



FINALISED ON 6 JANUARY 2022

GENERAL FUND

CARDIF LUX VIE



Pandemic woes return - Robust growth - Inflationary pressure and central bank reactions.

When Omicron is synonymous with dislocation and inflation.

Ultimately, the second half of the year turned out more or less as we anticipated when we wrote our publication at the end of June. Indeed, even if

we can expect global growth figures for the year as a whole to be less robust than hoped for before Europe was hit by the fifth wave of coronavirus and subsequent emergence of the Omicron variant, the momentum of the recovery is not in doubt. Leading indicators (PMI, ISM, IFO and consumer surveys) remained on track throughout the fourth quarter, while high vaccination rates in many countries limited the need for the type of strict lockdown experienced in 2020. However, restrictions to tackle Covid and their impact on the economy still differ greatly from one country to another. The fact remains that the leisure and tourism service sectors will be affected again, with no clear sign of when the coronavirus saga and its tiresome repeat scenarios will come to an end.

On a global scale, GDP is expected to have jumped by almost 6% in 2021, compared with a figure of -3.3% in 2020. All areas are experiencing unprecedented growth or at least growth that exceeds their potential. China's growth is expected to be slightly below 8%, while GDP in the USA and Eurozone is likely to have grown by more than 5% (compared with a forecast of around 6% at the beginning of the year). Japan has fared least well out of the developed nations, with anticipated growth of just 1.6%. Focusing on the Eurozone, we see strong disparities according to the respective weighting of different sectors.

The Spanish economy is expected to be well down on average due to its reliance on tourism, while the German economy has been similarly affected by the situation in its car making industry, which has been hampered by difficulties in the supply of semi-conductors.

Significantly lower unemployment rates in the majority of the developed countries compared with the depressed situation in 2020 will obviously be key to sustaining a high level of activity over the medium term. Job creation in the USA in the wake of the reopening of the economy, with an average of over 500k/month in the second half of the year, has brought the jobless figures down to 4.2% with the labour force participation rate rising slightly to 61.8%.

Meanwhile, in the eurozone, the labour market has also significantly improved, with the unemployment rate dipping slightly below pre-pandemic levels. This relatively favourable situation for consumers and businesses, whose savings rates and cash flow have been largely supported by direct aid and government stimulus packages, has created a surge in demand that manufacturers are struggling to cope with, their production and supply chains having been disrupted by Covid. This situation, coupled with the sharp rise in commodity and energy prices (crisis with Russia, restriction of production and impact of the energy transition), has driven up inflation in most developed economies (with the exception of China and Japan), exceeding 2008 levels. By way of illustration, headline inflation came out at +6.8% and +4.9% year-on-year in December in the USA and Eurozone respectively, while core inflation rose back above 2% to reach 2.6% in the Eurozone and almost 5% in the USA.

This rise in the inflation figures to well above the targets set by the main central bankers, except in China and Japan, combined with the relatively good health of the labour market, prompted announcements of a reduction in the quantitative easing measures that had been relaunched in 2020.

The BoE was the first of the major central banks to raise its key rates on 16 December, by just 15 bps, while the Fed decided to reduce its asset purchases more quickly, bringing the end of its programme forward to the end of March. The Fed is also expected to raise its key rates several times as of 2022. The tone adopted by Jerome Powell has remained somewhat cautious, however, so as not to provoke panic among market participants.

For its part, the ECB also confirmed on 16 December that its Pandemic Emergency Purchase Programme (PEPP) would be closed down at the end of March 2022, while increasing its flexibility on reinvestments and the amount of the traditional purchase programme until the end of 2022 in order to avoid a massive widening of the debt spreads of the states with the worst public finances. It has also put off the idea of raising its key rates as early as 2022, conscious of the monetary policy mistake of June 2008 and pointing to the likely transitory effect of inflationary pressures in the Eurozone. Elsewhere in the world, many other institutions are also starting to raise their key rates or to be more restrictive in the fight against inflation but also in order to limit how far their currencies fall in the case of some emerging markets such as Brazil. Only Recep Tayyip Erdogan's Turkey has refused to join in, watching his currency fall to a new low against the dollar.

Despite the current uncertainties around the pandemic in some sectors, the economies of the developed countries are now likely to be able to function properly and benefit from the momentum generated by a range of stimulus packages and consumer support measures. Against this backdrop, it is likely that 2022 growth, after a difficult start, could exceed 4% globally, with Chinese and US growth expected to lie between 4 and 5% and Eurozone GDP expansion likely to be close to 4%.

In addition to the risk of a new coronavirus variant that could not be controlled by vaccines, this relatively optimistic view may also be challenged by the following factors:

- Any heightening of geopolitical tensions with Russia (Ukrainian and Polish borders) and China (the case of the Uyghurs, Taiwan and the hegemonic approach ahead of Xi Jinping's re-election).
- Much lower than expected growth in China due to its desire to continue to limit household debt, the expansion of the real estate crisis linked to Evergrande's uncontrolled defaults and the impact on household consumption of the zero Covid policy.
- Strong pressure on US long-term rates, caused by a too rapid reduction in the Fed's balance sheet, hurting US real estate, whose contribution was very positive in 2021 with prices rising strongly.

- A lower than expected level of consumption by Western households linked to a fall in their purchasing power, impacted by the rise in energy price inflation that is not offset by the governments and/or a change in consumption habits related to a consistently unstable Covid situation.

Risky asset classes performed very well in the West during the second half of the year, despite geopolitical risks, the emergence of the Omicron variant, inflationary pressures and more restrictive rhetoric from central bankers. They were supported by the consistently accommodating environment with its very negative real interest rates.

The main European and US equity indices were very well supported, with only minor corrections. The S&P500, for example, gained 27% excluding dividends (over 38% including dividends and in euro) after gaining over 11% in the second half of the year. The Eurostoxx 50 also performed very well, at almost 24% including dividends over 2021. Asian (especially Chinese) and emerging market indices, on the other hand, were disappointing, with the CSI 300 and MSCI EM shedding more than 2% and 5% respectively, while the TOPIX could only put on 10%. Chinese equities have been affected both by the setbacks in the real estate sector and by the government's desire to further regulate the private sector (technology, health etc.). It should be noted that sector rotations were frequently related to movements in interest rates and the latest announcements on the Covid situation.

In addition, movements in risk-free rates on both sides of the Atlantic have been relatively erratic. US and German 10-years rose over the year by 0.39% and 0.6% to -0.18% and 1.51% respectively, after having fluctuated in both directions by 30 to 50 bps four times over the year. In addition, the spreads of the most indebted European states have widened against Germany at around 25 bps for Italy and approximately 15 bps for France and Spain.

Like the equity markets, the different segments of the credit market held up well, benefiting from the excess liquidity among investors and the presence of the central banks. This is particularly true of the high yield market which, despite a record amount of issues on the Euro market, saw its spreads tighten by an average of around 30 bps, while the spreads of the investment grade indices eased by around 10 bps to end close to historic lows.

For its part, the price of WTI oil has been quite volatile, fluctuating between \$62 and \$85 a barrel and finally settling at nearly \$77, an increase of almost 60% compared with the 2020 year-end. Regarding others commodities, excluding energy, developments were more mixed, with the price of copper, for example, rising by more than 27%, while that of iron ore fell by 37% on the back of the Chinese property slowdown.

Finally, the dollar appreciated against most of the major currencies with the exception of the Renminbi. Against the Euro, the rise was more than 7% with the Eurodollar ending the year below 1.14.

With regard to the portfolio, we have maintained a cautious strategy on risky asset classes while taking advantage of the aforementioned weaknesses to return to some tactical positions on equities or subordinated bonds. In particular, our sensitivity to the equity markets was maintained between 8.5% and 10%, which required a cap during phases when the indices were returning to their historical highs and when we felt that valuation levels were excessive.

As far as bond investments were concerned, these were focused more strongly on government issuances in order to manage our sensitivity. Our interventions in the investment grade credit market were limited almost exclusively to the primary market, due to historically high spreads, focusing on good quality names offering issue premiums, diversification or allowing us to increase the proportion of green bonds in the portfolio. These transactions were often carried out in arbitrage against government positions bought at extremely low yields.

In the other asset classes, we were generally less active in the second half of the year. In terms of emerging debt and high yield, we are awaiting significant spreads widening in order to potentially return to buying.

In real estate, several investments are under consideration and should enable us to continue to bolster our exposure through positions in the office, healthcare and forestry segments. In private equity and infrastructure, we are analysing various thematic funds in relation to the energy transition.

KEY TAKEAWAYS:



Activity has held up well despite the pandemic



Inflation is a key concern

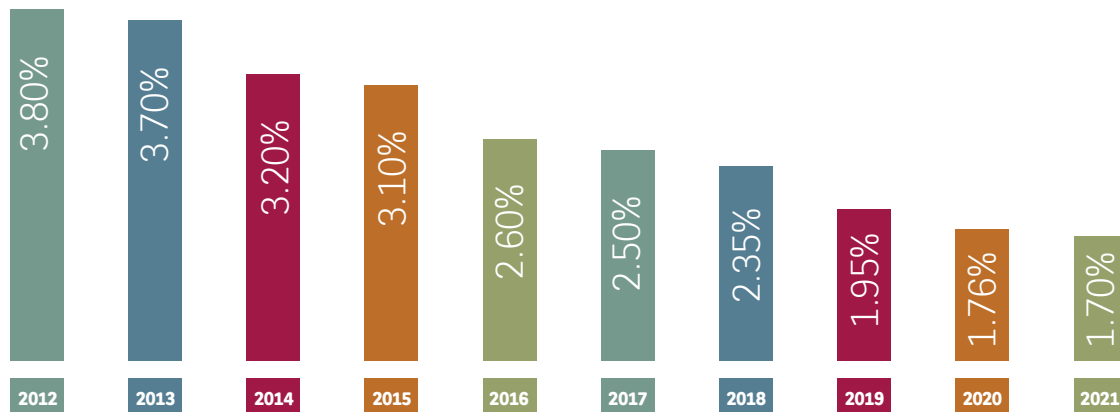


Central banks are starting to ease back on their support



Valuation of risky asset classes is much less attractive

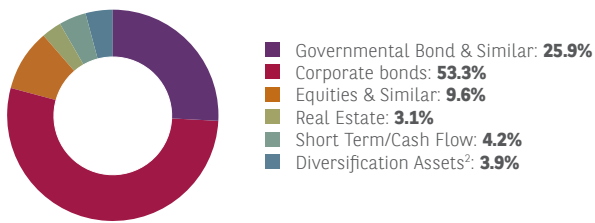
HISTORY OF THE GENERAL FUND'S GROSS RETURNS¹



MANAGEMENT OF THE CARDIF LUX VIE'S GENERAL FUND AS AT 31/12/2021

Capitalisation of the General Fund in market value: 10.1 billion EUR.

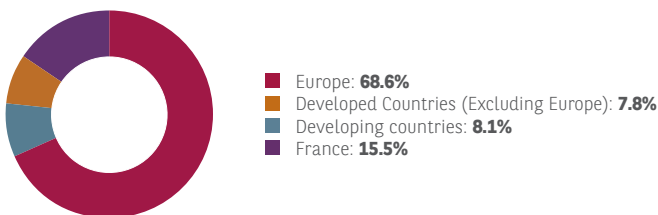
COMPOSITION OF THE CARDIF LUX VIE'S GENERAL FUND



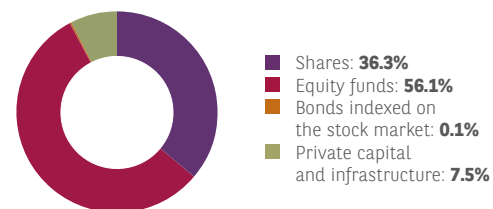
COMPOSITION OF THE EQUITIES COMPARTMENT

Share risk exposure around 9% (beta).

EQUITIES COMPARTMENT DETAIL BY GEOGRAPHIC ZONE



DETAILS OF THE EQUITY SECTOR BY NATURE



COMPOSITION OF THE BOND COMPARTMENT

The global sensitivity to the rates of our portfolio is close to **4.75**.

BOND COMPARTMENT DETAIL BY RATING

The bond portfolio has an excellent quality rating with an average rating of "A".

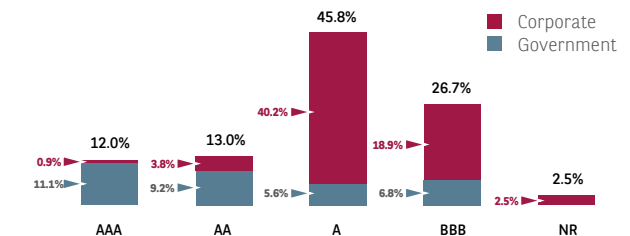
Rating³ of the Government State Bonds in portfolio at 31/12/2021 :

AAA: Luxembourg, Germany, Netherlands, USA, European agencies

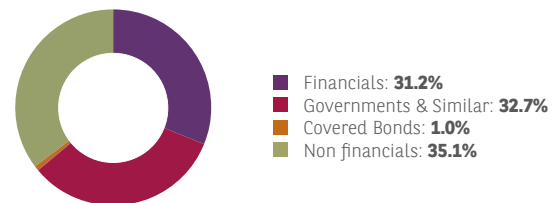
AA: Finland, France, Belgium, Austria

A: Slovakia, Spain, Chile

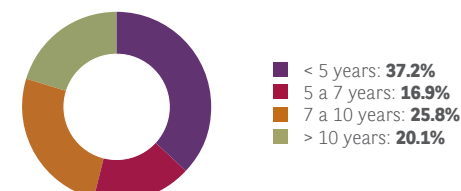
BBB: Italy, Mexico



BOND COMPARTMENT DETAIL BY ISSUERS



REPAYMENT SCHEDULE OF THE BOND COMPARTMENT



1- The performances reported up to the end of 2011 relate to the General Fund offered by Cardif Lux International (part of BNP Paribas Cardif assets). Since 2012 the General Fund has been under the direct management of Cardif Lux Vie. Details of past returns provide no guarantee or limitation of future returns. Returns do not take account of the management costs for investment instruments.

2- Emerging debt, high yield and alternative Funds.

3- Median rating of the 3 agencies Standard & Poor's, Fitch and Moody's.