AURIS
WEALTH MANAGEMENT

Market Insight

Winter 2022

Health context

The Omicron tidal wave confirms that this latest variant is now much less dangerous than the previous ones. Combined with the effectiveness of the vaccines, the proportion of critical care admissions has been falling for the last 6 months in France, while in the UK, the number of people admitted to critical care is not much higher than before the appearance of Covid.

This justifies a reduction in sanitary constraints that politicians will nevertheless take some time to grant, even if some countries are taking the lead by announcing that the epidemic phase has passed, leaving an endemic disease (Spain).

However, the United States may be more severely affected due to less vaccination.

Ultimately, the real issue is China's management of Omicron as outbreaks emerge. Can the country afford to continue its zero Covid strategy and disrupt global production chains?

Economic outlook

2022 could therefore be the year of the great normalization. It will be the last year of strong growth (>4%) before a return to normalized growth in 2023. It will also be the year in which supply constraints are reduced.

In the United States, the pace of growth is slowing and the country has returned to full employment. The FED has therefore fulfilled one of its two objectives, remaining free to manage inflation. And the subject is a thorny one: with inflation at its highest level in 40 years, real wages are falling and the purchasing power of the American consumer is limited. This is the main reason for Joe Biden's low popularity a few months before the mid-term elections. He will therefore put pressure on the FED to also start a process of normalization of monetary policy.

In Europe, Omicron continues to penalize economic activity, mainly in services, due to restrictions. Consumer confidence has been temporarily penalized, while the job market remains buoyant. Moreover, activity in industry remains vigorous and could continue to be supported by the normalization of production lines, particularly in the automotive industry. Eurozone GDP will therefore return to its pre-crisis level in 2022.

In China, the pace of growth has stabilized, but the news surrounding real estate developers is still not very encouraging and the sector is slowing down significantly. Growth forecasts have been significantly revised downwards, forcing the Chinese central bank to ease the credit crunch, a reason for hope for the future.

With inflation at its highest level in 40 years **#1**, ***the FED will now begin the normalization of its*** accommodating ***monetary policy*** at full speed: three, or even four, rate hikes this year, starting in March, concomitant with the end of "tapering".

Economic outlook (continued)

But the big news is the willingness of some members to start reducing the size of the FED's balance sheet, which has driven the country's sovereign rates higher. Monetary support from major central banks will, no matter what, definitely be less this year **#2**.

Financial markets

Incorporating the FED's normalization drive, US real rates have experienced a rebound similar to that of 2021, a rebound that caused a sharp sector and factor rotation. History is repeating itself in 2022 and speculation-related assets are under attack while the sectors most correlated to rising rates are sought after **#3**. FANGs are still sold, penalizing the performance of the indices. Knowing that between the two sector rotations, they have risen by almost 50%, it seems to us that the correction could still last a while.

We are not alarmist, however, because earnings per share should still support the equity indices this year, as should distributions to shareholders.

Finally, we are seeing the beginning of an inflection point in the emerging countries, which could, in a few months, have more favorable relative financial conditions than in the developed countries, while valuations are very reasonable.**4**

Investment policy

Generally speaking, considering that there is only one step from monetary normalization to valuation normalization, we will remain agile in our allocations.

At this stage, the equity markets imply a favourable allocation to the Euro zone which still has attractive valuations, sectorally balanced indices, and additional upside potential in the event of health normalization.

As for the United States, we cannot ignore the potential for a short-term decline in FANGs, which would drag the indices down, but we expect the more cyclical indices such as the Dow Jones to hold up better.

With the Chinese central bank becoming more accommodative again in an effort to cushion the real estate shock, we will be closely monitoring its technology sector and its relatively inexpensive growth stocks.

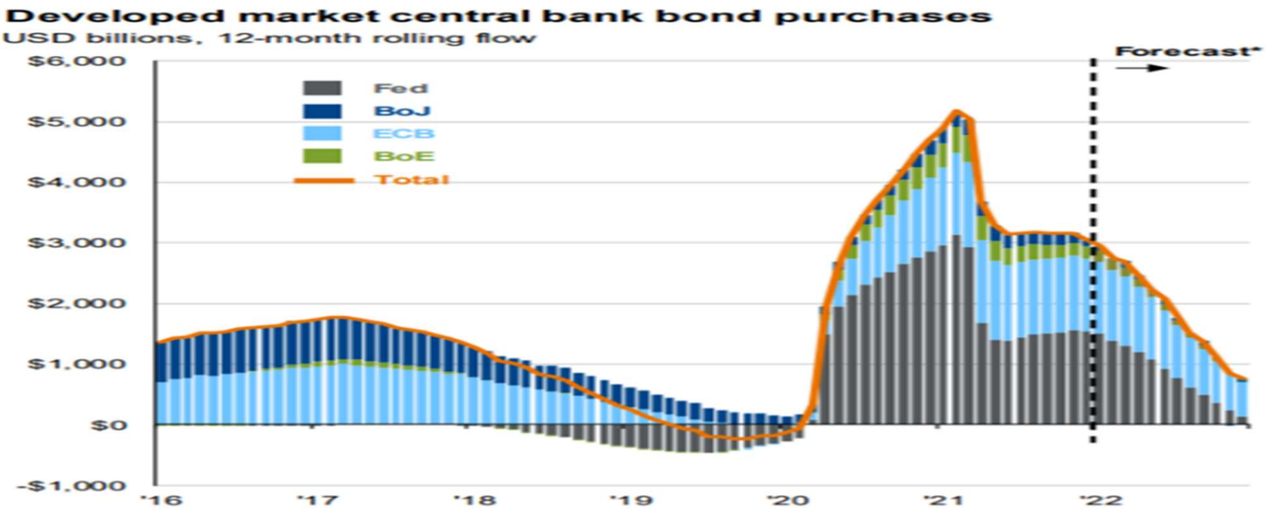
US rates have rebounded and are close to our target of 2% on the 10-year. We are waiting for the details of the "Quantitative Tightening" to revise or not our target and do not rule out a surprise scenario that would lead the ECB to follow the FED towards more reduction of monetary support.

While investment grade bonds combine the disadvantages of low margins and rising interest rates, we favor differentiating strategies, or high yield bonds whose slightly wider spreads make them attractive investments.

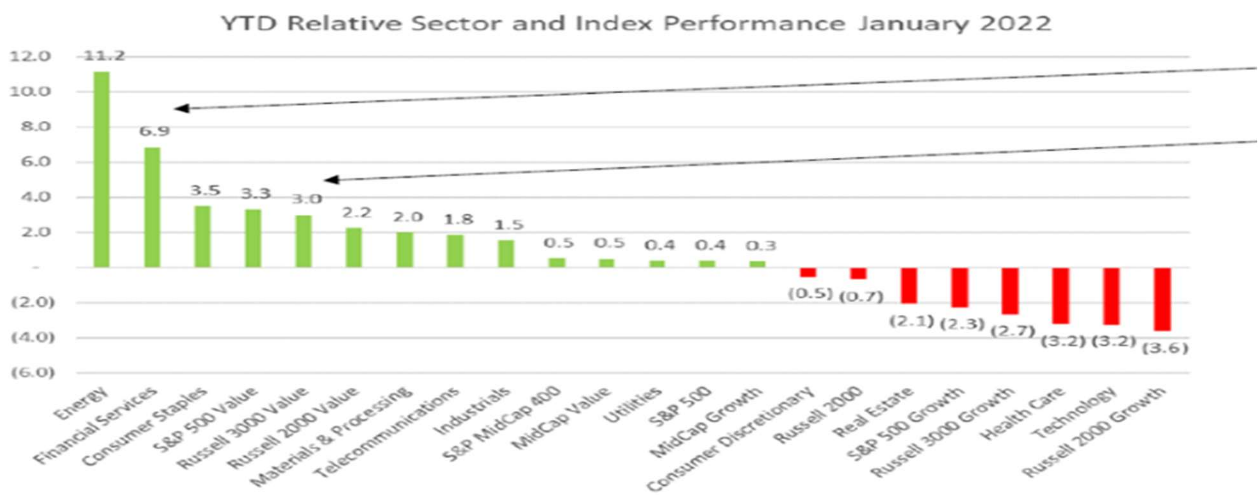
Charts

#1 inflation and core inflation in the US

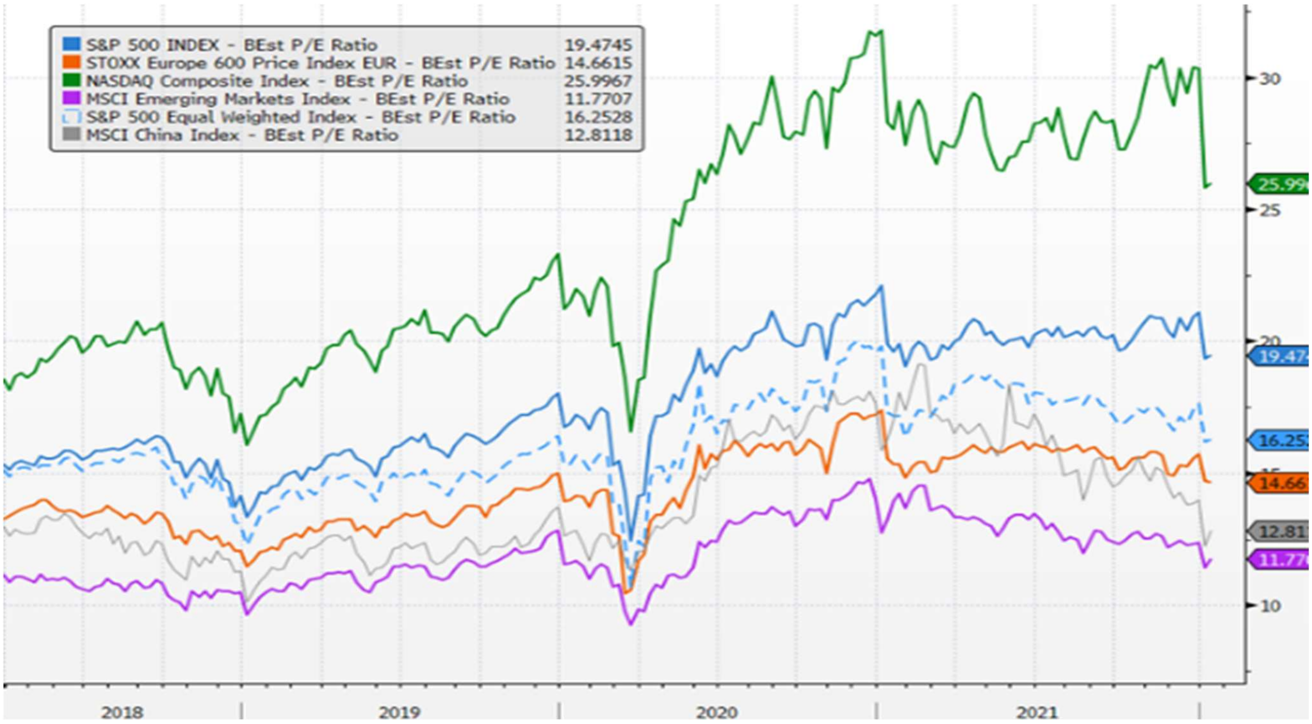
#2 much lower asset purchases



#3 sector and index performance



#4 valuation of major equity markets



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