



SEPTEMBER 2021

## MARKETS IN 3D: DELTA, DECELERATION AND DIVERGENCES



While markets have remained buoyant recently, we are witnessing a marginal Deceleration in economic activity from peak-levels driven by the spread of the Delta variant. We think investors should remain vigilant and flexible but avoid any structural de-risking at a time when policy (in US, Eurozone and China) is Diverging.

### KEY INVESTMENT THEMES



#### EQUITY ATTRACTIVE VS BONDS, BUT EXPLORE IMPORTANT THEMES

When real bond yields are negative, equities present an attractive alternative. Investors should explore Dividend theme, Value<sup>1</sup> rotation and European equities, which can benefit from strong growth and policy support.



#### OBSTACLES ON THE HORIZON, REMAIN SELECTIVE

After an exceptional earnings season, we are seeing elevated valuations in some segments and rising inflation pressures which could affect corporate margins and real disposable incomes of consumers. We look for companies with sustainable business models and strong pricing power.



#### DIVERGENCE BETWEEN INFLATION AND YIELDS

While actual inflation is running higher than central bank targets, bond yields remain low. Investors should keep a cautious stance on government bonds but explore solutions that flexibly manage bond exposure. Yield movement will depend on market's inflation expectations and central bank communication.



#### SEARCH FOR INCOME IN CREDIT

Selecting EUR Investment Grade<sup>2</sup> and High Yield<sup>3</sup> credit could offer attractive yield, and if done through the ESG<sup>4</sup> lens it is even better but investors should monitor corporate leverage. Bonds of peripheral Eurozone countries and China are also ways to boost returns of a well-diversified portfolio.

## MARKETS ARE JUGGLING LESS BRILLIANT NEWS WITH CONTINUED POLICY SUPPORT



Complacent markets underscore the need to balance high scrutiny and caution with agility but not with over pessimism. While investors should remain defensive on government bonds, risk assets – credit and equities – present interesting opportunities. For instance, EUR credit (and Emerging Market hard currency debt) offers attractive yield and a chance to play the recovery. On the other hand, equities (including China), warrant a neutral stance for now, albeit there are selective opportunities to play in the Value space and in Europe.

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1. Value: Stocks considered under priced given the performance of the underlying company.

3. Investment Grade: Refers to securities issued by an issuer of negotiable debt securities (Treasury bonds...) or bonds for which the Standard & Poors rating is greater than or equal to BBB-.

'Investment grade' bonds are considered by the various rating agencies as having a low risk of non-repayment.

4. High Yield: Bonds with a lower credit rating but which therefore offer a higher return.

5. ESG: Criteria used to evaluate a company's consideration of environmental standards, social criteria (workers/union rights and ethical behavior towards clients and suppliers) and governance standards (management corruption). The consideration of these criteria, beyond the traditional financial criteria, distinguishes socially responsible investments (SRI) from traditional management.

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