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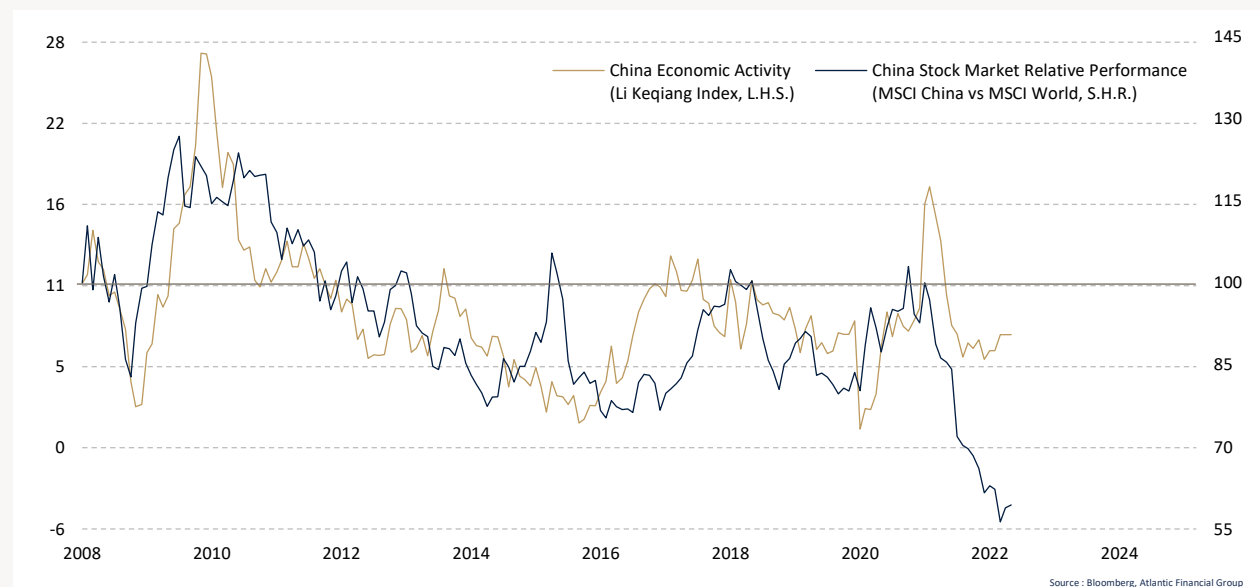
Weekly Investment Focus

23 May 2022

"FOUR BEAR MARKET BARGAINS"

- ◆ Swiss companies will continue to outperform until the economic downturn is over
- ◆ The healthcare sector benefits from its defensive characteristics, but not only
- ◆ Emerging markets, led by China, have priced in a lot of bad news
- ◆ More contrarian, airlines will benefit from the rebound in tourism

CHART OF THE WEEK: "Chinese stocks overreact to bad news"



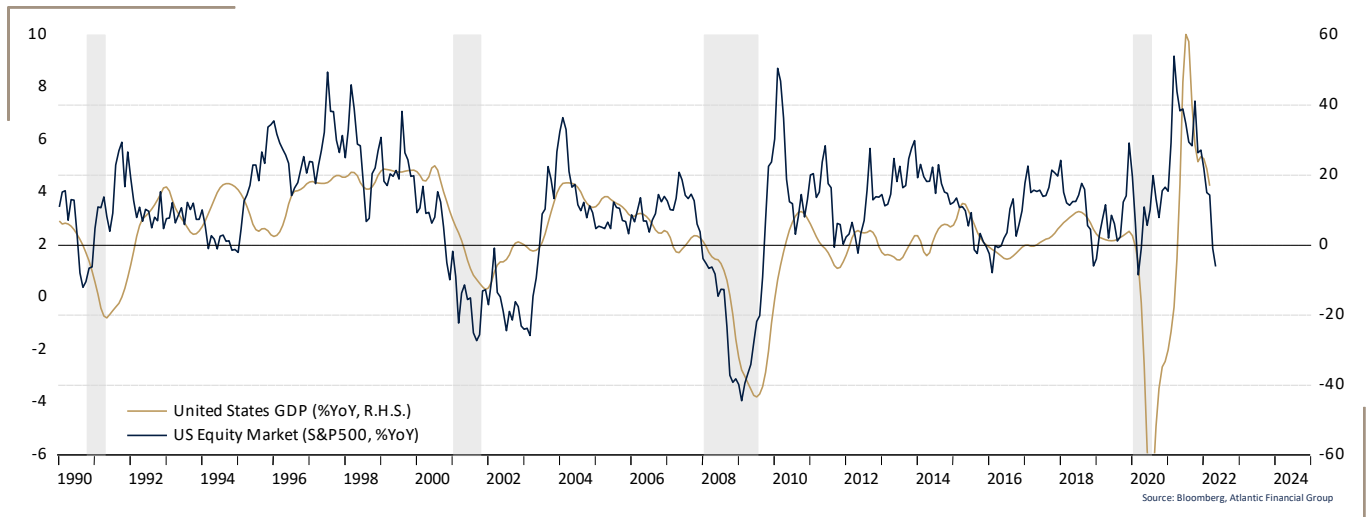
EQUITY MARKET ANALYSIS

Since its peak on the very first days of trading this year and the low on 12 May, **the MSCI World Equity Index has officially entered a bear market**. Its performance is just under -20%. While some geographical indices (British Footsie, Brazilian Bovespa) or sectoral indices (Energy) are doing relatively better, all the others are showing red figures in 2022. This underperformance of equities is perfectly in line with the slowdown phase of the current economic cycle. Whenever Gross Domestic Product (GDP) growth falters, the performance of listed companies declines. Investors anticipate lower earnings growth and



prematurely lower valuation multiples (price/earnings ratio). In the US, for example, **as soon as GDP expands by less than 2% per year, the S&P 500 delivers a negative performance over the same period** (see Fig. 2).

Fig. 2 - Economic growth and equity performance in the United States



This is what some investors are now anticipating. Our econometric forecasting models clearly support this. **Several rational elements justify this scenario:** the war in Ukraine and the lockdowns in China are paralysing the production of raw materials and intermediate goods, soaring prices are reducing household purchasing power, and rising interest rates are slowing down companies' investment capacity and increasing the risk of a real estate bubble bursting.

Fig. 3 - Global equities and money creation

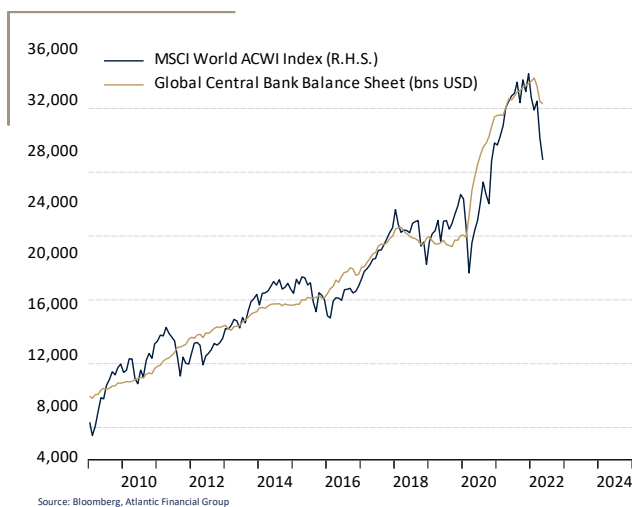
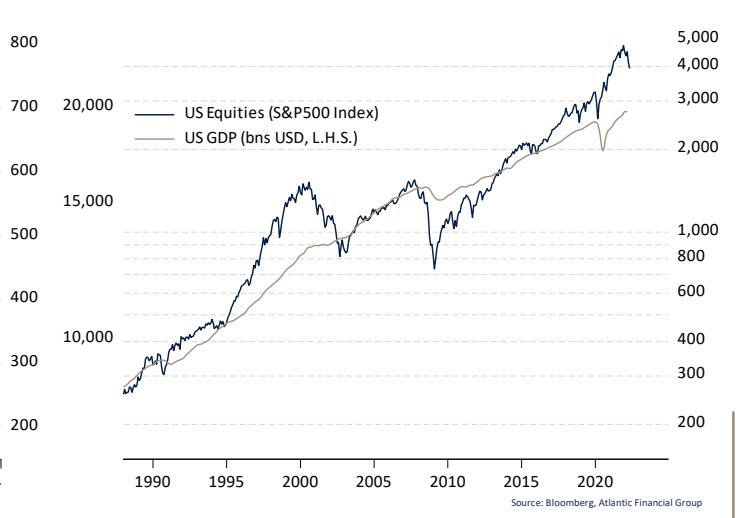


Fig. 4 - US equities and economic activity



Beyond these macroeconomic pieces, there are also two parameters that amplify the bear market. On the one hand, central banks are starting to reduce their balance sheets, i.e. withdrawing some of



the liquidity that they had put into circulation during the Covid-19 pandemic. Since the introduction of this type of unconventional monetary policy during the Great Recession of 2008, there has been a very strong causal link between the increase in central bank balance sheets and the rise in stock market indices (see Fig. 3). Unfortunately, this link is just as strong on the downside. **On the other hand**, over the last five years, **stock market indices have risen much faster than GDP** (see Fig. 4) **and corporate profits**, driving valuation ratios to excessive and unsustainable levels. A readjustment towards fundamentals cannot be considered abnormal.

Even if stock markets are correcting for good reasons and this bear market is not over, there are already geographical areas and sectors of activity that deserve special attention.

Two of them have been underperforming for a long time:

- **Emerging market equities** have repeatedly tried to keep pace with their developed country counterparts, but the trend has been unsatisfactory for more than 10 years. Among them are equities listed in Asia (see Fig. 5), **particularly in China**. Until the dollar depreciates (see Fig. 6) and China returns to dynamic growth, emerging indices will underperform the global index.

Fig. 5 - Relative perf. of emerging markets & China

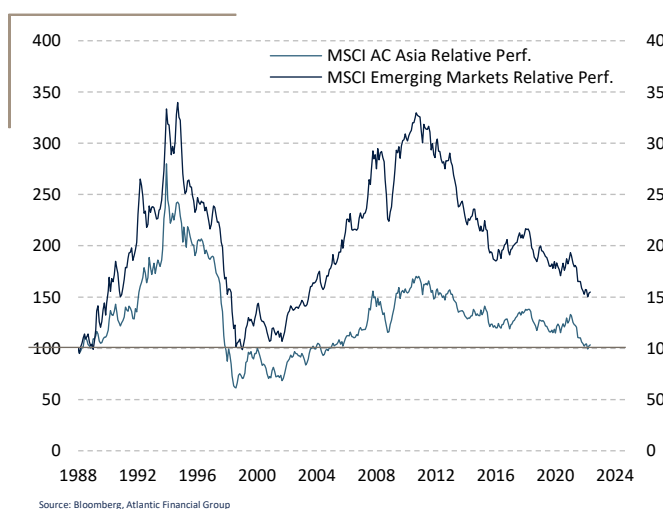
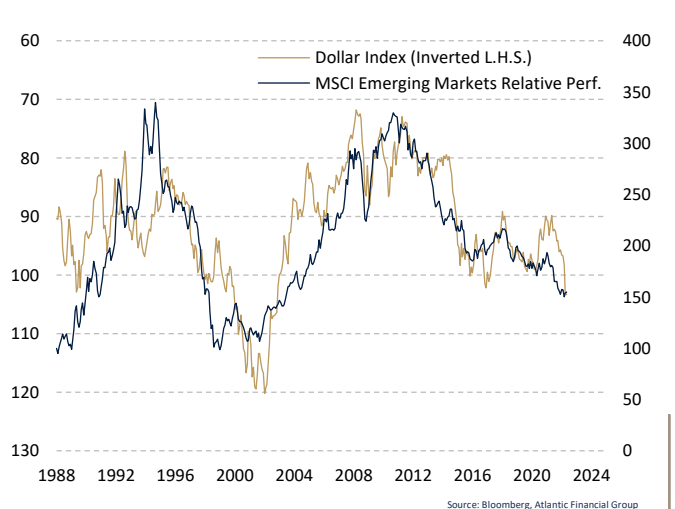


Fig. 6 - Relative perf. Of emerging markets & dollar



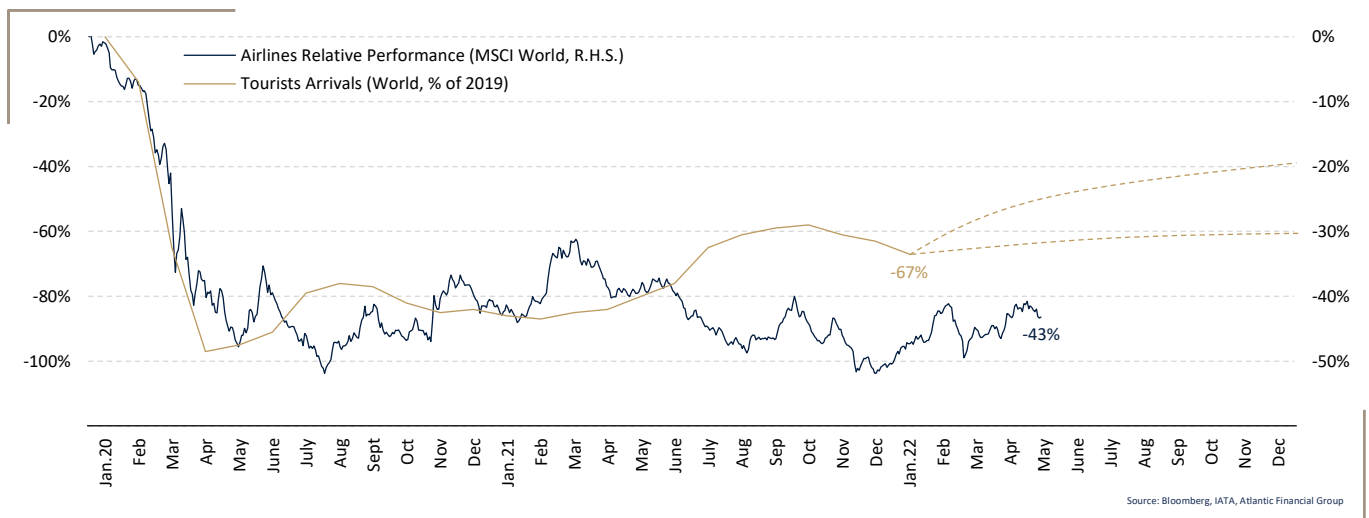
Today, the pressures that are building up on emerging markets in general and China in particular are such that investors pay little attention to them. However, the time for renewed interest and hence outperformance in these indices may not be as far away as it seems. **Much of the bad news seems to be priced in** (see Chart of the Week). Only those investors who started to build up positions during the capitulation phase will benefit from the rebound on the first day. **Sometimes it is good to be contrarian.**

- **Airlines** have also tried to take off at different times. Unfortunately, the repeated lockdowns during the pandemic in 2020, then the administrative constraints required of clients to travel in complete



safety in 2021, and finally the surge in fuel prices in 2022, have penalised the sector one after the other. If energy prices were to stabilise and wealthier households were to opt for holidays away from home, the airlines would benefit twice over. The airline theme is not the most intuitive and it is not immune to the equity market's downward trend but, as with China, bad news seems to be priced in at present. **Even the slightest upturn in tourist arrivals will be seen by investors as positive support for this sector, which has been unloved for the past two and a half years** (see Fig. 7).

Fig. 7 - Relative performance of airlines & world tourist arrivals



The other two themes that attract our attention are outperforming the world equity index, both cyclically (year-to-date) and structurally (over several decades):

- **The healthcare sector** benefits from various strengths (see Fig. 8). **It is perceived as defensive in that it generates stable revenues.** Whatever the position in the economic cycle, consumers will continue to buy medicines and health services, to the detriment of non-essential goods and services if necessary. Furthermore, long neglected in favour of growth sectors, the valuations of the stocks in this sector are cheap. Lastly and meaningfully, the world's population is growing and ageing, while the inhabitants of emerging countries increasingly have the financial means to access healthcare and medicines. All these factors contribute to an increase in profits for the healthcare industry.
- **The Swiss equity index** benefits from the structural strengths of the Swiss economy, innovative research and development teams, the pricing power of companies, the pragmatism of the political system, the strength of the currency and the strong support of the central bank. Companies listed in the SMI (see Fig. 9) and the broad SPI index thus outperform the EuroStoxx. **This phenomenon is even more pronounced during economic downturns.**



Fig. 8 - Relative performance of healthcare stocks

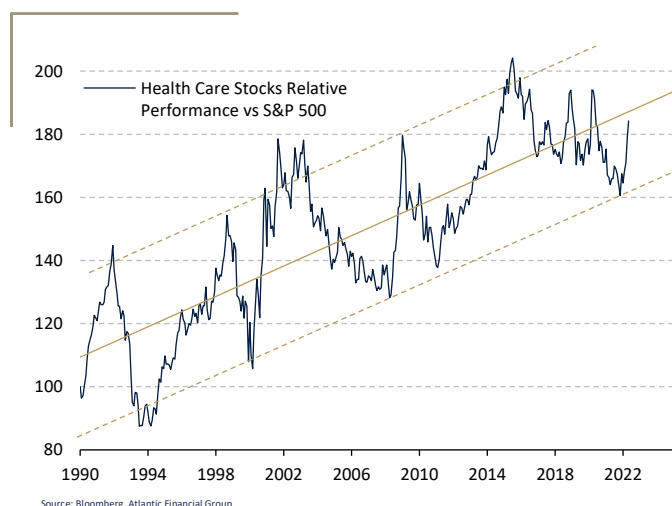
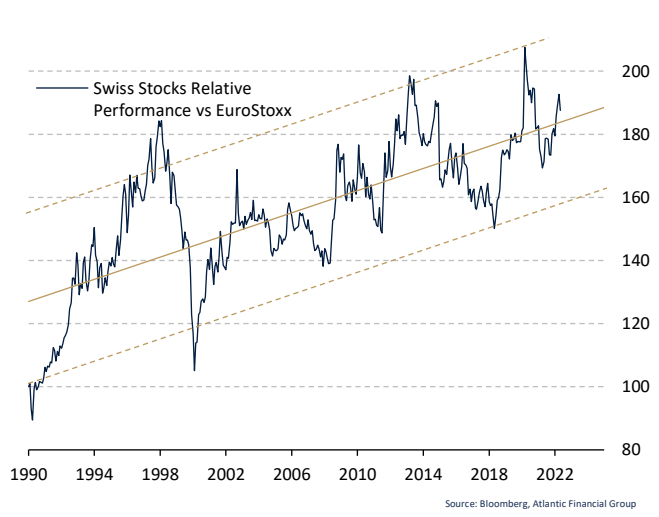


Fig. 9 - Relative performance of Swiss stocks



Conclusion:

It's official: the world equity index has entered a bear market and the outlook for the next few months is not good. Despite this, there are sectors and geographical areas that are likely to generate less negative, or even positive, performances and that will be at the top of the list when the stock market recovers. This is the case for healthcare and airlines, and also for China and Switzerland.



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)	621.9	36.25	-1.1%	-10.4%	-16.9%	19.0%	16.9%
USA (S&P 500)	3 901	35.47	-3.0%	-12.4%	-17.7%	28.7%	18.4%
USA (Dow Jones)	31 262	34.15	-2.8%	-10.9%	-13.3%	20.9%	9.7%
USA (Nasdaq)	11 355	36.03	-3.8%	-15.5%	-27.2%	22.2%	45.0%
Euro Area (DJ EuroStoxx)	410.4	45.17	-0.4%	-4.3%	-12.5%	23.5%	0.8%
UK (FTSE 100)	7 390	47.96	-0.2%	-2.7%	1.8%	18.4%	-11.4%
Switzerland (SMI)	11 309	31.16	-2.9%	-7.9%	-9.8%	23.7%	4.3%
Japan (Nikkei)	27 002	50.47	1.2%	-1.8%	-6.2%	6.7%	18.3%
Emerging (MSCI)	1 035	45.44	3.1%	-5.4%	-15.4%	-2.3%	18.8%
Brasil (IBOVESPA)	108 488	48.60	1.5%	-5.1%	3.5%	-11.9%	2.9%
Russia (MOEX)	2 373	44.33	2.8%	2.1%	-36.9%	21.9%	14.8%
India (SENSEX)	54 794	44.24	2.9%	-4.6%	-6.4%	23.2%	17.2%
China (CSI)	4 049	53.65	2.3%	0.3%	-17.4%	-3.5%	29.9%
Communication Serv. (MSCI World)	83.97	38.76	-1.3%	-9.6%	-23.5%	10.9%	24.2%
Consumer Discret. (MSCI World)	288.7	31.34	-3.9%	-17.4%	-29.3%	9.2%	37.0%
Consumer Staples (MSCI World)	257.6	26.41	-5.6%	-10.0%	-10.8%	11.7%	8.8%
Energy (MSCI World)	236.5	56.20	2.4%	0.3%	27.4%	37.5%	-27.7%
Financials (MSCI World)	130.7	36.25	0.2%	-10.2%	-11.9%	25.1%	-3.1%
Health Care (MSCI World)	331.5	45.34	1.5%	-7.5%	-9.5%	18.0%	15.4%
Industrials (MSCI World)	271.8	34.31	-0.9%	-9.6%	-17.3%	16.6%	11.8%
Info. Tech. (MSCI World)	421.8	37.56	-2.6%	-12.3%	-26.3%	27.6%	46.2%
Materials (MSCI World)	334.5	42.09	2.4%	-9.8%	-6.8%	15.4%	21.6%
Real Estate (MSCI World)	197.0	35.92	-0.1%	-12.5%	-15.3%	23.6%	-5.7%
Utilities (MSCI World)	159.2	50.05	2.2%	-4.5%	-0.9%	11.1%	4.8%
Bonds (FTSE)							
USA (7-10 Yr)	2.83%	53.04	1.3%	0.4%	-9.0%	-2.4%	9.3%
Euro Area (7-10 Yr)	1.61%	43.74	-0.3%	-1.5%	-9.7%	-2.9%	4.5%
Germany (7-10 Yr)	0.97%	45.13	-0.1%	-0.8%	-8.1%	-2.7%	3.0%
UK (7-10 Yr)	1.89%	47.27	-1.2%	0.5%	-6.1%	-4.9%	5.4%
Switzerland (7-10 Yr)	0.70%	53.98	0.1%	1.1%	-6.8%	-2.3%	0.4%
Japan (5-10 Yr)	0.24%	58.77	0.1%	0.3%	-1.1%	0.0%	-0.1%
Emerging (5-10 Yr)	7.23%	29.32	0.1%	-3.2%	-16.7%	-2.3%	5.2%
USA (IG Corp.)	4.36%	43.53	0.3%	-0.7%	-13.0%	-1.0%	9.9%
Euro Area (IG Corp.)	2.31%	35.05	-0.3%	-1.2%	-8.2%	-1.0%	2.8%
Emerging (IG Corp.)	6.86%	29.78	0.0%	-2.1%	-13.9%	-3.0%	8.1%
USA (HY Corp.)	7.80%	16.24	-0.7%	-3.9%	-11.0%	5.3%	7.1%
Euro Area (HY Corp.)	7.03%	30.06	-0.4%	-3.2%	-8.6%	3.4%	2.3%
Emerging (HY Corp.)	10.06%	21.84	-0.5%	-4.1%	-12.9%	-3.2%	4.3%
World (Convertibles)	364.4	33.78	0.1%	-9.0%	-16.8%	2.4%	38.8%
USA (Convertibles)	482.4	34.34	-0.3%	-10.9%	-18.7%	3.1%	54.5%
Euro Area (Convertibles)	3 595	28.65	-0.4%	-4.6%	-12.5%	-0.3%	6.1%
Switzerland (Convertibles)	177.4	43.69	-0.5%	-0.1%	-4.6%	-0.5%	0.5%
Japan (Convertibles)	196.2	49.67	0.1%	-0.6%	-2.2%	3.3%	2.8%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	745.0	74.70	n.a.	0.4%	n.a.	8.2%	6.4%
Distressed	965.8	66.04	n.a.	0.1%	n.a.	12.5%	3.8%
Event Driven	788.1	63.71	n.a.	-0.8%	n.a.	12.9%	7.0%
Fixed Income	387.6	65.06	n.a.	-0.5%	n.a.	5.2%	3.6%
Global Macro	1 443	73.62	n.a.	3.1%	n.a.	9.6%	6.5%
Long/Short	880.0	54.63	n.a.	-1.3%	n.a.	8.3%	7.9%
CTA's	400.8	80.71	n.a.	4.4%	n.a.	8.2%	1.9%
Market Neutral	287.2	61.27	n.a.	-0.9%	n.a.	6.2%	1.7%
Multi-Strategy	727.7	77.73	n.a.	1.3%	n.a.	7.0%	5.6%
Volatility							
VIX	29.43	51.53	1.9%	44.8%	70.9%	-24.3%	65.1%
VSTOXX	28.66	46.01	-1.6%	14.7%	48.7%	-17.6%	67.5%
Commodities							
Commodities (CRB)	631.6	n.a.	0.3%	-1.7%	9.2%	30.3%	10.5%
Gold (Troy Ounce)	1 855	45.69	1.7%	-4.0%	1.4%	-3.6%	25.1%
Oil (WTI, Barrel)	113.23	58.61	-0.9%	10.2%	47.1%	58.7%	-20.5%
Oil (Brent, Barrel)	113.59	55.64	2.0%	8.2%	47.5%	51.4%	-23.0%
Currencies (vs USD)							
USD (Dollar Index)	102.71	50.39	-1.4%	1.5%	7.4%	6.4%	-6.7%
EUR	1.0607	49.63	1.7%	-1.0%	-6.7%	-7.5%	9.7%
JPY	127.85	50.52	1.0%	0.2%	-10.0%	-10.2%	5.1%
GBP	1.2567	50.23	2.0%	-1.4%	-7.1%	-1.0%	3.1%
AUD	0.7113	50.34	2.0%	-0.9%	-2.1%	-5.6%	9.6%
CAD	1.2789	51.78	0.4%	-0.4%	-1.2%	0.7%	2.1%
CHF	0.9720	51.77	3.1%	-1.3%	-6.1%	-3.0%	9.4%
CNY	6.6570	43.35	1.9%	-1.5%	-4.5%	2.7%	6.7%
MXN	19.863	60.17	0.8%	1.7%	3.4%	-3.0%	-5.0%
EM (Emerging Index)	1 686.2	45.67	1.2%	-2.4%	-2.8%	0.9%	3.3%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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