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INVESTMENT INSIGHTS

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FIGHTING CYBERCRIME

EDITORIAL VIEW

- Cybersecurity is taking on utmost importance, in both the public and private sector
- Legacy data protection systems require a complete overhaul, towards “Zero Trust”
- Cloud native players are disrupting traditional security providers

GLOBAL STRATEGY

- Rising energy prices are acting as a headwind for growth and tailwind for inflation
- The stakes are high for the Fed as it begins to normalise its monetary policy
- Albeit more challenging, the macro backdrop remains supportive overall

ASSET ALLOCATION

- Allocation – Taking advantage of market pullbacks to add back to equities
- Equities – UK downgraded, warming up on China as bad news now largely priced in
- Commo (ex-gold) – Revenge of the old economy: keeping structural bullish view

Fighting cybercrime

- Cybersecurity is taking on utmost importance, in both the public and private sector
- Legacy data protection systems require a complete overhaul, towards "Zero Trust"
- Cloud native players are disrupting traditional security providers

If anyone still doubted the need for reinforced cybersecurity, the recent string of incidents – affecting companies and public entities alike – will have convinced them. Ransomware attacks and sophisticated hardware hacking, alongside mounting fines for non-compliance with European data protection regulation (GDPR): the risk has become far more than just operational or reputational. Ultimately, financial survival is what is at stake.

September 2021: "Company that routes billions of text messages quietly says it was hacked". June 2021: "McDonald's hit by data breach". May 2021: "Colonial Pipeline confirms it paid $4.4m ransom to hacker gang after attack". April 2021: "533 million Facebook users' phone numbers and personal data have been leaked online". These are just some of the media headlines of the last few months, a testimony of how prevalent cyberattacks have become.

The Covid-induced changing work patterns, with employees needing to access corporate networks both in and out of premises, and through various types of devices, are only serving to magnify the security headache of IT departments. One solution: to design protection from the inside outwards, rather than from the outside inwards. Put differently, instead of the traditional "castle and moat" model, whereby a firewall is placed at the perimeter of the corporate network – allowing hackers to circulate relatively freely within the internal IT system once they manage to break in – the idea is to segment the corporate network and set up granular security checks between each micro segment. "Zero Trust" is the name behind this concept and it means just that: every connection attempt coming from outside of a micro segment, even if internal to the company, must be verified and authorised. Retrofitting such a concept is, however, a complex endeavour. Much better it be designed as part of a digital transformation strategy, one that fully embraces the cloud.

Once a company is hacked, GDPR regulation demands that it determines when it was hacked, what precisely was hacked and who owns the compromised data – and that those people be notified. Something that is very hard to do. Most of the time, companies are not even aware of the hacking! Data governance, a field in which Varonis is a leader, as well as identity and access management, with players such as CyberArk and Okta, are thus becoming increasingly important. Indeed, the vast majority of breaches originate from stolen credentials.

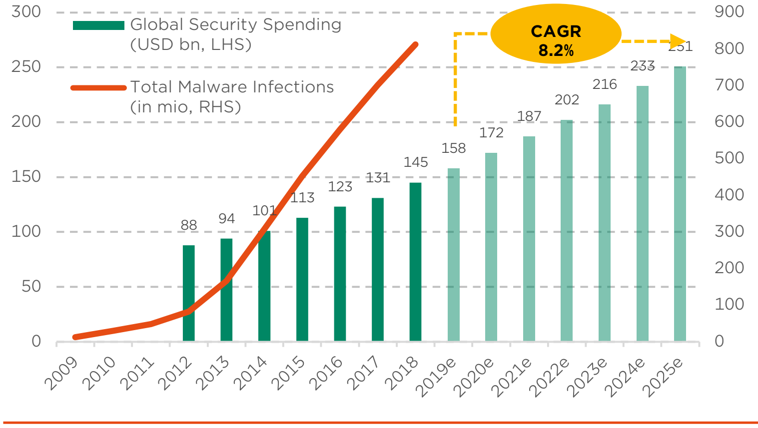
With such promising prospects, it is no surprise that many cybersecurity companies are vying for a spot in the sun, nor indeed that their stock prices are trading at elevated valuations. As security moves to the cloud instead of being delivered through appliances (hardware and software), cloud native players are gaining the upper hand over traditional providers. Just like, a decade ago, Salesforce and Workday disrupted traditional on-premises enterprise resource planning (ERP) vendors such as SAP and Oracle, companies of the likes of Zscaler or Cloudfare are today revolutionising cybersecurity – and capitalising on the work-from-home trend.

The latest buzzword in this space? SASE, which is pronounced "sassy" and stands for "secure access service edge". It basically brings together wide area networking and network security models (such as the aforementioned "Zero Trust") into a single service, delivered from the cloud. Security at its very best, in a world where cybercrime has become the new kind of warfare.

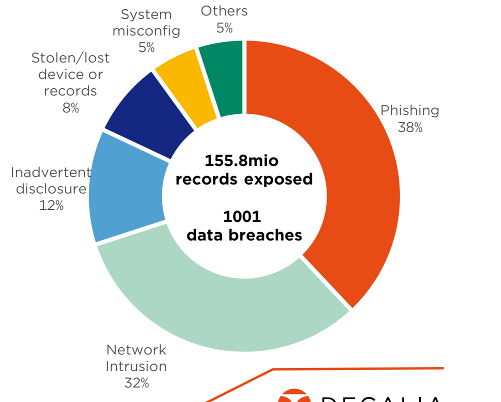
Written by Quirien Lemey, Senior Fund Manager

GRAPH OF THE MONTH

Global cybersecurity spending & malware infections
(2018 = latest actual data)



Most common cyberattacks experienced by US companies in 2020



Looking past near-term uncertainties

- Rising energy prices are acting as a headwind for growth and tailwind for inflation
- The stakes are high for the Fed as it begins to normalise its monetary policy
- Albeit more challenging, the macro backdrop remains supportive overall

The global economy continues its uneven recovery, but with momentum slowing as major developed markets gradually shift to a lower gear (though still above trend). As regards the ongoing inflation debate, while sticking to the "transitory" narrative, we acknowledge that the current spike in (some) prices, especially in the US, is perhaps too sharp – and somewhat lengthier than previously expected – to ignore. As a result, it may trigger unwelcome second-round effects through self-fulling expectations. For now, we are reassured by the fact that, notwithstanding the impact of the recent sudden energy price increases on "spot" US inflation measures, medium- to long-term inflation expectations remain anchored at levels consistent with past recoveries.

Still, a further jump in energy prices could act as major headwind, tilting growth risks to the downside and inflation ones to the upside, thereby increasing the odds of a future policy mistake. Understanding who will foot the bill of the challenging energy transition (fossil energy still accounted for 83% of primary energy demand in 2019) will be crucial too. Should governments and central banks step in, the result could be a (more) inflationary environment. Conversely, if consumers and companies come to bear the brunt of the cost, deflationary forces should eventually resurface next year.

Monetary policies have remained very accommodative thus far, even though central banks have started to prepare investors for an initial form of normalisation, likely to begin soon via QE tapering or recalibration. While this inflection in monetary stance could well prove challenging for global financial markets, with heightened volatility likely ahead, the tightening phase (at least up to the point at which its first stage has been well telegraphed) should not derail the equity market uptrend, in our view.

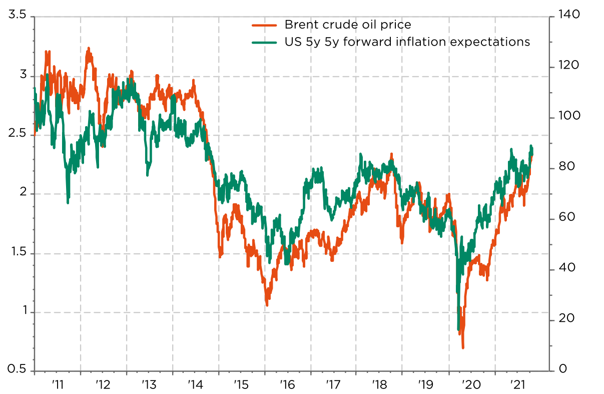
As a result, after turning slightly more cautious on global equities in July in anticipation of a choppier end to the summer and range-bound course for major indices, we now adopt a more constructive stance for year-end (upgrade to slight overweight). Not only did the recent bout in market volatility eventually prove us right, but we also believe that improved visibility on several of the moving parts in our global scenario deserves some recognition. In particular, developments in China (no Evergrande contagion) and the US (extension of the debt ceiling deadline) contributed to ease some of our previous concerns.

Moreover, remarkable buy-the-dip market forces, together with a gradually improving Covid situation, resilient global economic momentum, solid earnings growth, easing valuations, still low interest rates and less complacent investor positioning, all support our more positive view. Admittedly, the inflation debate, forthcoming QE tapering, pandemic headlines, a further surge in energy prices and a closely-scrutinised Q3 earnings season (wage and input costs toll) suggest that further volatility is to be expected.

All told, we intend to take advantage of any market pullbacks to add back to equities in a selective manner, confirming our intent to hold a high-quality balanced all-terrain portfolio, be it in terms of sectors or styles. Elsewhere, we make no changes to our prior positioning (i.e. underweight bonds and gold, overweight alternatives).

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

Inflation expectations rising as oil prices surge
Oil price & US 5-year 5-year forward inflation expectations



Easing is coming
Chinese total social financing (12-month rolling, Y/Y%)

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External sources include: Refinitiv Datastream, Bloomberg, FactSet, Gartner, BakerHostetler, Statista
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