

# NASDAQ speculation flattens out

September 2020

- Expansive monetary policy promotes the emergence of financial market bubbles
- Positive contribution across all risk assets
- Shares are weighted neutrally at the expense of liquidity

## Unusually high option volume

Recently, the NASDAQ-100 index entered a long-awaited correction, dropping more than 10%. Despite the correction, experienced investors are unimpressed, as the index is still trading up around 31% year-to-date. However, the heavy concentration in a few shares as well as speculators engaging in unusually high call option volume is giving cause for concern. Incidentally, the extreme selectivity is also visible on a long-term horizon, which is more relevant for investors: the NASDAQ-100 has increased by 25% p.a. since the end of 2017, of which "only" 14.5% p.a. remains if the five largest positions Apple, Microsoft, Amazon, Facebook and Alphabet are excluded. Lately, the price development of these shares was largely driven by option transactions, confirmed by a massive increase in volume. This is a clear signal for an overheated segment within the NASDAQ-100, which is particularly benefiting from digitalization. Nevertheless, we are not shying away from investments in the technology sector. However, selectivity and avoiding concentration risks are becoming increasingly important.

## Sound Capital Investment Navigator

Valuation Bonds: -											
		Yields					Spreads				
		low	0	high			low	0	high		
		--	-	+	++			--	-	+	++
<b>New</b>	X					<b>New</b>		X			
<b>Old</b>	X					<b>Old</b>		X			

Valuation Equities: 0											
		Shiller PE					Risk Premium				
		expensive	0	cheap			low	0	high		
		--	-	+	++			--	-	+	++
<b>New</b>	X					<b>New</b>		X			
<b>Old</b>	X					<b>Old</b>	X				

		Leading Indicators					Risk-Index				
		Contraction	0	Expansion			Euphoria	0	Panic		
		--	-	+	++			--	-	+	++
<b>New</b>			X			<b>New</b>			X		
<b>Old</b>			X			<b>Old</b>			X		

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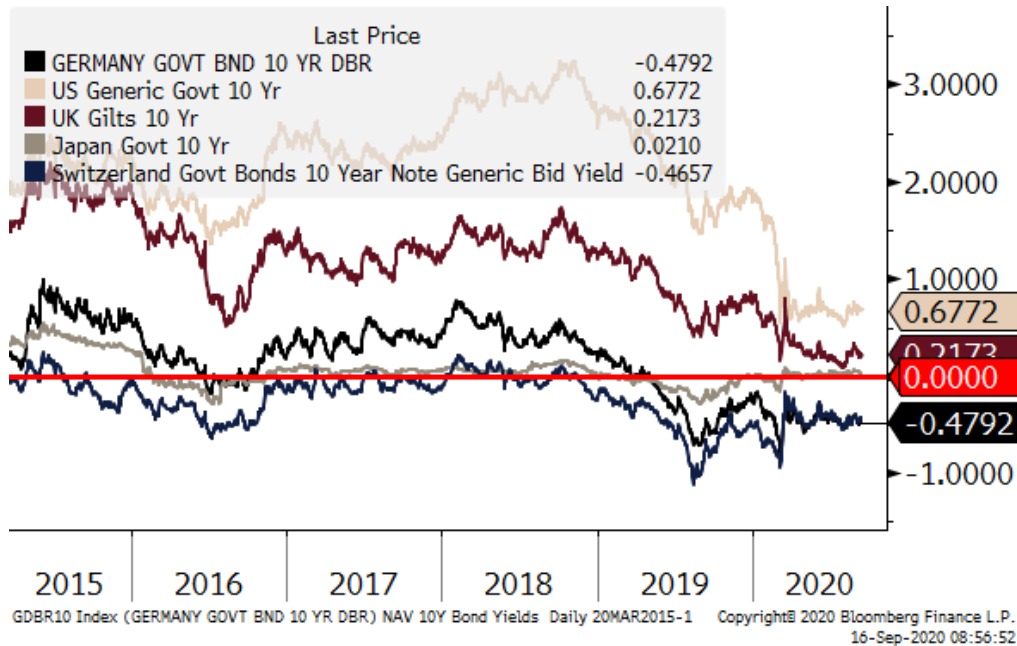
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Shares are increased to neutral weighted at the expense of liquidity. Fixed income investments remain underweighted, while alternative investments remain neutral weighted

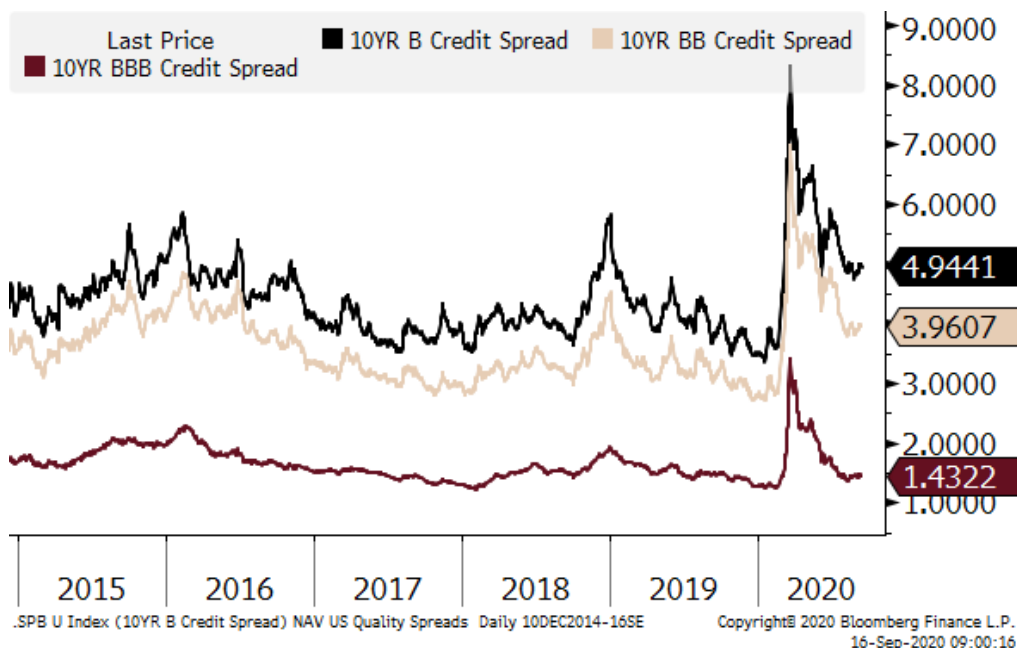
**Interest rate level** (indicator --) / **Spreads** (indicator 0)

Assessment unchanged / Assessment unchanged

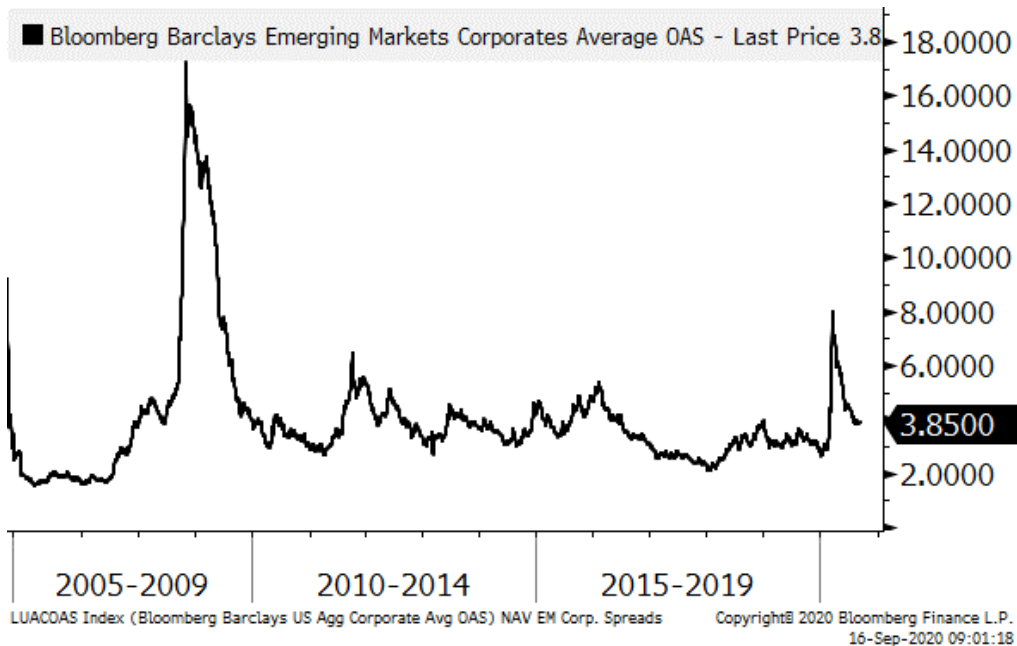
The interest rates on government bonds are still at extremely unattractive levels.



The credit spread for investment grade corporate bonds has fallen, particularly due to central bank intervention. They no longer offer an attractive reward for the underlying risk. In some way, the Federal Reserve has started to nationalize the fixed income sector by purchasing large sums in the open market. We shy away from recommending a switch to lower quality debtors due to increased default risks.



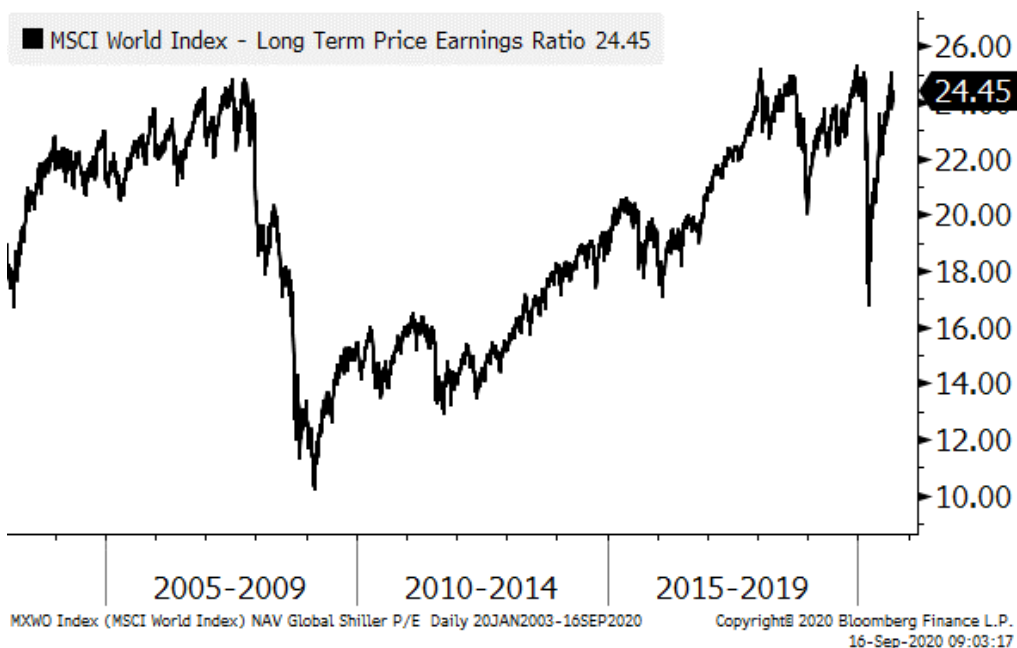
Nevertheless, the credit spread on emerging market corporate bonds is relatively attractive and the market represents a somewhat less distorted picture with regards to credit risk.

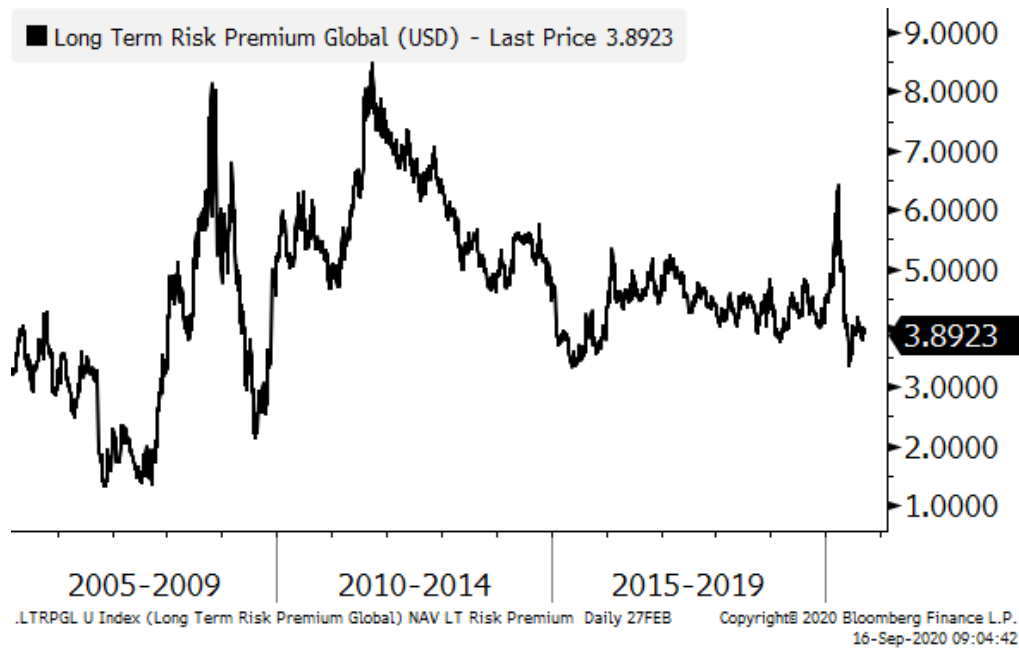


**Shiller P/E ratio (indicator --) / Risk premium (indicator 0)**

Assessment unchanged / Assessment upgraded to 0 from -

While the absolute valuation of the stock market remains unattractive, risk premiums have improved since the last investment committee. This is the main reason to a more positive assessment of the outlook for the equity markets.

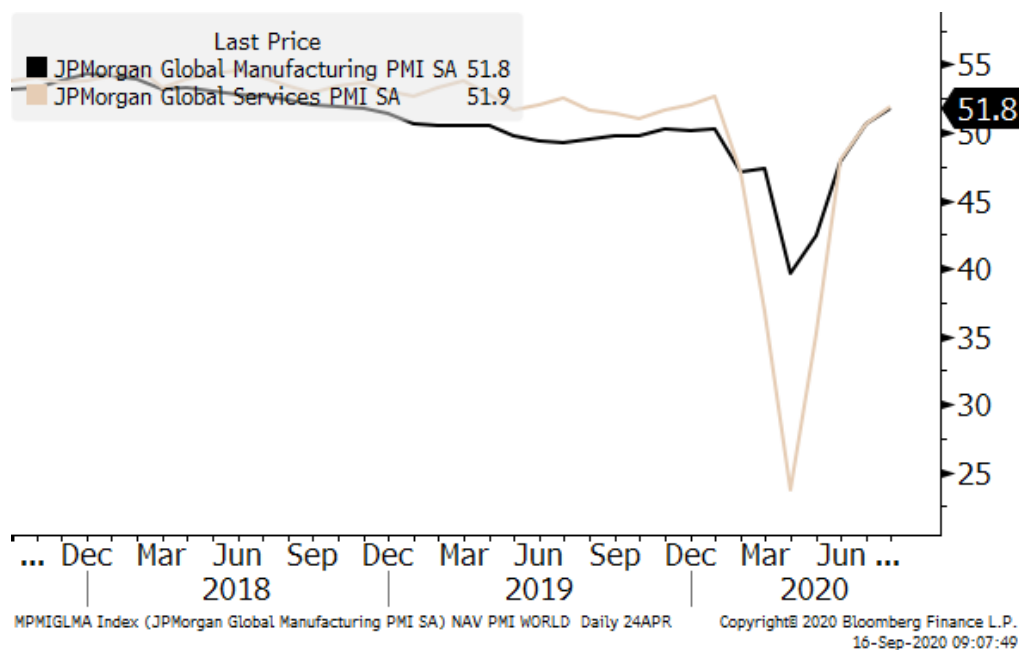




## Macro leading indicators (indicator 0)

Assessment unchanged

Global manufacturing PMI data for August rose to 51.8 from 50.6 and global services PMI data also increased to 51.9 from 50.6 month-over-month. Although the leading economic data have improved again, we maintain our neutral view. The reason for this is the expectation that the momentum of the economic recovery (which is what this indicator is all about) is likely to weaken in the near future.



**Risk index** (indicator +)

Assessment unchanged

The positioning of investors as well as the investment flows still show a rather defensive attitude of investors. For this reason, the contrary risk index remains in positive territory.

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