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GENDER DIVERSITY MATTERS

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Gender diversity matters

- The trend towards ESG investing continued unabated in 2020
- Social and Governance issues took centre stage, in a troubled context
- More diverse leadership brings clear benefits – not just in the corporate world?

A year ago, climate change was the burning issue and ESG investing, particularly of the “E” variety, was on a roll. The Covid pandemic may have since forced environmental activists off the streets – and out of the media headlines – but it has not deterred money from flowing into responsible investment funds.

Yet, such investing still only accounts for a fraction of the total industry and, with a pending USD 30 trillion wealth transfer from baby boomers to their Gen X and Millennial offspring, the best could well be to come. When surveyed, the younger cohort expresses a strong interest for sustainable investments – a stance that the dire social consequences of the pandemic, alongside the growing drive for racial justice in the US, should serve to reinforce.

For ESG is far more than just a means of fighting climate change. Promoting the transition to clean energy and carbon neutrality remains crucial, make no mistake, but the middle and last letters of the ESG acronym are now also gaining traction within the investment community. The “big three” institutional asset managers (BlackRock, Vanguard and State Street to name them) are for instance putting increasing emphasis on diversity and inclusion considerations. The assumption being that more diverse leadership – whether at the board of director or top management level – helps generate shareholder value and stock outperformance over time.

An assumption that is backed by anecdotal evidence, but also hard facts. With regards to gender diversity in particular, a study published in 2019 by S&P Global

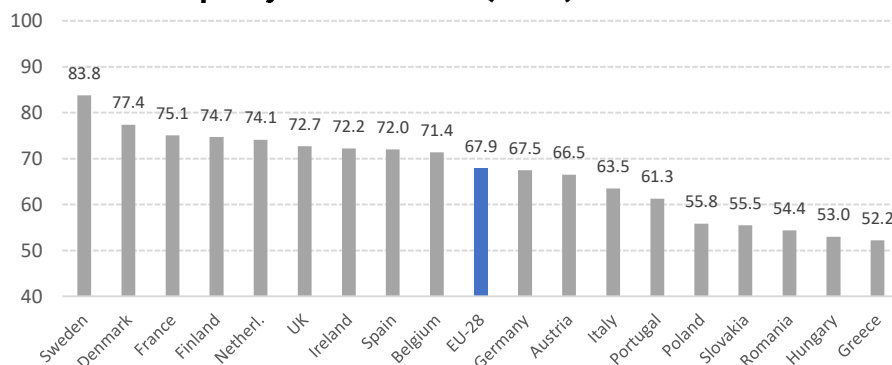
Market Intelligence, covering 6,000 Russell 3000 index components over a period of 17 years, showed that companies having appointed a female chief financial officer enjoyed, two years down the road, an average 6% boost to profits. And their stock returns were 8% higher. As for the less tangible advantages of involving more women in company leadership, they have been shown to be manifold: greater creativity and innovation, better people and conflict management, enhanced communication, more focus on corporate social responsibility...

Does the same go for countries? The new US President certainly appears to believe so. Alongside placing environmental concerns high up on his priority list, with an immediate return to the Paris Accord and campaign promises of massive climate-friendly infrastructure spending (akin to the EU’s Green Deal), Joe Biden seems very intent on promoting diversity – gender and ethnic. Starting of course with his choice of Vice President but extending throughout the entire cabinet.

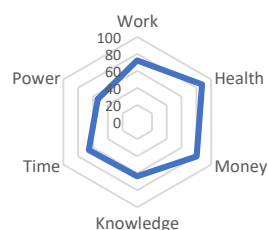
On a final, and somewhat lighter, note, many readers have probably enjoyed watching *The Queen’s Gambit*, Netflix’s latest hit miniseries featuring a female chess prodigy. At first glance, the queen would appear to be the most powerful piece on a chess board, combining the moves of the rook and the bishop – thus leaving no direction or range out of reach. Yet, ultimately, chess is built on protecting the king. One can lose the queen and continue playing. It is only when the king is lost that the game ends. Were chess rules to be drawn up today, would the king and queen have such disparate statuses?

Graph of the Month

Gender inequality Index in EU-28 (2020)



Breakdown by inequalities EU-28



<https://eige.europa.eu/gender-equality-index/2020/MT>

Winter is still here, but the markets are getting hot

- Virus variants, renewed lockdowns, slow vaccine rollout: winter is still here
- Signs of speculation and complacency make for short-term downside risk
- Strong global growth still lies ahead, boosted by supportive economic policies

Stock markets began this new year on a positive note, buoyed by the wave of optimism regarding a rapid return to normalcy thanks to Covid-19 vaccines. During the first half of January, equity indices added to their already large gains since November, oil and industrial metals maintained their strong dynamic, while interest rates moved up (the US 10-year rate rose from 0.9% to 1.1% in just a few sessions). Symbolically, US inflation expectations passed the 2% mark. In short, the consensual reflation scenario played out.

Since then, however, things have not gone quite as well as expected. Some doubts and disappointments have arisen because of the slow start to the vaccine rollout, the emergence of several Covid-19 variants across the globe and renewed lockdown measures in many places – especially Europe. Virus eradication and hopes of celebratory parties now seem a long way off again, making for a still challenging winter in economic terms.

As far as inflation is concerned, it is everywhere... except in the consumer goods and services prices indices. Expectations are creeping up, the upward trend in commodities prices seems solid and speculative frenzy is showing up in some corners of the financial markets. Frenetic retail investor trading in stocks and options, triggered by web forums such as *Reddit WallStreetBets* and helped by easy access through the *Robinhood* trading platform, have pushed the valuation of some “old-fashioned” stocks to sky-high levels. The amplitude of this move is exacerbated by the fact that these stocks were short positions of well-known and established hedge funds, who were then forced to buy them back.

Wisdom of the crowd? Not sure... but this phenomenon certainly illustrates the power of social media induced flows and should serve as a reminder that speculation is never far away when money is free. Signs of excessive speculation are also visible in cryptocurrencies and the IPO/SPACs markets, on the back of cheap financing, easy access to investments, incentive to engage in speculative activity, as well as some technological sparks, but do not yet pose a broader systemic risk in our view.

As such, while acknowledging the near-term challenges on both the virus and economic fronts, we maintain an overall constructive macro scenario. In particular, we expect strong synchronised global economic growth, driven by effective Covid-19 vaccines, combined with a high dose of steroids in the form of low rates and pending additional fiscal packages and infrastructure plans, to provide a supportive backdrop for global financial markets.

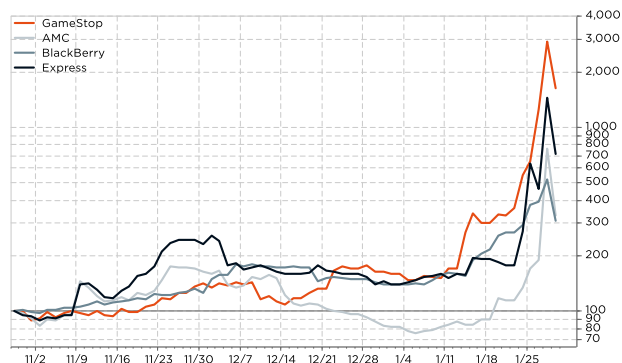
We thus keep a pro-risk stance in our asset allocation, favouring equities (slight overweight) over bonds (underweight). That said, considering the rising investor complacency, we intend to deploy the remaining cash carefully and gradually.

At the portfolio level, we only fine-tune our regional equity allocation, becoming less negative on the UK and further warming up to emerging markets ex-China. With much of the Brexit overhang now removed, the former offers in our opinion an increasingly interesting contrarian and inexpensive reflation play in the current market environment.

US 10-year breakeven inflation



Epic short squeezes triggered by retail investors



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External sources include: Refinitiv Datastream, Bloomberg, FactSet, European Institute for Gender Equality

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