DECALIA

INVESTMENT INSIGHTS

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FLY ME TO THE MOON… AND BEYOND

Editorial View

Fly Me To The Moon... And Beyond

- A new era of space exploration is dawning
- Governments, but also private investors, aim to send humans to distant orbits
- The toughest challenge may well lie in drawing up the laws of a Galactic Republic

What if space exploration could serve to lift morale on planet Earth, recreating the awe with which – half a century ago – TV viewers across the globe saw Neil Armstrong take his legendary "small step" on the moon?

The past years have been marked by rapid and profound upheavals, both economic and societal, bringing about considerable negative externalities. Global warming, depletion of natural resources, concentration of populations in cities, ageing demographics, growing wealth inequalities, and now the coronavirus scare: not only is anxiety understandably rife today, but the world is also starting to look too small.

Conquering a new territory could bring back hope and enthusiasm to ordinary citizens, uniting them around a common project. Even better, it could spark an investment-driven growth dynamic, as countries and companies compete for leadership in space exploration projects. Historical examples of territorial advances spurring technological progress and scientific discoveries abound. Just think back to Columbus' discovery of America, to 19th century settlers heading for the Wild West or, more recently, to NASA's 1961-1972 Apollo program.

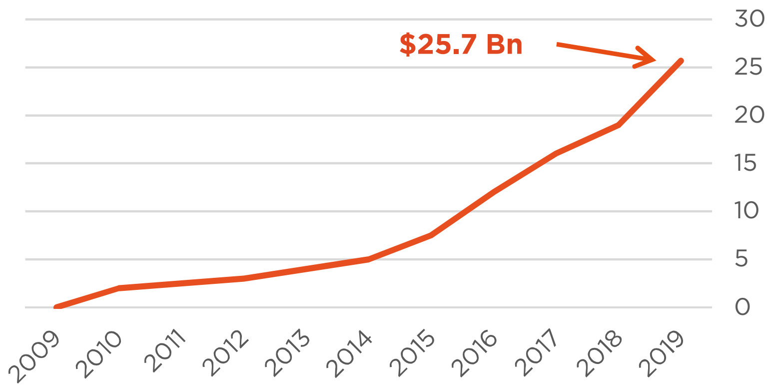
The December 2017 Space Policy Directive 1 signed by President Trump made a bold call for NASA to take space exploration to a new level, so as "to enable human expansion across the solar system and to bring back to Earth new knowledge and opportunities". NASA has since unveiled a three-pronged plan. First, low-Earth orbit activities will be transitioned to commercial services or partnerships, with the government becoming but one customer amongst others. Second, flights around the moon will resume in 2023 and landings are scheduled for the late 2020s. Importantly, a lunar orbiting platform (known as the Gateway) will be built to host astronauts and test living organisms/technologies in preparation for even longer voyages. For the third and final intended step of NASA's Exploration Campaign is no less than a human landing on Mars!

Private actors are already hard at work. The past decade has seen their space investments swell to USD 2 billion per annum – or 15% of the total – a trend that look set to continue. Particularly prominent figures are Tesla's Elon Musk, who nurses the hope of sending settlers to Mars and whose SpaceX rockets have already launched numerous satellites, and Jeff Bezos, who every year sells off some of his Amazon holdings to fund the Blue Origin space venture and envisages millions of people making a living on space stations. In the business of sub-orbital tourist excursions, Blue Origin will have to contend with Richard Branson's Virgin Galactic, that went public last October and whose stock price has literally sky-rocketed year-to-date.

But for competition, be it between nations or between companies, to prove both healthy and beneficial, a rule of law will be needed. The 1967 Outer Space Treaty proclaims space as "the province of all mankind", allowing for no claims of sovereignty. Judging by US-China rivalry and mounting threats to multilateralism down here on planet Earth, finding an agreement on celestial laws will be no easy task. Still, let us hope that Star Wars will be avoided...

Chart of the Month

Cumulative Equity Investments From 2009 To Present ($US Bn)



Global Strategy

World War Z?

- Economic uncertainties, related to outbreak fears, are severely impacting markets
- Our "Goldilocks-light" scenario is coming under challenge
- From investor complacency to panic: our best advice is to keep a cool head

Should I Stay or Should I go? Let's get straight to the point: it is likely too late to sell but keeping a cool head – and regularly washing your hands – will be (y)our best ally to navigate these tumultuous markets.

The coronavirus' sudden spread outside of China let the genie out of the bottle. With the outbreak no longer under control, fear and uncertainties knocked down sentiment. Travel restrictions, population containment and other exceptional measures, such as event cancellations, are inevitably taking their toll on the economy. As new (large) countries undergo (rapid) "contamination", paralysing or disrupting economic activity, the market has moved into a panic mode. It is not so much about the mortality risk, which remains quite low, especially compared to the seasonal flu (responsible for 200,000-500,000 deaths per annum), but more about soaring odds of recession and overall macro uncertainties.

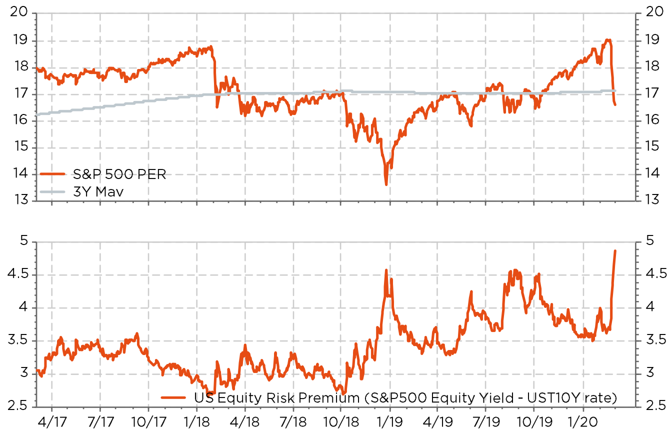
By becoming global, this epidemic challenges our "Goldilocks-light" scenario in two ways. First, and most obviously, current year growth expectations have receded, with a first-half global recession now within the realms of possibility. Second, we lack visibility as to how long the outbreak will last, how many people/countries will be infected, how severely growth will be hit, what central bank and government actions will be taken to mitigate economic (and financial) collateral damages, how strongly and fast growth will rebound in the second half, whether the coronavirus will reappear next winter… The only answer we can give to the first question is that similar flu outbreaks tend to peak 6-8 weeks after their emergence.

As a result, we can expect the number of cases, and unfortunately also of deaths, to continue to rise in Europe and the rest of the world through the end of March. But has anyone noticed that the figures are now plateauing in China?

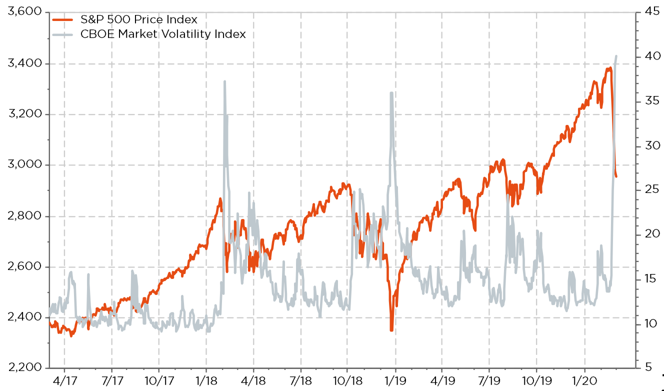
"Bumpier" financial markets are now to be expected. They are already anticipating a recession, with US long-term yields hitting all-time lows and equity markets having corrected very sharply. Such angst could persist for a few more days or weeks, but not much longer as there will be light at the end of this tunnel. Equity valuations, particularly relative to safe-haven government bonds, will eventually become attractive enough to attract a few brave investors whose time horizon longer exceeds the usual flu season.

We recommend a cautious stance, keeping an all-terrain positioning, given the higher volatility regime, but no panic – even in the event of further technical selling pressure (like at the end of 2018) due to algorithms, quantitative strategies or margin calls amplifying the correction. Drastic changes to portfolios will provide short-term relief but lasting regrets. Our contrarian indicator is already in oversold territory, close to the level seen at end of 2018. Crisis and dislocations are always difficult to stomach, even for seasoned investors, but experience has shown us that they also create investment opportunities. A few weeks ago, investors were complaining about stretched valuations and wondering what was left to buy. While now is probably too soon to invest, the capitulation point is approaching. We should look ahead and be ready to opportunistically take advantage of this new volatility regime.

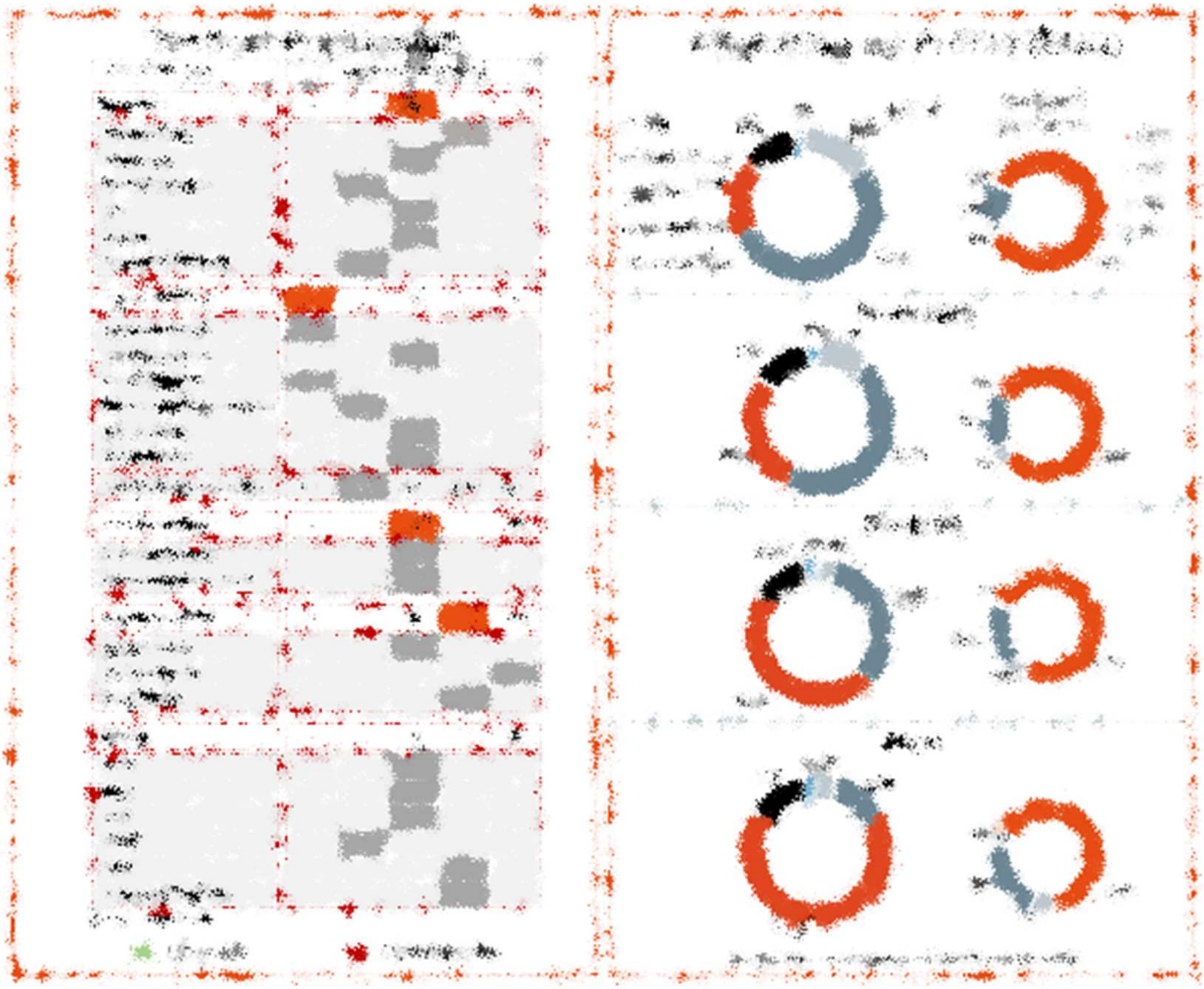
US equity markets valuation



Fear up, equity markets down



Asset Allocation



- Equities – Too late to sell. Stay invested, with a bias towards large-cap high quality & growth stocks
- Fixed Income – Lower for longer rates but beware of second round effect on credit spreads
- Forex – JPY and CHF acting as safe haven, neutral stance on USD

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External sources include: Refinitiv Datastream, Bloomberg, FactSet, NASA, Space Angels

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