MONTHLY HOUSE VIEWS

September 2021

Monetary policies to reach the peak

With global equities up c. +21% in EUR terms, the story of the year continues to be the stock market. Policy – for now – continues to be exceptionally supportive. The US Federal Reserve (Fed), the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Japan (BoJ) continue to collectively pump hundreds of billions of dollars of liquidity into the financial system every month. This has cut short every equity market wobble thus far in 2021.

In addition, genuine economic growth momentum has been helped on more recently by pent-up consumer spending. The US job market has continued to improve. In Europe, activity indicators remain buoyant, particularly in the service sector where growth exceeded that of manufacturing for the first time since the pandemic. This is all underpinned by rising vaccination rates that have allowed the reduction of mobility and socialization constraints. This is translating into earnings, with US and European companies having reported second quarter earnings growth well above expectations.

However, the bond market has been telling a different story, with the winter sell-off (implying investors are bullish on risk assets) having moderated into the spring, before partially reversing over the summer (implying bearishness). Ten-year US government bonds saw a peak above 1.7%, but now trade closer to 1.3%; UK gilts hit a high near 0.9% but are now yielding 0.6%; German bunds came as high as -0.1%, but have slumped closer to -0.4% now. This tells a darker tale of peak growth, peak profit, peak policy.

This concept of "peak" is worth visiting. Effectively, it means that the rates of economic growth, earnings growth and policy support – monetary in particularly – has hit a high point and will now start to decelerate, which is supposedly undesirable. We do not deny that we have reached peak growth purely from a "rate of acceleration" perspective. The IMF expects global growth in 2021 to be 6% with advanced economies growing about 5%. According to their forecast this will slow next year to 4.4% and 3.6%, respectively. However, this year's stellar figures are a result of a base effect, as they follow a massive global and advanced economy contraction last year of -3.3% and -4.7%, respectively. Next year's growth, which builds on the gains of this year, is understandably slower, but it is reflective of an economy which is getting ever larger.

Ultimately, growth is good, even if it is slower. This should be further positive for equity markets, notably European ones, and should negatively affect bond markets. But for this effect to ultimately translate to financial market, the key factor will be the adjustment of monetary policies to this peak of growth, with major central banks that will have to adjust progressively their liquidity injections.

Bottom line

We believe the case for risk-taking is well supported given a strengthening economic backdrop and strong momentum. Therefore, our portfolios are risk-on. Nonetheless, we continue to hold a stable of safe-haven assets to offset risks, particularly those from equities – which are expensive and supported somewhat by heady sentiment. These include gold and defensive alternatives (e.g. low-volatility hedge funds)

Unless otherwise specified, all figures in this report were taken from the following sources on 06/09/2021: Bloomberg and Datastream.

OUR ASSET ALLOCATION

The table below presents the latest conclusions of our Global Investment Committee

Summary house views

			Strong U/W	U/W	N	O/W	Strong O/W	Change since last GIC
EQUITY		GLOBAL EQUITY				■		
EQUITY		United States			■			
EQUITY		Eurozone				■		
EQUITY		United Kingdom				■		
EQUITY		Japan			■			
EQUITY		Emerging			■			
FIXED INCOME	SOVEREIGN	GLOBAL RATES		■				
FIXED INCOME	SOVEREIGN	U.S. Treasuries	■					
FIXED INCOME	SOVEREIGN	Bunds	■					
FIXED INCOME	SOVEREIGN	Gilts	■					
FIXED INCOME	SOVEREIGN	EM Govies ($)				■		+
FIXED INCOME	CORPORATE	U.S. IG		■				
FIXED INCOME	CORPORATE	U.S. HY		■				
FIXED INCOME	CORPORATE	EMU IG		■				
FIXED INCOME	CORPORATE	EMU HY		■				
FIXED INCOME	CORPORATE	UK IG		■				
FIXED INCOME	CORPORATE	UK HY		■				
FIXED INCOME		Duration USD*		■				
FIXED INCOME		Duration EUR*		■				
FIXED INCOME		Duration GBP*		■				
FOREX		EURUSD			■			
FOREX		USDJPY			■			
FOREX		GBPUSD			■			
FOREX		EURCHF				■		
FOREX		EM FX (vs. USD)			■			
CMDTY		Brent			■			
CMDTY		Gold				■		
ALTERNATIVE		ALT. STRATEGIES			■			
ALTERNATIVE		L/S Equity			■			
ALTERNATIVE		Event-Driven				■		
ALTERNATIVE		FI Arbitrage			■			
ALTERNATIVE		Global Macro / CTAs			■			

	Positioning	*Duration
O/W	Overweight	Long – 7-10 years
N	Neutral	Intermediate – 5-7 years
U/W	Underweight	Short – 3-5 years

EQUITIES	p6
United States	We remain Neutral on US equities, which reached new all-time highs in August.
Eurozone	We remain Overweight on the region given its high sensitivity to a cyclical upturn in activity.
UK	We remain Overweight as market valuations are considered attractive.
Switzerland	The market is dominated by high-quality, defensive stocks, which should provide downside protection.
Japan	We are Neutral on Japanese equities since the country is still stuck in the pandemic, but valuation appears relatively low.
Emerging (EM)	Reduced access to vaccines limits the normalization of the economic recovery, notably in China. We remain Neutral.

FIXED INCOME	p5
Sovereigns	Government bonds remain unattractive, offering negligible or negative yields to investors. We are Strong Underweight.
Duration*	We still prefer shorter-dated bonds across markets, which are less sensitive to any rises in rates.
Inflation-linked	We expect disinflationary forces return in 2022. We are Neutral.
Investment Grade	Spreads have tightened further towards historic lows. We remain Underweight.
High Yield	HY yields and spreads remain close to historic lows and we've stuck to an Underweight stance.
Emerging debt (in € and $)	The abundance of liquidity and low US interest rates provide broad support for emerging bonds.

CURRENCIES	p7
EUR/USD	While the potential for activity seems higher in the Eurozone, interest rates remain more attractive in the United States. Overall, we remain Neutral
GBP/USD	No fundamental trend is anticipated in favor of any of the currencies and uncertainties linked to the pandemic remain.
EUR/GBP	No fundamental trend is anticipated in favor of any of the currencies and uncertainties linked to the pandemic remain.
USD/JPY	No fundamental trend is anticipated in favor of any of the currencies and uncertainties linked to the pandemic remain.
EUR/CHF	Both the euro zone and Switzerland should register strong cyclical recoveries in H2 which should encourage risk appetite and a shift away from safe havens like the Swiss franc.
Emerging	Emerging currencies could be penalized by the Federal Reserve's asset purchase policy changes. These uncertainties lead us to remain Neutral.

ALTERNATIVES	p8
Hedge funds	Our preferred strategies are Special Situations, directional L/S Equity, discretionary Global Macro and CTAs.
Gold	Gold appears to be a good hedge in case of disruptions in the risky markets. We remain Overweight.
Oil	The price of oil has been strongly impacted by Hurricane Ida and the evolution of the pandemic. We maintain our Neutral position.

Source: SGPB, 06/09/2021
* Duration: short = 3-5 years, medium = 5-7 years, long = 7-10 years
HY = High Yield bonds (higher return but greater risks), IG = Investment Grade bonds (higher quality but lower return)

ECONOMIC OUTLOOK

An Economic Recovery Contingent on "Living with Covid"

The continuing pandemic crisis is stoking fears of a resurgence in mobility restrictions that could hobble the recovery. However, this risk should remain limited in the developed economies, where vaccination rates appear to be effective. In addition, monetary policy and financial conditions will continue to sustain the recovery over the next few months. On the other hand, the emerging economies will suffer from their unequal access to vaccines and the capacity of their policies to support economic activity.

During the summer, Delta's dominance and issues getting people vaccinated generated uncertainties over how long the economic recovery that started early in the year could last. These new doubts made people aware that the public health crisis would be around for a while, and that economic activity would hinge on how well citizens and political decision-makers could "live with Covid".

In countries where vaccination is reaching relatively high rates – such as the United States and Europe – social-distancing rules that are hampering economic activity will be gradually relaxed, allowing the recovery to continue. Some countries with lower vaccination rates are still imposing strict public health policies (such as the "Zero Covid" policies in China, Japan and Australia) with restrictions that could have a greater impact on their economies, depending on how the virus tracks. As a result, there is a risk of substantial disparity in the world's different regional economies

While the IMF has confirmed its growth forecasts for the global economy (+6.0% in 2021 and +4.9% in 2022), the outlook for the emerging markets and developing economies has been scaled back for 2021, particularly for emerging Asia. In fact, the emerging economies will suffer from reduced access to the vaccines as well as less support from their fiscal and monetary policies. China, in particular, is facing a slowdown in its economy, both because of external demand (slowdown in exports) and its domestic demand (decline in consumption due to lockdowns).

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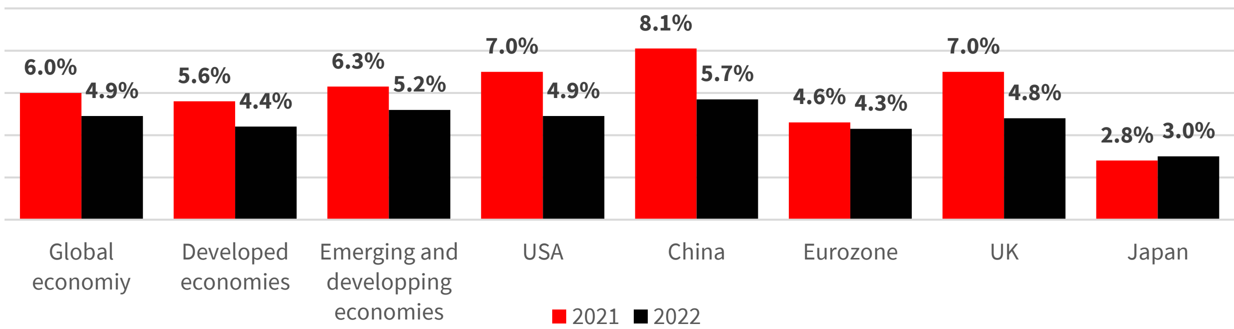
Conversely, the forecasts for the advanced economies have been revised upward, supported by a recovery in consumption with public health restrictions ending and stimulus plans being implemented, especially in the US.

Moreover, the public health crisis continues to cause persistent difficulties for some sectors and production chains. These difficulties are putting pressure on the costs of some inputs, which may threaten business margins or inflation if some of those costs can be passed through to resale prices. The majority of these recent price pressures reflect temporary factors. In most countries, inflation is expected to return to pre-pandemic levels in 2022. While these pressures should remain transitory, they do present a risk worth watching, especially for the emerging economies where the impact of food prices is relatively bigger for consumers.

The developed economies' central banks are expected to maintain an accommodating tone, even if they do begin to taper their sovereign bond purchases. In so doing, they should adapt to the gradual reduction in the States' financing needs. In China, where the central bank had taken a step toward easing its policy before the summer, the economic uncertainties will confirm this move toward a more accommodating monetary policy.

IMF growth projection



Source : SGPB, IMF, 07/2021

FIXED INCOME

Little Appeal

Today's environment of a continuing recovery continues to present a challenging backdrop for bonds. We are staying Underweight in developed sovereigns and credit. We are choosing to Overweight emerging sovereigns, to profit from yields that we deem to be attractive.

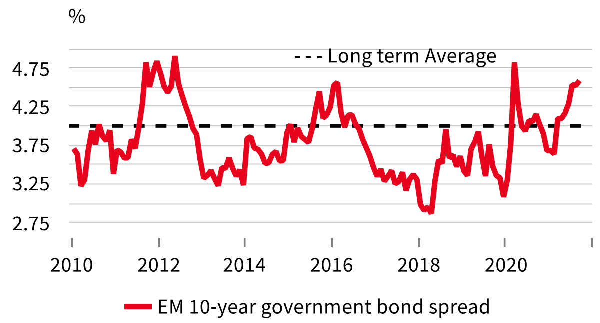
Sovereigns

US. After a quick climb at the start of the year, 10-year Treasury yields sank, stabilising at around 1.30% at summer's end. The situation stems from fresh worries about the pandemic's path, which have overtaken inflationary concerns. However, we think the vaccines will allow the economic recovery to continue, and that inflation's rise this year will be transitory (see Economic Outlook, page 4). We also anticipate that Treasury yields will climb toward 2.0% over the next twelve months. We are keeping our Underweight.

Euro zone. Ten-year German Bund yields followed a trajectory similar to US Treasury yields and recently moved back to near -0.36%. The movement was more modest than in the United States because the recovery remains more moderate in the Euro zone. In addition, the ECB is maintaining its large-scale asset purchase programme, which helps keep rates low and spreads contained between Euro zone countries. However, with a recovery confirmed in the last quarter, Bund yields should follow Treasury yields upward. We are keeping our Underweight.

UK. Yields on 10-year sovereign bonds ("gilts") settled slightly to 0.70%, after increasing over the first months of the year. Yields are expected to keep climbing on the back of the rapid increase in vaccinations in the UK and market expectations of monetary policy tightening starting next year. We are staying Underweight.

EM bond yields look attractive



Source: SGPB, Macrobond, MRB, 03/09/2021

Credit

US. In early January we moved Underweight on IG bonds, considering that tight yield spreads offered only limited protection against an increase in Treasury yields, and that is exactly what happened, because the sector's performance has been negative year-to-date. In the short term, spreads tightened again to 87bp, close to 2018's all-time lows, and we do not see any reason to adjust our position. HY spreads at 326bp are close to the low points prior to the 2007 collapse and are of little interest.

Euro zone. At just 0.35%, yields on euro IG bonds remain deeply unattractive given the 1.6% core inflation in August. Price declines will be cushioned by a pick-up in the ECB's purchases, but those low yields have limited prospects for capital gains. We are keeping our Underweight. HY in euros offers little more appeal – yields remain close to April's all-time lows and spreads are back at only 300bp. We are keeping our Underweight.

UK. IG spreads over gilts are back to historical lows, as are those of speculative bonds, proving unattractive for investors looking for income. The macro environment is still good but spreads so tight will offer only limited protection if conditions worsen – for example if inflation should rise sharply. We are staying Underweight.

Emerging Market (EM) debt

We have chosen to move from Neutral to Overweight on EM sovereign bonds, which look attractive in terms of yield. Even if the economies are likely to continue to suffer the effects of the pandemic, they would benefit overall if the recovery in developed countries was confirmed. It appears the Federal Reserve's monetary policy announcements ("tapering") would come as no surprise to market operators and would not destabilise this asset class. All in all, the risk/return trade-off does look positive for EM sovereign bonds.

EQUITIES

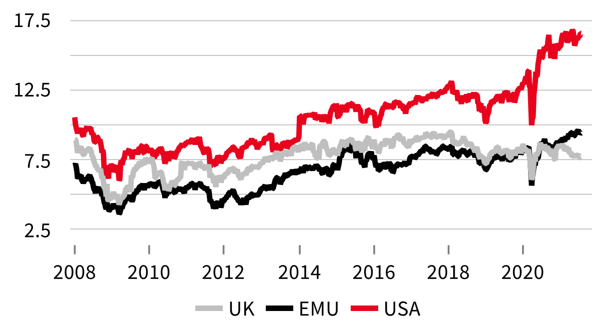
Taking advantage of the Recovery

Equity markets in the developed economies broke records over the summer, despite uncertainties inherent to the pandemic. We remain Overweight on equities, which will continue to profit from the continued economic recovery and the liquidity still being pumped in by the central banks. We are focused on exposure to the euro zone and the United Kingdom, which have better growth potential in this recovery.

US. US equities closed out August at an all-time high thanks in particular to the Federal Reserve Chair's remarks at Jackson Hole, which reassured the markets while maintaining an accommodating tone. Jerome Powell began by reiterating his analysis that current inflationary forces are transitory. He went on to confirm that the Fed would not adjust its asset purchases (tapering) before the end of the year unless economic conditions progressed as anticipated. By year's end, the market could continue to benefit from the ongoing economic recovery, with liquidity still abundant and share buybacks favourable. However, valuations are extremely high at present, with a price-to-cash flow ratio of 16.5x, while the cyclically-adjusted price-to-earnings ratio has only ever been higher during the dot-com bubble. Furthermore, some risk factors persist, including how quickly Americans are being vaccinated and whether the Democrats can implement both stimulus plans. On balance, we remain Neutral on this market.

Euro zone. Euro zone equities have also profited from the influx of cash but continue to show attractive growth potential. This market should benefit from the continued strong economic recovery, mainly due to very high vaccination rates in EU member countries and upgraded earnings guidance from analysts who are still expecting faster growth than in the United States both this year and next. We continue to favour cyclically sensitive sectors such as materials, industrials, financials, consumer discretionary and energy. We remain Overweight on this market.

More attractiveness for European markets according to price-to-cash flow ratio



Source: SGPB, Macrobond, MSCI, 03/09/2021

UK. We are keeping our Overweight on UK equities. The UK is the most attractive market we follow, with a 9% discount to its ten-year average on the price-to-cash flow ratio and pays a dividend yield of 4%. Earnings growth this year will exceed most other developed markets, with a consensus of +76.8%. In addition, restrictions have eased, which should boost both the cyclical recovery and investor sentiment.

Switzerland. Despite their excellent performance in recent weeks, Swiss equities have continued to underperform the other geographic regions since last November's vaccine announcement. This underperformance is largely due to the very defensive nature of Swiss equities which are, by definition, much less cyclically sensitive than its neighbours'. In addition, analysts expect 12% earnings growth this year, which is well below the other developed countries. Still, the fundamentals remain solid and Swiss equities are of high quality, which should offer some protection against any potential drop.

Japan. Although equity valuations are relatively attractive, Japan is still mired in the pandemic, with a resurgence in new cases and hospitals at capacity, forcing its government to reinstate lockdowns. This public health situation will continue to hamper the economic recovery, while the idea of a major stimulus plan is emerging in the run-up to September's elections. We remain Neutral.

Emerging Markets. Concerns over the impact of Chinese regulations, both locally and globally, along with the data showing a slowdown in growth have driven emerging equities down. And with the increase in coronavirus cases, analysts have reduced their year-end growth forecasts. Nonetheless, the emerging markets are drawing new interest due to their reasonable valuations and expected earnings growth over the next few years. We remain Neutral.

CURRENCIES

Sideways for now

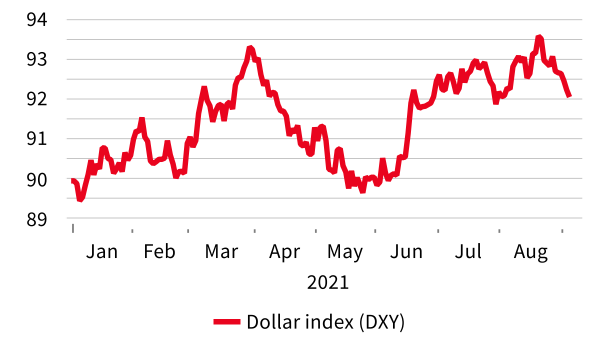
No fundamental trend is anticipated in favor of major currencies and uncertainties linked to the pandemic remain. We thus remain neutral on major currencies.

Dollar Index. The greenback has been relatively stable versus its counterparts over the last few weeks. Expectations that the Federal Reserve's interest rate hiking cycle is nearer than previously thought have been pared back following Chair Jay Powell's dovish remarks at the Jackson Hole summit. The medium outlook for the USD is more positive but FX volatility is expected to rise. We thus remain Neutral on the Dollar.

EUR/USD. Vaccine rates in Europe have picked up markedly since the spring, and they have led to much stronger economic growth. This is clearly seen in the Composite Manufacturing Purchasing Managers' Indices registering at 59.5 in August 2021. While slightly lower than July's 15-year high of 60.2, here too a solid expansion in the bloc's business activity is clear, particularly in the service sector where growth exceeded that of manufacturing for the first time since the pandemic. Nonetheless, this has not flowed through to a much stronger euro thus far, which remains well almost 20% below its purchasing power parity value against the US dollar. Nonetheless, for the first time in a decade, inflation is at 3%, far above the European Central Bank's 2% target. Some believe this combination of cheap valuations, better growth and high inflation suggest the ECB may scale scaled in quantitative easing earlier than previously thought. While we have a neutral view, there is an upside risk to the single currency.

GBP/USD. The Bank of England kept rates and bond purchases unchanged at its most recent monetary policy meeting, at 0.1% and £896 billion, respectively. Inflation is moving up and could hit 4% later this year although this is expected to be temporary. Despite the recent rally in the USD, the pound has held at about the $1.38. While the UK took a very heavy hit during the pandemic, the re-opening of the UK economy is proving to be a boon for the pound. For Q4 this year, we are sticking with a slight upside forecast of $1.40.

The US dollar has been relatively stable this summer



Source: SGPB, Macrobond, ICE, 03/09/2021

USD/JPY. The US dollar has hovered around the 110-level versus the Japanese yen. However, it hasn't been a one-way street, with the cross challenging the 108.75 area of support over the last couple of weeks. Volatility is on the rise, and the Yen remains a pawn, with US yields and rate expectations dictating play. Furthermore, there isn't much to get excited about in Japan, with economic growth expectations recently being revised lower. Japan is struggling to bat off the pandemic, and the BoJ is nowhere near being able to increase rates, with inflation still being just a pipe dream (most recent figures of -0.3% still shows deflation). Overall, we would expect the cross to remain in the 110.00-112.00 trading range for the months ahead.

EUR/CHF. After rallying to 1.11 in February, the EUR/CHF exchange rate has eased lower to just above 1.07. Both the euro zone and Switzerland should register strong cyclical recoveries in H2 which should encourage risk appetite and a shift away from safe havens like the Swiss franc. However, we see few factors that would justify extensive CHF weakness – Switzerland's fundamentals remain robust – and we expect modest upside in EUR/CHF towards 1.13 over the next 12 months.

EM currencies. The JPMorgan EM currency index has had a rocky Summer, falling over 4% from a June high to an August low, before rallying meaningfully in late August and into September. Part of this reflects the news flow from China, where a month-long rise in Chinese internet stocks has followed a dramatic fall following a regulatory crackdown by Beijing. The road ahead is likely to continue to be rocky for EM in general, especially if the US dollar strengthens due to an earlier than expected tapering for asset purchases by the Federal Reserve.

ALTERNATIVES

Volatility is Back

Oil prices have been hit hard by Hurricane Ida and the changing COVID-19 situation. However, we are maintaining our Neutral position. Gold continues to offer protection in the event of a downturn in risky markets, which is why we remain Overweight. In hedge funds, our preferred strategies are Special Situations, directional L/S Equity, discretionary Global Macro and CTAs.

Commodities

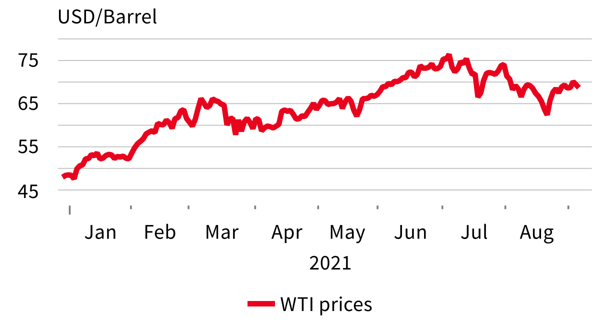
Oil. Oil prices dropped sharply in August – for the first time since March – with WTI down -7.4% and Brent down -4.5% in light of concerns over demand in the wake of Hurricane Ida and doubts over the recovery due to the pandemic's track. Ida hit Louisiana as a Category 4 hurricane, forcing 95% of the oil and gas rigs in the Gulf of Mexico to shut down, hitting output to the tune of over 1.74 million barrels per day (mb/d). Ida also caused the largest privately owned crude export and import terminal in the United States to shut down, side-lining almost half the country's refining capacity. Added to this natural disaster is the spread of the Delta variant throughout the world, which is triggering new public health restrictions in several countries. However, these concerns were allayed somewhat at the end of the month, enabling oil to post its best weekly performance in 2021 at 10%.

On 1 September, the OPEC cartel of oil producers and its allies led by Russia agreed on a strategy to gradually increase output and will pump an additional 400,000 b/d in October. This announcement, which was expected by the market, follows on from their mid-July meeting, at which they committed to a monthly output increase of this magnitude until autumn 2022. The decision, which only covers October, also demonstrates the alliance's caution, in that it is leaving the door open to make further adjustments next month.

A barrel of Brent is expected to generally trade between $60 and $70 over the coming months.

Gold. After falling early in the month, gold recovered to close to its end-July level. We believe that gold remains an effective diversifier due to its weak correlation with equities. We are remaining Overweight in order to balance our overall positive position in risky assets.

Volatile summer for oil prices



Source: SGPB, Macrobond, 06/09/2021

Hedge funds

Long/Short (L/S) Equity. L/S Market Neutral funds generated strong alpha thanks to a dynamic market timing, with momentum and value exposures initially high, before shifting to defensive stocks. L/S Diversified funds generated a more modest and heterogeneous alpha depending on the region. We continue to prefer them for the time being, given the strong contribution from their more directional bias.

Event Driven. Merger Arbitrage managers benefited greatly from the strong flow of deals. Quality selection allowed them to take advantage of the rather high average spreads and to avoid being impacted by the correction in SPACs (Special Purpose Acquisition Companies, newly-listed stocks which seek mergers with promising private companies) which has subsided. Special Situations managers have also benefited fully from the numerous restructurings, often accelerated by the effects of the pandemic. Their stock selection and sector positioning also allowed them to be less affected by the high volatility of value stocks. This buoyant environment for event-driven investments is expected to continue.

Fixed Income Arbitrage. Fixed income managers have successfully arbitraged the bond downturn and, to a certain extent, the rebound, particularly in Europe where trends have been clearer. Less directional markets could result in more modest returns from now on. L/S Credit managers have done a good job of market-timing (initially conservative before adding risk), but stock-picking alpha has been thin, given the pulled valuations and flows that have helped compress dispersion among corporate bonds. While alpha should improve, thanks to greater differentiation between issuers, we expect a modest contribution in beta. All in all, we remain Neutral.

Global Macro / CTAs. A mixed year for Global Macro managers, caught short by the Q2 reversal in US rates, doubts about reflation, and weak directionality in currency markets, without participating fully in commodity and equity trends. Periods of major macroeconomic shifts (the end of the pandemic and changes in fiscal and monetary policy in this case) are generally unfavorable for these strategies. The continued normalization of the economies should be more favorable next year. Commodity Trading Advisors (CTAs), on the other hand, have done well, benefiting fully from their exposure to commodities and equities. Market directionality and more uneven trends may now be less favorable for them.

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