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Battle for US Senate to be decided in January

November 2020

- Unchanged assessment of asset classes
- Development of leading indicators point to a continuation of the economic recovery
- Confident but not yet euphoric investors
- Good performance of all risk assets

Investor euphoria over Covid vaccine

Donald Trump has almost certainly lost the election against Joe Biden, despite legal intervention. However, a so-called "Blue Wave" (majority of Democrats in both chambers) has been averted so far due to the Republicans' good performance in the decisive Senate elections. In the Senate, the Republicans currently hold 50 seats, the Democrats 48. However, the decisive election for the control of the Senate will not take place until January 5th in Georgia, where the allocation of two additional Senate seats will be decided in a runoff race. If these seats can be claimed by the Democrats, they will reach their pre-election goal of political dominance (due to the tie vote of Democratic Vice President Kamala Harris). So far, this risk has been largely ignored by the financial markets. Market participants are obviously convinced that President Biden will not be able to push through economically damaging tax increases and regulations. Investors around the world are also reacting positively to the announced vaccines. Large-scale vaccination campaigns in spring 2021 indicate a brighter global outlook for the economy. Hence, it should come as no surprise that financial markets posted substantial gains given the positive news flow.

Valuation Bonds: -

	low		Yields		high
	- -	-	0	+	+ +
New	X				
Old	X				

	low		Spreads		high
	- -	-	0	+	+ +
New		X			
Old			X		

Valuation Equities: 0

	expensive		Shiller PE		cheap
	- -	-	0	+	+ +
New	X				
Old	X				

	low		Risk Premium		high
	- -	-	0	+	+ +
New			X		
Old			X		

	Contraction		Leading Indicators		Expansion
	- -	-	0	+	+ +
New				X	
Old			X		

	Euphoria		Risk-Index		Panic
	- -	-	0	+	+ +
New			X		
Old				X	

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Given the overall market situation, which can be somewhat confusing, a look at our Navigator and its underlying indicators is once again particularly helpful. Especially for assessing the further course of financial markets.

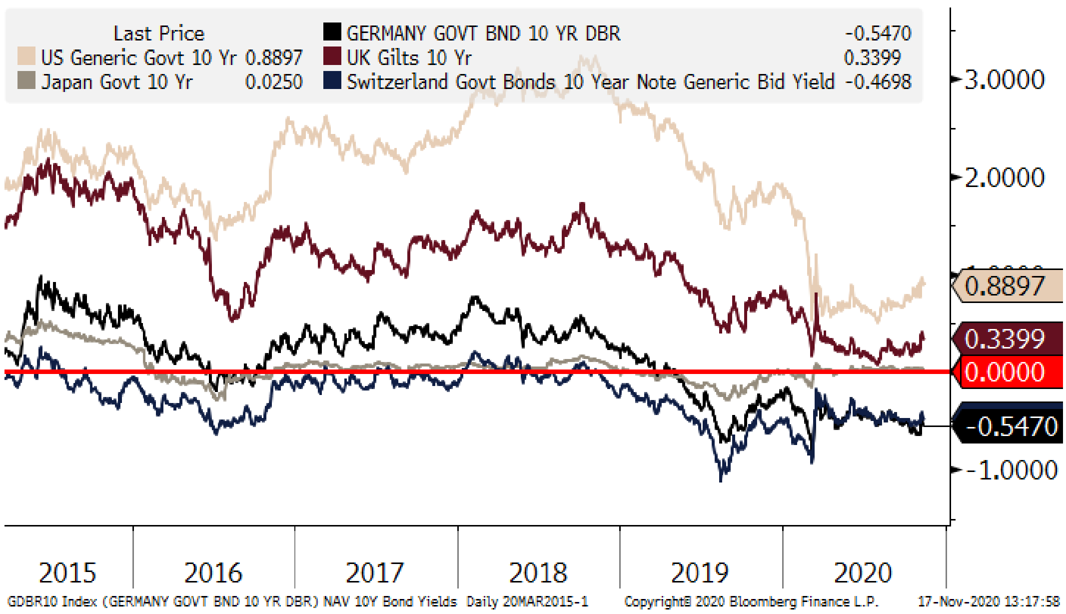
As a result of the strong price performance, credit spreads on bonds continued to fall, decreasing to an unattractive level from an earlier neutral assessment. On the other hand, PMI data, and in particular the development of the yield curve, point to a continuation of the economic recovery, which is why this indicator improved to positive from neutral. Investor sentiment continued to brighten and their positioning shifted in favor of risk assets, causing the risk index to fall to neutral from positive. All in all, these shifts practically cancelled each other out, which is why we are not making any changes in our assessment of asset classes: Liquidity will thus continue to be overweighted, while fixed-income assets will remain underweighted. Equities and alternative investments will continue to be neutrally weighted.

Within the asset categories, government bonds will continue to be underweighted, while corporate bonds of investment quality will be overweighted. In the equity space, Japan is now assessed neutral instead of negative. Precious metals are downgraded from positive and are neutrally weighted. In terms of investment styles for equities, we consider the trend towards more cyclical exposure to be sustainable and advise against underweighting the relevant sectors. However, given the attractive growth prospects of sectors like technology, we advise against excessive shifts from growth to value. Diversification and the establishment of portfolios that are robust in all market phases will continue to be crucial for long term success.

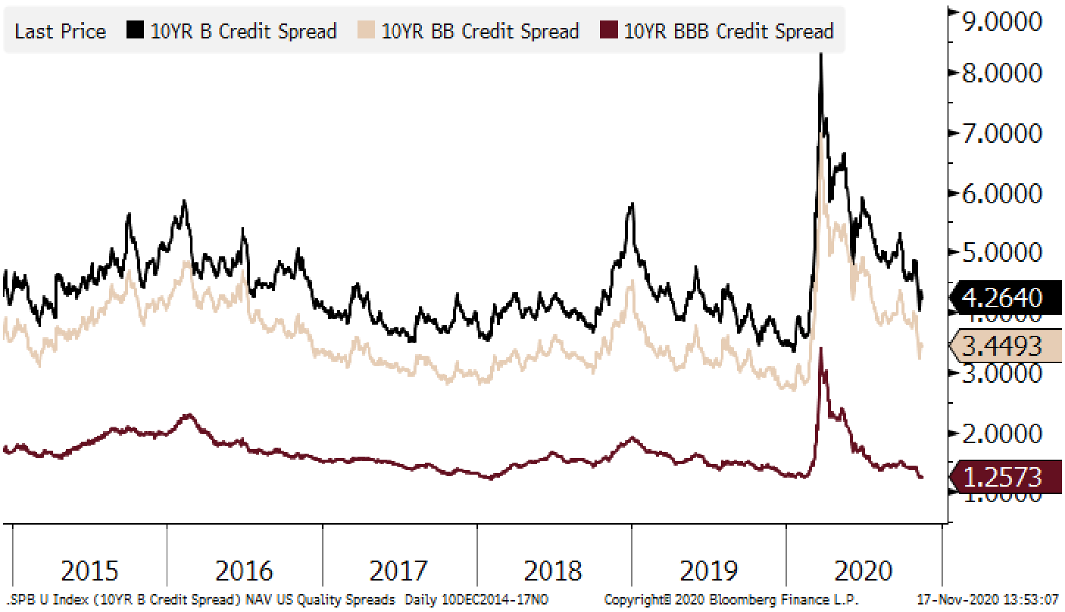
Interest rate level (indicator --) / Spreads (indicator -)

Assessment unchanged / Assessment downgraded to – from 0

The interest rates on government bonds are still at an extremely unattractive level.



The risk premiums of high-yield corporate bonds have again declined sharply and look even less attractive. For this reason, we have lowered our assessment of the "spreads" indicator from neutral to negative.

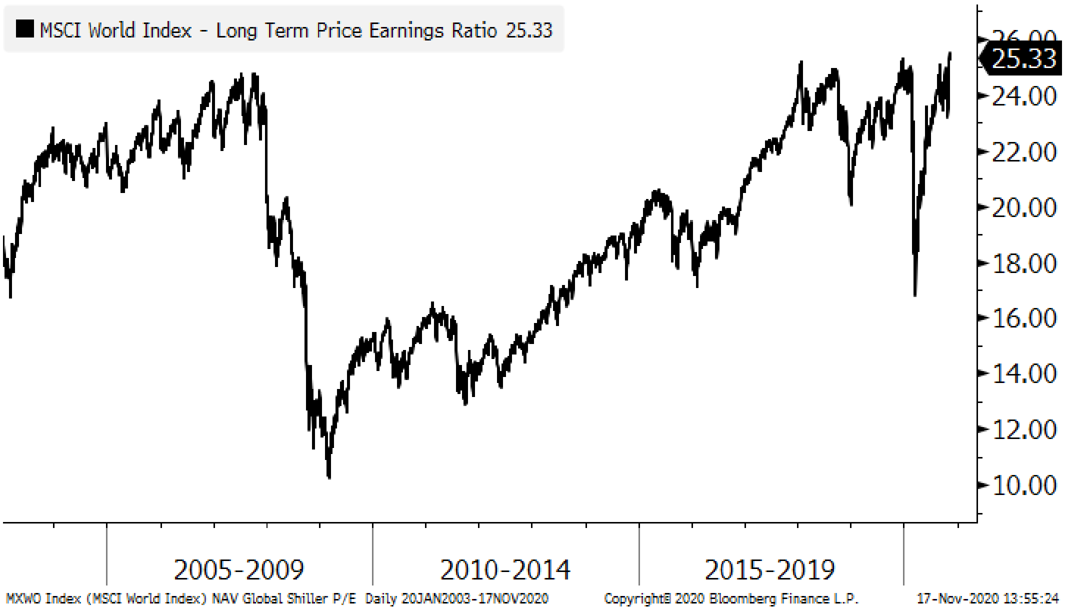


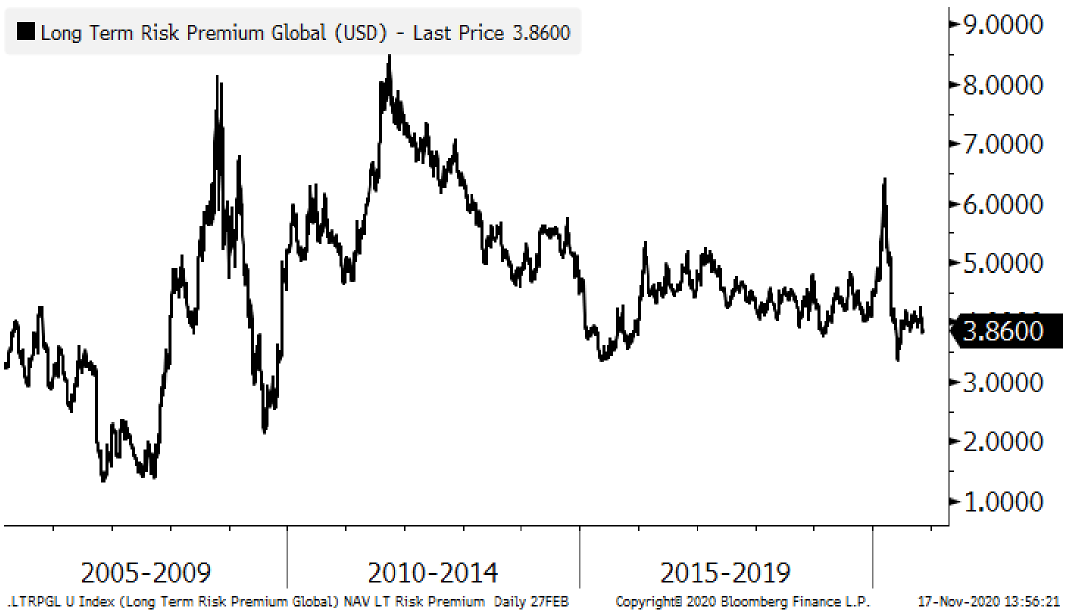
Corporate bond credit spreads in emerging markets are still relatively attractive.

Shiller P/E ratio (indicator --) / Risk premium (indicator 0)

Assessment unchanged / Assessment unchanged

The absolute valuation of the stock markets has become even more expensive, while risk premiums (both due to the rise in the stock markets) have also continued to fall. Nevertheless, the long term risk premium for equities is still considered to be neutral.

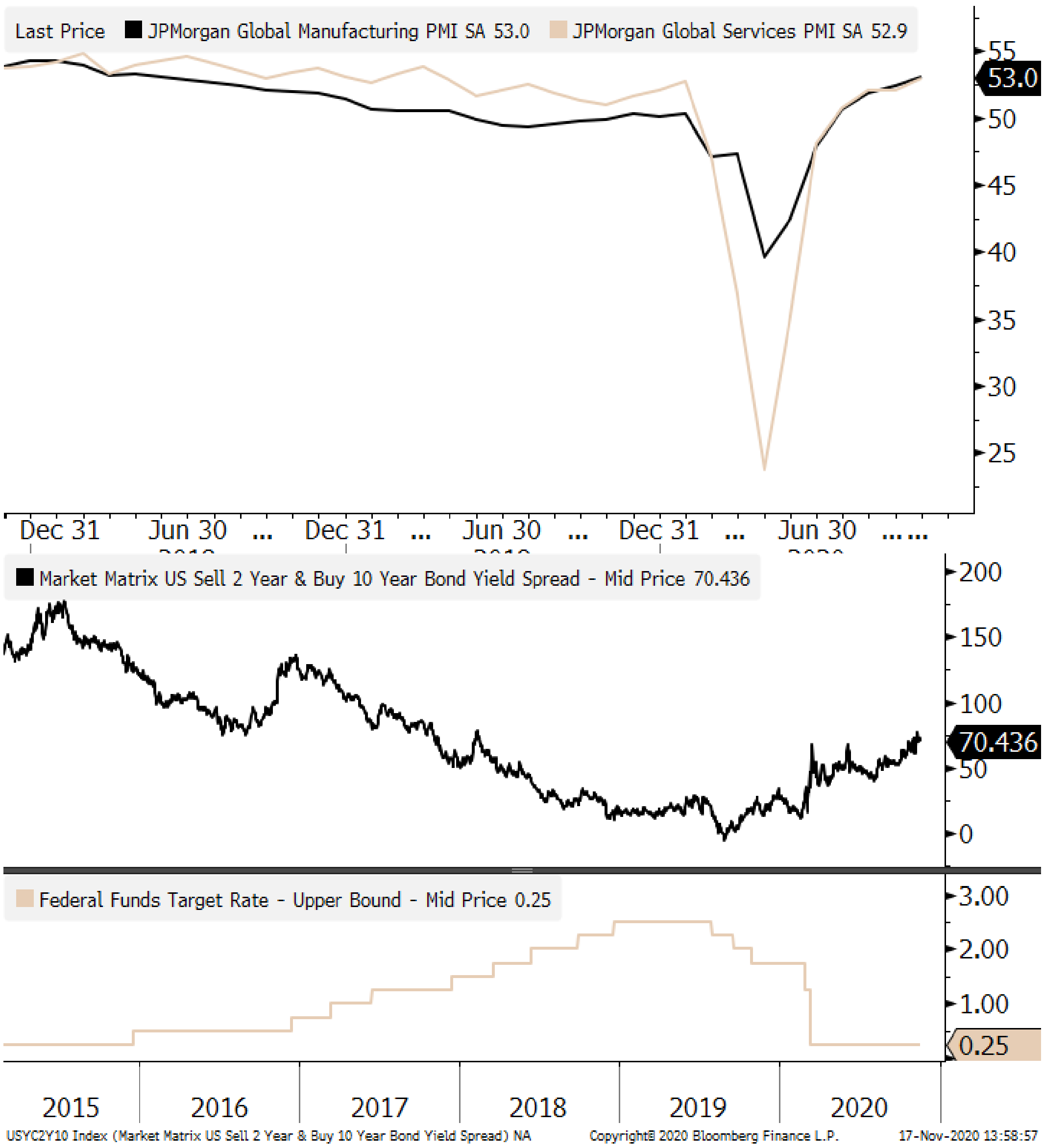




Macro leading indicators (indicator +)

Increased to + from neutral

Worldwide manufacturing PMI data for October rose from 52.4 to 53 compared to the previous month. Worldwide services PMI data also rose as well from 52 to 52.9 over the same period. The simultaneous steepening of the yield curve should have a positive impact on expectations regarding future economic momentum, which is why we have upgraded our assessment to positive from neutral.



Risk index (indicator 0)

Assessment downgraded from + to neutral

Investor skepticism has decreased significantly, which is clearly visible in their increased positioning in riskier assets. Investors are thus more confident but not yet euphoric. As a result, the signal of this indicator has been reduced to neutral from positive.

Appendix:

The Navigator is the central tool for our investment allocation. We use it to systematically and consistently assess the aspects that are relevant to the development of the financial markets. As a result, our clients can rely on a rational and anti-cyclical implementation of our investment decisions.

- Focusing on the essentials: Interest rate level, risk premium, valuation, economic development, investor sentiment and positioning. These are the decisive factors for success on the financial markets, especially in turbulent times when the temptation to react irrationally to the headlines is particularly strong.
- Comparability over time and place: The factors mentioned above are equally relevant for all markets and at all times. This is the result of a strict «backtesting» process that continues into the future.
- Cumulating our investment experience: Our strength lies in the many years of experience of our partners and principals. It is precisely this experience that we summarize and make applicable with our Navigator.
- Transparency: Thanks to our monthly publication, our clients always know where we stand in the investment cycle and where the financial markets are headed.