Mind The Chinese Gap

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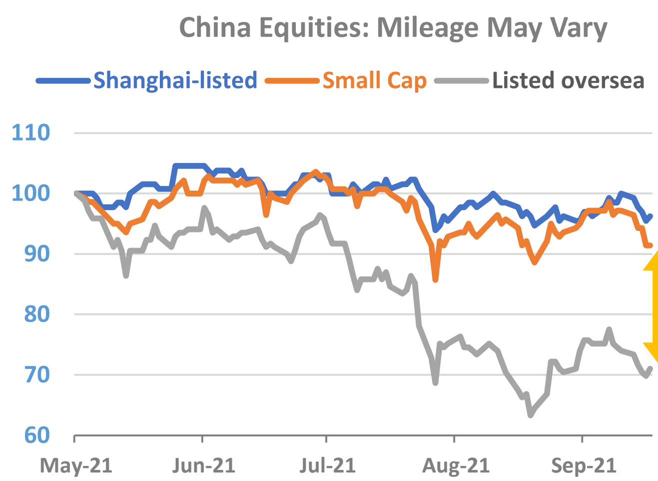
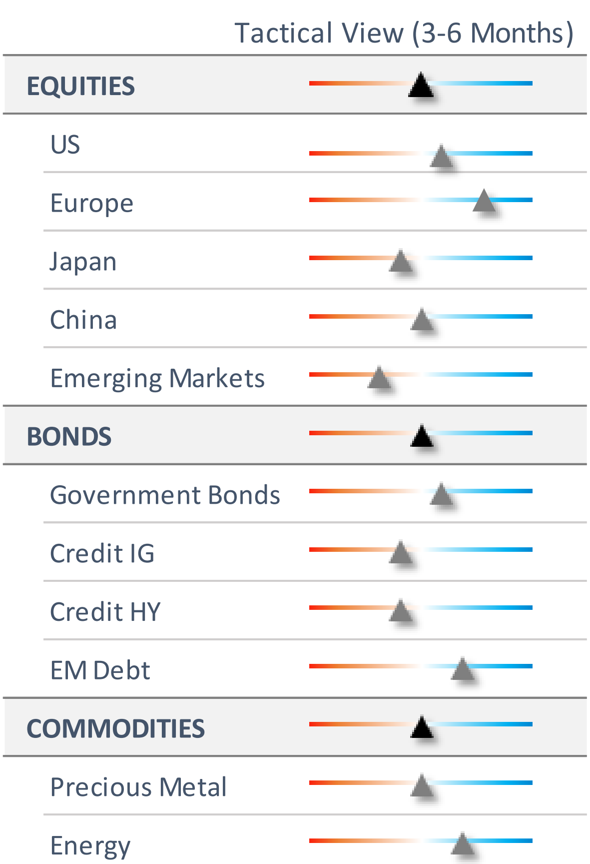
During our Investment Committee, we reviewed state of financial markets and how adjustments to the Stop & Go economies could develop in the different regions. We also focused on latest developments in China, as the Government is implementing a back-to-basics strategy based on sharing wealth, avoiding financial exuberance and high concentration policy. As we enter the fourth quarter, investment positioning will be with 2022 in mind : we provide guidance to investors on how to navigate this new environment.



Positive equity market evolution and benign volatility were the order of the day over most summertime despite a slew of negative news. Against all odds of expected continued recovery, we have seen a loss of economic indicators momentum in the largest economies, China taking aggressive steps to tame China tech giants, the default of a significant debt issuer – Evergrande - that could have had the proportion to create a systemic event should it had happened under Western sky, leading central bankers (FED, ECB, BoE) signaling their willingness to progressively reduce their monthly purchases and finally the US inducing a new geopolitical spin with its express withdrawal of Afghanistan and a reinforcement of the US Australia UK alliance in Asia, adding to tensions with China.



Over more than a decade, Central Banks have developed considerable expertise in managing the economic cycle on the short term and tame market volatility giving confidence to stay invested strategically. However, in the short-term investors should keep in mind the peculiar risk to see a second wave of price appreciation of classical energies and vital commodities, due to the current supply gaps. US Yield curve, renown for its strong predictive power has acknowledged it through reversing the recent flattening, in face of second wave of inflation risk.

Our underweight posture on China is maintained, especially in the large cap and oversea-listed stocks (see chart), while small caps, more domestic exposure can be considered. We keep a preference for developed world, hedging the risk with some exposure to core government bonds. Energy commodities still have a leg in their rally in a context of scarce supply and buoyant demand. Keeping some hedges in the portfolio through a smart tail hedge and non-directional alternative funds makes sense as a market correction from high levels is possible as investors might want to take profit to a prolific equity market year.