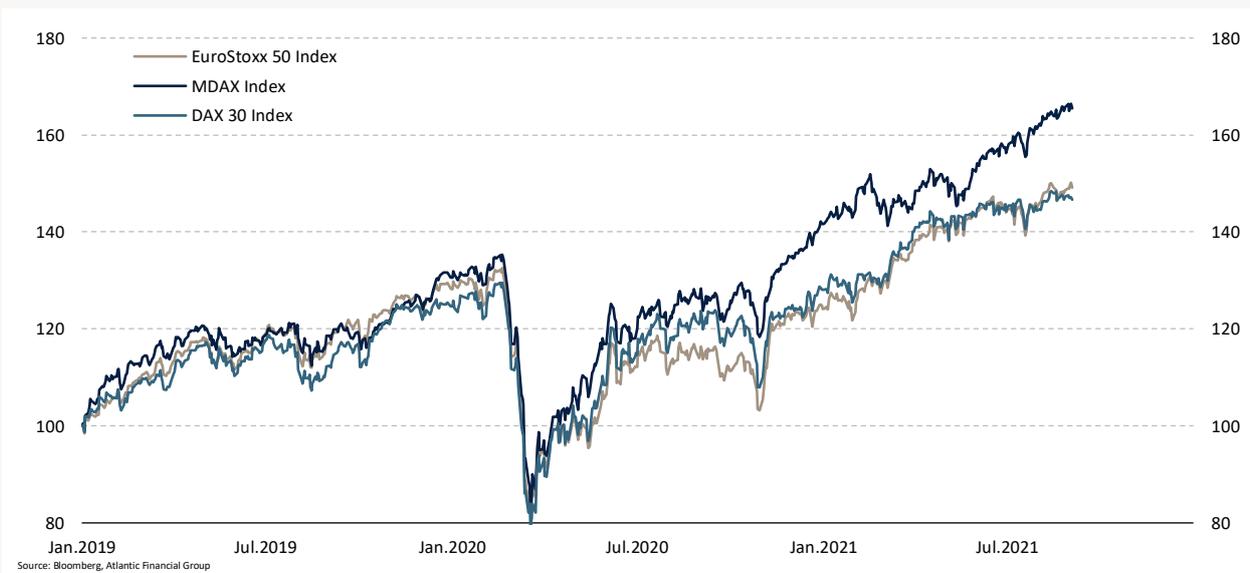




### "GERMANY IS CHANGING, SO IS THE DAX"

- ◆ Angela Merkel will soon no longer be Chancellor
- ◆ Her successor may find it difficult to form a government
- ◆ The DAX will no longer be composed of 30 stocks but of 40, including 10 mid-caps
- ◆ All these uncertainties could lead to volatility... and opportunities

### CHART OF THE WEEK: "The German DAX will become more cyclical, and thus a better performer"



### STOCK MARKET ANALYSIS

On 22 November 2005, almost 16 years ago, Angela Merkel became the first female Federal Chancellor in Germany. Her four successive terms in office have enabled her to establish Germany's economic status as the engine of the European Union. She, whom her compatriots nickname "Mutti" (Mother), has managed to implement the difficult reforms voted in by her predecessor, Gerhard Schröder, and also to keep a rigorous line of conduct, whether during the subprime crisis, the European debt crisis, then through Brexit and finally during the covid-19 pandemic. Internationally, she has succeeded in consolidating Germany's



political ties with its historical allies, first and foremost France. An undisputed leader with impressive popularity ratings (see Fig. 2), Angela Merkel will nevertheless leave a taste of unfinished business on two crucial political issues: European integration and the fight against global warming. By taking the lead on these issues, she could have made a bigger mark on history.

Fig. 2 - Merkel's popularity among Germans

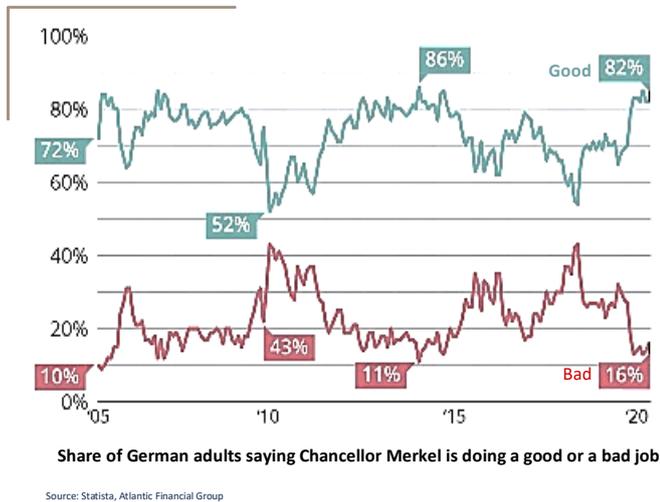
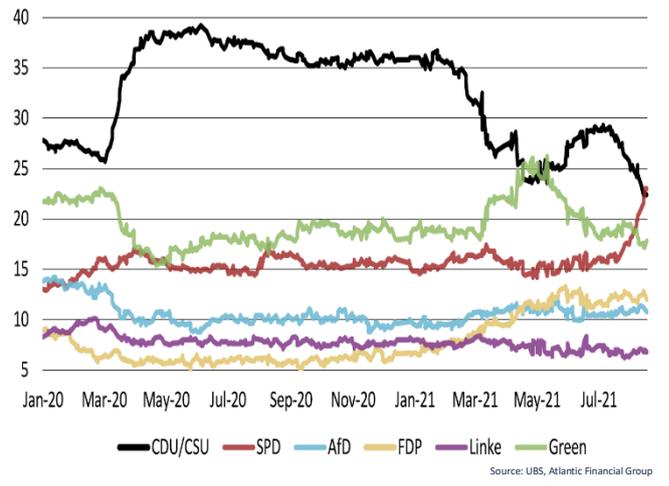
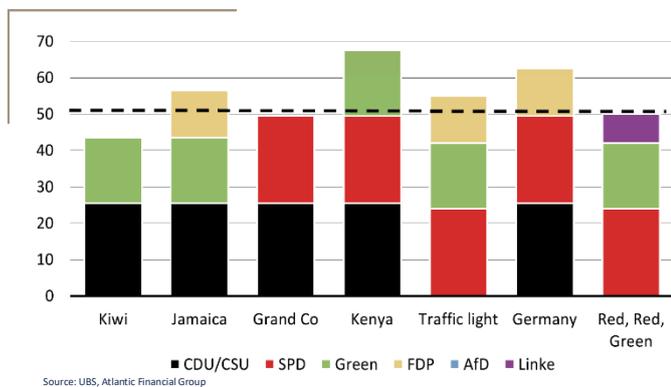


Fig. 3 – Opinion polls for the Sept. 2021 elections



On 26 September, Germans will go to the polls to renew the members of the Bundestag (Parliament). **Three candidates are in the running for the post of Chancellor:** SPD candidate **Olaf Scholz**, who is currently leading in the polls and is enjoying growing popularity, **Armin Laschet**, Angela Merkel's right-hand man and candidate for the Christian Democrats CDU-CSU, and, to a lesser extent, **Annalena Baerbock**, who is seen as the environmentalist outsider. The three contenders are tied in the polls at between 18% and 23% (see Fig. 3). However, according to the latest barometer of public television ZDF, nearly half of those polled would choose Olaf Scholz (SPD) as chancellor, compared with 17% for Armin Laschet (CDU-CSU) and 16% for Annalena Baerbock (Greens).

Fig. 4 - Possible coalitions



**The next government could therefore prove complicated to form**, with a combination of three parties, probably including the FDP liberals (credited with around 12%) as kingmakers (see Fig. 4). The complexity and multitude of possible options adds uncertainty to the instability generated by the departure of the charismatic Chancellor. Investors do not like unclear

situations. Back in 2005, when Merkel was initially elected, she had to form a grand coalition, commonly known as "Groko", bringing together the CDU and SPD. This scenario had worried investors, who feared a political paralysis, before they were reassured, highlighting German pragmatism. At the time, on 16 September 2005, the DAX index and the euro corrected sharply before rebounding even more strongly.



This scenario cannot be ruled out at the end of September: **the political uncertainties in Germany could generate strong volatility on the European markets.**

This change in Germany is not the only one that investors are looking to analyse for investment opportunities. As of **20 September, the DAX index will no longer consist of just 30 stocks, but will now have 40**, with the addition of 10 stocks from the mid-cap universe (MDAX). The latter will be reduced from 60 to 50 stocks. In addition, the composition of the DAX 40 will be more dynamic and reviewed twice a year (in March and September). Finally, Deutsche Börse, which is keen to put the Wirecard scandal behind it, the name of the payment services provider that fraudulently inflated its balance sheet, will ask DAX 40 members to provide more guarantees: to demonstrate their profitability, to publish an audited annual report and to communicate their financial situation every quarter. These are the most important changes since the stock market index was created 33 years ago. In contrast, the Dax 40 will remain a performance barometer, in which dividends are reinvested, while most other indices pay dividends.

The names of the companies that will be included in the index have just been announced: the aircraft manufacturer **Airbus**, the car manufacturer **Porsche**, the equipment manufacturer **Puma**, the food delivery company **Hellofresh**, two chemical companies **Symrise** and **Brenntag**, three healthcare companies **Siemens healthineers**, **Sartorius** and also the surprise guest **Qiagen** ... and the inevitable online retailer **Zalando** (see Fig. 5). Only the cosmetics company Beiersdorf is missing in relation to investors' expectations.

Fig. 5 - Companies joining the DAX on 20 September

Ticker	Name	Market Cap. (bn)	Sector	Price	Perf. YTD	Dividend yield	PER	P/S	P/B	Net Debt/ EBITDA
SX5T	EURO STOXX 50 Net Return	3 910		9 245	20%		23	1.69	2.20	2.66
<b>DAX</b>	<b>DAX 30 Index Total Return</b>	<b>1 414</b>		<b>15 859</b>	<b>16%</b>		<b>18</b>	<b>1.15</b>	<b>1.84</b>	<b>1.69</b>
AIR GY	Airbus SE	91	Aerospace & Defense	115.68	27%	-	-	-	-	-0.45
SHL GY	Siemens Healthineers AG	68	Health Care Equipment	59.88	43%	1.34	38	3.93	4.41	3.93
SRT3 GY	Sartorius AG	49	Health Care Equipment	578.20	68%	0.12	118	13.58	35.45	2.27
PAH3 GY	Porsche Automobil Holding SE	27	Automobile Manufacturers	88.26	56%	2.50	5	247.98	0.68	-
ZAL GY	Zalando SE	25	Internet & Direct Marketing Re	96.04	5%	-	71	2.60	11.11	-0.78
SY1 GY	Symrise AG	16	Specialty Chemicals	120.60	11%	0.80	49	4.53	6.55	1.92
HFG GY	HelloFresh SE	16	Internet & Direct Marketing Re	93.38	48%	-	41	3.18	20.18	-0.89
PUM GY	Puma SE	16	Footwear	103.60	12%	0.15	52	2.48	7.89	-
BNR GY	Brenntag SE	13	Trading Companies & Distributo	85.64	35%	1.58	29	1.07	3.61	1.59
QIA GY	QIAGEN NV	11	Life Sciences Tools & Services	47.70	12%	-	-	-	-	1.38

Source: Bloomberg, Atlantic Financial Group

These ten new stocks will be included in the DAX 40 alongside companies such as Volkswagen, SAP, Allianz, RWE, Vonovia and Fresenius. These newcomers strengthen the cyclical bias of the German index. Some analysts argue that the industrial and consumer discretionary sectors are becoming even more prominent, at the expense of the financial and technology sectors. They fail to mention that the defensive sector of healthcare is also growing (see Fig. 6). **In the end, if the DAX 40 will be more cyclical than the DAX 30, it**



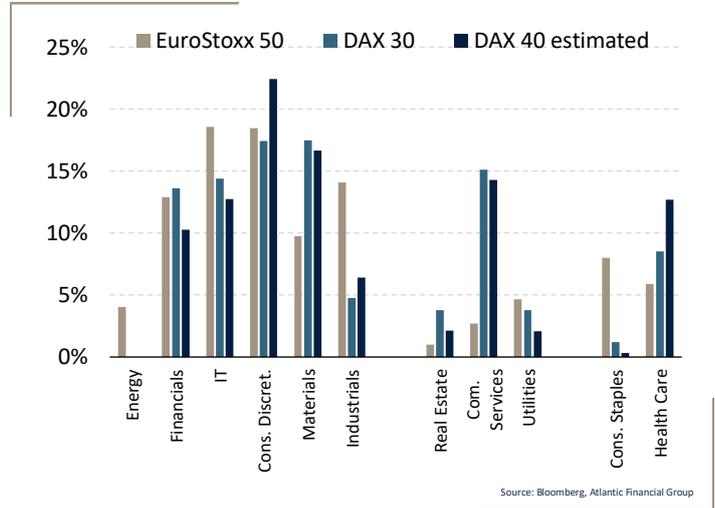
is not because of its sector allocation, but essentially because it includes mid-caps, which are more sensitive to the economic cycle.

Until now, a passive investor had little interest in switching part of his allocation to European equities for German equities, as their performance was so similar. Now, as the DAX is more cyclical, this arbitrage will pay off in the long term (see Chart of the Week).

At this stage of the market cycle, investors should prefer defensive sectors and geographical indices, such as healthcare, or Switzerland. However, **the greater diversity offered by the DAX 40 and a market capitalisation that will increase by EUR 330**

**billion are two powerful arguments that should enable the German index to attract more international investors.** This could be at the expense of the mid-cap index (MDax), which will automatically lose half its capitalisation and will see its attractiveness to passive investors weaken.

Fig. 6 - Weight of sectors in the DAX index



### Conclusion:

In September, Germany has a date with its history. Europe's leading economic and political power will say goodbye to Angela Merkel after 16 years of loyal service. Her succession is likely to be difficult and the uncertainty surrounding the appointment of the next Chancellor could lead to a correction in the German equity index, as it did in 2005. Savvy investors will see this as a boon. As the DAX is becoming broader, i.e. more cyclical and more investable, its long-term performance will be improved, especially compared to the EuroStoxx 50.



# RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2021 Year-to-Date (%)	2020 (%)	2019 (%)
<b>Equities</b>							
World (MSCI)	746.5	67.10	1.3%	2.5%	17.1%	16.9%	27.3%
USA (S&P 500)	4 535	66.22	0.6%	2.7%	21.9%	18.4%	31.5%
USA (Dow Jones)	35 369	54.22	-0.1%	1.0%	17.1%	9.7%	25.3%
USA (Nasdaq)	15 364	71.10	1.6%	4.2%	19.8%	45.1%	36.7%
Euro Area (DJ EuroStoxx)	471.0	56.47	0.2%	2.1%	20.9%	0.8%	27.3%
UK (FTSE 100)	7 138	51.84	0.0%	1.4%	13.7%	-11.4%	17.2%
Switzerland (SMI)	12 352	51.53	-0.7%	1.6%	18.6%	4.3%	30.2%
Japan (Nikkei)	29 128	69.30	-5.4%	-5.4%	7.1%	18.3%	20.7%
Emerging (MSCI)	1 316	59.53	-1.4%	1.9%	3.5%	18.8%	18.8%
Brasil (IBOVESPA)	116 933	38.98	-3.1%	-5.4%	-1.8%	2.9%	31.6%
Russia (MOEX)	4 002	67.03	-3.0%	5.6%	26.7%	14.8%	38.4%
India (SENSEX)	58 130	82.60	-3.6%	3.0%	22.7%	17.2%	15.7%
China (CSI)	4 843	44.94	0.3%	-1.6%	-5.5%	29.9%	39.2%
Communication Serv. (MSCI World)	119.58	66.85	1.4%	4.5%	19.7%	24.2%	25.1%
Consumer Discret. (MSCI World)	403.2	55.91	-2.1%	-0.2%	7.0%	37.0%	28.2%
Consumer Staples (MSCI World)	283.5	62.55	1.4%	1.4%	7.8%	8.8%	22.4%
Energy (MSCI World)	173.2	54.25	0.7%	0.6%	24.0%	-27.7%	13.9%
Financials (MSCI World)	149.4	57.58	-0.4%	3.4%	23.2%	-3.1%	24.1%
Health Care (MSCI World)	370.3	69.95	1.7%	2.3%	17.8%	15.4%	23.3%
Industrials (MSCI World)	334.2	63.09	1.1%	1.9%	16.8%	11.8%	27.2%
Info. Tech. (MSCI World)	546.7	70.41	1.6%	3.7%	21.1%	46.2%	47.5%
Materials (MSCI World)	371.7	53.35	1.1%	-0.4%	16.3%	21.6%	20.8%
Real Estate (MSCI World)	233.4	74.04	-3.0%	3.2%	21.5%	-5.7%	24.0%
Utilities (MSCI World)	160.8	66.24	1.9%	4.0%	8.8%	4.8%	22.3%
<b>Bonds (FTSE)</b>							
USA (7-10 Yr)	1.32%	50.23	0.0%	-0.7%	-1.6%	9.3%	7.4%
Euro Area (7-10 Yr)	-0.06%	38.80	-0.3%	-0.8%	-1.0%	4.5%	6.7%
Germany (7-10 Yr)	-0.36%	32.94	-0.5%	-1.0%	-1.7%	3.0%	3.0%
UK (7-10 Yr)	0.72%	45.94	-0.2%	-0.7%	-2.9%	5.4%	4.8%
Switzerland (7-10 Yr)	-0.32%	37.49	-0.2%	-0.7%	-0.6%	0.4%	2.0%
Japan (5-10 Yr)	0.04%	37.18	-0.1%	-0.2%	0.2%	-0.1%	0.0%
Emerging (5-10 Yr)	4.27%	73.34	0.2%	1.1%	0.2%	5.2%	13.3%
USA (IG Corp.)	2.01%	51.21	-0.3%	0.3%	-0.3%	9.9%	14.5%
Euro Area (IG Corp.)	0.25%	34.14	-0.2%	-0.5%	0.3%	2.8%	6.2%
Emerging (IG Corp.)	4.26%	44.88	-0.3%	0.3%	0.4%	8.1%	13.1%
USA (HY Corp.)	3.77%	79.48	0.3%	0.9%	4.7%	7.1%	14.3%
Euro Area (HY Corp.)	2.89%	80.33	0.1%	0.1%	3.9%	2.3%	11.3%
Emerging (HY Corp.)	6.42%	69.60	0.1%	1.1%	1.4%	4.3%	11.5%
World (Convertibles)	458.8	68.94	1.2%	2.3%	7.2%	38.8%	17.3%
USA (Convertibles)	624.1	69.84	1.4%	2.9%	8.5%	54.5%	22.8%
Euro Area (Convertibles)	4 205	57.47	0.5%	0.2%	2.2%	6.1%	7.6%
Switzerland (Convertibles)	187.6	46.05	0.0%	-0.1%	0.4%	0.5%	2.4%
Japan (Convertibles)	199.6	65.45	1.2%	0.9%	2.7%	2.8%	2.6%
<b>Hedge Funds (Crédit Suisse)</b>							
Hedge Funds Indus.	713.5	76.05	n.a.	0.3%	6.3%	2.5%	9.3%
Distressed	940.9	72.32	n.a.	-0.9%	9.5%	1.5%	1.4%
Event Driven	788.2	75.73	n.a.	-0.5%	9.6%	3.1%	8.2%
Fixed Income	390.5	61.99	n.a.	0.6%	4.4%	2.2%	6.1%
Global Macro	1 168.6	64.29	n.a.	0.1%	6.3%	2.0%	10.4%
Long/Short	914.4	72.41	n.a.	1.4%	6.8%	3.6%	12.2%
CTA's	338.4	59.74	n.a.	0.9%	7.2%	-3.2%	9.0%
Market Neutral	285.8	66.01	n.a.	1.5%	4.6%	-0.1%	1.6%
Multi-Strategy	687.6	53.79	n.a.	1.1%	5.5%	1.4%	7.3%
<b>Volatility</b>							
VIX	16.41	46.43	0.1%	-9.0%	-27.9%	65.1%	-45.8%
VSTOXX	18.19	49.50	3.4%	-10.0%	-22.2%	67.5%	-41.5%
<b>Commodities</b>							
Commodities (CRB)	558.0	n.a.	-0.6%	-0.5%	25.7%	10.5%	-1.9%
Gold (Troy Ounce)	1 828	61.63	0.6%	1.0%	-3.7%	24.9%	18.3%
Oil (WTI, Barrel)	69.29	52.47	0.8%	-1.8%	42.8%	-20.5%	34.5%
Oil (Brent, Barrel)	72.29	55.04	1.4%	0.0%	41.3%	-23.0%	24.9%
<b>Currencies (vs USD)</b>							
USD (Dollar Index)	92.035	38.49	-0.7%	0.0%	2.3%	-6.7%	0.2%
EUR	1.1880	62.79	0.7%	1.0%	-2.8%	9.7%	-2.2%
JPY	109.74	54.13	0.2%	0.5%	-5.9%	5.3%	0.9%
GBP	1.3864	57.02	0.8%	-0.1%	1.4%	2.8%	3.9%
AUD	0.7452	62.24	2.1%	1.3%	-3.1%	9.5%	-0.4%
CAD	1.2527	54.92	0.6%	0.2%	1.6%	1.8%	5.0%
CHF	0.9136	51.38	0.4%	0.1%	-3.1%	9.8%	1.4%
CNY	6.4552	59.25	0.3%	0.2%	1.1%	6.7%	-1.2%
MXN	19.919	57.16	1.1%	0.6%	0.0%	-4.9%	3.8%
EM (Emerging Index)	1 741.6	66.64	0.9%	0.7%	1.3%	3.3%	3.1%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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