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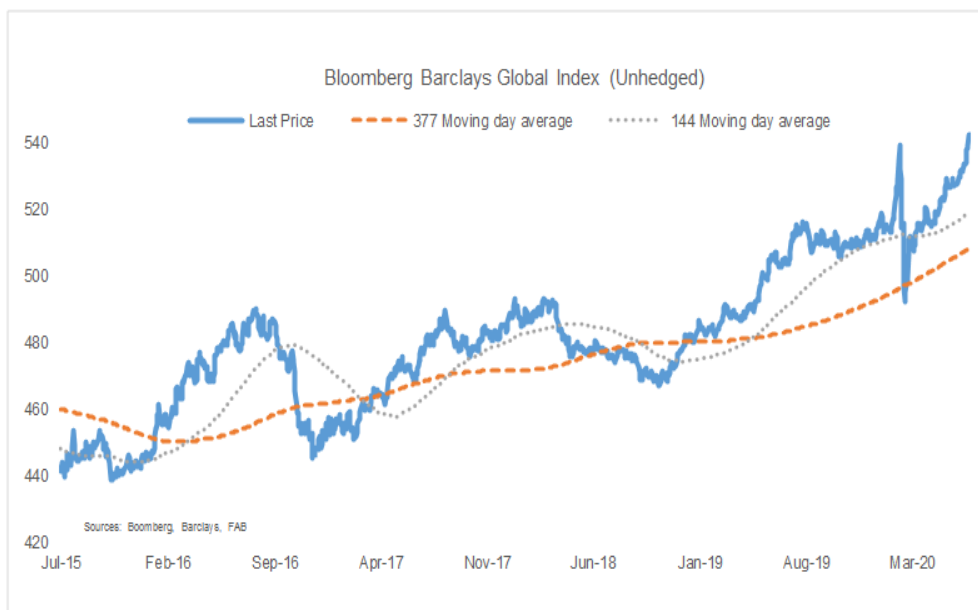
29 July, 2020

Some calming investment thoughts before Eid

- ◆ Asia markets opened mixed, with investors waiting for the Fed, and US and Eurozone GDP
- ◆ The Dollar Index is looking more stable, after recent downside, and gold is at \$1,957/oz
- ◆ The global 7-day average of Covid-related deaths rose to 5,724, vs. 5,654 the previous day
- ◆ The market awaits any Fed policy guidance, above all wanting to hear 'whatever it takes'
- ◆ The S&P500 closed 0.7% lower; results from Starbucks, McDonald's and 3M disappointed

Starbucks, McDonald's and 3M are venerable, well-known names, companies that are having to find their way in the latest 'New Normal'. Prescient investors are busily assessing those companies capable of not only surviving the chaos that the pandemic has caused, but rather those actually turning it to their advantage. Market participants who have for months been trying to successfully 'top-spot' the tech sector may want to begin to more positively embrace it – and the often reasonable 'PE-to-Growth' (PEG) ratios the broad sector often sports. Growth can be great, it's just that we mustn't pay too much for it.

As we write, the US Congress is arguing about the size and nature of the next wave of fiscal relief, designed to replace a portion of that expiring in a few days. We await to see whether this is leading to some kind of 'fiscal cliff', and it may very well go right down to the wire. In the meantime, however, the Federal Reserve has announced the extension of emergency loan provisions for a further three months.



Like other commentators we will be doing our best to explore every possible nuance of the Fed's policy update, including the body language and exact responses from Mr. Powell in the Q&A session. We doubt that investors in US assets would actually want to see negative rates (and it would somehow feel 'Un-American'), while we think they would indeed like to hear about the capping of short-term interest rates. Investors are unlikely to be disappointed, and the Fed knows that the perception of their statements will probably be subject to more scrutiny than at any other time in history.

Meanwhile, investors should in the words of Rich Bernstein, the well-known quantitative analyst of old, stick to 'quality, quality, and quality'. In that vein, in equities we favour good (or at the very least – some) free cashflow, decent balance sheets, estimate revision that does not look to presage an imminent disaster, reasonable PEG ratios (see above), and a sound technical analysis picture. In fixed income, while high-yield

has recently done very well (helped by central bank buying of ETFs and individual securities), investors and their advisors can be expected to become even more choosy from now on.

Also regarding fixed income, we note that the Bloomberg Barclays Global-Aggregate Index (unhedged) yesterday closed just a fraction below a new all-time high achieved the previous day (at 541.7927). The yield to worst on that index stands at 0.85%, compared to 0.5773% for the US 10-year Treasury yield. If the latter breaks below close to 0.54% on a closing basis, global bond markets would likely break higher, to yet more all-time highs. Falling bond yields are also very equity-supportive, leading to further P/E expansion, leading some to suggest that in reality the S&P500 (for instance), could actually be on the cheap side at 19.7x 2021 earnings. That would be great news for investors who have had to cope with the extreme volatility of the year to date.

Eid Mubarak to our valued clients.

Investment Strategy Update

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