Key Take-Aways

- November can be described as a “déjà vu” situation in relation to November 2020. A new virus variant called Omicrom has renewed fears of lockdowns and their impact on economic activity
- We do not believe that this resurgence of the pandemic is a reason to panic. If governments react reasonably, the impact on the economy should be limited
- Generally speaking, the post-pandemic recovery is still on track which positively benefits risky assets
- The focus has shifted on inflation and whether it is transitory or not. Bond markets are pricing a first rate hike in April 2022
- With inflation in the limelight, all eyes are on the Fed. Fed chairman Powell, who has just been reappointed for a second term, has recently struck an unexpectedly hawkish tone
- The dollar is the big winner in this environment, appreciating over a majority of currencies
- Gold and Emerging Market assets are suffering
- Going forward, the question is whether the Fed will read the markets correctly and be able to avoid a “policy mistake”
- Equities have again suffered of a correction in the second half of the month. But easing virus-fears and the impression that the Fed might dial-back its hawkishness due to Omicron pushed equities back up towards the end of November
- Volatility spiked but we remain constructive on equities and recommend to be well-diversified across regions, styles and sectors
- Within FX, we do not see the dollar appreciating further as the odds are in favor of a weaker dollar either due to a slowing US economy or a FED mistake which would ultimately hurt the dollar

Review: November 2021

After a good start of the month, November had all it takes to continue the positive trend of October before a new player came to change the game: the Omicron.

The negative impact of this new threat for the market arising just before the end of the month has burned nearly all positive return gained until then and pushed the performances into the red during the last 5 days of the month. The Euro Stoxx 50 lost -4.41% and the Russell 2000 declined by -4.28%. Only two major indices were positive: the SMI gained +0.43% and the NASDAQ +0.25%. Emerging markets and China have finished the month negative with -4.14% and -0.46%, respectively.

Regarding sectorial performance, most sectors finished the month in negative territory. Energy was the most impacted, after rising nearly 10% in October, it went down by -5.83%. The situation was similar for Financials, which first benefitted from lower yields, but then ended the month down 5.79%. The IT sector finished the month in the green with a return of 4.23%. The second and last sector to end the month in positive territory was Consumer Discretionary. Usually this sector is less impacted by a lockdown threat compared to peers as it gained +1.90%.

Despite a flat dollar index (-0.01% MTD), the USD continued to rise vs European currencies (EURUSD : -1.90%), and sterling (GBPUSD -2.80%). Only the JPY appreciated versus the USD (USDJPY -0.68%), due to its safe haven nature. Emerging market currencies continued to suffer as reflected by the JP Morgan EM FX Index that lost -4.35%.

Not surprisingly, core government bond yields were globally falling in November. The US 10-year Treasury yield fell 10pbs, the German 10-year Bund yield 24bps. The Japanese 10 year government bond yield remained broadly flat.

Within the energy sector, oil collapsed by -20.81% and the BBG Commodity Index was down by 7.31%. Gold remained steady with -0.50% over the month.

Finally in this environment volatility as measured by the VIX index rose sharply. With the fear and uncertainty related to the Omicron variant, the volatility spiked towards the end of the month and ended November at 27.2%.

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 567	-1,90	-2,48	-0,38	6,02	21,59	20
Nasdaq	15 538	-1,55	-2,00	0,25	7,54	20,56	30
Russell 2000	2 199	-1,92	-5,68	-4,28	-0,25	11,35	23
Euro Stoxx 50	4 063	-1,13	-5,15	-4,41	0,37	14,37	14
Stoxx 600 EUR	463	-0,92	-3,40	-0,83	1,79	16,02	15
FTSE 100	7 059	-0,71	-2,85	-2,46	-0,38	9,27	11
SMI	12 160	-0,50	-1,67	0,43	4,44	13,60	17
NIKKEI 225	27 936	0,41	-4,67	-3,71	-5,15	1,79	16
CSI 300 China	4 844	0,24	-1,48	-1,56	-0,46	-7,05	13
MSCI EM Index	1 212	-0,54	-3,25	-4,14	-3,25	-6,11	12

Equity % Change	Price	1 day	5 days	MTD	QTD	YTD	EST P/E
S&P 500	4 567	-1,90	-2,48	-0,38	6,02	21,59	20
UTILITIES	333	-2,92	-2,94	-2,13	2,47	4,24	19
ENERGY	411	-2,50	-2,07	-5,83	3,74	43,53	11
TELECOM	261	-3,00	-3,91	-5,17	-2,66	17,57	19
CONS STAPLES	732	-2,73	-3,20	-1,26	2,40	5,09	20
REAL ESTATE	296	-2,12	-1,18	-0,97	6,42	29,85	47
CONS DISCRET	1 616	-1,42	-2,92	1,90	13,02	24,05	30
MATERIALS	531	-2,48	-4,36	-0,70	6,85	16,45	16
HEALTH CARE	1 510	-1,93	-1,95	-3,13	1,78	14,08	16
INFO TECH	2 957	-0,96	-0,49	4,23	12,69	29,05	26
FINANCIALS	630	-2,41	-4,07	-5,79	0,92	28,53	14
INDUSTRIALS	851	-2,55	-4,95	-3,71	2,87	13,48	19

Currency % Change	Price	1 day	5 days	MTD	QTD	YTD
DXY	95.981	-0.01	-0.53	-0.01	1.86	6.72
EUR-USD	1.1324	-0.12	1.12	-1.90	-2.21	-7.30
USD-JPY	113.43	0.23	-1.76	-0.68	1.89	8.97
USD-CHF	0.9197	0.09	-1.61	0.31	-1.30	3.75
EUR-CHF	1.0414	-0.02	-0.46	-1.58	-3.57	-3.82
GBP-USD	1.3320	0.16	-0.06	-2.80	-1.14	-2.56
EUR-GBP	0.8501	-0.28	1.15	0.94	-1.08	-5.13
JP EM FX Index	52.49	0.13	-0.40	-4.35	-4.97	-9.38

10 yr Yield Bps Change	Price	1 day	5 days	MTD	QTD	YTD
US	1.46	2	-17	-10	-2	55
Germany	-0.34	1	-12	-24	-15	23
UK	0.81	-5	-19	-23	-21	61
SWITZERLAND	-0.24	-0	-11	-21	-7	32
Japan	0.07	1	-2	-4	-1	5
US IG Spread	108	0	7	13	16	6
US High Yield spread	332	7	35	64	76	5
EUR High Yield spread	393	4	33	4	65	42

Commodity % Change	Price	1 day	5 days	MTD	QTD	YTD
BBG Commo Index	96.8	1.00	-6.28	-7.31	-3.97	23.96
Gold Spot $/OZ	1786.8	0.69	-0.10	-0.50	1.70	-5.88
Crude Oil WTI	66.2	-5.39	-15.64	-20.81	-11.80	36.40

Volatility	Price	1 day	5 days	MTD	QTD	YTD
VIX	27.2	4.23	8.02	67.22	17.50	4.44

Source: Bloomberg 01.12.2021

Macro and Rates: No Reason for Pandemic Panic

The global macro picture continues to be positive in our view. Consumer and industrial demand around the world remain robust. Supply bottlenecks are easing slowly, potentially placing downward pressure on inflation. Corporate earnings and margins stand at a healthy level.

However, this rosy picture needs to be balanced, especially with risky asset classes close to all-time highs. The recently identified Omicron variant represents a new threat to the economy and shows the pandemic has not faded away.

Markets were clearly surprise by the emergence of the Omicron variant, classed as "very high" risk by the World Health Organization. Governments, for their part, reacted very quickly, and without taking any risks so far, have started to impose mobility restrictions.

There is no doubt that pandemic-related developments can influence the economic cycle. However, unless the new variant is of a potency yet unseen (even versus the first wave), any damage to the global economy will be solely the product of how governments react to it. If we observe a severe reaction from governments, economic damage will be severe. If they ignore it, economic impact will be minimal.

The picture should not be seen as universally negative regarding the new variant. First, economies have adapted remarkably well to previous "waves and variants" and are now better prepared to withstand its effects. Also, it appears that vaccines that have been developed can be modified rapidly to target the new variant.

Despite the new uncertainties, we expect the global economy to continue to recover from the pandemic. Of course, we cannot under-estimate short-term risks to European growth, largely related to fresh travel restrictions and a new surge in Covid cases, but we expect the economic impact to be short-lived.

Regarding monetary policy, Fed Chairman Jerome Powell suggested the central bank could accelerate the pace of tapering monthly bond purchases. While this could result in earlier-than-expected interest rate hikes, the panic triggered by Omicron variant pushed back the rate hike pricing to a substantial retrenchment.

Nevertheless, we should remember here that Jerome Powell, freshly reappointed, has a green light from Yellen to take back some of the accommodative approach. If, as we expect, Omicron is a false alert, economic conditions in the US are robust enough for the Fed to follow its timetable. In other words, we expect the market to re-price sooner or later a normalization of the monetary policy.

In conclusion, the global economy continues to recover post-pandemic. The pace of global economic expansion should remain above-trend for the foreseeable future. We expect services industries to gain momentum and take the lead over manufacturing, which has shown some softening lately. We believe the next phase of the recovery will be powered by services as the reopening of economies should remain largely on track.

We acknowledge two major risks to our scenario:

The risk of a monetary policy mistake. An over-reaction from central banks, one way or another could either fuel further inflation or derail the current recovery. Only some modest monetary policy adjustments will be required.

The risk of government policy mistake. Omicron is not the first variant. If governments take Omicron 'threat too seriously, and impose brutal travel restrictions, the economic impact could become extremely severe.

Fixed Income: hikes and curve flattening

While inflation has remained stubbornly high in the US and most developed markets, a majority of investors still believe it is transitory. Compared to October, respondents to a BofA fund manager survey thinking that inflation is permanent has fallen from 38% to 35%. The percentage of those believing that inflation is transitory has risen from 58% to 61%.

Meanwhile, bond investors are now clearly pricing in some rate hikes in 2022. As a consequence, yields in the short-end of the Treasury curve have risen most. And so far, 2021 has been the worst year on a total return basis for 2-year Treasuries since the 1970s.

With his nomination for a second term as chairman of the Fed, Jerome Powell has surprised with hawkish rhetoric. An increased speed of tapering could be on the agenda of the December Fed meeting. And this reminds us of the fact that independently of whether the reasons for inflation are transitory or not, the Fed has the necessary tools to fight inflation should it continue to persist.

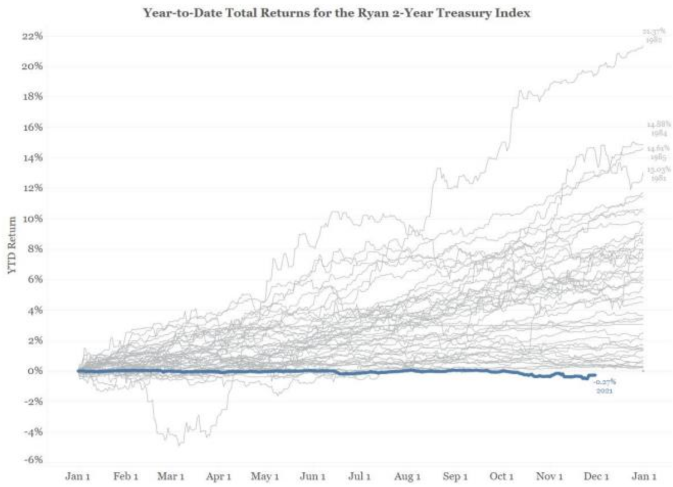
Waning fear of real inflation can also be seen in the longer end of the Treasury curve. The spread between the 2-year and the 10-year Treasury has again fallen to 78bps, approaching the levels seen at the beginning of the year. The yield of the 30-year Treasury has fallen to 1.68% and is now 21bps lower than a month ago and 6bps lower than a year ago. Clearly, worries about a slowing economy in the US are dominating the longer end of the yield curve, and persistent inflation doesn't seem to have an impact on longer duration bonds so far.

Indeed the latest macro data in the US has been mixed to say the least. While retail sales, durable and personal goods demand continue to rise, the latest nonfarm payrolls came in worse than expected. Add to this the new virus mutation as well as skyrocketing infection rates, and you can expect a pretty wobbly winter for markets.

Credit spreads, often a good precursor of events to come, have risen slowly but steadily over the last weeks. USD investment grade spreads are up 13bps and USD HY spreads have widened by 64bps.

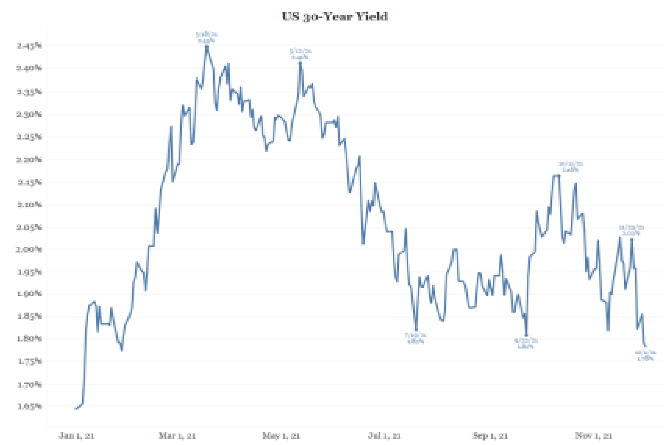
Whatever will happen in the medium-term, as for now a 25bps rate hike in the US by April 2022 is priced-in.

YTD total return for the Ryan 2-year Treasury index



Source: Bianco Research L.L.C.

The 10-year less 2-year Treasury yield curve



Source: Bianco Research L.L.C.

Probability of a rate hike as priced-in by futures

TOTAL PROBABILITIES				
MEETING DATE	DAYS TO MEETING	EASE	NO CHANGE	HIKE
12/15/2021	13	0.00 %	100.00 %	0.00 %
1/26/2022	55	0.00 %	95.15 %	4.85 %
3/16/2022	104	0.00 %	69.91 %	30.09 %
5/4/2022	153	0.00 %	48.71 %	51.29 %
6/15/2022	195	0.00 %	24.21 %	75.79 %
7/27/2022	237	0.00 %	17.99 %	82.01 %
9/21/2022	293	0.00 %	10.59 %	89.41 %
11/2/2022	335	0.00 %	7.91 %	92.09 %
12/14/2022	377	0.00 %	3.11 %	96.89 %
2/1/2023	426	0.00 %	2.38 %	97.62 %

Source: CME Group; cemgroup.com

Equity: When omicron invites itself to the Christmas rally

The big question now is: are we living the last pullback before the final leg?

The S&P 500 index gave up 200 points since it record last week, with a hawkish Fed and the new Omicron variant. The Russell 2000 was also down, falling 10% from its all time high.

As the chairman of the Fed Mr. Powell buries the term transitory inflation, the stress was all over the place for a few days. The S&P held up better than EuroSoxx50 on the downside.. The DAX Market was trading at a record discount compared to its peers. The market's high exposure to slowing global growth as well as supply shortage & bottlenecks have weighed on DAX companies , turning the German equity market into one of the most oversold in Europe.

Stay at Home stocks surged relative to recovery stocks. Last week, the ETF Travel was at its lowest level since one year. We have seen signs of exhaustion and some stocks have been smashed in the last few sessions. The energy, financial and technology sectors have been the most affected. We saw some good opportunities in the banking industry as well as some techs names. Regarding healthcare, Moderna was down 25% after the CEO voiced concerns regarding the effectiveness of its vaccine against the new variant.

Once again, when comparing the relative performance year to date, in USD terms, the difference between the US market and the European market is huge with about 13% in favor of the US market.

During the correction, about 90% of the S&P stocks were down of the total S&P500 market . US mega cap titans were more resilient and helped the US market to outperform the European market. This shows also that stock picking is very tricky.

The dispersion between stocks is at a high level and the volatility index VIX made some roller coaster ultimately, with a spike at 34.

We have seen a V shaped recovery in the market since Tuesday, mainly in the tech sector.

The equity market rallied and volatility eased Tuesday after the news that the Omicron virus seems to be less aggressive than its predecessor Delta, although that scientists need more data and time to confirm the veracity of these rumors. On top of that, the easing of Chinese monetary policy announced on the first Monday in December has reinforced the idea that central banks will continue to support the recovery.

The up and down market movements are quite significant. We recommend a good stocks diversification as the swings between Value and Growth, and between sectors in general are too quick to be catched.

The seasonality is still positive and we remain constructive for equity markets. We advise to stay invested but with the invitation of the new variant to the Christmas table we could see some further volatility.

Forex And Commodities: End of Bull for the Dollar ?

Uncertainty related to inflation and the Omicron variant will impact the dollar, but it is difficult to forecast how.

The US Dollar finished November higher for the sixth consecutive week. However, USD bulls appear to be easing off. All eyes are now on the publication of the CPI number and the Fed and ECB meetings by mid of December. As the stock market volatility increased due to the Omicron variant threat, the true inflation direction is still uncertain, and therefore a change in the Fed's rate-hiking outlook will define the future dollar movement.

Currently, the inflationist pressure seems to be stabilized in line with oil and global commodities. If the Fed maintains its calendar of interest rate hikes at the current level over 2022, without being under pressure, the dollar should continue to appreciate modestly. A USD appreciation will also continue to weaken EM currencies (which are already under pressure due to weak growth prospects in EM, except CNY). With a combination of USD appreciation and EM weakness, investors should prepare for a higher FX volatility regime which should favor the USD in the long-term.

Uncertainty related to the Omicron could change the game.

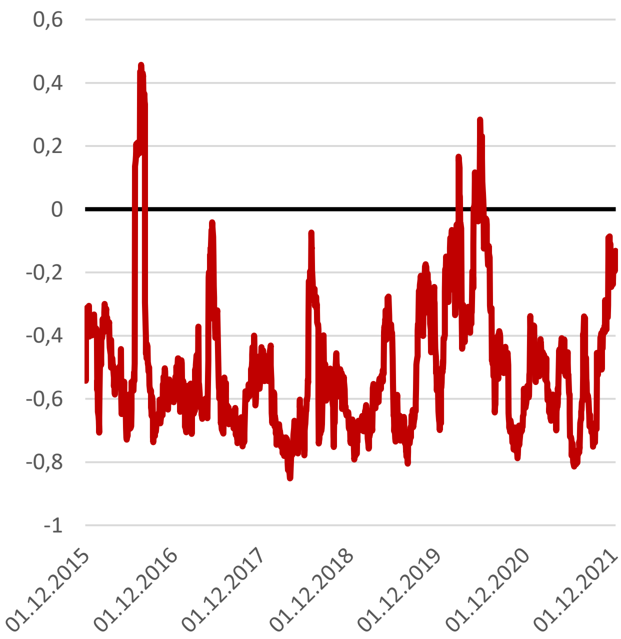
If the most positive scenario dominates (i.e. a more contagious variant but less dangerous), the perspective of a quick and dynamic rebound in the equity market could be plausible. Therefore, the specter of inflation could dominate and force the Fed to accelerate its agenda on interest rate hikes and proceed to a more aggressive QE tapering than anticipated. Higher funding costs negatively impact US companies and this could lead to a weaker USD. A stronger Euro could also be a benefit for European companies, especially if there is inflationist risk. In that scenario, a comeback of EURUSD at level 1.15 is possible from a fundamental point of view.

If uncertainty surrounding the Omicron continues, we could witness a continued shift in the flow of cash towards safe haven currencies.

CHF, JPY and Gold will have to be watched closely. CHF could play an even better role at a time when a potential economic slowdown will test the Fed and the USD. The Japanese Yen gained half a percent end of November. That movement is revealing and yet unsurprising given the risk-off market response to the Omicron variant. Finally, regarding Gold, this precious metal is often moving inversely to the US dollar and the latter's recent ascent led the precious metal to become one of the worst performing asset classes in 2021 so far. Spikes in both assets between October and mid of November seem to have reversed the negative correlation. There could be place for gold to play a safe haven role during market uncertainty even if the dollar remains strong.

US Dollar Index (6 months cumulated return)

Rolling 30 days Correlation USD and Gold



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