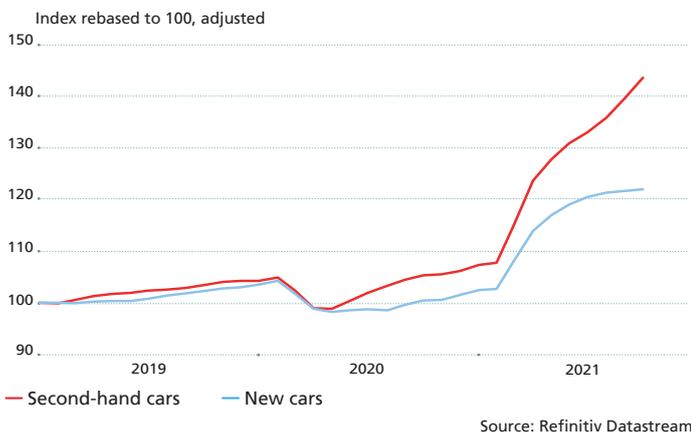


## When supply does not keep pace

The economic recovery is underway. GDP in the US and Switzerland is 1.4% above pre-crisis levels and the eurozone is expected to return to 2019 levels of economic activity by the end of the year. Yet, **the rebound is hampered by bottlenecks in production and logistics.** Demand is strong but supply cannot always keep up. Many sectors are affected, but the automotive industry is the hardest hit. The sector is facing several challenges. Firstly, the sector is undergoing a major transformation with the growth in electric vehicles and increasingly restrictive regulations. Its supply chain is also under pressure. At the peak of the health crisis, manufacturers - worried about the collapse in demand - cancelled many orders with their suppliers, especially for semiconductors. There was a shortage of components when the recovery took off and they had difficulty in obtaining supplies. They are therefore sometimes obliged to partially stop production and only a limited number of new cars are produced. Yet demand is strong. Consumers were not able to spend during the various lockdowns and now want to invest their savings in durable goods. Housing and cars are at the top of their list. Consumers, who are not able to buy new vehicles, are turning to second-hand cars. This is reflected in the fact that, despite the fall in production, car loans are growing strongly in the United States and sales of second-hand cars are booming. Sales figures rose by more than 40% in the US between September 2020 and September 2021.

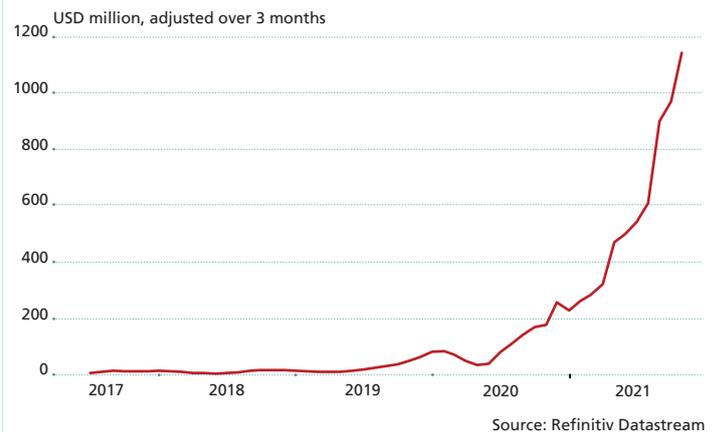
### United States: car sales



In addition, **the electric car boom is disrupting supply chains.** The metals needed to make batteries are in high demand. Both demand and prices are expected to remain high over the next few years. The market share of electric cars is growing steadily in Europe and China. Financial incentives, regulatory constraints and wider product offering are driving household demand. **Only technological breakthroughs will be able to reduce the need for electrical metals.** An example is the Chinese manufacturer BYD, which is able to equip its cars with cobalt-free batteries. China is leading the way in the race for electric cars and the Chinese company CATL, aided by

a proactive government policy to support the electric car industry, became the world's leading producer of car batteries in 2020, ahead of the Korean company LG.

### Chinese exports of car batteries



This recovery is unique in many respects: it has been rapid, unequal, has been hampered by a lack of supply and has generated massive stimulus programmes, which in turn has fuelled investment. The Covid crisis and the rebound in economic activity are fuelling the digital, energy and demographic megatrends. Significant public and private investment is needed to fundamentally transform economies and meet future challenges. The corporate investment cycle will ease supply bottlenecks. Companies are investing to build new production capacities. Furthermore, investment in research and development, which is a source of technological innovation, will help to increase productivity, and therefore profitability. Innovation could also reduce dependence on certain raw materials or components. Stimulus programmes are catalysts for companies and we recommend remaining invested in equities, while favouring selection based on the growth prospects of companies. **This includes companies that are aligned with the megatrends.** The confirmed outlook for the industry also makes it possible to continue selecting **companies in certain more cyclical sectors, that supply niche products and are well represented in European and Swiss small and mid-cap companies.** We have been applying this strategy to our portfolios since the beginning of the year.