thenavigator

Autumn 2020

ON THE ROAD TO NIRVANA

I used to hate these kinds of maths problems at school, but let's assume two people are trying to get to the town of Nirvana. They are driving similar cars and weigh the same, while traffic conditions and distances are identical. Driver A takes the coastal route while driver B prefers the countryside. Which route is superior and who arrives first?

The answer is, of course, neither. They both arrive at the same destination at the same time, but the routes are just different.
I watched the US election live and it was riveting for the first 30 hours but afterwards (perhaps due to fatigue) became more and more like watching paint dry. That said, I have a feeling that many might welcome a bit of boredom. I know that things are somewhat emotional at the moment in the wake of the election, but my key takeaways were the impressive amount of voter participation and how Trump won the rural areas while Biden was victorious in the cities and suburbs. The passion on both sides of the argument was truly impressive – if only this could be harnessed constructively it would be truly awesome!

BACK TO THE FUTURE

Looking back to the not too distant past, there was a recent time when European stocks outperformed their US counterparts: 2017.

Source: Bloomberg – Major equity markets versus US, 2017–2020

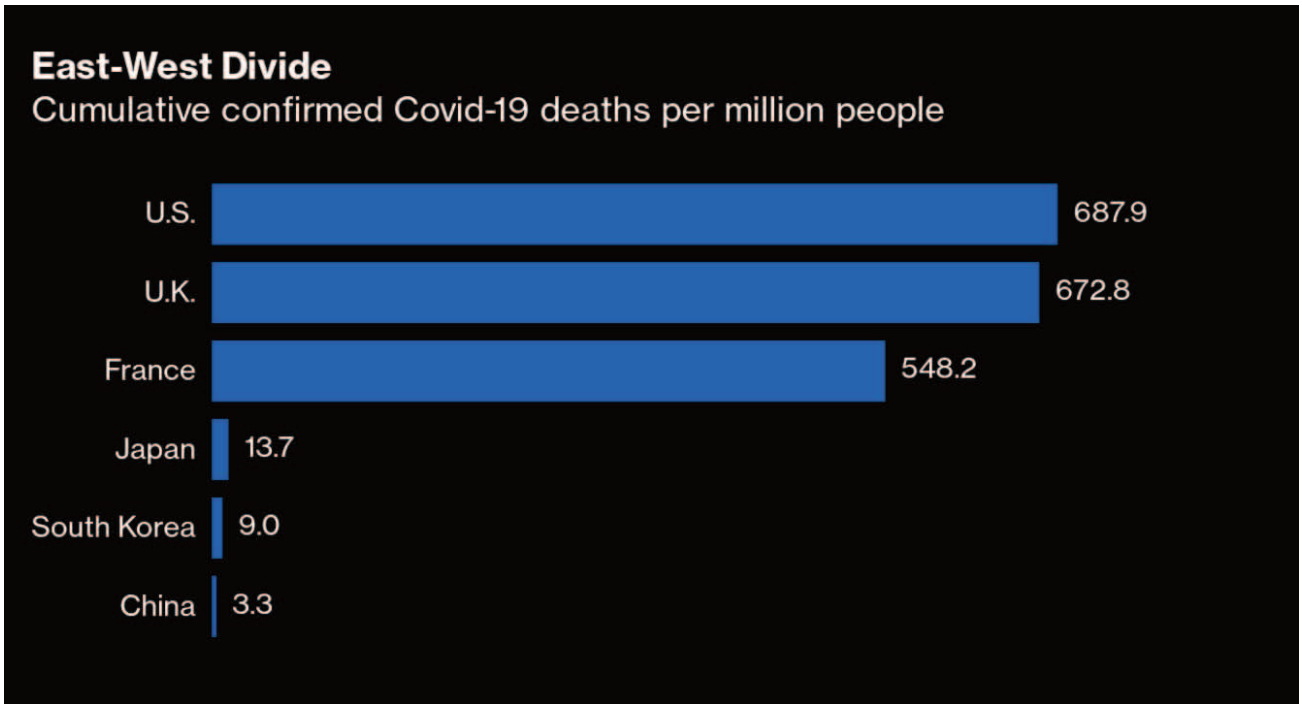
The advent of tariffs and trade wars along with the relatively low exposure to technology companies – specifically those stay-at-home home stocks that have been key beneficiaries of the pandemic – have only accelerated the underperformance of European equities.[1]

While there can be no doubt that the pandemic has accelerated our use of technology and has, at least temporarily, led to the deurbanisation of our cities (at least in the short term), it has also sparked other – not so obvious – changes. People drive more and are avoiding public transport, but more importantly Covid-19 has prompted the next most important step towards a fiscal union. The genie is out of the bottle and is unlikely to be put back in. The EUR 1.8 trillion European budget that has just been approved includes a significant amount of stimulus to help those countries hard-hit by the pandemic.
Of course we in Europe are currently back in lockdown once again, or more accurately "lockdown light", with Germany, for example, allowing shops to remain open. Meanwhile other countries have allowed manufacturing to continue.

Europe is of course paying the price for summer holidays during which lockdown-fatigued residents let their hair down, and we are now seeing the Covid-19 spike.
Of course, despite the media coverage these are not actually waves of Covid-19, just waves of human stupidity when we forget the virus is still out there and let our guard down.

In reality we will probably see another spike in cases in the USA (the US curve seems to be a couple of weeks behind Europe), perhaps especially around the Thanksgiving period, and while I am truly sorry to have to do so, I urge you all to be prudent.

I now think this may be the last lockdown in Europe, partly because of pushback from the populations at large given how governments (even efficient ones like the administrations in Germany and Switzerland) have made a real mess of things by squandering the time given to them and not initiating proper testing, tracing and isolation, measures which have been incredibly effective in other countries where life is now almost back to normal.[2]

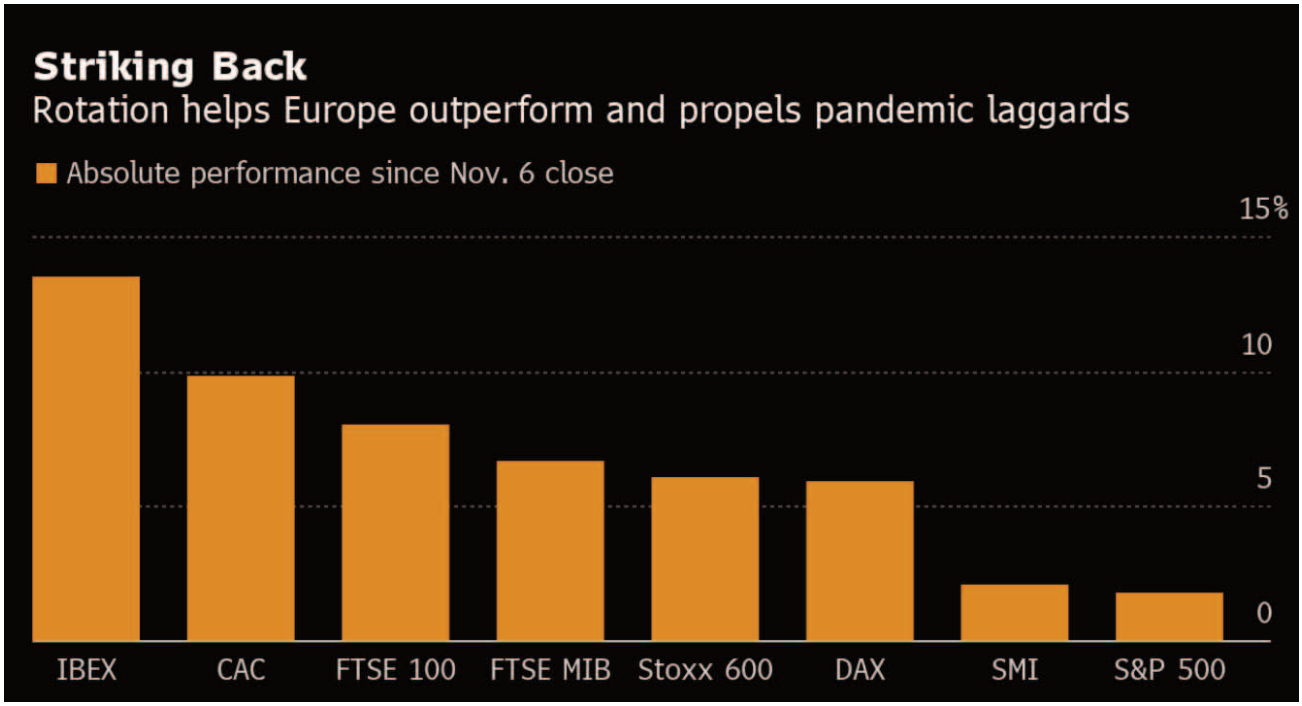


Source: Bloomberg Opinion, Our World in Data – East-West divide, cumulative confirmed Covid-19 deaths per million people, as at 30 October 2020

Then of course there is the vaccine. While the recent Pfizer announcement is highly encouraging – especially the efficacy rate of over 90% – I expect several more positive announcements regarding vaccines before year-end. Of course, many questions remain unanswered and vaccines are not an immediate solution, but from a psychological point of view this development puts a timeline under the pandemic and gives us all hope that this nightmare will eventually be over. In the meantime therapeutics are getting better, as is our understanding of the virus – how else would you explain the spike in infections but the relatively low increase in the death rate?

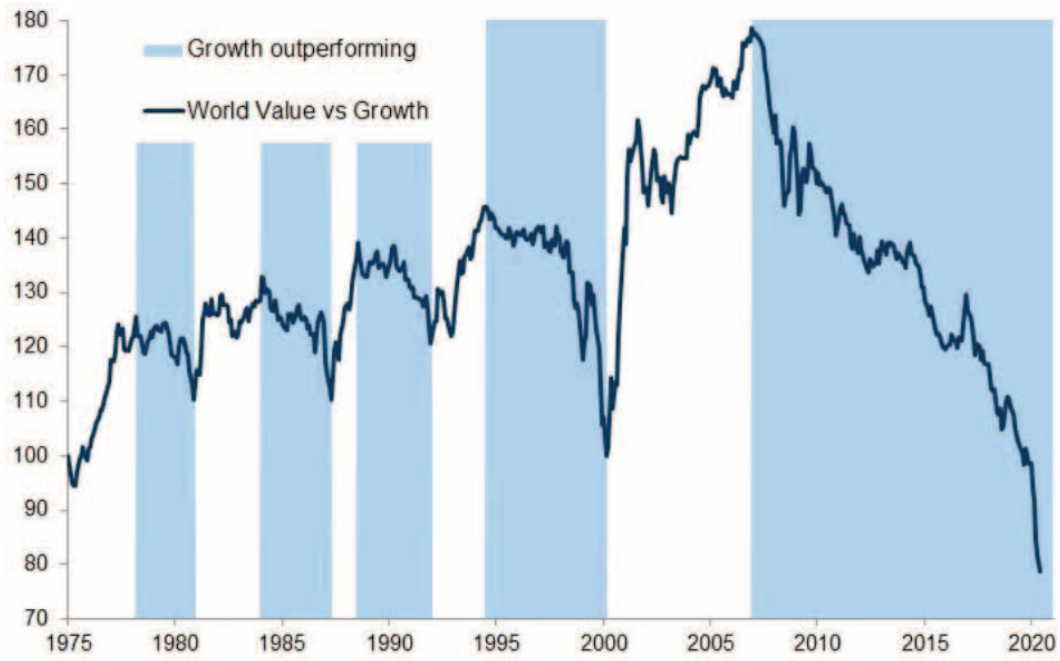
We should never forget that markets are forward-looking indicators.

While many investors are mainly switching between stay-at-home stocks and plays on the economy reopening, this is a rather dangerous approach and highly akin to a moth getting too close to a flame – just look at what happened after the positive Pfizer vaccine announcement.[3]



Source: Bloomberg – Performance of pandemic losers, 6 November–13 November 2020

This has taken place over a very short period of time and in my opinion is actually due to a short-term repositioning rather than the large-scale rotation that I expect to occur over a multi-year period (perhaps similar to 2002-2007), in which economically sensitive stocks significantly outperform (especially after sharp recessions).

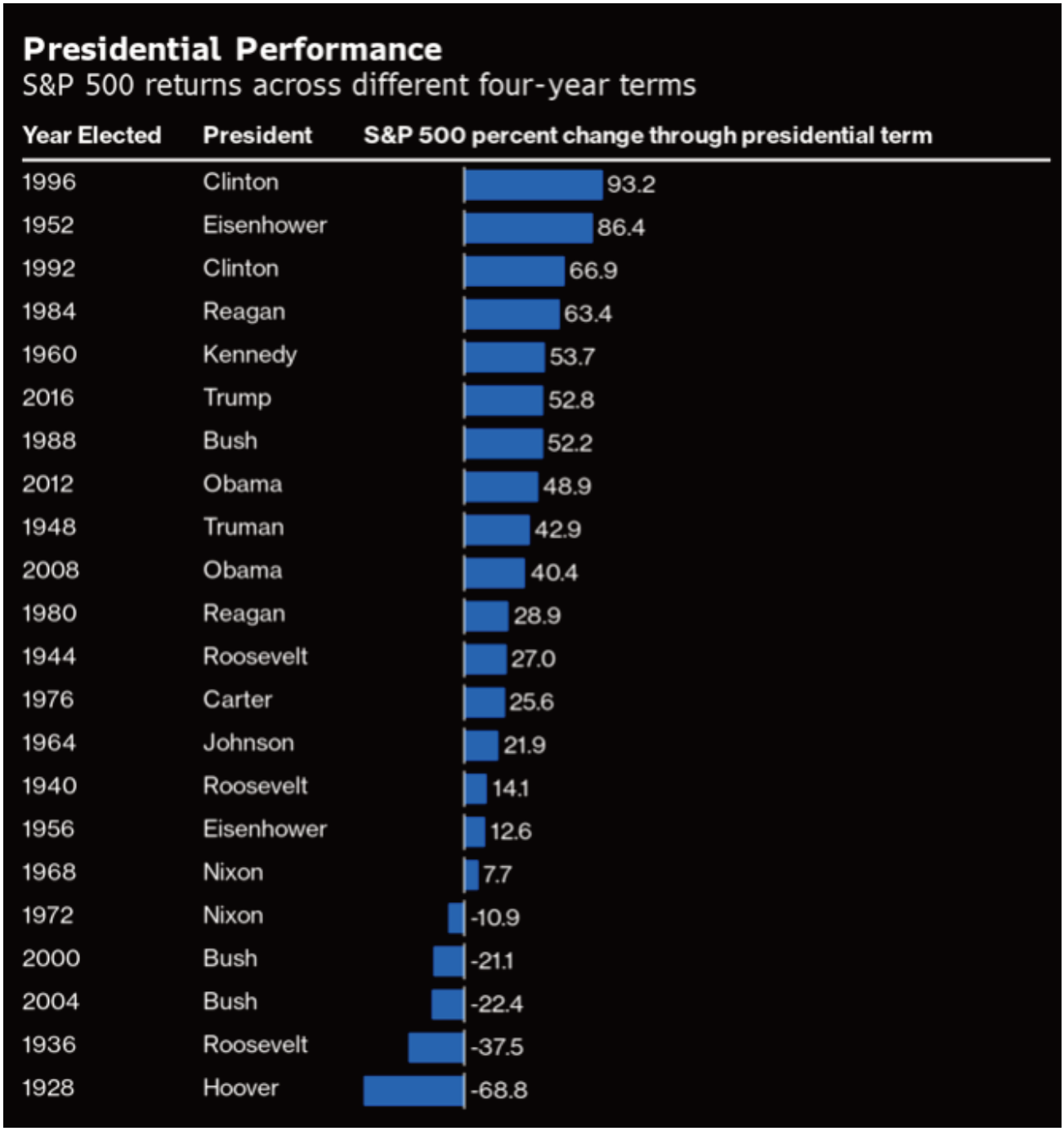


Source: Datastream, Goldman Sachs Global Investment Research – Relative price performance in local currency, 1975–2020

Of course, investors can continue to behave like dogs chasing cars (partly due to the Robin hood phenomenon, index hugging and the appalling financial media), but at some point in time positive vaccine news, rising bond yields and a continued V-shaped recovery are likely to lead to an awful accident for some of the more highly valued sectors of the market.

While continued generous fiscal and monetary support along with recovering earnings are likely to lead to higher markets, especially in Europe due to its exposure to economically sensitive stocks, investors should be prepared (particularly in the US) for Main Street to fare significantly better than Wall Street.

Looking even further into the future, there are some very interesting similarities between the current secular bull market, which is only half-way through at the moment, and the secular bull market of 1982–2000.
In the second half of that bull market, the US had a president (Bill Clinton) who led a divided government, but markets did rather well during this period (the first phase was under Reagan).[4]



Source: Bloomberg – Presidential performance, S&P 500 returns across different four-year terms, 1928–2016

The second halves of secular bull markets are more powerful than the first halves. Judging by how poorly this bull market has performed compared to the last secular bull, we have a lot of ground to make up.

Source: Advisor Perspectives, S&P historical composite: 1871-present, inflation-adjusted secular highs and lows, as at 31 October 2020

The Navigator
has been written by:
Peter Ahluwalia, Partner
Chief Investment Officer

[1] Bloomberg First Word, European Equities Come Up Short During Trump Era: Taking Stock, M. Msika & J-P. Barnert, 02.11.2020
[2] https://www.bloombergquint.com/gadfly/don-t-ignore-the-good-news-on-covid-19-from-asia
[3] Bloomberg First Word, Laggards of 2020 May Have a Shot at Catching Up: Taking Stock, M. Msika, 12.11.2020
[4] https://www.bloomberg.com/news/articles/2020-10-31/market-s-collected-wisdom-on-presidents-is-often-dead-wrong

Disclaimer

Important Information

The information in this material has been approved by swisspartners Advisors Ltd. ("swisspartners Advisors"). As a firm providing discretionary asset management services to U.S. clients, swisspartners Advisors is registered under the U.S. Investment Advisers Act of 1940 with the U.S. Securities and Exchange Commission ("SEC") as an investment advisor. Nothing in this material is a recommendation that you purchase, sell, subscribe or hold, or an offer or solicitation of a purchase or sale of any security, futures, options, other financial instruments or other investment, that you pursue any investment style or strategy or buy any other product or service. The value of, and income from, your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. This material does not take into consideration the specific investment objectives, financial situation or particular needs of any person that enters into a relationship with swisspartners Advisors. Nothing in this material is or is intended to be investment, accounting, tax or legal advice. You should consult with your own advisors concerning such matters. swisspartners Advisors does not provide legal, tax or accounting advice. The information contained herein was obtained from sources believed to be reliable. Although reasonable care was taken in gathering the information and formulating the opinions contained herein, swisspartners Advisors does not make any representation whatsoever as to its accuracy or completeness and accepts no liability for any loss arising from the use of this material. The information, opinions and estimates expressed herein reflect a judgment as of its original publication date and are subject to change without notice. No representation or warranty, expressed or implied, is made by swisspartners Advisors regarding future performance. The value and income of any securities or financial instruments can go up as well as down. The market value of securities or financial instruments may be affected by several circumstances, including among others, changes in economic, financial or political factors, time to maturity, market conditions and volatility, or the credit quality of any issuer or reference issuer. Foreign currency rates may have a positive or adverse effect on the value of any investment. Investors assume all risk and some or all of the amount invested may be lost. This material is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or subject swisspartners Advisors to any registration requirement.
IRS Circular 230 Disclosure: swisspartners Advisors and its affiliates do not provide legal or tax advice. Accordingly, any tax-related discussion contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with promoting, marketing or recommending to any person any transaction or matter addressed herein or for the purpose of avoiding U.S. tax-related penalties.

Forward-Looking Statements

This document contain "forward-looking statements" which are based on our belief, as well as on a number of assumptions concerning future events based on information currently available to us. These statements involve certain risks, uncertainties and assumptions which are difficult to predict. Consequently, such statements cannot be guarantees of future performance and actual outcomes and returns may differ materially from statements set forth herein. All assumptions and underlying materials are available for inspection.

For more information, please visit our website at www.swisspartners-advisors.com |