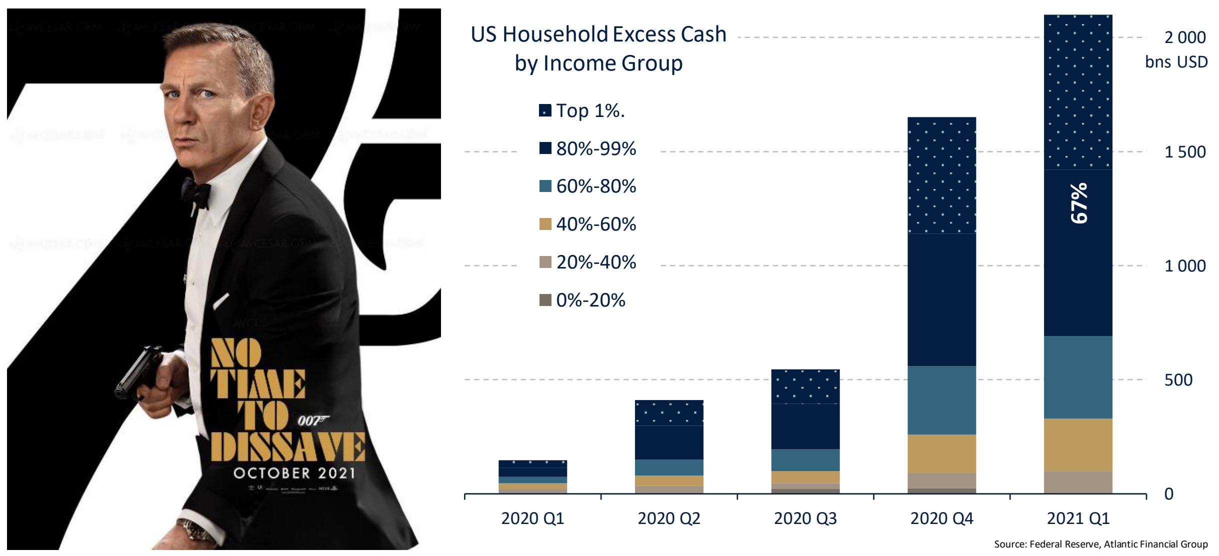
Weekly Investment Focus

18th October 2021

"NO TIME TO DISSAVE"

- Household savings have risen sharply in 2020 and only a portion has been spent in 2021
- It is the wealthiest households that have the remaining financial windfall
- By holding it as a precaution, they will help the stock market rise
- By spending it, they will support the consumer discretionary sector

CHART OF THE WEEK: "67% of excess savings are held by the richest 20%"



FINANCIAL MARKET ANALYSIS

The "whatever it takes" strategy made it possible to preserve the productive apparatus and made strong growth of economies possible as soon as the lockdowns ended almost everywhere on the planet. This strategy of extraordinary public spending (see Fig. 2) **also resulted in a massive increase in household savings** (see Fig. 3). Indeed, in order to ensure that everyone would survive the crisis, governments preferred to spend too much rather than too little, and the urgency of the situation prevented them from being selective about who they would give financial aid to. Almost everyone benefited. Paradoxically, during this period of lockdown, households have never consumed so little. With their mobility curtailed and the supply of goods and services reduced, they were unable to spend as much as they would have liked. It was, for example, difficult for them to go to a restaurant, to buy a new car and, even more problematic, to travel to the other side of the world.

Fig. 2 - Increase in public deficits

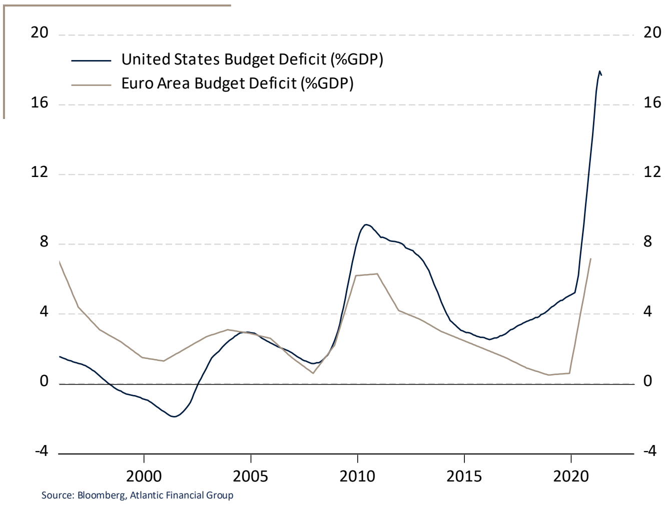
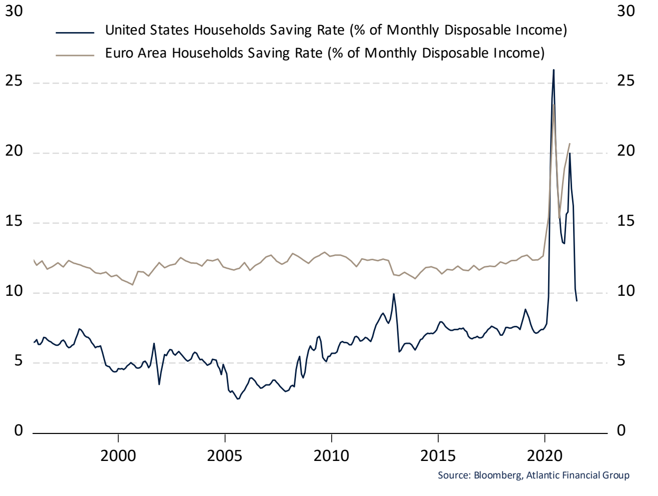


Fig. 3 - Monthly increase in household savings



This forced saving increased household wealth by 10% in 2020 (see Fig. 4). This phenomenon is all the more visible in developed countries, where public aid has been more sustained than in emerging countries. It has also been supported by rising stock markets.

Fig. 4 - Household wealth in the world

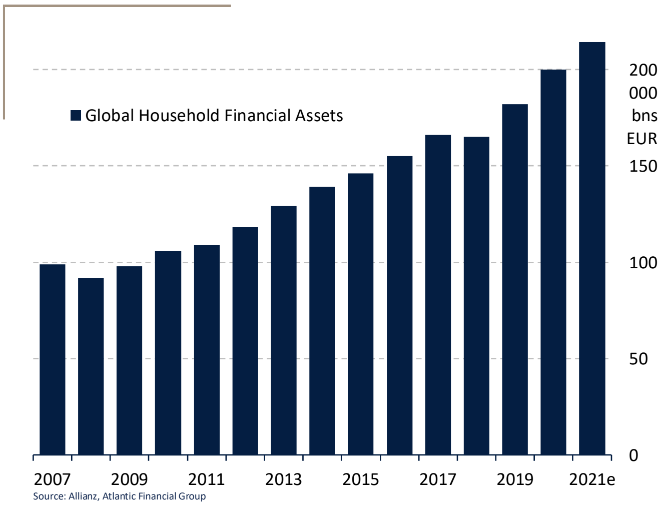
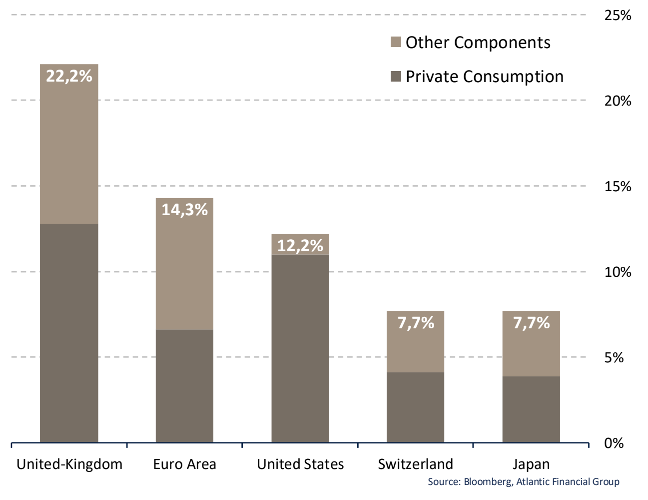


Fig. 5 - Contributions to annual GDP growth



In 2021, the reopening of the economies has allowed households to spend some of these savings and support demand. The exceptionally strong growth rates of Gross Domestic Product (GDP) attest to this. They are mainly due to private consumption (see Fig. 5).

Despite this spending, the wealth accumulated by households remains very high. **The burning question is to know if the remaining savings will continue to fuel catch-up consumption in 2022, maintaining the risk of inflation, or whether they will be set aside as a precaution. Note that these two hypotheses are not exclusive; they can coexist.**

The second part of this scenario would materialise, for example, in anticipation of the next tax increase, when governments seek to rebalance their public finances. It could also take place with a surge in the unemployment rate, when the next economic crisis materializes. Finally, and this is an option that is often overlooked, it **would take place if households simply do not need to spend more.**

- **If savings are spent, then luxury goods and services will benefit the most.** There are several reasons for this. For one thing, during the Covid-19 pandemic, households did not stop buying food or health care. Today, they do not necessarily need to buy essential goods such as groceries, hygiene products or medicines any more than usual. In addition, they do not intend to consume twice as much of the goods and services they deprived themselves of back then. With the exception of certain very specific situations, they will not go to restaurants or the cinema twice as much. Last but not least, it is mainly the wealthiest households that have the remaining excess savings. In the United States, two-thirds of recently accumulated savings are held by the richest 20% (see Chart of the Week). So if they spend more, it will be on luxury goods, cars, hotels, travel, and other non-essential consumer goods.

Fig. 6 - Cash allocation of US households

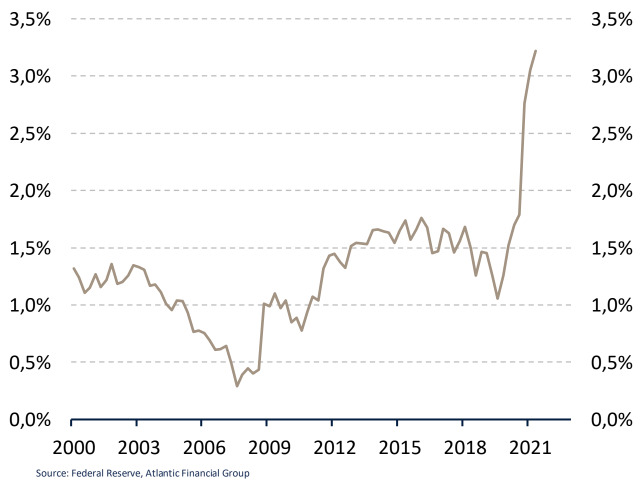
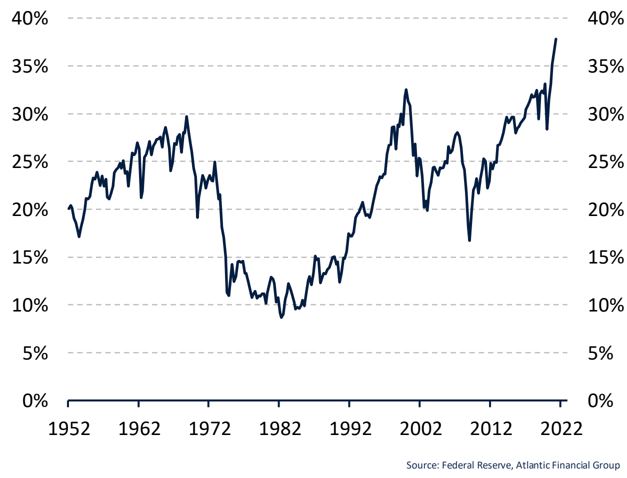


Fig. 7 - Equity and fund allocation of US households



- **If savings are hoarded, then financial markets will take advantage to reach new heights.** Since 1st January 2020, much of the money injected by governments has been held in cash by households. In the United States, some USD 3.6 trillion is now sitting in checkable deposits and currency, or 3.2% of total household financial assets (see Fig. 6). **As households come to view these savings as permanent, rather than one-off assets, they will seek to invest them to grow.** Culturally, Americans will favour the stock market, while Europeans will also look to real estate. Although the equity allocation of US households is at an all-time high, at 38% of their average portfolio (see Fig. 7), it could continue to grow because there is no remunerative alternative. This behaviour will help stock markets rebound over the next few months. If it is massive, it could even be considered as the last phase of stock market euphoria... before the bubble bursts later, in 2022 and 2023 in all likelihood.

It is difficult to decide categorically on the two scenarios presented. Both can coexist and the balance will depend on household confidence. By definition, confidence is quickly reversible. However, **our analyses point more towards the second option: precautionary savings.** As these assets are mostly held by the wealthiest households, those with the lowest marginal propensity to consume and who are generally the best informed about future economic risks, there is no urgency to spend them. If for James Bond it is "no time to die", for households it is "no time to dissave".

Conclusion:

Excess savings, accumulated by households during the pandemic, will only be consumed with difficulty. Today, it is mainly held in cash on checkable deposits and will very soon be channelled into the stock and property markets, supporting a new wave of bullishness at the end of this exceptional year. The portion of savings that will be spent will be spent on non-essential goods and services, favouring discretionary consumption sectors such as luxury goods, cars, hotels and travel.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2021 Year-to-Date (%)	2020 (%)	2019 (%)
Equities							
World (MSCI)	733.0	59.55	2.2%	-0.4%	15.2%	16.9%	27.3%
USA (S&P 500)	4 471	58.39	1.8%	-0.1%	20.4%	18.4%	31.5%
USA (Dow Jones)	35 295	60.10	1.6%	1.4%	17.0%	9.7%	25.3%
USA (Nasdaq)	14 897	55.47	2.2%	-1.7%	16.2%	45.1%	36.7%
Euro Area (DJ EuroStoxx)	466.1	56.97	2.5%	0.6%	19.9%	0.8%	27.3%
UK (FTSE 100)	7 234	62.74	2.0%	3.2%	15.4%	-11.4%	17.2%
Switzerland (SMI)	11 961	56.56	1.7%	-0.1%	14.9%	4.3%	30.2%
Japan (Nikkei)	29 069	53.05	3.6%	-4.2%	7.4%	18.3%	20.7%
Emerging (MSCI)	1 284	57.54	2.1%	-0.2%	1.3%	18.8%	18.8%
Brasil (IBOVESPA)	114 648	53.77	1.6%	-0.4%	-3.7%	2.9%	31.6%
Russia (MOEX)	4 262	68.38	0.7%	5.2%	35.7%	14.8%	38.4%
India (SENSEX)	61 306	73.69	2.7%	5.3%	29.5%	17.2%	15.7%
China (CSI)	4 932	53.24	0.1%	1.4%	-3.7%	29.9%	39.2%
Communication Serv. (MSCI Worl	113.96	48.29	0.2%	-3.1%	14.3%	24.2%	25.1%
Consumer Discret. (MSCI World)	405.7	65.13	3.7%	1.5%	7.7%	37.0%	28.2%
Consumer Staples (MSCI World)	275.9	54.23	1.4%	-1.2%	5.1%	8.8%	22.4%
Energy (MSCI World)	201.0	77.62	2.3%	13.3%	44.6%	-27.7%	13.9%
Financials (MSCI World)	152.8	65.37	1.4%	3.3%	26.5%	-3.1%	24.1%
Health Care (MSCI World)	348.3	45.97	1.0%	-3.0%	11.0%	15.4%	23.3%
Industrials (MSCI World)	325.5	57.91	2.5%	-1.2%	13.9%	11.8%	27.2%
Info. Tech. (MSCI World)	529.6	56.14	2.9%	-2.1%	17.4%	46.2%	47.5%
Materials (MSCI World)	359.3	61.13	3.9%	-1.5%	13.1%	21.6%	20.8%
Real Estate (MSCI World)	223.3	56.56	3.1%	-0.7%	16.8%	-5.7%	24.0%
Utilities (MSCI World)	152.4	49.89	1.3%	-2.6%	3.3%	4.8%	22.3%
Bonds (FTSE)							
USA (7-10 Yr)	1.57%	46.11	0.5%	-2.0%	-3.3%	9.3%	7.4%
Euro Area (7-10 Yr)	0.10%	41.28	0.1%	-1.1%	-2.3%	4.5%	6.7%
Germany (7-10 Yr)	-0.17%	44.55	0.4%	-0.8%	-2.9%	3.0%	3.0%
UK (7-10 Yr)	1.11%	36.83	0.5%	-2.4%	-5.7%	5.4%	4.8%
Switzerland (7-10 Yr)	-0.12%	40.67	0.1%	-1.2%	-2.3%	0.4%	2.0%
Japan (5-10 Yr)	0.08%	41.85	0.0%	-0.3%	-0.1%	-0.1%	0.0%
Emerging (5-10 Yr)	4.63%	36.80	0.5%	-2.3%	-2.4%	5.2%	13.3%
USA (IG Corp.)	2.20%	43.86	0.7%	-1.2%	-1.3%	9.9%	14.5%
Euro Area (IG Corp.)	0.40%	37.68	0.1%	-0.6%	-0.6%	2.8%	6.2%
Emerging (IG Corp.)	4.99%	20.43	-0.3%	-2.5%	-2.5%	8.1%	13.1%
USA (HY Corp.)	4.16%	47.14	0.1%	-0.6%	4.3%	7.1%	14.3%
Euro Area (HY Corp.)	3.25%	39.37	0.2%	-1.0%	3.2%	2.3%	11.3%
Emerging (HY Corp.)	7.16%	28.24	0.0%	-2.8%	-1.7%	4.3%	11.5%
World (Convertibles)	451.7	56.57	1.6%	-0.4%	5.5%	38.8%	17.3%
USA (Convertibles)	617.5	58.07	1.9%	0.2%	7.3%	54.5%	22.8%
Euro Area (Convertibles)	4 111	47.39	0.2%	-1.3%	-0.1%	6.1%	7.6%
Switzerland (Convertibles)	186.3	37.99	0.0%	-0.5%	-0.3%	0.5%	2.4%
Japan (Convertibles)	201.1	57.29	1.2%	-0.7%	3.5%	2.8%	2.6%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	719.9	75.93	n.a.	0.0%	7.2%	2.5%	9.3%
Distressed	956.7	75.87	n.a.	1.1%	11.3%	1.5%	1.4%
Event Driven	811.6	78.40	n.a.	0.6%	12.8%	3.1%	8.2%
Fixed Income	391.5	78.90	n.a.	0.0%	4.7%	2.2%	6.1%
Global Macro	1 197.3	72.78	n.a.	1.6%	8.9%	2.0%	10.4%
Long/Short	908.3	68.54	n.a.	-1.5%	6.1%	3.6%	12.2%
CTA's	341.7	68.13	n.a.	0.9%	8.2%	-3.2%	9.0%
Market Neutral	284.6	49.90	n.a.	-0.4%	4.1%	-0.1%	1.6%
Multi-Strategy	689.7	71.92	n.a.	0.0%	5.9%	1.4%	7.3%
Volatility							
VIX	16.30	40.41	-13.2%	-10.3%	-28.4%	65.1%	-45.8%
VSTOXX	16.35	37.66	-19.4%	-24.6%	-30.0%	67.5%	-41.5%
Commodities							
Commodities (CRB)	567.0	n.a.	0.8%	36.5%	27.8%	10.5%	-1.9%
Gold (Troy Ounce)	1 768	49.19	0.6%	-1.5%	-6.9%	24.9%	18.3%
Oil (WTI, Barrel)	82.28	76.08	3.7%	13.3%	69.6%	-20.5%	34.5%
Oil (Brent, Barrel)	84.87	73.53	2.3%	12.8%	65.9%	-23.0%	24.9%
Currencies (vs USD)							
USD (Dollar Index)	93.937	54.92	-0.1%	1.5%	4.4%	-6.7%	0.2%
EUR	1.1601	42.00	0.3%	-1.8%	-5.0%	9.7%	-2.2%
JPY	114.22	24.91	-1.7%	-4.2%	-9.6%	5.3%	0.9%
GBP	1.3751	57.47	1.0%	-0.6%	0.6%	2.8%	3.9%
AUD	0.7421	64.09	1.5%	1.2%	-3.5%	9.5%	-0.4%
CAD	1.2368	69.81	0.8%	2.1%	2.9%	1.8%	5.0%
CHF	0.9229	52.81	0.5%	-0.3%	-4.1%	9.8%	1.4%
CNY	6.4356	58.00	0.1%	0.0%	1.4%	6.7%	-1.2%
MXN	20.327	51.71	1.8%	-2.3%	-2.0%	-4.9%	3.8%
EM (Emerging Index)	1 727.7	54.19	0.5%	-0.6%	0.5%	3.3%	3.1%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)

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