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Happy New Year

2021 was a banner year for equities, where both S&P500 and Stoxx Europe 600 achieved a total return of 28.7% and 25.8%, respectively. The world continued struggling with the Covid-19 pandemic, which had new waves and different variants. Despite successful vaccination rollouts, reopening, and eased travel restrictions, governments everywhere implemented measures to combat the spread of the virus with every resurgence, including lockdowns that slow down or stop the flow of raw materials and finished goods. Supply chain bottlenecks coupled with solid demand caused inflation to rise, reaching 6.8% in the US (the highest level since 1982).

What should we expect this year?

Following the Fed shift of focus away from maximum employment and towards price stability, we see the recent announcement to finish tapering faster and the earlier expectations of **rising interest rates** as good news that should help bring inflation down.

We expect the **supply chain bottlenecks** to start easing this year, driven by more vaccinations, boosters, and fewer lockdowns as a result. Companies learned a lot of valuable lessons in the last two years relating to how to source supplies and raw materials efficiently, and we expect these learnings to help ease bottlenecks.

The world faced a **semiconductor shortage** the whole of last year, where lead time reached 22.3 weeks. Semiconductors are essential in all modern devices, powering everything from mobile phones, laptops, and airplanes. We expect that gap to remain wide, driven by the supply-demand imbalance, leading to semiconductors shortages this year as well.

Gas will remain one of the major themes this year. European gas inventories remain historically low, and Nord Stream 2 pipeline is yet to start working.

At the same time, tensions are rising between Russia and Europe, where any attempt to invade Ukraine is likely to result in sanctions against it. Given that Russia provides more than a third of the EU natural gas supplies, Russia might react using gas as a weapon in any future conflict with Europe. These uncertainties will be significant drivers for the gas price.

Chinese tech sector pressure is likely to continue, where US-listed Chinese tech companies face US regulation scrutiny from one side and Chinese tightening grip on data from the other side. Didi's move to delist from the US after only five months of its IPO is just a start, and we expect more companies to follow suit.

Despite the successful vaccination rollouts, newly approved pills to combat the symptoms, a new Covid-19 variant that is lethal, fast-spreading, and resistant to current vaccinations and medication can result in an extreme market reaction.

Tighter monetary policy and less liquidity support will directly impact the current elevated equity valuations this year, highlighting the importance of stock picking and the managers' ability to pick the winners to steer clear of the losers.
At ECP, we have a sound investment process that guides us in the right direction toward choosing high-quality businesses while paying attention to the price we pay for them.

Since the pandemic's beginning, the world has lost more than 5.4 million people, and more than 280 million were infected. We lived through curfews, lockdowns, and other restrictive measures, and our lives have not been the same. We do not know what will happen this year, but let's hope 2022 fares better.

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