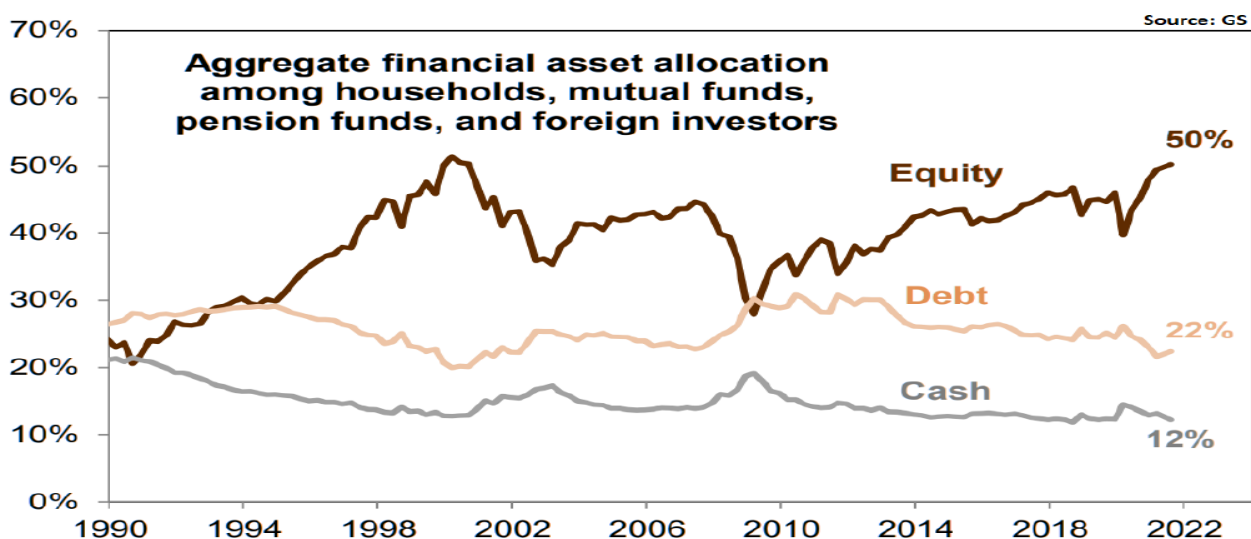


Market Review September 2021



7th consecutive month of gains on the equity markets! The uptrend continued in August for most indices across all styles. Growth sectors as well as defensive and cyclical stocks benefited from a very positive Q2 earnings season and strong cash inflows. The worrying spread of the Delta variant in certain regions of the world and the long-awaited announcements of reduced liquidity injections by the US central bank do not seem to be affecting investors, who are still willing to increase the weight of equities in their allocation.





As a result, most indices gained between 1 and 4%, and hit new all-time highs in both Europe and the US. And it is not the evolution of interest rates that will encourage equity investors to seek if the grass looks greener on the other side. Indeed, August was a flat month for the bond markets. The US yield curve has steepened somewhat (+6bps), with the 10-year yield hovering around 1.30% (vs. 1.22% in July), but not enough to wake up a hibernating bear. Same evolution in Europe with a German 10-year yield that appreciated slightly, but the latter still remains in negative territory (-0.38%). During the month, the entire German curve was in negative territory with an intrusion below the zero level for the 30-year, a level that had not been visited since the steep March 2020 correction. With access to credit still as "easy" as ever, credit spreads remained at historically low levels in both the Investment Grade and High Yield segments. With the consolidation of most commodities, we can ask ourselves whether the reflation theme so much discussed since autumn 2020 is still relevant...

Market developments to the end of August 2021

End of August	Equities in Local Currencies							CSI 300
	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	
Perf 1 Month	2,35%	2,90%	2,62%	1,02%	1,97%	2,43%	2,42%	-0,12%
Perf 3 Month	5,44%	7,58%	3,09%	3,02%	-4,10%	8,62%	-3,83%	-9,69%
Perf YTD	16,78%	20,41%	18,12%	20,33%	9,57%	15,95%	1,35%	-7,78%

End of August	Commodities				Currencies vs EUR			
	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-7,37%	-4,38%	-0,03%	-2,14%	0,49%	0,24%	-0,56%	-0,56%
Perf 3 Month	3,29%	4,83%	-4,74%	-7,19%	3,24%	3,09%	0,09%	1,51%
Perf YTD	41,18%	40,91%	-4,46%	22,59%	3,44%	-2,88%	4,15%	0,04%

End of August	Bloomberg Indices Bonds Total returns							
	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign \$
Perf 1 Month	-0,42%	-0,19%	-0,47%	-0,40%	-1,08%	-0,38%	0,64%	0,97%
Perf 3 Month	0,22%	1,63%	1,51%	2,48%	5,10%	0,88%	1,02%	1,86%
Perf YTD	-2,33%	-0,69%	-1,22%	-1,91%	-3,62%	-1,13%	2,84%	0,53%

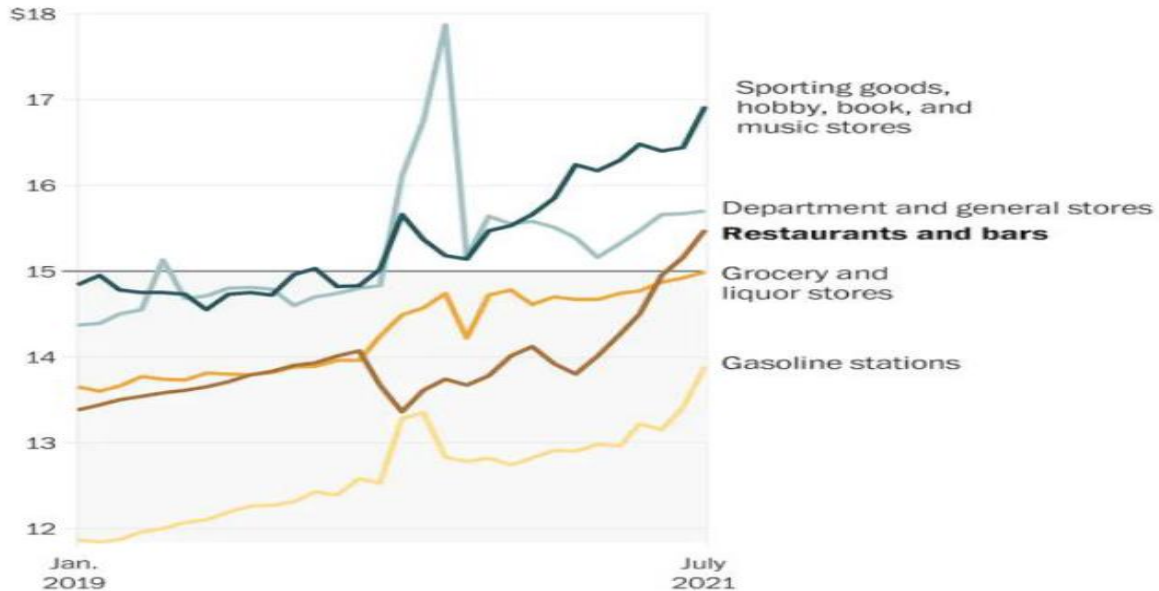
Source: Bloomberg 31/08/21.

Let's go back to reflation. We have seen a sharp acceleration in inflation in recent months, both in Europe and the US. As we have mentioned many times in this letter, central bankers have been hammering away that this phenomenon is transitory and that there is no reason to change their ultra-expansionary monetary policy in the short term. At the recent FED press conferences, the latter referred to the labor market and confirmed that this variable would be closely monitored in order to consider a reduction in financial support, that is to say to begin its famous "tapering".



Restaurants put \$15 in the rearview mirror

Average hourly earnings for non-managerial employees

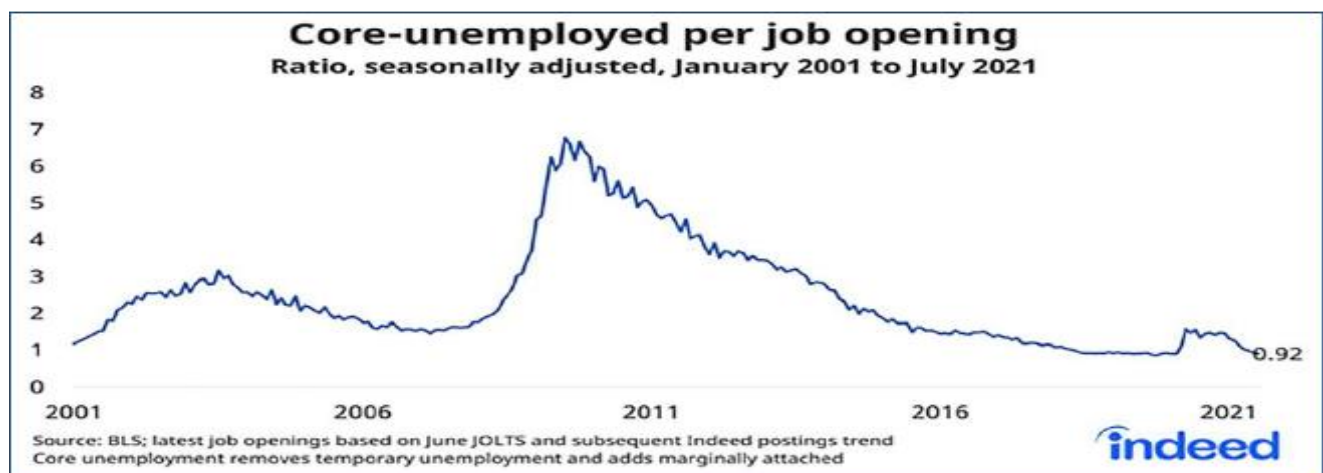


Note: Seasonally adjusted
Source: Bureau of Labor Statistics

THE WASHINGTON POST

But even though hourly wages in some low-income occupations have been trending upwards in recent months, we are not seeing any real widespread wage pressure at the moment. This could potentially change from September onwards, when state support in the US comes to an end. The end of this support will force unemployed Americans back to work and negotiations could turn to the advantage of employees.

As shown in the graph below, the last time the number of unemployed workers per job opening ratio was as low, as it is today, was in 2007. Regardless of the fact that at that time the ratio was on the rise again mainly due to the waves of layoffs caused by the financial crisis, the hourly wage had risen sharply at that period.

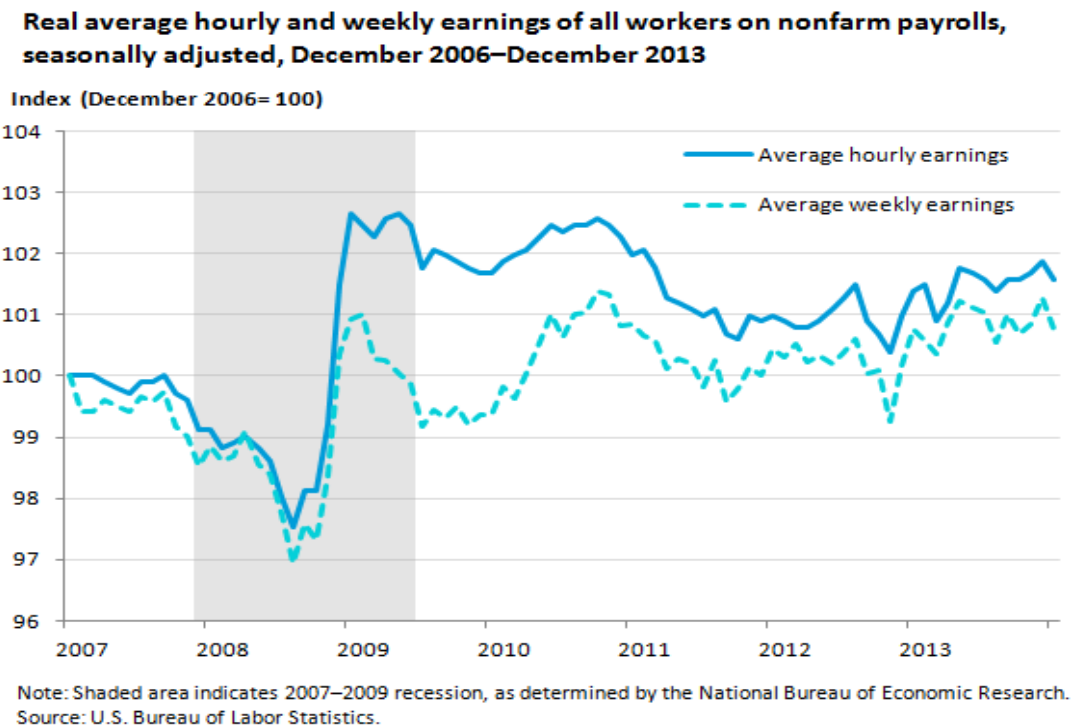


Source: BLS; latest job openings based on June JOLTS and subsequent Indeed postings trend
Core unemployment removes temporary unemployment and adds marginally attached

indeed



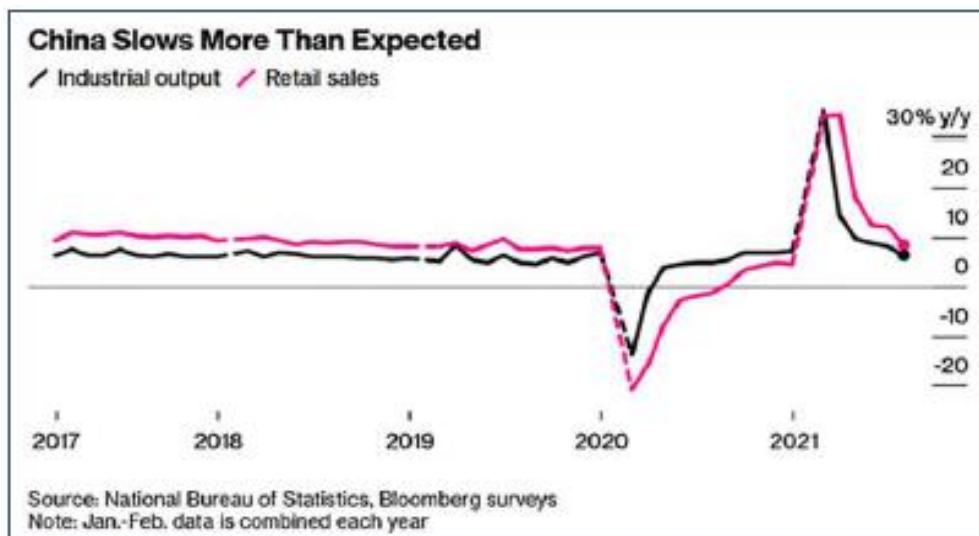
Moreover, this famous financial crisis before plunged the world economy into a violent recession, whereas today, the recession is behind us and the economy is rather in a recovery phase (even if it is expected that world growth will slow down in 2022). Still, the job market will probably continue to be the main barometer for the US central bank in the coming months. The next episode will follow, on September 22nd for the conclusions of the FED meeting, a time when most economists are expecting clear announcements... will they once again have to be patient?



Let's talk about China, which has been in the news a lot in recent months. Since the 100th anniversary celebrations of the Chinese Communist Party (CCP), its president has announced a series of reforms that have shaken up a number of sectors. The most negatively impacted companies are Western-oriented companies with market capitalization of several hundred billion, such as Alibaba and Tencent. If these measures were announced in dribs and drabs and it was initially difficult to understand the ultimate aim of the CCP, it seems much clearer now. Xi Jinping seems to want to put politics before economics and does not want companies to get rich at the expense of the Chinese population. The CCP will therefore defend 3 pillars in the coming years: data protection, competition (opposing monopolistic positions of one or another of the private companies) and aiming for common prosperity. In short, Chinese private companies have the right to prosper, but the wealth generated must be redistributed fairly. This should be done through future tax increases.



On top of that, China is facing an economic slowdown that could be exacerbated by the Delta variant wave that is currently sweeping across Asia and causing further localized lockdowns. In recent weeks, we have seen a number of economic activity statistics that have been contracting. We remain optimistic about the Chinese market in the medium term, although it is likely to experience further turbulence in the coming months. Domestic equities should experience more limited volatility.





The month of August was also marked by the withdrawal of American troops from Afghanistan. The financial and human toll of this 20-year occupation is dramatic. The message of weakness that the American army is sending out by leaving the country in the hands of the Taliban could give ideas to certain nations with a desire to extend their domination, such as China with Taiwan. We reiterate our view that an escalation of tension in the China Sea represents the main potential "black swan" for financial markets.

We will finish with a word on digital assets, most of which rebounded strongly in August. The main ones, like Bitcoin and Ethereum, have recovered more than 50% from their spring lows. Others, lesser known, have even afford themselves the luxury of recently making historical highs. Protocol changes on some platforms, such as Ethereum, will eventually make transactions much faster, cheaper and less energy intensive. It did not take much for interest to return to this segment. As for its detractors, they will have to find other arguments to maintain negative pressure.

Hoping that the holidays were good, we wish you a pleasant back-to-school season and a beautiful end of summer.



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