Market review November 2019

Stock indices continued their upward trend in November. The signature of "phase 1" of a trade deal between China and the US, which is believed to be imminent (in the words of both parties in any event...), better than expected economic statistics which seem to suggest that the risk of recession is reducing and 3rd quarter business results outpacing expectations, are the main ingredients of a cocktail that equity investors have consumed without moderation.
Far be it from us to cast doubt on the optimistic news coming in from pretty much everywhere, but we remain somewhat sceptical that all these potential risks will have a "happy ending".

Market trends at end of November 2019

	Equities in Local Currencies							
End of November	**MSCI World**	**S&P 500**	**EuroStoxx**	**CAC**	**Spain**	**Switzerland**	**UK**	**Hong Kong**
Perf 1 Month	2.63%	3.40%	2.75%	3.06%	1.02%	2.68%	1.35%	-2.08%
Perf 3 Month	7.19%	7.33%	8.08%	7.75%	6.12%	6.04%	1.93%	2.42%
Perf YTD	21.68%	25.30%	23.39%	24.83%	9.51%	24.49%	9.19%	1.94%

	Commodities				Currencies vs EUR			
End of November	**WTI Oil**	**Brent Oil**	**Gold**	**Copper**	**USD**	**JPY**	**GBP**	**CHF**
Perf 1 Month	1.83%	3.65%	-3.24%	1.16%	1.22%	-0.10%	1.15%	-0.16%
Perf 3 Month	0.13%	3.31%	-3.71%	3.75%	-0.29%	3.24%	6.04%	1.20%
Perf YTD	21.49%	16.04%	14.15%	-1.69%	3.90%	4.15%	5.45%	2.15%

	Bloomberg Indices Bonds Total returns							
End of November	**Global Aggregate**	**US Aggregate**	**Euro Aggregate**	**US 10 Year Treasury**	**German 10 Year Bund**	**Global Credit**	**Global High Yield**	**Emerging Sovereign $**
Perf 1 Month	-0.76%	-0.05%	-0.62%	-0.65%	-0.74%	-0.29%	0.08%	0.03%
Perf 3 Month	-1.11%	-0.28%	-2.05%	-1.61%	-5.60%	-0.01%	1.37%	0.60%
Perf YTD	6.22%	8.79%	6.76%	9.35%	12.84%	9.84%	9.72%	11.42%

Source : Bloomberg 30/11/19.

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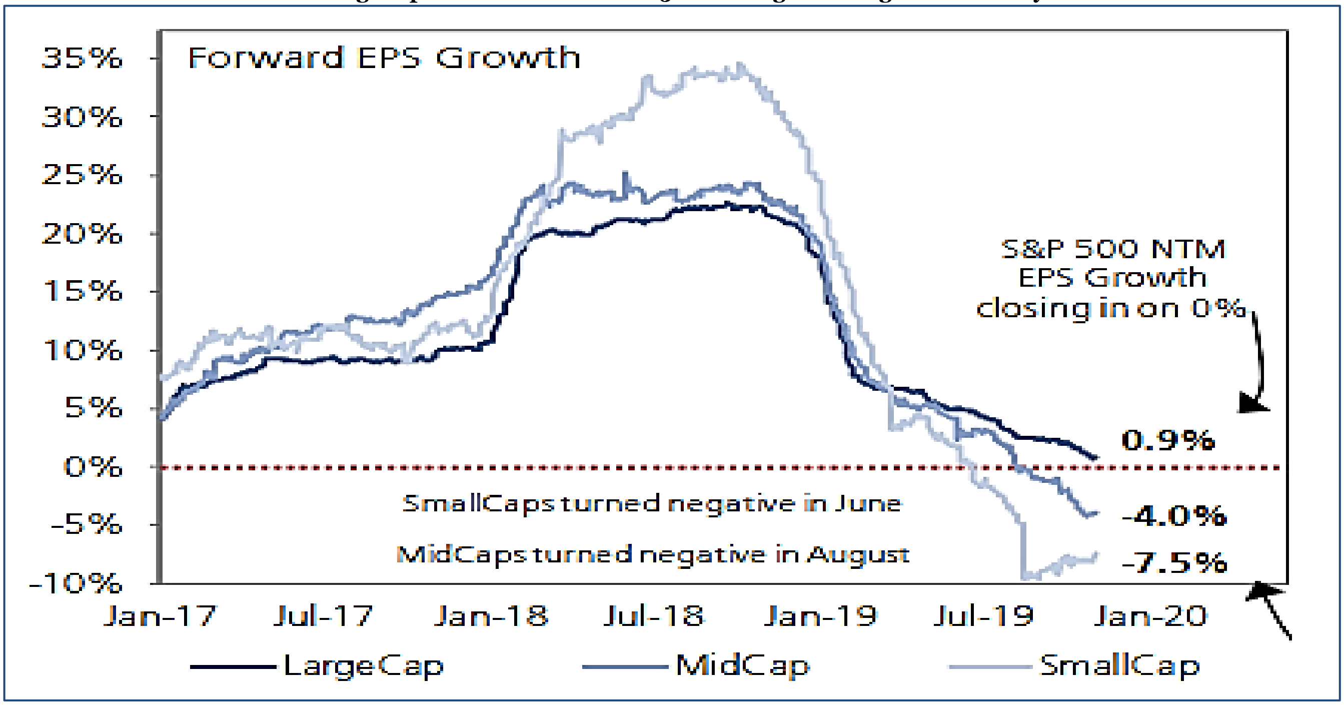
If we look at earnings, almost 75% of S&P500 companies published results which exceeded expectations. But haven't these expectations been drastically lowered since the summer?
Of course results were better than expected, but let's not forget that they were still down compared to the 3rd quarter of 2018 for many companies.

Earnings expectations for the S&P 500 closing in on negative territory



Source: UBS

Moreover, profit margins have been squeezed for several quarters now. That kind of situation has frequently led to a period of recession in the past. But as we all know, in 2020, the US Presidential Election will take place. No President has ever been re-elected in a recession. Mr. Trump will therefore do his utmost to ensure that the US economy grows next year, albeit sluggishly. Usually, equity markets have done relatively well in US presidential election years. But that does not mean that the year cannot be volatile. We can foresee a difficult first semester with a recovery coming in the second half of the year.

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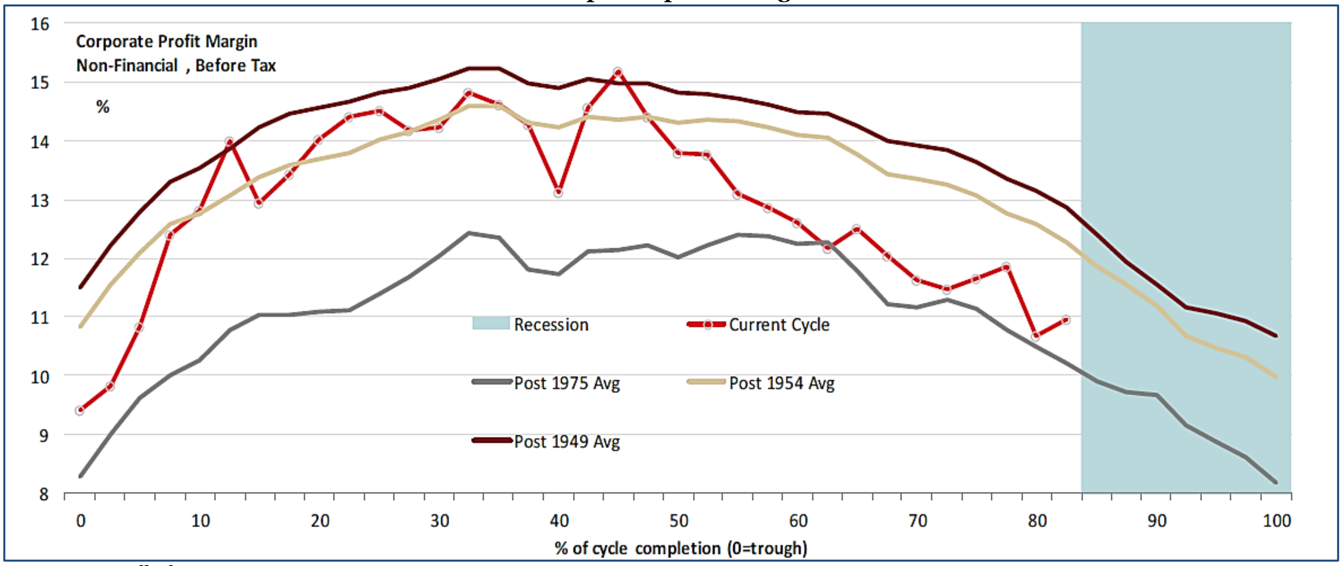
US corporate profit margin



Source: Steve Gallagher, SG US, Datastream

We are not particularly pessimistic about equities, but we do believe that the risk/reward is currently less attractive. Equities on the whole are not expensive (even if the multiples of some segments are well priced), but current valuation levels paint a somewhat optimistic economic picture. The least disappointment could be quickly penalised. We hear the arguments of the most optimistic investors who often refer to the fact that there is a lot of cash in the allocations which would only need to be deployed. Admittedly, this is true but does not seem to be a solid enough argument to consider that shares will perform strongly in the short term.

We are also attentive to volatility. It has been evolving for several years in the lower end of its historical range.

No wonder when you see the massive short positions taken by investors in recent months. Again, caution is the order of the day. If these short positions are unwound (short covering), this may precipitate a short-term market correction.

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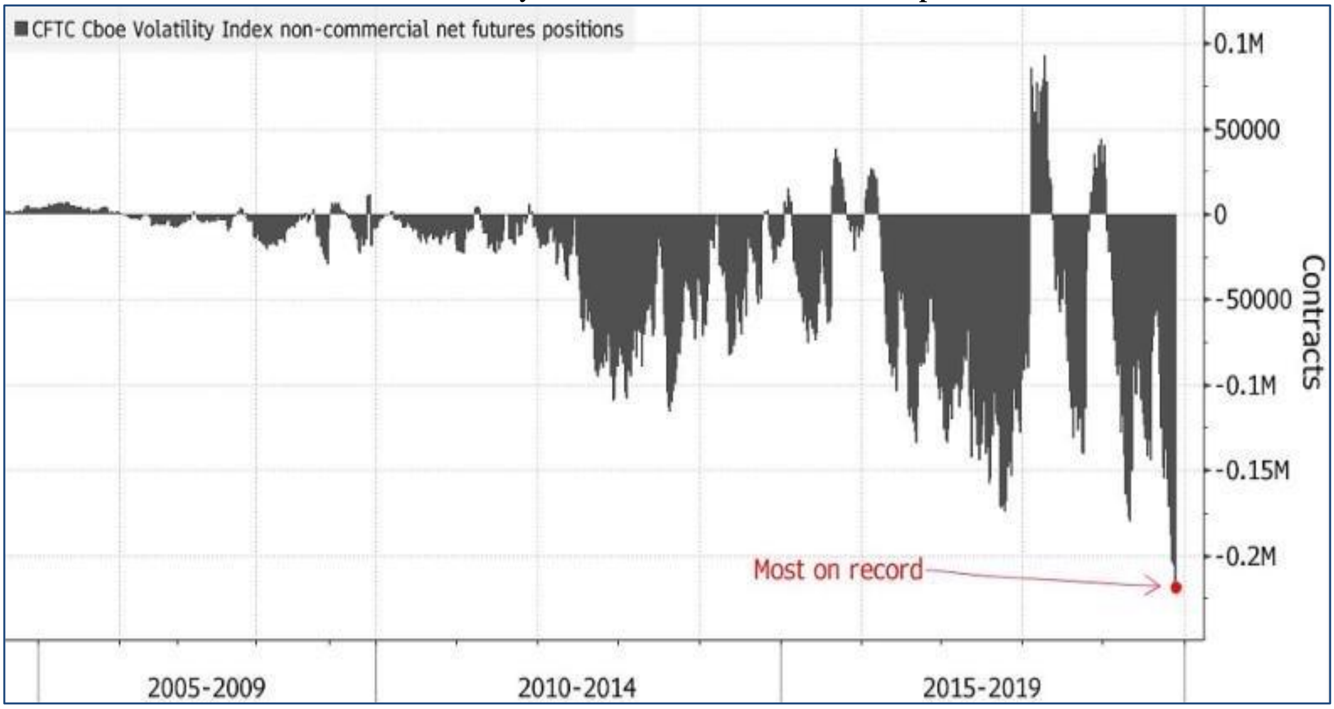
CFTC Cboe Volatility Index non-commercial net futures positions



Source: Bloomberg

Attention should also be paid to any good news to come. Eurozone countries with budget surpluses such as Germany or the Netherlands are coming under pressure from Christine Lagarde (new ECB President) to implement large-scale investment programmes to launch an economic recovery. If this strategy is successful, the yield curve should logically steepen and this may therefore cause central banks to modify their rhetoric and potentially make investors more nervous.
Having said that, we continue to adopt a constructive approach on equities on the medium termA healthy stock market correction would offer attractive entry points.
We wish you all a very merry Christmas and happy New Year and see you in 2020 for new adventures!

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