2020: Volatility and Megatrend

For old traders, the January performance gives the rhythm to the stock market trend of the whole year: for this reason, until the penultimate day of the month, they showed wise tranquility. Since 1950 when the S&P, the flagship index of world stock exchanges, has closed positively, in 86% of cases it is the whole year that gives satisfaction. If it is the year of the election of the president, we enter the field of absolute certainties: in 100% of cases the year ended well with an average performance of 16.6% (Stock Trader's Almanac). It is a pity that the sell off on January 31 brought the S&P to negative territory (-0.2%), albeit slightly. Synchronized rate cuts and China's efforts to sustain 6% growth doped the markets in 2019: nothing seemed to stop the general powerful stock market ride that started last year. Even the heightened tensions with Iran have not slowed down the climb, if only to allow latecomers to enter the market. The markets are interested in liquidity: their main macroeconomic concern is the trend of inflation and that of long-term rates, whose increase could lead to central banks being less generous. To stop the climb, an exogenous factor has thought of it: the Chinese Coronavirus. The markets will be very attentive to the evolution of the disease and to the interventions that must have the aim of curbing the spread of the virus, but at the same time they close the flows of goods and people by stopping the already difficult growth of the world economy. Past experiences, such as SARS, have always been resolved with the rapid recovery of the stock exchanges after the first successes in the control of the disease. And this time China, unlike the previous cases, is showing great responsibility and organizational capacity in responding to the crisis. It is therefore likely that what happened in January is rather the first representation of a volatile year, but not necessarily a negative one. As long as the financial levers remain generous, each correction is a buying opportunity. But from time to time, before returning, we must re-evaluate the scenario. Earnings trend is relative data. The markets are now accustomed to decreasing expectations and then letting themselves be positively surprised. The danger may come from a

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heavy recession in Europe, which the central bank and states are trying to counter. In the United States, the presidential campaign will be crucial. The stock markets like Trump and Joe Biden in the democratic area, but in this field the polls mark the advance of Bernie Sanders and Elisabeth Warren, who by definition intend to review the real role of the markets, promising to correct the overwhelming power of the big Wall Street , Apple, Facebook, Google, Microsoft, etc. A first commercial agreement with China has been closed; but there will be uncertainties in the application of the treaty and Trump's possible reactions. Brexit has taken place: the effective exit will take place at the end of the year and a difficult agreement will have to be passed. All this promises a complex year, especially in the second half of the year. Central banks, however, will be very present and, especially in the first half of the year, corrections are a buying opportunity. Although stock exchanges have sparked in recent years, many have remained at the door. 2019 was the watershed year for the awareness of the energy transition. If the speed of propagation of the Coronavirus can probably be limited, that of the new digitized and low-CO2 economy is unstoppable. The only winners will be those companies capable of changing, sometimes distorting, their business model to enter the new world. Attention to stock selection based on ESG (Environment, Social and Governance) criteria is crucial, but no longer sufficient: solid portfolios are those set on the new megatrends.