Marktbericht IV. Quartal 2020

ALPINE TRUST MANAGEMENT

INDICES

		31.12.2019	31.12.2020	
Europa	Dax	13.249	13.719	+3,5%
	EuroStoxx 50	3.739	3.579	-4,3%
USA	Dow Jones	28.519	30.606	+7,3%
	S&P 500	3.229	3.756	+16,3%
	Nasdaq 100	8.731	12.888	+47,6%
Asien	Nikkei 225	23.477	27.429	+16,8%
	Hang Seng	28.358	27.181	-4,1%

AKTIEN

Auch im vierten Quartal setzen die Aktienmärkte ihre Aufwärtsbewegungen fort und beendete das Börsenjahr mit einer klassischen Jahresend-Rallye.
Eine kurzfristige Unterbrechung setzte zum Ende Oktober ein, als einerseits Europa in einen zweiten Lock-down ging und anderseits im Rahmen der US-Präsidentschaftswahlen die Unsicherheiten über einen sauberen Übergang auf den neu gewählten Präsidenten zunahmen. Wir bewerten diesen Rücksetzer als Welle Zwei im seit März dieses Jahres laufenden fünf-teiligen Aufwärtstrend.

Mit zunehmender Sicherheit des Impfbeginns gegen Covid-19 sowie über den stabilen Amtsantritt von Joe Biden am 20. Januar und ferner einer Einigung zwischen Republikanern und Demokraten über ein 900 Mrd. US-$ umfassendes weiteres Corona-Stützungspaket sowie einem Scheck über 2.000 US-$ für jeden US-Bürger, setzen die Aktienmärkte ihre Aufwärtsbewegungen fort. Diese Fortführung bewerten wir als Beginn der Welle Drei, die sich durchaus weit in das Jahr 2021 fortsetzen kann.

Die Biden Administration signalisiert bereits jetzt eine konsensorientierte Politik in Richtung China und Russland. Wir sehen dies als Basis für eine Wiederaufnahme der Globalisierung in den nächsten Jahren. Dies wird auch einer der Katalysatoren für steigende Unternehmensumsätze und -gewinne sein, die uns deutlich steigende Aktienkurse bringen sollten. Dieser Aufwärtstrend wird aber durchaus immer wieder von Rücksetzern mit Abschlägen um die 10-15% durchzogen sein. Diese sollten zum weiteren Aufbau von Aktien genutzt werden, sofern die maximalen Aktienquoten noch nicht erreicht sind. Das Übersteigen der bisherigen all-time-highs (auch in den anderen Ländern Europas) wird lediglich eine Frage der Zeit sein.

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Wir möchten Sie an dieser Stelle auf unsere diesmalige Beilage hinweisen. Das Bankhaus UniCredit hat hier sehr umfassend die aktuellen Aktienbewertungen im Verhältnis zum heutzutage deutlich niedrigeren Zinsniveau analysiert und sehen – gleichlautend zu uns – noch deutliches Aufwärtspotential für die Aktienmärkte.

Wir sind gemäß den jeweiligen Vorgaben der individuellen Mandate jeweils voll in Aktien investiert, respektive sind im zügigen Aufbau der Aktienquoten bei neuen Mandaten.

ANLEIHEN, Investment Grade
Durch die Flut neuer Liquidität, die die Zentralbanken den Staaten und zum Teil den großen Unternehmen unmittelbar zur Verfügung stellen, sind langfristig Zinserhöhungen nicht mehr darstellbar. Wir werden für mehrere Dekaden niedrigste sowie häufig negative Anleiherenditen sehen.
Den Vorstoß Italiens, die jüngst von der EZB zusätzlich bereit gestellte Liquidität im Rahmen der Corona-Pandemie als „Schenkung“ und eben nicht als „zurückzuzahlendes Darlehen“ anzusehen, nehmen wir zur Kenntnis. Wir sehen hierin einen ersten dezenten Hinweis, dass über kurz oder lang – wenn durch verstärkte Inflation es zu Zinsanhebungen kommen müsste – hierdurch die Staatshaushalte entschuldet werden könnten.
Wir verweisen an dieser Stelle auf den Appendix unseres Marktberichtes zum 2. Quartal 2020, in dem wir dies bereits ausführlicher thematisiert hatten.

Wir sind daher in diesem Segment weiterhin nicht investiert.

ANLEIHEN, Non-Investment Grade
notierten in engeren Handelsspannen sukzessive parallel mit steigenden Aktienkursen fester, so dass derzeit Renditen zwischen 2 und 4% bei mittleren Laufzeiten geboten werden. Die Kurse notieren aber immer noch deutlich niedriger als zum Jahresanfang.

Wir sind in diesem Segment weiterhin investiert und fokussieren zunehmend mittlere und längere Laufzeiten, da wir langfristig von keinen Zinserhöhungen und einem gerade wieder neu beginnenden Wirtschaftszyklus ausgehen.

ÖL
WTI-Rohöl notierte sukzessive fester bis in der Spitze auf 49 US-$/Barrel und deutet hiermit einen Ausblick auf eine Wiederaufnahme der globalen Produktionen als auch der wieder zunehmenden Globalisierung an.

Wir sind aufgrund der massiven politischen Prägung weiterhin in Öl nicht investiert.

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GOLD

Gold setze seine Abwärtsbewegung in fünf Wellen sukzessive fort und korrigierte bei 1.765 wieder nach oben, um aktuell bei rund 1.895 US-$/Unze zu notieren.

Wir bewerten diese – vom all-time-high bei 2.060 US-$/Unze kommende – Korrektur für abgeschlossen und erwarten ein neuerliches Anlaufen des bisherigen Höchststandes und im weiteren Verlauf auch ein klares Durchstoßen nach oben. Aufgrund langfristig niedriger Zinsen wird Gold – als einzige verbleibende Beimischung zu Aktien und als letzte wahre Währung – weiterhin Käufer finden. Zeitweise belastet könnte dieser Aufwärtstrend durch einen wieder erstarkenden USD werden.

Wir halten die maximalen Zielquoten in Gold.

EUR-USD

Der USD notierte im vergangenen Quartal weiterhin sukzessive schwächer gegen den Euro bis auf knapp 1,23 US-$/€.

Diese Kursentwicklung überrascht sehr, da sie nicht ansatzweise mit der Entwicklung der volkswirtschaftlichen Stärke der USA versus Europa übereinstimmt. Sicherlich ist die neue Biden-Regierung signifikant moderater positioniert als der abtretende Donald Trump. Ferner waren bis vor einigen Tagen die USA auch stärker als Europa von Corona betroffen. Jedoch reicht dies als Begründung für die jüngst derart massive Schwäche des USD nicht aus.
Wir vermuten, dass hier einzelne starke Marktteilnehmer ihre Bücher für das Jahresende noch bereinigen möchten.

Dies könnte auch zu einem weiteren Erstarken bis zum langjährigen Hoch bei 1,25 US-$/€ aus dem Januar 2018 führen. Wir erwarten aber in 2021 – sehr deutlich – eine Rückkehr des starken USD und können uns Kurse um 1,10-1,15 US-$/€ sehr gut vorstellen.

Wir haben unsere USD-Positionen weiterhin nicht gegen den EUR abgesichert.

<u>Auch auf diesem Wege wünschen wir Ihnen nochmals
ein gesundes, zufriedenstellendes und hoffentlich normaleres Jahr 2021.</u>

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Don't assume equity-market valuations are excessively high

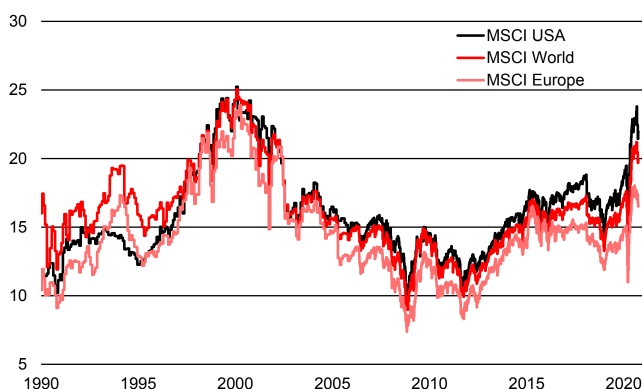
by Christian Stocker, CEFA, Equity Strategist (UniCredit Bank, Munich)

- Current equity-market valuations have reached their highest levels in two decades. However, against a background of expansionary monetary policy and structurally lower interest rates, valuations are not excessively high.
- Taking strongly widened money supply M2 into account, current equity-market levels appear to be in a fair valuation zone.
- When taking structurally lowered interest rates into account, particularly non-cyclical sectors might continue their trend towards higher valuations.

Equity-market valuations, based on 12M fwd. earnings estimates (i.e. the P/E ratio), have reached their highest levels in two decades. An important – if not the most important – driver of equity-market valuations during this COVID-19-induced crisis is the extraordinarily expansive fiscal and monetary policy, which is highly likely to continue in the next few years. This, in combination with lower interest rates, has formed the basis of the strong equity-market recovery over the last few months, although earnings estimates still remain depressed compared to last year. In fact, we do not expect aggregated company earnings of major equity indices to reach 2019 levels before the end of 2021. Against this background, we see a high likelihood that equity-market valuations remain elevated.

EQUITY-MARKET VALUATIONS AT TWO-DECADE HIGH

Chart 1:
P/E ratio of main equity indices, based on 12M fwd. earnings estimates



Source: Refinitiv Datastream, UniCredit Research

The P/E ratio based on 12M forward earnings estimates is high, as depicted in Chart 1. Only once, when calculated at 2022 (!) company earnings estimates, do P/E valuations look in line with the average over the last two decades. Given the current extraordinary situation, an expansion of the usual observation horizon might be appropriate. Nevertheless, market commentators and investors have been increasingly cautioning that stocks are getting pricey and may not have much room to run. For the next few months or so, this is certainly true given current market uncertainty. However, equity-market valuations based on earnings are only one side of the coin. In this publication, we show that current equity-market levels and valuations are not as stretched as often assumed when taking expansionary monetary policy and structurally lower interest rates into account. This applies in particular to economically less sensitive sectors.

In the following, we present two approaches to classify current equity-market levels and valuations in the context of expansive fiscal and monetary policy, structurally low interest rates and, particularly with regard to sectors, different long-term growth assumptions:

- Approach 1 shows a comparison of equity-market capitalization with M2 money supply levels.
- Approach 2 shows a DCF-derived model to illustrate how different interest rates and earnings-growth assumptions change "fair" P/E valuations of sectors.

1. Comparison of market capitalization and M2 money supply

Are valuations really as stretched as a backward-looking perspective on the P/E ratio would suggest? Massive monetary stimulus policies from central banks such as the ECB and the Fed have driven money supply sharply higher as measured by M2. For this approach, we use M2, as it is a measure of the money supply that includes cash, checking deposits, and highly liquid easily convertible near money[1]. Some of that money has found a home in the stock market and, historically, money-supply growth and stock prices (and, of course, market capitalization) have moved in tandem. Therefore, we think a comparison between equity-market capitalization and M2 money supply gives an indication of whether general market conditions are stretched or not from a monetary point of view.

The ECB's and the Fed's balance sheets have ballooned at an exponential pace to unprecedented levels amid the coronavirus pandemic, inflating money supply. This has led to a strong decline in the ratio of the Euro STOXX and S&P 500 market capitalization to M2 money supply. While in the US, this ratio is at a level that is average for the last two decades, in Europe, it has only ever been lower than it is now during the financial crisis of 2008-09 and during the sovereign-debt crisis (from 2008 through 2012), as shown in Charts 2 and 3.

[1] Money supply M2 consists of cash, checking accounts, savings deposits, money market securities, mutual funds, and other time deposits

RATIO OF MARKET CAPITALIZATION AND M2 IS NOT HIGH

Chart 2: Ratio of S&P 500 market capitalization and M2

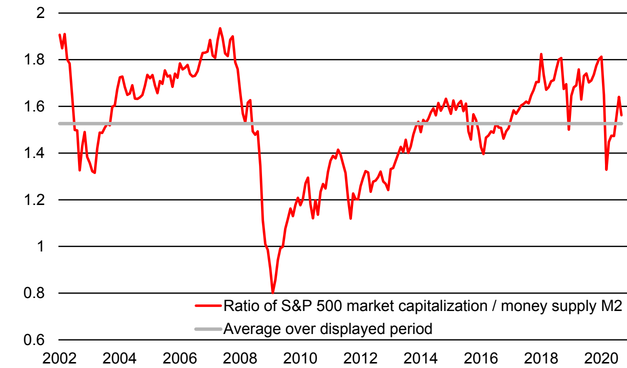
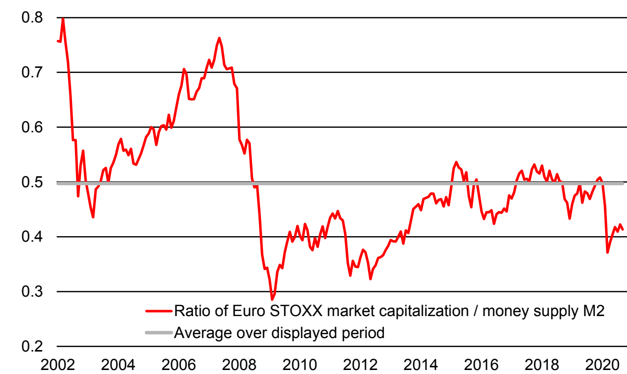


Chart 3: Ratio of Euro STOXX market capitalization and M2



Source: Bloomberg, UniCredit Research

While the eurozone ratio between market capitalization and money supply is significantly lower than that of the US (due to a much higher share of listed companies in the US), a comparison with the past shows that the current market cap is at around the average of the last two decades in the US and significantly below the average in the eurozone. In fact, if past ratios between money supply M2 and market capitalization are an indication, the level of liquidity in the market is making stocks look inexpensive. This may signal that equity markets have, based on the ratio between market capitalization and money supply, further room to increase on a medium to long-term perspective, as long as central banks continue to provide the current high level of liquidity (which is highly likely in the next few years).

Conclusion: current equity-market levels are not stretched relative to money supply

According to the approach of taking money supply into account, current equity-market levels (based on market capitalization) are more nuanced and appear to be in a fair valuation zone, although a backward-looking perspective based on P/E ratios suggests stretched valuation levels. Therefore, we think that, as long as central-bank policy and fiscal measures continue to be strongly expansionary, equity markets are likely to be well supported.

2. Valuation approach reflecting the cash value of sectors

Due to the weak economic environment and central-bank measures, global government bond yields have declined compared to last year's levels and are likely to remain low for the time being. Basically, structurally lower interest rates are increasing long-term valuation levels. To demonstrate this, we use a discounted cash flow (DCF)-derived model (using the concepts of the time value of money) to assess the current value of an equity sector, given specific assumptions of earnings growth, risk-free interest rates and risk premium. For this analysis, we consider three typical sectors with different growth rates and economic sensitivity (risk premium):

- A cyclical sector (1) with comparatively high earnings volatility (average earnings growth of 5% and a risk premium of 7%)
- A non-cyclical sector (2) with low earnings volatility and **low** earnings growth (average earnings growth of 4% and a risk premium of 3%)
- A non-cyclical sector (3) with low earnings volatility and **strong** earnings growth (average earnings growth of 9% and a risk premium of 3%)

To apply this method, we estimate future profit growth for these three sectors for the next ten years and, to arrive at a terminal value, a perpetual growth rate thereafter. To estimate average profit growth for the next ten years, we use the historic 20Y average earnings growth rate[2] of cyclical sectors (1), non-cyclical (defensive) sectors (2) and the Technology sector (3). For growth from year 11 onwards, we assume significantly lower growth rates (please refer to Tables 1-3 below). The growth rates are discounted by using the cost of capital to arrive at their present values. In this respect, it is important to note that the discount rate consists not only of the risk-free interest rate (we use 10Y US treasury bond yields for our calculations as the US is the leading global government bond market), but also includes the risk premium investors require to invest in a company or a sector. The amount of the risk premium depends primarily on the likelihood or stability of future earnings and the quality of the company's balance sheet (or aggregated values for sectors, see Tables 1-3). The lower the risk premium, the greater the proportion of the risk-free interest rate in the discount rate and the greater the impact of a change in interest rates on the value of a company or a sector.

In the following, we show how lower interest rates affect the value and ultimately the valuation of sectors with different risk premiums and earnings growth rates. In our calculation, we assume that each of the three sectors we used as an example currently generate a profit of 100 units. The impact of a decrease in interest rates from 2.15% to 0.9% on the cash

[2] Base date of European indices and earnings data is 1999

value of future profits is shown in the last three rows of Tables 1-3. The initial interest rate of 2.15% matches the average interest rate level of 10Y US treasury bonds in 2019, while the current risk-free rate of 0.9% is equal to the average in 2020 so far. When the resulting cash value of a company or a sector is placed in relation to the current value (profit of 100), we get a "fair" P/E ratio based on DCF assumptions.

Cyclical sector with comparatively high earnings volatility

For the cyclical sector, we assume a risk premium of 7%[3] and an average profit growth rate of 5% over the next ten years. From the eleventh year, we assume a profit growth rate of 2%. The decline of the risk-free rate from 2.15% to 0.9% leads to an arithmetical increase of the sector value of 22.4%. A "fair" P/E ratio of 21.8 is broadly in line with the current valuation of cyclical sectors.

TABLE 1: CYCLICAL SECTOR VALUATION CHANGE RESULTING FROM LOWER INTEREST RATES

	Change in assumptions from / to	
Risk-free rate	2.15%	0.90%
Risk premium	7.00%	7.00%
Profit growth (year 1 to 10)	5.00%	5.00%
Profit growth (year 11 and thereafter)	2.00%	2.00%
Cash value of 100 profit units in period 1	**1,781**	**2,180**
P/E ratio (cash value in relation to 100 profit units in period 1)	**17.8**	**21.8**
%-Change of P/E ratio		**22.4%**

Source: UniCredit Research

Non-cyclical sector with a high degree of earnings stability exhibits low earnings growth

The assumed risk premium of 3% in the non-cyclical sector is significantly below that of the cyclical sector, while we assume profit growth of 4% over the next ten years and 1% thereafter. Due to the lower risk premium, the cash value of the sector is higher compared to the cyclical sector. In combination with higher profit growth, the lower risk-free rate is reflected much more strongly in an increase of the sector value of 44.8% and an arithmetical "fair" P/E ratio of 45.2.

[3] The term risk premium refers to an excess return that investing in the stock market provides over a risk-free rate. This excess return compensates investors for taking on the relatively higher risk of equity investing. The size of the premium varies and depends on the level of risk. In other words, cyclical sectors have a higher risk premium than non-cyclical sectors. As risk premiums can vary significantly over time (depending on return expectations), we use average values of the last 20 years.

TABLE 2: NON-CYCLICAL SECTOR (LOW GROWTH) VALUATION CHANGE RESULTING FROM LOWER INTEREST RATES

	Change in assumptions from / to	
Risk-free rate	2.15%	0.90%
Risk premium	3.00%	3.00%
Profit growth (year 1 to 10)	4.00%	4.00%
Profit growth (year 11 and thereafter)	1.00%	1.00%
Cash value of 100 profit units in period 1	**3,122**	**4,522**
P/E ratio (cash value in relation to 100 profit units in period 1)	**31.2**	**45.2**
%-Change of P/E ratio		**44.8%**

Source: UniCredit Research

Non-cyclical sector with a high degree of earnings stability exhibits strong earnings growth

For the non-cyclical sector with strong earnings growth, we also assume a lower risk premium of 3%, but a significantly higher profit growth rate of 9% over the next ten years, which slows to 2.5% from the eleventh year on. In this sector, the lower interest rate leads to an increase in the cash value of 94.1% and an arithmetical "fair" P/E ratio of 131.4.

TABLE 3: NON-CYCLICAL SECTOR (HIGH GROWTH) VALUATION CHANGE RESULTING FROM LOWER INTEREST RATES

	Change in assumptions from / to	
Risk-free rate	2.15%	0.90%
Risk premium	3.00%	3.00%
Profit growth (year 1 to 10)	9.00%	9.00%
Profit growth (year 11 and thereafter)	2.50%	2.50%
Cash value of 100 profit units in period 1	**6,767**	**13,136**
P/E ratio (cash value in relation to 100 profit units in period 1)	**67.7**	**131.4**
%-Change of P/E ratio		**94.1%**

Source: UniCredit Research

Conclusion:
non-cyclical sectors with high growth rates profit the most from sustainably low interest rates

Our arithmetic example on the basis of the three ideal-typical sectors shows that the lower the risk premium, the greater the effect of a decline in interest rates on the value of a sector. The reason for this can be attributed to how a DCF model is calculated: the discount rate comprises both the risk-free interest rate and the risk premium. Therefore, a decline in interest rates has a stronger proportional impact on a low risk premium than on a higher risk premium. The results of the arithmetical model cannot automatically be translated into current market valuations. However, the results demonstrate that, from a theoretical valuation approach, significantly higher equity market or sector valuations are reasonable in an environment of structurally lower interest rates in the next few years.

This is particularly true for non-cyclical sectors such as (Information) Technology with strong and sustainable earnings growth rates. However, also valuations of non-cyclical sectors with lower earnings growth and comparatively low risk premiums (such as Food & Beverage, Health Care, Personal & Household Goods, Utilities or the Telecommunications sector) might benefit above average over the next years from structurally lower interest rates. Against this background, we think particularly valuations of non-cyclical sectors are likely to continue showing P/E valuations above past averages as long as investors assume that interest rates remain structurally low.

In this context, we also need to take a look at current developments. Valuation developments for this year do not fully reflect the theoretical results. Current valuations (based on 2022 earning1s estimates) show the lowest values for cyclical sectors and the highest values for Technology, which is consistent with our theoretical results (see Table 4).

TABLE 4: VALUATION CHANGE OF SECTOR GROUPS

	P/E ratio, based on FY earnings estimates		Change (%)
	Average 2019	Sept 2020	
Cyclical sectors	11.5	13.7	17.2
Non-cyclical sectors	14.7	15.6	6.2
Technology	16.5	20.1	21.6

Source: Refinitiv Datastream, UniCredit Research

However, while the valuation change from 2019 averages versus current values shows the strongest increase in Technology (which our model also suggests), cyclical sectors achieved a stronger valuation increase than non-cyclical sectors. This does not fit the message from our model, which suggests the lowest valuation increase in cyclical sectors in an environment of lower interest rates. There are two reasons for this:

1. our model results are based on very long-term base assumptions and, therefore, show long-term valuation adjustments.
2. current valuation changes are strongly impacted by volatile equity markets and short-term expectations, such as a V-shaped recovery with a strong earnings increase in cyclical sectors. We think such expectations are likely to be too optimistic. In fact, we see a high risk of a slower economic and earnings recovery in the coming quarters, which would affect cyclical sectors the most.

In a nutshell, there is a high risk that the biggest losers of the current crisis are cyclical sectors with a long-term decline in demand (e.g. Travel & Leisure, including airlines), or sectors whose digital clout is insufficient (e.g. Retail, Oil & Gas). For those sectors, low or declining interest rates may reduce their future interest burden – but this is only a slight relief against the background of eroding profits.

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