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INVESTMENT INSIGHTS

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PRECISION FARMING

EDITORIAL VIEW Page 2

- Technological advances are revolutionising agriculture practices…
- … promising lower costs, higher productivity and, above all, enhanced sustainability
- The investment world is buzzing with new up-and-coming agtech companies

GLOBAL STRATEGY Page 3

- Our macro scenario is broadly unchanged, despite risks now tilted to the downside
- …on the back of an endless list of current uncertainties and threats
- Ultimately, these will not materialise or be large enough to derail TINA

ASSET ALLOCATION Page 4

- Allocation – No change, still favouring equities (neutral) over bonds (underweight)
- Equities – Beware of the sectors rotation: balanced positioning & some hedges
- Bonds – Do not overreact to the current surge in input prices, it is deflationary

EDITORIAL VIEW

Precision farming

- Technological advances are revolutionising agriculture practices…
- …promising lower costs, higher productivity and, above all, enhanced sustainability
- The investment world is buzzing with new up-and-coming agtech companies

With the food value chain responsible for over 25% of greenhouse gas emissions, and continued growth in both the global population and middle-class cohort, action is urgently needed. New – so-called regenerative – agricultural practices will no doubt figure prominently in discussions at the November COP26 summit. Such practices come in many shapes and forms but share one common goal: to disturb the soil as little as possible. Not only does this make for greater crop sustainability, superior CO2 capture and an improved water cycle, but it also leads to economic benefits in the form of higher productivity and lesser spending on fertilisers and other treatments.

In effect, farming is gradually evolving from being intuition-based to being data-dependent, meaning that the exact right amount of seeds and nutrients be applied, in the right places and at the right moments. Rapid technological progress underpins this transition towards precision farming.

The first stage dates back to the 1990s, when GPS-based machinery gained traction, yielding tangible improvements in the speed and conveniency of seeding. Then, from 2010 onwards, came techniques that enable the variable application of nutrients, a process both more economical and less damaging for the environment. The last – and ongoing – stage involves a quantum leap in new technology solutions, based notably on data analytics and artificial intelligence (AI), that not only help further reduce input costs and environmental impacts, but also boost productivity. The combination of satellite monitoring, drone imagery and remote sensors is for instance making it possible for farmers to obtain live data field by field, so as to be more reactive to specific local conditions and optimise soil utilisation. And it is today possible to buy an AI-enabled tractor that distinguishes between plants and weeds, cutting chemical spraying by 90%!

With a revenue opportunity estimated at USD 20-25 billion, new companies are sprouting up in the agtech space. Early-stage private capital investment has increased by some 45% over the past decade, unicorn sightings are becoming common (Indigo Ag figuring among the notable ones) and M&A activity is on a roll.

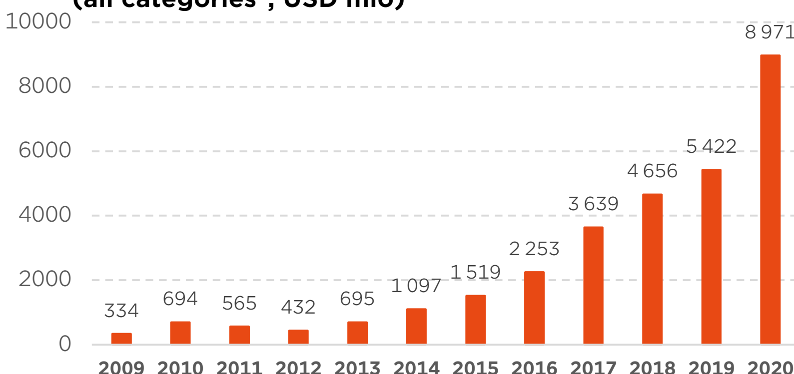
The profile of the acquirers? Large agricultural actors such as Monsanto (which set the ball rolling with its 2013 purchase of Climate Corp for nearly USD 1 bn) or Deere (that got hold of Blue River – the developer of the "see and spray" technology – in 2017). Big tech powerhouses of the likes of Microsoft (Azure FarmBeats offering) or Google (multi-year partnership with Farmers Edge) are also vying for a spot in the sun. Not to forget some large players in the food value chain (e.g. Nestlé and Danone) that are committing material capex budgets to regenerative farming.

There are of course drawbacks to this agricultural "revolution". Most are social, to the extent that some smallholder farmers risk being left behind, whether due to a knowledge gap or to scale issues. Data ownership/privacy also stands to be a subject of contention, as in many other areas of activity. Still, the benefits – financial and environmental – clearly outweigh the risks in our view.

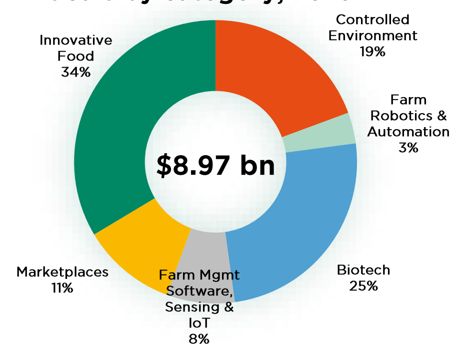
And the disruption is by no means over. Provided the issues of high initial investment and energy usage can be overcome, vertical farming (the process of growing crops in layered stacks within a controlled environment that requires almost no water) brings the potential of even higher yields. As well as a closer proximity to consumers, something that the Covid pandemic has certainly taught us to value.

Written by Alexander Roose, Head of Equities

GRAPH OF THE MONTH



*including controlled environment, farm robotics & automation, biotech, farm management software, sensing & IoT, marketplaces, innovative food



Keep calm despite moving parts

- Our macro scenario is broadly unchanged, despite risks now tilted to the downside
- ...on the back of an endless list of current uncertainties and threats
- Ultimately, these will not materialise or be large enough to derail TINA*

The list of uncertainties currently surrounding the markets seems endless: the pandemic (slowing vaccination rate, potential new variants, new restrictions in key economies), peaking growth, China (regulatory crackdown, Evergrande collapse, economic slowdown), US government gridlock (infrastructure bill, debt ceiling), supply chain constraints (restraining growth and pushing prices up in some sectors), pending Fed tapering, rising input costs (wages, energy and materials), a looming energy crisis in Europe and China, interest rate recent upmove – you name it.

Although risks are marginally tilted to the downside, our central scenario remains broadly unchanged and supportive of equities vs. fixed income and cash. To be fair, these moving parts are not all surprising news. Most have been with us (or at least on investor radars) for the last few months. Indeed, they led us to turn slightly more cautious (neutral) on global equities in July, to reduce our risk/equity exposure during the summer and, most recently, to add some tactical hedges, taking advantage of the summer volatility lull – so as to steer through a potentially bumpier course until year-end.

On the other side of the equation, we acknowledge that we are still heading towards some form of normality (even if more slowly than expected), economic and earnings growth is likely to remain strong for the foreseeable future, Evergrande's default should pose no systemic risk, easing is coming in China, odds of a US government shutdown are thin, supply chain constraints – as well as inflation – are transitory, central banks want to avoid a taper tantrum, etc.

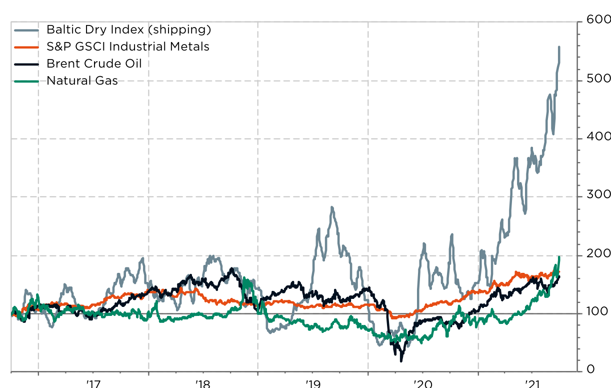
As regards the recent increase in global rates and looming energy crisis, they are clearly weighing on financial market dynamics. Still, we expect their impact on the economic outlook to remain contained, especially if the move ends or moderates soon. Were we to be proved wrong, or this upward trend continue/accelerate, it is worth keeping in mind that higher rates and energy prices act as... countercyclical variables. As such, rather than a sustainable overshoot in inflation, the predominant risk in our view is a contraction of economic activity next year – automatically leading to a moderation, if not a drop, in both oil prices and rates. Not to mention that central bank tightening will do little to contain commodity prices or offset other supply chain constraints. As Bank of England governor Baily recently stated: "monetary policy will not increase the supply of semi-conductor chips ... nor will it produce more HGV drivers".

So, although the stagflation narrative has regained some ground on the back of some legitimate short-term concerns, we do not buy it as our base case. To cut a long story short, markets are probably climbing a wall of worry, with a balanced range of possible outcomes, while investors now face a somewhat less easy and straightforward "goldilocks-light" context.

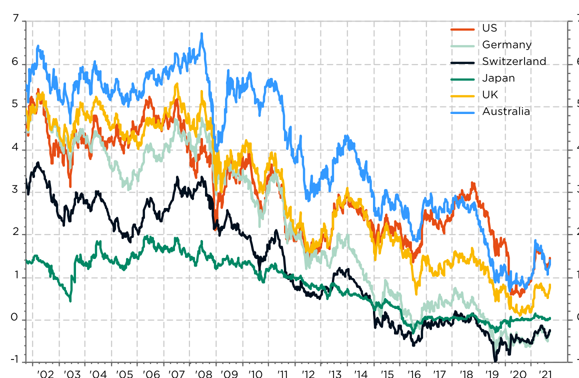
Rates may have moved up sharply as of late, but it is also worth noting that a low rate and bond yield environment still prevails, with equity valuation having declined and complacency receded further. Still, with overall visibility limited at this point, global equity markets are likely to lack meaningful near-term direction. We thus make no adjustment to our allocation (neutral equity stance and bond underweight), keeping our views broadly unchanged.

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

Surging input prices pose more risk to medium-term growth than short term inflation



Selected 10-year bond yields: interest rate normalisation? There is still a long way to go



*TINA: There Is No Alternative

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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Raymond James
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