2pm PERSONALIZED PORTFOLIO MANAGEMENT

Quarterly marketreview

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# Editorial

The nice increase that began in early November in the financial markets continued during the first quarter of 2021, after the positive announcements from Pfizer-BioNTech concerning the effectiveness of their anti-Covid vaccine. Despite a longer and stronger wave of infections late last year (mostly in the West, with Southeast Asia and Australia doing better in containing the epidemic), GDP Q4 2020 came out stronger than expected overall, however with geographic differences. Thus, it is rather household spending that supports growth in the United States, while in Asia, industrial production and exports seem to be the main factors of the recovery. What's more, the results published in recent weeks by both American and European companies have generally come out better than expected.


On the vaccine front, the news is encouraging in both the United States and the United Kingdom, and we begin to see light at the end of the tunnel in these two areas. The situation is quite different in continental Europe, which is proceeding in dispersed order and is struggling to gain momentum on this issue. Shortage of available doses, bureaucratic red tape, hesitation waltzes on the Astra-Zeneca solution, mistrust from part of the population, contradictory speeches from scientists, in particular on the question of the effectiveness of current vaccines on new variants… All this does not help. That being said, with the next Jensen solution, or even Sputnik, if Europe accelerates its procedures, mass immunization seems a goal now achievable on the Old Continent at the end of the second half of 2021, with a return to normal levels in the social and economic activities. It has also helped the stock markets which always anticipate the good news by a few months and keep all eyes on the timing of the reopening of economies. This is how the Eurostoxx50 index rose 10.32% in Q1 2021, against +5.77% on the S & P500 and a small +1.58% for the Nasdaq 100.

This is one of the major themes of the first quarter of 2021: the continued outperformance of "value" and cyclical stocks after years dominated by the "growth" model. A theme that we will explore on the next page in our Wide Angle. Tech stocks, which drove the US market higher last year, have temporarily slowed down, while emerging markets, which also performed excellently in the second half of 2020, are content for their part with a modest +1.95% since the beginning of the year. Figures to be put into perspective, however, given the rise in the dollar against EUR of +/- 4.5% over the first quarter, which ultimately gives us a performance expressed in EUR quite similar for the Eurostoxx50 and the S & P500, to the order of 10%.

It is a very good performance for these two markets, which also benefited from the maintenance of accommodative monetary policies on both sides of the Atlantic. Jerome Powell, the chairman of the Federal Reserve, pledged a fortnight ago to maintain a policy of strong support for the economy and hinted that he would not increase rates before 2024. As for Christine Lagarde, President of the ECB, she was also cautious, specifying that "the short-term economic outlook is subject to uncertainty, linked in particular to the dynamics of the pandemic and the speed of vaccination campaigns." The European Central Bank also increased its bond purchases on the markets by almost 50% three weeks ago.

Another element of support for Western stock exchanges is the massive support plans deployed by the public authorities, starting with the $1900 billion American Rescue Plan. This law will notably provide emergency aid to millions of Americans, extend Employment Insurance benefits and provide financial support to states and local governments to deal with the crisis. Seven weeks after taking office, this is a significant step for Joe Biden, who has made the management of the pandemic one of the key elements of his election campaign. This plan to support the economy, the third major adopted since last year, represents one of the most important federal contributions since the Great Depression in the 1930s. The Biden plan includes, among other things, a new series of "assistance allowances of up to $1,400 per person depending on income level, the extension of weekly employment insurance benefits of $300 per person until September 6 and the increase in the child tax credit to $250 or $300 per month/per child, depending on the age of the children. It also allocates $350 billion in aid to states and local governments, tens of billions for immunization and screening, $30 billion to support the reopening of schools, as well as various assistance programs for small and medium-sized businesses. totaling nearly 50 billion. Other measures include, for example, sums for housing and food support as well as temporary health care subsidies. These $1900 billion are on top of the $900 billion voted by the Trump administration at the very end of last year. It’s extremely significant and there’s more…

| | Q1 2021 | FY 2021 | Close 31/03/21 |
|---|---|---|---|
| DOW JONES | 7.76% | 7.76% | 32 981.55 |
| S&P 500 | 5.77% | 5.77% | 3 972.89 |
| FTSE 100 | 3.92% | 3.92% | 6 713.63 |
| EUROST.50 | 10.32% | 10.32% | 3 919.21 |
| CAC 40 | 9.29% | 9.29% | 6 067.23 |
| FTSE MIB | 3.92% | 3.92% | 24 648.56 |
| MSCI EM | 1.95% | 1.95% | 1 316.43 |
| CRUDE OIL | 21.93% | 21.93% | 59.16 |
| GOLD | -10.04% | -10.04% | 1 707.71 |
| EUR/USD | | | 1.1730 |
| EUR/CHF | | | 1.10698 |
| EUR/GBP | | | 0.85106 |
| EURIBOR 1M | | | -0.556% |

On the agenda of the White House these days is the brand new Infrastructure plan of 2,000 billion additional dollars which would break down as follows: 621 billion on transport infrastructure (roads, railways, bridges, etc.) with a focus on clean energies; 650 billion on the quality of life at home (construction and rehabilitation of housing, construction of schools, underground drinking water network, broadband internet network for everybody ...); 400 billion for housing solutions dedicated to the elderly with expansion of the Medicaid program; and finally 300 billion for Research & Development and the construction of factories, of which 50 billion solely for semiconductors.

All of this constitutes powerful support for the US economy, whose GDP is expected to grow 6.5% in 2021. But the enormity of this support is nonetheless starting to worry more than one operator. How is it all going to be funded? Should we expect further massive tax hikes in the United States?

*EDITO PART 2* Wouldn't so much stimulus on an economy which is already doing very well generate inflation? Some of these fears are already reflected in the recent trend in the 10-year rate of return in the US, which fell from 0.9% at the end of December to 1.75% as of March 31.

The situation is quite different in the EuroZone which should only grow by 4.2% this year (optimistic hypothesis), with the significant delays in regard to the vaccination campaign, lockdowns still in force in several countries, several countries' economies dependent on tourism quite severely impacted (Spain, France, Italy, etc.). The pressures on prices are more than contained and we expect the ECB to maintain its status quo on rates for another two years, especially since unlike the United States, the implementation of the European recovery is taking place more slowly and should only make most of its effects felt in 2022. It is for this reason that the yield curves of countries like Germany and France are still largely in the negative on all maturities. As of March 31, the yield on the 10-year German Bund was thus around -0.30% vs. -0.569% on December 31.

The Asia-Pacific region, for its part, is benefiting from a stronger recovery, with China expected to experience growth of around 8% this year against a backdrop of increasing trade, and India which, due to a faster-than-expected reopening of the economy and of the fiscal stimulus, for its part, should grow by 10 or 11% in 2021. This confirms our idea of remaining geographically diversified in our portfolios, which less than ever, cannot do without exposure to China and all of the emerging countries.

If we had to summarize our main scenario in a few words, we would say: improving health situation with the immediate consequence of the normalization of economic activity, supported by monetary and fiscal policies which are still very accommodating, all this paving the way for an orderly reflation, with admittedly upward pressure on long rates, but manageable for equity markets as long as growth in the GDP and corporate profits continues.

# The Big Picture

## Value or Growth ?

*Are you "growth" or "value"?*

*The question may seem preposterous, but in the world of finance it is becoming commonplace and could be similar to the question of everyday life: are you sweet or salty? tea or coffee?*

*The "value" investment style involves investing in discounted securities with particularly low valuations. This may be for cyclical reasons. It is often the case with companies producing commodities linked to economic cycles, such as oil stocks dependent on changes in the price of a barrel. It may also be for structural reasons, such as European banks since the 2008 subprime crisis.*

*The "growth" investor is more interested in the growth of turnover and earnings rather than the intrinsic value of the stock. This has obviously been the case for several years with technology stocks like Apple and Google, or even innovative companies with promising prospects like Tesla.*

*The patient investor, rather cautious and in search of dividends, will tend to choose the "value" mode, whereas the more dynamic investor, looking for a rapid return on investment, will favor the "growth" mode.*

*But beyond this contradictory debate, is there a more efficient strategy than another?*

*Should we make a final choice or, on the contrary, go from one to the other?*

*History teaches us that over a very long period of time, "value" ends up generating higher profitability, even though in times of recession, "growth" tends to outperform.*

*Such an illustration took place in 2020 with the rise of titles like Amazon or Netflix, while the oil or real estate companies for example, were dropping. However, these alternating cycles of outperformance from one style to another can last for periods of at least 10 years.*

*Which investor can take the risk for psychological reasons of "underperforming" often deeply over such long periods, especially in a world whirling faster and faster, and where investors expect more rapid returns on investment? If we examine the evolution of these two modes of investment over the past 20 years, what do we observe? It seems that we can divide the period into two sequences:*

*The 1st decade 2000-2010 shows a large outperformance of the value style: From January 1, 2000 to December 31, 2009, this style recorded a performance of -10% where growth, due to the bursting of the internet bubble and then the subprime crisis, experienced a drop of more than 50%. At its decade high in May 2007, value was up 30% while growth, down 7%, still failed to regain pre-bubble levels.*

*Conversely, since 2010, the outperformance of "growth" has been spectacular: it more than doubled until December 2020, while at the same time "value" fell by 7%.*

*The "fault" obviously among others rests with oil stocks which dropped 30% over the period and especially with the banks which lost two-thirds of their value, weighed down by over-regulation, competition and interest rates. The difficulty is twofold: to show adaptability, not to be fixed on a style; the second is even more complicated: when to change your style?*

*To face the decade which promises to be still filled with uncertainties, it is more than ever necessary to entrust management to the professionals who are by nature agnostic, and who by experience thoroughly know the advantages of a diversified approach.*

*Geoffroy de Villaines*

# Macro-economy

**OECD: Almost universal increase in growth targets for 2021**

- **Global growth is now expected to rise by +5.6% against +4.2% in December by the international organization.**
- **Driven by the increase in forecasts for US growth by more than three points to +6.5% and a probable return to pre-crisis activity from the second quarter of this year.**
- **For Europe, the OECD predicts that it will take a year to reach returns to normal levels (during 2022). Activity is dragged down by France and Italy lagging behind and an overall failed vaccination campaign.**

**Manufacturing activity: In full swing**

- **The main indicators are at very high levels and show synchronized acceleration.**
- **Almost all areas show extremely dynamic levels: USA, EuroZone and China.**
- **This acceleration is not without raising supply concerns; there are bottlenecks, particularly in electronic components, and a rise in the price of certain raw materials.**

**Service activity: This is where the gaps widens**

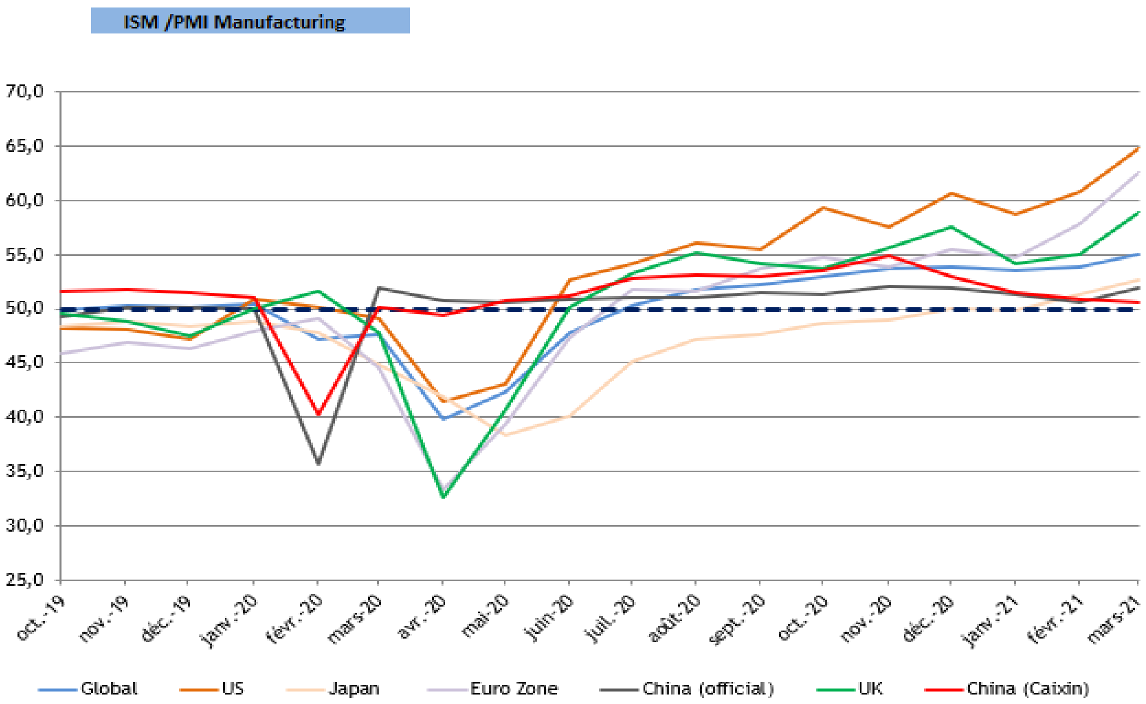
- **With the reopening of work spaces and the recovery plan, the ISM services index remains close to 60 in the United States.**
- **In Europe, the indicator does not exceed 50, penalized by restrictive measures and other confinements.**
- **In China, the activity of services accelerates and passes in March from 50.6 to 56.3.**

**Inflation: Figures contained, expectations high**

- **In the US, the latest inflation figure is reassuring; at +1.7% it is still below the Federal Reserve's target of +2%.**
- **Inflation is expected to spike during the summer before decelerating again at the end of 2021.**
- **In Europe, inflation at +1.3% is not an issue for the moment (+0.9% excluding energy and food). However, beware of imported inflation if the rise in commodity prices is coupled with a further weakness of the euro.**
- **In China, with an already restrictive monetary policy, the price level fell over the first two months of the year, and over one year the increase was contained at +2%.**

*Damien Liegeois*

**ISM/PMI manufacturing since october 2019**



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## Special Topic

***Towards a new cold war?***

*On the one hand the Westerners, with the USA in the lead, and the others China and Russia, the good against bad; the good against evil. Unfortunately, this is not the script of a bad movie, and it calls to mind for older generations the post-WWII divide, or more recently of the Axes of Good and Evil dear to G.W. Bush in 2001.*

*This division of the world is being pushed by the American "hawks" who fear that America will lose its place as the first diplomatic, technological, monetary and economic power to the profit of the middle empire. It was believed that with the defeat of Donald Trump, things would work out less formally, but it is clear that Joe Biden intends to continue the confrontation. He starts off strong by treating Vladimir Putin as a killer and the Chinese authorities as perpetrators of genocide.*

*The policeman of the world who has nothing to be ashamed of either in domestic politics or in foreign policy (20 years of chaotic politics in the Middle East and West Asia), seeks to reduce the Chinese influence by any way possible. Moreover, after having mistreated them for 4 years, the Americans would like to unite the Europeans with them. Not so simple, since in theory the new European foreign policy doctrine is strategic autonomy; in short, neither for one nor against the other, a way of seeking to free oneself from American influence. The historic trade agreement signed with China at the end of 2020 is an illustration of this, but its recent rapprochement with the United States on sanctions targeting Chinese leaders over the Uighur minority is already putting Europe at odds and illustrating internal divisions on the subject.*

*The first direct consequence of this divide is that the West is pushing Russia into the arms of China. The latter are strengthening their cooperation at both diplomatic and economic levels. With a common desire to reduce their dependence on the US economy and the dollar. In this process, Russia is already well advanced since the first sanctions following the annexation of Crimea. Russian dollar debt has melted, the dollar's share of foreign exchange reserves has fallen from 40% to 20% in just a few years, and Russo-American trade is now close to zero. For China, it will be more complicated but its objective is clear, it wants to free itself from its economic and technological dependence on the United States. This requires a focus on research and development, the natural increase in internal consumption and greater influence in Asia. They have certain advantages to achieve this: the time, the means, a stable currency and for the moment a whole people behind them.*

*The big difference from the last Cold War is that at that time the Soviet Union and China had virtually no trade relations with the Western Bloc, they were economic dwarfs. Today both are integrated in international trade and the weight of China in world growth is decisive. In the medium term, it is possible that American and European companies have the most to lose as they export and sell on Chinese territory. US companies alone sell nearly $600 billion worth of goods a year in China, compared to US $100 billion for Chinese companies in the US. China also became the Euro Zone's largest trading partner for the first time in 2020 ahead of the USA.*

*By systematically seeking to stigmatize China, the American leadership is pushing it towards independence, but in this scenario it could be the one who suffers the least.*

*Damien Liegeois*

*EDITO PART 3*

What are the risks in this scenario that we will have to carefully monitor in the coming months?

First of all, the risk of misreading the Fed, which could underestimate the consequences on prices and wages of this remarkable American stimulus. Running behind the curve, it could in this hypothesis be forced to raise short rates too quickly, which would not only slow down US growth but would create a climate of uncertainty and volatility which could transpire in other financial centers. And if in reaction long rates were to rise too high in the US, this could prove problematic for some emerging countries too dependent on foreign investors for the financing of their debt and which could suffer capital outflows.

Second risk, the health risk. The virulence of certain variants (English and South African in particular) sows trouble and forces researchers to constantly question them. Listening to them, we understand that the need for future vaccination will depend on the effectiveness of current vaccines against existing variants and against those which may emerge. It is possible that the variants will require new vaccinations in the future, especially if the level of efficacy of the current vaccines were to decline very sharply. However, this would not really mean the injection of a third dose of the same vaccine, since it is a question of developing immunity against a new form of the virus. A dose identical to the first two would not make it possible to stimulate an effective immune response against emerging variants. The vaccines then dispensed would be adapted to the new strains, like those offered every year against influenza. The cost of these campaigns should continue to be exorbitant…

Third, the geopolitical risk with ongoing complicated relations between the West and China, the Middle Empire clearly wishing to free itself from its economic and technological dependence on America, a point that we will develop in our Special Topic on page 4.

Finally, the recent surge in the Bitcoin must make us aware of one thing. A growing fringe of investors no longer trust traditional currencies and central banks whose balance sheet sizes have grown dramatically in recent years. This should encourage us to look carefully at what is happening at the level of cryptocurrencies and to keep preciously in our portfolios a respectable size allocation on Gold, the yellow metal being able, like the Bitcoin, to prove to be an interesting asset in systemic crisis, with another sizeable advantage in these periods of strong economic recovery: its propensity to traditionally be a good protection against inflation.

*Christophe Carrafang*