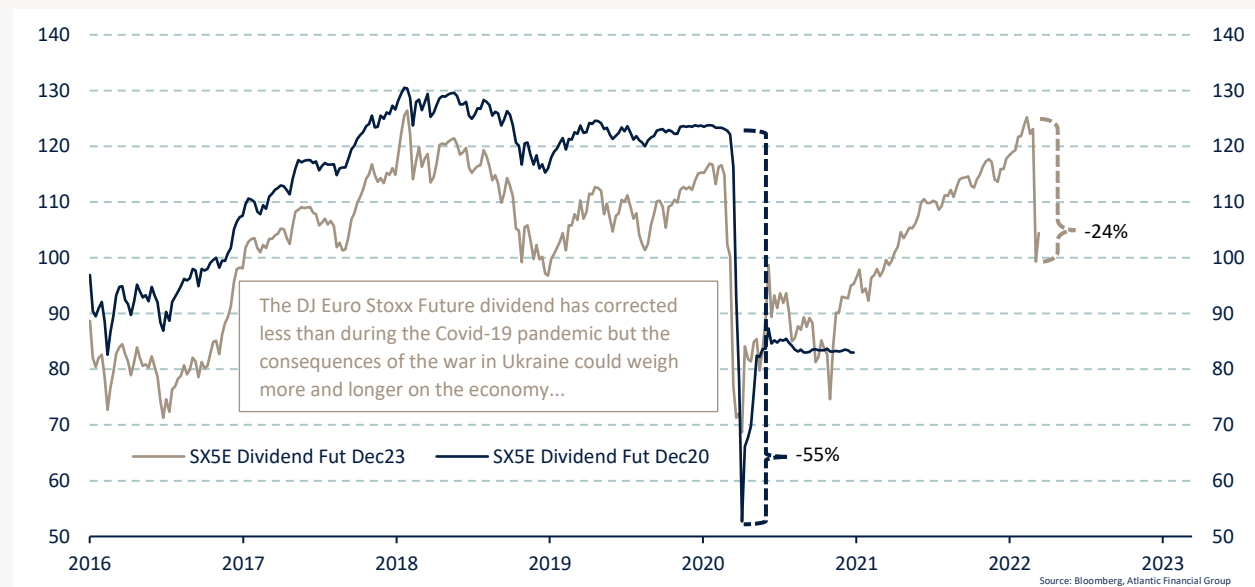




"DIVIDENDS IN TIMES OF CRISIS"

- ◆ Investors expect drastic dividend cuts
- ◆ The European banks will certainly suspend all payments from 2023 onwards
- ◆ What about other sectors?

CHART OF THE WEEK: "Future dividends may fall further".



ANALYSIS OF FINANCIAL MARKETS

The consequences of the war in Ukraine are far from negligible. They could cut global growth by 2% to 3%. Commodity inflation will weigh on household consumption and business confidence. A stagflation scenario is now being considered in Europe. Monetary and fiscal policies will therefore have to be finely tuned to avoid a lasting crisis. In order to finance a recovery strategy, Europe could temporarily suspend the Stability and Growth Pact and voluntarily allow public deficits to exceed 3% of GDP. The central bank would then contribute to the financing of the new debts.



◆ Investors expect drastic dividend cuts

Since the start of the Ukraine crisis, **the DJ Euro Stoxx 50 future dividends have corrected sharply, falling by 24% between 10 February and 7 March.** They have rebounded since diplomatic talks were held between Vladimir Putin and Volodymyr Zelenskiy, but the index is still down 17% (see chart of the week).

Investors fear above all the lack of visibility. Europe's energy dependence on Russia cannot be resolved quickly and is likely to weigh on the economy for a long time. The end-consumer will pay the price. Similarly, throughout the value chain, companies will see their margins shrink and their cash flows melt away, at the expense of capital expenditure, R&D and shareholder remuneration.

Some sectors are more likely to cut dividends, especially the more cyclical ones such as financials, industrials or consumer discretionary.

Other more defensive sectors, such as healthcare and consumer staples, show better capacity to maintain a shareholder friendly policy of paying dividends or buying back shares.

◆ Potential challenge to dividends for European banks

FINANCIALS



- Geopolitical tensions are putting a lot of pressure on the European banking sector. Balance sheets, which have been greatly strengthened since the 2008 financial crisis, should help banks to weather this new crisis and avoid systemic risks.
- European banks are very cheap with a price/equity ratio of 0.7x and price/earnings per share of 7.7x in 2023. Their balance sheets should prove resilient again this time, without the need to dilute them as they are well above regulatory requirements.

High dividends and share buybacks were expected to attract investors back to this sector, which has been neglected since the 2011 crisis in Europe. It is quite possible that, if the conflict in Ukraine continues, the ECB could resume the prudential measures imposed during the covid-19 pandemic, consisting of suspending all dividend payments to shareholders.

◆ What about other sectors?

ENERGY



- Energy was already in a super-cycle before the war in Ukraine, fueled by the post-Covid-19 recovery and the supply-demand frictions created in recent years.
- Oil is one of the main beneficiaries of the war-induced energy crisis in Europe and may continue to appreciate as renewable energy production remains far below demand.

The dividend yield is much more attractive in Europe (5.7%) than in the US (3.2%). This difference is partly explained by the divergence in stock market performance: companies in the US are up 36% since the beginning of the year, while European companies have entirely erased their initial gains.



CONSUMER STAPLES



- The sector is under severe cost pressure (higher commodity prices, wage increases, logistic costs) which could last for another 6 to 12 months.
- Price elasticity remains low and margins are expected to stabilize as firms pass on input costs to consumers.

The dividend yield is relatively attractive and stable, currently around 3.1% in Europe and 2.6% in the US. Companies in this sector rarely cut their dividends due to relatively good visibility on future earnings.

HEALTHCARE



- The sector is enjoying secular growth thanks to an ageing population globally, a growing middle class in emerging countries and more favorable drug pricing reform.
- Valuation is reasonable considering the sector's stable growth with upside potential. Political pressure is expected to ease following the Covid-19 pandemic, during which Big Pharma demonstrated its usefulness and R&D efforts.

The dividend yield is stable over time at around 2.3% in Europe and 1.6% in the US.

MATERIALS



- Industrial related commodities, similar to energy, have entered a super-cycle for the same reasons, such as logistical problems and imbalance in supply and demand. Underinvestment in
- exploration and production projects in recent years has led to a decline in supply.
- The same inflationary pressure can be found in the agricultural sector, largely caused by logistical bottlenecks following Covid-19.

The dividend yield has risen rapidly since the start of the war in Ukraine, to around 3.9% for the Euro Stoxx Materials and 2% for the S&P 500 Materials Index. Even in times of economic downturn, US companies strive to continue paying dividends. This is less the case in Europe, where companies are more prone to slash dividends rapidly.

CONSUMER DISCRETIONARY



- Consumer confidence is deteriorating rapidly in the US (Michigan Index) and in Europe (OECD) as subsidies introduced during the Covid-19 crisis have been withdrawn and inflation is considerably eroding their purchasing power (rising fuel prices and consumer goods...)
- The war in Ukraine is expected to further undermine household confidence and encourage precautionary saving.

Dividends are currently higher in Europe (3.1%) than in the US (0.8%) but companies may decide to cut their dividends, particularly in Europe where the effect of the war in Ukraine is having a more noticeable effect on the economy.



INFORMATION TECHNOLOGY



- There is a dichotomy in the performance of technology stocks and in particular quality stocks with strong balance sheets and cash flow generation, versus unprofitable stocks that are sensitive to rising interest rates.
- Rising wages are also a constraint to growth, as are disruptions in the supply of electronic components.

The tech sector does not generally attract investors who are looking for yield, via dividend payments. Companies prefer to reinvest their cash in organic growth or acquisitions. Currently the dividend yield on European tech is 1.1% compared to 0.9% in the US.

REAL ESTATE



- In the US, the sector is likely to see its valuation multiples contract as rates rise, credit spreads widen and growth slows.
- In Europe, the sector is trading at a steep historical discount to its net asset value and reflects the fear of a recession (pressure on rents and occupancy rates). The postponement of rate hikes, a more likely scenario since the start of the war in Ukraine, should offset the negative effects of the crisis and ease financial pressure.

Dividends are still at attractive levels of 4.3% in Europe versus 2.8% in the US. In absolute terms, dividend payouts are historically low and have not yet recovered to pre-Covid-19 levels. It is therefore possible that dividend payouts in this sector will be less affected by further cuts.

UTILITIES



- The sector's outperformance this year is most visible among renewable energy producers. Geopolitical tensions and the war in Ukraine have plunged Europe into one of its worst energy crises since the Second World War.
- The European Union will massively subsidize this industry to reduce Europe's energy dependence on countries like Russia.

The sector pays high dividends, close to 5% in Europe and 3% in the US. However, beware that companies active in renewable energy pay very low dividends, sometimes close to zero. The others could lower their dividends and reinvest the cash to accelerate their transformation away from fossil fuels.

INDUSTRIALS



- In the short term, margin risks and the lack of visibility on underlying demand, given the likely decline in orders, could weigh on the sector's profitability.
- In the medium term, the sector could benefit from a stronger investment cycle after a weak spending cycle between 2011 and 2019.

Also for this sector, dividends are currently higher in Europe (2.5%) than in the US (2.1%) but their payment is more sensitive to the economic cycle.



COMMUNICATION SERVICES / TELECOM



- The telecoms sector is struggling to create shareholder value despite the Covid-19 pandemic which, thanks to teleworking, has accelerated the need for internet connections.
- Inflation is proving to be a growing drag on the sector: wages, energy and rents...
- The profitability of the sector is also under attack by the constant need for investments to maintain and upgrade networks (4G, 5G) in order to stay competitive while regulatory pressure remains strong.

The sector has a high dividend yield of 4.2% (EuroStoxx) and 5.2% (S&P 500). But these are not synonymous with regularity. Indeed, unlike the US, European telcos do not hesitate to interrupt or reduce dividend payments in the event of a crisis.

Conclusion:

The Green Pact for Europe, decided during the Covid-19 pandemic, is taking on its full meaning now that oil & gas supplies from Russia are under threat. With the Russo-Ukrainian conflict, additional fiscal and monetary measures will have to be put in place by governments and central banks. Despite this, it will be difficult to prevent an economic crisis and **many companies will have to reduce or stop paying dividends to shareholders**. It is therefore essential to take advantage of market rebounds to reposition portfolios towards defensive and value sectors that offer both **better earnings visibility and safer returns**.





RETURN ON FINANCIAL ASSETS

| Markets Performances (local currencies) | Last Price | Momentum Indicator (RSI) | 1-Week (%) | 1-Month (%) | 2022 Year-to-Date (%) | 2021 (%) | 2020 (%) |
|--|---------------|-----------------------------|------------|-------------|--------------------------|----------|----------|
| Equities | | | | | | | |
| World (MSCI) | 663.5 | 35.50 | -2.3% | -7.1% | -11.8% | 19.0% | 16.9% |
| USA (S&P 500) | 4 204 | 39.40 | -2.8% | -4.7% | -11.5% | 28.7% | 18.4% |
| USA (Dow Jones) | 32 944 | 39.01 | -1.9% | -4.9% | -8.9% | 20.9% | 9.7% |
| USA (Nasdaq) | 12 844 | 38.11 | -3.5% | -6.8% | -17.8% | 22.2% | 45.1% |
| Euro Area (DJ EuroStoxx) | 409.4 | 40.06 | 3.5% | -11.0% | -14.3% | 23.5% | 0.8% |
| UK (FTSE 100) | 7 156 | 43.21 | 2.8% | -5.8% | -2.3% | 18.4% | -11.4% |
| Switzerland (SMI) | 11 496 | 41.90 | 2.4% | -5.4% | -10.1% | 23.7% | 4.3% |
| Japan (Nikkei) | 25 308 | 37.98 | -3.2% | -9.1% | -12.6% | 6.7% | 18.3% |
| Emerging (MSCI) | 1 086 | 25.66 | -5.1% | -12.3% | -11.7% | -2.3% | 18.8% |
| Brasil (IBOVESPA) | 111 713 | 47.84 | -2.4% | -1.6% | 6.6% | -11.9% | 2.9% |
| Russia (MOEX) | 2 470 | 31.35 | -27.2% | -24.2% | -34.4% | 21.9% | 14.8% |
| India (SENSEX) | 56 027 | 45.93 | 2.2% | -4.4% | -4.5% | 23.2% | 17.2% |
| China (CSI) | 4 183 | 32.58 | -4.2% | -6.4% | -12.8% | -3.5% | 29.9% |
| Communication Serv. (MSCI World) | 92.29 | 32.81 | -3.2% | -8.6% | -16.2% | 10.9% | 24.2% |
| Consumer Discret. (MSCI World) | 328.1 | 32.15 | -3.1% | -12.4% | -20.0% | 9.2% | 37.0% |
| Consumer Staples (MSCI World) | 263.7 | 31.21 | -4.1% | -6.8% | -9.8% | 11.7% | 8.8% |
| Energy (MSCI World) | 221.1 | 53.94 | -0.3% | -1.4% | 18.0% | 37.5% | -27.7% |
| Financials (MSCI World) | 140.4 | 35.98 | -0.7% | -10.8% | -6.3% | 25.1% | -3.1% |
| Health Care (MSCI World) | 331.9 | 42.49 | -1.9% | -1.9% | -9.8% | 18.0% | 15.4% |
| Industrials (MSCI World) | 296.5 | 41.66 | -0.8% | -4.3% | -10.5% | 16.6% | 11.8% |
| Info. Tech. (MSCI World) | 467.5 | 36.01 | -3.7% | -8.5% | -18.5% | 27.6% | 46.2% |
| Materials (MSCI World) | 351.0 | 43.59 | -1.7% | -2.6% | -3.0% | 15.4% | 21.6% |
| Real Estate (MSCI World) | 210.6 | 41.56 | -1.8% | -2.7% | -10.0% | 23.6% | -5.7% |
| Utilities (MSCI World) | 155.5 | 51.44 | 0.3% | 0.6% | -3.9% | 11.1% | 4.8% |
| Bonds (FTSE) | | | | | | | |
| USA (7-10 Yr) | 2.04% | 44.65 | -1.9% | 0.1% | -3.5% | -2.4% | 9.3% |
| Euro Area (7-10 Yr) | 0.80% | 39.03 | -2.7% | 0.2% | -4.2% | -2.9% | 4.5% |
| Germany (7-10 Yr) | 0.25% | 40.65 | -2.9% | 0.1% | -3.0% | -2.7% | 3.0% |
| UK (7-10 Yr) | 1.49% | 42.46 | -2.6% | 0.5% | -3.9% | -4.9% | 5.4% |
| Switzerland (7-10 Yr) | 0.35% | 35.99 | -1.7% | -0.6% | -4.1% | -2.3% | 0.4% |
| Japan (5-10 Yr) | 0.20% | 47.96 | -0.2% | 0.3% | -0.7% | 0.0% | -0.1% |
| Emerging (5-10 Yr) | 6.15% | 26.27 | 0.3% | -6.4% | -11.0% | -2.3% | 5.2% |
| USA (IG Corp.) | 3.50% | 29.58 | -1.9% | -2.5% | -8.0% | -1.0% | 9.9% |
| Euro Area (IG Corp.) | 1.48% | 30.78 | -1.3% | -1.3% | -4.8% | -1.0% | 2.8% |
| Emerging (IG Corp.) | 6.35% | 4.52 | -2.7% | -7.7% | -11.2% | -3.0% | 8.1% |
| USA (HY Corp.) | 6.19% | 24.33 | -1.0% | -1.1% | -5.5% | 5.3% | 7.1% |
| Euro Area (HY Corp.) | 5.52% | 27.26 | 0.1% | -1.7% | -5.3% | 3.4% | 2.3% |
| Emerging (HY Corp.) | 9.20% | 26.78 | 0.9% | -6.5% | -9.3% | -3.2% | 4.3% |
| World (Convertibles) | 392.2 | 35.15 | -1.6% | -5.0% | -10.5% | 2.4% | 38.8% |
| USA (Convertibles) | 525.0 | 38.03 | -2.0% | -4.8% | -11.5% | 3.1% | 54.5% |
| Euro Area (Convertibles) | 3 736 | 37.92 | 1.0% | -3.1% | -9.0% | -0.3% | 6.1% |
| Switzerland (Convertibles) | 179.9 | 25.55 | -1.0% | -1.2% | -3.2% | -0.5% | 0.5% |
| Japan (Convertibles) | 195.1 | 41.28 | -0.5% | -1.9% | -2.8% | 3.3% | 2.8% |
| Hedge Funds (Crédit Suisse) | | | | | | | |
| Hedge Funds Indus. | 726.7 | 68.74 | n.a. | -0.7% | n.a. | 8.2% | 6.4% |
| Distressed | 966.8 | 69.79 | n.a. | -1.0% | n.a. | 12.5% | 3.8% |
| Event Driven | 812.3 | 67.48 | n.a. | -2.0% | n.a. | 12.9% | 7.0% |
| Fixed Income | 393.5 | 70.28 | n.a. | -0.1% | n.a. | 5.2% | 3.6% |
| Global Macro | 1 205.0 | 73.52 | n.a. | 3.4% | n.a. | 9.6% | 6.5% |
| Long/Short | 927.5 | 61.22 | n.a. | -2.4% | n.a. | 8.3% | 7.9% |
| CTA's | 341.6 | 64.84 | n.a. | 1.4% | n.a. | 8.2% | 1.9% |
| Market Neutral | 290.1 | 64.36 | n.a. | -0.8% | n.a. | 6.2% | 1.7% |
| Multi-Strategy | 696.9 | 68.42 | n.a. | -1.2% | n.a. | 7.0% | 5.6% |
| Volatility | | | | | | | |
| VIX | 30.75 | 53.21 | -3.8% | 12.4% | 78.6% | -24.3% | 65.1% |
| VSTOXX | 41.37 | 56.96 | -16.7% | 67.8% | 114.7% | -17.6% | 67.5% |
| Commodities | | | | | | | |
| Commodities (CRB) | 628.1 | n.a. | 0.8% | 4.6% | 8.6% | 30.3% | 10.5% |
| Gold (Troy Ounce) | 1 976 | 60.68 | -1.1% | 5.6% | 8.0% | -3.6% | 25.1% |
| Oil (WTI, Barrel) | 109.33 | 59.35 | -8.4% | 17.4% | 42.0% | 58.7% | -20.5% |
| Oil (Brent, Barrel) | 114.88 | 57.22 | -5.6% | 19.5% | 50.5% | 51.4% | -23.0% |
| Currencies (vs USD) | | | | | | | |
| USD (Dollar Index) | 99.199 | 67.09 | -0.1% | 2.9% | 3.7% | 6.4% | -6.7% |
| EUR | 1.0919 | 35.61 | 0.6% | -3.4% | -4.0% | -7.5% | 9.7% |
| JPY | 117.80 | 27.93 | -2.1% | -1.9% | -2.3% | -10.2% | 5.1% |
| GBP | 1.3022 | 27.69 | -0.6% | -3.7% | -3.8% | -1.0% | 3.1% |
| AUD | 0.7242 | 49.78 | -1.0% | 1.6% | -0.3% | -5.6% | 9.6% |
| CAD | 1.2783 | 46.64 | 0.3% | -0.4% | -1.1% | 0.7% | 2.1% |
| CHF | 0.9354 | 37.21 | -1.1% | -1.2% | -2.3% | -3.0% | 9.4% |
| CNY | 6.3567 | 38.06 | -0.6% | 0.0% | 0.0% | 2.7% | 6.7% |
| MXN | 20.947 | 42.40 | 1.8% | -2.5% | -2.0% | -3.0% | -5.0% |
| EM (Emerging Index) | 1 710.2 | 34.13 | -0.4% | -1.9% | -1.8% | 0.9% | 3.3% |

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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