



INVESTMENT INSIGHTS

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- Cooperation, between countries but also companies, will be essential in this effort

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Editorial View

The Race For A Vaccine

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- Cooperation, between countries but also companies, will be essential in this effort

With lockdowns having served their purpose of flattening the infection curve, and the stress on healthcare systems seemingly subsiding, governments across Europe and beyond are now busy devising exit strategies. The routes chosen vary country by country but share two features: normality is but a distant prospect and large-scale testing/tracing will be embraced. For, until a vaccine becomes available, victory against Covid-19 cannot be declared. Further waves of infections are a distinct possibility, given that the spread of the disease remains well short of the level required for “herd immunity”, not to mention uncertainty as to how long such immunity would even last.

On the therapeutic front, antivirals offer the greatest near-term promise and various existing drugs (or combinations thereof) are currently being tested. Attracting most attention are Gilead’s remdesivir and the decades-old antimalarial agent chloroquine (or its more tolerable hydroxychloroquine version) – that a number of companies (Novartis’ Sandoz division, Sanofi, Bayer, Teva, Mylan) are donating or starting to manufacture. Antibody-based treatments are also a potential avenue, with a view to managing the immune response or inhibiting viral docking (infection of healthy cells), a category into which one can also include the injection of plasma from recovered Covid-19 patients.

Still, the only real solution to this pandemic lies in an effective vaccine. On this front, although multiple technologies are being put to use and developments have never before been so rapid, it will be at least 12 months before a vaccine is available on a large-scale basis.

Among the many contenders in this race, Moderna looks to have garnered a good lead, thanks to its innovative mRNA platform. Less than two months after the Chinese authorities shared the new coronavirus’ genetic sequence, it was allowed by the US FDA to begin clinical trials. The first of the three phases is now proceeding, after which – assuming all goes well – manufacturing capacity will need to be scaled up. Hence the “lengthy” timescale to full commercialisation, although some limited emergency use of Moderna’s vaccine could, however, be granted authorisation already this fall.

Meanwhile, the progressive lifting of shutdown measures will go hand-in-hand with mass testing – to determine not just who is currently affected (diagnostic tests) but also who has already been exposed to the virus (serological tests). This will enable the monitoring of the spread of the disease, so as to know if/when “herd immunity” is attained, as well as serve to separate those allowed to go out/work/travel from those who must remain confined. For greater effectiveness, such systematic testing will likely be accompanied by tracing apps on smartphones, which the technology giants are actively working to develop. Whether these come to be imposed or highly recommended, given controversial privacy issues, remains to be seen. Asian governments certainly appear to be opting for a strong form of surveillance.

All told, while the world – especially economic – understandably wishes to exit this crisis as fast as possible, it will have to be as patient as necessary. Speed should not be confused with haste, and cooperation, on many levels, will be essential in eventually finding our way back to normality.

Chart of the Month

5 biotech stocks leading the Coronavirus race (last 3M performance)



Please see appendix at the end of this document for information on sources, important disclosures, and disclaimers

Global Strategy

Sell In May And Go - Not Too Far - Away?

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- Overall cautious approach still warranted with a focus on asset quality and liquidity

Risk-on sentiment has taken over again in financial markets: April saw equities rally, credit spreads tighten and the fear index (VIX) decline. Meanwhile, US retail sales recorded their largest drop on record, jobless claims are skyrocketing across the globe and industrial production is suffering its largest decline since... World War II.

The plateauing of new cases in Europe, first steps to relax lockdown measures, as well as potential Covid-19 treatments obviously make for positive developments, which are eclipsing what is truly an awful macro backdrop. For sure, government and central bank money has bought us time, but many dark clouds remain on the horizon. Our non-exhaustive list of risks that should keep all investors awake at night is indeed rather long.

Reopening economies will not be as simple as ordering lockdowns or flicking a light switch. And, even assuming some kind of success, it will take a long time – at least 18 months in our view – for economic activity to return to its previous peak. Will households be confident enough to resume their prior consumption patterns? How much time will be needed to reabsorb the millions of people who lost their job? What about a negative wealth effect? Should precautionary savings not increase? What happens to all the companies linked to airlines, hotels and other mass events? And why would the manufacturing sector produce the same amount of goods if inventories are plentiful and pent-up demand limited? The recent turmoil in the oil market is just one reminder among others of the extraordinary nature of the period we are currently living in. Not to mention the growing deficits, deepening rift within the euro area, pending US Presidential election, Brexit clock

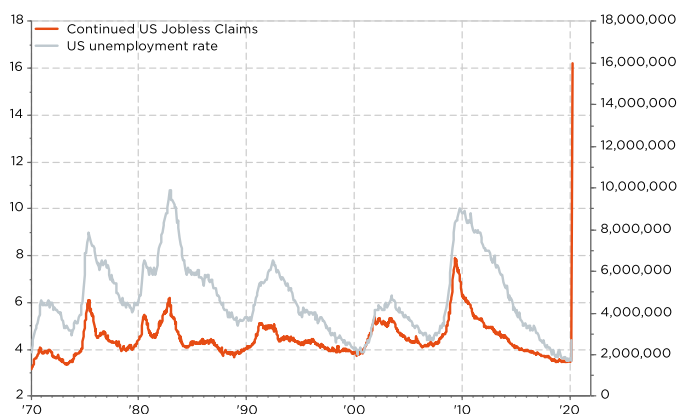
ticking and unknown disruption risks that may emerge in the post-traumatic awakening phase.

Admittedly, history shows that equity markets are always keen to anticipate the next step(s) and thus never wait for a clear blue-sky scenario to rally. Unfortunately, looking out 12 months, the current rich valuation levels do not seem to leave much of a safety margin with respect to the many uncertainties, particularly since bottom-up 2020 earnings estimates are still too high. Put differently, after the recent market rally, the risk-reward no longer seems appealing enough to warrant a pro-risk stance.

At the portfolio level, this translates into a slightly underweight and underweight exposure to equities and bonds, respectively. Within equities, we still prefer the more resilient diversified markets such as Switzerland and the US, and high-quality large cap stocks with a more defensive growth bias. That said, we are also keeping an eye out for specific recovery stories. And we continue to consider tactical hedging strategies on an opportunistic basis. In fixed income, while remaining cautious and selective, we have become more constructive on IG credit, on the back of improved relative valuation, supportive central banks and strengthening balance sheets. Meanwhile, we have further downgraded local currency EM debt.

Elsewhere, we maintain our overweight stance on gold, as it should continue to benefit from negative real rates, concerns regarding ballooning deficits and currency debasement. In this context, we are also careful to limit unhedged currency exposure across portfolios.

US total jobless claims and unemployment rate

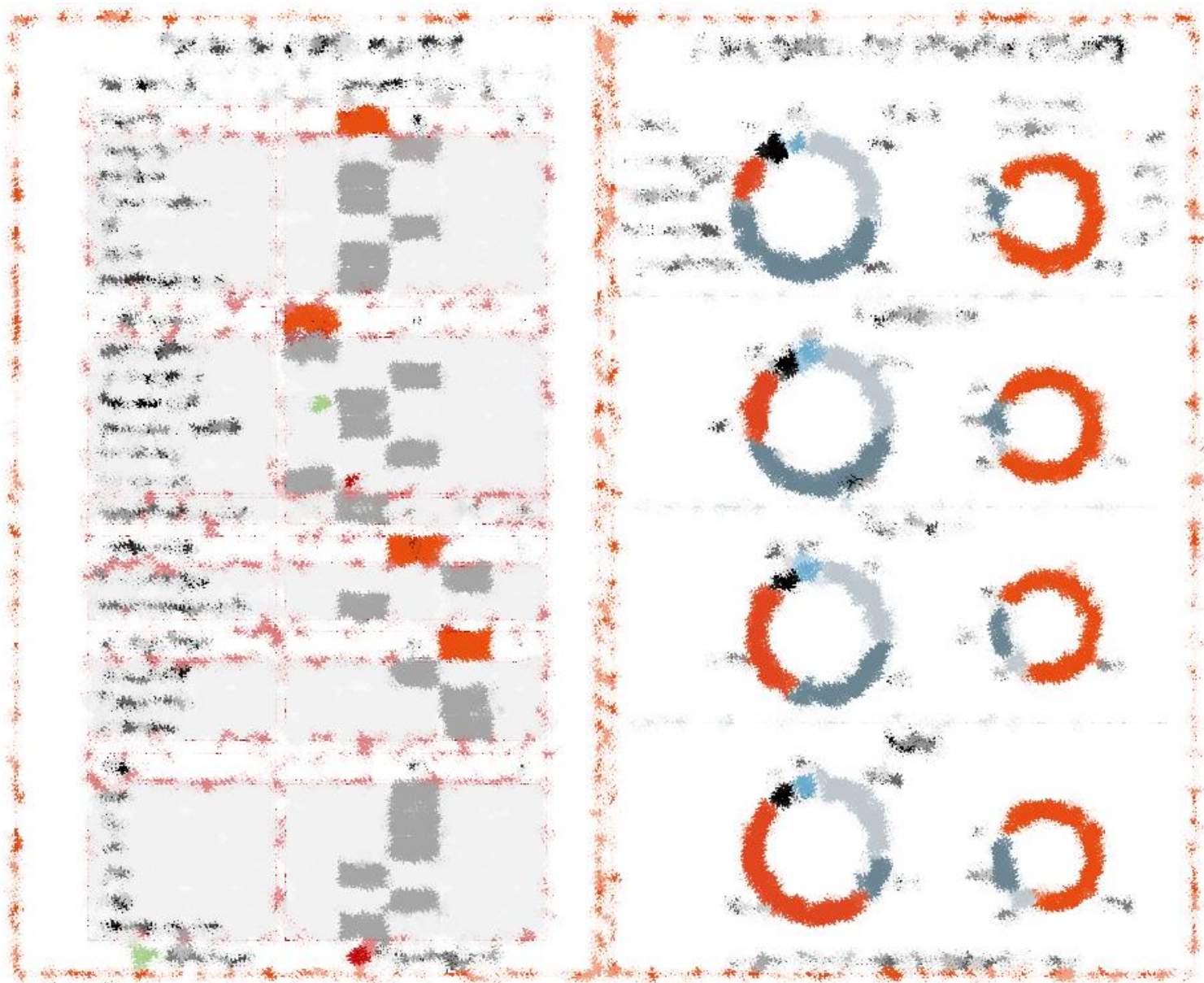


S&P500 price index and 12M forward EPS



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Asset Allocation



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External sources include: Refinitiv Datastream, Bloomberg, FactSet
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