DECALIA

INVESTMENT INSIGHTS

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JUST IT!

EDITORIAL VIEW

- Worth USD 1.3 trillion, the global sport & fitness industry has become a major growth sector today
- Baby-boomers anxious to remain healthy & body image obsessed Millennials are the main drivers
- Digital natives have now taken sports to social media – A new societal phenomenon is born!

GLOBAL STRATEGY

- Global economic momentum stabilization after the recent soft patch – US still paving the way
- US inflation in the spotlight but remains under control - Other regions still below central banks targets
- Global monetary tightening on track – Smooth but divergent pace with the FED still well ahead

ASSET ALLOCATION

- Equities – Ongoing high volatility in the near-term but stay invested as the road goes uphill
- FX – Downgrade EUR to Neutral – Near-term macro headwinds vs. attractive long-term fundamentals
- Alternatives – Still favor uncorrelated strategies & Private Equity in the current environment

Editorial View

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If only the fittest people on Earth were to survive, we certainly wouldn't need to worry about the future of our species anymore. Indeed, far from suggesting the return of *Darwinism*, we simply note that sports & fitness are becoming a real addiction for most common mortals today. With an already impressive market value of USD 1.3tn, the global fitness industry should therefore continue to grow further +5-8% annually.

Unsurprisingly, the main driver of the industry's recent growth has been the coming of age of Millennials, the largest generation in History with 2.5 billion people or one third of the world population. In this new era of the *quantified self*, the "me me me generation" doesn't want to spend big on a car nor a house, but instead ranks both health and wellness highly on its priorities list. Hence, whereas a Millennial's average lifetime college education cost is estimated at USD 95'000 in the US, he is now also likely to spend an impressive USD 115'000 on gym memberships, sports equipment and athletic apparel. Trendy Lycra, cross-fit classes and yoga sessions are eventually taking power in today's healthier image-driven world.

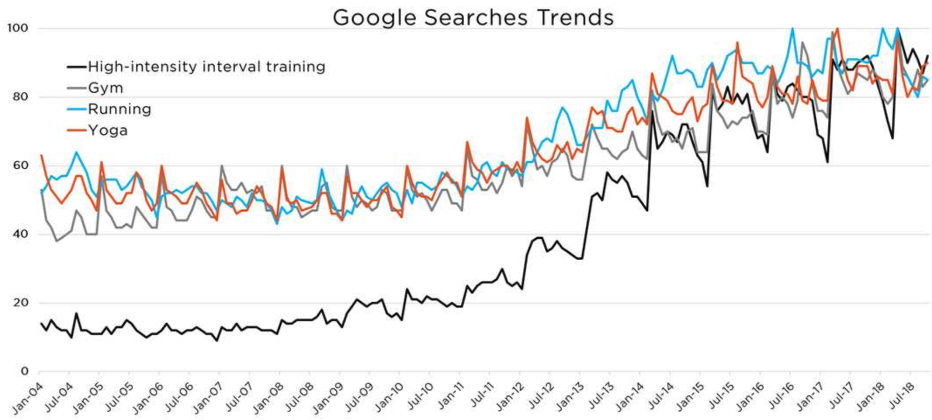
One should not underestimate the role of social media in the recent fitness boom. Indeed, today's connected world keeps almost everyone constantly in the spotlight and thus subject to social judgement, spurring the quest for physical perfection. As such, working out is good but being *liked* for it is even better, with the influence of social media taking the sports industry to another level. In fact, Millennials no longer work out, run or pump iron on their own but frantically share their performances on running apps (e.g. Strava, Nike Fitness, Samsung Health) or show their latest fitness routine on Instagram. Every kilometer ran, calorie burned and watt generated is now conveyed into a virtual arena where people compete, often miles apart.

As you would expect, new business opportunities have emerged from this powerful trend recently. The incredible popularity of fitness models (did such a term even exist 10 years ago?) is probably the best evidence of this global societal phenomenon. Indeed, thanks to social media, many have become multi-million dollar *entrepreneurs* by simply showcasing their fitness routines, sharing pictures of their, let's face it, barely achievable body and promoting various fitness goods. Just to name a few, Michelle Lewin (13.1 mn) and Jen Selter (12.3 mn) now have more followers on Instagram than Donald Trump (9.4 mn) and pop music singer Rihanna (11.2 mn).

Recent history has shown us how the disruptive nature of Millennials' habits can entail significant spillover effects on older generations. Therefore, it is no real surprise to see the latter becoming more active too, though for different reasons, as they realize the need to stay healthy for longer with life expectancy ever increasing. In Switzerland, 26% of people over 65 years old are enrolled in a gym club with regular exercisers growing by a whopping +28% in the past 8 years.

We believe this trend is here to stay and thus see attractive long term investment opportunities with gym clubs, equipment makers & apparel manufacturers all likely to benefit. The recent strong performances recorded by Basic-Fit (low cost gym) and Technogym shares are good examples, in our view. Not to forget traditional players such as Puma, Nike and Adidas that are all set to be long term winners too.

Chart of the Month



Global Strategy

Transition Mode Engaged – Keep The Faith

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With the exception of France's win in the 2018 FIFA World Cup, we saw more of the same in July with volatile, though positive, global financial markets yet again driven by sound economic data, trade war concerns, easing geopolitical tensions, unsurprising major Central Banks policy decisions, and a decent start to the Q2 earnings season. As such, our constructive global macro scenario is playing out as expected and leave it largely unchanged as we enter August on a still uncertain footing. In a nutshell, while we see further modest upside for risky assets, high-altitude market turbulences remain likely in the near term as we enter a transition period during this late business cycle stage. In terms of asset allocation, we recommend increasing the level of Cash in portfolios to the detriment of Fixed Income (EU Corporate Credit; High-Yield; Emerging Debt) while keeping our equity exposure broadly unchanged (slightly more defensive sector bias). On the FX front, we turn less bullish on the EUR vs. USD and adjust our net currency exposure accordingly.

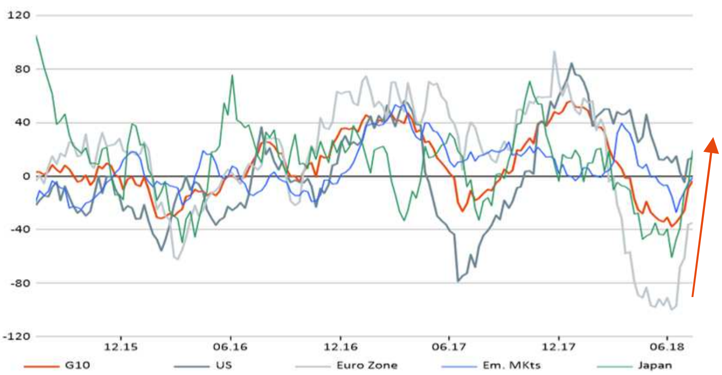
Following the recent deceleration in global economic growth (Q1), we saw key activity indicators stabilizing and major regional economic surprise indices rebounding. US inflation remains in the spotlight but under control while other regions' data are still below their respective central banks' targets. Global monetary tightening is on track, albeit at different paces with the FED still well ahead of other major central banks (ECB, BOJ, SNB). At the corporate level, the Q2 earnings season is off to a good start after an already strong Q1, especially in the US. Overall, despite revived US yield curve flattening & FX (Yuan) concerns, global risk metrics are on the decline.

Within this context, we remain selectively constructive on Equities. Indeed, healthy fundamentals with both positive earnings growth and supportive investor positioning along with more affordable valuation levels still warrant a positive near-term stance, in our view. However, aforementioned macro & political risks should not be overlooked and thus deserve a note of caution. Regionally, Switzerland's defensive growth remains our preferred play in this market environment followed by the US. Meanwhile, we keep our cautious stance on Emerging Markets and stay selective across Eurozone markets following our tactical downgrade in May. Sector-wise, we continue to favor a balanced approach though adopting a slight more defensive bias.

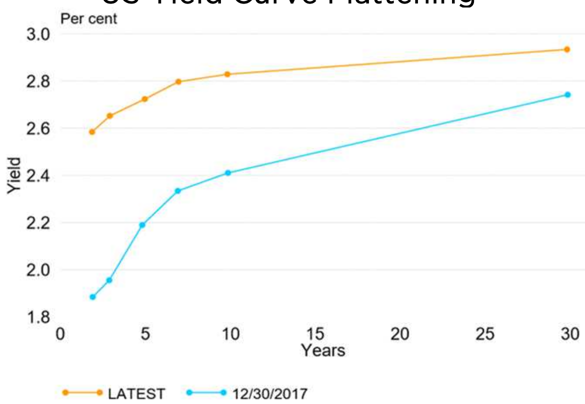
In Fixed Income, we keep our cautious stance unchanged after downgrading Emerging Markets last month on the back of both a stronger US Dollar and higher rates. We nevertheless retain our US Treasury 10 years position as a hedge against geopolitical turmoil for now. Moreover, we still to prefer US duration to Europe's as we believe the latter offers greater downside risk.

On FX, following our recent US dollar upgrade to neutral, we now turn less bullish on the euro (downgrade to neutral). Indeed, while we still believe relative valuation & fundamentals (current account, fiscal deficit, debt to GDP) should benefit EUR vs USD in the medium term, the currency could however feel near-term pressure from the region's less favorable economic momentum, a still dovish ECB and ongoing political tensions. Conversely, the US dollar should benefit from the more attractive rate differential, better growth, tighter FED policy, and investor positioning.

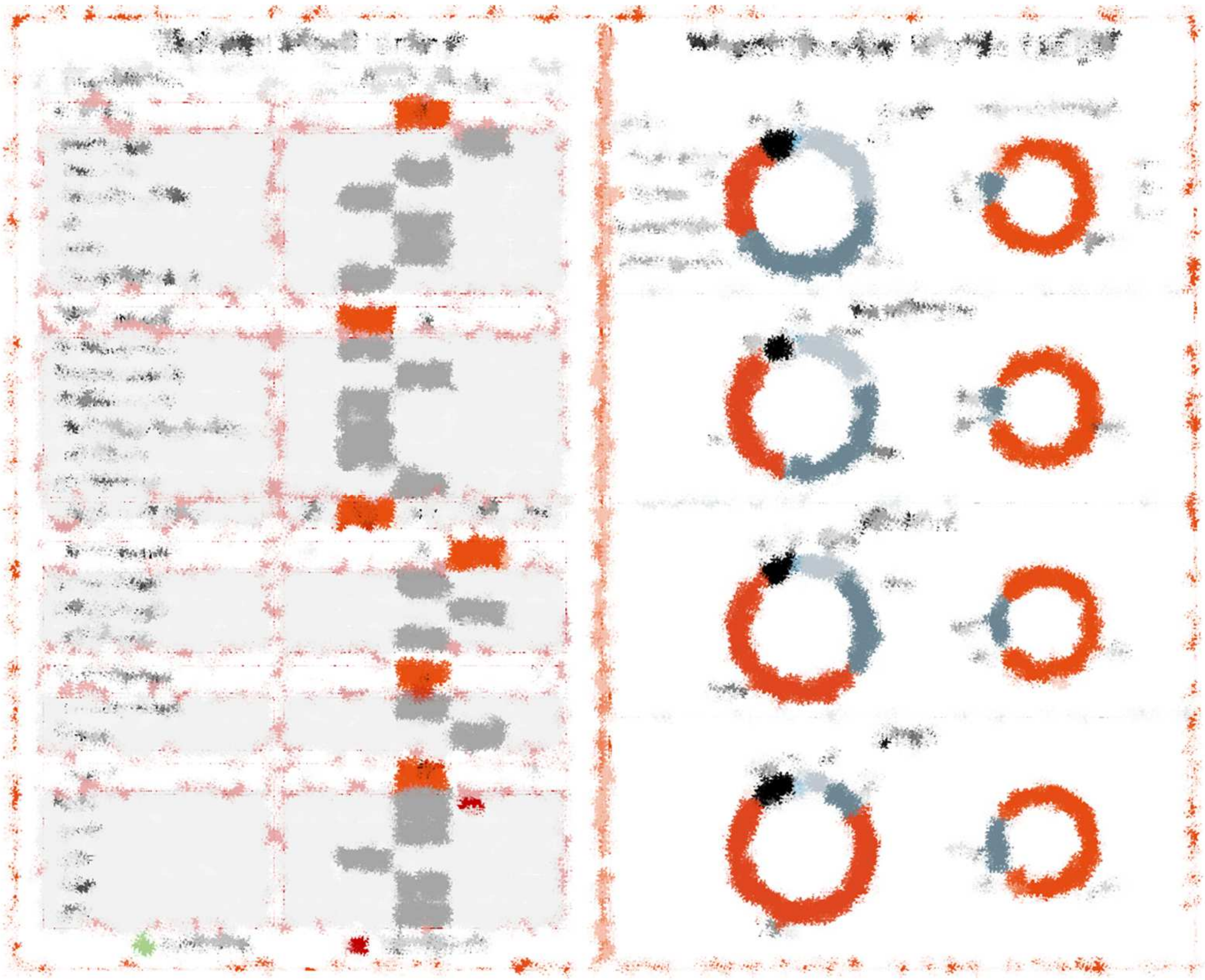
Citigroup Economic Surprise Index



US Yield Curve Flattening



Asset Allocation



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External sources include: Bloomberg, Thomson Reuters DataStream, Google, NewZoo, CBC, Strava

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