Geneva Management Group

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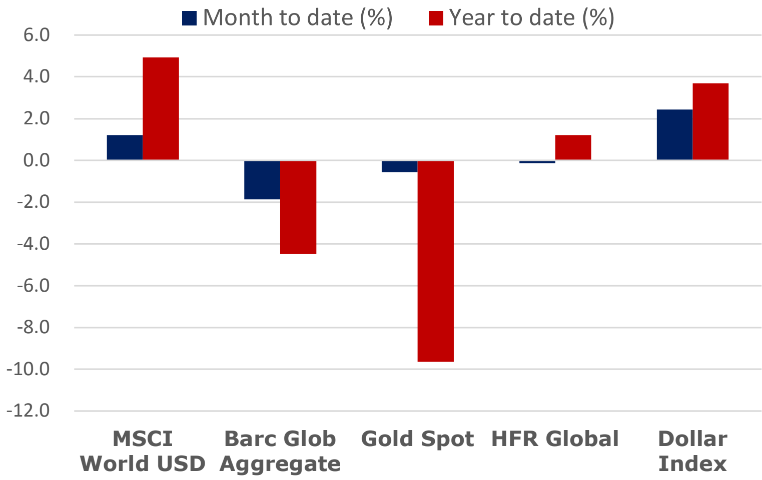
Time to rebalance?

Market update, April 2021

The **progressive but strong post-pandemic** economic **rebound** led by China towards the end of the year is the key feature of 2021 so far. Since the vaccine breakthroughs and with an acceleration due to the anticipated large fiscal stimuli in the US, a significant **sector rotation** has been taking place.
In the last decade, classical valuation measures based on a company's current and estimate numbers have been poor predictors of share performance, as momentum, flows and sometimes excessive expectations have fueled increasingly higher multiples, specifically with regards to tech stocks. We believe the **trend reversal observed is likely to continue through 2022**.
Considering the different sectors, we expect **Material & Energy producers**, as well as **Industrials** to be the primary beneficiaries of the economic rebound and infrastructure programs, as the increased demand will not only increase volumes but to some extent induce pricing power likely to benefit the margins as well.
The EU and the new US Administration are likely to intensify scrutiny on **large tech companies** suspected of benefiting from de facto monopolies, thereby putting pressure on those shares. An increase of interest rates is likely to impact the growth sectors more than the cyclical given that a reduction of the equity premium may trigger a stronger repricing of their lofty valuations.
Irrespective of the fundamentals discussed above, the reversal of the sector's underperformance started in Q3 of 2020 may modify the **investment flows** more towards these companies. As opposed to most growth stocks, cyclicals also often offer **dividends well above current fixed income yields**, providing thereby, next to a cushion, a potential for capital appreciation and diversification benefit, which is also an appreciable source of income.
From a geographical perspective, it is worth noticing that **Europe** and **Japan** appear **more attractive** than the US in this context. While US companies are likely to face an increase in taxes, a traditional high exposure to cyclical stocks and relatively moderate valuations makes Europe and Japan places of choice to add exposure to cyclical stocks.
A **rebalancing towards cyclical stocks**, does not imply a radical cut of our tech exposure. We believe growth stocks should always be part of a well-diversified portfolio: Technology will continue to be an increasing feature of our economies and societies. Barring a strong market correction, growth companies are likely to remain expensive, given the current monetary policy stance. So here, it is more the case of differentiating between companies ideally positioned on the long term and those profiting from unrealistic expectations or outright speculation.

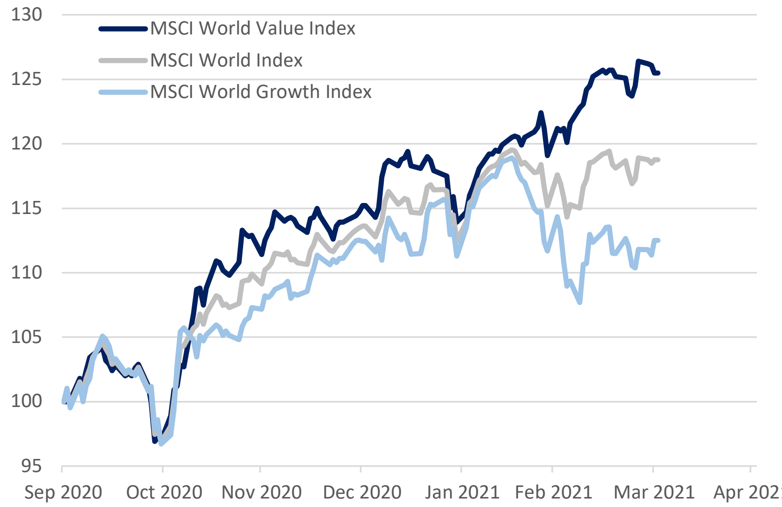
MARKET PERFORMANCES



GMG VIEWS

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

MSCI World Historical Performances



source: GMG / Bloomberg

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