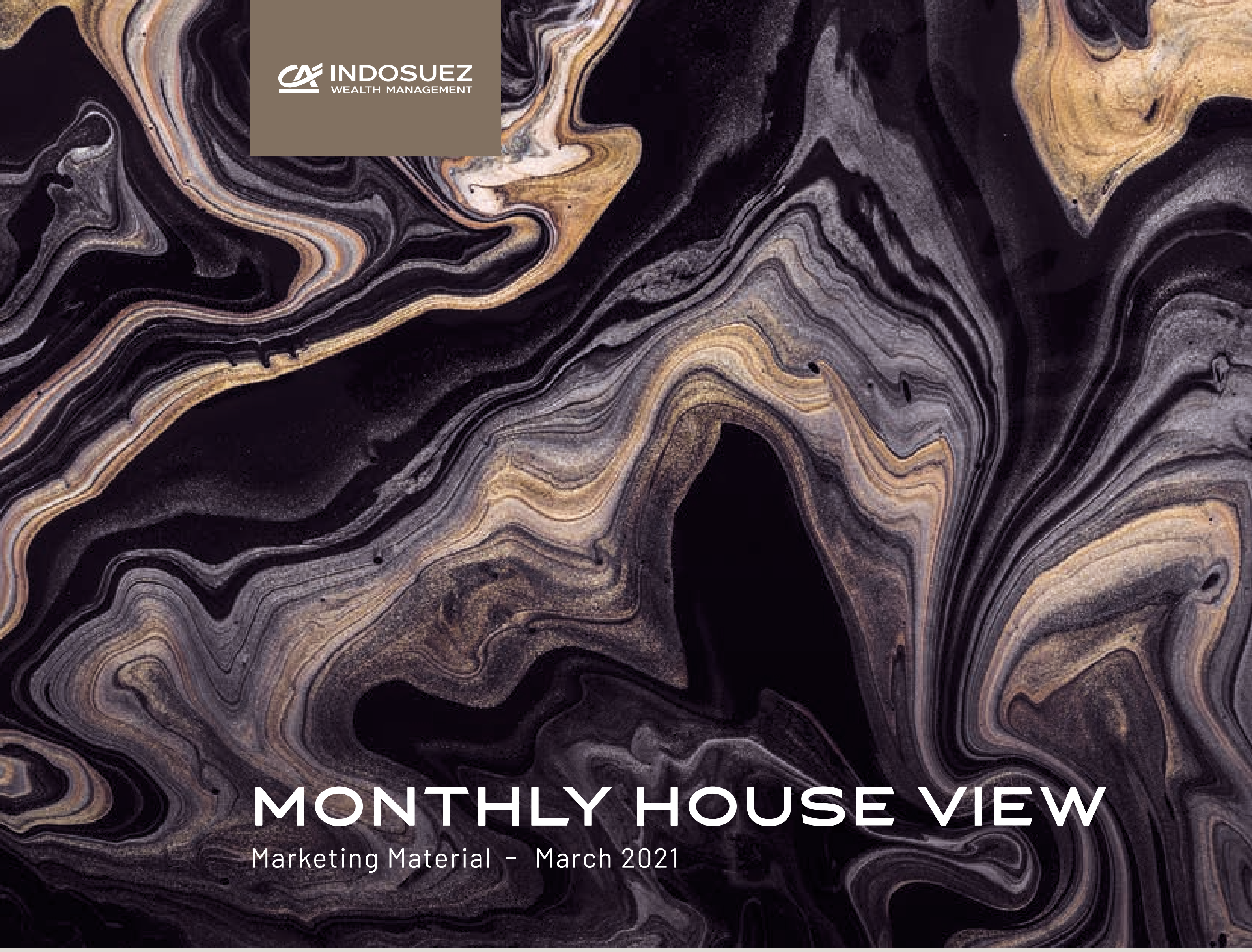

MONTHLY HOUSE VIEW

Marketing Material - March 2021

Focus
Oil prices go back to the future

Architects of Wealth

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V.I.S.A.: A NEW MARKET REGIME?

VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

Given the excellent Q4 corporate earnings reported in recent weeks, the equity market euphoria at the beginning of the year theoretically needs no explanation.

But it seems that financial markets are more generally governed by other factors these days. We call it the V.I.S.A. syndrome:

Vaccines/Inflation/*Stimulus*/Accommodation:

- **Vaccines:** vaccination campaigns are proceeding at different paces and this is what is now driving the 2021 growth outlook. The United States and the United Kingdom have a distinct advantage while the Euro Area is lagging;
- **Inflation:** in just a few months, investors have shifted from fears of a recession to fears of renewed inflation, sparking the rise in long term yields. The risk is that they have likely overreacted: after all, beyond the short term base effects, which we had anticipated, unemployment remains high and the deflationary pressures of the previous decade remain in place. However, a new economic policy equilibrium could make all the difference;
- ***Stimulus*:** it is increasingly likely that there will be an agreement on a massive fiscal *stimulus* package in the United States, in an already rebounding economy that is set to meet the vaccination challenge before the middle of the year. This is leading to both higher growth expectations and fears of excessive fiscal support;
- **Accommodation:** we find ourselves in the unusual position of having a very rapid rebound in the US economy even as the Fed intends to maintain its accommodative stance until 2023. The markets' real concern is therefore that the recovery could turn into an overheating mode and prompt the Fed to abandon its zero-rate policy.

Behind this acronym may lie a change of regime, or at least a new equilibrium driven by the most procyclical economic policy ever seen, in a US economy already projected to grow by 6% this year. Ultimately, it is impossible to say right now whether this recovery will lead to a faster and more sustainable acceleration in wages and inflation. One thing is true, however: a stronger recovery should translate into a rapid decrease in unemployment, which could again raise the question of whether the Fed will normalise short term rates. It has ruled this possibility out for now.

Therefore, the question economists are now asking is how to assess the risks that may arise from fiscal support that everyone has called for, but whose positive short term impacts on growth could eventually be offset by monetary normalisation.

Long term yields did not wait for the Fed or for economist responses and began to steepen again last summer. This steepening leads to two new factors. The first is more a painful reminder than a true discovery: the Fed does not control everything and especially not 10-year yields. The second is that long term yields reflect not only inflation expectations (which could stabilise), but also the strength of the recovery (which is boosted by the *stimulus*).

This creates a complex equation for investors: hold on to bonds which are starting to plateau or sell them to buy more volatile equities, some of which are not immune to rate hikes? Is there still time to hedge or are there equity styles that benefit from this reflationary environment?

These are the topics we discuss in this House View. Best of reading to all!

02 • Focus

OIL PRICES GO BACK TO THE FUTURE

Having risen over 10% in the last month, oil prices appear to be a little ahead of the economic recovery, driven mostly by supply constraints. Looking ahead, our view on oil prices is blurred by geopolitical factors, but if we stick to fundamentals there is little reason for oil prices to continue their current rate of ascent.

AN OIL PRICE RECOVERY BEFORE AN ECONOMIC RECOVERY?

Brent crude oil prices have climbed to more than USD 60 per barrel, up from below USD 40 when the first successful vaccine was announced in November 2020 and less than USD 20 at the trough of the pandemic in April. Oil prices are inching closer to their 2019 averages (Chart 1), supported mostly by temporary factors.

-9%

oil demand collapse in 2020

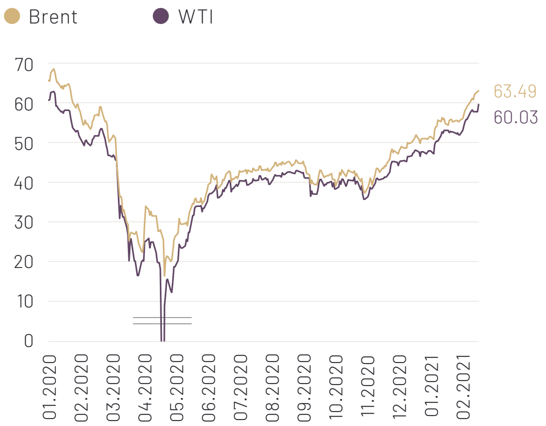
A BAD WEATHER, CARTEL AND MARKET-INDUCED SUPPLY SHOCK

Global oil demand collapsed in 2020 by 8.9 million barrels per day on average (-9%), one of the largest falls on record, to 92.3 million barrels. Oil supply largely outweighed demand over the first semester of 2020, leading to unprecedented spare oil inventories. Oil prices dropped under downward pressure until three unexpected actions took pace:

- With massive inventories and the threat of renewed lockdowns looming in January 2021, Saudi Arabia announced in January a supply reduction of -1 million barrels per day applied as of February and March production;
- Exceptionally bad weather conditions at the beginning of the year in both the US and in Asia, hindered Texan production and spurred Asian electricity producers to prefer oil generators as gas prices rose sharply;
- Market optimism on the recovery of demand post-vaccination bolstered market optimism on oil consumption.

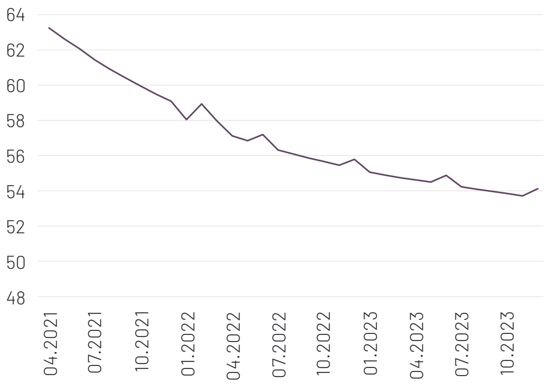
With these constraints on supply and demand holding better than expected, crude oil prices surged and the structure of the Brent crude oil market have moved firmly into a phenomenon called backwardation, where the price for Brent delivered in April is trading higher than for deliveries in November (Chart 2), implying that traders anticipate a need for more production in the rest of this year.

CHART 1: OIL PRICES, USD/BARREL



Source: Refinitiv, Indosuez Wealth Management.

CHART 2: BRENT OIL FUTURES CONTRACTS IN BACKWARDATION, USD/BARREL



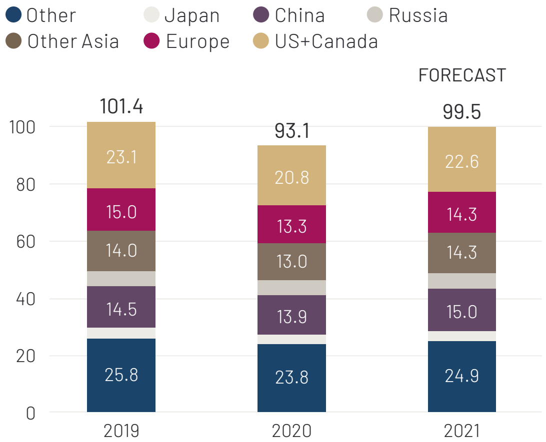
Source: Refinitiv, Indosuez Wealth Management.

Q2-2022
scheduled return of world oil supply & demand to pre-COVID-19 levels

OIL DEMAND NOT THE MAIN DRIVER, BUT COULD BE STONGER THAN ANTICIPATED

In Q1-2021, the global oil demand is sitting at around 96 million barrels per day, higher than supply (94 million), but still significantly lower than pre-pandemic levels (101 million, Chart 3). Oil demand is expected to have dropped by 1 million barrels per day in Q1-2021 vs. Q4-2020, but the improving economic outlook underpins stronger demand in H2-2021. The Energy Information Administration (EIA) recently revised its fuel consumption forecasts up in February for the US and to a lesser extent for Europe, but continue to estimate that total world demand is not expected to fully recover to pre-COVID-19 levels before Q2-2022, with the notable exception of China (14% of world demand) and India towards the end of 2021. From a sector standpoint, the recovery in global transportation will be a key driver of oil consumption with all eyes perched on the uncertainty surrounding air traffic (approximately 8% of world oil consumption in 2019), which has been falling again since December, albeit unevenly among geographies. The International Air Transport Association (IATA) warned early February that the number of kilometres travelled by paying passengers is expected to be limited in 2021 to 50% 2019 levels at best (versus approximately 13% today).

CHART 3: TOTAL WORLD DEMAND OF OIL, MBPD*



* Mbpd: thousand barrels per day.
Source: EIA Short Term Energy Outlook February 2021, Indosuez Wealth Management.

THE RISE IN OIL PRICES SHOULD MODERATE AS TEMPORARY SUPPLY PRESSURES DISSIPATE

The EIA sees world supply to return to pre-COVID-19 levels by May 2022 thanks to reduced OPEC constraints, increased North American and Eurasian production. US production is indeed expected to accelerate, as newly drilled wells (linked to investments supported by the recent increase in prices) should supply enough to offset the declining production rates of existing US wells in H1-2021 (US crude oil inventories have been declining for the last three consecutive weeks). With inventories depleting and vaccination campaigns providing more visibility on demand that at the end of the year, Saudi Arabia should remove supply constraints as of April 2021. We will be looking intently at the next OPEC-JMMC (Joint Ministerial Monitoring Committee) meeting programmed for the 3rd of March.

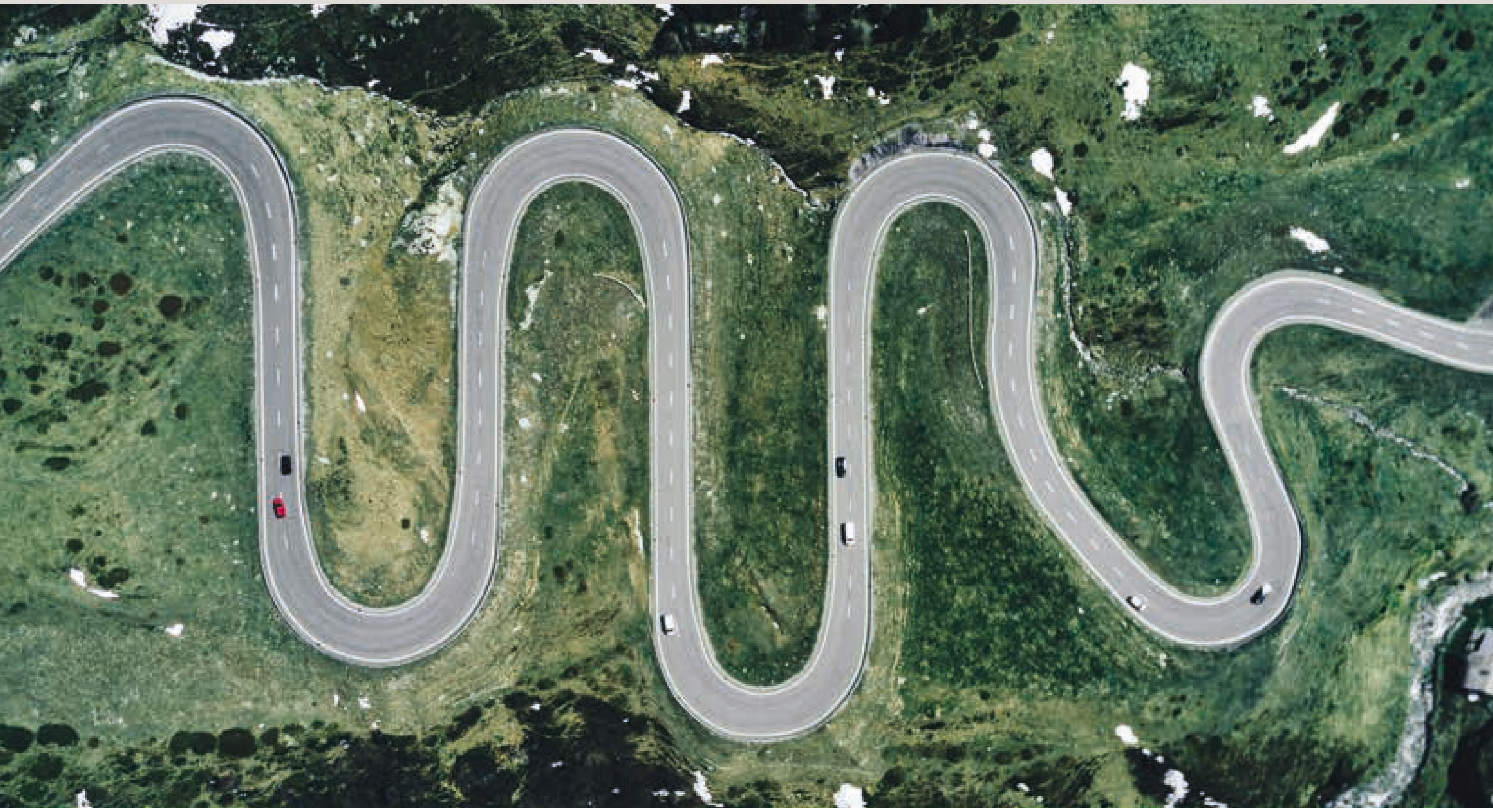
All in all, if oil supply is loosened, oil prices should return to levels around USD 55 per barrel in 2021, remaining below pre-pandemic levels until 2022. We do not expect oil producers to allow oil prices to return to their historical highs as it would not be in their long term interest given the already high pressure for further investment in decarbonised energy solutions, high crude prices would only "add oil to the fire".

Nevertheless, we cannot rule out short term (mostly upside) pressures from: the fact that EAI forecasts do not take into account the possible impact of the US stimulus and/or acceleration in the vaccination in mature markets that could bring about a faster recovery in demand.

Geopolitical risks, as recently highlighted by the return of tensions within the Middle-East (upside oil price risk) and de-escalation of US/Iran relations and their inherent impact on oil prices (downside risk).

If prices were to consolidate at this current high level (not our central scenario) this would add pressure on total inflation, with a first pass-through effect on manufacturing input prices.

THE TORTOISE AND THE HARE



The race is not always to the swift[1]. The US economic *stimulus* package – if adopted in full – would catapult the economy into a strong consumption based recovery, while the Euro Area trails behind. Nevertheless, Euro Area *stimulus* policies are centred on long term growth and the US risks possible whiplash, while China is in a race of its own entering normalisation.

US growth
2%
above potential if Biden plan accepted

US GOING FULL STEAM AHEAD

The US job market is the main concern for policy makers. The latest jobs report for January showed only a modest increase in jobs (+49 thousand after -227 thousand in December), bringing total job losses since the beginning of the crisis to 9.9 million. Retails sales exceeded market expectations (7.4% YoY in January), while business surveys pointed to stronger growth in both factory and services sectors which should be reinforced in the coming months by the speed of the vaccination campaign gradually reopening the economy. Democrats are pushing on for a reconciliation process to pass through their vast, USD 1.9 trillion fiscal *stimulus* plan to support the unemployed and ailing small businesses. The process, which would allow them to pass a relief bill without any Republican support, opens the door for a larger, front-loaded package predominantly focused on consumption. Thus far, the deal makes no mention of the pre-election structural measures dedicated to building-back-better a notably greener US infrastructure. Analysts are worried of a "boom-bust" scenario whereupon the US would grow over potential by 2% in 2021 and 1% in 2022 (Congressional Budget Office estimates), creating artificial price pressures (10Y inflation breakevens are over 2%) and losing the opportunity to make significant reforms in exchange for reinforced consumerism. As underlined by the Brookings Institution, the risk is that the return of GDP back to its maximum sustainable level may create a difficult economic path after these support measures are removed in 2021.

1 - Aesop, Greek fabulist and storyteller.

70%
of Spain's EU grants dedicated to green investment & digital transformation

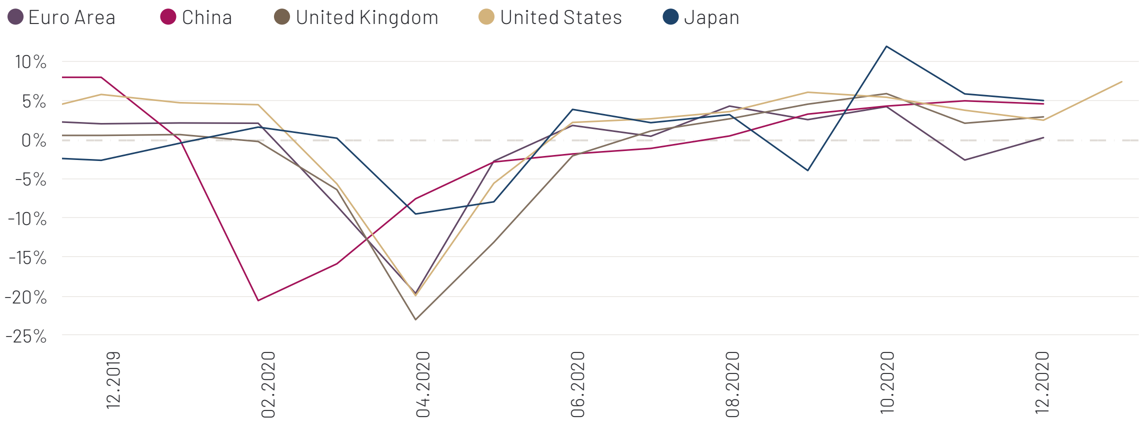
THE EURO AREA LAGS BEHIND (SO FAR)

With less than 3% of the population vaccinated (vs. 12% in the US and 23% in the UK), the Euro Area is the clear laggard in the race to recovery. Improvements on the political front (welcome back Mario Draghi), were not matched by any significant improvements on the economic front (PMI back to 48.1 in Feburary). The return in inflation (0.9% YoY) in January was no reason to cheer either, as it can only be attributed to temporary/technical factors. As of late July 2021, 70% of the European Union (EU) population is expected to be vaccinated. This coincides with the EU recovery fund disbursements, which needs to meet targets of 37% of spending devoted to green purposes and 20% to digital objectives. Spain plans to use about 70% of the EUR 72 billion of grants due from the recovery funds between 2021 and 2023 on green investment and digital transformation. In this context, after a temporary double dip in Q1, GDP growth should gain traction in H2, reaching 3.7% overall in 2021 (after -6.8% in 2020), with inflation at 1.4% after 0.3% in 2020 (EU Commission Winter Forecasts).

CHINA NORMALISES

The Chinese economy should grow by 8.5% in 2021, which gives it the lead position in GDP figures. However, with a growth impetus of 6.6% at the end of 2020, the recovery in China is not as strong as it may appear. The industrial leg of the economy powered on end 2020 (+7.3% in December), but growth is expected to be supported by the recovery in consumption in 2021 which has been more hesitant (Chart 4) and should be weaker in the beginning of the year as the Chinese New Year falls at a time of renewed travel restrictions. Policy makers in China are attempting to normalise growth and avoid macro imbalances by gradually reining in credit growth that supported the surge in investment in 2020. Finally, export growth is more uncertain as the recovery in developed markets in H2-2021 should foster exports, but exports in healthcare and work-from-home that supported growth in 2020 should slow in 2021. All in all, the rebalancing of growth towards domestic demand in China should not be mistaken for a slowdown. Chinese authorities will remain focused on growth, but will need to watch over the evolution of leverage ratios. Further policy action to stabilise the economy is possible, but will be gradual, with an expected rate of 25 basis points hike in H2-2021.

CHART 4: RETAIL SALES, YOY, %



Source: National sources, Refinitiv, Indosuez Wealth Management.


JULY
IV

STEEPER CURVE AND TIGHTER SPREADS

With the very accommodative policies from central banks, investors are currently pricing in the best-case scenario for risky assets when it comes to the trajectory of the coronavirus. We remain constructive on corporate bonds thanks to credit metrics stabilisation, but stretched valuations and market expectations of rising inflation, especially in the US, should be watched very closely.

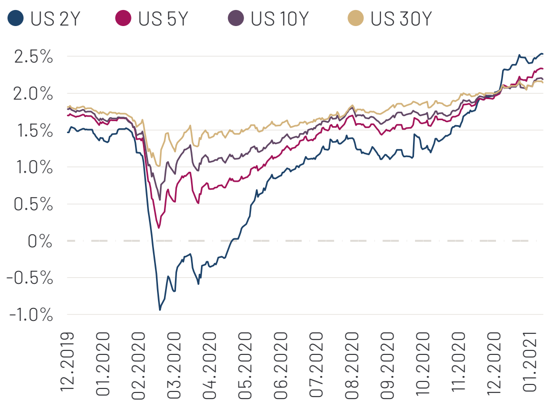
INFLATION EXPECTATIONS RISE, WHILE CENTRAL BANKS FOCUS ON DOWNSIDE RISKS

After the European Central Bank (ECB) monetary policy boost in December, the Fed has confirmed its dovish stance at the January FOMC meeting signalling that the current focus remains on downside risks. According to Chairman Jerome Powell, the main risk continues to be an insufficient policy calibration to control the pandemic and not a rise in inflation. In case of negative surprises, the Fed is ready to increase asset purchases. The interest rate market is not pricing the first fed hike before the end of 2023.

Since the beginning of the year, the US curve posted a strong "bear-steepening" movement (the 10 year yield surpassed 1.2%, while the 30 year breached the 2% threshold). Reflation trades explain this ongoing pressure. Among the drivers: prospects for further pandemic-relief spending, but also rising inflation expectations. US inflation breakevens have indeed heavily outperformed since the beginning of 2021 (Chart 5). Nevertheless, powerful recall forces such as accommodative monetary policy, a still negative unemployment gap and uncertainties regarding the recovery pace should limit this upward movement.

High yield
markets continue to outperform

CHART 5: US BREAKEVENS INFLATION RATE EVOLUTION, %



Source: Bloomberg, Indosuez Wealth Management.

In Europe, the German 10 year followed volatility on the US curve (+15 basis points over the past month), the German 30 year rose above 0% for the first time since early September. ECB credibility and Euro Area integration are no longer in question as demonstrated with the recent political situation in Italy. Mario Draghi's new Italian government helped the BTP-Bund spread to cross the 100 basis points on the downside for the first time since late 2015.

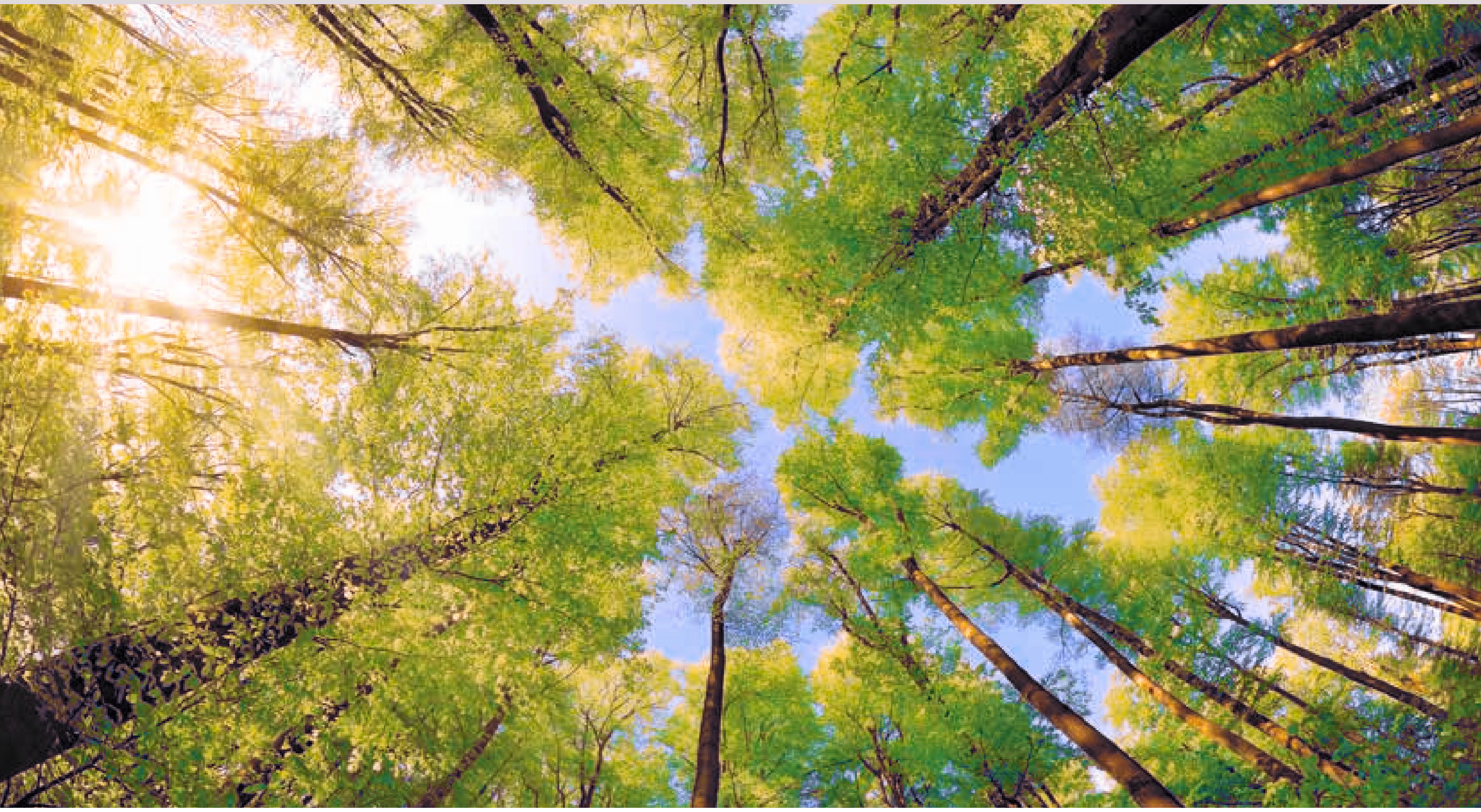
CONSTRUCTIVE ON CREDIT SPREADS

Credit spreads are continuing their rally in 2021 thanks to optimism surrounding a new US fiscal package, the vaccine rollout and a better than expected earnings season. We are not far from pre-pandemic levels in terms of valuation for euro investment grade (IG) and US investment grade credit. High yield (HY) markets continue to outperform thanks to credit metrics stabilisation. Expected improving default activity (high yield default rates are expected to peak in March in both the US and in Europe at 8.4% and 4.9% respectively compared to 9.1% and 5.4% a month ago) and the decline in supply should continue to help. CCC's and "deep value sectors" such as transportation, energy and broadcasting generated the highest gains.

Emerging markets (EM) activity data remain robust as the incomplete recovery continues. COVID-19 developments are back in focus, but do not look like they are derailing the global rebound forecast for 2021. Emerging Markets corporates should continue to benefit from the more resilient fundamentals involving very limited deterioration in leverage and only modest increase in defaults. Despite higher spreads for Latin American corporates, Asian valuations remain more attractive from a risk-adjusted return perspective.

05 • Equities

EQUITIES MAKING ALL-TIME HIGHS



As the turmoil created by the US retail frenzy has faded (but not disappeared), many leading indices are reaching new all-time highs. Equities still need to work through the third virus wave and resulting lockdowns, but as long as the confidence in the vaccine efficiency is not affected, equity markets will have the ability to look through the valley of the economic downturn.

Supportive monetary policy, fiscal *stimulus* and the expected earnings recovery are the pillars of our equity bullish scenario. From this point of view, the current reporting season is reassuring. Earnings are beating expectations in all regions, but more in US than Europe and earning revisions are moving higher at a pace rarely seen in the last decade. A rising concern investors are focusing on is the renewed strength on the US 10Y. However, as this move is almost entirely a function of breakeven inflation, we do not consider it, at this stage, as a problem for the entire equity market.

15%
above earnings estimates for US companies in Q4

UNITED STATES

The Q4 earnings season remains the focus of the US market with a record flow of positive surprises. In aggregate, companies are reporting earnings that are 15.1% above the estimates, which is strongly above the five-year average of 6.3%. Positive earnings surprises reported by companies in multiple sectors were responsible for the improvement in overall earnings for the index during the past week.

Another recent highlight in the US market was the strong impact from retail investors. The interest of individual investors in the financial markets has been increasing as shown by the surge in account openings. A number of these new investors seem to be adopting a very speculative attitude, particularly through options markets and small capitalisations.

EUROPE

In Europe as well the earnings season has been a very positive event, even if it is less stunning than in the US. On average companies were able to deliver 12% of positive surprises (vs. 19% in the US).

In terms of earnings growth, the variation vs. Q4-2019 is largely affected by the energy sector (-70% YoY EPS growth); while the entire market's earnings are still below Q4-2019 (by -15%), if we exclude the energy sector, earnings for the Stoxx 600 was stable over the year.

This demonstrates the capacity of companies to adapt to this environment as well as the significant benefits from the schemes put in place by governments to support the private sector. Beyond the recent news flow, our positive conviction on the European market is based on two structural drivers. First, the European market is more tilted towards cyclicals and value sectors than the rest of the world and this should be seen as an advantage when economic activity accelerates. Second, Europe is at the forefront of the ESG trend and a good way to get exposure to some solid Secular Growth Themes (disruptive technology, sustainable development or new consumer trends to name a few).

EMERGING MARKETS

The positive momentum for Asian equities continued over January and February 2021. China's economic recovery is still in progress, as the first country out of the COVID-19 crisis gate so far. We believe that attractive corporate earnings growth expectations, ample global liquidity and low global interest rates all bode well for Asia equities going forward. Sector positioning is attractive in Asia too, with a good mix between secular growth, well represented in China, and cyclical sectors, which are well represented in ASEAN markets.

On the contrary, Latin American markets suffered outflows in the past month after strong Q4.

At this time, we remain overweight China. We have turned more positive on select infrastructure industrial and cyclical plays in Asia as a whole notably South East Asia. Selectivity will remain key. A choppy global vaccination campaign, potential lockdowns and uncertain US/China relations remain overhanging risks over the near future as well as higher long term rates and a stronger USD which could weigh on flows.

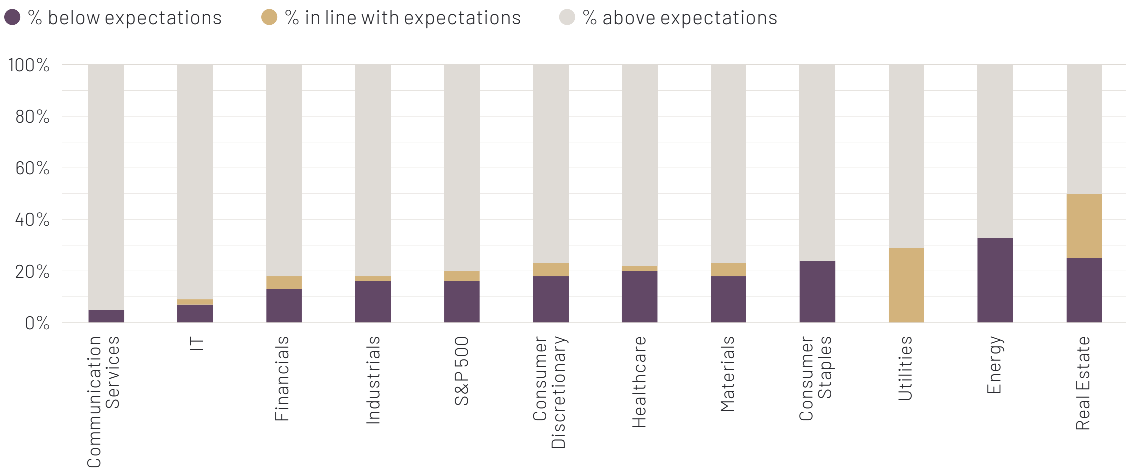
INVESTING STYLE

Rising 10 year Treasury yields and inflation expectations have historically had an impact on the relative performance between the cyclical vs. defensive styles as for value vs. growth. The recent move in US inflation expectations is supportive for our cyclical/value call and is positive for groups of sectors like Banks, Automotive, Basic Resources and Construction.

SECTORS

Positive earnings surprises have been reported by companies in the Financials, Information Technology, and Communication Services sectors have been the top contributors to the overall increase in earnings for the index since the end of the fourth quarter (Chart 6). Keep in mind that Alphabet, Facebook, Netflix, Snap and Pinterest are included in the "Communication Services" sector. Inversely, the Energy sector continues to suffer and is the main deception of this earning season.

CHART 6: S&P 500 EARNINGS Q4-2020, %



Source: FactSet Earnings season update as of 12.02.2021, Indosuez Wealth Management.
Past performance does not guarantee future performance.

USD TO CONTINUE RANGING

The US dollar may be swinging in the short term with long term US Treasuries, however this will remain range bound without significant macro developments. We favour commodity currencies Australian (AUD) and Canadian dollar (CAD) and the Norwegian krone (NOK) in reflationary 2021 whilst Pound Sterling (GBP) still has upside after a six month uptrend. Silver and Platinum are significantly outperforming Gold given their industrial roles, but Gold will stay supported.

$

USD
to weaken
in H2-2021

US DOLLAR (USD)

The dollar continues to swing both up and down with 5-10 years US Treasury yields and *stimulus* talks even though the Fed insists on its dovish message, that it will not raise rates for a while yet (until average inflation has caught up…which could well be a while away). It is worth noting that what usually matters for USD foreign exchange is short term rates up to 2 years. However, when short term rates are frozen by central banks and political risk vanishes, relative macro momentum is the only game in town. The better macro trend in the US compared to the Euro Area contributed to USD appreciation in the short term, as well as the expectation that a large *stimulus* deal will enhance GDP growth in the US above 6%.

But in the longer run, the second half of 2021 could well see a weaker USD year, once the market stops focusing on who is a few weeks behind in vaccine rollouts and instead on what the global macro implications from vaccines are for H2 – that is global growth outside of the US, which tends to push USD lower.

COMMODITY CURRENCIES AUD, NOK AND CAD

With increasing speculation in markets that fiscal *stimulus* will kick-start inflationary pressures across the developed world (mostly in the US) whilst a global economic recovery takes hold, a basket of commodity currencies AUD, CAD and NOK could be a very attractive long position to hold against short USD.

USD
1'770
Gold tests bottom of the range

All three currencies benefit from a high beta to commodity prices and general market risk appetite, given their economies rely significantly on the production of energy and industrial commodities (Chart 7). If inflationary pressures do materialise, commodity prices are likely to continue rising, whilst a pick-up in economic growth will further support high risk beta, and therefore AUD, CAD and NOK are likely to continue benefitting from significant macroeconomic tailwinds if 2021 does turn out to be a reflationary year. Note however that in a scenario where the economic recovery were jeopardised all three currencies would be likely to suffer significantly (as was the case in 2020). The backwardation shape of oil futures (i.e. December 2021 oil prices lower than spot prices) could be something to monitor in that respect.

POUND STERLING (GBP)

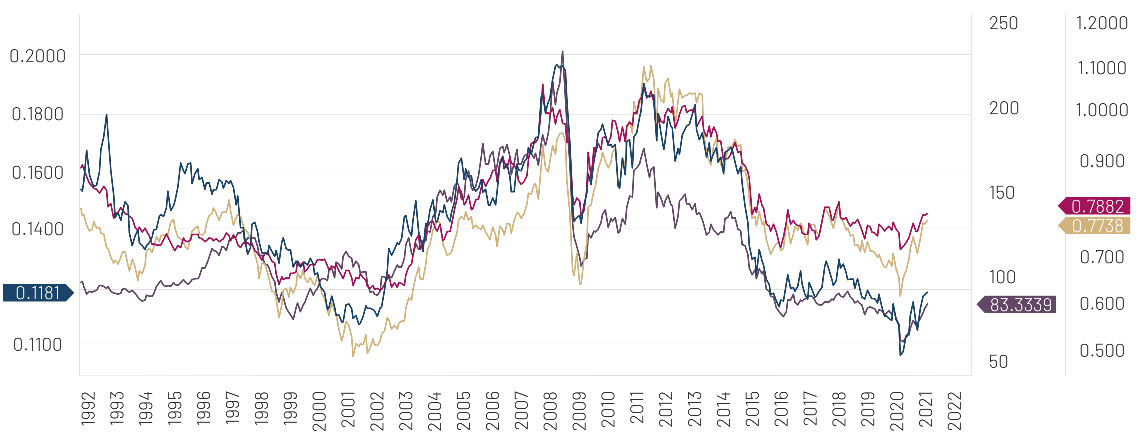
As we expected in late December, the GBP has normalised post trade agreement at around 1.38 and the event outpaced our expectations when it touched 1.395 against USD. Looking closely however and we can see that the uptrend is quite steady with EUR/GBP having steadily moved lower since September last year (barring some mid-December volatility as we approached the Brexit deadline). Behind its strength is not just the Brexit deal but also the first positive UK current account balance in decades as the pandemic has slowed outbound tourism and demand for imports.

Another possible explanation could come from equity flows since fund managers are cutting a 5 year long underweight on UK stocks which is driving the GBP up. It is also worth noting that, upon reflection, we no longer believe in headwinds from a potential second Scottish independence referendum (this year), as there is little chance the UK central government would approve it whilst handling both pandemic and Brexit. So if there is still room to continue appreciating, resistance might only be found at the post-2016 highs for GBP: EUR/GBP 0.83 and GBP/USD 1.434.

PRECIOUS METALS

At the time of writing Gold is testing the bottom of the range at USD 1'770 whilst Silver and Platinum have soared in February. The outperformance of the white metals over the yellow metal is not purely down to reddit-fueled retail speculation – both metals bear a strong beta to global growth and risk appetite given their industrial applications. Silver in particular is benefitting from the prospect of greater "green economy investment" in the US given its use in the production of solar panels. Whilst we think Silver and Platinum could still push significantly higher given their less liquid markets and volatile nature, we continue to believe Gold will remain supported this year as US real yields stay suppressed by the Fed and fiscal-*stimulus* induced inflation expectations.

CHART 7: COMMODITY INDEX VS AUD, CAD, NOK



Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

INVESTMENT SCENARIO AND ALLOCATION

5 NARRATIVES ON THE 2021 SCENARIO

- **A year of growth recovery,** boosted by the vaccination campaign in the US and UK but delayed in the Euro Area;
- **A year of rebound in earnings,** confirmed and amplified by the Q4 earnings season;
- **A year of strong support from policy-mix,** both from the monetary and fiscal side;
- **A year of normalisation** of inflation and long term rates, boosting rotation from bonds to equities;
- **A year of transformation,** with an acceleration of digital disruption and a surge in environmental investments.

3 SOURCES OF WORRIES IN THE SHORT TERM

- **Retail frenzy:** in China and in the US, the volumes of activity of retail investors on the market is becoming almost alarming; acceleration of call options traded in the US, surge of margin loans in China. When everyone wants to join the party, history tells us that the bull market is getting mature;
- **Rate steepening:** a steeper yield curve can be worrisome for holders of long maturity bonds but this is not necessarily bad news for equity markets. Just remember the anxiety generated by a flat curve in 2018-2019. It is a sign of an economy that accelerates and many industries can benefit from it. Investors well positioned on cyclical and value sectors are well rewarded in this market moment. However, since most of the equity market growth of the past decade is linked to quality/growth/technology, there is probably a pain level on the long term rates that would start to become negative for this segment of equity markets;
- **Fiscal optimism:** a significant part of the market acceleration since October can be linked to the hope of additional US fiscal *stimulus*. Rationally the effect on earnings implies that this plan will effectively boost growth. Therefore, if we are to be disappointed on the size, the timing or the multiplier effect of the plan, investors may revise their positioning.

A STEEPER YIELD CURVE is not necessarily bad news

3 UNSOLVED ECONOMIC QUESTIONS IN THE MEDIUM TERM

- **The US *stimulus*** is raising questions on the medium term impact on growth and inflation, with the risk that an excessive calibration of the fiscal plan could generate overheating, that would need to be sterilised by monetary normalisation, which could ultimately translate into a "boom and bust" scenario for markets;
- More broadly speaking, and beyond the US, **the inflation regime** of the last decades has been driven by structural factors that are still here (digitalisation and globalisation) but also by a less supportive policy mix (fiscal austerity in Europe, inflation targeting) than the present one which could result into reflation;

- The debate of policy mix is totally focused on the adequate calibration and targeting in order to maximise the impact on growth, while the narrative on **debt sustainability** has been put aside… for now. Hence the need to remain vigilant on the countries vulnerable to a rise in long term rates and USD beyond 2021.

6 ALLOCATION IMPLICATIONS BY ASSET CLASS AND GEOGRAPHY

Constructive on
RISKY ASSETS

- We remain **constructive on risky assets,** with a focus on equities and high yield and emerging debt over expensive investment grade debt in mature markets, where absolute yield becomes vulnerable to rate steepening;
- We continue to prefer a good balance between secular growth themes and cyclical/value plays, while staying away from so called defensive sectors (or proxy bonds) that are vulnerable to higher rates and do not benefit by the acceleration in the economic cycle or from digital and environmental trends. This positioning has worked particularly well over the past months in our portfolios;
- Going forward, **style and sector positioning matter more** than the geographical positioning between US and Europe, two geographies on which we are relatively neutral globally, but on which we identify attractive opportunities (innovation and mid-caps in the US; cyclical and value stocks in Europe as well as small-caps);
- We maintain our **overweight on emerging markets** with a rotation from China (which remains a strategic position) towards more cyclical emerging markets;

A rotation of
SAFE HAVENS

- A **rotation of risk factors warrant a rotation of safe havens** in portfolios. We are tactically less constructive on gold, remain moderately underweight on duration and we have increased our exposure to inflation-linked bonds;
- Our call for USD weakening is on pause linked to the US *stimulus* and stronger macro *momentum*; this warrants neutrality in the short term on the EUR/USD and diversification opportunities towards the RMB and commodity currencies.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
Core EUR 10Y (Bund)	=	=
EUR Periphery	=	=/-
USD 10Y	=/-	=
CREDITS		
Investment grade EUR	=/-	=/+
High yield EUR/BB- and >	=	=/+
High yield EUR/B+ and <	=	=/-
Financials Bonds EUR	=	+
Investment grade USD	=/-	=/+
High yield USD/BB- and >	=	=/+
High yield USD/B+ and <	=	=/-
EMERGING DEBT		
Sovereign Debt Hard Currency	=/+	=/+
Sovereign Debt Local Currency	=/+	=
Latam Credit USD	=/-	=/-
Asia Credit USD	=/+	+
Chinese Bonds CNY	=/+	+
EQUITIES		
GEOGRAPHIES		
Europe	=/+	=
United States	=	=/+
Japan	-/=	-/=
Global EM	=/+	+
Latin America	-/=	=
Asia ex-Japan	=/+	=
China	=/+	+
STYLES		
Growth	=/+	+
Value	=/+	=
Quality	-/=	=
Cyclical	=/+	=
Defensive	-	-/=
FOREX		
United States (USD)	=	-
Euro Area (EUR)	=	+
United Kingdom (GBP)	=	+
Switzerland (CHF)	=/-	=
Japan (JPY)	=/-	=
Brazil (BRL)	=/-	+
China (CNY)	=	+
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 17 FEBRUARY 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.27%	19.01	35.71
France 10Y	-0.13%	17.50	21.40
Germany 10Y	-0.37%	16.10	20.30
Spain 10Y	0.29%	21.30	24.40
Switzerland 10Y	-0.28%	17.50	26.70
Japan 10Y	0.10%	5.90	7.80

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	44.88	-0.49%	-0.82%
Euro Governments Bonds	220.78	-0.44%	-0.63%
Corporate EUR high yield	209.72	0.70%	1.29%
Corporate USD high yield	321.69	0.55%	1.11%
US Government Bonds	323.81	-0.33%	-0.64%
Corporate Emerging Markets	52.98	0.26%	-0.23%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.08	0.45%	0.07%
GBP/USD	1.39	1.49%	1.37%
USD/CHF	0.90	1.03%	1.55%
EUR/USD	1.20	-0.56%	-1.46%
USD/JPY	105.87	2.25%	2.54%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	21.50	-0.08	-1.25

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'931.33	2.06%	4.67%
FTSE 100 (United Kingdom)	6'710.90	-0.44%	3.88%
Stoxx Europe 600	416.10	1.28%	4.28%
Topix	1'961.49	6.05%	8.69%
MSCI World	2'815.98	1.97%	4.68%
Shanghai SE Composite	5'768.38	6.05%	10.69%
MSCI Emerging Markets	1'444.93	3.14%	11.90%
MSCI Latam (Latin America)	2'415.93	-2.08%	-1.46%
MSCI EMEA (Europe, Middle East, Africa)	255.94	1.21%	6.08%
MSCI Asia Ex Japan	957.55	3.72%	13.60%
CAC 40 (France)	5'765.84	2.44%	3.86%
DAX (Germany)	13'909.27	-0.09%	1.39%
MIB (Italy)	23'178.56	2.33%	4.25%
IBEX (Spain)	8'122.70	-0.99%	0.61%
SMI (Switzerland)	10'809.28	-1.24%	0.99%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'402.00	3.02%	4.31%
Gold (USD/Oz)	1'776.13	-5.11%	-6.44%
Crude Oil WTI (USD/Bbl)	61.14	14.84%	26.01%
Silver (USD/Oz)	27.32	6.01%	3.42%
Copper (USD/Tonne)	8'390.00	4.29%	8.04%
Natural Gas (USD/MMBtu)	3.22	26.78%	26.78%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
Stoxx Europe 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

	NOVEMBER 2020	DECEMBER 2020	JANUARY 2021	4 WEEKS CHANGE	YTD (17.02.2021)
BEST PERFORMING +	21.61%	11.60%	3.98%	6.05%	13.60%
	13.93%	7.15%	2.97%	6.05%	11.90%
	13.73%	6.62%	2.70%	3.72%	10.69%
	12.66%	6.32%	1.07%	3.14%	8.69%
	12.35%	5.06%	0.23%	2.06%	6.08%
	11.12%	4.14%	-0.80%	1.97%	4.68%
	10.75%	3.71%	-0.82%	1.28%	4.67%
	9.21%	3.10%	-1.05%	1.21%	4.28%
	7.98%	2.84%	-1.11%	-0.44%	3.88%
− WORST PERFORMING	5.64%	2.48%	-6.80%	-2.08%	-1.46%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

Backwardation: Refers to a situation where a futures contract's price is below the spot price of the underlying. The opposite situation is referred to as Contango.

Barbell: An investment strategy that exploits two opposing ends of a spectrum, such as going long both the short- and long-end of a bond market.

Basis point (bps): 1 basis point = 0.01%.

Below par bond: A bond trading at a price inferior to the bond's face value, i.e. below 100.

Bottom-up: Analyses, or investment strategies, which focus on individual corporate accounts and specifics, as opposed to top-down analysis which focuses on macro-economic aggregates.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

Bund: German sovereign 10-year bond.

Call: Refers to a call option on a financial instrument, i.e. the right to buy at a given price.

CFTC (Commodity Futures Trading Commission): An independent US federal agency with regulatory oversight over the US commodity futures and options markets.

COMEX (Commodity Exchange): COMEX merged with NYMEX in the US in 1994 and became the division responsible for futures and options trading in metals.

Contango: Refers to a situation where the price of a futures contract is higher than the spot price of the underlying asset. The opposite situation is referred to as Backwardation.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates, expressed in years. The longer the duration of a bond, the more its price is sensitive to any changes in interest rates.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to "operating earnings".

EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and euro-member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

EPS: Earnings per Share.

ESG: Environmental, Social and Governance.

ESMA: European Securities and Markets Authority.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

Futures: Exchange-traded financial instruments allowing to trade the future price of an underlying asset.

G10 (Group of Ten): One of five groups, including also the Groups of 7, 8, 20 and 24, which seek to promote debate and cooperation among countries with similar (economic) interests. G10 members are: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK and the US with Switzerland being the 11th member.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

GHG: Greenhouse gases.

Gulf Cooperation Council (GCC): A grouping designed to favour regional cooperation between Oman, Saudi Arabia, Kuwait, Bahrain, United Arab Emirates and Qatar.

High yield: A category of bonds, also called "junk" which ratings are lower than "investment grade" rated bonds (hence all ratings below BBB- in Standard & Poor's parlance). The lower the rating, the higher the yield, normally, as repayment risk is higher.

Hybrid securities: Securities that combine both bond (payment of a coupon) and share (no or very long maturity date) characteristics. A coupon might not be paid, as with a dividend.

iBoxx investment grade/high yield indices: Benchmarks measuring the yield of investment grade/high yield corporate bonds, based on multi-source and real-time prices.

IMF: The International Monetary Fund.

Investment grade: A "high quality" bond category rated between AAA and BBB- according to rating agency Standard & Poor's.

LIBOR (London Interbank Offered Rate): The average interbank interest rate at which a selection of banks agree to lend on the London financial market. LIBOR will cease to exist in 2020.

LME (London Metal Exchange): The UK exchange for commodities such as copper, lead, and zinc.

Loonie: A popular name for the Canadian dollar which comes from the word "loon", the bird represented on the Canadian one dollar coin.

LVT: Loan-to-Value ratio; a ratio that expresses the size of a loan with respect to the asset purchased. This ratio is commonly used regarding mortgages, and financial regulators often cap this ratio in order to protect both lenders and borrowers against sudden and sharp drops in house prices.

Mark-to-market: Assessing assets at the prevailing market price.

OECD: Organisation for Economic Co-operation and Development.

OPEC: Organisation of Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

Policy-mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

PMI: Purchasing Managers' Index.

Put: An options contract that gives the owner the right, but not the obligation, to sell a certain amount of the underlying asset at a set price within a specific time period. The buyer of a put option believes that the underlying stock price will fall below the option price before expiration date. The value of a put option increases as that of the underlying asset falls, and vice versa.

Quantitative Easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

Renminbi: Translating literally from Chinese as "currency of the people", this is the official name of China's currency (except in Hong Kong and Macao). It is also frequently referred to as the yuan.

Russell 2000 Index: A benchmark measuring the performance of the US small cap segment. It includes the 2000 smallest companies in the Russell 3000 Index.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

SRI: Sustainable and Responsible Investments.

Subordinated debt: Debt is said to be subordinated when its repayment is conditional upon unsubordinated debt being repaid first. In return for the additional risk accepted, subordinated debt tends to provide higher yields.

Swap: A swap is a financial instrument, often over the counter, that enables two financial flows to be exchanged. The main underlyings used to define swaps are interest rates, currencies, equities, credit risk and commodities. For example, it enables an amount depending on a variable rate to be exchanged against a fixed rate on a set date. Swaps may be used to take speculative positions or hedge against financial risks.

USMCA: The United States-Mexico-Canada Agreement, signed by the political leaders of the three countries on 30 September, 2018, replacing NAFTA (created in 1994).

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

Wedge: A wedge occurs in trading technical analysis when trend lines drawn above and below a price chart converge into a arrow shape.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: The World Trade Organisation.

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The banks of the Indosuez Wealth Management Group are preparing for the replacement or restructuring of interbank interest rates, such as the LIBOR, EURIBOR and EONIA, the fixing terms of which will be strengthened significantly, as decided by the financial market authorities and banking agents. At the European level, the European Central Bank began publishing the €STR (Euro Short Term Rate) in October 2019, which will sit alongside the EONIA until December 2021 and will replace it in January 2022. Concerning the EURIBOR, the European Money Markets Institute confirmed in November 2019 that the transition phase for the Hybrid EURIBOR has been completed, paving the way for full restructuring between now and December 2021. Each IBOR interest rate (e.g. the LIBOR US Dollar) will also be overhauled between now and the end of 2021. Accordingly, the Swiss National Bank announced in June 2019 the introduction of its own policy interest rate in Swiss francs, calculated based on the SARON (Swiss Average Rate Overnight) with the goal of creating forward rates that will also be calculated based on the SARON.
The Indosuez Wealth Management Group is following all of these reforms very closely and has a specific framework to cover all related legal, commercial, and operational impacts. For now, you are not required to do anything in relation to your financing operations or investments indexed to the benchmark rates concerned by these changes. You will receive further information once a better picture surrounding the details of the replacements are known. Please feel free to contact your account manager if you have any questions.