# ATLANTIC
FINANCIAL GROUP

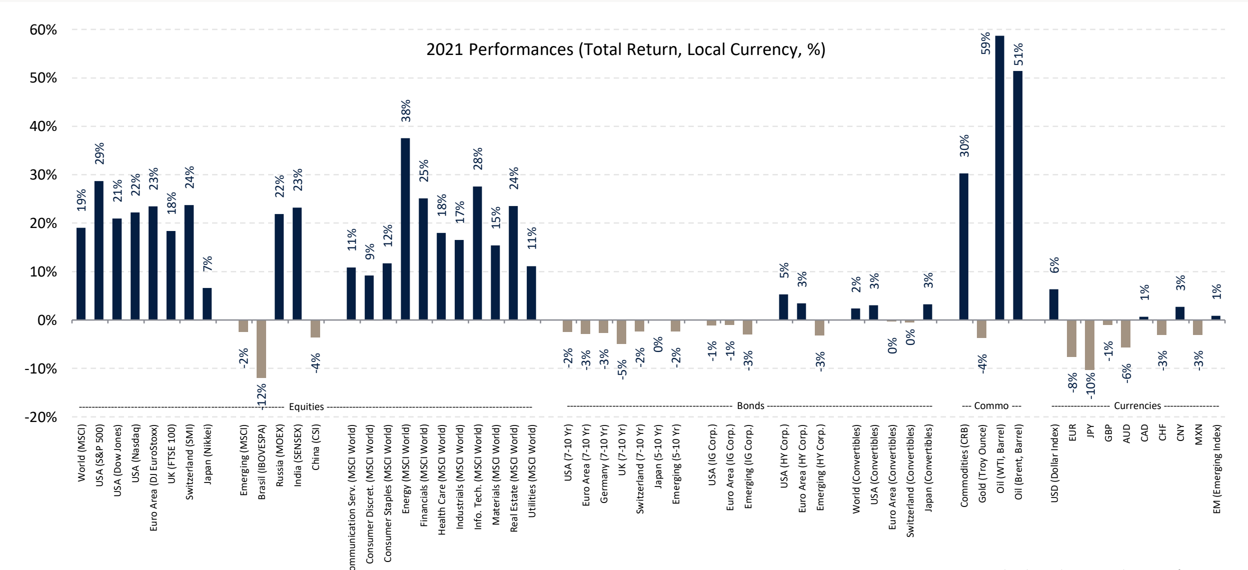
## Weekly Investment Focus

3 January 2022

## "2022: ON YOUR MARKS, GET SET, DISPERSION!"

- After a record year for equity markets, a consolidation phase is expected
- There will come a greater dispersion of performance between stocks
- Investors will have to sort the wheat from the chaff...
- ... or build strategies that will benefit from this dispersion

### CHART OF THE WEEK: "2021 was an exceptional year for investors"




Source: Bloomberg, Atlantic Financial Group, as of 02.01.2122

### FINANCIAL MARKETS ANALYSIS

**The year 2021 ended on a high note. Private client portfolios grew between +3% and +25%** (see Fig. 2) depending on their risk profile (conservative, balanced, dynamic or risky) and their reference currency (dollar, euro, pound sterling or Swiss franc). **These good results were made possible by the exceptional rise in the stock markets of the developed countries** (see Chart of the week). With the exception of Japan and Spain, they posted double-digit returns, even above +20% for the best of them, such as the American S&P 500 or the French CAC 40. From a sectoral point of view, energy, financials and real estate benefited from a catch-up effect compared to 2020, while the major technology companies continued to hit records: this has been customary for several years. In the Emerging Markets, the disparities were marked. Among the BRICs, Russia and India were the leaders, while Brazil and China failed to get out of the red numbers. As a whole, Emerging Markets were heavily impacted by the successive waves of Covid-19, but also by the strength of the US dollar. It appreciated by +6% against its main counterparts, erasing the losses of 2020 and returning to square one (see Fig. 3). Given the positive evolution of the greenback, gold's underperformance is not really an issue. The yellow metal is stable when denominated in euros, yens or Australian dollars.

Fig. 2 - Portfolio performance in 2021

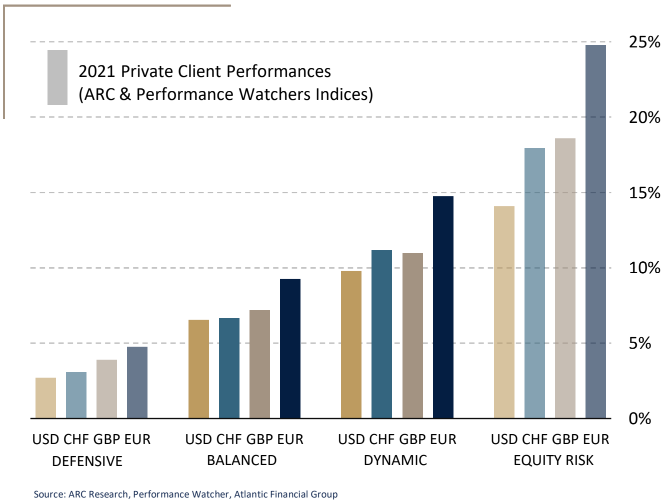
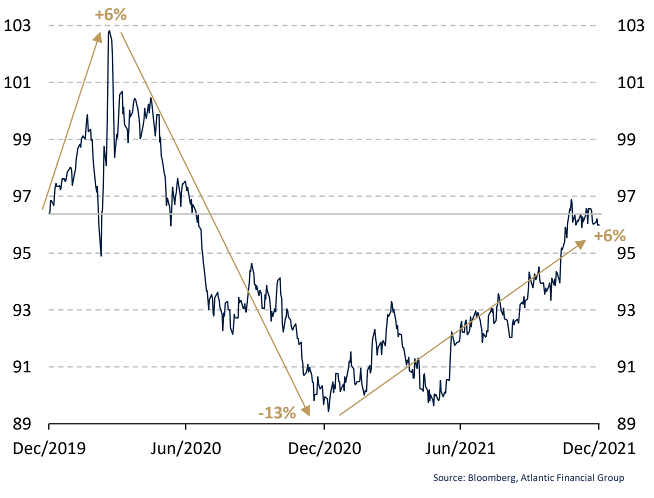


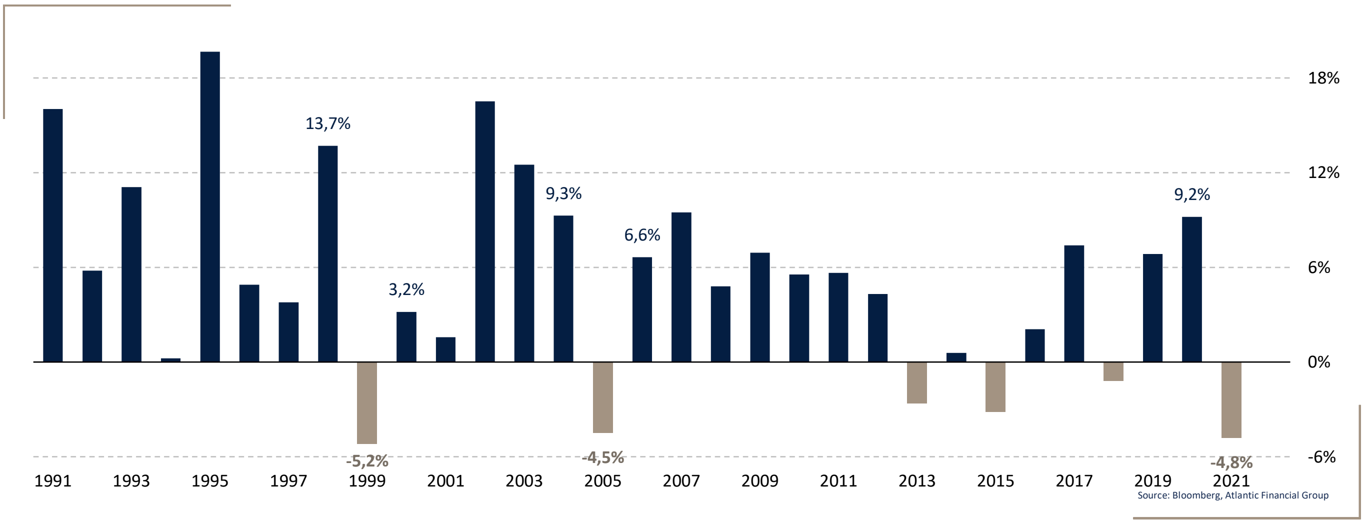

Fig. 3 - Dollar exchange rate over two years




**The biggest disappointment of 2021 came from the bond market.** Overall, fixed income investments consistently underperformed and ended the year with a historic contraction: -4.8% (see Fig. 4). Ten-year sovereign bond yields rose sharply in the first quarter (driving down bond prices) while two-year yields climbed between October and December. Rising inflation expectations, followed by the prospect of tighter monetary policy, were the key drivers. Despite this, central banks bought enough paper to avoid a surge in yields, and the performance of sovereign debt was not catastrophic: -2.5% for 7-10 year Treasuries in both the US and Europe. Given the buoyant economic environment, corporate bonds should have performed better. While they usually deliver a percentage of stock market performance, this time most of them are in negative territory. Finally, **it is mainly the setbacks of some Chinese real estate developers,** including Evergrande, Kaisa or Shimao, and their solvency risk, **that have heavily penalized the performance of the bond market.**

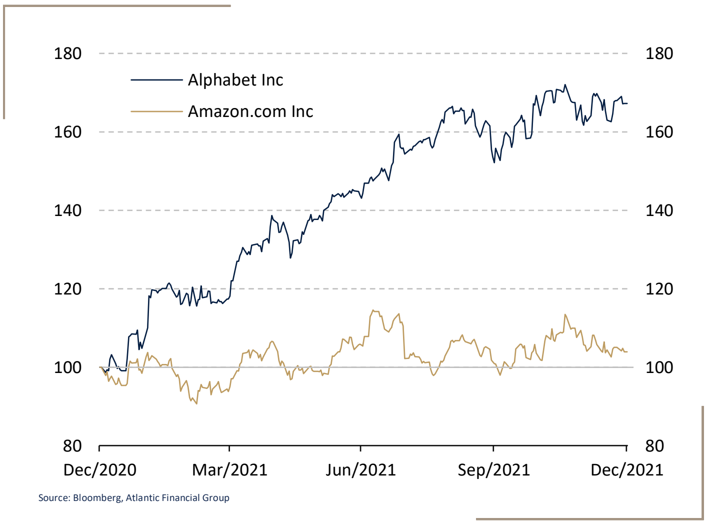
Hedge funds recorded respectable results, +6.2% on average at the end of November, supported by distressed and event driven strategies. This is in line with the overall performance of balanced portfolios. **Investors who adopt a Barbell-type strategy will have been rewarded** (see Strategy & Themes of 12 April 2021). **They will have succeeded in capturing the best performances of 2021, while hedging their risks at a lower cost.**

Fig. 4 - Annual performance of global aggregate bond index




**The year 2021 will also have been characterised by a greater dispersion of performance between different stocks.** While the equity market indices reached new records, to benefit from them it was necessary to invest in the right companies. This is an element that has been little mentioned by analysts but has been widely perceived, even suffered, by portfolio managers. The example of Google and Amazon is striking. The two leading S&P 500 technology stocks have had very different stories (see Fig. 5). Alphabet, Google's parent company, has recorded a stock market performance of +65%, while Amazon's share price has only managed to scrape up +2% this year. Investing in American technology has therefore been a good strategy, provided you "bet on the right horse".

Fig. 5 - Alphabet vs Amazon in 2021



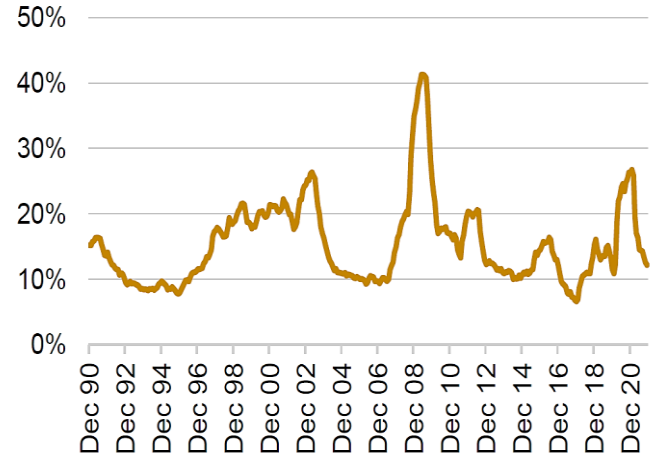

**This dispersion trend is expected to intensify in 2022.** The theory states that in the vast majority of cases, a slow and predictable deterioration of the economic situation, i.e. without a sudden exogenous shock, will be followed by weak or even negative stock market performance, high volatility, and also greater dispersion of equity returns. Various studies conducted by S&P Global in 2013, EDHEC in 2015 and MDPI in 2019 have demonstrated the empirical reality of this conclusion.

The overall volatility of an index (see Fig. 6) is determined by:

1. the average volatility of the stocks included in the index
2. the correlation or dispersion (see Fig. 7) between these stocks

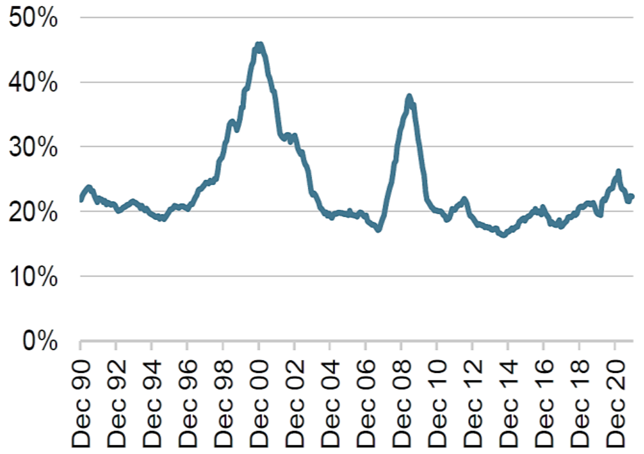
Everything else being equal, an increase in the average volatility of stocks or an increase in their correlation will increase the overall volatility of the index. Conversely, a reduction in average stock volatility or greater dispersion will reduce the overall volatility of the index.

Fig. 6 - S&P 500 overall volatility (12m fwd)




Source: S&P Global, Atlantic Financial Group

Fig. 7 - S&P 500 dispersion (12m fwd)




Source: S&P Global, Atlantic Financial Group

**Thus, high dispersion can be associated with both bull and bear markets:**

- When the economic, political or financial shock is exogenous (Covid-19, the September 11 attacks, the collapse of Lehman Brothers), then the volatility of stocks and their correlation increases sharply. Investors react indiscriminately: all stocks fall sharply. The dispersion is very low.
- By contrast, **if the slowdown is gradual (end of economic cycle), both volatility and dispersion increase. Investors sort the wheat from the chaff. This is the main scenario for 2022.**
- Finally, dispersion can also be high in a bull market (internet bubble, K-shaped recovery) if certain sectors of activity, such as technology for example, drive the market upwards on their own.

**Conclusion:**

Stock markets have delivered a strong performance in 2021. However, investors had to be careful in their implementation choices. The wide dispersion of returns between sectors, and between stocks within sectors, has led to large differences in portfolio performance. In the scenario of a sideways movement of equity markets, and even more of a contraction, this dispersion trend is likely to gain momentum in 2022.

## RETURN ON FINANCIAL ASSETS

| Markets Performances (local currencies) | Last Price | Momentum Indicator (RSI) | 1-Week (%) | 1-Month (%) | 2022 Year-to-Date (%) | 2021 (%) | 2020 (%) |
|---|---|---|---|---|---|---|---|
| **Equities** | | | | | | | |
| World (MSCI) | 754.8 | 58.57 | 0.8% | 4.0% | n.a. | 19.0% | 16.9% |
| USA (S&P 500) | 4 766 | 58.23 | 0.9% | 4.5% | n.a. | 28.7% | 18.4% |
| USA (Dow Jones) | 36 338 | 58.76 | 1.1% | 5.5% | n.a. | 20.9% | 9.7% |
| USA (Nasdaq) | 15 645 | 52.27 | 0.0% | 0.7% | n.a. | 22.2% | 45.1% |
| Euro Area (DJ EuroStoxx) | 483.1 | 57.82 | 1.0% | 4.9% | n.a. | 23.5% | 0.8% |
| UK (FTSE 100) | 7 385 | 58.44 | 0.2% | 4.8% | n.a. | 18.4% | -11.4% |
| Switzerland (SMI) | 12 971 | 62.60 | 0.7% | 5.9% | n.a. | 23.7% | 4.3% |
| Japan (Nikkei) | 28 792 | 50.99 | 0.1% | 3.6% | n.a. | 6.6% | 18.3% |
| Emerging (MSCI) | 1 232 | 51.48 | 0.9% | 1.8% | n.a. | -2.5% | 18.8% |
| Brasil (IBOVESPA) | 104 822 | 46.64 | -0.1% | 2.9% | n.a. | -11.9% | 2.9% |
| Russia (MOEX) | 3 857 | 48.56 | 2.3% | -1.7% | n.a. | 21.9% | 14.8% |
| India (SENSEX) | 59 143 | 53.19 | 2.0% | 2.1% | n.a. | 23.2% | 17.2% |
| China (CSI) | 4 940 | 50.73 | 0.4% | 2.2% | n.a. | -3.5% | 29.9% |
| Communication Serv. (MSCI Worl | 110.37 | 48.01 | -0.5% | 1.5% | n.a. | 10.8% | 24.2% |
| Consumer Discret. (MSCI World) | 410.6 | 51.45 | 0.7% | -0.2% | n.a. | 9.2% | 37.0% |
| Consumer Staples (MSCI World) | 291.7 | 70.64 | 1.6% | 8.0% | n.a. | 11.7% | 8.8% |
| Energy (MSCI World) | 189.0 | 51.62 | 0.8% | 4.0% | n.a. | 37.5% | -27.7% |
| Financials (MSCI World) | 150.5 | 54.27 | 0.7% | 4.0% | n.a. | 25.1% | -3.1% |
| Health Care (MSCI World) | 369.5 | 68.56 | 1.1% | 6.8% | n.a. | 18.0% | 15.4% |
| Industrials (MSCI World) | 332.1 | 58.63 | 1.4% | 5.3% | n.a. | 16.6% | 11.8% |
| Info. Tech. (MSCI World) | 574.5 | 55.55 | 0.4% | 3.0% | n.a. | 27.6% | 46.2% |
| Materials (MSCI World) | 365.5 | 63.78 | 1.7% | 6.4% | n.a. | 15.4% | 21.6% |
| Real Estate (MSCI World) | 234.8 | 68.15 | 2.8% | 7.1% | n.a. | 23.6% | -5.7% |
| Utilities (MSCI World) | 162.9 | 73.75 | 1.9% | 8.2% | n.a. | 11.1% | 4.8% |
| **Bonds (FTSE)** | | | | | | | |
| USA (7-10 Yr) | 1.51% | 48.07 | 0.0% | -0.6% | n.a. | -2.4% | 9.3% |
| Euro Area (7-10 Yr) | 0.21% | 33.65 | -0.5% | -1.4% | n.a. | -2.9% | 4.5% |
| Germany (7-10 Yr) | -0.15% | 31.22 | -0.5% | -1.7% | n.a. | -2.7% | 3.0% |
| UK (7-10 Yr) | 0.97% | 38.42 | -0.4% | -1.1% | n.a. | -4.9% | 5.4% |
| Switzerland (7-10 Yr) | -0.12% | 35.05 | -0.4% | -0.9% | n.a. | -2.3% | 0.4% |
| Japan (5-10 Yr) | 0.07% | 37.92 | -0.1% | -0.1% | n.a. | 0.0% | -0.1% |
| Emerging (5-10 Yr) | 4.85% | 56.38 | 0.3% | 0.4% | n.a. | -2.3% | 5.2% |
| USA (IG Corp.) | 2.33% | 52.11 | 0.1% | -0.7% | n.a. | -1.0% | 9.9% |
| Euro Area (IG Corp.) | 0.52% | 34.90 | -0.2% | -0.5% | n.a. | -1.0% | 2.8% |
| Emerging (IG Corp.) | 4.51% | 43.27 | 0.0% | -0.1% | n.a. | -3.0% | 8.1% |
| USA (HY Corp.) | 4.21% | 68.14 | 0.0% | 1.5% | n.a. | 5.3% | 7.1% |
| Euro Area (HY Corp.) | 3.37% | 60.40 | 0.1% | 0.5% | n.a. | 3.4% | 2.3% |
| Emerging (HY Corp.) | 7.24% | 50.64 | 0.3% | 0.7% | n.a. | -3.2% | 4.3% |
| World (Convertibles) | 438.2 | 49.40 | 0.0% | -0.3% | n.a. | 2.4% | 38.8% |
| USA (Convertibles) | 593.0 | 48.54 | -0.2% | -0.4% | n.a. | 3.1% | 54.5% |
| Euro Area (Convertibles) | 4 106 | 52.36 | 0.5% | 0.1% | n.a. | -0.3% | 6.1% |
| Switzerland (Convertibles) | 185.9 | 35.73 | -0.1% | -0.3% | n.a. | -0.5% | 0.5% |
| Japan (Convertibles) | 200.7 | 52.79 | 0.1% | 0.8% | n.a. | 3.3% | 2.8% |
| **Hedge Funds (Crédit Suisse)** | | | | | | | |
| Hedge Funds Indus. | 713.0 | 68.14 | n.a. | -2.2% | n.a. | 6.2% | 6.4% |
| Distressed | 959.5 | 74.09 | n.a. | -0.8% | n.a. | 11.6% | 3.8% |
| Event Driven | 810.2 | 73.77 | n.a. | -1.8% | n.a. | 12.6% | 7.0% |
| Fixed Income | 388.4 | 42.49 | n.a. | -0.5% | n.a. | 3.9% | 3.6% |
| Global Macro | 1 164.3 | 64.23 | n.a. | -3.1% | n.a. | 5.9% | 6.5% |
| Long/Short | 900.6 | 48.74 | n.a. | -3.0% | n.a. | 5.2% | 7.9% |
| CTA's | 340.9 | 62.57 | n.a. | -3.9% | n.a. | 8.0% | 1.9% |
| Market Neutral | 284.6 | 62.97 | n.a. | -0.5% | n.a. | 4.2% | 1.7% |
| Multi-Strategy | 682.4 | 69.71 | n.a. | -1.4% | n.a. | 4.7% | 5.6% |
| **Volatility** | | | | | | | |
| VIX | 17.53 | 43.23 | -4.1% | -36.7% | n.a. | -24.3% | 65.1% |
| VSTOXX | 18.88 | 44.11 | 1.2% | -35.9% | n.a. | -17.6% | 67.5% |
| **Commodities** | | | | | | | |
| Commodities (CRB) | 578.3 | n.a. | 0.8% | 2.5% | n.a. | 30.3% | 10.5% |
| Gold (Troy Ounce) | 1 823 | 59.49 | 0.6% | 2.2% | n.a. | -3.6% | 25.1% |
| Oil (WTI, Barrel) | 76.99 | 59.19 | 1.9% | 16.3% | n.a. | 58.7% | -20.5% |
| Oil (Brent, Barrel) | 78.26 | 56.14 | 3.0% | 11.1% | n.a. | 51.4% | -23.0% |
| **Currencies (vs USD)** | | | | | | | |
| USD (Dollar Index) | 95.861 | 47.80 | -0.2% | -0.3% | n.a. | 6.4% | -6.7% |
| EUR | 1.1345 | 51.59 | 0.2% | 0.3% | n.a. | -7.5% | 9.7% |
| JPY | 115.27 | 33.29 | -0.3% | -2.1% | n.a. | -10.2% | 5.1% |
| GBP | 1.3521 | 63.32 | 0.6% | 2.2% | n.a. | -1.0% | 3.1% |
| AUD | 0.7259 | 56.84 | 0.3% | 3.7% | n.a. | -5.6% | 9.6% |
| CAD | 1.2672 | 56.31 | 0.9% | 1.3% | n.a. | 0.7% | 2.1% |
| CHF | 0.9129 | 61.36 | 0.5% | 0.5% | n.a. | -3.0% | 9.4% |
| CNY | 6.3561 | 61.61 | 0.2% | 0.1% | n.a. | 2.7% | 6.7% |
| MXN | 20.491 | 62.33 | 1.0% | 3.8% | n.a. | -3.0% | -5.0% |
| EM (Emerging Index) | 1 734.4 | 60.23 | 0.1% | 0.6% | n.a. | 0.9% | 3.3% |

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)

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