PLEION
GESTION DE FORTUNE

PERFORMANCES 2020	
EQUITIES	
MSCI World	+2.0%
S&P 500	+3.2%
Stoxx 600	+2.2%
Nikkeï	+0.9%
SPI	+3.6%
China	-4.8%
Emerging	-2.3%
BONDS	
CHF Corp	+0.8%
US Govt	+1.7%
US Corp	+1.8%
US HY	+0.5%
EUR Gvt	+2.0%
EUR Corp	+1.2%
EUR HY	+0.4%
CURRENCIES	
USD index	+2.0%
EURUSD	-1.9%
EURCHF	-1.2%
USDCHF	+0.7%
USDJPY	+1.2%
EM FX	-1.9%
COMMODITIES	
Gold	+3.1%
Silver	-0.1%
Brent	-16.7%
CRB index	-8.7%

Did you get your certificate ?

Filtering investments

The process of scrutinizing a portfolio's holding, according to various criteria, is not new. It gained pace in the 90's. For instance, quoted companies of defense, pharmaceutical and tobacco sectors had been disregarded by certain investors, based on Ethical standards, i.e. because of their ¨brutal¨ or unhealthy activities. The charge was essentially led by hedge funds, activists or NGOs. Most of the times, these minority shareholders used General Meetings or press conferences to complain. Endowments and sovereign wealth funds adopted not only similar, but more demanding standards of selection for their investments. Platforms, allowing to compare funds and performances gradually emerged.

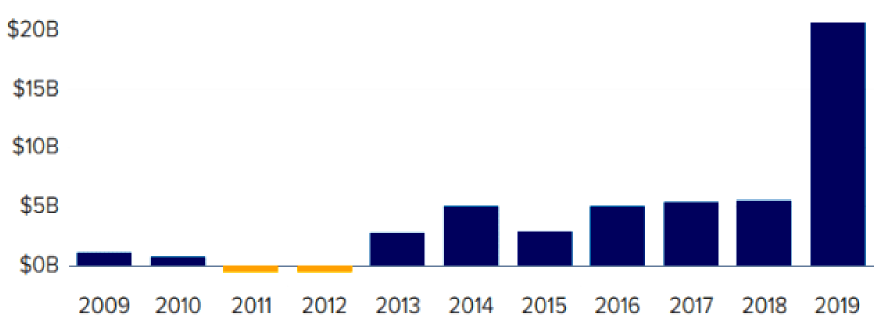
For a lot of institutions, screening investments is not new

Early 2000: the acceleration

By the turn of the century, the asset/wealth management industry largely adopted new quantitative methods to assess and monitor risks. A consecutive sophistication of investment processes of pension funds occurred. The number of filtering criteria available to sophisticated investors shot-up. A democratization of these developments also took place: retail investors have also been offered a much larger range of financial products, with quantitative or qualitative flavor for their investments.

According to MSCI, the term ESG was first coined in 2005. But, in the US, lots of new funds and ETFs have been launched in the last couple of years, as a reaction to Trump dismantling of environmental policies. Indeed, Trump administration has targeted almost 100 environmental rules as part of its regulatory rollback. Last January, for instance, it moved to overhaul the National Environmental Policy Act. The idea is to facilitate federal bodies green-lighting infrastructure plans without considering climate change...

Inflows to sustainable funds



Source: CNBC

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Lately, central banks also joined the scene, courtesy of quantitative easing policies. Their irruption spells a new stage, because they are public entities, allowed to impose investment rules and change regulations. Therefore, the tentative discriminating factors they would use when investing would set a precedent. In this respect, the issue of climate change and global warming is interesting. Anecdotally, the Swiss National Bank has been harangued last month by a few Swiss lawmakers for having invested in fossil-fuel producing companies… Many central banks seem keen to adopt ESG standards or green investment in the future. New sectors like car manufacturers, coal and oil sectors are entering in the spotlight.

The standards of selection have refined, around the ESG acronym

ESG compliant products are burgeoning, also for retail investors

Big Tech is not immune

The digital sphere is also concerned by this phenomenon, even if, at first, its carbon footprint is rather light. Following Christchurch massacre, the New-Zealand sovereign fund (NZ Super's Fund) with AUM over $40bn, syndicated dozens of global financial institutions in 2019 against social media companies.

The issue focused Alphabet, Twitter and Facebook practices. The practice on live-streaming and distribution of offending/objectionable contents was denounced. So far, despite their polite replies, these companies didn't take into account the complaints. But their employees give early signs of losing their loyalty (i.e. Amazon staff demonstration; Apple with the removal of a Hong-Kong app, etc.). The fiscal optimization of their profits is also raising serious concern in foreign countries, namely in Europe.

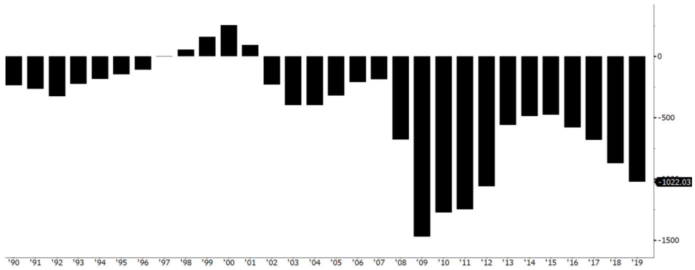
Big Tech is likely to suffer growing pressure from ESG conscious investors

- *The current absence of a common accepted ESG norm provides short-term relief. The financial actors still have some time to adapt*
- *ESG standards and certification are spreading towards a larger investors base*
- *It will ultimately concern the whole universe of investable securities*

Fixed income. US deficit is not a market worry

The 2019 US fiscal year ended with a federal budget deficit of $984bn. According to the Congressional Budget Office, it will climb in 2020 to $1.02trn, or 4.6% of GDP. It should be the first trillion-dollar deficit in history not caused by a Great Recession. It will be almost 20 years without an US surplus budget.

US Federal budget balance ($bn)



The US Treasury department caught markets by surprise. In its January 16th statement indicating that it plans to issue a 20-year fixed coupon bond in H1 2020. We do not have the details yet. Introducing a 20-year bond provides with 2 advantages. First, it helps meeting with the Government financing needs. Second, it will help to extend the weighted average maturity of the Treasury market when interest rates are historically low. The US administration challenge is to avoid adding too much new securities and at the same time to monitor interest expense to the taxpayers.

The buyer of last resort will remain in play. The Fed is expected to continue to replace mortgage repayments with Treasury securities indefinitely. As of now, these purchases are running at a steady pace of $240bn per year. Furthermore, the Fed will continue to buy T-bills at a pace of $60bn per month through mid-April. Then, the Fed will probably taper to $45bn for mid-April to mid-May, then to $30bn from mid-May to mid-June. By mid-year, the Fed will stop buying a predetermined amount. The balance sheet will grow organically at a pace of $12.5bn per month. So, it would put the total size of the Fed balance sheet at $4.3trn by mid-June - with total bank reserves at $1.7trn - vs. $4.15trn as of today.

- *Longer-dated US Treasury issuance is set to rise in a very meaningful way*
- *This supply shift should steepen the yield curve when concerns about the coronavirus will abate*

Fixed income. Fed sticks to its guns

As universally expected, the Fed unanimously kept its Fed funds target rate unchanged at 1.50-1.75%. It stuck to its message that the current stance of monetary policy is appropriate. There were only 2 small changes in the wording. First, private consumption is now growing at a moderate pace against a strong pace previously. Second, and more surprisingly, the Fed expects inflation to return to the symmetric 2% target instead of near 2% earlier. It was initially interpreted as a hawkish twist.

However, Powell clarified at the press conference that members were not comfortable with inflation running below target. Hence, the wording change was a dovish twist, advocating for potentially more accommodation. In relation to inflation, Powell was surprised by the lack of wages rise. The Fed is still expecting a global economic rebound but that it is not given, and the corona virus is a new downside risk to its scenario.

The annual rotation of voting members did not deliver any surprises. The dovish leaning Bullard and Evans and the hawkish George and Rosengren have been replaced by the more cautiously hawkish Mester and Harker, the neutral Kaplan and leading dove, Kashkari. This is globally a dovish shift going forward.

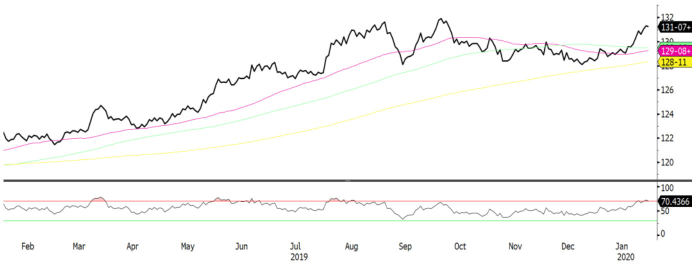
Powell repeated that the Fed target is to conclude its monetary policy strategy review by mid-year. This means an adoption of a new policy regime, most likely shifting to an average inflation targeting like 2.0% over 5 years, can be taken in H2. The FOMC did not release updated dots. It intends to keep rates on hold through the year. The Fed will only move rates if growth turns much stronger, if inflation suddenly shoots higher, and/or if the economy were to falter. Near term, the Fed has little inclination to shift its policy.

Fed Funds and US inflation (%)

On the liquidity situation, the Fed made a technical adjustment. It raised the interest rate on excess reserve (IOER) by 5bps to 1.60%, as mostly expected. The reason is that the effective Fed funds rate was trading at 1.55% and the Fed prefers a small gap with the mid of the target range, i.e. 1.625%.

The Fed also extended its Repo operations to at least through April and repeated that T-bill purchases will continue into Q2. Powell mentioned that the Fed wants to keep reserves above $1.5trn.

US 10-year Treasury future, moving averages and RSI



According to the IMF, China is expected to be the main growth contributor in 2020. Given the current industrial production freeze and the expected domestic slowdown in consumption, the global growth could be significantly hurt if the interruption is prolonged.

- *The Fed will remain bond supportive*
- *On the short-term, US Treasuries look overbought*

Equities. Indices follow their consolidation plan

Since mid-January, indices have been in consolidation mode. The trigger was the coronavirus and its impact on the Chinese and global economy, also affecting cyclical commodity prices such as copper and oil. The good news is that the momentum on stock market is easing significantly.

As a reminder, the definition of a consolidation is a period of stabilization (lateral trading range) after a strong increase, with a potential small price decrease (estimated c. 2%-4%), whereas a correction is at least a 10% decline and the definition of a bear market a drop larger than 20%. Since their mid-January 2020 highs, the MSCI World has fallen by 3%, the S&P 500 by 3.1% and the Stoxx 600 by 3.3%. We are therefore still in a consolidation phase. However, in the case of a significant economic impact from the coronavirus, the indices could enter into a corrective phase with a 6%-9% drop from their mid-January peaks.

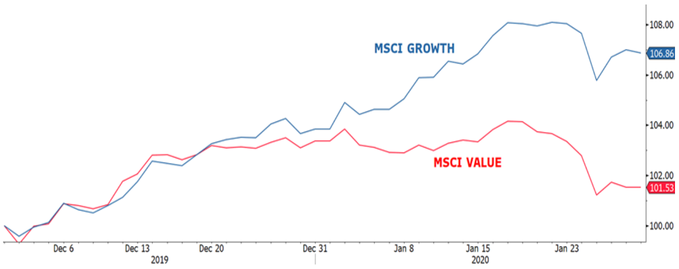
The MSCI World closed on a support last Friday. The next supports are 2.5% (MACD 100d), 5% (MACD 200d) and 6% (bottom of the corridor) lower.

While the risk of further index pullbacks is real due to a critical disruption in China's supply chains, analysts have acknowledged large-scale Chinese fiscal and monetary measures to support the economy.

The 4Q19 US results and guidance are better than expected, especially from the technology sector, which bodes well for 2020 given the weight of technology in the global indices. Driven by Technology and Consumer Discretionary, Factset significantly revised up the US profits drop to -0.3% from -2% and Lipper Alpha expects them to rise by 1.1% in 4Q19. Excluding energy, US profits are expected to increase by 4%. Analysts are still expecting a 10% profits increase in 2020 thanks to this great 4Q19 profit dynamics.

The current risk-off sentiment and the expectations of tighter liquidity injections from the Fed as in April favor the Growth segment, and technology and communication services in the first instance, integrating Amazon, even if part of the Consumer Discretionary sector.

MSCI Growth and Value performances (base 100)

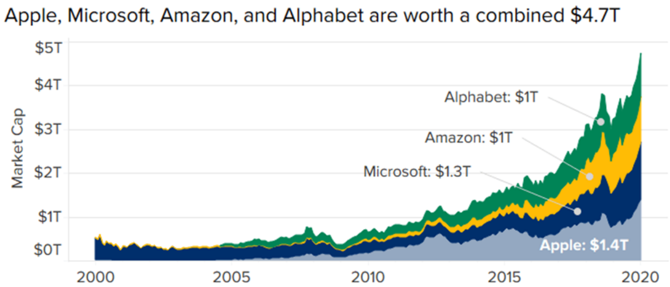


- *We maintain our "Buy on dips"*
- *Favor the Growth segment in the short-term, which is more defensive with coronavirus shock*
- *We are in a consolidation phase*
- *We hope that the coronavirus will decelerate, otherwise we could see a corrective phase*

Equities. Amazon back into the $1,000 billion club

after excellent results, Amazon is back (last seen in mid-2018) into the more than $1trillion market capitalization private club (Apple, Alphabet, Microsoft). It will take time for other companies to join the club, as the next candidates are far behind, with $597billion for Facebook, $557billion for Berkshire Hathaway and $426billion for JPMorgan.

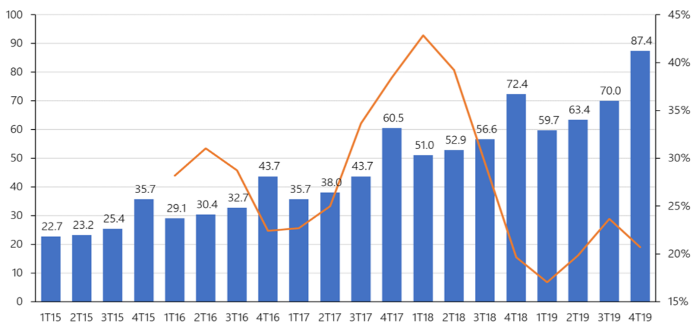
The $ 1,000 billion club accounts for 17% of the S&P 500 compared to 3% in 2005



Source: CNBC

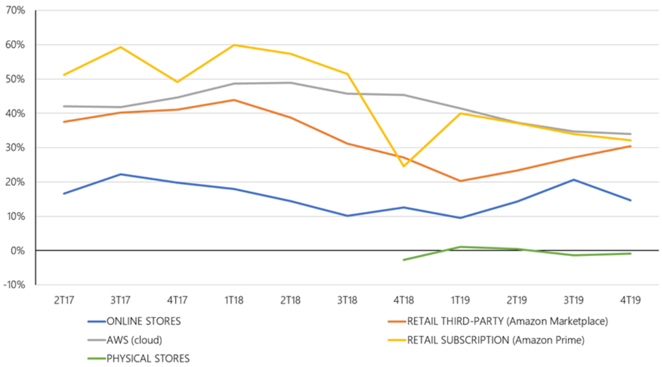
Amazon released results that exceeded expectations. Amazon spends more than $1billion per quarter to develop its one-day/same-day delivery service for Amazon Prime customers. However, the growth rate is structurally falling. Growth spiked in S2 2017 thanks to the Whole Foods integration (physical stores for fresh products). See graph. For 1Q20, management is expecting a revenue growth between 16% and 22%. The cash position on the balance sheet increased to $55billion from $41.3billion.

Amazon. Quarterly revenues and growth rate



In 2019, Amazon benefited from the increase in sales of third-party products, but the other activities recorded a deceleration in growth. Remember that the cloud activity (AWS) accounts for 12.4% of revenues, but 63% of operating profit.

Amazon. Quarterly growth rate by activity



- *We maintain our valuation of $ 2,300 per share on Amazon*

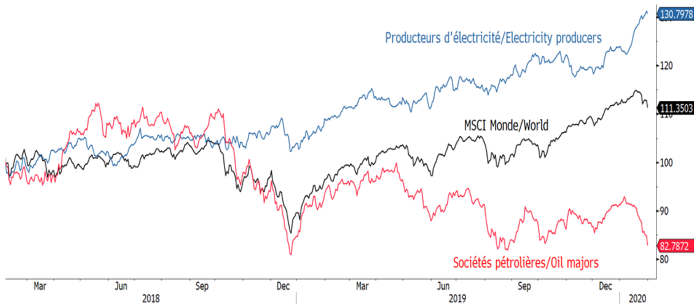
Equities. Disappointment on the energy sector and great times for electricity producers

Oil and oil services companies have severely disappointed investors with results lower than expected across all business lines. Over the past three years the Energy sector has significantly underperformed the overall index. We need higher crude prices to have a positive view on energy. The United States is constantly increasing its oil production, reaching 13 million bpd, with shale oil production at 9.3 million bpd. The Big Oil are at a critical crossroads where investors are beginning to avoid companies that are contributing to global warming. Oil major companies are accounting for more than half of global CO_2 emissions.

The only argument to continue holding these stocks is the high dividend yields, but these dividends are under pressure due to huge investments made to maintain their level of production. Cash flows are no longer enough, companies have to sell assets or issue debt to maintain their dividends.

Conversely, another Value sector also sought after for its high dividend yields, is Utilities, dominated by electricity producers. This sector has been in high demand for the past year thanks to the importance that electricity producers integrate in the development of green infrastructure. The creation of funds/ETFs on the Green New Deal theme favors the sector. In the short-term, the sector is overbought: the MSCI Utilities index rose 6% in 2020, Nextera's share price by 11%, Iberdrola 8% or RWE 14%.

MSCI World, Utilities and Energy performances (base 100). A major structural change with the fight against global warming



- *We downgrade the Energy sector to underweight*
- *We upgrade the Utilities sector, green electricity producers in particular, to overweight*

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