MONTHLY NEWSLETTER

October 2021

KEY ECONOMIC DATA PUBLISHED IN SEPTEMBER

- China's Caixin PMI Manufacturing rose to 50 in September, above market expectations of 49.5.
- China's August exports jumped by 25.6% (YoY) above forecasts of 17.3%; imports rose by 33.1%, also above expectations of + 26.9%.
- Economic sentiment in the Euro-zone dropped in September (ZEW survey at + 31.1 vs. + 42.7 in August). The PMI Composite number declined from 59 to 56.2 (forecast of 58.5).
- In Germany, economic sentiment (ZEW survey) dropped in September (+ 26.5 vs. + 40.4 in August). The IFO Business Climate Index fell to 98.8, in-line with forecasts.
- US consumer confidence dropped to 109.3 in September, below forecasts.
- The Markit US Manufacturing PMI Index dipped in September to 60.7 as expected. The Services PMI was also as expected, at 54.9.
- US payrolls in the private sector rose by 243K in August compared to forecasts of + 610K, with July numbers being revised upwards from + 703K to + 798K.

THE EQUITY MARKET RALLY COMES TO A HALT IN SEPTEMBER

+ 70%

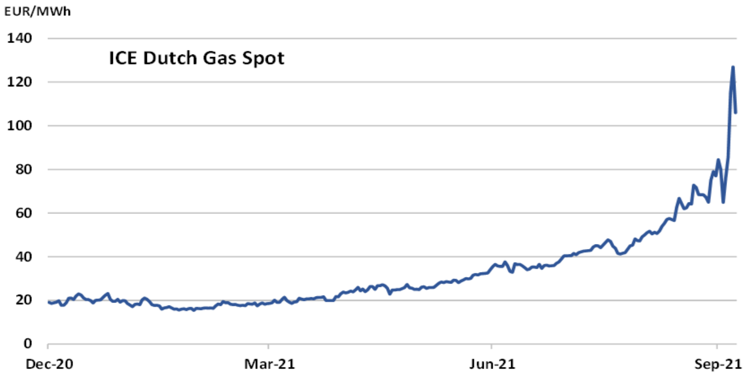
DUTCH GAS PRICES SPIKE IN SEPTEMBER

INVESTMENT PERSPECTIVE

September confirmed its reputation for being the stock market's worst month as global equity markets gave back some of their strong gains for the year. The MSCI World Index in local currencies dropped by 3.8% and, with the exception of Japanese equities, the drop of equity markets was widespread. Investors had to face a number of issues, including rising inflation pressures, the Fed's more hawkish stance, the collapse of the Chinese property group, Evergrande, supply chain disruptions and concerns over the US debt ceiling negotiations. Rising bond yields were another headwind for equities as the yields of 10-year Treasuries and Bunds rose by close to 20bps. In this risk-off environment, it was not surprising for the US dollar to appreciate strongly. Finally, quickly rising energy prices also weighed on market sentiment; the price of a barrel of WTI jumbed by 9.5% during the month, with gas prices climbing at an even faster rate.

Following the September FOMC meeting, Federal Reserve Chairman Jerome Powell did not announce when the US central bank would pare back its bond purchases. Powell did indicate that tapering "may soon be warranted" and markets now expect the Fed to set out its plan at its November meeting. That is likely dependent on Washington issues being resolved however, as tensions around the debt ceiling, the budget resolution and potential for a government shutdown remain high. Nevertheless the Fed's latest stance was considered to be more hawkish as was that of the Bank of England. This pushed bond yields higher and added to the angst of equity markets during the past month. In contrast, the communication from the ECB has tended to remain more dovish and its President Christine Lagarde promised not to "overreact to the transitory supply shocks" and to "continue providing the conditions to fuel the recovery".

THE SURGE OF GAS PRICES



Source: Bloomberg L.P.

One of the main talking points in the markets recently has been the surge of energy prices, especially those of gas. A global supply crunch for natural gas, low stockpiles, bottlenecks for renewable energy, and slow wind speeds in the North Sea have all contributed to soaring prices for everything from electricity to coal. Europe has been hit particularly hard and this has been made even worse after China ordered its state-owned companies to secure supplies for this winter at all costs. These rocketing costs are stoking inflationary pressures and fuelling concerns that economic growth could be hurt.

INVESTMENT STRATEGY

The summer ended on a weaker note for equity markets as the month of September erased the gains that had been recorded in July and August. So far, we have not made any changes to our portfolio positioning. We deem the recent movement to be a normal behaviour of equity markets after a period of strong gains with no significant drop. We observe that markets have become more nervous and more prone to sudden changes, but we still consider fundamentals to be supportive, even if further equity gains are likely to be more challenging. We will pay close attention to the upcoming earnings' reporting season. Rising commodity prices and shipping costs are amongst the risks that could impact profit margins and companies' outlooks will also have to be closely monitored. Our equity allocation remains overweight, but we would not hesitate to act if necessary.

Concerns over the risk of persistent inflation are rising and this has recently impacted the level of yields. As a reminder our overall duration risk is low, and our credit strategies have fulfilled our expectations so far this year; spread tightening and carried interest have more than compensated the rise of bond yields observed in 2021.

PORTFOLIO ACTIVITY/NEWS

Following an extended period of positive monthly returns, September was a negative month for the portfolios, mainly due to weaker equity markets. Mining equities, European small caps, the CTA fund and a number of other equity funds were the worst detractors. A few equity funds did manage to end the month with positive performances, in particular a Euopean value fund and frontier markets' equities. Most fixed-income funds ended the month flat, despite a trend of rising yields, as did the other alternative strategies. For non-USD portfolios, the US dollar was a positive contributor.

The European value fund was an outlier in September as its positioning enabled it to generate a positive return despite the challenging equity markets. The fund has significant exposures to financials and energy as the manager sees considerable upside for these sectors in view of record low valuations and upside inflation risks. The fund has proven to be a good portfolio diversifier due to its composition and to the manager's longstanding conviction over higher inflationary pressures.

VOLATILITY IS ON THE RISE AS MARKETS TURN MORE FICKLE

	End 2020	August 2021	September 2021	MTD	2021
Equities					
S&P 500	3'756.1	4'522.7	4'307.5	- 4.8%	+ 14.7%
Euro Stoxx 50	3'552.6	4'196.4	4'048.1	- 3.5%	+ 13.9%
MSCI EM	1'291.3	1'308.7	1'253.1	- 4.2%	- 3.0%
Yields					
UST 10-year	0.92%	1.31%	1.49%	+ 18bps	+ 57bps
Bund 10-year	- 0.57%	- 0.39%	- 0.20%	+ 19bps	+ 37bps
BBB EU	0.44%	0.58%	0.77%	+ 19bps	+ 33bps
Currencies					
EUR/USD	1.222	1.181	1.158	- 1.9%	- 5.2%
USD/CHF	0.885	0.915	0.932	+ 1.9%	+ 5.3%
EUR/CHF	1.081	1.081	1.079	- 0.2%	- 0.2%
GBP/USD	1.367	1.376	1.347	- 2.0%	- 1.5%
Commodities					
CRB Index	167.8	218.2	228.9	+ 4.9%	+ 36.4%
Oil (WTI)	USD 48.5	USD 68.5	USD 75.0	+ 9.5%	+ 54.6%
Gold	USD 1'898	USD 1'814	USD 1'757	- 3.1%	- 7.4%