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No longer Investors, but Hunters!

2020 is almost over but its footprint will remain very present in 2021 as well developed by Didier DURET, Strategic Investment Advisor, here. While vaccination headlines are encouraging, things are not going to be the same again.

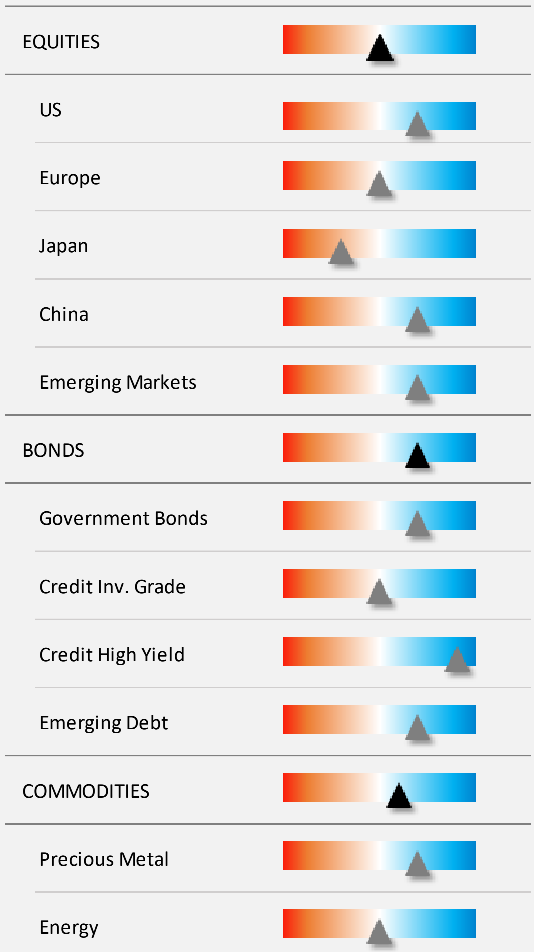
We see a trend that has been accelerating during the pandemic: Central Bankers will do whatever it takes to save the (financial markets) world. It is well illustrated through the broad zero or negative interest rates strategy for the foreseeable future across the board and their use of unconventional tools resulting in an additional 8,000+ billion dollars in their balance sheet for 2020 alone.

What does it mean for investors: with a broad range of the traditional bond market posting yield to maturity lower than 1% (Barclays Global Aggregate Index yield is 0.84%), most investors are turning to other asset classes: equities, alternative investments and junk bonds (chart 1).

Based on our analysis, it is clear at the time of writing that sentiment is close to euphoria, absolute valuation of equities is stretched, and global economy is fairly recovering from its worst recession in a long time, highly helped by tremendous amount of liquidity poured into the system through exceptionally accommodative policies. This accommodative stance is there to stay for a long time, meaning that the risk to see a high yield bond selloff anytime soon is very low. One should still carefully review the companies' fundamentals and favor financially healthy ones in order to reduce default risk which might increase in the coming months. So, we are all encouraged to continue hunting for yield… and avoid the zombies at all cost!

Please find enclosed our recommendations for a balanced allocation based on our market analysis (Table: Asset Allocation View).

Table: Asset Allocation View



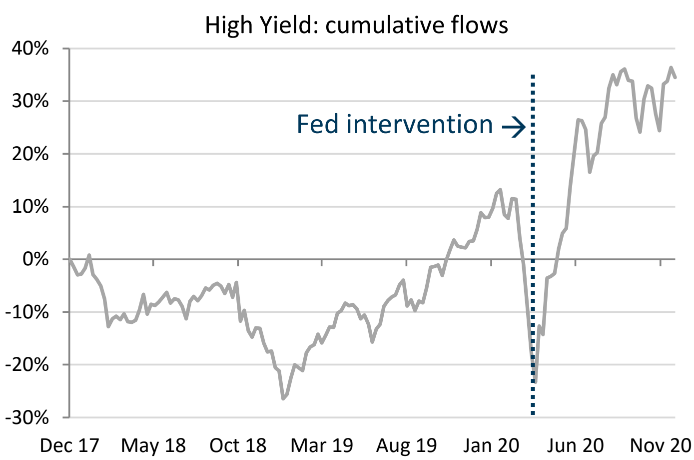


Chart 1 Investors are rushing to junk bond market

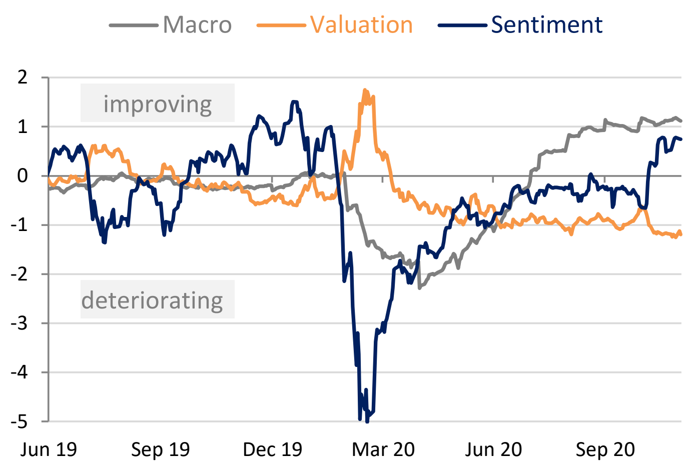


Chart 2 Mapping the World

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