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The Allocation Dashboard

November 9, 2020

Back to you, Mr. Powell

Highlights

- The outcome of the US election resembles scenario II of our latest TAD (see further: https://c-a-p.dk/us-elections-stimulus-or-stalemate/).

- Given the vice-president's casting vote, a 50-50 outcome for the Senate following the January Georgia elections would in principle suffice for the Dems to be able to implement a major fiscal stimulus program. But it's a tall order. Failing this, GOP opposition is likely to rule it out.

- We look at the risks to the economy of a *Too little, Too late* fiscal program, highlighting the vulnerability of displaced workers and small businesses.

- The policy baton is likely to – once again – be passed on to the Fed. With an insufficient fiscal stimulus, the Fed would have plenty of work to do.

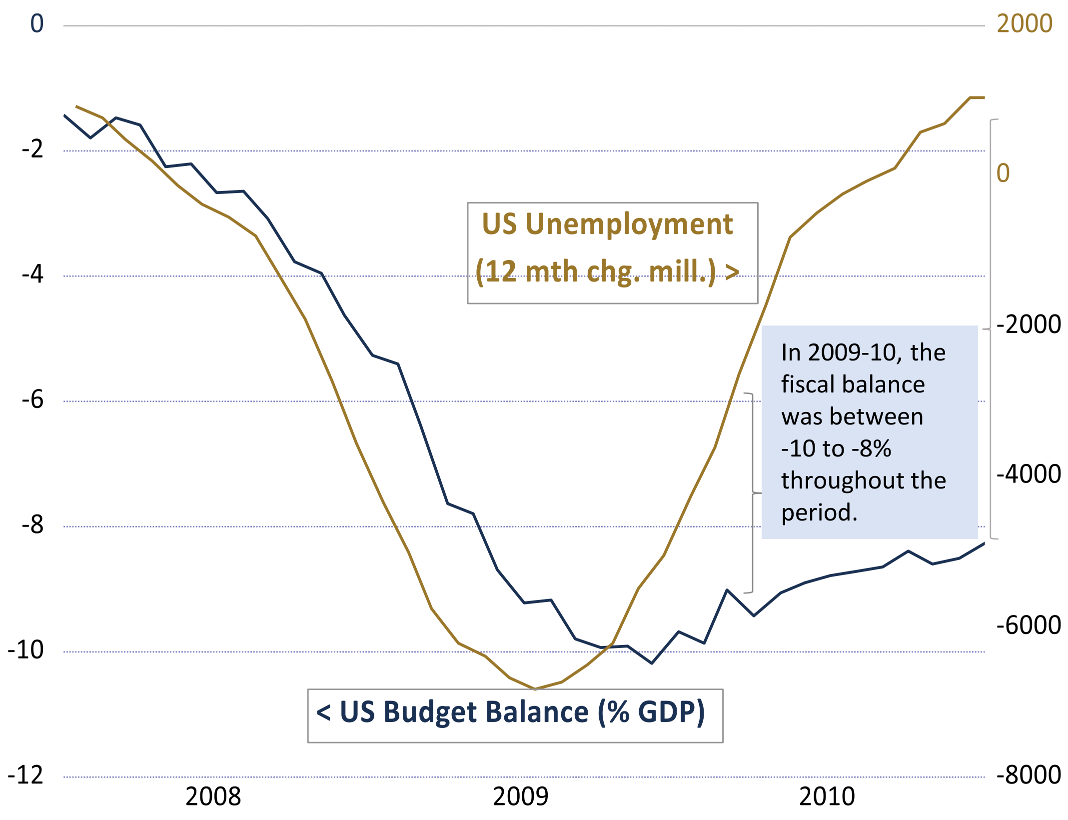
- Equity markets may rejoice over the fact that possible threats to corporate earnings, such as higher corporate taxes and tougher regulation, now look more remote. Against this stands an increased macro risk.

- Market leadership among equity sectors this year has been based on policy assumptions which may not hold up.

Too little, too late?

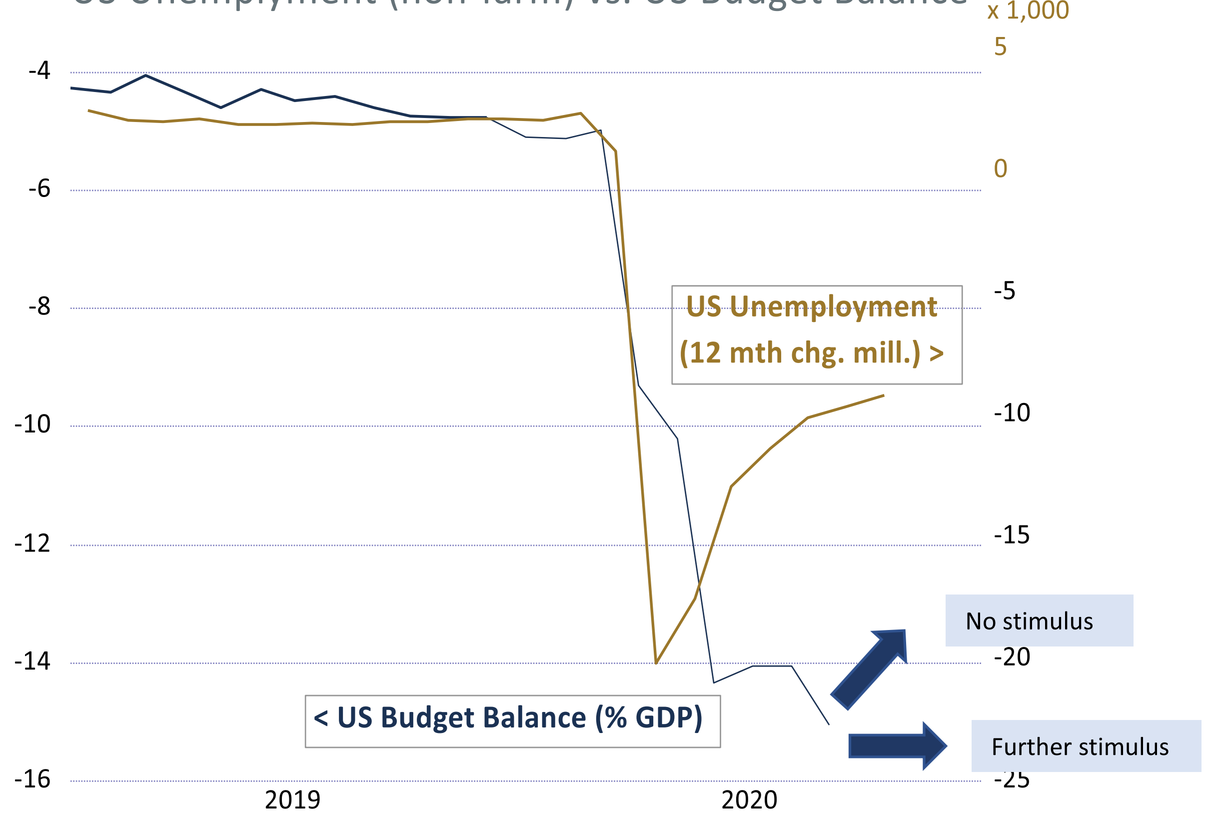
To get US employment quickly back to pre-COVID-19 levels, the US fiscal stimulus and (budget balance) would likely have to remain in 'significant red' for another 12 mths., as seen in 2009-10

US Unemplyment (non-farm) vs. US Budget Balance



Source: Refinitiv Datastream

US Unemplyment (non-farm) vs. US Budget Balance

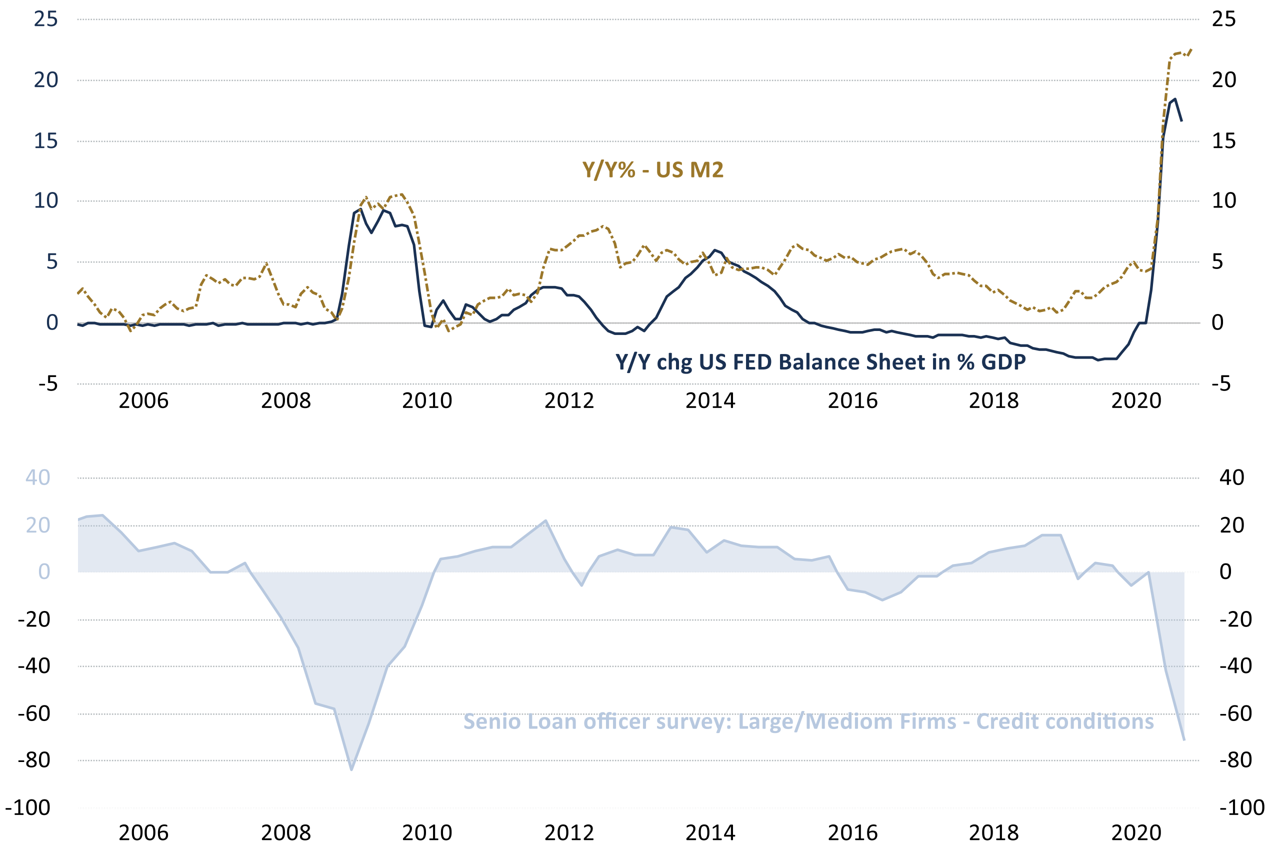


Source: Refinitiv Datastream

FED has not finished the job

Credit conditions have not yet reacted positively to the FED's monetary policy stimulus. While the money supply has skyrocketed, companies have not yet experienced any improvement when applying for bank credits. Absent major support from fiscal policy, the Fed will plenty of work to do.

FED Balance Sheet, Money supply & Credit conditions



Source: Refinitiv Datastream, C.A.P

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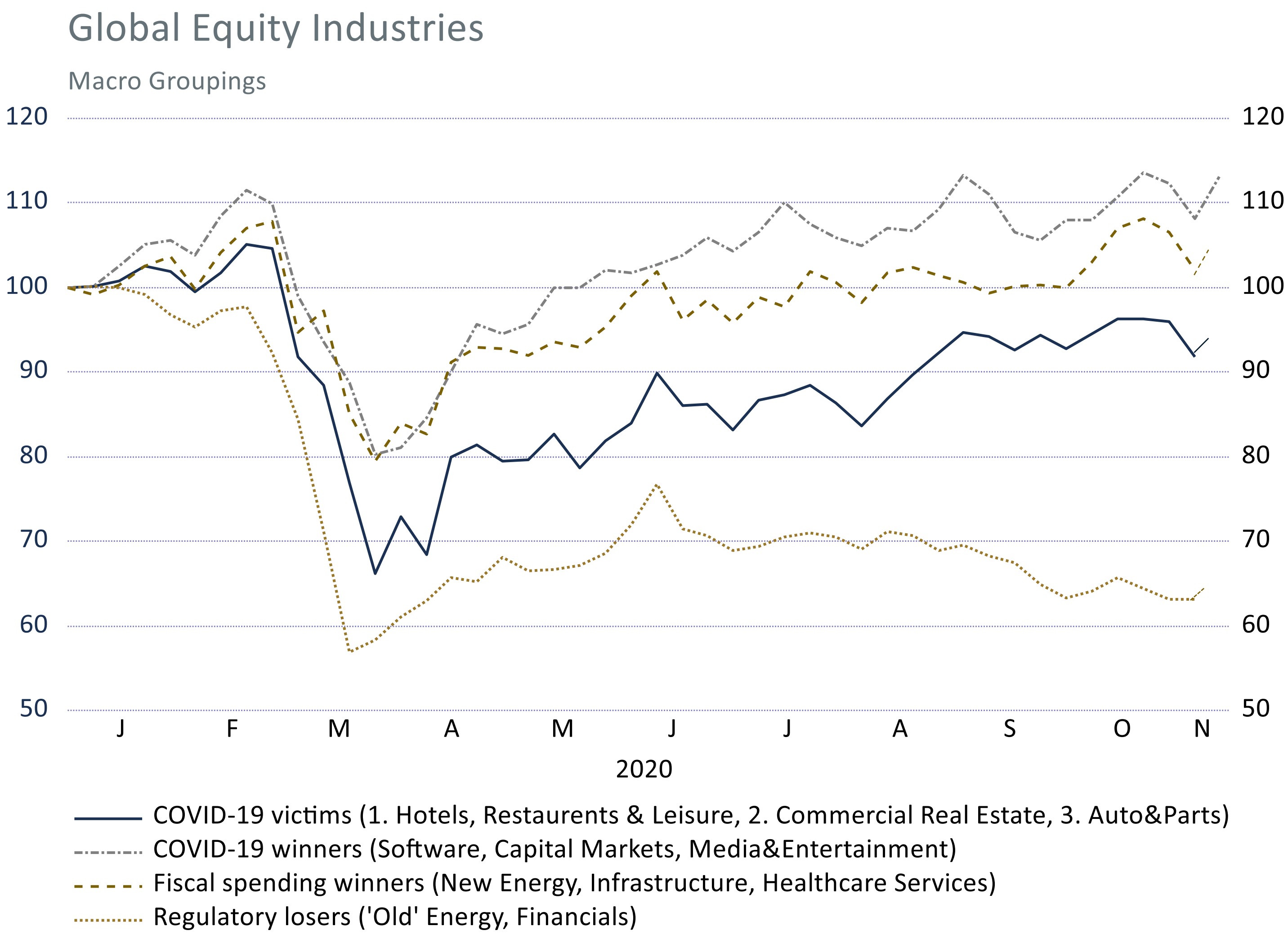
Market leadership?

Following the US Elections, a key question is whether the current pattern for sector leadership will continue. Fiscal spending winners have so far in 2020 been supported by expectations of a new fiscal policy regime. If the victory of the Dems does not include the Senate, Biden's policy ambitions may be in jeopardy!



Source: Refinitiv Datastream

The CAP-M Investment Universe

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Risk Asset Performance

	Performance (EUR)			
	-1m%	-3m%	YTD%	-12m%
Hedge Assets				
Eurozone Core Gov Bonds	0.6%	1.2%	4.3%	2.7%
BUND- Future (ETF)	0.5%	1.0%	3.6%	2.1%
IG Corporate Bonds (EUR base)	0.6%	1.8%	1.7%	1.7%
IG Corporate Bonds - ESG (ETF)	0.9%	1.2%	1.4%	1.4%
IG Corporate Bonds - BBB (ETF)	1.2%	1.8%	1.6%	2.0%
Long Bond Risk	-1.6%	-2.9%	15.9%	12.6%
Long Bond Risk - US	-5.7%	-10.3%	16.6%	14.0%
Long Bond Risk - EU	2.5%	4.5%	15.1%	11.1%
Short USD bonds	-1.1%	-3.2%	-2.5%	-2.9%
US Treasury 1-3Y (ETF)	-1.1%	-3.4%	-2.6%	-2.9%
USD per EUR (contribution from:)	-1.1%	-3.3%	-5.5%	-6.1%
US Long High Quality Bonds	-2.1%	-4.2%	5.6%	4.3%
US Treasury 7-10Y (ETF)	-1.1%	-2.0%	4.2%	2.5%
Japanese High Quality Bonds	-1.0%	-1.0%	-1.7%	-2.8%
Japanese Short Gov. Bond (ETF)	-1.1%	-1.3%	-2.7%	-4.2%
JPY per EUR (contribution from:)	-1.0%	-1.0%	-1.6%	-2.4%
Swiss High Quality Bonds	0.1%	0.5%	1.5%	2.1%
Swiss Franc AAA-BBB 5-10 Bonds (ETF)	0.7%	1.1%	1.4%	2.5%
CHF per EUR (contribution from:)	0.3%	0.2%	1.3%	2.5%
Gold (EUR)	0.3%	1.2%	19.6%	21.5%
Physical Swiss Gold (ETF)	0.5%	1.3%	19.8%	21.5%

Hedge Asset Performance

	Performance (EUR)			
	-1m%	-3m%	YTD %	-12m%
Risk Assets				
High Yield Bonds	1.8%	1.6%	-3.6%	-1.5%
US High Yield (ETF)	0.0%	0.0%	4.5%	5.4%
EU High Yield (ETF)	0.9%	1.6%	-2.4%	-0.5%
Emerging Debt	1.3%	0.8%	-1.4%	0.0%
EMD Corporate Hard currency (ETF)	0.0%	0.0%	0.7%	0.8%
Core Equities (EUR based)	1.7%	-0.4%	0.8%	7.7%
Global Equities	2.8%	1.2%	-1.3%	5.0%
US Equities - Large Cap	3.7%	2.5%	2.0%	9.3%
US Large Cap - ESG (ETF)	5.0%	1.3%	3.6%	12.6%
European Equities - Large cap	1.1%	-4.2%	-12.4%	-7.5%
EU Large Cap - ESG (ETF)	2.1%	-2.9%	-10.9%	-5.1%
Emerging Markets Equities	3.4%	1.9%	-1.4%	6.5%
EM Equities - ESG (ETF)	5.8%	2.7%	2.3%	12.8%
Japanese Equities - Large Cap	2.3%	10.0%	-2.0%	-1.4%
Japanese Equities (ETF)	1.4%	2.6%	-3.9%	-1.4%
US Equities Growth	5.3%	4.3%	28.6%	41.0%
Nasdaq100 (ETF)	7.6%	4.1%	26.3%	39.3%
US Equities Small Cap	6.9%	4.6%	-8.1%	-1.5%
Russell2000 (ETF)	8.4%	4.7%	-8.3%	-1.6%
European Small Cap	2.5%	-0.3%	-4.1%	3.6%
MDAX (ETF)	2.5%	-0.4%	-4.2%	3.5%
CAP-M Equity Bear	-0.8%	5.5%	-18.7%	-26.3%

Updated on close
November 6, 2020

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