Kagekiyo Ja. 42
Utagawa Toyokuni III, 1786-1864

HOUSE VIEW

NOVEMBER 2019

EUROPE,
IS IT KABUKI TIME?

BancaMarch

IS IT KABUKI TIME?

As global exchanges joyfully celebrate the arrival of new central bank stimulus measures and a climate of lower political risk, we say goodbye to Mario Draghi with the deposit facility rate at -0.5%. All this just days from the 21st anniversary of the Bank of Japan's decision to lower interest rates to 0%, in an attempt to avoid one of the longest recessions in history.

Ten years after the crisis, with sluggish global growth and an inability to meet inflation targets, particularly in Europe where interest rates fell to 0% in April of 2016 and have stagnated below 1% for more than seven years, the question arises: are we facing a situation comparable to that of Japan in the 1990s? The decisions of the central banks and the decreased room to manoeuver draw us closer to unexplored territory, something the Japanese refer to as kabuku, meaning "out of the ordinary." Although there are important similarities between Japan and Europe, the following is an attempt to describe some of the ways in which the Japanese crisis differs, all of which should be considered before equating the two cases.

For Europeans, it is as if we are taking part in an ancient Japanese art and entering Kabuki theatre. Going forward, the effects of ultra-expansionary economic policies will be akin to this overly stylised theatrical performance with 400 years of history that, in the eyes of westerners, is a combination of music and unusual sounds, aesthetically ornate and enigmatic. We are approaching new territory with the European economy, where westerners—less accustomed to this dance of low interest rates—find it difficult to interpret the music with the turns of the central banks. We should prepare for a period of moderate economic growth, reduced corporate profits, and lower-than-average returns on risk assets.

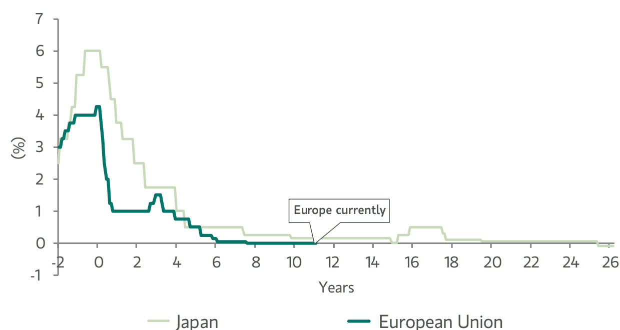
In order to establish parallels between the two regions, the graphs use the moment when interest rates began to fall aggressively as a starting point: 1 June 1991 in Japan, and 8 October 2008 in Europe.

SIMILARITIES

While graph 1 shows the striking similarity in the trajectory of interest rates, another obvious parallel is the aging population. Low population growth (up only .2% in the last 20 years) triggers a spike in savings as citizens set aside a higher percentage of their income for retirement. Therefore, investment and the potential for economic growth are curtailed by production overcapacity. Graph 2 shows the increasingly small proportion of the working population and the rise of dependents (citizens under 15 or over 65 years of age).

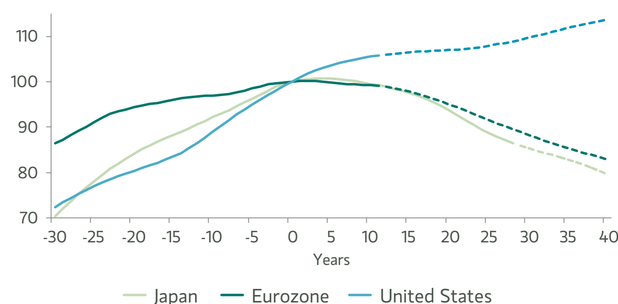
1. EVOLUTION OF INTEREST RATES

Source: Refinitiv and Banca March



2. POPULATION OF WORKING AGE

Source: United Nations and Banca March



It is, however, important to clarify that this phenomenon is not exclusive to Europe and Japan. Given the increase in life expectancy, this is the first time in history that many people worldwide are facing the prospect of a long retirement. About 24 countries around the world are experiencing a declining population but only Japan is suffering deflation.

The third similarity is the degree of bank dependence on the real economy. Unlike the US, which is a much more unbanked economy, 70% of businesses and about 90% of households in Europe and Japan depend on bank financing. Low interest rates have weakened banks by penalising their margins and reducing return on equity (ROE). With a 17-year lag, the share prices of banks in both regions are very similar, reflecting a major curtailment of credit. This situation has stagnated private spending in Europe that, since 2008, has only increased 0.5% annualised compared to 1.4% in Japan.

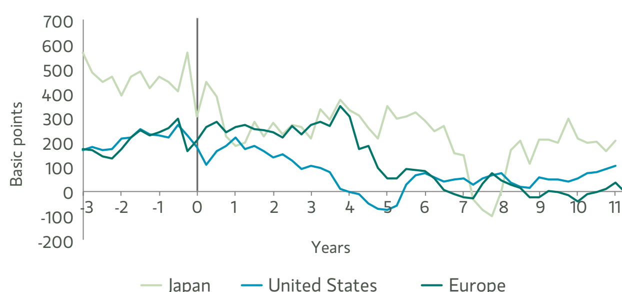
DIFFERENCES

The proactivity and rapid response of the Federal Reserve and the ECB (with a 3-year lag), situating real rates in negative territory and supporting the deleveraging process, has marginally outpaced that of the Bank of Japan (graph 3). In addition, the VAT increase implemented in Japan in 1997 was especially harmful.

Private sector imbalances were lower in Europe than in Japan and swift action to curb the enormous growth of credit significantly reduced the possibility of deflation in the long term. In Japan, credit soared in the 5 years prior to the crisis, from 162% to 209% of GDP, a variation of 44%, compared to 18% in Europe (which also started from the much lower level of credit-to-GDP of 132%). Graph 4 illustrates the year-on-year variation of credit. After the crisis, the Japanese deleveraging process slowed considerably

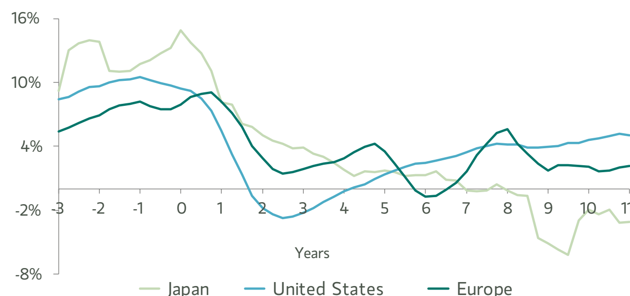
3. REAL INTEREST RATES

Source: Bloomberg and Banca March



4. CREDIT GROWTH VARIATION

Source: BIS, Bloomberg and Banca March



Thirdly, growth and the employment gap in Europe more closely resemble that of the US than Japan. With regard to core inflation, it is worth noting that, although ECB targets are repeatedly not met, the situation is a far cry from the events of the Japanese crisis.

Although rate levels in Japan and Europe show a similar structure, and both powers, like much of the developed world, face the problem of an aging population, it cannot be said that the European economy has entered a process of "Japanification." Like Kabuki, the rough and unfamiliar music and sounds are difficult to interpret, but Europe still has the bargaining chip of structural reforms to redefine its business model and welcome opportunities in growth sectors like technology. This is precisely one of the problems that Japan is struggling to overcome. The old continent must look to the traditionally less-regulated US model. It is time to invest excess savings in order to prepare for a new global paradigm (surely less benign than that which occurred in Japan 30 years ago), in which we will see more populism, less globalisation, and perhaps, in a couple of decades, even a shift in demographic trends in countries like China.

Joan Bonet Majó
Chief Investment Strategist

HOUSE VIEW

NOVEMBER 2019

THE RISKS SUBSIDE

BancaMarch

HOW TO POSITION OURSELVES IN THE CURRENT SCENARIO?

The risks subside

STRATEGIC POSITION

ASSET CLASS	-2	-1	NEUTRAL	+1	+2
LIQUIDITY				■	
BONDS	■				
EQUITIES		■			
ALTERNATIVES				■	

BONDS	-2	-1	NEUTRAL	+1	+2
SOVEREIGN DEBT	■				
High quality (AAA)	■				
Peripheral			■		
CORPORATE BONDS		■			
Investment Grade		■			
High Yield		■			
EMERGING DEBT				■	
CONVERTIBLE BONDS			■		

EQUITIES	-2	-1	NEUTRAL	+1	+2
EUROPE			■		
UNITED STATES			■		
EMERGING				■	
JAPAN			■		

MACROECONOMIC SCENARIO

Global growth will continue to slow, but we do not expect to see a recession in 2020.

The macroeconomic data published confirm our scenario wherein global growth will continue to slow, but it remains premature to claim a recession is imminent. Though international trade has deepened its decline in recent months, subsequently dragging the global industrial sector into recession (graph 1), it should be noted that the latest leading indicators on the economic cycle show signs of stabilisation (graph 2).

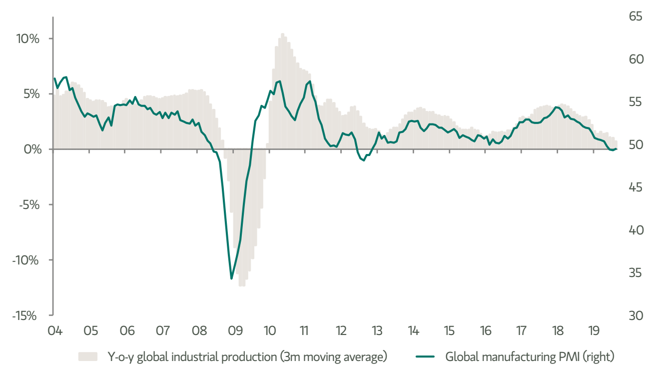
As mentioned in previous reports, two of the main factors underlying the loss of economic momentum are growing trade barriers and heightened geopolitical tensions. In this context, the improved political environment registered in October is certainly a welcome development: the likelihood of a no-deal Brexit has been virtually ruled out, while the possibility of a (minimum) trade agreement between China and the US appears plausible. From our point of view, the latest negotiations reduce the risk that an economic policy error will push the global economy into recession. However, without more details about the agreements reached and without overturning at least some of the protectionist measures implemented in the past year, we think a truce will hardly be the catalyst needed to re-stimulate growth.

1. GLOBAL TRADE VS. GDP

Source: Bloomberg, CPB and Banca March

2. INDUSTRIAL PROD. VS. GLOBAL CONFIDENCE

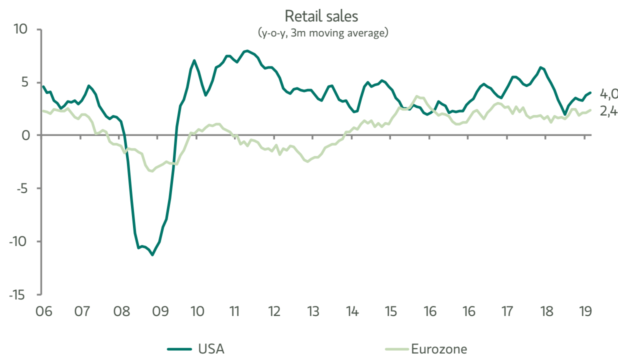
Source: Bloomberg, CPB and Banca March



As illustrated in the preceding graphs, anaemic global trade and industrial production have weighed heavily on investment. Concerns that weakness in the industrial sector will spread to services and private spending—which has buoyed activity so far this year—constitute the primary downside risk, in our opinion, for the evolution of global growth with respect to the year ahead.

3. PRIVATE SPENDING

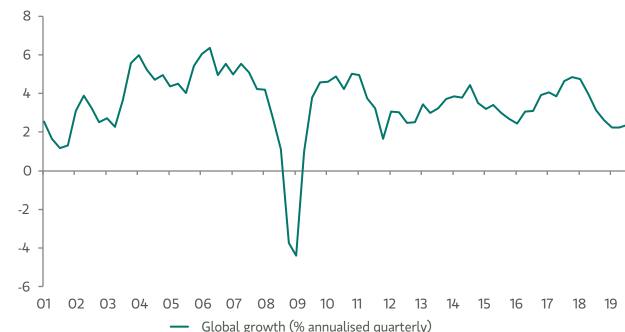
Source: Bloomberg and Banca March



On a positive note, the latest activity figures have allayed these fears and confirmed our scenario in which, for the moment, the global economy is not on the brink of a recession because lower unemployment will bolster spending in the short term. This is coupled with the swift reaction of the main central banks that have, in recent months, accelerated their monetary stimulus measures and curbed declining confidence.

4. GLOBAL GROWTH

Source: Bloomberg and Banca March



As illustrated in graph 4, global GDP has stabilised in recent months at a lower, but still positive growth rate. In the United States, activity eased to +2% y-o-y, while falling to +1.1% in the eurozone and +6% in China. We believe that 2020 will begin on a similar note before a mid-year re-activation of activity, provided new tariff hikes are circumvented and sufficient time has elapsed for interest rate cuts to filter into the real economy and boost investment.

CENTRAL BANKS AND BONDS

With the Fed leading the pack, stimulus measures are on the rise. Nine central banks cut rates in October. Stimulus is also bolstered through asset purchase programs.

Consistent with the European Central Bank's new asset purchase program, in late October the Bank of Japan confirmed that it will keep its expansionary monetary policy unchanged. The Fed, meanwhile, lowered interest rates for the third time this year and launched a purchase program focused on short-term bonds. The Fed caused controversy by taking great pains to decouple from this program, which entails expanding its balance sheet or Quantitative Easing (QE).

A repurchase agreement is a key instrument of monetary policy and bank liquidity in the United States.

A *repo* is a repurchase agreement or contract between two parties, whereby one sells an asset to the other and the buyer, in turn, agrees to resell it to the seller within a specific period of time. On the interbank market, repos are used to transform illiquid elements of bank balance sheets into cash and, therefore, cover short-term liquidity needs. Normally, investment-grade sovereign debt securities are used as assets in these transactions and the valid term typically lasts only days or weeks.

The cost for this type of short-term exchange is charged in the form of an annualised interest rate on the resale price. The aggregation of the different operations generates a repo rate that, under normal conditions, is situated within the range that defines the Fed's monetary policy.

In normal market conditions, the benchmark interest rate (repo rate) is situated within the range of the Fed's official interest rates, but in mid-September, these conditions changed significantly.

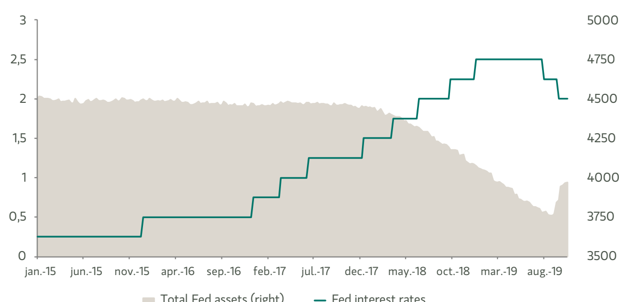
On 17 September, two events converged to drain the available cash from the US banking system: the settlement of taxes by a large portion of depositors and a major bond auction by the US Treasury. In the absence of cash, the banks flocked to the repo market in search of liquidity, but failed to find sufficient supply to cover their needs. This situation prompted a sharp rise in repo rates to 9%, far from the upper range of the Fed's official rates situated at 2.25%.

In light of this development, the Fed decided to intervene in the repo market through open market operations channelled through primary dealers, which are essentially major investment banks as they generate the initial supply of repos. These operations, known as TOMOs (Temporary Open Market Operations), alleviated liquidity tensions until 11 October, when the FED opted for an even tougher measure to resolve the situation: the purchase of USD 60 billion in short-term bonds until 14 November to flood the market with liquidity and prevent a repeat of what happened in September. The monthly amount of this program, which will continue at least until the start of Q2 2020, has yet to be determined.

Though the Fed claims its latest purchase program is not QE, its application is similar to the programs of the past. The central banks will continue to support financial markets.

5. FED: BALANCE SHEET EVOLUTION AND INTEREST RATES

Source: Bloomberg and Banca March



According to the Fed, there are two differences between its new program and QE: the temporary nature, and the focus on short-term bonds (which should leave the long-term rate curve unaffected). In other words, the Fed considers this a measure to provide the banking system with liquidity, not to influence the decisions of economic players.

Despite the Fed's reasoning, the expansion of its balance sheet is indisputable. As graph 5 illustrates, the Federal Reserve is once again demonstrating its determination to avoid a deterioration of financial conditions.

The investment-grade bond segment declined throughout October, while appetite for risk increased.

The uptick in long-term rates of the last two months is consistent with our concerns that interest rate levels were excessively low and that public debt was highly overvalued. The improved geopolitical tone has served to catalyse a decline in top quality fixed income. The German benchmark bond returned to mid-June IRR levels, closing at -0.35%. Similarly, the US 10-year bond hit an IRR of 1.7% relative to the 1.5% it reached in August. Even investment-grade global bonds fell 0.24% in October.

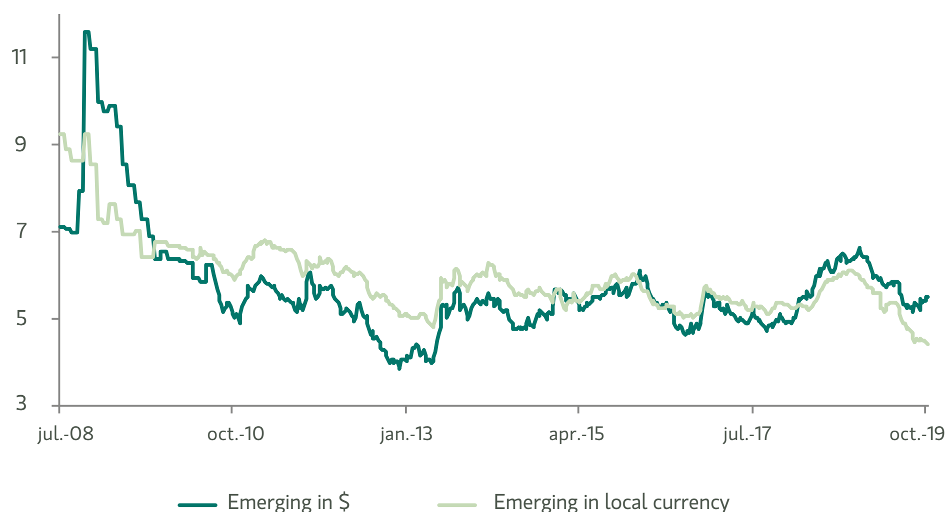
In the wake of tumbling bonds and the recent rebound in rates, current levels offer greater potential in some sub-classes, such as European investment-grade and dollar-denominated debt. Nevertheless, as risks remain high, we prefer to wait for an improvement in global growth expectations before applying a more favourable recommendation to these two segments.

Within fixed income, we still see the highest potential in emerging bonds in hard currency thanks to the central banks and strong fundamentals.

Moreover, as illustrated in graph 6, within emerging fixed income, the IRR of hard currency is presently higher than that of local currency, albeit the duration is 7.8 years versus the 6.4 for global currency, but we avoid the volatility of local currency. This is further complemented by more expansionary central banks and strong economic fundamentals, particularly in Asian countries.

6. EVOLUTION OF EMERGING BOND IRR IN HARD CURRENCY AND LOCAL CURRENCY

Source: Bloomberg Barclays Indices



EQUITIES

October was a positive month for equities. Once again, the United States surpassed Europe and cyclical sectors performed better than their defensive counterparts.

In October, the main global exchanges closed with gains, on better prospects of a trade agreement between the United States and China, an earnings season that exceeded initial forecasts, and signs of economic stabilisation. In this context, the MSCI World Index advanced 2.4% in October, while in the US, the S&P500 and the Nasdaq climbed 2% and 3.7%, respectively, hitting new record highs. Despite progress on a Brexit deal, we saw another sub-par performance from European equities, with +1% for the EuroStoxx50 and only +0.1% for the IBEX.

Stock valuations have become more demanding after recent gains.

The positive momentum of stock markets in October is reflected in valuation ratios, which are now more demanding. For example, the NTM P/E ratio of the MSCI World is consistent with the historical average of 15.7x, and a similar pattern is observed for all emerging stock markets. While valuations are more demanding on the US S&P 500 (NTM P/E ratio of 17.1x vs. an average of 16.3x), the European MSCI trades at a discount relative to its average, mainly due to the valuation of the United Kingdom.

We remain cautious about equities despite an improved political environment and macro stabilisation; we will continue to wait before increasing exposure. In the United Kingdom, we issue a purchase recommendation for companies exposed to the domestic market.

We remain cautious about equities, awaiting possible cuts to increase positions, aware that the recent measures implemented by the central banks serve as support, curtailing potential losses. In this context, we are now less demanding about entry levels and would capitalise on potential cuts to increase risk.

Meanwhile, it is worth noting that the advent of favourable events is now more probable: a provisional trade agreement between the United States and China, including the suspension of the tariffs set to take effect in December, or even the withdrawal of some recently imposed tariffs, could act as a catalyst. It is our belief, however, that investors should avoid significantly increasing exposure to equities for the moment, until receiving new data about macro and profit growth stabilisation and verification of real improvement in global trade relations.

By region, our main objective is to invest in emerging markets, specifically in Asia, for three reasons: i) the region shows a favourable economic and profit growth spread compared to the rest of the world; ii) the P/E ratio of southeast Asia, evident in economies like China, trades at a discount vis-à-vis its historical average; and iii) it may see the most potential benefit from a full or partial trade agreement between the United States and China.

In the United Kingdom, once our tactical commitment to the pound sterling drew to a close, we issued a positive recommendation regarding the country's equities. The idea focuses on smaller companies, more exposed to the British economy and, therefore, less affected by the volatility of the pound, which we expect will persist. With regard to other regions, we remain neutral in both the United States and Europe.

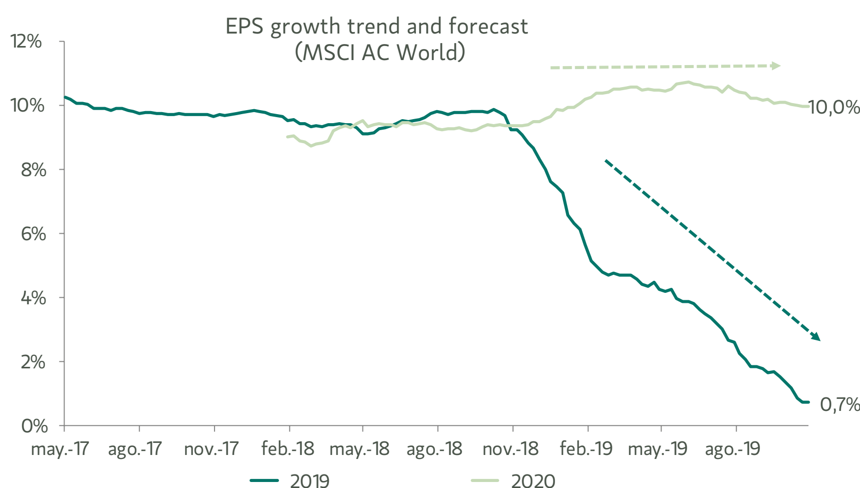
In terms of microeconomics, though forecasts are improving, a weak earnings season leads us to anticipate downward profit revisions in 2020.

The quarterly earnings season is underway on both sides of the Atlantic and, although performance is better than expected in some respects, a slowdown is confirmed by the dip in profits, currently at 1% in the US and 3% in Europe. In terms of revenue, sales continue to increase slightly in the US, while remaining flat in Europe, their evolution worsening relative to the previous quarter.

In line with a lower growth scenario, our view suggests that corporate profits will remain under pressure with no recovery foreseen in the short term. As graph 7 illustrates, on a global level, the expected downward revision in profit growth for 2019 began late last year and currently stands at a scant +0.7%. This situation is in stark contrast to the robust profit growth anticipated by the consensus (+10% for 2020); we believe this figure will not be met and will be revised downward.

7. EPS GROWTH EXPECTATIONS 2019 AND 2020

Source: Refinitiv and Banca March



From a sector perspective, we recommend a combination of growth industries, like technology, which should continue to perform well in an expansionary monetary policy environment, and attractively valued defensive sectors, like healthcare and energy.

8. SECTOR TRENDS

Source: Bloomberg and Banca March

EUROPE SECTOR EVOLUTION

SECTOR	Evolution (%)			52 Weeks (%)		P/E RATIO	YIELD
	1 M	15/08/2019	YTD	Max	Min	12 M	CURR. (%)
Technology	7,74	10,11	30,53	-0,34	35,59	21,49	1,62
Discretionary spending	9,99	13,39	31,20	-0,71	32,15	13,36	3,19
Financial	10,38	14,36	19,49	-1,61	19,42	10,17	5,05
Healthcare	3,77	6,09	26,52	-0,63	26,72	16,03	2,85
Industry	9,01	12,94	31,85	-0,36	32,48	16,47	2,65
Materials	10,17	15,18	24,22	-1,75	24,11	14,70	4,91
Utilities	0,62	7,18	25,05	-1,29	23,21	14,69	4,86
Real estate	3,73	12,97	18,21	-3,20	14,66	17,14	4,26
Telecom	1,51	8,05	7,09	-4,29	9,99	13,71	4,59
Consumer goods	-1,46	0,52	24,21	-5,20	23,98	17,43	2,89
Energy	5,78	10,69	11,71	-7,46	13,38	11,20	5,81
S&P Europe 350	5,76	9,93	23,72	-0,05	23,41	14,01	3,74

USA SECTOR EVOLUTION

SECTOR	Evolution (%)			52 Weeks (%)		P/E RATIO	YIELD
	1 M	15/08/2019	YTD	Max	Min	12 M	CURR. (%)
Technology	7,00	9,76	38,71	-0,20	48,99	18,86	1,33
Discretionary spending	2,68	5,61	24,07	-3,22	33,03	20,37	1,29
Financial	9,48	12,01	26,46	-0,08	35,41	12,91	1,97
Healthcare	4,92	5,17	10,47	-1,55	16,69	14,79	1,71
Industry	8,71	10,66	28,49	-0,29	36,68	16,44	1,88
Materials	6,57	6,78	19,99	-0,23	27,01	17,45	2,11
Utilities	-4,31	3,05	21,72	-5,14	21,40	18,98	3,16
Real estate	-3,91	-0,27	26,15	-6,27	27,23	39,77	3,16
Telecom	5,10	6,36	26,63	-0,17	34,22	17,01	1,31
Consumer goods	-0,04	2,32	22,89	-1,17	25,74	19,27	2,77
Energy	6,63	6,47	7,54	-14,05	13,27	16,68	3,85
S&P 500	5,22	7,45	24,78	-0,16	31,78	17,05	1,86

In terms of sectors, declining bond prices have accentuated the progress of banks. Our view of the financial sector—despite its recent positive performance—has not changed and we remain neutral, considering a climate of depressed rates in light of attractive dividend policies and valuations. We maintain our sector mix of recent months, favouring investment in technology—a growth industry that has demonstrated its resilience despite bond fluctuations—and exposure to defensive sectors with attractive valuations, like healthcare and energy, both of which have performed worse in the US than in Europe. In recent weeks we have also seen a drop in defensive consumption due to the poor results published, indicating lower future growth among some industry companies.

BREXIT UPDATES

Our scenario is confirmed: the UK averted a disorderly withdrawal from the EU in October. The new timeline focuses on the 12 December elections..

Once again, the negative scenario of a no-deal Brexit was averted in extremis, as Johnson's government and Brussels reached a new exit agreement in late October. However, because no deal was ratified by the British parliament before 19 October, Johnson was forced by law to request another Brexit extension (the third) from the EU. This new deadline, approved by the EU, will extend until 31 January, but a withdrawal prior to that date is possible if the latest agreement is ratified beforehand.

Although this extension eliminates fears of a no-deal Brexit in the short term, a negative scenario cannot be ruled out in its entirety given the call for early general elections on 12 December, the latest critical date on the "Brexit saga" calendar.

Though the new agreement negotiated by Johnson includes some modifications, the broad strokes negotiated by his predecessor, Theresa May, remain in place. What effects will these changes have?

An analysis of the United Kingdom's new withdrawal agreement reveals that the broad strokes previously negotiated by the May government remain intact: specifically, the terms pertaining to the rights of British and European citizens—both residents and those arriving during the transition period—are guaranteed. In addition, the United Kingdom would pay a "divorce bill," estimated at between EUR 40 and 50 billion.

The main change centres on relations between Ireland and Northern Ireland, now that the controversial Irish backstop has been scrapped. With the contentious clause eliminated, the entire United Kingdom will leave the EU customs union once ratified. There will be a "legal customs border" between Northern Ireland and the Republic of Ireland, but in actuality, the customs and controls "border" will lie between Great Britain and the island of Ireland, with goods being checked at "points of entry" in Northern Ireland. This will prevent a return to a physical border between Northern Ireland and the Republic of Ireland to carry out these procedures; British agencies will be responsible for conducting these checks at the point of entry under EU supervision.

Control over imported products is still a point of uncertainty, given that, under the system, products entering Northern Ireland that are considered "at risk" of being exported to the EU must pay a Community tax. A joint committee will determine at a later date that goods are considered "at risk" of entering the European common market and, therefore, will be subject to the corresponding EU taxes.

Also unchanged under the new agreement is the transition period, which will last (at least) until the end of 2020, allowing the United Kingdom and the EU to define their future trade relationship. The transition period (or phase II of the deal) may be extended up to two additional years, a situation that is highly likely given that, as history dictates, it typically takes more than 12 months to define the technical terms when negotiating trade agreements.

On this point (future trade relations between the EU and the United Kingdom) lies the other significant change in Johnson's deal. The new protocol states that both parties will work to sign a Free Trade Agreement and that the United Kingdom in its entirety (including Northern Ireland) will be free to sign trade agreements with third parties. However, the phrase from the previous political declaration stipulating that the United Kingdom would "consider aligning with Union rules in relevant areas" has vanished, possibly indicating cooler relations between the parties in regulatory terms, which would limit the chances of reaching a broad trade agreement that would involve minimum tariffs.

Though the 12 December elections will serve as a referendum on the future of Brexit, other economic policies are also at stake. Polls show extreme options are less likely to win.

In light of the British government's failure to meet his goal of ratifying a withdrawal deal before 31 October, the prime minister switched tacks, forcing early elections that would allow him to unlock the situation. A large parliamentary majority approved this option and the date of 12 December was chosen for the upcoming general election, the third in five years and the first to be held in mid-winter since 1923; the country typically votes in May or June when fair weather favours participation.

In the coming months, the debate will focus on the different parties' proposals about how to address Brexit. The latest polls indicate a relatively comfortable win for the Johnson-led conservative party, with 36% of support vs. 25% for the labour party, an 11-point advantage. It is worth remembering, however, that Theresa May had a 16-point advantage over Corbyn's party two years ago and, though she eked out a small victory, her majority in Parliament collapsed, making it difficult to obtain approval for her exit agreement. It is also worth noting that more extreme options, like the Brexit party, would lose backing, securing only 11% of the votes, compared to 20% just five months ago. Should this scenario materialise, the British public would cut support for more extreme options and virtually remove the risk of a disorderly withdrawal from the table.

Although the results of this election will be a sort referendum on Brexit, their importance extends beyond that. Considering what the polls reveal, three scenarios and economic policies could emerge as a result (see table):

	Conservative majority	Fragmented parliament	Labour-led coalition
BREXIT	**Approval of withdrawal agreement** -The UK leaves the EU on 31/1/2020. -Transition period extends until 31/12/2020 (possible 1- or 2-year extension). -Negotiation of a new free trade agreement with the EU, outside the single market.	**Elevated uncertainty** 1. New Brexit postponement possible. 2. No-deal Brexit default option on 31/1/2020.	**New Brexit postponement** 1. Negotiation of a new deal with the EU. 2. Possible revocation of article 50 (no-Brexit).
FISCAL POLICY	**Ambitious fiscal stimulus policy** 1. Increased spending (.5%-1% of GDP). 2. Household and corporate tax cut.	Budget approval difficulties. Absence of fiscal stimulus.	**Mixed fiscal policy** 1. Increased spending and infrastructure programs. 2. High income and corporate tax increase.
MONETARY POLICY	**Upside risk for rates**	**Downside risk**	**Upside risk for rates**

As the table illustrates, taking the polls into account, the most likely scenario as of today is one resulting in a majority for the conservative party that, led by Johnson, would push through ratification of the agreement with Brussels and the United Kingdom would officially leave the EU in late January 2020. In addition, an important fiscal stimulus plan designed to boost growth could be expected.

A second possibility, resulting in a fragmented parliament, would precipitate further uncertainty and, more importantly, an absence of fiscal stimulus measures. By contrast, if the labour-led coalition wins (a less probable scenario at present), the doors would open to a Brexit debate, possibly prompting the call for a second referendum or even a reversal of Article 50. This scenario would clearly entail a further "Brexit" postponement in addition to an expansionary fiscal policy with a poorer reception in markets given the possibility of corporate tax hikes. It would also likely trigger increased volatility in British assets.

HOW TO CAPITALISE ON THE BREXIT SITUATION

The pound escalates, approaching the 0.85 EUR/GBP target. We recommend profit-taking in direct exposure to the pound sterling.

Events have driven the price of sterling to near-target levels (0.85 EUR/GBP); we, therefore, recommend closing direct overexposure to the British currency.

9. EVOLUTION OF THE POUND STERLING

Source: Bloomberg and Banca March

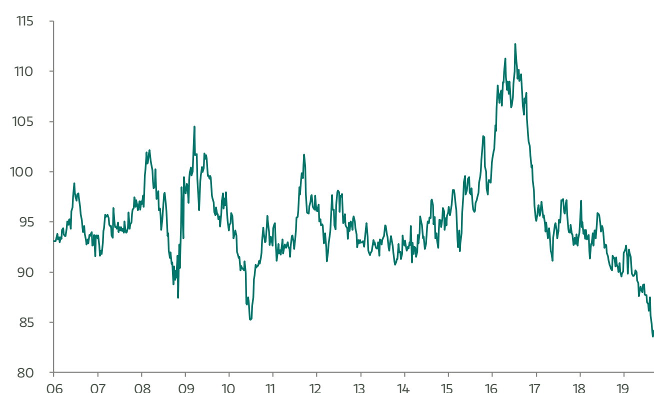
Although we remain optimistic about the upside potential of the pound versus the euro, volatility will persist on the currency market until the December elections; therefore, we recommend capitalising on the favourable performance of the pound and taking profits in this position.

However, the decreasing likelihood of a disorderly withdrawal opens up opportunities in British assets, especially in the equity of British companies exposed to the domestic market.

The decreasing likelihood of a no-deal withdrawal opens up opportunities for investment in British assets. In particular, we advise boosting exposure to British equities through positions in companies with a high portion of revenues stemming from the domestic market since, in terms of valuation, British equities offer very attractive relative investment opportunities.

10. RELATIVE VALUATION (MSCI UK / MSCI EUROPE P/E RATIO)

Source: Bloomberg and Banca March

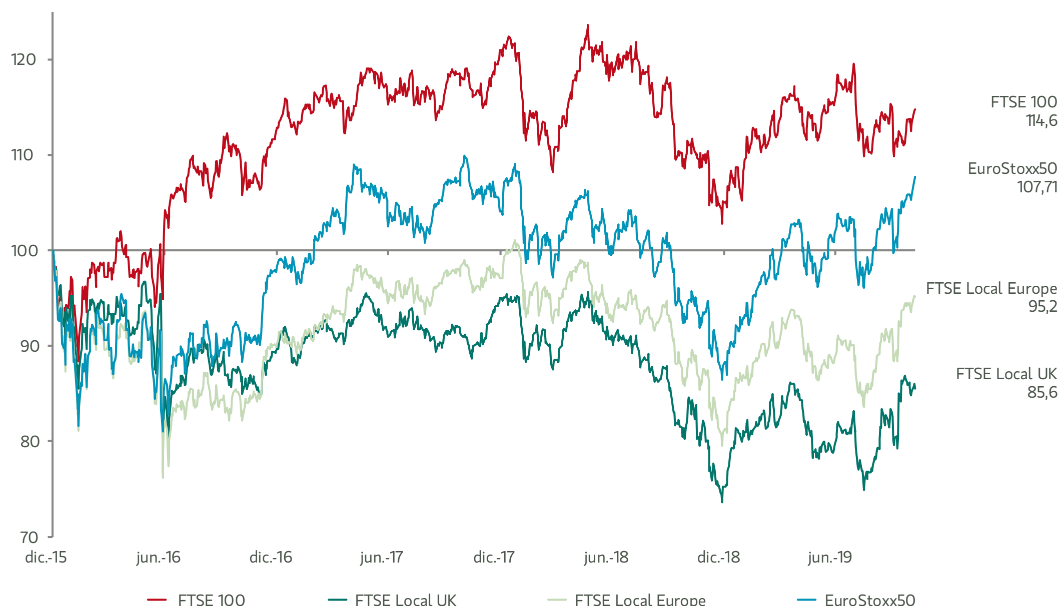


Specifically, as graph 10 illustrates, the relative valuation of the British index versus its continental European counterpart, in terms of P/E ratio, has hit its largest discount in more than 15 years.

Since the 2016 referendum, the market has penalised companies with greater exposure domestically (graph 11), while the major British multinationals have performed better, primarily because the depreciation of the pound boosted sales and revenues abroad.

11. EVOLUTION OF UNITED KINGDOM AND EUROPE EQUITY INDICES

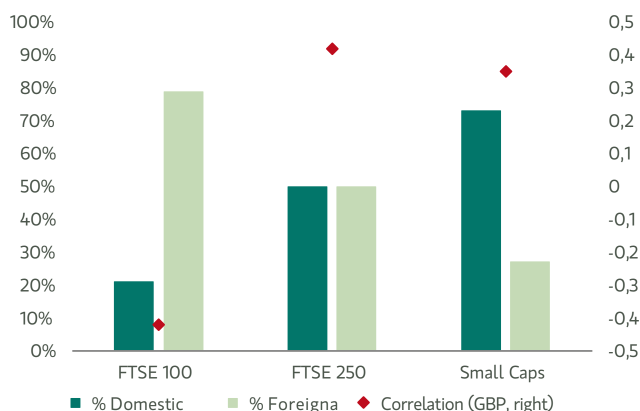
Source: Bloomberg and Banca March



The lower risk of a hard Brexit should trigger the narrowing of this spread and, therefore, British companies would benefit from a return of investment flows. Other factors in support of these companies, where a large proportion of sales derive from the domestic market, include expectations of new fiscal stimulus in next year's budget and possible tax cuts if the conservative party secures a majority in parliament.

12. SALES EXPOSURE UK INDICES

Source: Bloomberg, Morgan Stanley and Banca March



Moreover, as the graph illustrates, there is a positive correlation between this type of company and the evolution of the British pound. Therefore, further appreciations in GBP should not affect the performance of these enterprises in the same way they would affect major British multinationals. As such, we recommend exposure to these types of companies in order to capitalise on the foreseeable rebound of British stock markets.

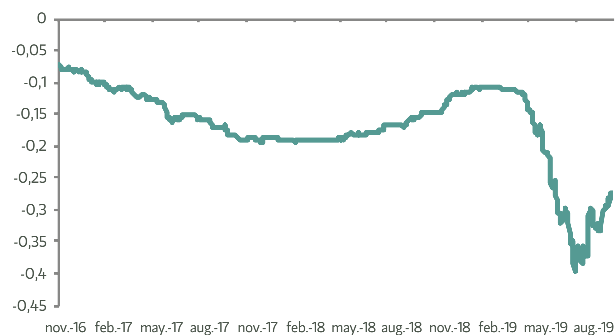
Equipo de Estrategia de Mercados de Banca March:

Joan Bonet Majó
Pedro Sastre
Luis Coello
Paulo Gonçalves, CAIA

EURIBOR

	LAST	1 MONTH	YTD	1 YEAR
1 MONTH	-0,44	-0,46	-0,36	-0,37
3 MONTHS	-0,39	-0,42	-0,31	-0,32
6 MONTHS	-0,34	-0,39	-0,24	-0,26
12 MONTHS	-0,27	-0,33	-0,12	-0,15

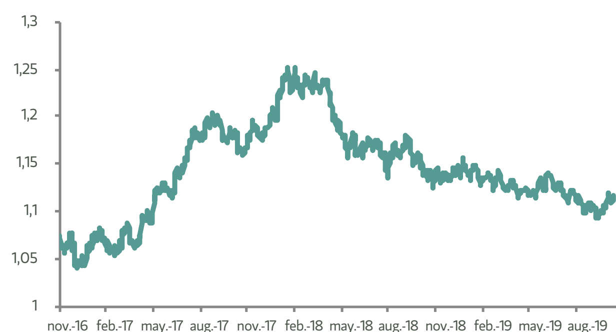
EURIBOR 12 MONYHS (3 YEARS)



CURRENCIES

	LAST	1 MONTH	YTD	1 YEAR
EUR/USD	1,1152	1,090	1,145	1,135
EUR/GBP	0,862	0,887	0,898	0,893
EUR/CHF	1,100	1,088	1,126	1,140
EUR/JPY	120,5	117,8	125,6	128,3

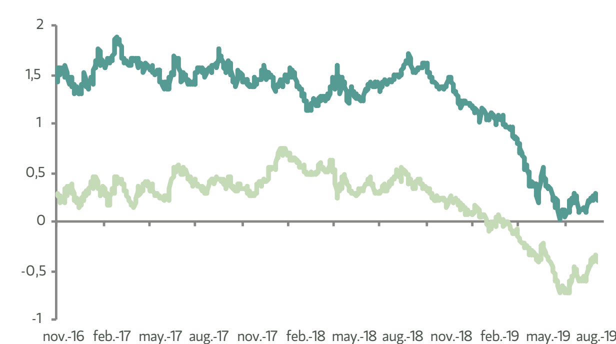
EUR/USD (3 YEARS)



GOVERNMENT BONDS

		LAST	1 MONTH	YTD	1 YEAR
USA	2 YEARS	1,52	1,62	2,49	2,87
	5 YEARS	1,52	1,54	2,51	2,97
	10 YEARS	1,69	1,66	2,68	3,14
	30 YEARS	2,18	2,11	3,01	3,39
GERMANY	2 YEARS	-0,66	-0,77	-0,61	-0,62
	5 YEARS	-0,63	-0,77	-0,31	-0,19
	10 YEARS	-0,41	-0,57	0,24	0,39
	30 YEARS	0,11	-0,07	0,88	1,02
SPAIN	2 YEARS	-0,43	-0,51	-0,24	-0,12
	5 YEARS	-0,21	-0,30	0,34	0,54
	10 YEARS	0,24	0,15	1,42	1,55
	30 YEARS	1,12	1,05	2,61	2,66
UK	2 YEARS	0,50	0,37	0,75	0,75
	5 YEARS	0,44	0,29	0,90	1,03
	10 YEARS	0,63	0,49	1,28	1,44
	30 YEARS	1,14	0,97	1,82	1,86

10 YEARS GOVERNMENT YIELDS (SPAIN VS GERM.)



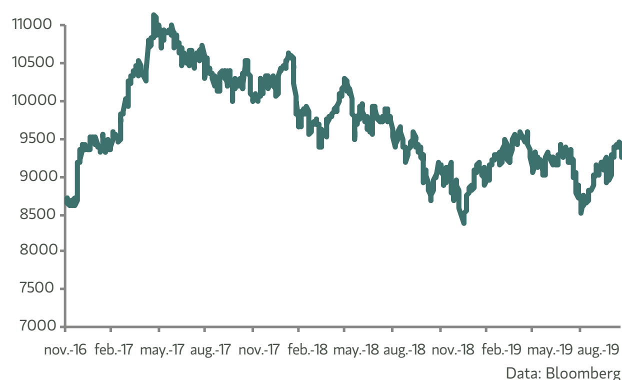
CORPORATE BONDS (1 YEAR SPREAD)

	LAST	1 MONTH	YTD	1 YEAR
AA	-0,28	-0,30	-0,18	-0,25
A	-0,24	-0,25	-0,09	-0,19
BBB	-0,14	-0,15	0,05	-0,06

COMMODITIES

	LAST	1 MONTH	YTD	1 YEAR
BRENT	60,23	60,78	53,80	75,91
GOLD	1512,9	1472,4	1282,5	1222,9

IBEX (3 YEARS)



Data: Bloomberg

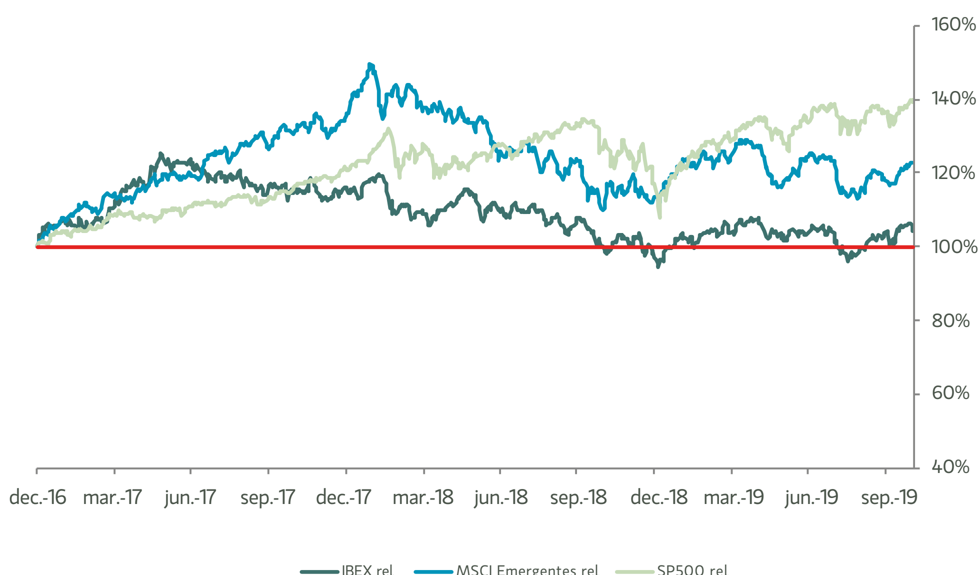
EQUITY INDICES (3 YEARS)

	LAST	1 MONTH	YTD	3 YEARS
MSCI WORLD*	534,41	2,64%	17,28%	30,02%
SP500	3037,56	2,04%	21,17%	42,87%
EUROSTOXX50	3604,41	0,98%	20,09%	17,97%
TOPIXX	1667,01	4,99%	11,57%	19,67%
IBEX35	9257,5	0,14%	8,40%	1,25%
FOOTSIE100	7248,38	-2,16%	7,73%	4,23%
MSCI BRAZIL	2226,04	5,93%	14,51%	18,26%
MSCI CHINA	78,22	4,00%	9,86%	26,32%
MSCI EMERGING	1041,98	4,09%	7,89%	15,12%

* All countries

EQUITY INDICES PERFORMANCE (3 YEARS)

Data: Bloomberg



*DATA AS OF 31ST OCTOBER 2019

	RETURN			DURATION		PORTFOLIO DISTRIBUTION			CURRENCY EXP. (NO EUR)
	MONTH	YTD	YEAR	CURRENT	1 MONTH AGO	FI	EQUITY	ALTERNATIVE INV.	USD
MARCH RENDIMIENTO F.I.	-0,02%	-0,33%	-0,35%	0,000	0,237	22,60%	0,00%	0,00%	0,00%
MARCH RENTA FIJA CORTO PLAZO F.I.	-0,03%	0,80%	0,05%	0,000	0,395	64,42%	0,00%	0,00%	0,00%
MARCH PATRIMONIO C.P. F.I.	-0,04%	0,72%	0,09%	0,000	0,608	63,43%	0,00%	0,00%	0,00%
FONMARCH F.I.	-0,17%	2,15%	1,45%	0,000	2,053	89,37%	0,00%	0,00%	0,00%
MARCH EUROPA F.I.	-0,63%	-3,19%	-14,99%	0,000	0,003	0,00%	97,99%	0,00%	4,22%
MARCH GLOBAL F.I.	-0,10%	17,32%	4,24%	0,000	0,003	0,00%	95,32%	0,06%	21,83%
MARCH NEW EMERGING WORLD F.I.*	2,97%	7,10%	8,48%	0,003	0,003	0,00%	100,41%	0,00%	90,52%
TORRENOVA DE INVERS. S.I.C.A.V. S.A.	0,02%	4,94%	2,54%	0,000	1,018	62,73%	18,01%	0,00%	5,05%
CARTERA BELLVER S.I.C.A.V., S.A.	0,53%	8,73%	2,98%	0,000	1,101	39,51%	49,41%	0,00%	18,52%
LLUC VALORES S.I.C.A.V., S.A.	1,81%	13,61%	4,90%	0,000	0,003	0,00%	85,06%	0,00%	35,10%
MARCH PATRIMONIO DEFENSIVO F.I.*	-0,19%	1,88%	0,37%	0,003	0,003	58,92%	1,97%	32,94%	14,48%
MARCH CARTERA CONSERVADORA F.I.*	0,01%	4,42%	1,69%	0,003	0,003	44,42%	18,91%	33,35%	18,29%
MARCH CARTERA MODERADA F.I.*	0,37%	7,16%	2,89%	0,003	0,003	25,53%	43,04%	28,11%	26,83%
MARCH CARTERA DECIDIDA F.I.*	0,81%	9,87%	3,53%	0,003	0,003	1,45%	66,72%	28,41%	31,66%
PLAN PENSIÓN CRECIENTE, F.P.	-0,15%	1,14%	0,37%	0,000	1,471	84,85%	0,00%	0,00%	0,00%
MARCH PENSIONES 80/20, F.P.	-0,15%	5,96%	2,52%	0,000	2,335	67,34%	24,38%	0,00%	4,30%
MARCH PENSIONES 50/50, F.P.	-0,12%	9,79%	3,64%	0,000	2,113	42,96%	47,07%	0,00%	8,82%
MARCH ACCIONES, F.P.	-0,09%	19,21%	6,12%	0,000	0,003	0,00%	89,91%	0,00%	16,16%
MARCH AHORRO, F.P.	-0,01%	7,43%	3,08%	0,000	2,271	62,40%	32,39%	0,00%	6,17%
PLAN ÓPTIMO, F.P.	0,03%	6,88%	3,28%	0,000	2,322	56,44%	30,18%	0,00%	5,54%
MARCH MODERADO EPSV	-0,15%	5,92%	2,07%	0,000	1,717	51,76%	22,24%	0,00%	3,60%
MARCH ACCIONES EPSV	-0,08%	17,99%	5,86%	0,000	0,003	0,00%	94,32%	0,00%	17,96%

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