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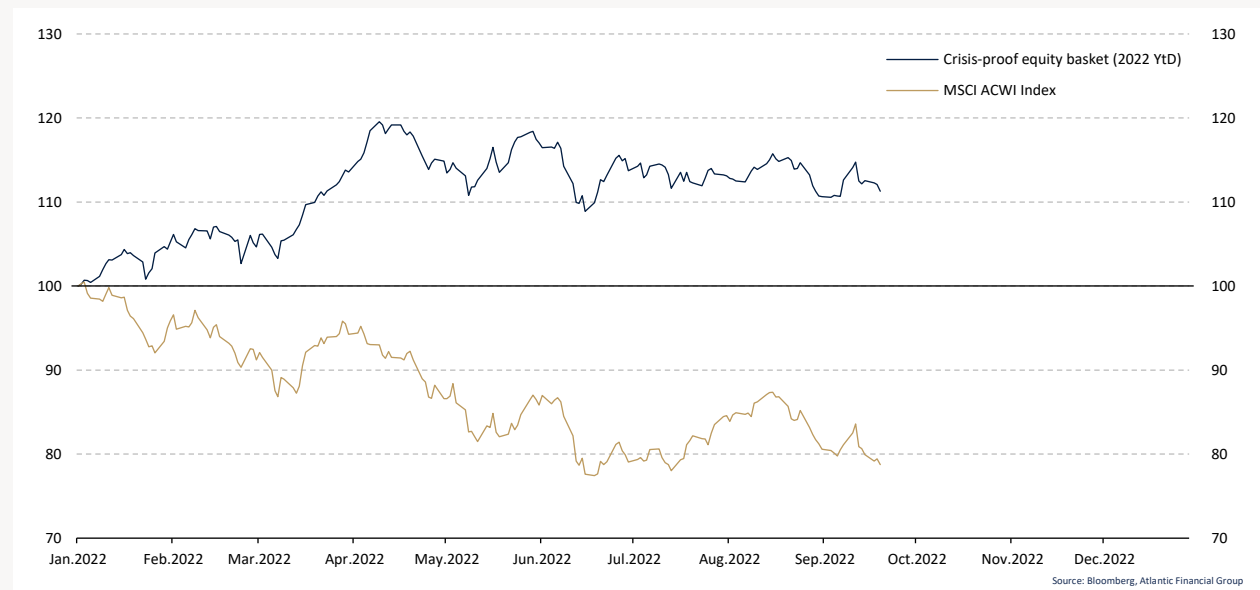
Weekly Investment Focus

26 September 2022

"THE TREND IS YOUR FRIEND"

- ◆ Over the last nine months, equity markets have fallen by -21%.
- ◆ Despite this, 20% of listed companies managed to generate positive performance
- ◆ Stocks with strong fundamentals will increase their lead ...
- ◆ ... at least until the Fed "pivots" by stopping its hiking process

CHART OF THE WEEK: "The bear market does not shake all companies"



STOCK MARKET ANALYSIS

This week, let's turn the tables. Rather than forecasting the economic cycle and its impact on the equity market or digging into the accounting details of companies to identify the most successful ones, **let's look at the best performing stocks year to date.** First, while the global equity market was down -21% (MSCI All Countries World Index), the energy sector had a double-digit positive return of +17%. Following the post-Covid reopening of economies and Russia's invasion of Ukraine, oil and gas prices have soared, boosting the profits of companies in the sector. All other segments are in negative territory (see Fig. 2),



starting with communication services, technology, and consumer discretionary. They are the most cyclical and therefore suffer more in times of recession. In contrast, utilities, healthcare, and consumer staples have shown resilience. These sectors were more resilient to the bear market.

Fig. 2 - Stock market performance 2022, by sector

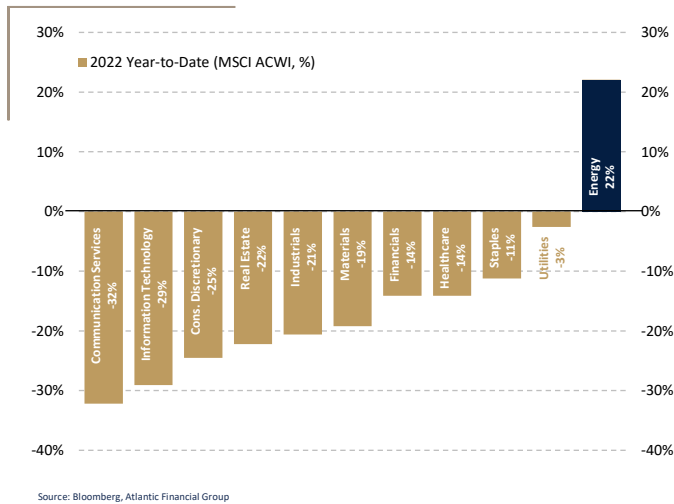
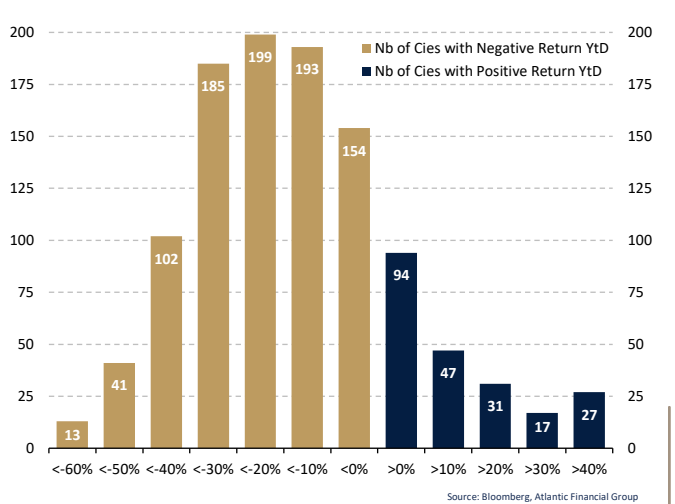


Fig. 3 - Distribution of stock market performance



Breaking down the 1,100 largest US and European companies (S&P 500 and Stoxx 600) in a more granular way, 20% of the companies have managed to deliver positive returns over the last nine months (see Fig. 3). Once again, of the 35 companies active in the energy sector, 30 have a positive performance and more than half are between +30% and +60%. The top performer was Occidental Petroleum, with an appreciation of +122%. **As long as the geopolitical situation in Europe remains conflictual, the energy sector will benefit.**

Fig. 4 - Scoring of US and European companies by different criteria

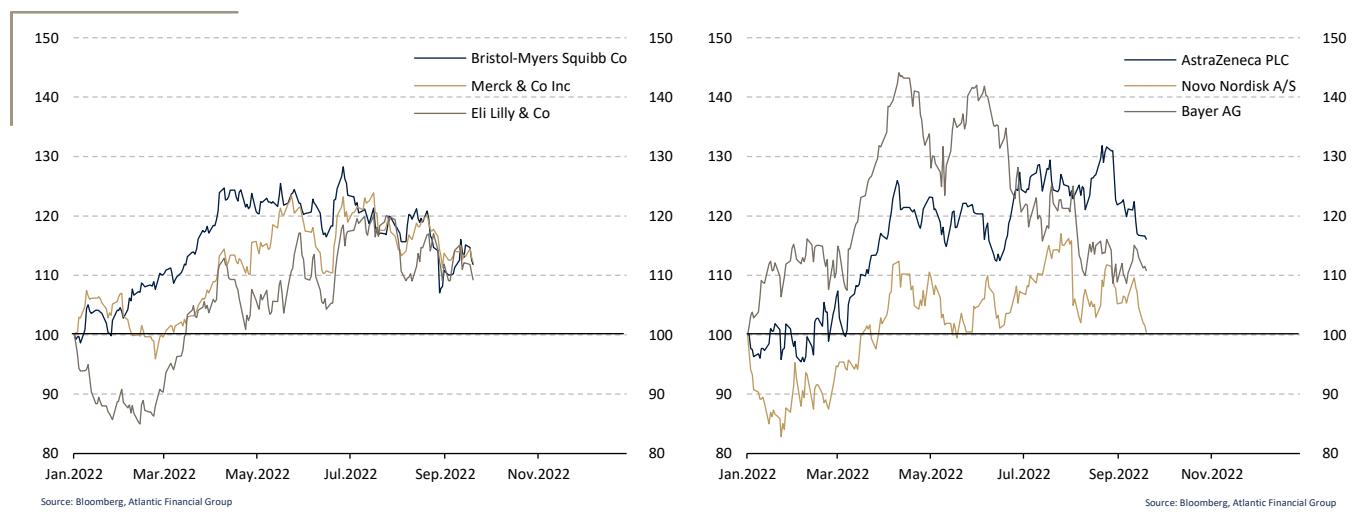
| Rank | Name | Performance 2022 YtD | 12-month Sales Growth | Debt / Ebitda Ratio | Price / Earnings Ratio | Scoring | Sector | Country | Ticker |
|------|------------------------------|----------------------|-----------------------|---------------------|------------------------|---------|-----------------------|---------------|----------|
| 1 | MERCK & CO. INC. | 12% | 36% | 1.4 x | 12.8 x | 60 | Pharmaceuticals | United States | MRK UN |
| 2 | NOVO NORDISK A/S-B | 0% | 21% | 0.4 x | 26.8 x | 55 | Pharmaceuticals | Denmark | NOVOB DC |
| 3 | VERTEX PHARMACEUTICALS INC | 31% | 25% | 0.2 x | 19.6 x | 54 | Biotechnology | United States | VRTX UW |
| 4 | REGENERON PHARMACEUTICALS | 12% | 15% | 0.4 x | 17.3 x | 52 | Biotechnology | United States | REGN UW |
| 5 | GLENCORE PLC | 37% | 48% | 1.1 x | 5.0 x | 51 | Metals & Mining | Switzerland | GLEN LN |
| 6 | ASTRAZENECA PLC | 16% | 49% | 4.2 x | 17.2 x | 51 | Pharmaceuticals | Britain | AZN LN |
| 7 | ABBVIE INC | 5% | 7% | 2.8 x | 10.7 x | 49 | Biotechnology | United States | ABBV UN |
| 8 | DEUTSCHE TELEKOM AG-REG | 15% | 5% | 3.7 x | 12.2 x | 48 | Telecommunication | Germany | DTE GY |
| 9 | BAYER AG-REG | 11% | 16% | 3.8 x | 6.8 x | 48 | Pharmaceuticals | Germany | BAYN GY |
| 10 | AMGEN INC | 1% | 4% | 2.9 x | 12.7 x | 47 | Biotechnology | United States | AMGN UW |
| 11 | BRISTOL-MYERS SQUIBB CO | 12% | 6% | 2.3 x | 8.6 x | 47 | Pharmaceuticals | United States | BMJ UN |
| 12 | PHILIP MORRIS INTERNATIONAL | 1% | 6% | 2.0 x | 17.0 x | 47 | Tobacco | United States | PM ONE |
| 13 | COCA-COLA CO/THE | 1% | 13% | 3.6 x | 23.9 x | 46 | Beverages | United States | KO ONE |
| 14 | HSBC HOLDINGS PLC | 19% | 0% | n.a. | 7.3 x | 45 | Banks | Britain | HSBA LN |
| 15 | ZURICH INSURANCE GROUP AG | 6% | -32% | n.a. | 13.0 x | 45 | Insurance | Switzerland | ZURN SE |
| 16 | ELI LILLY & CO | 9% | 9% | 1.9 x | 36.9 x | 45 | Pharmaceuticals | United States | LLY UN |
| 17 | ELEVANCE HEALTH INC | 3% | 15% | 2.4 x | 15.6 x | 43 | Health Care Providers | United States | ELV UN |
| 18 | BRITISH AMERICAN TOBACCO PLC | 27% | 3% | 4.4 x | 15.0 x | 42 | Tobacco | Britain | BATS LN |
| 19 | METLIFE INC | 5% | -2% | n.a. | 8.8 x | 41 | Insurance | United States | PUT A |
| 20 | DEERE & CO | 4% | 14% | 4.8 x | 13.2 x | 41 | Machinery | United States | FROM ONE |

Source: Bloomberg, Atlantic Financial Group



Let's move on from the energy companies and focus on the other 188 companies, both US and European, that have been in positive territory so far this year. They were scanned and ranked to give them good or bad scores on 16 criteria: sales and earnings growth, debt ratios, valuation ratios, momentum indicators, etc. In the end, we kept only the large caps in this scoring, as they are often the outperformers in times of market turmoil (see Fig. 4).

Fig. 5 & 6 - US & European healthcare companies



Of the 20 companies that came out on top of this screening and whose joint performance was remarkable in 2022 (see Chart of the Week), a very large majority are listed in the United States. The strength of the dollar did not penalise them. At the other end of the spectrum, we note the low representation of euro-denominated securities and the absence of French securities. Also relevant, more than half of the Top 20 are healthcare companies, six "pharmas" and four "biotechs": Merck, Novo Nordisk, Astrazeneca, Bayer, Bristol-Myers, Eli Lilly (see Figs. 5 & 6) and Vertex, Regeneron, Abbvie, Amgen (see Fig. 7).

Fig. 7 - Biotechnology companies

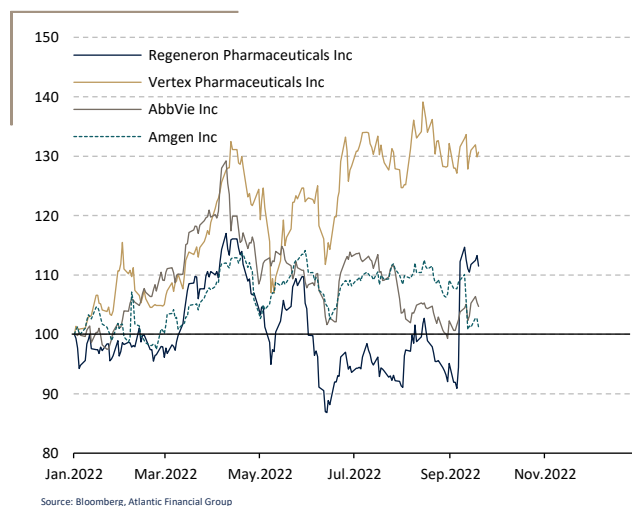
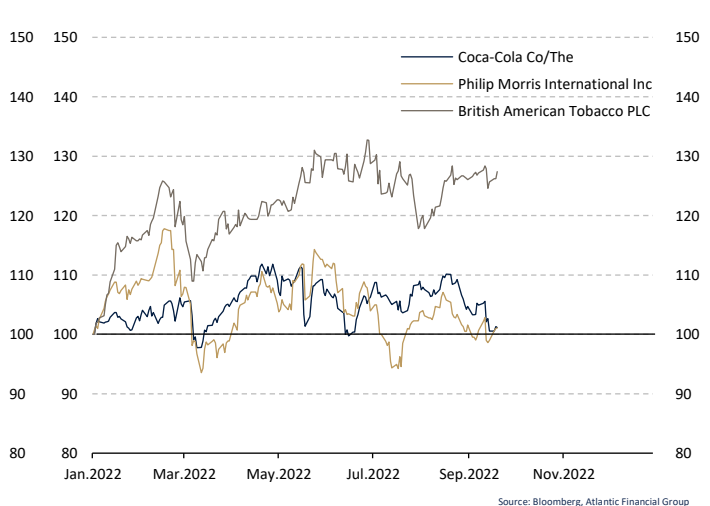


Fig. 8 - Consumer staples companies





They are accompanied by three consumer staples companies: Coca Cola, Philip Morris and British American Tobacco (see Fig. 8). It is a long way from concluding that consumers are switching from food and heating to smoking and drinking sodas.

Fig. 9 - Financial companies

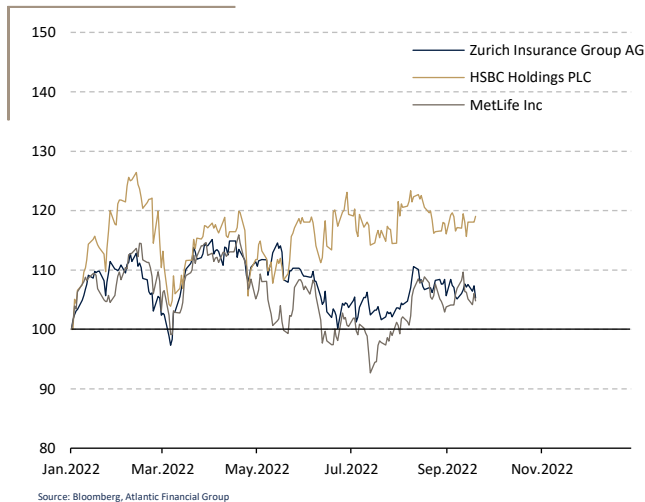
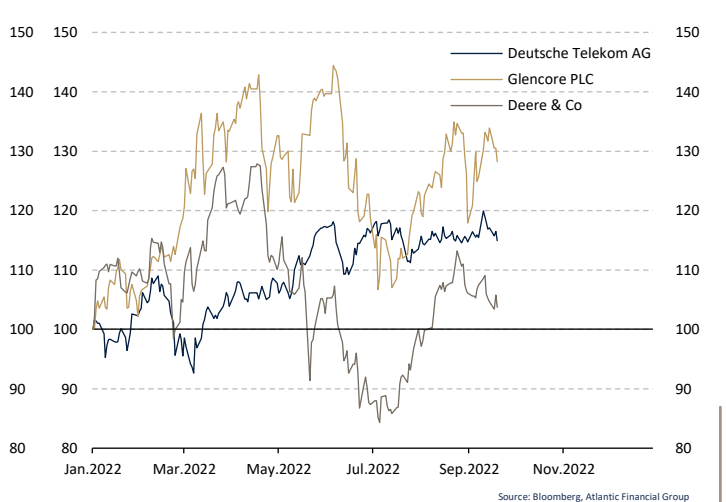


Fig. 10 - Other sectors companies



Three financials also belong to this ranking: HSBC, Zurich Insurance and Metlife (see Fig. 9). **The last four companies featured do not belong to the sectors previously mentioned: the miner Glencore, the operator Deutsche Telekom, the healthcare service provider Elevance, and the agricultural equipment manufacturer Deere** (see Fig. 10). Finally, utilities are conspicuous by their absence, even though this defensive sector as a whole has delivered a decent relative performance. Utilities seem doomed to gloom.

Conclusion:

Around 20% of listed companies have performed positively since the beginning of the year. As usual, stock-picking is a winning game. Companies with solid fundamentals should be able to extend their lead over the next few months: sales growth, market share gains, low debt levels to be less affected by rising interest rates, undervaluation, etc.

For how long? Probably until the US Federal Reserve "pivots" by halting or even reducing its key rate hikes. If this game changer occurs quickly enough for economic activity to recover, it could end the bear market and prompt a sector rotation. The sooner the better, but until then, investors will stick to the popular idiom: the trend is your friend.



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) | 567.9 | 25.33 | -5.0% | -10.3% | -23.4% | 19.0% | 16.9% |
| USA (S&P 500) | 3 693 | 28.90 | -4.6% | -10.4% | -21.6% | 28.7% | 18.4% |
| USA (Dow Jones) | 29 590 | 27.39 | -4.0% | -9.9% | -17.3% | 20.9% | 9.7% |
| USA (Nasdaq) | 10 868 | 29.90 | -5.1% | -12.2% | -30.1% | 22.2% | 45.0% |
| Euro Area (DJ EuroStoxx) | 368.2 | 29.83 | -4.6% | -8.5% | -20.8% | 23.5% | 0.8% |
| UK (FTSE 100) | 7 019 | 32.35 | -3.0% | -6.2% | -2.1% | 18.4% | -11.4% |
| Switzerland (SMI) | 10 138 | 22.58 | -4.3% | -7.2% | -19.0% | 23.7% | 4.3% |
| Japan (Nikkei) | 26 432 | 38.77 | -2.6% | -5.6% | -4.6% | 6.7% | 18.3% |
| Emerging (MSCI) | 906 | 24.22 | -4.0% | -8.2% | -24.5% | -2.3% | 18.8% |
| Brasil (IBOVESPA) | 111 716 | 52.85 | 2.2% | -1.0% | 6.6% | -11.9% | 2.9% |
| Russia (MOEX) | 2 090 | 31.85 | -14.2% | -7.5% | -43.4% | 21.9% | 14.8% |
| India (SENSEX) | 57 164 | 42.43 | -1.3% | -1.6% | 0.8% | 23.2% | 17.2% |
| China (CSI) | 3 854 | 26.46 | -1.9% | -7.2% | -20.4% | -3.5% | 29.9% |
| Communication Serv. (MSCI World) | 71.05 | 22.90 | -5.1% | -11.7% | -35.0% | 10.9% | 24.2% |
| Consumer Discret. (MSCI World) | 287.1 | 28.90 | -6.7% | -10.4% | -29.4% | 9.2% | 37.0% |
| Consumer Staples (MSCI World) | 247.1 | 24.65 | -2.9% | -8.2% | -13.7% | 11.7% | 8.8% |
| Energy (MSCI World) | 204.2 | 29.64 | -8.2% | -12.7% | 12.6% | 37.5% | -27.7% |
| Financials (MSCI World) | 119.8 | 29.24 | -5.3% | -7.4% | -18.3% | 25.1% | -3.1% |
| Health Care (MSCI World) | 304.8 | 28.44 | -4.2% | -6.7% | -16.3% | 18.0% | 15.4% |
| Industrials (MSCI World) | 247.8 | 24.64 | -4.9% | -11.6% | -24.2% | 16.6% | 11.8% |
| Info. Tech. (MSCI World) | 387.0 | 27.26 | -4.0% | -13.3% | -32.1% | 27.6% | 46.2% |
| Materials (MSCI World) | 269.8 | 27.78 | -5.3% | -11.3% | -23.4% | 15.4% | 21.6% |
| Real Estate (MSCI World) | 171.0 | 21.72 | -6.3% | -10.9% | -25.4% | 23.6% | -5.7% |
| Utilities (MSCI World) | 149.2 | 28.88 | -3.9% | -7.0% | -5.9% | 11.1% | 4.8% |
| Bonds (FTSE) | | | | | | | |
| USA (7-10 Yr) | 3.77% | 28.04 | -1.4% | -4.1% | -13.9% | -2.4% | 9.3% |
| Euro Area (7-10 Yr) | 2.79% | 24.88 | -2.1% | -5.3% | -16.9% | -2.9% | 4.5% |
| Germany (7-10 Yr) | 2.11% | 25.82 | -1.6% | -4.7% | -14.6% | -2.7% | 3.0% |
| UK (7-10 Yr) | 3.83% | 13.11 | -5.2% | -9.5% | -19.0% | -4.9% | 5.4% |
| Switzerland (7-10 Yr) | 1.41% | 22.11 | -1.8% | -4.2% | -12.3% | -2.3% | 0.4% |
| Japan (5-10 Yr) | 0.25% | 43.97 | 0.1% | -0.4% | -1.2% | 0.0% | -0.1% |
| Emerging (5-10 Yr) | 8.29% | 26.99 | -2.1% | -5.0% | -21.4% | -2.3% | 5.2% |
| USA (IG Corp.) | 5.43% | 26.80 | -1.5% | -4.6% | -17.2% | -1.0% | 9.9% |
| Euro Area (IG Corp.) | 4.04% | 22.65 | -1.5% | -3.6% | -13.8% | -1.0% | 2.8% |
| Emerging (IG Corp.) | 8.24% | 21.29 | -1.3% | -3.4% | -17.7% | -3.0% | 8.1% |
| USA (HY Corp.) | 9.25% | 26.26 | -1.9% | -4.2% | -13.6% | 5.3% | 7.1% |
| Euro Area (HY Corp.) | 8.03% | 26.92 | -1.4% | -3.1% | -13.0% | 3.4% | 2.3% |
| Emerging (HY Corp.) | 11.82% | 30.60 | -2.0% | -4.0% | -18.2% | -3.2% | 4.3% |
| World (Convertibles) | 347.9 | 25.97 | -4.0% | -5.9% | -20.6% | 2.4% | 38.8% |
| USA (Convertibles) | 469.0 | 28.05 | -4.2% | -6.0% | -20.9% | 3.1% | 54.5% |
| Euro Area (Convertibles) | 3 396 | 18.42 | -2.6% | -6.1% | -17.3% | -0.3% | 6.1% |
| Switzerland (Convertibles) | 169.0 | 18.71 | -0.7% | -2.5% | -9.1% | -0.5% | 0.5% |
| Japan (Convertibles) | 199.2 | 57.31 | -0.1% | 0.5% | -0.8% | 3.3% | 2.8% |
| Hedge Funds (Crédit Suisse) | | | | | | | |
| Hedge Funds Indus. | 733 | 65.50 | n.a. | 0.5% | 0.8% | 8.2% | 6.4% |
| Distressed | 940 | 57.10 | n.a. | 1.7% | -2.8% | 12.5% | 3.8% |
| Event Driven | 763 | 54.17 | n.a. | 0.7% | -6.0% | 12.9% | 7.0% |
| Fixed Income | 384 | 50.89 | n.a. | 0.0% | -2.3% | 5.2% | 3.6% |
| Global Macro | 1469 | 78.93 | n.a. | 2.1% | 21.9% | 9.6% | 6.5% |
| Long/Short | 851 | 47.05 | n.a. | -1.3% | -8.3% | 8.3% | 7.9% |
| CTA's | 407 | 51.62 | n.a. | 3.1% | 19.2% | 8.2% | 1.9% |
| Market Neutral | 287 | 52.35 | n.a. | 1.5% | -1.2% | 6.2% | 1.7% |
| Multi-Strategy | 694 | 59.23 | n.a. | 0.8% | -0.4% | 7.0% | 5.6% |
| Volatility | | | | | | | |
| VIX | 29.92 | 65.71 | 13.8% | 24.1% | 73.8% | -24.3% | 65.1% |
| VSTOXX | 30.00 | 63.74 | 13.5% | 11.4% | 55.7% | -17.6% | 67.5% |
| Commodities | | | | | | | |
| Commodities (CRB) | 560.3 | n.a. | -1.5% | -5.2% | -3.1% | 30.3% | 10.5% |
| Gold (Troy Ounce) | 1 638 | 28.78 | -2.3% | -5.8% | -10.5% | -3.6% | 25.1% |
| Oil (WTI, Barrel) | 79.24 | 33.14 | -7.6% | -16.1% | 2.9% | 58.7% | -20.5% |
| Oil (Brent, Barrel) | 83.87 | 32.81 | -6.5% | -14.1% | 10.6% | 51.4% | -23.0% |
| Currencies (vs USD) | | | | | | | |
| USD (Dollar Index) | 113.69 | 79.30 | 3.6% | 4.5% | 18.8% | 6.4% | -6.7% |
| EUR | 0.9648 | 26.93 | -3.8% | -3.2% | -15.1% | -7.5% | 9.7% |
| JPY | 143.92 | 37.49 | -0.5% | -4.4% | -20.0% | -10.2% | 5.1% |
| GBP | 1.0611 | 14.11 | -7.2% | -9.6% | -21.6% | -1.0% | 3.1% |
| AUD | 0.6495 | 28.49 | -3.4% | -5.8% | -10.6% | -5.6% | 9.6% |
| CAD | 1.3629 | 21.86 | -2.8% | -4.4% | -7.3% | 0.7% | 2.1% |
| CHF | 0.9863 | 33.65 | -2.2% | -2.1% | -7.4% | -3.0% | 9.4% |
| CNY | 7.1636 | 14.81 | -2.2% | -4.1% | -11.3% | 2.7% | 6.7% |
| MXN | 20.302 | 41.47 | -1.9% | -1.3% | 1.1% | -3.0% | -5.0% |
| EM (Emerging Index) | 1 597.8 | 19.01 | -1.1% | -2.9% | -7.9% | 0.9% | 3.3% |

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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