

OUR CONVICTIONS

MONTHLY NEWSLETTER - JULY 2021

WHAT ABOUT THIS SUMMER? THE SEA, THE COUNTRYSIDE OR OUTER SPACE?

What do Jeff Bezos, Richard Branson and Elon Musk all have in common? On top of having conquered the world with Amazon, Virgin and Tesla, respectively, the three billionaires have now set their sights on conquering outer space and are competing with one another on the space tourism market. Branson and Bezos are expected to strap on their astronaut suits themselves in July. At a time when the pandemic has made most earthlings reluctant to venture beyond their countries' borders, Bezos and Branson will be launching themselves into the weightlessness of outer space.

Holiday winds are not yet blowing across growth and the markets. Quite the contrary. In June, the US bond market was once again on investors' radar, and the global recovery looks as strong as ever. US bond yields fell unexpectedly in June, with 30-year paper down by 20 bp, at one point falling below 2%. This spilled over into the equity markets, triggering a reversal in trend on the month between Growth and Value, respectively up by 4.47% and down by 1.33% in USD in their MSCI World components.

Economies are just now opening up, and the heavy surplus savings piled up by households is likely to provide sustained support to consumption. The inflation momentum narrative looks very solid on the whole. While North American economic data are no doubt close to peaking, global economic activity should remain quite robust in the coming months.

We have raised the probability of our central scenario central (to 70%), which assumes a gradual normalisation as the pandemic recedes, stronger growth and a tapering announcement in late August. All this would help bond yields continue to normalise, along with moderate gains in the equity markets. Our alternative scenario (30% probability) is focused on the US and the Fed, with demand outstripping supply, an inflationary spiral, an increase in break-evens after Fed intervention, etc., which would trigger a spike in interest rates and declines in the equity markets.

MONTHLY
NEWS

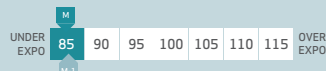
113

in the French business
confidence index,
a high since mid-2007

EXPOSURE in %

FIXED INCOME

85%



EQUITY

95%



IN THIS EDITION

SUSTAINABLE DEVELOPMENT

**Harnessing
DECARBONIZED ENERGY
to power growth**

THEMATIC EQUITY

**FOOD FOR GENERATIONS
Putting FOOD'S SUSTAINABLE
TRANSITION on the menu**

PODCAST - CPR AM.COM

TRENDS UNDER THE MACROSCOPE #18

#18 - IN EUROPE, THE CARBON NEUTRALITY BY 2050 IS NOW ENSHRINED IN LAW

10 - Towards a paradigm shift regarding the taxation of multinational companies?

9 - Is spending on clean energies good for economic growth?

Other shows

04:30

3 min left



Completed on 08/07/2021

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KEY INDICATORS

STEEPENING OR FLATTENING TO COME IN THE YIELD CURVE?

On top of the currently prevailing technical factors, the yield curve is being driven by some well-identified factors – monetary policy expectations (i.e., central bank key rates) are dominant in the short section, while the growth and inflation outlook and fiscal policy are priced into futures premiums on the long section.

Macroeconomic cycles are currently desynchronised, tracking developments in the pandemic. Investors can expect a divergence between the euro zone and the US, particularly:

- In Europe, the short section is well anchored, with no rate hikes on the horizon from the ECB (whose inflation mandate has not been met); the long section is expected to track the exit from the recession, but inflation and growth prospects remain modest, as does fiscal stimulus. This would normally result in a moderate steepening.
- In the US, the market is pricing in Fed rate hikes that would make the short section “rich”, while the long section is still open to interpretation. The impact of the Fed’s new approach on long-term average inflation, the huge stimulus plans already approved with more to come, and their impact on long-term growth. This would result in a marked steepening in the medium term.

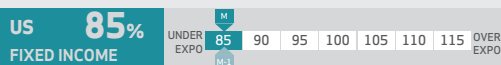
This exercise, while quite theoretical, continues to depend on other factors that in the short term might bring some volatility in this uncertain environment.

Rate differential (in basis points)	30/06/2021	31/03/2021	30/12/2020	Evolution over the year
Germany 2-5 years	7	6	-4	11
Germany 5-10 years	38	34	17	21
Germany 10-30 years	50	55	41	9
United States 2-5 years	64	78	25	39
United States 5-10 years	58	80	56	2
United States 10-30 years	62	67	73	-11
(source: Bloomberg)				

US FIXED INCOME

MORE REASSURANCE FROM POWELL

Jerome Powell provided more reassurance during his Congressional testimony in sticking to his accommodative stance. He reiterated that a qualitative and quantitative improvement in the labour market remained his main concern and took the opportunity to insist that inflation was only a transitory phenomenon. In short, he dismissed the risk of a faster-than-expected tightening in monetary policy. The 10-year US yield fell on the month to 1.46%, despite the acceleration in growth and inflation.



EURO FIXED INCOME

DECISIONS PUSHED BACK TO SEPTEMBER

Year-on-year inflation was confirmed at 2% in May in the euro zone, while the core inflation figure was raised from 0.9% to 1%. The ECB announced no change in the conduct of its monetary policy and appears to have pushed back any decisions to its September meeting. The central bank forecasts a bigger increase in GDP and inflation in the euro zone in 2021 and 2022, while reaffirming that it does not expect any inflationary spiral anytime soon. During the review period, 10-year yields fell to -0.20% in Germany, by 9bp to +0.82% in Italy, and by 4bp to +0.41% in Spain.



KEEP AN EYE ON...

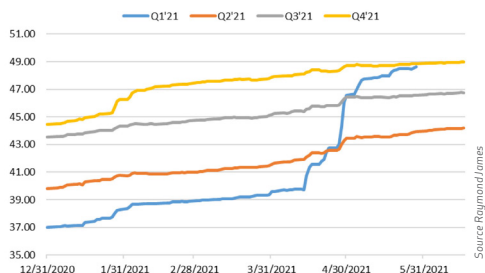
EXPECTATIONS ARE HIGH FOR SECOND-QUARTER COMPANY RESULTS

Amidst an economic recovery, earnings growth reported in recent quarters has demonstrated companies' capacity to take part in this improvement. With this in mind, a magnifying glass will be held up to second-quarter releases, given stretched equity valuations and steep upgrades in forecasts since the year began.

By sector, we expect banks' numbers to be weaker, driven down by lower revenues in investment banking and intermediation in bond and equity issuance. We expect an improvement in commodities (including oil) and industrials. Techs and defensives are expected to stick to their trend of recent quarters.

All in all, we expect an acceleration in earnings trends in all regions. Based on a comparison of 2021 earnings forecasts from early in the year and today, we see an increasingly wide gap – in the US from +20% to +34%, in Europe from +32% to +43%, in emerging Asia from 24% to 38%, and in other emerging markets from +34% to +50%. Given the highly positive momentum in earnings forecasts revisions over the past few weeks, second-half releases must confirm the mid-year trends, and expectations are higher and higher in the US.

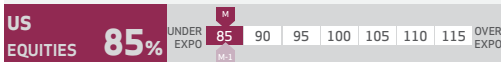
2021 Earnings Estimates



US EQUITIES

CAPACITY CONSTRAINTS EMERGE

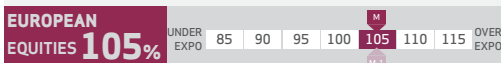
In the United States, the PMI composite fell back to 63.9 in June from 68.7 in May, driven by a decline in the PMI services, due, in turn, mostly to supply-side capacity constraints rather than a slowdown in the economy. Housing sales declined once again, also due to commodity supply bottlenecks for property developers. On the month, the S&P 500 rose sharply, by 5.37% in euros.



EUROPEAN EQUITIES

ACCELERATION IN ECONOMIC ACTIVITY

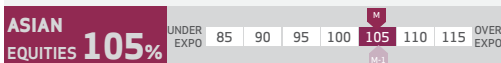
In Europe, flash purchasing manager survey data for June bore out the acceleration of private sector activity. The PMI flash index, which aggregates manufacturing and services, rose to 59.2, a high since June 2006. Consumer confidence rose once again, surpassing even its pre-pandemic level. The EuroStoxx 50 slipped by -0.06% in euros on the month.



ASIAN EQUITIES

PERSISTENT UNCERTAINTIES

The Japanese central bank agreed that financial market sentiment continued to improve, despite some uncertainties, owing to a resurgence of Covid-19 and its variants. In China, economic activity was not as strong as all that, based on the latest high-frequency data. There are also fears of a slowdown in exports, owing to recent disruptions in harbour activity, driven, in turn, by an uptick in Covid-19 cases. The Topix gained 1.66% on the month in euros, and the MSCI AC Asia-Pacific ex Japan by +3.10%, also in euros.



The background image of the newsletter cover is a composite of three sustainable energy sources: a large concrete dam with water behind it, two white wind turbines with blue accents, and a field of solar panels. The image is overlaid with a blue grid pattern.

Harnessing **DECARBONIZED ENERGY** to power growth

Good for the planet or good for the economy? With over 110 countries, from the European Union to Japan, pledging to meet the goal of net-zero emissions by 2050, this is a recurring question. Behind it lies the assumption that you need to choose between growth and sustainable solutions. The truth, though, may be rather different. Recent research shows that decarbonized energy can offer a sustainable way for countries with non-fossil fuel based economies to boost their growth. The economic opportunities are immense. All that remains is to put companies in a position to take them.

In calling on the energy sector to achieve net-zero emissions, the International Energy Agency (IEA) acknowledges that this is a “monumental” task¹ involving enormous challenges. The energy sector is currently responsible for over 75% of greenhouse gas (GHG) emissions². Primary energy demand has swelled by 60% over the last 30 years and could double by 2050³.

ENERGY: A STRATEGIC AREA (STILL) CHARACTERIZED BY A RELATIVE STATUS QUO

Hitting the targets will therefore take major changes in a highly sensitive area. For nations, energy remains a deeply strategic issue that is intertwined with key questions such as energy security, limiting imports and export-related benefits. “Many countries see developing their energy sector as chiefly about

strengthening energy security. They also want to be better able to withstand geopolitical stress and market fluctuations, particularly in oil and gas”, says Cécile Segueineaud, Energy program head at New Global Perspectives, a think tank, and a specialist in the political, technology and economic aspects of the energy transition. Until now, anyone talking about energy was primarily talking about fossil fuels. Despite growth in renewables such as wind and solar power, the global energy mix has not seen significant structural changes in three decades. “Fossil fuel energies continue to dominate to a large extent, with captive use of oil in transport, coal and oil in industry, and fossil fuels in power generation”, explains Ms. Segueineaud.

COULD ECONOMIC POTENTIAL SIGNAL THE TIPPING POINT?

But now we have had a global pandemic, and the signs of a paradigm shift are increasing. There seems to be a growing consensus that to respond to a crisis of such unprecedented size, environmental issues need to be not only considered, but prioritized. Exemplified by the Biden administration’s \$2 trillion infrastructure plan, stimulus programs around the world feature big environmental components.

As rebuilding gets underway, the International Monetary Fund (IMF) showed in a working paper published in March⁴ how investing in clean energy can help to stimulate economies over the long run.

The authors looked at green and non-eco-friendly investments linked to energy and land use, i.e. the two main sources of GHG emissions, in various countries and over several decades. The aim was to measure, for each dollar of investment, by how much GDP had increased over the ensuing years. Investments in green projects were found to have a far greater economic impact than investments in non-eco-friendly investments.

Harnessing decarbonized energy will help to address three decisive challenges, namely employment, competitiveness, and innovation. However, Ms. Segueineaud cautions that to achieve a successful transition, it is important not to focus solely on developing decarbonized energy production: "It is critical to take a systemic approach by integrating energy efficiency, low-carbon infrastructure, power networks and the circular economy. The IMF stresses the importance of a just transition, which among other things involves supporting workers to make the transition from fossil fuel energies to low-carbon energies." The IEA report on achieving a sustainable recovery points out that energy efficiency in buildings and industry and the PV sector are the areas that create the most jobs in return for investment, i.e. between 10 and 15 jobs per million dollars of investment, or between two and three times more than the number created by fossil fuel energies.

INVENTIVENESS AND INVESTMENT, BUT ALSO COOPERATION

Simply put, the energy sector's prospects over the coming years and decades are huge. Achieving a low-carbon industrial revolution will primarily involve meeting the technological challenges. Some key innovations in areas such as power storage or hydrogen, for example, are not yet commercially available. Says Ms. Segueineaud: "The IEA has estimated⁶ that to achieve carbon neutrality by 2070 in the energy sector, 75% of emissions reductions in industry need to come from technologies that are not yet available on the market."

As Bill Gates observes in his latest book⁷, innovative efforts need to focus on the breakthrough technologies that will be adopted by industry and individuals. These include carbon capture, utilization, and storage (CCUS) facilities, which will surely play a vital part in achieving a net-zero emission world by capturing carbon from combustion gases or directly from the atmosphere for underground storage or reutilization.

Despite the economic prospects, companies cannot do it alone. Clear, long-term policies must be set to give confidence to participants and investors across all low-carbon sectors. This means building an integrated and planned vision that includes the associated infrastructure. Industrial clusters need to be created and backed by investment support mechanisms and demand support policies. "One of the keys will be to create close collaboration among all stakeholders, including government, the private sector, investors, and local decision-makers, through joint ventures and other public private partnerships, to make sure that the investment and innovation risks are shared", stresses Ms. Segueineaud. Doing this successfully will ensure that the benefits are also shared, which would be good for the planet and the economy.

1. <https://www.iea.org/reports/net-zero-by-2050>
2. <https://www.iea.org/reports/net-zero-by-2050>
3. <https://www.connaissancedesenergies.org/sites/default/files/pdf-actualites/ieo2019%20%281%29.pdf>
4. <https://www.imf.org/en/Publications/WP/Issues/2021/03/19/Building-Back-Better-How-Big-Are-Green-Spending-Multipliers-50264#:~:text=The%20estimated%20multipliers%20associated%20with,on%20sectors%2C%20technologies%20and%20horizons>
5. <https://www.iea.org/reports/sustainable-recovery>
6. <https://www.iea.org/reports/energy-technology-perspectives-2020>
7. *How to avoid a climate disaster*, Flammarion, 2021



FOOD FOR GENERATIONS

Putting FOOD'S SUSTAINABLE TRANSITION on the menu

The impact investment journey of CPR AM begins in 2017 with the launch of the Food For Generations fund and the ambition of addressing the global food challenge: feeding a growing population while mitigating the negative impact of food production and consumption. In this regard, the freshly released annual impact report illustrates the complete sustainable approach applied to the fund and the impact indirectly generated by its investments. As the fund just achieved the symbolic 1€ billion Euros of AUM milestone, 2021 seems to be confirming its robust and successful investment approach with a consistent +16% year-to-date performance.

Interview with the investment specialist, Arnaud Demes, to take a closer look at the trends and transformations currently shaping the agro-food system and how the fund is positioned to benefit from current market conditions.



By Arnaud Demes,
Investment Specialist - CPR AM

COULD YOU BRIEFLY SUMMARIZE THE MAJOR CHALLENGES FACED BY THE FOOD SYSTEM AND HOW FOOD FOR GENERATIONS ADDRESSES THEM?

Food production is at the crossroads of the major contemporary trends generating pressure on both demand and supply. This pressure is quantitative, through an increase in global consumption driven by a growing world population and rising incomes in emerging countries, and qualitative, through changes in consumption and eating habits. This growing and evolving food demand has to undeniably take into account the constraints on natural resources already under strong pressure and the climate-related challenges.

* Net performance of the I-ACC Eur share class at 30/06/2021.

DID YOU KNOW ?



+70%

growth in food
production by 2050



91%

of plastic waste is not
recycled



30%

of the world's food is
wasted, representing over
\$1 trillion

As such, CPR Invest - Food For Generations aims to enhance the role played by investors in the transition towards more sustainable agri-food models by supporting companies that improve the sustainability, access and quality of food. To do so, the fund invests throughout the agro-food value chain - from farms to forks - by adopting a responsible approach. Since its inception, the fund has committed to closely monitor precisely defined environmental impact targets such as the carbon and water intensity or the waste recycling ratio. This is key to assess the impact generated by the investments and achieve an increase of their positive contribution over time.

AMONG THE MANY CONSUMER TRENDS EMERGED AND/OR ACCELERATED DURING THE PANDEMIC, WHICH ONES WOULD YOU MORE IN PARTICULARLY POINT OUT?

The global pandemic has been fueling the growth of the stay-at-home economy with the acceleration of e-commerce and food & grocery delivery for the thematic. The meal-kit delivery industry in particular, enjoyed a real boom under lockdown and will continue to grow beyond restrictions, due to a profound behavioral change. Within this dimension, the HelloFresh stock continues to be a strong performance contributor for the fund.

Moreover, pandemic has raised awareness on the importance of food supply chain control. Indeed, the sanitary crisis had an impact on the whole process from the field to the consumer and as such there is now considerable concern about food production, processing, distribution and consumption.

More generally speaking, consumer preferences have been shifting with the emergence of a more digital and conscious consumer profile. Increasing adoption of digital traceability solutions, delivery and aggregator apps: millennials are now asking for more food transparency, customization and convenience.

THE FOOD SYSTEM IS UNDERGOING A MASSIVE TRANSFORMATION TO BECOME MORE SUSTAINABLE – COULD YOU PROVIDE SOME EXAMPLES ILLUSTRATING THIS DYNAMIC?

Indeed, many innovative solutions are currently taking place throughout the entire food value chain.

To this end, we can mention precision agriculture, a farm management concept aiming to improve the profitability and sustainability of agricultural production through the application of new technologies such as artificial intelligence, robotics, machine learning etc. John Deere for example, one of the fund's top performance contributors in 2021 and a leading agricultural machinery manufacturer, has developed an advanced technology capable of sensing subtle differences between crop and weed allowing to target and spray herbicide on the weed only and therefore minimize the use of chemical pesticides.

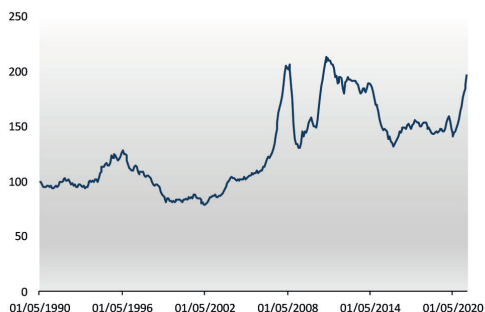
To respond to the increased food security concerns mentioned previously, Zebra Technologies, also among the fund's top performing companies, has developed digital tracking solutions that automate safety procedures through data collecting and recording, ranging from cooking and storage temperatures to employee sanitation procedures. The system can also provide real-time reports so that the necessary actions are taken as quickly as a food safety problem is identified.

THE FUND HAS BEEN DELIVERING GOOD PERFORMANCE SINCE THE BEGINNING OF THE YEAR, HOW IS IT POSITIONED AS THE YEAR GOES BY?

Amid pandemic, the food industry was particularly hard hit suffering a correction on the more value and cyclical names. Indeed, 2020 was a rough year for value investors, as the rally in tech led by the acceleration in disruptive trends due to the coronavirus outbreak caused value stocks to lag the growth ones by a wide margin.

Fortunately, 2021 looks very different! As the global economy reopens, the rotation into value and cyclical stocks has initiated a recovery with strong GDP growth, rising interest rates and inflationary pressures notably in agricultural commodities. Indeed, food prices have accelerated significantly over the past three months with the global food price index produced by the FAO (Food and Agriculture Organization) at its highest since the end of 2014.

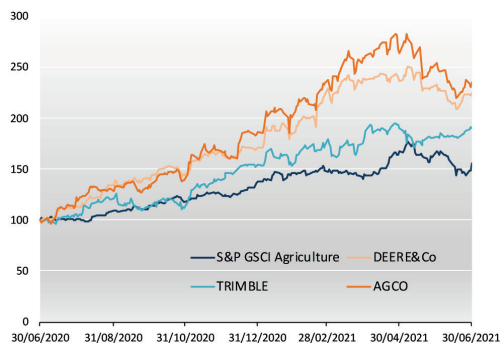
FAO Food And Price Index



Source: Bloomberg

Year to date, the fund's agricultural dimension has been one of its key drivers with the promising performance from names such as John Deere, Trimble and Agco.

S&P GSCI Agri Index vs FFG Top Agri Stocks



Source: Bloomberg

For the remainder of the year, the Agriculture sector should continue to be supported by the rise in grain prices, driven by the Chinese demand. This demand should remain strong in 2021, as China must replenish its hog herd following the impact of the African swine fever.

Given the context, we believe that Food For Generations is favorably positioned to take advantage of current market conditions.

TRENDSFORMATIVE

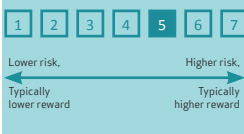
RECENT PUBLICATIONS

- [The circular economy, a choice for society and business](#)
- [Can flexible packaging do without plastic?](#)
- [Putting food waste on the table](#)

CPR INVEST - FOOD FOR GENERATIONS - RISK PROFILE¹

Counterparty risk	Yes
Capital loss	Yes
Equity & Market risks	Yes
incl. small capitalizations and emerging markets	
Liquidity risk	Yes
Currency risk incl. emerging countries	Yes
Investment period	> 5 years

RISK AND REWARD PROFILE (SRR)²



¹ The KIID contains essential information about the fund, and must be given to the investor before subscribing. These information have to be completed by the prospectus available on the company website at www.cpr-am.com or upon demand to CPR AM.

² The SRR corresponds to the risk/reward profile shown in the Key Investor Information Document (KIID). The lowest category does not mean "risk-free". The SRR is not guaranteed and may vary over time.

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IMPACT METRICS MONITORING

Excerpt from the 2020 Annual Impact Report
of CPR Invest - Food For Generations

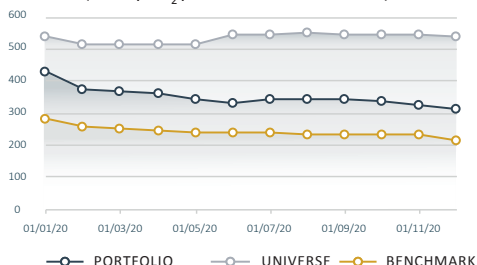
[Download the
full report on
our website](#)



CARBON INTENSITY

This metric measures the portfolio's average emissions in tons of CO₂ equivalent per unit of a company's revenue (in million euros). It is an indicator of the carbon intensity of the value chain of the portfolio's companies.

The evolution of the CO₂ intensity in 2020
(in teq CO₂ per million of revenues)



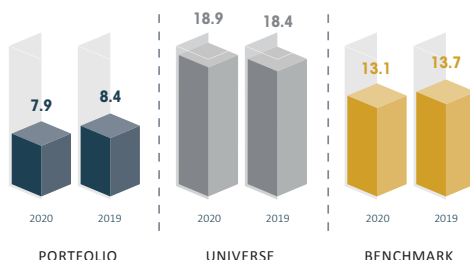
By the end of 2020, the portfolio's carbon intensity was 40% lower than that of the universe and amounts to 315 teq CO₂ against 524 for the universe. On 2020, the management team managed to reduce by 30% the portfolio's carbon emissions.



WATER INTENSITY

This metric measures the portfolio's average withdrawal in cubic meters per unit of a company's revenue (in million euros).

Water intensity 2020 vs. 2019
(in thousands of m³ per million of revenues)



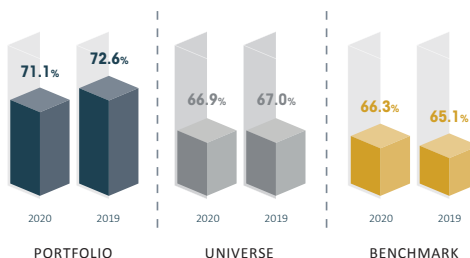
The portfolio's water intensity is 2.5 times lower than that of the initial universe and also lower than that of its benchmark. The water intensity generated on average by the companies in the portfolio has been reduced by 5% over a year.



WASTE RECYCLING RATIO

This indicator measures the ratio of waste recycled by the portfolio's companies over their total produced waste.

Waste recycling ratio 2020 vs. 2019



More than 70% of the waste generated by the companies of the portfolio is recycled. This is considered a high recycling level for both the universe and the benchmark and the portfolio's ratio is 4 to 5% higher.

PORTFOLIO'S SUSTAINABILITY INDICATORS



To appreciate the investments' contribution on the sustainable transition of the agri-food system, we have selected and measured a number of sustainability indicators corresponding to the most reported, collected and homogenous ones with regard to the activity of the companies in the portfolio. All of them have a coverage ratio of over 90% and reflect the dynamism of the 63 companies selected by the portfolio managers.

Each indicator is related to a specific challenge faced by the agri-food universe and as such it refers only to the companies concerned by the represented challenge. That is why we have decided to apply a segmentation of the companies in the portfolio by type of activity. An indicator can relate to one or more segments of activity and is expressed as a percentage of the companies that respond positively to the associated challenge.



Number of the portfolio's covered companies that belong to the segments of activity concerned by the sustainability indicator

FORECASTS AS OF 24 JUNE 2021



CENTRAL GRADUAL NORMALISATION

The pandemic recedes, and vaccinations move ahead on schedule. The US and UK are ahead of continental Europe, which little by little eases up on its social distancing restrictions. Emerging market economies as a group lag behind.

Growth continues to strengthen, driven by highly accommodating fiscal and monetary policies, but peaks in the US in Q2.

The announcement at the end of August of a slow and regular tapering.

Interest rates continue to normalise in the US and Europe.

Equity markets continue to rise, but more moderately.



ALTERNATIVE THE FED IS LATE AND MUST REACT

US fiscal support causes demand to accelerate far more than supply, which is held back.

Expectations of an inflationary spiral, as price indices are driven up by temporary base effects.

Break-evens rise, then pull back on Fed intervention.

The Fed has delayed too long and must react more strongly: it is accelerating the implementation of the tapering and communicating on the increase in its key interest rate.

Spike in interest rates, especially in the US, as the markets test the Fed.

Company margins are squeezed.

Equity markets decline.

REMINDER TO 21 MAY 2021

1 >

60%

2 >

40%

	Key rate	Bond yields	Equities
United States	0.25% ►	1.65% ▲	2.50% ▲
Japan	-0.10% ►	0.05% ▲	5.00% ▲
Euro zone	-0.50% ►	-0.15% ▲	2.50% ▲

Emerging markets Equity	Currency
Latin America	5.00% ▲ EUR-USD 1.20 ▲
Asia	2.50% ▲

	Key rate	Bond yields	Equities
United States	0.25% ►	2.00% ▲	-10.00% ▼
Japan	-0.10% ►	0.20% ▲	-7.50% ▼
Euro zone	-0.50% ►	0.10% ▲	-7.50% ▼

Emerging markets Equity	Currency
Latin America	-12.50% ▼ EUR-USD 1.15 ▼
Asia	-10.00% ▼

PERFORMANCE AS OF 22.06.2021

PAST PERFORMANCE IS NO GUIDE TO FUTURE RETURNS.

	Since 31.12.20	Over 1 year	Over 5 years	Level from 22.06.21	
United States	0.12%	0.25%	6.51%	0.25%	Key rate
	-3.44%	-4.68%	15.23%	1.47%	10-year interest rate
	2.32%	11.30%	39.50%	277	High Yield US
	-2.75%	5.78%	5.47%	1.19	Euro/dollar
	13.06%	36.20%	103.62%	4 246	S&P 500
Europe	-0.24%	-0.51%	-2.18%	-0.50%	Key rate
	-3.20%	-2.15%	7.71%	-0.21%	10-year interest rate
	2.99%	11.06%	24.46%	272	High Yield Europe DJ
	16.06%	27.19%	38.44%	4 123	EuroStoxx 50
Japan	5.25%	28.73%	79.79%	28 884	Nikkei 225

SCENARIO FORECASTS in %

CENTRAL 70% proba.	ALTERNATIVE 30% proba.
0.25% ►	0.25% ►
1.65% ▲	2.00% ▲
270	310
1.20	1.15
2.50% ▲	-10.00% ▼
-0.50% ►	-0.50% ►
-0.15% ▲	0.10% ▲
265	300
2.50% ▲	-7.50% ▼
5.00% ▲	-7.50% ▼

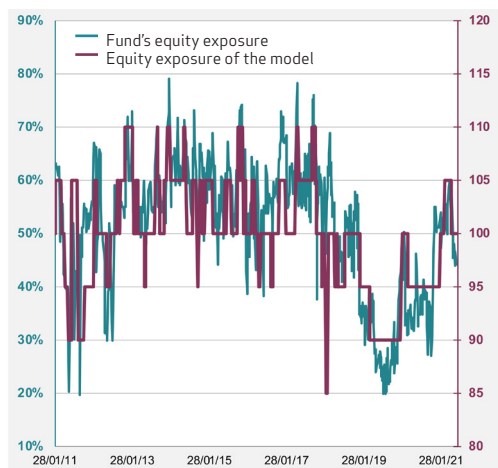
CHANGES IN ALLOCATIONS OF CPR INVEST - REACTIVE

“Transitory or not transitory?” That is the question that drove the markets as the first half of 2021 came to a close. After insisting throughout the month of May that inflation would only be “transitory”, the term they used nine times in the Fed’s latest statement, released in May, Federal Reserve members conducted an about-face in removing almost any mention of the word during their June meeting. This change of FOMC rhetoric was without a doubt a hawkish reversal to a tougher stance and a tougher policy. This could very well disrupt behaviour on both the fixed-income and equity markets.

But, far from spooking incredulous investors, this inevitable toughening in market conditions paradoxically drove fixed-income yields downward. This came with robust gains in US equity markets, driven by growth stocks. Reflation strategies, meanwhile, underperformed considerably on the month. The dollar, which is highly sensitive to shifts in the spread between 10-year US and European yields, gained on the month. Commodities gained more than 3% on the month, driven up by both the economic recovery and by certain shortages.

In the portfolio, we reacted to this change in tone by marginally reducing our equities exposure. We kept in place our two investment avenues, i.e., the reflation story with commodities, inflation, and banking and value stocks; and the recovery story, with a geographical preference for Latin America and Japan.

We took some profits on reflation investments (inflation break-evens and value stocks mainly), which have performed well so far this year. We maintained negative bond sensitivity, mainly by selling 10-year US bonds.



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