

Letter from the CIO

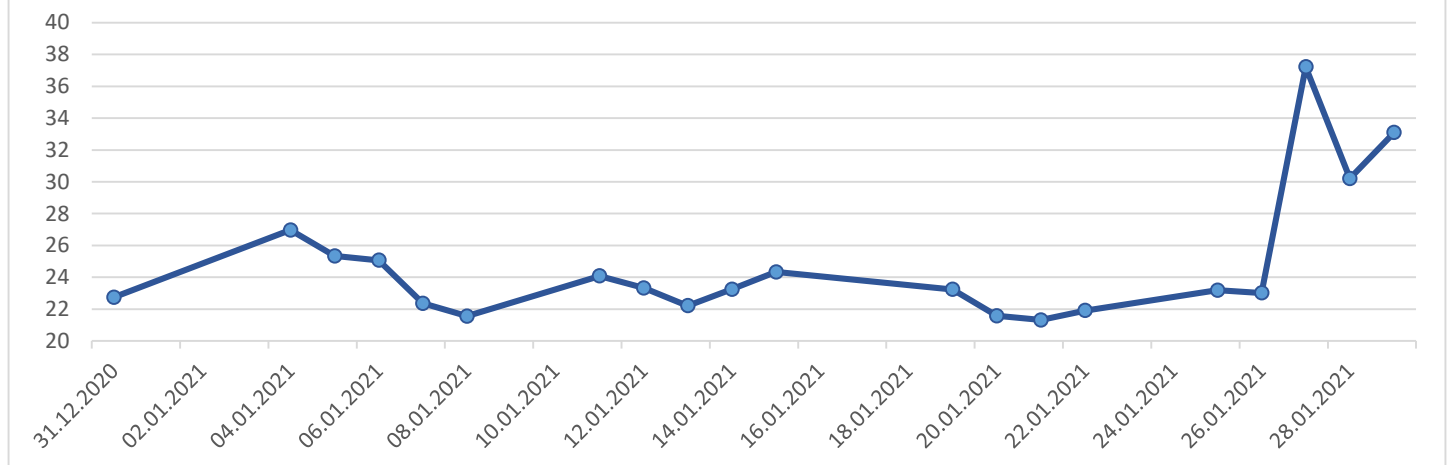
February 2021

All Eyes on Growth

Equity markets continued their relentless ascent so far in February after a month of January characterized by a period of fairly high volatility. Indeed, if the first month of the year started relatively well, still boosted by expectations in terms of vaccination, as well as by the entry into office of Joe Biden and the victory of the Democrats in Congress, the last week of January was much more eventful. Certain emblematic hedge funds, icons of Wall Street, thus had to bend their spines before a multitude of punters, the "Robin Hoods", determined to impose their common view on the video game distributor Gamestop, which was massively sold short. In the space of a month, the stock soared more than 1,600%, forcing

hedge funds to unwind their positions with massive losses. Can this phenomenon be repeated? This is what the markets feared, and they made it known! The S&P thus closed the last week of January with a decline of 1.9%, the worst week since October 2020. In January, the American index ended down 1.0% while the technology stocks represented by the NASDAQ rose 1.4%. European markets also corrected during the last week of January, with the EuroStoxx 50 index and the Swiss SPI ending the month down 1.9% and 1% respectively. Over the same period, emerging equities outperformed the ones of developed markets (MSCI EM + 3.1%) and the rotation to small-cap companies in the US continued, confirming expectations of economic recoveries.

CBOE Vix Volatility Index



Source: Bloomberg / Banque Heritage

Fundamentally, the containment measures in place continue to weigh on the economies. GDP growth thus contracted in France by -1.3% during the last quarter of 2020 while it was up by 1% in the United States. Inflation, at the heart of the "reflation trade" currently observed in the markets, increased by 0.3% in January after an increase of 0.4% in December 2020. Although encouraging, it is important to emphasize that the main cause of this increase is the soaring price of oil observed in recent months. We have effectively returned to the level of prices observed before the pandemic. But is this really the consequence of a recovery in demand, or simply the result of the decrease in inventories caused by the COVID crisis? Probably a bit of both, which is why one has to remain cautious. On the corporate side, nearly three-quarters of the companies in the S&P 500 index in the United States have so far published their figures for the 4th quarter of 2020, and the results are rather

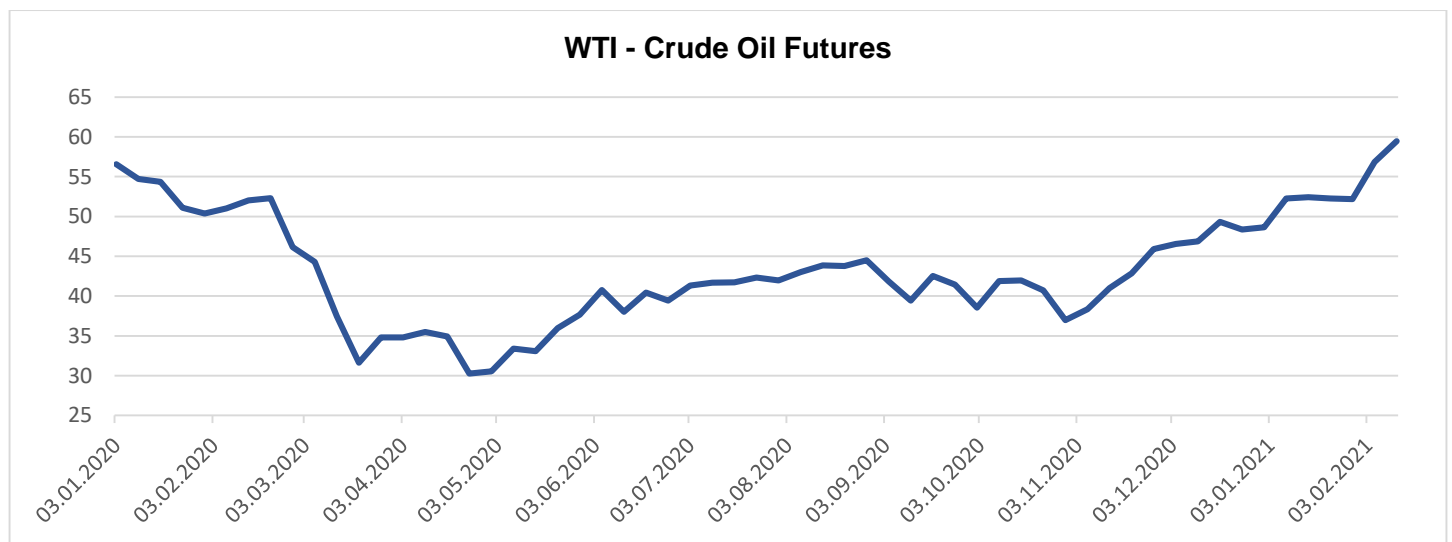
encouraging, 80% have published earnings per share (EPS) higher than expected (above the average of 74% recorded over 5 years). So far companies have reported profits that are 15.1% higher than estimated, which is also higher than the 6.3% average of the past 5 years. Finally, analysts are forecasting double-digit earnings growth for the four quarters for 2021, including earnings growth of 21.2% in Q1.

In terms of valuation, the 12-month Forward P/E ratio stands currently at 22.2, higher than the average observed over the last 5 and 10 years. Admittedly, it would be difficult to deny the high price of the equity markets, but we continue to believe that this risk premium is justified. The policy of negative interest rates, the abundance of liquidity in the markets, or the repurchases of assets by central banks are all factors that distort the classic and historical perception that we have of risk



premium. Investors are currently being pushed into the equity markets by the bailout policies of banks and governments. And until there are no visible signs of an

economic slowdown, the equity arbitrage is very likely to continue.



Source: Bloomberg / Banque Heritage

Our portfolios remain positioned to take advantage of an improving global economic conditions, despite the uncertainty associated with the various lockdowns and their respective duration, as well as the emergence of new variants. Vaccination campaigns are starting, and the challenge is huge, both in terms of supply and vaccination capacity. Despite this, we remain optimistic and bet on the emergence of the beneficial effects of these vaccines on economic activity in the course of the second part of the year. In the meantime, the ultra-accommodating and unchanged monetary policies of the big central banks, as well as the government stimuli, including the additional 1.9 trillion Dollars announced by Biden, are all positive factors to support the economic landscape.

We therefore continue to favour equities over bonds, maintaining a good balance between cyclical stocks and quality companies. We also maintain exposure to small caps, as well as a sector bias towards oil and financials companies. Finally, gold remains our protection against a potential soaring inflation or a future market correction.

Stay healthy!

Jean-Christophe Rochat, CIIA
Chief Investment Officer



BANQUE HERITAGE SA
[Route de Chêne 61](#)
Case Postale 6600
1211 Geneva 6
Switzerland

www.heritage.ch

