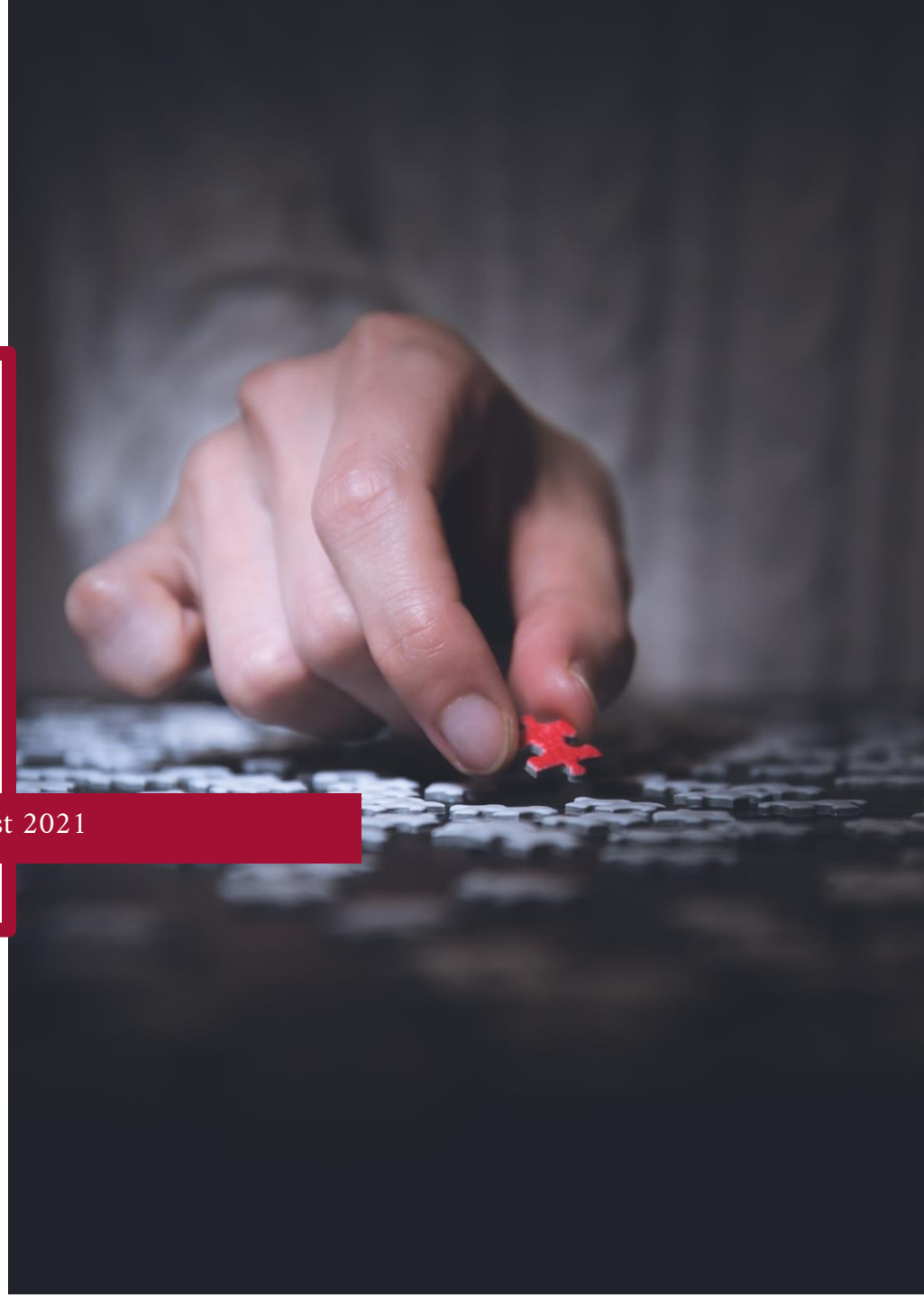


# Jackson Hole

## Investment Team Weekly Focus

27 August 2021



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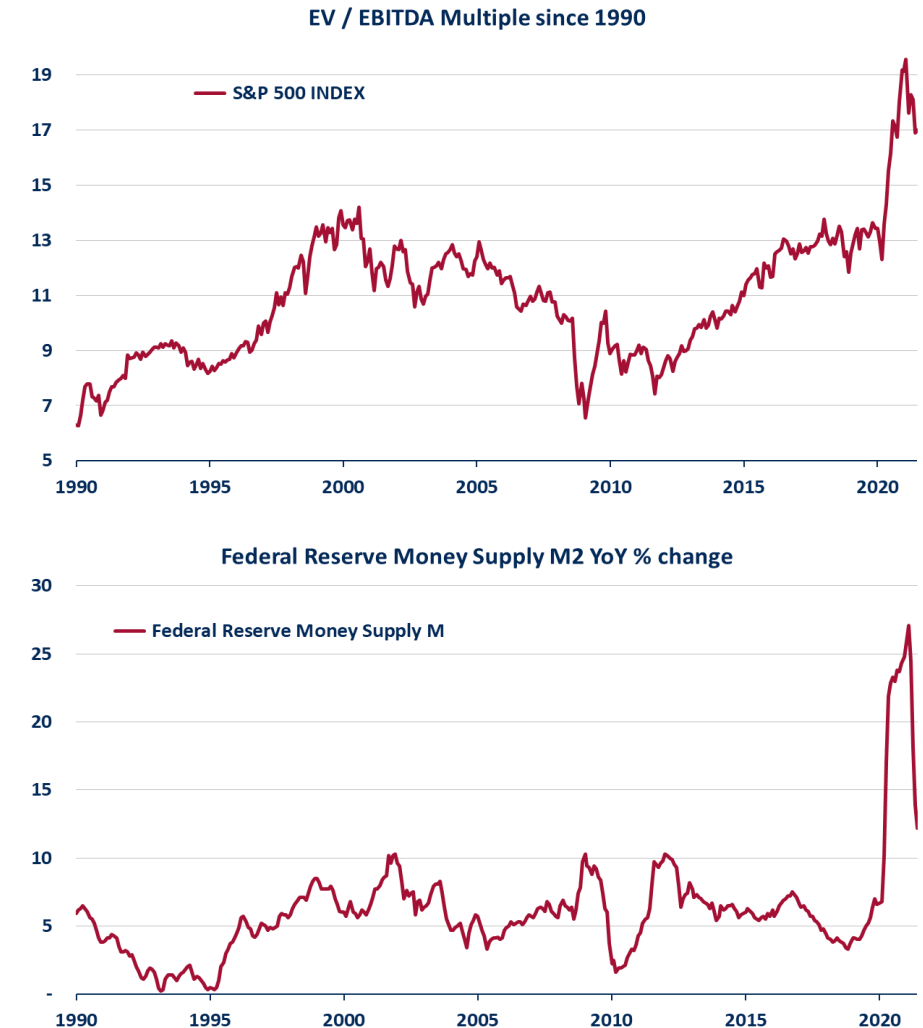
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# Record-high multiples driven by record-high liquidity

## Valuations at record-high level

- As the Fed prepares for its 2021 virtual Jackson Hole meeting (27 Aug), we reiterate our view that investors should be prepared for what is likely coming next: a ceiling.
- The jump in US equities valuations, illustrated by EV/EBITDA ratio jumping from 13x to 17x (top chart), coincides with M2 growing at a whopping 25% YoY in the US (bottom chart).
- As money supply gets reduced over time, we believe investors will have to focus more on companies' fundamentals and less on Central Bankers subsidies to take their investment decisions. This may change the rules of the game.

Source: Bloomberg, August 2021

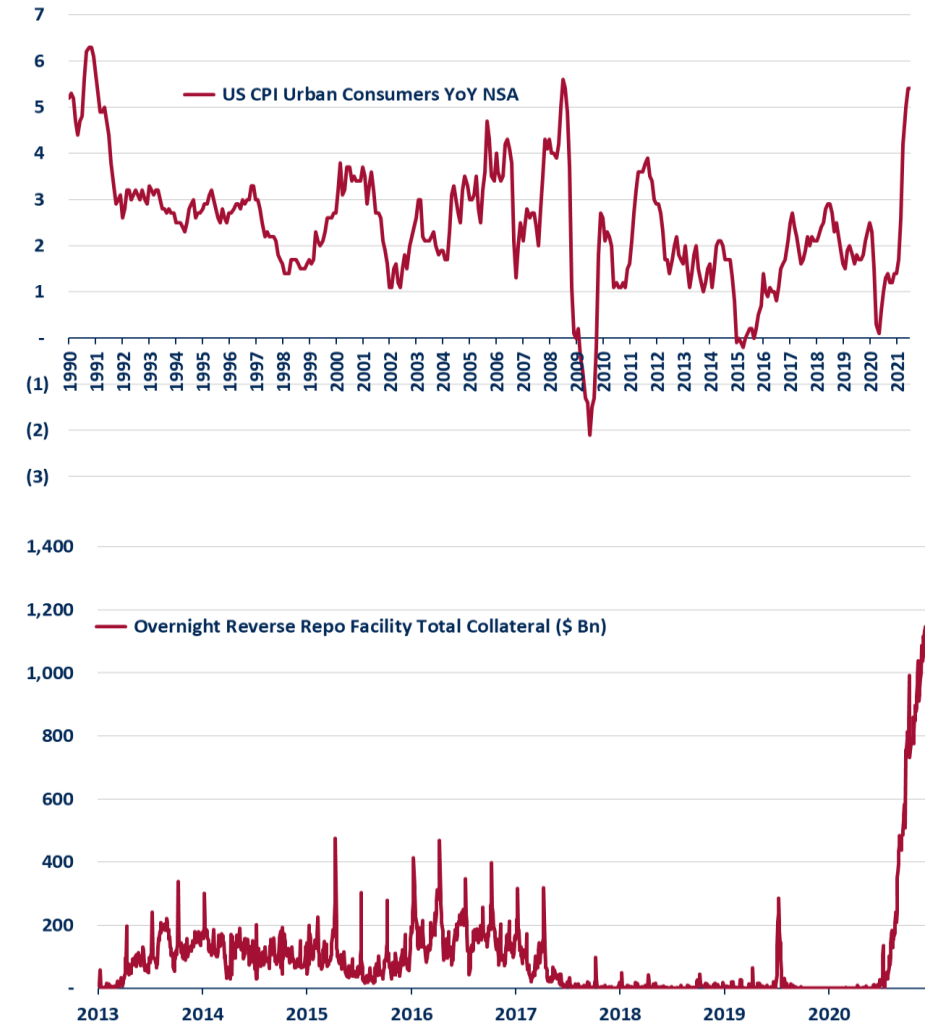


# Record-high multiples driven by record-high leverage

## Leverage at record-high level

- With July inflation printing at 5.4% (Consumer Price Index) YoY, above 5% for a third consecutive month and well above its 2% long term target, the Fed might already be behind the curve, as far as interest rates are concerned (top chart).
- In the same vein, the Overnight Reverse Repo Facility which helps the Fed provide a floor to overnight interest rates (between banks) has never been so high in recent history. Another illustration that there is too much liquidity in the system rather than too little. (bottom chart).
- More concerning for us, according to the FINRA (Financial Industry Regulatory Authority) the amount of leverage (loans) used by retail investors in their brokerage accounts in July 2021 was above 850\$bn, a 50% increase compared to 2019 level and another illustration of the potential fragility around risky assets.

Source: Bloomberg & FINRA, August 2021







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