

Equity markets: a sector rotation to relativize

Volatility is back on equity markets

The early months of 2022 brought a jump in volatility and significant corrections to equity markets, mainly triggered by the tone of central banks. These have been busily hinting that the return to normal monetary conditions will be faster than was expected at end-2021, as economies continue to grow and inflation looks set to stay high for longer than first thought. This change in monetary policy has shifted the trend in equity markets: after a decade of outperformance, Growth stocks have been the losers since the turn of the year while Value stocks have done well (cf. first graph).

Recent momentum favours Value over Growth

The sharp market correction since the start of the year has focused on Growth stocks, in particular on the new technology sector. These companies have higher valuations and have been the first casualties of market uncertainties. Also, many of them - notably those on the Nasdaq - have been more sensitive to rising rates due to the heavy debt on their balance sheet. In contrast, Value stocks have held up better in the recent slide in equity prices. These cyclical companies (banking, energy, materials, commodities) have appeared less sensitive to tighter monetary conditions and have been buoyed by the commodities boom (cf. second graph).

Recent performances may not set the tone for 2022

The current turnover between sectors will not necessarily last. For one thing, corporate earnings, including in Growth sectors, remain generally strong and continue to beat market estimates. The tech majors still enjoy sound fundamentals, healthy balance sheets and encouraging growth prospects. Sector share prices may have corrected but, for now, this has mainly been prompted by underperformances of a few specific firms and does not seem to herald an industry-wide trend. For another, the analysts' consensus continues to anticipate favourable dynamic on earnings and dividends in 2022, after a record year in 2021.

Conclusion

The change in the economic environment, as crisis economic policies necessarily move back toward normal, explains resurgent volatility on equity markets. Despite this, fundamentals remain generally healthy for equities. We continue to recommend balancing positions by style and sector, with diversification looking especially attractive in the current volatile atmosphere.

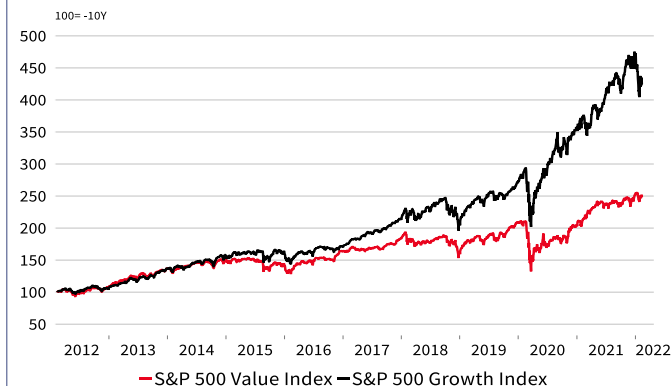
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (11/02/2021). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



A decade of outperformance by "Growth" stocks over "Value" stocks

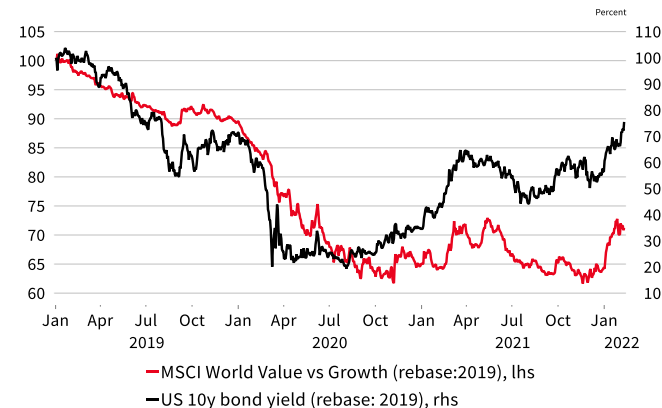
United States: "Value" vs "Growth" stocks



Sources: SGPB, Macrobond, SPDJI 10/02/2022

A recent correlation between the Value/Growth Index and the U.S. 10-year rate

MSCI World Value/Growth Index vs US 10-Year Rate



Sources: SGPB, Macrobond, MSCI, U.S. Department of Treasury 10/02/2022

OUR MACRO COMMENTS

Events of the week



A process of de-escalation seems to have begun this week in the Russia-Ukraine conflict. The recent intensification of meetings and diplomatic exchanges between Russia and the West is starting to bear fruit.



The year 2021 has turned out to be a record year for the earnings of France's leading banks. Boosted by the strength of the economic recovery, BNP Paribas, Crédit Agricole and Société Générale reported historic financial performances this week.

Figures of the week



- Inflation (in year on year variation, January)
- Core inflation (in year on year variation, January)



- GDP (in year on year variation, Q4)
- Industrial production (in year on year variation, December)



- Trade balance (in euros, December)
- Inflation (in year on year variation, January)



- Caixin services PMI (January)



- Trade balance (in euros, December)

	Current	Consensus	Previous
	7.5%	7.3%	7%
	6%	5.9%	5.5%
	6.5%	6.4%	7%
	0.4%	0.6%	-0.2%
	6.8B	10.4B	10.8B
	5.1%	5.1%	5.1%
	51.4	52.9	53.1
	-11.3B	-	-9.7B

Sources : Bloomberg, on February 11th, 2022.

The week ahead

Tuesday



GDP (Q4)



GDP (Q4)



Unemployment (December)



ZEW survey on economic sentiment (February)

Wednesday



Inflation (January)



Inflation (January)



FOMC minutes

Friday



Inflation (January)



Inflation (January)

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,56
USD SOFR O/N	0,30	0,05	0,05	0,05	0,06
JPY TONAR O/N	-0,02	-0,02	-0,05	-0,02	-0,01
GBP SONIA O/N	0,44	0,20	0,05	0,19	0,05
CHF O/N	-0,78	-0,78	-0,79	-0,78	-0,79

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	0,67	0,45	0,10	0,20	-0,22
10Y Bund	0,21	0,03	-0,29	-0,21	-0,44
10Y BTP	1,77	1,42	0,92	1,17	0,50
10Y JGB	0,20	0,17	0,06	0,07	0,08
10Y Bonos	1,15	0,86	0,45	0,56	0,20
10Y Swiss	0,30	0,10	-0,18	-0,13	-0,35
10Y Gilt	1,47	1,30	0,93	1,02	0,48
10Y USNote	1,94	1,78	1,56	1,52	1,15

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	0,86	0,59	0,17	0,33	0,01
EUR Corporate Baa	1,26	0,95	0,50	0,66	0,41
GBP Corporate Baa	2,11	1,83	1,33	1,52	0,91
USD Corporate Aaa	2,66	2,51	2,10	2,13	1,85
USD Corporate Baa	3,22	3,03	2,50	2,60	2,16
USD EM aggregate	4,84	4,69	4,41	4,33	3,59

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	91,74	2,7%	11,0%	16,1%	50,2%
Or, USD/oz	1 833	1,5%	-0,9%	0,2%	-0,5%
Copper, USD/metric ton	9 839	0,0%	2,9%	1,6%	18,9%
Platinum, USD/onoz	1 036	-0,3%	-1,8%	7,1%	-14,7%
Palladium, USD/onoz	2 248	-5,4%	12,0%	13,7%	-4,3%
Silver, USD/onoz	23,25	2,1%	-3,8%	0,7%	-14,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,14	1,0%	-1,1%	1,0%	-5,7%
EUR/CHF	1,06	1,7%	0,0%	1,9%	-2,3%
USD/GBP	0,74	0,1%	-0,5%	0,0%	2,2%
USD/JPY	115,45	0,9%	1,4%	0,3%	10,3%
USD/BRL	5,26	-0,7%	-3,9%	-5,5%	-2,2%
USD/CNY	6,36	0,0%	-0,4%	0,2%	-1,5%
USD/RUB	74,66	-2,1%	5,1%	-0,4%	1,1%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 182	1,0%	2,9%	1,8%	14,5%
Eurostoxx 50	4 204	-0,4%	-3,3%	-2,2%	15,2%
Dax 40	15 482	-0,8%	-3,6%	-2,5%	11,1%
CAC 40	7 131	0,2%	1,2%	-0,3%	25,7%
FTSE 100	7 643	0,8%	4,1%	3,5%	17,2%
SMI	12 368	0,1%	-0,3%	-3,9%	14,2%
SP500	4 587	0,0%	-1,3%	-3,8%	17,3%
TOPIX	1 952	0,8%	-2,8%	-2,0%	1,1%
iBovespa	112 461	0,5%	6,1%	7,3%	-5,0%
Hang Seng	24 830	4,3%	-0,7%	6,1%	-17,3%
Sensex 30	58 466	-1,8%	-3,1%	0,4%	13,9%
MOEX	3 639	2,7%	-12,8%	-3,9%	7,0%
CSI 300	4 652	1,9%	-3,5%	-5,8%	-19,9%

Source: Macrobond, on February 11th, 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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