



INVESTMENT INSIGHTS

MONTHLY ISSUE #51

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Editorial View

Rent-All Services

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Borrow stuff you need, lend stuff you don't... Although the first tool libraries date back to the late 70s, it is only recently that they have started to multiply – as sharing has become a way of life for an increasingly mobile and environmentally-conscious generation. Missing some appliance for your spring cleaning or gardening: why not visit Geneva's just-opened tool library, *La Manivelle*?

Uncluttering cupboards and garden sheds is but the tip of the "Product as a Service" (PaaS) revolution. At the core of this new business model lies the shift from a one-time transaction, in which a customer buys a product, to a service-based offering, in which a customer gains access to a product on a subscription or pay-per-use basis. It effectively stems from the recognition that consumers often require not the product itself, but only the benefits that they can derive from it. Products thus get to be used by multiple customers which, in turn, radically changes how they are designed. Durability and reusability become the focus for manufacturers, rather than programmed obsolescence and incentive to upgrade. Performance takes precedence over volume of production. And sharing is no longer feared as a form of cannibalization but welcomed instead as a source of additional revenue.

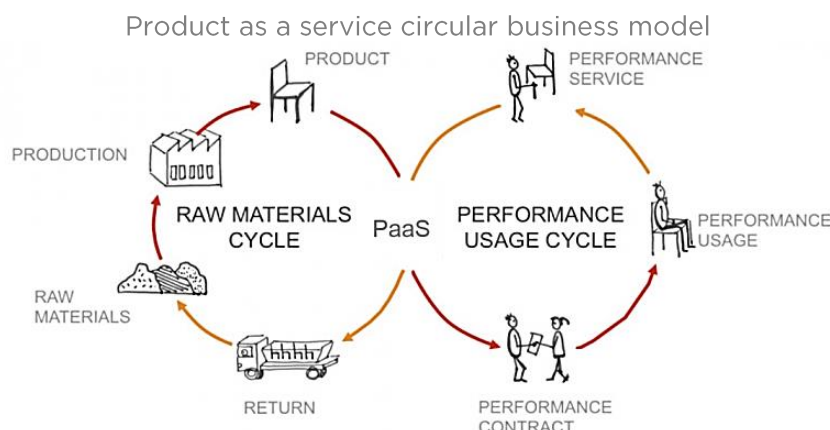
The PaaS disruption is occurring across all types of businesses. Above-mentioned tool libraries relate to the C2C (consumer-to-consumer) space, as do home rental platforms such as Airbnb. Obvious B2C (business-to-consumer) examples are media service providers like Netflix or Spotify: rather than buying DVDs or CDs, clients pay a monthly subscription fee to access a library of content.

Transportation services also fall into the B2C category today, even though Uber was initially presented as a car sharing (i.e. C2C) platform. Incidentally, the company is expected to make its mighty Wall Street debuts this month – shortly beaten in the race to market by smaller rival Lyft.

As for the B2B (business-to-business) space, Philips' "pay-per-lux" venture is an interesting application of the PaaS concept. It began with Thomas Rau, architect and circular economy visionary, approaching the more than century old Dutch lighting giant with a simple but smart request: "*I want to buy light, and nothing else*". Beyond Rau, a number of business customers have now contracted Philips to provide them with a full lighting service – design, equipment, fitting, maintenance and upgrade – in exchange for a regular fee plus, of course, the cost of the energy actually consumed. Not having to pay for the upfront equipment encourages adoption of efficient lighting systems. And, at the end of the contract, Philips can re-use the raw materials, reducing waste and better exploiting the multi-decade lifespan of LED.

Ultimately, rethinking how products are brought to consumers concerns all companies, big and small. Service-based business models open new opportunities, offering customization and broader end-to-end perspectives by embracing today's changing mindsets. In this context, investors would do well to differentiate between pioneers of the PaaS revolution and those firms that have fallen behind the curve, with shares of the former likely boasting greater disruptive upside potential provided management... borrows the right tools!

Chart of the Month



Global Strategy

The Fed Is (Really) Back... Keep Calm & Ride On?

- Weakening macro momentum across the board – But still no recession anticipated this year
- Major central banks’ new dovish guidance: The good old “market put” is now back in place
- High equity volatility is here to stay as we navigate a transition period with lower visibility

We have kept our asset allocation policy broadly unchanged this month, overall still reflecting a cautiously constructive global macro scenario for 2019. With all major asset classes off to a strong start this year, recouping December losses in most cases, we caution against excessive complacency. This is not to say that we expect a repeat of the 2018 sell-off, given both healthier (i.e. lower) growth expectations and renewed downside protection from more dovish central banks (“market put”). Admittedly, the recent yield curve inversion witnessed in the US has sparked new concerns about a potential economic recession but we are holding firm at this stage, only fine-tuning our equity exposure, opportunistically taking profits after the recent gains and realigning our allocation back to a strict neutral.

Notwithstanding latest developments on both the political and especially monetary policy fronts, our base case macro scenario remains largely intact. More specifically, we are still looking for a global economic slowdown (but no recession nor Chinese hard landing) without major inflationary pressure, to be accompanied by even more accommodative central banks and gradually easing geopolitical tensions (US-China trade war, Brexit). Hence a likely slow but steady decline across most key risk metrics ahead of us though market volatility is set to remain high as we navigate a post-Goldilocks transition period plagued by lower visibility.

At the portfolio level, we recommend maintaining an all-terrain positioning, i.e. keeping a neutral exposure to equities with a careful balance of styles & sectors, while remaining (slightly) underweight fixed income, favoring high quality & duration on the one hand and attractive carry in the high yield & emerging segments on the other.

“Safe havens” including gold, CHF and JPY should also help navigate this year’s winding roads more comfortably and thus be an integral part of today’s more balanced allocation.

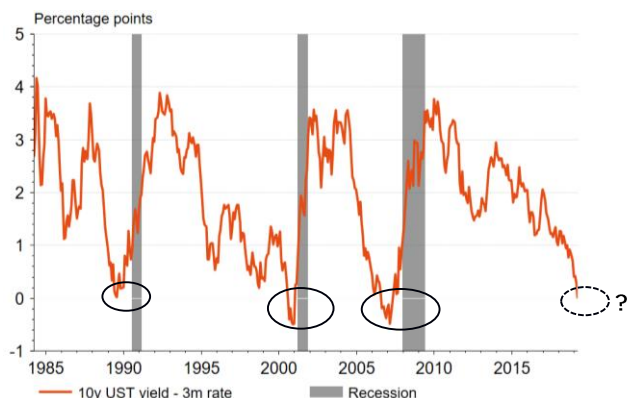
In equities, within the neutral allocation, we have started to take profits selectively, wary of excessive complacency after the year-to-date rally. Cyclical and political events also do still warrant some caution, suggesting a bumpy road ahead. That said, some key concerns have started to ease, and valuations still look reasonable. In particular, even though 2019 “easy gains” are now likely behind, bottoming EPS trends, constructive US-China talks and favorable investor positioning (high cash & low equity) still bode well for the asset class. Regionally, we prefer high quality defensive markets (US & Switzerland) and favor a balanced approach in terms of sectors, style & size, though adding back to cyclicals as of late.

As regards fixed income, after reducing the extent of our underweight and slightly increasing target (portfolio) duration to 3-4 years (via high quality bonds) last month on the back of dovish signals from major central banks, as well as weakening macro data, we now recommend enhanced selectivity in terms of underlying assets.

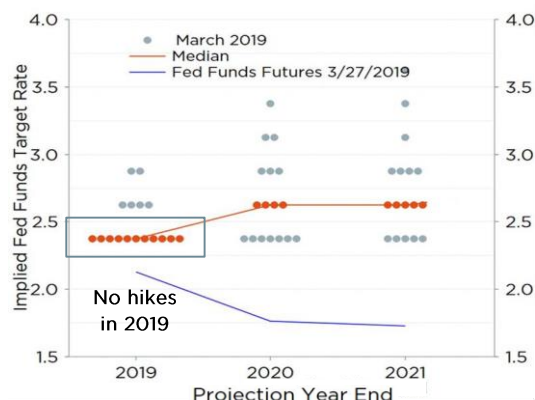
With both FED and ECB tightening now on pause and “more” dovish guidance, we maintain our positive near-term stance on the USD vs EUR. Fundamentals (relative valuation, current account, budget deficit and debt), however, still suggest a stronger EUR medium-term.

In commodities, we still like gold as a geopolitical hedge in this context. Finally, uncorrelated HF strategies (market neutral, arbitrage) and private equity remain our preferred plays in alternatives.

US Yield Curve Slope Inversion & Recessions

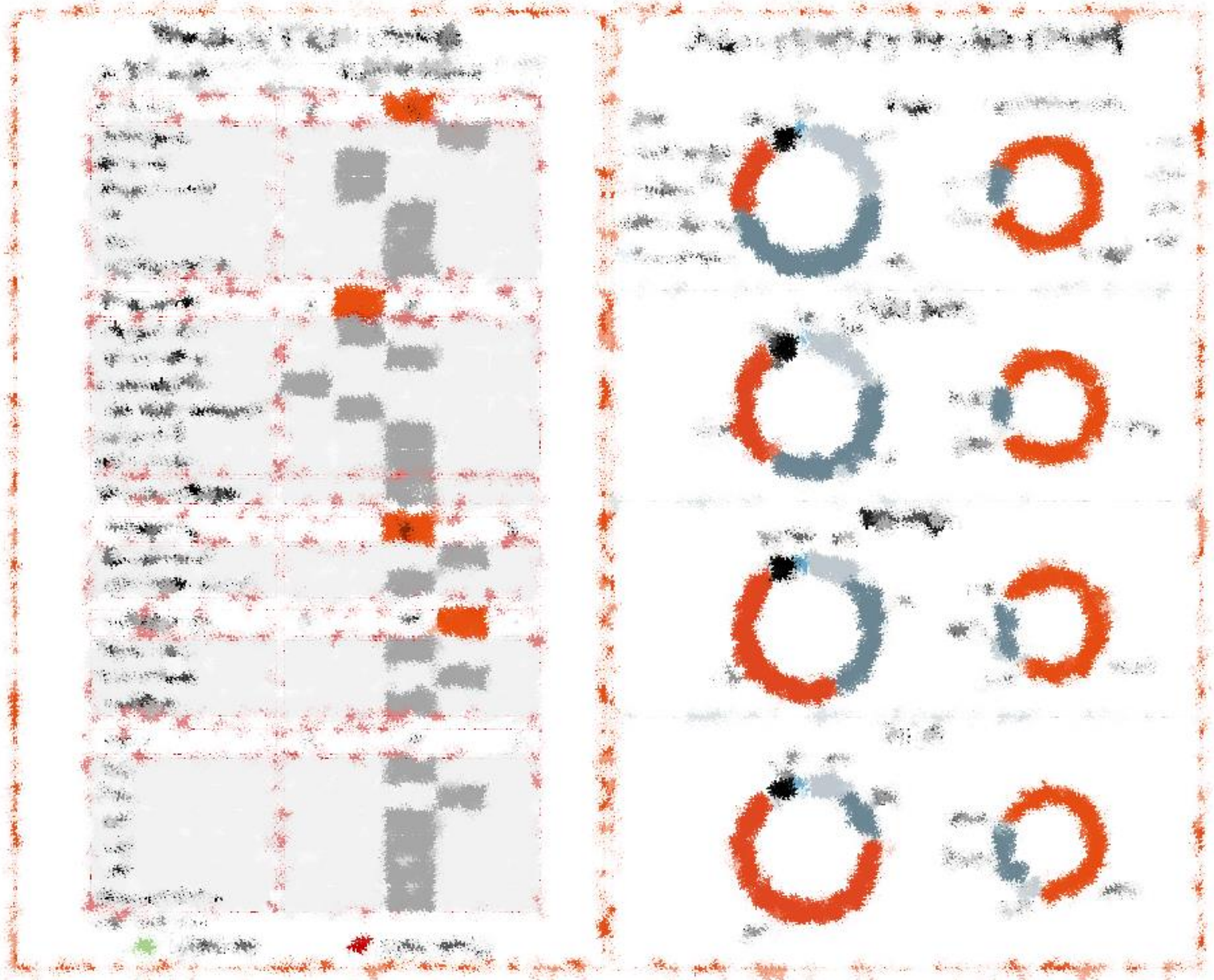


Fed's Latest Rate Dot Plot



Please see appendix at the end of this document for information on sources, important disclosures and disclaimers

Asset Allocation



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