



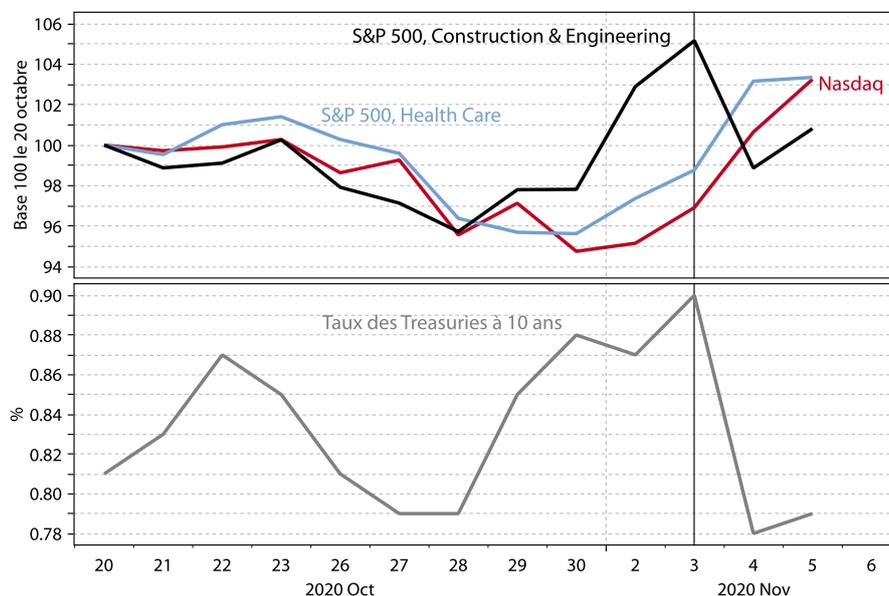
Exposure rates of the Dorval Asset Management Range – 6th November 2020

Dear Clients and Partners,

At the time of writing, the US elections seem to be taking Joe Biden to the White House, but the Senate is no doubt set to stay Republican (this will be confirmed or refuted on January 5 in Georgia). The major stock-market indices have gained, but with hefty sector rotation (cf. chart 1). We think that the set-up we are now likely to see – with one party in the White House and the other leading the Senate – is broadly good news for the world financial markets. Admittedly, the result will curb budget spending for the medium term (infrastructure) and makes both the timing and the extent of the forthcoming stimulus program unclear, but in some ways a huge Democrat blue wave may have been disruptive for Wall Street and could have triggered an overly abrupt rise in long-term rates, corporation tax hikes and fresh regulation for the healthcare and digital sectors. Meanwhile, looking beyond the United States, the prospect of Biden as president is a relief for the emerging and European markets that have often been shaken by Donald Trump's trade aggression and revenge tweets.

The US elections have had a hefty impact on the financial markets

Les élections US ont eu un fort impact sur les marchés financiers



Dorval Asset Management

- Base 100 on October 20 / 10-year Treasury yield



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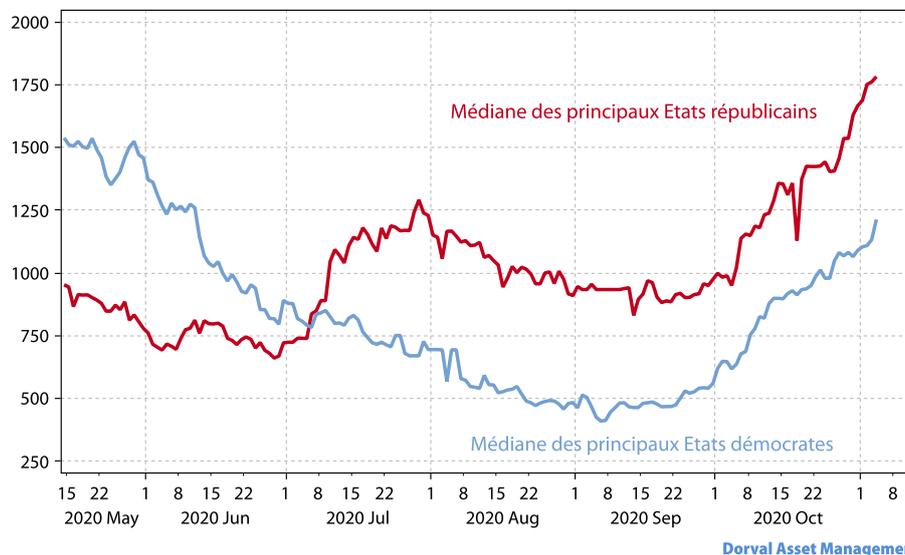
This political event is taking place at a time when Asia and the southern hemisphere are enjoying much better health and hence economic trends than the west. The US elections could therefore further drive this improvement in the economic outlook in this part of the world. Meanwhile, the relationship with Europe would be much less strained, while Joe Biden is also set to get the United States back at the table on international climate agreements.

Republican states are particularly hard hit by the renewed surge in the epidemic

Number of Covid-19 hospitalizations per state

Les Etats républicains sont particulièrement touchés par le retour de l'épidémie

Nombre d'hospitalisations pour Covid-19 (par Etat)



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- *Median for main Republican states / Median for main Democrat states*

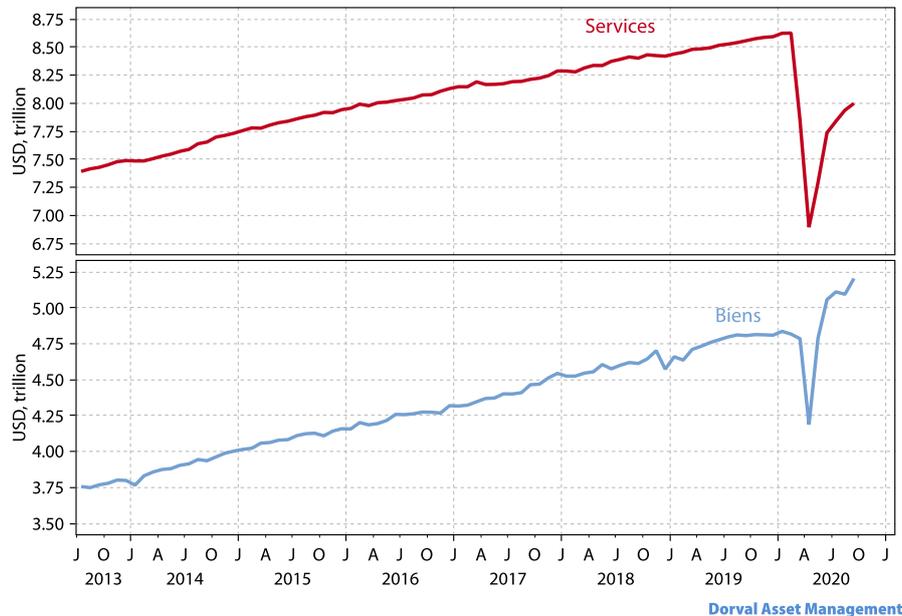
In the short term, the main economic risk is still the Covid-19 pandemic in the west. Restrictions are increasing across Europe and are also beginning to grow in the US, where a third wave of cases is being confirmed. This is particularly true in several Republican states (cf. chart 2), which could encourage implementation of a fresh hefty bipartisan rescue plan.

In any case, the sharp upturn in GDP in 3Q, as well as the latest job stats for October (unemployment down to 6.9% vs. 7.6% expected) have proven just how effective state aid truly is, and bear out the economy's ability to swiftly make up lost ground. US household income increased during the crisis and consumers turned to goods (cf. chart 3) in the absence of access to certain services (leisure, tourism, etc.), thereby providing a boost for world manufacturing.



US consumer spending – goods vs. services

Consommation aux Etats-Unis, biens vs services



- Services
- Biens

We also saw indications of this much more buoyant economy than expected in Europe. The euro area notched up 3Q GDP figures that the OECD's June projections had not expected until 2022. This suggests that if economic policy remains skillfully steered, then the next post-lockdown period will fuel a strong recovery once more. With reflationary policies and expected medical progress in tackling the epidemic, the economy has a good chance of making up the ground lost in 2020 much more quickly than expected in 2021.

In our portfolios, we have increased our equity exposure rates in response to the US election via the emerging markets theme, the world manufacturing sector and the Nasdaq from a tactical standpoint. Risk scenarios for the weeks ahead include an abrupt shutdown in the US economy to tackle the epidemic, along with some political deadlock. Conversely, vaccines may be authorized for market sooner than expected, which would create a positive environment for the most cyclical sectors, but less upbeat for the digital sector.

Our exposure rates are as follows:

- **Dorval Convictions:** Our exposure rate is 75%.





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