1. Overview and market trend
2. Macro Update: Light at the end of the Covid tunnel
3. Equity strategy
4. Fixed income strategy
5. Forex and commodities

Goldilocks?

The contrast almost couldn't be stronger: while risks were abundant and uncertainty high in October, November has seen several developments clarify the economic outlook and this led to a risk-on environment. Firstly, the US presidential election has provided a clear result. Secondly, already three potential vaccines are showing a high level of effectiveness. The result was a market reacting like a wild animal just released from a cage: the Dow Jones, up 11.84%, has just posted the best monthly performance since 1987 and the best November performance since 1928.

With these positive developments and the already low inteest rates and fiscal policy on the rise, some observers already talk of a new «goldilocks»- era.

The fact that Joe Biden has won the presidential election is increasing the chances of a strong fiscal stimulus in the US. The package is expected to reach $2bn which represents about 9% of US GDP. The president elect's nomination of former Fed chairman Janet Yellen for Treasury Secretary has also cheered markets. Mrs Yellen is appreciated in both parties and her nomination could help find a compromis for the next stimulus package. Finally, markets also had hard data to base their optimism on: the latest PMIs published were strong and better than expected.

Not everything is rosy, though. This apparent «detente» in markets coincides with the second wave of COVID-19 infections hitting the US where daily new infections between 150'000 – 200'000 are at their highest level since the beginning of the pandemic.

Equity markets have reached extremely high earnings-multiples and major indices such as the S&P 500 are now dominated by a bunch of tech stocks.

The latest US jobless-claims have also risen sharply after falling for several months. And in Europe, Poland and Hungary are blocking the EU recovery fund.

One thing is sure: for risky assets, November 2020 was a great month: all major equity indices posted positive and often double-digit returns. Small caps continued their catch-up versus large caps and the Russell 2000 index jumped by more than 18%. Generally speaking, value-biased indices did better than those with a higher weight in growth stocks: while the Euro Stoxx index rose by 18.06%, the S&P 500, where technology now represents 27% of the index, added 10.43% and the Nasdaq ended the month up 11.27%. Indices which are typically «defensive» such as the Swiss SMI (+9.28%) where Nesté, Roche and Novartis make up a large chunk of the index, lagged over the same period.

Forex markets were dominated by a depreciating greenback.

The dollar index fell below its 92 resistence at the end of the month as the EURUSD rose by 2.5% in November. Rising COVID-19 infections, some worse-than-expected macro data and a risk-on sentiment could be mentioned among the reasons.

Risk-on also lifted the EURCHF and the single currency rose 1.3% versus the Swiss franc. Sterling remains hostage to hopes of a Brexit deal and has benefitted from the resignation of Brexit-hardliner Dominic Cummings from the UK cabinet. GBP rose 3% versus the dollar. Finally, Emerging Market currencies were also among the main beneficiares of a weaker dollar, rising across the board.

In fixed income, the decrease in risk-aversion manifested itself mainly in a strong compression of high-yield spreads which fell by more than 100bps on both sides of the Atlantic. Investment grade spreads which are already tight fell only slightly over the period. Core rates remained broadly in their recent ranges. The US 10-year Treasury yield fell slightly while the German 10-year Bund yield rose a bit.

The picture painted by commodities prices underlines the message coming from other asset classes: safe-haven gold was sold and fell 5% while business-cycle sensitive WTI crude rose by a whopping 25%.

Is this goldilocks? Probably more than in September or October but not entirely yet. After all, there is still no Brexit-deal and the first COVID-19 winter lies still ahead of us.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD
S&P 500	3 611	-0.75	1.51	10.43	7.38	11.77
Nasdaq	12 141	-0.53	2.41	11.27	8.72	35.31
Russell 2000	1 827	-1.54	2.32	18.73	21.16	9.48
Euro Stoxx 50	3 493	-1.00	0.85	18.06	9.36	-6.74
Stoxx 600 EUR	389	-0.98	0.13	13.73	7.83	-6.37
FTSE 100	6 266	-1.59	-1.07	12.35	6.82	-16.92
SMI	10 476	-0.24	0.11	9.28	2.84	-1.32
NIKKEI 225	26 434	-0.79	3.55	15.04	14.01	11.74
MSCI EM Index	1 231	0.09	0.84	11.53	13.75	10.41

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	91.875	0.09	-0.56	-2.30	-2.14	-4.68
EUR-USD	1.1945	-0.15	0.88	2.56	1.91	6.53
USD-JPY	104.30	0.20	-0.21	-0.35	-1.13	-4.13
USD-CHF	0.9057	-0.07	-0.80	-1.25	-1.68	-6.72
EUR-CHF	1.0818	-0.02	0.12	1.27	0.22	-0.35
GBP-USD	1.3340	0.22	0.14	3.04	3.25	0.63
EUR-GBP	0.8954	-0.33	0.74	-0.47	1.32	5.52
JP EM FX Index	56.23	-0.23	-0.21	3.58	3.14	-8.44

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	0.84	1	-1	-3	16	-107
Germany	-0.57	2	1	6	-5	-39
UK	0.31	2	-1	4	8	-52
SWITZERLAND	-0.52	-1	-2	1	-3	-5
Japan	0.03	0	2	-1	2	4
US IG Spread	112	-1	-4	-23	-33	11
US High Yield spread	387	3	-15	-104	-121	60
EUR High Yield spread	382	-1	-11	-106	-105	64

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	74.4	-0.51	0.40	3.61	5.06	-7.98
Gold Spot $/OZ	1782.4	-0.30	-3.02	-5.13	-5.49	17.47
Crude Oil WTI	44.9	-1.27	4.78	25.54	11.71	-26.42

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	23.6	-0.14	1.11	-14.46	-10.66	9.78

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD
S&P 500	3 611.1	-0.75	1.51	10.43	7.38	11.77
UTILITIES	318.6	-1.20	-0.96	0.53	5.55	-2.97
ENERGY	280.4	-3.32	4.91	29.31	23.24	-38.58
TELECOM	214.8	-1.00	1.71	9.30	9.89	18.27
CONS STAPLES	681.3	-0.81	-0.22	6.54	3.36	5.31
REAL ESTATE	225.6	-0.90	-1.27	6.70	3.05	-6.12
CONS DISCRET	1 262.8	-1.36	1.57	7.74	4.56	28.03
MATERIALS	444.8	-1.05	1.59	12.07	11.19	15.28
HEALTH CARE	1 271.3	-0.11	0.40	7.34	3.27	6.99
INFO TECH	2 151.4	-0.12	1.98	10.40	4.71	33.53
FINANCIALS	465.5	-1.28	3.27	17.52	16.29	-8.97
INDUSTRIALS	741.9	-0.92	1.49	15.73	14.01	7.89

Source Bloomberg | 30.11.2020

Macro Update : Light at the end of the Covid tunnel

Covid cases are still surging in the US and while the situation in Europe is improving, the chance of a third wave of the pandemic in the old continent cannot be ruled out. Nevertheless, the global recovery continues, supported by a persistent and strong economic growth in China and more broadly in Asia.

The Manufacturing sector around the world, as shown by the Manufacturing PMIs continues to recover while services made a pause and even stepped back in Europe on the back of the new soft lockdown measures.

The economic impact of the new soft lockdown in Europe is much less visible relative to the first pack of measures in March. Services have been hit moderately and geographically (Europe, UK and Switzerland) but the global economy continues to recover, driven by a strong resilience in the manufacturing and industrial sectors

Positive results from vaccine trials conducted by Pfizer, Moderna and AstraZeneca raised the prospect of a return to normal economic conditions in 2021 and a strong recovery in corporate profits. In this context, investors took vaccine developments as an opportunity to reassess the prospects for industries hardest hit by the pandemic such as travel and leisure, energy, financials and material stocks.

That said, there are reasons to be optimistic but not euphoric. Economic activity, especially in developed economies, is expected to recover only gradually with a widening gap in the economic growth rates of emerging and developed nations.

In the US, President-elect Biden will have to deal with a large second wave. New possible restrictions, as well as the size and scope of the next coronavirus program will be crucial for a sustainable recovery in 2021. The nomination of former Fed boss, Janet Yellen leaves the door opened for aggressive fiscal stimulus and the guarantee that interest rates should remain low for longer, a sine qua non condition for slow but sustainable return to normalcy.

Continuous rebound in Manufacturing PMIs.

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Global	47.3	39.6	42.4	47.9	50.6	51.8	52.4	53	53.7
USA	49.1	41.5	43.1	52.6	54.2	56	55.4	59.3	57.5
Europe	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8
Switzerland	43.7	40.7	42.1	41.9	49.2	51.8	53.1	52.3	55.2
UK	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6
China	52	50.8	50.6	50.9	51.1	51	51.5	51.4	52.1
Emerging	49.1	42.7	45.4	49.6	51.4	52.5	52.8	53.4	53.9

Source Bloomberg

Services PMIs make a pause in some regions.

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Global	36.8	23.7	35.2	48.1	50.7	52	52	52.9	52.2
USA	52.5	41.8	45.4	57.1	58.1	56.9	57.8	56.6	55.9
Europe	26.4	12	30.5	48.3	54.7	50.5	48	46.9	41.7
Switzerland	28.1	21.4	36.2	49.1	51.6	51.7	55.1	50.4	48
UK	34.5	13.4	29	47.1	56.5	58.8	56.1	51.4	47.6
China	52.3	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4
Emerging	42.1	31.6	41.4	49.3	49.4	51.5	53.2	54.5	54.4

Source Bloomberg

EM vs DM industrial production. EM leading the recovery

Source Pictet AM

Equity strategy

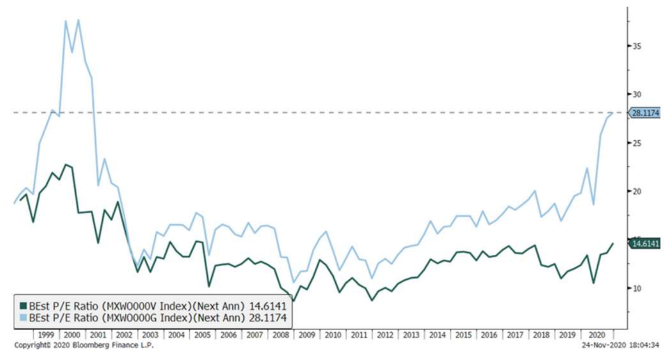
November was one of the best months in the history of the financial markets. The confirmation of the election of the Democratic candidate Joe Biden as President of the United States with a Congress that is likely to remain divided was welcomed by investors, who were also reassured by the first appointments in the new administration. But it was above all the successive announcements of better than expected results on the vaccines against Sars CoV-2 that pushed the indices up.

President-elect Joe Biden subsequently announced a series of appointments that were very well received by the markets, including former Federal Reserve Chairman Janet Yellen's appointment to the U.S. Treasury. Joe Biden also called on Congress to unite to vote on the next stimulus package. Another symbolic appointment is that of John Kerry, former Secretary of State in the Obama administration and a climate veteran, who will lead Biden's ambitious plans in this area, starting with the promise to rejoin the Paris Climate Change Agreement.

The arrival of vaccines marks a paradigm shift by significantly improving the economic outlook for next year and allowing the sectors hardest hit by the crisis to gradually return to growth. We believe that there is a catch-up potential to be seized in certain cyclical sectors as well as value stocks. After 13 years of relative underperformance versus Growth stocks we think that the risk reward of holding Value stocks is currently favorable. The valuation gap has never been so high and investors are underinvested in those names. Value stocks are uncorrelated to major US indices and therefore a good diversification with the potential to outperform in a higher rate environment, unlike fixed income or growth stocks. To benefit from this opportunity we will launch soon an AMC on Global Deep Value names.

Finally, it should be noted that the pandemic has had a positive collateral effect on sustainable finance by raising investor awareness. In that topic we recently launched a ESG basket in cooperation with Keppler Chevreux on the new European Green Deal.

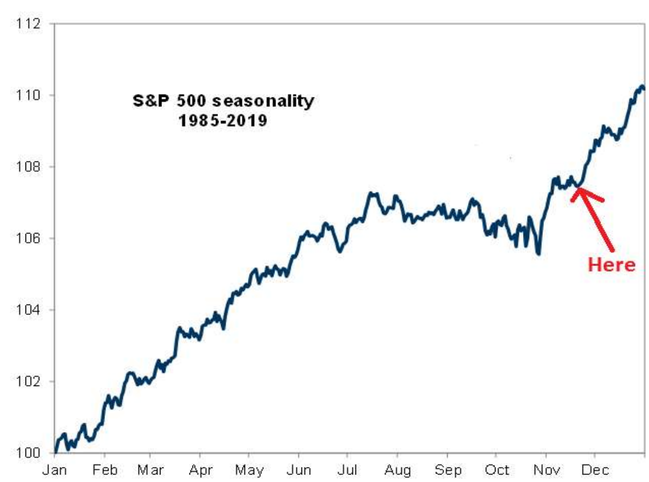
Attractive Relative Valuation: A Large Gap Next Year P/E MSCI Value & Growth Index



13 years of Growth/Value outperformance

Source Goldman Sachs

Positive December S&P 500 Seasonality



Source Goldman Sachs

Fixed Income Strategy

Fixed income markets are once again torn between two tendencies. On one hand, the risk-on environment has led to a strong spread compression in high-yield and peripheral eurozone government bonds. If a new fiscal stimulus package will indeed be approved in the US, then this could further support the consumer of the world's largest economy.

The US savings rate as a percentage of disposable income has risen and remains on high levels. If the real economic situation in the US were to improve quickly thanks to vaccines and lead to a reopening of public life, a large number of Americans could return to work faster than expected. The current «savings-glut» could then be spent and lead to higher prices. Higher prices, in turn, should lead to higher inflation and eventually higher interest rates, thereby negatively impacting longer-date bonds. While the reason for such a development are welcome, the impact on an already expensive equity market could be harsh and bonds could fall, too. We recommend to keep duration relatively short in portfolios.

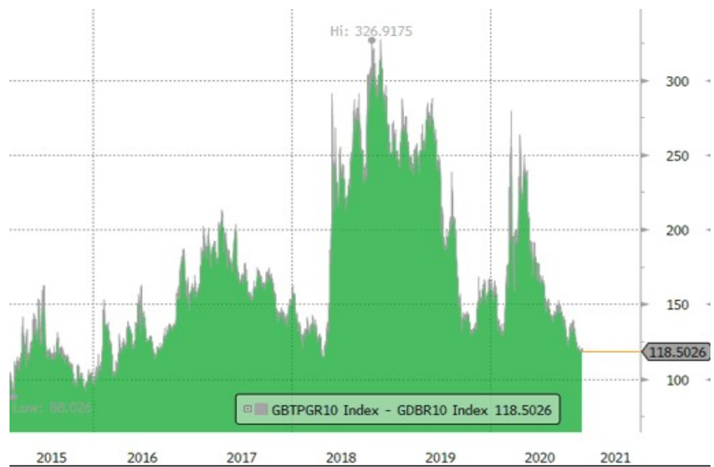
While a Fed rate hike was not expected by the market since the pandemic broke out, Fed fund futures forward contracts now price a first rate hike in 2023.

On the other hand, global debt levels are at their highest level and central banks simply can't afford higher interest rates. With their various tools at their disposal they have flooded the system with liquidity – in the US for example money supply as measured by M2 is up 24% YoY and still rising.

Recently, however, the US Treasury has issued more debt than was needed. This has led to a rare situation where the Treasury Secretary Mnuchin has asked the Fed to return unused funds to the Treasury.

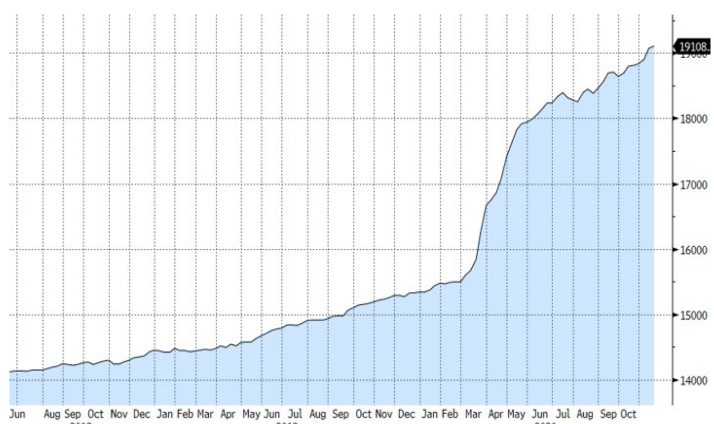
What will happen next? The next central-bank meetings will show. Will the ECB add EUR 400bn to its bond purchase program on 10 December? Will the Fed increase the maturity of its asset purchasing program on 16 December? Soon we will know. Chances are that spreads continue to tighten and we recommend to stay invested in credit risk.

Italian vs. German 10-year government bond spread



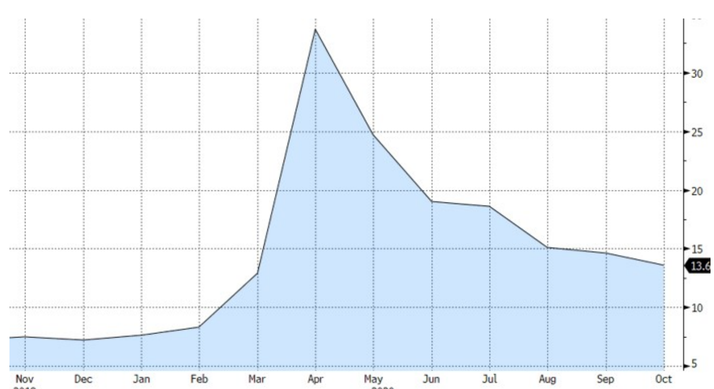
Source: Bloomberg/Cité Gestion

Federal Reserve US Money Supply M2



Source: Bloomberg/Cité Gestion

US personal savings as a % of disposable personal income



Source: Bloomberg/Cité Gestion

FX & Commodity strategy

In a risk-on environment, the dollar weakened sharply over the month with GBP and emerging market currencies printing the biggest upside move against the greenback. The euro and the Swiss franc also gained versus USD though more modestly while the Japanese yen remained almost steady. Over the month, the US dollar Index reached a 2.5-year low.

At this stage, we believe the US dollar depreciation could make a pause. Since its yearly high in March, the US dollar Index lost nearly 12%, being tactically oversold.

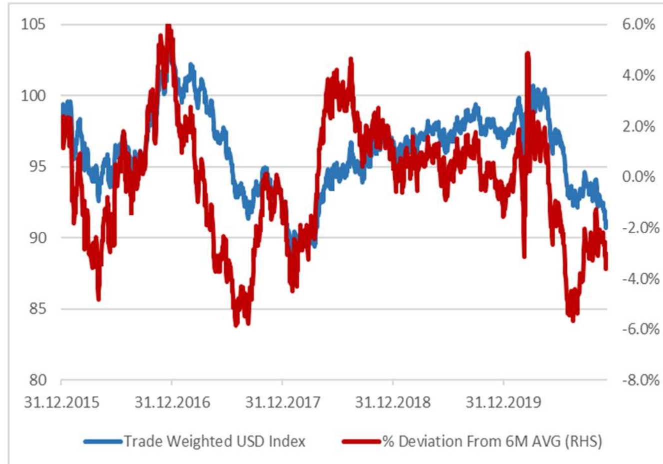
According to IMM data, FX speculative investors are heavily short the dollar increasing the probability of a short-squeeze. The scaled-down version of Biden’s stimulus plan combined with a favorable interest rate differential should limit further sharp decline in the currency.

However, we do not expect a «buy the US dollar, sell everything» move. Thanks to growing gap in economic growth rates, emerging market currencies should continue to outperform the greenback. Sterling should also be supported on the back of hopes over a Brexit deal.

Gold has been under pressure after the announcement of vaccines. With the perspective that Covid would be soon behind us, demand for safe haven, including gold should remain limited in the coming months. What is notable is that Gold sold-off despite the USD depreciation. A pause in the dollar depreciation could add further pressure on the yellow metal.

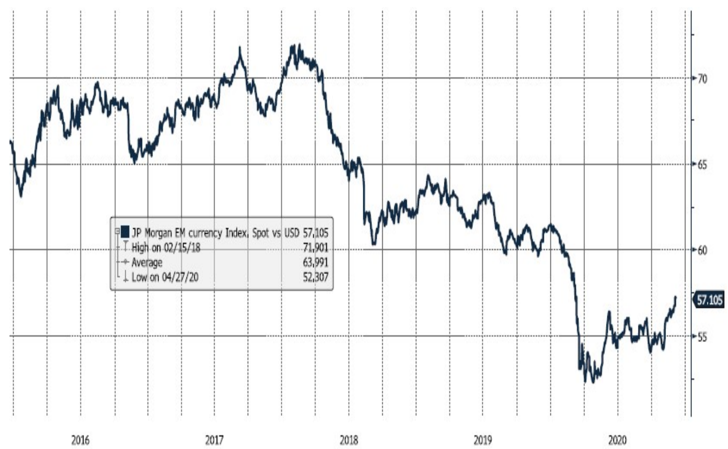
We expect GBP and emerging currencies to outperform the US dollar while the yen, the euro and the Swiss franc have now less potential to outperform the greenback in the near-term. Gold is facing further pressure should a US dollar short-squeeze materialize.

The US Dollar tactically oversold.



Source Bllomberg

EM currencies have further room to outperform.



Source Bloomberg

Inverted correlation between Gold and the dollar broke in November.

Source Bloomberg

By choosing Cité Gestion, you will benefit from our unique business model which sets us apart from most traditional wealth managers. Learn more on our website : www.cité-gestion.com

And follow us on LinkedIn to stay connected to all market news and perspectives.

Disclaimer and important information

This document has been published in Switzerland by Cité Gestion SA, Geneva, a custodian and securities dealer subject to regulation and supervision by the Swiss Financial Market Supervisory Authority (FINMA). It is not intended for distribution, publication or use in any jurisdiction where such distribution, publication or use would be prohibited, and is not directed to persons or entities to whom it would be unlawful to send such a document. All information provided in this document, in particular opinions and analyses, is for information purposes only and should not be construed as an offer, advice or recommendation to buy or sell any particular security or to enter into any transaction. Nor does this publication constitute - and should not be construed as - an advertisement for a particular financial instrument. The risks associated with some investments are not suitable for all investors and a precise assessment of the risk profile must be made. Nor should this document be construed as legal, accounting or tax advice. Although Cité Gestion SA makes every reasonable effort to use reliable and complete information, Cité Gestion SA makes no representation or warranty of any kind that the information contained in this document is accurate, complete or up to date. Any decision based on this information must be made at the investor's risk and Cité Gestion SA declines all responsibility for any loss or damage that may result directly or indirectly from the use of this information. United States: Neither this document nor any copies thereof may be sent, taken or distributed in the United States or given to a US-Person. This document may not be reproduced (in whole or in part), transmitted, modified or used for public or commercial purposes without the prior written consent of Cité Gestion SA.