

# Market Focus

3 December 2020

## Goodbye 2020

As we approach the end of this extraordinary year, visibility has sharply improved. While the US election did not result in the Democratic landslide predicted by the polls, Joe Biden is almost certain to become the next US president; the question now is whether the Republican party can hold the Senate. Either way, the tied or split Congress scenario will almost certainly cause more delay to forthcoming stimulus, as the amounts come under greater scrutiny.

The sterling effort on the part of those various pharma companies who have managed to develop viable Covid-19 vaccine candidates in record time has also brought forward some clarity on the recovery, with hope that we may at last be embarking on the beginning of the end of this terrible health crisis. Indeed the welcome vaccine news has brought about a seismic rotation in equity markets; cyclical stocks and value themes have been outperforming - the broadening participation in names outside growth and tech finally allowing equity markets the world over to rally further.

Still, the second wave of Covid-19 in Europe and in the US (again resulting in varying degrees of lockdown) serves as a harsh reminder of the incredibly infectious nature of this dangerous virus, and from a market perspective, value outperformance is unlikely to be a "one-way" journey. Furthermore, the longer-term growth themes – in technology in particular – are strong and secular in nature, and while the value rotation may still have some room to go, we do not expect the digitalization trend to collapse.



*"Is it over yet?"*

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# Global equity quantitative monitor

**Europe's** score in our equity regional matrix (the top-down indicator that gives us a regional view) has improved this past month thanks a much healthier trend score at 81% (up from -46%). While the pandemic brought a return to lockdowns across Europe, vaccine news has triggered a sharp value and cyclical rotation, which on a regional basis clearly favours European equities. Most Eurozone countries are still reporting a high number of Covid-19 cases, but these are now stabilising as lockdowns bear fruit. The Brexit negotiations continue as the clock ticks down to the end-of-year "deadline".

The value rotation has sent the Euro Stoxx 50 above its 200-DMA, and the next technical target is at 3,835. Despite the vaccination optimism, we still expect the ECB to announce further monetary support at its December meeting. In Equities we still like green and digitalization themes, but given recent vaccine news, would also now consider opportunities in riskier corners of the market i.e. among cyclical growers, or industrials and materials names that could also benefit from infrastructure push. (See also figure 10 for our best picks in Europe.)

**The US'** regional score in our matrix remains in 'bullish' territory at 19%, thanks largely to a trend score that remains very solid at 86% (and despite the very poor valuation score of -93%). Thanks to the improved visibility on both the political and pandemic front, value and cyclical stocks have also been outperforming in the US, with small-cap performance also gaining significant traction (and tech underperforming). The S&P 500 has continued to rally, the next technical target now at around 3,750. However we note that as Europe emerges from second-wave lockdowns, in the US the case numbers

have continued to climb in the apparent absence of any coherent or joined-up lockdown policy (even less so at a federal level). We continue to like cyclical names with a strong growth profile and/or those that are supported by fiscal stimulus themes such as infrastructure spending; See figure 11 for our best picks in the US..

**Japan's** regional score worsened in November, giving Japanese equities a neutral rating (10%). However the trend score remains a solid 72% and liquidity still a maximum 100%. Its exposure to China and a relatively weak second wave of Covid means it could still be well-positioned to benefit from a significant economic recovery. Yet the country remains dependant on international trade, and while visibility may be improving, the global economic recovery from this crisis is still likely to take some time. In Japan we would prefer those stocks with solid earnings momentum, and quality exporters.

**Emerging market** equities are in 'bullish' territory with a regional score of 22% (down from 28% last month). We remain positive on China and still think the country could continue to benefit from its 'head start' in the pandemic. While a Biden presidency in the US is unlikely to bring an end to the geopolitical tension between the US and China, we still expect some of the trade war rhetoric to soften. We continue to watch those names that could benefit from digitalization, the new online economy and fiscal support, and our "Playing China" selection list is available on request.

*\*Our top down' Equity Regional Matrix gives us an overview of the prevailing market conditions in equity markets, drawing on macroeconomic data, trend analysis on leading indices, and sentiment. For further information on each parameter, see the endnotes.*

Figure 1: PTS Equity Regional Matrix\*

MEDIUM TERM DIRECTION		BULLISH		BULLISH		BULLISH		NEUTRAL		
		from 10 to 30%		from 10 to 30%		from 10 to 30%		from -10% to +10%		
Regional Grades (-100% to 100%)		17%	U.S.A.	19%	EUROPE	14%	EMERGING	22%	JAPAN	10%
Trend	40%		86%		81%		76%		72%	
Overbought/Oversold			-14%		-19%		-24%		-28%	
Valuation	P/E		-93%		-85%		-88%		-65%	
Liquidity	10%		100%		33%		92%		100%	
Economics	10%		50%		0%		71%		-17%	
Sentiment	20%		-30%		11%		13%		-17%	

Source: Bloomberg Finance L.P. - Pictet Trading Strategy; as of 01/12/2020

# End-of-year review

## It is not all over yet - but the worst is?

As 2020 draws to a close, the Covid-19 pandemic is inflicting a second wave of economic and social pain across the globe. Lockdowns in Europe may now have managed to bring this latest rise in contamination under control, and in spite of a less-coordinated mitigation response (particularly at federal level) the trend in the US is now showing signs of peaking – although there are concerns that the Thanksgiving long week-end has put this at risk. Worth noting is that China appears to have managed to shrug off a second wave, while its economic recovery has so far also proved the strongest, (see our recent update on China again [here](#)).

The impact of this more aggressive second wave is starkly reflected in the worldwide mobility data. In the Eurozone it is now stabilizing as the associated lockdowns ease, while in the US the situation has been worsening slightly. On a mobility basis, China is well ahead, and it is the only country in which domestic flights have returned to pre-crisis levels.

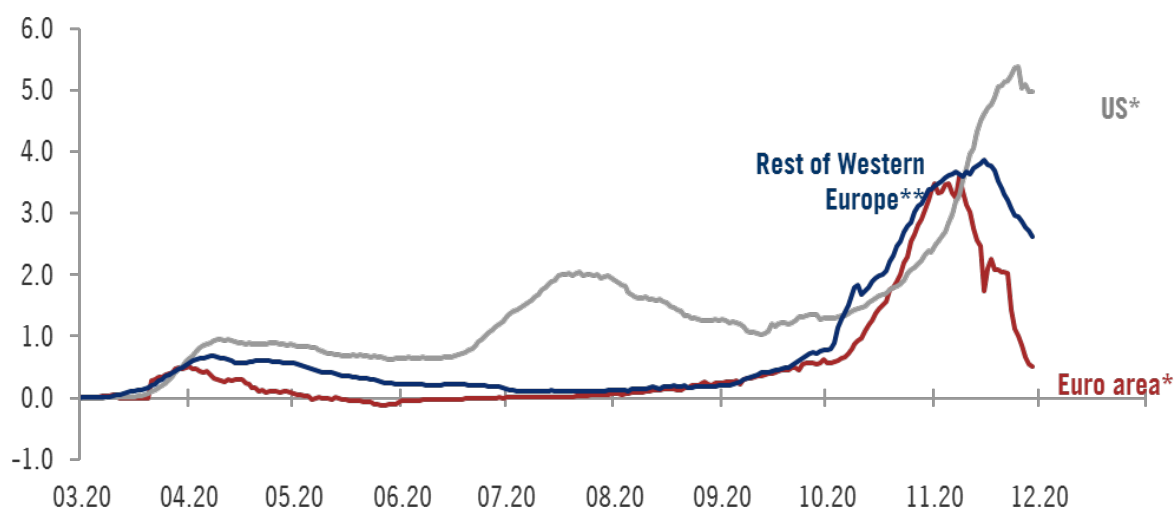
## Better news has been met with a seismic rotation in equity markets

We have long been talking of the three main catalysts we considered necessary to drive a significant and lasting end-of-year rally sustained by broadening participation (i.e. with cyclicals and value stocks outperforming):

1. Improved visibility on the US political front;
2. Further fiscal stimulus in the US; and
3. A significant breakthrough on the pandemic front;

While Donald Trump is still to officially concede defeat, the transition process to the incoming Biden administration has already started (while the legal recourse available to the President in challenging the result seems limited). However, that it turned out to be a much closer race than expected weighs on our second catalyst (fiscal stimulus) - and indeed the two parties continue to disagree on the extent of stimulus necessary. That said, the third catalyst jumped into action sooner than expected as three major firms (Pfizer, Moderna and then AstraZeneca) put forward vaccine candidates with surprisingly high efficacy rates. It is this last catalyst that has proved the trigger for the huge market rotation we have been seeing over the last month (and in spite of the yields being mostly flat).

Figure 2: US and Europe: Daily cases per 10'000 inhabitants (7 day-average)



\*Euro area: Germany, France, Italy, Spain, the Netherlands, Belgium, Greece, Portugal, Austria

\*\* UK, Sweden, Denmark, Norway, Switzerland

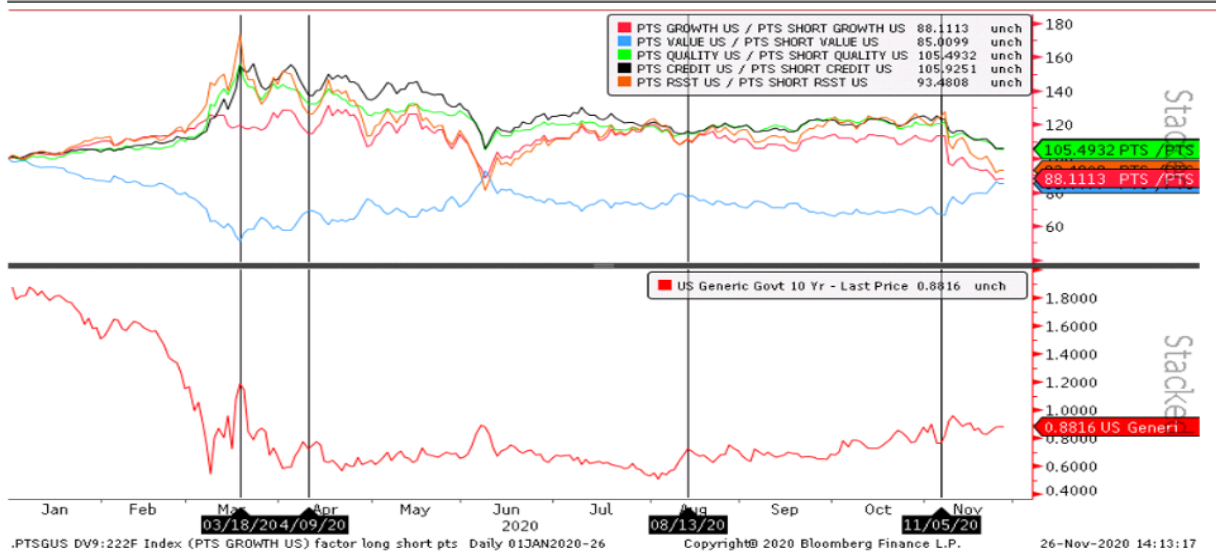
Click to enlarge. Source: Bloomberg Finance L.P.; Pictet; as of 30/11/2020.

The end-of-year review

As a consequence of the risk-on rotation, our proprietary risk indicator has shot up into 'risk-on' territory (see figure 4 below) and is now even closing in on "extreme-risk-on". On the vaccine elation, the more cyclically-oriented themes (i.e. cyclical growth) have been out-performing (especially in the US, but also in Europe), as have 'reopening' themes (and you can see the latest screening of our US 're-opening' selection list [here](#)). Life returning to the materials, consumer discretionary and industrials sectors (and also in some technology names) has been key to this rally, and with the seasonal tailwinds and record black Friday figures we have also been looking among consumer and retail names for names and themes that could outperform in the short-term (see our recent daily letter on this topic again [here](#)).

On a regional basis, European indices have been benefitting from their financial and cyclical biases, generally outperforming the US. Furthermore, and while Biden is unlikely to throw US trade policy into reverse, there are a number of sectors that have already enjoyed some relief in anticipation of a less belligerent stance from the US – most notably the European auto makers.

Figure 3: PTS factors long/short theoretical performance (top) and the US 10Y Treasury Yield (bottom)\*



Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 26/11/2020. \*Criteria are explained in the endnotes.

Figure 4: Our PTS risk indicator is now approaching extreme levels\*



Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 26/11/2020. \*Criteria are explained in the endnotes..

## The end-of-year review

Turning to Asia, China still looks well-positioned to benefit from the recovery (see our recent letter on the region again [here](#)) particularly on a 'first-in-first-out' basis. It is the first (and only) country to see positive YoY GDP growth (at 0.7% as of Q3 2020). (The latest iteration of our "Playing China" selection is available on request.) Finally, Japan has also appeared relatively immune from the second wave of the virus and is of course the most exposed market to China. See our recent letter here about why [Japan's](#) more value-oriented stock market, together with its exposure to industrials, could bring further outperformance.

### The value rotation is not a one-way ticket

Aside from our risk indicator approaching extreme territory, after such a record November it is natural to consider the risk that sentiment becomes too complacent - at least from a tactical point of view. Furthermore, and while we continue to expect the market to rally higher over the medium term, the value rotation is by no means a "one-way" journey. Indeed, and as we discussed in our recent letter "[Will reality rein in the value rotation](#)", many growth themes, digitalization and technology in particular, are also secular themes that are here to stay. The technical configuration of the value/growth performance ratio at figure 5 below is also looking challenging on the short-term (albeit a relative retracement could indicate some further entry points).

### But the outlook for equities has brightened

Coming off the recent elation, and on the realisation that the pandemic will still likely be with us for several months to come, the "stay-at-home" themes (that reflect the huge behavioural shifts that have been brought about by the pandemic - more flexibility, digitalization of the economy, work from home etc...) have also been gaining traction again recently. Either way, accommodative monetary policies and fiscal programmes will likely remain in place for several months (at least...). The nomination of Janet Yellen as US Treasury secretary in Biden's incoming administration is also a clear signal to the financial world that central banks and governments will continue their efforts to shore up their economies through this crisis. This is the core - and key - support factor that should prevent any major headwinds from overcoming the markets. Our outlook on equities therefore remains bullish, our next technical target on the S&P500 in the region of 3,750 (see figure 6). Finally, with lower rates for longer, we continue expect any pick up in yields to be capped, 1% the significant resistance for the US 10-year Treasury Yield (also promoting an environment in which growth stocks are still likely to perform).

Figure 5: S&P 500 value index vs S&P500 growth\*



Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 25/11/2020. \*Criteria are explained in the endnotes. The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit.



The end-of-year review

Figure 6: S&P500\*



Source: Bloomberg Finance L.P; Pictet Trading Strategy; as of 30/11/2020. \*Criteria are explained in the endnotes. The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit.

Gold and the Greenback

In our US election scenario we expected to see a stronger rebound in 10-year yields on raised stimulus hopes. While they did rebound, they were quickly capped, and the value rotation has largely taken place with little show on their part. That said, while we expected a tactical move in yields to trigger a short-term bounce back in the dollar, we expected it to be a limited and short-term move - and indeed the Dollar index has since failed to hold 92, he break below which heralds further downside (especially if the Euro remains above the psychological level at 1.20). Should the downside move continue, the next technical level for the DXY is 91.1, then 87.2. If EURUSD confirms the break of 1.20, the next technical target for the pair is 1.25.

Last but not least, the risk-on move has pushed gold lower than we were expecting over the summer (when we expected a retracement towards 1,835); on the positive vaccine news the yellow metal broke below 1,800. However, as we discussed in our recent letter on gold (which you can see again [here](#)), the long-term catalysts and low interest rates continue to bode well for the precious metal, (and the current technical configuration and current configuration might offer attractive entry point).

Figure 7: Dollar Index (DXY)\*



Source: Bloomberg Finance L.P; Pictet Trading Strategy; as of 30/11/2020. \*Criteria are explained in the endnotes. The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit.

Figure 8: EUR/USD\*



Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 28/11/2020. \*Criteria are explained in the endnotes. The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit.

## One for the record

So now, for the most part, the market catalysts that we considered necessary for a broader and sounder equity rally to take hold are now in place. Generous and accommodative fiscal and monetary policy combined with the idea that there is light at the end of the tunnel thanks to vaccine technology presents a very rosy backdrop for risk assets and equity markets as a whole. Nonetheless, behind the bullish set-up that has breathed life back into (and currently favours) value and cyclical stocks, the pandemic and its consequences will continue to trigger “reality checks” (and the consequences of such a crisis are likely to be far reaching). So while the longer-term outlook might now be biased in favour of cyclicals, we also expect gold and the more growth-oriented themes to prove robust (and in any event unlikely to collapse) even if the “vaccine relief” trade continues to bring slight underperformance in such areas of the market in the short-term.

Next year kicks off with the race for the US Senate, Joe Biden taking office, and in due course the deployment of massive vaccination campaigns. See over the page for a summary of our core views, and thereafter for some of our latest selection lists (all of which are available on request). Doubtless 2021 will bring its fair share of surprises; but for now, and as we wave (a slightly relieved) goodbye to the extraordinary year 2020, we take the opportunity to wish our readers all a merry Christmas, the very best of health, and a happy new year!

Figure 9: PTS Trading Strategy Short-Term Core views\*

	US	Europe	Japan	EM
<b>Equities</b>	<p>*S&amp;P500: 3'645 reached next target at 3'740 and then 3'797.  <b>Drivers: Vaccine</b>, "Fed put", political clarity in the US and recovery hopes, but virus spreading remains a headwind</p>	<p>*Euro Stoxx 50: 3'400 reached                      Next technical target at 3,835  <b>Drivers: Cyclical rotation, ECB and govt support, but local lockdown does not help the slow macro recovery</b></p>	<p>*Nikkei 26'000 reached, approaching next technical target at 27,050  <b>Drivers: weak virus second wave, exposure to China and BoJ still accommodative</b></p>	<p>*Hang Seng: 26'300 reached, approaching next technical target at 27'000  <b>Drivers for China: pandemic contained and economy restarting. Current rotation to favour EM</b></p>
<b>Equity themes</b>	<p>Cyclical growers and tactical value themes. Core conviction to be supported by monetary policy and fiscal stimulus.</p>	<p>The green theme, digitalization and EU cyclical growers. Fiscal stimulus and recovery plans to support infrastructure sectors.</p>	<p>Stocks with solid earnings momentum, quality exporters and manufacturers.</p>	<p>Themes linked to supportive measures and global economic recovery. Consumer, e-commerce and internet themes.</p>
<b>FX</b>	<p>Rebound under way. Capped Yield to limit Dollar upside. Dollar index failed to hold 92. Next supports at 91.1 and 87.3</p>	<p>*EURUSD: fast upward towards 1.20. If the breakout is confirmed, next target is at 1.25</p>	<p>USDJPY: 105 is acting as a resistance. Downward trend on Dollar weakness. Next support at 100.</p>	<p>Cautious re currencies with high external vulnerabilities (TRY &amp; ZAR)</p>
<b>FI</b>	<p>*Lower yields for longer: US 10-year yields likely to remain capped below 1.0% with short-term pick-up on risk-on moves</p>	<p>*Lower yields for longer: GER 10-year yields should be capped at around -0.2%</p>		
<b>WTI &amp; Gold</b>	<p>*Crude oil → our medium-term target has been raised to USD 45 on recovery hopes. Rebound to be gradual.</p>			
	<p>*Gold → 1800 region as a support zone. Next technical levels at 1900 and then 2060</p>			

**Risks to our scenario:** a return to severe and global lockdowns to manage subsequent waves of Covid-19, a lasting macroeconomic slump / trade war escalation / geopolitical risks / hard Brexit / central bank mistake / weaker-than-expected corporate earnings

Source: FactSet; Pictet Trading Strategy; as of 28.1.2020. \*The target price presented is upon chart analysis. This is not the product of any Pictet financial research unit.



Figure 10: PTS selection list: EU “Long-only” – quantitative grades\*

			Short-term			Long-term			Technical Parameters			
Weight in Global Grade:			25%	10%	10%	15%	10%	10%	10%	10%	100%	
Ticker	Name	Sector	Growth	EPS	Sales	Value	Quality	Credit	MF	Sent.	RS	Global
HEI GY	HEIDELBERGCEMENT AG	Construction Materials	73	77	52	75	51	54	23	61	39	61
AD NA	KONINKLIJKE AHOLD DELHAIZE N	Food & Staples Retailing	65	68	63	72	54	54	51	49	51	61
MAERSKB DC	AP MOLLER-MAERSK A/S-B	Marine	56	72	31	68	41	62	63	62	84	57
DPW GY	DEUTSCHE POST AG-REG	Air Freight & Logistics	58	69	52	57	59	54	63	38	76	57
LHN SW	LAFARGEHOLCIM LTD-REG	Construction Materials	57	65	33	64	51	54	78	32	51	55
ERICB SS	ERICSSON LM-B SHS	Communications Equipment	63	73	42	48	61	58	34	52	76	55
FP FP	TOTAL SE	Oil, Gas & Consumable Fuels	52	40	23	65	39	66	79	71	20	55
GALE SW	GALENICA AG	Health Care Providers & Servic	54	56	43	52	46	55	86	33	49	53
BNP FP	BNP PARIBAS	Banks	48	59	47	64	52	58	44	54	30	53
ROG SW	ROCHE HOLDING AG-GENUSSCHEIN	Pharmaceuticals	43	38	48	49	53	77	70	60	51	53
STM IM	STMICROELECTRONICS NV	Semiconductors & Semiconducto	65	50	64	24	55	71	29	59	90	53
PGHN SW	PARTNERS GROUP HOLDING AG	Capital Markets	54	41	58	30	55	51	80	50	74	52
UG FP	PEUGEOT SA	Automobiles	57	50	39	70	45	53	3	73	36	51
CARLB DC	CARLSBERG AS-B	Beverages	59	51	39	42	53	49	70	35	47	51
TKWY NA	JUST EAT TAKEAWAY	Internet & Direct Marketing Re	49	63	81	36	44	62	3	72	63	50
SWMA SS	SWEDISH MATCH AB	Tobacco	55	65	61	37	69	56	3	44	92	49
RBI AV	RAIFFEISEN BANK INTERNATIONA	Banks	58	51	26	61	53	38	33	52	18	49
SIKA SW	SIKA AG-REG	Chemicals	62	56	52	23	52	50	17	72	83	49
SAN FP	SANOFI	Pharmaceuticals	34	40	40	55	59	77	42	62	53	49
BN FP	DANONE	Food Products	36	32	35	58	46	52	90	54	12	49
PUM GY	PUMA SE	Textiles, Apparel & Luxury Goo	56	32	61	23	58	59	36	58	77	48
AMUN FP	AMUNDI SA	Capital Markets	48	40	40	52	55	66	46	33	55	48
BALN SW	BALOISE HOLDING AG - REG	Insurance	34	36	45	66	49	41	69	46	42	47
VIV FP	VIVENDI	Entertainment	41	39	60	53	49	57	19	60	57	47
CS FP	AXA SA	Insurance	35	47	36	70	47	52	24	67	22	47
DG FP	VINCI SA	Construction & Engineering	35	21	47	43	46	48	90	59	35	46
RWE GY	RWE AG	Multi-Utilities	39	38	57	53	48	66	25	52	82	46
KER FP	KERING	Textiles, Apparel & Luxury Goo	49	36	51	23	44	61	43	57	68	45
SIE GY	SIEMENS AG-REG	Industrial Conglomerates	44	48	30	43	49	59	31	48	64	44
VNA GY	VONOVIA SE	Real Estate Management & Deve	50	46	47	37	48	44	25	48	76	44
NESN SW	NESTLE SA-REG	Food Products	44	43	33	36	54	67	19	52	51	43
ENEL IM	ENEL SPA	Electric Utilities	34	43	37	50	42	46	55	43	80	43
LONN SW	LONZA GROUP AG-REG	Life Sciences Tools & Services	54	45	55	18	52	61	5	42	94	42
FGR FP	EIFFAGE	Construction & Engineering	44	24	50	59	39	33	37	38	29	42
ENGI FP	ENGIE	Multi-Utilities	35	29	38	67	46	52	13	50	36	42
AIR FP	AIRBUS SE	Aerospace & Defense	33	21	30	30	44	57	70	43	11	39

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/12/2020.  
\*Criteria are explained in the endnotes.

Figure 11: PTS selection list: US “Long-only” – quantitative grades\*

Ticker	Name	Sector	Short-term			Long-term			Technical Parameters			Global
			25%	10%	10%	15%	10%	10%	10%	10%	10%	
Weight in Global Grade:			Growth	EPS	Sales	Value	Quality	Credit	MF	Sent.	RS	100%
PHM US	PULTEGROUP INC	Household Durables	77	76	77	61	71	60	92	26	70	69
FB US	FACEBOOK INC-CLASS A	Interactive Media & Services	82	79	86	34	57	72	72	30	87	65
AMZN US	AMAZON.COM INC	Internet & Direct Marketing Re	83	76	83	25	58	70	74	31	96	64
EA US	ELECTRONIC ARTS INC	Entertainment	66	61	66	39	64	85	83	54	78	64
BABA US	ALIBABA GROUP HOLDING-SP ADR	Internet & Direct Marketing Re	79	81	83	33	71	85	32	32	91	63
ALL UN	ALLSTATE CORP	Insurance	72	76	67	68	52	49	64	41	44	63
GOOGL US	ALPHABET INC-CL A	Interactive Media & Services	73	73	80	27	62	90	60	32	86	62
LRCX US	LAM RESEARCH CORP	Semiconductors & Semiconducto	68	62	69	22	70	70	76	42	94	59
FNF US	FIDELITY NATIONAL FINANCIAL	Insurance	73	76	68	60	54	23	70	26	20	59
MSFT US	MICROSOFT CORP	Software	70	63	71	19	64	79	68	27	89	58
BLK US	BLACKROCK INC	Capital Markets	62	61	66	34	57	74	44	63	90	57
PYPL US	PAYPAL HOLDINGS INC	IT Services	70	60	76	8	66	71	80	30	97	57
AKAM US	AKAMAI TECHNOLOGIES INC	IT Services	56	56	71	31	48	56	72	74	75	56
AZO US	AUTOZONE INC	Specialty Retail	65	61	67	46	65	55	19	44	49	54
JBHT US	HUNT (JB) TRANSPRT SVCS INC	Road & Rail	47	45	64	44	54	67	76	42	73	53
BAC US	BANK OF AMERICA CORP	Banks	53	42	40	53	56	73	76	32	33	53
FDX US	FEDEX CORP	Air Freight & Logistics	48	67	67	50	48	39	76	37	96	53
WRK US	WESTROCK CO	Containers & Packaging	63	77	49	73	42	38	5	44	68	52
AAPL US	APPLE INC	Technology Hardware, Storage &	67	66	66	15	66	66	40	26	96	52
AVGO US	BROADCOM INC	Semiconductors & Semiconducto	52	50	68	37	56	33	74	52	78	52
FCX US	FREEMPORT-MCMORAN INC	Metals & Mining	75	83	37	33	41	42	30	40	97	51
PH US	PARKER HANNIFIN CORP	Machinery	72	77	52	34	58	49	7	35	86	51
WMT US	WALMART INC	Food & Staples Retailing	56	65	53	41	61	68	28	32	82	51
C US	CITIGROUP INC	Banks	48	50	50	64	55	67	27	43	17	51
ZTS US	ZOETIS INC	Pharmaceuticals	68	62	70	18	56	46	47	28	84	51
ABT US	ABBOTT LABORATORIES	Health Care Equipment & Suppli	60	59	63	26	55	65	34	38	81	50
EQIX US	EQUINIX INC	Equity Real Estate Investment	56	56	69	22	34	38	73	58	80	50
V US	VISA INC-CLASS A SHARES	IT Services	57	45	57	17	59	73	16	73	73	49
LLY US	ELI LILLY & CO	Pharmaceuticals	57	52	52	33	58	54	53	26	79	49
CLH US	CLEAN HARBORS INC	Commercial Services & Supplies	64	77	36	37	49	39	16	54	39	49
AEP US	AMERICAN ELECTRIC POWER	Electric Utilities	51	46	38	44	36	42	81	37	44	47
MDLZ US	MONDELEZ INTERNATIONAL INC-A	Food Products	53	50	45	38	57	46	57	28	67	47
JNJ US	JOHNSON & JOHNSON	Pharmaceuticals	40	46	47	46	60	77	31	32	61	46
GPN US	GLOBAL PAYMENTS INC	IT Services	58	55	64	26	44	50	25	29	66	45
JCI US	JOHNSON CONTROLS INTERNATION	Building Products	50	64	42	52	52	53	2	28	66	44
CHGG US	CHEGG INC	Diversified Consumer Services	67	64	60	11	37	36	3	56	96	44
KO US	COCA-COLA CO/THE	Beverages	42	43	38	34	59	51	28	42	53	42
BSX US	BOSTON SCIENTIFIC CORP	Health Care Equipment & Suppli	55	39	54	34	41	48	8	38	21	42

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/12/2020.  
\*Criteria are explained in the endnotes.

The end-of-year review

Figure 12: EU Green theme - quantitative grades\*

			Short-term			Long-term			Technical Parameters			
Weight in Global Grade:			25%	10%	10%	15%	10%	10%	10%	10%	10%	100%
Ticker	Name	Sector	Growth	EPS	Sales	Value	Quality	Credit	MF	Sent.	RS	Global
ANDR AV	ANDRITZ AG	Machinery	54	81	49	72	62	53	91	72	37	65
WCH GY	WACKER CHEMIE AG	Chemicals	68	89	37	59	46	56	69	35	93	59
BNR GY	BRENNTAG AG	Trading Companies & Distributo	55	56	41	54	62	58	88	58	83	58
HER IM	HERA SPA	Multi-Utilities	56	44	58	63	41	44	43	55	19	52
AGK LN	AGGREKO PLC	Commercial Services & Supplies	41	38	41	70	45	53	63	66	14	51
ORSTED DC	ORSTED A/S	Electric Utilities	61	75	22	21	42	54	79	56	96	51
UMI BB	UMICORE	Chemicals	54	45	64	39	44	57	31	70	49	50
EOAN GY	E.ON SE	Multi-Utilities	42	32	56	52	45	38	84	60	55	50
HLMA LN	HALMA PLC	Electronic Equipment, Instrume	53	42	56	23	50	63	70	45	62	49
LR FP	LEGRAND SA	Electrical Equipment	55	52	63	42	60	64	9	36	52	48
VWS DC	VESTAS WIND SYSTEMS A/S	Electrical Equipment	41	41	56	22	42	65	86	56	96	48
HEXAB SS	HEXAGON AB-B SHS	Electronic Equipment, Instrume	55	50	54	26	42	58	39	62	84	48
AALB NA	AALBERTS NV	Machinery	42	29	44	48	47	57	72	50	48	48
ALFA SS	ALFA LAVAL AB	Machinery	47	36	38	50	61	69	22	56	42	47
JMAT LN	JOHNSON MATTHEY PLC	Chemicals	38	43	46	65	43	57	27	64	21	47
EMSN SW	EMS-CHEMIE HOLDING AG-REG	Chemicals	42	38	32	25	49	76	61	66	83	46
CRDA LN	CRODA INTERNATIONAL PLC	Chemicals	50	47	52	28	53	53	4	64	77	44
SY1 GY	SYMRISE AG	Chemicals	52	47	52	28	50	52	12	48	76	43
CHR DC	CHR HANSEN HOLDING A/S	Chemicals	48	47	30	26	38	44	47	64	74	43
NDX1 GY	NORDEX SE	Electrical Equipment	25	25	67	47	48	33	63	53	94	42
ANA SM	ACCIONA SA	Electric Utilities	31	29	41	48	34	34	52	70	69	41
SSE LN	SSE PLC	Electric Utilities	35	51	32	48	58	32	26	48	59	41
LAND SW	LANDIS+GYR GROUP AG	Electronic Equipment, Instrume	35	22	24	48	43	63	25	70	11	41

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\*Criteria are explained in the endnotes.

The end-of-year review

Figure 13: US “cyclical growers” – quantitative grades\*

Ticker	Name	Sector	Short-term			Long-term			Technical Parameters			Global
			25%	10%	10%	15%	10%	10%	10%	10%	RS	
Weight in Global Grade:			Growth	EPS	Sales	Value	Quality	Credit	MF	Sent.	RS	100%
PHM US	PULTEGROUP INC	Household Durables	77	76	77	61	71	60	92	26	70	69
DHI US	DR HORTON INC	Household Durables	83	83	87	52	59	73	13	32	87	63
TSCO US	TRACTOR SUPPLY COMPANY	Specialty Retail	68	64	75	47	62	49	76	54	88	62
MOS US	MOSAIC CO/THE	Chemicals	75	90	35	59	40	46	98	26	78	61
AMAT US	APPLIED MATERIALS INC	Semiconductors & Semiconducto	71	73	72	38	64	76	33	56	88	61
NEM US	NEWMONT CORP	Metals & Mining	74	78	55	43	52	73	59	34	92	60
LEN US	LENNAR CORP-A	Household Durables	73	78	73	58	63	55	5	47	83	59
AMD US	ADVANCED MICRO DEVICES	Semiconductors & Semiconducto	71	74	61	19	60	65	75	48	98	59
MCHP US	MICROCHIP TECHNOLOGY INC	Semiconductors & Semiconducto	68	71	72	36	52	22	68	68	89	58
ADP US	AUTOMATIC DATA PROCESSING	IT Services	62	55	61	35	64	75	58	42	58	56
KMX US	CARMAX INC	Specialty Retail	61	52	64	34	49	38	70	80	50	56
NVR US	NVR INC	Household Durables	66	54	66	37	78	73	32	33	68	56
HD US	HOME DEPOT INC	Specialty Retail	68	65	71	37	67	55	29	42	80	55
COST US	COSTCO WHOLESALE CORP	Food & Staples Retailing	63	59	67	31	56	78	43	42	83	55
ORLY US	O'REILLY AUTOMOTIVE INC	Specialty Retail	73	70	78	35	63	40	22	40	56	55
AZO US	AUTOZONE INC	Specialty Retail	65	61	67	46	65	55	19	44	49	54
DG US	DOLLAR GENERAL CORP	Multiline Retail	71	69	74	32	62	47	29	32	86	54
JBHT US	HUNT (JB) TRANSPRT SVCS INC	Road & Rail	47	45	64	44	54	67	76	42	73	53
CTAS US	CINTAS CORP	Commercial Services & Supplies	64	56	62	20	62	62	47	52	90	53
AVGO US	BROADCOM INC	Semiconductors & Semiconducto	52	50	68	37	56	33	74	52	78	52
PCAR US	PACCAR INC	Machinery	54	43	47	40	47	66	77	42	66	52
CSCO US	CISCO SYSTEMS INC	Communications Equipment	50	57	43	53	71	83	18	38	43	51
FCX US	FREEPORT-MCMORAN INC	Metals & Mining	75	83	37	33	41	42	30	40	97	51
PH US	PARKER HANNIFIN CORP	Machinery	72	77	52	34	58	49	7	35	86	51
FAST US	FASTENAL CO	Trading Companies & Distributo	59	50	59	27	63	72	5	70	85	51
TXN US	TEXAS INSTRUMENTS INC	Semiconductors & Semiconducto	58	53	46	22	69	74	46	40	84	51
PPG US	PPG INDUSTRIES INC	Chemicals	49	46	35	35	66	57	71	55	72	51
CHRW US	C.H. ROBINSON WORLDWIDE INC	Air Freight & Logistics	49	48	54	46	68	62	13	65	78	50
RSG US	REPUBLIC SERVICES INC	Commercial Services & Supplies	67	65	54	36	45	45	32	28	69	49
ROP US	ROPER TECHNOLOGIES INC	Industrial Conglomerates	61	49	59	25	53	43	25	42	73	46
VMC US	VULCAN MATERIALS CO	Construction Materials	52	39	52	42	51	58	32	34	58	46
HON US	HONEYWELL INTERNATIONAL INC	Industrial Conglomerates	46	49	29	27	58	66	34	45	75	44
CAT US	CATERPILLAR INC	Machinery	40	39	33	41	49	55	19	50	76	41

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 3/12/2020. \*Criteria are explained in the endnotes.

## Endnotes: References for publications of Banque Pictet & Cie SA – Trading Strategy

**Model performance data is not a reliable indicator of future returns.** Model performance calculation has a number of limitations and the results do not represent the results of actual trading using client assets. The data provided is gross of fees and other commissions. Fees and charges will apply and will reduce the final return. No representation is being made that the model portfolios illustrated will or are likely to achieve results similar to those shown and there are often sharp differences between model performance results and actual results achieved.

### The Equity quantitative grades

**Growth Grade:** The Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.

**EPS Grade:** The EPS Grade is a proprietary formula consisting of current and forward EPS growth, change and surprise data. An EPS grade above 60 or below 40 is considered predictive for future out/under performance.

**Sales Grade:** The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.

**Value Grade:** The Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.

**Quality Grade:** The Quality Gating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.

**Credit Grade:** The Credit Grade focusses on the passive side of the balance sheet. It is divided into three sub-components to assess both short and long-term solvency. A grade above 55 suggests a strong capital structure, while a grade below 45 suggests a weak one.

**Money Flow Grade:** The Money Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.

**Smart Sentiment Grade:** The Smart Sentiment grade is a contrarian indicator based on investor positioning measures such as the days to cover ratio, the put call ratio, and the short interest ratio. A weak grade suggests 'too much' optimism.

**Relative Strength (RS) Grade:** The RS grade measures the price momentum of a stock over its 1-year price performance.

**Global Grade:** The Global Grade is a weighted average of the Growth, EPS Sales, Value, Quality, Credit, Money Flow and Smart Sentiment Grades.

### The Regional MATRIX grades

The Regional Matrix grades range from -100% to +100%. We consider a grade above 50% to be very bullish, a grade above 25% to be bullish, and a grade between 0% and 25% to be neutral. A grade between 0% and -45% we consider bearish and a grade below -45% very bearish.

**Regional Grade:** The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Overbought/Oversold, Valuation, Liquidity, Economics, and Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.

**Trend Grade:** The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.

**Valuation Grade:** The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).

**Economics Grade:** The Economics Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the **Citigroup Surprise Indices**. The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.

**Sentiment Grade:** The Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

**Reversal date in the Trend:** If the trend has reversed, we give the reversal date and indicate the direction of the reversal.

**Factor trends:** We look at the performance of 5 theoretical long-short selections, each built around one of our quantitative grades (i.e. growth (EPS momentum), price momentum (RS), quality, sentiment and value), and each long the top decile and short the bottom decile of stocks within the respective region in our equity universe in terms of exposure to each specific score.

**Model Long Only & Absolute return regional Allocation:** The Regional Allocation shows the advised net exposure in total and per region. It is calculated by multiplying the MSCI regional weight by the Regional Grade (we use the structural bull market regional grade).

**Trading Strategy Exposure:** The Trading Strategy Exposure shows the actual net exposure in total and per region, based on our trades.

Short-Term: 1 to 4 weeks / Medium Term: 1 to 3 months / Long Term: more than 3 months.

**PTS:** Pictet Trading Strategy.

Buy/Long: Stock is expected to achieve a total return that exceeds the relevant market index over the next 3 to 6 months.

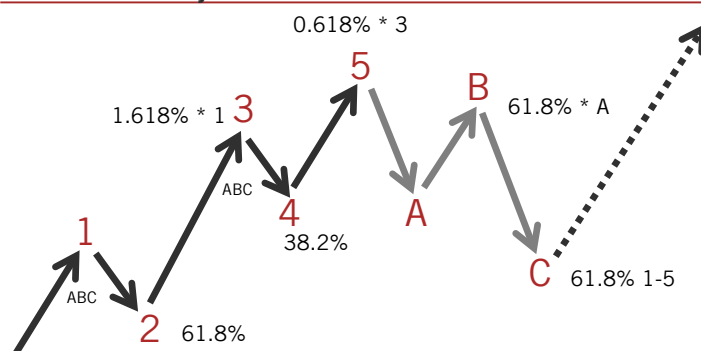
Sell/Short: Stock is expected to underperform the relevant market index over the next 3 to 6 months.

Hold/Neutral: Stock is expected to be in line with total return of the relevant market index over the next 3 to 6 months.

**Technical Analysis:** The technical analysis used in this presentation combines traditional technical tools: graphical analysis (trend lines, support lines, continuation and reversal patterns) which determines the tendency, mathematical indicators (moving averages, RSI, MACD) used as numeric filters and Elliott wave theory which allows us to build a scenario with target levels and invalidation points.

**Elliott Wave Theory:** According to Elliott Wave Theory, markets move in impulse waves – with five sub-waves (numbered 1-5 or I-V) following the direction of the main trend, followed by three corrective sub-waves (A-B-C) (example to the right). These waves follow a set of specific rules and are linked to each other by target and retracement ratios based on the Fibonacci sequence, and the characteristics of each wave form an integral part of the reflection of the mass psychology it embodies.

### Elliott Wave Theory



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