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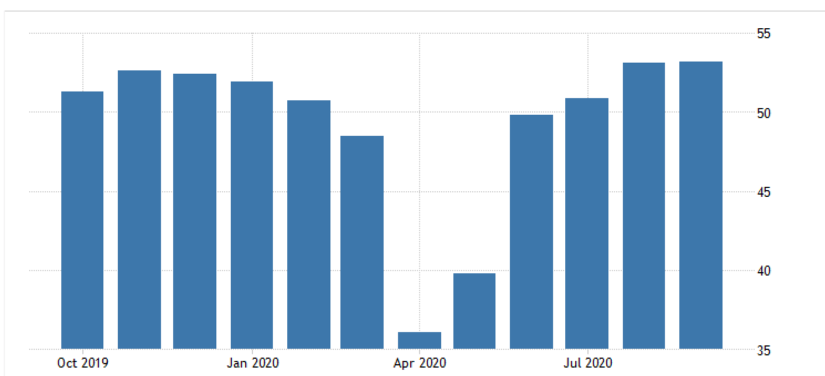
Tuesday 06 October 2020

B Capital Commentary and Outlook Update 4Q2020

The third quarter of 2020 witnessed a continuation of asset prices rebounding from the lows of the previous quarter. Equity markets were led by tech once again and indices with a higher weighting to the sector performed best, notably the US S&P500 and Nasdaq, whilst Europe and especially the UK floundered. At the end of the quarter, and even after a swoon during September, the S&P500 showed a total return of +5.57% while the EuroStoxx50 registered -12.58% and the UK's bank and energy heavy FTSE100 was -20.12%. In Asia, the Shanghai CSI300 has gained +14.66% and the Nikkei -0.36%. Our view remains that the rebound in markets will continue from oversold territory during panicky trading six months ago and positioning should favour tech and the US over Europe and the UK. The manufacturing PMI data at over 53 by the end of September in the US support the view that remaining invested in US equities will drive further positive returns and with the forward price-earnings estimate at 19.87X for the S&P500, valuations do not look overstretched. A further supporting factor is the continuance of ultra-loose monetary policy, which was reinforced at the August meeting at Jackson Hole where the Fed Chairman spoke of 2023 as the possible review point for monetary tightening.



Actual	Previous	Highest	Lowest	Dates	Unit	Frequency	
53.20	53.10	57.90	36.10	2012 - 2020	points	Monthly	SA

Fig 1 - IHS Markit US Manufacturing PMI Monthly (30 September 53.2)

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Nonetheless, despite optimism for the recovery, it remains the case that the short and very sharp recession around the world has damaged some sectors very badly and has set back global GDP by around -5% for 2020. The importance of identifying the winners and losers in the new environment has never been so important both for finding ways to make money in future and also for protecting against some sectoral weaknesses. At a high level, it is our view that GDP in 2021 will grow at a faster than average run rate as business rebounds and with supportive monetary and fiscal policies in most regions it may be as much as +5.4%.

In the last quarter, in our active investment models, we took profit in our European equity trade at the high for the period and raised a little additional cash as we start to look towards to forthcoming US Presidential elections. The 'second wave' virus possibility as we enter the Autumn for the northern hemisphere (the typical flu season) is a risk item on the radar but in fact the near-term threat to markets is probably an unclear result on 03 November. Joe Biden is ahead in the polls by some 14 points and at the time of writing President Trump is suffering from the virus and being given a cocktail of drugs to help him recover. With less than a month to go and already 3million votes in, it's an extraordinary moment for US politics as the world waits to see what happens to the President and how voters react to his re-emergence on the stage.

It's worth giving some focus to what happens if Joe Biden wins the election. Broad views are that a Democrat win will be bad for the stock market as taxes on big corporates would get hiked and anti-trust leftish red tape will increase. In fact, Biden looks like a more moderate candidate and has plans to tax and spend in areas that need attention, such as infrastructure and government R&D. The recovery bill might be $2trn if it passes and would help tackle a jobless rate that will be around 5m next year. He is probably more of a listener than Trump and could improve trade relations with China and the EU, restore much needed climate friendly policies and desist from tirades against everyone, even immigrants. Some may worry that he won't be bold enough to drive America forward but on the other hand a break from the chaotic style of Mr Trump would probably be welcomed the world over. Considering all of this, a win for Biden will not derail markets and may well set up the US for expansion over the next four year term and beyond.

As the elections loom large we adjusted the active asset allocation plan in favour of moderately higher cash, combined with more precious metals and gold mining ETF's to act as a partial hedge and in case there are any signs of inflation as the world reboots thanks to massive stimulus packages and loose monetary conditions. Gold and silver have rallied strongly over the last six months and will probably maintain some momentum through the next quarter. It is just possible that inflation is being overlooked and both equities and precious metals will protect capital in such a situation. At the same time and with this in mind, we continue to keep fixed income duration very short to minimise volatility and with the expectation that the curve may steepen in 2021. It seems more and more unlikely that investment grade fixed income can give much more upside after such a long rally. High yield has come back to life after a -21% dive in March (see HYG US) and still has a yield of just over 5% but the energy sector which forms a heavy exposure in high yield indices is on shaky ground with a structural supply imbalance.

Our favoured allocations to the US, large cap companies, big tech, precious metals and cash seem prudent in the face of a potential pick up in volatility around the elections and the feared 'second wave' and we have dry powder for added equity exposure next month if the elections pass without contention. Once the election hurdle is out of the way - with an uncontended result - we expect a rally in stocks and may add more risk exposure. If not, then we have the right balance in place for some market nervousness.

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