INDOSUEZ WEALTH MANAGEMENT

MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – NOVEMBER 2020

MARKETING MATERIAL

FOCUS

RMB: THE CURRENCY OF THE 21ST CENTURY?

EQUITIES

US ELECTIONS: THE LAST HOME STRETCH

EDITORIAL

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COVID-19, THE PRESIDENT AND THE MARKETS

Dear Reader,

Are markets focusing on the right catalysts and risk factors?

This question is the centre of a complex equation for investors ahead of this unusual US election.

One can notice that there is a paradox in the recent behaviour of markets. On the one hand, the increasingly likely victory of Joe Biden does not seem to scare investors, as per the positive momentum on US equities over the last two weeks. On the other hand, the growing probability of a blue wave in the House of Representatives (that could also potentially lead to a Democrat Senate) could mean a greater probability of fiscal reform that could in turn negatively affect US corporate earnings.

In the last two weeks, markets were increasingly focusing on the hopes for a fiscal deal, that will not necessarily be concluded before the election, but that should take place one way or another, whoever will seat in the Oval office from next January. From that perspective greater attention is brought towards cyclical stocks, which may have put the election outcome in the backseat.

Nevertheless, that does not mean that investors are ignoring the risk of an unexpected outcome, such as a disputed election arbitrated by the Supreme Court. One just has to look at the elevated, implied volatility of equities to understand that many hedging strategies have probably been implemented. The unwinding of these could result in a positive market direction post election results, whatever the outcome and just because the uncertainty factor has disappeared.

Beyond the US election, investors need to remain lucid and focused on what fundamentals tell us. In that respect, the picture sends somewhat diverging messages between the US and the Euro Zone, and between the macro economy and the bottom up signals from the current earnings season.

On the macro front, divergence seems to increase between China, US and Europe, and confirms our hierarchy between geographies in terms of equity allocation: a very constructive view on China which is the only large economy that is growing in 2020 compared to 2019; and a preference for US equities over European ones which have been mostly flat since June.

On the bottom up front, the earnings season seems to start with positive surprises, which could result in good momentum for earnings forecasts for the year-end, even if 2021 forecasts can be seen as ambitious.

Will this landscape and hierarchy of preferences change as we progress into the year-end and pass this election hurdle? We feel that this election will not be neutral for markets. Beyond short-term reactions, the agenda of the next administration could impact the US curve and the dollar, which in turn will impact the sectors and geographies that investors may favour in this new context.

A victory of Biden could be a catalyst for an outperformance of cyclical stocks and emerging assets in 2021, after a year dominated by US equities, quality stocks and the technology sector (which also explains the outperformance of China). In most cases, Chinese assets could continue to perform well, whilst uncertainties remain in Europe, despite the strong appeal of lower valuations and attractive opportunities that can be found in mid-caps and environment-focused companies.

In short, investors should not overreact to the US election, but can prepare for the aftermath of this political event, whilst implementing some strategies to hedge against unexpected outcomes.

FOCUS

RMB: THE CURRENCY OF THE 21ST CENTURY?

FLASH BACK ON THE RECENT STRENGTHENING OF THE RENMINBI

Over the last five months, the renminbi (RMB) has gained traction against the US dollar, and more recently against the euro since August. This strengthening is attributable to several factors among which:

- A better macro recovery also related to a better COVID-19 management;
- A less accommodative monetary policy in China than in other mature markets, with positive real interest rates;
- A relapse of trade war tensions, and a US presidential race that favours Biden which is expected to be less aggressive and unpredictable;
- Better fundamentals in terms of trade balance and current account.

In short, this context has polarised pre-existing strengths and weaknesses of each country and tends to accelerate the access of China to global leadership. These phenomena could shed a new light on the future of the Chinese currency.

THE PAST RMB PHASES OF WEAKNESS AND STRENGTH

In the past the RMB has experienced successive phases of relative strength and weakness; we can mostly highlight the following phases and explanations, bearing in mind that in most cases it is as much a change in the value of the greenback than anything else:

- 2014-2016: the RMB drop is explained by macro weakening and pressure from capital flows, as well as the rebasement of the currency on a basket of currencies integrating more regional neighbours;
- 2017: the reappreciation of the currency mostly reflecting USD weakening;
- 2018: the weakening explained by the trade war (from April 2018 to November 2019 agreement on the Phase 1 trade discussion package), which also reflects the interest hikes in 2018 as the weaponisation of the currency by Chinese authorities in summer 2019.

During the last decade, the RMB traded on the 6.05 to 7.15 range against the US dollar, which is relatively narrow in such a time horizon and reflects the controlled nature of the currency.

THE FAIR VALUE OF THE RMB

These past fluctuations and the controlled nature of the RMB raise the question of the underlying fundamental value of the RMB. An approach generally based on purchasing power parity, which gives the value of the currency that is equal to the price of the same goods and services between two countries.

This approach suggests that the fair value stands way above present levels. However, this by no means should lead to the conclusion that the RMB has a significant upside potential given its controlled nature (and PPP methodology is more consistent with floating currencies with countries of comparable productivity levels).

EVOLUTION OF THE CURRENCY REGIME

The way the external value of the RMB has been set has varied over time. Until 2005, it was pegged to the US dollar with a very narrow fluctuation band (+/- 0.3%). This has been replaced by a basket of currencies in July 2005 with grated fluctuations. As part of that change, and reflecting the significant trade surplus of China in the past decade, the exchange rate improved from 8.77 to 6.15 in 2014.

The currency regime of the RMB is one of a semi-floating currency, largely influenced by the central bank, for which the value the RMB is an objective of monetary policy:

- The People's Bank of China (PBoC) set an ideal exchange rate around which a -2% to +2% trading range is authorised;
- The opening rate takes into account the last day closing value as well as quotations from 30 banks of which 20 are Chinese and 10 are international;
- The way the exchange rate is calculated is not entirely disclosed and PBoC has leeway to decide which rates should be taken into account (banks with high liquidity have more influence on the exchange rate).

This new, but still somewhat discretionary, currency regime has enabled Chinese authorities to:

- Adapt to phases of stress in capital flows, as in August 2015;
- Enter the restricted club of reserve currencies in October 2016 alongside the dollar, the yen, the euro and the pound sterling (special drawing rights mechanism);
- Use the currency as a weapon against trade tensions imposed by the US. This sends a clear message to Washington: China can offset unilateral trade barriers with a cheaper currency (example: August 2019 when the RMB weakened from 6.88 to 7.17 in two weeks).

However, the long-term objective of the PBoC is to establish the RMB as a leading currency, largely present in global trade and in the balance sheets of central banks and sovereign funds. This implies:

- Allowing a greater flexibility of the currency;
- Developing domestic financial markets;
- Allowing greater flexibility in belcapital accounts and capital flows.

FOCUS

RMB: THE CURRENCY OF THE 21ST CENTURY?

TOWARDS AN INTERNATIONAL RESERVE CURRENCY?

Now that we enter in a new context where the Chinese economy is less under pressure, and faces less dilemmas on its monetary policy, there is probably more headroom to accelerate that path. Today, the proportion of global trade settled in renminbi has increased to the 6th rank globally, and the Belt & Road Initiative is expected to accelerate this. Today it represents 20% of China's trade.

However, in terms of global reserves, the renminbi only represents 2% (far from the 62% represented by the greenback). This can be impacted by geopolitics; Russia shifted part of its reserves from US dollar into RMB between 2018 and 2019, and the RMB now represents around 15% of reserves, more than the USD.

The criteria used by the International Monetary Fund (IMF) to define a reserve currency are not yet fully met (meaning that the 2016 inclusion was partly political) and could set the agenda for China in the next decade: a freely tradable currency, used to conclude international transactions and widely used in financial markets. The recent decision taken to lower the level of foreign exchange reserves for Chinese financial institutions may be a step in that direction.

RMB: ONE OF THE ONLY LARGE ECONOMIES WITH POSITIVE REAL INTEREST RATES

The value of the renminbi should remain sustained whoever occupies the White House given that China is one of the only key countries offering positive real interest rates, whilst having a positive current account alongside Russia, whilst not depending on the value of oil, and less affected by geopolitical tensions in Europe. This will remain a pillar of the investment case of the Chinese currency.

This however raises the question of the durability of the present monetary policy.

PBOC: A CHANGING REACTION FUNCTION? (LOW GROWTH LOW INFLATION, OLDER POPULATION...)

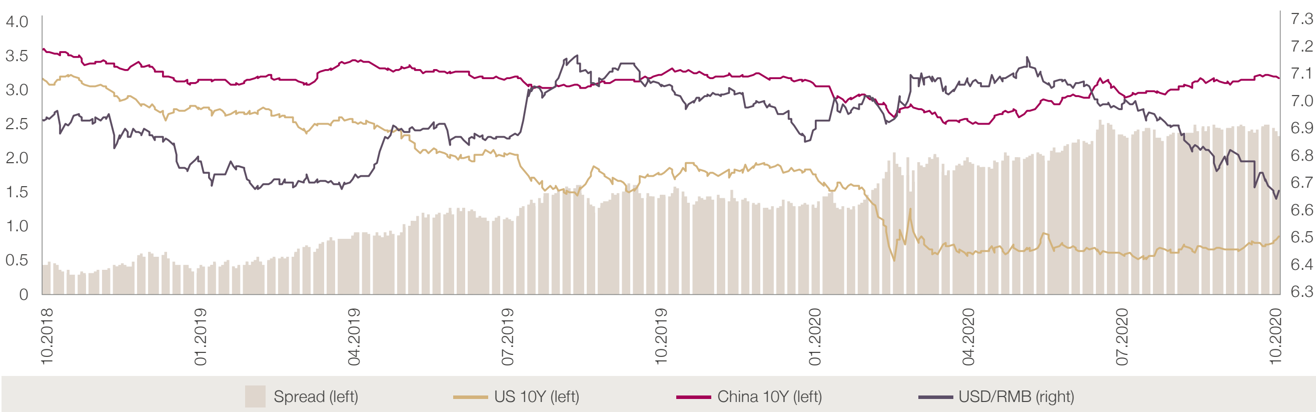
Presently, the goals and mandate of the PBoC are somewhat different from western central banks, which focus on price stability (with an inflation targeting policy) and on economic growth/full employment. The PBoC focuses mainly on growth and on the stability of the external value of the currency. However, a wide array of tools enables the PBoC to limit inflation or boost activity through macro prudential measures such as regulatory reserve ratios, which almost matter as much as interest rates.

So far, there is no perspective for a change in monetary philosophy nor for a change in interest rate direction in China. The sustained economic recovery post COVID-19 helps to relativise sub-par inflation. The capacity of China to drive a strong recovery whilst keeping positive real rates is a comfortable situation for the Chinese central bank, which does not have to deal with the same dilemmas as central banks of other emerging markets who have to choose between sustained growth or defending their currency. This explains the appreciation of the renminbi and in the longer run, gives flexibility to internationalise the currency and accelerate the opening of capital markets initiated through Bond Connect investment channel for example.

RMB WITH BIDEN: LESS WEAPONISATION

In the short-term context, investors could also be more confident in the value of the Chinese currency in the case of a Biden-win scenario; this would mean probably less trade tensions and less attempts by the Chinese authorities to use the currency as a weapon. This adds to the long list of reasons to remain long on the yuan, even if a disputed scenario or alternatively a surprise victory could affect its value in the short term.

YIELD CURVE DIFFERENTIAL, %



Source: Datastream, Indosuez Wealth Management.


Downside risks prevail
for the growth trajectory.

MACRO ECONOMICS

CONTINGENCY PLANNING

Uncertainty is high as our pens hit the paper. US election outcomes remain unpredictable and the surge in COVID-19 cases in Europe has produced heightened risks of a new turndown in economic activity in the region before year-end.

THE FACTS: THE RECOVERY IS RELATIVELY ON TRACK OUTSIDE OF EUROPE

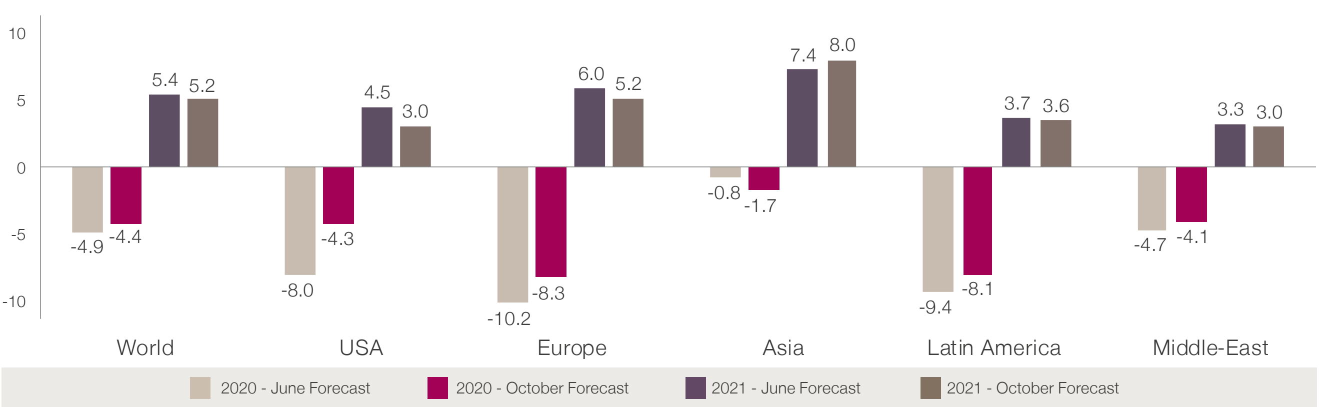
The International Monetary Fund (IMF) recently published its World Economic Outlook with global growth projected at -4.4% in 2020 and +5.2% in 2021 (compared to June forecasts of -4.9% and +5.4% respectively). Main revisions included a sharp improvement in US GDP in 2020 (from -8% to -4.3% in 2020). This is linked to a less sharp contraction in Q2 GDP than expected in all advanced economies where government transfers supported household incomes. Retail sales have indeed recovered faster than production in both the US and the Euro Zone: industrial production is below pre-crisis levels by 7% in the US and 4% in the Euro Zone whereas retail sales are above by 4% and 3% respectively. Nevertheless, the extraordinary precautionary savings buffers are rapidly fading (the US savings ratio dropped from 34% in April to 14% in August), while the unemployment rate remains high (at 7.9% compared to 3.7% in 2019). In the Euro Zone, where the adjustment in the unemployment rate has not yet occurred, the savings ratio remains exceptionally high (at 24% Q2). In this context, downward pressures on prices remain hefty, notably in the Euro Zone service sector, and inflation expectations continue to diverge between the two continents, which pleads for additional monetary policy easing from the European Central Bank (ECB).

In China, third quarter GDP was slightly lower than anticipated, but expanded 4.9% YoY from 3.2% in the second quarter fuelled by the supply-side and export demand. The recovery in demand is just beginning to catch up with production, as retail sales turned positive for the first time in seven months in China in September (+2.3% YoY). Elsewhere in the emerging world, the picture is more mixed. Some Southeast Asian economies are able to benefit from the rebound in exports (Korea, Vietnam), while India's economy is beginning to stabilising, but is responsible for the revision in IMF's Asia 2020 GDP forecasts (India's 2020 GDP was revised from -4% in June to -10.3% in October). In Latin America, Brazil is beginning to stand out on the economic recovery front with: falling COVID-19 infections, a progressive recovery in industrial production, a solid rebound in business confidence and two months of growth in retail sales supported by a large fiscal stimulus plan (~9% of GDP). In contrast, Mexico remains in economic contraction despite an improving trend in COVID-19 figures and public accounts in far better condition than Brazil that should have left room for more fiscal stimulus manoeuvre (public debt to GDP ratio at 54% versus 90% in Brazil). Finally in the Middle East, the IMF warned of the upsurge in unemployment expected notably in the Gulf countries facing the triple effects of the sanitary, oil and tourism crisis (growth is to fall by 6.6% in the UAE in 2020).

THE RISKS ARE SKEWED TO THE DOWNSIDE

Looking ahead, downside risks prevail for the growth trajectory. Political uncertainty remains high, with the risk of contested US elections, but the main risk remains COVID-19 with new national lockdowns not already factored in and certain economies having to face the second round effects of first wave of COVID-19 (unemployment hike, bankruptcies) as the direct strains of the second wave arrive. Nevertheless, additional policy mix is expected in the US (notably with a Biden win) and in Europe (European Recovery Fund activation) in 2021. In the meantime, private consumption will need to continue adapting to the restricted context until the ultimate upside factor, a vaccine, is released.

EVOLUTION IN IMF FORECASTS FROM JUNE 2020 TO OCTOBER 2021 OUTLOOK



Source: IMF, Indosuez Wealth Management.


Europe is the front runner on the ESG trend.

EQUITIES

US ELECTIONS: THE LAST HOME STRETCH

- All eyes are on the American election. If the extreme scenario cannot be excluded at this stage, chances are rising towards a clear election result as Biden odds increase.
- The other source of concern for the market remains the evolution of the COVID-19 crisis and a potential second wave of economic slowdown. However, this negative news flow could be reversed by the announcement of a vaccine in the coming months.
- Finally, the Q3 earnings season will equally feed the short term news flow. It will reflect the potential recovery after the March-May lockdown which will be crucial for the market evolution.
- It these different factors bring volatility and negative effects on global equity markets, the probability remains strong that any substantial weakness would provoke more aggressive actions from central banks.

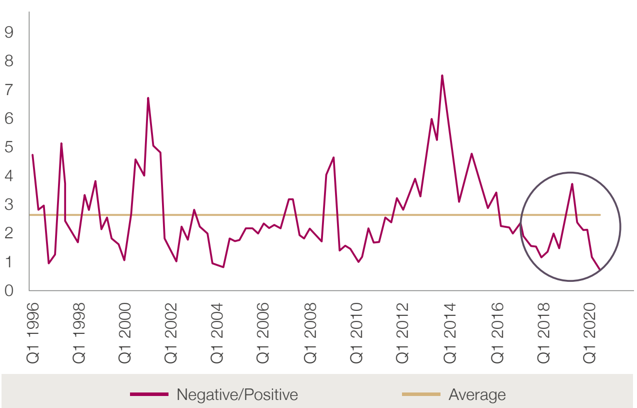
EUROPE

Investors are paying more attention than before on sustainability themes (decarbonisation, climate changes, …). As a consequence, ESG strategies have been gaining traction for a few quarters now. Given the increasing political support plus the commitments taken by many companies and asset managers, the ESG trend is certainly here to stay. Europe is the front runner on this topic. Market wise, Europe is still cheap versus the US, even restated from the sectorial breakdown differences, and its cyclical and value bias could become a relative advantage when the economic situation and the COVID-19 pandemic stabilises or improve from current levels. But, since June, European equities are mostly flat, capped by macro uncertainties and the negative effect of euro appreciation.

UNITED STATES

As the presidential election draws near and continues to generate significant uncertainties, the start of the Q3 earnings season sets another tone for the market. At this stage, only 15% of companies have already reported and the surprises are very positive: profits appear 18% above the consensus. For the past month, within the eleven GICS (Global Industry Classification Standard) sectors, 10 sectors have posted upward earning revisions while only one still has revised downward: Real Estate.

S&P 500 NEGATIVE-TO-POSITIVE PRE-ANNOUNCEMENT RATIO



Source: Citi Research - US Equity Startegy, Indosuez Wealth Management.
Past performance does not guarantee future performance.

EMERGING MARKETS

The Chinese economy seems to have emerged first and strong from the COVID-19 crisis. Northern Asia has fared substantially better than ASEAN so far this year. China and Northern Asian markets such as Taiwan and Korea also benefits from better EPS growth than the rest of emerging markets, reflecting a very different sector exposure of emerging markets. In the coming months, emerging equities could benefit from a Biden victory and a lower dollar, with a double condition on COVID-19 being under control and global recovery on track.

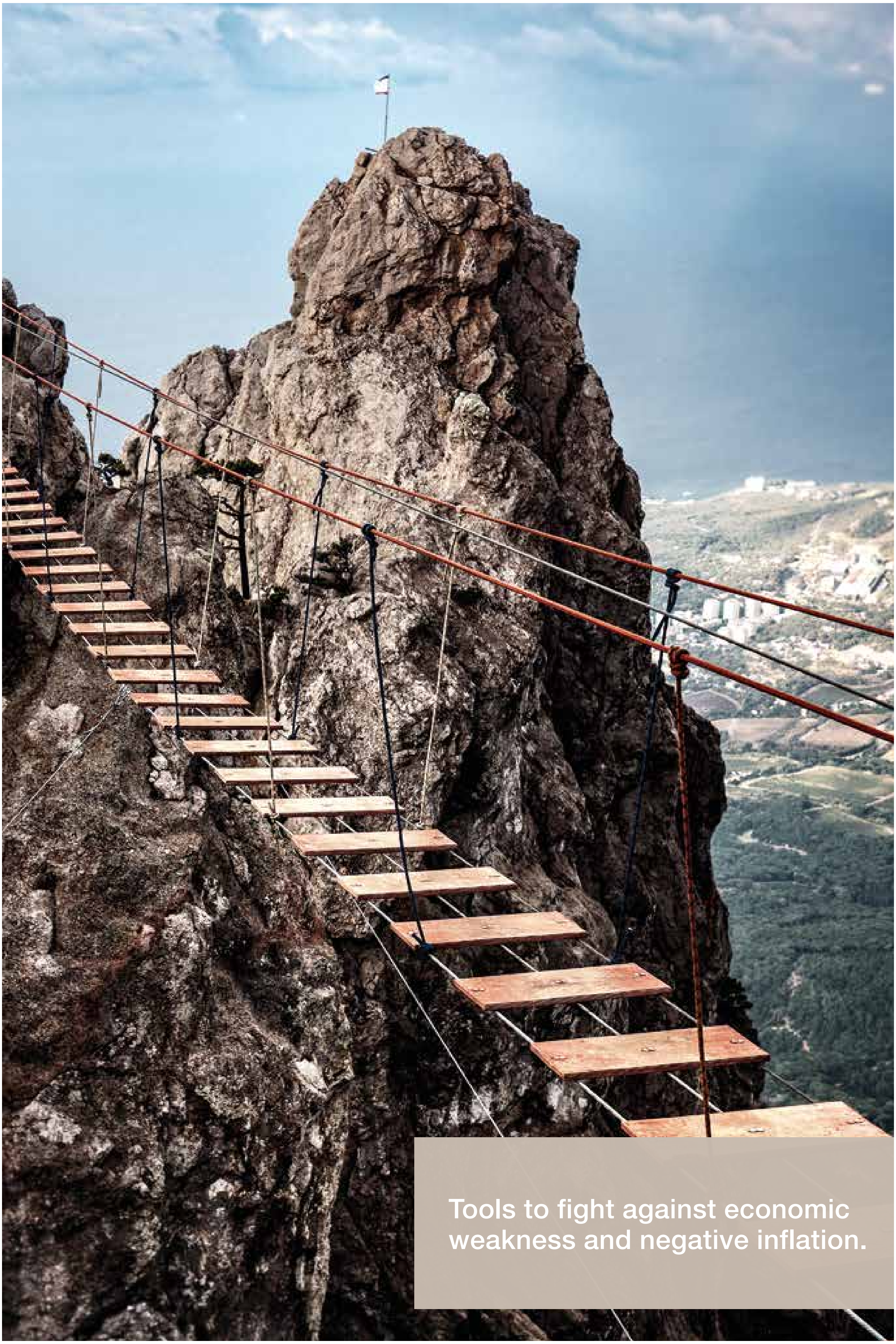
INVESTING STYLE

Regarding Styles, even if we keep our long-term preference for Growth Companies and Secular themes (mainly sustainable development and disruptive tech). We are relatively more constructive on the cyclicals part of the market. Basic resources, construction materials and parts of industrials and chemicals will potentially benefit from greater infrastructure spending.

EQUITIES KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GEOGRAPHIES		
EUROPE	=	=
UNITED STATES	+	=/+
JAPAN	-/=	-/=
LATAM	-	=
ASIA EX-JAPAN	=	=
CHINA	+	+
STYLES		
GROWTH	=/+	+
VALUE	=	-/=
QUALITY	-/=	=
CYCLICAL	=/+	=
DEFENSIVE	-/=	=

Source: Indosuez Wealth Management.


Tools to fight against economic weakness and negative inflation.

FIXED INCOME

HUNT FOR YIELD TO REMAIN INTACT BUT SELECTIVITY INCREASINGLY KEY

- Expectations of a new stimulus package: rise of US rate volatility.
- Tactically more positive on euro and US high yield credit.

CENTRAL BANKS

It seems that more tools are on the table for the European Central Bank (ECB) to fight against Euro Zone economic weakness and negative inflation. Further cuts in policy rates and changes to the conditions of the TLTRO's (Targeted longer-term refinancing operations) are among probable measures. The Fed launched a new average inflation targeting framework and made it clear that rates will stay near the zero lower bound for years.

INVESTMENT GRADE (IG) HIGH YIELD (HY)

Credit markets outperformed in October, retracing the recent widening of the second half of September. For Euro IG and US IG credit markets, the hunt for yield remains intact, spread products being the main destination. Technicals are positively oriented: the Fed's capacity to buy more IG corporate bonds if needed remains large. The relative cheapness of Euro HY compared to Euro IG begs for going down in ratings.

On the back of a recent better than expected US economic recovery, a significant reduction in default activity over the last two months, oil prices stabilising around USD 40, we are shifting to a more positive view on US high yield. We still do favour BB's strategically, but tactically we have become more constructive on B's.

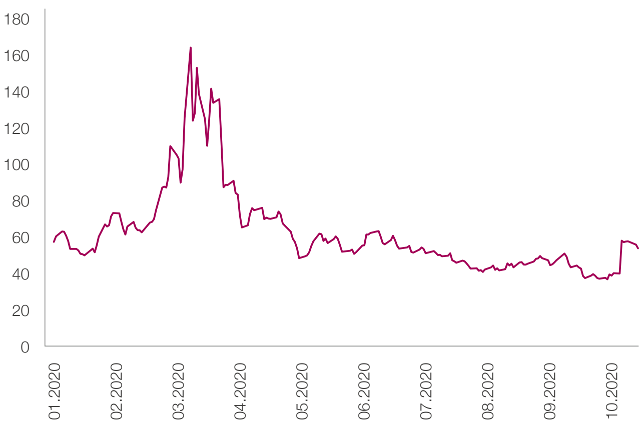
GOVERNMENT BONDS & PERIPHERALS

Negative macroeconomic momentum and increasing deflation risks have driven the recent decrease in European rates. The volatility of US sovereign bond yields jumped after Trump's stimulus tweet, posting the biggest increase since March. The extension of the treasury's issuance along with expectations of an eventual fiscal package are putting a moderate "steepening pressure" on the US interest rate curve. Nevertheless, we believe that the steepening should remain limited. Inflation breakevens globally outperformed in October benefiting from the risk-on environment and higher than expected US inflation. Investors may however continue to monitor potential rating downgrades as current sovereign spreads offer limited margin for error.

EMERGING MARKETS BONDS

The latest macroeconomic data points to a continued recovery in manufacturing activity. The US election will have direct and indirect consequences on emerging assets with the broader impact arising from the reactions of the dollar and US rates. Search for yield, USD weakening and relatively modest default rates could continue to support the asset class. In an uncertain recovery scenario and ahead of significant political events, country selectivity is key as fundamentals diverge.

EVOLUTION OF US RATE IMPLIED VOLATILITY IN 2020, BPS



Source: ICE BofA MOVE Index, Indosuez Wealth Management.

FIXED INCOME KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GOVERNMENTS		
CORE EUR 10Y (BUND)	=	=
EUR PERIPHERY	=	=/-
USD 10Y	=/-	=
CREDIT		
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	=/+	+

Source: Indosuez Wealth Management.

October was all about waiting for November.

FOREX

OUR HOUSE VIEW

- Euro pull-backs are an opportunity.
- The Brexit range for GBP has shifted.
- USD in decline unless Trump trumps all.

EURO (EUR)

The euro is being held back until greater clarity evolves over toxic Brexit trade talks and the potential for a Biden presidency and a blue wave sweeping in a fully Democratic majority. As such, the common currency has been capped near 1.19 vs USD as EU inflation data has suprised to the downside. Nevertheless, we remain constructive on the euro into 2021 following the EU recovery fund breakthrough, but are concerned that near-term PMI data could again disappoint short term and force the ECB's hand for even easier policy action. However, as break-up tail risks in the Euro Zone have dissipated, we maintain our constructive buy into weakeness on the EUR notably for USD – and CHF – based investors for diversification purposes. The dollar could potentially breach the current 1.15 – 1.20 range on the upside in a post election risk-on context and more fundamentally on the back of negative real yields in the US; however this scenario could not be delayed if the Euro Zone continues to face macro weakness and COVID-19 acceleration.

US DOLLAR (USD)

The US dollar remains deadlocked in a tight trading range versus its G3 peers ahead of the US Presidential fireworks ahead. This holding pattern will evolve sharply one way or another once the 4 November result is revealed. Regardless of who inhabits the White House, the broad perception and growing consensus remains that the greenback will continue to underperform into the new year. This is based upon an ongoing factor which could trump Washington politics - a dovish Fed outlook keen to maintain US real yields near record lows for even longer. This unappealing yield backdrop exposes the underlying frailties of the US economy, its deteriorating external imbalances and it's runaway budget deficits. We thus prefer to fade dollar strength if it were to occur in mid-November.

POUND STERLING (GBP)

Whilst Brexit uncertainty continues we are definitely in the final countdown to the next chapter of the saga – whilst it's near-impossible to predict how this will progress, it is worth considering what to expect for GBP FX. Both EUR and USD have seen changes in fundamentals this year which argue that the "GBP range" for "deal or no deal" is quite different against these major currencies. Whilst before we would expect GBP/USD 1.20 – 1.35 and EUR/GBP 0.83 – 0.95, it is probably more reasonable to expect GBP/USD 1.25 – 1.40 and EUR/GBP 0.85 – 0.97.

SWISS FRANC (CHF)

EUR/CHF has been in such a narrow and slow uptrend from 1.06 to 1.08 over the last few months that we have barely had to change our own presentation slides on Swiss franc. However this may be all about to change – with second-wave COVID-19 risks on the rise the franc may well catch a bid from safe-haven buyers again, validating the spring-buyers who have held their position, but been a weight on the franc. The Swiss National Bank has recently reminded us that they will be willing to intervene strongly though, having published intervention data showing they intervened the most this year since 2012, making us confident that EUR/CHF will struggle to break below 1.04 – 1.05.

CHINESE YUAN (CNY)

Chinese yuan has climbed significantly against USD this year, going from 7.1 to 6.7 over the last few months. Whilst most of this is due to USD weakness, recently markets have become enthusiastic about the yuan given China's strong recovery from the health crisis and increasingly attractive fixed income markets. October in particular was important for the yuan as the PBoC signalled it may have gone too far by rolling back the reserve requirement on holding short yuan positions which makes it more expensive to hold or hedge yuan onshore. We remain medium-term positive on the currency but in the short term this rally could pause.

FOREX & PRECIOUS METALS KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
UNITED STATES (USD)	=	=/-
EURO ZONE (EUR)	=	=/+
UNITED KINGDOM (GBP)	=	=
SWITZERLAND (CHF)	=/-	=/-
JAPAN (JPY)	+	=
AUSTRALIA (AUD)	=	=/+
CANADA (CAD)	=	=/+
NORWAY (NOK)	=	=/+
BRAZIL (BRL)	=	=
CHINA (CNY)	=/+	+
GOLD (XAU)	=	=/+
SILVER (XAG)	=	+

Source: Indosuez Wealth Management.

Probability of an alternative macro scenario with a failed recovery this winter.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

INVESTMENT SCENARIO

- COVID-19 is accelerating in many parts of the world, and notably in Europe with 200'000 new cases per day which leads to more lock down measures. On the contrary, China continues to accelerate;
- This should postpone the recovery of activity, and we could be disappointed by Q4 2020 GDP levels;
- The political agenda is heavy, with uncertain US elections, a foggy Brexit and expectation of a US stimulus;
- Central Banks remain very accommodative, and more is expected from the ECB before year-end;
- Corporate earnings are also a supportive factor with Q3 season starting positively;
- Default rate increases should be more limited than feared initially.

ALLOCATION STRATEGY

The short term view

- Equities could suffer from a disputed election scenario in the short term, but could react positively to a clear outcome and a stimulus plan that will take place regardless of who is elected;
- The uncertainties around the elections and the COVID-19 refrain us from adding more risk in the short term despite a constructive Q3 earnings season kick-off, and remain close to neutrality;
- Credit spreads should continue to be supported by lower default rates than feared, supportive central banks and the global search for yield;
- Currencies: USD could suffer from a risk-on market dynamic after the election, but should perform in a disputed election scenario, so a neutral stance is favoured ahead of the elections;
- Gold could suffer from a risk-on scenario of a Biden victory with a Republican Senate.

The long term view

- Equities: we remain relatively constructive on the asset class, with a maintained preference for quality/growth stocks, with a focus on secular themes, which should behave well even if COVID-19 reaccelerates, but we acknowledge greater traction on cyclical stocks that could be the beneficiaries of additional stimulus. In terms of geographies we continue to favour US and Chinese equities; emerging assets could be the main beneficiary of a Biden victory;
- Fixed income: we remain constructive on credit (investment grade, financial subordinated and quality high yield), benefiting from central banks support and attractive carry;
- Currencies: We anticipate a moderate weakening trend for the dollar, but which has already partly materialised. We remain positive on renminbi even after the recent appreciation trend.

KEY CONVICTIONS

EQUITIES	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GEOGRAPHIES		
EUROPE	=	=
UNITED STATES	+	=/+
JAPAN	-/=	-/=
LATAM	-	=
ASIA EX-JAPAN	=	=
CHINA	+	+
STYLES		
GROWTH	=/+	+
VALUE	=	-/=
QUALITY	-/=	=
CYCLICAL	=/+	=
DEFENSIVE	-/=	=
FIXED INCOME		
GOVERNMENTS		
CORE EUR 10Y (BUND)	=	=
EUR PERIPHERY	=	=/-
USD 10Y	=/-	=
CREDIT		
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	=/+	+
FOREX		
UNITED STATES (USD)	=	=/-
EURO ZONE (EUR)	=	=/+
UNITED KINGDOM (GBP)	=	=
SWITZERLAND (CHF)	=/-	=/-
JAPAN (JPY)	+	=
BRAZIL (BRL)	=	=
CHINA (CNY)	=/+	+
GOLD (XAU)	=	=/+

Source: Indosuez Wealth Management.

MARKET MONITOR (LOCAL CURRENCIES)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 21 OCTOBER 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'435.56	6.14%	6.34%
FTSE 100 (United Kingdom)	5'776.50	-2.08%	-23.41%
Stoxx Europe 600	360.79	0.35%	-13.24%
Topix	1'637.60	-0.40%	-4.87%
MSCI World	2'417.83	4.87%	2.52%
Shanghai SE Composite	4'792.83	3.02%	17.00%
MSCI Emerging Markets	1'137.91	5.59%	2.09%
MSCI Latam (Latin America)	1'956.02	6.66%	-32.96%
MSCI EMEA (Europe, Middle East, Africa)	211.35	2.08%	-21.01%
MSCI Asia Ex Japan	749.64	5.47%	8.92%
CAC 40 (France)	4'853.95	1.08%	-18.80%
DAX (Germany)	12'557.64	-0.67%	-5.22%
MIB (Italy)	19'085.95	0.82%	-18.81%
IBEX (Spain)	6'811.50	2.36%	-28.67%
SMI (Switzerland)	10'146.23	-3.29%	-4.43%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'656.00	1.05%	-3.69%
Gold (USD/Oz)	1'924.33	3.27%	26.83%
Crude Oil WTI (USD/Bbl)	40.03	0.25%	-34.44%
Silver (USD/Oz)	25.24	9.68%	40.85%
Copper (USD/Tonne)	6'991.50	5.86%	13.24%
Natural Gas (USD/MMBtu)	3.02	42.26%	38.10%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	28.65	0.07	14.87

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.07	-0.33%	-1.08%
GBP/USD	1.31	3.34%	-0.81%
USD/CHF	0.91	-2.00%	-6.32%
EUR/USD	1.19	1.72%	5.78%
USD/JPY	104.59	-0.76%	-3.70%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.82%	15.02	-109.49
France 10Y	-0.31%	-6.70	-42.70
Germany 10Y	-0.59%	-8.40	-40.20
Spain 10Y	0.20%	-2.20	-26.10
Switzerland 10Y	-0.53%	-4.10	-5.90
Japan 10Y	0.03%	2.70	5.00

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	42.25	2.15%	-3.74%
Euro Governments Bonds	221.62	0.33%	1.87%
Corporate EUR high yield	199.60	0.72%	-2.01%
Corporate USD high yield	305.24	1.81%	0.41%
US Government Bonds	325.68	-0.28%	5.71%
Corporate Emerging Markets	51.48	0.21%	-0.60%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

JULY 2020	AUGUST 2020	SEPTEMBER 2020	4 WEEKS CHANGE	YTD (21.10.2020)
12.75%	8.16%	0.45%	6.66%	17.00%
10.73%	7.01%	-1.48%	6.14%	8.92%
8.42%	6.53%	-1.63%	5.59%	6.34%
8.02%	3.40%	-1.68%	5.47%	2.52%
5.51%	2.86%	-1.77%	4.87%	2.09%
4.69%	2.58%	-2.72%	3.02%	-4.87%
2.44%	2.09%	-3.59%	2.08%	-13.24%
-1.11%	1.26%	-3.92%	0.35%	-21.01%
-4.02%	1.12%	-4.75%	-0.40%	-23.41%
-4.41%	-6.36%	-5.54%	-2.08%	-32.96%

BEST PERFORMING

WORST PERFORMING

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

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

GLOSSARY

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.