

MARKET REVIEW

Who hid the toothpaste cap ?

Inflation has been on the rise since the spring. The FED considered this rise in prices to be transitory, but now seems to want to change its monetary policy sooner than expected. The beginning of autumn saw a further acceleration of inflationary figures, which were already being transmitted to wages in the US and Great Britain. Karl Otto Pöhl, former central banker of the Bundesbank, said that it was as difficult to fight inflation as putting toothpaste back in the tube, the cap on the toothpaste tube having been removed. It remains to be seen whether the FED has the cap.

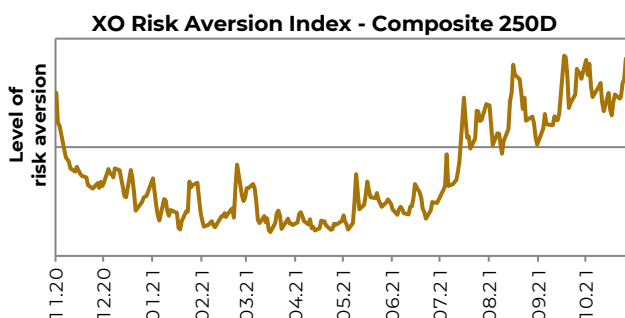
Stocks are rebounding after a bad September. This is particularly true for the sectors that were most affected last month, especially the mining sector. The energy sector is also up strongly.

Bonds are still under pressure with rising interest rates. Combined with the fall of currencies against CHF, performance was poor in October. Real estate follows the same logic but remains largely positive for the year.

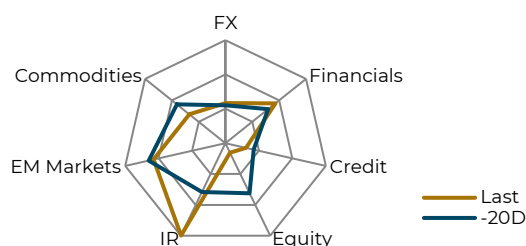
Gold and silver rebounded over the month while oil continued its rapid rise. Rising energy costs are starting to weigh on households and businesses.

While risk is reducing on equities, it is increasing massively on interest rates.

	Value	October	2021
Equity markets			
Switzerland (SMI)	12 108	4,00%	13,12%
United States (S&P500)	4 605	6,91%	22,61%
Europe (Euro Stoxx 50)	9 376	5,15%	21,85%
Japan (Nikkei)	28 893	-1,90%	5,28%
China (Shanghai SE)	3 547	-0,58%	2,14%
Brasil (Bovespa)	103 501	-6,74%	-13,04%
Currencies			
USD/CHF	0,916	-1,93%	3,49%
EUR/CHF	1,058	-1,87%	-2,09%
GBP/CHF	1,253	-0,18%	3,62%
EUR/USD	1,156	-0,11%	-5,46%
Other asset classes			
Swiss Real Estate		-3,66%	2,54%
Swiss Bonds		-0,78%	-2,45%
Foreign Bonds		-0,33%	-2,58%
Commodities		5,80%	46,28%
Oil	83,57	11,38%	72,24%
Gold	1 783,38	1,43%	-5,86%
Rates / Indicators			Δ
10 years Swiss rate		-0,03%	0,52%
10 years US rate		1,55%	0,64%
US Unemployment		4,80%	-1,90%
US GDP		4,90%	7,20%
US CPI		4,00%	2,40%



XO Risk Aversion Index - Components



ESG BETWEEN AWARENESS AND FINANCIAL FLOWS

The ESG theme is gradually taking hold among investors. Positive financial flows will have a major impact.

A new deal for ambitious objectives

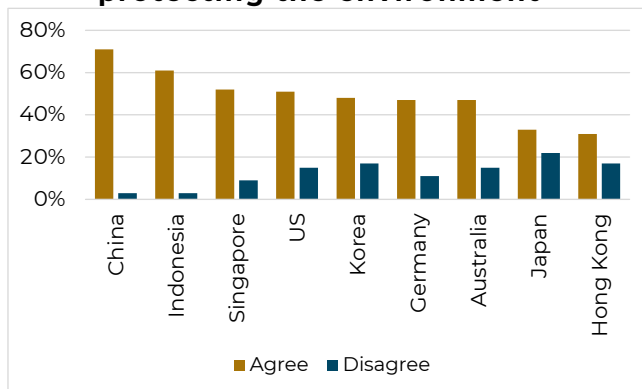
The ESG (Environment, Social, Governance) theme has been gaining momentum in recent years, with an acceleration since the beginning of the Covid-19 crisis. Even if many investors identify ESG by focusing on environmental aspects, ESG investment is broader and considers the 17 sustainable development goals set by the UN.

UN Sustainable Development Goals



Investors, like consumers of goods, are increasingly aware of their responsibilities in this area and are now integrating sustainability criteria into their investment choices. This is shown in the following graph.

« I buy companies that are conscious of protecting the environment »



Source : JP Morgan AM, PWC.

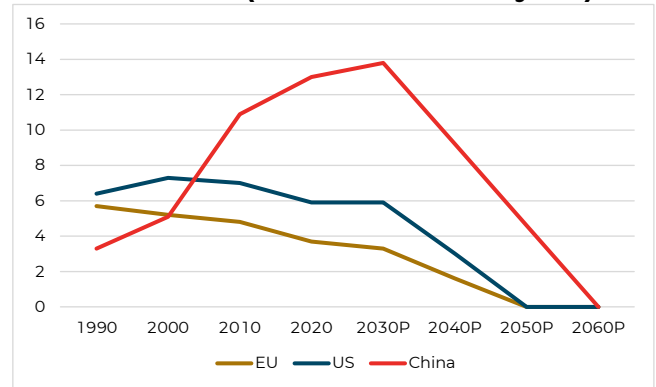
Surprisingly, Chinese and Indonesian investors will consider ESG issues the most when selecting a company. Hong Kong is the opposite of China, with limited consideration.

While Chinese investors are becoming more environmentally conscious, the country remains the largest emitter of greenhouse gases, with more emissions than the US and Europe

combined. And those emissions continue to grow.

The governments of 60 countries representing more than half of the world's emissions have committed to emissions neutrality by 2050. Europe is the most emissions-neutral part of the world so far.

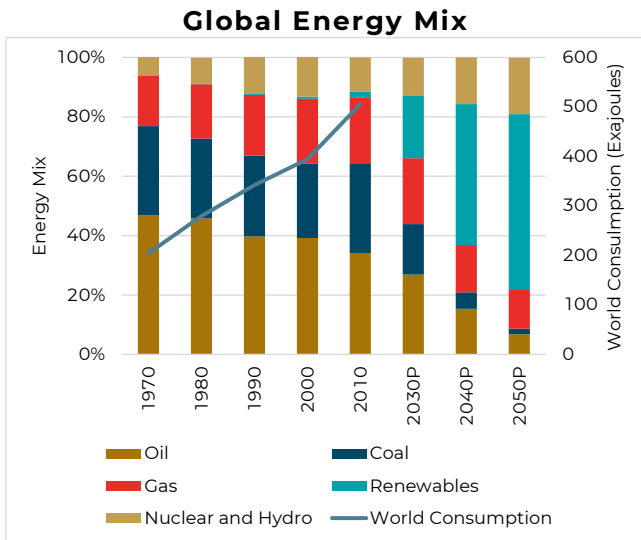
Emissions (billion tons CO₂/year)



Source : JP Morgan AM

As shown in the following graph, the increase in emissions is the result of the constant increase in global energy consumption over the last 30 years. Since 1970, consumption has multiplied by 3. The energy mix is gradually changing with a decreasing percentage of oil. Nevertheless, the increase in consumption implies more use of oil and the compensation in percentage is made on other fossil energies such as gas or coal.

To reach the ambitious goal of being emission neutral, the energy mix will have to be totally reversed with a massive reduction in the use of fossil fuels (oil, coal, gas) and the development of renewable energies. Hydroelectricity and nuclear power remain long-term sources for governments.

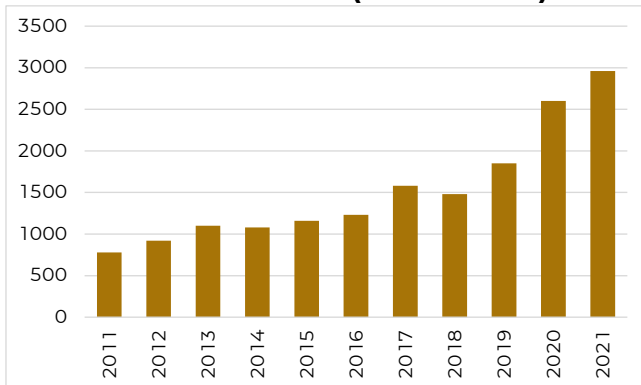


Source : JP Morgan AM, BP Energy Outlook 2020

Massive investments

Investors' growing awareness of sustainability is gradually translating into purchases of investment funds or ETFs oriented towards this sustainable theme. In 10 years, annual inflows have quadrupled to reach \$2,960 billion in 2021.

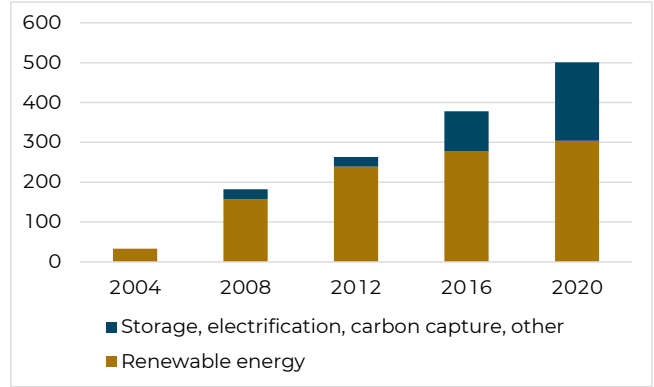
Investment in sustainable investment funds and ETFs (USD billion)



Source : Morningstar Direct, JP Morgan AM

In particular, the flows are extremely important for the energy transition. Global investments in renewable energy have increased tenfold in 16 years, reaching USD 300 billion in 2020. Investments in carbon storage, electrification and capture have increased from 25 billion in 2008 to 197 billion in 2020.

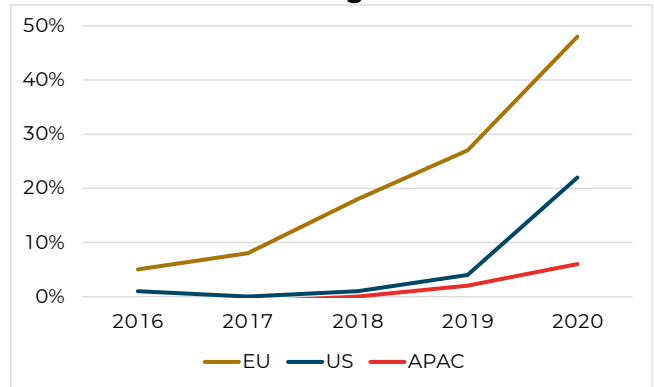
Global investment in energy transition (USD billion)



Source : Bloomberg NEF, BP Statistical, JP Morgan AM

The flows are more important and are increasingly focused on sustainable strategies. In Europe, half of the net money flows are already invested in sustainable strategies. The flows in the United States are oriented towards sustainability at 22%, while purchases in the Asia-Pacific region are for the moment not very integrated in this approach. Indeed, for the time being, few ESG products are available in this zone and international investors are looking more for diversification in emerging markets in this asset class.

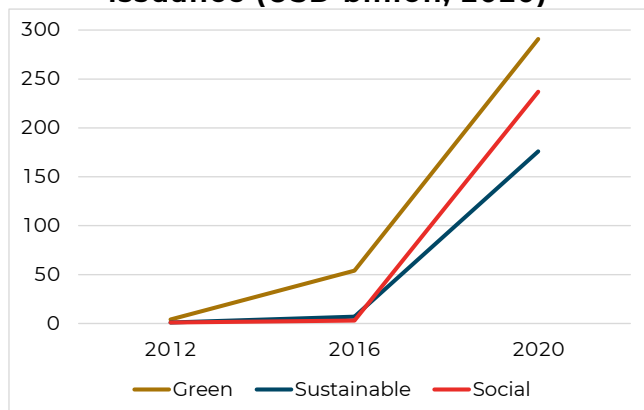
% of contributions to sustainable strategies



Source : JP Morgan AM, Morningstar

Flows are not only materializing in equities as demand for sustainable bond investment strategies is growing rapidly. Sustainable bond issuance has increased 25-fold between 2016 and 2020.

Sustainable, social and green bond issuance (USD billion, 2020)



Source : JP Morgan AM, XO Investments SA

In 2020, \$700 billion new bonds were issued with social, sustainable or green characteristics.

ESG is entering a material phase

The emerging awareness of economic agents is changing the way they invest. According to a June 2020 CFA Institute study, 69% of private investors are interested in ESG, but only 10% currently invest in products that incorporate ESG factors. If the momentum continues, it will become not just important, but essential.

XO INVESTMENTS

Sustainably integrated ESG management

With more than 20 years of experience in consulting and asset management, XO Investments has progressively acquired a broad expertise in the selection of financial products and in the integration of sustainability criteria in asset management.

Sustainability in the broadest sense (Environmental, Social and Governance) has been included in all stages of the work proposed by XO Investments for many years :

- Sustainability criteria are integrated into the investment process ;
- In the construction of portfolios: exclusion of asset classes;
- In the choice of managers or instruments: inclusion/exclusion of funds and themes;
- In the implementation: impact/exclusion according to the client's profile;

In order to materialize this practice XO Investments is pleased to mention that it is a signatory of :



XO Investments aims to be a responsible company, attentive to the global objectives of sustainable development, to the wishes of its customers and to the well-being of its employees.