

SYZ Group's outlook for 2021: No vaccine for low growth

Geneva, 8 December 2020 – Though 2021 will continue to be impacted by the challenges of the Covid-19 pandemic, the SYZ Group expects next year to be less traumatic for investors. There will be opportunities for creating alpha through dynamic active management, despite the gradual return to long-term sluggish growth.

The SYZ Group has released its economic and market outlook for 2021, which delivers a breakdown by asset class of the biggest trends set to shape markets next year. Central to the bank's overarching vision is the idea the global economy continues to be locked into a long-term 'Japanification' scenario, where low interest rates and low inflation will prevail for the foreseeable future.

Although next year could see economies strengthened as they return to pre-pandemic levels of activity, even the widespread availability of Covid-19 vaccines will not be enough to jump-start more significant growth.

Chief economist Adrien Pichoud explains this would require sustained additional fiscal stimulus, monetary policy and structural reforms. "Unfortunately, the political situation in the US and Europe currently leaves little hope for a consensus on such structural reforms. Fiscal and monetary policy are likely to remain the main policy tools, offering short-term fixes to keep economies afloat without altering the long-term trend of lower growth," he says.

Capitalise on market movements

The slow resumption of low levels of pre-pandemic growth will be mirrored by markets, where the team does not expect a V-shaped rebound. While sectors that suffered disproportionately should recover next year, a full rotation away from top-performing tech stocks and benefitting lagging 'value' sectors, such as energy, banks, travel and leisure, is unlikely. Nevertheless, investors should expect ongoing volatility, as they await a conclusion to the Covid-19 saga.

Head of discretionary portfolio management, Luc Filip reflects on lessons learned from the last year: "If the first main takeaway from 2020 is stay invested, the second lesson from the year is that timing market investments with tactical allocation movements is a key performance driver. Volatile markets create opportunities to add value and performance, so the ability to contain drawdowns and to participate in any upside is vital."

In equities, the team sees selective value in recovering sectors, while it believes technology leaders should continue to benefit from the tailwinds of an increasingly digitalised economy. Filip also notes the growing importance of Chinese markets in investor portfolios, which bring important diversification characteristics and strong upside potential, as China leverages its enormous internal market to catch up to leading developed economies.

On the fixed income side, the team acknowledges a 'demanding' environment for investors, and advocates an active approach which makes use of all the tools at investors' disposal – sovereign bonds for providing liquidity, investment grade credit and dollar-dominated emerging market bonds for generating returns, convertible bonds offering convexity and green bonds to support sustainability.

Alternatives will be essential

Following a time of crisis, private markets are once again poised to deliver enticing opportunities. The outlook notes we are 'likely on the verge of an attractive vintage', with transactions expected to take off in 2021.

However, SYZ advises a selective approach, to make sure investors are not 'catching a falling knife', and a strong focus on balance sheets and ESG criteria. The team highlights structural growth opportunities in areas like healthcare, technology and software-enabled business services..

Marc Syz, CEO of SYZ Capital notes: "Private market investors have a unique opportunity to take advantage of the current stressed environment through strategies such as special situations and secondaries, or secure attractive entry in well-managed companies that will survive headwinds and emerge stronger than ever."

Hedge funds have also fared relatively well during the pandemic and should continue to prove themselves in a challenging market environment. SYZ outlines key strategies it is currently favouring – equity hedge strategies, particularly in China and Japan, equity long/short and convertible arbitrage funds benefitting from higher volatility.

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About SYZ Group

Founded in 1996 in Geneva, SYZ is a Swiss banking group focusing exclusively on asset management via three complementary business lines: private banking, institutional asset management, alternatives. SYZ offers private and institutional investors an investment style based on active management and risk management aimed at absolute performance. The Group has substantial equity, almost double Switzerland's regulatory requirements, and enjoys its status as an independent company due to its family shareholding structure. www.syzgroup.com

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