DECALIA

INVESTMENT INSIGHTS

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STREAMING OUT LOUD

Editorial View

Streaming Out Loud

- Streaming media platforms have disrupted the entire entertainment ecosystem – More to come
- With the technology now mainstream, the (expensive) race for content is on…
- Picking the winning content makers will be key… but alternative investments offer value too

Stop the *screaming,* only 45 days to go! No, this is not about Brexit… but rather the release of the eighth (and final) season of Game of Thrones, eagerly awaited by zillions of fans across the globe. Not only has this saga cost a fortune to produce, won countless awards and been broadcast in a record number of countries, it is also said to have been the most pirated television series for six consecutive years.

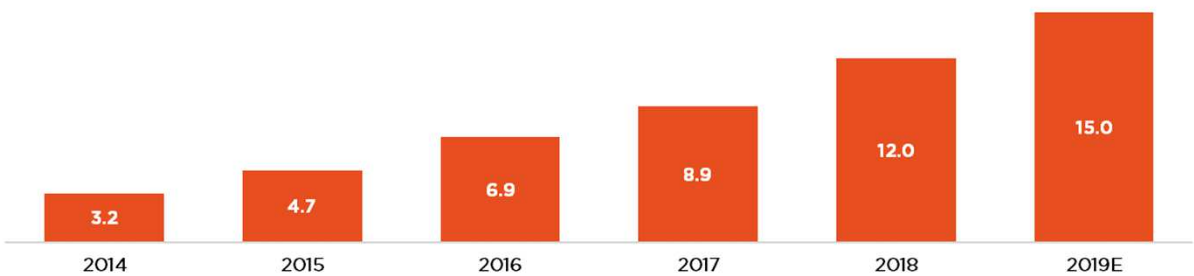
The emergence of streaming media, also termed over-the-top (OTT) services, helped curb the number of illegal downloads, much to the relief of content providers. Direct distribution of film and television content over the internet, via the subscription-based models of Amazon Prime, Hulu, Netflix and the likes, has also afforded traditional media companies a welcome potential to leverage their libraries across considerably larger audiences. And the transformation is set to continue. The next big step could well be premium video on demand (P-VOD), whereby consumers would be offered the opportunity to watch new movies, in the comfort of their own house, on the day of their release – rather than having to wait out the standard three- to six-month window between theatrical and home distribution. A quarter of the respondents to a Morgan Stanley poll indicated a probable or definite willingness to pay a premium for such an experience. In turn, this could boost film studio industry revenues by some $2 billion annually, with few incremental costs. Hence, big screen cinemas have reason to worry. Content flowing directly over OTT platforms or, worse, produced specifically for such platforms is already pressuring their audiences. If they come to lose the exclusivity of blockbuster releases, not sure many people will still want to go out for a movie…

All was thus looking brighter for incumbent content makers, that is until Netflix morphed from just a streaming platform (actually, it began as a DVD rental company back in 1997) into a global content powerhouse. The numbers are indeed staggering. Netflix currently boasts more than 130 million subscribers, whose preferences and usage data are expertly dissected in order to provide targeted recommendations. It spent a colossal $12-13 billion on content in 2018, up $3-4 billion from the prior year. This underpinned more than 80 feature films, far above what any single Hollywood studio could produce, and a mass of entertainment output surpassing that of any traditional TV network. Just consider: to watch all of Netflix's 2018 originals would have required spending more than four hours per day in front of your screen! And much of this programming is top-class, notably enabling Netflix to put an end to HBO's 17-year domination in terms of Emmy nominations and to gain four trophies at the just-held Oscars ceremony.

As this market explodes, a war has broken out with media moguls such as Disney pulling content back out of the Netflix platform and scrambling – alongside Apple, HBO and CBS – to develop their own streaming services (via M&A). With all actors not (yet) profitable, 2019/20 could well mark a turning point in this expensive race, requiring greater selectivity. The fact is that the entire entertainment ecosystem, from content production to distribution, is undergoing massive disruption, providing attractive opportunities in the media lending, co-producing, licensing and merchandising spaces too. Hence, it's not only about picking the stock of successful content players but also weighing alternative investments that stand to benefit from this booming industry.

Chart of the Month

Netflix's annual cash spending on content (in $USD billions)



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Global Strategy

Cautiously Constructive After The Strong Start

- Weakening macro momentum across the board – But no recession anticipated this year
- Global monetary tightening *officially* on pause, with central banks now more data-dependent
- Higher equity volatility is here to stay as we navigate a transition period with lower visibility

Unlike last year, the promising start to 2019 extended to February across most risky assets and we see few signs of an imminent correction. Indeed, although higher market volatility is here to stay as we navigate a post-*Goldilocks* transition period, with lower visibility suggesting a bumpy road ahead for investors, we have kept our cautiously constructive macro scenario unchanged at this stage. Concerns about slowing economic growth (recession risk) and corporate earnings (margin pressure), alongside further geopolitical uncertainties (trade war, Brexit), weighed on equity markets late last year. However, a more dovish (data-dependent) FED, together with constructive US-China trade talks, reassuring Q4 earnings and healthier investor positioning (high cash & low equity allocation), recently helped ease these concerns. That said, all lights are not yet green. In particular, whereas we can (finally) observe regional convergence in the ongoing global economic slowdown, the growing divergence between manufacturing and consumer confidence trends still requires attention, in our view.

In this context, we have kept our equity allocation fairly well loaded but built further defenses against a more adverse scenario through *safe havens,* namely high quality bonds with duration – as we now see more supportive macro conditions. Meanwhile, we have also increased our allocation back to neutral on both emerging debt (hard currency) and equities, reflecting our currently more balanced stance on the region. As such, we still have a robust all-terrain portfolio positioning, allowing us to navigate this year's winding roads more comfortably, carefully balancing further healthy upside potential for risky assets with downside protection provided by selected *safe havens*.

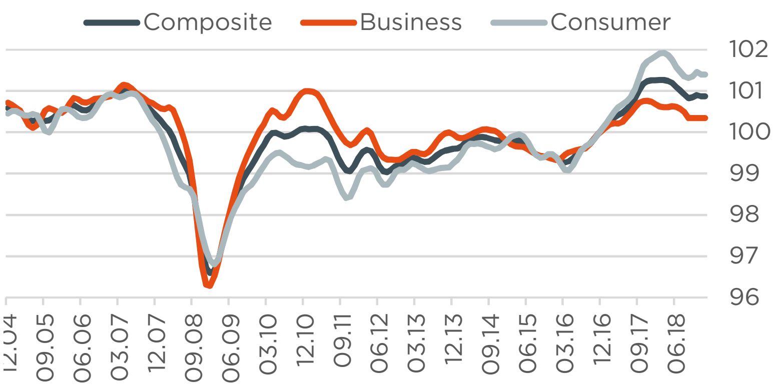
As regards equities, we still caution against getting carried away by the positive start to the year and thus stick to our neutral allocation. That said, we don't expect a repeat of the 2018 scenario since growth expectations have been adjusted down. Admittedly, 2019 "easy gains" are now likely behind for global equities, with valuation multiples having recouped part of last year's sharp contraction, but we still see some upside for the remainder of the year. Aforementioned cyclical and political events still warrant some caution in the near term, supporting our preference for defensive markets (US & Switzerland) and high-quality assets. Meanwhile, we still favor a balanced approach in terms of sectors, style, and size, though we have recently been gradually adding back to cyclicals.

We remain cautious on fixed income but have reduced the extent of our underweight while slightly increasing our target duration. More specifically, we have re-initiated a position in emerging debt (hard currency).

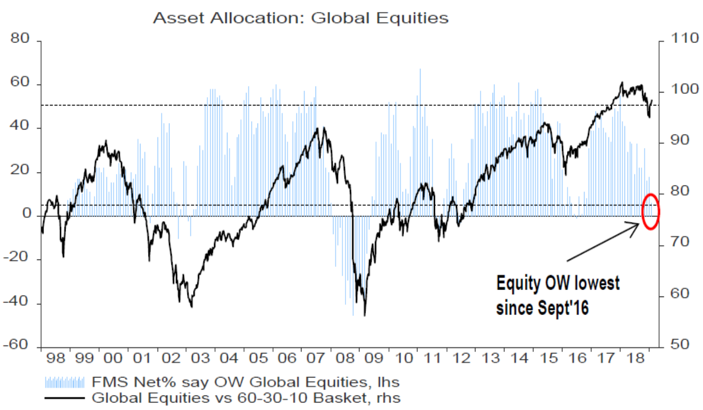
With both FED and ECB tightening now on pause, we maintain our positive near-term stance on the USD vs EUR. Fundamentals (relative valuation, current account, budget deficit, debt), however, still suggest a stronger EUR medium-term. Elsewhere, we recommend keeping some open exposure to both the CHF and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

In commodities, we still like gold as a geopolitical hedge. The worst is likely behind for crude oil prices but limited near-term visibility keeps us on hold. Finally, uncorrelated HF strategies (market neutral, arbitrage) and private equity remain our preferred plays in alternatives.

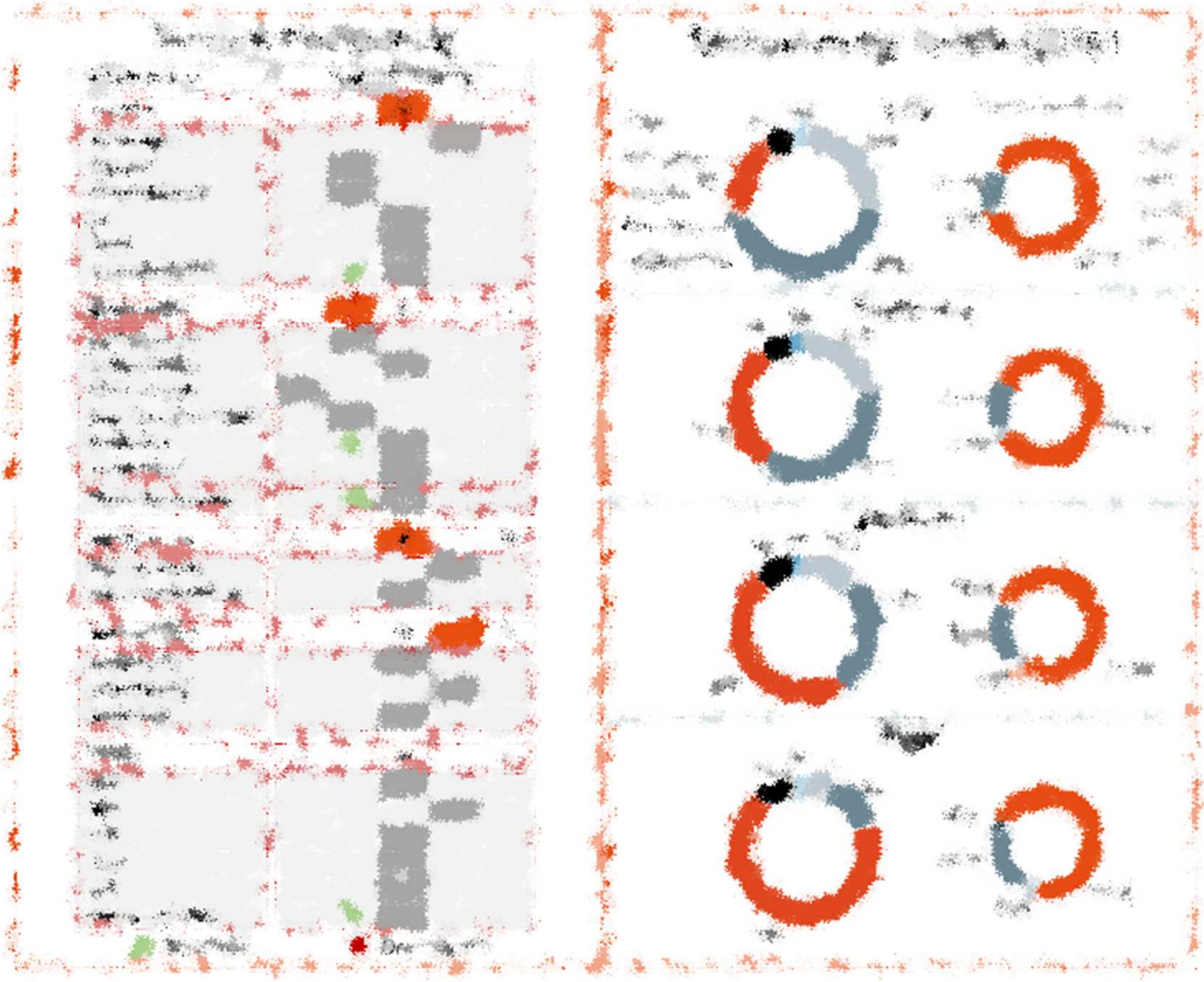
Global Composite Confidence Indices



Investor Positioning – Global Equity Allocation



Asset Allocation



- Equities – Remain cautiously constructive after the strong start to the year – EM equities back to neutral
- Fixed Income – Add back to EM debt (hard currency) and keep building defenses (high quality & duration)
- Alternatives – Still favor uncorrelated strategies and private equity in this market environment

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External sources include: Thomson Reuters Datastream, Morgan Stanley, The Economist, Netflix

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