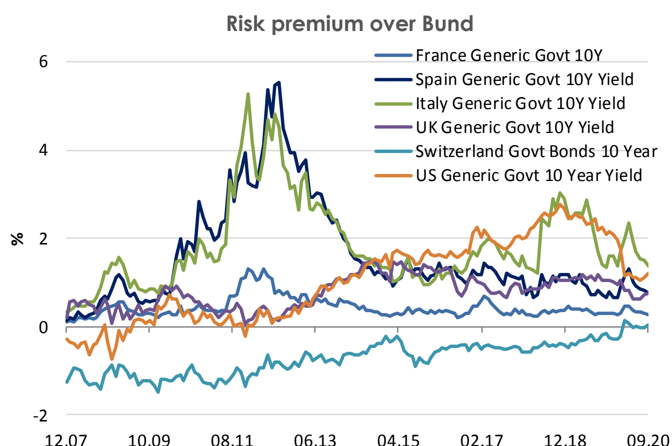
The PEPP has been in operation for several months and has effectively been controlling the evolution of sovereign bond yields in Europe. After the initial tensions regarding government bond yields observed globally in March and the explosion of spreads, particularly on peripheral sovereign bonds, the trend was towards lower yields and spreads. Over the last three months, German bond yields fell marginally, ending the quarter at -0.55%, while Italian bond yields fell from 1.25% to 0.65%. Overall, credit spreads with Germany fell by about 50-60 basis points for Italy (120 bps), Spain (70 bps), Portugal (70 bps) and even France (26 bps). The yield spreads between European state debtors are thus once again close to those prevailing before the outbreak of the Covid-19 crisis.

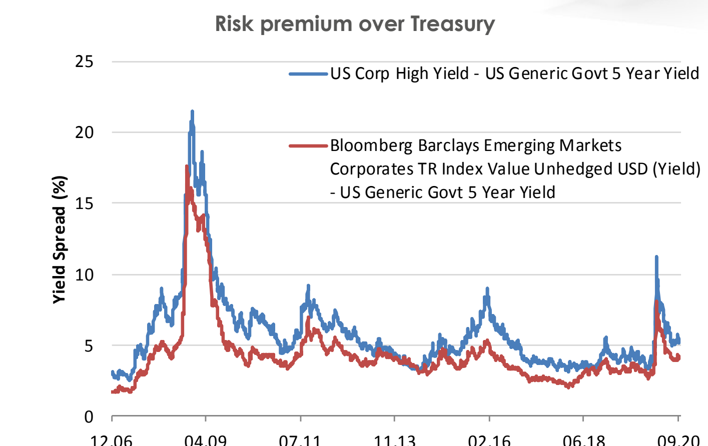
Low potential for long rates in the United Kingdom

Since May, the British government has been able to borrow on a short-term basis based on a negative yield. The yield on 3-year government bonds has remained negative since then and is between -0.05% and -0.1%. Ten-year UK government yields have remained relatively stable and close to zero for the last three months, except for a short period of stress in March, which saw very high volatility in sterling yields, which temporarily jumped from 0.2% to 0.8% before stabilising again at 0.2% in June. At these levels, the GBP fixed income market still does not seem very attractive to us, even if, faced with the exceptional difficulties encountered by the British economy and the risk of a no-deal Brexit, the Bank of England is thinking about and preparing for the possibility of lowering its key rates and introducing negative rates. The Bank reduced its rates from 0.25% to 0.1% during the health crisis in March and since then has had very limited room for manoeuvre. Although this measure is considered a last resort, the BOE now seems to be seriously considering it, especially in the event of a no-deal Brexit. However, it may more quickly announce an increase in its asset purchase programme in order to act across the entire yield curve. The BOE is expected to announce an additional bond purchase programme of up to GBP 100 billion. The risks of holding sterling bonds seem to us sufficient in this context to avoid taking a position in this market. In this very uncertain environment, we recommend that international investors avoid exposure to the sterling fixed income market and position themselves in other bond segments.









Graph sources: Bloomberg/BearBull Global Investments

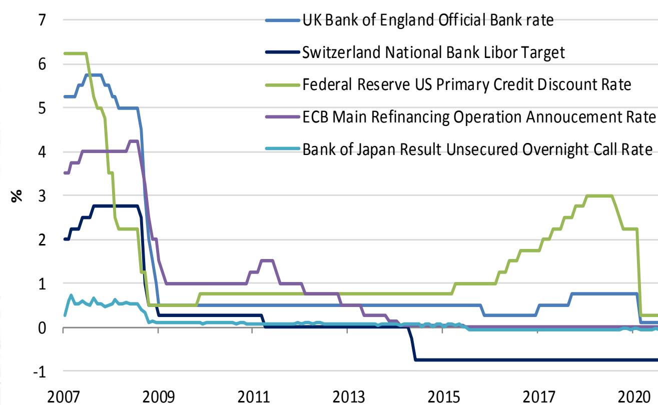
Dead calm in Japanese fixed income markets

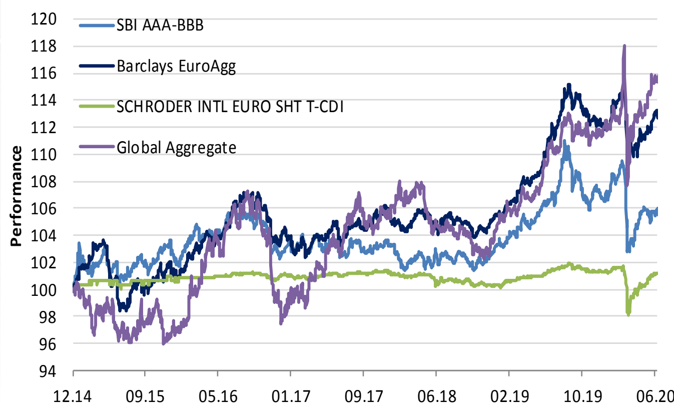
Inflation in Japan declined again in August with the consumer price index rising by only 0.4% year-on-year. Weak domestic demand contributed to the lack of pressure on prices, while the relative appreciation of the yen against the dollar since the beginning of the year significantly lowered import costs. There is therefore still no Inflation in sight in Japan, and interest rates may remain stable and close to zero across the entire yield curve. The Japanese government's ten-year yield is thus still 0.015%, practically unchanged since the beginning of the year. The Bank of Japan now seems a little less pessimistic in its assessment of the economic situation in Japan. At its last meeting in September it kept its key rates unchanged at 0.1% as expected. It also confirmed the continuation of its "unlimited" asset purchase policy, underlining that its very aggressive monetary policy strategy was not in question.

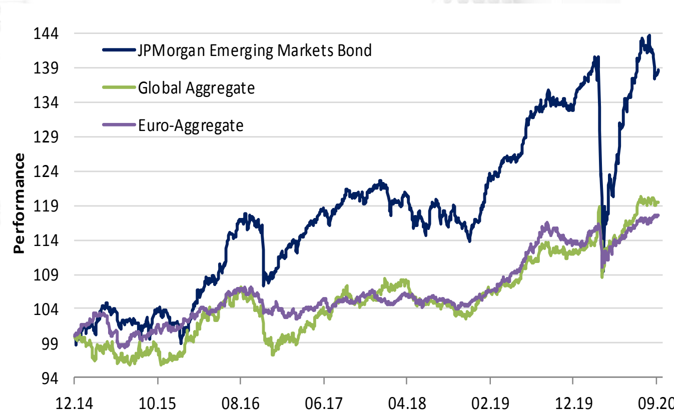
Bond investment policy biased by central bank interventions

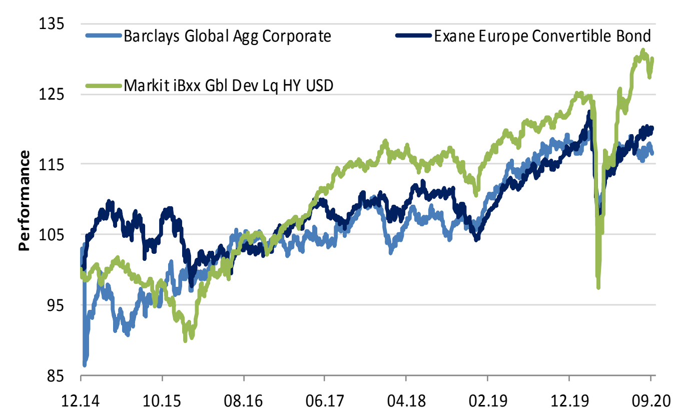
The current situation in fixed income markets is now even more complex since central banks have taken drastic measures to support governments' financing needs. For several months now, we have seen the emergence of an institutionalisation of what can be considered as a monetisation of government debt. The consequence of this policy could be the maintenance of low rates on yield curves across the board 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 there are fewer investment opportunities, and the latter revolve around lower grade borrowers. Within the group of countries with an investment grade rating, the US offers a low but positive yield and is likely to continue attracting capital from the Eurozone and Japan. In the sovereign debt markets, yield spreads have generally narrowed in recent months. In Europe as well, risk premiums for lower quality sovereign debtors have fallen significantly. As a result, national yield curves are increasingly converging towards rates close to zero. The action of central banks almost completely cancels out the differences in yields between the various government debtors, even though these differences are justified by differing fundamentals. While in the short term this phenomenon is understandable and dictated by the need to assist governments in a situation of fiscal expansion necessitated by the Covid-19 crisis, in the long term a return of risk premiums will have to occur to logically take into account the various countries' specific situations. Opportunities have also diminished in the corporate segments as risk premiums have steadily decreased. The purchase of corporate debt by the ECB to avoid systemic risks leads to the same effects in the short and medium term.

Default risk taking by issuers is no longer remunerated, which obviously poses a major problem in terms of bond investment strategy. The disappearance or removal of this fundamental and determining element of relative positioning in terms of regional and sector allocation and security selection strongly skews the analysis of opportunities and risks.







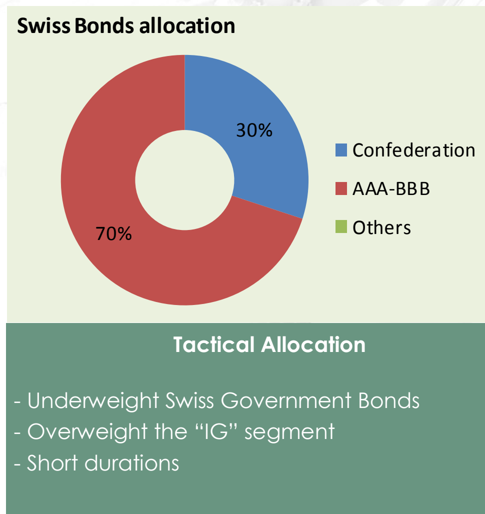


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Bonds

- A temporary new paradigm
- Compression of risk premiums for investment grade corporate bonds
- Moderate risk of increase in federal yields



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

A temporary new paradigm for Switzerland's fixed-income markets

Interest rate markets in Switzerland have followed movements in international markets to some degree in recent months. While the outbreak of the public health crisis initially shifted government yield curves down significantly in most countries due to legitimate concerns about growth prospects, yields on various maturities then rose again relatively quickly due to fears of increasing debt in connection with fiscal policy decisions taken by most governments in industrialised countries. Switzerland's interest rate markets were also affected by these global trends in March and then in April, with 10-year yields initially declining by around 25 basis points before rebounding by 60 basis points, bringing them back close to 0%. However, they did not react as strongly to recent developments in the United States and the Eurozone in particular. While central bank action in these two regions clearly maintained and reinforced the downward pressure on yields, the lack of SNB intervention in Switzerland left market forces free to find an equilibrium. De facto, the Confederation's 10-year yields have remained rather stable in recent months and are still below zero at -0.45%.

Compression of risk premiums for investment grade corporate bonds

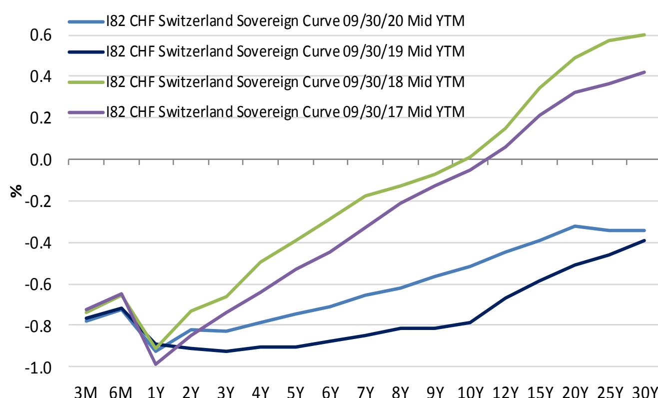
For investment grade Swiss franc bonds, the same uncertainties led to a rapid increase in yields in March of almost 150 basis points and to an increase in risk premiums, which we described at the time as a fresh window of opportunity to take new positions in the corporate Swiss franc segment. The 10-year Confederation BBB risk premium then jumped from 1% to 2.46%, its highest level in the last ten years. A few months later, while the Confederation's yields remained relatively unchanged, the influx of capital into corporate bonds in particular squeezed yields and the risk premium, which now stands at 1.1%.

The new paradigm that emerged in March in the Swiss interest rate market has already changed significantly. In our view, while the risk premium could contract by a few basis points over the next few months, repositioning opportunities are no longer attractive at current levels.

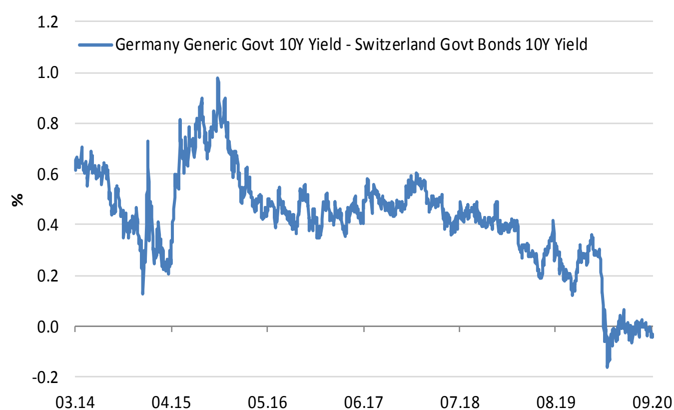
Moderate risk of increase in federal yields

As far as government bonds are concerned, it is likely that the international environment, characterised by monetary policies involving massive asset purchases, will continue to keep interest rates low for some months to come, indirectly influencing the Swiss market. We will certainly have to wait for a real economic recovery and the beginning of 2021 before expectations become more negative for the bond markets. The immediate risks of a rise in interest rates are relatively low in our country, but so are the opportunities. The forthcoming economic environment is likely to trigger new changes in expectations and launch a new phase of rising long-term yields, since following current deflationary conditions, inflation may pick up and federal long-term interest rates rise above zero once again in 2021.

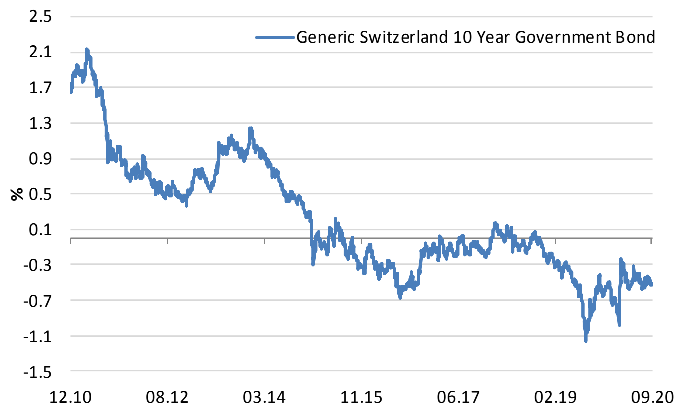
Switzerland Sovereign Yield Curve

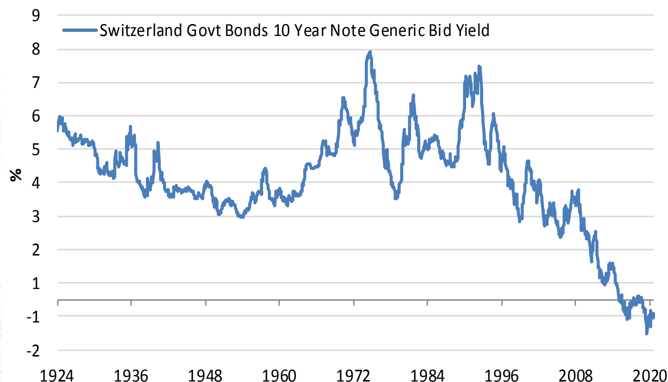


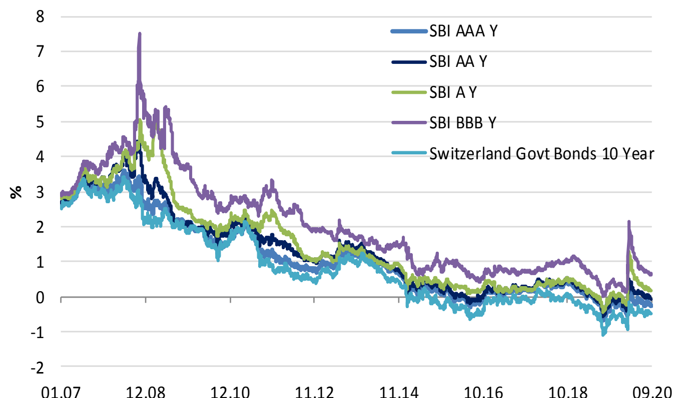
Long rates Yield Spread (German Bund - Swiss Confederation)

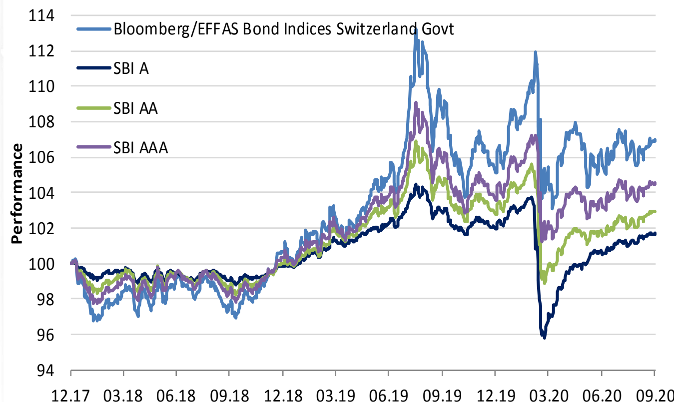


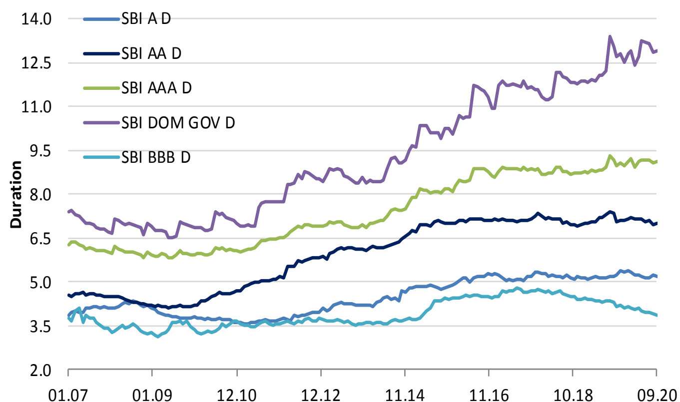
Graph sources: Bloomberg/BearBull Global Investments

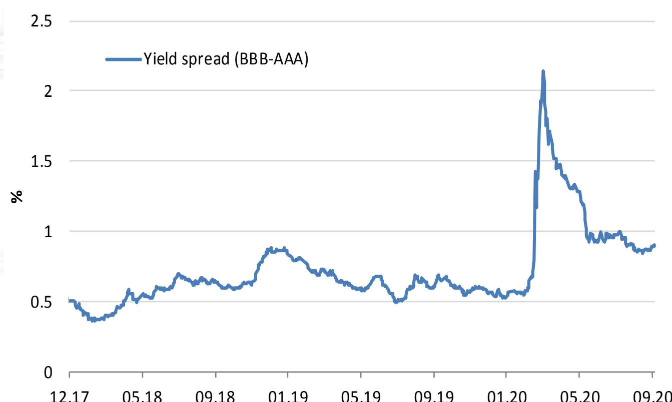


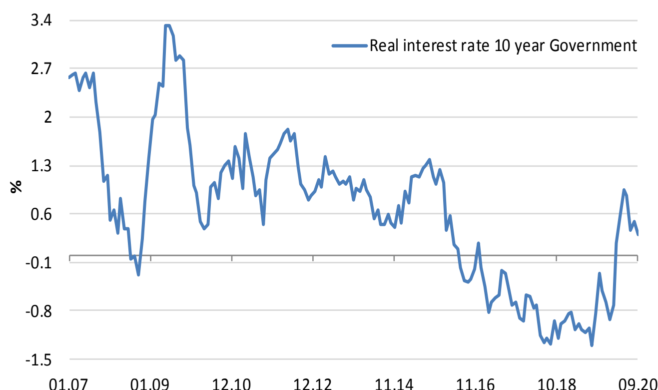












SWISS BOND INDICES (CHF)

30.09.2020 — Total Return Performance

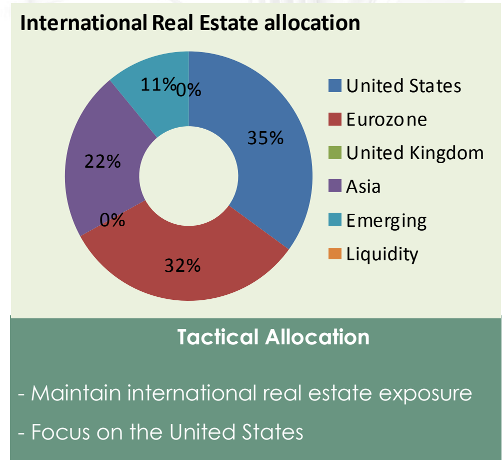
N° ISIN	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	1.0	CHF	-99.6	-99.6	-99.6	-99.6	-99.6
SBI A-BBB	138.8	CHF	-0.1	0.4	1.1	4.7	-0.6
SBI AA-BBB	138.0	CHF	0.0	0.6	1.2	3.9	-0.2
SBI AAA-AA	141.4	CHF	0.0	0.9	1.3	2.7	0.7
SBI BBB	151.1	CHF	-0.1	0.3	1.0	4.5	-1.0
SBI AAA-BBB	141.2	CHF	0.0	0.8	1.2	3.2	0.4
SBI DOM GOV AAA-BBB 1-3P	65.3	CHF	-0.1	-0.3	-0.5	-1.3	-2.3
SBI DOM GOV AAA-BBB 3-7P	84.7	CHF	0.0	0.2	0.2	0.0	-1.3
SBI DOM GOV AAA-BBB 7+ P	137.1	CHF	0.1	1.7	1.3	2.6	1.5

Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Real Estate

- Securitised real estate benefitting from further price readjustments
- Rents are no more at risk than corporate profits
- Liquidity injections are favourable to real estate
- Attractive diversification opportunities



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

Securitised real estate benefitting from further price readjustments

The third quarter followed on from the previous one for international real estate, which was up by 1.8% overall at the end of September after an initial 9.9% rebound between March and June. Most regional markets recorded modest results in local currency terms, with the best quarterly result coming from Asia, up 2.7%. US and European REITs achieved similar growth (+0.9%), while UK securitised real estate (-2.6%) and emerging markets (-4.7%) fell back. Since the beginning of the year, international securitised real estate has clearly been penalised by the health crisis and its negative impact on the outlook for commercial and office rents. Most regional markets have continued to decline sharply since the beginning of the year, by -20% overall. The UK and emerging markets continue to be the most affected, still down by over -26% (YTD) at the end of September.

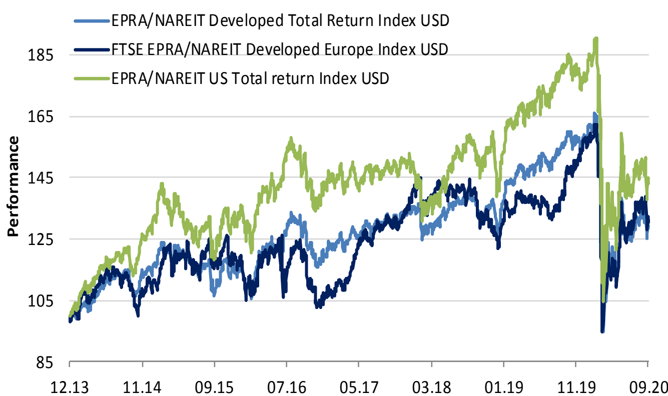
They did not manage to regain investors' favour in Q3, as their growth during this last period, although favourable for financial assets and risk taking, was negative. Real estate in the UK undoubtedly remains very affected by the country's specific unfavourable economic situation and by the health crisis, the effects of which may be more pronounced there than elsewhere. The reaction of real estate indices is therefore still relatively limited this quarter, while financing costs have continued to fall across the yield curve in most countries. This should be a favourable factor both for the valuation of real estate investments and for diversification prospects and the possibility of higher returns than those obtained in bond markets. International securitised real estate still offers opportunities for revaluation and rebound in the medium term.

The optimism that has largely returned to equity markets, in line with the positive performance of international equities since the beginning of the year (+1.7%), is still lacking in this global market, which is still down by -20% in 2020. We believe that arbitrage and repositioning opportunities in the medium term are still attractive for this asset class.

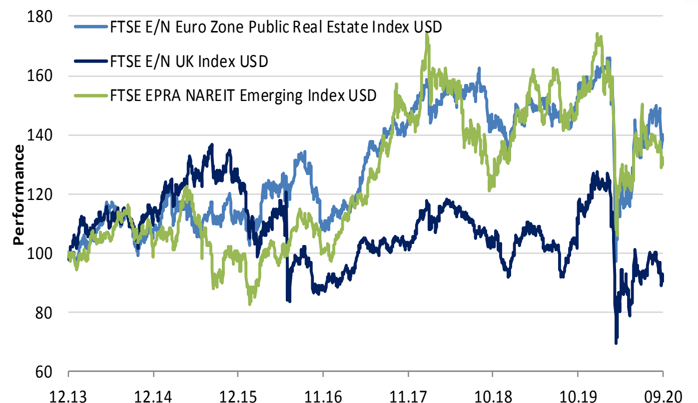
The sustainability of rents is no more threatened than that of company profits

Equity markets as a whole are once again in positive territory, but this is mainly due to the excellent performance of US equities and technology stocks in particular. The +1.7% increase in the international equity index was in fact driven by US stocks, while most other regional indices were still down significantly, including European equities, which fell by -12.5% over nine months. In this context, international securitised real estate is suffering more from uncertainty about the sustainability of rents than equity markets are suffering from the risk of falling profits.

EPRA Nareit - USA, Europe, Global (USD)



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



Graph sources: Bloomberg/BearBull Global Investments

International real estate is still suffering from a stock market climate favourable to equities and from persistent uncertainty regarding tenants' ability to pay rent in a recession. Looking a little beyond the current situation, it seems unlikely that the health crisis and its temporary cyclical effects will have a major impact on all income linked to the property markets. We believe that arbitrage opportunities are still intact in the medium term and anticipate a further rise in the value of this asset class over the coming months.

Liquidity injections are favourable to real estate

Central bank liquidity injections have already reached exceptional levels at the end of 2020 and are expected to increase further in the coming quarters. The new paradigm that has emerged with the increase in budget deficits linked to the health crisis and the monetisation of the corresponding debt by central banks is already creating an environment characterised by low rates across the entire yield curve, both government and private. The maintenance of very low financing costs and historically low capitalisation rates are both essential factors in the valuation and financing of real estate investments. This situation is likely to last and remain unchanged over the next few quarters.

In the longer term, the end of fiscal austerity along with central bank policies will have an impact on inflation, especially if, when inflation returns, central banks decide not to act and allow prices to increase for some time. Real estate is historically and fundamentally considered as an asset that maintains its value in times of inflation. A rise in price indices that is not accompanied by restrictive monetary policies would constitute a favourable mix for real estate and securitised bricks and mortar investments. The asset class seems to us to offer investment opportunities in this context.

The health crisis will have limited effects

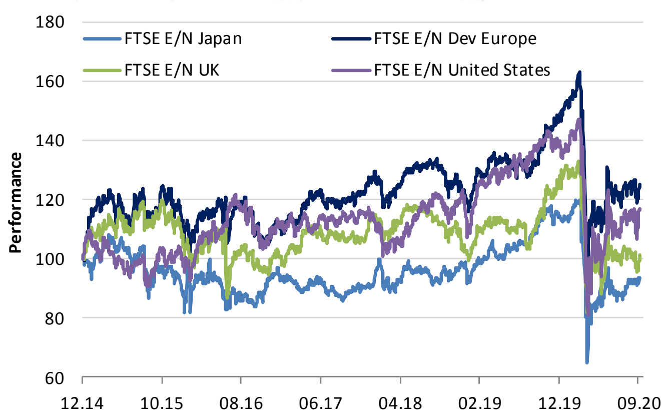
The health crisis has already had and will undoubtedly continue to have some negative effects on certain segments of the property market, notably certain office, shopping centre and retail market segments, but we doubt that the impact will really be very significant on the scale of the market as a whole. The generalisation of teleworking in a time of crisis has affected a significant number of companies, but it is unlikely to become widespread outside of such critical periods. The same is true for shopping centres and local shops, which are indeed suffering a temporary shock in demand, which will probably resume in 2021.

The current crisis affecting real estate is therefore expected to have effects limited in time and in no way comparable to the effects of the subprime crisis, which caused a generalised collapse in property values.

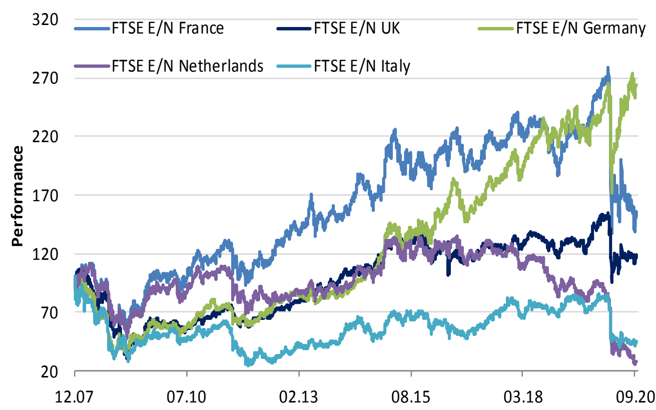
In this environment, we believe that commercial property prices incorporate risks that are unlikely to fully materialise. Current conditions and in particular the likely temporary nature of the crisis are unlikely to lead to forced sales or significant falls in value.

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

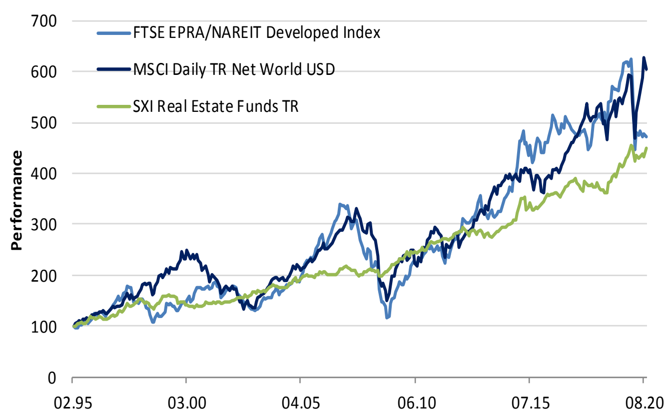
Real estate markets (local currency)



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)

30.09.2020 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	2525.9	USD	2.5	-3.0	0.4	18.1	-19.5
DEVELOPED	EPRA/NAREIT Dev TR USD	4727.9	USD	2.8	-3.0	0.6	19.1	-19.1
DEVELOPED EUROPE	FTSE E/N Dev Europe	1934.3	EUR	2.0	-1.6	0.4	11.7	-19.9
EUROZONE	FTSE E/N Euro Zone	2186.1	EUR	2.0	-3.6	-0.1	14.6	-16.8
USA	FTSE E/N United States	2510.8	USD	4.2	-3.1	-1.5	21.6	-20.0
DEVELOPED ASIA	FTSE E/N Dev Asia	1324.4	EUR	-0.2	-0.3	-1.7	5.9	-21.8

Graph sources: Bloomberg/BearBull Global Investments

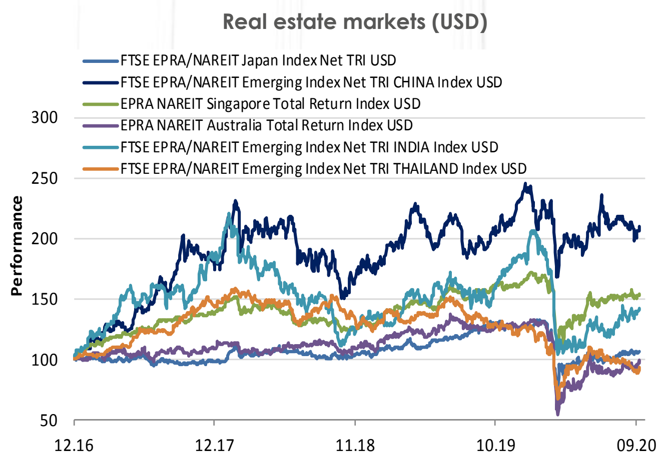
Securitised real estate offers attractive diversification opportunities

Having certainly been a victim in March of the asset reallocation process to risk-free investments such as government bonds and cash, we believe that securitised real estate is likely to benefit more broadly from the improvement in the current 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 well placed in comparison with bonds and equities.

The decline of bond yields to near zero leaves little room for a continuation of the recent trend or new prospects for capital gains. Contractions in risk premiums between state debtors and between debtors of different qualities have already reached extreme levels and leave little room for positive prospects.

As for equities, the increases already observed have pushed high valuation levels to almost 25x earnings and do not encourage risk taking either.

The transfer of positions and asset allocations out of fixed income investments and equities into indirect real estate investments could be supported by reasonable valuations and serious prospects of revaluation. The yield differential between bonds and real estate funds remains favourable at the beginning of the quarter.



While securitised real estate has certainly benefited somewhat from renewed investor interest in Q3, 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 seems to us to remain favourable. The emergence of teleworking will undoubtedly have some effect on the future demand for office space, but a radical change in corporate behaviour does not seem to us to be possible in the near future. Household incomes have been affected by the increase in unemployment in the US, but in Europe, social measures have made it possible to limit redundancies. The ability of households to acquire real estate is therefore certainly not fundamentally challenged by the few weeks of contraction in supply.

At current price levels, we maintain our positive outlook for international securitised real estate and suggest resuming an overweight tactical allocation after what we believe were unjustified price corrections in indirect property investments in Q1. International real estate investments have been unfairly penalised during this wave of widespread panic that has hit all asset classes. Real estate investment returns 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 some countries. The crisis of 2020 is not due to a real estate crisis, so it will not have similar effects on direct and indirect real estate prices.

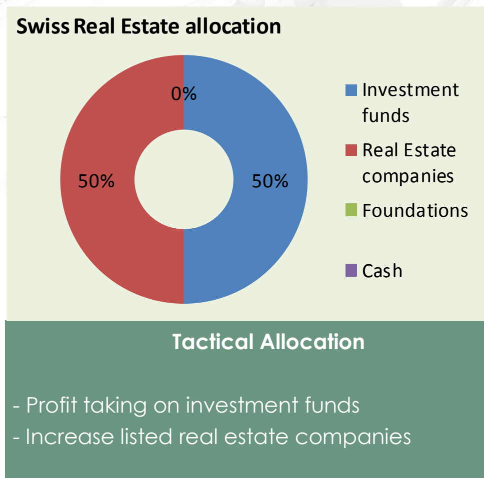
The flow of funds that have strategically shifted from bonds to indirect real estate has no reason to stop. On the contrary, it is likely to resume quickly to take advantage of the current, more favourable conditions. In terms of tactical positioning, we favour the property markets of countries or regions that can rely 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

- Securitised real estate temporarily at a standstill
- Worrying rebound in investment fund premiums
- Attractive returns and limited risks



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

Tactical Allocation

- Profit taking on investment funds
- Increase listed real estate companies

Securitised real estate temporarily at a standstill

The situation with regards to Swiss securitised real estate investments has been relatively static for several months. Little has changed since the initial rebound in investment funds, which had enabled the real estate fund index to move back slightly into positive territory year-to-date in April. The SXI real estate fund index then fluctuated with low volatility around the 430-point level reached at the end of April, rising only in the last three days of September to above 440 points, thus increasing slightly over five months and still achieving a positive nine-month result of +2.3%. While the situation is very similar for real estate companies in terms of volatility over five months, their performance is not at all the same. Real estate companies remained extremely penalised by the fall in prices in March and did not recover from the massive correction of almost -30% between the high point of the index in February and its low point in March. Thanks to an initial rise in company share prices in January and February, this correction ended up being "only" -20%. The subsequent recovery in this segment of the securitised real estate market erased part of the decline, but the SXI Real Estate Shares index is still down -12% since the beginning of the year. As for investment funds, their stock market performance can be described as respectable in the particular context of 2020, but the disappointment is more significant with regard to the weak rebound and revaluation of listed real estate companies. These companies are probably suffering more from the change in the outlook for real estate and construction in Switzerland than investment funds holding investment properties. The less favourable business outlook in the construction sector and the likely decline in new projects, particularly in connection with the increase in teleworking, is logically more detrimental to real estate companies and their prospects. The health crisis will leave more lasting traces on the office sector and retail spaces, an impact that is already at least partly visible in investment funds with this orientation as well.

Worrying rebound in investment fund premiums

Investment funds have returned to historically high valuation levels after the price increase mentioned above. The current level of premiums on Swiss listed real estate funds is again 34.8%, well above the historical average estimated at between 15% and 20%. The situation is completely reversed for listed real estate companies, which saw their average premium level fall with the March price correction without any noticeable recovery since then. The current average premium for Swiss real estate companies is still 13.6%, well below the high of over 40% reached at the beginning of the year.

Attractive returns and limited risks

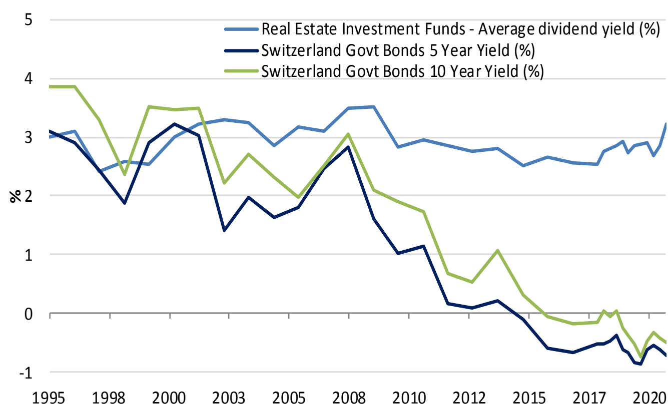
The direct yield of real estate investment funds is still attractive, averaging 3%, while the yield of real estate companies averages +3.6%. We believe that current levels are still attractive for long-term diversification into Swiss securitised real estate.

SWISS REAL ESTATE

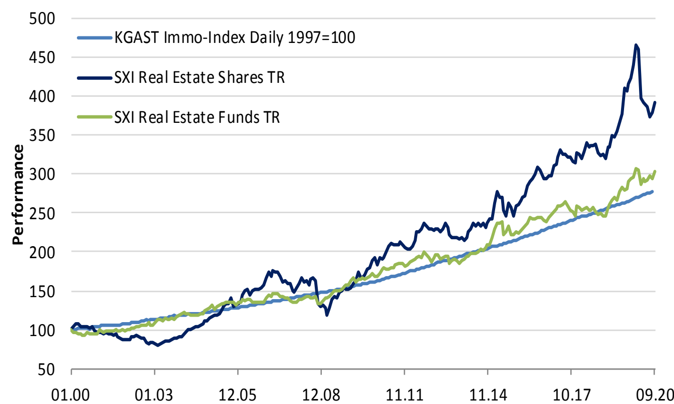
30.09.2020 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	446.3	1.5	3.5	4.0	7.3	2.3
SXI Real Estate Idx TR	2919.6	1.0	3.2	1.3	0.5	-10.8
KGAST Immo-Index	311.3				2.4	3.6

Government and Real Estate Yield



Performance of Swiss Real Estate



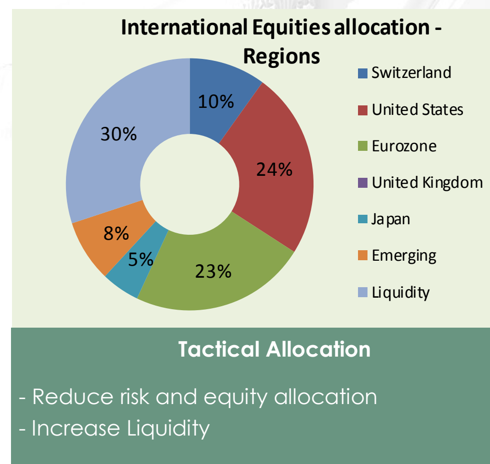
Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

PROSPECTS AND STRATEGIES

International Equities - Regions

- BDangerous complacency in the run-up to the US elections
- Presidential election: a game changer?
- Significant risks of consolidation for European equities



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

Tactical Allocation

- Reduce risk and equity allocation
- Increase Liquidity

Dangerous complacency in the run-up to the US elections

The investment climate changed somewhat in September with the resurgence of Covid-19 cases in Europe and the US in particular. In the absence of specific favourable economic news, financial markets rather lacked arguments to continue the upward trend initiated a few months earlier and logically experienced some profit-taking. Euphoria also subsided a little in the technology segment, which fell by -14% in three weeks after having jumped by +11.3% in August. This expected consolidation thus erased the latest gains in technology stocks, but over the whole of September prices corrected by only -5.72%. Levels of complacency therefore remain high in our opinion and correct only very little for overvaluations. Central bank liquidity continues to support both equity markets and risky assets as well as fixed income markets. October opens a new period of great political uncertainty that could well trigger new waves of profit taking, especially if the recovery in the third quarter proves to be less dynamic than expected and if government stimulus packages disappoint.

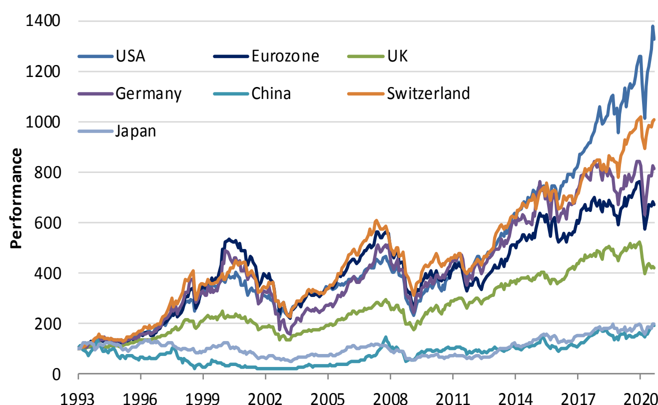
Chinese equities benefit from increased corporate profitability

Chinese equities posted the best performance among global equity indices since the beginning of the year, rising by +17% in yuan, largely outperforming the S&P500 (+8% in dollars). This performance is boosted by the growth in corporate profits in 2020. While profits of Chinese industrial companies plunged by -38% in March compared to a year ago, the overall result of -4.4% in August is almost positive and emphasises the complete turnaround that has taken place in recent months.

Expressed in yuan, the reversal in the trend is impressive and shows an increase in profits from 371 billion yuan in February 2020 to 613 billion yuan in August. The increase in profits in August was thus +19.1% year-on-year and is the fourth consecutive increase in profit growth for Chinese industrial companies. Chinese companies have completely reversed their situation, posting the strongest yoy increase in profits since June 2018 and one of the best yoy performances in the last ten years. In international comparison, the rise in Chinese share prices is therefore justified by the reversal in the trend in corporate profits, expected to be up for the year as a whole, which will not be the case in the vast majority of other equity markets. The rise in prices therefore seems more legitimate and could be more sustainable and justified than those occurring in other markets, which will see corporate profits collapse in 2020. The rise in Chinese equities was therefore only marginally supported by an expansion of PEs in 2020, which was the main factor behind the rise in prices in most developed markets.

In the short term, we believe that the Chinese market may also be affected by a change in investors' risk perceptions. However, in the medium term, Chinese equities seem to have attractive characteristics with a valuation level of 16x 2020 earnings and 14x 2021 earnings.

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)

Graph sources: Bloomberg/BearBull Global Investments

Presidential election: a game changer?

In a few weeks the US presidential election could trigger a change in outlook and a reassessment of risks and opportunities in financial markets. As in 2016, Democratic candidate Joe Biden is ahead in the national polls three weeks before the November 3 election. However, this may not be enough for him to win against the incumbent president, although he appears to have a comfortable lead for the time being. It is often forgotten that the American system is based on the number of electors in the Electoral College and not on the absolute number of ballots obtained.

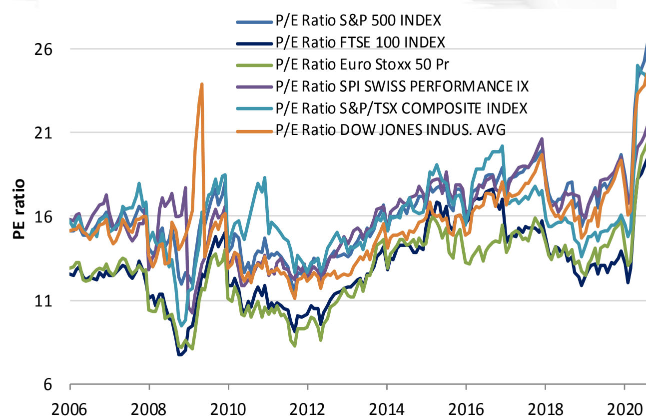
In 2016 Hillary Clinton garnered 2.87 million more votes, but Trump won by a majority of electors thanks to wins in a few key states. Therefore, it remains crucial to be able to estimate which states in 2020 are likely to swing the majority of those electors in favour of the Democrats or the Republicans in order to estimate whether Trump still has a chance of being elected this year if he does not obtain a majority of the votes. But beyond electoral speculation, it would appear that the risk of a challenge to the election result is in fact an important new factor of uncertainty to consider. It is indeed increasingly likely that the results will be contested following the vote and that this will lead to a new phase of uncertainty a few weeks before the end of the year.

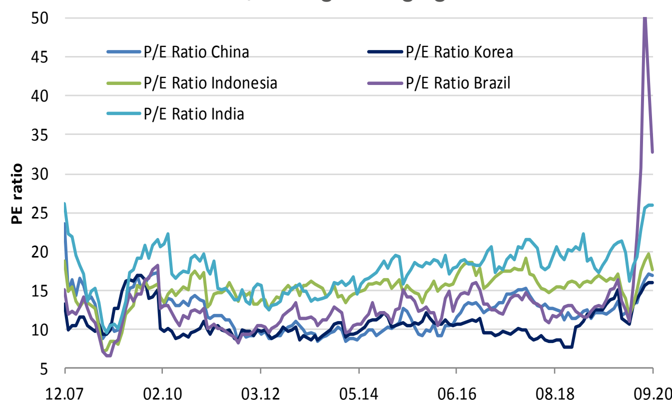
In 2000, a challenge to the result finally led to the election of George W. Bush following a 5-4 decision by the US Supreme Court. The appointment of a new Supreme Court justice by Donald Trump just before the presidential election is particularly sensitive in the current context. The uncertainty that had lasted a little more than one month had caused the S&P500 to plunge by -10% and the Nasdaq by -28%. The end of the year could therefore look more uncertain also because of the tax implications for companies and individuals, which could see their tax rates increase significantly in 2021.

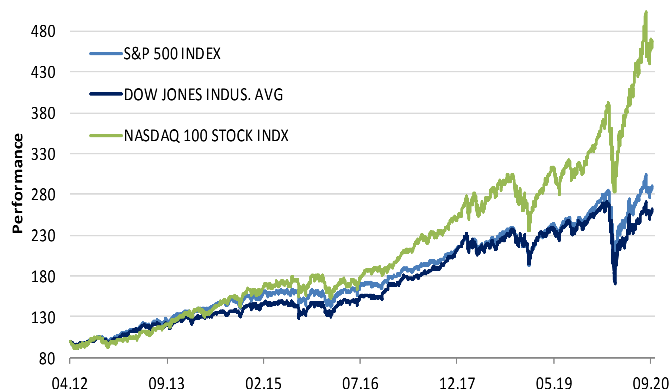
Current analyses do not yet seem to be paying much attention to the risks of an increase in US taxes, perhaps because this negative factor may well be offset by the positive effects of broad economic support and a further expansion of the US budget deficit should Biden be elected. While an estimated USD 7 trillion in economic stimulus would bolster the economy and corporate sales, an increase in corporate taxes from 26% to 33% would also have a negative impact on earnings growth, which could easily reduce the current estimate for 2022 by -10% to only USD 171 per share for the S&P500. The current earnings estimate for 2021 is already USD 168, about 10% above the USD 155 12-month forward estimate. It is probably too early to consider this eventuality. But in the context of what we believe to be the already rich valuation levels of US equities, this uncertainty could well add to the others and tip the cursor towards the risk-off zone in the coming weeks.

Significant risks of consolidation for European equities

At the end of March, we noted that, although the health crisis would have undeniable economic repercussions in 2020 and 2021, the valuation levels reached after the fall in prices of around -40% already presented medium-term investment opportunities for European stocks. The subsequent revaluation of European equities drove the Stoxx50 index up by +50% between the extremes of March and July. The concomitant rise in the PE from 10.4x 2020 earnings to around 21.5x compelled us during the summer to adopt a more cautious attitude in anticipation of a likely new phase of consolidation, which has since partly materialised. European equities have not risen since the end of June and ended Q3 on a slight decline of -1.25%. We still recommend underweighting European equities in the current, more uncertain context, firstly because of the worsening health situation in Europe and a less favourable economic outlook for Q4, but also because the overall uncertainty surrounding the US elections on 3 November may rapidly shift investor sentiment into the risk-off zone and cause further profit taking on risky assets.







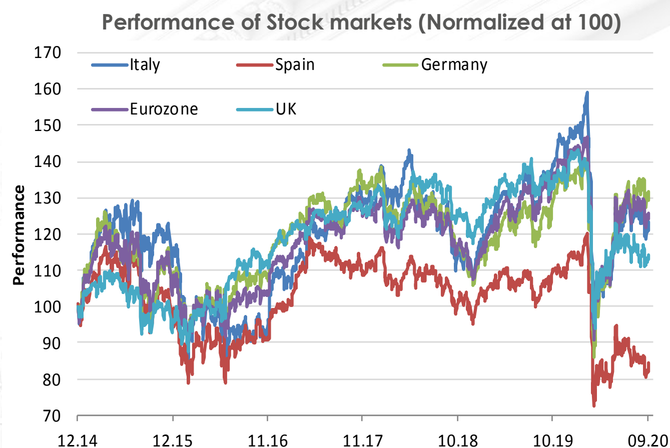
Graph sources: Bloomberg/BearBull Global Investments

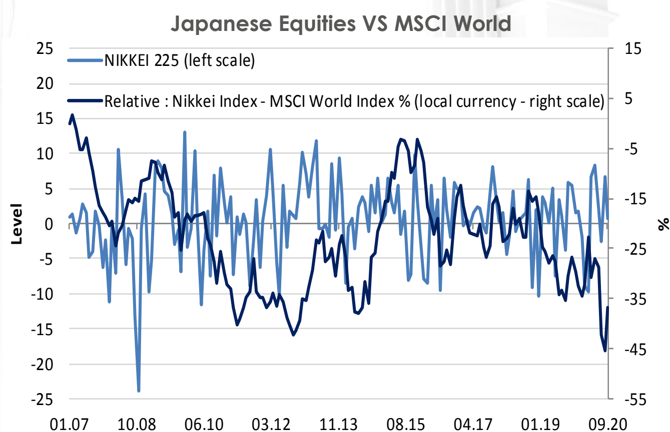
Japanese corporate profits fall by -46%

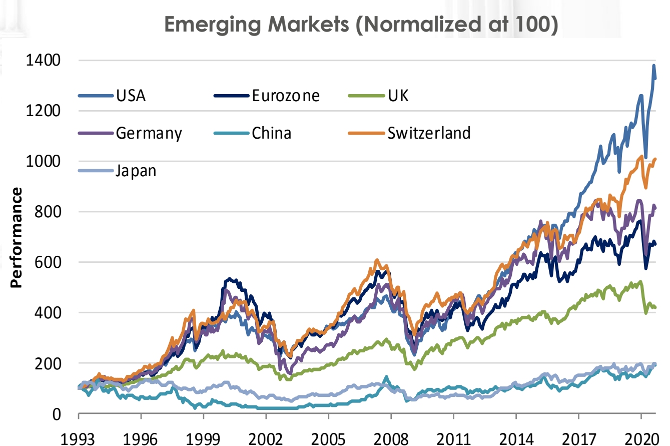
According to the Ministry of Finance, Japanese companies posted a fall in profits of around -46% and a drop in sales of -17.7% yoy. The domestic sectors most directly affected by the health restrictions declined even more (-53.7%), but it was sectors such as the automobile (-76.1%) and transport sectors that were most affected. The current forecast of +26.4% earnings growth for 2021 for the Nikkei brings the valuation for next year of the main Japanese stocks in the index to 18.2x 2021 earnings. At the end of March, we recommended repositioning into Japanese equities, as their stock prices largely took into account the various risks linked to the Covid-19 crisis following a price correction of over -30%. In our opinion, the rebound of the Nikkei index from 16,500 points to 23,000 points already quite clearly reflects the change in outlook for 2020 and 2021. Earnings expectations for 2020 and 2021 are now respectively at 1,010 (1,132 at the beginning of the year) and 1,227 per share. The Nikkei index has thus practically erased the entire decline that began at the end of February and is once again richly valued in our opinion. It therefore seems appropriate to us today to reduce equity risk and take profits on Japanese stocks once again.

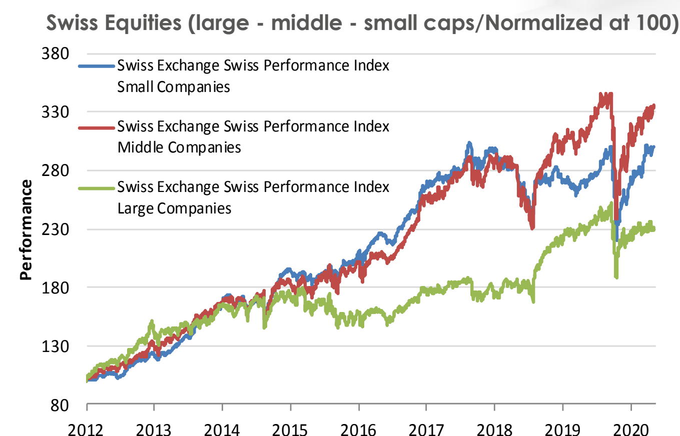
UK equities suffer from chaotic politics

Financial markets fear the effects of a possible second lockdown in the UK, which could call into question the fragile economic recovery that was taking shape after the historic collapse of GDP in Q2. Since our last recommendation at the end of March to resume equity market positions that were too heavily penalised by the stock market panic linked to Covid -19, a price recovery of around +30% took place. Since then, prices have eroded steadily, and UK equities recorded one of the worst performances of the year among developed markets and are still down nearly -27% to date. In this environment, the FTSE100 Index is still today trading at just over 13x expected earnings for 2021 and 19x earnings for 2020, significantly below the valuation levels of other European markets. However, given the higher risks of a cyclical downturn and a weakening pound sterling, these valuation differences are insufficient to support an overweight exposure in UK stocks still under pressure from a "no-deal Brexit". We now recommend a lighter relative allocation.









EQUITIES - BY REGION (local currency)

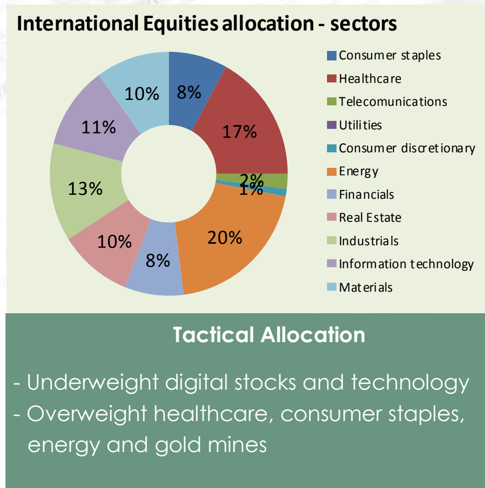
30.09.2020				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	12724.7	CHF	-0.9	0.5	1.9	13.7	-0.9
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	4607.5	CHF	1.1	0.2	6.3	23.9	-0.7
EUROPE	STXE 600 € Pr	361.1	EUR	0.5	-1.4	0.5	18.1	-11.1
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	417.6	EUR	2.3	-0.6	5.7	29.4	-10.3
UK	FTSE All-Share Index	3282.3	GBP	-0.1	-1.7	-2.8	11.5	-19.8
USA	S&P 500 Index	3363.0	USD	3.9	-3.8	8.4	37.4	5.6
USA SMALL-MID CAPS	RUSSELL 2500	628.6	USD	3.6	-2.6	6.4	42.6	-5.8
JAPAN	NIKKEI 225	23185.1	JPY	-0.2	0.7	5.4	29.2	-0.4
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	865.7	JPY	-0.4	2.6	7.8	24.7	-3.5
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	557.2	USD	0.1	-2.3	9.1	31.9	3.1
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	962.7	USD	-0.2	-2.5	10.3	44.8	2.5
EMERGING	MSCI EM	1082.0	USD	0.4	-1.6	9.0	32.9	-1.0
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	7027.3	USD	2.8	-3.4	7.5	34.0	1.7

Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Sectors

- Over-weight defensive assets in the health-pharma sector
- Prioritise materials, gold mines, consumer staples and telecommunications
- Under-weight the technology sector and digital assets



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

30.09.2020 — Total Return Performance

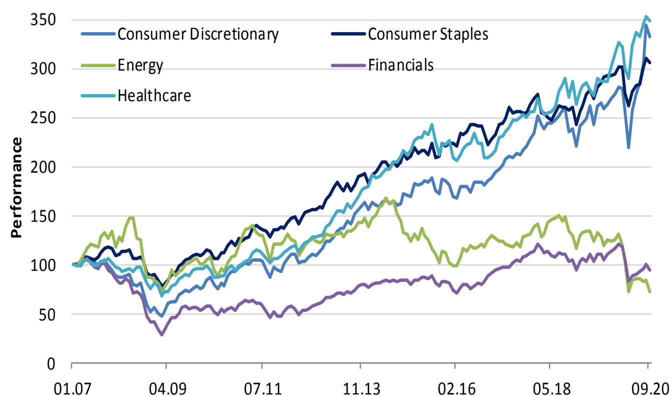
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	324.8	USD	3.1	-3.6	14.6	57.1	17.8
CONSUMER STAPLES	MSCI WORLD/CON STPL	250.1	USD	1.7	-1.2	7.5	19.2	1.8
ENERGY	MSCI WORLD/ENERGY	102.9	USD	-1.8	-13.8	-14.9	2.0	-45.3
FINANCIALS	MSCI WORLD/FINANCE	96.7	USD	2.3	-5.5	2.5	21.6	-21.2
HEALTHCARE	MSCI WORLD/HLTH CARE	293.1	USD	2.2	-1.3	4.2	23.9	6.7
INDUSTRIALS	MSCI WORLD/INDUSTRL	264.4	USD	1.5	-0.6	12.0	37.5	-2.8
MATERIALS	MSCI WORLD/MATERIAL	276.0	USD	1.4	-0.7	11.9	45.0	4.1
REAL ESTATE	MSCI WORLD/REAL ESTATE	198.2	USD	2.8	-2.8	0.4	20.0	-12.0
TECHNOLOGY	MSCI WORLD/INF TECH	393.5	USD	4.9	-4.5	11.6	53.9	27.7
TELECOMMUNICATION	MSCI WORLD/TEL SVC	81.6	USD	3.0	-5.4	6.5	34.0	6.7
UTILITIES	MSCI WORLD/UTILITY	141.0	USD	2.9	-0.5	3.6	17.9	-3.3

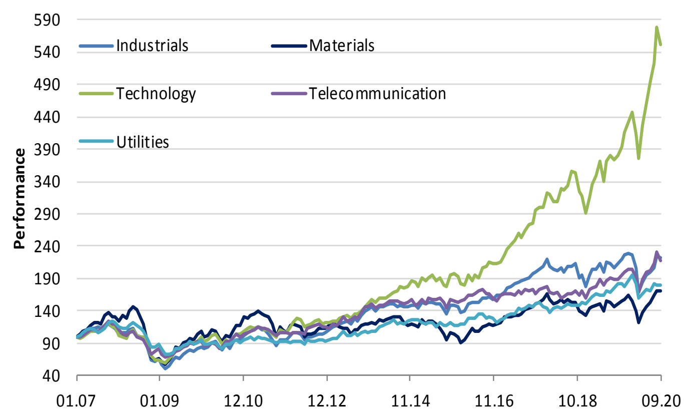
Last quarter was particularly favourable for technology assets, which were often perceived as being immune to the Covid-19 crisis and the economic slowdown in 2020. The exceptional rise of the Nasdaq was, however, followed by a period of sharp consolidation (-14%) in September. In the short-term, this might mark a change in investors' risk perception and a loss of momentum on technology assets.

Today, given the forecast of temporary consolidation on equity markets, we are recommending a strategy for the next few months that aims to achieve a much more defensive sectoral distribution.

The technology sector and digital assets, with sometimes extreme valuations, had won investors' favour this last quarter, but their valuation levels should now affect their ability to maintain the same pace of growth. This market segment is now under-weighted in our sectoral allocation for the coming quarter.

The materials sector is highly dependent on Chinese demand and should continue to benefit from China leading the global economic recovery. We believe the current momentum of the Chinese economy is robust and should lead to significant growth in Chinese demand for commodities, as well as propping up positive developments for industrial metal prices. We have prioritised this sector in our sectoral allocation because of its attractive fundamentals and valuation levels in relation to profit growth prospects. Gold-related assets are also over-weighted given that the context remains positive for future developments in gold prices. The global stock market capitalisation for all gold mines making up the FTSE Gold Mines Global Index only stands at 278 billion US dollars- amounting to barely 13% of Apple's value (31 x 2021 profits)- for a valuation of 12 x 2021 profits.





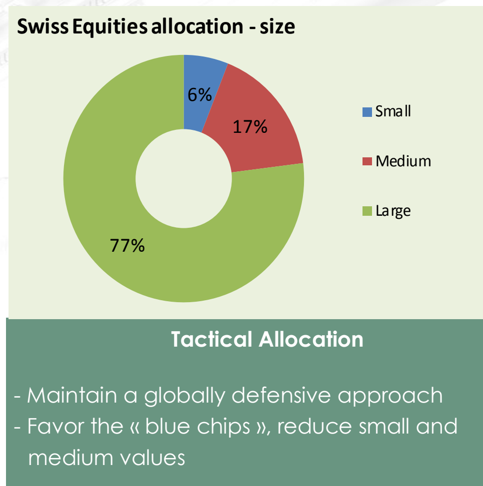
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Equities

- Risk-reward ratio once again working against Swiss equities
- Good relative performance for Swiss equities
- Horizontal consolidation could settle in

EQUITIES capitalization	Expected Return 3months	Expected Return 1year	underweight ---	--	-	neutral =	overweight +	++	+++
Small	↘	↗							
Medium	↘	↗							
Large	↘	↗							



Tactical Allocation

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

Risk-reward ratio once again working against Swiss equities

Whereas in March we highlighted the extremely pessimistic investment climate, underscoring the opportunities to reposition on Swiss equities at reasonable valuation levels, the current level of the Swiss stock market obliges us to switch to recommending caution. The rise in equity prices announced in March did by and large materialise, but prices are now again similar to those seen in January, when growth forecasts for 2020 and 2021 stood at over +4% globally. Today, it is apparent that instead of cumulative growth of +8% in two years, we will have to wait until 2022 for GDP to hit pre-Covid levels. The SMI's P/E is more than 20 x for this year and 17 x for 2021. In a context shaped by abundant liquidity globally, it cannot be ruled out that the current trend will continue, but we believe that there is once again a risk of temporary consolidation, which would suggest that prudence is recommended.

Good relative performance for Swiss equities

To date, the Swiss market has done very well in international comparison and has weathered the Covid-19 crisis with no truly significant damage. Until now, it has posted a rather slight drop of around -5%, putting it on a similar path to the German Dax. It is clearly outperforming almost every other European market.

The defensive nature of the Swiss market has played an important role in its ability to stand strong at a time of health crisis, thanks in particular to the largest market assets. Swiss ultra blue chips- Nestlé, Novartis and Roche- were sought after because of their generally defensive nature, but also because of their individual prospects and the fact that they belong to the health and food sectors, which are relatively immune to the Covid-19 crisis. This gives them better visibility in terms of their turnover and financial result in 2020.

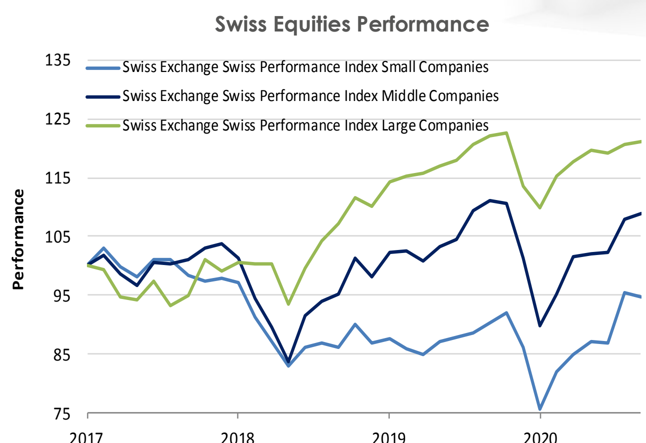
Horizontal consolidation could settle in

Swiss equities have grown, especially over the 2nd quarter 2020, during which they grew nearly +9%. This represented a bounce back of over +30% since the intraday low point on 16th March. To date, the SMI and SPI indices have remained unchanged since 30th June. After having recovered to the levels seen on 31st December 2019, Swiss indices no longer had any reason to continue their upward trend. The very stark loss of momentum since May marks a period of horizontal consolidation that has already lasted five months. Price indices have returned to the highest levels seen in 2019; this seems rather worrying to us at a time when the resurgence in Covid-19 cases is sparking fresh uncertainty about the quality of the economic recovery in the 4th quarter. The Swiss market will not be immune to a change in investors' perception of opportunity and risk. The last quarter 2020 could therefore once again be shaped by less willingness to take risks, and consequently by profit-taking that might push equity markets into another correction phase.

SWISS EQUITIES - Capitalization

30.09.2020 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	12724.7	-0.9	0.5	1.9	13.7	-0.9
SPI SMALL COMPANIES INDX	26200.9	0.6	-0.7	8.7	25.7	4.9
SPI MIDDLE COMPANIES IDX	18021.2	0.7	0.9	6.8	23.5	-2.0
SPI LARGE COMPANIES INDX	12112.0	-1.3	0.5	0.7	11.5	-0.8

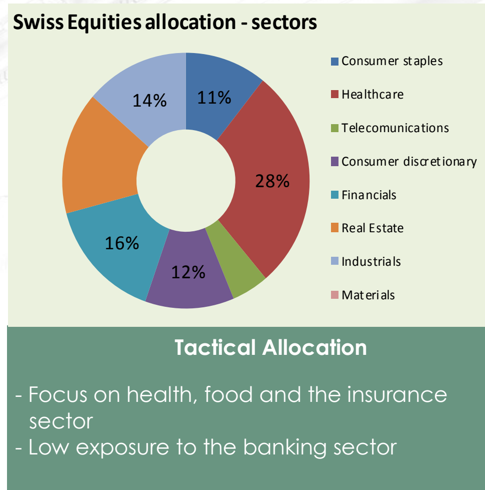


Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

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	↘	↗	■						

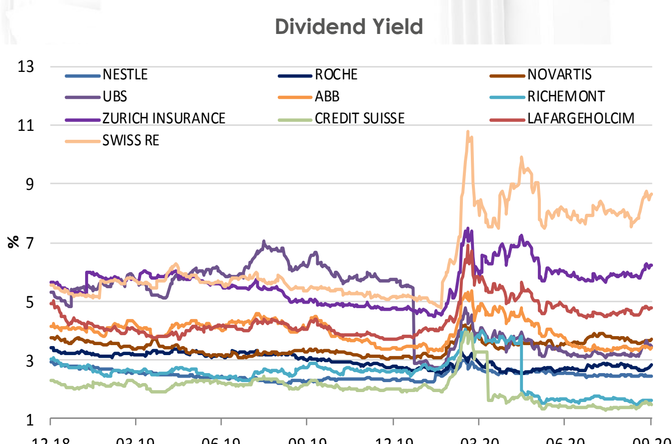


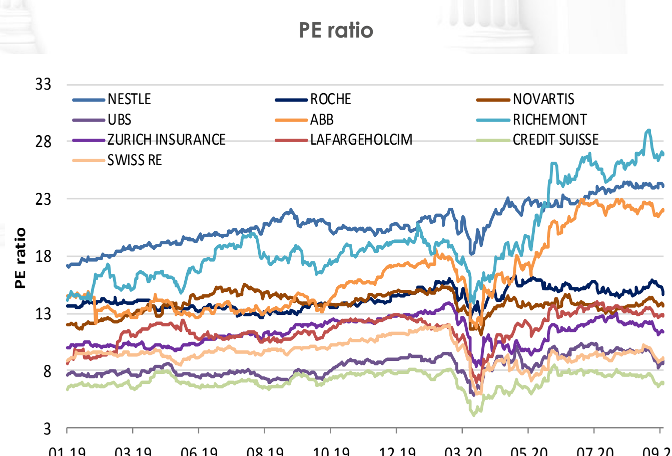
Tactical Allocation

- Focus on health, food and the insurance sector
- Low exposure to the banking sector

Defensive strategy focused on the health-pharma sector

Swiss equities should outperform other markets in the particularly tense context we are seeing at the end of this year thanks to their defensive nature, and more specifically the fact that they are robust, high quality assets. As we head towards the end of the year, the health-pharma sector remains the priority sector, and Switzerland will draw benefit from the heavy weighting of this sector in benchmark index compositions (around 40%). Swiss companies seem to have weathered the economic shock in the 2nd quarter rather well and should show superior resilience. In terms of exchange rates, we predict renewed weakness on the Swiss franc, which should also be rather positive for the results of Swiss listed companies. As regards the health-pharma sector, we are maintaining a positive overall outlook, in particular because of the favourable combination of robust revenues, still intact growth prospects and comparatively attractive valuations. Novartis and Roche enjoy enduringly positive sectoral fundamentals linked to the aging population, better access to care in developed and emerging markets, as well as enticing valuations. Novartis is currently trading at 14.7 x 2020 profits and 13 x forecast profits for 2021. Profit growth should stand at +7% in 2020 and +10% in 2021. The current 3.7% dividend yield is also attractive in today's context of bond yields hovering close to zero, but is also attractive in past comparison. The situation is a little less favourable for Roche, the profit growth prospects of which for 2020 and 2021 are lower than those of Novartis, but both securities could benefit from positive twelve-month forecasts, with a performance target for their respective prices of nearly +20%. On the SMI, we believe the potential revaluation of prices over twelve months will be limited to an average of +5% and the best prospects come from the financial sectors. The banking sector offers prospects of a stock market price bounce back similar to that on insurance. In the riskier context of the last quarter 2020, we are still prioritising the health-pharma sector as well as food, which has a more stable profile.

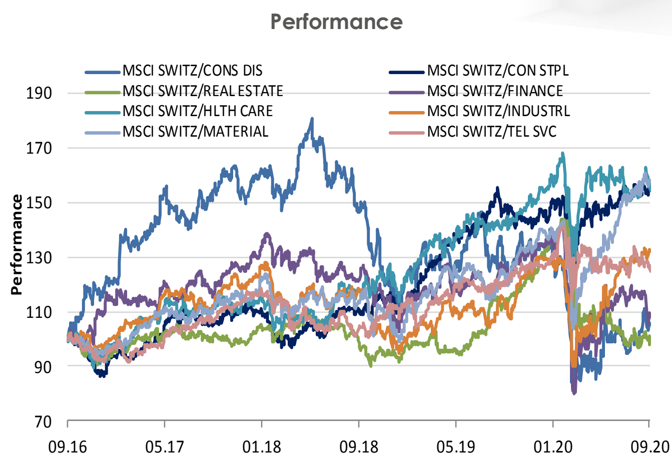




SWISS EQUITIES - BY SECTOR

30.09.2020 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	217.4	0.4	6.5	6.1	23.3	-21.2
MSCI SWITZ/CON STPL	358.7	0.2	0.8	3.9	11.6	6.6
MSCI SWITZ/FINANCE	47.0	-0.4	-5.7	-3.7	15.1	-18.8
MSCI SWITZ/HLTH CARE	180.4	-3.1	1.3	-2.5	4.2	0.3
MSCI SWITZ/INDUSTRL	194.5	1.0	3.7	10.0	32.6	2.5
MSCI SWITZ/MATERIAL	382.3	0.0	2.6	13.6	36.7	13.6
MSCI SWITZ/REAL ESTATE	973.1	-0.1	2.8	-4.6	-10.2	-23.8
MSCI SWITZ/TEL SVC	92.3	-2.5	-2.3	-0.7	-2.6	-0.6

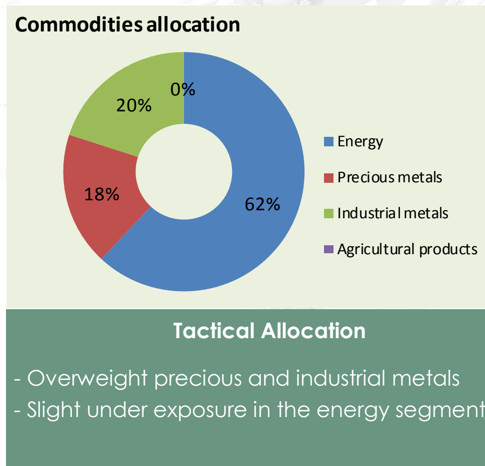


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Commodities

- Positive trends set to continue in the 4th quarter
- Joe Biden's election would prop up a rise in crude oil
- Monetisation of budget deficits is boosting gold
- Positive prospects for industrial metals



Tactical Allocation

- Overweight precious and industrial metals
- Slight under exposure in the energy segment

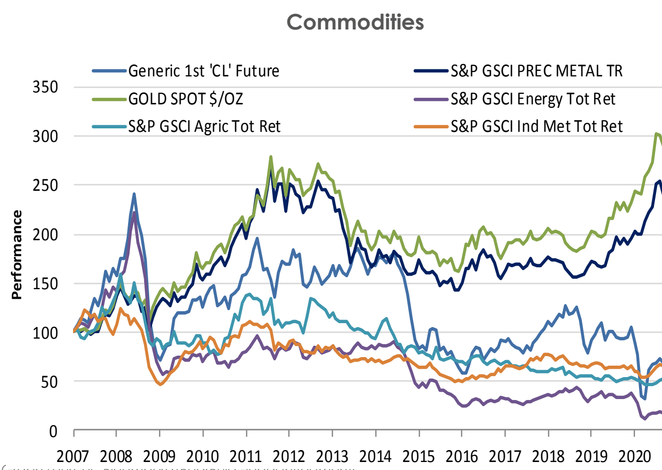
COMMODITIES	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Energy	↘	↗↗							
Precious metals	↗	↗							
Industrial metals	↗	↗↗							
Agricultural products	↗	↗							

Positive trends set to continue in the 4th quarter

After an excellent 2nd quarter with +10.5% growth, commodities continued their positive trend reversal, growing +4.6% in the 3rd quarter. China started up industrial production again in the 2nd quarter, which revitalised demand for commodities. This then increased over the next few months, particularly for industrial metals, which saw +9.8% growth over the period. Precious metals benefited from investor enthusiasm, and from the now long-term process of monetising sovereign debt. Gold prices continued with their robust upward trend, posting their eighth consecutive quarter of growth since September 2018. The apparent dip in the global economy over the past few weeks will undoubtedly be magnified by further partial lockdown policies of varying degrees of strictness in many countries. There will be increased need for economic support and central banks will once again be called upon to support the financing of sovereign debt issued in the face of rising public deficits. Naturally, gold is still perceived as a safe-haven asset against excess money creation, as well as a potential bulwark against the risk of a correction on financial assets. In this context, gold is not the only way to protect oneself against such risks; silver is more accessible, yet clearly benefited from its attractive valuation compared to gold again this semester, with +27.6% growth. However, the quarter was less propitious for "black gold", which stabilised (+2.4%) after having risen +91.7% the previous quarter. Our forecasts are very positive for these three segments over the next few quarters.

Joe Biden's election would prop up a rise in crude oil

Prospects for the global crude oil market could be significantly affected by the result of the US presidential election, so radically different would Joe Biden's policy be from Donald Trump's. US crude oil production has grown and grown in the recent boom era for US shale oil production. At roughly 10 million barrels per day, production now stands at about a third the amount produced by all OPEC members put together and is almost neck and neck with Russian production. Although the current situation would not change significantly, either domestically or internationally, were Trump to win the election, a Biden victory would on the contrary have much greater and longer lasting repercussions on both counts. In terms of crude oil production, Joe Biden has already clearly stated his opinion on fracking and other environmental issues linked to crude oil production in the United States. Among restrictions likely to be imposed on the crude oil sector, let us first turn to those that would affect the nearly 65% of US production that uses fracking techniques. Joe Biden will certainly put in place production limits which may go as far as a ban on production, particularly on federal land, which would affect around 1 million barrels per day, or around 12% of current non-conventional oil production (8.2 million barrels per day). It will probably be more difficult to apply measures to private land, though it is likely the rules will also apply in such cases. Although the impact of such onshore measures may be limited, government measures regarding offshore oilrigs could have greater repercussions. Indeed, oil produced in the Gulf of Mexico comes mainly from federal land. The trend in the United States has been for oil production to grow- it went from 5.5 mbd of shale oil in 2016 to 9.3 mbd in March 2020-, but this trend would likely be reversed. In becoming one of the largest global producers of crude oil over the last few years, the USA could start thinking about exporting part of their oil. We believe this prospect will diminish if the Democrats win in a few days' time.



Graph sources: Bloomberg/BearBull Global Investments

COMMODITIES (USD)

30.09.2020 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	7027.34	USD	2.76	-3.45	7.46	33.99	1.70
GLOBAL	S&P GSCI Tot Return Indx	1726.8	USD	0.7	-3.6	3.6	19.5	-33.4
WTI CRUDE	Generic 1st 'CL' Future	40.2	USD	0.7	-5.6	1.0	98.0	-34.1
BRENT OIL	Generic 1st 'CO' Future	41.0	USD	-2.0	-9.6	-2.6	65.5	-38.0
NATURAL GAS	Generic 1st 'NG' Future	2.5	USD	18.9	-3.9	51.2	59.2	15.4
OR	GOLD SPOT $/OZ	1885.8	USD	1.2	-4.2	6.5	18.5	24.3
ARGENT	Silver Spot $/Oz	23.2	USD	2.0	-17.4	29.0	66.4	30.2
AGRICULTURE	S&P GSCI Agric Indx Spot	304.4	USD	2.6	4.6	11.5	14.3	0.8
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	333.8	USD	0.5	-2.0	10.2	27.6	3.0

BearBull Global Investments Group

Domestic crude oil production volumes will decrease to a greater or lesser degree depending on the measures chosen in the end, reducing US crude oil supply in the long-term. As regards production costs, further methane and flaring emission restrictions could quickly come into force, particularly affecting small-scale producers who cannot afford new equipment. Internationally, the new administration may gradually soften diplomatic relations with Iran, but we doubt the new government would be prepared to quickly give Iran the green light to more widely distribute such high quantities of oil that it would have an impact on supply and demand in 2021.

Crude oil prices were particularly badly affected by the Covid-19 crisis and the subsequent fall in global demand. Supply is in an adjustment phase, both in the USA and in OPEC countries. If the global economy finally starts to recover, 2021 could see a new balance take shape, with regular reductions in inventories expected, which should push crude oil prices above US $50 per barrel.

Monetisation of budgetary deficits is boosting gold and silver

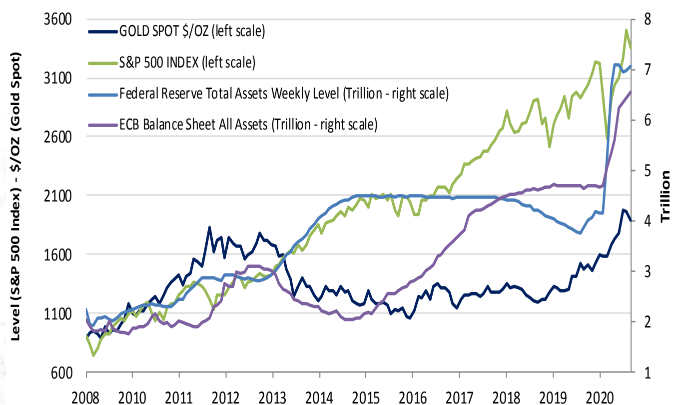
At the start of the year we believed that gold prices should be propped up by a recovery in investment demand sparked both by the desire for protection against the risk of increased volatility on financial markets as well as the growth in money supply that central banks desired. The Covid-19 crisis has given the upward trend an enormous boost, which we believe could push gold up towards US $1,900 per ounce.

Investment demand, as measured by ETFs holding physical gold, had grown very considerably in 2019, beating the previous record from 2012. Demand leapt another +30% in 2020, hitting 11 million ounces of gold. Although the increase in uncertainty has been an important driver of demand for gold and of gold prices, the monetisation of sovereign debt by central banks is certainly a longer-lasting factor in shoring up gold.

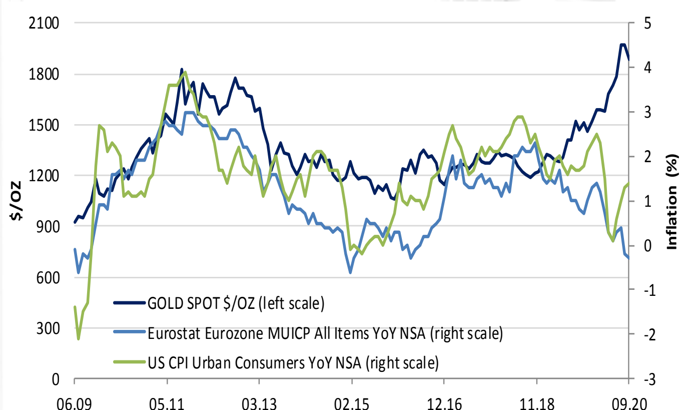
Positive prospects for industrial metals

Industrial metals have been benefiting from the improvement in the Chinese economy and the general production recovery in China since as early as April. The prices on the S&P Goldman Sachs Industrial Metals Index stabilised in September, which was to be expected after the consecutive rises in the five months prior, which had brought it back up to its January 2020 levels. Chinese GDP growth should continue, propping up demand over the coming months. Economic stimulus measures have improved fundamentals for this market segment and helped push up prices by around +25% over six months. We believe this trend will last and will potentially be backed up by the various European and American recovery plans due to their infrastructure-related components. During the previous US presidential election in 2016, the issue of American infrastructure was debated at length, with no noticeable economic impact thereafter. Electing Joe Biden should have a real, decisive impact this time around in terms of the plan for renovation and development of American infrastructure, which is so desperately needed. The Joe Biden plan has a great focus on infrastructure, and we believe it would have a noticeable effect on demand for industrial metals. Among the most important projects in his plan, taken together, developing wind power, electric vehicles, and the 2nd rail revolution would make a considerable impact. The current economic slowdown in the 4th quarter could spark temporary consolidations on copper, zinc, and aluminium prices, but we are maintaining our positive forecasts for 2021 for this commodity segment.

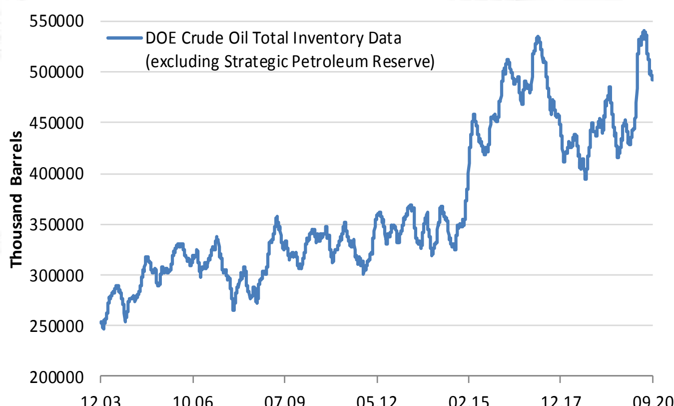
Gold and Global liquidity



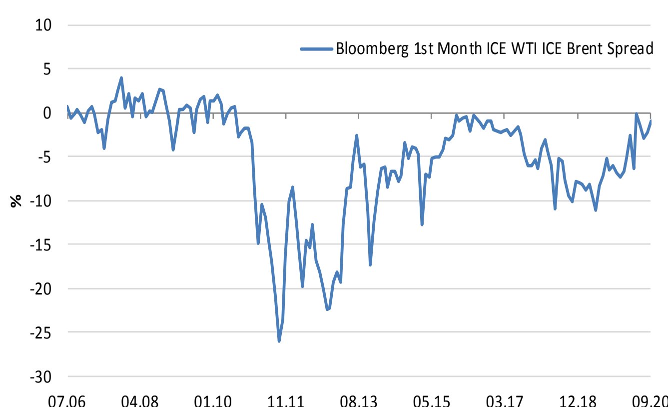
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Hedge Funds

- Up +1.6% in 2020

In line with what we have seen in the main international equity indices, Q3 was characterised by a loss of momentum in the upward trend in place since the lows in March. Thus, following a +6.2% rebound between March and June, the global hedge fund index climbed by +2.6% in Q3 and was in fact slightly negative for the month of September (-0.2%). Since the beginning of the year, hedge funds have entirely erased the correction of Q1, returning to a positive cumulative performance (+1.6%).

Over the first nine months of the year, the performance gap between the main strategies was significant. Indeed, the event-driven (+4.6%) and relative value arbitrage strategies (+4.2%) topped +4%, while the macro/CTA approach stagnated (+0.1%), and equity hedge remained in negative territory (-2.9%).

Private Equity

- Private equity stagnates in Q3

At the end of Q3, private equity was one of the few asset classes still operating in negative territory since the beginning of the year (-15.1%). The rapid rebound observed in the last few days of March and which continued until May, making up for a considerable part of the fall that occurred at the beginning of the year, then lost intensity in the months that followed. Private equity thus closed the quarter down by -1.0%.

While the US (-4.2%), Europe (+3.2%) and the UK (+7.8%) experienced varying fortunes in Q3, their performances have converged since the beginning of the year with declines of -20.0%, -17.2% and -16.3%, respectively.

HEDGE FUND INDICES (USD)

30.09.2020

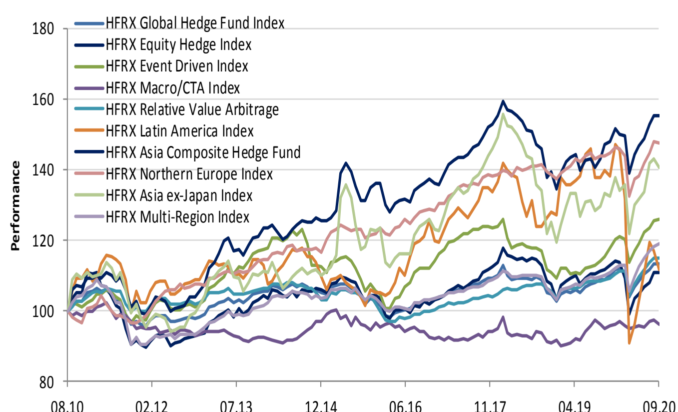
	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1313.4	USD	0.4	-0.2	2.6	9.5	1.6
EQUITY HEDGE	HFRX Equity Hedge Index	1236.8	USD	0.9	0.0	3.4	12.9	-2.9
EVENT DRIVEN	HFRX Event Driven Index	1691.9	USD	0.0	0.4	2.7	10.7	4.6
MACRO/CTA	HFRX Macro/CTA Index	1181.9	USD	0.6	-1.3	1.0	0.9	0.1
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1299.6	USD	0.1	-0.1	2.9	10.9	4.2
LATIN AMERICA*	HFRX Latin America Index	1824.4	USD	-	-4.5	0.9	23.2	-24.0
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2504.4	USD	-	-0.2	4.3	11.7	2.2
NORTHERN EUROPE*	HFRX Northern Europe Index	2132.0	USD	-	-0.2	4.1	11.3	0.9
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2657.0	USD	-	-1.7	5.2	15.5	2.2
MULTI-REGION	HFRX Multi-Region Index	1480.0	USD	0.3	0.5	3.3	13.0	6.1

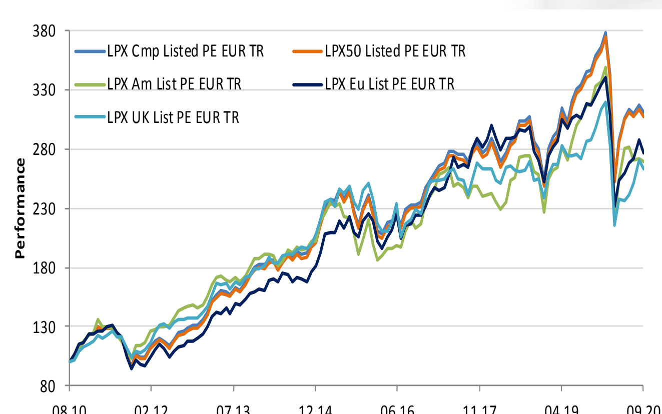
* Subject to one-month lag

PRIVATE EQUITY INDICES (EUR)

30.09.2020

	Name	Last price	Curr.	Total Return Performance 7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	258.5	EUR	2.0	-2.1	-0.8	29.7	-15.1
MAJOR COMPANIES	LPX50 Listed PE EUR TR	2437.3	EUR	2.0	-2.0	-1.0	29.4	-15.1
USA	LPX Am List PE EUR TR	358.0	EUR	1.9	-0.9	-4.2	33.5	-20.0
EUROPE	LPX Eu List PE EUR TR	886.5	EUR	2.0	-3.6	3.2	23.1	-17.2
UK	LPX UK List PE EUR TR	294.0	EUR	2.2	-2.8	7.8	23.9	-16.3





Graph sources: Bloomberg/BearBull Global Investments

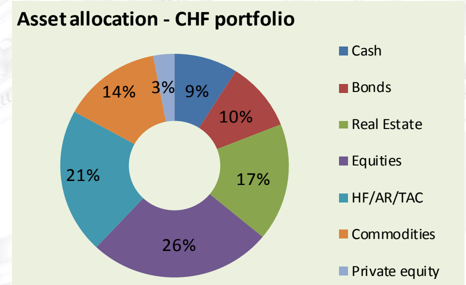
GLOBAL STRATEGY & ASSET ALLOCATION

Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

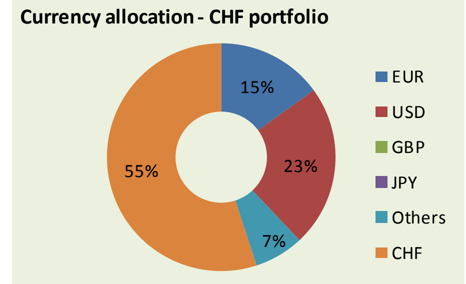
Diversified portfolio: Medium Risk - CHF

- Contraction of bond yields and risk premiums
- Increasing risks of profit taking in the equity segment
- Precious metals are always a favourite
- Franc to weaken once again



Tactical Allocation

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



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

Asset allocation

The core of our investment strategy consists of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradeable assets (commodities, hedge funds, private equity). The tactical allocation in place at the beginning of the quarter is no longer as constructive as it was after the financial markets fell in March, when new opportunities emerged. The equity segment seems to us risky and susceptible to profit taking. Opportunities have become scarcer in the bond segment, while international real estate still offers attractive diversification. Precious metals are also favoured in this somewhat more uncertain environment.

Bonds

Bond markets have stabilised in recent months as a result of massive purchases of government debt by central banks. As a result, government bond yields have remained relatively unchanged and have not factored in the more positive economic outlook for 2021. Yields are still very low and are unlikely to rise significantly in the coming months if central banks maintain their purchase programmes. The turmoil in the credit market had pushed interest rates above the levels that prevailed before the market downturn and rebuilt risk premiums for the corporate, high yield and emerging market segments. Unfortunately, they quickly contracted, reducing the de facto incentive to diversify into these sectors. We recommend a conservative bond strategy and reduced overall exposure favouring dollar investments and short maturities.

Equities

The investment climate changed somewhat in September with the resurgence of Covid-19 cases in Europe and the US. In the absence of specific favourable economic news, financial markets rather lacked arguments to continue the upward trend initiated a few months earlier and logically suffered some profit taking. This expected consolidation thus erases the latest gains by technology stocks, but the level of complacency remains high and corrects only very little for the overvaluation. The political uncertainty linked to the outcome of the US presidential election could well trigger new waves of profit taking, especially if the recovery in the third quarter proves less dynamic than expected and if government stimulus measures disappoint.

Commodities

Commodities performed well in Q3 thanks to growth in industrial and precious metals. The recovery in China is supporting the trend in industrial metals, while investment demand is boosting precious metals, which more than ever provide ideal protection in the event of further equity market turbulence.

Real estate

Real estate is still the main alternative to interest rate markets. We favour the property markets of countries or regions that can rely on the action of powerful central banks and the commitment of governments with sufficient resources to implement effective fiscal and budgetary measures.

Currencies

The Covid-19 crisis has temporarily increased the demand for Swiss francs, but we expect this to decrease as the health situation improves. The US dollar remains the preferred currency, despite the marked reduction in the yield differential that prevailed until the current crisis erupted.

Market performances - Q3 2020

		Q3 2020		YTD	
		local	CHF	local	CHF
Exchange rates					
USD/CHF		-2.8%		-4.7%	
EUR/CHF		1.4%		-0.6%	
GBP/CHF		1.3%		-7.2%	
JPY/CHF		-0.5%		-2.0%	
Equity markets					
World	MSCI World USD	7.9%	4.9%	1.7%	-3.1%
Europe	DJ Stoxx 600	0.6%	2.1%	-11.6%	-12.1%
Eurozone	DJ Eurostoxx 50	-1.3%	0.2%	-14.7%	-15.2%
	MSCI Europe S.C.	5.8%	7.4%	-11.5%	-12.0%
Germany	Dax 30	3.7%	5.1%	-3.7%	-4.2%
France	Cac 40	-2.7%	-1.3%	-19.6%	-20.1%
United Kingdom	FTSE 100	-4.9%	-3.7%	-22.2%	-27.9%
Switzerland	SPI	2.3%	2.3%	-0.9%	-0.9%
	SMI	1.4%	1.4%	-4.0%	-4.0%
	MSCI Swiss S.C.	11.7%	11.7%	6.5%	6.5%
North America	SP500	8.5%	5.5%	4.1%	-0.8%
	Nasdaq	11.0%	7.9%	24.5%	18.6%
	Tse 300	3.9%	3.0%	-5.5%	-12.3%
	SP600 Small C.	2.8%	-0.1%	-16.2%	-20.2%
Japan	Nikkei 225	4.0%	3.5%	-2.0%	-3.9%
Emerging	MSCI EMF USD	8.7%	5.7%	-2.9%	-7.5%

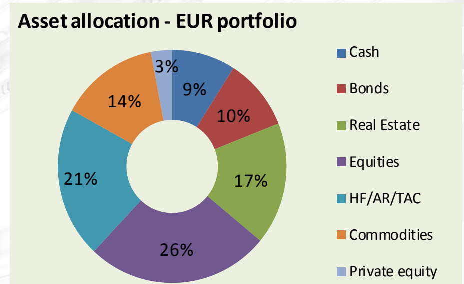
		Q3 2020		YTD	
		local	CHF	local	CHF
Interest rates (3 months)		*(level)*			
CHF		-0.78%			
EUR		-0.52%			
USD		0.23%			
JPY		-0.10%			
Bonds markets					
World	Citi Gr Global Govt.USD	2.9%	0.1%	7.1%	2.1%
Europe	Euro Ser-E Gov > 1	1.6%	3.1%	3.7%	3.1%
United Kingdom	UK Ser-E Gov > 1	-1.3%	0.0%	8.2%	0.4%
Switzerland	SBI Général AAA-BBB	0.9%	0.9%	0.4%	0.4%
	SBI Govt.	0.5%	0.5%	1.8%	1.8%
USA	US Ser-E Gov > 1	0.2%	-2.6%	8.9%	3.8%
Japan	Japan Ser-E Gov > 1	0.1%	-0.4%	-0.8%	-2.8%
Emerging	J.P. Morgan EMBI Global	2.3%	-0.6%	0.4%	-4.4%
Miscellaneaous					
	LPP 25 Index	1.8%	1.8%	0.0%	0.0%
	LPP 40 Index	2.3%	2.3%	-0.3%	-0.3%
	LPP 60 Index	2.9%	2.9%	-0.9%	-0.9%
Real Estate CH	DB RB Swiss Real Est Fd	3.9%	3.9%	4.9%	4.9%
Hedge Funds	Hedge Fund Research USD	2.3%	-0.6%	1.1%	-3.6%
Commodities	GS Commodity USD	4.6%	1.7%	-33.4%	-36.5%

Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

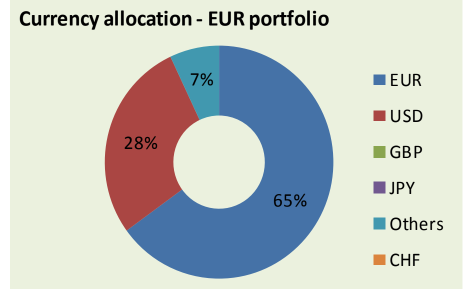
Diversified portfolio: Medium Risk - EUR

- Contraction of bond yields and risk premiums
- Increasing risks of profit taking in the equity segment
- Precious metals are always a favourite
- Better prospects for the European currency



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 consists of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradeable assets (commodities, hedge funds, private equity). The tactical allocation in place at the beginning of the quarter is no longer as constructive as it was after the financial markets fell in March, when new opportunities emerged. The equity segment seems to us risky and susceptible to profit taking. Opportunities have become scarcer in the bond segment, while international real estate still offers attractive diversification. Precious metals are also favoured in this somewhat more uncertain environment.

Bonds

Bond markets have stabilised in recent months as a result of massive purchases of government debt by central banks. As a result, government bond yields have remained relatively unchanged and have not factored in the more positive economic outlook for 2021. Yields are still very low and are unlikely to rise significantly in the coming months if central banks maintain their purchase programmes. The turmoil in the credit market had pushed interest rates above the levels that prevailed before the market downturn and rebuilt risk premiums for the corporate, high yield and emerging market segments. Unfortunately, they quickly contracted, reducing the de facto incentive to diversify into these sectors. We recommend a conservative bond strategy and reduced overall exposure favouring dollar investments and short maturities.

Equities

The investment climate changed somewhat in September with the resurgence of Covid-19 cases in Europe and the US. In the absence of specific favourable economic news, financial markets rather lacked arguments to continue the upward trend initiated a few months earlier and logically suffered some profit taking. This expected consolidation thus erases the latest gains by technology stocks, but the level of complacency remains high and corrects only very little for the overvaluation. The political uncertainty linked to the outcome of the US presidential election could well trigger new waves of profit taking, especially if the recovery in the third quarter proves less dynamic than expected and if government stimulus measures disappoint.

Commodities

Commodities performed well in Q3 thanks to growth in industrial and precious metals. The recovery in China is supporting the trend in industrial metals, while investment demand is boosting precious metals, which more than ever provide ideal protection in the event of further equity market turbulence.

Real estate

Real estate is still the main alternative to interest rate markets. We favour the property markets of countries or regions that can rely on the action of powerful central banks and the commitment of governments with sufficient resources to implement effective fiscal and budgetary measures.

Currencies

We were expecting a phase of progression of the euro against the dollar, which partly occurred during the summer with a second wave of appreciation that pushed the exchange rate from 1.12 to 1.20. Today, after this progression of around +7%, we believe that a temporary consolidation would be justified. The euro could thus weaken temporarily before resuming an upward trend.

Market performances - Q3 2020

		Q3 2020 local	Q3 2020 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		-4.2%		-4.3%	
CHF/EUR		-1.4%		0.5%	
GBP/EUR		-0.1%		-6.8%	
JPY/EUR		-1.9%		-1.4%	
Equity markets					
World	MSCI World USD	7.9%	3.4%	1.7%	-2.7%
Europe	DJ Stoxx 600	0.6%	0.6%	-11.6%	-11.6%
Eurozone	DJ Eurostoxx 50	-1.3%	-1.3%	-14.7%	-14.7%
	MSCI Europe S.C.	5.8%	5.8%	-11.5%	-11.5%
Germany	Dax 30	3.7%	3.7%	-3.7%	-3.7%
France	Cac 40	-2.7%	-2.7%	-19.6%	-19.6%
United Kingdom	FTSE 100	-4.9%	-5.1%	-22.2%	-27.5%
Switzerland	SPI	2.3%	0.9%	-0.9%	-0.4%
	SMI	1.4%	0.0%	-4.0%	-3.5%
	MSCI Swiss S.C.	11.7%	7.0%	6.5%	1.9%
North America	SP500	8.5%	4.0%	4.1%	-0.4%
	Nasdaq	11.0%	6.4%	24.5%	19.1%
	Tse 300	3.9%	1.5%	-5.5%	-11.9%
	SP600 Small C.	2.8%	-1.5%	-16.2%	-19.9%
Japan	Nikkei 225	4.0%	2.0%	-2.0%	-3.4%
Emerging	MSCI EMF USD	8.7%	4.2%	-2.9%	-7.1%

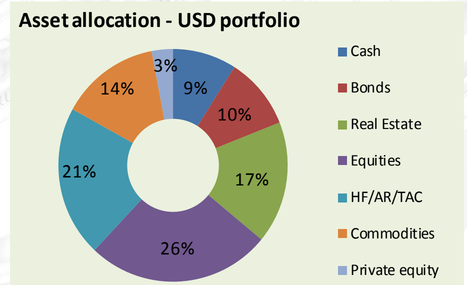
		Q3 2020 local	Q3 2020 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		-0.78%			
EUR		-0.52%			
USD		0.23%			
JPY		-0.10%			
Bonds markets					
World	Citi Gr Global Govt.USD	2.9%	1.5%	7.1%	7.7%
Europe	Euro Ser-E Gov > 1	1.6%	1.6%	3.7%	3.7%
United Kingdom	UK Ser-E Gov > 1	-1.3%	-1.4%	8.2%	0.9%
Switzerland	SBI Général AAA-BBB	0.9%	-0.6%	0.4%	0.9%
	SBI Govt.	0.5%	-0.9%	1.8%	2.3%
USA	US Ser-E Gov > 1	0.2%	-4.0%	8.9%	4.2%
Japan	Japan Ser-E Gov > 1	0.1%	-1.8%	-0.8%	-2.2%
Emerging	J.P. Morgan EMBI Global	2.3%	-2.0%	0.4%	-4.0%
Miscellaneaous					
	LPP 25 Index	1.8%	2.3%	0.0%	0.6%
	LPP 40 Index	2.3%	2.8%	-0.3%	0.2%
	LPP 60 Index	2.9%	3.5%	-0.9%	-0.4%
Real Estate CH	DB RB Swiss Real Est Fd	3.9%	3.9%	4.9%	5.5%
Hedge Funds	Hedge Fund Research USD	2.3%	-2.0%	1.1%	-3.3%
Commodities	GS Commodity USD	4.6%	0.3%	-33.4%	-36.3%

Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

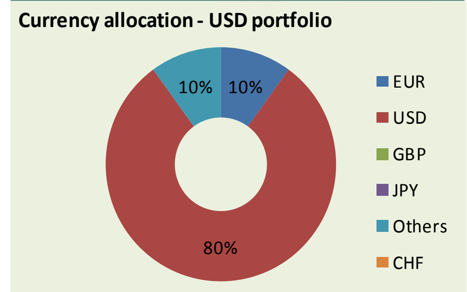
Diversified portfolio: Medium Risk - USD

- Fewer opportunities in the credit market
- Valuations in the equity markets are once again high
- Precious metals are always a favourite
- The dollar remains the preferred currency



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	↘	↗			■				

Asset allocation

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Currencies

The risks now seem to outweigh the opportunities in financial markets. The uncertainty that could also taint the election results on 4 November could further increase investor anxiety with only a few weeks to go before the end of the year. In this light, the demand for dollars as a safe haven is therefore likely to increase again, favouring the greenback.

Market performances - Q3 2020

		Q3 2020 local	Q3 2020 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		2.9%		5.1%	
EUR/USD		4.3%		4.5%	
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JPY/USD		2.4%		3.0%	
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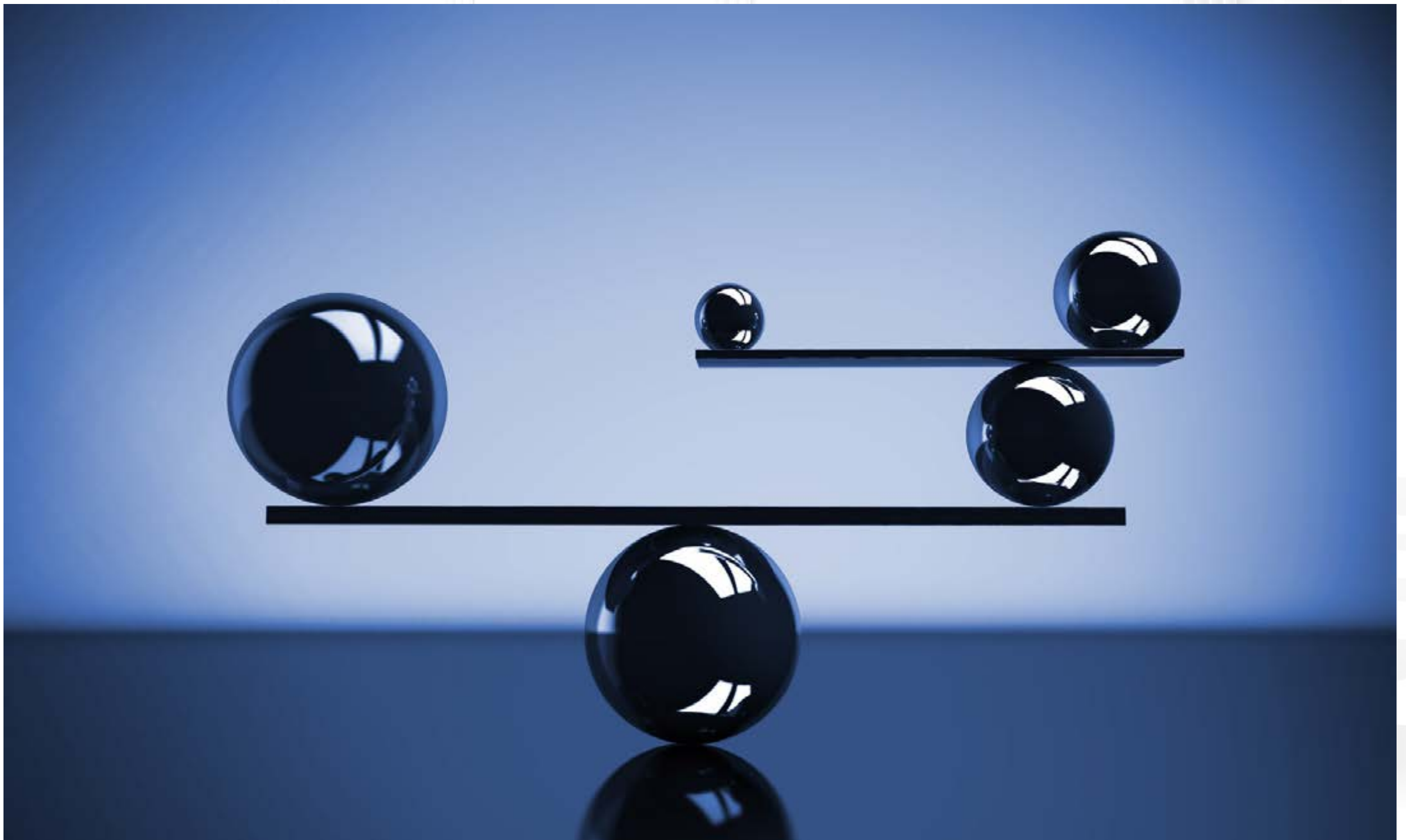
Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME FOCUS



Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME

A new paradigm for hydrogen stocks

- Hydrogen, sprint or marathon?
- A market that could reach 2.5 trillion dollars by 2050
- Grey, blue or green hydrogen?
- A technology that may revolutionise many industries
- Key factors for becoming a future energy leader
- Hydrogen stocks soar in 2020

Hydrogen, sprint or marathon?

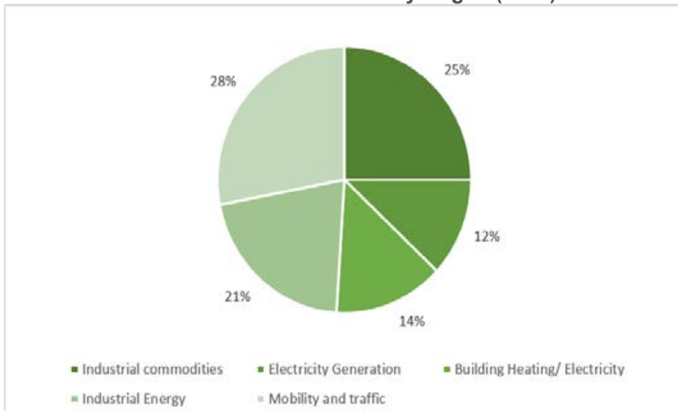
Since the discovery of the electrolysis of water in 1800 and the invention of fuel cells in 1839, two centuries elapsed before we could finally realistically and economically envisage the use of hydrogen as a reliable, safe and efficient energy solution. Science fiction author Jules Verne wrote in 1874 in his novel The Mysterious Island: "I believe that one day water will be used as fuel, that the hydrogen and oxygen of which it is composed, used separately or together, will provide an inexhaustible source of heat and light, of an intensity unattainable by coal". Finally, 112 years later, science is perhaps on the verge of surpassing fiction. The International Energy Agency (IEA) has embraced hydrogen, noting its exceptional potential in a first report published in 2019. The European Commission noted a little earlier in 2018 that hydrogen was an integral part of its various zero CO2 emission scenarios and only a few weeks ago finally presented its Hydrogen 2050 project, which aims to increase hydrogen's share of the energy mix in Europe to just under 15%. The hydrogen marathon is over, and hydrogen is now entering a new stage that is more like a sprint. The 2050 objective is close, and the coming decades will be marked by an acceleration in its development driven by a clear political will that will drive the development of a specific form of hydrogen.

Grey, blue or green hydrogen?

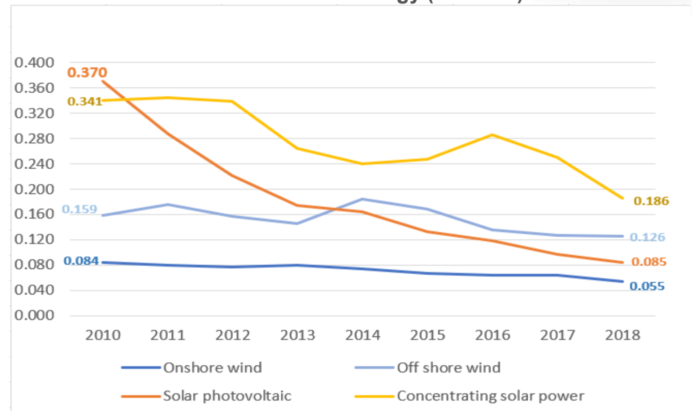
Hydrogen is the most abundant element in the universe. It is the first element on the periodic table and the simplest atom. It is a colourless, odourless, non-toxic and environmentally neutral gas. It can be contained in both liquid and gaseous forms and has been used in industry for more than half a century, and for some decades now, it has given rise to hopes of a new source of clean energy. As hydrogen is not available in nature in its pure form, it can be created in different ways, and is therefore referred to as grey, blue or green hydrogen. Grey hydrogen is the most common (96% of the world's hydrogen). It is produced by using hydrocarbons and mostly natural gas via the technique known as steam gas reforming, resulting in a very large amount of carbon dioxide. Blue hydrogen is also formed from natural gas, but its production is coupled with carbon capture and storage techniques, which theoretically reduces CO2 emissions. This process is more environmentally friendly but involves considerable costs. Large-scale implementation of this hydrogen production method would require capture and storage infrastructure that would be difficult to put in place. Moreover, this technique seems counterproductive and doomed to failure, as using natural gas to create hydrogen with the aim of gradually reducing the consumption of hydrocarbons, including natural gas, seems more than questionable. Green hydrogen is the one that clearly seems the most promising and holds the greatest hopes worldwide. Its production principle is based on electrolysis, a chemical process aimed at breaking water molecules in half to release only oxygen and hydrogen via electric current that would come exclusively from renewable energy sources such as solar, wind or hydraulic energy. The development of these two forms of energy in recent years and stated ambitions for the coming decades to increase their weight in the energy mix reinforce the likelihood that green hydrogen will gain in importance. The future of green hydrogen in tomorrow's economy is therefore supported by the ambitions of many governments to decarbonise society and is in line with the Paris agreement signed in 2015 and the constant pressure of the climate emergency.

Indeed, as mentioned above, hydrogen is the perfect candidate for meeting the greenhouse gas emission reduction targets that most developed countries have set for themselves. In terms of investment, the European economic recovery plan announced in July, for example, strongly emphasises the renewable energy sector and will also support the development of European green hydrogen solutions.

Sectoral distribution of hydrogen (2050)



Levelised costs of energy (Kw/USD)



Graph sources: Bloomberg/BearBull Global Investments

A market that could reach 2.5 trillion dollars by 2050

In 2018 the hydrogen market reached USD 130 billion for a production of 74 million tonnes per year. Nearly 52% of this production is used in the refining of petroleum products, and 95% of this hydrogen is grey. The Hydrogen Council, founded in 2015 by a group of 13 leaders in the energy and transport sectors, which encompass nearly 90 companies, forecasts that the market could reach USD 2.5 trillion by 2050 and is already announcing the hydrogen decade. For its part, the European Commission estimates that hydrogen will account for 14% of the total energy mix in 2050. Current production is far from environmentally friendly, which implies that green hydrogen could have a major role to play in the future. The development and establishment of a major long-term role for hydrogen will not take place without clear and committed stances from governments and companies, and in particular companies in the transport, refining, chemical and metallurgical industries, which already have or will have the greatest exposure to hydrogen. Moreover, establishing cost competitiveness is essential to ensure the role of hydrogen as a sustainable alternative to fossil fuels. This can only be achieved through initiatives that allow the establishment of sustainable markets to facilitate investment in this area in order to create and expand supply chains. Support for research and development is also essential in order to improve the efficiency and size of existing means of production.

Bringing production closer to consumption

In order to reduce operating costs, hydrogen production plants will most likely have to be built close to renewable energy power generation sites. This means close to solar panel fields in southern Europe and offshore wind platforms in the North Sea and Baltic Sea. The need to create an infrastructure to transport this hydrogen efficiently is also essential in this context. In July 2020, 11 major European gas companies announced a plan presented under the evocative name "Hydrogen Backbone" to set up a 23,000-kilometre gas pipeline network across Europe linking Gothenburg to Tarifa via France, Germany and even Switzerland. The project's cost is estimated at between 30 and 60 billion, which ultimately seems rather low given the number of pre-existing natural gas pipelines that would be reallocated to hydrogen due to the forecast decrease in natural gas consumption in the coming years. Beyond this project, other options are under consideration, as this gas can be stored in liquid form and transported by tanker truck or ship. A solution chosen by Japan, for example, which has announced, through Kawasaki Heavy Industries, the creation of a liquefaction plant and a loading point by ship in Australia.

Hydrogen has excellent energy storage capacities

One of the main advantages of hydrogen is its ability to act as an energy reserve. Indeed, the weak spot of the very principle of renewable energy lies in its natural intermittency. Because the wind cannot blow unremittingly and indefinitely, and the sun cannot shine continuously, the result is energy production that is unstable over time and cannot meet demand that is relatively constant. The use of hydrogen as a means of sustainable storage therefore appears to be an obvious solution, a technique that will be able to compensate for the surplus production of solar and wind energy, something that batteries are unable to do for technical reasons of size and natural discharge. Hydrogen will therefore be able to capture and store energy more efficiently and then transport it to remote locations to be transformed back into electricity by means of a fuel cell, or offer a direct alternative to diesel generators. The strength of this storage and transformation system lies in the inter-sector compatibility it creates, with various fields of use such as construction, transport, heating and chemistry, to name but a few, connected by the same energy source.

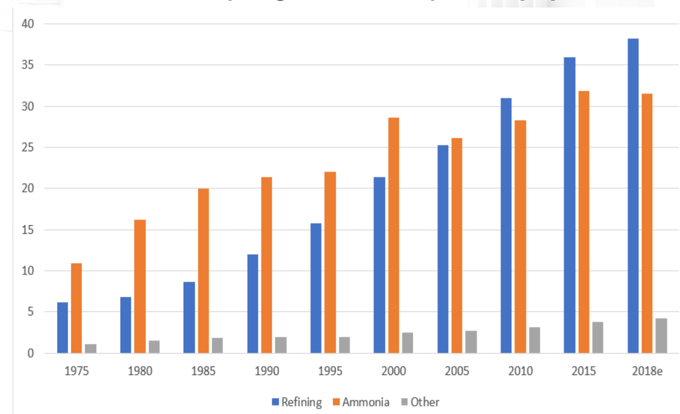
Technology that can revolutionise many industries

There are many potential areas of application for green hydrogen. The most serious candidate is the metallurgy sector, one of the industries that emits the most CO2 in the world. As steel production takes place in blast furnaces, mainly by calcination of coal, one tonne of steel emits around 1.8 tonnes of CO2. Hydrogen, during its combustion, can reach more than 1,000 degrees and emits only water vapour, so its use could fundamentally revolutionise the sector. It is the industry that would therefore benefit most from using another form of green energy such as hydrogen. Several projects are already under study or in the test phase, such as the Duisburg plant in Germany, where the hydrogen supplied by Air Liquide will initially be mixed with pulverised coal in furnaces to reduce CO2 emissions by 20%. The test will last 14 months and its aim is to implement 100% hydrogen use in furnaces and become carbon neutral by 2050. An even more ambitious project is HYBRIT, a joint endeavour by several Swedish companies to revolutionise metallurgy by using hydrogen and electric arc furnaces, which is likely to lead to an emission reduction of 80-95% by 2026. A large part of the hydrogen produced is used in the chemical industry for refining purposes in the hydrocracking process or for the creation of fertilisers through the manufacture of liquid ammonium.

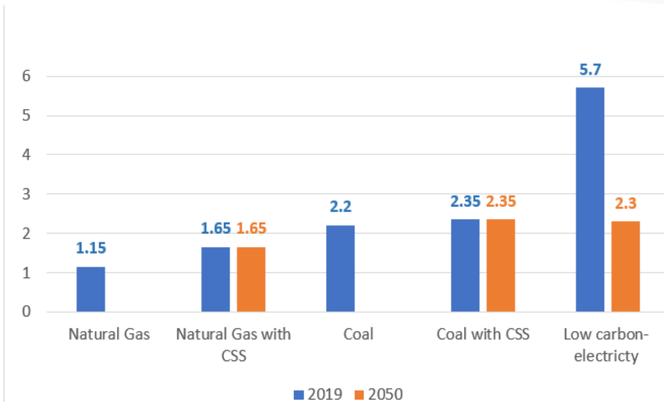
It is one of the most frequently produced chemical components, is useful for spectroscopy in chemistry and is most frequently used as a solvent for stains, lacquers and varnishes. The sector is considered by the International Energy Agency to be the third largest future user of hydrogen.

The cement industry, which alone is responsible for 8% of total CO2 emissions, uses coal during the production process, which is itself responsible for a third of the industry's emissions. The main alternative is the use of biomass from waste as fuel, which is currently cheaper than using hydrogen but still emits as much CO2 and whose only benefit is to reduce the use of fossil energy. In an environment with even more aggressive carbon emission taxes and a more competitive price for green hydrogen, the use of hydrogen could have a fundamental impact on this sector in a similar way to that of metallurgy.

Hydrogen demand by sector (Mt)



Average hydrogen production price using the method of hydrogen production (USD/kg)



Graph sources: Bloomberg/BearBull Global Investments

The transport sector is not to be outdone since hydrogen is already being used as an alternative to traditional fuels thanks to fuel cell technology. This process is more efficient than a combustion engine and acts in the opposite way to an electrolyser, using hydrogen to create an electric current capable of powering means of transport such as lorries travelling medium and long distances. The European Commission has implemented new CO2 emission restrictions of 15% by 2025 and 30% by 2030, with many companies turning to hydrogen to power their trucks. In April 2020 Volvo and Daimler announced their intention to create a company exclusively focused on the development of fuel cell trucks, including a EUR 600 million investment by Volvo to finance the project. It seems impossible to discuss the subject without mentioning American start-up Nikola, which is aiming to become Tesla's direct competitor and which is developing trucks with a range of between 800 and 1,200 km. Production is currently planned for 2023 with the logistical support of General Motors. The Asian competitor, Hyundai, already began the test phase of its Xcient Fuel cell trucks in Switzerland in 2020. These trucks, developed for transport between logistics centres and supermarkets, have two fuel cells of 95Kw each and a range of 400 km. The Korean company even plans to import 50 trucks by the end of the year and has a target of 1,600 units by 2025. Heavy trucks are particularly suitable for the use of hydrogen fuel cells because the heavier the vehicle, the larger the battery size and therefore the greater the latter's weight. A 40-tonne truck needs several tonnes of batteries to run, which considerably reduces its charging capacity and therefore favours alternative fuel cell technology.

Truck transport is not the only segment in which hydrogen could play a significant role. In Germany the HO train of French company Alstom is the world's first hydrogen train and has completed its test phase. From 2022, Alstom will therefore be able to deliver 41 trainsets to Germany. Hydrogen is particularly attractive and efficient in countries where many trains still run on diesel, such as Germany, France and Italy. Hydrogen trains cost twice as much as normal trains, but they do not need to run on electrified rails, which leads to considerable savings given that the cost of electrification is around EUR 1 million per kilometre.

Key factors for becoming a future energy leader

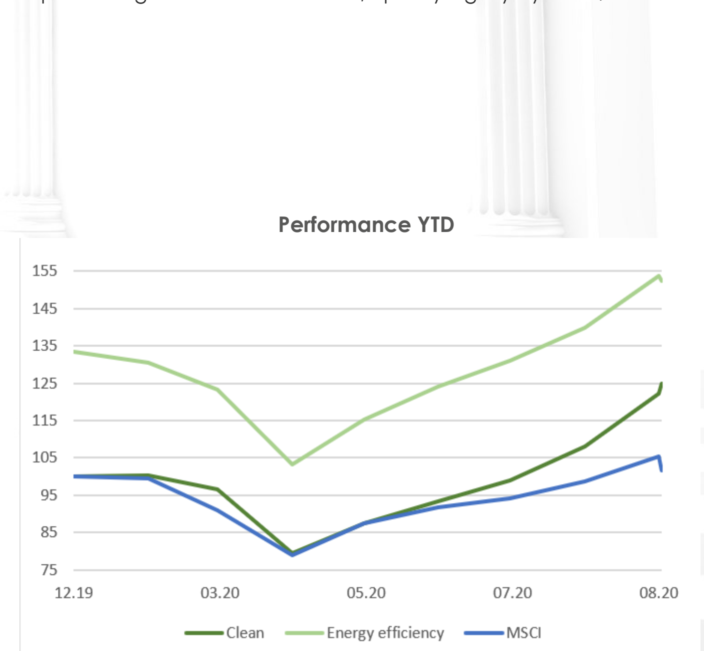
In order to establish itself as the number one energy source in the future, hydrogen still faces many obstacles in the short term. The main competitiveness factors will be the availability of renewable energies, the transport of the hydrogen produced and of course the unit cost. For the moment the price of green hydrogen is between 2.5 and 4.5 dollars per kilo, i.e. twice as much as hydrogen produced from hydrocarbons. But in ten years' time, many people believe that it will be in line with the price of blue hydrogen, with the advantage of not emitting CO2. Indeed, the good news is that the technology is still at an early stage of maturity and that the two main components of the price of hydrogen, namely the price of the electrolyser and renewable energies, is likely to continue to fall drastically over the next ten years. Over the past ten years, the price of renewable energy has fallen by 30% for wind power and up to 80% for solar power, while the price of an electrolyser fell by 50% between 2014 and 2019.

Competing with currently cheap fossil fuels requires government support and committed measures such as a stricter carbon taxes or subsidies for the development of this future-oriented technology to increase its attractiveness before the technology can offer economically satisfactory technical solutions without assistance. This change is already well under way, since in July 2020 the European Commission announced its hydrogen plan, with investment levels expected to be between 180 and 470 billion euros by 2050.

Hydrogen stocks soar in 2020

Following the announcement of Germany's hydrogen plans in June 2020 and the European Commission's investment project in July, the share prices of companies active in this field have soared. The share price of Nikola, the aforementioned manufacturer of fuel cell trucks, has risen sharply since the beginning of the year (+279%). European companies have also experienced unprecedented enthusiasm, with Ceres Power, ITM Power and McPhy Energy up by +100%, +265% and +540%, respectively. In 2000 the hydrogen market experienced a powerful bull market, and the index comprising stocks active in the hydrogen market rose by an exceptional +600% before suddenly collapsing. But this time everything leads us to believe that the hydrogen market is on the right track, as all the factors favouring its development are present. Government involvement is genuine, and investors seem to have changed their assessment of renewable energies, now considering them as something other than simple alternatives to hydrocarbons, as the recent rise of the BBGI Clean Energy 100 index seems to show. Indeed, thus far in 2020, renewable energies have demonstrated their resilience in the face of the health crisis and the collapse of the price of oil, which today remains well below its pre-Covid level.

In the past, a fall in crude oil prices caused investors to lose interest in this sector and alternative energy stocks prices to drop. This is no longer the case. The BBGI Clean Energy 100 index, which includes 100 companies active in solar and wind energy, as well as in biofuel and energy efficiency, has benefited from this lasting paradigm shift. The latter sub-sector, which includes certain companies active in hydrogen, has seen a meteoric rise of +52.45% year-to-date. The BBGI Clean Energy 100 index has posted an excellent performance of +24.88% since the beginning of the year, largely outperforming the MSCI World index, up only slightly by +1.70% in 2020.



Graph sources: Bloomberg/BearBull Global Investments

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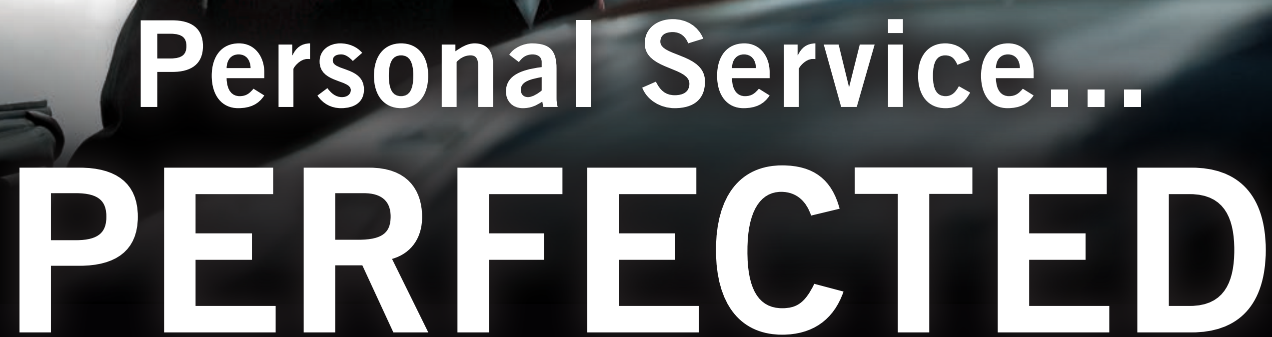

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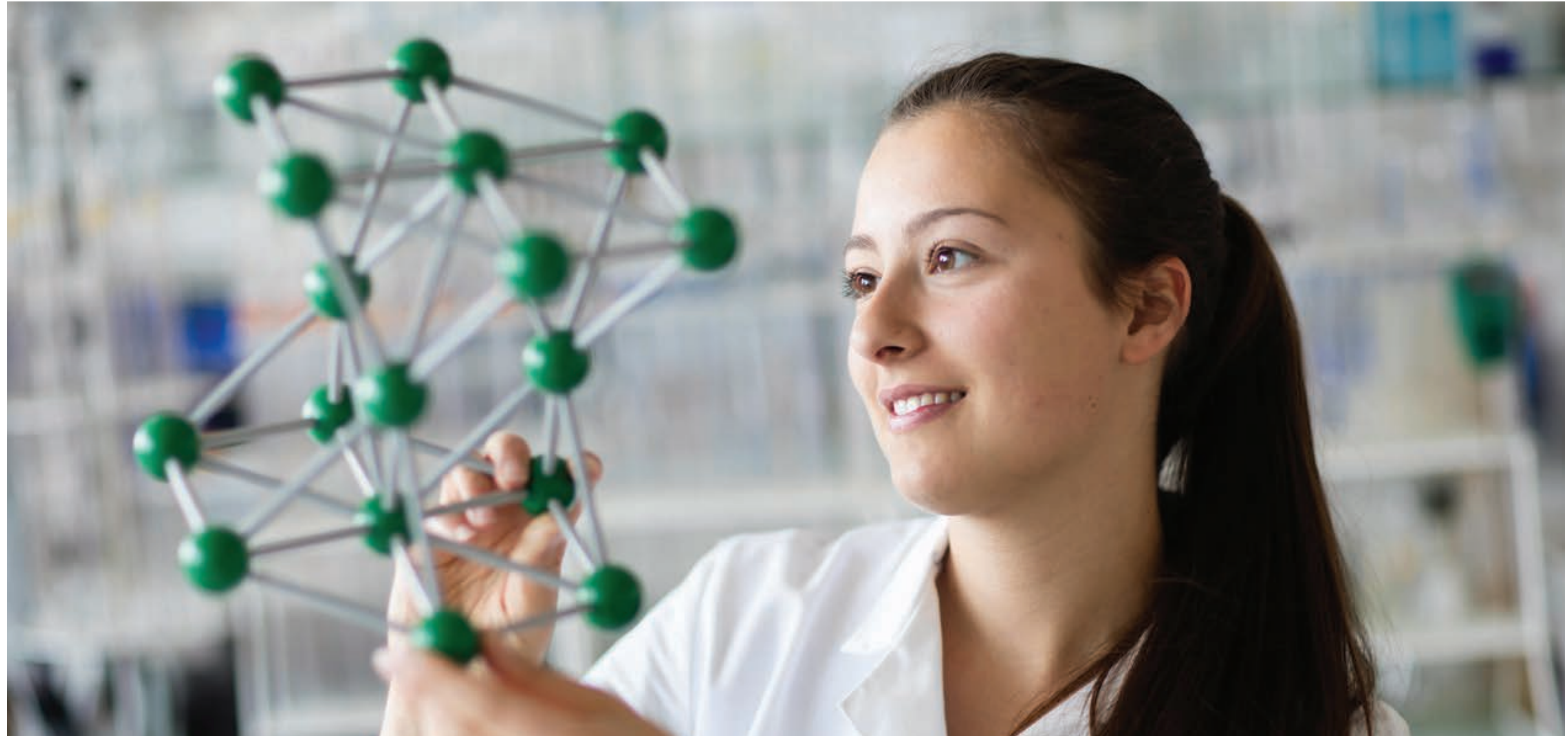

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