



EDMOND
DE ROTHSCHILD

ASSET ALLOCATION STRATEGY

MARKET ANALYSIS AND PRINCIPAL INVESTMENT THEMES

OCTOBER 2020

THERE IS LIGHT
AT THE END OF
THE TUNNEL

► There is no doubt that the short term picture is highly uncertain and a source of volatility. The Covid epidemic has resurfaced in Europe and, to a lesser extent, in the US. The outcome of the US presidential elections is still uncertain even if opinion polls point to a Democrat win. And efforts to finalise Brexit are still chaotic.



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The environment is still fragile and the recovery, with the notable exception of China, seems to be stalling. Against this backdrop, new stimulus plans in the US and Japan are being discussed and the ECB could take further accommodating steps. This all serves as a reminder that, despite extraordinary fiscal and monetary stimulus in the past, there could still be some leeway should unforeseen circumstances arise. And if a genuine political majority in the US takes shape, there will undoubtedly be a strong determination to underpin the recovery.

WE HAVE RAISED PORTOLIO RISK LEVELS SLIGHTLY

The big question is whether a vaccine could be approved in the coming weeks. Comments from Pfizer and Moderna, as well as other companies in Phase III trials, suggest this is possible. If so, markets could rise sharply, especially if Democrats were to seize control of Congress; their stimulus package is bigger than that of the Republican Party. News of a vaccine would help us anticipate the end of the sanitary crisis and free up forced household savings. Note that in August, the household savings rate in the US hit 14.1%. In addition, monetary policy is likely to remain highly expansionist and economic stimulus would accelerate any rebound in US demand.

It is impossible to predict the US election results, even if opinion polls point to a Democrat victory, and Phase III results but there is a real possibility of positive news for markets. That is why we have increased risk margins in portfolios, even if this carries the risk of some short-term volatility, by cutting sovereign debt weightings. They offer practically no yield and at these levels have lost most of their capacity to protect portfolios. Instead, we have raised exposure to European high-yield bonds as they would benefit from any further monetary easing from the ECB. Such a move is currently being explored if we are to believe central bank comments.



KEY POINTS

Sovereign debt
weightings reduced

Now overweight
Japanese equities
after cutting European
equity exposure

We have also raised Japanese equity weightings and reduced European equity exposure. Japan has got the Covid crisis under better control and the new government seems even more determined to get the economy back up and running again. This determination is a contrast to European countries: after making considerable efforts, they appear to have almost run out of room to manoeuvre.

	OUR CONVICTIONS FOR OCTOBER*	CHANGES COMPARED TO THE PREVIOUS MONTH
ASSET CLASSES		
Equities	=	→
Fixed Income	=	→
Cash	=	→
EQUITIES		
US	=	→
Europe (ex-UK)	=	↓
UK	-	→
Japan	+	↑
Emerging Markets	=	→
Global	=	→
Convertibles	=	→
SOVEREIGN BONDS		
US	=	↓
Euro Zone	-	↓
Emerging Markets	+	→
CORPORATE BONDS		
US Investment Grade	=	→
Euro Investment Grade	=	→
US High Yield	=	→
Euro High Yield	+	↑

*Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 21/10/2020.

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EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

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