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OVERVIEW

As we wrote in the past, we expected the market to moderate the reflation trade, as evidence was starting to emerge that US had hit peak growth, peak fiscal and monetary stimulus and that the market would slowly incorporate our scenario of economic stagnation in the US starting in the latter part of 2022. We also expect an acceleration of the European economy, which should overtake the US in growth terms in 2022. In July, we also experienced to a new wave of Covid cases due to the Delta variant, particularly in Covid sceptic states (mainly GOP-led) like Florida, Missouri or Alabama. Without wanting to sound too alarmist the situation might warrant the reimposition of restrictions, with several states are already doing just that. We take Florida as an example: while daily deaths (58 but rising), are far away from the peaks observed in Summer 2020 or January -February 2021 at close to 200, hospitalizations are rising quickly, (currently 10'600), surpassing the January 2021 level, and are approaching the peak seen in July of last year (at 12'000).

The pandemic of the unvaccinated as it is being called, could jeopardize President Biden's plan for economic recovery, or it might lead to a two-speed economy between sufficiently vaccinated states and under-vaccinated ones. Those elements combined, led to a capitulation in the bond market: the US 10-year yield dropped to 1.18%, while even more strikingly the real 10-year rate, as measured by the 10-year inflation linkers dropped to -1.18%, an all-time low. In essence the bond market is now pricing-in the risk of stagflation, which we think is inconsistent with current and forward-looking economic data and inflation which should ease within the next 3 to 4 months.

We therefore believe it is premature to write off the reflation trade and global growth for the remainder of 2021:

- On the Covid resurgence: while many states might be reluctant to reimpose tight restrictions, ultimately it will be companies themselves that might accelerate the vaccination of the undecided: already many major companies, such as Facebook, Google, Disney or Uber are imposing at least some or all of their workforce to get vaccinated before returning to the office, and the list is increasingly growing.
- On the growth/monetary tightening scare: we continue to believe that growth will continue to be strong going into 2022, and that inflation will normalize, while beyond some QE reductions, tightening of financial conditions, if it happens will be moderate, with rates in the US expected to rise moderately starting in 2023.
- China has seemingly realized that it has eased the brake a bit too much to moderate growth, particularly on credit. With forward indicators weakening it has started to ease monetary conditions, particularly by reducing the Reserve Requirement Ratio for banks. Additionally, new Covid clusters are emerging

throughout the country, threatening the important tourist season. We therefore expect that the government will both take immediate drastic measures with regards to the pandemic and easing financial conditions in the near term.

- In Europe, the latest indicators confirm an acceleration of growth, while the money from the different reflation programmes, amongst which the Recovery Fund is about to arrive.
- In the US, the dramatically smaller infrastructure programme is being finalized, although disappointingly most of it will go on 'old' infrastructure such as water, roads and bridges. The majority of President Biden's USD 3 trillion plan, which includes items such as increased taxes for the wealthy or extended childcare, is still a long way from being discussed, as several democratic senators are still to be convinced: President Biden needs all their votes for the plan to pass.

In short, some nervousness around macro data and Covid news will continue, and we will likely face continued market volatility. Markets reached new highs as long-duration and secular growth stocks (heavy-weights in the indexes) attracted large inflows. On the earnings front, with many companies having reported, the results are just short of extraordinary: currently S&P500 companies reported sales growth of 28% along with earnings growth for Q2 of at least 80% compared to a year ago. Supply chain issues might linger a little longer than we thought, as recent catastrophic flooding in central Europe and China's Henan province will likely further delay the recovery.

The other cause of market volatility (which impacted some of our investments) was China's recent reforms to the After-School-Tutorial companies, (ASTs). The move is just the latest in a series of actions by the government, in what it called the 'rectification process'. It began with stopping the Ant IPO in November 2020, in December it launched an anti-trust investigation against Alibaba which received a significant USD 2.8 bln fine this year. Didi, the ride hailing company, was banned from registering new users just days after its US IPO and Meituan, the food delivery business, was asked to improve salaries. The ASTs were essentially wiped out as the government decided that tutoring should be offered for free, and eventually replaced by a government programme.

Maintaining social stability is one of the goals of the Communist party, reasserting the central government oversight on data and 'privacy' in the name of national security on private companies over which it had little control, is seen as part of it. Another is restoring equality, particularly for children, and education is quite an important portion of a family's budget. The next item that the government might attack could be housing, as on average it represents about 40% of a family's monthly outlay.

Contrary to the Summer 2015 Chinese market turbulences, this time around there was almost no spill over effect to Western markets. If right after the announcement of the measures regarding the ASTs, only tech and internet companies were sold off, as potentially subject to more regulatory pressures, soon all sectors like healthcare and

EVs found themselves under selling pressure, along with government bonds and the currency. Soon after, the 'national team' was called to the rescue, with state media coming in support of the equity markets, probably state funds purchasing equities and the central bank injecting liquidity. Since, the domestic Chinese A market, which doesn't consist of the tech and internet behemoths, has recovered almost all its losses, while the internet index is down about 18% and it has lost 52% since its mid-February highs.

We expect that the tech and internet names will retain a higher Equity Risk Premia (EQR), as more regulatory risk will be and is priced in; however, we also believe that going forward the government will proceed with more homeopathic measures: China doesn't want to destroy its technology giants, as they are an essential building block of their stated goal of technological supremacy, along with being a digital arm of the foreign department, due to their widespread use in the rest of Asia. Therefore, we believe that there is still a future and upside recovery potential for those companies, even if it is a little less bright than before, with a higher EQR, less ads, less gaming, and more competition. The Chinese domestic A market is different, dominated by State Owned Enterprises or alcohol producers for example, as such there is much less exposure to the industries in the regulatory crosshairs. Additionally, the onshore equities have a high degree of Chinese domestic ownership, and as such the government will likely avoid inflicting pain on domestic savers.

STRATEGY

In view of the above comments, we have kept our exposure to Chinese equities, although we will wait for more clarity before increasing exposure to those sectors which are in the regulatory crosshairs. While we expect the return of some volatility, around macro data and pandemic news, we believe that markets will continue to be supported by:

- Economies further supported by fiscal and economic packages
- Robust earnings growth
- The return of share buybacks, (an estimated USD 300 billion in the US alone)
- Seasonal inflows
- A reduction of what Goldman Sachs calls the 'wedge': in the US an extra USD 3 trillion is still parked in bonds and money markets, compared to before the pandemic, and the trickle out and into equities has been relatively slow, (only USD 183 billion YTD (source GS)
- The average institutional investor is not overweight equities, and the markets are running away

We continue to have an exposure to Gold, that, over the long term, we think will continue to be an ideal portfolio diversifier. We strategically hedge our USD exposure.

Overall Exposure

We are Overweight Equities, and Underweight Fixed Income, Overweight Cash, with a long Gold position, fully USD hedged.

Equity: Overweight

Overweight Continental Europe, Neutral UK, Underweight US, Neutral Japan, Neutral Asia ex Japan, Overweight Emerging Asia.

Thematic Equities

Global Consumer, Health Improving Technologies and Services, Asian Technology, European Family Holdings, European COVID Recovery, Pet and Animal Wellbeing, UN's 17 Sustainable Development Goals.

Fixed Income: Underweight

Underweight High Yield in EUR and USD. Overweight Investment Grade EUR and USD Bonds, Underweight Sovereigns. Long Global Inflation Linked Securities, Long Covered Bonds, Long Hybrids & Long Asian Bonds.

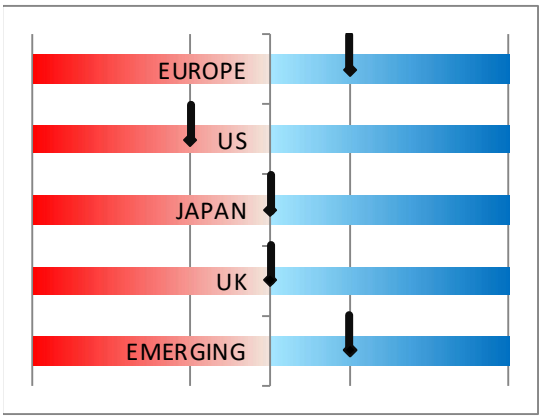
Currencies: **Underweight USD**, (Portfolios are fully USD hedged)

Commodities: Overweight

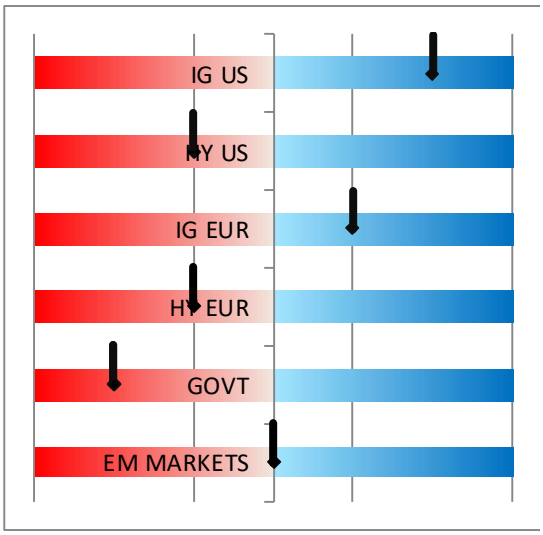
Long Gold

Conviction Thermometer

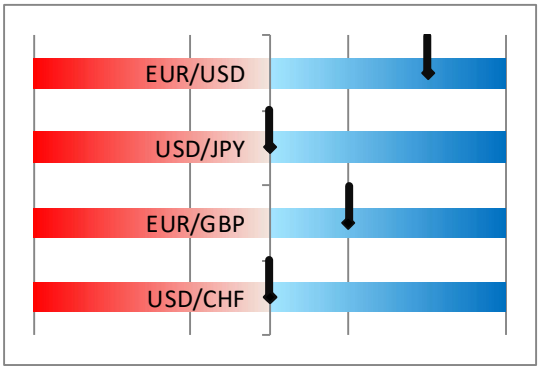
Equities



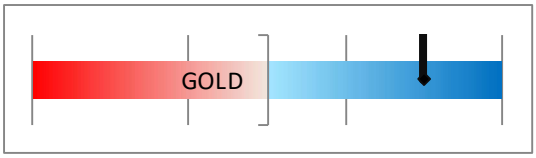
Bonds



Currencies



Commodities



*Negative view / Positive view

MARKET OVERVIEW AS OF 30TH JULY 2021

EQUITIES (local ccies)	Level	5D	MTD	YTD	2020
MSCI WORLD	3 069,25	-0,08%	1,82%	15,40%	16,53%
GERMANY DAX	15 544,39	-0,80%	0,09%	13,31%	3,55%
FRANCE CAC40	6 612,76	0,67%	1,63%	21,47%	-4,96%
UK FTSE100	7 032,30	0,10%	0,06%	10,96%	-11,44%
BELGIUM BEL20	4 200,47	-0,71%	1,81%	18,26%	-6,61%
SWISS MARKET INDEX	12 116,82	-0,12%	1,46%	16,32%	4,30%
EUROPE EURO STOXX 50	4 089,30	-0,48%	0,75%	17,47%	-2,59%
US S&P500	4 395,26	-0,35%	2,38%	17,98%	18,39%
NASDAQ 100	14 959,90	-1,00%	2,82%	16,53%	48,88%
RUSSELL 2000	2 226,25	0,76%	-3,61%	13,29%	19,93%
JAPAN TOPIX	1 901,08	-0,17%	-2,18%	6,52%	7,41%
MSCI EMERGING	1 277,80	-2,49%	-6,69%	0,28%	18,79%
BRAZIL IBOVESPA	121 801	-2,60%	-3,94%	2,34%	2,92%
MEXICO MEXBOL	50 868,32	1,19%	1,34%	16,95%	3,17%
RUSSIA MICEX	3 771,58	0,99%	-0,11%	19,32%	14,82%
CHINA CSI 300	4 811,17	-5,39%	-7,31%	-6,37%	29,89%
INDIA SENSEX	52 586,84	-0,66%	0,36%	10,99%	17,16%
KOREA KOSPI	3 202,32	-1,60%	-2,86%	11,78%	33,80%
HONG KONG HANG SENG	25 961,03	-4,98%	-9,58%	-2,87%	-0,23%
AUSTRALIA ALL-SHARE	4 030,24	0,16%	0,53%	11,65%	-9,73%
SAUDI ARABIA TADAWUL	N.A.	2,03%	0,62%	29,01%	6,67%

US: Sectors	Level	5D	MTD	YTD	2020
COMMUNICATION SVCS	273,30	-0,96%	3,57%	23,95%	23,61%
CONSUMER DISCRETIONARY	1 438,71	-2,57%	0,50%	10,82%	33,30%
CONSUMER STAPLES	738,72	0,24%	2,55%	7,70%	10,75%
ENERGY	372,99	1,69%	-8,27%	33,57%	-33,68%
FINANCIALS	606,90	0,79%	-0,44%	25,04%	-1,76%
HEALTH CARE	1 538,58	0,50%	4,90%	17,33%	13,45%
INDUSTRIALS	873,59	-0,44%	0,89%	17,44%	11,05%
INFORMATION TECHNOLOGY	2 693,55	-0,73%	3,86%	18,15%	43,88%
MATERIALS	527,35	2,80%	2,04%	16,83%	20,73%
REAL ESTATE	290,04	0,28%	4,64%	29,01%	-2,17%
UTILITIES	335,12	0,38%	4,33%	6,82%	0,52%

EUROPE: Sectors	Level	5D	MTD	YTD	2020
BASIC MATERIALS	3 176,99	1,75%	5,03%	22,40%	9,63%
CONSUMER GOODS	4 310,96	-0,70%	-0,05%	15,42%	0,85%
CONSUMER SERVICES	1 493,65	-0,51%	1,16%	17,99%	-4,95%
FINANCIALS	745,76	0,56%	0,82%	18,00%	-15,36%
HEALTH CARE	3 254,50	0,10%	2,44%	17,42%	-2,19%
INDUSTRIALS	3 525,36	-0,53%	3,61%	23,65%	6,48%
OIL & GAS	1 015,36	2,58%	-3,26%	10,04%	-26,81%
TECHNOLOGY	1 612,41	0,62%	4,93%	28,59%	17,87%
TELECOMS	617,20	-0,93%	-0,75%	17,04%	-12,52%
UTILITIES	1 981,85	-1,72%	1,99%	0,28%	16,72%

WORLD: Styles	Level	5D	MTD	YTD	2020
QUALITY	3 808,52	-0,19%	3,55%	17,94%	22,20%
MOMENTUM	3 723,55	0,34%	1,65%	9,10%	28,26%
VALUE	11 193,98	0,54%	0,61%	15,42%	-1,16%
GROWTH	9 151,67	-0,68%	2,94%	14,41%	33,83%
VOLATILITY	8 562,83	-0,10%	2,40%	14,82%	11,11%
SIZE	8 211,94	0,33%	1,15%	13,91%	12,37%
DIVIDEND	4 566,23	0,26%	2,07%	13,20%	5,60%

FIXED INCOME	Level	5D	MTD	YTD	2020
Pan-Euro 3-5 yrs IG	219,85	0,16%	0,56%	0,61%	0,84%
Euro Aggregate	273,27	0,19%	1,56%	-0,76%	4,05%
Pan-Euro HY Hedged Eur	417,43	0,19%	0,39%	3,51%	2,35%
Global Inflation hedged EUR	284,32	0,57%	3,72%	3,47%	8,34%
US Corp High Yield	2 264,90	0,06%	0,38%	4,01%	7,11%
EM USD Aggregate TR	1 260,87	-0,22%	0,16%	-0,44%	6,52%
EM Aggregate TR Local Ccy	151,47	0,68%	0,66%	-0,29%	5,34%
EUR Banks CoCo Tier 1	156,97	0,04%	0,42%	4,84%	6,16%
EU GOVT HEDGED EUR	257,48	0,19%	1,99%	-1,72%	5,40%
U.S. Treasury	2 554,99	0,27%	1,36%	-1,25%	8,00%

COMMODITIES	Level	5D	MTD	YTD	2020
GOLD	1 814,19	0,67%	2,49%	-4,43%	25,12%
COPPER	448,25	1,72%	4,33%	27,38%	25,31%
OIL WTI	73,95	2,61%	0,65%	52,41%	-20,54%
OIL BRENT	76,33	3,01%	1,60%	47,36%	-21,52%

CURRENCIES	Rate	5D	MTD	YTD	2020
EURUSD	1,1870	0,84%	0,10%	-2,83%	8,94%
GBPUSD	1,3904	1,13%	0,53%	1,71%	3,12%
USDJPY	109,72	-0,75%	-1,25%	6,27%	-4,94%
USDCHF	0,9059	-1,47%	-2,06%	2,34%	-8,42%
AUDUSD	0,7344	-0,30%	-2,05%	-4,55%	9,59%
USDRUB	73,15	-0,83%	0,00%	-1,70%	-11,08%
USDCNY	6,4614	-0,31%	0,07%	-1,06%	5,28%
USDKRW	1 106,85	-0,05%	2,14%	5,88%	4,22%
USDINR	74,42	0,01%	0,12%	1,34%	9,15%
USDIDR	14 463	-0,21%	-0,26%	2,94%	7,42%
USDBRL	5,2119	0,23%	4,88%	0,26%	28,98%
USDTRY	8,4539	-1,16%	-2,91%	13,62%	25,03%
BITCOIN	40 689	25,20%	17,65%	40,33%	305,07%

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