Piguet Galland & you.
Market Insights
No. 203 - December 7, 2020

Essentials

After some hesitation, OPEC agreed to increase output slightly in January, undoing some of the decisions it made back in the spring. This change of course was welcomed by the markets, which can now focus on the expected increase in demand as the global economy returns to growth.

US economic data headed downwards in November, a sign that the second COVID-19 wave has caused the economy to stall. Services indicators – and to a lesser extent manufacturing output – fell short of expectations, as did jobs figures. However, the imminent rollout of several vaccines should help the stock markets to get over these temporary disappointments.

The German economy is being buoyed by its large manufacturing sector, which has been hit much less hard by the pandemic than the services sector. In October, industrial output rose for the sixth month in a row and new orders were back at Q4 2019 levels, with both indicators doing better than forecast.

	USD / CHF	EUR / CHF	GBP / CHF	EQUITIES SWITZERLAND	EQUITIES EUROPE	EQUITIES USA	EQUITIES JAPAN	EQUITIES EMERGING	GOLD	OIL	ALTERNATIVE FUNDS
*Trend	↓	→	↘	↓	↗	↑	↘	↑	↑	↑	↗
% YTD	-7.7%	-0.4%	-6.6%	-2.4%	-5.5%	14.5%	3.2%	12.2%	21.2%	-25.4%	4.8%

↓ : < -1%   ↘ : -1 to -0.25%   → : -0.25 to + 0.25%   ↗ : + 0.25 to 1%   ↑ : > 1%

*Weekly trend

A struggling dollar

Daniel Varela
Chief Investment Officer

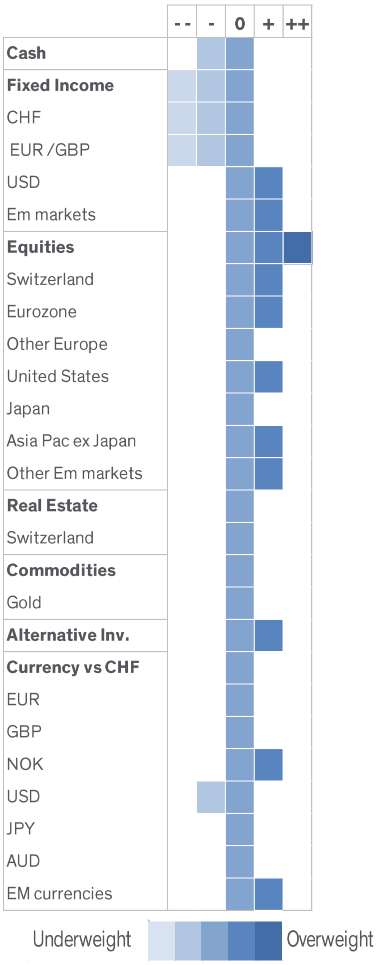
The US dollar could well be the big loser of 2020 – a year that has been like no other. It has lost ground against most other currencies, with the exception of a few emerging currencies with flagging economies. The greenback has dropped 8% against the euro and the Swiss franc and has also declined against most Asian currencies, down 4% on the yen and 6% on the yuan. This trend doesn't come as much of a surprise. The dollar usually loses ground when the US economy is going through a rough patch. That's what happened during the last two US recessions – when the dot-com bubble burst in 2001 and when the subprime crisis hit in 2008. It also depreciated during the 1990 downturn and after the second oil-price shock in the early 1980s. And each time, the famous statement made by Nixon's treasury secretary, John Bowden Connally, springs to mind: "The dollar is our currency, but your problem". Back in the early 1970s, that was his response to Europe's complaints about the dollar's sharp fluctuations. In the States, getting the economy back on track is usually the priority during a recession, and that means adopting countercyclical fiscal and monetary policies – so increasing government spending and cutting taxes on the one hand and slashing interest rates on the other. Those decisions tend to result in a weaker dollar, and that's what's happening again this time. In the recent past, the USA's ballooning deficits were offset by higher interest rates on the dollar. But today, the public-health crisis means that the US Federal Reserve has had to cut interest rates and inject large amounts of money into the financial system, knocking things out of balance. The dollar is the world's biggest reserve currency, so other countries have to put up with a weaker dollar. The European Central Bank may take action at its meeting this Thursday, a few days before the Fed is set to meet. It could be the ECB's last chance to rein in the euro, whose strength is weighing on the region's recovery. But unless the ECB makes a surprise announcement, the technical and fundamental data suggest that the dollar will remain weak in the short-to-medium term. That's why last week we reduced our exposure to the greenback for the third time this year.

South Korea – a truly cyclical market

Ed Yau
Investment analyst & manager

Emerging markets have posted some very disparate performances in 2020, but the South Korean market has had a bumper year, with the KOSPI index reaching an all-time high this week. It's up 25% since the start of the year and 88% on its March low, far outstripping most other Asian markets. This outperformance can mainly be put down to the country's effective management of the pandemic – South Korea quickly brought in a test and trace system, which helped to limit the impact on its manufacturing sector. More recently, the US election results and the progress made on the COVID-19 vaccines have prompted large inflows of funds into this market, which is known for being particularly cyclical. On top of that, the US dollar is weak, which has increased the appeal of emerging market assets. And don't forget that South Korean equities account for 12% of emerging market indexes. Like in China, exports have offset sluggish domestic consumer spending and picked up again quickly thanks to pandemic-driven demand for tech products. Exports of semi-conductors rose 22% year on year in November, compared with 5% for total exports, providing a boost for companies like Samsung Electronics and SK Hynix. What's more, South Korean firms are heavily involved in the development of electric vehicles, which will also help to boost growth in the years to come. Hyundai Motor and Kia have a solid pipeline of electric vehicles that will be ready for launch starting in 2021, and their global market share is likely to rise to over 12%. More importantly still, South Korea has a very strong position in the battery market, with Samsung SDI and LG Chem among the world's main manufacturers. Even though the second round of lockdowns in the USA and Europe could drag down exports temporarily, we are still bullish on this cyclical market, which we went from underweighting to overweighting back in January.

Synoptic view



Recent Recommendations

Japan Airlines Co Ltd	Buy	November 27, 2020
Honeywell	Sell	Novembre 27, 2020
Accor SA	Buy	November 23,2020
Pfizer Inc	Buy	November 23, 2020
Adidas AG	Buy	November 13, 2020
China Mobile	Buy	November 6, 2020

Our "expertise" events

Piguet Galland organises regular events for its clients. Please do not hesitate to register on our website: https://www.piguetgalland.ch/fr/agenda/

Do not hesitate to contact your adviser or write to us at the following e-mail address : advisory@piguetgalland.ch

This information is intended for private use by clients of Piguet Galland & Cie SA and shall under no circumstances be construed as an offer or an invitation to buy or sell.. Piguet Galland & Cie SA declines all liability for the accuracy, completeness or permanent availability of the content and for prejudice suffered as a result of actions taken on the basis of these recommendations. Piguet Galland & Cie SA specifically reserves the right to amend this information at any time without prior notice. Past performance does not guarantee any future trend. Restrictions on the purchase or sale of transferable securities, certificates or other financial instruments may apply in certain countries or to certain investors. Each individual investor must be aware of the information and conditions relating to the issuer's securities and must also make sure, where appropriate, that the investments are suitable for his particular financial and fiscal situation.
Copyright © PGSA – All rights reserved