



2021

## A POST-VACATION MARKET UPDATE: AN INITIAL ASSESSMENT OF 2021 AND THE OUTLOOK FOR THE REST OF THE YEAR

*As we return from our summer holidays, let's take a look back at events that have occurred on the markets so far this year, the lessons and convictions that we have drawn from them, and how we have positioned our resulting asset allocation range.*



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### THE YEAR SO FAR HAS FALLEN INTO TWO SEPARATE PERIODS.

The first quarter was highlighted by the rally in yield stocks and cyclical value stocks in reaction to the strength of the economic recovery. Beginning in April, growth and quality stocks roared back, led by, US FAANGs in particular, which put up impressive numbers. The gains now look unstoppable, no matter how extreme valuations have become.

### SINCE JANUARY, THE MARKETS HAVE ALSO FLUCTUATED WITH THE PACE OF THE DELTA VARIANT'S SPREAD AND VACCINATIONS.

Vaccinations have had a big impact on economies across the globe. For example, the US, where most of the population has been vaccinated, is ahead of the global recovery curve. Growth and job market indicators are all in the black. All of this news has spilled over into the equity markets, with US indices setting one record after another in the second and third quarters. By the end of August, the S&P 500 had hit 4520 points.

Europe is now also benefiting from these large-scale vaccination roll-outs, albeit while lagging several

months behind the US. In contrast, emerging markets are further behind, in Latin America, Africa and south Asia. We also see that countries that adopted a "zero-case" policy are now paying a big price economically, whether in Australia, Japan or some developed Asian economies.

China is a special case. Xi Jinping's regulatory crackdown over the past few months has hit the education and video game sectors hard, along with companies in the new technologies and communications sectors. The Chinese government has embarked on a process of retaking control of entire swaths of the economy. While the measures will probably end up being virtuous in the medium and long term – Joe Biden himself would not dispute the value of many of Xi Jinping's measures to make China more socially oriented and egalitarian – they have had heavy negative impacts on the markets and sectors concerned. Valuations of US and Chinese tech companies, for example, have uncoupled drastically, with the latter underperforming the former by more than 50% on the year to date.

**BUT LET'S NOT OVERLOOK THE FACT THAT THE MARKETS PERFORMED WELL ON THE WHOLE IN THE FIRST EIGHT MONTHS OF THE YEAR, WITH GLOBAL EQUITIES UP BY 19%.**

Let's also keep in mind the seven consecutive months of gains since February. As a direct result, valuations are still high although they have pulled back as a result of the very good earnings growth achieved by most US and European companies. The global economic recovery was a decisive factor in this rebound in corporate earnings. However, any reversal in earnings momentum could potentially disrupt the equity markets in the next two months. 2022 earnings forecast have already begun to be revised downward, whereas 2021 has been constantly revised upward worldwide with the exception of emerging markets.

**CENTRAL BANKS' ATTITUDES COULD ALSO HELP CHANGE THE COURSE TEMPORARILY.**

The ECB may take the lead in the monetary tightening race and alter its policy by reducing PEPP purchases, and the Fed could flag a reduction in its purchases by yearend. The issue of raising the US debt ceiling, which has still not been resolved, could also raise concerns by yearend if a bipartisan agreement is not reached, particularly on the 3,500 billion dollar plan.

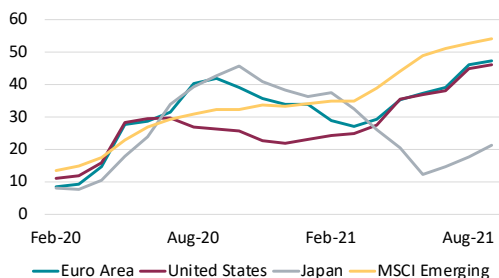
**WE BELIEVE THAT VERY LOW REAL RATES ARE THE GLUE THAT IS KEEPING THIS PARADIGM IN PLACE, IN WHICH EQUITIES ARE BENEFITING FULLY FROM LOW GOVERNMENT BOND YIELDS.**

With this in mind, we remain doubtful on the overall resilience of the US bond market, which continues to ignore the inevitable reduction in the Fed's emergency monetary accommodation, stronger-than-expected inflationary pressures, and the resumption in Treasury issuance to fund infrastructure plans.

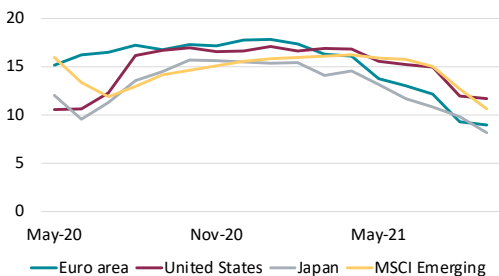
**WE MAINTAIN OUR VIEW THAT LONG-TERM RATES ARE LIKELY TO RISE SLIGHTLY AND THEREFORE REITERATE OUR NEGATIVE STANCE ON US GOVERNMENT BOND YIELDS.** Meanwhile, the peaking that is occurring in GDP and earnings growth will require enhanced prudence on the equities front.

Regarding the portfolio, we are therefore sticking to our median exposure (about 50% for the Reactive profile), which is centred around the US and Europe, while hedging through the use of options. During the summer we reduced our value bias and raised our exposure to Japanese equities, which have been hit excessively by the recent public healthcare episode.

**2021 Earning Growth Prediction - Main Equity Markets**



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Source Refinitiv Datastream

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