# Market review January 2022


The seasonal tradition was once again confirmed in December. The famous end-of-year rally did take place. Equity indexes performance fluctuated between 4 and 7% over the month to end the year on an all-time high.

The Nasdaq exceptionally did not participate to the party in December. The latter was penalized by the confirmation of monetary policy normalization by the FED (but also by most other central banks) which logically weighed on growth stocks. However, the main technology stock index was not left behind, as it managed to end the year up 26.6% after gaining 47.6% in 2020. It is even the only index that can boast of having accumulated positive annual performances every year since 2009 (except for a small drop in 2018, -1%). As a good "gentleman", the Nasdaq therefore "left a little for others" in December...



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## Market developments to the end of December 2021

| | | | Equities in Local Currencies | | | | | |
|---|---|---|---|---|---|---|---|---|
| End of December | MSCI World | S&P 500 | EuroStoxx | CAC | Spain | Switzerland | MSCI EM | CSI 300 |
| Perf 1 Month | 4,19% | 4,36% | 5,79% | 6,43% | 4,92% | 5,89% | 1,62% | 2,24% |
| Perf 3 Month | 7,49% | 10,65% | 6,18% | 9,71% | -0,94% | 10,59% | -1,68% | 1,52% |
| Perf YTD | 20,14% | 26,89% | 20,99% | 28,85% | 7,93% | 20,29% | -4,59% | -5,20% |

| | | Commodities | | | | Currencies vs EUR | | |
|---|---|---|---|---|---|---|---|---|
| End of December | WTI Oil | Brent Oil | Gold | Copper | USD | JPY | GBP | CHF |
| Perf 1 Month | 13,64% | 10,22% | 3,08% | 2,94% | -0,29% | -1,97% | 1,38% | 0,39% |
| Perf 3 Month | 0,24% | -0,94% | 4,11% | 8,77% | 1,79% | -1,54% | 2,17% | 3,96% |
| Perf YTD | 55,01% | 50,15% | -3,64% | 25,17% | 7,42% | -3,61% | 6,33% | 4,21% |

| | | | Bloomberg Indices Bonds Total returns | | | | | |
|---|---|---|---|---|---|---|---|---|
| End of December | Global Aggregate | US Aggregate | Euro Aggregate | US 10 Year Treasury | German 10 Year Bund | Global Credit | Global High Yield | Emerging Sovereign $ |
| Perf 1 Month | -0,14% | -0,26% | -1,20% | -0,29% | -3,68% | 0,28% | 1,85% | 0,98% |
| Perf 3 Month | -0,67% | 0,01% | -0,58% | 0,34% | 1,61% | -0,50% | -0,71% | -0,52% |
| Perf YTD | -4,71% | -1,54% | -2,85% | -3,14% | -5,27% | -3,21% | 0,99% | -1,65% |

Source: Bloomberg 31//2121.

At the indices level, everything seemed easy, but the deduction is nevertheless hasty. As we have already mentioned on several occasions, the weight of the "big techs" in the US indices distorts the reading somewhat. Microsoft, Apple, Google and Nvidia account for more than a third of the rise in the S&P500 and more than two thirds of the hike of the Nasdaq100. Conversely, some segments have been under pressure in 2021, such as the stocks that make up the ARK Innovation ETF of the well-known Cathie Wood. Her actively managed product lost more than 24% last year. Renewable energy companies which had soared in 2020 also, had a tough year in 2021.


Source: Bloomberg



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These corrections are due to the fact that during the course of the year we have seen that 'quality' has become increasingly important to investors. By "quality" we mean, companies with strong balance sheets (not too much debt) that are generating profits. The Goldman Sachs index of non-profitable technology companies illustrates that investors became selective during 2021. Most innovative companies have impressive growth prospects for the coming years, but are not generating profits in the short term.


Goldman Sach's non-profitable technology index yearly chart.

Although the trend of growth stocks outperforming value stocks is still in place and has lasted for more than 12 years, the sectorial rotations, that began at the end of 2020 (following the arrival of the Covid vaccines), have been extended into 2021, allowing the financial and oil sectors, for example, to rebound strongly. It must be said that the latter have been the dunces for several years. However, due to upward revisions of inflationary expectations and sustained demand, these "old economy" sectors managed to perform well last year.



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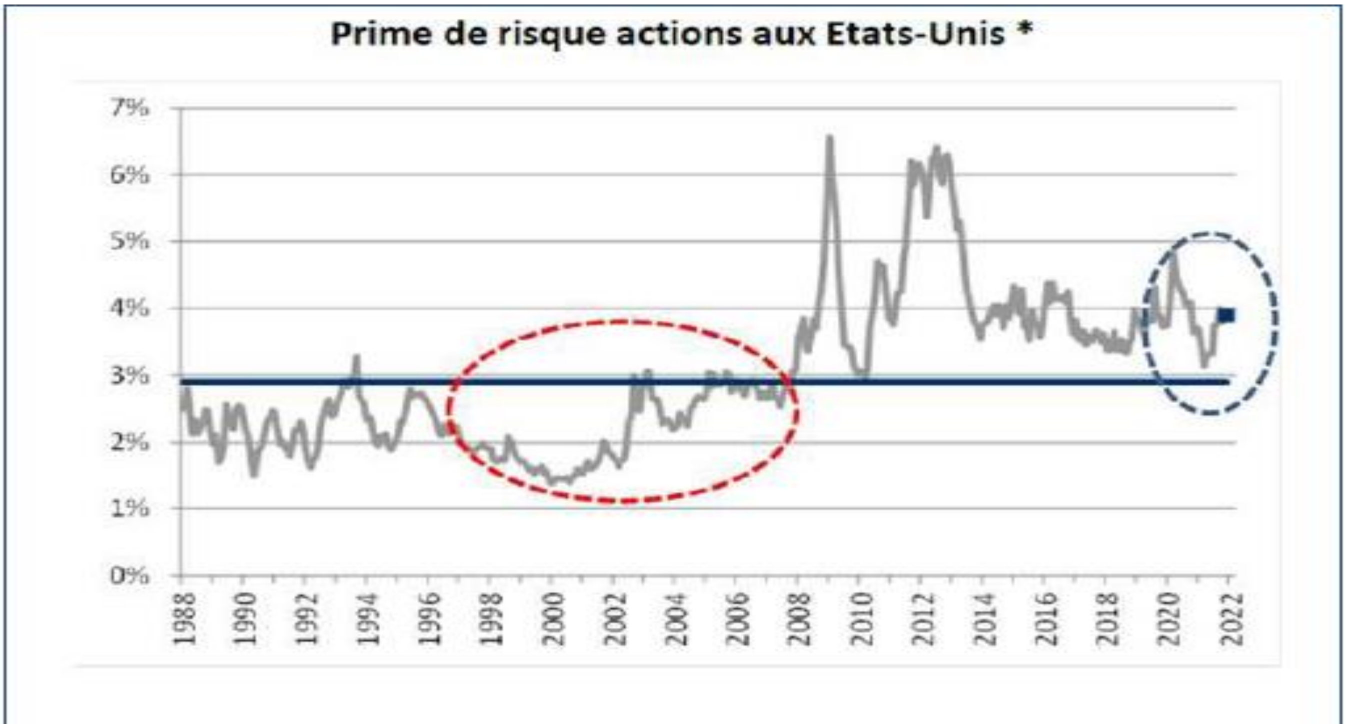
| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Real Estate 30.2 | Cons. Disc. 10.1 | Energy 27.4 | Technology 38.8 | Health Care 6.5 | Technology 50.3 | Technology 43.9 | Energy 54.6 |
| Utilities 29.0 | Health Care 6.9 | Telecom 23.5 | Materials 23.8 | Utilities 4.1 | Comm. Services 32.7 | Cons. Disc. 33.3 | Real Estate 46.2 |
| Health Care 25.3 | Cons. Staples 6.6 | Financials 22.8 | Cons. Disc. 23.0 | Cons. Disc. 0.8 | Financials 32.1 | Comm. Services 23.6 | Financials 35.0 |
| Technology 20.1 | Technology 5.9 | Industrials 18.9 | Financials 22.2 | Technology -0.3 | S&P 500 31.5 | Materials 20.7 | Technology 34.5 |
| Cons. Staples 16.0 | Real Estate 4.7 | Materials 16.7 | Health Care 22.1 | Real Estate -2.2 | Industrials 29.4 | S&P 500 18.4 | S&P 500 28.7 |
| Financials 15.2 | Telecom 3.4 | Utilities 16.2 | S&P 500 21.8 | S&P 500 -4.4 | Real Estate 29.0 | Health Care 13.4 | Materials 27.3 |
| S&P 500 13.7 | S&P 500 1.4 | Technology 13.8 | Industrials 21.0 | Cons. Staples -8.4 | Cons. Disc. 27.9 | Industrials 11.1 | Health Care 26.1 |
| Industrials 9.8 | Financials -1.5 | S&P 500 12.0 | Cons. Staples 13.5 | Comm. Services -12.5 | Cons. Staples 27.6 | Cons. Staples 10.7 | Cons. Disc. 24.4 |
| Cons. Disc. 9.7 | Industrials -2.5 | Cons. Disc. 6.0 | Utilities 12.1 | Financials -13.0 | Utilities 26.3 | Utilities 0.5 | Comm. Svcs. 21.6 |
| Materials 6.9 | Utilities -4.8 | Cons. Staples 5.4 | Real Estate 10.8 | Industrials -13.3 | Materials 24.6 | Financials -1.7 | Industrials 21.1 |
| Telecom 3.0 | Materials -8.4 | Real Estate 3.4 | Energy -1.0 | Materials -14.7 | Health Care 20.8 | Real Estate -2.2 | Cons. Staples 18.6 |
| Energy -7.8 | Energy -21.1 | Health Care -2.7 | Telecom -1.3 | Energy -18.1 | Energy 11.8 | Energy -33.7 | Utilities 17.7 |

Source: FactSet, Raymond James Equity Portfolio&Technical Strategy

A question that has been asked frequently over the past few months...**Are equity markets in a bubble?** For our part, we do not think so, because there are several indicators that do not lead to this conclusion. In our opinion, the main ones are :

First of all, the valuation. The latter is indeed above its historical average for most indices, but it is not at the extreme levels we saw in 1999-2000. Moreover, multiples (Price/Earnings) have contracted in 2021. The rise in equities has therefore been largely justified by the increase in earnings per share. In terms of risk premiums relative to interest rates, the latter remain attractive on average.

Another indicator of bubble creation is the "buying panic". This is represented by a totally irrational rise in the indices, with extreme volumes and rising volatility at the same time. Despite the strong increase in indices in the last quarter of the year, we cannot say that these bubble factors were met. We therefore believe that the rise in equities remains healthy and the uptrend should not come to an abrupt halt (unless there is an unexpected exogenous factor). On the other hand, as said earlier, we will have to be selective and avoid the traps in certain segments of the market.




** médiane de 8 modèles de prime de risque: rendement du dividende, variantes de DDM, variantes du FED model, variantes de residual income model*

Source: Datastream, Les Cahiers Verts

The newsflow in December was marked by the central banks. The FED clearly set the tone. It even announced an acceleration of its tapering program so that it ends in March (compared to June previously). Consensus now expects between 3 and 4 rate hikes in 2022. Even if growth stocks have been weighed down by these new measures, the market broadly seems to have digested them well and is therefore still giving a lot of credit to the FED and the normalisation of its monetary policy.
The ECB, more timid as usual, has announced cuts in its Pandemic Emergency Purchase Program (PEPP), which is due to end in March, but is still emphazing that inflation should normalise on its own in the coming months, when the transitory factors linked to logistical bottlenecks will be resolved.
The BOE (Bank of England) has been more aggressive and has already raised its key rate from 0.10 to 0.25% in December. As already mentioned in recent months, the PBOC is currently adopting a more accommodative monetary policy. This is due to the turmoil in the Chinese property market and the economic slowdown that the Middle Kingdom is facing. The PBOC lowered its reserve requirement rate (RRR) by 50 basis points for the second time in the year and also adjusted its prime lending rate from 3.85 to 3.80%. We are not concerned about these monetary policy divergences between the major central banks, as they are fully in line with the economic cycle in each region.



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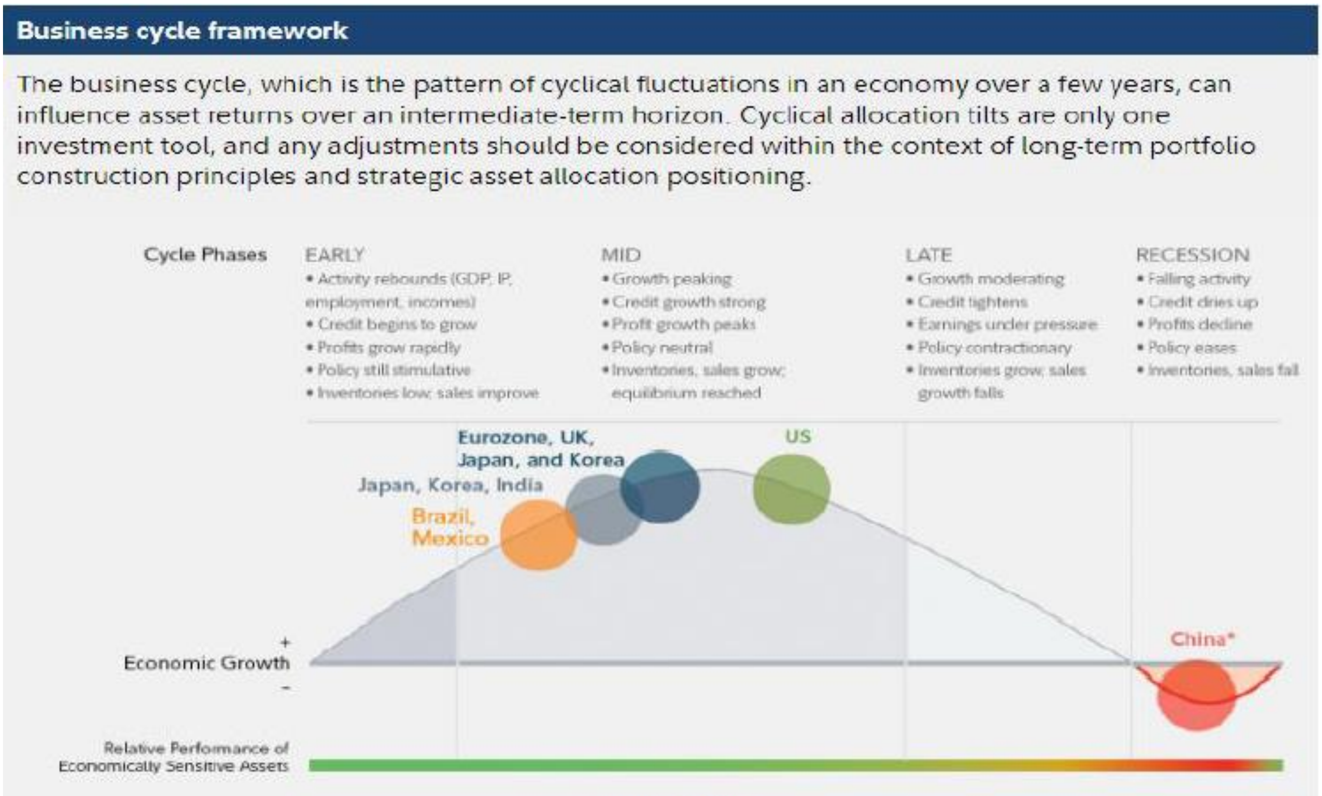


Source: Fidelity

A monetary policy error remains in our view one of the major risks for the stock markets, but for the moment, they seem to be in line with the economic situation of their country and are following the economic cycle as they should. We therefore assess this risk as "limited" for the time being.

Also in the December's newsflow, Democrat Joe Manchin's "surprise" stance on President Biden's $1.75 trillion BBB (Bulid Back Better) stimulus package. After being approved by the House of Representatives, Mr. Manchin's support was essential for the plan to pass the Senate, but he announced that he would vote against it. The reasons for his refusal to support the plan are diverse, but overall, he believes that the programme could jeopardise the economic and financial stability of the United States. He also mentioned the country's colossal debt and the fact that this plan would strongly penalise Americans with the lowest incomes. It seems that since this announcement, negotiations are underway between President Biden and Senator Manchin, but the discussions seem to be fruitless. If the situation was to remain as it is, it would be unlikely that a plan would be officially announced in 2022, especially with the mid-term elections fast approaching.



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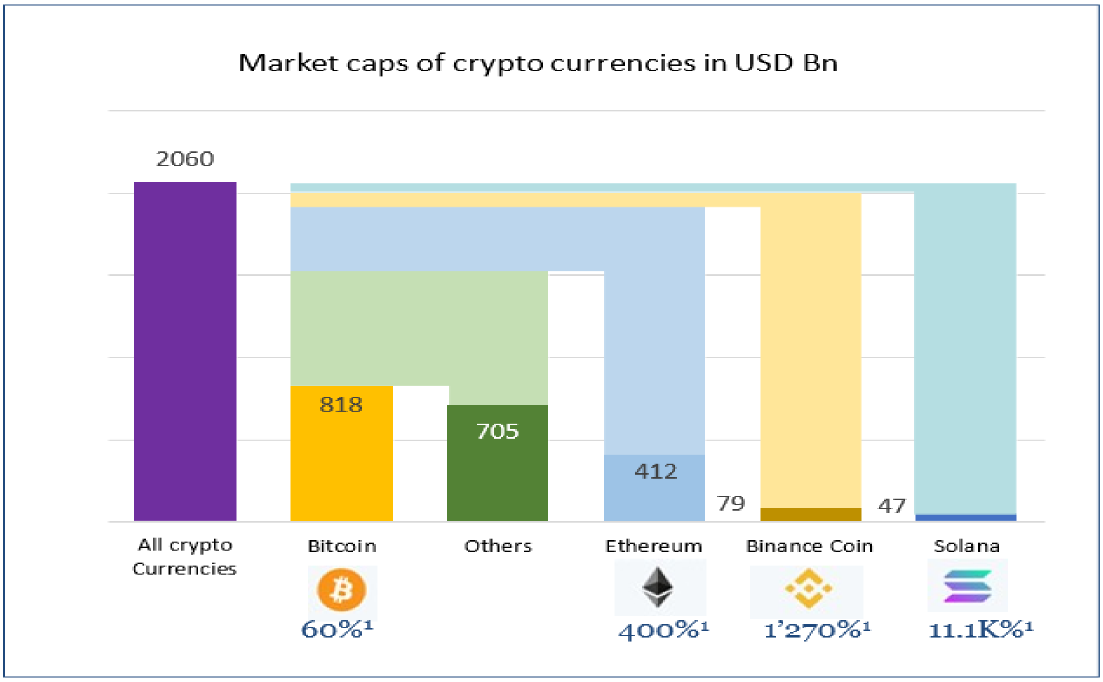
In conclusion, we reiterate our conviction that the bull market is not over and that the elements are not there for a sudden reversal of the trend, even if corrections like those we experienced last year cannot be ruled out. Admittedly, long term rates have tended to rise recently, which could make bonds more attractive to investors, but inflationary expectations should calm down passions for 2022 in this asset class. The TINA (There Is No Alternative) factor should continue to prevail over equities and liquidity should therefore continue to flow into risky assets, especially since, as already mentioned, the savings rate of individuals and companies are at its highest in the developed countries. That said, as was the case in the second half of 2021, investors should tend to be more selective in their investment choices. Quality stocks should therefore benefit. On the currency side, the dollar benefited in 2021 from a central bank that was more proactive in fighting inflation than most of its peers. But smoothed over two years, the dollar index is virtually unchanged. The rise of the greenback in 2021 is simply a recovery of the losses of 2020 against most other currencies. The index is currently at the top of its range. We continue to believe that the greenback should structurally weaken, but the FED's monetary policy could still support it for some time. Gold will probably be directly impacted by the evolution of the dollar and inflation, unless Bitcoin steals the show again as a hedge against inflation. Concerning digital assets, we prefer not to make random predictions, but as you may have noticed last year, we are among those who believe that we will not be able to do without them in the future. They will remain very volatile over the next few years, however the rate of adoption is very rapid and already affects the vast majority of industries. We want to highlight once again that they are not only represented by Bitcoin...quite the contrary in fact...the latter represents "only" 40% of the "cryptosphere" compared to more than 80% in 2017!




Source: Investing.com

[1] Performance 2021



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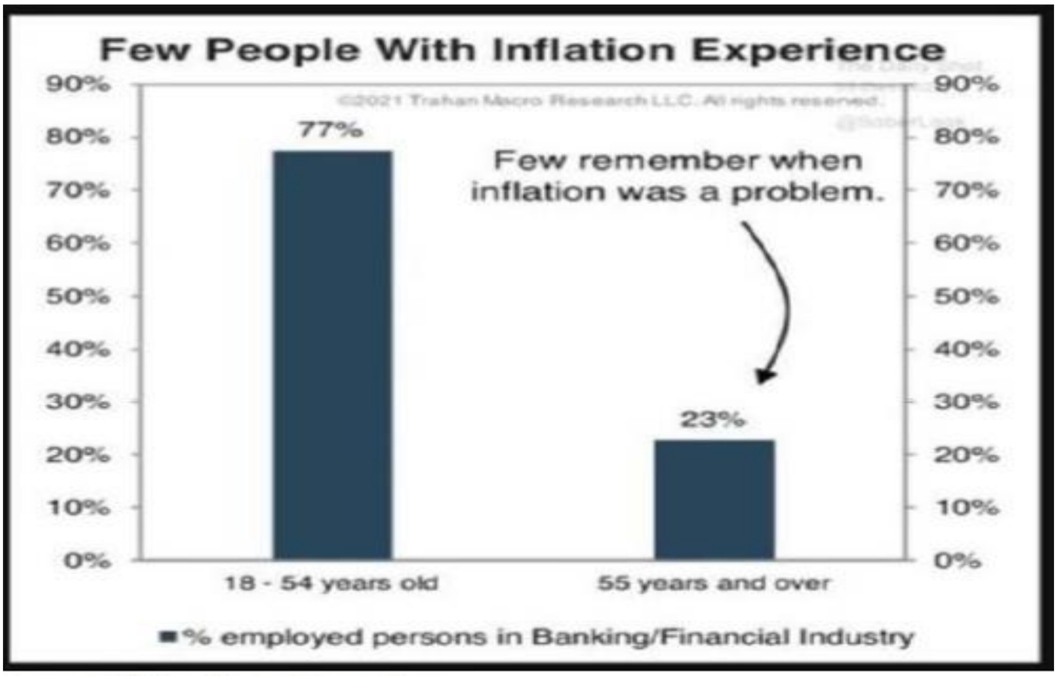
In terms of risks, we have already pointed out the risk of monetary policy error above, but we also identify two other risks that could halt the trend. The first comes from China with the tensions around Taiwan but also around the Chinese property market. Disorderly bankruptcies from distressed Chinese developers could have damaging consequences for the country's economy and repercussions on Western economies. The other risk comes from Russia. Tensions between Russia and the US over a potential military intervention in Ukraine are to be watched very closely. We are deliberately not mentioning inflation, because in our view it belongs to the risks of monetary policy mistakes. As already mentioned last year, the Covid is no longer a major risk in our view. The world has learned to live with it over the past two years and adapts better and better to the negative impacts it causes.

It is difficult to summarise 2021 in a few pages, so we invite you to contact us if you would like to discuss any of the topics covered in this letter.

We wish you a good start to 2022 and may this year bring you joy, happiness and success!

Take care of yourself.




Source: Trahan Macro Research

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