VALUES WORTH SHARING

Investorama

Trends and developments
in the financial markets

Edition 1/2020

Risk factors

Prior to investing, investors should carefully consider the risks associated as detailed in the offering document. The value of an investment can fall and the originally invested amount may never be recovered. Investors should consider the following risks, without limitation:

- Market risk: The risk of losses in positions arising from movements in market prices.
- Currency risk: The risk of losses arising from currency fluctuations, in case the currency of an investment is different from the investor's reference currency.
- Liquidity risks: Adverse effects created by the situation where the fund must sell assets where insufficient market demand exists and lower price levels must be accepted to execute a transaction.
- Operational risks: The fund may suffer losses as a result of insufficient internal processes or systems, misbehavior of employees or external circumstances.
- Political and legal risks: Investments are exposed to changes in the rules and standards applied by the country under the respective jurisdiction. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the fund to increased operational-, legal- and political risk.
- Derivative risk: The risk of losses arising from the usage of derivatives, which can be highly sensitive to price movements of the underlying asset and can result in increased leverage.
- Credit risks: Risk characterized by the failure of counterparties to meet contractual financial obligations.
- Master-Feeder risks: The performance of the Fund may deviate from the performance of the Master-Fund.

Contents

More flexibility required

A decade of market-friendly financial conditions has come to an end. However, it was not so easy to remain consistently invested throughout. In 2011, political Europe threatened to fall apart and, in 2018, diversification failed and almost all asset classes suffered losses. Temporary economic fears, abrupt interest rate angst, and geopolitical tensions – with the benefit of hindsight – caused only temporary discontent. They were always veneered by the generous monetary policy of the central banks, using well-known classical instruments as well as unorthodox ones.

The development of investment returns last year confirmed this relationship again very impressively. Economic momentum slowed with remarkable regularity, while – contrary to intuition – the listed stock, credit, and real estate markets recorded one high after another. The signal was given by the spectacular policy reversal of the US Federal Reserve – instead of at least two expected interest rate hikes, three interest rate cuts were made in 2019.

After more than ten years of abundant liquidity, the limits of the current monetary policy are being openly discussed, not least of all by the central bankers themselves. The heads of the central banks in Europe, the UK, and the US are unabashedly calling on politicians to expand budget deficits quickly and vigorously right now or, at the very latest, when the next signs of economic weakness appear. A consensus is developing that

the real economy – rather than the financial markets, which have been booming for a long time – needs to be stimulated by the means of generous fiscal policy. Budget deficits caused by government infrastructure programs are benign, is the common argument. One may assume that politicians and the only in theory independent central banks are thus doing everything possible to promote real economic prosperity.

> "Our main scenarios are bullish. As an investor, one should nevertheless ask themselves how strongly one wants to bet on these scenarios and what surprises may be in store."

This sounds promising in principle. Hence, our main scenarios are based on the above-mentioned context and are bullish. As an investor, one should nevertheless ask themselves how strongly one wants to bet on these scenarios and what surprises may be in store.

One set of themes that definitely has the potential to impress the markets comes from governments – the reform of corporate taxation. Largely unobserved by investment strategists and the financial press, the OECD and the G20 countries are working on a globally coordinated reform of the corporate tax system. The existing regulatory framework is essentially based on the principle that corporate taxes are levied in the countries where the companies have a physical presence. In the digital age with globalized supply chains, this seems increasingly outdated. The transition to a system of taxation in client markets is much more in line with real value added. The adjustment of the system is intended to broaden the tax base and make it more difficult to shift profits to low-tax countries. Minimum tax rates are also on the agenda. It is not surprising that the distribution of economic success is being renegotiated. The debt ratios of the industrialized countries have risen continuously since the great financial crisis of 2008. Reliable servicing of this joint debt is only made possible by the manipulated low interest rates. In contrast, the creditworthiness of companies has improved continuously. The corporate sector and especially its owners have benefited from the fact that tax rates have de facto been halved over the last 40 years due to competition. One can certainly argue that a decrease in tax competition would depend on the cooperation of all major players and is therefore hardly feasible. It should be noted, however, that the pot to be distributed will be larger overall and relevant countries will benefit. For practical and political reasons, it will be difficult for hard-up finance ministers to forego higher revenues on their own. This tax reform cannot be implemented overnight. Much remains to be negotiated. However, concrete plans can be expected by the end of 2020; over one hundred countries are working on them. In the long-term, a tendency towards higher tax rates for companies and, consequently, pressure on profit margins can be expected.

What should be done? Selectively diversified multi-asset portfolios that react flexibly to changing market regimes are still a good choice.

Alex Borer
Co-Head Multi-Asset Solutions

A new start in the Golden Twenties?

Dr Alex Durrer

It is finally time for a new decade! The "important" themes of the last decade already seem worn out and almost boring. Trade disputes and protectionism, government crises in several EU countries, the Brexit end-game: one had become accustomed to these issues, and only the market's view of the probability of their occurrence and the extent of their probable impact varied over time.

However, an American drone attack in which an Iranian general was killed has triggered fear of a new escalation in the Middle East. This is not the way one would have wished for the decade's change of theme to occur. Although neither the US nor Iran are likely to seek an open confrontation, the financial markets are latently nervous. The influence on the market of the multitude of structural issues will probably remain limited in the end, but it will cause a lot more tension – in other words, volatility.

The economic outlook is also fascinating and in any case mixed. Global industrial activity remains in a slump, and although the service sector, which is more important in modern economies, has performed clearly better to date thanks to robust consumption, there continue to be late-cycle recession concerns. In an international comparison, the US economy is still performing best. The outlook for the eurozone looks bleaker. As for the emerging markets, the outlook is mixed, as their growth prospects are being clouded most by the trade dispute.

The fact that inflation has cooled off after returning briefly a year ago is consistent with the economic findings. In any case, no one seriously expected inflation to make a comeback. The phenomenon of monetary policy divergences, as observed extensively in previous years, is thus off the table. In view of the geopolitical situation, the structural dangers, and the economic outlook, the major central banks will not be seeking monetary normalization for a long time, having recently made a paradigm shift in the direction of (eternal?) loosening.

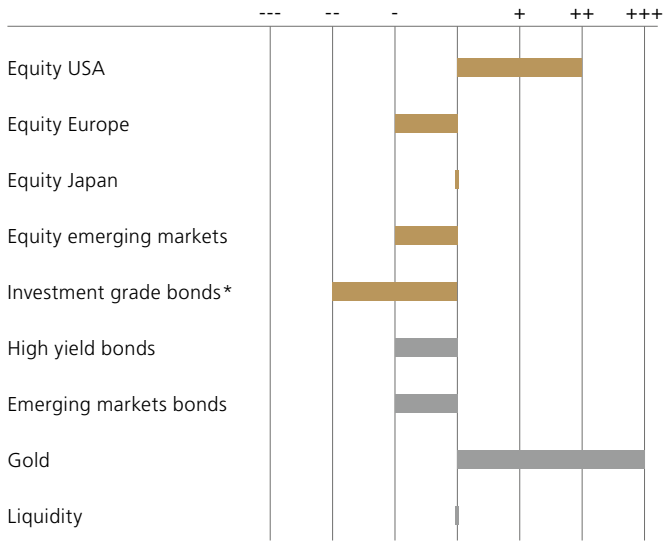
In our main scenario, the global economy is nonetheless only growing at a halting pace. In 2020, it should shift up a gear again. Until there are signs of such a gear-shift, markets will not automatically continue to rise, for which reason we recommend a neutral tactical positioning with a substantial gold position. Just like a hundred years ago, the Golden Twenties are not kicking off right at the start of the new decade. ◆

Global macroeconomic landscape*

* The macroeconomic landscape has a time horizon of 3-6 months

Source: LGT

Overview investment policy as per January 20, 2020



* Includes global government, inflation-linked, and corporate bonds

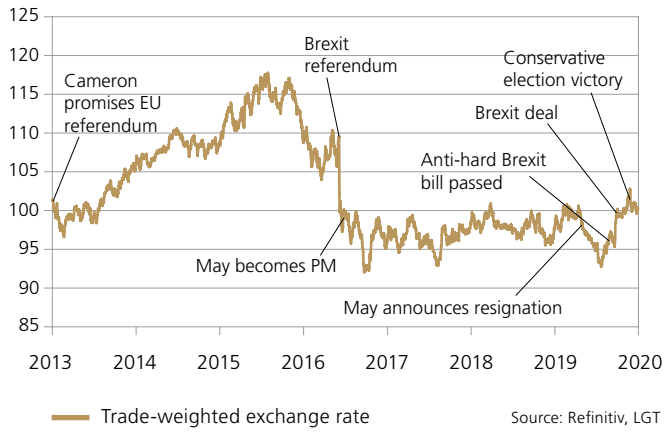
Pound sterling: yummy or yucky?

Michel Roth

For a long time, the pound sterling (GBP) was considered too hot to touch, given the political confusion surrounding Brexit. Recently, the situation has eased thanks to the clear election results, even though future trade relations with Europe remain vague. Is that enough to put the GBP back on the menu now?

Let us start by faithfully following the cookbook with economic table-setting and laying out the short-, medium-, and long-term drivers of the currency. In the short-term, the risk environment, relative performance, and positioning are important. As a cyclical currency, the GBP could benefit from the current moderate risk appetite. Technically, the GBP has been trending upwards since September, but according to positioning data the GBP is now a net buy. All in all, this makes for a slightly positive picture. Relative growth and interest rate differentials are seen as medium-term drivers. In relative terms, the UK economy remains under pressure as investment continues to be held back. From an interest rate perspective, on the other hand, the GBP appears attractive in a European comparison. There is no clear trend here. In the long-term, productivity, valuation, and external imbalances are what count. The UK economy is unproductive by G10 standards and the GBP is only slightly undervalued, while the twin deficit is likely to widen considerably with the latest fiscal package. Not a good picture. Thus, for investors' allocation menus the following applies: suitable served as a starter or side dish. Not recommendable as a main course. ◆

British pound



Source: Refinitiv, LGT

Overview of currencies as per January 20, 2020

Currencies	Exchange rate	Year-to-date	Medium-term trend	Comment
EUR-USD	1.11	-1.3%	↘	Lagarde's loose monetary policy does not allow for a significant appreciation of the EUR
GBP-USD	1.30	-1.9%	→	The risk of a hard Brexit has been reduced, but the GBP is still trending sideways
USD-JPY	110.16	1.4%	→	Global uncertainties benefit safe havens and thus Japan's currency
USD-CHF	0.97	0.1%	→	CHF devaluation aimed by the SNB is not taking place despite ultra-loose monetary policy
AUD-USD	0.69	-2.3%	↘	The improvement in the balance of payments suggests that the AUD is at the cheaper end
USD-CAD	1.31	0.7%	→	Higher oil prices have not been able to adequately support the CAD
USD-SGD	1.35	0.2%	→	The MAS is only likely to be active again if the macro data is disappointing
USD-KRW	1158.15	0.1%	↗	The intact devaluation trend of the KRW is pleasing export-oriented South Korea
USD-CNY	6.86	-1.5%	→	Relaxation on the US-Sino trade war front is accompanied by a strengthening of the CNY
USD-MXN	18.68	-1.1%	→	The 20 mark is an important point of resistance for the USD-MXN
USD-RUB	61.60	-0.8%	→	Despite the central bank's loose stance, the RUB remains in its sideways trend
EUR-CHF	1.07	-1.1%	↘	The relative strength of the CHF against the EUR is a thorn in the side of the SNB
EUR-SEK	10.55	0.4%	↗	Sweden ended the negative interest rate experiment, but the SEK is still in devaluation mode
EUR-NOK	9.90	0.3%	↗	NOK remains weak despite a better macro environment and higher interest rates

Government bonds: Is the ECB in the slipstream of the Bank of Japan?

Ewald Duer

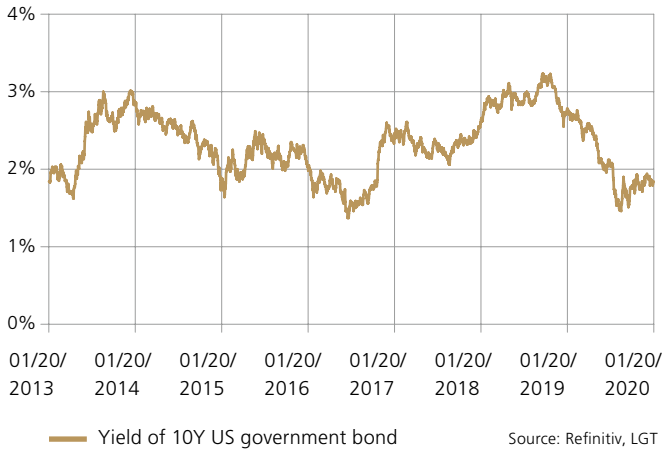
More than a decade ago, the global central banks launched the loosest monetary policy to date. At that time, talk was about a transition phase and an exceptional situation. However, this exceptional situation has become increasingly acute over the years – European investors, banks, insurance companies, pension funds, etc. will continue to struggle with zero or negative interest rates in 2020.

Japan is far ahead of Europe in this respect. This does not bode well. Let us take a look back at the Japan of the 1980s: In order to combat a strong appreciation of the yen, the Japanese central bank made sharp interest rate cuts. This was successful, but at the same time the cheap money sparked an unprecedented rise in Japanese stock and property prices. When the Bank of Japan (BoJ) raised interest rates towards the end of the 1980s to slow the rise, the bubble burst. To avoid bank failures and a recession, the BoJ cut interest rates again and the banks were rescued by the state. This led to a calming, but also kept insolvent companies alive (zombification). Zombie companies undercut healthier competitors' prices in order to stay in business despite losses, making it difficult for healthy companies to survive. This started a vicious circle, with weak companies and banks tying up resources, economic growth stagnating, and inflation falling. The so-called "Japanization" has had serious consequences: low interest rates are no longer the exception, but the new status quo.

The parallels between Japan and the current situation in Europe have been evident for some time. The Japanese central bank could also be an indicator for the future "monetary policy" of the ECB. In the event of a looming recession, the ECB would be able to force negative interest rates even lower, but the collateral damage of this strategy is now so obvious that no more giant steps are to be expected in this regard. Bond purchases are also already at the upper limit. That leaves stock purchases...

The BoJ is leading the way – it already owns Nikkei and Topix ETFs worth EUR 233 bn, which is more than 75% of the ETFs issued. The BoJ is already indirectly the largest single shareholder of many Japanese companies. Legally, share purchases by the ECB, in contrast to the US Fed and the Bank of England, are not prohibited by the statutes. Corporate bonds are already being bought anyway. ECB President Christine Lagarde has also already made it clear that the ECB needs to be "adaptable" and may also adopt new approaches. A normalization of monetary policy is therefore not in sight – in the event of another crisis, the opposite is more likely to happen. ◆

Yield of US government bonds



Source: Refinitiv, LGT

Overview target rates and yields on 10y government bonds as per January 20, 2020

Economy	Target rate	Trend	Comment	10y yield	Trend	Comment
USA	1.625%	→	No rate changes in foreseeable future	1.84%	↘	Positive returns attract demand
Eurozone (DE)	0.00%	→	No rate changes in foreseeable future	-0.25%	→	ECB remains an essential support
Japan	-0.10%	→	No rate changes in foreseeable future	0.01%	→	The buying mood of the BoJ is unbroken
UK	0.75%	→	No rate changes in foreseeable future	0.65%	↘	Downwards, but in positive territory
Switzerland	-0.75%	→	No rate changes in foreseeable future	-0.55%	↘	Swiss government bonds still in demand
Brazil	4.50%	→	No rate changes in foreseeable future	6.82%	↘	Market-friendly policy provides tailwind
Malaysia	3.00%	→	No rate changes in foreseeable future	3.29%	↘	Fiscal stimuli deliver positive impulses

Inflation-linked bonds: A new decade, but unchanged challenges

Dieter Gassner

At the beginning of 2019, most market participants expected the most influential central banks to continue monetary policy normalization. In the US, two or three interest rate hikes were priced in, and in Europe it was actually only a matter of time before interest rate normalization was to get started. Instead, the US Federal Reserve made a U-turn and implemented three interest rate cuts due to the increased growth risks resulting from the accentuated trade war between the US and China. In Europe, the European Central Bank eased monetary policy in September with a whole package of measures. This surprising development also had an impact on inflation expectations. After the increase at the beginning of the year, the rising fears of recession led to a significant correction in market-based measures. In Europe, all-time lows were even recorded, before the easing in the trade dispute in the fourth quarter led to a turnaround and inflation slowly became an issue in the markets again. As a result, long-term inflation expectations started a renewed countermovement back to the year's starting level. As with most asset classes, the annual returns in 2019 of inflation-linked bonds were surprisingly positive. A relative performance comparison with conventional bonds shows a mixed picture. In the eurozone, the advantage favors nominal bonds, and in the US, the linkers are ahead.

Although a new decade began at the turn of 2020, the challenges on the financial markets remain unchanged. The market consensus is that global central banks will continue to stimulate the markets with an accommodative monetary policy for some time to come, thereby stabilizing global economic growth. This environment, combined with the sharp rise in oil prices in the final quarter of 2019, ongoing geopolitical tensions in the Middle East, and the positive seasonal pattern in inflation expectations at the start of the year, will continue providing a tailwind to the still modest inflation issue. We are prepared for this development and are holding inflation-linked bonds in our portfolios due to the diversifying characteristics of this asset class. ◆

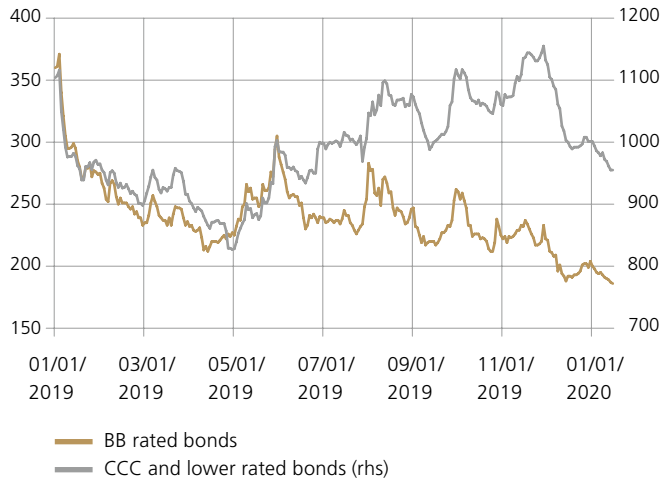
Credit investments: Tourists make for crowded conditions

Johannes Oehri

Thanks to a massive excess demand, high-yield bonds experienced a strong rally last year. But the majority of buyers were not the typical risk-seeking investors. Rather, the central banks' latest wave of easing served as a call to chase returns, pushing "foreign" capital into the higher quality segments of high-risk bonds in search of supposedly secure positive yields. At the same time, capital rationing to the weakest issuers has increased, causing CCC spreads to widen.

It is extremely rare for the riskiest segments to be unable to keep up in such a positive overall market environment, and caution is advised. It is not without reason that in this context one also speaks of "tourist" investors. At times, they flock in droves to foreign regions and crowd into the smallest of spaces – like the package holiday tourists on the densely populated beach of Rimini. But when the fair weather period ends, they return to where they came from and leave behind a yawning gap. Even though the central banks are trying to ensure good weather for 2020, the dense crowds of investors and tight credit premiums do not leave much room for recovery. ◆

Credit spread (OAS) on US high-yield segment



Source: ICE BofA, Refinitiv, LGT

Equities US: Temporarily vulnerable

Manfred Hofer

Stock markets experienced two strong rallies last year, the first from January to the end of April and the second in the final quarter. In the intervening months, indices moved more or less sideways. While the rally in the first quarter "only" compensated for the sharp fall in the final quarter of 2018, the second surge led to new all-time highs in the US stock market. All in all, 2019 was thus one of the best trading years in the long bull market. The absolute figures are impressive: the annual performance of the S&P 500 was around 28.7%.

What about the road ahead in 2020? There are political risks and temporary burdens on the stock markets must be taken into account as a consequence.

However, at the end of the year, the major economies bottomed out in general. The US industry is the best in an international comparison. Hopes for the expected first trade agreement between the US and China have strengthened business confidence and reduced fears of recession. And the world's key central banks will for the time being remain in a cycle of monetary policy easing, which triggered a wave of liquidity in 2019. In the course of the year, the interesting question will increasingly arise as to whether it will be possible to move from a liquidity-driven to a profit-driven bull market. In any case, US President Donald Trump will not want to jeopardize this situation, which is generally in his favor – an environment of falling stock prices would certainly make a re-election in November 2020 more difficult.

Regarding our Behavioral Finance analysis, progress has again been made in the market structure. Both the top-down analysis with confirmed upward trends and the bottom-up picture with an improved market breadth are convincing. The question is whether the market structure, which has a medium-term effect, is supported by our indicator set, which covers short-term time frames. The answer is currently still negative. In parallel with the strong price performance since the beginning of October, investors' market confidence has increased significantly. Their resulting carelessness can be seen, for example, in the comparatively offensive positioning of institutional investors. This situation makes the market temporarily vulnerable. It therefore seems advisable to wait until the overheating tendencies in these short-term indicators have diminished. After that, nothing would stand in the way of a continuation of the stock market boom – provided that the market structure remains positive. ◆

Equities US

Source: Refinitiv, LGT

Overview of equity markets as per January 20, 2020

Stock market (MSCI indices)	year-to-date	since 01/20/2019	since 01/20/2015*	Trend	Comment
United States (USD)	3.2%	26.6%	12.0%	↑	Strong upward trend
Eurozone (EUR)	2.1%	21.6%	6.8%	↑	Strong upward trend
Japan (JPY)	1.7%	15.3%	6.1%	↗	Upward trend
United Kingdom (GBP)	1.5%	14.0%	6.8%	↗	Upward trend
Germany (EUR)	2.4%	18.3%	5.0%	↑	Strong upward trend
Switzerland (CHF)	2.3%	24.3%	9.1%	↑	Strong upward trend
Asia/Pacific ex Japan (USD)	3.4%	17.8%	7.0%	↗	Upward trend
Emerging markets (USD)	2.8%	15.5%	6.2%	↗	Upward trend

* annualized

Source: Refinitiv, LGT

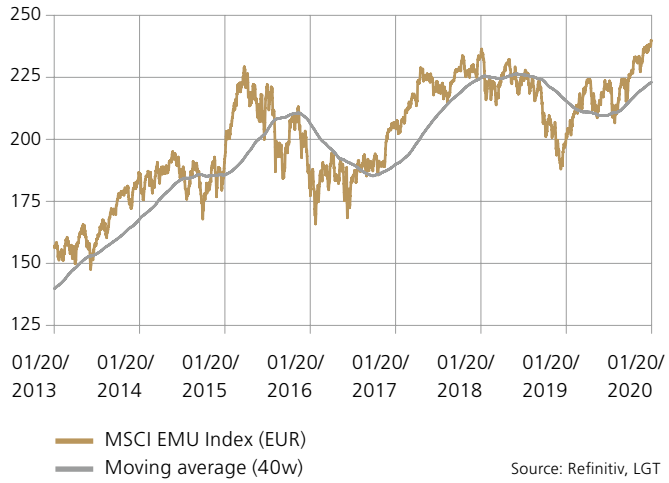
Equities Europe: 2019 a record year, but caution advised on high profit expectations

Ralf Piersig

In retrospect, probably very few market participants (including us) would have expected such a brilliant price performance in the 2019 stock market year. At around 23.3%, the leading European index STOXX 600 achieved its best result in ten years. In the fourth quarter, investors became increasingly willing to take risks and turned more and more to cyclically sensitive stocks, such as banks and industrials, thus fulfilling the forecast made in our last edition. This brighter picture is due to an initial agreement in the trade dispute between the US and China, while in Europe the clear victory of the Conservatives in the UK parliamentary elections reduced uncertainty somewhat. But more importantly, the latest economic figures surprised slightly on the upside, especially in the service sector.

We are starting the new year with some tailwind, and yet we will be more cautious in the short-term. The price performance of the last twelve months was largely driven by a widening of valuation multiples and not by earnings growth, while the earnings growth of 10-12% estimated for 2020 seems too high to us. We are taking a tactically neutral position. ◆

Equities Europe



Source: Refinitiv, LGT

Equities Japan: Japan with an emerging market discount?

Mikio Kumada

The MSCI Japan Index posted a respectable total return of around 17.9% in 2019, but is still only listed as "also ran" in a global comparison. For Europe and the US a profit of around 22.2% and almost 28.9% resulted, respectively. Japan practically shared the final place with the emerging markets, which were exposed to trade and geopolitical headwinds (approx. 15.4%).

In addition to the mood swings surrounding the trade dispute, this relative weakness can also be explained by the alleged corruption scandal at the top of the management of the former model company Nissan. Last year, investors again took a closer look at market governance and saw risks that called for a discount.

From a purely economic point of view, such a significant discount is less justifiable. Thanks to a stable domestic demand and investment activity, Japan's economy is in fact proving to be quite robust. It is among the winners in the shifting trade flows. The annualized quarterly growth of the gross domestic product, for example, was recently 1.8%, on a par with the US and stronger as in the European Union. The chances of risk perception relaxing in the coming year are therefore not so bad. ◆

Equities Japan

Source: Refinitiv, LGT

Emerging markets equities: The stock market's stars are still shining

Ikram Boulfernane

The easing of tensions on the US-Chinese trading front, the significantly reduced risk of a hard Brexit, and waning fears of recession provided a tailwind for the emerging markets (EM) in 2019. Thanks to the increased risk affinity of investors, the MSCI EM Index closed the year with a gain of around 15.4%.

For the time being, the stock market stellar constellations augur well for securities from the emerging markets. The International Monetary Fund predicts an economically positive year for the EM. The ultra-loose monetary policies of the globally important central banks and the easing of inflationary pressures allow the EM central banks to continue to act flexibly in order to support the economy. In addition, the fiscal and monetary policy stimulus measures expected from China and the likely avoidance of a US recession should provide a tailwind. A weaker US dollar and stronger commodity prices should provide additional positive impetus.

However, the cards show that the constellation of risks is dimming the promising macro outlook for the emerging markets. Europe, an important target market for Asia, continues to fight economic malaise. Furthermore, the impulsive and erratic behavior of Trump may cause turbulences. A renewed escalation on the US-Chinese trading front and/or a worsening of the geopolitical situation on the international stage would directly increase investors' risk aversion. In such a scenario, safe havens would have the upper hand, and risky assets such as EM stocks would lose out.

The die is not cast yet, and the outlook for emerging market equities is bright for the first few months of the new decade. But caution is advised as the year progresses. In view of the volatile international political sphere, investors are well advised to keep a close eye on the market environment in the emerging markets in order to be able to act quickly as circumstances demand. The stock exchange stars are still shining brightly, but the bull constellation in the EM sky is fragile. ◆

Emerging markets local currency bonds: And the 2019 winner is – the Argentine peso

Sven Lang

A change of power, an inflation out of control, capital controls, and other bad news have hit investors in Argentina over the past year. Based on these headlines, it would seem unlikely that investors who had Argentine bonds or currency in their portfolios were compensated for these developments. But the reality is different.

While the expectation of significant bond losses has indeed materialized, the picture is more differentiated for the Argentine peso. Although the exchange rate depreciated by around 37% against the US dollar in 2019, the total return of the Argentine peso, i.e. exchange rate plus interest (derived from currency futures), is around 27%. This puts the currency at the top of the emerging markets' rankings. However, it should also be mentioned that this figure should be treated with great caution, and it arises the question of whether an investor actually had access to instruments in order to achieve this return. As an example one can look at Argentina within the J.P. Morgan ELMI+ Index, in which losses resulted. This index measures the return of money market instruments in the respective currencies. As always, the truth lies somewhere in between. But what remains undisputed, is the influence of high interest rates on the total return of a currency.

The Argentine US dollar bonds had to cope with massive price losses. Foreign investors lost confidence and sold their securities on a large scale after the presidential primaries. The fact that several billion US dollar reserves were "burned" in order to stabilize the currency and that these will no longer be available for interest and repayment of US dollar bonds in the future has further intensified the selling pressure. A default was considered to be very realistic. Accordingly, the value of these bonds almost halved in the course of the year. Overall, this example shows how, even in a crisis situation, an investor has opportunities for a positive overall return, but that there can be significant differences between the various investment opportunities in an emerging market. ◆

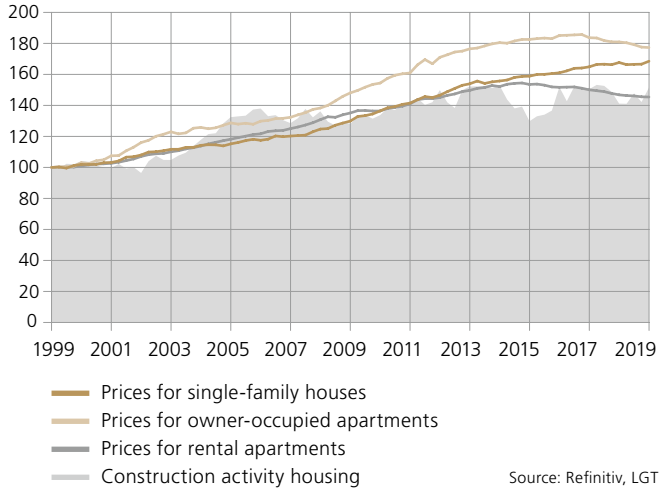
Real estate: Better times for people looking for housing

Boris Pavlu

In Switzerland, prices for apartments have been falling for several years. The sluggish economy and the significant drop in immigration from the EU may be reasons for this. The astonishingly high level of construction activity in the face of moderate fundamental data is another important factor behind the increase in vacancies and the observed price pressure.

Buildings are being constructed primarily for investors. In an environment of persistently negative interest rates, multi-family houses as investment properties are enjoying unbroken demand from institutional investors. Meanwhile, home ownership is popular among private individuals thanks to the record-low financing costs. In contrast to single-family houses, the supply on the market for owner-occupied apartments seems to be excessive or inappropriate, which – as with rental apartments – is leading to price reductions. These developments may well be positive for those seeking housing. Buyers of multi-family dwellings for return purposes are once again advised to subject their investments to stress tests – both with regard to possible changes in the interest rate environment and the possibility of continued oversupply in the Swiss housing market. ◆

Price and constructions activity indexes in residential Swiss property



Source: Refinitiv, LGT

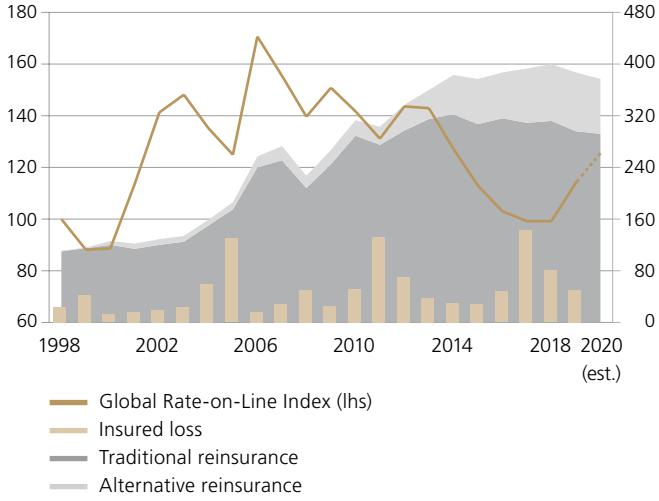
Insurance-linked securities: Market review 2019 – including an optimistic outlook for 2020

Siti Dawson

January 1st remains the key renewal date for the global reinsurance market, as more than 60% of all outstanding reinsurance contracts expire on December 31 and are set to renew for a January 1st inception. Many insurance and reinsurance companies have suffered considerable losses and some primary insurers in the US and Japan will be showing yet another year of negative earnings due to multiple severe weather-related disasters in 2019. On the other hand, this also means that ILS managers are now in a strong position to push hard for premium increases in order to be compensated for the higher loss volatility over the past three years and to seek a "pay-back element" to continue to provide reinsurance cover.

What has further fuelled the upward pressure on premiums is the fact that ILS managers are facing somewhat reduced interest from investors on the back of the event series from 2017 to 2019. This means that ILS managers may at times not be able to continue their participation on a reinsurance program, simply because of a lack of available capacity. The combination of these factors results in a very attractive market environment with many interesting investment opportunities for 2020. ◆

Reinsurance premiums are driven by insured losses and available reinsurance capacity in USD bn



Source: LGT ILS Partners, Swiss Re Sigma, and Guy Carpenter

LGT's core competencies in asset management

LGT's investment center is a specialist for multi asset solutions as well as alternative investments. Our core competencies include:

Asset Allocation

Carefully planned asset allocation is the foundation for successful asset management and performance. LGT's long-standing experience and disciplined investment approach enable us to offer our clients traditional and alternative investments as an integrated, comprehensive package and to go to our clients as an authority in this regard. Our transparent investment process covers portfolio construction and implementation in line with our clients' needs as well as continual monitoring of specific risks. The aim of our asset allocation investment solutions is to optimize the long-term risk-return profile. It is important to ensure that our investment solutions participate in market upturns, while offering stability and capital preservation in difficult market periods. The cornerstones of our Asset Allocation expertise are:

- A comprehensive global universe of listed and non-listed investments
- Broad diversification in and between asset classes, segments, styles, specialists and currencies
- A systematic, disciplined process based on a balanced blend of qualitative and quantitative elements

The long-term strategic asset allocation requires a look at the future. But because predicting future developments is possible only to a very limited extent, we use scenario analysis. The knowledge of past developments in economics, politics and the financial markets gives us a basis for our scenarios. Academics and practitioners add their own expert knowledge in certain thematic areas. We then use this array of information to develop various future scenarios. These are either baseline scenarios (high probability of occurring) or alternative scenarios (low probability of occurring). We set the optimum portfolio weighting for each scenario. We then work out investment solutions that we think can bring robust returns for our clients across several scenarios.

Through our tactical asset allocation we take advantage of medium-term inefficiencies and fluctuations. In a quarterly process we reconsider our active positioning also taking into account our findings from economic and market information along with behavioral finance.

Sustainability

Our long-term direction and ESG investment principles are a core element of our corporate culture. We are convinced that we can only invest successfully for our clients by following a long-term approach that contains a strong awareness of environmental, social and governance (ESG) principles. This also applies to investment solutions that we offer our investors as well as to our overall business activities. On the following pages, we will demonstrate how LGT Capital Partners integrates these principles into its business activities.

ESG in our investment and monitoring process

Compliance with ESG criteria is a fixed component of our investment process. It is structured so that it meets the United Nations-supported Principles for Responsible Investment (UN PRI). Our investment teams are responsible for due diligence for potential investments. Every investment opportunity we pursue is examined based on these criteria. These assessments are important information for portfolio managers and the Investment Committee when it comes to making an investment decision. We monitor a broad spectrum of risks, against the background of ESG criteria as well. We work closely with our external managers and offer them advice on how ESG criteria can be integrated even more extensively. For some clients, we check the portfolios according to specific ESG guidelines.

We have developed processes to integrate ESG principles in line with the requirements of the various investment categories and structures. In the context of our private equity, hedge fund and multi-manager long-only portfolios, for example, we focus on the assessment of ESG practice of our external and internal managers, and work with them to raise standards in this area. In our equity and bond portfolios, we rely on

individual stock selection. This way, we can benefit from the fact that substantially more information is available for an ESG assessment. We have therefore developed an internal tool, the ESG cockpit, which enables us to analyze and evaluate the ESG risks and opportunities of every position in these portfolios.

Compliance with international agreements on controversial weapons

Apart from carrying out our own ESG analyses, we are cooperating with Global Engagement Services (GES) and applying their guidelines to avoid investing in companies involved in the manufacture of controversial weapons such as land mines, cluster bombs and ammunition as well as ABC weapons. This way, we can develop portfolios that meet the requirements of international agreements on controversial weapons.

Our definition of ESG

When analyzing managers and companies, we check the following environmental, social and governance factors:

- Environment: greenhouse gas emissions, energy efficiency, water consumption, waste disposal, use of resources and other factors
- Social: refers to subjects such as controversial weapons, human rights issues, labor standards, employee fluctuation, health and safety, training and professional development as well as other factors
- Governance: quality of the board of directors, clear separation between the role of the CEO and president of the board of directors, accounting practices, reporting/transparency, management incentives, shareholders' rights, bribery and corruption as well as other factors

In choosing countries of potential issuers of government bonds, we concentrate on the degree of freedom, democracy, political and civil rights that prevail in the respective country as well as on the level of corruption and the rule of law. This is enhanced by further analyses that illustrate how a country deals with natural resources and the status of social development.

Integration of alternative investments

To achieve robust portfolios, there needs to be as much integration as possible of many uncorrelated return sources. It has been shown that alternative investment classes can make a valuable contribution in particular. LGT Capital Partners has been investing in private market investments and liquid alternative investment classes for 20 years. We have a global network and therefore access to experienced managers in this area, as well as direct investment competence. Investments in private markets can improve the risk-reward ratio of an investment portfolio. They offer investors the opportunity to achieve higher returns while at the same time diversifying their portfolio. With an investment horizon of more than ten years, private equity requires a long-term commitment and readiness to accept reduced liquidity and unexpected capital flows. The returns are also highly dependent on the investor's ability to gain access to the managers with the best performance, as returns from funds in the upper and lower quartile vary enormously from one another. Liquid alternative investments such as alternative risk premia, hedge funds or insurance-based investments play a large part in broader diversification of a portfolio. The integration of these strategies into a portfolio requires in-depth analysis that takes account of investors' aims and requirements. This calls for the relevant analysis tools, as well as for long-term experience.

Overview LGT Funds

LGT Funds	ISIN	Launch date	Price as per 12/31/2019		Performance 2019	Performance -3 years p.a.	Performance -5 years p.a.
Multi asset class							
LGT Alpha Indexing Fund (CHF) B	LI0101102999	30.04.2009	CHF	1648.11	12.76%	3.51%	2.75%
LGT GIM Balanced (CHF) B	LI0108469029	31.01.2010	CHF	12342.52	11.03%	2.47%	1.31%
LGT GIM Balanced (EUR) B	LI0108469169	31.01.2010	EUR	13843.52	12.36%	2.65%	2.25%
LGT GIM Balanced (USD) B	LI0108468880	31.01.2010	USD	14126.50	14.23%	5.06%	3.19%
LGT GIM Growth (CHF) B	LI0108469268	31.01.2010	CHF	13501.04	13.94%	3.52%	2.08%
LGT GIM Growth (EUR) B	LI0108469318	31.01.2010	EUR	15392.27	15.37%	3.72%	3.14%
LGT GIM Growth (USD) B	LI0108469250	31.01.2010	USD	15438.12	17.10%	6.12%	3.90%
LGT Sustainable Strategy 3 Years (CHF) B	LI0350494782	10.11.1999	CHF	1037.11	8.74%	1.91%	1.28%
LGT Sustainable Strategy 3 Years (EUR) B	LI0008232162	10.11.1999	EUR	1779.97	9.93%	2.23%	2.30%
LGT Sustainable Strategy 3 Years (USD) B	LI0350494840	30.04.2010	USD	1109.09	11.85%	4.48%	3.32%
LGT Sustainable Strategy 4 Years (CHF) B	LI0350494907	10.11.1999	CHF	1053.47	11.39%	2.85%	2.11%
LGT Sustainable Strategy 4 Years (EUR) B	LI0008232220	10.11.1999	EUR	1785.74	12.77%	3.19%	3.21%
LGT Sustainable Strategy 4 Years (USD) B	LI0350494998	30.04.2010	USD	1123.52	14.55%	5.37%	4.06%
LGT Sustainable Strategy 5 Years (CHF) B	LI0350495169	01.10.2004	CHF	1066.14	13.44%	3.48%	2.60%
LGT Sustainable Strategy 5 Years (EUR) B	LI0019352926	01.10.2004	EUR	1846.49	14.85%	3.83%	3.71%
LGT Sustainable Strategy 5 Years (USD) B	LI0350495227	30.04.2010	USD	1134.99	16.54%	5.99%	4.47%
Money market							
LGT Money Market Fund (CHF) B	LI0015327682	19.01.1998	CHF	1081.76	-0.90%	-0.86%	-0.73%
LGT Money Market Fund (EUR) B	LI0015327740	19.01.1998	EUR	696.30	-0.32%	-0.38%	-0.26%
LGT Money Market Fund (USD) B	LI0015327757	19.01.1998	USD	1537.09	2.13%	1.54%	1.11%
Bonds							
LGT Bond Fund EMMA LC (CHF) B	LI0133634688	30.09.2011	CHF	1170.90	7.61%	2.14%	0.40%
LGT Bond Fund EMMA LC (EUR) B	LI0133634662	30.09.2011	EUR	1312.89	11.53%	1.67%	2.45%
LGT Bond Fund EMMA LC (USD) B	LI0133634670	30.09.2011	USD	1097.27	9.49%	3.79%	0.92%
LGT Bond Fund EMMA Quality (CHF) B	LI0183910038	30.06.2012	CHF	977.40	3.47%	1.29%	-0.15%
LGT Bond Fund EMMA Quality (EUR) B	LI0183910012	09.07.2012	EUR	1011.06	4.06%	1.81%	0.43%
LGT Bond Fund EMMA Quality (USD) B	LI0183909998	15.12.2011	USD	1120.53	7.13%	4.43%	2.38%
LGT Bond Fund Global Inflation Linked (CHF) B	LI0148578045	17.04.2012	CHF	914.75	0.06%	-1.55%	-1.29%
LGT Bond Fund Global Inflation Linked (EUR) B	LI0017755534	10.05.2004	EUR	1140.55	0.64%	-0.98%	-0.63%
LGT Bond Fund Global Inflation Linked (USD) B	LI0148578037	30.09.2010	USD	1046.83	3.47%	1.42%	1.19%
LGT Select Bond Emerging Markets (USD) B	LI0026536628	31.12.2000	USD	3832.98	13.51%	5.90%	3.42%
LGT Select Bond High Yield (USD) B	LI0026564604	31.08.2000	USD	2730.81	14.51%	5.65%	5.24%
LGT Select Convertibles (CHF) B	LI0132437745	31.08.2011	CHF	1329.29	9.43%	1.50%	0.78%
LGT Select Convertibles (EUR) B	LI0132437737	31.08.2011	EUR	1374.88	9.86%	1.87%	1.18%
LGT Select Convertibles (USD) B	LI0102278962	31.07.2006	USD	1739.58	13.24%	4.59%	3.28%
LGT Sustainable Fixed Income Global Opportunities (EUR) B	LI0008232030	10.11.1999	EUR	1687.59	4.00%	-0.13%	0.43%
LGT Sustainable Bond Fund Global (EUR) B	LI0106892909	30.11.2009	EUR	1598.66	8.98%	1.67%	3.07%
LGT Sustainable Bond Fund Global Hedged (CHF) B	LI0148577955	22.10.1996	CHF	1041.57	2.15%	-0.42%	-0.52%
LGT Sustainable Bond Fund Global Hedged (EUR) B	LI0148577948	22.10.1996	EUR	1083.58	2.62%	0.04%	0.07%
LGT Sustainable Bond Fund Global Hedged (USD) B	LI0015327872	22.10.1996	USD	2928.71	5.77%	2.69%	2.09%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (CHF) B	LI0183909808	30.06.2012	CHF	991.50	2.76%	-0.65%	-0.90%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (EUR) B	LI0183909782	30.06.2012	EUR	1032.20	3.34%	-0.09%	-0.26%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (USD) B	LI0183909790	30.06.2012	USD	1129.54	6.31%	2.36%	1.50%

LGT Funds	ISIN	Launch date	Price as per 12/31/2019		Performance 2019	Performance -3 years p.a.	Performance -5 years p.a.
Equities							
LGT Select Equity Asia/Pacific ex Japan (USD) B	LI0026536305	30.10.1999	USD	2922.97	18.91%	8.77%	4.56%
LGT Select Equity Emerging Markets (USD) B	LI0026536354	31.12.2000	USD	4475.60	18.78%	9.89%	4.52%
LGT Select Equity Europe (EUR) B	LI0026536404	19.10.2006	EUR	2349.61	22.91%	6.47%	5.86%
LGT Select Equity Japan (JPY) B	LI0026536511	31.10.1999	JPY	1806.00	16.97%	6.38%	6.88%
LGT Select Equity Japan (USD) B	LI0230813219	22.01.2014	USD	1575.25	19.85%	8.40%	7.93%
LGT Select Equity North America (USD) B	LI0026536560	31.10.1999	USD	3217.71	32.84%	17.59%	11.26%
LGT Select REITS (USD) B	LI0148225985	01.03.2004	USD	1710.32	24.08%	8.89%	4.58%
LGT Sustainable Equity Fund Europe (EUR) B	LI0015327906	30.09.2000	EUR	1362.68	31.10%	7.14%	5.91%
LGT Sustainable Equity Fund Global (CHF) B	LI0148540441	17.12.2012	CHF	2311.23	23.68%	9.55%	10.60%
LGT Sustainable Equity Fund Global (EUR) B	LI0106892966	31.12.2009	EUR	3035.23	28.18%	9.04%	12.86%
LGT Sustainable Equity Fund Global (USD) B	LI0148540466	17.12.2012	USD	2190.44	25.84%	11.31%	11.17%
LGT Sustainable Quality Equity Fund Hedged (CHF) B	LI0183907844	30.06.2012	CHF	1865.00	29.05%	10.81%	8.10%
LGT Sustainable Quality Equity Fund Hedged (EUR) B	LI0183907836	09.07.2012	EUR	1847.57	29.55%	11.33%	8.75%
LGT Sustainable Quality Equity Fund Hedged (USD) B	LI0183907802	30.06.2012	USD	2245.96	33.50%	14.26%	10.72%
Insurance-linked investments							
LGT (Lux) I – Cat Bond Fund (CHF) B	LU0816333040	30.11.2010	CHF	106.52	-1.35%	-1.46%	-0.54%
LGT (Lux) I – Cat Bond Fund (EUR) B	LU0816332828	30.11.2010	EUR	110.71	-0.98%	-1.09%	-0.13%
LGT (Lux) I – Cat Bond Fund (USD) B	LU0816332745	30.11.2010	USD	123.04	2.08%	1.46%	1.81%
Alternative investments							
LGT Crown Listed Private Equity (EUR) B	IE00B7T8CN06	18.02.2013	EUR	241.13	35.48%	12.92%	12.38%
LGT Crown Listed Private Equity (USD) D	IE00BJVWTR76	28.07.2014	USD	163.14	33.02%	15.28%	11.05%
LGT Crown Managed Futures UCITS SF Class B (USD)	IE00B66PKW27	09.07.2010	USD	1021.77	4.11%	-2.83%	-2.58%
LGT Crown Managed Futures UCITS SF Class C (EUR)	IE00B66MZ845	25.06.2010	EUR	927.13	1.31%	-5.14%	-4.11%
LGT Crown Managed Futures UCITS SF Class H (CHF)	IE00B3PT4X32	30.09.2010	CHF	823.48	0.84%	-5.62%	-4.82%
LGT Alpha Generix UCITS Sub-Fund Class O (USD)	IE00B7VFVC16	01.10.2012	USD	993.46	4.79%	1.17%	-0.46%
LGT Alpha Generix UCITS Sub-Fund Class P (EUR)	IE00B82ZPK32	01.10.2012	EUR	903.21	1.76%	-1.37%	-2.22%
LGT Alpha Generix UCITS Sub-Fund Class Q (CHF)	IE00B46N8H32	01.10.2012	CHF	865.23	1.23%	-1.91%	-2.91%
LGT Dynamic Protection UCITS Sub-Fund Class F (USD)	IE00BD365334	20.04.2017	USD	973.38	-3.75%	-1.03%	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class G (EUR)	IE00BD365441	30.04.2017	EUR	913.88	-6.58%	-3.57%	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class H (CHF)	IE00BD365557	30.04.2017	CHF	901.46	-7.16%	-4.05%	n.a.

Viennese Boulle workshops, detail from “Secretary,” around 1715

US presidential election 2020 – the dice have yet to be cast

November 3 this year is the date of the political event par excellence: the US presidential election. Electors, Super Tuesday, swing states – the jargon surrounding the election sometimes challenges even those with a sound command of English. This is reason enough to get an overview of the complex US electoral system.

This year, Americans – or at least those eligible to vote – are heading to the ballot box to elect their new leader to the White House. The campaign is already in full swing. In addition to the President, the Vice President, all 435 seats in the House of Representatives, and 35 out of 100 Senators are up for election.

Two-party democracy

The US Constitution says nothing about political parties. Candidates therefore do not have to be party members. But in practice, only candidates with the backing of a party have a chance of being elected President. US institutions have been dominated by the Democrats and Republicans since the 19th century.

The Republicans are entering the race with incumbent President Trump – at least according to various forecasts. The Democrats' choice of candidate will only become clear after the primaries and caucuses. Several people will apply to become the party's candidate and will need to win the favor of the grass roots, who will put their trust in the final candidate. The aim is to unite the broadest possible population group behind a single person to avoid any division of voters. The Democratic primaries begin in February in Iowa, New Hampshire, Nevada, and South Carolina. After that, the political circus will continue through the middle of the year, and who Trump's opponent will be should emerge during this period.

Primaries or caucuses are held in each of the 50 US states as well as in the District of Columbia, and the US territories. Registered voters in the primaries vote directly for the candidate they think delegates in their state should back at the National Convention in the summer of the election year. In the caucuses, eligible voters elect local delegates who then elect delegates for the National Convention over several successive rounds. During the so-called Super Tuesday primaries or caucuses for candidacy are held simultaneously in several states. Most delegates are elected on this day, so it is important for presidential candidates to do well then to ensure successful nomination as their party's candidate. Presumably, there are 50 primaries and seven caucuses scheduled. The last primaries will be held on June 6 in the US Virgin Islands. The Democrats' final presidential candidate should be decided in July 2020.

Electoral college – the decisive force

US citizens do not elect the President directly, but indirectly via an electoral college made up of 538 electors. States with a larger population have more votes, but each state has at least three votes. The electors undertake to elect a specific candidate. The candidate who receives a majority of at least 270 electors wins the presidential election. The "winner takes all" principle applies in 48 out of 50 states, meaning the winner gets all electoral votes for that state. Maine and Nebraska assign their electors using a proportional system. If no candidate receives the majority of

electoral votes, i.e. they have 269 votes each, the Twelfth Amendment to the US Constitution applies. In this case, the newly elected House of Representatives votes for the President, and each state has only one vote. Results can differ between the popular vote and the electoral college – as happened in 2016.

Swing states – the battleground

The election results can be predicted relatively accurately in many states, but not in the swing states. Neither the Democrats nor the Republicans have a structural majority here. Each state has two Senators. Those states that send both a Democrat and a Republican to the Senate tend to be swing states. They often decide who will take the White House. If the trends from 2012 and 2016 continue, Arizona, Maine, Minnesota, Nebraska's second congressional district, New Hampshire, North Carolina, Florida, Michigan, Pennsylvania, and Wisconsin will be swing states.

Investors face risks

As a rule, national elections only affect international investors to a limited extent. But the US presidential election is different. The US dominates international financial markets: It accounts for some 55% of the MSCI All Country World Index, its Treasury bond yield is a global benchmark for the valuation of various asset classes, and the US dollar is used in 88% of currency transactions around the globe. US politics currently appears to be the main risk for market participants, and this is reason enough for investors not to ignore this presidential election.

Various polls are forecasting Trump's re-election. The prosperous US economy is the best campaign aide for the current President, and a recession in 2020 does not appear to be on the cards. The Trump Administration ensured economic momentum and higher profits for S&P 500 companies with its tax reform. In the event of re-election, it can be assumed that the corporate tax situation will remain the same.

Things would look different if a Democrat were elected – particularly one from the progressive wing of the party, such as Elizabeth Warren or Bernie Sanders. Higher taxes and stricter regulations – leading to a deterioration in market sentiment – would come as no surprise. It should be noted at this point that these types of projects can only success with backing from Congress, which requires a Democratic majority in the legislative branche. Positions would also remain entrenched in the trade war with China if the Democrats were to win.

While the dice have yet to be cast in the race for the US presidency, there are indications that Donald Trump will not hand over power in the next four years. Nonetheless, investors are advised to adopt a selective approach and equip their portfolio for various scenarios. The closer it gets to the elections, the more likely it is that there will be market volatility. Diversification is therefore the order of the day. ◆

"Trump is still competitive for re-election"

The outcome of this year's US presidential election could have major consequences for the financial markets. In the following interview, Matt Gertken, geopolitical strategist at financial analysis and investment advisory specialist BCA Research, explains, among other things, why the chances of re-electing Trump are good and who his potential counterpart from the Democratic Party might be.

Investorama: How likely is it that Trump will be removed from office in his first term?
Matt Gertken: Trump has 90% approval among Republicans and this number needs to collapse in order to be any risk that Senators would turn and vote against him. That and the fact that his behavior is restricted by the desire to be re-elected establish that he will not be removed. However, the president is running for re-election at a point where we have the longest expansion in the US history. So there is still some concern that the business cycle could end. Our base case at BCA is that we will not have a recession and, therefore, president Trump is still competitive for re-election. If a recession were to materialize, not only would his re-election chances fall but also the probability that Senators would distance themselves from him would increase and, therefore, the risk of removal would rise.

When it comes to the Democrats, who will run against Trump?
According to the Democratic primary polling, Joe Biden, the former Vice President and a kind of "establishment Democrat" is the presumed nominee. So the easy answer to your question is Joe Biden. Nevertheless, there is a bit of an issue, which is that Joe Biden is very old. He will definitely be a one-term president and it is harder to sell to voters a president who would serve only one term.
If you combine the support among the progressive left wing of the Democratic Party, they are actually beating Joe Biden. So the question is will Elizabeth Warren or Bernie Sanders consolidate the left wing? Because if one of them succeeds, they can actually win the nomination. The move within the party is to move more to the left wing and that is a risk to Biden.
I think the data is telling us that Biden is the base case. However, there is a very high risk that it is Warren or Sanders. Essentially, I have no confidence in making that call.

Could Michelle Obama be a surprise candidate?
It is actually too late for her to enter the race. She would not be able to register for the Democratic primary election in very important states like California. President Trump is the incumbent president, and incumbent presidents win 70% of the time and 80% of the time if there has not been a recession. If you were an advisor to Michelle Obama, you would tell her: "Don't run now. There is still a question whether your husband did a good job and you are running against an incumbent president. Run in 2024 when probably there will be much less debate about the Obama administration because over time people forget their grievances and in 2024 there will be an open election in which no incumbent is holding the office." In those conditions, Michelle Obama could win in a landslide.

If Trump is re-elected, will we have a re-escalation on the trade front in 2021?
Yes, re-escalation. If Trump is re-elected, it would be the same policy set-up that we have today. White House is Republican, probably the Senate is Republican, while the House of Representatives will still be Democratic. That means you cannot do new tax cuts, you cannot pass major legislation without the support of moderate Democrats. Therefore, in his second term, he will be naturally pushed toward more foreign policy.
So the second term will be about negotiating a phase two deal, I guess. But that means that the negotiation process could involve tariffs and be very disruptive. And the reason

of course is obvious: Trump then does not have to worry about re-election. Thus he can be more aggressive on China or others. It also means that the strategic tensions can become entangled because these two countries are having a long-term multi-decade strategic confrontation. He might even re-open the trade war with Europe before he has even concluded the one with China.

So the market environment going into the election in 2020 would advocate for a defensive positioning?
I am expecting to be tactically neutral as US equities are very elevated. And I would not be surprised if we would have some kind of setback in the very immediate term. If Trump gets re-elected, I think the market will rally – a relief rally. But I do not expect that it would last very long, so I would be selling into that rally. A re-election of Trump would mean no new taxes, no new regulation, and infrastructure spending. It all seems reflationary and I guess the market will be too excited. The Fed could get back to hiking rates and you will have Trump escalating the trade war, and that is where I would be looking to exit.

What is your view on sectors?
Healthcare, financials, and energy would win under Trump as those sectors would have been heavily regulated under the Democrats. Energy is attractive because energy stocks have not done very well in the US context and so they cannot go much lower if a Democrat gets elected, but they can go much higher if Trump is re-elected.
The tech sector is in trouble no matter what. Democrats and Republicans are riding the populist demands for more regulation on tech companies. Furthermore, Trump is going to extend the trade war and tech is heavily exposed to Chinese trade. So to me, tech is the loser whether a Republican or a Democrat wins.

What would be the biggest surprise that you can imagine coming out of this election?
The biggest surprise would be a Republican sweep, but a more realistic surprise would be a Democratic sweep. If Trump is not doing well, the Republican Senators will suffer. This is completely underestimated by the markets. There are people who would tell you that the Senate will stay Republican even if Trump loses. But I would take the opposite view. If Trump loses the White House, it is much more likely that the Democrats will win the Senate. Therefore, the Democrats would control the House of Representatives, the Senate and the White House. That would be massive for the market because the risk of a full control of progressive populism goes up, which means higher taxes and regulation yet no full reversal of trade protectionism.

How big is that risk?
There is a 55% chance that Trump wins, ergo a 45% chance that the Democrats win. If there is a 45% chance that the Democrats are winning, there is an 80% chance that they will take the Senate as well. I have a very high conviction on this view. You cannot kick out an incumbent president without mobilizing a large number of women, minorities, and suburban people. And those same people are going to vote for a Democratic Senator in their state. And again, unseating an incumbent is normally because of a recession or a scandal. Our base outlook is that there will not be a recession and the scandals will not be overwhelming due to failed impeachment. But you could have new things happen and in that context Democrats win and they win big.

What is the name of the new US President on January 20, 2021?
I favor Trump for that call – it is a tough call, but I think it will be him. Just to be very clear: you have the Fed put, you have the China put, you have the fact that they could not remove him from office so the Democrats failed, and you have the fact that we do not expect a recession here at BCA. So when I add those things up, I think it is going to be enough to enable him to hold on to – he only has to hold on to one or two of the Midwestern states and he holds the White House. So I think he will be in place – and that means trade war chapter two. ◆

Matt Gertken is currently BCA Research's Strategist, Geopolitical Strategy. He oversees the firm's coverage of market relevant geopolitical, political, and policy developments across the world. Prior to joining BCA in 2015, Matt Gertken worked as a Senior Analyst at Strategic Forecasting, Inc. (Stratfor) and in various academic and publishing roles. He frequently appears in international news media, including CBC, BNN Bloomberg, CNBC Asia, Bloomberg TV, and Fox Business News. Matt Gertken holds an MPhil from the University of Cambridge and a PhD from the University of Texas at Austin.

From clothing salesman to President

Donald Trump is not the first businessman to be elected US President – his predecessors include a peanut farmer, the owner of a baseball team, and an oil man.

The list of US Presidents begins with George Washington. The former General and hero of the War of Independence was unanimously elected the first President of the new republic in 1789 – almost against his will. He was only persuaded to stand somewhat reluctantly by his contemporaries. He was followed by Latin teacher John Adams, Jefferson – one of the Founding Fathers of the United States –, mathematician James K. Polk, and a striking number of officers and lawyers. Some, such as John Tyler and William Henry Harrison, came from wealthy families, while others had humble beginnings, including Zachary Taylor, who accumulated a considerable amount of property as a real estate speculator, despite little formal education.

A number of US Presidents were also businessmen. For example, Jimmy Carter, who took over an ailing peanut farm after his father's death, turning it around into a prosperous business within a few years. Warren G. Harding also rescued a business. When he was only 19, he bought a small newspaper in Ohio, the Marion Star, with several partners and together with his wife made the failing paper financially successful again.

Two US Presidents became rich with natural resources. Mining engineer Herbert Hoover worked his way up from low level jobs in a gold mine to senior partner of a mining company. The sale of his shares almost made him a millionaire. George H. W. Bush, who died in 2018, founded the Bush-Overby Oil Development Co. together with his neighbor John Overby. He was also able to finance his business thanks to family connections. Bush's uncle, Herbert Walker, alone invested almost half a million dollars.

While at Yale, George Bush senior was also captain of the university baseball team. However, it was his son and later President George W. Bush who got involved in the sporting business. He was co-owner and Managing Partner of the Texas Rangers. Ten years later, he was already Governor of Texas, he sold his shares in the major league baseball team with a significant profit.

Not all entrepreneurial US Presidents were involved in big business. Harry Truman opened a men's clothing store, but it failed during the post-war recession. Abraham Lincoln also started out small: with a general store. He also ran a law firm and is the only President to date to hold a patent. He invented a flotation device to lift boats in shallow waters and over sandbanks. However, US patent number 6469 was never commercialized. ◆

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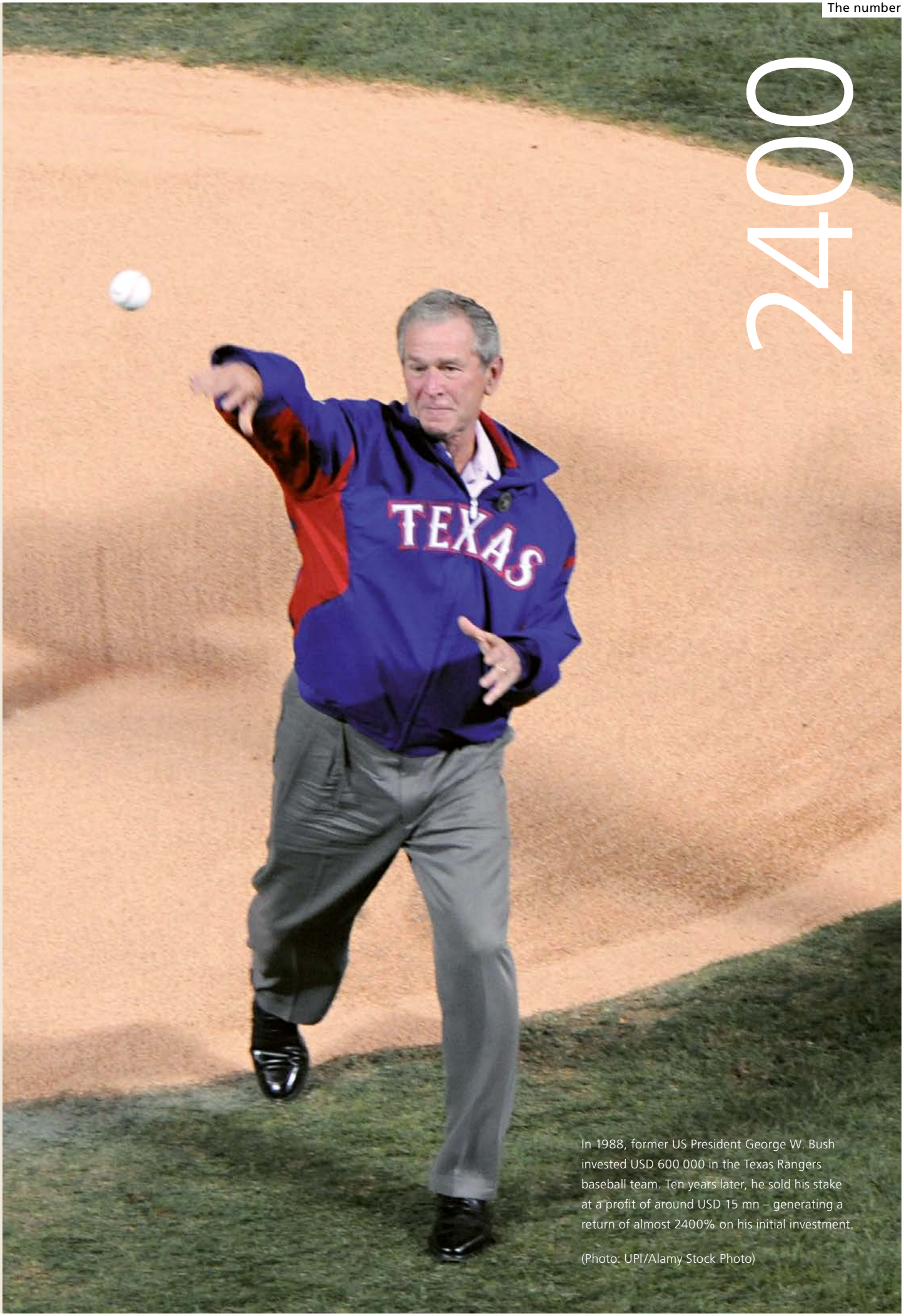

In 1988, former US President George W. Bush invested USD 600 000 in the Texas Rangers baseball team. Ten years later, he sold his stake at a profit of around USD 15 mn – generating a return of almost 2400% on his initial investment.

(Photo: UPI/Alamy Stock Photo)

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Giovanni Giuliani, detail from "Wooden base for a pietra dura tabletop made by the Castrucci workshop," 1711

A look inside the Princely Collections: In addition to outstanding paintings and sculptures, the Princely Collections also include porcelain, tapestries and furniture. The furniture gleams with delicate inlays of precious wood, ivory and mother-of-pearl, sophisticated gilding and elaborate pietra dura work. The pieces were created by the best craftspeople of their time, such as Pietro Piffetti, the court carpenter of King Carlo Emanuele III, and Giovanni Giuliani, who brought Italian Baroque sculpture to Vienna, where he also furnished the Liechtenstein Garden Palace.

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

Cover image: Pietro Piffetti, detail from "Chest of drawers," around 1740

www.liechtensteincollections.at

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