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Overview

September delivered an ugly month for equity markets, with some bright spots to be found in Japan, on the back of a new government, India and domestic China. Russia, with soaring energy prices, was obviously also a beneficiary. The sell-off was triggered by a combination of

- fears of ECB and US Federal Reserve tapering
- past peak growth in countries such as China and the US
- inflation, energy, the global supply chain, and freight
- fears of spill over effects from the dire situation at several Chinese property developers
- fears that, in the upcoming quarterly earnings season announcements, companies could show some strains in their margins
- the US debt ceiling and Biden's budget

US 10-year breakeven rates, (a measure of expected inflation), spiked, rising to levels last seen in June of this year. In the UK, which is being hit far worse than most Western countries by many of these elements, break-evens soared to almost 4%, a level last seen in 2008, just before the Global Financial Crisis. In absolute terms however, most rises in bond yields were relatively marginal: 10-year US rates moved from 1.3% to 1.55%, the German yields moved from -50 bps to -18 bps. Here as well the UK fared worse: since late August, the 10-year yield moved up gradually from 52 bps eventually reaching 1.11%.

In equities, long duration assets such as technology names, and interest and energy sensitive sectors such as real estate, utilities and basic resources fared the worse. Energy names spiked 10% on average, while financials were also one of the better performing sectors, particularly in Europe. The sell-off brought the equity markets back to levels they had been at the beginning of the Summer.

Gold trading was mostly choppy, while industrial commodities suffered, as the Chinese government clamped down further on speculative investments in the sector. In agriculture, in June the World Meteorological Organization declared that the phenomenon known as La Ninã had ended. A couple of weeks ago it announced that it could come back in November-December, disrupting global weather patterns once again, and risking food prices being pushed even higher. The prices for food paid by consumers in developing countries, as measured by the UN agency FAO, keep marching higher. As we discussed in previous editions, along with increasing energy prices we are reaching a situation similar to the one that sparked the Arab spring in 2011. While social disruptions in developing countries will not have any impact on financial markets, they are likely to worsen the European immigration problem, potentially straining once again relations between states.

The USD strengthened across the board, particularly against emerging market currencies. In that space the Turkish Lira has its own story: despite inflation reaching 20% on an annual basis, and input prices 44%, President Erdogan showed again his grip on the central bank: as it lowered rates by 1% to 18%. The Lira then moved to an all-time low of close at 9 against the USD, having been at 7 as recently as February, as the then central banker was seen as regaining foreign investors trust, by being seen as independent and combating inflation. At 9 against the USD, the Lira is now down 20% since the beginning of the year: the rate was under 3 just 5 years ago. On top of this, the 'friendly' talks of this NATO member with Russia, mentioning ventures in everything including military submarines leads us to the same conclusions, we had already several years ago: avoid investing in the country, it will get even cheaper.

CENTRAL BANKS

At its latest September meeting the US Federal Reserve 'declared that it will announce its tapering soon, while still disassociating the tapering from any interest rate increase: next meeting is in November and markets are expecting that the tapering could end by the middle of next year. Remember: tapering means reducing bond purchases, not reducing the balance sheet. We continue to believe that they will go ahead and taper, even though with two consecutive disappointing job reports some market participants might start to doubt it. We also continue to believe that the Fed, with our central view that the US economy will move from the current stagflation to economic stagnation in late 2022-2023, will not be able to increase rates, in a scenario similar to that of 2011. (refer to previous commentaries as to the huge fiscal drag in the US).

The ECB, as commented last month, announced that it would reduce the amount of its Pandemic Emergency Purchase Programme, but wouldn't say by how much. We believe, and some members of the ECB already commented in that direction, that the ECB will compensate the tapering of the PEPP by increasing its current 20 bln a month regular QE. Europe, but also the US, cannot afford a spike higher in long term rates in view of the indebtedness of the various countries, which obviously greatly increased during the pandemic.

In the UK, the Bank of England is in a very uncomfortable position. The country is entering the final months of the year with a challenging mix of slowing growth and rising inflation. How the labour market adjusts to the government's withdrawal of its furlough scheme this month will be central to the timing of any interest rate rise. In the food industry, a lack of workers has forced companies to curb output and the new post-Brexit trading rules have made it tougher to export British beef, pork, lamb and poultry. What's more, surging energy prices spurred fertilizer plants to shut, curbing supplies of vital carbon dioxide by-product that's used to stun animals at slaughterhouses. Carbon is also used during the packaging process for all meat to prolong shelf life. In 2021, the UK found out how much dependent it was on European imports and workers, while at the same time the much-taunted new trade deals with the US and other countries, that were supposed to compensate Brexit, seem to be in the very distant future. The BOE could nevertheless be forced to increase rates, while its economy is declining.

INFLATION, ENERGY, THE GLOBAL SUPPLY CHAIN AND FREIGHT

Last month we already commented that the clogging of the international freight market was unlikely to be resolved soon. The view of clogged US ports and drifting or anchored ships, and huge amounts of containers waiting to be trucked away, in particular in the US - as the country suffers from a dearth of truck drivers - just tells us that we are likely to have to deal with the situation well into 2022. While companies haven't yet passed through the added costs of shipping, this is likely to change, as the situation will persist. To give you an idea of how clogged the world is, we take Nike's comment: on average it now takes 80 days to ship products from the factory in Asia to the retail store in the US. High value added product manufacturers of tablets or phones might pay a premium for speedier shipping, lower value added products, such as bulky plastic toys or garden furniture, might have to wait a little longer than Nike.

Without being experts in the field, the recent energy crisis in Europe and China, with soaring gas prices is likely to last until January or February, that is until the stocking for the winter season ends. The origins of the crisis are multiple: the fires in Siberia, the explosion at a Gazprom facility, the maintenance in Norway, the lack of investments in the US and UK, the colder than average winter of last year. The result is countries fighting to secure inventory: from China to Europe, to the UK, leading to the explosion in prices. Add to that a posssible slower flow from Russia as the country tries to impose its contested Nordstream 2, and you have the perfect storm. Countries are reacting differently to preserve the consumers:

- in Europe several governments have already set aside billions of Euros
- in the UK the problem is different: having price caps, it is the providers and distributors of energy who are facing solvency issues
- the US is not immune: for example, gasoline prices are 25% higher than pre-pandemic

As a side note, the idea circulating in the US about stopping exports of energy products and releasing some strategic oil reserves might have the opposite effect than otherwise expected. The US, contrary to Europe, has reserves of unrefined oil, and it is a net importer of refined products such as gasoline or diesel, as it doesn't have enough refinery capacity. By stopping exports, the net effect would be to have a Brent price trading at a bigger premium to the WTI, which in turn would mean higher prices for refined products.

This is the reason why we now think that inflation will stay higher for longer: while both issues are temporary, companies will have to increase prices to preserve margins, as the situation persists for longer than anticipated.

CHINA

Evergrande and its estimated 300 billion debt certainly made headlines, and some smaller property developers are also running into troubled waters. Contagion in the Chinese domestic credit market is already evident. We thus believe that the company will be ringfenced. Eventually the company will be split into its different divisions, (as they are not only active in real estate but also in other sectors such as EVs), and cities or provinces could then be 'asked' to purchase these assets. One of the questions is whether domestic creditors, particularly individuals that lent money via so called trusts, will be treated differently than international bondholders. As highlighted in our last edition, we believe China is probably either already in recession, or on the brink of it. We would therefore be surprised if the government and the central bank do not act to at least stabilize the economy: the latest subdued consumer spending data during the recent 'Golden Week' should help. We also think that president Xi Jinping doesn't want to hold the 6th plenum of the communist party in November with a country in recession, and an imploding property sector severely eroding the wealth of the average citizen, (40% of their net wealth is real estate). After all, the plenum is supposed to celebrate 100 years of achievements by the party!

STRATEGY

During the month we decided to trim 2% of our exposure to equities by selling out our Global Consumer thematic investment. We maintain an overweight in equities, albeit less pronounced. While we are confident that medium term equities should have a path to new highs, short term, markets, in view of the elements discussed above, could experience increased volatility, which might be good entry points for other strategies. As we are more positive on Europe than the US, we are reducing the equity allocation by selling out of the Robeco global consumer fund. When we first invested in the fund, it had less than 2 bln in assets, now it has close to 8 bln. As a result, looking at its components,(Netflix, Nvidia, Alphabet etc), it increasingly resembles the Nasdaq 100. We therefore decided to sell this successful investment, which is up 49% since we purchased it in November 2019, and up 37% last year.

On the fixed income side, we decided to exit our exposure to European covered bonds, which provided an excellent cushion during last year's turmoil, outperforming government bonds in 2021, and whose average yield has declined to just above zero. We switched the proceeds into a fund that manages US municipal infrastructure bonds. Compared to covered bonds, the yield for a similar duration reaches 2.4%.

We believe medium term 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
- 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

Health Improving Technologies and Services, Asian Technology, European Family Holdings, European COVID Recovery, Pet and Animal Wellbeing, the 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.

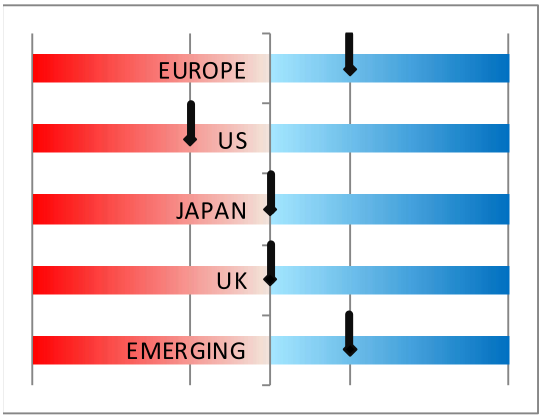
Currencies: **Underweight USD**, (Portfolios are fully USD hedged)

Commodities: Overweight

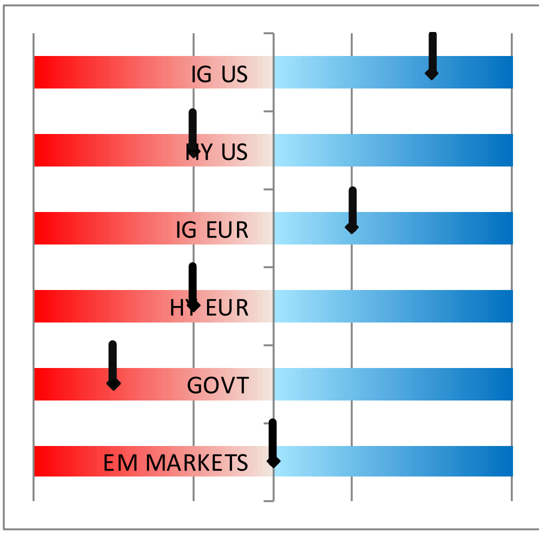
Long Gold

Conviction Thermometer

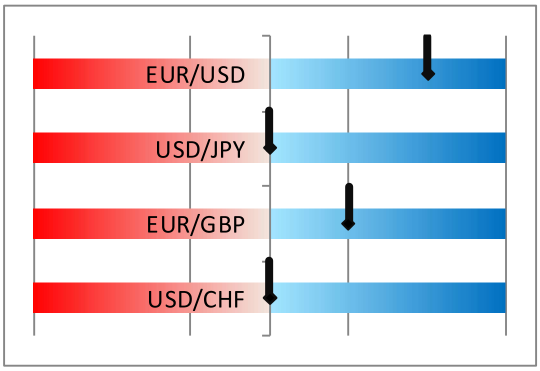
Equities



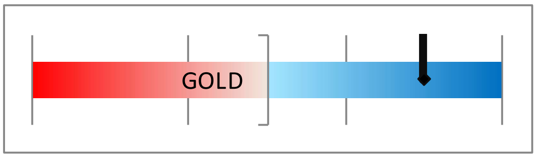
Bonds



Currencies



Commodities



*Negative view / Positive view

MARKET OVERVIEW AS OF 30TH SEPTEMBER 2021

EQUITIES (TR local ccy)	Level	5D	MTD	YTD	2020
MSCI WORLD	3 006,60	-3,14%	-4,11%	13,45%	16,53%
GERMANY DAX	15 260,69	-2,45%	-3,63%	11,24%	3,55%
FRANCE CAC40	6 520,01	-2,60%	-2,18%	20,05%	-4,96%
UK FTSE100	7 086,42	0,20%	-0,19%	13,03%	-11,44%
BELGIUM BEL20	4 158,89	-0,32%	-3,48%	17,15%	-6,61%
SWISS MARKET INDEX	11 642,45	-2,48%	-6,10%	11,88%	4,30%
EUROPE EURO STOXX 50	4 048,08	-3,44%	-3,37%	16,50%	-2,59%
US S&P500	4 307,54	-3,15%	-4,65%	15,91%	18,39%
NASDAQ 100	14 689,62	-4,09%	-5,69%	14,58%	48,88%
RUSSELL 2000	2 204,37	-2,38%	-2,95%	12,40%	19,93%
JAPAN TOPIX	2 030,16	0,04%	4,27%	14,59%	7,41%
MSCI EMERGING	1 253,10	-1,49%	-3,96%	-1,16%	18,79%
BRAZIL IBOVESPA	110 979	-2,70%	-6,57%	-6,75%	2,92%
MEXICO MEXBOL	51 385,55	-0,10%	-3,50%	18,49%	3,17%
RUSSIA MICEX	4 079,46	0,71%	4,42%	29,46%	14,82%
CHINA CSI 300	4 866,38	0,27%	1,28%	-5,04%	29,89%
INDIA SENSEX	59 126,36	-1,27%	2,78%	24,87%	17,16%
KOREA KOSPI	3 068,82	-1,88%	-4,08%	7,16%	33,80%
HONG KONG HANG SENG	24 575,64	0,32%	-4,71%	-7,49%	-0,23%
AUSTRALIA ALL-SHARE	4 058,96	-0,48%	-0,98%	13,52%	-9,73%
SAUDI ARABIA TADAWUL	11 495,76	2,00%	1,68%	35,32%	6,67%

US: Sectors	Level	5D	MTD	YTD	2020
COMMUNICATION SVCS	268,04	-2,85%	-6,58%	21,59%	23,61%
CONSUMER DISCRETIONARY	1 429,69	-2,73%	-2,56%	10,28%	33,30%
CONSUMER STAPLES	714,58	-2,57%	-4,14%	4,69%	10,75%
ENERGY	395,88	3,28%	9,37%	43,10%	-33,68%
FINANCIALS	624,60	-1,29%	-1,85%	29,04%	-1,76%
HEALTH CARE	1 483,99	-3,98%	-5,55%	13,45%	13,45%
INDUSTRIALS	826,83	-2,87%	-6,15%	11,48%	11,05%
INFORMATION TECHNOLOGY	2 623,83	-4,65%	-5,78%	15,28%	43,88%
MATERIALS	496,64	-2,56%	-7,21%	10,49%	20,73%
REAL ESTATE	278,09	-4,26%	-6,23%	24,38%	-2,17%
UTILITIES	324,58	-2,09%	-6,18%	4,20%	0,52%

EUROPE: Sectors	Level	5D	MTD	YTD	2020
BASIC MATERIALS	2 914,77	-0,64%	-6,07%	14,17%	9,63%
CONSUMER GOODS	4 217,92	-1,46%	-2,01%	13,51%	0,85%
CONSUMER SERVICES	1 422,45	-3,43%	-2,48%	12,51%	-4,95%
FINANCIALS	765,87	1,00%	0,42%	21,67%	-15,36%
HEALTH CARE	3 229,41	-1,98%	-4,14%	16,78%	-2,19%
INDUSTRIALS	3 452,35	-4,93%	-4,94%	21,15%	6,48%
OIL & GAS	1 148,38	4,24%	11,89%	25,96%	-26,81%
TECHNOLOGY	1 607,61	-9,07%	-6,78%	28,24%	17,87%
TELECOMS	603,62	-1,56%	-4,86%	14,59%	-12,52%
UTILITIES	1 879,96	-4,98%	-9,32%	-4,85%	16,72%

WORLD: Styles	Level	5D	MTD	YTD	2020
QUALITY	3 680,29	-4,57%	-6,42%	13,97%	22,20%
MOMENTUM	3 699,38	-3,86%	-3,71%	8,39%	28,26%
VALUE	11 033,09	-1,62%	-3,02%	13,76%	-1,16%
GROWTH	8 962,26	-4,54%	-5,20%	12,04%	33,83%
VOLATILITY	8 363,92	-3,18%	-4,55%	12,15%	11,11%
SIZE	8 077,49	-3,01%	-3,65%	12,04%	12,37%
DIVIDEND	4 416,23	-2,73%	-4,77%	9,48%	5,60%

FIXED INCOME	Level	5D	MTD	YTD	2020
Pan-Euro 3-5 yrs IG	218,31	-0,21%	-0,45%	-0,10%	0,84%
Euro Aggregate	269,06	-0,49%	-1,07%	-2,29%	4,05%
Pan-Euro HY Hedged Eur	418,40	-0,35%	-0,09%	3,75%	2,35%
Global Inflation hedged EUR	279,39	-1,26%	-1,65%	1,67%	8,34%
US Corp High Yield	2 264,90	-0,39%	-0,01%	4,53%	7,11%
EM USD Aggregate TR	1 260,87	-0,96%	-1,66%	-1,14%	6,52%
EM Aggregate TR Local Ccy	148,91	-1,04%	-2,04%	-1,98%	5,34%
EUR Banks CoCo Tier 1	157,14	-0,89%	-0,38%	4,95%	6,16%
EU GOVT HEDGED EUR	251,32	-0,90%	-1,75%	-4,07%	5,40%
Global Aggregate	2 554,99	-1,20%	-1,78%	-4,06%	9,20%

COMMODITIES	Level	5D	MTD	YTD	2020
GOLD	1 756,95	0,81%	-3,12%	-7,45%	25,12%
COPPER	408,90	-3,36%	-6,22%	16,20%	25,81%
OIL WTI	75,03	2,36%	9,53%	54,64%	-20,54%
OIL BRENT	78,52	1,64%	7,58%	51,58%	-21,52%

CURRENCIES	Rate	5D	MTD	YTD	2020
EURUSD	1,1580	-1,35%	-1,94%	-5,21%	8,94%
GBPUSD	1,3474	-1,79%	-2,04%	-1,43%	3,12%
USDJPY	111,29	0,87%	1,15%	7,79%	-4,94%
USDCHF	0,9317	0,82%	1,81%	5,25%	-8,42%
AUDUSD	0,7227	-0,93%	-1,22%	-6,07%	9,59%
USDRUB	72,75	-0,10%	-0,67%	-2,23%	-11,08%
USDCNY	6,4448	-0,22%	-0,25%	-1,32%	5,28%
USDKRW	1 106,85	0,70%	2,11%	8,98%	4,22%
USDINR	74,24	0,81%	1,69%	1,09%	9,15%
USDIDR	14 313	0,49%	0,32%	1,87%	7,42%
USDBRL	5,4429	2,62%	5,63%	4,70%	28,98%
USDTRY	8,8933	1,46%	6,92%	19,53%	25,03%
BITCOIN	43 436	-2,85%	-7,60%	49,80%	305,07%

03.10.2021

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