IX-7 Asset Management SA

Q 04 / 2021

Quarterly Investment Review and Outlook

Goodbye, 2021!

The year has been rewarding and meaningful – my digital soul converges onto the metaverse, onboarded to my outdated mobile phone.

When it comes to overcoming forces working against innovation:

> *No matter how cool your idea is or how compelling your strategy is, unless you address a human element, unless you address some psychological barriers and forces, your strategy and your efforts will be stifled.*
>
> – Professor David Schonthal, Kellogg School of Management, Chicago

Quarterly Report – Q04/2021

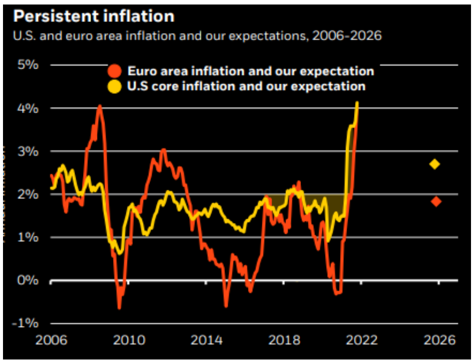
At a glance

Review – 4th quarter of 2021

a) Economic update

1. **Growth:** World economies continued to expand in Q4, still accelerating as compared to Q3. Global activity was boosted by international travel, transportation services, and healthcare, while spending on motor vehicles and parts declined.
2. **Inflation:** Inflation was one of the most underpriced risks in 2021 – concern has now solidified that inflation is not just transitory, as was previously expected. Much of the recent rise in inflation is driven by highly unusual supply shocks tied to the post-pandemic restart of economic activity. These imbalances should gradually resolve over the next year. But inflation will settle at a higher rate than pre-Covid levels.
3. **European recovery**: The EU economy is close to regaining its pre-pandemic output level! Economic indicators suggest that growth continued unabated in the 2nd half of 2021, underpinned by a revival of intra-EU travel that particularly benefited EU tourist regions. The projected growth for 2021 will allow the EU as a whole to virtually close the gap with its pre-pandemic output level and move from recovery into expansion.
4. **Chinese policy tightening:** Recently released GDP data shows that the Chinese economy has slowed more than expected. That comes on the back of multiple concerns: a) a broad-based power shortage that restricted factory output for a prolonged period of time, and b) a relatively weak real estate market in the aftermath of the Evergrande bankruptcy. The growth slowdown has hit levels that policymakers can no longer ignore, and we expect to see incremental loosening across three pillars – monetary, fiscal, and regulatory.

Persistent inflation:



b) Upside scenario

The year ahead should see a continuation of the shift toward recovery. According to the Credit Suisse Investment Outlook 2022, the global economy is expected to grow by 4.3%. Although several central banks have started to withdraw pandemic stimuli, interest rates are set to remain at or near zero in the major developed economies. Against this backdrop, equity returns should remain attractive, though they are likely to remain toppish.

In fixed income, government bond yields will likely deliver negative returns in 2022. In credit, low spreads in investment grade barely compensate for the risks associated with higher yields. In the high yield segment, opportunities are available, but investors should favor quality baskets and relative short duration, i.e., less than three years.

c) Downside risks

We see three key areas of concern:

1) **FWD EPS expectations below average:** The Americas and Europe have been more or less affected by supply-side disruptions in the same manner. Even so, as of now, US based consumption has largely surpassed pre-pandemic levels. In Europe, consumption is still lagging demand and sales are far below trend. While US producers and retailers can pass on higher input costs, this will not be the case in Europe (and most likely elsewhere, too). Consequently, one should expect weaker FWD EPS estimates for Euro-centric companies.

2) **Labor market:** In the US, the labor market looks to be near full employment. This occurs on the back of the great resignation and elevated wage growth. In the eurozone – notwithstanding pockets of tightness in some northern economies – slack remains significant, and wage growth has actually slowed at the aggregate level to 1.4% y/y in Q3, down from 1.8% in Q4 and 2.2% in 2019.

3) **Inflation:** Longer-term inflation expectations are, for the time being, low! Nevertheless, expectations are still higher now than they were in the past. Subdued wage growth, both in Americas and, to a lesser extent, in Europe, could meaningfully catapult out of control the long-term rate of inflation.

Top-down view: January, 2022

With economic activities taking shape under the "new normal," investors should be mindful about the possibility that better-than-expected growth and inflation to stay beyond transitionary.

Two years ago, the COVID-19 pandemic started in Asia and triggered a short-lived recession from Q2 to Q4 of 2020. On the back of ample liquidity, resulting from various public stimulus programs large household savings, very low interest rate levels and inflation projections, the market recovered promptly.

Looking to 2022, we expect that the imbalance shaped in the aftermath of the pandemic will likely resolve, and that business cycles will normalize. In the present context, normalization may not necessarily result in a “back to the past” situation, but rather a “back to the future” scenario, with secular growth trends continuing to accelerate. Investors are well advised to consider that the secular stagnation in DM – initiated through delocalization and massive adoption of IIoT – belongs to the past. Rather, we expect that the future will be composed of solid economic growth, supportive inflation, sustainable capital spending, and solid productivity growth. Given these supportive conditions, the market is expected to focus on a basic investment environment; allocations that capture these fundamental trends are expected to be favored at the expense of passive strategies. Consequently, we would expect the overall market valuation to remain toppish to down over the next quarters.

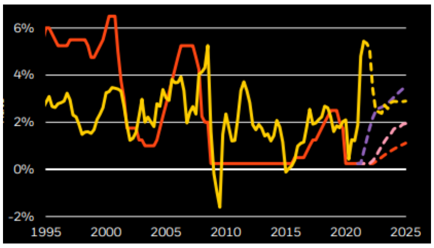
However, valuable opportunities will crystalize through secular growth trends. We consider four specific trends that could drive higher-than-expected growth and inflation, with greater capital spending and improving productivity:

- Innovation: During pandemic-related shutdowns, many businesses were required to switch to digital versions. Building up a digital concept is not merely a matter of using a plug-and-play digital version of the traditional brick and mortar concept. Instead, digital demand spurs all kind of new requirements, ranging from fintech to autonomous vehicles, artificial intelligence, and off-site conferencing opportunities.
- Deglobalization: Businesses were already anticipating supply-chain re-localization before the pandemic, amid U.S.-China trade tensions. However, the pandemic, Suez Canal accident by Ever-Given, and chip shortage have all highlighted today’s inflation-driven supply imbalances and inventory shortages. We expect that an ever-increasing consumer sensitivity around cybersecurity and public health – along with geopolitics and shifting regulatory frameworks in China – are all supportive for sourcing of a more or less domestic nature.
- Decarbonization: Contrary to the common assumption that the transition towards EV will be lean and short, we expect the opposite. In creating an entire new industry segment that provides new products and services to millions of consumers, some CO_2 emissions will be captured, while resources will be consumed and intensive economic activity will take place to meet the specific demands. In turn, this will be supportive of higher levels of inflation, and will add constraints to an already tight labor market.
- Labor market: Central banks are suggesting a target rate of inflation of around 2% to 3%, which should result in a relatively stable employment market. Still, recent observations suggest a shift in workforce behavior and attitudes towards work – that is, people are retiring much earlier or seeking different work schedules. Coupled with employees’ seeking new work leverage, the shift is expected to drive higher labor costs for companies, which could both weigh on company’s profit margins *and* drive the level of inflation.

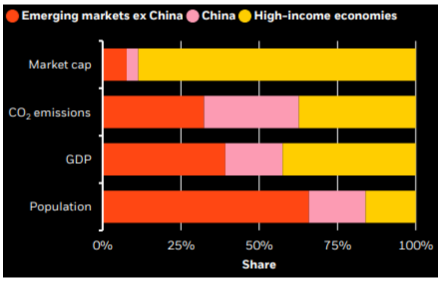
Given the above, we continue to maintain that portfolios are best geared-up for growth enablers, as economic growth will be abundant in the coming quarters. Such growth enablers will translate into nominal growth and nominal inflation, which in turn will translate into a steepening of the yield curve and compression of the valuation of rate sensitive growth stocks, especially those which do not belong a strong secular growth trend.

As suggested above, we expect the main indices to be range-bound. Investors are advised to look out for growth enablers. A key strategy will be a balanced allocation between some boring large cap opportunities and promising growth stories. In addition, investors may want to reduce traditional fixed-income allocations and increase exposure to credit and niche-income strategies.

Expect outlook expectation to change fast: There is no playbook for the restart of economic activity – and what lies beyond. Confusion around restart dynamics and high inflation could lead to policy errors and market volatility.



Navigation to zero: The journey to net zero is not just a strategic story, it's a now story. The global transition to a more sustainable world will require a massive retooling of economies, in our view.



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: - 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 compressed to historic low levels on the back of central bank support. We therefore expect the status quo on spread levels to remain in place until further notice.

Debt Security - **Exclusive Opening:** We offer exclusive access to Microfinance and Microcapital. Underlying investments occur along the Silk Road, but mainly in Europe and Central Asia, as well as some in Asia. The asset class is uncorrelated to most other market segments and economic developments in the region are price and return supportive.

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

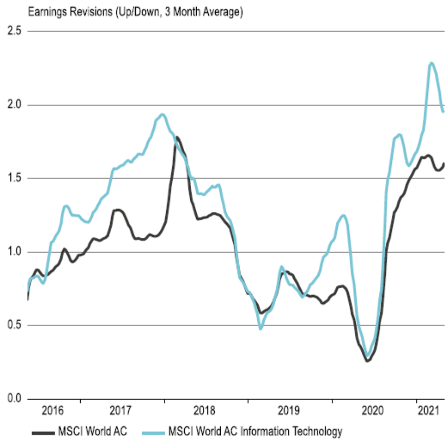
Medium-term view: - In the oil market, the supply/demand equation is starting to find its own new balance. We remain fundamentally positive on the sector, as alternative energy resources will not be able to cover the full energy demand for an unforeseeable period.

5. Structured solutions:

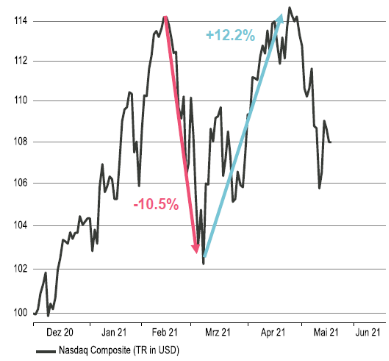
Short-term view: - Conditional capital guaranteed products with optimized early call opportunities offer an ideal risk/reward, as markets have reached top levels, while volatility remains low.

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.

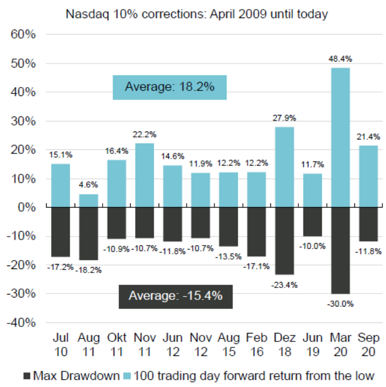
EPS Revisions still accelerating!



Equities are a buying opportunity…



… ever since the GFC.



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Investment recommendations by theme

1. Globalization 2.0:

Short-term view: - Mixed

Medium-term view: - With the path of central bank interest rate strategy now mostly revealed, market participants can plan ahead; a risk-on strategy is therefore again opportune.

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: - While we have reached a turning point, fiscal and monetary policies continue to be very accommodating.

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 a 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:

Equities
Rising Covid cases, supply chain bottlenecks and inflation concerns have taken their toll on global economic growth in recent months. However, we still have reasons for optimism. There are signs that supply constraints are beginning to ease, and we believe inflationary pressures should peak in the coming months, before moderating through the rest of 2022. As a result, we anticipate a fresh burst of growth and – crucially – a long-awaited recovery in the services sector, although frustrated to some degree by the emergence of the Omicron variant.

That growth spurt should prove a boon for parts of the equity market which are most exposed to the economic cycle and support corporate earnings. In fact, we are optimistic about corporate profits across most regions and sectors, reflecting our above consensus views on economic growth. Globally, we see profits rising by 12% next year, compared to analyst consensus of approximately 7%. Stronger-than-consensus profit growth is more likely in the eurozone and Japan (where economic recovery is still incomplete).

We have consequently become more positive on prospects for consumer discretionary stocks, upgrading the sector from negative to neutral. Consumption appears to be holding up well despite higher prices – particularly in the US, where supply constraints are affecting the auto sector and related industry sectors. Meanwhile, one should expect constraints to start easing by 2023. Earnings revisions for such companies relative to the market are what we consider to be trough levels, suggesting profit upgrades are likely over the coming months.

We also like real estate, which is one of the cheapest sectors in our valuation grid, relative to its own 20-year history; such stocks can also serve as a partial inflation hedge. However, financials remain a preferred sector by the market, and for several reasons. Despite its strong rally this year, financials remain attractively valued, bank profitability looks set to improve as bond yields rise, and hurdles to dividend distribution have been largely removed by regulators.

We are more cautious on defensive sectors, whose relatively strong performance in recent months is vulnerable to any pick-up in economic growth. We have downgraded both utilities and consumer staples from neutral to underweight. Both sectors are essentially bond proxies, which means they could struggle as bond yields rise. Utility companies may come under increased pressure from governments seeking to contain energy price rises. Consumer staples, meanwhile, are a play on the growth of emerging economies, whose prospects do not appear particularly positive over the near term.

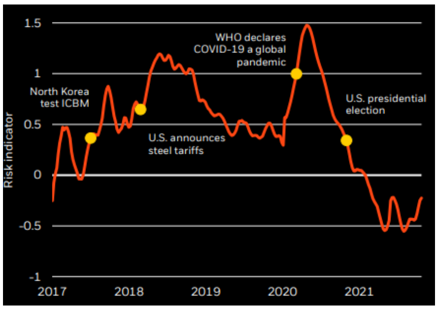
Fixed Income
In fixed income, government bond yields will likely deliver negative returns in 2022. In credit, low spreads have become the norm. We prefer a selective HY credit exposure in Europe, which will benefit from ongoing central bank support.

Microfinance
Exclusive Opening: Microfinance exposure is new in our asset allocation. We offer exclusive access to Microfinance Debt and Microcapital. Underlying investments occur along the Silk Road, but mainly in Europe and Central Asia, as well as some in Asia. The asset class is uncorrelated to most other market segments, and economic developments in the region are price and return supportive.

Commodities
Given expectations for continued above-average global industrial production growth and restocking needs, demand for commodities is set to remain supportive in 2022. The price of carbon will remain a key topic, while gold may be vulnerable as policy normalization begins.

Alternative
In alternative investments, real estate should continue to benefit from the still low interest rate environment, as well as the continuing economic recovery. The economic backdrop also remains supportive for private markets, while hedge funds should deliver modest returns close to the historical average.

Geopolitical risk barometer: Market attention to geopolitical risk is relatively low, meaning that any flareups could catch investors more off guard. Specific risks that need monitoring are U.S.-China competition and tensions over Iran's nuclear capabilities.



Market-by-Market View

United States

With US growth expected to remain strong in both real and nominal terms, the hurdle to outperform to the US market is very high when adjusting for FX and other risks. Historically, we have anticipated that emerging market would have sufficient pace to surpass the US market for once. Yet, as economic growth in the *developing* world has lagged that of the *developed* world, the US market remains the favorite marketplace for us. Also, we expect the economic outperformance of the US and the policy divergence between the Fed and the more dovish ECB to keep the dollar bid - something that typically weighs on the returns of emerging equities.

Credit Suisse expects the US economy to post real GDP growth of 3.8% in 2022, with a halting service rebound and ongoing supply chain problems complicating the final stages of pandemic recovery. Inflation is expected to slow to 3.9% after an extreme spike in 2021. We expect the USD to benefit from a rate advantage over other developed market currencies, as the Federal Reserve withdraws pandemic stimulus.

Eurozone

The eurozone is expected to grow by 4.2% in 2022, as the economy eventually overcomes the ongoing supply chain issues that have led to a sharp rise in inflation. The European Central Bank (ECB) should start paring back its asset purchase programs in 2022. We expect the EUR to start 2022 rather softly against the USD, but then to stabilize and recover later in the year, contingent on the ECB's policy actions. Wage growth is not yet an issue in the Eurozone, as unemployment is still relatively high and economic growth is not as sustainable as it should be.

Switzerland

The Swiss economy should post solid growth in the coming months, while a decline in the unemployment rate should support consumer spending. We forecast Swiss GDP growth of 2.5% in 2022. As the Swiss National Bank is likely to continue to intervene in the FX market if needed, the CHF should not appreciate meaningfully against the EUR.

China

After a strong growth recovery, China experienced a renewed slowdown due to problems in its real estate sector and regulatory changes and policy reform, issues we expect to continue into 2022, potentially weighing on growth. China's economy is forecast to grow at 6.1% in 2022. We expect the CNY to hold stable or soften somewhat in the first half of 2022.

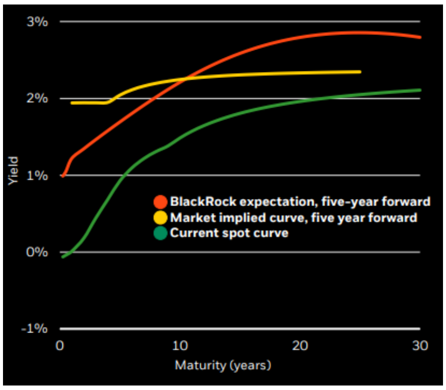
Japan

The Japanese economy is expected to grow by 1.7%, as the new government is likely to provide further stimulus to support the economic recovery. We also expect the JPY to depreciate against the USD in 2022. All-in-all, the JPY equity market remains unattractive for USD based accounts.

Emerging market

We downgrade emerging market equities (ex-China) to underweight. A rotation back into emerging market stocks is likely in the second half of next year, but this is dependent on an improvement in economic conditions and either an end to – or significant slowdown in the pace of – monetary tightening across the developing world.

Steeper yield curves ahead: Short-term yields staying low as central banks keep policy relatively accommodative, and expect longer-term yields to gradually rise on the back of higher medium-term inflation and a revival of term premia.



Sector Analysis

Basic Materials

The Materials sector is sensitive to fluctuations in the global economy, the US dollar, and inflationary pressures. Accommodative monetary and fiscal policies are underpinning global economic growth and pricing power. However, the US dollar has trended higher recently, which historically is a headwind for the sector.

The sector's cyclical-value bias — which tends to do well amid improving global growth and strong demand for industrial metals — has been a tailwind. Although metal prices remain elevated amid strong demand, coupled with supply constraints, economic growth is at risk of easing amid peaking US growth and weaker demand in China.

The Biden administration's clean energy and infrastructure initiatives could sustain the boom for industrial metals and materials — though tougher regulations are a risk. And demand for chemicals (the largest industry in the sector) may continue to increase as oil demand improves, but oil rig counts have been slow to rise. Furthermore, high energy prices are a headwind to chemical production profitability. Finally, the recent rise in agricultural commodity prices may have run its course.

Positives for the sector:

- Improving global economic growth has supported industrial metals and chemical prices – though this appears to be moderating somewhat amid slowing economic growth in China
- Cyclical-value sector characteristics tend to be favored in the expansion phase of the business cycle
- US clean energy and infrastructure spending could spur demand for industrial materials
- Recent sector performance weakness has improved valuations

Negatives for the sector:

- The slow recovery in the oil rig count is a headwind for chemicals, and high energy prices have raised the cost of chemical production
- Momentum has weakened recently
- Significant supply chain bottlenecks may be constraining economic growth

Risks for the sector:

- An increase in global COVID-19 cases
- Potential stringent environmental regulations
- Strong US dollar and/or weaker-than-expected economic growth

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 still remain reasonable relative to other cyclical sectors. We also expect that the chemicals and construction materials sub-sectors will benefit from the EU's sustainable investment plans.

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

Consumer Staples

As would be expected for a traditionally defensive sector whose constituents are typically less affected by changes in the business cycle, the Consumer Staples sector underperformed as the economy recovered from the COVID-19 pandemic. However, the S&P 500 Consumer Staples index has continued to make new record highs. Additionally, a peak in the rate of economic growth and the associated potential for higher market volatility could weigh on cyclical sectors, boosting the relative attractiveness of the more defensive and larger-cap stocks within the sector. On balance, we think the macroeconomic impact on the Consumer Staples sector is neutral relative to the other sectors.

Many of sector's valuations measures are still above their historical averages, as is the case for nearly all the other sectors. But in relative terms, the Consumer Staples sector falls in the middle of the pack – neither relatively attractive nor expensive. The ongoing rise in transportation and commodity costs have weighed on earnings, but many of the companies in the sector have managed to pass some of those higher costs on to consumers. And the reopening of restaurants is boosting wholesale food demand, which portends an improvement in fundamentals – particularly if companies can maintain prices at higher levels, as input costs presumably ease in the coming months. However, it has not yet been seen if pricing power can be maintained amid stiff competition within the sector. For now, this leaves our fundamental view at neutral.

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 strong pricing power (as of now: positive in the USA, negative in Europe)

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.
- A rise in interest rates, combined with stronger-than-expected economic growth, could result in underperformance
- Inflation pressure is limiting a broad-based upside swing of the sector.

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): 487
E12 months value (DJStoxx600): 535
Upside potential: +9.8%

Key economic ratios:

GDP Growth 22(E)	4.8
GDP Growth 23 (E)	2.0
CPI 22(E)	3.1
CPI 23 (E)	1.7
P/E 2022 (E):	14.5
P/E 2023 (E):	13.7
Div. Yield 2022:	3.2
Div. Yield 2023:	2.5

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

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Technology

Rarely is there any sector that has everything going for or against it – and that is certainly true of today's Information Technology sector. The sector boasts an impressive profitability – the best across all 11 S&P sectors. More importantly, it is well positioned in the context of economic growth – even at a slower pace. Finally, we like its compelling fundamental and strategic outlook – inflating input and labor costs are spurring businesses to accelerate investment in productivity-enhancing technologies.

But there also things to dislike about the sector. Among these, the Technology sector is highly concentrated in just a few stocks, valuations are toppish by almost all measures, and all things being equal, higher interest rates could put most of them at risk of receiving a severe haircut.

Even so, over the intermediate term, we believe the fundamental and cyclical foundations outnumber the downside risk. In our opinion, the strong trend in capital expenditures on productivity enhancing technologies will continue to support robust profitability, and the maturing phase of the business cyclical is favorable to the growth-oriented sector. Expectations for a rise in interest rates could be a short-term headwind for richly valued technology stocks. Still, we would highlight the expected short-term nature of such a rise in interest rates.

With economic growth expected to continue and inflation pressures to eventually ease, interest rates should start rising from very low levels to a somewhat higher but still low level. This is also positive for the Technology sector, as higher investor optimism in the economy is typically good for the sector. We are currently moderately positive on the sector as we assess the reaction to higher interest rates; however, continued relative strength and seasonal tailwinds at the start of the year could tip the scales in favor of the sector.

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.
- For the most highly regarded companies, valuations have expanded dramatically.

Investment opportunities:

The near-term is highly uncertain due to COVID-19. However, we believe investors should focus on technology companies that have attractive longer-term growth opportunities due to being 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.

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Communications Services

Pandemic-related stay-at-home behaviors have been good for some companies in the sector, leading to increased use of social media and demand for streaming entertainment. However, the pace of enrollments is likely to ebb as traditional entertainment options continue to reopen. Traditional broadcast and cable TV advertisers have struggled, but are now quickly pivoting toward online mediums. Wireless service revenues and equipment sales are being supported by the initial rollout of fifth generation (5G) cellular technology.

Ultra-fast adaptation

Restrictions on mass gatherings hit the live E&M sector hard, shuttering conference centers, arenas and stadiums for much of 2020 and 2021. Live music was the most affected by the pandemic, with revenue falling by -74.4%. As a result, the Communications sector was forced to adapt with creative solutions, such as drive-in concerts at former outdoor cinemas or large car parks. Nevertheless, these formats are viewed as a stopgap, and many operators turned to virtual experiences as an alternative. Gaming provides a ready-made marketplace for such events, and in May 2020, Minecraft staged an entire festival on its platform, demonstrating an opportunity to sell more music and merchandise through games platforms and capitalizing on this burgeoning sector.

While the larger social media companies (Alphabet/Google and Facebook) enjoy significant competitive advantages due to their dominance in their respective business lines (search engine and social media) the sector now faces emerging antitrust risks, headwinds from Apple's ad-blocking feature, potential market saturation, and most importantly, foreign infrastructure providers pleading for tool-stating to collect levies for heavy pass-through traffic.

Longer term, we believe the continued expansion of 5G could further increase growth within the Communications sector, as it continues to increase demand for equipment and services. Upgrading networks will require substantial capital investment, but federal government infrastructure initiatives could result in subsidies and investment.

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).

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Energy

Amid the ongoing global energy crisis, the Energy sector has outperformed the overall market since the COVID-19-crisis-related market lows of March 2020. Nevertheless, it is still one of the worst longer-term performers – despite the fact that crude oil is trading at seven-year highs – as the clean energy movement and associated regulatory risks have loosened the sector's historical relationship with the price of oil. As the energy transformation advances, many companies in the Energy sector have not ramped up capital expenditures and production along with rising oil prices, as they have done historically. The silver lining is that if there was a significant decline in oil prices, they would be less exposed to stranded assets (an investment that becomes obsolete).

Valuations in the Energy sector are attractive relative to the other sectors. Despite strong gains in energy stock prices, they have not kept up with rapidly rising earnings expectations. This is not surprising, as investors have remained wary of the boom/bust sector and energy transition, while equity analysts found optimism amid the combination of rising oil prices boosting revenues and restrained expense growth.

Meanwhile, oil inventories have declined. With the reopening of the global economy, the recovery in demand for oil has outstripped supply by cautious producers – OPEC and US producers alike – driving inventories lower. A continued decline in inventories, against the backdrop of higher demand, is inherently supportive of oil and potentially, of energy companies.

However, numerous uncertainties surround the price of oil, with the potential for renewed OPEC disagreement, slowing economic growth in China, and potentially, harsh regulations related to the transition toward clean energy. There are also lingering sanctions versus Russia once again (in case of a partial Ukraine invasion), and concerns around the Nord-Stream II project, which should come into service very soon. If any of these last two concerns become reality, it could result in an ice-age period for Europe and much higher energy prices for the rest of world.

Overall, we remain very positive on the energy sector, because the energy transition has only just started and thus, alternative energy sources will not cover the full demand 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 who will be able to endure a lasting price war with Saudi Arabia.

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

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Financial Services

The Financials sector has many favorable attributes, but uncertainties about the path of the economy, interest rates, and overall market raise the level of risk for the sector. While macroeconomic conditions remain strong, we have likely seen a peak in the rate of growth. Historically, relative performance of the sector is positive in the expansion phase. Even as Central Banks embark on the process of unwinding accommodative policy, as inflation remains somewhat less transitory than previously expected, we think that this interest-rate-sensitive sector will gain a tailwind from rising interest rates in the coming months.

According to the latest Federal Reserve Board annual bank stress tests, in general, large banks still boast strong balance sheets, with ample capital to withstand even a significant rise in loan defaults. While the expiration of stimulus payments will likely contribute to an uptick in loan defaults, reserves for a large spike in loan loss were set aside last year – but were not needed. Many banks are now able to reverse some of those reserves, which were booked as expenses.

Valuations are still attractive relative to other sectors – but forward earnings expectations have flattened out. Unless forward estimates turn higher, any significant price rise in the Financials sector would increase the price/earnings ratio, eroding the attractiveness of its valuations.

Many of the sector's favorable attributes – strong financial position, higher interest rates, and attractive valuations – are tailwinds. However, the peaking of economic growth and the potential for higher volatility somewhat offset the positives.

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:	4'770
E12 months value S&P 500:	4'500
Upside potential:	+5.6%

Key economic ratios:

GDP Growth 22(E)	4.5
GDP Growth 23 (E)	3.0
CPI 22(E)	4.5
CPI 23 (E)	2.0
P/E 2022 (E):	21.6
P/E 2023 (E):	19.7
Div. Yield 2022:	1.7
Div. Yield 2023:	1.7

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

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Healthcare

Following the worst of the COVID-19 crisis, elective care has resumed. However, as COVID-related care subsides, the lack of revenues due to COVID-19 patient care has a negative impact on medical providers balance sheets. On the other hand, medical equipment and pharmaceutical stocks have recovered. Meanwhile, the sector has many favorable long-term attributes, such as new cost-saving and care-improving advances in medical technologies. Add to this an aging global population and a growing middle class in emerging-market economies, both of which will demand more extensive drug treatments and medical care over time. Valuations are relatively attractive, and balance sheets in the sector are generally in good shape, increasing the possibility of higher dividend payments, share-enhancing stock buybacks, and merger-and-acquisition (M&A) activity.

In the US healthcare market, however, there are still risks. Any legislation to control drug prices or raise corporate taxes could weigh on pharmaceutical companies' profits, although promising pipeline drugs could mitigate these risks. Additionally, in June of 2021, the Supreme Court ruled that the individual mandate provision of the Affordable Care Act (ACA) was constitutional, thwarting efforts to repeal the entire ACA and avoiding potential sector upheaval.

Telemedicine becomes a fixture of the healthcare landscape
As social distancing and stay-at-home orders upended the care delivery model, many clinicians and health systems rapidly adopted telehealth and virtual care models, and have seen the benefits it can bring to patient care.

According to Vikram Savkar, Vice President & General Manager of Medicine Segment of Health Learning, Research & Practice, telemedicine will likely persist beyond the pandemic and will establish itself as a permanent and prominent fixture in the healthcare ecosystem.

Furthermore, looking to 2022, Savkar expects healthcare providers themselves will be among the first to strengthen and formalize training to research and promote telehealth best practices to their clinical teams. He also expects specialties like mental health and urgent care to make a permanent shift to a predominantly virtual model. Finally, he believes that the rise of telehealth will drive more dialogue around modes of access as an issue of not only tech, but also of equity in the years to come.

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

With the recent economic growth, stocks have been trading in ways typical of the expansion stages of the business cycle – this could prove positive for the historically cyclical Industrial sector. Additionally, prospects for an increase in infrastructure and clean-energy investment will likely support the machinery and building materials industries.

Concerns over peaking activity, followed by COVID-19 and supply chain headwinds, have caused the Industrial sector's performance to lag the broader market by about 9 percentage point points since 1 June. The headwinds for the sector are still strong, as we expect a slowing China and supply chain issues to result in modest sales and earnings reductions in the near term.

However, we see several potential tailwinds going into 2022:

- The current weakness in sales is not a demand issue, but a supply chain one. This was further made evident in September's PMI, which remained at very strong levels.
- Inventory levels are at historical lows relative to sales, which should provide a tailwind for restocking demand as supply chain pressures fade.
- Valuations, which were extended earlier this year, are now approaching more normal levels.
- Price increases taken by companies should help boost margins next year, as we expect raw material pressures to abate.
- An expected taper by the Federal Reserve later this year could lead to higher interest rates, which are typically positive for cyclical stocks.

That isn't to say that we are out of the woods regarding headwinds for industrial stock performance, which is why we maintain a neutral view on the sector. The supply chain congestion has continued to deteriorate, and we would need to see some stabilization and improvement there before sector performance could take a turn for the better. As such, the supply chain will top the watch list for the market. Moreover, a colder-than-normal winter could further stress the energy and power issues we see in China and exacerbate the slowdown there as well.

So, while we haven't yet reached a turning point for the sector, if these headwinds can begin to improve over the next few months, we should start seeing a lift in overall industrial stock performance in 2022.

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.

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

Fallout from the COVID-19 pandemic continues to be a source of uncertainty for the Real Estate sector, but mass vaccinations and relaxed restrictions on public gatherings have reduced investor pessimism. Fiscal relief packages have helped to reduce massive retail lease defaults, but elevated residential delinquencies still pose risks. Improvements in the job market could mitigate some of these risks.

The outlook for office REITs is likely to be uncertain until it becomes clear whether there will be an enduring shift toward remote working – although the recent trend appears to be for most workers to eventually return to the office. Nevertheless, increases in office building inventories are likely to weigh on lease prices and potentially, on property valuations.

There are, however, some exceptions. Warehouse/distribution center demand remains strong, resulting in rising rents. And with the rapid rise in home prices, amid low interest rates and de-urbanization, REITs specializing in single-family home rentals and manufactured homes stand to benefit. This is translating into higher multi-family rents, as well. If the economic expansion continues, workers return to offices, and interest rates stay relatively low, the Real Estate sector could do very well.

In a generally still low interest rate environment, combined with renewed demand for office and retail space, investors' search for yield and moderate valuations could be a strong tailwind for the sector. However, this would have to overcome the traditionally defensive characteristics of the sector

Points of interest within the sector:

- 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.

Positives for the sector:

- 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.
- 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 shifted. 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 difference is important – it results in one global economy built on the back of bytes and another composed of bricks and mortar.

As the economy changes, 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:	790
E12 months value MXAPJ:	900
Upside potential:	+13.9%

Key economic ratios:

GDP Growth 22(E)	4.5
GDP Growth 23 (E)	3.0
CPI 22(E)	4.5
CPI 23 (E)	2.0
P/E 2022 (E):	14.2
P/E 2023 (E):	12.8
Div. Yield 2022:	2.9
Div. Yield 2023:	2.5

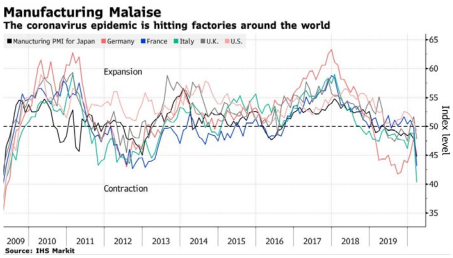
Most likely next short-term move:

MXAPJ down

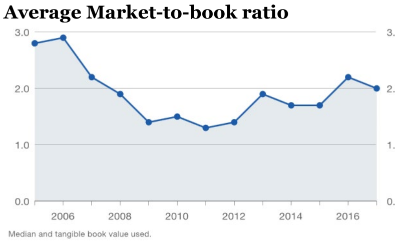
Key names to look at:

- 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

The Consumer Discretionary sector, typically sensitive to swings in the economy, had its winners and losers with the onset of the COVID-19 pandemic, and continues to be underpinned by the ongoing economic expansion. Early in the crisis, massive stimulus efforts and stay-at-home orders spurred a surge in spending on home improvement and e-commerce sales. While that pace has slowed, higher wages and a boom in house prices continue to support demand.

With much of the economy now reopened, many of the most beaten-up stocks in the sector – like those in the apparel and hotel industries – have recovered much, if not all of their crisis-related losses. The cruise industry and some hotels have been exceptions, as the COVID-19 delta variant remains a headwind. But these industries are often overshadowed by bigger companies in the sector, like Amazon and Tesla, that constitute more than 40% of the sector's market cap. The longer-term trend toward e-commerce and electric vehicles is likely to continue to support the fundamentals of these growth industries, but investor enthusiasm may have pushed valuations too high. Additionally, a severe semiconductor shortage is an ongoing risk to the production of vehicles, although investor interest in electric vehicles has underpinned the automotive industry indices.

The most powerful engine in the US economy – the consumer – has remained remarkably strong; in fact, US consumers responded better than consumers elsewhere to government subsidies. Despite the lingering effects of the virus, inflation fears, and now the absence of stimulus checks, US consumers continue to spend. This was starkly displayed when October retail sales showed the strongest month-over-month growth since March, besting economists' expectations across the board. Retail sales have now climbed in six of the past eight months, so far shrugging off worries that consumer demand would drop off without additional fiscal stimulus.

Results from corporate America paint a similar picture. Just last week, retailers including Home Depot, Lowe's, and Target, all reported earnings that came in above analysts' expectations. The Consumer Discretionary sector as a whole is tracking to a 58% year-over-year increase in earnings for 2021, and that strength could continue into next year and fuel an increase in 2022, greatly exceeding the expected earnings growth rate for the broader market.

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 in excess consumer savings looks 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

Tackling a tall order

In 2021, the power and utilities industry tackled tough challenges, made measurable progress, and received clean energy encouragement from different directions – new administrations in the US and Germany, and COP26, amongst others. As the world economy began to emerge from its pandemic-induced recession, electricity sales rose 3.6% through August 2021 over the prior year. At the same time, unprecedented and unpredictable extreme weather events challenged the grid's reliability and resiliency, and cyberattacks on critical infrastructure increasingly made headlines.

In 2022, the tough challenges remain – boosting clean energy, ensuring reliability and resiliency, and maintaining security, all while keeping costs down. To tackle this tall order, the electric power industry will likely continue to advance in its "3D" transformation: decarbonization, digitalization, and decentralization. We will be watching for technology deployments to advance and markets to evolve. Industry spending will likely remain high, and renewable penetration could accelerate further.

For our investment universe, we explore four trends that will likely impact the industry in 2022 and beyond. These include 1) enhancing decarbonization and resiliency strategies, 2) the deployment of 5G and cloud technologies, 3) flexible load management of the grid, and 4) supporting building electrification. In the policy arena, while renewable tax credits have supported the clean energy transition to date and will likely evolve further in the future, we will also be looking out for potential regulatory changes supportive of the energy transition into the future.

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:

- During recent periods of market weakness, the sector has not acted as defensively 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:

- Uncertainty remains 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.

Foreign exchange

Currencies

Stay structurally bearish on the USD, but short-term is positive

The Fed will start raising interest rates as from June 2022 and onwards. A total of three hikes, each one of 25bp, are expected (June, September, and December). Given the upside risks on inflation, the Fed will have a higher bar to pause rate hikes, and given the interest rate differential between the other main currencies (GBP, EUR, JPY, and JPY), the USD is expected to remain bullish.

Given this, the US dollar has regained its safe-haven status, and this is reinforced by rising expectations of policy tightening by the Federal Reserve. There is considerable uncertainty about the outlook of US fiscal policy. We therefore think the path to EUR/USD 1.10 is well paved. To break through this support level, additional volatility would be required.

EURO: We expect the European Central Bank to keep interest rates negative for a long time; its discussion around plans for asset purchases after the PEPP emergency program ends next spring is not helping the common currency. We therefore see little upside for the euro, unless the global economy suddenly looks much brighter.

CHF: Omicron and renewed Brexit tensions are expected to favor flows towards the Swiss Franc versus EUR and GBP. Against broad-based euro-specific risks, it is difficult to see how the SNB can effectively intervene.

Investment considerations:

We see a clear bias for EUR/USD to drop towards 1.10 in the near term. However, the tide should turn for the euro in 2023, either due to easing trade tension and improving global growth or due to more pronounced Fed easing.

It is important to note that the EUR/USD PPP is still around 1.34 and that, at some point in the future, a mean reversion will take place. It is for this reason we could be opportune for non-euro investors to seek an EUR long-term exposure. Our positioning goes for the 1.30 upside barrier.

A risk to our strategy would be a renewed US recession and trade tensions which could reinforce safe-haven flows towards to the USD.

Target values in 3 months:

EUR/USD:	1.1000 - 1.1500
GBP/USD:	1.3000 - 1.3500
USD/CHF:	0.9250 - 0.9750

Target values in 24 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:	\$80 - \$85
Gold:	\$1,800

Target values in 12 months:

Oil:	\$80 - \$85
Gold:	\$1,700

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

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Capital market assumptions

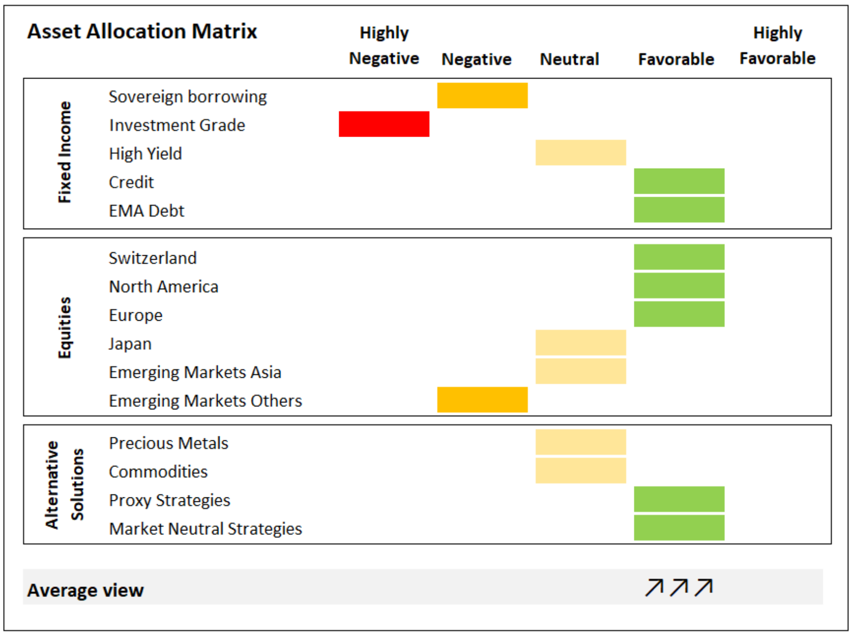
Return forecasts

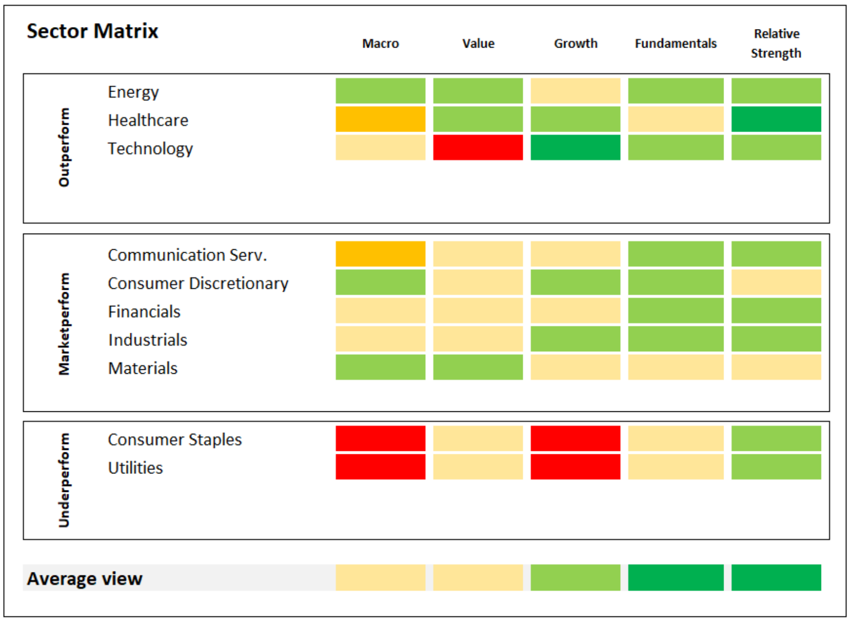
Citibank estimated that in ten years' time, every dollar that has remained uninvested has seen its purchase power to shrink by 20%. Cash is not a safety net for the bad days or for investments at the "right" time, later on. Inflation and taxes can destroy its value. Historically, while there are economic downturns, the large majority of the periods (86%) observed show a positive return. Therefore, it is safe to grow wealth through investments rather than hold on to cash.

		Expected Compound Return 2022 (%)	Arithmetic Return 2022 (%)	Annualized Volatility (%)	Compound Return 2021 (%)
FIXED INCOME	U.S. Inflation	2.30	2.31	1.39	2.00
	U.S. Long Treasuries	1.80	2.44	11.55	0.40
	TIPS	2.10	2.23	5.16	1.50
	U.S. Aggregate Bonds	2.60	2.66	3.48	2.10
	U.S. Short Duration Government/Credit	2.10	2.11	1.50	1.70
	U.S. Long Duration Government/Credit	2.30	2.74	9.52	1.60
	U.S. Long Corporate Bonds	2.40	2.93	10.47	2.10
	U.S. High Yield Bonds	3.90	4.22	8.24	4.80
	U.S. Leveraged Loans	4.70	5.00	7.89	5.10
	World Government Bonds hedged	2.00	2.05	3.07	1.40
	World Government Bonds	2.30	2.49	6.17	1.80
	World ex-U.S. Government Bonds hedged	2.00	2.05	3.06	1.30
	World ex-U.S. Government Bonds	2.40	2.69	7.69	1.80
	Emerging Markets Sovereign Debt	5.20	5.57	8.92	5.20
	Emerging Markets Local Currency Debt	5.90	6.58	12.09	5.20
	Emerging Markets Corporate Bonds	4.80	5.13	8.35	4.70
EQUITIES	U.S. Large Cap	4.10	5.16	15.02	4.10
	U.S. Mid Cap	4.30	5.65	17.06	4.40
	U.S. Small Cap	4.40	6.17	19.61	4.60
	Euro Area Large Cap	7.10	9.17	21.56	6.60
	Japanese Equity	6.70	7.71	14.85	6.50
	Hong Kong Equity	6.90	8.71	20.11	7.60
	UK Large Cap	5.00	6.40	17.42	7.50
	EAFE Equity	6.50	7.82	17.04	6.50
	Emerging Markets Equity	6.90	8.86	20.92	7.20
	AC Asia ex-Japan Equity	7.00	8.86	20.41	7.10
	AC World Equity	5.00	6.17	15.91	5.10
	U.S. Equity Value Factor	5.60	6.87	16.59	6.20
	U.S. Equity Quality Factor	4.70	5.57	13.68	4.30
	U.S. Equity Minimum Volatility Factor	4.60	5.28	12.02	4.80
	U.S. Equity Dividend Yield Factor	5.20	6.27	15.23	5.50
	U.S. Equity Diversified Factor	5.30	6.20	13.92	5.60
	U.S. Convertible Bond	4.50	5.15	11.77	5.00
	Global Credit Sensitive Convertible hedged	4.60	4.83	7.03	4.20
ALTERNATIVES	Private Equity	8.10	9.66	18.68	7.80
	U.S. Value-Added Real Estate	7.70	8.95	16.65	8.10
	European Core Real Estate	6.10	6.81	12.38	6.40
	U.S. REITs	5.70	6.75	15.11	6.50
	Global Core Infrastructure	6.10	6.64	10.74	6.10
	Global Core Transport	7.40	8.21	13.31	7.60
	Diversified Hedge Funds	3.60	3.82	6.84	3.30
	Long Bias Hedge Funds	3.30	3.85	10.75	3.40
	Relative Value Hedge Funds	3.80	3.99	6.24	3.60
	Macro Hedge Funds	2.70	2.99	7.75	2.20
	Direct Lending	6.90	7.71	13.26	6.80
	Commodities	2.60	3.86	16.36	2.30
	Gold	3.00	4.41	17.32	2.90

Source: JPMorgan-Chase

Base-Case Allocation Preferences





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

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Asset Allocation Preferences – January, 2022

Sector	Region	Fundamental	Risk/Reward	Investment case
Basic Materials	Americas Europe EM			The Materials sector has been sensitive to global fluctuations; as countries like China and India continue to develop and expand their economies, they drive growing demand for materials, supporting the long-term prospects of the sector. While inflation is supportive for the sector, it may reduce consumer appetite for any kind of goods, thereby reducing overall demand. Materials stocks remain attractive since they tend to pay higher average dividends than other sectors.
Consumer Staples	Americas Europe EM			Consumer staples stocks are a traditional safe haven from uncertainty. And as 2022 comes into focus, there's plenty of that afoot – especially as it pertains to the state of the US consumer. On one hand, many folks are increasingly worried about the impact of rising prices; October data, for instance, showed the biggest jump in inflation since 1990. And supply chain issues continue to remain a big concern after a tangle of container ships at the Port of Los Angeles added to existing challenges.
Consumer Disc.	Americas Europe EM			Focusing on well-known brands and industry leaders in this sector is generally a formula for success, as the top stocks have long been winners for investors. These companies should emerge stronger from the crisis, as they can capture market share from stumbling rivals and have deeper pockets to invest in the recovery.
Energy	Americas Europe EM			Clean energy is not ready to take over from fossil fuels, and that's also good for oil and gas companies in the near term. Renewables currently lack the bandwidth to supply enough power when demand spikes. In 2022, analysts expect 30.2% profit growth for energy firms year-over-year, outpacing the broad market's 7.5% increase. In recent earnings calls with analysts, executives at oil services firms Halliburton (HAL) and Schlumberger (SLB) described the recovery of their businesses as a "multiyear" event.
Healthcare	Americas Europe EM			The pandemic has affected healthcare stocks in ways that will likely carry on for years to come. According to research firm "Our World in Data," 52.4% of the world population have received at least one does of COVID-19 vaccine. With Omicron being even more transmissible (but generating less vulnerability), the sector is at the forefront of the COVID combat; we would therefore expect that nearly any COVID-related company is designed to do well in this environment.
Financial Services	Americas Europe EM			Financial stocks come in all different shapes and sizes (Banks, Brokers, Lenders, Asset Managers, Insurances, amongst others), and some may provide more upside or act as a better pick for a portfolio than others. Current tailwinds for financial stocks include the wave of one of the best economic recoveries in US history, with surging consumer spending aided by massive amounts of liquidity and low interest rates.
Industrials	Americas Europe EM			The ongoing economic recovery from the pandemic means that we are very much in the expansion stage of the business cycle. This is a positive for industrial companies and industrial stocks that thrive in this market environment. The prospects for infrastructure spending and green energy investing should likewise give support to the industry. Factory output is increasing at a faster pace than expected; rising global output and higher capital expenditures should boost revenue for a wide range of industrial firms.
IT	Americas Europe EM			Tech stocks are unique in their ability to grow quickly and sometimes turn a money-losing operation into a massive cash cow once they reach critical mass. It's partly true that traditional metrics like operating profits and price-to-earnings (P/E) ratios don't really matter – what counts are key metrics such as top-line and revenue growth. We continue to believe that IT-related growth will accelerate; while rising interest rates will kill some hopefuls, the majority of fast-growing companies are expected to do well during this period.
Com. Services	Americas Europe EM			The world's semiconductor chip shortage looks like it might last well into 2023, which could affect some of the big-name communication services stocks. Also, some of the largest companies in the sector are falling under the watchful eye of bipartisan regulators. Antitrust investigations could soon become an issue for the world's largest social and communications companies. We recommend investors to stay invested in the sector through defensive names, but with bias towards quality characteristics and long duration projects.
Utilities	Americas Europe EM			The fundamental story for utilities has improved over the last few years. Hundreds of billions of dollars of investment will be needed to achieve carbon reduction goals. For utilities, this is a major opportunity, whether investing in wind and solar generation or the infrastructure needed to support intermittent power resources and electric vehicle charging. That is music to the ears of many income-oriented investors – but not all utility stocks are "future-proof" when it comes to climate change.

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.

Disclaimer

Sources:
Analysis and comments: Bloomberg, Reuters, Natixis, UBS, JPMorgan, BNP-Paribas, Blackrock, Citibank.
Data and graphics: Bloomberg, Reuters

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