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Market Focus

9 December 2021

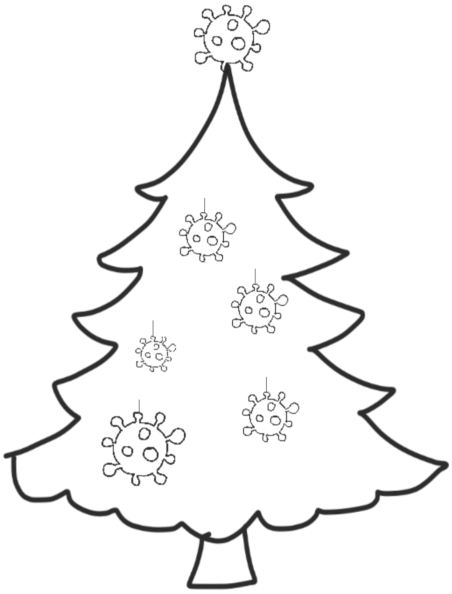
An omichronous Christmas?

Many US investors were still nursing their eggnog headaches when on Thanksgiving Friday (otherwise known as 'Black Friday' – that discount-day bellwether for holiday retail sales and consumption trends) the news broke that a variant of Covid-19 had been identified in South Africa – one the WHO would shortly designate a variant of concern on account of its many mutations.

Barely had markets had time to digest the risk around this new epidemiological threat when in the middle of last week Fed Chair Jerome Powell announced he was finally and definitively ditching the word 'transitory' in relation to inflation, and moreover that in light of more persistent inflation pressures (as well as evidence of a tightening labour market) it would be appropriate for the central bank to consider upping the pace at which it plans to taper its asset purchase programme. While not entirely unexpected in terms of substance, given Omicron's recent debut, the timing of "Powell's pivot" appeared a little off.

So it was that markets were sent reeling once again, as investors attempted to parse the risk associated with a nasty new variant circulating the globe confronted with a Fed now off to the races in terms of paring back support. Throw in some contradictory employment data and broad-stroke estimates around the upcoming inflation print and the outlook is anyone's guess: over the past week the lack of visibility saw volatility shoot to levels not seen since the beginning of the year.

As we write, the scientific community is hard at work assessing the health risks associated with Omicron, while markets are braced for US inflation data Friday that might further inform the Fed's next move. That Omicron turns out to be less aggressive than feared would indeed bring relief. However, and to steal a phrase already given much airtime, we are shifting out of the 'year of recovery' into the 'year of normalisation'. We are braced for more volatility in the short-term, while doubtless many of us will have 'soft landing' on our wish lists for next year.



Omicronous (adj): *giving the worrying impression that all conversations over the holidays will revert to Omicron*

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Unless stated otherwise in the document, all data are as of **06.12.2021**
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Global equity quantitative monitor

Since our last update, **Europe's** score in our equity regional matrix (the top-down indicator that gives us a regional view*) remains in 'very bullish' territory, at 43% (up on 33% a month ago). Sentiment is down a little (now -17% from -13%) yet the economics score has vastly improved (100% up from 17%). Trend has deteriorated as one might expect given recent volatility (to 53% from 86%) while the region's valuation score has climbed (2% to 31%). Unlike the Fed, the ECB remains cautious in tone, Lagarde reiterating again last week that she does not expect a rate hike next year, although the strong inflation numbers as well as rising Covid cases will complicate the bank's deliberations about its asset purchase programmes as the 16 December meeting approaches (we continue to expect it to end "PEPP" in March and increase the regular "APP"). Macro tailwinds include a shift in favour of more fiscal flexibility as implied by the new coalition in Germany and the European Commission's review of the Stability and Growth pact. As is the case globally, Covid-19 remains the clear threat to the otherwise encouraging economic data – the flash composite PMI print of 55.8 in November releasing before the bombshell of Omicron landed on top of what was already proving a challenging Delta surge. Our economists are sticking with their euro-area GDP growth forecast of 5.0% in 2021 overall and 4.5% in 2022, and while volatility may be the only certainty over the near term, we still think Europe can attract investors seeking out value plays exposed to the cycle, and as well as energy plays and financials we also continue to like the green infrastructure and European luxury themes.

The US' regional score has over the past month climbed from a 'bullish' 20% to a 'very bullish' 35%. Recent volatility has caused the trend score to come off slightly (from 82% to 78%) while the valuation score has crept a little higher from -75% to -68% (albeit still 'extended'). The liquidity score has fallen from 100% to 83% while the economics score has jumped from 50% to 100%. While not entirely unexpected by the markets on account of evident inflation pressures, Powell's hawkish pivot nonetheless threw a cat among the pigeons coming so shortly off Omicron's designation as a variant of concern; however evidence of firm wage growth also supports the likelihood that a faster taper will be announced at the upcoming 15 December meeting (leaving the door open to a first rate hike in June). In the meantime markets will be watching Friday's November CPI data closely. We expect markets to remain volatile yet resilient: the fundamentals remain strong, the test being whether (retail in particular) investors can hold their nerve as policy support starts to be withdrawn. Medium term, we think the 10-year US Treasury yield can take up its steady rise again, and expect to see investors seek out quality names across the cyclical sectors (within an environment that increasingly favours the more selective).

Japan has pushed further into 'very bullish' territory, its regional score climbing from 45% to 56%. Trend has pared back to 3% from 10% yet valuation has ticked up to an even more attractive 85% from 75%. The BoJ has already scaled back on asset purchases while a new fiscal package next year could help domestic demand recover; however for the time being we continue to prefer the country's exporters as beneficiaries of the global recovery (the weaker yen a tailwind) as well as quality cyclicals in the region.

Emerging market equities have managed to climb out of very bearish territory to bearish (from -34% to -21%), the trend score clawing back a little from -94% to -85%. In China the PBoC has announced another rate cut and is in our view likely to keep conditions loose as the property sector is re-structured, however we remain cognisant of the ongoing regulatory changes (while Didi's recent de-listing recently sent shockwaves through the ADR market) and would remain cautious and very tactical in the region; there remains also the potential impact of zero-tolerance in the face of Omicron.

**Our top down' Equity Regional Matrix gives us an overview of the prevailing market conditions in equity markets, drawing on macroeconomic data, trend analysis on leading indices, and sentiment. For further information on each parameter, see the endnotes.*

Figure 1: PTS Equity Regional Matrix*

MEDIUM TERM DIRECTION			Very BULLISH above 30%		Very BULLISH above 30%		BEARISH from -25% to -10%		Very BULLISH above 30%	
Regional Grades (-100% to 100%)		31%	U.S.A.	35% ↓	EUROPE	43% ↑	EMERGING	-21% ↓	JAPAN	56% ↑
		Weight								
Trend		40%	□□□□■	78% ↓	□□□■□	53% ↓	■□□□□	-85% ↓	□□■□□	3% ↑
Overbought/Oversold			OB OS □□□■□	8% ↑	OB OS □□□■□	13% ↑	OB OS □□□■□	15% ↑	OB OS □□□■□	13% ↑
Valuation	P/E	20%	Exp. Cheap ■□□□□	-68% ↓	Exp. Cheap □□□■□	31% ↓	Exp. Cheap □□■□□	-10% ↓	Exp. Cheap □□□□■	85% ↓
Liquidity		10%	Low High □□□□■	83% ↑	Low High □□■□□	33% ↑	Low High □□■□□	34% ↓	Low High □□□□■	88% ↑
Economics		10%	Growing Faster □□□□■	100% ↑	Growing Faster □□□□■	100% ↑	Growing Slower □□■□□	21% ↑	Growing Faster □□□■□	50% ↑
Sentiment		20%	Neg. Pos. ■□□□□	-21% ↓	Neg. Pos. ■□□□□	-17% ↑	Neg. Pos. □□□■□	18% ↓	Neg. Pos. □□□□■	94% ↑

*Source: FactSet; Markit, Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 6/12/2021. *Criteria are explained in the endnotes*

Market update

Blind-sided by Omicron and the hawkish pivot from Powell, markets have been weathering volatility as they grapple for visibility, trying to ascertain the potential impact of a new Covid variant as the Fed considers accelerating its asset purchase taper. The fundamentals remain sound and there are a number of tertiary tailwinds in play (and indeed at the beginning of this week we saw the US equity market recover much of its recent losses), yet we to see the volatility continue as evidence of fragility has been creeping in: it remains to be seen whether seasonal trends and the ongoing buy-the-dip mantra can hold as we await further visibility on Omicron and central bank policy over the coming weeks.

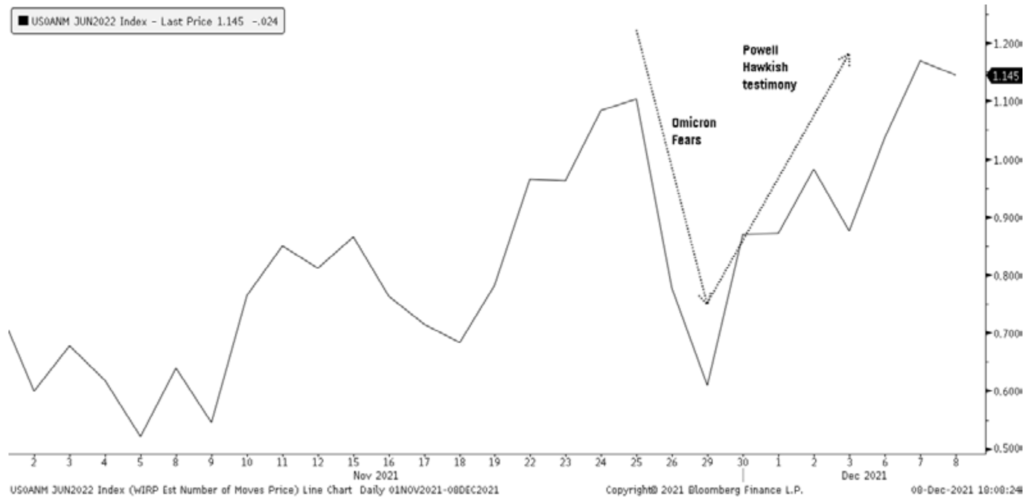
From recovery to normalisation

The US' recovery out of the Covid crisis this year has continued to prove impressive. Fiscal policy has continued to support the consumer while the ongoing provision of liquidity (and cautious communication) from the Fed has helped oil the wheels of the economy, both supporting the equity rally that has had FOMO and TINA encouraging investors further up the wall of worry (or buy the dip) when required. The year hasn't been without its challenges – the Delta variant and dislocations across global supply chains among those that come quickest to mind, however markets have managed to weather the waves of infection while earnings reports have brought a degree of reassurance around the ability of corporates to manage their way around the demand shocks and global supply dislocations. Key issues for investors for this coming year will orbit around how the consumer fares in light of reduced fiscal support, and how corporates manage price pressures in anticipation of rate rises and tighter financial conditions.

In relation to the first, US households are still sitting atop a comfortable cushion of accumulated savings, the implication being that they will start to draw down on these as fiscal support is withdrawn, while (subject to virus concerns) we might also expect to see a continued shift in spending in favour of services (and a big pick up in travel and leisure). On the corporate side, and as mentioned above, robustness remains evident in earnings. However there is a risk that when supply-side logjams fade inventory build-up could go into reverse. Business sentiment more broadly could also suffer from any deterioration in the US-China relationship.

In the main, however, our economists' view is that US growth can continue to run above its long-term trend next year; their 2022 GDP forecast currently at 3.4%. Their view is that we are now entering the third-phase of four of a mini-cycle that began in March 2020 (the duration of which will clearly depend on financial conditions). The main risk to this is clearly the Fed which, concerned about inflation, has

Figure 3: number of rate hikes priced to June 2022



Source: Bloomberg Finance L.P.; Pictet Trading Strategy; as of 08/12/2021 now shifted into a more hawkish gear: we expect to see QE tapering accelerate in a manner that clears the way for a 25 basis point hike in the Fed Funds rate in June 2022 (which we think could be followed by two more before the end of the year). Markets are currently pricing almost three rate hikes next year (as illustrated in Figure 2 on the previous page).

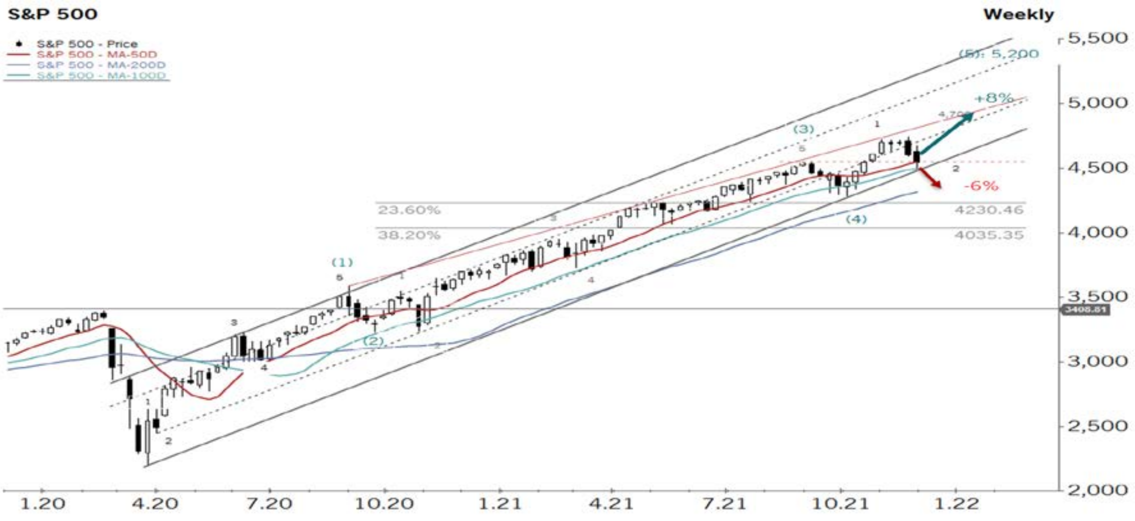
In the near term, markets over recent days have been showing signs of steadying and it remains our view that the rally can maintain momentum into the end of the year. Yet recent market moves have uncovered some evidence of fragility (see our recent letter on spiking volatility and the flattening curve again here) and with inflation numbers Friday and the Fed (and ECB) policy meetings next week, any surprises could re-ignite jitters. Moreover, while Omicron concerns may fade, its discovery brings with it a disheartening message that we are not done with Covid just yet, dampening sentient as a whole.

So where to next for the US equity rally?

Since markets bottomed in March 2020, they have (particularly in the US) repeatedly proven stronger and more resilient than expected, the accumulation of economic and political concerns unable to derail the S&P500 from its uptrend. With the seasonal trends now in support, our near-term conviction remains that the US equity market rally can continue into the end of the year as the market ultimately looks through Omicron.

From a technical perspective (see the chart at Figure 3 below) the S&P500 index has been trading in an uptrend since March 2020, forming a bullish Elliott 5-wave sequence in the process. Now that the positive momentum has resumed the index has formed a new high, which could pave the way for a rise towards the final target (5) at around 4,700/5,000 a level which also corresponds to the upper bound of the bullish channel. However we are playing close attention to the support given by the 100-day SMA: should another violent pullback materialize and the index break back below this key average (currently at 4,493) then an alternative scenario could see the index consolidate further towards the 200-day average (currently at 4,309):

Figure 3: S&P500 – our core (in green) and alternative (in red) scenarios*

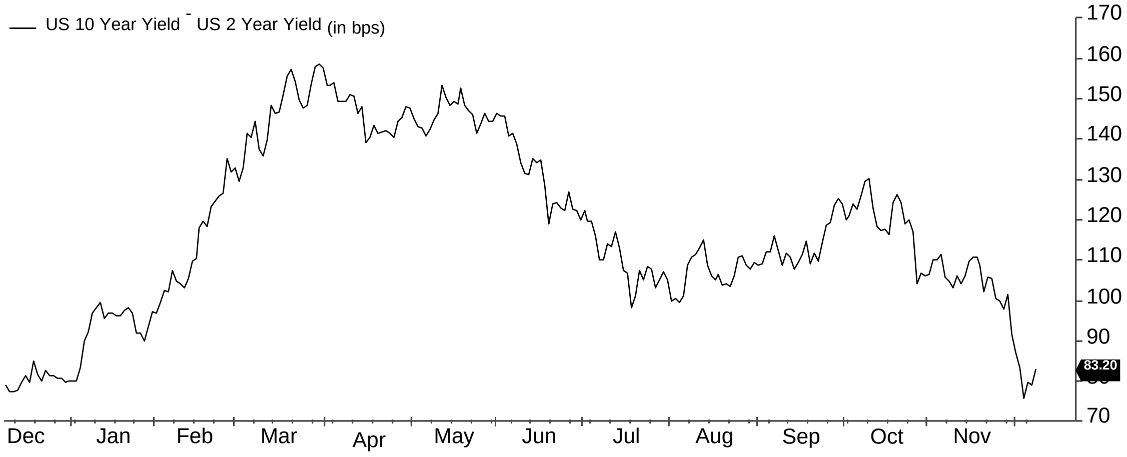


*Source: FactSet; Pictet Trading Strategy; as of 06/12/2021 *The target prices presented are based upon chart analysis. This is not the product of any Pictet financial research unit.*

Inflation and the Fed remain the key drivers

On the basis that the risk around Omicron fades, it is the threat posed by a hawkish Fed that remains as the key risk to markets; the prospect of a faster taper and rate-hike cycle that kicks off sooner. The reaction in the 10-2 Treasury yield curve to ‘Powell’s pivot’ was telling: the higher 2-year yield reflecting the expected near-term policy tightening from the Fed; the falling 10-year reflecting concerns that Fed policy will ultimately prove a drag on growth. The greater medium-term risk to the market is thus in our view that the Fed is more 'hawkish' than markets can stomach when the growth outlook and EPS (although currently strong and still running 'above trend') is set to moderate over the coming year. Also worth considering is that should rate concerns put the tech titans under pressure, this could also weigh on US indices purely on account of their size, and continued optimism about the business cycle notwithstanding.

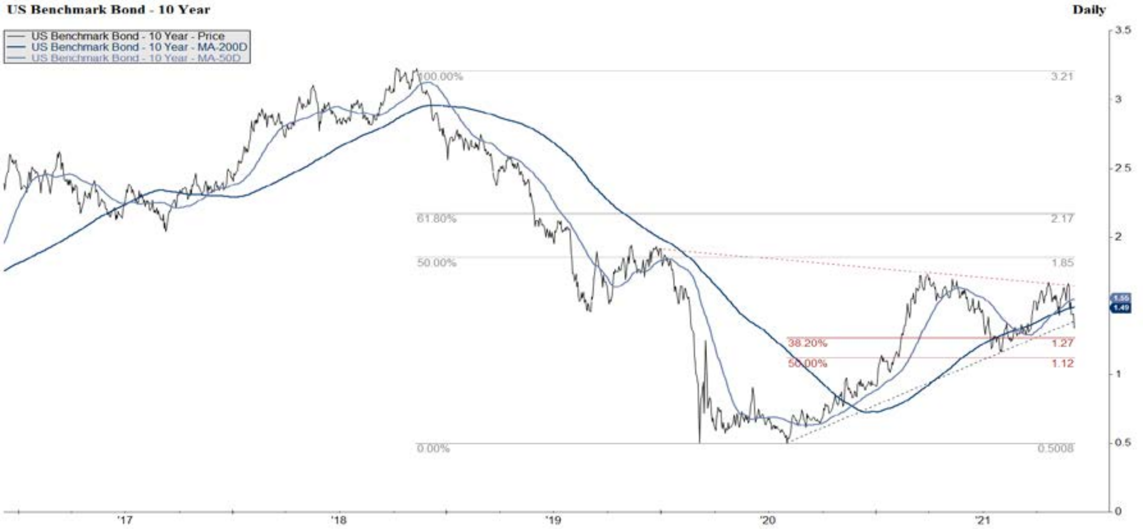
Figure 4: US 10-2 Treasury Yield spread (in bps)*



*Source: Factset - Pictet Trading Strategy – as of 06/12/2021 *criteria are explained in the endnotes*
The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit

The technical picture for the US 10-year Treasury yield illustrates how following the Fed's September meeting we saw momentum in the US 10-year Treasury yield pick up again, then it retraced slightly following the November taper announcement. In the recent volatility dropped below its below its 200-day moving average. While the consolidation could continue towards 1.27%, should this level hold we could see it pick up again to the next technical hurdle at 1.8650% (the 50% Fibonacci retracement of the entire bearish sequence). Longer-term it remains the case that inflation break-evens should ultimately stabilise as supply issues fade, markets are able to digest Fed policy and real rates start rising again.

Figure 5: US 10-year Treasury yield – technical chart*



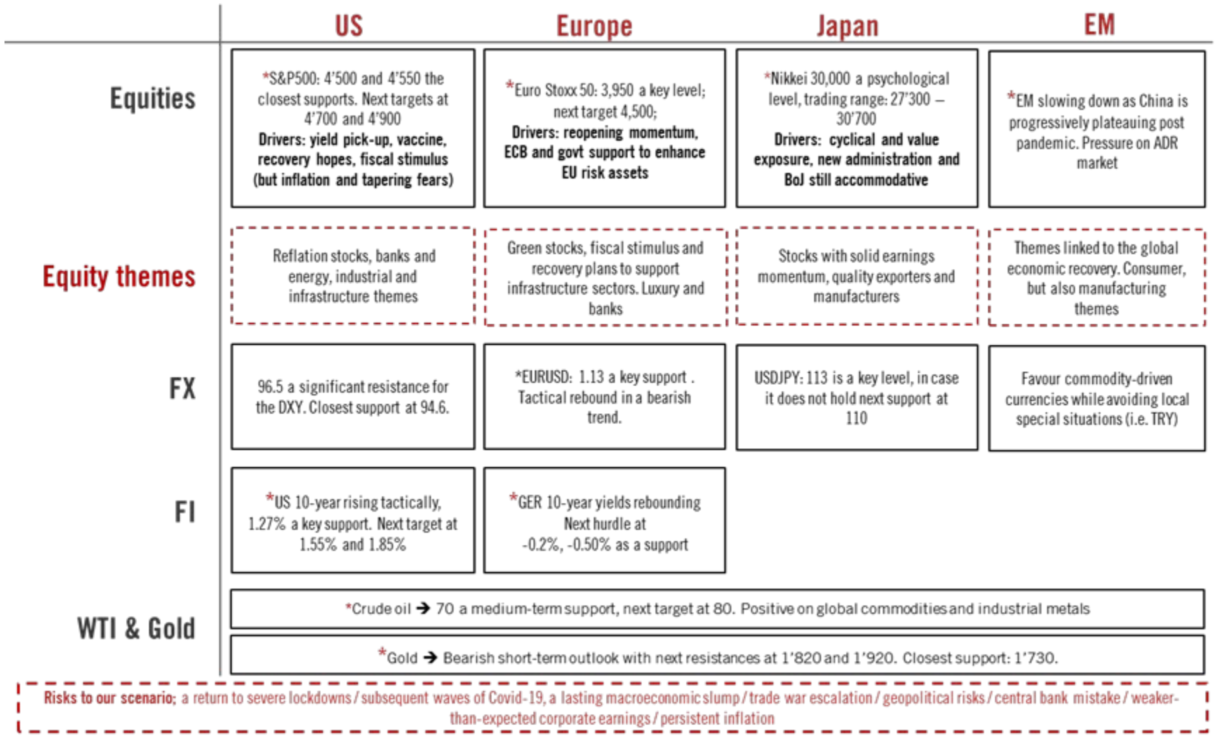
*Source: Factset - Pictet Trading Strategy – as of 06/12/2021 *criteria are explained in the endnotes*
The target price presented in the chart is based upon chart analysis. This is not the product of any Pictet financial research unit

Re-opening (again)

On the basis that Omicron fears do abate as we expect, it remains our view that the so-called re-opening trades can continue to perform into the end of the year - with potential still to be captured across travel hotel and leisure in particular (see recent letter *"Omicron Opportunity"* again here or on request). The economic reopening in the broader sense may have been delayed by this latest wave, yet it continues nonetheless, with solid earnings growth (see our Q4 earnings review again here) and economic data recently surprising to the upside (see our recent study on the CESI here) and so we continue to favour those stocks and sectors more sensitive to the economic cycle and benefiting from the above-trend momentum (yet as real yields start to rise as we expect, we might increasingly prefer those corporates that have pricing power). Moreover, as risk returns to the markets, value currently has a strong cyclical bias, and the typical dynamic being that as rates rise, growth tends to underperform, rising rate expectations may bring a tailwind to the cyclical trades as investors also seek to squeeze remaining 'value' out of the rally. Looking further out there are also several structural opportunities to be had among which the green energy and infrastructure themes feature prominently both in the US and in Europe (see our recent letter on the potential for nuclear again here), while those companies who have amassed considerable amounts of cash on their balance sheets are likely to start spending it – on CAPEX, M&A or rewarding shareholders – all of which we could see much more of next year. However, we remain cognisant that the rally has become more fragile as we approach what will be a key Fed meeting next week, and we could see investors playing short-term volatility to hedge tail risk while also baking a greater degree of quality into portfolios as policymakers shift gear and the macro backdrop adjusts over the coming weeks.

On a regional basis, Europe remains attractively valued, the region also benefitting from the more cyclical profile of its indices (see a screening of reflation names in Europe again here) and an ECB that looks set to remain accommodative. A new administration in Japan could result in more fiscal spending; we remain cautious China. As we discussed at greater length in last month's *Market Focus*, we also continue to like energy, and financials should benefit from a rising rate environment. See in the table below a summary of our core convictions, and below that the latest iterations of our long-only selection lists for the US and Europe. All of the daily letters linked above are available on request, and we wish all our readers a safe happy and healthy holiday season.

Figure 6: PTS core views December 2021*



	US	Europe	Japan	EM
Equities	*S&P500: 4'500 and 4'550 the closest supports. Next targets at 4'700 and 4'900 **Drivers: yield pick-up, vaccine, recovery hopes, fiscal stimulus (but inflation and tapering fears)**	*Euro Stoxx 50: 3,950 a key level; next target 4,500; **Drivers: reopening momentum, ECB and govt support to enhance EU risk assets**	*Nikkei 30,000 a psychological level, trading range: 27'300 – 30'700 **Drivers: cyclical and value exposure, new administration and BoJ still accommodative**	*EM slowing down as China is progressively plateauing post pandemic. Pressure on ADR market
Equity themes	Reflation stocks, banks and energy, industrial and infrastructure themes	Green stocks, fiscal stimulus and recovery plans to support infrastructure sectors. Luxury and banks	Stocks with solid earnings momentum, quality exporters and manufacturers	Themes linked to the global economic recovery. Consumer, but also manufacturing themes
FX	96.5 a significant resistance for the DXY. Closest support at 94.6.	*EURUSD: 1.13 a key support . Tactical rebound in a bearish trend.	USDJPY: 113 is a key level, in case it does not hold next support at 110	Favour commodity-driven currencies while avoiding local special situations (i.e. TRY)
FI	*US 10-year rising tactically, 1.27% a key support. Next target at 1.55% and 1.85%	*GER 10-year yields rebounding Next hurdle at -0.2%, -0.50% as a support		
WTI & Gold	*Crude oil → 70 a medium-term support, next target at 80. Positive on global commodities and industrial metals			
	*Gold → Bearish short-term outlook with next resistances at 1'820 and 1'920. Closest support: 1'730.			
Risks to our scenario; a return to severe lockdowns / subsequent waves of Covid-19, a lasting macroeconomic slump / trade war escalation / geopolitical risks / central bank mistake / weaker-than-expected corporate earnings / persistent inflation				

*Source: FactSet; Pictet Trading Strategy; as of 08/12/2021 *The target prices presented are based upon chart analysis. This is not the product of any Pictet financial research unit.*

Our long-only selection lists aim to provide investors with long equity ideas within our European and US large cap coverage. The selection is made with reference to our quantitative screening tool, technical analysis, qualitative attributes, and the prevailing market environment. They are updated weekly and available on request.

Figure 7: PTS EU long-only selection as at 06.12.2021 - quantitative grades*

			Short-term			Long-term			Technical Parameters			
	Weight in Global Grade:		25%	10%	10%	15%	10%	10%	10%	10%		100%
Ticker	Name	Sector	Growth	EPS	Sales	Value	Quality	Credit	MF	Smart Sent.	RS	Global
engi fp	ENGIE	Multi-Utilities	66	75	42	66	49	49	88	84	39	65
tte fp	TOTALENERGIES SE	Oil, Gas & Consumable Fuels	71	82	49	71	51	66	11	70	53	61
ifx gy	INFINEON TECHNOLOGIES AG	Semiconductors & Semiconductor	62	69	69	33	54	49	96	65	75	61
jd/ ln	JD SPORTS FASHION PLC	Specialty Retail	64	66	83	42	44	49	65	64	82	59
gle fp	SOCIETE GENERALE SA	Banks	73	88	51	69	51	52	5	49	91	58
rdsa na	ROYAL DUTCH SHELL PLC-A SHS	Oil, Gas & Consumable Fuels	62	70	45	71	45	63	52	37	70	57
adyen na	ADYEN NV	IT Services	74	60	72	12	47	70	88	30	86	57
ker fp	KERING	Textiles, Apparel & Luxury Goo	66	61	59	28	56	61	58	64	52	57
sika sw	SIKA AG-REG	Chemicals	61	52	65	17	54	51	71	94	87	57
isp im	INTESA SANPAOLO	Banks	61	70	34	59	51	28	69	68	48	56
fgr fp	EIFFAGE	Construction & Engineering	57	68	49	69	49	33	58	52	34	56
su fp	SCHNEIDER ELECTRIC SE	Electrical Equipment	61	61	45	27	55	62	65	65	75	55
alv gy	ALLIANZ SE-REG	Insurance	50	50	41	65	49	78	34	68	30	54
air fp	AIRBUS SE	Aerospace & Defense	71	77	28	43	61	56	23	51	52	54
asml na	ASML HOLDING NV	Semiconductors & Semiconductor	72	63	75	10	63	70	13	56	96	54
viv fp	VIVENDI SE	Media	70	79	46	51	46	46	3	62	98	53
cs fp	AXA SA	Insurance	46	65	24	75	49	59	18	91	65	53
glen ln	GLENCORE PLC	Metals & Mining	58	65	53	62	51	50	42	25	92	52
soon sw	SONOVA HOLDING AG-REG	Health Care Equipment & Suppli	52	42	56	21	54	56	76	78	87	52
pum gy	PUMA SE	Textiles, Apparel & Luxury Goo	56	72	67	24	55	58	31	47	69	51
volvb ss	VOLVO AB-B SHS	Machinery	57	58	36	57	47	58	18	60	35	51
srt3 gy	SARTORIUS AG-VORZUG	Health Care Equipment & Suppli	69	60	85	8	49	39	58	28	88	50
CCH LN	COCA-COLA HBC AG-DI	Beverages	55	56	64	48	54	44	46	27	44	50
heia na	HEINEKEN NV	Beverages	52	64	34	33	55	34	61	73	33	50
bnp fp	BNP PARIBAS	Banks	48	52	28	59	50	59	19	83	69	50
or fp	L'OREAL	Personal Products	45	47	57	19	54	66	73	58	71	50
tep fp	TELEPERFORMANCE	Professional Services	68	70	74	25	53	41	17	30	71	49
zal gy	ZALANDO SE	Internet & Direct Marketing Re	40	25	73	26	41	52	74	86	27	49
stla im	STELLANTIS NV	Automobiles	43	55	47	67	54	46	18	58	80	49
novn sw	NOVARTIS AG-REG	Pharmaceuticals	34	32	45	51	58	64	57	63	20	48
pst im	POSTE ITALIANE SPA	Insurance	53	41	41	62	42	24	31	70	72	47
azn ln	ASTRAZENECA PLC	Pharmaceuticals	40	33	73	38	44	48	44	70	42	47
rwe gy	RWE AG	Multi-Utilities	25	38	43	46	60	53	56	78	32	46
sie gy	SIEMENS AG-REG	Industrial Conglomerates	49	51	56	40	44	54	16	52	67	46
dte gy	DEUTSCHE TELEKOM AG-REG	Diversified Telecommunication	37	34	55	67	35	31	33	70	38	45
lonn sw	LONZA GROUP AG-REG	Life Sciences Tools & Services	48	37	40	12	52	53	39	60	72	42
ezj ln	EASYJET PLC	Airlines	42	47	48	50	40	25	10	60	7	41
akza na	AKZO NOBEL N.V.	Chemicals	36	32	42	45	50	58	27	42	40	41

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 6/12/2021.
**Criteria are explained in the endnotes.*

Figure 8: PTS US long-only selection as at 06.12.2021 - quantitative grades*

			Short-term			Long-term			Technical Parameters			
	Weight in Global Grade:		25%	10%	10%	15%	10%	10%	10%	10%		100%
Ticker	Name	Sector	Growth	EPS	Sales	Value	Quality	Credit	MF	Smart Sent.	RS	Global
cof us	CAPITAL ONE FINANCIAL CORP	Consumer Finance	73	80	56	55	58	55	83	38	91	64
goog us	ALPHABET INC-CL C	Interactive Media & Services	76	70	80	21	58	88	54	34	90	61
c us	CITIGROUP INC	Banks	60	66	37	65	56	65	63	42	55	58
clh us	CLEAN HARBORS INC	Commercial Services & Supplies	72	71	61	33	52	36	91	28	80	57
slb us	SCHLUMBERGER LTD	Energy Equipment & Services	66	68	24	48	53	50	88	40	78	56
adbe us	ADOBE INC	Software	65	50	73	8	67	75	76	44	79	56
abt us	ABBOTT LABORATORIES	Health Care Equipment & Suppli	63	58	68	30	60	67	63	27	56	55
hca us	HCA HEALTHCARE INC	Health Care Providers & Servic	69	64	66	43	46	41	43	45	85	54
bac us	BANK OF AMERICA CORP	Banks	67	68	46	44	57	78	18	38	89	54
usb us	US BANCORP	Banks	50	55	44	54	57	77	77	21	69	54
now us	SERVICENOW INC	Software	59	54	83	8	52	63	85	39	62	54
qcom us	QUALCOMM INC	Semiconductors & Semiconductor	65	67	75	38	60	58	17	36	64	53
idxx us	IDEXX LABORATORIES INC	Health Care Equipment & Suppli	65	50	74	12	61	44	73	50	73	53
mos us	MOSAIC CO/THE	Chemicals	60	62	46	65	45	49	55	15	88	52
unh us	UNITEDHEALTH GROUP INC	Health Care Providers & Servic	52	36	66	34	48	63	83	37	73	51
MCD US	MCDONALD'S CORP	Hotels, Restaurants & Leisure	56	60	56	32	58	54	64	33	52	51
gm us	GENERAL MOTORS CO	Automobiles	56	46	34	60	35	35	96	28	73	50
zts us	ZOETIS INC	Pharmaceuticals	66	54	71	15	60	43	66	22	78	50
wmt us	WALMART INC	Food & Staples Retailing	52	49	54	42	52	66	72	17	24	50
msft us	MICROSOFT CORP	Software	63	48	75	14	62	75	27	33	87	50
tel us	TE CONNECTIVITY LTD	Electronic Equipment, Instrume	40	41	51	27	55	66	94	50	75	50
dhr us	DANAHER CORP	Life Sciences Tools & Services	59	59	66	16	51	56	49	42	82	49
blk us	BLACKROCK INC	Capital Markets	51	48	68	26	58	74	18	57	70	49
jci us	JOHNSON CONTROLS INTERNATION	Building Products	49	52	51	36	46	52	85	24	90	49
fb us	META PLATFORMS INC-CLASS A	Interactive Media & Services	59	42	73	30	57	69	17	28	58	48
cmg us	CHIPOTLE MEXICAN GRILL INC	Hotels, Restaurants & Leisure	61	61	67	14	50	45	23	44	68	46
dell us	DELL TECHNOLOGIES -C	Technology Hardware, Storage &	31	18	54	63	65	32	99	22	90	46
amzn us	AMAZON.COM INC	Internet & Direct Marketing Re	49	22	70	28	51	64	41	38	49	45
lng us	CHENIERE ENERGY INC	Oil, Gas & Consumable Fuels	30	24	82	53	35	32	93	24	95	44
aapl us	APPLE INC	Technology Hardware, Storage &	51	35	57	15	67	60	39	30	78	44
nke us	NIKE INC -CL B	Textiles, Apparel & Luxury Goo	45	32	50	18	67	71	36	28	67	42
pypl us	PAYPAL HOLDINGS INC	IT Services	53	33	64	14	62	66	19	24	17	42
alk us	ALASKA AIR GROUP INC	Airlines	44	53	41	46	57	32	33	20	28	42
stz us	CONSTELLATION BRANDS INC-A	Beverages	32	28	50	34	40	32	77	47	47	41
mdlz us	MONDELEZ INTERNATIONAL INC-A	Food Products	38	31	45	39	52	38	39	40	37	40
fis us	FIDELITY NATIONAL INFO SERV	IT Services	37	49	50	41	41	48	36	13	6	39
nee us	NEXTERA ENERGY INC	Electric Utilities	28	36	33	19	32	40	32	24	59	30

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 6/12//2021.
**Criteria are explained in the endnotes.*

Endnotes: References for publications of Banque Pictet & Cie SA – Trading Strategy

Model performance data is not a reliable indicator of future returns. Model performance calculation has a number of limitations and the results do not represent the results of actual trading using client assets. The data provided is gross of fees and other commissions. Fees and charges will apply and will reduce the final return. No representation is being made that the model portfolios illustrated will or are likely to achieve results similar to those shown and there are often sharp differences between model performance results and actual results achieved.

The Equity quantitative grades

Growth Grade: The Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.
EPS Grade: The EPS Grade is a proprietary formula consisting of current and forward EPS growth, change and surprise data. An EPS grade above 60 or below 40 is considered predictive for future out/under performance.
Sales Grade: The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.
Value Grade: The Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.
Quality Grade: The Quality Gating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.
Credit Grade: The Credit Grade focusses on the passive side of the balance sheet. It is divided into three sub-components to assess both short and long-term solvency. A grade above 55 suggests a strong capital structure, while a grade below 45 suggests a weak one.
Money Flow Grade: The Money Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.
Smart Sentiment Grade: The Smart Sentiment grade is a contrarian indicator based on investor positioning measures such as the days to cover ratio, the put call ratio, and the short interest ratio. A weak grade suggests 'too much' optimism.
Relative Strength (RS) Grade: The RS grade measures the price momentum of a stock over its 1-year price performance.
Global Grade: The Global Grade is a weighted average of the Growth, EPS Sales, Value, Quality, Credit, Money Flow and Smart Sentiment Grades.

The Regional MATRIX grades

The Regional Matrix grades range from -100% to +100%. We consider a grade above 50% to be very bullish, a grade above 25% to be bullish, and a grade between 0% and 25% to be neutral. A grade between 0% and -45% we consider bearish and a grade below -45% very bearish.

Regional Grade: The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Overbought/Oversold, Valuation, Liquidity, Economics, and Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.

Trend Grade: The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.

Valuation Grade: The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).

Economics Grade: The Economics Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the **Citigroup Surprise Indices.** The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.

Sentiment Grade: The Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

Reversal date in the Trend: If the trend has reversed, we give the reversal date and indicate the direction of the reversal.

Factor trends: We look at the performance of 5 theoretical long-short selections, each built around one of our quantitative grades (i.e. growth (EPS momentum), price momentum (RS), quality, sentiment and value), and each long the top decile and short the bottom decile of stocks within the respective region in our equity universe in terms of exposure to each specific score.

Model Long Only & Absolute return regional Allocation: The Regional Allocation shows the advised net exposure in total and per region. It is calculated by multiplying the MSCI regional weight by the Regional Grade (we use the structural bull market regional grade).

Trading Strategy Exposure: The Trading Strategy Exposure shows the actual net exposure in total and per region, based on our trades.

Short-Term: 1 to 4 weeks / Medium Term: 1 to 3 months / Long Term: more than 3 months.

PTS: Pictet Trading Strategy.

Buy/Long: Stock is expected to achieve a total return that exceeds the relevant market index over the next 3 to 6 months.

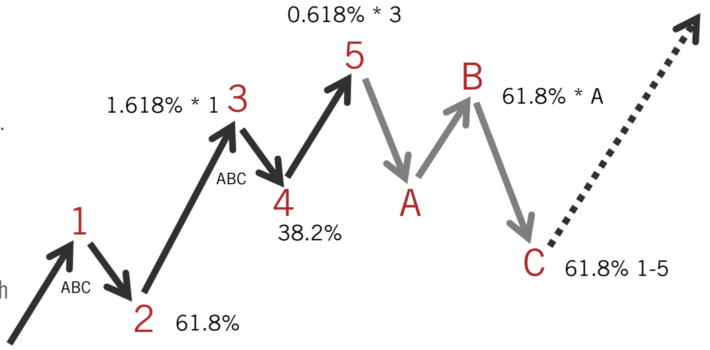
Sell/Short: Stock is expected to underperform the relevant market index over the next 3 to 6 months.

Hold/Neutral: Stock is expected to be in line with total return of the relevant market index over the next 3 to 6 months.

Technical Analysis: The technical analysis used in this presentation combines traditional technical tools: graphical analysis (trend lines, support lines, continuation and reversal patterns) which determines the tendency, mathematical indicators (moving averages, RSI, MACD) used as numeric filters and Elliot wave theory which allows us to build a scenario with target levels and invalidation points.

Elliott Wave Theory: According to Elliott Wave Theory, markets move in impulse waves – with five sub-waves (numbered 1-5 or I-V) following the direction of the main trend, followed by three corrective sub-waves (A-B-C) (example to the right). These waves follow a set of specific rules and are linked to each other by target and retracement ratios based on the Fibonacci sequence, and the characteristics of each wave form an integral part of the reflection of the mass psychology it embodies.

Elliott Wave Theory



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