MONTHLY COMMENT
December 2020

XO INVESTMENTS 20 ANS

MARKET REVIEW

The final sprint of a climb launched in March

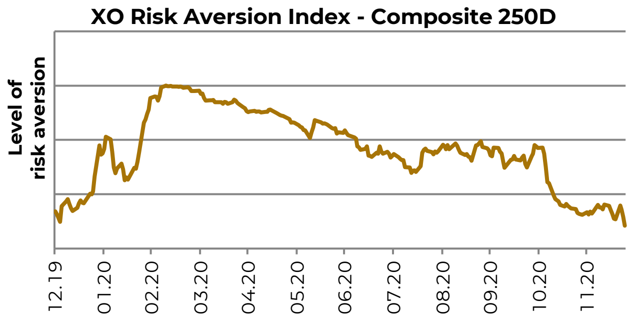
The acceleration in terms of recovery caused by the announcement of the vaccines continues during the last month of the year. Equity markets remain well oriented. Switzerland nevertheless suffers from the weight of its defensive stocks (Nestlé, Novartis and Roche). The US Federal Reserve intends to support the economy for a long time to come and suggested that inflation is too low. These considerations are positive for risky assets and commodities. Despite this end-of-year rush, many markets remain negative for 2020, particularly in Europe.

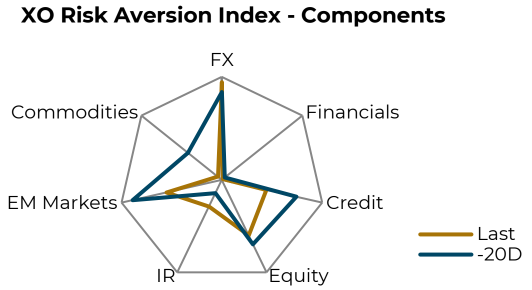
Bonds remain stable, as in the previous month. They ended 2020, in a slightly positive position. Real estate had a very positive consecutive second month, enabling it to end the year on positive, notwithstanding the fact that some funds lost nearly 20% of their value in March.

The USD remains under pressure, notably because of the FED's statements. With a loss of nearly 9% against CHF or EUR, this is a major year. The EUR remained surprisingly stable over 2020 against CHF. Finally, raw materials were up in December. Oil remains in annual decline but gold ends a good year.

Our risk indicators remain low and declining on all components with the exception of currencies and emerging markets.

	Value	December	2020
Equity markets			
Switzerland (SMI)	10 704	2.17%	0.82%
United States (S&P500)	3 756	3.71%	16.26%
Europe (Euro Stoxx 50)	7 695	1.77%	-3.21%
Japan (Nikkei)	27 444	3.82%	16.01%
China (Shanghai SE)	3 473	2.40%	13.87%
Brasil (Bovespa)	119 017	9.30%	2.92%
Currencies			
USD/CHF	0.885	-2.27%	-8.40%
EUR/CHF	1.081	-0.28%	-0.38%
GBP/CHF	1.209	-0.16%	-5.74%
EUR/USD	1.223	2.27%	8.87%
Other asset classes			
Swiss Real Estate		6.06%	10.81%
Swiss Bonds		0.35%	0.90%
Foreign Bonds		0.16%	3.88%
Commodities		5.97%	-23.72%
Oil	48.52	7.01%	-20.54%
Gold	1 894.36	6.54%	24.40%
Rates / Indicators			**Δ**
10 years Swiss rate		-0.55%	-0.08%
10 years US rate		0.91%	-1.00%
US Unemployment		6.70%	3.20%
US GDP		-2.80%	-5.10%
US CPI		1.60%	-0.70%





2020, THE YEAR OF THE CHANGEOVER

The year that has just passed will be remembered as the year when everything became possible, the best and the worst. Crises are revealing and act as accelerators of fundamental trends already initiated before. 2020 is a year of changeover, from an old world to a new one.

The shock of the end of winter and the containment caused by the virus are events of a brutality that few economists could have imagined. The decline in growth caused by this closure in the second quarter was more violent than the recessions caused by the world wars or the Great Depression of 1929. It is difficult to remember just one figure, but we note nevertheless :

- **33% drop in US GDP** in the 2nd quarter ;
- **22 million jobs** lost in the US in the spring ;
- **3 trillion cash injection** from the FED in March (i.e. $3x10^{21}$ USD).

All the economic considerations of the end of January were swept away by this tsunami added to which the China-USA trade war and the prospect of the American election set the scene for extremely unclear prospects.

After these difficult months and a return to a certain normality in the summer, economic players became more sensitive to epidemiological news than to economic news. It is therefore not surprising that the announcement of vaccines just after the American presidential election had the effect of a magic potion for autumn gloom. Anticipation of a return to normal life thus enabled most of the working population to continue the recovery phase begun in April.

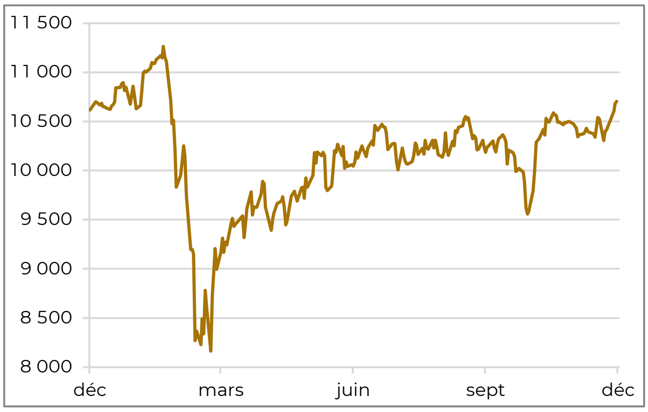
The world will now have to manage the challenge of general vaccination in a context of exacerbated social tensions. The health crisis has quickly combined with an economic crisis and now an unprecedented social crisis. All major democracies are weakened by the management of the epidemic. Two countries clearly symbolise this situation. First of all, France, which sees demonstrations occurring every weekend and government overwhelmed by the task of government. And the United States, of course, which is paying a heavy price in terms of deaths due to Covid-19 and which, after major racial demonstrations, is torn apart by the disputed presidential election.

There will be a before and after 2020. The world that is being built before our eyes is accelerating what was already begun. China will probably be the only country to have positive growth in this nightmare year. Despite its initial mismanagement of the crisis and its opacity, it is clear that China is (again) emerging victorious in economic terms. The West realised its de-industrialisation at the worst possible time, when it needed it most. China's influence is growing in a world whose center of gravity is moving closer to Beijing.

The giants of the new technologies, commonly known as the GAFAMs (Google, Apple, Facebook, Amazon, Microsoft) are the main beneficiaries of the changes in consumption and lifestyle imposed by the virus. The world continues to polarise with large companies that continue to grow and small businesses that suffer and slowly die out.

Swiss equities withstood the crisis better in the spring thanks to the headlines in the index. The autumn, however, proved difficult in anticipation of a popular initiative targeting multinationals. The international appeal of the SMI remains undiminished. Foreigners use the Swiss index for its defensive composition and the currency, which is particularly sought after in times of crisis.

SMI evolution in 2020



Source : Bloomberg, XO Investments SA

The world that is now being built is accelerating this disparity. However, featuring within the leading index of Swiss equities is Lonza which benefits from its agreement with Moderna to participate in the production of a vaccine. Credit Suisse is under pressure in a complicated year for bank stocks.

The watch industry is suffering from the complete cessation of tourist travel. Swatch is thus continuing a negative trend of several years. Swiss Re is the worst headline due to the forthcoming compensation payments for the reinsurance company.

Evolution of the main SMI assets

Lonza	62.1%
Sika	34.9%
Givaudan	25.7%
Partners Group	21.5%
ABB	10.8%
UBS	8.5%
Alcon	7.4%
Cie Financière Richemont	6.9%
Geberit	4.9%
SGS	4.3%
Nestlé	2.1%
Roche	1.6%
Swisscom	-3.0%
LafargeHolcim	-4.4%
Novartis	-5.6%
Zurich	-5.6%
Swatch Group AG	-7.6%
Swiss Life	-10.2%
Credit Suisse	-10.4%
Swiss Re	-17.1%

Source : Bloomberg, XO Investments SA

At the international level this disparity evident when one views the Nasdaq, an index of American technology stocks, which leads the way. With this exception, the most prolific markets are linked to countries that have managed the crisis well, namely the Asian markets. Sweden, so much criticised for its health strategy, is the best European market. South Africa, like most African countries, is little affected even though its currency has collapsed.

Europe is the big loser in 2020. Italy, France, Great Britain and Spain are among the worst performers. Russia closes the gap.

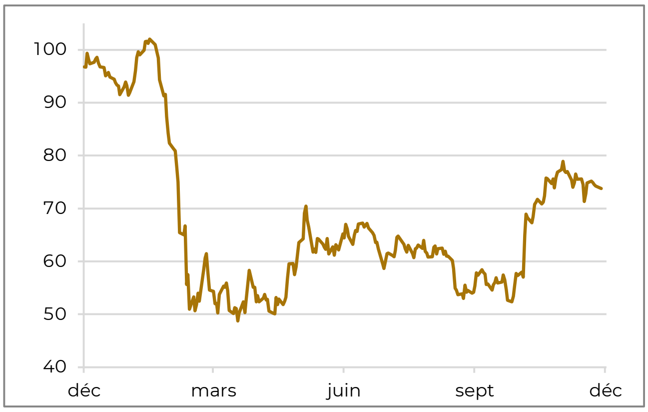
Trends in the main equity indices

US - Nasdaq	USD	43.6%
Korea - Korea composite Index	KRW	30.8%
US - S&P 500	USD	16.3%
Japan - Nikkei 225	JPY	16.0%
India - Mumbai Sensex 30 Index	INR	15.8%
China - Shanghai Comp Index	CNY	13.9%
South Africa - FTSE Top 40	ZAR	7.0%
Sweden - OMX Stockholm	SEK	5.8%
Switzerland - SPI	CHF	3.8%
Germany - DAX 30	EUR	3.5%
Brazil - Bovespa stock index	BRL	2.9%
Canada - S&P TSX Comp Index	CAD	2.2%
Switzerland - SMI	CHF	0.8%
Australia - S&P 200	AUD	-1.5%
Hong Kong - Hang Seng	HKD	-3.4%
Italy - MIB 30	EUR	-5.4%
France - CAC 40	EUR	-7.1%
Thaïland stock ex. Index	THB	-8.3%
Great-Britain - FTSE 100	GBP	-14.3%
Spain - IBEX 35	EUR	-15.5%
Russia - Russian Traded	USD	-20.3%

Source : Bloomberg, XO Investments SA

At sector level, energy and banking show the worst annual performance, while information technology is the best sector of the year.

Evolution of the European banking index



Source : Bloomberg, XO Investments SA

As in every crisis, the CHF plays its role as a safe haven. Only the Swedish krona and the Australian Dollar ended the year up against the CHF, after having fallen by almost 9% in mid-March.

Although Europe was the epicentre of the health crisis in the spring, the EUR held up well and ended the year only slightly negative against the Swiss currency.

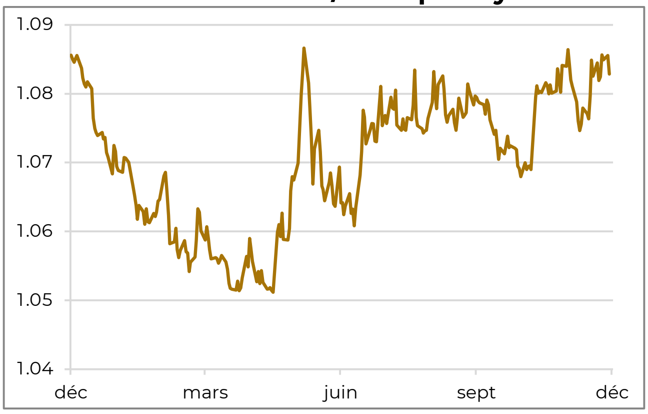
After a stable 2019, the USD is in free fall. Massive liquidity injections and political uncertainties are weighing on the greenback. But a depreciation can also be seen positively, since it facilitates American export capacity

Currency movements against CHF

Swedish Krona	4.1%
Australian Dollar	0.1%
Euro	-0.4%
New Zealand Dollar	-2.4%
South Korean Won	-2.4%
Japanese Yen	-3.0%
British Pound	-3.8%
Norwegian Krone	-5.7%
Canadian Dollar	-6.4%
Singapore Dollar	-6.7%
Hong Kong Dollar	-6.8%
US Dollar	-8.1%
Malaysian Ringgit	-8.4%
Norwegian Krone	-8.6%
Indonesian Rupiah	-9.0%
Indian Rupee	-11.0%
South African Rand	-12.9%
Mexican Peso	-12.9%
Russian Ruble	-23.4%
Turkish Lira	-26.8%
Brazilian Real	-29.5%
Argentine Peso	-35.2%

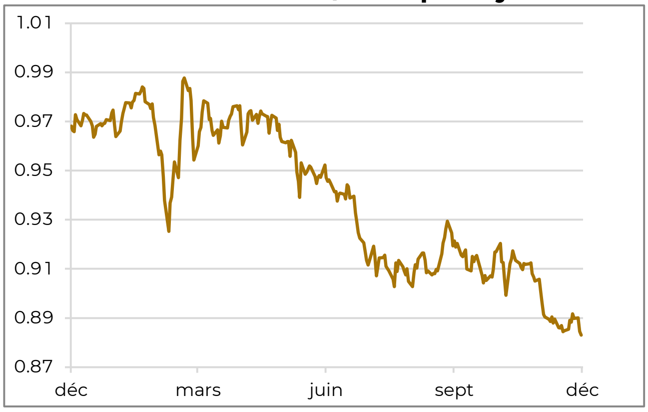
Source : Bloomberg, XO Investments SA

Evolution of the EUR/CHF parity in 2020



Source : Bloomberg, XO Investments SA

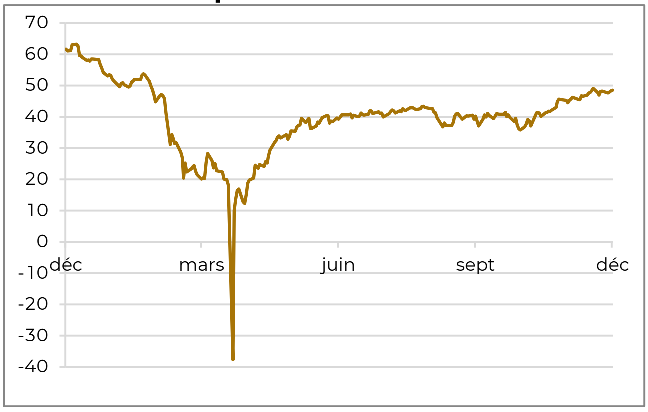
Evolution of the USD/CHF parity in 2020



Source : Bloomberg, XO Investments SA

Oil, like the equity markets, was in the doldrums in the spring. The drastic reduction in industrial production and the paralysis of air transport caused the barrel of oil to plunge to unimaginable levels. On April 20, the eve of the renewal of derivative instruments, the barrel traded as low as -40$! This price reflected the total filling of all storage capacities. Renewed optimism and production cuts by OPEC countries allowed black gold to regain its color from the beginning of the summer.

Evolution du pétrole en 2020



Source : Bloomberg, XO Investments SA

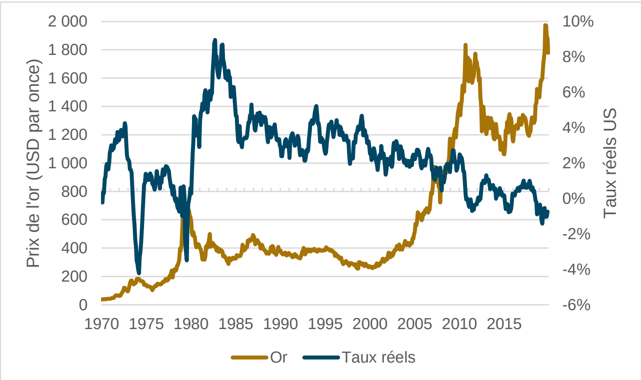
Raw materials had very different fates over the year. Unlike fossil fuels, gold had a very good year in 2020. Despite an initial plunge at the beginning of March, the players gradually reallocated portfolios towards the "barbaric relic".

Evolution of gold in 2020 years

Source : Bloomberg, XO Investments SA

Gold is benefiting from the interest rate configuration created by this crisis. Negative real interest rates have always been positive for the gold metal.

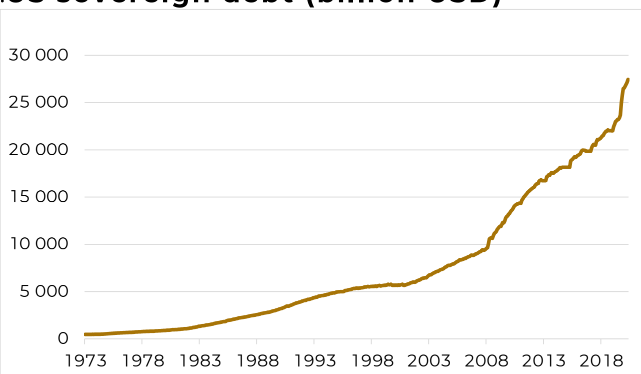
Gold and real interest rates



Source : Bloomberg, XO Investments SA

The central banks, in order to combat the panic of March and the economic collapse, pushed the low interest rate policy to the extreme. Central bankers are now the main buyers of government debt with interest rates at 0 or even negative. The independence of the central banks was shattered in the spring of 2020 and the "banknote printing press" was back in operation

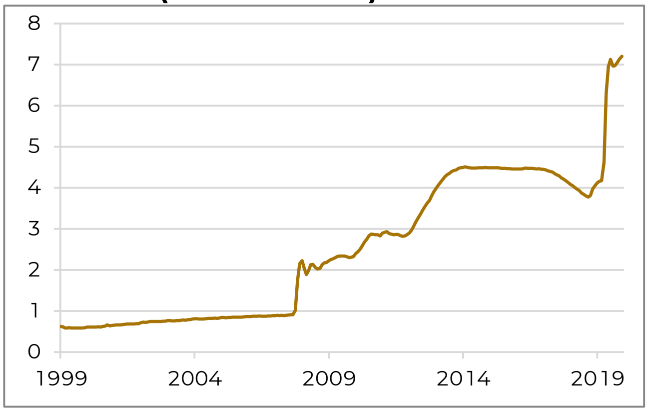
.US sovereign debt (billion USD)



Source : Bloomberg, XO Investments SA

State debt exploded this year. It is growing in the United States at a monthly rate of 1.6% and has reached almost USD 28 trillion. These amounts, made available to the economy to face the crisis, are created by the central bank, which has also seen its balance sheet take a lift. With 3 trillion USD created, we are entering an era of massive monetary printing. This is probably the most important lesson of 2020.

FED debt (trillions USD)



Source : Bloomberg, XO Investments SA

To limit the impact of the crisis, in addition to inflating their balance sheets, central banks have lowered interest rates.

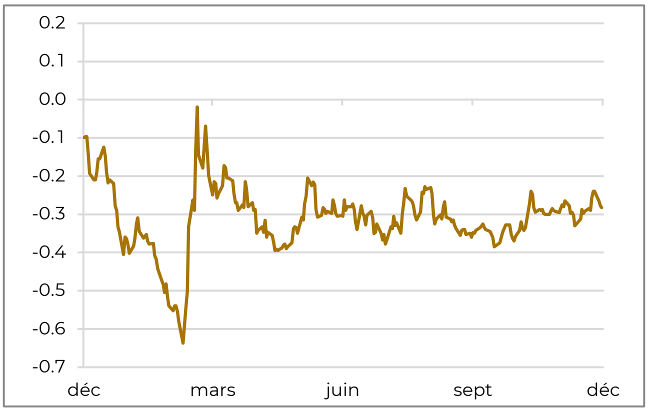
Trend in 10-year US interbank rates

Source : Bloomberg, XO Investments SA

In Switzerland, despite the decline in March, long-term interest rates remained relatively stable, a sign that the negative levels already in force are a form of floor.

As a corollary to these negative long-term rates, bonds are still less attractive, especially government bonds. All Swiss Confederation bonds therefore remain at negative rates. Duration, i.e., the taking of risk over the long term, becomes a risk without remuneration and no longer a risk-free remuneration.

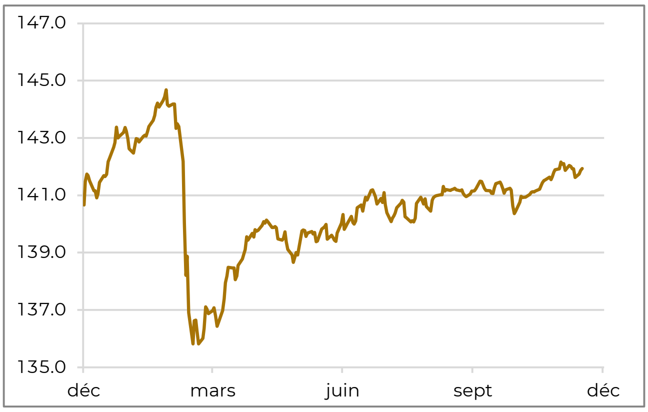
Development of 10-year Swiss interbank rates



Source : Bloomberg, XO Investments SA

The Swiss Bond Index (SBI), although achieving positive results in the first two months of 2020, also suffered from the massive fall in March. Profit-taking or deleveraging are the main reasons for this surprising movement. Over the year the index remained stable at unattractive levels. At 31 December the yield to maturity was -0.18% (compared with -0.07% a year earlier) for a duration of 7.68 years (compared with 7.56 at 1 January). Passive management of this asset class is becoming less and less attractive.

Evolution of SBI in 2020



Source : Bloomberg, XO Investments SA

Real estate experienced a year similar to bonds with a very significant drop in March. Some funds lost up to 25% in a fortnight. The end of the year allowed this asset class to end the year in positive territory with a volatility that was rarely seen. Commercial real estate was more penalized than residential real estate and hardly bounced back. The crisis could have a long-term effect with the introduction of teleworking and a different relationship to employment.

Development of swiss real estate in 2020

Source : Bloomberg, XO Investments SA

The world to come, born in 2020, will revolve around major themes: digitalisation, sustainable development, universal income, monetary crisis, "uberisation" of jobs, biotechnology... So many subjects that create as many opportunities as they are dangers. Central banks will be at the heart of the issues of this year 2021 and will have to arbitrate between the need to massively support the economy with the development of infrastructures for example and the underlying monetary risks such as the return of inflation or the loss of credibility of the major currencies. The rise in gold or crypto-currencies represents nothing more than this mistrust of our governments.

We are entering a new era corresponding to a real industrial revolution: the digital revolution. These prospects can only lead us to reasoned optimism for the year 2021.

Today's investments are tomorrow's profits and after tomorrow's jobs. Helmut Schmidt.