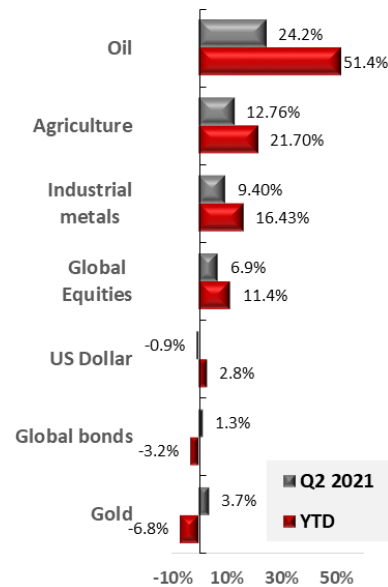


ASSET CLASS OVERVIEW

As far as the markets are concerned, they seem to be pricing that the worst of the pandemic is over. Consistent with the picture of a global economy in full recovery mode, Equities, Oil and Industrial metals maintained their ascending trajectory whilst Bonds and Gold, perceived as less “risky” by investors remained firmly in negative territory for 2021 despite posting positive gains for the quarter.

Uneven progress on the vaccination front remains a key driver of investors’ geographical focus. While the re-opening of the US economy was firmly on investors’ radar during the start of year, their attention turned to Europe during the second quarter as most European countries brought their vaccination targets up to speed. On the other hand, the picture was less rosy for emerging countries, except for China, with the pandemic raging on due to a limited access to more effective vaccines, and a return to normal life still far off. Unsurprisingly, this growing divide closely mirrored the equities markets’ outperformance of developed countries versus their emerging peers (7.3% vs 4.4% in USD in Q2).

ASSET CLASS PERFORMANCE in USD



Source: Bloomberg, MCB PBWM

Yet, too much of a good thing can be a bad thing. The sharp rebound in economic activity in the US and to a lesser extent, Europe, have brought about their own set of problems – inflation. So far, economic data are pointing to burgeoning inflationary pressures though central banks are so far downplaying the inflation as transitory in nature and due to temporary factors at play. For now, investors seem appeased with the 10-year US Treasury yields having eased during the second quarter, dropping from 1.74% at the end of Q1 to 1.47% in Q2.

US

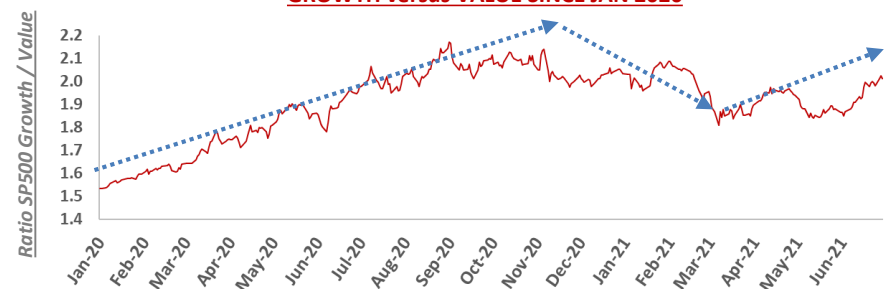
US equities have maintained their ascending trajectory since April 2020 as the US economy remains firmly on track with its re-opening plans. Driven by a strong first-quarter earnings growth and the prospect of yet another fiscal boost in the form of a bipartisan infrastructure deal of USD 559 billion, the SP 500 index closed the second quarter at yet another record high of 4,297 points, with a quarterly gain of 8.2%.

Performance	YTD	Q2 21
SP 500 Index	14.4%	8.2%
Energy	42.4%	10.1%
Financials	24.5%	7.9%
Reits	21.3%	12.4%
Communications	19.1%	10.5%
Industrials	15.6%	4.1%
Materials	13.5%	4.5%
Info Technology	13.2%	11.3%
Healthcare	10.9%	8.0%
Cons. Discret.	9.9%	6.8%
Cons. Staples	3.6%	3.2%

At sector level, while the primary beneficiaries of the “re-opening trade” thematic, Energy (+42.4%), Financials (+24.5%) and REITS (+21.3%) retained their top spots for 2021, the second quarter saw a resurgence of the Information Technology (+11.3%) and Communication (+10.5%), prolonging one the most interesting trends since 2020 - the dance between value and growth (technology) stocks.

During most of 2020 lockdown, the “stay-at-home” thematic saw growth stocks take center stage as investors piled into the mega caps Tech names, which drove the Nasdaq 100 up 47.6% in 2020. But, by January this year as lockdown restrictions eased off, investors had embraced the “re-opening trade” thematic favoring Financials, Leisure&Entertainment and Industrials while fears of burgeoning inflation and spike in Treasury yields have tempered interest in “Tech” stocks. However in June, thanks to the Fed’s calming message on oncoming inflation and the subsequent easing of Treasury yields, investors have switched back from value to growth funds.

GROWTH versus VALUE SINCE JAN 2020

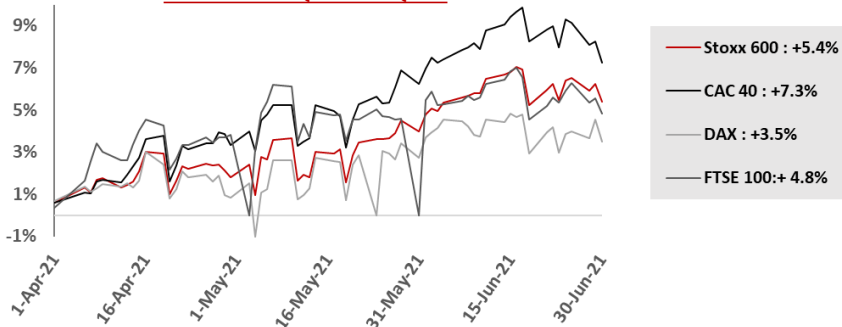


Source: Bloomberg, MCB PBWM

EUROPE

Europe's economic prospects look on the right track as its vaccination campaign gathered momentum after a sluggish start. As of June end, the European Union had vaccinated 61.2% of its adult population with at least one dose, and many member countries appear on track to reach the 70% target by July. Although the vaccination rate differ greatly among EU countries with 80.7% of adults in Belgium having received at least one dose compared to 30.4% in Romania, according to the ECDC. In a similar vein, European equities continued their upward trend albeit at a slower pace relative to their US peers. After finally recovering from its pre-pandemic losses last quarter, the Stoxx 600 index ended the quarter (+5.4%) in record territory closing at 452.84 points (YTD: 13.5%), a few points shy of their all-time high of 459.68 points recorded on 16 June 2021.

EUROPEAN EQUITIES : Q2 21



Source: Bloomberg, MCB PBWM

French equities were the undisputed outperformers in Europe with gains of 7.3% (YTD: +17.2%) thanks to the sector composition of the CAC40 index that largely benefited from the “re-opening” trades. Its top 3 sectors, accounting for 58% of the index, were the top 3 performing sectors: Consumer discretionary (Q2 2021: +17.3%), Consumer staples (Q2 2021: +13.4%) and Industrials (Q2 2021: +6.9%).

German equities registered relatively modest gains of 3.5%, driven mainly by its heavyweight stocks, SAP SE and Deutsche Post AG (DHL), recording quarterly gains of +15.7% and 23.1% respectively. To note that on the political front, the German federal elections are due on 26 September 2021, with Angela Merkel ending her political tenure. With current polls

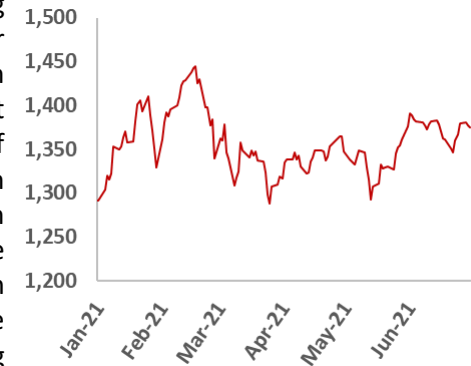
favoring the Greens and Merkel's CDU parties, political observers are predicting a coalition between the two.

UK equities advanced by 4.8% in Q2 2021 (YTD: +8.9%), boosted by an economic outlook brightened considerably as GDP forecasts were upgraded while the Bank England said it was to slow the pace of quantitative easing. Despite that relatively decent headline performance, the quarter ended on a mixed note for the domestic focused companies in the Retail and Travel&Leisure sectors. After driving up the broad market during April and May, the month of June saw a sharp reversal of fortunes as a rise in new Covid-19 cases linked to the delta variant delayed the last phase of UK's reopening plan.

EMERGING MARKETS

After a relatively lackluster first quarter (+1.9%), Q2 saw Emerging market equities put up a better showing with gains of 4.4%. Within the index, Brazil was the best performing market with gains of 8.7% and currency strength amplifying those gains (+23.4% in USD). Russia and Saudi Arabia were notable outperformers as well with the MOEX Russia index and the Tawadul All share index gaining 12.1% and 10.8% respectively on the back of rising crude oil prices.

MSCI EMERGING MARKETS INDEX : YTD

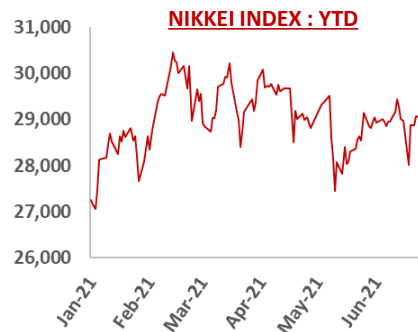


Source: Bloomberg, MCB PBWM

On the other hand, the two Asian heavy weights, China and India recorded relatively more modest gains during the quarter with the Shanghai Composite index returning 4.3% and the BSE Sensex index 6% in their respective local currencies. Chinese equities markets remained plagued by regulatory concerns that have now broadened beyond the technology sector while India's domestic economy continues to suffer from a surge in Covid-19 cases.

JAPAN

Japanese shares were among the few underperformers with the Nikkei index recording quarterly losses of 1.3%. (YTD: +4.9%). Recent economic data did not support the thesis of a quick economic turnaround. Industrial production data was weaker than expected, primarily because of curtailed auto production due to the global shortage of semiconductors. This also had an impact throughout the auto supply chain. Japan's economy was also negatively impacted by the delay in lifting of the state of emergency, which was eventually lifted in most prefectures on 20 June (initially scheduled on 28 May), as it paid the price for the initial slow progress in the vaccine rollout program.



Source: Bloomberg, MCB PBWM

COMMODITIES

The Bloomberg Commodity Index achieved a robust performance in the second quarter (+13.3%) as the global roll out of Covid-19 vaccines continued to spur investor optimism for a global economic recovery until year-end. Energy was the best-performing index component, driven by strong performances from crude oil and natural gas as global economic activity continues to pick up post Covid: WTI crude (+24.2%) and NYM natural gas (+40%).

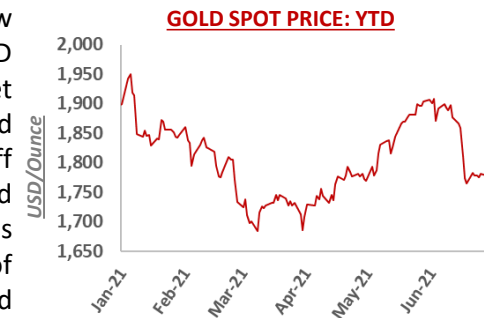
Industrial metals also advanced during the second quarter, driven by sharply higher prices for aluminum, and nickel. As for agricultural commodities, the prices of Sugar, Coffee, and Corn were all higher in the quarter while livestock were relative laggards with live cattle and lean hogs up by just 1.3% and 6.4% respectively.

Performance for Q2 2021	
Bloomberg Commodities	13.3%
Energy	
WTI Crude Oil	24.2%
Natural Gas	40.0%
Metals	
Aluminium	14.8%
Nickel	13.6%
Agriculture	
Sugar	19.4%
Coffee	29.0%
Corn	27.6%
Live Cattle	1.3%
Lean hog	6.4%

Source: Bloomberg, MCB PBWM

GOLD

After a rough first quarter that saw Gold prices falling as low as USD 1683/ounce (-10%), Gold looked set to reverse its fortune in the second quarter as Treasuries yields eased off from their highs. In mid of June, Gold had scaled back to the USD 1900s level with quarter-to-date gains of over 12%. However, as the Fed revised upwards its forecast for rate hikes (2 hikes instead of 1 by 2023), June saw Gold heading for its biggest monthly drop in more than four years (-7% in June), to end the quarter, below the USD 1800 level (Q2 21: +3.6%).



Source: Bloomberg, MCB PBWM

US DOLLAR

After rising for most of the first quarter against the most of the major currencies (+3.7%), the US Dollar sharply declined through April (-2.1%) and May (-1.6%). However, June proved to be an inflection point as a slightly more hawkish Fed caused the greenback to rally and break above its 50-day, 100-day and 200-day moving averages, all within 2 trading sessions. Overall in June, the Dollar bounced 2.9%, to close the quarter marginally down by 0.9%.



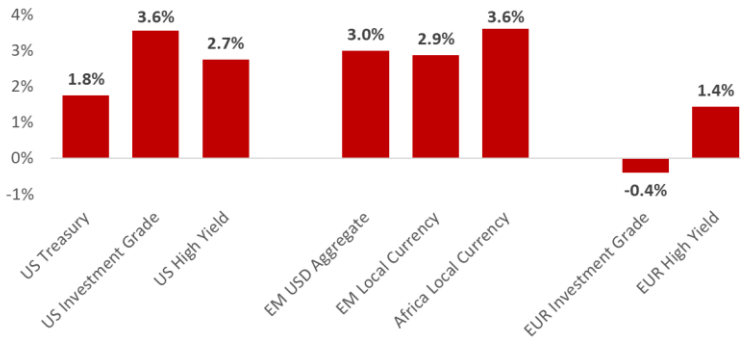
Source: Bloomberg, MCB PBWM

FIXED INCOME

Over the second quarter, in the US Dollar bond segment, corporate bonds outperformed the government bonds. US Investment grade bonds (+3.7%) recovered well after the decline in Q1 (-4.7%) mainly helped by falling yields while the US High Yield bonds (+2.7%) built upon their positive Q1 performance (+0.9%), benefiting from economic recovery and positive fundamentals as well as lower expected default rates.

However, in Europe, government bond yields were on the rise with the German 10-year bund increasing from -0.29% to -0.21%, France 10-year from -0.05% to 0.13% and Italy 10-year from +0.67% to +0.82% on better set of economic data and amid increasing optimism about the region's recovery and accelerating vaccination program.

CREDIT INDICES - TOTAL RETURN Q2 21



Source: Bloomberg, MCB PBWM

Going forward, we expect some volatility in the coming quarter and overall, we still favor shorter maturities thus decreasing the sensitivity to interest rates and in general we favor high yield versus investment grade in both the USD and EUR markets as we believe the asset class remains an attractive source of income in a yield-starved world. We also like local currency bonds in selective emerging markets and frontier (eg Africa), while staying shorter duration than in the past. As EM currencies appreciate vs the USD, local currency debt should generate strong total returns even if yields follow treasuries higher, while the yield cushion, e.g. 8-9% for African local currency in USD terms, should provide support.

MARKET OUTLOOK

As the vaccination rollout progresses and more countries reach their “herd immunity” target, the focus has turned to the spread of Covid19 variants, the efficacy of approved vaccines to deal with those and the speed of reopening of economies and international borders. For now, global sentiment and economic outlook looks poised to improve further, which we think will be supportive of global equities although we expect the second half of 2021 to be bumpier.

We expect concerns over inflation to remain one of the key market risks. Should upcoming economic data indicate that inflationary pressures are more permanent in nature, investors might become less appeased by central banks’ rhetoric that it is indeed just a transitional phase brought about by supply shortages and pent-up demand. Perhaps it is telling that the Federal Reserve has become slightly more hawkish at its latest meeting. The minutes acknowledged that discussions over an eventual tapering have started and more importantly, the new dot plot indicates that 2 rate hikes in 2023 are expected, up from no hike just 3 months ago.

We also expect the rotation between value and growth stocks to continue. While rising yields and inflation pressures tend to favor sectors like financials and those linked to the economies re-opening, the emergence of Covid19 variants may trigger fresh lockdowns and benefit once again the tech and stay-at-home related sectors. Although sector rotation in itself may not necessarily be a huge dampener on the performance of the broad market, investors with skewed sector positioning in their portfolios could bear the consequences of being on the wrong side of the trade .

PORTFOLIO POSITIONNING

Within geographies, we maintain our tactical preference for US equities with an overweight on Financials and reinforce our position in Consumer discretionary. On European equities, for now, we remain neutral but we are gradually shifting our exposure towards the more consumption-related sectors in anticipation of a full re-opening of the Europe. As for Gold, we are maintaining our allocation as it stands to benefit from higher inflation and remains an important portfolio component for diversification, even if bond yields start to rise.

Moreover, in a scenario where for some unforeseen reason, the global economic recovery story does not play out as expected, we should see material upside to gold. Finally, as we expect a bumpier second half to 2021, we have complemented our current positions with a volatility-hedging product to take advantage of any temporary market turmoil.