



MONTHLY ISSUE #71 | 1st December 2020

‘TIS THE SEASON OF GAMING

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'Tis the season of gaming

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This festive season heralds little sparkle, with much of the Western world battling a severe second wave of covid-19. Still, many gamers are no doubt excited at the prospect of finding – provided Santa's production lines can deliver – a new generation console under the Christmas tree.

The simultaneous launch, mid-November, of Sony's *Playstation 5* and Microsoft's *Xbox Series X* suffered no virus-induced delay. In fact, if anything, by forcing social distancing and lengthy stay-at-home episodes, the pandemic has been a boon to the gaming industry, whose global revenues are forecast to rise 10% this year, to around \$160 bn. Both new consoles come with a \$499 price tag (in their full version) but Microsoft, in a bid to grab a bigger share of the pie this time round, is also promoting a subscription offering (that includes a library of games) for \$34.99 per month – akin to its *Office 365* business model and to that of the Netflixes of this world.

Ultimately, it is the software rather than the hardware that will make the difference. Which is where game publishers, such as Activision, Electronic Arts, Take-Two, Ubisoft, Bethesda (recently acquired by Microsoft) or Epic Games (partly held by Chinese Tencent), come into play. Indeed, fast broadband (aka fibre optics) has turned gaming into a true "experience", and one that can readily be shared with other connected players. New video game releases increasingly resemble Hollywood super productions – not only in their cost but also in the hype generated (*Grand Theft Auto V* being a prime example) and the huge revenues that they gross during the first days

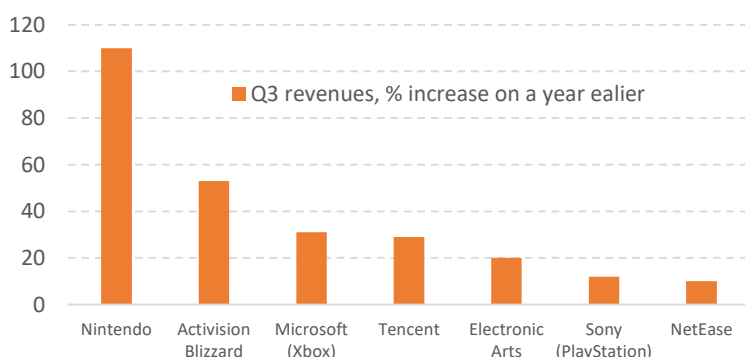
after release. Certain publishers intend to take advantage of the new consoles to bump up the standard game price from \$60 to \$70.

In the years to come, Sony and Microsoft will also have to contend with a number of other tech giants, keen to enter the fray and leverage their vast user count. The rollout of faster broadband networks (5G deployment and cloud computing advances) accelerates the migration of games online. Indeed, 2020 may well be the last generation of physical consoles, however impressive their technological features. Amazon, for one, announced its *Luna* game streaming service last September – to be available "directly from the cloud to your screens". An initiative similar to Google's *Stadia*, launched in late 2019. That was also when Apple released *Arcade*, its video game subscription service. As for Facebook, it unveiled its cloud gaming venture, targeting casual players rather than hardcore gamers, just a few weeks ago.

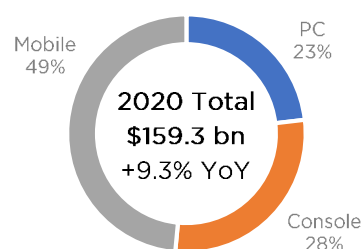
But interest in gaming extends well beyond the IT space. A sure sign of the industry's current coveted status in the broader media world is the increased intermeshing between video games and movies/TV series or even, more recently, music. Late April, at the height of covid-19 lockdowns, US rapper Travis Scott (or rather his avatar) gave a live concert on the very popular *Fortnite* game that attracted some 12 million spectators. The 10th art, as video gaming has come to be known, does seem to be supplanting several of the other more traditional arts... a development that many will no doubt rejoice, including within the investment community.

Graph of the Month

Video game company revenues



2020 global games market by segment



Looking towards a better tomorrow

- Light at the end of the tunnel after encouraging covid-19 vaccine data
- Strong global growth ahead in 2021, boosted by supportive economic policies
- Reflation scenario will lead to a broader equity rebound – mind the rotation!

Yet another gripping month in an extraordinary year! Not only did we finally get the outcome of a highly contested US presidential election, but somewhat more importantly, we also witnessed the first encouraging covid-19 vaccine interim data, sparking an equity market rally and a jump in interest rates. Unsurprisingly, the largest gains were posted by the stocks, regions, sectors and investment styles that suffered most during the pandemic. This rotation likely marked the first step back towards the promised land of normalcy.

Still, the situation remains tricky on the global health front. Covid-19 new cases and deaths are rising in the northern hemisphere, especially in the US, as we enter the cold season. In Europe, lockdowns and other social distancing measures are likely to be eased only very gradually. As such, following last quarter's impressive rebound, economic activity is again slowing down and likely to record a setback in Europe in Q4 (and in the US in Q1-2021). Moreover, the much-awaited fiscal support from the next US relief bill and European recovery fund will not be coming to the rescue before 2021.

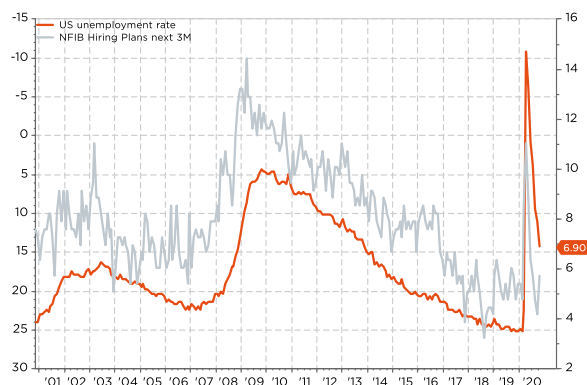
On a brighter note, this second wave of Covid-19 has proven less disruptive overall. Unlike earlier in the year, current lockdowns are less stringent, with economics agents having already largely adapted to this *new normal*. Moreover, China's economy is back in expansion and there is unprecedented support globally from both central banks and governments. Last but not least, the prospect of efficient vaccines, easing US political uncertainties, and a more supportive backdrop of synchronised low but accelerating growth all point to renewed light at the end of this year-long tunnel.

As a result, we are adopting a more pro-risk stance across our asset allocation. This involves a slight increase in equity exposure to the upper band of our neutral range and an unchanged underweight of bonds. More importantly, we revisit our positioning within each major asset class to better reflect our more constructive views.

In equities, we complement our core portfolio allocation with selected satellite assets in order to recalibrate both the sector & style biases to a more balanced stance. While we keep a structural preference for more resilient diversified markets such as Switzerland and the US, still favouring high-quality growth, we also believe that tactical adjustments are required to better withstand future rotations. We thus now consider diversified satellite US value/small-cap investments and warm up to cyclical parts of both the Eurozone and Japanese equity markets. These specific segments are indeed likely to benefit most from renewed reflationary forces and a return to a "more normal" health and economic environment.

In fixed income, we recommend a *barbell* strategy on rates, coupling short positions with some long ones, to benefit from the roll-down value on a steeper yield curve. Consistent with our more constructive views on risky assets, we upgrade high yield to neutral and continue to favour actively managed investments – selectivity being more crucial than ever. Finally, we downgrade gold to neutral as we believe it has entered a near-term consolidation phase, with real rates unlikely to turn more negative before 2021. Meanwhile, the outlook has brightened for both energy and base metals on the back of rebounding growth.

US unemployment rate & hiring plans



Copper/Gold ratio & US 10-year bond yield



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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Newzoo, The Economist

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