DECALIA

Wealth Management
Asset Management
Private Markets

INVESTMENT INSIGHTS

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ANYONE FOR A MEATLESS BURGER?

EDITORIAL VIEW

Anyone for a meatless burger?

- Eating too much meat is bad for the health, the environment and the conscience
- The market for plant-based substitutes is transitioning from niche to mainstream
- Sensory experience, price and availability: the three hurdles to mass adoption

By now, most of us are aware that the standard omnivore diet is unsustainable. Not only is it fundamentally unhealthy, but it is also placing a huge strain on the environment – as well as raising ethical issues. The way forward? Flexitarian diets, emphasising plant-based intake but allowing for occasional meat consumption, are fast gaining traction, particularly among millennials.

The ecological urgency to transition away from meat is obvious. Today, half of the world food harvest is used just to feed livestock, with an inefficient conversion ratio (8 kg of feed are required to produce just 1 kg of beef). Not to mention the ca. 20’000 litres of water (equivalent to 365 – or one year of daily – showers) needed for cattle drinking and the irrigation of feed crops.

Healthwise, although scientific studies have not been able to firmly conclude that a plant-based diet leads to a longer lifespan, given that many vegetarians do not engage in unhealthy lifestyles, there is growing evidence that reducing meat intake helps lower blood pressure, cholesterol and sugar levels, as well as body weight.

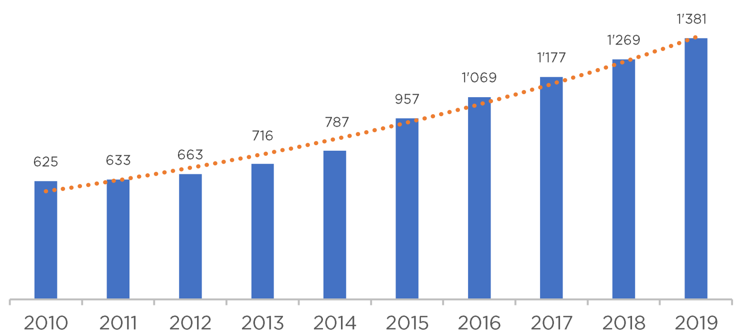
As for social pressure, the COVID-19 crisis appears to have put meat consumption under even greater scrutiny. The forced slowdown of the food value chain led to questions about the ethical and sanitary conditions of meatpacking plants – particularly acute in the US. It is thus perhaps no surprise that 18% of alternative buyers purchased their first plant-based protein during the pandemic, and 92% say they will likely include it in their weekly diet.

What then are the available meat substitutes? Classic vegan alternatives have been on the market for some years, based mainly on tofu, seitan, mushroom and jack fruit – making for a rather peculiar taste. The same goes for vegetarian offerings, with egg or gelatine as potential additional ingredients. Insect-based solutions are another option, with a superior conversion of energy/protein relative to meat – but again an unattractive sensory profile to the average western end-consumer. At this point in time, the most promising segment is novel vegan meat replacement. Using non-animal sources of amino acids, lipids, trace minerals and vitamins, scientist have architectured a truly meat-like “muscle”, even in its “bloodiness”. Finally, but for tomorrow, is lab-developed meat, which involves extracting a cell from the animal and feeding it into a culture media to proliferate – a process that is still in test phase.

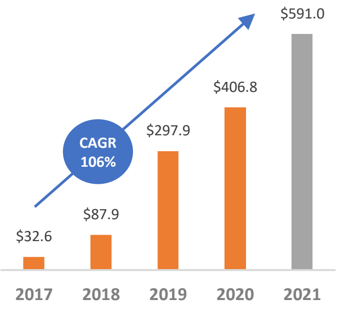
To become mainstream, plant-based and cell-grown meat substitutes need not only to overcome the sensory hurdle and a form of food neophobia, but also bring prices down to a level that will attract others than the most principled consumers. The premium that must be forked out remains high, particularly in the US where Beyond Meat “beef” burgers sell for more than double the price of standard ones.

Still, the battle for meat substitutes is on, with many actors vying for a slice of what could be a multi-billion pie within a few years. Food & Beverage majors, pressured on all sides by these healthier (as well as more local) consumption trends, are jumping on board via expensive acquisitions – but with a minor bottom-line impact as of yet. Traditional meat companies have attempted to launch their own line of products (e.g. Tyson’s *Raised & Rooted* plant-based burger), with limited success though. As for the few sizeable listed pureplay disruptors (Beyond Meat’s main competitor Impossible Foods still being private), they are trading at rich valuations. Which, at this point, unfortunately means that investors cannot have their meatless burger and eat it too!

Meat substitutes: retail sales value (EUR mio)



Beyond Meat Net Revenues (USD mio)



GLOBAL STRATEGY

Sticking with the reflation trade

- Recovery ahead, led by a roaring US economy
- Consensus sees rising inflation as transitory: we agree
- Equity roller coaster not over yet, but upward trajectory intact

Despite some recent end-of-quarter profit-taking, the reflation trade should remain in place on the back of a roaring US economy, boosted by additional fiscal stimulus, swifter vaccine rollout, and the Fed deciding to position itself voluntarily behind the curve. Long-term interest rates should thus continue to creep up and yield curves to steepen further, even if the pace of the move can be expected to slow given the probable transitory nature of the increase in annual inflation figures soon to be witnessed. Unfortunately, this rise in (real) rates has proved challenging for global financial markets to digest, at least for now, hurting expensive defensive growth stocks, sustaining the greenback, biting EM assets, especially local currency debt, and to a lesser extent, affecting credit overall.

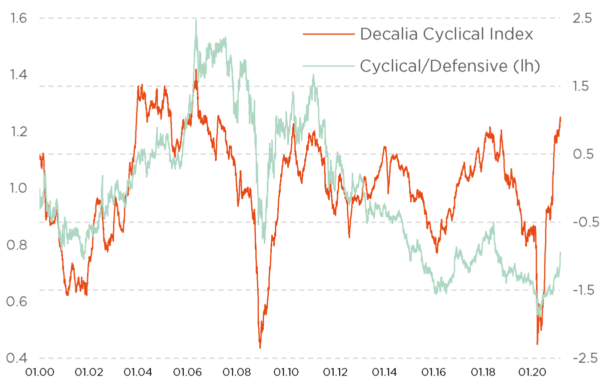
Contrary to our expectations, the current global recovery is not (yet) synchronised. Indeed, while China recently decided to press the brake pedal, Europe continues to lag because of the slow start to its vaccination campaign and a lack of additional significant fiscal stimulus. With the exception of a few temporary macro disappointments here and there, the current favourable narrative combining a sharp recovery in earnings, accelerating vaccine rollout, ample liquidity, and unleashing of pent-up demand remains well in place, implying a decline in the equity risk premium as rates move up and P/E multiples stabilise. The freshly voted new US relief bill will also certainly support further retail equity inflows over the coming weeks.

Admittedly, excessive optimism or complacency still represent a risk but, taken alone, in no way predict the timing of a potential equity market reversal. In our view, outside of the very few specific segments with stretched multiples, valuation is not excessive and investors' bullish positioning remains healthy on a long-term perspective. (Exaggerated) fears of higher rates are challenging the current asset valuation framework, creating volatility amongst typical long-duration, high-quality, defensive growth stocks, but we view this more as an opportunity to selectively add (back) some exposure to what remains our preferred long-term equity style.
As such, we maintain a pro-risk equity stance with a barbell of reflation and quality markets, reinforcing the near-term pro-cyclical sectorial bias and aiming for a more balanced style mix, so as to absorb rotations. In fixed income, while keeping our global underweight unchanged, we are further reducing government bond duration in favour of credit.

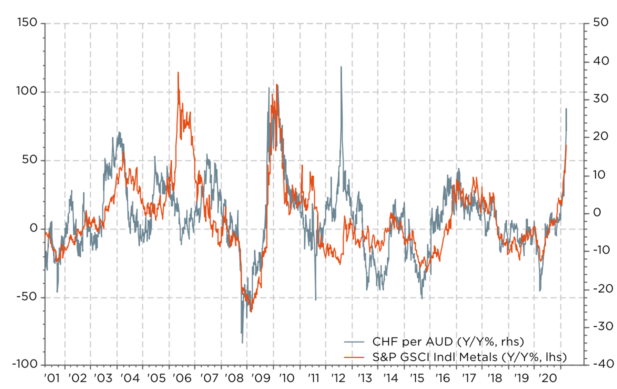
Elsewhere, we have downgraded gold to underweight, as it may continue to suffer from the rise in real rates, with investors expecting the upward trajectory in inflation to be short-lived. We retain a slight overweight on other materials given that the outlook has brightened for energy and base metals, helped by stronger economic growth expectations, potential supply bottlenecks and... a weaker US dollar going forward.

On the latter, consistent with our reflation scenario, we retain a near-term cautious stance owing to ultra-loose monetary and fiscal policies in the US. Moreover, the greenback's relative rate and growth advantage will not last forever, while the country's twin deficit is likely to swell further. Accordingly, we have adjusted our forex positioning by upgrading cyclical currencies (EUR & GBP) and downgrading (to slight underweight) the more defensive ones (JPY & CHF). To be clear, we remain wary of the EUR over the long term but acknowledge that it may appreciate against both the Swiss Franc, in a global reflation scenario, and an intrinsically weaker US dollar.

Decalia Cyclical Index*



CHF/AUD & base metal price index



*Mix of US 10-year rate, yield curve, base metal prices and US ISM components
Cyclical/Defensive ratio: equally weighted perfs of Materials, Industrials and Financial vs. Utilities, Staples and Healthcare

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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Euromonitor, Beyond Meat

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