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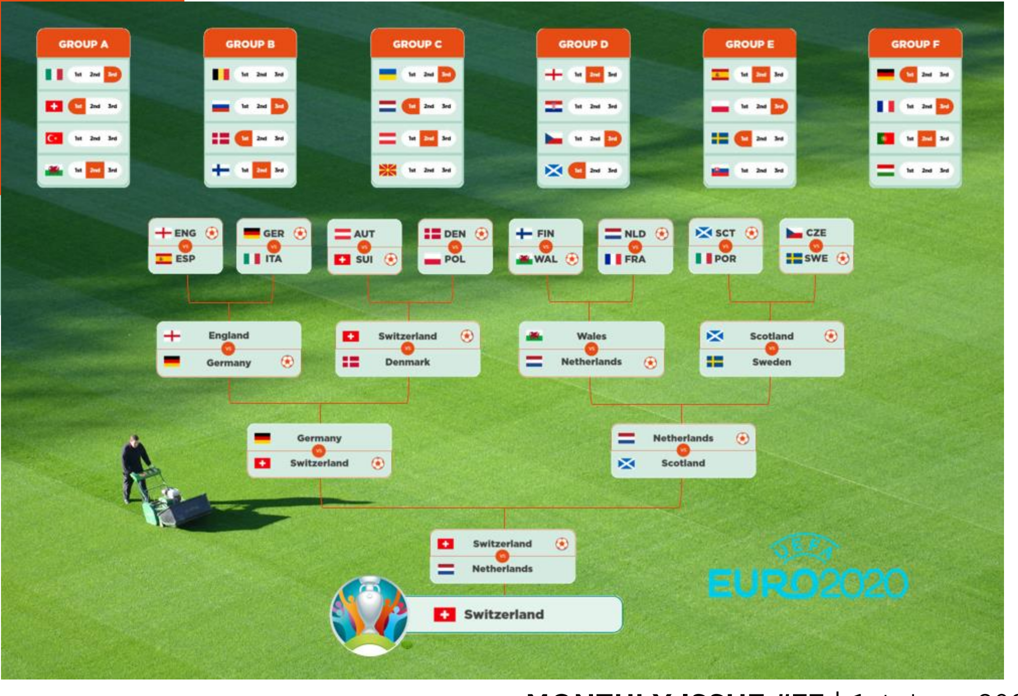

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AND THE WINNER IS… SWITZERLAND

EDITORIAL VIEW

And the winner is... Switzerland

- This month will – at long last – see 24 nations contend for the Euro 2020 trophy
- Defying football odds, our macro scoring system puts Switzerland as the favourite
- Defence, midfield, attack: to perform well a portfolio must be strong all-round

The Covid pandemic imposed a one-year delay, but football fans can finally rejoice: the UEFA Euro 2020 is about to kick off! In true Decalia tradition, we take a shot at predicting the outcome of the tournament, using top-down criteria – across all areas of play – to rank the competing countries. And, similar to a national coach selecting his team, we reflect on how to build a "dream portfolio" in the current market circumstances.

A word to begin with on the unusual format of this – 60th anniversary – edition. Rather than being hosted by 1-2 countries, it will span the entire continent, with games taking place in 11 cities of as many countries. Regional diversification at its best! And fans are being encouraged to "*Live It. For Real.*": a welcome change from the behind-the-screen world of the past 15 months.

So, of the 24 contenders, who stands the best chance of lifting the trophy on 11 July? Our proprietary country scoring model combines various criteria across four equally weighted categories: *goalkeeper* (Covid/health situation), *defence* (country risk), *midfield* (macro assessment & environmental performance index) and *attack* (global competitiveness and innovation indices, PISA measure of the quality of the educative system). The overall country score, covering the entire pitch, is then used to predict the outcome of each match – and the eventual European champion.

Already in the group stage, and even more so in the quarter finals, Northern European countries (UK included) look set to take the upper hand over the usual Latin favourites. Indeed, France and Italy currently have weak goalkeepers, having suffered a particularly rough battle against Covid, while Spain is lacking in the midfield, not able to rely on robust macro fundamentals.

Our prediction for the semi-finals? The first should see Switzerland upset the odds, defeating Germany 2-1 thanks to a uniformly top-notch defence, midfield and attack. It just may be that Germany does not always win in the end! The second semi-final should oppose the Netherlands to Scotland, with the outsider in this case losing by a narrow margin (3-2).

Which brings us to the final: Switzerland vs. the Netherlands in London's famed (but probably only 25% full) Wembley stadium. While the Dutch outfield players certainly rival their Swiss counterparts, the goalkeeper looks more fragile: the vaccination campaign is not as advanced and infection rates are higher. As such, we would posit a 2-1 victory for the Nati – a historical first!

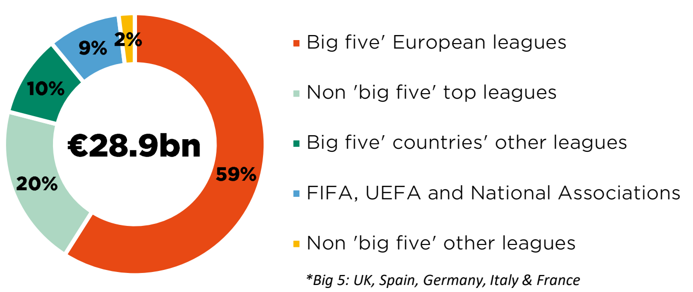
That Switzerland could end up European champion shows that football, like investing, is not just a matter of having the most renowned players. It is all too easy to overpay for talent. Just as excessive importance is often attached to a long, brilliant track-record – implying the risk of acquiring names that have exhausted their potential. And, perhaps most importantly, the focus should always be on the team: any new addition need be judged not only on its own merits, but also on how it can help strengthen and diversify the existing portfolio.

Were we afforded the luxury of building a pan-European dream team, how would we proceed? To score goals, we would of course scout for innovative companies, making for promising strikers. For a strong midfield, with both defensive and offensive skills, we would select a combination of quality names that stand to benefit from the gradual reopening and consumption comeback – alongside Euro 2020 excitement – as well as leaders in niche markets. Defence-wise, Healthcare & Consumer Staples would seem an ideal and obvious choice. Remember though that the line between victory and defeat can be fine and that, in football as in finance, no team is immune to unexpected adverse conditions or injuries.

Written by Michele Pedroni, Portfolio Manager of DECALIA European Conviction

GRAPH OF THE MONTH

European football market size 2018/2019
Revenue in EUR



**Big 5: UK, Spain, Germany, Italy & France*

Complacency recedes, amid fears of rising rates

- With US growth momentum peaking, it is time for Europe to take over
- The "I" word is back: the question is whether it will be only transitory?
- Interest rate gravity is pulling the valuation of some assets back to earth

Stronger than expected flash PMI readings for May confirmed that the European economic recovery is well underway and, with the continued rapid improvement on the virus front, we now expect further positive surprises over the summer. Meanwhile, US growth is peaking, as illustrated by the loss of momentum in economic reports after an impressive run during the 1st half of the year, while Chinese growth is stabilising at its pre-pandemic levels. The engine of the global recovery is thus shifting from the US to Europe.

Despite recent concerns about an unwelcome return of inflation, especially in the US, we maintain a relatively serene medium-term view with respect to this risk, given that much of the spike in prices reflects temporary factors. So, although we cannot exclude further upward pressures on the core CPI over the coming months, on the back of some logistics issues due to the extraordinary nature of this economic cycle, we expect them to fade away as the overall health and economic backdrop normalises going into 2022, with core inflation averaging ca. 2% next year.

From a market perspective, we acknowledge that a less easy – bumpier – trajectory lies ahead. Following equity markets' strong year-to-date move, and given historically high valuations for most asset classes, the macro support may indeed be challenged, especially if investors do not consider the recent rise in inflation as transitory (implying that rates move up) or if US data continues to disappoint (as was the case with last month's employment report). But these recent concerns have at least served to reduce investor complacency, bringing excessive valuations in some relatively well-identified parts of the markets back down to earth – in anticipation of a potential resumption of interest rate gravity.

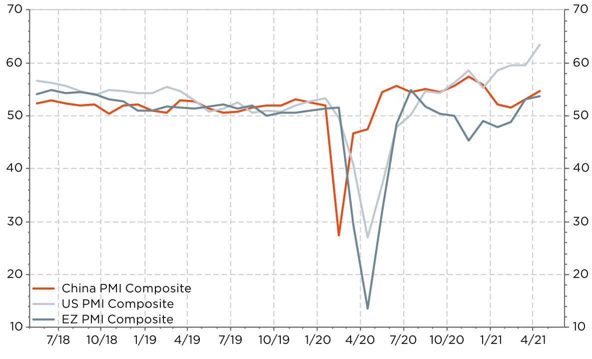
As a result, we maintain a pro-risk stance in our asset allocation. In particular, we continue to favour equities (slight overweight) and real assets over bonds (underweight). During the past few months, we have reshuffled our equity allocation, adding selective satellite assets in order to recalibrate sector/style biases towards a more cyclical positioning, such that portfolios be able to better withstand further market rotations typical of a reflationary environment. On a relative basis, rising bond yields and higher inflation expectations tend to be supportive of the value segments. Still, our long-term structural preference continues to go to the more resilient higher quality diversified growth markets, such as the US, China and Switzerland.

In fixed income, we maintain a contained target duration, alongside a relative overweight of credit. We still recommend a barbell strategy on rates, coupling short positions with some long ones. Especially on the steeper US curve, which offers relative value (roll-down) compared to most other DM curves – even after hedging currency risks. In credit, we still favour actively managed investments in the high yield segment (including sub. debt & hybrids) and EM hard currency debt, with selectivity more crucial than ever given the overall tightness in spreads.

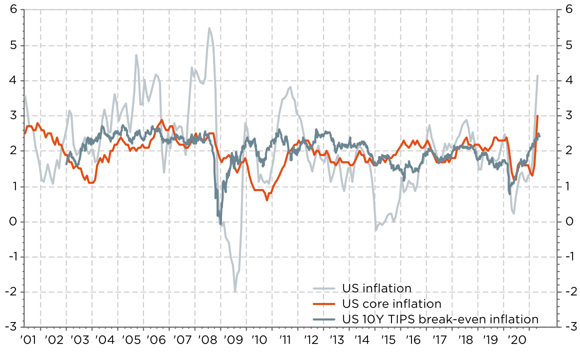
Elsewhere, we continue to underweight gold as it may suffer from a rise in US real rates (either inflation expectations cool down or the Fed will start tapering at some point). And we retain a near-term cautious stance on the greenback: its relative rate and growth appeal is set to fade away as the European recovery catches up, while the US twin deficit will likely remain a structural burden.

Written by Fabrizio Quirighetti, CIO, Head of multi-asset and fixed income strategies

Growth is peaking in the US, stabilising in China and catching up in Europe



US inflation is moving higher: a transitory trajectory in our view



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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Deloitte Annual Review of Football Finance 2020
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