

An aerial photograph of a coastal city, likely Dubrovnik, taken from a high vantage point. The city is built on a steep, rocky hillside that descends towards a large, blue harbor. The harbor is filled with numerous boats and yachts. In the background, the sea extends to the horizon under a sky with soft, colorful clouds from a sunset or sunrise. The overall scene is serene and scenic.

ECONOMIC OVERVIEW

MONTHLY

November 2021

MONTHLY MARKET RECAP

OVERVIEW

MARKETS IN NOVEMBER

Q4 started with the improvement in the epidemic situation with reopening and the rebuilding of stocks. Which should have lead to a swift re-acceleration supported by consumption, underpinned by accumulated savings and massive government support. While inflation is expected to remain critical, growth could surprise positively. During the last week of November, the emergence of a new variant called "Omicron" affected market expectations and created uncertainty about the management of the health crisis globally. **We will know more in the coming weeks** and we will be able to better gauge the potential impact that this new variant could have on financial markets.

Risky assets will find themselves in a balancing act, amid the patchy economic news flow and data pointing to high inflation. We believe the expected rebound in growth in Q4 will favor equities over bonds overall thus more cyclical countries/sectors (Europe, Japan, EM; Financials, Energy respectively) as well as Value over Growth.

Against this backdrop, **we continue to take a negative view of core European government bonds**, while we expect a moderate upward trend in US government yields: US real rates are back near their lows and do not reflect the expected growth path over the next few years.

We maintain a positive view on equities. The view on the asset class remains constructive in the medium/long term, with some caution for the current quarter. Yields in the first six months of the year, negative seasonality and expectations of upcoming macroeconomic data adjusted for the base effect and the FED's decisions could lead to volatility spikes therefore selective buying opportunities.



EQUITY MARKETS	LEVEL	Δ NOV
MSCI World AC	3 155,73	▼ -1,0%
S&P 500	4 655,27	▲ 1,0%
NASDAQ Composite	15 782,83	▲ 1,3%
SX5E	4 109,51	▼ -3,9%
DAX	15 280,86	▼ -3,3%
CAC 40	6 776,25	▼ -1,7%
FTSEMIB	26 041,55	▼ -3,7%
IBEX 35	8 455,20	▼ -7,8%
FTSE 100	7 109,95	▼ -2,2%
MSCI Emerging	1 218,99	▼ -3,5%
CSI 300	4 832,03	▼ -0,8%

COMMODITIES	LEVEL	Δ NOV
Gold	1 785	▼ -0,5%
Silver	22,90	▼ -4,7%
WTI	69,95	▼ -15,2%
Brent	73,44	▼ -13,3%

BOND MARKETS	LEVEL	Δ NOV
US 10-year Yield	1,50%	▼ -5,7 bp
FRA 10-year Yield	0,04%	▼ -22,8 bp
ITA 10-year Yield	0,98%	▼ -23,6 bp
USD Invest. Grade	2,32%	▼ -0,16%
EUR Invest. Grade	0,51%	▲ 0,04%
USD High Yield	4,75%	▼ -0,83%
EUR High Yield	3,92%	▼ -0,42%
Emerging Local ccy	3,84%	▼ -0,28%
Emerging Hard ccy	4,19%	▼ -1,29%

EXCHANGE RATES	LEVEL	Δ NOV
Dollar Index	96,34	▲ 2,6%
EUR/USD	1,1291	▼ -2,7%
GBP/USD	1,3315	▼ -2,6%
EUR/GBP	0,8481	▼ -0,2%
EUR/CHF	1,0421	▼ -1,3%
USD/JPY	113,53	▼ -0,4%

Source : Bloomberg, as of 2021.11.30

ECONOMIC WRAP

MACRO OVERVIEW

Q3 GDP data confirmed that global economy is losing momentum, due to transitory factors. GDP decelerated more than expected in the US and China. High commodity prices and insufficient intermediate good supply limited production and investment, while household consumption was hit by new Covid infections and new restrictive measures to contain the virus spread. This temporary deceleration is expected to be reasonably followed by a re-acceleration in Q4 as bottlenecks are cleared and vaccination rates increase in Asia.

The pandemic continues to shape the global economy, accentuated by the emergence of the new variant deemed of concern by the World Health Organisation, while the recovery remains strong, still asynchronous and more dependent than ever on the evolution of Covid-19 infections.

The moderation in the pace of growth partly reflects the normalisation that followed the recovery following COVID-19, as base effects and the effect of reopenings faded away and stimulus measures ran out, but is also influenced by bottlenecks in supply chains.

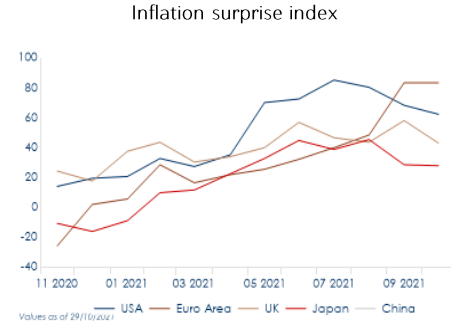
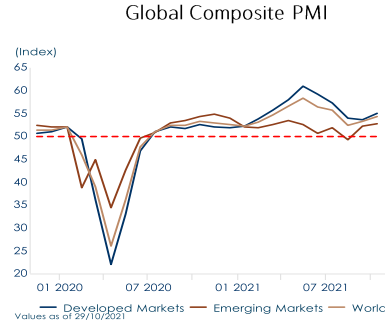
Supply shortages and transportation-related bottlenecks are currently much more severe than during normal recoveries. While some of these pressures may begin to ease later this year, others, such as problems in the shipping industry, will take much longer.

“The pandemic continues to shape the global economy”



The global composite PMI index returned to growth in October. Persisting supply chain bottlenecks, logistical problems in the manufacturing sector and a rebound in service sector activity as economies reopen were revealed by the global manufacturing and service PMIs.

The rate of expansion in manufacturing was the weakest in 16 months. Output growth was hampered by a substantial disruption in raw materials, resulting in input shortages, rising inflation costs and a near halt in international trade flows. The slowdown was more pronounced in advanced economies, with expansion rates slowing in the United States, the Euro area and the United Kingdom. The downturn in China extended for the third consecutive month, while Japan reported renewed growth, but at a modest pace.



Source : Mediobanca, Bloomberg

DISCUSSION POINTS

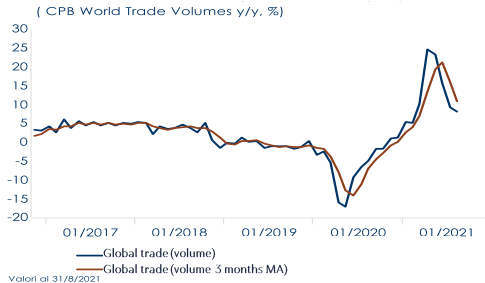
ECONOMIC OUTLOOK

1. Economic recovery continues

Growth has surprised to the downside and inflation to the upside in recent months.

Supply-side constraints are numerous and will last longer than expected. Inventories remain low everywhere and bottlenecks are weighing on manufacturing output. Shortages of raw materials, semiconductors, labor force. **If it takes too long to resolve this situation, prices could rise but not growth, putting pressure on margins.**

The recovery in global trade is ongoing

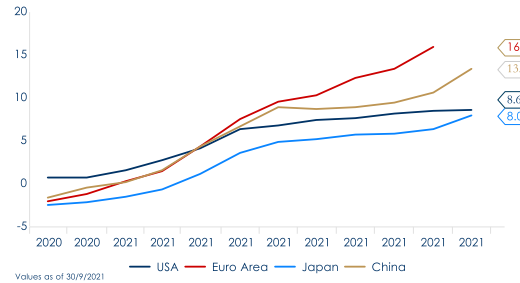


2. Inflation could stay higher for longer

One of the main unknowns for investors stems from whether **inflation really does turn out to be transitory**, as most market participants predict as baseline scenario.

Central banks continue to say that the current inflationary episode is temporary and that average inflation should return to lower equilibrium levels in 2022 and 2023. Should price indices remain above target levels, the Fed's willingness to leave monetary policy unchanged would be put to the test.

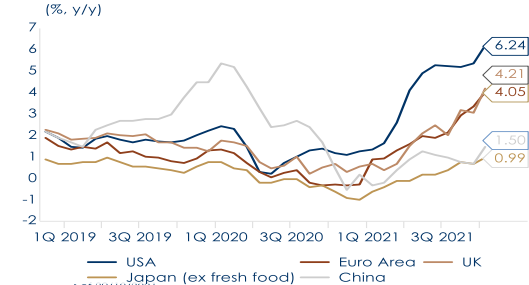
Input prices are pushing up producer inflation



3. Monetary policy nears normalization

The two main economic blocs are moving in **opposite directions in terms of monetary policy**. The central banks of the main developed countries remain cautiously vigilant in the face of rising inflation in the short term, but continue to define it as transitory (and therefore not worrying) and in any case not sufficient to justify a tightening of monetary policy. On the contrary, the next step for the PoBC will be a cut in the reserve requirement ratio.

The outlook for consumer inflation varies markedly



Source : Mediobanca, Bloomberg

ECONOMIC WRAP

GEOGRAPHICAL OVERVIEW

UNITED STATES



In the US, the economic recovery has moderated amidst constraints along supply chains and a surge in Delta variant contagions in Q3. The moderation in growth in Q3 was driven by a **slowdown in consumption**, with a significant decline in vehicle spending.

The ISM manufacturing index remained at elevated levels in October, indicating that **the inventory rebuilding process will continue in the coming months**.

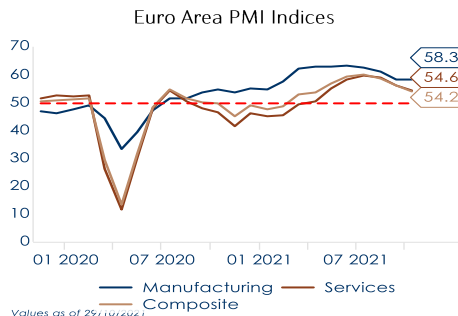


EURO AREA



In the fourth quarter of 2021, the Eurozone economy is experiencing a **slowdown in growth momentum**. Rising energy costs, supply chain stoppages and slowing foreign demand are the main risks to future growth.

The recent resurgence of contagions, rising inflation that may dampen consumer growth and industrial producer prices pose a risk to the consolidation of the recovery. **The manufacturing and services PMI fell slightly in October**, indicating a slight deterioration in business sentiment.



CHINA



China's GDP growth slowed from 7.9% y/y in Q2 to 4.9% y/y in Q3 due to Covid outbreaks hampering domestic demand, slowing real estate sector, electricity shortages and production cuts in heavy industry.

Weakness in the real estate sector is weighing on overall investment: strict regulations on real estate financing and tightening mortgages have led to a downturn in the real estate sector. Evergrande's saga add to the strain on the sector and are increasing pressure.



Source : Mediobanca, Bloomberg

FOCUS ON

WHY WE STILL AREN'T CONVINCED THE S&P 500 IS IN A BUBBLE

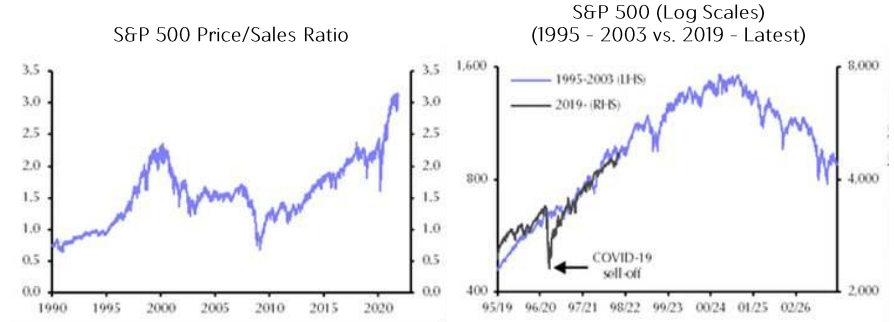
Even though the S&P 500 has risen by almost another 25% or so this year, we are still not persuaded that the US stock market is in a bubble that is about to burst.

Admittedly, the case for the existence of a bubble may have strengthened since around the start of 2021, when we argued that there wasn't one. After all, the valuation of the S&P 500 has risen further on some metrics, even allowing for a strong rebound in the global economy; its price/sales ratio, for example, has hit a record high, though particularly distorted by the weight of GAFFAM+ stocks which represent 25% of the index.

Stripping out a temporary pull-back in spring 2020, when COVID-19 first took a toll on global equities, the index has also been rising at a far faster rate than average since early 2019, supported by strong earnings momentum.

Meanwhile, US households' allocation to equities has reached an unprecedented level, partly reflecting a surge in the participation of retail investors and no true alternatives within bond markets. There are associated signs of excess, such as large-scale purchases of options on "meme" stocks and valuations becoming rich in some market segments.

But there is still a strong case against the existence of a bubble. For example, the S&P 500 has fallen this year relative to expectations for earnings. While they may be too rosy, given that margins are at a record high, the index's P/E ratio is not really flashing red. Moreover even though growth was exceptionally high given the "reopening" of global economies after the Covid-19 shock, for 2022 and 2023 growth is expected to stay resilient and at high single digit even if at lower pace compared 2021.



What's more, the narrative that "There-Is-No-Alternative" (aka TINA) to equities could conceivably continue to play out over the next couple of years, given the likelihood that real interest rates will stay low in the meantime even as the economy fares quite well. It is therefore plausible that we are only mid-way through a "melt-up" in the stock market, judging by what happened in the second half of the 1990s. For sure, pullback and volatility in both stocks and bonds will be present during the Fed tapering phase, if real interest rates stay at negative level, as they are today, the TINA effect could still have the lion's share.

Forecasts for the S&P 500 through the end of 2023 imply earnings per share growth of 18% which underpins our "long equity" scenario. However a tactical and opportunistic approach will be a key driver for next year performances.

Source : CMB / Capital Economics

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CMB MONACO

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