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Q 01 / 2020

Quarterly Investment Review and Outlook

Q01/2020 has brought with it an unprecedented situation, but we cannot just assume that there is bearish outlook going forward. Never before have so many monetary resources been mobilized to keep the system afloat.

Plenty of credit and cash have been made available to households and businesses to immediately remedy the situation; but we anticipate that the "patient economic activity" will leave the intensive care unit later than policy makers currently envisage.

If businesses come out of this crisis relatively unscathed, it will be on the back of a volatile substance of low rates, low inflation, rising asset prices, low inventories, and plenty of fiscal stimulus.

Time and action plan for market correction 2020

#	Datestamp	Event	Next window	Reliability	Market sentiment / Action taken	Equity market implication
1	12.19 - 01.20	Supply chain concerns arise because of the outbreak of virus COVID-19		Event occurred - fully accounted for	Market participants assumed that virus could be contained within China	Negative
2	beginning 02.20	Start of spread out of COVID-19 outside Chine		Event occurred - fully accounted for	Market participants assumed that impact would be minor - Chinese supply chain gaps were being successively closed	Market is worried
3	06.02.2020	Turning point of new cases in China		Event occurred - fully accounted for	Market participants accounted that for a 2 to 3 weeks of concerns only	Positive
4	18.02.2020	Loss of control in countries without reported cases and with underdeveloped healthcare systems (Iran, Kuwait, etc.)		Event occurred - fully accounted for	Market participants still thought that virus could not impact DM	Mildly negative
5	21.02.2020	Cases ramp-up in countries outside China with a developed healthcare systems (for instance Italy)		Event occurred - fully accounted for	Market participants started panic selling	Because of low liquidity, markets decline over proportionally. Decline occurs across all asset classes, irrelevant of diversification
6	09.03.2020	Saudi Arabia slashed its forward price on crude, bringing the cost per barrel to under $40.		Event occurred - fully accounted for	The stress situation in the market increased once more; In particular, the US HY market spread increased to reflect concerns of default situations	Negative
7	mid 03.20	Virus spreads out to Europe and the USA - countries are on lock down and or establish quarantine zone	Lifting of quarantine expected around April 20, 2020	Reliable, with differences between the different regions	Market participant move to "Muddle through approach". Investors gains some clarity.	**Positive**
8	18 / 19.03.2020	CBs consider emergency spending / budget		Event occurred - fully accounted for	Market participants step back in the market	**Because of low liquidity, markets increase over proportionally**
9	**20.03.2020**	**Consider which economic scenario prevails (V,U,W, or L). Research will focus on consumers capacity to spend and the assessment of CB policies to help kick-start the economic system**	**Report to be out by 10.04.2020 (target date)**	n/a	n/a	n/a
10	**weeks 13 & 14 / 2020**	**SWOT on asset allocation**	n/a	n/a	X-Ref: Asset Allocation Report 04/20	Mildly positive
14	Q2/2020	Soft portfolio restructuring (if required)		n/a	n/a	n/a
15	May/June 2020	Pandemic expected to have peaked as people start self-immunization process		Unknown	Many influencing factors, but mainly depending on countries' mitigation & containment measures	**Positive**
16	> Q2/2020	Evaluate long-term impact of event and re-orientate portfolio		Unknown		n/a

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Asset Allocation SWOT 04/20

Which asset class is to be preferred?

Asset Type	Sub-Category	Actaul Positioning	Opportunity	V-SRS	C U-SRS	C W-SRS	C L-SRS
Cash / MMF	all categories	n/a	n/a				
Bonds	Supra	No active exposure	A period of massive and global wealth destruction is normally followed by a period of higher inflation. In such context, while they maintain the nominal value, government bonds and supras will return much less than the rate of inflation. The apparent security does not yield as expected in	Negative	Negative	Negative	Positive
	Corporate IG	No active exposure	The biggest risk to IG bonds is that the COVID-19 crisis becomes a prolonged period of subdued economic activity. In this case, the number of rating downgrades will increase over-proportionally. Yet, we believe that, even without this scenario, rating reductions will occur and present YTM do not cover for this. Corporates with strong cashflows and which belong to an "already downgraded sector are to be favored. The list of preferred names include": BP, Total, ConocoPhillips, Chevron, ECOPETROL, Gazprom, Petrobras, Rosneft, and Pemex.	Positive	Positive	Positive	Negative
	Corporate HY	Some selective names	One of our favorite sector is Energy. We believe in companies with low production costs, comparatively strong fundamentals, and access to capital. In terms of regions, Gulf Cooperation Council nations and Russia are best positioned to weather lower energy prices. US shale issuers of interest: US212015AH47 and US20605PAG63.	Positive	Positive	Negative	Negative
Credit	Main	Profit taking on Long Main vs X-Over	Alongside with the equity market correction, credit spreads have reached an all-time high. In fact, spreads the major indices have reached their widest level since the GFC and have traded as high as the 96th percentile of spread level, measured over a 15-year period. We believe that the default ratio in the Main (120 biggest companies) will be very limited and have therefore taken advantage of these conditions. Once the conditions start to normalize, a mean version is expected to occur thereby offering investors a compelling risk-adjusted return. Product opportunity:	Positive	Positive	Positive	Mixed
	X-Over		The X-Over segment will suffer from an above average rate of default.	Positive	Mixed	Negative	Negative
FX	USD vs other CCY	The level of the euro is of limited concern given that international trade is running at subdued levels and ultra-low oil prices are supporting economies	A clear strategy on how the commonly issued corona bonds are backed up is required. More importantly, there is a need of confirmation that there is not breakup of the Eurozone, or exit of weaker members such as Italy. Yield spreads across the Eurozone are not as wide as they were in 2012; this is very comforting. An unified strategy to tackle the crisis would certainly help the euro to raise relatively quickly to 1.20 and above vs the	USD Positive	USD Negative	USD Negative	USD Negative

V-SRS: V-Shape recover	W-SRS: V-Shape recover
U-SRS: U-Shape recover	L-SRS: L-Shape recover

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Asset Allocation SWOT 04/20

Which asset class is to be preferred?

Asset Type	Sub-Category	Actual Positioning	Opportunity	V-SRS	ur	U-SRS	ur	W-SRS	ur	L-SRS
Equities	**Top down view**	We have a proactive stance on companies with an above average growth opportunity.	We think it is too early to be outright bullish on the market, as many uncertainties in the supply chain will continue to exist for quite some time to come. Also, consumer demand still needs to be assessed.	Not likely		Likely		Most Likely		Likely
Sectors	Communication Services	Active exposure to "FANG-type" equities	Advertising spending is expected to slow, which in turn should benefit e-commerce and digital platforms. While economic growth has collapsed, we believe that e-commerce and digital platforms will continue to benefit from a well engaged secular trend. Favoured names: AMZN & GOOG.	Positive		Positive		Positive		Mixed
	Consumer Discretionaries	Active exposure to "Luxury"	The worldwide lockdown is “discretionary” negative. Furthermore, the lasting impact of higher unemployment rates across the DM will impact consumer spending. High-end product providers and e-commerce-enabled companies will most likely continue to perform. Favorite names: LVMH,	Positive		Positive		Positive		Negative
	Consumer Staples	Active exposure to "Food & Beverages"	Demand should remain relatively resilient for products that satisfy everyday needs, despite disruption to the economy. Consumer Staples appear to be expensive and having a short rebound capacity once the market returns to normal. Preferred Names: Nestlé, Coca-Cola, Pepsi,	Negative		Negative		Positive		Positive
	Energy	Active exposure to "Services and Equipment"	The collapse in oil prices has generated, because of oversupply, the first victims in the US shale oil development. A disrupted supply-demand balance leads inevitably to restrictions in R&D, lower capex, and therefore fewer field developments. However, this will at some point drive up spot prices. But for now, conditions are challenging across all sub-sectors – smaller operators are most at risk. Preferred Names: Chevron, Schlumberger, BP, Total, Royal Dutch Shell.	Positive		Positive		Positive		Negative
	Financials	Active exposure to "Payments - FinTech"	The fall in interest rates and the sharp slowdown in the economy will drive a steep drop in profits for banks. Pre Covid-19, banks had about twice the capital than before the GFC. The short-term outlook is subdued for the broader sector. We see some value opportunities in payments and e-commerce-related operators as these services will be used in spite of underlying economic conditions. Our preferred names are: Mastercard,	Mixed		Mixed		Mixed		Mixed
	Healthcare	Active exposure into MedTech	Healthcare = Value trap? The present attention goes to the healthcare sector, but we believe for the wrong reasons. The trend that will persist beyond COVID-19 is a consumer-driven health care economy – that is, the way people interact with the healthcare system. This is rather a very strong secular trend, in spite of short-term events. Our preferred names: Straumann, Novartis, Roche, GlaxoSmithKline, Medtronic, and Pfizer.	Mixed		Mixed		Mixed		Mixed
	Industrials	Active exposure into Robotics and Automation	The sharp slowdown in the global economy hits the sector particularly hard. This, coupled with slowing Chinese growth and the transition to developing the industrial internet of things (IIoT), generates a huge execution challenge. Companies that are first movers or that generate meaningful economic value for their customers should be favoured. Our preferred names are: Siemens, Safran, Rheinmetall, Zebra, Cyberdyne,	Positive		Positive		Negative		Negative

Asset Allocation SWOT 04/20

Which asset class is to be preferred?

Asset Type	Sub-Category	Actual Positioning	Opportunity	V-SRS	ur	U-SRS	ur	W-SRS	ur	L-SRS
	Information Technology	Active exposure into IIoT (Semi, 5G, Stay-at-home)	The valuation remains high compared to the broader market. IT valuations look vulnerable as enterprise business spending slows. While the sector's strong balance sheets offer some safe haven appeal, the broader sector is expected to underperform over a six-month period. The roll-out of 5G wireless network technology is happening at full speed and requires substantial follow-up commands. IT consulting and “stay-at-home” companies are beneficiaries of this occurrence. Our favoured stocks: Palo Alto Networks, Cisco, Ericsson, and Oracle Corporation, CAP, Atos, Capgemini.	Mixed		Positive		Mixed		Positive
	Materials	Active exposure to miners	This sector is one of the most correlated to global industrial production. The near-term outlook for commodities is clouded by oversupply. However, the expected dynamic growth in electric vehicle (EV) demand, as well as progress toward grid parity in electricity production, point to strong longer-term demand for lithium, copper, and transformation capacities. Our favoured names: BHP, Rio, Air Products and Chemicals,	Positive		Positive		Mixed		Negative
	Real Estate	No active exposure	Robust present dividend yields do not cover an expected NAV adjustment. In particular, we see headwinds (short and longer term) in the retail rent property market	Mixed		Negative		Negative		Negative
	Utilities	No active exposure	This defensive sector is attractive during times of increased uncertainty and very low interest rates, even though relative valuations are higher than long-term averages. The sector is capital intensive and a very slow mover, most likely missing out on opportunities such as generation, storage, and distribution of alternative energy. The sector will lag when market volatility subsides. Preferred names: -	Negative		Negative		Negative		Positive

V-SRS: V-Shape recovery | W-SRS: V-Shape recovery

U-SRS: U-Shape recovery | L-SRS: L-Shape recovery

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Quarterly Report – Q01/2020

At a glance

Review – 1st quarter of 2020 – Post-COVID-19: New Market Scenarios

With the aim of bridging economic activities, major central banks have rolled out their Global Financial Crisis playbook within a matter of days. Fiscal policymakers have announced large-scale support, comprising a mixture of loan guarantees, deficit spending measures, and direct support.

In our base case scenario, we now expect that new COVID-19 cases will peak no later than mid-May, and that a step-by-step release of stay-at-home orders can be considered at that time.

Monetary and fiscal actions will eventually provide a backstop, but the economy will take some time to recover. We therefore expect a mixture of W and L-Recovery. Here are few views which we have compiled:

1. According to St. Louis Federal Reserve President James Bullard,
   - US unemployment could hit 30%, and
   - Second-quarter economic output could be half the norm.
2. Gregory Daco, Chief US Economist at Oxford Economics, predicts that
   - Even when lockdowns lift, businesses and households will remain very cautious,
   - Financial intermediation will remain under stress, and
   - With the rest of the world under lockdown, the market will presumably further alienate itself.
3. Rob Arnott, founder of asset manager Research Affiliates, asserts that
   - The toll of job losses and other economic hardship that may stem from shutdowns will be important, but
   - Other measures could potentially be more harmful than the virus itself.
4. Goldman Sachs predicts that
   - Real GDP quarter-over-quarter growth will decline by an estimated 34% annualized for the second quarter, and
   - US-Unemployment rate will rise largely to above 15% by mid-year.
5. In the coming weeks, we expect a significant number of negative EPS revisions.
6. In order to shore up capital, a number of companies have announced that dividend payments are put on hold.
7. Buybacks, a major source of sector EPS growth, may be curtailed, presenting another EPS headwind.,
8. The number of defaults, especially in the US high yield segment, will be important. The risk also exists for European-based companies. While they are less leveraged, they depend more on EM exports.
9. 60% of the US economy is consumption-based, and much of that has gone for now.
10. 80% of all US job holders have only low-skill job qualifications, and are consequently consigned to low-paying work.
11. WTI keeps falling, which is a clear sign that the economic activity (demand) has come to a standstill.

All these indicators lead us to the conclusion that the recovery is not going to be straight like U, W, V, or L, but rather a combination of different scenarios.

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Too big to fail

In this section, we develop the meanings of the different economic recovery scenarios – i.e., V, W, U, and L recovery scenarios – and their ramifications for the population.

V-Recovery

- A V-shaped recovery is characterized by a sharp economic decline followed by a quick and sustained recovery.
- The recession of 1953 is an example of a V-shaped recovery.
- A V-shaped recovery involves the economy going back to its previous peak.

W-Recovery

- A W-shaped recovery is when an economy passes through a recession into recovery and then immediately turns down into another recession.
- When charted, major economic performance indicators form the shape of a letter "W" during a W-shaped recession.
- W-shaped recessions can be particularly painful because the brief recovery that occurs can trick investors into getting back in too early

U-Recovery

- A U-shaped recovery represents the shape of the chart of certain economic measures, such as employment, GDP and industrial output.
- It is also charted when the economy experiences a gradual decline in these metrics, followed by a gradual rise back to its previous peak.
- A U-shaped recovery occurs gradually over time, typically over a period of 12 to 24 months.
- One of the most notable U-shaped recessions in US History was the 1973-75 recession. The initial GDP contraction was amplified by the 1973 oil crisis, which resulted in the stock market crash.

L-Recovery

- An L-shaped recovery is a type of economic recession and recovery characterized by a steep decline in economic growth followed by slow recovery.
- In an L-shaped recovery, there is a steep decline caused by plummeting economic growth, followed by a straight light indicating a long period of stagnant growth.
- In an L-shaped recession, recovery can take a decade or more.
- The most infamous L-recovery in modern history goes to Japan. During the 80s, the country ranked first based on Gross National Product per capital. The 1990 stock market correction lead to a lost decade.

Too big to fail

Despite the recent stock market recovery, we believe that general conditions are not predisposed toward a V- or U-shaped recovery. One could argue that we could eventually see a W-shaped recovery. Still, we assume it will take more time for the economy to turn around, since all economic activities are concerned. In comparison, following the GFC of 2007/2008, the financial sector was hardest hit. Central bank activity was relatively easy to deploy, and the general idea was to avoid the system seizing up. This was achieved by means of QE.

Today, all airlines are mostly grounded. Altogether, the airline and leisure industry represents about 63 million jobs. Even so, that is comparable low when put into context with all other exposed activities. Estimates suggest that worldwide, more than 80% of global activity depends directly on small- and medium-sized enterprises.

In terms of Central Bank activity, resolving this equation is more complex since it requires a granular approach; more importantly, consumer confidence has to recover relatively quickly in order to avoid an even worse situation.

Investment recommendations by type

1. Equities:

Short-term view: - Neutral

Medium-term view: - The question is no longer whether there will be a recession, but rather, how long will it take to recover.

We believe that equity markets are truly at their fair value at present! We remain strongly positive on strong secular trends, in particular, 5G, IT security, and IT Services.

2. Bonds:

Short-term view: - Neutral

Medium-term view: - With the market correction behind us, we favor BBB and single A debtors, yielding in the range of 6% p.a. We recommend a focus on companies with strong historic cash-flows, as weaker companies will experience a rating reduction.

3. Credit:

Short-term view: - **Highly Attractive**

Medium-term view: - With spreads at all-time high and Central Banks rolling a renewed bond purchasing program, a sharp recovery in 6 to 9 months can be expected.

4. Metals:

Short-term view: - Neutral

Medium-term view: - Neutral to negative: Historically, metals are a refuge play; however, that has only partially materialized.

4. Commodities:

Short-term view: - Neutral to negative

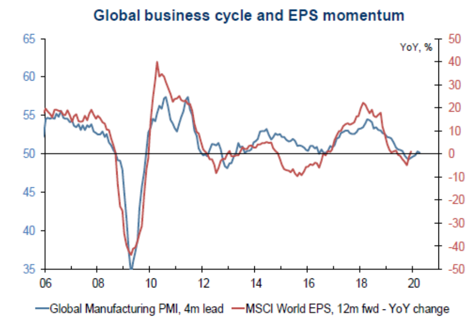
Medium-term view: - In the oil market, supply will outpace demand (because of lower economic activities).

5. Structured solutions:

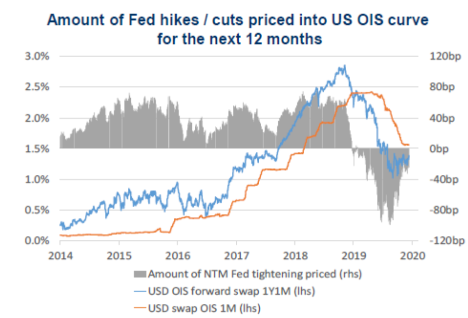
Short-term view: - With the market being back to levels of prior to 2016 and an increased level of volatility, conditional capital guaranteed products offer an ideal risk/reward.

Medium-term view: - Longer-term investors should consider taking profit on the combined strategy "Main versus X-over." and switch to a single credit strategy "Main" only. The recent expansion in credit spread, coupled with the announced QE activity of CBs, is an ideal low-risk opportunity.

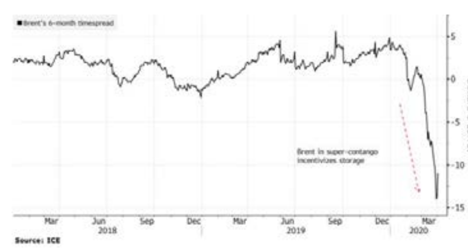
EPS Momentum again at average!



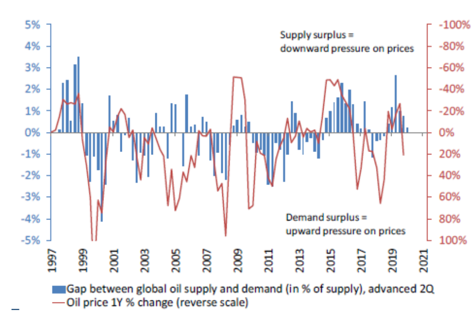
Fed hikes vs. cuts: Expect the cycle to reverse



Unsold oil impacting the spot price.



Excess of supply vs. demand before the crisis!



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Investment recommendations by theme

1. Globalization 2.0:

Short-term view: - Mixed

Medium-term view: - **We are in process of re-assessing our view,** but we believe, more than ever, that we have entered in a reversal of Globalization 1.0 and that there will be excellent opportunities.

In the near-term, the following issue need elucidation: a) US presidential election, and b) the political backdrop of COVID-19 for Europe. Surely European countries will not be reluctant to help each other, forcing the weakest members of the EU to call in help from China, Russia, and Cuba!

2. From monetary policy to fiscal policy

Short-term view: - Neutral

Medium-term view: - Fiscal and monetary policies are expected to be very accommodating for the quarters to come.

3. Volatility

Short-term view: - Neutral

Medium-term view: - In the past, event-driven sell-offs [e.g., EM debt crisis, collapse of LTCM (1998), TMT over-valuation (2001), retreat of energy prices (Q4/15), US-China trade war (Q4/2018)], have resulted in average market corrections of in excess of 10%. The most recent market correction and the resulting volatility is no different.

At present, there are a few triggers left that can further disrupt the market. Volatility is relatively high and investors can take advantage of selling the latter (selling volatility).

4. Global order – a quick shift

Short-term view: - Neutral

Medium-term view: - The impact of COVID-19 will not be over quickly, as there is substantial damage to consumer confidence which will impact the global order.

The gigantic amount of debt that has been added in the course of the last few weeks will force states to prioritize decisions differently when compared with the last GFC.

The present crisis highlights the limits of restless globalization; for instance, it may be that the world population is dependent on one single supply chain of basic preparations for medical purposes.

Globalization is entering a period of unparalleled deconstruction that promises to transform industries for years to come.

Sick of what?

The backbone of any successful society is mutual trust – the government in its population and vice versa. Switzerland's society is a prime example of this shared trust. Another key example is Singapore, where leaders enjoy a very high level of trust by the public. The Singaporean government has the power to freely weigh diverse factors and make comprehensive decisions. In other words, society interacts with the government in an open-minded, constructive manner.

In contrast, there are plenty of democracies where every decision has to be "sold" to the people, using a blame and shame approach. Countries with a two-party system are the best example of this. Hence there is no democratic exercise. As a result, over the past few decades, politicians have deliberately undermined the trust of their own constituents, in science, in public authorities, and in the media. In fact, they have an in an irresponsible manner deconstructed the framework of the state. Handling the day-to-day of a country is not like running a corporation; making the state leaner does not mean making it more efficient. Actually, the opposite has occurred, with government corruption increasing in DM.

Meanwhile, society has transformed itself very quickly. For instance, industrialization and e-commerce have changed the way we interact and consume. Today, some 60% of the US economy is consumption-based. More importantly, because of a lack of governmental vision, 80% of all US job holders have only low skill job qualifications, and are consequently consigned to low-paying work.

However, the point is not that the rich have grown richer and the poor have become poorer. The issue is a lack of long-term vision. Because elected representatives are always on a re-election campaign, they don't engage with long-term projects, as these could be devastating to their careers. Instead, they focus on short-term objectives and set fires so they can put them out! No wonder that the market unleashes so much violence.

Real-time valuations

Because our asset allocation models are forward looking, equity valuations are adjusted based on the news flow; assumptions and events are put into context, and finally, probability analysis generates potential valuations. When there is no landmark as to the future, it is impossible to form any kind of valuation for tomorrow During periods of stress, people respond psychologically to a lack of vision; however, forward-looking people stay focused on their objectives. It may be irrational behavior, but it's how fortunes are made and lost. No DM economy can endure a lockdown of more than 45 days; in other words, we should quickly figure out the next steps we can undertake.

Some more food for thought

Every crisis occurs in three phases: 1) ex-ante events, 2) culmination of value destruction, and 3) settlement. The present circumstance represents the eighth crisis I have navigated during my professional career, and each crisis has occurred in a different manner – there was no recurrence or similarity in Phase 1.

The Spring 2020 event will likely be considered as a major incident; it is worse than 1987 or 2007 in that it truly affects everybody. And there are other important considerations in play right now, namely:

1. Some countries, such as Italy, had not yet recovered from GFC 2007 when this crisis struck;
2. Thousands of people have died, which did not occur because of GFC;
3. What are the real intentions behind the Chinese and Russian governments in sending their medical expertise to Italy – a developed country? and
4. Who is to blame? In order to move forward, there must be a reckoning.

At the end of both WWI and WWII, there were settlements – Versailles and Yalta. This may not be a war, but there still must be a reckoning. And what happens if a settlement is ignored – no one is forced to take responsibility? What comes next?

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Closed for business?

As more countries around the globe close down borders, both the US and the UK continue to maintain U-turned in their coronavirus containment policies and rhetoric. This is a little surprising to us as most likely these two countries are going to be hardest hit DM countries by the pandemic, after Italy.

As a result of ongoing containment measures, we will witness the second largest contraction in global growth since World War II. The key question now is how deep and how long the downturn will be, which depends on the evolution of the virus. We remain underweight on equities as events unfold. China, which last week reported no new domestic coronavirus cases, has seen a rebound in economic activity, but it is taking longer to return to normal levels than expected. The European PMI Index which is presently below 30 (down from 50.5 beginning February 2020!) should therefore recover at some point.

Global policy responses have been aggressive. On the monetary side, the European Central Bank committed to a bold EUR 700 bn program of quite flexible QE; the Federal Reserve has also announced a QE package, including purchases of commercial paper and municipal bonds, and installation of vital daily dollar swap lines with other central banks. Perhaps more critically, on the fiscal side, governments – particularly in Europe – have pledged sizeable spending plans. Today, normally prudent Germany will announce a spending plan amounting to 10% of GDP, a figure that so far accounts for 1.5% of global GDP. We expect that to increase even further in coming weeks in order to avoid a deep recession.

Markets will continue to lurch. The huge volatility jump has levelled heavy pressure on investor shoulders. The closing down of carry-trades and forced selling have ensued, especially from investors who were short volatility or invested with leverage, but in complete absence of market liquidity.

Prices collapsed as a result, and every intermittent rebound met more selling pressure. In the fixed-income space, investors offloaded around USD 100 bn in one week, about 25% of last year's total inflows. There was nowhere left to hide as even defensive trades like Treasuries and gold sold off for the sake of cash. Within equities, passive investment is being tested as investors try to sell out of ETFs without buyers on the receiving end.

We prefer active stock picking, especially among low-leveraged equities, as well as quality credit in fixed income. The pandemic is moving in a westward direction this week; whether we see Italy's coronavirus cases begin to fall following the extensive containment measures taken will be a key bellwether of an end to the crisis.

Market-by-Market View

United States:

The coordinated nature of monetary and fiscal policy is unprecedented in recent history, and goes way further than we've seen at any point during the financial crisis.

In the US and UK in particular, governments are trying to save the economy by creating a lot of cash. In fact, it is not a stretch to argue that the pledge from UK Chancellor Sunak to cover up to 80% of workers' salaries through this crisis is a flirtation with a basic income. In the US, the 2.2 trillion dollar package includes around USD 500 bn in means-tested helicopter money for US taxpayers.

Consumer strength

More still needs to be done, especially in light of the shocking increase in US jobless claims, the first 'hard' data point showing the severity of this crisis. The US consumer is still one of the key global economic players. But if households receive enough cash to meet their basic budgetary needs – food, shelter, and insurance – people could stay inside and sit this crisis out. Yet, they won't. the US administration is promising each citizen $1200. That won't cover mortgage for most Americans, let alone health insurance. People will have to go in debt to survive; thus, the push to return to work as soon as possible. And if businesses have enough cash as well, they can afford to stay shut for a few months and start re-hiring workers from Q3 onwards.

It's not painless, and we will see businesses fail, but if the crisis is handled well, there could be enough productive capacity left to switch back on relatively quickly as the health crisis is brought under control. Structural negative economic effects might then be limited, provided the general sentiment is not exacerbated.

Trade hopes

Trade tensions have most likely come to an end for the time being. Weak consumer demand will thus reduce demand for US and Asian products and services.

Presidential elections

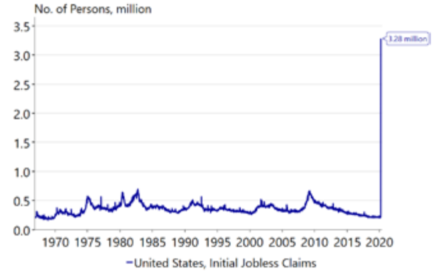
The US presidential election is coming up in November. It is hard to say whether or not the present administration will be re-elected, but we tend to believe that it will not.

Outlook

The spread of the coronavirus, collapse in oil prices, lower interest rates, and sudden rise in unemployed workers have dramatically altered the outlook for economic and profit growth. As a result, stocks have plummeted since February 19th's all-time high. Encouragingly, right before the virus hit, the US economy was on solid footing – consumer balance sheets were healthy, the banking system was sound, and inflation was contained. This suggests that economic activity should bounce back once the virus runs its course, especially as governments ramp up fiscal stimulus plans.

For long-term investors, valuations are looking attractive and stocks will likely be higher over a 12-month horizon. However, stocks will likely remain volatile in the short run until the extent of the economic damage becomes clearer.

Rise of unemployment in the US



Europe:

Within developed markets, open economies such as those in Europe are the most starkly exposed to the present crisis, as has been the case in the past. We expect earnings in the Eurozone to contract for the second year in a row. The area remains one of the most prominent weak spots globally. The earnings growth forecast is substantially below other markets, based on a subdued outlook for a Eurozone economy that remains mired in a manufacturing recession. The weakness in Eurozone earnings has been already been confirmed by fourth-quarter results.

However, after the market sell-off, valuations now appear very attractive relative to bonds and in absolute terms. The 12-month forward PE ratio is at 9.9x, a 20% discount to its historical average and now a 30% discount to global equities.

Our sector stance remains relatively well balanced to cope with the negative impact. We are overweight in industrials (more attractive than communication services) and utilities (solid EPS growth and an attractive dividend yield). We are underweight in communication services (stagnating revenues) and materials (stretched valuations and poor earnings momentum). At the country level, we are overweight on France (because of the luxury exposure which is the best performing sector) and underweight on the Netherlands (deteriorating earnings momentum). We are neutral on Germany, and negative on Italy, Spain and Belgium.

Fiscal response

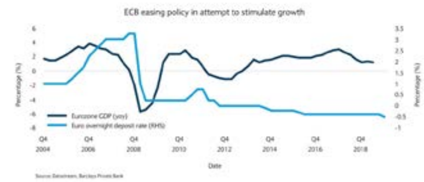
The European Central Bank has launched a Pandemic Emergency Purchase Program, backing its commitment to do “whatever it takes.” Fiscal policy makers are ramping up their responses too, with programs announced so far worth 16% of the GDP for the UK, 15% of the GDP for Germany, and 15% of the GDP for France. We believe these measures and policymakers’ willingness to do more, will help us avoid a global financial crisis-style credit crunch. So far, however, the market impact of widespread restrictions on personal movement has overwhelmed this set of policy responses.

Emerging Markets:

Containment measures in Europe and in the US should prove sufficient to halt the spread of the virus; we expect this status quo to extend well into May, and for some regions, into June. The virus may again spread out in China, based on foreign-based Chinese nationals travelling back home. Restrictions in Europe and the US could be reinstated intermittently for the remainder of the year.

In this scenario, government policy would not meaningfully off-set the lengthy demand shock, leading to a sharp rise in bankruptcies and joblessness. Companies would forgo significant revenue, and losses would be borne by shareholders, creditors, and banks. Given this and because Asian economies are not yet self-sufficient, economic growth could result into an L-shaped profile through 2020.

ECB easing policy in attempt to stimulate growth



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Sector Analysis

Basic Materials

- COVID-19 ramifications for the sectors include a sharp pullback in global economic activity. Valuations are discounted on the back of visibility and the negative impacts on economic growth. While first quarter earnings have held up relatively well, we would expect significant negative revisions as we move into the second quarter.
- Although near-term visibility is extremely limited and stocks could fall further, we believe certain sub-sectors are beginning to look attractive. In materials, we see the industrial gases industry, agriculture and paint companies as better positioned in this downturn.
- Oversupply is likely to be a continuing challenge for growth and pricing across many industries.
- Agriculture seeds and chemicals should see improved demand with better weather and trade.

Strategy: Concerns over the coronavirus and a potential slowdown in China have caused the materials sector index to lag the market this year. As of the end of March, the materials sector posted a total return of -28.2% versus -23.0% for the S&P 500.

A more discounted stock valuation is still possible. Once virus concerns lift, we would expect a sharp rebound in activity. Areas of potential concern are increased protectionism, slowing revenue growth and oversupply in several areas of materials.

Investment opportunities:

This sector is one of the most correlated to global industrial production. While production is getting back online in China, it looks set to take a steep fall in the US and Europe.

Consumer Staples

The defensive nature of the sector is appealing during the present turmoil. Investors look at consumer staples because of solid dividend payments which are presently attractive compared to the Bund and the 10-year treasury. After an initial run on products, consumer will spend less on essentials during periods of stress. Therefore, we expect sales volume reductions across the sector.

Europe: European consumer staples have a wide geographical exposure, which should be beneficial at the present. More importantly, most European consumer staples are lean and have efficiency programs running, with the aim of improving earnings growth.

Americas: The mass consumer environment in the US is challenging. The major risk includes a prolonged period of lockdown and supply chain disruption.

Investment opportunities:

The sector has been one of the best performers since equities began to plummet after the February 19 peak. Demand should remain relatively resilient for products that satisfy everyday needs, despite disruption to the economy. However, other sectors of the market appear better positioned if markets begin to bottom.

Given the overall competitive outlook for the sector, investors should seek companies with strong balance sheets, low financing costs, and a strong focus on products and services. Because of the high absolute valuation and the limited upside potential, high yield dividend stocks are at risk; companies to consider include AD, ABI, BAT, NESN, EL, MO, and PM.

Key figures for Europe:

Target values:

Present fair value (DJStoxx600): 309
E12 months value (DJStoxx600): 360
Upside potential: +16%

Key economic ratios:

GDP Growth 20 (E)	0.8
GDP Growth 21 (E)	1.2
CPI 20 (E)	1.2
CPI 21 (E)	1.3
P/E 2020 (E)	15.7
P/E 2021(E)	14.3
Div. Yield 2020	3.1
Div. Yield 2021	3.3

Most likely next short-term move:

DJStoxx600	flat/up
DJStoxx50	flat/up
SMI	flat/up
DAX	flat/up

Key names to look at:

Strong intellectual property:
- Roche
- Novartis
- Amadeus

High competitiveness:
- Siemens
- Daimler
- Gemalto
- Richemont
- Swatch

Sustainable dividends:
- ABN-Amro
- Imperial Tobacco
- Altria
- Philip Morris

Technology

Positive – but not immediately.

Very high earnings estimates leave little room for an immediate recovery. For now, relative valuations are also high, which makes us take a cautious view on the broader information technology sector. Lower business confidence, given macro uncertainties, could pressure the IT enterprise spending environment.

At present the major drivers are as follows:

- EPS revisions: Significantly negative.
- Buybacks: Future EPS increases are in question because of curtailed or even cancelled share buybacks.
- Demand: Going forward, demand across all major end markets, including corporate IT spending, smartphones, and semiconductors, will be lower.
- Against this backdrop, valuation for the sector and every industry group looks rich vs. the market, given current estimates across S&P 500 sectors.
- The likely decline in corporate confidence and significant exposure to cyclical industries will likely have the largest impact on hardware, followed by IT consulting and software.
- Price earnings ratios of software companies have re-rated sharply on an absolute and relative basis, despite a largely unchanged growth outlook.
- On the back of previous price erosion, semiconductors are most likely on the verge of a major EPS reduction.
- Once the economy is recovering, IT-related spending lags the overall capex cycle. Therefore, we would expect IT to recover only in a second phase.
- Overexposure: After a decade of exceptional strength, particularly in the last few years, many investors have over-weighted the sector due to the ongoing value creation. The new paradigm, with lower sales growth, may result in a constant selling pressure for the month ahead, as investors seek alternative sources of growth generators.

Investment opportunities:

Although the near-term is highly uncertain due to COVID-19, we believe investors should focus on technology companies that have attractive longer-term growth opportunities due to established franchises in large and secularly growing addressable markets such as software, cloud, and security. In this vein, we highlight Microsoft, Palo Alto Networks, Salesforce.com, Splunk, and Accenture.

Communications Service

While advertising spending could slow, the Internet giants – which comprise half the sector – should continue to benefit from the shift of ad dollars to digital platforms. In addition, we believe regulatory risks for Internet companies are overblown. The advertising-dependent segments within media (30% of the sector) could see slower growth, but higher demand for streaming services is an offset. Telecom (20% of the sector) is more defensive and should help buffer against market volatility.

Investment opportunities:

We currently believe many Communication Services companies face risks that outweigh their potential rewards, which is why we have a “hold” rating on most of the sector’s companies (GOOG, DI, NFLX, FB, AMZN).

Energy

The daily consumption of oil will plummet by 15 million to 22 million barrels in April as compared to a year earlier, according to estimates from some of the world’s most influential energy analysts. The crash has already led to refiners slashing processing, drillers halting output and storage tanks swelling across the world.

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“This will likely be a game-changer for the industry,” asserted a March 30 memo from Goldman Sachs Group Inc. analysts, including Jeffrey Currie and Damien Courvalin. “It is impossible to shut down that much demand without large and persistent ramifications to supply.”

The demand slump is being exacerbated by former OPEC+ allies Saudi Arabia and Russia pumping as much crude as they can in a battle for market share, heaping additional pressure on shipping, tanks and pipelines. Goldman sees around 20 million barrels a day flowing into storage in April, while IHS Markit expects the world will run out of space to store oil by the middle of the year.

Integrated oil companies are large producers of oil and natural gas, but their diversified business segments reduce their earnings' sensitivity to changes in commodity prices. This, combined with their strong balance sheets, makes integrated oils the most defensive subsector within energy. We believe integrated oils are appropriate as core holdings for long-term energy investors. In uncertain times, investors may seek integrated oils for their defensive qualities.

Investment opportunities:

The collapse in oil prices due to the inability of Saudi Arabia and Russia to agree on a production cut darkens the outlook for the sector, and oil demand has slowed substantially as the coronavirus spreads globally. While conditions are challenging, oil prices are far below sustainable levels and are primed for a recovery when markets stabilize.

In terms of names to look at, we favor global up- and down-stream operators, as they are most likely the only players who can endure a lasting price war with Saudi Arabia.

We favor names such as: BP, RDSA, BKR, CVX, COP, XOM, SLB

Financial Services

On a year-to date basis, Financials have underperformed the overall market. There a number of reasons for this: a) Interest rate risk – leading to no margin expansion for lenders, b) A contracting economy is leading to lower business volumes, and c) Credit risk – higher unemployment and business disruption increases the credit default risk.

The overall cost of concerns a) and b) is about 20% of the 2020 EPS, but valuations were discounted by about 30%. The cost resulting from an eventual credit default cannot be measured at this time, since it will depend on the length of lockdown and how industries recover overall.

Clearly, corporations will suffer from lower free cashflows, especially in travel, leisure, and energy. The global size of credit exposed to any kind of credit in banks and credit institutions is not yet known.

On the positive side, we note that ever since GFC, financials were required to increase capital reserves. We note that European players were required to have higher capital reserves as compared to US Banks, but in general, the capital reserves are about twice the level of pre-2007.

It is opportune to stay neutral on financials until more light is shed on the case. Finally, we note that political/regulatory risk is a pendulum that is swinging from one side to the other. While business conditions were relaxed under the present administration, a change in administration could reinstate some of the previous guidelines and rules, thereby changing the long-term operational outlook.

Key figures for USA:

Target values:

Present fair value S&P 500:	2'585
E12 months value S&P 500:	2'750
Upside potential:	+6.3%

Key economic ratios:

GDP Growth 20 (E)	1.1
GDP Growth 21 (E)	2.1
CPI 20 (E)	2.1
CPI 21 (E)	2.0
P/E 2020 (E)	20.1
P/E 2021 (E)	18.2
Div. Yield 2020	1.9
Div. Yield 2021	2.0

Most likely next short-term move:

S&P 500	flat
Nasdaq	float

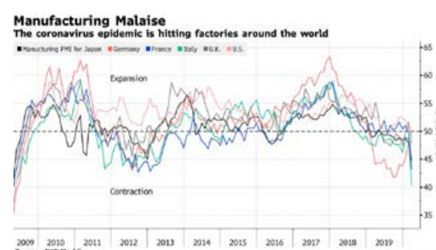
Key names to look at:

Strong intellectual property
- VISA
- Mastercard

Technology:
- Microsoft
- Micron Technology
- Nvidia
- Apple
- IBM

Financials:
- VISA

Average ROI of Banks recovered but remains stable!



Investment opportunities:

The fall in interest rates to global-financial-crisis-era lows, and the sharp slowdown in the economy will drive a steep drop in profits for banks. But banks are well-capitalized and should see a sharp rebound when market volatility subsides.

We continue to have particular interest in secular growth companies that should emerge from the crisis with strong long-term growth prospects. Our preference goes to American Express, Intercontinental Exchange, MasterCard and Visa.

Moreover, investors seeking deeply discounted valuations with strong expense leverage and robust capital should consider an engagement in Ameriprise, Capital One, and State Street.

Healthcare

A well-developed country can only show its healthcare performance during a crisis with a proactive stance of taking care of its most vulnerable citizens!

Much remains to be done in DM to achieve respond to the above, ranging from protecting populations to supporting patients, families, and communities. To address the lacking healthcare set-up, the global healthcare sector will need to respond to an evidence-based, leveraged (business) model. The aftermath of the coronavirus (COVID-19) outbreak has exposed the shortcomings of DM healthcare systems, particularly its ability to handle large-scale epidemics. Regrettably, proactive leadership in healthcare was not the key objective in past decades.

To address these gaps, governments will most likely drive forward in an accelerated manner with the implementation of policies to modernize their healthcare systems, improve the quality of drugs and services, and continue to lower medical costs through digitalization.

We also expect the coronavirus epidemic to trigger a change in people's behavior towards health and the way healthcare services are consumed and requested.

Investment opportunities:

The healthcare market is fragmented as its players are striving to increase their market share through such strategies as improvements to existing solutions and software platforms, development of new platforms, and strategic alliances with other market players. Therefore, several players account for significant individual shares in the market.

While political risks for the sector have improved as prospects fade for Medicare for All, there is still uncertainty about the outlook for drug price regulation, which will likely persist beyond the US election, regardless of who wins.

Industrials

The picture looks devastating: French passenger car registrations dropped 72% compared with the previous year, while German car-parts giant Continental AG closed 40% of its operations following transport restrictions and shutdowns around the globe.

The entire industrial value chain in the worldwide manufacturing industry is concerned. The 2nd quarter outlook will be very different from that of previous years. A recent statement by the CEO of the French car part manufacturer Valeo SA is self-explanatory: “We must be prepared for a very, very difficult next few months.”

Uncertainty across the entire sector is high, yet valuations of many stocks already look very interesting. The sector is approaching the 15-year average for the 12-month forward P/E

Key figures for Asia:

Target values:

Present fair value MXAPJ:	560
E12 months value MXAPJ:	650
Upside potential:	+16%

Key economic ratios:

GDP Growth 20 (E)	3.8
GDP Growth 21 (E)	4.8
CPI 20 (E)	3.9
CPI 21 (E)	3.3
P/E 2020 (E)	14.4
P/E 2021 (E)	12.8
Div. Yield 2020	2.4
Div. Yield 2021	2.5

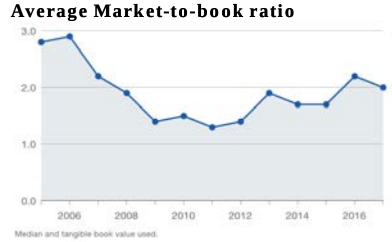
Most likely next short-term move:

MXAPJ Up

Key names to look at:

- Tencent
- Alibaba

Average Market-to-book ratio



ratio. We see this as a good entry point to add exposure to the sector. In the transport sector, investors have to be very selective. The negative shock to travel will have an impact on weaker airlines, but this just accelerates a trend that started long ago. Fundamentally strong airlines will benefit from the market consolidation and will take up the aircraft they have on order to sustainably grow their network. Low oil prices also help the industry. Given the increased pressure on governments, we see possibilities in the infrastructure sector as beneficiaries of potential fiscal stimulus.

The short-term risk is obviously linked to an escalation of the coronavirus and/or a longer-than-expected impact on the industrial supply chain. Weak oil prices could also have a negative impact on corporate spending in this sector.

Investment opportunities:

The sharp slowdown in the global economy does hit the sector particularly hard, but valuations are attractive valuation. Medium term investors may look at: United Parcel Service, CSX Corp, Republic Service Group, Rheinmetall, Safran SA, and Siemens.

Consumer Discretionaries

According to a recent study undertaken by McKinsey & Company, American consumers are still optimistic about the economy, but they're already reporting changes in their income, spending, and behavior.

The containment of COVID-19 is showing its first economic effects, albeit at the macro and sector levels, but also on employment and more importantly, on consumer behavior.

The data shows the following:

- 88% of Americans estimate (based on mid-to-end-of-March data) that the impact of COVID-19 will last more than 2 months
- Behavioral shifts to consumer media became even more pronounced (up by 5 points)
- Online spend to increase on home hardware (HH) supplies, groceries, and home entertainment
- Physical spend decreased, mostly for jewelry and accessories, appliances, apparel, footwear, alcohol, and beauty products

Investment opportunities:

The virus-driven hit to the economy will likely lead to slower consumer spending as unemployment rises. Still, secular growth in e-commerce is a net positive driver for the sector.

We favor companies that benefit from "stay-at-home" such as: Netflix, Amazon, Akamai Technologies, Zynga Inc, Ubisoft Entertainment, Citrix Systems, Teamviewer AG

Utilities

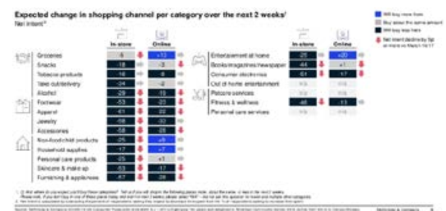
Utilities are by definition a defensive play sector; its attractiveness during times of increased uncertainty and very low interest rates has proven to be correct. However, relative valuations are higher than long-term averages. The sector will likely lag when market volatility subsides.

Investment opportunities:

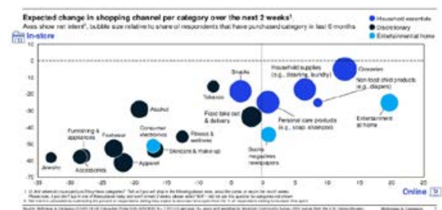
The recent spike in volatility may have encouraged investors to seek the perceived safety of the Utilities sector, but we continue to believe that this is not the right move. A growing economy and rising interest rates don't make for Utilities performance, and we therefore believe underperformance will likely continue. For those who still wish to seek exposure to the sector, it may be opportune to consider the following names: in Europe, Centrica, Fortum, E.On, and RWE; in the US, American Water Works, DTE Energy, Excelon, and Nextera Energy.

Stay-at-home to be become a winner

... details of the expected shopping channel changes ...



... with basics and entertainment to shine.



Foreign exchange

Currencies

Currency volatility is par for the course with spectacular moves in equity markets Meanwhile, volumes analyses indicate that in the initial phase, volatility was caused by closing out carry-trades, while in a second phase, the traditional flight quality, so to the USD, on the back of renewed QE, caused some major market movements.

To assess how things will develop going forward, we need to identify what has changed from the trends that remain unchanged.

The main thing that is still unchanged is the market's mistrust of economic conditions in Europe. What has changed are the risks to the US economy and the expectation of Fed rate cuts. That means the USD should be weaker, but also the Euro should be weaker – and in fact, both are!

To illustrate that point, note the graph showing the EURUSD spot rate, including the rally of the Euro in recent weeks. The second line on the graph is the EURUSD 10-year forward rate. This line shows the market clearing price for an agreement completed today to trade EUR vs. USD in 10 years. That price declined from 1.50 in early 2018 to less than 1.30 as of now. This, in our view, is a strong reflection of the mistrust in the long-term stability of the Eurozone. The recent period of EURUSD rally left this long-term forward rate unchanged, meaning that long-term faith in the Eurozone relative to the US remains in the doldrums. That perspective leaves the EURUSD spot rate as a moving ball of shifting interest rate expectations, with a pretty solid anchor in the long-term forward rate. We expect this measure to rise again, if global exports rebound and lift inflation expectations for the currency union.

Going forward, investors will probably look more closely to the safety of US assets. The US dollar, on the other hand, has definitely lost its yield advantage and part of its refuge currency status, which supported USD demand in recent years. Without this yield advantage, there is no additional reason why a non-US investor should hold USD!

The recent USD strength was due to an exclusively positive outlook for the US economy, which seems to be gone for now. We calculate more upside potential for the EUR (compared to the USD) because a rebounding economy will promote a more positive outlook for exporter's currencies, and Europe is dominant in this field.

Investment considerations:

We see a clear bias for EUR/USD to appreciate towards 1.20 medium term. But the tide should turn slowly in 2H20, either due to easing trade tension and improving global growth or due to more pronounced Fed easing.

In the coming months, we recommend positioning for a 1.15 upside barrier and for a downside around 1.10.

Target values in 3 months:

EUR/USD:	1.1250 - 1.1750
GBP/USD:	1.2500 - 1.3500
USD/CHF:	0.9750 - 1.00

Target values in 12 months:

EUR/USD:	1.17 - 1.25
GBP/USD:	1.30 - 1.40
USD/CHF:	0.90 - 1.00

Purchase power parities:

EUR/USD:	1.28
GBP/USD:	1.56
USD/CHF:	0.93
EUR/CHF:	1.19

Most likely next move:

EUR/USD	down
GBP/USD	down
USD/CHF	down

Target values in 3 months:

Oil:	\$75 - \$80
Gold:	\$1,500

Target values in 12 months:

Oil:	\$75 - \$80
Gold:	\$1,600

Upside potentials:

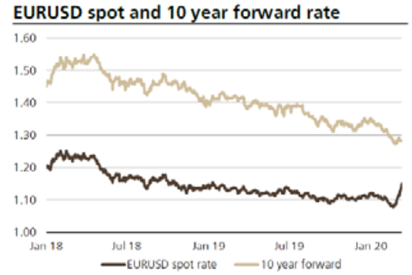
S&P GSCI	up
Oil	up
Gold	up

Next most likely move:

S&P GSCI	up
Oil	up
Gold	up

Commodity related stocks:
n/a

EURUSD spot and 10 year forward rate



Source: Refinitiv, UBS, as of 9 March 2020.

Energy

Simultaneous shocks on both the supply and demand side have roiled the oil markets. Demand has plummeted due to COVID-19 related effects, while supply will rise sharply following the expiration of the OPEC+ production cut deal and a subsequent Saudi-led market share war. This will result in a massively oversupplied oil market in the coming months. Global oil inventories will build rapidly and meaningfully, potentially testing the limits of global storage capacity.

Oil prices have already moved sharply lower (down 54% in the month of March). We project oil prices could move lower still in the coming weeks, but will begin to move higher in 2H20. Oil demand should recover due to lifting of virus-induced travels restrictions and monetary and fiscal support from governments. Our base case is that mobility restrictions in Europe and the US will ease in 2Q. This and ongoing recovery in China should support a rebound in oil demand.

On the supply side, US production growth will likely reverse sometime in 3Q or 4Q. We also believe it is possible that OPEC+ could return to the negotiating table to reconsider a production cut deal at some point. Timing is unclear, but we believe it is unlikely before late 2020.

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Capital market assumptions

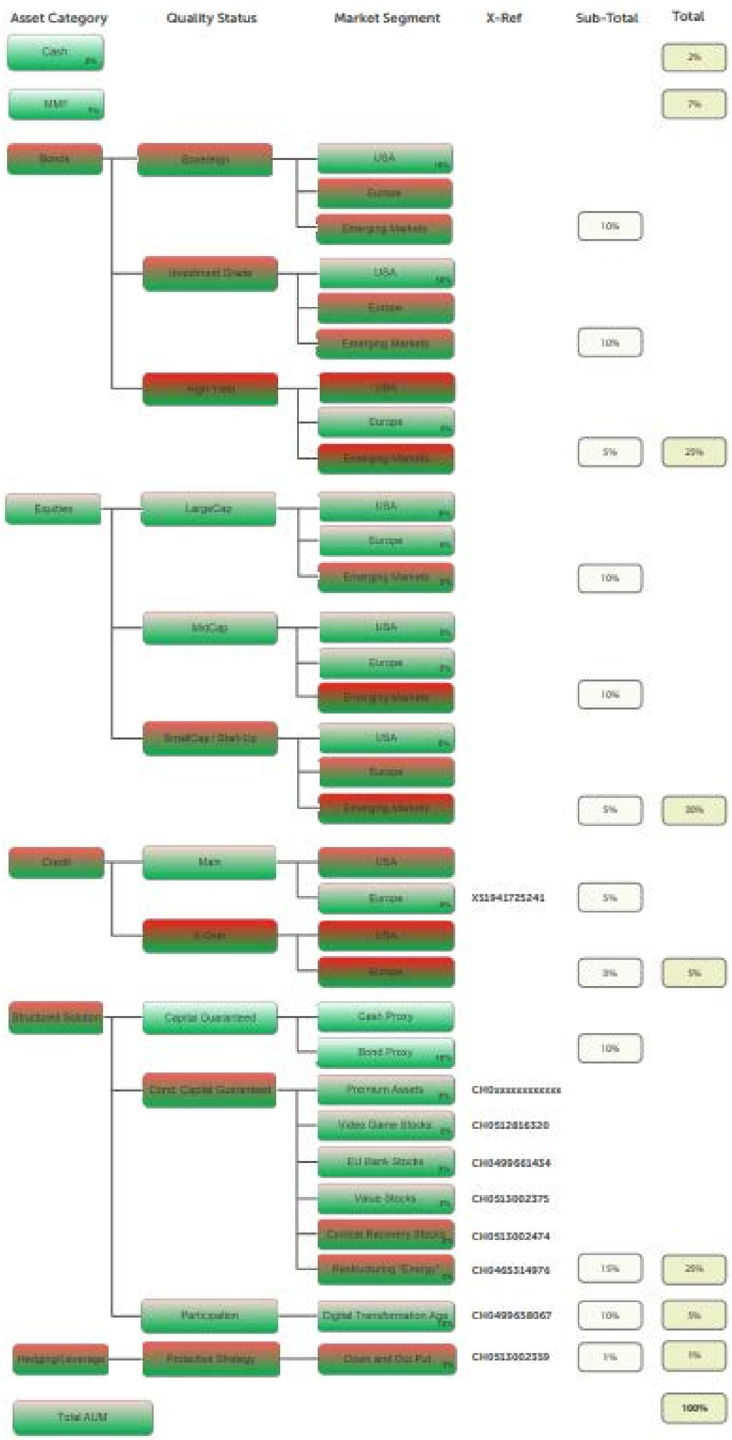
Return forecasts

Forecasts are in local currency (except EM equities); all figures are annualized

	Forecasts for the next 7Y			Average returns over the past 10Y	
	Return	Vol		Return	Vol
Cash USD	2.50%	0.00%		0.80%	0.40%
Cash EUR	0.30%	0.00%		0.10%	0.50%
Fixed income					
USD High grade bonds 5-10Y	2.60%	5.00%		5.00%	4.10%
EUR High grade bonds 5-10Y	-0.20%	4.20%		4.40%	3.90%
USD Inflation linked bonds	2.40%	4.70%		3.00%	3.30%
USD Corp bonds (IG)	3.30%	4.40%		4.80%	2.90%
USD High yield bonds	4.70%	9.70%		8.40%	6.10%
EUR High yield bonds	2.30%	8.70%		8.70%	7.30%
USD Senior loans	5.70%	6.90%		5.50%	3.50%
EUR Senior loans	3.50%	6.30%		6.00%	3.10%
EM Sovereign bonds (USD)	4.90%	8.60%		7.40%	6.30%
Equities					
US	5.70%	15.20%		13.50%	12.70%
EM (USD)	9.20%	20.70%		3.70%	17.00%
Eurozone	5.10%	17.30%		7.30%	14.40%
UK	6.00%	16.30%		7.30%	11.50%
Japan	4.60%	19.30%		7.80%	17.20%
Switzerland	4.50%	14.00%		8.40%	11.00%
Alternative Solutions					
HF (FOF, USD)	3.50%	5.20%		2.90%	3.90%
Alternative, other risks (USD)	7.20%	10.00%		7.80%	7.20%
Alternative, Private Estate (USD)	7.90%	9.20%		9.40%	5.10%
Alternative, Private Equity (USD)	10.20%	14.50%		13.90%	8.10%
Alternative, Private debt (USD)	8.20%	4.50%		10.20%	4.70%

Bloomberg, JPMorgan, MSCI, HFRL, BAML, UBS, IRISOS

Base-case Allocation USD Balanced



Disclaimer: Allocation may change as a result of the risk optimization; past performance is no guarantee of future returns.

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Asset Allocation Preferences – April 2020

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas Europe EM			The Materials sector has been sensitive to fluctuations in the global economy, as well as concerns about US-China trade and COVID-19. Accommodative monetary and fiscal policies may eventually support global economic growth. Recent trade agreements have eased some trade uncertainty, but the sector still faces significant challenges. Earnings are expected to recover after a sharp contraction in Q1 and grow moderately, boosting profit margin, yet wage costs are expected to rise as skilled-labor shortages will occur in certain segments of the market.
Consumer Staples	Americas Europe EM			The sector historically has outperformed during periods of economic slowdown and uncertainty, as investors are attracted by the perceived relative stability of the group. After all, consumers tend to buy food, soap and laundry detergent regardless of economic conditions. However, the sector's relative safety has prompted investors to push valuations to above-average levels. A supply-chain disruption related to the coronavirus could affect already slim margins in much of the space.
Consumer Disc.	Americas Europe EM			The sector has a number of industries with a fair amount of exposure to China – such as hotels and leisure, autos and auto components, and apparel. However, those industries make up a relatively small weight in the sector, which also includes internet retail. Despite the overconcentration of internet companies in the sector and a weakening sales outlook, we judge fundamentals to be positive for the Consumer Discretionary sector, as some of its core underpinnings remain upbeat.
Energy	Americas Europe EM			A renewed rise in the value of the US dollar also has pressured the energy sector amid the pullback in oil prices, resulting in weak relative performance, compounding multi-year underperformance. With the secular issues that the sector faces, concerns about slow global growth is yet another headwind to the sector. While this has led to attractive valuations from a historical perspective, very poor fundamentals lead us to believe that it's a value trap.
Healthcare	Americas Europe EM			While there has been strong relative performance recently, the current discount to the overall market in numerous valuation metrics remains attractive; the sector has generally traded at a premium to the market over the past 15 years. The durability of Healthcare sector earnings during economic downturns tends to lead to outperformance during periods of economic weakness. We think that solid macroeconomic factors and attractive relative valuations mean an outperform rating for the sector is appropriate.
Financial Services	Americas Europe EM			Topline revenue growth may prove to be elusive as regulatory burdens remain high, and areas like asset management and brokerage services suffer from severe price competition and low short-term interest rates. Additionally, the sector's sensitivity to interest rates and the stock market could translate into sharp underperformance, should we see a significant pullback in the market. Payment services remain attractive investment opportunities.
Industrials	Americas Europe EM			The sector has suffered from concerns about slowing global economic growth, with industrial output faltering as a manufacturing downturn has broadened globally. This has prompted business leaders around the world to put capital spending on hold, whilst stalling revenue growth. While fundamentals were extremely good pre-crisis, corporations are expected to continue to work on more efficient equipment to help offset weaker productivity once COVID-19 has passed. Rebuilding inventories could signal the start of new cycle.
IT	Americas Europe EM			Capital expenditures have been below trend for several years, and a return to more normal spending levels would boost the sector. Rising wages, including an increased minimum wage, could accelerate this trend, as companies may turn to technology to replace increasingly expensive human workers. Consumer confidence has generally remained strong, but we are waiting for new data that might reflect the outbreak of the coronavirus, which might disrupt the replacement market for mobile applications.
Com. Services	Americas Europe EM			While these companies enjoy significant competitive advantages due to their dominance in their respective business lines, there are also emerging antitrust risks. The rollout of fifth-generation (5G) cellular wireless technology could increase demand, as 5G is expected to increase speeds and allow for more exposure to the "Internet of Things" and automated car technologies – increasing growth potential. However, upgrading networks will require substantial capital investment. This makes the Communication Services companies face unique risks.
Utilities	Americas Europe EM			Utilities stocks are among the most positively affected by falling interest rates because investors seek higher yields, the sector has high fixed costs and the underlying activities are capital intensive. The sector has experienced good momentum relative to the other sectors – both on a short- and long-term basis – which could continue if interest rates continue to fall. While defensiveness can be attractive in uncertain times, valuations are n0t. In fact, they have risen to well above historical levels, both on an absolute basis and relative to the other sector.

Expected total costs of running investment strategies with our company:

Estimates based on yearly activities (in % of total AUM)	Conservative	Balanced	Dynamic	Tailor-Made
Year with low activity *	1.20	1.49	1.78	2.03
Year with average activity *	1.39	1.68	2.15	2.55
Year with high activity *	1.78	2.86	3.53	3.63

***1)** Subject to change according market conditions, product strategies, currency diversification, size of AUM, and product turnover.
Figures are indicative only and not binding, by any means, for the company.

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Sources:
Analysis and comments: Bloomberg, Reuters, Natixis, UBS, BNP-Parisbas
Data and graphical items: Bloomberg, Reuters

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