BearBull
Global Investments Group

Investment Strategy

October 2021

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Graph sources: Bloomberg/BearBull Global Investments

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- A transitional quarter for financial assets
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- Long-term interest rate cycle trending up
- Return of uncertainty for risky assets

The third quarter ended with virtually all asset classes in almost all regions falling in September. In bond markets, Swiss (-1.29%) and international bonds (-1.78%) ended the quarter with still limited declines of -0.44% and -0.88%, respectively. In equity markets, the fall in September was clear in Switzerland (-5.66%) and significant internationally (-4.15%). Over three months, the correction in Switzerland (-1.97%) was more significant, while international equities resisted and remained stable (-0.01%). In Switzerland, less volatile securitised real estate (-0.28%) ended the quarter on a similar note (-0.27%). Abroad, real estate investments lost about -5.59% over the month and ended down -1.61% for the quarter. Even private equity slipped by -3.2% despite a net increase of +6.81% over the quarter. Finally, alternative funds limited their decline to -0.38% and -0.14%. Only commodities made a positive contribution to the performance of diversified portfolios in September (+6.03%) and over the last three months (+5.22%) thanks to the performance of the energy segment, which rose by around +10%. The Federal Reserve's announcement of a forthcoming change in monetary policy finally triggered a change in investors' perception of risk, the consequences of which are already beginning to be felt in most financial asset classes. Although a gradual reduction in liquidity injections by the US central bank was a very likely possibility before the end of the year for many rational observers, the Fed's announcement acted as a real wake-up call for others. While not really having any major consequences for the time being, it will bring about significant changes in risk perceptions. Thus, factors such as the abundance of central bank liquidity injections or the fear of not participating in the uptrend (FOMO), which were often mentioned as driving upwards momentum in the previous months, could soon become less important. The third quarter could therefore be a period of transition in financial markets between a period marked by a certain euphoria and a period that now looks perhaps more rational.

The Fed's monetary policy could well become more restrictive from November onwards, with a gradual reduction in liquidity injections and bond purchases, before drying up completely in 2022. In the UK, the BoE is already considering a first rate hike in February 2022, while the ECB has announced that it will also reduce its liquidity injections under its PEPP programme, which would then end in March 2022. Central banks are therefore gradually announcing the end of their massive interest rate support programmes just as the risks posed by the Delta variant are diminishing and doubts are being raised about the temporary nature of inflation. With countries' GDPs returning to near pre-pandemic levels in 2021 already, there is no longer a need for exceptional cyclical support. As regards the impact of the Delta variant on growth in developed countries, Q3 saw the emergence of concerns and then their gradual disappearance. It now appears that economic growth is likely to remain solid at the end of September and decrease slightly at the end of the year. The Delta variant does not really seem to be a threat, as vaccination of the population has reached almost 70% in many developed countries. GDP growth in the US (+6.5%), Europe (+5%), the UK (+6.9%) and Japan (+2.4%), for example, is likely to quickly bring US and European GDP back above pre-pandemic levels. The coming quarter will certainly still be influenced by the uncertainty surrounding the rise in inflation and the question of its duration in particular. While central banks are not yet changing their rhetoric, we still think it likely that inflation will be much less temporary than central banks would like. Continued logistical and supply difficulties in global production chains are having lasting effects on production, import and sales prices. The difficulties encountered by the majority of companies in terms of recruitment are also having repercussions on wages and costs.

Finally, the rise in energy prices, and in particular gas prices, will also have an impact on inflation in the coming months. The factors supporting higher prices do not seem to us to be so transitory, and their effects on bond markets may still be significant in the future. While most central banks will still hold back on raising policy rates for a while, we believe that long-term rates will not withstand a rapid normalisation of yields in bond markets. Renewed growth and historically high inflation must now be taken into account when determining nominal interest rates. A general rise in yield curves is increasingly likely in this context. Prior to the pandemic, 10-year US Treasury yields stood at 2% in December 2019 for an inflation level of +2.2% and GDP growth of around +2% as well. They are still at 1.5% today, while inflation is above +5% and GDP growth is expected to be +6.5% for the last quarter. However, investors do not yet seem ready to consider that a significant increase in yields would be justified in the current environment, especially if central banks discontinue their asset purchase programmes, which are at the root of the current interest rate distortion. For risky assets and equity markets in particular, a normalisation of financing costs could start to pose a valuation problem, especially if margins were to be impacted by rising production costs. Therefore, the risks of corporate earnings revisions should not be overlooked in an environment of possible PE contraction.

Alain Freymond
Chairman
BearBull Global Investments Group

Graph sources: Bloomberg/BearBull Global Investments

BIG PICTURE

Main convictions

- Logistical problems threaten growth and price stability
- Central banks realise that the inflation shock is not so transitory
- Monetary policy shifts and global liquidity squeeze
- How will interest rates likely adjust?
- What new paradigm for risky assets?

Logistical problems threaten growth and price stability

Most countries are now facing new logistical challenges posed by the global health crisis. The international economic recovery led by China, the United States and Europe in 2021 represents the strongest convergence of economic cycles in a long time. The simultaneous emergence of these economies from the health crisis is therefore logically causing imbalances due to extremely rapid adjustments in demand to which supply is unable to adjust. Both the manufacturing and service sectors are struggling to secure the raw materials and labour they need. There are many examples of bottlenecks in most sectors. These tensions have already had an impact on import, producer and consumer prices. For the time being, supply has been able to partially adjust to demand by drawing on inventories without affecting GDP growth. This leeway has disappeared, which constitutes a new risk for the year-end outlook. We believe that growth in the last quarter will not yet be too affected by this risk, but this threat should not be ignored.

Central banks realise that the inflation shock is not so transitory

Through 2021, central bankers have held fast to their analysis that inflation was only a transitory price shock induced by commodity price volatility, but they are now beginning to question this. They will also likely have to revise their position on the issue of labour costs and wage increases given that unemployment rates are still far from the low points that prevailed before the health crisis. In the US, the Federal Reserve certainly considered until recently that the unemployment rate, which dropped to 5.2% in August, was still too high (3.5% in February 2020) to already risk creating tensions in the labour market in 2021. This assessment of inflationary risks is probably changing marginally, as central banks are only just admitting their surprise at the start of Q4. However, recent policy announcements by several central banks suggest that they are taking this possibility into account in their assessment of risks after having long underestimated them. Continued price pressures at the end of the year and early in 2022 are likely to further reinforce this shift in central banks' stance.

Monetary policy shifts and global liquidity squeeze

Q4 began with a perceptible paradigm shift in central banks' communication on the economic outlook for 2022 and the appropriateness of their policies as the end of the health crisis is becoming increasingly clear. We are witnessing a certain convergence of rhetoric emphasising the strength of countries' economic conditions and the reduced need for central banks to support the economic recovery process. The first shifts in monetary policies are already perceptible in the US, Europe and the United Kingdom. The US and European central banks very recently announced that they will reduce the amounts devoted to debt purchases in their extraordinary support programmes.

After a phase of exceptional balance sheet growth, they have announced that their liquidity injections will soon be reduced and that their programmes will end in 2022. In the UK, the change in monetary policy will instead involve a rise in key rates as early as February 2022. In China, the shift in monetary policy has already led to a reduction in the PBOC's balance sheet since June. In the coming months, these monetary policy shifts will lead to a reduction in the liquidity provided by central banks. In the US and Europe alone, winding up injections will represent a withdrawal of USD 120 billion per month and EUR 80 billion. Especially at this point in the financial cycle, even a gradual change of this nature is likely to have an impact on financial assets.

How will interest rates likely adjust?

In the spring of 2021, yield curves had benefited greatly from increasing economic uncertainty linked to the emergence of the Delta variant. A general drop of around 30 to 50 basis points could be seen in various bond markets. Central banks' communication on inflation was one of the determining factors in the overall decline in yields. The change in central banks' perception of the outlook for inflation and economic growth is already affecting investor sentiment in bond markets. In just a few days after the announcement on 22 September of the Fed's upcoming tapering, the rise in yields has intensified. In the US, 10-year Treasury yields rebounded from 1.30% to 1.57%, though still below the March level of 1.7%. In the UK, the acceleration took 10-year gilt yields from 0.8% to 1.15% in ten days. Overall, we believe that yield curves are starting to steepen, with varying degrees of intensity across countries. However, the correlation among interest rate markets remains significant, as illustrated by the rise in the 10-year Swiss government yield from -0.4% in August to -0.10% today. Recall that before the health crisis, US GDP growth was +2%, and 10-year US dollar yields were also at 2% with inflation at +2.3%. The comparison with the current situation offers a clear indication that US growth and inflation above +5% suggest a very sharp rise in long rates. We therefore believe that a steepening of the yield curve is essential given the above-mentioned normalisation of monetary policies in the coming quarters.

New paradigm for financial assets

With the shift in monetary policies, global liquidity is likely to first undergo a phase of contraction that will correspond to a stabilisation and then a reduction in the size of central banks' balance sheets. This trend will take place in a context where governments will still have high financing needs in 2022 to fulfil economic stimulus commitments by increasing spending and investment budgets. Future budget deficits will therefore have to be financed by debt, which will continue to grow in 2022. Such an environment will necessarily have an impact on financial markets, which will no longer have the same access to the insurance policy offered by central banks during recent crisis episodes.

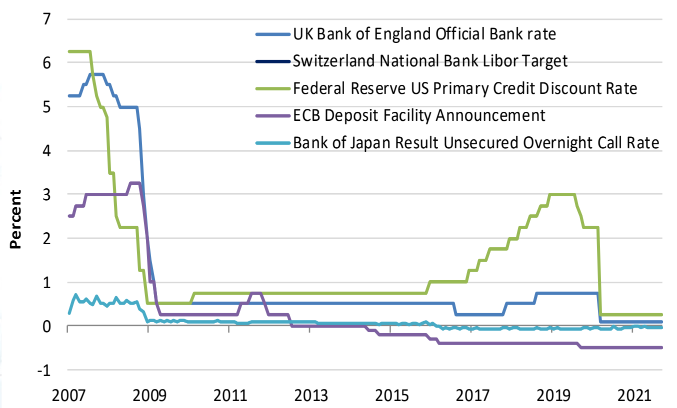
Graph sources: Bloomberg/BearBull Global Investments

Clearly, bond markets, which benefited greatly from central bank bond purchases, will no longer benefit from this advantage in the same way. The supply of bonds will necessarily increase in the context described above, while the demand for bonds in the yield adjustment phase is likely, on the contrary, to decrease significantly with the reduction in demand from central banks. The oft-mentioned bond bubble, which inflated further still during the spring with the uncertainties caused by the Delta variant, is now once again much closer to bursting. A rise in 10-year US Treasury yields similar to that seen in 2013 when the previous announcement of a reduction in quantitative easing was made is therefore conceivable. In terms of bond performance, a 50-100 basis point increase in yields could be envisaged, which would have a substantial impact on bond performance. The risk premiums required for riskier investments are also likely to be adjusted upwards, making non-investment grade corporate bonds riskier. We therefore believe that a paradigm shift is taking place in many bond markets at the end of the year. These markets will remain correlated despite sometimes very different economic situations, such as the rise in Swiss government yields, similar to the rise in US 10-year yields of around 30 basis points over the last two months.

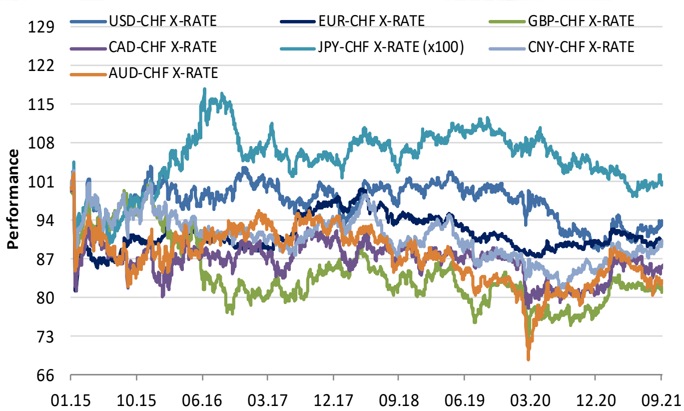
As far as equity markets are concerned, the effects of tapering on liquidity could also reduce the overall liquidity available that has been invested in equity markets in particular in recent years. A decrease in liquidity is a negative factor for the markets, but it is probably even more so the lasting change in interest rate trends that could soon penalise equity markets. Central bank action has in fact temporarily postponed the adjustment of yield curves to the current economic situation. The expansionary phase of price/earnings ratios may have peaked in the winter of 2020-2021, but a normalisation of monetary policies and yield curves will instead lead to a new regime characterised by less generous price-earnings ratios. A period of PE ratio contraction is therefore increasingly likely. The fact that this paradigm shift is taking place at a time when expected earnings are high, PEs are very generous and stock market indices are in some cases at historical highs is a source of great uncertainty. Moreover, one should also not discount the potential risks of disappointment regarding corporate profits, which could start alerting investors to the unexpected negative impacts caused by logistical problems affecting corporations' ability to achieve expected sales figures. Equity markets are still benefiting from the lack of alternatives, but we believe this factor is in decline.

In a phase of rising interest rates, recall that the asset class that has done best in historical comparison is the commodities sector. Commodities, which were the source of the initial inflationary pressures, are still benefiting from sustained demand, particularly in the energy segment. Crude oil and gas prices are following the trend of rising demand that cannot be met due to low inventories and still controlled production levels. Precious metal prices are likely to benefit from the rise in price indices, but for the time being they seem to be held back by the rise in the dollar and in long-term rates. However, inflation is historically the most stable factor in terms of forecasting gold prices, so gold and silver prices are expected to rise in the coming months.

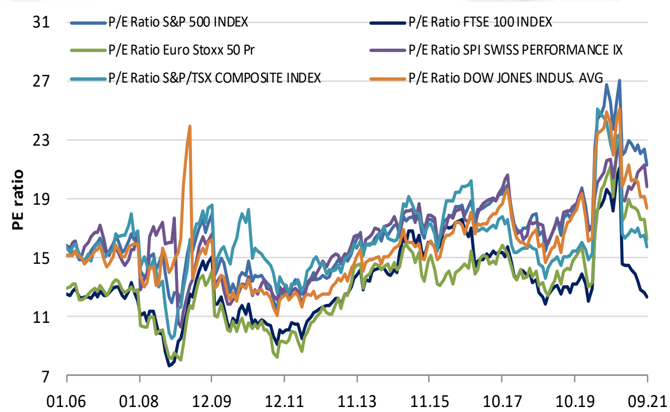
Central Bank rate (EUR, CHF, GBP, USD, JPY)



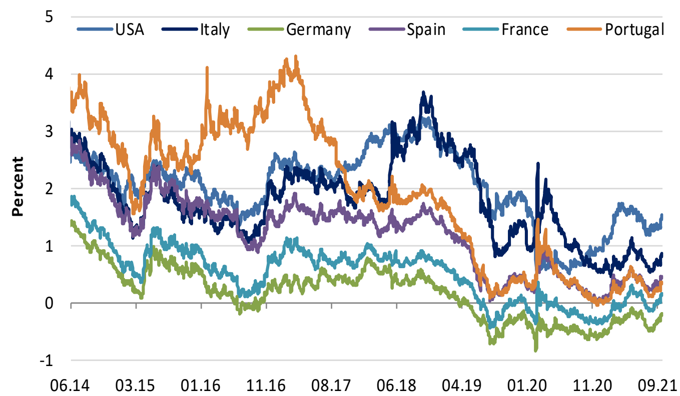
7 Major currencies against CHF (Normalized at 100)



Price/Earning Ratios in developed Markets



Government Bond yield (10 years)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Global Outlook

- Record year for global growth
- US GDP still robust in Q3 and Q4
- Growth strengthens in Europe and could reach +5% for 2021 as a whole
- Historic +7.7% year-on-year growth in Switzerland
- Better outlook for Japanese Q4 GDP
- Energy crisis hurts Chinese production

Record year for global growth

In 2021, world growth will be driven by China (+8.5%), the United States (+6.5%) and Europe (+5%). The convergence of the business cycles of these major economies will certainly enable the world economy to achieve a major economic rebound after the temporary slump observed in 2020. While developed countries can count on a recovery sustained by consumption and investment in a context where the pandemic has finally been brought under control, the same cannot be said for many other countries that have not yet curbed the spread of Covid-19 and its variants. The latter will increase their contribution to global growth once they have reached the same level of health crisis management. In the meantime, global growth for 2021 could well exceed +6% and achieve its highest increase in recent decades. The realisation of this growth forecast, however, depends on economic developments in the last quarter, which unfortunately are not immune to risks of weakening supply and production. Continued severe logistical constraints are still disrupting global production chains and may hold back the manufacturing sector in particular. In China, energy issues and difficulties in the real estate sector are also likely to slow growth in the final quarter. Nevertheless, 2021 will remain a record year.

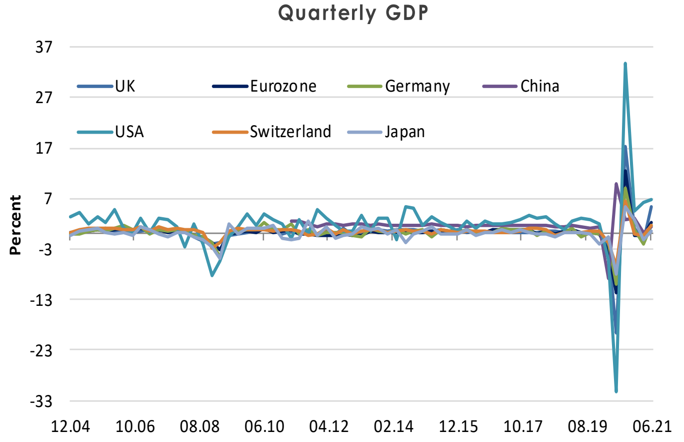
US GDP still robust in Q3 and Q4

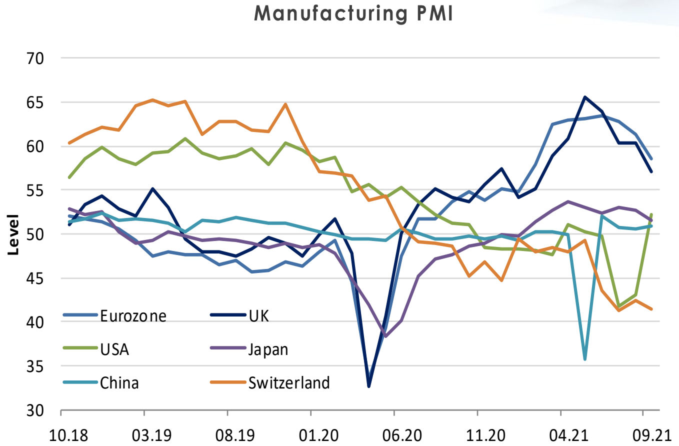
Q2 growth seems stronger than the published figures, and in fact the US economy has now returned to its pre-pandemic inflation-adjusted GDP level of USD 19.36 trillion. The current quarter could see a slowdown due to the gradual disappearance of government support, the return of health risks posed by the emergence of new variants and tensions in both the labour market and value chains. The decrease in the savings rate from around 20% to 10% suggests that the strong recovery in consumption is also linked to the use of savings built up during the pandemic.

Consumer confidence stalled a little at the end of the quarter, probably due to rising prices in many segments. Rising prices for cars, many household appliances, furniture and of course property prices are certainly worrying consumers, who are not seeing sufficient wage growth and are concerned about maintaining their purchasing power. We do not believe that the labour market will provide any negative elements in the near future to reinforce recent consumer uncertainty. On the contrary, strong employment figures are likely to have a positive impact on household sentiment.

In Q2, raw material shortages, increased lead times, higher transportation costs and higher product costs forced companies to draw down inventories to meet rising consumer demand. As a result, the value of inventories fell by USD 166 billion, the second worst result in the last 12 years. We believe that the logistical issues experienced in Q2 have not improved significantly in the Q3. However, companies have certainly anticipated raw material needs more in recent months and have adjusted their order levels to better cope with the strong economy.

We believe that this is likely to improve companies' production capacity and enable them to respond more effectively to the increase in demand, which we believe will remain strong in Q3. Despite the emergence of the Delta variant, we believe that GDP growth in Q3 likely remained particularly strong. A growth rate of over +6.5% in real annualised terms seems attainable to us. For its part the Fed considers that the economy is sufficiently engaged on the path of growth that it no longer requires exceptional monetary policy support. Tapering will therefore be initiated in November 2021. Household consumption is likely to slow but will be offset by a further positive contribution from inventories. Q4 is also likely to be in line with this trend, showing year-on-year economic growth in the US close to +6.5 to +7%.





Graph sources: Bloomberg/BearBull Global Investments

Growth strengthens in Europe and could reach +5% for 2021 as a whole

The return of consumers clearly boosted GDP growth in the euro area in Q2. At the end of June, GDP grew by +2.2% over the quarter, slightly more than the initial estimate of +2%. Household consumption, up sharply by +3.7%, was a primary contributor to GDP growth, to which public spending and investments also contributed during the period. For the current quarter, expectations remain positive despite the emergence of tensions in production and supply chains that could disrupt supply, while demand seems revitalised by the easing of health measures. GDP growth expectations for the current quarter are in line with the previous quarter at around +2.2%. However, the economy is expected to slow at the end of the year, with growth unlikely to exceed the +1.1% target by much. Overall, growth estimates for the euro area are close to +5% for 2021. They remain particularly solid for 2022, with an outlook of +4.3%, which will likely decelerate to +2.2% for 2023.

The European economy posted a +14.3% recovery year-on-year, its strongest historical increase in annual comparison. The base effect is obviously an essential factor with regard to the strength of this economic performance, as June 2020 was also the low point in the Eurozone's pandemic-affected economic cycle.

Historic +7.7% year-on-year growth in Switzerland

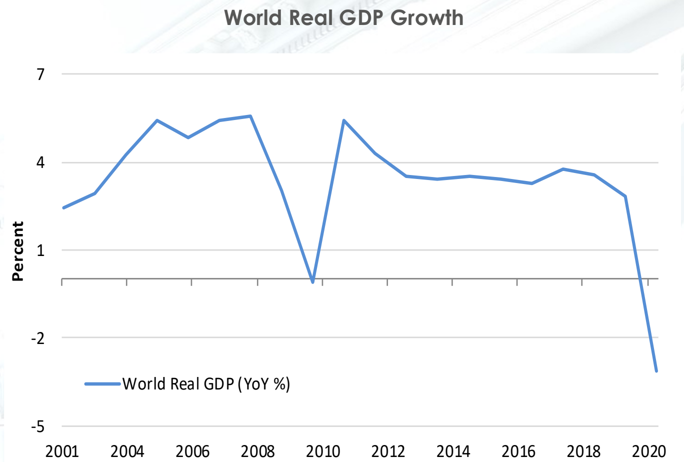
The State Secretariat for Economic Affairs (SECO) has published the Q2 2021 growth figures for our country (+1.8%), which show a very convincing economic comeback after a difficult first quarter (-0.4%) due to the reimposition of health measures in our country as well. Overall, at CHF 186 billion, Q2 2021 seasonally adjusted nominal GDP is already slightly higher than the Q4 2019 pre-crisis GDP of CHF 185 billion. In a year-on-year comparison, the rebound in Swiss GDP looks quite extraordinary. The year-on-year growth rate of +7.7% is historic, although it results entirely from the base effect, as Q2 2020 marked the pandemic-induced low point in the economic cycle. The Swiss economy has thus returned to a quarterly GDP level higher than that of Q4 2019, before the health crisis. Our economy has thus recovered rather well from the second stoppage linked to the resurgence of Covid-19 variants after a logical dip at the beginning of the year. The Swiss economy seems well positioned to grow by a further +1.6% in the current period before slowing slightly to +0.8% in the last quarter of 2021. Overall GDP growth for the year as a whole is thus expected to be +3.5%, followed by +3% in 2022 and +1.6% in 2023. This series of annual GDP growth rates is high by historical comparison for our country, which has only experienced two periods of strong growth in the last thirty years (1997-1999 and 2005-2007).

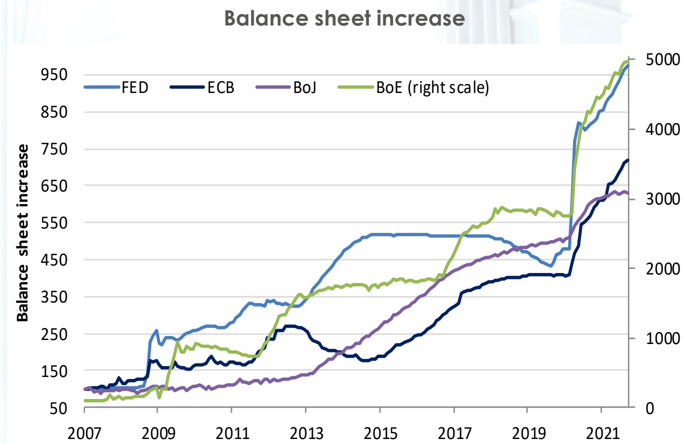
UK faces inflationary effects of Brexit

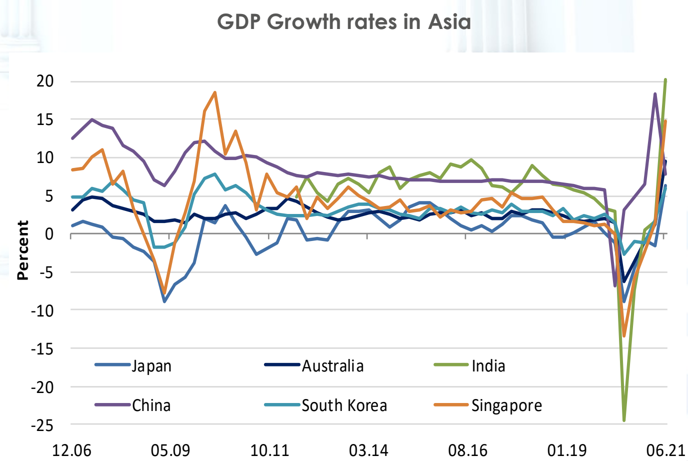
Post-Brexit GDP thus shows a cumulative increase over seven months of around +4.3%, mainly due to the solid recovery in Q2, revised to +5.5%, which followed the sharp correction recorded in January 2021 (-2.9%). Overall, growth in Q3 is still expected to be relatively positive at +2.5%. The expected slowdown towards the end of the year will probably see GDP growth dip to +1.5%, for FY2021 UK growth of +6.9%

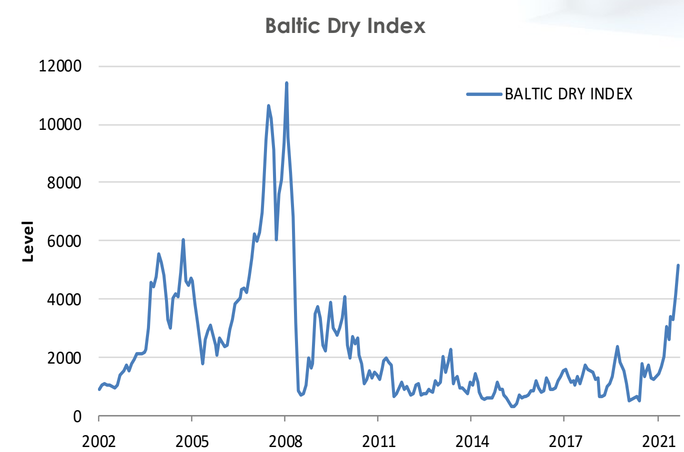
As growth begins to stall, the acceleration of various inflation measures in the UK may begin to raise fears of stagflation. For the time being, however, wages are fortunately rising alongside prices, so there is no clear threat to the purchasing power of UK households. However, this poses a problem for the BoE, which will have to carefully steer its monetary policy and normalisation in 2022.

Economic growth could then remain relatively solid in 2022, reaching +5.5% before progressively normalising to +2% in 2023.









Graph sources: Bloomberg/BearBull Global Investments

Energy crisis hurts Chinese production

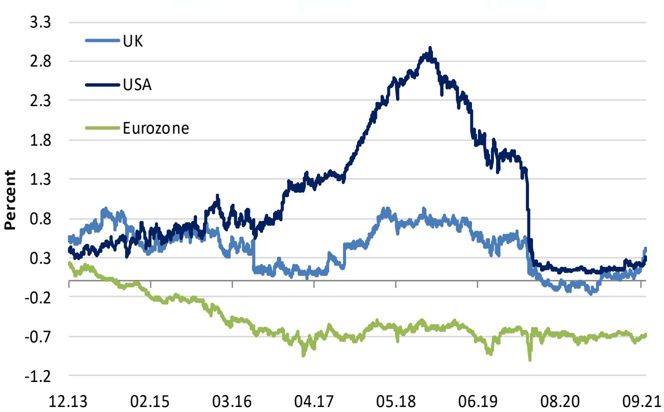
In China, leading indicators for the month of September point to a slowdown in the manufacturing sector with the PMI falling below the 50 growth threshold. China's industrial sector seems to be increasingly suffering from the country's energy crisis. Indeed, energy shortages have recently intensified, threatening industrial activity and production in a growing number of regions. Government priority has been given to households at the expense of businesses. It is difficult to estimate the impact of these shortages on production and exports, which will reduce the supply of Chinese products, while international demand still seems very strong in the run-up to the year-end holidays. The index of new industrial orders has already been slowing for several months, but the performance of Chinese exports remains very robust for the time being, probably due to production problems in Vietnam, which has been badly affected by the Delta variant. In contrast, the non-manufacturing sector is doing well again in September after a phase of weakness linked to the Delta variant in August. Overall, China is also affected by the events surrounding the Evergrande shock, which will not be without implications for the real estate market. These two sectors have been drivers of the post-pandemic recovery, and our revised growth outlook remains very positive, but down from our previous forecast. China's GDP could ultimately grow by less than 8.5% in 2021.

Better outlook for Japanese Q4 GDP

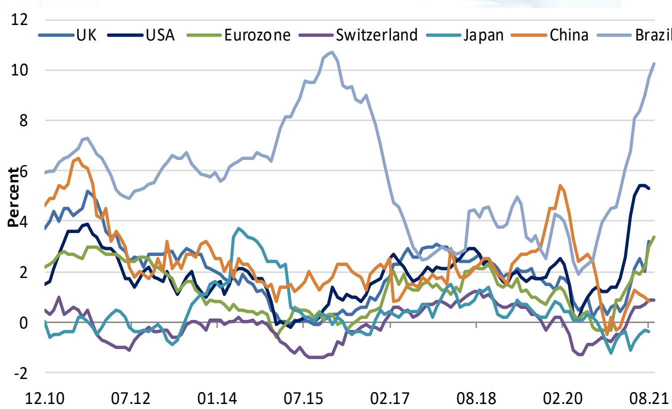
Japan's Q2 GDP grew by an annualised +1.9%, slightly more than initially forecast. The Japanese economy avoided a further decline in growth and even surprised economists on the upside, as the consensus expected a more mixed result. Japanese economic momentum may seem encouraging given the reinstatement of the health emergency due to the resurgence of Covid-19 outbreaks in the run-up to the Summer Olympics. However, the rebound in growth in Q2 was not sufficient to erase the economic contraction at the beginning of the year, which saw Japanese GDP fall by 3.7%. Generally, this economic performance is not so encouraging, when one takes into consideration the evolution of the health situation during Q3.

Japan's economy is, however, likely to benefit again at the end of the year from a return of external demand. The 4th wave of Covid-19 no longer seems to be having the same impact, notably because of the intensification of vaccinations, but also because the effects on the health of those infected are no longer as dramatic. Risks of a new lockdown and their impact on growth prospects are thus reduced. The end of the year is likely to see a stronger recovery in household consumption and services. Exports are also expected to strengthen, as the outlook for year-end sales and inventory rebuilding improves in anticipation of an expected recovery in private consumption. The decrease of the unemployment rate to 2.8% thanks to around 420,000 new jobs created in July will also contribute to the improvement in the consumer climate, even if some of these jobs were linked to the Olympic Games. For the last quarter, forecasts are again quite optimistic, with GDP growth expected to approach +4% annualised, in particular if a new JPY 30 trillion stimulus plan is announced by the new Prime Minister to be elected in November. The Japanese economy is thus likely to grow by +2.4% in 2021, +2.6% in 2022 and then slow down in 2023 (+1.3%).

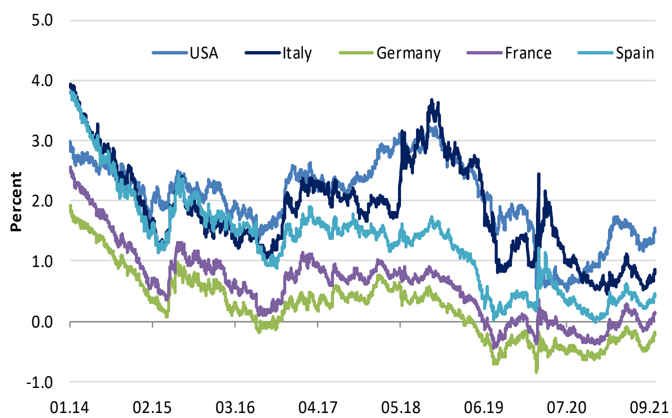
2-year Government Bond yield



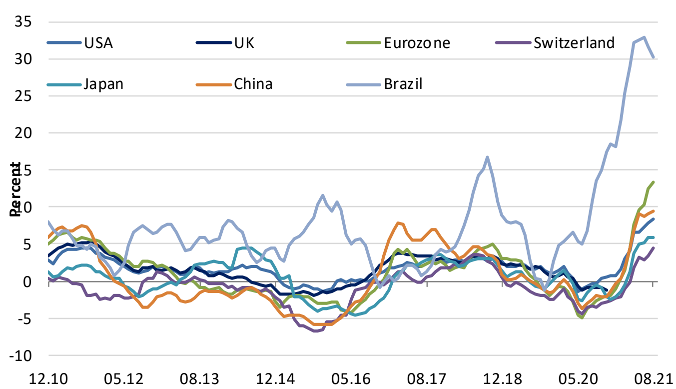
Inflation - CPI Indices



10-year Government Bond yield



Inflation - PPI Indices



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United States

- US growth not really slowing down
- GDP still robust in Q3 and Q4
- Growing tensions in the labour market
- Inflation will not be as temporary as the Fed would like
- Stocks react to tapering announcement

US growth not really slowing down

US GDP growth ended Q2 with a real performance of +6.7% on an annualised basis. It thus maintains the +6.6% pace already set in Q1 2021. Personal consumption growth followed the same path and grew at the same pace in Q2 (+12%) as in Q1 (11.9%), which was somewhat lower than expected due to the emergence of constraining effects on value chains and production. This affected the ability of companies to adapt to the strong recovery in domestic consumer demand. Supply and inventory management problems, among other factors, have disrupted supply and probably reduced its overall level. Against this background, it is worth noting the extraordinary growth in aggregate demand and consumption in particular, which is at a multi-decade high. The performance of the US economy as measured by GDP has been significantly negatively affected by the inventories problem, with the decrease in inventories contributing a negative 1.1% to GDP growth. While this impact was negative in Q2, it is expected to become very positive again in Q3 and Q4. Indeed, companies had to draw heavily on their stocks in Q2 when they were faced with a strong recovery in demand and an increase in supply difficulties and delays. Personal consumption, for its part, surprised by its exceptional strength, even though it was expected to recover significantly.

The +11.8% annualised increase is indeed the second highest since 1952. Q2 growth seems stronger than the published figures, and in fact the US economy has now returned to its pre-pandemic inflation-adjusted GDP level of USD 19.36 trillion.

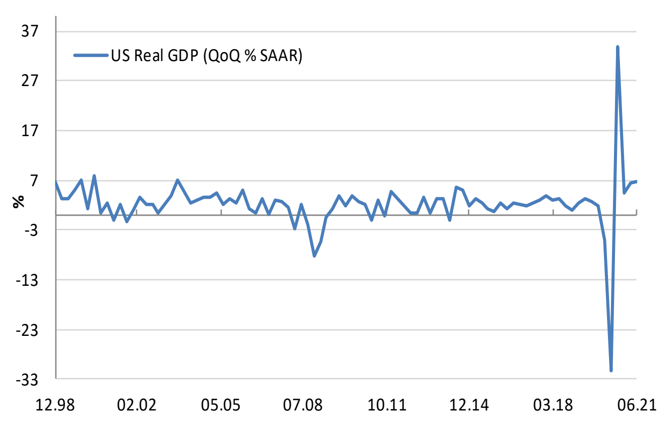
The current quarter could see a slowdown due to the gradual disappearance of government support, the return of health risks posed by the emergence of new variants and tensions in both the labour market and value chains. The decrease in the savings rate from around 20% to 10% suggests that the strong recovery in consumption is also linked to the use of savings built up during the pandemic. The rise of inflation in Q2 was already significant as shown by the GDP deflator of +6.1%. The price index for consumer spending excluding food and energy, which is one of the US central bank's favourite indicators, thus recorded its strongest increase since 1983. A better economic climate and a reduction in health risks have also led companies to invest in capital goods.

Fall and possible rapid rebound in inventories?

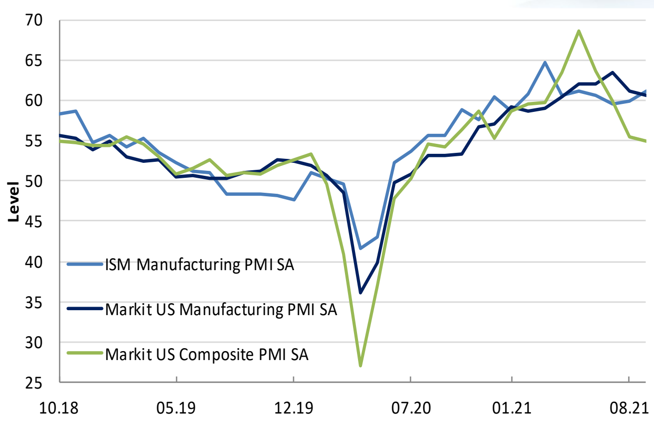
US companies have faced challenges that we believe are more enduring than the Fed expects. In Q2, raw material shortages, increased lead times, higher transportation costs and higher product costs forced companies to draw down inventories to meet rising consumer demand. As a result, the value of inventories fell by USD 166 billion, the second worst result in the last 12 years. We believe that the logistical issues experienced in Q2 have not improved significantly in the Q3. However, companies have certainly anticipated raw material needs more in recent months and have adjusted their order levels to better cope with the strong economy.

We believe that this is likely to improve companies' production capacity and enable them to respond more effectively to the increase in demand, which we believe will remain strong in Q3. However, in doing so, they have likely further reinforced the mechanisms leading to higher prices and inflation. The contribution of inventories is therefore likely to be positive in Q3, but the risks of accelerating inflation seem to us to be even more present for the whole of H2.

Quarterly US Real GDP Growth



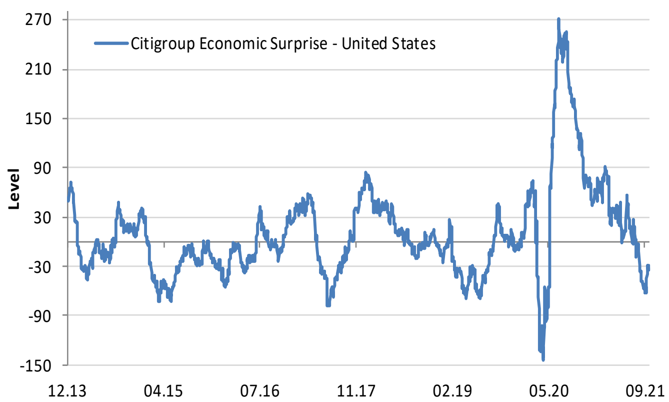
PMI Indices



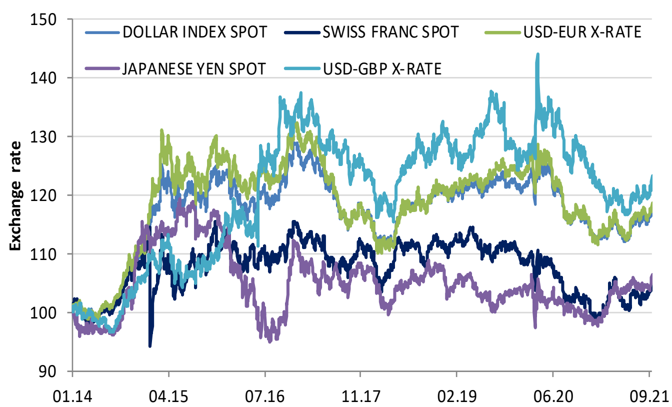
Graph sources: Bloomberg/BearBull Global Investments

BearBull Global Investments Group

Citigroup economic surprise index USA



Dollar trade-weighted index and currencies



For example, the shortage of semiconductors has strongly affected vehicle production and still does not seem to be resolved as of the end of Q3. The automotive sector is therefore likely to benefit from increasing pricing power in the coming months. But these shortages may also lead to further plant closures and weigh on GDP.

GDP still robust in Q3 and Q4

Despite the emergence of the Delta variant, we believe that GDP growth in Q3 likely remained particularly strong. A growth rate of over +6.5% in real annualised terms seems attainable to us. Household consumption is likely to slow but will be offset by a further positive contribution from inventories. Q4 is also likely to be in line with this trend, showing year-on-year economic growth in the US close to +6.5 to +7%.

Leading indicators hit by logistical constraints and employment

The leading PMI indicators have slipped over the past five months but remain significantly positive at the end of September. The manufacturing PMI stands at 60.5, down from its July high of 63.4. The order book component is still at its highest level since 2007, a very positive sign of continuing strong demand, but production lines still seem to be facing the same problems of raw material shortages, shipping and transportation issues and difficulties in finding the appropriate workforce. On the services side, the decline from 70.4 in May to 54.4 reflects the reduced demand for services as a result of the effects of the Delta variant.

Growing tensions in the labour market

The end of the federal employment support programmes on 6 September has certainly boosted the recent increase in unemployment claims. Overall, the unemployment rate was still trending down between July and August from 5.4% to 5.2%. Job vacancies have jumped in 2021 to 10.9 million. The return of the unemployed to the labour market is still chaotic as employers have to offer incentives to attract new employees. In August, half of all SMEs said they could not find the employees they needed. Clearly the labour market is tight, driving a still moderate increase in wages.

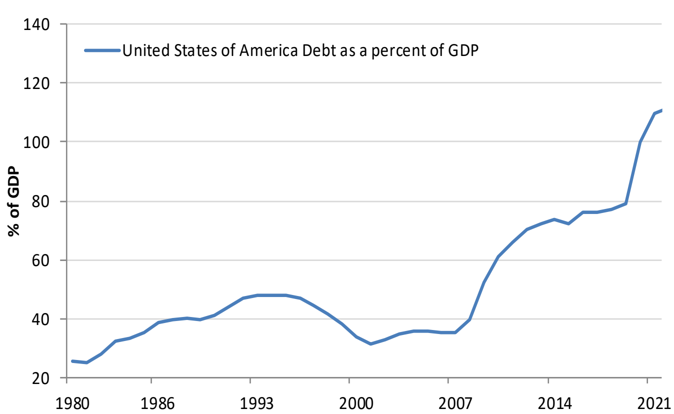
Temporary weakness in household confidence

Consumer confidence stalled a little at the end of the quarter, probably due to rising prices in many segments. Rising prices for cars, many household appliances, furniture and of course property prices are certainly worrying consumers, who are not seeing sufficient wage growth and are concerned about maintaining their purchasing power. We do not believe that the labour market will provide any negative elements in the near future to reinforce recent consumer uncertainty. On the contrary, strong employment figures are likely to have a positive impact on household sentiment.

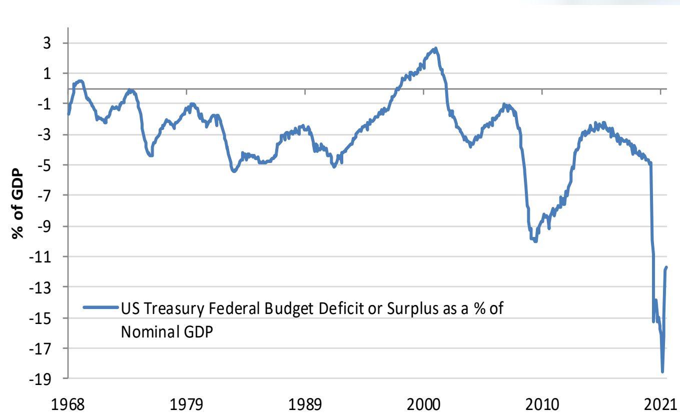
The Fed begins to doubt and announces tapering

Over the past few months, the US Federal Reserve has repeatedly commented on the rise in US inflation, noting that it was most likely a transitory phenomenon. After three quarters of rather robust economic growth and sustained inflation well above average historical measures, the Fed is beginning to doubt its own forecasts.

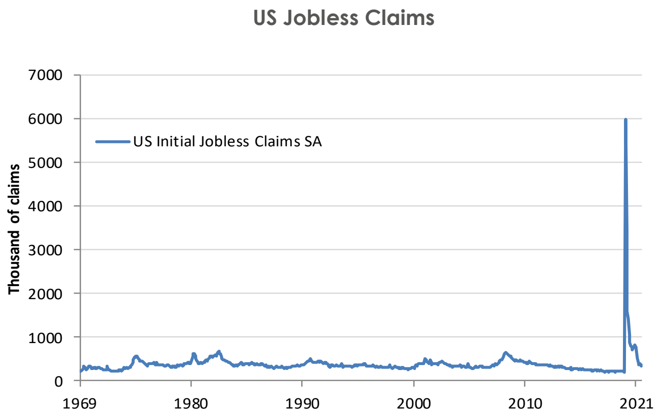
Debt (% GDP)

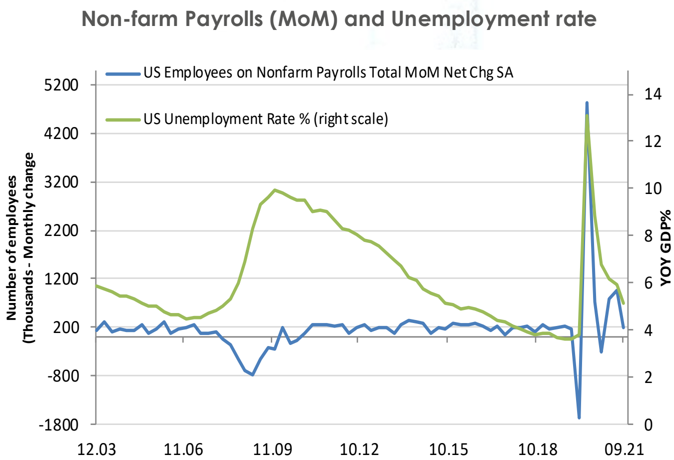


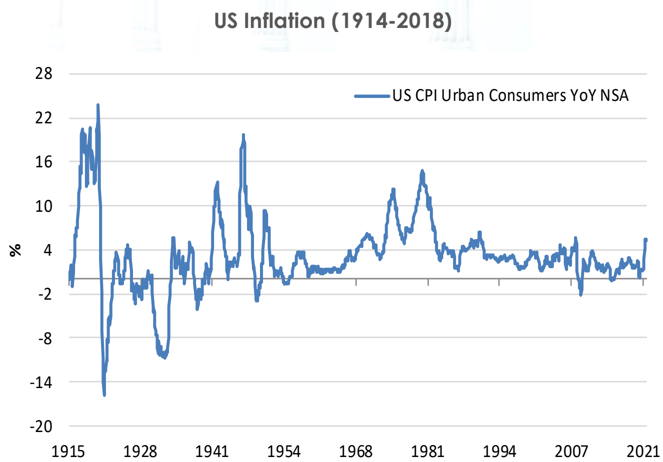
Deficit/Surplus

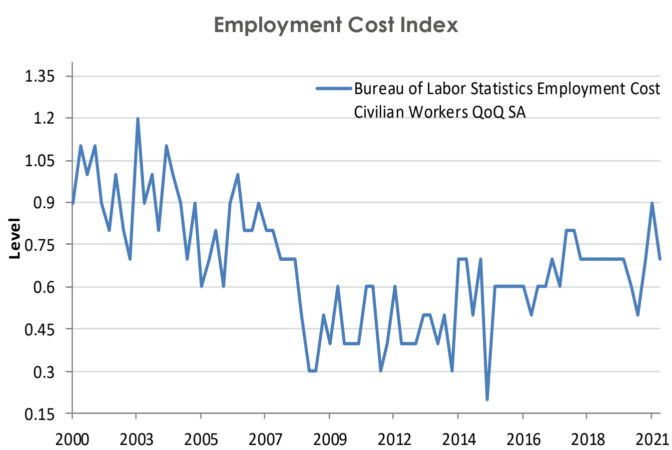


Graph sources: Bloomberg/BearBull Global Investments









Graph sources: Bloomberg/BearBull Global Investments

At its last press conference it finally raised its PCE inflation expectations for 2021 from +3.4% to +4.2% and for 2022 from +2.1% to +2.2%. The sharp revision of inflation estimates for 2021 clearly suggests that more FOMC members are finally concerned about the inflationary risks posed by the persistence of numerous bottlenecks in the US economy. Inflation was presented by the Federal Reserve as a factor unlikely to last, mainly caused by commodity base effects.

The Fed chair finally had to admit for the first time that the criterion for a more restrictive policy, initially involving a reduction in liquidity injections, had now been reached (substantial rise in inflation). Tapering will therefore be initiated in November 2021. This new monetary policy paradigm is important and precedes a future rise in key rates. The reduction in central bank purchases is expected to reduce the liquidity provided to the capital markets by USD 40 billion per month according to our analysis. By June 2022, the Fed will have withdrawn all of its current injections of USD 80 billion per month.

Depending on tensions on the inflation front, the rate normalisation programme could well begin in 2022, earlier than expected. In this context, the inflationary outlook in the current business cycle does not seem to be under control. The US central bank is clearly prepared to allow inflation to exceed its 2% target on a lasting basis.

The change in monetary policy that is about to be announced will most certainly have no impact on the evolution of inflation in the coming months. It will only show that the Fed considers that the economy is sufficiently engaged on the path of growth that it no longer requires exceptional monetary policy support. However, if growth continues as expected at a sustained pace in 2022, it will become clear that a reduction in liquidity injections and an extremely gradual rise in policy rates will together have no impact on inflationary pressures, which will persist and may even be exacerbated by still negative real yields.

Inflation will not be as temporary as the Fed would like

The Q2 GDP price index still showed a year-on-year inflation level of +6.1%, while the Fed's preferred measure, the Core PCE (Personal Consumption Expenditure) index, stood at 3.2% in July, its highest level since March 1991. In this environment, one-year inflation expectations are now close to +5%. This is above the 2011 high of +4.6%, which preceded a movement in the CPI to +4%.

Expectations for the next 5-10 years are likewise up to +2.9% (Michigan University), also the highest level in the last ten years. In the shorter term, the current CPI index (August) already shows a +5.2% year-on-year increase in consumer prices.

After several consecutive months of significant increases, monthly inflation in August was slightly lower (+0.3%). This data may reassure proponents of the transitory theory.

Nevertheless, many sectors of the economy are seeing price increases take place against an economic backdrop of continued supply difficulties and wage increases. In this environment, we expect inflation to remain high in the coming months.

Bonds and the dollar regain attractiveness

As we have been saying for several months, we felt that a rise in long-term rates in 2021 was inevitable in the context of a very clear improvement in the US economic outlook. The 50-basis-point rise in 10-year Treasury rates in the second half of 2020 was merely the announcement of a trend reversal that was expected to strengthen and become more pronounced in 2021. The emergence of the Delta variant temporarily disrupted the analysis and the economic outlook. But it was mainly the Federal Reserve's comments on the inflation issue that served as a catalyst for the decline in bond yields that materialised between spring and early summer. These temporary growth uncertainties and inflation deemed temporary by the Fed were enough to reignite a decline in yields until August. Chairman Powell's announcement of a forthcoming tapering was partly expected, but it is now becoming clear that rates must adjust to a robust and inflationary economic reality. We believe that dollar yield curves will soon move upwards with the exception of very short-term yields.

Yield pick-up strategies are therefore being challenged by rising returns on more defensive bond assets. Internationally, US bonds now also offer a safe haven with the prospect of an attractive yield spread. European, Japanese and Swiss investors can now look at dollar-denominated fixed income with more interest, as the yield spread has recovered significantly.

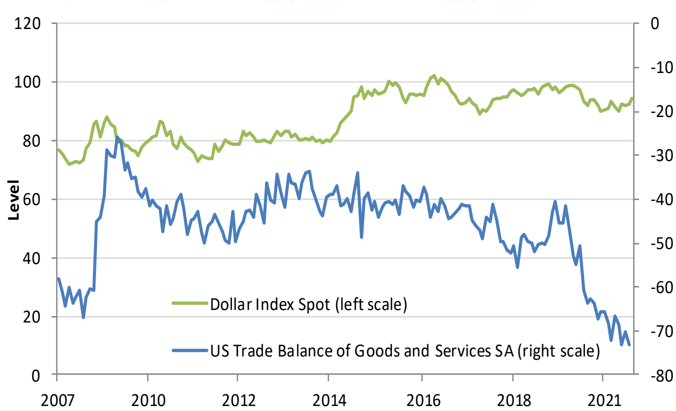
As we approach the 2% threshold, we believe that the yield differential is likely to stabilise as a result of new inflows of funds.

The dollar is likely to benefit from this increase in the yield differential in its favour. We estimate that it could appreciate by +5% to +7% against the Swiss franc.

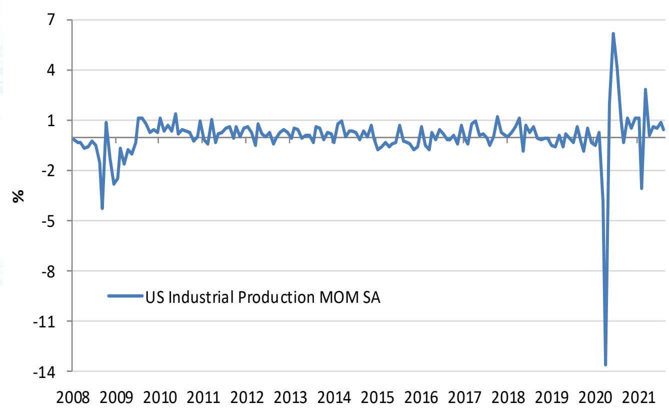
Stocks react to tapering announcement

The announcement of the forthcoming tapering drove up rates and has since penalised the bond markets. The resulting decrease in liquidity injections and increase in the discount rate for future corporate earnings are also logically having an impact on prospects and risks in the equity markets. The high valuations of US stocks are more of a risk than ever. We believe that the likelihood of a long-delayed consolidation due to extremely abundant liquidity is now high. We recommend an underweight allocation to US equities.

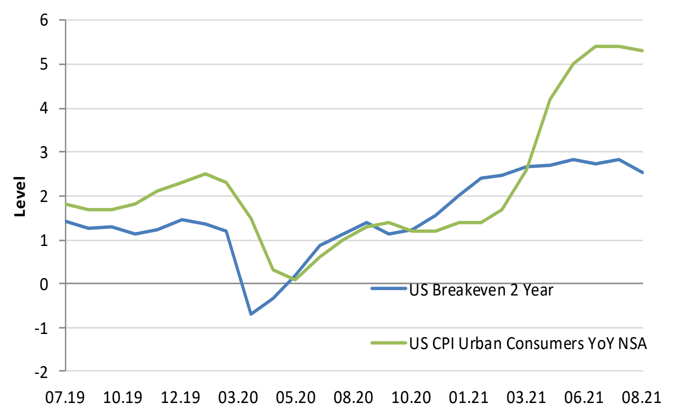
US Trade Balance of Goods and Services



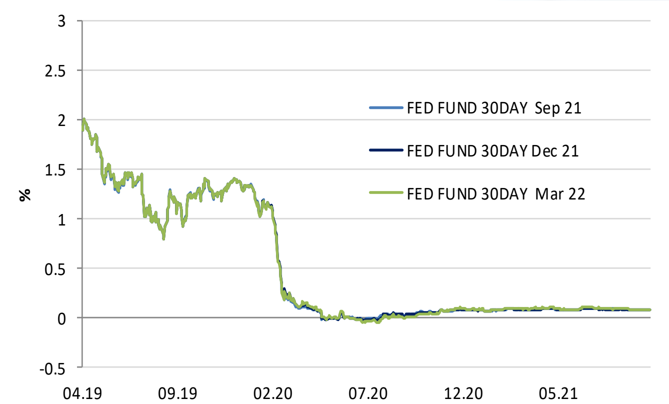
US Industrial Production



US Expected Inflation and CPI

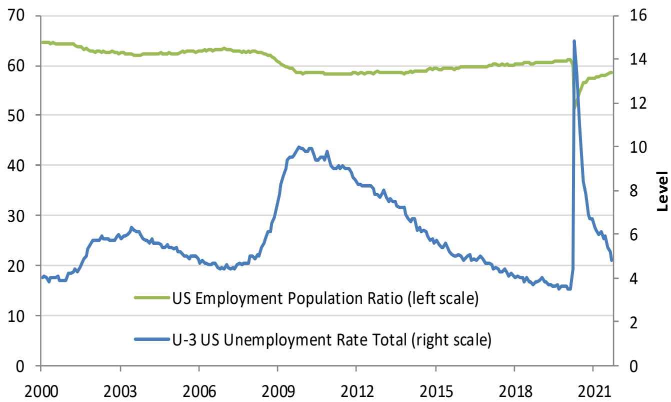


Fed Funds Futures

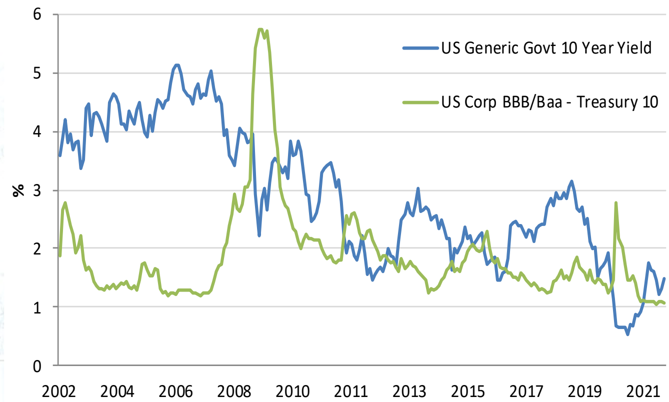


Graph sources: Bloomberg/BearBull Global Investments

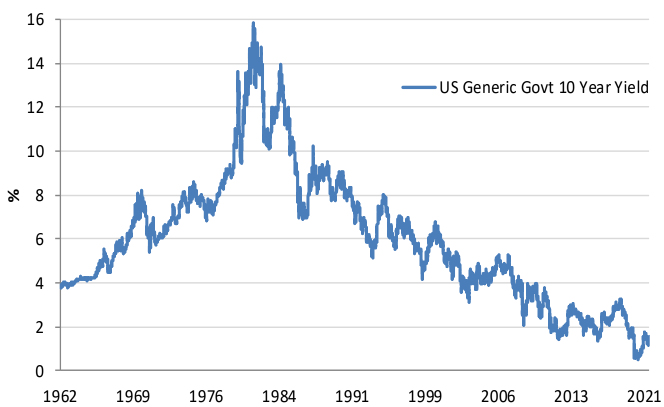
US Unemployment rate and Employment Population Ratio



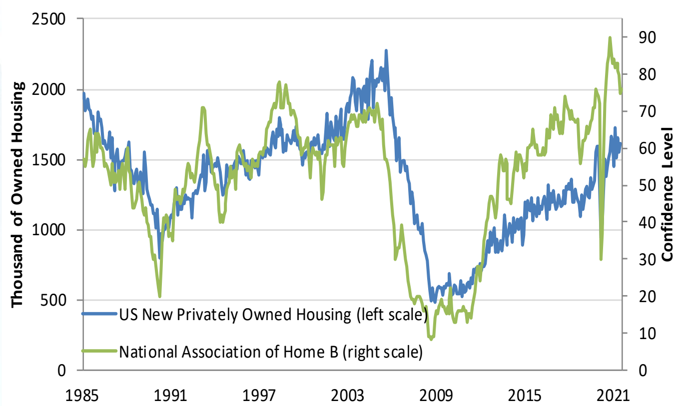
Yield spread Us Treasury - BBB 10 year



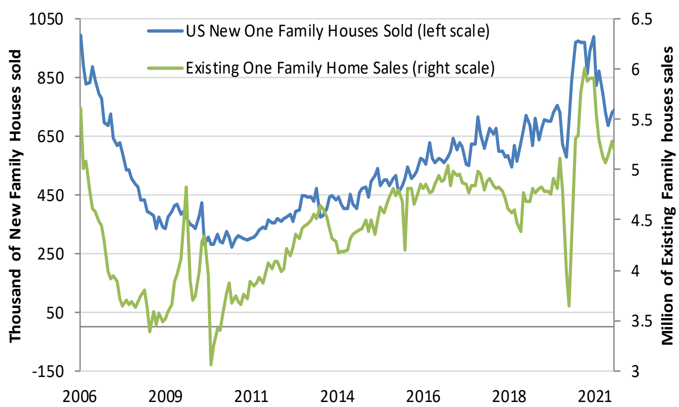
US Government Bonds 10 year yield



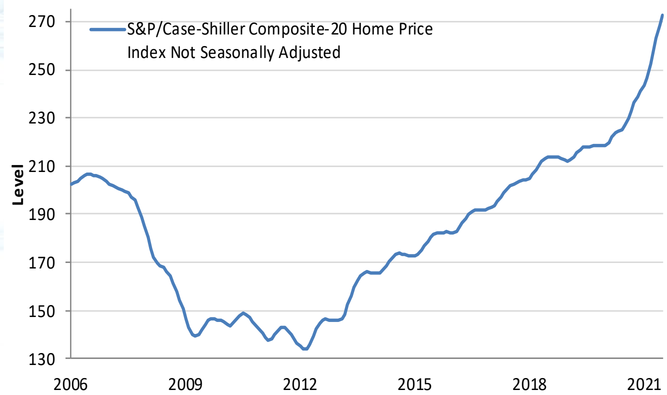
US New Privately Owned Housing and NAHB USA



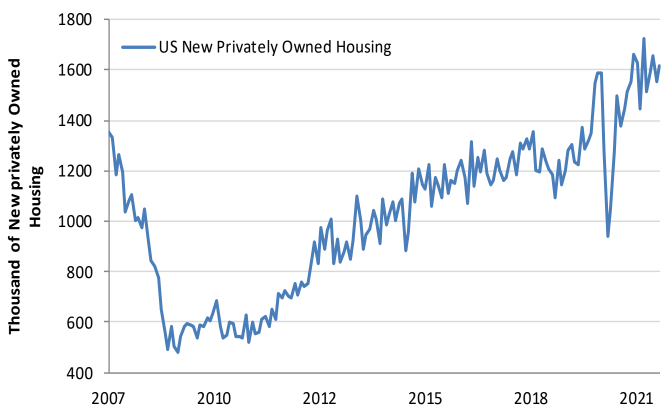
Sales of US New and Existing Family Houses



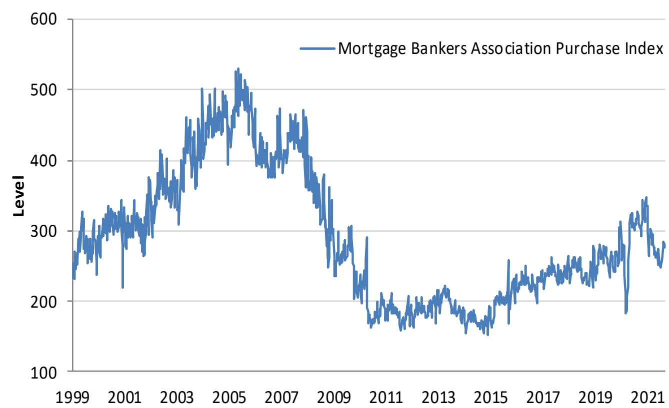
Real Estate Prices - S&P Case-Shiller Index



Housing Starts



New Mortgage Applications - MBA



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Switzerland

- Strong comeback of domestic demand
- Leading indicators support a solid growth outlook
- Inflationary risks rising in Switzerland too
- The SNB is not worried about inflation and is staying the course

Swiss GDP grows +1.8% in Q2 2021 and +7.7% year-on-year

The State Secretariat for Economic Affairs (SECO) has published the Q2 2021 growth figures for our country (+1.8%), which show a very convincing economic comeback after a difficult first quarter (-0.4%) due to the reimposition of health measures in our country as well. Overall, at CHF 186 billion, Q2 2021 seasonally adjusted nominal GDP is already slightly higher than the Q4 2019 pre-crisis GDP of CHF 185 billion. In a year-on-year comparison, the rebound in Swiss GDP looks quite extraordinary. The year-on-year growth rate of +7.7% is historic, although it results entirely from the base effect, as Q2 2020 marked the pandemic-induced low point in the economic cycle. The Swiss economy has thus returned to a quarterly GDP level higher than that of Q4 2019, before the health crisis. Our economy has thus recovered rather well from the second stoppage linked to the resurgence of Covid-19 variants after a logical dip at the beginning of the year.

The Swiss economy seems well positioned to grow by a further +1.6% in the current period before slowing slightly to +0.8% in the last quarter of 2021. Overall GDP growth for the year as a whole is thus expected to be +3.5%, followed by +3% in 2022 and +1.6% in 2023. This series of annual GDP growth rates is high by historical comparison for our country, which has only experienced two periods of strong growth in the last thirty years (1997-1999 and 2005-2007).

Strong comeback of domestic demand

It is not surprising that the easing of measures imposed in Q2 allowed our economy to recover during the spring with a strong uptick in growth in the services sector. The easing and lifting of health restrictions has indeed supported the recovery of consumption and service activity in our country. The most affected sectors, such as the restaurant and hotel industries, were able to benefit from renewed activity and saw their turnover jump by almost 50%, as did leisure and entertainment consumption.

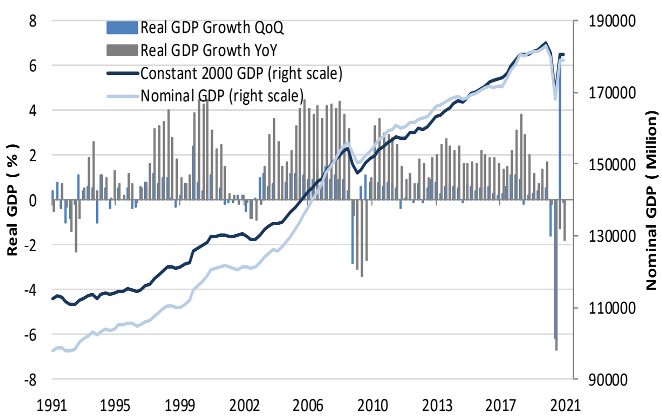
It should be noted, however, that this upturn is still insufficient, with added value still less than half that which prevailed before the health crisis. Renewed consumer mobility has also led to growth in the communication and transport sectors (+1.9%), but most significantly it has supported a revival in overall consumption and retail sales. Trade grew by 4.8% and private consumption by 4.1%. Services exports also benefited from the easing of health measures abroad and contributed positively to the overall increase in GDP with a rise of +3.2%. Investment in construction remained relatively stable this quarter (+0.1%) in a negative context for the construction sector (-0.3%). Spending on capital goods remains volatile and is up by +1.6% after declining in the previous quarter. Growth in public spending was very solid (+5.5%) and logical in the context of the extraordinary support provided to offset the disastrous economic effects of the pandemic. The Swiss manufacturing industry maintained its momentum of the last few months and managed to grow by +0.9%. Industrial production is now +4.7% above its pre-pandemic level. Exports of goods, however, did not show any significant increase (+0.3%).

Leading indicators support a solid growth outlook

With regards to leading indicators, sentiment measures still seem generally optimistic at the end of the summer. The August manufacturing PMI (67.7) is, however, slightly down from the peak reached in July (71.1). The KOF leading indicator remains at its highest levels in the last ten years and still points to very strong economic conditions for Swiss industry.

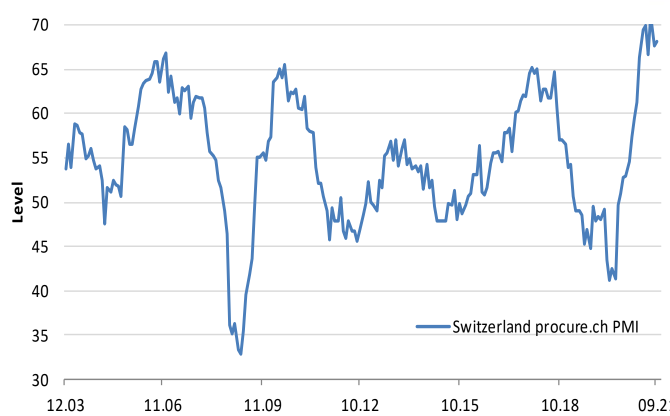
However, it dropped from 130.9 in July to 113.5 in August, which is also a logical reflection of the perception of a temporary downturn in the international economy. Nevertheless, the historically high level of this indicator also suggests that value added in Switzerland is continuing to grow at a sustained pace.

Nominal GDP - Nominal and Real GDP Growth rate

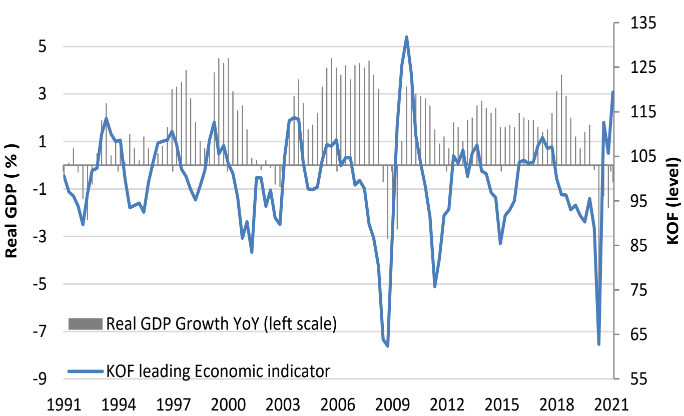


Graph sources: Bloomberg/BearBull Global Investments

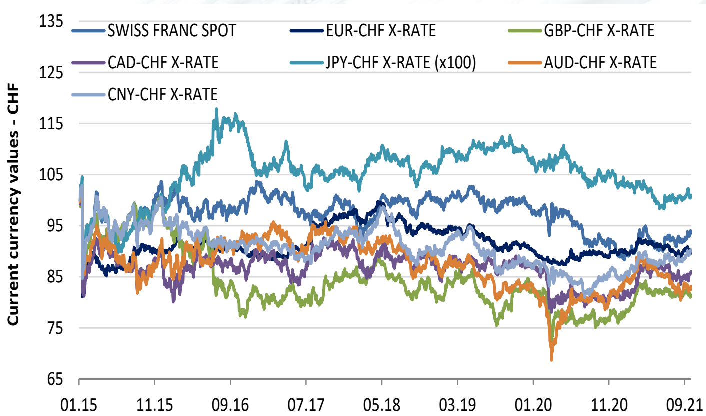
Swiss Purchasing Manager Index (PMI)



Real GDP Growth YoY - KOF leading economic indicator



CHF Exchange rate (Normalized at 100)



Manufacturing sector is doing well and diversifying its supply chain

Swiss industrial production rebounded in H2, increasing by +15.7% year-on-year, benefiting from a considerable base effect due to a low Q2 in 2020. In recent months, Swiss companies have made significant changes to the structure of their production chains. Since the pandemic, the trend has been towards diversification of supply sources. Swiss manufacturers are now seeking greater proximity to Swiss and European producers. According to a recent survey, 50% of the companies questioned emphasised that they had changed their supply channels. The recovery in the US, Europe and Asia is benefiting Swiss exporters and is already putting pressure on transport costs and raw material prices. Swiss watch exports reached CHF 1.519 billion in August according to the Swiss watch industry federation. They are back to August 2019 levels. China is leading demand with a +55% increase in imports to over CHF 226 million , ahead of the US (212 million) and Hong Kong (122 million). Despite this positive factor, Swiss exports declined slightly overall (-0.4%), and imports advanced by +0.2%.

Inflationary risks rising in Switzerland too

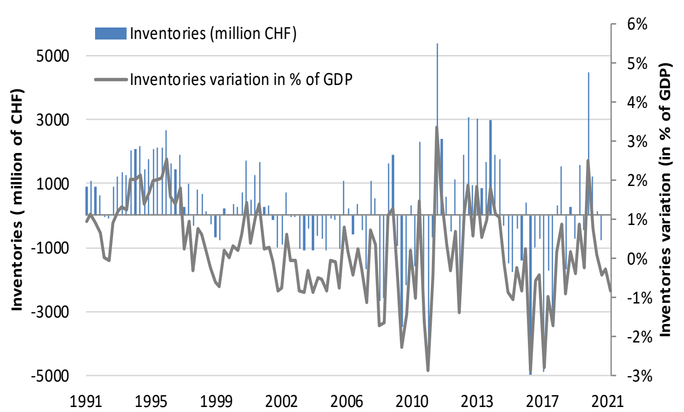
Pressure on the prices of imported products is also beginning to materialise in Switzerland, although at a lower rate than in the US. The +0.7% rise in producer and import prices now stands at +4.4% overall over one year, i.e. +7.6% for import prices and +2.9% for production. Inflation is already clearly visible in our country upstream in the production and distribution chain. On the consumer price side, EU harmonised price indices are not yet much affected, showing only more moderate increases of +0.2% in August and +0.8% over a year, while the CPI measures excluding food and energy are slightly lower (+0.2% and +0.4%). Over a year, the exchange rate has not been a determining factor in these developments, since the USD/CHF exchange rate remained volatile but relatively unchanged at the end of the period. A weakening of the Swiss franc could, however, further support the rise in import prices. On the domestic front, the rapid correction in 2021 of the unemployment rate to 2.7% in August, after having jumped from 2.55% in February 2020 to 3.6% in January 2021, could soon continue and cause wage tensions in our country as well. The adjustments made by Swiss companies to reduce their dependence on Asia in particular will have lasting repercussions on production prices and company margins unless they manage to pass on these increases to their consumers.

The SNB is not worried about inflation and is staying the course

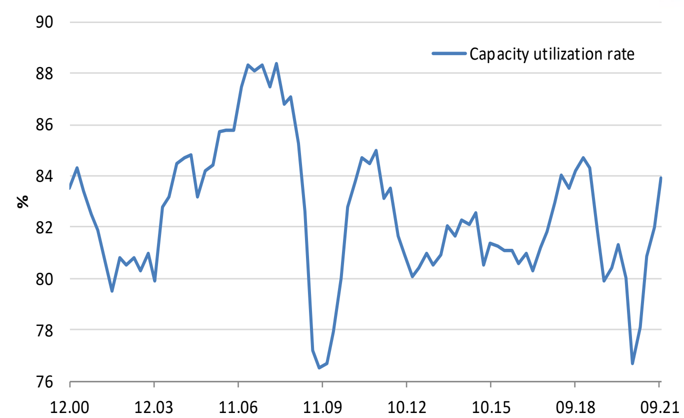
The Swiss National Bank does not see any reason to fear inflationary pressures for the time being and is not particularly concerned about the current rise in import prices. Like the Federal Reserve, it likely believes that the current trend will not last. For the time being, it considers that the Swiss economic recovery is consolidating and that it is taking hold without any real effects on price levels. In its latest comments, it therefore reiterated that it will be maintaining its accommodative monetary policy unchanged by keeping its key rate at -0.75% and continuing its strategy of intervention on the foreign exchange market to stabilise the franc against the euro.

The SNB's inflation outlook remains below 1% for 2021, 2022 and 2023. Chairman Jordan nevertheless expressed a clear opinion on the high valuation of the franc, pointing out that, if the franc had not been overvalued, inflation in our country would have been higher. Therefore, should we not expect a weakening of the franc as desired by the SNB, which would then have inflationary effects proportional to its degree of weakening? Against the dollar, the franc has appreciated by about 6% since February 2020, while it has depreciated by barely -1% against the euro. Total sight deposits in Switzerland have remained stable at around CHF 710 billion over the past year. However, the SNB's currency reserves have increased further and now stand at CHF 930 billion. The SNB still seems to have to intervene in the foreign exchange market to reinforce the trend, a sign that interest in the Swiss franc and Swiss franc assets is waning. Unlike the other major central banks, which have been active in supporting their respective countries' economies in recent years by stepping up their government debt purchase

Inventories - variation in % of GDP

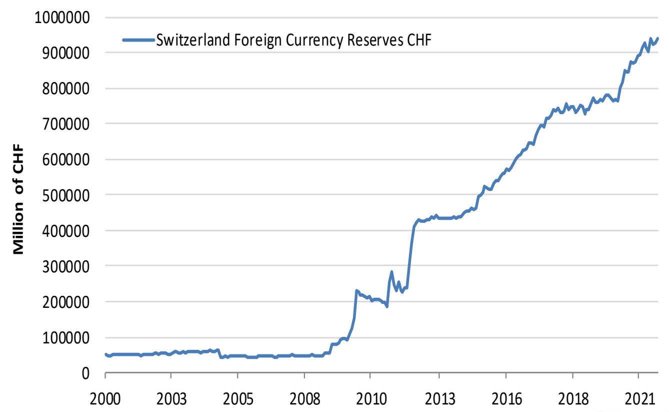


Capacity utilization rate

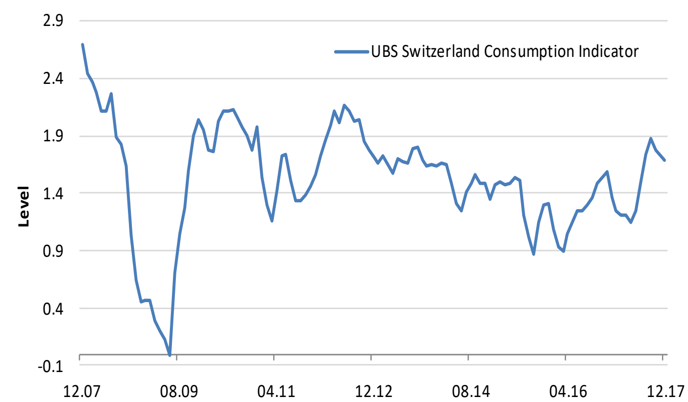


Graph sources: Bloomberg/BearBull Global Investments

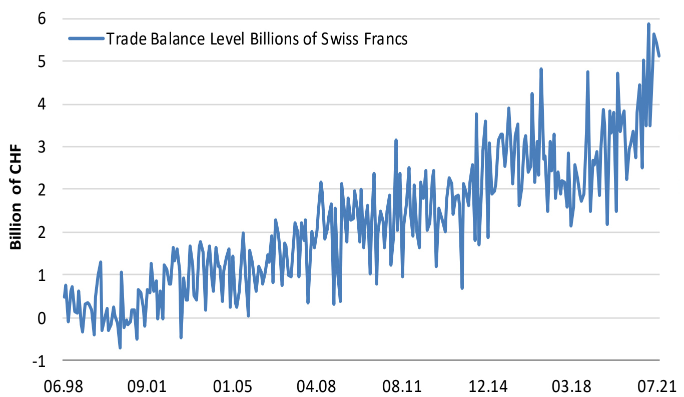
SNB Foreign Currency Reserves



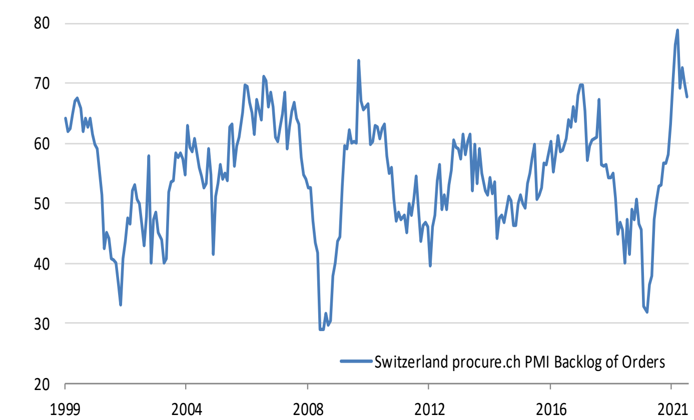
UBS Switzerland Consumption Indicator



Trade Balance level



Backlog of Orders



Graph sources: Bloomberg/BearBull Global Investments

programmes, particularly during the pandemic, the Swiss central bank has limited its action to an exchange rate stabilisation target that remains valid for 2021.

Towards a weakening of the Swiss franc

The Swiss franc had rather benefited from the anxiety-inducing stock market climate of 2020 at the start of the pandemic by initially appreciating against most currencies. The prospects for a global economic recovery are expected to reduce the franc's appeal as a safe haven. Since mid-August, the weakness of the franc seems to be solidifying. The SNB still considers the franc to be overvalued, and the Bank's tolerance for an appreciation of the franc remains low. Our currency is expected to weaken in 2021 and 2022 against most major currencies. In purchasing power parity (PPP) terms, the franc is still overvalued by 10-15% against the euro. A rise in the euro above 1.15 is therefore possible in 2021.

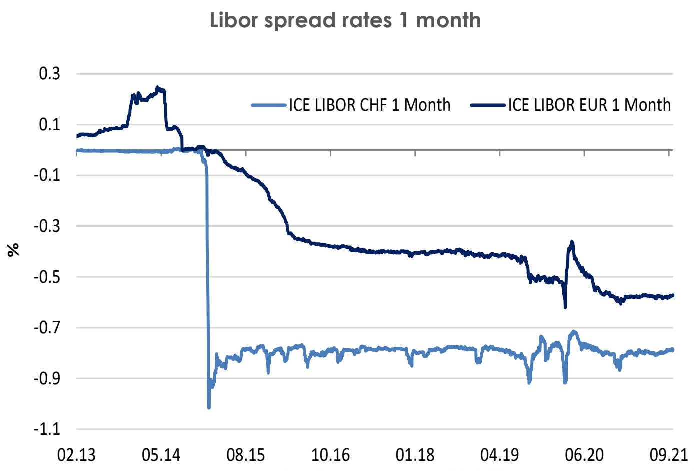
The bond bubble is close to bursting

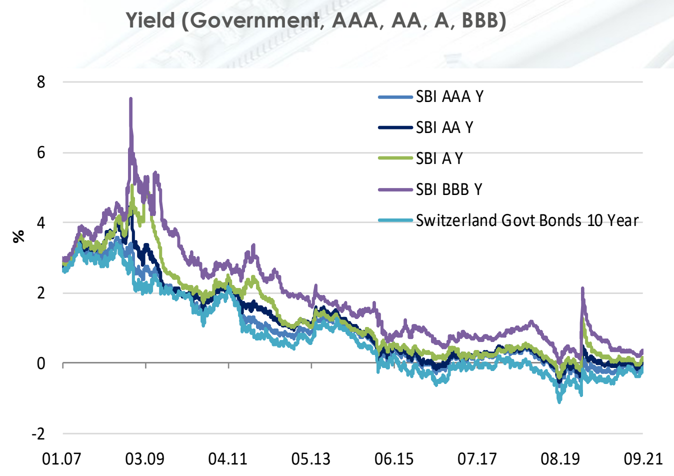
International bond markets were affected during the summer by the appearance of new Covid-19 variants, raising fears regarding the global economic situation. Uncertainty permeated bond markets, which became convinced that the central banks would continue their asset purchase operations and keep long-term rates low. The emergence of inflation and its persistence in monthly statistics through August did not alter the optimism of investors convinced that central banks would control the entire yield curve. Ten-year government yields thus declined again by around 50 basis points in the US and 30 basis points in Switzerland. However, despite the precautions taken by the Federal Reserve when it communicated its monetary policy on 22 September, it is becoming clear that the quality of the recovery no longer justifies the monetary injections made. The risk of an upward shift in yield curves is therefore becoming clearer. In a totally different context in our country, Swiss government yields have already risen by nearly 30 basis points since the beginning of August to -0.15% and are again close to their highest level in the recent period (25 points in the US at 1.45%).

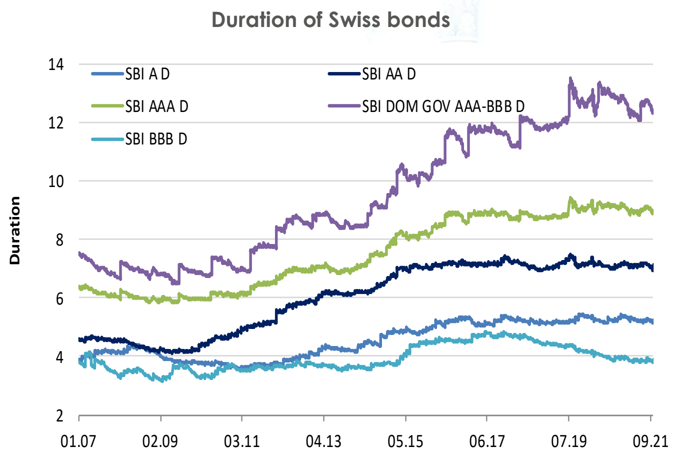
The expected trend reversal regarding interest rates thus materialised in the investment grade market, which now has a slightly positive overall yield. However, there is still too small a risk premium between BBB bonds and ten-year government bonds. Yield pick-up strategies are riskier than ever. We recommend a sharp reduction in durations and a reallocation of credit risk to investment grade debt.

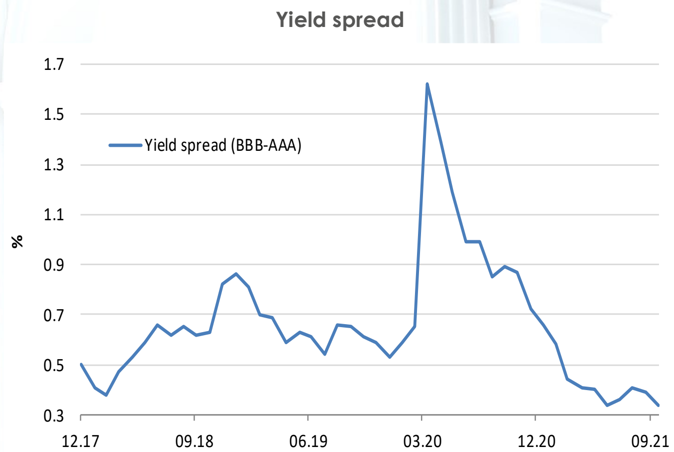
Biggest decline in Swiss equities since October 20

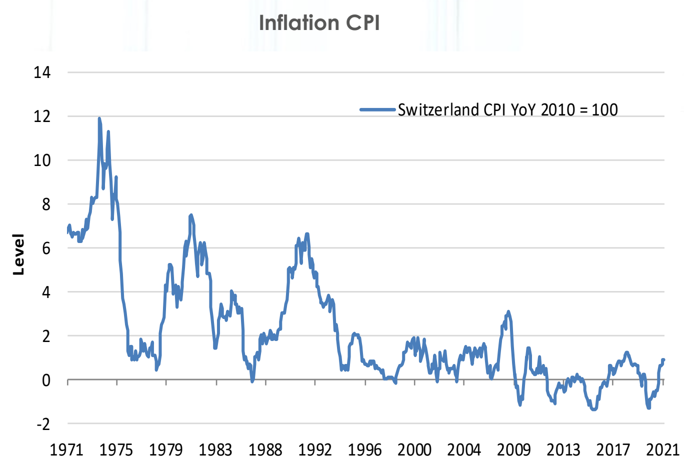
The Swiss equity market has seen some profit taking since the end of August, as interest rates in Switzerland have risen significantly. A continuation of this trend could well erase, in September, the gains made since the end of July. It is thus moving against the tide of other markets for the time being. The SNB's lack of asset purchase programme is no longer reassuring investors, who are worried about yields adjusting to the new economic outlook. The rise in interest rates and consequently in the discount factor for corporate profits is therefore already having a visible impact on investor confidence in Switzerland. Stock market euphoria thus seems to be much less prevalent in our market, and hesitation thus seems more rational. It occurs every time 12-month PE valuation levels soar. After a consolidation of -5% over a few weeks, the SMI's average PE is still 19x 2021 and 18x 2022. In the short term, we still believe that the risks of price weakness and consolidation are high. We suggest a reasonable exposure to Swiss equities before we can count on a further continuation of the upward trend in equity markets.

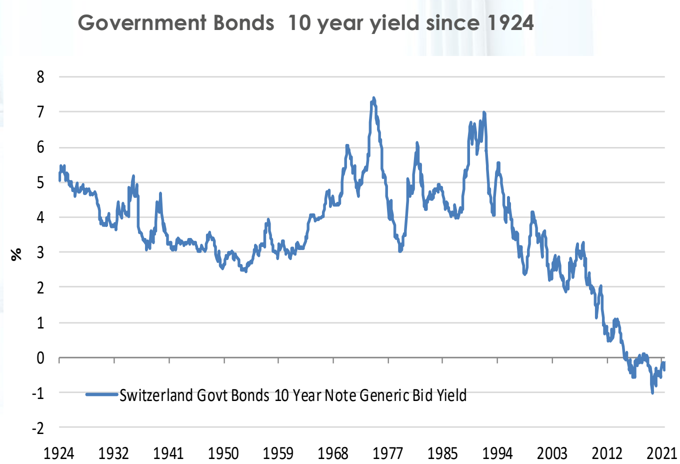


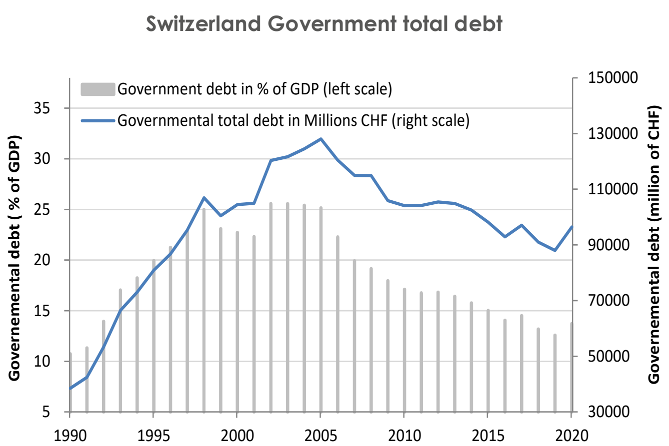


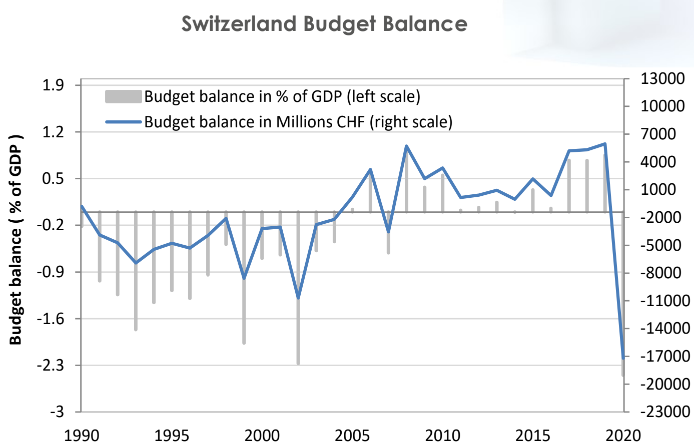












Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Eurozone

- German elections: new paradigm for EU policy
- Temporary dip in leading indicators
- Inflation also makes a comeback in the Eurozone
- European interest rates continue to rise

Growth in Europe is strengthening and could reach +5% for the whole of 2021

The return of consumers clearly boosted GDP growth in the euro area in Q2. At the end of June, GDP grew by +2.2% over the quarter, slightly more than the initial estimate of +2%. Household consumption, up sharply by +3.7%, was a primary contributor to GDP growth, to which public spending and investments also contributed during the period. For the current quarter, expectations remain positive despite the emergence of tensions in production and supply chains that could disrupt supply, while demand seems revitalised by the easing of health measures. GDP growth expectations for the current quarter are in line with the previous quarter at around +2.2%. However, the economy is expected to slow at the end of the year, with growth unlikely to exceed the +1.1% target by much. Overall, growth estimates for the euro area are close to +5% for 2021. They remain particularly solid for 2022, with an outlook of +4.3%, which will likely decelerate to +2.2% for 2023. The European economy posted a +14.3% recovery year-on-year, its strongest historical increase in annual comparison. The base effect is obviously an essential factor with regard to the strength of this economic performance, as June 2020 was also the low point in the Eurozone's pandemic-affected economic cycle.

German elections: new paradigm for EU policy

After 16 years of leadership in Germany, Chancellor Angela Merkel is ending her political mandate and will soon be replaced by a new leader from the government to be formed after the German elections. The elections did not give a majority to any party, and it will likely be several weeks before a coalition is agreed upon. Whatever the name of the future chancellor, European policy and relations between EU countries will certainly be significantly altered. A new political era is therefore about to begin, which will certainly be less stable than the previous one and will undoubtedly pose some new challenges.

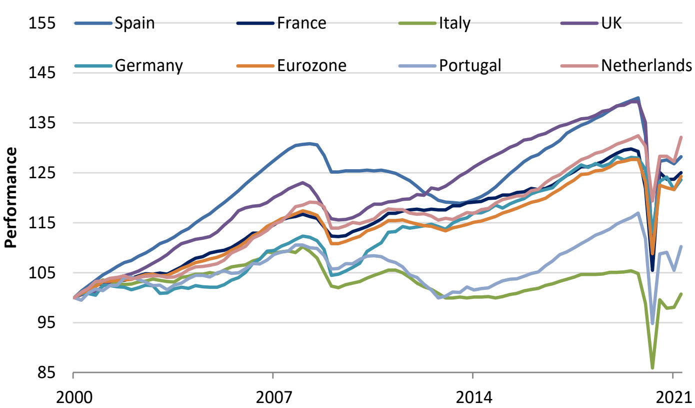
The European leadership that had been built around the person of Angela Merkel and successive French presidents will necessarily have to take a new form, still to be defined, which will be important in terms of the way the EU negotiates the political and economic challenges ahead.

The significance of the challenges and issues posed by the health crisis certainly led to a number of political advances, such as the efforts to mutualise debt in the EU. It is likely that accommodative fiscal and monetary policies will be maintained in the future, but in Germany a return to the debt brake limiting the federal structural deficit to 0.35% of GDP could well materialise in 2021. We will also see in the coming weeks whether the fiscal rules relaxed during the pandemic are questioned by the future coalition. The pandemic had completely discarded the principles of the Stability and Growth Pact in the EU that aim to limit government debt to 60% of GDP and the budget deficit to 3%. The German elections could therefore soon have new implications for financial markets depending on the composition of the next coalition. The election results show a further fragmentation of the German political landscape, which makes it more difficult to measure the possible effects of the future main lines of the new German politics. European growth could ultimately benefit from the revival of infrastructure investment plans that will likely be decided and implemented by the new German government. If the goal of decarbonising the German economy in 20 years were to be achieved, this would mean, for example, public investment of almost EUR 50 billion to help Germany's economic recovery, which is still the main engine of European growth.

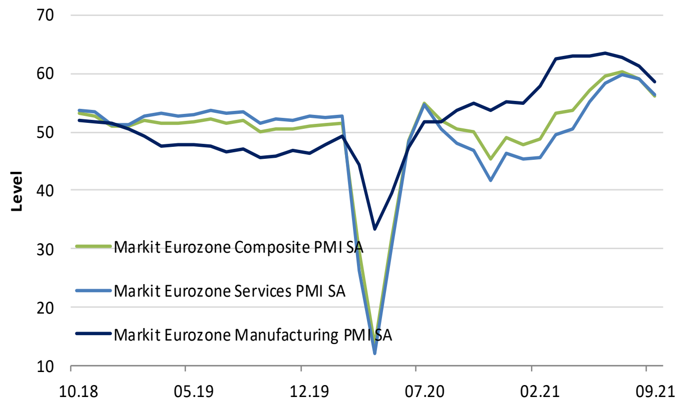
Temporary dip in leading indicators

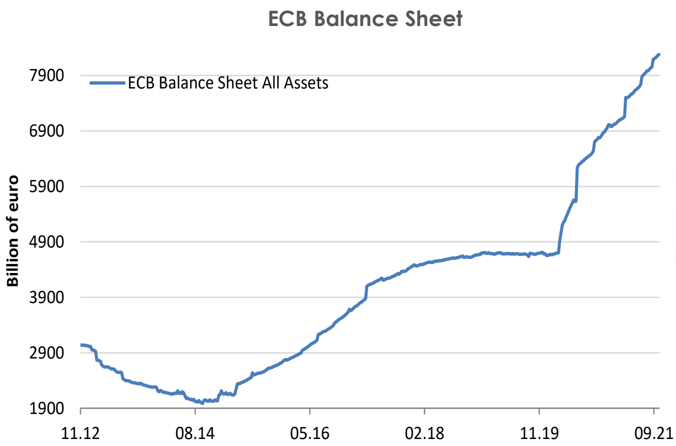
The euro area recorded its third consecutive month of declining PMI indicators in September. The manufacturing PMI indeed shows a significant decline from 63.4 (June) to 58.7 (September), but it remains very much in the solid growth zone. The weakening of the PMI indicators is not a surprise, as the euro area, like other regions, has been affected by the same major disruptions in value chains, transport and bottlenecks internationally.

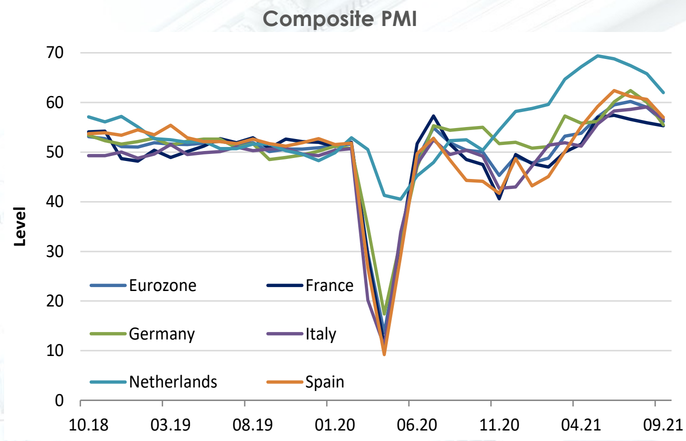
GDP Growth - Eurozone



PMI (Manufacturing, Services and Retail) - Eurozone







The loss of momentum is to be expected given this complex international context. Companies are facing particularly frustrating supply difficulties at a time when demand is being revitalised by the relaxation, or even disappearance, of health measures. Completely out-of-spec delivery times in many cases, shortages in others and almost systematic price increases are undermining purchasing managers' confidence and their assessment of the growth outlook. The fourth wave of Covid-19 also rekindled uncertainty for several months, although these fears have now subsided. The services sector has also been affected by these disturbances, and the services PMI declined from 63.4 (June) to 58.7 in September. We believe, however, that these indicators' decline is only temporary and does not signal an upcoming loss of economic momentum in Europe. The PMI indices remain largely positive and support a solid economic growth outlook for Europe in Q3. The reopening of economies is strengthening demand for goods and services, with the industrial sector continuing to show the strongest momentum. The French and German economies, the two main engines of the Eurozone, seem to be equally robust. European GDP could therefore grow by around +2% in Q3.

Inflation also makes a comeback in the Eurozone

The latest inflation figures published in the various euro area member countries point to a significant pick-up in inflation. Price indices are rising at all levels due to significant supply difficulties and bottlenecks at various stages of the value chain. Rising transport, raw material and energy costs are having an impact on import prices and producer prices. Producer prices, as measured by the PPI Eurozone Industry Ex-construction index, rose by +2.3% in September and are up +12.1% year-on-year. This is the strongest historical increase in this indicator. France (+1.3%) and Germany (+1.9%) are currently seeing lower increases in their production costs. On the consumer price side, increases are more moderate. The CPI index for August shows a price increase of +0.4% and +1.6% over one year. In international comparison, the recent rise of inflation in the Eurozone is thus significantly lower than that observed in the US and the UK in particular.

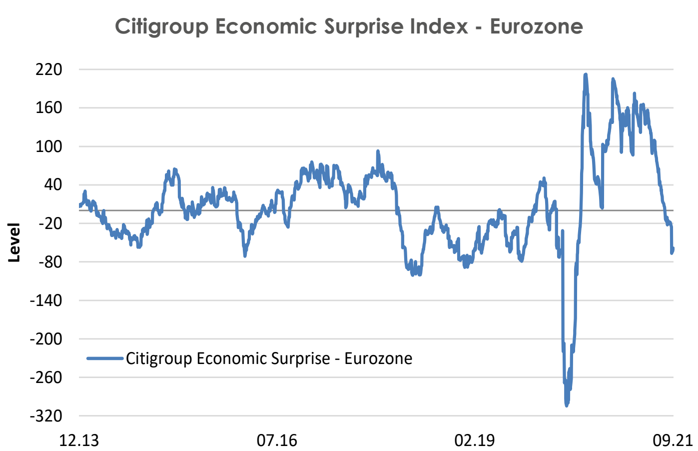
Nevertheless, it is likely that the trend will strengthen a little in September due to persistent pressure on electricity and gas prices, reaching +3.3% for the overall index and +2% for the CPI excluding food and energy. Within the Eurozone, inflationary risks appear to be higher in Spain (+4%) and Germany (+4%). In France, year-on-year inflation jumped to +2.7% in September, while in Italy it reached +3%.

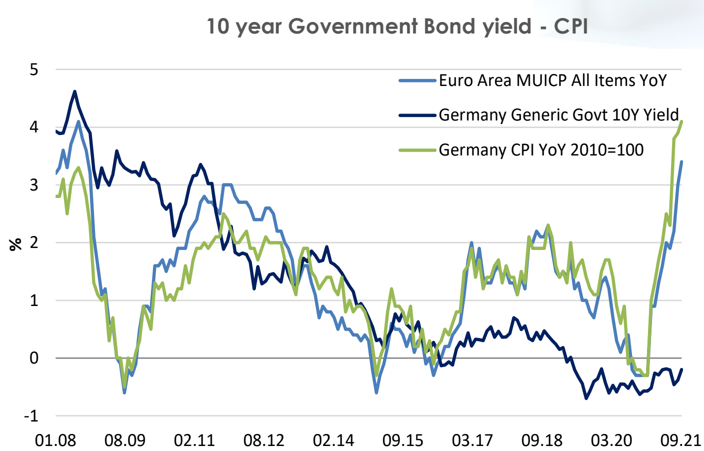
Sentiment and confidence slightly improving

Confidence improved in September in most of the segments analysed. Confidence in the future development of the economy, as measured by the European Commission, improved slightly by 0.2 points, as did confidence in the industrial, consumer and construction sectors. Services and the retail sector, however, are slightly less confident than before.

ECB set to reduce liquidity injections

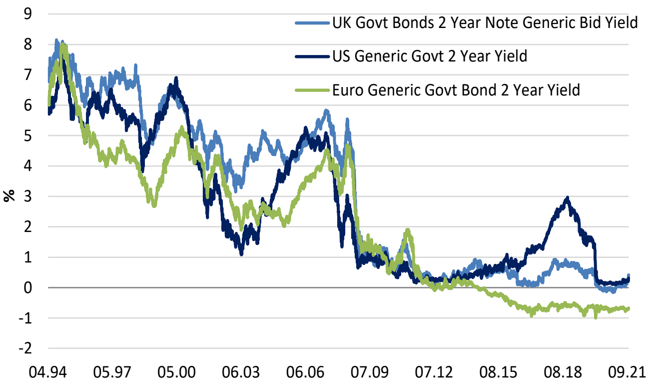
The ECB, like other major central banks, persists in maintaining that inflation is following a temporary trajectory. The recent rapid rise in inflation clearly contradicts this position, as it suggests an acceleration of the inflationary trend rather than a deceleration of the phenomenon that has been in place for several quarters. Central banks' analysis, and the ECB's in particular, seems to us to largely underestimate the forces at work and the likelihood that they are less temporary than officially claimed by central banks. At the beginning of Q4, the question of how long the upward price trend will last has become central and essential for central banks. By persisting in asserting that inflation is transitory, central banks risk provoking a radical change in the perception of the appropriateness of their policies should it prove to be a little more lasting. The ECB seems to be taking a step back from the rhetoric of the Federal Reserve and the BoE for the moment, although it faces the same risks. Its room for manoeuvre is indeed narrow, and this probably explains why it is "betting" on an imminent decline in inflation.



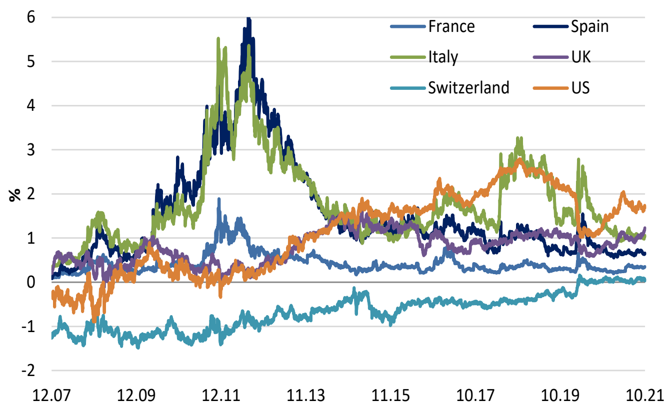


Graph sources: Bloomberg/BearBull Global Investments

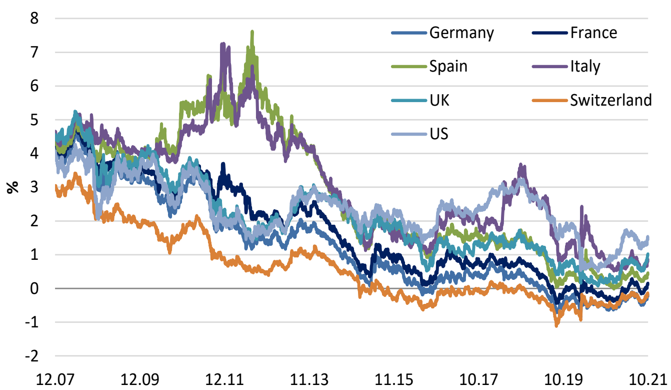
2-year Government Bond yield (US, Euro, UK)



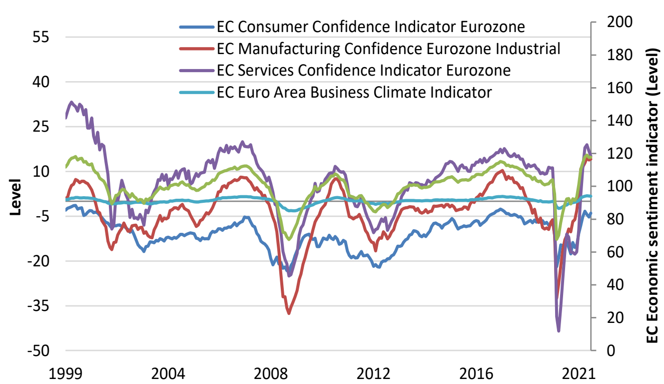
Risk premium - Government vs. Bund



10-year Government Bond yield



Economic Confidence Index



Graph sources: Bloomberg/BearBull Global Investments

The ECB does not want to react too quickly to what could be a transitory supply shock reinforced by a temporary base effect. For the time being, the ECB is clinging to the absence of observable tensions on the labour market and on wages. However, probably like the Federal Reserve chair, Christine Lagarde has to consider the likelihood of inflation exceeding its 2% target for a while. For the time being, Lagarde still hopes that this situation will resolve itself. However, she may end up echoing the words of the Fed chair who admitted that it is frustrating not to see an improvement in the supply difficulties that are causing inflationary pressures. The ECB recently decided to keep its key rates unchanged at -0.5%. However, it announced that economic conditions were improving sufficiently to reduce its asset purchases, currently at EUR 80 billion per month, as part of its PEPP asset purchase programme, which is due to expire in March 2022. The APP asset purchase programme introduced in 2015 will continue at a monthly rate of EUR 20 billion for as long as necessary to reinforce the positive effects of its low interest rate policy.

European interest rates continue to rise

European long-term rates have also suffered from the adjustments in outlook prompted by the inflation figures published in recent months. While in July central banks managed to convince investors of the transitory nature of inflation in a context of economic slowdown potentially caused by the fourth wave of Covid-19, they are no longer able to avoid the adjustments induced by the revival of inflation. Ten-year yields are again approaching their May highs, up 30 basis points in the space of just four weeks. We believe that government yields are ready to break out of the trading range in which they had stabilised since June 2019. The next wave of adjustment in long-term yields is likely to drive rates significantly higher and also affect risk premiums. The European bond market has again entered a likely area of turbulence that could also significantly affect other financial assets if the adjustment we expect materialises. A return of the German 10-year Bund yields to the 0.4%-0.6% range therefore seems likely in 2022.

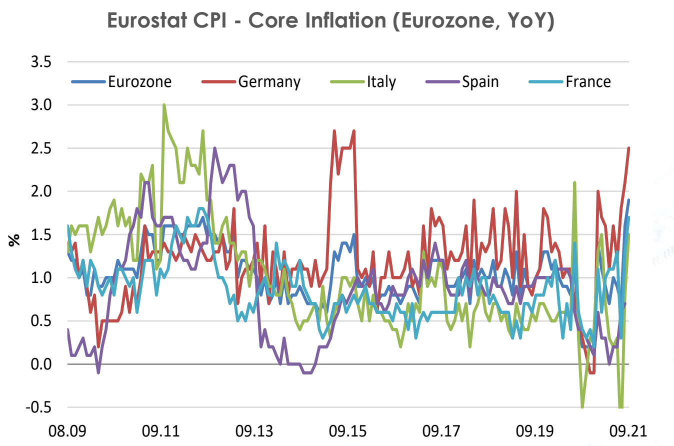
Euro suffers from unfavourable interest rate differential

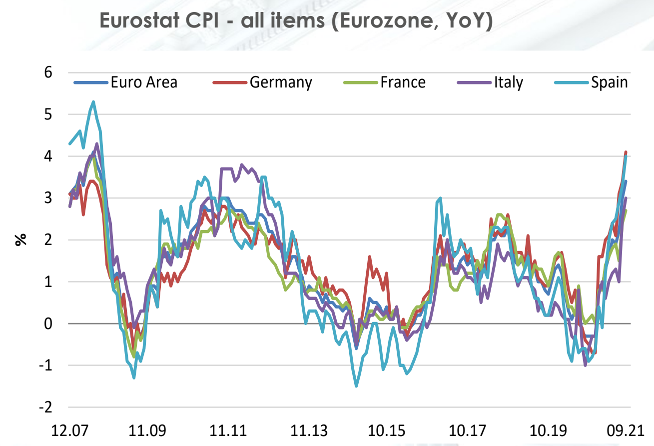
The beginning of the year marked an initial inflection point for the euro, which logically lost strength as the economic outlook weakened and the growth differential became more favourable to the US. The hesitations that arose at the beginning of the summer with the emergence of the Delta variant had created some economic uncertainties that were not very favourable to the dollar, particularly in the context that prevailed in interest rate markets and still favoured stability in long-term rates. Since June, the increase in the yield differential in dollars and euros has once again favoured the US currency, which is now benefiting from a very favourable long-term interest rate differential. The 10-year yield spread between Treasury and German Bund rates has indeed widened further in recent weeks and now stands at around 170 basis points. We expected the euro to weaken against the dollar, which has now reached our target of 1.15. The next few months are likely to be slightly more conducive to the euro appreciating against the franc and the pound sterling by +3% to +5%. Positive relative valuations for European equities but risks of disappointment are increasing

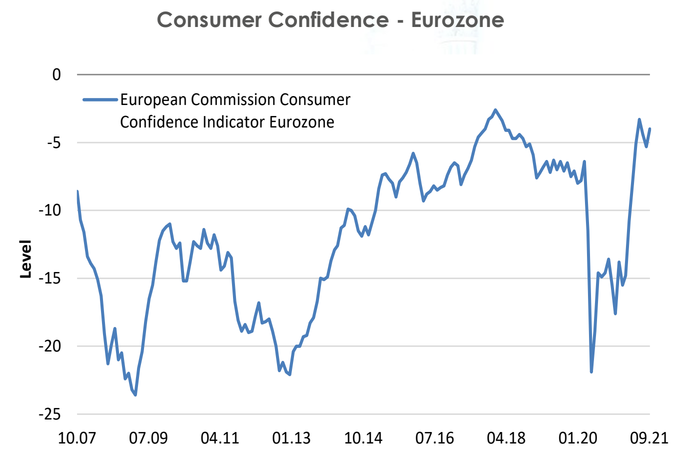
European equities have matched the US stock market so far in 2021.

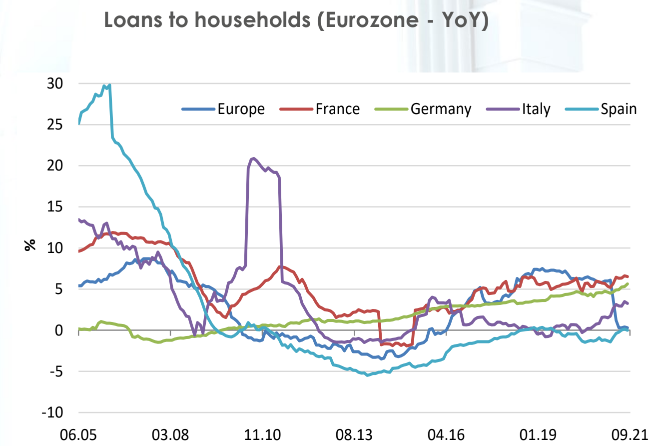
The Stoxx50 index's 14.5% increase is similar to that of the Dow Jones (12.3%) or the S&P500 (16%). But in terms of valuations, the European market still offers a discount of around 20% to 25% with regard to 2021 price/earnings ratios. However, price growth expectations for the Stoxx 600 and Stoxx 50 stocks over the next twelve months are particularly high (+32% and +23% respectively) and subject to disappointment if the increased production costs faced by companies cannot be fully passed on to sales prices. In this once again more uncertain environment for the evolution of corporate margins and profits, the risks of downward adjustment of expectations are increasing.

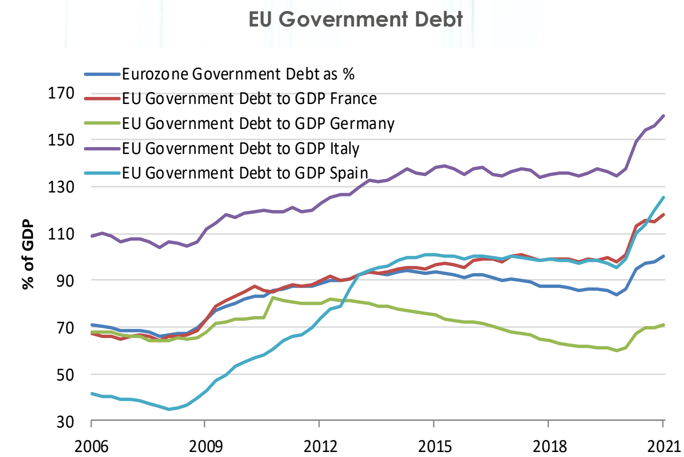
We again recommend a temporarily more cautious exposure to European equities before we can count on better visibility on corporate profits for 2022.

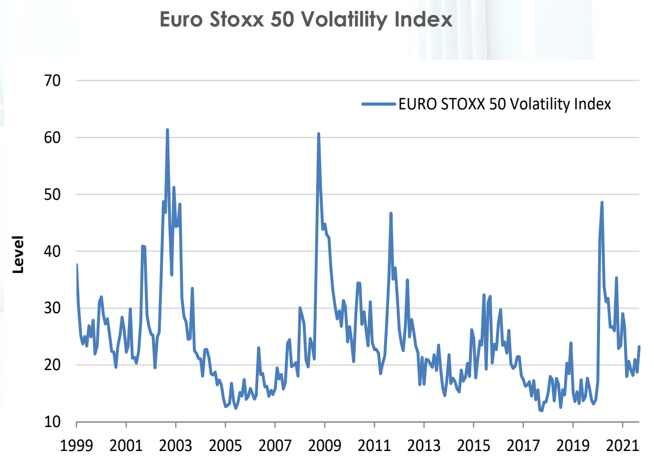












Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Kingdom

- Historic fall in UK exports
- Leading indicators still unconvincing
- The labour market is tightening and the BoE is concerned
- Household confidence is still lacking

UK GDP stagnates in July (+0.1%)

In July, UK GDP grew by only +0.1% over the month, below expectations. After a +1% increase in June, the anticipated slowdown turned out to be stronger than expected. Rising cases of Covid-19, worsening product shortages and a tight labour market have affected the recent performance of the economy. Despite the latest health restrictions having been lifted mid-July, many British people were still isolated. The rise in industrial production (+1.2%) logically made a positive contribution, while services stagnated due to the further decline in activity in distribution, transport and leisure. Post-Brexit GDP thus shows a cumulative increase over seven months of around +4.3%, mainly due to the solid recovery in Q2, revised to +5.5%, which followed the sharp correction recorded in January 2021 (-2.9%). Performance over three months remains encouraging (+3.6%), but momentum slowed during the summer, leading to fears of decelerating quarterly growth in Q3. At the end of June, British GDP did rebound by +22.2% year-on-year. However, it remains 2.1% below its pre-pandemic level. Q2 GDP had benefited from the intensive vaccination efforts and the easing of health measures and pointed to a rather favourable third quarter. However, the recovery will probably also stall at the end of the year, particularly due to the expected disruption of supply chains and the difficulties encountered in certain segments of the labour market, which are likely to persist. The shortage of HGV drivers in the transport sector, estimated at around 100,000, is a glaring example of the problems arising from Brexit-related regulatory changes that could affect economic momentum and inflation in the coming months.

Historic fall in UK exports

UK trade with the EU fell sharply in July in the wake of Brexit. Total merchandise exports fell by GBP 300 million due to a GBP 900 million collapse in exports to the EU. A GBP 700 million increase in exports to other countries partly offset this decline. These latest figures are in line with the trend observed over the past several years. The UK has fallen off the list of Germany's top 10 trading partners following an 11% drop in exports to Germany. British exporters have lost their competitive edge since the beginning of the year. Even the financial services sector is struggling and has been steadily losing market share since 2017.

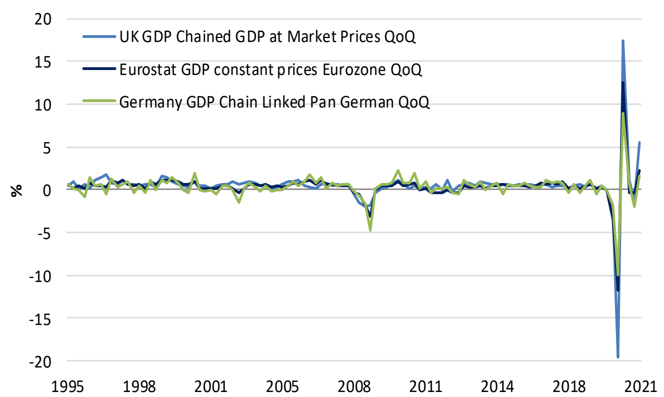
Leading indicators still unconvincing

The manufacturing PMI registered a fourth consecutive month of decline in September, pushing the indicator to 56.3 after having exceeded the 65 mark in May. The trend is similar for the services PMI, which also fell from 63 to 54.6 over four months. The construction sector is not immune to the trend either, with a clear consolidation in August (55.2) from its high point of 66.3 in June. The leading PMI indicators reflect a slowdown in activity that is already evident in the published monthly GDP figures. Although they are all still well above the growth threshold of 50, the recent trend is nevertheless worrying and does not convincingly support hopes for recovery at the end of the year, despite a rather positive international context. Industrial production, up by 1.2% in July, has remained volatile since the beginning of the year, with monthly results fluctuating between -1 and +1%. Over a year, the +3.8% performance contrasts sharply with the almost +30% rebound observed in April when the base effect was strongest. On an annual basis, it is close to the trend that prevailed in previous pre-pandemic years. Overall, growth in Q3 is still expected to be relatively positive at +2.5%. The expected slowdown towards the end of the year will probably see GDP growth dip to +1.5%, for FY2021 UK growth of +6.9%. Economic growth could then remain relatively solid in 2022, reaching +5.5% before progressively normalising to +2% in 2023.

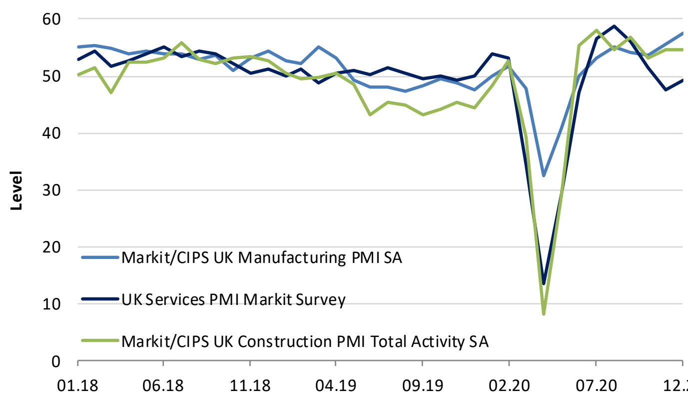
The labour market is tightening and the BoE is concerned

The latest statistics published for the labour market again show a clear upswing in hiring during the summer. The unemployment rate dropped by -0.1% to 4.6% at the end of July thanks to an estimated 183,000 new jobs.

Quarterly GDP Growth - UK

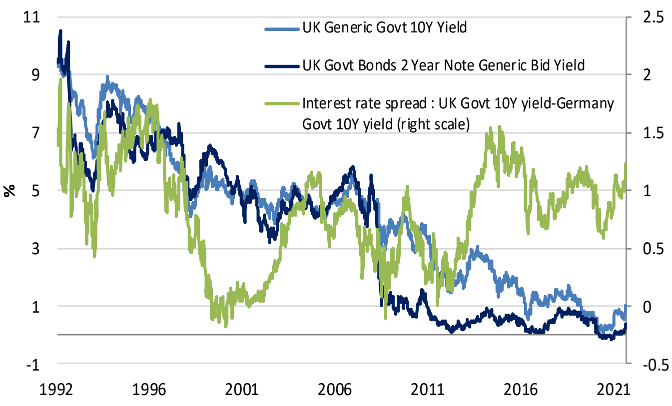


Manufacturing, Services and Construction PMI - UK

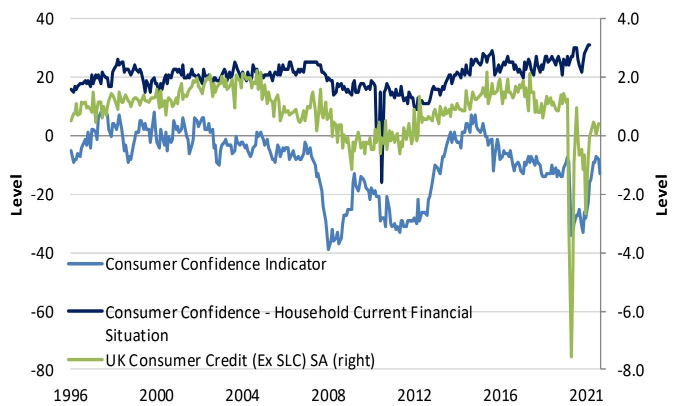


Graph sources: Bloomberg/BearBull Global Investments

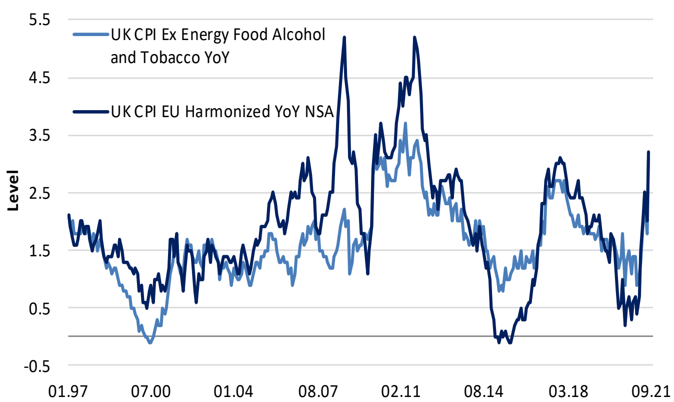
UK Government Bonds - 10 year and 2 year yield



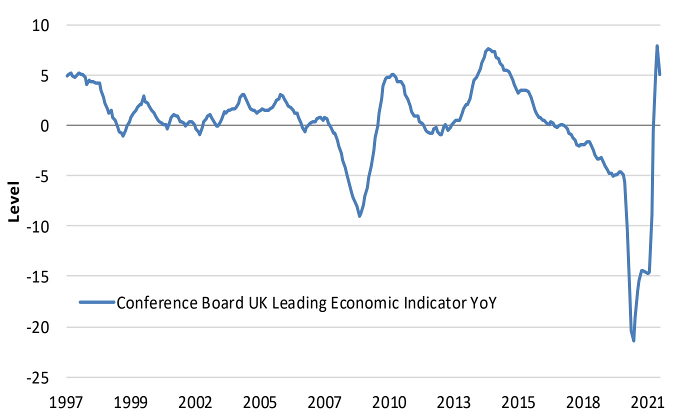
Consumer Confidence



Inflation CPI



UK Leading Economic Indicator



Graph sources: Bloomberg/BearBull Global Investments

In August, this momentum appears to have been maintained, as job vacancies surged with the reopening of the economy, exceeding 1 million jobs, almost 250,000 more than before the health crisis. Wage growth remained high at +6.8%, although declining from the June figures. It is estimated that adjusted wage growth is really in the range of +3.5% to +5%, which is particularly favourable for the outlook for consumption growth. Jobseekers remain plentiful, but they may not match job descriptions or be tempted to rush to take on new work once the support measures are lifted, likely soon. Against this background, we believe that wage pressures will remain strong over the coming months due to a likely and persistent mismatch between supply and demand. The upcoming developments in the labour market will have a significant impact on the BoE's monetary policy. Further tensions will likely reinforce the risks of a gradual normalisation of policy rates. Conversely, a return to the labour market of unemployed people and a decrease in wage growth could reduce the risks of rate hikes.

Household confidence is still lacking

The latest statistics point to a further 5-point drop in household confidence in September from -8 to -13. Households again feel that the 12-month economic outlook is worse in September, as is their financial outlook and their perception of conditions for making major expenditures. The -0.9% fall in retail sales in August came as a negative surprise to forecasters, who were expecting an increase. This underperformance is expected to weigh on Q3 GDP. Overall, the level of consumption remains higher than before the pandemic, but this fourth consecutive monthly decline remains potentially worrying. In this context, it should be noted that the household savings rate remains very high. This factor remains strongly supportive of future consumption once confidence is restored. A rebound in consumption is therefore not excluded, despite the fact that confidence is still subdued.

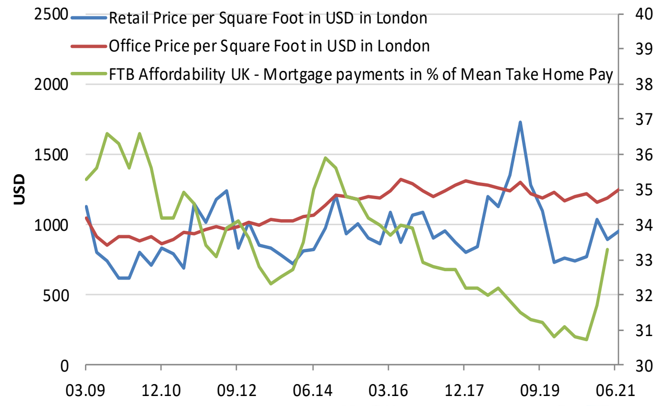
Inflation taking hold and spreading gradually

The UK is no exception to the upward trend in prices observed in other countries for several quarters. Inflation is rising in the country on most fronts. In August, producer prices rose by +11% year-on-year, the highest increase since 2011. The increase in prices exceeds the +10.2% rise recorded in February 2017. The same trend was observed for producer prices of manufactured goods for the domestic market, which rose by 6.9%, also the highest increase since 2011. Consumer price indices are following the same trend with a more limited amplitude, but the CPI increase of +3.2% over one year in August is also the strongest since 2011. As growth begins to stall, the acceleration of various inflation measures in the UK may begin to raise fears of stagflation. For the time being, however, wages are fortunately rising alongside prices, so there is no clear threat to the purchasing power of UK households. However, this poses a problem for the BoE, which will have to carefully steer its monetary policy and normalisation in 2022.

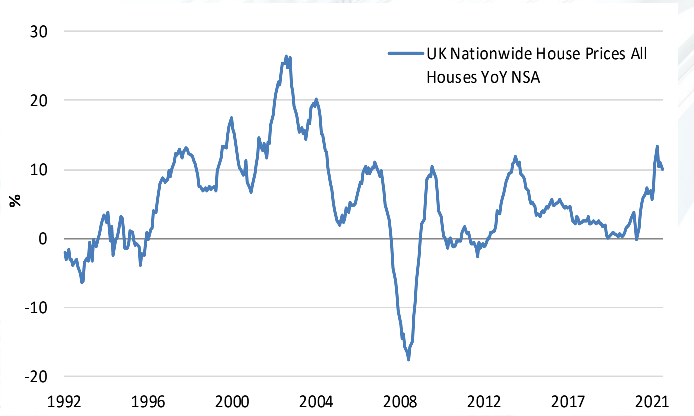
Trend reversal in the sterling bond market

Sterling long-term rates experienced one of the most severe tightenings among developed bond markets in September. The rebound from 0.49% to 1% of 10-year government bond yields materialised in just four weeks against a rather weak economic backdrop. In contrast to the US, rising inflation measures and inflationary expectations have worried UK investors, who were quick to adjust their expectations of required yields and risk premia to the new situation without relying too much on the BoE's interventions to control the level of long-term rates. The rise in long-term yields therefore seems to us to be quite rational in the context of rising inflationary pressures. Ten-year UK government yields had jumped from 0.2% to 0.8%, while inflation was negative in January (-0.2%). They have now risen above the 1% level and are at their highest level since May 2019.

Housing Prices



UK Nationwide House Prices



We were expecting a reversal of the trend that would mark the likely inflection point for UK rates, and the recent movement is confirmation of this. The rise in nominal sterling bond yields places the UK bond market in the group of bond markets offering attractive relative returns compared to the European, Japanese and Swiss markets. The rebuilding of a risk premium is favourable, but the attractiveness of holding sterling bonds still seems to us insufficient. Inflationary risks in the UK could intensify further as the negative effects of Brexit on price levels are likely to increase. Supply difficulties and increased transport and production costs could thus support the current trend and push yields higher in 2021 already. A return of 10-year nominal rates to 2019 levels between 1.5% and 1.75% is therefore not excluded.

BoE not quite in panic mode yet

The UK central bank seems to be more concerned about accelerating inflation than the risks of a cyclical downturn. The evolution of the labour market is likely to be the main factor in deciding on the course of monetary policy. If the unemployment rate continues on its current trend, it is likely that the BoE will decide to raise policy rates rapidly as early as February 2022. In the meantime, the labour market will be closely monitored to assess the probability of a first rate hike. The UK would then be the first G7 country to initiate monetary tightening. The GDP growth outlook has been lowered from +2.9% to +2.1% for Q3 mainly due to supply side issues. Inflation expectations are now +4% for the end of the year. For the time being, the BoE is keeping its key interest rates and its asset purchase programme unchanged.

Can the sterling benefit from the nominal rate differential?

The pound appreciated quite significantly against the euro and the dollar at the beginning of the year. The exchange rate approached the level of 0.85 pounds to the euro and then stabilised without much volatility for six months. However, Brexit poses significant challenges to the UK economy in terms of inflation and growth. The risks of stagflation are increasing, and the real yield differential is not in the sterling's favour.

The rise in 10-year UK government yields, which we considered likely in our previous analysis, is now materialising and could intensify further in the current inflationary environment. Against this backdrop, we believe the sterling is likely to remain within its 0.85-0.925 fluctuation band in place since the June 2016 vote and potentially depreciate by -5% against the European currency in the coming months. The UK currency may well again be seen as a likely adjustment variable in the event of a sustained post-Brexit economic shock.

UK real estate remains in high demand

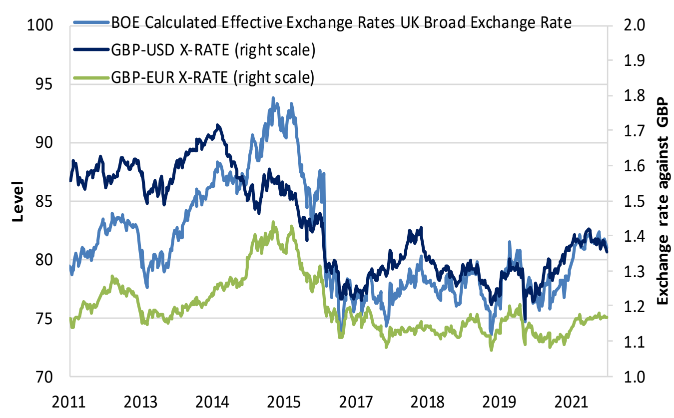
UK real estate prices rose by a further +0.3% in September and are up +5.8% year-on-year. The property boom continues and is supported by the demand for new space following the health crisis. High household savings, particularly favourable financing rates and shortages of raw materials are supporting production and sales prices. The recent withdrawal of government incentives has had only a slight impact on the market but has not stopped demand. The rise in average real estate prices may therefore continue due to continuing excess demand.

UK equities enjoy a 20% risk premium

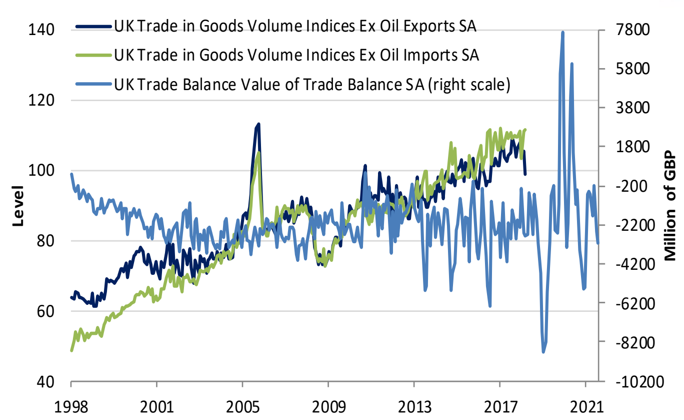
The UK equity market is still not benefiting from its attractive valuation and renewed positive momentum that is overdue. It continues to lag most other European markets in 2021, as it did over the whole of 2020. The FTSE 100 index's rise of around +10% in local currency over the first nine months is well below that of European equities (+15%) in euros. UK stocks are still suffering from Brexit-related uncertainty. The FTSE 100 index is currently trading at just over 12x expected earnings for 2021 and thus benefits from a favourable risk premium of around 20% compared to the more expensive Eurostoxx 50 stocks (16.5x).

This valuation gap is likely to be favourable, but the composition of the UK stock market certainly still acts as a brake on the adjustment of UK stock prices and valuations.

UK Effective Exchange rate



Trade Balance - Exports - Imports



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

Japan

- Better outlook for Q4
- Leading indicators still uncertain
- Trade balance back in deficit in August
- Inflation finally also reaching Japan

Japanese GDP avoids recession, recovering in Q2

Japan's Q2 GDP grew by an annualised +1.9%, slightly more than initially forecast. The Japanese economy avoided a further decline in growth and even surprised economists on the upside, as the consensus expected a more mixed result. Japanese economic momentum may seem encouraging given the reinstatement of the health emergency due to the resurgence of Covid-19 outbreaks in the run-up to the Summer Olympics. However, the rebound in growth in Q2 was not sufficient to erase the economic contraction at the beginning of the year, which saw Japanese GDP fall by 3.7%. Generally, this economic performance is not so encouraging, when one takes into consideration the evolution of the health situation during Q3.

In a context that is still not very optimistic, investment spending nevertheless grew at an annual rate of +9.5% during the quarter. On the government spending side, the +5.4% increase is very substantial and is likely to support economic activity. Private consumption also proved relatively strong with an increase of +3.9%. The contribution of Japanese exports to GDP was once again decisive with an increase of +11.8%.

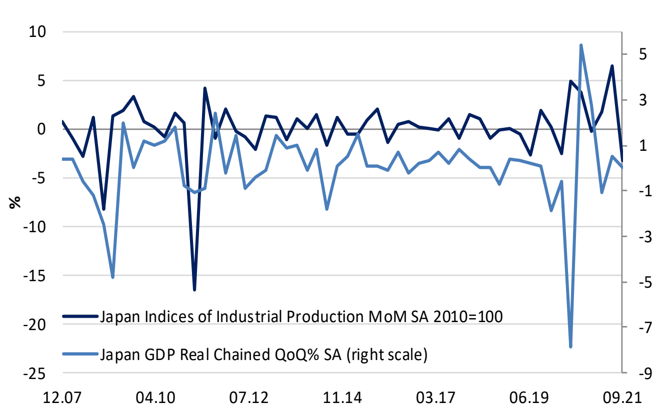
Better outlook for Q4

The health situation in Japan remained complicated during the summer and is expected to continue to negatively influence the performance of the Japanese economy in Q3. The services sector may well have contracted significantly over the past three months by around -2%. Given the importance of the services component in GDP, the risks of a further downturn in activity are high, especially during this period, which is heavily affected by the health measures still in force in September. This has reduced the likelihood of solid GDP growth. The revised outlook now suggests only a +1% increase on an annualised basis. The decline in economic intensity in China is likely to affect the performance of Japanese exports and reduce the outlook for the current quarter. Consumption is also very likely to weaken in Q3. Exports have indeed slowed down a little in recent weeks due to a drop in external demand, particularly Chinese demand. Exports remain an important contributor to growth, but a further loss of momentum in the very short term remains likely. Year-on-year growth of +27% in August is still significant although down from +37% in July. The impact of the drop in vehicle exports due to microprocessor shortages has not been insignificant. Meanwhile, imports experienced the opposite effect, jumping from +28.5% year-on-year in July to +44.7% in August. The rise in the cost of raw materials is also one of the factors driving this progression. Overall, Japan's foreign trade result went from a surplus of JPY 439 billion in July to a deficit of 635 billion in August. However, the 85.2% increase in demand for machine tools in August suggests that manufacturers have boosted their investment in capital goods in anticipation of higher sales. Europe increased new orders by +196%, well ahead of the US (+104.7%) and China (+40.4%). Japan's economy is, however, likely to benefit again at the end of the year from a return of external demand. The 4th wave of Covid-19 no longer seems to have the same impact, notably because of the intensification of vaccinations. The end of the year is likely to see a stronger recovery in household consumption and services. Exports are also expected to strengthen, as the outlook for year-end sales and inventory rebuilding improves in anticipation of an expected recovery in private consumption. The decrease of the unemployment rate to 2.8% thanks to around 420,000 new jobs created in July will also contribute to the improvement in the consumer climate, even if some of these jobs were linked to the Olympic Games. For the last quarter, forecasts are again quite optimistic, with GDP growth expected to approach +4% annualised, in particular if a new JPY 30 trillion stimulus is announced by the new Prime Minister to be elected in November. Japan's economy is thus likely to grow by +2.4% in 2021, +2.6% in 2022 and then slow down in 2023 (+1.3%).

Leading indicators and consumer confidence still uncertain

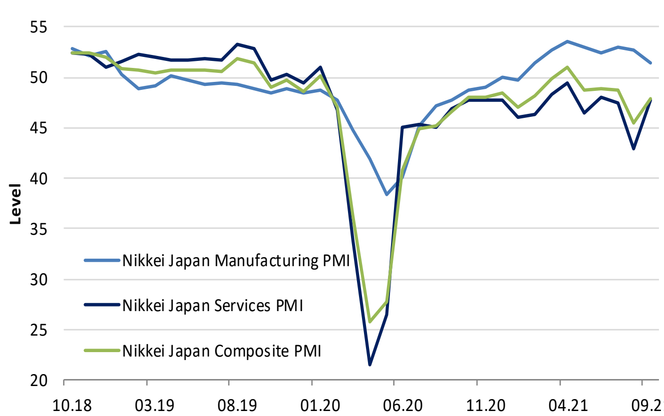
The PMI indices in Japan fell slightly in August but remain positive. As expected, it is especially the industrial segment (51.2) that continues to show better resistance, although the services PMI did finally rebound sharply from 42.9 to 47.4 in August. The manufacturing sector is suffering from supply problems and bottlenecks in the value chain. In particular, the new orders segment has contracted sharply.

GDP and Industrial Production

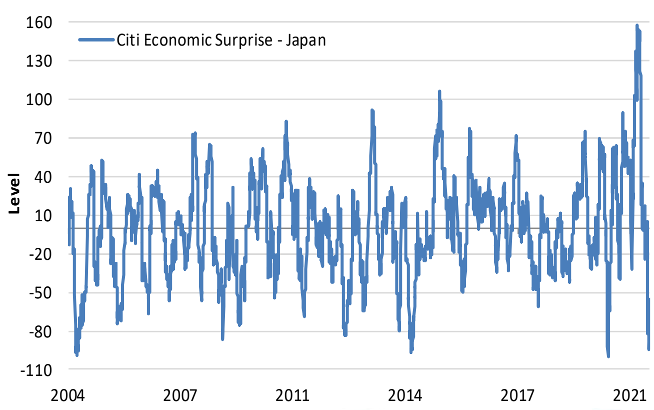


Graph sources: Bloomberg/BearBull Global Investments

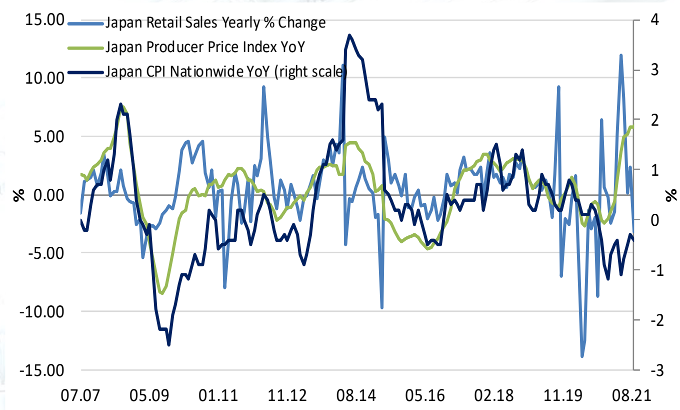
Composite, manufacturing and Services PMI - Japan



Economic Surprise Index



Inflation (CPI and PPI) and retail sales



Consumer confidence has not yet returned to its pre-pandemic level. However, it is still at its highest level since Q1 2020.

The slight decline in August (36.7) compared to July (37.5) reflects the stabilisation of household confidence in anticipation of an easing of health conditions.

However, prospects for an end to the restrictions are improving and could therefore support consumer sentiment. For the time being, household spending does not yet reflect this likely improvement. More than half of the population is now vaccinated, which will be a factor in supporting the emerging optimism of the population. Patience is still required, but household consumption could strengthen significantly in Q4 and replace exports as the main driver of GDP growth. The parliamentary elections scheduled for November could also have a positive effect on general sentiment. A new leader will be elected to replace Yoshihide Suga as head of government. The LDP's internal campaign started with four candidates, including two women, and finally Fumio Kishida was chosen and will likely replace the outgoing prime minister. Continuity in terms of monetary policy will be ensured in any case, Prime Minister Suga having proposed a JPY 30 trillion package and a moratorium preventing any increase in tax rates. Support for households will be prioritised over support for businesses.

Trade balance back in deficit in August

Japanese export growth slowed surprisingly sharply in August, driven by the negative impact of the Delta variant on the global economic momentum. Bottleneck problems in global production chains also caused blockages in Japan in various industries and in the automotive sector in particular. Adjusted for seasonal factors, however, exports rose by +0.8% compared to July. Japan's largest vehicle producer announced production cuts in September of around 300,000 vehicles due to a shortage of semiconductors, which will have a prolonged effect on exports in the coming months. Compared to 2019, Japanese exports are still up by +7.6% and are therefore above their pre-crisis level. On the import side, the +45% increase is historic and constitutes the strongest increase since 1980. It reflects a rather welcome strengthening of domestic demand.

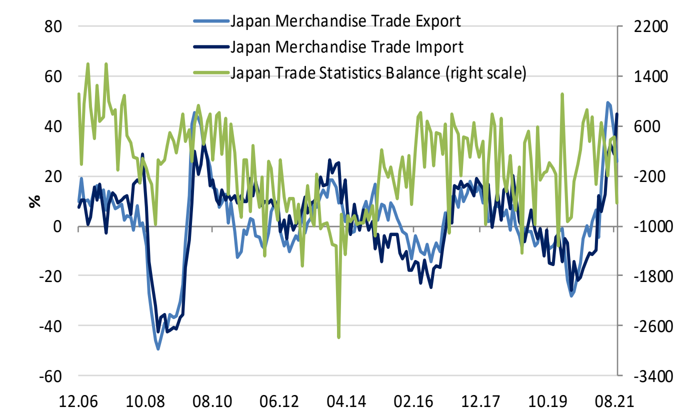
Inflation also finally reaching Japan

Japan has seen inflation measures rise significantly since the beginning of the year, although this is so far confined to producer price indices, which are up by 5.5%, the largest increase in a decade. Although the energy component recorded the strongest increase (+31.5%), non-ferrous metals (+28%), chemicals (+12.2%) and food (+2.9%) also recorded notable increases. On the consumer price side, CPI indices remain particularly stable, with inflation excluding food and energy still at 0% in August, still far from the 2% target set by the BoJ. Inflation in the services segment is also clearly picking up, but it remained limited to +1% in August and therefore does not pose a threat to the current monetary policy.

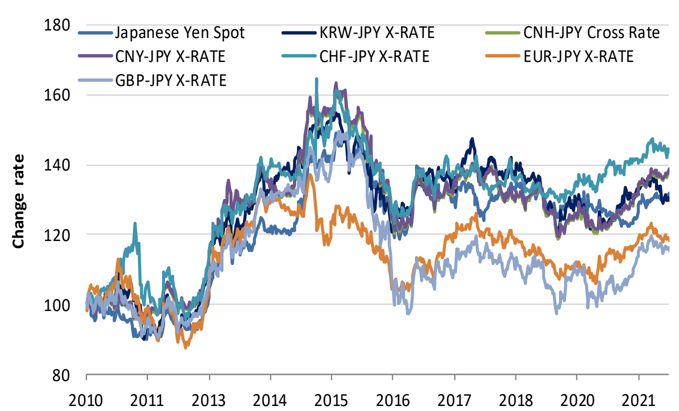
Decidedly accommodative monetary policy

The BoJ has little room for manoeuvre in the current context. Its main concern will likely remain to support the Japanese economy, which is suffering from the effects of the pandemic and the restrictive measures in place for the past six months. Its emergency support programme will be maintained. The BoJ governor reiterated the need for continued ultra-accommodative monetary policy to achieve this target. The BoJ will also continue to support the financing of Japanese companies. In its last communication, the BoJ maintained its key rate at -0.1% and confirmed its objective of maintaining long-term interest rates at 0% by purchasing assets (ETF and J-REIT purchase operations of up to JPY 12 trillion and 180 billion, respectively). The maximum limit for corporate bonds was set at JPY 20 trillion in total by the end of March 2022.

Trade Balance (Billion of yen)



Exchange rate (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

China

- Energy crisis hurts Chinese output
- Chinese growth held back by the real estate sector
- Slowdown in Chinese corporate earnings
- Chinese real estate market in turmoil

Energy crisis hurts Chinese output

In China, leading indicators for the month of September point to a slowdown in the manufacturing sector with the PMI falling below the 50 growth threshold. China's industrial sector seems to be increasingly suffering from the country's energy crisis. Indeed, energy shortages have recently intensified, threatening industrial activity and production in a growing number of regions. Government priority has been given to households at the expense of businesses.

It is difficult to estimate the impact of these shortages on production and exports, which will reduce the supply of Chinese products, while international demand still seems very strong in the run-up to the year-end holidays. The index of new industrial orders has already been slowing for several months, but the performance of Chinese exports remains very robust for the time being, probably due to production problems in Vietnam, which has been badly affected by the Delta variant. In contrast, the non-manufacturing sector is doing well again in September after a phase of weakness linked to the Delta variant in August.

Chinese growth held back by the real estate sector

Overall, China is also affected by the events surrounding the Evergrande shock, which will not be without implications for the real estate market. These two sectors have been drivers of the post-pandemic recovery, and our revised growth outlook remains very positive, but down from our previous forecast. China's GDP could ultimately grow by less than 8.5% in 2021.

The Chinese economy is indeed expected to grow by +8.5% in 2021 and +5.5% in 2022 and 2023. GDP growth is expected to slow to +0.7% in the current quarter, due to the effects of the Delta variant, but China's economy is expected to regain some strength in Q4 and grow by +1.5%. The immediate outlook remains influenced by some potentially disruptive factors such as the situation in the Chinese real estate sector with the Evergrande shock and the slowdown in activity in the sector.

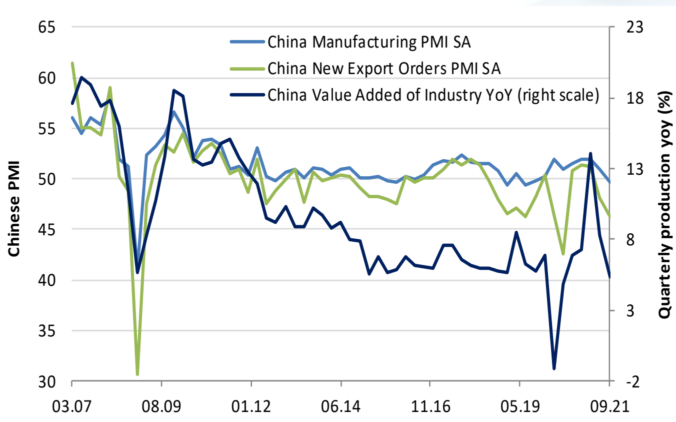
Record trade surplus

Exports remain very strong with annualised growth of +17% over two years. This is significantly higher than the growth of +12.9% at the end of July. The somewhat surprising strength of Chinese exports, up +25.6% year-on-year, reflects the strength of international demand. As the year-end celebrations approach, shipments of goods and merchandise increased to a value of USD 294 billion, an all-time high. Imports also rose sharply by +33.1% to USD 236 billion, also representing the highest level of imports ever recorded. Foreign trade was thus in surplus in August by USD 58.3 billion. Disruptions at China's second largest port, which had pushed up shipping prices, were offset by strong European and US demand in anticipation of Christmas sales.

Chinese exports to the US were up 15.5% year-on-year. Purchasing managers were certainly forward thinking in sending out their orders earlier than before. The fear of not having products available before Thanksgiving and the end-of-year holidays likely motivated them to act. Exports of electronics, high-tech goods and clothing were the most popular. China may have temporarily benefited from new orders previously intended for other Asian countries but redirected to it because of health problems reducing the other countries' production capacity.

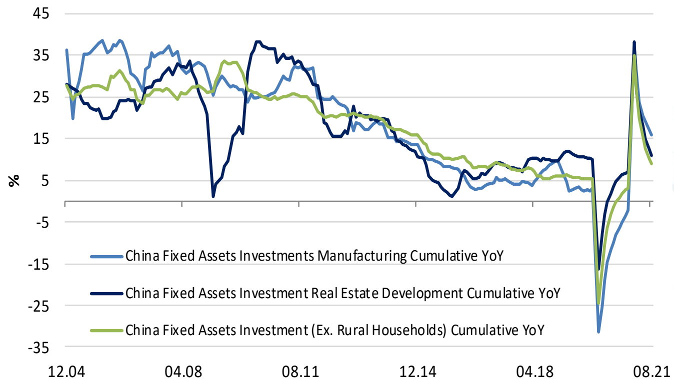
YoY GDP Growth

PMI and Industrial Production

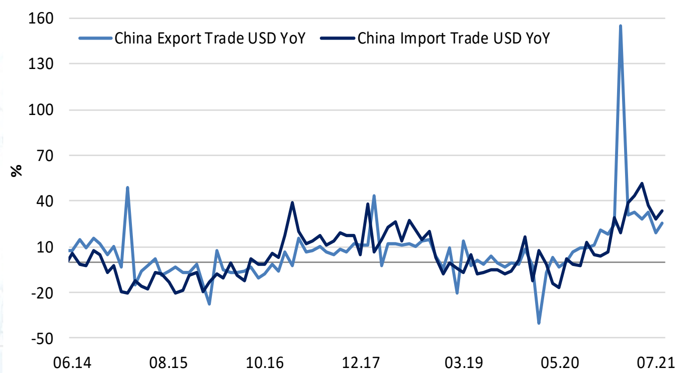


Graph sources: Bloomberg/BearBull Global Investments

Real Estate, Infrastructure and Industrial Investments (YoY)



Exports and Imports (YoY)



PBOC to ease monetary policy

The slowdown in activity in Q3 is likely to push the PBOC to act by easing monetary policy. The decrease in inflationary risks gives it an opportunity to do so, at a time when the increase in bankruptcy risks in the construction sector is also threatening Chinese economic growth. The bank is thus likely to reduce its reserve requirement ratio (RRR), already lowered in July, by 50 basis points to reinforce its action and the CNY 300 billion refinancing measures announced to support bank financing for small businesses and compensate for the slowdown in the growth of the money supply. M2 only grew by 8.2%, close to its historical low. On the real estate price side, the index measuring average prices in 70 cities still rose by +0.16% in August, but the problems in the sector, highlighted by the Evergrande case, pose significant challenges for PBOC monetary policy.

Slowdown in Chinese corporate earnings

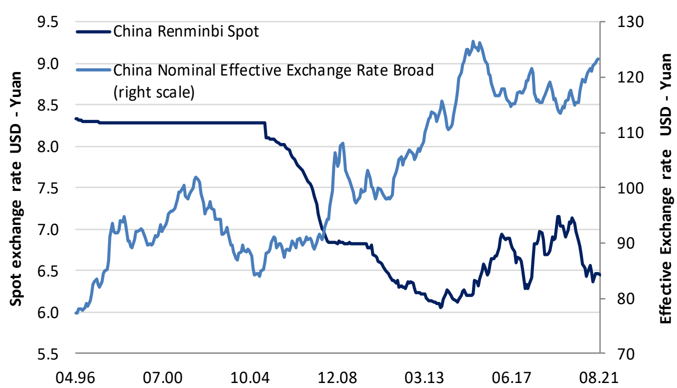
Since the end of Q1 2021, Chinese corporate profit growth measured year-on-year has been slowing. The base effect in terms of profit comparisons has logically been declining since March 2021, which represented a +92% increase from the March 2020 low point corresponding to the end of the profit contraction cycle during the pandemic. The latest published figures show an increase of +10.1% at the end of August, a significant decline from the July figure of +16%. This deceleration undoubtedly reflects the slowdown in industrial production, which slipped from +6.4% in July to +5.3% in August. However, the increase in producer prices was much more significant and still up by +9.5% in August, its strongest increase in thirteen years. The decline in leading indicators and the difficulties associated with the energy supply point to a further deceleration in profits. However, the mining sector benefited from the tensions in commodity prices and recorded a +151% increase in profits in August year-on-year, even better than the +145% increase achieved the previous month. In this context, the PBOC is likely to consider a reduction of its reserve ratio.

In a year-to-date comparison, Chinese corporate profits still jumped by +49.5% in the industrial sector. The sectors with the best profit growth were oil & gas, coal and ferrous metals. The CSI 300 index (-5.6%) has largely underperformed international markets in 2021 after a strong start to the year. March was a fatal month for the index, with technology stocks in particular suffering a shock. The correction recorded between the February peak of 5,930 and the July low of 4,896 represents a drop of more than -20%. Despite this price decline, the current valuation of Chinese equities (15.3x) is only slightly below that of the Eurostoxx 50 at 16x 12-month earnings. Chinese equities do not yet offer attractive repositioning opportunities in a context still marked by falling profits and an uncertain year-end.

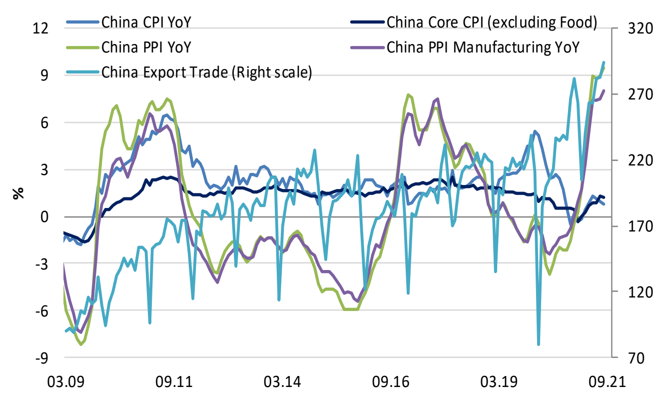
Chinese real estate market in turmoil

The Chinese real estate market is now clearly threatened by the Evergrande crisis, its largest and most indebted developer. But the threat seems to be more global, potentially engulfing the whole Chinese economy. Often described as the biggest financial bubble, China's real estate market is indeed undergoing adjustments that could impact GDP growth. The sector's difficulties are intensifying, with real estate sales falling nationally by -8% in July, -16% in August and -33% in September in the country's 30 largest cities. September and October are seasonally the strongest months for Chinese developers who are entering this period in a state of stress in 2021. The consequence of a drop in October sales for developers would be significant and could quickly lead to sales price cuts and cutbacks in construction programmes. The overall value of Evergrande's debt is exceptional and commensurate with the size of the company, but its method of financing is not unusual among other developers in the country. It is likely that as transactions decline, property prices will begin to adjust. The Chinese government has long supported real estate as one of the vectors of domestic growth, but it still faces the negative effects of real estate speculation, which it is seeking to control. The government does have a stated aim of reducing economic dependence on real estate, but it is difficult to achieve. However, the government's ability to act, if it really wants to, by tightening regulations should not be overlooked. The Chinese government will have to quickly find a solution to Evergrande's debt crisis to avoid an increase in risks for the entire sector and new bankruptcies. Against this backdrop, Chinese real estate is expected to weigh on the overall GDP growth outlook in the coming quarters.

Effective Exchange rate and USD/Yuan



Inflation CPI - Core CPI



Graph sources: Bloomberg/BearBull Global Investments

MACROECONOMIC SCENARIO

United Arab Emirates

- UAE Economy on a steady recovery path
- Expansionary PMI figures and sustained hiring activity
- Abu Dhabi Global Market Index leads both regionally and globally
- Strong revival of real estate capital values and volumes

UAE Economy on a steady recovery path

Economic activity in the UAE continued its steady recovery path in the third quarter of 2021 with an annual GDP expected to grow by 3.1 percent after contracting by 5.9 percent in 2020, according to the latest estimates made by the International Monetary Fund (IMF). Non-oil GDP on its part is poised to increase by 3.8 percent in 2021 according to the Central Bank of the UAE. Average inflation is expected to settle at around 2.9 percent in 2021 compared to a deflation rate of 2.1 percent registered in 2020. The economic recovery is gaining pace as most strategic pillars of the UAE's economy such as oil, aviation, trade, tourism and real estate sectors, which were all deeply affected by the adverse effects of the Covid-19 global pandemic, are on a strong recovery trajectory. Being a major global tourism and trade hub, the UAE is also expected to benefit from the opening of travel restriction alongside major touristic and sportive events such as Expo2020 Dubai and the FIFA World Cup in 2022. Dubai airport (DXB) and Abu Dhabi airport (AUH) were first major airports to resume operation to travelers after partial suspension of operations during late March 2020. Dubai International Airport (DXB) has retained its position as the world's busiest international airport for the seventh consecutive year with passenger traffic of 25.9 million in 2020. It had welcomed 86.4 million passengers a year prior. We also expect the tourism sector to further benefit from the six month long event Expo2020 Dubai which is expected to contribute USD 33.3 billion to the UAE economy over it's tenure, far greater than Expo2015 Milan which raised only USD 11.6 billion. Moreover, the Y-T-D August-2021 hospitality Key Performance indicators (KPI) compared to the same period in 2020 exhibits strong recovery. According to CBRE's latest report, the average occupancy rate rose 11.4 percent. Meanwhile, the average occupancy daily rate (ADR) increased by 2.3 percent, and as result the average RevPAR (Revenue Per Available Room) increased by 26.1 percent. We expect these KPIs to continue improving further over the fall of 2021 with the Dubai airshow, UAE 50th National Day and the upcoming touristic season.

Expansionary PMI figures and sustained hiring activity

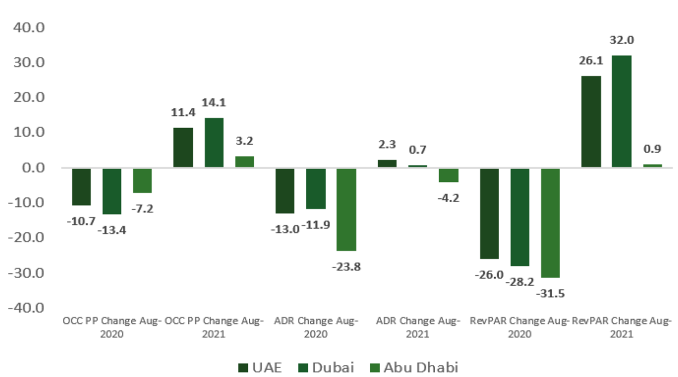
The latest data from high frequency indicators, such as the UAE's PMI survey, indicated robust improvement in business conditions across the UAE's non-oil sector in September 2021, with output, new orders and employment rising sharply. Business expectations continued improving steadily with firms expecting strong resurgence in activity resulting from the Expo 2020, rise in oil prices to a three year high and reduced pandemic related restrictions. The headline seasonally adjusted PMI stood at 53.3 in September 2021 indicating strong levels of expansion in the private sector. The PMI index remains firmly anchored in its growth territory, with the UAE economy expanding for 10th month in a row Out of the five components of the PMI (new orders, inventory levels, production, supplier deliveries, and employment), the output Index (new order) had the strongest expansionary impact in September 2021, with latest data signaling a marked rise in activity levels. Meanwhile, job creation peaked in August 2021 recording a 43 month high with firms continuing their sustained hiring activities.

The UAE is the most vaccinated country in the World with 84 percent of its population fully vaccinated

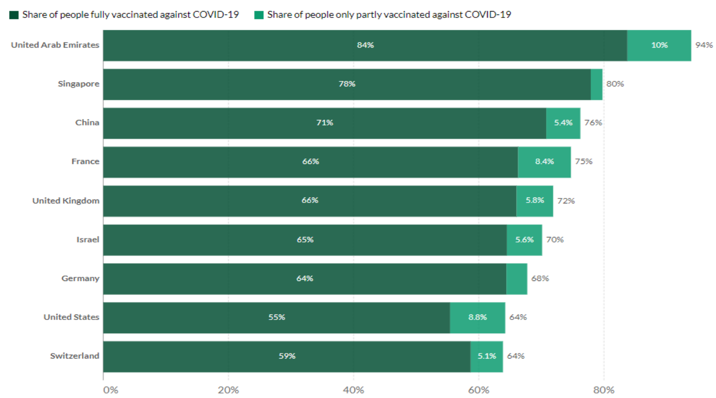
The UAE continues to successfully implement one of the most ambitious, efficient, and professionally managed national vaccination campaigns by international comparison. In fact, the UAE's vaccination program is leading the world both in terms of number of doses administered to population and population coverage. As of 7th October 2021, the UAE had administered 20.3 million doses of vaccine to its population of 9.99 million people with 84% of the population being fully vaccinated and 94 percent of its population receiving at least one dose of vaccine according to "Our World In Data".

Meanwhile, the country continues to screen the spread of the pandemic by performing on average 285,453 daily tests for a population of 9.99 million, with total number of tests exceeding 86 million according to the

UAE Hospitality KPI YOY 2020-2021 percent Change



The UAE leads globally in Vaccination rates per population



Graph sources: Bloomberg/BearBull Global Investments / CBRE / STR Global / Our world in data

National Emergency Crisis and Disaster Management Authority (NCEMA). With the world's highest immunization rate, the UAE is well placed to reap the fruits of its national efforts and recover stronger in relative to its global peers. The country's success in the fight against the pandemic can be attributed to the robust national vaccination campaign and the society's strict adherence to safety regulations. We envisage the UAE vaccination rate to approach 100 percent by the fall of 2021.

Abu Dhabi Global Market Index leads both regionally and globally

Abu Dhabi Securities Exchange Index (ADX) and Dubai Financial Market General Index (DFM) have ushered growth in the region's fastest expanding financial markets in 2021. The ADX has hit all-time highs again in the third quarter of 2021 on the positive combination of a resilient economic recovery, ongoing support from the CBUAE, and strong corporate earnings. ADX index is up by more than 52 percent which places the exchange well ahead of most global financial benchmarks of note such as Russel 1000 (+16.1 percent), S&P 500 (+15.9 percent), Nasdaq 100 (+14.6 percent) and MSCI Europe (+16.3 percent). ADX is also leading regionally when compared to Saudi Arabia's Tadawul index (+32.3 percent) and Kuwait's Boursa Main 50 Index (+27.0 percent). DFM on the other hand maintained an upward trend in the third quarter of 2021 despite headwinds caused by the decline in the transportation index. In terms of YTD-2021 performance DFM is up 14.2 percent well above the global financial benchmark such as FTSE-All Share (13.6 percent), Russel 2000 (12.4 percent) and Dow Jones Industrial (12.1 percent). Over the same period, DFM has also outperformed it's regional peers such as Qatar's QE 20 index (+10.1 percent) and Oman's MSM 30 index (+7.8 percent).

ADX has reached a new stage of growth with a market capitalisation of USD 371.8 billion and DFM has on its part reached a market capitalisation north of USD 105 billon. These strong growths have been achieved via the introduction of sophisticated products and services along with a strong pipeline of listings; most notably being the listing of Adnoc Drilling, a subsidiary of Abu Dhabi oil giant ADNOC, which took place on 3rd October 2021.

Adnoc drilling, which is the largest national drilling firm in the Middle East by fleet size, with 96 owned rigs, rose as much 33 percent on its trading debut, after raising USD 1.1 billion in the emirate's biggest ever listing. Adnoc drilling is now worth in excess of USD 13 billion, making it the ninth most valuable listed firm in the United Arab Emirates. The IPO was multiple times oversubscribed and registered significant demand on part of both domestic and international investors. Total gross demand for the offering amounted to over USD34 billion, implying an oversubscription level in excess of 31 times in aggregate. The UAE's efforts to boost its local exchanges seem promising with a strong pipeline of offerings that are set to raise billions of dollars. Adnoc is also planning to list its fertilizer joint venture during the month of October this year in line with the country's efforts in further diversifying its economy.

Strong revival of real estate capital values and volumes

As we had predicted, since the start of 2021, the real estate markets in Dubai and Abu Dhabi have witnessed very strong recovery, with both residential and commercial real estate markets, posting solid positive performances quarter over quarter. Market sentiments and capital values continued to improve in the third quarter of 2021 and we expect the recovery in real estate values and rentals to gain further momentum in the coming quarters.

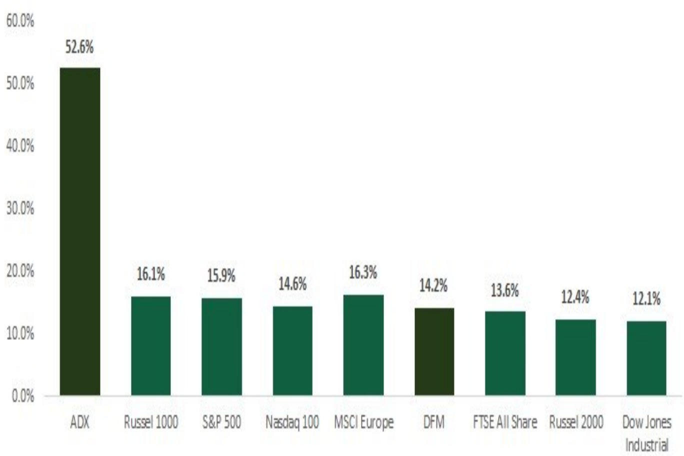
According to the latest report by CBRE, in Dubai, preliminary estimates show that year-on-year in the year to date to August 2021, transaction volumes in Dubai increased by 76 percent, and by 56.3 percent when compared to the same period in 2019. Secondary market transaction volumes in Dubai increased by 120.7 percent YTD-August 2021 while off -plan transaction volumes increased by 39.0 percent over the same period. Overall, property sales volumes in the first three quarters of 2021 have already surpassed total annual transaction volumes in all but two of the last 10 full years. With mortgage rates at historical lows, we expect transaction activity and volumes to continue to progress at a sustained rate over the remaining of this year.

Average residential sales prices in Dubai increased by 4.4 percent in the year to August 2021, the highest rate of growth since February 2015. Over this period average apartment prices increased by 2.5 percent and average villa prices increased by a whooping 17.9 percent according to CBRE. As of August 2021, average apartment prices in Dubai stood at USD 3,020 per square meter and average villa prices stood at USD 3,356 per square meter. Compared to highs witnessed in late 2014, these rates are roughly 30 percent and 20 percent below the peak, respectively. On the supply front, in the year to date to August 2021, new supply in Dubai has totalled 24,597 units, with an additional 24,700 units forecast to be delivered in the reminder of the year.

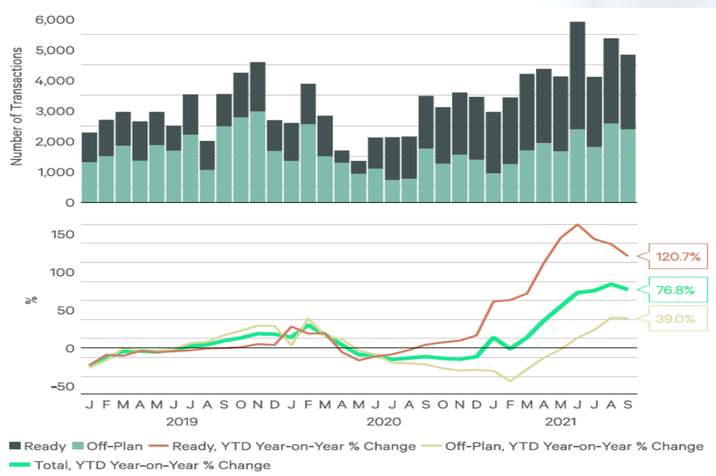
In Abu Dhabi, residential prices increased by 2.2 percent in the year to August 2021. Over the same period apartment prices increased by 1.9 percent to reach USD 2,924 per square meter and average villa prices by 3.1 percent to reach USD 2,349 per square meter. New supply in Abu Dhabi remains limited, with only 1853 units being delivered in the year to date. An additional 9,388 units are scheduled for delivery in the reminder of the year, however, according to CBRE it is very unlikely to see this full quantum being delivered.

With respect to the office sector, total visitation to Dubai and Abu Dhabi workplaces are both edging back towards their pre-pandemic baseline. As of August 2021, total visitation to workplaces stood respectively -9.0 percent and 3.7 percent in Dubai and Abu Dhabi, below its pre-pandemic baseline according to Google's mobility data. As result, occupier activity in both markets remain subdued with demand mainly centred towards Prime or Grade A buildings. Rental rates for Prime and Grade A office space continue to drop slightly which in turn makes both markets tenant favourable with most landlords implementing incentives to attract and retain tenants. Very limited levels of institutional quality supply is expected in both in Dubai and Abu Dhabi this year.

ADX YTD outperforms both Regional and Global Benchmarks*



Dubai Residential Market Transaction Volumes and Y-o-Y change



Graph sources: Bloomberg/BearBull Global Investments / as of 30th September 2021 / CBRE

MACROECONOMIC SCENARIO

Emerging Markets

- Inflationary pressures intensify
- Sustained growth, but uncertainty relating to the Delta variant weighs on forecasts

As regards the global outlook, the Delta variant adds uncertainty to the strength of the global economic recovery. In addition, there is still a risk of rising inflation in the major developed economies. Nevertheless, the environment in emerging economies remains favourable thanks to long-term monetary stimulus, fiscal programmes and the re-opening of major economies.

Brazil — Although economic activity is rapidly returning to 2019 levels, the pandemic continues to produce heterogeneous effects in different sectors of activity, particularly in the labour market. The latest available data continue to move in a positive direction, in line with growth forecasts. The second half of the year is likely to bring robust recovery as the effects of the vaccination campaigns are felt more widely.

The inflation forecasts for 2021, 2022 and 2023 collected by the Focus survey are around 6.8%, 3.8% and 3.25%, respectively. Consumer price inflation has been persistent, and recent indicators seem to show upward pressure. Of note is the surprise in core services inflation and the continued pressure on industrial goods, which are driving up core measures. In addition, there are further pressures on volatile components, such as possible increases in electricity and food prices, both due to adverse weather conditions. Overall, these factors imply significant revisions to short-term forecasts.

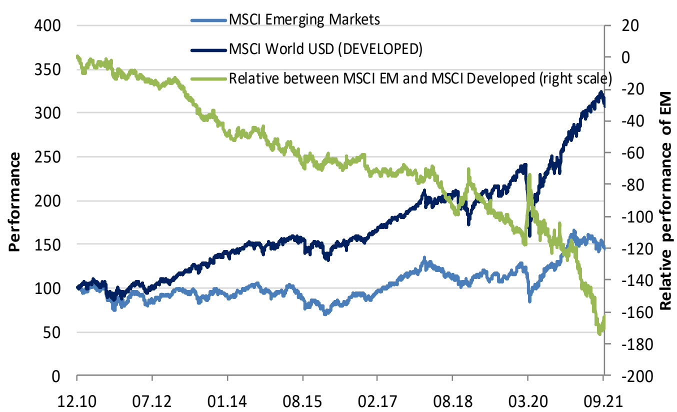
Consequently, the Copom considered that the recent worsening of the inflation components, against the backdrop of a reopening of the services sector, could lead to a further deterioration of inflation expectations. The Committee felt that it should re-emphasise its unequivocal commitment to its inflation targets over the policy-relevant horizon, based on its baseline scenario and its assessment of the balance of risks. Copom concluded that a more rapid adjustment of its monetary policy is the most appropriate strategy at this time to ensure the convergence of inflation towards its objectives for 2022 and 2023. It therefore unanimously decided to increase the Selic rate by +1% to 5.25% and is considering a similar adjustment at the next meeting. Since the beginning of the year, the Brazilian key rate has risen from 2% to 6.25%, an increase of +4.25%.

Russia — The Russian economy returned to its pre-pandemic level in Q2 2021 and continued to grow in Q3, albeit at a more moderate pace, as the Russian economy resumed a balanced growth trajectory. Real wage growth and households' low propensity to save driven by high inflation expectations are supporting growth in consumer activity, particularly in non-food markets. At the same time, the recovery of the commercial services sector has slowed due to the partial tightening of anti-pandemic measures. Inflationary pressure in the job market is intensifying as demand for labour increases in many industries, some of which are facing shortages, particularly due to remaining restrictions on the inflow of foreign labour.

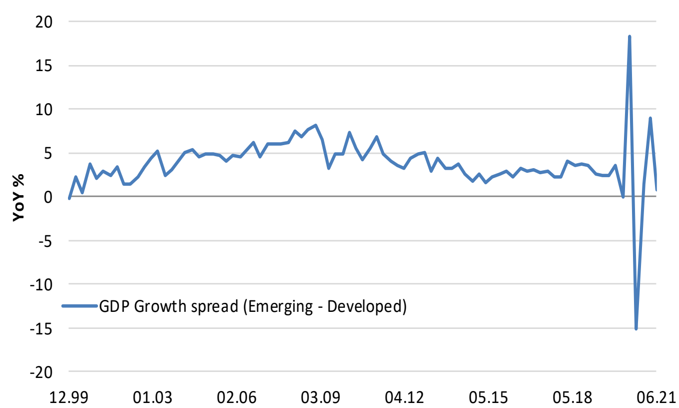
Inflation is running above the Bank of Russia's forecasts. In August, annual seasonally adjusted consumer price growth reached 6.68%. For several months, indicators reflecting the most lasting price movements have also risen above the central bank's target of 4%. This largely reflects the fact that steady growth in domestic demand is outstripping the capacity for supply expansion across a wide range of sectors. In this context, companies find it easier to transfer rising costs to prices. The contribution to inflation of these longer-term indicators remains considerable because demand is growing faster than the capacity to expand production. In this context, given high inflation expectations, the balance of inflation risks is tilted to the upside, which could lead to a more sustained deviation of inflation from its target. According to the Bank of Russia's forecasts and taking into account its monetary policy stance, annual inflation is expected to start slowing down in Q4, falling to between 4-4.5% in 2022 and remaining close to 4% thereafter.

The Bank of Russia decided to raise the key rate by 25 basis points to 6.75%. If the situation evolves in line with its baseline scenario, the central bank is keeping open the possibility of further key rate hikes at its next meetings. Since the beginning of the year, the Russian key rate has risen from 4.25% to 6.75%, an increase of 2.50%.

Emerging and Developed Markets - Performance



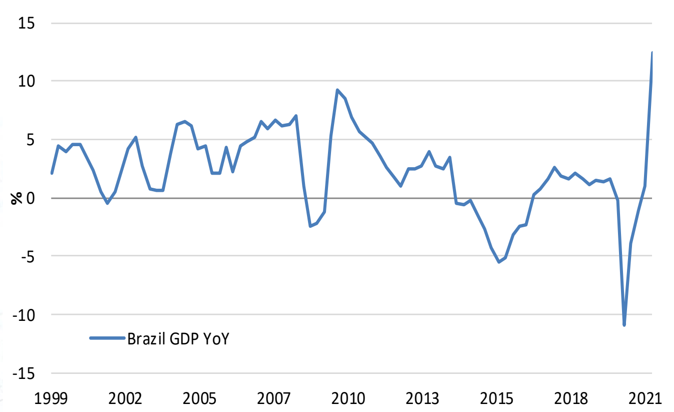
GDP Growth spread



Graph sources: Bloomberg/BearBull Global Investments

GDP (YoY) - Russia

GDP (YoY) - Brazil



India — Domestic economic activity is beginning to recover as the second wave subsides. Going forward, agricultural production and rural demand are likely to remain resilient. Urban demand is expected to recover with some delay, as manufacturing and services recover at a faster pace, and the return of pent-up demand solidifies as the pace of vaccination increases. Strong exports, the expected pick-up in public spending, including investment spending, and the recent economic programme announced by the government will give a further boost to aggregate demand. Although investment demand is still sluggish, improved capacity utilisation and favourable monetary and financial conditions are paving the way for a much-needed recovery. Companies surveyed by the Reserve Bank are forecasting an expansion in production volumes and new orders for later this year. However, high global commodity prices and volatile financial markets are the main downside risks. Taking all these factors into account, the projection for real GDP growth is maintained at +9.5% in 2021 and +7.3% in 2022.

The resumption of the southwest monsoon and the acceleration of kharif planting, supported by adequate food stocks, should help to keep pressure on grain prices under control. Input prices are rising in the industrial and service sectors, but weak demand and cost-cutting efforts are tempering the impact on producer prices. Taking these factors into account, inflation is now projected at 5.7% for 2021 and is expected to be closer to 5% thereafter.

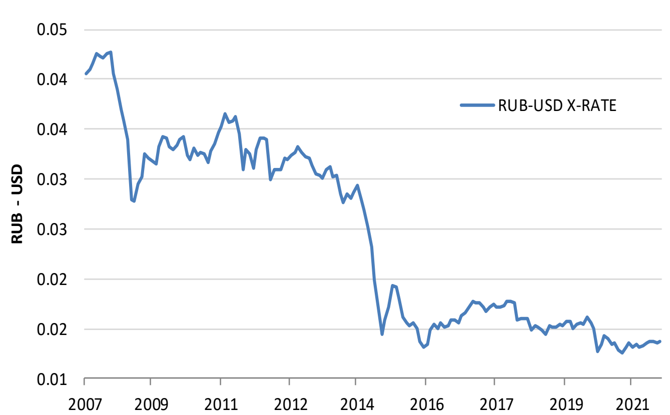
The Monetary Policy Committee decided to keep the policy rate unchanged at 4%, maintaining an accommodative stance for as long as necessary to revive and sustain growth and continue to mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains within the target range. Since the beginning of the year, India's policy rate has remained unchanged at 4%, its lowest level ever.

South Africa — The domestic economy grew by +4.2% in Q1 2021 and +4.7% in Q2. These results reflect improved sectoral growth performance and a robust export-to-import price ratio. While more South Africans have re-entered the labour market with the recovery in economic activity, job losses point to continued adjustment and sustained weakness in some sectors. Household spending remains healthy, however, thanks to higher-than-expected wages and low interest rates. GDP is expected to grow by +5.3% this year, +1.7% in 2022 and +1.8% in 2023, hurt by the lasting effects of the pandemic on investor confidence and job creation.

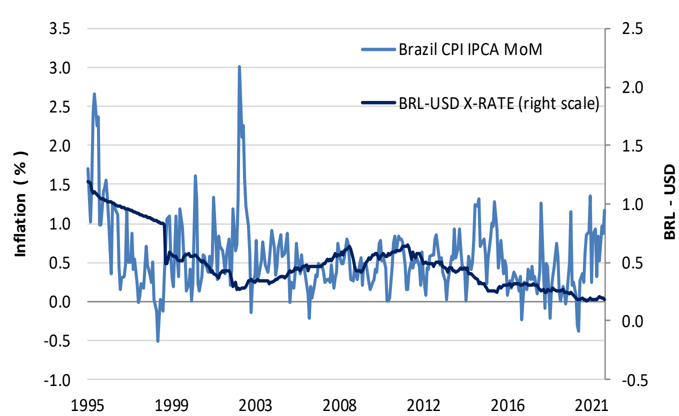
While consumer price inflation for 2021 has been revised slightly upwards (4.4%), the forecasts for 2022 (4.2%) and 2023 (4.5%) remain unchanged. While economic activity is expected to continue to grow over the forecast period, a rise in core inflation is likely to be moderated by the current strength of the exchange rate and modest labour costs. Rapid inflation in global producer and food prices has surprised on the upside in recent months and could be repeated. Oil prices have become more volatile in recent weeks and could rise beyond expectations. Electricity prices and other administered prices also continue to pose risks in the short term. Given the above, a weaker currency, higher import tariffs and rising wage demands pose additional longer-term risks to the inflation forecast.

Despite these inflationary risks, monetary policy remains very accommodative for the time being with key rates unchanged at 3.5%. The Committee is considering a 25-basis point increase in policy rates in the last quarter of the year and further increases over the next two years. Since the beginning of the year, South Africa's policy rate has remained unchanged at 3.50%, its lowest level ever.

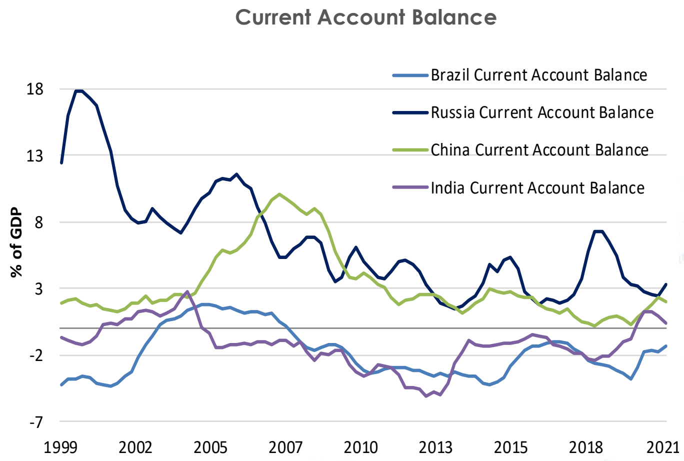
Ruble VS USD

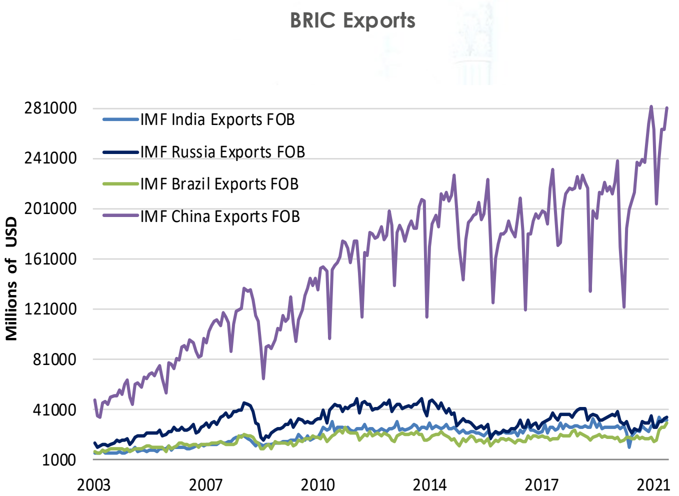


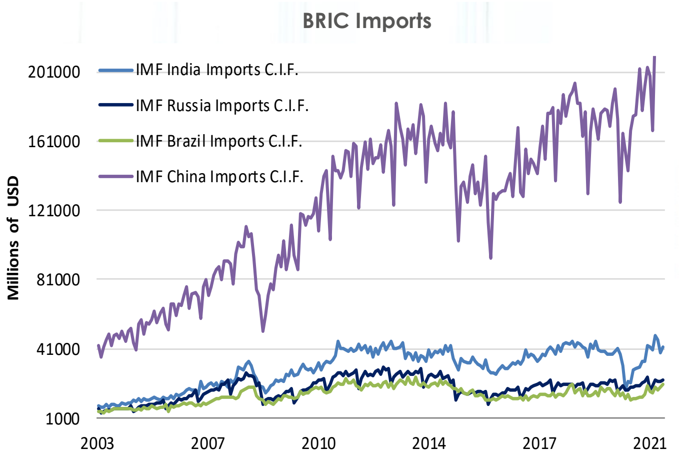
Inflation and Exchange rates



Graph sources: Bloomberg/BearBull Global Investments







Mexico — The recovery of the Mexican economy continued in Q2 and is expected to continue until the end of the year (expected to be +5% for 2021), although risks remain due to the increase in Covid-19 infections. Inflation is expected to hover around 6% in the coming months and return to its 3% target in 2022. The Central Bank of Mexico decided to raise its key rate by 25 basis points to 4.50%.

Indonesia — The annual inflation rate stood at 1.59% in August, still below the 2% lower limit of the central bank's target but is expected to be 2.2% over the next year. Domestic economic activity has gradually improved after some restrictions were eased, while banks have been urged to continue cutting their lending rates. Growth is expected to end the year at +3.5% and then converge to +5% in 2022. Bank Indonesia kept its key rate at a historically low level of 3.5%, in line with market expectations.

Graph sources: Bloomberg/BearBull Global Investments

Turkey — Contrary to expectations of a status quo, the Central Bank of Turkey lowered its policy rate by 100 basis points to 18%, now below annual inflation (19.25%), saying that the tightening of its monetary policy stance had created a larger than expected contractionary effect on commercial lending. The committee noted that the rise in inflation was expected to be transitory and was driven by higher food and import prices, due to supply constraints, and an expansion in demand following the reopening of the economy. Growth is expected to be +7% at the end of the year and +4.4% in 2022.

Taiwan — The Central Bank of the Republic of Taiwan kept its key rate at its lowest level ever (1.125%), thus continuing its accommodative monetary policy. It raised its inflation forecast to 1.60% (from 1.07%) for 2021 and its national GDP growth forecast to +5.08% (from +4.53%) for 2021.

Thailand — As expected, the Central Bank of Thailand kept its key interest rate at 0.5% in order to support the economy in the context of the worst pandemic crisis in its history. Growth is expected to be +2.5% for the year as a whole but is subject to significant risks. However, the committee believes that fiscal measures would be more useful than a reduction in the policy rate. Inflation is back into positive territory in H2 and is expected to close 2021 near 1.6% before moving towards 2% thereafter.

Colombia — The Central Bank of Colombia decided to maintain its benchmark interest rate at 1.75%. Colombia's annual inflation rate rose above 4% in August (4.44%) and is expected to end the year at a similar level (4.4%). Growth is expected to be +5% in 2021 and +3.6% in 2022.

Romania, Czech Republic, Poland, Hungary

The National Bank of Romania maintained its benchmark interest rate at 1.25%, choosing to wait before acting, in a context of strong anticipated inflation growth of above 4% in 2021 (4.1%). Growth is likely to be positive once again at the end of the year (+3.2%) and double the following year (+6.5%).

Czech inflation was well above analysts' expectations in August (4.1%) but is expected to fall back to 3.3% by the end of the year. As a result, the Czech National Bank raised its benchmark rate by 25 basis points to 0.75%. This follows a similar increase at the previous meeting and brings borrowing costs to their highest level since April 2020. Domestic economic growth is expected to end the year close to +4.3%.

The National Bank of Poland kept its reference rate at a historically low level of 0.1%, aiming to support economic growth amid rising inflationary pressure. Inflation jumped in August (5.4%) to its highest level since June 2001, well above the central bank's medium-term inflation target of 2.5%. The economy returned to growth in Q2 and is expected to close the year at +3.6%.

The National Bank of Hungary raised its benchmark rate by 15 basis points to 1.65%, a level not seen since May 2015, reflecting the central bank's desire to address concerns about strong inflationary pressures. Inflation is running at 4.9% but is expected to converge towards the 3% level in 2022 in response to monetary tightening. Growth is expected to end the year at +4.9% and to rise to +4.1% in 2022.

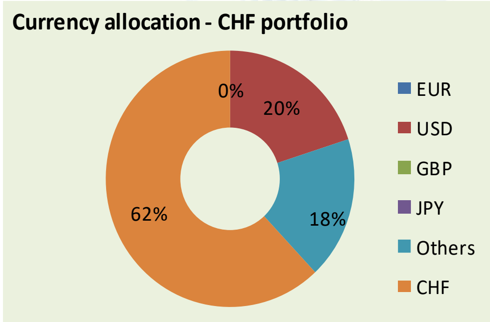
PROSPECTS AND STRATEGIES

Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Currencies

- Towards a depreciation of the Swiss franc
- The euro is logically suffering from an unfavourable interest rate differential
- Renewed attractiveness of bonds and the dollar
- A weak yen remains essential
- Temporary weakening of the yuan



Tactical Allocation

- Underweight CHF
- Favor USD, AUD and CAD
- Take back exposure in euros
- Avoid JPY and GBP

LIQUIDITY/ CURRENCY	Expected Return		ALLOCATION (CHF Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
EUR vs CHF	↗	↗							
USD vs CHF	↗	↗							
GBP vs CHF	↘	↘							
JPY vs CHF	↘	↘							
EUR vs USD	↘	↘							
USD vs JPY	↗	↗							
GBP vs USD	↘	↘							

Towards a depreciation of the Swiss franc

The Swiss National Bank does not see any reason to fear inflationary pressures for the time being and is not particularly concerned about the current rise in import prices. Like the Federal Reserve, it likely believes that the current trend will not last. For the time being, it considers that the Swiss economic recovery is consolidating and that it is taking hold without any real effects on price levels. In its latest comments, it therefore reiterated that it will be maintaining its accommodative monetary policy unchanged by keeping its key rate at -0.75% and continuing its strategy of intervention on the foreign exchange market to stabilise the franc against the euro. The SNB's inflation outlook remains below 1% for 2021, 2022 and 2023. Chairman Jordan nevertheless expressed a clear opinion on the high valuation of the franc, pointing out that, if the franc had not been overvalued, inflation in our country would have been higher. Therefore, should we not expect a weakening of the franc as desired by the SNB, which would then have inflationary effects proportional to its degree of weakening? Against the dollar, the franc has appreciated by about 6% since February 2020, while it has depreciated by barely -1% against the euro. Total sight deposits in Switzerland have remained stable at around CHF 710 billion over the past year. However, the SNB's currency reserves have increased further and now stand at CHF 930 billion. The SNB still seems to have to intervene in the foreign exchange market to reinforce the trend, a sign that interest in the Swiss franc and Swiss franc assets is waning. Unlike the other major central banks, which have been active in supporting their respective countries' economies in recent years by stepping up their government debt purchase programmes, particularly during the pandemic, the Swiss central bank has limited its action to an exchange rate stabilisation target that remains valid for 2021.

The Swiss franc had rather benefited from the anxiety-inducing stock market climate of 2020 at the start of the pandemic by initially appreciating against most currencies. The prospects for a global economic recovery are expected to reduce the franc's appeal as a safe haven. Since mid-August, the weakness of the franc seems to be solidifying. The SNB still considers the franc to be overvalued, and the Bank's tolerance for an appreciation of the franc remains low. Our currency is expected to weaken in 2021 and 2022 against most major currencies. In purchasing power parity (PPP) terms, the franc is still overvalued by 10-15% against the euro. A rise in the euro above 1.15 is therefore possible in 2021.

Graph sources: Bloomberg/BearBull Global Investments

The euro is logically suffering from an unfavourable interest rate differential

The beginning of the year marked an initial inflection point for the euro, which logically lost strength as the economic outlook weakened and the growth differential became more favourable to the US. The hesitations that arose at the beginning of the summer with the emergence of the Delta variant had created some economic uncertainties that were not very favourable to the dollar, particularly in the context that prevailed in interest rate markets and still favoured stability in long-term rates. Since June, the increase in the yield differential in dollars and euros has once again favoured the US currency, which is now benefiting from a very favourable long-term interest rate differential. The 10-year yield spread between Treasury and German Bund rates has indeed widened further in recent weeks and now stands at around 170 basis points. We expected the euro to weaken against the dollar, which has now reached our target of 1.15. The next few months are likely to be slightly more conducive to the euro appreciating against the franc and the pound sterling by +3% to +5%.

Renewed attractiveness of bonds and the dollar

As we have been saying for several months, we felt that a rise in long-term rates in 2021 was inevitable in the context of a very clear improvement in the US economic outlook. The 50-basis-point rise in 10-year Treasury rates in the second half of 2020 was merely the announcement of a trend reversal that was expected to strengthen and become more pronounced in 2021. The emergence of the Delta variant temporarily disrupted the analysis and the economic outlook. But it was mainly the Federal Reserve's comments on the inflation issue that served as a catalyst for the decline in bond yields that materialised between spring and early summer. These temporary growth uncertainties and inflation deemed temporary by the Fed were enough to reignite a decline in yields until August. Chairman Powell's announcement of a forthcoming tapering was partly expected, but it is now becoming clear that rates must adjust to a robust and inflationary economic reality. We believe that dollar yield curves will soon move upwards with the exception of very short-term yields. Yield pick-up strategies are therefore being challenged by rising returns on more defensive bond assets. Internationally, US bonds now also offer a safe haven with the prospect of an attractive yield spread.

European, Japanese and Swiss investors can now look at dollar-denominated fixed income with more interest, as the yield spread has recovered significantly. As we approach the 2% threshold, we believe that the yield differential is likely to stabilise as a result of new inflows of funds.

The dollar is likely to benefit from this increase in the yield differential in its favour. We estimate that it could appreciate by +5% to +7% against the Swiss franc.

Can the sterling benefit from the nominal rate differential?

The pound appreciated quite significantly against the euro and the dollar at the beginning of the year. The exchange rate approached the level of 0.85 pounds to the euro and then stabilised without much volatility for six months. However, Brexit poses significant challenges to the UK economy in terms of inflation and growth. The risks of stagflation are increasing, and the real yield differential is not in the sterling's favour. The rise in 10-year UK government yields, which we considered likely in our previous analysis, is now materialising and could intensify further in the current inflationary environment. Against this backdrop, we believe the sterling is likely to remain within its 0.85-0.925 fluctuation band in place since the June 2016 vote and potentially depreciate by -5% against the European currency in the coming months. The UK currency may well again be seen as a likely adjustment variable in the event of a sustained post-Brexit economic shock.

A weak yen remains essential

The yen has again been in a phase of decline against the dollar over the past few weeks in the new context of rising long-term dollar rates linked to the probable forthcoming change in US monetary policy. After an initial depreciation of around -6% in Q1 2021, the exchange rate stabilised at around 110 yen to the dollar in Q2 and Q3.

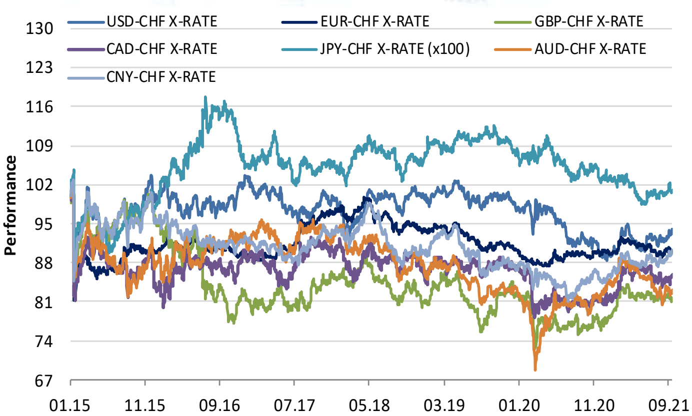
The rebuilding of a yield differential in favour of the dollar will contribute to the depreciation of the yen. Japan's economy still needs a weaker currency to hope to revive its exports and emerge from a cycle of near zero inflation.

Japan's central bank will also have welcomed announcements by the US Federal Reserve regarding the increasing likelihood of tapering, suggesting a reduction in liquidity injections and a likely increase in the cost of dollar funding. These developments will certainly reduce the risks of yen appreciation, even if in real terms yen yields appear higher than dollar yields. A move towards 1.15 in the near future now seems possible. The BoJ's monetary policy, although particularly expansive, had not pushed money supply growth at the same rate as the Fed or the ECB. It may consider a new policy aimed at weakening the yen more significantly through a faster increase in the monetary base.

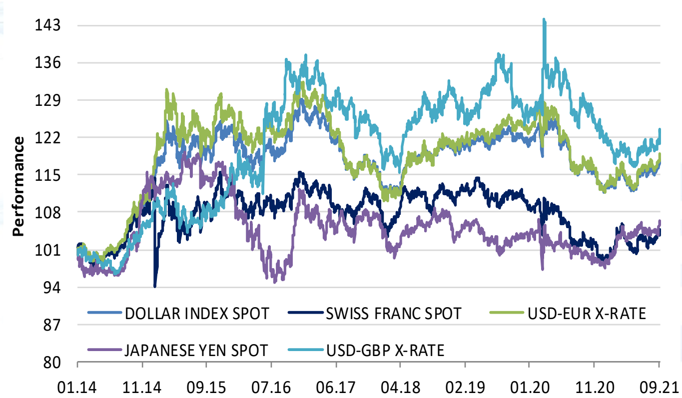
Temporary weakening of the yuan

While the US is likely to lead the gradual normalisation of Western monetary policies by reducing liquidity injections and allowing long-term rates to adjust upwards, the PBOC will likely have to adopt the opposite strategy. The situation in the Chinese real estate market and the risks of a downturn in the economy is likely to lead the Chinese central bank to loosen its monetary policy and credit conditions. The yuan is therefore likely to weaken temporarily.

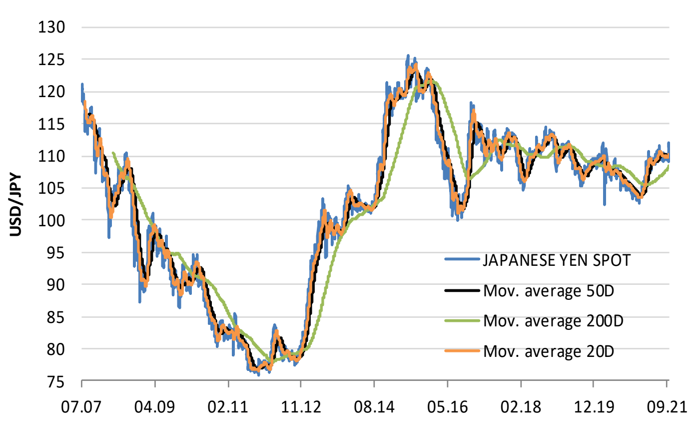
7 currencies against CHF (Normalized at 100)



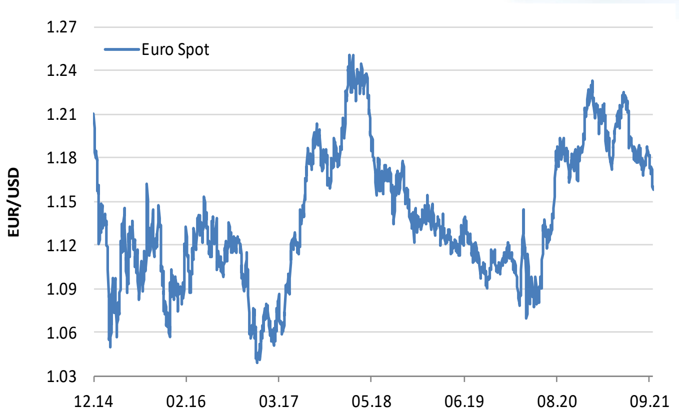
Dollar Trade-weighted index & cross rates (Normalized at 100)



JPY/USD



EUR/USD



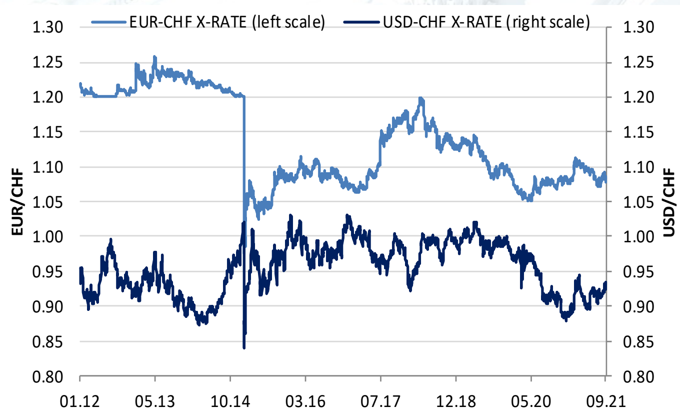
Graph sources: Bloomberg/BearBull Global Investments

CURRENCIES

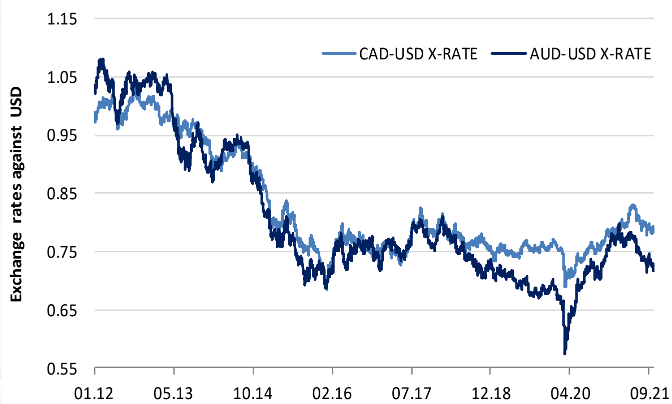
30.09.2021

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
AGAINST DOLLAR						
EUR-USD X-RATE	1.2	-1.4	-1.9	-2.3	-1.7	-5.2
CHF-USD X-RATE	1.1	-0.7	-1.7	-0.6	1.1	-5.0
GBP-USD X-RATE	1.3	-1.8	-2.0	-2.1	-2.6	-1.4
JPY-USD X-RATE	0.0	-0.8	-1.1	0.2	-0.6	-7.1
CAD-USD X-RATE	0.8	-0.2	-0.5	-1.9	-1.1	0.4
AUD-USD X-RATE	0.7	-0.9	-1.2	-3.3	-5.1	-6.1
RUB-USD X-RATE	0.0	0.0	1.0	1.0	4.7	1.8
CNY-USD X-RATE	0.2	0.2	0.2	0.4	1.9	1.3
INR-USD X-RATE	0.0	-0.6	-1.6	0.4	-1.5	-1.6
BRL-USD X-RATE	0.2	-2.6	-5.4	-7.2	4.9	-4.6
AGAINST SWISS FRANC						
USD-CHF X-RATE	0.9	0.8	1.8	0.7	-1.1	5.3
EUR-CHF X-RATE	1.1	-0.6	-0.2	-1.7	-2.8	-0.2
GBP-CHF X-RATE	1.3	-1.0	-0.3	-1.5	-3.7	3.8
JPY-CHF X-RATE (x100)	0.8	0.1	0.7	1.0	-1.7	-2.3
CAD-CHF X-RATE	0.7	0.6	1.3	-1.2	-2.2	5.7
AUD-CHF X-RATE	0.7	-0.2	0.6	-2.6	-6.2	-1.1
RUB-CHF X-RATE	0.0	0.8	2.7	1.7	3.6	7.2
CNY-CHF X-RATE	0.1	0.9	2.0	1.0	0.7	6.6
INR-CHF X-RATE	0.0	0.2	0.0	1.0	-2.8	3.5
BRL-CHF X-RATE	0.2	-1.7	-3.9	-6.6	3.6	0.6

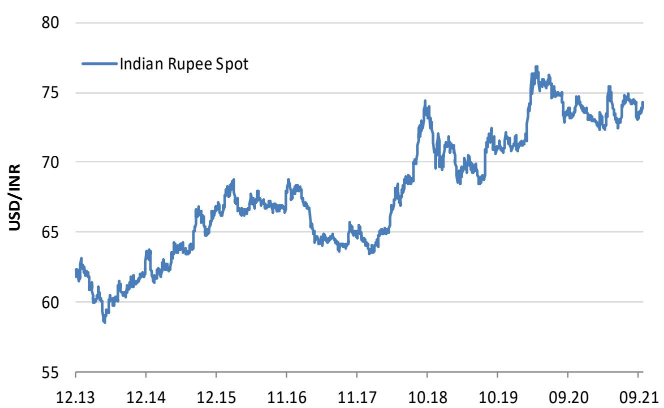
EUR/CHF - USD/CHF



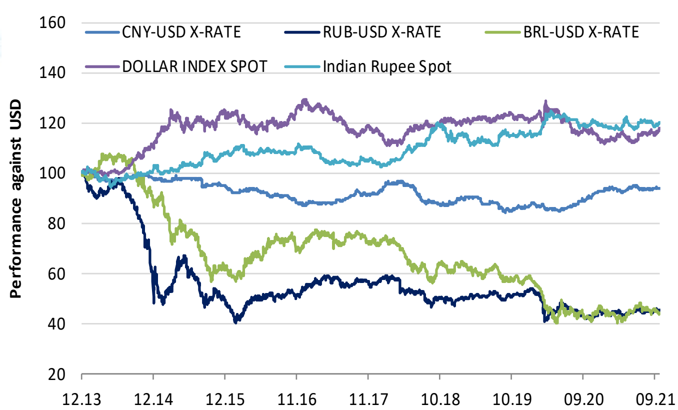
CAD/USD - AUD/USD



Indian Rupee



Emerging Currencies VS USD (base 100)

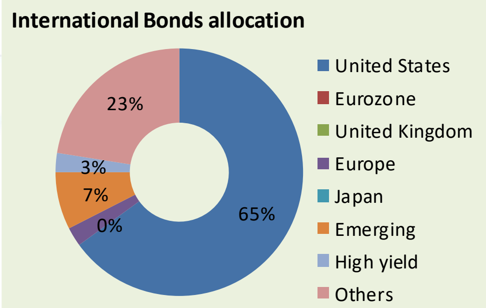


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Bonds

- Rising yields for dollar bonds
- Long-term yields also starting to rise in Europe
- Stability of Japanese long-term rates



BONDS (Areas/currency)	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↘	↘							
United States	↘	↘							
Eurozone	↘	↘							
UK	↘	↘							
Europe	↘	↘							
Japan	↘	↘							
Emerging	↘	↘							
Other (AUD, CAD, NOK...)	↘	↘							

Tactical Allocation

- Marginalize allocation to the eurozone
- Overweight US bonds
- Overweight corporate segments
- Reduce exposure to high yield

The yield curve has started to steepen

In the spring of 2021, yield curves had benefited greatly from increasing economic uncertainty linked to the emergence of the Delta variant. A general drop of around 30 to 50 basis points could be seen in various bond markets. Central banks' communication on inflation was one of the determining factors in the overall decline in yields. The change in central banks' perception of the outlook for inflation and economic growth is already affecting investor sentiment in bond markets. In just a few days after the announcement on 22 September of the Fed's upcoming tapering, the rise in yields has intensified. In the US, 10-year Treasury yields rebounded from 1.30% to 1.57%, though still below the March level of 1.7%. In the UK, the acceleration took 10-year gilt yields from 0.8% to 1.15% in ten days. Overall, we believe that yield curves are starting to steepen, with varying degrees of intensity across countries. However, the correlation among interest rate markets remains significant, as illustrated by the rise in the 10-year Swiss government yield from -0.4% in August to -0.10% today. Recall that before the health crisis, US GDP growth was +2%, and 10-year US dollar yields were also at 2% with inflation at +2.3%. The comparison with the current situation offers a clear indication that US growth and inflation above +5% suggest a very sharp rise in long rates. We therefore believe that a steepening of the yield curve is essential given the above-mentioned normalisation of monetary policies in the coming quarters.

Rising yields for dollar bonds

As we have been saying for several months, we felt that a rise in long-term rates in 2021 was inevitable in the context of a very clear improvement in the US economic outlook. The 50-basis-point rise in 10-year Treasury rates in the second half of 2020 was merely the announcement of a trend reversal that was expected to strengthen and become more pronounced in 2021. The emergence of the Delta variant temporarily disrupted the analysis and the economic outlook. But it was mainly the Federal Reserve's comments on the inflation issue that served as a catalyst for the decline in bond yields that materialised between spring and early summer. These temporary growth uncertainties and inflation deemed temporary by the Fed were enough to reignite a decline in yields until August. Chairman Powell's announcement of a forthcoming tapering was partly expected, but it is now becoming clear that rates must adjust to a robust and inflationary economic reality. We believe that dollar yield curves will soon move upwards with the exception of very short-term yields.

Yield pick-up strategies are therefore being challenged by rising returns on more defensive bond assets. Internationally, US bonds now also offer a safe haven with the prospect of an attractive yield spread. European, Japanese and Swiss investors can now look at dollar-denominated fixed income with more interest, as the yield spread has recovered significantly. As we approach the 2% threshold, we believe that the yield differential is likely to stabilise as a result of new inflows of funds.

Long-term yields also starting to rise in Europe

The ECB, like other major central banks, persists in maintaining that inflation is following a temporary trajectory. The recent rapid rise in inflation clearly contradicts this position, as it suggests an acceleration of the inflationary trend rather than a deceleration of the phenomenon that has been in place for several quarters. Central banks' analysis, and the ECB's in particular, seems to us to largely underestimate the forces at work and the likelihood that they are less temporary than officially claimed by central banks. At the beginning of Q4, the question of how long the upward price trend will last has become central and essential for central banks.

BOND INDICES (local currency)

30.09.2021 — Total Return Performance

	Name	Last price	Curr.	7 d%	1 m %	3 m %	6 m %	YTD %
SWISS BONDS	SBI AAA-BBB	139.5	CHF	-0.3	-1.3	-0.3	-0.6	-1.7
UE BONDS	Barclays EuroAgg	269.1	EUR	-0.5	-1.1	0.0	-0.6	-2.3
UE BONDS - SHORT DURATION	ISHARES EURO GOV BND 1-3	143.3	EUR	0.0	-0.1	0.0	-0.3	-0.5
US BONDS	Barclays US Agg Total Return Value Unhedged USD	2354.9	USD	-0.6	-0.9	0.1	1.5	-1.6
US BONDS - SHORT DURATION	BGF-USD ST DURATN BOND-USDA1	8.6	USD	-0.1	-0.1	-0.1	-0.1	0.1
EMERGING BONDS	JPMorgan Emerging Markets Bond	630.7	USD	-1.6	-2.3	-0.8	3.2	-1.8
INTERNATIONAL BONDS (DIVERSIFIED) - USD	Global Aggregate	536.0	USD	-1.2	-1.8	-0.8	0.2	-4.1
INTERNATIONAL BONDS (DIVERSIFIED) - EUR	Euro Aggregate	269.1	EUR	-0.5	-1.1	0.0	-0.6	-2.3
INTERNATIONAL BONDS (DIVERSIFIED) - CHF	Barclays Global Agg Corporate	160.5	CHF	-0.1	0.3	0.2	0.3	3.0
CONVERTIBLE BONDS (UE)	Exane Europe Convertible Bond	8660.2	EUR	-1.7	-2.3	-1.4	0.2	0.6
HIGH YIELD BONDS	Markit iBxx Gbl Dev Lq HY USD	170.2	USD	-1.0	-1.0	-0.5	1.8	1.5
HIGH YIELD BONDS - SHORT DURATION	AB SHORT DURATION HI YD-AT	15.2	USD	-0.3	-0.2	0.2	1.8	2.9

1) Short & Medium-term (1-5 years)
2) Emerging Bonds (Corporate)
3) Emerging Bonds - Eastern Europe

Graph sources: Bloomberg/BearBull Global Investments

By persisting in asserting that inflation is transitory, central banks risk provoking a radical change in the perception of the appropriateness of their policies should it prove to be a little more lasting. The latest inflation figures published in the various euro area member countries point to a significant pick-up in inflation. Price indices are rising at all levels due to significant supply difficulties and bottlenecks at various stages of the value chain. Within the Eurozone, inflationary risks appear to be higher in Spain (+4%) and Germany (+4%). In France, year-on-year inflation jumped to +2.7% in September, while in Italy it reached +3%.

European long-term rates have also suffered from the adjustments in outlook prompted by the inflation figures published in recent months. While in July central banks managed to convince investors of the transitory nature of inflation in a context of economic slowdown potentially caused by the fourth wave of Covid-19, they are no longer able to avoid the adjustments induced by the revival of inflation. Ten-year yields are again approaching their May highs, up 30 basis points in the space of just four weeks. We believe that government yields are ready to break out of the trading range in which they had stabilised since June 2019. The next wave of adjustment in long-term yields is likely to drive rates significantly higher and also affect risk premiums. The European bond market has again entered a likely area of turbulence that could also significantly affect other financial assets if the adjustment we expect materialises. A return of the German 10-year Bund yields to the 0.4%-0.6% range therefore seems likely in 2022.

Trend reversal in the sterling bond market

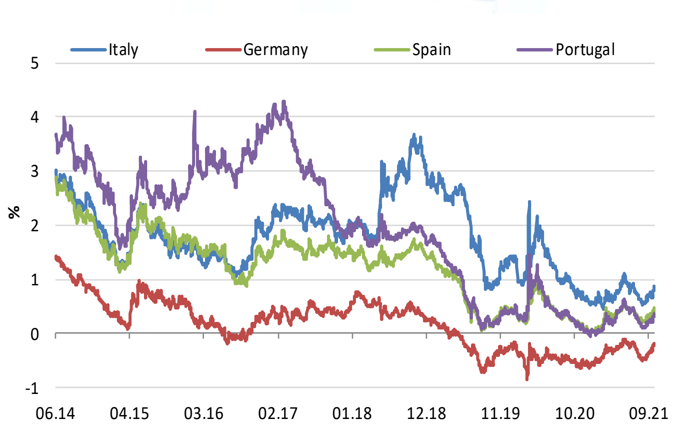
Sterling long-term rates experienced one of the most severe tightenings among developed bond markets in September. The rebound from 0.49% to 1% of 10-year government bond yields materialised in just four weeks against a rather weak economic backdrop. In contrast to the US, rising inflation measures and inflationary expectations have worried UK investors, who were quick to adjust their expectations of required yields and risk premia to the new situation without relying too much on the BoE's interventions to control the level of long-term rates. The rise in long-term yields therefore seems to us to be quite rational in the context of rising inflationary pressures. Ten-year UK government yields had jumped from 0.2% to 0.8%, while inflation was negative in January (-0.2%). They have now risen above the 1% level and are at their highest level since May 2019. We were expecting a reversal of the trend that would mark the likely inflection point for UK rates, and the recent movement is confirmation of this. The rise in nominal sterling bond yields places the UK bond market in the group of bond markets offering attractive relative returns compared to the European, Japanese and Swiss markets. The rebuilding of a risk premium is favourable, but the attractiveness of holding sterling bonds still seems to us insufficient. Inflationary risks in the UK could intensify further as the negative effects of Brexit on price levels are likely to increase. Supply difficulties and increased transport and production costs could thus support the current trend and push yields higher in 2021 already. A return of 10-year nominal rates to 2019 levels between 1.5% and 1.75% is therefore not excluded.

Stability of Japanese long-term rates

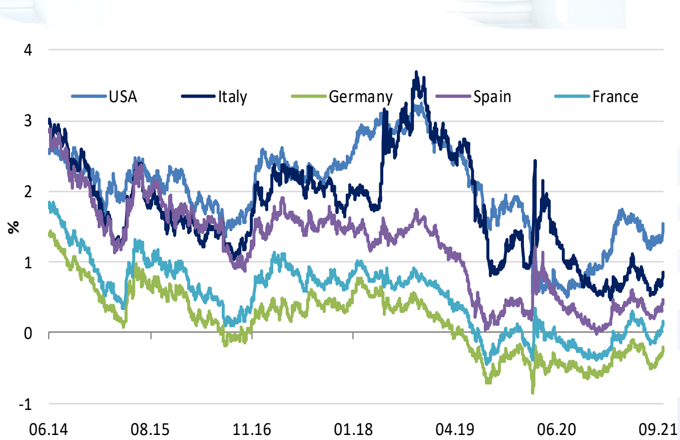
Japan is no exception to the trend and has also seen inflation measures rise significantly since the beginning of the year, although this is currently confined to producer price indices. Producer prices in Japan jumped by +5.5% year-on-year, the largest increase in a decade.

While Japanese 10-year rates are also affected by the general trend of gradual recovery in yields observed in most financial markets, the amplitude of fluctuations is logically limited by the BoJ's interventions. Indeed, long-term rates only advanced by 7 basis points to 0.078% at the end of September. Japanese bonds do not offer attractive prospects by international comparison in the current context, especially if exchange rate expectations remain negative for the Japanese currency.

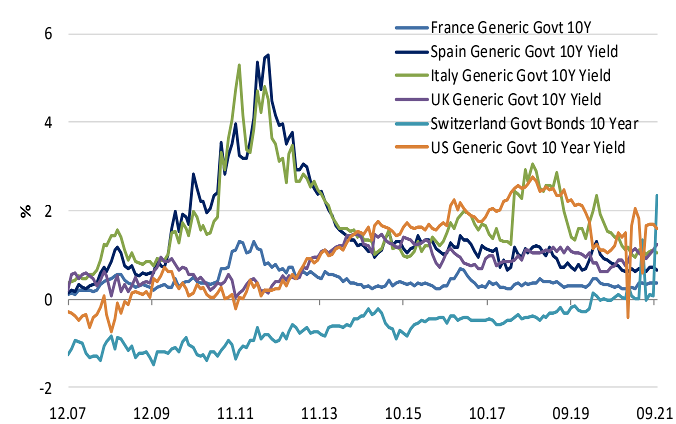
European Bonds (10 year yield)



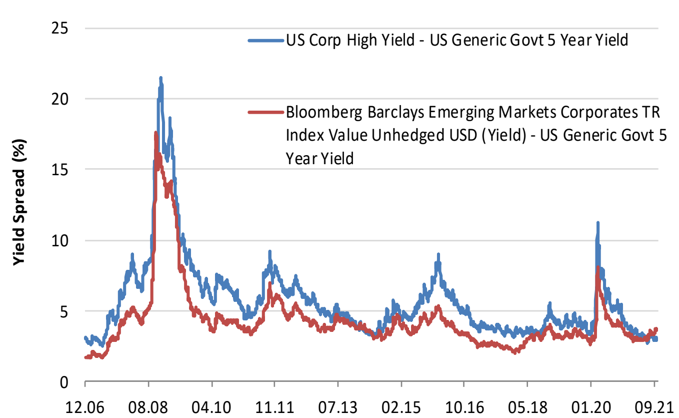
10 year yield



Risk premium over Bund



Risk premium over Treasury

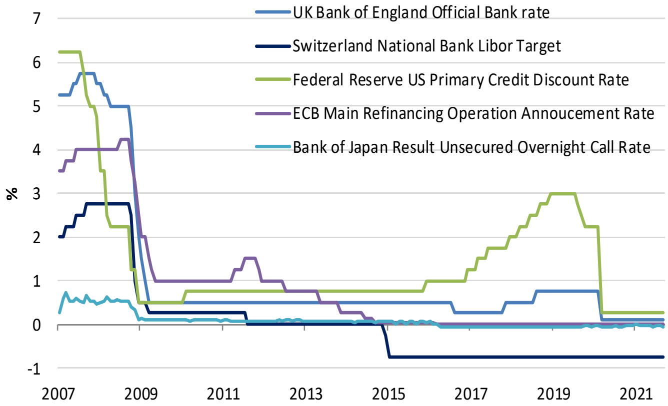


Graph sources: Bloomberg/BearBull Global Investments

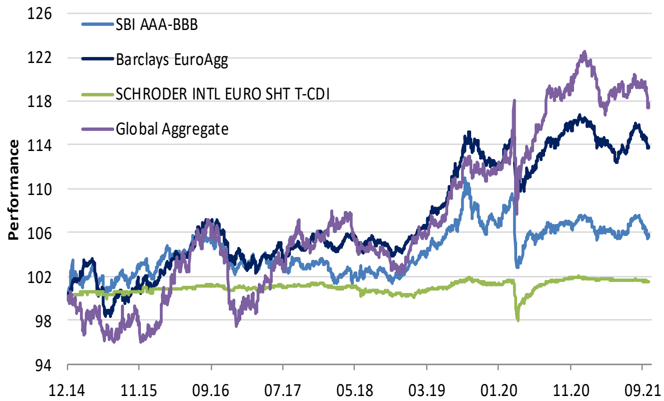
Cautious investment policy in a phase of rising interest rates

September was marked by the Fed's comments on inflation and monetary policy. The Fed meeting was highly anticipated after a long summer break. It did not fundamentally surprise attentive observers, but by announcing a forthcoming shift in its liquidity injection policy, it nevertheless significantly modified the investment climate. Finally, the Fed also mentioned inflation in the United States, noting that it seemed to be more resistant than estimated. Problems with supply and distribution logistics, as well as tensions on the labour market, have already been driving visible inflation for several quarters, often at historically high levels. At the very end of the month, we saw the beginnings of adjustments in the bond markets. Long-term yields rose by around 30 basis points and were again approaching the rates recorded in January 2021. The rise in yield curves initiated in the US by the Fed's change in monetary policy spread rapidly across most markets. It also coincided with the fading of concerns that had previously emerged with the appearance of the Delta variant. This confirms our earlier forecast that tapering would start at the end of the year. Financial markets have finally reacted to this eventuality. The decline in long-term yields has largely reversed, with all markets recording negative returns in September of -1% to -3%. The expected change in risk perception and trend did occur when the Fed formally announced its intention to taper as we expected. Risk levels are therefore still high and suggest very short durations, as well as diversification into FRNs, TIPS and ILS. Our bond strategy today focuses on diversification within developed markets in the investment grade segment and in investment grade government debt in emerging markets. Short maturities are essential in the context of rising interest rates. Yield pick-up strategies, often favoured by investors in search of positive returns, are now particularly risky as yield levels adjust. In 2020, risk premiums reached historically low levels and certainly reached their limits in an economic climate that is now less affected by the health crisis.

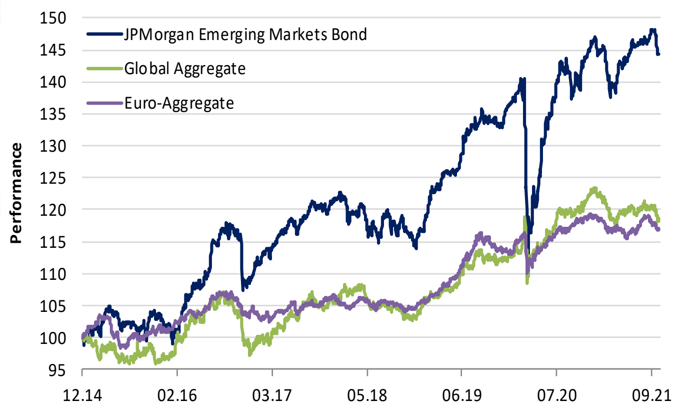
Central Bank rates (EUR, CHF, GBP, USD, JPY)



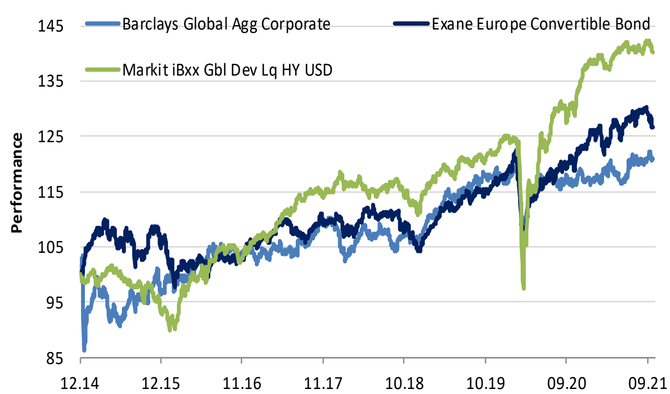
YTD Performance of Bond Indices 1- 5 years (Normalized at 100)



Emerging Bonds - Performance (Normalized at 100)



Eastern Europe Bonds - Performance (Normalized at 100)

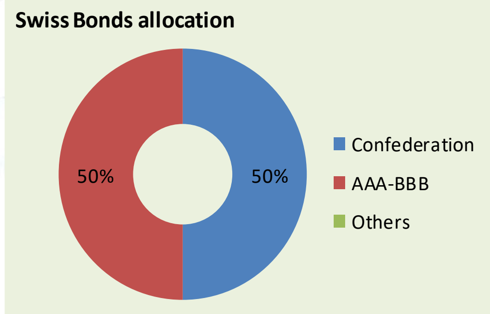


Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Bonds

- Inflationary risks increasing
- SNB not overly concerned about inflation
- The bond bubble is close to bursting in Switzerland too



Tactical Allocation

- Underweight Swiss Government Bonds
- Overweight the "IG" corporate segment
- Short durations

BONDS Type of Debtor	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Governement	↘	↘							
Corporate (IG)	↘	↘							
Others	↘	↘							

Inflationary risks increasing

Pressure on the prices of imported products is also beginning to materialise in Switzerland, although at a lower rate than in the US. The +0.7% rise in producer and import prices now stands at +4.4% overall over one year, i.e. +7.6% for import prices and +2.9% for production. Inflation is already clearly visible in our country upstream in the production and distribution chain. On the consumer price side, EU harmonised price indices are not yet much affected, showing only more moderate increases of +0.2% in August and +0.8% over a year, while the CPI measures excluding food and energy are slightly lower (+0.2% and +0.4%).

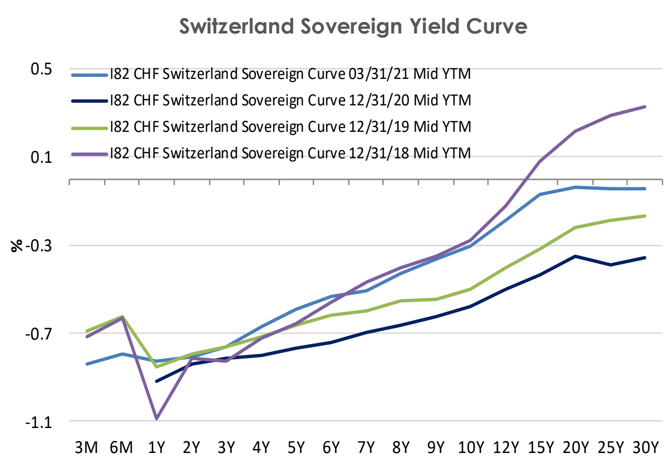
SNB not overly concerned about inflation

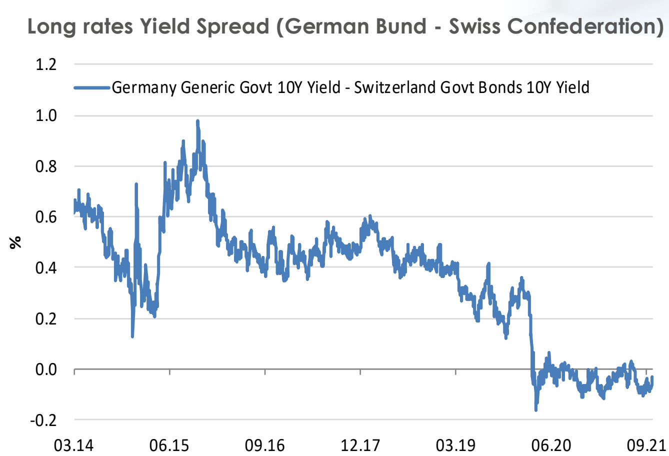
The Swiss National Bank does not see any reason to fear inflationary pressures for the time being and is not particularly concerned about the current rise in import prices. Like the Federal Reserve, it likely believes that the current trend will not last. For the time being, it considers that the Swiss economic recovery is consolidating and that it is taking hold without any real effects on price levels. In its latest comments, it therefore reiterated that it will be maintaining its accommodative monetary policy unchanged by keeping its key rate at -0.75% and continuing its strategy of intervention on the foreign exchange market to stabilise the franc against the euro. The SNB's inflation outlook remains below 1% for 2021, 2022 and 2023.

The bond bubble is close to bursting in Switzerland too

International bond markets were affected during the summer by the appearance of new Covid-19 variants, raising fears regarding the global economic situation. Uncertainty permeated bond markets, which became convinced that the central banks would continue their asset purchase operations and keep long-term rates low. The emergence of inflation and its persistence in monthly statistics through August did not alter the optimism of investors convinced that central banks would control the entire yield curve. Ten-year government yields thus declined again by around 50 basis points in the US and 30 basis points in Switzerland. However, despite the precautions taken by the Federal Reserve when it communicated its monetary policy on 22 September, it is becoming clear that the quality of the recovery no longer justifies the monetary injections made. The risk of an upward shift in yield curves is therefore becoming clearer. In a totally different context in our country, Swiss government yields have already risen by nearly 30 basis points since the beginning of August to -0.15% and are again close to their highest level in the recent period (25 points in the US at 1.45%).

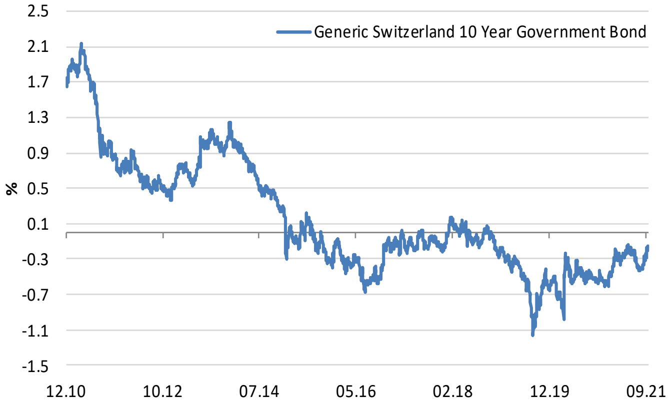
The expected trend reversal regarding interest rates thus materialised in the investment grade market, which now has a slightly positive overall yield. However, there is still too small a risk premium between BBB bonds and ten-year government bonds. Yield pick-up strategies are riskier than ever. We recommend a sharp reduction in durations and a reallocation of credit risk to investment grade debt.



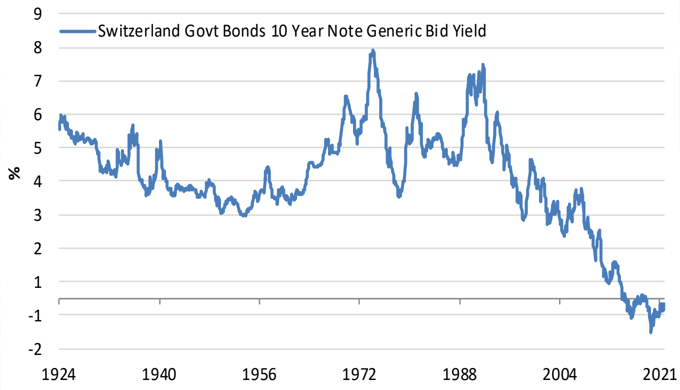


Graph sources: Bloomberg/BearBull Global Investments

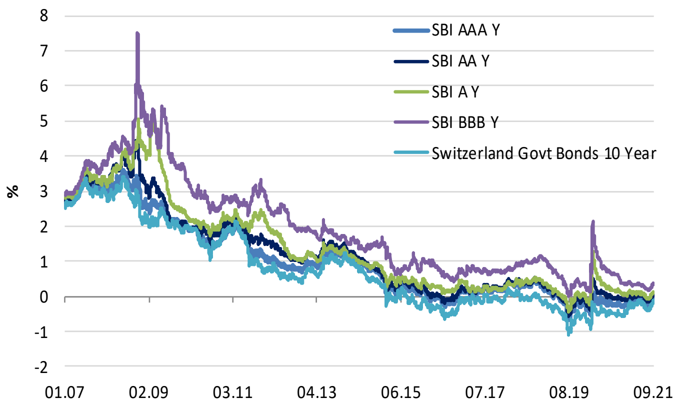
Switzerland Government Bond yield (10 year)



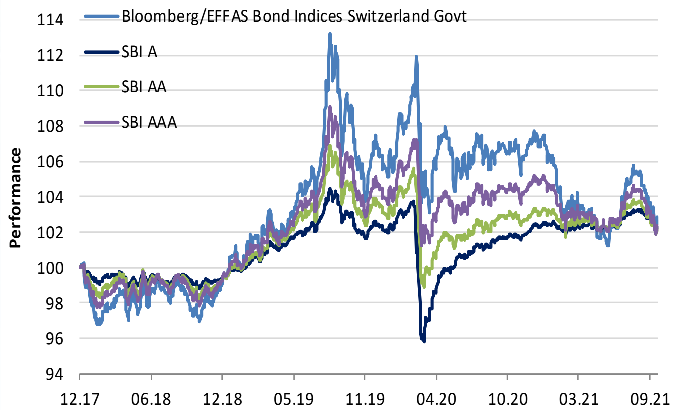
Switzerland Government Bond yield (10 year) since 1924



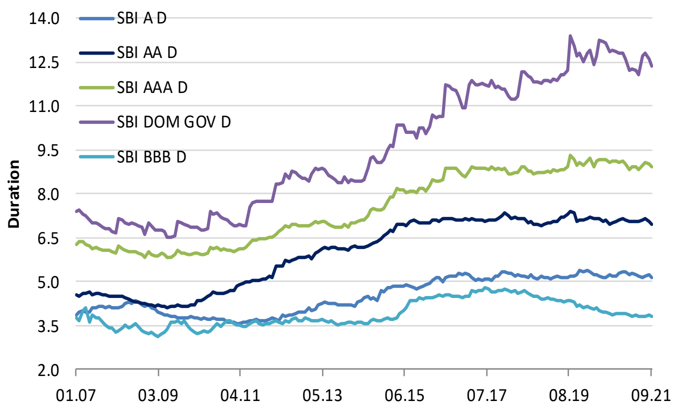
Yield by debtor type



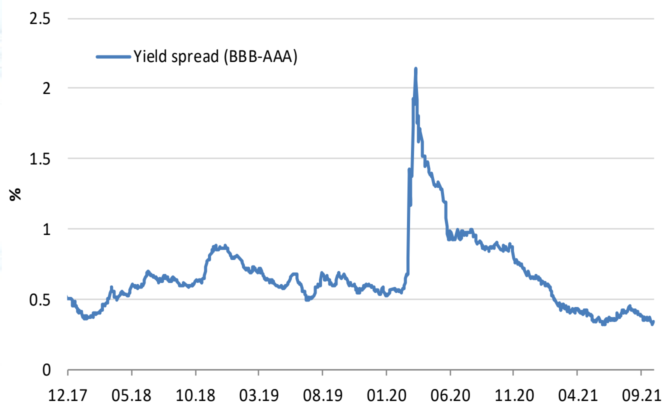
Performance of Swiss Bonds (Normalized at 100)



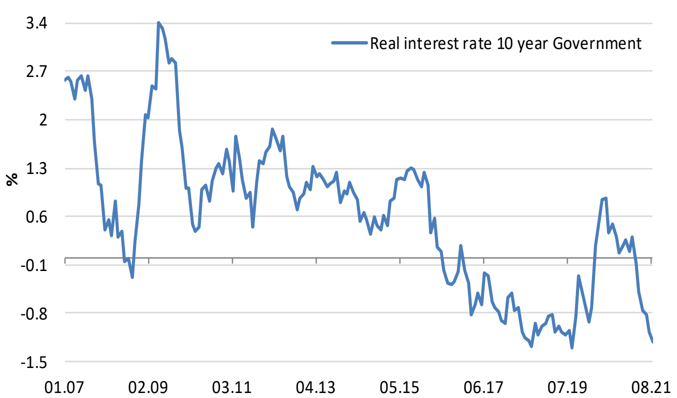
Duration of Bond Indices



Yield spread



Real Interest Rates



SWISS BOND INDICES (CHF)

30.09.2021 — Total Return Performance

	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
Bloomberg Barclays Series-E Switzerland Govt All > 1 Yr Bond Index	1.0	CHF	-99.6	-99.6	-99.6	-99.6	-99.6
SBI A-BBB	140.4	CHF	-0.2	-0.7	-0.1	0.0	0.1
SBI AA-BBB	138.1	CHF	-0.2	-0.9	-0.2	-0.3	-0.5
SBI AAA-AA	138.9	CHF	-0.3	-1.5	-0.4	-0.8	-2.2
SBI BBB	153.9	CHF	-0.1	-0.5	0.0	0.3	0.5
SBI AAA-BBB	139.5	CHF	-0.3	-1.3	-0.3	-0.6	-1.7
SBI DOM GOV AAA-BBB 1-3P	62.8	CHF	-0.1	-0.4	-0.9	-1.9	-2.8
SBI DOM GOV AAA-BBB 3-7P	81.8	CHF	-0.2	-1.0	-1.0	-1.8	-2.8
SBI DOM GOV AAA-BBB 7+ P	128.1	CHF	-0.2	-2.7	-0.1	-1.9	-6.8

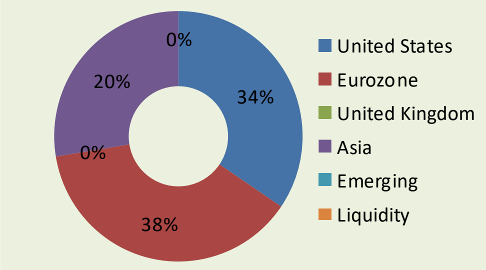
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Real Estate

- Securitised real estate takes off, matching equities
- Real estate demand has not collapsed
- U.S. real estate prices jump +19.2%

International Real Estate allocation



REAL ESTATE Areas	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	→	→							
United States	↗	↗							
Eurozone	↗	↗							
United Kingdom	↗	↗							
Asia	↗	↗↗							
Emergents	↗	↗↗							
Liquidity									

Tactical Allocation

- Maintain international real estate exposure
- Focus on Europe

Securitised real estate takes off, matching equities

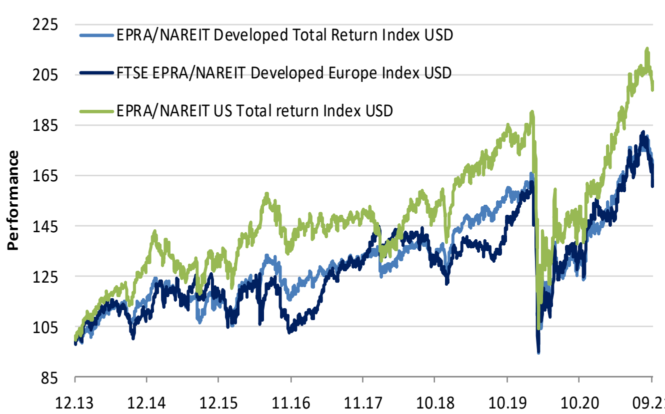
At the beginning of the year, we noted in our analysis and forecasts that securitised real estate represented one of the best asset classes in terms of expected return and risk ratios in a global context of economic recovery and the gradual easing of health measures and lockdowns. Over the last nine months, listed real estate has indeed benefited from the return of investors to this asset class, which had previously been partly abandoned in favour of more dynamic assets such as equities or private equity. In 2021, the performance of international real estate as measured by the EPRA NAREIT Global Net index was +11.96% at the end of September, almost matching the performance of international equities, which were up +13.04%.

The recovery of the international real estate markets is therefore well underway, but it has not yet erased the brutal losses in value recorded in 2020 (-18.5%) caused by the strong uncertainties linked to the health crisis. International real estate had barely recovered its pre-pandemic levels in August before experiencing profit taking in September, as did virtually all asset classes (-5.59%). Over the last nine months, US real estate was clearly the first to do well, rising +22.83% after a -5.69% decline in September, clearly outperforming US equities which rose +15.91% over the same period. In the UK, the situation was similar, with listed real estate investments (+16.07%) significantly outperforming UK equities which were up +13.03%, despite the already significant price corrections in September (-6.83%). September proved to be a particularly bad month for international REITs, which lost nearly -6% in a few weeks. This wave of profit taking against the backdrop of the Federal Reserve's announced change in monetary policy left virtually no developed market untouched. Only Asia (-2.55%) and emerging markets (-1.18%) managed to limit their losses in September, mainly because of their poor performance in the previous months.

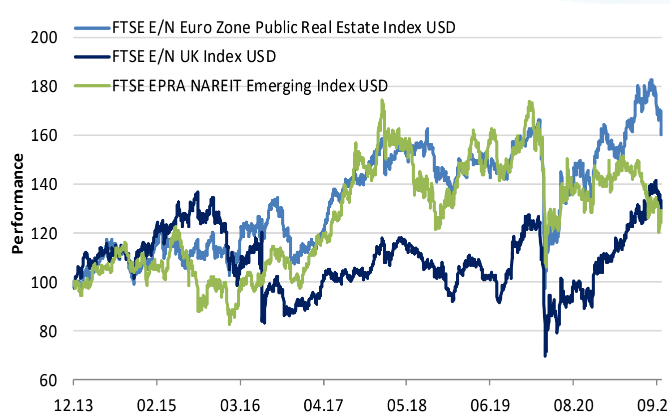
Appreciation potential still strong

Securitised real estate has not yet entirely rid itself of the negative sentiment of investors who are not yet fully reassured that the medium-term risks posed by the pandemic to the stability of commercial and, to a lesser extent, residential rental payments have disappeared. Investors' perception of threats to growth is improving, and we believe there is room for expectations regarding this asset class to adjust further. Expected returns for real estate investments remain relatively attractive, although the likely rise in long-term bond yields will gradually reduce, in 2022, the risk premiums available to securitised real estate today. Almost two years after the outbreak in China of the global health crisis, fears of a collapse in real estate prices and global demand no longer seem entirely reasonable. The pandemic clearly does not appear to have had as large and lasting an impact on regional real estate markets as initially thought and feared.

EPRA Nareit - USA, Europe, Global (USD)



EPRA Nareit - Eurozone, United Kingdom, Emerging (USD)



Graph sources: Bloomberg/BearBull Global Investments

Indeed, teleworking has become quite widespread in developed markets and is still a reality today for many workers in the US and Europe in particular. Only time will tell if this period has had a lasting impact on the way our societies approach the organisation of work. To date, however, there has been no real collapse in construction and housing demand.

Development needs for commercial and office space will certainly be affected, probably lowering the prospects for new construction in the coming years. For residential property, there has already been a more positive impact on the demand for larger houses and private dwellings. The need for an extra room, for example, will certainly be essential for the sustainability of teleworking in a comfortable setting. Without this, it is also likely that employees themselves will prefer the comfort of their professional workspace to the constraints of trying to organise a permanent workspace within their private living space. The development of telework will not be so simple and will affect a much smaller proportion of employees than was the case during the forced periods of lockdown.

At the end of 2021, there is already a clear post-pandemic trend in favour of decentralised housing and residential property outside the major cities. While it is likely that demand for office space will weaken somewhat, we believe that the outlook for international real estate remains positive.

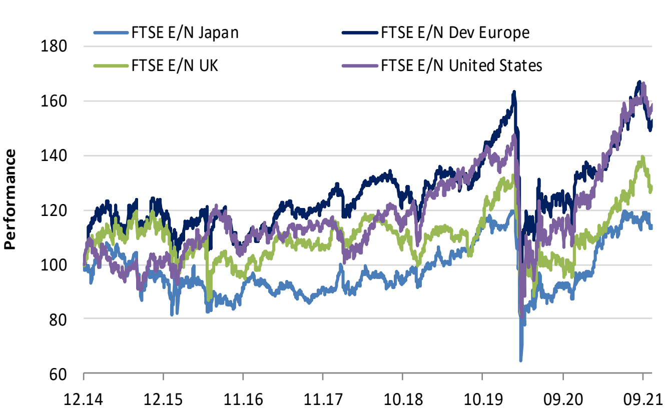
U.S. real estate prices jump +19.2%

US real estate is doing well at the end of 2021. Housing starts jumped by a further 3.9% to 1.62 million units at an annual rate, trending upwards since the end of March 2020, after stabilising at the beginning of the year. The pace of new construction is now above that prevailing in December 2019.

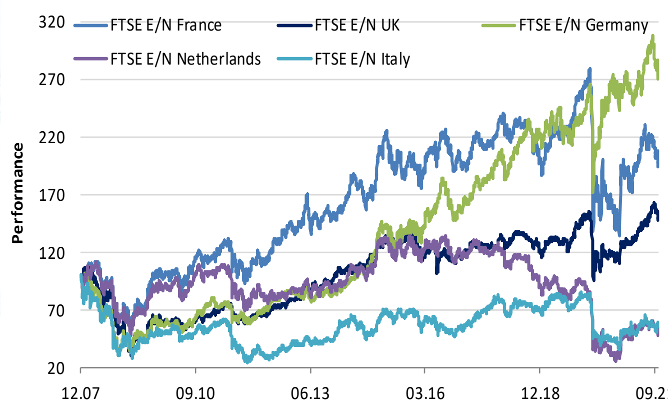
The situation is similar for new building permits, which now stand at 17,280 in August, up by 6%, compared with barely 11,000 in March 2020. Property developers and builders are now struggling to meet the increase in demand, mainly because of the reduced availability of land, raw materials and workers. Despite visible bottlenecks in the sector, new construction is progressing with no estimated decline in demand in the coming months. Building permits are at their highest levels since 1979. On the direct real estate price side, the US market is benefiting from a combination of strong demand growth, very low interest rates and an improvement in the ability of households to invest and take on debt. Prices were up +19.2% year-on-year at the end of July according to the S&P CoreLogic Case-Shiller measure of prices in 20 US cities. Such an increase may raise fears of a housing bubble, but we believe that speculation is not the factor driving prices up. A real increase in demand from individuals has emerged in the context of the health crisis, which for the time being cannot be met by an insufficient supply and constrained by current logistical problems. The need for proximity to one's workplace has decreased with the crisis and the demand for real estate on the periphery is logically increasing. The current price increase exceeds that observed in 2004 and could ultimately limit the number of future buyers due to the strong increase in acquisition cost relative to income.

However, the current borrowing situation could deteriorate somewhat and halt the current trend given the Fed's change in monetary policy. It is estimated that about one third of mortgage-backed securities are purchased monthly by the central bank. A forthcoming tapering will have an effect on demand and on the costs of financing and acquiring real estate investments. In the long run, it is also worth noting that the strong price growth will have an impact on inflation in the US.

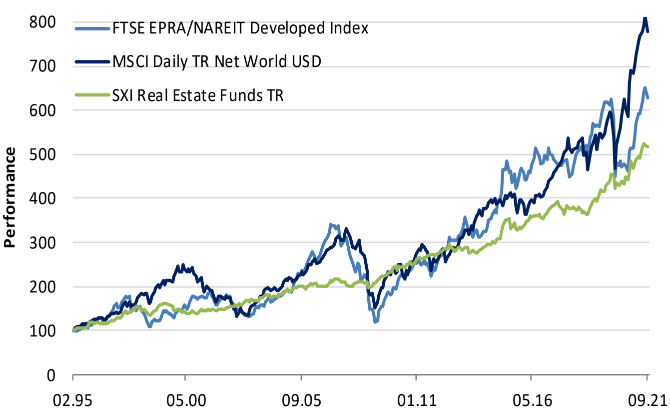
Real estate markets (local currency)



European real estate markets (local currency)



Long-term Performance : international real estate, swiss real estate and international equities (local currency)



INTERNATIONAL REAL ESTATE INDICES (local currency)

30.09.2021 — Total Return Performance

	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	FTSE EPRA/NAREIT Glb TR	3211.4	USD	-3.1	-5.5	-1.6	5.1	12.7
DEVELOPED	EPRA/NAREIT Dev TR USD	6184.5	USD	-3.4	-5.7	-1.0	7.1	15.3
DEVELOPED EUROPE	FTSE E/N Dev Europe	2310.6	EUR	-4.8	-8.5	-0.6	8.5	9.6
EUROZONE	FTSE E/N Euro Zone	2433.7	EUR	-4.4	-8.6	-4.2	5.0	3.4
USA	FTSE E/N United States	3374.9	USD	-3.5	-5.7	0.2	9.6	22.8
DEVELOPED ASIA	FTSE E/N Dev Asia	1521.1	EUR	0.3	-0.7	-0.5	1.6	12.0

Graph sources: Bloomberg/BearBull Global Investments

UK real estate remains in high demand

UK real estate prices rose by a further +0.3% in September and are up +5.8% year-on-year. The property boom continues and is supported by the demand for new space following the health crisis. High household savings, particularly favourable financing rates and shortages of raw materials are supporting production and sales prices. The recent withdrawal of government incentives has had only a slight impact on the market but has not stopped demand. The rise in average real estate prices may therefore continue due to continuing excess demand.

Chinese real estate market in turmoil

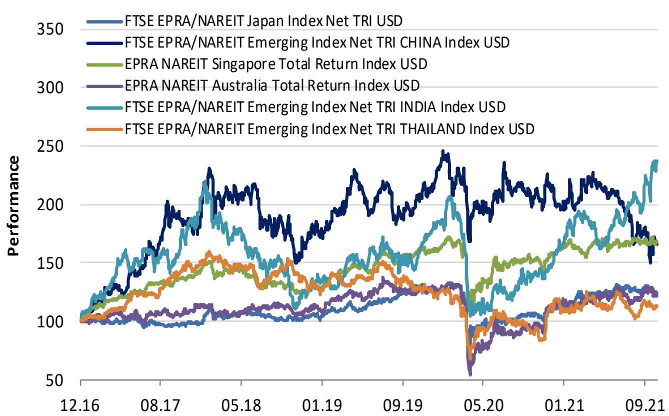
The Chinese real estate market is now clearly threatened by the Evergrande crisis, its largest and most indebted developer. But the threat seems to be more global, potentially engulfing the whole Chinese economy. Often described as the biggest financial bubble, China's real estate market is indeed undergoing adjustments that could impact GDP growth. The sector's difficulties are intensifying, with real estate sales falling nationally by -8% in July, -16% in August and -33% in September in the country's 30 largest cities. September and October are seasonally the strongest months for Chinese developers who are entering this period in a state of stress in 2021. The consequence of a drop in October sales for developers would be significant and could quickly lead to sales price cuts and cutbacks in construction programmes. The overall value of Evergrande's debt is exceptional and commensurate with the size of the company, but its method of financing is not unusual among other developers in the country. It is likely that as transactions decline, property prices will begin to adjust. The Chinese government has long supported real estate as one of the vectors of domestic growth, but it still faces the negative effects of real estate speculation, which it is seeking to control. The government does have a stated aim of reducing economic dependence on real estate, but it is difficult to achieve. However, the government's ability to act, if it really wants to, by tightening regulations should not be overlooked. The Chinese government will have to quickly find a solution to Evergrande's debt crisis to avoid an increase in risks for the entire sector and new bankruptcies. Against this backdrop, Chinese real estate is expected to weigh on the overall GDP growth outlook in the coming quarters.

Investment strategy with a focus on the Eurozone

International securitised real estate has clearly been a victim of the process of reallocating assets to risky investments such as equities, for which the earnings outlook during the economic recovery seemed more constructive and predictable. However, we believe that this asset class remains undervalued today and is likely to benefit from the improved investment climate. The risk of rising interest rates in the coming months could be seen as a short-term negative factor for the sector, but we believe that this would occur against a backdrop of undervalued property values and would therefore have no real immediate impact. The competition from slightly better bond yields should also not be overestimated, as the yield differential in favour of real estate remains significant.

At current price levels, we maintain our positive outlook for international securitised real estate and suggest adopting an overweight investment policy and tactical allocation after the unwarranted price corrections in indirect real estate investments and the delay in the ongoing process of revaluing opportunities to take advantage of still attractive valuation levels. In terms of tactical positioning, we favour real estate markets in countries or regions that can count on a stronger economic recovery. Our regional allocation is diversified in the current environment but favours a revaluation of investments in the Eurozone and emerging markets.

Real estate markets (USD)



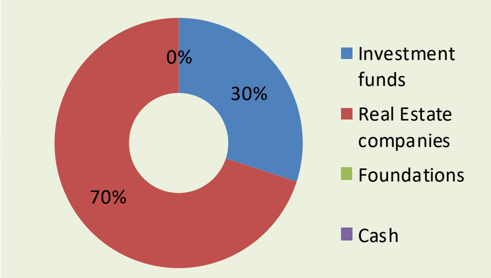
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Real Estate

- Contraction of risk premiums for listed real estate
- Rate increases dangerous for overvalued markets
- Historically high premiums

Swiss Real Estate allocation



REAL ESTATE Switzerland	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Investment funds	↘	↗							
Real Estate companies	↗	↗↗							
Foundations	↗	↗							
Cash									

Tactical Allocation

- Beware of fund agios
- Balancing allocations between funds and listed real estate companies

Contraction of risk premiums for listed real estate

Interest rates are also adjusting in Switzerland and are now at their highest level since December 2018. The 10-year federal yield is just -0.05% and will certainly return into positive territory in the near future. While this does not represent real competition for yield-seeking investors who have favoured real estate investments in recent years, it should be noted that the yield spread has narrowed significantly since August 2019. Two years ago, the yield on the 10-year federal bond was -1.12%, while the average yield on Swiss real estate funds and real estate companies was 2.87% and 3.3%, respectively. The risk premium for real estate investments was 399 and 442 basis points.

The current situation is now radically different as the Swiss government's yield has adjusted to almost zero, while the direct yields of funds (2.2%) and real estate companies (3.2%) have declined or stabilised. As a result, the risk premium for funds has contracted by almost 50% from 399 bps to only 225 bps. This is slightly less pronounced for real estate companies, where the risk premium fell from 442 to 325 bps.

Rate increases dangerous for overvalued markets

The very strong rebound of investment funds (+41%) since the collapse of prices following the health crisis has not been as significant for real estate companies (+34%), which have been slightly more affected by the uncertainties weighing on the commercial segments of the indices in particular.

These increases have considerably raised the valuations of these market segments, which are now trading at premiums of 44% for funds and almost 20% for real estate companies. In absolute terms, we consider this level of premium for funds to be particularly extreme, as they are at their highest levels ever and well above their long-term averages. They clearly reflect investors' excessive enthusiasm for this type of investment vehicle, which could undergo significant adjustments in the future.

Without overestimating the impact of rising interest rates on the valuation models of real estate investments, it would seem reasonable to consider that a continuation of the ongoing adjustment in bond yields will have a negative impact on the prices of securitised real estate investments. The weakness in real estate values in September of -0.28% and -2.5% does not seem to herald the start of further consolidation, but the need for yield does not justify all risk taking.

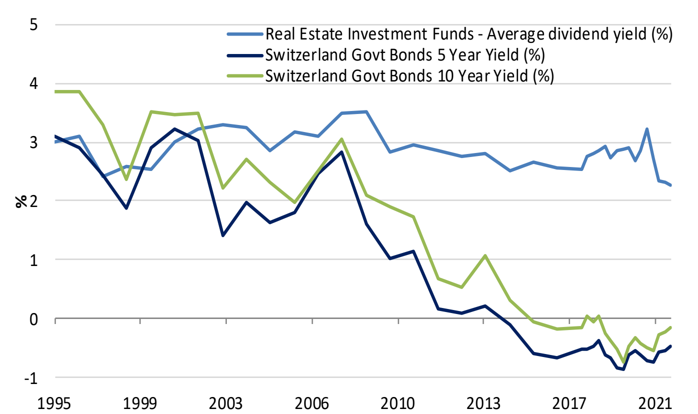
We recommend increased caution with regard to investment funds compared to listed real estate companies.

SWISS REAL ESTATE

30.09.2021 — Total Return Performance

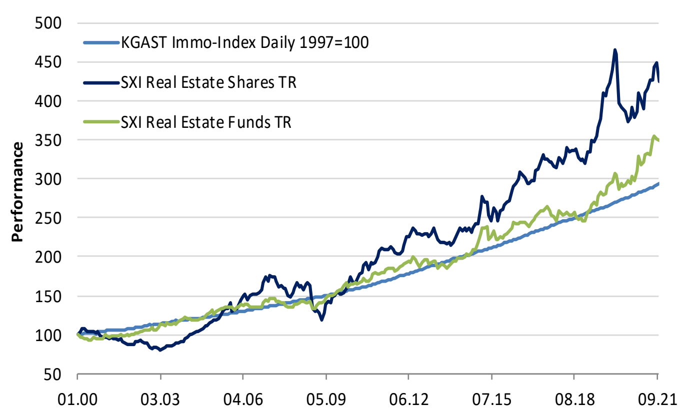
Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SXI Real Estate Funds TR	514.6	-1.1	-0.3	-0.3	5.8	6.4
SXI Real Estate Idx TR	3169.0	-1.5	-5.4	-0.2	2.3	3.7
KGAST Immo-Index	327.9				2.7	3.8

Government and Real Estate Yield



Graph sources: Bloomberg/BearBull Global Investments

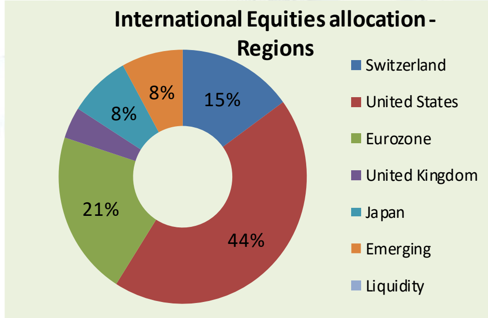
Performance of Swiss Real Estate



PROSPECTS AND STRATEGIES

International Equities - Regions

- The shift in monetary policies threatens equity markets
- Equities react to tapering announcement
- Chinese corporate profits decelerate



Tactical Allocation

- Reduce risk and equity allocation
- Increase Liquidity

EQUITIES REGIONS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Switzerland	↘	↗							
United States	↘	↗							
Eurozone	↘	↗							
United Kingdom	↘	↗							
Japan	↘	↗							
Emerging	↘	↗							
Liquidity									

The shift in monetary policies threatens equity markets

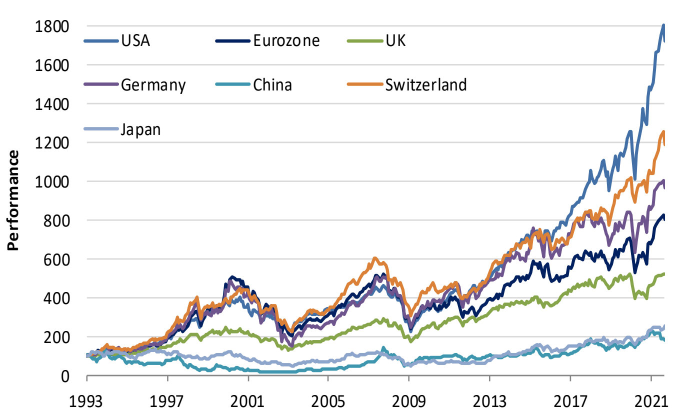
With the shift in monetary policies, global liquidity is likely to first undergo a phase of contraction that will correspond to a stabilisation and then a reduction in the size of central banks' balance sheets. This trend will take place in a context where governments will still have high financing needs in 2022 to fulfil economic stimulus commitments by increasing spending and investment budgets. Future budget deficits will therefore have to be financed by debt, which will continue to grow in 2022. Such an environment will necessarily have an impact on financial markets, which will no longer have the same access to the insurance policy offered by central banks during recent crisis episodes.

As far as equity markets are concerned, the effects of tapering on liquidity could also reduce the overall liquidity available that has been invested in equity markets in particular in recent years. A decrease in liquidity is a negative factor for the markets, but it is probably even more so the lasting change in interest rate trends that could soon penalise equity markets. Central bank action has in fact temporarily postponed the adjustment of yield curves to the current economic situation. The expansionary phase of price/earnings ratios may have peaked in the winter of 2020-2021, but a normalisation of monetary policies and yield curves will instead lead to a new regime characterised by less generous price-earnings ratios. A period of PE ratio contraction is therefore increasingly likely. The fact that this paradigm shift is taking place at a time when expected earnings are high, PEs are very generous and stock market indices are in some cases at historical highs is a source of great uncertainty. Moreover, one should also not discount the potential risks of disappointment regarding corporate profits, which could start alerting investors to the unexpected negative impacts caused by logistical problems affecting corporations' ability to achieve expected sales figures.

Moreover, one should also not discount the potential risks of disappointment regarding corporate profits, which could start alerting investors to the unexpected negative impacts caused by logistical problems affecting corporations' ability to achieve expected sales figures. Equity markets are still benefiting from the lack of alternatives, but we believe this factor is in decline.

Equity markets are beginning to see the risks of a rise in interest rates and hence in the discount rate on future earnings. Fear of not participating in the uptrend (FOMO) is diminishing, and technical and quantitative factors point to a risk of sustained reversal. Rising producer prices, hiring difficulties and logistical problems now pose risks to profit growth expectations and corporate margins. The approaching end of the year could also trigger a phase of widespread profit taking with significant impacts on equity index levels.

Long-term Performance (Normalized at 100)



Chinese Equities - A and B (Normalized at 100)

Graph sources: Bloomberg/BearBull Global Investments

Equities react to tapering announcement

The announcement of the forthcoming tapering has driven up interest rates and penalised equity markets in recent weeks, as the ensuing decrease in liquidity injections and increase in the discount rate for future corporate profits obviously impact the outlook and risks in equity markets, especially in certain segments. The high valuations of US stocks are more than ever a significant risk in this context. Recall that US stocks are now trading at between 19x 12-month earnings for Dow Jones stocks and 32x for Nasdaq stocks. For the S&P500, the multiple is almost 22x. By international comparison, US companies have thus garnered a significant level of enthusiasm, which allows them to be valued at significantly higher levels. September finally saw US share prices slide by around -5% after seven months of virtually uninterrupted gains. This weakness may only be temporary, but it is worth remembering that October could still be a time for further profit-taking as the earnings season begins.

We are concerned about the potential effects on US corporate earnings in the current environment of severe bottlenecks in supply chains and the possible effects on corporate earnings and margins in Q4. Uncertainty is indeed much greater today than in previous positive growth quarters. The current earnings season is likely to be more cautious on average in terms of earnings forecasts for the coming quarters. The return of volatility and uncertainty a few weeks before the end of the year could well provoke a correction.

We believe that the likelihood of a long-delayed consolidation due to extremely abundant liquidity is now high. We recommend a reasonable allocation to US equities.

Positive relative valuations for European equities but risks of disappointment increase

The Stoxx50 index's 14.5% increase is similar to that of the Dow Jones (12.3%) or the S&P500 (16%). But in terms of valuations, the European market still offers a discount of around 20% to 25% with regard to 2021 price/earnings ratios. However, price growth expectations for the Stoxx 600 and Stoxx 50 stocks over the next twelve months are particularly high (+32% and +23% respectively) and subject to disappointment if the increased production costs faced by companies cannot be fully passed on to sales prices. In this once again more uncertain environment for the evolution of corporate margins and profits, the risks of downward adjustment of expectations are increasing.

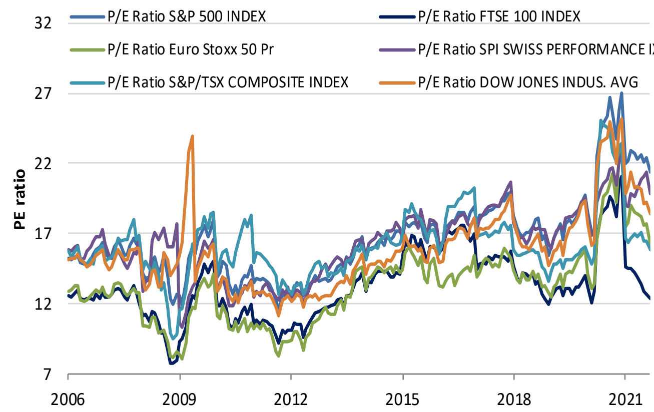
The Nikkei may benefit from renewed momentum

The election of a new LDP leader could well benefit Japanese companies, as the new administration that may take office soon will certainly reinforce existing measures to support Japan's economic growth. Corporate earnings forecasts could be revised further upwards in this context and push the Nikkei above 32,000 points.

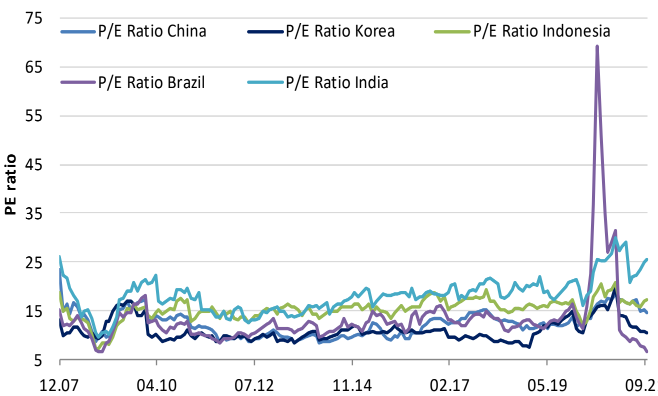
In this environment, domestic companies could benefit more significantly from a recovery in consumption and investment. However, the Nikkei index is now trading at 29,500 points, and we believe that a loss of momentum seems likely due to the already high valuation of Japanese stocks, which are about 10% higher than European stocks by comparison. Share prices are also likely to go through a consolidation phase in Japan.

Volatility (USA, Europe, Switzerland)

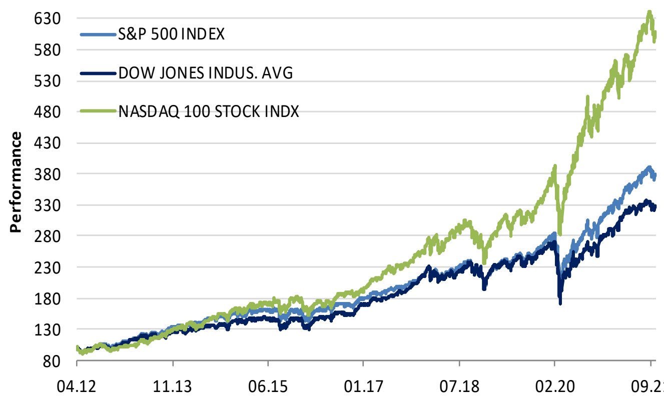
Price/Earnings Developed markets



Price/Earnings Emerging markets



US Equities (Normalized at 100)



Graph sources: Bloomberg/BearBull Global Investments

UK equities enjoy a 20% risk premium

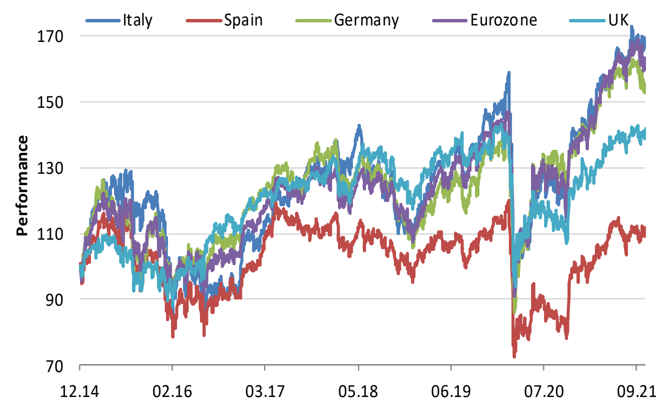
The UK equity market is still not benefiting from its attractive valuation and renewed positive momentum that is overdue. It continues to lag most other European markets in 2021, as it did over the whole of 2020. The FTSE 100 index's rise of around +10% in local currency over the first nine months is well below that of European equities (+15%) in euros. UK stocks are still suffering from Brexit-related uncertainty. The FTSE 100 index is currently trading at just over 12x expected earnings for 2021 and thus benefits from a favourable risk premium of around 20% compared to the more expensive Eurostoxx 50 stocks (16.5x).

This valuation gap is likely to be favourable, but the composition of the UK stock market certainly still acts as a brake on the adjustment of UK stock prices and valuations.

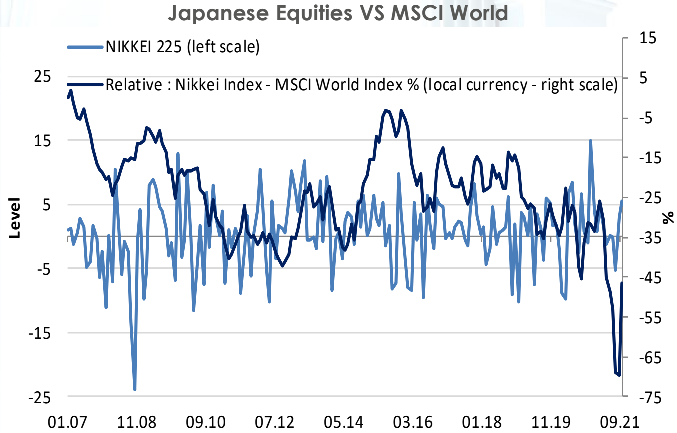
Chinese corporate profits decelerate

Since the end of Q1 2021, Chinese corporate profit growth measured year-on-year has been slowing. The base effect in terms of profit comparisons has logically been declining since March 2021, which represented a +92% increase from the March 2020 low point corresponding to the end of the profit contraction cycle during the pandemic. The latest published figures show an increase of +10.1% at the end of August, a significant decline from the July figure of +16%. This deceleration undoubtedly reflects the slowdown in industrial production, which slipped from +6.4% in July to +5.3% in August. However, the increase in producer prices was much more significant, up by a further +9.5% in August, its strongest increase in thirteen years. The decline in leading indicators and the difficulties associated with the energy supply suggest a further deceleration in profits. However, the mining sector benefited from the tensions in commodity prices and recorded a +151% increase in profits in August year-on-year, even better than the +145% increase achieved the previous month. In this context, the PBOC will probably consider reducing its reserve ratio.

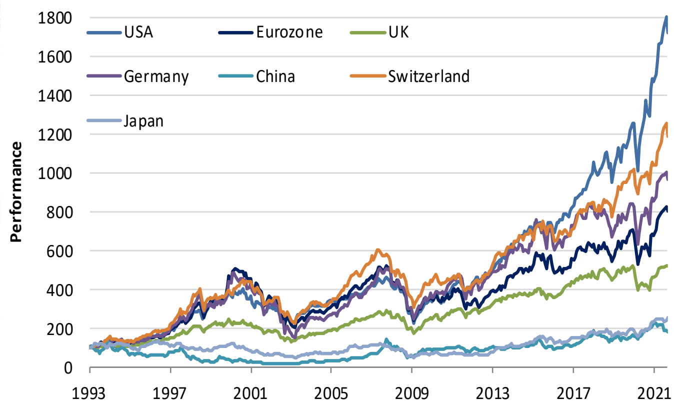
Performance of Stock markets (Normalized at 100)



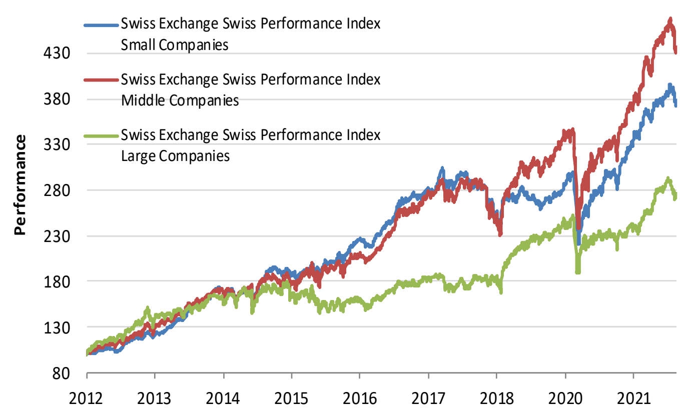
Japanese Equities VS MSCI World



Emerging Markets (Normalized at 100)



Swiss Equities (large - middle - small caps/Normalized at 100)



EQUITIES - BY REGION (local currency)

30.09.2021				Total Return Performance				
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
SWITZERLAND	SPI Swiss Performance Index	15044.6	CHF	-2.9	-5.7	-2.2	6.5	12.9
SWITZERLAND SMALL-MID CAPS	SPI Extra Total Return	5894.1	CHF	-4.7	-5.0	-0.4	6.4	17.5
EUROPE	STXE 600 € Pr	454.8	EUR	-2.7	-3.3	0.3	7.1	16.9
EUROPE SMALL-MID CAPS	MSCI Europe Small Cap Net TR E	576.4	EUR	-3.7	-4.4	1.7	6.6	18.4
UK	FTSE All-Share Index	4059.0	GBP	-0.5	-1.0	1.0	7.4	13.5
USA	S&P 500 Index	4307.5	USD	-3.2	-4.7	0.1	7.9	15.9
USA SMALL-MID CAPS	RUSSELL 2500	901.3	USD	-2.7	-3.1	-3.4	0.9	13.8
JAPAN	NIKKEI 225	29452.7	JPY	-0.1	5.4	3.2	0.9	8.8
JAPAN SMALL-MID CAPS	Russell/Nomura Mid-Small Cap I	1059.5	JPY	-0.2	3.8	5.1	3.4	13.7
ASIA EX-JAPAN	MSCI AC Asia Pac Ex Japan	636.6	USD	-1.5	-4.0	-7.8	-5.9	-1.9
ASIA EX-JAPAN SMALL-MID CAPS	MSCI AC Asia Pacific Ex Japan Small Cap	1308.8	USD	-1.9	-2.0	-1.6	5.1	13.2
EMERGING	MSCI EM	1253.1	USD	-1.5	-4.0	-7.6	-4.7	-1.2
INTERNATIONAL EQUITIES -DIVERSIFIED USD	MSCI Daily TR Net World	9052.7	USD	-3.1	-4.2	-0.4	6.6	13.0

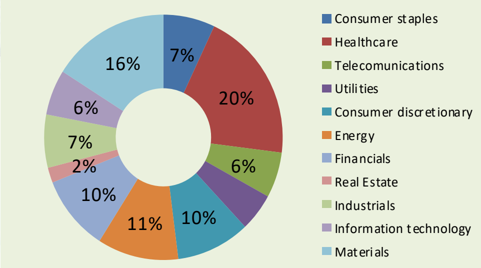
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

International Equities - Sectors

- Overweight stocks that are less sensitive to rising interest rates
- Overweight value stocks, financials, energy, basic materials, healthcare and mining
- Underweight the technology sector and digital stocks

International Equities allocation -sectors



Tactical Allocation

- Underweight digital stocks and technology
- Overweight healthcare, consumer staples, energy and gold mining

EQUITIES Sectors	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	→	↗							
Healthcare	↗	↗↗							
Telecommunications	↗	↗							
Utilities	→	↗							
Consumer discretionary	↘	↗							
Energy	↗	↗↗							
Financials	↘	↗							
Real Estate	→	↗							
Industrials	↘	↗↗							
Information technology	↘	↗↗							
Materials	↗	↗↗							

EQUITIES - BY SECTOR

30.09.2021 — Total Return Performance

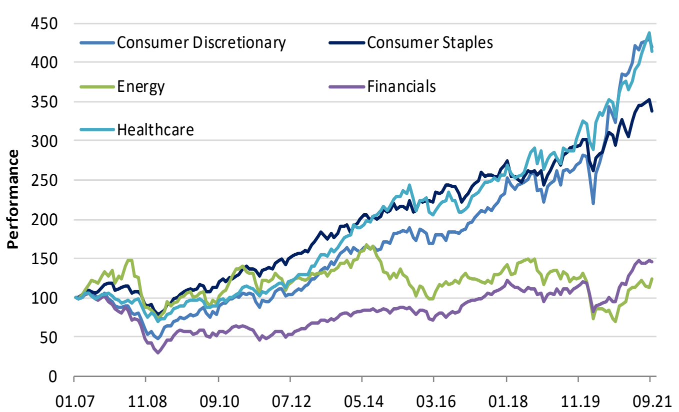
	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
CONSUMER DISCRETIONARY	MSCI WORLD/CONS DIS	407.6	USD	-2.9	-2.4	-1.6	4.2	8.9
CONSUMER STAPLES	MSCI WORLD/CON STPL	268.9	USD	-2.5	-3.9	-1.7	4.4	3.7
ENERGY	MSCI WORLD/ENERGY	168.3	USD	3.2	9.5	0.2	9.3	35.4
FINANCIALS	MSCI WORLD/FINANCE	144.7	USD	-0.8	-1.3	1.6	8.2	23.8
HEALTHCARE	MSCI WORLD/HLTH CARE	343.2	USD	-3.8	-5.2	0.5	10.5	11.4
INDUSTRIALS	MSCI WORLD/INDUSTRL	331.6	USD	-3.3	-4.7	-2.2	1.7	10.5
MATERIALS	MSCI WORLD/MATERIAL	327.9	USD	-2.9	-7.3	-5.1	-0.5	6.3
REAL ESTATE	MSCI WORLD/REAL ESTATE	244.5	USD	-3.7	-5.5	-0.5	8.7	16.8
TECHNOLOGY	MSCI WORLD/INF TECH	506.2	USD	-5.2	-5.7	1.5	10.9	14.9
TELECOMMUNICATION	MSCI WORLD/TEL SVC	108.8	USD	-2.9	-5.8	-0.7	7.2	16.7
UTILITIES	MSCI WORLD/UTILITY	148.3	USD	-3.3	-7.0	-1.7	-1.2	-0.4

The emerging paradigm shift in monetary and interest rate policies is likely to have a significant influence on investors' choices in the coming quarters. The season of corporate earnings releases and forward guidance will be conducive to probable changes in sector allocations, likely favouring stocks that are less sensitive or positively correlated with rising interest rates. Technology stocks and, more broadly, growth stocks and sectors that benefit from falling interest rates are likely to ultimately be more severely affected by this new and very different economic environment and by the expected effects of rising interest rates on their very high valuation levels.

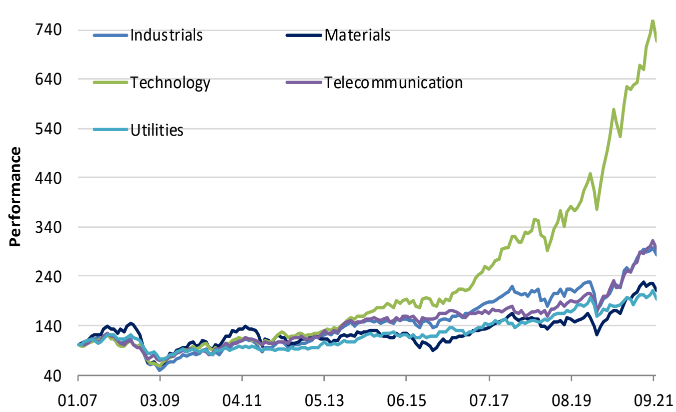
A steepening yield curve will certainly be more negative for growth stocks and more favourable to cyclical sectors, particularly the banking sector. Energy and basic materials stocks with still reasonable valuations can benefit from this. The underperformance of the Nasdaq index (-5.69%) compared to the Dow Jones (-4.2%) in September is barely noticeable for the moment, but it could quickly intensify. In view of this, we recommend adopting a resolutely more defensive strategy today.

The technology sector is unlikely to continue its recent stock market performance with the same momentum in this environment of rising long-term interest rates and is likely to suffer profit taking. It is therefore underweighted in favour of the banking sector, which stands to benefit from a rise in interest rates. Energy and basic materials stocks are also benefitting from an improved earnings growth outlook linked to rising commodity prices. The mining sector will benefit and should therefore be included in a diversified international allocation. Gold and silver mines will certainly also benefit from the expected further rise in precious metal prices.

Sectors - MSCI World (Normalized at 100)



Sectors - MSCI World (Normalized at 100)



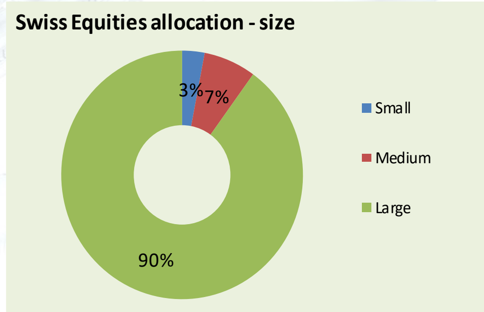
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Swiss Equities

- Strongest decline in Swiss equities since 20 October
- Overweight Switzerland in times of uncertainty
- A weaker franc is good for equities

EQUITIES capitalization	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Small	↘	↗							
Medium	↘	↗							
Large	↘	↗↗							



Tactical Allocation

- Keep a defensive approach
- Focus on blue chips, reduce small and mid caps

Strongest decline in Swiss equities since 20 October

The Swiss equity market has experienced some profit taking since the end of August in the context of the significant rise in interest rates in Switzerland. The continuation of this trend through September completely erased the gains recorded since the beginning of June for the SMI and SPI indices. It is thus moving against the grain of the other markets for the time being. The Swiss National Bank's lack of asset purchase programme no longer reassures investors, who are worried about seeing yields adjust to the new economic outlook. The rise in interest rates and consequently in the discount factor for corporate profits is therefore already having a visible impact in Switzerland on the degree of investor confidence. Stock market euphoria seems to be much less prevalent in our market, and hesitation seems more rational. This happens every time 12-month PE valuation levels rise.

After a consolidation of more than -9% over a few weeks, the average PE of the SMI is still 19x 2021 and 20x 12-month earnings. But the recent underperformance of the Swiss market compared to the more modest declines in US and European stocks suggests that share prices' adjustment to the new uncertainties is already underway. In the short term, we believe that the risks of a continuation of the current price consolidation trend remain high. We suggest a reasonable exposure to Swiss equities before we can count on them resuming their upwards trend.

Overweight Switzerland in times of uncertainty

The Swiss equity market, in particular because of the defensive nature of its most important sectors such as healthcare and consumer staples, is likely to be more resilient to the growing risks of adjustment of the stock market outlook to interest rate risks and a temporary economic slowdown, which we anticipate for the end of 2021. The main Swiss stocks (Novartis, Roche and Nestlé) are likely to benefit from the repositioning of investors during the stock market consolidation phase into safe stocks with particularly predictable and stable results. An increase in market risks at the end of the year is therefore likely to have less dramatic effects on the SMI and SPI indices than on other less defensive equity markets.

This is particularly true if we take into account the decline already seen in September and the underperformance of recent weeks.

A weaker franc is good for equities

The average yield of Swiss stocks of around +2.5% seems more attractive today than that of the US market (+1.3%), but it is close to that of European stocks and therefore offers little interest in this respect. However, the currency factor could be more positive in the future if the Swiss franc loses its safe haven status, as we expect. An improvement in investor sentiment and confidence against the backdrop of a strengthening global economy is likely to reduce demand for Swiss francs. A weaker franc would have a positive impact on the earnings of Swiss multinationals and would indirectly support profit growth translated into Swiss francs.

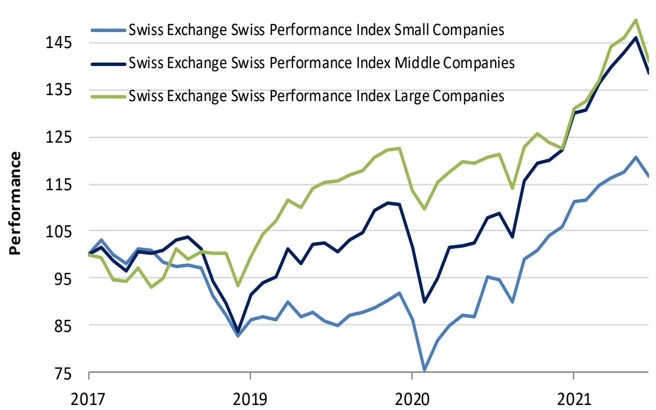
Overall, Swiss equities will still be able to benefit in 2022 from the lack of other investment alternatives for investors forced to turn to volatile assets in the absence of returns and the lack of attractiveness of the Swiss franc bond market.

SWISS EQUITIES - Capitalization

30.09.2021 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
SPI SWISS PERFORMANCE IX	15044.6	-2.9	-5.7	-2.2	6.5	12.9
SPI SMALL COMPANIES INDX	32307.1	-2.4	-3.4	0.7	4.1	15.7
SPI MIDDLE COMPANIES IDX	22905.8	-4.5	-5.3	-1.1	4.9	15.9
SPI LARGE COMPANIES INDX	14078.2	-2.5	-5.8	-2.5	7.0	12.2

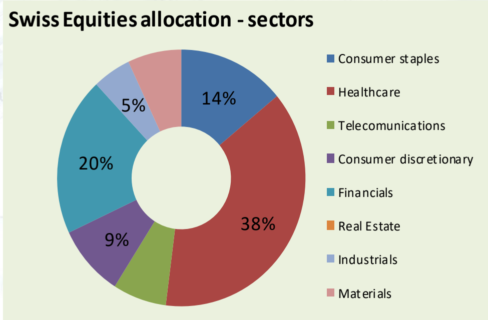
Swiss Equities Performance



Graph sources: Bloomberg/BearBull Global Investments

Swiss Equities - Sectors

SWISS EQUITIES Sectors	Expected Return 3months	1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Consumer staples	→	↗							
Healthcare	→	↗↗							
Telecommunications	↘	↗							
Consumer discretionary	↘	↗							
Financials	↗	↗							
Real Estate	↗	↗↗							
Industrials	↘	↗↗							
Materials	↘	↗							

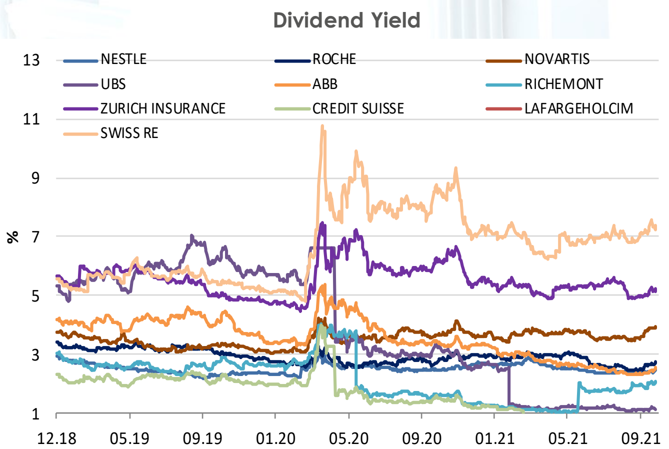


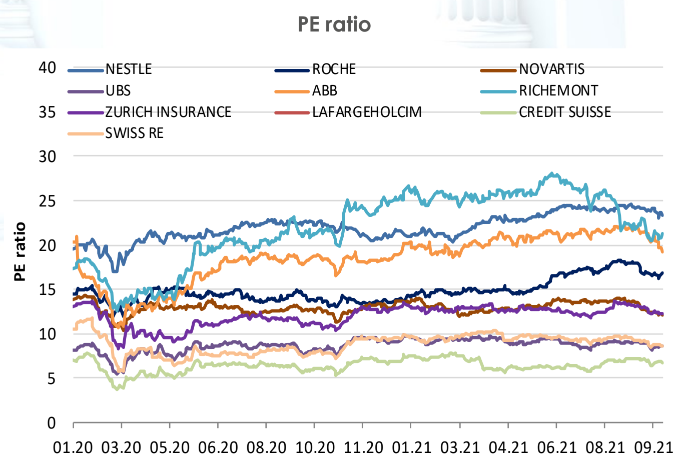
Tactical Allocation

- Overweight healthcare, food and banking sector

Opportunistic defensive strategy focused on the healthcare-pharma sector

Swiss equities are trading at high PE levels by international comparison, as we have seen above, but also compared to their historical average. The current valuation of expected earnings over the next twelve months is almost 25% higher than its long-term trend. For several quarters now, we have been regularly pointing out that the appreciation of stock market indices and Swiss companies has been based on two main factors—the rise in multiples and earnings growth, the first of which is likely to become progressively less intense. We can now confirm that in the current context of a very gradual adjustment in Swiss long-term interest rates, the multiples expansion phase has come to an end. From now on, we can no longer expect this factor to have such a positive impact when rates rise. Multiples are currently as high in the rest of the world as they are in Switzerland, so this is not a particularly penalising relative factor in terms of foreign investors' interest in Swiss securities. Against this backdrop of high overall valuations, selectivity is the order of the day. We favour quality stocks that offer visibility on earnings growth and an attractive return at appropriate multiples. The currency effect will not have a significant impact on earnings in 2021, but it could be a significant positive factor in 2022 for the earnings growth of some Swiss multinationals. The outlook for Swiss companies' earnings growth is above +10% for 2022 in our view. The current environment is likely to favour the healthcare sector and Novartis in particular, whose valuation of 12x earnings over 12 months seems particularly cheap. The banking sector is also benefiting from rising inflation and the gradual normalisation of interest rates without being penalised by the logistical difficulties encountered in other industrial sectors, which are seeing their costs rise. A recovery in the valuation of financial stocks in a context of rising long-term interest rates is likely. The Swiss market could well see a sector rotation favouring healthcare and financial stocks at the expense of companies that are already particularly richly valued, even in an environment of recovering profits. Cyclical stocks with a high degree of control over their selling prices and margins are also to be favoured.

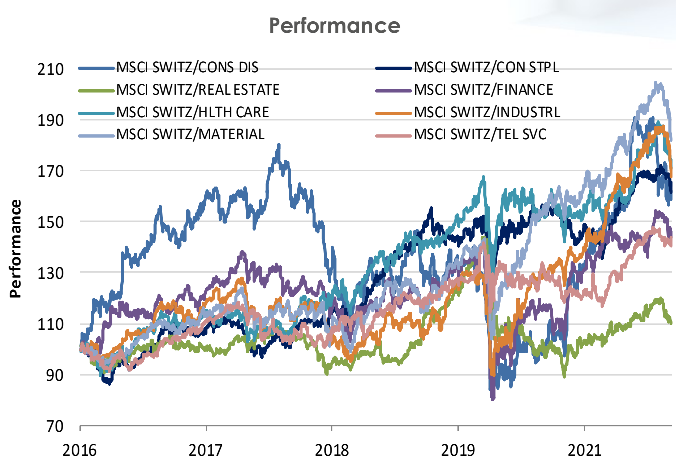




SWISS EQUITIES - BY SECTOR

30.09.2021 — Total Return Performance

Name	Last price	7 d %	1 m %	3 m %	6 m %	YTD %
MSCI SWITZ/CONS DIS	323.8	-3.7	-2.1	-13.1	4.7	20.4
MSCI SWITZ/CON STPL	375.3	-2.0	-2.8	-1.6	10.3	11.5
MSCI SWITZ/FINANCE	60.8	-1.1	-4.2	1.7	0.7	11.2
MSCI SWITZ/HLTH CARE	198.3	-2.0	-7.2	-2.0	8.9	11.1
MSCI SWITZ/INDUSTRL	244.6	-6.1	-8.3	-3.4	5.2	22.3
MSCI SWITZ/MATERIAL	437.6	-6.1	-9.9	-5.9	3.4	11.3
MSCI SWITZ/REAL ESTATE	1063.9	-2.0	-6.7	-0.3	3.7	7.2
MSCI SWITZ/TEL SVC	101.6	0.6	0.0	1.7	10.0	17.7



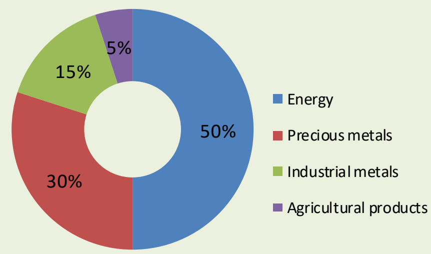
Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Commodities

- Accelerating economic growth boosts commodities in 2021
- Rebalancing of the oil market supports crude oil prices
- Gold rush may resume in 2021

Commodities allocation



COMMODITIES	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Energy	↗	↗							
Precious metals	↗	↗							
Industrial metals	↗	↗							
Agricultural products	↗	↗							

Tactical Allocation

- Overweight precious and industrial metals
- Slight under exposure in the energy segment

Economic environment still favourable

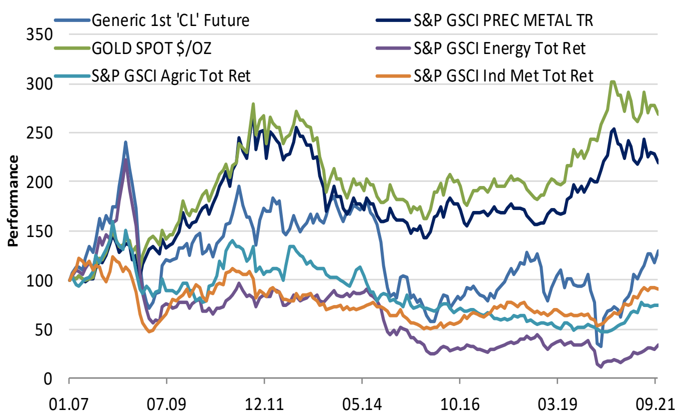
Commodity prices surged in Q3, rising 5.2%, the strongest gain of any asset class just behind private equity. The global commodity indices are mainly benefiting from the extraordinary rise in energy prices due to the +61% surge in natural gas prices during the quarter. As far as crude oil prices are concerned, the increases in the WTI (+2%) and North Sea Brent (+4.5%) were more modest, after rising by around +60% over three consecutive quarters. The current tensions in the energy segment reflect the significant disparities between supply and demand that crystallised as economies emerged from the pandemic. These disparities are now having repercussions on supply chains within the various energy production and distribution markets. Supply problems are exacerbated by the decline in inventories of both gas and oil, and in the absence of a reactivation of available production capacity in OPEC countries. This situation could persist and keep energy prices high. Regarding precious metals (-8.9%), uncertainty has increased since the announcement of a forthcoming Fed tapering and is likely to prompt a rebound in investment demand, also bolstered by a change in inflationary expectations. Demand for gold is once again likely to exceed supply. Industrial metals (+1.6%) will continue to benefit from the positive economic cycle in 2022 after a temporary consolidation phase. As an asset class, commodities have outperformed equity markets (+29%) quite significantly over the last twelve months with an overall performance of +58%, reversing a trend that had previously been rather unfavourable and confirming their historical characteristic of outperforming other asset classes in times of sustained economic growth and in an inflationary environment. We maintain our positive outlook for this asset class for 2022.

Exceptional situation in the oil market

The price of West Texas Intermediate (WTI) crude oil has jumped by nearly 73% in 2021 and has exceeded USD 80 per barrel for several days now. Its European equivalent, North Sea Brent, is up 67% and approaching USD 85 per barrel. Half of this increase (+32% and +33%) took place in the last eight weeks alone—a period that coincides with the extraordinary +75% rise in natural gas prices from USD 3.7 to 6.5. Tensions are rising and affecting other energy sources, including coal. The post-pandemic world is waking up to the fact that our economies are still extremely dependent on fossil fuels and gas, especially as all economies are emerging together from the health crisis and competing for the energy needed to achieve their development goals. Coal prices have soared by over 300% in Australia. Reserves are dwindling everywhere, and China is recommending that its companies store as much energy as possible in anticipation of likely bottlenecks and shortages. In India, too, preparations are likely to be made for power outages, as the economy is largely dependent on energy from coal-fired power stations. The rise in energy prices is the result of producers' failure to anticipate the rise in various countries' demand caused by the post-pandemic economic rebound. It is probably also a symptom of the current global clash between a still cautious supply struggling to meet a revitalised consumer demand, as the former has already drawn heavily on inventories and cannot adjust production.

The rise in energy prices could constitute a new economic shock if it continues at current levels. In the current context we estimate a likely negative impact on growth in 2022 and a limited effect on inflation, so the risks of recession should not be overestimated today.

Commodities



Graph sources: Bloomberg/BearBull Global Investments

COMMODITIES (USD)

30.09.2021 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
	MSCI Daily TR Net World USD	9052.68	USD	-3.15	-4.15	-0.37	6.65	13.04
GLOBAL	S&P GSCI Tot Return Indx	2733.5	USD	2.1	6.0	4.3	20.1	38.3
WTI CRUDE	Generic 1st 'CL' Future	75.0	USD	2.4	9.5	-0.3	22.1	54.6
BRENT OIL	Generic 1st 'CO' Future	78.5	USD	1.6	7.6	3.5	21.1	51.6
NATURAL GAS	Generic 1st 'NG' Future	5.9	USD	17.9	34.0	60.3	122.3	131.1
OR	GOLD SPOT $/OZ	1757.0	USD	0.8	-3.1	-1.1	1.6	-7.4
ARGENT	Silver Spot $/Oz	22.2	USD	-1.5	-7.2	-14.8	-11.2	-16.0
AGRICULTURE	S&P GSCI Agric Indx Spot	416.7	USD	1.4	1.1	0.5	8.7	13.3
INDUSTRIAL METALS	S&P GSCI Ind Metal Spot	469.2	USD	-3.6	-2.0	2.6	12.1	22.8

BearBull Global Investments Group

Precious metals remain a strong diversification option

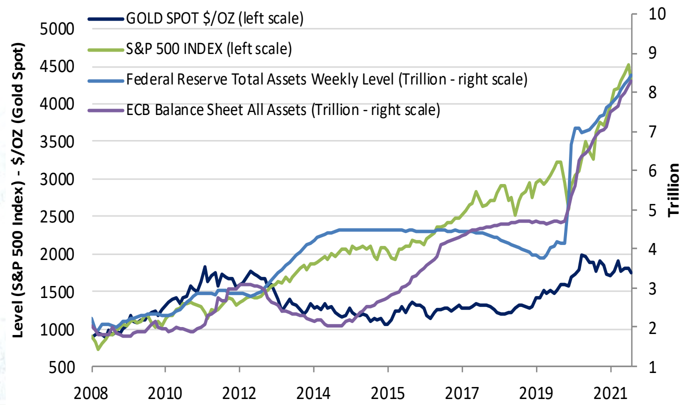
Precious metal prices continue to consolidate after several quarters. Prices are fluctuating around USD 1,800 per ounce for gold and USD 25 for silver. To date, the sharp rise in inflation in the US and a growing number of other countries has not yet triggered a new upswing in precious metal prices. However, inflation is the main factor determining fluctuations in precious metals over the long term, which surprisingly still does not seem to be having any effect on investors. Central banks' stance on rising inflation, largely claimed to be an entirely temporary event, is certainly the main reason why this factor is not being taken into account. The appreciation of the dollar over the past six months against most currencies and the resumption of an upward trend in interest rates are both contributing to holding back a rise in gold that we believe is perfectly justified by the current situation. Investment demand has been a key factor in this recent post-pandemic development. The first three quarters of 2021 were marked by an increasingly clear global economic recovery and an exceptional increase in financial asset prices. Investors' appetite for risk has increased in this environment, and fund flows have logically shifted from safe havens to risky assets. Over the past twelve months, demand for physical gold as an investment and for value protection has steadily declined in two successive waves (November 2020, February and March 2021) and then stabilised at a level 12% lower than before. The main factor determining gold's fluctuations is therefore currently the "risk perception" factor which, despite the start of the Fed's tapering and the consolidation of equities in September, does not seem to be changing. The monetisation of fiscal deficits, confirmation of sustained inflationary trends and the need for capital preservation at the end of the year have not yet supported a recovery in gold and silver. However, we believe that precious metals now offer an excellent opportunity for diversification and value preservation in the current, more uncertain environment.

The consolidation of industrial metals is an opportunity

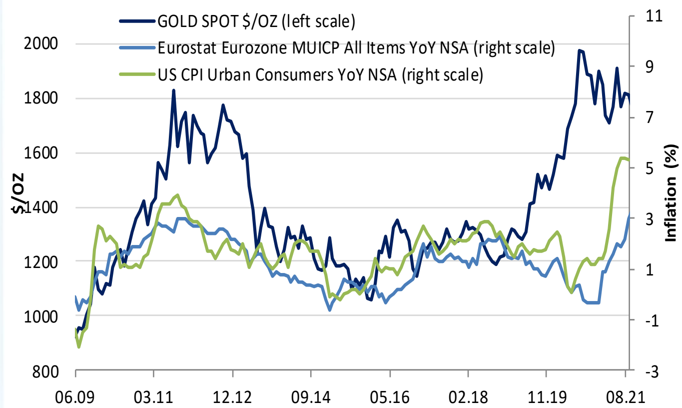
The long-term outlook for the vast majority of industrial metals remains very positive. We continue to believe that the energy transition will be particularly favourable for some metals, which will benefit from a super bull market cycle. A temporary dip in upward trends is likely, however, as the strong demand that coincided with the global economic recovery and the end of the lockdown is normalising. The Chinese recovery from Q2 2020 onwards was a major contributor to the recovery in industrial metals prices, which was then complemented by demand from other regions that were returning to growth. The weakening of the Chinese economy could contribute to a reduction in tensions and imbalances between supply and demand. The temporary consolidation in copper and nickel is already a sign of this, while the rise in aluminium is explained by the special energy shortage situation in China, which has led to production cuts. The world is now waking up to a new supply management problem in a totally different environment from the one that prevailed during years of just-in-time production. Producers have cut their capital expenditure (capex) in half in recent years, pointing to a significant impact on future price levels if demand remains strong.

We maintain our positive outlook for all industrial metals in 2022. They are likely to continue to benefit significantly from the stimulus packages in most economies. The emergence of unprecedented political support for the global energy transition will have a lasting and positive impact on the green energy sector and for transport, which is likely to benefit industrial metals and copper in particular, given the increased demand for infrastructure, wind projects, rail and the developing electric car sector.

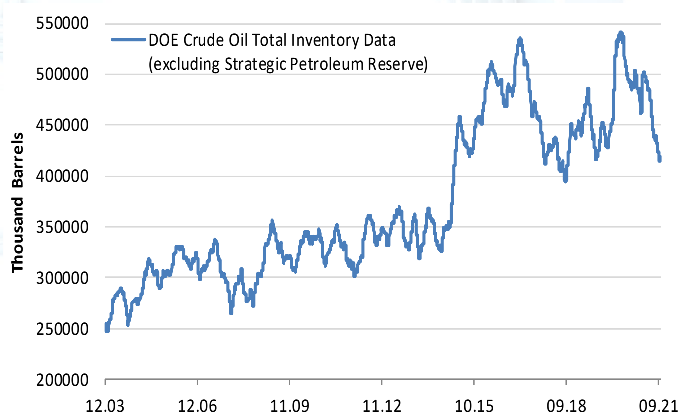
Gold and Global liquidity



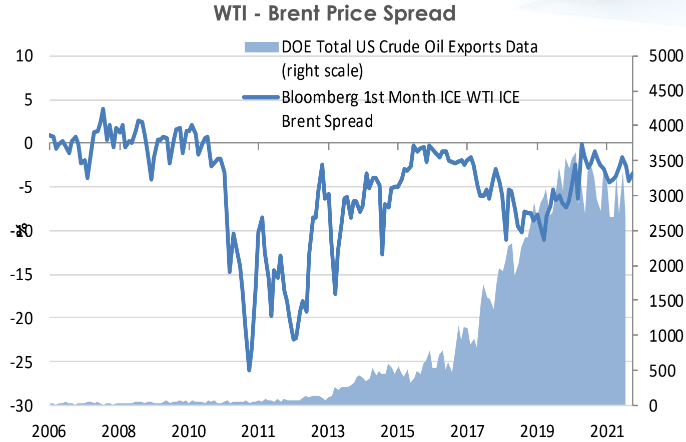
Gold and Inflation



Crude Oil Inventory (USA)



WTI - Brent Price Spread



Graph sources: Bloomberg/BearBull Global Investments

PROSPECTS AND STRATEGIES

Hedge Funds

- Moderate increase in hedge funds in 2021

Moderate increase in hedge funds in 2021

Between June and September, the alternative investments asset class posted its first negative quarterly performance (-0.3%) since Q1 2020. Nevertheless, the asset class performed relatively well in September (-0.4%), given the main equity markets posted corrections of over -4% overall.

The macro/CT strategy recorded the sharpest decline in Q3 (-1.6%) for a flat cumulative YTD result. The event-driven (-1.0%) and relative value arbitrage (-0.1%) strategies also finished in the red between June and September but both maintained positive YTD performances of +2.3% and +0.8%, respectively. The equity hedge strategy did well in Q3, rising by almost one percent (+0.9%) for a gain of +9.2% in 2021, well ahead of the other strategies.

Private Equity

- Private equity continues to rise

Private equity continues to rise

With an increase of +6.8% over the last quarter, private equity once again recorded a significant quarterly increase, albeit more moderate than in the three previous quarters (+16.7%, +15.8% and +14.8%), outpaced only by the energy segment of commodities, which climbed by nearly +10% over the period (+9.71%). Thus, the asset class has achieved a performance of more than 40% (+42.9%) YTD.

The United Kingdom had the best quarter (+8.3%), ahead of Europe and the United States, which rose by +6.2% and +5.8%, respectively. For the year as a whole, the rankings are reversed with the US up +45.4%, Europe up +30.6% and the UK up almost +30% (+29.5%).

INDICES GESTION ALTERNATIVE (en USD)

30.09.2021 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
GLOBAL	HFRX Global Hedge Fund Index	1429.9	USD	-0.5	-0.4	-0.3	2.1	3.6
EQUITY HEDGE	HFRX Equity Hedge Index	1456.2	USD	-1.0	-0.5	0.9	6.1	9.2
EVENT DRIVEN	HFRX Event Driven Index	1802.9	USD	0.0	0.1	-1.0	0.6	2.3
MACRO/CTA	HFRX Macro/CTA Index	1231.9	USD	-0.8	-1.2	-1.6	-0.7	0.0
RELATIVE VALUE ARBITRAGE	HFRX Relative Value Arbitrage	1360.3	USD	-0.2	-0.1	-0.1	0.9	0.8
LATIN AMERICA*	HFRX Latin America Index	2141.3	USD	-	0.0	-6.4	3.4	-0.5
ASIA COMPOSITE*	HFRX Asia Composite Hedge Fund Index	2755.6	USD	-	0.0	-1.5	0.8	2.9
NORTHERN EUROPE*	HFRX Northern Europe Index	2256.5	USD	-	0.0	0.7	1.9	3.8
ASIA EX-JAPAN*	HFRX Asia ex-Japan Index	2894.2	USD	-	0.0	-2.6	2.4	3.4
MULTI-REGION	HFRX Multi-Region Index	1576.7	USD	-0.2	0.0	-0.4	0.7	1.3

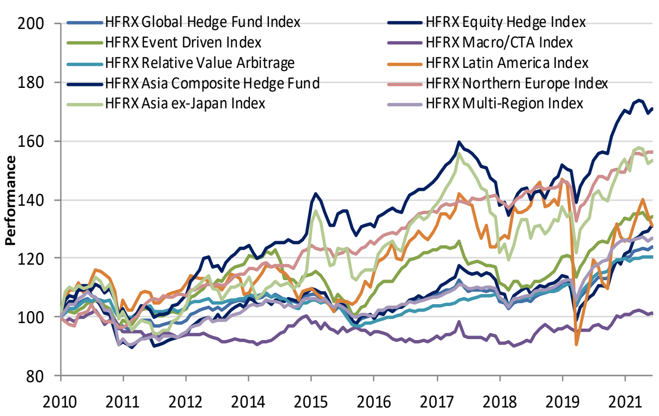
* Subject to one-month lag

INDICES PRIVATE EQUITY (en EUR)

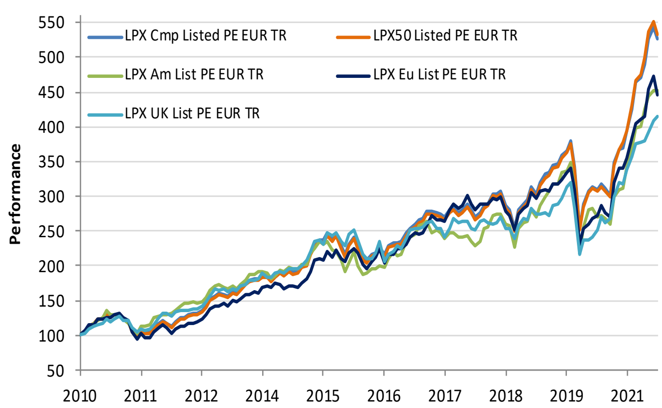
30.09.2021 — Total Return Performance

N° ISIN	Name	Last price	Curr.	7 d %	1 m %	3 m %	6 m %	YTD %
COMPOSITE	LPX Cmp Listed PE EUR TR	437.3	EUR	-3.4	-3.1	6.8	21.4	42.9
MAJOR COMPANIES	LPX50 Listed PE EUR TR	4225.6	EUR	-3.4	-3.2	6.2	21.8	45.1
USA	LPX Am List PE EUR TR	601.6	EUR	-1.1	-0.1	5.8	20.5	46.4
EUROPE	LPX Eu List PE EUR TR	1424.3	EUR	-4.7	-5.7	6.2	14.6	30.6
UK	LPX UK List PE EUR TR	463.6	EUR	-0.9	1.2	8.3	14.7	29.5

Hedge funds



Private Equity



Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY & ASSET ALLOCATION

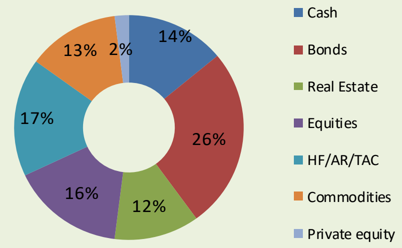
Graph sources: Bloomberg/BearBull Global Investments

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - CHF

- New bullish trend in fixed income markets
- Increasing risk of profit taking in the equity segments
- Precious metals are still favourites
- Return of a weak franc

Asset allocation - CHF portfolio

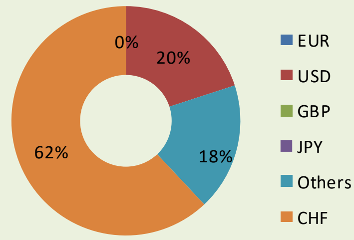


Tactical Allocation

- Strategy again more defensive
- Reduce risky assets, increase liquidity

ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (CHF Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	→	→							
Bonds	↘	↘							
Real Estate	↘	↗							
Equities	↘	↗							
Hedge funds	↘	↗							
Commodities	↗	↗							
Private equity	↘	↗							

Currency allocation - CHF portfolio



Asset allocation

The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation at the beginning of the quarter is no longer as constructive as it was after the financial markets fell in March 2020 as new opportunities emerged. The equity segment seems risky and susceptible to profit taking. Opportunities have become scarce in the bond segments, while international real estate can still offer attractive diversification. Precious metals are also favoured in this once again slightly more uncertain environment.

Bonds

Until August, bond markets were still benefiting from very accommodative central bank monetary policies and speeches, which in our opinion were rather complacent about the rise of inflation. However, investor confidence was gradually tinged with doubt when the US Federal Reserve finally announced in September that it was beginning to normalise its monetary policy.

While the Fed had long claimed that inflation was a temporary phenomenon, it could only note its persistence in September, strongly suggesting the need for appropriate action.

The announced tapering will reduce available liquidity and will have an impact on the adjustment of long-term rates to growth and inflation levels. In this context, bond markets have started a new phase of yield adjustment, which is likely to continue and penalise their performance. We recommend a conservative bond strategy favouring dollar investments.

Equities

The investment climate changed somewhat in September with the announcement by the US Federal Reserve that it would change its monetary policy and reduce its liquidity injections significantly. Rising interest rates are not a favourable factor for equity markets, whose valuations are already particularly generous.

Continued bottlenecks in the global economy, disrupted by difficulties in the shipping and road transport sectors, may also affect the outlook for corporate profit growth. Financial markets may experience some profit taking in this environment. We favour a more cautious investment policy in equities as the year comes to a close, once again fraught with uncertainty.

Graph sources: Bloomberg/BearBull Global Investments

Commodities

Commodities performed well in Q3, led by the energy sector. Rising inflation and risk are likely to support demand for precious metals investments, which are more than ever an ideal hedge against further turbulence in equity markets.

Real estate

Real estate is still the main alternative to fixed income markets. We favour real estate markets in countries or regions that can rely on strong central banks and governments with sufficient resources to implement effective fiscal and budgetary measures.

Currencies

Covid-19 has temporarily increased demand for Swiss francs, but we expect this to diminish as the health situation improves. The US dollar remains the preferred currency, despite the sharp reduction in the yield differential that prevailed until the current crisis emerged.

Market performances - Q3 2021

		Q3 2021 local	Q3 2021 CHF	YTD local	YTD CHF
Exchange rates					
USD/CHF		0.7%		5.3%	
EUR/CHF		-1.7%		-0.2%	
GBP/CHF		-1.9%		3.8%	
JPY/CHF		0.6%		-2.3%	
Equity markets					
World	MSCI World USD	0.0%	0.7%	13.0%	19.0%
Europe	DJ Stoxx 600	0.8%	-0.8%	16.1%	15.8%
Eurozone	DJ Eurostoxx 50	-0.4%	-2.1%	13.9%	13.7%
	MSCI Europe S.C.	2.2%	0.5%	16.8%	16.5%
Germany	Dax 30	-1.7%	-3.4%	11.2%	11.0%
France	Cac 40	0.2%	-1.5%	17.4%	17.2%
United Kingdom	FTSE 100	0.7%	-1.2%	9.7%	13.8%
Switzerland	SPI	-2.0%	-2.0%	12.9%	12.9%
	SMI	-2.5%	-2.5%	8.8%	8.8%
	MSCI Swiss S.C.	2.2%	2.2%	10.6%	10.6%
North America	SP500	0.2%	1.0%	14.7%	20.7%
	Nasdaq	-0.4%	0.3%	12.1%	18.0%
	Tse 300	-0.5%	-2.0%	15.1%	21.7%
	SP600 Small C.	-3.1%	-2.4%	19.0%	25.3%
Japan	Nikkei 225	2.3%	2.9%	7.3%	4.9%
Emerging	MSCI EMF USD	-8.8%	-8.2%	-3.0%	2.1%

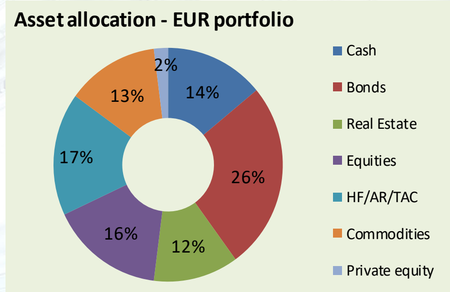
		Q3 2021 local	Q3 2021 CHF	YTD local	YTD CHF
Interest rates (3 months)		*(level)*			
CHF		-0.76%			
EUR		-0.56%			
USD		0.13%			
JPY		-0.08%			
Bonds markets					
World	Citi Gr Global Govt.USD	-1.2%	-0.5%	-5.9%	-1.0%
Europe	Euro Ser-E Gov > 1	0.0%	-1.6%	-2.9%	-3.2%
United Kingdom	UK Ser-E Gov > 1	-1.9%	-3.8%	-7.6%	-4.1%
Switzerland	SBI Général AAA-BBB	-0.4%	-0.4%	-1.7%	-1.7%
	SBI Govt.	-0.3%	-0.3%	-4.5%	-4.5%
USA	US Ser-E Gov > 1	0.1%	0.8%	-2.5%	2.6%
Japan	Japan Ser-E Gov > 1	0.1%	0.6%	-0.1%	-2.4%
Emerging	J.P. Morgan EMBI Global	-0.5%	0.2%	-1.5%	3.6%
Miscellaneaous					
	LPP 25 Index	-0.6%	-0.6%	2.6%	2.6%
	LPP 40 Index	-0.6%	-0.6%	5.2%	5.2%
	LPP 60 Index	-0.6%	-0.6%	8.8%	8.8%
Real Estate CH	DB RB Swiss Real Est Fd	-0.3%	-0.3%	5.7%	5.7%
Hedge Funds	Hedge Fund Research USD	-0.5%	0.2%	2.9%	8.3%
Commodities	GS Commodity USD	5.2%	6.0%	38.3%	45.5%

BearBull Global Investments Group

GLOBAL STRATEGY I ASSET ALLOCATION

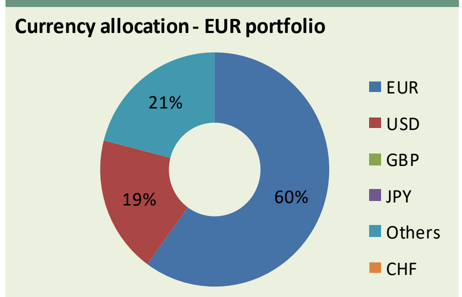
Diversified portfolio: Medium Risk - EUR

- New bullish trend in fixed income markets
- Increasing risk of profit taking in the equity segments
- Precious metals are still favourites
- Weakness of the euro against the dollar



Tactical Allocation

- Strategy again more defensive
- Reduce risky assets, increase liquidity



ASSETS	Expected Return 3months	Expected Return 1year	ALLOCATION (EUR Portfolio) underweight ---	--	-	neutral =	overweight +	++	+++
Cash	→	→					■		
Bonds	↘	↘		■					
Real Estate	↘	↗					■		
Equities	↘	↗			■				
Hedge funds	↘	↗					■		
Commodities	↗	↗					■		
Private equity	↘	↗			■				

Asset allocation

The core of our investment strategy is composed of traditional liquid assets (cash, bonds, equities and real estate), complemented by other diversified and tradable assets (commodities, hedge funds, private equity). The tactical allocation at the beginning of the quarter is no longer as constructive as it was after the financial markets fell in March 2020 as new opportunities emerged. The equity segment seems risky and susceptible to profit taking. Opportunities have become scarce in the bond segments, while international real estate can still offer attractive diversification. Precious metals are also favoured in this once again slightly more uncertain environment.

Bonds

Until August, bond markets were still benefiting from very accommodative central bank monetary policies and speeches, which in our opinion were rather complacent about the rise of inflation. However, investor confidence was gradually tinged with doubt when the US Federal Reserve finally announced in September that it was beginning to normalise its monetary policy.

While the Fed had long claimed that inflation was a temporary phenomenon, it could only note its persistence in September, strongly suggesting the need for appropriate action.

The announced tapering will reduce available liquidity and will have an impact on the adjustment of long-term rates to growth and inflation levels. In this context, bond markets have started a new phase of yield adjustment, which is likely to continue and penalise their performance. We recommend a conservative bond strategy favouring dollar investments.

Equities

The investment climate changed somewhat in September with the announcement by the US Federal Reserve that it would change its monetary policy and reduce its liquidity injections significantly. Rising interest rates are not a favourable factor for equity markets, whose valuations are already particularly generous.

Continued bottlenecks in the global economy, disrupted by difficulties in the shipping and road transport sectors, may also affect the outlook for corporate profit growth. Financial markets may experience some profit taking in this environment. We favour a more cautious investment policy in equities as the year comes to a close, once again fraught with uncertainty.

Graph sources: Bloomberg/BearBull Global Investments

Commodities

Commodities performed well in Q3, led by the energy sector. Rising inflation and risk are likely to support demand for precious metals investments, which are more than ever an ideal hedge against further turbulence in equity markets.

Real estate

Real estate is still the main alternative to fixed income markets. We favour real estate markets in countries or regions that can rely on strong central banks and governments with sufficient resources to implement effective fiscal and budgetary measures.

Currencies

The euro is expected to regain overall favour with investors but will remain weaker against the dollar, which will benefit from its favourable yield differential. The US dollar remains the preferred currency.

Market performances - Q3 2021

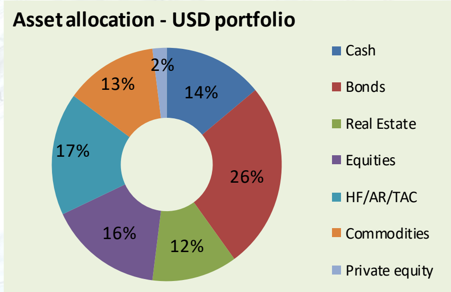
		Q3 2021 local	Q3 2021 EUR	YTD local	YTD EUR
Exchange rates					
USD/EUR		2.4%		5.5%	
CHF/EUR		1.7%		0.2%	
GBP/EUR		-0.2%		4.1%	
JPY/EUR		2.3%		-2.0%	
Equity markets					
World	MSCI World USD	0.0%	2.4%	13.0%	19.3%
Europe	DJ Stoxx 600	0.8%	0.8%	16.1%	16.1%
Eurozone	DJ Eurostoxx 50	-0.4%	-0.4%	13.9%	13.9%
	MSCI Europe S.C.	2.2%	2.2%	16.8%	16.8%
Germany	Dax 30	-1.7%	-1.7%	11.2%	11.2%
France	Cac 40	0.2%	0.2%	17.4%	17.4%
United Kingdom	FTSE 100	0.7%	0.5%	9.7%	14.2%
Switzerland	SPI	-2.0%	-0.3%	12.9%	13.1%
	SMI	-2.5%	-0.9%	8.8%	9.0%
	MSCI Swiss S.C.	2.2%	4.7%	10.6%	16.7%
North America	SP500	0.2%	2.7%	14.7%	21.0%
	Nasdaq	-0.4%	2.0%	12.1%	18.3%
	Tse 300	-0.5%	-0.3%	15.1%	22.0%
	SP600 Small C.	-3.1%	-0.8%	19.0%	25.6%
Japan	Nikkei 225	2.3%	4.6%	7.3%	5.1%
Emerging	MSCI EMF USD	-8.8%	-6.6%	-3.0%	2.4%

		Q3 2021 local	Q3 2021 EUR	YTD local	YTD EUR
Interest rates (3 months)		*(level)*			
CHF		-0.76%			
EUR		-0.56%			
USD		0.13%			
JPY		-0.08%			
Bonds markets					
World	Citi Gr Global Govt.USD	-1.2%	0.4%	-5.9%	-5.7%
Europe	Euro Ser-E Gov > 1	0.0%	0.0%	-2.9%	-2.9%
United Kingdom	UK Ser-E Gov > 1	-1.9%	-2.1%	-7.6%	-3.8%
Switzerland	SBI Général AAA-BBB	-0.4%	1.3%	-1.7%	-1.5%
	SBI Govt.	-0.3%	1.4%	-4.5%	-4.3%
USA	US Ser-E Gov > 1	0.1%	2.5%	-2.5%	2.9%
Japan	Japan Ser-E Gov > 1	0.1%	2.3%	-0.1%	-2.1%
Emerging	J.P. Morgan EMBI Global	-0.5%	1.9%	-1.5%	3.9%
Miscellaneaous					
	LPP 25 Index	-0.6%	-0.4%	2.6%	2.8%
	LPP 40 Index	-0.6%	-0.4%	5.2%	5.4%
	LPP 60 Index	-0.6%	-0.4%	8.8%	9.1%
Real Estate CH	DB RB Swiss Real Est Fd	-0.3%	-0.3%	5.7%	6.0%
Hedge Funds	Hedge Fund Research USD	-0.5%	1.9%	2.9%	8.6%
Commodities	GS Commodity USD	5.2%	7.8%	38.3%	45.9%

GLOBAL STRATEGY I ASSET ALLOCATION

Diversified portfolio: Medium Risk - USD

- New bullish trend in fixed income markets
- Increasing risk of profit taking in the equity segments
- Precious metals are still favourites
- Likely appreciation of the dollar



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- Strategy again more defensive
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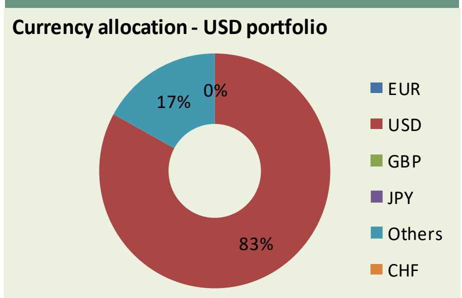

ASSETS	Expected Return		ALLOCATION (USD Portfolio)						
			underweight			neutral	overweight		
	3months	1year	---	--	-	=	+	++	+++
Cash	→	→							
Bonds	↘	↘							
Real Estate	↘	↗							
Equities	↘	↗							
Hedge funds	↘	↗							
Commodities	↗	↗							
Private equity	↘	↗							

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The dollar is likely to continue to benefit from its favourable yield differential against most major and emerging currencies. The US dollar remains the preferred currency.

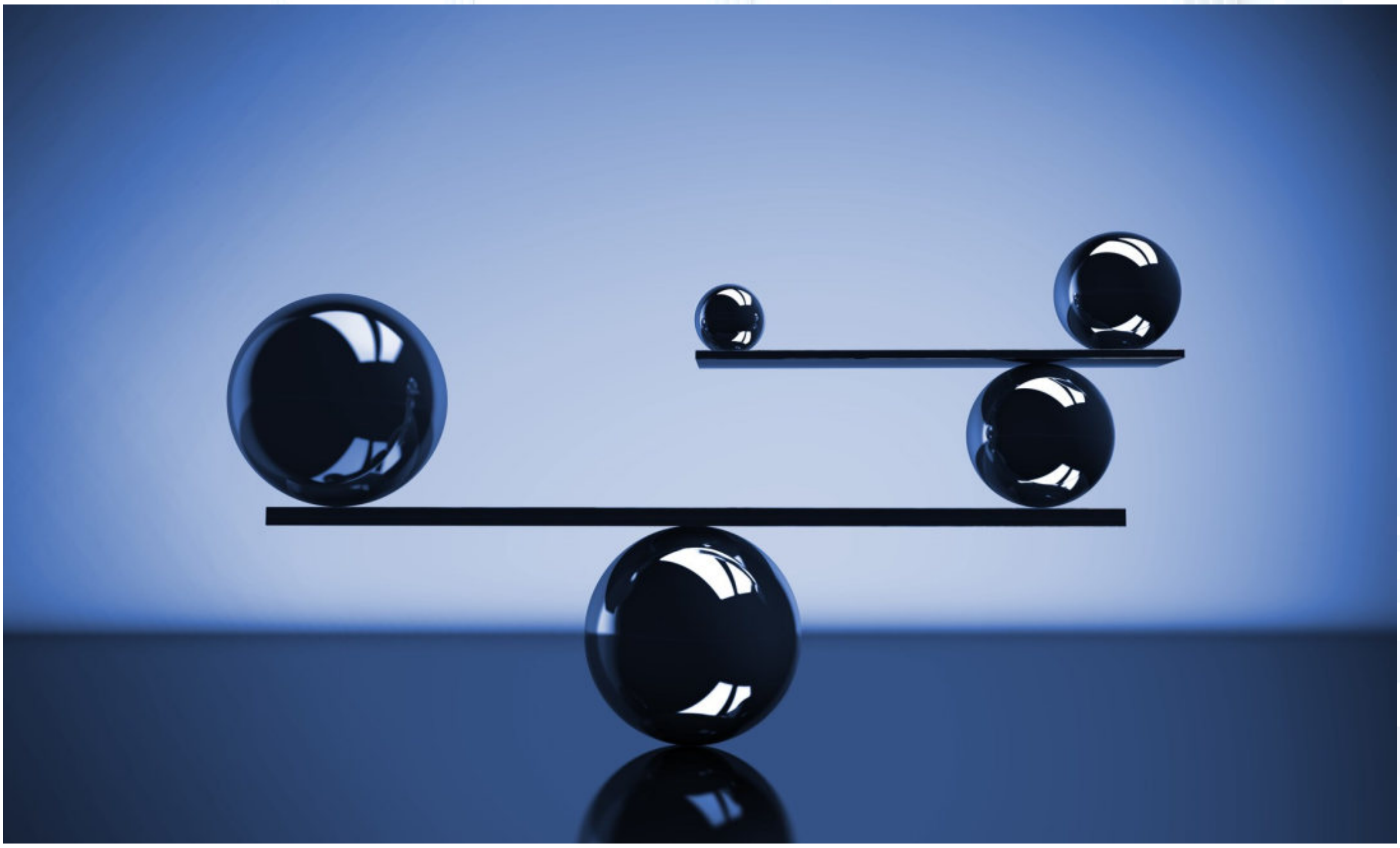
Market performances - Q3 2021

		Q3 2021 local	Q3 2021 USD	YTD local	YTD USD
Exchange rates					
CHF/USD		-0.7%		-5.0%	
EUR/USD		-2.3%		-5.2%	
GBP/USD		-2.6%		-1.4%	
JPY/USD		-0.1%		-7.1%	
Equity markets					
World	MSCI World USD	0.0%	0.0%	13.0%	13.0%
Europe	DJ Stoxx 600	0.8%	-1.5%	16.1%	10.1%
Eurozone	DJ Eurostoxx 50	-0.4%	-2.7%	13.9%	8.0%
	MSCI Europe S.C.	2.2%	-0.2%	16.8%	10.7%
Germany	Dax 30	-1.7%	-4.0%	11.2%	5.4%
France	Cac 40	0.2%	-2.2%	17.4%	11.3%
United Kingdom	FTSE 100	0.7%	-1.9%	9.7%	8.1%
Switzerland	SPI	-2.0%	-2.7%	12.9%	7.2%
	SMI	-2.5%	-3.2%	8.8%	3.3%
	MSCI Swiss S.C.	2.2%	2.2%	10.6%	10.6%
North America	SP500	0.2%	0.2%	14.7%	14.7%
	Nasdaq	-0.4%	-0.4%	12.1%	12.1%
	Tse 300	-0.5%	-2.7%	15.1%	15.6%
	SP600 Small C.	-3.1%	-3.1%	19.0%	19.0%
Japan	Nikkei 225	2.3%	2.1%	7.3%	-0.4%
Emerging	MSCI EMF USD	-8.8%	-8.8%	-3.0%	-3.0%

		Q3 2021 local	Q3 2021 USD	YTD local	YTD USD
Interest rates (3 months)		*(level)*			
CHF		-0.76%			
EUR		-0.56%			
USD		0.13%			
JPY		-0.08%			
Bonds markets					
World	Citi Gr Global Govt.USD	-1.2%	-1.9%	-5.9%	-10.6%
Europe	Euro Ser-E Gov > 1	0.0%	-2.3%	-2.9%	-8.0%
United Kingdom	UK Ser-E Gov > 1	-1.9%	-4.4%	-7.6%	-8.9%
Switzerland	SBI Général AAA-BBB	-0.4%	-1.1%	-1.7%	-6.6%
	SBI Govt.	-0.3%	-1.0%	-4.5%	-9.3%
USA	US Ser-E Gov > 1	0.1%	0.1%	-2.5%	-2.5%
Japan	Japan Ser-E Gov > 1	0.1%	-0.1%	-0.1%	-7.2%
Emerging	J.P. Morgan EMBI Global	-0.5%	-0.5%	-1.5%	-1.5%
Miscellaneaous					
	LPP 25 Index	-0.6%	-5.6%	2.6%	-2.5%
	LPP 40 Index	-0.6%	-5.6%	5.2%	-0.1%
	LPP 60 Index	-0.6%	-5.6%	8.8%	3.4%
Real Estate CH	DB RB Swiss Real Est Fd	-0.3%	-0.3%	5.7%	0.4%
Hedge Funds	Hedge Fund Research USI	-0.5%	-0.5%	2.9%	2.9%
Commodities	GS Commodity USD	5.2%	5.2%	38.3%	38.3%

Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME FOCUS



Graph sources: Bloomberg/BearBull Global Investments

INVESTMENT THEME

Rising energy prices affect production, inflation and purchasing power

- Energy prices literally explode in Q3 2021
- Inventory reductions driven by rising global demand
- Indirect effects of the energy transition on the energy market
- Risk of recession after a supply shock?

Energy prices literally explode in Q3 2021

The price of West Texas Intermediate (WTI) crude oil has jumped by nearly 73% in 2021 and has exceeded USD 80 per barrel for several days now. Its European equivalent, North Sea Brent, is up 67% and approaching USD 85 per barrel. Half of this increase (+32% and +33%) took place in the last eight weeks alone—a period that coincides with the extraordinary +75% rise in natural gas prices from USD 3.7 to 6.5. Tensions are rising and affecting other energy sources, including coal. The post-pandemic world is waking up to the fact that our economies are still extremely dependent on fossil fuels and gas, especially as all economies are emerging together from the health crisis and competing for the energy needed to achieve their development goals. Coal prices have soared by over 300% in Australia. Reserves are dwindling everywhere, and China is recommending that its companies store as much energy as possible in anticipation of likely bottlenecks and shortages. In India, too, preparations are likely to be made for power outages, as the economy is largely dependent on energy from coal-fired power stations. The rise in energy prices is the result of producers' failure to anticipate the rise in various countries' demand caused by the post-pandemic economic rebound. It is probably also a symptom of the current global clash between a still cautious supply struggling to meet a revitalised consumer demand, as the former has already drawn heavily on inventories and cannot adjust production.

The gas factor

The rise in natural gas prices is not all that surprising and is rooted partly in the rather radical change in the US market. The overproduction of gas due to the shale industry over the last ten years had reached extreme levels, to the point where it was no longer possible to store output, until the recent development of LNG export capacity. The situation is different in the post-pandemic era, with production remaining well below its previous level while demand is increasing with the global move towards reducing carbon emissions. The explosion in demand for natural gas as a result of the reduction in targets is a logical consequence occurring just as inventory levels are reduced before the start of the cold season. Modelling of the flows between supply, demand and inventory levels suggests there is a risk of near-zero stock in the event of a cold snap.

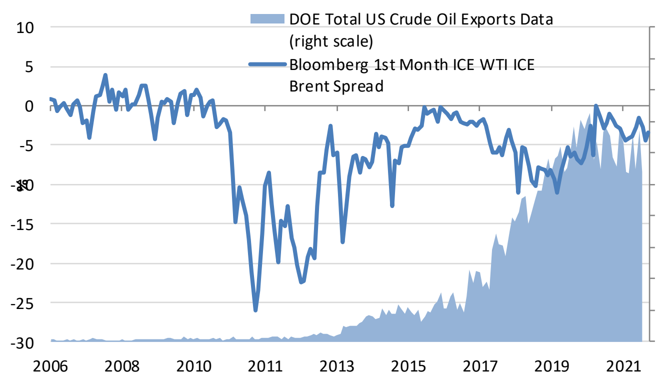
In addition, deliveries of Russian gas to Europe declined sharply, suggesting that this was a move by the Kremlin to pressure Germany into quickly approving the certification of the newly completed Nord Stream 2 (NS2) pipeline. This pipeline remains at the centre of geopolitical tensions between the US, Ukraine and Russia. It is clear that putting into operation this new gas distribution route in Europe would increase Europe's dependence on Russian gas with all the political and economic problems that this entails. There is little doubt, however, that certification will happen and probably reduce the current tensions and gas price levels.

There are many implications of rising gas prices for other sectors. Gas shortages are already affecting the production of ethanol, aluminium and specific chemicals such as paint, refined products, plastics and packaging. As with the effects of the shortage of electronic components on the automotive sector, the impacts of higher energy prices are numerous.

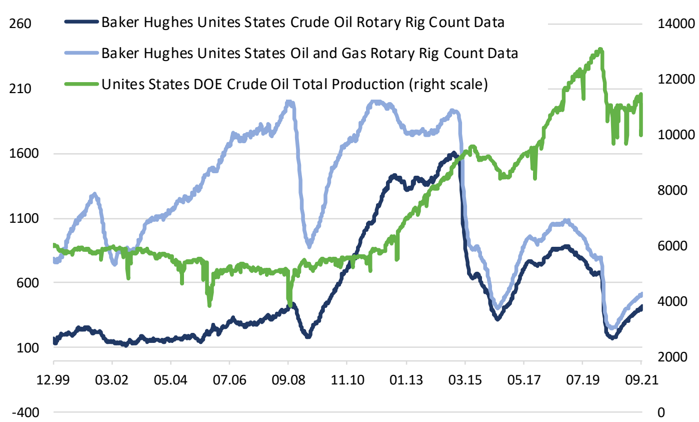
State of the global crude oil market

We started 2021 with a solid global economic growth forecast characterised by a convergence of regional economic cycles likely not previously seen in history and which will certainly have a significant impact on commodity prices and inflation. With a few months to go before the end of the year, we can see that commodity prices, and energy prices in particular, are on the verge of surpassing our earlier positive expectations, for good reason. Our outlook for crude oil prices was favourable due to expectations that global demand would outstrip supply. Over the past few months, it has become increasingly clear that global demand will likely grow given the expected strong economic environment, while supply may remain constrained.

WTI-Brent Differential and US Crude Exports



Number of active wells and production (US)



Graph sources: Bloomberg/BearBull Global Investments

Today, crude oil production outside of OPEC and Russia is still unable to return to its pre-pandemic level, mainly due to the decline in US production. The latter has stabilised at around 11 mbpd, 2 mbpd lower than in March 2020. In the United States, the number of active oil and gas wells as measured by Baker Hughes has thus fallen by 50% compared to its peak in January 2019. Overall, the increase in production in other countries will remain lower than the cuts made in 2020, leading to a gradual reduction in inventories.

Inventory reductions driven by rising global demand

Global demand still appears to be down from its pre-pandemic level of nearly 100 mbpd. At the end of June it was estimated at 95 mbpd. Crude oil inventories have been falling steadily since peaking in June 2020 and are now almost at their lowest level since Q1 2015. On average, the reduction in global inventories has reached 2.5 mbpd, a trend that is expected to continue, albeit at the lower rate of 1.5 mbpd by the end of the year. Higher gas prices are also unexpectedly supporting crude oil demand through substitution.

Non-OPEC+ production constrained by falling capex

For several years, oil producers have been reducing their capital expenditure. Capex in the industry dropped by almost -50% in 2021 at the higher end and -30% on average compared to 2020. Yet capital expenditure is essential to maintaining a stable level of production. A fall in capex is therefore logically equivalent to a reduction in production capacity. Since the health crisis, oil companies have experienced new difficulties in accessing financing. Banks and investors are looking for sustainable investments. By decreasing their propensity to finance the oil sector in favour of alternative energies, they contribute to the increase in financing and capital costs. This trend has an effect on project selection, as oil companies are less inclined to seek growth and are more interested in maximising their operational profitability and increasing their attractiveness as an investment offering a high return to their shareholders. Free cash flow is thus returned to shareholders rather than reinvested.

OPEC + production will grow only very slowly

The decision by OPEC+ countries in the current context of high crude oil prices not to increase production to the levels prevailing before the health crisis is now questionable. It is estimated that there is still almost 10 mbpd of unused production capacity that will return to the market very gradually over the next twelve months. At the announced rate of an additional 0.4 mbpd per month, it will take one year to use half of the existing production capacity.

Indirect effects of the energy transition on the energy market

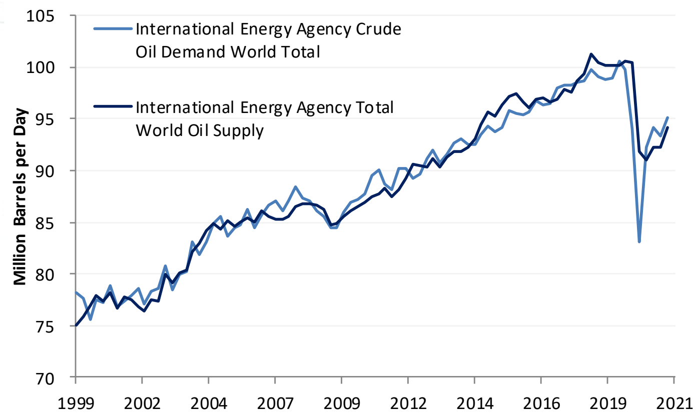
The energy transition is underway and can now count on various major supporters to ensure it comes to fruition. In recent years, the effects of global warming have multiplied, causing natural disasters with increasingly serious impacts. Sustainable development is no longer a concept promoted just by a segment of the population sensitive to ecological problems but is of concern more widely to people with diverse political backgrounds. It is in fact supported by a growing and significant part of the populations of developed countries, thus allowing their governments to adopt voluntarist policies in this field.

In particular, COP 21 signatory states have committed themselves to drastically reducing their CO2 emissions and have adopted massive programmes to develop alternative energies for this purpose. The energy transition is therefore underway and is largely supported by government investment and spending, as well as by binding regulatory changes that are likely to help speed up this transition.

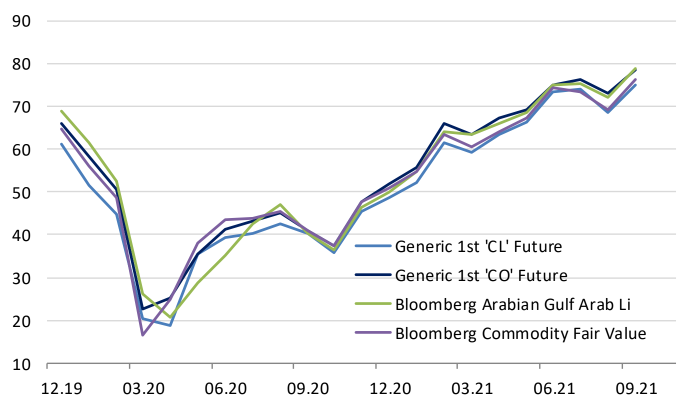
This energy transition will ultimately have positive effects for OECD countries, starting with the reduction in CO2 emissions, while also creating new jobs, developing more local skills and, above all, reducing fossil fuel imports significantly. That said, significant capital destruction will be unavoidable in the fossil fuel producing sectors and in the automotive industry initially. During this transition, the sectoral structure of the labour market will change. Jobs based on different skillsets will be created and destroyed, with significant effects on the populations concerned. Moreover, we cannot really count on a relocation of jobs if a substantial part of the necessary materials is imported, as China still produces 96% of solar cells (in GWp).

The objective of producing only electric vehicles in Europe by 2035 will come up against the difficulty of producing lithium-ion batteries, the rise in the price of the raw materials needed for batteries and the massive investments required.

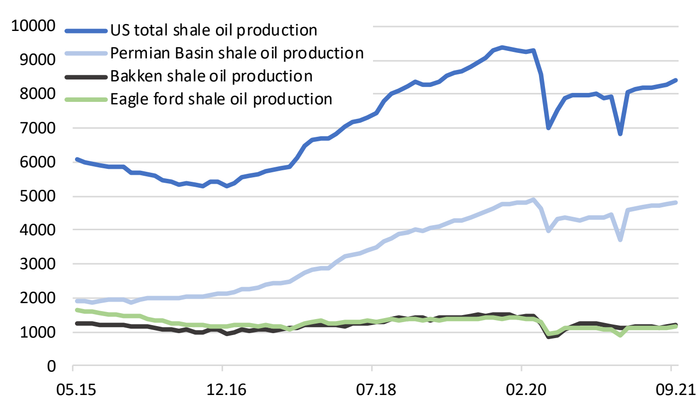
Supply and demand of crude oil



Arab light—Ural—Brent—West Texas Intermediate



US shale oil production



Graph sources: Bloomberg/BearBull Global Investments

Anticipating a generalised and lasting increase in energy costs

Depending on the speed of the transfer of resources allocated to the two sectors, the energy transition will lead to an increase in the potential costs of the two forms of energy and will have an as yet poorly assessed effect on the increase in energy costs in producer and consumer price indices. The energy transition is thus initially a factor boosting inflation—in the case of fossil fuels, because less investment will be made, and supply will necessarily decrease, and in the case of alternative energies, because current profitability is still insufficient to compete fully with the selling price of fossil fuels.

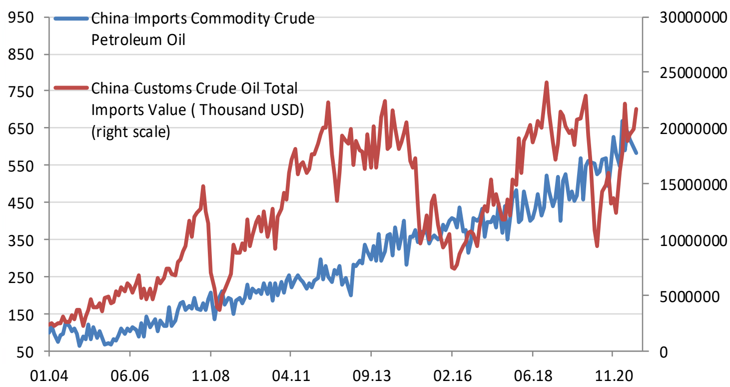
The energy transition could also lead to an increase in social inequalities through an increase in the share of household income spent on energy as a result of the expected price rises and to an increase in social tensions as well.

Therefore, the way in which the world economy is emerging from the health crisis will potentially have very significant effects on the cost of energy, on the inflation outlook and on the new structure of the global market in terms of supply and production. The sharp rise in crude oil and gas prices in recent weeks is the first symptom of this reorganisation of supply and demand.

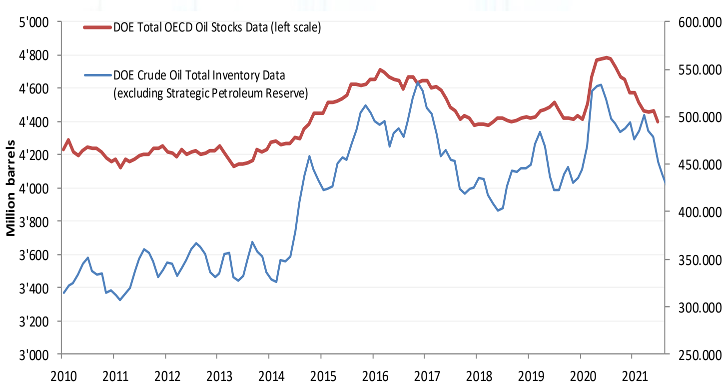
Risk of recession after a supply shock?

The rise in energy prices could constitute a new economic shock if it continues at current levels. In the current context we estimate a likely negative impact on growth in 2022 and a limited effect on inflation, so the risks of recession should not be overestimated today.

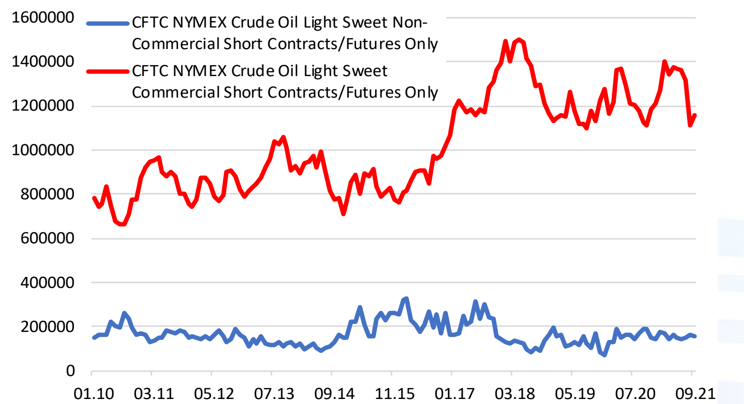
Chinese oil imports (in volume)



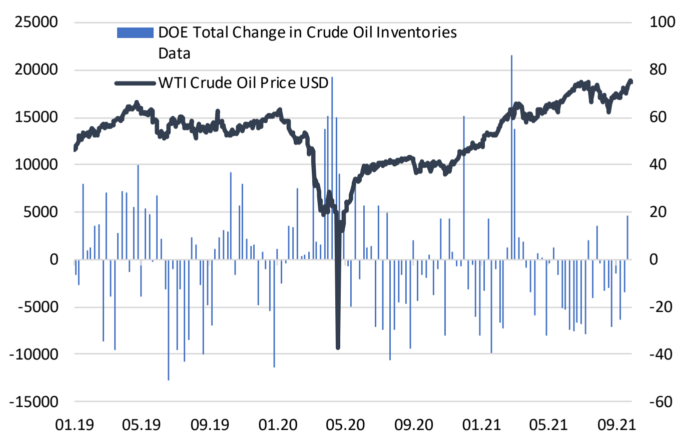
US and OECD crude oil stocks



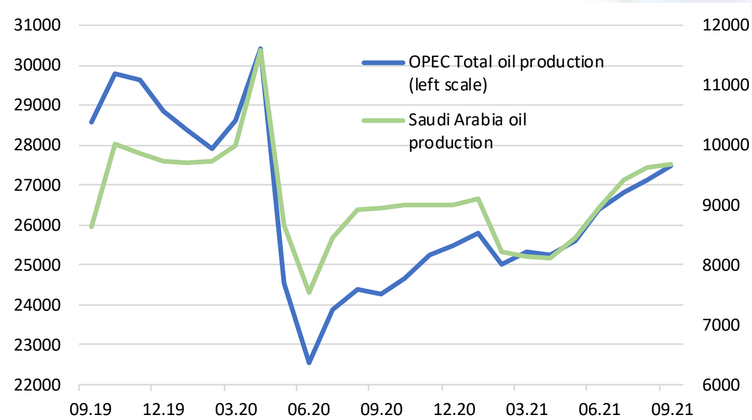
CFTC long and short positions



Crude oil inventories and price per barrel (WTI)



OPEC and Saudi Arabia oil production



Graph sources: Bloomberg/BearBull Global Investments

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