Geneva Management Group

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Market Update

September 2020

MACROECONOMIC UPDATE

Currently, over 600 global projects are under way, with a clear commitment to developing COVID immunization. There is still hope for a vaccine against the Covid-19 which will be deployed in 2020. Pfizer mentioned a potential release before year-end and a top Chinese scientist even said as early as November. Meanwhile the number of daily new infections is reaching new highs since autumn in Europe. A vaccine remains the best solution to avoid new restrictions damaging the economy.

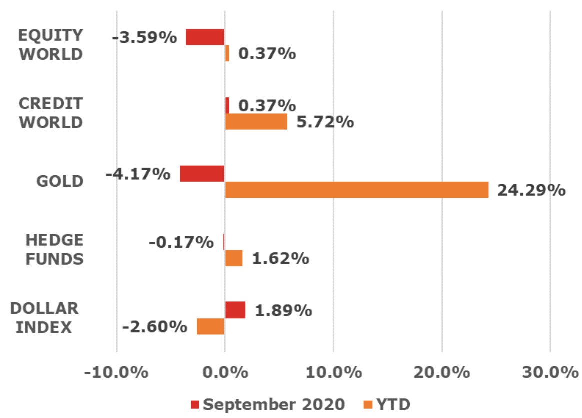
The probability of a new US fiscal stimulus agreed on before the election is fading. Democrats proposed a new bill on a $2.4 trillion package. There is little chance of the Senate approving the deal as it rejected a much smaller package ($1 trillion) in August. However, there was an agreement on the government's funding thus avoiding a shutdown until at least December 11th. Part of the reflation trade rhetoric relies on additional fiscal stimulus. Due to the growing unlikeliness of a deal, the gold price dropped, reflecting lower inflation expectations.

Trade deal negotiations to define the EU-UK relationship post-Brexit are not making much progress either. They even seem to go backward with Prime Minister Boris Johnson planning to throw out the agreement reached last year. As the year-end deadline is fast approaching, a no-deal Brexit scenario is becoming more likely. The pound dropped following the news of this attempt to breach international law. The large cap UK Equity index seems attractively valued at a 19.6x forward PE (versus 25x for the US and 21.5x for the Eurozone) but currency volatility for non-GBP based investors could wipe out any potential gains.

Recovery momentum is slowing in Europe with the latest PMI composite number lower in September at 50.1 from 51.9 last month. The virus resurgence in the region and the accompanying government restrictions are mostly to blame for this lower than expected figure. The service component led to the fall, especially in the tourism sector. As already mentioned, a vaccine is an essential part of the solution for the economic recovery.

GMG'S POSITIONING AND MARKET PERFORMANCES

Equities	US	↑
	Europe	→
	Emerging Markets	→
Fixed Income	Sovereign	→
	Investment Grade Corporate	↓
	High Yield Corporate Bond	→
	Emerging Market Debt Local	↓
Real Assets	Precious Metals	→
	Real Estate commercial	↓
	Real Estate residential	↑
Currency	US Dollar	→



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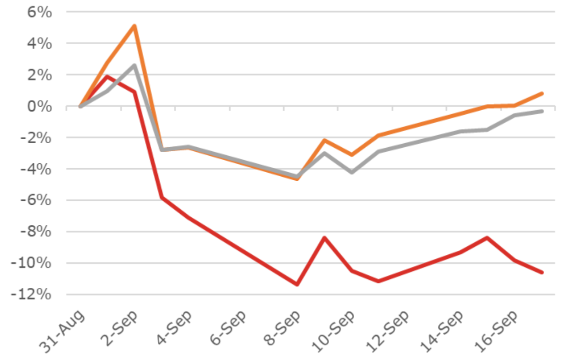
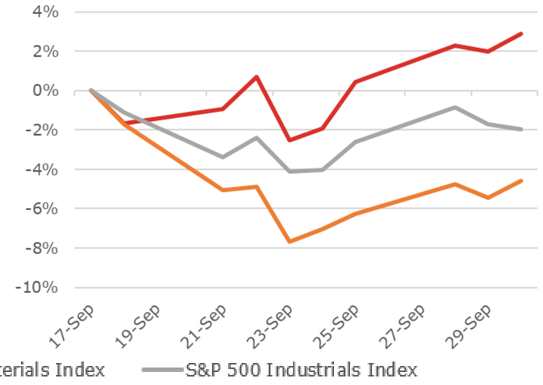
FOCUS: September, a premature attempt to rotate into cyclical

August is usually a quiet month for equity markets characterized by low seasonal dealing volumes. As 2020 is far from a "usual" year, the last month has seen the US equity markets reaching new highs (S&P 500 +7.01%) in spite of the virus induced recession. With people retuning from holiday in September, daily volumes increased together with the market volatility. Within the first week of September, markets erased the previous month's gains and were down 6.95% on September 8th from their peak.

Performance from 1st to 17th September



Performance from 18th to 30th September



Indeed, investors became more concerned about the high valuations reached by the technology sector since the virus crisis. Profit taking and rotation toward more cyclical sectors lead the Nasdaq 100 index to fall 7,35% from 31st August to September 17th. Over the same period, the US Materials and Industrials sectors were up 5,94% and 2,26% respectively. The Euro Stoxx 600 was slightly positive and the Nikkei 225 was up 1,73%. Both markets are structurally more cyclical than their US large cap index counterpart due to their sectorial weighting.

Such rotation away from the technology/momentum trade however produced a short-lived outperformance. Starting from 18th September, investors worried about the degrading macro picture and slowdown of the recovery. A fourth US fiscal stimulus before the election became more uncertain thus endangering the already fragile recovery. Europe faces a second wave of virus infections and is tightening its restrictions on reopening its economy. The latest PMI readings in Europe as well as the US unemployment figures were worse than expected. Between September 18th and 30th, the Nasdaq 100 has been outperforming the Euro Stoxx 600 and the Nikkei 225 by 6,72% and 1.87% respectively. The technology sector recovered some of its losses during the sell off and was positive 4,67% whereas the materials and the industrials sectors were down 2,82% and 1,93% from September 18th to the end of the month (on a total return basis).

Overall, in this volatile month for the equity markets, the Nasdaq 100 is down 5,11% versus the Euro Stoxx 600 down 3.22% and the Nikkei 225 is up 0.95% (in USD, total return basis).
We can characterize these latest market movements as a "healthy correction" due to valuation concerns. However, it is too early to conclude that the growth/quality names can be switch to more cyclical/value stocks. The recovery of the world economy remains on a fragile path due to the pandemic. The release of a vaccine will be the green light for such a trade rotation although its benefits will take time to reflect in the real economy.

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