DECALIA

Wealth Management
Asset Management
Private Markets

INVESTMENT INSIGHTS

MONTHLY ISSUE #79 | 1st August 2021

E-BIKE SHORTAGES

EDITORIAL VIEW

E-bike shortages

- Rising demand for e-bikes is more than just a temporary phenomenon
- Ongoing supply chain disruptions are making for much extended delivery times
- The whole biking ecosystem is thriving, as mobility undergoes a (green) revolution

Saddle up! That injunction, made just over a year ago in this very publication, proved prescient. So much so, in fact, that the demand for e-bikes is currently well outpacing available productive capacities, forcing wannabe adopters to wait for months before they can hit the city streets – or dirt roads and mountain paths.

The e-bike market, already a sizeable USD 24 billion last year, is forecast to grow at a double-digit pace for the next five years. The pandemic clearly provided a boost, with cycling serving as both a "socially-distant" mode of transport and a welcome energy outlet in a constrained world, but the secular trends were already well in place. Environmental concerns, political support, mounting traffic congestion issues, outdoor recreational aspirations, new business applications (e.g. using cargo bikes) and, of course, technological innovations, are the major factors behind the tremendous growth in e-bike sales during the past decade. This is true of all geographies, with China probably offering the greatest potential going forward. Cycling is not yet a common sports activity there, and health concerns are gaining traction.

But what is really driving the market right now is supply, not demand. And on that side, the impact of Covid has been major. Shipping containers have become notoriously scarce this year, with the blockage of the Suez Canal in March (traditionally the time of year when retailers fill their stocks ahead of the European cycling season) only compounding the problem. Indeed, it is estimated that two of Shimano's most important sea routes flow through the Suez Canal, accounting for 40-45% of their revenues. And then there are the health-related restrictions imposed by governments on manufacturing facilities. Malaysian authorities, for instance, forced local factories to operate at only 60% of capacity during the first 10 days of June, before shifting to a full-fledged lockdown. Exactly how much of Shimano's production comes out of Malaysia is not known but could be a non-negligeable 20%.

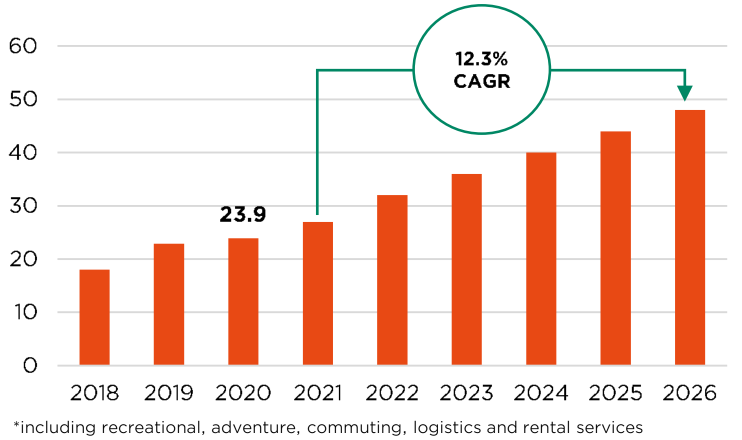
We mention Shimano because of its undeniably strong position within the bicycle supply chain. But it is by no means alone in this buoyant ecosystem. Other parts makers that stand to benefit are SRAM and Fox for instance. And then there are the e-bike motor and battery pack makers/assemblers, such as Bosch, Brose, Panasonic, Samsung SDI, LG Chem, BMZ, Liv Cycling or Simplo Technology Group, as well as the suppliers of equipment and protections. In terms of brands, numerous are the companies – listed or not – vying for leadership of a still very fragmented market: Giant, Merida, KMC, Acell, Kona, Cannondale, Trek etc. in the traditional bike segment, and Frietzmeier Systems, Riese & Muller, Yamaha, Stromer etc. in e-bikes. Last but not least, the distributor companies, and those that are developing bike sharing platforms warrant monitoring.

As the saying goes: "The bicycle is a simple solution to some of the world's most complicated problems". It certainly fits into a reshaped vision of how we both work and play. Commuting is becoming a whole new experience, and the outdoor frontiers are expanding. Bringing environmental and health benefits of course, but also interesting opportunities for investors.

Written by Sandro Occhilupo, Head of Discretionary Portfolio Management

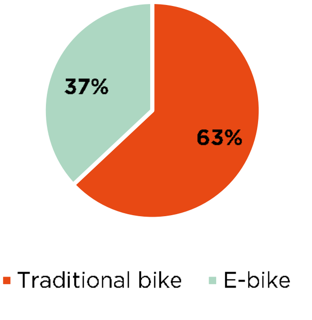
GRAPH OF THE MONTH

Global e-bike market revenue in USD bn*



*including recreational, adventure, commuting, logistics and rental services

Global bike shipment breakdown by product, 2020



GLOBAL STRATEGY

Markets now looking beyond 2021

- Our supportive macro scenario remains broadly unchanged
- We acknowledge, however, that investors seek greater clarity at this stage
- With much good news already priced in, we are now tempering our optimism

Despite the Fed's recent hawkish pivot, as well as concerns regarding the delta variant and Chinese regulatory crackdown, there have been no major changes to our economic scenario, which can be summarised as such: gradual re-opening and return to some form of normality, ongoing strong economic growth, transitory price pressures, and still ultra-easy monetary and fiscal policies.

While this is a rather consensual view for the near future, investors are now seeking clarity and waiting for evidence – be it on the pandemic trend, US growth/inflation trajectories or the Fed's monetary policy path beyond 2021. Will the return to normality suffer a major step-back or delay because of new Covid variants? What about US growth going forward? Will it only decelerate modestly, as we expect, or is a sharper slowdown in the cards, potentially involving a negative quarterly GDP print at some point during the next 18 months? This will obviously also depend on the pace of the ongoing labour market recovery, as well as the final size (and financing) of President Biden's stimulus package. And then there is still the issue of possible inflation down the road. Right now, investors appear quite relaxed about the transitory nature of current upward price pressures, especially acute in certain categories of goods and services, but concerns may come back quickly if inflation data continues to surprise on the upside and broadens out.

To complicate matters, future US monetary policy and some of the aforementioned questions are closely interconnected: growth depends on the health situation, while economic and job growth influences inflation expectations. As a result, after a strong start to the year, global equities markets are now treading a fine line, likely meaning a choppier and more range-bound performance for major indices through year-end.

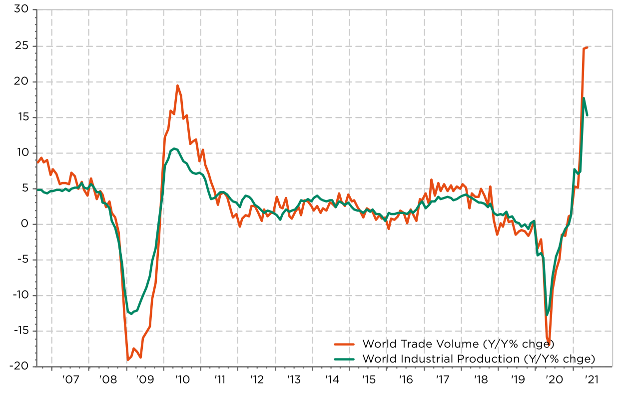
From a fundamental standpoint, increasing vaccination rates, still-supportive economic momentum, sustained strong earnings growth, fiscal stimulus, easing valuations, declining inflation expectations, and a less crowded (bullish) investor positioning should all help offset concerns about Fed QE tapering (still ultra-accommodative), the rapid spread of Delta variant, and the potential for an extension of China's recent regulatory crackdown.

On the latter front, uncertainty and fears have pushed valuations down to optically very attractive levels, but we prefer not to catch a falling knife. Current and past experience in the EM space suggests that political risk may indeed lead to a lasting, significant and difficult to assess discount. As such, we have downgraded Chinese equities to a slight underweight, preferring domestic A-shares.

Considering that much good news is already priced in, while some clouds now need to dissipate, we are tempering our optimism. We thus adopt a slightly more cautious allocation, opting for a wait-and-see neutral equity stance while keeping our views on other major asset classes broadly unchanged. Within equities, we still recommend a high-quality all-terrain positioning, both in terms of sectors and styles. We also remain underweight bonds, 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 going forward. Finally, in the same vein, we recently turned more constructive on the greenback with a Fed unlikely to fall completely behind the curve.

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

No ordinary recovery: world trade and industrial production (Y/Y % change)



Chinese equities valuation: it may get worse before it gets better

CONTACT

DECALIA SA
Rue du Rhône 31
CH-1204 Genève

Tél. +41 (0)22 989 89 89
Fax +41 (0)22 310 44 27

info@decaliagroup.com
www.decaliagroup.com

External sources include: Refinitiv Datastream, Bloomberg, FactSet, Mordor Intelligence, CLSA
Finished drafting on 31 July 2021