



# INVESTMENT INSIGHTS

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## RETHINKING PLASTIC

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- Reuse, Recycle and Redesign: the way forward toward a “new plastics economy”
- Alternatives to plastic packaging set to regain long-lost market share – Spot the winners

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- Fixed Income – Credit risk still prevails / Favor higher quality and long dated bonds for now
- FX/Gold – Favor “safe havens” such as Gold, CHF & JPY to protect portfolios

## Editorial View

### Rethinking Plastic

- Public awareness of the plastic issue has never been so high – Change is underway
- Reuse, Recycle and Redesign: the way forward toward a “new plastics economy”
- Alternatives to plastic packaging set to regain long-lost market share – Spot the winners

Awareness of the plastic issue has never been so high: students flooding the streets to demand political action on climate change, a “transforming the plastics economy” session at the recent gathering of economic leaders in Davos, shocking images of plastic waste islands, bans of single-use plastic items...

Nonetheless, transitioning away from a plastic-dominated society will not be an easy journey. Radical change is required on the part of all actors, regulators, producers and consumers alike. Since the 1970s, plastic has become the ubiquitous workhorse material of our modern economy. In packaging notably, it has steadily gained market share from other materials for half a century thanks to an array of appealing features. Fabrication of plastic containers requires less energy than glass or metal; plastic is also cheaper, malleable and resistant to shattering, and its lighter weight facilitates transport.

Unfortunately, plastic containers are also very durable, requiring hundreds of years to degrade. With only 14% of such packaging currently collected for recycling across the globe, some USD 80-120 billion worth of plastic is “lost” each year. Of that amount, 40% is dumped in landfills and a third ends up floating in the seas. Drifting plastic is estimated to kill 100 million marine animals per annum.

After decades of taking in half of the world’s plastic waste, China abruptly reversed course in 2018. The official grounds for stopping these imports were that noxious emissions from Chinese recycling factories needed to be limited. Almost overnight, plastic waste became a burning issue for large exporters, particularly the US and Japan.

China’s stance triggered awareness and action. The EU published a strategy on plastics as part of its circular economy action plan. In the UK, a ban has been proposed on plastic cutlery and straws, while a number of emerging countries have taken aggressive stances with respect to plastic bags and other single-use items.

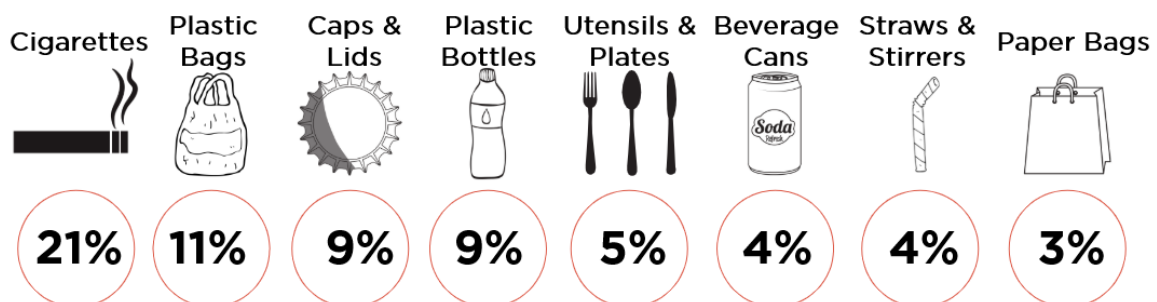
The Ellen McArthur Foundation’s “new plastics economy” initiative, developed with partners in the philanthropy, corporate and government spaces, points to three strategies to support the transition. For at least 20% of plastic packages, Reuse is economically attractive. Recycling has the potential to be upped from the current 14% level to around 50%. And for the 30% of plastic packages that will never be reused or recycled, Redesign is the path forward.

What about the alternatives? With plastics under increased scrutiny, “forgotten materials” such as metal, glass and paper are vying to regain some of their lost share. Glass, for instance, is 100% recyclable an infinite number of times AND reusable. Several companies could benefit from the transition to more sustainable packaging, such as Ball Corporation, Zignago Vetro, Vetropack, International Paper, Metsa Board, Graphic Packaging, Nine Dragons Paper and Owens Illinois.

Per a recent Nielsen global survey, nearly 75% of teenage shoppers would readily pay up for products made by companies committed to making a positive social and environmental impact – up from just over half in 2012. Adidas shoes containing recycled ocean plastic should fit that bill well. The company recently announced it will produce 11 million such pairs in 2019. The promise of a brighter future?

## Chart of the Month

### TOP MARINE DEBRIS ITEMS



# Global Strategy

## An Air Of *Déjà Vu*... Back To A New Normal?

- Global economic slowdown confirmed – Still, we remain cautiously constructive for 2019
- Central banks are back in the game – Monetary policy tightening pause should support markets
- Signs of life in Equities but Credit still unattractive given current corporate spreads

Following last year’s fourth quarter meltdown in global financial markets, 2019 is off to a more promising start. Far from crying victory, we keep our cautious but constructive global macro scenario broadly unchanged. Indeed, while acknowledging the current slowdown in both economic and corporate momentum, which suggests another bumpy year for investors, not all is doom & gloom. In particular, notwithstanding recent softer leading indicators, we do not foresee an economic recession, nor a hard landing in China. Moreover, as illustrated by the FED and ECB’s recent dovish statements, major central banks are set to remain flexible and data-dependent in their monetary policy tightening process, hence providing financial markets with welcome additional support.

Since mid-2018, we have taken a number of decisions to protect portfolios against higher volatility during the ongoing transition period. Having already increased traditional “safe haven” assets such as US Treasuries, Gold, and the Swiss franc, we more recently raised our allocation to the Japanese yen and extended portfolio duration in light of potential downside risks. This more robust all-terrain positioning should allow us to navigate this year’s winding roads more comfortably until visibility improves.

As regards equities, we caution against getting carried away by the positive start to the year as the rebound will likely be tested by another tricky Q4 earnings season. Moreover, markets are still adjusting to lower growth expectations and upcoming political events suggest that further uncertainty lies ahead. That being said, less

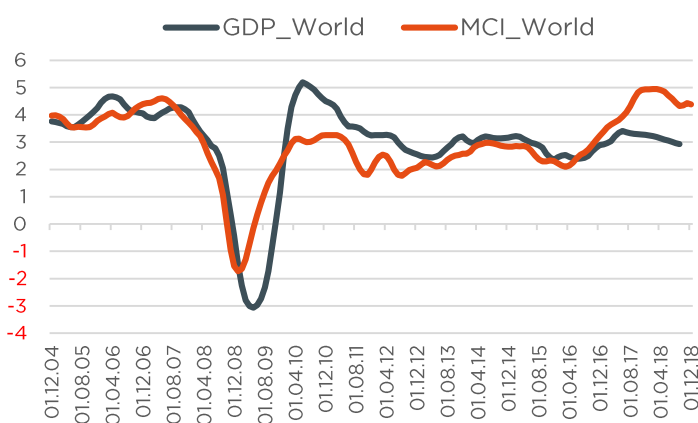
hawkish central banks combined with the sharp contraction in valuation multiples, a still healthy investor positioning, more constructive global trade talks and renewed China stimulus should help limit downside risks. As a result, we stick to our neutral portfolio allocation, keeping our preference for defensive regions (US & Switzerland) and favoring a balanced approach in terms of sectors (e.g. Healthcare & IT) and styles, with an unchanged clear focus on quality.

We remain underweight fixed income, and particularly cautious on the credit segment given unattractive spreads and “fallen angels” risk. Instead, given the current macro environment, our preferences lean towards highly rated and longer dated bonds.

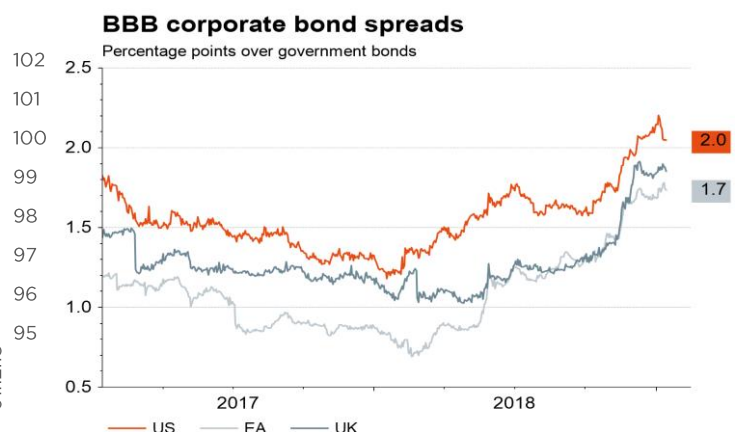
With both FED & ECB tightening now on pause, we maintain our positive near-term stance on the USD vs. EUR, as the attractive rate differential and stronger domestic economic momentum should prevail. Fundamentals (relative valuation, current account, budget deficit, debt), however, still suggest a stronger EUR medium-term. Elsewhere, we recommend keeping some open exposure to both the CHF and JPY safe havens.

In commodities, we continue to advocate gold exposure as a geopolitical hedge. Meanwhile, the worst is likely behind for crude oil prices but limited near-term visibility keeps us on hold. Finally, uncorrelated hedge fund strategies (market neutral, arbitrage) and private equity remain our preferred plays in the alternatives space.

Global Composite Confidence Indices

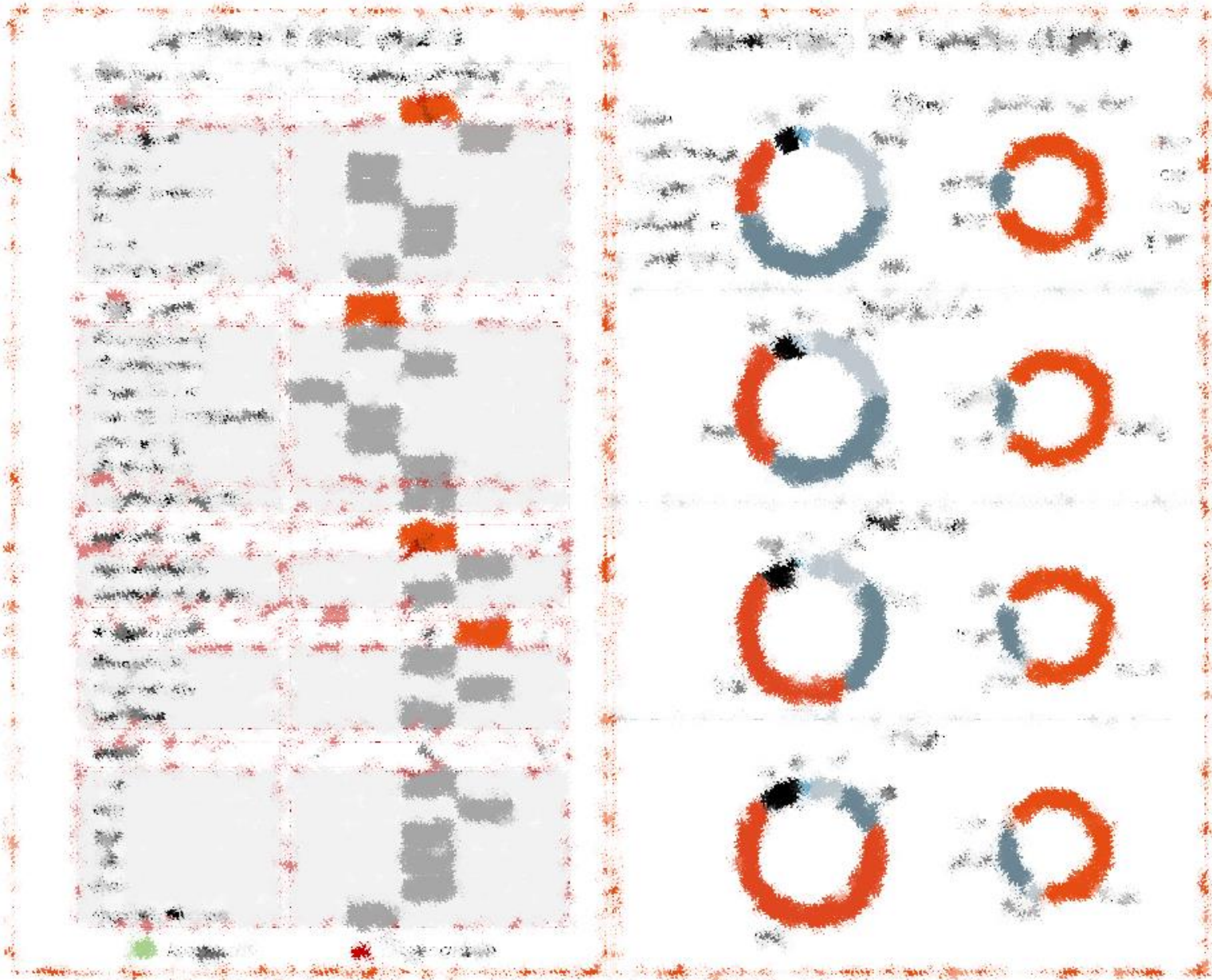


“Fallen Angels” Risk – Unattractive Risk/Return





# Asset Allocation



- Equities – Just a flash in the pan? Remain cautiously constructive and stay focused on *quality*
- Fixed Income – Credit risk still prevails / Favor higher quality and long dated bonds for now
- Gold/FX – Favor “safe havens” such as Gold, CHF and JPY to protect portfolios

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External sources include: Thomson Reuters Datastream, CitiGroup, Ocean Conservancy, Ball Corporate

*Finished drafting on January 31st, 2019*