



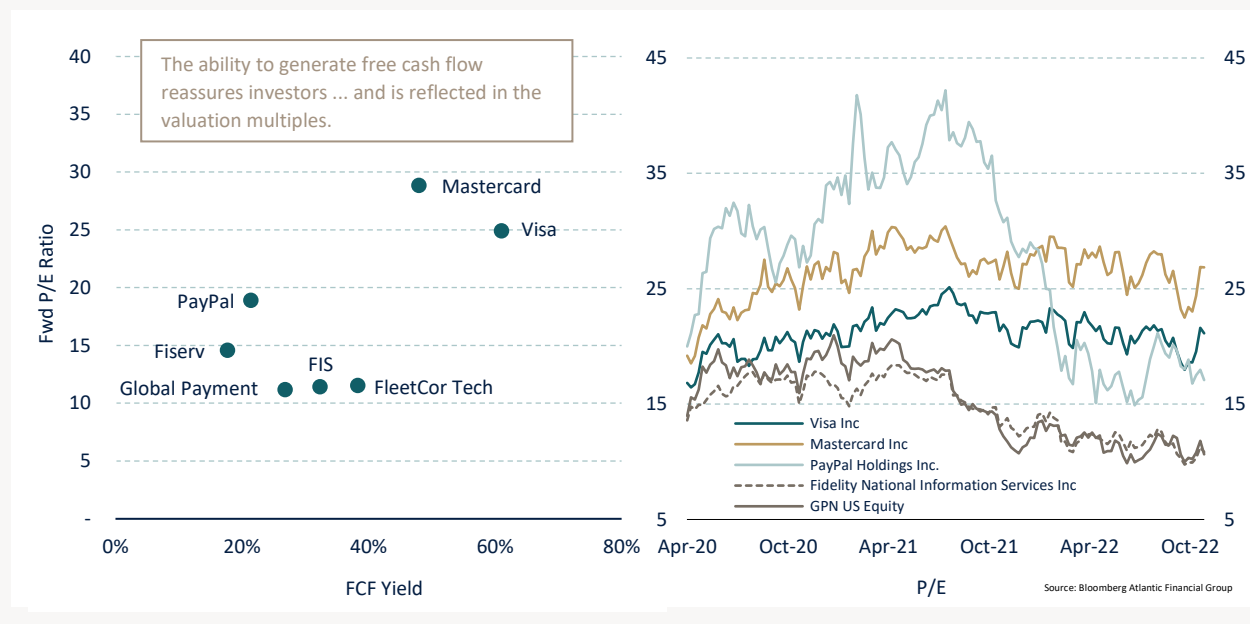
Weekly Investment Focus

7 November 2022

"PAYMENT: A FAST-GROWING BUSINESS"

- ◆ International travel boosts card transaction volumes
- ◆ Domestic consumption is more resilient than expected
- ◆ New services should support long-term growth
- ◆ While competitive intensity may temporarily weaken.

CHART OF THE WEEK: "Quality and visibility reassure investors"



FINANCIAL MARKET ANALYSIS

Companies active in payment systems **have performed very poorly since the beginning of the year, at around -38%**, driven by large market capitalisations such as PayPal (-60%), Block (-63%) and Adyen (-44%). Visa and Mastercard are doing better, with decent performances of -9% and -11%, thanks to the recovery in international travel.

At Visa's fourth quarter earnings call, management seemed quite optimistic about 2023 results and announced a 20% dividend per share increase in addition to a substantial \$12 billion share buyback.

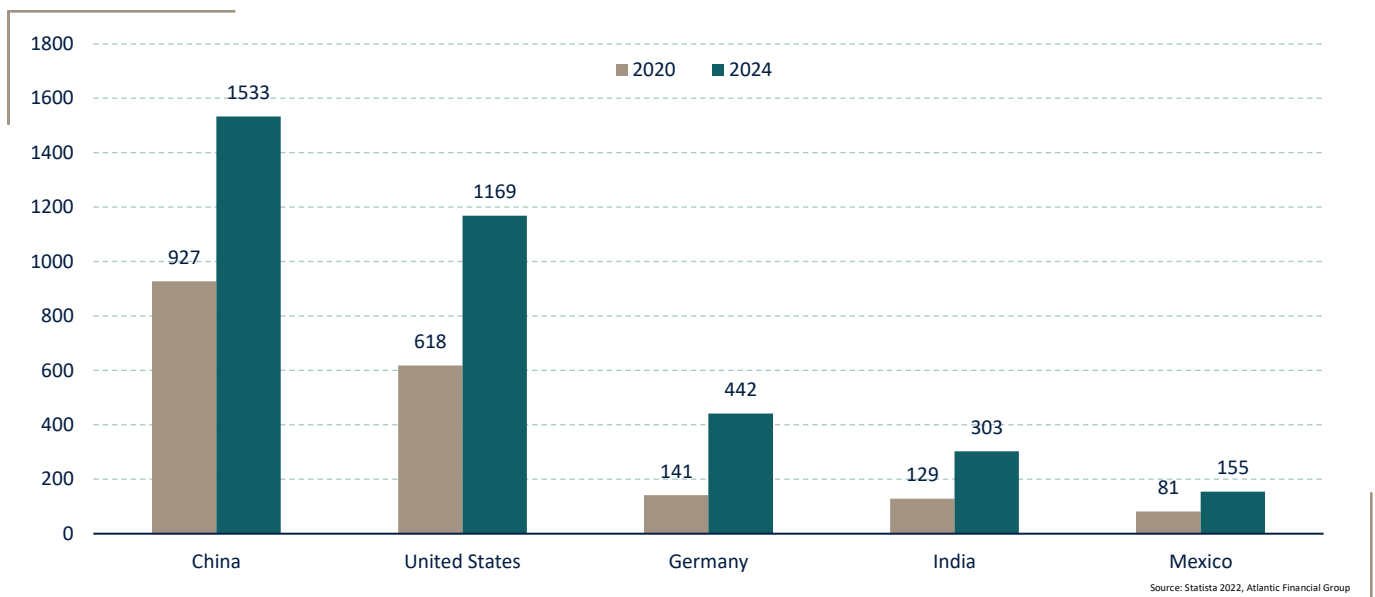


Mastercard did not comment on its expectations for 2023, but while revenues are expected to continue to grow between 15-20%, cost inflation could weigh on margins.

◆ International travel boosts card transaction volumes

According to an index developed by MasterCard, cross-border travel volumes have climbed to 125% of October 2019 levels, an acceleration from 118% in Q2. Delta and United Airlines confirmed that **the trend in travel bookings remains upward** (see Fig. 2). Passenger volumes, as opposed to the dollar spend that MasterCard reports, are still below 2019 levels in a number of regions, particularly in Asia/Oceania, and could drive growth in the coming quarters.

Fig. 2 - Trends in cross-border travel revenues in bn \$



◆ Domestic consumption is more resilient than expected

US consumers continue to spend despite inflation, rising interest rates, geopolitical risk and fears of a recession. This resilience is certainly due to low unemployment, rising wages and still high savings. Beware, this apparent consumer health could be quickly eroded when the recession materializes.

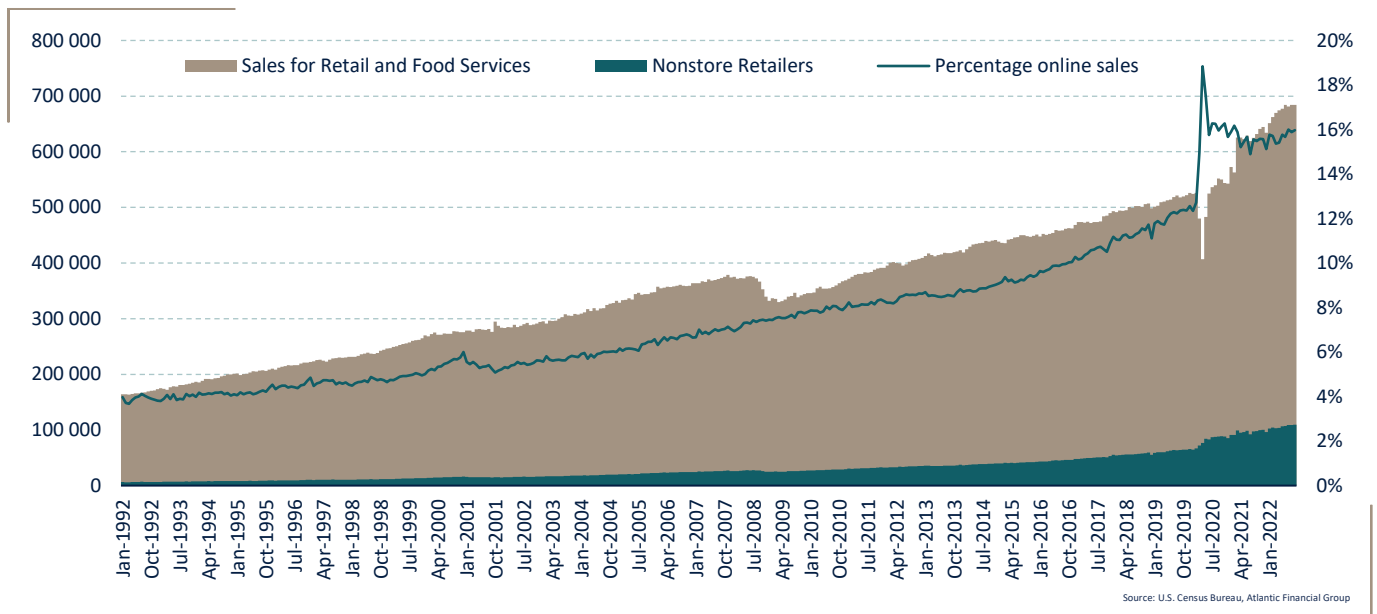
A large part of the payment companies' revenues is protected from inflation. For Visa, only one third of revenue comes from fixed fees, with the remaining two thirds coming from fees calculated as a percentage of the value of transactions made. Yet payment volumes continue to grow, driven by both everyday purchases and international travel.

On the other hand, companies exposed to online purchases, such as PayPal, suffered from the slowdown in e-Commerce after the strong craze linked to the covid-19 pandemic (see Fig. 3). Affirm is also correcting massively (-80% since the beginning of the year), as it operates the Buy Now Pay Later (BNPL) service for



the Amazon platform or Walmart shops. If the macroeconomic environment continues to deteriorate, due to both high inflation and a possible slowdown in consumer spending, Affirm could face higher default rates on its credit business, particularly BNPL.

Fig. 3 - Online sales slow down



◆ New services should support long-term growth

The continued growth of digital payments is a clear trend that is only expected to strengthen over the next few decades (see Fig. 4). The covid-19 pandemic has only accelerated it. Consumers are shifting from cash to digital payment solutions for both purchases and recurring services. The use of credit cards shows a significant increase in market share from 18% in 2016 to 28% in 2021. Debit cards and electronic transfers maintain relatively stable market shares at 29% and 11% respectively.

The development of platforms allows the rise of integrated rather than omni-channel businesses. This new model evolves around the creation of digital communities with which customers can both interact and transact. By continuing to develop its range of products for platforms, Adyen is able to capture the value that lies within them, such as inventory management. Adyen brings together online and offline data in a single system.

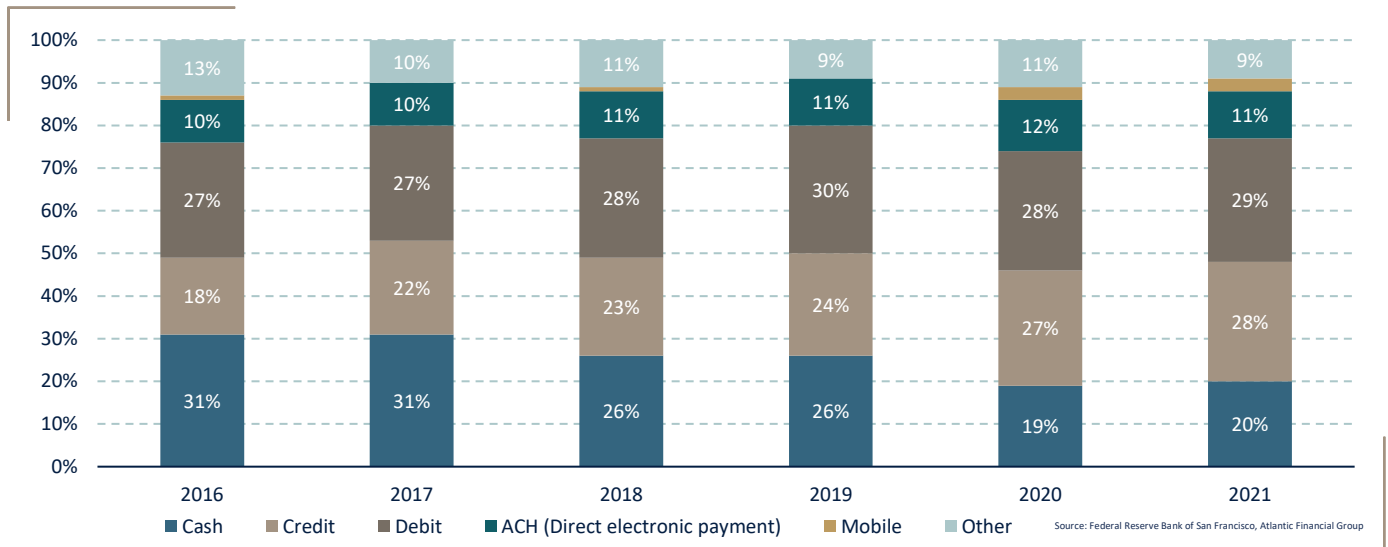
The continued adoption of e-commerce for cross-border purchases could lead to increased revenues for Visa, Mastercard and Globale-e Online in the coming quarters. Global-e Online is the world's first platform to enable and accelerate direct-to-consumer cross-border e-commerce.

Many developed and emerging countries still make very little use of Visa/Mastercard services. There is still plenty of room for growth in these markets. Payment infrastructures, regulations and systems are all very local, creating great complexity in a world of global commerce. Network capacity allows Visa and Mastercard to be the single point of connection for their customers and to help them transfer value securely.



Beware, the crypto-currency winter is weighing on the profitability of companies that have developed services around digital currencies like bitcoin. For example, Block (formerly Square) is racking up losses on its crypto trading business. Other players in the sector, such as trading platform Robinhood, is cutting nearly a quarter of its staff due to high inflation and the fall of the crypto-currency market.

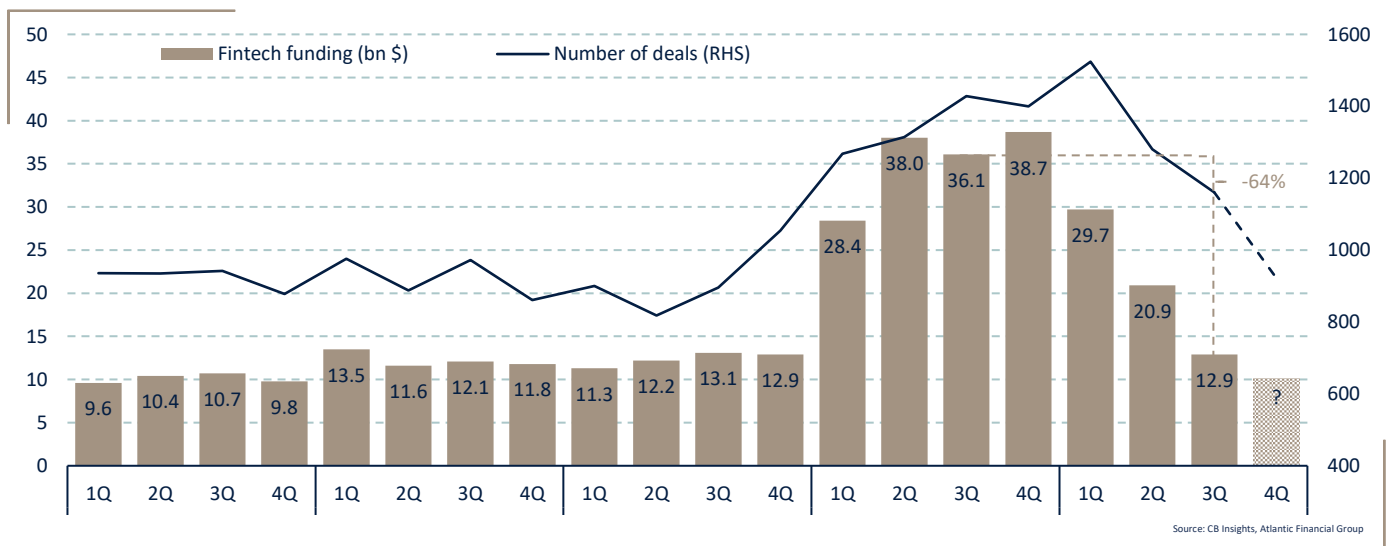
Fig. 4 - Breakdown of the use of means of payment in the USA



◆ **Competitive intensity may temporarily weaken**

Fintech funding from venture capital funds is contracting significantly in Q3 2022, down 64% year-on-year (see Fig. 5). Year-to-date funding is still 17 times higher than in 2019 but **the trend, if sustained, could reduce competitive intensity within the sector and improve M&A prospects for the sector's cash-rich large caps.**

Fig. 5 - Fintech financing declines sharply





Block acquired Afterpay last year for \$29 billion to strengthen its cash app services with the integration of BNPL services, among others. The app already offers a peer-to-peer payment service that allows for loans often under \$200. Block has already expanded Cash App's functionality beyond just money transfers with features such as Cash Card (a free debit card), Cash Boost (rewards) and Cash App Investing. And beyond Cash App, Block offers loans to small businesses through its Square Capital arm. Block's strategy focuses primarily on external growth and could benefit from lower priced acquisitions.

Conclusion:

Payments are dependent on the health of the economy, but the recovery in tourist travel could support growth in the short term. In the longer term, the sector continues to innovate and its services are increasingly in demand to facilitate business-to-business, Business-to-consumer and peer-to-peer transactions. Beware, however, of players that expose themselves to credit risk (e.g. BNPL). The ease of lending in recent years thanks to a low interest rate environment could quickly turn against these FinTechs! The economic downturn will create opportunities for the industry giants and concentrate the industry around large platforms.





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)	580.6	51.85	-1.4%	-0.2%	-21.6%	19.0%	16.9%
USA (S&P 500)	3 771	49.61	-1.3%	-0.4%	-19.8%	28.7%	18.4%
USA (Dow Jones)	32 403	62.64	-1.4%	7.0%	-9.3%	20.9%	9.7%
USA (Nasdaq)	10 475	42.10	-1.6%	6.2%	-32.6%	22.2%	45.0%
Euro Area (DJ EuroStoxx)	399.1	64.76	1.7%	4.5%	-14.1%	23.5%	0.8%
UK (FTSE 100)	7 335	69.93	4.1%	3.6%	2.5%	18.4%	-11.4%
Switzerland (SMI)	10 788	58.31	0.1%	1.9%	-13.8%	23.7%	4.3%
Japan (Nikkei)	27 528	49.74	0.3%	1.8%	-3.6%	6.7%	18.3%
Emerging (MSCI)	885	53.11	4.1%	0.9%	-26.1%	-2.3%	18.8%
Brasil (IBOVESPA)	118 155	59.37	3.2%	1.7%	12.7%	-11.9%	2.9%
Russia (MOEX)	2 178	57.60	-0.4%	11.1%	-38.4%	21.9%	14.8%
India (SENSEX)	60 964	66.59	1.7%	5.1%	5.9%	23.2%	17.2%
China (CSI)	3 774	51.40	6.4%	0.9%	-22.1%	-3.5%	29.9%
Communication Serv. (MSCI World)	65.99	36.28	-4.0%	-8.6%	-39.5%	10.9%	24.2%
Consumer Discret. (MSCI World)	275.3	43.07	-1.6%	5.6%	-32.2%	9.2%	37.0%
Consumer Staples (MSCI World)	252.3	56.66	-0.4%	1.9%	-11.6%	11.7%	8.8%
Energy (MSCI World)	249.5	71.37	2.7%	10.4%	37.4%	37.5%	-27.7%
Financials (MSCI World)	126.4	61.41	0.3%	3.6%	-13.5%	25.1%	-3.1%
Health Care (MSCI World)	325.0	58.76	-0.8%	2.9%	-10.7%	18.0%	15.4%
Industrials (MSCI World)	268.7	63.59	0.5%	4.7%	-17.5%	16.6%	11.8%
Info. Tech. (MSCI World)	377.5	43.48	-1.9%	4.3%	-33.6%	27.6%	46.2%
Materials (MSCI World)	288.9	58.17	1.3%	1.3%	-17.8%	15.4%	21.6%
Real Estate (MSCI World)	162.6	47.53	-0.8%	3.9%	-28.8%	23.6%	-5.7%
Utilities (MSCI World)	142.1	53.62	0.0%	1.4%	-10.3%	11.1%	4.8%
Bonds (FTSE)							
USA (7-10 Yr)	4.15%	35.16	-1.0%	4.5%	-17.6%	-2.4%	9.3%
Euro Area (7-10 Yr)	2.96%	44.19	-1.8%	2.6%	-17.9%	-2.9%	4.5%
Germany (7-10 Yr)	2.30%	41.45	-1.4%	3.0%	-16.5%	-2.7%	3.0%
UK (7-10 Yr)	3.54%	56.85	-0.3%	3.3%	-16.6%	-4.9%	5.4%
Switzerland (7-10 Yr)	1.20%	51.83	-0.6%	1.9%	-11.0%	-2.3%	0.4%
Japan (5-10 Yr)	0.25%	47.24	-0.2%	-0.3%	-1.4%	0.0%	-0.1%
Emerging (5-10 Yr)	8.79%	49.29	0.1%	-0.1%	-23.5%	-2.3%	5.2%
USA (IG Corp.)	5.99%	40.81	-0.3%	1.5%	-19.8%	-1.0%	9.9%
Euro Area (IG Corp.)	4.41%	45.92	-0.2%	0.0%	-14.7%	-1.0%	2.8%
Emerging (IG Corp.)	9.66%	26.04	-0.1%	3.2%	-22.0%	-3.0%	8.1%
USA (HY Corp.)	9.19%	48.79	-0.8%	0.3%	-13.2%	5.3%	7.1%
Euro Area (HY Corp.)	8.53%	58.00	0.1%	1.2%	-13.1%	3.4%	2.3%
Emerging (HY Corp.)	12.55%	52.01	0.5%	0.3%	-19.9%	-3.2%	4.3%
World (Convertibles)	348.9	47.49	-1.0%	1.6%	-20.4%	2.4%	38.8%
USA (Convertibles)	469.7	45.79	-1.5%	2.1%	-20.8%	3.1%	54.5%
Euro Area (Convertibles)	3 463	60.74	0.5%	1.7%	-15.7%	-0.3%	6.1%
Switzerland (Convertibles)	171.2	59.37	0.1%	-0.2%	-7.9%	-0.5%	0.5%
Japan (Convertibles)	198.8	52.01	0.3%	0.1%	-1.0%	3.3%	2.8%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	725	61.74	n.a.	-0.7%	n.a.	8.2%	6.4%
Distressed	930	57.69	n.a.	-0.5%	n.a.	12.5%	3.8%
Event Driven	750	48.27	n.a.	2.5%	n.a.	12.9%	7.0%
Fixed Income	382	53.14	n.a.	-0.8%	n.a.	5.2%	3.6%
Global Macro	1420	80.70	n.a.	2.0%	n.a.	9.6%	6.5%
Long/Short	852	43.26	n.a.	2.7%	n.a.	8.3%	7.9%
CTA's	405	76.54	n.a.	-1.5%	n.a.	8.2%	1.9%
Market Neutral	287	53.16	n.a.	1.0%	n.a.	6.2%	1.7%
Multi-Strategy	687	57.70	n.a.	-0.4%	n.a.	7.0%	5.6%
Volatility							
VIX	24.55	31.72	-4.7%	-15.5%	42.6%	-24.3%	65.1%
VSTOXX	22.91	28.23	-8.0%	-21.7%	18.9%	-17.6%	67.5%
Commodities							
Commodities (CRB)	559.3	n.a.	1.3%	-0.3%	-3.3%	30.3%	10.5%
Gold (Troy Ounce)	1 670	52.46	2.3%	1.4%	-8.7%	-3.6%	25.1%
Oil (WTI, Barrel)	92.61	60.73	7.0%	7.0%	20.3%	58.7%	-20.5%
Oil (Brent, Barrel)	98.64	59.62	5.0%	8.3%	29.0%	51.4%	-23.0%
Currencies (vs USD)							
USD (Dollar Index)	111.06	47.59	-0.4%	1.5%	16.1%	6.4%	-6.7%
EUR	0.9944	54.06	0.5%	1.1%	-12.5%	-7.5%	9.7%
JPY	147.30	47.36	1.0%	1.4%	-21.9%	-10.2%	5.1%
GBP	1.1319	48.82	-1.3%	2.1%	-16.4%	-1.0%	3.1%
AUD	0.6421	50.19	0.3%	0.7%	-11.6%	-5.6%	9.6%
CAD	1.3533	53.92	0.7%	1.5%	-6.6%	0.7%	2.1%
CHF	0.9958	49.00	0.5%	-0.1%	-8.3%	-3.0%	9.4%
CNY	7.2302	45.01	1.0%	1.6%	-12.1%	2.7%	6.7%
MXN	19.554	68.08	1.3%	2.5%	5.0%	-3.0%	-5.0%
EM (Emerging Index)	1 589.1	50.45	0.5%	0.7%	-8.4%	0.9%	3.3%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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