



EQUITY
“LOOKING BEYOND PEAK
POLARISATION AND THE
GLOBAL CORONAVIRUS CRISIS”

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CIO Fundamental Equity DPAM

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GFC AND GCC COMPARISON



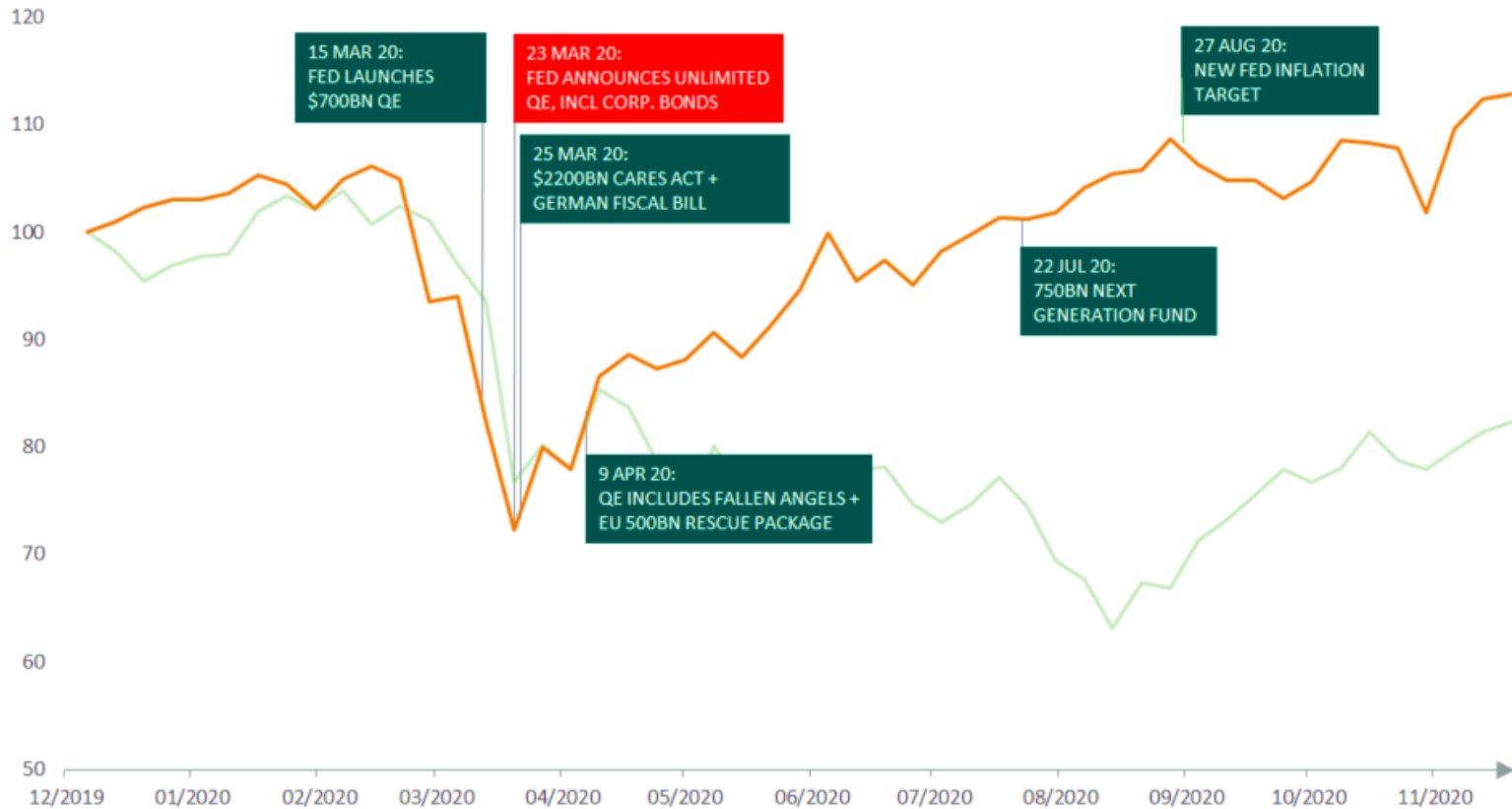
GFC AND GCC COMPARISON



Source: DPAM, Bloomberg - November 2020



GFC AND GCC COMPARISON

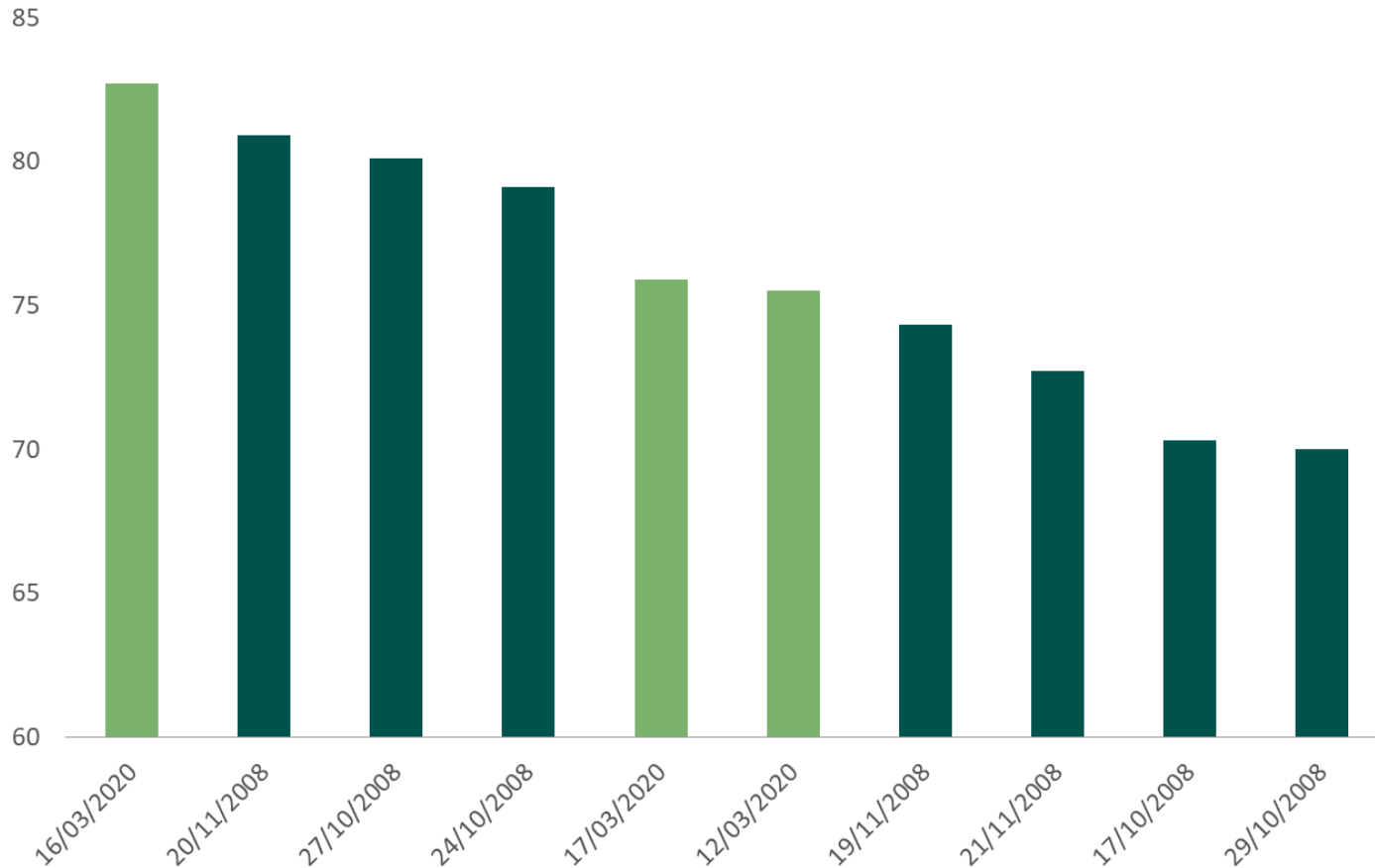


Source: DPAM, Bloomberg - November 2020



- Top 10 closing CBOE vol index levels -

GFC AND GCC COMPARISON



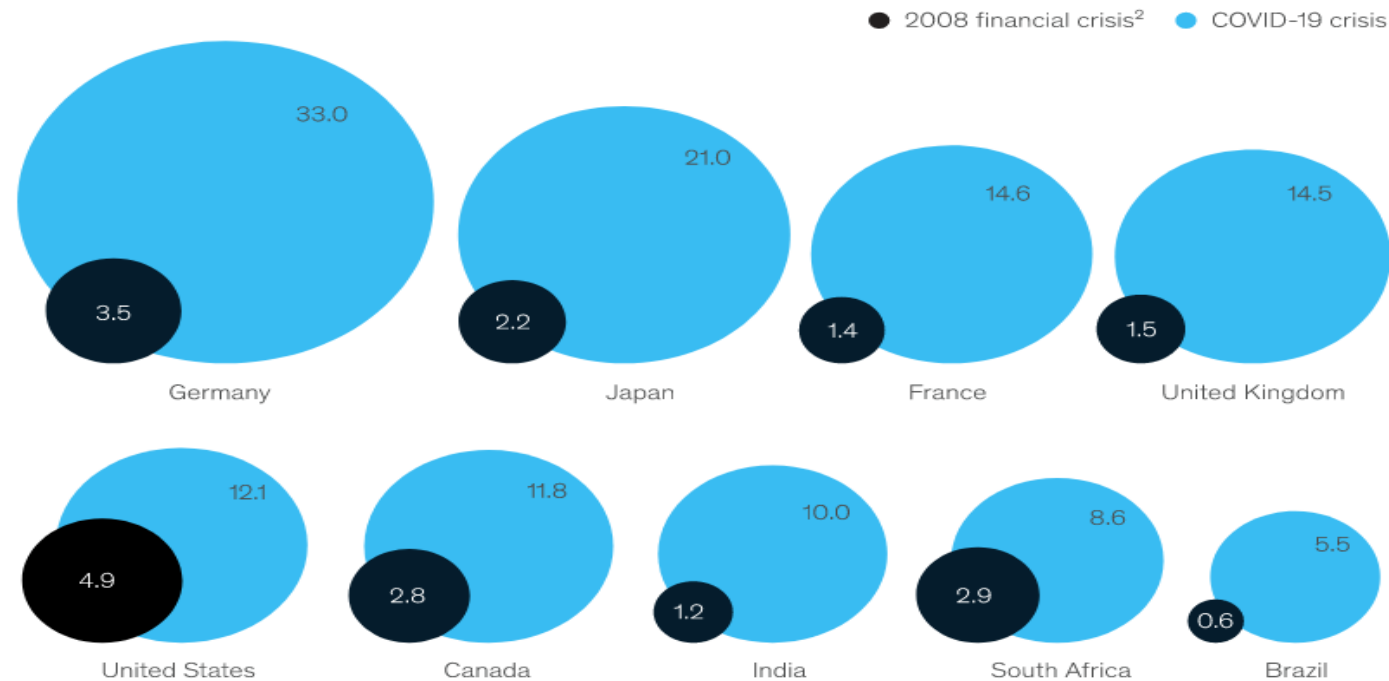
Source: DPAM, Bloomberg - November 2020



- Across countries, economic-stimulus responses to the COVID-19 crisis outsize those to the 2008 financial crisis -

GFC AND GCC COMPARISON

Economic-stimulus crisis response, % of GDP¹



¹2019 GDP taken into account for values related to COVID-19 crisis.

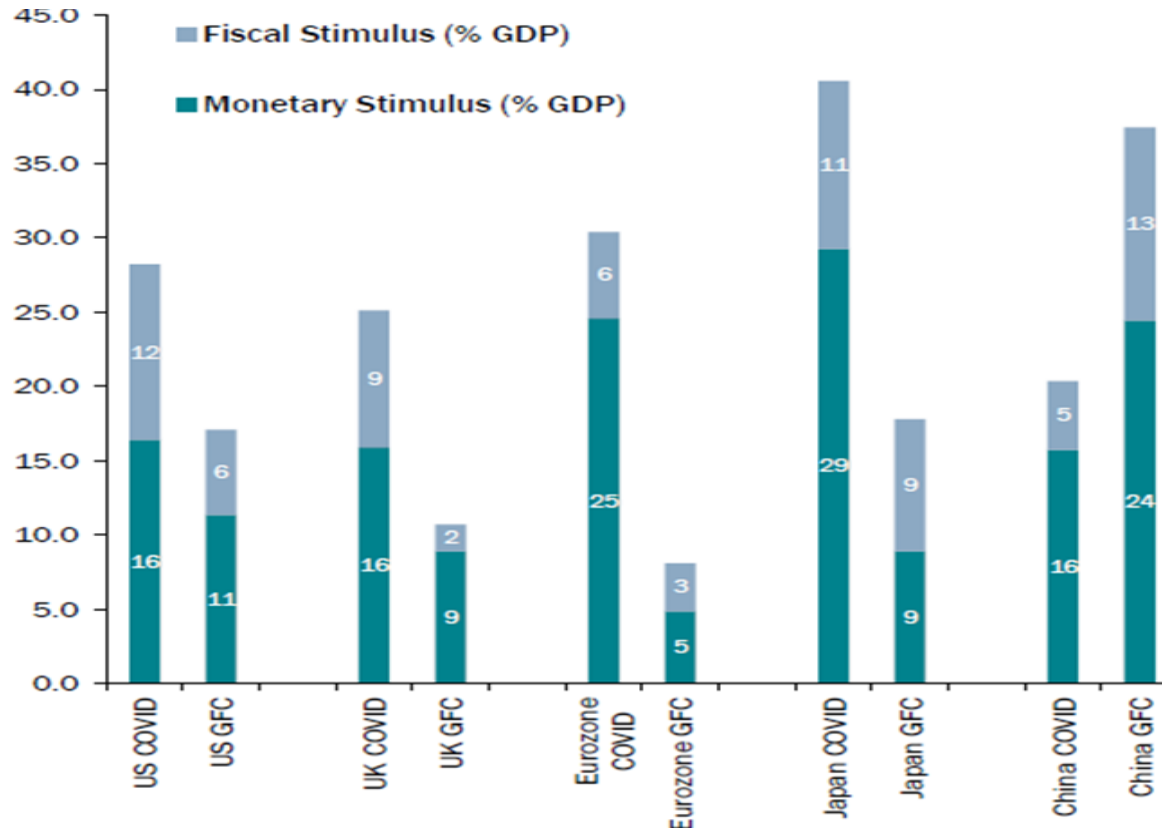
²Data published by International Monetary Fund in March 2009; includes discretionary measures announced for 2008–10.

Source: *Global economic policies and prospects*, International Monetary Fund (IMF), March 2009, imf.org; government sources; IHS Markit; IMF; press search; *The state of public finances: Outlook and medium-term policies after the 2008 crisis*, IMF, March 2009, imf.org

Source: McKinsey & Company



GFC AND GCC COMPARISON



Source: Exane, November 2020



GFC AND GCC COMPARISON

	Local CCY (bn)	USD (bn)	GDP (USD bn)	% GDP	CB BS (LCL bn)	% CB Balance Sheet
Fed*	120.0	120.0	20,856	0.58	7,243	1.7
BoC	10.7	8.2	1,640	0.50	529	2.0
ECB	100.0	118.7	13,429	0.88	6,833	1.5
BoJ**	2,666.7	25.7	5,071	0.51	697,934	0.4
BoE	13.8	18.3	2,707	0.67	964	1.4
Riksbank	31.0	3.6	571	0.63	1,350	2.3
RBA	11.1	8.1	1,404	0.58	307	3.6
RBNZ	2.6	1.8	200	0.89	67	3.8

Source: G10 central bank expected average monthly QE pace in 2021

- Austerity vs. **Fiscal & monetary largesse**
- Eurozone crisis vs. **Mutualisation of Eurozone debt**
- Sense of trauma vs. **Desire for change**
- Banks are the problem vs. **Banks are part of the solution**
- More populism vs. **Less populism**

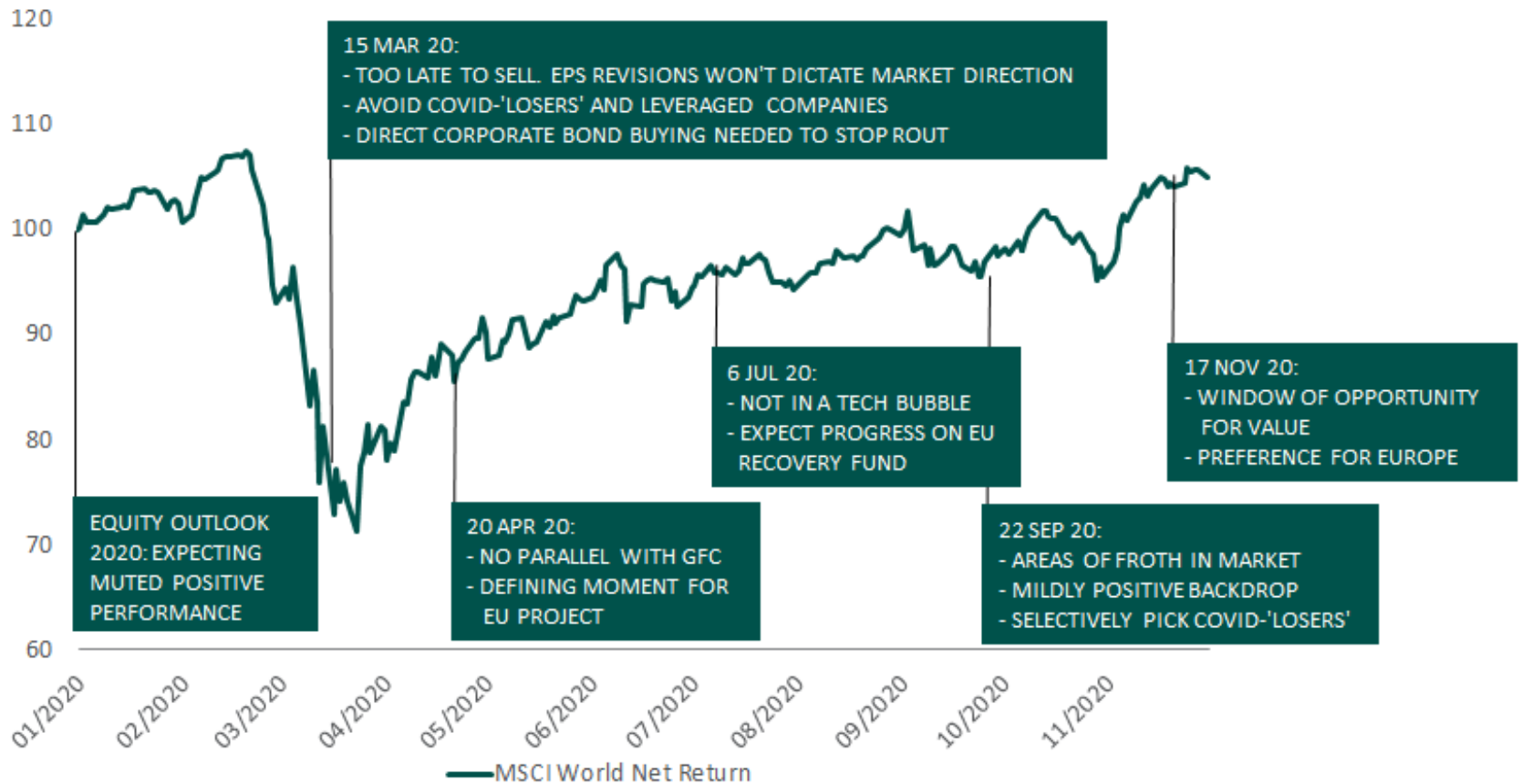


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WHAT DID WE SAY LAST YEAR





WHAT DID WE SAY **DURING THE YEAR**



Source: DPAM, Bloomberg - November 2020



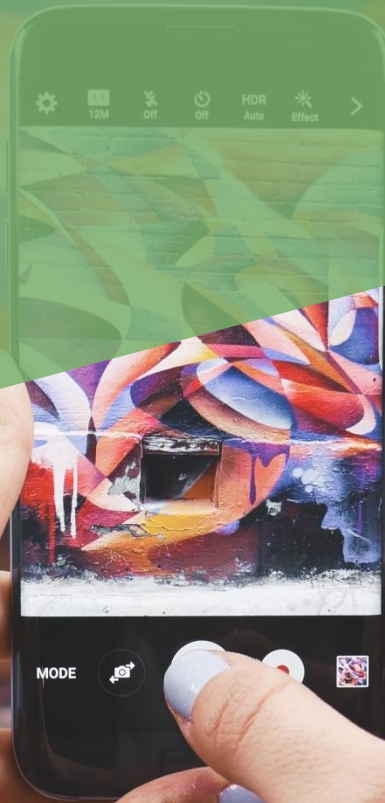
WHAT DID WE SAY **DURING THE YEAR**

- Muted positive equity performance, preference for Europe 
- Watch out for disruption, think thematic and long term
- Short term snap back in value 
- Not only negative implications from the trade war
- ESG integration will become more important



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NOWCAST



IMPLICATIONS FROM THE GCC

COVID-19 has accelerated the channel shift



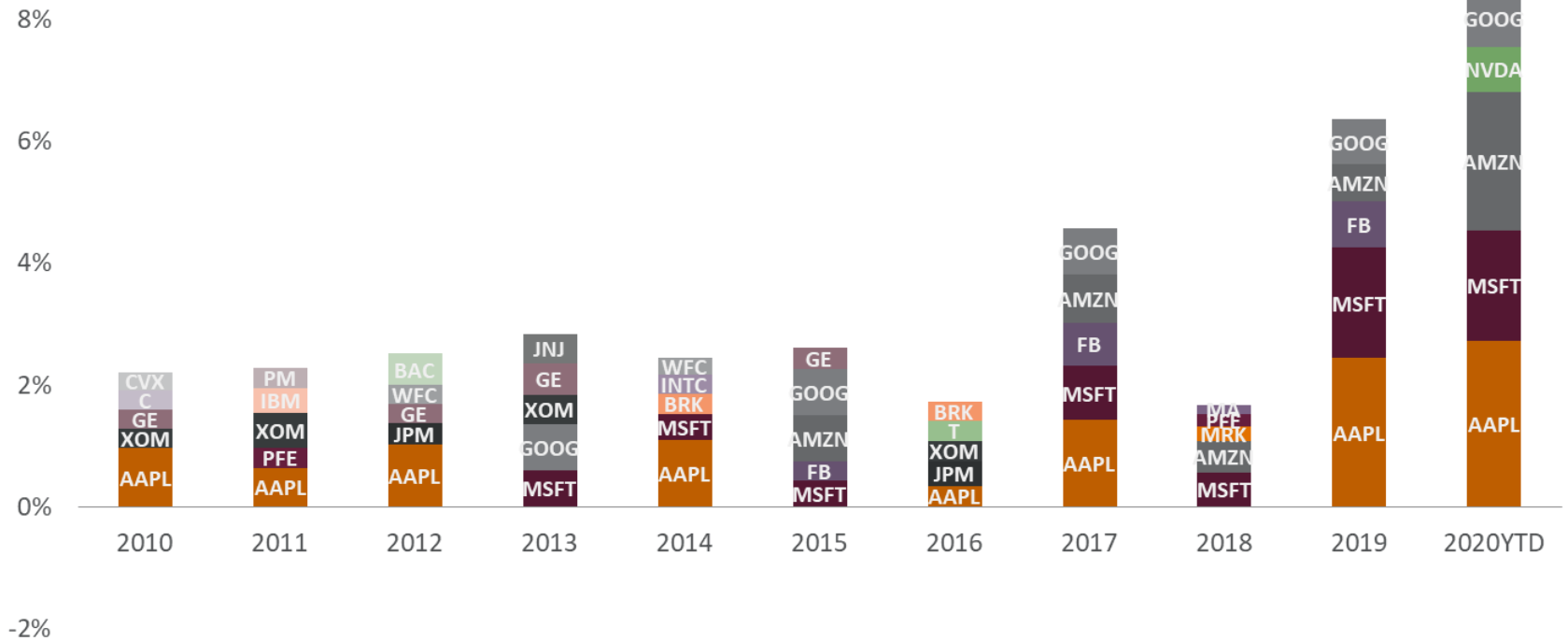
E-commerce acceleration = 3 years in 8 weeks during the 1st wave of COVID-19
Source: L'oréal Company Presentation, Capital Markets Day 30th Sept 2020

- Blurring of fiscal and monetary boundaries
- **Acceleration of pre-existing trends,** emergence of new trends
- **Greater awareness of societal challenges**
- Proof of concept for novelty class of drugs
- China comes out stronger from the GCC
- Higher social inequality



- Top 5 S&P500 performance contributors -

PEAK POLARIZATION



Source: DPAM, Bloomberg - November 2020



- Performance MSCI world growth – MSCI world -

PEAK POLARIZATION

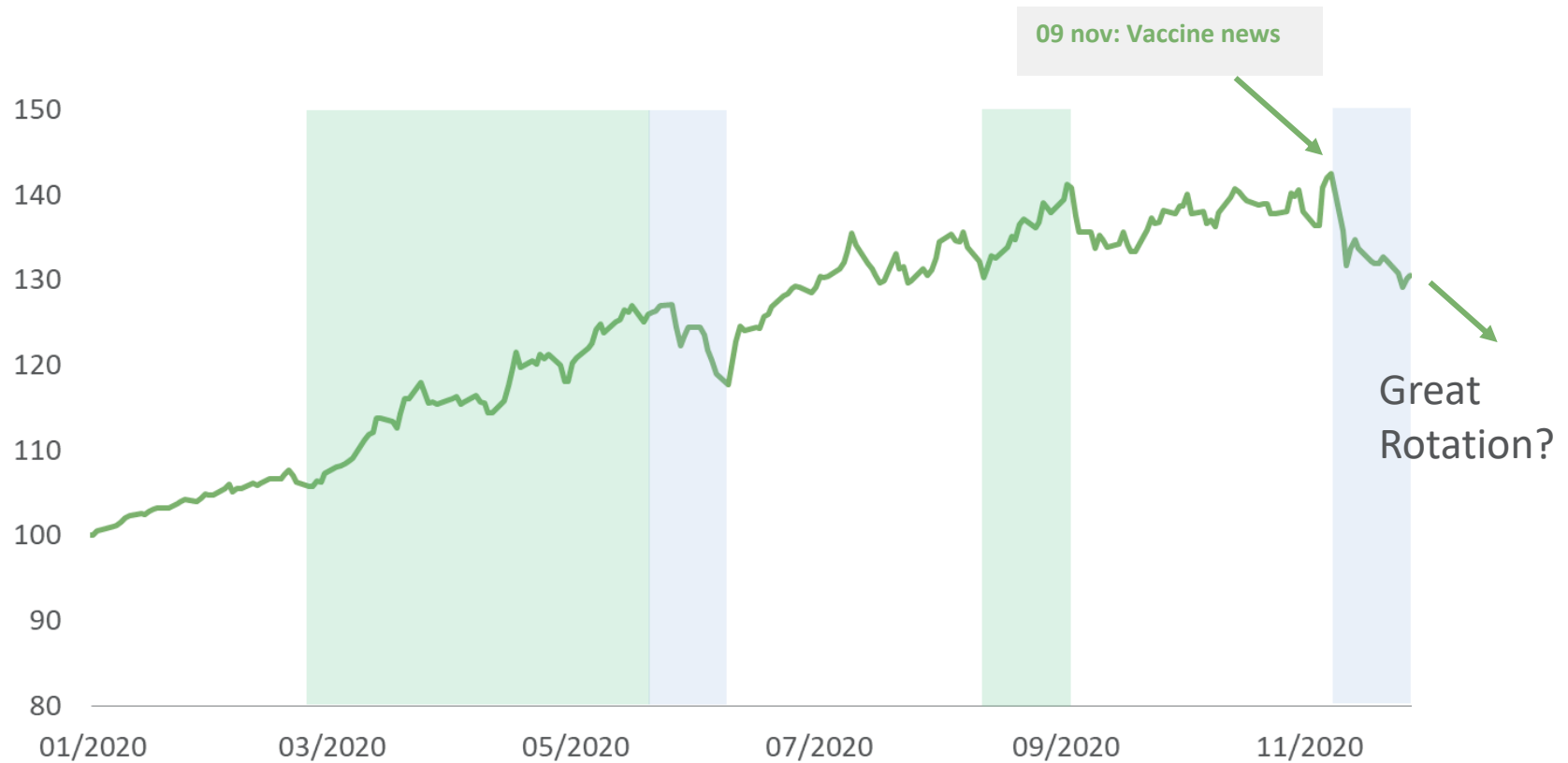


Source: DPAM, Bloomberg - November 2020



- Performance MSCI growth versus MSCI value -

PEAK POLARIZATION



Source: DPAM, Bloomberg - November 2020



- Performance of MSCI Europe by GICS1 sector YTD -

GREAT ROTATION ?

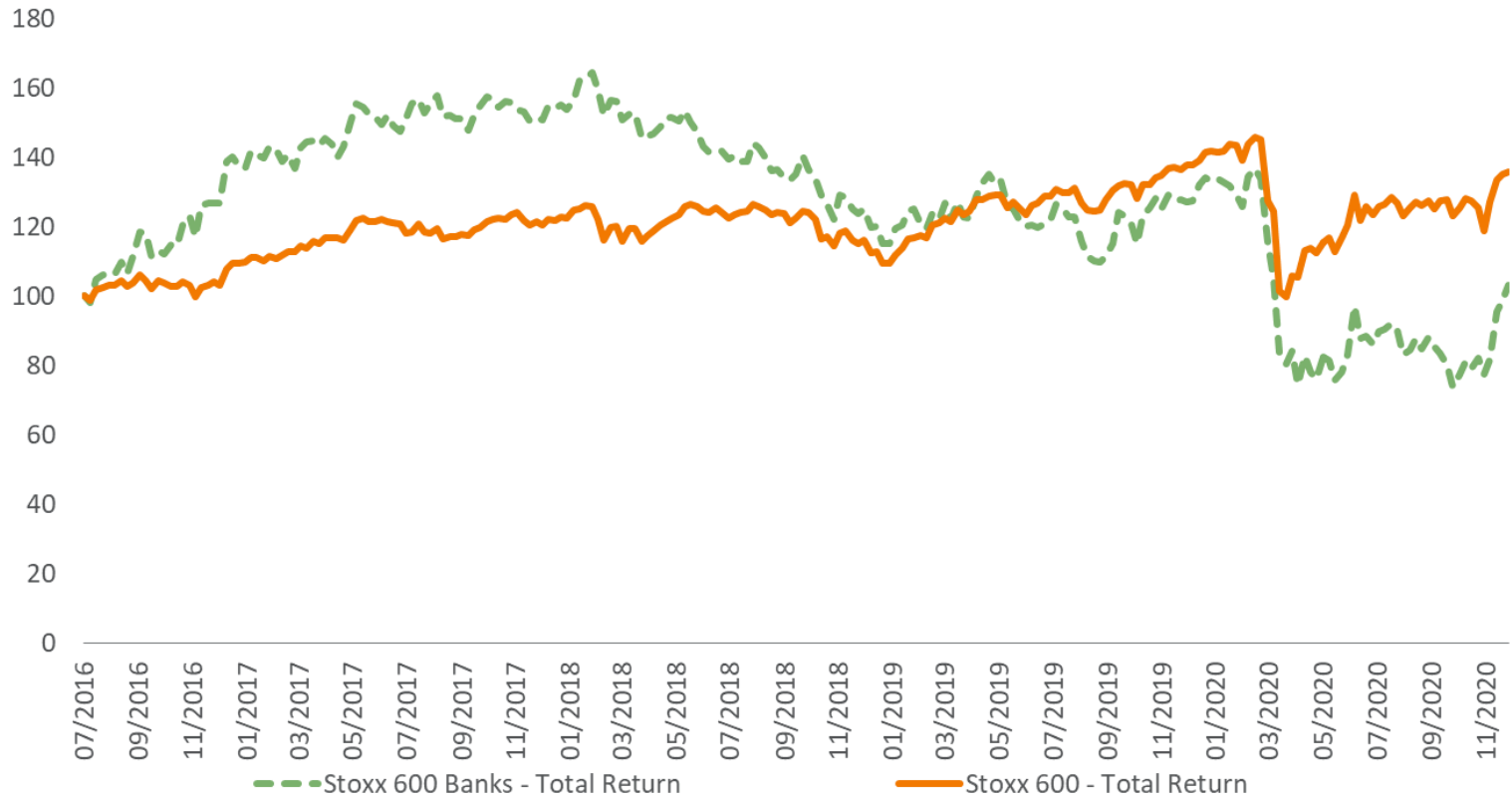


Source: DPAM, Bloomberg - November 2020



- Performance STOXX 600 banks versus STOXX 600 -

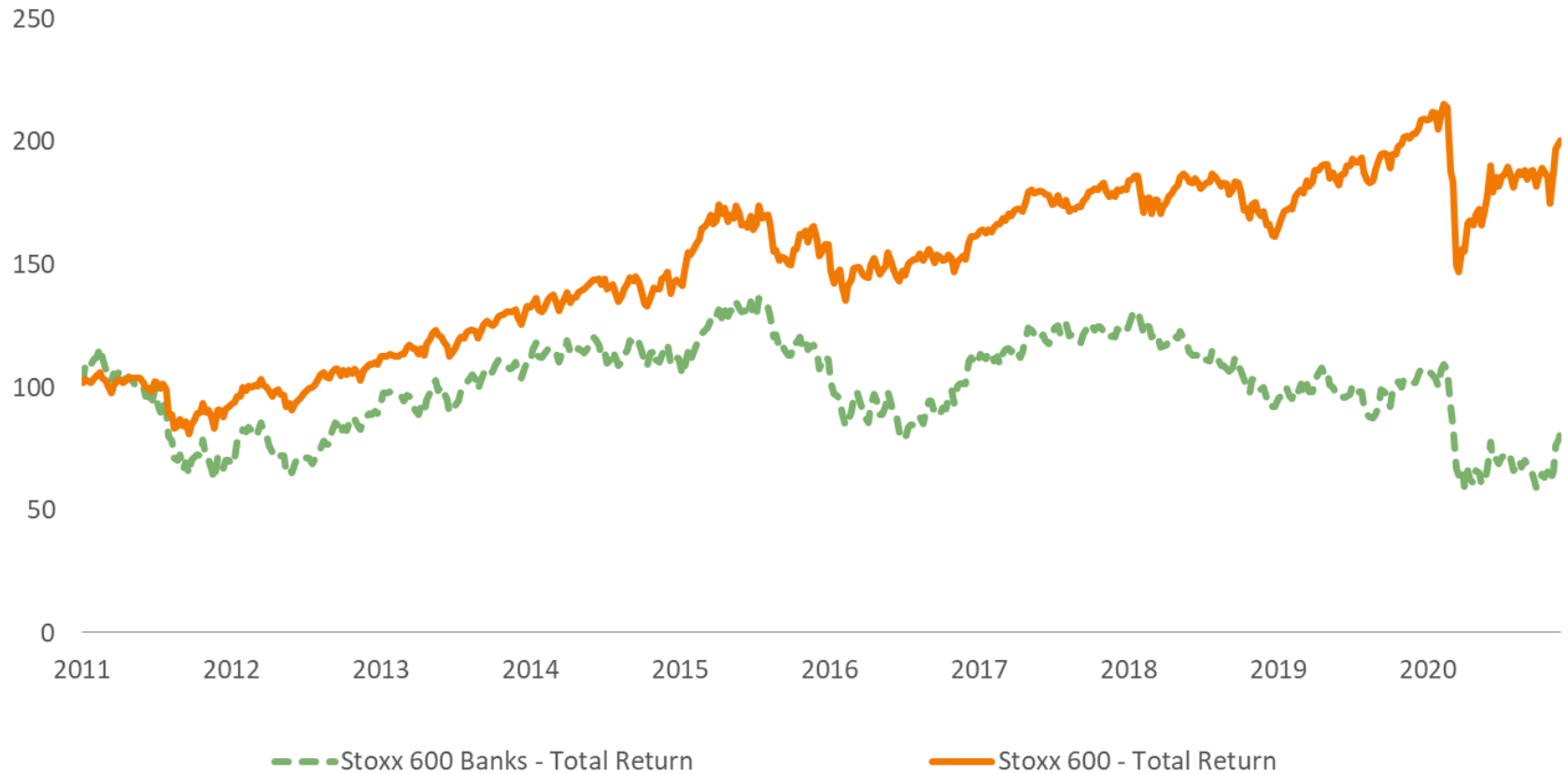
GREAT ROTATION ?



Source: DPAM, Bloomberg - November 2020



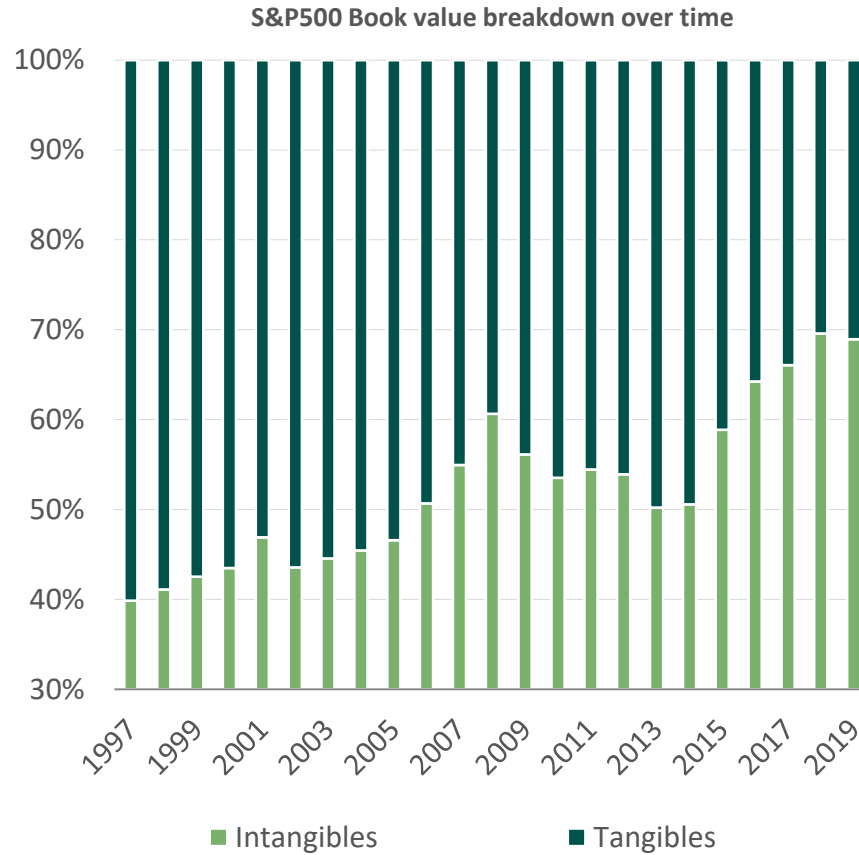
GREAT ROTATION ?



Source: DPAM, Bloomberg - November 2020



GREAT ROTATION ?

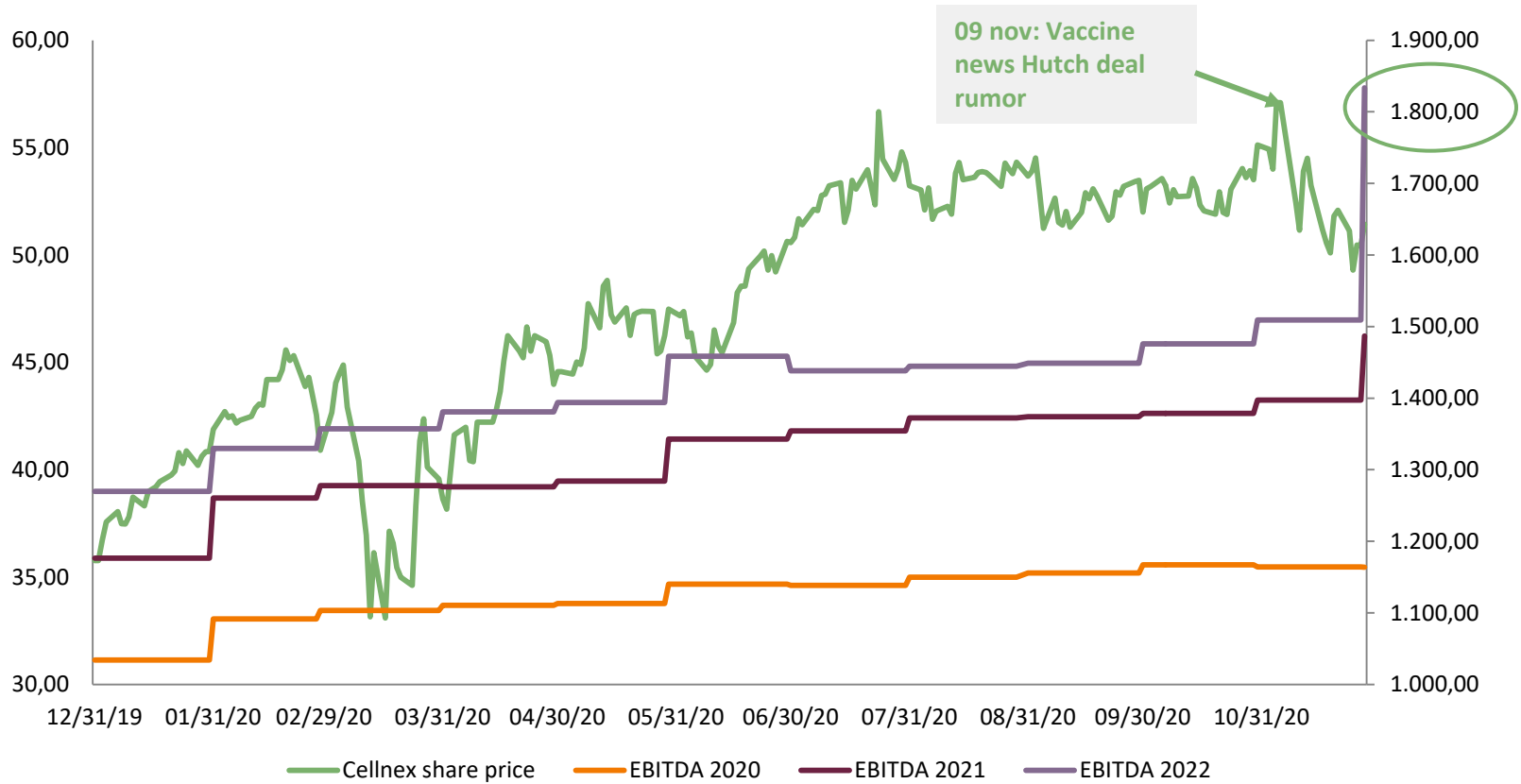


Source: DPAM, Bloomberg - November 2020



- Cellnex share price (lhs) and EBITDA (rhs) -

GREAT ROTATION ?

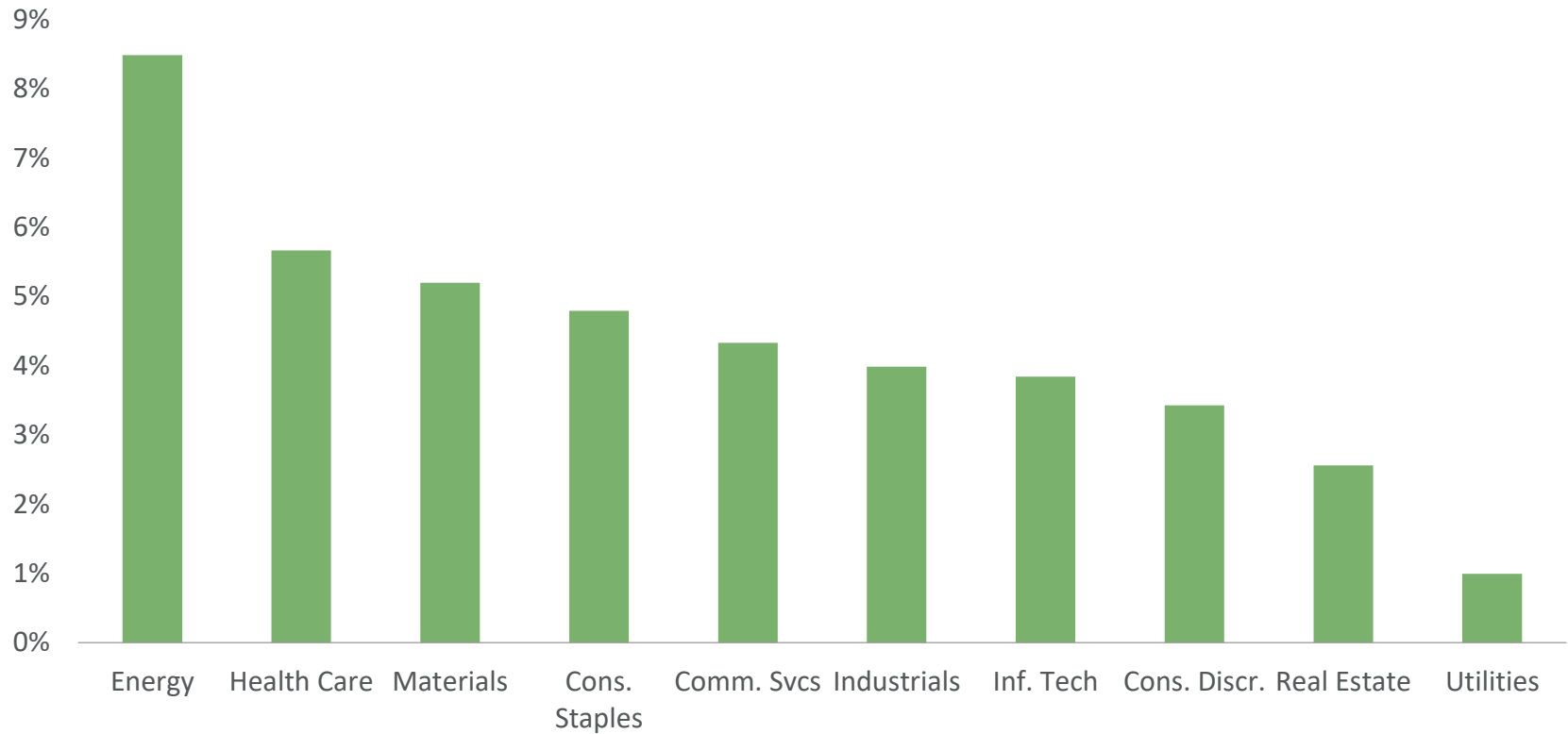


Source: DPAM, Bloomberg - November 2020



- Free cash flow yield by Gics1 sectors (Msci World) -

VALUATION: FOCUS ON **FREE CASH FLOW YIELD**

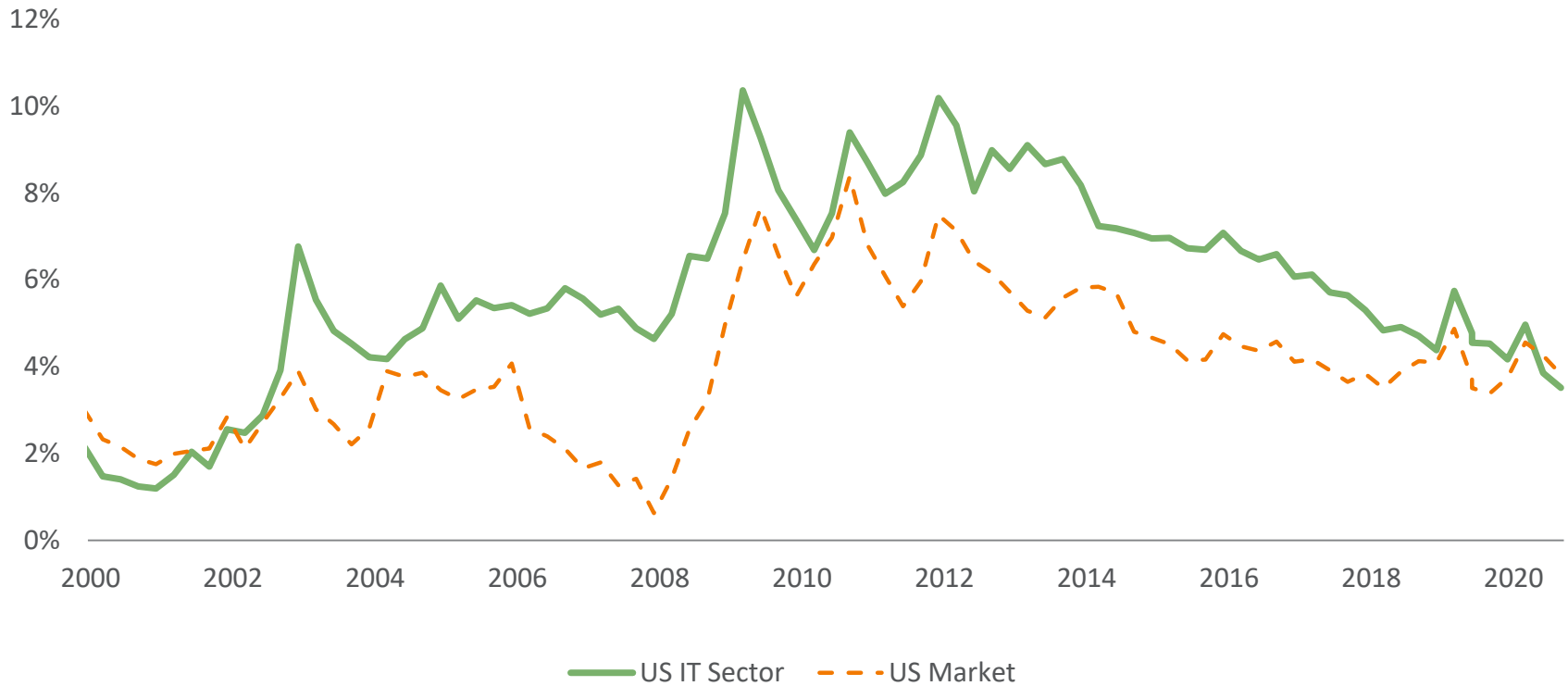


Source: DPAM, Bloomberg - November 2020



- Free cash flow yield of US IT sector versus MSCI US -

VALUATION: **FOCUS ON IT**

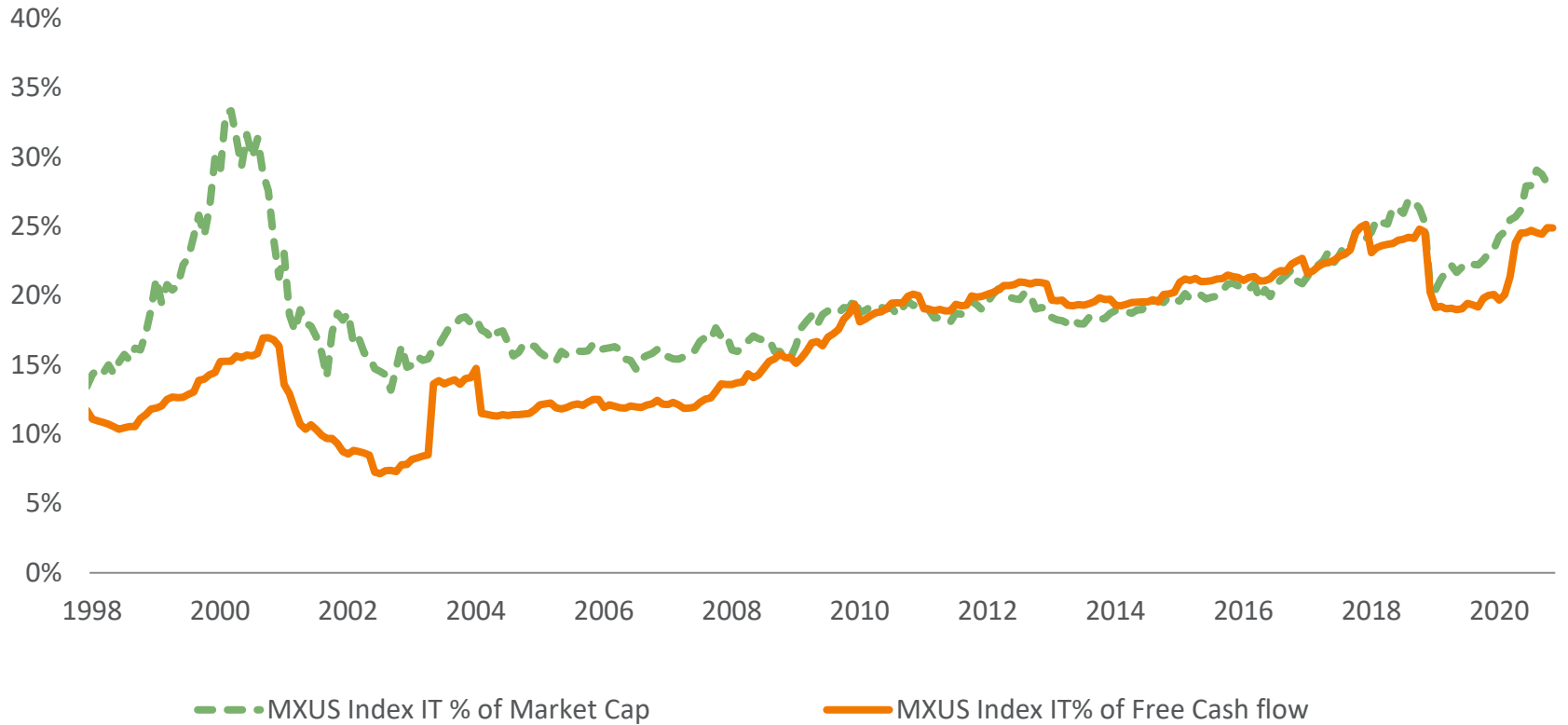


Source: DPAM, Bloomberg - November 2020



- Evolution of US IT versus MSCI US -

VALUATION: **FOCUS ON IT**

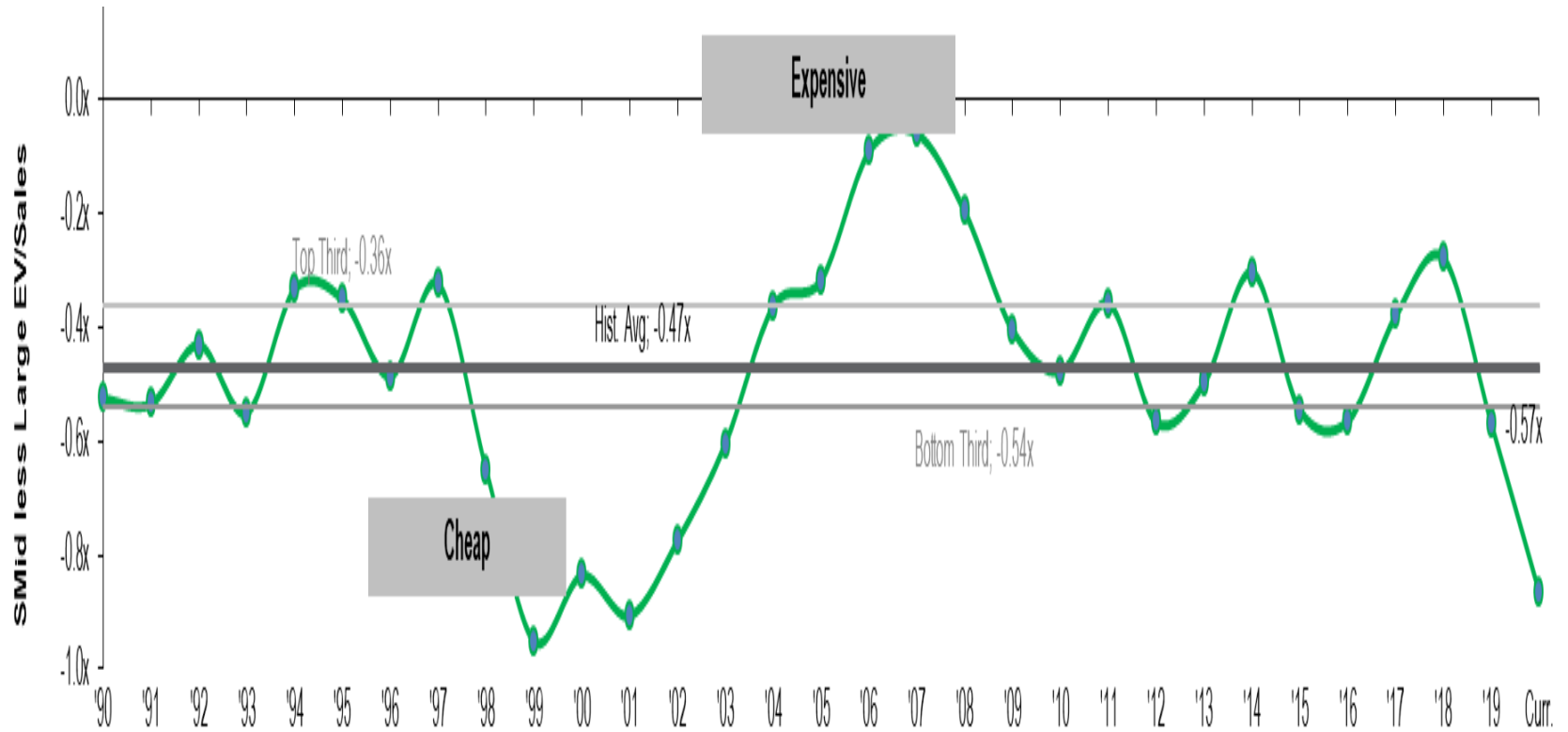


Source: DPAM, Bloomberg - November 2020



- European Small caps versus Market -

VALUATION: SMALL CAPS

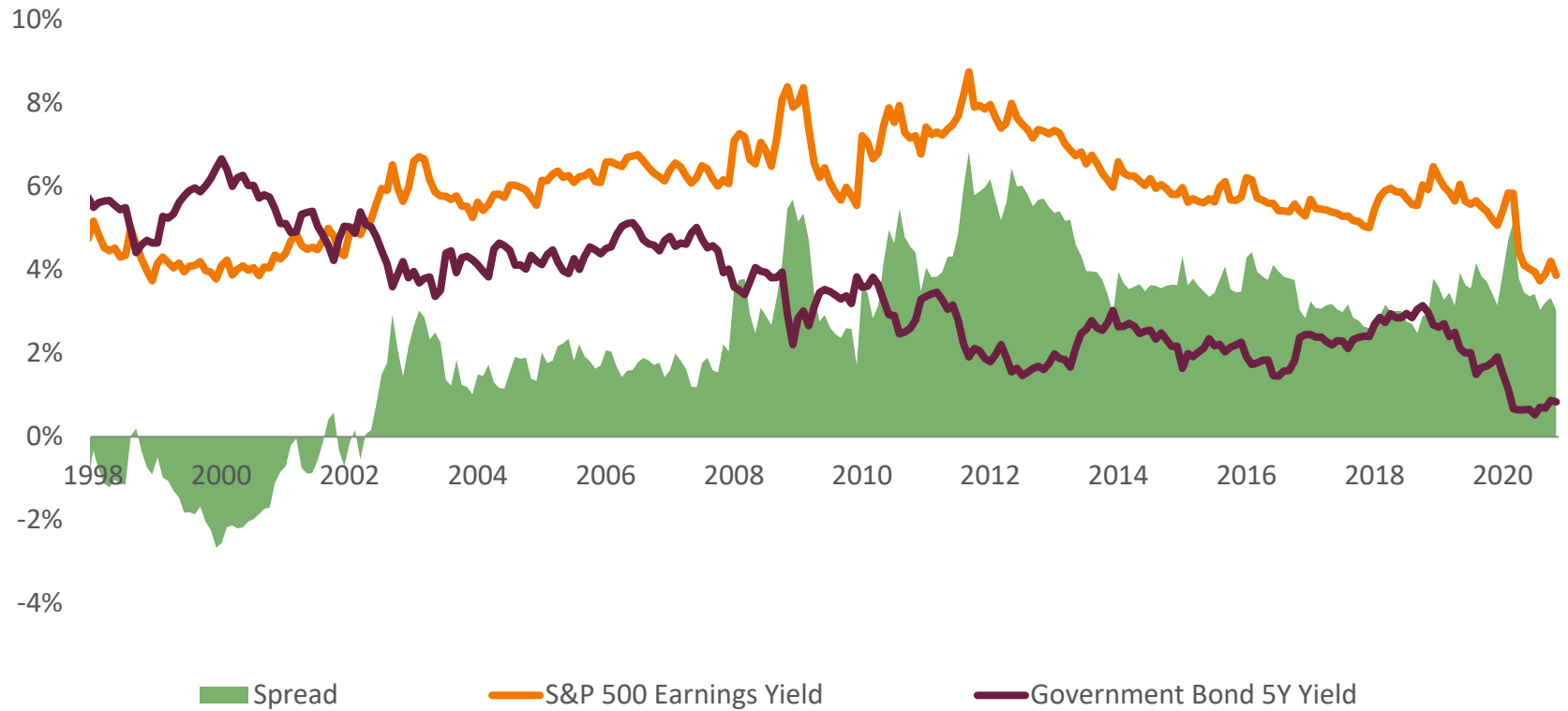


Source: UBS - November 2020



- S&P500 earnings yield versus Gov bond yield -

VALUATION: YIELD GAPS REMAIN



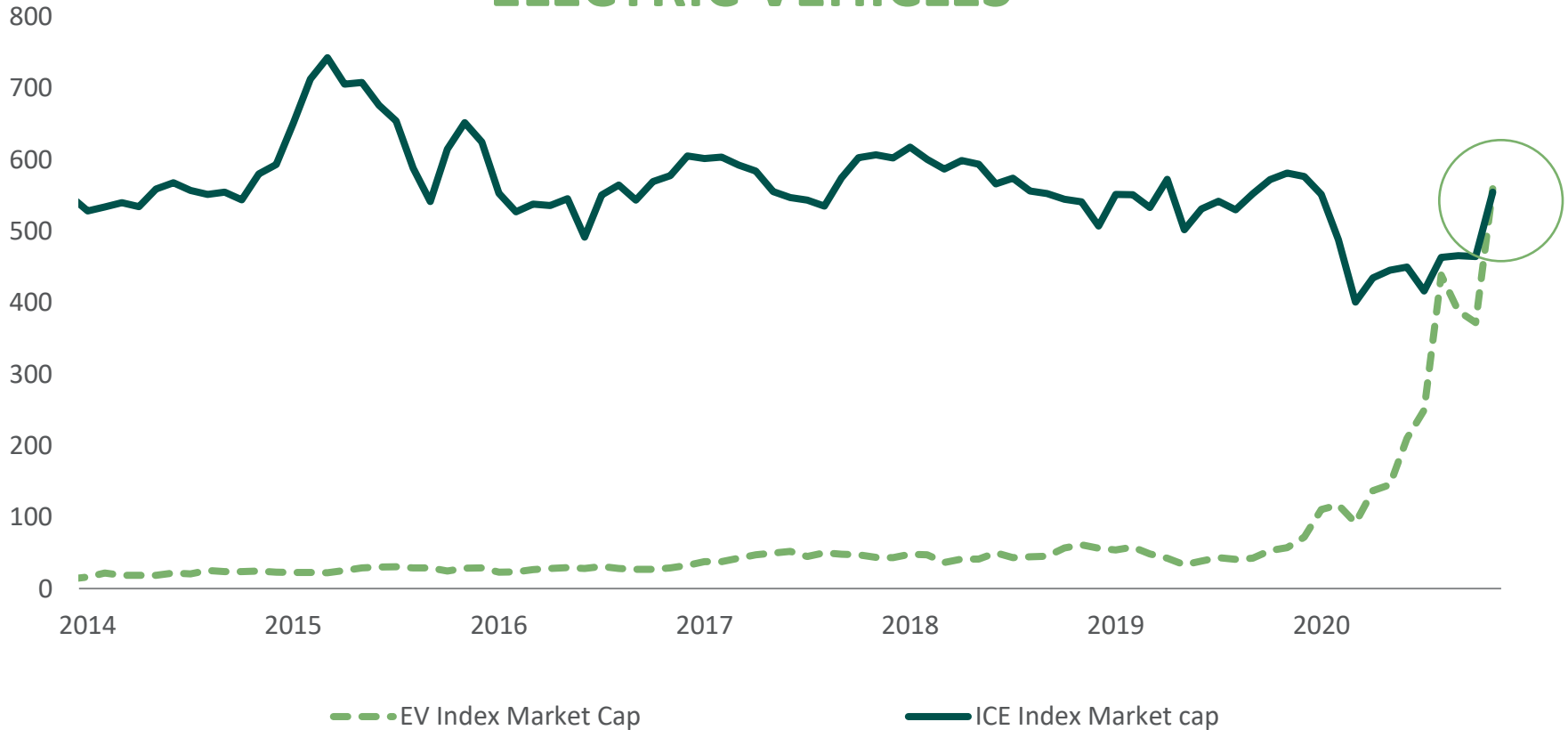
Source: DPAM, Bloomberg - November 2020



- Market cap comparison in Automobile market -

VALUATION: SOME FROTHY AREAS

ELECTRIC VEHICLES



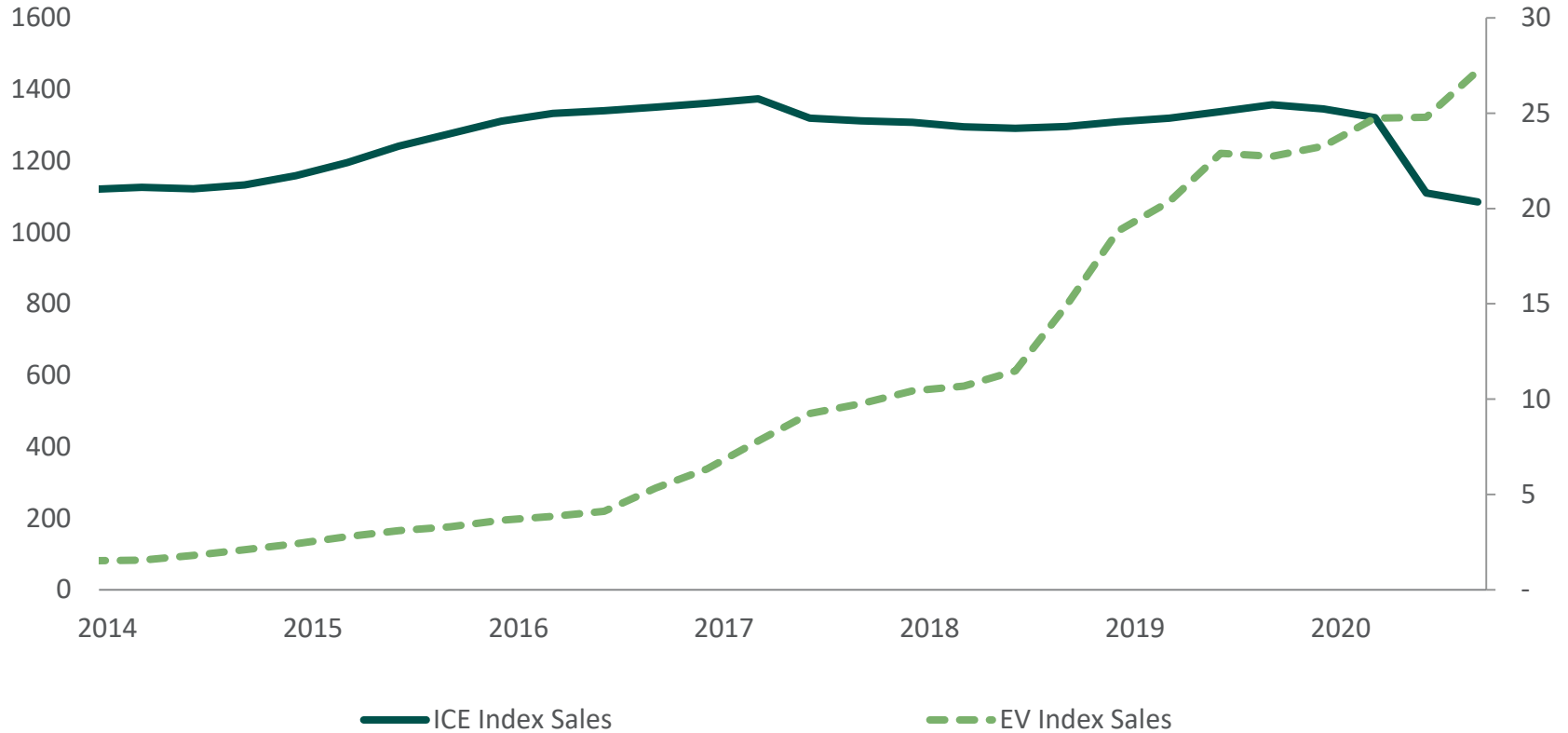
Source: DPAM, Bloomberg – September 2020



- Sales comparison in Automobile market -

VALUATION: SOME FROTHY AREAS

ELECTRIC VEHICLES

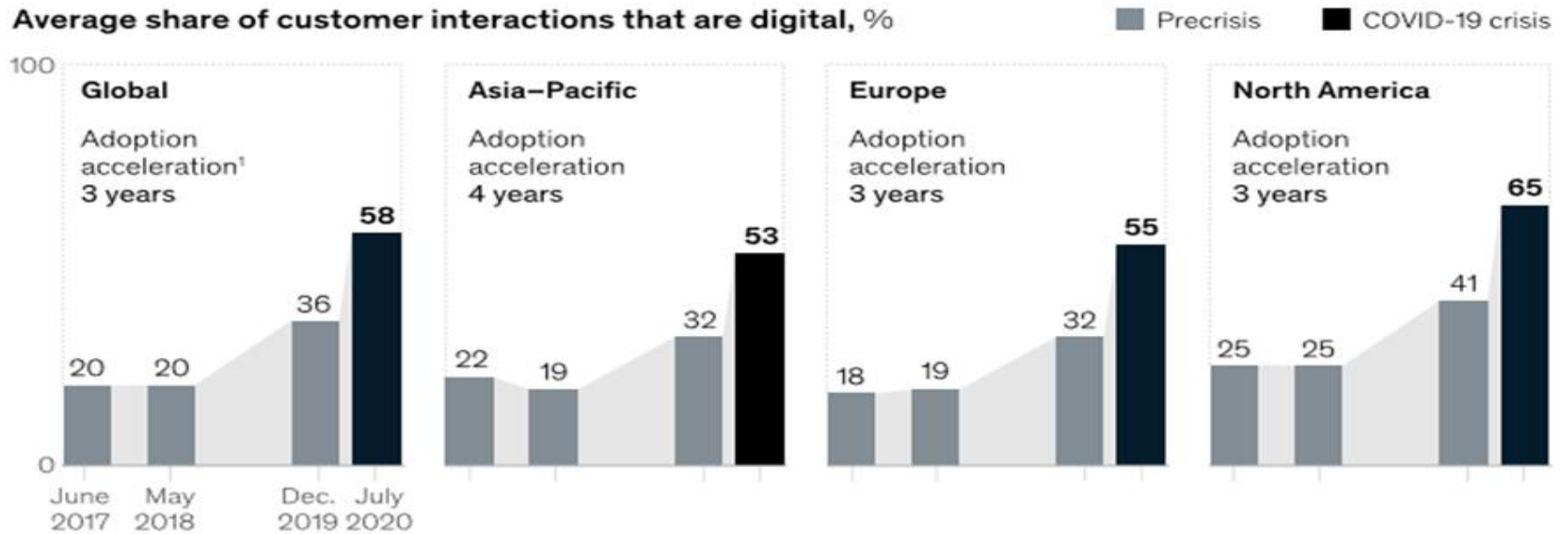


Source: DPAM, Bloomberg – September 2020



- The COVID-19 crisis has accelerated the digitization of customer interactions by several years -

TECH ADOPTION



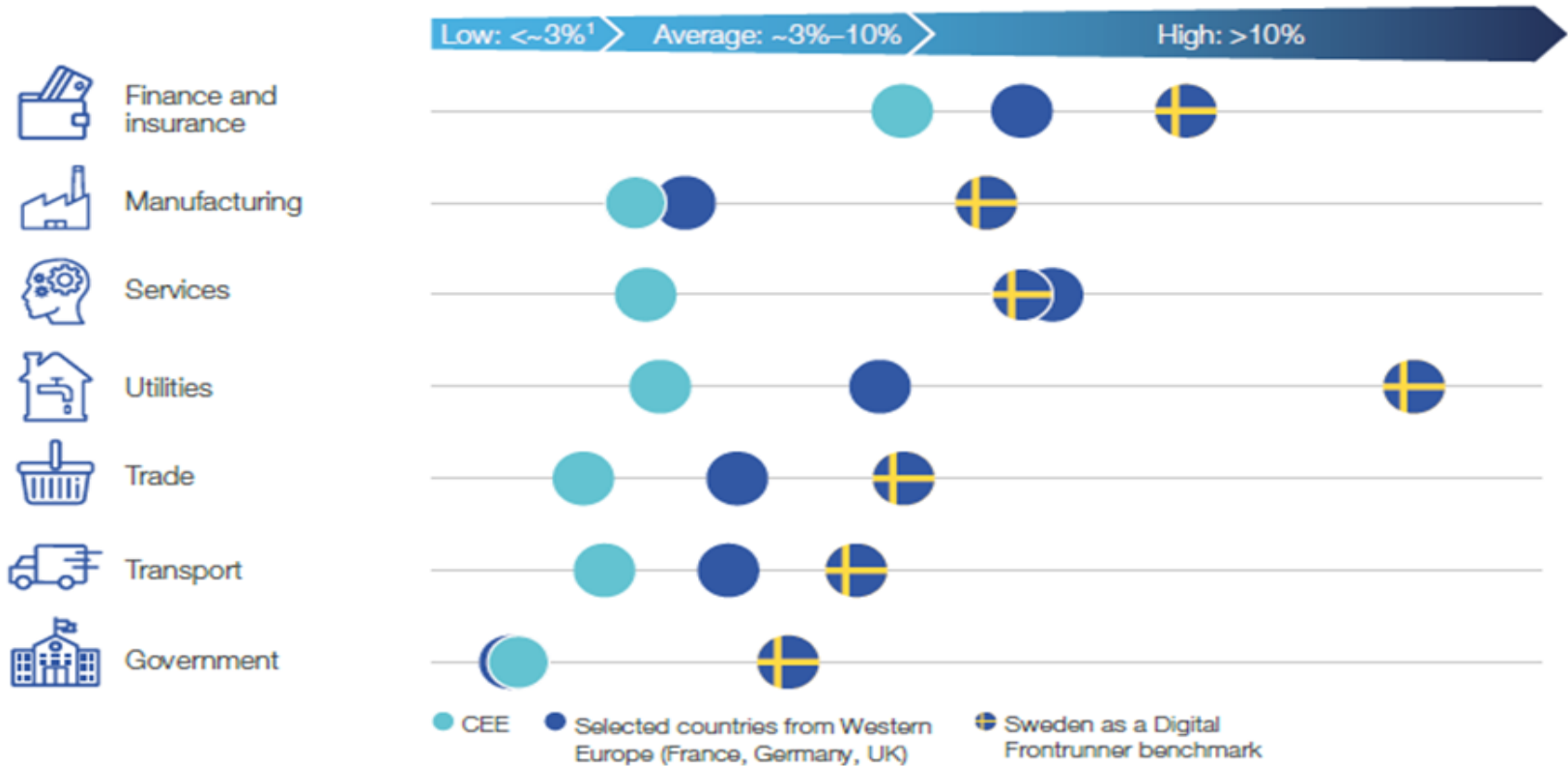
¹Years ahead of the average rate of adoption from 2017 to 2019.

Source: McKinsey & Company



- Large gaps in the digitization level of sectors exist between the CEE region, Western Europe, and Digital Frontrunners -

TECH ADOPTION

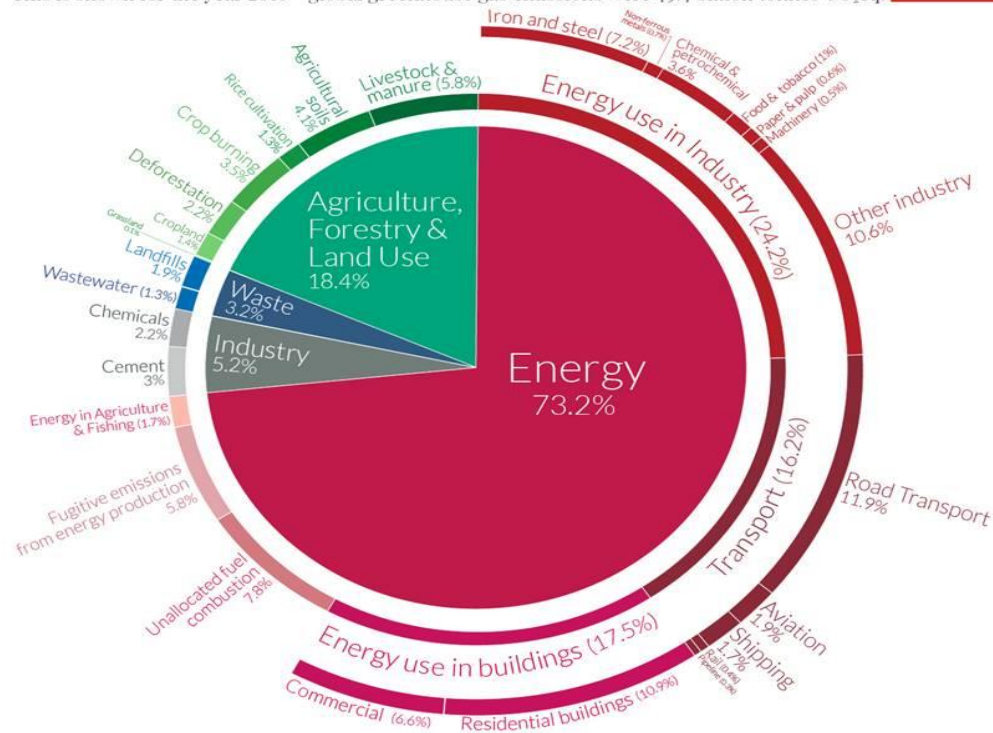


Source: Eurostat; local institutes of statistics



TECH ADOPTION AND CLIMATE CHANGE

Global greenhouse gas emissions by sector Our World in Data
 This is shown for the year 2016 – global greenhouse gas emissions were 49.4 billion tonnes CO₂eq.



OurWorldinData.org – Research and data to make progress against the world's largest problems.
 Source: Climate Watch, the World Resources Institute (2020). Licensed under CC-BY by the author Hannah Ritchie (2020).

Source: Climate Watch, the World Resources Institute (2020)



TECH ADOPTION AND CLIMATE CHANGE



However at least **20%** is waste



~10%

materials are wasted



~30%

of construction is rework



~40%

of projects are over budget



~90%

of projects are late



~40%

of jobsite work is unproductive

▶ Mostly due to **Ineffective Communication, Planning and Collaboration**

Source: Engineering-News record 2017



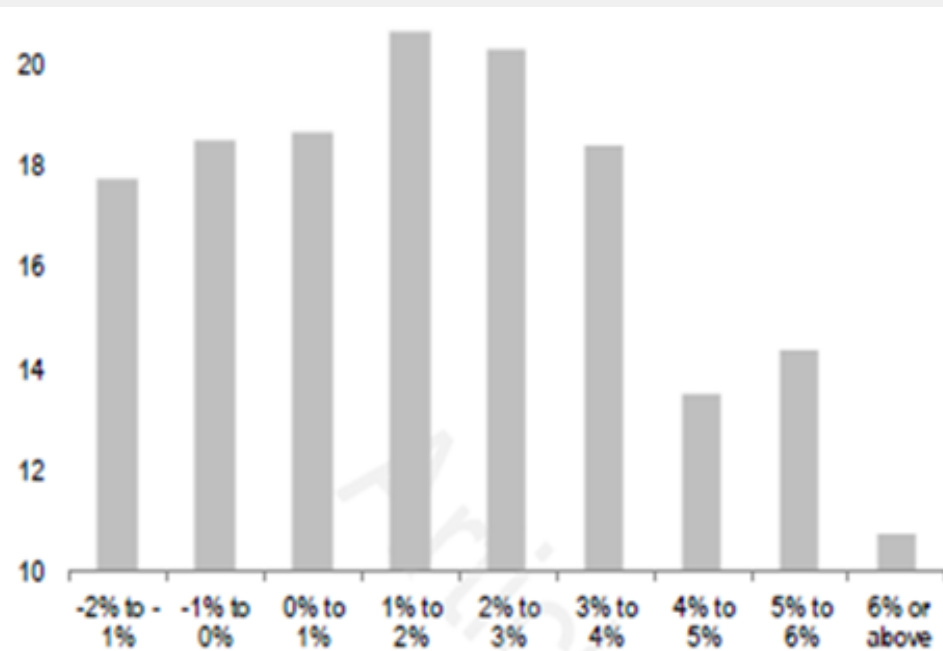
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OUTLOOK



INFLATION

US average trailing PE, 1972 - present

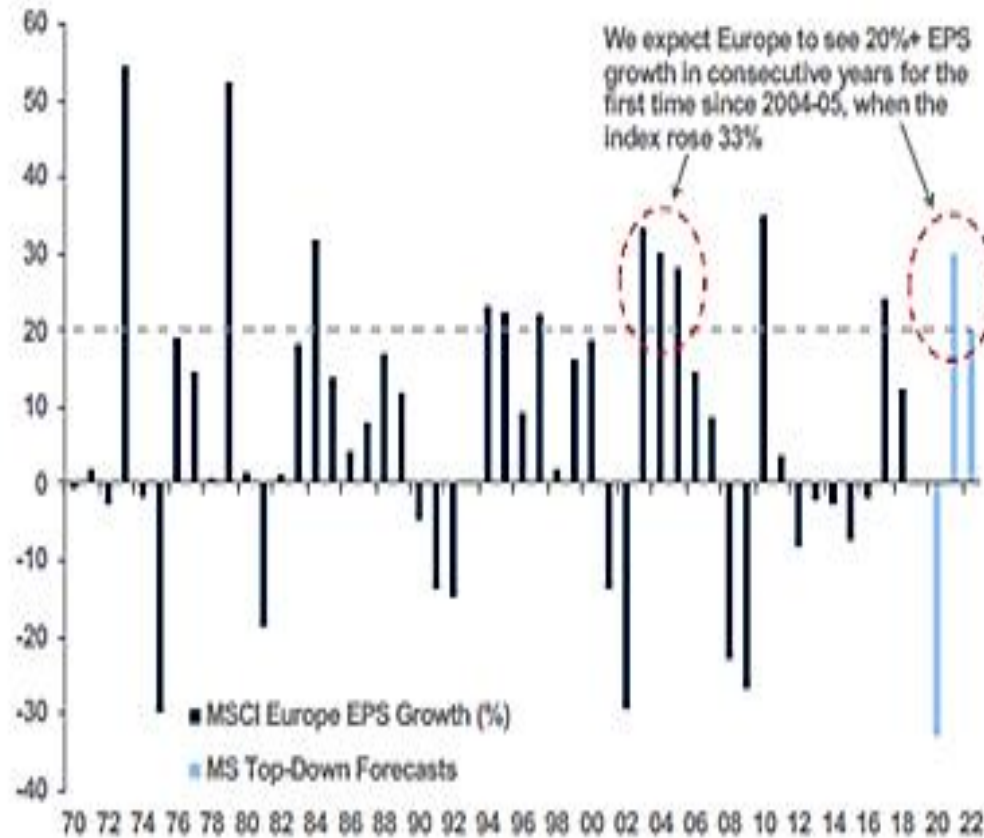


Source: Refinitiv, Credit Suisse research

- Inflation outlook more benign
- Disinflationary forces remain:
 - Tech adoption
 - Leverage
 - Demographic pyramid
 - Zombie companies
 - Output gap



EPS CONSENSUS ESTIMATES




Source: MSCI, Morgan Stanley Research Estimates



OUTLOOK

MORE GUARDED OPTIMISM VS CONSENSUS

- Monetary and fiscal measures limit downside risks but...
- 'Normalisation' already well discounted by markets
- Weak link between stock price performance and EPS trajectory
- Don't be fooled by the short term calls from strategists
- Some 'value' sectors will continue to face structural headwinds no matter the inflation outlook, be selective !
- Value investing  investing in value stocks



OUTLOOK

MORE GUARDED OPTIMISM VS CONSENSUS

- Equities offer a decent inflation hedge
- No comparison with the Tech bubble, be aware of some frothy areas
- Focus on the mid to long term, on what matters:
 - Structural trends
 - Digitization
 - Societal challenges
 - Free cash flows



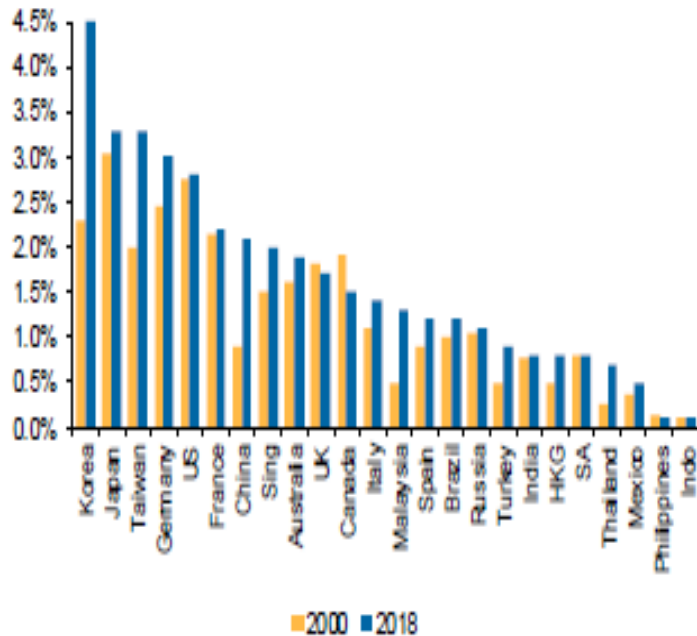
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CONCLUSION



CONCLUSION

R&D (% of GDP) – most Ems spend only 0.5%-0.7%



Source: OECD, Macquarie Research, October 2020

5 KEY MESSAGES FOR 2021








- Muted positive equity performance with broader sector participation
- Window of opportunity for Covid losers & small caps
- **Think thematic & long term & ES(G)**
- **Focus more on Asia**
- Build some inflation hedges in portfolio



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