



Geoff Cutmore Steve Segdwick
with
Didier Duret Chairman Omega Wealth Management SA

- A central point for Q4 investing is to judge how the escape route from stagflation. Although the future is blurred with little foresight on China policy and a stubborn inflation landscape, there is a ray of light : the US economy is regaining some poise after the early October batch of data (i.e. US ISM, personal income, Michigan consumer confidence). It suggests the economic surprises are turning up and this is positively correlated to the stock markets.
- Slow but resolute shift toward a more hawkish FED and ECB. There are energy and supply dogs fooling in the central bankers shop: we can expect second round and third round inflation pressures to persist over Q4 and in H1 2022. The learnings of the 70' is that regulated prices, wages & oil are the bedrocks of inflation. Now the shock comes from cumulative post COVID bottlenecks and the price effects of forced energy transition. The paradox is that inflation is pulling down real yields and support the quest for return outside fixed income assets.
- Financial markets : positive view despite raging rotation risk. Equities: OWM SA favors Developed Markets, such as Europe (UK included) and within EU (Spain and Italy) The Europe CAPE equity risk premia is double (7.3%) the US (3.5%). Long Small & Medium Caps: they are the cornerstone to solve the bottlenecks.
- Emerging market Equities are still in the quagmire of a strong USD, higher US Treasury yields and lower corporate profitability than developed markets. Large discrepancies between countries remain due to the commodity shock (Russia vs India)
- The challenge is to go beyond classical diversification with hedges against bursts of risk: CTA to benefit from trends after the reversals, 10 year US Treasury above 1.75%, JPY, CHF and managed volatility programs.
- In short, in Q4 there is a chance of an economic re-acceleration despite looming inflation. Our view is to position for 2022 and beyond by using market volatility.