Monthly review

Macro

"Reality is only an illusion, although it is very persistent". Albert Einstein

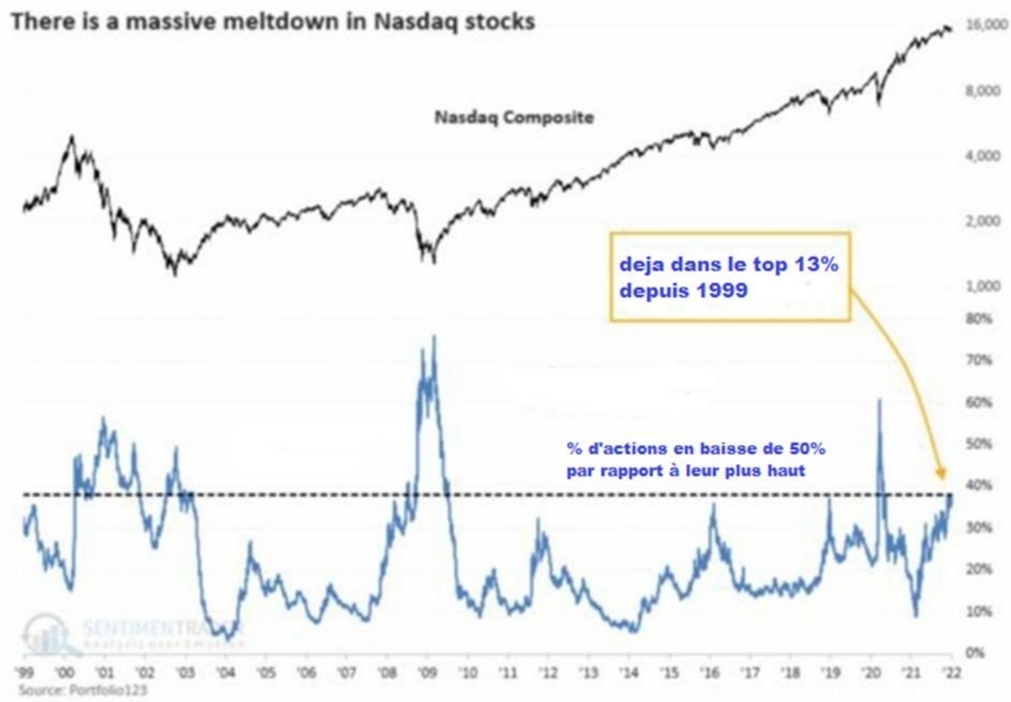
The return to reality may be brutal but strangely enough can go relatively unnoticed by the financial markets. Reports from the U.S. Federal Reserve in late December indicated that measures of inflation had risen to the highest levels in a decade and that the percentage of product categories that experienced substantial price increases continued to climb. The outlook for the economy and the labor market is also improving. As a result, raising rates sooner or at a faster pace than expected may be warranted.

We have experienced a kind of silent crash:

First, on the tech stocks with no profits, 40% of the Nasdaq Composite stocks fell 50% from their highs!

The total value of the crypto-currency market has fallen by 30% (there are now more than 12'000 cryptos!!).

The Federal Reserve has therefore sounded the end of the playground, easy money, the return to normalcy? And to reality?

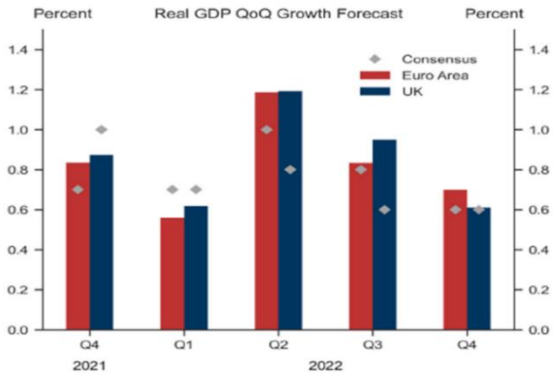


Perspectives

The prospect of a gradual rise in interest rates should curb speculation without, however, calling into question the attractiveness of equities. Indeed, given inflation, real rates should remain negative in 2022 in the major economies.

GDP growth, although less spectacular in 2022 (Covid crash and strong recovery in 2021)
is expected to be around 3.5% in the US and around 5% in Europe.

Exhibit 5: A Robust Recovery



Real GDP Growth % yoy	2021 GS	2021 Cons.	2022 GS	2022 Cons.	2023 GS	2023 Cons.
Euro Area	5.3	5.1	4.4	4.2	2.5	2.5
Germany	2.8	2.7	4.0	4.1	2.6	2.4
France	6.8	6.7	4.4	4.0	2.4	2.3
Italy	6.4	6.3	4.4	4.3	2.2	2.1
Spain	4.5	4.5	6.4	5.6	4.0	3.4
United Kingdom	7.2	6.9	4.7	4.8	2.4	2.2
United States	5.7	5.6	3.5	3.9	2.2	2.5

Source: Goldman Sachs Global Investment Research, Bloomberg

While investors should expect volatility as markets adjust to firmer Fed rhetoric and the latest wave of COVID-19 infections, we still expect the rally to continue. Investor attention should return to strong economic and earnings fundamentals. We expect cyclical sectors to outperform, including Eurozone equity markets, as well as energy and financials. Financial stocks outperformed during the last bout of volatility, benefiting from higher yields.

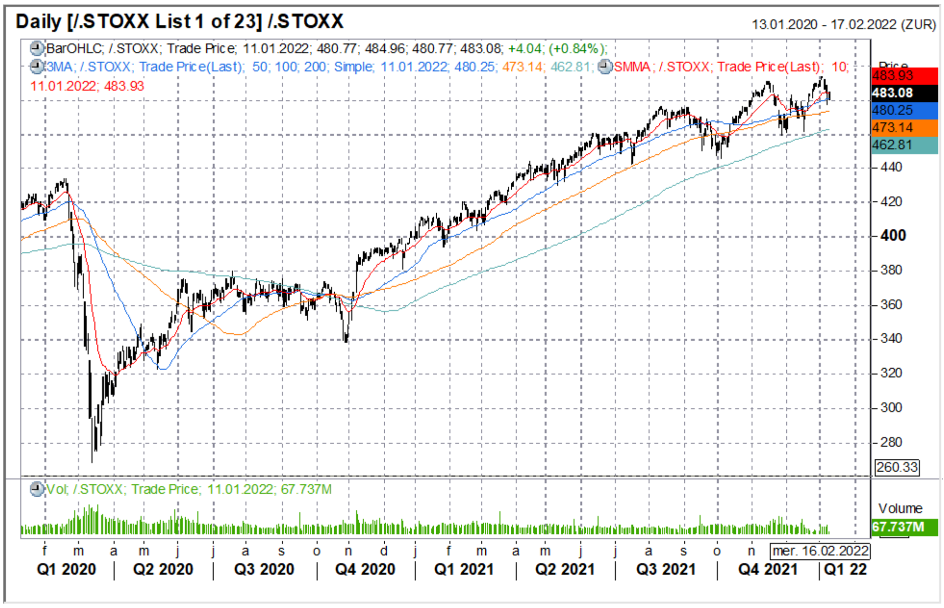
Equity markets

2021 was an excellent year for investors. After several months of paralysis in 2020, the global economy has started to recover. Another strong signal for investors was the excellent financial results published by companies in the second and third quarters of 2021. Supported by the global economic recovery, the numbers are exceeding all expectations. The continued support of central banks for the economy has also reassured the markets throughout the year.

Market performance in 2021:

Stoxx600 +22.25% ; CAC40 +28.85% ; SMI 20.29% ; FTSE100 +14.30%, SP500 +26.89%, Nasdaq100 26.63% ; CSI300 -5.20% et Hang Seng -14.08%.

Stoxx600 2Y



Nasdaq 100 2Y

Foreign exchange market

EUR USD

The euro/dollar pair has changed little since the beginning of the year, always around the pivot point of 1.13 USD which remains. Given the economic context, our forecast for 2022 is bearish for the euro. Although the market should offer a strong rebound on the major support levels, the accelerated monetary tightening by central banks (especially the Fed) argues for a continued strengthening of the dollar.

EUR CHF

After several weeks of decline, the euro is regaining strength against the Swiss franc. At the beginning of the year, the pair has risen sharply by 1.20% in just a few sessions. On the one hand, the EUR/CHF was oversold by traders, and on the other hand, the SNB intervened in the foreign exchange market to limit the appreciation of the Swiss currency. Technically, the market started a bullish recovery towards the 1.0575 and then 1.0623 zone.

Bond market

The release of the Fed minutes pushed the yield on US 10-year debt back up to 1.80%, a rather rational reaction even if real rates remain firmly anchored in the negative. Like the German Bund, which has gone from -0.33% to -0.07% in two weeks. The French OAT has reached 0.26% and the Swiss debt is back in positive territory (0.05. Logical, given the US monetary developments. The short-term yield curve is now almost entirely forecasting a rate hike in March, more than three 25 basis point hikes in 2022 and a policy rate above 1.75% in three years.

US 10Y

FR 10Y

Commodities

Gold 2Y

Gold has declined over the past five days. Despite rising risk aversion, the precious metal is failing to gain favor with investors. As a result, gold has once again fallen below the USD 1,800 mark. The refrain is similar for silver, which is losing ground at 22.1 USD.

Brent

Oil prices are starting the year on the right foot. Supported by production disruptions in North America, due to difficult weather conditions, but also in Kazakhstan, where a state of emergency has been declared throughout the country, prices have risen five consecutive sessions. The US benchmark, WTI, has momentarily crossed the USD 80 mark while Brent is trading around USD 82.