INVESTMENT COMMENT

September/October 2020

- **Don't fight the Fed**

  U.S. Fed President Jerome Powell announced a game changer late last month: he will try "to achieve inflation that averages 2% over time" and will allow inflation to remain moderately above 2% for some time. This will keep interest rates low for years to come and legitimize the Fed's expansive monetary policy. It is a move away from the dual mandate which balances "maximum employment and pricing stability" to allow inflation to gently overshoot. For investors this implies once again that TINA is back in favor – "There Is No Alternative" to equities.

  Tech remains the hottest show in town. Before the recent sell-off, tech stocks were pushed up by Softbank's USD 4 billion options bet, which forced its counterparties to buy a large number of underlying shares to hedge. As prices kept rising, they needed to continuously add. This pushed the market capitalization of Apple above USD 2 trillion while the total Swiss market cap was less than USD 1.8 trillion (SMI: USD 1.3 trillion).

  The current tech rally feels a lot like the 1999 internet bubble, which ended in tears. The difference to 1999 is that then the stock prices of these companies were pushed up by eyeballs, hope and smoke, whereas today these companies have strong business models, sales and very often profits. Despite the current momentum, we are starting to shift into undervalued sectors, such as industrials and cyclical equities.

- **Watch the Ant**

  In the wake of increasing rhetoric disputes between the U.S. and China, Ant Group, an affiliate of Alibaba which runs the popular Alipay app is planning to list in Hong Kong and Shanghai's Star Market in the last quarter of 2020. Its expected valuation will make it the biggest IPO in global financial history, which can be seen as the beginning of the end to America's monopoly in blockbuster initial listings. It will also help Hong Kong and Shanghai stock exchanges to close in on Nasdaq's lead and to establish these stock exchanges as increasingly strong alternatives for listings of non-U.S. technology companies.

- **"When it rains gold, put out the bucket"**

  Gold remains in an uptrend. The Fed's decision to step up economic stimuli could lead to a weaker USD and further worries about debasement of fiat currencies. Gold is, in fact, the undisputed protection against an overleveraged world. Due to limited supply and a weaker U.S. dollar we expect gold and especially gold equities to continue their rally. Despite the recent price appreciation, gold mining stocks still trade 40 - 70% below 2011 levels.

- **Asset Allocation**

  Entering September and given Fed Chairman Powell's comments on inflation, we are looking for an opportunity to slightly increase our **equity** exposure to go back to a neutral weighting. Since central banks abolished interest rates for all practical purposes, **fixed income** remains our least favorite asset class. The ultra low upside in an unprecedently levered environment does not compensate investors for the credit risks taken. In an increasingly volatile investment environment we like **alternative investments**, such as long volatility biased macro strategies, market neutral equity strategies and opportunistic long short credit strategies.