Market Review October 2021

September has been a bumpy month for global stock markets. In addition to the (already known) bottlenecks that are weighing on future corporate earnings, nervousness has risen due to the Chinese property developer, Evergrande. The company announced that it would not meet certain coupon payment deadlines on its debts. If we add to this the saga between Republicans and Democrats over the raising of the US debt ceiling and a logically downgraded Q4 earnings outlook, the combination was perfect to see volatility (+40.4% to 23.14) spike again and stocks consolidate. While growth sectors were the most heavily penalized (accentuated by the rise in long-term rates), defensive stocks were not spared. Conversely, oil and banking stocks tended to outperform. Most stock market indices therefore lost between 1 and 5%, with Europe and Japan outperforming for once, but the Swiss market underperforming significantly (-6.2% over the month). Gold, which fell by 3.12% in September, was penalized by the hike in real rates, while digital assets were under pressure due to new regulatory announcements. After banning mining on its territory, China took another step in its fight against cryptos by prohibiting its financial institutions from trading them.

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Market developments to the end of September 2021

	Equities in Local Currencies							
End of September	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	-4,29%	-4,76%	-3,53%	-2,40%	-0,57%	-6,19%	-4,25%	1,26%
Perf 3 Month	-0,35%	0,23%	-0,40%	0,19%	-0,28%	-2,51%	-8,84%	-6,85%
Perf YTD	11,77%	14,68%	13,95%	17,45%	8,95%	8,77%	-2,96%	-6,62%

	Commodities				Currencies vs EUR			
End of September	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	9,53%	7,58%	-3,12%	-6,13%	2,01%	0,81%	-0,08%	0,20%
Perf 3 Month	2,12%	4,51%	-0,74%	-4,67%	2,42%	2,23%	-0,23%	1,69%
Perf YTD	54,64%	51,58%	-7,45%	15,07%	5,52%	-2,09%	4,07%	0,24%

	Bloomberg Indices Bonds Total returns							
End of September	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	-1,78%	-0,87%	-1,07%	-1,59%	-3,28%	-1,61%	-1,10%	-1,66%
Perf 3 Month	-0,88%	0,05%	0,00%	-0,01%	0,12%	-0,81%	-0,37%	-0,55%
Perf YTD	-4,06%	-1,55%	-2,29%	-3,46%	-6,77%	-2,72%	1,70%	-1,14%

Source: Bloomberg 30/09/21.

The correction in equities was accentuated by a strong movement in interest rates. Even if the latter had been on the rise since the beginning of the month, the movement accelerated after the Federal Reserve meeting. Mr. Powell (finally) hinted about the start of a tapering process before the year end. This tapering, at a rate of 15 billion per month, should start in November. This news did not surprise investors, but the hint of a rate hike before the end of 2022 was not really expected. The market reacted quickly with a US 10-year that rose to end the month at 1.48%, 18 bps higher than the previous month. The entire US curve appreciated with a steepening between the 2-year and the 10-year (120 bps vs 109.7). The same movement occurred on the other yield curves, such as the German 10-year, which also appreciated by 18 bps to reach -0.20%. As a reminder, the latter began the year at -0.57%. The UK 10yr even rose back above 1%, a level not visited since May 2019. We still believe that central banks will not be able to afford to let long rates go too high, as the world (both institutions and individuals) is so indebted. According to major institutes such as the IMF, the stock of debt is expected to grow further in the coming years.

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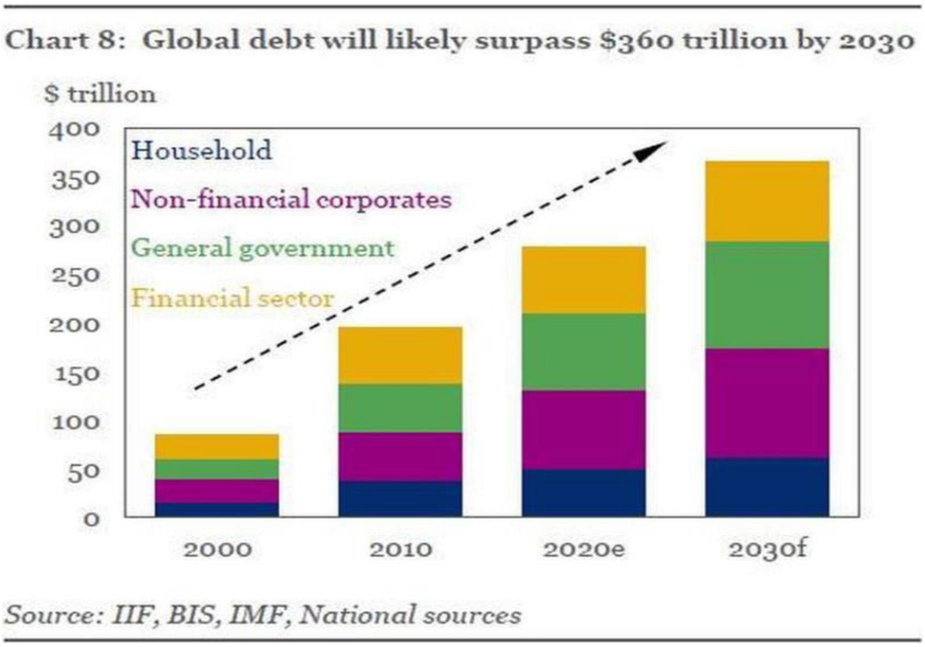
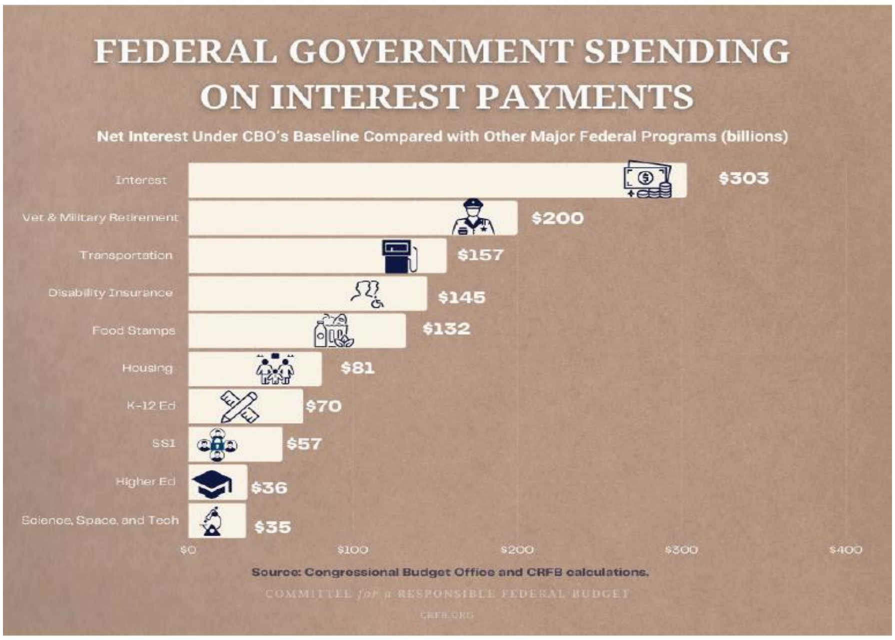


Against this backdrop, the greenback strengthened against most currencies. The Dollar Index is flirting with its big resistance at 94.75. A few months ago, we recommended to carefully look that the latter did not break its 89 support. It seems that this support held well allowing the dollar to undertake a remarkable rebound. The current environment, i.e. the uncertainties on the Chinese economy linked to Evergrande, the European inflationary expectations which have increased and the less "dovish" tone of the FED logically militate in favor of a stronger dollar. But we believe that these factors are one-offs and that the major medium-term risk to the dollar remains downside, mainly due to chronic budget and trade deficits.



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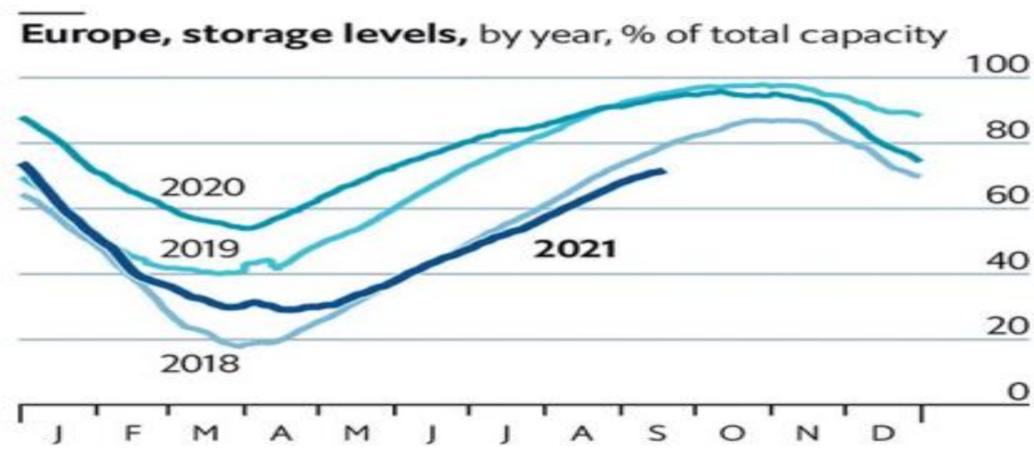
Commodities suffered mixed fortunes in September. Metals such as steel, silver or nickel tended to fall mainly due to relatively concrete signals of an economic slowdown in China (in addition to the Evergrande affair). Conversely, energies have been in high demand. Oil rose by 9.65%. Brent (listed in London) even surpassed $80 per barrel, a level not visited since October 2018. But the real euphoria is happening on natural gas. The latter has risen by 36% over the month which represents an increase of more than 120% since the beginning of the year, to the point that European states are starting to worry knowing that winter is coming and that stocks are at relatively low levels. Some governments, such as Spain, France and Germany, are putting pressure on utilities not to pass on the full increase to consumers. This gas "crisis" could have significant consequences on the European economic recovery in the coming quarters, a matter to be followed closely, especially since Russia could be the main beneficiary.



Source: The Economist, ICIS, Gas Infrastructure Europe

Chinese property giant Evergrande, which has financed its stellar growth in recent years with debt, is in a very delicate financial situation. The company did not imagine that the stricter credit measures imposed on banks by the Chinese government last year would affect it. The company, which had already accumulated nearly $300 billion in debt, has had its access to credit restricted. In September, the company missed its first interest payment. The Chinese authorities will face a perilous task, namely that, if there is a bankruptcy, it should be as orderly as possible and above all that, it should not cause a snowball effect on other companies in the sector neither on Chinese banks. Beijing has already given a message in this direction by injecting liquidity into the financial system during the month of September. However, the market has manifestly built in an additional risk premium with spreads widening quite a bit in the Chinese high yield segment. Some compare Evergrande to Lehman Brothers. We do not share this point of view, given that the surprise effect was total in 2008 when the investment bank abruptly closed its doors due to the subprime crisis. Moreover, at the time, the bank had an investment grade rating from the rating agencies, whereas we have known for several years that Evergrande's financial situation was distressed and that its debt was already considered as "junk" by the agencies.

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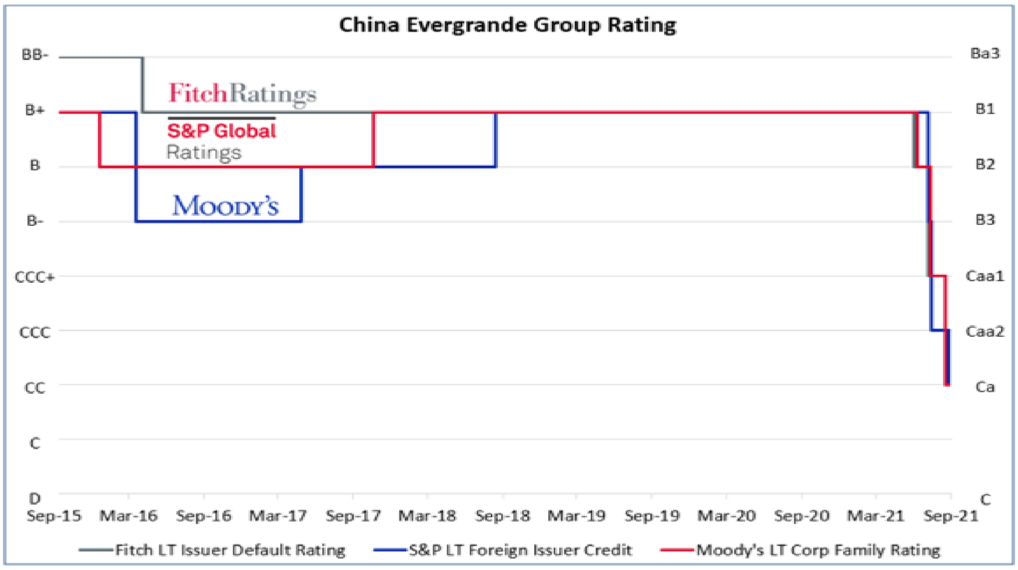
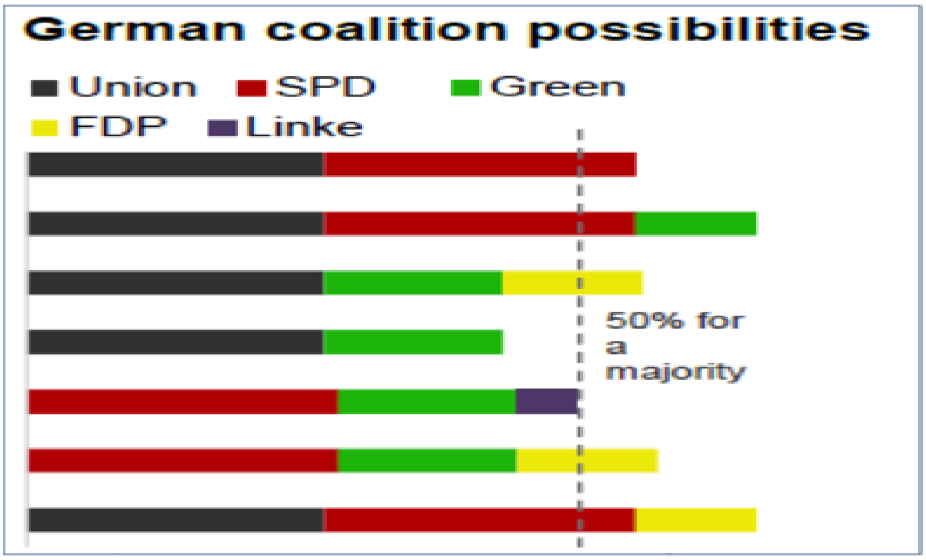


Source: Bloomberg, John Burns Reat Estate Consulting

Another highlight of the month was the tripartite alliance between the United States, Great Britain and Australia called "AUKUS", which led to the purchase by Camberra of American nuclear-powered submarines. This alliance, which was supposed to slow down the expansion of China (considered dangerous) in the Indo-Pacific area, undermines the neutrality of certain countries in the region but above all sidelines Europe, which did not please President Macron at all because France had already concluded an agreement over this subject with Australia... This created a diplomatic crisis between the nations involved. The geopolitical upheavals in the region are still in their infancy.

One more word on the German elections which, as expected, did not produce a real winner. The main fact is that the CDU (the party in power for 16 years) finished second behind Olaf Scholz's SPD, who in all likelihood will be the next chancellor. However, the latter will have a lot of work to do to form a government and this could take several weeks (months). "Mutti" will stick as the interim leader.



Source: Mizuho International

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We would like to confirm that we remain constructive on risky assets and that the September correction (which could extended into October) should not reverse the upward trend that has been in place since March 2020. The risks of a "domino effect" linked to Evergrande's problems seem unlikely. We are not particularly concerned about the new Chinese bans on digital assets, especially since in the past these measures have had very little impact on the targeted assets.
We wish you a beautiful month of October.

Disruptive Tech bans rarely work. And China has already banned bitcoin and cryptocurrencies many times.

Return Since China "Bans" Disruptive Tech		
Twitter	Jun 09	5,222%
Facebook	Jul 09	14,906%
Google	Mar 10	974%
Snapchat	Jun 13	15,586%
Bitcoin	Dec 13	4,868%
Bitcoin	Sep 17	1,206%
Bitcoin	May 21	38%

Source: Bloomberg