

CIO Viewpoint

Ten Investment Convictions for 2022

Investment Solutions

16 November 2021

Entering the third year of a global pandemic, developed economies have recovered rapidly. We are now approaching the second half of the economic cycle, which may prove harder as monetary and fiscal policies normalise. However, there is no economic template for a pandemic recovery. We expect more volatility in line with the risks of monetary and fiscal policy miss-steps.

The recovery is still incomplete and the pace of economic expansion will inevitably slow from its exceptional highs. Our outlook for global growth remains constructive. Unless we experience a new wave of vaccine resistant Covid infections, or major geopolitical turmoil, the risk of a pronounced global economic slowdown in 2022 looks limited.

In 2021, inflation became a key concern. Next year, we expect inflation drivers to shift from the one-off 'base' adjustments reflecting supply bottlenecks and pent-up consumer demand, to more typical mid-cycle rises in rents and wages. Since these new pressures should prove longer lasting, we expect the US Federal Reserve and European Central Bank to respond by raising interest rates in a series of steps, starting in 2023.

By then, this unusually rapid economic cycle will be reaching a later phase. Monetary policy normalisation and scaled-back fiscal spending will leave less margin for errors, and markets will price risk accordingly.

Geopolitical dynamics may also play a role in market volatility. These may include strains between China and the US, the US mid-term elections, and nuclear relations with Iran. In Europe, tensions over the UK's relationship with the EU will roll on and France holds presidential elections in April.

Along with more volatility, the process will create opportunities for investors to differentiate between asset classes, sectors and regions. Active management is key to selecting appropriate risk exposures in portfolios. We believe that sustainability will drive investment performance, and continue to prefer companies whose business models contribute to the transition to net-zero.

In this publication, we outline our ten strongest convictions for this unique investment cycle.



Stéphane Monier
Chief Investment Officer, Lombard Odier Private Bank

Key events in 2022

- **4-20 February:**
Beijing, Winter Olympics
- **10 April/24 April:**
First and second rounds of
French Presidential election
- **2 October:**
Brazil holds election for President,
and Chamber of Deputies and Senate
- **30-31 October:**
G20 summit in Bali
- **October/November:**
Chinese Communist Party holds
its 20th National Party Congress
- **8 November:**
US mid-term elections,
House of Representative and Senate
- **7-18 November:**
UN Climate Change Conference
(COP27), Sharm El Sheikh, Egypt

Important information: Please read the important information at the end of the document.

Weekly publication of Lombard Odier – Contacts: Investment Solutions, investment-solutions@lombardodier.com

Data as of 16 November 2021 unless otherwise stated.

Lombard Odier · CIO Viewpoint · 16 November 2021



1. Start rebuilding cash buffers in portfolios

Current markets are constructive for investment portfolios, but this cycle is evolving fast. High but slowing growth, along with gradual fiscal and monetary tightening, means that volatility should rise in 2022, both in frequency and in the range of potential market declines. With elevated valuations across most asset classes, gradually rebuilding a portfolio's cash buffer will help investors pursue opportunities when sell-offs eventually occur.



2. Further reduce exposure to high-grade bonds

Developed market government bonds are a good candidate to fund an increase in a portfolio's cash. Inflation is proving higher than expected and central banks are normalising monetary policy while governments' fiscal plans mean that large bond issuances are still needed to fund deficits. Yields remain low or negative, and do not compensate for potential losses from increasing rates. Investment grade (IG) bonds in developed markets are only marginally better. While default levels are low and demand for IG bonds remains, valuations look high with spreads below their long-term averages and little room to fall. This offers little incentive for investors



3. Sound earnings continue to make equities attractive

For the first time, companies have posted double-digit, earnings-per-share surprises over six consecutive quarters. Earnings are strong enough versus valuations to reward equity investors with a premium slightly above their 20-year average. Valuations remain high across all markets but historically are a poor predictor of short-term performance. As the economic cycle advances, the momentum in improving earnings revisions will slow, but for now, the recovery is still incomplete and favours risk assets. Regionally, we like pan-European names, where both earnings and valuations have room to catch up with global equity markets.



4. Keep a bias towards value and cyclical stocks

At this phase of the economic cycle, business trends should support value stocks such as energy, financials and automakers, as well as cyclical names in the industrial and materials sectors. These equity styles, plus small capitalisation stocks remain attractively valued, and we believe that still-strong global growth means that they may outperform.

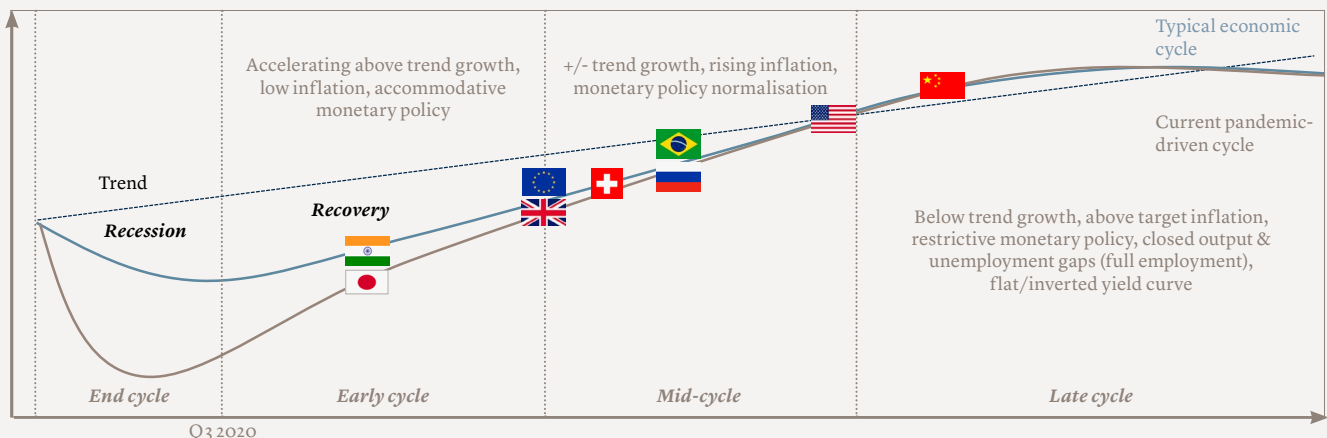


5. Tilt emerging-hard-currency overweight towards Asia

Emerging market hard currency bonds provide an opportunity to earn carry yield in fixed income. Overall, valuations are less stretched than for other credit segments, with spreads just wider than historical averages and good support from fundamentals in most emerging economies. Chinese real estate pressures have recently been a drag on the segment. While there is still uncertainty on the outcome, we believe that current valuations already largely discount many of the potentially negative scenarios. We tip our allocation towards Asia as we build exposure in the region's dislocated credit.

The cycle moves on: from early recovery to mid-point

Transition is unusually rapid, but the end of the cycle is still years away



Source: Lombard Odier



6. Factor-in a stronger dollar and a weaker euro

We expect a stronger US dollar and a weaker euro. The dollar should strengthen as US monetary policy becomes less accommodative. We also pencil-in euro weakness against several currencies, given the eurozone's weakening balance of payment flows and because the European Central Bank is likely to normalise monetary policy more slowly than others. We see the euro-US dollar falling to 1.12 in the first half of next year, and the euro-Swiss franc trading between 1.05 and 1.08.



7. Take opportunities to cut gold exposure

High inflation may prevent a sharp downturn in gold prices during the first quarter of 2022, but once base effects are absorbed, slower inflation will allow real rates to normalise. This would weigh on low-yielding assets, including gold. While gold prices may stay at current levels for a couple of months, into the second quarter of 2022 we believe that prices will trade lower, to around USD 1,600 per ounce. For investors concerned about inflation, we maintain a preference for broad commodity indices and more specifically, industrial metals which are the most likely to benefit from decarbonisation and infrastructure programmes.



8. Favour tactical and active over passive investment management

A key theme for next year is growing divergence in monetary policy. One implication is that macro managers in hedge funds should benefit, given their potential to exploit rising interest rates, higher market volatility and generally broader differentiation across assets' returns. These funds' historically low correlation to other, more traditional, asset classes may prove a portfolio diversification bonus in times of market stress. Similarly, sustainability trends will continue to create opportunities for skilled active managers.



9. Volatility to increase, use it to your advantage

As markets normalise, we expect more frequent sell-offs and more subdued returns. That means investors need a wider set of portfolio strategies. With the right approach, volatility can help investors to manage portfolio risk as well as generate income as an alternative to traditional bond coupons. We see an opportunity to earn a premium from selling call options on the S&P 500, capitalising on high US market volatility.

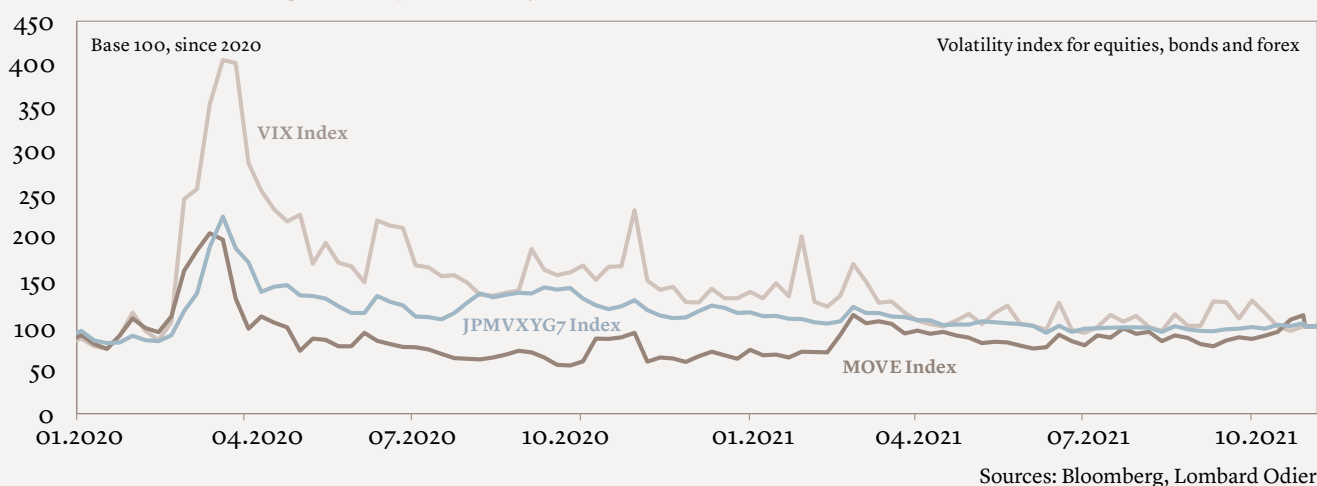


10. Focus on sustainability as driver of returns

With the COP26 climate summit's commitments and current energy crisis, financial flows continue to support sustainable investments. This trend is now firmly established. We believe that sustainability is a key driver of financial performance in selecting investment opportunities. Conversely, any failure to address sustainability questions will create sources of investment risk. Companies highly exposed to environmental risk and unable to adapt face increasing instability. We favour companies whose business models contribute to the transition to net-zero, either by providing solutions or by implementing serious changes to their activities that help to curb the environmental threat.

Volatility is set to increase, use it to your advantage

As valuations reach record highs, we expect volatility to rise



Important information

This is a marketing communication issued by Bank Lombard Odier & Co Ltd (hereinafter "Lombard Odier"). It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful to address such a marketing communication. This marketing communication is provided for information purposes only. It does not constitute an offer or a recommendation to subscribe, purchase, sell or hold any security or financial instrument. It contains the opinions of Lombard Odier, as at the date of issue. **These opinions and the information contained herein do not take into account an individual's specific circumstances, objectives, or needs. No representation is made that any investment or strategy is suitable or appropriate to individual circumstances or that any investment or strategy constitutes personalised investment advice to any investor.** Each investor must make his/her own independent decisions regarding any securities or financial instruments mentioned herein. Tax treatment depends on the individual circumstances of each person and may be subject to change in the future. Lombard Odier does not provide tax advice. Therefore, you must verify the above and all other information provided in the marketing communication or otherwise review it with your external tax advisors. Some investment products and services, including custody, may be subject to legal restrictions or may not be available worldwide on an unrestricted basis. The information and analysis contained herein are based on sources considered reliable. Lombard Odier uses its best effort to ensure the timeliness, accuracy, and comprehensiveness of the information contained in this marketing communication. Nevertheless, all information and opinions as well as the prices, market valuations and calculations indicated herein may change without notice.

Investments are subject to a variety of risks. Before entering into any transaction, an investor should consult his/her investment advisor and, where necessary, obtain independent professional advice in respect of risks, as well as any legal, regulatory, credit, tax, and accounting consequences. The investments mentioned in this marketing communication may carry risks that are difficult to quantify and integrate into an investment assessment. In general, products such as equities, bonds, securities lending, forex, or money market instruments bear risks, which are higher in the case of derivative, structured, and private equity products; these are aimed solely at investors who are able to understand their nature and characteristics and to bear their associated risks. On request, Lombard Odier will be pleased to provide investors with more detailed information concerning risks associated with given instruments. **Past performance is no guarantee of current or future returns, and the investor may receive back less than he/she invested.** The value of any investment in a currency other than the base currency of a portfolio is subject to the foreign exchange rates. Exchange rates may fluctuate and adversely affect the value of the investment when it is realised and converted back into the investor's base currency. The liquidity of an investment is subject to supply and demand. Some products may not have a well-established secondary market or in extreme market conditions may be difficult to value, resulting in price volatility and making it difficult to obtain a price to dispose of the asset. **This marketing communication is not issued by the organisational unit of the Bank Lombard Odier & Co Ltd responsible for the production of financial research**, as defined under the Swiss Bankers Association Directives on the Independence of Financial Research. Consequently, it is not prepared in accordance with the provisions of the referred Directives or any other legal requirements designed to promote the independence of the production of financial research. Opinions expressed in this marketing communication may differ from the opinions expressed by other divisions of Lombard Odier, including Bank Lombard Odier & Co Ltd's Research Department. Nevertheless, if opinions from financial analysts belonging to the Research Department are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any given instruments. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. Lombard Odier may hold positions in securities as referred to in this marketing communication for and on behalf of its clients and/or such securities may be included in the portfolios of investment funds as managed by Lombard Odier or affiliated Group companies. Lombard Odier recognises that conflicts of interest may exist as a consequence of the distribution of financial instruments or products issued and/or managed by entities belonging to the Lombard Odier Group. Lombard Odier has a Conflict of Interests policy to identify and manage such conflicts of interest.

European Union Members: This marketing communication has been approved for use by Lombard Odier (Europe) S.A. in Luxembourg and by each of its branches operating in the following territories: **Belgium:** Lombard Odier (Europe) S.A. Luxembourg · Belgium branch; **France:** Lombard Odier (Europe) S.A. · Succursale en France; **Italy:** Lombard Odier (Europe) S.A. · Italian Branch; **Spain:** Lombard Odier (Europe) S.A. · Sucursal en España. Lombard Odier (Europe) S.A. is a credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. In addition, this marketing communication has also been approved for use by the following entity domiciled within the European Union: **Spain:** Lombard Odier Gestión (España) S.G.I.I.C., S.A.U., an investment management company authorised and regulated by the Comisión Nacional del Mercado de Valores (CNMV), Spain.

Hong Kong: This marketing communication has been approved for use by Lombard Odier (Hong Kong) Limited, a licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong for the general information of professional investors and other persons in accordance with the Securities and Futures Ordinance (Chapter 571) of the laws of Hong Kong.

Singapore: This marketing communication has been approved for use by Lombard Odier (Singapore) Ltd for the general information of accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the Securities and Futures Act (Chapter 289). Recipients in Singapore should contact Lombard Odier (Singapore) Ltd, an exempt financial adviser under the Financial Advisers Act (Chapter 110) and a merchant bank regulated and supervised by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with this marketing communication. The recipients of this marketing communication represent and warrant that they are accredited investors and other persons as defined in the Securities and Futures Act (Chapter 289). This advertisement has not been reviewed by the Monetary Authority of Singapore.

Panama: This marketing communication has been approved for use in Panamá by Lombard Odier (Panamá) Inc., an entity authorised and regulated by the Superintendencia del Mercado de Valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

Israel: This marketing communication has been approved for use in Israel by the Israel Representative Office of Bank Lombard Odier & Co Ltd, an entity not supervised by the Supervisor of Banks in the Bank of Israel, but by the Swiss Financial Market Supervisory Authority, which supervises the activities of Bank Lombard Odier & Co Ltd.

South Africa: This marketing communication has been approved for use in South Africa by the South Africa Representative Office of Bank Lombard Odier & Co Ltd, an authorised financial services provider Registration number 48505.

Switzerland: This marketing communication has been approved for use in Switzerland by Bank Lombard Odier & Co Ltd Geneva, a bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

United Kingdom: This marketing communication has been approved for use in the United Kingdom by Lombard Odier (Europe) S.A. – UK Branch, a bank authorised and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") in Luxembourg and authorised in the UK by the Prudential Regulation Authority ("PRA"). Subject to regulation by the Financial Conduct Authority ("FCA") and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. **Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.**

United States: Neither this document nor any copy thereof may be sent to, taken into, or distributed in the United States of America, any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a United States Person. For this purpose, the term "United States Person" shall mean any citizen, national or resident of the United States of America, partnership organised or existing in any state, territory or possession of the United States of America, a corporation organised under the laws of the United States or of any state, territory or possession thereof, or any estate or trust that is subject to United States Federal income tax regardless of the source of its income.

This marketing communication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

Data protection: You may be receiving this communication because you have provided us with your contact details. If this is the case, note that we may process your personal data for direct marketing purposes. If you wish to object to this processing, please address your objection to the Group's Data Protection Officer: Bank Lombard Odier & Co Ltd, Group Data Protection Officer, 11, Rue de la Corraterie, 1204 Geneva, Switzerland. E-Mail: group-dataprotection@lombardodier.com. For more information on Lombard Odier's data protection policy, please refer to www.lombardodier.com/privacy-policy.

© 2021 Bank Lombard Odier & Co Ltd – all rights reserved. Ref. LOCH/LOESA/LOASIA-MWNPR-en-092021.

SWITZERLAND

GENEVA

Bank Lombard Odier & Co Ltd¹

Rue de la Corraiterie 11 · 1204 Genève · Suisse
geneva@lombardodier.com

Lombard Odier Asset Management (Switzerland) SA

Avenue des Morgines 6 · 1213 Petit-Lancy · Suisse
Support-Client-LOIM@lombardodier.com
Management Company regulated by the FINMA.

FRIBOURG

Banque Lombard Odier & Cie SA · Bureau de Fribourg¹

Rue de la Banque 3 · 1700 Fribourg · Suisse
fribourg@lombardodier.com

LAUSANNE

Bank Lombard Odier & Co Ltd¹

Place St-François 11 · 1003 Lausanne · Suisse
lausanne@lombardodier.com

VEVEY

Banque Lombard Odier & Cie SA · Agence de Vevey¹

Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse
vevey@lombardodier.com

ZURICH

Bank Lombard Odier & Co Ltd¹

Utoschloss · Utoquai 29-31 · 8008 Zürich · Schweiz
zurich@lombardodier.com

EUROPE

BRUSSELS

Lombard Odier (Europe) S.A. Luxembourg · Belgium branch²

Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
brussels@lombardodier.com
Credit institution supervised in Belgium by the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA).

LONDON

Lombard Odier (Europe) S.A. · UK Branch²

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
london@lombardodier.com

The Bank is authorised in the UK by the Prudential Regulation Authority (PRA). Subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the Prudential Regulation Authority. Financial Services Firm Reference Number 597896. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available from us on request.

Lombard Odier Asset Management (Europe) Limited

Queensberry House · 3 Old Burlington Street · London
W1S 3AB · United Kingdom
london@lombardodier.com

Investment firm authorised and regulated by the Financial Conduct Authority (FCA register No.515393).

LUXEMBOURG

Lombard Odier (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com
Credit institution authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Lombard Odier Funds (Europe) S.A.

291, route d'Arlon · 1150 · Luxembourg · Luxembourg
luxembourg@lombardodier.com

MADRID

Lombard Odier (Europe) S.A. · Sucursal en España²

Paseo de la Castellana 66 · 4^a Pl. · 28046 Madrid · España · madrid@lombardodier.com
Credit institution supervised in Spain, by the Banco de España and the Comisión Nacional del Mercado de Valores (CNMV).

Lombard Odier Gestión (España) S.G.I.I.C, S.A.U.

Paseo de la Castellana 66, 4^a Pl. · 28046 Madrid · España · madrid@lombardodier.com
Management Company supervised by the Comisión Nacional del Mercado de Valores (CNMV).

MILAN

Lombard Odier (Europe) S.A. · Succursale in Italia²

Via Santa Margherita 6 · 20121 Milano · Italia
milano-cp@lombardodier.com
Credit institution supervised in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB) and la Banca d'Italia.

MOSCOW

Bank Lombard Odier & Co Ltd · Representative Office Moscow

Letnikovskaya st. 2, bld. 1 · 115114 Moscow · Russian Federation · moscow@lombardodier.com
Under the supervisory authority of the Central Bank of the Russian Federation.

PARIS

Lombard Odier (Europe) S.A. · Succursale en France²

8, rue Royale · 75008 Paris · France. RCS PARIS
B 803 905 157 · paris@lombardodier.com
Credit institution supervised in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities. Business permit No.23/12. Registered in Luxembourg · No.B169 907. Insurance intermediary authorised by the Commissariat aux Assurances (CAA) No.2014 CMO02. The registration with the CAA can be verified at www.orias.fr.

AFRICA | AMERICAS | MIDDLE EAST

ABU-DHABI

Bank Lombard Odier & Co Ltd · Abu Dhabi Global Market Branch

Al Maryah Island · Abu Dhabi Global Market Square · Al Khatem Tower · 8th floor · P.O. Box 764646 · Abu Dhabi · UAE · abudhabi@lombardodier.com
Arranging Deals in Investments · Advising on Investment or Credit · Arranging Credit. Regulated by the ADGM Financial Services Regulatory Authority.

BERMUDA

Lombard Odier Trust (Bermuda) Limited

3rd Floor, Victoria Place · 31 Victoria Street · Hamilton
HM 10 · Bermuda · bermuda@lombardodier.com
Licensed to conduct Trust, Investment and Corporate Service Provider Business by the Bermuda Monetary Authority.

BRASIL

Lombard Odier (Brasil) Consultoria de Valores Mobiliários Ltda.

Avenida 9 de Julho No. 3624, Torre DGN 360, 6^o andar · Jardim Paulista · CEP 01406-000 · São Paulo · Brasil
sao.paulo.office@lombardodier.com
Supervised by the Comissão de Valores Mobiliários of Brazil.

DUBAI

Bank Lombard Odier & Co Ltd · Representative Office Dubai

Conrad Business Tower · 12th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE
dubai@lombardodier.com
Under the supervisory authority of the Central Bank of the UAE.

ISRAEL

Israel Representative Office ·

Bank Lombard Odier & Co Ltd

Alrov Tower 11th floor · 46 Rothschild Blvd. · Tel Aviv
6688312 · Israel · telaviv@lombardodier.com
Not supervised by the Supervisor of Banks in the Bank of Israel, but by Swiss Financial Market Supervisory Authority which supervises the activities of Bank Lombard Odier & Co Ltd.

JOHANNESBURG

South Africa Representative Office ·

Bank Lombard Odier & Co Ltd

4 Sandown Valley Crescent · Sandton · Johannesburg
2196 · South Africa · johannesburg@lombardodier.com
Authorised financial services provider Registration number 48505.

NASSAU

Lombard Odier & Cie (Bahamas) Limited

Lyford Cay House · Western Road · P.O. Box N-4938 · Nassau · Bahamas · nassau@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Securities Commission of the Bahamas.

PANAMA

Lombard Odier & Cie (Bahamas) Limited · Representative Office in Panama

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Central Bank of the Bahamas and the Superintendencia de Bancos de Panamá.

Lombard Odier (Panama) Inc.

Oceania Business Plaza Torre 2000 · Oficina 38-D · Blvd. Pacifica · Urb. Punta Pacifica · Corregimiento de San Francisco · Panamá · panama@lombardodier.com
Supervised by the Superintendencia del Mercado de valores de Panamá. Licensed to operate as an Investment Adviser. Res. SMV No.528-2013.

ASIA - PACIFIC

HONG KONG

Lombard Odier (Hong Kong) Limited

3901, Two Exchange Square · 8 Connaught Place · Central · Hong Kong · hongkong@lombardodier.com
A licensed entity regulated and supervised by the Securities and Futures Commission in Hong Kong.

SINGAPORE

Lombard Odier (Singapore) Ltd.

9 Raffles Place · Republic Plaza #46-02 · Singapore
048619 · singapore@lombardodier.com
A merchant bank regulated and supervised by the Monetary Authority of Singapore.

TOKYO

Lombard Odier Trust (Japan) Limited

Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan · tokyo@lombardodier.com
Regulated and supervised by the Financial Services Agency (FSA) in Japan. It holds a trust business license (FSA No.208) and is registered with Kanto Local Finance Bureau for Financial Instruments Business Operator (No.470).

¹ Private bank and securities firm authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

² Branch of Lombard Odier (Europe) S.A., a credit institution based in Luxembourg, authorised and regulated by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.