DECALIA

Wealth Management
Asset Management
Private Markets

INVESTMENT INSIGHTS

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A NEW ERA IN SPORT

EDITORIAL VIEW

A new era in sport

- Outdoors too, technology is transforming our lives
- Smartwatches: from a fashion item to a health essential
- Digital innovation is making sport safer and... more fun!

Technology was key in helping stay engaged and productive during the lengthy stay-at-home episodes imposed by Covid - as stock market indices have well recognised. But the pandemic also served to make simple open-air activities that much more appreciable, if not an indispensable outlet to survive forced social distancing. And here too, technology is playing an increasing part: digital devices are making “the great outdoors” not only more accessible to all, but also an increasingly fun challenge.

Take the smartwatch market: only six years have elapsed since Apple launched its first model and, at over 40 million, total units sold already dwarf the entire Swiss traditional watch production. The Cupertino firm has clearly been the driver of this rapid growth, having successfully turned what began as a fashion statement into a recognised sports and health accessory – at the rate of one new (improved) version per annum. To the point that it now boasts a market share in excess of 50%.

Where Apple has chosen the “one-model fits all” route, others have chosen to vary the designs, configurations and price brackets, such that specific devices be geared to specific users. Garmin, notably, is carving out an enviable (albeit much less publicised) position. Few are the financial analysts that follow the company and most investors probably still view it as the maker of automotive GPS devices rendered obsolete by Google Maps.

But Garmin has remained steadfast in its quest to innovate, introducing no less than 80-100 products in each of the last six years. Its areas of focus? Aviation but also outdoor recreation and sports & fitness. Hikers, runners, cyclists, golfers, swimmers, divers, hunters: Garmin has a connected device that caters to each. And just a few weeks ago, it unveiled its new Lily smartwatch, especially designed for women – that comes in both a casual and a sports version.

Not surprisingly, Google and Facebook are also eyeing the double-digit growth smartwatch space. The former just forked out USD 2.1 billion to acquire Fitbit, the pioneer of health and fitness trackers. No cheap deal, but a much lower price tag than the USD 10 billion market value reached by Fitbit at the height of its popularity back in 2015. As for Facebook, it is said to be working on its very own smartwatch – to be launched next year.

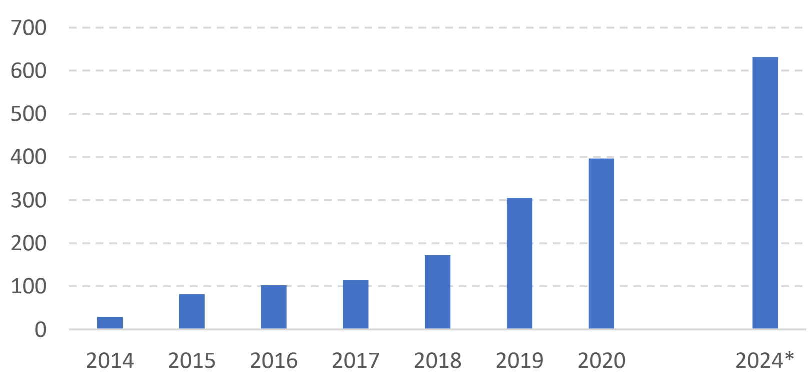
This, alongside its more ambitious Aria project, which effectively aims to bring the benefits of connectivity directly in front of our eyes – in the form of *“a pair of glasses that add a 3D layer of useful, contextually relevant and meaningful information on top of the physical world*”. Just imagine no longer even having to look down to a smartphone or other device to map out your hiking/running route or access your activity statistics.

And then there are the numerous other digital inroads in sports, aimed at increasing performance, better adapting training programs to personal needs and current health status, increasing safety, avoiding injuries, or just making for a more enjoyable and shared experience. We speak here of sensors integrated in rackets, jerseys or bicycle saddles, of virtual coaches, of intelligent helmets, of water-resistant earphones... and many more.

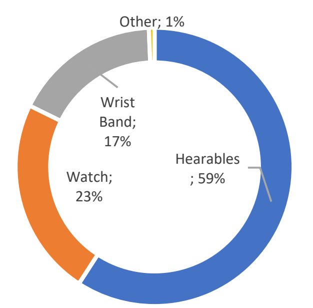
Moving back to smartwatches, some regrets can be harboured about Switzerland, despite its long watchmaking history and undisputed know-how, having missed the digital turn. Perhaps is it not too late? After all, a few years ago, in a different space, Logitech did manage a spectacular resurrection. Or else, something entirely new could be brought to market: how about a connected Swiss army knife?

GRAPH OF THE MONTH

Worldwide Wearables Unit Shipments (in millions)



2020 Shipments Market Share



Spring is coming, beware of premature sunburn

- Improving global health situation and US revving up: spring is coming
- Bond markets have taken notice, with long rates soaring in February
- Tug of war between high valuations and an exceptionally supportive narrative

Let us begin with the good news! The health situation is improving, with new Covid-19 cases, hospitalisations and deaths all trending down. The mix of social distancing measures, vaccine roll-out and milder weather is proving effective enough to bring the pandemic back under control. While it is too early to celebrate victory, the light at the end of the tunnel is getting closer again. Meanwhile, the latest US economic releases point to a booming economy on the back of the 2020 year-end relief bill: retail sales soared in January, PMI indices are at multi-year record highs, capex is recovering… A far cry from recent expectations of a first quarter pullback. In Europe, growth is bottoming out, while China has sufficient confidence in the forthcoming global recovery to start to tighten economy policy.

As a result, long-term interest rates resumed their upward trend in February. The selloff in US Treasuries even accelerated in the last few days of the month, as investors factored in the prospect of a strengthening economy. The afore-mentioned stronger-than-expected US data only added to fears that the Fed could withdraw stimulus sooner than anticipated. While we do not expect a sharp and sustained rise in inflation, markets have begun to price in an increased risk of overshoot and faster monetary tightening.

This rise in bond yields to more "normal" levels may be viewed as a welcome confirmation of better days ahead, but it has also unfortunately begun to hamper equity markets. This has been especially the case for some high-flying tech stocks, bond proxies and the defensive growth style in general, which suffered larger losses as investors reassessed whether current equity valuations can still be justified in a higher-yield environment.

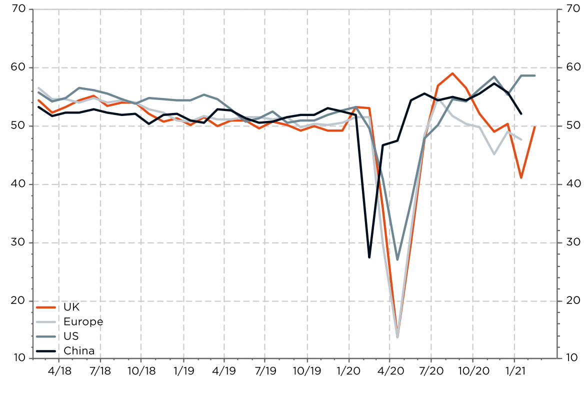
The tug of war between high valuations and an exceptionally supportive narrative may continue for some time. Going forward, the balancing act will become more delicate: strong growth prompts an increase in rates, driving borrowing costs up and weighing on risky assets – in turn limiting the growth upside and thus capping rates. In such a context, there is much less room for complacency and we thus expect a bumpier and somewhat contained upward trajectory for both (long) rates and equity markets, with dispersion under the surface as there will be both winners and losers from a higher-yield backdrop. Overall, the economic recovery will bring about higher revenues and earnings across the market. As long as they rebound faster than the rising yields exert downward pressure on price/earnings multiples, there is no reason for the bull market not to continue.

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

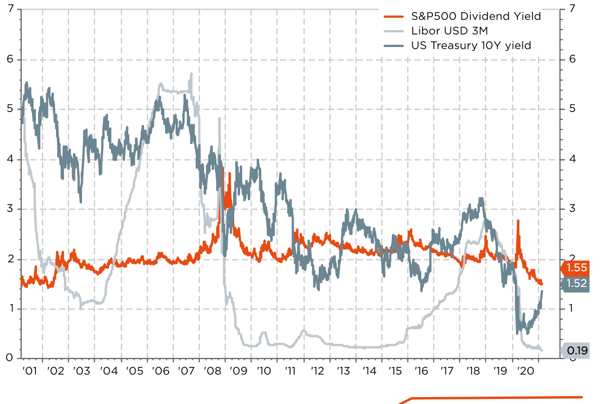
At the portfolio level, we only fine-tune our regional equity allocation, further upgrading the UK to a slight overweight. In the current global macro scenario, with the Brexit overhang now removed and the prospect of a soon-to-reopen economy (thanks to the rapid vaccine roll-out), UK equities offer an interesting opportunity as an inexpensive reflation play.

In fixed income, we still recommend coupling short positions with some long ones, while remaining underweight overall and light on duration (with a slight preference for developed market credit). Elsewhere, we are further cutting gold exposure as it suffers from rising (real) yields, while keeping a moderate bearish stance on the greenback.

Selected Composite PMI indices



US dividend yield, cash yield and bond yield



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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Statista.com, Idc.com

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