BearBull
Global Investments Group Limited

# Investment Strategy

January 2022

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Graph sources: Bloomberg/BearBull Global Investments



BearBull Global Investments Group

# INTRODUCTION

## Letter to investors – Investment climate

- Renewed enthusiasm for risky assets in Q4
- Upward adjustment of yield curves
- Global liquidity declines as monetary policies normalise
- The global economy is on a solid growth path in 2022
- Inflation may find a second wind in rising wages
- Rising rates and falling global liquidity are new risks

Q4 ended with renewed investor enthusiasm and a notable return to investment in risky assets in December. Equity markets, real estate, commodities and private equity were back in favour with investors, who had been scalded in November by the emergence of the new Omicron variant. The end of the year was thus marked by high levels of volatility caused by major uncertainty due to the new variant. The potential threat of new health restrictions and thus potentially disappointing economic growth had initially dragged these assets down before it became clear that the new variant was relatively less severe, allowing optimism to return. After an initial positive reaction, bond markets ended 2021 on a rather poor note, with Swiss bonds (-0.14%) and international bonds (-2.7%) slipping to end the year with an overall negative result of -1.82% and -1.72%, respectively. In equity markets, Switzerland did particularly well with an increase of +10.5%, bringing annual growth to +23.38%. Internationally, the increase was less clear-cut in Q4 (+4.79%), but similar for the year as a whole (+22.05%). Securitised real estate was less volatile in Switzerland at the end of the year (+0.88%) but still gained +7.32% over the year.

Abroad, real estate investments had an excellent Q4 (+7.48%) and an excellent year (+25.63%). At the end of the year, private equity was still the best-performing asset with an increase of +13.48%, enabling it to close the year with a historic performance of +49.92%. Commodities (-2.4%) suffered a little at the end of the year from the stabilisation of oil prices at a high level, but they nevertheless jumped by +25.81% over the year as a whole. Investors' risk perceptions did not change radically at the end of the year despite the start of the Federal Reserve's tapering, the Fed's moving up to March 2022 the end of its asset purchases, thus coinciding with the end of the ECB's emergency programme, and finally the Bank of England announcing its first rate hike. The end of the year was therefore not without significant events in terms of monetary policy, but these forthcoming reductions in liquidity injections have so far not had a dramatic impact on financial markets. Risky assets may have temporarily benefited from the repositioning of investors somewhat more convinced that this new macroeconomic environment and monetary policy paradigm will not be favourable to bond markets in 2022. In Q4, we saw an upward adjustment of most yield curves, which materialised more clearly on the 2-5-year end than on the long end. In the US, 5-year Treasury yields almost tripled in 2021, rising from 0.35% at the beginning of the year to 1.26% at the end of December. During the same period, 10-year yields rose from 0.91% to 1.51%. Overall, yields have started adjusting in most economies with solid GDP growth prospects in 2022. This year-end could therefore mark a transition in the financial markets. Central banks have now recognised that this bout of inflation is not a flash in the pan and are concerned about the persistence of logistical problems. Their massive programmes of economic support and interest rate steering appear to be less and less necessary as national GDPs return to levels close to or above those prevailing before the pandemic. It now appears that economic growth is likely to remain solid in 2022, as the Omicron variant does not really seem to constitute a major global threat, with vaccination rates exceeding 70% in many developed countries.

GDP growth in 2022 is expected to remain particularly strong and exceed the +3% threshold in the US (+3.9%), Europe (+4.2%), the UK (+5%), Japan (+3.2%) and Switzerland (+3%) as well. Disruptions in global production chains will continue to have an impact on production, import and sales prices in 2022. The difficulties most companies are facing in terms of recruiting may well be exacerbated by the Big Quit in the US in particular. The impact on wages and business costs will be gradual but perhaps more structural now after several years of weak growth. Energy prices will have a more limited impact on inflation in the coming months. But overall, the factors driving price increases in 2022 remain present. 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 bond market yields in 2022.

Renewed growth and historically high inflation must now be taken into account when determining nominal interest rates. Further yield curve tensions are 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%. They still lie at 1.5% today, while inflation is above +6.8% and GDP growth is expected to be +6.5% in Q4 2021. However, investors do not yet seem quite ready to consider that a significant rise in yields would be justified in the current context, especially if central banks stop 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 borrowing 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.

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Graph sources: Bloomberg/BearBull Global Investments



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# BIG PICTURE

## Main convictions

- Global supply/demand imbalances persist
- Inflation will get a second wind as wages rise
- Central banks will let inflation rise
- Major shifts in bond markets
- More uncertain environment for risky assets

### Global supply/demand imbalances persist

The global economy will remain strong in 2022. It will be driven by fundamentals already in place, bolstered by government spending, investment and consumption. Global economic growth is expected to increase by a further +5% after likely growth of +6% in 2021. Global growth will be even more synchronised than in 2021. Developed economies will all benefit simultaneously from the support provided by stimulus and investment programmes, particularly in the renewable energy sector. The convergence of the business cycles of developed economies is also likely to support recovery in emerging countries. This convergence of robust global demand could once again outstrip global production capacity, which has been hampered by logistical problems and disruptions in production chains, even though China and the US already seem to have reached their growth peak in the current cycle. It could therefore further increase the imbalances caused by a supply side still affected by an extraordinary conjunction of competition for raw materials, labour and transport. More than the emergence of new variants, political factors could cloud this forecast. More serious tensions between China and the United States or the emergence of other unexpected geopolitical situations with significant consequences for gas or oil supply could indeed call into question our outlook.

### Inflation will get a second wind as wages rise

Inflation was often described by central bankers in 2021 as a temporary phenomenon that would quickly abate once the global economy had digested the shock of the pandemic. In particular, pressures perceived as short-term on commodity prices, and oil prices in particular, seemed to substantiate this forecast. Temporary competition among producers for raw materials, semi-finished products and semi-conductors, for example, seemed to be the main factor driving up prices. In 2022, these factors will probably persist, although they will lose some of their potency. But given the fall in capex in the energy sector and current production capacities, we are not likely to see a rapid return of supply and a fall in energy prices. Current transport difficulties are not likely to be resolved either, so transport costs and logistical problems are likely to persist. Inflation could, however, strengthen as a result of new shifts in the labour market leading to higher wages.

The pandemic has indeed had a very significant impact on some labour markets with perhaps more lasting consequences than the factors discussed above. In the US, the so-called ‘Big Quit’ is beginning to worry businesses. This phenomenon involves a wave of voluntary departures affecting various classes of employees demanding better working conditions, but most markedly affecting low-wage workers and the restaurant, hotel and healthcare sectors. The current situation gives new bargaining power to American workers, who seem to have decided to take their chances, banking on competition amongst employers.

The Big Quit involves about 4 million Americans every month. The share of job offers that include bonuses in addition to base salary has more than doubled. The increase in these bonuses is most significant for manual jobs without the possibility of telecommuting. The consequence of the current tightness in the labour market can be seen in businesses' intentions to likely increase salaries by about +4% in 2022.

Supply thus significantly exceeds demand in many sectors, underlining how difficult it is for companies to find suitable staff. New claims for unemployment benefits are logically at their lowest, as is the unemployment rate, which has fallen below the level reached in March 2020. The unemployed have been returning to the labour market since June, but employers are having to compete creatively to attract new staff. Half of all SMEs say they cannot find the staff they need. Clearly the labour market is tight, driving an increase in wages, albeit still moderate.

Inflation may well find a second wind in 2022 if this trend continues and intensifies.

### Central banks will let inflation rise

A major new challenge awaits central banks in 2022. Having helped the global economy through this unprecedented pandemic by adopting appropriate measures, notably in the form of liquidity injections of several trillion dollars, they will now have to consider the most appropriate way to normalise their action. This process will logically have to take place in several steps, the first of which will be to stop liquidity infusions. This step is probably the easiest to implement. The US Federal Reserve has already started by announcing its decision to immediately reduce its asset purchase programme and to stop it completely in March. The ECB has also partially entered this phase by announcing the end of its PEPP in March as well. Only the BOE among the major central banks has already moved to the second step of gradually raising its key interest rates.

The dilemma central banks will all face is how to normalise monetary policy without risking derailing the ongoing growth train. In 2022, central banks are therefore likely to be content to implement the first stage of the normalisation process by only moderately engaging in the process of raising policy rates, for fear of jeopardising the ongoing economic recovery. This risk is currently clearly considered more important than the risk of runaway inflation. The central banks will therefore allow inflation to rise in 2022 but will try to control inflationary expectations by continuing to be reassuring about price developments.

Graph sources: Bloomberg/BearBull Global Investments

### Major shifts in bond markets

The first phase of monetary policy normalisation will be limited to stabilising central bank balance sheets rather than withdrawing massive amounts of liquidity and reducing monetary aggregates. In the US, this initial phase lasted three years between the end of 2014 and 2018, during which the Fed's balance sheet remained stable at around USD 4.5 trillion. For the first two years, fed funds rates remained virtually unchanged, with a significant increase only in 2017. In the first few months of the pandemic, USD 2.5 trillion were injected, and by 31 December 2021 almost USD 2 trillion had been added to the balance sheet. The dollar bond market will therefore have to adjust in 2022 to the disappearance of the monthly injections carried out since June 2020, corresponding to USD 1.8 trillion in total or about USD 100 billion per month. This amount also corresponds to the size of the US president's plan to "build back better". This trend will take place in a context where countries' financing needs will remain high in 2022 to meet the commitments made to boost economic growth through increased spending and investment budgets. Future budget deficits will therefore have to be financed by debt, which will continue to grow in 2022. While the supply of bonds will necessarily increase in the context described above, the demand for bond investments in the yield adjustment phase is expected to decrease significantly in conjunction with the decrease in demand from central banks.

The objective of the central banks' action was to ensure the lowest possible overall cost of borrowing in order to support the economic recovery. They therefore now accept that the interruption of their purchase programmes may influence the equilibrium level of interest rates, firstly by reducing demand, but above all by eliminating the "put" or guarantee against the rise in rates theoretically required in a market "freed" from the bias introduced by central banks.

The elimination of this "bias" will finally allow the rational adjustment of yield curves to the current economic situation in 2022. This adjustment could be significantly larger than most economists currently expect. The expected upheaval in bond markets will first affect nominal interest rate levels. By allowing government bond yields to rise significantly, risk premia are also likely to increase in the investment grade and high yield segments.

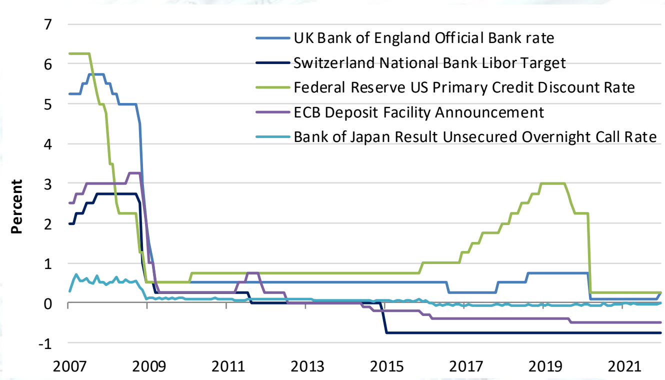
### More uncertain environment for risky assets

Risky assets benefited greatly from central bank liquidity injections in 2020 and 2021. The inflation of financial assets was in fact the first consequence of the influx of funds provided by central banks during the pandemic. The disappearance of these liquidity injections will not be without consequences for equity markets in particular.

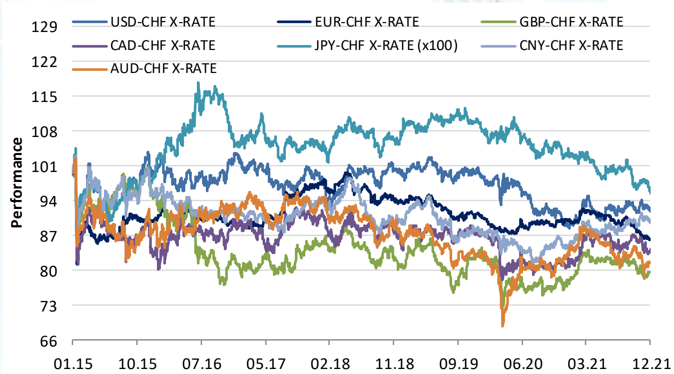
We believe that the expected adjustments in interest rates will lead to significant increases in bond yields, offering new alternatives for investment diversification and asset allocation. Risky assets, which were previously considered the only alternatives to zero or negative returns on fixed income investments, will suffer from this new competition.

Rising interest rates will also have an impact on capitalisation rates and on the valuation of assets such as equities, real estate and private equity. These asset classes had benefited from the massive fall in interest rates in 2020 and 2021. The new year is likely to see the end of the expansion of price/earnings ratios and other multiples. This phase is expected to give way to a new regime characterised by a period of contraction in these ratios. Despite a favourable environment for business and profit growth, this new asset pricing regime will put a brake on the growth of risky assets.

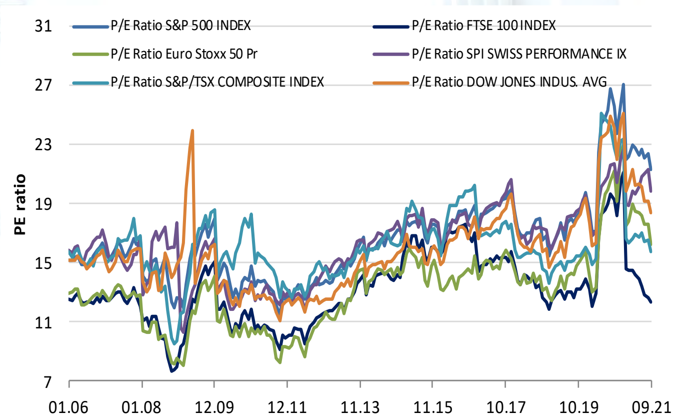
Central Bank rate (EUR, CHF, GBP, USD, JPY)



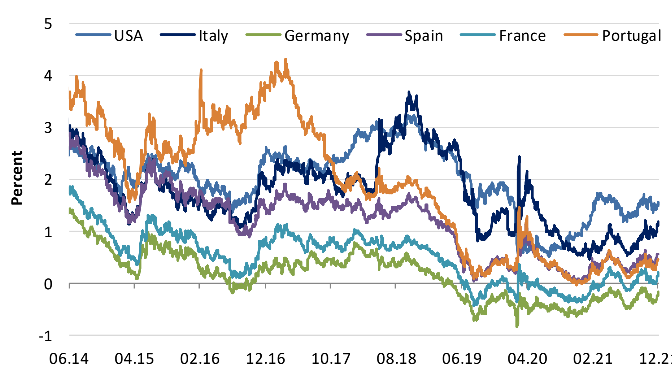

7 Major currencies against CHF (Normalized at 100)




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

- Global GDP will surpass that of 2019 and reach $100 trillion
- Strong GDP growth for 2022 in the US (+3.9%)
- The euro zone will record a GDP increase of +4.2% in 2022
- Strong growth (+3%) also expected in Switzerland
- Better outlook for Japanese GDP in 2022 (+3.2%)

### Global GDP will surpass that of 2019 and reach $100 trillion

The new year is expected to see global economic growth slow somewhat from the extraordinary pace of +6% likely recorded in 2021. Despite an expected decline in the currently strong momentum, the global economy is still expected to grow by around +5% in 2022. Global GDP will therefore finally exceed its pre-pandemic level, erasing the unprecedented economic shock caused by the global pandemic after two extremely difficult years for developed and emerging populations.

The emergence of the Omicron variant initially raised concerns in November 2021 that these economic forecasts for 2022 were too optimistic. Now, the fact that the new variant no longer appears to be as threatening to the health of the affected populations as expected at that time has already had a tangible effect in countries such as Australia and Israel, which have relaxed some health measures.

Our growth forecasts for the world economy are therefore only marginally affected. An increase in global GDP of +5% will allow us to exceed the threshold of USD 100 trillion in global wealth creation. The global economy seems well positioned to benefit from the investment and public spending that is expected to materialise, as well as from significant savings built up during the pandemic, which will boost consumption and property investment. However, there will still be many risks in 2022, notably the evolution of international trade, which could be threatened by new tensions arising between China and the United States.

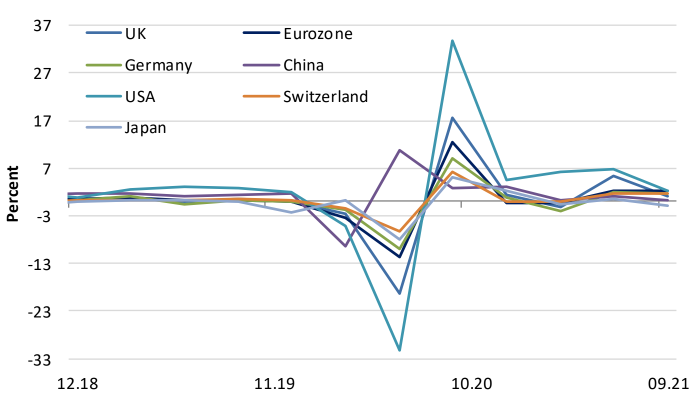
### Strong GDP growth for 2022 in the US (+3.9%)

The US consumer is expected to drive an acceleration in GDP in the final quarter thanks to a clear recovery in household consumption already in October. Despite a slowdown in November, consumer spending was likely strong in December as well, thanks to a number of factors related to the labour market in particular. The fall in the unemployment rate to 4.2% and the +0.4% rise in wages were accompanied by a fall in unemployment benefit claims to 198,000 and a fall in continuing claims to 1.72 million, the lowest level since March 2020. These elements certainly contributed to the improvement in sentiment and confidence, which rose in December from 109.5 to 115.8. Personal expenditure (PCE) rose by +5.7% year-on-year at the end of November, but households are drawing on their savings, whose ratio as a percentage of disposable income declined to its lowest level (6.9%) since 2017. The economy appeared to be accelerating before the onset of the Omicron variant, with industrial production up +0.5%, durable goods orders (+2.5%) also recording their strongest growth in six months, and new home sales jumping by +12.4% on an annual basis. Inventories could also be an important factor driving GDP.

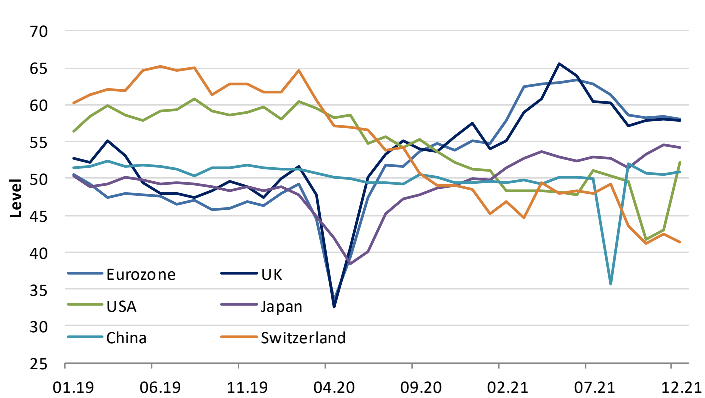
Logistical difficulties initially forced companies to draw on their inventories to meet rising demand. We believe that in 2022 this factor will support growth through the gradual rebuilding of inventories, which will now certainly be larger on average than in the past.

The persistence of high prices and inflation will also be a motivation to build up stocks more cheaply. While the emergence of the Omicron variant will have an impact at the end of the year and beginning of 2022, we believe that the downside risks of the new health situation should not be overestimated. We consider households' situation at year-end to be sufficiently healthy to support a continuation of the trend into 2022. In the short term, there are risks of a downturn in services, intensified logistical problems, higher inflation and delays in job creation, as well as the disappearance of fiscal transfers that could take away 900 billion in subsidies from households in 2022, i.e. around 3% of GDP. Our outlook for GDP growth in 2022 is now +3.9%, a significant slowdown from the strong growth in 2021.

Quarterly GDP




Manufacturing PMI




Graph sources: Bloomberg/BearBull Global Investments

## The euro zone will record a GDP increase of +4.2% in 2022

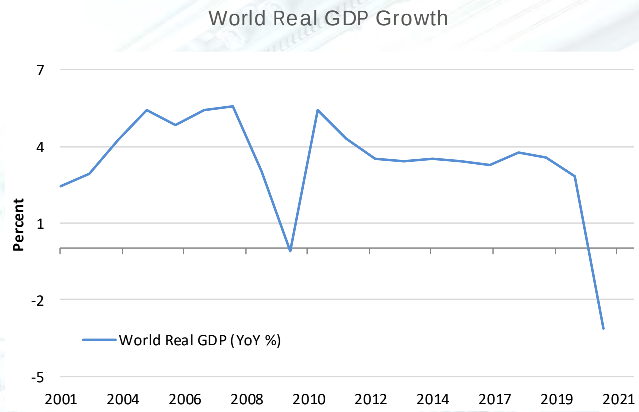
Eurozone GDP grew by +2.2% in Q3, slightly more than expected, for yoy growth of +3.9%. This growth was again driven by a resurgence in household consumption, which rose by +4.1%, and in services. Government spending, on the other hand, lagged far behind, with a modest increase of +0.3%. The contribution of foreign trade was positive thanks to an increase in exports (+1.2%) higher than that of imports (+0.7%). However, GDP remained 0.3% lower than in December 2019. France (+3%) returned to its pre-pandemic level, and Italy (+2.6%) recorded a notable performance, while Spain's GDP (+2%) remained almost 6.5% below its pre-pandemic level despite increasing. Germany (+1.7%) remains affected by logistics and component supply problems, a situation that is expected to continue in Q4. After the clear recovery of Q3, a less inspiring result is now expected for the end of the year. The emergence of the Omicron variant in November will undoubtedly weigh on the ongoing economic recovery. The lockdown in Austria and new restrictive measures in most EU countries will have significant effects on economic momentum. However, we believe that the Eurozone's national economies will likely be able to withstand this fourth wave of Covid with no major impact on momentum. Eurozone GDP growth is now estimated at between +0.6% and +0.8% for Q4. The explosion in energy costs and the rise in inflation above 4% will have an impact on households' ability to consume, and the return of health restrictions could further dampen consumption. The European economy is therefore likely to grow by +5.1% in 2021, which is close to our expectations. The outlook for 2022 remains unchanged by the emergence of the Omicron variant and still lies at +4.2%. Q1 is likely to receive a boost from the start of the deployment of EU funds, which are expected to add around 0.6% to GDP in 2022 and 2023.

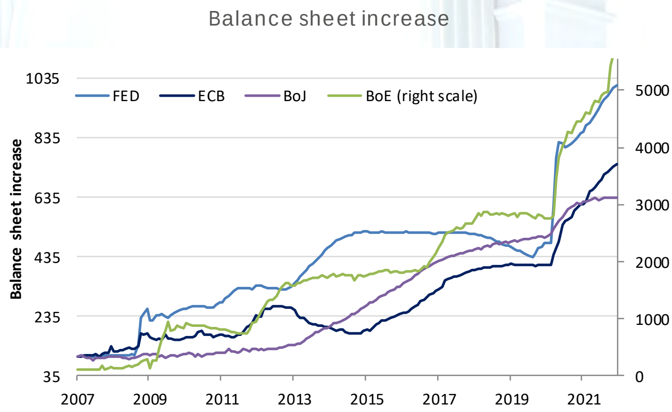
## Strong growth (+3%) also expected in Switzerland

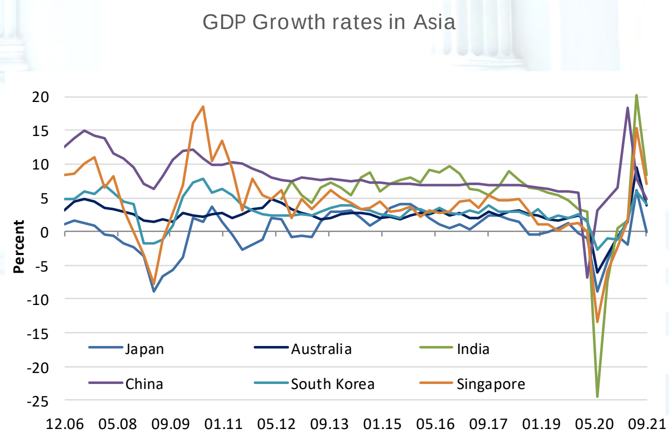
Switzerland's economy is expected to end 2021 on a relatively strong note in Q4 despite the new health restrictions. Swiss GDP is expected to advance by +0.5%, with growth of +3.5% to +3.6% for the year as a whole, as we had initially estimated. For 2022, we are currently ruling out the return of new lockdowns that could damage growth, which could then possibly reach +3% for the year as a whole. The economic slowdown in 2022 will therefore be modest, down by barely 0.5%, compared to this year's clear recovery. In 2022 Switzerland can therefore still count on a growth rate of value added that is well above its historical average. A sharper slowdown is in fact only expected in 2023, which is likely to mark the return to "normal" in our country with more stable growth of around +1.5% to +1.7%. Among the main sectors contributing to the growth expected for 2022, we believe that private consumption is very likely to replace the role of public spending as the main driver of GDP growth. Public spending likely grew by +4.8% in 2021, thus providing significant support to Swiss economic growth. It should logically decrease in 2022 and return to its overall pre-crisis level. We therefore believe that a -4.5% decline in public spending in 2022 is likely. However, this will be largely offset by an acceleration in private demand from +2.7% in 2021 to +6.1% in 2022. A more dynamic international economic environment expected in 2022 will also affect the demand for Swiss products and services. Swiss exports, which were already particularly strong in 2021 (likely final increase of +9% to +10%), are likely to benefit from stronger global demand in 2022. We expect a similar increase in Swiss exports in 2022, albeit accompanied by a sharper increase in imports.

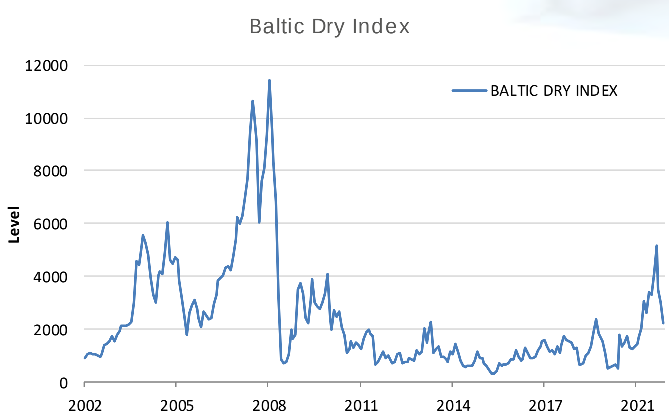
## +5% increase in UK GDP

Economic growth in the UK slowed significantly in Q3. On an annual basis, it fell from +24.6% at the end of June to +6.8% at the end of September. Although this yoy fall is largely due to the base effect in Q2, on a quarterly basis, growth of +1.1% at the end of September is significantly lower than that of the previous quarter (+5.4%). Nearly one year after the effective Brexit date, the UK economy is losing momentum, although its GDP is still likely to grow by +6.8% over the year as a whole.




Graph sources: Bloomberg/BearBull Global Investments



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The UK has not yet returned to pre-Brexit GDP levels and is at the bottom of the league of industrialised countries in this respect. The UK is suffering more than other countries from logistical and supply problems, while labour is in short supply in some sectors. Foreign trade will continue to be affected by Brexit in 2022 and will certainly not make a positive contribution to GDP. Uncertainty also persists regarding a possible hard Brexit under the 24 December 2020 agreement if the customs rules in Northern Ireland are not implemented.

At the end of the year, almost a year after the end of the transition period and the trade and cooperation agreement between the EU and the UK, the impact of Brexit remain difficult to assess due to the disruption caused by the pandemic. In October the economy grew by only +0.1%, which raises fears that it may slow more than expected in Q4 2021, due to the Omicron variant in particular. In October the rebound in services was offset by poor results in the construction sector (-1.8%). Industrial production fell by -0.6% as energy demand normalised, while the manufacturing sector stagnated. November's figures are expected to remain weak by comparison, due in particular to the revival of inflation, the withdrawal of accompanying fiscal measures and new health restrictions.

### Chinese growth weakens but should exceed +5% in 2022

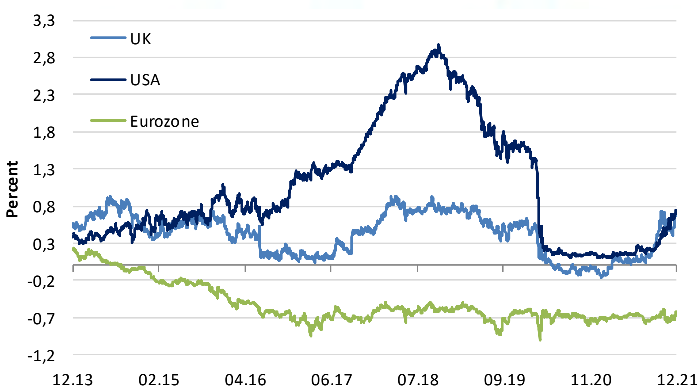
The Chinese economy is already in its seventh consecutive quarter of growth after the economic shock in Q1 2020. At the cost of extremely strict control of the health situation, the Chinese government succeeded in getting the economy back on the growth track quickly. By the end of 2021, however, growth likely slowed (+1.1%) to an annualised rate of around +4.5%. Weakening consumption, difficulties in the construction and real estate sector and a deceleration in infrastructure investment likely contributed to the weakening performance of the Chinese economy. Recent economic data releases suggest that the PBOC may need to support growth further with additional, albeit limited, cuts in banks' reserve requirement ratio (RRR) after its announcement of a 50-bps cut effective as of 15 December 2021.

China's GDP is still expected to record a very positive result (+8%) in 2021 and then see its growth rate decrease to +5.3% in 2022. While consumer price indices show a situation under control with a CPI increase of barely +2.3%, producer prices have, on the contrary, risen sharply by +12.9% over one year. Industrial production rose by only +3.8% year-on-year in November. Retail sales slipped from +4.9% to +3.9%.

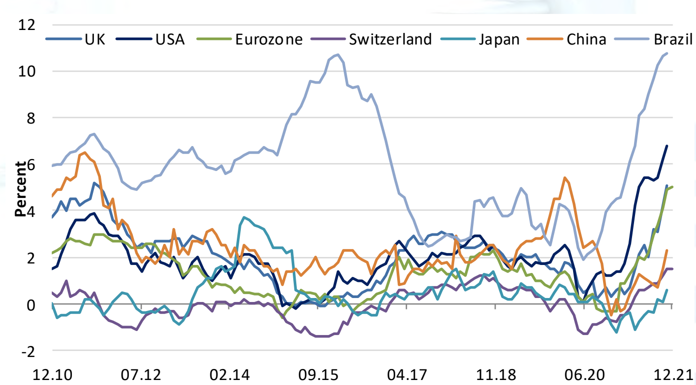
### Better outlook for Japanese GDP in 2022 (+3.2%)

As the year draws to a close, Japan appears to be better able to withstand the onslaught of the new global Omicron wave. The Japanese authorities recently noted that the incidence rate remained extremely low at less than 2 per 10,000 inhabitants. The vaccination rate of the Japanese population had climbed above 70% following the vaccination campaigns conducted during the summer. It is now close to 78% and is thus likely to help limit the spread of the new Omicron variant in early 2022. Japan is thus perhaps a little more immune to the risks of a slowdown in growth due to the lower probability of a return of restrictive health measures in the country. Household consumption, which is expected to grow strongly in early 2022, may thus be less at risk. Japan could also be the first country to test a revolutionary new screening method developed by Kyoto University, which appears to have found a way to detect traces of Covid on special new masks, infected with the virus, using only ultraviolet light. This would add a new weapon to Japan's arsenal against Covid, strengthening the resilience of its domestic demand. Japan was lagging behind the economic recovery seen in other industrialised countries. Japan's GDP will probably return to its pre-pandemic level only at the end of the next quarter. Japan's economy is now expected to be able to count on a new fiscal stimulus recently adopted by parliament, which is likely to inject nearly USD 500 billion more into the economy in 2022, representing nearly 10% of GDP. This new fiscal package includes a cash amount of nearly USD 900 for about 10% of Japanese households with at least one child. The growth projection for the fiscal year starting in April 2022 is now +3.2%. If this forecast comes true, it will be the strongest annual growth since 2010 for Japan's economy.

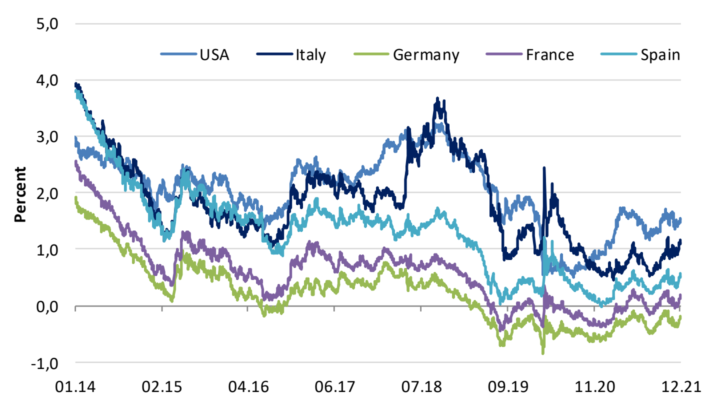
2-year Government Bond yield



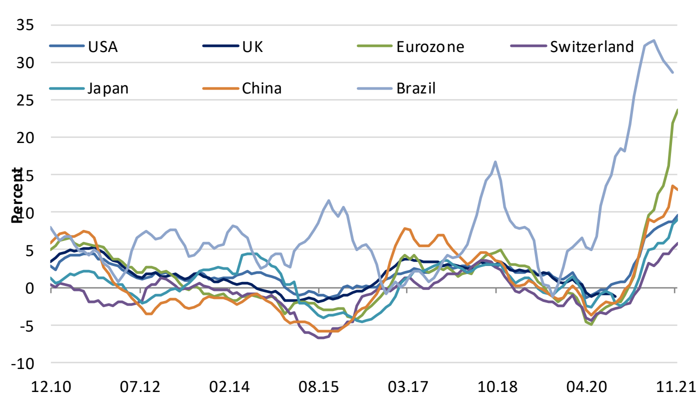

Inflation - CPI Indices




10-year Government Bond yield




Inflation - PPI Indices




Graph sources: Bloomberg/BearBull Global Investments

# MACROECONOMIC SCENARIO

## United States

- A more dynamic Q4 2021
- GDP growth still strong in 2022
- Labour market disrupted by the 'Big Quit'
- Household confidence defies Omicron
- The Fed accelerates tapering

### US growth temporarily derails in Q3

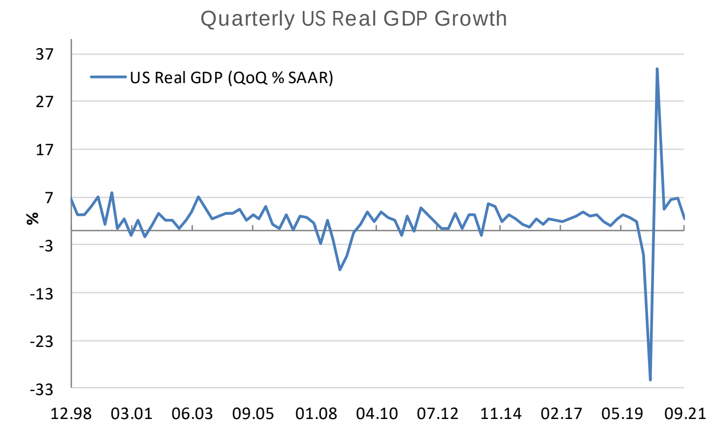
US GDP growth actually disappointed in Q3 with annualised quarterly GDP growth of only +2.2%. A slowdown was expected after the strong +6.7% increase in Q2, but this result was clearly below expectations. This is the smallest increase in GDP since the stimulus phase started in Q3 2020. Personal consumption is the main factor behind this temporary slowdown in US economic momentum. Consumption virtually stagnated with a modest increase of +1.6% compared to the previous quarter's strong +12%. The US economy was suffering from the impact of the Delta variant, and during the summer it was hit hard by supply problems, logistical difficulties and price increases in many areas, which logically affected consumption of goods and services. This outcome shines a light on the significance of the effects of bottlenecks on the economy. Industrial sectors have had difficulties sourcing materials and finding the necessary labour to produce and meet increased demand.

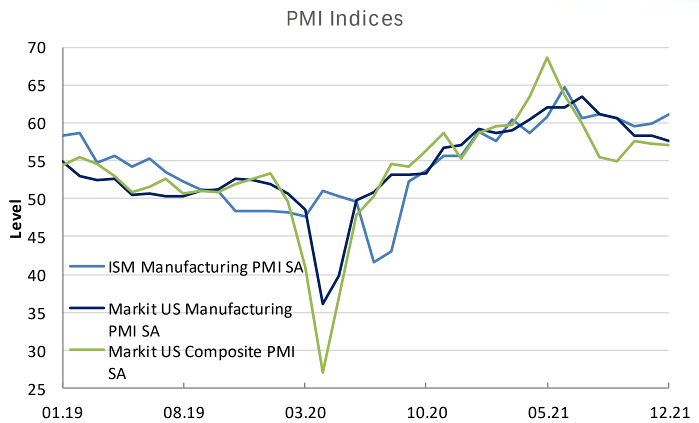
In the services sector, labour shortages have also been a factor holding back supply. Problems in transport and supply chains are not expected to be resolved quickly and will continue to have an impact in Q4 and into 2022. Already present at the beginning of the year, these elements have affected even more than in the previous quarter 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.

We believe that US household consumption capacity is still intact and is likely to drive a recovery in Q4. The risk remains more on the supply side, which we fear will still not be able to cope with the strong growth in demand. Without a clear improvement in employment, there will remain significant constraints on the supply of services and on the level of production. The rise in inflation was underestimated by the US central bank and by investors in 2021. It now appears to be somewhat less temporary than the Fed estimated, but while it seems likely to reduce household purchasing power, it is also likely to motivate consumers to spend their savings more quickly. The current environment is likely to persist and cause price indexes to rise, according to companies directly confronted with rising transportation and commodity costs. The chair of the Federal Reserve has finally admitted as much.

### A more dynamic Q4 2021

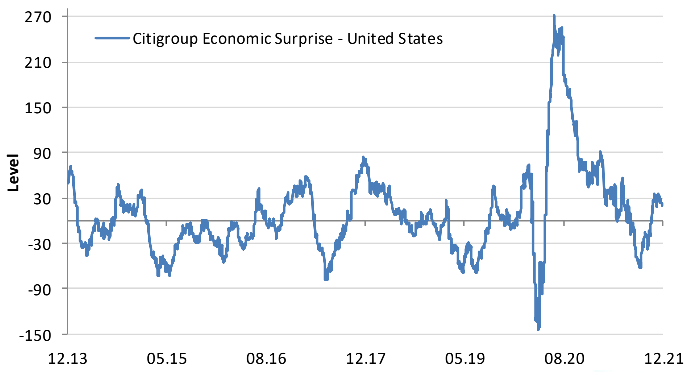
The US consumer is expected to drive an acceleration in GDP in the final quarter thanks to a clear recovery in household consumption already in October. Despite a slowdown in November, consumer spending was likely strong in December as well, thanks to a number of factors related to the labour market in particular. The fall in the unemployment rate to 4.2% and the +0.4% rise in wages were accompanied by a fall in unemployment benefit claims to 198,000 and a fall in continuing claims to 1.72 million, the lowest level since March 2020. These elements certainly contributed to the improvement in sentiment and confidence, which rose in December from 109.5 to 115.8. Personal expenditure (PCE) rose by +5.7% year-on-year at the end of November, but households are drawing on their savings, whose ratio as a percentage of disposable income declined to its lowest level (6.9%) since 2017. The economy appeared to be accelerating before the onset of the Omicron variant, with industrial production up +0.5%, durable goods orders (+2.5%) also recording their strongest growth in six months, and new home sales jumping by +12.4% on an annual basis. Inventories could also be an important factor driving GDP. GDP growth in Q4 is thus likely to show a clear recovery of almost 6% yoy. Over one year, US GDP may have thus advanced by +5.4%.



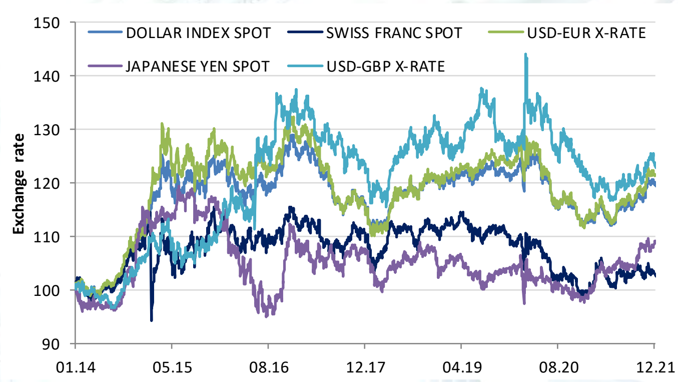




Graph sources: Bloomberg/BearBull Global Investments

Citigroup economic surprise index USA




Dollar trade-weighted index and currencies




### GDP growth still strong in 2022

Logistical difficulties initially forced companies to draw on their inventories to meet rising demand. We believe that in 2022 this factor will support growth through the gradual rebuilding of inventories, which will now certainly be larger on average than in the past.

The persistence of high prices and inflation will also be a motivation to build up stocks more cheaply. While the emergence of the Omicron variant will have an impact at the end of the year and beginning of 2022, we believe that the downside risks of the new health situation should not be overestimated. We consider households' situation at year-end to be sufficiently healthy to support a continuation of the trend into 2022. In the short term, there are risks of a downturn in services, intensified logistical problems, higher inflation and delays in job creation, as well as the disappearance of fiscal transfers that could take away 900 billion in subsidies from households in 2022, i.e. around 3% of GDP. Our outlook for GDP growth in 2022 is now +3.9%, a significant slowdown from the strong growth in 2021.

### Leading indicators penalised by logistical constraints and Omicron

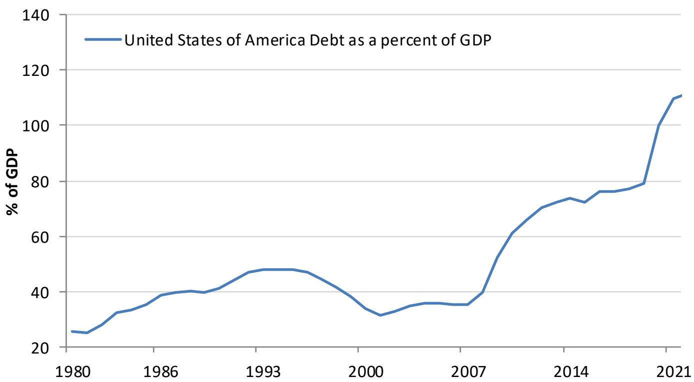
Manufacturing PMI leading indicators continued the decline that began in July and fell to 58.8 in December, but still remain well above the growth threshold of 50. The order book component also fell slightly to 56.3. Production lines still seem to be facing the same problems of raw material shortages, transport problems and difficulties in finding the right workforce. On the services side, the decline also continued from 57.2 in November to 56.9, reflecting the reduced demand for services due to the effects of the new Omicron variant.

### Labour market disrupted by the 'Big Quit'

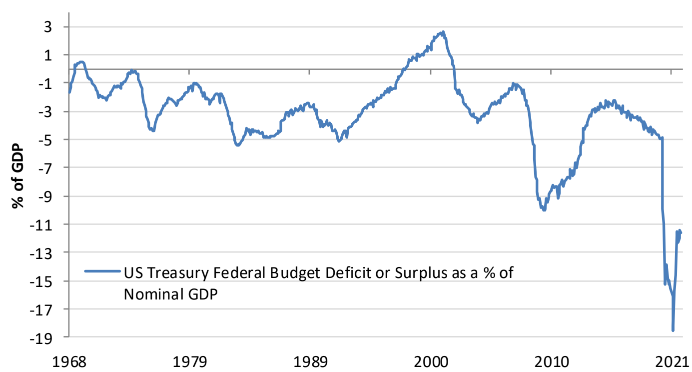
The labour market became even tighter at the end of 2021, with an extraordinary number of job vacancies. The level of job vacancies rose further to over 11 million, over 2.5 million more than the figure of 7.4 million job seekers. Supply significantly exceeds demand in many sectors, underlining how difficult it is for companies to find suitable staff. New applications for unemployment benefits are logically at their lowest, as is the unemployment rate, which is below the level reached in March 2020. The unemployed have been returning to the labour market since June, but employers are having to compete creatively to attract new staff. Half of all SMEs say they cannot find the employees they need. Clearly the labour market is tight, driving an increase in wages, albeit still moderate.

However, in recent months a new phenomenon called the 'Big Quit' has emerged, involving a wave of voluntary departures by various classes of employees demanding better working conditions, but most notably in the low-wage, restaurant, hotel and healthcare sectors. The US Bureau of Labour Statistics is concerned about this new phenomenon, which is seen as a historic change in the 'social pact'. The pandemic is clearly changing the relationship to work. It is true that wage growth has been very modest for a long time. The current situation gives new bargaining power to American workers, who seem to have decided to take their chances, banking on competition amongst employers. This phenomenon involves about 4 million Americans every month. The share of jobs offering bonuses on top of the base salary has more than doubled, with the increase in bonuses being more significant for manual jobs without telecommuting options. The consequence of the current tightness in the labour market can be seen in businesses' intention to increase salaries by about 4% in 2022.

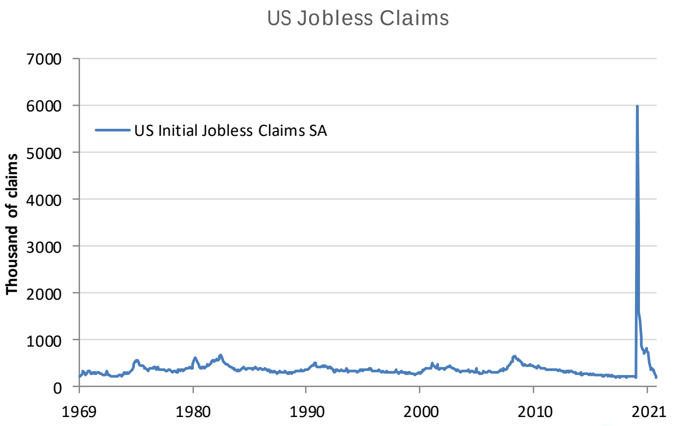
Debt (% GDP)

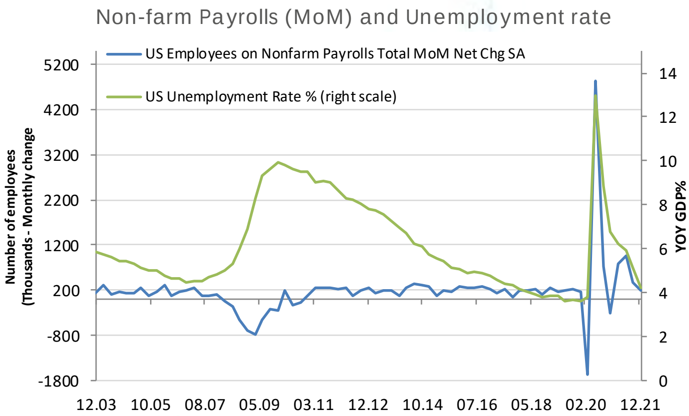


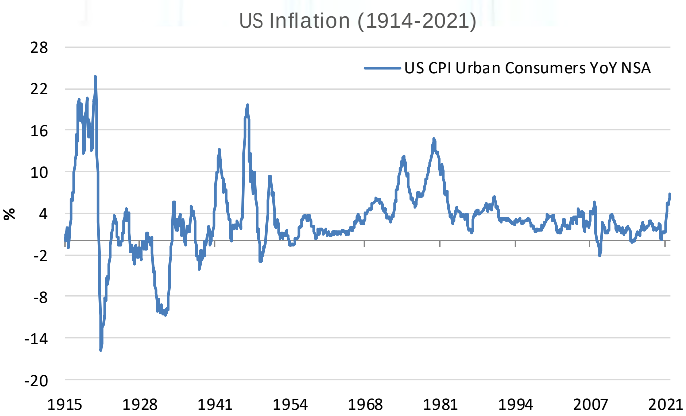

Deficit/Surplus

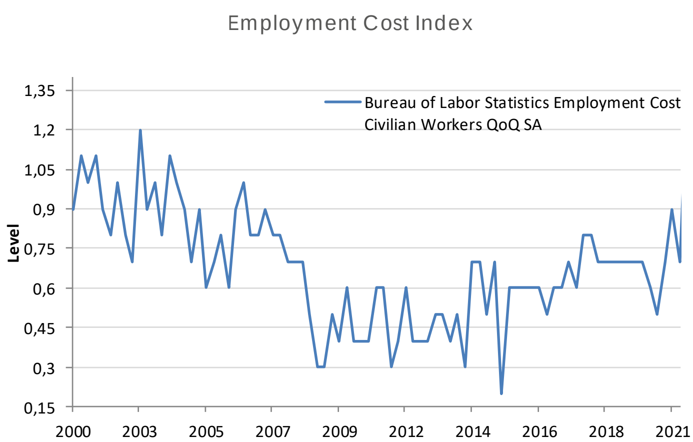



Graph sources: Bloomberg/BearBull Global Investments




Graph sources: Bloomberg/BearBull Global Investments

### Household confidence defies Omicron

Consumer confidence rose again by 4 points in December for the third month in a row, marking its highest level since July. Consumers are defying the Omicron variant and remain particularly confident about employment. The improved economic outlook and the much more encouraging labour market situation are therefore buoying household sentiment. Inflation and the emergence of the Omicron variant do not seem to worry consumers as much as before. Optimism is therefore back, with purchase intentions for consumer goods, durable goods and real estate all on the rise.

### The Fed accelerates tapering

The Federal Reserve has finally admitted that inflation will not be temporary but aims to reassure by also stating firstly that it has taken the measure of the complexity of the phenomena in action and secondly that it has begun to react to this situation. The tapering that was supposed to end in June 2022 has been brought forward to March, suggesting a slightly higher level of awareness of the current inflationary problem. This decision to eliminate the 80 billion per month liquidity injections was probably the easiest one to make.

In 2022, the next phase of monetary policy normalisation will involve key rates. The Fed will then have to implement a strategy similar to the one it undertook in 2016, when it raised key rates from 0.10% to 2.5%. In a few weeks' time at the latest, the Fed will have to determine whether inflation is merely a problem of production line disruption or whether it is based on more complex and lasting dynamics requiring more decisive action.

### Inflationary forces will remain strong in 2022

Price indices continued to rise in November on most fronts. The CPI index advanced by +0.8% over the month and by +6.8% over one year. Excluding food and energy, the increase remains impressive with a monthly rise of +0.5% and +4.9% over one year. These increases are much higher than the rise in salaries and therefore reduce the purchasing power of households.

Moreover, these increases could accelerate if companies pass on the rise in their production and import costs to their customers by raising their prices. Producer prices have indeed jumped by +9.6% in one year, representing the strongest recent increase in this index. Import prices are behaving similarly, rising by +11.7%/year. This factor will contribute to a likely continuation of inflationary pressures. Economic conditions will also continue to be marked by supply difficulties and wage increases in early 2022, which will also support inflationary trends. However, the bullish commodity scenario will no longer have the same impact on inflation measures in 2022.

A rise in crude oil prices from USD 75 to 85 a barrel, for example, would have only a marginal effect. We therefore believe that there are more inflationary forces left in the economy than potential deflationary forces influencing prices in 2022. Inflation may have already peaked, but it is likely to remain high in the coming quarters.

### Bonds and the dollar regain their appeal

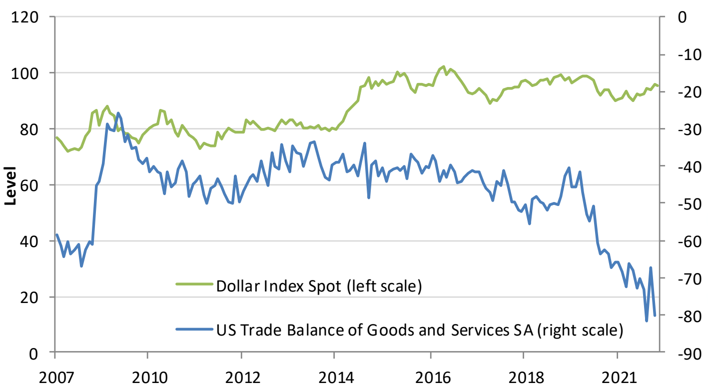
A rise in long-term rates seems to us to be inevitable in 2022 in this context characterised by sustained inflation and growth that is not really challenged by the emergence of the Omicron variant. Ten-year Treasury yields (1.61%) are therefore logically likely to finally test their 2021 highs (1.74%), following the trend already observed on shorter maturities. Five-year rates (1.34%) have already largely exceeded their March peak (0.93%), for example. It is now becoming increasingly clear that rates must adjust to a robust and inflationary economic reality.

We believe that the yield curve will soon move a little higher, with the exception of very short-term yields, held back by the Fed. Yield pick-up strategies are therefore being challenged by the rising returns on more defensive bond assets. Internationally, US bonds now offer a safe haven with the prospect of a more attractive yield spread. European, Japanese and Swiss investors can now look at fixed dollar investments with more interest. As we approach the 2% threshold, we believe that this yield differential is likely to stabilise under the influence of new fund inflows. The dollar is expected to benefit from this widening of the yield spread in its favour. We estimate that it could appreciate by +5% to +7% against the Swiss franc.

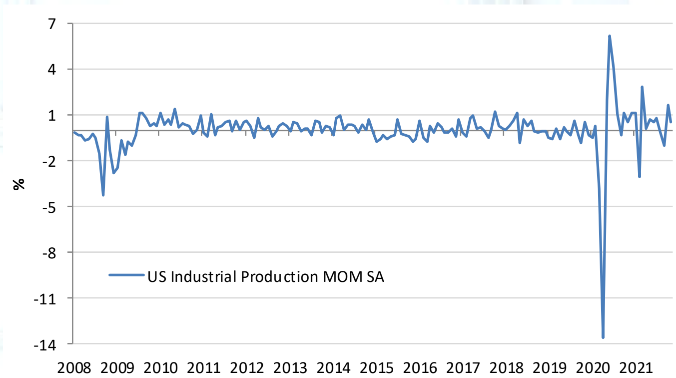
### Can equities withstand tapering and rising interest rates?

The disappearance of liquidity injections, which had largely driven the rise of equity markets and multiples, is likely to be a negative factor. The rise in interest rates in this context of high absolute and relative valuations is now a significant new risk factor. In relative terms, US stocks now seem less buoyed by these two factors than European stocks, which have a more favourable risk premium. US equities can still withstand tapering and rising interest rates, but it now seems reasonable to reduce relative exposure to the US.

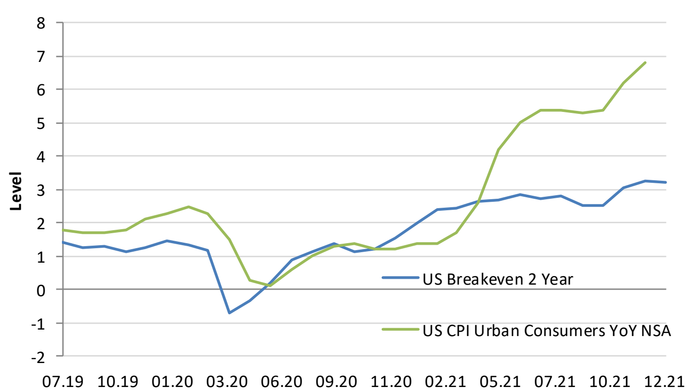
US Trade Balance of Goods and Services



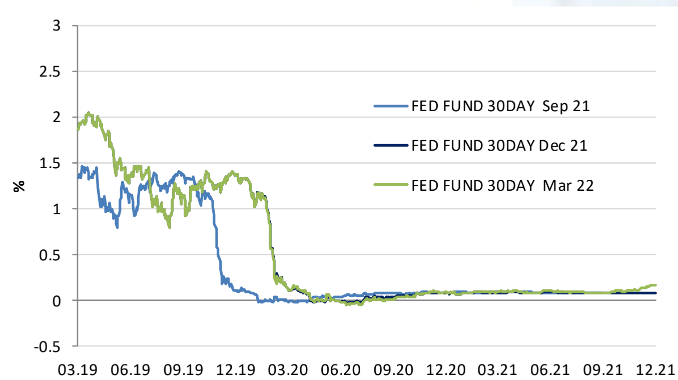

US Industrial Production




US Expected Inflation and CPI

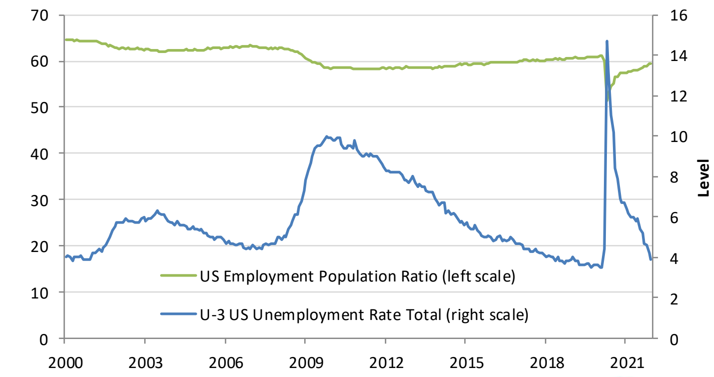



Fed Funds Futures

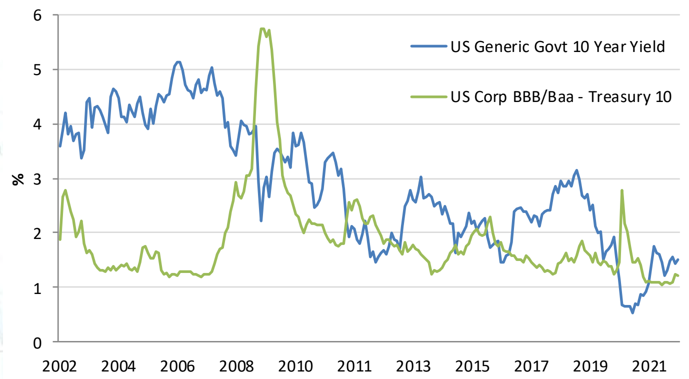



Graph sources: Bloomberg/BearBull Global Investments

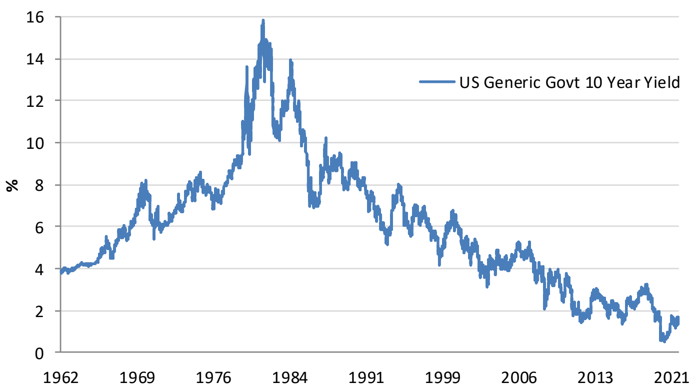
US Unemployment rate and Employment Population Ratio



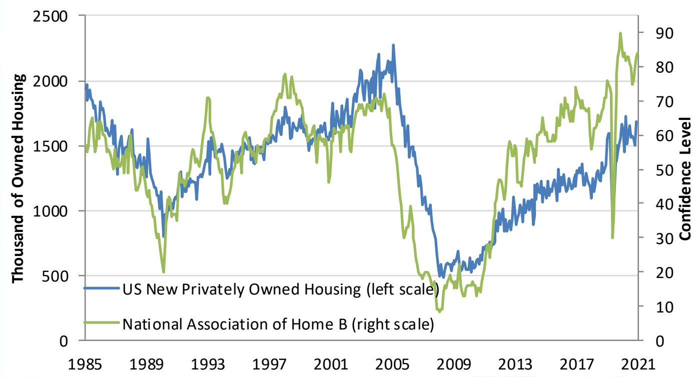

Yield spread Us Treasury - BBB 10 year



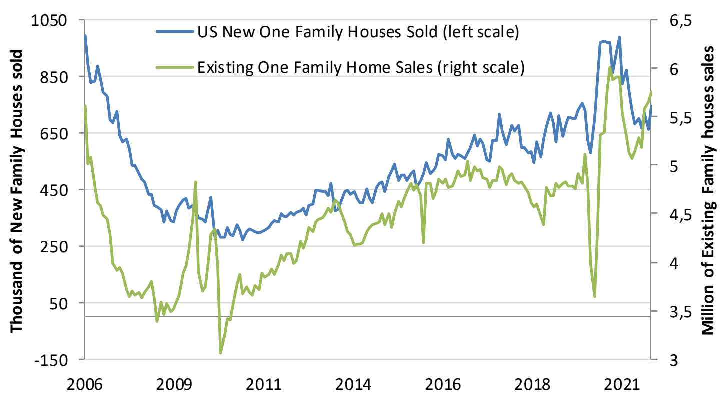

US Government Bonds 10 year yield



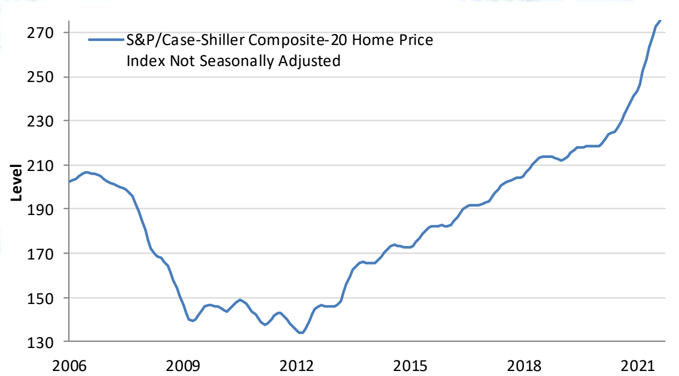

US New Privately Owned Housing and NAHB USA



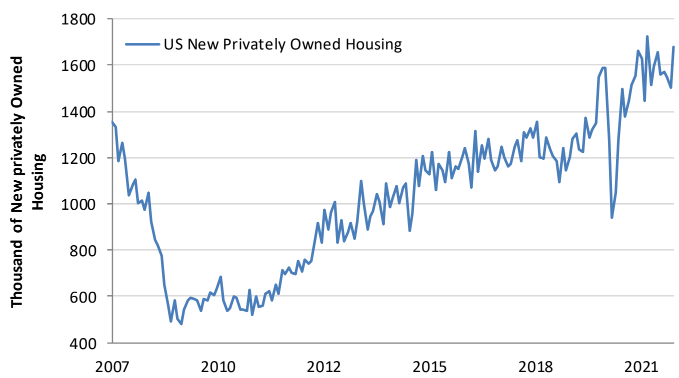

Sales of US New and Existing Family Houses



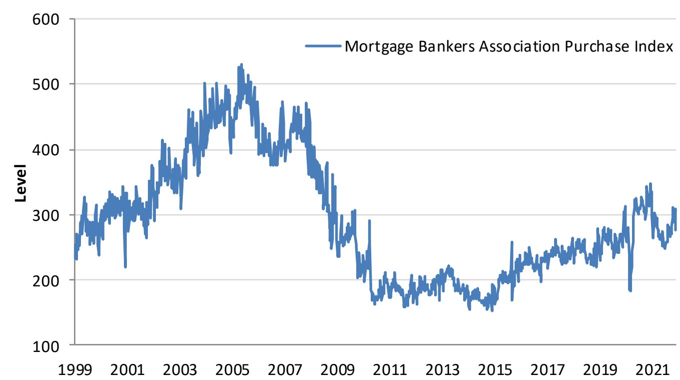

Real Estate Prices - S&P Case-Shiller Index




Housing Starts




New Mortgage Applications - MBA




Graph sources: Bloomberg/BearBull Global Investments

# MACROECONOMIC SCENARIO

## Switzerland


- Switzerland's economy surprised observers by its strength in Q3
- Favourable economic outlook for 2022
- SNB to remain unruffled in the face of inflation

### Switzerland's economy surprised observers by its strength in Q3

While Swiss GDP showed impressive growth of +1.8% already in Q2, observers were surprised by the continued strength of our economy during the summer. Further easing of Covid 19 measures largely contributed to this result. An increase of +1.7% was driven by the massive rebound of sectors that had previously been heavily penalised by the health crisis, such as restaurants, leisure and tourism. This result has enabled our country to recover and exceed by almost 1% its pre-crisis 2019 GDP. This performance should be highlighted, especially in comparison with Switzerland's main European partner, Germany, whose GDP has not yet returned to pre-pandemic levels, with unadjusted year-on-year growth of +4.1%. While consumption grew by +2.1%, public spending (+6.2%) drove growth, helped by exports (+8.8%), which were more dynamic than imports (+4.2%).

The strongest increases in value were recorded in the hotel sector (+110.6%) thanks to the return of foreign tourists, but this sector still remains depressed compared to 2019 levels. Value creation stalled in the retail sector (-4.1%), but private consumption continued its recovery initiated in the previous quarter (+2.7%).

Overall, construction investment remained stable (+0.1%), investment in capital goods declined slightly (-1.3%), and production was still affected by the continuing disruption in supply chains in some sectors. The pharmaceutical and chemical sectors maintained their positive trend, while manufacturing jumped by +2%. On the export side, the rise in goods shipments (+2.3%) contrasted with the fall (-2.2%) in services.

### New threats to GDP performance in Q4—growth expected at +0.5%

Switzerland's economy started the autumn on a very positive note, with growth potentially exceeding +0.5% by the end of the year. This positive outlook will probably have to be tempered somewhat by a few negative factors. The sharp rise in the value of the Swiss franc against the euro in recent weeks is likely to have an unfavourable impact on Swiss exports to the Eurozone and on trade with our main neighbouring economic partners. The relative slowdown in vaccinations, the emergence of the new Omicron variant and new restrictive health measures may also jointly affect consumption and production in our country. While economic growth in Q3 was a positive surprise, the pace of growth is likely to slow slightly in our country as well, should the acceleration in the number of Covid cases observed in neighbouring countries such as Austria occur in Switzerland. The strength of the Swiss franc in this context is understandable, and it certainly underlines the success of our economic management of the crisis, which has not had the same effects on Swiss public spending, the debt ratio and the central bank's balance sheet as in most developed countries. But it could well penalise our quarterly GDP performance.

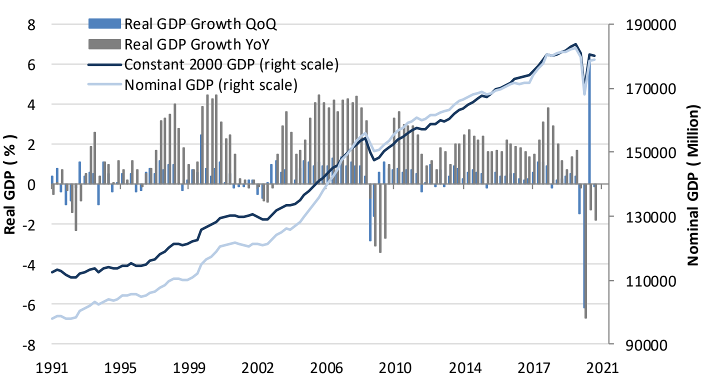
### Favourable economic outlook for 2022

Switzerland's economy is expected to end 2021 on a relatively strong note in Q4 despite the new health restrictions. Swiss GDP is expected to advance by +0.5%, with growth of +3.5% to +3.6% for the year as a whole, as we had initially estimated. For 2022, we are currently ruling out the return of new lockdowns that could damage growth, which could then possibly reach +3% for the year as a whole. The economic slowdown in 2022 will therefore be modest, down by barely 0.5%, compared to this year's clear recovery.

In 2022 Switzerland can therefore still count on a growth rate of value added that is well above its historical average. A sharper slowdown is in fact only expected in 2023, which is likely to mark the return to "normal" in our country with more stable growth of around +1.5% to +1.7%. Among the main sectors contributing to the growth expected for 2022, we believe that private consumption is very likely to replace the role of public spending as the main driver of GDP growth. Public spending likely grew by +4.8% in 2021, thus providing significant support to Swiss economic growth.

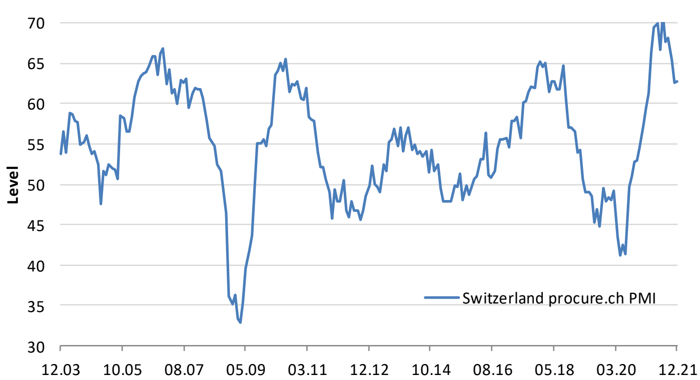
It should logically decrease in 2022 and return to its overall pre-crisis level. We therefore believe that a -4.5% decline in public spending in 2022 is likely. However, this will be largely offset by an acceleration in private demand from +2.7% in 2021 to +6.1% in 2022. A more dynamic international economic environment expected in 2022 will also affect the demand for Swiss products and services. Swiss exports, which were already particularly strong in 2021 (likely final increase of +9% to +10%), are likely to benefit from stronger global demand in 2022.

Nominal GDP - Nominal and Real GDP Growth rate




Graph sources: Bloomberg/BearBull Global Investments

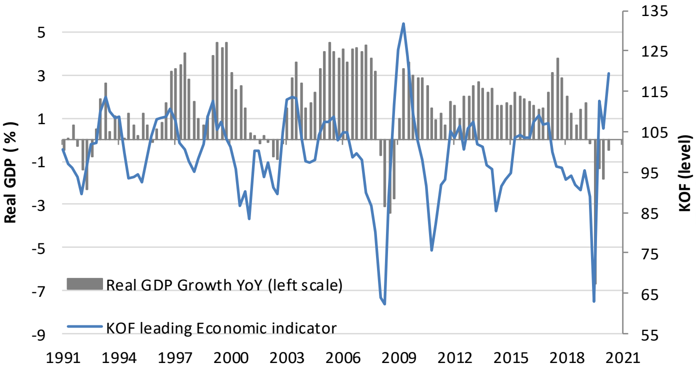
Swiss Purchasing Manager Index (PMI)



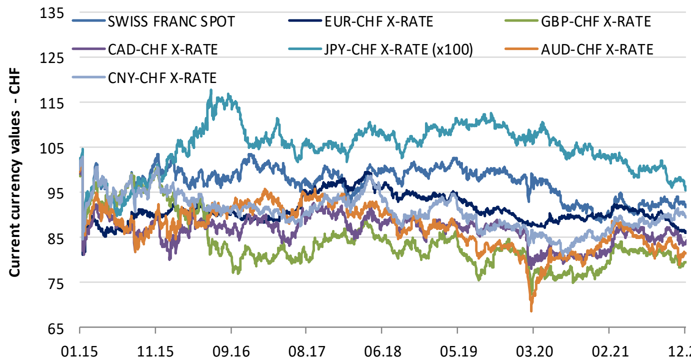



BearBull Global Investments Group

Real GDP Growth YoY - KOF leading economic indicator




CHF Exchange rate (Normalized at 100)




We expect a similar increase in Swiss exports in 2022, albeit accompanied by a sharper increase in imports.

### Leading indicators expected to weaken

The KOF leading indicators declined further at the end of the year with the November reading (108.5) slightly below the October reading (110.2). The manufacturing PMI showed a similar decline, with the November reading falling from 64.2 to 62.5. However, this level remains well above the growth threshold of 50, although it marks the beginning of uncertainty after having reached a peak of 70.5 in July. Overall, leading indicators remain at historically high levels and continue to suggest that value added in Switzerland will continue to grow at a steady pace.

Swiss industrial production logically declined year-on-year in Q3 (+8.3%) after an increase of +16.1% in the previous quarter, which benefited from a considerable base effect.

### Inflation reaches a ten-year high

Inflation continued to rise in Switzerland as well, reaching +1.5% year-on-year in November. Despite the rise of the Swiss franc against several major currencies, inflation has thus risen further to its highest level in the last ten years. The core price index excluding food and energy rose by a more modest +0.7% but is also at a historical high.

The evolution of imported prices is not encouraging in this context of a rather strong franc since the acceleration of prices including raw materials now exceeds +10%. Excluding this factor, import prices still rose by +3.6%, continuing an upward trend that began in August 2020, which also pushes this measure to its highest level of the decade. Unsurprisingly, producer prices followed a similar trend with a +3.4% increase not seen in ten years. The international tensions observed in production chains do not seem likely to diminish significantly over the next few months and therefore also represent a very important risk factor for Switzerland, which could drive a further rise in prices.

Rising transport costs, logistical problems and difficulties in the labour market are also likely to contribute to more persistent inflation in 2022. Switzerland is unlikely to be an exception, especially if the growth outlook of +3% in 2022 is maintained. We expect import prices in Switzerland to continue to be affected by sustained international tensions. As far as consumer prices are concerned, a recovery in domestic demand to +6.1% in 2022 and a further fall in unemployment to a historic low of 2.3% will probably have a joint impact on prices, especially if, after a phase of appreciation of the Swiss franc in 2021, our currency is likely to adjust downward in 2022.

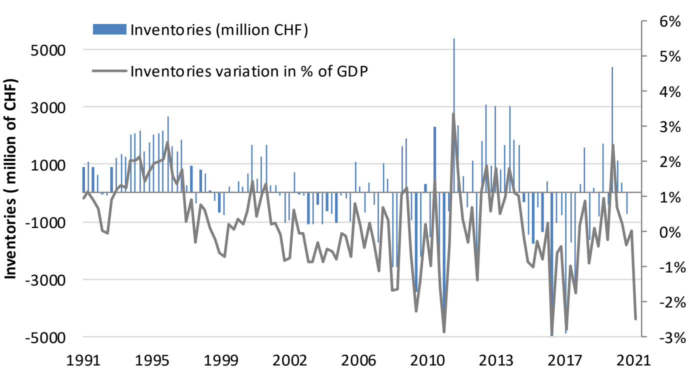
### SNB to remain unruffled in the face of inflation

The SNB may be concerned about rising prices in Switzerland, but its monetary policy is for the time being completely geared towards the stability of the exchange rate between the franc and the euro, which de facto prevents it from envisaging a scenario to combat rising inflation in our country, should it be deemed necessary.

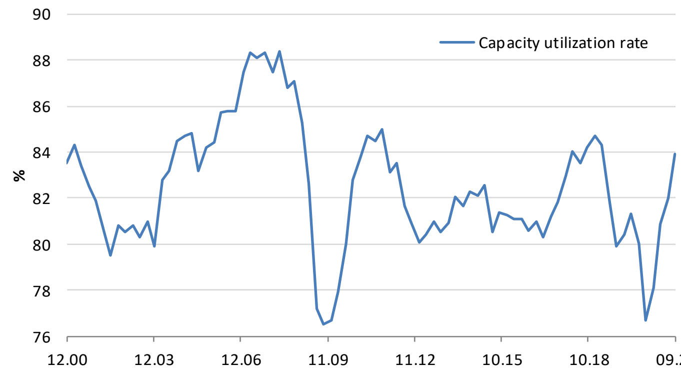
The SNB's primary objective is to control and steer the risks of runaway inflation. But when there are no such risks, optimal economic growth and maintaining an adequate level of employment can logically constitute new objectives. Managing the risks of slippage in growth and employment had led the SNB to try to contain the appreciation of the franc and then to adopt a negative interest rate policy. Some might wonder whether, against the backdrop of expected GDP growth of 3% in 2022, near full employment and rising imported inflation, the SNB might be tempted to relax its objective of stabilising the franc and act on its key rates. Recall that the SNB's balance sheet is now close to CHF 1 trillion with relatively stable but very high foreign exchange reserves of CHF 922 billion as of the end of November. A premature relaxation of its target could lead to massive losses in value for the SNB.

We believe that the SNB has few alternatives and still has no choice but to maintain its current policy at the risk of rising inflation, which would ultimately have a negative but desired impact on the value of the franc.

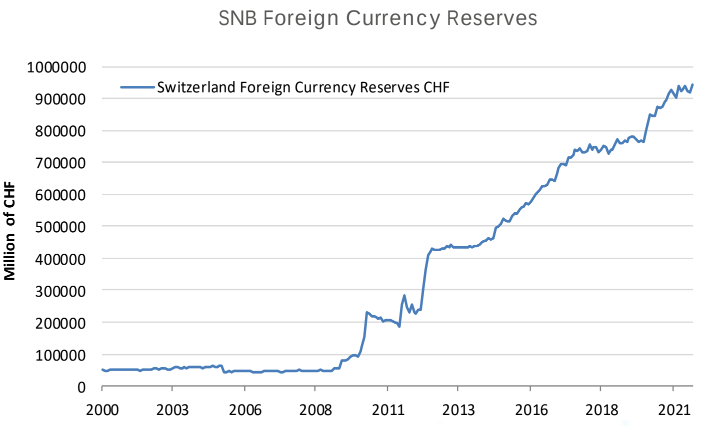
Inventories - variation in % of GDP

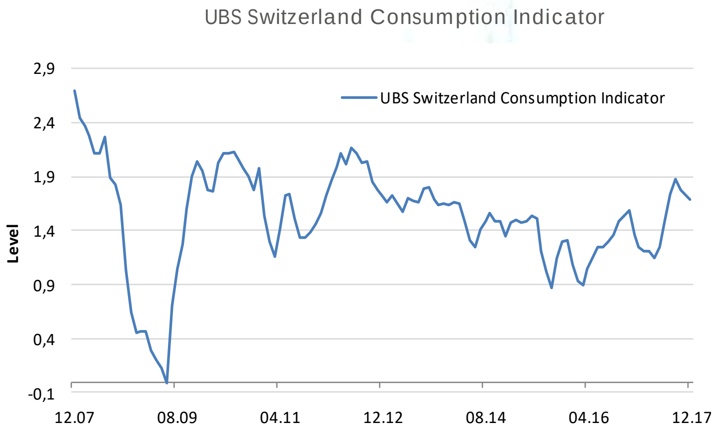


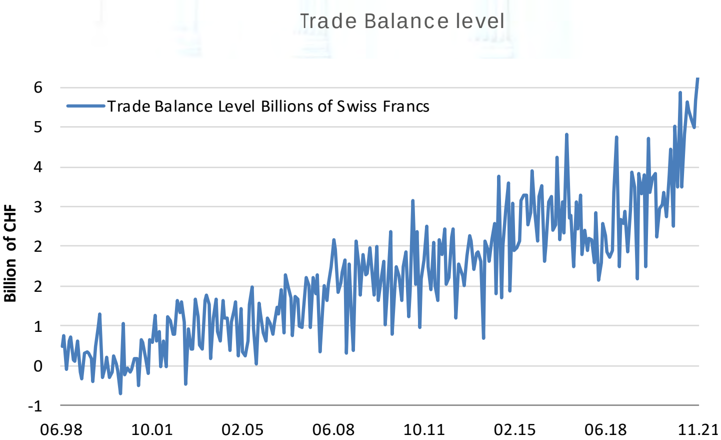

Capacity utilization rate

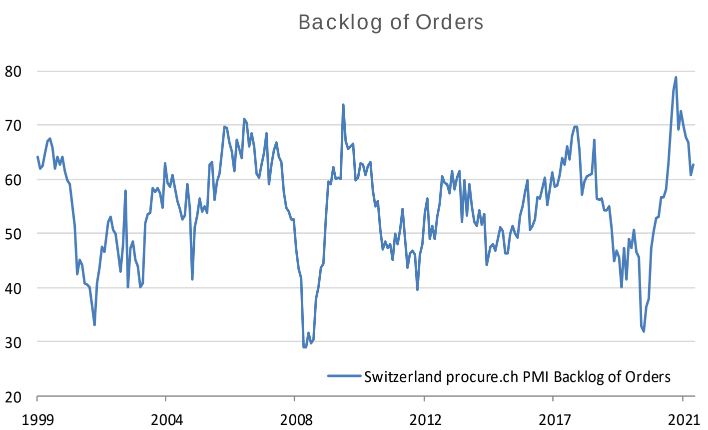



Graph sources: Bloomberg/BearBull Global Investments




Graph sources: Bloomberg/BearBull Global Investments

### The franc must weaken

The SNB still considers the franc to be overvalued. Our currency is said to be overvalued by 10% to 15% in purchasing power parity (PPP) terms against the euro. The SNB is unlikely to change its strategy and may also be counting on higher inflation and faster growth in the Eurozone in 2022 to trigger a reversal of the trend and a decline in the franc's attractiveness. A rise in the euro above 1.15 seems possible in 2022. The SNB might also want to see the franc fall against the dollar towards parity.

### Negative outlook for bonds in 2022

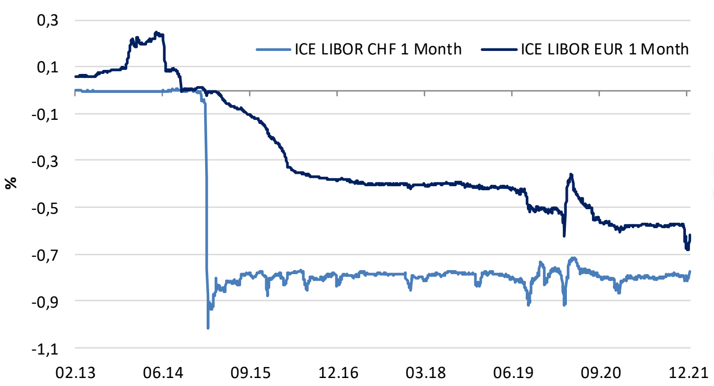
The international bond markets were once again affected at the end of the year by the return of uncertainties linked to the global health crisis and by the threats posed to growth by the emergence of the new Omicron variant. Long-term interest rates also halted their upward trend in Switzerland, while the Swiss government's ten-year rate had temporarily moved back into positive territory on 29 October. Long-term rates have also eased in recent weeks in a global context characterised by a clear upturn in inflation and by the change in monetary policy announced in the United States, which rapidly reduced the liquidity injections that had kept long-term rates at historically low levels. In the US, the "tapering" announced by the Chair of the Federal Reserve will reduce liquidity injections to zero within a few months. The disappearance of the support that allowed long-term rates to be well below inflation and economic growth levels is likely to cause a potentially rapid adjustment of interest rates in the US, as well as in other financial markets. In Switzerland, ten-year rates are then also likely to resume trending upward, returning into positive territory in 2022.

In this context of incipient normalisation of yields and the yield curve, the risk premiums between BBB bonds and ten-year federal government rates seem too low. Yield pick-up strategies are riskier than ever. We recommend a sharp reduction in durations and a reallocation of debt risk to investment grade securities.

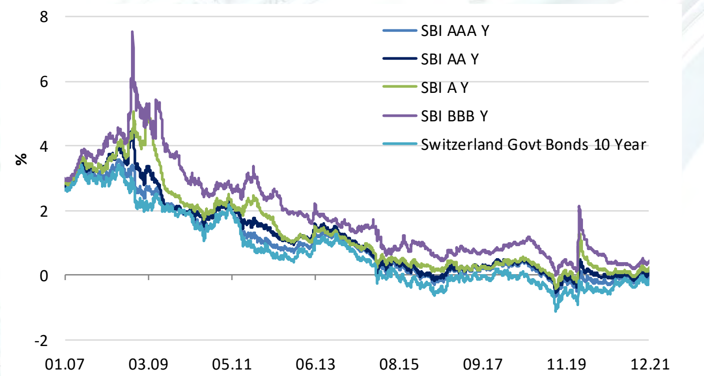
### Swiss equities benefit from lower interest rates

The Swiss equity market ended the year higher after an expected short period of profit taking in November. The easing of bond yields in recent weeks has certainly contributed to investor optimism, which has pushed valuation measures a little higher. As we approach the new year, the PEs of the SMI and SPI for the end of 2022 are now similar and close to 19x. This is based on expected Swiss corporate earnings growth of around +10% in 2022. The expected dividend yield is still 2.5%. The outlook for Swiss equities remains generally favourable for 2022, especially in the event of a weak franc, which would have a positive impact on the profits of exporting companies. The main risk for Swiss equity indices in 2022 is still a significant adjustment in interest rates that could negatively affect relative equity valuations and investors' risk appetite. In the short term, we still believe that the risks of price weakness and consolidation are significant. We suggest a reasonable exposure to Swiss equities before we can expect to see equity markets start trending up again.

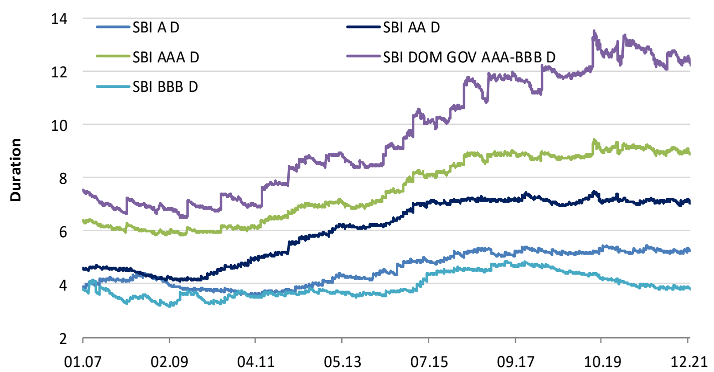
Libor spread rates 1 month



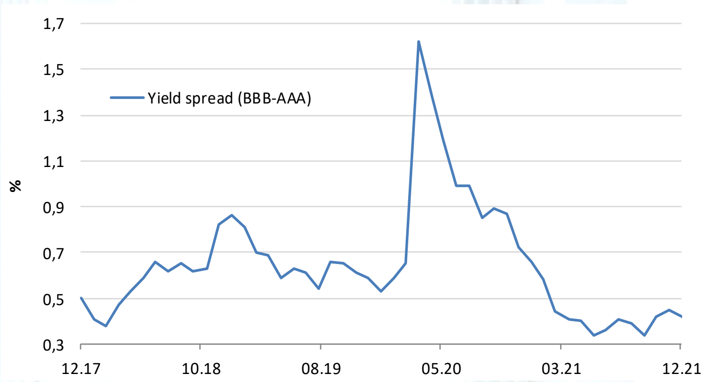

Yield (Government, AAA, AA, A, BBB)



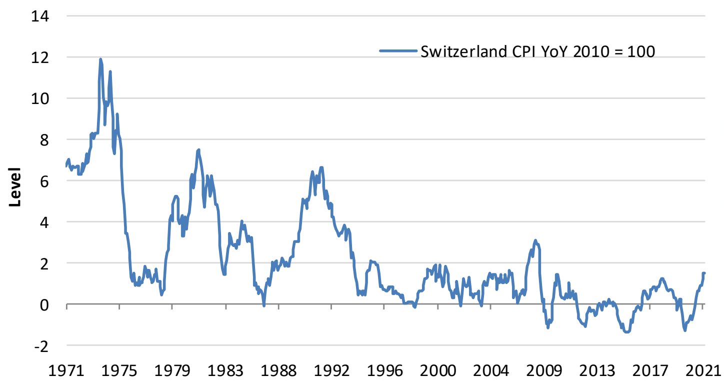

Duration of Swiss bonds



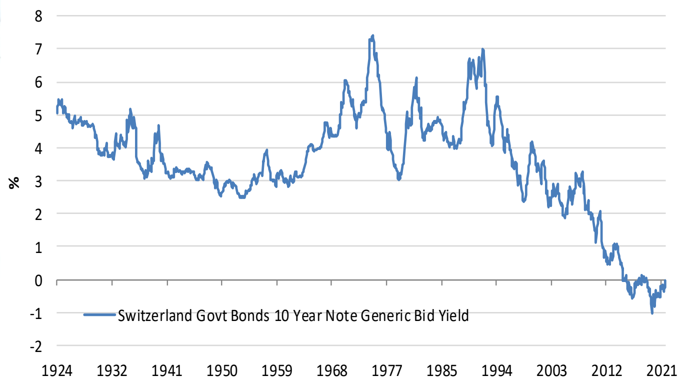

Yield spread



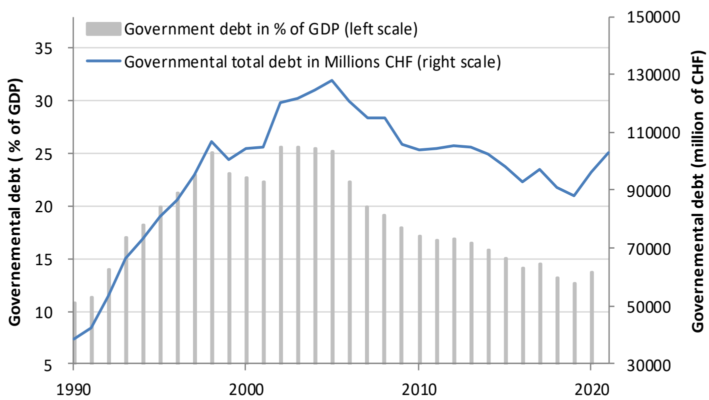

Inflation CPI



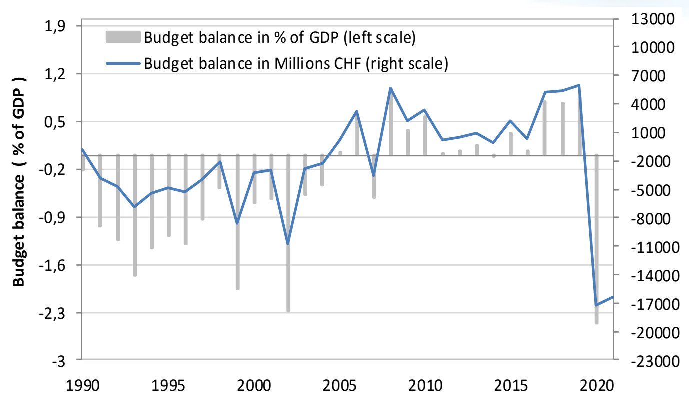

Government Bonds 10 year yield since 1924




Switzerland Government total debt




Switzerland Budget Balance




Graph sources: Bloomberg/BearBull Global Investments



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# MACROECONOMIC SCENARIO

## Eurozone

- The euro is 20 years old and will trade in 2022 at almost the same level as when it was created
- Inflation now at +5% in the euro area
- ECB still willing to let inflation rise

**The euro is 20 years old and will trade in 2022 at almost the same level as when it was created**

On 1 January 2002, after three years of existence as book money, the first euros physically circulated to more than 300 million Europeans in 12 EU countries. The euro is now the single currency shared by 19 EU member states forming the euro area. It has become the world's leading currency in terms of the number of banknotes in circulation. To participate in the euro, member states have committed to adhere to strict criteria such as a budget deficit of less than 3% of their GDP and a debt level of less than 60% of GDP, low inflation and interest rates close to the EU average. Issued at an exchange rate of 1.1736 US dollars to the euro on 1 January 1999, the euro has experienced four major periods of fluctuation against the dollar. After a first phase of decline of -30% between 1999 and 2001, the euro appreciated by +93% between 2001 and 2008, before plunging again by -35% through 2015, below its rate of issue. Since 2015 the exchange rate has stabilised somewhat, with a lower level of variability around a central value of 1.15 dollars to the euro. On 31 December 2021, the exchange rate stood at 1.1370, just -3% below its issue rate. Over the entire period of the euro's existence, its value against the dollar has thus fluctuated by more or less 30% around its central value and its issue rate.

It is interesting to note by way of comparison that, because of this stability, both currencies depreciated by about -30% to -35% against the Swiss franc during this period. The euro has therefore fulfilled some of its promises, firstly by offering all the countries in the Eurozone an internationally recognised currency, as it is now the second currency in terms of transaction volume after the dollar.

The single currency has also allowed member states' interest rates to converge towards the lowest government rates in a process of unprecedented contraction of national risk premia, thereby reducing the financing costs of the various national debts and benefiting all.

The euro has also played an important role in supporting the efforts of national governments in their fight against the Covid 19 pandemic over the past two years.

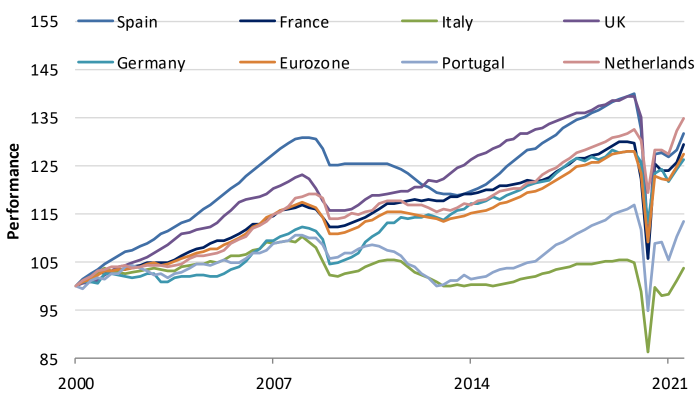
They would certainly not have been able to finance the rescue of their recessionary economies through a massive increase in public debt in the same way.

In 2022, however, the euro could be affected by the likely return of the issue of compliance with the Maastricht rules mentioned above, higher inflation and a yield differential that is likely to be somewhat more favourable to the dollar. Over the last three months, the yield spread between the US Treasury and German Bund has remained stable at 1.67%, despite the fairly high volatility of yield levels, which nevertheless ended the quarter unchanged. A similar observation can be made for yield differentials with Swiss rates. Against the Swiss franc, the euro is nevertheless likely to benefit from stronger economic momentum and the normalisation of the ECB's monetary policy, which will certainly precede that of the SNB, thereby increasing the yield differential in favour of the euro. We expected the euro to weaken against the dollar, and the exchange rate has now reached our target. The next few months should be slightly more favourable to an appreciation of the euro against the dollar, franc and pound sterling of between +3% and +5%.

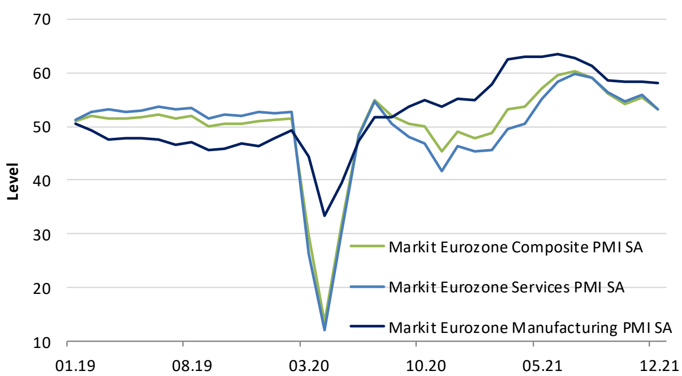
**European GDP growth likely to decelerate to +0.7% in Q4**

Eurozone GDP grew by +2.2% in Q3, slightly more than expected, for yoy growth of +3.9%. This growth was again driven by a resurgence in household consumption, which rose by +4.1%, and in services. Government spending, on the other hand, lagged far behind, with a modest increase of +0.3%. The contribution of foreign trade was positive thanks to an increase in exports (+1.2%) higher than that of imports (+0.7%).

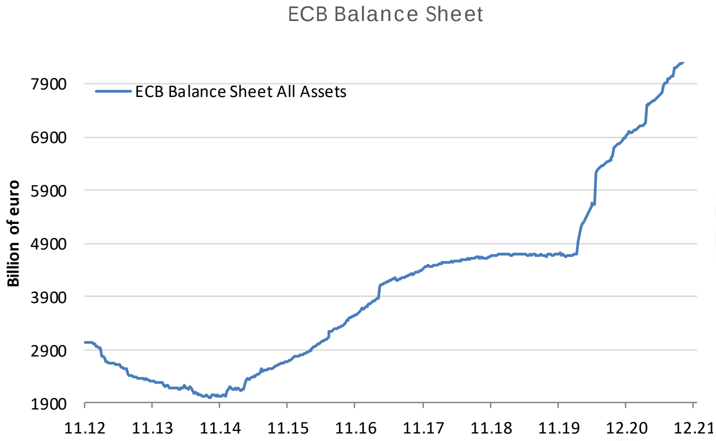
GDP Growth - Eurozone

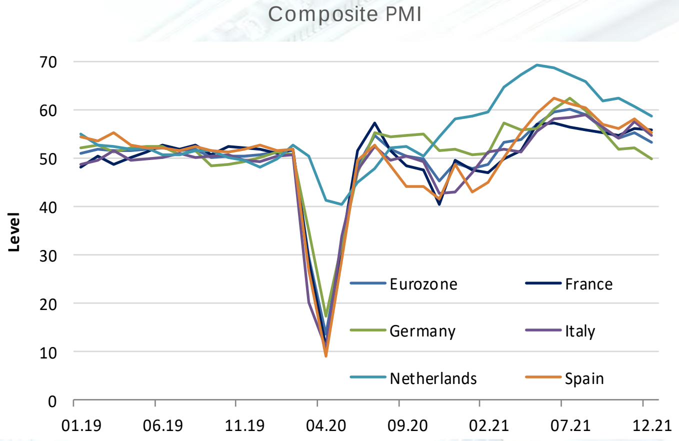



PMI (Manufacturing, Services and Retail) - Eurozone




Graph sources: Bloomberg/BearBull Global Investments




However, GDP remained 0.3% lower than in December 2019. France (+3%) returned to its pre-pandemic level, and Italy (+2.6%) recorded a notable performance, while Spain's GDP (+2%) remained almost 6.5% below its pre-pandemic level despite increasing. Germany (+1.7%) remains affected by logistics and component supply problems, a situation that is expected to continue in Q4. After the clear recovery of Q3, a less inspiring result is now expected for the end of the year.

The emergence of the Omicron variant in November will undoubtedly weigh on the ongoing economic recovery. The lockdown in Austria and new restrictive measures in most EU countries will have significant effects on economic momentum. However, we believe that the Eurozone's national economies will likely be able to withstand this fourth wave of Covid with no major impact on momentum. Eurozone GDP growth is now estimated at between +0.6% and +0.8% for Q4. The explosion in energy costs and the rise in inflation above 4% will have an impact on households' ability to consume, and the return of health restrictions could further dampen consumption. The European economy is therefore likely to grow by +5.1% in 2021, which is close to our expectations. The outlook for 2022 remains unchanged by the emergence of the Omicron variant and still lies at +4.2%. Q1 is likely to receive a boost from the start of the deployment of EU funds, which are expected to add around 0.6% to GDP in 2022 and 2023.

### Decline in leading indicators more pronounced in Germany

The latest leading PMI indicators released in December point to a likely slowdown in economic momentum in the Eurozone due to the spread of the new Omicron variant, although the outlook for the manufacturing PMI, virtually unchanged at 58, remains positive. The drop from 55.4 to 53.4 in the composite PMI is not dramatic, but it confirms a probable economic slowdown in Q4. The services sector is more strongly affected, falling from 55.9 to 53.3. In Germany, the services PMI fell from 52.7 to 48.4, now below the growth threshold. The sharp increase in cases in Germany is not unrelated to this collapse.

### Inflation now at +5% in the euro area

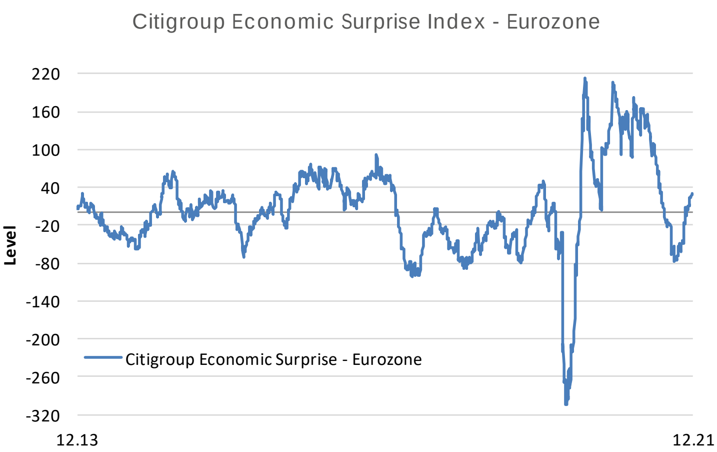
Inflation jumped in November to +4.9% year-on-year, its highest increase since the creation of the euro. Most of this increase (+4.1% in October) was due to the dramatic rise in energy prices. This component accounts for +2.6%, or more than half of the +4.9% year-on-year increase. The food segment also recorded a significant increase, with an estimated rise of +2.4%. Inflation in services also jumped from +2.1% to +2.7% in one month, influenced by the return of travel consumption during the winter. Excluding food and energy, core inflation is up by +2.2%. While this exceeds the level expected by the ECB, it is not yet a real issue for the bank. The influence of oil and gas prices has been significant in recent months, and it is likely that, in 2022, the impact of this variable on inflation will be completely different. Keeping prices high would put little further pressure on inflation, while a price correction would have the opposite effect.

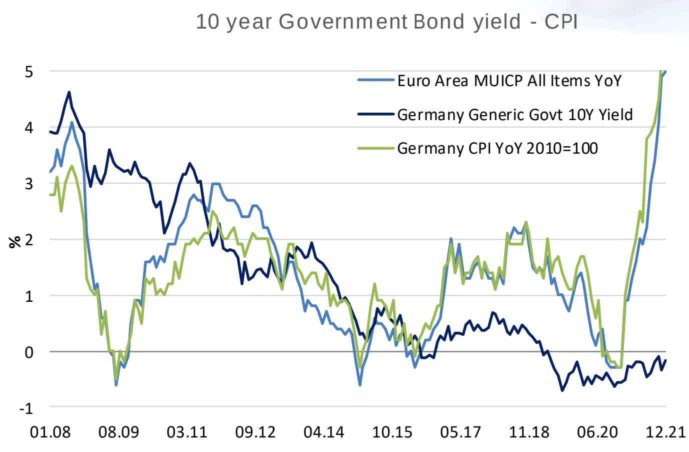
An acceleration of inflation in 2022 would certainly no longer be attributable to higher energy prices but to other factors. Producer prices indeed rose much more strongly in 2021, as shown by the +5.4% month-on-month increase in October. Year-on-year, producer prices increased by +21.9%, largely driven by energy costs, although all other components rose during the month.

A stabilisation of commodity and energy prices at high levels will certainly trigger a process of gradual transmission of price adjustments from producers to consumers.

### ECB still willing to let inflation rise

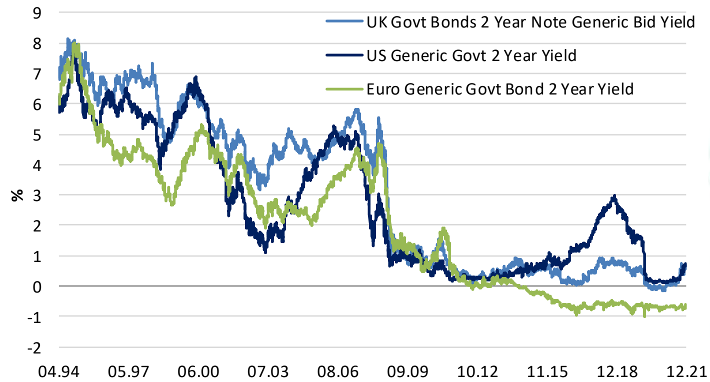
The ECB has probably been more concerned in recent weeks about the risks posed to European growth by the Omicron variant than by the latest inflation data. The Governing Council decided in December to increase its bond purchase programme through its Asset Purchase Programme (APP) in order to ensure a more adequate transition when the ECB ends its Emergency Purchase Programme (PEPP), as scheduled for March 2022. The end of the PEPP was confirmed, but it was noted that it could be reactivated at any time if necessary.



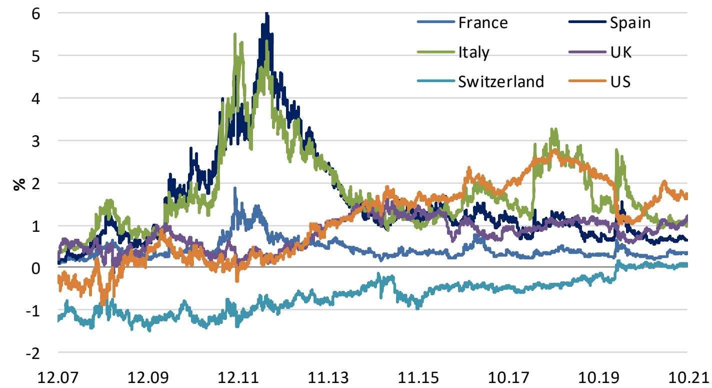




Graph sources: Bloomberg/BearBull Global Investments

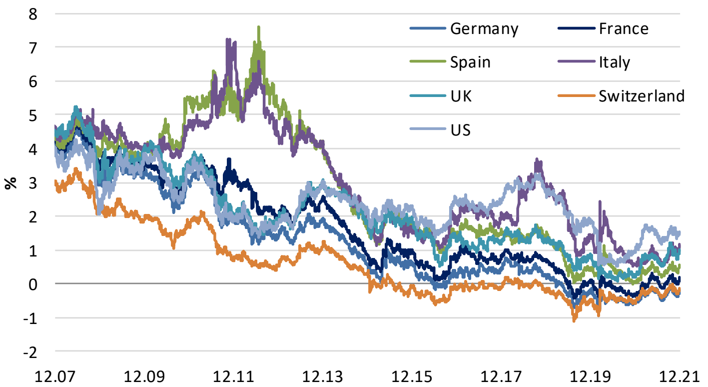
2-year Government Bond yield (US, Euro, UK)



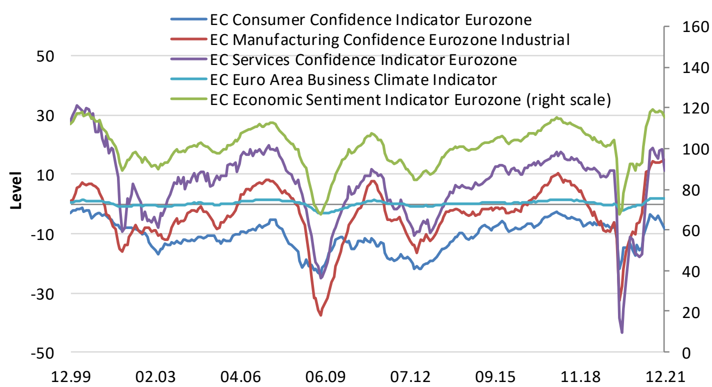

Risk premium - Government vs. Bund




10-year Government Bond yield




Economic Confidence Index




Graph sources: Bloomberg/BearBull Global Investments

The APP will be increased from 20 to 40 billion euros in Q2, then reduced to 30 billion euros in Q3, before returning to its 20-billion-euro level in Q4.

The ECB considers this strategy to be appropriate in the current perceived context of economic slowdown linked to the Omicron variant. The ECB president continues to indicate that there is no reason to consider a change in policy rates, which are therefore likely to remain unchanged in 2022, contrary to the first rate hike announced by the BOE. The ECB is not concerned about the recent acceleration of inflation in the euro area and continues to predict that inflation will return below its 2% target by the end of 2022. The core inflation forecast is therefore of 1.9% for 2022 and 1.7% for 2023. These projections are based on energy costs stabilising and a very gradual transmission of price increases to wages, in a context of a less tight labour market in Europe than in the US and the UK.

It is this variable in particular that allows the ECB not to fear inflation getting out of control, as the unemployment rate of 7.3% in the euro area suggests that the risks of wage increases are still low.

It is worth noting, however, that the unemployment rate has almost returned to its historical low after a short rise above 8.5% during the pandemic. Perhaps the unemployment rate is not the right measure to follow, and the ECB is right to consider the risks as low, as long as wage growth does not exceed 2.5% per year. The wage negotiations in Germany and Italy seemed to confirm the absence of real upward pressure, but the latest statistics published for the euro area suggest that average wages are rising by +2.5% and by +2.9% for the EU as a whole. This could be a cause for concern if the trend observed in Q3 were to intensify at the end of the year.

Finally, the ECB is not concerned either about the possible inflationary effects that may still develop in 2022, with the euro area economy expected to continue to be affected by persistent logistical and supply problems that could create imbalances between insufficient supply and higher stimulated demand, which could lead to increases in the selling prices of available goods and services.

The ECB's strategy clearly and quite logically favours economic growth over the objective of controlling inflation. The latter is therefore likely to be around for a little longer than the ECB would like to admit.

### European interest rates resume their upward trend

Last year was also an eventful one in European bond markets. With the 10-year German Bund setting the tone, there were two cycles of rising and falling long-term rates before the current recovery took hold and pushed yields back up to their May and October peaks. The inflationary outlook and ECB statements punctuated these rate increases and decreases. The markets came to question more seriously whether the rise in inflation was really temporary and were eventually convinced that the ECB would not act to counter the upward trend if it were to continue.

Only the emergence of the Omicron variant in November constituted a new risk factor that very temporarily revived uncertainties and fears of new lockdowns with disastrous effects on growth. The subsequent fall in yields was only short-lived and limited to a 30-basis-point drop in 10-year rates. In 2021, 10-year Bund yields thus rose from -0.57% on 31 December 2020 to -0.18% at the end of 2021.

This 40-basis-point increase suggests that the next wave of adjustment in long-term yields is likely to push rates significantly higher and also affect risk premiums.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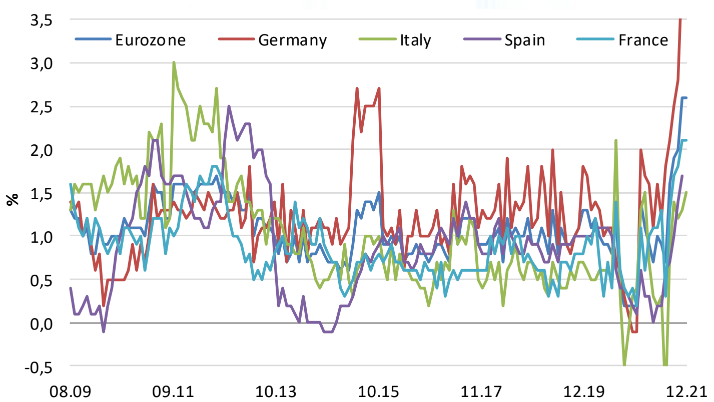
The European bond market has once again entered a likely area of turbulence that could also significantly affect other financial assets, if the adjustment we expect materialises. A return of the German ten-year Bund yield to the 0.4%-0.6% range seems likely in 2022. This is a relatively logical start to the adjustment in a context characterised by expected growth of +4.2% in 2022 and inflation of +4.9%.

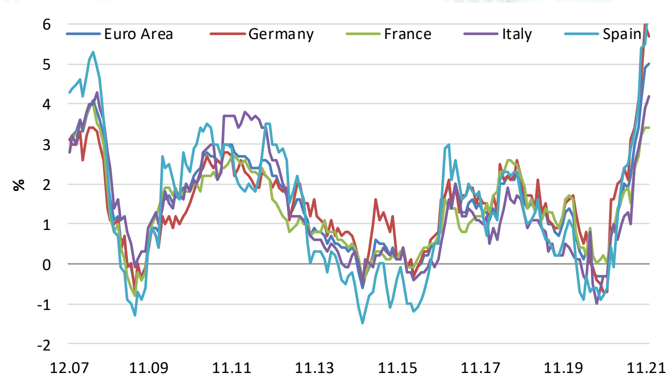
### Favourable relative valuations for European equities

In 2021 European equities finally performed in line with the growth prospects of listed companies. European shares have done well against US stocks but remain on average undervalued in our view. In terms of relative valuation, European equities offer a risk premium of around 30% over the S&P500. European equities are trading at around 16x 2022 earnings, which is much more reasonable than the US multiple of 21x. European growth in 2022 (+4.2%) is expected to be slightly higher than in the US (+3.9%), but European stocks are clearly expected to benefit from a more accommodative monetary policy environment. European equities therefore deserve to be overweight in a diversified international equity allocation.

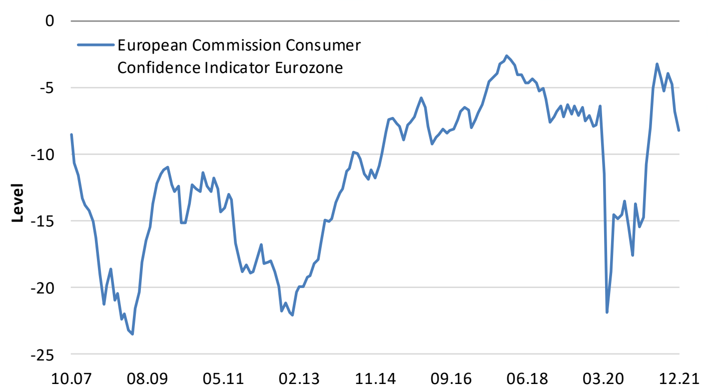
Eurostat CPI - Core Inflation (Eurozone, YoY)



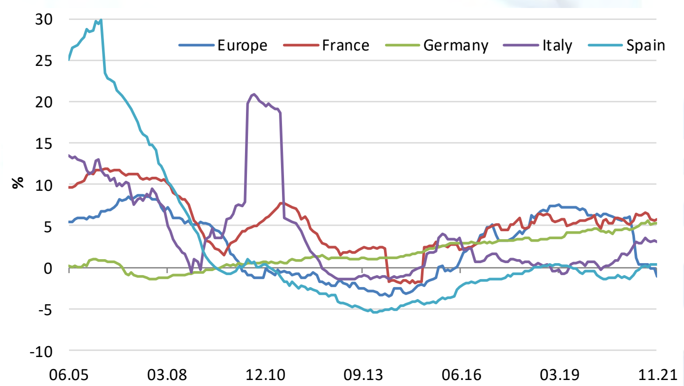

Eurostat CPI - all items (Eurozone, YoY)



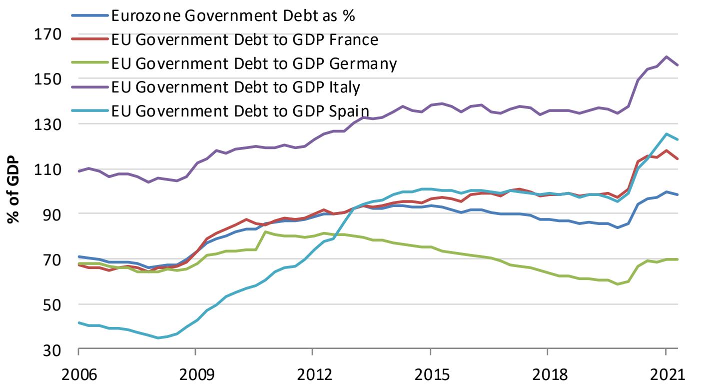

Consumer Confidence - Eurozone



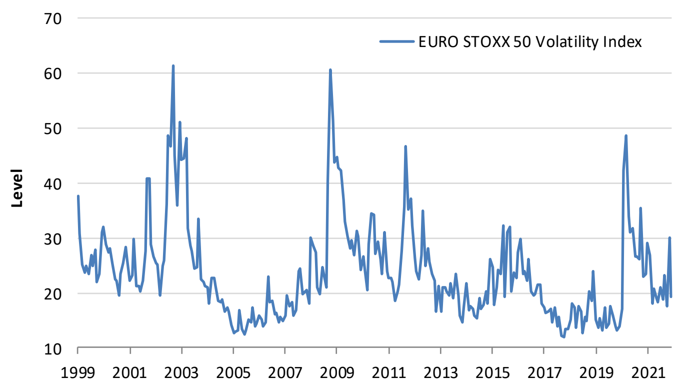

Loans to households (Eurozone - YoY)




EU Government Debt




Euro Stoxx 50 Volatility Index




Graph sources: Bloomberg/BearBull Global Investments

# MACROECONOMIC SCENARIO

## United Kingdom

- Economic downturn expected in winter 2021-2022
- Worrying decline in leading indicators
- Weak job creation masks significant tension in the labour market
- Falling household confidence threatens consumption

### Economic downturn expected in winter 2021-2022

Economic growth in the UK slowed significantly in Q3. On an annual basis, it fell from +24.6% at the end of June to +6.8% at the end of September. Although this yoy fall is largely due to the base effect in Q2, on a quarterly basis, growth of +1.1% at the end of September is significantly lower than that of the previous quarter (+5.4%). Nearly one year after the effective Brexit date, the UK economy is losing momentum, although its GDP is still likely to grow by +6.8% over the year as a whole. The UK has not yet returned to pre-Brexit GDP levels and is at the bottom of the league of industrialised countries in this respect. The UK is suffering more than other countries from logistical and supply problems, while labour is in short supply in some sectors. Foreign trade will continue to be affected by Brexit in 2022 and will certainly not make a positive contribution to GDP. Uncertainty also persists regarding a possible hard Brexit under the 24 December 2020 agreement if the customs rules in Northern Ireland are not implemented.

At the end of the year, almost a year after the end of the transition period and the trade and cooperation agreement between the EU and the UK, the impact of Brexit remain difficult to assess due to the disruption caused by the pandemic. In October the economy grew by only +0.1%, which raises fears that it may slow more than expected in Q4 2021, due to the Omicron variant in particular. In October the rebound in services was offset by poor results in the construction sector (-1.8%). Industrial production fell by -0.6% as energy demand normalised, while the manufacturing sector stagnated. November's figures are expected to remain weak by comparison, due in particular to the revival of inflation, the withdrawal of accompanying fiscal measures and new health restrictions. The emergence of the Omicron variant will affect consumption more severely as new health restrictions are introduced. The current outlook for Q4 suggests a +0.7% increase in GDP. The forecast for Q1 2022 is even less positive (+0.3%), factoring in a negative impact from the continuation of restrictive measures throughout January.

### Worrying decline in leading indicators

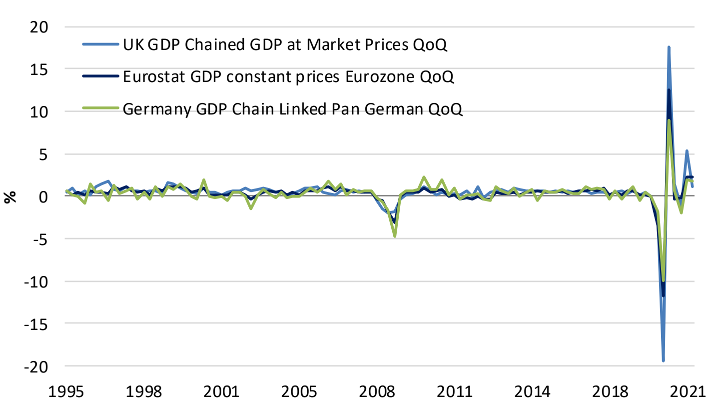
The leading manufacturing PMI indicators fell again in December. Although they remain high and still point to a positive context for the sector, the decline from 65.6 in May to 57.6 in December goes hand in hand with the ongoing slowdown. Similarly, the services index (53.2) has been falling since May and is now dangerously close to the growth threshold of 50. The flash composite PMI fell sharply over four weeks, from 57.6 in November to 53.2 in December. These declines suggest that the Omicron variant has already taken a bite out of the prevailing enthusiasm and the UK economy in December. The combination of further restrictions and consumer caution does not bode well for a recovery at the end of the year and into 2022.

Industrial production went back into a downward phase in September (-0.4%) and October (-0.6%), failing to maintain positive growth even before the emergence of the Omicron variant. This decline seems to be more attributable to the fall in the electricity/gas and mining segments than in the manufacturing sector. The data for the construction sector is no better, with the -1.8% fall in October still leaving positive year-on-year growth of +3.3%. The short-term dynamics in both industry and construction suggest a slowdown in activity that will continue into the end of the year.

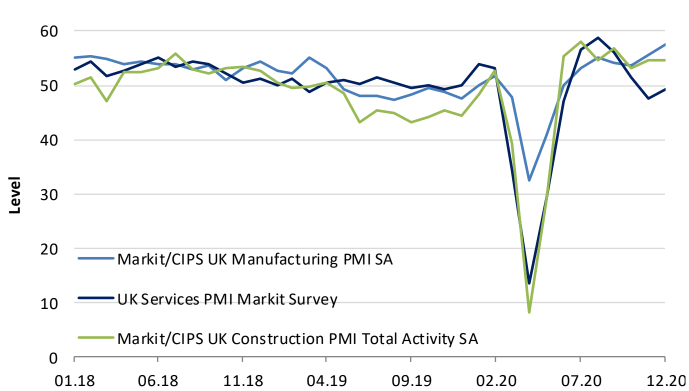
### Weak job creation masks significant tension in the labour market

The labour market remains a key area of concern for the BOE at the end of the year in terms of judging the potential risks to wage inflation. Three months after the government withdrew its employment support plan and as the Omicron variant is posing new threats to economic activity, employment levels and wage growth are clearly still key variables that can influence the evolution of inflation and the BOE's monetary policy. The latest statistics published are de facto rather reassuring on this front and are likely to allow the central bank to hold back a little on the implementation of a first phase of normalisation.

Quarterly GDP Growth - UK

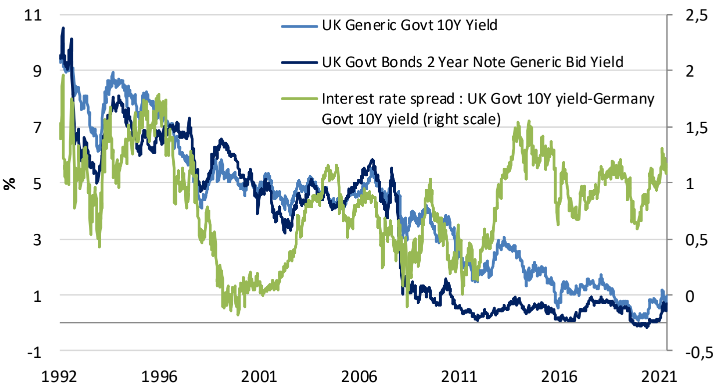



Manufacturing, Services and Construction PMI - UK

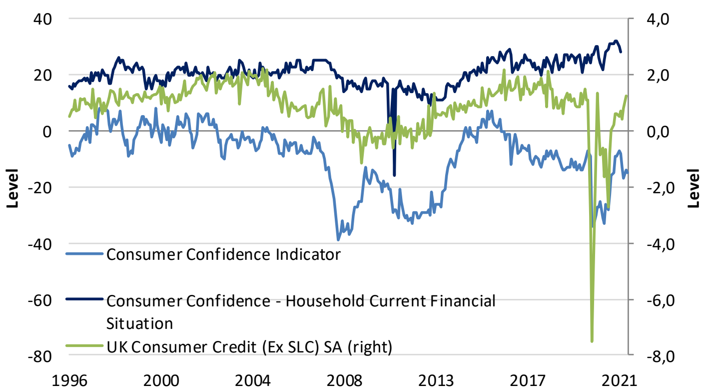



Graph sources: Bloomberg/BearBull Global Investments

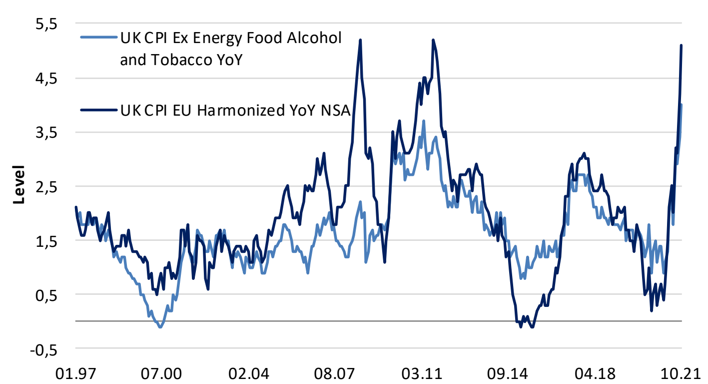
UK Government Bonds - 10 year and 2 year yield



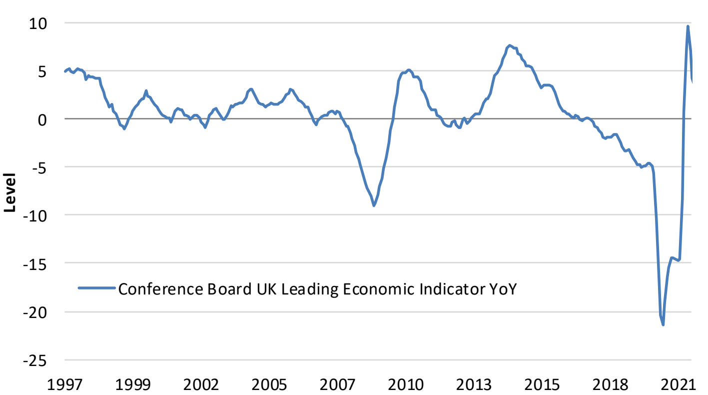

Consumer Confidence




Inflation CPI




UK Leading Economic Indicator




Graph sources: Bloomberg/BearBull Global Investments

Indeed, the creation of 149,000 new jobs during the three months ending in October is in fact not exceptional and clearly below the figures published during the three previous periods. The decline is significant compared to the 247,000 jobs created in the three months to the end of September, again suggesting weakness in the UK economy in early autumn. However, the unemployment rate has fallen slightly again to 4.2% and is approaching the pre-pandemic low of 3.8%. Nevertheless, wage growth has been decelerating for several months, and in October it fell below +5% on an annual basis, which is likely to reduce the risk of an indirect transmission of wage growth to the inflation indices. The situation in the British labour market is very much affected by the departure of many foreign workers, particularly from Europe, which is now largely contributing to a shortage in certain sectors such as transport, as well as in the restaurant industry. The implementation of post-Brexit regulations will not allow a quick return to normal, as these rules have made it difficult for British companies to hire new foreign employees. Against this backdrop, we believe that wage pressures will not disappear in the coming months, as the imbalances between labour supply and demand will likely persist.

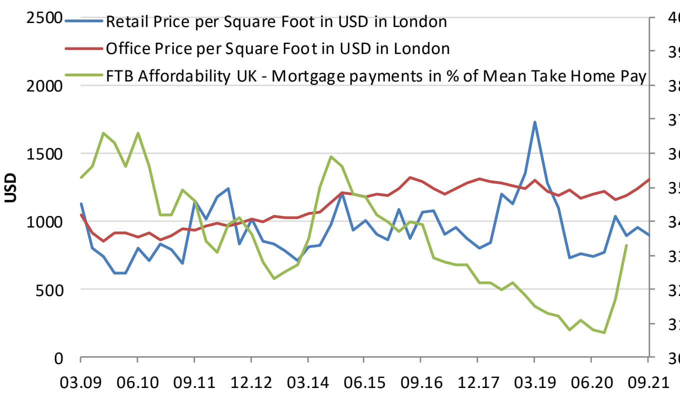
## Falling household confidence threatens consumption

Household confidence weakened further in December. Households are again feeling that the economic outlook for the next twelve months has worsened, with a similar sentiment noted regarding their financial prospects and the prevailing conditions for making major expenditures. The decline in confidence is rooted in a number of factors influencing the outlook for British consumers' purchasing power. Rising prices for energy and imported goods, petrol shortages and the return of health restrictions with the explosion in Covid cases have indeed started to affect confidence. The start of the normalisation of the BOE's monetary policy is also concerning for consumers, who see the risks of a rise in rates weighing on their disposable income and purchasing power. Despite this drop in confidence, household consumption was still relatively strong in terms of retail sales, up by 1.4% in November. However, these figures come ahead of the arrival of the Omicron variant wave, which is expected to slow demand significantly in December. Retail sales only account for a third of consumption, which can still count on a level of savings (11%) in the medium term that, while admittedly lower than at the beginning of the year (24%), is still higher than in the previous 20 years.

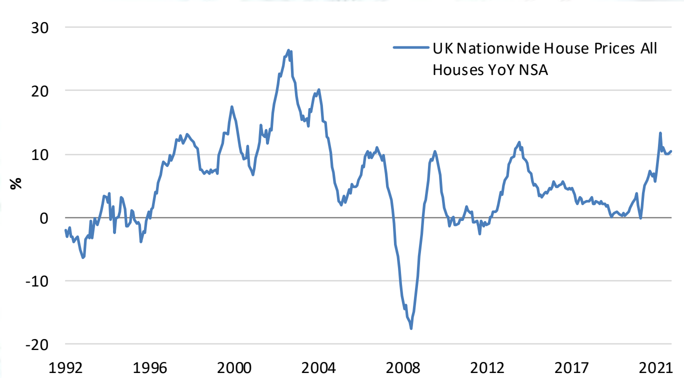
## Acceleration of inflation is not over

Price indices are soaring again in the UK. The CPI jumped by +0.7% in November and is now up by +5.1% year-on-year. Prices of consumer goods have also risen sharply and have now achieved a record year-on-year increase of +6.5%. Inflation seems to be less of a problem in the services sector, where the index is only up by +3%, and for the index excluding food and energy, which is up by +4%. Increases in fuel, tobacco and food prices are the main culprits. But it is above all on the producer and import side that the trends are most worrying. In November, producer prices rose by +9.1% year-on-year, one of the strongest increases since 2011. Import prices are expected to rise further in the coming months with the tightening of import rules in the UK, which will affect imports from 1 January 2022. The requirement to declare the origin of goods entering the country without delay will likely cause delays in deliveries and further shortages in shops. Imported goods will therefore continue to be significantly more expensive for British consumers, while higher export costs may be enough to make British goods exported to the EU uncompetitive. Increases in food price are expected to accelerate further in the spring. As growth begins to stall, the acceleration of various measures of inflation in the UK may begin to raise fears of stagflation in the country. For the moment, wages are fortunately rising alongside prices, so there is no clear threat to the purchasing power of UK households. However, this situation poses a problem for the BOE, which will have to carefully manage the normalisation of its monetary policy in 2022.

Housing Prices




UK Nationwide House Prices




### Return of pressure on sterling yields

While the emergence of the new Omicron variant initially reignited uncertainties about economic growth in the UK, as in most regions, by the end of the year these concerns had eased. While not ruling out the risk of a winter slowdown due to the government's health restrictions to combat the outbreak, the growth outlook for the next few quarters remains positive. Against this backdrop, gilt yields initially eased by 50 basis points before rebounding by +0.7% to +1% at the end of December. The rise in various inflation measures and the tension in the labour market have been of concern to the BOE for some time, as well as to households who fear for their purchasing power. We believe that the beginning of 2022 is likely to see a continuation of this trend of yield expectations adjusting to the inflation situation. The rise in long-term yields therefore seems quite rational to us in the context of rising inflationary pressures. Ten-year UK government yields have thus risen from 0.2% at the beginning of the year to 1%. The rise in nominal sterling bond yields places the UK bond market amongst those offering attractive relative returns compared to the European, Japanese and Swiss markets. The rebuilding of the risk premium is a favourable factor, but the attractiveness of holding sterling bonds still seems insufficient to us. Inflationary risks in the UK could further intensify, as the negative effects of Brexit on price levels are likely to increase. Supply difficulties and higher transport and production costs are thus expected to boost the current trend and push yields higher. A return of nominal ten-year rates to 2019 levels between 1.5% and 1.75% is therefore not impossible.

### BOE changes its monetary policy and raises its key rate by 0.15%

The UK central bank surprised observers by raising its key interest rate earlier than expected from 0.1% to 0.25% at its last meeting in December 2021. It noted persistent price pressures in the country and also expressed concern about tension in the labour market. Inflationary risks are no longer considered temporary but lasting. Consequently, the BOE fears that prices will continue to rise towards an inflation rate of 6%, three times higher than the bank's stated objective. The central bank has thus become the first to raise interest rates in a process of monetary policy normalisation. In 2022, we are likely to see several hikes that will bring the key rate from 0.25% to 1%. This decision is in line with expectations and the indications given by Governor Andrew Bailey.

### Will the sterling not benefit from the nominal rate differential?

The pound appreciated at the beginning of the year and then stabilised against the euro at the rate of 0.85 pounds to the euro. Brexit poses even more significant inflation and growth challenges for the UK's economy in 2022. Stagflation risks are increasing, and the real yield differential is not in favour of the pound. Monetary policy normalisation has launched an upward trend in pound yields, and the rise in nominal rates is widening the yield differential in favour of the British currency. Nevertheless, we believe that the risks of slippage in terms of inflation and growth is likely to penalise the pound in the medium term.

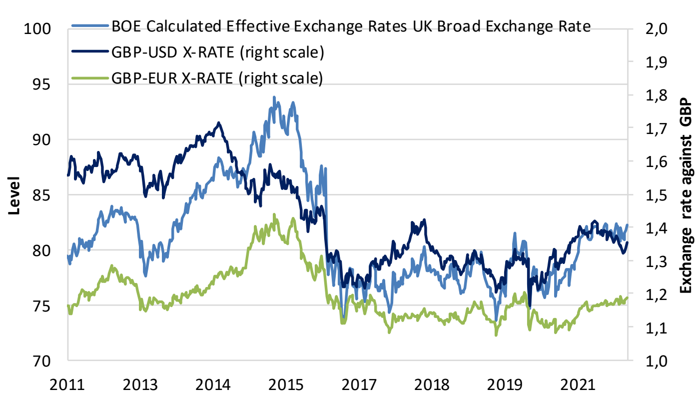
### Deceleration in real estate prices in 2022

The real estate boom continued into the end of the year with prices rising by +1% over one month and +10.4% over 2021. The BOE's normalisation of monetary policy and the resumption of the upward trend in interest rates are expected to have an impact on financing conditions for real estate in 2022. However, we believe that initially the rise in interest rates will be insufficient to significantly affect financing conditions. Nevertheless, price growth has been significantly higher than wage growth, reducing the ability of households to purchase property, which is likely to reduce demand in 2022. Real estate price growth is expected to continue at a much more reasonable pace in 2022.

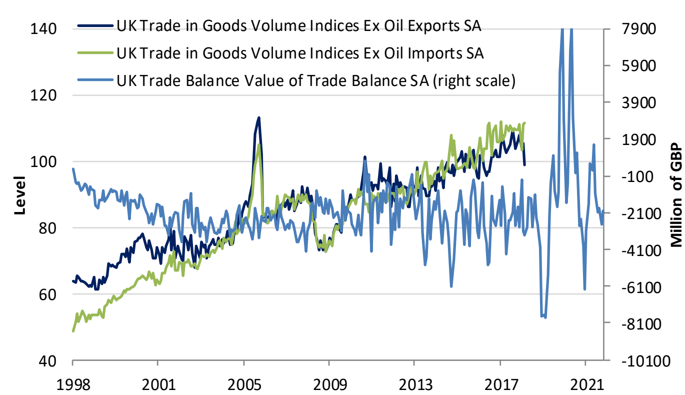
### UK equities enjoy a 20% risk premium

The UK equity market is still not reaping the benefits of its attractive valuation or of new positive momentum that is overdue. It continued to lag most other European markets in 2021, as in 2020. The FTSE 100 index's rise of around +14% in local currency in 2021 is well below that of European equities (+21%). UK stocks are still suffering from Brexit-related uncertainty. However, the FTSE 100 index is currently trading at 12x expected earnings for 2022 and thus benefits from a favourable risk premium of around 20% compared to European stocks (16x). This valuation gap is likely to be favourable, but the composition of the British stock market is likely still hampering the adjustment of British stock prices and valuations.

UK Effective Exchange rate




Trade Balance - Exports - Imports




Graph sources: Bloomberg/BearBull Global Investments

# MACROECONOMIC SCENARIO

## Japan

- Japanese GDP plunges more sharply than expected in Q3
- Better outlook for 2022
- Omicron variant weighs on leading indicators

### Japanese GDP plunges more sharply than expected in Q3

Japan's GDP was expected to fall in Q3 2021 due to the sharp rise in Covid cases and the imposition of a state of emergency ahead of the Olympics, but it came in slightly worse than expected with a -0.9% fall in real terms over the quarter (-1% in nominal terms). On an annualised basis, Japan's economy contracted by -3.6%. Seasonally adjusted GDP also contracted by a revised -3.6% (annualised). The Japanese economy was expected to slow dramatically, in particular due to the measures taken to control the spread of the virus during the summer. Consumption was logically affected by these measures. Private demand slid by -1.3% over the quarter, while investments fell by -2.3%. While at first glance these results seem particularly weak, there are some positive elements that could point to a much stronger Q4. In particular, the sharp fall in private consumption is likely to be offset by a return of consumers in Q4 after the lifting of health measures in October. The threat to this forecast of a very clear return of private consumption is obviously the new Omicron variant. The emergence of this new threat already seems to be having an impact on some transport and consumption data.

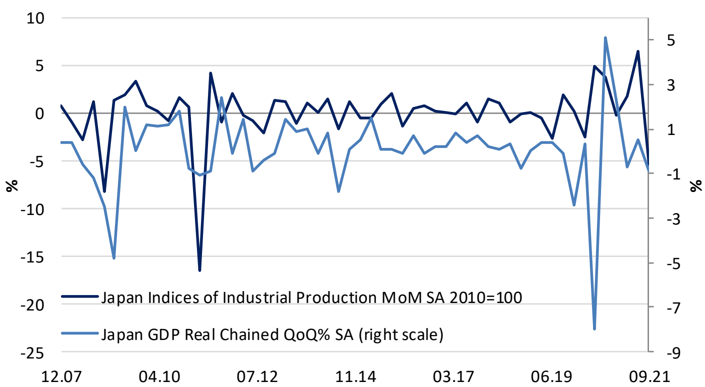
### Stronger final quarter of 2021 at last

However, the Japanese economy is expected to recover in Q4 and show very strong GDP growth after the contraction in Q3. We expect GDP growth to exceed +6% or even +7% if the expected recovery in the manufacturing sector materialises in conjunction with the recovery in consumer spending. The cyclical risks posed by the Omicron variant only manifested at the end of November 2021, so they should not significantly influence the overall quarterly result. Weakening Chinese demand could weigh on the export recovery, but it would appear that the logistical problems that have affected the manufacturing sector, particularly the automotive sector, are abating. Industrial production jumped by an exceptional +7.2% in November, accelerating sharply from the +1.8% recovery already recorded in October. This monthly performance is the strongest since 1978, though production levels have not yet returned to the levels seen in July, demonstrating the negative impact of bottlenecks on Japanese production lines. The automotive, plastics, steel and metal production segments have made some headway in making up for the production delays of the previous months caused by logistical problems in the assembly lines. The rebound was spectacular in the automotive sector, which jumped by +43.1% in one month. Toyota recently indicated that its output was approaching last year's levels, a fact confirmed by Honda, which also noted a return to normal. Year-on-year industrial production rose by +5.4% in November. These recent developments give hope that the supply problems in the Japanese manufacturing sector will ease. Production could weaken in December (+1.6%) before picking up significantly in January (+5%). On the consumer side, retail sales rose for the third month in a row in November (+1.9%) with the easing of health restrictions and before the new Omicron variant arrived. The rebound still seems weak compared to US figures, but they support the argument for a clear recovery of GDP in Q4.

### Better outlook for 2022

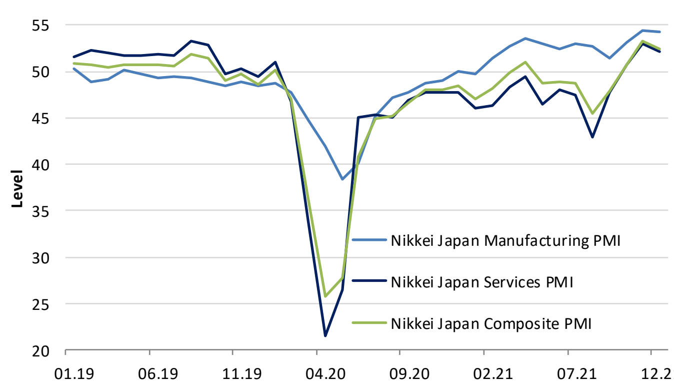
As the year draws to a close, Japan appears to be better able to withstand the onslaught of the new global Omicron wave. The Japanese authorities recently noted that the incidence rate remained extremely low at less than 2 per 10,000 inhabitants. The vaccination rate of the Japanese population had climbed above 70% following the vaccination campaigns conducted during the summer. It is now close to 78% and is thus likely to help limit the spread of the new Omicron variant in early 2022. Japan is thus perhaps a little more immune to the risks of a slowdown in growth due to the lower probability of a return of restrictive health measures in the country. Household consumption, which is expected to grow strongly in early 2022, may thus be less at risk. Japan could also be the first country to test a revolutionary new screening method developed by Kyoto University, which appears to have found a way to detect traces of Covid on special new masks, infected with the virus, using only ultraviolet light. This would add a new weapon to Japan's arsenal against Covid, strengthening the resilience of its domestic demand. Japan was lagging behind the economic recovery seen in other industrialised countries. Japan's GDP will probably return to its pre-pandemic level only at the end of the next quarter. Japan's economy is now expected to be able to count on a new fiscal stimulus recently adopted by parliament, which is likely to inject nearly USD 500 billion more into the economy in 2022, representing nearly 10% of GDP. This new fiscal package includes a cash amount of nearly USD 900 for about 10% of Japanese households with at least one child. The growth projection for the fiscal year starting in April 2022 is now +3.2%. If this forecast comes true, it will be the strongest annual growth since 2010 for Japan's economy.

GDP and Industrial Production

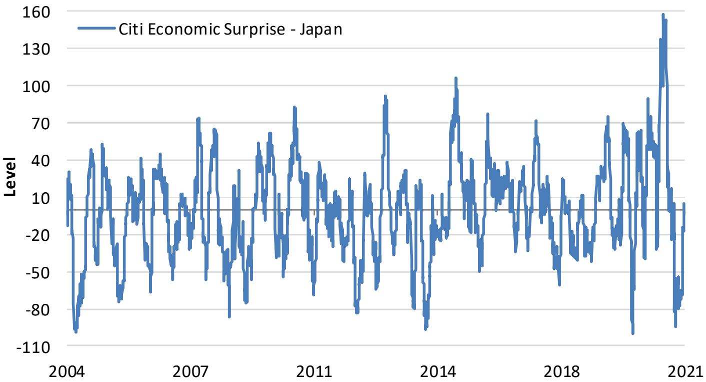



Graph sources: Bloomberg/BearBull Global Investments

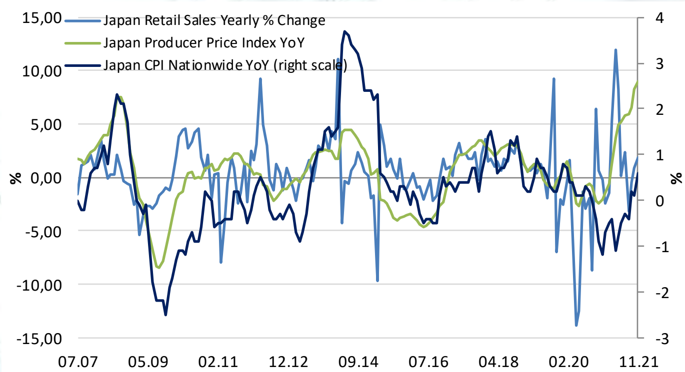
Composite, manufacturing and Services PMI - Japan



Economic Surprise Index




Inflation (CPI and PPI) and retail sales




### Omicron variant weighs on leading indicators

Japan's PMIs have recovered to their 2019 levels and were still near their 2021 highs in December. The services PMI stands at 51.1, rebounding sharply from its August low of 42.9, while the manufacturing PMI recovered sharply and showed positive signs for the industrial sector with a reading of 54.2. The PMI indicators declined slightly in December compared to November. Upon closer look at the manufacturing sector, however, these positive indicators suggest that new export growth is declining, cost pressures persist, and raw materials and product shortages remain. The emergence of the Omicron variant is already affecting the morale of purchasing managers, who are reducing their outlook for the next twelve months. Despite taking into account this new risk factor, leading indicators still point to growth in Japan's economy.

### Household consumption is growing slowly

Consumer confidence indicators show an improvement in household confidence, which has not yet translated into a strong recovery in private consumption. Retail sales nevertheless rose by +1.2% in November for the third consecutive month. But the alarmist speeches of the authorities aiming to alert the population to the risks of a return of Covid outbreaks with the new Omicron variant and the precipitated and ultimately temporary closure of the borders certainly contributed to dampen the nascent enthusiasm of Japanese households. Nevertheless, household spending was up by +3.4% in October after a strong month of September. Weak wage growth in Japan, at +0.2% year-on-year, remains one of the main factors behind the lack of acceleration in consumption. Japanese households seem more cautious than in Europe and the US. The government's efforts to promote economic recovery through consumption are therefore likely to change the short-term outlook, particularly for household spending in Q1 2022.

### Trade deficit balloons due to soaring imports

Export growth continued at the end of 2021 with a year-on-year acceleration to +20.5% in November. The value of Japanese exports for November reached its highest level since 1979. Chinese demand for semiconductor equipment and steel in Asia is expected to continue in December. On the import side, the +43.8% year-on-year increase is much more significant. As with exports, this is a record level. Higher import prices and raw materials are the main drivers of this development. In terms of the trade balance, the level of imports has exceeded that of exports for several months and caused the deficit to increase in November. We will have to wait for a stabilisation of import prices and raw materials, as well as a forthcoming acceleration of world demand, to see a return to trade surpluses in Japan... The main trade deficit (JPY 400 billion), with China, will decrease as demand recovers, while the second-largest trade deficit (JPY 300 billion), with Saudi Arabia, could decrease with an easing of crude prices.

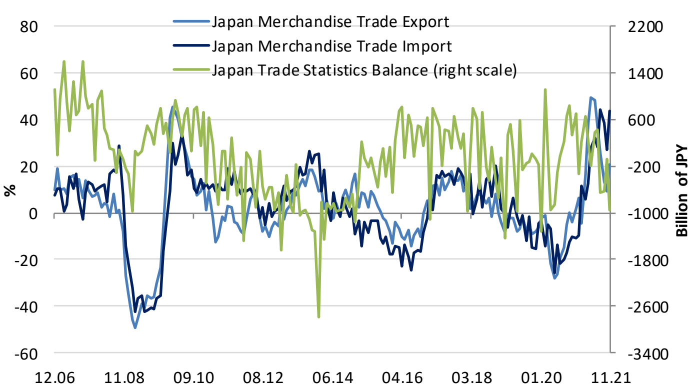
### Japanese inflation remains limited despite high commodity prices

Japan has not escaped the global trend of rising inflation, but despite Japan's heavy reliance on imported commodities, price growth remains moderate. While the national CPI excluding energy and food jumped by +0.5% in November, on a yearly basis inflation remained low in Japan. The CPI showed a modest increase of +0.6% year-on-year, similar to the increase in the index excluding food. The energy component remains a key factor in price growth, as year-on-year inflation was still negative (-0.6%) excluding energy.

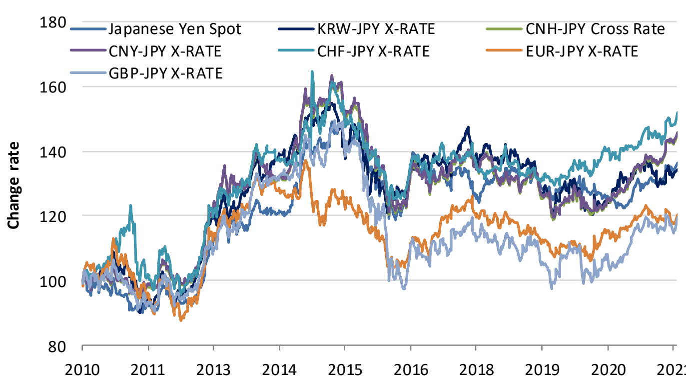
### BOJ not ready to shift policy

Even though the inflation figures are likely to be dampened by the roughly 50% drop in telephone costs, the BOJ is unlikely to react to the adjusted CPI showing a 2% increase, in line with its inflation target. The BOJ is very far from initiating a normalisation process of its monetary policy, contrary to what has been decided in the US. It is likely to gradually reduce its support for large companies in favour of SMEs in 2022. Its ETF purchases are also likely to slow, but the bank is expected to maintain its low interest rate strategy across the yield curve in order to facilitate the financing of its economic stimulus programmes through debt purchases. The BOJ's monetary policy thus remains resolutely accommodative.

Trade Balance (Billion of yen)




Exchange rate (Normalized at 100)




Graph sources: Bloomberg/BearBull Global Investments

# MACROECONOMIC SCENARIO

## China

- China's growth weakens but is expected to exceed +5% in 2022
- Loose monetary policy again
- Probable devaluation of the yuan by 5% to 10% in 2022
- Renewed interest in Chinese equities

### Chinese growth weakens but is expected to exceed +5% in 2022

The Chinese economy is already in its seventh consecutive quarter of growth after the economic shock in Q1 2020. At the cost of extremely strict control of the health situation, the Chinese government succeeded in getting the economy back on the growth track quickly. By the end of 2021, however, growth likely slowed (+1.1%) to an annualised rate of around +4.5%. Weakening consumption, difficulties in the construction and real estate sector and a deceleration in infrastructure investment likely contributed to the weakening performance of the Chinese economy. Recent economic data releases suggest that the PBOC may need to support growth further with additional, albeit limited, cuts in banks' reserve requirement ratio (RRR) after its announcement of a 50-bps cut effective as of 15 December 2021.

China's GDP is still expected to record a very positive result (+8%) in 2021 and then see its growth rate decrease to +5.3% in 2022. While consumer price indices show a situation under control with a CPI increase of barely +2.3%, producer prices have, on the contrary, risen sharply by +12.9% over one year. Industrial production rose by only +3.8% year-on-year in November. Retail sales slipped from +4.9% to +3.9%.

### Loose monetary policy again

The PBOC reduced its reserve requirement ratio in December 2021 by 50 basis points and will continue this policy in 2022 to keep the economy growing close to its target of +5.5%. The extremely strict health policy has undoubtedly weighed on domestic economic activity, transport and trade between regions, but the central bank also wants to reduce the cost of borrowing for companies that are experiencing economic difficulties and to set up a system for managing the financing of the real estate sector with the clear objective of avoiding extreme systemic risks in the future, such as those posed by the Evergrande case. The PBOC aims to undertake a cautious, flexible, reasonable and appropriate monetary policy that will allow for a larger fluctuation of the yuan (depreciation).

It has thus increased its RRR for foreign exchange by 200 basis points in order to curb the appreciation of its currency and reduce investment in foreign debt. It will probably also seek to maintain adequate liquidity by promoting the growth of its monetary aggregates, while trying to ensure affordable financing for households and companies by keeping interest rates low. The Chinese government will therefore also stimulate its economy in anticipation of the 20th Communist Party Congress at the end of the year.

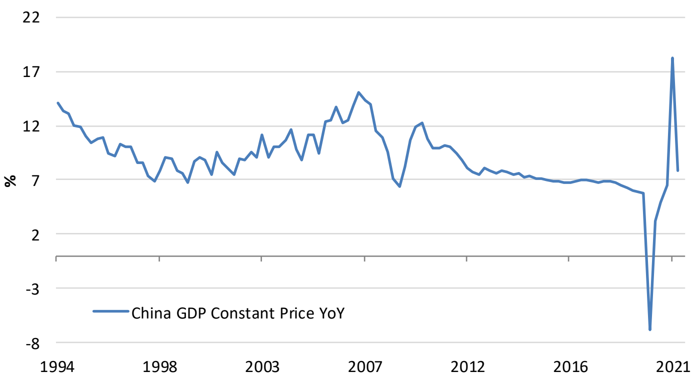
### Probable devaluation of the yuan by 5% to 10% in 2022

The yuan appreciated very significantly in 2020, rising by +6.6% against the US dollar. It appreciated by a more moderate +2.2% against the dollar in 2021, but rose against the euro (+10%) much more significantly. The Chinese government was undoubtedly pleased with such a positive development, which helped to reduce the rising costs of importing raw materials. In the midst of the energy crisis, China's dependence on crude oil and gas prices could have a significant impact on import prices and inflation. The situation is likely to be different in 2022 on the energy price front, so China may change its strategy to focus on the objective of supporting the economy through a lower exchange rate.

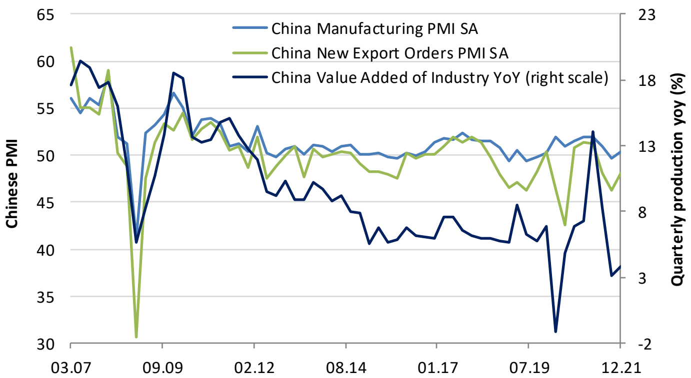
The new year is therefore likely to be marked by a significant trend reversal and a gentle depreciation of the yuan. The low point of 6.35 yuan to the dollar reached on 8 December 2021 could thus already mark the beginning of this new phase of weakening of the renminbi. The depreciation of the exchange rate seems to be an easy lever for the government in China in particular. By making Chinese exports more competitive, the Chinese authorities will strengthen the industrial export sector, which represents nearly 20% of Chinese GDP.

The yuan could slide by 5% to 10% against the dollar in 2022 and return to a stabilisation level of 6.80. It should also be noted that China will launch its e-yuan during the Olympic Games in February.

YoY GDP Growth

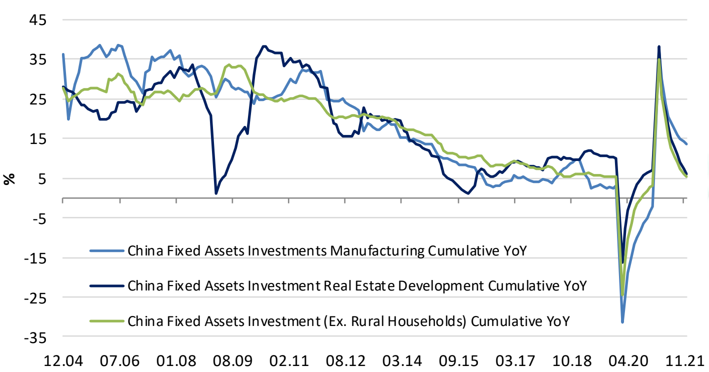



PMI and Industrial Production

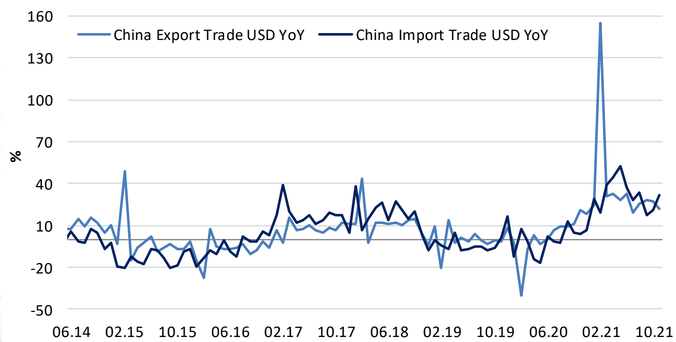



Graph sources: Bloomberg/BearBull Global Investments

Real Estate, Infrastructure and Industrial Investments (YoY)




Exports and Imports (YoY)




### Renewed interest in Chinese equities

The Chinese government's policy is likely to support both domestic growth through its more flexible monetary policy and exports through a controlled depreciation of the yuan. Lower interest rates and borrowing costs will logically support consumption and investment.

From an asset allocation and investment opportunity selection point of view, Chinese financial markets are expected to offer more attractive conditions in 2022 in terms of diversification for international investors. In the yuan bond markets in particular, the situation is significantly different than in the US, where inflation and the need to normalise monetary policy are leading to rate hikes and a more restrictive monetary policy. In contrast, in China, investment grade bond markets offer more attractive yields without the immediate risk of a reversal in the rate cycle and capital losses. In terms of high yield credit, price corrections have been quite massive in the wake of the Evergrande shock in the second half of 2021.

Selective opportunities in this segment could materialise in 2022. In the equity markets, Chinese companies are trading at a discount to US companies of as high as 40%. The 2022 PE of Chinese equities offers an interesting diversification opportunity given the improving economic outlook. Chinese equities could benefit from renewed interest from international investors seeking more reasonably priced investments in an environment that may call for a strengthening of rational factors in the stock selection process. China's technology sector, exporters and other domestic sectors appear to offer attractive valuations given their earnings growth outlook for 2022. Year-on-year in November, Chinese industrial companies' profits were decelerating but still up +38% to CNY 8 trillion, a record high.

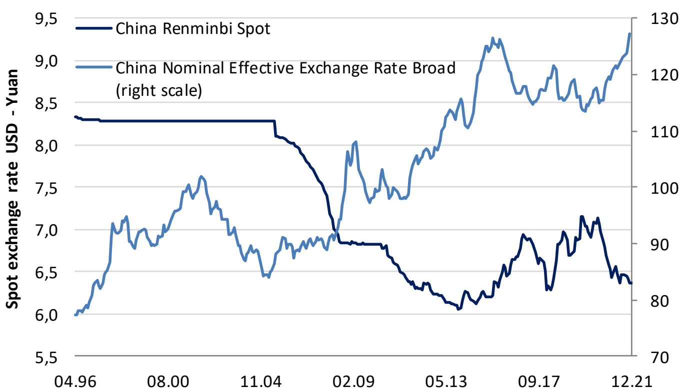
### Real estate market still facing significant challenges

The sector continues to face challenges at the beginning of the year, giving rise to fears of a slump in activity given the current economic slowdown in China. Chinese developers are still in great difficulty, and the sector suffers from very low visibility, particularly due to regulatory changes aimed at reducing developers' debt levels. Evergrande defaulted in December on a USD 1.2 billion loan. The company is still rocking the Chinese real estate sector with its USD 300 billion debt. The entire sector has been in decline for months amid continuing uncertainty over the risk of defaults by the giants and other players in the sector.

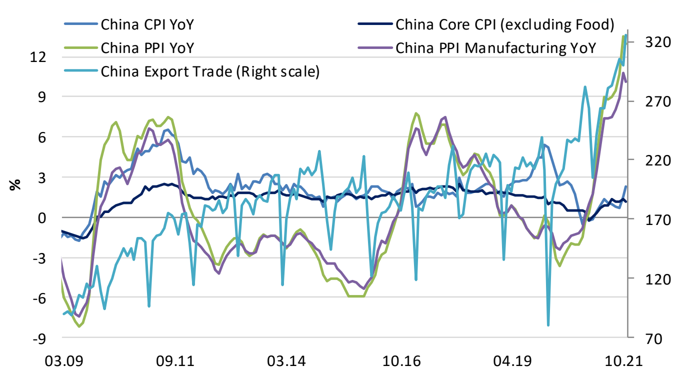
It is unlikely that the Chinese government will intervene more massively to take over the debt of developers, but the PBOC is clearly engaged in a strategy to steer the risks of a credit crunch through appropriate monetary policy but also by motivating banks to support "healthy" developers wishing to acquire viable projects from struggling developers.

However, the Chinese real estate market is expected to see some more positive elements gradually coming into place in 2022. The postponement of the planned property tax is an element that could help the situation begin to normalise. In the medium term, the deceleration of the decline in real estate transactions expected in Q1 2022 would be the first positive sign of a subsequent stabilisation of prices in Q2.

Effective Exchange rate and USD/Yuan




Inflation CPI - Core CPI




Graph sources: Bloomberg/BearBull Global Investments

# MACROECONOMIC SCENARIO

## United Arab Emirates

- UAE Economy expected to grow by 4.2% in 2022
- UAE remains world's most vaccinated country
- Dubai records USD 81bn real estate deals in 2021, up 71%

### UAE Economy expected to grow by 4.2% in 2022

After contracting by 6.2% in 2020 the UAE's GDP benefited from a healthy rebound in 2021 and is expected to finish the year with a GDP growth rate of 2.1% despite the headwinds from the Covid-19 and lower than expected oil prices. For the year 2022, the UAE Central Bank (CBUAE) projects a GDP growth rate of 4.2% with the non-hydrocarbon real GDP expected to increase by 3.9%. According to the CBUAE's latest assessment of economic activity and growth, the non-oil sector continued its upward trend in Q4 2021 as a result of the pick-up in local and global demand as suggested by the latest UAE and Dubai PMI data. UAE PMI index ended the year at 55.6, slightly lower than November reading of 55.9. Meanwhile, Dubai PMI rose to a two and a half-year high of 55.3 in December, from 54.5 in November. The main drivers contributing to the growth of Dubai PMI were strong growth in new work and business activity, which firms attributed to the relaxation of travel restrictions and Expo 2020 which helped to boost tourism in the final quarter of 2021.

### Positive outlook for the strategic pillars of the UAE's economy

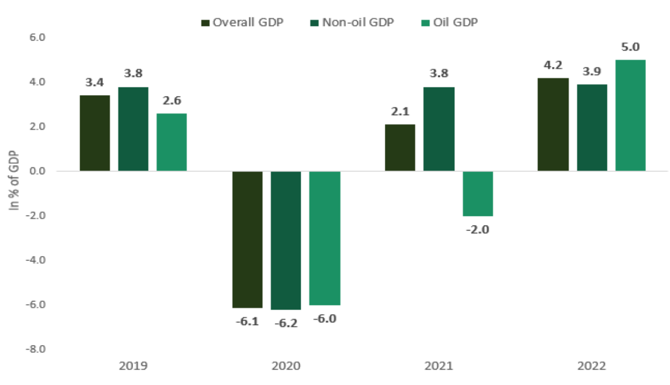
The UAE's economic outlook for 2022 remains positive as most strategic pillars of the UAE's economy such as trade, tourism, oil, real estate and aviation sectors, which were all deeply affected by the adverse effects of the Covid-19 global pandemic, are on a strong recovery trajectory. In fact, the UAE's real estate market witnessed an impressive rebound in 2021 with both the major Emirates of Abu Dhabi and Dubai posting strong growth rates both in terms of capital and rental values. According to the latest ValuStrat report, Abu Dhabi housing assets saw an overall increase of 2.2%. Likewise, its rentals rates also surged 3.0% for residentials and 4.1% to 5.5% for commercial assets. Meanwhile, Dubai real estate sector also recorded an increase in capital value by 16.6% and its rental values surging 18.9%. We expect the UAE real estate prices to continue their upward trajectory into 2022 and beyond, driven by supportive economic reforms and based on the countries leading position globally in terms of vaccination rates.

On the other hand, Dubai Airport (DXB) and Abu Dhabi Airport (AUH) were among the very first major airports to resume operations to travelers after partial suspension of flights during late March 2020. DXB on its part received over 24 million passengers during the first 11 months of 2021. In November alone, DXB welcomed 3.88 million passengers therefore retaining its position as the world's busiest airport with over one million more seats than the next busiest airport London Heathrow according to Dubai Civil Aviation Authority (DCAA). This high inflow of international passenger has unequivocally played a part in boosting the UAE's economic growth, supported further by the Expo 2020, which against all odds, welcomed 7.2 million visitors in the period up to 20 December 2021. As the Expo is scheduled to close its doors by end of March 2022, we expect the event to total more than 9 million visitors and to continue providing further boost to consumption, hospitality and real estate sectors over the upcoming quarter. Tourism sector in the UAE continued its rebound in 2021 by welcoming major global events such as the Formula one's final grand prix in Abu Dhabi and Expo 2020 in Dubai. Both events contributed in attracting international travels to the country. The Expo 2020 on its part supported another successful year for Dubai tourism as Dubai witnessed 6.02 million international visitors from January to November 2021 boosting overall tourist numbers by 9.3 percent when compared to 5.51 million visitors in full year 2020. As result, Dubai hospitality KPIs posted strong positive returns Y-o-Y in 2021 with Revenue Per Available Room (RevPAR) increasing by 59.9% Y-o-Y, and Average Daily Rates (ADR) posting a strong rebound of 27.1%. Meanwhile, the average occupancy rate in the emirate grew by 58.5 % according to the latest report published by Dubai Tourism and CBUAE. The UAE's oil production increased on its part by 9.3 percent Y-o-Y and by 4.3 percent Q-o-Q at the close of the Q-3 2021 which is in line with the agreement by OPEC+ according to the latest CBUAE report. As result, oil GDP is expected to grow by 5 percent in 2022 as crude oil prices increased from an average of USD 52 per barrel in January 2021 to an average of USD 72/b in December-2021.

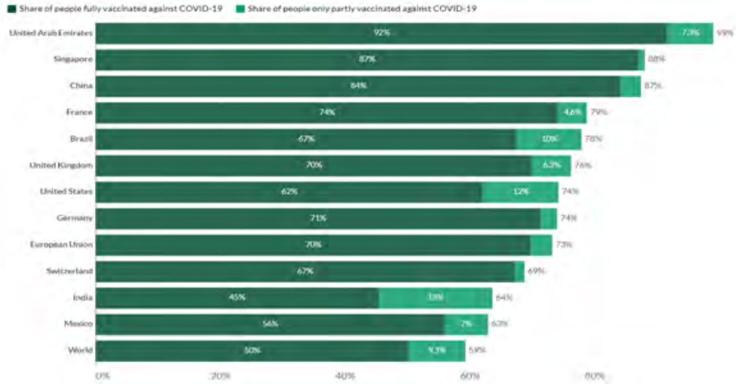
### UAE remains world's most vaccinated country with more than 99% of its population partially and 92% fully vaccinated

The UAE continues to successfully implement one of the most ambitious, efficient, and professionally managed national vaccination campaigns by international comparison. The UAE's remarkable vaccination program continues to lead globally both in terms of number of doses administered to population and population coverage. As of 9th January 2022, 92% of the UAE's population was fully vaccinated and 99% had been inoculated at least one dose of vaccine. In comparison, only 70% of the Europeans and 62% of the Americans have been fully vaccinated. Switzerland on its part lags behind with only 67% of its population being fully vaccinated and a partial vaccination rate of only 69%.

UAE GDP (2019—2022)




UAE remains the world's most vaccinated country




Graph sources: Bloomberg/BearBull Global Investments/ CBUAE / Our World in Data

### ADX clinches top spot as the best performing global index in 2021 posting +68.2% gain

Abu Dhabi Securities Exchange (ADX) was the best performing equity index both globally and among its GCC peers during the year 2021 posting an aggregate +68.2% gain. Dubai Financial Market (DFM) also recorded solid gains in 2021 closing at +28.2% making it to the third best performing market in 2021 after the Saudi Tadawul and ADX in the GCC region. Both the local benchmarks delivered compelling returns on the positive combination of a resilient economic recovery and ongoing support from the CBUAE, and strong corporate earnings.

ADX is well ahead of international financial benchmarks such as S&P 500 (+26.9%), DJ Stoxx 600 (+22.2%), Nasdaq composite (+21.4%), and MSCI World (+20.1%). ADX is also leading regionally when compared to Kuwait's Main 50 Index (+31.7%), Saudi Arabia's Tadawul index (+29.8 percent), and Bahrain All Share (+ 20.6%). Meanwhile, DFM maintained an upward trend in the fourth quarter of 2021 touching a four-year high level on 16th November-2021 closing at 3,287.21. The index further posted a yearly gain of +28.2%, the biggest gain since 2013. DFM like ADX is well ahead and above most international benchmarks such as FTSEurofirst 300 (+23.0%), DJIA (+18.7%), DAX (+15.8%) and FTSE 100 (+14.3%). Over the same period, DFM has also outperformed it's regional peers such as Qatar's QE 20 index (+11.4%) and Oman's MSM 30 index (+12.9%).

ADX has reached a new stage of growth in 2021 by recording its biggest yearly gain in 15 years. ADX closed at 8,488.36 points after touching a record closing high of 8,999.32 points on 6th December-2021. The aggregate market cap of companies listed on the exchange more than doubled to USD 431.9 bn in 2021 mainly driven by new major listings on the exchange such as Fertiglobe IPO on 20th October-2021 which recorded an impressive 38.0% return. Meanwhile, the Investment and Financial Services sectors recorded the biggest yearly gain of 250.2% mainly driven by gains post the listing of Alpha Dhabi. On the other hand, Ras Al Khaimah Cement topped the yearly gainers chart, registering multifold increase in its share price, followed by Sharjah Group and International Holdings Company which witnessed gains of 264.7% and 261.9%, respectively.

The third best performing benchmark in GCC, DFM witnessed gains consistently on a quarterly basis, a 12% surge during Q4-2021 added to the index's yearly performance to an aggregate +28.2%. The overall market capitalization of stocks listed on the exchange recorded a gain of 20.6% to close 2021 at USD 110.9 Bn.

In terms of sector performance, six out of nine sectoral indices witnessed gains during 2021 including major sectors such as Banks, Telecoms and Financial & Investment Services indices. The Financial and Investment Services index posted the biggest yearly gains among the sectoral indices recording an increase of 69.6% Y-o-Y. Meanwhile, in terms of yearly gainers DFM was leading with its stock price up by 205.0% in 2021. Amlak Finance and National International Co followed closely, as their stock prices jumped up by 185.8% and 125.0%, respectively.

### Dubai records USD 81bn real estate deals in 2021, up by 71%

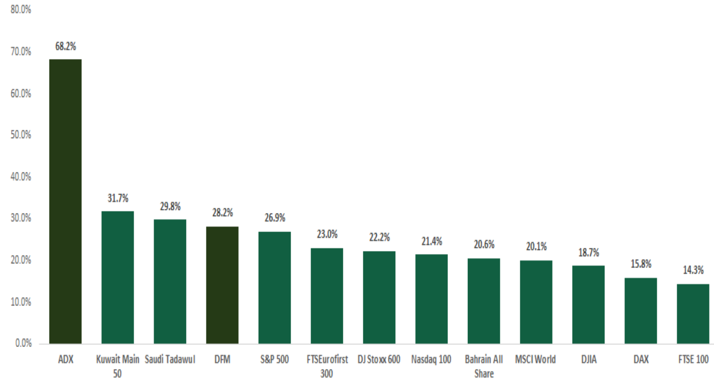
Dubai's real estate market recorded 84,772 transactions worth USD 81 bn in 2021, revealing 65.0% growth in the number of transactions and a 71.0% increase in value compared to 2020. According to the latest ValuStrat report; In November 2020, Dubai's real estate market made waves when it smashed a seven-year record for transactional volume, exactly 12 months later it broke its own record, up by 126.7% which is as predicted by us early in 2021 a strong comeback from the doom-and-gloom scenario predicted by most local and international analysts when the pandemic first hit on March-2020. Demand has also been strong across all property segments underpinning the growth in both rental values and capital values. Overall, Dubai real estate sector ended 2021 on a high note, and we expect this positive momentum to continue onto 2022 and beyond.

Supported by compelling valuations versus international peers and the emirate's hosting of Expo 2020 Dubai, the real estate sector continues to draw investors from around the world. A total of 52,415 investors concluded 72,207 new investments in 2021 worth USD 40.3 bn representing a 73.7% growth in the number of investments, 65.6% rise in the number of investors, and a 100% increase in the value of investments compared to 2020. Dubai Marina saw the highest number of transactions (7,968) as well as the highest value generated at USD 7.8 bn, followed by Palm Jumeirah (USD 7.2 bn), MBR City (USD 4.3 bn) and Burj Khalifa alone totaling a whooping USD 3.9 billion worth of transactions.

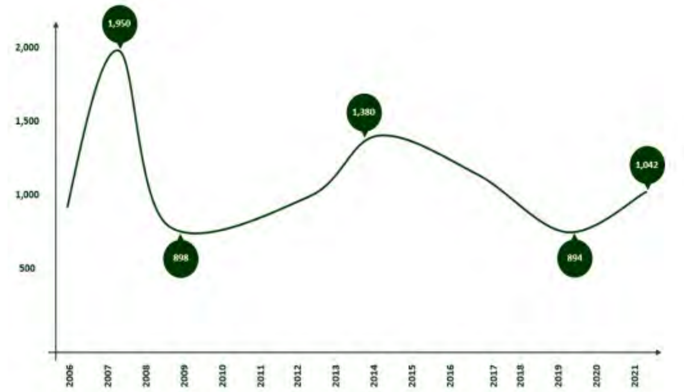
Dubai real estate sector also witnessed investments from around the world where 6,897 investors were from the GCC region registering 8,826 investments worth over USD 4.6 bn while a total of 6,097 Arab investors recorded 7,538 investments, with a value exceeding USD 3.4 bn. Meanwhile, Dubai real estate sector also attracted 38,318 foreign investors, who concluded 51,553 new investments worth over USD 27.0 bn according to the latest Dubai Land Department report. This exceptional rise in real estate investments and the increasing interest shown by global investors in Dubai is a testament to the effectiveness of the emirate's strategic economic initiatives that have sought to strengthen its leadership in the real estate sector. While several factors can be attributed to the remarkable turnaround, we can narrow down the outstanding performance by highlighting three key drivers such as low interest and mortgage rates, low inventory and more international investors.

Although, the constant worry in the Dubai real estate market was about the sector being in a glut; the opposite has happened in 2021 where villa neighborhoods, especially in core master planned communities, were seen having shortage of inventories as demand has risen steeply which has allowed adjacent areas to benefit from price increase as well. To conclude over the robust growth of the Dubai real estate sector, the culmination of several government initiatives that were rolled out over the past five years, such as lower investment thresholds, long-term visas, Golden Visas and the ability for foreign nationals to have 100% ownership saw great amount of demand generated from international investors who are looking to make Dubai their new primary residence.

ADX leads the Global and Regional Benchmark by 68.2%




Dubai Residential Prices Over The Years




Graph sources: Bloomberg/BearBull Global Investments/ Kamco Invest / ValuStrat

# MACROECONOMIC SCENARIO

## Emerging Markets

- Inflation forecasts broadly revised upwards
- Monetary tightening continues in emerging economies

The global economic environment has become less favourable than a few months ago. Some central banks in advanced economies have expressed more clearly the need for caution given the increased persistence of inflation, making the environment more challenging for emerging economies. In addition, the emergence of the Omicron variant adds uncertainty to the pace of recovery in advanced economies. The International Monetary Fund (IMF) forecasts global GDP growth of +5.9% in 2021 and +4.9% in 2022.

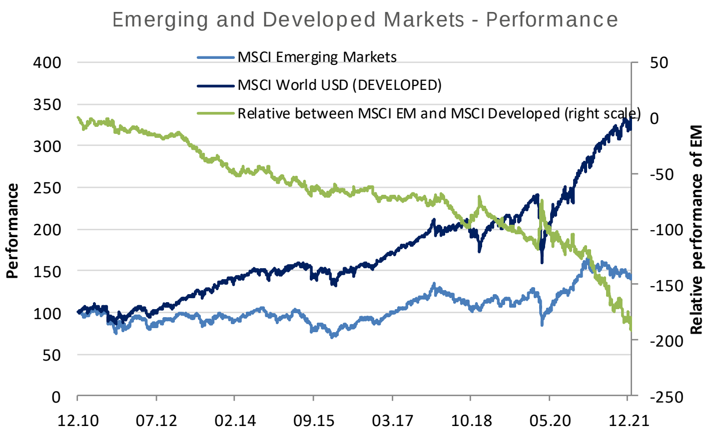
**Brazil —** In terms of economic activity in Brazil, the publication of Q3 GDP figures showed growth coming in slightly below expectations (+4% vs. +4.2%), although the sectors most affected by the pandemic continued to recover strongly. The higher frequency indicators point to a reduction in economic activity in the last months of the year. Similarly, the consumer confidence indices already available for Q4 point to deterioration, prompting the Committee to revise downward its short-term business forecast. For 2022, while tighter financial conditions are expected to slow domestic economic activity, economic growth will tend to benefit from the performance of the agriculture and livestock sectors and from some effects of the economic normalisation process, notably in the services sector and in the labour market, as the health crisis recedes.

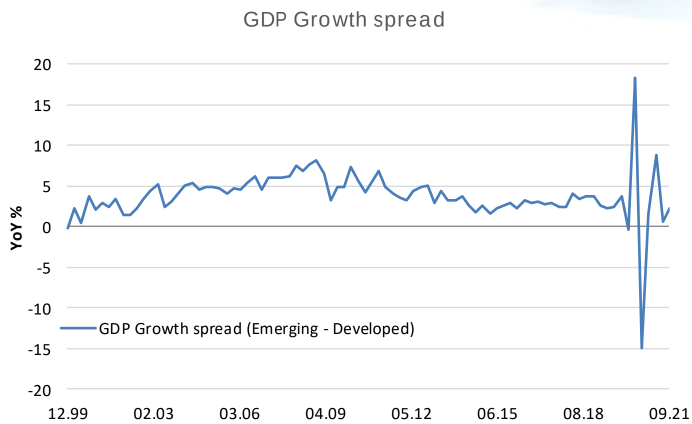
The inflation forecasts for 2021, 2022 and 2023 collected by the Focus survey are now around 10.2%, 5.0% and 3.5%, respectively. Consumer price inflation remains high and has proven to be more persistent than expected. Industrial price inflation has not slowed and is expected to persist in the short term, while services inflation has accelerated due to the gradual normalisation of activity in the sector. Inflationary pressures are displaying asymmetric risks with an upward bias, resulting in above-target projections for the coming years. The Copom thus concluded that the monetary tightening process should be more restrictive than in its baseline scenario. The Committee concluded that adjustments of +1.50% are adequate to achieve a sufficiently restrictive level not only to ensure convergence of inflation over the relevant horizon but also to consolidate the anchoring of longer-term expectations. The Copom therefore decided unanimously to raise the Selic rate by +1.50% to 9.25%. For the next meeting, the Committee plans another adjustment of the same magnitude.

**Russia —** Economic activity is strengthening in a wide range of sectors. However, supply-side constraints remain significant in a number of sectors. Their restrictive impact on business activity could be reinforced in the context of the spread of the new Omicron variant and the consequent tightening of anti-pandemic measures. Rapid credit expansion, real wage growth and low household propensity to save, driven by high inflation expectations, are all supporting rising consumer activity, particularly in non-food markets. Demand for labour is increasing in many industries. At the same time, many sectors are experiencing labour shortages, despite the influx of foreign labour. The unemployment rate has fallen to a record low, while the number of job vacancies is also at a record high. The state of the labour market suggests that a further increase in the steady growth rates of the Russian economy will depend mainly on the growth rates of labour productivity. Based on current trends in the Russian and global economy, GDP is expected to grow by +4.5% in 2021.

Inflation is running above the Bank of Russia's forecasts. In November, it reached a six-year high of 8.4%. Indicators reflecting the most long-term price movements are still significantly above 4%. This reflects the fact that the steady growth of domestic demand is outstripping the capacity to expand production in a wide range of sectors. Under these conditions, companies find it easier to pass on rising costs to consumers, particularly as a result of rising world prices. The dominant influence of inflationary factors could lead to a larger and more protracted deviation of inflation from the target. The monetary policy stance of the Bank of Russia is aimed at limiting this risk and bringing annual inflation back to its target of 4%. In its baseline scenario, annual inflation is expected to decline to 4%-4.5% by the end of 2022 and to remain close to 4% thereafter. The Bank of Russia decided to raise the key rate by +1% to 8.50%. If the situation evolves in accordance with its baseline forecasts, the Bank of Russia keeps open the prospect of a further increase in the key rate at its next meetings.

**India —** The recovery in domestic economic activity is becoming more widespread, with increased immunisation coverage, a drop in new cases of Covid-19 and the rapid normalisation of mobility. The government's infrastructure measures, the expansion of the performance-based incentive system, structural reforms, the recovery in capacity utilisation and favourable liquidity and financing conditions provide favourable conditions for private investment demand, while consumer confidence is improving. On the other hand, volatile commodity prices, continued global supply disruptions, new virus




Graph sources: Bloomberg/BearBull Global Investments

GDP (YoY) - Russia


GDP (YoY) - Brazil


mutations and volatile financial markets pose risks to the outlook. Taking all these factors into account, and assuming no resurgence of Covid-19 infections in India, the GDP growth forecast is maintained at +9.5% for 2021. GDP growth is then expected to reach +17.2% in Q1 2022 and +7.8% in the following quarter.

The surge in vegetable prices due to the heavy rains in October and November is likely to be reversed with the onset of winter. Rabi plantings are progressing well and are expected to exceed last year's area. Recent proactive supply-side interventions by the government continue to limit the pass-through of higher international edible oil prices to domestic retail inflation. Cost pressures from high industrial raw material prices, transport costs and global logistics and supply chain bottlenecks continue to affect core inflation. The slowdown in the economy prevents the pass-through of higher input costs to product prices. Taking all these factors into account, inflation is expected to be 5.3% for 2021 and 5% for the first two quarters of 2022.

A tightening of global financial conditions poses risks to global economic activity and to the Indian outlook as well. Against this backdrop, the Monetary Policy Committee felt that the ongoing domestic recovery still required sustained support for as long as necessary to revive and sustain growth and continue to mitigate the impact of Covid-19 on the economy, while keeping a close eye on inflation. The Reserve Bank therefore decided to keep the key interest rate unchanged at 4% and to maintain an accommodative stance.

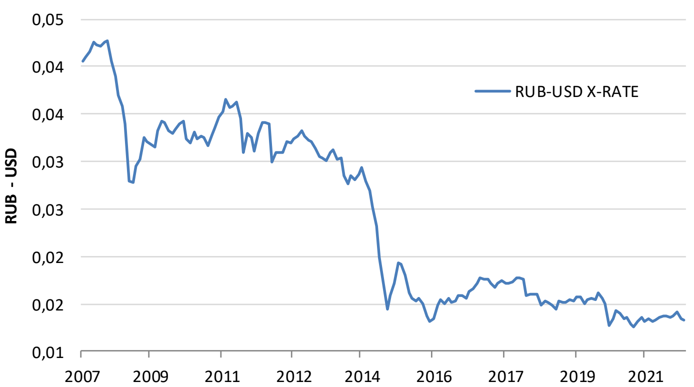
**South Africa** — While the domestic economy grew strongly in the first half of 2021, the second half of the year is expected to show mixed results with revisions to Q3 (-2.5% vs -1.2%) and Q4 (+2.6% vs +1.6%) growth. Overall, South Africa's economy is expected to grow by +5.2% for the full year 2021. Over the next few years, economic growth is expected to move closer to +2% with increases of +1.7%, +1.8% and +2% expected for 2022, 2023 and 2024. The pandemic and ongoing energy supply constraints are likely to have lasting effects on investor confidence and job creation, hampering recovery in the labour-intensive sectors hardest hit by the lockdowns.

Due to global supply shortages and strong demand, a wide range of prices continue to rise, including raw materials, intermediate inputs and foodstuffs. Some of these price increases have been passed on to consumer prices in the largest economies. South African inflation forecasts have been revised upwards for Q4 (5.3% vs 5.0%). Inflation is expected to be around 4.5% in the following years. Given the above, a weaker currency, higher tariffs on domestic imports and rising wage demands present additional upside risks to the inflation forecast.

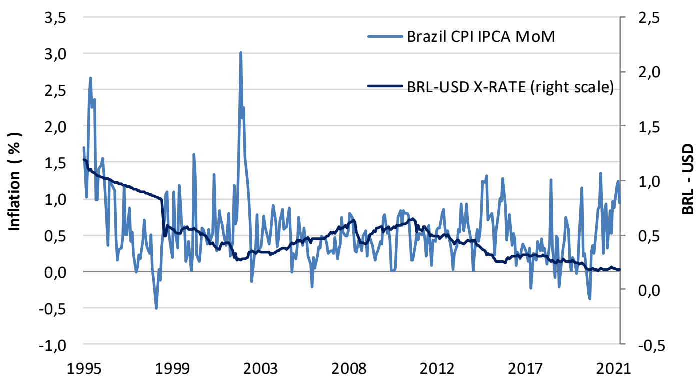
Given the expected path of inflation and the upside risks, a gradual increase in the repo rate is likely to keep inflation expectations close to the target. Against this background, the Reserve Bank decided to raise the policy rate by 25 basis points to 3.75%. The implied policy rate path indicates further increases in each quarter of 2022, 2023 and 2024. These projections reflect an accommodative policy stance throughout the forecast period, maintaining financial conditions conducive to credit demand as the economy continues to recover. The Bank aims to ensure that there is sufficient liquidity in domestic markets and will continue to monitor borrowing markets closely for stress. In addition, regulatory relief for banks continues to support lending to households and businesses. Better anchoring of future inflation expectations is expected to keep interest rates lower for longer and can be attained by achieving a prudent level of public debt, increasing energy supply, moderating administered price inflation and keeping wage growth in line with productivity gains. These measures are likely to enhance the effectiveness of monetary policy and its transmission to the economy.

**Mexico** — Mexico's central bank raised its key interest rate by 50 basis points to 5.5%, above analysts' expectations. This is the fifth consecutive increase, as the bank deemed it necessary to strengthen the monetary policy stance by adjusting it to the path required for inflation to converge towards its 3% target, following upward revisions to inflation projections (+7% at year-end). At the end of the year, growth should be at the same level as in Q3 (+4.5%).

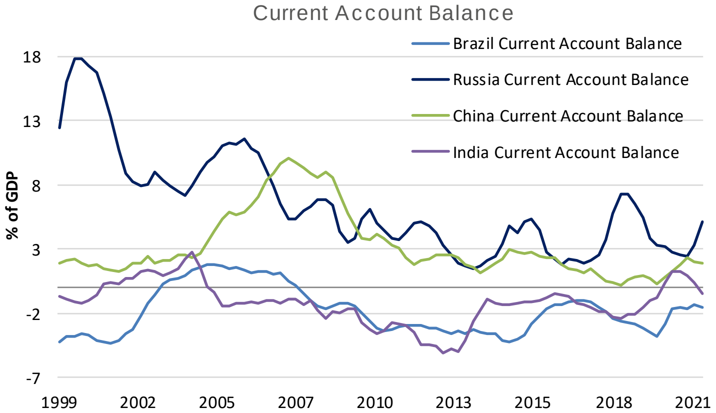
Ruble VS USD

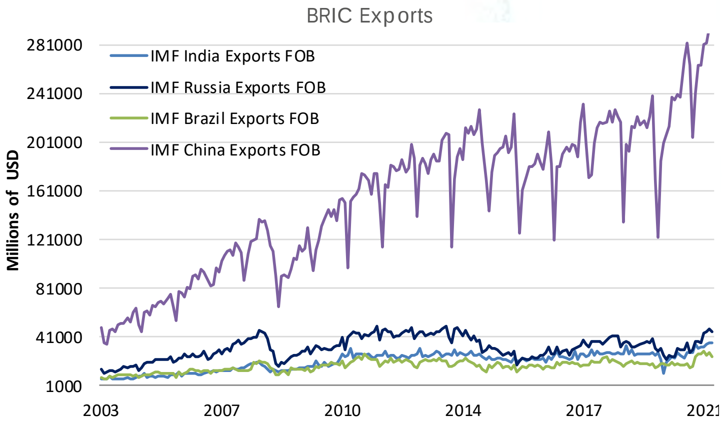


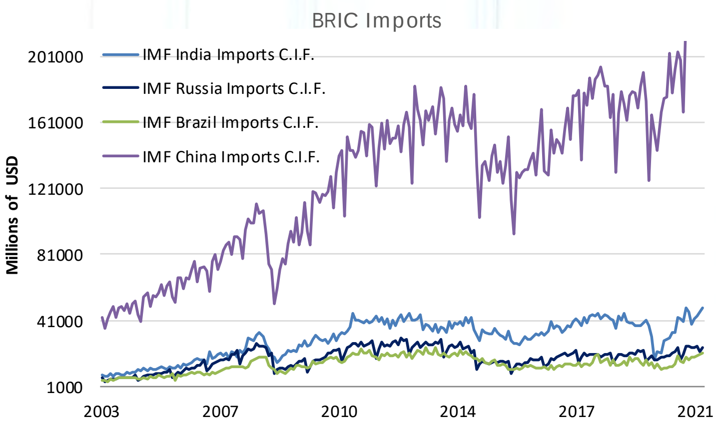

Inflation and Exchange rates




Graph sources: Bloomberg/BearBull Global Investments




**Indonesia —** Bank Indonesia kept its 7-day repo rate at a historically low level of 3.5% in order to support the economic recovery after the resurgence of Covid-19 cases this summer and to maintain exchange rate stability amid a low inflation outlook. Economic growth in Q4, which is likely to improve with the return of mobility, is expected to be between +3.2% and +4.4% in 2021 and between +4.7% and +5.5% in the following years. Annual inflation reached a 17-month high of 1.75% in November, still 25 basis points below target, but is expected to rise back above 2% over the next year.

**Turkey —** Turkey's central bank cut its key interest rate by -1% to 14% at its December meeting, following cuts of -1% in November, -2% in October and -1% in September. The move was expected after Turkish President Erdogan, who supports an unconventional theory that high rates cause inflation, promised to fight for a rate cut as the country struggles with inflation of over 20%, well above the median target of 5%, and the lira has lost almost 50% of its value since November. Growth is expected to be +7.4% at the end of the year and +4.4% in 2022 and 2023.

**Taiwan —** The Central Bank has kept its key rate at a historically low level of 1.125%, due to low inflation, albeit above 2% for some months, and an uneven recovery in different sectors. Inflation is expected to be 1.97% in 2021 and 1.59% in 2022, due to the slowdown in oil prices and moderate wage growth. Annual growth has been revised upwards to +6.03% in 2021 and +4.03% in 2022, supported by robust demand for technology products.

**Thailand —** The Bank of Thailand kept its key interest rate at 0.5%, stating that maintaining an accommodative monetary policy would help support the economic recovery. It expects the economy to grow by +0.9% in 2021, +3.4% in 2022 and +4.7% in 2023 thanks to domestic spending and a gradual improvement in foreign tourist numbers. Inflation is within its target, with projections of 1.2%, 1.7% and 1.4% for 2021, 2022 and 2023.

**Colombia —** Colombia's central bank raised its benchmark rate for the third consecutive time by +0.5% to 3%, seeking to control inflation, which is well above the 3% target (5.3%). In 2022, inflation is expected to remain above the target, but below the upper limit of 4%. The economic recovery is expected to continue in the last quarter of 2021, with GDP growth of +9.6% at the end of the year.

**Romania, Czech Republic, Poland, Hungary**

The National Bank of Romania raised its benchmark interest rate from 0.25% to 1.75%, due to higher-than-expected inflation (+7.8%), which is expected to rise further in the coming months. The economy is expected to grow by +6-7% in 2021, supported by strong agricultural production.

The Czech National Bank raised its key rate by +1%, above market expectations of +0.75%, to 3.75%, the highest since February 2008. This follows a 125 basis point increase at the previous meeting, the largest in 24 years, to control inflation (6%) driven by supply difficulties, a tight labour market and soaring energy prices. National economic growth is expected to be +3.1% in 2021 and +3.5% in 2022.

The National Bank of Poland raised its benchmark rate by 50 basis points to 2.25%. This is the fourth consecutive increase in an attempt to ease inflationary pressures, the latest measure of 7.8% being the highest since December 2000. The economy is expected to grow by around +4-5% for the year as a whole.

The National Bank of Hungary raised its key interest rate by 30 basis points to 2.4%, the highest level since May 2014. This is the seventh consecutive rate hike as the inflation outlook remains on the rise. Inflation rose by 7.4% in November, a nearly 14-year high, driven by increases in commodity and energy prices. GDP grew by +6.1% in Q3 2021, 0.7% above its pre-pandemic level, and the recovery is expected to continue for the rest of 2021 and 2022.

Graph sources: Bloomberg/BearBull Global Investments

# PROSPECTS AND STRATEGIES


Graph sources: Bloomberg/BearBull Global Investments

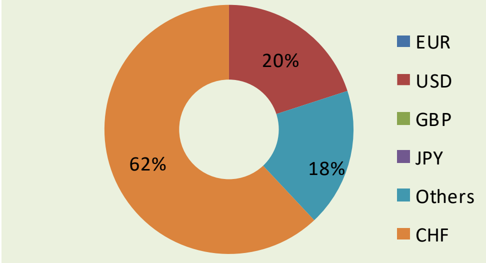
# PROSPECTS AND STRATEGIES

## Currencies

- The franc must weaken
- The euro is 20 years old and will trade in 2022 at almost the same level
- Probable devaluation of the yuan by 5% to 10% in 2022
- Bonds and the dollar regain their appeal
- Return of a weak yen after the Omicron episode

| 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 | ↘ | ↘ | | | | | | | |

Currency allocation - CHF portfolio




Tactical Allocation

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

### The franc must weaken

The SNB still considers the franc to be overvalued. Our currency is said to be overvalued by 10% to 15% in purchasing power parity (PPP) terms against the euro. The SNB is unlikely to change its strategy and may also be counting on higher inflation and faster growth in the Eurozone in 2022 to trigger a reversal of the trend and a decline in the franc's attractiveness. A rise in the euro above 1.15 seems possible in 2022. The SNB might also want to see the franc fall against the dollar towards parity.

### The euro is 20 years old and will trade in 2022 at almost the same level as when it was created

On 1 January 2002, after three years of existence as book money, the first euros physically circulated to more than 300 million Europeans in 12 EU countries. The euro is now the single currency shared by 19 EU member states forming the euro area. It has become the world's leading currency in terms of the number of banknotes in circulation. To participate in the euro, member states have committed to adhere to strict criteria such as a budget deficit of less than 3% of their GDP and a debt level of less than 60% of GDP, low inflation and interest rates close to the EU average. Issued at an exchange rate of 1.1736 US dollars to the euro on 1 January 1999, the euro has experienced four major periods of fluctuation against the dollar.

After a first phase of decline of -30% between 1999 and 2001, the euro appreciated by +93% between 2001 and 2008, before plunging again by -35% through 2015, below its rate of issue. Since 2015 the exchange rate has stabilised somewhat, with a lower level of variability around a central value of 1.15 dollars to the euro. On 31 December 2021, the exchange rate stood at 1.1370, just -3% below its issue rate. Over the entire period of the euro's existence, its value against the dollar has thus fluctuated by more or less 30% around its central value and its issue rate.

It is interesting to note by way of comparison that, because of this stability, both currencies depreciated by about -30% to -35% against the Swiss franc during this period. The euro has therefore fulfilled some of its promises, firstly by offering all the countries in the Eurozone an internationally recognised currency, as it is now the second currency in terms of transaction volume after the dollar. The single currency has also allowed member states' interest rates to converge towards the lowest government rates in a process of unprecedented contraction of national risk premia, thereby reducing the financing costs of the various national debts and benefiting all. The euro has also played an important role in supporting the efforts of national governments in their fight against the Covid 19 pandemic over the past two years. They would certainly not have been able to finance the rescue of their recessionary economies through a massive increase in public debt in the same way. In 2022, however, the euro could be affected by the likely return of the issue of compliance with the Maastricht rules mentioned above, higher inflation and a yield differential that is likely to be somewhat more favourable to the dollar. Over the last three months, the yield spread between the US Treasury and German Bund has remained stable at 1.67%, despite the fairly high volatility of yield levels, which nevertheless ended the quarter unchanged.

A similar observation can be made for yield differentials with Swiss rates. Against the Swiss franc, the euro is nevertheless likely to benefit from stronger economic momentum and the normalisation of the ECB's monetary policy, which will certainly precede that of the SNB, thereby increasing the yield differential in favour of the euro. We expected the euro to weaken against the dollar, and the exchange rate has now reached our target. The next few months should be slightly more favourable to an appreciation of the euro against the dollar, franc and pound sterling of between +3% and +5%.

### Probable devaluation of the yuan by 5% to 10% in 2022

The yuan appreciated very significantly in 2020, rising by +6.6% against the US dollar. It appreciated by a more moderate +2.2% against the dollar in 2021, but rose against the euro (+10%) much more significantly. The Chinese government was undoubtedly pleased with such a positive development, which helped to reduce the rising costs of importing raw materials. In the midst of the energy crisis, China's dependence on crude oil and gas prices could have a significant impact on import prices and inflation. The situation is likely to be different in 2022 on the energy price front, so China may change its strategy to focus on the objective of supporting the economy through a lower exchange rate. The new year is therefore likely to be marked by a significant trend reversal and a gentle depreciation of the yuan. The low point of 6.35 yuan to the dollar reached on 8 December 2021 could thus already mark the beginning of this new phase of weakening of the renminbi.

Graph sources: Bloomberg/BearBull Global Investments


BearBull Global Investments Group

The depreciation of the exchange rate seems to be an easy lever for the government in China in particular. By making Chinese exports more competitive, the Chinese authorities will strengthen the industrial export sector, which represents nearly 20% of Chinese GDP. The yuan could slide by 5% to 10% against the dollar in 2022 and return to a stabilisation level of 6.80. It should also be noted that China will launch its e-yuan during the Olympic Games in February.

### Bonds and the dollar regain their appeal

A rise in long-term rates seems to us to be inevitable in 2022 in this context characterised by sustained inflation and growth that is not really challenged by the emergence of the Omicron variant. Ten-year Treasury yields (1.61%) are therefore logically likely to finally test their 2021 highs (1.74%), following the trend already observed on shorter maturities. Five-year rates (1.34%) have already largely exceeded their March peak (0.93%), for example. It is now becoming increasingly clear that rates must adjust to a robust and inflationary economic reality.

We believe that the yield curve will soon move a little higher, with the exception of very short-term yields, held back by the Fed. Yield pick-up strategies are therefore being challenged by the rising returns on more defensive bond assets. Internationally, US bonds now offer a safe haven with the prospect of a more attractive yield spread. European, Japanese and Swiss investors can now look at fixed dollar investments with more interest. As we approach the 2% threshold, we believe that this yield differential is likely to stabilise under the influence of new fund inflows. The dollar is expected to benefit from this widening of the yield spread in its favour. We estimate that it could appreciate by +5% to +7% against the Swiss franc.

### Will the sterling not benefit from the nominal rate differential?

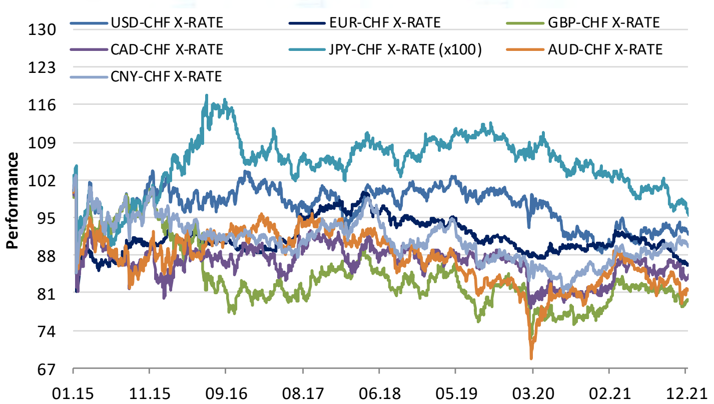
The pound appreciated at the beginning of the year and then stabilised against the euro at the rate of 0.85 pounds to the euro. Brexit poses even more significant inflation and growth challenges for the UK's economy in 2022. Stagflation risks are increasing, and the real yield differential is not in favour of the pound. Monetary policy normalisation has launched an upward trend in pound yields, and the rise in nominal rates is widening the yield differential in favour of the British currency. Nevertheless, we believe that the risks of slippage in terms of inflation and growth is likely to penalise the pound in the medium term.

### Return of a weak yen after the Omicron episode

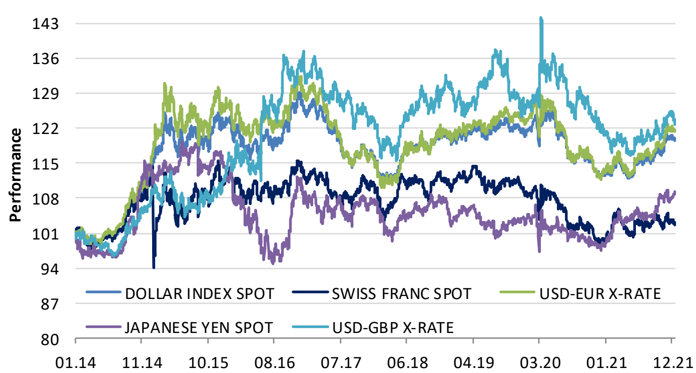
The emergence of the Omicron variant proved favourable for the Japanese currency, which benefited from its safe haven status in a once again more uncertain context, as well as from the population's relatively high vaccination rate. With almost 80% of the Japanese population vaccinated, the risks to the Japanese economy appear to be lower by international standards. This trend is likely to continue as long as investors perceive risks of economic slowdown associated with this new variant.

In the medium term, however, we still believe that the interest rate differential is likely to remain the main factor determining the value of the yen and especially the exchange rate against the US dollar. The rise in short-term US dollar yields in recent weeks has widened the spread significantly. A +1% increase in the two-year nominal yield spread could thus cause a correction in the value of the JPY/USD of around 5%, provided that the outlook for US GDP growth is not significantly affected by the Omicron variant. A depreciation of the yen towards the level of JPY 120 to the USD is therefore likely in 2022, when US rates will rise and widen the yield differentials now clearly in favour of the dollar.

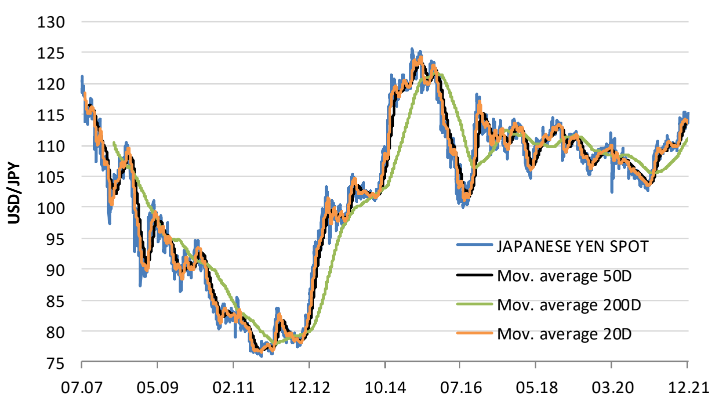
7 currencies against CHF (Normalized at 100)



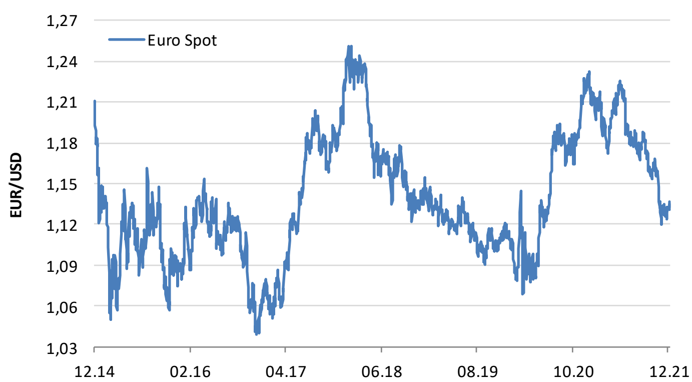

Dollar Trade-weighted index & cross rates (Normalized at 100)




JPY/USD




EUR/USD



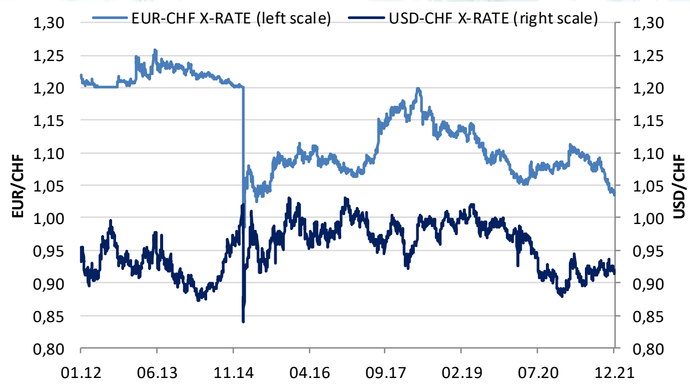

Graph sources: Bloomberg/BearBull Global Investments

## CURRENCIES

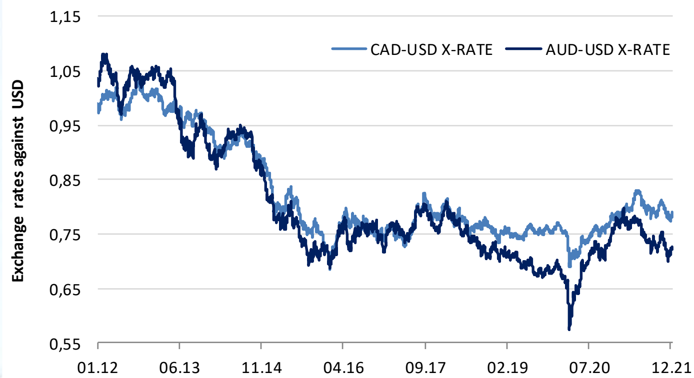
31.12.2021

| Name | Last price | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|
| **AGAINST DOLLAR** | | | | | | |
| EUR-USD X-RATE | 1,1 | 0,5 | 0,4 | -1,9 | -4,2 | -6,9 |
| CHF-USD X-RATE | 1,1 | 0,8 | 0,9 | 2,0 | 0,9 | -3,0 |
| GBP-USD X-RATE | 1,4 | 1,1 | 1,9 | -0,1 | -2,1 | -1,0 |
| JPY-USD X-RATE | 0,0 | -0,6 | -2,0 | -3,5 | -3,6 | -10,2 |
| CAD-USD X-RATE | 0,8 | 1,4 | 1,4 | 0,1 | -2,5 | 0,8 |
| AUD-USD X-RATE | 0,7 | 0,6 | 2,2 | 0,1 | -3,5 | -5,6 |
| RUB-USD X-RATE | 0,0 | -1,5 | -1,4 | -3,2 | -2,6 | -1,4 |
| CNY-USD X-RATE | 0,2 | 0,2 | 0,2 | 1,4 | 1,8 | 2,7 |
| INR-USD X-RATE | 0,0 | 0,6 | 0,7 | -0,6 | 0,0 | -2,0 |
| BRL-USD X-RATE | 0,2 | 1,9 | 2,2 | -3,7 | -9,2 | -6,8 |
| **AGAINST SWISS FRANC** | | | | | | |
| USD-CHF X-RATE | 0,9 | -0,7 | -0,8 | -2,0 | -0,9 | 3,1 |
| EUR-CHF X-RATE | 1,0 | -0,3 | -0,4 | -3,8 | -5,0 | -4,0 |
| GBP-CHF X-RATE | 1,2 | 0,0 | 0,9 | -2,2 | -3,2 | 1,9 |
| JPY-CHF X-RATE (x100) | 0,8 | -1,2 | -2,8 | -5,4 | -4,5 | -7,5 |
| CAD-CHF X-RATE | 0,7 | 0,9 | 0,9 | -1,7 | -3,2 | 4,2 |
| AUD-CHF X-RATE | 0,7 | -0,1 | 1,4 | -1,9 | -4,3 | -2,6 |
| RUB-CHF X-RATE | 0,0 | -2,3 | -2,5 | -5,3 | -3,7 | 1,5 |
| CNY-CHF X-RATE | 0,1 | -0,6 | -0,7 | -0,6 | 0,8 | 5,8 |
| INR-CHF X-RATE | 0,0 | 0,1 | -0,2 | -2,4 | -1,0 | 1,2 |
| BRL-CHF X-RATE | 0,2 | 1,2 | 1,2 | -5,7 | -9,9 | -3,5 |

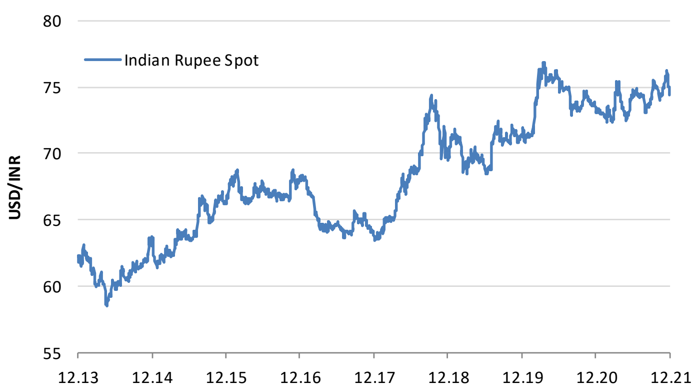
EUR/CHF - USD/CHF



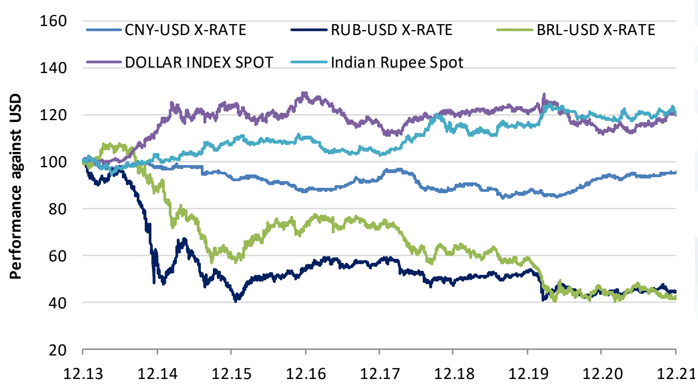

CAD/USD - AUD/USD




Indian Rupee




Emerging Currencies VS USD (Normalized base at 100)



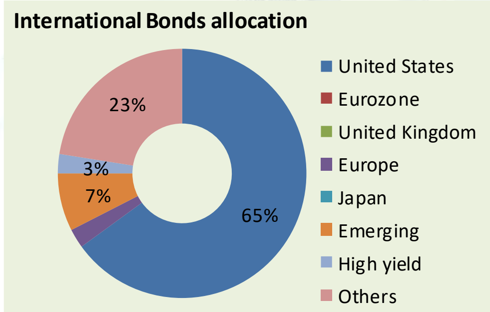

Graph sources: Bloomberg/BearBull Global Investments

# PROSPECTS AND STRATEGIES

## International Bonds

- Rates to trend further upward in 2022
- Renewed attractiveness of US bonds
- Renewed upward trend in European rates
- Extremely cautious investment policy in 2022

| 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
- Favor short durations

### Rates to trend further upward in 2022

The risk perceptions of investors in interest rate markets is gradually adjusting. The start of the Federal Reserve's tapering, the Fed's moving up to March 2022 the end of its asset purchases, thus coinciding with the end of the ECB's emergency programme, and finally the Bank of England announcing its first rate hike all suggest that central banks aim to normalise their monetary policies despite the emergence of the Omicron variant. The end of the year was therefore not without its milestones in terms of monetary policy, and the forthcoming reductions in liquidity injections have finally started to affect yield curve levels in the US and other countries as well. The new macroeconomic environment with solid global GDP growth of around +5% in 2022 will be accompanied by likely persistent inflation and a new monetary policy paradigm. These conditions will not be favourable for bond markets in 2022. In Q4, we indeed saw an upward shift in most yield curves, though this was more evident on the 2-5-year end of the curve than on the long end. In the US, 5-year Treasury yields almost tripled in 2021, rising from 0.35% at the beginning of the year to 1.26% at the end of December. During the same period, 10-year yields rose from 0.91% to 1.51%. Overall, yields have started to adjust in most economies with solid GDP growth prospects in 2022, including the Eurozone, the UK and even Switzerland.

The start of 2022 could therefore mark a transition in the outlook for interest rates. 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 bond market yields in 2022. Renewed growth and historically high inflation must now be taken into account when determining nominal interest rates. Further yield curve tensions are 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%. They are still at 1.5% today while inflation is above +6.8% and GDP growth is expected to be +6.5% for the last quarter of 2021. In the current context, nominal rates are likely to continue their ongoing adjustments and gradually return to pre-pandemic levels.

### Bonds and the dollar regain their appeal

A rise in long-term rates seems to us to be inevitable in 2022 in this context characterised by sustained inflation and growth that is not really challenged by the emergence of the Omicron variant. Ten-year Treasury yields (1.61%) are therefore logically likely to finally test their 2021 highs (1.74%), following the trend already observed on shorter maturities. Five-year rates (1.34%) have already largely exceeded their March peak (0.93%), for example. It is now becoming increasingly clear that rates must adjust to a robust and inflationary economic reality.

We believe that the yield curve will soon move a little higher, with the exception of very short-term yields, held back by the Fed. Yield pick-up strategies are therefore being challenged by the rising returns on more defensive bond assets. Internationally, US bonds now offer a safe haven with the prospect of a more attractive yield spread. European, Japanese and Swiss investors can now look at fixed dollar investments with more interest. As we approach the 2% threshold, we believe that this yield differential is likely to stabilise under the influence of new fund inflows. The dollar is expected to benefit from this widening of the yield spread in its favour. We estimate that it could appreciate by +5% to +7% against the Swiss franc.

BOND INDICES (local currency)

31.12.2021 — Total Return Performance

| | Name | Last price | Curr. | 7 d% | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|---|---|
| SWISS BONDS | SBI AAA-BBB | 139,3 | CHF | -0,3 | -0,8 | -0,3 | -0,6 | -1,8 |
| UE BONDS | Barclays EuroAgg | 267,5 | EUR | -0,4 | -1,1 | -0,7 | -0,8 | -2,9 |
| UE BONDS - SHORT DURATION | ISHARES EURO GOV BND 1-3 | 142,8 | EUR | 0,0 | -0,2 | -0,4 | -0,5 | -0,8 |
| US BONDS | Barclays US Agg Total Return Value Unhedged USD | 2355,1 | USD | 0,2 | -0,3 | -0,3 | -0,1 | -1,5 |
| US BONDS - SHORT DURATION | BGF-USD ST DURATN BOND-USDA1 | 8,5 | USD | 0,1 | 0,0 | -0,8 | -0,9 | -0,7 |
| EMERGING BONDS | JPMorgan Emerging Markets Bond | 629,3 | USD | 0,3 | 1,1 | -0,1 | -1,0 | -2,1 |
| INTERNATIONAL BONDS (DIVERSIFIED) - USD | Global Aggregate | 532,4 | USD | 0,1 | -0,5 | -1,0 | -1,6 | -4,7 |
| INTERNATIONAL BONDS (DIVERSIFIED) - EUR | Euro Aggregate | 267,5 | EUR | -0,4 | -1,1 | -0,7 | -0,8 | -2,9 |
| INTERNATIONAL BONDS (DIVERSIFIED) - CHF | Barclays Global Agg Corporate | 156,1 | CHF | -0,4 | -0,9 | -2,8 | -2,6 | 0,1 |
| CONVERTIBLE BONDS (UE) | Exane Europe Convertible Bond | 8835,9 | EUR | 0,6 | 0,1 | 1,9 | 0,2 | 2,7 |
| HIGH YIELD BONDS | Markit iBxx Gbl Dev Lq HY USD | 169,0 | USD | 0,3 | 1,4 | -0,7 | -1,1 | 0,8 |
| HIGH YIELD BONDS - SHORT DURATION | AB SHORT DURATION HI YD-AT | 15,2 | USD | 0,1 | 0,7 | 0,3 | 0,5 | 3,3 |

Graph sources: Bloomberg/BearBull Global Investments



BearBull Global Investments Group

### European interest rates resume their upward trend

Last year was also an eventful one in European bond markets. With the 10-year German Bund setting the tone, there were two cycles of rising and falling long-term rates before the current recovery took hold and pushed yields back up to their May and October peaks. The inflationary outlook and ECB statements punctuated these rate increases and decreases. The markets came to question more seriously whether the rise in inflation was really temporary and were eventually convinced that the ECB would not act to counter the upward trend if it were to continue.

Only the emergence of the Omicron variant in November constituted a new risk factor that very temporarily revived uncertainties and fears of new lockdowns with disastrous effects on growth. The subsequent fall in yields was only short-lived and limited to a 30-basis-point drop in 10-year rates. In 2021, 10-year Bund yields thus rose from -0.57% on 31 December 2020 to -0.18% at the end of 2021.

This 40-basis-point increase suggests that the next wave of adjustment in long-term yields is likely to push rates significantly higher and also affect risk premiums.

The European bond market has once 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 ten-year Bund yield to the 0.4%-0.6% range seems likely in 2022. This is a relatively logical start to the adjustment in a context characterised by expected growth of +4.2% in 2022 and inflation of +4.9%.

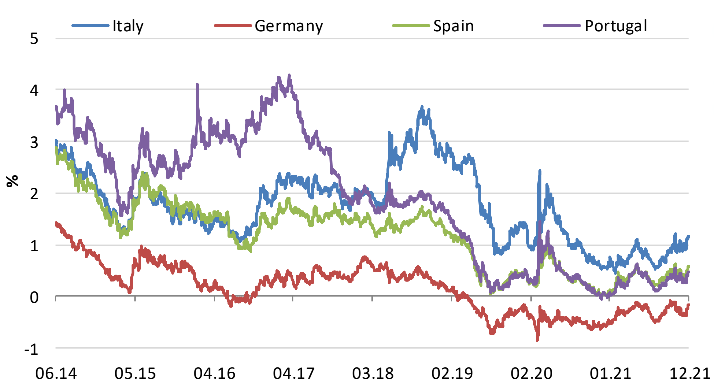
### Return of pressure on sterling yields

While the emergence of the new Omicron variant initially reignited uncertainties about economic growth in the UK, as in most regions, by the end of the year these concerns had eased. While not ruling out the risk of a winter slowdown due to the government's health restrictions to combat the outbreak, the growth outlook for the next few quarters remains positive.

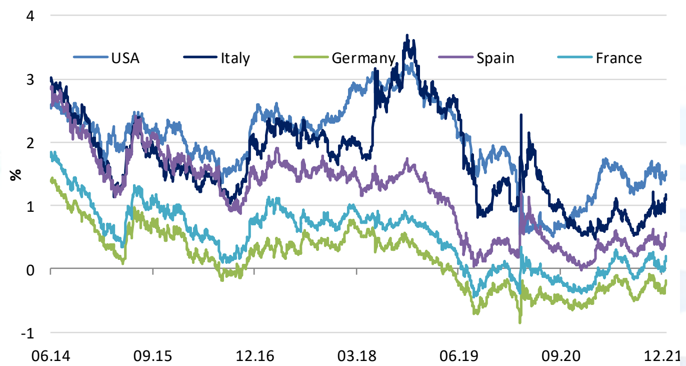
Against this backdrop, gilt yields initially eased by 50 basis points before rebounding by +0.7% to +1% at the end of December. The rise in various inflation measures and the tension in the labour market have been of concern to the BOE for some time, as well as to households who fear for their purchasing power. We believe that the beginning of 2022 is likely to see a continuation of this trend of yield expectations adjusting to the inflation situation. The rise in long-term yields therefore seems quite rational to us in the context of rising inflationary pressures. Ten-year UK government yields have thus risen from 0.2% at the beginning of the year to 1%.

The rise in nominal sterling bond yields places the UK bond market amongst those offering attractive relative returns compared to the European, Japanese and Swiss markets. The rebuilding of the risk premium is a favourable factor, but the attractiveness of holding sterling bonds still seems insufficient to us. Inflationary risks in the UK could further intensify, as the negative effects of Brexit on price levels are likely to increase. Supply difficulties and higher transport and production costs are thus expected to boost the current trend and push yields higher. A return of nominal ten-year rates to 2019 levels between 1.5% and 1.75% is therefore not impossible.

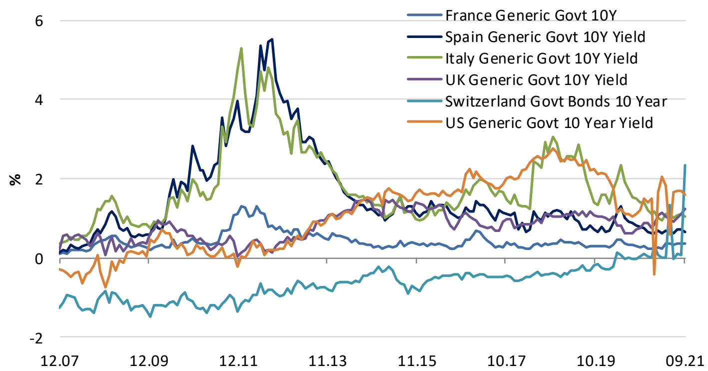
European Bonds (10 year yield)



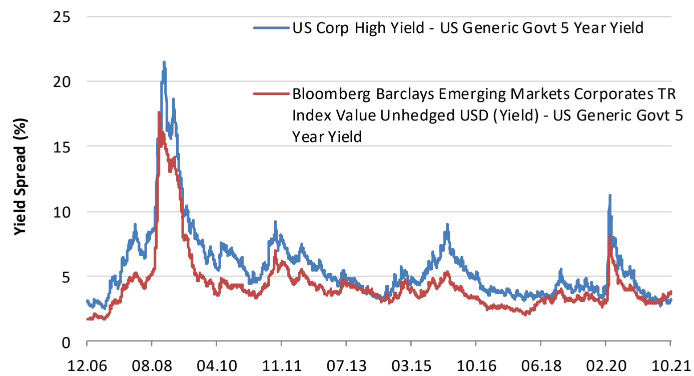

10 year yield




Risk premium over Bund




Risk premium over Treasury




Graph sources: Bloomberg/BearBull Global Investments



BearBull Global Investments Group

### Flat yield curve in Japan

While Japanese 10-year rates are also affected by the general upward trend in yields in most financial markets, the magnitude of fluctuations is logically limited by the BOJ's interventions. Indeed, long-term rates in 2021 ranged between 0% and 0.16%. Japanese debt will exceed 260% of GDP in 2022, which is expected to eventually weigh on the yields demanded by investors. For 2022, we still consider that the attractiveness of holding Japanese debt in yen is exclusively linked to a possible exchange rate gain in case of yen appreciation. Japanese bonds do not otherwise offer attractive prospects in the current context of more attractive international alternatives.

### Extremely cautious investment policy in 2022

The paradigm shift in monetary policy is more visible in the US and the UK, not least because of the specific trajectory of inflation and labour markets in these two countries. The economic outlook for 2022 is relatively strong in these countries, with increasingly tight job markets in our view. The Big Quit is gradually spreading in the US and is also starting to appear in other regions. This new phenomenon will have a significant impact on wage growth, which will support a second phase of inflationary pressure. It should now be increasingly clear to investors that the rebalancing of bond markets between oversupply and shrinking demand following the relative disengagement of central banks will require adjustments in required yield levels.

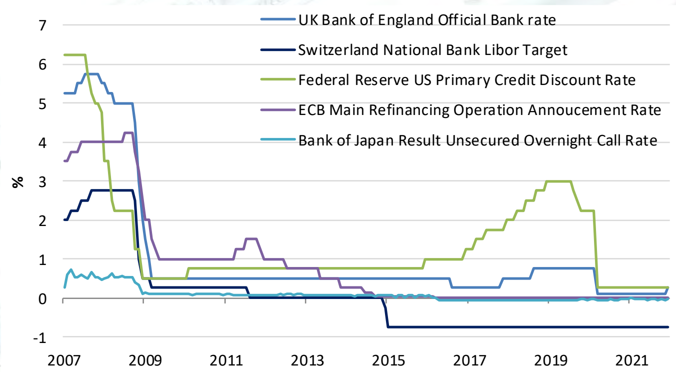
Over the past four weeks, we have seen the beginnings of adjustments in the various bond markets in almost perfect correlation. Ten-year yields have risen by around 30 basis points in the US, the UK, Europe and Switzerland.

In this context, rather negative performances have been recorded for the whole of 2021 by most bond markets. After the initial uncertainties related to the emergence of the Omicron variant, the general sentiment has now improved. The threat of new lockdowns and negative impacts on growth prospects for 2022 have been reassessed and downgraded. 2021 is therefore finally proving negative for the bond markets, with losses in the main currencies ranging from -0.16% (JPY) to -9.01% (AUD) for an average result of -4.71%. These negative performances have been caused by adjustments of interest rate levels that are not yet sufficiently large in our view. In terms of risk, we believe that the probability of capital losses in 2022 for bond investments is therefore still high and suggest very short durations, as well as diversification into FRNs, TIPS and ILS.

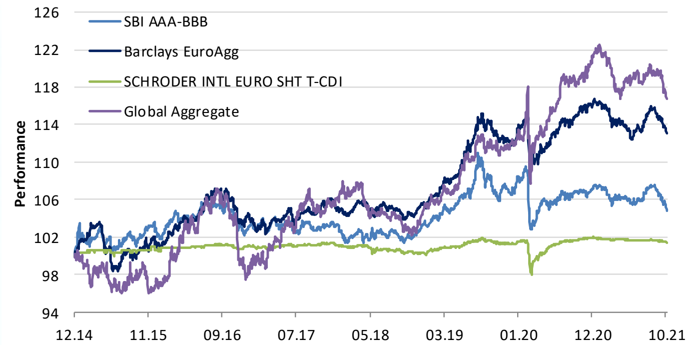
Our bond strategy today focuses on diversification within developed markets in the investment grade segment and in investment grade government debt in emerging markets. Short maturities are essential in the context of rising interest rates. Yield pick-up strategies, often favoured by investors in search of positive returns, are now particularly risky as yield levels adjust. Risk premiums have reached historically low levels in 2021 and have certainly reached their limit in an economic climate now less affected by the health crisis.

We focus on short to medium term USD, AUD and CAD bond investments.

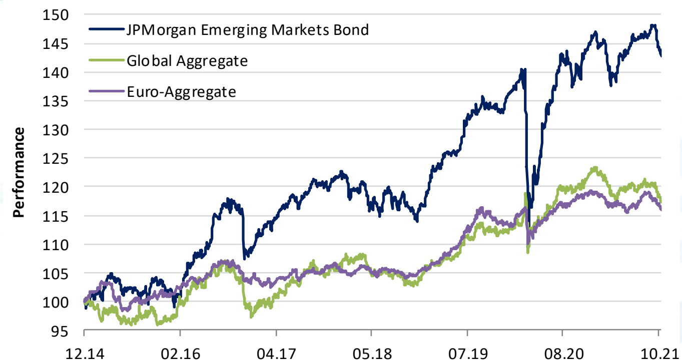
Central Bank rates (EUR, CHF, GBP, USD, JPY)



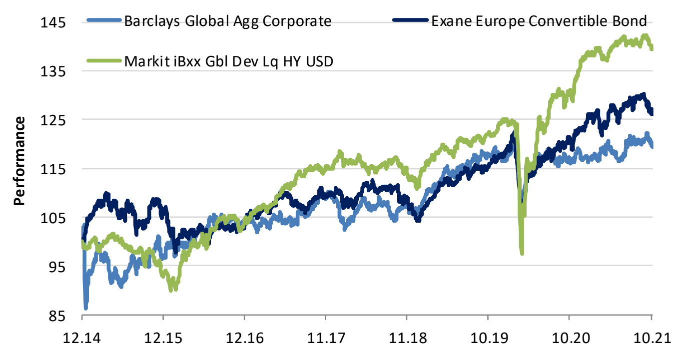

YTD Performance of Bond Indices 1- 5 years (Normalized at 100)




Emerging Bonds - Performance (Normalized at 100)




Eastern Europe Bonds - Performance (Normalized at 100)




Graph sources: Bloomberg/BearBull Global Investments

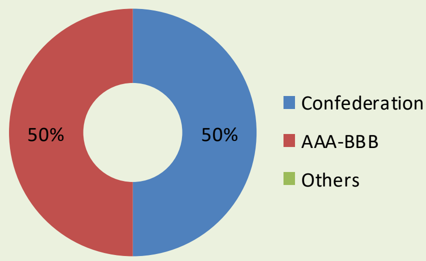
# PROSPECTS AND STRATEGIES

## Swiss Bonds

- Inflation reaches a ten-year high
- SNB to remain unruffled in the face of inflation
- Negative outlook for bonds in 2022

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

**Swiss Bonds allocation**




Tactical Allocation

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

### Inflation reaches a ten-year high

Inflation continued to rise in Switzerland as well, reaching +1.5% year-on-year in November. Despite the rise of the Swiss franc against several major currencies, inflation has thus risen further to its highest level in the last ten years. Rising transport costs, logistical problems and difficulties in the labour market are also likely to contribute to more persistent inflation in 2022. Switzerland is unlikely to be an exception, especially if the growth outlook of +3% in 2022 is maintained. We expect import prices in Switzerland to continue to be affected by sustained international tensions. As far as consumer prices are concerned, a recovery in domestic demand to +6.1% in 2022 and a further fall in unemployment to a historic low of 2.3% will probably have a joint impact on prices, especially if, after a phase of appreciation of the Swiss franc in 2021, our currency is likely to adjust downward in 2022.

### SNB to remain unruffled in the face of inflation

The SNB may be concerned about rising prices in Switzerland, but its monetary policy is for the time being completely geared towards the stability of the exchange rate between the franc and the euro, which de facto prevents it from envisaging a scenario to combat rising inflation in our country, should it be deemed necessary.

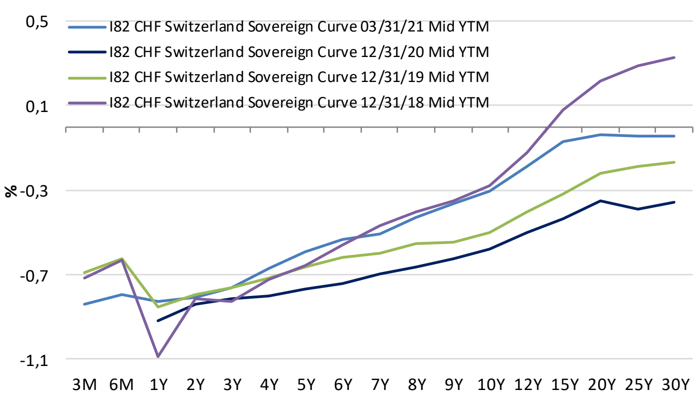
We believe that the SNB has few alternatives and still has no choice but to maintain its current policy at the risk of rising inflation, which would ultimately have a negative but desired impact on the value of the franc.

### Negative outlook for bonds in 2022

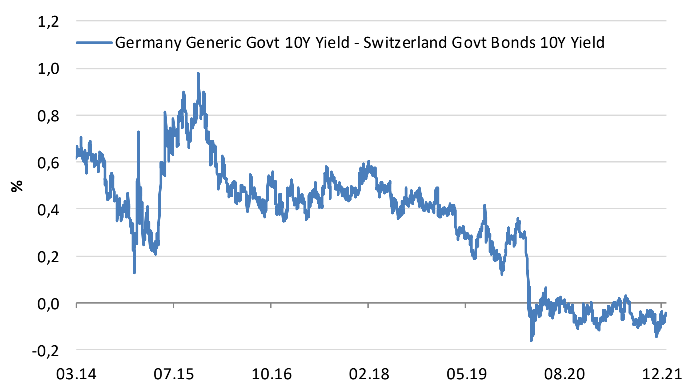
The international bond markets were once again affected at the end of the year by the return of uncertainties linked to the global health crisis and by the threats posed to growth by the emergence of the new Omicron variant. Long-term interest rates also halted their upward trend in Switzerland, while the Swiss government's ten-year rate had temporarily moved back into positive territory on 29 October. Long-term rates have also eased in recent weeks in a global context characterised by a clear upturn in inflation and by the change in monetary policy announced in the United States, which rapidly reduced the liquidity injections that had kept long-term rates at historically low levels. In the US, the "tapering" announced by the Chair of the Federal Reserve will reduce liquidity injections to zero within a few months. The disappearance of the support that allowed long-term rates to be well below inflation and economic growth levels is likely to cause a potentially rapid adjustment of interest rates in the US, as well as in other financial markets. In Switzerland, ten-year rates are then also likely to resume trending upward, returning into positive territory in 2022.

In this context of incipient normalisation of yields and the yield curve, the risk premiums between BBB bonds and ten-year federal government rates seem too low. Yield pick-up strategies are riskier than ever. We recommend a sharp reduction in durations and a reallocation of debt risk to investment grade securities.

Switzerland Sovereign Yield Curve

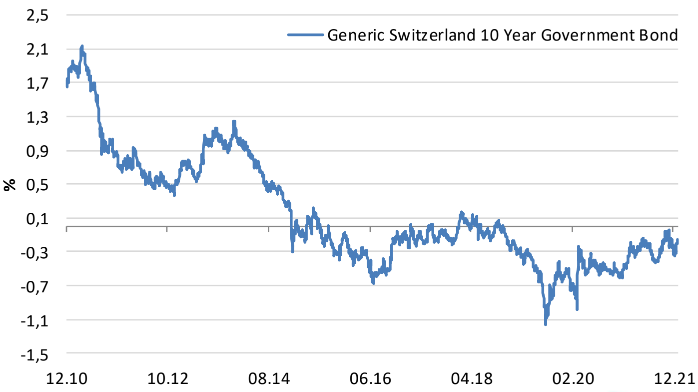



Long rates Yield Spread (German Bund - Swiss Confederation)

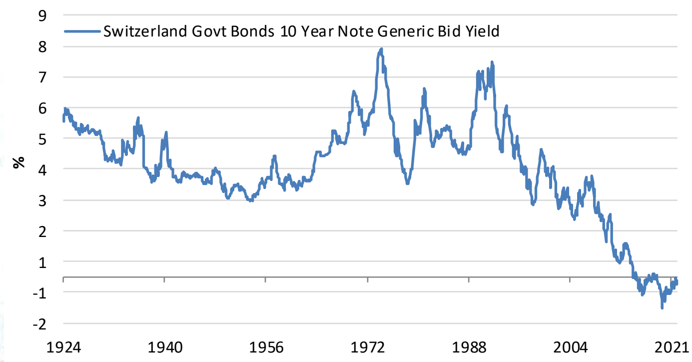



Graph sources: Bloomberg/BearBull Global Investments

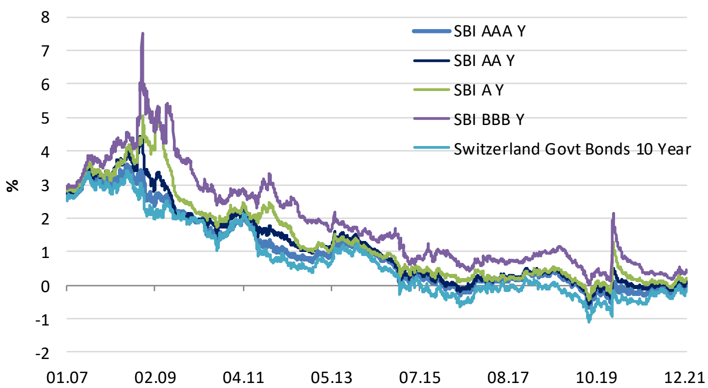
Switzerland Government Bond yield (10 year)



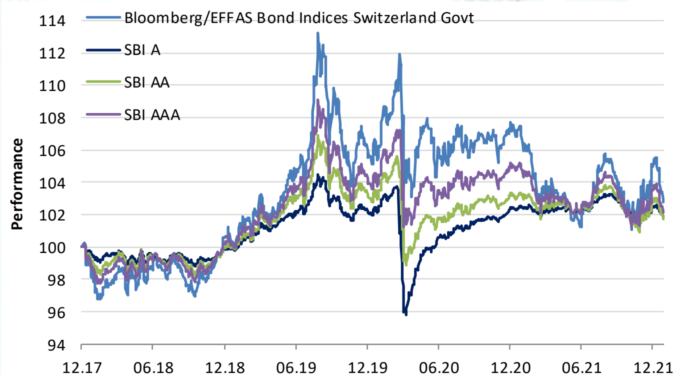

Switzerland Government Bond yield (10 year) since 1924



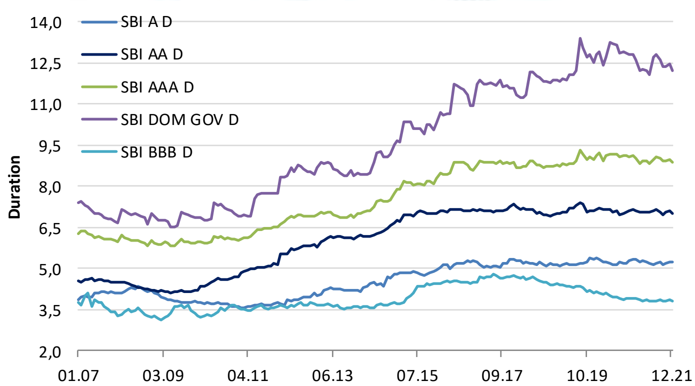

Yield by debtor type



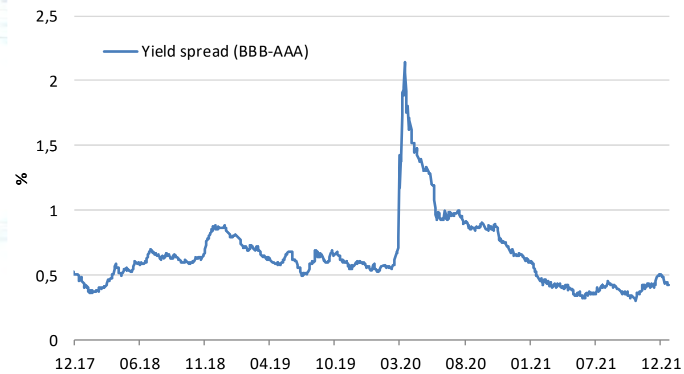

Performance of Swiss Bonds (Normalized at 100)



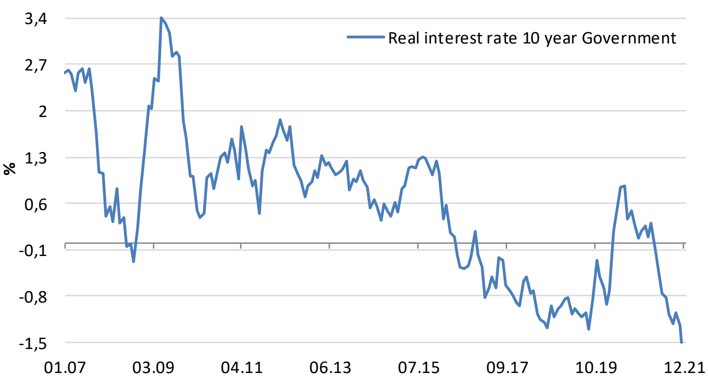

Duration of Bond Indices




Yield spread




Real Interest Rates




Graph sources: Bloomberg/BearBull Global Investments

## SWISS BOND INDICES (CHF)

31.12.2021

| | | | 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 | 140,0 | CHF | -0,1 | -0,3 | -0,4 | -0,4 | -0,2 |
| SBI AA-BBB | 137,7 | CHF | -0,2 | -0,5 | -0,4 | -0,6 | -0,8 |
| SBI AAA-AA | 138,7 | CHF | -0,4 | -0,9 | -0,3 | -0,7 | -2,3 |
| SBI BBB | 153,6 | CHF | -0,1 | -0,2 | -0,3 | -0,2 | 0,3 |
| SBI AAA-BBB | 139,3 | CHF | -0,3 | -0,8 | -0,3 | -0,6 | -1,8 |
| SBI DOM GOV AAA-BBB 1-3P | 62,2 | CHF | -0,1 | -0,4 | -0,9 | -1,8 | -3,7 |
| SBI DOM GOV AAA-BBB 3-7P | 81,0 | CHF | -0,3 | -0,7 | -1,1 | -2,1 | -3,8 |
| SBI DOM GOV AAA-BBB 7+ P | 128,6 | CHF | -0,8 | -2,5 | -0,1 | -0,1 | -6,4 |



BearBull Global Investments Group

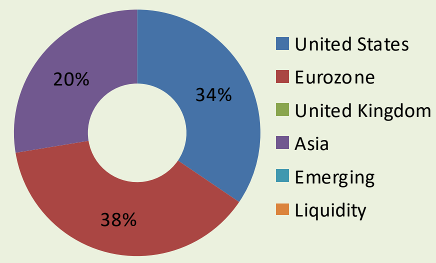
# PROSPECTS AND STRATEGIES

## International Real Estate

- International securitised real estate outperforms equity markets in 2021
- Europe and Asia likely to catch up in 2022
- Eurozone-focused investment strategy

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

**International Real Estate allocation**




Tactical Allocation

- Maintain international real estate exposure
- Focus on Europe

### International securitised real estate outperforms equity markets in 2021

At the beginning of the year, we noted in our analyses and forecasts that securitised real estate represented one of the best asset classes in terms of expected return and risk ratios in an overall context of global economic recovery and gradual easing of health restrictions and lockdowns. Indeed, during 2021, listed real estate benefited from the return of investors to this asset class, which they had previously 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 +22.01%, slightly outperforming the MSCI World, which rose by +21.8% over the same period.

The recovery of international real estate markets is therefore well underway, as we expected. Thanks to the +8.98% increase in the last quarter, the global indices have finally erased the brutal losses in value recorded in 2020 (-18.5%) caused by the high level of uncertainty linked to the health crisis. It should be noted, however, that the world index's performance was largely driven by US real estate, as is the case for the MSCI World Index, which was very much driven by the rise in US equities. In 2021, US real estate was clearly the leader, up +42.8%, significantly outperforming US equities, which rose +28.68% over the same period. In the UK, the situation was similar, with listed real estate investments (+28.92%) significantly outperforming UK equities up +18.40%. However, the picture is different in Europe (+4.42%), Asia (+3.86%) and emerging markets (-7%). Securitised real estate investments underperformed and did not match the gains recorded by equities in these respective regions.

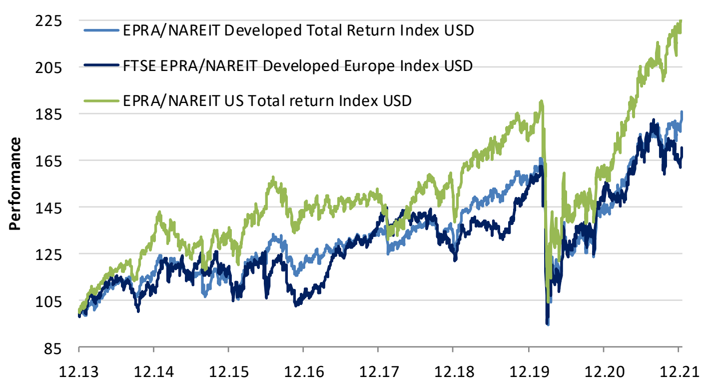
### Europe and Asia likely to catch up in 2022

Securitised real estate in the US has benefited greatly from ultra-accommodative monetary policies and the strong economic recovery, which has outperformed many other regions. The Federal Reserve's policy change will have a moderate indirect impact on the US housing market in our view. Interest rate hikes in the UK, which began in December, will also affect demand. Both markets are likely to continue to benefit from the positioning of domestic investors in 2022 in this asset class with its positive outlook. But we believe that at current levels, foreign investors will be more likely to reposition their real estate portfolios in markets that have not yet experienced such extraordinary growth. The expected returns on real estate investments remain relatively attractive, although the likely rise in long-term bond yields will gradually reduce the risk premiums available to securitised real estate today in 2022.

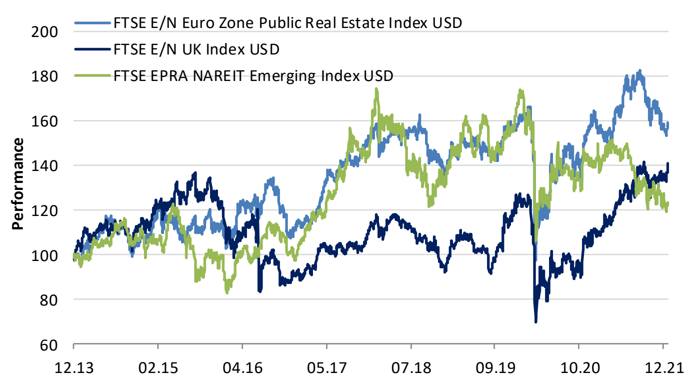
### US housing market stabilises

After record increases in US real estate prices, both residential and commercial, there are fears that the strong current trend will slow down in 2022. Supply and demand parameters are still the main factors determining prices, and this is likely to be the case for the housing market as a whole in the coming quarters. It is obvious that low borrowing rates likely boosted demand, which has not been followed or preceded by a similar growth in supply. As a result, many housing markets are out of balance, particularly in the US.

EPRA Nareit - USA, Europe, Global ( USD)




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




Graph sources: Bloomberg/BearBull Global Investments

According to the National Association of Realtors (NAR), available supply corresponds to only 2.1 months of demand. At the same time, new construction is at 1.7 million units, representing a substantial proportion of the need for new housing. The ratio of units under construction to the US population is slightly better but still below the historical average.

Leading international commercial real estate expert CBRE maintains its positive outlook for US real estate in 2022, arguing that monetary policy and borrowing conditions remain very supportive of continued growth in the commercial real estate market. A repositioning of investors seeking higher returns into commercial real estate seems likely.

In this relatively favourable context for the US real estate market, price growth is, however, likely to slow in 2022. After the +19.97% explosion recorded over one year in August, the progression slightly decelerated. The ability of first-time buyers to access real estate is logically declining, so the trend is expected to slow. We estimate that real estate prices should still rise in 2022, although by less than 5%.

## Europe can benefit from a repositioning of investors

Housing prices are expected to rise in 2022 at a slightly lower rate than in 2021. In Europe, however, imbalances between supply and excess demand are logically expected to persist. European markets are also dominated by the indirect effects of Covid, which has supported demand and increased production costs. In Germany, property prices rose by 14.5% in Q3 2021, prompting the government to seek solutions to facilitate access to property by reducing the minimum amount of equity required to obtain mortgage financing. In the Netherlands prices rose even more significantly, reaching +20.1%. In France, the increase in housing prices reached +9% in a context characterised by an extraordinary increase in the number transactions, which reached 1.2 million.

Available real estate stock has thus dwindled in 2021, outlining new tensions between limited supply and a still very dynamic demand. The rise in prices is likely to continue in 2022 and reach +10% on a national scale. In Spain prices increased more modestly, reaching +4.2%, with transactions up by +22.2%.

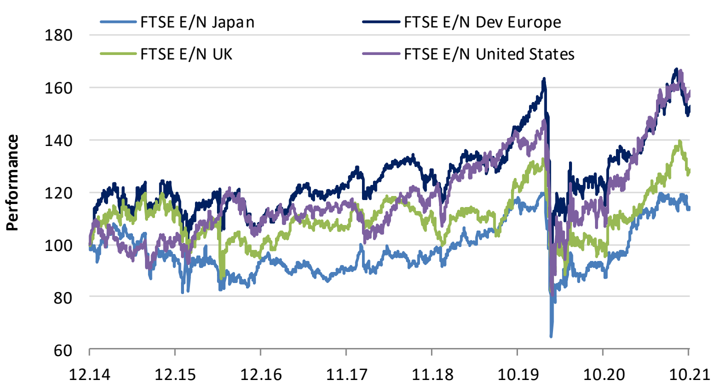
Institutional investors are also increasingly interested in increasing their exposure to European real estate assets. A Knight Frank survey of institutional investors reveals that 91% of them intend to increase their investments significantly.

European real estate markets are expected to benefit from the positive interest rate and real estate borrowing cost environment for a longer period in 2022. The European real estate cycle is lagging behind the US cycle and is likely to continue to benefit from the repositioning of investors looking for new, better-performing and less risky investment opportunities than in other regions.

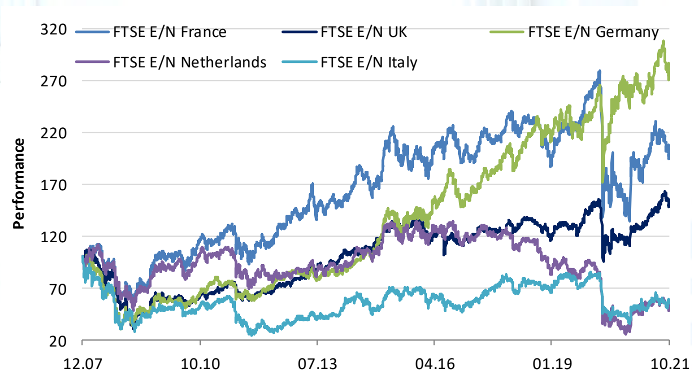
## UK house prices to decelerate in 2022

The property boom continues into the end of the year with prices rising by +1% over one month and +10.4% over the year 2021. The BOE's normalisation of monetary policy and the resumption of the upward trend in interest rates are likely to start to affect the financing conditions for property in 2022. However, we believe that initially the rise in interest rates will be insufficient to significantly affect financing conditions. However, price growth has been significantly higher than wage growth, reducing the ability of households to purchase property, which is likely to reduce the level of demand in 2022. House price growth is expected to continue at a much more reasonable pace in 2022.

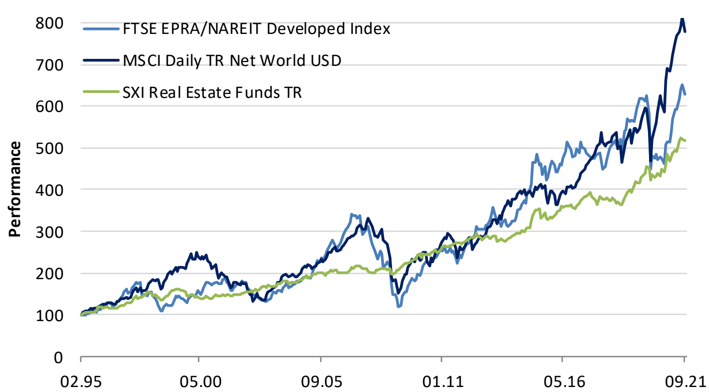
Real estate markets (local currency)




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)

| 31.12.2021 | | | | Total Return Performance | | | | |
|---|---|---|---|---|---|---|---|---|
| N° ISIN | Name | Last price | Curr. | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
| GLOBAL | FTSE EPRA/NAREIT Glb TR | 3506,2 | USD | 2,6 | 6,7 | 8,4 | 6,8 | 23,0 |
| DEVELOPED | EPRA/NAREIT Dev TR USD | 6825,8 | USD | 2,8 | 7,1 | 9,5 | 8,6 | 27,2 |
| DEVELOPED EUROPE | FTSE E/N Dev Europe | 2485,0 | EUR | 2,3 | 1,3 | 6,4 | 5,7 | 18,2 |
| EUROZONE | FTSE E/N Euro Zone | 2454,7 | EUR | 1,5 | 1,2 | -0,2 | -4,6 | 4,4 |
| USA | FTSE E/N United States | 3896,4 | USD | 3,2 | 10,4 | 14,5 | 16,0 | 42,8 |
| DEVELOPED ASIA | FTSE E/N Dev Asia | 1509,8 | EUR | 0,6 | 1,4 | 1,8 | -1,3 | 12,2 |

Graph sources: Bloomberg/BearBull Global Investments

### China's property market still in serious trouble

The difficulties of the sector persist at the beginning of the year and still give rise to fears of a slump in activity in the current context of the Chinese economic slowdown. Chinese developers are still in great difficulty and the sector suffers from very low visibility, particularly due to regulatory changes aimed at reducing the level of debt of developers. Evergrande defaulted in December on a USD 1.2 billion loan. "Big forever" is still rocking the Chinese property sector with its USD 300 billion debt. The entire sector has been in decline for months amid continuing uncertainty over the risk of defaults by the giants and other players in the sector.

It is unlikely that the Chinese government will intervene more massively to take over the debt of developers, but the PBOC is clearly engaged in a strategy to steer the risks of a credit crunch through appropriate monetary policy but also by motivating banks to support "healthy" developers wishing to acquire viable projects from struggling developers.

However, the Chinese property market is expected to see some more positive elements gradually coming into place in 2022. The postponement of the planned property tax is an element that could contribute to the beginning of a normalisation of the situation. In the medium term, the deceleration of the decline in real estate transactions expected in Q1 2022 would be the first positive sign to allow for a subsequent stabilisation of prices in Q2.

### Eurozone-focused investment strategy

International securitised real estate has finally benefited from a return to diversification amongst assets with improved prospects due to the global economic recovery in 2021. We still believe in early 2022 that this asset class remains undervalued and is likely to benefit from the improved investment climate during the year. The threat of rising interest rates in the coming months could possibly be seen as a short-term negative factor for the sector, but we consider that this would occur in a context of undervalued real estate values and would therefore not have any real immediate consequences.

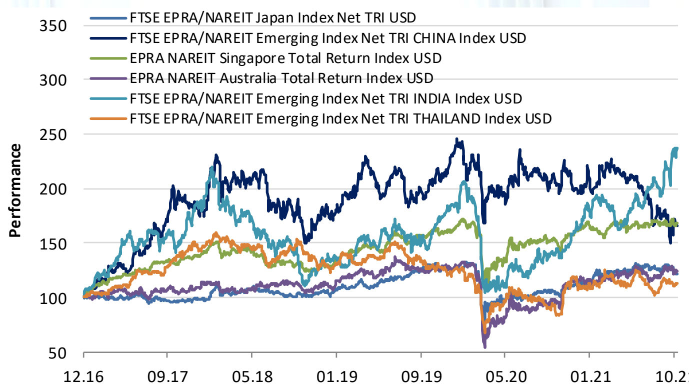
The competition from slightly better bond yields should also not be overestimated, as the yield spread in favour of real estate remains wide.

At current price levels, we maintain our positive outlook for international securitised real estate and suggest an overweight investment strategy and tactical allocation.

In terms of tactical positioning, we favour real estate markets in countries or regions that have not yet fully benefited from improved economic conditions.

Our regional allocation is diversified in the current environment but favours a revaluation of investments in the Eurozone, Asia and emerging markets.

Real estate markets (USD)




Graph sources: Bloomberg/BearBull Global Investments

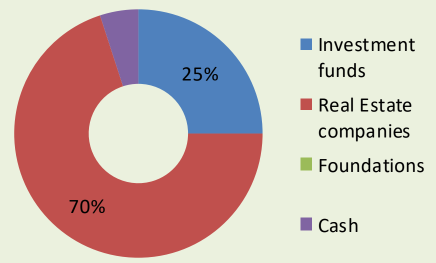
# PROSPECTS AND STRATEGIES

## Swiss Real Estate

- Direct real estate prices up +7%
- Excellent performance in 2021 for securitised real estate
- Less optimistic but positive outlook for 2022

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

Swiss Real Estate allocation




Tactical Allocation

- Beware of fund agios
- Favor listed real estate companies

### Direct real estate prices up 7%

Last year was again favourable for direct real estate investments, which saw their prices rise by another +7% approximately. Population growth of around 64,000 people per year, positive net migration (53,000) and historically very attractive interest rates all supported demand. Long-term interest rates remained relatively stable in 2021, with a volatility of +/-0.2% around -0.2% for ten-year federal bonds, ending the year close to the top of the range, near zero. Indeed, we believe that Swiss yields are also likely to follow the general trend and move into positive territory. However, this rise will not be sufficient to change the positive trends in Swiss real estate currently. While the yield spread has narrowed, there is still a differential of around 2% in favour of real estate funds and 3.3% for listed real estate companies.

### Excellent performance in 2021 for securitised real estate

Investment funds experienced positive developments in 2021, gaining +7.3%. This performance, above the 20-year average of +6.6%, allowed real estate funds to exceed their pre-pandemic highs by around +10%. During the same period, real estate companies also benefited from the repositioning of investors in this segment, recording a similar gain (+6.5%) and ending 2021 at the same level as the high reached in February 2020.

These increases have significantly increased the valuations of these market segments, which are now trading at premiums of 42% for funds and around 14% for real estate companies. In absolute terms, we consider this level of premiums 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.

### Less optimistic but positive outlook for 2022

Without overstating 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 investors' risk perceptions with respect to securitised real estate investments with already extreme valuations.

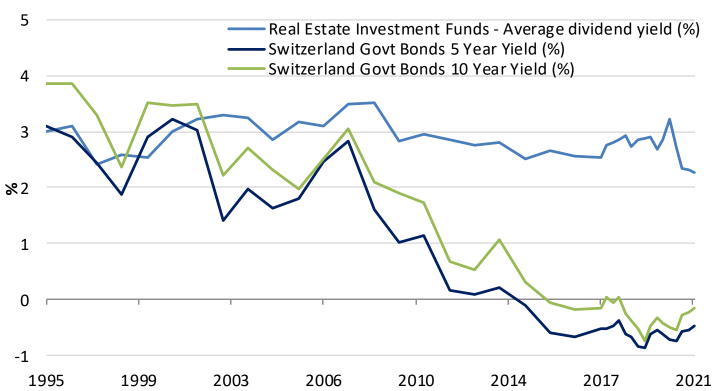
We believe that real estate fund premiums will be a significant drag on future price appreciation in 2022. We favour exposure to listed real estate companies, which have an average risk premium of just 25% of funds' premiums. They should logically outperform the real estate fund indices in 2022.

SWISS REAL ESTATE

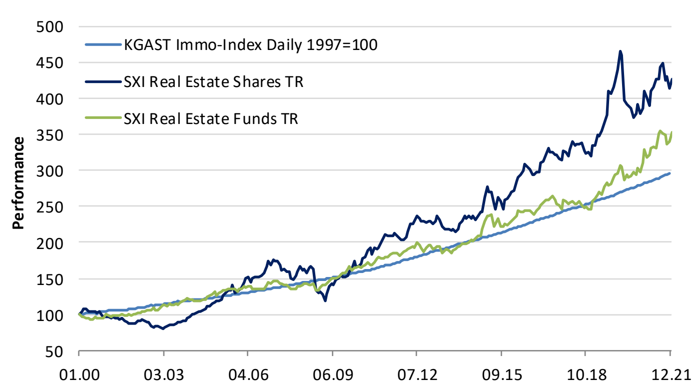
31.12.2021 — Total Return Performance

| Name | Last price | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|
| SXI Real Estate Funds TR | 518,8 | 1,7 | 2,5 | 1,9 | 1,9 | 7,3 |
| SXI Real Estate Idx TR | 3187,8 | 1,8 | 2,1 | 0,0 | 0,6 | 4,4 |
| KGAST Immo-Index | 333,9 | | | | 3,3 | 5,7 |

Government and Real Estate Yield




Performance of Swiss Real Estate



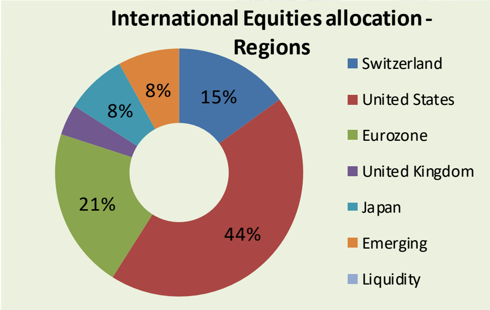

Graph sources: Bloomberg/BearBull Global Investments

# PROSPECTS AND STRATEGIES

## International Equities - Regions

- Monetary policies are not yet hampering equities
- A more uncertain environment for equities
- Relative valuations favourable to European equities
- Renewed interest in Chinese equities

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




**Tactical Allocation**

- Reduce risk and equity allocation
- Increase Liquidity

### Monetary policies are not yet hampering equities

Equity markets ended the year on a clearly positive and optimistic note without fear of the potentially disruptive effects of the monetary policy changes expected in 2022. The economic outlook was solid, and corporate profit growth was not in question. December thus contributed significantly to the rise in stock market indices over the year as a whole, with an average increase of +4.27%, bringing the performance of international equities to +21.82% in 2021. Equity PEs with a 12-month horizon are declining in some countries as we move into 2022, but based on relative historical valuations, the US (21.5x) and Switzerland (20x) in particular are at high levels. European indices are benefitting from more favourable price/earnings ratios (15.5x), as is the UK market (12x), while in Asia the valuation of Japanese Nikkei stocks at 17x looks a little more generous than Singapore (13x), Hong Kong or South Korea (11x). In 2022, a normalisation of borrowing costs could start to pose a valuation problem, particularly if margins were to be impacted by rising production costs.

### A more uncertain environment for equities

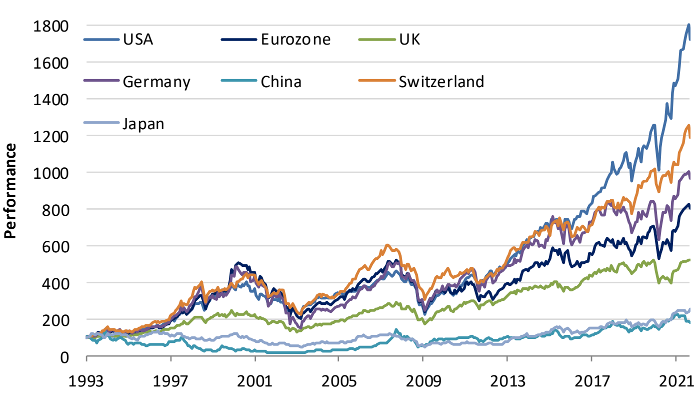
Therefore, the risks of corporate earnings revisions should not be neglected in an environment of possible PE contraction.

Risky assets benefited greatly from central bank liquidity injections in 2020 and 2021. The inflation of financial assets was in fact the first consequence of the influx of funds injected by central banks during the pandemic. The disappearance of these liquidity injections will not be without consequences for equity markets in particular. We believe that the expected adjustments in interest rates will lead to significant increases in bond yields, offering new alternatives for investment diversification and asset allocation. Risky assets, which were previously considered the only alternatives to zero or negative returns on fixed income investments, will suffer from this new competition. We should therefore potentially see a shift in asset allocation away from risky assets such as equities towards dollar bonds. Rising interest rates will also have an impact on capitalisation rates and on the valuation of assets such as equities. Equities had benefited from the massive fall in interest rates in 2020 and 2021. The new year should see the end of the expansion of price/earnings ratios and other multiples. This phase is expected to give way to a new regime characterised by a period of contraction in these ratios. Despite a favourable environment for business and profit growth, this new equity valuation regime will put a brake on the growth of equity indices, especially for stocks with particularly high multiples, such as certain technology stocks.

### Can equities withstand tapering and rising interest rates?

The disappearance of liquidity injections, which had largely driven the rise of equity markets and multiples, is likely to be a negative factor. The rise in interest rates in this context of high absolute and relative valuations is now a significant new risk factor. In relative terms, US stocks now seem less buoyed by these two factors than European stocks, which have a more favourable risk premium. US equities can still withstand tapering and rising interest rates, but it now seems reasonable to reduce relative exposure to the US.

Long-term Performance (Normalized at 100)




Chinese Equities - A and B (Normalized at 100)


Graph sources: Bloomberg/BearBull Global Investments

### Favourable relative valuations for European equities

In 2021 European equities finally performed in line with the growth prospects of listed companies. European shares have done well against US stocks but remain on average undervalued in our view. In terms of relative valuation, European equities offer a risk premium of around 30% over the S&P500. European equities are trading at around 16x 2022 earnings, which is much more reasonable than the US multiple of 21x. European growth in 2022 (+4.2%) is expected to be slightly higher than in the US (+3.9%), but European stocks are clearly expected to benefit from a more accommodative monetary policy environment. European equities therefore deserve to be overweight in a diversified international equity allocation.

### Nikkei profit growth not to be overlooked

Japanese companies appear to be in a relatively strong position in 2022 by international comparison. Earnings growth for Japanese listed companies is expected to be 14% to 15%, roughly double that estimated for international equities. Japanese equities significantly underperformed international stocks in 2021 with a relatively modest +5% increase compared to an overall increase of close to +27% for the S&P500 and +21% for European stocks. The rise in the risk premium for Japanese stocks along with the likely fall in the yen and the nearly USD 500 billion stimulus package offer reasons to be interested in the Japanese market. At just 17x expected earnings for 2022, the Nikkei is trading at a 20% discount to the S&P500. At year-end, the Japanese market is trading almost -6% lower than its September peak and offers attractive diversification opportunities for international investors.

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

In this context, 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, trading about 10% above European stocks by comparison. A consolidation phase in share prices thus also seems likely in Japan.

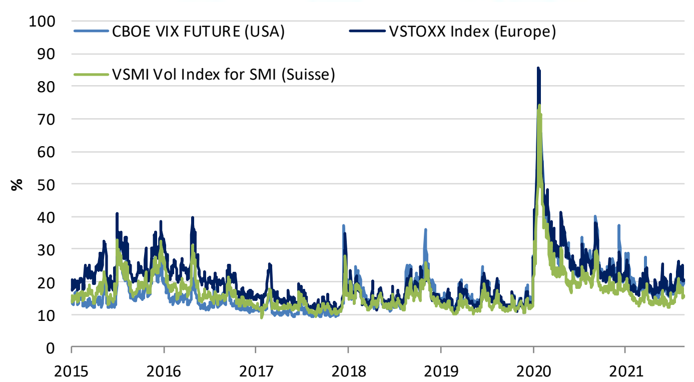
### Renewed interest in Chinese equities

The Chinese government's policy is likely to support both domestic growth through its more flexible monetary policy and exports through a controlled depreciation of the yuan. Lower interest rates and borrowing costs will logically support consumption and investment.

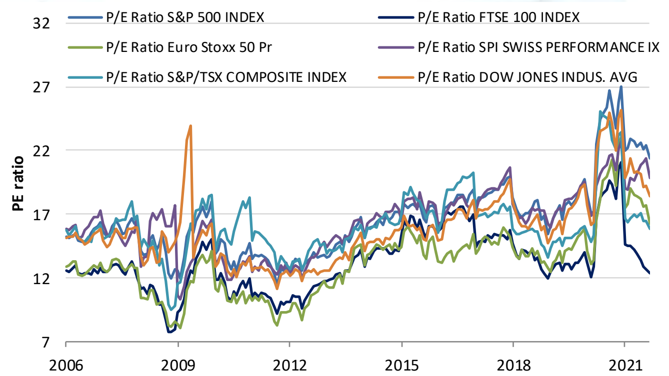
From an asset allocation and investment opportunity selection point of view, Chinese financial markets are expected to offer more attractive conditions in 2022 in terms of diversification for international investors. In the yuan bond markets in particular, the situation is significantly different than in the US, where inflation and the need to normalise monetary policy are leading to rate hikes and a more restrictive monetary policy. In contrast, in China, investment grade bond markets offer more attractive yields without the immediate risk of a reversal in the rate cycle and capital losses. In terms of high yield credit, price corrections have been quite massive in the wake of the Evergrande shock in the second half of 2021.

Selective opportunities in this segment could materialise in 2022. In the equity markets, Chinese companies are trading at a discount to US companies of as high as 40%. The 2022 PE of Chinese equities offers an interesting diversification opportunity given the improving economic outlook. Chinese equities could benefit from renewed interest from international investors seeking more reasonably priced investments in an environment that may call for a strengthening of rational factors in the stock selection process. China's technology sector, exporters and other domestic sectors appear to offer attractive valuations given their earnings growth outlook for 2022. Year-on-year in November, Chinese industrial companies' profits were decelerating but still up +38% to CNY 8 trillion, a record high.

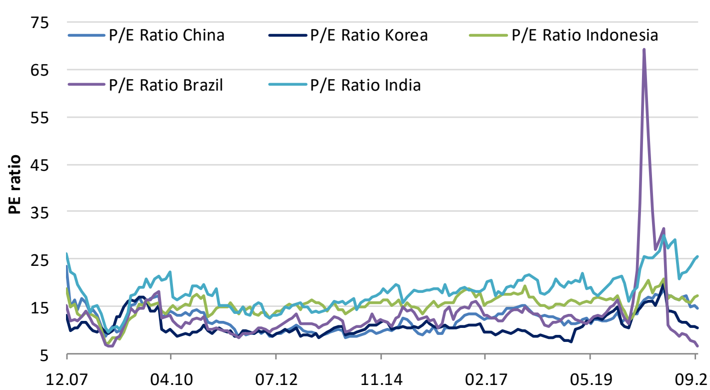
Volatility (USA, Europe, Switzerland)



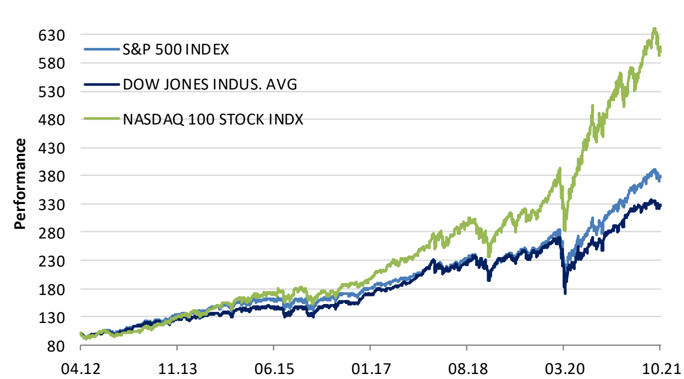

Price/Earnings Developed markets




Price/Earnings Emerging markets




US Equities (Normalized at 100)




Graph sources: Bloomberg/BearBull Global Investments

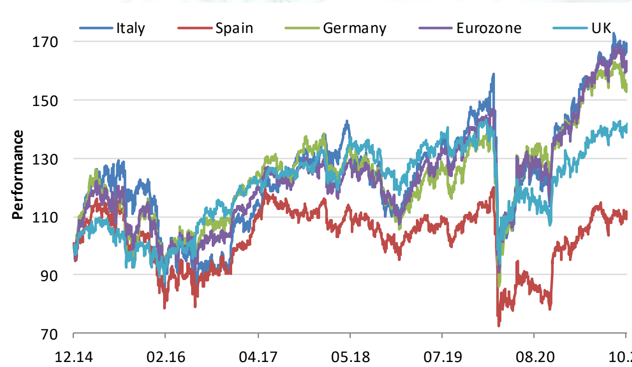
## UK equities enjoy a 20% risk premium

The UK equity market is still not reaping the benefits of its attractive valuation or of new positive momentum that is overdue. It continued to lag most other European markets in 2021, as in 2020. The FTSE 100 index's rise of around +14% in local currency in 2021 is well below that of European equities (+21%). UK stocks are still suffering from Brexit-related uncertainty. However, the FTSE 100 index is currently trading at 12x expected earnings for 2022 and thus benefits from a favourable risk premium of around 20% compared to European stocks (16x). This valuation gap is likely to be favourable, but the composition of the British stock market is likely still hampering the adjustment of British stock prices and valuations.

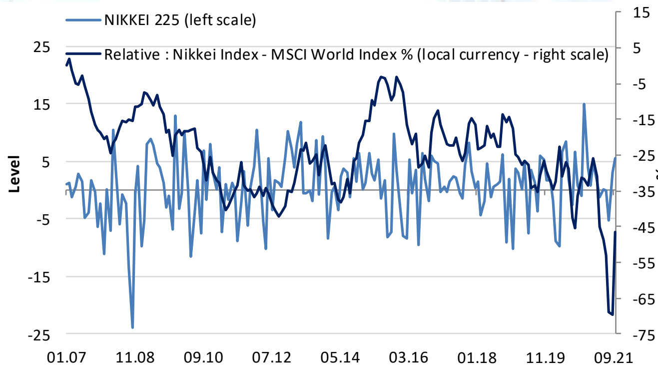
## Better prospects for emerging countries

As of early 2022, emerging markets appear somewhat better prepared to deal with new Covid infections due to favourable trends in vaccination rates. Improved global immunity will also reduce bottlenecks and disruptions in production chains. Improvements in this area would be good news for tourism-dependent emerging economies. Emerging economies linked to commodity production will continue to benefit from the current commodity super cycle. Expectations of a stronger dollar will certainly weigh on financial conditions in some emerging countries. But overall, emerging market valuations, which are slightly higher than historical averages, conceal considerable variation across countries, sectors, stocks and investment styles, which should provide interesting diversification opportunities. However, valuations relative to the US market look more attractive, while various emerging currencies look increasingly cheap. A more favourable environment could emerge in 2022 offering opportunities for upside in various markets. Emerging markets in Eastern Europe (Poland and Hungary) show solid economic growth and reasonable valuations. Brazil's valuations already reflect high levels of political and economic risk, while monetary easing could support the outlook.

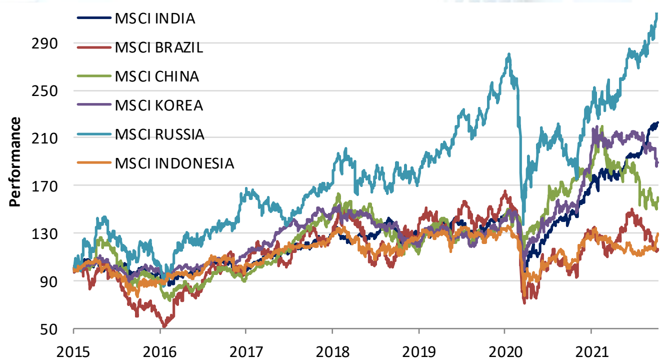
Performance of Stock markets (Normalized at 100)



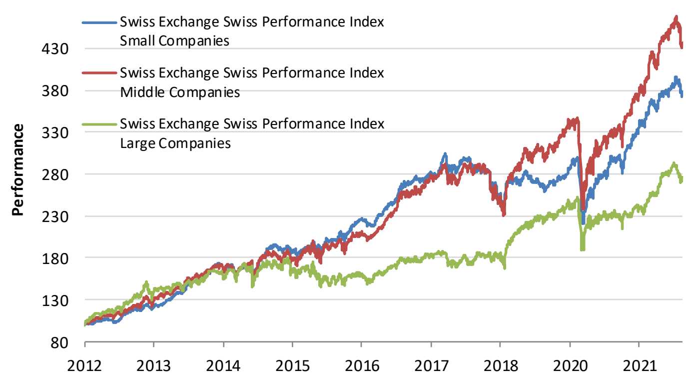

Japanese Equities VS MSCI World




Emerging Markets (Normalized at 100)




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




## EQUITIES - BY REGION (local currency)

31.12.2021 — Total Return Performance

| | Name | Last price | Curr. | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|---|---|
| SWITZERLAND | SPI Swiss Performance Index | 16444,5 | CHF | 0,8 | 4,9 | 9,9 | 6,8 | 23,4 |
| SWITZERLAND SMALL-MID CAPS | SPI Extra Total Return | 6128,6 | CHF | 1,1 | 4,2 | 4,5 | 2,9 | 22,2 |
| EUROPE | STXE 600 € Pr | 487,8 | EUR | 1,1 | 3,7 | 8,1 | 7,7 | 25,8 |
| EUROPE SMALL-MID CAPS | MSCI Europe Small Cap Net TR E | 603,0 | EUR | 1,8 | 3,0 | 4,8 | 5,6 | 23,8 |
| UK | FTSE All-Share Index | 4208,0 | GBP | 0,3 | 3,1 | 5,0 | 5,1 | 18,3 |
| USA | S&P 500 Index | 4766,2 | USD | 0,9 | 5,7 | 9,8 | 10,2 | 28,7 |
| USA SMALL-MID CAPS | RUSSELL 2500 | 932,9 | USD | 0,8 | 5,5 | 2,2 | 0,8 | 18,1 |
| JAPAN | NIKKEI 225 | 28791,7 | JPY | 0,1 | 3,2 | 0,2 | 0,8 | 6,6 |
| JAPAN SMALL-MID CAPS | Russell/Nomura Mid-Small Cap I | 1018,6 | JPY | 0,4 | 2,8 | -1,8 | 0,3 | 9,3 |
| ASIA EX-JAPAN | MSCI AC Asia Pac Ex Japan | 629,8 | USD | 1,0 | 0,8 | 0,1 | -7,6 | -2,7 |
| ASIA EX-JAPAN SMALL-MID CAPS | MSCI AC Asia Pacific Ex Japan Small Cap | 1346,8 | USD | 2,0 | 3,7 | 4,0 | 1,1 | 16,5 |
| EMERGING | MSCI EM | 1232,0 | USD | 0,9 | 0,6 | -0,8 | -8,0 | -2,5 |
| INTERNATIONAL EQUITIES -DIVERSIFIED USD | MSCI Daily TR Net World | 9755,7 | USD | 0,8 | 4,7 | 7,2 | 6,7 | 21,8 |

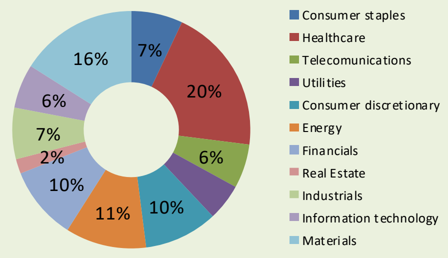
Graph sources: Bloomberg/BearBull Global Investments

# PROSPECTS AND STRATEGIES

## International Equities - Sectors

- Favour stocks that are less sensitive to rising interest rates
- Focus on financials, energy, basic materials, healthcare, alternative energy and mining
- Underweight technology stocks at excessive valuations

**International Equities allocation -sectors**




Tactical Allocation

- Underweight digital stocks and technology
- Overweight financialls, energy and mining companies

| 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

31.12.2021

| N° ISIN | Name | Last price | Curr. | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|---|---|
| | | | | Total Return Performance | | | | |
| CONSUMER DISCRETIONARY | MSCI WORLD/CONS DIS | 441,4 | USD | 0,5 | 1,3 | 8,1 | 5,7 | 18,2 |
| CONSUMER STAPLES | MSCI WORLD/CON STPL | 293,2 | USD | 1,8 | 8,4 | 9,8 | 7,6 | 13,7 |
| ENERGY | MSCI WORLD/ENERGY | 174,5 | USD | 0,7 | 3,8 | 2,9 | 5,1 | 41,8 |
| FINANCIALS | MSCI WORLD/FINANCE | 149,4 | USD | 0,8 | 4,1 | 3,3 | 5,8 | 28,7 |
| HEALTHCARE | MSCI WORLD/HLTH CARE | 369,6 | USD | 1,0 | 7,3 | 8,2 | 7,9 | 20,3 |
| INDUSTRIALS | MSCI WORLD/INDUSTRL | 350,4 | USD | 1,4 | 5,2 | 5,7 | 3,2 | 17,1 |
| MATERIALS | MSCI WORLD/MATERIAL | 360,1 | USD | 1,9 | 6,8 | 10,0 | 4,3 | 17,0 |
| REAL ESTATE | MSCI WORLD/REAL ESTATE | 269,5 | USD | 3,1 | 8,8 | 10,4 | 9,8 | 29,5 |
| TECHNOLOGY | MSCI WORLD/INF TECH | 572,5 | USD | 0,3 | 3,9 | 12,2 | 13,6 | 30,1 |
| TELECOMMUNICATION | MSCI WORLD/TEL SVC | 106,8 | USD | -0,7 | 3,7 | -3,0 | -3,1 | 14,8 |
| UTILITIES | MSCI WORLD/UTILITY | 164,2 | USD | 2,1 | 7,7 | 11,1 | 9,4 | 11,0 |

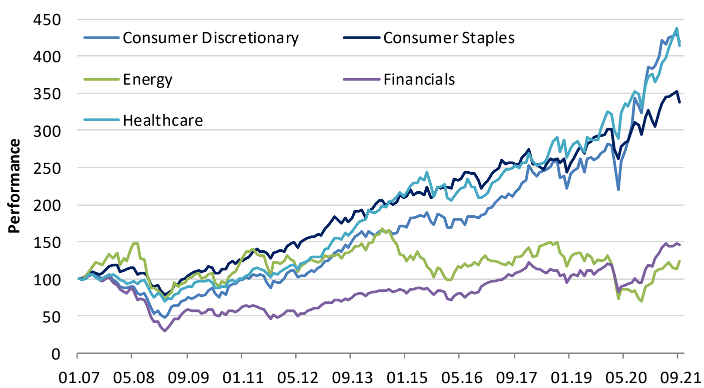
The recent period of economic growth and extremely low interest rates has largely supported the rise of most sectors, pushing the valuations of some of them to very high levels. The upcoming changes in monetary policy in 2022 will certainly provide an opportunity to normalise these sometimes very extreme valuations.

The new year could thus see a change in style favouring rational stock selection processes to the detriment of more speculative approaches linked to the simple momentum of stock prices with a promising but uncertain future. Investors are likely to place a higher value on quality companies with high margins, healthy balance sheets, steady cash flows and the ability to grow their business over the long term. It is also worth noting that within the technology sector, there are now a greater number of stocks with these characteristics.

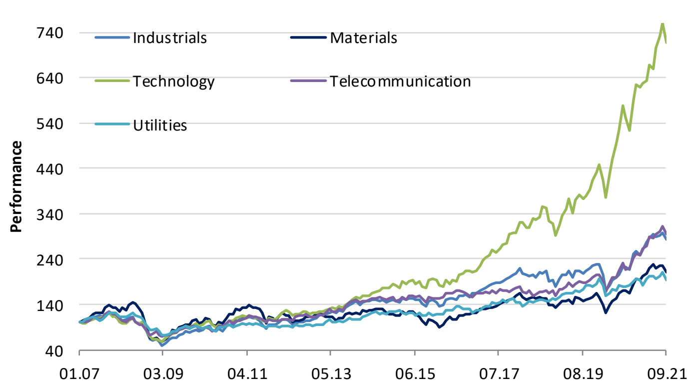
While overall an upward shift in the yield curves will certainly be more negative for growth stocks and more favourable to cyclical sectors and in particular to the banking sector, growth stocks meeting the criteria mentioned above should not be ruled out in 2022.

The technology sector has largely outperformed other sectors in 2021, and this trend is likely to slow in 2022. We expect profit-taking, especially on overvalued stocks. The sector is therefore underweighted. The banking and insurance sectors will benefit from the initial phase of rising long-term interest rates and still deserve an overweight allocation. Energy, especially alternative energy, and basic materials stocks are also favoured, due to their improved earnings growth prospects resulting from rising commodity prices. The mining sector will also benefit and is therefore likely to 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)



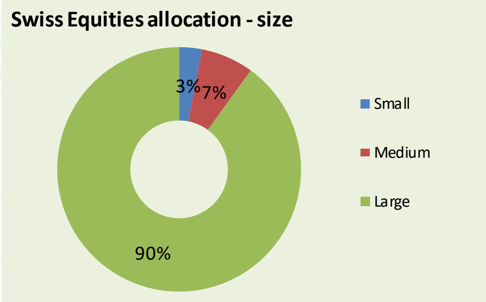

Graph sources: Bloomberg/BearBull Global Investments



BearBull Global Investments Group

# PROSPECTS AND STRATEGIES

## Swiss Equities




- A more difficult year for Swiss equities
- Yields still relatively attractive
- Swiss equities favourably impacted by a weaker franc

| 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

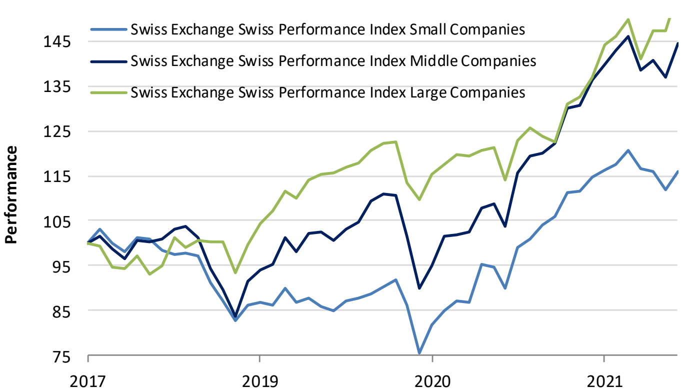
### A more difficult year for Swiss equities

Swiss equities ended the year with an exceptional performance (+23.38%). The Swiss indices gained +5.87% in December, almost a quarter of their annual performance. It may seem surprising that their performance in the last quarter (+9.31%) alone represents almost half of their annual gain, when Q4 saw the emergence of new destabilising factors for equity markets. Between the acceleration of inflation, the beginning of a change in monetary policy in the US and the UK, which logically should have led to fears of yield curve adjustments, a decrease in global liquidity and the emergence of a new Covid-19 variant, the stock market climate should have been less euphoric in Switzerland too.

On the contrary, valuations of Swiss shares reached record highs, suggesting caution rather than excessive optimism. However, the Swiss bond market was not immune to the paradigm shift in risky assets. Indeed, Swiss bonds reacted logically by following the same upward trend in yields. For Swiss equities, this rise in rates is also significant because it changes the discount factor for corporate profits. All else being equal, and in particular the profile of expected earnings for 2022, a rise in market rates is likely to have an impact on the degree of investor confidence and on the determination of the discount rate for corporate profits.

Therefore, the last quarter of the year clearly did not take these factors into account, but we believe that they cannot be ignored for long. While 2022 remains positive in terms of the outlook for revenue and profit growth of Swiss listed companies, the risk will certainly crystallise around stocks' valuation parameters. A further increase in yields at the beginning of 2022 is likely to eventually create competition for risky assets and trigger a new trend of general contraction in multiples. Steadily falling interest rates and the absence of inflationary pressures had allowed valuations to progress unimpeded. The new year is likely to pose some new challenges to this historical trend. Despite attractive earnings growth for 2022, we see a clear increase in the risks of a price correction in a context of contracting valuation multiples.

Swiss Equities Performance




Graph sources: Bloomberg/BearBull Global Investments

### Yields still relatively attractive

The average Swiss equity yield of around +2.5% is still higher than the US market yield (+1.4%), but it is still close enough to the European stock yield not to be a decisive distinguishing factor. That said, equity yields remain attractive for Swiss investors seeking an alternative to the negative yields of short-term investments and the Swiss bond market. Overall, Swiss equities will still benefit in 2022 from the lack of other investment alternatives for investors forced to turn to volatile assets given the lack of returns and the unattractiveness of the Swiss franc bond market.

### Swiss equities favourably impacted by a weaker franc

Our outlook for the franc is based on a probable weakening of our currency in a global macroeconomic context characterised by strong growth and a widening yield spread of the US, Australian and Canadian dollars against the franc. In 2022, the SNB will still be able to act to curb the franc's appreciation against the euro. The impact of a depreciation of the franc on the results of Swiss companies is expected to be positive and to support listed companies' earnings growth.

SWISS EQUITIES - Capitalization

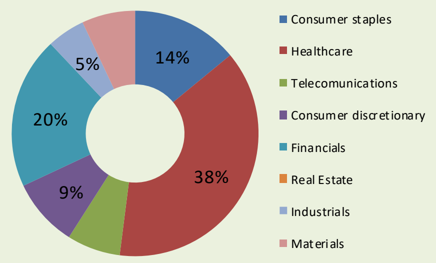
31.12.2021 — Total Return Performance

| Name | Last price | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|
| SPI SWISS PERFORMANCE IX | 16444,5 | 0,8 | 4,9 | 9,9 | 6,8 | 23,4 |
| SPI SMALL COMPANIES INDX | 32139,3 | 0,7 | 2,9 | 0,0 | -0,3 | 15,1 |
| SPI MIDDLE COMPANIES IDX | 23891,3 | 1,1 | 4,3 | 4,8 | 2,6 | 20,9 |
| SPI LARGE COMPANIES INDX | 15594,2 | 0,7 | 5,1 | 11,4 | 8,0 | 24,2 |

# Swiss Equities - Sectors

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

Swiss Equities allocation - sectors



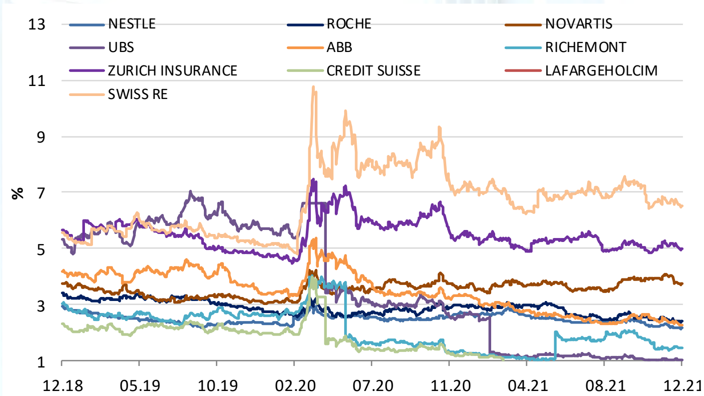

Tactical Allocation

- Overweight healthcare, food and banking sector

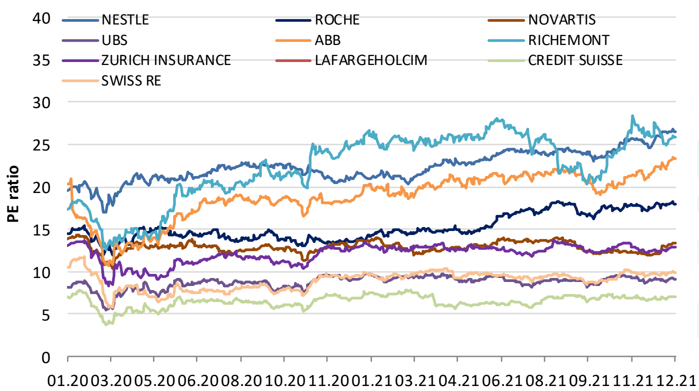
### Financials benefit from rising long-term interest rates

Swiss equities are currently trading at rather high valuation multiples in international comparison and compared to European stocks in particular, but also compared to historical measures for Swiss stocks. Price/earnings multiples for expected 12-month earnings lie at around 20%-25% above their historical averages for SMI, SPI and mid-cap stocks. This risk premium for Swiss stocks over international stocks can, however, be justified by the high value added and high productivity of Swiss companies. The innovative capacity of Swiss companies is also a distinguishing factor in the market. On average, Swiss companies spend almost 10% of their turnover on research and development, which is twice as much as the European average and significantly more than the US. From a strategic point of view, Swiss stocks still have an essential place in an internationally diversified equity allocation. Over the long term, Swiss companies, or in other words Swiss indices (SMI or SPI), have significantly outperformed international stocks. Over the last 30 years, for example, the SPI index has risen by 9.59%/ year, while the rise in international stocks measured by the MSCI World index was only +8.05% in USD and +6.62% in CHF. In 2022, the outlook for Swiss corporate earnings growth remains attractive (between +8% and +13%). The current environment is likely to favour the healthcare sector and Novartis in particular, whose valuation of 13x 12-month earnings seems particularly cheap. The banking sector is expected to benefit from the gradual normalisation of long-term rates and the stability of short-term rates, which is favourable to the growth of their interest margins. The financial sector is not affected by the logistical difficulties encountered in other industrial sectors which, in contrast, are seeing their costs increase and their margins potentially contract. The valuations of financial and insurance stocks are thus likely to come up. Medium-sized companies, which are often already richly valued, could be abandoned in favour of cyclical stocks with a high degree of control over their sales prices and margins.

Dividend Yield



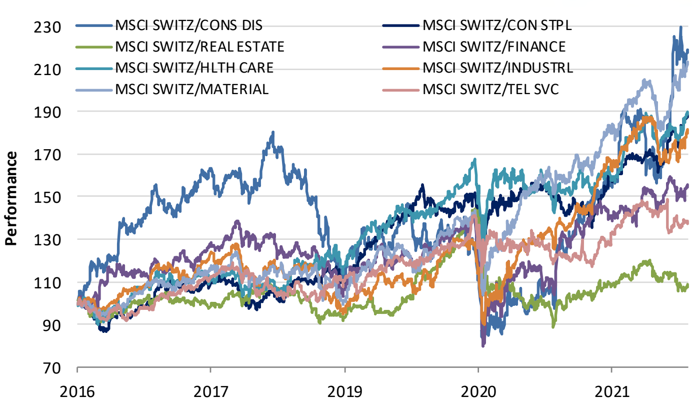

PE ratio




## SWISS EQUITIES - BY SECTOR

| 31.12.2021 | | Total Return Performance | | | | |
|---|---|---|---|---|---|---|
| Name | Last price | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
| MSCI SWITZ/CONS DIS | 441,0 | 1,3 | -1,2 | 34,2 | 18,8 | 63,9 |
| MSCI SWITZ/CON STPL | 424,4 | 0,4 | 8,0 | 14,0 | 11,1 | 26,0 |
| MSCI SWITZ/FINANCE | 64,4 | 0,4 | 1,6 | 7,1 | 8,4 | 17,8 |
| MSCI SWITZ/HLTH CARE | 214,7 | 0,7 | 5,6 | 8,5 | 6,1 | 20,3 |
| MSCI SWITZ/INDUSTRL | 258,7 | 1,1 | 6,5 | 7,4 | 1,3 | 29,4 |
| MSCI SWITZ/MATERIAL | 508,6 | 1,7 | 5,5 | 16,6 | 9,6 | 29,4 |
| MSCI SWITZ/REAL ESTATE | 1043,5 | 1,8 | 0,8 | -1,9 | -2,3 | 5,1 |
| MSCI SWITZ/TEL SVC | 97,3 | -0,5 | 0,5 | -3,7 | -2,5 | 12,7 |

Performance




Graph sources: Bloomberg/BearBull Global Investments



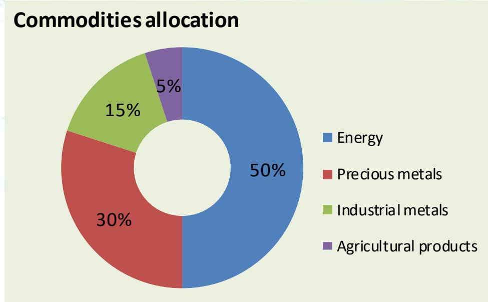
BearBull Global Investments Group

# PROSPECTS AND STRATEGIES

## Commodities

- Commodity-friendly environment in 2022
- Demand for crude oil strengthens, driving up prices
- Industrial metals on a steady upward trend

| 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 industrials metals
- Slight under exposure in the energy segment

### Commodity-friendly environment in 2022

Commodities consolidated in the final quarter, up only slightly by +1.51%, with the overall index nevertheless ending the year up +40.35%. The S&P Goldman Sachs Commodities index recorded its strongest gain since 2005 (+44.77%) in 2021 thanks to the rise in crude oil prices to USD 75 per barrel, an increase of +55.01% over the year. The overall index thus regained its 2018 levels, when oil had also reached USD 75. The current tensions in the energy segment reflect the significant discrepancies between supply and demand that crystallised as economies emerged from the pandemic. These tensions are now having various impacts on supply chains within the various energy production and distribution markets. Supply problems are exacerbated by the decline in inventories in 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. For precious metals (-5.13% in 2021), rising inflation is likely to support prices and investment demand, driving a new phase of price progression. Industrial metals (+29.63%) will continue to benefit from the positive economic cycle in 2022.

As an asset class, commodities have outperformed equity markets quite significantly (+21.82%) over the past twelve months. They are now reversing a trend that had previously been rather unfavourable to them, confirming their historical characteristic as an investment that outperforms other asset classes in phases of solid economic growth with an inflationary bias.

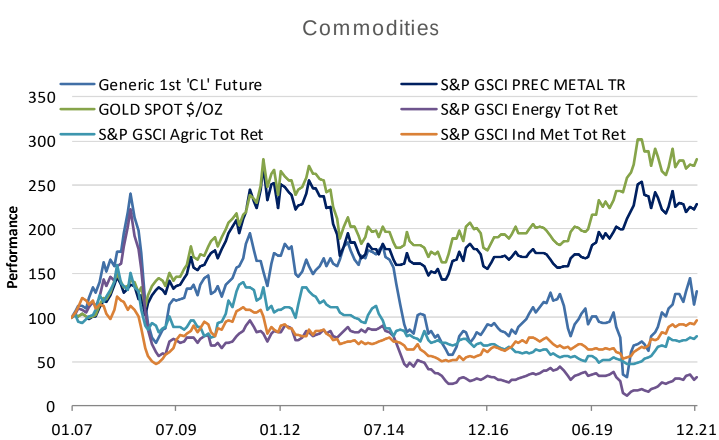
With the commodity super cycle expected to continue, we maintain our positive outlook for this asset class for 2022.

### Demand for crude oil strengthens, driving up prices

In Q4 2021, crude oil inventories in Cushing, Oklahoma, in the US plunged by 50% to their lowest level (26 million barrels) since 2018, down sharply from relatively high levels of over 60 million barrels a few quarters earlier. Over the past 15 years, extreme levels were reached in 2014 and 2018, at which times crude oil prices were above USD 100 and close to USD 80, respectively. Excluding strategic reserves, crude oil stocks fell by 2.1 million barrels at the end of the year and are now 8% lower than the 5-year average at the same time of year.

The winter of 2021-2022 is therefore beginning under the sign of persistent tensions in oil prices, despite the American president's decision to release oil from strategic reserves in order to slow the rise in prices. The situation in the world oil market is indeed tense due to a gradual increase in world demand linked to the post-pandemic economic recovery and to a still cautious production leading to a significant decrease in inventories. The upward pressure on crude oil prices is spreading to refined products and is still fuelling, albeit to a lesser extent, the inflation outlook.

Central banks are watching and hoping that new tensions in 2022 will not produce the same price increases as in 2021 so as not to drive up price indices, but they have no way of acting against this trend. Nor does the release of strategic reserves seem to be having a significant impact on prices or on the mindset of consumers or investors. From a demand perspective, we believe that the new Omicron variant will not have a significant impact on global growth and energy demand.




Graph sources: Bloomberg/BearBull Global Investments

COMMODITIES (USD)

31.12.2021 — Total Return Performance

| N° ISIN | Name | Last price | Curr. | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|---|---|
| | MSCI Daily TR Net World USD | 9755,69 | USD | 0,80 | 4,74 | 7,19 | 6,73 | 21,82 |
| GLOBAL | S&P GSCI Tot Return Indx | 2774,7 | USD | 0,5 | 7,8 | 0,7 | 5,7 | 40,4 |
| WTI CRUDE | Generic 1st 'CL' Future | 75,2 | USD | 1,9 | 14,7 | -0,9 | 0,1 | 55,0 |
| BRENT OIL | Generic 1st 'CO' Future | 77,8 | USD | 2,2 | 12,9 | -1,9 | 2,1 | 50,2 |
| NATURAL GAS | Generic 1st 'NG' Future | 3,7 | USD | 0,0 | -12,4 | -33,6 | 0,8 | 46,9 |
| OR | GOLD SPOT $/OZ | 1829,2 | USD | 1,0 | 2,7 | 3,9 | 2,3 | -3,6 |
| ARGENT | Silver Spot $/Oz | 23,3 | USD | 1,3 | 4,4 | 3,4 | -11,9 | -11,7 |
| AGRICULTURE | S&P GSCI Agric Indx Spot | 445,2 | USD | -2,3 | 2,8 | 5,5 | 8,5 | 21,1 |
| INDUSTRIAL METALS | S&P GSCI Ind Metal Spot | 499,2 | USD | 0,3 | 4,4 | 5,4 | 7,9 | 30,7 |

OPEC shares this view despite its members' recent decision to increase their crude oil production in 2022 a little faster than expected. It is likely the weakness of non-OPEC crude production that has convinced the organisation to relax its policy. US and Canadian production is experiencing some difficulties due to the intense cold, while stocks have contracted significantly. But it is also the weak recovery in non-conventional crude oil production that is keeping US production well below its previous level. Global demand is expected to gradually recover and increase by over 4 million barrels per day. By mid-June, global demand could exceed 100 million barrels per day. In this context, note that Russia and Libya have not been able to benefit from the increase in production quotas.

While the US physical market is pointing to an increasingly tight supply/demand equilibrium, crude oil prices are also somewhat higher based on short-term futures. In the futures and options markets, we are now seeing price levels above USD 100 a barrel and higher. In 2022, with the exception of a possible comeback of shale oil production in the US, only two countries seem capable of raising their production levels above those observed in 2020, namely Saudi Arabia and the United Arab Emirates.

Recall as well that for several years capital expenditure (capex) in the oil sector has fallen continuously, which will continue to penalise supply levels in the long term. Indeed, the great energy transition that is now underway will take time to materialise and to develop all its anticipated effects. In the meantime, energy prices are likely to continue to benefit from the tensions between limited supply and excess demand.

### Consolidation continues in precious metals

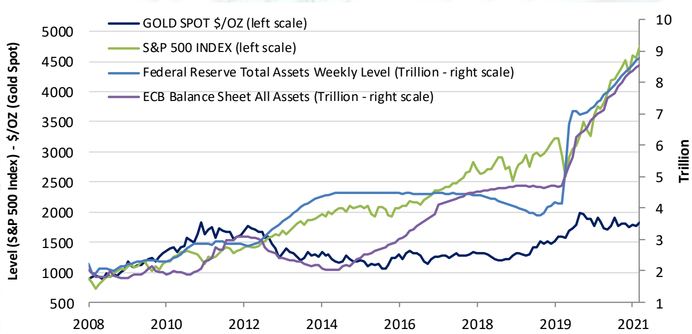
Precious metals are continuing to consolidate. Prices are hovering around central values of USD 1,800 per ounce for gold and USD 25 for silver. Rising inflation has not yet triggered a new upward trend in precious metals. However, inflation is the main explanatory factor for fluctuations in precious metals in the long term. In the short term, however, rising interest rates, a stronger dollar and the possibility of a fed funds rate hike in March seem to be having a further negative impact on gold and silver prices. For palladium and platinum, 2022 is likely to see a return of demand from the automotive sector. Excess demand will drive these two metals higher to USD 2,000 and USD 1,500 per ounce. We believe that precious metals now offer an excellent opportunity for diversification and value preservation in the current, more uncertain environment for risky assets.

### Industrial metals on steady upward trend

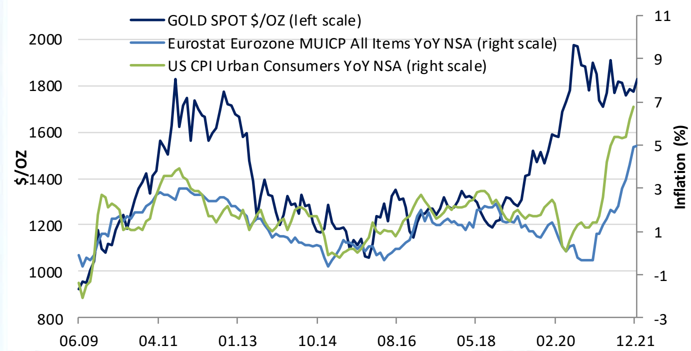
The long-term outlook for the vast majority of industrial metals remains very positive. We continue to believe that the energy transition will be particularly favourable for certain metals, which will benefit from a super bull cycle. Capital expenditure (capex) has been halved in recent years by producers, suggesting a significant effect 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 lasting and positive consequences for the green energy sector and for transport, which is likely to benefit industrial metals and copper in particular. The latter will benefit from increased demand for infrastructure, wind projects, rail and the developing electric car sector.

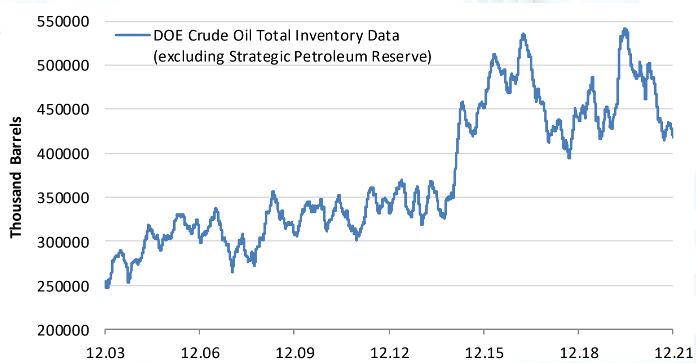
Gold and Global liquidity



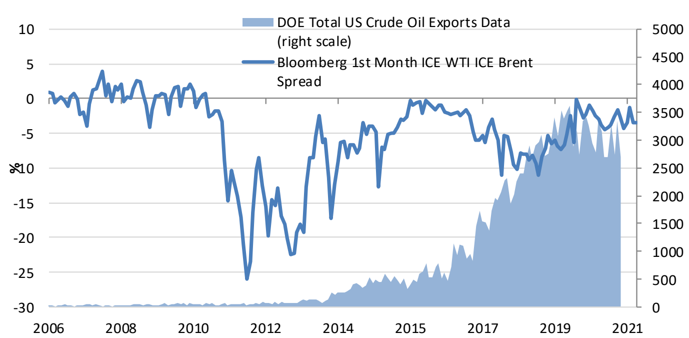

Gold and Inflation




Crude Oil Inventory (USA)




WTI - Brent Price Spread




Graph sources: Bloomberg/BearBull Global Investments

# PROSPECTS AND STRATEGIES

## Hedge Funds

- Hedge funds stagnate in Q4

During the last quarter of the year, alternative investments stagnated at +0.1% above their September level, for an annual increase of +3.7%. Hedge funds were not able to take full advantage of the clearly positive results of equity markets in 2021, which rose overall by +22%.

As in the previous quarter, only the equity hedge strategy managed to stay in the black between September and December (+2.7%). It was also the only strategy to end the year with a result significantly different from 0 (+12.1%). The event-driven, macro/CTA and relative value arbitrage approaches fell by -1.8%, -0.9% and -0.4%, respectively, in the last quarter and performed poorly over the whole year (+0.5%, -0.8% and +0.4%).

## Private Equity

- Best annual result of the 21st century

In 2021, private equity benefited from an extremely favourable environment, characterised by low or negative interest rates and considerable global liquidity that pushed investors to take risks. As a result, private equity fund managers, having to invest large amounts of cash in fewer and fewer projects, were pushed into paying sums well beyond rational valuations. The asset class thus climbed by +12.4% during the last quarter of the year and achieved its best annual performance (+60.7%) since 1999 when it almost tripled (+171.84%).

The US ended the quarter with the largest increase (+12.3%), ahead of the UK (+10.1%) and Europe (+8.5%). The same is true for the year as a whole, with the US leading the way (+64.3%), followed by the UK (+42.6%) and Europe (+41.8%).

### HEDGE FUND INDICES (USD)

31.12.2021

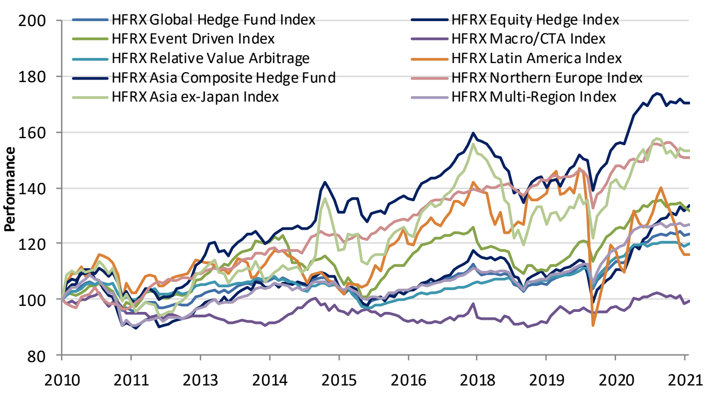
| N° ISIN | Name | Last price | Curr. | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|---|---|
| | | | | Total Return Performance | | | | |
| GLOBAL | HFRX Global Hedge Fund Index | 1430,9 | USD | 0,2 | 0,5 | -0,1 | -0,3 | 3,7 |
| EQUITY HEDGE | HFRX Equity Hedge Index | 1494,8 | USD | 0,4 | 1,9 | 2,3 | 3,3 | 12,1 |
| EVENT DRIVEN | HFRX Event Driven Index | 1770,2 | USD | 0,1 | -1,0 | -2,0 | -2,9 | 0,5 |
| MACRO/CTA | HFRX Macro/CTA Index | 1221,1 | USD | 0,3 | 0,8 | -0,8 | -2,5 | -0,8 |
| RELATIVE VALUE ARBITRAGE | HFRX Relative Value Arbitrage | 1354,8 | USD | 0,2 | 0,5 | -0,4 | -0,5 | 0,4 |
| LATIN AMERICA* | HFRX Latin America Index | 1920,7 | USD | - | 1,2 | -6,5 | -16,0 | -10,8 |
| ASIA COMPOSITE* | HFRX Asia Composite Hedge Fund Index | 2768,1 | USD | - | 0,7 | 0,7 | -1,1 | 3,3 |
| NORTHERN EUROPE* | HFRX Northern Europe Index | 2219,8 | USD | - | 1,9 | -0,4 | -1,0 | 2,1 |
| ASIA EX-JAPAN* | HFRX Asia ex-Japan Index | 2885,0 | USD | - | -0,2 | 1,2 | -2,9 | 3,0 |
| MULTI-REGION | HFRX Multi-Region Index | 1577,4 | USD | 0,2 | 0,2 | 0,0 | -0,4 | 1,4 |

### PRIVATE EQUITY INDICES (EUR)

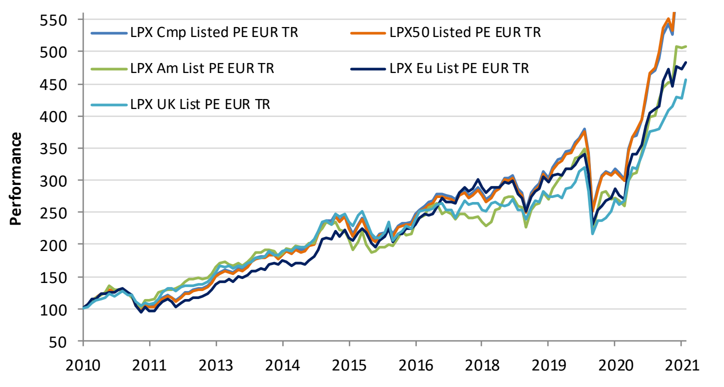
31.12.2021

| N° ISIN | Name | Last price | Curr. | 7 d % | 1 m % | 3 m % | 6 m % | YTD % |
|---|---|---|---|---|---|---|---|---|
| | | | | Total Return Performance | | | | |
| COMPOSITE | LPX Cmp Listed PE EUR TR | 491,8 | EUR | -0,4 | 0,2 | 12,3 | 18,9 | 60,7 |
| MAJOR COMPANIES | LPX50 Listed PE EUR TR | 4746,2 | EUR | -0,3 | 0,3 | 12,1 | 17,8 | 62,9 |
| USA | LPX Am List PE EUR TR | 675,4 | EUR | -0,8 | 1,7 | 11,6 | 17,4 | 64,3 |
| EUROPE | LPX Eu List PE EUR TR | 1545,8 | EUR | 1,4 | 0,8 | 8,7 | 14,1 | 41,8 |
| UK | LPX UK List PE EUR TR | 510,4 | EUR | 1,4 | 4,8 | 10,3 | 17,8 | 42,6 |

Hedge funds




Private Equity




Graph sources: Bloomberg/BearBull Global Investments



BearBull Global Investments Group

# GLOBAL STRATEGY & ASSET ALLOCATION

Graph sources: Bloomberg/BearBull Global Investments

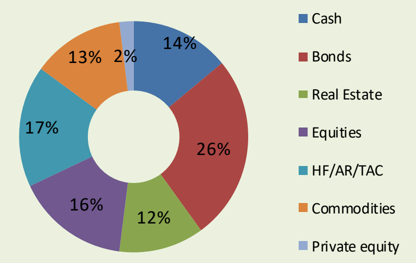
# GLOBAL STRATEGY I ASSET ALLOCATION

## Diversified portfolio: Medium Risk - CHF

- Outlook for bond markets collapses
- Financial cycle less supportive of equity markets
- Real estate and commodities remain attractive

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

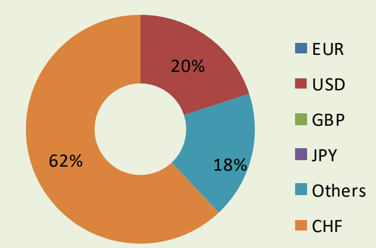
Asset allocation - CHF portfolio




### Tactical Allocation

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

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 is currently very broadly diversified across asset classes. Equity exposure is more conservative with a reduced allocation at the beginning of the year. Opportunities have become very scarce in the bond segment, which is again under severe pressure due to the announced changes in monetary policy in the US and the UK in particular. Real estate is still an attractive source of diversification in early 2022. Precious metals are also favoured in this more uncertain environment marked by persistent inflation.

### Bonds

Inflation is now perceived by central banks as more likely to persist, which has spurred upward movement in the bond markets, temporarily interrupted only by the emergence of the Omicron variant. The correlation amongst bond markets was again reflected in similar adjustments in the yield curves in different currencies. Interest rates have logically trended upwards as inflation has reached new highs and are expected to continue to rise more robustly in 2022. In this context, financial markets have begun a new phase of yield adjustment, which is likely to persist, penalising the performance of bond markets. We recommend a cautious bond strategy favouring dollar investments, very short durations, and diversification into FRNs, TIPS and ILS.

### Equities

The new year is likely to see the end of the process of expansion of price/earnings ratios and other multiples and is expected to give way to a new regime characterised by a period of contraction of these ratios. The threat of corporate earnings revisions should not be overlooked in this environment. Equities have benefited greatly from central bank liquidity injections in 2020 and 2021. The disappearance of these liquidity injections will not be without consequences. Despite a favourable environment for business and profit growth, this new equity valuation regime will act as a brake on the growth of equity indices, especially for stocks with particularly high multiples, such as certain technology stocks.

### Commodities

Commodities performed very well in 2021, thanks to the rise in energy and industrial metals. Rising inflation and risk parameters are expected to support demand for precious metals investments, which are more than ever an ideal protection in case of new turbulences in equity markets.

### Real estate

Real estate is still the main alternative to interest rate markets. We favour real estate markets in countries or regions that do not fear a rapid rise in interest rates and whose business cycle positioning is favourable.

### Currencies

Covid-19 has temporarily increased demand for Swiss francs, but we expect this to decrease as the health situation improves. The US dollar remains the preferred currency in the current economic climate. The franc is likely to suffer from increasing yield differentials against it.

Market performances - Q4 2021

| | | Q4 2021 local | Q4 2021 CHF | YTD local | YTD CHF |
|---|---|---|---|---|---|
| **Exchange rates** | | | | | |
| USD/CHF | | -0,3% | | 3,1% | |
| EUR/CHF | | -2,0% | | -4,0% | |
| GBP/CHF | | -1,6% | | 1,9% | |
| JPY/CHF | | -1,3% | | -7,5% | |
| **Equity markets** | | | | | |
| World | MSCI World USD | 2,0% | 1,6% | 21,8% | 25,6% |
| Europe | DJ Stoxx 600 | 2,8% | 0,7% | 24,9% | 19,9% |
| Eurozone | DJ Eurostoxx 50 | 1,1% | -0,9% | 21,0% | 16,1% |
| | MSCI Europe S.C. | 0,8% | -1,2% | 21,8% | 16,8% |
| Germany | Dax 30 | 1,2% | -0,7% | 15,8% | 11,1% |
| France | Cac 40 | 4,7% | 2,7% | 28,9% | 23,6% |
| United Kingdom | FTSE 100 | 2,0% | 0,4% | 14,3% | 16,5% |
| Switzerland | SPI | 5,3% | 5,3% | 23,4% | 23,4% |
| | SMI | 6,3% | 6,3% | 20,3% | 20,3% |
| | MSCI Swiss S.C. | 1,1% | 1,1% | 16,8% | 16,8% |
| North America | SP500 | 3,5% | 3,1% | 26,9% | 30,9% |
| | Nasdaq | 0,9% | 0,6% | 21,4% | 25,2% |
| | Tse 300 | 0,9% | -1,3% | 21,7% | 26,8% |
| | SP600 Small C. | 1,8% | 1,5% | 25,3% | 29,2% |
| Japan | Nikkei 225 | -0,3% | -1,7% | 4,9% | -3,0% |
| Emerging | MSCI EMF USD | -2,6% | -2,9% | -4,6% | -1,6% |

| | | Q4 2021 local | Q4 2021 CHF | YTD local | YTD CHF |
|---|---|---|---|---|---|
| **Interest rates (3 months)** | | *(level)* | | | |
| CHF | | -0,75% | | | |
| EUR | | -0,58% | | | |
| USD | | 0,21% | | | |
| JPY | | -0,08% | | | |
| **Bonds markets** | | | | | |
| World | Citi Gr Global Govt.USD | -0,7% | -1,0% | -7,0% | -4,1% |
| Europe | Euro Ser-E Gov > 1 | 0,1% | -1,9% | -3,5% | -7,4% |
| United Kingdom | UK Ser-E Gov > 1 | 0,2% | -1,4% | -5,3% | -3,4% |
| Switzerland | SBI Général AAA-BBB | 0,6% | 0,6% | -1,8% | -1,8% |
| | SBI Govt. | 0,8% | 0,8% | -4,2% | -4,2% |
| USA | US Ser-E Gov > 1 | 0,2% | -0,1% | -2,3% | 0,7% |
| Japan | Japan Ser-E Gov > 1 | 0,0% | -1,3% | -0,2% | -7,7% |
| Emerging | J.P. Morgan EMBI Global | 0,0% | -0,4% | -1,5% | 1,6% |
| **Miscellaneaous** | | | | | |
| | LPP 25 Index | 0,9% | 0,9% | 3,5% | 3,5% |
| | LPP 40 Index | 1,2% | 1,2% | 7,1% | 7,1% |
| | LPP 60 Index | 1,5% | 1,5% | 12,0% | 12,0% |
| Real Estate CH | DB RB Swiss Real Est Fd | 4,5% | 4,5% | 6,1% | 6,1% |
| Hedge Funds | Hedge Fund Research USD | -0,5% | -0,8% | 2,9% | 6,1% |
| Commodities | GS Commodity USD | -4,1% | -4,4% | 40,4% | 44,7% |

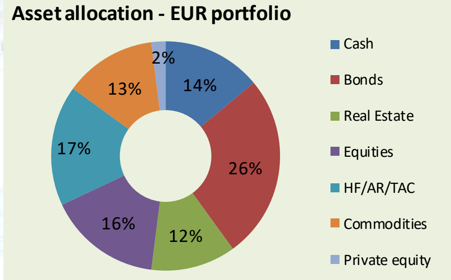
Graph sources: Bloomberg/BearBull Global Investments

# GLOBAL STRATEGY I ASSET ALLOCATION

## Diversified portfolio: Medium Risk - EUR

- Outlook for bond markets collapses
- Financial cycle less supportive of equity markets
- Real estate and commodities remain attractive
- Dollar back in favour

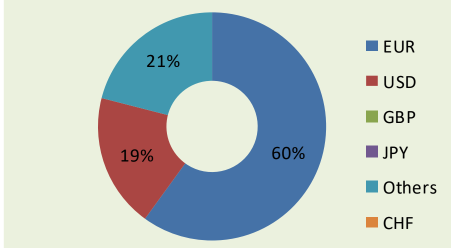
**Asset allocation - EUR portfolio**




Tactical Allocation

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

**Currency allocation - EUR portfolio**




| ASSETS | Expected Return | | ALLOCATION (EUR Portfolio) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | underweight | | | neutral | overweight | | |
| | 3months | 1year | --- | -- | - | = | + | ++ | +++ |
| 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 is currently very broadly diversified across asset classes. Equity exposure is more conservative with a reduced allocation at the beginning of the year. Opportunities have become very scarce in the bond segment, which is again under severe pressure due to the announced changes in monetary policy in the US and the UK in particular. Real estate is still an attractive source of diversification in early 2022. Precious metals are also favoured in this more uncertain environment marked by persistent inflation.

### Bonds

Inflation is now perceived by central banks as more likely to persist, which has spurred upward movement in the bond markets, temporarily interrupted only by the emergence of the Omicron variant. The correlation amongst bond markets was again reflected in similar adjustments in the yield curves in different currencies. Interest rates have logically trended upwards as inflation has reached new highs and are expected to continue to rise more robustly in 2022. In this context, financial markets have begun a new phase of yield adjustment, which is likely to persist, penalising the performance of bond markets. We recommend a cautious bond strategy favouring dollar investments, very short durations, and diversification into FRNs, TIPS and ILS.

### Equities

The new year is likely to see the end of the process of expansion of price/earnings ratios and other multiples and is expected to give way to a new regime characterised by a period of contraction of these ratios. The threat of corporate earnings revisions should not be overlooked in this environment. Equities have benefited greatly from central bank liquidity injections in 2020 and 2021. The disappearance of these liquidity injections will not be without consequences. Despite a favourable environment for business and profit growth, this new equity valuation regime will act as a brake on the growth of equity indices, especially for stocks with particularly high multiples, such as certain technology stocks.

### Commodities

Commodities performed very well in 2021, thanks to the rise in energy and industrial metals. Rising inflation and risk parameters are expected to support demand for precious metals investments, which are more than ever an ideal protection in case of new turbulences in equity markets.

### Real estate

Real estate is still the main alternative to interest rate markets. We favour real estate markets in countries or regions that do not fear a rapid rise in interest rates and whose business cycle positioning is favourable.

### Currencies

The euro suffered in 2021 from negative yield differentials and economic lag in relation to the US. The European currency also failed to establish itself as a safe haven during the year, a role that was played instead by the franc. The euro is now expected to regain some ground against the Swiss currency.

Market performances - Q4 2021

| | | Q4 2021 | | YTD | |
|---|---|---|---|---|---|
| | | local | EUR | local | EUR |
| **Exchange rates** | | | | | |
| USD/EUR | | 1,7% | | 7,4% | |
| CHF/EUR | | 2,0% | | 4,2% | |
| GBP/EUR | | 0,4% | | 6,3% | |
| JPY/EUR | | 0,7% | | -3,6% | |
| **Equity markets** | | | | | |
| World | MSCI World USD | 2,0% | 3,7% | 21,8% | 30,9% |
| Europe | DJ Stoxx 600 | 2,8% | 2,8% | 24,9% | 24,9% |
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| | MSCI Europe S.C. | 0,8% | 0,8% | 21,8% | 21,8% |
| Germany | Dax 30 | 1,2% | 1,2% | 15,8% | 15,8% |
| France | Cac 40 | 4,7% | 4,7% | 28,9% | 28,9% |
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| Switzerland | SPI | 5,3% | 7,5% | 23,4% | 28,6% |
| | SMI | 6,3% | 8,5% | 20,3% | 25,4% |
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| North America | SP500 | 3,5% | 5,2% | 26,9% | 36,3% |
| | Nasdaq | 0,9% | 2,6% | 21,4% | 30,4% |
| | Tse 300 | 0,9% | 0,5% | 21,7% | 31,7% |
| | SP600 Small C. | 1,8% | 3,5% | 25,3% | 34,6% |
| Japan | Nikkei 225 | -0,3% | 0,3% | 4,9% | 1,1% |
| Emerging | MSCI EMF USD | -2,6% | -1,0% | -4,6% | 2,5% |

| | | Q4 2021 | | YTD | |
|---|---|---|---|---|---|
| | | local | EUR | local | EUR |
| **Interest rates (3 months)** | | *(level)* | | | |
| CHF | | -0,75% | | | |
| EUR | | -0,58% | | | |
| USD | | 0,21% | | | |
| JPY | | -0,08% | | | |
| **Bonds markets** | | | | | |
| World | Citi Gr Global Govt.USD | -0,7% | 1,3% | -7,0% | -3,1% |
| Europe | Euro Ser-E Gov > 1 | 0,1% | 0,1% | -3,5% | -3,5% |
| United Kingdom | UK Ser-E Gov > 1 | 0,2% | 0,7% | -5,3% | 0,7% |
| Switzerland | SBI Général AAA-BBB | 0,6% | 2,7% | -1,8% | 2,3% |
| | SBI Govt. | 0,8% | 2,8% | -4,2% | -0,2% |
| USA | US Ser-E Gov > 1 | 0,2% | 1,9% | -2,3% | 4,9% |
| Japan | Japan Ser-E Gov > 1 | 0,0% | 0,7% | -0,2% | -3,8% |
| Emerging | J.P. Morgan EMBI Global | 0,0% | 1,6% | -1,5% | 5,8% |
| **Miscellaneaous** | | | | | |
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| Real Estate CH | DB RB Swiss Real Est Fd | 4,5% | 4,5% | 6,1% | 10,6% |
| Hedge Funds | Hedge Fund Research USD | -0,5% | 1,2% | 2,9% | 10,5% |
| Commodities | GS Commodity USD | -4,1% | -2,5% | 40,4% | 50,8% |

Graph sources: Bloomberg/BearBull Global Investments



BearBull Global Investments Group

# GLOBAL STRATEGY I ASSET ALLOCATION

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- Financial cycle less supportive of equity markets
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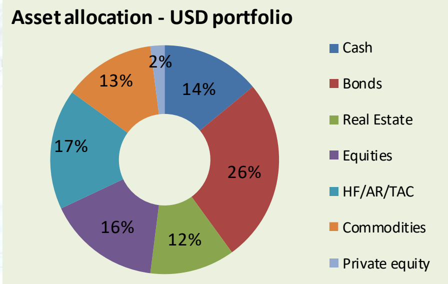
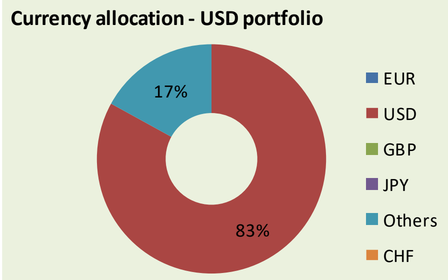



Tactical Allocation

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




| ASSETS | Expected Return 3months | Expected Return 1year | ALLOCATION (USD 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 is currently very broadly diversified across asset classes. Equity exposure is more conservative with a reduced allocation at the beginning of the year. Opportunities have become very scarce in the bond segment, which is again under severe pressure due to the announced changes in monetary policy in the US and the UK in particular. Real estate is still an attractive source of diversification in early 2022. Precious metals are also favoured in this more uncertain environment marked by persistent inflation.

### Bonds

Inflation is now perceived by central banks as more likely to persist, which has spurred upward movement in the bond markets, temporarily interrupted only by the emergence of the Omicron variant. The correlation amongst bond markets was again reflected in similar adjustments in the yield curves in different currencies. Interest rates have logically trended upwards as inflation has reached new highs and are expected to continue to rise more robustly in 2022. In this context, financial markets have begun a new phase of yield adjustment, which is likely to persist, penalising the performance of bond markets. We recommend a cautious bond strategy favouring dollar investments, very short durations, and diversification into FRNs, TIPS and ILS.

### Equities

The new year is likely to see the end of the process of expansion of price/earnings ratios and other multiples and is expected to give way to a new regime characterised by a period of contraction of these ratios. The threat of corporate earnings revisions should not be overlooked in this environment. Equities have benefited greatly from central bank liquidity injections in 2020 and 2021. The disappearance of these liquidity injections will not be without consequences. Despite a favourable environment for business and profit growth, this new equity valuation regime will act as a brake on the growth of equity indices, especially for stocks with particularly high multiples, such as certain technology stocks.

### Commodities

Commodities performed very well in 2021, thanks to the rise in energy and industrial metals. Rising inflation and risk parameters are expected to support demand for precious metals investments, which are more than ever an ideal protection in case of new turbulences in equity markets.

### Real estate

Real estate is still the main alternative to interest rate markets. We favour real estate markets in countries or regions that do not fear a rapid rise in interest rates and whose business cycle positioning is favourable.

### Currencies

The US dollar is likely to remain one of the best performing currencies in 2022. It is expected to benefit from a strong improvement in its relative attractiveness through the likely rise in expected yield spreads across the yield curve. It is expected to appreciate against the yen, the yuan and the franc. However, the Australian and Canadian dollars could match it and appreciate against the greenback if global growth were to further increase demand for commodities.

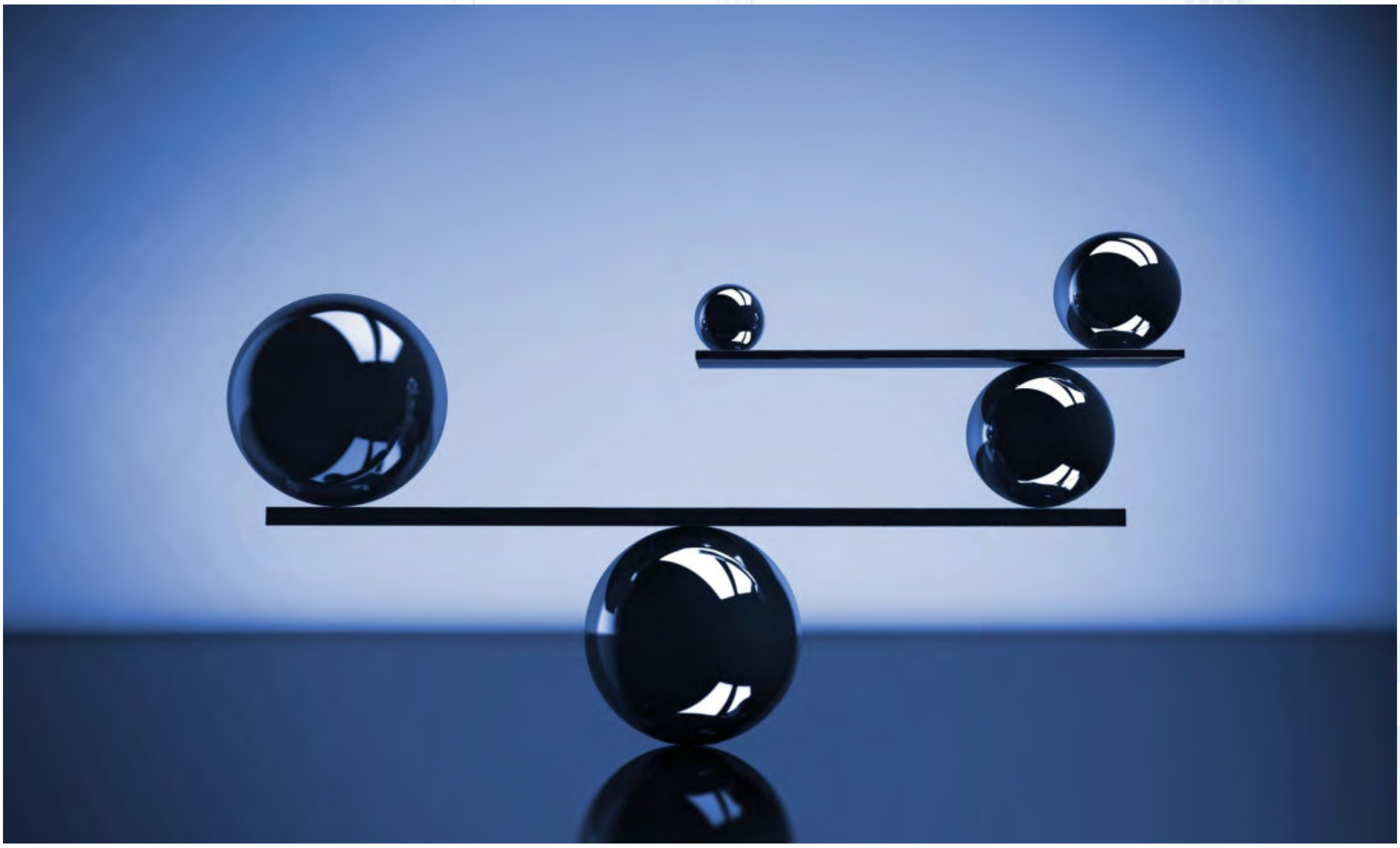
Market performances - Q4 2021

| | | Q4 2021 local | Q4 2021 USD | YTD local | YTD USD |
|---|---|---|---|---|---|
| **Exchange rates** | | | | | |
| CHF/USD | | 0,3% | | -3,0% | |
| EUR/USD | | -1,6% | | -6,9% | |
| GBP/USD | | -1,1% | | -1,0% | |
| JPY/USD | | -0,9% | | -10,2% | |
| **Equity markets** | | | | | |
| World | MSCI World USD | 2,0% | 2,0% | 21,8% | 21,8% |
| Europe | DJ Stoxx 600 | 2,8% | 1,1% | 24,9% | 16,3% |
| Eurozone | DJ Eurostoxx 50 | 1,1% | -0,5% | 21,0% | 12,6% |
| | MSCI Europe S.C. | 0,8% | -0,8% | 21,8% | 13,3% |
| Germany | Dax 30 | 1,2% | -0,4% | 15,8% | 7,8% |
| France | Cac 40 | 4,7% | 3,0% | 28,9% | 19,9% |
| United Kingdom | FTSE 100 | 2,0% | 0,9% | 14,3% | 13,1% |
| Switzerland | SPI | 5,3% | 5,7% | 23,4% | 19,7% |
| | SMI | 6,3% | 6,7% | 20,3% | 16,7% |
| | MSCI Swiss S.C. | 1,1% | 1,1% | 16,8% | 16,8% |
| North America | SP500 | 3,5% | 3,5% | 26,9% | 26,9% |
| | Nasdaq | 0,9% | 0,9% | 21,4% | 21,4% |
| | Tse 300 | 0,9% | -1,1% | 21,7% | 22,7% |
| | SP600 Small C. | 1,8% | 1,8% | 25,3% | 25,3% |
| Japan | Nikkei 225 | -0,3% | -1,3% | 4,9% | -5,8% |
| Emerging | MSCI EMF USD | -2,6% | -2,6% | -4,6% | -4,6% |

| | | Q4 2021 local | Q4 2021 USD | YTD local | YTD USD |
|---|---|---|---|---|---|
| **Interest rates (3 months)** | | *(level)* | | | |
| CHF | | -0,75% | | | |
| EUR | | -0,58% | | | |
| USD | | 0,21% | | | |
| JPY | | -0,08% | | | |
| **Bonds markets** | | | | | |
| World | Citi Gr Global Govt.USD | -0,7% | -0,3% | -7,0% | -9,8% |
| Europe | Euro Ser-E Gov > 1 | 0,1% | -1,5% | -3,5% | -10,1% |
| United Kingdom | UK Ser-E Gov > 1 | 0,2% | -0,9% | -5,3% | -6,2% |
| Switzerland | SBI Général AAA-BBB | 0,6% | 1,0% | -1,8% | -4,8% |
| | SBI Govt. | 0,8% | 1,1% | -4,2% | -7,1% |
| USA | US Ser-E Gov > 1 | 0,2% | 0,2% | -2,3% | -2,3% |
| Japan | Japan Ser-E Gov > 1 | 0,0% | -0,9% | -0,2% | -10,4% |
| Emerging | J.P. Morgan EMBI Global | 0,0% | 0,0% | -1,5% | -1,5% |
| **Miscellaneaous** | | | | | |
| | LPP 25 Index | 0,9% | -2,1% | 3,5% | 0,4% |
| | LPP 40 Index | 1,2% | -1,8% | 7,1% | 3,9% |
| | LPP 60 Index | 1,5% | -1,5% | 12,0% | 8,6% |
| Real Estate CH | DB RB Swiss Real Est Fd | 4,5% | 4,5% | 6,1% | 2,9% |
| Hedge Funds | Hedge Fund Research USI | -0,5% | -0,5% | 2,9% | 2,9% |
| Commodities | GS Commodity USD | -4,1% | -4,1% | 40,4% | 40,4% |

Graph sources: Bloomberg/BearBull Global Investments

# INVESTMENT THEME FOCUS



Graph sources: Bloomberg/BearBull Global Investments

# INVESTMENT THEME

## Underestimating the level of inflation will cause a significant rate shock in 2022

- Central banks, in denial, take late notice of inflation
- Persistent imbalances between global supply and demand
- Inflation will get a second wind as wages rise
- Monetary tightening will take the form of long-term rate hikes in 2022

### Central banks, in denial, take late notice of inflation

Inflation in the euro area may be underestimated according to recent comments by ECB members, according to whom it could be significantly higher than the European Central Bank's forecast for 2022. According to the latest published statistics, inflation in the Eurozone reached +4.9% year-on-year at the end of November 2021. In its latest forecast announcement for 2022, the ECB significantly adjusted its inflation expectations for 2022, now expected to be +3.2%. Even if the ECB's speech aims to be reassuring, stressing that inflation is likely to return to its 2% target within a reasonable timeframe, some members thus consider these forecasts to be insufficiently realistic. In the US the scenario is similar, with the Fed starting to see inflation in a different light. Long thought to be temporary, it is now being taken a little more seriously. Chairman Jerome Powell was finally correct in stating a few days ago that the post-pandemic economy could be very different and could therefore react differently on the inflation front to the expansionary phase expected for 2022 than in previous recoveries, thus opening the door to possible surprises.

In Europe, as in the US, the risks of underestimating inflation are beginning to be discussed more widely. Policymakers should be aware of these risks, as they are in the process of readjusting their expectations. In Germany, inflation risks are now seen as more serious, with the Bundesbank doubling its forecast to +3.6% for 2022 with a return to +2.2% in 2023. This is also a significant change, highlighting the lack of insight and precision in the analysis of the forces at play until now. Several other national central bank governors in Europe have expressed a similar sentiment, going so far as to criticise the ECB's policy of maintaining its bond purchases in the medium term.

The beginning of 2022 thus seems likely to be marked by a process of realisation of the new challenges and mechanisms that could potentially fuel rising prices for longer than expected with the current economic recovery.

Central banks are beginning to see that the balance of risks in 2022 is tilted towards more lasting and higher inflation, but they will have a hard time convincing themselves that the recent trend is strengthening, which would commit them to more decisive actions than those envisaged at the moment.

### A surprise now shared by investors

Inflation rose throughout 2021, including in the latest statistics published in December, which showed consumer price indices accelerating at the end of the year in most countries. The recent realisation by central bankers has been accompanied by a similar reaction by investors, as reflected in economic surprise indicators, suggesting a much more intense movement of surprise in Europe than in the US. These differences between inflation expectations and reported inflation can certainly be explained by an earlier and stronger rise in prices in the US, as well as a steadier rise over the year as a whole, in sharp contrast to the more abrupt rise observed in the Eurozone in the second half of the year.

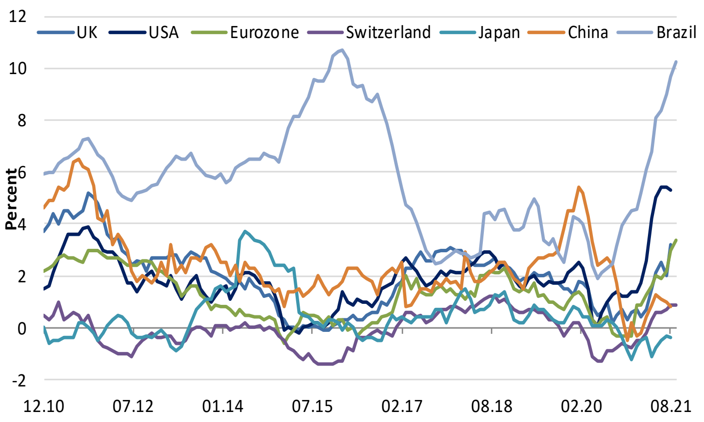
In 2021, investors initially dismissed inflationary risks, then accepted central banks' view of the temporary nature of inflation, before recognising that price increases were likely to persist.

However, it seems to us that investors are still far from having fully taken into account the complexity of the parameters and mechanisms that are driving inflation.

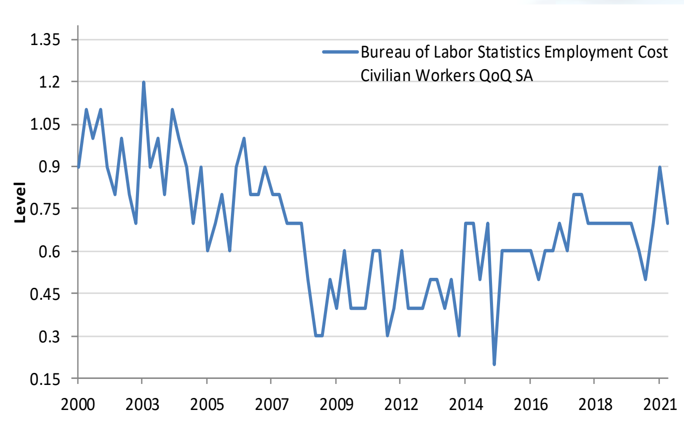
### Record global GDP in 2022 will boost inflation

The new year is expected to see global economic growth slow somewhat from the extraordinary pace of +6% likely recorded in 2021. Despite an expected decline in the currently strong momentum, the global economy is still expected to grow by around +5% in 2022. Global GDP will therefore finally exceed its pre-pandemic level, erasing the unprecedented economic shock caused by the global pandemic after two extremely difficult years for developed and emerging populations.

CPI inflation




Growth in the cost of labor in the US




Graph sources: Bloomberg/BearBull Global Investments

The emergence of the Omicron variant initially raised concerns in November 2021 that these economic forecasts for 2022 were too optimistic. Now, the fact that the new variant no longer appears to be as threatening to the health of the affected populations as expected at that time has already had a tangible effect in countries such as Australia and Israel, which have relaxed some health measures. Our growth forecasts for the world economy are therefore only marginally affected. An increase in global GDP of +5% will allow us to exceed the threshold of USD 100 trillion in global wealth creation. The global economy seems well positioned to benefit from the investment and public spending that is expected to materialise, as well as from significant savings built up during the pandemic, which will boost consumption and property investment. However, there will still be many risks in 2022, notably the evolution of international trade, which could be threatened by new tensions arising between China and the United States.

**However, in such a positive environment for economic growth in 2022, is it reasonable to expect that most of the factors and imbalances that have fuelled inflation will disappear so easily and thus solve the inflation problem?**

**And if this is the case for some of these factors, could others take over and reignite the inflationary trend?**

### Continued imbalances between global supply and demand

The global economy will be driven by fundamentals already in place, bolstered by government spending, investment and consumption. Global growth will be even more synchronised than in 2021. Developed economies will all benefit simultaneously from the support provided by stimulus and investment programmes, particularly in the renewable energy sector. The convergence of the business cycles of developed economies is also likely to support emerging countries' recovery. This convergence of robust global demand could once again outstrip global production capacity, which has been hampered by logistical problems and disruptions in production chains, even though China and the US already seem to have reached their growth peak in the current cycle. It could therefore further increase the imbalances caused by a supply side still affected by an extraordinary conjunction of competition for raw materials, labour and transport. The possibility that the imbalances observed in 2021 will persist is certainly being taken into consideration, but for now the most widely agreed upon scenario is that the main factors will contribute to lowering inflation in 2022, starting with the expectation that crude oil prices will soon fall in the wake of falling gas prices, which have been the main drivers of inflation. As long as a drop in oil and gas prices can be expected in 2022, this seems to be a sufficient condition to stop and reverse the upward trend in prices.

In contrast, we believe that, while the base effects of one-year inflation measures will indeed show a clear deceleration in price increases, there are still many areas where trends will persist, strengthen or even expand.

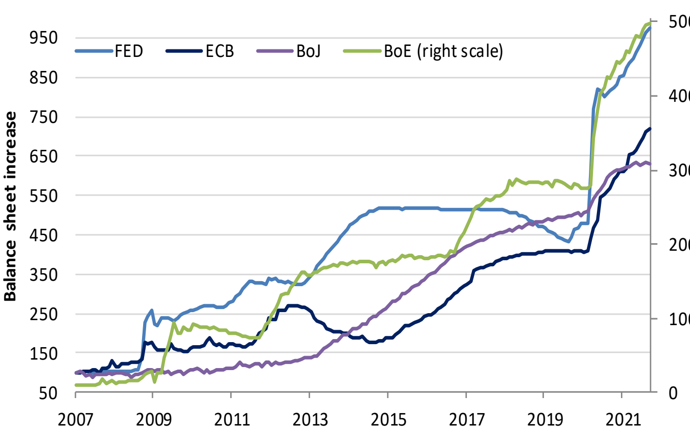
### Quick review of inflationary factors active in 2021

Energy, which rose by 60.7% in 2021, is one of the main factors supporting inflation and could well lose its intensity, even with a rise in crude oil prices to USD 100, due to base effects. The correction in gas prices from 6.3 to 3.56 between October and December 2021 has already had a positive impact, but a possible price recovery in 2022 with similar effects should not be ruled out. Agricultural commodities (+25%) are another decisive factor, but it is difficult to estimate whether they will have a similar influence in 2022. The imbalances driving commodity prices, and oil prices in particular, which are considered to be short-term, have fuelled hopes of a decline in inflation. Temporary competition among producers for supplies of raw materials, semi-finished products or semi-conductors, for example, seemed to be the main factor driving up prices. In 2022, we will probably see these factors persist, although they will lose some of their momentum. But the fall in capex in the energy sector and the current lack of production capacity are probably not conducive to a rapid return of supply and a fall in energy prices.

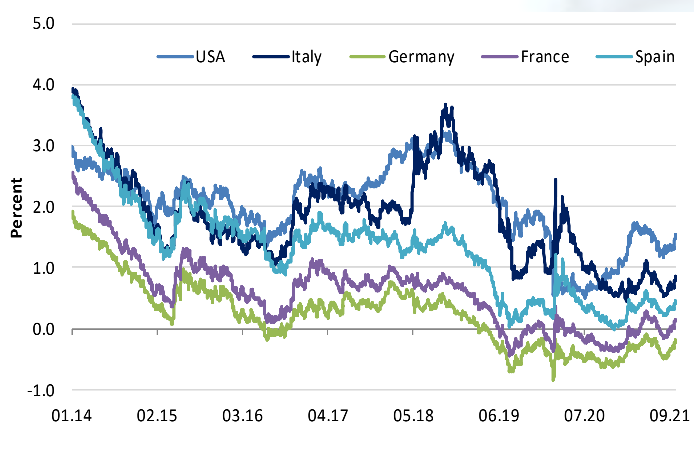
The current transport difficulties are not likely to be resolved either, so transport costs and logistical problems are likely to continue. Difficulties in the supply of raw materials, semi-finished products, commodities and other consumer goods may certainly be resolved gradually, but the reorganisation of production chains on a global scale will not be complete by 2022.

The pass-through of production and import cost increases to consumer price indices was likely very partial in 2021 and in our view has not yet developed its full potential effects, which will probably materialise in 2022. Companies are expected to be able to pass on their rising costs to consumers, thereby reinforcing upward price trends. Tensions in the labour market were also felt in 2021 as global employment recovered. The fall in the US unemployment rate to its March 2020 level is a major sign of future tensions once full employment is in sight. The wage growth observed in 2021 is therefore likely to accelerate in 2022 in this context. Inflation could thus strengthen under the impulse of new developments in the labour market causing wages to rise.

Growth in central bank balance sheets




10-year government rates




Graph sources: Bloomberg/BearBull Global Investments

### Inflation will get a second wind as wages rise

The pandemic has indeed had a very significant impact on some labour markets with perhaps more lasting consequences than the factors discussed above. In the US, the so-called 'Big Quit' is beginning to worry businesses. This phenomenon involves a wave of voluntary departures affecting various classes of employees demanding better working conditions, but most markedly affecting low-wage workers and the restaurant, hotel and healthcare sectors. The current situation gives new bargaining power to American workers, who seem to have decided to take their chances, banking on competition amongst employers. The Big Quit involves about 4 million Americans every month. The share of job offers that include bonuses in addition to base salary has more than doubled. The increase in these bonuses is most significant for manual jobs without the possibility of telecommuting. The consequence of the current tightness in the labour market can be seen in businesses' intentions to likely increase salaries by about +4% in 2022.

### Central banks will let inflation rise

A major new challenge awaits central banks in 2022. After having helped the global economy through this unprecedented pandemic by adopting appropriate measures, notably in the form of liquidity injections of several trillion dollars, they will now have to consider the most appropriate way to normalise their action. This process will logically have to take place in several steps, the first of which will be to stop liquidity infusions. This step is probably the easiest to implement. The US Federal Reserve has already started by announcing its decision to immediately reduce its asset purchase programme and to stop it completely in March. The ECB has also partially entered this phase by announcing the end of its PEPP in March as well. Only the BOE among the major central banks has already moved to the second stage of gradually raising its policy rates.

The dilemma they will all face is how to normalise monetary policy without risking derailing the ongoing growth train. In 2022, central banks will therefore likely be content to implement the first stage of the normalisation process by only moderately engaging in the process of raising policy rates, for fear of jeopardising the ongoing economic recovery.

This risk is now clearly considered more important than the risk of runaway inflation. Central banks will therefore allow inflation to rise in 2022, while trying to control inflationary expectations by continuing to be reassuring regarding price developments. Central bankers will once again try to lowball inflation while introducing the minimum measures to show that they are not letting inflation rise unimpeded. The reduction and then the end of their asset purchase programmes will be followed by very tentative and gradual increases in their key rates. They will in fact let inflation rise above their 2% target in the hope that the overshoot will be temporary.

### Monetary tightening will take the form of long-term rate hikes in 2022

While some strategists have been talking about flattening yield curves for some time, it is worth noting that long-term rates are already defying their previous highs while the next rate hikes have yet to even be announced. We believe that 2022 is in fact likely to see long-term rates rise faster than policy rates. Thus, we expect ten-year US Treasury rates to rise by as much as 2.5%, or about 100 basis points higher than the rate on 31 December 2021. At the same time, only two 0.25% rate hikes are expected.

Investors' risk perceptions in fixed income markets are gradually adjusting. The start of the Federal Reserve's tapering, the Fed's moving up to March 2022 the end of its asset purchases, thus coinciding with the end of the ECB's emergency programme, and finally the Bank of England announcing its first rate hike all suggest that central banks aim to normalise their monetary policies despite the emergence of the Omicron variant. The end of the year was therefore not without significant events in terms of monetary policy developments, and the forthcoming reductions in liquidity injections have finally started to affect yield curve levels in the US and other countries as well.

The new macroeconomic environment with solid global GDP growth will be accompanied by likely persistent inflation and a new monetary policy paradigm. These conditions will not be favourable for bond markets in 2022. In Q4, there was indeed an upward shift in most yield curves, but it was more evident on the 2-5 year end than on the long end. In the US, 5-year Treasury yields almost tripled in 2021, rising from 0.35% at the beginning of the year to 1.26% at the end of December. During the same period, 10-year yields rose from 0.91% to 1.51%. Overall, yields have started to adjust in most economies with solid GDP growth prospects in 2022, including the euro area, the UK and even Switzerland.

The start of 2022 could therefore mark a transition in the outlook for interest rates. 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 in 2022.

Renewed growth and historically high inflation must now be taken into account when determining nominal interest rates. Further yield curve pressures are 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 +6.8% and GDP growth is expected to be +6.5% for the last quarter of 2021. In the current context, nominal rates are likely to continue their ongoing adjustments and gradually return to pre-pandemic levels.

Graph sources: Bloomberg/BearBull Global Investments

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