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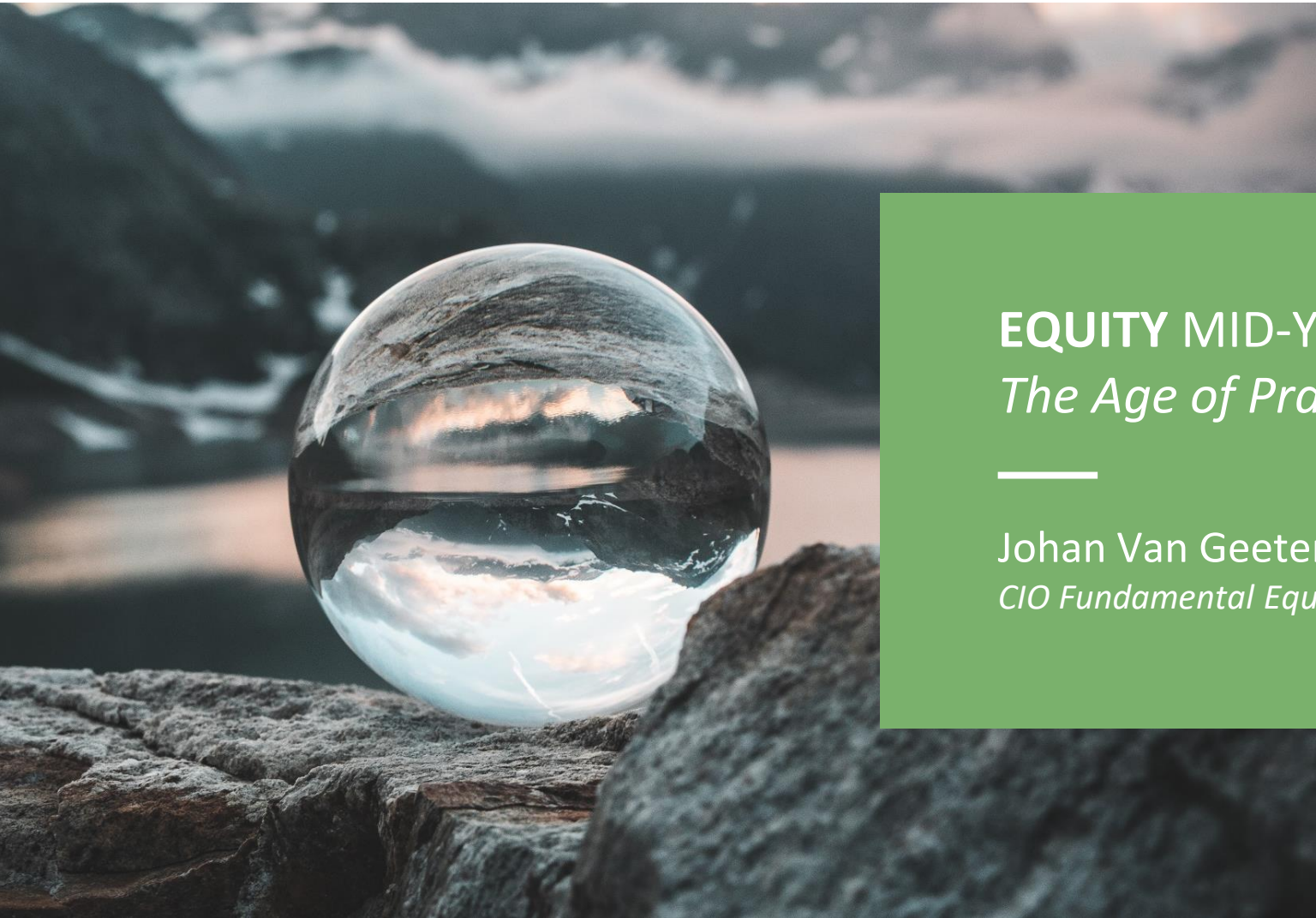
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A glass sphere sits on a dark, textured rock. The sphere is partially filled with water and contains a small, glowing, ethereal figure. A large, semi-transparent green diamond is superimposed over the center of the image, containing the text 'MID-YEAR OUTLOOK' and the date '16.06.2022'.

MID-YEAR OUTLOOK

16.06.2022



EQUITY MID-YEAR OUTLOOK

The Age of Pragmatism

Johan Van Geeteruyen
CIO Fundamental Equity DPAM



THE CONTEXT ...

shock

noun

UK  /ʃɒk/ US  /ʃɑ:k/

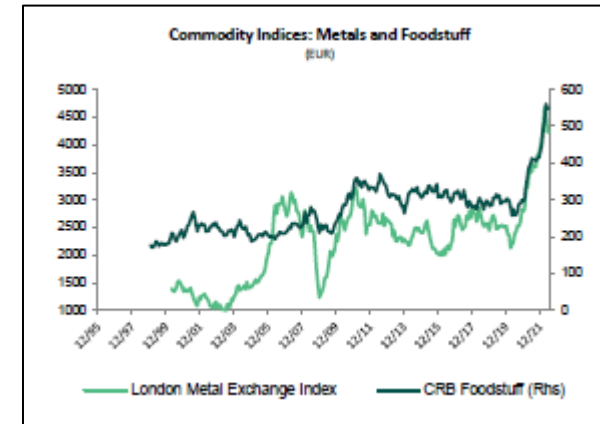
shock noun (SURPRISE)

B1 [C or U]

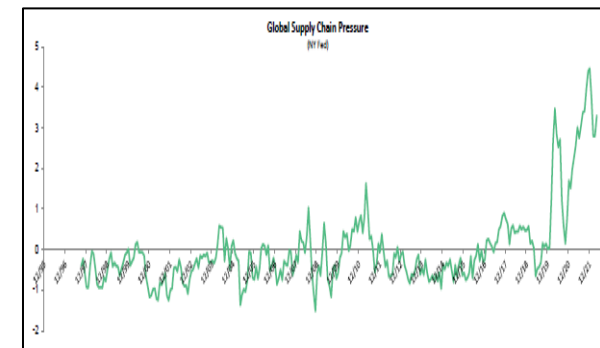
(the emotional or physical reaction to) a sudden, unexpected, and usually unpleasant event or experience:

Source : Oxford Dictionary

- Positive “demand shock” in 2021
- Negative “supply shock” since pandemic and war in Ukraine
- Energy shock 2022 resulting in accelerating inflation going forward



Global Supply Chain Pressure Index



Sources : DPAM May 2022



THE NEW MANDATE OF CENTRAL BANKS

shock therapy

noun [U]

UK  /'ʃɒk ˌθer.ə.pi/ US  /'ʃɑ:k ˌθer.ə.pi/

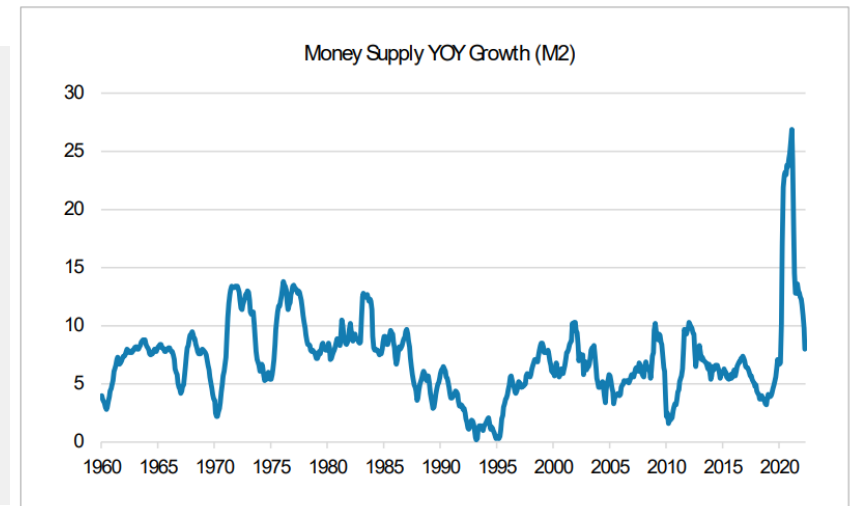
(also **shock treatment**)



the treatment of particular mental illnesses by sending electric currents through the brain

Source : Oxford Dictionary

- Control inflation
- Tighten money conditions
- Cost of capital rising
- Shrink balance sheet
- No FED “put” this time



Sources : Bloomberg, Morgan Stanley Research as of Apr 30, 2022
(1 Month Lag in Data)



SAFETY CUSHION?

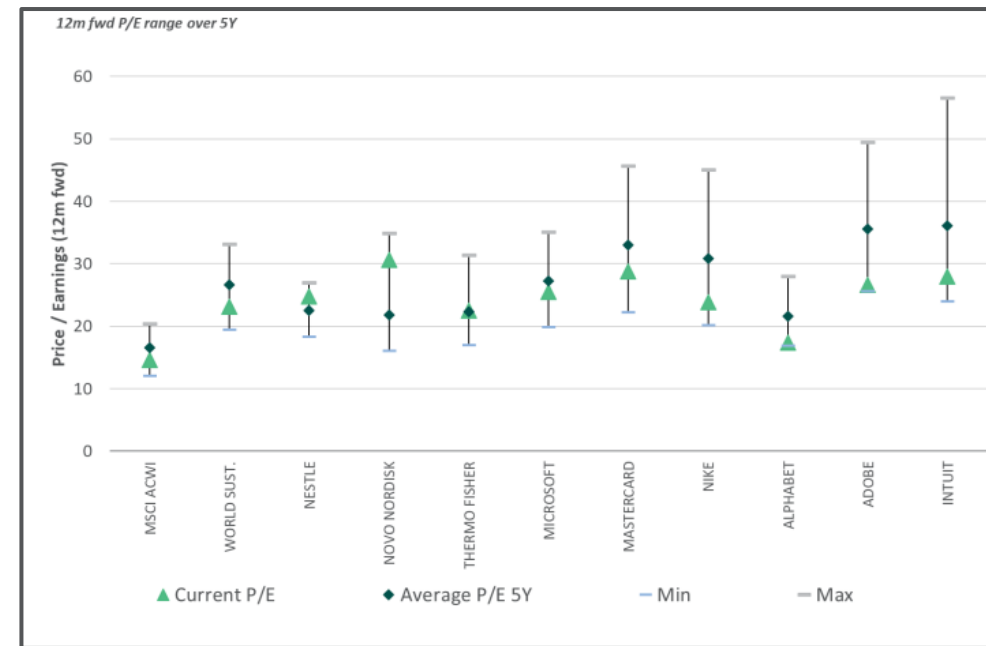


Source: DPAM Quantitative Strategy, Bloomberg, MSCI



HENCE VALUATIONS HAVE BEEN RESET ...

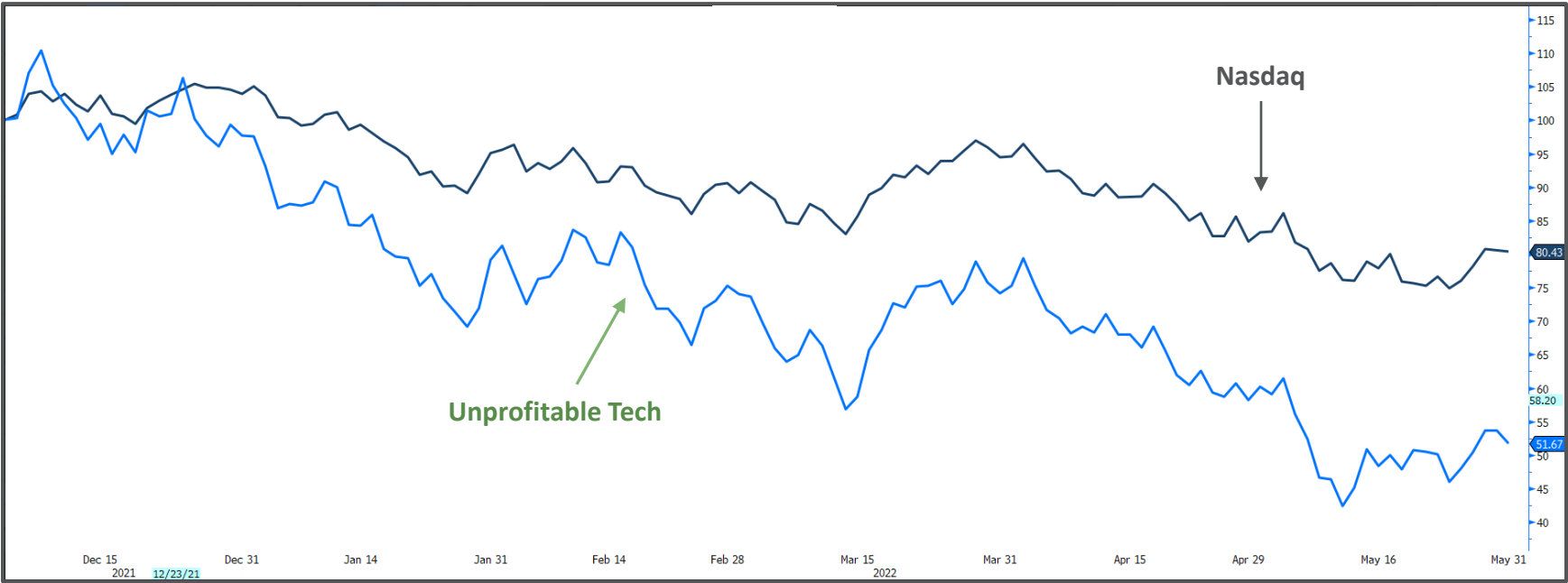
- Equities, HY spreads & yield curve warn for tougher conditions ahead
- Tech (especially loss making) and Growth oriented stocks sold off heavily
- Mining and O&G stocks resurrected
- Multiple compression



Source: Bloomberg, MSCI, DPAM, 11.05.2022



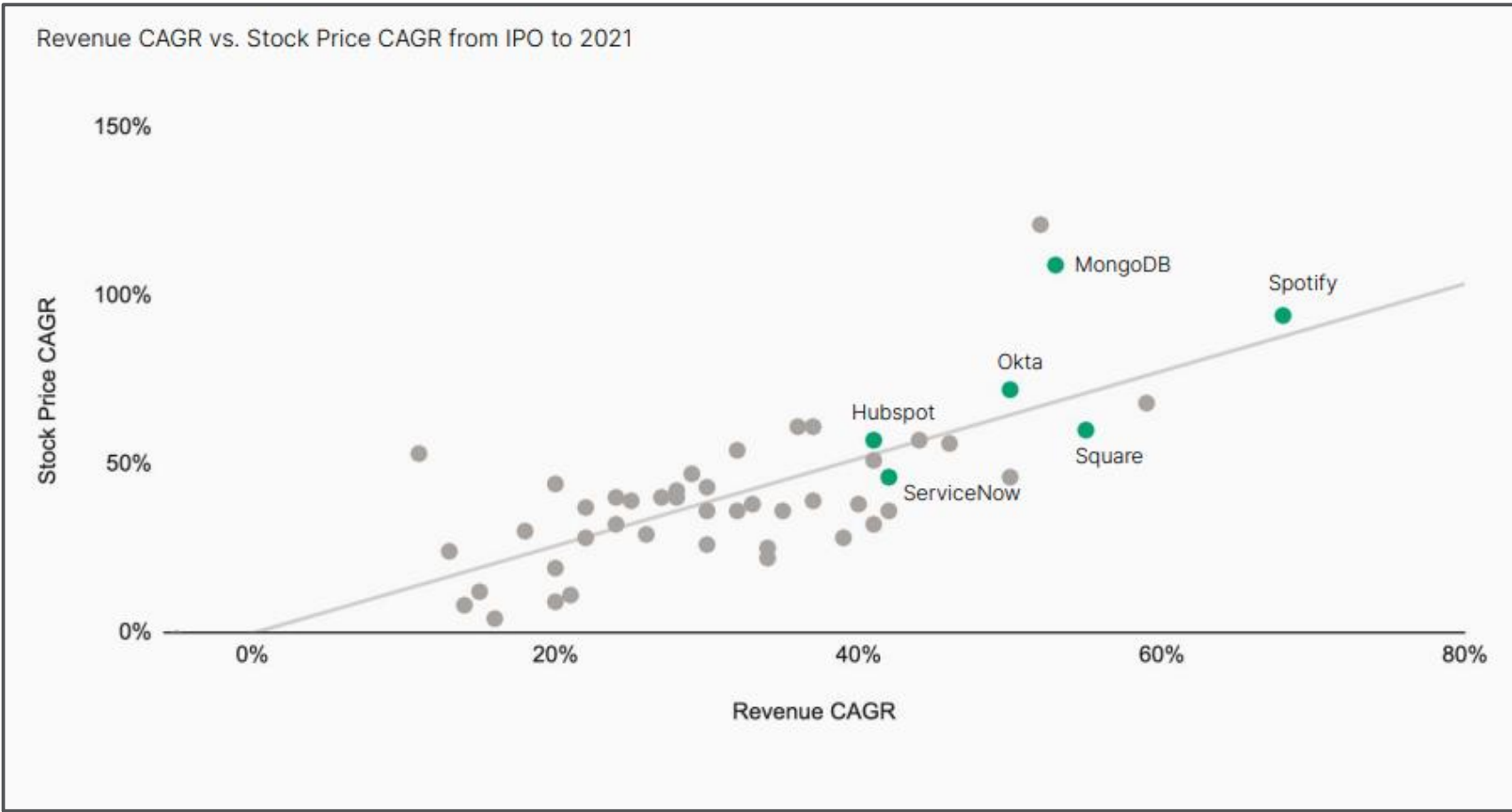
INVESTORS LOOK FOR PROFITABILITY AS A CUSHION



Source : Bloomberg – DPAM May 2022



DURABLE GROWTH WITH IMPROVING PROFITABILITY IS ALWAYS THE RIGHT PATH

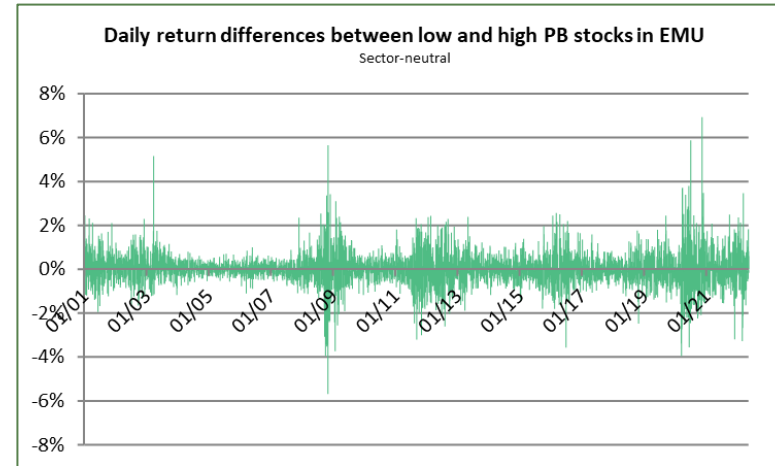


Source : Sequoia Heritage – May 2022



MULTIPLE ROTATIONS ...

- Growth to Value
- Cyclical to Defensives
- Factors
- Growth stocks are still more expensive than they were 5 years ago
- Value stocks are still much cheaper than they were



Source: DPAM, Bloomberg, Factset



VALUATIONS ...

US real yields vs NTM P/E

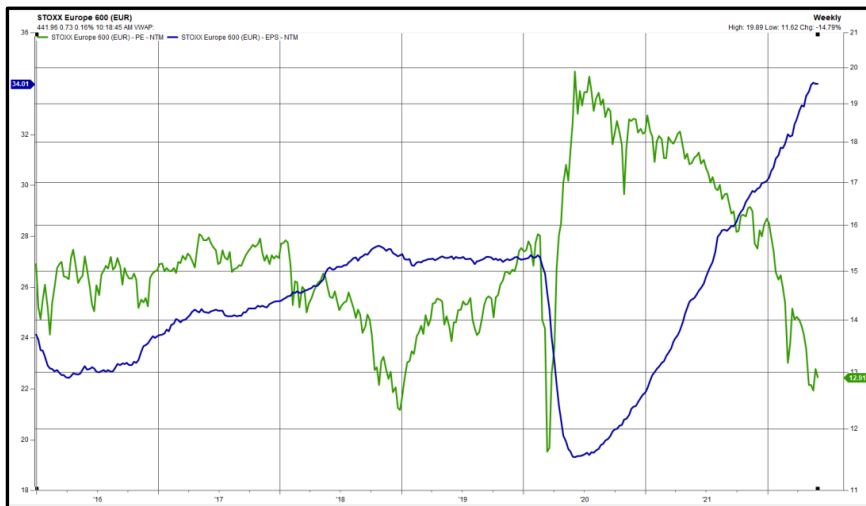


Source : Bloomberg – DPAM May 2022



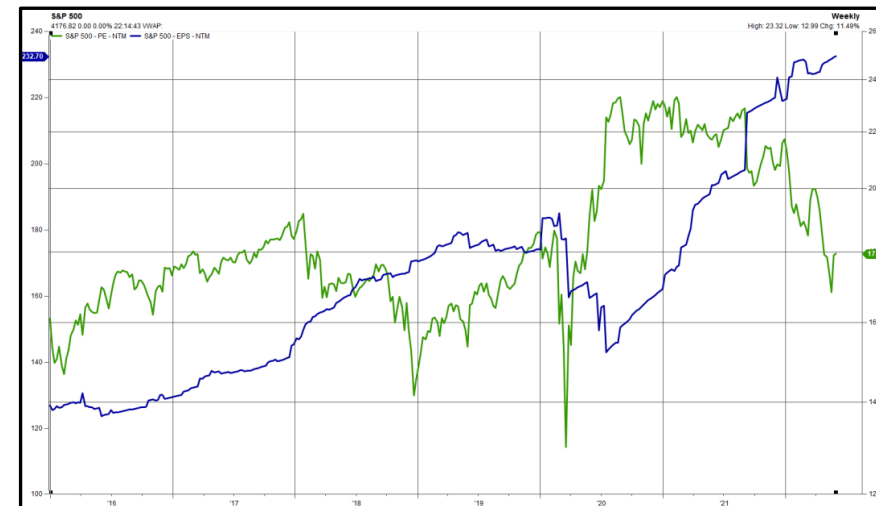
EARNINGS STILL ON THE RISE ...

Stoxx600 – Valuations vs EPS



Source : Bloomberg – DPAM May 2022

S&P 500 – Valuations vs EPS



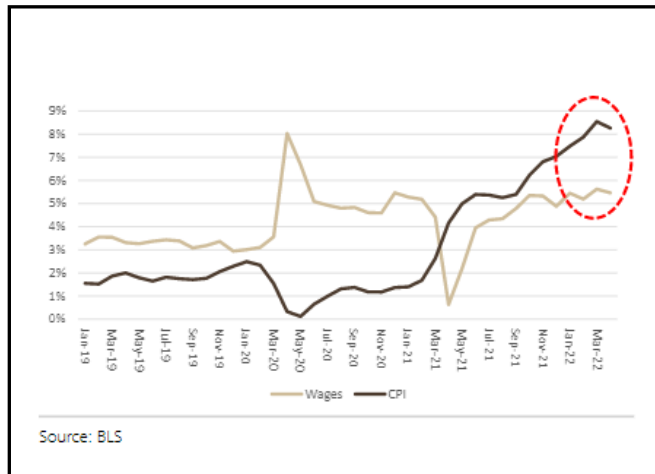
Source : Bloomberg – DPAM May 2022

Decent positive revisions at index level but on a sector level it's basically skewed to Energy & Materials



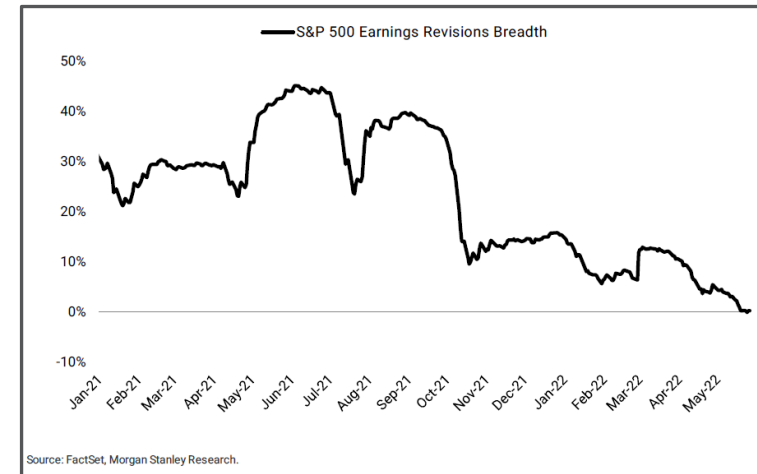
... NEXT DOMINO TO FALL?

Gap between wages and CPI is widening



Source : BLS

Earnings revisions breadth on verge of Negative Territory



Source : FactSet, Morgan Stanley Research



WHERE ARE WE IN THE CORRECTION ...

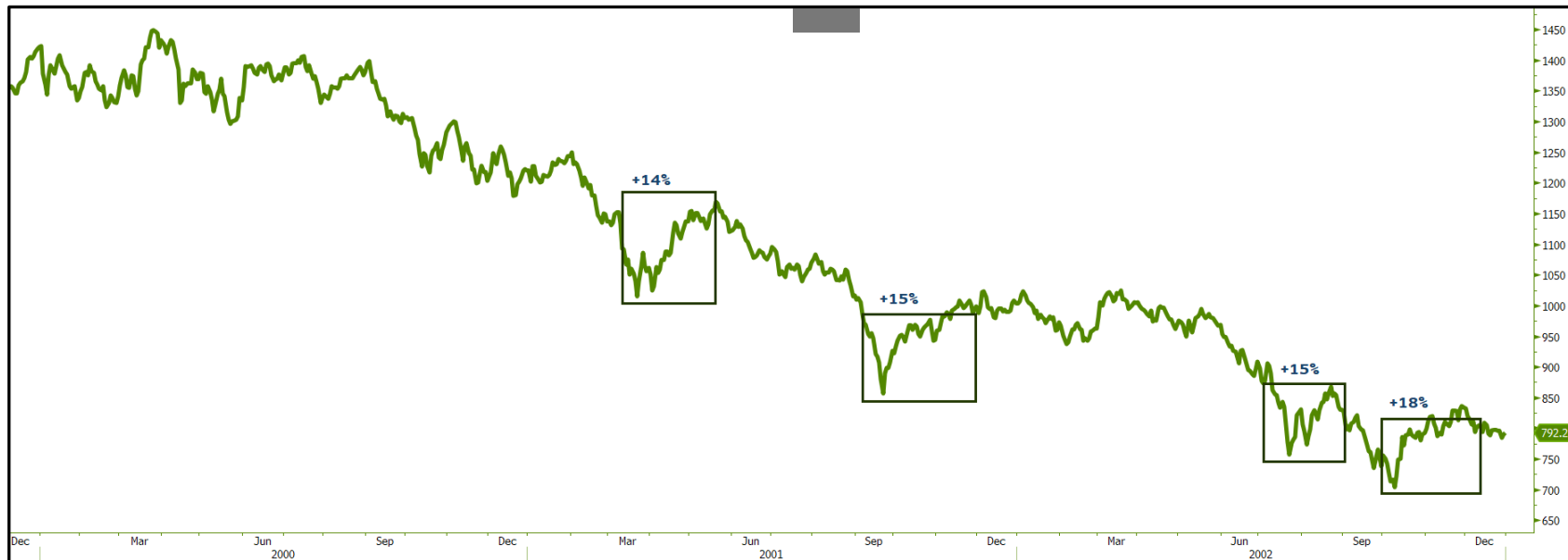


Source : Bloomberg



BUT REGULARLY **BEAR MARKET RALLIES** WILL HAPPEN ...

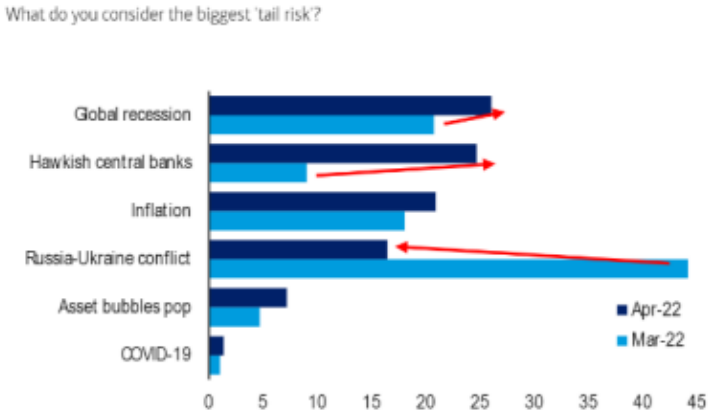
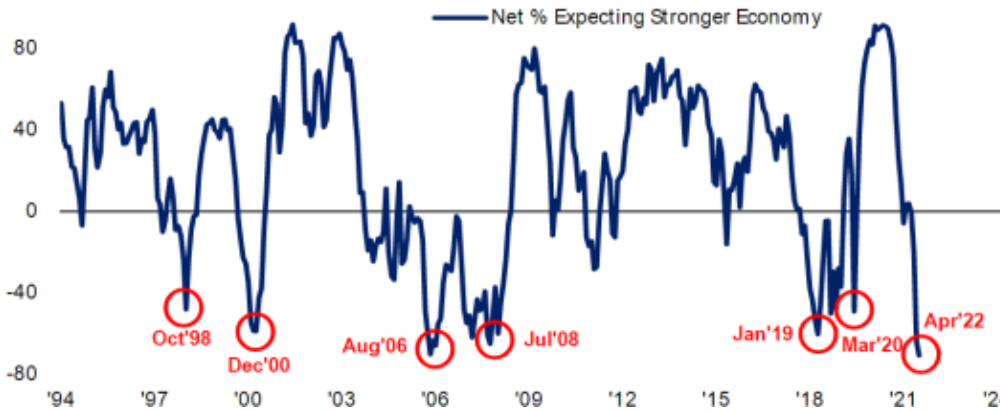
MSCI World – 2000 - 2002



Source : Bloomberg – May 31st



INVESTORS WORRY ABOUT A RECESSION ...

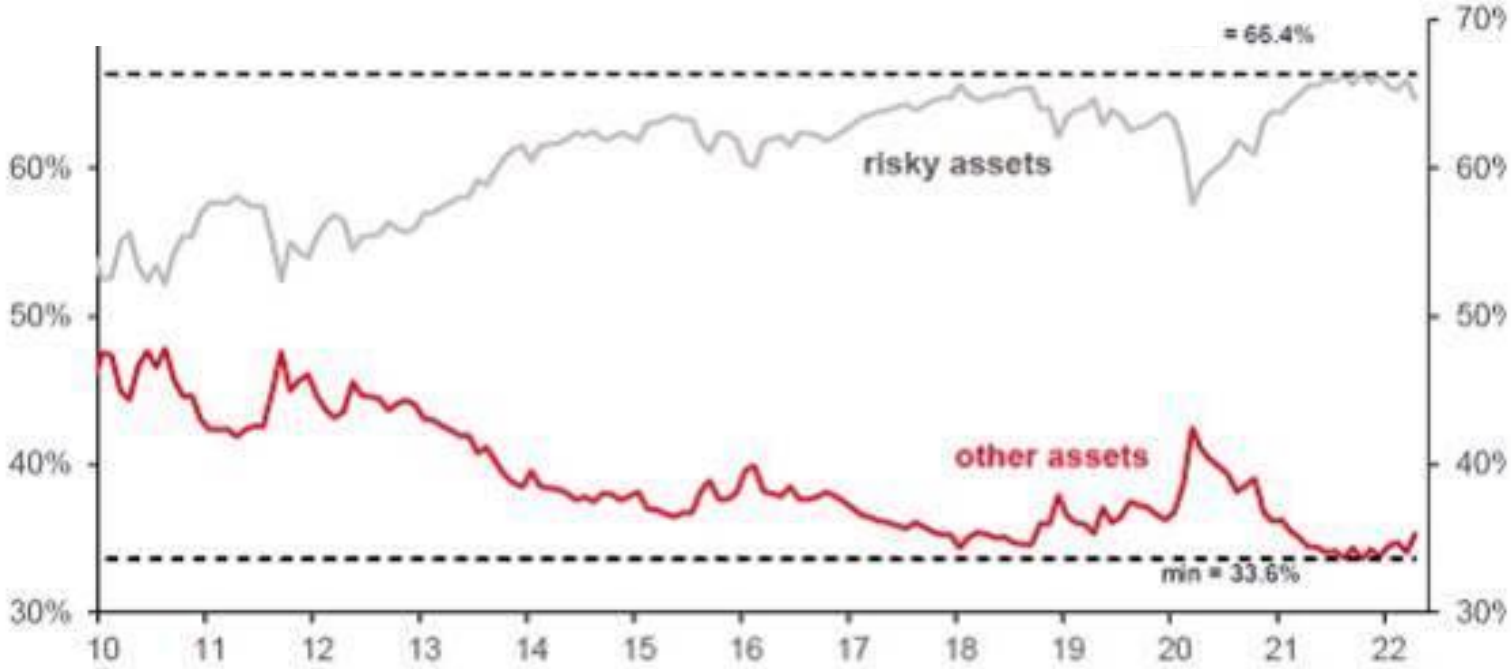


Source : Bofa Global Fund Manager Survey



BUT STILL KEEP A **HIGH ALLOCATION TO RISKY ASSETS**

Funds are keeping a surprising high allocation to risky assets

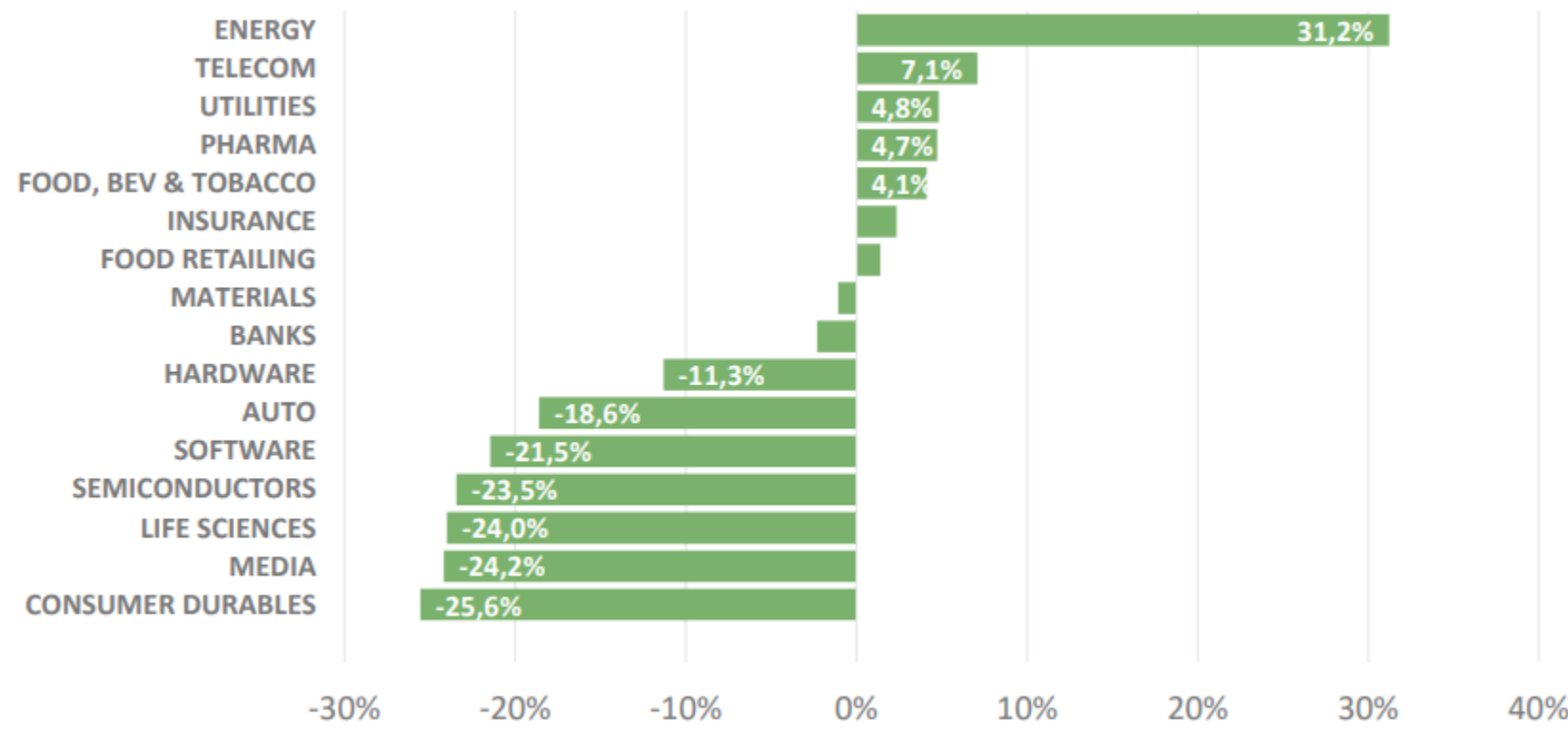


Weight of risky assets (equity+credit) and other assets (bonds+money markets), Assets under Management (AuM) as a percentage of all EPFR funds Combined data for mutual funds and ETFs, monthly statistics to April 2022. Source: EPFR Global, SG Cross Asset Research

Source : EPFR Global, SG Cross Asset Research



AND HAVE BEEN SEARCHING FOR VALUE AT THE EXPENSE OF QUALITY EARNINGS LATELY



Source : Bloomberg, DPAM, YTD MSCI ACWI 10.05.2022



BUT ARE THEY BETTER OFF?

- Cash?
- Energy?
- Raw materials/food?

Chancellor Rishi Sunak has announced a windfall tax on energy firms that could raise around £5bn.

Source : BBC News May 27th

Sunak orders plan for windfall tax on electricity generators

Treasury scheme would come in addition to levies on North Sea oil and gas producers

Source : FT May 23th

Italy approves decree to curb energy costs, strengthen anti-takeover powers

Source : Reuters March 18th

Spain, Portugal Approve Gas Cap in Bold Effort to Tame Price

- Deal would allow Iberian nations to intervene in price setting
- Opponents say plans circumvent EU common market rules

Source : Bloomberg May 13th



NOWHERE TO **HIDE** ...

- Banks?
- Staples (correction – valuation)?
- Telecom, ...?

Target's shares plunge after inflation takes a big bite out of profits.

The retailer pointed to “unexpectedly high costs” as a hit on its bottom line.

Source : The New York Times May 18th

Walmart Flashes a Warning Sign to the Entire Consumer Economy

Analysis by Andrea Felsted | Bloomberg
May 17, 2022 at 2:24 p.m. EDT

Source : Bloomberg

BUDAPEST — Hungary will oblige banks, telecoms firms, large retail chains, insurers, energy companies and airlines to pay a “large part of their extra profits” into the state budget, Prime Minister Viktor Orban announced on Wednesday on his Facebook page.

Source : Financial Post May 30th

In Hungary to contribute to the financing of the costs of strengthening the Hungarian Army and financing caps on HH's energy bills



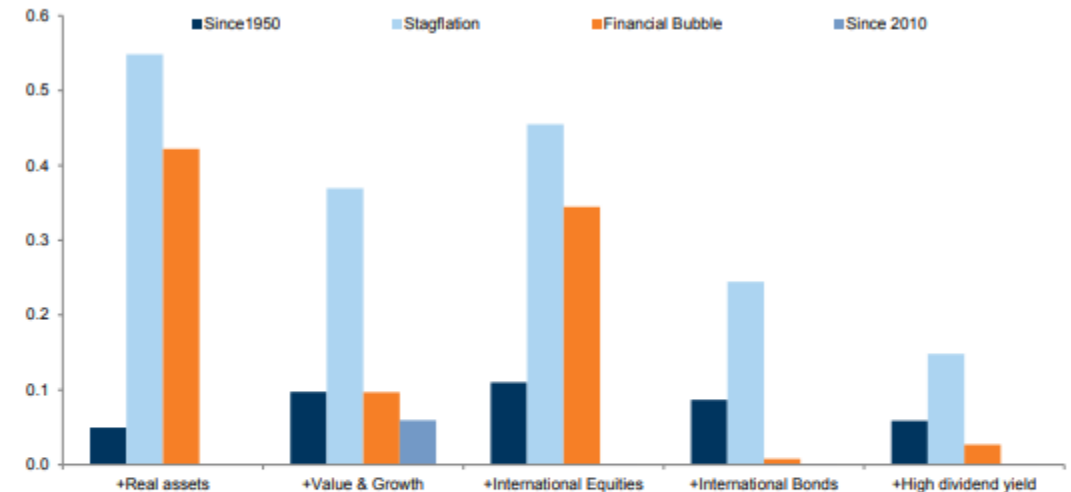
THEREFORE THE CURRENT ENVIRONMENT CALLS FOR A NUANCED AND BALANCED APPROACH ...

- No specific sector bias
- Neither a specific style bias
- Nor a specific factor bias

BUT A BLEND OF

- Re-opening and pandemic winners
- Pro-cyclical and defensive stocks
- Reflation and resilient stocks

Exhibit 10: During 60/40 'lost decades' our 5 strategies would have materially enhanced Sharpe ratios
Improvement in optimal Sharpe ratio from adding assets to a US balanced portfolio (monthly returns)



Source: Datastream, Haver Analytics, Goldman Sachs Global Investment Research

In these periods, three important observations can be made. Investors should:

- 1. Increase diversification across regions, factors and sectors**
- 2. Increase exposure to real assets**
- 3. Increase exposure to 'dividend compounders' - companies that can secure a stable and sustainable real income stream.** For more details see: [Strategy](#)

Source : GS – Global Strategy Paper #56 – May 9th



AND **DIVERSIFICATION** ACROSS STYLES, SECTORS AND FACTORS



- Companies with “real” pricing power – no real competition today!
- Companies with secular growth levers
- Companies with self-help potential
- Companies that can adapt their business model
- Companies that help to boost efficiency by reducing energy & labor costs
- Companies with sustainable revenues and high and/or stable margin business
- Companies that offer dividend growth
- Companies that benefit from “re-shoring”
- Companies that play a central role in the “decarbonization” of this world



WHAT POTENTIAL POSITIVE CATALYSTS CAN WE SPOT TODAY?



- Faster slowdown of inflation hence believe FED will back down
- Re-opening and re-acceleration of China
- No earnings downgrades
- Imminent solution to the Russian/Ukrainian conflict



CONCLUSION ...

- As a **Quality Growth** investor we felt the **pain** but we are not going to change our investment process
- We keep looking for stocks with **consistent growth** combined with **sound** balance sheet that translates in **improving margins** that got caught up in the market rout
- While keeping an eye on many **Value stocks** that look attractive
- Now is the time to start looking for outstanding **opportunities** in both Growth and Value, Cyclical and Defensives, ... rather than trying to hide in the middle ground

This attitude may not translate in immediate outperformance but MLT disciplined durable growth is always rewarded and will translate in value appreciation





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June 2022

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