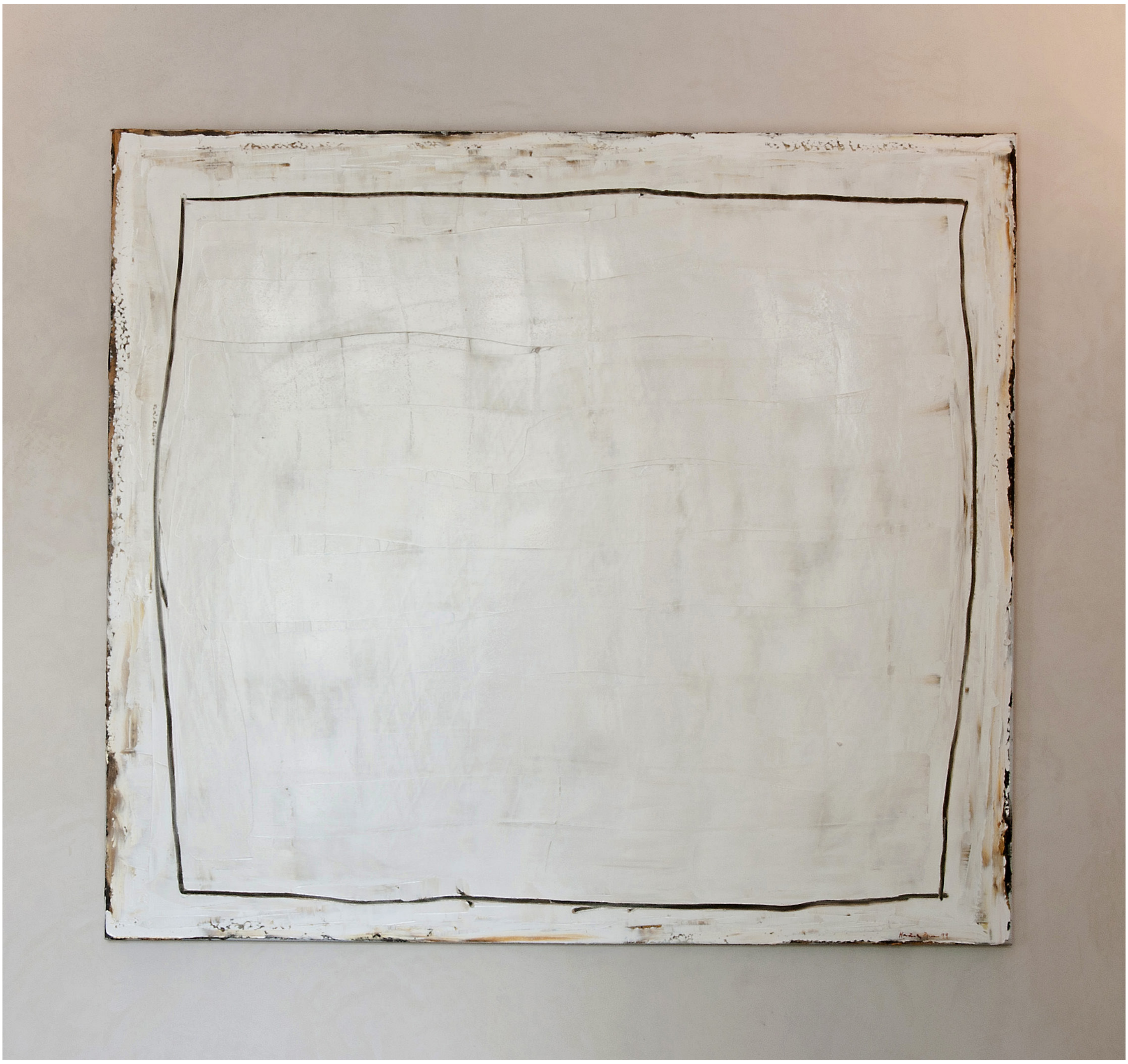
OBSERVATION DECK

1st QUARTER 2020



KEYSTONES

Remembering 2019

p. 2

EQUITIES

All Eyes on Fed

p. 4

FIXED INCOME

Where do yields go now?

p. 5

FXPERTISE

Is the USD under pressure?

p. 6

PRIVATE MARKETS

Opportunities off the beaten track

p. 7

KEYSTONES

REMEMBERING 2019

On a personal level, we hope that 2019 will be fondly remembered for a birth, a house purchase, a wedding or a graduation. For financial markets it will be different. Will it be remembered for the start of a recession, the last great bond rally, a finalised Brexit! the rise of global populism and the demise of Hong Kong or just another year of very solid QE driven asset returns ?

Despite the widespread calls of a looming recession, we think most investors will remember it as a year for which holding equities and bonds resulted in a handsome profit. A classic case of a rising tide that lifts all boats.

So as we peer around the corner at the prospect of a new year, what can we expect and look to be prepared for?

Taking a step back, nothing has changed from the year we have just witnessed. The world remains awash in too much debt; economies continue to produce sub-par trend growth and inflation while the political environment is increasingly polarized. The business cycle keeps lengthening and breaking records as QE initiatives restart and increase, resulting in a now different environment to that prior to the 2008 crisis. Consequently, the parallels to Japan abound with negative yields now the norm in many economies around the world. Investors today face less volatility and the comforting knowledge that QE is around the corner if need be.

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The key theme for the year is the continuation and possible increase in central bank liquidity, specifically from the US Federal Reserve should a recession or crisis loom. We therefore continue to be particularly positive on Gold and stocks that can benefit from a weaker Dollar, knowing that liquidity will likely continue to support most asset classes.

We are in unprecedented times given this stimulus' ability to fight the next real downturn, thus lengthening the business cycle and ultimately supporting asset inflation. Monetary and fiscal policy options are being exhausted and this is having a direct impact on the electorate, prompting political parties to jump on the pulse of what they think the people want.

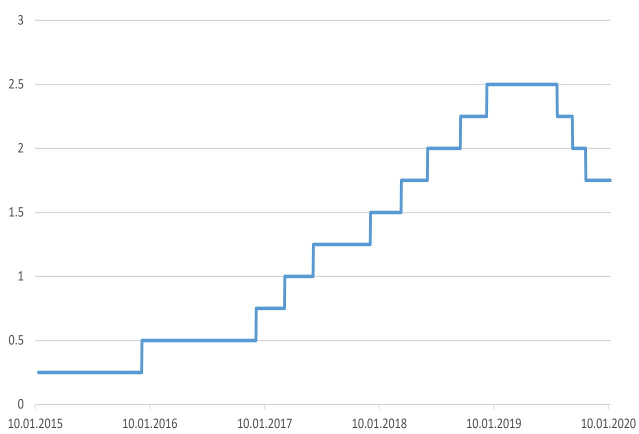
For instance, the politics or lack of political cohesion are hamstringing the ability of authorities to use fiscal policy. Populism is driving change as the electorate is increasingly angry, tired and polarized with their situation.

Inflation has been the dog that has not bitten for the last decade, and complacency across bond investors is clear with record low inflation expectation measures globally. With concerns about slowing growth front and centre, sticky inflation particularly in the US, is being ignored.

The year will also likely be remembered as the beginning of the end to the potency of monetary policy. The Fed tried to increase interest rates back to 'normal' only to have to very rapidly cut rates 0.75% and increase its balance sheet as the economy faltered.

Indeed, the negative interest rate policy enacted in various countries has broadly failed, exemplified by the Swedish Riksbank proclaiming an end to their own experiment and a need to get rates back to zero. The issue going forward for the Fed is that, having restarted stimulus in its current form, how do they stop or pause without significant market angst?

US INTEREST RATES (%)



SOURCES: BANQUE HERITAGE, BLOOMBERG

A new cold war escalated as the US and others effectively began to stand up to decades of technology and intellectual property theft, alleged currency manipulation, and human rights abuses prompting a rebalancing of trade bias. This headwind to global trade is unlikely to disappear fast, and Hong Kong remains a very visible battleground between two polar opposite viewpoints. We continue to see similar prolonged issues from the yellow jackets in France or in Chile, the UK or Spain to name but a few.

We are in an ageing economic cycle with peak profit margins and rising political uncertainty which have created economic and trade related uncertainty. It is the most accommodative monetary and fiscal policy setting on record, and yet the weakest economic expansion.

However as assets react to the stimulus and liquidity there remains one cold hard fact: the greatest asset remains time.

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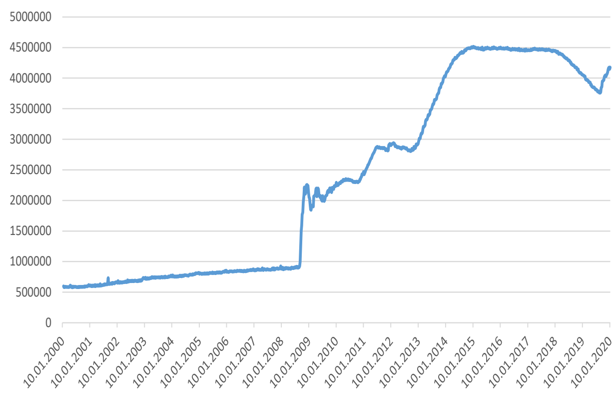
FEDERAL RESERVE BALANCE SHEET (MILLIONS)



SOURCES: BANQUE HERITAGE, BLOOMBERG

Equities	Last Price	YTD %
S&P500	3295.47	2.00
Eurotoxx 600	417.24	0.34
Nikkei	23343.51	-1.32
China A shares	3118.92	-2.41
Brazil	118376.40	2.36
India Nifty	12146.10	-0.18
Russia RTSI$	1563.21	0.92
MSCI World Local	1836.62	2.05
MSCI EM Local	62053.2000	0.95
Currencies	**Last Price**	**YTD %**
Dollar Index	97.9200	1.59
Euro	1.1022	-1.70
GBP	1.3085	-1.30
Yen	108.9100	0.28
AUD	0.6778	-3.46
CHF	0.9710	0.46
Brazil Real (BRL)	4.1821	3.91
Turkish Lira (TRY)	5.9465	-0.08
India Rupee (INR)	71.4388	0.08
China Yuan (CNY)	6.9109	-0.75
JPM EM FX	60.7600	-1.20
Fixed Income	**Last Price**	**YTD %**
US Govt	421.54	1.50
EU Govt	252.95	1.17
US IG Corp	3298.98	1.81
US HY Corp	2188.95	0.28
EU IG Corp	152.31	0.95
EU HY Corp	415.31	0.58
Commodities	**Last Price**	**YTD %**
Crude Oil	52.92	-14.46
Natural Gas	1.95	-11.01
Gold	1580.70	3.78
Silver	18.24	1.75
Copper	263.55	-5.77
RICI Global	2311.42	-5.83
RICI Agriculture	744.64	-1.85
RICI Energy	335.13	-12.82
RICI Basic Metals	1128.85	-3.27
RICI Precious Metals	1952.48	3.27

As of January 27, 2020

EQUITIES

ALL EYES ON FED

Equities finished 2019 powered by some very strong tailwinds. Many of these tailwinds will fade but several, and one in particular, will likely steer equity markets stronger in this New Year and decade.

The close of the year saw a trade deal between China and the US by and large agreed upon. Brexit risk was dramatically reduced with the Conservative election win and global Central Banks continued their accommodative stances. Although equities did see inflows, the major trend was actually into fixed income, corporate buybacks remaining a significant driver of returns. However, the most important impetus perhaps came from the injection of liquidity from the Federal Reserve via repo agreements. This had begun as a temporary adjustment but clearly continued into the beginning of 2020; this was a dramatic reversal of last year's trend in balance sheet reduction, also known as Quantitative tightening.

Ultimately this central bank balance sheet expansion is very good for asset price inflation and in particular risk markets. We expect this driver to continue to have a direct influence on returns over the year.

US MARKET

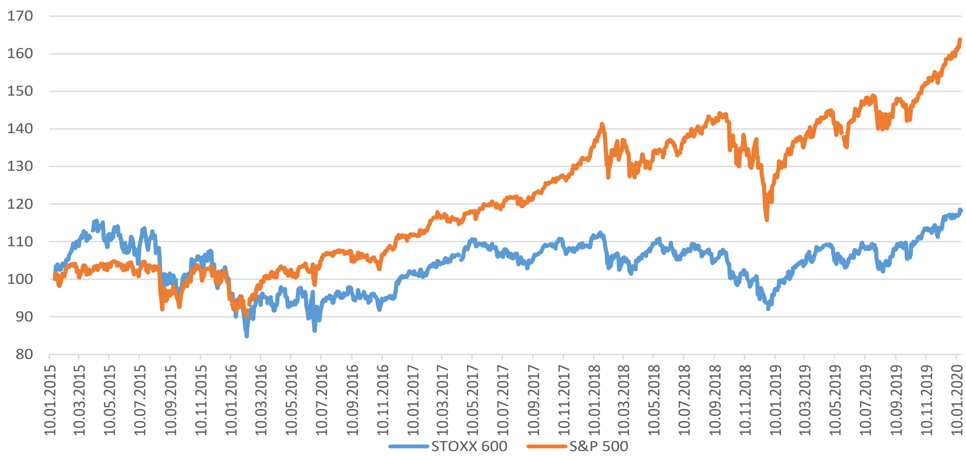
The US equity market saw one of the greatest multiple expansions of the past decades, reaching historically high valuations. Within this context, we identify Healthcare as a sector to be exposed to going forward. It was the second worst performer last year, underperforming the broader market on the back of political fears, with rhetoric around lower drug prices and "Medicare for all" being the major concerns. Nevertheless, Healthcare posted the strongest earnings growth of all sectors over the same period, and earnings revision trends point to the same direction for the current year. This leaves valuations at attractive levels, near the lower end of their historical relative range. Although US politics remains the largest risk, we view the most adverse scenario of a Warren or Sanders election as remote, and less aggressive outcomes largely priced in stocks. Relative performance from the sector started to improve in the back end of last year, a trend we expect to continue over 2020 despite the election noise, prompting us to overweight Healthcare.

EUROPEAN MARKETS

In Europe we are outright optimistic about risk assets, which are perhaps even beginning to erode the outperformance of the US witnessed over the last decade. Valuations in Europe are not particularly expensive and arguably cheap on a relative basis. We see a potential reversal in the current substantial short Euro area positioning, as a further technical tailwind. We favor a rotation from defensive more cyclical sectors, with Industrials and Pharmaceuticals in both Europe and Switzerland being our favoured plays as we see the opportunity of small upticks in European growth driving a comeback in investor demand. However, the low growth environment and negative interest rates should see European financials weaker for a considerable period.

Ultimately, despite the ECB's message delivered through the appointment of its new Governor Mrs Lagarde, its policy is unchanged. It will remain very accommodative with increasing pressure for States to enact fiscal policy easing. That is likely a reasonable distance away, and indeed may take a crisis to earn consensus. It is clearly one of the next steps available in Europe.

US VS EUROPEAN EQUITY INDICES



SOURCES: BANQUE HERITAGE, BLOOMBERG

FIXED INCOME

WHERE DO YIELDS GO NOW?

In August 2018, a certain Wall Street Bank CEO proclaimed that US 10-year yields were going to hit 5%. Fast forward to September 2019 and the same CEO's forecast was that his bank was preparing for yields to hit zero percent.

It has been an impressive year for fixed income and this anecdote highlights how quickly things can change in markets. That same bank probably made money for its shareholders in both scenarios!

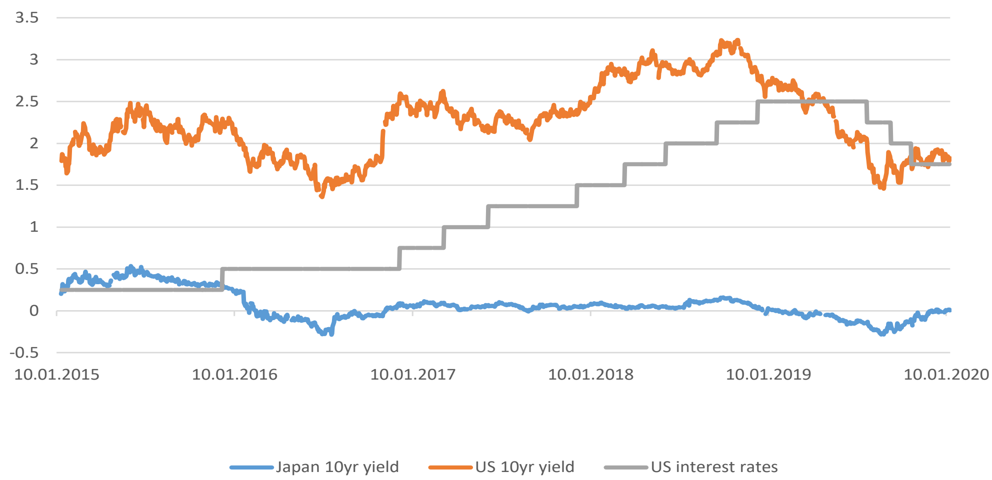
" Looking forward, fixed income remains a cornerstone of our asset allocation. Economic growth looks set to remain lacklustre, inflation may cyclically rally but structurally remains caught against the headwinds of too much debt, demographics and disinflation. "

Looking forward, fixed income remains a cornerstone of our asset allocation. Economic growth looks set to remain lacklustre, inflation may cyclically rally but structurally remains caught against the headwinds of too much debt, demographics and disinflation. Despite the safe haven qualities of high quality bonds and rising recessionary fears we expect increasing central bank stimulus to 'trump' this driver. The search for yield continues and we will be selectively looking for attractive opportunities across public and private markets.

Many global central banks have exhausted their monetary policy arsenal. The ECB, the SNB and the BOJ all have interest rates that are negative. The US Fed has cut rates three times with the only tool left in the monetary policy arsenal being yet further QE. In a crisis or when the business cycle finally ends, expect global central banks to increase QE and potentially further negative rate moves.

Fiscal policy is likely the next tool, whether that is in Europe, allowing governments to freely spend, or in the US, directly delivering stimulus into people's bank accounts. Fixed income is therefore likely to have a volatile year. On the one hand we believe recessionary risks are under-priced. However, on the other, the reaction of the central banks is likely to be seen as inflationary and ultimately see fixed income investments underperform risk assets.

JAPAN & US 10YR YIELDS AND US INTEREST RATES (%)



SOURCES: BANQUE HERITAGE, BLOOMBERG

IS THE USD UNDER PRESSURE?

The last five years have been an era of US Dollar strength. Looking forward is that strength now beginning to wane and turn? On the whole, we believe so especially with the increase in Federal Reserve liquidity and growth outperformance from the rest of the world that we expect. In brief the drivers for the dollar have been the tightening of liquidity on a relative basis as the Federal Reserve hiked rates and contracted their balance sheet through a policy called Quantitative tightening. At the same time the other major central banks were still riding the gas pedal enacting quantitative easing and negative interest rates.

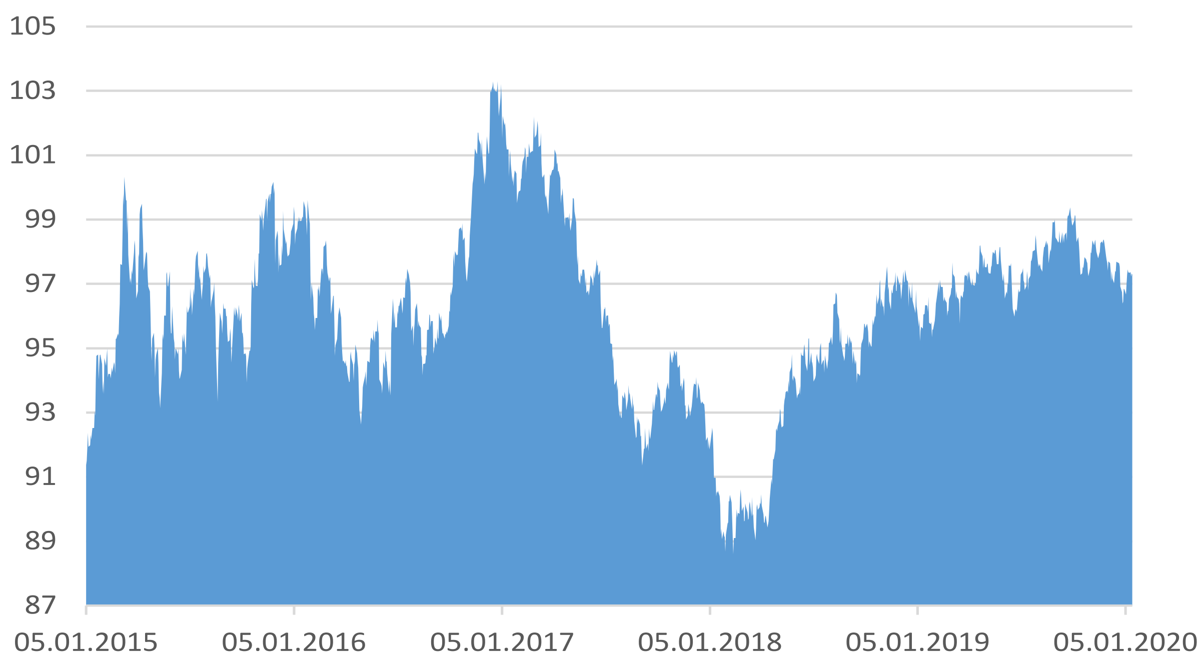
The election of Mr Trump who introduced tax cuts and deregulation allowed the US outperformance to continue apace. As US stocks outperformed they attracted yet more capital. Additionally trade tensions and political uncertainties have been US Dollar supportive as the US, with its deep and liquid markets served as a safe haven.

The Federal Reserve has however now turned tail, easing rates three times and enacting a liquidity policy which it doesn't describe as QE but, really, has the hallmarks of a central bank pumping liquidity into the system. That liquidity was required after US money market interest rates ballooned and the market did not function. It forced the Feds hand to provide that liquidity as issuance has increased in t bills thanks to a ballooning deficit and the once foreign buyers of US debt now creating a buyers strike. The trade war de-escalation and more positive news from Brexit have provided some optimism albeit we aren't convinced we have seen the last of these two drivers.

Also with the election next year investors may look to take some profit from the US outperformance with the, albeit unlikely, possibility of Mrs Warren entering the White House and all that entails (broadly viewed as market negative). Structurally the use of the US Dollar is beginning to fall. Russia, China, Iran, Saudi Arabia have all reason enough to trade in non-USD currencies.

Russia and China now plough much of their foreign reserves not into US Treasuries but Gold. Cryptocurrencies too, although still in their infancy, could well prove an alternative in multiple digital formats. In summary, it's likely that the dollar has at least peaked however it would be wrong to underestimate its potential especially in a crisis. However as we near the end of the business cycle the Fed will be increasingly aware of the impact of the currency on the economy and the only monetary policy lever they have left – QE.

US DOLLAR



SOURCES: BANQUE HERITAGE, BLOOMBERG

PRIVATE MARKETS

OPPORTUNITIES OFF THE BEATEN TRACK

In this context of elevated valuations across the board, private market opportunities have increasingly made their way into our asset allocation mix and will continue to do so for the foreseeable future. They remain one of the few pockets of inefficiencies where attractive risk / rewards can be found, coupled with a growing opportunity set supported by banking disintermediation and the power of information technology.

" These are very short term in nature(no interest rate risk), regionally and sector diverse (limiting default risk and contamination), and have become a staple of corporates' treasury management toolkit. "

While we dislike the crowded space of direct lending which has ballooned to worrying proportions to support private equity sponsored leveraged buy-out programs, we favour factoring or bridge-financing strategies which are effectively providing the working capital that banks used to finance.

These are very short term in nature(no interest rate risk), regionally and sector diverse (limiting default risk and contamination), and have become a staple of corporates' treasury management toolkit. A supplier to Airbus to be paid in 90 days will happily forego part of his margin to collect his receivables today, leaving that margin with the facility provider. Ultimately, the investor is carrying Airbus default risk but is senior to an Airbus bond and getting paid handsomely to provide working capital to a SME that greatly needs it.

Similar operations can be found in real estate where bridge financing is provided to free up capital on an often pre-sold operation where development risk is mostly behind and for which banks have reached their maximum loan-to-value limit. This capital starvation commands interest rates ranging from 8-12% in euro for short maturity (6-18 months) loans where many of the risks have been purged.

While these loans are illiquid their short maturities generate a revolving income stream. The same cannot be said of the European high yield market which is liquid until it isn't and offer lower spreads for a higher historical average default rate.

HOW FACTORING WORKS

SOURCE: GATEWAY COMMERCIAL FINANCE

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