



QUALITY NEVER GOES OUT OF FASHION: INVESTING IN HIGH-QUALITY COMPANIES

The defensive virtues of quality stocks are brilliantly illustrated this year. In a world characterised by persistently high uncertainty and major structural developments, quality stocks remain a core holding of choice.

OUR RECOMMENDATIONS

- This theme remains highly attractive. It is still an ideal core portfolio component. Global by nature, it can be applied in all equity markets.
- Companies with strong balance sheets, clear visibility on earnings growth and limited profit variability will remain in high demand.
- They will still be expensive amid weak economic growth and major structural changes.

RISKS

- The outperformance of quality stocks has been strong (a wide spread above their 200-day moving average). This positive trend calls for a period of digestion.
- The high valuation of quality stocks is their biggest disadvantage.
- A normalisation of economic activity will revive risk appetite, temporarily overshadowing the advantages of quality stocks.

An exogenous shock highlights the strengths of quality stocks

Quality stocks have a reputation for delivering above-average returns in the late stages of the cycle and especially during recessions. They demonstrated this brilliantly in the first part of the year as the global economy could no longer function normally.

The health crisis has revived investor interest in stocks offering three advantages: limited gearing, high profitability and low profit variability. These three criteria characterise quality stocks.

A core holding in a post-pandemic world

The Covid-19 pandemic is a triple shock: human, production capacity and consumption. Companies will look to diversify their supply chains and digitise their processes. The shock on business volumes and cash flow generation will require limiting capital expenditure.

Adding to this will be a focus on health care, which will lead to a drop in ordinary household spending.

SHARP OUTPERFORMANCE OF QUALITY STOCKS



— MSCI World Quality relative to MSCI World — 200D MA — 50D MA

Source: Refinitiv, Datastream, 18/05/2020

All of these factors, along with the structural trends of deglobalisation and the need for deleveraging, will feed an ongoing appetite for quality stocks, and thereby maintaining their high price.



THEME 01 – High-quality stocks p.4

We must now favour companies which have high profitability, limited debt, low profit variability and large cash reserves.



THEME 02 – Defensive solutions p.5

The trend is to search for alternative returns via good quality corporate bonds, hedge funds and structured products.



THEME 03 – De-globalisation p.7

Protectionist trends and dependence on international supply chains are expected to lead to a stabilisation and even a decline in international trade in the long term. This 'deglobalisation' should provide opportunities for some companies or even for some countries. In particular, producers of goods and services which substitute imports are well positioned to benefit from this trend. The same is true for emerging market countries which compete with China.



THEME 04 – Digitalisation and technological innovations p.9

Alongside the trends in health care, this is one of the most marked trends: 5G and Artificial Intelligence will benefit from the increased communication and data needs generated by the crisis.



THEME 05 – Innovations in health care p.11

This sector is growing faster than the rest of the economy. Thanks to digitalisation, analytics, database management and Artificial Intelligence, the way treatment/care is given will change considerably at all levels and generate a wave of capital expenditure.

All the themes proposed at the beginning of the year remain attractive but will not be detailed in this document. However, an update on their performance since January is available at the end of this document.

THE INVESTMENT STRATEGY TEAM

France

Florent BRONES
Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia
Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
Chief Investment Advisor
Xavier TIMMERMANS
Senior Investment Strategy, PRB
Alain GERARD
Senior Investment Advisor, Equities
Pol Tansens
Head of Real Estate Strategy

Luxembourg

Guy ERTZ
Chief Investment Advisor
Edouard DESBONNETS
Investment Advisor, Fixed Income

Switzerland

Roger Keller
Chief Investment Officer



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wealthmanagement.bnpparibas/fr

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