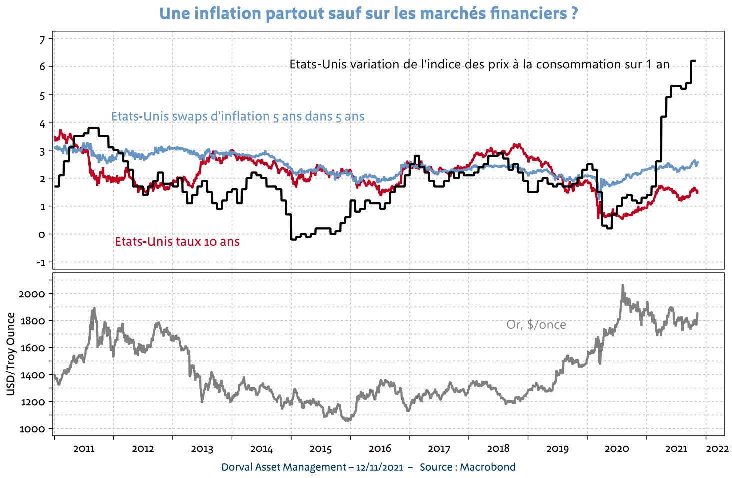
Exposure rates of the Dorval Asset Management Range – 12th November 2021

Dear Clients and Partners,

The latest consumer price index figures are striking, but reveal little of the underlying inflation situation, which hinges particularly on labor market conditions as well as the decentralized process of price setting in the economy. However, the extraordinary events that we have witnessed over the past 18 months – as the world economy was almost entirely shut down and reopened in a very controlled way, followed by record bottlenecks – make it tricky to interpret the forces at work here. To use Clausewitz's expression, we are experiencing something of a fog of war.

Inflation has dominated the narrative and risk scenarios of late, yet it has had a much more innocuous impact on the financial markets for now. With yoy inflation showing a 6.2% surge in the United States (October CPI) and hitting its highest point since the Gulf War in October 1990, US long-term yields are fluctuating around the 1.5% point. Meanwhile long-term inflation projections as reflected by 5-year, 5-year inflation swaps stand at around 2.5%. Even traditional safe haven assets like gold – which has admittedly recovered over recent weeks – is still down YTD, shedding 2.4% to $1,850/oz.

Inflation prevailing across the board, apart from the financial markets?



- *United States yoy consumer price index trends / US 5-year, 5-year inflation swaps / US 10-year yield*
- *Gold, $/oz*

Are we perhaps merely hitting the high point of concern on inflation? Most economists expect inflation to dip in 2022, although uncertainty remains on both the pace and the timing of this trend. Meanwhile, the fundamental question is still the future core inflation pace once the fog of war has cleared.

NEITHER BEAR NOR BULL
BUT CAMELEON

It is still too early to come to a certain economic conclusion, but developed countries' central banks have made their view clear in any case. In light of the low inflation experience over the past 15 years and the ensuing monetary disadvantages, they have opted for the risk of excessive inflation in the future to protect growth in the present, rather than the opposite. However, the process is under way to wind down exceptional monetary programs, as attested by the Fed's tapering.

Looking to China, we see another stress and another peak, as share indices seem to have stabilized over the past several weeks after their very marked underperformance (cf. chart 2). The lion's share of the country's regulation campaign is now complete – social media, video games, fintech, education, casinos, etc. – along with the bulk of its efforts to tidy up the real estate development sector (cf. chart 3). The government is unlikely to turn the credit tap back on, but the peak of anxiety now seems to have passed, while international investors are fairly absent from the Chinese market, thereby offering a little scope for the Chinese markets to climb the wall of worry.

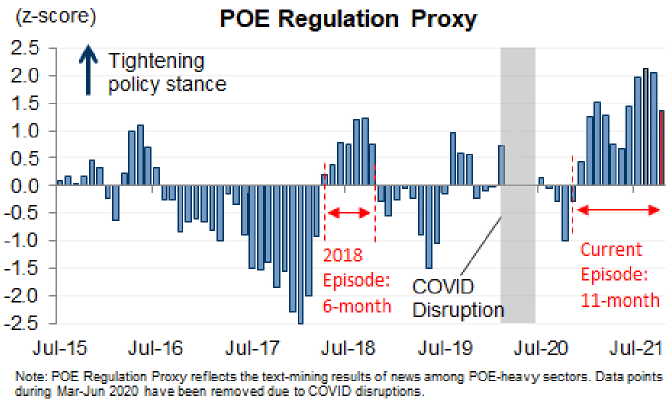
Chinese stock-market indices stabilize

Stabilisation des indices boursiers chinois

Dorval Asset Management – 12/11/2021 – Source : Macrobond

- *Start of policy tightening campaign*

Easing after 11 months in a row of tightening regulation in China



Source: Goldman Sachs

In our international funds, we added futures on HSCEI and FTSE China A indices to our tactical basket in proportions equating to each risk profile.

Our exposure rates are as follows:

- **Dorval Convictions**: our exposure rate is 99%.

DORVAL ASSET MANAGEMENT

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