



CIO OFFICE MORNING MARKET WRAP – 3rd January, 2022. ALSO AVAILABLE ON ALEXA.

Let us start by wishing you and a very healthy, happy and prosperous new year. Be sure that all our Wealth Management teams keep on working hard to contribute to the prosperous side of things, in a new working week. This daily publication will be released from Monday to Friday, from now on.

2021 just ended, and it was another positive year for investments. Cyclical assets surged: stocks from developed markets returned almost +22%, second only to listed real estate at +27%. To illustrate, the US S&P500 printed no less than 70 all-time highs last year. By contrast, the fixed income asset class was negative across segments, especially for the most defensive ones, as interest rates and inflation materially rose. This impacted the price of gold, down -3.6%. Finally, stocks from emerging markets were disappointing with a -2.5% negative return, almost exclusively due to China. Other emerging countries did better, and the GCC markets was a brilliant outlier with a +40% return, leading the EM complex by far. Against this backdrop, our cautious, moderate and aggressive profiles delivered respectively +2.4%, +4.2% and +7.6%. Our tactical allocations outperformed our strategic portfolios, validating our active positioning – especially our constant overweight on stocks versus bonds. We however underperformed competition. Compared to international peers, we gave back part of our spectacular 2020 outperformance, due to our capital preservation goals which led us to having more weight in defensive assets than our peers. We also held, and still hold, a larger allocation to emerging markets in our strategic allocations, due to incomparably better long-term prospects, at the price of more volatility.

That was for the year, and its last month ended on a positive note as well. Indeed, despite the record global infections from Omicron, all major asset classes delivered positive returns in December, with the only exception being government bonds from developed countries, down -0.5%. The US 10-year Treasury yield ended the month at 1.51%, which is 60 basis points higher than a year ago. The latest Consumer Price Index year-on-year progression is close to 7%, which compares to 1.4% at the end of 2020. Energy has obviously been a strong contributor to inflation: the price of Brent crude oil added more than \$20 in a year, from \$56 to \$78. Last week was the fifth positive one for oil, recovering from the initial drop when Omicron broke out. Finally but not anecdotally, global stocks are at record levels in virtually every developed market, and the rally was broad, led by energy, technology, financials and real estate. Of course, this was backed by a parabolic earnings growth, which mitigated the rise in valuation multiples. But still: elevated valuations create vulnerability, and there will be no shortage of concerns to trigger anxiety and volatility episodes in 2022. The backdrop remains reasonably constructive. First, the recovery still has legs: global growth in 2022 will decelerate but is still expected to be one of the fastest in decades. Second, the virus might actually be weakening: no doubt, Omicron spreads like no other variant before, puts intense pressure on healthcare systems, and will likely slow activity in the near-term. However, it's not unreasonable to think that this situation only enhances our ability to fight back and live with the virus. It may not be the last variant, but defeating it may be a decisive win in the war to restore normality. To that extent, 2022 looks set to be a pivotal year for the world. Alas, when it comes to investments, uncertainty rhymes with volatility. Are market participants ready for high infection numbers, combining with higher inflation and higher risk of policy miscalculation? This is why, in full transparency, we start 2022 with less conviction than a year ago. "Investing in the Age of Magic Money" was a clear procyclical theme. In 2022, the road ahead is now more foggy, in a year of economic and political transition. We are getting ready to be, this time, probably more reactive than proactive: taking advantage of market adjustments rather than predicting them. We will formally issue our 2022 Outlook later this month. This is later than most of our international competitors, for a loud and clear reason: we do not speak about the new year without reporting on what we factually delivered during the previous one. You can't do that if you issue your yearly outlook in November – sometimes without even mentioning the Omicron variant.

As we write this morning, many markets in Asia are closed for a holiday, and the ones which are not paint a mixed picture, in thin trading. South Korea and Taiwan are slightly up while Hong-Kong is down -0.6%. Futures on Western stock markets are firm. All eyes are on the virus, even if Asia seems to be less affected than the West. While the number of daily new cases is simply unprecedented in the US and in Europe, so far hospitals are not saturated, validating the idea that this variant is less severe especially among vaccinated people. Still, a lower percentage of severe cases applied to stellar infections count still means a large number, and disruptions are already here, from flight cancellations to work and study from home. In the corporate world, Tesla is making headlines with a record number of worldwide car deliveries in Q4: more than 300,000, which means that total sales for 2021 were just below a million vehicles.

The week ahead will be extremely rich in economic data. We will closely watch all PMI and ISM releases, starting today with India's PMI from Markit calculations, just out at a solid 57.6. China will follow tomorrow, before the US and Eurozone. The week will end with the US monthly job report on Friday and next week the US Consumer Price Index will be closely watched.

Stay safe.

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