

INVESTMENT INSIGHTS

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RETAIL INVESTORS STRIKE BACK

EDITORIAL VIEW

Page 2

- Day trading platforms like Robinhood have attracted scores of new users this year...
- ... contributing to a self-fulfilling rally in equities, but also greater polarisation and volatility
- History is not kind as to how such bubbles end – although the turning point may not be imminent

GLOBAL STRATEGY

Page 3

- Economic growth momentum peaking as incremental gains in activity get smaller
- Some clouds on the horizon due to the political agenda and 2nd wave of coronavirus
- An effective vaccine or cure will accelerate the return to some form of normalcy

ASSET ALLOCATION

Page 4

- Equities – Upgrade to neutral, taking advantage of uncertainty, volatility and easing valuation
- Fixed Income – Still underweight: credit valuation has deteriorated, while supply has exploded
- Forex – Cautious on GBP & EM, favouring quality over valuation and yield appeal

Editorial View

Retail investors strike back

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An unintended consequence of the Covid-19 pandemic has been the revival in retail investing. In the US, the Robinhood online trading platform has literally been stormed this year, attracting millions of new users, many of whom first-time investors. Elsewhere, albeit perhaps in somewhat less of a crazed fashion, it is the likes of Swissquote, FinecoBank (Italy) or Avanza (Sweden) that have experienced a surge in retail trades.

Clearly, boredom during coronavirus-induced lockdowns, a lack of betting opportunities as scores of sporting events had to be cancelled, and perhaps the extra cash afforded by Uncle Sam's support cheques, contributed to Robinhood's rise to fame in 2020. But that is not the full story. Commission-free trading (on the surface), ease of use and gaming-like features that become rapidly addictive make the Robinhood app particularly appealing to Gen Z and Millennials. Indeed, the median age of its users is a mere 31. And then, of course, there is the current lack of alternatives to equities, with cash and most bonds yielding next to nothing.

Robinhood users are alerted to what their fellow investors are doing, and the most popular stocks of the moment are highlighted – with influential forums/bloggers such as Reddit or Dave Portnoy relaying the message. As such, the "Investing for Everyone" platform, as it promotes itself, has definitely contributed to the massive performance rift that has opened up this year between a handful of Wall Street darlings (read: Apple, Tesla, Moderna, Amazon or Netflix) and the rest of the

pack, quite regardless of fundamental considerations. It has also made for increasing volatility, which is not a usual feature of rallying stock markets.

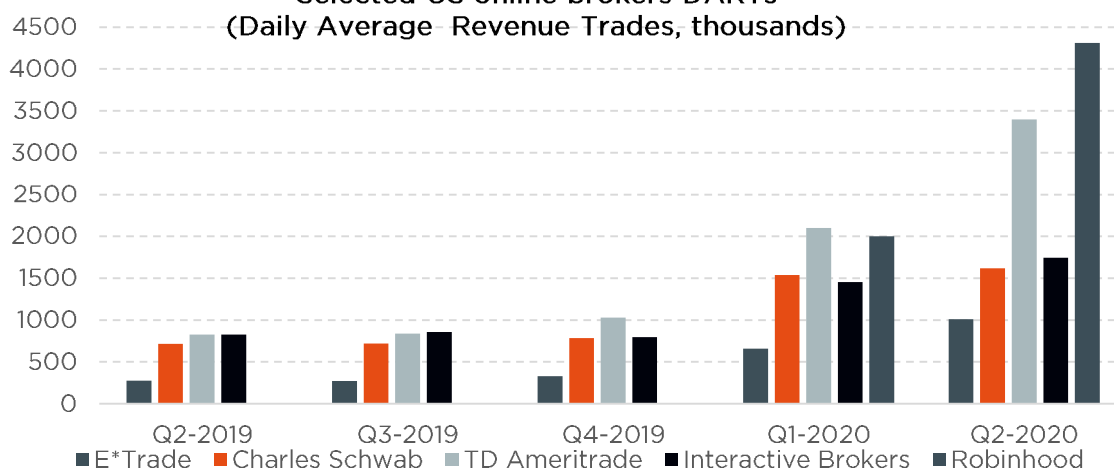
Critics of Robinhood and other similar platforms point to the dangers of excessive risk-taking by inexperienced traders. Particularly concerning is the rapid growth in options trading, a complex undertaking even for professional investors. According to Goldman Sachs, the daily total nominal value of calls (options that give the right, but not obligation, to buy) on individual stocks averaged \$335bn during the latter half of August, outdoing trading volume on the underlying for the first time ever. Worse, some retail investors tend to trade so-called "naked" options, meaning that they do not simultaneously hold the underlying so as to hedge their overall exposure, and thus leading potentially to unlimited losses.

This 2020 retail investment boom, particularly when of a leveraged form, has fuelled a self-fulfilling upmove in equity indices – a far cry from Main Street woes. While there is little to suggest that the bubble is about to burst, we do know that such market episodes generally end in tears. At which point, rather than stealing from the rich, Robinhood could contribute to the ruin of the masses. And who will there be to blame? Regulators that allowed the development of trading platforms akin to gambling? Central banks that forced investors into equities by relentlessly crushing the value of savings? Or simply human greed, so powerful is always the fear of missing out...

Chart of the Month

Selected US online brokers DARTs

(Daily Average Revenue Trades, thousands)



Global Strategy

Looking beyond the valley

- Economic growth momentum peaking as incremental gains in activity get smaller
- Some clouds on the horizon due to the political agenda and 2nd wave of coronavirus
- An effective vaccine or cure will accelerate the return to some form of normalcy

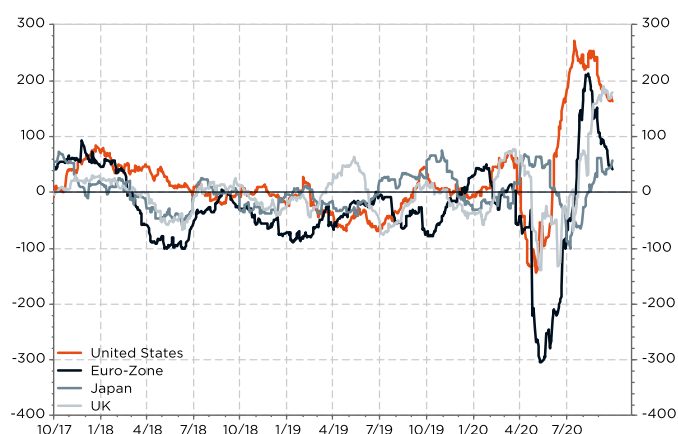
The global economy and financial markets have both rebounded faster than expected in recent months, thanks to strong monetary policy support and unprecedented government stimulus. The economic recovery is, however, far from complete, while the equity rally since March-end has essentially been driven by mega-cap technology stocks. In other words, there are many sectors and regions, including plenty of stocks, that have not really bounced back.

Furthermore, some clouds are appearing on the near-term horizon and investors are already gearing up to navigate choppy waters during the next few weeks. Indeed, the coronavirus is not yet under control and social-distancing restrictions remain in place. The new cases count is on the rise again, and even spiking, in Europe. As a result, and particularly should certain thresholds be reached in terms of hospitalisations and fatalities, some countries may decide to impose further restrictions, including selective temporary lockdowns. Incremental gains in activity are thus becoming smaller. Following the “easy” first half of the economic rebound, which has so far taken on a V-shape, some macro disappointments could be experienced. The likely lack of additional US government stimulus ahead of the election, coupled with potential concerns about a short-term economic pullback, may bring about greater volatility. Last but not least, politics are about to move to the forefront, with a polarised US presidential election and the approaching Brexit deadline. In both cases, the outcome, and subsequent market reaction, remains quite uncertain.

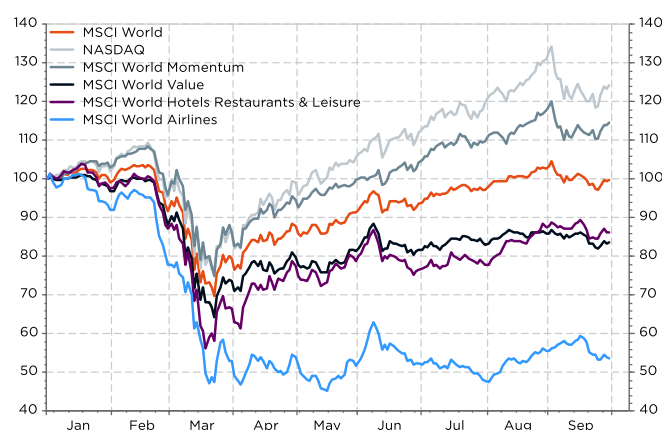
That said, an effective vaccine and/or cure is likely to be announced within the next few months. We thus believe that the economy will continue to heal going forward, finding its way back to a more “normal” situation. In this context, we view the current juncture as a pause that refreshes and reinvigorates animal spirits, allowing markets and indices to take a breather before moving on with different leaders and contributors. Looking beyond the valley, we can reasonably expect reflationary dynamics to dominate.

At the portfolio level, we intend to take advantage of the current market uncertainty, upcoming volatility and easing valuation trends to add equity risk selectively and return to a neutral positioning. Within equities, we keep our preference for more resilient diversified markets such as Switzerland and the US, while favouring high-quality large cap stocks with a more balanced sector & style bias. To achieve the latter, we are now gradually adding both diversified and complementary investment vehicles to the portfolio, thereby assuming a return to a “more normal” health and economic environment over the next 3-6 months. In addition, we continue to consider tactical hedging strategies on an opportunistic basis. Meanwhile, we keep an underweight allocation to bonds, remaining light both in terms of duration and credit risk. Elsewhere, we retain our overweight stance on gold. In FX, whereas we remain cautious on the GBP and EM currencies, we keep our slight underweight on the EUR, still favouring the CHF in relative terms, and are comfortable with our current USD and JPY exposure.

Citi Economic Surprises in selected regions



Selected price indices YTD performance



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

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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Company Reports
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