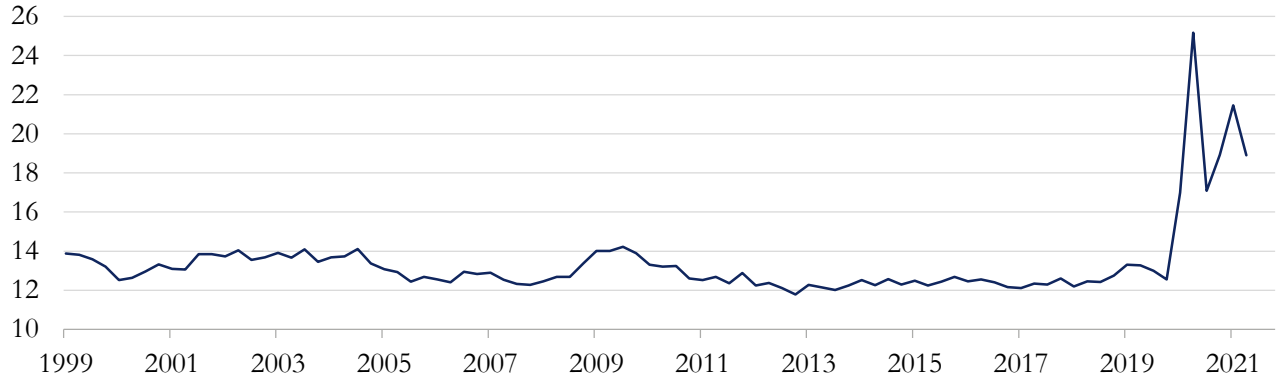
Sumus Version

January 2022

After a strong 2021, we see space for a good performance of European equities in 2022. Valuations are not as high as in the US, the economic cycle can remain strong and the ECB appears to be more supportive than the FED. The bond market is expecting a monetary tightening cycle in the US that will end at 1.5% of Fed Funds rate. We see a possible repricing at a higher level, but not a regime change with negative impact on risky assets.

The economic growth is starting to slowdown in the US, impacted by the recent spike of Covid's new variant Omicron. After the 5.5% growth of 2021 the Fed is now expecting a 4.0% growth in 2022 but the risks are on the downside. In Europe the trend is similar but we see room for a growth surprise next year. In the US the household saving rate is now at 6.9%, in line with the 2019 level, and the pent-up demand is going to disappear.

Eurozone Gross Household Saving Rate



Source Bloomberg

For the Eurozone the household saving rate remains very high. Even if the current restrictions to contain the Covid new wave are negative in the short term, there are nevertheless conditions to see a strong economic rebound in domestic demand next year.

The ECB is predicting a growth of 4.2% in 2022, higher than the Fed prediction for the US economy.

For this reason we believe European equities are the most attractive assets for 2022.

US equities prospective are constrained by high valuations, a growth slowdown and the start of a monetary policy tightening.

European equities have much lower valuations, a positive macro prospective, a weak currency and a monetary policy which will remain supportive for a longer period.

Asian equities have valuations similar to European ones, but the growth perspectives are more uncertain given the Zero Covid policy and consequent strict lockdowns.

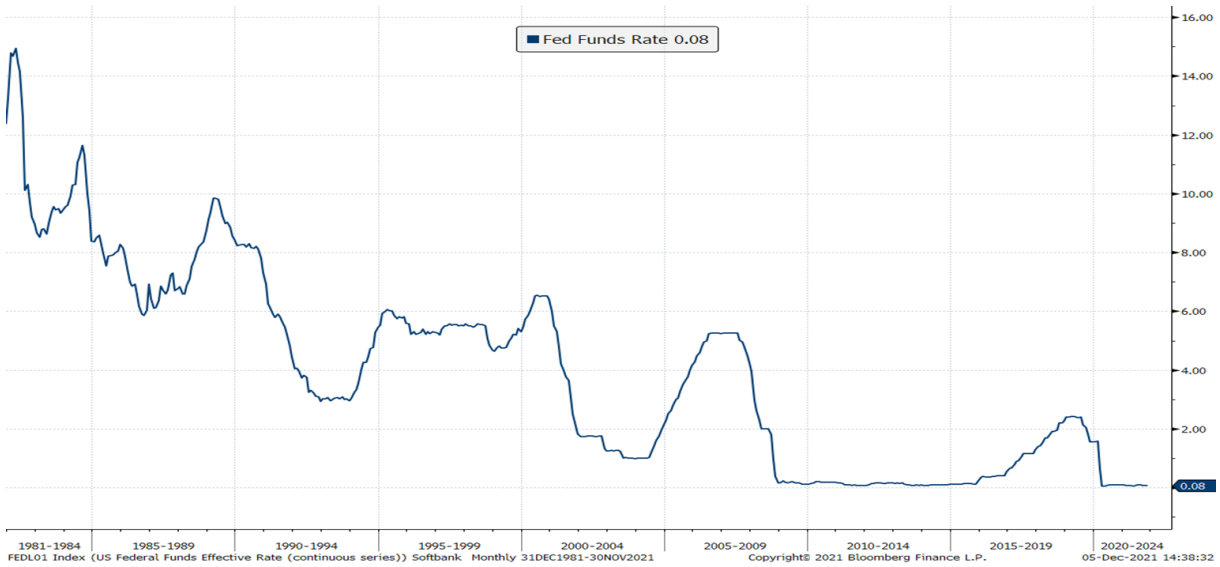
On the bond market a lot of attention is given to the Fed's timeline to start rising rates and how many increases will do next year.

For Sumus the real point is at which level the tightening will finish.

The market is expecting a final level of 1.5% for the Fed Funds, below the 2.25% touched in 2018.

Since 1981 every cycle had a lower maximum in terms of Fed Fund rates, and the markets are expecting the same for the next one.

The recent increase of inflation is not expected to lead to a regime change.



Source Bloomberg

Sumus' idea is that the recent inflation spike will disappear very slowly, and that the market will need to reassess its view that 1.5% will be the maximum. For this reason we see 2022 like 2021 with a moderate increase of long term interest rates. A move not strong enough to impact the risky markets but with a new lackluster performance for bonds. The risk in our opinion is to have an inflation shock and a stronger monetary tightening. With equity valuation elevated (especially in the US) in this case a derating will lead to a significant correction. This is not our base case but we know that the inflation trend will be a key element to check.

Sumus Investment Committee