September 2021 Published 13.09.2021

Overview

Global markets fared generally well in August, developed markets rose about 2.5% pulled by technology names. In fact, we observed a large rotation out of cyclicals and reopening names in favor of secular growth stocks. Emerging markets' performance was more of a mixed bag. In Asia, Chinese domestic stocks and Korea were flatlining, while India surged over 9% as the country reemerges from its Covid crisis. September started differently, with a rotation out of the large US tech companies which in turn pressured the indices. In Asia domestic China, (as a reminder, the large technology companies, currently under the government's scrutiny, are listed in Hong Kong, the US or both), rose 4%, while Japan outperformed even more, (up 7% in September), as the surprise resignation of PM Suga, injected optimism in the market that, with a new government, another stimulus package would follow.

After the Jackson Hole summit, fears of tapering in the US subsided, as the Federal Reserve made the subtle distinction between tapering and rate hikes. We continue to believe that the Fed should at least reduce its purchases of Mortgage Backed Securities before year end, currently 40 bln a month, (out of a total QE of 120 bln), which make little sense amidst a booming real estate market. We also continue to believe that the Fed, with our central view of US economic stagnation in late 2022-2023, will not be able to rise rates, in a scenario similar to that of 2011. The ECB, on the other hand, managed to 'taper its tapering'. It announced that it would reduce the amount of its Pandemic Emergency Purchase Programme - but wouldn't say by how much. We believe the reduction should be in the range of 10 to 20 billion.

Major currencies were essentially unchanged over the month, while emerging ones, such as the Indonesian and Indian Rupiah, the Turkish Lira or the Brazilian Real rallied against the USD, as the spectre of Fed tapering was removed.

Generally, the latest economic data in the US has been disappointing, confirming an economic deceleration: from retail sales, to the payroll data, to the manufacturing PMI. Discussions around Biden's stimulus plan are still ongoing, while the country, will face the never-ending issue of the debt ceiling sometime in October, as this year it is reintroduced after its suspension last year. On both items we think the discussion will continue to be animated, and we think Biden's plan will end up being much smaller, as it becomes evident that some prominent democrats, along with most republicans, are either for a delay or a reduction of the plan, and against a big increase in the ceiling. At the same time, particularly in the South, even full local hospitals has not dented vaccine skepticism, only in Russia is it lower. The latest announcement by the Biden administration, to introduce vaccine mandates for millions of government workers and contractors, and to require companies with over 100 employees to ensure their workers are either vaccinated or tested weekly, also faces an uncertain destiny as legal challenges appear inevitable. Companies, as highlighted in previous newsletters, are more likely to succeed, as more of them introduce vaccine mandates, while at the same time threatening not to pay salaries for those who do not want to get vaccinated, or outright dismissal.

The latest data on US employment continue to show, as highlighted in the past, that maybe the structure of the job market has changed permanently. Even in Republican led states such as Texas, which eliminated its supplemental employment benefits early at the end of June, (it expired nationwide one week ago), data shows that there has been no increase in the workforce participation rate. People are simply not coming back to work. This could soon become a serious issue for the US economy, particularly as the Biden administration has not rescinded the tighter immigration rules implemented by Trump. With the resurgence of the delta variant in the US, many companies decided to delay the return to the office. Obviously, this is also delaying a return to normalcy.

The opposite is true in Europe where the latest data suggest that if on the one hand there is no longer an increase in the speed of the recovery, on the other, there is constant growth. We thus continue to believe that Europe will overtake the US in terms of economic growth next year.

Clearly the introduction of the ‘Green Pass’ in Europe contributed to maintaining many businesses and activities open, while in the US it does appear that with the spreading of the delta variant, citizens avoided ‘risky’ activities, such as dining out or taking a flight.

South-East Asia, which had gone relatively unscathed by the pandemic in 2020 and during the first half of 2021, has recently been devastated by the delta variant, due to its very low rate of vaccination and their policy of zero-covid cases: this has further destabilized the global supply chain. Vietnam is an obvious example of this. But much less talked about is Malaysia, for example, that, in recent years, has been attracting manufacturing activity from large technology companies such as Infineon, crucial to the car sector. Also in Malaysia, if a company has more than 3 people tested positive, it needs to shut down for two weeks for ‘sanitation purposes’. It is therefore unsurprising that many car manufacturers have recently announced a reduction in production because of a lack of components. The situation in some Asian countries such as the Philippines, Malaysia or Indonesia has thus led to severe domestic stock-market underperformance: we can therefore expect that as vaccination ramps up, similarly to India, they will benefit from the reopening boost.

The issue about the shipping industry, and therefore the global supply ‘of everything’, is far from being solved - by the way China briefly closed one of its major shipping terminals for just one single positive case. It is now obvious to everybody: a container waiting to be unloaded in Los Angeles, means that soybeans will have to wait to be shipped to China, which in turns means that goods to be shipped to Europe or the US will have to wait, until that container comes back to Shanghai or Ningbo. This could be a real issue as countries around the world at this time of the year stock up for the all-important holiday shopping season. On the inflation front, while we continue to think that above normal inflation rates are temporary in nature, we now think they could last longer than expected. If on one hand we accept that used car prices, or the price of an hamburger in a restaurant, can only go up by a certain amount, because at a certain level they would destroy demand for them, on the other, shipping costs can keep rising as there is no normalization in sight: to give an idea, since the pandemic begun, the shipping cost of a standard container has gone up by 857% for the Shanghai to Rotterdam route, or by 683% for the Shanghai to Los Angeles one. If the situation persists, inevitably the trendy toy made in China will be more costly at Christmas, that is if you can find one.

On that note, the desperate sight of Britain's supermarkets' empty shelfs are one result, however it is also self-inflicted, as the Johnson government has stubbornly refused to alleviate its immigration rules for specific sectors such as truckers.

China, which we estimate could have a negative GDP growth in Q3, hasn't yet delivered on countering its own deceleration, as in our previous newsletter we expected they would, and has in fact continued with a series of attacks on its technology giants. We think the government and the central bank will be forced to act soon. We also still believe that 'common prosperity' doesn't mean Xi Jinping wants the destruction of its giants. However, it is evident that the wave of attacks and 'donations' to charities to appease the government cannot continue forever and raises the question about future profitability. We still think China needs those companies to support their regional hegemonistic aspirations, political and technological.

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
- 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, 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.

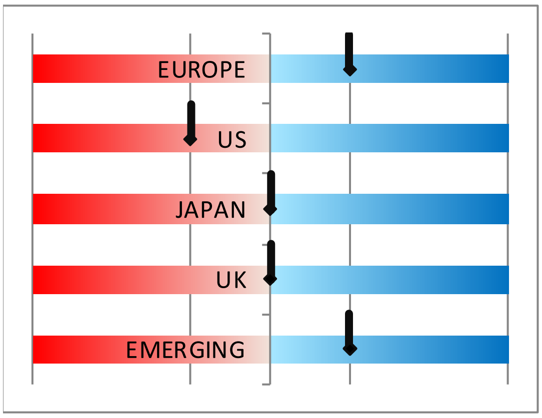
Currencies: **Underweight USD**, (Portfolios are fully USD hedged)

Commodities: Overweight

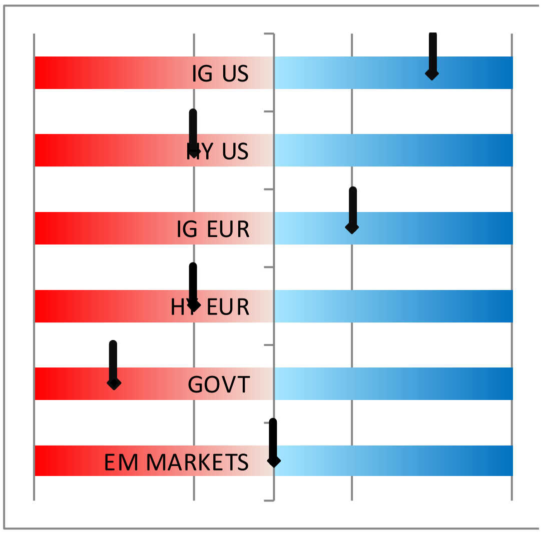
Long Gold

Conviction Thermometer

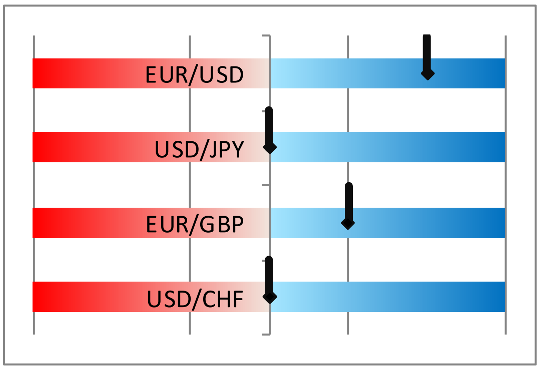
Equities



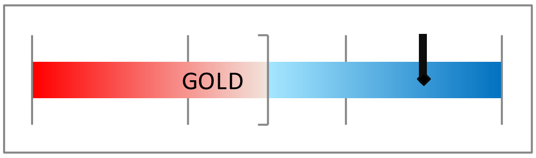
Bonds



Currencies



Commodities



*Negative view / Positive view

MARKET OVERVIEW AS OF 31st AUGUST 2021

EQUITIES (local ccies)	Level	5D	MTD	YTD	2020
MSCI WORLD	3 141,35	0,65%	2,52%	18,31%	16,53%
GERMANY DAX	15 835,09	-0,44%	1,87%	15,43%	3,55%
FRANCE CAC40	6 680,18	0,24%	1,02%	22,72%	-4,96%
UK FTSE100	7 119,70	-0,01%	2,06%	13,25%	-11,44%
BELGIUM BEL20	4 308,92	-0,45%	2,64%	21,38%	-6,61%
SWISS MARKET INDEX	12 411,11	-0,21%	2,43%	19,15%	4,30%
EUROPE EURO STOXX 50	4 196,41	0,44%	2,63%	20,56%	-2,59%
US S&P500	4 522,68	0,84%	3,04%	21,57%	18,39%
NASDAQ 100	15 582,51	1,47%	4,25%	21,49%	48,88%
RUSSELL 2000	2 273,77	1,95%	2,23%	15,82%	19,93%
JAPAN TOPIX	1 960,70	1,39%	3,16%	9,90%	7,41%
MSCI EMERGING	1 308,67	3,08%	2,63%	2,92%	18,79%
BRAZIL IBOVESPA	118 781	-1,19%	-2,48%	-0,20%	2,92%
MEXICO MEXBOL	53 304,74	2,72%	4,99%	22,79%	3,17%
RUSSIA MICEX	3 918,96	0,77%	3,91%	23,98%	14,82%
CHINA CSI 300	4 805,61	-1,64%	0,14%	-6,24%	29,89%
INDIA SENSEX	57 552,39	2,85%	9,47%	21,50%	17,16%
KOREA KOSPI	3 199,27	1,94%	-0,10%	11,72%	33,80%
HONG KONG HANG SENG	25 878,99	0,70%	-0,05%	-2,92%	-0,23%
AUSTRALIA ALL-SHARE	4 109,96	0,20%	2,68%	14,65%	-9,73%
SAUDI ARABIA TADAWUL	11 319,24	1,60%	3,16%	33,08%	6,67%

US: Sectors	Level	5D	MTD	YTD	2020
COMMUNICATION SVCS	286,95	2,13%	5,01%	30,15%	23,61%
CONSUMER DISCRETIONARY	1 468,09	1,82%	2,12%	13,17%	33,30%
CONSUMER STAPLES	748,14	0,48%	1,40%	9,21%	10,75%
ENERGY	362,26	-0,09%	-2,04%	30,84%	-33,68%
FINANCIALS	637,26	0,45%	5,14%	31,47%	-1,76%
HEALTH CARE	1 573,61	-0,34%	2,38%	20,12%	13,45%
INDUSTRIALS	881,64	0,49%	1,15%	18,78%	11,05%
INFORMATION TECHNOLOGY	2 786,10	0,81%	3,56%	22,36%	43,88%
MATERIALS	536,52	0,66%	1,92%	19,07%	20,73%
REAL ESTATE	297,88	2,60%	2,81%	32,64%	-2,17%
UTILITIES	346,86	-0,02%	3,98%	11,07%	0,52%

EUROPE: Sectors	Level	5D	MTD	YTD	2020
BASIC MATERIALS	3 123,94	-0,51%	-0,70%	21,55%	9,63%
CONSUMER GOODS	4 311,00	-0,35%	-0,36%	15,84%	0,85%
CONSUMER SERVICES	1 459,92	-0,06%	-2,22%	15,38%	-4,95%
FINANCIALS	763,75	-0,52%	2,68%	21,17%	-15,36%
HEALTH CARE	3 369,01	-0,96%	3,75%	21,82%	-2,19%
INDUSTRIALS	3 632,72	-0,02%	3,07%	27,45%	6,48%
OIL & GAS	1 037,23	-0,12%	2,76%	13,09%	-26,81%
TECHNOLOGY	1 724,82	1,99%	6,97%	37,56%	17,87%
TELECOMS	631,84	-1,77%	2,37%	19,82%	-12,52%
UTILITIES	2 073,13	-1,33%	4,63%	4,93%	16,72%

WORLD: Styles	Level	5D	MTD	YTD	2020
QUALITY	3 932,61	0,62%	3,26%	21,79%	22,20%
MOMENTUM	3 841,96	1,03%	3,18%	12,57%	28,26%
VALUE	11 376,12	0,26%	1,63%	17,30%	-1,16%
GROWTH	9 454,10	1,00%	3,30%	18,19%	33,83%
VOLATILITY	8 763,07	0,42%	2,34%	17,50%	11,11%
SIZE	8 383,89	0,55%	2,09%	16,29%	12,37%
DIVIDEND	4 637,41	0,17%	1,56%	14,96%	5,60%

FIXED INCOME	Level	5D	MTD	YTD	2020
Pan-Euro 3-5 yrs IG	219,30	-0,20%	-0,25%	0,36%	0,84%
Euro Aggregate	271,99	-0,69%	-0,47%	-1,22%	4,05%
Pan-Euro HY Hedged Eur	418,78	0,05%	0,32%	3,84%	2,35%
Global Inflation hedged EUR	284,08	-0,77%	-0,08%	3,38%	8,34%
US Corp High Yield	2 264,90	0,58%	0,51%	4,55%	7,11%
EM USD Aggregate TR	1 260,87	0,40%	0,97%	0,53%	6,52%
EM Aggregate TR Local Ccy	152,01	1,01%	0,36%	0,06%	5,34%
EUR Banks CoCo Tier 1	157,73	0,12%	0,48%	5,35%	6,16%
EU GOVT HEDGED EUR	255,79	-0,94%	-0,65%	-2,36%	5,40%
U.S. Treasury	2 554,99	0,02%	-0,18%	-1,43%	8,00%

COMMODITIES	Level	5D	MTD	YTD	2020
GOLD	1 813,62	0,59%	-0,03%	-4,46%	25,12%
COPPER	436,00	2,40%	-2,73%	23,90%	25,81%
OIL WTI	68,50	1,42%	-7,37%	41,18%	-20,54%
OIL BRENT	72,99	2,73%	-4,38%	40,91%	-21,52%

CURRENCIES	Rate	5D	MTD	YTD	2020
EURUSD	1,1809	0,45%	-0,51%	-3,33%	8,94%
GBPUSD	1,3755	0,19%	-1,07%	0,62%	3,12%
USDJPY	110,02	0,34%	0,27%	6,56%	-4,94%
USDCHF	0,9151	0,27%	1,02%	3,38%	-8,42%
AUDUSD	0,7316	0,80%	-0,38%	-4,91%	9,59%
USDRUB	73,24	-0,67%	0,13%	-1,58%	-11,08%
USDCNY	6,4607	-0,17%	-0,01%	-1,07%	5,28%
USDKRW	1 106,85	-0,56%	0,80%	6,73%	4,22%
USDINR	73,01	-1,60%	-1,90%	-0,58%	9,15%
USDIDR	14 268	-0,87%	-1,35%	1,55%	7,42%
USDBRL	5,1529	-1,81%	-1,13%	-0,88%	28,98%
USDTRY	8,3179	-1,11%	-1,61%	11,79%	25,03%
BITCOIN	47 009	-2,77%	15,53%	62,12%	305,07%

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