

Conference Call

29 May 2020

Pictet Trading & Sales, Trading Strategy

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Geneva

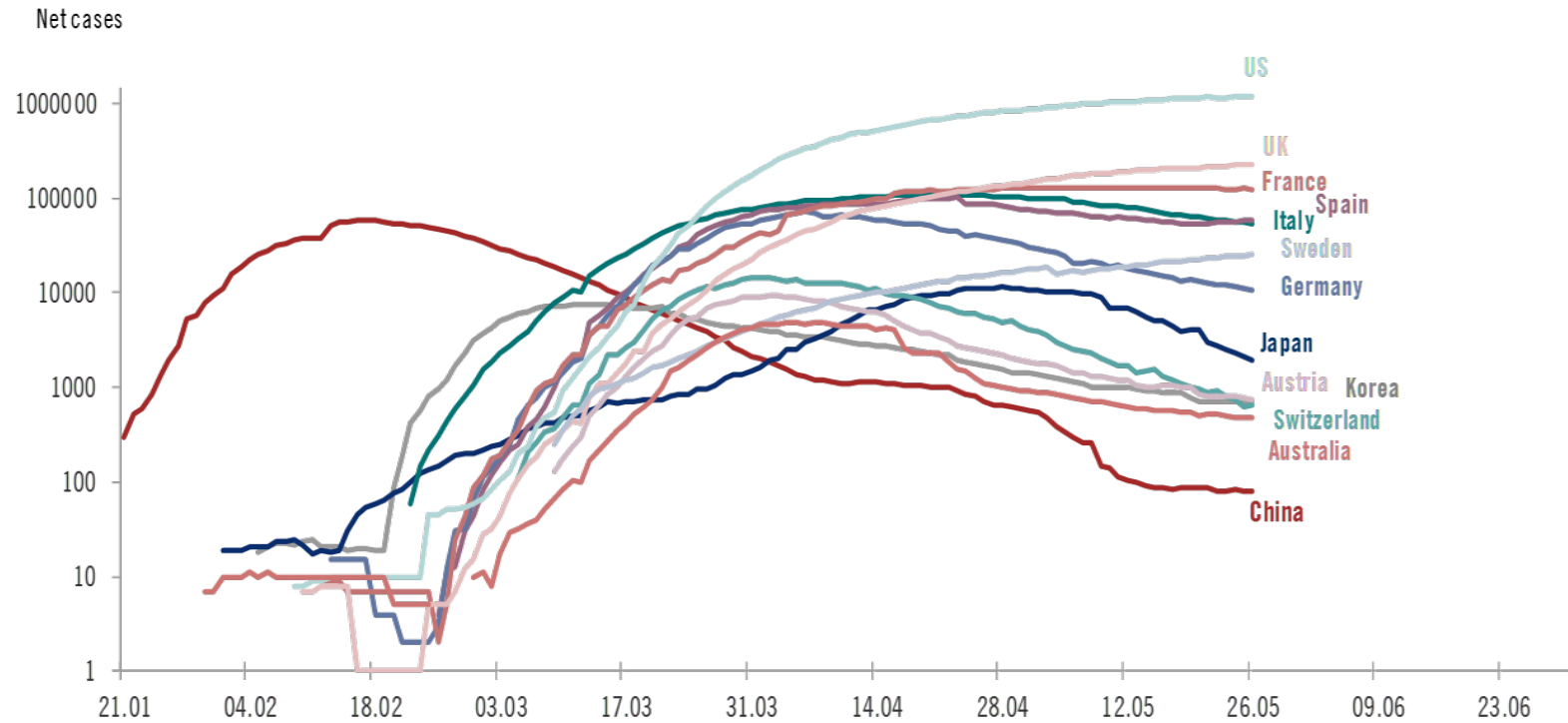
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Covid-19 : is the virus disappearing??

COVID-19 : net cases (total cases – deaths – recovered)

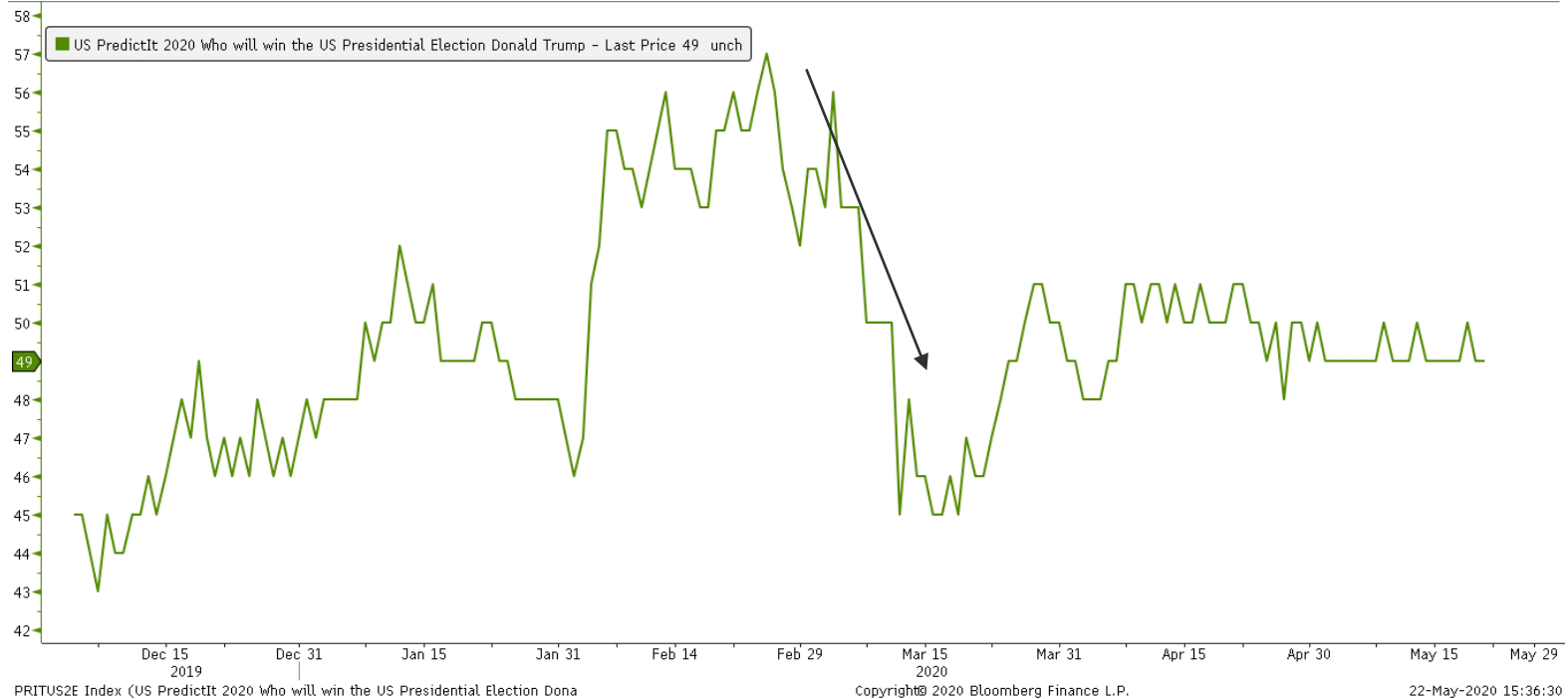


Source: Pictet Bloomberg Finance L.P; Pictet; as of 27.05.2020

- The likelihood of an imminent and severe second wave of the global pandemic appears to be diminishing;
- Most countries are now well under way in reopening, with net cases falling across most global regions;
- By the mid-end of June, most lockdown restrictions should be lifted (except social distance and travel);
- However, uncertainty and questions remain given the absence of a vaccine or effective treatment.

Sabre-rattling vs China risks a return to the trade war: a political play?

US PredictIt 2020 – probability of a Donald Trump US election win

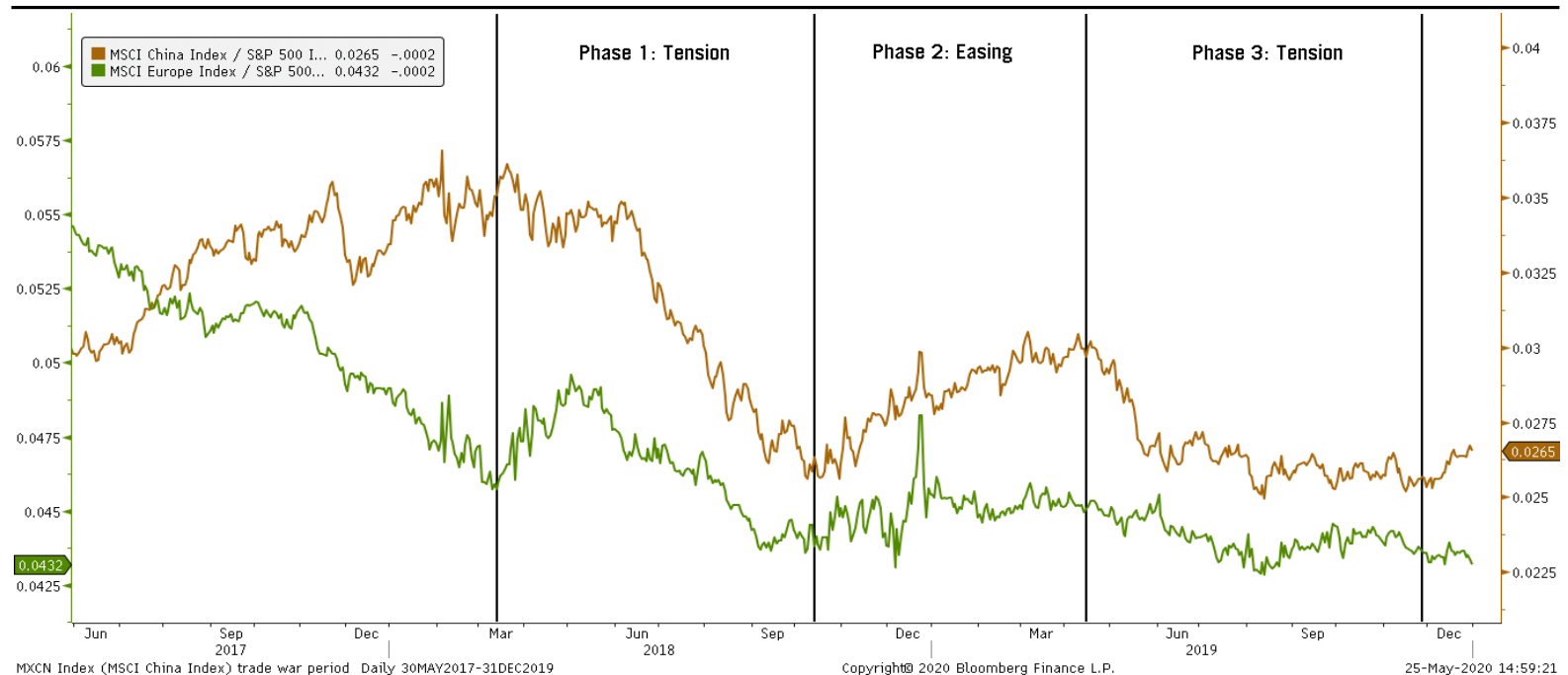


Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 25.05.2020

- Donald Trump has been criticized for his management of the pandemic; for underestimating it and taking action too late;
- With over 100,000 deaths, the US has suffered the most, and also lags other regions in the recovery;
- A strong economy is/was a key pillar in Donald Trump's 2020 campaign messaging. With more than 25 million now unemployed and GDP expected to suffer severe contraction this year, he needs to regain voter confidence;
- The President's rhetoric vs China (Hong Kong / trade / pandemic) is also a "distraction" tactic;

Trade tensions: what did 2018-2019 teach us?

Chinese and EU stocks: relative performance vs S&P 500 during the 2018-2019 Trade war period:

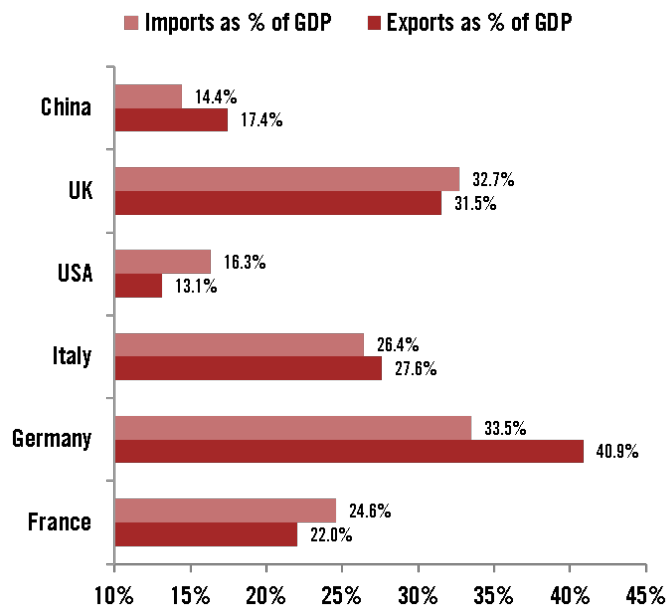


Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 25.05.2020

- The 2018-2019 period can be broken into three distinct phases:
 1. **March 2018 – October 2018: Tension** (first steel/aluminium tariff to US/China resuming contact ahead of the G20);
 2. **October 2018 – April 2019: Easing** (G20 to Huawei ban and Trump threatening new tariffs);
 3. **May 2019 – End of 2019: Tension** (until talks restarted and phase 1 deal is signed);
- US stocks generally outperformed during periods of tension (compared to European and Chinese indices);
- Growth stocks also outperformed in the tense periods (see our recent letter on the trade war [here](#)).

Protectionism: focus on domestic names and the more trade-war-immune stocks:

Exports & imports as % of GDP (2019 data):



Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 27.05.2020

- Protectionist rhetoric has been growing (US, Europe and some parts of Asia), and the pandemic has been a catalyst. See our recent letter on the trade war [here](#);
- Europe is the most exposed to international trade; the US has a more domestic focus;

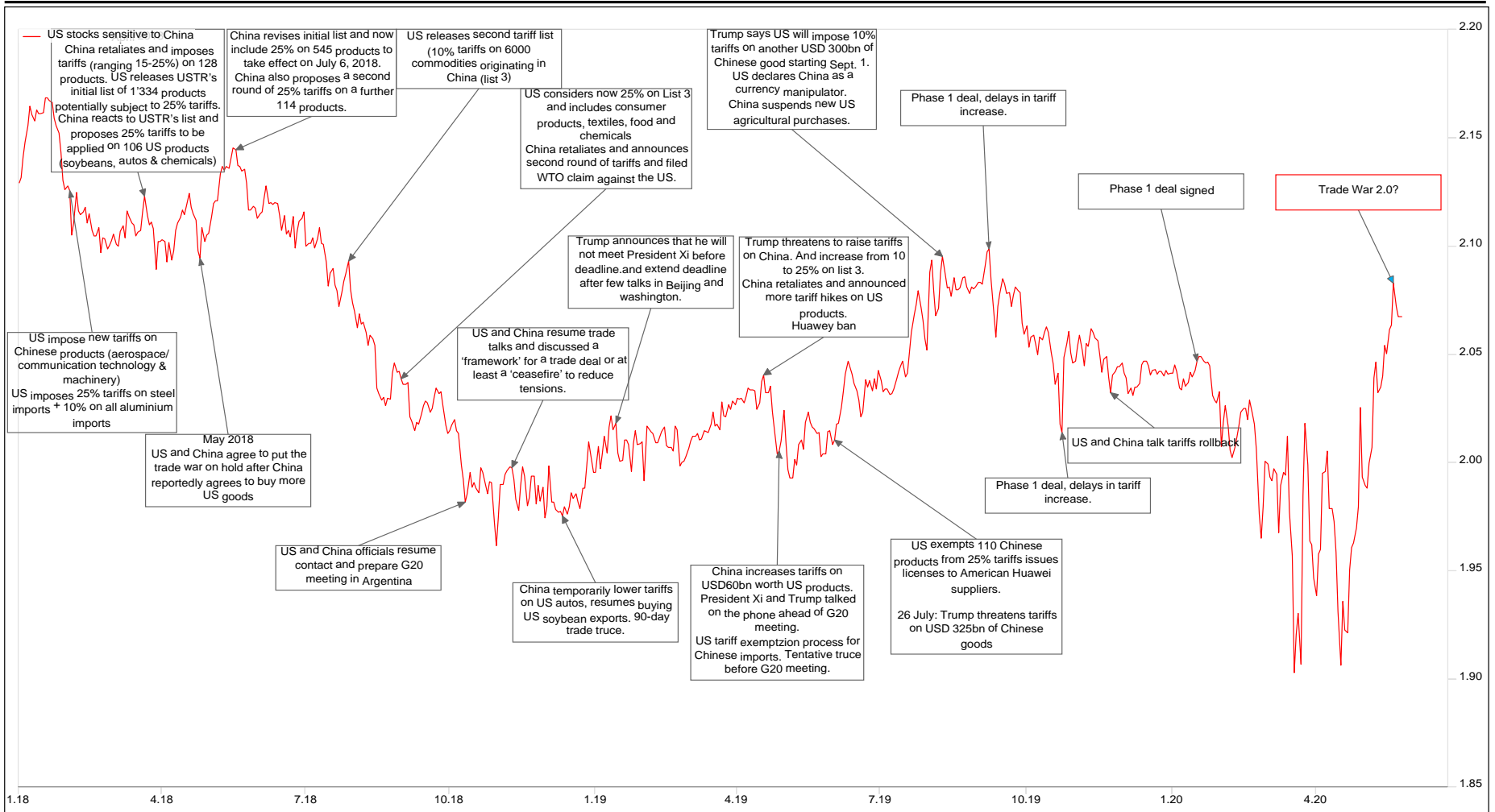
'Best' EU and US domestic stocks according to their growth scores – quantitative grades*:

Ticker	Name	Industry	Growth	EPS	Sales	Value	Quality	Credit	MF	Sentiment	RS	Global	EU rev %
TNET-BE	Telenet Group Holding NV	Media	67	72	56	70	53	25	20	48	30	55	99.7
O2D-DE	Telefonica Deutschland Holding	Diversified Telecommunication Services	64	95	47	69	44	40	20	46	65	55	100.0
VNA-DE	Vonovia SE	Real Estate Management & Development	63	68	60	28	47	39	82	60	72	56	100.0
TRN-IT	Terna S.p.A.	Electric Utilities	62	66	66	40	57	36	24	42	67	51	100.0
UTDI-DE	United Internet AG	Diversified Telecommunication Services	60	65	69	66	48	54	71	68	80	62	93.1
ILD-FR	Iliad SA	Diversified Telecommunication Services	59	50	71	60	58	36	54	60	92	57	100.0
ELISA-FI	Elisa Oyj Class A	Diversified Telecommunication Services	59	66	63	24	53	50	38	64	91	52	97.0
KPN-NL	Royal KPN NV	Diversified Telecommunication Services	59	58	39	56	55	28	93	43	37	55	100.0
UN01-DE	Uniper SE	Independent Power and Renewable Electricity Producers	58	72	34	57	54	59	55	62	67	57	94.0
ELE-ES	Endesa S.A.	Electric Utilities	57	79	44	53	60	58	19	43	54	52	99.2
AGS-BE	ageas SA/NV	Insurance	57	47	51	66	48	68	1	47	24	50	93.5
G-IT	Assicurazioni Generali S.p.A.	Insurance	57	56	47	70	47	39	15	50	33	50	85.1
EOAN-DE	E.ON SE	Multi-Utilities	56	59	65	46	44	35	18	58	71	49	94.7
KESKOB-FI	Kesko Oyj Class B	Food & Staples Retailing	56	56	51	42	52	35	28	55	85	48	92.0
CNP-FR	CNP Assurances SA	Insurance	54	50	18	65	48	61	78	45	6	53	79.7
A2A-IT	A2A S.p.A.	Multi-Utilities	53	39	61	69	47	41	19	39	39	48	100.0
IGY-DE	innogy SE	Multi-Utilities	51	77	57	34	39	36	45	54	75	49	99.8
PST-IT	Poste Italiane SpA	Insurance	50	38	47	61	39	18	57	28	43	44	100.0
RWE-DE	RWE AG	Multi-Utilities	50	60	47	50	45	51	3	54	86	46	93.3
Ticker	Name	Industry	Growth	EPS	Sales	Value	Quality	Credit	MF	Sentiment	RS	Global	US rev %
ANTM-US	Arthem, Inc.	Health Care Providers & Services	76	74	81	45	50	63	24	31	73	58	100.0
DG-US	Dollar General Corporation	Multiline Retail	75	77	79	23	54	40	54	35	94	56	100.0
HUM-US	Humana Inc.	Health Care Providers & Services	75	72	77	41	47	61	58	26	95	59	100.0
DHI-US	D.R. Horton, Inc.	Household Durables	74	71	70	49	54	65	10	46	85	58	100.0
PGR-US	Progressive Corporation	Insurance	73	73	70	49	51	62	96	37	63	65	100.0
CNC-US	Centene Corporation	Health Care Providers & Services	71	67	90	41	45	44	78	52	83	62	100.0
BHF-US	Brighthouse Financial, Inc.	Insurance	70	74	49	70	59	30	7	65	38	56	100.0
ORLY-US	O'Reilly Automotive, Inc.	Specialty Retail	67	59	73	21	57	32	47	25	81	49	100.0
LNT-US	Alliant Energy Corp	Electric Utilities	66	69	44	33	37	41	95	29	64	53	100.0
XEL-US	Xcel Energy Inc.	Electric Utilities	64	67	41	31	33	38	86	65	72	54	100.0
CBOE-US	Cboe Global Markets Inc	Capital Markets	63	69	58	43	62	46	16	52	60	52	100.0
OCHI-US	Crown Castle International Corp	Equity Real Estate Investment Trusts (REITs)	63	67	58	21	42	28	64	35	86	48	100.0
DVA-US	DalVita Inc.	Health Care Providers & Services	63	77	62	45	53	23	38	46	96	52	95.6
PAYX-US	Paychex, Inc.	IT Services	62	61	63	35	67	56	8	44	39	51	99.0
AEP-US	American Electric Power Compar	Electric Utilities	61	62	44	37	38	39	95	37	55	52	100.0
CMG-US	Chipotle Mexican Grill, Inc.	Hotels Restaurants & Leisure	61	50	64	12	53	44	21	62	93	47	100.0
NRG-US	NRG Energy, Inc.	Electric Utilities	61	69	51	54	65	25	7	49	67	49	100.0
CME-US	CME Group Inc. Class A	Capital Markets	60	68	64	29	55	73	57	52	65	56	93.8
DTE-US	DTE Energy Company	Multi-Utilities	59	65	32	46	40	35	7	24	42	42	100.0
DUK-US	Duke Energy Corporation	Electric Utilities	59	64	44	46	39	39	76	53	63	53	100.0
TROW-US	T. Rowe Price Group	Capital Markets	59	55	65	38	66	52	37	69	78	55	100.0

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 27.05.2020. *Criteria are explained in the endnotes.

The stocks exposed to China are also those that have bounced the most...

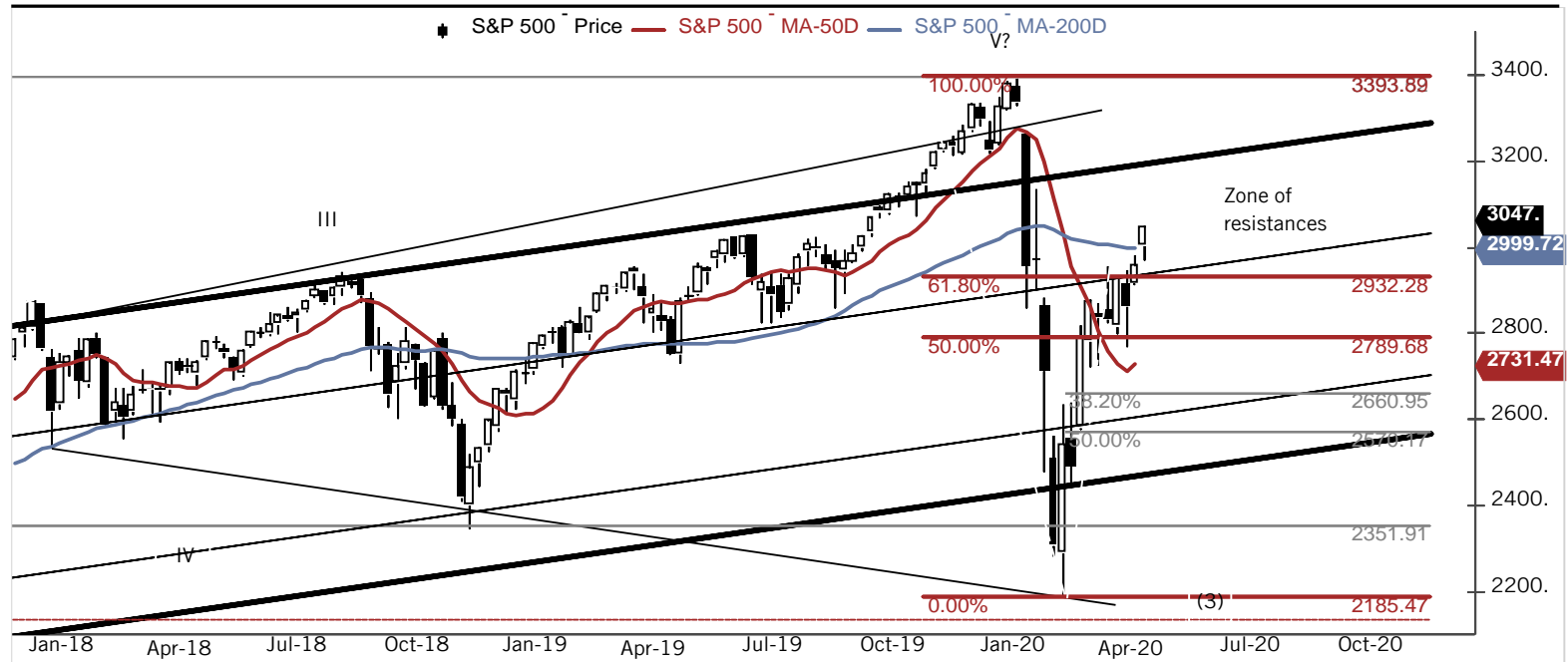
PTS “trade-war-sensitive” stock selection - theoretical performance vs S&P500



Source: Factset; Pictet Trading Strategy; as of 27.05.2020

Yet US equities are now breaking key technical levels:

S&P 500 – technical chart*:



Source: FactSet; Pictet Trading Strategy; as of 28.05.2020. *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 strong rebound now sees the US equity index taking on some key technical levels, including the symbolic 3,000. A weekly (and monthly) close above this level would send a strong technical message;
- The “reality check” we were anticipating has not occurred - despite the ongoing disconnect with fundamentals;
- In the more recent risk-on mood, more cyclical, recovery-driven stocks have started to outperform the “stay-at-home” growth thematic. We continue to think this rotation is not sustainable in the long run, but in the short-term it could fuel the rally further;
- In the longer-term, a “digestion” phase could still take place (especially as in our view trade-war risk is not priced in), which would continue to favour technology, quality and growth stocks.

Europe: a step closer to fiscal union?

The quest for a European recovery fund: Germany and France vs the “frugal four” (Austria, Denmark, Sweden, Netherlands):

	Merkel-Macron	Frugal Four
Size	EUR500bn	No size specified; EU need first to make an assessment of its funding needs
Financing	European Commission to issue bonds against the EU budget	Jointly -financed fund on top of the regular EU budget. How it will be paid for (debt issuance or direct contributions) is not specified
Grants versus loans	Grants to most affected regions and sectors	Loans to most hit countries; ready to accept some of the aid to be disbursed as grants
Availability Period	An expiry date will be “clearly specified”	2-years
Conditionality	Finance the EU’s policy priorities such as green and digital transitions; disbursements should be tied to “sound economic policies”; fair taxation on the digital economy within EU	Finance the EU’s policy priorities such as green and digital transitions; disbursements should be tied to “sound economic policies”; adherence to Rule of Law and Fundamental Rights

Source: Bloomberg Finance L.P; Pictet, Pictet Trading Strategy; as of 27.05.2020

- The French/German relief fund proposal represented a strong move (particularly on the part of Germany) in favor of “more Europe”; and a pledge that the union and the euro are here to stay;
- While the “frugal four” have been opposed to grants (favouring loans); signs suggest that a compromise (that includes grants) can be found;
- On Wednesday, the European Commission released its compromise proposal: a EUR750bn temporary European Recovery Instrument (EUR 500bn in grants, EUR 250bn in loans) and an increased EU budget for 2021-2027;
- Any decision on the recovery fund needs the approval of the 27 countries, and the final plan will certainly include further compromises. But the plan is ambitious and represents a move towards further EU integration;

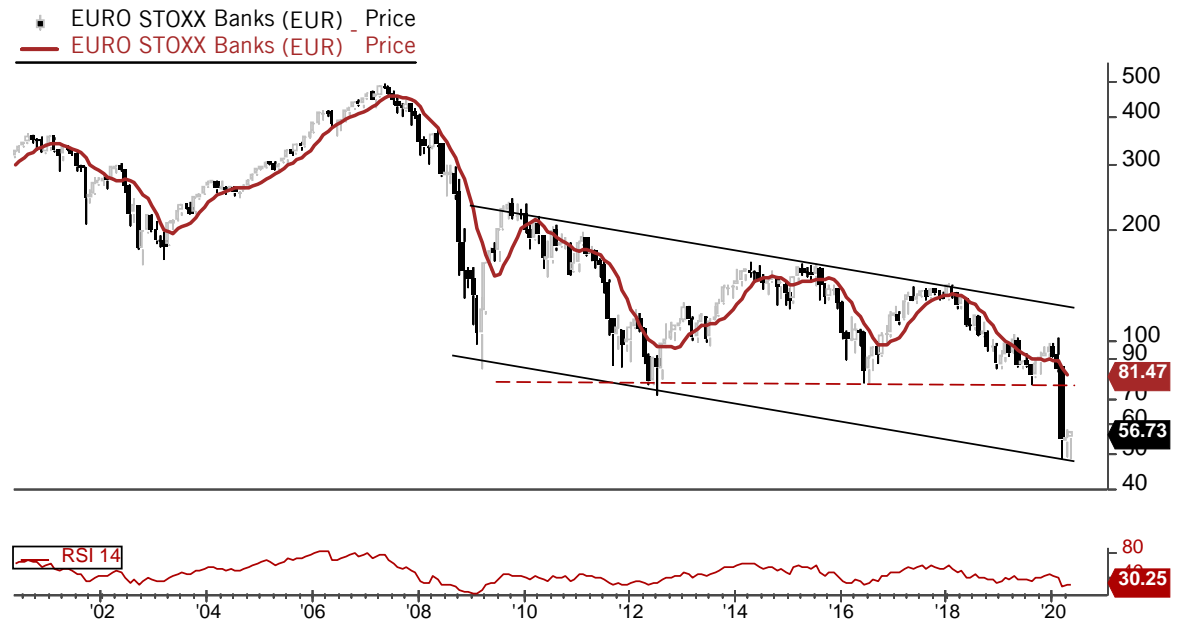
Europe: a tactical focus on banks - all value is not equal

European Banks have not bounced back:

Ticker	Sector	Ytd perf	Perf during	
			crash	rebound
SXDE Index	Healthcare	-4.6	-27.6	24.0
SX8E Index	Technology	-4.8	-37.5	39.0
SXFE Index	Financial Serv	-7.5	-36.5	33.2
SXRE Index	Retail	-10.3	-27.0	17.7
SX6E Index	Utilities	-12.4	-30.7	6.6
SXQE Index	Personal Households	-12.6	-27.7	16.8
SXKE Index	Telecoms	-14.2	-28.6	10.6
SX4E Index	Chemicals	-14.8	-31.3	21.5
SXME Index	Media	-21.6	-31.3	14.4
SX86E Index	Real Estate	-24.8	-42.0	20.9
SXNE Index	Indutrials	-25.1	-43.6	29.1
SX3E Index	Food&Bev	-25.4	-32.4	9.1
SXOE Index	Construction	-25.7	-47.6	37.0
SXPE Index	Basic Ressources	-28.2	-40.8	26.4
SXTE Index	Travel	-30.2	-46.1	32.4
SXIE Index	Inurances	-30.6	-47.8	27.1
SXAE Index	Auto parts	-30.9	-44.2	31.4
SXEE Index	Oil&Gas	-32.5	-49.2	40.7
SX7E Index	Banks	-46.3	-49.8	2.5

Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 27.05.2020

STOXX 600 banks index – technical chart*:



Source: FactSet; Pictet Trading Strategy; as of 27.05.2020. *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.

- We continue to think some value cyclicals have bounced back too fast;
- But all value stocks are not equal: EU banks are still down almost -50% YTD despite support from the ECB and governments;
- Long-term sector headwinds remain in place (low interest rates, non-performing loans etc...), but there is room for a tactical rebound as risk/reward improves;

Gold (1/2) - looking for entry points:

Gold: technical chart*:

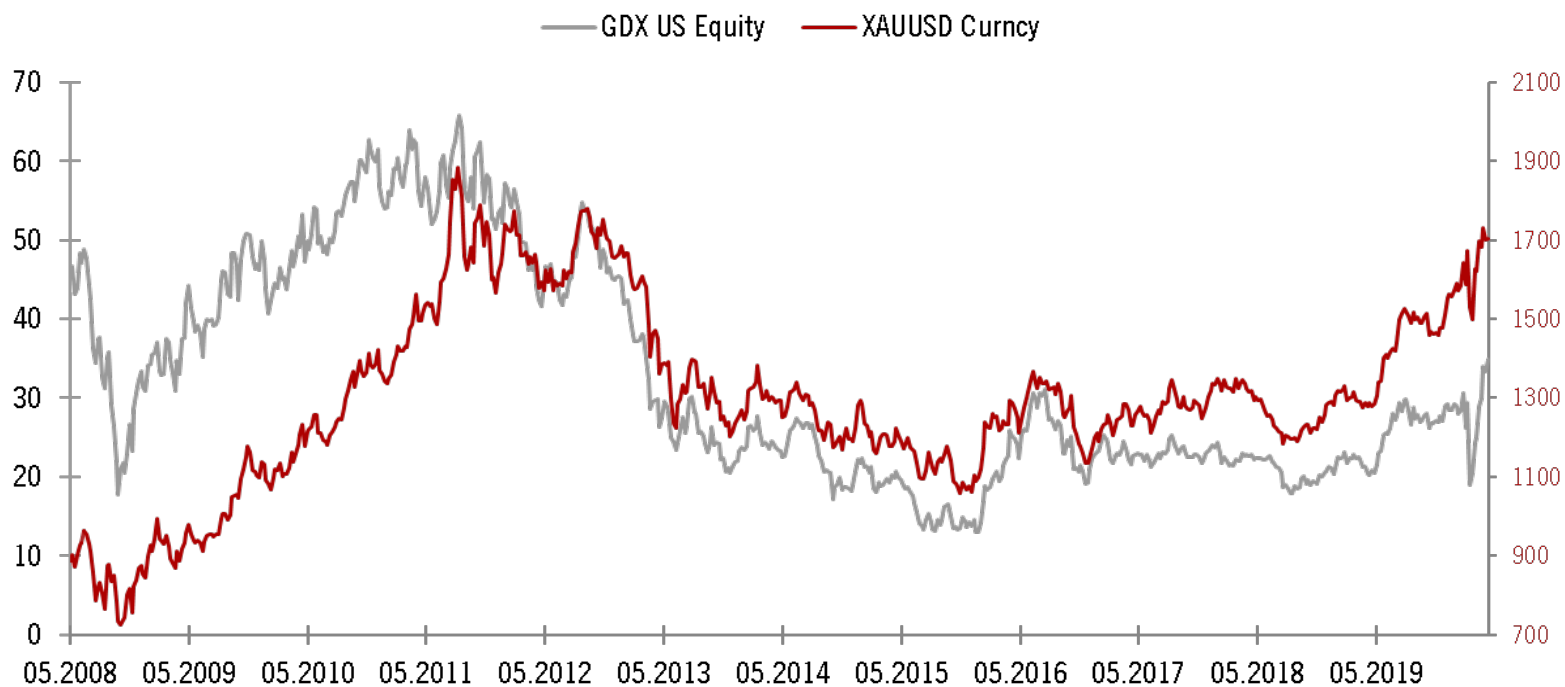


Source: FactSet; Pictet Trading Strategy; as of 27.05.2020. *Criteria are explained in the endnotes. The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit.

- Slowing demand in jewellery (that accounts for roughly 50% of total gold demand) and reduced central bank purchases could impact the price of gold in the short-term (especially if the risk-on mood extends);
- However, low interest rates, international uncertainty, and/or a lower dollar should support gold over the medium-longer-term;
- Our medium-term view is that gold will grind higher, with any short-term dip presenting a buying opportunity;

Gold (2/2) - play the miners?

Gold (XAU, red) and VanEck Vectors Gold Miners ETF (GDX, Grey):



Source: Bloomberg Finance L.P; Pictet Trading Strategy; as of 27.05.2020

- Gold miners and gold have historically been positively correlated;
- However, the gold miners ETF (GDX US) has been lagging, the gap widening over the year (with the strong investment demand for the metal);
- Gold miner stocks currently enjoy a healthy ROE, and capex-intensive business should benefit from the lower rate environment that should reduce the cost of debt and investment spending, and boost FCF;

Key points

- With economies reopening globally and concerns of second waves of infection fading, the rally in risk assets has continued to gain traction, markets still pricing a v-shaped economic recovery out of this crisis with no major disruption;
- Headwinds remain in the form of geopolitical uncertainty, economic recession and the absence of a Covid-19 vaccine/drug, but on the short-term (and given the recent technical boost) recovery-driven cyclical stocks could continue to outperform;
- Bruised from criticism over Covid-19, the Trump administration has returned to its less-conciliant rhetoric towards China;
- Protectionism appears to be gaining ground globally - amplified by the pandemic - and fears around resurgent trade tension are likely to re-emerge at some point;
- In Europe, steps being made towards more fiscal integration, and news-flow on this front could fuel banking stocks on a tactical basis (“not all value is the same”) and narrow peripheral spreads;
- The recent risk-on mood combined with fading central banks and jewellery demand has recently driven the gold price lower; yet the downward move could bring entry points as catalysts for a higher price remain in place for the medium-term. Gold miners could also offer attractive alternatives.

Endnotes: References for Trading Strategy publications (1/2)

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 Grade 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.



Endnotes: References for Trading Strategy publications (2/2)

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.

Time Horizon

Short-Term: 1 to 4 weeks

Medium Term: 1 to 3 months

Long Term: more than 3 months

PTS: Pictet Trading Strategy

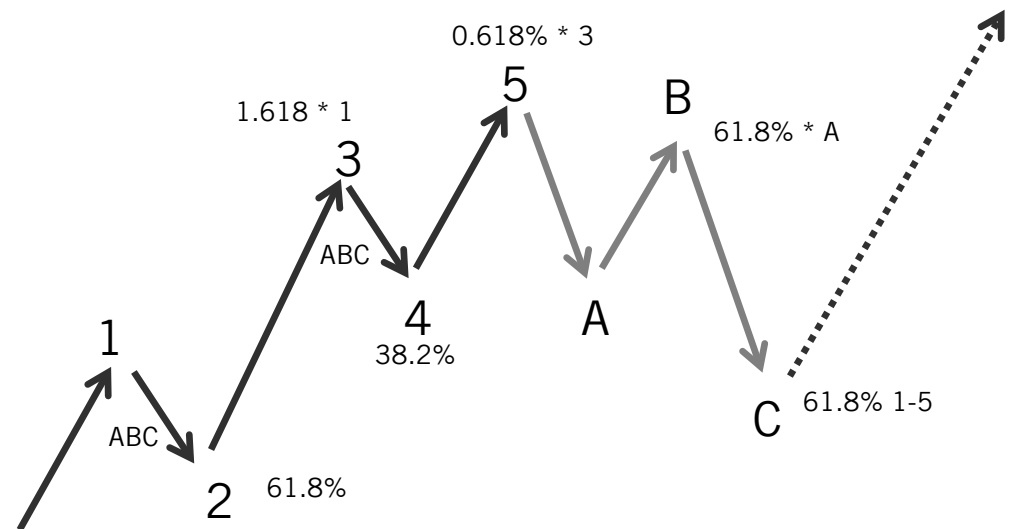
Technical Analysis

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 below). 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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