

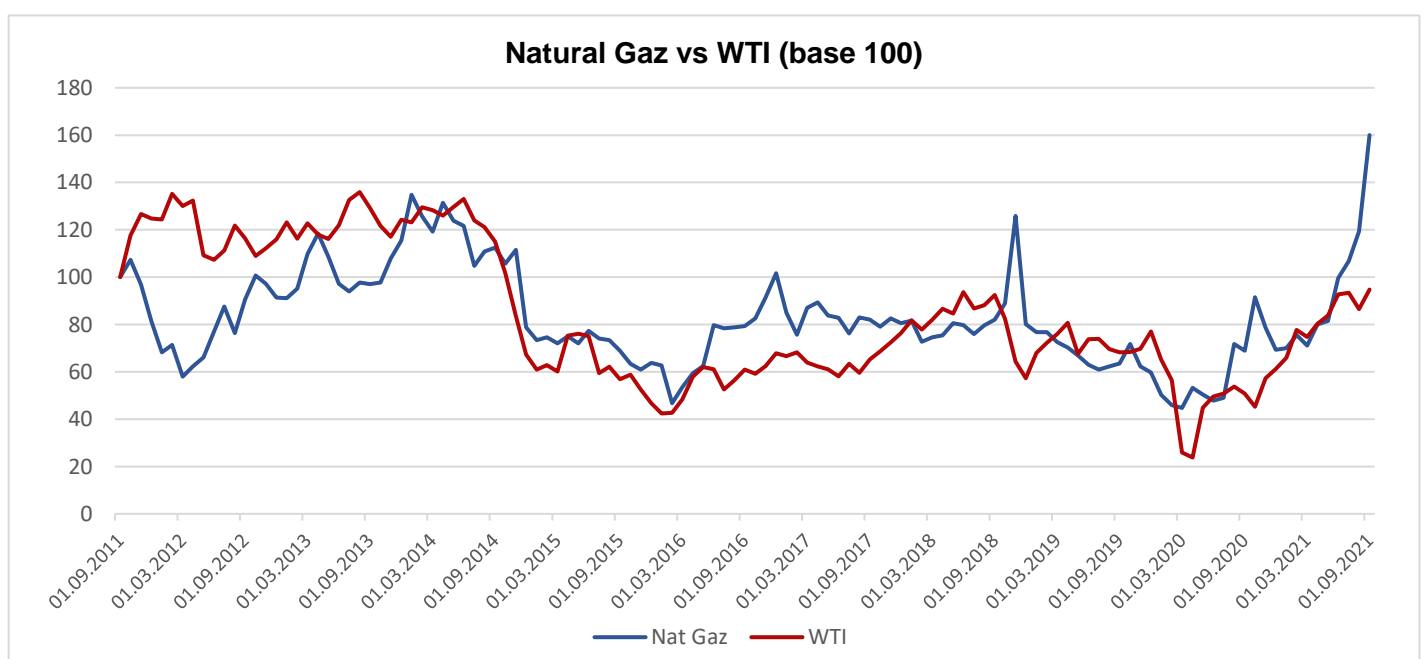
## A Challenging Agenda

The start of the school year has not been without tears this year on the financial markets, after a long period of rise observed on the equity markets, practically uninterrupted since the first day of the year 2021. We had to wait for more modest economic indicators in the major economic zones, more pressing signs of a decrease in monetary support from the US Federal Reserve, or the rediscovery of the expression "systemic risk" with the bankruptcy of Evergrande in China, for the long-awaited volatility to finally make its appearance. Add to that a rise in energy prices (gas and oil) and a steepening of sovereign yield curves, and we get a month of September which remains to this day the worst month of the year for equity markets. The Swiss SMI index thus closed down 6.1%, Roche and Novartis posting a performance of -6% and -8% respectively, while defensive stocks in Europe were rather favored at the expense of more cyclical sectors such as industrials. The energy sector was the big winner, posting a performance of +13% in September. The banking sector also performed well in relative terms compared to the wider market, benefiting in particular from the steepening of the yield curve, while energy stocks benefited from the rise in the price of natural gas and oil, driven by an imbalance between strong demand due to the recovery and stagnant production.

In the United States, Wall Street also ended the month lower, with the S&P500 index closing with a performance of -4.6%, its worst monthly performance since March 2020 and the beginning of the COVID crisis. The leading technology index NASDAQ meanwhile fell 5.3% over the period. Inflationary fears are still very present and were reflected in the bond markets in September. US yields

dictated the general trend, with steepening observed on the main sovereign curves. The US 10-year ended at 1.50%, 20 basis points above its end-August level, while the German rate ended at -0.2%. The dollar strengthened during this period and played its natural protection role in the face of multiple uncertainties. It broke the 1.16 mark against the Euro, a level not reached for a year. Finally, while energy prices have soared, gold lost ground, carried away by both the rising Dollar and sovereign yields. The metal closed at US\$ 1'758 per ounce, losing nearly 3% in September.

The current period is characterized by a busy political agenda, with major elections in Japan, Germany and France. In Japan, Fumio Kishida, the new leader of the ruling party, has just been elected Prime Minister. He will have the difficult task of regaining popularity his predecessor, Mr. Suga, lost as a result of the criticized management of the health crisis and the maintenance of the Olympic and Paralympic Games. In Germany, the legislative elections of September 26th saw for the third time since 1949 the victory of the Social Democrats (SPD), and especially the defeat of Angela Merkel's conservative party (CDU). Coming in third place, the Greens will now count in the German political landscape for the next few years, and it is likely that this electoral shift to the left will weigh on German fiscal policy as well as that of the Euro zone. Interestingly, this latest election has once again highlighted the phenomenon of the fragmentation of the European political landscape, characterized by the emergence of new parties, which make electoral results more uncertain, and results closer.

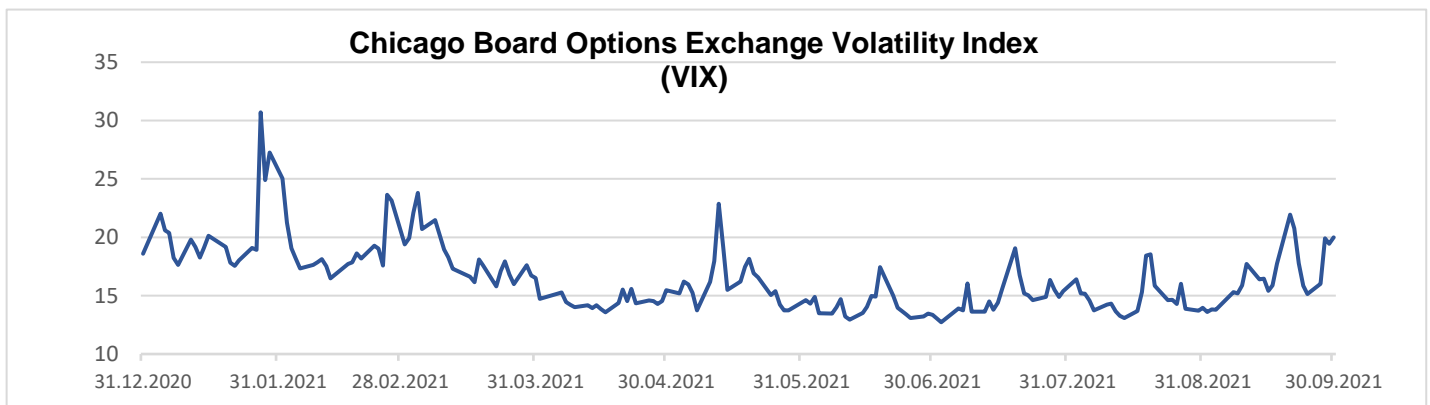


Source: Bloomberg / Banque Heritage



This phenomenon is also visible in France where the start of the April 2022 presidential campaign is in full swing. We are indeed witnessing the emergence of a potential new candidate, the polemicist Eric Zemmour. Although not yet officially declared, the polls already show a fragmentation of the political landscape of the right and the far right in case of a candidacy, fertile ground for the latter's ideas. Once again, this fragmentation makes the results even more uncertain, and access to power more complicated for traditional political parties. While it is still too early to foresee a potential winner, the likelihood of a slightly more right-wing turn in the next presidential elections still seems to be emerging, unlike in Germany.

In terms of timing, the third quarter results season in the United States begins this week, with numbers from the major US banks. These results will be closely scrutinized, because even if earnings remain strong, investors will be watching for the effect of the economic slowdown that began in Q3 in the US on businesses. Cost pressures, notably due to supply chain disruptions, labor shortages, and raw material costs including energy, are also expected to continue to weigh on margins. Earnings growth was strong in Q2 and is expected to continue at record levels in Q3. But the impact of current inflationary pressures, both in terms of magnitude and duration, is still difficult to assess!



Source: Bloomberg / Banque Heritage

In terms of allocation, we remain convinced that equities remain the most attractive asset class, especially compared to bonds. The current inflationary pressures and the reduction of monetary stimulus programs, which are being fiercely debated by the European and American central banks, will inevitably lead to a more significant steepening of the yield curves in the coming months. It is therefore healthier and more appropriate to prefer equities, in an economic context of strong growth, albeit decelerating, and extremely low interest rates.

Within this pocket, it becomes necessary to be more cautious, to deal with the change of regime, from strong rebound to a certain normalization. We advocate a better balance between cyclical stocks and quality companies with good visibility. More defensive stocks such as healthcare or commodities should also do well.

Finally, we favor developed countries over emerging countries. China is of particular concern to us, impacted by an economic slowdown, a major crisis with the bankruptcy of Evergrande, and the government's hardening of its stance in favor of a better distribution of wealth. The rise of the Dollar, the decrease of liquidity in the financial system and the management of the pandemic are all other factors which make us maintain an underweighting on emerging countries in favor of the United States and Europe.

Stay Healthy!

Jean-Christophe Rochat, CIIA  
Chief Investment Officer



BANQUE HERITAGE SA  
Route de Chêne 61  
Case Postale 6600  
1211 Geneva 6  
Switzerland

[www.heritage.ch](http://www.heritage.ch)

