

FLASH UPDATE



Light at the End of the Tunnel

The group Global investment Committee (GIC) held an unscheduled meeting on November 10 to review the outlook and investment strategy in light of yesterday's announcement by BioNTech and Pfizer of the preliminary results of their Phase 3 trials of a COVID-19 vaccine.

Yesterday's announcement is clearly encouraging news given the high level of effectiveness of the partners' vaccine. The trials included 43,500 participants, of whom 94 have contracted COVID-19. Within this total, the split between patients who had received two doses of the vaccine and those who had received the placebo showed that the vaccine was more than 90% effective. Of course, the trials will continue and the final analysis will only be conducted once there have been 164 confirmed cases among participants. At this stage, it is likely that the partners will apply for "emergency use authorisation" in the US and Europe before the end of November.

However, this does not mean that the vaccine will be widely available any time soon. Pfizer and BioNTech expect to have produced 50 million doses by year-end and 1.3 billion doses by the end of 2021. This means that countries may well be forced to maintain lockdown measures throughout much of the winter in the northern hemisphere, with the vaccination of health professionals and the most vulnerable part of the population ramping up only slowly. Moreover, the vaccine must be kept refrigerated at ultra-cold temperatures which adds logistical complexity to distribution chains.

Markets reacted almost instantaneously to yesterday's news. Equity indices rallied sharply, in particular across Europe where the MSCI EMU index rose 5.4%. Underlying this move, there was a marked shift in emphasis from the stocks which have led the market this year (such as mega-cap tech and internet companies) towards the laggards (such as airlines and financials). This meant that the MSCI US index – which is dominated by tech stocks – only rallied 0.8%. With investors factoring in a return to higher growth, oil prices jumped 7.5% while inflation-sensitive long-dated bonds came under selling pressure – ten-year US Treasury yields soared 10.5 basis points yesterday to their highest level since March.

Bottom line. The GIC expects economic activity to remain sluggish in coming months, especially in Europe, but recognises that the longer-term outlook has brightened appreciably. This means that government bonds in the US and Europe are likely to remain under selling pressure as the improved outlook should mean a pick-up in inflation and higher bond yields. Accordingly, the GIC decided to reduce sovereign bond allocations to a strong Underweight. Laggard equity markets – such as European bourses which are less exposed to technology and internet leaders – should begin to catch up after extended underperformance. The GIC has therefore decided to return European equity markets to a Neutral allocation in portfolios, thereby moving our overall equity exposure to a slight Overweight.

In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.
CA159/H2/20

OUR ASSET ALLOCATION

The table below presents the latest conclusions of our Global Investment Committee

		Summary house views					Change since last GIC
		Strong UW	UW	N	OW	Strong OW	
EQUITY	GLOBAL EQUITY				OW		+
	United States			OW			
	Eurozone			OW			+
	United Kingdom			OW			+
	Japan			OW			
	Emerging					Strong OW	
FIXED INCOME	GLOBAL RATES		UW				
	U.S. Treasuries	Strong UW					-
	U.S. Breakeven			OW			
	Bunds	Strong UW					-
	EMU Breakeven			OW			
	Gilts	Strong UW					-
	Gilts Breakeven			OW			
	JGBs	Strong UW					-
	EM Govies (\$)			OW			
	SOVEREIGN						
	CORPORATE						
	U.S. IG				OW		
	U.S. HY			OW			
	EMU IG				OW		
EMU HY			OW				
UK IG				OW			
UK HY			OW				
Duration USD*		UW					
Duration EUR*		UW					
Duration GBP*		UW					
FOREX	EURUSD			OW			
	USDJPY			OW			
	GBPUSD			OW			
	EURCHF			OW			
	EM FX (vs. USD)			OW			
COMDTY	Brent		UW				
	Gold				OW		
ALTERNATIVE	ALT. STRATEGIES				OW		
	L/S Equity		UW				
	Event-Driven			OW			
	FI Arbitrage				OW		
	Global Macro / CTAs			OW			
	Cash			OW			

O/W Positioning
Overweight
N Neutral
U/W Underweight

*Duration
Long – 7-10 years
Intermediate – 5-7 years
Short – 3-5 years

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