



LETTER FROM THE CIO AM

MARKET ANALYSIS

AND PRINCIPAL INVESTMENT THEMES

SEPTEMBER 2021

STILL REASONS FOR HOPE



BENJAMIN MELMAN

*Global Chief Investment
Officer, Asset Management*

► The further along we go in this cycle, the more we see the equity markets reach ever-higher peaks and the more risk factors emerge. We are convinced that it is still too early to reduce our risk exposures in the portfolios, especially as some potential positive surprises still lie ahead.

A number of factors argue in favour of markets maintaining a positive trend over the coming weeks. On the one hand, monetary policies remain very loose and there is ample liquidity. Furthermore, second-quarter company earnings in the US and Europe were excellent, providing extra support to equity markets. Overall, companies have managed the rise in production costs very well and prospects are solid for many of them. There is a sharp rise in M&A transactions. Lastly, several potentially promising drugs (excluding vaccines) to treat Covid-19 are currently in phase 3. A new approach to treating the virus would of course be very favourable for the outlook. We therefore cannot rule out announcements between now and the end of the year allowing progress to be made in the treatment of Covid-19 and therefore reducing its impact. At the same time, the recent consensus among the Democrats in the House of Representatives over the two major stimulus plans (infrastructure, social measures) is a step forward, underpinning the possibility of a political majority emerging, probably in the fourth quarter, in favour of lasting and ambitious stimulus measures in the United States.

i KEY
FIGURE

+188%

Year-on-year
EPS growth of
the Stoxx 600
in Q2 2021.

*Source: Bank
of America Corp.*

THE TWO MAIN RISK FACTORS

FURTHER DECOUPLING OF CHINA FROM THE REST OF THE WORLD

The persisting Chinese slowdown and especially the raft of measures aimed at increasing regulatory repression in numerous sectors (education, internet, healthcare, real estate, gaming, spirits probably soon) are in contrast with the rest of the world and have had a much greater impact on Chinese offshore stocks than onshore stocks. As for global markets, they began to feel more concerned when the fight against inequality was reiterated as a priority target, with certain sectors such as luxury goods having practically undergone a correction. However, the impact of these trends in China on the global economy and markets remains moderate at this stage.

Taken individually, many of these new measures are based on best antitrust or GDPR practices, while others such as education are more political and arbitrary. But the inevitable pace of these reforms, the way in which they were announced, and the administration's ability to arbitrarily fracture the business models of large corporations without prior warning - most often entities owned by non-residents - are a source of concern.

Why to this extent, why in some cases so abruptly, and why now? At a time when the content of "Xi-ism" is raising many questions, all of the latest news is not unequivocal. The Chinese regulator is set to soon offer its US counterparts a solution for Chinese companies listed in the United States (ADRs) to have audit measures that comply with the constraints of both countries. This is a very politically sensitive issue, and suggests that the Chinese government wants companies to continue trading internationally in a more stable environment, which, if confirmed, is a reassuring factor.

We believe that a political risk premium has now been priced into the Chinese market. We stopped overweighting this market a month ago, given the loss of visibility. Offshore Chinese equities now offer a real discount, with potential that could be unlocked if the new Chinese strategy were to offer more visibility and stability. With respect to the slowdown in China, statements by the Beijing central bank regarding concerns about slowing credit and signalling its will to stabilise or stimulate it point in the right direction. China nevertheless remains a risk to be monitored, not only for local equities but also for global markets in general. For the latter, between the strength of the recovery in developed countries and the authorities having clearly acknowledged that the slowdown has gone too far, this risk seems to be under control at this stage.

THE TAPERING

The announcement by the Fed's Chairman at Jackson Hole of its plan to start its tapering before the end of the year was taken into stride by investors, who had been largely prepared for this news. The central bank's decision to disconnect tapering and the monetary tightening cycle appears to have been welcomed. Although the timing is now more specific, many of the terms of the tapering remain to be determined. However, the risk of a "taper tantrum" like in 2013 can pretty much be ruled out. The only historical precedent tells us that once the effect of the announcement was over, the negative impact of the tapering was observed during its implementation (particularly via credit spreads). In other words, we believe that the tapering will be a negative factor for the markets, but only next year.

In our asset allocation, in addition to the neutralisation of our position on Chinese equities, we increased the weight of US government bonds. Now that the tapering plan has been unveiled, we believe risks are much more symmetrical for the asset class.

	Our convictions*	Changes compared to the previous month
ASSET CLASSES		
Equities	=	→
Fixed Income	-	→
Cash	+	→
EQUITIES		
US	-	→
Europe (ex-UK)	+	→
UK	=	→
Japan	+	→
China	=	→
Global Emerging	=	→
Convertibles	=	→
SOVEREIGN BONDS		
US	=	↑
Euro Zone	-	→
Emerging Markets	=	→
CORPORATE BONDS		
US Investment Grade	-	→
Euro Investment Grade	-	→
US High Yield	-	→
Euro High Yield	=	→

*Range of investment committee ratings on the asset class/geographical zone (from -/- to +/+). Source: Edmond de Rothschild Asset Management (France). Ratings at 24/08/2021.



KEY POINTS

- It is still too early to reduce risk exposure
- Neutralisation of the position on Chinese equities
- Increase in the weight of US government bonds

LEGAL DISCLAIMER : Written on 01/09/2021. This document is issued by Edmond de Rothschild Asset Management (France).

This document is non-binding and its content is exclusively for information purpose. Any reproduction, disclosure or dissemination of this material in whole or in part without prior consent from the Edmond de Rothschild Group is strictly prohibited.

The information provided in this document should not be considered as an offer, an inducement, or solicitation to deal, by anyone in any jurisdiction where it would be unlawful or where the person providing it is not qualified to do so. It is not intended to constitute, and should not be construed as investment, legal, or tax advice, nor as a recommendation to buy, sell or continue to hold any investment. EdRAM shall incur no liability for any investment decisions based on this document. This document has not been reviewed or approved by any regulator in any jurisdiction. The figures, comments, forward looking statements and elements provided in this document reflect the opinion of EdRAM on market trends based on economic data and information available as of today. They may no longer be relevant when investors read this document. In addition, EdRAM shall assume no liability for the quality or accuracy of information / economic data provided by third parties. Past performance and past volatility are not reliable indicators for future performance and future volatility. Performance may vary over time and be independently affected by, inter alia, changes in exchange rates. « Edmond de Rothschild Asset Management » or « EdRAM » refers to the Asset Management division of the Edmond de Rothschild Group. In addition, it is the commercial name of the asset management entities of the Edmond de Rothschild Group.

**EDMOND DE ROTHSCHILD ASSET MANAGEMENT
(FRANCE)**

47, rue du Faubourg Saint-Honoré, 75401 Paris Cedex 08

Société anonyme governed by an executive board and a supervisory board with capital of €11,033,769 -

AMF registration No. GP 04000015 - 332.652.536 R.C.S Paris

www.edram.fr