Market Focus

15 July 2021

Half-time: hit or miss?

As we tip over into the second half of the year, the rear view is doubtless impressive. But it is in the market's nature to look forward – to price in what appears in front of it; risks on the horizon; and expectations further out. Jubilant scenes from Wembley last weekend offered a reminder of the joy of coming together and a glimmer of life beyond Covid-19, the very day before UK PM Boris Johnson announced the lifting of legal Covid-19 restrictions in England and cautiously returned the baton to personal responsibility. But the battle against this global pandemic is far from won; over the channel in France President Macron has announced some new restrictions, and the pictures of a packed Wembley stadium will contrast starkly with a 'ghost-town' Olympic Games due to take place in Tokyo where a state of emergency has once again been declared.

"Delta defends"

Concerns around Covid-19 variants and subsequent waves of infection as vaccination take-up rates peak both in the US and in Europe have been weighing on investor sentiment in recent weeks, and given lofty performances to date, equity markets are arguably more sensitive to any data that might imply the slightest risk to, or hint of, weakness in the recovery outlook. However, vaccines have to date proved a game-changer, and while economic concerns may continue to affect sentiment in the weeks ahead, another positive earnings season should help sustain equities through the summer; moreover we expect the positive momentum to pick up in the latter part of the year as vaccines prove their ongoing effectiveness in protecting against serious infection, and as the recovery in services becomes more evident in the economic reports; while a recovery in yields off present lows should also help the reopening rotation to resume.

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Global equity quantitative monitor

Since our last edition in June, Europe's score in our equity regional matrix (the top-down indicator that gives us a regional view*) has risen within bullish territory from 24% to 29%. Sentiment has come off a little, while the valuation grade remains "extended" (at -78%). European leaders are becoming more vocal in encouraging vaccination as they cautiously open up for the summer in the face of rising cases of the more contagious Delta variant. This while the ECB remains unanimously dovish and NextGenEU funds are unleashed. While the softening in sentiment has unwound recent European outperformance, Europe remains in the ascendant to peak growth and we expect momentum to pick up in the latter part of the year with evidence of the recovery in services potentially lending support to the reopening trades once again.

The US' regional score has softened to a neutral 8% from 24% over the past several weeks, the trend score falling to 83% from 92% while the valuation score remains extended at -98%. Pandemic concerns around variants and regional pockets of vaccine hesitancy continue to weigh on sentiment, as reflected in the recent drop in the 10-year Treasury yield on abating inflation expectations in a move that also spilled over into equities in the form of a sub-surface counter-rotation in favour of growth. On the basis that such a move is now overdone a short-term recovery in yields could support a rotation back in favour of the more value-oriented re-opening trades, however the sideways consolidation in equities is in our view likely to continue over the summer with frequent sub-surface rotations - the market becoming less 'polarised' in the process. We expect a strong earnings season to support, and we see continued potential in value and the reopening trades, yet quality is becoming increasingly relevant and strategies indeed more nuanced and defensive.

Japan's regional score in our matrix, having dipped in the meantime, is back where it was a month ago at a 'very bullish' 37%; the trend and economics grades have softened yet sentiment has improved significantly, now at 59% up from 12%. This as the Olympics get under way under a fresh state of emergency in Tokyo: we continue to prefer the country's exporters as beneficiaries of the global recovery, as well as quality cyclicals in the region.

Emerging market equities have returned to bullish territory with a regional grade of 34% up from 13% last month, the trend score recovering to 60% from 49%. The outlook for EM equities is supported by the lower US dollar environment and strong commodity prices as well as returning international trade and solid manufacturing activity. However dislocations and divergences remain; Asian equities risk suffering from rising US real yields in H2, and China's recent regulatory clampdown could encourage caution in the near term: we advocate taking a more tactical approach to EM in the short-term.

**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		Weight	NEUTRAL from -10% to +10%	BULLISH from 10 to 30%	Very BULLISH above 30%	Very BULLISH above 30%
Regional Grades (-100% to 100%)	21%		U.S.A. 8% ↓	EUROPE 29% ↓	EMERGING 34% ↑	JAPAN 37% ↑
Trend		40%	82% ↓	95% ↓	60% ↑	15% ↑
Overbought/Oversold (OB – OS)			-18% ↓	-5% ↓	20% ↑	15% ↑
Valuation (Exp. – Cheap)	P/E	20%	-98% ↓	-78% ↓	-65% ↓	38% ↓
Liquidity (Low – High)		10%	100% ↑	50% ↑	80% ↑	75% ↑
Economics		10%	Growing Slower 0% ↓	Growing Faster 67% ↑	Growing From contracting 50% ↑	Growing Slower -17%
Sentiment (Neg. – Pos.)		20%	-42% ↓	-16% ↑	11% ↓	59% ↑

*Source: FactSet; Markit, Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 13/7/2021. *Criteria are explained in the endnotes*

Market update

This week, Italy has been celebrating its well-deserved win of the UEFA European Football Championship after nail-biting final against England at Wembley on Sunday. The heart-warming pictures of ecstatic fans greeting the team in Rome contrasts starkly with the tragic images plastered across international media outlets back in March 2020 depicting the horror and suffering in what became the epicentre of the Covid-19 outbreak in Europe.

Since those dark days of 2020 we have seen tremendous emergency policy support engineered by the tacticians at global central banks; colossal targeted fiscal impetus deployed from the bench, and a Maradona turn from vaccine technology change the direction of infection and so far prove effective in tackling multiple variants of this horrible pandemic. Unlike the Euro tournament however, this fight is not yet won. The aim now? To ensure that this virus is brought firmly to heel before we are forced into extra time.

Football puns aside, concerns that vaccination programmes have come off the pace in recent weeks have been filtering through the market narrative, as has talk of the US passing peak growth and risks of a more prolonged recovery. This manifested first in the bond market as the 10-year US Treasury yield dipped briefly back below 1.35% as inflation expectations fell, thereafter triggering another sub-surface rotation in equity markets during which the "stay-at-home" trades outperformed once again.

For the most part we consider these recent moves symptomatic of markets that are steadily becoming less polarised while longer-term inflation fears have been abating, and we could continue to see more of these moves and rotations over the summer. While a strong earnings season should prove a sustaining factor, Q2 is also likely to prove the high-water mark for profit growth in the US, and as is their nature, markets are now looking further over the horizon to what post-normalisation looks like. In the nearer term however, and following its recent sharp move lower on abating inflation expectations around Delta variant concerns and peaking growth, we consider the 10-year yield a little too low, and a bounce back could lend the US dollar some support while also allowing the value and recovery trades to resume (albeit we would be increasingly discerning in favour of the better-quality, more defensive contingent). A higher CPI print for June now has inflation concerns front of mind again, although we expect Fed Chair Jay Powell to remain patient in his testimony before Congress this week as he repeats the view of the Fed that reflationary pressures are transitory. The hawkish communication shift in June has however brought tapering onto the table, and the Jackson Hole central bank symposium in August could bring markets more to digest in this regard. The main risk for markets remains a central bank mistake.

Figure 2: US 10-year yield: testing a key support*

*Source: FactSet; Pictet Trading Strategy; as of 14/7/2021. *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.*

Figure 3: Value stocks have moved in tandem with the US 10-year Treasury yield

Source: FactSet; Pictet Trading Strategy; as of 12.07.2021

Also of note is the brightening picture in Europe. While volatility over the past week or two also resulted in the undoing of the recent spate of European outperformance, the region is behind the US in the recovery cycle and remains attractively valued. While the Fed is starting to talk about tapering, the ECB is also likely to remain accommodative for much longer so to not derail the economic recovery, while NextGenEU funds are also about to be unleashed. Should confidence in the reopening and reflation trades hold, on this basis Europe should present opportunity for equity investors willing to bet on a prolongation of the global economic recovery.

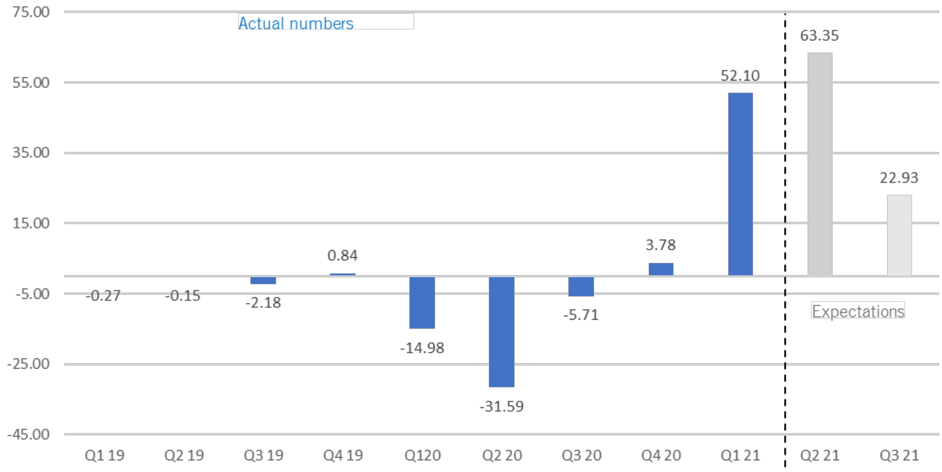
In all therefore, we consider it too soon to revise our bullish medium-term outlook on the reopening trades and value stocks. While it remains a significant concern (and governments continue to communicate caution and impress upon their populations the importance of vaccinations), for so long as Delta (or any other variant) doesn't give cause for national authorities to reverse course aggressively in terms of reopening, it remains our take that another strong earnings season and better services data can help improve the outlook, and that the positive momentum can pick up again in favour of the reflation stocks; financials and energy in particular. On a regional basis this should also prove an opportunity for Europe to outperform the US – or at least catch up. See our latest on this in our recent daily letter on Europe: short-term pain….

So what else have we been talking about?

The Q2 earnings season kicks off this week, and with economic indicators showing signs of peaking (the ISM manufacturing index in particular) one might conclude that EPS could follow. However, we find ourselves in exceptional circumstances, and as we continue to 'normalise' following the exogenous economic shock delivered by Covid-19, there are several reasons to believe that the positive EPS momentum can continue - while better valuations following their recent underperformance could encourage renewed investor interest in cyclicals. Market participants will be scrutinising management guidance this earnings season to gain a richer understanding of where we are in the recovery cycle and for some better visibility on the future trajectory of earnings once this 'normalisation' phase ends.

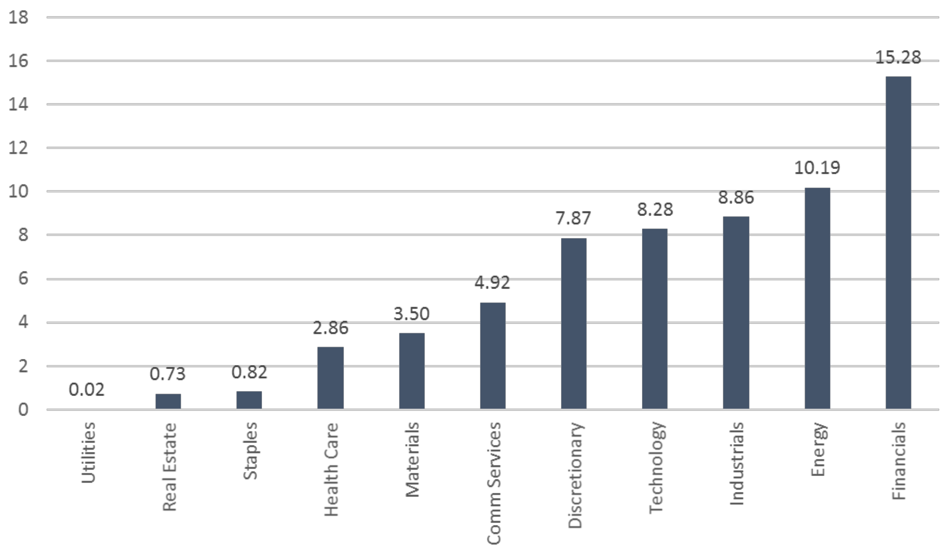
According to FactSet estimates, EPS growth is expected to accelerate from 53% in Q1 to 63% in Q2 (with Financials and energy expected to contribute the most), yet given the propensity for companies to regularly exceed expectations the final growth figure could still be well above current consensus.

Figure 4: S&P500 index: EPS growth YoY %



Source: FactSet; Pictet Trading Strategy; as of 14/7/2021.

Figure 5: Expected contribution to total Q2 21 EPS growth – sector breakdown



Source: FactSet; Pictet Trading Strategy; as of 14/7/2021.

See again here our Q2 earnings preview, and our screening of upcoming reports in the US, Europe and Switzerland can be found here.

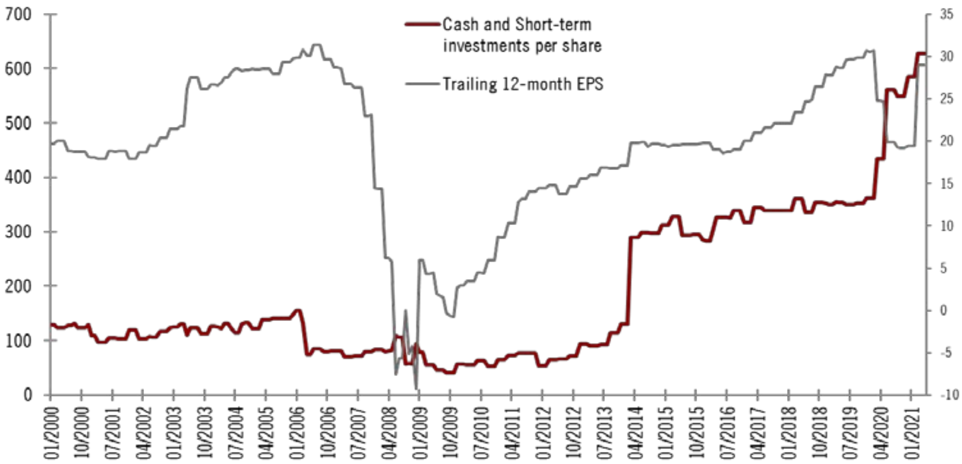
Revisiting Momentum

Given the huge rotation that has characterised the recovery since the March 2020 low, the composition of a classic 12-m lookback momentum portfolio has undergone a seismic change. Moreover, it now offers better diversification in terms of sector composition and less-extreme factor exposure. We have discussed above how we maintain our view that there is more room in the re-opening trade. However, and while the US equity market remains generally well-oriented and continues to break new highs, in light of the more consequential movements still taking place under the surface as a function of the successive rotations between value and growth (and the ongoing lack of visibility around policy), we now think that momentum is worth revisiting as a credible means with which to help navigate this fluctuating market. See our recent study on the evolution of momentum again here or on request and for screenings of names that could be subject to in/exclusion in July rebalancing.

US Banks

Having passed their Fed stress tests, US banks are now at liberty to carry out buyback programmes and dividend payouts. The tests concluded that the even under the most severely adverse hypothetical scenario the banks were able to maintain capital ratios well above the regulatory minimums. Moreover, the current financial environment remains a favourable one for issuing debt to repurchase stocks. Trailing 12-month EPS for the sector is almost back to the pre-crisis levels, and with liquidity and financial conditions returning above pre-crisis levels the improved economic and financial backdrop should bring tailwinds for the sector. So we've been looking at banks again and in our recent letter on the topic here) you will find a screening of those with an estimated buyback yield of more than 3%.

Figure 6: S&P 500 Banks cash and ST investments per share and trailing 12-m EPS

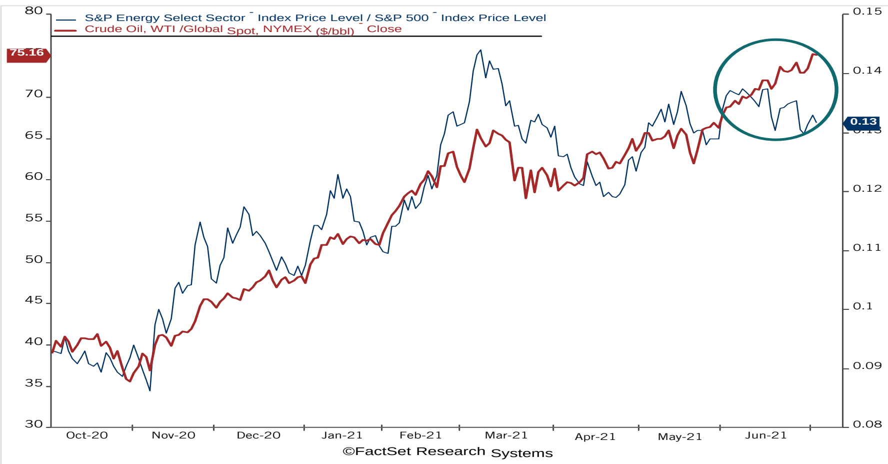


Source: FactSet; Pictet Trading Strategy; as of 20/6/2021.

Energy

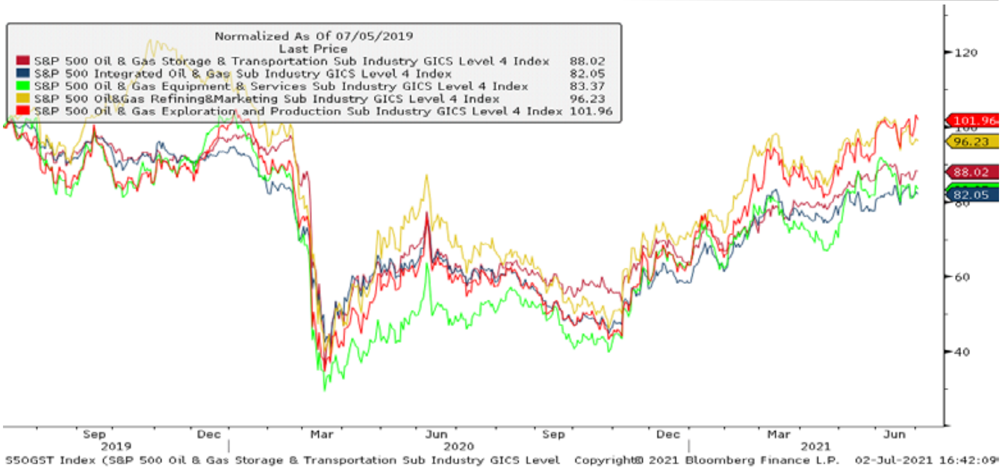
The recent OPEC impasse sent oil on a wild ride, the price of WTI Crude recently spiking above USD77/barrel. Either way, and in spite of the rally in oil, energy stocks have underperforming the broader market, and have lost their traditional correlation with oil. Yet it is a cyclical theme that chimes with the reopening trades, and the technicals also suggest strength is returning to the energy sector - and that a catch-up period may now have begun. Furthermore, and on the basis of their greater sensitivity to oil prices, the exploration & production and refining & marketing sectors should continue to outperform the rest of the sector if WTI confirms its bullish breakout. So we have been seeking out names within the sector that are sporting a strong profile according to our own in house quantitative screening process – see our recent letter again here or on request.

Figure 7: WTI crude oil vs the ratio between S&P500 energy and S&P 500 index*



Source: FactSet; Pictet Trading Strategy; as of 05/7/2021.

Figure 8: Exploration & production and refining & marketing

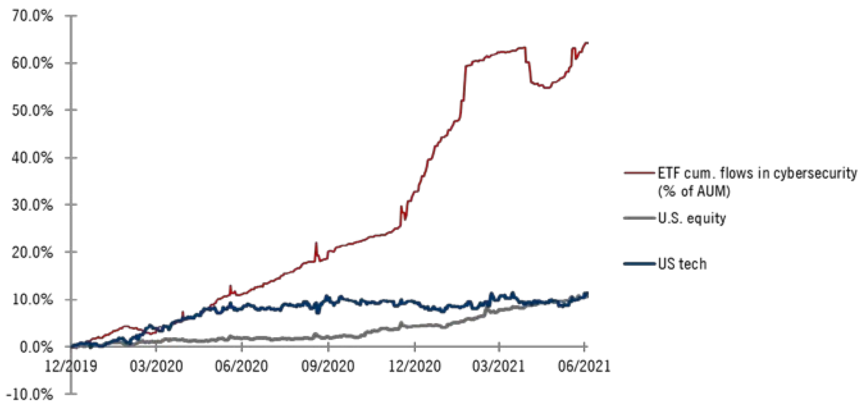


Source: Bloomberg Finance L.P; Pictet Trading Strategy; as of 027/2021.

Looking for a growth theme? Consider cybersecurity

Cybersecurity has been identified as a key global threat at the highest level, and governments and companies are now pouring investment into the same to guard against such risk and shore up vulnerabilities in the ever-evolving technologies upon which we have all become so dependent. Since the pandemic began, the number of cyber-attacks has been accelerating, and with it investment in the cybersecurity space - lending a boost to this long-term growth theme. We've been screening for large-caps most exposed to it see more in our recent letter on this topic here or on request.

Figure 9: ETF cumulative flows in cybersecurity ETFs, (% of AUM)

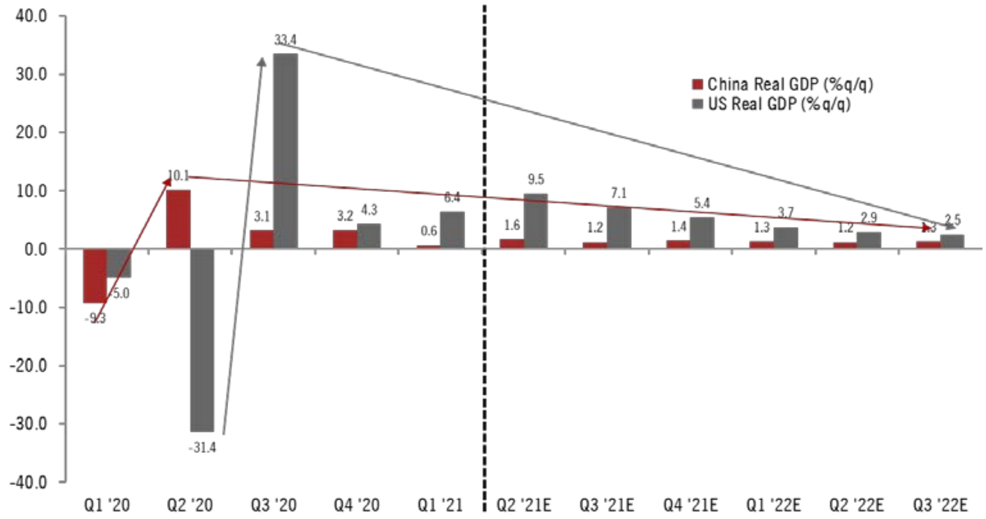


Source: Bloomberg Finance L.P; Pictet Trading Strategy; as of 027/2021.

China's tech crackdown

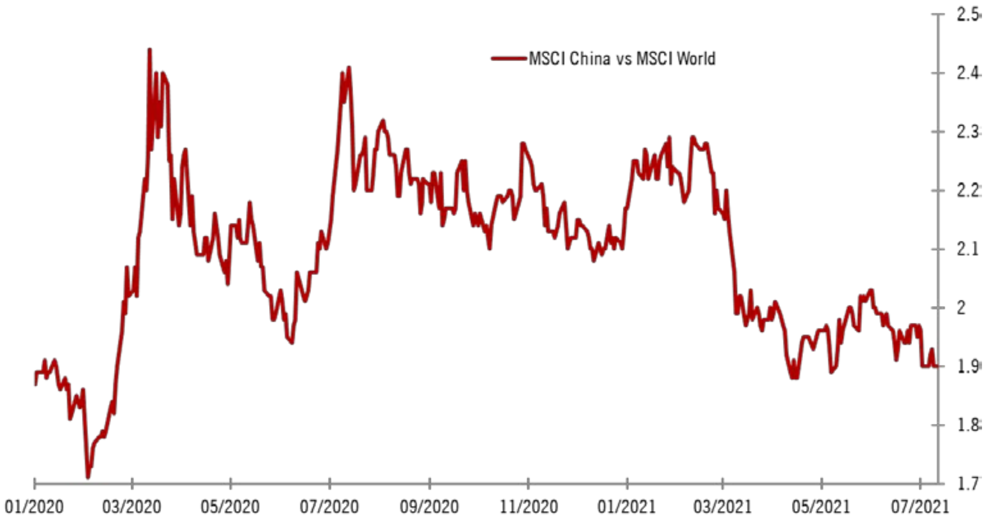
Also on the topic of cybersecurity, the recent crackdown by the Chinese cyberspace regulator on ride-hailer app Didi when it was still fresh from its US listing sent a clear signal of China's intention to crack down on the collection of data by its tech giants, and moreover to prevent such data from falling into the hands of foreign entities. Like much of the world the country is grappling with how best to manage the digital space and the risks and opportunities that lie within it. It also woke concerns over other Chinese tech ADRs as it remains to be seen how this more assertive approach shakes out (and how contagious the fall out to other foreign-listed firms). Having been first out of the gate in terms of its Covid-19 economic recovery, the economic data there is now slowing, and the PBoC's latest RRR cut reflects intention to increase liquidity to support the economy. While we still expect China's economy to continue to grow at a strong pace (9.2% in 2021), the momentum could continue to fade while uncertainties around Chinese tech companies on data management, regulation and overseas listings could prove another headwind for Chinese markets, and so while we do not have a bearish stance on the Chinese market on the longer-term, we would advocate a prudent approach in the near term. See our recent update again here or on request.

Figure 10: Chinese and US expected GDP (QoQ, %):



Source: FactSet; Pictet Trading Strategy; as of 13/7/2021.

Figure 11: MSCI China's 2020 outperformance has been falling over time in 2021

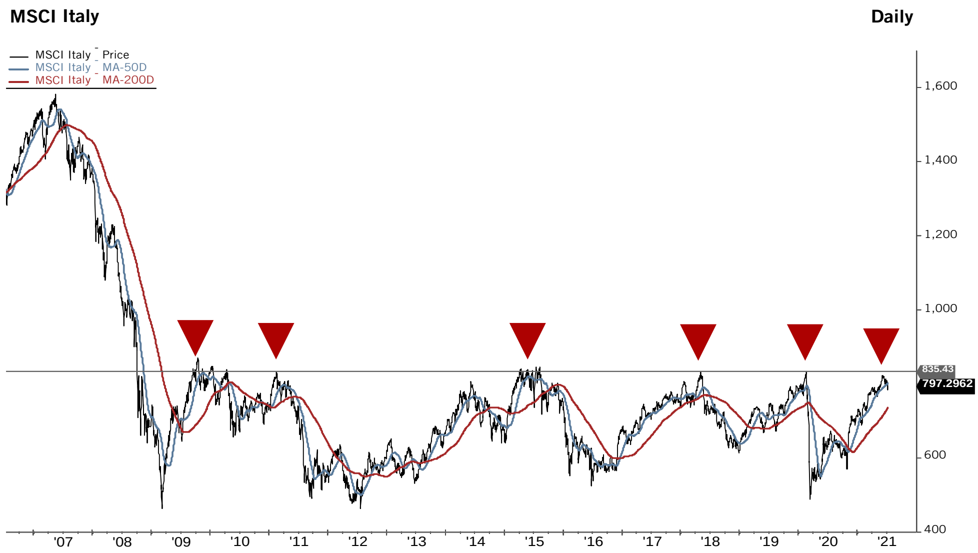


Source: FactSet; Pictet Trading Strategy; as of 13/7/2021.

Forza Italia!

At the risk of laying it on thick, it would be a shame to close this publication without returning to the football reference: the Italian win at Wembley last weekend allowed us in our latest *'Technical View'* to draw a delightful parallel between Italian team manager Roberto Mancini's ability to nurture a disparate team of relatively young and unknown players to glory, and the hopes currently pinned on Mario Draghi's shoulders to pull the country through the crisis and successfully implement proposed reforms. Whether the Italian equity index can benefit from a boost of post-win euphoria remains to be seen, however given its more value-oriented profile (or what we like to think of as 'value at reasonable growth'); should (as we expect) recent recovery concerns dissipate and allow positive momentum to resume as evidence of the recovery in services begin to appear in economic reports and investors gain confidence in Draghi; the Italian index might finally (and after five attempts) manage a successful breakout – which would be a significant breakthrough in its lagging recovery from the GFC. See the letter again here or on request for the technical picture and a screening of Italy's "star players".

Figure 12: MSCI Italy: will the sixth breakout attempt prove the winner?



*Source: FactSet; Pictet Trading Strategy; as of 14/7/2021. *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 latest iteration of our 'core convictions' table is below, and we wish all of our readers a healthy and restful summer break.

Figure 13: PTS core views Summer 2021*

	US	Europe	Japan	EM
Equities	*S&P500: Range trading over the summer (4'200-4'500) **Drivers: vaccine ,"Fed put", 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 risky assets**	*Nikkei 30'000 a psychological level, next support the 200-DMA at around 27'500; **Drivers: weak virus second wave, exposure to China, Olympics and BoJ still accommodative**	*Positive EM globally with rising commodity prices, and hopes of a synchronized economic recovery. **But China slowing down**
Equity themes	Recovery stocks, banks and energy, green technology and infrastructure themes. Unloved defensive, Staples and Healthcare	Green stocks, unloved defensive. Fiscal stimulus and recovery plans to support infrastructure sectors. Reopening stocks.	Stocks with solid earnings momentum, quality exporters and manufacturers.	Themes linked to the global economic recovery. Consumer, but also manufacturing themes.
FX	87 as the closest support, Rebound within a bearish trend.	*EURUSD: 1.17 has become a support next resistance at 1.20 and then 1.2350.	USDJPY: 113 the key resistance; 109 the closest support	Favour cyclical and commodity-driven currencies over more defensive ones
FI	*US 10-year rising on reflation trade and economic recovery. 1.30% the support and 1.54% the next resistance.	*GER 10-year yields on a key level at around -0.2%. Next psychological hurdle at 0%;		
WTI & Gold	*Crude oil → our medium-term range is 70-79. Positive on global commodities, especially industrial metals			
	*Gold → Next supports at 1'765 and 1'677. Next resistances at 1'830 and 1'920.			

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 14/07/2021 *The target prices presented are based upon chart analysis. This is not the product of any Pictet financial research unit.*

Figure 14: PTS EU long-only selection as at 14.7. 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
gle fp	SOCIETE GENERALE SA	Banks	74	88	38	73	49	52	92	56	73	67
uhr sw	SWATCH GROUP AG/THE-BR	Textiles, Apparel & Luxury Goo	64	83	50	52	53	76	94	67	75	66
rdsa na	ROYAL DUTCH SHELL PLC-A SHS	Oil, Gas & Consumable Fuels	71	85	46	77	49	61	68	53	35	66
tte fp	TOTALENERGIES SE	Oil, Gas & Consumable Fuels	72	85	49	74	48	64	31	50	26	62
pum gy	PUMA SE	Textiles, Apparel & Luxury Goo	61	80	77	22	58	56	87	56	66	60
azn ln	ASTRAZENECA PLC	Pharmaceuticals	58	61	73	36	61	44	85	63	19	59
sika sw	SIKA AG-REG	Chemicals	64	57	66	20	56	56	84	74	78	58
holn sw	HOLCIM LTD	Construction Materials	55	61	44	61	54	55	79	50	46	57
bnp fp	BNP PARIBAS	Banks	51	56	32	62	49	58	90	64	56	57
stla im	STELLANTIS NV	Automobiles	58	81	54	65	55	49	52	35	93	57
amun fp	AMUNDI SA	Capital Markets	58	56	70	56	55	65	37	48	23	56
adyen na	ADYEN NV	IT Services	73	60	87	12	51	69	57	34	68	56
jd/ ln	JD SPORTS FASHION PLC	Specialty Retail	58	57	83	43	46	45	80	37	64	56
kori fp	KORIAN	Health Care Providers & Servic	52	66	64	55	42	27	81	64	21	56
engi fp	ENGIE	Multi-Utilities	58	60	30	71	43	47	52	66	21	55
ker fp	KERING	Textiles, Apparel & Luxury Goo	69	67	63	25	54	59	41	52	65	55
srt3 gy	SARTORIUS AG-VORZUG	Health Care Equipment & Suppli	75	69	90	10	48	37	57	34	85	54
viv fp	VIVENDI	Entertainment	46	44	57	50	46	44	79	72	40	53
air fp	AIRBUS SE	Aerospace & Defense	63	62	32	35	56	50	82	40	76	53
isp im	INTESA SANPAOLO	Banks	58	64	28	62	54	28	67	47	48	53
dpw gy	DEUTSCHE POST AG-REG	Air Freight & Logistics	58	64	60	53	57	52	21	43	81	52
alc sw	ALCON INC	Health Care Equipment & Suppli	62	71	51	32	47	50	48	50	40	52
dg fp	VINCI SA	Construction & Engineering	51	62	56	53	49	47	40	47	28	51
vow3 gy	VOLKSWAGEN AG-PREF	Automobiles	43	49	46	76	46	49	50	45	67	51
stm im	STMICROELECTRONICS NV	Semiconductors & Semiconductor	57	44	63	32	64	66	15	62	49	50
cs fp	AXA SA	Insurance	35	47	20	77	46	60	56	72	35	50
CCH LN	COCA-COLA HBC AG-DI	Beverages	48	46	56	45	55	45	60	41	50	49
sie gy	SIEMENS AG-REG	Industrial Conglomerates	49	59	42	41	54	57	39	43	56	48
nesn sw	NESTLE SA-REG	Food Products	46	36	38	33	51	63	65	54	29	47
pst im	POSTE ITALIANE SPA	Insurance	49	34	49	66	41	19	50	54	60	47
ericb ss	ERICSSON LM-B SHS	Communications Equipment	41	49	33	49	62	53	50	44	47	47
fgr fp	EIFFAGE	Construction & Engineering	47	54	48	68	45	34	8	42	24	45
lonn sw	LONZA GROUP AG-REG	Life Sciences Tools & Services	48	37	42	14	56	54	76	37	49	44
bn fp	DANONE	Food Products	22	19	36	56	48	48	85	68	17	44
rwe gy	RWE AG	Multi-Utilities	16	23	59	50	64	61	49	57	19	43
dte gy	DEUTSCHE TELEKOM AG-REG	Diversified Telecommunication	29	24	51	67	31	34	51	44	39	41
ezj ln	EASYJET PLC	Airlines	33	35	18	38	39	25	4	62	48	32

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 14/07/2021.
**Criteria are explained in the endnotes.*

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 14: PTS US long-only selection as at 14.7. 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
goog us	ALPHABET INC-CL C	Interactive Media & Services	74	67	81	22	59	88	62	45	79	62
lng us	CHENIERE ENERGY INC	Oil, Gas & Consumable Fuels	73	90	83	51	42	17	80	41	81	61
qcom us	QUALCOMM INC	Semiconductors & Semiconductor	66	65	64	39	59	56	87	28	68	58
amzn us	AMAZON.COM INC	Internet & Direct Marketing Re	70	54	75	28	58	68	65	38	42	58
c us	CITIGROUP INC	Banks	56	60	33	64	58	65	64	56	54	57
fb us	FACEBOOK INC-CLASS A	Interactive Media & Services	70	59	85	29	54	70	48	32	63	57
mu us	MICRON TECHNOLOGY INC	Semiconductors & Semiconductor	66	83	68	37	45	66	33	40	73	56
nflx us	NETFLIX INC	Entertainment	74	61	69	28	57	36	73	32	26	56
fcx us	FREEPORT-MCMORAN INC	Metals & Mining	60	81	56	36	55	45	67	42	98	55
lulu us	LULULEMON ATHLETICA INC	Textiles, Apparel & Luxury Goo	70	59	84	9	57	65	66	30	42	55
bac us	BANK OF AMERICA CORP	Banks	63	61	46	46	57	76	38	40	81	54
v us	VISA INC-CLASS A SHARES	IT Services	59	46	62	16	66	70	47	74	42	54
aapl us	APPLE INC	Technology Hardware, Storage &	67	62	69	15	67	62	58	26	70	53
AZO us	AUTOZONE INC	Specialty Retail	63	55	70	40	64	50	9	66	56	53
blk us	BLACKROCK INC	Capital Markets	52	49	74	28	57	73	39	65	76	53
usb us	US BANCORP	Banks	58	68	36	54	58	80	25	33	72	53
jnj us	JOHNSON & JOHNSON	Pharmaceuticals	51	47	54	43	62	72	64	28	37	52
fdx us	FEDEX CORP	Air Freight & Logistics	52	58	70	53	48	42	32	54	86	51
cb us	CHUBB LTD	Insurance	51	53	48	60	56	63	46	26	47	51
msft us	MICROSOFT CORP	Software	57	46	69	15	61	75	61	31	53	51
jci us	JOHNSON CONTROLS INTERNATION	Building Products	46	53	36	39	53	53	98	35	90	50
clh us	CLEAN HARBORS INC	Commercial Services & Supplies	59	52	48	36	44	34	79	39	74	50
pypl us	PAYPAL HOLDINGS INC	IT Services	63	48	77	6	63	65	44	29	78	49
bmy us	BRISTOL-MYERS SQUIBB CO	Pharmaceuticals	38	38	55	66	61	53	74	16	29	49
zts us	ZOETIS INC	Pharmaceuticals	60	44	73	18	61	43	52	41	60	49
dri us	DARDEN RESTAURANTS INC	Hotels, Restaurants & Leisure	63	75	58	37	59	39	9	38	90	49
atvi us	ACTIVISION BLIZZARD INC	Entertainment	55	40	52	28	66	75	29	38	37	48
eqix us	EQUINIX INC	Equity Real Estate Investment	44	35	59	23	35	34	98	74	33	48
mdlz us	MONDELEZ INTERNATIONAL INC-A	Food Products	45	41	42	39	52	41	87	27	41	46
wdc us	WESTERN DIGITAL CORP	Technology Hardware, Storage &	62	74	40	41	36	34	12	33	78	45
lvs us	LAS VEGAS SANDS CORP	Hotels, Restaurants & Leisure	50	68	47	31	24	26	78	30	31	44
uber us	UBER TECHNOLOGIES INC	Road & Rail	49	53	60	25	36	26	74	31	66	44
abt us	ABBOTT LABORATORIES	Health Care Equipment & Suppli	46	30	52	29	56	66	37	40	49	44
ko us	COCA-COLA CO/THE	Beverages	50	42	40	37	60	50	40	26	39	44
alk us	ALASKA AIR GROUP INC	Airlines	53	67	54	44	39	27	14	36	73	44
nee us	NEXTERA ENERGY INC	Electric Utilities	28	36	35	25	42	40	83	36	40	38
fis us	FIDELITY NATIONAL INFO SERV	IT Services	36	46	50	38	36	48	18	12	25	36

Source: FactSet; Markit, Bloomberg Finance L.P.; Copyright © 2020 S&P Global Market Intelligence; Pictet Trading Strategy; as of 14/07/2021.
**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.

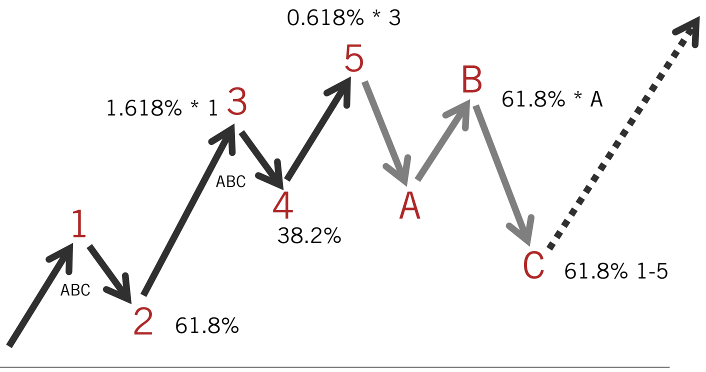
The Regional MATRIX grades

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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