

Go! Global Outlook

2nd quarter 2020

Welcome to our market perspective

The market perspective is an essential document when making decisions in the world of investment and finances. This document will allow you to spot the indicators that help us establish our corporate opinion on the markets and the perspectives for the coming quarter.

Providing a certified market perspective is essential to our customers and to sound management. As a result, we use a range of sources, including the widely known Bloomberg, the latest reports from central banks, or daily reports. We also include information from our constant market supervision.

If you don't find the answer to your questions in these pages, don't hesitate to call us. Our team includes the best combination of diverse profiles, cross-cutting visions of the market, international experience and multidisciplinary expertise.

We'd love to help you out.

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Outlook

Our baseline scenario for 2020, in which we expected to see growth to pick up now that the China and the United States have laid the foundations for a trade deal, has been blown apart by the emergence of the COVID-19 virus, which has crippled the global economy by essentially paralysing all activity considered non-essential. If only we had read Dean Koontz's 1981 novel *The Eyes of Darkness* when we prepared our 2020 Outlook in December of last year, maybe we would not have held such a positive outlook. Aside from the trade truce, lax monetary conditions were another factor that led us to believe that we would see an eleventh straight year of growth within the US economy. Now we find ourselves in a completely different situation: China's effective paralysis caused supply chains to shut down and this has already stunted levels of economic activity across the Western world. The pandemic then spread from east to west from China. Now the epicentre is Europe; Spain and Italy are currently the most

affected countries because that is where the virus first reached the continent. Aside from the tragic cost in human life, the economic cost is immense: Italy has ordered the stoppage of all non-essential activities, while Spain has extended the state of alarm for a further fifteen days through to 11 April, without ruling out additional measures if COVID-19 continues to spread. France will see an increase in infections and deaths over the coming days. Europe is at a stand-still. As COVID-19 spreads across the West, we will pay close attention to how the disease impacts the United States. So far, borders with Canada and Mexico have been closed and some US states have ordered confinement, although these measures apply to only 20% of the population, meaning that over the coming weeks, as infections and deaths increase, the US will need to follow China's and Italy's example in adopting tougher measures. A few days ago, the OECD downgraded its global growth estimates for 2020 from 2.9% to 2.4%.

Global growth estimate (GDP)

	GDP			
	2018	2019		2020
Country		Previous	Consensus	
World	3,70%		3,00%	2,50%
USA	2,90%	2,30%	2,30%	1,20%
Eurozone	1,20%	1,00%	1,20%	-0,10%
Germany	0,60%	0,40%	0,60%	0,10%
Spain	2,10%	1,80%	2,00%	1,30%
China	6,40%	6,00%	6,10%	4,00%
Brazil	1,07%	1,67%	1,10%	0,30%
Mexico	1,42%	-0,49%	0,00%	-2,00%
Russia	2,70%	1,70%	1,30%	1,10%

Global inflation estimate (CPI)

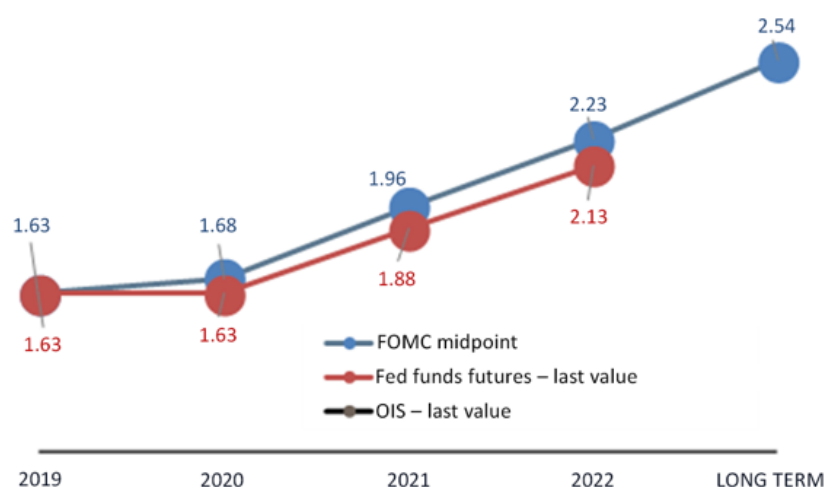
	CPI			
	2018	2019		2020
Country		Previous	Consensus	
World	5,10%	4,90%	3,00%	2,80%
USA	1,90%	2,30%	1,80%	1,80%
Eurozone	1,50%	1,20%	1,20%	1,00%
Germany	1,60%	1,70%	1,40%	1,30%
Spain	1,20%	0,10%	0,80%	0,90%
China	1,90%	5,20%	2,90%	3,30%
Brazil	3,75%	4,01%	3,70%	3,50%
Mexico	4,73%	3,70%	3,60%	3,50%
Russia	4,30%	2,30%	4,50%	3,10%

In view of the current situation, these estimates are extremely optimistic and we therefore expect to see further downgrades to levels of economic stagnation. It would appear that most European economies will enter recession, i.e. where they report two consecutive quarters of economic decline, since the health crisis has affected both the first and second quarters of the year. As we move forward, we will need to keep close tabs on the situation in the United States: if it copes well, we could witness a global recovery over the latter half of the year. If this recovery materialises, it will be a rapid affair as the concerted actions undertaken by the central banks and governments seek to maintain optimum liquidity conditions. In the United States, the Federal Reserve has lowered its interest rate twice at its two emergency meetings: 50 basis points at the first held on 3 March, and a further 100 basis points at the second held on 15 March. Following these drops, the price of money now stands at the 0%/0.25% interval.

Intervention rate

Other variables		
	2019	2020
Country		
Tipos Intervención		
USA	1,50%	0%
Eurozone	1,75%	0,25%
IRR – 10 years		
USA	0,00%	0,00%
Germany	2,68%	0,74%
Spain	0,24%	-0,65%
Japan	1,42%	0,33%
	0,00%	-0,02%

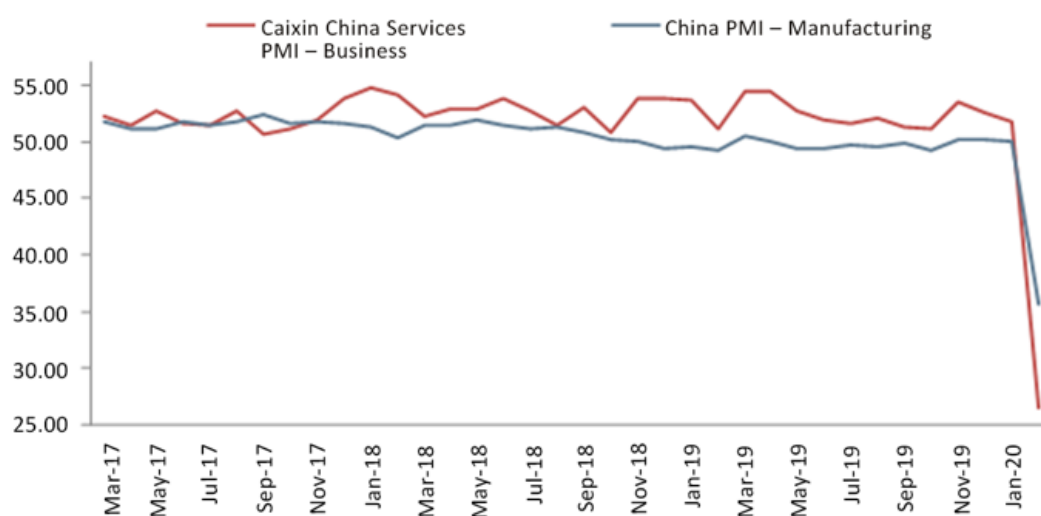
FED Funds



The United States also reached the decision to increase its balance sheet by purchasing assets worth 700 billion dollars. The Democrats and the Republicans have reached an agreement to roll out a package of stimulus measures worth 2 trillion dollars to cushion the impact of COVID-19. In Europe, the European Central Bank, in addition to its initial measure of injecting 120 billion euros into the economy (12 March), has decided to set up a Pandemic Emergency Purchase Program (PEPP) with an envelope of 750 billion euros (15 March) to keep spreads on government debt in check once the member states have opted to deviate from the stability pact in order to provide much-needed support to their productive industries. Germany, the master of austerity, will increase its debt by 350 billion euros in a bid to limit the spread of COVID-19 and to give companies the liquidity they need, even by acquiring stakes in them. In peripheral Europe, Spain is set to inject 200 billion euros into the economy, while Italy activate 350 billion euros, equivalent to 20% of its GDP. France has unlocked 45 billion euros in immediate support for companies and workers, and will guarantee up to 300 billion euros in bank loans. In the United Kingdom, the Bank of England lowered interest rates by 50 basis points to

0.25%, while easing capital requirements on banks so that they can lend more. It will also inject up to 300 billion pounds into the real economy. Meanwhile, Japan will channel the equivalent of 190 billion dollars into buying ETFs. Many other countries have taken similar steps to combat the effects of the pandemic. Once we are clear of the crisis, liquidity conditions in the system will remain exceptional, making us confident of seeing a strong rebound, and as these ultra-expansionary conditions will remain in place for an indefinite period of time this rebound may continue throughout next year. On a strictly macro scale, we have been witnessing a sharp slowdown in levels of economic activity as all activities considered non-essential grind to a halt. In the year to date, the Caixin China PMI figures have been released for February, showing a significant decline in economic activity across the services sector, falling from 51.8 in January to 26.5 in February. In terms of manufacturing activity, the reduction has been somewhat less pronounced, slipping from 51.1 to 40.3. Both indicators are on the decline. In China, some restrictions have already been lifted, which should allow us to see a certain recovery starting in April, although exports will remain weak as the country's trading partners remain on lock-down.

PMI change in China



Moving across to Europe, the Markit PMI for March has now been released in preliminary estimate form: services falls to 28.4 from 52.6, while manufacturing retreats to 44.8 from 49.2 in February. When it comes to German investor confidence, the ZEW index fell to -49.5, not far off the levels seen during the 2008 crisis. Meanwhile, German business confidence as measured by the IFO index fell from 96 to 86.1 in March, with a heavy deterioration in the six-month outlook. In the United States, we have witnessed a notable uptick in requests for unemployment benefits and worsening levels of economic activity in the district of Philadelphia and indeed across the country. The Markit manufacturing PMI has endured a moderate slump, falling from 50.7 to 49.2, while the services PMI has slipped to 39.1 from 49.4 in February. These figures are a first taste of what we will surely continue see over the latter half of the year, if not longer. We remain optimistic that we will see a recovery in the second half of 2020. In terms of monetary policy, those central banks that had enough leeway to cut rates have done so, while the rest have increased their balance sheets, all by launching new asset repurchase programmes. We will continue to see persistently low interest rates over the coming months until the economic recovery takes root.

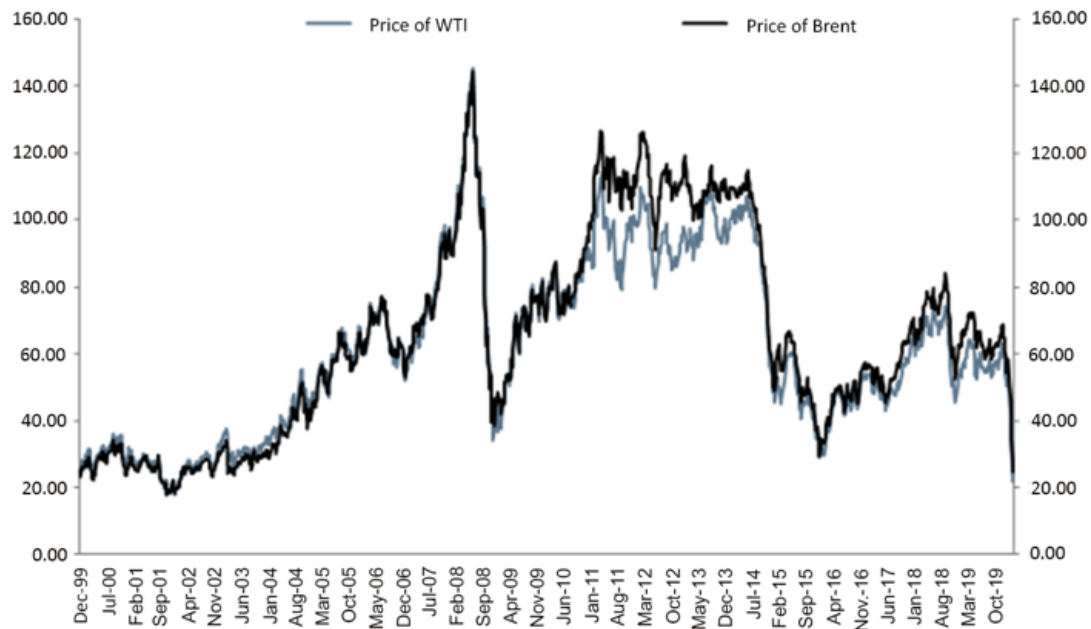
Summary of latest economic figures

ALLOCATION	Macro							
	PIB	PI	Inflation	Consumption	Unemployment rate	Salaries	PMI M	PMI S
US	2,10% t/t	0,55% m/m	0,10% m/m	1,80% t/t	3,50% m/m	0,30% m/m	50,10 m/m	57,30 m/m
Europe	0,10% t/t	2,30% m/m	0,20% m/m	0,10% t/t	7,40% m/m	2,30% t/t	44,80 m/m	28,40 m/m
Germany	0,00% t/t	3,00% m/m	0,40% m/m	0,70% t/t	5,00% m/m	0,90% t/t	45,70 m/m	34,50 m/m
France	-0,10% t/t	1,20% m/m	0,00% m/m	0,30% t/t	8,23% m/m	0,20% t/t	42,90 m/m	29,00 m/m
Spain	0,50% t/t	0,20% m/m	-0,30% m/m	0,00% t/t	13,78% t/t	1,80% t/t	50,40 m/m	52,10 m/m
UK	0,00% t/t	-0,10% m/m	0,40% m/m	4,80% t/t	3,50% m/m	0,10% m/m	48,00 m/m	35,70 m/m
Japon	-1,50% t/t	1,00% m/m	-0,20% m/m	1,50% m/m	2,40% m/m	-6,00% m/m	35,80 m/m	32,70 m/m
Brazil	0,50% t/t	0,90% m/m	0,25% m/m	2,08% t/t	11,20% t/t		52,30 m/m	50,40 m/m
Rusia	7,60% t/t	-0,60% m/m	0,30% m/m	7,16% t/t	4,60% t/t	-25,50% m/m	48,20 m/m	50,40 m/m
China	1,50% t/t	-26,63% m/m	0,80% m/m	-20,50 m/m	3,62% t/t		35,70 m/m	26,50 m/m

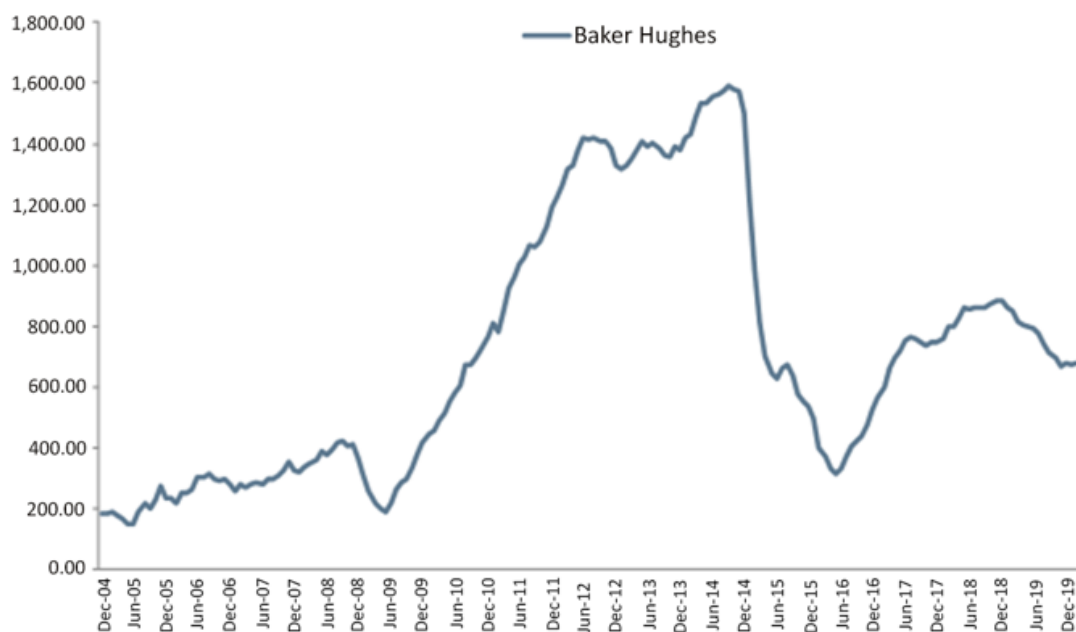
Turning to raw materials and commodities, we have seen a perfect storm in the form of a fall in demand in the wake of the economic slowdown coupled with an increase in supply after the agreement was broken between Russia and the Organization of Petroleum Exporting Countries (OPEC) to continue to limit the supply of oil from the cartel. As a result, Saudi Arabia is set to ramp up production from April onwards to 13 million barrels a day, up from the current levels of 9.7 million. The situation has dragged down Brent oil prices to below 25 dollars a barrel, a level not seen since as far back as 2001. Many sites are no longer profitable at current levels, so we will surely see a drop in supply. Meanwhile, the current climate of expansionary monetary and fiscal measures will once again encourage de-

mand, which will push up prices. In the coming months, Brent is likely to remain at around 30 dollars a barrel, and we will have to wait for the second half of the year for prices to rally towards 40 dollars. Other raw materials used in industry are also enduring price drops as demand slows: If we observe levels of pollution measured near metallurgical plants, we can see a sharp reduction in atmospheric particles; clearly indicative of lower demand for iron ore. Gold, meanwhile, will continue to benefit from the prevailing uncertainty and volatility, as well as future inflationary pressures that could derive from the mass printing of paper money. We expect the gold price per to remain at around 1,600 dollars over the coming months.

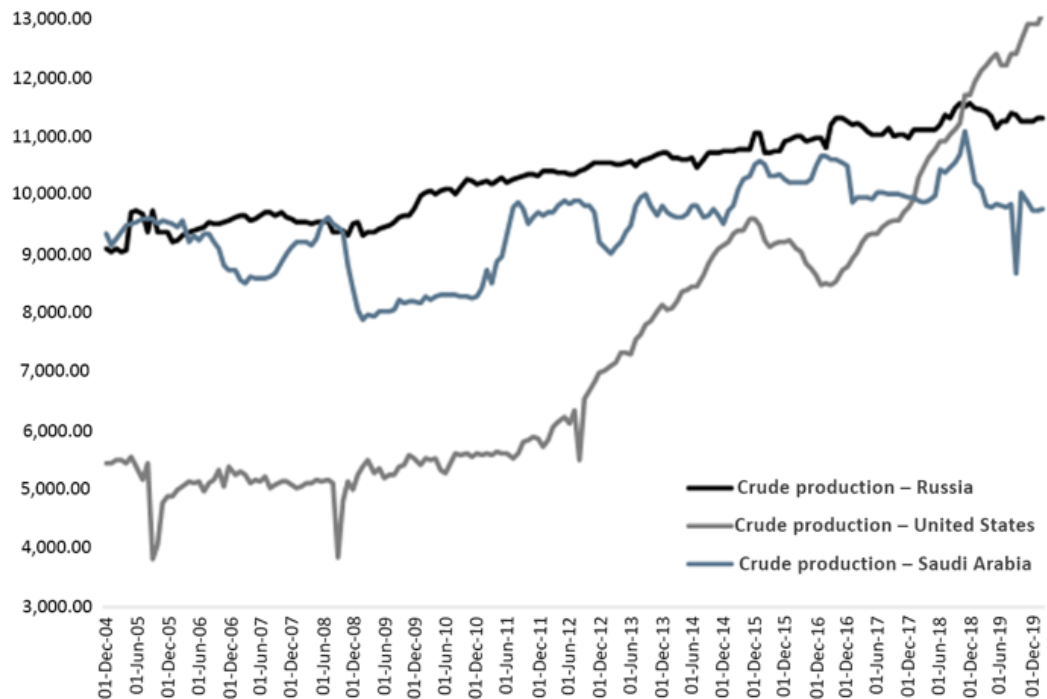
Brent and WTI price performance



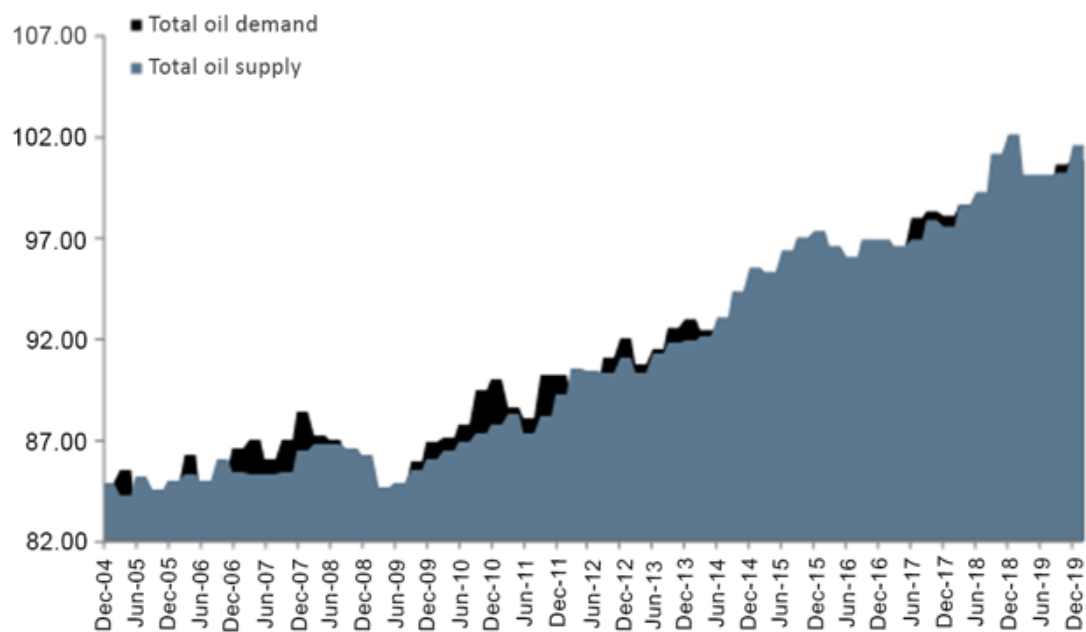
New drilling in the US



Oil production



Global oil supply and demand



Metals and mining



Gold and silver



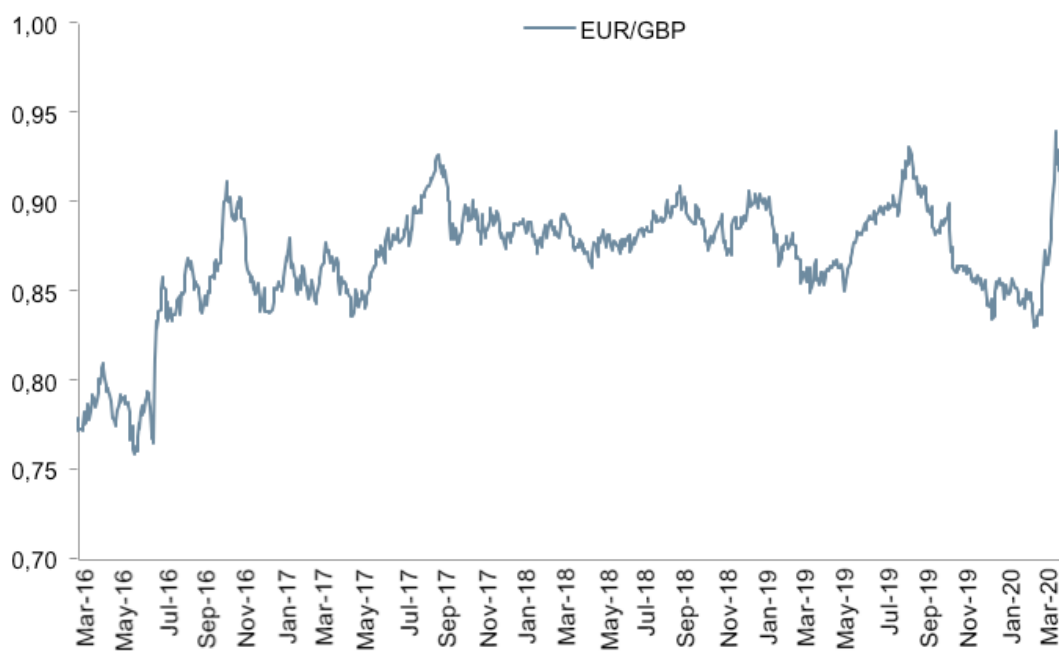
Foreign exchange markets are showing clear signs of dislocation; with the market in such a volatile state, safe haven currencies are sure to outperform (yen, Swiss franc, US dollar). For the EUR/USD pair, both the ECB and the Federal Reserve have decided to increase their balance sheets and the latter's decision to also lower interest rates to the 0%/0.25% range has had

the effect of reducing the spread between the two currencies; from current levels of 1.079 we expect the rate to return to the 1.12 zone, especially when we consider that the US could still inject a further 2 trillion dollars into the economy if necessary, which would bring the fiscal deficit to levels similar to those seen during World War II.

Performance of the EUR/USD pair



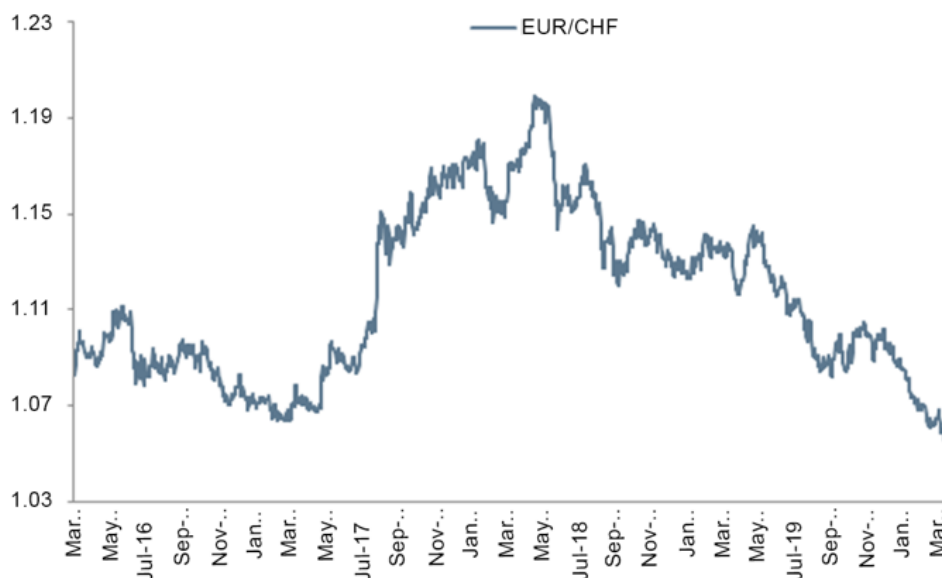
Performance of the EUR/GBP pair



Performance of the EUR/SEK pair



Performance of the EUR/CHF pair



We are upbeat looking forward; the current crisis is the product of a “chance” and fleeting event. What matters most is that governments and central banks provide a rapid and coordinated response to the situation, having learned valuable lessons from the 2008 financial crisis. Moreover, the current health crisis should also teach us how to respond better to similar crises down the line. While the economic slowdown has certainly been intense, we expect an equally intense recovery looking ahead to the second half of the year.

Equity

The positive start to the year enjoyed by all stock markets has turned into a nightmare for investors in a matter of weeks. For instance, the North American indexes have gone from setting all-time highs to accumulating heavy losses since the start of the year (through to the close of trading on 24 March), ranging from -20% in the case of the Nasdaq to -28% for the Dow Jones, and -25% for the S&P500. In Europe, the panorama is equally depressing and arguably even gloomier as certain countries had already been suffering from the effects of the China-US trade

war. The EuroStoxx50 fell by 28%, the German Dax shed 27%, and the IBEX35 —despite climbing past 10,000 points for the first time since May 2018— then slumped to 5,814 points (-42%), having now lost 29% in value. Despite this Dantean landscape, we are optimistic for the reasons outlined above, which are none other than the expansionary monetary conditions and the fiscal stimulus packages rolled out to kick-start the economies once the health crisis is finally behind us

Global stock market performance

	Currency	Average capitalisation	YTD	QTD	PER	Average	Dividend yield	EV / Sales	EV / EBITDA	P / B	P / Cash Flow	RoA	RoE	Gross margin
EuroStoxx50	EUR	48,140.00	-27.05%	-27.05%	14.59	15.89	4.52	1.30	8.01	1.27	6.51	1.13%	9.33%	10.62%
Stoxx600	EUR	13,963.00	-25.01%	-25.01%	14.77	18.66	4.55	1.27	7.42	1.32	7.48	1.19%	9.91%	9.87%
Dax	EUR	29,805	-27.34%	-27.34%	16.63	--	4.21	1.02	6.77	1.15	7.37	1.39%	9.66%	7.26%
Cac 40	EUR	34,227	-27.85%	-27.85%	15.64	--	4.21	1.21	8.57	1.25	9.42	1.05%	8.63%	9.16%
Ibex 35	EUR	12,213	-29.60%	-29.60%	14.73	15.60	5.96	1.55	9.14	0.96	2.45	0.67%	6.55%	11.83%
FTSE MIB	EUR	9,542	-28.75%	-28.75%	11.43	--	5.91	1.08	6.04	0.84	9.02	0.89%	9.69%	10.07%
FTSE 100	GBP	14,483	-26.96%	-26.96%	15.65	--	6.31	1.14	7.45	1.34	6.32	0.96%	8.95%	8.74%
SMI	CHF	54,260	-14.42%	-14.42%	18.56	--	3.64	1.93	10.72	2.10	14.03	1.50%	12.61%	12.23%
MSCI Small Cap	EUR	1,404	-31.31%	-31.31%	15.47	16.06	3.96	1.16	8.34	1.21	5.31	1.68%	8.58%	8.01%
S&P500	USD	43,393	-20.95%	-20.95%	16.73	17.67	2.38	2.21	11.08	2.79	10.90	3.20%	15.73%	13.42%
Nasdaq	USD	4,309	-16.13%	-16.13%	47.14	32.23	1.28	3.04	20.03	3.84	16.68	3.79%	14.01%	12.18%
Dow Jones	USD	218,922	-23.72%	-23.72%	15.35	--	2.95	2.06	10.39	3.23	9.77	1.65%	19.70%	12.04%
Russell 2000	USD	843	-31.90%	-31.90%	--	25.41	2.13	1.49	21.05	1.49	12.49	0.27%	1.19%	3.99%
Nikkei	JPY	1,450,317	-18.52%	-18.52%	16.89	19.43	2.33	1.15	8.43	1.42	8.44	2.71%	8.65%	7.87%
MSCI EM	USD	10,500	-24.14%	-24.14%	11.87	13.59	3.31	1.51	8.13	1.26	7.22	2.09%	11.07%	12.02%
Mexico IPC	MXN	125,861	-22.21%	-22.21%	12.83	--	4.02	1.68	6.49	1.66	6.36	3.23%	12.80%	14.20%
Bovespa	BRL	32,191	-36.51%	-36.51%	13.47	39.66	4.81	1.53	7.20	1.50	6.39	2.35%	11.68%	12.27%
Micex	RUB	865,589	-20.65%	-20.65%	4.88	--	8.45	1.02	3.69	0.75	3.91	5.31%	15.26%	19.10%
Hang Seng	HKD	312,109	-17.41%	-17.41%	9.41	--	4.37	2.11	7.38	0.99	5.48	1.36%	10.62%	21.13%
Shenzhen CSI	CNY	99,785	-10.31%	-10.31%	13.04	--	2.26	1.85	12.87	1.66	7.65	1.59%	12.93%	13.17%
Sensex	INR	1,892,032	-30.99%	-30.99%	17.37	--	1.81	2.73	10.81	2.22	14.35	2.13%	12.41%	16.13%
Kospi	KRW	1,405,128	-21.70%	-21.70%	16.57	--	2.67	0.94	7.26	0.68	6.22	1.02%	4.25%	5.72%

Stoxx600 sector performance

	Currency	Average capitalisation	YTD	QTD	PER	Average PER	Dividend yield	EV / Sales	EV / EBITDA	P / B	P / Cash Flow	RoA	RoE	Gross margin
Stoxx600	EUR	13,963.00	-25.01%	-25.01%	14.77	18.66	4.55	1.27	7.42	1.32	7.48	1.19%	9.91%	9.87%
Basic materials	EUR	10,868	-32.46%	-32.46%	10.70	--	8.05	0.71	4.91	0.98	3.77	4.46%	10.48%	8.69%
Oil & Gas	EUR	17,823	-36.91%	-36.91%	14.84	--	8.43	0.88	4.88	0.86	3.62	1.97%	5.00%	5.98%
Industry	EUR	8,809	-30.33%	-30.33%	19.25	--	3.53	1.14	9.07	2.43	8.96	3.65%	13.74%	7.55%
Chemicals	EUR	13,837	-23.04%	-23.04%	21.13	--	3.29	1.56	10.48	1.80	10.25	5.56%	11.81%	8.29%
Construction materials	EUR	11,905	-29.27%	-29.27%	12.85	--	3.73	1.04	8.03	1.49	5.98	3.67%	12.34%	7.97%
Utilities	EUR	15,996	-13.28%	-13.28%	21.97	--	5.06	1.64	9.12	1.57	6.73	2.68%	11.60%	8.04%
Health	EUR	24,285	-11.44%	-11.44%	26.56	--	2.95	3.53	14.00	3.32	13.77	5.73%	14.67%	16.32%
Banking	EUR	14,647	-37.62%	-37.62%	8.03	--	8.94	--	--	0.45	8.95	0.33%	5.86%	22.87%
Insurance	EUR	12,236	-31.14%	-31.14%	9.11	--	8.74	0.47	--	0.82	12.27	0.99%	9.23%	5.87%
Telecoms	EUR	15,163	-20.14%	-20.14%	19.60	--	6.31	2.04	5.75	1.36	2.96	1.75%	6.34%	12.94%
Food	EUR	27,804	-21.24%	-21.24%	18.86	--	2.96	2.89	12.68	2.92	12.92	5.88%	16.15%	17.60%
Automotive	EUR	13,248	-39.54%	-39.54%	6.81	--	8.35	0.35	2.98	0.56	2.96	2.49%	9.29%	4.80%
Technology	EUR	17,600	-19.17%	-19.17%	29.05	--	2.00	2.49	13.18	2.94	16.59	6.08%	13.35%	11.38%
Retail	EUR	11,090	-20.82%	-20.82%	23.24	--	3.35	0.81	9.37	2.32	8.40	3.79%	12.39%	4.60%
Real estate	EUR	4,838	-28.11%	-28.11%	10.00	--	4.92	13.97	14.64	0.76	13.49	3.50%	7.58%	83.71%
Average	EUR	8,065	-30.65%	-30.65%	15.21	--	4.06	2.13	9.64	2.30	8.64	4.72%	15.34%	14.50%
Personal consumption	EUR	24,128	-19.38%	-19.38%	21.08	--	3.70	2.57	10.80	2.72	12.34	7.18%	17.69%	16.05%
Travel and leisure	EUR	5,404	-44.34%	-44.34%	2.07	--	5.26	0.26	0.87	0.20	0.88	6.52%	19.38%	7.12%
Financial services	EUR	7,208	-26.58%	-26.58%	10.17	--	3.17	1.14	5.44	1.39	13.50	1.23%	16.59%	17.48%

That is not to say that we should jump headlong into buying up all the companies that have received the most punishment. We must be selective when it comes to investing because certain sectors and industries will take longer to recover to pre-crisis levels. Notable examples here include the tourism and aviation sector (the latter including airlines, manufacturers and aircraft maintenance companies, to name but a few), even more so when we remember that most turnover is generated over the summer months in the northern hemisphere and this summer there could still be travel restrictions in place. Prudence is paramount in this volatile environment, and so we are carefully positioning ourselves in defensive sectors such as utilities, non-cyclical consumption, healthcare and even telecoms, despite the high levels of debt in this particular industry. The telecoms sector has benefited from falling interest rates and an extension of borrowing costs. We are also acquiring positions in the energy sector, despite the downturn in the price of oil (-57% for Brent since the start of the year), since the economic recovery will also mean rallying oil prices. Companies from the sector have already taken measures to counteract the fall in oil prices, such as reducing CAPEX and closing down loss-making operations at these price levels. So far, we have seen no reduction in dividend pay-outs and were dividends to be cut by 50%, the companies would still be offering attractive levels of dividend return at around 6%. Another sector we are betting on is Technology; one of the megatrends in the investment world since technology is an irreversible process across all societies. We would aim to profit from the corrections seen in recent weeks to acquire positions in companies offering cloud services, software sales and consultancy services, since these particular

sub-sectors are showing growth rates ahead of GDP growth in developed countries. These investments would be equally effective in both Europe and the United States. We would lean more towards the United States because the stimulus measures there are more extensive than in Europe, and also because the US is more likely to shake off the crisis earlier. If we look at the prices of the main indexes, we can see a correction when compared with the prices we were seeing in early March, although in the weeks leading up to the earnings season for the first quarter of 2020 we will surely see various profit warnings, which will once again push up the multiples. At a glance, the EuroStoxx50 has moved from 18.2x earnings at the beginning of March to 14.5x right now. In the United States, the S&P500 was trading at 20.1x earnings, but now stands at 16.1x. Also noteworthy is the valuation of the IBEX35 and the FTSE MIB, which after the corrections are now priced in pound sterling at below 1. In terms of dividend yield, yields in Europe are currently above 4% while in the United States the S&P500 offers a dividend yield of 2.47%, well above the 10-year IRR on government debt, which pays 0.85%. In the emerging block, a distinction should be drawn between exporter and consumer countries of raw materials. It is also important to note that many health systems are struggling to cope, which could further exacerbate the effects of the pandemic. On the subject of investor flows, we are now starting to see the first inflows of capital into emerging countries following weeks of net outflows. Here, we would favour China and also South Korea and Russia to a lesser extent. Negative factors include Brazil's and Mexico's response to the health crisis, without forgetting the negative impact of falling crude oil prices.

Price performance of S&P 500 sectors

	Currency	Average capitalisation	YTD	QTD	PER	Average PER	Dividend yield	EV / Sales	EV / EBITDA	P / B	P / Cash Flow	RoA	RoE	Gross margin
S&P500	USD	43,393	-20.95%	-20.95%	16.73	17.67	2.38	2.21	11.08	2.79	10.90	3.20%	15.73%	13.42%
Industry	USD	25,836	-27.21%	-27.21%	14.15		2.69	1.89	10.02	3.62	10.71	5.30%	21.55%	11.52%
Energy	USD	20,629	-51.75%	-51.75%	10.31		8.21	0.91	6.57	0.79	3.73	0.99%	2.10%	2.82%
Materials	USD	18,752	-27.46%	-27.46%	15.30		2.98	1.82	11.00	1.83	9.27	3.00%	7.28%	8.52%
Financial	USD	35,577	-31.24%	-31.24%	9.51		2.98	2.04	--	1.02	7.03	1.41%	12.92%	25.02%
Telecoms	USD	90,930	-19.44%	-19.44%	17.76		1.57	3.09	10.00	2.73	9.80	5.56%	14.42%	18.24%
Cons. discretionary	USD	35,690	-19.59%	-19.59%	20.21		1.59	1.66	10.92	6.53	11.76	6.34%	31.10%	8.81%
Health	USD	53,614	-16.24%	-16.24%	18.34		2.01	1.75	12.97	3.64	13.15	6.28%	18.01%	9.41%
Utilities	USD	27,580	-13.09%	-13.09%	14.89		3.59	4.32	11.86	1.97	9.24	2.93%	11.20%	20.07%
IT	USD	77,242	-13.88%	-13.88%	22.29		1.61	4.39	14.46	6.29	15.36	10.54%	29.20%	22.25%
Pers. consumption	USD	56,679	-14.34%	-14.34%	18.29		3.19	1.65	14.64	5.29	14.62	6.24%	21.75%	8.39%
Real estate	USD	21,193	-18.76%	-18.76%	39.01		3.83	8.66	19.14	3.09	16.16	3.99%	10.53%	22.68%

Fixed income

With interest rates at current levels, particularly in developed countries, there is no value to be had. However, when building a portfolio it is essential to ensure that our investments are diversified and feature various asset classes, and this holds especially true in such a volatile environment. In recent weeks, as COVID-19 spreads across the planet, we have witnessed a “flight to quality”. Investors have rid themselves of risky assets and clamoured, as if it were a gold rush, to buy government bonds from the United States and Germany, among other highly solvent governments. The fall in yields has been more intense in the United States, as the Federal Reserve had more room for manoeuvre. Since the start of the year, the T-note has seen a correction of 8.25%. On our side of the Atlantic, the German bund has gained 1.7%. These repricings are down to the “flight to quality” phenomenon just mentioned. However, we are unlikely to see price reductions in government debt as both the Fed and

the ECB will buy up most of the debt to be issued, which should keep yields at current levels: -0.35% for the German bund and 0.85% for the T-note. Opportunities can still be found in the periphery of Europe, although the roll-out of the PEPP has triggered a narrowing of risk premiums, bringing the Spanish risk premium to around 100 basis points and the Italian risk premium to 170 basis points. The 10-year Greek bond was paying 4% on the 18th and its inclusion in the PEPP has now pushed the yield down to around 1.60%. If we observe the performance of Greek government debt, 3.875% due 12 March 2029, it has gone from 100 to 118.80 in a week, and is now seven figures off pre-crisis levels. We would look to invest in peripheral government debt, which still offers a positive yield plus an element of “security”, since the ECB is acquiring this paper

Yields

			Latest	Last quarter	End of previous year
Core	Germany	2 years	-0.72%	-0.77%	-0.60%
		10 years	-0.53%	-0.57%	-0.19%
	France	2 years	-0.62%	-0.69%	-0.59%
		10 years	-0.10%	-0.27%	0.12%
	UK	2 years	0.10%	0.37%	0.59%
		10 years	0.29%	0.49%	0.87%
Peripheral	United States	2 years	0.25%	1.62%	1.57%
		10 years	0.64%	1.66%	1.88%
	Spain	2 years	-0.25%	-0.51%	-0.39%
		10 years	0.53%	0.15%	0.47%
	Italy	2 years	0.28%	-0.26%	-0.05%
		10 years	1.41%	0.82%	1.41%
Emerging	Portugal	2 years	-0.16%	-0.60%	-0.55%
		10 years	0.66%	0.16%	0.44%
	Russia	3 years	--	3.00%	--
		10 years	3.57%	3.51%	2.99%
	Brazil	2 years	2.92%	2.24%	2.01%
		10 years	4.08%	3.95%	3.73%
	China	2 years	3.79%	2.74%	2.71%
		10 years	2.62%	3.14%	3.15%

Spreads

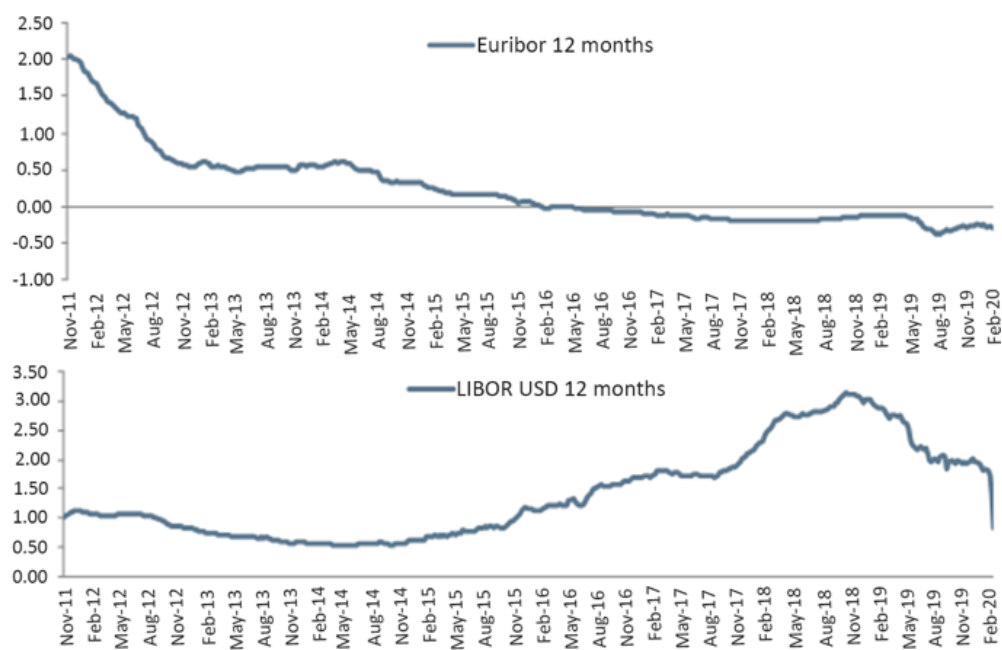
			Latest	Last quarter	6-Jan-20
Core	Germany	2-5	1.31	-1.02	12.13
		2-10	18.10	19.08	41.02
	France	2-5	19.15	4.61	27.62
		2-10	52.02	41.33	70.08
	UK	2-5	3.53	-9.44	4.24
		2-10	17.81	10.93	26.63
	United States	2-5	10.64	-8.17	9.87
		2-10	38.05	3.88	30.75
Peripheral	Spain	2-5	27.39	20.47	29.77
		2-10	77.47	65.28	84.62
	Italy	2-5	52.20	46.04	71.81
		2-10	111.32	107.42	145.39

Curves

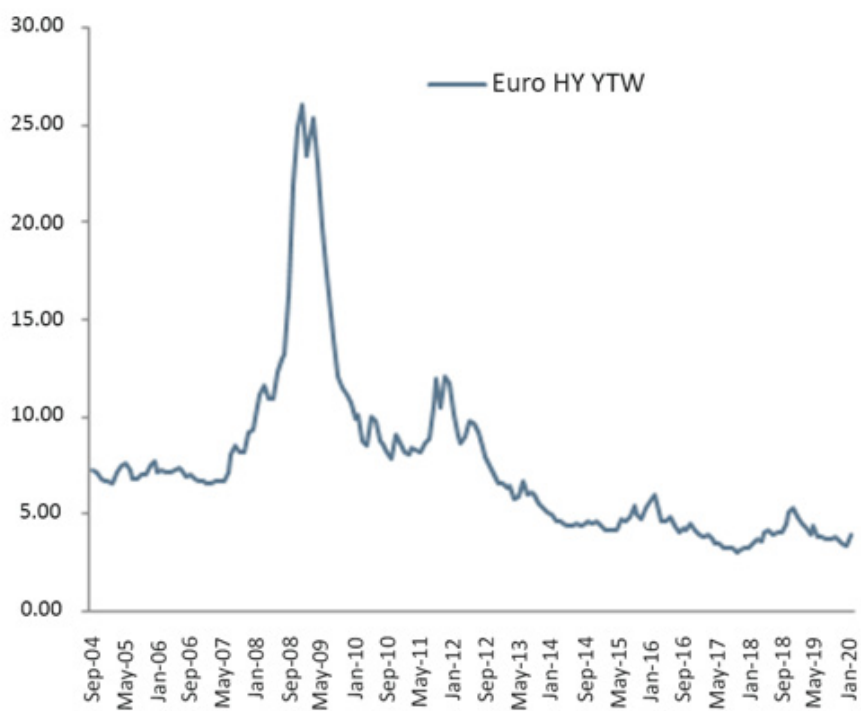
			Latest	Last quarter	End of previous year
Core	Germany-France	2 years	8.77	6.93	0.89
		10 years	43.75	29.64	30.31
	Germany-US	2 years	-99.10	-239.68	-218.04
		10 years	-117.30	-223.97	-206.76
Peripheral	Germany-Spain	2 years	48.44	25.49	21.54
		10 years	106.52	71.58	65.11
	Germany-Italy	2 years	101.71	50.85	55.24
		10 years	194.11	139.39	159.70
	Germany-Portugal	2 years	55.94	-25.36	-33.70
		10 years	118.95	-67.81	-94.59
	Spain-Italy	2 years	-53.26	16.63	4.26
		10 years	-87.60	73.03	62.16
	Spain-Portugal	2 years	7.49	-8.87	-17.28
		10 years	12.43	1.45	-2.95

Credit/CDS

		Latest	Last quarter	End of previous year
Credit	iTraxx Europe Senior Fin.	58.76	42.68	29.74
	iTraxx Europe Subor. Fin.	256.90	139.38	110.80
	iTraxx Europe Crossover	477.76	206.30	177.84
	Spread A-10yr USA	2.15	0.95	0.77
	Spread BBB-10yr USA	2.90	1.47	1.25
	Spread HY-10yr USA	9.18	3.97	3.25
CDS	Germany	8.43	8.81	8.78
	France	17.76	17.88	18.19
	Portugal	35.30	37.76	37.72
	Spain	39.22	39.99	40.72
	Italy	159.19	179.14	164.86



Bund performance

European High Yield – YTW

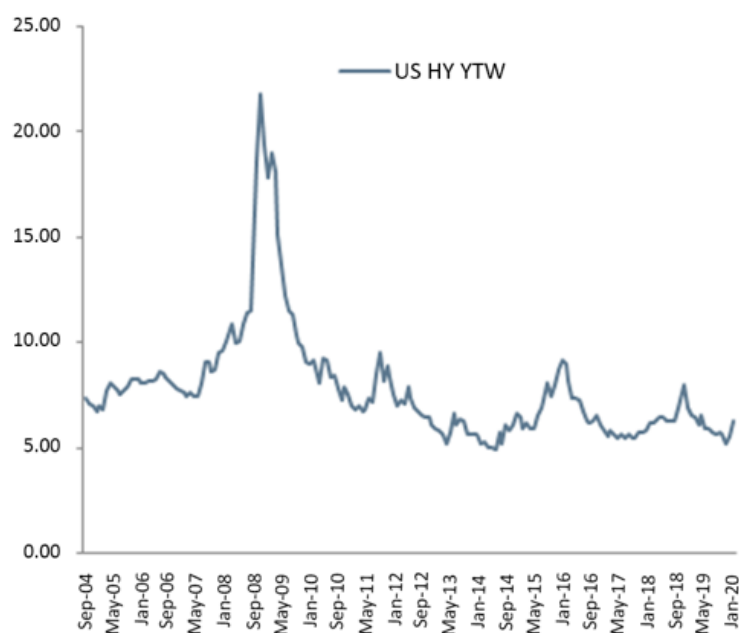
In the United States we would also follow the same strategy to protect our portfolios from further episodes of volatility. Right now, it is too early to tell whether there will be inflationary pressures, though with the widespread shutdown and the fall in demand, we have seen no pressure on prices so far. In the corporate world, we would favour quality and so our choice would be Investment Grade instruments. The lock-down has left many companies idling without revenue and in the High Yield spectrum this can lead to an increase in defaults, especially in the North American energy sector, where many shale oil producers will be forced to close shop (these companies had weak metrics and high levels of debt even before the sharp drop in oil prices). If the measures to counteract or cushion these defaults fall short, the financial sector could see an increase in defaults

and this, combined with slumping financial profits, would leave banks in a precarious situation. In the United States we would steer clear of the financial sector and position ourselves in traditional defensive sectors. In Europe we are also focusing on quality and are therefore positioning ourselves in the Investment Grade segment to the detriment of High Yield, because in the coming months we should see the full extent of the damage to the economy and weaker companies will suffer the most. However, with interest rates at current levels in the Investment Grade segment, investors will likely move back to High Yield in search of a better return once the situation stabilises and the central bank presses on with its asset purchase programme. We also hold a positive view of emerging debt, especially following the corrections caused by the flight to quality.

Treasuries performance

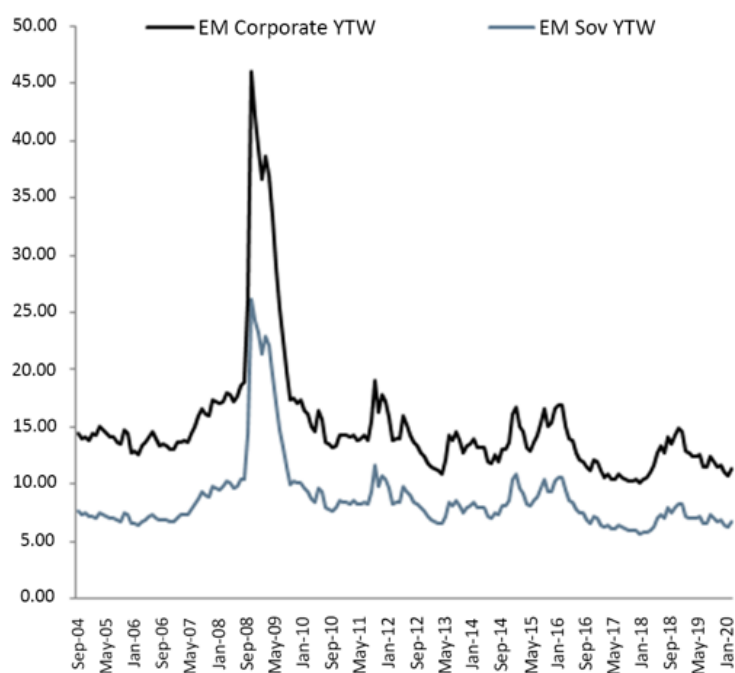


US High Yield – YTW



Here we would favour the debt of those countries that still have room for manoeuvre when it comes to lowering interest rates and that had relatively healthy public finances. This holds true for both China and Russia. Although the returns are more attractive in local currency, if the currencies of these countries were to fall, interest rate reduction policies could be threatened due to the fear of rising inflation.

Emerging Corporate & Sovereign Debt – YTW



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