SCENARIOS

Lady Liberty's torch shines no more

*The **slump** in US **GDP** is worrying also to Europe, which awaits the November **presidential elections** with trepidation. Meanwhile, the current **volatility** can be **exploited** by investing in **first-rate companies** in the medium-term.*

by Massimiliano Cagliero

The grave crisis in the United States unfolds under the eyes of all. It is a three-dimensional social, health and political crisis.

The **social** aspect of the current crisis is a consequence of the very fabric of American society, based largely on the concept of **winner takes all** – the offspring of a culture that is more accepting of the wealth divide, now wider than ever before. This approach to society and the way Americans think and live is pushing ever larger sections of the population into poverty. There is a lack of opportunities for people to get back on their feet, a lack of opportunities for growth and for education. Either you are winning outright – and if you win, you win big – or you are quickly pushed to the margins of society, without any real welfare safety net. In the face of this criticism, Americans often point out the existence of **Medicare** hand **Medicaid**, two healthcare systems for the elderly and the poor that we in Europe would not regard as significant.

In the past four years, a divisive president has done nothing but increase tensions within society. The true origin of this situation, as previously described, is the now long-term ossification of the **American Dream,** which has always attracted and motivated a workforce of the highest quality from all over the world. The United States, for so long a paragon of efficiency and superior organisation, is in disarray. The crippling slump in US GDP in the second quarter is one of the worst ever.

The **political dimension** of the crisis is a manifestation of a worldwide political leadership crisis also affecting the United States. The Democrats cannot just win the elections in November – they have to have a landslide victory. At least until the Republican Convention last week, **Trump** was running a splendid campaign on behalf of **Biden**, who astutely stayed well away from the political scene. He did well to make only the most fleeting appearances. Trump was doing all the work for him. What is surprising, however, is that when the campaign was going their way, the Democrats could not find anyone but an intellectually superannuated candidate with little energy. All the more surprising that it should happen in a youth-oriented, meritocratic country like the United States of America. At the time of writing this, Biden is enjoying a certain advantage over Trump, but much can change between now and November.

Massimiliano Cagliero, Managing Director of Banor Sim

It will be important to keep an eye on the American elections also to see the outcome for the **big tech** sector. After the congressional hearings involving Apple, Amazon, Google and Facebook, there may be **regulatory consequences** if the Democrats win.

We continue to believe that the valuations for technology securities are riding very high compared with the rest of the stock market, even for undoubtedly extraordinary companies. While the medium to long-term outlook is good for technology, basically because of the expectations of ever-increasing results, it is possible that we are witnessing a correction that could bring valuations back to more realistic levels.

The current serious crisis in the US gives much cause for concern. Any temptation to think "better them than us" would be out of place. We simply cannot afford it. Italy and Europe need a strong America that is close to its allies and is committed to an **international leadership** role. Many areas that the United States abandoned following the abhorrent "America first" policy have already been reoccupied; I am referring to North Africa, the South Pacific and roles left vacant in global organisations. As Europeans, we must hope that Europe is not the next space liberated of its American presence. The United States is still a superpower and we need leaders to be back in charge.

Looking to Europe, however, the recently agreed **recovery fund** borne up largely by the Franco-German alliance decisively restarts the European project. The measures will be key in helping the countries most affected by the pandemic to acquire the necessary means to counter the sharp fall in GDP. Moreover, spending plans will be common and will mainly target **environmental**, **digital** and **infrastructure** investments. Equally important is the fact that aid distribution will be tied to the implementation of economic reforms to help strengthen medium-term growth. Countries like Italy, which would not be able to do it alone, it will greatly benefit.

The recent **weakening of the dollar**, driven by the recovery fund agreement and Europe's improved pandemic data compared to the US, has driven **gold**

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prices up further, followed by other commodities such as **silver** and **platinum**. The latter are more important in cyclical terms, given their industrial use. However, since they follow gold performance trends in the medium term, they are often compared with gold and are thus regarded as a safe haven in times of uncertainty. When the pandemic is over, the world's leading nations will find themselves with **levels of debt** similar to those following the Second World War. It is very likely that governments will try to maintain tighter control over central banks to force them to keep real interest rates close to zero or negative in the long term and, at the same time, to buy government bonds to raise money to stimulate the economy. This could cause a **hike in inflation**, which would lower the ratio of public debt to GDP within a few years.

Looking to the East, it should be noted that **China** is making waves not only for its growing economic strength and political stability, but also for its opportunism and far-sightedness. Greater control over **Hong Kong** today – silently witnessed by all, especially the US – and **Taiwan** tomorrow, allows the increasingly strong but not entirely compact Chinese Government to solve these problems as well. And let's not forget that with global GDP expected to drop by 3% in 2020, the Chinese economy will be the only one this year to end up in positive territory anyway.

Given these scenarios, in my view, the only reasonable way to approach markets is to select individual companies using a **bottom-up** approach, continuously studying the fundamentals of the ones you want to invest in and meeting management. This approach to selecting securities allows you to benefit from market volatility by investing in top-notch companies at attractive prices in the medium term.

At Banor, we continue to believe in the **added value** of active management and, for this reason, we continue along the path we laid out years ago: investment in micro research. Additionally, since we come from a long bull market, we believe more and more in the opportunities provided by uncorrelated products as opposed to equity markets with long/short funds or arbitrage. P