

INVESTMENT INSIGHTS

MONTHLY ISSUE #52

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Editorial View

Pump 'N Dunk

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Sport has been big business for many years already. But the rise of social media has given top class athletes unprecedented global influence, making them an ever more important component of brand marketing strategies.

No sport probably illustrates the tight – if sometimes shadow – connection between the corporate world and athletes better than basketball. Alongside expanding global popularity, money has flowed into the US National Basketball Association (NBA), pushing the value of the average team above USD 1 billion. A good share of NBA revenues come from media rights and licensing agreements. With live sports – such as the first round of the 2019 playoffs that kicked off mid-April – having proved relatively immune to the shift towards streaming platforms, the NBA was able in 2016 to clinch a 9-year USD 24 billion media rights deal (up 180%) with the ESPN and Turner Sports TV networks. Similarly, when it decided in 2015 to switch from Adidas to Nike, the NBA achieved a 245% increase in licensing revenues, to USD 1 billion over 8 years. A deal that only strengthened the Swoosh label's domination of the US basketball market, with lucrative endorsements of many NBA stars and an estimated 90% share of shoe sales.

But shoe makers scout for basketball talents well before they reach the NBA league. The battle between Nike, Adidas and – more recently – Under Armour is active already at the college level, with each company striving to forge partnerships, whereby they provide athletic gear, money and marketing support to a college in exchange for product placement. It is estimated that some USD 300 million flow annually into such contracts.

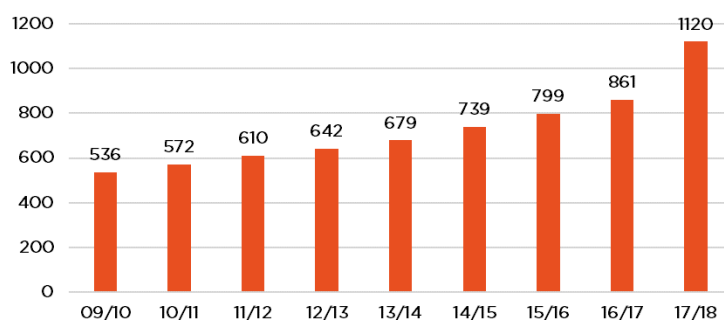
Of course, what the companies are really looking for are tomorrow's basketball stars – whom they cannot sponsor directly under National Collegiate Athletic Association (NCAA) rules. Even as it reaps the vast majority of its revenues from its March Madness men's basketball tournament, the non-profit NCAA organization caps the benefits that collegiate basketball players can receive from the school they choose to attend. The fact that top college players are worth more to shoe companies, agents and their schools than what the NCAA allows them to earn in turn explains why Nike, Adidas and Under Armour also invest big money in grass roots youth basketball leagues, hoping that some of “their” players will then join “their” sponsored colleges and eventually become NBA stars – but also why the FBI has been investigating secretive transactions.

While the Justice Department probe has centered on Adidas, Nike has had its own share of negative publicity recently because of a shoe incident involving Zion Williamson, star college player slated to be the top pick in the 2019 NBA draft. Rumors have it that he might now sign a long-term USD 100 million endorsement with Adidas...

So far, much of the discussion has revolved around Nike and Adidas. But what if their dominant status were to be challenged in coming years by fast-growing Chinese companies? For instance, Anta Sports, if successful in acquiring Finnish company Amer Sports, would become nothing less than the third largest sports company worldwide... with its very own NBA player Klay Thompson as the face of its advertising campaign. This summer's 2019 FIBA Basketball World Cup... in China will now have the world watching from the front row. Game on!

Chart of the Month

NBA sponsorship revenue from 2010 to 2018
(in million U.S. dollars)



Global Strategy

Back To The Future...

- 2018 is dead; long live 2019! – *Business as usual* or complacency wall of worry ahead?
- Orderly global economic slowdown on track – Easing recession fears & reassuring China
- Addiction to monetary stimulus still the swing factor for markets – Enjoy while it lasts...

Here we are again, back to where most markets stood just 7 months ago, i.e. before what today seems like a mere collective *blackout* to most investors. Did Q4 2018 actually ever exist? One could reasonably wonder as complacency risk makes a comeback in the wake of this year's broad-based rally for risky assets. Truth is that while US equities are back to all-time highs, bonds have extended their gains on declining interest rates and inflation remains muted. Meanwhile, the US dollar has barely edged up, gold not lost much of its luster and nothing (other than Trump) seems to stop crude oil from shooting higher. So, what has fundamentally changed and triggered a reversal of last year's risk-off market environment? Admittedly, both US-China trade tensions and global economic recession fears have receded in recent months (consensus 2019 world GDP growth only revised to +3.3% from +3.6%). However, the real culprit is likely to be found elsewhere, in the hands of major central banks and their ever more accommodative monetary policies satisfying financial markets' endless addiction to stimulus. We say enjoy while it lasts...

As a result, we leave our asset allocation policy unchanged this month, still reflecting a cautious but constructive global macro scenario for the remainder of 2019. At the portfolio level, we maintain 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. Moreover, "safe havens" including gold, CHF and JPY should still help navigate this year's winding roads more comfortably and thus be an integral part of today's more balanced allocation.

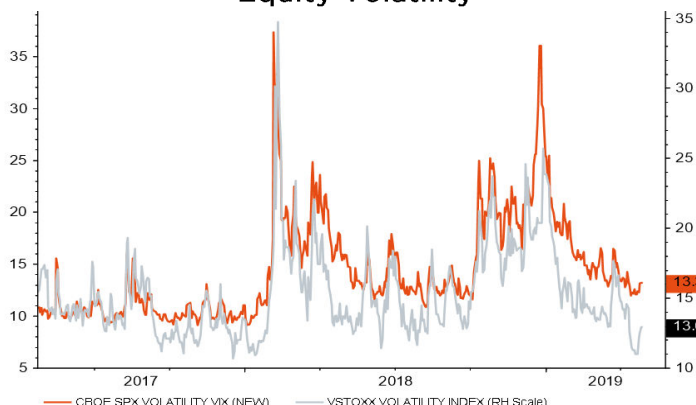
Staying the course in equities has been the right decision so far this year. While "easy gains" are now likely behind us, we do not expect a repeat of the 2018 scenario and remain constructive for the rest of the year, against the backdrop of healthier (i.e. lower) growth expectations and supportive central banks. Valuation multiples have admittedly recouped much of last year's contraction, driving the global equity rally, but we now see improving EPS momentum (i.e. bottoming revisions) slowly taking over. That said, both upcoming key political deadlines and the latest IPO frenzy warrant a note of caution in our view, likely suggesting a bumpier road ahead. Regionally, although starting to eye *unloved* European equities, we still prefer high quality defensive growth markets (Switzerland & US) and favor a balanced approach in terms of sectors & style.

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) in February, on the back of more dovish central banks and softer activity data, we still favor a barbell positioning combining safer US Treasury bonds with attractive EM debt carry – while remaining cautious on credit for now.

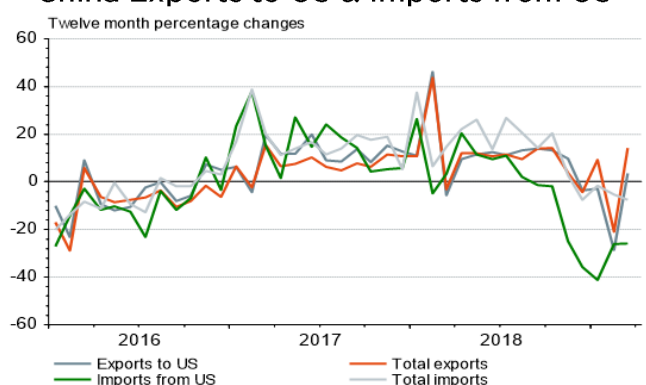
With both FED and ECB tightening on pause, we maintain our positive near-term stance on the USD vs EUR. Fundamentals (relative valuation, current account, budget deficit & debt), however, still suggest a stronger EUR medium-term.

In commodities, we still like gold as a geopolitical hedge and remain neutral on crude oil after its recent price surge. Finally, uncorrelated Hedge Funds strategies (market neutral, arbitrage) and private equity remain our preferred plays in the alternatives space.

Equity Volatility

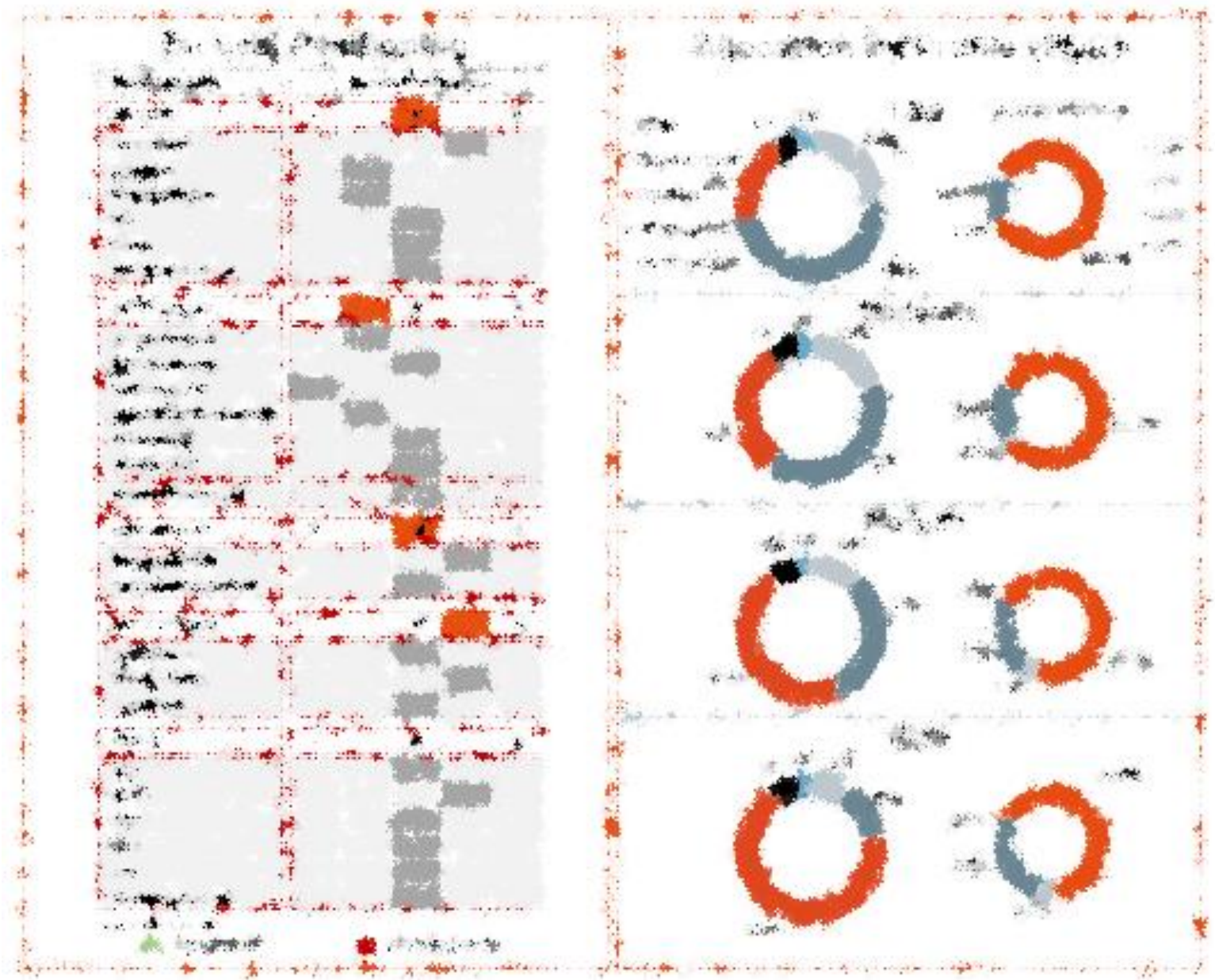


China Exports to US & Imports from US





Asset Allocation



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