INVESTMENT COMMENT February 2021

- **Revival of the shoeshine boy analogy?**

  Joe Doe: “I am going to buy myself some GameStop shares (ticker: GME) on Robinhood [free on-line trading platform]. I want to invite my hard-working parents on a vacation. I saw how my friend made a lot of money in this stock. Everyone in my chat group says it will go up.”

  Voice of Caution: “Whenever the inexperienced retail investor – think of Joe Kennedy’s shoeshine boy analogy in 1929 which prompted him to sell his entire equity portfolio – invests his savings into equities, markets are too popular for their own good.”

  Joe Doe: “Compared with debt, equities are actually cheap. Besides, bull markets do not die due to old age but due to excessive leverage, mostly real estate leverage.”

  Voice of Caution: “The financial system is grossly leveraged up. Debt to GDP is north of 100% in most major economies. Many governments could not afford higher interest rates.”

  Joe Doe: “Central banks around the globe are printing money, which has to be deployed and equities are the only financial asset you can make money with. This time it is *really* different!”

  Voice of Caution: “Left economists propose the ECB write off EUR 2.5 trillion in government debt. Sounds like voodoo economics. Besides, whenever you hear “this time it is different”, it isn’t.”

  Joe Doe: “My broker says, markets cannot go down because everybody is buying the dips. Besides, the end of Covid-19 measures are near, which will release huge pent-up demand. With all this cash around, there is no alternative to equities…”

  Voice of Caution: ”Fundamental economic laws will always apply. In case of a price-value mismatch, a correction is bound to happen at some point.”

- **Rethink your exposure**

  The current market feels a lot like 1999, when eyeballs and growth was the way of the future and focus on value was the sign of has-been investors. There is too much leverage in the system, investors are buying indiscriminatorily simply for the fear of missing out.

  If history has taught us anything it is that leverage, excessive optimism and irrational exuberance precede every crash. While it is impossible to time the market and the current bull market could continue for another year, we can at least get more cautious when others increase their risk appetite. While we continue to like equities medium-term, we think that all the ingredients are there for a sizable temporary correction.

  While inflation is still nowhere to be seen, there are early sings of pressure on prices. In addition to estimated cumulative fiscal stimuli of $5 trillion in the U.S., wage increases in the tech sector, freight space shortages and significant price increases on shipping vessels are early signs of inflationary pressure which could lead to raising interest rates.

- **Asset Allocation**

  We continue to be constructive on equities in the medium to long-term, but would reduce exposure to over-valued tech and alternative energy stocks. On the fixed income side we recommend to focus on quality and reduce exposure to high yield while increasing exposure to inflation-linked government debt. We also do not mind having to temporarily pay negative interest rates, if this allows us to prevent double digit losses from other investments.

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