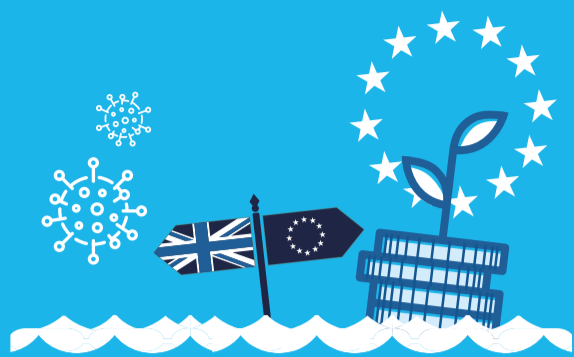




FEBRUARY 2020

## RISK-TAKING AROUND THE 3GS: GEOPOLITICS, GROWTH, GREEN



Markets were dominated by geopolitical issues and the phase one trade deal at the beginning of the year. Now, growth expectations and green investing are the main themes amid talks around the European Green Deal.

### KEY INVESTMENT IMPLICATIONS



#### CORONAVIRUS COULD RESULT IN SHORT-TERM VOLATILITY

The virus outbreak in China and potential US-Europe trade negotiations, could cause short-term volatility. Therefore, vulnerabilities to profitability remain and we recommend that investors maintain hedges<sup>1</sup> in the form of yen and gold.



#### IMPROVING FUNDAMENTALS MAY FUEL EQUITY MARKETS

The economic environment is stabilising in light of lower geopolitical risks and the increasing likelihood of supportive policies. This may offer chances to buy equities, particularly in European cyclical values<sup>2</sup> and Emerging Markets, amid an earnings rebound.



#### CREDITS MARKETS

#### STAY SWITCHED ON IN CREDIT MARKETS

Amid low interest rates, European Investment Grade<sup>3</sup>, US securitised assets<sup>4</sup> and Emerging Market bonds are a robust way to play the risk-on phase. Investors should avoid less valuable and illiquid names, which could hurt returns, should volatility rise.



#### ESG LENS IS KEY TO SELECTION

Selection of assets would increasingly rely on fundamental factors, as well as on sustainability. We expect more regulation and demands from shareholders on the latter, leading to a higher impact of ESG on market performance.

## NOT A TIME FOR ALARM BUT STAY BALANCED



Investors can play this environment by counterbalancing exposure to risk assets (equity and credit), with some defensive allocation (such as US treasuries or gold). Growth remains the main market driver to watch. An improving economic picture could open some buying opportunities, once issues related to the current coronavirus outbreak start to dissipate.

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1 Hedge - Operation used to reduce exposure to an asset class or risk, in order to protect a portfolio against fluctuations in these values. In practice, the purpose of hedging is to cover, or to compensate, completely or partially, a risk of variation in assets (investments) or liabilities (loans). Hedging is thus a response to the risks of market fluctuations in the values of securities, currencies, interest rates or commodities. This hedging is often obtained via derivative instruments.

2 Cyclical values – Stocks whose values fluctuate in tandem with the wider economy.

3 Investment grade: Refers to securities issued by an issuer of negotiable debt securities (Treasury bonds...) or bonds for which the Standard & Poors rating is greater than or equal to BBB-.'Investment grade' bonds are considered by the various rating agencies as having a low risk of non-repayment.

4 securitised assets – Security made-up of a pool of other underlying securities.

#### IMPORTANT INFORMATION

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