IX-7 Asset Management SA

Q 02 / 2021

Quarterly Investment Review and Outlook

It is all about moving forward!

Markets are like rivers that carry us forward into big encounters and shifting realities. We can’t fight the current or its changeable movement.

However, we can ride the market's currents proactively and with flexibility, leveraging applications to best capture its fluid and variable conditions.

Quarterly Report – Q02/2021

At a glance

Review – 1st quarter of 2021

a) Economic update

1. **Growth:** We believe that a U.S. real GDP growth of 7.5% is possible for 2021, which would be the best calendar-year outcome for the U.S. since 1971.
2. **Inflation:** We think the Fed's average inflation targeting approach means the central bank will wait until the consumer price index (CPI) measure of inflation has sustainably reached 2.5% before starting to tighten policies. In our view, this seems doubtful before late 2023. See also point b) for possible alternative scenarios and their potential outcomes.
3. **European recovery:** Europe's post-lockdown recovery is likely to be extremely strong. We forecast the GDP to bounce back by around 5.5% this year, following 2020's decline of nearly 7%.
4. **Chinese policy tightening:** The Chinese PBoC has announced that they will take the path of policy tightening this year. This will be a gradual process, as the policy is slightly ahead of the economic reality. Therefore, authorities will be sensitive to economic volatility and quickly ease back on tightening if there are signs of labor-market weakness.
5. **U.S. Stimulus:** According to the OECD, the U.S. stimulus is likely to boost growth in Japan, Europe, and China by 0.5 to 0.6 percentage points over the next 12 months and lift global GDP growth by just over 1.1 percentage points.

b) U.S. Inflation

There are three possible scenarios: a) transitory, b) new inflation regime, and c) long-lasting inflation trend

Scenario	Pattern	Fed's reaction	Impact
Transitory	Inverted U	Stand-by	- Good for stocks and bonds
New Inflation Regime	Inverted L	Start tapering H1/22	- Negative for bonds - Moderate positive for equities - Negative for "value-less" growth
Lasting Inflation	Standard Curve	Abrupt normalization	- Negative for bonds and stocks - Good for defensive value and gold

We anticipate that the peak inflation level will be reached earlier rather than later in Q3/2021, but normalization will take more time than the market is anticipating as of now.

c) Upside scenario

a) We continue to have a positive medium-term outlook for economies and corporate earnings. At present, the economy is still in the early post-recession recovery phase of the cycle, which implies an extended period of low-inflation and low-interest rate growth that favors equities.

b) U.S. GDP recovery is expected to be the fastest ever since 1971, which is expected to come on the back of full employment by the end of 2021.

d) Downside risks

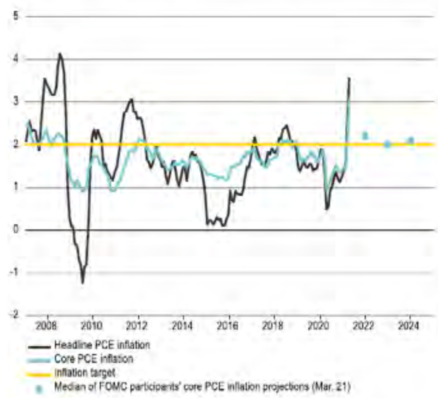
A year ago, there were concerns that economies and the GDP could not recover, a view which turned out to be a somewhat exaggerated. Similarly, we believe that current talk about rising inflation for a prolonged period of time is unwarranted.

Governments may come under pressure to reduce deficits only after bond yields rise meaningfully and markets question debt sustainability. We expect that fiscal austerity and tighter monetary policies are still some years away.

With market valuation close to all-time highs, they are vulnerable to a 10% to 15% correction at any time. This in turn would be an ideal buying opportunity for long-term as well as short-term investors.

Economic surprises went sideways in USA & China, up in EMU & Japan during last week

Core PCE expected to finish the year above 2% as per Fed forecasts



Core PCE inflation rise to 3.1% in April (cons: 2.9%); on base effects and temporary shortages

Top-down view: June 2021

Macroeconomy

Ever since the start of the pandemic, unemployment, wage, and payroll measures have been distorted. With the stimulus hitting the market, combined with some unemployment benefits, virus-related impediments are expected to dissipate.

It can be expected that headline unemployment will fall in the United States to around 4.2% and in European Union to around 6.2% by YE. As to wage growth, the figure should normalize at around 2.5%, with the market lacking talent in the mid-class level. The head-line inflation is expected to peak somewhen between Q3/21 and Q4/21.

Sentiment

Following months of stretched indicators, equity positioning indicators have finally moderately peaked, now suggesting a more favorable risk-return symmetry.

Peak everything!

In recent weeks, concerns have been raised about peak economic momentum, peak monetary easing, peak fiscal support, peak growth, and so on. Although the best may be behind us now, there are still a few parameters that keep improving:

a) While investor sentiment is generally positive and inflows have been strong so far this year, positioning towards risk-on strategies remains relatively high.

b) While China, the US and the UK appear to have achieved full recovery (or at least are close to full recovery), the same can't be said about Europe and most emerging markets. This decoupling is somewhat encouraging as it could help drive the second leg of the recovery.

Asset allocation – The asset rotations have more room to run

Equities

Particularly in the US, the global reopening, along with elevated consumer spending and strong operating leverage, are expected to drive earnings. Therefore, we expect the market to remain positively biased, although the impact of the global corporate tax reform is creating some uncertainties.

Credit

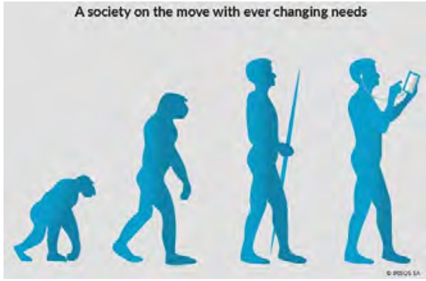
The trade-off between duration and carry has become more balanced. Still, the lack of convexity in bonds makes bank loans attractive. Additionally, further spread compression is limited across the quality spectrum, though demand for IG may strengthen as corporate pension sponsors de-risk from equities. In HY, positive skew in ratings migration and greater debt paydown have improved quality.

Currencies

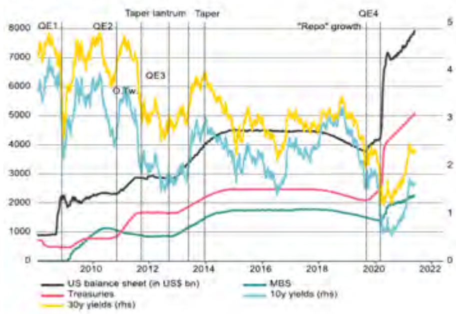
The value of the U.S. dollar will be one of the most important things to watch while going into 2022. We believe the direction of the USD can give us a good sense of whether or not the global healing process is happening in the way that we expect. However, as the market has caught on to the healing process, the dollar has depreciated. The U.S. Dollar index (DXY) is currently down about 11.5% since its peak on March 23rd of this year, and is down over 6.6% in year-over-year terms.

Market exposure

In the current context, we believe investors should stay invested, as the medium-term outlook remains constructive. Similarly, appropriate diversification and targeted use of active management remain essential to navigate what remains a very uncertain backdrop.



Some FOMC members appear open to start talking about talking about tapering (Quarles, Clarida)



How to integrate the idea of CBDC

The recent hype around digital currencies has intrigued us! As truth seekers, we have decided to have an in-depth dig at it.

Imagine a currency that is as easy to share as your Instagram story or the e-payment of your croissant and coffee at the nearby coffee bar! In this futuristic view, coins and notes could become obsolete. We don't believe this will happen quite yet, but Central Bank Digital Currency (CBDC) has undeniably made an important step ahead. With the concept of CBDC at the ready, an increasing number of central banks are now assessing its implementation.

Such a seismic shift would require a mature economic system that is faster and more interconnected than ever, and dependent on a few major players. While the economy works globally, each country or jurisdiction maintains control of its payment system, sometimes with rather outdated concepts. Particularly in the payment industry, developments in the financial ecosystem are supportive of the use of cryptocurrencies, stablecoins and – in the future – CBDCs, all at the expense of cash.

Today, the flow of money is regulated by central banks, and money is made by banks that grant loans to their clients for commercial or other activities. Tomorrow, the use of digitalized money will a) facilitate efficient payments, b) offer greater security, c) eliminate intermediaries, d) reduce the number of people who are unbanked today, and e) monitor transparency standards, thereby limiting illicit activities. Currently, CBs do not envisage exercising the key position (c), but instead delegate it to existing service providers.

The scope of CBDC

According to a recent note published by Morgan Stanley, CBDC initiatives are not intended to disrupt the banking system, but rather to reinforce its credibility and exercisability, while improvising its efficiency. Even so, the implementation of such initiatives will likely have some unintended disruptive consequences. The move away from physical currency opens the way for more innovation and a greater scope for new payment providers.

Until now, cryptocurrencies have lacked price stability. Recent price fluctuations, when measured as standard deviations, have been higher than most equity indices. The dramatic price fluctuation of privately organized coins does not comply with the fundamental requirement of a currency – stability! Hence, the call for central bank-organized digital currencies.

Other reasons in favor of CBDCs include allowing the public to hold digital currency accounts at central banks, which would resolve issues around institutions being deemed "too big to fail"; under payment scenario A, bank runs would definitely be relegated to history.

In fact, the introduction of payment scenario B is most likely disrupting existing payment models established by prominent banks. The implementation of digital currencies can help establish a more balanced financial system in which payment agents report to CBs and maintain valid accreditation.

The use of physical cash has been on the decline ever since the late 1990s; the pandemic only accelerated this trend. By implementing CBDC, central banks offer households and commercial entities access to central bank money as an alternative to cash and as an alternative to privately managed stablecoins and bitcoins; we consider this to be ultra- speculative, since there is no value nor concept of absolute-value.

The next generation of CBDC – i.e., 2.0 – will most likely have a national or even a supranational level. These digital currencies will improve monetary policies, help mitigate inflationary risks, and monitor and manage purchase power inequality. As the next illustration showcases, digital currency statuses will not be equal. CBDC will have a dominant place of reference; consortiums of stablecoins are likely to create the most positive societal impact, while anonymous, closed-end cryptocurrencies and asset-backed stablecoins will most likely raise ethical issues that will limit their true value.

Gaming the numbers

In China today, a little less than half of all in-store purchases are made via a digital wallet – far above the levels observed in developed markets. As the main emerging market countries (China and India) develop electronic peer-to-peer payment systems, the center of economic competencies is shifting a little further east, away from developed markets such as Europe and the United States. We would expect that companies doing business in these regions will be required to endorse the country's digital currencies, thereby weakening the predominant position of the U.S. dollar and its subordinated financial system.

We expect that CBDCs will be introduced relatively quickly in order to address urgent reforms to ballooning central bank balance sheets, as well as tax and income inequalities. Governments could endorse the creation of CBDCs to accelerate and implement a universal basic income (UBI) because the centralized roll-out of digital money could be dispersed efficiently to specific classes of the population.

Observation on costs: No doubt the costs to print, transport, distribute, and manage the appropriate level of cash in circulation is high. In fact, the exact costs cannot be enumerated! Therefore, seeking a more transparent system appears to be the obvious approach. While considering the replacement, one still needs to address the costs associated with CBDC. These include development, deployment and maintenance of the infrastructure (servers/cloud services), software licensing costs and BCP, as well as the implementation of fraud and cybersecurity protection tools. In addition, everything should be ESG compliant.

The investment opportunities

The present payment system needs a refresh, and digitalizing all of it appears opportune. Opinions about how and when obviously diverge. While central banks and government bodies – particularly in developed markets – appear to ignore the importance and the urgency, the industry is powering ahead with substantial developments of many varieties.

In the absence of adequate regulation, any kind of hype is possible, as privately owned cryptocurrencies try to fill the vacuum. We believe that privately owned consortiums of stablecoins and cryptocurrencies may cohabitate with CDBCs, but they will not be able to compete and achieve equivalent status, by a wide margin. This is because a private organization will never be able to claim the legitimacy of a nation.

If we assume that one could overcome this obstacle, the provider would need to establish a robust digital financial system, enable unlimited access to it, and keep it free from shutdowns and cyberattacks. Therefore, only government-based digital currencies will have legitimate political and democratic backing. Therefore, we consider the space of crypto (stablecoins and bitcoins) as ultra-speculative.

In the absence of any valuable investment opportunity in CBDC, we consider opportunities in the digital payment ecosystem – in particular, service enablers. As of today, there are about 120 identified companies that are presently working or are expected to work in the field of digital payments.

Investment recommendations by type

1. Equities:

Short-term view: - Neutral

Medium-term view: - With another turbulent and rapid market rotation behind us, we believe that at present, equity markets are truly at their fair value. We remain strongly positive on strong secular trends – in particular, 5G, IT security, e-commerce, and payments.

2. Bonds:

Short-term view: - Negative to Neutral

Medium-term view: - With markets turning their attention to inflation, we favor BBB and single A debtors from emerging markets, yielding in the range of 3% p.a. We recommend a focus on companies with strong historic cash-flows, as well as government-related corporations that benefit from a quasi-government guarantee.

3. Credit:

Short-term view: - Attractive

Medium-term view: - Spreads have normalized, yet central banks continue to support markets in a passive manner. Therefore, we expect the status quo on spread levels to remain in place until further notice.

4. Metals:

Short-term view: - Neutral to positive

Medium-term view: - The demand for EV is now continually increasing, and to cover the long-term demand, new facilities need to be added. This should be price supportive.

4. Commodities:

Short-term view: - Neutral to positive

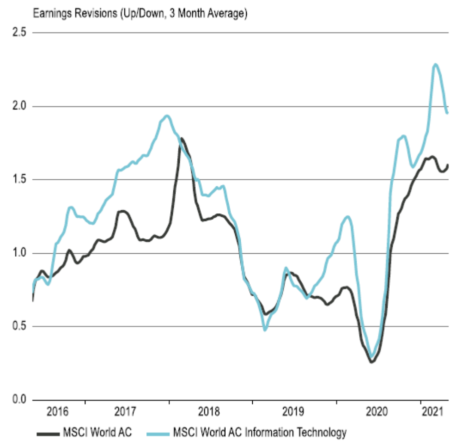
Medium-term view: - In the oil market, the supply/demand equation is starting to find its own new balance.

5. Structured solutions:

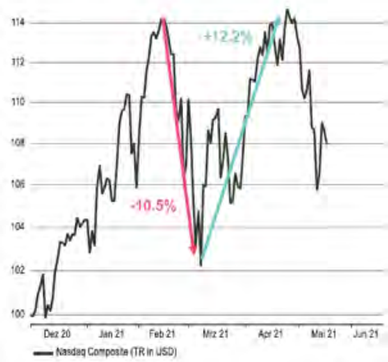
Short-term view: - Conditional capital guaranteed products, with optimized early call opportunities, offer an ideal risk/reward, as markets have reached top-levels, while volatility remains low.

Medium-term view: - Longer-term investors should consider capital guaranteed long-short strategies that benefit from the increased dispersion between technology-related business opportunities and traditional business models.

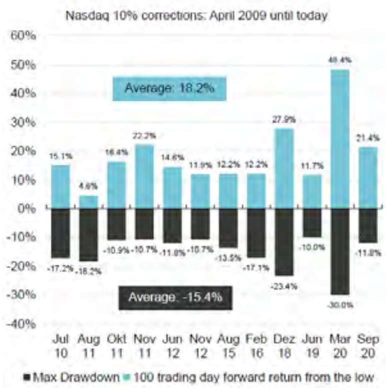
EPS Revisions still accelerating!



Equities are a buying opportunity...



... ever since the GFC.



Investment recommendations by theme

1. **Globalization 2.0:**

Short-term view:	-	Mixed
Medium-term view:	-	With interest rates stable until at least 2023, a risk-on strategy is warranted. More than ever, we believe we have entered into a reversal of Globalization 1.0 and that there will be excellent opportunities as a result.

2. **From monetary policy to fiscal policy**

Short-term view:	-	Neutral
Medium-term view:	-	Fiscal and monetary policies are expected to be very accommodating for the quarters to come.

3. **Volatility**

Short-term view:	-	Neutral
Medium-term view:	-	In the past, event-driven sell-offs [e.g., EM debt crisis, collapse of LTCM (1998), TMT over-valuation (2001), retreat of energy prices (Q4/15), U.S.-China trade war (Q4/2018)] have resulted in average market corrections in excess of 10%. The most recent market correction and resulting volatility are no different. At present, there are a few triggers left that could further disrupt the market. Volatility has normalized, and investors should prepare strategies that will benefit from the next peak.

4. **Global order – a quick shift**

Short-term view:	-	Neutral
Medium-term view:	-	The impact of COVID-19 will not be over quickly, as substantial damage to consumer confidence will impact the global order. The gigantic amount of debt added in the course of the last few weeks will force states to prioritize decisions differently as compared with the last GFC. The present crisis highlights the limits of restless globalization; for instance, it may be that world populations will depend on one single supply chain of basic preparations for medical purposes. Globalization is entering a period of unparalleled deconstruction that promises to transform industries for years to come.

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Asset class view:

Our investment decision-making process – based on growth vs. value, cyclical patterns, and sentiment – is again pointing towards a moderately positive stance for a risk-on-strategy, especially when it comes to credit and equities related to secular growth trends.

Based on a moderate outlook for value companies, we consider these to be expensive, while the model considers growth opportunities as moderately cheap, depending on the time-frame applied.

Over the last few weeks and following the post-vaccine announcements, the general sentiment in the market has moved on to slightly overbought. Still, we note that the current cycle is supportive for risk assets over the medium term. Short-term elevated volatility may provide stock-pickers with great entry points. In the base-case scenario, a long period of low-inflationary growth, supported by monetary and fiscal stimulus, is expected to remain steadfastly in place.

- We prefer U.S. equities to non-U.S. equities. The post-vaccine economic recovery should favor a new growth cycle to unfold on the back of the massive stimulus package.

  Cyclical value stocks may look attractive, given an expected catch-up effect. However, we are less optimistic on this issue, as technology is dominating our day-to-day life more than ever. For a value company, closing the technology gap is becoming increasingly complex.

- We like the value in emerging markets (EM) debt. China's early exit from the lockdown and stimulus measures should benefit EM more broadly, as will the recovery in global demand and a weaker U.S. dollar.

  High yield and investment grade credit are slightly expensive on a spread basis but have an attractive post-vaccine cycle outlook. In our view, bank loans and U.S. dollar-denominated emerging markets debt offer the best opportunities.

- Government bonds are expensive. Low inflation and dovish central banks should limit the rise in bond yields during the recovery. U.S. inflation-linked bonds offer good value with break-even inflation rates well below the Fed's targeted rate of inflation.

- Real assets: Real Estate Investment Trusts (REITs) sold off heavily in March 2020, with investors concerned about the implications of social distancing and online shopping for office buildings and shopping malls. Sentiment appears overly bearish, while value is positive. There should be a pandemic recovery trade. Listed infrastructure should also benefit from the global recovery, boosting transport and energy infrastructure demand. Datawarehouse providers are expected to expand their business opportunities exponentially.

- Given its counter-cyclical behavior, the U.S. dollar should weaken in the global economic recovery. The dollar typically gains during global downturns and declines in recovery phases. The main beneficiaries should be the economically sensitive commodity currencies: the Australian, New Zealand and Canadian dollars. The euro and British sterling are under-valued. Both currencies should be boosted by the post-vaccine recovery.

Market-by-Market View

United States:

The United States is primed for supercharged growth. The recently enacted $1.8 trillion fiscal stimulus package provides another big shot in the arm for the U.S. consumer. In addition, this stimulus comes at a time when the economy should already be re-accelerating, as vaccines become broadly available around the middle of the year. With the economy reopening more completely, we look for pent-up demand to drive a strong bounce in service sectors. Demand for air travel, for example, is likely to overshoot as families go on vacations again.

There is already evidence of this re-opening theme in the data, with sharply higher travel bookings scheduled more than 90 days in the future. Real GDP growth of 7.5% looks possible for 2021, which would be the best calendar-year outcome since 1971. The good news is that there is spare capacity to absorb much of this above-trend growth.

We look for the Fed to keep its benchmark rate at zero until late 2023 or early 2024, which should slow the rise in 10-year yields from here. The industry consensus for GDP and corporate earnings growth is now uniformly optimistic. Rather than focusing on benchmark U.S. equity market exposure – which skews heavily toward the 2020 COVID-19 winners such as mega-cap technology stocks – we continue to see bigger opportunities in the cheaper and more cyclical areas of the equity market. These securities have generally been performing strongly over the last two quarters, but in our opinion, still trade at attractive relative valuations.

In the U.S., we believe long-term interest rates are close to peaking for now, which means the catalyst for value outperformance is unlikely to be as powerful going forward. Even so, we expect value to perform better than growth, as the value factor is still very cheap compared to the growth factor. In addition, we expect the latest round of U.S. stimulus – plus the broader reopening from lockdowns – to boost the earnings growth of cyclical sectors such as materials and industrials, which comprise a high weight in the value index.

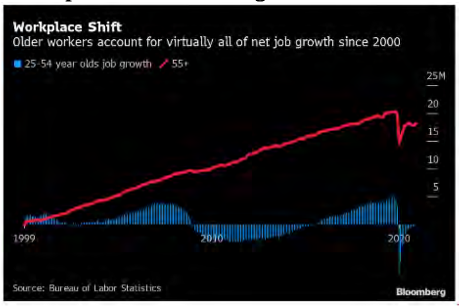
Europe:

With a relatively smaller fiscal stimulus (but with more longer-term benefits), Europe continues to lag the United States in terms of economic performance. As of the end of May, less than 45% of the populations in France, Germany, Italy and Spain have received at least one dose of vaccine. This compares to nearly 53% in the United States and 80% in the United Kingdom. Infection rates have been declining in Europe and new lockdowns may now no longer be required. However, despite a slow start, the vaccine rollout is gaining pace and Europe should be on track for economic reopening by Q3. The post-lockdown recovery is likely to be extremely strong and the GDP should bounce back by around 5% this year, following last year's near 7% decline.

We expect the MSCI EMU Index, which reflects the European Economic and Monetary Union, to outperform the S&P 500 in 2021. Europe's exposure to financials and cyclically sensitive sectors such as industrials, materials and energy, along with its slight exposure to technology, gives it the potential to outperform in the post-vaccine phase of the recovery, when economic activity picks up and yield curves in Europe steepen.

Europe's relatively slow vaccine rollout and the fiscal stimulus (more an impact of term rather than an immediate stimulus) means it continues to lag the U.S. in terms of economic performance. However, its pace of vaccinations is increasing, putting the region on track for an economic reopening by the third quarter.

Workplace shift: mid-age disfavored!



Asia:

We expect Chinese economic growth to be strong in 2021, boosted by the global economy's recovery. China was the first in and first out of the pandemic shutdown, and we expect it will also be the first to start tightening its stance on policy this year. Importantly, this will be a gradual process, and we expect that authorities will be sensitive to economic volatility and quickly ease back on tightening if there are signs of labor-market weakness. We also expect that domestic consumption will continue to catch up to the production side of the economy this year, boosted by government incentives (including for car purchases), as well as the increase in household income from further jobs growth.

U.S.-China tensions continue to linger in the background. Our base case, however, is that there will not be further escalation from the new U.S. administration during these early stages of the economic recovery.

Sector Analysis

Basic Materials

The major players of the Building Materials market include CEMEX, China National Building Material Company, Heidelberg Cement, Lafarge Holcim, Boral Limited, Buzzi Unicem SpA, Dyckerhoff AG, CRH plc, CSR Limited, Aditya Birla Group, Ambuja Cements, Anhui Conch Cement, Asia Cement, Athabasca Minerals, Atlas Concrete, and Beijing Jinyu Group, amongst other smaller specialist players such as Sika.

The global sub-sector is expected to grow at a CAGR of about 5.75% during the next five years. This growth is driven by a) growing demand for housing and infrastructure facilities and b) growing urbanization.

Benefits for the material sector from urbanization:

Cities occupy just 2% of the earth's land surface, but are home to more than half of the world's population and generate 80% of all economic output. And their dominance is growing: by 2045, an additional 2 billion people will live in urban areas. The expansion of urban centers is certain to put pressure on infrastructure, resources, and the environment.

More than half – 60% – of economic growth in cities comes from the growing population, while the other 40% comes from improved labor productivity. To run efficiently, urban areas need better transport, water, energy, and waste management infrastructure, logistics facilities, and public services from health care to education. Combatting poor air quality is also a priority for metropolises – especially in China – while waste disposal and treatment are becoming larger problems as populations increase.

Smart cities will combine what is good for the planet with what is good for the economy. Eventually, this is likely to mean high speed trains and driverless cars. Consultancy McKinsey forecasts that up to 15% of passenger vehicles sold globally in 2030 will be fully autonomous.

Addressable market

- **Smart Cities**: Immediate: According to the International Data Corporation, nearly a quarter of the USD 81 billion spent on technology in 2020 went into fixed visual surveillance, smart outdoor lighting, and advanced public transit.
  Longer-term: Investing in lower-emission public transport, using more renewable energy, and increasing efficiency in commercial buildings and waste management in cities could generate savings in the region of about USD 17 trillion worldwide by 2050.
- **Automotive sector:** Revenues: The automotive sector could nearly double its revenues to USD 6.7 trillion, thanks to shared mobility (car-sharing, e-hailing) and data connectivity services (including apps and car software upgrades).

Investment opportunities:

This sector is one of the most correlated to global industrial production.

The sector is highly leveraged to an improvement in manufacturing sentiment. As economic data strengthens, sentiment should improve and be a positive driver. However, higher materials pricing (e.g., steel) is likely unsustainable at current levels and could lead to future stock underperformance.

Earnings momentum has continued to improve, supported by accelerating industrial production and rising commodity prices. Valuations have re-rated and are now relatively expensive versus history, but remain reasonable relative to other cyclical sectors. We also expect the chemicals and construction materials sub-sectors to benefit from the EU’s sustainable investment plans.

At present, we favor material companies from Europe versus U.S. Names to consider: Air Liquide, BASF, DSM, and Linde Plc.

Consumer Staples

"No-regret" strategies have started to dominate the consumer staples sector. In essence, consumer staples executives focus on efficiency and sales growth at any price; with this in mind, any forecast can quite quickly become obsolete as new trends may emerge at any time.

Here is what the market believes about the near term. Personal consumption expenditure (the mainstay of the economy) is still lower than it was before the pandemic and is likely to be weighed down in the near term by uneven economic activity, unemployment, and overall uncertainty about the pandemic itself.

Some key spending areas are out of favor due to health concerns, such as food places, travel, transportation, and theaters; instead, consumers have increasingly been spending on goods. So far, durable goods are the biggest winners, but sales of nondurable goods are growing as well.

In our baseline scenario for the second half, the story changes. Economic growth for the remainder of 2021 and for 2022 is expected to increase on the back of a large percentage of the population being vaccinated. The buying behavior of consumers changed significantly during the pandemic, and those behaviors are likely to persist throughout what remains of 2021 and beyond. Namely, the trend toward at-home consumption will likely continue. Executives see consumers simplifying their lifestyles (around 80%) and retreating into the home (65%). Almost universally (95%), they also see the work-from-home trend continuing for consumers. Executives predict that the top purchase drivers will be health and safety (92%), trust (92%), and quality (88%).

Positives for the sector:

- It typically has a stable earnings profile.
- Companies have engaged in aggressive cost-cutting.
- During periods of strong economic growth, Consumer Staples can leverage their strong pricing power.

Negatives for the sector:

- Historically, an improving economy and strong stock market have typically made this defensive sector relatively less attractive to investors.
- Companies tend to have limited pricing power in a low-inflation environment.

Risks for the sector:

- Additional government stimuli and successful distribution of COVID-19 vaccines could further support the economy and reduce stay-at-home food and staples demand.

Investment opportunities:

The sector has been one of the best performers since equities began to plummet after the February 19 peak. Demand should remain relatively resilient for products that satisfy everyday needs, despite disruption to the economy. However, other sectors of the market appear better positioned if markets begin to bottom.

Given the overall competitive outlook for the sector, investors should seek companies with strong balance sheets, low financing costs, and a strong focus on products and services. Because of high absolute valuation and limited upside potential, high yield dividend stocks are at risk; companies to consider include AD, ABI, BAT, NESN, EL, MO, and PM.

Key figures for Europe:

Target values:

Present fair value (DJStoxx600): 457
E12 months value (DJStoxx600): 500
Upside potential: +9.5%

Key economic ratios:

GDP Growth 21(E)	4.4
GDP Growth 22 (E)	4.1
CPI 21(E)	1.8
CPI 22 (E)	1.3
P/E 2021 (E):	15.7
P/E 2022 (E):	14.3
Div. Yield 2021:	3.1
Div. Yield 2022:	3.3

Most likely next short-term move:

DJStoxx600	flat/down
DJStoxx50	flat/down
SMI	flat/down
DAX	flat/down

Key names to look at:

Strong intellectual property:
- Roche
- Novartis
- Amadeus

High competitiveness:
- Siemens
- Daimler
- Gemalto
- Richemont
- Swatch

Sustainable dividends:
- ABN-Amro
- Imperial Tobacco
- Altria
- Philip Morris

Technology

The Technology sector has recovered from "long duration" concerns. In particular, SaaS stocks as a group have outperformed, and this trend has only accelerated over the past couple of years. Companies have come to prefer the SaaS model – where software is delivered via the cloud instead of being installed on expensive and hard-to-maintain corporate servers. Cloud-based software is expected to be cheaper to operate and offers significantly greater potential flexibility because it is updated several times per year with new features, instead of every few years as under the old model.

For their part, investors appreciate the SaaS business model because its recurring revenue offers good visibility into prospective growth. Additionally, during the period from 2010-2020, investors gained a greater appreciation that SaaS companies were expanding their categories and even creating new ones. When software is easier and less expensive to consume, more companies and users tend to be drawn to it. And if that software is better and drives savings in other areas of a customer's business – such as creating a more efficient supply chain, improving employee productivity and collaboration, or democratizing a previously complex science like data analysis – the total addressable market is often multiplied beyond what was previously envisioned.

While the overall SaaS category has produced many years of outperformance, it is important to know that these returns have been largely driven by the top half of the group – that is, by companies with the highest expected valuations over the next 12 months as expressed as a ratio of enterprise value to sales. Many of these companies are growing extremely quickly and have very strong competitive moats around their businesses, but their valuations are extreme in a historical context and may argue for caution.

Positives for the sector:

- Companies generally have strong balance sheets and earnings growth potential with low funding costs.
- Home office, financial services technology, and surging online retail are supportive of cloud-computing infrastructure and software.
- Long-term growth tailwinds are expected as businesses enhance productivity with tech investment.
- Companies in the technology sector tend to outperform the larger market for a long period of time

Negatives for the sector:

- Valuations are very stretched relative to the historical average, making higher interest rates a significant headwind.
- Capital expenditures are weak, albeit improving.
- Semiconductor prices are rising amid low supply and hoarding.
- The sector is highly concentrated in a few stocks.
- Valuations have expanded dramatically for the most highly regarded companies.

Investment opportunities:

Although the near-term is highly uncertain due to COVID-19, we believe investors should focus on technology companies that have attractive longer-term growth opportunities due to established franchises in large and secularly growing addressable markets such as software, cloud, and security.

Secular trends remain strong and tech profits will likely recover to peak 2019 levels more rapidly than any other sector. However, valuations are high, and the sector's defensive behavior during the pandemic gives us less conviction that it will outperform in the ensuing economic recovery.

In this vein, we highlight Microsoft, Palo Alto Networks, Salesforce.com, Splunk, and Accenture. Investors looking for small cap exposure may look at Okta, Twilio, Pinterest, Zuora, and Etsy.

Technology underperformed the market – the relative catch-up potential is about 15 %!

Long-duration technology was particularity hard hit!

Communications Services

Spending on digital advertising dropped sharply as consumers changed their buying habits to quickly cut expenses. This curtailment in economic activity resulted in some of the weakest second-quarter numbers on record for many publicly traded companies, hitting traditional retailers particularly hard in 2020. With consumers sheltering in place, their purchasing activity and engagement focus shifted to online even more than before, spurring a solid rebound in advertising spend across segments such as search, video, social media, and banner advertising.

Stuck at home, consumers have gravitated toward home-delivered goods and virtual experiences, and away from physical services and in-person events. Consumers are developing new habits, many of which we believe are likely to persist past the pandemic. These new behaviors are being encouraged by same-day grocery delivery and free one-day shipping that includes free return if products do not meet consumer expectations. As competition adapts, companies are motivated to invest in online advertising to attract shoppers.

The continued recovery of digital advertising – in spite of the pandemic – reaffirms the structural acceleration of companies directing dollars toward online platforms. In hindsight, companies' appetite for digital advertising has changed, and those platforms with superior reach, precision targeting capabilities, and high-return ad offerings are well-positioned to capitalize on the change and lead the charge in the coming quarters and years.

In recent years, U.S. and international advertising revenues have been growing faster than world GDP, powered by annual growth of 15% to 20% in digital spend over the past five years. Evidence shows that companies with a high mix of online sales also have a changing cost structure, where savings in operating expenses – such as brick-and-mortar store maintenance, rent, and staffing – can realistically be converted into efforts to grow online sales. In the past, retailers invested in customer convenience, with the aim of increasing physical shop presence; now, they are paying up to drive digital traffic to their virtual storefronts and working with key online advertising platforms to connect with online shoppers.

Despite delivering greater than 35% annualized growth during the Covid crisis, online shopping – perhaps surprisingly – still does not exceed 20% of overall retail sales. Looking at the grocery segment alone, for example, online buying is running even lower than that, with only about 10% market share. In our view, the dynamics outlined here should give online platforms and digital advertising revenue streams a long runway for growth, offering a potential tailwind to leaders in the communication services industry for years to come.

Positives for the sector:

- Social media has a competitive advantage.
- 5G rollout should boost growth potential, but companies face near-term high capital expenditures; government subsidies and investment may help.
- Social distancing has accelerated demand for streaming content.

Negatives for the sector:

- The antitrust regulatory trend is negative for search engine and social media companies.
- There is potential for increased social media regulation (for example, the Section 230 legal shield is under scrutiny).
- Streaming services risk market saturation.

Investment opportunities:

The sector should continue to benefit from the shift of ad dollars to digital platforms. However, due to the defensive nature of telecom companies (around 20% of the sector), combined with uncertainty related to antitrust issues, the sector is more likely to perform in line with the market in an economic recovery.

We believe that many Communication Services companies currently face risks that outweigh their potential rewards, which is why we have a “hold” rating on most of the sector’s companies (GOOG, DI, NFLX, FB, AMZN).

Energy

The energy sector has engaged into a long transition period towards clean energy.

The world's move to renewable energy and low-carbon greenhouse gas emissions is accelerating. Renewable energy is recognized by more and more countries, states, companies, and other organizations – as well as by individuals – as a way to help offset climate change.

Specifically, if we are to keep global warming in check, the world must dramatically reduce its output of new carbon emissions – largely the result of burning crude oil and coal – to a "neutral" level by about 2050. The general idea of carbon neutrality is that for every unit of carbon dioxide released into the atmosphere, emissions elsewhere should be reduced the same amount. The implications of moving forward on this path are staggering for the energy sector, which accounts for about two-thirds of the world's CO_2 emissions. To achieve carbon neutrality by 2050, renewables (primarily solar and wind) would need to grow to about 50% of the world's primary energy supply, from less than 10% today. Consequently, coal and oil consumption will decline sharply, although natural gas should prove relatively resilient.

Recently, a handful of energy producers outlined strategic multiyear plans to boost development of renewable energy and substantially reduce carbon emissions. As more companies follow suit, we would expect to see a significant drop in demand for fossil fuels. Supported by government policies and technological improvements that have brought the cost of renewable energy down sharply this past decade, renewables stand to take a massive share from coal and crude. In many cases, solar and wind energy are already competitive with traditional power sources. The cost of renewable energy should continue to decline from here, whereas the cost of fossil fuels may increase as more countries introduce and increase carbon taxes.

While the availability of alternative energy is slowly growing, traditional fossil fuel companies cannot be ignored yet. Interestingly, even with more cars going electric, the demand for energy will not be reduced. About 2.2 billion people have emerged from poverty, and they all aspire to obtain modern day-to-day consumer staples and discretionaries. One key material for the desired articles is polymers of any kind. For this reason, we believe that investing in fossil energy companies that trade at very low free-cash-flow multiples is still warranted for the years ahead

Positives for the sector:

- Oil is priced above the level at which the average company can cover expenses.
- Supply has declined with lower production and OPEC compliance requirements.
- Diversified energy companies have strong balance sheets and access to capital.
- The ongoing recovery of the global economy bodes well for the return in demand for oil.

Negatives for the sector:

- Oil demand is still down significantly.
- Valuations are opaque.
- There is weak long-term stock price momentum.

Investment opportunities:

The collapse in oil prices due to the inability of Saudi Arabia and Russia to agree on a production cut darkens the sector's outlook. The current barrel price recovery occurs on the back of lower production capacities, since a large number of E&P's have gone bankrupt or closed low-capacity rigs.

Relative to oil prices, the sector looks cheap. Free cash flow yields are very attractive, capital discipline has improved, and the sector should benefit as demand recovers. In our view, it will take many years before the shift away from fossil fuels begins to crimp industry cash flows. In terms of sector approach, we favor global upstream and downstream operators as most likely the only players to endure a lasting price war with Saudi Arabia.

We favor names such as BP, RDSA, BKR, CVX, COP, XOM, SLB, and PBR

Financial Services

By their very nature, both financial and insurance companies are exposed to the secular trend of digital payments. And while these new services require substantial investments, they can be offered to prospects at higher service charges. Even so, financials can't escape short-term macro-economic trends such as rising inflation, which will result in reduced forward earnings expectations.

The industry sector exits the pandemic crisis in good shape; the volume-driven business model has performed well in many circumstances, and solvability ratios were maintained and, in many cases, even increased. As a result, the sector's overall performance is above average for the last 12 months.

Short and medium performance drivers:

a) In the US, longer-term interest rates have stopped rising in anticipation of economic activity peaking sometime soon. However, the average investor believes that interest rates will rise further, as reflected in the recent sector outperformance.
b) The massive injection of money into consumers' pockets and excess cash held by businesses have caused deposits at banks to swell, which has pressured short-term rates to the lower bound.
c) Net interest margin are set to be below average for a prolonged period of time, since economic expansion appears to be close to the maximum. Net interest margins will start extending once the next capex-cycle starts.
d) **Valuation:** Relative to other sectors, valuations for Financials are still attractive –valuation metrics suggest that financials, health care, and energy offer the best risk/reward opportunities.

Positives for the sector:

- Generally, companies are in a strong financial position, due to stringent post-2008 regulations.
- Economic recovery and fiscal stimulus are tailwinds for loan demand and will likely limit defaults.
- Cautious central banks, along with improving growth prospects, have started to steepen the yield curve.
- The sector has attractive valuations relative to its historical average and other sectors.
- High loan-loss reserves are being released (which supports earnings growth).

Negatives for the sector:

- Despite long-term interest rates trending higher, in general, rates are expected to remain low by historical standards.
- Longer-term price momentum has been weak, though it has improved recently.

Investment opportunities:

A recent stress-test shows that banks are well-capitalized and should see a sharp rebound when market volatility subsides.

Bank earnings are recovering swiftly as provisions for expected loan losses wind down. Banks are also key beneficiaries of higher interest rates, which drive an improvement in

profitability and signal a potential pickup in loan growth. The Fed has given a green light to share repurchases, which should help boost earnings per share and return on equity. The sector remains attractively valued.

We continue to have a particular interest in secular growth companies that should emerge from the crisis with strong long-term growth prospects. Our preference goes to American Express, Intercontinental Exchange, MasterCard, and Visa.

Moreover, investors seeking deeply discounted valuations with strong expense leverage and robust capital should consider an engagement in Ameriprise, Capital One, and State Street.

Key figures for USA:

Target values:

Present fair value S&P 500:	4'297
E12 months value S&P 500:	4'500
Upside potential:	+4.7%

Key economic ratios:

GDP Growth 21(E)	6.6
GDP Growth 22 (E)	3.96
CPI 21(E)	3.3
CPI 22 (E)	2.5
P/E 2021 (E):	20.1
P/E 2022 (E):	18.2
Div. Yield 2021:	1.9
Div. Yield 2022:	2.0

Most likely next short-term move:

S&P 500	down
Nasdaq	down

Key names to look at:

Strong intellectual property
- VISA
- Mastercard

Technology:
- Microsoft
- Micron Technology
- Nvidia
- Apple
- IBM

Financials:
- VISA

Healthcare

Innovation has long been a key theme in the healthcare space: until now, delivering a new pharma-related product to the market was a process that took between 7 to 15 years of research.

However, since the onset of the global Covid-19 crisis, humanity has witnessed an acceleration in innovation across the med-tech sector. Considering that this virus was as yet unknown to us when the calendar turned to 2020, the fact that we've reached the testing stage in under a year is no small feat. The speed at which we are developing medical, production, and distribution solutions is remarkable, and one can expect that this pattern will become the new standard.

Vaccine production occurs under tight supply conditions. Strong demand should boost companies up and down the therapeutics supply chain, especially those working with complex manufacturing processes and creating new infrastructure to support them.

For example, the processes involved in creating a Covid treatment using messenger RNA (mRNA) are fundamentally different from traditional vaccine production. We can therefore expect that, moving forward, new variants will be dealt with a much better response rate. Furthermore, this new mRNA technology is expected to find a far larger range of applications, beyond vaccines.

Virtual healthcare represents another area where we see a lasting opportunity. Telemedicine surged in popularity last year as more patients (and doctors) opted out of in-person visits. This new modality is expected to bring healthcare services closer to the patient. Meanwhile, on the service provider's side, the new approach is expected to increase efficiency as roles are demystified and delegated to the appropriate level in the hierarchy. Structurally, this makes the doctor's function more focused on the patient.

Aside from the surge in innovation, we expect the pandemic to spur government investment in the public health infrastructure, including pandemic preparedness, infectious disease awareness and personal protective equipment. This should be another long-term positive for the healthcare sector. Finally, both vaccine creation and telemedicine represent just a handful of players, whereas the market size is massive. One can therefore expect that industry consolidation, including a number of mergers and acquisitions, will take place once pandemic status has passed.

Positives for the sector:

- Balance sheets are strong, with ample cash for dividends and M&A.
- Positive long-term demographic trends may support the sector, including an aging global population and a growing middle class in emerging markets.
- Demand is returning for elective procedures, drug sales, medical equipment and diagnostics.
- Valuations are attractive relative to the sector's historical average.

Negatives for the sector:

- High unemployment reduces healthcare insurance enrollment.
- Extended-care facilities have seen a decline in enrollments and are likely to see higher costs related to virus-mitigation requirements.

Investment opportunities:

The healthcare market is fragmented as its players strive to increase their market share through such strategies as improvements to existing solutions and software platforms, development of new platforms, and strategic alliances with other market players. Therefore, several players account for significant individual shares in the market.

While political risks for the sector have improved as the prospect of Medicare for All fades, there is still uncertainty about the outlook for drug price regulation.

Industrials

According to a recent report, over 2.2 billion people have limited access to clean drinking water. More importantly, two thirds of the world's population face severe water scarcity and currently live without sufficient access to fresh water for prolonged periods of time.

Three key factors lie at the heart of these problems: a) insufficient infrastructure, b) booming populations, and c) economic growth. Climate change is adding another stress factor, as people are moving in large numbers to new places. Most often, these new locations are already in fragile condition. Because of these challenges, water scarcity needs to be addressed with new infrastructure. In developed economies, this issue is not really a concern, since governments can develop and implement new plans relatively easily. In emerging market countries, however, development and implementation are a greater challenge.

This scenario is likely the perfect precursor for the water industry to get disrupted. The average of the industry sector is expected to grow on average by 5%; however, industrial companies that are able to innovate and deliver new science, technology, and intelligence-enabled products and services will grow up to twice as quickly.

In this particular context, we like companies that offer products and services related to digitized water metering, automation for water treatment, water distribution systems, and intelligent water data management. While the problem of water shortages is not necessarily solved, these systems help users and utilities alike to achieve a greater level of confidence in systematic and predictive diagnostics, as well as better levels of water distribution.

Given the considerable catch-up work that needs to be done, we anticipate attractive investment opportunities in this area for decades to come.

Positives for the sector:

- Capital expenditures are likely to increase if global growth continues to improve.
- The sector tends to outperform early in the business cycle.
- Many companies in the sector have cash-heavy balance sheets.

Negatives for the sector:

- Capital expenditures have been tepid.
- Aircraft demand is likely to be weak until business and leisure travel resume.

Risks for the sector:

- While we are currently neutral on the sector, if there is a stronger-than-expected surge in global growth or massive infrastructure stimulus, then the sector could perform better than expected.

Investment opportunities:

The sharp slowdown in the global economy hit this sector particularly hard. As lockdowns have eased, economic data has improved. Still, the sector has lagged the improvement in manufacturing sentiment indexes and now looks poised to catch up. The accelerating vaccine rollout should be a major boost for aerospace, which has lagged and is a significant end-market for US industrials.

Medium-term investors may look at the following: CSX, Siemens, Easy-Jet, Lockheed Martin, and Stanley Black & Decker.

Real Estate

With the spread of the pandemic, people started to work from home, shop online, and avoid restaurants, entertainment venues, travel, and hotels altogether. Given this, supply-and-demand in the real estate market has completely changed. For instance, two examples of this shift are that houses are selling for higher prices than before, whereas office leases can be obtained at a lower rate.

Meanwhile, REIT segments that do not depend on people have seen steady or even elevated demand during the pandemic. Some of the segments that have benefited, along with their demand drivers, include the following:

- Industrial: Companies are demonstrating a near-insatiable appetite for warehouse and logistics properties to accommodate the surge in e-commerce.
- Storage: Pandemic-fueled lifestyle changes support the need for storage space.
- Communication towers: With more people working from home, plus telecom providers rolling out 5G wireless service, these service providers have a key function.
- Data centers: Businesses rely heavily on vital infrastructure for e-commerce, increased data consumption, and virtual meetings.

While we are not active investors in the real estate sector, we do like exposure to the sector because some sub-segments such as data centers and communication towers are actively linked to the strong secular trends we favor. We are therefore keeping an eye out for potential market signals that might suggest it is time to pivot more aggressively into these two sub-segments.

Positives for the sector:

- There is optimism with improving economic growth and vaccine distribution.
- Fiscal stimulus is a lifeline for those behind on apartment and retail space rent.
- Low interest rates are positive for funding and make REIT dividends more attractive to investors.
- Warehouses, data center providers, and telecom towers are benefiting from technology trends.
- Single-family residential REIT are seeing strong demand and rising rents.
- Valuations are still relatively attractive.
- Long-term demographics support the recovery of extended-care and assisted-living facilities.

Negatives for the sector:

- High unemployment can lead to multi-family lease defaults.
- A sharp upward turn in the rates of home ownership and de-urbanization is a negative for multi-family housing.
- An accelerated shift from brick-and-mortar stores to internet puts retail REIT revenues at risk.
- Short-term uncertainty about workers returning to the office exists.

Investment opportunities:

The sharp slowdown in the global economy hit the sector particularly hard, with the exception of valuations, which have merely moved. While valuations are attractive, it may take time to assess the long-term impact of the pandemic.

Even so, there are sub-segments that are less exposed to the sharp downturn. In fact, we have two distinctive eco-spheres: the digital world and the tangible physical world. The blur is important and results in one global economy built on the back of bytes and another composed of bricks and mortar.

As the economy is changing, data centers (cloud capacities) are required. This shift has significant ramifications for the global economy across all industry segments. Some real estate companies will experience higher growth rates than others. Names to look at: Sergo, Goodman Group, GLP, Nippon Prologis, A-Reit, Mapletree Logistics, Equinix.

Key figures for Asia:

Target values:

Present fair value MXAPJ:	889.66
E12 months value MXAPJ:	960
Upside potential:	+8%

Key economic ratios:

GDP Growth 21(E)	7.5
GDP Growth 22 (E)	4.8
CPI 21(E)	2.5
CPI 22 (E)	3.3
P/E 2021 (E):	14.4
P/E 2022 (E):	12.8
Div. Yield 2021:	2.4
Div. Yield 2022:	2.5

Most likely next short-term move:

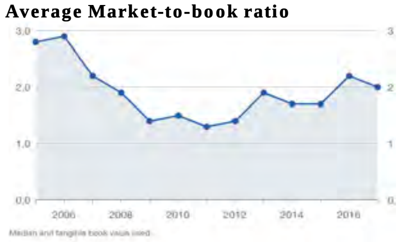
MXAPJ down

Key names to look at:

- Tencent
- Alibaba

Average ROI of Banks recovered but remains stable!

Average Market-to-book ratio



Financial sectors outperformed the larger market, but will this continue in the future?

Consumer Discretionaries

As consumer demands and expectations continue to increase, consumer discretionary companies are using technology to drive better inventory management, in-store customer experiences, and interaction with consumers' mobile devices. Restaurants are no exception, and this is one category where the rapid shift to digital since the onset of Covid-19 has really paid off for some companies. Moreover, data suggests that investments in technology should support restaurant sales well into next year.

The restaurant industry has been among the hardest hit by the pandemic, suffering as indoor dining areas were shuttered to prevent the spread of Covid-19. Prior to the pandemic, many restaurants had been focused on in-house technologies for various uses, such as tracking sales and inventory.

However, as the pandemic accelerated, so did the need for consumer-facing technologies to respond to the surge in contactless takeout and delivery. It quickly became apparent that some fast-food and coffee chains were ahead of the curve because they had already been investing and implementing consumer-facing technologies well before the onset of Covid-19. For much of the past year, restaurants have relied almost exclusively on “to-go” models for sales, and those with business models powered largely by technology emerged as winners.

As consumers increasingly looked for contactless food pickup and delivery, investments in digital kiosks, mobile apps, and delivery options were particularly fruitful this year. Drive-through enhancements – such as designated lanes for picking up online orders and product displays on digital menu boards customized for the time of day, weather, and traffic patterns – were also successful. In addition, some restaurants began offering loyalty programs and online-exclusive menu offerings to attract more consumers, while others struck deals with third-party delivery providers to gain new customers and drive sales.

These efforts recently resulted in double- to triple-digit growth in digital sales for some of the most successful fast-food chains. This may bode well for future growth, because digital customers tend to visit more frequently than non-digital customers. Additionally, by building a digital relationship, restaurants are also able to understand customer behavior and target promotional offers more effectively.

Positives for the sector:

- Vaccine distribution and ongoing economic recovery are positive for many of the more traditional discretionary industries.
- The shift away from brick-and-mortar is likely to continue to support fundamentals for online retailers.

Negatives for the sector:

- The sector is overly concentrated in internet retail and automobiles.
- Valuations and investor enthusiasm appear stretched; higher interest rates may weigh on both.

Risks for the sector:

- Antitrust action is possible for the largest online retailers

Investment opportunities:

Consumer discretionaries are key beneficiaries of reopening the economy. Nearly USD 2 trillion of excess consumer savings look poised to be unleashed as the pandemic winds down. The sector is also benefiting from strong secular growth in e-commerce. Low mortgage rates bolster the outlook for housing-leveraged segments.

We favor companies that benefit from “stay-at-home,” such as Amazon, Nike, Deckers Outdoors, Adidas, LVMH, and Inditex

Utilities

Going "green" is the new trend! Electric utility companies are on the brink of a multiyear evolution that offers a long runway for growth.

Up to now, a utility generated its earnings through expansion of its regulated "rate base" – a term unique to the utilities sector and defined as the value of property on which a public utility is permitted (by its controlling authority) to earn a specified rate of return. Thus, the formula to calculate a utility's rate base is a simple one, driven by "prudent" capital investment in hard assets rather than by top-line consumer demand. The rate base for an electric utility consists largely of its generation, transmission, and distribution infrastructure – minus depreciation. In general, a utility looks to add to its rate base faster than that rate base depreciates, which in turn allows for growth in an absolute manner, increasing earnings per share.

Many governments have established ambitious decarbonization goals, and the Energy Information Agency (EIA) predicts that reliance on renewable energy resources will grow from 10% of the current energy mix to 39% by 2030. Renewables thus represent a significant capital-investment opportunity, and utility companies are accelerating replacement of their coal-fired fleets with cheaper, renewable energy-powered plants.

Until recently, the renewable energy realm consisted largely of independent power producers (IPPs), which included everything from private firms to residential solar installations. Electric utilities acted mostly as buyers and sellers of IPP power purchase agreements (PPAs), but for a number of reasons, held off on large-scale production projects that would add to their rate base.

That paradigm has shifted dramatically, and since capital investment underpins growth for utilities, anticipated renewable-resource development could solidly propel the sector's earnings growth for the foreseeable future.

And it is precisely this positive long-term development that will make some utilities highly attractive for experienced investors.

Positives for the sector:

- Revenues are generally stable.
- Investors often turn to utilities for dividend income when prevailing interest rates are low.
- Low yields provide low funding costs for this capital-intensive sector.

Negatives for the sector:

- The sector has not acted as defensively during recent periods of market weakness as it has in the past.
- Valuations are high relative to the sector's historical average.
- Economic recovery makes the sector less attractive relative to other sectors.

Risks for the sector:

- There remains uncertainty regarding potential clean-energy legislative funding.
- Interest rates could rise due to an unexpected rise in inflation.

Investment opportunities:

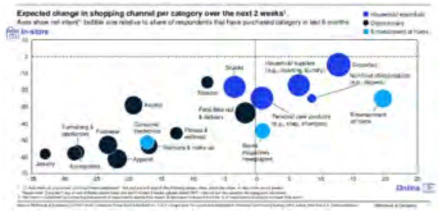
The recent spike in volatility may have encouraged investors to seek the perceived safety of the utilities sector, but we continue to believe that this is not the right move. A growing economy and rising interest rates do not make for utilities performance, and we therefore believe underperformance will likely continue.

For those who still wish to seek exposure to the sector, it may be opportune to consider the following names: in Europe, Centrica, Fortum, E.On, and RWE; in the U.S., American Water Works, DTE Energy, Excelon, and Nextera Energy.

Stay-at-home to be become a winner

... details of the expected shopping channel changes ...

... with basics and entertainment to shine.



Foreign exchange

Currencies

Stay structurally bearish on the USD

Given that the U.S. dollar typically gains during global downturns and declines in the recovery phase, the USD should weaken later in the year as investors unwind Fed tightening expectations and as the global economic recovery picks up speed. The main beneficiary of this is likely to be the euro, which is still undervalued. We also believe British sterling and the economically sensitive commodity currencies – the Australian dollar, the New Zealand dollar, and the Canadian dollar – can still make further gains, although these currencies are no longer undervalued from a longer-term perspective.

Gold prices on the move!

There is good reason to be cautious on gold. Yet, longer term, the positive outlook remains intact as central banks keep a lid on interest rates.

Recently, the gold price god was penalized by higher real interest on the back of the Fed's hawkish shift. One can expect that US long-term real rates will continue to rise in the coming months, mostly due to a less accommodative Fed and strong US economic activity. We expect that the FED will provide clarity at the Jackson Hole Symposium in late August about the tapering of the QE programme. This, together with a strong USD, could be negative for gold prices.

Beyond investment demand, seasonal and price-sensitive jewelry demand may provide little support for gold in the summer months, although the reopening of major economies may mitigate the seasonality of jewelry demand this year. We estimate that the present fair-value of gold is somewhere between USD 1'700/ounce and USD 1'750/ounce. As real interest rates will stay low for a prolonged period of time, which is supportive for safe-haven assets, the 12-month target price for gold is around USD 1'850/ounce.

Investment considerations:

We see a clear bias for EUR/USD to drop below 1.15 in the near term. However, the tide should turn for the euro in 1H20, either due to easing trade tension and improving global growth or due to more pronounced Fed easing.

In the coming months, we recommend positioning for a 1.30 upside barrier and for a downside of around 1.15.

One risk is an unexpected rebound in U.S. inflation and growth that brings the possibility of Fed rate hikes coming back into the picture earlier than expected. This would lift the greenback. Another risk would be a U.S. recession after escalating trade disputes, which could weaken the USD earlier and faster, since the Fed would likely cut rates aggressively.

Target values in 3 months:

EUR/USD:	1.1750 - 1.2000
GBP/USD:	1.3500 - 1.4000
USD/CHF:	0.9000 – 0.9500

Target values in 12 months:

EUR/USD:	1.17 - 1.25
GBP/USD:	1.30 - 1.42
USD/CHF:	0.90 - 1.00

Purchase power parities:

EUR/USD:	1.28
GBP/USD:	1.56
USD/CHF:	0.93
EUR/CHF:	1.18

Most likely next move:

EUR/USD	down
GBP/USD	down
USD/CHF	down

Target values in 3 months:

Oil:	$70 - $75
Gold:	$1,750

Target values in 12 months:

Oil:	$75 - $80
Gold:	$1,850

Upside potentials:

S&P GSCI	up
Oil	up
Gold	up

Next most likely move:

S&P GSCI	up
Oil	up
Gold	up

Commodity related stocks:
n/a

Commodities

Commodities are cheap

When compared to history, commodities valuations are cheap. It is also worth noting that when commodities outperform, it is often by a large number. Previous periods of strong performance have been supported by certain conditions coming into place. For example, the early 2000s saw China's boom following a period of underinvestment due to the bear market of the 1990s. We believe these fertile conditions are moving into place once again. As we move into a post-Covid world, governments around the world are enacting a combination of fiscal and monetary policies that will be much more positive for commodities.

Is inflation on the way?

Going forward, the continued economic recovery should lift physical demand for commodities. Extreme monetary and fiscal policies may finally spur higher – but transitory – inflation expectations. A weaker USD is equally supportive for emerging markets and commodities.

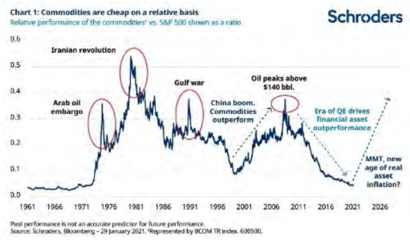
In terms of commodity-specific dynamics, demand for most commodities including oil has yet to recover to pre-Covid-19 levels; demand is unlikely to recover in 2021, but only later in 2022 or 2023. However, the crisis has left considerable capital expenditure holes and caused new projects to be deferred or even scrapped altogether, leaving supply more constrained than demand. As a consequence, large reservoirs may never be exploited, thereby providing a supportive price environment.

Nevertheless, we can't emphasis enough that the demand for commodities is exposed to economic cycles; a comprehensive understanding of oncoming demand is therefore a prerequisite for successful investment decisions in this field.

Demand for commodities is set to accelerate

The energy transition is set to see demand for metals accelerate sharply in the coming years as the world starts the switch to EVs and more renewable energy sources. There is an expected increase in demand for copper for use in EV batteries and for the associated charging infrastructure that will be required as part of the switch.

Commodities win big!



Commodities demand is accelerating

Low level of historic capex will be a price driver!

Capital market assumptions

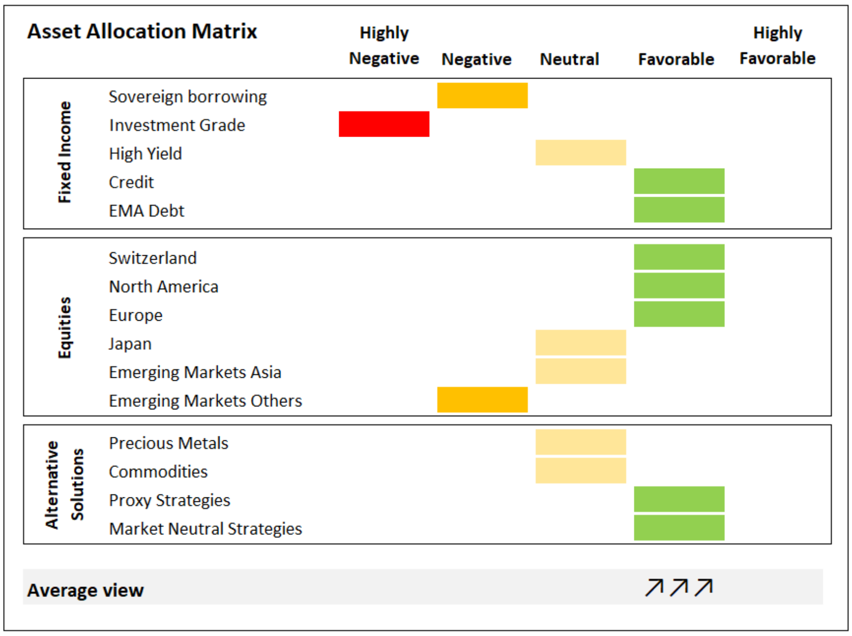
Return forecasts

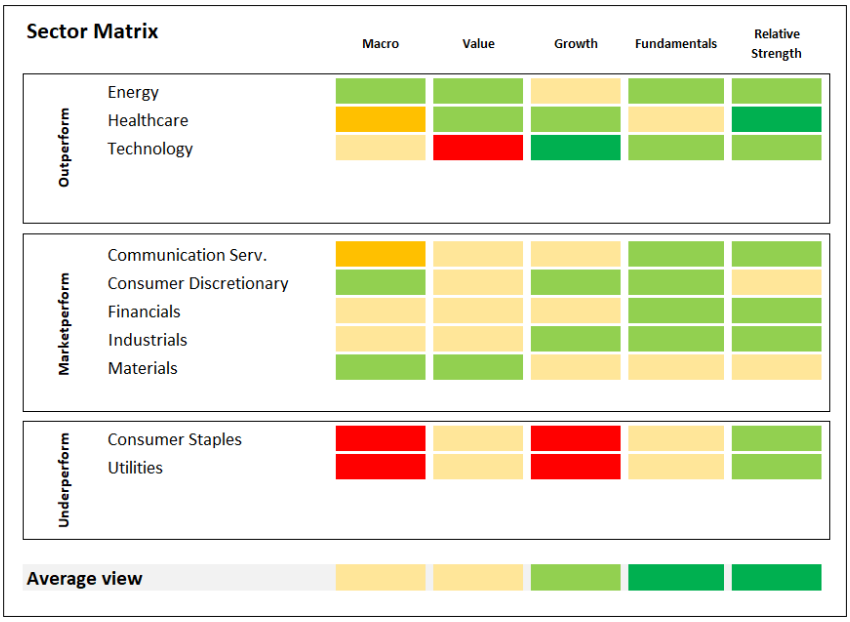
Forecasts are in local currency (except EM equities); all figures are annualized.

	Forecasts for the next 7Y			Average returns over the past 10Y	
	Return	Vol		Return	Vol
Cash USD	2.50%	0.00%		0.80%	0.40%
Cash EUR	0.30%	0.00%		0.10%	0.50%
Fixed income					
USD High grade bonds 5-10Y	2.60%	5.00%		5.00%	4.10%
EUR High grade bonds 5-10Y	-0.20%	4.20%		4.40%	3.90%
USD Inflation linked bonds	2.40%	4.70%		3.00%	3.30%
USD Corp bonds (IG)	3.30%	4.40%		4.80%	2.90%
USD High yield bonds	4.70%	9.70%		8.40%	6.10%
EUR High yield bonds	2.30%	8.70%		8.70%	7.30%
USD Senior loans	5.70%	6.90%		5.50%	3.50%
EUR Senior loans	3.50%	6.30%		6.00%	3.10%
EM Sovereign bonds (USD)	4.90%	8.60%		7.40%	6.30%
Equities					
US	5.70%	15.20%		13.50%	12.70%
EM (USD)	9.20%	20.70%		3.70%	17.00%
Eurozone	5.10%	17.30%		7.30%	14.40%
UK	6.00%	16.30%		7.30%	11.50%
Japan	4.60%	19.30%		7.80%	17.20%
Switzerland	4.50%	14.00%		8.40%	11.00%
Alternative Solutions					
HF (FOF, USD)	3.50%	5.20%		2.90%	3.90%
Alternative, other risks (USD)	7.20%	10.00%		7.80%	7.20%
Alternative, Private Estate (USD)	7.90%	9.20%		9.40%	5.10%
Alternative, Private Equity (USD)	10.20%	14.50%		13.90%	8.10%
Alternative, Private debt (USD)	8.20%	4.50%		10.20%	4.70%

Bloomberg, JPMorgan, MSCI, HFRL, BAML, UBS, IRISOS

Base-Case Allocation Preferences





Disclaimer: Allocation may change as a result of the risk optimization; past performance is no guarantee of future returns.

Asset Allocation Preferences – June, 2021

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas			The Materials sector has been sensitive to fluctuations in the global economy, as well as to concerns about U.S.-China trade and Covid-19. Accommodative monetary and fiscal policies may eventually support global economic growth. After a sharp contraction in 2020, earnings have recovered and are growing moderately, boosting profit margins. Therefore, most basic material companies are cheaper today (in relative terms) than they were a year ago.
	Europe			
	EM			
Consumer Staples	Americas			Historically, the Consumer Staples sector has outperformed during periods of economic slowdown and uncertainty, as investors are attracted by the perceived relative stability of the group. After all, consumers tend to buy food, soap, laundry detergent, and so on, regardless of economic conditions. However, the sector's relative safety is now in question as e-commerce opportunities and other online offerings challenge their brick-and-mortar set-up.
	Europe			
	EM			
Consumer Disc.	Americas			The sector has a number of industries with a fair amount of exposure to China, which has recovered relatively quickly from the pandemic. Despite the overconcentration of internet companies in the sector and a weakening sales outlook, we judge fundamentals to be positive for the Consumer Discretionary sector, as some of its core underpinnings remain upbeat.
	Europe			
	EM			
Energy	Americas			The renewed rise in the value of the U.S. dollar has pressured the Energy sector amid the pullback in oil prices. The secular issues that the sector faces – concerns about slow global growth – are yet another headwind to the sector. While this has led to attractive valuations from a historical perspective, challenging fundamentals and the relatively small size of the sector are negatively impacting the investment decision-making process.
	Europe			
	EM			
Healthcare	Americas			While there was strong relative performance recently, the current discount to the overall market in numerous valuation metrics remains attractive; the sector has generally traded at a premium to the market over the past 15 years. The durability of Healthcare sector earnings during economic recovery tends to lead to under-performance during periods of economic recovery. We think that solid macroeconomic factors and attractive relative valuations mean an outperform rating for the sector is appropriate.
	Europe			
	EM			
Financial Services	Americas			Topline revenue growth may prove to be elusive, as regulatory burdens remain high and areas such as asset management and brokerage services suffer from severe price competition. Additionally, the sector's sensitivity to interest rates and the stock market could translate into sharp underperformance if we see a significant pullback in the market. Payment services remain attractive investment opportunities.
	Europe			
	EM			
Industrials	Americas			The sector has suffered from concerns about slowing global economic growth, with industrial output faltering as a manufacturing downturn has broadened globally. This has prompted business leaders around the world to put capital spending on hold while stalling revenue growth. Presently, fundamentals are better than pre-crisis. More importantly, corporations are expected to work with more efficient equipment to help offset weaker productivity once Covid-19 has passed. The rebuilding of inventories is already in process and is likely to be complete by Q4/21.
	Europe			
	EM			
IT	Americas			Capital expenditures have been below trend for several years, and a return to more normal spending levels would boost the sector. Rising wages, including an increased minimum wage, could accelerate this trend as companies may turn to technology to replace increasingly expensive human workers. Consumer confidence has generally remained strong, but we are waiting for new data that might reflect another outbreak of coronavirus, which might disrupt the replacement market for mobile applications.
	Europe			
	EM			
Com. Services	Americas			The rollout of fifth-generation (5G) cellular wireless technology ("Internet of Things") and automated car technologies are the present growth drivers for the sector. However, upgrading to these high-level state-of-art technologies will require substantial capital investment. This forces companies to face unique risks.
	Europe			
	EM			
Utilities	Americas			Utilities stocks are among the most negatively affected by rising interest rates as the WACC will increase and within a given market, EPS will therefore diminish. While defensiveness can be attractive in uncertain times, valuations are not. In fact, they have risen to well above historical levels, both on an absolute basis and relative to the other sectors. The move to EV is another challenge the sector has to overcome.
	Europe			
	EM			

Expected costs of running investment strategies with our company

Estimates based on yearly activities (in % of total AUM)	Conservative	Balanced	Dynamic	Custom
Year with low activity *	1.20	1.49	1.78	2.03
Year with average activity *	1.39	1.68	2.15	2.55
Year with high activity *	1.78	2.86	3.53	3.63

***Subject to change according to market conditions, product strategies, currency diversification, and product turnover. Figures are indicative only and not binding by any means.**

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Sources:
Analysis and comments: Bloomberg, Reuters, Natixis, UBS, BNP-Parisbas

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