



INVESTMENT INSIGHTS

MONTHLY ISSUE #65

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Editorial View

Saddle up!

- As they ease lockdown measures, authorities are unveiling ambitious schemes to increase cycling
- Demand for e-bikes, in particular, is booming – a silver lining of the coronavirus
- A thriving biking ecosystem offers many opportunities for investors

What if bicycles were a solution to the complex equation of unlocking economies without foregoing social distancing? Across the globe, governments are promoting cycle commuting, as a safer alternative to public transport. Money is being allotted to this end: a 250 million pound “emergency active travel fund” was for instance recently set up in the UK, while subsidies on repairs and e-bike purchases are now available in France. And street space is being reallocated from cars to bicycles, with small and dense Milan providing a roadmap for many other cities. Temporary or not, hundreds of kilometres of “corona cycleways” are currently popping up, including some in our very own Geneva (much to the distaste of certain motorists should we add).

But cycling is not just a safer means of transport in a Covid-19 world, it is also a way of “meeting the minimum requirement for daily physical activity” as per WHO guidance. As such, already during the lockdown period, it was (re)gaining adepts. To the point that retailers in the UK, but also the US or Australia, have been battling to meet sales and servicing demands. Britain certainly has a way to go, with cycling estimated to account for only 2% of all journeys, versus 27% in the Netherlands.

Beyond our calves and overall health, beneficiaries of this boom should include manufacturers of bikes and parts, rental/sharing platforms as well as connected home training equipment. In the latter space, the pandemic is turning Peloton into a household name. When stuck at home, and not watching Netflix or videoconferencing on Zoom, why not attend a virtual cycling session? Peloton recently reported a record 23'000 participants to a single online

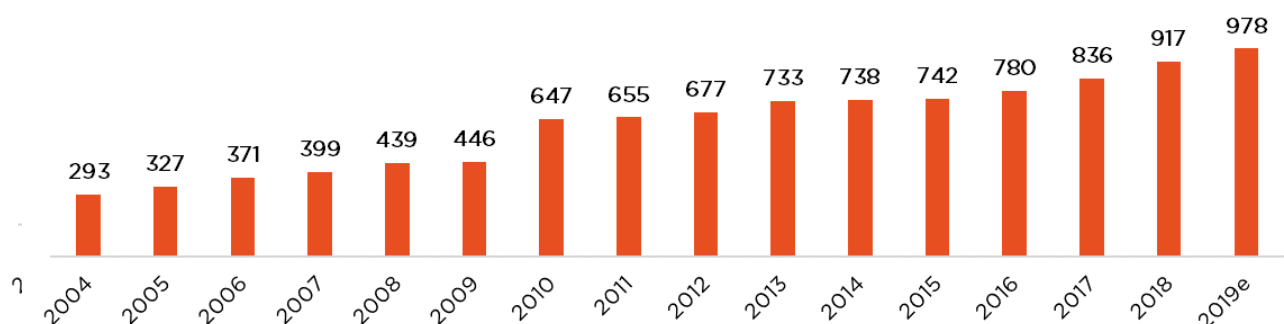
workout class and a worldwide membership community in excess of 2 million. Usage of Strava, a fitness tracking app lauded by cyclists and runners, tripled during the lockdown to over 55 million. As for Zwift, an online cycling platform, it is bringing the virtual experience to new levels.

And investors can enjoy the ride too! Besides Peloton, that has reached extreme valuation levels, it is worth mentioning a few other listed players – starting with leading bike maker Giant Manufacturing. With a complete product line, ranging from recreation to performance, on- to off-road and conventional to electric, this Taiwanese company appears well positioned to expand its market share, thanks to in-house technological capabilities and a flexible manufacturing base. Rising adoption of high-end e-bikes, particularly in Europe and the US, will be key in driving future revenue growth, for Giant but also its runner-up Merida Industry (Taiwan-based too). Amid suppliers, Shimano's reputation is second to none. Founded almost a century ago, this Japanese maker of drivetrain, brake, wheel and pedal components accounts for some 70-80% of the global market by value. As for batteries, Simplo Technology Group (Taiwan, again!) is a key player in the e-bike battery value chain and the second-largest battery pack vendor in the European e-bike market.

The indoor/outdoor cycling experience is evolving rapidly. This ecosystem could indeed turn out to be one of the main beneficiaries of the Covid-19 pandemic, that has imposed social distancing as the norm and made events or races few and far between. Innovation has enabled new recreative as well as competitive concepts, fit for both the Millennials and Ageing generations.

Chart of the Month

Evolution of bike paths length in Paris since 2004 (In Km)



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



Global Strategy

Bike to the BEACH!

- Risk-on sentiment, fuelled by economic unlocking and vaccine hopes
- Violent relief sector rotation in favour of beaten-up value and cyclical stocks
- Overall cautious approach still warranted given unappealing valuation risk-reward

Risk-on sentiment continued to prevail in May, especially in the last few days of the month when the most beaten-up value and cyclical stocks led equity markets higher. This positive sentiment was driven by a mix of economic figures finally getting better (at the margin), more and more economies reopening, the possibility of additional stimulus on both sides of the Atlantic, and hopes regarding a potential vaccine and treatment. Not even rising US-China tensions or depression-like economic data were able to derail investor optimism.

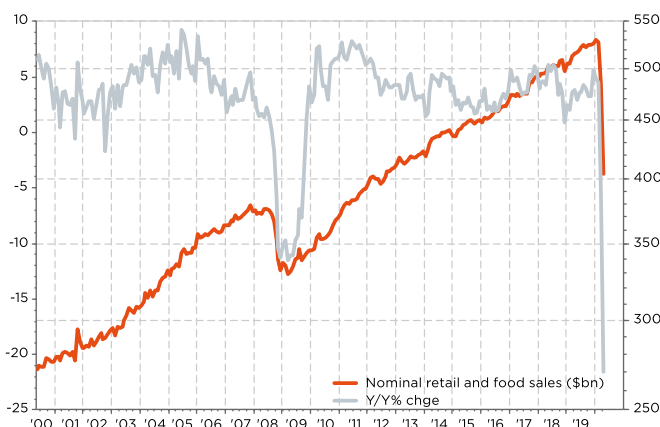
So, it's back – or rather bike – to a certain form of normalcy for people and to the BEACH stocks (Booking, Entertainment, Airlines, Cruises & casinos and Hotels) for investors. Because of the stretched relative positioning and performance, the sector rotation in favour of these laggards was violent. There is still upside potential, but selectivity now prevails.

While relieved investor spirits have been eager to ride the technical economic recovery, overall cautious approach still warranted while adopting an opportunistic approach (beware of the sectorial rotation) and constructive view along the exit strategy. Indeed, we expect the economy to follow an unusual and uneven “swoosh-wavy” trajectory... despite the massive central bank liquidity injections. The market is perhaps underappreciating the wall of debt and the extent of scars that this pandemic will leave both on the labour market (many of the job losses will be permanent) and on consumer spending. Having said that, the investors' positioning remain bearish with a quality growth bias, hence we may notice a continuation of this rebalancing move.

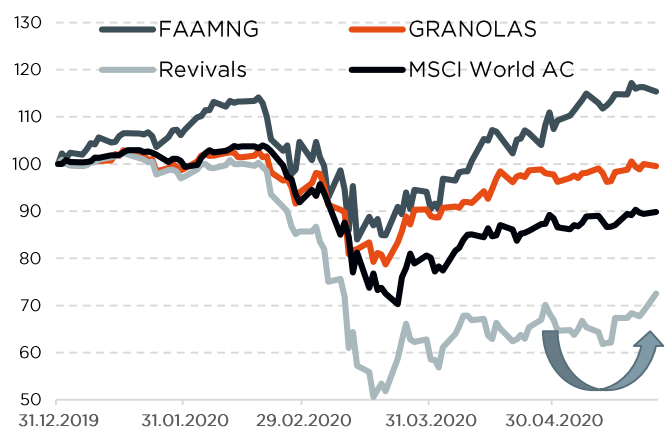
Relative to bonds, equities' appeal remains obvious, thanks also to attractive dividend yields. On an absolute basis, however, equities look expensive on a 12- to 18-month horizon. Consensus earnings expectations seem particularly optimistic. Whereas 2020 estimates were largely downgraded during the Q1 reporting season, 2021 forecasts have remained broadly unchanged, still anticipating a return to 2019 levels both in Europe and US. All this suggests limited near-term upside potential, barring a positive shock to equity risk premia (e.g. a vaccine breakthrough) that would temporarily drive multiples higher.

At the portfolio level, this translates into a slight underweight and underweight allocation to equities and bonds, respectively. Within equities, we maintain our preference for the more resilient diversified markets, such as Switzerland and the US, and high-quality large cap stocks with a growth bias. Still, we have somewhat rebalanced this positioning by adding a revival certificate that invests in recovery stories such as BEACH stocks. Moreover, we continue to consider tactical hedging strategies on an opportunistic basis. In fixed income, we remain overall light and selective on both duration and credit risk. Elsewhere, we stick to our overweight stance on gold, partially and indirectly offsetting our currently underweight exposure to government bonds. Finally, regarding currencies, we have downgraded our stance on the EUR to a slight underweight, now favouring the CHF in relative terms.

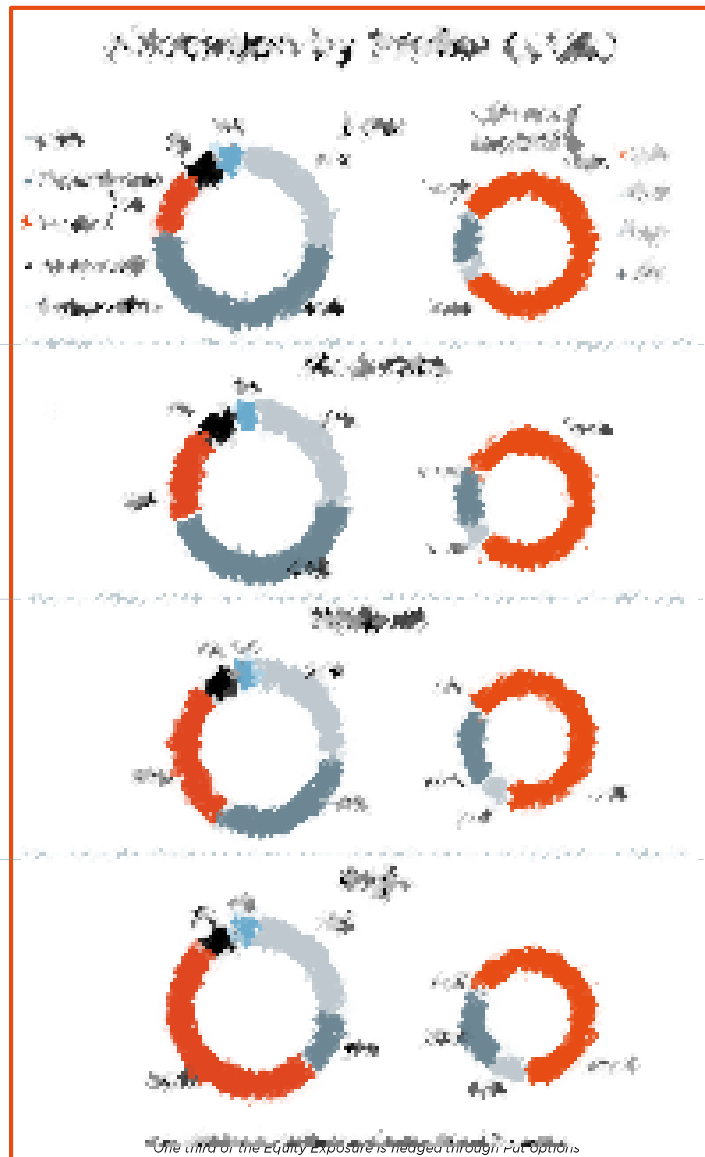
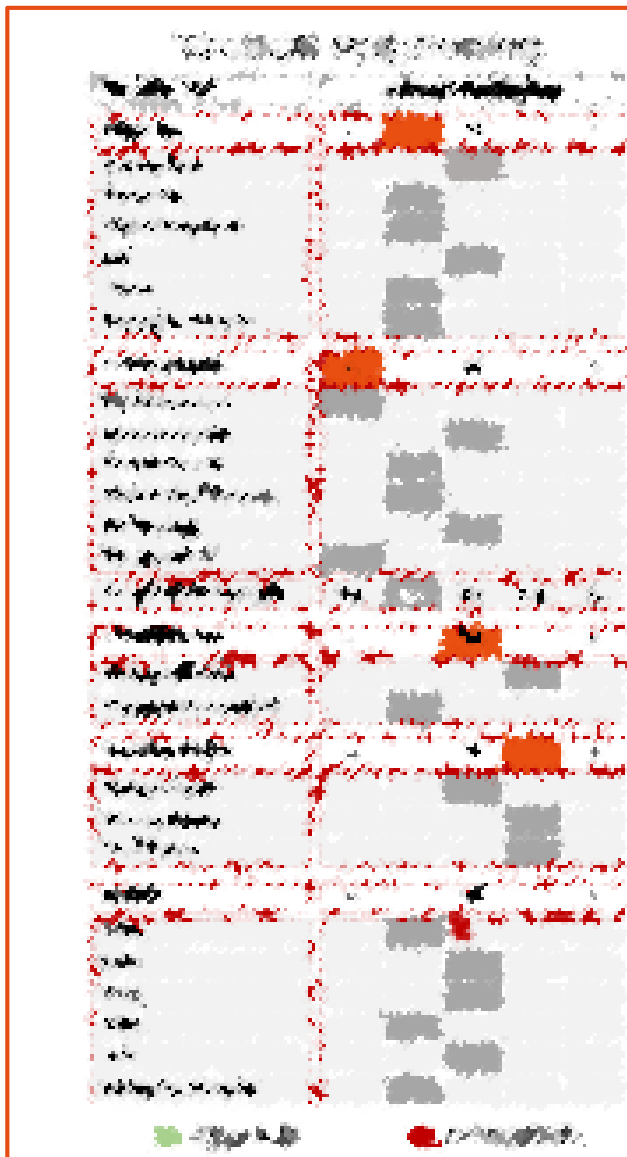
US nominal retail and food sales



Market leaders vs. Revivals
YTD performance



Asset Allocation



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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Mairie de Paris
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