MOUNT INVEST

OUTLOOK 2020

January 2020

Partner of AWAP

INTRODUCTION

MOUNT INVEST

A PROLONGED CYCLE? SO FAR SO GOOD...

Our call in 2019 for a sustained market followed by a downtrend at the end of year did not materialized. But even if our predictions (see attached data) were not very accurate this year, our yearly adjustments provided very high returns on global portfolios. This year will gather several challenges like the Central Bank's special attention to growth, Elections in the US as well as any exogenous surprises that can lead to market corrections and volatility increases. The prolonged cycle should come to an end, but before, we should probably see an euphoria that should not last...

We are proud to announce that we reduced the client's portfolios risks by almost 50% but were able to gather almost 100% of the market's rallies. This, thanks to proactive calls and opportunistic investments. 2019 ended with strong performances and our asset allocation even if with a strong underweight on equities resulted in compelling returns. Most of the performance came from HY corporate bonds duly selected as well as high rated investment grade corporates bought at a fantastic moment! On top of such, our precious metal exposure did the rest.

Worse than a trade-war? A real war... Geopolitical uncertainty is back. The horizon is full of risks to the recovery. Some of them: a hard Brexit (EU growth damages), unions strikes (GDP contamination), weak pays (price pressures), Middle East tensions (spikes in oil prices) and of course the US trade negotiations "ceasefire" could be short lived and Phase II negotiations with China will be more challenging than ever... We are in danger of peak optimism!

Year-end 2020 S&P 500 targets

ANALYST	ORGANIZATION	TARGET	IMPLIED GAIN 12/17
Craig Johnson	Piper Jaffray	3,600	▲12.8%
Julian Emanuel	BTIG	3,450	▲8.1%
Tony Dwyer	Cannaccord Genuity	3,440	▲7.8%
Sam Stovall	CFRA	3,435	▲7.6%
Jonathan Golub	Credit Suisse	3,425	▲7.3%
David Kostin	Goldman Sachs	3,400	▲6.5%
Dubravko Lakos-Bujas	J.P. Morgan	3,400	▲6.5%
Brian Belski	BMO	3,400	▲6.5%
Lori Calvasina	RBC	3,350	▲5.0%
Tobias Levkovich	Citi	3,300	▲3.4%
Maneesh Deshpande	Barclays	3,300	▲3.4%
Savita Subramanian	Bank of America	3,300	▲3.4%
Barry Bannister	Stifel	3,265	▲2.3%
Scott Wren	Wells Fargo Institute	3,250	▲1.8%
Binky Chadha	Deutsche Bank	3,200	▲0.3%
Kristina Hooper	Invesco	3,150	▼-1.3%
Mike Wilson	Morgan Stanley	3,000	▼-6.0%
Francois Trahan	UBS Group	3,000	▼-6.0%

Source: MarketWatch survey

The world economy is policy dependent (from Central Banks). The new paradigm: scarce growth and low prospective returns. We foresee only a moderate increase in all asset classes. Some opportunities and the need to be agile to seize them. Don't risk big on the global portfolio but rather with sporadic calculated bets. Happy 2020!

		2019 Accurate view	2020 FORECASTS				
1	USD	✔✔✔		●			
2	GBP	✖✖			●		
3	EUR	✖✖				●	
4	JPY	✔✔			●		
5	EM Currencies	✖✖			●		
6	US Equities	✖✖		●	●		
7	EU Equities	✖✖		●	●		
8	UK Equities	✖✖			●		
9	EM Equities	✖✖		●	●		
10	Japan Equities	✖✖			●		
11	US Gov Bonds	✖✖			●		
12	EU Gov Bonds	✖✖			●		
13	Corp Bonds	✖		●	●		
14	Corp EM. Markets	✖		●	●		
15	Corp High Yield	✖✖✖		●	●		
16	Metal Commodities	✔✔			●		
17	Agriculture Commo	✔			●		
18	Precious Metals	✔✔✔				●	
19	Oil	✔			●	●	
20	Volatility	✖				●	●

MOUNT INVEST

LIQUIDITY & SIMILAR

How to get the "genie" of unconventional monetary policy back in the bottle? National Banks that have this trouble are looking ways to revert to "normal" rates... The end of the dollar hegemony should materialize despite the relative interest rate differentials. The EUR should gather more strength but with a limited pace due to weak growth still present in the Eurozone and disrupted global trade growth. The FED could cut again rates if growth weakens. Globally, central banks should maintain their accommodative stance. After the recent performance of the MXN vs USD, we recommend selling the Mexican Peso. The JPY and CHF should keep their "safe even" characteristic's. Keep liquidities for market opportunities

Fears of a global slowdown pushed central banks around the world to ease monetary policy in 2019 (a tightening bias was expected in the 2019 forecasts). Even if the message from the FED is to hold rates this year, we could see two rate cuts.

In the US, a recession is looming, nevertheless not seen yet (see the chart below) as consumption keeps holding the somewhat anemic growth. Even so, we monitor any development on the macro activity that could bring the FED to act in a "panic way", cutting aggressively rates if recession is knocking on the door. On the opposite, if inflation accelerates (not our main scenario), this would drive yields higher and put the Government in a difficult situation.

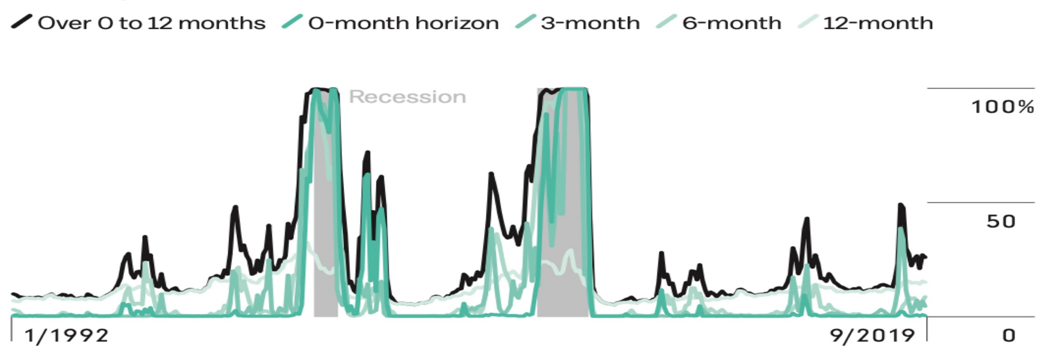
The European Central Bank (ECB) should keep rates low (with more easing) and continue with a very accommodative policy (with endless Quantitative Easing).The BOE rate cut prospects on the rise (60% probability as of today).

We expect the USD to weaken and a modest rally on the EUR. Attached (above chart) the Bloomberg consensus forecasts. What is today's worrisome is the lack of inflation that could turn (if there is no demand for goods and services) to deflation. The latter leads to lower interest rates and discourages lending, but we should not see this factor happening. Even worst: "stagflation", i.e. a rising inflation and unemployment....

Attention to the Repo market activity that showed stress and can cause a cash crunch... Something noted in 2019 but not seen as particularly troublesome for the market... Attention!

FX FORECAST		Bloomberg Composite			10.01.20				
	Spot	Q1 20	Q2 20	Q3 20	Q4 20	2021	2022	2023	2024
	EURUSD								
Forecast		1.12	1.13	1.14	1.15	1.18	1.19	1.2	1.2
Forward	1.11	1.12	1.12	1.13	1.13	1.16	1.18	1.2	1.23
	GBPUSD								
Forecast		1.32	1.33	1.34	1.35	1.4	1.35	1.39	1.4
Forward	1.3	1.31	1.31	1.31	1.32	1.33	1.34	1.35	1.36
	CHFUSD								
Forecast		1.02	1.02	1.03	1.03	1.03	1.02	1.06	1.06
Forward	1.03	1.03	1.04	1.05	1.05	1.08	1.1	1.13	1.16
	EURGBP								
Forecast		0.85	0.85	0.86	0.85	0.85	0.88	0.86	0.85
Forward	0.85	0.85	0.86	0.86	0.86	0.87	0.88	0.89	0.9
	USDMXN								
Forecast		19.1	19.25	19.3	19.3	19.05			
Forward	18.83	19.04	19.29	19.54	19.78	20.73	21.68	22.64	23.58
	EURMXN								
Forecast		21.39	21.75	22	22.2	22.48	--	--	--
Forward	20.9	21.24	21.65	22.05	22.44	24.01	25.6	27.27	28.94
	USDCHF								
Forecast		0.98	0.98	0.98	0.97	0.97	0.98	0.94	0.94
Forward	0.97	0.97	0.96	0.96	0.95	0.93	0.91	0.89	0.87
	EURCHF								
Forecast		1.1	1.11	1.12	1.12	1.14	1.14	1.13	1.13
Forward	1.08	1.08	1.08	1.08	1.08	1.07	1.07	1.07	1.06

Probability of a U.S. recession



Source: Bloomberg Economics

FIXED INCOME & SIMILAR

Inverted yield curves in 2019. The premises of a future recession in early 2021? In the US, after the rate cuts in 2019, credit spreads tightened further in this risk-on environment. Higher yields should only materialize if economic growth gather strength or inflation picks-up. The latter is more probable but only with a small probability during the 1S20. As we expect two rate cuts by the FED during the year and low-yield environment to persist, this could spur demand for high yielding emerging market assets as the search for yield will remain. The ECB should keep rates low. Emerging Markets investment grade bonds still with potential (in hard currencies). Increase exposure to core bonds, short-term US, Investment Grade's and Sustainable segments. Real rates on Governments should stay on negative territories and help yielding strategies

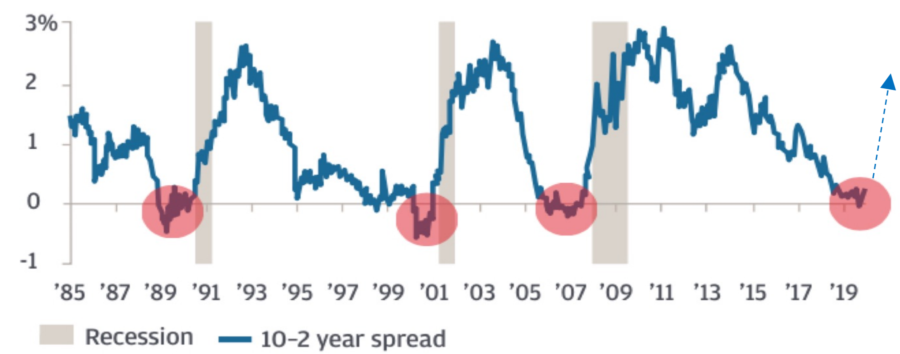
Our "barbell" strategy made fantastic returns on the high-end Investment Grade universe (we reduced the exposure to High Yield in favor of Investment Grades)! Note that today, aprox. 20% of global Investment Grade bonds offers a negative yield!

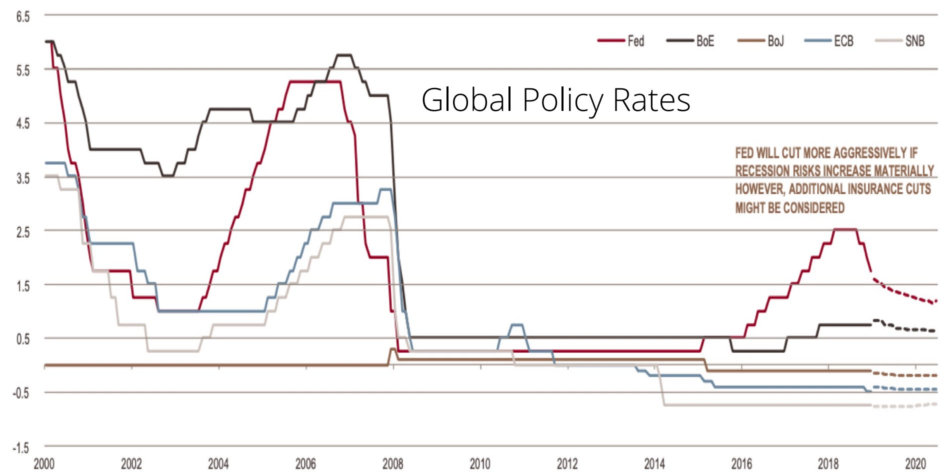
Federal Reserve policy makers reiterated that interest rates are on hold unless there’s a material change in the economic outlook but globally, central banks are powerless to spur economic growth. We expect two rate cuts by the FED this year. US curves inversions is now over, and we see a flat curve to persist for a small period of time before a steeper curve emerges (sending spreads higher like projected on the attached chart).

The ECB continues with QE and future rates cuts probably. Note that the QE has reduced bond yields with massive investments from the Central Bank. The European high-yield segment is expected to deliver around 2-4% this year. Selection is key.

Any unexpected US economic slowdown may hit private credit and high yield debt. A close attention should be put on the category as credit spreads are back to their lowest levels and could revert. Note that CCC yields are increasing, showing some underlying stress in the US credit market. We also note that several big China corporates (even state-owned companies) have defaulted on hard-currencies coupons and defaults have climbed to a record high in 2019. Attention to "zombie companies". Yet this has not expanded in the broad category/segment but a focus on such risks is important.

Spread between longer-dated and shorter-dated Treasuries





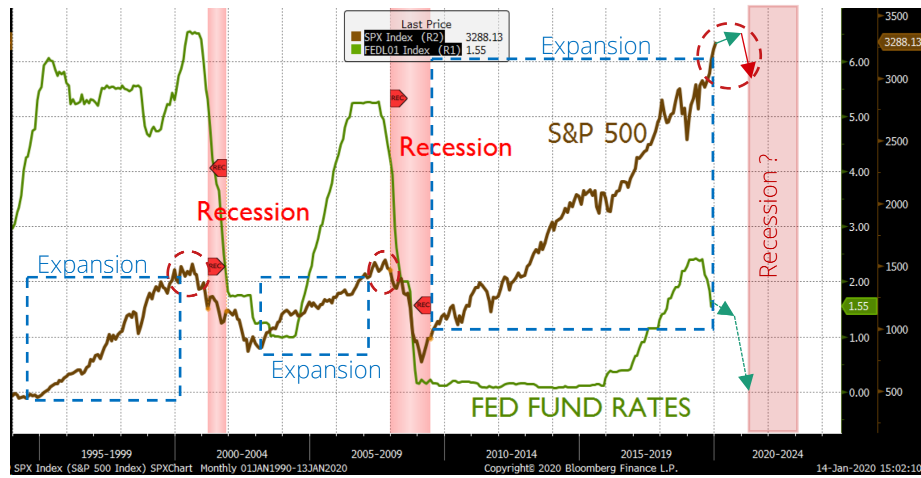
EQUITIES & SIMILAR

A potential upside in equities still present but limited. Stocks are still favored compared to bonds due to very low or even negative returns on the latter. A bumpy year could this time materialize. The FED alone cannot sustain higher tops on equities and stimulatory potential is limited. Corporate earnings are key to keep a positive path to markets. To note that in 2019, markets were driven by price/earnings expansions rather than higher earnings growth. Expect equities to post positive returns in the low-single digits. Prefer markets less exposed to global trade (look for high domestic exposure). Attention to "wildcards" and hedge your holdings. Focus on defensive sectors combined with "FIT" investments (Future Investment Themes). Use cash for opportunities and derivatives for exposures on risky assets

US stocks valuations "costly" relative to bonds (as before the "correction" of late 2018). Even so, the category is still favored globally. We are somewhat contrarians with low direct exposure and rather investments in options with exposure to positive or negative performance on risky assets (straddles).

Even if corporate earnings were not stellar in 2019, equity markets made new highs (mostly in the US), supported by central bank policies. Last year performance is mostly attributed by valuation expansions rather than earnings growth! The global economy needs a boost other than the one from central banks in order to support asset prices.

The German business model is troublesome considering the fast-economic transitions needed to withstand a solid growth oriented to exports only... Watch the country economic numbers to see where the EU will go.

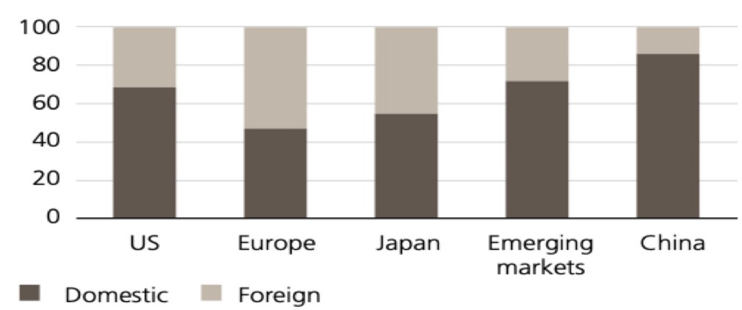


Emerging Markets could be the ones to benefit from a still low accommodative interest rate policies, slowing growth on Developing Markets and commodities on the rise. Be selective on countries. We like Russia, India and ASEAN economies (Southeast Asia). China is key to global growth and a hard landing on its developing model is a major risk for the markets. This is a key variable to monitor carefully (for future markets tendencies...).

Mexico: growth to remain below potential and the Peso should revert its positive trend. Policies uncertainties should keep investors cautious. Avoid.

Focus on quality and favor defensive sectors like Healthcare, Consumer Staples, Energy and Services. On the segment recommendation, favor value stocks and themes (with the usual suspects like Water, Cybersecurity, Aging Population, Alternative Energies, Disruptives, etc.).

Domestic vs. foreign exposure for listed companies in select regions, in %



Source: Morgan Stanley, as of 30 May 2019

ALTERNATIVE INV. & SIMILAR

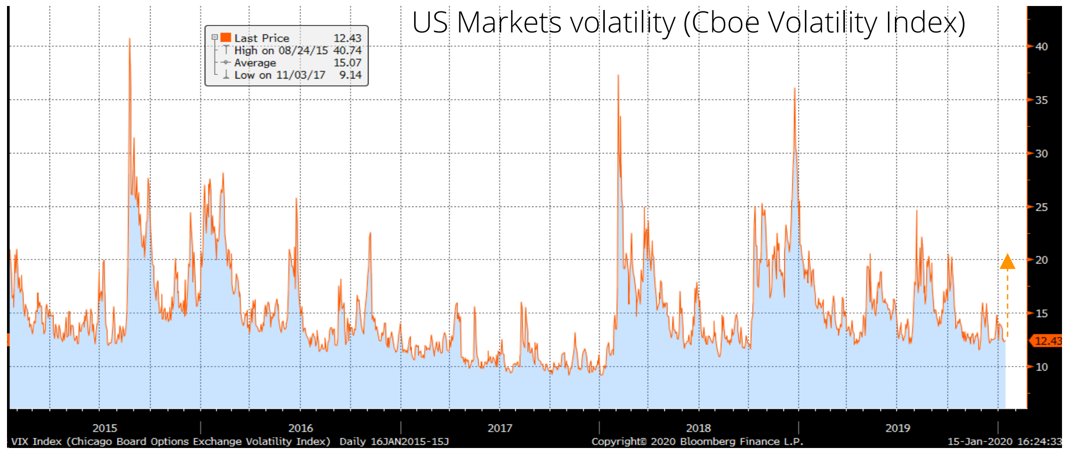
Higher global oil prices to be sustained but with limited upside. Real Estate remains a segment to consider unless a return of inflation is noted. Gold is a main asset to consider (still) in 2020 with medium to long-term upside expected prices. On top, industrial precious metals should gather attention. Focus on volatility strategies and options to invest in directional markets (up and down). We believe this should more than compensate the risk of missing a modest potential rally. Keep volatility exposures as we should see sharp moves on the latter

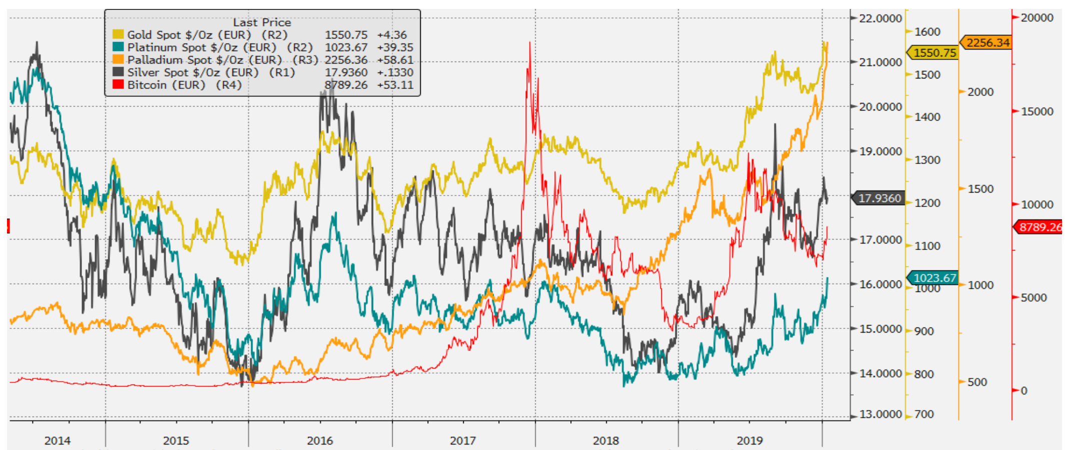
Oil prices exposed to geopolitical tensions. The market experienced a spike in volatility due to the US and Iran tensions. Consider also that, as 20% of the global oil supply travels through the strait of Hormuz, the current escalation of tensions within the region could affect the prices. A barrel at USD 100.- could not be excluded but we rather see a range between USD 60-75.-.

We maintain exposures to Real Estate via funds. The asset class should perform unless we see a major spike in inflation, factor we do not foresee.

Key factors to watch for Gold next year will be the second phase of the U.S.-China trade negotiations, the U.S. election, global monetary policy, and the investor response to these developments. The geopolitical tensions have derived in an uptrend in the precious metal and any escalation of them or a soft economic data combined with negative real interest rates could push prices higher. We remain fervent supporters of precious metals in 2020 as they keep a safe-haven role during volatile times! We added Silver and Platinum at the end of the 4Q19 due to valorization that were undervalued in our view. Early 2020 saw spikes in their prices, catching up the "closing gap" we mentioned in our precious metals strategic allocation report dated 09.12.2019.

Add volatility! It 's no time to be brave and take too much risks just to gather a small potential rally that will not last! For investors looking for entry points on selected securities, look for put writings.





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Sources: UBS, BlackRock, Lombard Odier, LGT, Silex, M&G, J.P. Morgan, Julius Bär, Bloomberg, World Wide Web, etc.

APPENDIX

ASSET CLASSES & ALLOCATIONS – 1Q 2020

MOUNT INVEST

LIQUIDITY & SIMILAR

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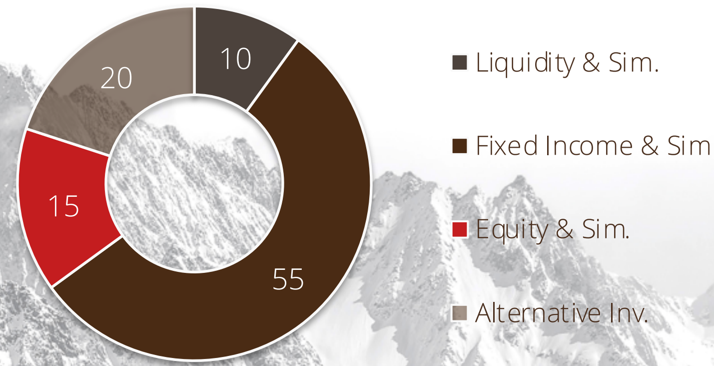
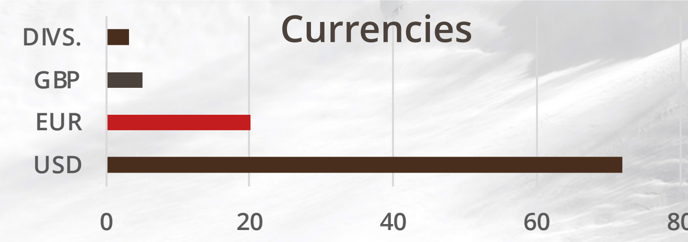
"Special USD Balanced"



% ALLOCATIONS*

ASSET CLASSES		CURRENCIES	
Liquidity & Sim.	10	USD	72
Fixed Income & Sim.	55	EUR	20
Equity & Sim.	15	GBP	5
Alternative Inv.	20	DIVS.	3
	100		100
Opportunistic**			

*Example of a "Special Balanced" portfolio USD based. Not recommended for all investors.
** % opportunistic allocations included in each category (for details, contact your advisor)



DATA & DIVERSE

MOUNT INVEST

Economic Projections

	GDP (% YoY)[1]			Headline CPI (% YoY)[2]			Central bank rate (%)[2]		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
North America									
U.S.	2.2	2.0	1.9	2.3	2.3	2.3	1.50	1.50	1.50
Canada	1.5	1.5	1.5	2.0	2.1	2.1	1.50	1.50	2.00
Europe									
Euro area	1.2	1.0	1.3	1.2	1.1	1.4	0.00[3]	0.00[3]	0.00[3]
France	1.3	1.4	1.7	1.3	1.4	1.9	—	—	—
Germany	0.5	0.4	1.2	1.3	1.3	1.4	—	—	—
Italy	0.2	0.7	0.9	0.8	0.9	1.3	—	—	—
Russia	1.1	2.0	2.2	4.5	3.3	4.0	6.25	6.00	6.00
Spain	2.0	1.5	1.4	0.8	1.3	1.9	—	—	—
Sweden	2.4	0.9	1.5	1.7	1.5	1.5	0.00	0.00	0.00
U.K.	1.3	1.4	1.7	1.8	1.8	2.0	0.75	1.00	1.25
Asia									
Australia	1.7	2.5	2.7	1.8	2.2	2.4	0.75	0.25	0.25
China	6.1	5.7	5.5	2.6	2.8	2.6	4.10	3.70	3.45
India[4]	6.8[8]	5.7	7.1	3.4[8]	3.7	3.5	6.25[5,8]	4.50[5]	4.50[5]
Indonesia	5.0	5.2	5.5	3.5	3.5	3.5	5.00	4.75	4.75
Japan	0.9	0.2	0.6	0.8[7]	0.6	0.7	-0.10	-0.10	0.00
Malaysia	4.2	4.5	5.0	1.5	1.8	2.0	3.00	2.75	2.75
Philippines	5.9	6.4	6.5	2.5	3.0	3.1	4.00	3.75	3.75
South Korea	1.9	2.3	2.5	0.4	1.3	1.4	1.25	1.25	1.25
Singapore	-0.1	0.5	2.0	0.5	0.5	1.0	—	—	—
Thailand	1.8	2.9	4.0	0.5	0.5	1.0	1.25	1.25	1.25
Latin America									
Argentina	-2.6	0.0	2.1	52.1	38.5	29.3	60.00	45.00	35.00
Brazil	0.8	2.1	2.5	3.4	4.0	3.8	4.50	4.50	7.00
Chile	2.0	3.2	3.0	2.2	2.9	2.9	1.50	2.50	2.50
Colombia	3.0	2.8	2.7	3.6	3.5	3.4	4.25	4.25	4.25
Mexico	0.2	1.5	2.0	3.7	3.1	3.3	7.25	6.00	5.00
Peru	2.3	3.4	3.3	2.2	2.1	2.3	2.50	2.25	2.25
Middle East & Africa									
Saudi Arabia	0.1	1.0	1.5	-0.3	2.0	2.0	2.00[5]	2.00[5]	2.00[5]
Turkey	0.5	2.5	3.0	12.0	10.0	9.0	14.00[6]	12.00[6]	11.00[6]

As of Nov. 8, 2019

Real government interest rates (based on two-year bond yield)

Country Vulnerability Matrix

Indicator score: More positive — More negative

	Projected GDP growth in 2020 vs. 15-year avg. (ppt)	Current-account balance as a share of GDP (%)	Short-term external debt as a share of GDP (%)	Rank of exchange rate sensitivity to market volatility	Reserve coverage as a share of adequacy (%)	CPI inflation, ppt deviation from target in Q3 '19	Government effectiveness score in 2018	Vulnerability ranking (1 = most vulnerable)
Saudi Arabia	-2.8	4.4	5.4	19	397.0	-4.1	0.32	15.9
Philippines	0.7	-2.0	5.9	11	183.0	-1.3	0.05	13.1
Thailand	-1.9	6.0	19.3	14	201.8	-1.9	0.35	13.0
Taiwan	-1.7	11.4	30.4	12	194.0	-0.6	1.36	13.0
Malaysia	-0.9	3.1	40.8	18	115.7	-0.7	1.08	12.7
Egypt	1.3	-3.1	5.4	19	85.3	-4.5	-0.58	12.6
South Korea	-1.4	3.2	11.8	6	113.2	-1.9	1.18	12.1
Russia	-1.0	5.7	6.1	9	323.9	0.3	-0.06	12.0
Brazil	-0.3	-1.2	7.7	8	159.9	-1.3	-0.45	11.6
India	-0.6	-2.0	10.0	10	138.7	-0.5	0.28	11.3
Poland	-1.0	-0.9	19.1	15	120.4	0.3	0.66	11.0
Peru	-2.0	-1.9	6.3	16	239.9	0.0	-0.25	10.3
China	-3.5	1.0	9.9	17	85.0	-0.1	0.48	10.1
Mexico	-0.9	-1.2	7.8	13	116.1	0.3	-0.15	9.7
Indonesia	-0.6	-2.9	5.8	5	77.6	-0.1	0.18	9.4
Chile	-0.7	-3.5	16.5	4	89.5	-0.5	1.08	9.3
Colombia	-1.3	-4.2	10.6	2	133.0	0.8	-0.09	6.1
South Africa	-1.5	-3.1	17.9	1	65.5	-0.4	0.34	6.1
Turkey	-3.1	-0.6	19.2	3	75.0	8.6	0.01	5.0
Argentina	-3.3	-1.2	43.5	7	85.9	37.4	0.03	5.0

MSCI World performance decomposition