Prime Partners

DEPUIS 1998

MARKET INSIGHT

JANUARY 2021

CITYWIRE
SWITZERLAND
TOP 50
INDEPENDENT
ASSET MANAGERS
2020

Investors are keen to say goodbye to 2020, but left with a number of key questions.

Although the stock markets ultimately delivered a satisfactory performance in 2020, it is reasonable to think that last year will not be fondly remembered by most of us. The fears, risks and frustrations arising from the COVID-19 crisis were not very gratifying parts of our day-to-day lives.

Furthermore, although we can pride ourselves on having been able to find our way through this unprecedented time, we need to recognise that we cannot rest on our laurels. Faced with a changing and uncertain situation, our assumptions had to be called into question perhaps more than ever almost every day.

With the COVID-19 vaccination now on its way, which should allow us to put the crisis behind us over the coming quarters, we may be tempted

In light of this, existing structural changes and the emergence of new challenges cannot be overlooked by investors.

We shall therefore highlight some of these, which are undoubtedly factors that we have taken into account – and will continue to take into account – in determining our investment policy.

Let us start off with the important factors that have been confirmed over the last 12 months, although this list is by no means exhaustive.

The most important is probably monetary and political authorities' never-ending ability to support the economy and the markets.

Government "interventionism" and monetary

> "Existing structural changes and the emergence of new challenges cannot be overlooked by investors."
>
> **FRANÇOIS SAVARY,** CHIEF INVESTMENT OFFICER, PRIME PARTNERS

to adopt a wait-and-see stance. Catching our breath and taking life as it comes feels like a tempting option!

However, if there is one lesson to be learned from 2020, it is that we should resist the temptation to remain idle, which ultimately leads to being overwhelmed by events.

There is nothing worse than letting yourself be thrown around by the markets, not just in terms of a portfolio's performance but also, and above all, in terms of each individual's ability to have the calm attitude needed to deal with day-to-day life and the surprises it holds in store.

Beyond the very difficult reality of the pandemic, the global economy is continuing to move forwards. After all, the severe recession of the first half of the year was indeed replaced by an economic upturn during the second half of 2020.

activism gained in pace further in 2020, reinforcing what had already been seen during the crises of 2000 and 2008. However, the size of the arsenal deployed is entirely different from that adopted over the last two decades.

We can never pay high enough tribute to the central bankers and political leaders for having been able to understand the scale of the impending catastrophe very early on after COVID-19 spread from the confines of China.

It is always easier to criticise than to act, after all. In this case, we are aware of what the decisive action of our leaders enabled us to avoid.

Of course, we should not overlook the risks of this monetary and fiscal activism, but worldwide growth would not have picked up as sharply as it did last summer without these massive interventions.

It goes without saying that the consequences of these actions need to be managed over the long term, which will not be

an easy challenge. Legitimate questions have emerged about the effects of these measures on financial assets:

Has the dollar initiated a lasting downward trend?

Is paper money at risk of becoming "clinically dead", paving the way for gold and bitcoin currencies as ways of defending ourselves against the collapse of existing currencies?

Will inflation in goods and services make an "inevitable" return to centre-stage, in view of the combined shocks to supply and demand we have faced?

Does the bubble economy – inflation in the price of assets – favoured by massive liquidity injections constitute an immediate risk to investment portfolios?

Is there a credible threat of governments defaulting in the foreseeable future, in view of the explosion in debt as a result of managing the pandemic?

We could go on ad nauseam with this litany of questions but our main point is to make one thing clear: monetary and fiscal interventionism and management of its consequences will continue. There is no reason to expect a change of course any time soon.

Some people rightly believe that the 2020 health crisis will be the fatal blow for the "liberal order" that has prevailed since 1980. The change of stance of international financial institutions – with the IMF at the helm – is far from proving them wrong.

The second major structural trend relates to the assertion of China's position within the global economy, with the corollary of ongoing strained relations between China and the United States for the near future. The election of Joe Biden as President of the United States will change the shape but certainly not the basis of the disputes between the two world powers.

The rivalry between the two sides of the Pacific will characterise international relations not only on a geopolitical level but also on the economic and commercial front over the years ahead.

Beijing's mastery in managing the pandemic seems to be a real slap in the face for the United States and what many consider its overly dilettante approach.

Whatever reservations you may have about the veracity of the information provided by Beijing during the crisis, one point is undeniable: the Chinese economy did a much better job of managing the economic rebound than its Western counterparts. In the fight for soft power, Beijing scored points!

The third structural factor that was reinforced in 2020 is the thematic approach both in analyzing the world situation and in terms of investment.

Whether with regard to digitisation, robotisation or even the environment, last year confirmed the validity of these long-term themes that have been included in our portfolios for several quarters.

Generally speaking, over the last few years we have continually encouraged you to adopt a thematic approach to assessing the changes that are shaking up the global economy and adjusting how your assets are managed.

As we come out of 2020, we firmly believe that this is the right choice and that the themes we have highlighted remain of interest. We will not hesitate to take this approach forward as opportunities arise.

It should be noted that we took more of an interest in environmental considerations in 2020, in terms of investment and also in terms of our assessment of this issue for the global economy. In this regard, the election of Joe Biden is a positive factor, given the new administration's much more suppottive attitude towards this issue.

This is the icing on the cake in some way, in addition to China's intentions in this regard or even, if not above all, Europe's decision to move forward rapidly to manage the consequences of climate change.

Let us now come to the new challenges that 2020 has created and which we need to bear in mind in order to best manage the situation in 2021.

We have mentioned the confirmation of monetary and fiscal activism as a structural force for the global economy. However, a significant change relative to the recent past should also be noted: the growing assertion of modern monetary theory (MMT).

The last few quarters have favoured a new way of conducting macroeconomic policy, namely that of submitting monetary policy to fiscal

imperatives. This is a major change compared with what we saw at the end of the 2008 crisis, for example.

We are far from convinced by the validity of the arguments of MMT, but we need to bow to reality, which tends to impose itself in how G7 countries manage their economies. There is concern about the effects of this trend, particularly if inflation should make an unexpected return to centre-stage.

Establishing a zero-rate world as opposed to the previous world of "low cost of capital" is not an insignificant matter, particularly as the movement no longer concerns just government debt but has also spread to corporate debt.

It might therefore be argued that the new benchmark of monetary policy and its orientation is no longer the central bank reference rate, but instead the rate offered by the debt of the strongest companies, taking us into uncharted territory.

In addition to questions about how to manage a system of this kind in the medium term, investors are faced with a different choice of how to diversify in order to achieve their target returns. Cash no longer seems to have the slightest appeal and the safest bonds are now hardly of interest.

The propensity to accumulate more risky assets as part of a diversified portfolio is therefore only becoming more pressing, as part of the super-liquidity cycle that has been established.

All this explains the sharp upturn on the stock markets since spring 2020.

The liquidity markets have (at least) a limit, which is that of economic reality.

Because we believe that a sustainable recovery will materialize in the coming quarters, over the last few months we have biased our allocation in favour of equities to the detriment of bonds.

Our analysis of the global situation suggests that the context is more favourable to equities than fixed-income assets in the medium term.

It goes without saying that investors need to accept the corollary of such a bias: increased volatility in the performance of their portfolios.

Just as we did in 2020, we will continue to pay very close attention to economic data in order to determine whether this is still a valid choice, particularly as the stock markets do not offer very attractive valuations.

In general, we could talk at length about the risks of the current situation, but above all we need to adapt our reasoning to the underlying climate.

The beginnings of a mutualization of debt in Europe are another novelty from last year.

This should not be brushed aside, as it could prove essential for the future of the Eurozone. Furthermore, it may represent a real opportunity for European stocks in a climate that seems less favourable to their US counterparts.

Snubbed by investors for the last decade, European equities could be the big winners of decisions relating to the pooling of debt as part of the European recovery plan. Beyond the mere announcement effect that some worry about, the combined desire to reinforce the strategic role of the state, favour the emergence of regional economic champions and focus on the opportunities presented by the green revolution could boost Europe's stock markets.

We have adjusted our allocations accordingly in recent quarters, not for ideological reasons but on the basis of our analysis of the facts. We believe that it is worth giving European stocks a chance to regain a more prominent role following the initiatives mentioned above.

Although it is too soon to say whether they will alter a world now squarely dominated by China and the United States, the positive signs coming out of Europe cannot be overlooked.

Lastly, we would like to highlight a political development that could prove important if it is confirmed in 2021: populism has not won the "pandemic war"– far from it!

While some people were quick to announce that the triumph of the populists was irremediable in the wake of the economic and social effects of COVID-19, it should be noted that the pandemic was actually unfavourable for fans of political opportunism.

For instance, Italy and Spain are living examples of the most radical political factions' inability to impose their power.

Similarly, the "illiberal democrats" of Poland and Hungary have had to fold under the weight of Germany's desire not to call the European recovery plan into question in any way.

As regards Brexit negotiations, which have finally come to an end, these have been far from a success for Boris Johnson and his "power" politics.

Last but not least, the US election resulted in a punishing defeat for President Trump and his erratic politics.

We should not declare victory too soon in a situation in which the economic and social consequences of the pandemic will be felt for a long time all over the world. However, this brighter outlook should get the welcome it deserves.

The prospect of returning to a more multilateral approach to international relations – which would not be without positive consequences for the economy at a time when growth is still sorely lacking – constitutes a welcome glimmer of hope.

To conclude this monthly newsletter, we would like to thank you for the trust you have placed in us. Last year was a reminder – if we needed one – that we cannot rest on our laurels.

Faced with both reinforced structural trends and new challenges, we have made fairly significant adjustments to our allocations over the last few months.

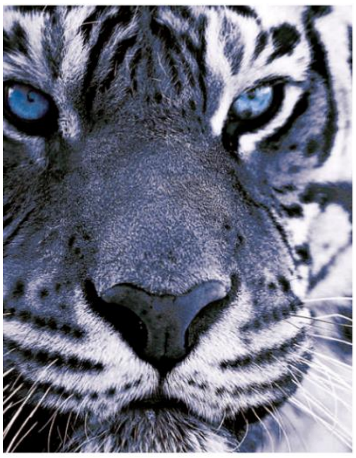
These changes have been made with as much care as possible and bearing in mind our desire to take a long-term view. As we come to the end of 2020, we feel that our allocations are robust enough to tackle the risks and opportunities that we foresee for 2021.

Although we hope that the new year will provide more calm than the year that has just ended, we remain vigilant and still intend to take on the challenge of doing all we can to protect the capital that we manage.

This monthly commentary will give you a better understanding of the general framework that forms the basis of our investment policy – or at least we hope so!

We wish you and your loved ones the very best of health and happiness for 2021.

Geneva, 28 December 2020



Prime Partners SA
Rue des Alpes 15
P.O. Box 1987
1211 Geneva 1

www.prime-partners.com

CONTACTS

François Savary
Chief Investment Officer

Jérome Schupp
Equity Analyst

Julien Serbit
Portfolio Manager

Tel +41 22 595 09 97
fsavary@prime-partners.com
jserbit@prime-partners.com