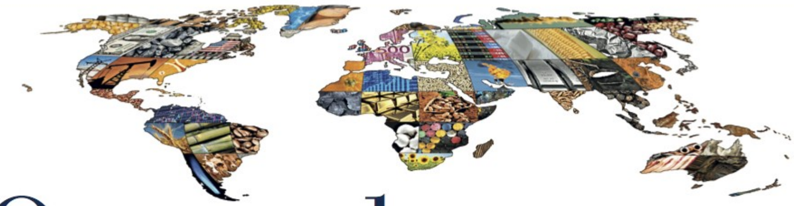
2pm PERSONALIZED PORTFOLIO MANAGEMENT



Quarterly market review

JULY 2022

Editorial

An extraordinarily difficult first half on the markets…

Around 20% drop for the Eurostoxx50, the S&P500, the MSCI Emerging Markets. Almost 30% drop on Nasdaq technology stocks! And no shock absorber to mitigate this carnage on the equity markets. Whether it is bonds, with a drop of 13.91% YTD for the Bloomberg Global Aggregate Total Return index, or the yellow metal, with a decline of 1.20% over the first 6 months of the year. In the end, the greenback was the only refuge with an appreciation of almost 8% against the euro.

Investors have had to deal with many diverse and mostly unforeseen problems: the Russian-Ukrainian war, soaring inflation, vigorous monetary tightening, massive lockdowns in China, accentuating the phenomena of disruption already observed last year in certain production lines…

All these subjects are starting to be well integrated, even understood by the operators at the start of the summer. At the beginning of the year, the extent of the inflationary surge and the magnitude of the central bank response were far from clear. And no one objectively expected Vladimir Putin to launch a large-scale operation in Ukraine, on this European continent that was believed to be forever at peace. But the war is here, with a risk of getting bogged down which is not negligible and significant consequences on our gas supplies which will paradoxically force Europe to accelerate the energy transition it has been calling for in recent years, since COP21.

Inflationary pressures are still significant on both sides of the Atlantic, although core inflation may not be far from its peak in the United States. And equity markets, like bonds for that matter, are beginning to anticipate aggressive monetary tightening trajectories from central bankers, to say the least. The sentiment indicators are very oversold, a sign of a market psychology that has become very (too) pessimistic, which is often a tactical signal of a market reversal in the more or less short term and excess valuations, on the American stock market in particular, have been completely erased. The S&P500 fell below its 10-year average in terms of expensiveness, after the worst quarter since 2008 (The S&P500 has lost 16.45% in the last 3 months and the Nasdaq 22.47%!). Technical patterns are improving and many growth stocks have found significant long-term support levels.

Of course, it is still possible to witness in the coming weeks a final movement of capitulation as observed in March 2020 during the emergence of Covid or in March 2009 at the end of the subprime crisis. But we strive at 2PM to learn from each market correction. And among these lessons, we retain that it is periods of panic that can offer the best opportunities for informed investors, who know how to maintain a long-term horizon.

One of the major uncertainties for the coming months concerns the outlook for the US economy. The extent of monetary tightening led by the Federal Reserve to fight inflation creates the risk of a recession, at least technical, i.e. two consecutive quarters of negative growth. This recession, if it turns out to be deep, could lead to an even greater drop in the markets. But for now, our central scenario remains one of a measured slowdown or recession. The financial situation of households, still sitting on more than 2 billion dollars of excess savings accumulated during the pandemic, is rather good in the United States, as is that of businesses elsewhere and should protect the country from a too-strict slowdown. Core inflation could fall across the Atlantic during the second half of the year, but the main question is to know exactly to what extent. A clear and substantial decline in inflation figures would allay fears of excessive Fed tightening and a deep recession, but until that becomes clearer, markets are likely to remain volatile. The Consumer Price Index, excluding food and energy, may be peaking in the United States. The difficulty for the Fed is that headline inflation could rise further if international sanctions on Russian oil exports cause energy prices to rise further. Either way, the fixed income market now expects the Fed funds rate to reach 3.75% by mid-2023, which would be one of the fastest episodes of monetary tightening ever observed.

	S1 2022	Q2 2022	Close 30/06/22
DOW JONES	-15.31%	-11.25%	30 775.43
S&P 500	-20.58%	-16.45%	3 785.38
FTSE 100	-2.92%	-4.61%	7 169.28
EUROST.50	-19.62%	-11.47%	3 454.86
CAC 40	-17.20%	-11.07%	5 922.86
FTSE MIB	-22.13%	-14.90%	21 293.86
MSCI EM	-18.78%	-12.36%	1 000.67
CRUDE OIL	40.62%	5.46%	105.76
GOLD	-1.20%	-6.72%	1 807.27
EUR/USD			1.0484
EUR/CHF			1.001
EUR/GBP			0.8609
EURIBOR 1M			-0.508%

In Europe, the situation is also complicated for authorities. The Russian-Ukrainian war shows no sign of resolution for the time being, pressures on prices are still significant; the ECB is about to begin a cycle of short rate hikes of unknown magnitude with a peripheral risk again at the center of attention; we have seen it in recent weeks with a significant widening of the yield spread between Italian and German government paper. But the bigger risk is that Vladimir Putin will respond to the European Union's embargo on Russian oil exports by completely cutting off the gas supply to Europe. Last month, Moscow had already reduced its deliveries by 60% through the Nordstream 1 pipeline. If it went further, it could precipitate many countries, first and foremost Germany, into recession. The good news is that, like in the United States, all these uncertainties are starting to be well integrated, both from a stock market valuation point of view and in terms of the yields currently observed on the high yield bond segment.

As for China, the recent lockdowns linked to their astonishing "zero covid" policy slowed the economy during the second quarter and continued to disrupt supply chains, contributing to further pressure on prices. The risk of new lockdowns will continue until vaccination rates increase or the production of covid treatments reaches critical mass. That said, some rather positive elements are in the process of being implemented. China's central bank has started cutting interest rates and the government has announced more infrastructure spending. Further fiscal stimulus measures are planned in the coming weeks, which should help the real estate market to stabilize. Finally, optimism is

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growing day by day that the regulatory crackdown on tech companies is nearing an end. China, like all emerging countries, will remain an important component of our portfolios.

In summary, markets have shown some efficiency over the past six months. The decline in the global stock markets will have made it possible to find reasonable valuation levels which are slowly beginning to be compatible with all the uncertainties that we have mentioned. The levels observed on the yields of the high-yield bond segment factor in a severe recession, which is not our central scenario for the time being. In other words, a lot of negatives are starting to be priced into current market levels. Of course, until we see a little more clarity on the inflation front, it is likely that the stock markets will remain volatile for some time. The summer period, with its lower transaction volumes, was often the scene of market upheavals, sometimes significant, both up and down. But we remain attentive and as usual, as good long-term investors, we will endeavor to take a wise contrarian approach and to benefit from a possible capitulation movement to average our positions. The quality of the managers that we put in the portfolio also remains a crucial element for us to fully understand the future rebound.

C. Carrafang

The Big Picture

CRYPTOS – A UNIVERSE THAT IS STILL UNCLEAR...

The blockchain and cryptocurrency world has come a long way since Satoshi Nakamoto published the first Bitcoin white paper at the height of the Great Financial Crisis in 2008. Many innovations have been made but some debates still remain open and unresolved.

The most important technological challenge for cryptos is the one called "the blockchain trilemma": any type of decentralized financial solution, to be truly able to replace the current banking system, must meet three criteria: be secure - ability to guarantee the integrity of operations against malicious attacks, decentralized - accessibility, availability and transparency for all participants, and extensible or scalable - ability to absorb a potentially infinite number of users on the network. Unfortunately, today, most cryptocurrencies are forced to sacrifice one of the three aspects in the interest of the other 2. There is no clear winner among the various cryptos in this context. Bitcoin, for example, is still very late with the 3rd prerequisite, the one that would allow it to adapt to massive use of the currency.

Each cryptocurrency follows very specific rules encoded in its own blockchain: in the case of Bitcoin, a rule sets a cap on the available reserves of the currency: whatever happens, there cannot be more than 21 million Bitcoin in traffic. Today we have already exceeded 18 million.

With the widespread sharp decline in cryptos that has wiped over USD 1 trillion of value from the digital industry in recent weeks, and in particular with the spectacular near-bankruptcy of the Terra stable coin via its Luna token, one wonders about the advantages of one or the other possible rate regime: freely fluctuating or fixed parity.

Most cryptocurrencies, including Bitcoin, are free-floating: their purpose is precisely to create a payment system and a completely new type of investment, not linked to the “old systems” of the American dollar or even gold. . Unlike stocks, bonds, commodities, or real estate, the price of free-floating cryptocurrencies cannot be approximated by any tangible intrinsic value, but is purely defined by the effect of supply and demand. We therefore find a very low correlation between this asset class and the others. From the point of view of diversification, this type of investment could therefore find its place. Except when the benefits of diversification are most sought after, i.e. during market downturns, cryptocurrencies have so far proven to be even more volatile and underperforming than equities. The implied volatility of the currency is almost entirely linked to demand, concretely to market sentiment - because by definition, it is not pegged to any real asset; market sentiment, in turn, is the outcome of the story in which market participants believe most. It should come as no surprise, then, that statements from regulators or even tweets from recognized public figures can lead to massive price repercussions…

With the aim of becoming a new payment method on a global scale and for everyday transactions, price stability is an essential prerogative that neither Bitcoin nor other cryptos have been able to satisfy since their creation. Cryptocurrencies that are conversely fixed parity or pegged to a reference value are called "stable coins", but beware, they are stable against their reference, which means one can expect a volatility comparable to the volatility of the reference instrument.

An example is the cryptocurrency Tether. This system can be advantageous for people who live in countries where inflation is very high (certain emerging countries), their purchasing power being greatly deteriorated in the event of high inflation in the currency of their country. It could also replace the banking system for those who do not have access to it, but have a smartphone and with much lower fees on cross-border transactions than with the traditional system. However, recent events on crypto Terra have brought to the fore the need for and importance of all cryptocurrencies to be subject to consistent and objective auditing. They must respond to the same economic law as all other asset classes. Each project is different, but it will be imperative to provide a report on the accuracy and completeness of the financial information communicated to the public, whoever it is. It will be necessary to customize the specifics of the audit process according to each of the cryptocurrencies and to present consistent official accounting standards. All of this is on the agenda of the Financial Accounting Standards Board but still a long way from implementation.

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Macro-economy

Inflation: The star of the moment

- **Eurozone : The price index rose from +7.4% at the end of March to +8.6% in June. More than half of these price increases stem from the tension on energy prices (gas and oil) following European sanctions against Russia. The core index (excluding energy and food), more contained, stood at +3.7%, up +0.7% over the quarter.**

- **USA : At the same time in the USA, inflation rose to +8.6% against +7.5% at the end of March. The impact of energy prices is significant but less than in the Euro Zone; this is why the core indicator remained stable over the quarter but at high levels at +6%.**

- **China : China does not experience the same levels of inflation. Admittedly, the price indicator is progressing, but in a controlled manner; from +1.2% at the end of 2021 to +2.1% at the end of May. Difficulties in the real estate sector, the impact of lockdowns and the cheap purchase of raw materials and energy from Russia are keeping inflation under control.**

Manufacturing activity: Moderate slowdown

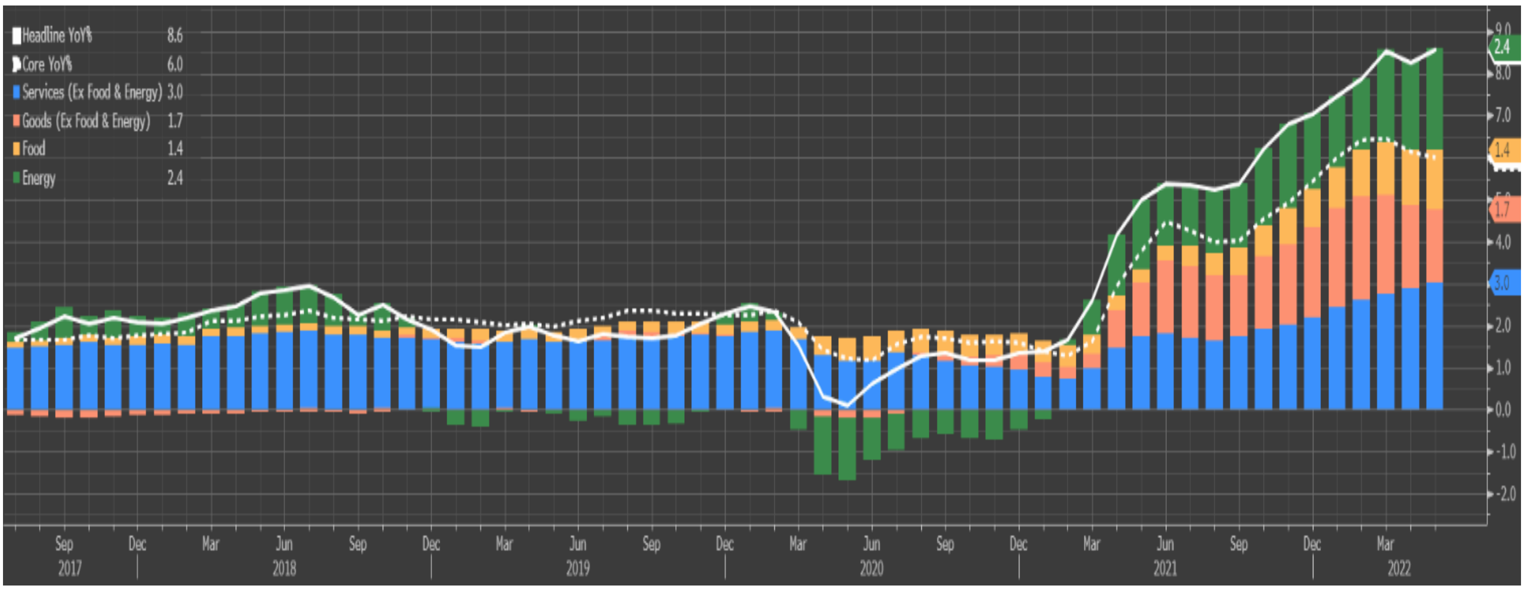
- **At the global level, we are witnessing a stabilization of activity at 52.2 against 53 at the end of March.**
- **In developed countries the decline is greater; -4 points over the quarter for the Euro Zone at 52.1, and -3 points in the United States at 53.**
- **In China, indices return to a positive position at 50.2 and 51.7, after two months of downturn.**

Services activity: Geographical differences

- **Strong come back in Chinese activity with the reopening of the economy. The services indices rose in two months from 12.8 and 18.3 to more than 54!**
- **The other good surprise comes from Japan, we have to go back to October 2013 to find an indicator at a level of 54 points.**
- **In June, the slowdown in the Euro Zone was notable: -3 points on the average of the previous three months, however the indicator remains in the growth zone at 53.**
- **In the United States, there is a lesser decline with an indicator still at correct levels of 55.3 points.**

D. Liegeois

US CPI Composition



Special Topic

Can we compare the current situation with the oil crises of 1973 and 1979?

History does not repeat itself, but some observers cannot help comparing the crises. As such, in March 2020, it was fashionable to refer to the crisis of 2008 or even that of 1929. The worst is always possible, but never certain.

It is true that the commonalities are obvious. An unexpected geopolitical crisis that pushes energy prices up, weighs on inflation, forces central bankers to quickly raise key rates, raising fears of a recession. Thus, the same sequence but the differences are numerous, starting with the range of movements.

In 1973 we are already in a global period of rather inflationary rate hikes since the middle of the 1960s, when oil prices suddenly multiplied by 6 (from 2 to 12$), and the same in 1979 when they multiplied by almost 3 to go from $13 to $35! The current crisis (excluding COVID disruptions) has taken the average price from around $60 to an average of $106 over the past three months (but the crisis may not be over). These high levels, unlike the 1970s, are not unknown to us; we have already lived in the past with oil prices around $100 (between 2011 and 2014). Where the situation is more comparable is the price of gas in Europe, which has experienced significant peaks and which has almost multiplied by 3 since the end of 2021.

In terms of inflation, the current shock is roughly equivalent since in 1973 inflation went from 2.6% to 12% and in 1979 from 6.5% to 15%. In both cases, it took almost three years to return to pre-shock inflation rates.

During the first shock, the key Fed rates went from 5.5% in October 73 to 13% in Q1 1974, before quickly reversing, because from the beginning of 1975 we had returned to pre-shock levels. In 1979 the action of the central bankers was even more drastic since the key rates peaked at 20% at the beginning of 1980. Here again, the anticipation of what the American Federal Reserve could do is not comparable with the reality of the 1970s.

On the activity side, growth suffered from this inflation, with a decline in GDP of -0.5% in 1974 and -0.2% in 1975, however GDP held up much better during the second crisis with growth of +3.2% in 1979. , -0.3% in 1980 and +2.5% in 1981.

And the equity markets in all this? The S&P 500 had the opposite reaction, falling in 1973 and 1974; -17% and -29% respectively (also for monetary considerations following the abandonment of the Bretton Woods agreements); it progressed strongly in 1979 +12% and +25% in 1980. Of course the composition of the S&P 500 was not the same with a greater impact on oil and industrial companies, a more marginal impact on health, finance and especially technology.

More generally, the world has changed a lot in terms of the energy mix. Dependence on fossil fuels continues to decrease with the acceleration of the energy transition, especially since we are in an environment where digitalization provides many alternative solutions to certain travel constraints, as we have seen in the Covid lockdown phases.

In conclusion, the differences are numerous, and unless there is a dramatic geopolitical explosion, we live in a world where we have more technological responses to deal with this type of crisis; comparison is not necessarily the right thing to do.

D. Liegeois

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A major challenge for the future of cryptocurrencies will be that linked to the world of the metaverse, whose platforms are already encouraging the use of cryptos, non-fungible tokens (NFTs) and other digital assets. It will be crucial to observe how the banking world will react by perhaps allowing the conversion of traditional currencies into cryptocurrencies. In the future, NFTs could become an asset class within asset management… It therefore seems imperative, for this to happen, that common standards of rules be created - in terms of data management, digital identity, transaction monitoring and the fight against money laundering - and that the authorities responsible for monitoring are designated.

To date, we can conclude that cryptocurrencies remain speculative assets for very risk-averse investors who are not afraid of high volatility movements. Companies from the blockchain ecosystem are more easily assimilated to venture capital companies than to listed companies.

Finally, interesting to observe with a little hindsight is the extent that the technological infrastructure necessary to launch and monitor a cryptocurrency has taken over the years: it is a market that now weighs more than 60 bn USD: a world still little known to the general public that covers all phases of the life of a crypto, from its creation, to the pre and post trade process, to the compliance and risk management aspect.

More broadly, blockchain technology is already widespread across many industries, such as the Internet of objects where it adds security to exchanged data, or in the health sector to resolve data fragmentation between different providers of services, or the environment with green projects that would help and encourage certain companies to balance their carbon footprint and achieve neutrality.

C.Corneri