December 2021 Published 14.12.2021

OVERVIEW

In November, market internals were already steadily deteriorating, as indicated, for example, by the increasing number of stocks making new 52-week lows versus 52-week highs, or the increasing number of stocks trading below their 200-day moving average, suggesting at least a pause in the march higher for equities. Then came Omicron. The news about the new variant, its multiple mutations, and associated fears about the efficacy of the current vaccines, arrived on a day with much reduced volumes, as it was the Friday after the Thanksgiving holiday in the US. The extreme positioning in both being long equities, long oil and short Treasuries by the CTAs and hedge fund community did the rest: a massive liquidation of the positions. Crude oil was down 13% in a single day, the Dow Jones fell 900 points, Bitcoin lost 8%, and US 10-year Treasury yields moved from 1.66% to 1.35% in just a few days. The retail community, that during the pandemic had so often supported the market by purchasing stocks either directly or via options, was noticeably absent: one possible reason could be that many of their favourite trades had already been clobbered since earlier in the month. As an example, looking at the popular flagship fund from Cathie Wood, from ARK Investments, it was already down 14% for the month before the Omicron news: tax selling ahead of time, likely played a major role in many unprofitable stocks held by the fund and the retail investor community. In the ensuing days, financial markets were extremely volatile, with continuous rotation between sectors associated with a lockdown or reopening: we all know now that it takes 10 to 15 days to understand whether the new variant is associated with higher hospitalization rates, or milder symptoms, amongst others. Increasingly, the news became more positive, including the one out of Pfizer that suggested that its booster shot was very effective in laboratory conditions. As a result, markets quickly regained their footing, and, as a result, the above-mentioned alternative community might well be forced to buy back everything it has sold.

In Europe, the delta variant is currently wreaking havoc. It appears that many countries will adopt an approach of marginalizing the unvaccinated, by adopting the G2, (in German ‘geimpft oder genesen’, for ‘vaccinated or recovered’): such steps have already been taken by Italy and Germany for example. While the closure of certain activities is clearly possible, we believe we are unlikely to experience another round of hard lockdowns. As a result, financial markets are likely to anticipate just that, viewing the omicron variant as simply delaying the recovery, not stopping it.

Obviously a very good news would be that the strain mutated so much that it is now just another flu-type, adding to the already existing A/B/C/D.

On the geopolitical front, tensions in Ukraine and Taiwan added to the mix over the last couple of weeks: we do not believe that an invasion by respectively Russia and China is on the cards medium term. Short term, regarding regional stability, we are more worried about the current economic and social implosion of Lebanon. Traditionally a country of hospitality for refugees, there are currently over 1 million Syrians in Lebanon, the country has now become a source of immigration like Iraq and Afghanistan. The central bank just increased the foreign exchange rate in which USD can be withdrawn, raising it to 8000 LBP from 3900. However, the black-market rate for the LBP is currently at 23000: the currency used to be pegged at 1500 before the crisis. The savings of the middle-class have essentially been completely wiped out.

Inflation, The Bond Market and Central Banks

While inflation figures at close to 7% in the US, and 5% in Europe, are clearly scary, (should they stay at these levels for too long), it's mostly due to base effects: one year ago, inflation in the US was at 1.2% while it was negative 0.3% in Europe. About 2% of the index is due to energy prices and, in particular, gasoline. On this front, November saw the unprecedented, coordinated move by several countries, (United States, UK, India, China, Japan and Korea), to release part of their Strategic Petroleum Reserves: this was mostly seen as a political warning to the OPEC (plus Russia) producing countries, to induce them to further increase production, and certainly not delay their projected production increases, which is what the cartel was discussing. While the release by the US of 50 million barrels does seem like a lot, in fact 32 were loaned and bought back, so effectively only 18 million landed in the market. However, the SPRs release, coupled with the emergence of omicron, did little to lower the extremely politically sensitive prices at the pump: despite the wholesale price of unleaded gasoline falling 22%, prices at the pump barely budged, and on average the US consumer is still paying 35% more than pre-pandemic prices. Hence president Biden calling out gas retailers for failing to pass on lower prices and asking the Federal Trade Commission to examine oil and gas companies. Clearly chopping 2% off the inflation figure in one shot looks very appealing politically. Central banks would welcome it too, particularly in the US. While we still maintain our view that inflation is transitory, particularly in Europe, the US is showing some more worrying signs: prices of shelter, which are, by definition, more permanent, have started to move higher, beef steaks cost 24% more than one year ago, salaries, while moving higher, are currently still under control. The US Federal Reserve is thus likely to speed up its tapering, or reduction in bond buying, simply to give itself more optionality next year. On its side, the ECB made it clear that any reduction in its pandemic programme would be compensated by increases in its regular programme, to avoid any spread widening in the most indebted nations. In the US, the bond market, the Fed dot plot and many economists' predictions are clashing. Within a very flat curve, the 2-year versus the 10-

year treasury spread is only 83 basis points, the 5-year forward OIS rate is at 1.4%, and 30-year bond yields are below inflation, at 1.8%. The market is telling you that the terminal rate, that is the rate at which the US Fed would stop to increase rates, is far below its long-term policy rate of 2.5% and even the 1.8% projection for 2024. The yield curve is a factor for the Fed, it is a leading indicator for the economy, and it can't completely ignore it. It also certainly doesn't want to face an inverted yield curve such as in 2019, when it had to retro pedal its rate increases and restart its QE. In short, the bond market is validating our view that towards the end of 2022, early 2023, the Fed will find itself in the position of being unable to continue raising rates, as it will be likely facing an economy in stagnation.

Obviously, so-called policy mistakes can always happen: the last one, which infuriated then president Trump, happened as recently as in December 2018.

COMMODITIES

One commodity is spiking, and the move generally went unnoticed, unless you are a company who needs to purchase it: European carbon emission rights *. Since the end of October, they moved up by 43%, and are now up 157% for the year. There are two reasons for this:

- With the notorious gas crisis in Europe and its explosion in price, 'dirty' sources for electricity production such as coal are competitive again. Since, "you pollute more, you have to buy the rights". True, some governments didn't really have a choice, restarting coal-fired plants simply due to a lack of gas
- The new German government has been proposing to floor emission rights, and not let them be determined merely by market forces

The result is likely higher electricity bills for all of us this winter, but also a likely acceleration towards greener energy production, which is exactly what the German government wants.

*Under emission trading, a country or a polluter having more emissions is able to purchase the right to emit more. The entity having fewer emissions sells the right to emit carbon to other entities. As a result, the most cost-effective carbon reduction methods would be exploited first.

STRATEGY

During the month we introduced a new thematic: emerging market healthcare, which is managed by a company we work in partnership with, having a long history of investing in healthcare companies. We would be happy to give our investors and readers details about the fund. As the thematic has a 60 to 70% exposure to China, we are increasing our exposure to the country, reiterating our message that the worst of regulation, fiscal and monetary tightening has been seen. We have already witnessed several signs that the government is softening its regulatory actions, having just lowered the banks' Reserve Requirement Ratio, and preannounced some fiscal stimuli for early 2022, at the end of its recent Central Economic Work Conference.

In the fixed income space, we exited our European covered bond investments, which served us extremely well during the market jitters of spring 2020, and whose average yield had fallen to zero. We replaced it by purchasing a recently launched investment in US municipal infrastructure bonds, which offers a pickup of over 2%, hedged in EUR, over corporates with a similar rating profile. Until recently, it had not been possible for European investors to invest in taxable and non-taxable municipal bonds. Note that the fund does not invest in bonds backed by future receivables resulting from litigation, such as tobacco or opioids.

We believe medium term markets will continue to be supported by:

- Economies further supported by fiscal and economic packages
- Robust earnings growth: earnings in the S&P500 are up 29% compared to 2019
- Share buybacks, for the S&P500 December-January period represents on average 21% of the yearly total
- Seasonal inflows
- US commercial bank deposits increased by 4.8 trillion from 13.2 to close to 18 trillion since 2019: with real rates being negative, at least some of it will flow towards equities
- The average institutional investor is not overweight equities, and the markets are running away
- Low rates
- CTAs will have to buy back what they sold during the Thanksgiving sell off

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, Emerging Markets Healthcare

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 US Municipal Infrastructure Bonds, Long Hybrids & Long Asian Bonds.

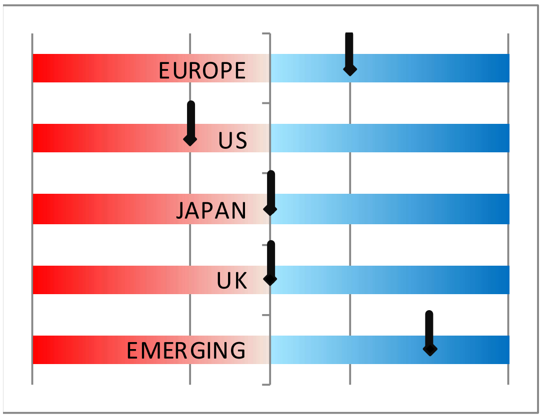
Currencies: **Underweight USD**, (Portfolios are fully USD hedged)

Commodities: Overweight

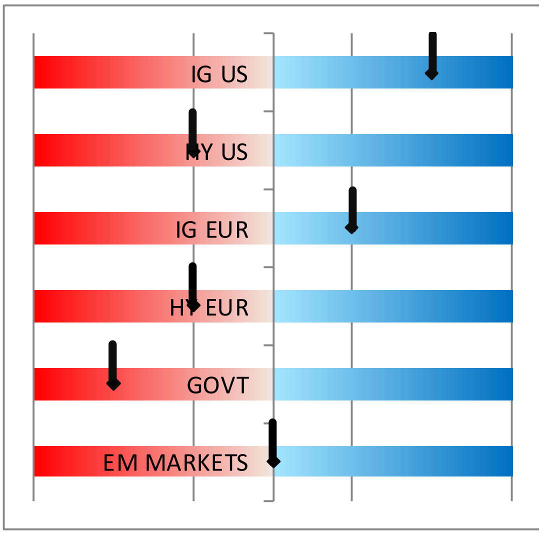
Long Gold

Conviction Thermometer

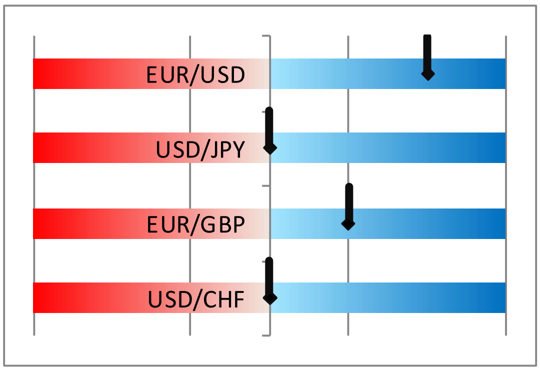
Equities



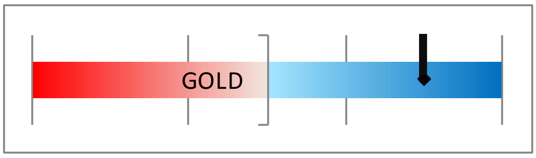
Bonds



Currencies



Commodities



*Negative view / Positive view

Market Overview as of 30th November 2021

EQUITIES (local ccies)	Level	5D	MTD	YTD	2020
MSCI WORLD	3 101,80	-2,95%	-2,16%	17,33%	16,53%
GERMANY DAX	15 100,13	-5,25%	-3,75%	10,07%	3,55%
FRANCE CAC40	6 721,16	-4,54%	-1,50%	23,87%	-4,96%
UK FTSE100	7 059,45	-2,77%	-2,17%	13,02%	-11,44%
BELGIUM BEL20	4 113,40	-0,93%	-3,68%	16,18%	-6,61%
SWISS MARKET INDEX	12 159,69	-1,67%	0,43%	16,85%	4,30%
EUROPE EURO STOXX 50	4 063,06	-5,13%	-4,30%	17,28%	-2,59%
US S&P500	4 567,00	-2,61%	-0,70%	23,17%	18,39%
NASDAQ 100	16 135,92	-1,04%	1,88%	26,01%	48,88%
RUSSELL 2000	2 198,91	-5,52%	-4,19%	12,28%	19,93%
JAPAN TOPIX	1 928,35	-5,60%	-3,64%	8,99%	7,41%
MSCI EMERGING	1 212,42	-3,41%	-4,07%	-4,21%	18,79%
BRAZIL IBOVESPA	101 916	-1,68%	-1,53%	-14,37%	2,92%
MEXICO MEXBOL	49 698,72	-2,37%	-2,45%	15,54%	3,17%
RUSSIA MICEX	3 890,59	-1,76%	-6,25%	23,99%	14,82%
CHINA CSI 300	4 832,03	-1,66%	-1,55%	-5,63%	29,89%
INDIA SENSEX	57 064,87	-2,73%	-3,78%	20,68%	17,16%
KOREA KOSPI	2 839,01	-5,28%	-4,43%	-0,72%	33,80%
HONG KONG HANG SENG	23 475,26	-4,75%	-7,42%	-11,56%	-0,23%
AUSTRALIA ALL-SHARE	4 025,87	-2,80%	-2,24%	13,00%	-9,73%
SAUDI ARABIA TADAWUL	10 761,80	-4,39%	-7,92%	26,95%	6,67%

US: Sectors	Level	5D	MTD	YTD	2020
COMMUNICATION SVCS	260,90	-3,52%	-5,16%	18,57%	23,61%
CONSUMER DISCRETIONARY	1 615,83	-2,28%	1,97%	24,75%	33,30%
CONSUMER STAPLES	731,76	-3,76%	-1,10%	7,56%	10,75%
ENERGY	410,70	-4,95%	-5,16%	49,78%	-33,68%
FINANCIALS	630,37	-5,50%	-5,68%	30,59%	-1,76%
HEALTH CARE	1 510,46	-2,03%	-3,00%	15,74%	13,45%
INDUSTRIALS	850,54	-5,06%	-3,50%	14,98%	11,05%
INFORMATION TECHNOLOGY	2 956,85	-0,28%	4,35%	30,12%	43,88%
MATERIALS	530,68	-4,34%	-0,49%	18,33%	20,73%
REAL ESTATE	295,94	-2,23%	-0,85%	32,58%	-2,17%
UTILITIES	332,59	-2,96%	-1,65%	7,33%	0,52%

EUROPE: Sectors	Level	5D	MTD	YTD	2020
BASIC MATERIALS	2 935,26	-3,67%	-1,32%	14,99%	9,63%
CONSUMER GOODS	4 356,45	-2,99%	-0,62%	17,49%	0,85%
CONSUMER SERVICES	1 488,52	-4,99%	-1,44%	17,91%	-4,95%
FINANCIALS	763,47	-4,72%	-5,67%	22,19%	-15,36%
HEALTH CARE	3 329,16	-1,65%	-1,92%	20,49%	-2,19%
INDUSTRIALS	3 482,62	-3,81%	-1,64%	22,38%	6,48%
OIL & GAS	1 101,37	-4,19%	-7,24%	21,52%	-26,81%
TECHNOLOGY	1 686,69	-2,54%	-2,90%	34,68%	17,87%
TELECOMS	579,53	-3,50%	0,11%	10,73%	-12,52%
UTILITIES	2 015,76	-0,07%	-1,22%	2,14%	16,72%

WORLD: Styles	Level	5D	MTD	YTD	2020
QUALITY	3 906,65	-2,06%	-0,56%	20,98%	22,20%
MOMENTUM	3 855,90	-2,86%	-3,06%	12,98%	28,26%
VALUE	11 097,02	-4,21%	-3,79%	14,42%	-1,16%
GROWTH	9 496,54	-1,80%	-0,72%	18,72%	33,83%
VOLATILITY	8 627,82	-2,84%	-2,14%	15,69%	11,11%
SIZE	8 137,61	-3,47%	-3,42%	12,88%	12,37%
DIVIDEND	4 513,72	-2,98%	-1,95%	11,90%	5,60%

FIXED INCOME	Level	5D	MTD	YTD	2020
Pan-Euro 3-5 yrs IG	218,01	0,00%	0,41%	-0,24%	0,84%
Euro Aggregate	270,75	0,59%	1,25%	-1,67%	4,05%
Pan-Euro HY Hedged Eur	413,73	-0,70%	-0,50%	2,59%	2,35%
Global Inflation hedged EUR	292,02	1,57%	2,65%	6,27%	8,34%
US Corp High Yield	2 264,90	-0,46%	-0,97%	3,34%	7,11%
EM USD Aggregate TR	1 260,87	-0,15%	-1,07%	-2,60%	6,52%
EM Aggregate TR Local Ccy	148,43	0,55%	0,01%	-2,29%	5,34%
EUR Banks CoCo Tier 1	154,59	-0,52%	-1,15%	3,25%	6,16%
EU GOVT HEDGED EUR	255,66	1,21%	1,89%	-2,41%	5,40%
U.S. Treasury	2 554,99	1,52%	0,77%	-1,82%	8,00%

COMMODITIES	Level	5D	MTD	YTD	2020
GOLD	1 774,52	-0,82%	-0,50%	-6,52%	25,12%
COPPER	427,80	-3,29%	-2,06%	21,57%	25,81%
OIL WTI	66,18	-15,69%	-20,81%	36,40%	-20,54%
OIL BRENT	70,57	-14,26%	-16,37%	36,24%	-21,52%

CURRENCIES	Rate	5D	MTD	YTD	2020
EURUSD	1,1338	0,80%	-1,90%	-7,19%	8,94%
GBPUSD	1,3299	-0,59%	-2,80%	-2,71%	3,12%
USDJPY	113,17	-1,71%	-0,68%	9,61%	-4,94%
USDCHF	0,9189	-1,50%	0,31%	3,81%	-8,42%
AUDUSD	0,7127	-1,40%	-5,20%	-7,37%	9,59%
USDRUB	74,08	-0,30%	4,43%	-0,45%	-11,08%
USDCNY	6,3644	-0,43%	-0,64%	-2,55%	5,28%
USDKRW	1 106,85	-0,13%	1,67%	9,36%	4,22%
USDINR	75,17	1,00%	0,39%	2,36%	9,15%
USDIDR	14 323	0,46%	1,09%	1,94%	7,42%
USDBRL	5,6237	0,59%	-0,23%	8,18%	28,98%
USDTRY	13,4776	5,10%	40,29%	81,14%	25,03%
BITCOIN	57 139	-0,99%	-8,43%	97,06%	305,07%

Market Overview as of 10th December 2021

EQUITIES (local ccies)	Level	5D	MTD	YTD	2020
MSCI WORLD	3 188,26	3,32%	2,83%	20,64%	16,53%
GERMANY DAX	15 623,31	2,99%	3,46%	13,88%	3,55%
FRANCE CAC40	6 991,68	3,35%	4,03%	28,86%	-4,96%
UK FTSE100	7 291,78	2,38%	3,35%	16,81%	-11,44%
BELGIUM BEL20	4 160,17	0,99%	1,25%	17,62%	-6,61%
SWISS MARKET INDEX	12 607,73	3,55%	3,68%	21,16%	4,30%
EUROPE EURO STOXX 50	4 199,16	2,92%	3,37%	21,23%	-2,59%
US S&P500	4 712,02	3,84%	3,22%	27,14%	18,39%
NASDAQ 100	16 331,98	3,95%	1,24%	27,57%	48,88%
RUSSELL 2000	2 211,81	2,45%	0,62%	12,97%	19,93%
JAPAN TOPIX	1 975,48	0,90%	2,44%	11,66%	7,41%
MSCI EMERGING	1 238,54	1,15%	2,24%	-2,07%	18,79%
BRAZIL IBOVESPA	107 758	2,56%	5,73%	-9,46%	2,92%
MEXICO MEXBOL	51 213,48	1,27%	3,10%	19,12%	3,17%
RUSSIA MICEX	3 760,23	-3,82%	-3,27%	19,91%	14,82%
CHINA CSI 300	5 055,12	3,14%	4,62%	-1,27%	29,89%
INDIA SENSEX	58 786,67	1,89%	3,02%	24,33%	17,16%
KOREA KOSPI	3 010,23	1,41%	6,03%	5,27%	33,80%
HONG KONG HANG SENG	23 995,72	0,96%	2,23%	-9,59%	-0,23%
AUSTRALIA ALL-SHARE	4 146,90	2,17%	3,07%	16,48%	-9,73%
SAUDI ARABIA TADAWUL	N.A.	0,52%	1,65%	29,04%	6,67%

US: Sectors	Level	5D	MTD	YTD	2020
COMMUNICATION SVCS	266,26	2,94%	2,06%	21,01%	23,61%
CONSUMER DISCRETIONARY	1 614,44	2,53%	-0,03%	24,70%	33,30%
CONSUMER STAPLES	771,24	3,60%	5,53%	13,51%	10,75%
ENERGY	430,61	3,75%	4,91%	57,13%	-33,68%
FINANCIALS	647,84	2,67%	2,86%	34,33%	-1,76%
HEALTH CARE	1 565,37	3,17%	3,68%	20,00%	13,45%
INDUSTRIALS	888,50	3,06%	4,48%	20,14%	11,05%
INFORMATION TECHNOLOGY	3 068,89	5,99%	3,81%	35,08%	43,88%
MATERIALS	552,89	3,58%	4,30%	23,41%	20,73%
REAL ESTATE	306,72	2,80%	3,72%	37,51%	-2,17%
UTILITIES	349,30	2,63%	5,16%	12,87%	0,52%

EUROPE: Sectors	Level	5D	MTD	YTD	2020
BASIC MATERIALS	3 042,62	3,83%	3,66%	19,20%	9,63%
CONSUMER GOODS	4 526,82	3,43%	3,91%	22,09%	0,85%
CONSUMER SERVICES	1 538,98	3,54%	3,39%	21,91%	-4,95%
FINANCIALS	781,82	1,54%	2,42%	25,15%	-15,36%
HEALTH CARE	3 420,69	3,30%	2,77%	23,83%	-2,19%
INDUSTRIALS	3 620,64	3,64%	3,97%	27,23%	6,48%
OIL & GAS	1 148,25	1,64%	4,26%	26,69%	-26,81%
TECHNOLOGY	1 687,93	1,80%	0,07%	34,78%	17,87%
TELECOMS	593,38	2,92%	2,68%	13,70%	-12,52%
UTILITIES	2 045,08	2,56%	1,66%	3,84%	16,72%

WORLD: Styles	Level	5D	MTD	YTD	2020
QUALITY	4 010,59	3,83%	2,66%	24,20%	22,20%
MOMENTUM	3 897,07	3,00%	1,07%	14,19%	28,26%
VALUE	11 543,72	2,76%	4,03%	19,03%	-1,16%
GROWTH	9 654,27	3,85%	1,66%	20,69%	33,83%
VOLATILITY	8 928,35	3,37%	3,48%	19,72%	11,11%
SIZE	8 350,91	2,71%	2,62%	15,84%	12,37%
DIVIDEND	4 692,81	3,06%	3,97%	16,34%	5,60%

FIXED INCOME	Level	5D	MTD	YTD	2020
Pan-Euro 3-5 yrs IG	218,10	0,05%	0,04%	-0,19%	0,84%
Euro Aggregate	271,35	-0,03%	0,22%	-1,46%	4,05%
Pan-Euro HY Hedged Eur	416,79	0,36%	0,74%	3,35%	2,35%
Global Inflation hedged EUR	291,68	-0,52%	-0,12%	6,15%	8,34%
US Corp High Yield	2 264,90	0,65%	1,06%	4,44%	7,11%
EM USD Aggregate TR	1 260,87	0,38%	1,09%	-1,54%	6,52%
EM Aggregate TR Local Ccy	149,17	0,51%	0,50%	-1,80%	5,34%
EUR Banks CoCo Tier 1	156,20	0,43%	1,04%	4,33%	6,16%
EU GOVT HEDGED EUR	256,36	0,04%	0,27%	-2,15%	5,40%
U.S. Treasury	2 554,99	-0,97%	-0,57%	-2,38%	8,00%

COMMODITIES	Level	5D	MTD	YTD	2020
GOLD	1 782,84	-0,03%	0,47%	-6,09%	25,12%
COPPER	428,30	0,39%	0,12%	21,71%	25,81%
OIL WTI	71,67	8,16%	8,30%	47,71%	-20,54%
OIL BRENT	75,15	7,54%	6,49%	45,08%	-21,52%

CURRENCIES	Rate	5D	MTD	YTD	2020
EURUSD	1,1313	-0,02%	-0,22%	-7,39%	8,94%
GBPUSD	1,3273	0,28%	-0,20%	-2,90%	3,12%
USDJPY	113,44	0,57%	0,24%	9,87%	-4,94%
USDCHF	0,9213	0,45%	0,26%	4,08%	-8,42%
AUDUSD	0,7172	2,44%	0,63%	-6,78%	9,59%
USDRUB	73,37	-0,70%	-0,95%	-1,40%	-11,08%
USDCNY	6,3700	-0,10%	0,09%	-2,46%	5,28%
USDKRW	1 106,85	0,12%	-0,56%	8,74%	4,22%
USDINR	75,79	0,82%	0,82%	3,20%	9,15%
USDIDR	14 373	-0,17%	0,35%	2,30%	7,42%
USDBRL	5,6090	-0,77%	-0,26%	7,90%	28,98%
USDTRY	13,8783	1,28%	2,97%	86,53%	25,03%
BITCOIN	47 952	-10,63%	-16,08%	65,37%	305,07%

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