2019 Review
2020 Outlook

7 January 2020

Summary

Ivo Kaufmann
Chief Investment Officer

The progress of talks between the US and China, declining political risk in the UK and a third Fed rate cut in four months have supported another leg up in equity markets at the end of 2019. This movement should probably be seen as a reversal of the pessimism that developed throughout the summer, when the fear of recession was growing amid tariff escalation, weaker economic data and US yield curve inversion. As this fear has receded, equities and long-term interest rates have logically adjusted upward and now appear more in line with a scenario of global growth stabilization at a low but positive level.

Now, the question is: what's next? Is there still some upside potential for equity markets after the strong 2019 performance? We believe those year-to-date performance figures have to be viewed in a bigger context: the fact that the last significant correction on equity markets coincided exactly with the end of the year in 2018 gives a somewhat misleading impression that should be balanced by a few facts. At the beginning of last October, the US equity market (S&P500) was up almost 20% for 2019. However, the market was almost flat over 12 months. At the end of November 2019, the annualized performance of the US equity market over the past two years was just above 10%; similar to the average annualized Earnings Per Share (EPS) growth over the same period. Moreover, putting the US aside, not many other major equity markets have yet reached a new historical high in 2019.

Given this context, we maintain a constructive view on equity markets. We acknowledge that valuations are no longer cheap, but neither are they expensive in a world of ultra-low interest rates. Since monetary policies will remain very accommodative and bond yields very low, equities continue to offer the most compelling relative value across traditional asset classes as long as global economic momentum picks up in 2020 as we expect. Of course, there may be some volatility and a pullback is possible at any time, with any tweet, especially after the recent rally. Nevertheless, as long as the supportive economic environment prevails, the positive trend on equity markets is probably going to continue.

SSA Swiss Advisors AG
Uraniastrasse 34
CH – 8001 Zurich
Tel: +41 (0)44 206 60 40

info@ssaswissadvisors.com

Below are the major index performances in 2019. Contrary to 2018, asset price inflation was rampant in 2019. Nearly all asset classes rose at least 5%. The S&P 500 surged 28.9%, its best year since 2013 and second-best this century.

Equities

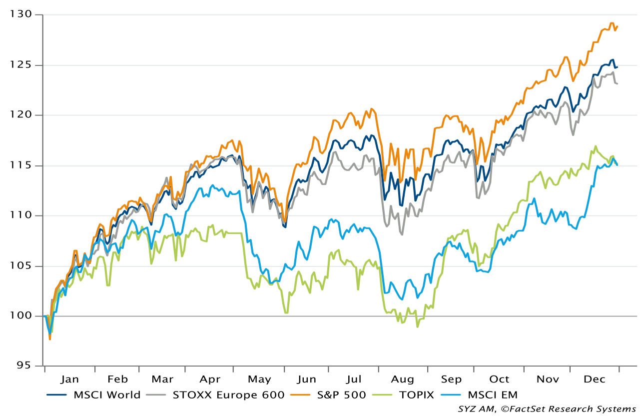
Performance	31.12.2019	2019
MSCI World (l.c.)	1'800	24.9%
DJ Stoxx 600	416	23.2%
S&P 500	3'231	28.9%
Russell 2000	1'668	23.7%
Nasdaq	8'973	35.2%
Topix	1'721	15.2%
MSCI EM (l.c.)	61'467	15.1%
BOVESPA	115'645	31.6%
China 300	4'097	36.1%
BSE 100	12'236	9.6%
Russia RTS	1'549	44.9%
CAC 40	5'978	26.4%
DAX 30	13'249	25.5%
SMI	10'617	26.0%
FTSE 100	7'542	12.1%
FTSE MIB	23'506	28.3%
IBEX 35	9'549	11.8%
VIX	13.8	-11.6

Source: FactSet Research Systems

World Equity Sectors

Tops	YTD
Information Technology	45.1%
Consumer Discretionary	25.9%
Industrials	24.2%
Flops	**YTD**
Energy	7.5%
Materials	15.6%
Utilities	17.9%

Source: FactSet Research Systems



From a sector point of view, Information Technology had a comeback in 2019 and was the major performer again (like in 2017). Gains were broad based. Energy was the only sector not to gain at least 10%.

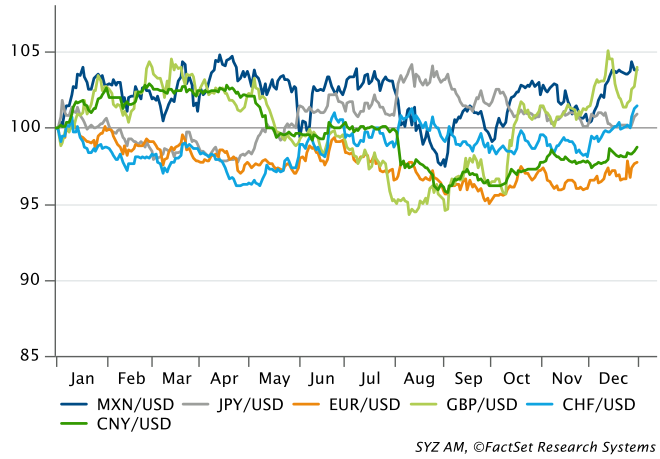
Barron's 2019 stock picks of the year underperformed the S&P500 once more on average last year (the fourth time over the last five years).

Barron's Top 10 stock picks for 2019

Company	Change
Alphabet A (GOOG)	29.02%
Apple (AAPL)	84.81%
Bank of America (BAC)	42.65%
BlackRock (BLK)	27.50%
Caterpillar (CAT)	16.09%
Chevron (CVX)	11.06%
Daimler (DAI.Germany)	5.58%
Delta Air Lines (DAL)	17.56%
Energy Transfer (ET)	-2.88%
Toll Brothers (TOL)	19.77%
Average	**25.12%**
S&P500	28.90%

Source: Swissquote **(USD)**

The major currencies versus the USD remained quite stable over 2019. This is unusual and was one of the characteristics of 2019.



FX

Performance	31.12.2019	31.12.2018	2019
EUR/USD	1.12	1.15	-2.2%
EUR/CHF	1.09	1.13	-3.6%
USD/CHF	0.97	0.98	-1.5%
GBP/EUR	1.18	1.11	6.3%
GBP/CHF	1.28	1.25	2.4%
EUR/NOK	9.87	9.91	-0.4%
EUR/CAD	1.46	1.56	-6.8%
CHF/JPY	112.3	111.7	0.6%
USD/JPY	108.6	109.7	-0.9%
USD/AUD	1.43	1.42	0.4%
USD/NZD	1.49	1.49	0.0%
USD/TRY	5.95	5.29	12.4%
USD/BRL	4.02	3.88	3.6%
USD/RUB	62.1	69.2	-10.3%
USD/INR	71.4	69.6	2.6%
USD/IDR	13883	14452	-3.9%
USD/ZAR	14.0	14.4	-2.4%
USD/CNY	6.96	6.88	1.2%
USD/MXN	18.9	19.7	-3.7%

Source: FactSet Research Systems

Bonds

Total Return	31.12.2019	2019
EMU Broad	0.26	6.0%
US Broad	2.34	8.9%
UK Broad	1.29	8.0%
Swiss Broad	-0.39	4.5%
EMU 3-5Y	-0.19	2.0%
EMU 7-10Y	0.26	6.9%
EMU 10Y+	0.87	15.8%
US 3-5Y	1.66	5.2%
US 7-10Y	1.88	8.4%
US 10Y+	2.32	14.2%
UK 3-5Y	0.58	1.6%
UK 7-10Y	0.70	4.9%
UK 10Y+	1.20	11.4%
Swiss 3-5Y	-0.66	-0.8%
Swiss 7-10Y	-0.51	1.6%
Swiss 10Y+	-0.20	9.1%
Global HY	5.69	14.0%
EM (Hard)	4.81	14.4%
EM (Local)	5.91	12.9%

Source: FactSet Research Systems

Interest Rates

Yield/Rate	31.12.2019	31.12.2018
US 10Y	1.92	2.68
UKT 10Y	0.82	1.33
CHF 10Y	-0.43	-0.18
JP 10Y	-0.02	-0.01
BD 10Y	-0.19	0.24
FR 10Y	0.12	0.71
IR 10Y	0.11	0.89
IT 10Y	1.42	2.75
SP 10Y	0.46	1.41
LIBOR EUR 3M	-0.41	-0.36
LIBOR USD 3M	1.91	2.81
LIBOR CHF 3M	-0.69	-0.71
Credit Spreads	**31.12.2019**	**31.12.2018**
Global HY Spread	377	488
EM spread (Hard)	289	438
EM spread (Local)	399	452

Source: FactSet Research Systems

Commodities

Performance	31.12.2019	2019
Energy	207	24.2%
Precious Met	1976	18.5%
Ind Met	324	1.5%
Agri	302	6.3%
Oil-Brent	68	34.0%
Silver	18	16.7%
Gold Bullion	1520	18.9%
Palladium	1909	52.3%
Platinum	971	22.1%
Copper	6156	3.2%
Nickel	14000	32.1%

Source: FactSet Research Systems

Market Outlook

Economic Outlook

Some encouraging signs at last! Cyclical indicators finally picked up in the past few weeks after several months of decline, suggesting that the long-awaited global growth stabilization may finally be about to materialize. Indices of industrial activity and of economic confidence have indeed picked up in Europe and in the US as they already had in China since the end of the summer. The expected support from resilient domestic demand is the main driver of this stabilization, and recent progress on trade and Brexit have likely helped. As a result, the once-rising risk of a global recession which the market started to price in already late in 2018 now appears to be receding. Therefore, our central scenario remains one of constructive global growth stabilization and a gradual, mild pickup in 2020, supported by low interest rates and accommodative monetary policies. Of course, risks to the macroeconomic outlook remain and the current soft level of GDP growth leaves the global economy quite vulnerable to an external shock - be it another twist in US/China discussions, some new geopolitical event, a shock in energy prices or something else. Nevertheless, the mere fact that the recent almost uniform slowing dynamic is not extending further helps to support a constructive view. As we move into 2020, we will look for confirmation of this pickup in growth.

Equities

If we look back at 2019, we now see that the latest global growth slowdown was one more mini-cycle such as the world economy has experienced several times in the last decade (the 2012 European-crisis and the 2015 oil price crash). In a world of low real and nominal growth, high debt levels, growing share of services in GDP and rising technology penetration, business cycles probably tend to become milder as the accumulation of excess capacity, subsequently followed by sharp adjustments causing "real" recessions, becomes much less likely. It is therefore our view, that the world economy may well be on the verge of a mini-cycle of growth reacceleration in 2020. If this economic rebound is confirmed in the coming months, it will support earnings growth and appetite for equities on the back of absolute improved valuation levels as well as from a relative value angle in an environment where monetary policies are still accommodative and interest rates low. We do therefore not share the view of other market participants that the market is terribly overbought. On the contrary, if – as mentioned before – we put the strong 2019 equity market in perspective, we do actually see some upside potential for equities (not like 2019, but high single digit returns should be possible). So, if our economic indicators are confirmed, we might increase our equity exposure back to neutral as we maintain a constructive view.

Bonds

The broad-based monetary easing trend witnessed in 2019 is coming to an end as cyclical momentum picks up. Central banks already run quite accommodative monetary policies and may no longer have a reason for easing them further. That said, it is too early to even think about reversal of the trend. As inflation rates are still low in absolute terms and below the central bank targets across the board, we expect stable monetary policies in the major areas in 2020. This means that bonds will still not offer a lot of value in USD and will continue to yield negative returns in EUR and CHF. We therefore do not change our strategy and continue to invest only in USD bonds with good quality and short maturities.

Foreign Exchange

The USD has dropped to the bottom of our currency relative strength rankings, with bearish readings on our short, intermediate, and long-term technical composites.

The USD will be threatened by the narrowing of real interest rate differentials that is likely if U.S. economic growth loses relative strength on a global rebound.

Moreover, the widening deficit in the US is negative for the USD. In the past, the USD has tended to decline when the deficit has been widening. For example in the early 1990s the deficit widened as a percentage of GDP and the implications were bearish for the USD. We expect the same effect to take place today as soon as the interest rate differential between the USD and other major currencies is going to decline.

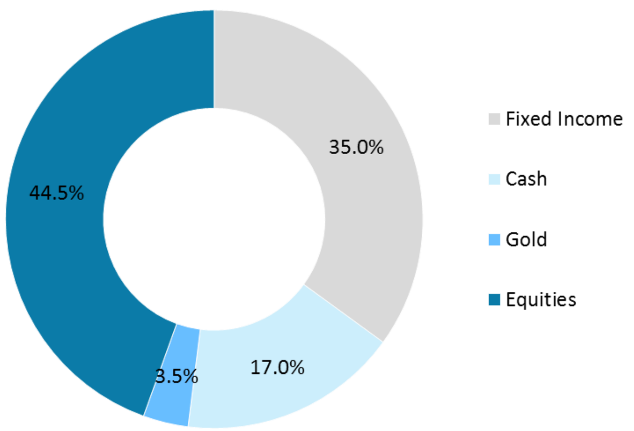
Gold remains our preferred alternative currency for diversification. As long as real interest rates remain flat or negative, Gold will stand to benefit. As the major central banks want inflation to return, they will be in no hurry to stop it once it does, keeping real rates under control even as yields rise in nominal terms. Gold will be able to profit from this trend and should move higher in the medium- to long-term.

Asset Allocation

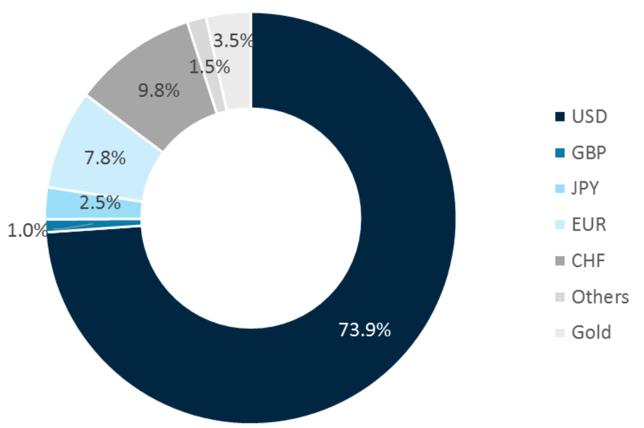
Given the factors described above, we keep our equity allocation at underweight. (USD and CHF Balanced details below).

Current Allocation USD Balanced

Asset Allocation

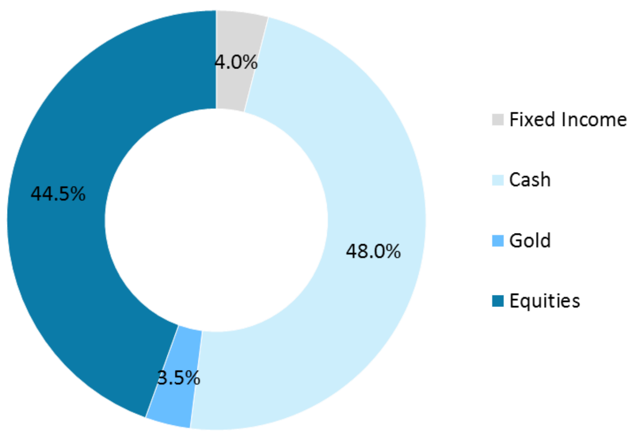


Currency Allocation



Current Allocation CHF Balanced

Asset Allocation



Currency Allocation