



## Exposure rates of the Dorval Asset Management Range – 18<sup>th</sup> December 2020

Dear Clients and Partners,

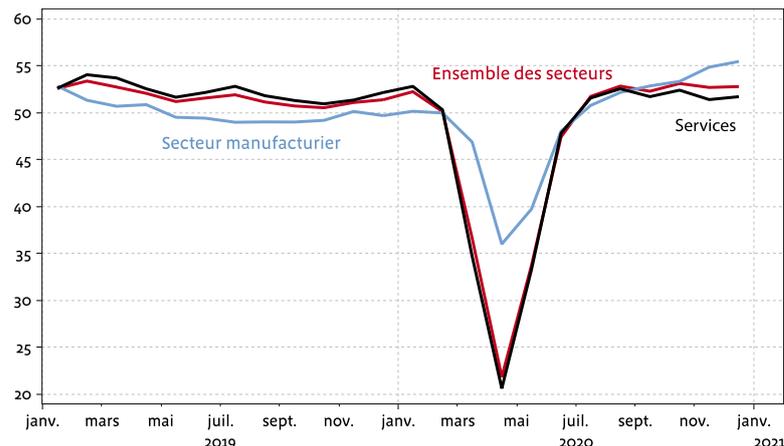
The second surge in the pandemic – forecasters' bleakest scenario – has had only a very moderate effect on the world economy overall. This upbeat situation has further buoyed investors' risk appetite, which is already shored up by vaccines coming onto the market. In our view, the dollar's decline looks like the logical outcome of these trends.

### The second surge in the pandemic has had only a slight impact on economic activity and business confidence

Markit surveys – weighted average US, euro area, Japan, UK, Australia

### La deuxième vague épidémique n'a eu qu'un faible impact sur l'activité et la confiance des entreprises

Enquêtes Markit - moyenne pondérée USA, Zone Euro, Japon, R-U., Australie



Dorval Asset Management – 18/12/2020 – Sources : Macrobond, Markit

- [Manufacturing sector](#) / [All sectors](#) / [Services](#)

The ongoing series of lockdowns are all over the news and make for a hefty impact for hundreds of millions of people in their everyday lives. Yet restrictions on economic activity are nowhere near as severe as in the spring, with the large majority of business sectors remaining open or at least only closing for a very short period of time. Additionally, countries that are coming out of their recent lockdown, even if it is only partially – such as France at the moment – are seeing an immediate uptick. Lastly, the arrival of vaccines no doubt helps prop up companies' confidence despite restrictions: the services PMI in France rose considerably in December again to 49.2 after plummeting to 38.8 in November, down from 46.5 in October. This combined services PMI figure for all countries that publish preliminary data (cf. chart 1) is virtually stable, while the manufacturing recovery is further firming up. In a similar vein, the Atlanta Fed GDP Now model still projects growth of 11% (annualized) in the United States in 4Q, despite a clear drop in retail sales in November (-1.1%) and an





increase in the number of job-seekers entitled to benefits. If the model turns out to be accurate, US GDP would come out barely 1% short of its 4Q 2019 pace. The arrival of vaccines is set to have an impact right throughout 2021 and this will build on a much higher starting point for economic activity than most analysts had expected.

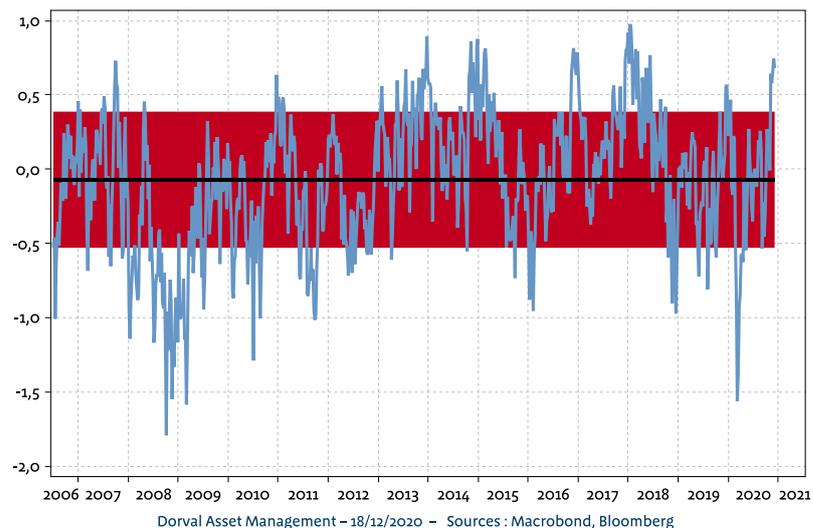
These figures and the overall outlook merely serve to boost investors' risk appetite (cf. chart 2), which is moving closer to figures seen at several market highs (late 2013, late 2014, late 2016 and early 2018), as measured by various market indicators and investor surveys. This positioning is already highly optimistic and curbs hopes of gains on the markets as there are few investors to win over, while also pushing up risk in the event of disappointment. There is perhaps no reason to be alarmed for now, although questions are being raised on Bitcoin's gains, Tesla's valuation as it joins the S&P 500, and the sharp surge in the number of IPOs in the United States.

### Investors are increasingly risk-inclined, boosted by vaccines

Composite risk appetite indicator – average of GS, Citi, AAIL and NAAIM indices

#### Dopés par les vaccins, les investisseurs aiment de plus en plus le risque

Indicateur composite d'appétit pour le risque - moy. des indices GS, CITI, AAIL et NAAIM



The dollar is a safe haven investment and so is obviously attracting lower demand in this environment: in our view, the greenback's dip does not point to any sort of investor misgivings. The currency's real value – inflation-adjusted – weighted for external trade remains fairly high compared to past showings (cf. chart 3). The rise in commodities prices is also dragging on the dollar as it means commodity-producing emerging countries can access the currency without relying on the markets.

The dollar's decline therefore logically redistributes profits to the benefit of US exporting companies, and conversely the most domestic companies outside the United States. In Europe, this dollar effect combines with the prospects of an economic recovery to help





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explain the outperformance for small-caps. In our overall asset allocation, we have taken positions based on this approach over the past several weeks.

**Recovery, risk appetite and surge in commodities  
unsurprisingly mean decline for dollar**

Dollar's real exchange rate, weighted for external trade

**Reprise, appétit pour le risque et hausse des matières premières  
s'accompagnent sans surprise d'une baisse du dollar**

Taux de change réel du dollar pondéré par les commerce extérieur



Dorval Asset Management – 18/12/2020 – Sources : Macrobond, Federal Reserve

Our exposure rates are as follows:

- **Dorval Convictions:** Our exposure rate is 96%.

#### **DORVAL ASSET MANAGEMENT**

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