

TOP TEN THEMES FOR 2020:

- 1. Gold is back!** Gold will shine in times of uncertainty and distress - while Bitcoin will not. We advocate to raise allocation to gold and gold equities. Rationale is continued gold buying by central banks that are awash with cash, investor worry about heightened tensions in the Middle East and the extremely low opportunity cost (zero to negative interest rate environment).
- 2. The U.S. Fed will keep rates low but positive.** Macro and geopolitical concerns still play second fiddle to Fed policy. After three rate cuts last year, we expect a pause in 2020. Central bank policies around the globe will remain expansionary. The Eurozone, Switzerland and Japan will not change their negative interest rate regimes. The U.S. Fed is already close to resuming quantitative easing (QE) by pumping money into the system to keep up the liquidity in the repo market. This will be supportive for equity markets globally, but make sure to focus on quality.
- 3. Rising volatility.** Despite the calm market reaction to the current Iranian crisis, volatility will increase during the course of this year due to record high equity valuations, the upcoming U.S. elections and geopolitical uncertainties. But this time around fixed income may not be the ideal hedge against equity volatility given the shift out of non-yielding government bonds into more credit sensitive assets (such as private lending and debt structures). Negative interest rates and record low credit spreads have made buying AAA bonds increasingly expensive (and risky).
- 4. Yields on Fixed Income do not justify the risk.** The bubble continues to build. The zero to negative interest rate experiment seems not to end. Central bankers chose to continue to ignore the long-term negative impact on retirement plans, savings and consumer behavior. Consider cash as an alternative.
- 5. Trade Deal:** An agreement would provide President Trump with lots of reasons to boast his achievements during an election year. President Xi will also manage not to lose face. This will support market sentiment worldwide, in particular for Chinese securities and slightly less for U.S. securities due to high valuations.
- 6. Clarity in BREXIT will boost sentiment.** Market participants hate uncertainty. Johnson's clear victory will restore investor confidence and release pent-up corporate spending. Freedom from stifling EU regulations and an attractive trade deal with the U.S. may create the backdrop for a nice equity rally in the UK.
- 7. Is the EU a value trap?** Valuations do not look stretched. But Merkel has adopted positions she used to fight against, Macron thinks he has "it" but he has lost his people, Italy continues to be a mess, Spain will be ruled by the left and the rest of the EU is too small to matter much. Across the continent people are fighting against capitalism or for a green redistribution. This stifles economic development and the efficient allocation of resources.
- 8. Be selective about Emerging Markets.** One contender for outperformance in 2020 is Brazil, where right-wing President Bolsonaro and his strong cabinet are fighting corruption, crime and bureaucratic idiosyncrasies. Another is China, where there is light at the end of the tunnel of trade negotiations.
- 9. Japan, finally?** It is known that demography is not in Japan's favor. However, economic and consumption growth, equity valuations and dividend yields as well as tech spending suggest that Japanese equities could surprise on the upside this year. An innovative SME market supported by global champions provide a deep investment universe to choose from.
- 10. "Blockchain aye, Libra nay".** Blockchain technology will give rise to innovative companies that help simplify processes, reduce transaction costs and allow individuals to monetize on information about your online behavior. However, Libra - the revolutionary and romantic vision of Marc Zuckerberg for a global currency based on blockchain technology – may not get off the ground. There is too much resistance from central bankers, politicians and regulators in the U.S. and Europe.