Market Review December 2021

The Coronavirus has once again put a damper on the rise of risky assets. We have repeatedly told you over the past few months that investors have priced in Covid and that it should no longer have a significant impact on the economy, unless a mutation of the virus were to escape the effectiveness of vaccines. It seems that this scenario has come true in November. The vaccines currently available on the market seem to have a very limited effectiveness on the new variant named omicron and identified for the first time in South Africa mid-November. This was all it took for the authorities in each country to take three steps backward and impose new health measures. Without going into the details of each country, we witnessed a round of announcements. From a new generalized lockdown over several weeks including travel bans to restrictions on gatherings, each government put its own spin on it. Following these headwinds, equity markets, which were trading at all-time highs, began to correct. As in the spring of 2020, investors tended to sell companies active in leisure sectors such as airlines or cruise lines and to buy companies that take advantage of the "stay-at-home" theme that we wrote about a lot last year.

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The Nasdaq ended November up 1.80% (thanks to Apple and Nvidia, which together accounted for 120% of the index's rise), while more cyclical indices gave up between 1 and 4%, with Europe, and particularly the southern European countries, underperforming.
In the "logical chain reactions", the SMI (+0.43%) held up better thanks to its defensive bias, long rates (the US 10-year went from 1.55% to 1.44%) tended to fall again to cause a flattening of the 2/10-year curve, credit spreads widened (both in the investment grade and high yield segments) and the dollar appreciated (Dollar Index +2%)
On the other hand, oil underwent a sharp correction (-19.5%), penalized by the new sanitary measures which should negatively impact the demand for black gold.

Market developments to the end of November 2021

	Equities in Local Currencies							
End of October	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	MSCI EM	CSI 300
Perf 1 Month	-2,30%	-0,83%	-4,41%	-1,60%	-8,31%	0,43%	-4,14%	-1,56%
Perf 3 Month	-1,26%	0,98%	-3,18%	0,61%	-6,12%	-2,03%	-7,35%	0,55%
Perf YTD	15,31%	21,59%	14,37%	21,07%	2,87%	13,60%	-6,11%	-7,28%

	Commodities				Currencies vs EUR			
End of October	WTI Oil	Brent Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-20,81%	-16,37%	-0,50%	-0,56%	1,95%	2,69%	-0,93%	1,61%
Perf 3 Month	-3,39%	-3,32%	-2,16%	-0,81%	4,15%	1,25%	0,70%	3,76%
Perf YTD	36,40%	36,24%	-6,52%	21,59%	7,73%	-1,67%	4,88%	3,80%

	Bloomberg Indices Bonds Total returns							
End of October	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year Treasury	German 10 Year Bund	Global Credit	Global High Yield	Emerging Sovereign $
Perf 1 Month	-0,29%	0,30%	1,25%	1,08%	3,68%	-0,79%	-1,98%	-1,07%
Perf 3 Month	-2,30%	-0,60%	-0,45%	-0,97%	2,04%	-2,38%	-3,58%	-3,12%
Perf YTD	-4,57%	-1,29%	-1,67%	-2,86%	-1,65%	-3,48%	-0,85%	-2,60%

Source: Bloomberg 30/11/21.

What do we know at this stage about this variant? One of the only certainties is that it is much more contagious and therefore more easily transmitted. It also seems that the immunity of each individual against the previous variants does not work on this one (whether one is a vaccinated or a cured person). It is mainly these two reasons that prompted governments to impose new measures very quickly. On the other hand, it seems that the omicron variant is less lethal, which is rather reassuring. The press will brag the next few weeks to blow hot and cold over the evolution of the virus. From our side, we believe that the stock markets have integrated the consequences of Covid on the economy and should no longer overreact to each bad news. On the other hand, we will only be able to turn the page once the majority of countries have reached herd immunity... which confirms that we are not about to stop writing about it...

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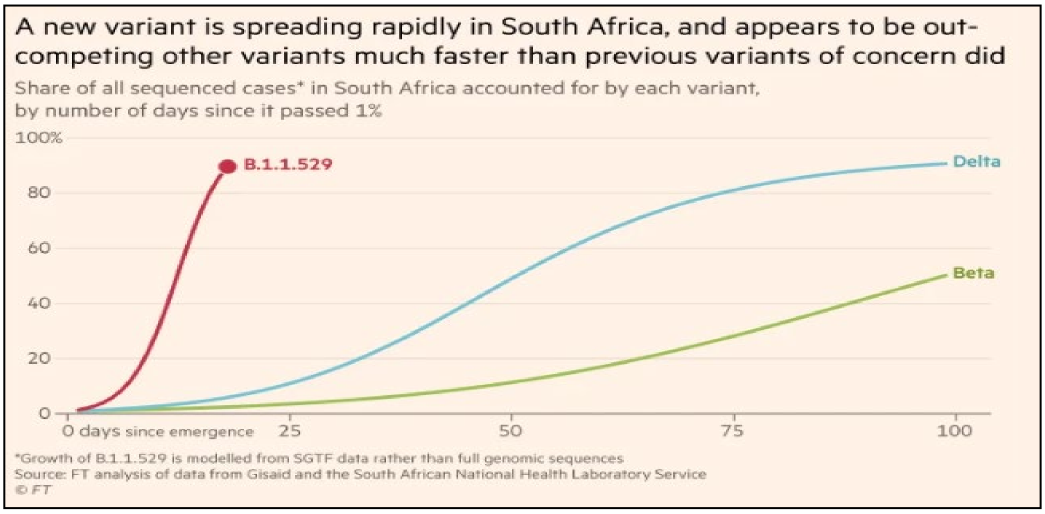
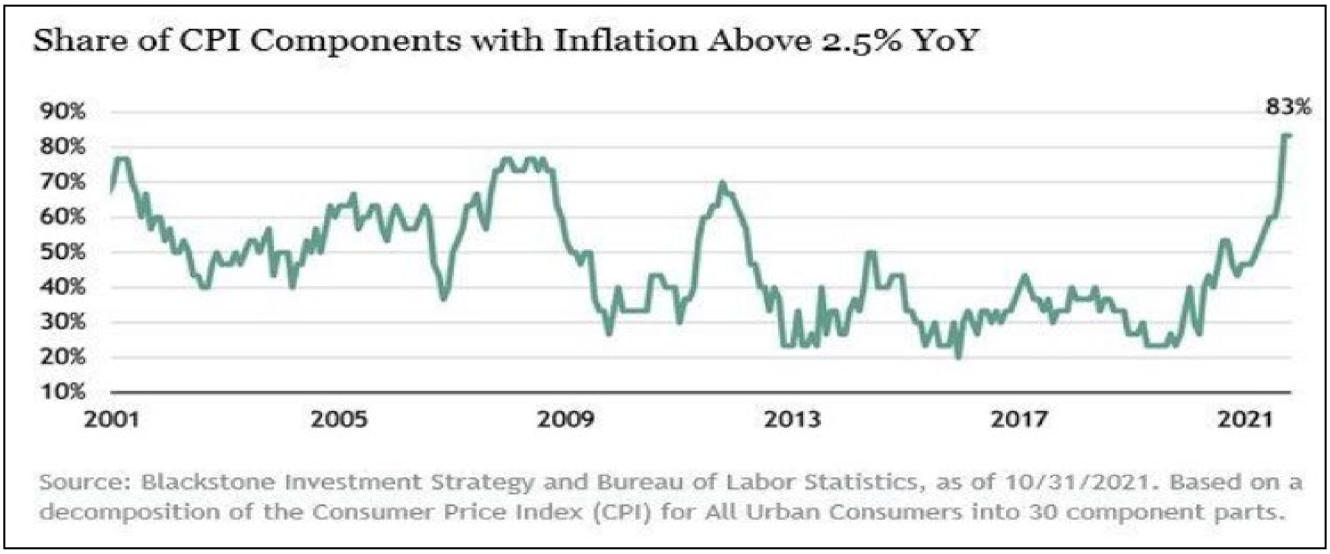


This health development has further fueled (if possible) the inflation debate. For several months now, we have seen that there is a camp of those who believe that inflation will last (for a long time) and those who believe that it is only transitory and that the components which drove inflation up for almost a year will naturally normalize when the post-Covid base effect will disappear. Until now, the two main central banks, the ECB and the Fed, have been pretty much in line and have both underlined the word "transitory". Mr. Powell recently adapted his speech during a testimony to the US Congress by mentioning that this famous word "transitory" would no longer be used by the US central bank. This announcement is not surprising, as the pressure from some FED members has been growing to implement more restrictive measures to curb inflation. We can see that inflation is increasingly present in several components of the measurement indices and that it is not only the "volatile" ones, i.e. energy and food products, that are contributing to its increase.



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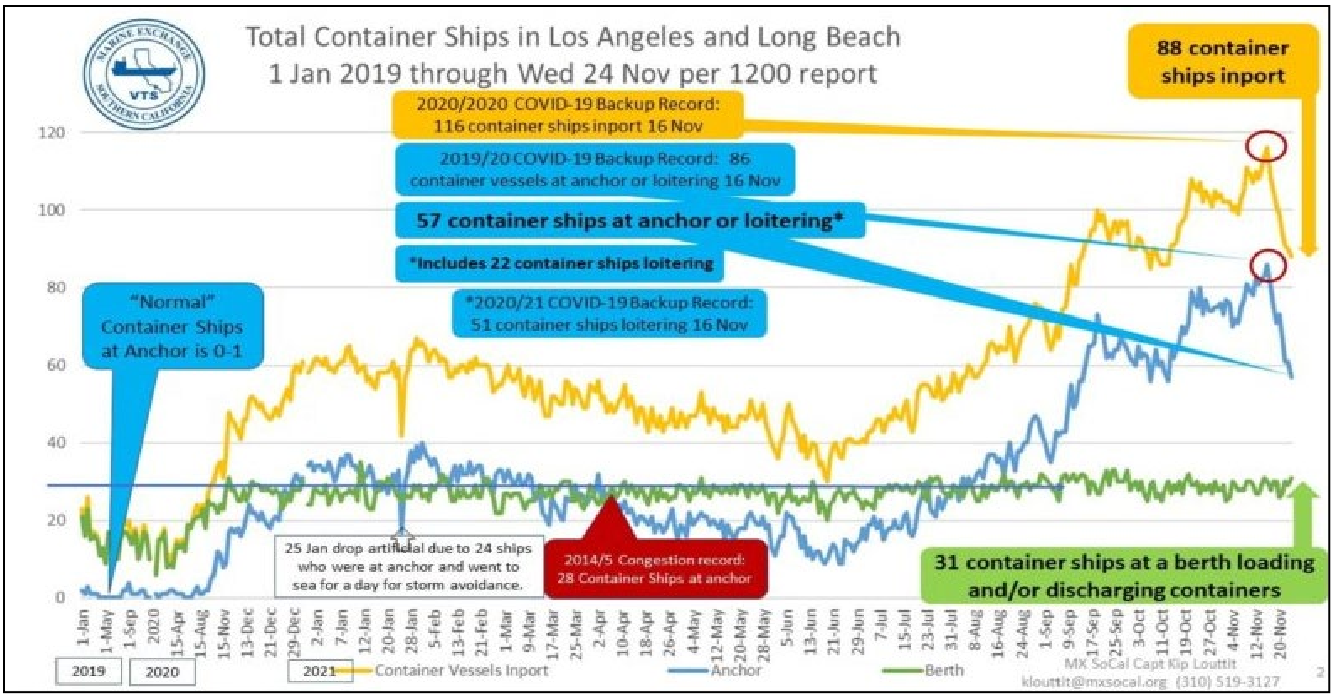
On her side, Mrs. Lagarde is "sticking to her position" and continues to hammer that the main culprits behind the rise in inflation are energy prices and the consequences of the bottlenecks that we are currently experiencing. The latter, which causes shortages of consumer goods, seem to be easing, at least that is the message we get from shipping statistics. Will the new restrictions speed up this normalization and prove Mrs. Lagarde, right? The future will tell, but we will have to keep a close eye on it. On the other hand, inflation is spreading to wages, which could wipe out the positive effects of this normalization of supply chains. Even if inflation is kept under control next year, we will have to expect much higher levels than we have seen in the last 12 years, and central banks hold the keys to control it.



November was also marked by the virtual meeting between Presidents Xi Jinping and Joe Biden (of which very little concrete information has filtered out) but mainly by the setting up of the next German government. The new social-democrat Chancellor, Olaf Scholz, has succeeded in federating a coalition between his party (SPD), the Greens and the Liberal-Democrat party (FDP). With the presence of 5 "green" ministers, this government will have a very ecological footprint and should favor energy transition projects. The budgetary austerity of recent years should be a thing of the past, which could be beneficial for the whole Europe in the long term.

This new German "leadership" should increase the chances that the 750 billion EU recovery fund will be released..."Mutti" can finally sleep soundly.

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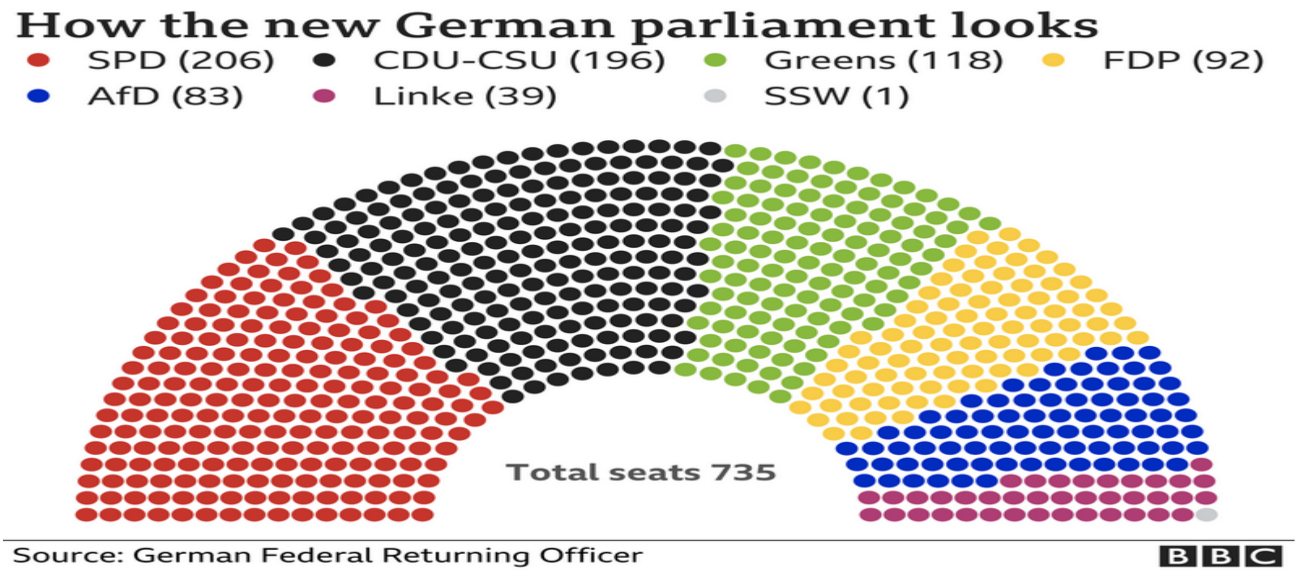
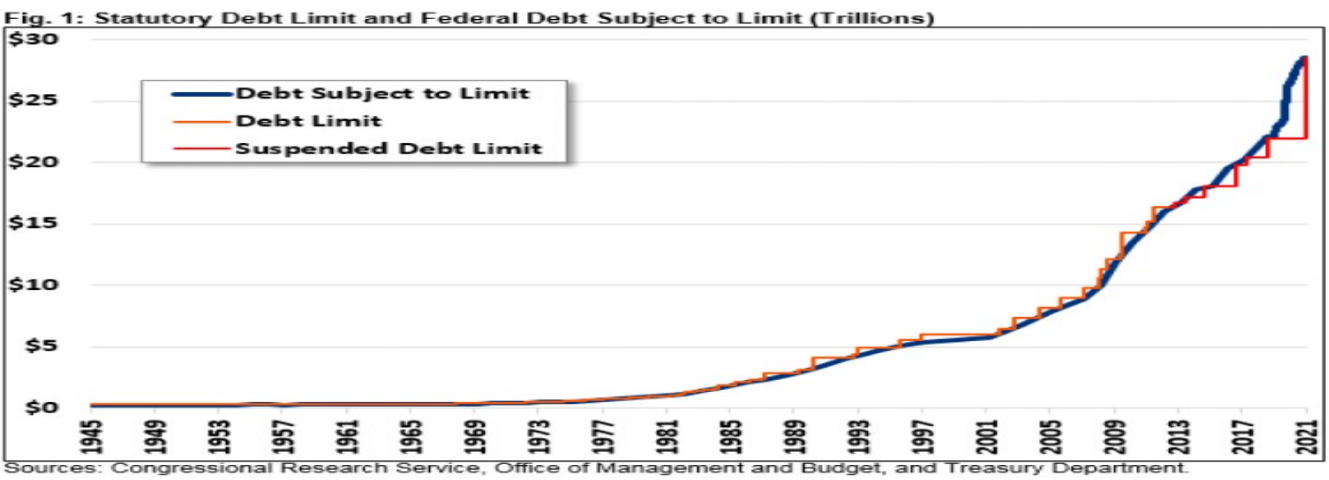


Let's now turn to a topic that has been in the news a lot over the past few years, namely the US debt ceiling. To avoid a default after December 15, 2021, Congress must vote and agree to raise the debt ceiling for the 71st time since 1963. This lever is the favorite playground between Democrats and Republicans to pressure one party or the other on various pieces of legislation or the budget. Currently, it is Mr. Biden's stimulus plan that is irritating Republicans, so they are using the debt ceiling to pressurize the President to change his plan. If no agreement is reached soon, the government will be unable to meet its financial obligations to Social Security and the payment of Civil Servants' salaries and various public contributions. In the past, an agreement has always been reached, sometimes in-extremis (payment suspensions have even taken place). We can therefore assume that once again, this saga will find a "happy end" in the American style...but this may not remain without consequences in the long run. The rating agencies see these political instabilities as very problematic. Would the US AAA rating be at risk? To be continued.



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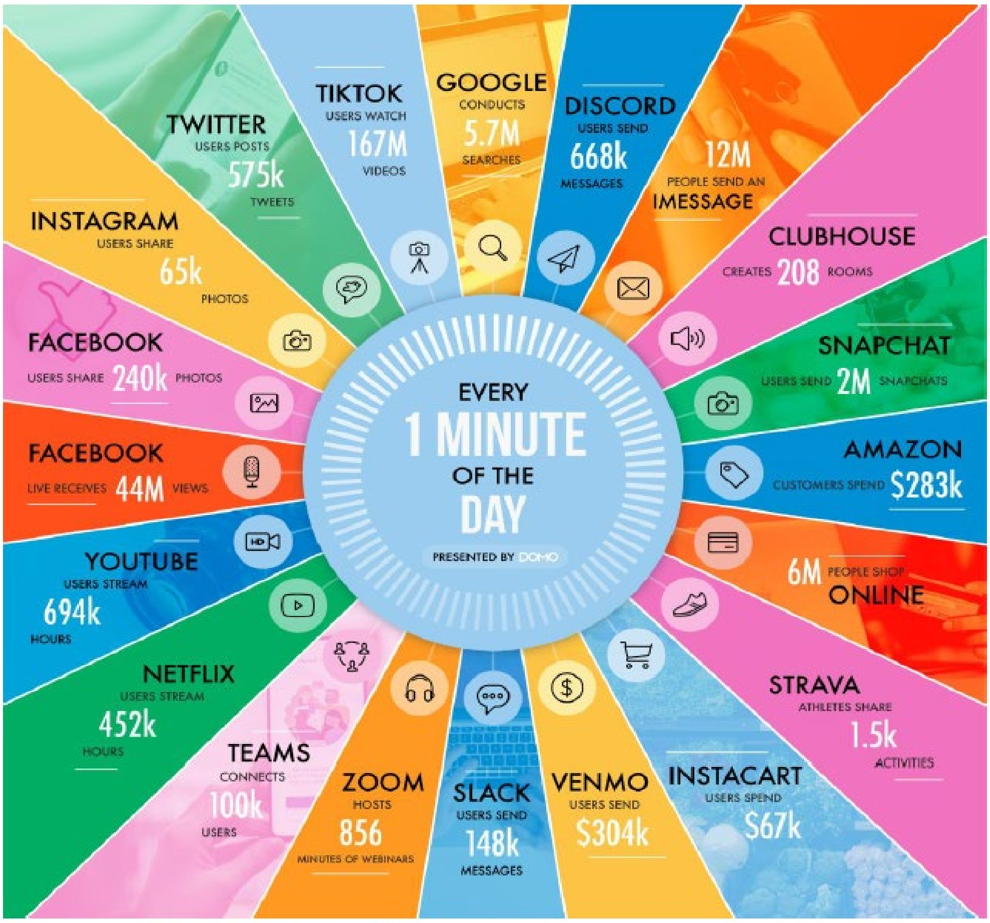
Before saying goodbye, we would like to thank all of our readers and clients/investors for having followed us for another year in this stock market jungle. We hope that you will not spend too much time on social networks but rather with your respective families and friends. We wish you a happy holiday season, a pleasant New Year's Eve and we look forward to seeing you in 2022 for new exciting adventures.

Keep faith in your values.

From Amazon to Zoom: what happens in an Internet Minute In 2021?



Source: Visual Capitalist

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