CHAHINE CAPITAL
Performance Engineering

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STRATEGY OVERVIEW

Life and liberty – or life versus liberty?

Summary

This month's theme reflects the death toll from the coronavirus pandemic, and particularly its alarming rise in countries where individual freedom is the most prized. The contrast with countries where people are prepared to sacrifice personal liberty in order to save lives is striking. In what we might call 'Confucian' countries, such as China and Japan, Covid-19 has been virtually eliminated and the death rate from this infection is running at 4 per million inhabitants, compared with 686 in the USA. The extensive use of intrusive technology to the detriment of individual freedom explains the success of China's campaign. Never mind QR codes for coronavirus status – in the West, facial recognition techniques using CCTV are banned in the name of liberty. Google/Apple tracking apps do not work when they are not obligatory. In Taiwan, total success in the form of zero cases followed the population's willingness to sacrifice some of its personal freedoms. Despite a population of 1.4 billion, China is reporting only 40-odd new cases per day at the moment, and no deaths. The data may have been massaged, of course, but the fact remains that 600 million people travelled around China during the recent Golden Week, and 4.9% GDP growth in Q3 lifted the Chinese economy above its level of activity recorded last year. In New Zealand, the eradication of coronavirus also involved popular acceptance of drastic limitations on personal freedom.

In most of our liberal democracies, we have tried to save lives as well as the economy. The result has been to save neither. We could instead submit to extraordinary powers to locate us using technology and that would oblige us to declare an infection (on pain of a heavy fine) and self-isolate, again verified by technology, and with a softer version of the internal passport system used in China. This sort of regime could also oblige Gafam to contribute to a 'war chest' rather than make billions of profits out of other firms' misfortunes. We'll leave it to our readers to weigh up the pros and cons, not to mention our children and grand-children in philosophy classes.

Hopes currently lie with an effective vaccine, rapid tests and miracle drugs. Without them there seems no end to the crisis. The introduction of electronic health records has been delayed for two decades amid privacy concerns, but is again a matter of urgent debate. EHRs could have saved thousands of lives during the pandemic and would reduce healthcare costs dramatically.

Equity markets have traded sideways over the past two months and have struggled to match their highs. The most recent correction can be attributed to Covid-19, as the outcome of the US presidential election does not appear to matter much to investors. Where the markets have gained, it is down largely to Gafam.

GDP growth forecasts for 2020 are being marked down. The world economy is set to shrink 3.97%, compared with last month's estimate of a 3.85% contraction, with Europe responsible for most of the damage. China is coming through the crisis triumphant, with a revised 2% gain in GDP likely this year. Forecasts for India have worsened dramatically. The outlook for US GDP has improved: a 4.2% followed by a sluggish 4% rebound in 2021. The world growth rate is expected to be 5.15% next year, again following downward revisions.

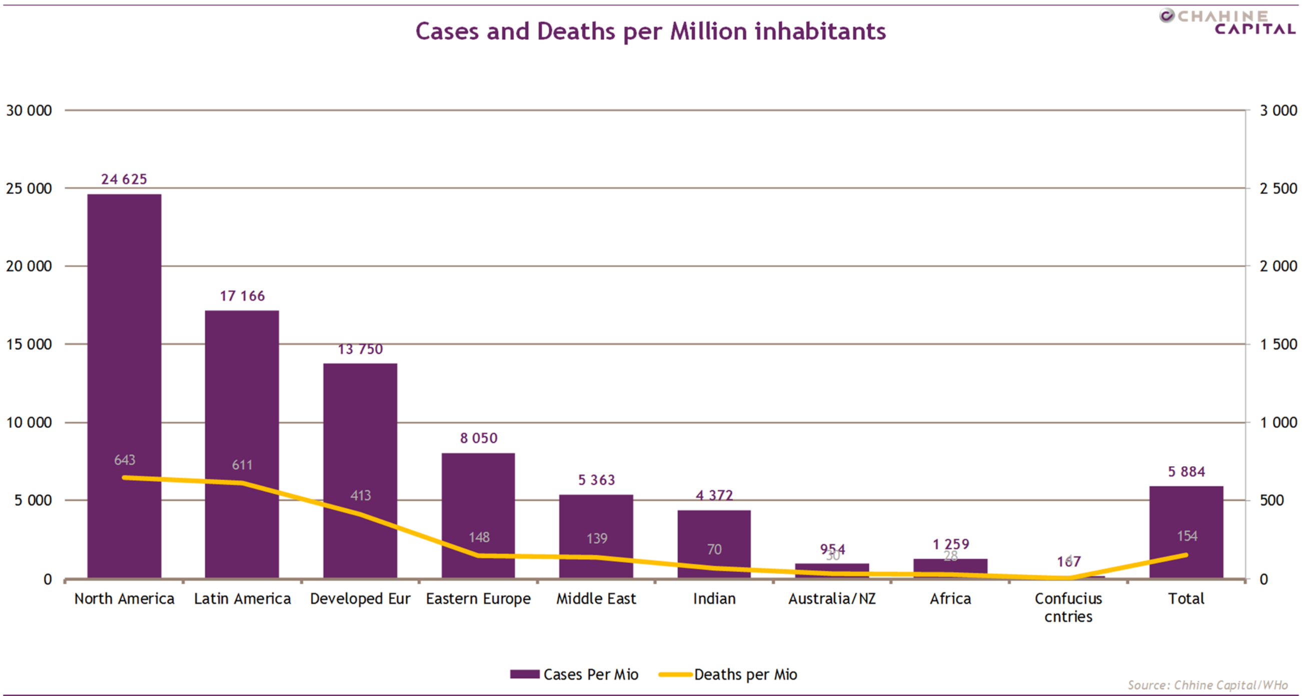
Central bank liquidity injections will intensify. The second US stimulus package will be worth $2-3 trillion, depending on the election result, and the ECB has no choice but to cover massive government deficits within the EU. US interest rates are at zero at the front of the curve but inch higher from the 3-year maturity outwards; the the euro zone they are negative out to 30 years. US Q3 earnings were a great surprise at 14% better than expected; that has limited the likely drop in EPS to 18% this year. A 23% rebound in 2021 would take profits back to their pre-crisis level. The improvement in earnings has been offset by an uptick in the US 30-year yield from 1.4% to 1.63%, however, and our S&P 500 objective has eased from 3,448 to 3,306 points, pretty much where it started this month. The index 2021 PER is 19.9. We are maintaining the overweight recommendation that we introduced on 28 March, at 2,600 points.

Jacques Chahine

Confucianism to the rescue?

The theme could be one well worth debate at university philosophy classes, especially as younger people are a great source of fresh ideas. Either way, it stems from the observation that deaths from the coronavirus pandemic are massively higher in countries where individual liberty is felt to be a fundamental right than in countries where people accept the loss of some of their freedoms in order to save lives. That latter group includes countries with a culture we have termed ‘Confucian’, such as China and Japan. These countries account for some 1.874 billion people and cover much of Asia. Their overall death rate from coronavirus is just 4 per million, compared with 643 for the libertarian North America and 686 for the USA on its own. Liberal Western democracies are currently struggling with a virulent second wave of the pandemic, but our Confucian countries have kept the disease under control. The most striking example is Taiwan (*persona non grata* at the WHO), which has suffered no deaths from coronavirus since 1 June. We accept that Chinese data are manipulated and bend to political necessities, but that is not true of Taiwan, South Korea, Japan and Singapore. Although there was a resurgence of the virus in Singapore, it was brought swiftly under control and the country’s death rate is still only 5 per million.

China, South Korea and Japan as safe havens



China and intrusive technology

Unlike neighbouring countries that have done as well or better in taming coronavirus, China has a totalitarian regime where individual liberty is tightly constrained. The authorities are able to remove the modest freedoms that remain overnight, and did so in Hubei province when the entire population was effectively placed under house arrest. There was little incentive to flout that lockdown, either, with prison and other sanctions a very real threat. The same discipline was imposed in every area where the virus appeared, and mass testing led to new lockdowns. 11 million people were tested in Wuhan, and more recently 9 million people in Quingdao were tested in a mere five days after reports of a dozen cases originating abroad.

The Chinese government is free and easy with the liberties of its own people, and 'big data' has made mass surveillance all too possible. China has the world's greatest density of CCTV units capable of facial recognition, using artificial intelligence. Israel is another leader in this technology, which is exported worldwide. China uses it for political purposes such as tracking Uighurs, but it also works in detecting people breaching Covid-19 lockdowns or quarantine. In the USA, states and cities outlaw this technology as a threat to individual liberty. The NSA scandal revealed that anyone in the world can be tracked for national security reasons, however. It turns out that the monsters of Silicon Valley – Google, Facebook, Apple – know a great deal more about our private lives than the healthcare systems that actually do us good. This is what the *Wall Street Journal* had to say:

"In rare collaboration, tech rivals Google and Apple, look to methods used in some Asian countries to curb contagion; effort is likely to raise privacy concerns".

So although technology can track and trace infected people and those they come into contact with, a reluctance to inhibit personal freedom and their right to privacy will mean tens of thousands of additional deaths from the pandemic. Months after the Google app was made available, anarchy reigns in the USA and in Europe. France went its own way with a first app that proved a flop and a second that is incompatible with those in neighbouring countries. Marvellous on paper, the system requires everyone to participate and every infected person to make it known, albeit anonymously, so that their contacts can be warned. This is a shortcoming in our liberal democracies, where no law can force citizens to participate.

In China, the government directed Alibaba and Tencent to develop coronavirus tracking apps. These two hi-tech giants came up with a virtual ID 'card' with a three-colour QR coding system: green for uninfected people, who are free to come and go as they wish; red for infected people that have to be quarantined and amber for people that have come into contact with an infected person and that have to self-isolate for seven days. These 'cards' are held on smartphones and include such personal details as ID card number, telephone number and a facial image. They can be linked to medical records as well. As these virtual ID cards are needed to get into offices and any public spaces, there is every incentive to participate in the system. As soon as a person tests positive, the authorities can warn their contacts for isolation purposes. Initially run at provincial level, the system inevitably suffered from incompatibilities; it has since morphed into a national database with 1.4 billion people on it.

Freedom in China is a matter for Big Brother – the Party – to decide. One university has installed facial recognition CCTV in lecture theatres in order to identify absentees or sleepy students. All very effective, no doubt, but it would be unimaginable in France, for example, where absenteeism is notoriously high in the first year of degree courses.

While ignoring the rules can mean prison in China, other Confucian countries have relied on a sense of collective responsibility to arrive at the same result. In South Korea, leading lawyers have declared that private life can indeed be sacrificed for the good of public health during a pandemic.

The point remains that the sacrifice of some freedoms has saved hundreds of thousands of lives in Confucian countries, while we expect hundreds of thousands more deaths in our liberal democracies. If the Asian countries we are referring to had suffered the same death toll per million as the USA, they would have lost over 1.2 million people to the pandemic. China is recording only 40 new cases and no deaths per day at the moment, despite its vast population. We accept that Chinese figures should always be treated with caution, but there is no hiding the fact that 600 million Chinese travelled during the recent Golden Week. Moreover, Chinese GDP was 4.9% higher in Q3 than in the same period last year, meaning that economic activity has already bounced back to pre-pandemic levels. It is the only major economy looking at a GDP gain this year: a projected 2% after upward revisions, then 8% in 2021.

The outliers: New Zealand, Sweden and others

New Zealand has demonstrated the same success in tackling Covid-19 as our Confucian countries, at least so far. It has opted for a different route, however. As soon as the country recorded 100 infections it went into complete lockdown for four weeks, a period that was then extended by a further three weeks. Every single subsequent case has been tackled vigorously. Auckland went back into lockdown in August after four cases were recorded there and the country is now living freely again. This approach maintained personal privacy but the lockdowns have had significant economic costs. New Zealand is in recession, but nobody is infected any more. It would be a great place to go for holiday, but that option is closed to all foreigners.

Another very different case study is Sweden, which attempted to go for ‘herd immunity’. This has not prevented a second wave of infections but the country continues to function with very few restrictions. Its figures are no worse than France’s, but much worse than its Nordic neighbours. Time will tell whether this Trump-style strategy will work out.

Low pandemic death rates in Africa partly reflects poor data-gathering capacity but mainly the fact of young populations. Only 2% of Africans are aged over 70, compared with around 15% of Europeans. And over-65s account for 75% of coronavirus deaths. The same factors apply on the Indian sub-continent, where only 3% of people are over 70.

In Latin America, death rates are similar to North America. President Bolsonaro is working on the principle of herd immunity in Brazil, and that appears to have worked in the city of Manaus.

Life or liberty? A generation question

Our overview of the pandemic raises complex issues around individual liberty (including the right to privacy) and the price of human life. While the answer for many young people may look straightforward enough – relatively few die of coronavirus – they can unwittingly endanger older people. The loss of freedom through lockdowns, social and economic restrictions and an inability to travel is hard to take. On the other hand, people at risk that have suffered the loss of loved ones or neighbours through the disease may well be prepared to give up their freedoms to prevent further harm.

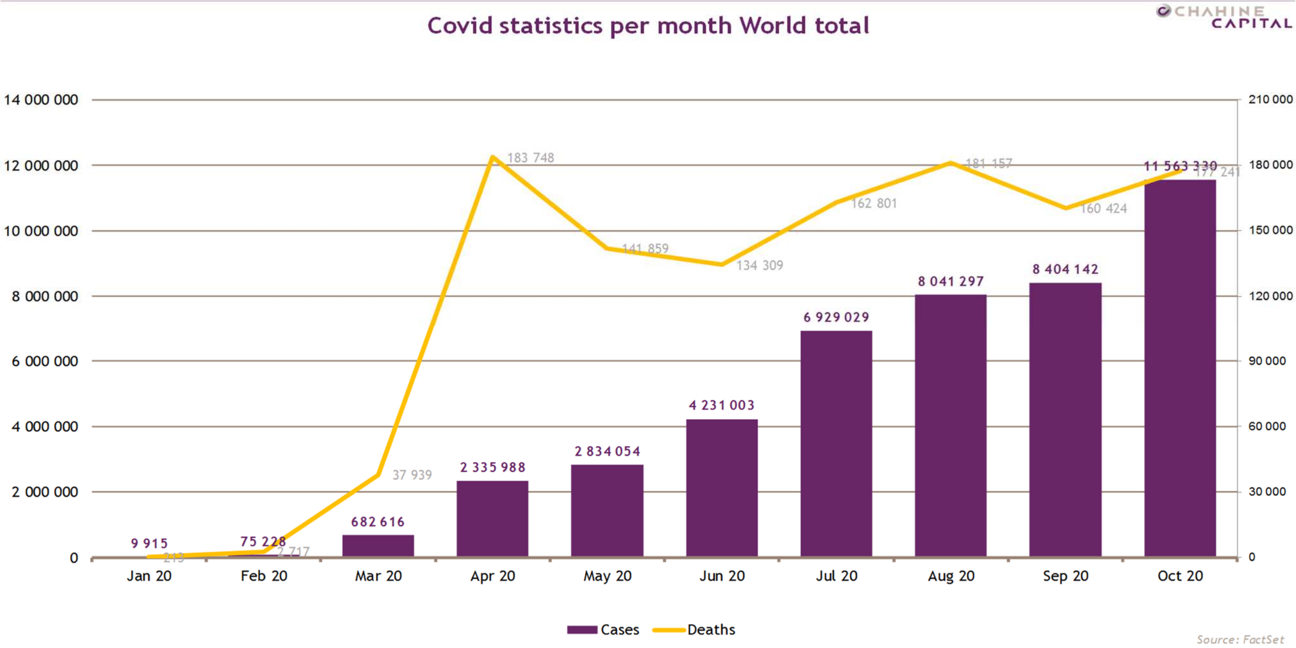
In most of our liberal democracies, we have tried to save lives as well as the economy. The result has been to save neither. Without going as far as China, the Confucian approach is surely worth thinking about. We could instead submit to extraordinary powers to locate us using technology and that would oblige us to declare an infection (on pain of a heavy fine) and self-isolate, again verified by technology, and with a softer version of the internal passport system used in China. This sort of regime could also oblige Gafam to contribute to a ‘war chest’ rather than make billions of profits out of other firms’ misfortunes. New Zealanders have succeeded in their combat against the virus by remaining patient during lockdowns and tight controls on new cases once restrictions are eased. This approach has enjoyed popular support and has not permanently hampered individual liberty.

We’ll leave it to our readers to weigh up the pros and cons, not to mention all those bright youngsters studying philosophy and our own children and grand-children.

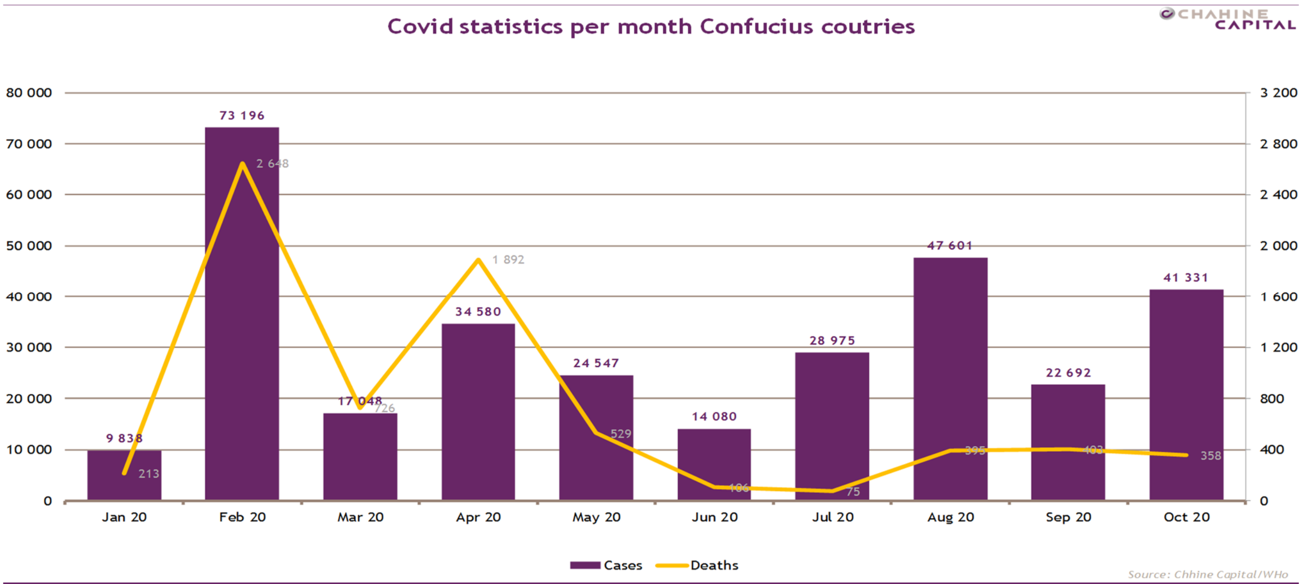
The second wave will worsen the recession

A second, serious wave of the pandemic hit Europe when schools went back after the summer holidays. The number of new cases rose threefold between September and October, resulting in fresh restrictions and then lockdowns, with governments trying to keep national economies alive all at the same time. France, England, Belgium, Portugal, Spain and Germany are all in variations of national lockdowns. Once again, the hospitality and leisure sectors are the worst hit, along with non-essential retailing. In France, some populist voices have called for supermarkets to close off their non-food aisles, the idea being to help smaller shops. But this would damage the economy more, and the better option would be to subsidise those shops.

A second wave in October…

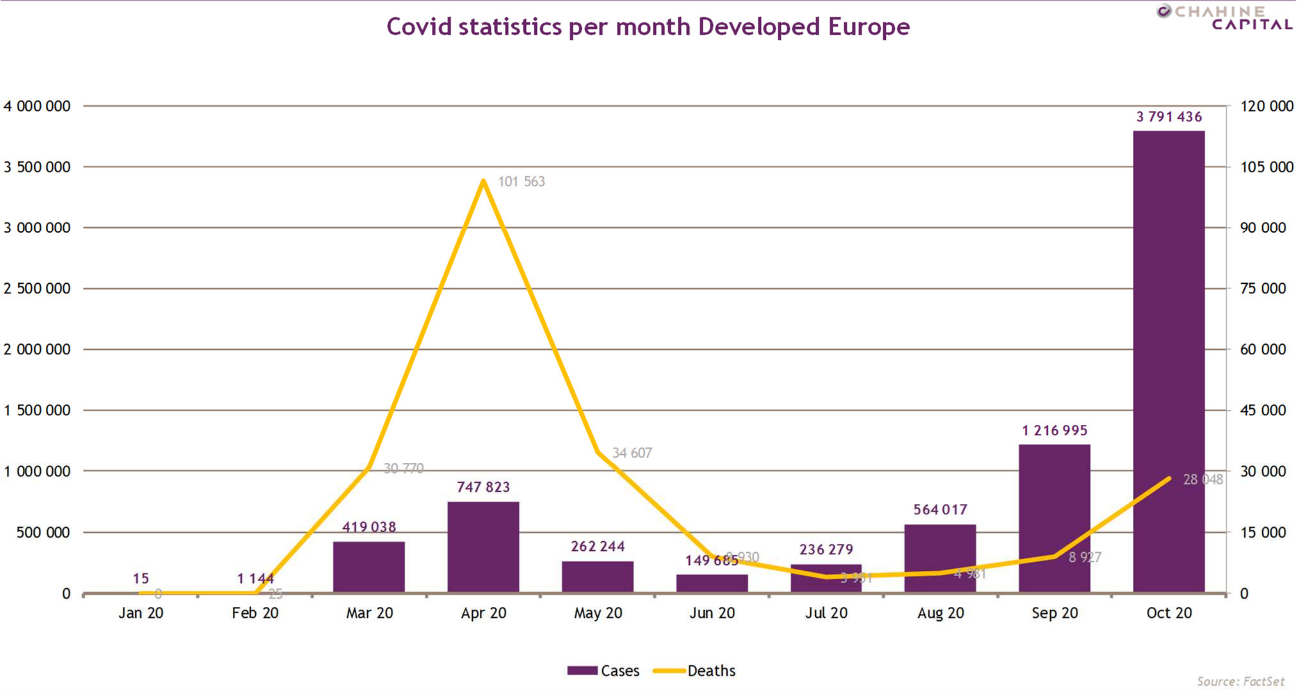


… but not in Confucian countries

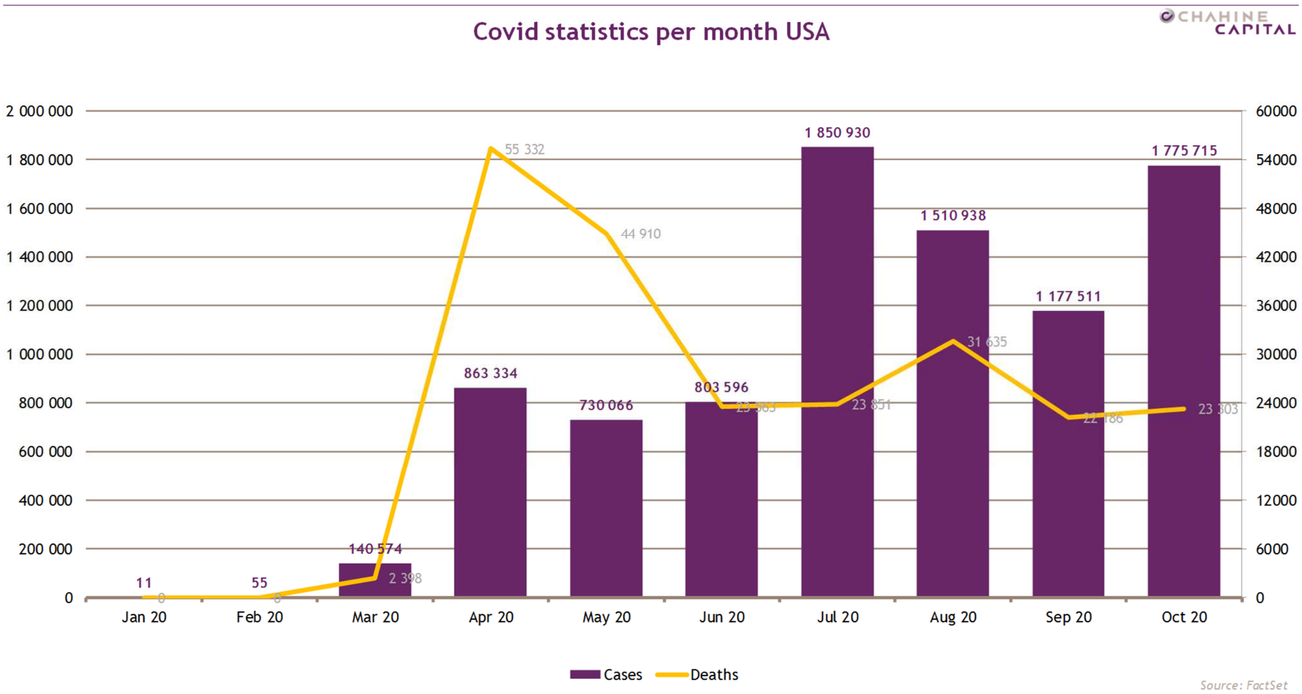


The second wave is killing fewer people per 1,000 infections than the first wave. This is partly because data from March and April are very incomplete, with a great many undetected cases, and partly because the treatment of infected people has improved dramatically. Death rates are virtually zero in the Confucian countries: they reported 358 deaths in October among their combined 1.9 billion people, fewer than certain days in France. The pandemic is under extremely close surveillance in the region.

Europe forced into lockdown again, but fewer deaths per case



In the USA, the virus could have cost Mr Trump the presidency



In the USA, it is up to the states to manage the crisis, and some prefer sacrificing lives to damaging the economy. Soaring cases in October may have cost Donald Trump his re-election. American culture favours freedom over life, it seems, and the same goes for those participating in violent demonstrations in Europe.

Hopes now rest with an effective vaccine among the dozens on their way. 'Stage three' interim results of testing programmes should appear in November and could move the markets either way. This is because the firms making them publish once they have a meaningful total of infections from control groups, such as 53 at Moderna. We then look at how many people are in the vaccinated and placebo samples and cross our fingers. In the meantime, efforts will continue worldwide to tackle the virus, starting with more accurate and swifter tests. Some are at approval stage.

It may be that the pandemic ends all by itself, of course, through herd immunity. We are all so depressed by the current situation that the prospect of it ending could be enough to drive consumer spending through the roof. But investors are going to have to be patient about that...

Healthcare sacrificed in freedom's name

The controversy over electronic health records (EHRs) has raged for over 20 years, with libertarian arguments prevailing against their introduction in Europe despite the fact that Gafam now know more about us than we do ourselves. In France, and following several failures, EHRs were launched amid fanfares in November 2018. But the French version depends on voluntary participation by individuals and healthcare professionals. Only one doctor in five is using the system at the moment, and it will take years for it to take its place as a vital part of effective healthcare despite its centralisation of medical prescriptions, lab results, scans hospitalisation data, allergy information and so on. It would have been particularly useful during the pandemic, of course, and hopefully it will be in universal use by the time the next one comes along.

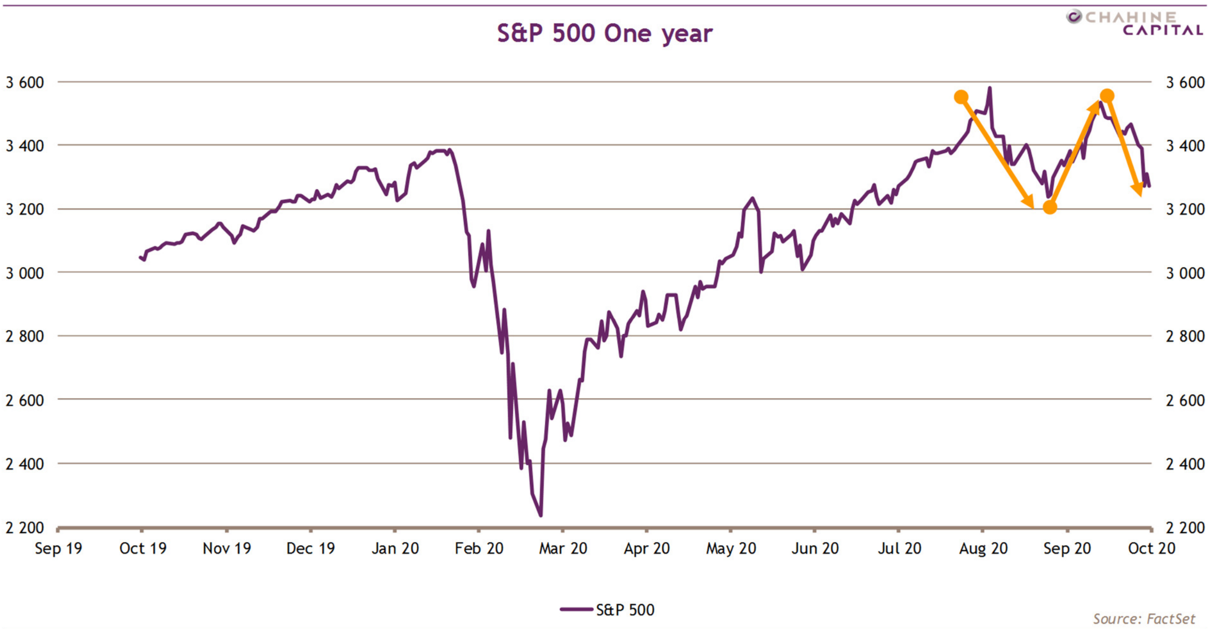
Several countries have used EHRs for years, with citizens accepting a loss of some privacy as the price of better health. In Israel, the four national health insurers have been operating full medical databases on the people they insure for two decades. With a few clicks on a mouse, a patient can pull up a mine of potentially useful information, from cholesterol charts to scans and prescription history. Healthcare professionals have to enter new data into the system, and prescriptions are with the pharmacy before the patient has left the consulting room. The system also generates warnings over known interactions between drugs, a phenomenon that kills 8,000 people in France every year. On the business side, anonymised big data are sold for a small fortune to research labs that use artificial intelligence to predict diseases and lower substantially healthcare costs. More than 100,000 sets of genetic data have been integrated into the system to help with finding correlations. The weakness of EHRs is their their vulnerability to cyber attack, and it is therefore no surprise to discover that Israel is particularly strong in cyber security.

***We have raised this issue to illustrate another dimension of the liberty versus health argument*.**

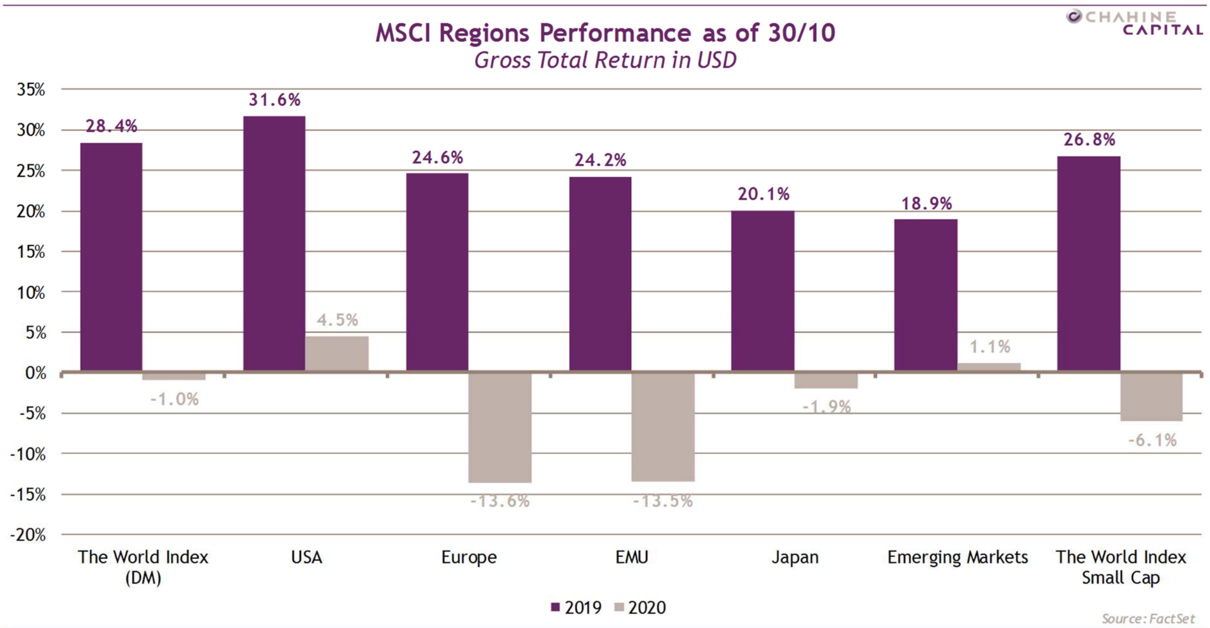
Equities struggle to renew with their highs

The S&P 500's progress towards its highs stalled in September and October. A reversal in huge option positions in high-tech stocks was blamed for the severe 10% correction in September; the subsequent rally faded then reversed in October for the more fundamental, Covid second wave reasons we have just discussed. In the end, the economic damage implied in widespread lockdowns in Europe and the sheer number of new cases in the USA have derailed market sentiment. The S&P 500 correction amounted to 7.5% by Friday 30 October. Bizarrely, the run-up to the US presidential election had no impact on Wall Street. Positive opinion poll numbers for Joe Biden made no difference, as Hilary Clinton had positive numbers as well. The result will not force another correction. Mr Trump is known for his unconditional support for Wall Street, while Mr Biden is seeking to stimulate the economy and aid his voters.

Wall Street has reacted more to Covid-19 than the elections

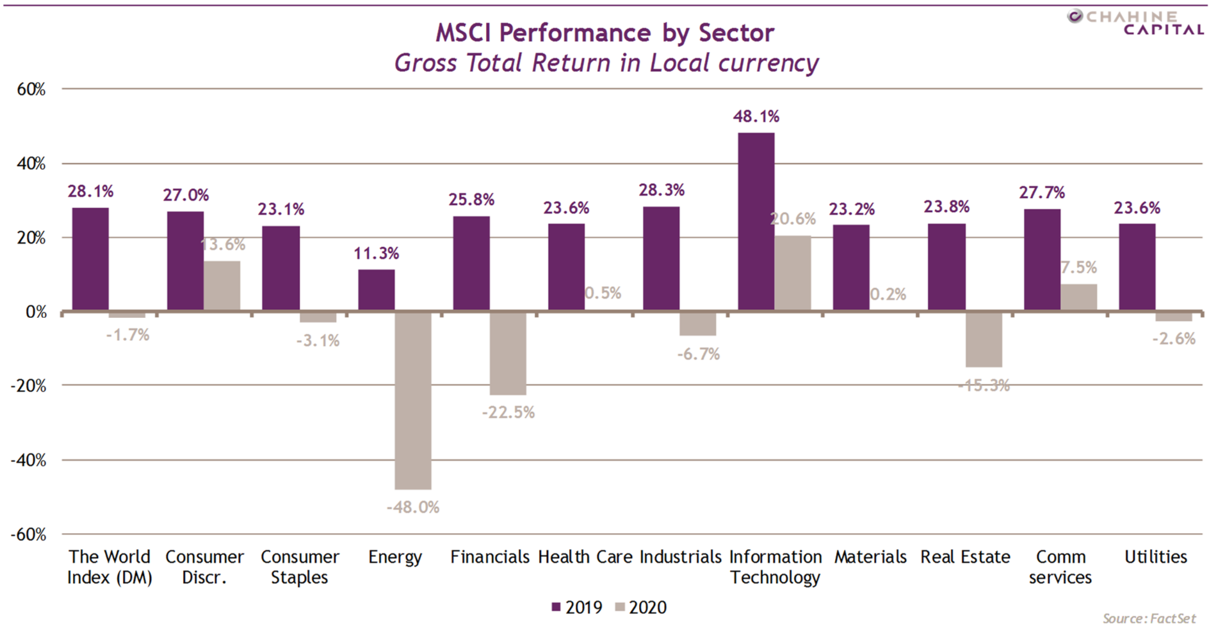


The pandemic has hit European equities, too



By sector, IT is the big outperformer. Other gainers over the year to date are discretionary consumers (Amazon, Tesla, e-commerce) and communication services (Google, Facebook, Netflix). Gafam is at the core of these sector numbers. Despite the pandemic, healthcare is unchanged overall, with the pharmaceutical majors lagging biotech and medical tech firms. The big losers are the devastated energy sector, finance and real estate. At sub-sector level, the destruction is evident everywhere directly affected by the pandemic, from hotels to leisure and travel.

Energy and finance suffer, Gafam soar



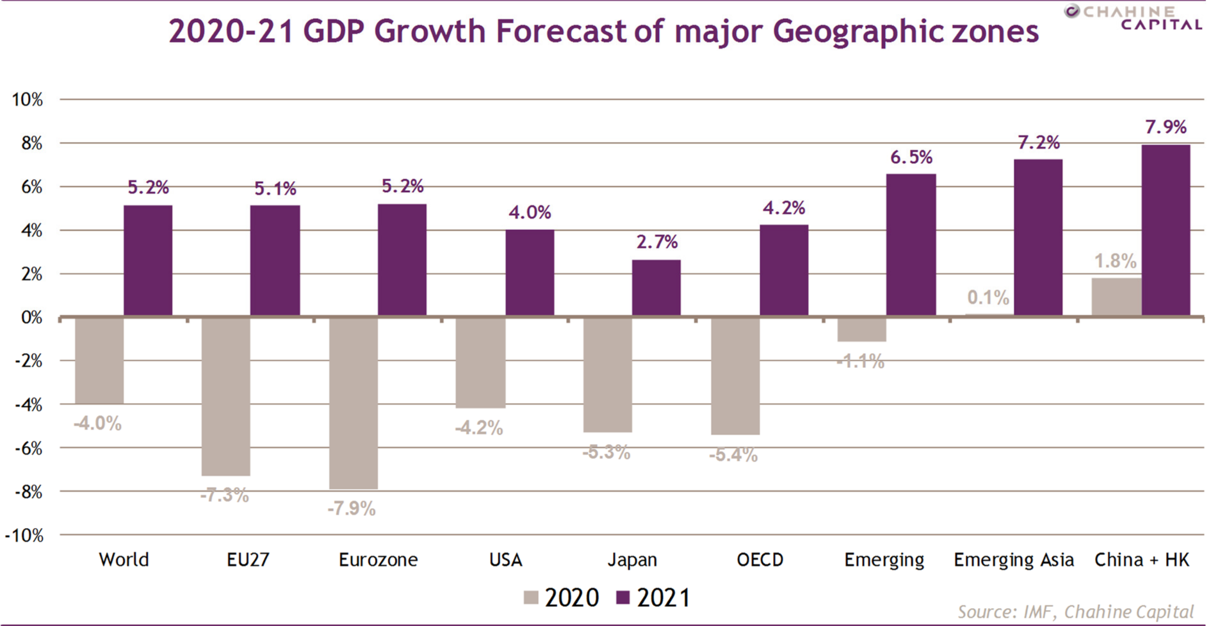
China rescues world economic growth

Despite a generally better Q3 than expected, the outlook for GDP growth in 2020 is worsening. The overall number has deteriorated from -3.85% to -3.97%, largely because of developments in Europe, and note that the latest lockdowns have not been taken into account yet. Downward revisions have affected forecasts for Japan and emerging countries apart from China, led by a sharp deterioration in India. India had taken China's place in the global textiles market and in other low value-added products, and these are sectors that have been badly hit by the pandemic. In the meantime, China has become a high-tech Mecca, to its great advantage this year once it stamped out the virus. Chinese GDP was 4.9% higher in Q3 than in the same period last year, signifying that this economy is back to where it was when the pandemic hit. The projection for its growth in 2020 has been revised up to 2%, and the forecast for the rebound year of 2021 is 8%.

US growth in 2020 has also been revised to the upside, from -5.5% to -4.2%. The euro zone's troubles seem never-ending, with an expected decline in GDP worth almost 8% this year; the UK is at -10%, a new record. On top of that, Brexit looms and the Bank of England is obliged to print billions of pounds sterling to keep the economy afloat. The pound's 'autonomy' should not be taken for granted.

The world economy is expected to rebound 5.15% in 2021, but that figure was 5.38% a month ago. The USA is the main reason, with a 4% rebound that would not be enough to take global GDP to where it was before the pandemic. For as long as the coronavirus is out there, visibility will be poor and downward revisions will persist. Many of us are looking at lockdowns until year-end, and Mr Biden will be less complacent on this matter than Mr Trump has been.

China has become the sole engine of world growth



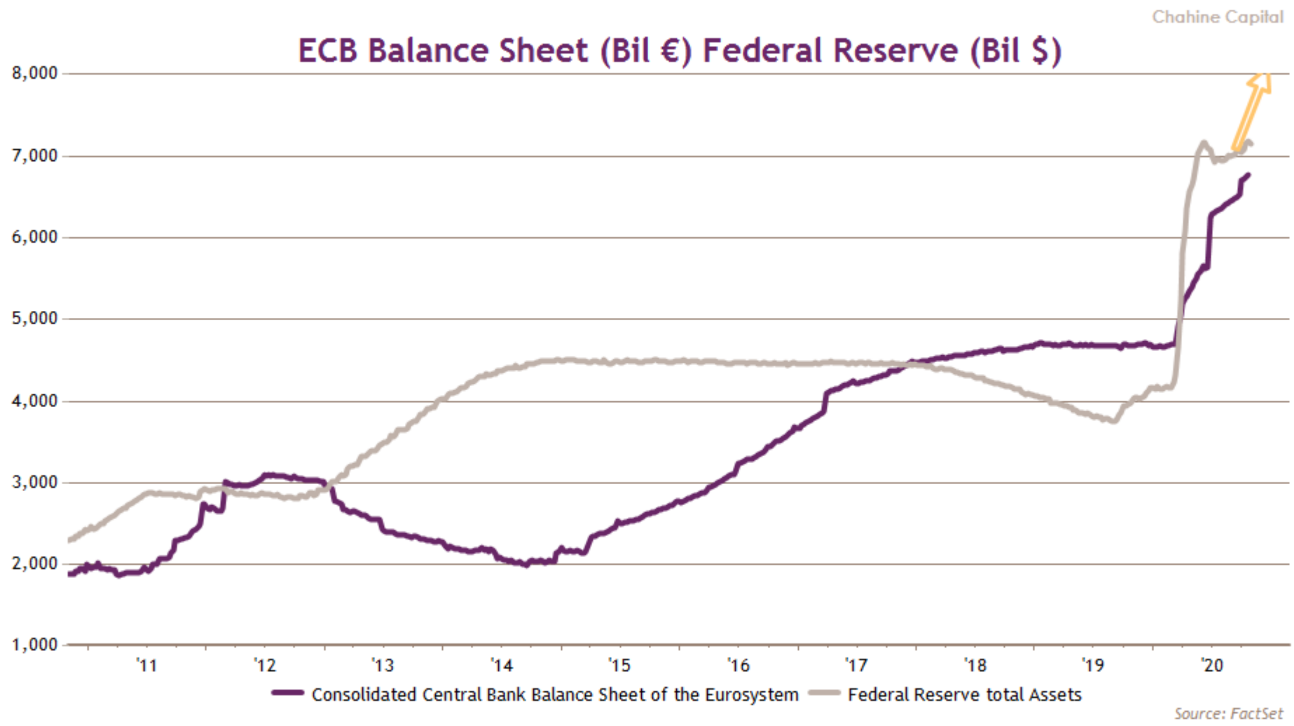
Liquidity injections set to increase

World fiscal and monetary policies will remain as they are, and we have no idea what the limits to printing money are. The ECB continues to buy up bonds issued by European governments in response to the crisis, although the US Federal Reserve has paused momentarily over the election period. In America, the Democrats would print far more money than Republicans and we can already assume a second, post-election stimulus package worth $2-3 trillion. That would leave the Fed's balance sheet at almost $10 trillion. Europe also faces the prospect of more liquidity injections to cover its own national stimulus efforts.

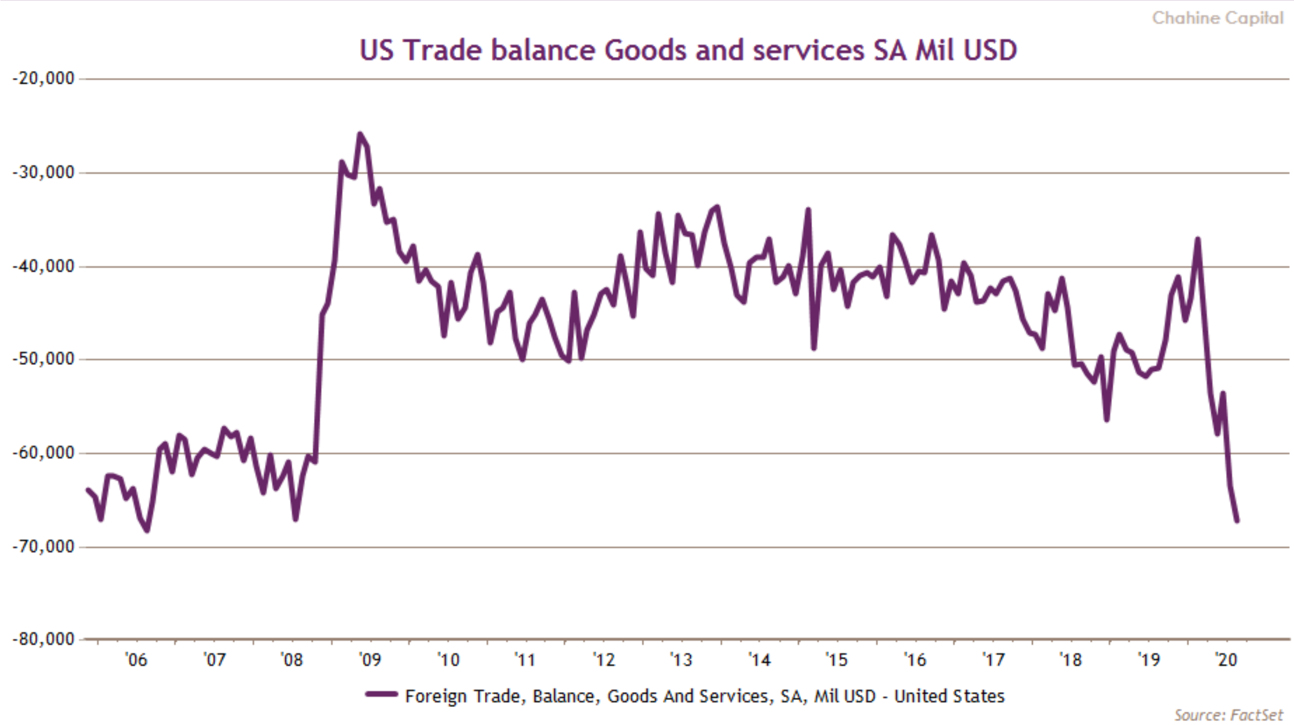
As we do not know which of the Fed or the ECB will print the most additional money in the future, the euro-dollar parity could well remain in a tight trading range. In the meantime, investors could end up reacting against liquidity saturation, which is why we are maintaining our recommendation to invest in gold. After all, it is the ultimate safe haven when confidence in paper currency disappears. A crisis of confidence in the dollar could materialise if the US trade deficit continues to widen. As the chart below shows, the trade deficit hit $67 billion in September, or $800 billion in annual terms. In China, the annual trade surplus has burgeoned from $200 billion to $600 billion. And the US budget deficit has worsened continuously as a result of contracting revenues and surging expenditure.

The US yield curve steepened in October. The 10-year yield climbed from a 0.68% to 0.85%, and the 30-year (which we use in our valuation model) rose from 1.45% to 1.63%. At the same time, rates out to the 3-year point are unchanged. The eurozone yield curve has shifted even further into negative territory, and right out to the 30-year in the case of Germany. This tells us that interest rates are going to stay low for a very long time. Ironically, getting hold of credit is proving far from easy on both sides of the Atlantic. Banks are already holding an uncomfortable amount of non-performing loans on their books as it is.

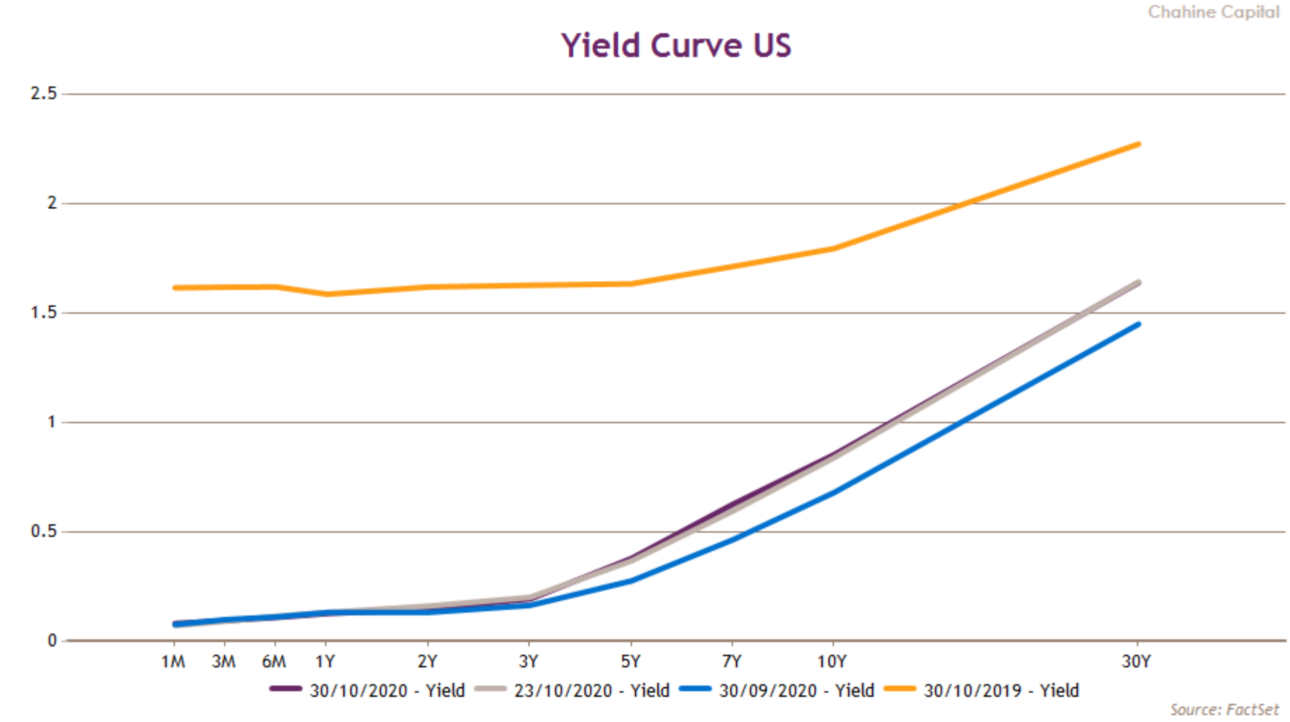
An explosion in central bank balance sheets



America importing to meet current needs



A steeper yield curve is buoying the dollar

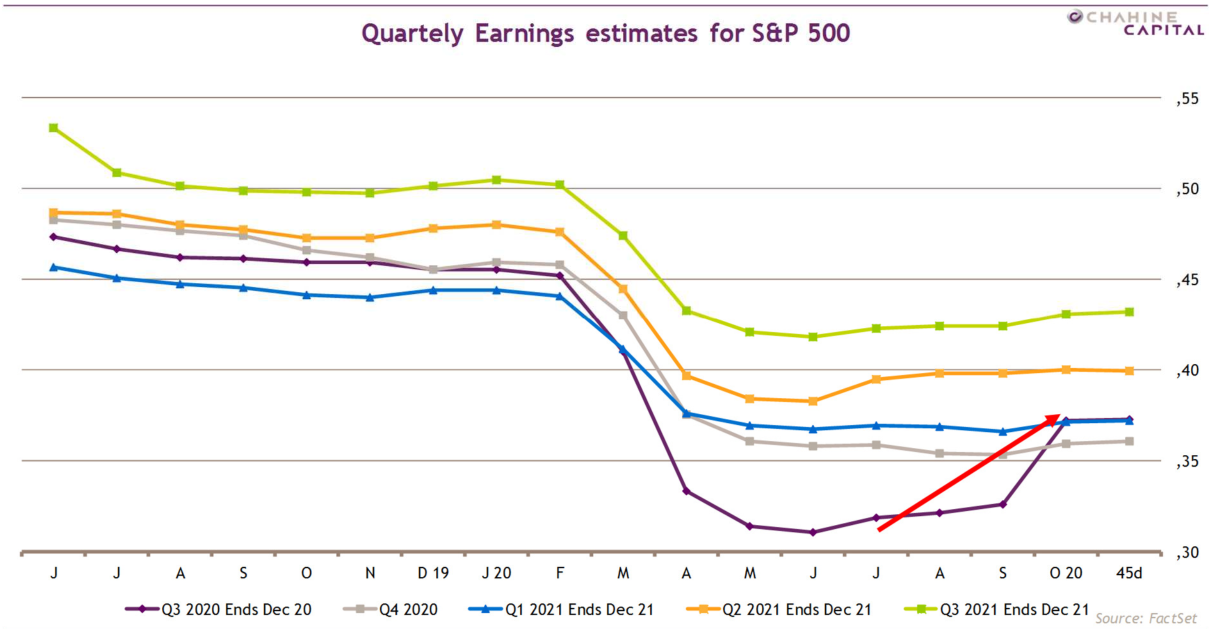


Q3 profits much better than expected

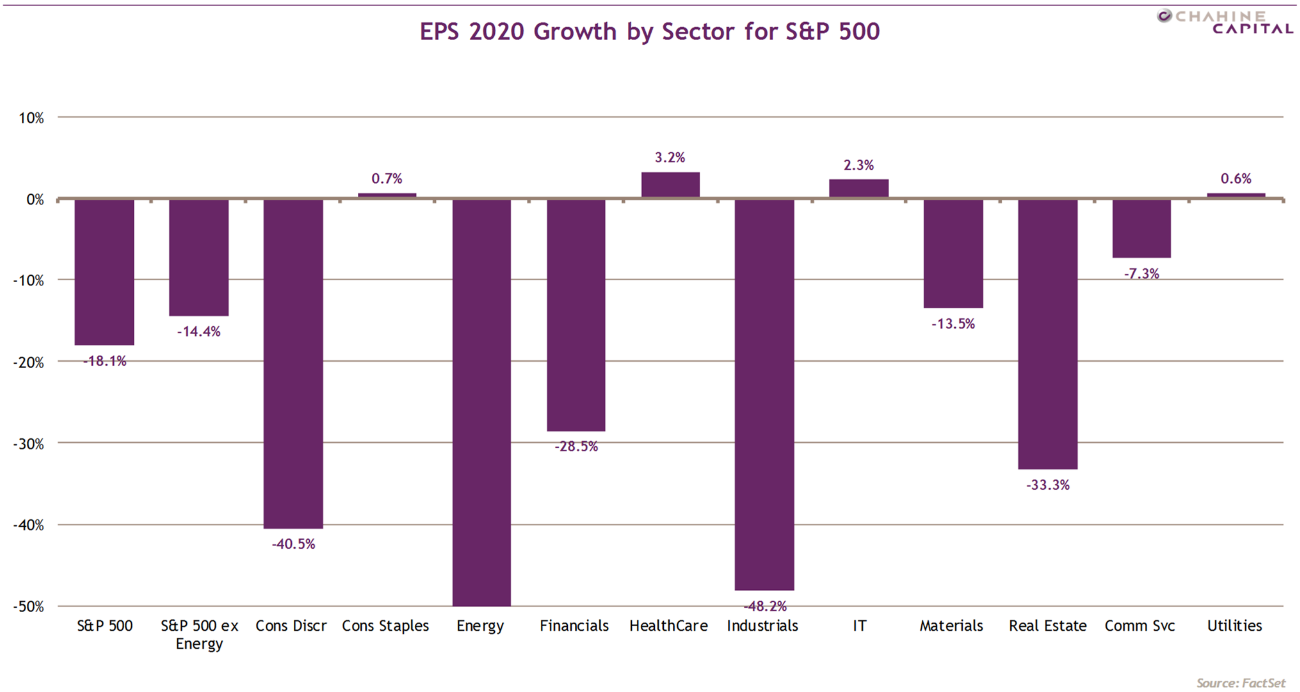
Having come in 14% higher than the end-September consensus, US corporate profits amounted to a very big surprise in Q3. Guidance for Q4 has not been revised down, pointing to a strong year-end as well. With three quarters done, the drop in S&P 500 EPS over 2020 is set to be 18%, compared with an expectation of 21% a month ago. These developments have prompted us to retain the consensus estimate of a 23% rebound in earnings in 2021, which would take them back to where they were in 2019.

The positive surprises in Q3 were concentrated among financials like JP Morgan and Goldman (several billions less of a drop in profits than previously forecast) and – most of all – Gafam. Amazon, Microsoft and Facebook made $2 billion more than expected, while Alphabet made $3 billion more than expected. Apple was the only 'disappointment', coming in line with the consensus estimate. The recovery stories next year are around some of the companies most affected by the pandemic and that can hope for at least some sort of a return to normality: in aviation, energy and finance. At the same time, we can expect more from Gafam. Intel, Apple and Facebook are projecting lower profits next year. A return to better fortunes among the Covid-affected sectors will of course depend on how well we cope with the pandemic from here on. In the worst case, companies will fail and disappear from the index (they will have very little in the way of capitalisation and plenty of losses), which on its own would brighten the picture at index level.

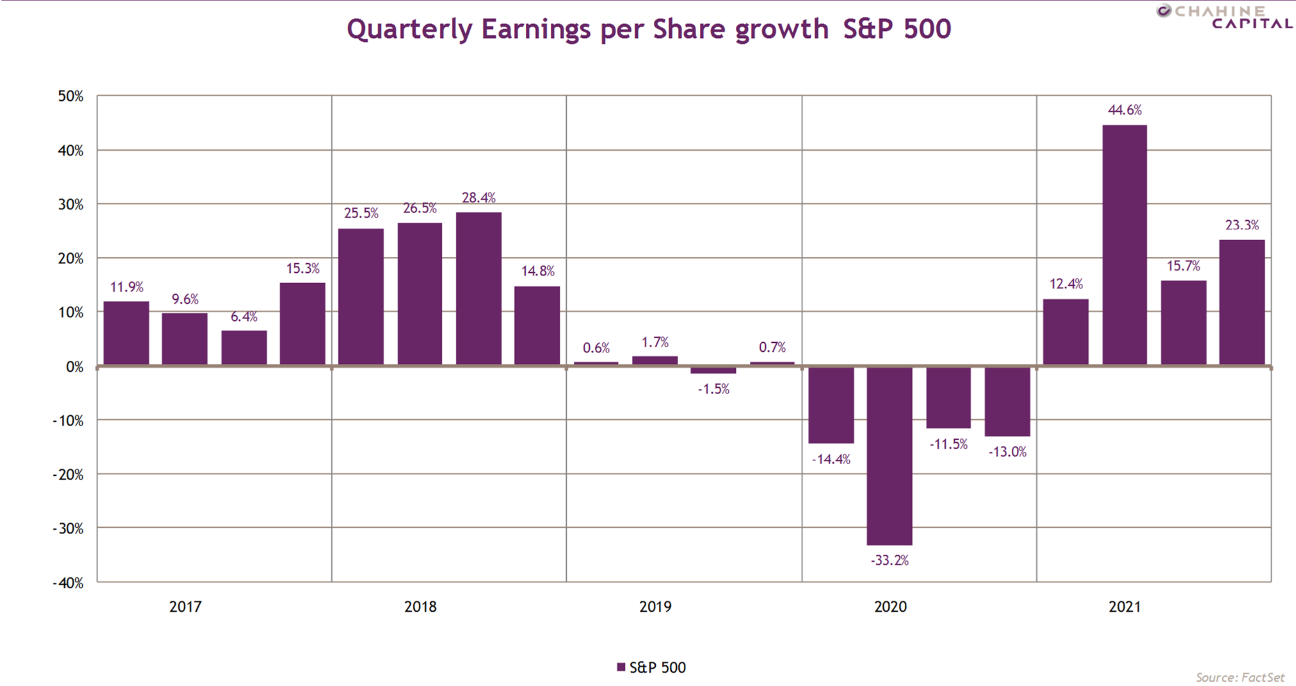
A big surprise on Q3 earnings



Declines in profits concentrated in low-PER sectors



Unless the pandemic effect worsens, profits will rebound fully in 2021



Market valuations

The improvement in the outlook for profits has been offset in our model by the rise in the 30-year yield from 1.4% to 1.63% over the past month. Our S&P 500 objective has eased from 3,448 points to 3,306 points, which was more or less where the market closed on Monday 2 November. Our objective with a 30-year yield at 1.5% would be 3,421 points, compared with 3,357 points a month ago. The 8-year CAGR starting in 2019 is virtually unchanged at around 5%. The market's 2021 PER is 19.9 and next year's dividend yield is 2%. The combination of resilient profits across much of the economy and virtually zero interest rates is hugely supportive of equities. There are risks, however: the pandemic, of course, especially if no solution is found, Brexit and the transition to a new presidency in the USA.

We are maintaining our recommendation to overweight equities. We made that recommendation on 28 March, when the index was at 2,600 points. Investors that missed that boat can always go with our suggestion of selling a put at (for example) 3,100 points, for a 55-point premium. That premium is all the higher when volatility is high, as it has been recently. Either that put is exercised and you are in the market at 3,100, or it is not exercised and you have a 55-point consolation prize. The catch would be a correction to 2,900 points, for example, from where you would be staring at a heavy loss.

In the euro zone, the average 30-year yield is close to zero and even a 3% dividend yield is not exciting investors very much. The economy has been hit hard by the pandemic, given its already weak financial sector, a great many cyclical stocks and very few hi-tech champions. We would estimate a 43% drop in profits this year and a rebound limited to 19% in 2021. Despite these handicaps, the market is underpriced and continues to track Wall Street. Brexit is an additional risk.

Not overpriced, according to our model

S&P 500 - Valuation end 2020 except implied scenario

CAGR Compounded Annual Growth Rate from 2019

	30 Years Gvt bonds				
	1.25%	1.50%	**1.63%**	1.75%	2.00%
Deep recession: -22% in 2020, 5.4% in 2021 - CAGR 1.5%	**2 851**	**2 665**	2 576	2 499	2 350
Implied Scenario CAGR 3.9% over 8 years	3 668	3 426	**3 310**	3 209	3 016
Return to normal: -19% in 2020, 24% in 2021 - CAGR 4.9%	3 662	**3 421**	**3 306**	**3 205**	3 012
Current Index S&P 500			**3 310**		

Some nuggets, especially outside the major indices

MSCI EMU - Valuation end 2020 except implied scenario

CAGR Compounded Annual Growth Rate from 2019

	30 Years Gvt bonds				
	0.00%	0.10%	**0.22%**	0.40%	0.50%
Deep recession: -46% in 2020, 12.5% in 2021 - CAGR -4.4%	**102**	**99**	95	90	87
Implied Scenario: CAGR -2.7% over 8 years	115	112	**107**	102	99
Return to normal: -43% in 2020, 19% in 2021 - CAGR -2.1%	128	123	**118**	**112**	**109**
Current Index MSCI EMU			**107**		

Conclusions

This month's theme reflects the death toll from the coronavirus pandemic, and particularly its alarming rise in countries where individual freedom is the most prized. The contrast with countries where people are prepared to sacrifice personal liberty in order to save lives is striking. In what we might call 'Confucian' countries, such as China and Japan, Covid-19 has been virtually eliminated and the death rate from this infection is running at 4 per million inhabitants, compared with 686 in the USA. The extensive use of intrusive technology to the detriment of individual freedom explains the success of China's campaign. Never mind QR codes for coronavirus status – in the West, facial recognition techniques using CCTV are banned in the name of liberty. Google/Apple tracking apps do not work when they are not obligatory. In Taiwan, total success in the form of zero cases followed the population's willingness to sacrifice some of its personal freedoms. Despite a population of 1.4 billion, China is reporting only 40-odd new cases per day at the moment, and no deaths. The data may have been massaged, of course, but the fact remains that 600 million people travelled around China during the recent Golden Week, and 4.9% GDP growth in Q3 lifted the Chinese economy above its level of activity recorded last year. In New Zealand, the eradication of coronavirus also involved popular acceptance of drastic limitations on personal freedom.

In most of our liberal democracies, we have tried to save lives as well as the economy. The result has been to save neither. We could instead submit to extraordinary powers to locate us using technology and that would oblige us to declare an infection (on pain of a heavy fine) and self-isolate, again verified by technology, and with a softer version of the internal passport system used in China. This sort of regime could also oblige Gafam to contribute to a 'war chest' rather than make billions of profits out of other firms' misfortunes. We'll leave it to our readers to weigh up the pros and cons, not to mention our children and grand-children in philosophy classes.

Hopes currently lie with an effective vaccine, rapid tests and miracle drugs. Without them there seems no end to the crisis. The introduction of electronic health records has been delayed for two decades amid privacy concerns, but is again a matter of urgent debate. EHRs could have saved thousands of lives during the pandemic and would reduce healthcare costs dramatically.

Equity markets have traded sideways over the past two months and have struggled to match their highs. The most recent correction can be attributed to Covid-19, as the outcome of the US presidential election does not appear to matter much to investors. Where the markets have gained, it is down largely to Gafam.

GDP growth forecasts for 2020 are being marked down. The world economy is set to shrink 3.97%, compared with last month's estimate of a 3.85% contraction, with Europe responsible for most of the damage. China is coming through the crisis triumphant, with a revised 2% gain in GDP likely this year. Forecasts for India have worsened dramatically. The outlook for US GDP has improved: a 4.2% followed by a sluggish 4% rebound in 2021. The world growth rate is expected to be 5.15% next year, again following downward revisions.

Central bank liquidity injections will intensify. The second US stimulus package will be worth $2-3 trillion, depending on the election result, and the ECB has no choice but to cover massive government deficits within the EU. US interest rates are at zero at the front of the curve but inch higher from the 3-year maturity outwards; the the euro zone they are negative out to 30 years. US Q3 earnings were a great surprise at 14% better than expected; that has limited the likely drop in EPS to 18% this year. A 23% rebound in 2021 would take profits back to their pre-crisis level. The improvement in earnings has been offset by an uptick in the US 30-year yield from 1.4% to 1.63%, however, and our S&P 500 objective has eased from 3,448 to 3,306 points, pretty much where it started this month. The index 2021 PER is 19.9. We are maintaining the overweight recommendation that we introduced on 28 March, at 2,600 points.

Jacques Chahine

Main ratios for markets and sectors as of 30/10/2020 (in local currency)

Data as of	Weight vs	Perf		Weighted P/E		% Wted EPS Chge			Div Yield	Revision vs M-2%	
30/10/20	MSCI World	2020	2019	2021	2020	2021	2020	2019	2020	Fiscal 21	Fiscal 20
MSCI The World Index	**100.0%**	**-2.84%**	**25.30%**	**18.3 x**	**22.7 x**	**24.0%**	**-19.9%**	**-1.6%**	**2.15%**	**0.7%**	**3.1%**
MSCI USA	65.3%	2.91%	29.20%	20.5 x	24.4 x	19.3%	-14.8%	-0.2%	1.72%	1.1%	3.7%
MSCI Japan	8.3%	-8.72%	15.70%	15.8 x	21.6 x	36.4%	-20.4%	-28.5%	2.44%	0.6%	0.1%
MSCI EMU	12.2%	-18.58%	21.69%	14.8 x	21.1 x	42.7%	-39.7%	0.5%	3.02%	-1.3%	2.2%
MSCI Europe	21.9%	-18.62%	22.17%	14.7 x	19.6 x	33.2%	-34.7%	3.7%	3.15%	0.3%	3.7%
MSCI Europe ex Energy	21.1%	-16.12%	23.79%	14.9 x	19.1 x	28.0%	-30.0%	5.6%	2.98%	0.5%	3.7%
MSCI Austria	0.1%	-38.30%	13.38%	9.7 x	14.5 x	49.4%	-50.1%	-24.9%	3.76%	-6.2%	-2.5%
MSCI Belgium	0.5%	-29.85%	19.37%	17.3 x	17.0 x	-1.4%	-32.9%	11.2%	2.86%	-3.0%	4.4%
MSCI Denmark	0.9%	16.68%	28.95%	24.1 x	29.0 x	20.6%	-3.3%	-3.7%	1.46%	2.4%	4.9%
MSCI Finland	0.4%	-4.47%	8.28%	17.4 x	19.6 x	12.6%	-14.3%	-1.4%	3.31%	-5.7%	-1.4%
MSCI France	4.4%	-20.99%	26.10%	15.2 x	24.5 x	61.4%	-47.0%	4.6%	2.94%	-1.2%	0.1%
MSCI Germany	3.2%	-15.42%	20.10%	13.4 x	18.6 x	38.6%	-28.6%	-4.7%	2.98%	-0.3%	5.2%
MSCI Great-Britain	4.1%	-26.62%	11.37%	12.5 x	17.1 x	37.1%	-38.2%	-5.3%	3.91%	0.4%	2.2%
MSCI Ireland	0.1%	-7.93%	21.49%	28.8 x	63.5 x	120.4%	-67.9%	-24.3%	0.56%	1.3%	1.3%
MSCI Italy	0.9%	-25.94%	25.49%	11.4 x	18.7 x	63.3%	-50.3%	-1.6%	4.05%	0.8%	-0.6%
MSCI Netherlands	1.7%	-4.28%	26.85%	19.1 x	24.3 x	27.6%	-28.4%	-3.3%	2.11%	-2.3%	1.4%
MSCI Norway	0.3%	-17.94%	8.26%	13.8 x	17.6 x	27.3%	-24.1%	-11.0%	4.41%	-2.0%	3.3%
MSCI Spain	0.9%	-32.49%	9.85%	13.8 x	17.0 x	23.4%	-51.1%	7.7%	4.39%	-3.3%	4.9%
MSCI Sweden	1.2%	-1.74%	25.01%	15.6 x	15.2 x	-2.2%	-18.0%	65.9%	2.85%	9.4%	24.4%
MSCI Switzerland	3.1%	-9.64%	26.97%	16.7 x	19.4 x	15.6%	-10.3%	9.9%	3.06%	-0.1%	0.8%
MSCI Europe Consumer Discretion	3.1%	-14.04%	30.01%	17.1 x	54.9 x	221.2%	-72.8%	-11.6%	1.16%	3.6%	13.6%
MSCI Europe Consumer Staples	3.2%	-11.98%	22.38%	17.4 x	18.9 x	8.7%	-9.8%	9.7%	3.09%	-0.2%	0.8%
MSCI Europe Energy	0.8%	-53.73%	3.55%	10.9 x	60.3 x	451.0%	-89.7%	-14.9%	7.44%	-3.5%	-0.5%
MSCI Europe Financials	3.0%	-34.65%	17.31%	8.9 x	11.4 x	27.7%	-41.0%	15.1%	4.50%	1.7%	8.8%
MSCI Europe Health Care	3.2%	-9.02%	28.40%	15.7 x	16.9 x	7.8%	-2.0%	9.6%	2.92%	-1.4%	0.4%
MSCI Europe Industrials	3.0%	-11.98%	32.02%	18.8 x	29.4 x	56.7%	-42.8%	5.1%	2.20%	1.2%	4.4%
MSCI Europe Information Technol	1.5%	-5.49%	36.00%	23.8 x	27.2 x	14.2%	-11.4%	4.6%	1.04%	-6.1%	1.4%
MSCI Europe Materials	1.6%	-10.92%	21.39%	14.7 x	18.2 x	23.7%	-11.9%	-13.1%	3.65%	2.0%	5.4%
MSCI Europe Real Estate	0.3%	-27.54%	18.93%	14.8 x	15.0 x	1.1%	-28.6%	-15.4%	4.40%	-1.8%	-0.6%
MSCI Europe Communication Serv	1.0%	-24.67%	0.60%	13.4 x	14.9 x	11.5%	-24.5%	2.6%	4.68%	-0.7%	-1.1%
MSCI Europe Utilities	1.3%	-4.53%	24.29%	15.3 x	16.9 x	10.2%	-10.3%	23.8%	4.63%	-0.1%	0.1%

Benchmarks source iShares ETF - Data as of 30/10/2020

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