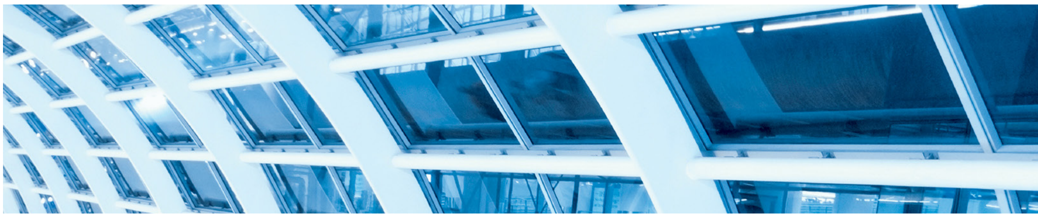
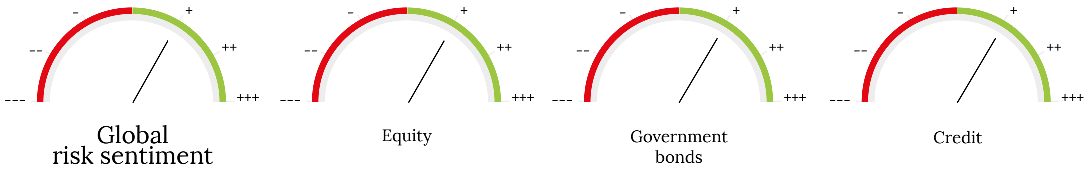
SYZ ASSET MANAGEMENT



ASSET ALLOCATION INSIGHTS

February 2020

OUR MONTHLY VIEW ON ASSET ALLOCATION



GRAB VALUATIONS' OPPORTUNITIES

With Brexit, the trade war, and recession as problems of 2019, 2020 is off to a roaring start with rallying markets.

2020 has started the way last year ended: with investors' unabated appetite for equities and credit spreads in a seemingly frantic quest for return and yield. The combination of positive economic dynamics and supporting monetary policies continues to create very favorable conditions for investment and several potential risks have seemingly vanished: at the end of the day, no recession, no trade war escalation, no messy Brexit, no monetary policy tightening... In such a context, even a sudden (and, in the end, short-lived) spike in geopolitical tensions was unable to spook markets. US and even European equity markets keep climbing to new all time highs, demand for credit on the primary market keeps hitting records and EM assets continue to rally. What a start to the year!

Rising global growth and low rates spell optimism and risk-taking in 2020.

Let's be clear: we think that this optimism is largely warranted and we continue to think that 2020 will be a positive year for equities and credit. Global growth likely troughed at the end of last summer after two years of slowdown and monetary easing policies at the central banks of developed and emerging economies. One shouldn't be surprised that low rates and positive prospects for economic and earning growth fuel investors' appetite for risk!

We are curbing our equity exposure until there is confirmation of earning growth, and raising exposure to duration.

In this context, however, paying close attention to asset valuations is useful for translating macroeconomic views into portfolios. Equity valuations are not outrageously expensive on our assessment, but they certainly have become less attractive recently, and some earning growth confirmation is now necessary to sustain the upward trend. As a result, while we maintain our constructive view on risk assets, we refrain from further increasing equity exposure for now, except for China, where valuations are still attractive. Conversely, while declining downside risks to growth warranted a reduced exposure to long term bonds at the end of last year, this month gradually improving valuations have led us to raise our exposure to duration. Higher rate levels, even if not high in absolute terms, and positive yield curvesbring value to long term bonds in USD and EUR, with prospects of performance contribution and diversification.

Japanification relies on identifying mini-cycles and investing in assets with improved valuations.

In the context of Japanification, identifying mini-cycles is key and, from that angle, 2020 still looks essentially supportive for equities. Still, investing in assets with improved valuations is also key to navigating the compressed economic cycles and managing overall market volatility while staying invested.

Adrien Pichoud
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ECONOMIC BACKDROP IN A NUTSHELL AND GLOBAL ECONOMIC REVIEW AND SUMMARY

Global growth in has picked up since mid-2019 thanks to spending in the US and Europe, making the outlook for 2020 more encouraging.

Encouraging signs of a global cyclical improvement have been confirmed by the economic data of the last weeks of 2019. In hindsight, the global economy likely troughed in the middle of H2 2019 and now looks set to experience a synchronized pick-up in growth momentum. This pick-up is possibly most visible across South East Asia, which benefits most from the combination of receding trade tensions between the US and China, and targeted economic policy easing in China. However, export-driven economies like South Korea, China or Taiwan would not enjoy this reversal without the resilience of final domestic demand in developed economies. US & European consumers have maintained a steady pace of spending that now warrants unleashing the capex retained last year due to elevated trade uncertainties.

As such, the industrial sector is regaining color and driving a rebound in GDP growth rates across most large economies. They are due to grind higher toward, and possibly slightly above, respective potential growth rates. Nothing spectacular given demographic and productivity trends, but a better environment than the slowdown experienced in 2018 and 2019.

Growth

Cyclical economies stand to benefit most from uptick in global growth

Global growth will likely rebound in 2020 after having recorded its slowest year in 10 years in 2019. The pickup is likely to be most visible in the most “cyclical” economies and sectors, the ones that have been most under pressure during the past two years’ slowdown.

Inflation

Inflation is not likely to accelerate in 2020.

As the world experiences Japanification, upward inflationary pressures are rare. Although the expected positive growth trend should support a reversal in the downward inflation trend in several economies, one shouldn’t expect a significant inflation acceleration in 2020. Structural headwinds such as technologies and high debt are still there to contain pricing pressures.

Monetary policy stance

Stable monetary conditions will characterize 2020.

2019 was a year of global monetary policy easing. Credit conditions are now accommodative across most developed economies, and in several large emerging economies. This year, 2020 will likely see stable monetary conditions without any need for additional easing as growth picks up. Nevertheless, there is no reason to reverse course and hike up rates again in the absence of effective inflationary pressures.

GLOBAL ECONOMIC REVIEW

Developed economies

The US economy is growing, but will not reaccelerate in 2020.

Despite a surprising drop in the ISM manufacturing index, the US economy remains on a steady path of growth, slightly above its long term potential of 1.8%. Having been one of the few large economies to barely slow down in 2019, it has little potential for a significant reacceleration but its main driver, household consumption, remains supported by low unemployment, a buoyant real estate market and cheap credit. A rather favorable backdrop as the Presidential campaign starts to really warm up.

The Eurozone will stabilize now that trade and Brexit uncertainties are out of the way.

The UK stands to see a spending plan, and thus growth.

The Eurozone also benefits from reduced uncertainties regarding global trade and Brexit. However, for the time being this translates more into a stabilization rather than a real rebound in industrial activity indicators. In the meantime, household consumption remains firm and maintains GDP growth while the Lagarde-led ECB sticks to its very accommodative stance. In the UK, recent indicators have suggested some further loss of steam but it might rather be the lagged impact of the Autumn' Brexit uncertainties. Indeed, with the immediate no-deal Brexit risk out of the way and the solid majority held by Boris Johnson's government that could give way to a significant fiscal spending plan, the prospects are quite encouraging for a growth recovery in 2020 for the UK.

Japan sees stabilization after VAT hike.

Australia still suffering from wild fires.

The Japanese economy is stabilizing after the temporary volatility triggered by the VAT rate hike in October. In the meantime, Australia hasn't experienced yet a resumption in economic momentum, possibly suffering from the wild-fire spillover.

Growth in China's economy is encouraging for the whole region.

> *This pick up is possibly most visible across South East Asia.*
> ***Adrien Pichoud***

Emerging economies

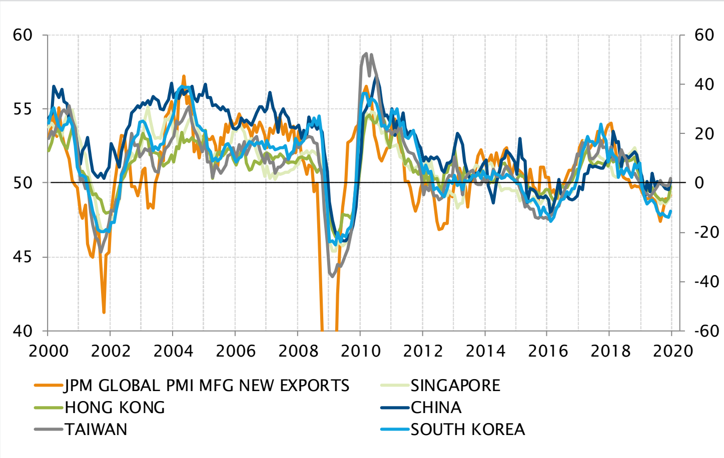
Chinese economic data have been confirming a break in the 2-year slowdown trend with an uptick in manufacturing and services, positive surprises in retail sales and industrial production and GDP growth landing at 6% for 2019. Targeted monetary and fiscal policy easing, and the removal of trade-related uncertainties after the signing of the Phase 1 deal, support an encouraging outlook for China and the region, as the resumption of the export and trade cycle also benefits South Korea, Taiwan etc.

Adrien Pichoud
Head of Total Return
Chief Economist

Exports of South East Asia economies and Global PMI Manufacturing

South East Asia is experiencing a resuming of a positive export cycle after two year of slowdown.

Source: SYZ AM, Factset
Data as of 20.01.2020



ASSET VALUATION & INVESTMENT STRATEGY GROUP REVIEW

Risk and duration

Encouraging economic trends and accommodative monetary policies lead us to a favourable view on risk.

The risk preference was left unchanged at “mild preference” as we maintain a constructive view on risky assets.

The central economic scenario remains positive with rather encouraging economic trends, especially in Asia, on the one hand, and still accommodative monetary policies across the globe, on the other.

We favour equities over bonds since a rebound is will increase appetite for equities.

In terms of valuation levels, no asset has absolute cheap or attractive valuations, but in relative terms (based on our Equity Risk Premium framework) we find that equities offer better value compared to government bonds or corporate credit.

Moreover, if the economic rebound gets confirmed in the coming months, it will support earnings growth and appetite for equities, on the back of absolute improved valuation levels and also from a relative value angle in an environment with still accommodative monetary policies and low interest rates.

We raised duration to mild preference.

The duration scoring was raised at the same level as the risk level (i.e. «mild preference).

Long term bonds look more attractive due to USD and EUR yield curves.

Valuation of nominal government bonds have improved from their expensive levels last quarter. At the same time US dollar and euro yield curves now exhibit some positive steepness that makes long term bonds more attractive than cash again.

Inflation pressures are low and there is little risk of rate hikes, yet duration can provide a hedge in such an event.

On the inflation front, pressures remain very mild or non existent across the board with a limited risk of accelerating in the months ahead coupled with central banks (especially the Fed and the ECB) maintaining accommodative monetary policies in 2020 with limited risk of rate hikes.

Also, at current interest rate levels duration exposure can provide a useful hedge in case of an unexpected spike in volatility while adding diversification with downside protection.

> “*The risk stance has been kept unchanged at “mild preference” while duration was upgraded at the same level as the risk following the latest repricing of long term interest rates with the aim of bringing some diversification effect to portfolios.*
>
> ***Maurice Harari***

Equity and bond markets

We left geographical allocations unchanged.

No change in the geographical allocation of the equity part, even if valuations have generally deteriorated yet still offer more value in relative terms compared to bonds.

We prefer emerging market equities and a mix of growth and cyclicals.

In terms of equity allocation, we maintain a preference for emerging market (especially China) equities and also a mix between growth and cyclicals. In this context, we placed Mexican equities back at “mild preference,” in line with the overall emerging market region score.

Government bonds’ better valuations led to an upgrade.

In the bond asset allocation, we upgraded nominal government bonds to “mild preference” (same level as linkers) on the back of better valuations.

We view credit and EMs as constructive.

We are still constructive on credit (investment grade, high yield and subordinated debt) and emerging markets (local bonds upgraded to “mild disinclination”).

Forex

Gold is still the preferred alternative to currency, but the GBP and JPY get upgraded and we prefer the dollar over the euro.

The British pound is still scored at “mild preference” after the latest rather positive Brexit developments.

Gold remains the preferred alternative currency for the diversification it offers a portfolio and (scored at “mild preference”).

The US dollar is favoured to the euro not only because of the greenback’s higher valuation, but also that it offers a better growth outlook and especially a positive yield differential.

Finally, the Japanese yen is ranked at “mild preference” for its diversifier characteristic in a risk-off environment.

Maurice Harari
Senior Portfolio Manager

INVESTMENT VIEWS

These are our investment preferences for February, based on the Investment Strategy Group held on 14 January 2020.

	– – –	– –	–	+	+ +	+ + +
Equities			Japan Australia South Africa	United States Canada Euro Zone United Kingdom Swizerland Scandinavia South Korea India Brazil Russia Mexico	China	
Bonds Asset Allocation			EM Hard EM Local	Real Govies IG Credit HY Credit Nominal Govies		
Indexed-Linked Government Bonds	United Kingdom Germany	Canada France	Italy	United States		
Government Bonds		Australia Japan	United Kingdom Canada Germany France Italy	United States		
IG Credit			Europe United States	United Kingdom		
HY Credit			United States	Europe		
Emerging Bonds - Hard (HC) and local currency (LC)		Turkey (HC) Hungary (LC) South Africa (LC)	Russia (HC) Mexico (HC) Poland (HC) Hungary (HC) Russia (LC) Turkey (LC) Indonesia (LC) Brazil (LC)	Brazil (HC) Mexico (LC) South Africa (HC) Indonesia (HC) Poland (LC)		
Currencies			EUR CHF CAD AUD	GBP JPY Gold		

Change from last month