INVESTMENT INSIGHTS

MONTHLY ISSUE #67

August 1st, 2020

THE RISE OF E-SPORT

Editorial View

The rise of e-sport

- Virtual competitions helped keep fans, broadcasters and sponsors satisfied during lockdown
- The Covid-19 may well be serving to accelerate the transformation of the sport ecosystem
- Streamlined events, less travel, digitalisation: the characteristics of tomorrow's sporting world?

As we put pen to paper, the 2020 Tokyo Olympic Games should be in full swing, with crowded stadiums and huge global TV audiences. Instead, the sporting world – just like many other businesses – is having to cope with the consequences of the Covid-19 pandemic. Countless competitions have been cancelled, the ATP/WTA Asian tennis tour being the latest casualty. Others, such as the major European football leagues, are being played in front of empty stands or even, in the case of the just-resuming US NBA season, in the "Orlando Bubble". The fall will hopefully see a gradual return to normality, but the situation is still very uncertain and conditions under which events can be held are likely to remain restrictive for many more months.

In such circumstances, maintaining fan engagement, filling up broadcaster airtime and honouring sponsor contracts is proving a huge challenge for sporting bodies. A challenge to which e-sport has provided some form of solution. The best example is probably Formula One, whose Virtual Grand Prix Series replaced all cancelled live races during the March to June 2020 period. Current and past drivers, but also star athletes from other sports, battled it out on gaming platforms. TV and streaming audiences broke the 30 million mark and, needless to say, stay-at-home bucket stocks have rocketed this year.

With technology now so advanced that professional drivers use simulation platforms to prepare for real-life events, racing was the obvious candidate for a crossover. But it is by far not the only sport to have gone virtual during lockdown. North American basketball and hockey teams also engaged on, respectively, the *NBA 2K20* and *NHL 20* platforms, and a 128-team charity tournament held on *FIFA 20* featured top-class football clubs and players worldwide.

E-sport audiences may still be no match for live sport viewership, but they are better than nothing – and growing. A natural habitat for the 18-35 (and, increasingly, younger) age group, the question is whether gaming can appeal, durably, to fans outside of that demographic. Put differently, was e-sport just a welcome outlet during the pandemic or are greater convergence forces at work?

What seems clear, even aside from virus-imposed constraints, is that the sport ecosystem is headed for substantial change. The fact is that bulging calendars have been pushing athletes to their physical and mental limits, as well as devaluing the significance of single sporting events. Not to mention the strain put on the environment by the extensive travel that is typically involved in elite sport, and the considerable on-site waste that it generates.

Streamlining the sporting agenda thus makes sense – provided it can be made to work out financially. Which is where renegotiations of TV rights, changes in competition rules, and greater use of digital media come into play. After all, in the most commercially successful league of all, US National Football (NFL), most teams have only 16 fixtures per annum. And who would have imagined that the New York marathon could be hosted online, as it will be during the latter part of October 2020, using the Strava platform to virtually connect runners from all over the globe?

Gaming & e-sports are gaining traction, powered by Gen Z and Millennials! The pandemic has accelerated a r-evolution in the ecosystem, from developers to streaming platforms.

Chart of the Month

E-sports Revenue Streams in 2020

Until July 2020

Global Strategy

Time for a reality check

- The V-shaped economic recovery is losing steam, with Covid-19 not having disappeared
- "Easy" money has been made: valuations now look unappealing, in a challenging context
- Stars, or rather black clouds, are lining up for gold, as an "alternative" currency

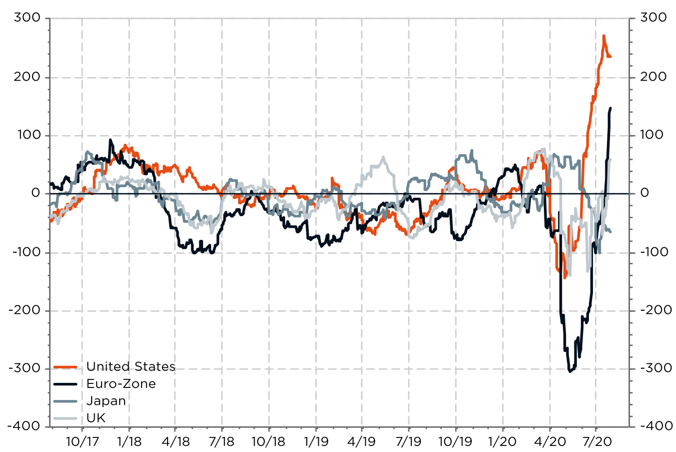
Although risk-on assets have continued to fare quite well over recent weeks, there is growing evidence that the "easy" money" has now been made, on the back of a better and faster than expected economic rebound after activity resumed, massive monetary and fiscal support, as well as promising and rapid progress on the vaccine front. First of all, overall valuations have reached unappealing levels in both equities and the credit space, leaving very little room for disappointment. Secondly, the initial V-shape economic rebound is already losing some steam, as illustrated by recent Chinese and US data. Finally, Covid-19 is not completely under control: cases have only just started to plateau in the US, while Asia and Europe are facing a new wave of infections, further delaying a full recovery in the BEACH sectors and weighing on overall consumer confidence.

On the positive side, central banks and governments remain committed to do "whatever it takes" to contain the economic and financial damages caused by this pandemic. In a world of low to negative rates, dominated by financial repression, this commitment tends to impede any significant and sustained setback in equity indices. Simply put, there is no alternative. As a result, we expect stock markets to move sideways, probably in a bumpy fashion, during the next few months. The trend should be similar for most other asset classes, such as government bonds, credit or major forex crosses.

In such a context, we do not believe the greenback to be at the brink of major depreciation. Its recent weakness, especially against the EUR, is due to a series of concomitant factors that have worked in favour of the single currency: the coronavirus situation, economic surprises, real interest rates and even fiscal support expectations – with the EU recovery plan adopted, while new US relief bill negotiations are currently in a deadlock. The sharp move in DM currencies can be viewed as a form of schizophrenia, as investors turn to the least "bad" currency. Ultimately, there is only one clear-cut winner, gold, which continued to shine in July and has appreciated year-to-date, whatever the currency used to measure its value.

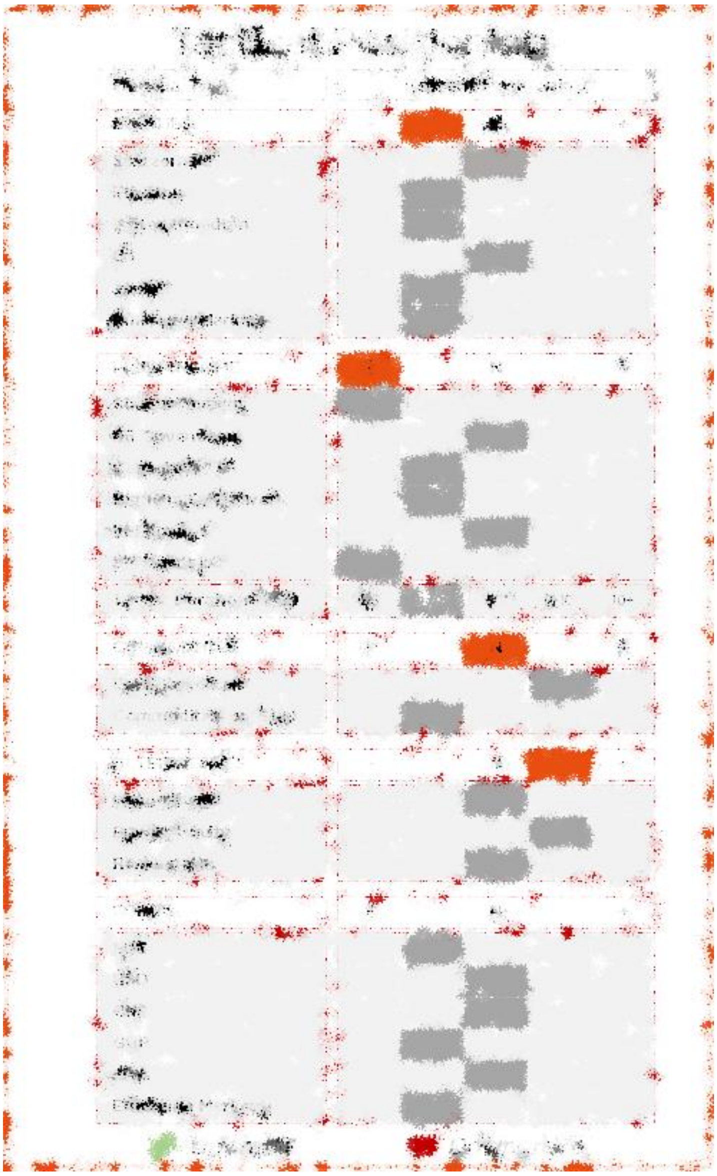
As a result, we have made no change to our portfolio allocation. We continue to underweight equities and bonds, reflecting our general cautiousness. Within equities, while we have a broadly balanced sector positioning, we keep our geographical preference for the more resilient markets, such as Switzerland and the US. Moreover, we continue to favour high-quality large cap stocks with a growth bias and to consider tactical hedging strategies on an opportunistic basis. In fixed income, we recommend being prudent and highly selective, both in terms of duration and of credit risk. Elsewhere, we retain our overweight stance on gold as the best "alternative" currency in a context of accentuated worldwide financial repression (negative real rates), concerns regarding ballooning deficits and weakening structural growth trends. Finally, we are also careful to limit unhedged exposure across portfolios, especially USD- and CHF-based ones. Indeed, we keep a slight underweight on the EUR, favouring the "quality" of the CHF in relative terms.

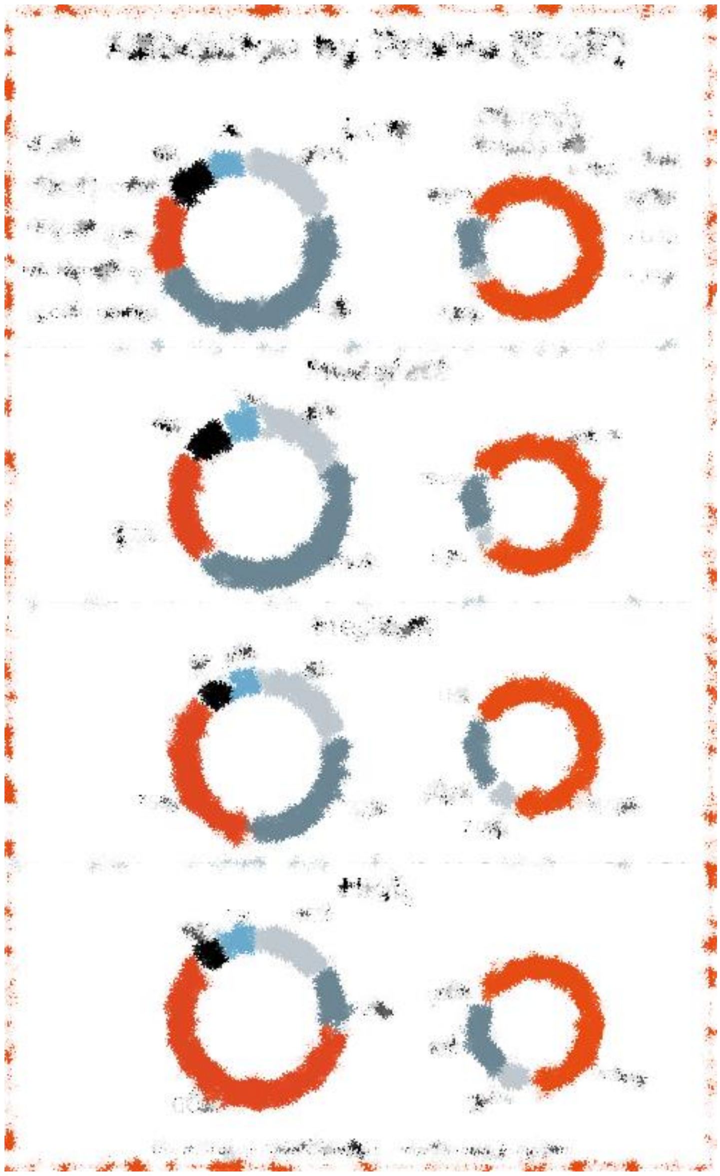
Citi Economic Surprises Indices in major DM



Gold $ price US 10Y "real" yield (inverted)

Asset Allocation





- Equities – Underweight confirmed, reflecting mixed near-term visibility and rich valuations
- Fixed Income – Financial repression overtime: it is more about managing risks than looking for yield
- Forex – Not turning bearish on the USD and still favouring the CHF over the EUR

Contacts

DECALIA Asset Management SA

31, rue du Rhône
Case postale 3182
CH – 1204 Genève

Tél. +41 22 989 89 89
Fax +41 22 310 44 27
info@decaliagroup.com

External sources include: Refinitiv Datastream, Bloomberg, FactSet,, Newzoo
Finished drafting on July 31st, 2020