



INVESTMENT **INSIGHTS**

MONTHLY ISSUE #57

October 1st, 2019

HEALTH-*E* CONNECTIONS

EDITORIAL VIEW

Page 2

- Medical information-sharing & intelligent devices are transforming the healthcare industry
- But data security and privacy concerns must be addressed to embrace this revolution
- MedTech companies, new entrants, IT/healthcare partnerships: investment opportunities abound

GLOBAL STRATEGY

Page 3

- Dovish central banks still in the spotlight – But some fiscal stimulus would be welcome too...
- Developed markets manufacturing recession vs. resilient consumer & services – Place your bets
- Keeping the faith, with an all-terrain portfolio positioning and more balanced equity styles

ASSET ALLOCATION

Page 4

- Equities – *Riders on the storm* with some protections and a more balanced sector/style exposure
- Fixed Income – Unchanged cautious stance as yields still remain close to historically low levels
- Private Markets – Continue to favor selective private equity and niche real estate strategies



Editorial View

Health-e Connections

- Medical information-sharing & intelligent devices are transforming the healthcare industry
- But data security and privacy concerns must be addressed to embrace this revolution
- MedTech companies, new entrants, IT/healthcare partnerships: investment opportunities abound

“Big Data” is not just a buzzword flaunted by the technology-savvy. The ability to access, store, structure and analyse massive quantities of information carries the promise of a revolution, in the IT and consumer spaces of course, but also – and importantly – in how healthcare is provided.

Take implantable defibrillators for instance. While they have existed since the 1980s, it is only for the past decade or so that these devices have been able to stream heart monitoring data back to their manufacturers and, by extension, doctors. Ditto for the insulin devices carried by diabetes patients, with practitioners in this field seemingly more open to also letting the users access the collected data, in order perhaps to help them better manage their condition.

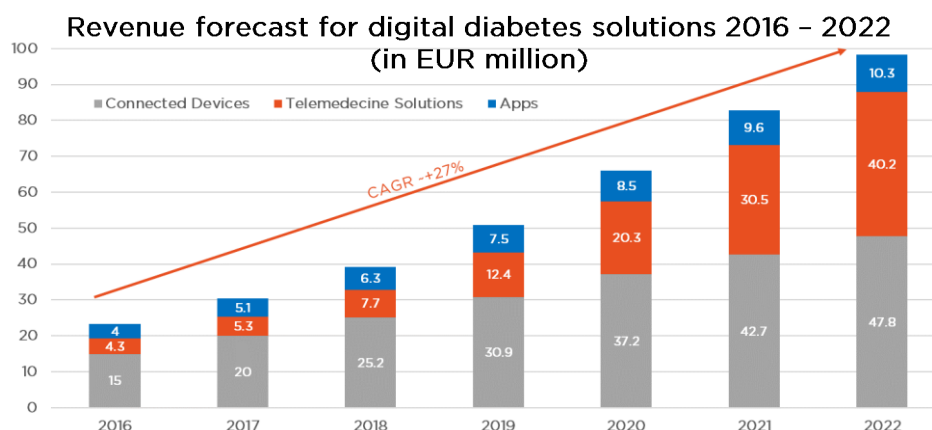
Telehealth is another relatively recent and promising development, which Philips’ chief medical officer and head of research for the Americas goes as far as comparing to “the building of the Transcontinental Railroad”. Hospital patients connected to cutting-edge monitoring equipment can for example be minded by a team working in another location, who then alerts the local caregivers before an emergency situation arises. The delegation of such surveillance to professionals operating in a different time zone is particularly useful during low-manned and strenuous nightshifts. Telehealth, quite obviously, also offers better access to care to patients who live in remote areas, lacking local services or transportation means. And, more generally, by enabling the sharing of a patient’s medical data, it facilitates collaboration between health service providers and helps them deliver the optimal treatment

In the field of sport for instance, Big Data is increasingly used by coaches to track athletes’ performance, assess their strengths/weaknesses and improve team efficacy. In the future, hopefully, all this information may also help prevent injuries via the early detection of risk.

As always, though, with opportunity come challenges. In the case of connected care, an adaptation of the regulatory framework and insurance reimbursement provisions will be necessary, but the more complex issues assuredly pertain to data security and privacy. For providers and patients to fully embrace the model, they must be convinced that the channels through which health data is exchanged are secure, with adequate encryption and barriers against intrusion.

MedTech companies lie at the heart of the connected care revolution. The focus of this USD 400 billion+ market is currently shifting from products to the capture and handling of data. Digitization will require major investments but stands to reshape the industry landscape. Whether potential newcomers, discouraged in the past by the high barriers to entry, can exploit their IT – rather than medical – expertise to successfully gain market share is an open question. Will they be able to leverage their experience with user-driven platforms to successfully enter the healthcare ecosystem, will IT/MedTech partnerships be developed, or will MedTech incumbents retain the exclusivity of data management? However this battle plays out from an investment standpoint, we should all hope that the ultimate winners will be the patients...

Chart of the Month



Global Strategy

Global Central Banks *Haka*

- *Dovish* central banks still in the spotlight – But some fiscal stimulus would be welcome too...
- Developed markets manufacturing recession vs. resilient consumer & services – Place your bets
- Keeping the faith, with an *all-terrain* portfolio positioning and more balanced equity styles

With the Rugby World Cup having just kicked off, New Zealand's All Blacks "haka" should continue to ring in everyone's ears for the coming weeks. And the same will go for investors with central bankers, as captain Powell acts forcefully within a global move to tackle the economic slowdown – such unity not having been seen since 2008. In this context, we are keeping our cautious but constructive global macro scenario unchanged. In particular, despite recent controversial signals (e.g. US yield curve inversion), we still do not foresee a global recession but rather anticipate a soft landing, with "moderate" growth supported by resilient services and consumer trends.

The latest major central bank meetings confirmed a renewed dovish stance across the board, with additional rate cuts and a new round of quantitative easing (QE) announced by the ECB. In his last speech as President, Mr Draghi pointed out the necessity for new fiscal policy measures in order to sustain growth, as monetary policy runs out of ammunition. Both Philip Lane, ECB Chief Economist, and Mrs Lagarde should follow in the footsteps of their predecessor, keeping an ultra-dovish monetary stance. Meanwhile, though having cut rates by another 25 bp in September under pressure from President Trump, the Fed's tone about the state of the US economy remains somewhat more reassuring : rising (above target) core inflation, easing trade war concerns and slowly recovering yields (from recent lows).

Although it will take time, we still expect a gradual de-escalation of US-China trade tensions, with a potential interim agreement to be found before year-end. In turn, this should contribute to a stabilization of key manufacturing indicators and improved overall sentiment.

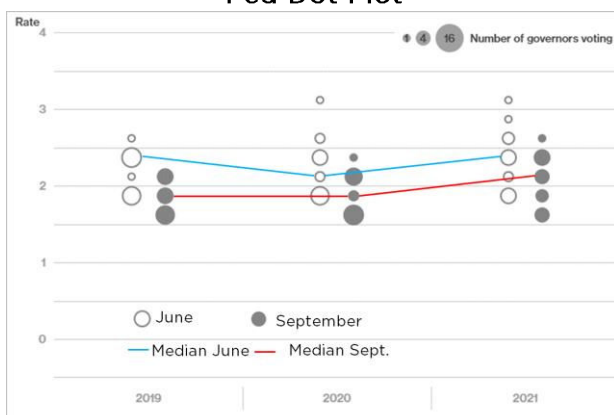
All told, higher market volatility is here to stay as we expect fluctuating trade-related rhetoric, revived geopolitical tensions (Iran), high hopes regarding central banks, and continued diverging economic data to drive further "noise" in the near term. At the portfolio level, we thus maintain an all-terrain positioning, i.e. keeping a neutral allocation to equities with protections (e.g. put options) and a more balanced sector/style approach, an unchanged cautious stance on most fixed income assets, as well as some exposure to usual so-called "safe havens".

In equities, while this year's easy gains are now clearly behind, we do not foresee a sharp market correction ahead either. Admittedly, global macro risks persist, but we believe that the combination of accommodative monetary policies, potential fiscal stimulus, the US 2020 election market put (aka Trump factor), stabilizing EPS revisions, decent valuation multiples, higher equity risk premium (attractive yield gap), and defensive investor positioning bodes well for the asset class. That said, as seen in recent weeks (value revival), riding the market wave may not be sufficient. Anticipating (even short-lived) equity sector/style rotations has become more crucial than ever.

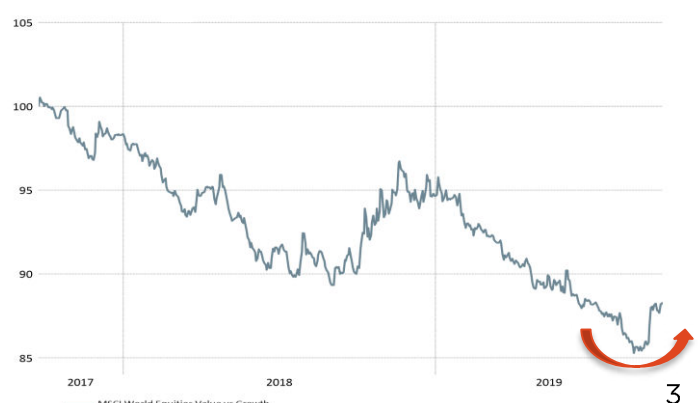
We remain cautious on fixed income in the light of the latest rally and significant amount of negative yielding debt globally. Hence, we stick to our *barbell* approach, combining exposure to very defensive segments (higher quality & longer duration assets) with a more volatile carry-driven allocation to emerging debt markets.

Finally, in this environment, we continue to favor private (illiquid) markets; selective private equity, niche real estate & uncorrelated HF strategies.

Fed Dot Plot

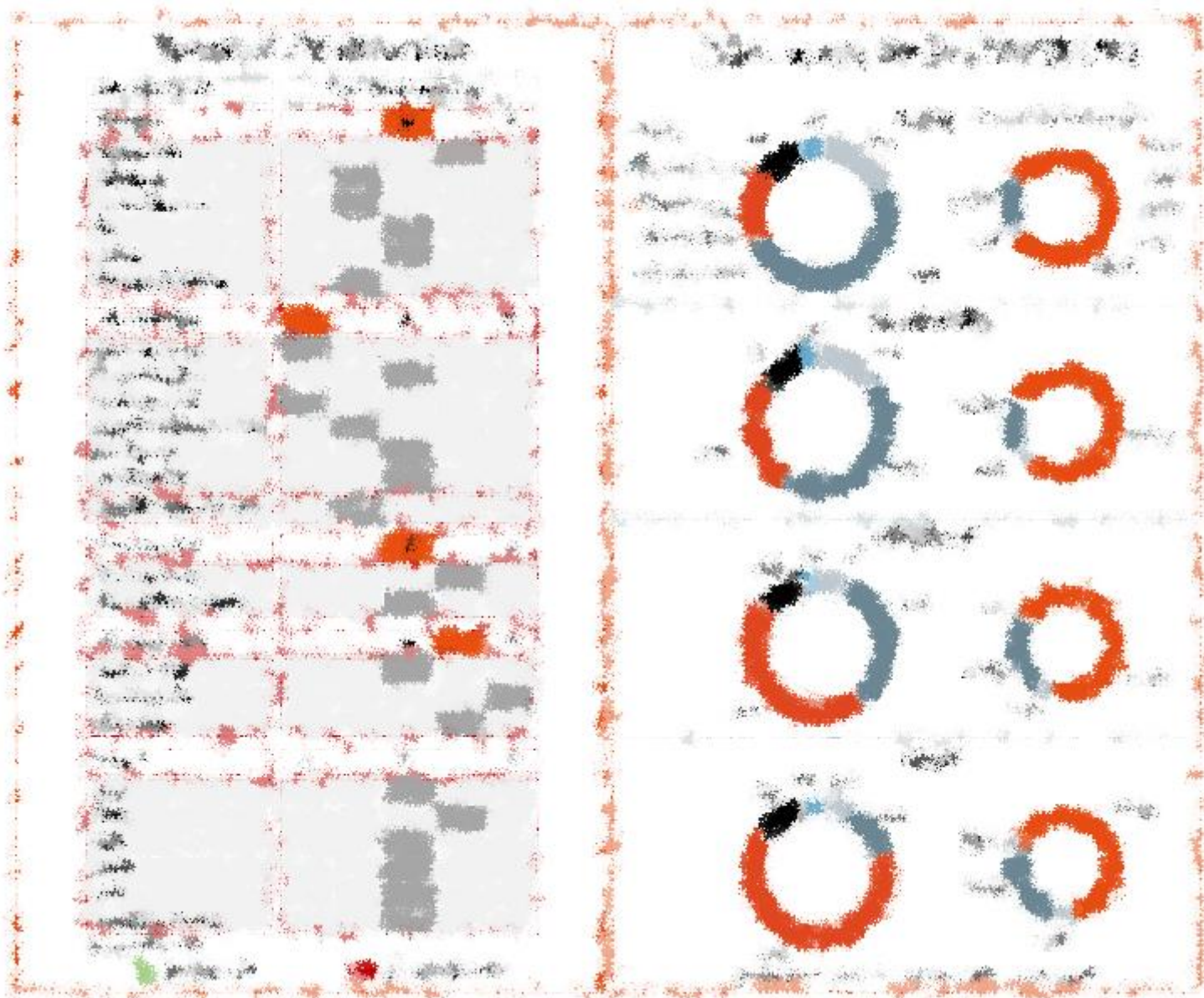


Style (value vs growth) Rotation
MSCI World Value vs Growth (2-year relative performance)



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

Asset Allocation



- Equities – *Riders on the storm* with some protections and a more balanced sector/style exposure
- Fixed Income – Unchanged cautious stance as yields remain close to historically low levels
- Private Markets – Continue to favor selective private equity and niche real estate strategies

Contacts

DECALIA Asset Management SA

31, rue du Rhône
Case postale 3182
CH - 1204 Genève

Tél. +41 22 989 89 89
Fax +41 22 310 44 27
info@decaliagroup.com

Copyright © 2019 by Decalia Asset Management SA. All rights reserved. This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or in portion, by any means, without written permission from Decalia Asset Management SA. This material is intended for informational purposes only and should not be construed as an offer or solicitation for the purchase or sale of any financial instrument, or as a contractual document. The information provided herein is not intended to constitute legal, tax, or accounting advice and may not be suitable for all investors. The market valuations, terms, and calculations contained herein are estimates only and are subject to change without notice. The information provided is believed to be reliable; however Decalia Asset Management SA does not guarantee its completeness or accuracy. Past performance is not an indication of future results.

External sources include: Refinitiv Datastream, Bloomberg, Statista

Finished drafting on September 30th, 2019