

# INVESTMENT INSIGHTS

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## SHAKE OR BREAK?

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- Either way, investors are set to benefit from greater levels of scrutiny and transparency

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- Alternatives – Continue to prefer *private markets* in this volatile market environment

## Editorial View

### Shake or Break?

- Regulators are considering toughening their stance on Silicon Valley giants
- Breaking up the GAFA companies or forcing greater competition: that is the question
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What exactly should antitrust policies strive to achieve: low prices for consumers, as has been the emphasis of US courtrooms since the end of the 1960s, or avoidance of excessive concentration of economic power, as was intended by the founding Sherman Act of 1890? Standard Oil and AT&T/Bell are probably among the best examples of forced break-ups in US history. Will the GAFA (aka Google-Amazon-Facebook-Apple) be the next targets?

The debate is just starting to heat up. The Department of Justice (DoJ) and Federal Trade Commission are assessing the need for an enquiry into anti-competitive practices by the so-called GAFA. And the House of Representatives has decided to hold 18 months of hearings on that same subject. There is little question that GAFAs bring low prices to consumers. The economic power accumulated by these digital titans is, however, a concern. Indeed, it has become near impossible for an IT developer to bypass Apple's App Store or for a merchant to not set up shop on Amazon. Barriers to entry are now formidable, inhibiting new competition, and conflicts of interest are mounting – not to mention the backlash about violations of privacy rights.

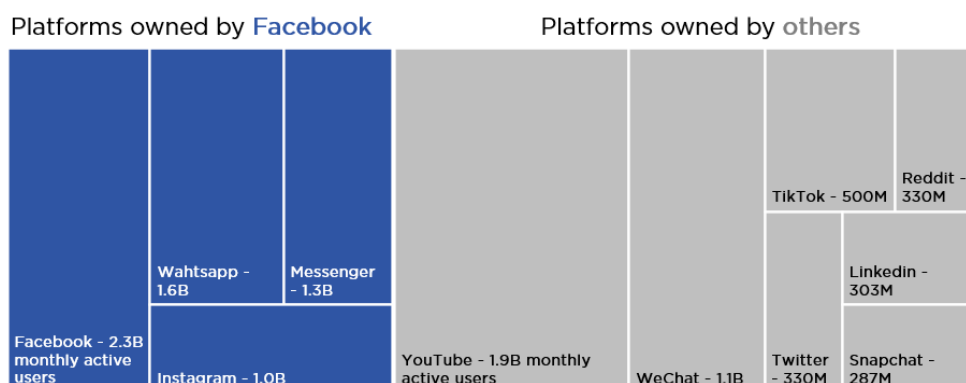
Senator Elizabeth Warren, Democrat candidate for the 2020 Presidential election, has notably suggested that online marketplaces with \$25 billion+ annual revenues be designated as “platform utilities”. Such companies would then have to live up to fair standards in their dealings with users and would not be allowed to transfer or share data. Simply put, as runners of a platform, they would not be able to also be a participant on that same platform, implying that their other services would need to be spun off. In the UK, a report by the Digital Competition

Expert Panel recently came to a different conclusion, preferring greater competition to repressive regulation or the breaking-up of companies. It suggests that a digital regulator be created, that would impose a code of conduct on the companies it sees as having “*strategic market status*”, so as to prevent them for instance from favoring their own products.

What seems clear is that the days of unbridled GAFA development are over. That Facebook consulted regulators before announcing the 2020 launch of its Libra currency, and decided to outsource its running to a consortium of members from a variety of industries, demonstrates how cognizant the social network is of today's more distrustful context. Breakup or not, there are significant opposing forces at play today. On the one hand, the relentless structural concentration of maturing industries & buoyant M&A activity carried out by Healthcare and IT majors in lack of growth are creating new giants. On the other hand, high-profile activists are increasingly hunting lethargic conglomerates to unlock shareholder value. Finally, governments' anti-trust bodies are continuously chasing monopolies.

The truth is no matter what the outcome will eventually be, i.e. breakup or settlement, investors are set to benefit from greater levels of scrutiny and transparency. Indeed, whether through pure play spun-off entities, new industry players as leaders get sidelined, or simply by shedding light on giants' sum-of-the-parts valuation potential, we see scope for significant wealth creation. While such breakup value may actually never be unlocked, mounting regulatory pressure can sometimes reveal extensive asset mispricing, providing attractive investment opportunities. Just take a look at Sony's recent share price jump!

## Chart of the Month





# Global Strategy

## Keep The Faith

- Major leading indicators still point to a global slowdown... but 2nd derivative improving
- G20 trade truce & more dovish central banks : a short-term support for financial markets
- “Bearish” investor positioning a positive contrarian signal for the summer?

Notwithstanding recent market volatility, our global macro scenario remains broadly unchanged. In particular, we stick to our cautious but constructive outlook for the remainder of the year, NOT anticipating a full-blown trade war and/or a global economic recession at this stage. We see the risks as balanced, the ongoing negative macro momentum and rising geopolitical concerns (Iran, trade war, Brexit) being offset by accommodative central banks, bottoming earnings momentum, and bearish investor positioning. Indeed, whereas the latest Fed, ECB and BOJ meetings confirmed an “ultra” dovish stance, the (as expected) G20 trade truce & US concessions on Huawei sanctions should support the markets in the near term.

At the portfolio level, we maintain an *all-terrain* positioning, i.e. keeping a neutral allocation to equities, though ready to add back some risk opportunistically (on pullbacks) following our early May rebalancing back to the lower end of the range. Given our cautiously constructive view, we also elect to maintain protections against a more adverse scenario. “Safe havens” such as government bonds, gold, the Swiss franc or the Japanese yen proved to be some of the few resilient asset classes in May, and we expect them to continue to help us navigate this year’s winding roads more comfortably. They thus remain an integral part of our currently (more) balanced tactical allocation.

Regarding equities more specifically, we view last month’s pullback as a healthy challenge of investors’ recent complacency and a reminder that 2019’s easy gains are now likely behind us, with higher market volatility here to stay. That said, we do not foresee a major equity correction at this

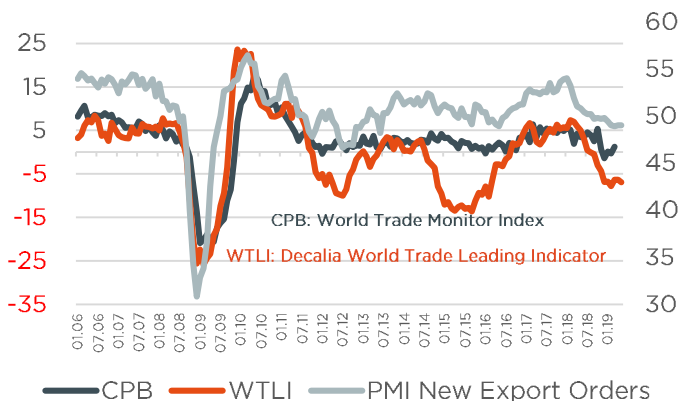
point, as growth expectations have been cut, the latest economic data has shown some signs of resilience, corporate earnings momentum is stabilizing, valuation multiples are far from stretched, bond yields are back to multi-year lows, investors are already very defensively positioned (high cash & low equity) and the more accommodative central bank stances offer downside protection. Although becoming somewhat consensual and crowded, we keep our overall preference for quality (strong FCF, solid B/S, high ROE) and secular growth assets, not making any major tactical bets (we still favor defensive regions with a careful sector balance).

In fixed income, we remain (slightly) underweighted and keep a barbell approach, combining a defensive bucket that includes higher quality & longer duration assets with a more aggressive carry-led allocation to emerging markets bonds – while remaining cautious on credit for now.

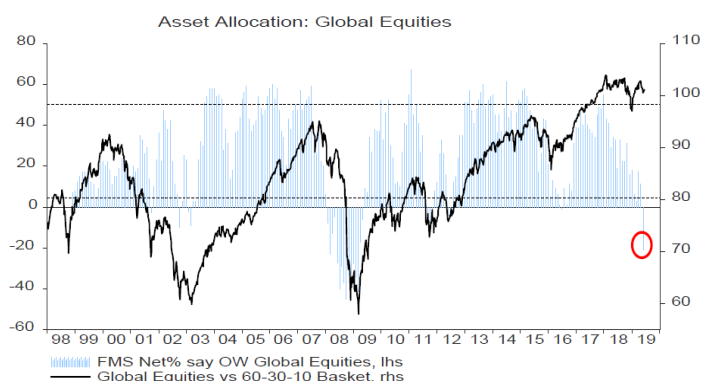
The Fed and ECB both being dovish, we maintain our positive near-term view on the USD vs. EUR on the back of the rate differential, stronger domestic economic momentum and political risk. Valuation, fundamentals (current account, fiscal deficit, debt to GDP) and positioning should, however, benefit the EUR medium-term. Until market visibility improves, we also recommend staying exposed to CHF & JPY safe havens, as well as gold.

In alternatives, we still favor private markets. Selective private equity, niche real estate & uncorrelated HF strategies (market neutral, arbitrage) remain our preferred plays.

Global Trade Indicators

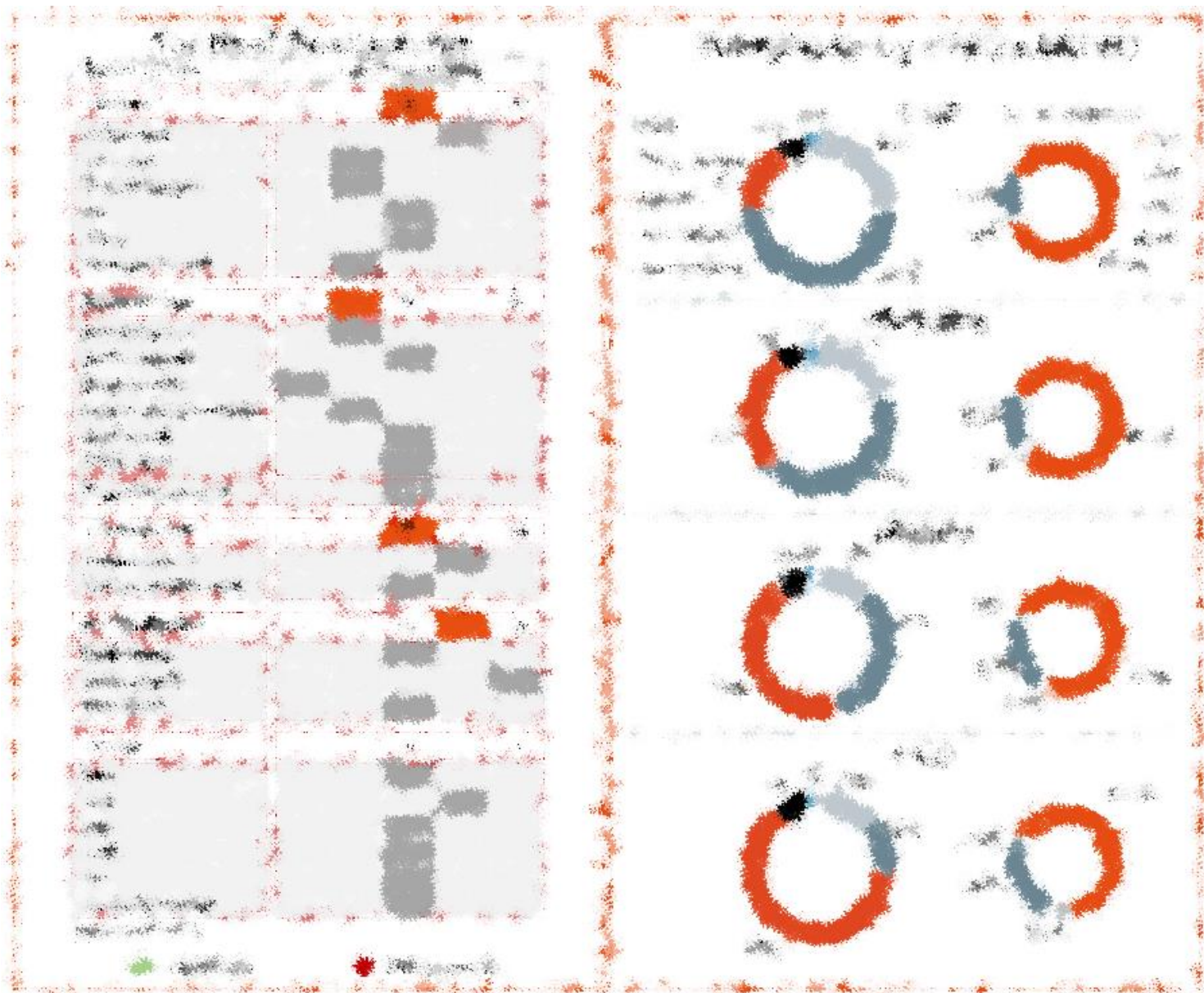


Equity Allocation – Significant Drop in May/June





## Asset Allocation



- Equities – Remain *neutral* as we muddle through the trade storm and geopolitical risks
- Fixed Income – *Barbell* positioning combining core high quality bonds and emerging debt
- Alternatives – Continue to prefer *private markets* in this volatile market environment

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