MAM

MONACO ASSET MANAGEMENT

Investment Outlook

Q4 2020

Executive Summary

- Three **major events** will impact markets one way or the other: **Covid-19 second wave**, **US Presidential Election** and **Brexit.**
- **Pent-up demand and limited supply** post Covid-19 crisis could lead to a **continued recovery in economic growth** and a substantial **rise in inflation** expectations. We expect the **US yield curve to steepen** which will change the dynamic of financial markets as we have known them for a few years.
- **Developed market credit spreads are fair** considering on one hand the benefit from a continued recovery in economic growth and on the other hand the headwind of rising long-term interest rates. **Emerging market credit** is the only area left providing **real value**.
- The **USD** is at the onset of a **structural bear market** due to the burgeoning US fiscal deficit and a relative improvement of global economic growth.
- **Equities** remain **at risk of a 5-10% correction** based on the Q4 events taking place. While valuations remain elevated, equities can **benefit from** an environment of **increased economic growth and inflation expectations**. We favour pro-cyclical sectors based on their relative cheapness. Geographically, we continue to favour **Emerging Markets**.
- **Commodities** remain of our **most preferred asset class** based on valuation, positive impact from a weaker USD and a global economic recovery. We favour Silver over Gold and start to look at new opportunities in energy and soft commodities.
- **Private markets** offer good value opportunities and allow for **lower portfolio volatility**. We find value from investing in **pre-IPO** deals. ESG and **Impact Investing** are fast-becoming a core area of expertise.

Investment Stance Overview

Last quarter, all asset classes continued to build on the swift rally observed in Q2 2020. After a difficult month of September, we are set for a very volatile Q4 2020. Financial markets should continue to trade nervously in the year-end. Elevated valuations, stalling fiscal talks in Washington, deadlocked Brexit negotiations, rising virus cases, stricter social and travels restrictions, no readily available vaccine, and a deteriorating outlook for the early innings of 2021 will continue to weigh on financial markets. Institutional investors who missed the rebound in stocks were eager to participate last quarter, thus pushing risk assets higher. Cash levels dropped but remain elevated per historical standards, which should continue to provide a supportive back-drop for equity markets. As a result, we expect equities to continue to trade within a +/- 5-10% range in the coming months. We maintain an overall low allocation to equities while tactically adding to the asset class on market pullbacks. The pandemic was and remains the unexpected growth and supply shock that will ultimately lead to long-term inflation. The Fed's monetary policy framework shift to average inflation targeting is supportive to our thesis, notably because interest rates are set to remain anchored to zero until at least 2023. In response to higher inflation expectations, US long-term bond yields should progressively rise in the coming years. As a result, credit looks unattractive on an absolute basis and relative to equities. The dollar seems to be at the onset of a structural bear market. A weaker dollar will be supportive to commodity prices and emerging market assets. Complacency continues to run high in financial markets. Caution should first and foremost prevail, especially since the rest of the year will lift the vail on three key events at once: the US presidential election, Brexit, and Covid-19. Looking beyond Q4 2020, we could be at the onset of a cyclically strong year in 2021. While part of this is discounted in financial markets, we keep a "glass half full" view for 2021.

	Investment Stance						Quarterly
	Very Bearish	Bearish	Neutral	Bullish	Very Bullish		Change*
SOVEREIGN BONDS						**BEARISH DM**	-
US		■					-
Europe (Core)		■					-
Europe (Periphery)		■					-
Emerging Markets				■			-
CORPORATE BONDS						**BEARISH DM**	-
US High Yield		■					-
US Investment Grade		■					-
EUR High Yield		■					-
EUR Investment Grade		■					-
Emerging Markets				■			-
CURRENCY						**BEARISH USD**	-
USD		■					-
EUR				■			-
EM				■			-
JPY				■			-
GBP			■				↙
EQUITIES						**CAUTIOUS**	-
US		■					-
Europe			■				↗
UK		■					-
Japan			■				↗
Emerging Markets				■			-
COMMODITIES						**BULLISH**	-
Energy				■			-
Precious Metals				■			-
Agriculture & Livestock				■			-
ALTERNATIVES						**BULLISH**	-
Hedge Funds				■			-
Real Estate				■			-
Private Equity				■			-

** Change compared with previous months. One arrow means the stance has moved one place to the left or the right, two arrows means a move of two places, etc.*

Model Portfolios

The following model portfolios are based on current positioning at the start of Q4 2020. Considering the volatile nature of financials markets and our outlook, their compositions is likely to change throughout the quarter.

USD Based Portfolios

Asset Class	Last Price	Perf. 5D	Perf. MTD	Perf. YTD	MAM Outlook	Asset Allocation
Currencies						
Portfolio Bases						**97.0%**
EUR	1.18	0.5%	0.4%	5.0%	Bullish	10.0%
USD	93.48	-0.4%	-0.4%	-3.0%	Bearish	87.0%
Others						**3.0%**
JPY	105.92	-0.6%	-0.4%	2.5%	Bullish	3.0%
Equities						**25.0%**
Developped Markets	**55.33**	**1.9%**	**2.5%**	**-4.9%**	Neutral	**18.0%**
Europe	368.31	1.8%	2.0%	-11.4%	Neutral	5.4%
North America	3,446.83	2.0%	2.5%	6.7%	Bearish	10.8%
Great Britain	5,978.03	1.7%	1.9%	-20.7%	Bearish	0.9%
Asia Pacific	23,597.74	2.5%	1.8%	-0.2%	Neutral	0.9%
Emerging Markets	**1,117.44**	**3.3%**	**3.3%**	**0.2%**	Bullish	**5.0%**
Asia Pacific	638.36	3.4%	3.3%	4.0%	Bullish	3.3%
EMEA	209.69	0.6%	0.5%	-21.6%	Bullish	1.2%
South America	1,901.60	3.9%	4.0%	-34.8%	Bullish	0.5%
Thematic						**2.0%**
Asset Allocation	32.71	1.5%	1.9%	-2.3%	Bullish	2.0%
Fixed Income						**18.0%**
Europe						**0.0%**
Sovereign	223.22	0.1%	0.2%	1.7%	Bearish	0.0%
Investment Grade	252.03	0.0%	0.0%	2.1%	Bearish	0.0%
High Yield	402.60	0.6%	0.9%	-2.5%	Bearish	0.0%
North America						**3.0%**
Sovereign/Tips	2,764.20	-0.2%	-0.3%	7.7%	Bullish	3.0%
Investment Grade	3,458.55	0.1%	0.1%	6.7%	Bearish	0.0%
High Yield	2,222.73	1.0%	1.2%	1.8%	Bearish	0.0%
Emerging Markets						**7.0%**
Local Currency	406.31	0.8%	0.7%	0.9%	Bullish	7.0%
Hard Currency	1,241.25	0.7%	0.7%	2.6%	Neutral	0.0%
Others						**8.0%**
Convertible	907.87	0.5%	0.5%	9.2%	Bearish	0.0%
Trade Finance	110.42	0.0%	0.0%	2.6%	Neutral	0.0%
Broad Funds	540.77	0.0%	0.0%	5.7%	Bullish	8.0%
Commodities		**4.1%**	**2.5%**	**-10.2%**		**12.0%**
Agriculture	65.04	3.6%	3.2%	-5.1%	Bullish	1.7%
Energy	20.48	8.9%	3.0%	-42.5%	Bullish	1.7%
Industrials	118.44	3.5%	1.9%	3.4%	Bullish	1.7%
Precious Metals	231.21	0.4%	1.4%	23.9%	Bullish	7.0%
Alternatives						**20.0%**
Hedge Funds	1,319.77	0.4%	0.5%	2.1%	Bullish	15.0%
Real Assets	1,642.39	3.3%	4.0%	-16.4%	Bullish	5.0%
Cash						**25.0%**

Source. MAM Research, Bloomberg

EUR Based Portfolios

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Real Assets	1,642.39	3.3%	4.0%	-16.4%	Bullish	5.0%
Cash						**28.0%**

Source. MAM Research, Bloomberg

Asset Class Returns

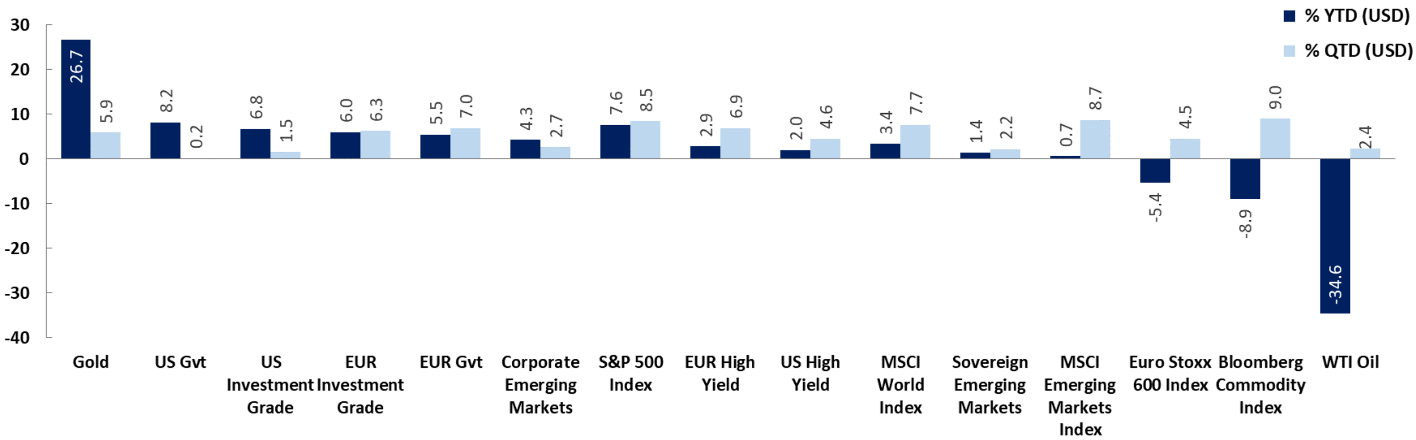
Recovering and building upon one of the most unconventional crises, asset returns were positive across the board in Q3 2020, for the second quarter in a row. The traditional barometers of economic growth, oil and copper, continue to show some strength respectively rising by +2.4% and +11.8% in Q3 2020.

Global equities were up +7.7% in Q3 2020 with all regions edging higher. The continuous rally since the initial bounce off from the March 2020 lows has been strong, confirming investors have been looking beyond 2020 and pricing a presumably "V-Shaped" economic recovery. However, rising virus cases and news-driven headwinds (i.e. US Fiscal Stimulus) have been testing investors' optimism with markets pulling back in September. It is important to remind readers that the MSCI World Index is flat YTD. While the S&P 500 Index is up for the year at +3.6%, other regional equity markets like Emerging Markets and Europe are still down -3% and -7.1% (in USD terms) for 2020.

Corporate bond spreads contracted by an additional -21bps from their highs in Q1 2020. European sovereign and corporate credit were the best performing fixed income assets this past quarter with sovereign indices up +7.0%, corporate investment grade indices up +6.3%, and high yield indices rising by as much as +6.9%. With a weaker dollar and a continuous search for higher yields, emerging market bonds continued to perform relatively well, posting returns of over +2%.

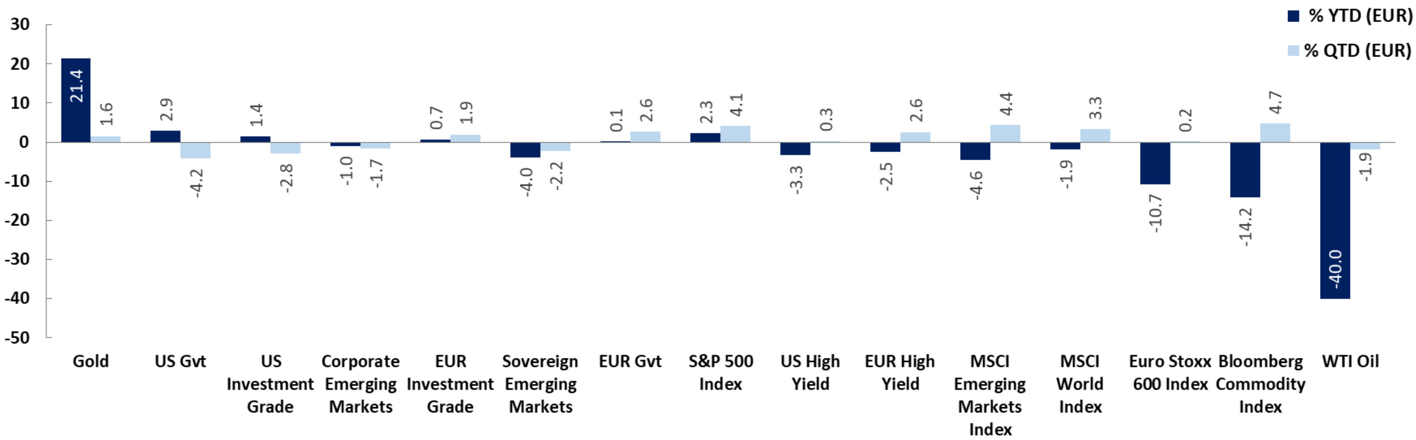
On the other end of the spectrum, gold and silver were set for a technical consolidation driven by a stronger dollar in September. Nonetheless, the precious metals were respectively up +5.9% and +1.6% through the quarter with markets progressively pricing-in higher inflation following the unprecedented set of global fiscal stimuli and the Fed's shift to average inflation targeting.

Chart 1. Asset Class Returns QTD vs. YTD (USD Base)



Source. MAM Research, Bloomberg. (YTD Numbers as of Oct. 12, 2020)

Chart 2. Asset Class Returns QTD vs. YTD (EUR Base)



Source. MAM Research, Bloomberg. (YTD Numbers as of Oct. 12, 2020)

MAM Actions

Equities

What have we done?

We have kept equity market allocations fairly constant between Q2 and Q3 2020 based on our cautiousness driven by a potential Covid second wave. An area where we have been selectively adding exposure on the margin is Emerging Market equities. More specifically, we added some exposure to Mexican Equities using an ETF to express our optimistic view of the recovery there. We then used the steep equity market rally and the fall of the US Volatility Index (VIX) to add to equity market protection through the purchase of put spreads with a maturity of December 2020. We did this on the S&P 500 Index or the Euro Stoxx 50 Index depending on portfolio characteristics. This proved a justified undertaking as equity markets started correcting in September.

Our strategy going forward?

Q4 2020 will be a volatile period for equity markets, ripe of opportunities. We do not believe it is necessary to front-run the result of US elections by adding exposure ahead of the vote on November 3rd. However, we acknowledge that derivatives' markets are already pricing in a negative scenario. As such, the pain trade is for equity markets to continue their grind higher in Q4 2020. As a result, we are looking into various strategies (using derivatives or plain vanilla ETFs) to increase our equity market exposure when it becomes appropriate.

Fixed Income

What have we done?

We have remained bearish on corporate bonds for some time. Conscious of having some exposure to credit markets while limiting the draw-down potential should a second wave of Covid pandemic prove lethal for the sector, we added exposure to the Muzinich Long/Short credit fund. The Management has proven its ability to weather periods of high volatility such as in Q1 2020 while participating to the upside in Q2 2020. Within Sovereign bonds we continue to favour Emerging Markets. We have selectively increased exposure to this asset class through the BlueBay EM Unconstrained Bond Fund.

Our strategy going forward?

Our strategy isn't going to change materially in Q4 2020. Our inflation thesis will continue to push us to short US long bond futures in the MAM Macro Hedge Fund.

Commodities

What have we done?

Our allocation to commodities, and in particular precious metals, has proven profitable in Q2 and Q3 2020. We used the rally in price and the spike in volatility in Silver in Q3 2020 to sell part of the direct exposure and sell 5-10% out-of-the-money put options on Silver with a September 2020 maturity. This has helped us earn a premium and effectively buy-back Silver at a lower price. This strategy has proven profitable.

Our strategy going forward?

We will continue to use spikes in volatility in Silver and Gold to sell put options in accounts where precious metals allocation is below the recommended 7% level. We are looking to gain exposure to other commodities, which are entering a bull market such as soft commodities. This exposure will be effectively done through the MAM Macro Hedge Fund.

Currencies

What have we done?

We kept FX allocations broadly unchanged in Q3 2020 as our thesis of a weaker USD played out.

Our strategy going forward?

Our medium-term view of a weaker USD warrants little change in portfolios currently. We will look for singular FX plays potentially in Emerging Markets or commodity-related currencies.

MAM Actions *(Cont.)*

Hedge Funds

What have we done?

We had already reduced our exposure to under-performing hedge funds in Q2 2020 and focused our attention to hedge funds that add value such as the Io Macro Fund and the Helikon Fund. For smaller accounts that could not gain exposure to the Io Macro Fund, we bough the Nordea Alpha 10 Fund which provides some de-correlation to financial markets and has the added benefit of being in a UCITS format.

Our strategy going forward?

We will continue to look for opportunities to invest in funds or hedge funds that have a track record of delivering alpha. We will increase our focus on Emerging Market credit and Commodities; two areas we believe offer attractive opportunities longer-term.

Events

Covid-19 Update

The World Health Organization estimates 10% of the global population may have been infected, shattering government estimates around the world. Officially speaking, cases topped 35 million (c.0.50% of global population). Nearly a year later, the virus continues to dominate the headlines with vaccine developments and rising cases **(Chart 3)** capturing the market's attention. Usually, vaccines require years of research and testing before reaching the clinic. Yet, scientists are racing to find a safe and effective vaccine. To date, there are 44 vaccines in clinical trials on humans (i.e. Moderna, AstraZeneca) and 91+ pre-clinical vaccines (i.e. Sanofi, Novartis). With winter approaching, concerns over a new wave are prominent. The US president himself contracted the virus, sending equity markets lower on the news. However, the severity of the spread is likely to lessen since the population has grown accustomed to sanitary measures, remote working is widely used, and the widespread use of masks could be acting as a form of "variolation". Indeed, according to a study from the University of California San Francisco, pervasive mask wearing could be mitigating the severity of the disease by reducing the initial viral load intake, giving the immune system more time to launch an effective response. Restricted travel and reduced consumer spending in-store should continue to put a lid on the global economy. Yet, we are hopeful that 2021 could see a return of the "old normal".

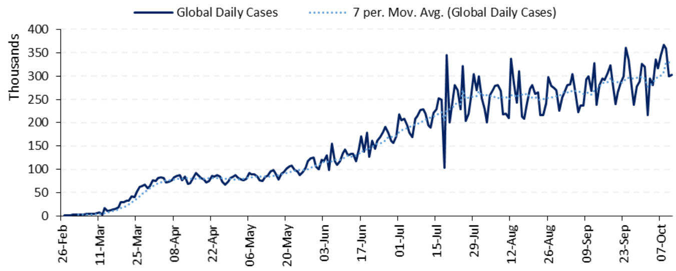
US Presidential Election

Less than a month away from the election **(Figure 1)**, support for the president remains relatively stable since our last note **(Chart 5)**. Last week, the two candidates appeared together on stage for the first time for the first presidential debate. However, instead of a debate, voters witnessed 90-minutes of chaotic exchanges and constant interruptions. Given that 90% of voters say they have already made their decisions, the impact of the debate on the race remains a question. With two presidential debates remaining, the organizing body is considering format changes to prevent last week's debacle from reoccurring. While we cannot rule out a Trump win, in our view, investors' focus should be on whether we are at the dawn of a blue wave, and what it means for markets. If Biden wins with a Democratic House and Senate, the road is clear for him to implement his progressive agenda of tax increases and expansion of government involvement in healthcare. Yet, we can argue that a significant fiscal relief programme will positively impact financial markets and provide balance.

Brexit

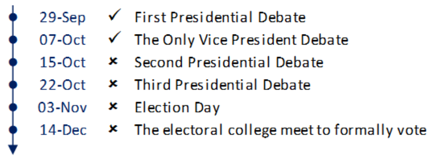
U.K. and European Union negotiators have just under a month to try and secure a comprehensive trade agreement after seven months of negotiation ended in a stalemate. To envision a deal, both parties will have to find compromises on two key areas: state aid and fishing. This week, negotiators embark on 2 weeks of intensive talks to resolve the dispute before Oct. 15, date of EU summit and deadline set by Johnson to know whether a deal is achievable. If it is, negotiations could stretch for another few weeks. If not, early November is the last likely moment a deal can be struck with enough time for it to be implemented by year-end. Afterwards, a couple dates stand out. 1) Nov. 23-26, when the EU parliament holds a plenary session giving it the opportunity to ratify a deal. 2) Dec. 10-11, if a deal is not signed, EU leaders have another summit where they can start preparing for a messy exit. 3) Dec. 14-17, the EU's final plenary session of the year, meaning it would be its last chance to approve a deal. If that does not occur, U.K. defaults to trading on WTO terms. Tariffs and quotas would be imposed, and customs checks are re-introduced. We follow the evolution of Sterling closely and continue to believe it is pricing in a lot of the uncertainty.

Chart 3. Global Daily Infection Rate



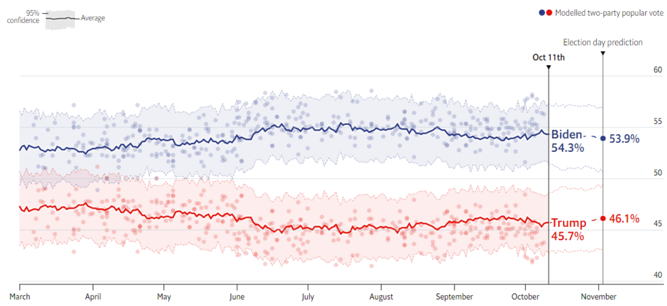
Source. MAM Research, Bloomberg

Figure 1. US Presidential Election Important Dates



Source. MAM Research

Chart 5. US Presidential Election Polls Evolution



Source. The Economist

Figure 2. No-Deal Brexit, A ticking bomb…

Source. Politico

Economics & Rates

Conclusion. Inflation Return Bias. We continue to believe a "swoosh" shaped economic recovery is the most likely path ahead. Advanced economies should be able to revert back to pre-pandemic long-term output growth levels by the end of 2022, as long as a Covid-19 vaccine is widely available to the public by H2 2021 at the latest. This is creating a significant pant-up in demand as several supply bottlenecks emerge. Meanwhile, the Fed shifted to average inflation targeting and is now forecasted to keep interest rates low until at least 2023. The risk for higher and sustained inflation is growing with early sings already observable in financial markets (i.e. rising long-term treasury yields). Although investors have been progressively more attentive to this thesis, we continue to believe long-term inflation risk is under-priced. Ready to invest in an inflationary environment, we remain on the lookout for yield curve steepening related trades. As the global search for yields carries on, we continue to like EM local currency bonds in countries where there is still monetary and fiscal flexibility.

The US Federal reserve recently abandoned its Taylor Rule-style monetary policy framework, which prescribed lifting rates when the unemployment rate declined towards its equilibrium level. The shift to average inflation targeting allows inflation to run above-target to compensate for below-target inflation periods throughout a business cycle. The new strategy has some merit. It gives borrowers and lenders a greater sense of certainty on future price levels. In turn, reducing the inflation risk premium rooted in long-term bond yields.

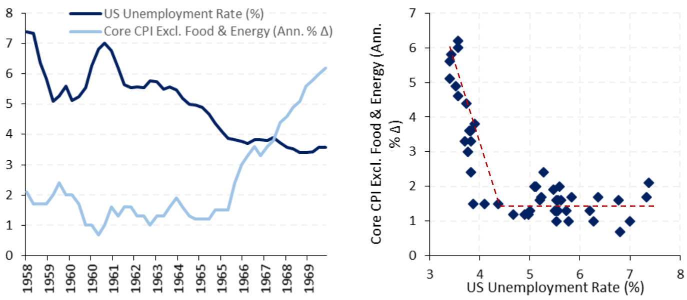
However, some hurdles prevail. Inflation could stay dormant, only to surge once full employment has been reached. Due to the lagging nature of monetary policies, the central bank would be left scrambling to contain a spike in inflation, precisely what happened in the second half of the 1960s **(Chart 6)**.

In the past three decades, the US economy has consistently been kept from overheating **(Chart 7)**. Had it not been for the Covid-19 pandemic, inflation could have moved higher this year after the US unemployment rate reached a 50-year low in 2019. Yet, simply because the economy did not have the chance to overheat in recent times does not mean it will not in the future.

Long-term inflation remains under-priced with CPI swap rates currently implying inflation will stay below target for decades. Global fiscal deficits continue to widen and a new round of fiscal stimulus set to land soon in the US will only increase the gap. The decline in real yields will remain supportive to wider fiscal deficits in the near-to-medium term. Then, for the first time in modern history, rising unemployment is synonym with rising hourly income **(Chart 7)**. This is highly inflationary, especially on the back-end of the current crisis. We could be at the dawn of an economic environment similar to that of the 1970s, meaning high and sustained inflation. The yield curve (62bps) continues to progressively steepen in the US **(Chart 8)**. However, it has yet to reach 2016 levels (125bps) or 2010 highs (280bps). Yield curve steepening trades will become prominent as short-tenor yields remain anchored lower while long-tenor yield rise when the market finally prices in higher inflation.

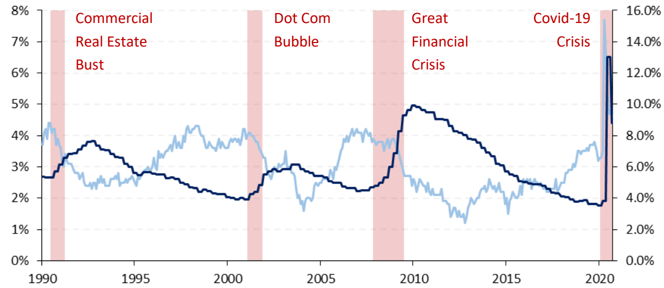
Elsewhere in rates, we continue to like emerging markets local currency bonds **(Chart 9)**. Emerging market economies remain better equipped to weather another Covid storm as local central banks have relatively more legroom to further cut interest rates and governments have room to introduce further fiscal support. Additionally, emerging market currencies continue to trade at a relative discount against the greenback.

Chart 6. Lower Unemployment vs. Inflation (1958-1969)



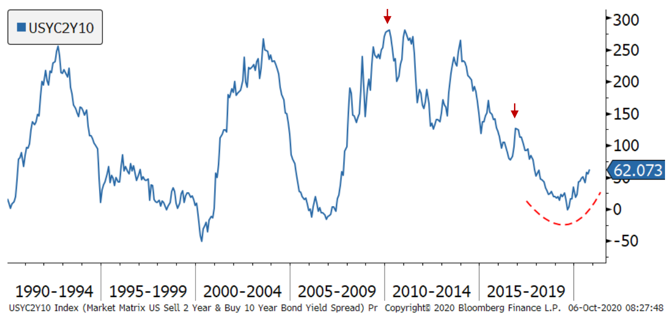
Source. MAM Research, Bloomberg

Chart 7. US Unemployment Rate (RHS), Avg. Hourly Earnings (LHS)



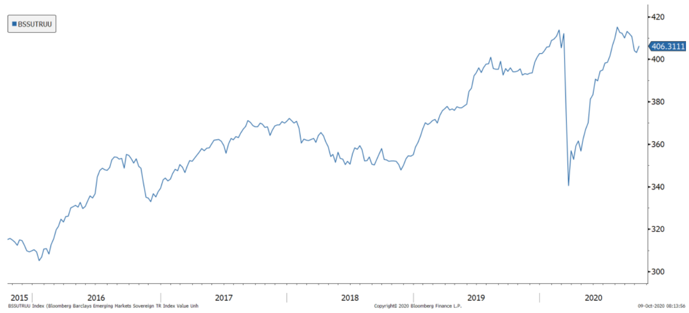
Source. MAM Research, Bloomberg

Chart 8. US 10-2Yr Yield Curve (Monthly)



Source. MAM Research, Bloomberg

Chart 9. EM Local Currency Sovereign Bonds (Weekly)



Source. MAM Research, Bloomberg

Credit

Conclusion. Bearish DM, Favour EM Exposure. We have been and continue to be negative on the corporate credit outlook in developed markets. After the most recent contractions in spreads, corporate bonds offer an unattractive risk reward. Considering the current macro-economic outlook, spreads appear to be fairly priced at best. While central bank policies will stay accommodative for years, we believe corporate bonds yields have seen their lows in the current economic cycle, notably in the US. Inflation conscious, we favour inflation protected securities (TIPS) over nominal bonds as well as floating rate notes. Then, as the yield curve steepens on higher inflation expectations, we look for investment opportunities in spread products. Despite the negative outlook on developed market corporate credits, we look for opportunities within European high yield bonds. Those securities will stand to benefit from the greater liquidity provided by the ECB and a pro-cyclical economic environment (e.g. dollar outflows, cyclical industries exposure). Elsewhere, we continue to favour EM local currency bonds thanks to more flexible monetary policies and cheaper currencies.

Assuming unemployment reverts back to pre-pandemic levels, inflation should take of in the coming years. Central banks will be slow to raise rates. Markets currently anticipate no rate hikes until 2023 at the earliest. The Fed's monetary policy framework revision allows it to let inflation overshoot in order to meet its price level and full-employment objectives.

Markets currently under-price the risk for higher and sustained inflation. We believe yields have seen their lows in the current economic cycle. The yield curve is likely to steepen. As a result, investors should favour inflation protected securities (TIPS) over nominal bonds. Instead of government bonds, we would instead prefer to increase allocation to spread product set to benefit from a steepening in the yields curves. Inflation conscious, we also look for opportunities in the floating rate note universe.

Corporate credit spreads fell substantially since the peak of the crisis **(Chart 10)**. However, the recovery could be short-lived as social and travel restrictions make a come back. These measures will not only dampen the pace the recovery, but also weaken some already sensitive balance sheets. Short-term, we expect further de-ratings across affected industries. In our view, bonds currently offer limited, if not unattractive, risk-rewards. Then, we would argue spreads to be fairly priced considering the current macro-economic outlook.

Despite our cautiousness when investing in corporate credit, European high yield bonds **(Chart 11)** could offer a relatively more interesting risk-reward on the back-end the pandemic. Those securities would stand to benefit from the ECB purchase program (e.g. additional liquidity) and a pro-cyclical economic environment (e.g. dollar outflow) since European markets have higher exposure to cyclical industries (i.e. industrials, financials). However, we prefer to look for short-maturity (e.g. 2022-2023) bonds which are less sensitive to higher inflation expectations on the back-end of the pandemic thanks to their relatively shorter duration. Yield curves steepening are more likely to have a direct impact on long-duration bonds **(Chart 12)**.

Emerging market corporate credits continue to offer attractive yields. Emerging market currencies look cheap on a REER-basis. Long-term, our positive outlook on commodities and inflation are both supportive of higher economic growth in emerging market countries. Then, central banks in those regions have sufficient room to cut interest rates to mitigate the weight and prolonged impact of the pandemic on the local economy. Therefore, we continue to recommend exposure to emerging market local currency **(Chart 13)** over hard currency bonds.

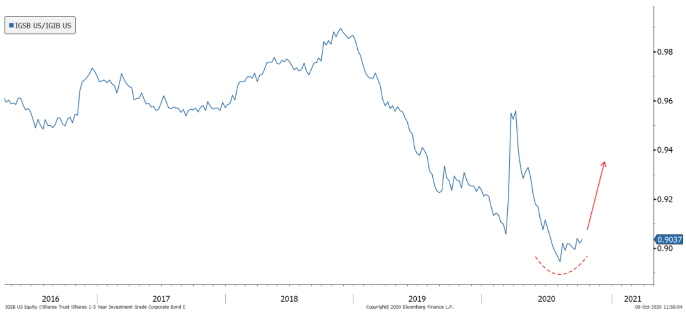
Chart 10. US High Yield Credit Spread Index

Source. MAM Research, Bloomberg

Chart 11. European HY Credit Spread Index

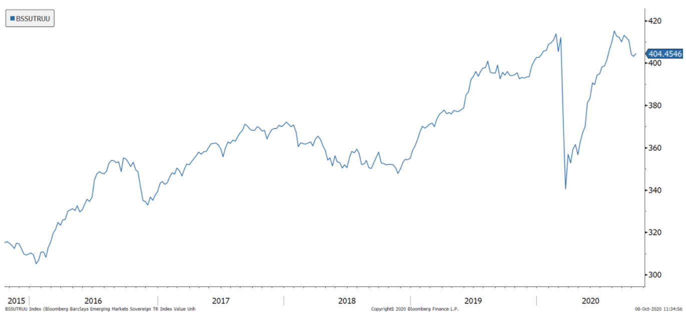
Source. MAM Research, Bloomberg

Chart 12. Short-Duration / Long-Duration Corporates



Source. MAM Research, Bloomberg

Chart 13. EM Local Currency Bonds USD Unhedged



Source. MAM Research, Bloomberg

Currencies

Conclusion. Structurally Bearish US Dollar. The US dollar index is down -2.74% YTD and down more than 8.9% from its peak in March. We continue to be structurally bearish against the greenback. Nearly all roads lead to a weaker dollar in the next economic cycle. Economic recoveries are usually a sign of dollar outflows into relatively more pro-cyclical currencies (i.e. Euro), commodities-driven currencies (i.e. NOK, CAD), and dollar-denominated debt heavy economies (i.e. EM). Short-term, the US election and another wave of infections should provide some support. However, a coinciding double dip recession would force the hand of politics to resume stimulus talks, thus implying another round of fiscal stimulus at a time when budget deficit already runs high. Hence, longer-term, structural headwinds will continue to weigh on the dollar. Among G10 currencies, we favour the Euro for its pro-cyclical attributes and the Yen for inflation protection. While we believe most bad news are priced in, we stay cautious on the Pound until Brexit uncertainties are unresolved. Despite complex timing, EM currencies have a compelling story from high correlation to commodities.

The dollar remains a counter cyclical currency that tends to move in the opposite direction to the global business cycle and strengthens when macro uncertainty and volatility emerge, thus partly explaining why it appreciated in the early innings of the crisis. Since it peaked back in March, the currency went on to drop by as much as -10.9%. Regardless of the slight relief rally and most recent consolidation, the dollar remains nearly +1SD expensive on a relative exchange rate (REER) basis **(Chart 14)**. Unlike last year, the currency is no longer benefiting from higher interest rates. US real yields (-1.6%) have fallen below those of many partner countries because of relatively higher US inflation expectations. The loss of relative carry attractiveness combined with higher growth expectations among partner countries will continue to weigh on the dollar. Then, a double dip recession would force the country to introduce further fiscal stimulus at a time when budget deficit already runs high thus exerting further pressure on the greenback. While in the near-term some form of consolidation is plausible, longer-term, structural headwinds will continue to exert negative pressure on the dollar.

The dollar prevailed in the last bull market thanks to its counter cyclical characteristics. Recently, it has been acting as a risk-off asset to the detriment of the Euro. However, the growing risk appetite and negative interest rate differential **(Chart 15)** leads investors to be increasingly more bullish on European asset. Bullish on the union's currency over the long-term, we expect it to trade within a range over the coming weeks as investors stay attentive to ECB comments on the downsides of having a strong currency and stimulus talks developments in the US.

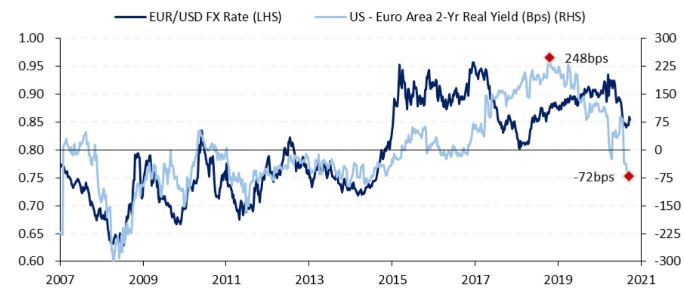
The British Pound continues to underperform with Brexit-driven uncertainty weighting on the economic outlook and currency. Almost exclusively appreciating against the dollar this year, the currency continues to trade over -1SD cheap on a REER-basis **(Chart 16)**. The Pound should continue to trade at a discount for as long as Brexit stands unresolved. Short-term spot movements will continue to be driven by trade negotiations news with the EU as the year-end deadline to come up with a deal approaches. Longer-term, we think the British Pound may offer good value.

Commodity-driven currencies (i.e. NOK, CAD) will be supported by a weaker dollar's positive impact on commodities **(Chart 17)**. Then, considering a weaker dollar helps oversea borrowers and emerging market economies rely extensively on the export of commodities, we could see some attractive opportunities among emerging market currencies with already compelling REER-based valuations, the MXN and BRL are over -2SD cheap.

Chart 14. US Dollar REER Valuation and US Dollar Index (Weekly)

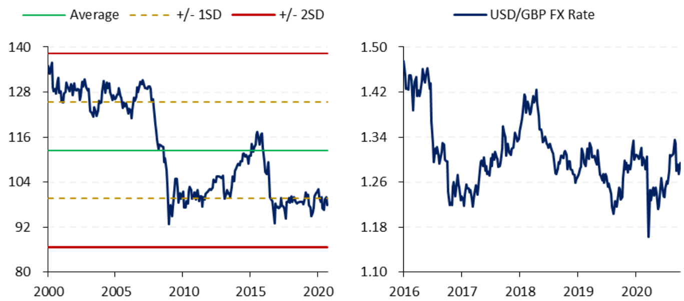
Source. MAM Research, Bloomberg

Chart 15. Interest Rate Differential vs. USD/EUR FX Rate (Weekly)



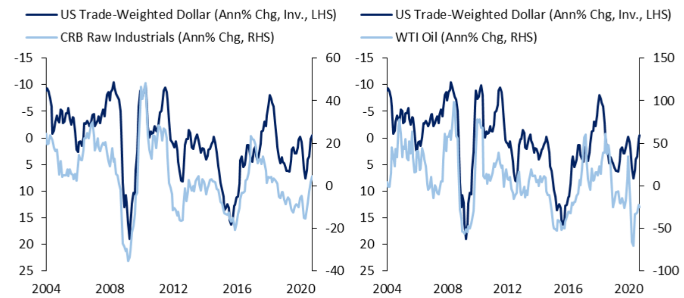
Source. MAM Research, Bloomberg

Chart 16. GBP REER Valuation and USD/GBP FX Rate (Weekly)



Source. MAM Research, Bloomberg

Chart 17. Trade Weighted Dollar vs. Raw Industrials & WTI Oil



Source. MAM Research, Bloomberg

Equities

Conclusion. Cautiously Optimistic. The MSCI World rallied 50% since March lows, a historic move. Fundamentally, global equities trade on a 19.3x 2021e P/E ratio. Although it is over +2 SD expensive, we note recent price gains were entirely driven by higher earnings expectations rather than multiple expansion (2021e P/E was 19.5x at start of Q3 2020). However, the road to full corporate earnings recovery remains uncertain. Another wave of strict social and travel restrictions would impair economic activity, thus potentially reducing H1 2021e EPS growth expectations by almost a third. As a result, we could see the S&P 500 Index reverting back to $3,100 (c.-9.3% vs. spot). Remaining relatively optimistic about a more sustained recovery in the second half of 2021, we plan to use such correction to incrementally increase equity exposure. Short-term, we favour a mixed allocation between pandemic (i.e. Tech) and reopening (i.e. Banks, Infrastructure) trades. Longer-term, we continue to believe value stocks are set to outperform. Next year may be the year value investors and stock pickers make a come back. Lastly, per our view on gold, we recommend adding gold miners.

Equity market valuations continue to expand, notably in the US. The S&P 500 Index trades on a 21.6x 2021e P/E ratio. The lion share of this equity market re-rating remains the positive impact of lower discount rates with central banks planning on keeping interest rates low for prolonged time periods. Although discount rates are crucial factors, short-term EPS expectations can have a material impact on equity markets. The next earnings seasons can be the catalyst sending risk assets lower, especially if firms guide down or anticipate uncertain paths to recovery in H1'21.

The presidential election and stalling fiscal stimulus discussion both have the ability to swing markets one way or the other. Historically, volatility rises as equities tend to sell off -5% in the 90 days leading up to the election **(Chart 18)** as investors reduce risk assets exposure. Thus far, the S&P 500 fares better than it did in the past five elections. However, volatility remains high. Interestingly, the level of volatility currently priced post-election suggests markets anticipate a disputed election outcome.

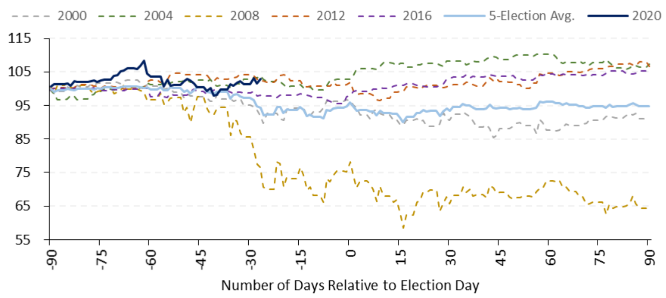
Recently, indicators have shown declining cash overweight and bearishness among institutional investors. Short covering flows on futures market seem to have contributed to the risk asset rally **(Chart 19)**. FOMO? Too early to tell. We actively monitor our indicators considering the most extended bullish positioning gets, the more likely are we to observe a -5 to -10% correction.

Value and non-US stocks tend to outperform growth and US stocks, respectively, when the dollar weakens and global growth improves **(Chart 20)**. September saw tentative outperformance from value stocks. However, in response to mixed data signals in the real economy (i.e. in-store retail, transportation), we will keep a balanced exposure to some specialized tech segments (i.e. payments, software). With value stocks cheaper than at the peak of the dot-com bubble, investors need to be ready to shift from pandemic to reopening trades. Looking past the quarter, next year may well be the year value investors and stock pickers make a comeback.

Our positive view on gold has not changed. However, investing in gold vs. gold miners are two different concepts. The former relies on inflation expectations and the latter on profitability. Historically, their respective long-term return correlation is high. However, industry margin cycles as well as firm-specific hedging decisions can drive some short-term performance deviations. Fundamentally, we see gold miners trading at a discount despite elevated price-to-book ratios. In fact, those are mostly due to the industry accounting practices (please reach out for details). On a P/E basis, gold miners are -2SD cheap as earning revisions outpaced stock price gains in recent weeks. Only assuming constant multiples and continued EPS growth, gold miners should continue to outperform.

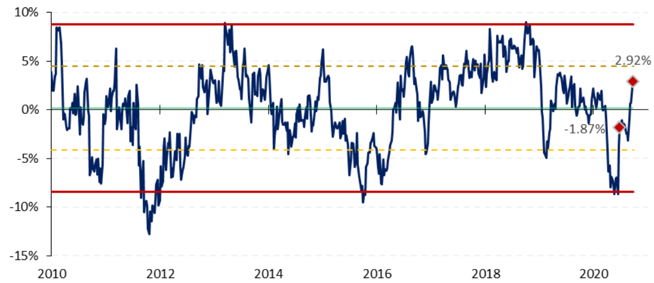
In the coming month we will be launching two new certificates with the first one fully dedicated to SPACs (*MAM Insight No. 6*) and then the MAM Best Ideas for pure stock picking exposure. Please, feel free to contact us for more details.

Chart 18. S&P 500 Index Seasonality Ante US Elections vs. Today



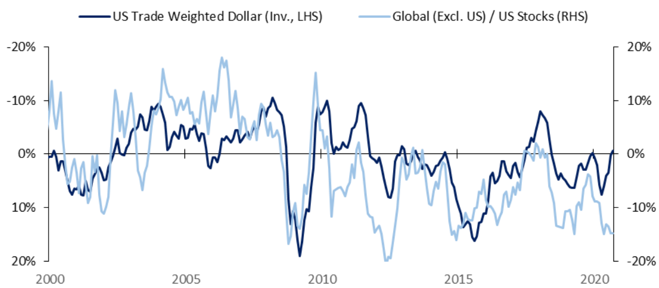
Source. MAM Research, Bloomberg

Chart 19. S&P 500 Net Speculative Positioning (% of O.I.)



Source. MAM Research, Bloomberg

Chart 20. Trade Weighted Dollar vs. Global (excl. US)/US Stocks



Source. MAM Research, Bloomberg

Commodities

Conclusion. Structurally Bullish. Commodities remains one of our preferred asset class with valuations continuously at record lows. Unprecedented global stimulus, economic activity pick-up on the back-end of the pandemic, higher inflation expectations, and an environment propitious to a weaker dollar in the next economic cycle are all supportive to the commodity complex. We remain long gold with a price target of $2,300/oz. (+20%), yet we continue to favour silver with a price target of $35/oz. (+43%) given supportive industrial applications (i.e. photovoltaic panels) accounting for more than 53% of the total demand for the precious-industrial metal. We continue to believe in some tactical long energy commodity trades when supply/demand expectations swing markets and prices are near or at technically appealing levels. Despite recovery in the Chinese manufacturing activity, we currently expect to see some short-term weakness in copper with prices pulling back in the $280-260 range (c.-7%-12% vs. spot) driven by inventory build-ups on lagging final demand recovery heading into the fall and winter. Elsewhere, we find soft commodities and carbon credits compelling.

Higher inflation is a key point in our bullish commodities thesis. Last quarter, the Fed shifted to average inflation targeting thus allowing inflation to run above-target for longer to compensate for periods of below target inflation. The intrinsic nature of gold metal **(Chart 21)** makes it a great inflation hedge. It also tend to fare well when market volatility rises. As such, exposure to the yellow precious metal heading into the presidential election and winter, when virus cases could climb further, should positively contribute to portfolio volatility (e.g. reduce it). Last quarter, relatively bullish on gold, we raised our price target from $1,950 to $2,300 (c.+20% vs. spot). Despite the recent consolidation, we believe prices still have a long way to go until they reach a ceiling. We recommend adding it to portfolios should spot price falls below $1,750 on momentary sell-offs.

Pushes for environmentally friendly projects and greener energy sources only accelerated since our last note. This has proven and should continue to be supportive to silver prices **(Chart 22)** as the majority of the demand for the commodity is traced back to its industrial application (e.g. photovoltaic panels, autos). We maintain our current price target of $35 (c.+43% vs. spot).

We remain tactically long energy commodities (e.g. Oil & Gas). Rising demand on the back-end of the crisis and constrained supply should prove supportive to oil prices **(Chart 23)**, but we expect short-term weakness to emerge on the re-imposition of social and travel restrictions. The recovery in road congestions and global flight departures has already stalled in recent weeks. Speculators reduced net long exposures, commercial players increased hedging positions, and the past couple weeks saw higher buying interest on $35/bbl. WTI Oil Nov-20 puts. While a weaker demand outlook is likely priced in, OPEC's October meeting will be key to balance out supply and demand.

The recovery in copper **(Chart 24)**, up +45% since March lows, has been a positive sign of global economic activity pick-up. However, we believe the industrial metal is set for a pullback. China has been in the driving seat in the past few months with the country importing and stockpiling on energy and industrial commodities to replete inventories when prices were low and cheap bank financing was available. Imports outpaced final demand. Considering prices are no longer low and assuming inventories are replenished, import should temporarily decline thus leading to a short term correction in the $260-280 range.

Other areas of interest include soft commodities, with wheat and soybean in a full blown bull market, and carbon emission credits, which are expected to rise 50% in the next 2 years.

Chart 21. Gold Spot Prices (Monthly)

Source. MAM Research, Bloomberg

Chart 22. Silver Spot Prices (Monthly)

Source. MAM Research, Bloomberg

Chart 23. NYME Crude Oil Rolling Futures Prices (Weekly)

Source. MAM Research, Bloomberg

Chart 24. Copper Front Month Futures Prices (Weekly)

Source. MAM Research, Bloomberg

Private Markets

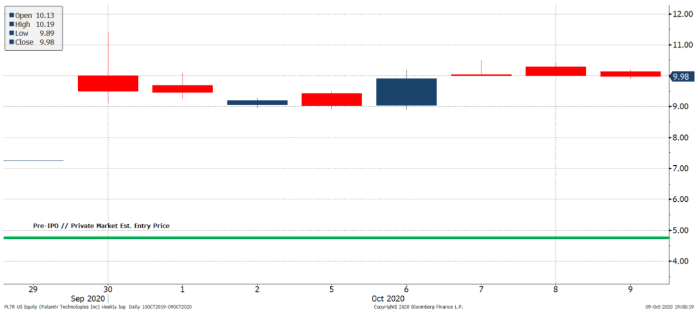
Conclusion. Source of Opportunities. Although the core of our research and asset allocation is on public markets, we continuously seek opportunities in private markets. It is this ability to search for opportunities whenever they may present themselves that sets our group apart. Over the years, we developed a differentiating strategy in private equity investing. Real estate has been a core focus at MAM since the launch of Petram Real Estate back in 2017. Today, we monitor and explore new real estate opportunities in Monaco, but also in other regions displaying attractive value such as London. Then, we have been actively investing in Pre-IPO opportunities in cutting edge technology companies (i.e. Palantir, QuantumScape) and will continue to pursue new deals in Q4'20. These attractive opportunities have an average 2-3 year exit strategy, significantly shorter than the more traditional private equity investments. Finally, we have been keen on developing our ESG and impact investing offering. In September, we held our first impact investing conference where we discussed private market opportunities with positive impacts, as per the UN SDGs **(Figure 3)**.

Private markets lend stability to traditional portfolios investing. Historically, including this year, private markets do not capture a significant portion of public market volatility thus containing overall portfolio volatility and improving risk-adjusted returns. Before the crisis, fund managers maintained relatively elevated cash levels, meaning they had a fair amount of "dry-powder" on hands and were able to take advantage of the challenging macro-economic environment to seek new and attractive investment opportunities. Interesting, a similar move occurred on the back-end of the great financial crisis. Interestingly, at a time when most investors were still treading waters, the fund managers who decided to deploy capital made some of their most rewarding investments thus leading to some of the best performing vintages. In addition to creating a brand new set of market opportunities, the pandemic made risk-reward dynamics even more attractive. Capital deployment in the industry has been relatively stable through 2020, a positive sign. In 2020, Monaco Asset Management committed more than $130m to various private market funds across diverse strategies: buyout, growth, credit, secondary, and pre-IPO deals. When constructing a private market portfolio, it is essential to split commitments between multiple geographies, strategies, but also vintages and over time. All private market investments at Monaco Asset Management go through an in-depth due diligence process (incl. reference checks from large institutions). We maintain a close contact with the fund management teams we are and have been working with. In general, from a greater comfort perspective, we will prefer to commit to final closings rather than early ones. We currently have an exciting pipeline of upcoming fund launches and are very active in private markets.

However, one of the biggest drawbacks with traditional private equity fund investing is the length to fully realize an investment. As a result, in recent months, we have been actively investing in pre-IPO deal (i.e. buy shares in promising companies pre-IPO). Recently, we successfully invested in a data mining company, Palantir **(Chart 25)** (IPO: Sep. 29). We also successfully invested in a solid-state battery developer, QuantumScape **(Chart 26)**, which announced it would go public through a reverse merger through a SPAC (Kensington Capital) (Announcement: Sep. 15). In both of these instances, we were able to buy into the private companies at a discount with the IPO occurring just a few months after deploying capital. We have pipeline of new deals just as exciting for Q4 2020.

Finally, we would like to say a few words on Impact investing, a segment of the market that's rapidly developing and expanding. As part of our ESG strategy, we have been extending our private market offering within this segment. We propose this either through funds or direct deals. In early September, we held our first Impact Investing investors with unique funds managers in this field. We look forward to doing a lot more in this space.

Chart 25. Palantir Post-IPO Share Price (Daily)



Source. MAM Research, Bloomberg

Chart 26. QuantumScape Post-Reverse Merger Share Price (Daily)

Source. MAM Research, Bloomberg

Figure 3. UN Sustainable Development Goals

Source. United Nations

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