INVESTMENT INSIGHTS

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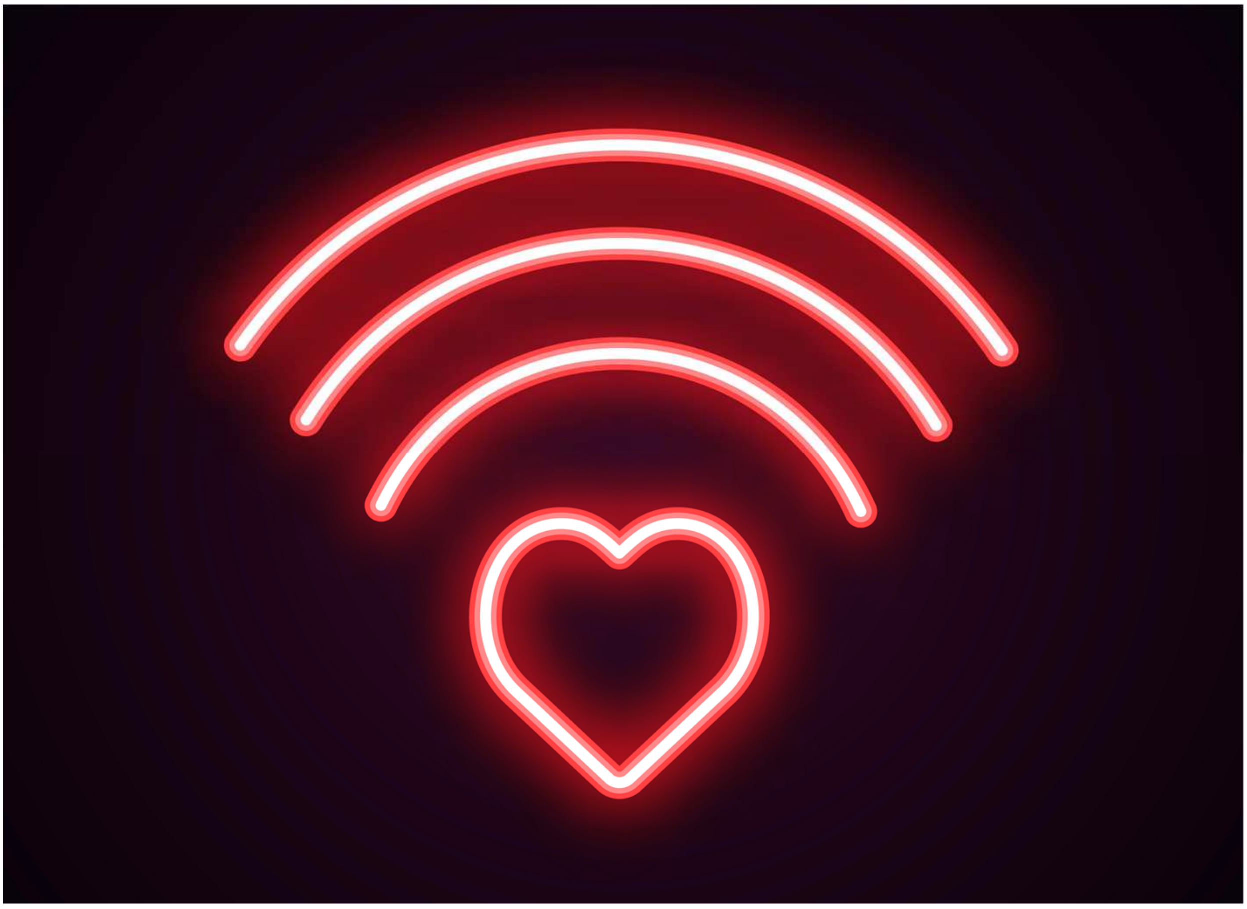

DIGITAL LOVE

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- … with Facebook well equipped to join the fray

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Editorial View

Digital Love

- Almost one in five couples now meet online
- US Match Group and Chinese Momo own the most popular dating apps…
- … with Facebook well equipped to join the fray

As they have done for centuries, couples across the world will soon be celebrating Valentine's Day. What has changed, however, is that more and more of them now meet not in real life but on e-platforms. According to a Stanford University survey, finding your other half online has become just as (or even more) likely than traditional "via a friend" encounters.

Development of online dating has gone hand in hand with the democratisation of internet. In the early days, it consisted in websites that functioned essentially as marketplaces, requiring lengthy profiles and tedious searches. It was only when matching apps became available on smartphones that the market really took off.

Indeed, dating apps currently figure among the top grossing consumer apps, with an increasing number of persons seeking short- or long-term relationships and prepared to pay for added-value services such as unlimited swipes, "like" notifications, premium accounts, "super likes" or virtual gifting. Now estimated to be knocking on USD 12 billion, the online dating space is dominated by two heavyweights – with one potential disruptor.

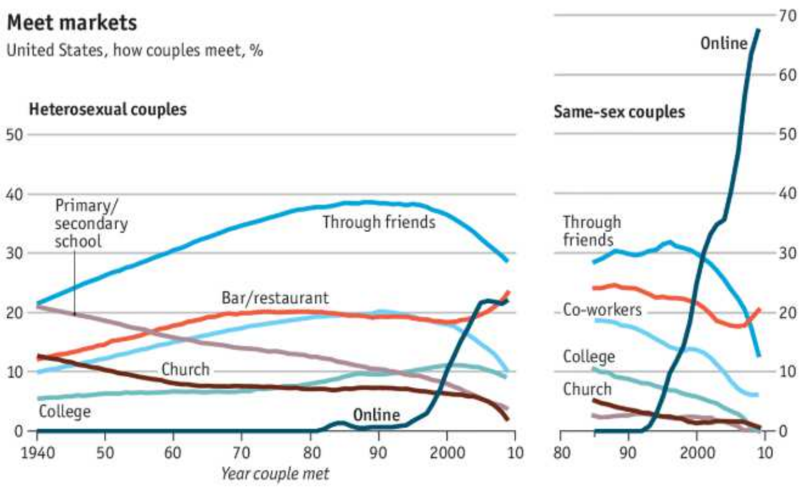
Standing firmly in the ring is US Match Group. Beyond its crown jewel *Tinder*, the n°1 dating app worldwide with some 70 million monthly active users, this online dating pureplay (spun out of the IAC conglomerate in 2015) owns many of the most popular Western platforms (*Plenty of Fish* and *OkCupid* in the US, *Meetic* in Europe, *Eureka* in Japan), having pursued an aggressive acquisition strategy over the years.

Its fast-growing challenger is Chinese Momo, with the *Momo* (social & entertainment services, notably live streaming) and *Tantan* (largest casual dating app in China) platforms. Chinese demographics, with an addressable single population of 250-300 million, as well as potential for greater adoption and monetisation, make for a compelling outlook. Just consider, over the first nine months of 2019, time spent on all Chinese matchmaking apps grew by a staggering 90%.

Finally, warming up backstage is Facebook, which has dabbled in dating since 2018 but not (yet) launched such services on a wide scale – despite sitting on a goldmine of personal data. Amongst Facebook's leverageable assets also figure *Instagram*, offering users the possibility to feature posts and share stories on their dating profile, as well as *Messenger*, which can enhance safety when going out on a date by notifying a friend of its location/time.

However romantic the investment case for online dating, longer-term risks should not be overlooked. Competition is clearly intense, even though the threat of cannibalisation is limited by the fact that users tend to be active on multiple apps. Regulation could also become more stringent and dating platform reputations suffer from spam overload or inappropriate behaviour. More generally, while online encounters may seem simpler and do serve to significantly broaden an individual's circle of potential "matches", real human exchanges are ultimately what make the world spin. Let us hope that the new generation will not forget how to interact – and win hearts – without screens…

Chart of the Month



Global Strategy

China is sneezing

- Slow growth, low inflation and loose monetary policies continue to prevail
- The coronavirus' impact on the global economy should be temporary and contained
- Preference for equities over bonds still intact

One month into this new decade, we must admit that very little has changed so far... Economic growth remains range-bound, supported by resilient consumer spending and services, while the manufacturing sector continues to struggle. However, there is now some light at the end of the tunnel, with several business cycle leading indicators pointing to green shoots. As a result, the gap between manufacturing and services, currently close to historical highs, should start to narrow. Meanwhile, inflation remains a non-issue. Average US wage growth seems capped at around 3%, while the latest US inflation figures (again) undershot expectations. In this context, central banks are keeping an accommodative stance – aka real negative rates – driving a further ballooning of debt (on the back of plunging debt service ratios) and stretched valuations across all asset classes (to avoid financial repression). Still, there has been little effect on real growth, which continues to muddle through, or inflation, which remains desperately below central banks' targets.

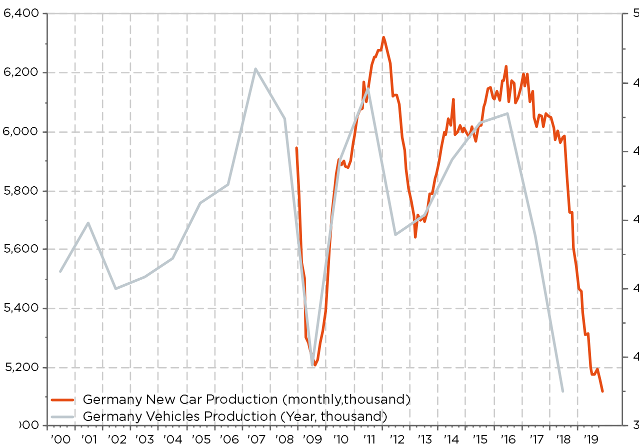
It took the outbreak and spreading of the coronavirus in China to interrupt equities' steady march towards new highs. Given the gains posted since October, the elevated valuations and a form of complacency, this correction was likely due. At the time of writing, the coronavirus death toll amounts to 170, while confirmed cases in China are close to 8,000. With authorities tightening travel restrictions and companies suspending their Chinese operations, growth will be impacted.

That said, we believe this impact will be temporary, contained and thus not really likely to disrupt our current "goldilocks" economic scenario. Of course, a few – especially Asian – markets, sectors such as luxury goods or airlines, or specific companies closely tied to China's fate are more at risk. But should growth eventually come to disappoint on a broader scale, central banks – especially the PBoC – are likely to step in, further loosening monetary policy and, as a result, supporting financial markets.

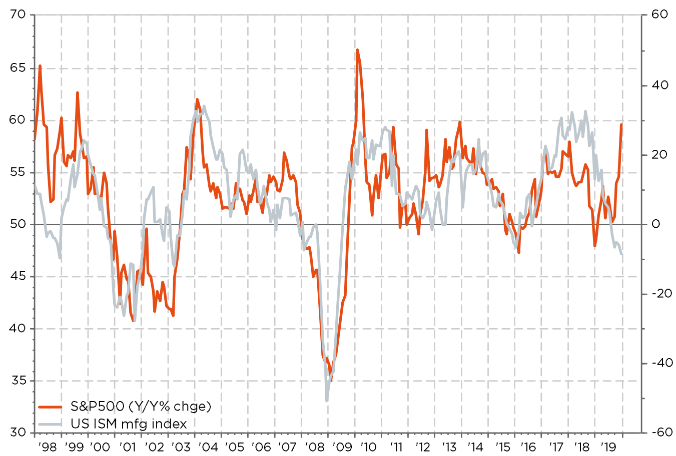
We have therefore made no significant changes at the portfolio level, keeping a neutral allocation to equities and a bond underweight. However, structural diversification through exposure to US Treasuries duration, gold or the JPY, as well as some tactical protections, are key to smooth out the ride on what will likely become bumpier terrain.

Within equities, we retain a broadly neutral sector allocation, with a preference for large-cap high quality and growth stocks. In fixed income, the combination of the late-stage business cycle and tight spreads warrants a defensive positioning in credit, while flows and liquidity remain supportive for the bond universe at large. Finally, we recently adopted a neutral stance on the greenback: a pick-up in the global economy this year will mainly benefit the rest of the world, particularly EM currencies and bonds.

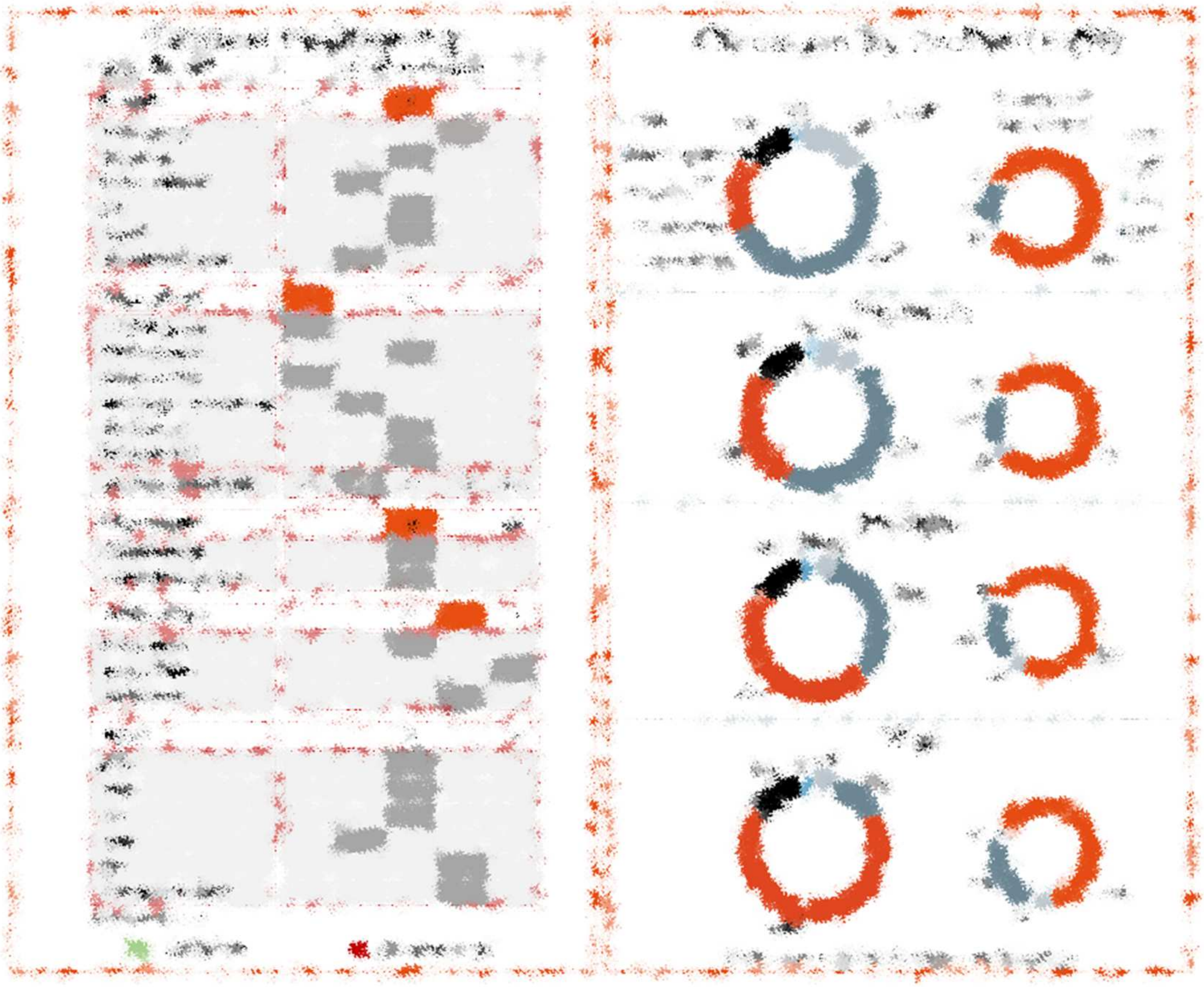
Challenging time for the German growth engine



Markets have already priced in a recovery in the US manufacturing sector



Asset Allocation



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- Forex – Neutral USD stance on fading growth and rate differentials, prefer EM carry

Contacts

DECALIA Asset Management SA

31, rue du Rhône
Case postale 3182
CH – 1204 Genève

Tél. +41 22 989 89 89
Fax +41 22 310 44 27
info@decaliagroup.com

External sources include: Refinitiv Datastream, Bloomberg, FactSet, Stanford University

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