



ATLANTIC

FINANCIAL GROUP

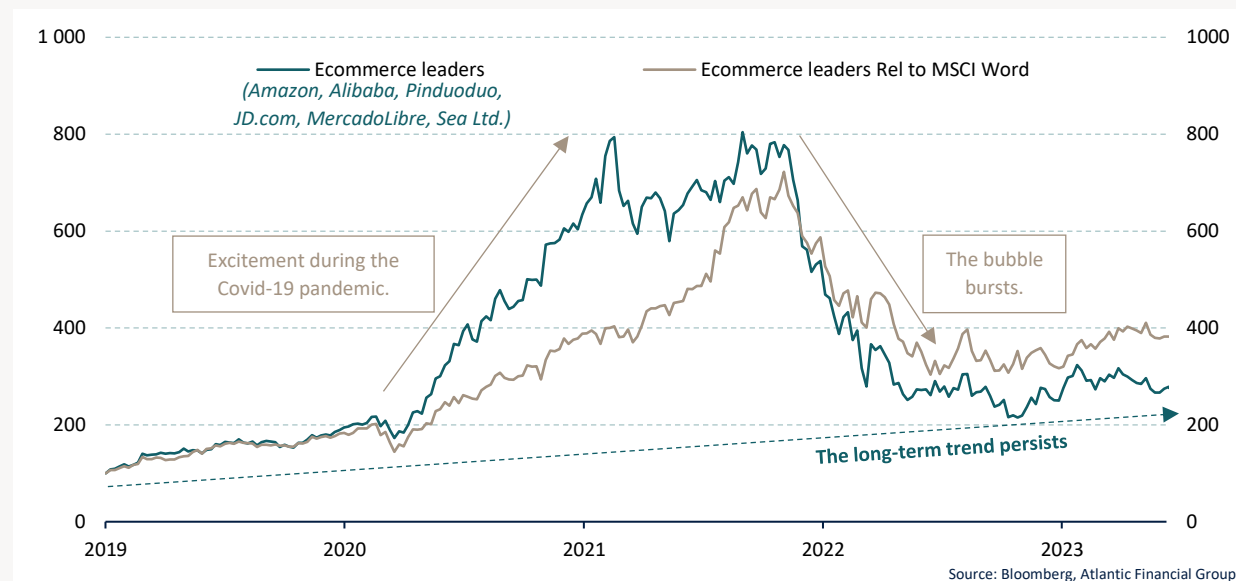
Weekly Investment Focus

7 August 2023

"E-COMMERCE BACK ON THE STARTING BLOCKS"

- ◆ The sector continues to expand inexorably
- ◆ Consumer behaviour is changing
- ◆ Technological innovation with the help of AI is making its way into purchasing decisions
- ◆ And the E-Commerce multinationals are getting bigger and bigger

CHART OF THE WEEK: "The rise and fall of e-commerce generated by Covid-19"



STOCK MARKET ANALYSIS

The e-commerce sector experienced a real boom at the start of the Covid-19 pandemic. Between the correction in March 2020 and the peak in 2021, e-commerce and Internet stocks posted a stratospheric performance (see Chart of the week). With economies reopening and interest rates rising, the sector has seen its biggest correction since the dotcom bubble burst 20 years ago. The similarities end here. Today's players are multinationals, with billions in sales and profits thanks to their size and economies of scale.



◆ The sector continues to expand inexorably

Online sales are experiencing strong growth worldwide, fuelled by increasing internet penetration, technological advances and changing consumer preferences. E-commerce was worth more than \$5 trillion in 2021 and could approach \$8 trillion by 2026 (see Fig.2). It is growing at a slower rate than during the pandemic period, but represents an increasingly large share of total retail sales worldwide. By the end of this year, e-commerce will account for one in five sales (see Fig. 3).

Fig. 2 - Growth (%) and E-commerce sales (bn\$)

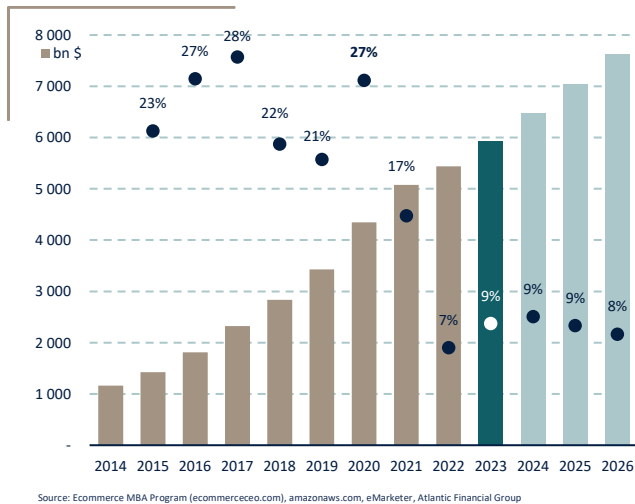
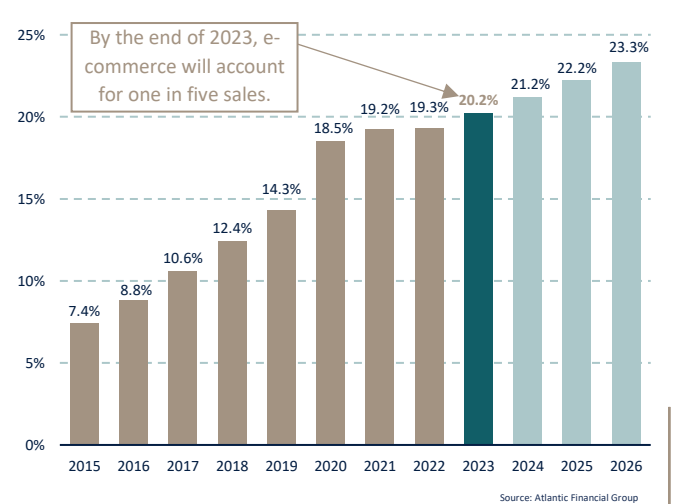


Fig. 3 - E-commerce penetration



However, the **explosive growth** experienced by the sector during the Covid-19 pandemic was **accompanied by a sharp reduction in profit margins**. **Online retailers have had to deal with growth and cost issues simultaneously**. With supply chains paralysed around the world, procurement costs rose, pushing inflation to new heights. In addition, intensifying competition weighed on margins. These problems now seem to be a thing of the past. **Sales growth has stabilised, while inventory management and cost inflation seem more under control**.

◆ Consumer behaviour is changing

The COVID-19 pandemic has accelerated the adoption of e-commerce, with consumers favouring online shopping as a means of maintaining a social distance. Although the impact of the pandemic is lessening, **customers have become accustomed to the convenience of shopping from home, and this trend is likely to continue**. As more and more consumers adopt e-commerce for their everyday shopping, companies in the sector have the opportunity to gain market share and customer loyalty over the long term.

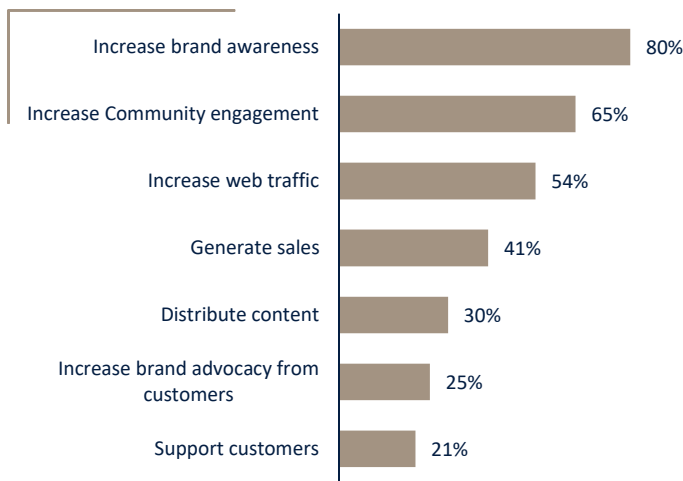
But after months of lockdowns and restrictions, people now crave meaningful relationships in all areas of life, including shopping. Physical spaces make these points of connection between retailers and customers possible, whether we're talking about online or offline commerce. **E-commerce is becoming social and more interactive**. **The Chinese company, Pinduoduo, is a perfect example of this, thanks to its WeChat social network**. In fact, a large part of Pinduoduo's appeal lies in its group buying function, which enables



as many people as possible to buy a product and reduce the price. Pinduoduo translates as "together, more savings, more fun", alluding to the platform's unique selling point: group buying at reduced prices. Users become unofficial recruiters for the platform, enabling Pinduoduo to keep the cost of acquiring new users below that of its competitors.

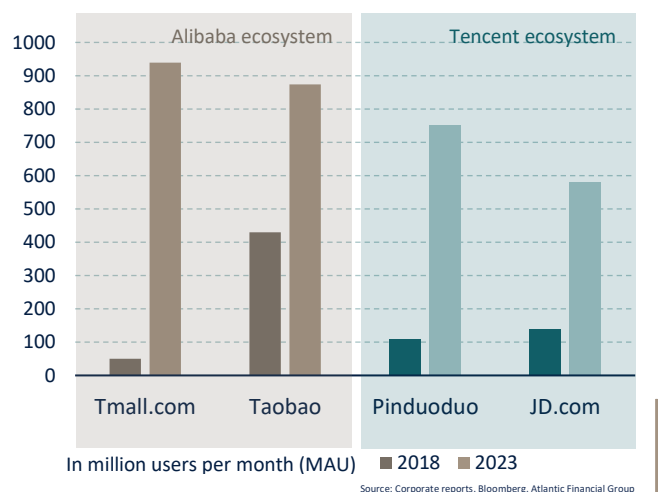
Nine out of ten people buy from brands they follow on social media. Social commerce reduces the friction between discovering a product and converting it into a purchase, simplifying individual engagement and potential sales. **Using social networks for marketing and promotions is becoming the most important customer acquisition and retention strategy for businesses to drive sales growth** (see Fig.4). **The growth in the number of users of mobile phone applications for online purchases has exploded since 2018** (see Fig.5).

Fig. 4 - The objective of marketing on social networks



Source: Sprout's 2018 social index, Atlantic Financial Group

Fig. 5 - Growth of the main Chinese APPs



Source: Corporate reports, Bloomberg, Atlantic Financial Group

◆ Technological innovation with the help of AI is making its way into purchasing decisions

Technological advances have revolutionised the environment around E-commerce, enabling businesses to reach customers more easily, personalise shopping experiences and optimise the supply chain (see Fig.6). Technologies such as artificial intelligence (AI), machine learning (ML), Big Data analytics and blockchain have been integrated into various aspects of the e-commerce ecosystem, improving efficiency and customer satisfaction.

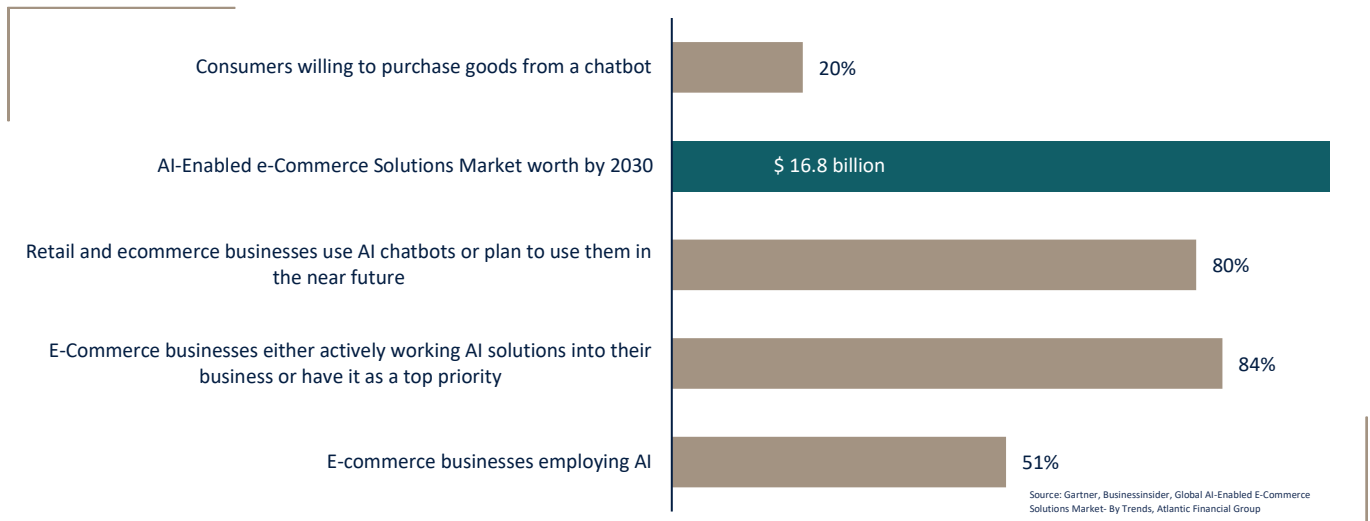
Generative AI could help transform the e-commerce platforms of Amazon and other retailers. More than 50% of online retailers are already using AI (see Fig.6). Amazon has been using AI/ML in virtually every area of its business for 25 years. Likewise for Zalando, **AI remains at the heart of its business as it not only helps to create a personalised shopping experience for customers, but also to optimise its business operations, from supply chains to seasonal demand and fraud prevention.**

There are four key areas where generative AI could transform e-commerce and strengthen the offerings of Amazon and other online retailers:



- 1) **When searching for products** ChatGPT can create **an interactive conversational experience** and enable Amazon.com and other retailers to offer a more personalised customer experience, highlight relevant search results and improve the overall customer purchasing process.
- 2) Leveraging historical customer purchase data with AI to **make more personalised recommendations**, helping consumers discover relevant products, increase conversion rates to purchase and build customer loyalty.
- 3) AI helps **improve ad targeting and measurement** across the Amazon ecosystem, while **providing advertisers with more relevant placement closer to high-potential consumers**; and
- 4) AI **improves stock management and automates order fulfilment**, so that stock requirements and locations can be forecast more effectively, parcel collection routes can be optimised, and delivery times can be shortened.

Fig. 6 - AI in e-commerce: key figures



AI also enables companies to **better protect consumers' personal data by identifying malicious activity more accurately**. It is said to have already improved the accuracy of fraud detection by 40%.

◆ E-commerce multinationals gain momentum

One of the main advantages of e-commerce is its ability to operate on a global scale with relatively low infrastructure and logistics costs compared to traditional businesses with physical shops. **Thanks to e-commerce platforms, companies can easily extend their reach to international markets and take advantage of the growth of the middle class in emerging economies.** This scalability not only opens up vast market opportunities, but also allows companies to **diversify their revenue streams** and **reduce their dependence on a specific region or market**.



WalMart's purchase of a 72% stake in Flipkart in 2018 is the best example of this geographical diversification of revenues. **WalMart thus becomes the e-commerce leader on the Indian market, ahead of Amazon** (see Fig 8). The Indian e-commerce market is one of the fastest growing in the world (see Fig.9). The countries of Latin America are also experiencing very strong growth in e-commerce, of which one of the leading local operators, MercadoLibre, is taking full advantage.

Fig. 8 - E-commerce leaders in India (2021)

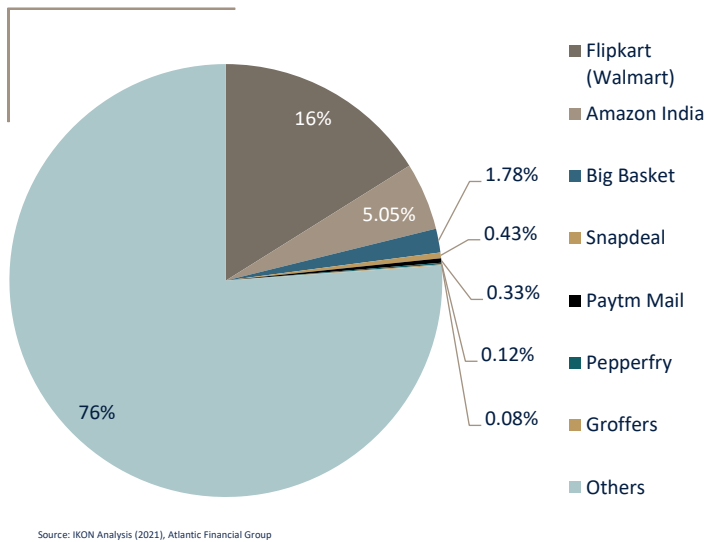
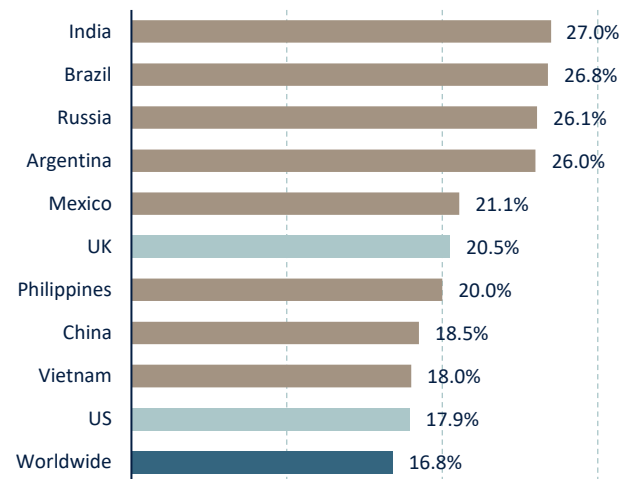


Fig. 9 - E-commerce growth by country (2021)



Conclusion:

Inflation and exploding costs have led to the burst of this second e-commerce bubble, 20 years after the first. The growth in online sales has slowed following an exceptional craze during the Covid-19 pandemic, but it remains sustained and higher than that of the bricks & mortar retail sector. Large platforms capable of bringing together the entire e-commerce ecosystem (logistics, payment, etc.) under one roof now seem to be doing better in what remains a highly competitive environment. The use of the latest technologies and AI will also make a difference.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2023 Year-to-Date (%)	2022 (%)	2021 (%)
Equities							
World (MSCI)	689.0	47.07	-2.3%	0.7%	15.5%	-17.9%	19.0%
USA (S&P 500)	4478	47.94	-2.3%	0.6%	17.7%	-18.1%	28.7%
USA (Dow Jones)	35 066	54.83	-1.1%	2.0%	7.0%	-6.9%	20.9%
USA (Nasdaq)	13 909	48.64	-2.8%	0.7%	33.5%	-33.5%	22.2%
Euro Area (DJ EuroStoxx)	457.7	46.46	-2.7%	-0.6%	14.9%	-11.4%	23.5%
UK (FTSE 100)	7 564	49.37	-1.5%	0.9%	3.8%	4.6%	18.4%
Switzerland (SMI)	11 098	45.26	-1.9%	-1.1%	6.5%	-14.3%	23.7%
Japan (Nikkei)	32 234	44.44	-1.7%	-3.7%	24.8%	-7.3%	6.7%
Emerging (MSCI)	1 018	50.04	-2.4%	1.4%	8.6%	-19.8%	-2.3%
Brasil (IBOVESPA)	119 508	50.90	-0.6%	0.4%	8.9%	4.7%	-11.9%
Mexico (IPC)	53 991	49.81	-1.7%	0.3%	13.5%	-5.8%	24.1%
India (SENSEX)	65 809	50.93	-0.6%	0.5%	9.1%	5.8%	23.2%
China (CSI)	3 982	64.36	0.7%	4.0%	6.0%	-18.8%	-3.5%
Com. Services (MSCI World)	90.44	53.11	-2.9%	2.7%	29.6%	-38.3%	10.9%
Cons. Discretionary (MSCI World)	348.6	55.24	-1.0%	1.4%	26.9%	-31.5%	9.2%
Cons. Staples (MSCI World)	274.1	43.37	-2.3%	-0.3%	4.3%	-6.0%	11.7%
Energy (MSCI World)	243.5	60.67	0.9%	4.7%	3.8%	34.6%	37.5%
Financials (MSCI World)	138.7	53.61	-1.7%	2.5%	7.6%	-9.2%	25.1%
Health Care (MSCI World)	339.9	44.75	-2.0%	0.7%	0.5%	-5.7%	18.0%
Industrials (MSCI World)	321.9	49.45	-1.5%	1.1%	15.1%	-12.6%	16.6%
Info. Tech. (MSCI World)	525.4	40.24	-4.1%	-1.8%	34.8%	-30.9%	27.6%
Materials (MSCI World)	327.9	49.29	-2.4%	1.4%	7.1%	-11.0%	15.4%
Real Estate (MSCI World)	194.2	38.21	-2.4%	-1.6%	1.0%	-24.5%	29.5%
Utilities (MSCI World)	144.1	32.62	-4.1%	-3.0%	-2.5%	-3.8%	11.1%
Bonds (FTSE)							
USA (7-10 Yr)	4.06%	42.67	-0.6%	-1.3%	0.5%	-14.5%	-2.4%
Euro Area (7-10 Yr)	3.19%	45.89	-0.6%	-0.1%	2.8%	-18.4%	-2.9%
Germany (7-10 Yr)	2.56%	44.24	-0.5%	-0.5%	0.8%	-17.8%	-2.7%
UK (7-10 Yr)	4.38%	50.85	-0.4%	0.8%	-2.6%	-17.1%	-4.9%
Switzerland (7-10 Yr)	1.03%	48.11	-0.1%	-0.4%	4.5%	-13.5%	-2.3%
Japan (5-10 Yr)	0.64%	26.62	-0.8%	-1.7%	0.1%	-2.8%	0.0%
Emerging (5-10 Yr)	8.01%	49.09	-1.3%	1.9%	4.4%	-18.4%	-2.3%
USA (IG Corp.)	5.55%	46.06	-1.0%	0.8%	2.5%	-15.8%	-1.0%
Euro Area (IG Corp.)	4.28%	56.12	-0.2%	1.3%	3.0%	-13.6%	-1.0%
Emerging (IG Corp.)	7.62%	47.92	-0.6%	0.9%	2.5%	-14.9%	-3.0%
USA (HY Corp.)	8.51%	53.78	-0.6%	1.4%	6.2%	-11.2%	5.3%
Euro Area (HY Corp.)	7.91%	65.52	-0.1%	1.2%	5.5%	-10.6%	3.4%
Emerging (HY Corp.)	10.85%	59.07	-0.9%	2.8%	5.4%	-12.4%	-3.2%
World (Convertibles)	391.4	49.80	-1.3%	0.8%	9.1%	-18.2%	2.4%
USA (Convertibles)	523.3	47.76	-1.6%	0.3%	10.4%	-20.1%	3.1%
Euro Area (Convertibles)	189	46.72	-0.9%	-0.2%	4.3%	-12.1%	1.2%
Switzerland (Convertibles)	176.3	59.86	0.1%	0.4%	2.5%	-7.5%	-0.5%
Japan (Convertibles)	212.0	57.85	0.1%	0.6%	7.1%	-1.3%	3.3%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 389	57.08	n.a.	1.9%	3.3%	-6.9%	9.7%
Macro	1 228	55.96	n.a.	1.1%	-0.2%	1.3%	6.3%
Equity Long Only	1 889	57.89	n.a.	5.2%	10.9%	-16.4%	18.1%
Equity Long/Short	1 412	54.09	n.a.	2.2%	3.4%	-10.7%	11.0%
Event Driven	1 506	58.01	n.a.	2.0%	1.9%	-4.7%	16.0%
Fundamental Equity Mkt Neutral	1 424	78.73	n.a.	1.6%	3.3%	2.3%	9.6%
Quantitative Equity Mkt Neutral	1 430	58.68	n.a.	0.3%	1.7%	-2.0%	7.5%
Credit	1 406	62.36	n.a.	1.1%	3.3%	-5.0%	6.6%
Credit Long/Short	1 403	71.71	n.a.	1.2%	5.5%	-1.4%	7.1%
Commodity	1 469	67.14	n.a.	1.6%	1.1%	10.5%	14.8%
Commodity Trading Advisors	1 266	52.56	n.a.	1.8%	-2.0%	5.3%	8.2%
Volatility							
VIX	17.10	66.26	28.3%	26.0%	-21.1%	25.8%	-24.3%
VSTOXX	18.35	58.99	20.6%	30.1%	-12.1%	8.4%	-17.6%
Commodities							
Commodities (CRB)	557.5	n.a.	-1.2%	0.9%	0.5%	-4.1%	30.3%
Gold (Troy Ounce)	1 936	45.10	-1.5%	0.6%	6.1%	-0.3%	-3.6%
Oil (WTI, Barrel)	82.82	n.a.	3.0%	17.2%	3.2%	4.2%	58.7%
Oil (Brent, Barrel)	86.67	n.a.	1.9%	10.4%	2.0%	9.7%	51.4%
Currencies (vs USD)							
USD (Dollar Index)	102.23	54.48	0.4%	0.0%	-1.2%	8.2%	6.4%
EUR	1.0981	46.97	-0.1%	0.1%	2.6%	-5.8%	-7.5%
JPY	142.25	45.42	0.0%	0.0%	-7.8%	-12.2%	-10.2%
GBP	1.2718	43.25	-0.9%	-0.9%	5.3%	-10.7%	-1.0%
AUD	0.6570	39.37	-2.2%	-1.8%	-3.6%	-6.2%	-5.6%
CAD	1.3380	37.73	-1.4%	-0.8%	1.3%	-6.8%	0.7%
CHF	0.8761	49.35	-0.5%	1.4%	5.5%	-1.3%	-3.0%
CNY	7.1935	45.71	-0.7%	0.4%	-4.1%	-7.9%	2.7%
MXN	17.071	47.28	-1.9%	0.0%	14.2%	5.3%	-3.0%
EM (Emerging Index)	1 685.7	41.30	-1.0%	0.0%	1.5%	-4.3%	0.9%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



DISCLAIMER

This document is issued by Atlantic Financial Group (hereinafter "Atlantic"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a document.

This document is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe to, purchase, sell or hold any security or financial instrument. It contains the opinions of Atlantic, as at the date of issue. These opinions and the information herein contained do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes a personal recommendation to any investor. Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Atlantic does not provide tax advice. Therefore, you must verify the above and all other information provided in the document or otherwise review it with your external tax advisors.

Investments are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The information and analysis contained herein are based on sources considered to be reliable. However, Atlantic does not guarantee the timeliness, accuracy, or completeness of the information contained in this document, nor does it accept any liability for any loss or damage resulting from its use. All information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice. Past performance is no guarantee of current or future returns, and the investor may receive back less than he invested. The investments mentioned in this document may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to and bear their associated risks. On request, Atlantic will be pleased to provide investors with more detailed information concerning risks associated with given instruments.

The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. These rates may fluctuate and adversely affect the value of the investment when it is realized and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. If opinions from financial analysts are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Atlantic may hold positions in securities as referred to in this document for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Atlantic.