Banque Richelieu
MONACO

L'esprit de conquête

INVESTMENT PERSPECTIVES

MID YEAR

COMPLETED ON 5 SEPTEMBER 2022

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INVESTMENT PERSPECTIVES • MID YEAR 2022

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INVESTMENT PERSPECTIVES • MID YEAR 2022

MACROECONOMIC REPORT

UNCERTAINTIES AT ALL LEVELS.

Many events that changed early-year trends emerged in 2022.

In January, we talked about the increased likelihood of stressful and negative events leading to greater market volatility beyond fundamentals that were, in principle, solid. However, we did not expect intensity of this scale, be it geopolitical (Russia's invasion of Ukraine), inflation-related (wage growth in the USA), or due to the pandemic (closure of China and the Chinese economy).

These independent events synchronised, causing huge drops in the value of all financial assets. The situation is uncertain at all levels but we are currently reviewing it. Slowing economic growth, accelerating inflation, tighter monetary policies, and increasing geopolitical risks are all factors weighing on financial markets. **Nevertheless, we believe that the end of the year should lead to responses to these uncertainties and impose a trend.**

GEOPOLITICS

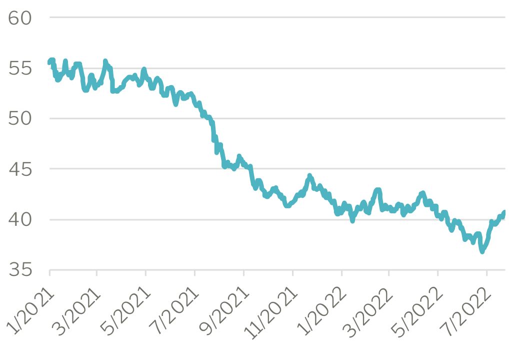
After six months of the Ukraine-Russia war, tensions remain at their peak. The situation is uncertain whether positive (ceasefire) or negative (spread of the conflict). In late July, the two countries signed an agreement on the export of Ukrainian cereals to Istanbul, which seems to show that even if the conflict is likely to last, negotiated solutions to avoid humanitarian disasters may emerge. However, Europe is on the front line and must remain united.

On the Chinese side, 'the Chinese Communist Party (CCP) is attached to the historic mission of resolving Taiwan's issue and achieving China's complete reunification', said a white paper published in August. Chinese military manoeuvres around and above Taiwan that started in early August after US House Speaker Nancy Pelosi's visit had barely ended when a new delegation from Washington landed on the island. Although parliamentarian visits are nothing unusual, they are now taking on a different dimension. In the short term, the economic and political consequences of a conflict would be significant for the communist regime. **Escalation is always possible given the current situation.** The question is whether a new form of global order is being born. The situation remains unpredictable for the moment.

Various elections will be held in the coming months. Americans will once again be called to the polls for the midterms to renew the Chamber of Representatives as well as a third of the Senate's 100 seats. This election will be delicate for Joe Biden, the popularity of whom decreased up to July, however, the Republicans are not certain to win.

US petrol prices are falling from their early-June highs, putting money back into the pockets of the American people, and the US President should also be pleased about his political wins, including a centralist senator ready to vote on a major investment plan to lower medicine prices and combat global warming.

Percentage in favour of Joe Biden



Source: Real Clear Politics

In Europe, after the resignation of Mario Draghi's government, general elections will be held on 25 September and could be an important test for Italian markets in the face of widening credit spreads and a less accommodating ECB monetary policy. The Lega Nord's rise to power in 2018 caused a major sovereign crisis.

In Brazil, the presidential campaign started on 23 August. The elections will be held on 2 October, and Bolsonaro is currently ahead of former president Lula in all the polls. The latter has not yet unveiled his economic programme, but wishes to renew social policy and give a more positive image of Brazil on the world stage.

The Chinese Communist Party will hold its 20th national congress in the second half of 2022, during which Xi Jinping is expected to start his third term as Party Leader, while the CCP's central leadership will be reorganised. Beyond China, the international directions taken by the Chinese President will give an idea of the new global order for the coming years, with all the geopolitical and economic repercussions.

Regarding the pandemic, the covid crisis has taken a back seat for now. Although the variants remain much less virulent for the time being, the pandemic crisis is a threat, particularly in the run-up to autumn (colder weather or new variant). In China, the strict 'zero-covid' policy is not called into question, but we believe that lockdown measures will be more targeted and less restrictive for business.

The world afterwards is taking shape but not how we imagined. We were hoping for a more supportive world after a dramatic 2020. A very different reality is coming to life. Trends have accelerated and imbalances are only exacerbating. Although inflation figures are a little better (especially in the US), the macro-economic momentum continues to deteriorate. However, opportunities are emerging.

Better-quality businesses can continue to thrive in difficult conditions. Often, they can use this opportunity to build and consolidate their position. The relocation of production tools should favour investment and the reduction of dependence on fossil fuels will lead to massive recovery plans from countries.

> Uncertainty creates opportunities and flexibility remains paramount: asset quality, relocation, and renewable energies will undoubtedly be the main themes in the coming months.

ECONOMIC GROWTH

In addition to the damage caused by the covid pandemic, Russia's invasion of Ukraine has accentuated the slowdown of the global economy, which is entering what could become a prolonged period of low growth and high inflation. **According to the World Bank, growth is expected to fall from 5.7% in 2021 to 2.9% in 2022, well below the 4.1% forecast last January.** For many countries, it will be difficult to escape recession.

In emerging markets, the negative consequences of the war will overshadow the possible positive short-term effect of rising energy prices for some commodity exporters. The target for a Chinese GDP increase of around 5.5% this year seems to be out of reach.

Anything lower and China will be at its slowest pace of growth since the early 1990s, excluding Covid. Economic data now leads us to expect a recession in the eurozone in the second half of the year (Flash PMI under 50 in July), weighted, in large part, by Germany, the worsened outlook of reduced provisioning of Russian gas and the fall of the Draghi government, which delays the necessary political support for the Recovery Fund in Italy.

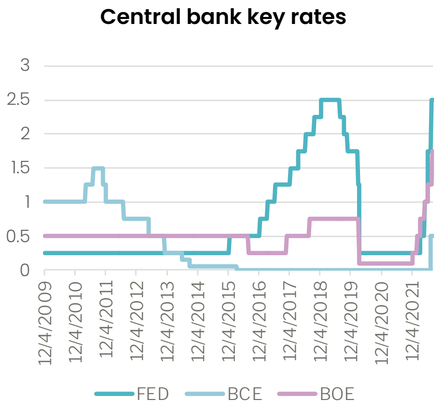
> We believe the recession's depth will be lessened given current and potential support plans.

In the US, although activity in Q1 fell 1.4% (mainly linked to imbalances between exports and imports), we expect the economy to land softly and avoid a recession. **Consumption remains dynamic thanks to country action to mitigate the drop in purchasing power.**

CENTRAL BANKS

Central bank action remains essential for the financial markets. The situation is very conflicting within institutions, particularly in Europe.
Despite significant drops in US inflation rates, several members of the Fed reiterated that the institution's monetary tightening, in order to combat inflation, was still far from over and that it could, contrary to investors' expectations, continue in 2023.

In the USA, we believe that, due to the high tensions on the labour market and the resulting wage growth, it will take time for service inflation to return to a level compatible with the 2% target. As a result, the Fed will continue tightening its monetary policy until early 2023 but at a more moderate pace. In Europe, the ECB is caught between the hammer of inflation and the anvil of recession. We think that the institution will still have to raise its key rates by 0.75% to remain credible, but Italian political maturities are weakening its anti-fragmentation tool for the time being.



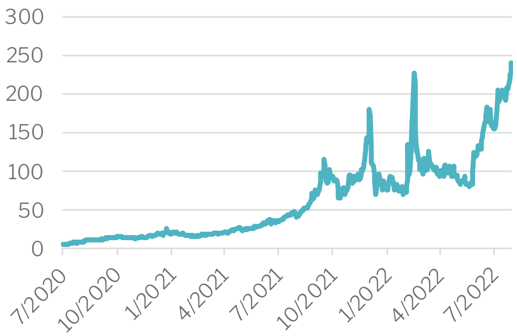
Sources: Bloomberg & Banque Richelieu

ENERGY PRICES

It is clear that Europe is still struggling with energy-related inflation. The negative consequences for consumers and businesses will increase. The drop in oil prices is, first and foremost, a reflection of fears about global growth and therefore lower consumption. Energy supply is still a crucial issue for Europe. **Electricity prices in Europe returned to its high point last March** (at almost €230/MWh) due to the reconstruction of stocks in preparation of winter by European countries, the sharp drop in Russian gas exports, and adverse weather conditions. This increase threatens the drop in energy prices, especially as European economies have tended to strengthen the role of gas in their energy mix over the years. As such, in Italy, the share of gas in the primary energy mix was 41% in 2021, exceeding that of oil. Furthermore, due to the desire to replace coal and oil with gas, greenhouse gas emissions will continue to increase (they are already up 6% year-on-year in Q1 in Europe), which keeps the European Union away from its environmental targets and increases the price of a tonne of carbon (back above €90).

Good news may be coming shortly. We are expecting the Iranian oil deal to be concluded. The European Union announced that it was reviewing Iran's response. Communication on both sides recently suggested a real possibility of agreement, but caution is still required.

Megawatt price per hour in Europe



Sources: Bloomberg & Banque Richelieu

INFLATION

Statistics have been shaking the markets for several months.

In the US, **July's CPI inflation rate finally slowed below expectations due to lower energy prices, particularly petrol.** However, inflation remains historically high, and services, food, and housing prices continue to rise. but the latter two may dampen the enthusiasm of households, particularly the most disadvantaged, who spend a large part of their budget outside of energy. Although inflation was first linked to rising energy prices and Covid bottlenecks, it spread to other assets and services. Another area of concern is wage growth in a dynamic labour market. **Patience is therefore required for confirmation of a more marked decline in the coming months to ascertain whether the inflation spiral is under control.**

> *'The fact that petrol and food price remains high suggests that there is a risk that longer-term inflation expectations for households and businesses will continue to rise.'*
>
> *Loretta J. Mester*
> *Cleveland FED Chair*

In Europe, the situation is different (there is no price-salary loop) and the inflation peak has not yet been reached.

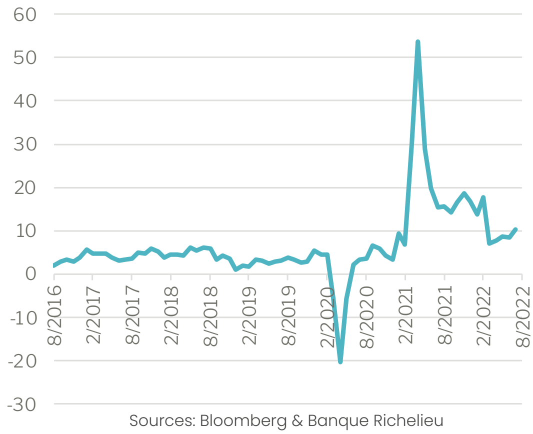
In the UK, the inflation rate jumped in July to 10.1% year-on-year, one of the highest in 40 years, mainly driven by food price hikes, exacerbating an already severe cost of living crisis in the country.

In the eurozone, the situation is more differentiated in terms of purchasing power but remains complex. France's comparatively low inflation level (compared to other European countries) 'is due to the weight of nuclear power' (69% of electricity production - the highest in the world). Indeed, 17% of nuclear energy is produced from recycled materials as well as the ability to capture new energy sources. Other countries remain much more dependent on fossil fuels. Inflation is therefore less controllable because it is directly linked to external factors. **It should be noted that France and Spain are the only European countries with a significant number of operational liquefied natural gas terminals.**

COUNTRIES IN SUPPORT OF THE CONSUMER

Whether China, Europe, Japan, or the United States, countries are supporting the consumer, For example, through the draft *Inflation Reduction Act,* which includes some measures from the social, tax, and environmental package of Joe Biden's economic programme. In order to achieve this objective, the Act aims to implement various incentives for households (e.g. tax credit for the purchase of electric vehicles) and businesses in order to encourage investments in renewable energies (e.g. taxes levied on the most polluting producers).

Annual variation in US retail sales



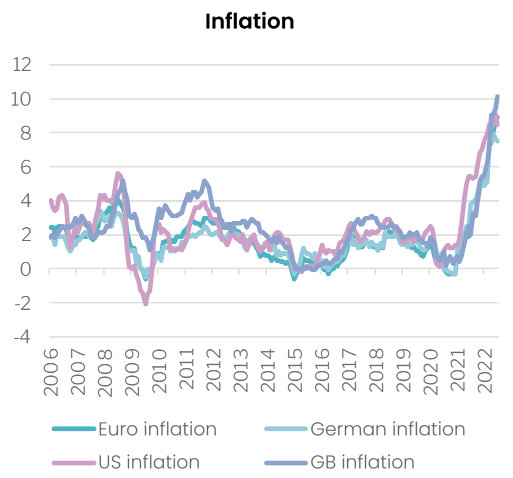
Sources: Bloomberg & Banque Richelieu

Faced with a further surge in energy prices, **European countries will be forced to increase budget aid** to cushion the upcoming blow to households and businesses. The German Chancellor Olaf Scholz announced further tax support, in particular in the form of tax relief, to German households to cope with inflation.
In China, service vouchers are being considered to rapidly stimulate consumption.
In Japan, stimulus packages follow one another to support consumer purchasing power.
These various measures should enable consumption levels to be maintained despite factors that are unfavourable to overall sentiment.

BUSINESS

The good news this summer is once again to benefit businesses that have published good results (especially in the US). **Although their margins fell, surprises were rather positive and strengthen the conviction of a certain resilience**.

However, comments remain cautious and the themes highlighted by businesses remain related to recession risk (impact on consumer behaviour and analyses of activity sensitivity to recession), margin trends (businesses are very concerned about protecting their margins and at this stage, *pricing power* seems to hold), and the job market (although some businesses have announced hiring freezes, the labour market still seems very tense). At the end of July, financial conditions eased, due to stabilising credit risk premiums.



Sources: Bloomberg & Banque Richelieu

In Europe, turnover (boosted by inflation) and profits were somewhat disappointing, both in terms of frequency and scale, but we remain at or close to record levels for most indicators. **Profits should be revised downwards in the second half of the year, particularly in supply-sensitive industrial sectors, particularly in energy.**

All this 2022 forecasts, which was repeated in Q2, or even raised, all sectors combined, can undoubtedly be explained by continued solid operational activity in the short term, but which does not include the likely slowdown linked to interest rate hikes.

> Therefore, in this uncertain environment, we favour businesses with a solid business model and balance sheet and providing visibility on strategies. The high value-added industrial sectors and the technology sector clearly continue to present investment opportunities in the medium term.

OUR 4 CONVIC

We have identified **four themes** that could dominate the global economy and financial markets for the remainder of 2022 and subsequent years.

BUSINESS

RESHORING: POSITIVE DEGLOBALISATION

Trade tensions, geopolitics (including escalating tensions between China and Taiwan), Covid, and the supply chain disruptions accompanying them are all factors that will continue to have effect for years to come.

Investment consequences

- US equities
- Technology hardware
- Industrial assets
- Industry 4.0

CTIONS

ECONOMY

WHAT IF INFLATION CONTINUES TO RISE?

The relocation of fast-track production centres and the energy transition to a greener economy are inflationary and beyond the control of the central banks. As a result, rates are not soaring out of control.

Investment consequences

- Short-term bond investments
- Sustainable dividend shares
- Caution on durable consumer goods

ENERGY

ENERGY TRANSITION

While the Ukrainian conflict is fuelling an already worrying energy crisis, the issue of energy independence is, more than ever, at the heart of debates.

Investment consequences

- Nuclear power
- Upstream cycle
- Commodities
- Green building and renovation
- Green energy

TECHNOLOGY INNOVATION

INNOVATION, THE KEY TO RECOVERY

Crises have always been powerful drivers of innovation. Most of the major technological discoveries were stimulated by crises.
Companies adapt, evolve, and innovate.

Investment consequences

- Technology sector
- Innovation sector
- Large US companies
- High growth companies

#BUSINESSES

1. RESHORING

Positive deglobalisation

Trade tensions, geopolitics (including escalating tensions between China and Taiwan), Covid, and the supply chain disruptions accompanying them are all factors that will continue to have effect for years to come.

FACTS

BlackRock CEO Larry Fink wrote to shareholders that the Russian invasion has ended globalisation as we have known it for the past thirty years. **Globalisation resulted in manufacturing industry relocations between developed and emerging countries.** Goods were transported by just-in-time supply chains, helping to lower company production costs and foster low inflation. Companies underinvested in their local markets in favour of cheaper fast-track production centres. Globalisation established an unwavering link between geopolitics and economics. Recent events have highlighted the need for forced relocation to ensure energy and industrial safety.

ANALYSIS

The *Reshoring Initiative*'s 2021 data report discusses relocation and how the trend will continue to be key to manufacturing and the economic recovery in the US. The US and European *Chips Acts*, the *America COMPETES* act, the European Union's industrial strategy, and the *Made in China 2025* programme are all examples of the concerted efforts made by public authorities to diversify supply chains and relocate strategic industries. **The capital expenditure of US companies relocating their business and the ensuing need for regional banking, warehousing, etc. should provide a multi-year tailwind for small caps,** the sales of which correlate more strongly with US investment cycles than large caps. The arguments in favour of localised relocation are increasingly compelling. *CHIPS* is expected to contribute to US investment dynamic; however, we believe that ESG will be a determining factor in the context of increased focus on carbon emissions, the need for more transparent and less complex supply chains, and workforce health and safety considerations.

Small cap sales growth has been highly correlated w/US capex
US capex growth (private non-residential fixed investment YoY, 1985-2Q22)
vs. Rusell 2000 sales growth YoY, 1985-1Q22

Sources: FactSet; Haver Analytics BofA US Equity & US Quand Strategy

The list of sectors affected is long, but it typically includes cybersecurity, semiconductors, pharmaceuticals, and energy. In addition, given continued supply chain bottlenecks, this phenomenon is occurring at a time when companies are moving away from *just-in-time* inventory management systems, symbolic of high-performance supply chains in the Japanese automotive industry, to *just-in-case* strategies. **This model combines supplier diversity, working capital strengthening, and supply chain resilience.**

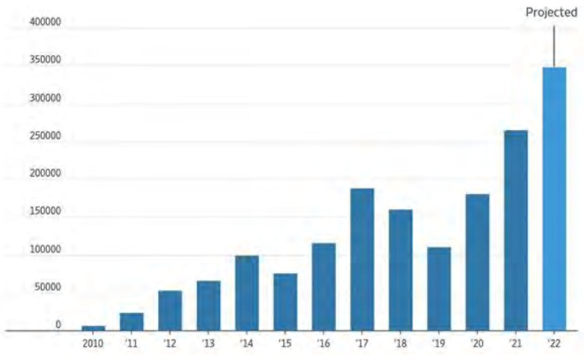
According to the *Reshoring Initiative*, 1.3 million manufacturing jobs were advertised in 2010-21, with a strong increase in recent years, mainly in South and Midwest states. Other evidence of relocation is the increase in *Reshoring* in US corporate earnings publications (regional data) on manufacturing job vacancies, which corroborates not only recruitment dynamics but also a higher number of job offers in key relocation states since 2020, even when normalised by the total number of job vacancies or state populations.

> American businesses are about to relocate,
> or are going back to the US, almost 350,000 jobs this year,
> which is the highest since 2010.

> With increasing focus on carbon emissions, greater transparency and less complexity in supply chains, and workforce health and safety considerations, we believe that ESG will be an additional factor to help drive relocation.

Reshoring

Number of job announcements per year



Sources: Reshoring Initiative

Businesses in most sectors are using relocation as a strategy to achieve zero emissions. It is the second most popular strategy in industries after improving energy efficiency and switching to clean/renewable energy. **The strong fundamental characteristics of the US market and the importance of cash flows compared to capital expenditure indicate that this market has the resources to invest in this key theme.** The recent escalation of tensions between China and Taiwan also underlines this theme, with the United States dependent on Taiwan, South Korea, and China for semiconductors. The recent adoption of *CHIPS* - which provides for USD 53 billion for semiconductor production and R&D in the US - is expected to boost domestic investment momentum. The US has increased intangible assets over the past decade compared to the rest of the world.

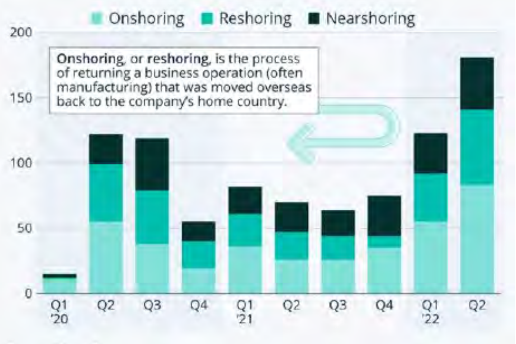
This investment in knowledge should allow them to benefit from developments in cutting-edge technologies. **The authorities' focus on digital security should be beneficial to the technology sector, including technology hardware.**

Capital expenditure is expected to drive innovation in many cutting-edge manufacturing sectors.

> In our opinion, the manufacturing industry is the most attractive opportunity to invest in real projects because it includes many high-quality businesses.

Positive effects of relocation in the United States

Bring It Home
Mentions of onshoring buzzwords in earnings calls and presentations of US public companies



Sources: Bloomberg

Our investment solution

- **US equities**
- **Technology hardware**, given the focus on digital security and intangible assets.
- **Industrial assets**, given the focus on additional capital expenditure to strengthen supply chain resilience.

#ECONOMY

2. WHAT IF INFLATION CONTINUES TO RISE?

The relocation of fast-track production centres and the energy transition to a greener economy are inflationary and beyond the control of the central banks. Rates are not soaring out of control.

FACTS

After maintaining a stance during months of temporary inflation, the central banks were slow to react and raise interest rates to support the post-Covid reopening of economies.

Supply chain bottlenecks and rising commodity prices will keep prices higher for longer than most economic stakeholders expect. The main central banks in developed countries accelerated the pace of rate hikes while reducing the size of balance sheets in the first half of 2022. However, the inversion of the yield curve and the risk of an economic recession will quickly temper the aggressiveness of monetary policies, although the fight against inflation will remain a priority.

ANALYSIS

The global pandemic and the conflict in Ukraine disrupted supply chains and commodity prices. The urgency of the energy transition, initiated long before the conflict in Ukraine, is also a major inflation factor.

The central banks of developed countries should continue to fight inflation, but at an increasingly slow pace in the coming months, and adopt a more wait-and-see policy in 2023. The central banks of emerging countries, after having already hiked interest rates, could rapidly adopt accommodating policies.

However, again, we would like to emphasise that certain factors, in particular, rising commodity prices, and bottleneck issues which are impacting supply and current inflation remain generally insensitive to monetary policies. Central banks are not in control of supply and demand!

Although we consider that the central banks' priority will remain the fight against inflation, overall, we remain less aggressive than the consensus on the outlook for future rate hikes, in particular by the Fed.

We believe that inflation should gradually slow as global demand slows, supply normalises, and bottlenecks ease.

> We will likely live with lower inflation levels than today but they will be higher than pre-pandemic levels (over the past 10 years) where fiscal austerity and balance sheet clean-up dominated.

The post-Covid economic growth peak is also behind us. The soft landing of economies will be a very delicate operation for central banks, but we believe that the Federal Reserve could succeed in the exercise.

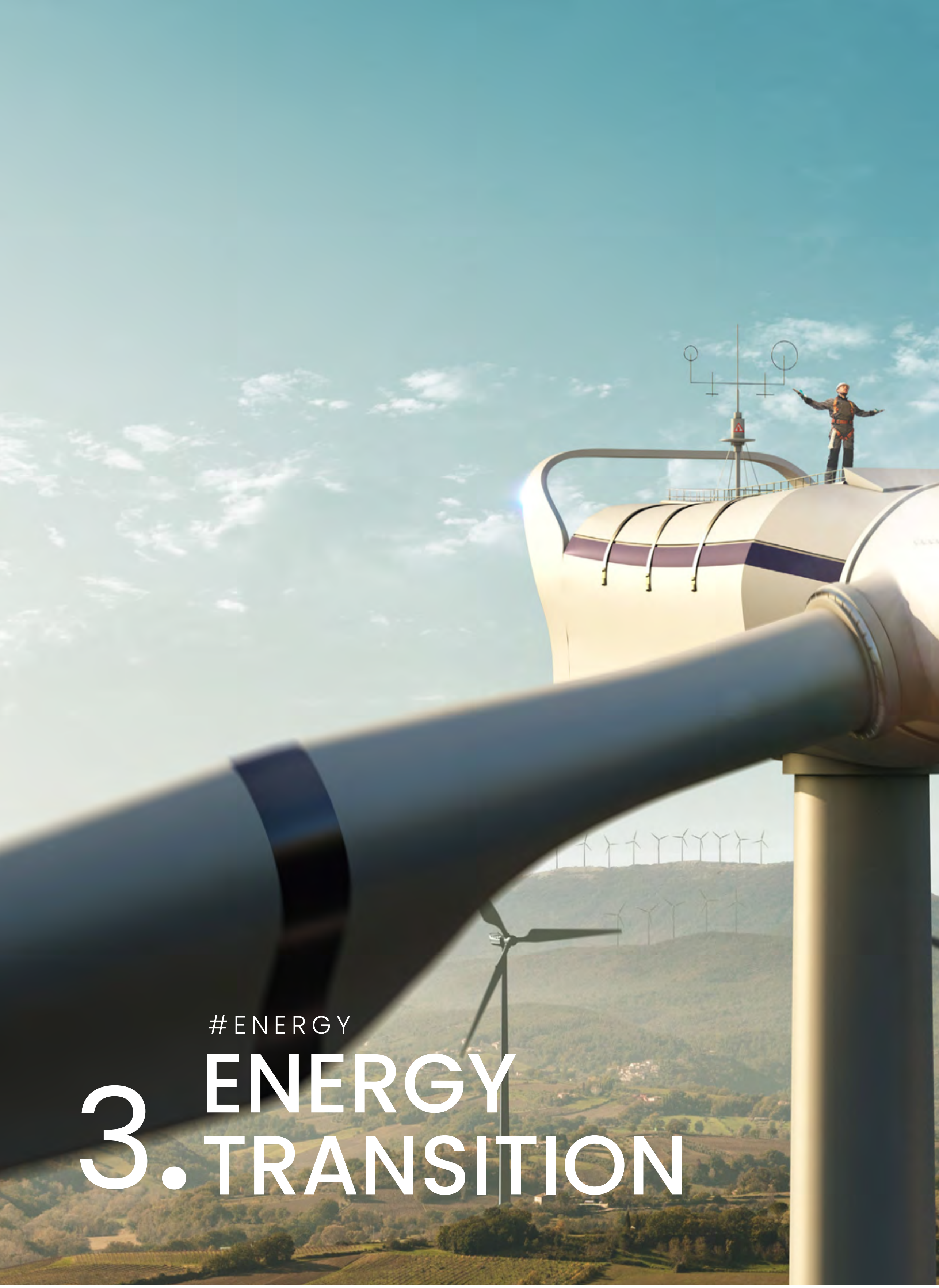
The task will prove more difficult for the ECB and the BOE, as, unlike the United States, their economies are not energy independent.

Our investment solution

- Against this backdrop, we continue to favour **short-term bond investments.** Our preference remains for high-quality bonds. The idea is to capture returns in order to counter inflation, which is eroding investor cash purchasing power.

- In terms of risky assets, shares of companies being able to issue dividends that are sustainable over time remain an axis of portfolio construction. In an environment that will continue to experience higher inflation than in the previous decade, **we must favour companies with pricing power meaning that they have the ability to pass on the increase in production prices to their clients.**

- **We are now cautious on the durable consumer goods sector**, mainly due to weak consumer sentiment, high inflation, and tighter financial conditions. In the past, durable consumer goods suffered from the drop in discretionary spending at the end of the economic cycle. The sector's fundamental situation deteriorated with significant downward revisions of profits and a deterioration in the profitability outlook, which could prolong the sector's underperformance.



#ENERGY

3. ENERGY TRANSITION

While the Ukrainian conflict is fuelling an already worrying energy crisis, the issue of energy independence is, more than ever, at the heart of debates.

FACTS

Against this backdrop, **public authorities are beginning to urge individuals and companies to reduce their energy consumption.** In other words, it is up to citizens to pay the high price of past political choices, while the energy crisis threatens to plunge Europe into recession.

The International Energy Agency (IEA) presented the European Union with a 10-point action plan to rapidly reduce energy dependence on Russia by more than a third, while supporting the *European* Green Deal which is *'a package of measures to set the EU on course for the green transition and make Europe the first climate neutral continent by 2050'.*

Among these measures, the IEA cites the acceleration of the deployment of new wind and solar projects with the aim of reducing gas consumption by six billion cubic metres within a year.

The energy transition is real. Electricity demand is expected to more than double by 2050 and renewables are expected to outpace all other energy sources, although they currently only represent 8%. Current power grids in the largest countries are a major issue.

Infrastructure is not only outdated but, above all, unable to meet consumer demand and acts as a barrier to the energy transition. There will be no energy transition without grid renewal.

ANALYSIS

Covid has demonstrated the ability of European countries to support their economies in a crisis situation, and a concerted political effort on the energy front is also a necessity today. Investments in the sector can reconcile growth and job creation with a green transition. It should take its place in the current debate on strengthening the strategic autonomy of the European Union.

The world is gradually shifting from hydrocarbons to greener alternatives to meet its energy needs. This transition has already begun, but it will take several decades to achieve a sustainable and prosperous economy. The advent of electric vehicles and the growth of renewables are key accelerators of this change, but they will require the development of green infrastructure all over the world.

Base metals should also prove to be major catalysts for green technologies and play a fundamental role in the energy transition, but the recent spike in the prices of metals, such as copper, nickel, and lithium, and cobalt is likely to delay this transition.

Our investment solution

- **What if, in this context, the best solution was … nuclear power?** The issue is once again at the centre of political concerns in the context of the current energy crisis and huge investments in renewables, but which remain insufficient. This nuclear option, now supported by a favourable European green taxonomy, could be a game changer for several stakeholders in the sector.

- As an investor, the opportunities in the green segment are almost endless; as such, **we see opportunities not only in the short-term but also in the long-term. We favour playing the upstream cycle (infrastructures, electric charging stations), raw materials (lithium, uranium), green construction & renovation (crumple, heating, air purifier system), the circular economy (biofuel, water treatment, recycling), and green energy (solar, wind, hydrogen).**

- **At Banque Richelieu Monaco**, after the success of our *European Green Recovery* certificate launched in July 2020, we decided to launch a 100% equity certificate around the Green Revolution, focusing on these four key themes at global level.

#INNOVATION

4. INNOVATION, THE KEY TO RECOVERY

Covid crisis, supply crisis, energy crisis, geopolitical crisis... How is it possible to project oneself beyond the clouds that are gathering? Through innovation!

Crises have always been powerful drivers of innovation. **Most of the major technological discoveries were stimulated by crises**, because when you do not have a choice, you have to find solutions. To contain cost inflation, find new materials, or imagine solutions to diversify supplies, etc. businesses adapt, evolve, and innovate.

FACTS

Technology assets have suffered somewhat in the financial markets in recent months. Against a background of more restrictive monetary policies, higher interest rates not only threaten corporate profits by increasing borrowing costs, they also reduce the present value of their expected profits. This effect is amplified for start-up technology companies the biggest profits of which are expected in just a few years. It is therefore essential to be selective.

Technology is now present at all levels of society: at corporate, government, and consumer levels. Innovation is at the heart of the sector and requires increasing investment. Globally, billions of users are connecting and taking part in this mass digital transformation. In this uncertain world, the latest quarterly results publications confirm the solidity of profits made on certain business segments. Recent crises will, in particular, result in breakthrough technologies for sectors, such as cybersecurity and robotics.

The financial strength of technology leaders allows them to continue to produce and innovate, despite the various crises. As such, growth expectations remain strong over the coming years. Given the current valuation levels, we are gradually returning to this technology segment, which has a solid medium-term outlook.

Global challenges such as climate change, energy dependency, pandemic risks, data security, and supply chain issues have highlighted our world's reliance on technology and innovation.

Cybersecurity, with the crisis in Ukraine, will be a dominant theme in the coming months and years.

Cybersecurity

With the rapid expansion of the digital economy, increasing volumes of data, and renewed international tensions, **cybersecurity has become a crucial social issue.** Although it has a smaller end market than the cloud and applications market, the cybersecurity market could reach around USD 200 billion by 2024, with a compound annual growth rate of at least 10%, driven by growing data storage in the cloud and belligerent discourse from some international stakeholders.

As threat levels and geopolitical tensions historically correlate with defence spending, businesses and government entities must act now to strengthen their cybersecurity capabilities, otherwise they risk losing data and experiencing security breaches.

Cybersecurity could be far more resilient than some other segments of the digital industry, given the increased risks for businesses and institutions of all sizes. Although growth in IT spending is likely to slow due to a global macroeconomic slowdown, **cybersecurity spending is likely to attract a greater proportion of IT budgets, given their non-discretionary nature.**

Our investment solution

- Naturally, investors with a long-term view should have quite broad exposure to the technology sector and to innovation in general. Given its future leading role in solving major global issues, risk-averse investors should invest in this theme through **US large caps.**

- For less conservative investors, high-growth **businesses that focus on breakthrough innovation** are more attractive as they are likely to offer much greater returns, especially after their severe stock market correction since the beginning of the year.

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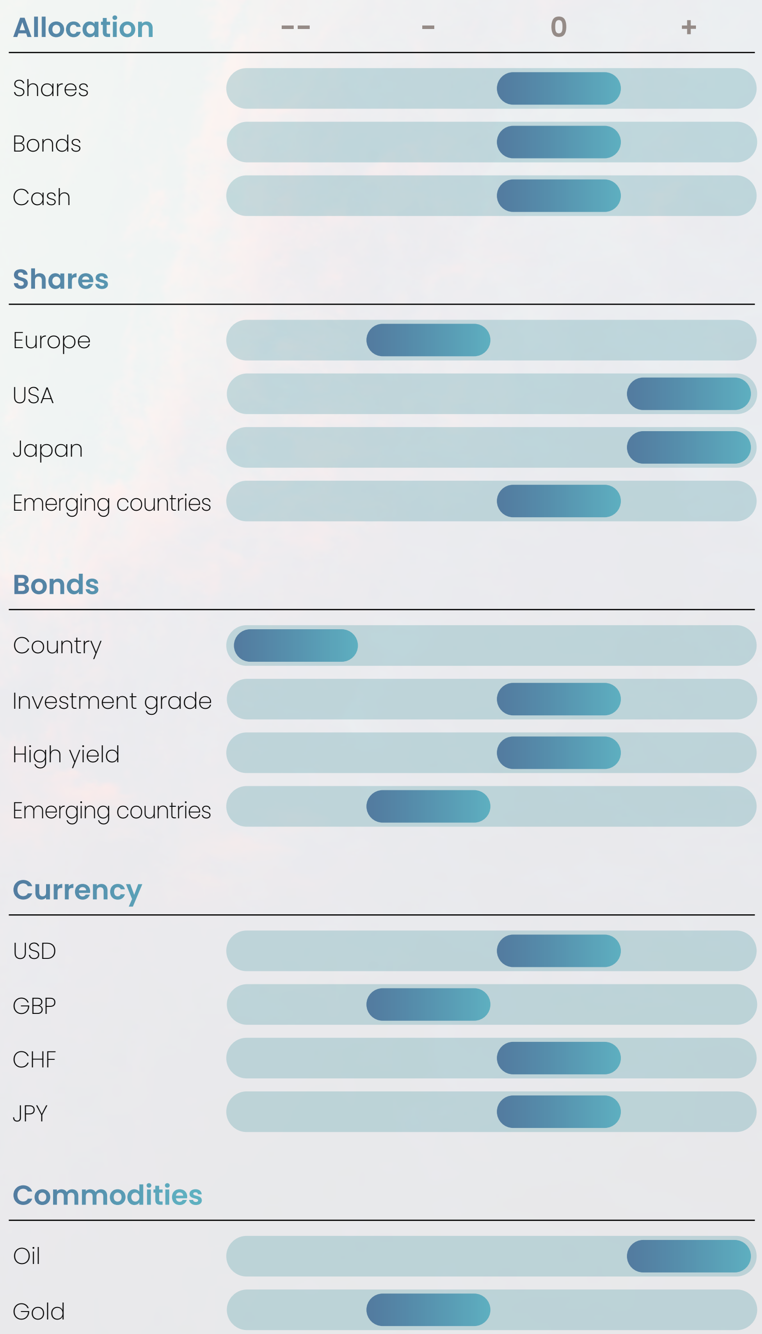
OUR ALLOCATIONS



Allocation
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+
Shares
Bonds
Cash
Shares
Europe
USA
Japan
Emerging countries
Bonds
Country
Investment grade
High yield
Emerging countries
Currency
USD
GBP
CHF
JPY
Commodities
Oil
Gold

DETERMINED CENTRAL BANKS

Slowing growth, accelerating inflation, tighter monetary policies, and rising geopolitical risks are all factors weighing on investor sentiment.

> For us, central bank rhetoric in the fight against inflation remains the key issue in the short term.

The latest inflation figures for the United States stabilised expectations of an interest rate rise. This information alone allowed risky assets to recover strongly from mid-june to mid-august. The inflation peak may have passed, but conditions are still difficult at all levels.

The unblocking of supply chains coupled with the drop in commodity prices and the recent communication from the FED should lead to macroeconomic conditions that are less negative than expected.

In Europe, the proximity of the conflict in Ukraine is causing major uncertainties as winter arrives, due to growing concerns about energy supply. Inflation is still accelerating and the ECB has only just begun monetary tightening. We expect key rates to be 1.5% or even 1.75% at the end of the year in the eurozone and 3.5% in the United States.

Financial conditions, after a summer lull, are expected to deteriorate again. **Consumption is holding up for the time being, as households strengthened their financial situation during the pandemic** due to public transfers and the creation of forced savings. The publication of Q2 results demonstrates a resilience of businesses in maintaining their margin, mainly in the US.

Overall, in the short term, we are now showing more relative caution despite everything. The confirmation of a stronger-than-expected disinflation and a change in central bank rhetoric will be required for clearer visibility. We continue to favour quality securities with legible profit growth despite the economic downturn. Investments should also, no matter what, focus on renewable and reliable energy. **German manufacturers will suffer from the energy conditions in Europe.** Overall, European equity indices are expected to underperform.

Regarding Asia, Japanese consumption is accelerating, buoyed by fewer health constraints and a catch-up effect. **We are overweight Japanese shares.**

The situation in China remains complex. Statistics for July show that the recovery initiated in June is struggling to gain momentum. Numerous restrictions are being maintained resulting in the authorities introducing new support measures.
The PoBC is acting against the current, the drop in interest rates and the Yuan should continue and lead to a relative outperformance of equity assets (other emerging countries remaining significantly weakened by inflation and restrictive monetary policies to combat the weakness in their currencies).

In terms of interest rates, the recent drop in credit premiums risk following the publication of US inflation figures seems very - if not too - rapid but demonstrates investor attraction to bonds the yields of which are widely appreciated.

In Europe, the energy crisis and the political situation in Italy could cause erratic movements and we are favouring US assets in the coming months. Investment terms will be generally short.

We remain negative on sovereign bonds in anticipation of future rate hikes, which are not, under any circumstances, called into question by the recent publication of inflation figures.

> In the short term, we recommend reallocating part of investments to liquidity while awaiting the market reaction following the Italian elections.

COMPLETED ON 5 SEPTEMBER 2022

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Market data is from Bloomberg sources.

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L'esprit de conquête

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