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INVESTMENT INSIGHTS

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A GOOD TIME FOR A NEW TASTE!

EDITORIAL VIEW

Page 2

- Few industries have been as hard hit as restaurants during the Covid pandemic
- Digitalisation, merchandising, layout: new ways of doing business are here to stay
- Customers are looking for an "experience", whether eating out or at home

GLOBAL STRATEGY

Page 3

- Our supportive macro scenario remains broadly unchanged
- Concerns about peaking growth offset inflation or taper tantrum fears
- Investors are desperate for any hints about the Fed's tightening timeline

ASSET ALLOCATION

Page 4

- Allocation – So far, so good: no change following the recent risk reduction
- Equities – Keeping a balanced style/sector positioning, but adding some hedges
- Bonds – Still underweight, now favouring the 7Y UST over TIPS in the govies space

EDITORIAL VIEW

A good time for a new taste!

- Few industries have been as hard hit as restaurants during the Covid pandemic
- Digitalisation, merchandising, layout: new ways of doing business are here to stay
- Customers are looking for an "experience", whether eating out or at home

Eighteen months have now passed since Covid-19 began to wreak havoc on our lives, forcing new ways of doing business, reducing leisure opportunities and changing many long-held habits. Restaurants figure among those industries to have borne the brunt of the pandemic. They have been forced to rethink the whole dining experience, from back (kitchen staff, menus) to front (customer service, merchandising).

For sure, some of the changes predate Covid. But lockdowns, social distancing, a greater focus on hygiene, the rediscovered virtues of local sourcing and aspirations for a better work-life balance have served to accelerate the evolution of the hospitality industry.

Digitalisation being a case in point: according to the US National Restaurant Association, 50% of all full-service eateries in the country have added QR code menus since the start of the pandemic. This of course enables clients to order their food without touching a paper menu or interacting with a waiter – both being potential sources of contamination. They use their own phone, onto which they also input their credit card details, making for a totally contactless experience. From the restaurant operators' perspective, the benefits are multiple: running their business requires less staff, menus can be changed more easily/frequently and, last but not least, there is considerable customer data to be tracked and analysed.

The layout of restaurants has also changed considerably – again in part due to Covid-19. Greater spacing between tables is now a requisite and larger areas are generally devoted to the pickup of take-home food. Meal kits, packaged menus (aka "party in a box") and other merchandise have also been expanding, as home cooking comes back into fashion. And when they do choose to dine on the premises, many customers now prefer to be seated outdoors, which has led many restaurants to expand over pavements, gardens and even parking lots.

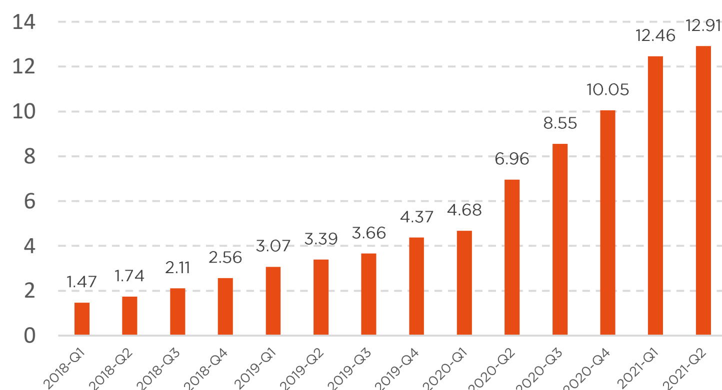
For a long time, operating a restaurant was all about delivering value for money: a broad selection of dishes at the lowest possible price. Margins were razor-thin, and wages kept at very low levels. Staffing shortages (workers being reluctant to return to low-paid and Covid-exposed jobs) and changing consumer aspirations are now calling this model into question. With eating out increasingly being seen as "special occasion" treat, rather than a frequent convenience, the value lies more in the experience. Customers seem willing to foot a steeper bill, meaning that menu prices and wages can move up, hand in hand.

Investors whose taste buds are tempted might do well to go ahead and make their pick among restaurant businesses. Not only is the whole industry a prime beneficiary of economic reopening, but those operators best able to reinvent themselves stand to reap durable benefits. Having a flexible business model, able to cater to both the delivery/takeout market and evolving on-premises dining demands, will probably be key in the next months – as we find out which Covid-induced habits are truly here to stay. Amongst the publicly traded companies, HelloFresh has clearly established itself as the most global and profitable meal-kit provider, operators such as Chipotle and Domino's Pizza certainly seem to have taken advantage of the increased digitalisation and takeout trends, while Darden Restaurants remains a leader in the full-service space. As for McDonald's and other fast-food companies, they have long played it both ways. Eat out or take-home? All that matters is that customers are "lovin' it"!

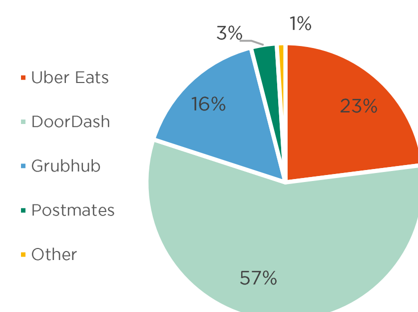
Written by Roberto Magnatantini, Lead Portfolio Manager of DECALIA Silver Generation

GRAPH OF THE MONTH

Uber Eats gross bookings (USD bn)



US meal delivery market shares (July 2021 sales breakdown)



GLOBAL STRATEGY

Back to school, back to the office... back to tightening?

- Our supportive macro scenario remains broadly unchanged
- Concerns about peaking growth offset inflation or taper tantrum fears
- Investors are desperate for any hints about the Fed's tightening timeline

Recent concerns about peaking US economic growth and the rising number of new Covid cases delaying a return to normalcy have offset prior worries pertaining to inflation or a taper tantrum. As such, the "Goldilocks" favourable mix of strongly positive – even if somewhat slower – growth going forward, contained inflation overall and still accommodative monetary (and fiscal) policies – that could last longer if growth slows further – continues to prevail.

Investors will, nonetheless, be paying close attention to Fed governor speeches, reading the tea leaves from economic data releases – especially the US job report – and scrutinising the next Fed meeting on 22 September, desperate for any hints about the US monetary policy tightening timeline. The ongoing slowdown in US final demand – from what were clearly stratospheric levels – might actually be seen as a blessing, since it will likely delay a sharp and/or meaningful tightening of US economic policies. Furthermore, with geopolitical risks rising and the dollar strengthening, it is hard to imagine the Fed rushing to normalise its stance.

While there are certainly plenty of reasons to worry about growth petering out (fast spreading delta variant, disappointing US July retail sales, recent sharp fall of energy prices, etc.), we are not overly concerned. Rather, we are convinced that the economic pace is just coming back down to more sustainable levels. We would also point out that inventories rebuilding will partly offset softening final demand going forward. And it is worth noting that complacency has receded, equity valuations have eased (with earnings growth outpacing price indices) and Covid-related hospitalisation/death rates have not spiked this time round in "well-vaccinated" countries. All told, the backdrop remains supportive in our view.

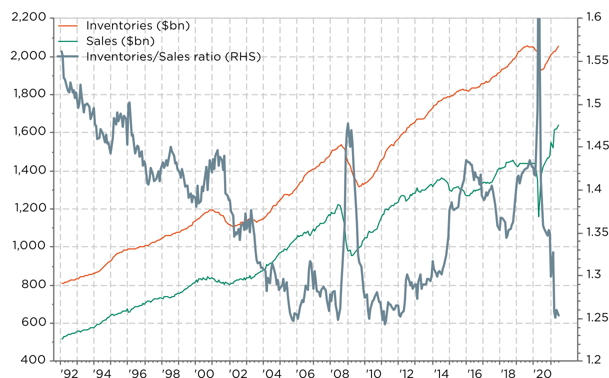
That said, we did turn slightly more cautious last month following the strong and uninterrupted equity upmove since the summer of 2020. We still expect a choppier and a more range-bound course for major indices through year-end. Indeed, with investors now seeking clarity on US growth, inflation, the pandemic and the Fed's monetary policy path, global equity markets are likely to lack meaningful direction. Geopolitical risks as well as China's latest regulatory crackdown could magnify these uncertainties.

In this context, we are not presently making any change to our allocation, keeping a wait-and-see neutral equity stance and an underweight bond allocation. Within equities, we still recommend a high-quality all-terrain positioning, both in terms of sectors and styles. At the margin, with much good news already priced in by the markets, we acknowledge the growing asymmetry between potential gains and losses – considering not just the amplitude but also the speed of the rally. Although "timing" the market is always a difficult – if not perilous – art, tactical hedging strategies make some sense today given the low current volatility levels. In bonds, we now favour the US 7-year Treasury over US TIPS in the sovereign bucket, while keeping a slight overweight on high yield and EM debt.

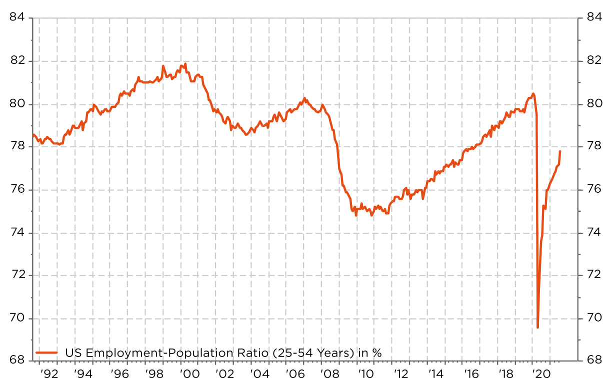
Elsewhere, we confirm our underweight on gold, as it may suffer from higher US real rates when the Fed does eventually begin to normalise its policy. Finally, and in the same vein, we retain a constructive view on the greenback, with the Fed unlikely to fall completely behind the curve.

Written by Fabrizio Quirighetti, CIO, Head of multi-asset and fixed income strategies

US inventories/sales ratio close to a record low
Inventories rebuilding will offset softer final demand



US prime-age (25-54) employment/pop. ratio
There is still a long way to go...



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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Uber Eats
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