Marketing Material

MONTHLY HOUSE VIEW

February 2021

Focus

Inflation: too soon to be true?

Architects of Wealth

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VINCENT
MANUEL

Chief Investment Officer,
Indosuez Wealth Management

IS POLITICAL RISK GONE FOR THE YEAR?

Dear Reader,

The scars of the COVID-19 crisis are apparent everywhere, except perhaps in stock market prices...

Propped up by monetary and fiscal policy support and then by annoucements of vaccine developments, markets have ended up looking only at the good news and seem to be immune to any factors of concern or uncertainty.

Yet there are multiple reasons for being more cautious today than at the end of last year: a new pandemic wave linked to the British variant, a macro-economic trend that could disappoint in the first quarter and a year-end market rebound that had already anticipated a potential rebound in results, which ultimately leaves little room for unpleasant surprises.

The political-risk factor could also be a special guest star of 2021. The last months and quarters have been a succession of good news on the political front: an agreement on the European recovery plan, a victory without any major issues for Joe Biden and finally a last minute Brexit deal. However, the factors of political uncertainty could resurface, starting with Europe: even if the markets are used to a regular return of government instability in Italy, thus far the Italian 10-year rate does not include much risk. Angela Merkel's reign will end in the fall and France will then enter into its next presidential race.

Outside of Europe, the somewhat naive optimism born from the American election will gradually face the reality of an ever present sharp rivalry with China, which will not fade with the departure of Donald Trump from the White House. However, the nature of the rivalry will change with a focus on technology and its link with geostrategic issues. Finally, China's great political stability does not mean absence of risk for investors, as displayed by the impact of Beijing's actions on several large Chinese listed companies.

Nonetheless, should politics be a determining factor, how will it be integrated in terms of allocation, and how can we position ourselves? As long as we do not see any systemic risk in the political factor, we will have to chose to endure this possible source of volatility.

In the short-term, it is the pandemic trajectory, vaccination campaigns and economic expectations that will determine whether the markets return to a more volatile phase or not, even if the target of a vaccination rate of 50% of the population between the second and the fourth quarter in most countries helps keep a constructive view. The speed or delay in implementing these actions will ultimately determine whether optimism should prevail over the next few months or whether investors should downgrade their expectations for first quarter business results.

INFLATION: TOO SOON TO BE TRUE?

Due to the gravity of the COVID-19 shock on domestic demand, inflation today is historically weak in mature economies (estimated at 0.8% in 2020) and below 2019 levels for BRIC[1] economies (3.2% in 2020). A number of temporary factors are already putting upward pressure on prices and this will intensify in the coming months. Is this upswing durable?

A RISE IN INFLATION EXPECTATIONS ON BOTH SIDES OF THE ATLANTIC

US inflation expectations have risen sharply over the past months (5Y5Y inflation swap forward rate is at 2.3%, see Chart 1) as the prospects of a vaccine and a democratic-led fiscal stimulus fuelled anticipations of a stronger recovery in activity and prices. Furthermore, the Fed's increased inflation tolerance, through its new average inflation targeting mechanism, has added to price uncertainty.

In the Euro Area, the story is different, rising inflation expectations remain well below the 2% threshold, but a number of one-off effects will lead to an overshoot in Euro Area inflation in the coming months (reversal in the German VAT hike, German energy taxes, bad weather as well as exceptional French calendar effects). For the UK, anticipated inflation pressures are also strong, which can in part by explained by the reversal in the VAT reduction end of March, but also by the numerous European Union (EU) non-tariff barriers (supply disruptions, increased transport costs…).

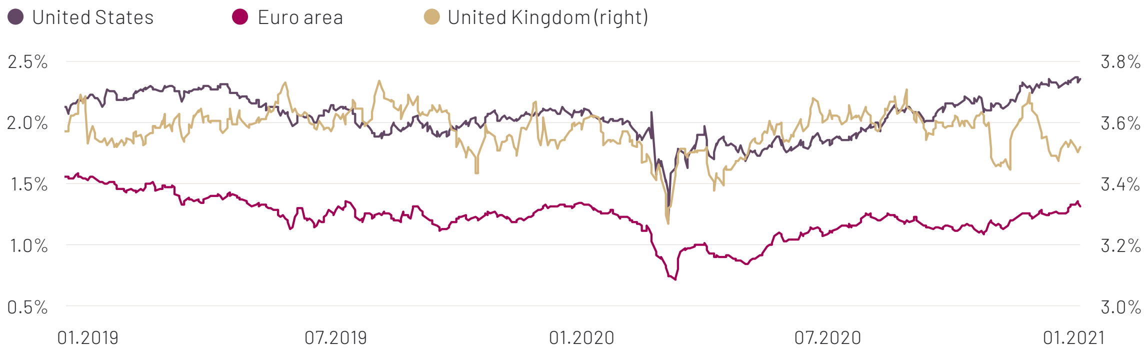
THE SURGE IN NON-FOOD COMMODITY PRICES TO MAINTAIN PRESSURE ON PRODUCER PRICES

Recent PMI indices have been reporting increases in input prices stemming from increases in commodity prices. Commodity prices are expect to continue increasing in 2021 along with the anticipated economic rebound. Oil prices began their long upward climb as of November 2020, accelerating further as OPEC[2] members decided recently to limit supply early 2021. Beyond the strong base effects expected in spring 2021 linked to the plunge from March to April 2020, oil prices remain 15% below their 2019 average and therefore still have room to increase in 2021 as the economic recovery finds traction. Prices of other commodities have already surpassed their pre COVID-19 levels, and should continue to accelerate in 2021, but at a lower gear. Such is the case for iron-ore and copper prices, which were spurred by increased demand from China and supply constraints from mining restrictions (Peru, Brazil). The latter restrictions will be lifted in 2021, while demand for robust metals is expect to remain strong in 2021.

LABOUR MARKET DYNAMICS: DIVERGING IMPACTS ON PRICES IN MATURE ECONOMIES

The slack in the labour market is a key component in our inflation scenario and is expected to last going into 2022, but at different levels. Slack will be particularly an issue for the European economies as government measures have postponed the impact of the downturn of activity on unemployment (to remain above 7% in the Euro Area until 2023 according to European Central Bank (ECB) forecasts).

CHART 1: INVESTOR INFLATION EXPECTATIONS*, %



*5Y5Y inflation-linked forward swaps.
Source: Refinitiv, Indosuez Wealth Management.

1 - BRIC: Brazil, Russia, India and China.
2 - Organisation of the Petroleum Exporting Countries.

6.7%
unemployment rate in December in the US

In the US a significant part of the adjustment in the labour market has already occurred (after rising to 15% in April 2020, the unemployment rate is at 6.7% December compared to less than 4% pre-COVID-19). After a stark contraction in the spring, US wages have started growing again since the summer (+2% YoY in November, see Chart 2) and have almost fully recovered, albeit at a slower trend than pre-crisis. This progression should remain modest until the unemployment rate returns to pre-crisis levels (projected by the Fed by 2022 at 4.2%). So far, this recent acceleration of nominal wage inflation has not yet translated into an increase in the consumer price indice, notably because US productivity gains are increasing close to 5% (annualised in Q3-2020).

Two upside risks are however possible, first that temporary layoffs (40% of job losers in December) return to their employment faster than expected, thus accelerating the recovery in the jobs market. The second, is if the Biden administration succeeds in implementing their campaign promise of increasing the federal minimum wage to 15 USD an hour (currently 7.25 an hour since 2009). Some states and companies have already started implementing minimum wage increases.

MAJOR EMERGING MARKET PRICES IMPACTED BY THE TAMING IN FOOD PRICES

Rising food prices that put pressure, notably on emerging market prices, from late 2019 to mid-2020 have tamed. This explains in part the inverted trend in the BRIC's inflation compared to mature economies, as forecasters project lower inflation in 2021 (see Chart 3), with the exception of Brazil due to its persistently weak exchange rate and specific COVID-19 linked supply shocks (Brazilian real dropped 20% in 2020).

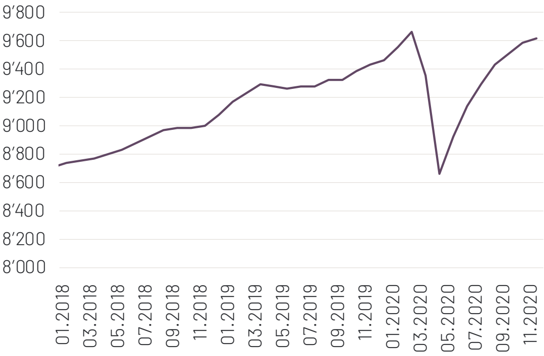
In China, firmer domestic demand and energy prices will increase prices, but improved food supply (notably pork after the African Swine fever impact in 2020) will cap the increase.

CONCLUSION: INFLATION TOLERANCE FROM CENTRAL BANKS IN 2021

All in all, there is an upside risk to inflation in 2021 in the US as the rapid adjustment in the labour market and possible increase in the minimum wage could put pressure on prices sooner than expected. This is not the case in Europe where the adjustment in employment is still far from that of activity. However exogenous factors such as supply constraints or energy prices will temporarily increase prices in Europe in 2021.

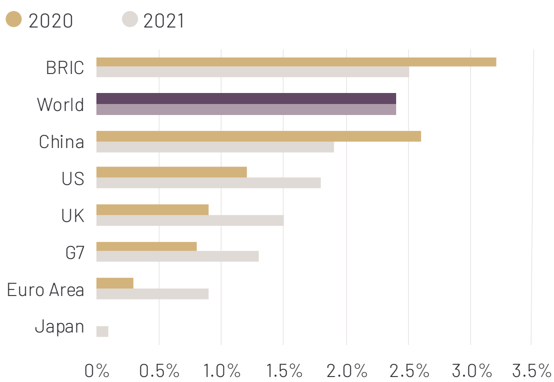
Even if interest rates are expected to remain low for long, if the vaccine-linked recovery kicks in faster and stronger than expected, then inflation will prove of greater importance to central banks. Nevertheless, the focus of central banks will be supporting economic activity and government spending in 2021. Finally, it must also be said, that an inflation overshoot would be a much better problem for central banks to have than the current deflationary impulse stemming from the virus itself (especially in debt-laden economies).

CHART 2: US COMPENSATION: WAGES AND SALARIES, BILLIONS USD



Source: US Bureau of Economic Analysis, Indosuez Wealth Management.

CHART 3: INFLATION FORECASTS, %



Source: Focus Economics forecasts (Dec. 2020), Indosuez Wealth Management.

03 • Macro economics

THE GROWTH GAP WIDENS

With the exception of China's industrial power engine, economic hard data has slowed with resurgence of the virus, albeit less than feared. Industrial production increased by over 7% YoY in China in December 2020, while in the US and the Euro Area it decreased by 3.6% YoY and 0.6% respectively, the smallest declines since February. On the demand side, retail sales progressed slower than the month before and below market expectations in China (+4.6% YoY), the US (+2.9%), and Japan (+0.7%). Surprisingly, Europe saw more solid figures, notably in France (an estimated +15% YoY in December as retailers reopened) and Germany (5.6% in anticipation of the VAT reversal in January).

> 1 TRILLION
US dollars
in fiscal support
for the US
economy
in 2021

PRIVATE CONSUMPTION EXPECTED TO BE THE MAIN DRIVER OF US GROWTH

Looking ahead, the recovery is looking stronger in the US, with private consumption expected to be the main driver of US growth in S1-2021. Personal savings have been progressively depleting in the US after a peak in April 2020 (12.9% vs. 34%), but still remain abnormally high. To this effect, the 900 billion US dollar fiscal measures introduced in December 2020 should already stimulate demand as of Q1-2021, particularly as they are aimed at lower income families, with higher propensities to consume.

This should weaken the burden from the recent surge in COVID-19 cases as well as the rise in jobless claims (900K mid-January compared to 782 end 2020). The new Biden 1.9 trillion dollar relief plan currently on the discussion table is largely targeted to lower income earners: boosting direct payments to individuals from 600 to 2'000 USD, increasing weekly federal unemployment benefits from 300 to 400 USD and extending them to September, increasing the federal minimum wage, requiring employers to offer paid sick leave during the pandemic, tax credits for low- and middle-income families and finally extending the eviction moratorium through September.

These measures will be watered down, but some key provisions (stimulus payments, jobless benefits and minimum wage) could be passed using a fast-track process, without needing Republican votes. According to the Congressional Budget Office (CBO) estimates, the new aid program, if implemented as planned, could add about 1'100 billion USD (5% of GDP) to GDP.

In Europe, the roll-out of vaccinations has been slow compared to the US (see Chart 4), raising fears that inoculation will not be strong enough to allow economic activity to normalise before the summer. The first quarter will see modest growth, but activity should strengthen coming into the second half of 2021 as vaccination becomes more commonplace, travel restrictions are lifted, and grants and loans to fragile economies kick in from the EU's 750 billion euro recovery fund. Although there is no V-shaped recovery in sight, the Euro Area is expected to grow by around 4% in 2021 (after an estimated plunge of over 7% in 2020). For the UK, after signing a last minute Brexit deal in December, prospects are also grim for the British economy in the short term as lockdown measures have been particularly stringent, but the UK's vaccine programme is on track to meet the authority's target to ease the lockdown as of mid-February (compared to end of March in Germany).

Euro Area
to grow
4%
in 2021

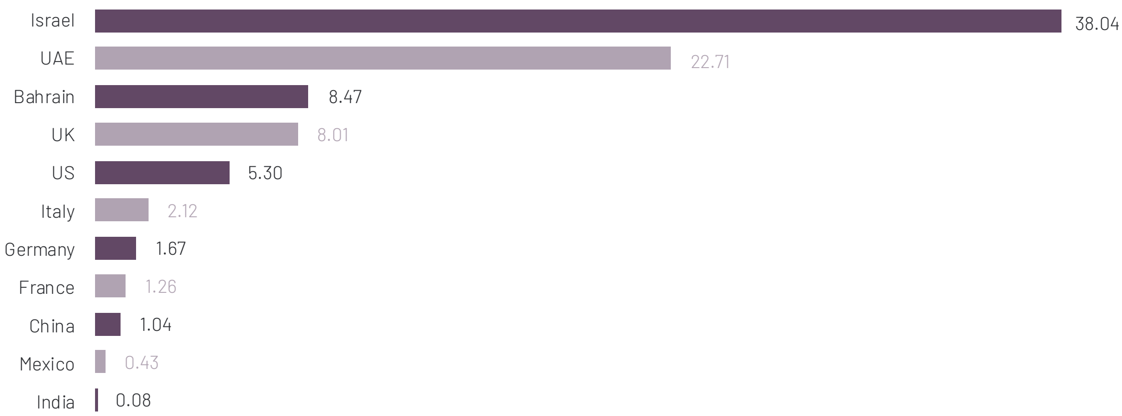
CHINA'S EXPORTS CONTINUE TO BOOM

Finally, on the Asian front, Japan will foster the weakest macroeconomic rebound in 2021 (2% albeit after a relatively smaller estimated fall in GDP growth of 5% in 2020). In the context of a sceptical population, the vaccine programme is not scheduled to commence

before end of February as PM Suga's popularity plunges (from 74% to 42% in three months), which will most likely delay elections until late autumn.

Nevertheless, upside risks are also present for GDP growth in 2021, as the 700 billion USD fiscal stimulus plan voted end 2020 takes effect and Japan benefits from its balanced trade exposure to both the Chinese (23% of total exports) and US (11% of total exports) economic recovery. China's exports continue to boom (18% YoY in December), thanks to COVID-19 related items and winter outbreaks throughout most mature economies. In a context of anticipated global trade tensions in the year ahead, it is important to note that China's import growth (6.5% YoY in December) is benefiting mainly Germany (14% YoY export growth to China in November), the United States (+40%), South Korea (+3%) and Japan (3.8%).

CHART 4: DAILY COVID-19 VACCINE ADMINISTERED PER 100 PEOPLE



Source: Our World in Data (updated as of 21.01.2021), Indosuez Wealth Management.

ALL EYES ON THE US YIELD CURVE

Following an extraordinary 2020 in terms of volatility that ended with strong market performances, 2021 has started with close to all-time low rates and compressed risk premiums. The economic back drop remains uncertain in mature countries, while growth is back in most Asian countries. In this context, pockets of value still persist in the fixed-income world.

The leading US rate market started the year on the rise, with 10-year US treasury rates reaching 1.17% in January, its highest point since February 2020. More importantly the 2-10Y yield curve has steepened from zero to 1%, a level unseen since April 2017. Yields are rising with the prospects of an increased budgetary impulse to the US economy from the Biden administration. This rise in long-term yields reflects both a brighter outlook on the economy and potential support from inflation prospects thanks to an array of federal money passing directly into US consumer wallets. The absence of willingness by the Fed to engage into yield curve control may generate self-fulfilling protection strategies.

Therefore the steepening movement can have further room to go, but a large part of the path has been done and markets have already incorporated inflation expectations above 2%. Therefore the rise in yields is probably capped as the recovery needs sustained negative real yields in order to gain traction and close the output gap. In any event, investors will continue to be focused on this pivotal point in the coming months and on the Fed's reaction should the steepening movement continue.

Since 2010
+380%
asset growth in Asian credit markets

MACROECONOMIC PROSPECT CLOUDED BY COVID-19

In Europe, yields rose by a few basis points with the Brexit deal at year-end 2020, but were not really affected by the commotion in the US. The macroeconomic outlook remained clouded by the COVID-19 situation and renewed lockdowns or tighter restrictions in several countries. No European Union (EU) wide new budgetary impulse is under discussion for now. The political field will be important in Europe this year again, with: a falling government in the Netherlands, a weakened coalition in Italy and a new German governing head in the autumn followed by the launch of the presidential race in France in 2022. Recent developments in the Italian political landscape did not derail the peripheral spreads rally; this is attributed to the EU common financing prospects.

Credit markets in mature markets have been very strong in the early trading days of 2021, supported by the strength of the stock markets, ongoing inflows and the absence of any rising specific risks. We anticipate a market breathing period in the European market in a very low carry environment, while the US investment grade (IG) market attractiveness increases with rising yields. High yield (HY) markets remain on the top of the list of our investment convictions thanks to higher carry and expected spread compression, as defaults should not reach the high points forecasted by rating agencies. Unmistakably, the tipping point of this crisis will be far below 2008 highs, while uncertainty will remain for a longer period of time due to the possible delays in the economic reopening process.

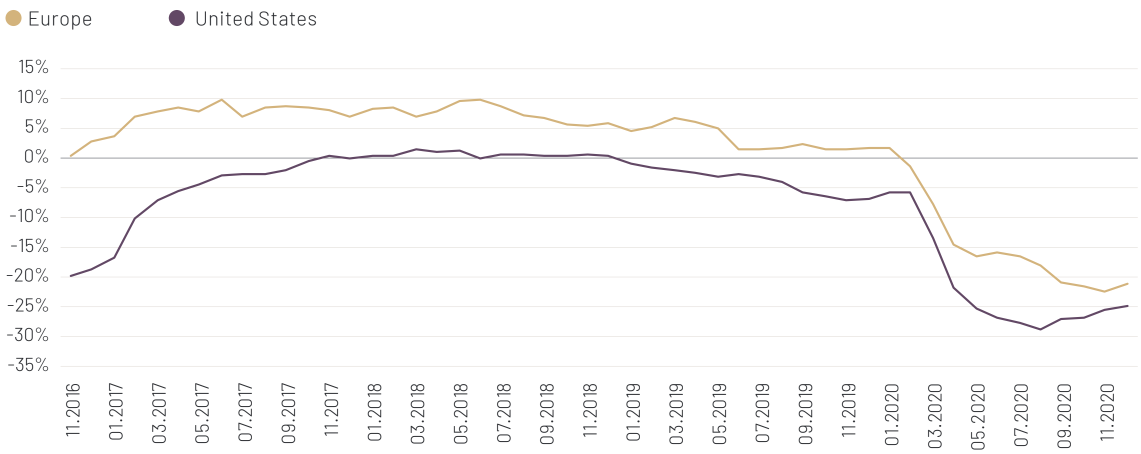
Following last spring's downgrade wave by rating agencies, the rating drift (see Chart 5) has turned more favourable and the balance sheet repairing strategies will lead to upgrades in the following quarters.

2021: THE YEAR OF THE METAL OX

As China enters the year of the Metal Ox, we remain constructive on the Asian bond market. The Asian credit market has grown in maturity over the past 10 years, with a +380% asset growth since 2010. Asia has traditionally traded as "quality markets" in comparison with other emerging markets. Yield premiums for Asian bonds are compelling when compared to mature markets or Global Bonds with similar characteristics. Foreign investors are substantially growing their asset allocation in Asia, and the recent US sanctions on specific Chinese companies has not spread out will risk sentiment across countries.

In Latin America, 2020 ended on a strong performance as the search for yield continued. The category seems near fair price, particularly with COVID-19 risks lingering. It has found support from the relative carry provided by the large stocks of negative yielding bonds in mature markets, as well as constructive technicals such as balanced supply and negative net financing.

CHART 5: RATING DRIFTS, %



Source: Moody's, Indosuez Wealth Management.

05 • Equities

A SMELL OF EUPHORIA IS GAINING EQUITY MARKETS

The year 2021 is expected to be a positive year for equity markets due to the deployment of the vaccine, the reopening of services and finally the economic recovery. We look for positive equity returns in 2021, but the strong performance since November (see Chart 6) has already taken a large part of the potential rerating.
The main driver remains the strong recovery in earnings this year (+25% for MSCI World) and a stable rating in terms of P/E multiples. Monetary policy should also remain supportive and the fiscal stimulus will likely continue to be rolled out.
Nevertheless, the extreme positioning in derivatives and over-optimism amplify the risk of a short term correction, but, the downside should stay limited.

UNITED STATES

President-elect Biden released his USD 1.9 trillion COVID-19 relief plan, which reflects ambitious goals to pass through a barely Democratic Congress. Janet Yellen, Treasury Secretary nominee, said the smartest thing right now is to "act big" on more coronavirus relief given economic needs and historically low rates. Fiscal stimulus is still a key piece of the bullish narrative for stocks, but Yellen's testimony also seemed to illustrate that Biden's early focus will be more on growth than tax hikes for progressive Democratic legislative goals.

EUROPE

This year, we look for lagging regions to catch up with the United States and that is notably the case for the European market. The cheap valuation and its cyclical/Beta bias could be the new trigger. The area is equally at the forefront of the ESG (Environmental, Social, and Governance) trend and a good way to get exposure to some Secular Growth Themes and mainly the climate change one.

+30%
of earnings growth expected in European equity markets

So our positive stance on the European equity market is based on the belief that the economic recovery will occur this year, even if the pandemic will be a headwind in the short term for activity levels and profits. The earnings season is about to start and should bring some volatility in the coming weeks, but more than +30% of earnings growth is expected for this year, European markets should be one of the main beneficiaries of the earnings recovery.

EMERGING MARKETS

The year 2021 has started on a positive momentum for Asia and ample global liquidity should be supportive for Asian equities this year. We remain supportive on China. We are positive on the "New Economy" in China and the health care sector as long-term strategic bets, as well as some industrial and cyclical plays in Asia.

In South East Asia, at this time, we prefer Singapore, Indonesia and the Philippines over Malaysia and Thailand. The ongoing COVID-19 pandemic situation will remain key to watch as potential lockdowns and vaccination campaign hurdles could mean persistent volatility going forward.

As for the Asia area, Global Emerging Markets should benefit from a weak USD, reasonable valuations and decent EPS (earnings-per-share) momentum.

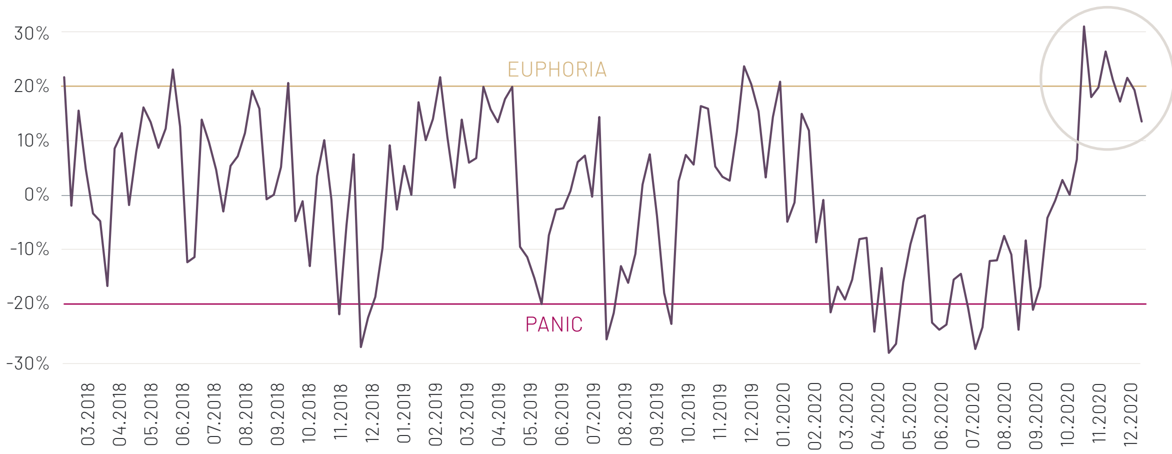
STYLE & THEMES

We continue to favour a mix combination with Cyclical/Smart Value stocks supported by stronger GDP and a steeper yield curve.

Higher Beta and smaller caps are equally criteria to reinforce and play differently the same underlying trend.

We have combined this with stocks with some secular growth themes like the "sustainable development" or the "disruptive technology".

CHART 6: BULL/BEAR INDEX*, %



* The number of bullish investors versus bearish is at a recent record level characterising the over-optimism of investors.
Source: Bloomberg, Indosuez Wealth Management.

USD DOWNTREND PAUSING, NOT TURNING

First days of 2021 see some respite for the USD given stretched positioning and the climb in US yields, however 2021 is likely to remain a USD-bearish year as long as the pandemic recovery continues. US real yields are also likely to be a key support for Gold this year, we still see some upside left for EUR and CNY after this Q1 pause, whilst GBP is likely to remain capped by new headwinds.

EUR
likely to stay strong in 2021

EURO (EUR)

After a strong Q4 thanks to vaccine hopes spurring markets to price in a recovery in global trade (of which EUR would be a key beneficiary given its large export base), the EUR starts 2021 settling down a little. Behind the halt in the rally lies temporary factors such as a technical pullback in the USD (thanks to overextended positioning), diverging macro momentum with the US and this year's round of Italian political uncertainty being delivered early on (now abating, as it usually does). The EUR is still likely to have a strong 2021 if we see a resumption of global trade, and the tailwind of the summer 2020 Recovery Fund agreement will continue to support it, however for Q1-2021 maybe a bit of consolidation is on the cards in a 1.185-1.240 range.

US DOLLAR (USD)

Despite the shocking Washington events, currency markets have focused on President elect Biden's aggressive stimulus plans offering a lifeline to the US dollar. As markets digested the additional debt issuance needed, 10-year treasury yields climbed to 1.19% and supported the USD. This respite appears more corrective in nature and reveals the pivotal question for global markets this year - will the incoming Administration and the Federal Reserve step in to cap rising bond yields and when might it occur? Given that the US must roll over a record USD 8 trillion of existing debt before adding a USD 2 trillion annual deficit, we believe the Fed has no choice but to intervene and maintain low yields for longer. This should cap dollar rebounds and see further underperformance.

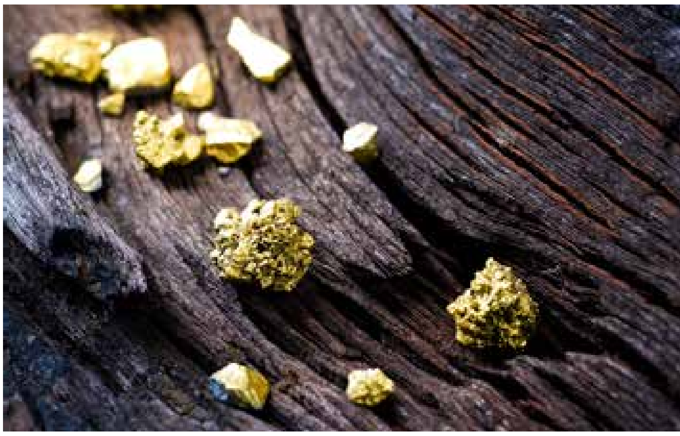
More USD downside versus CHINESE YUAN

CHINESE YUAN (CNY)

Compared to peers, only Chinese government bonds offer “real yield” returns to wealth managers globally. We see more USD downside versus Chinese yuan towards a 6.25 test mid-year and a return to 6.35 into 2022. Greater growth recovery disparity should continue to drive this pair as foreign direct inflows continue into positive “real” yielding Chinese government bonds, further buoyed by the expectation that Chinese Government Bonds (CGBs) will be included in the FTSE World Government Bond Index. Furthermore, the International Monetary Fund (IMF) is likely to increase the RMB’s weighting within their Special Drawing Rights basket from 10.9% to 13.9% come Q3-2021. Any bouts of weakness should be seized upon given the FDI flows and index reweightings now expected.

POUND STERLING (GBP)

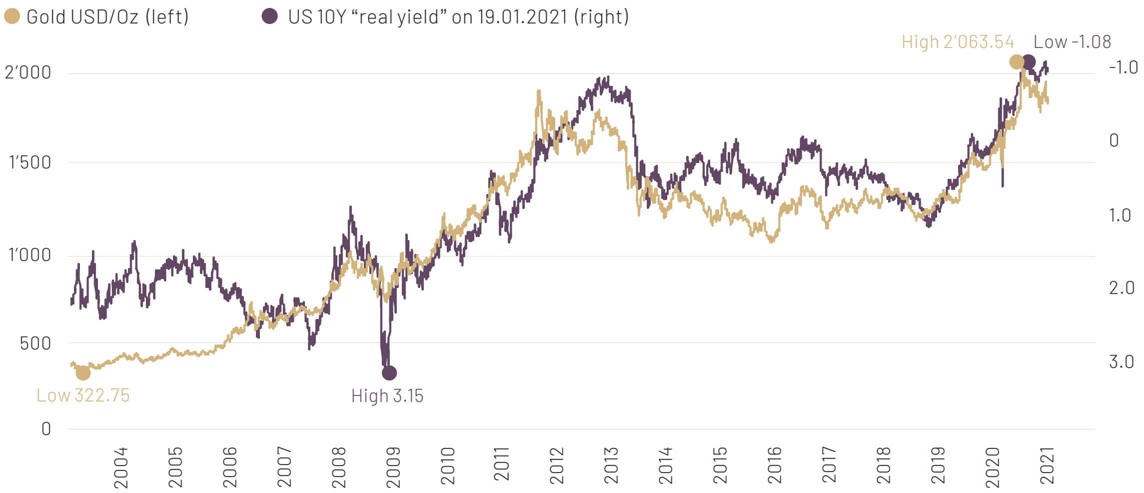
A Brexit deal was signed in December, but much remains unresolved with trade in services yet to be negotiated (especially important for the City). The GBP climbed after Bank of England (BoE) Governor Bailey suggested rate cuts were unlikely in the future, but the long-term UK economic outlook remains uncertain. However the pound will remain capped until trade in services can be resolved, and the dark cloud of potential second independence referendum in Scotland which could fuel political uncertainty over the course of 2021. At 1.36/1.37 we believe most Brexit positives are priced-in and expect it to remain capped below 1.40.



GOLD (XAU)

We think the Gold USD/Oz price will be strongly supported this year because of its strong inverse correlation with 10-year US “real yields” (see Chart 7, 10-year Treasury yield minus 10-year inflation “priced” by inflation linked Treasuries). US real yields are going to remain suppressed by US fiscal stimulus supporting long term inflation expectations – especially given it’s “money cheques for all distribution” - and the Fed’s accommodative monetary policy will keep long term interest rates low. Whilst a renewed 10-20% rally higher in Gold would require new economic shocks, and we are wary of a recent technical “double top” at USD 1’960/Oz, we think in 2021 it is unlikely Gold will fall below Q4 lows at USD 1’760/oz.

CHART 7: XAU/USD VS US 10Y “REAL YIELDS” (INVERTED)



Source: Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION

ALLOCATION STRATEGY

MACROECONOMIC FRAMEWORK

UNCERTAINTIES should prevail in Q1

- A year of macroeconomic recovery, with rising decoupling between regions: in a nutshell, Asia and notably China is accelerating, the US is stimulating while Europe is locking down again.
- In Europe, uncertainties should prevail in the Q1, with a third pandemic wave and slow vaccination campaigns, followed by an acceleration in the second half, but more time to reach pre-COVID-19 GDP levels.
- In the US, the economy benefits from a supportive policy mix both on the monetary front and on the fiscal side, with a Democrat Senate expected to amplify the size of the stimulus - risks could therefore come from an excessive steepening of the yield curve.
- In Asia, China continues to surprise on the upside with a 6.5% YoY growth in the fourth quarter.
- 2021 should be a year of double-digit earnings growth, recovering from 2020 low levels. We anticipate rising - but peaking - default rates, which should remain more limited than expected.

PIVOTAL MARKET CATALYSTS

- Inflation normalisation: technical base effects on energy prices in Q2, possible acceleration thereafter. However, broadly speaking, we believe that the ingredients for a sustained inflation rate are not all here: unemployment rate will still be above pre-COVID-19 levels and limit the upward pressure on wages, productivity gains notably from technological innovation are capping inflation loops.
- The US yield curve should therefore limit its steepening from these levels: more steepening is expected over the year, but we think that the current macro context justifies a pause.
- Central banks should remain accommodative in this context and negative real yields should prevail.
- The earnings momentum may be affected at the beginning of the year, but overall after a very negative 2020, this year should post double digit growth in most regions, with positive surprises possible in some cyclical/value sectors.

ALLOCATION MESSAGES

- A year of rotation and relative value on the equity markets, with a re-rating of cyclical and value stocks that should continue as we progressively recover from the pandemic. Rotation is also geographical, with an outperformance of international equities compared to US equities.
- A year of carry on the credit markets, with a migration of investors towards the riskiest part of the universe, fuelled by the global hunt for yield, central bank support and peaking default rates.
- A year of diversification on the currency side.

A constructive view on EMERGING MARKETS

STRATEGIC CONVICTIONS

- A constructive view maintained on risk assets despite short-term uncertainties and worries.
- A favourable framework for emerging markets and notably Asia, which remains a strong conviction.
- A more constructive medium term view on Europe, favourably exposed to value/cyclical themes as well as structural themes (environment), benefiting from strong EPS growth expectations; even if short-term worries could prevail and prevent foreign investors from pouring assets into this region.

SHORT TERM POSITIONING

- Equity markets seem to incorporate most of the recent positive news flow so in the short-term, without taking into account the pandemic wave, the asymmetry could be less favourable for investors notably in Europe.
- Credit markets offer mostly a buy and hold strategy, with less spread compression potential.
- Peripheral spreads could be more vulnerable depending on the outcome of the Italian political saga.

RISK FACTORS

- The direction of US long-term rates will be the driver of the continuation of the equity rotation.
- The third pandemic wave could drive macro disappointments and micro revisions.
- Geopolitical risk will not disappear and political uncertainty could come back in Europe over the course of the year.
- Regulatory/sanction risk should be monitored, notably in the technology sector.

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	=/+	+
Latam	-/=	=
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.

08 • Market Monitor (local currencies)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 20 JANUARY 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.08%	13.72	16.70
France 10Y	-0.30%	0.90	3.90
Germany 10Y	-0.53%	2.00	4.20
Spain 10Y	0.07%	0.20	3.00
Switzerland 10Y	-0.45%	5.80	10.40
Japan 10Y	0.04%	2.80	1.90

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	45.10	0.65%	-0.33%
Euro Governments Bonds	221.74	-0.03%	-0.19%
Corporate EUR high yield	208.26	0.71%	0.58%
Corporate USD high yield	319.94	1.13%	0.56%
US Government Bonds	324.88	-0.21%	-0.31%
Corporate Emerging Markets	52.84	-0.26%	-0.49%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.08	-0.52%	-0.39%
GBP/USD	1.37	1.19%	-0.12%
USD/CHF	0.89	0.15%	0.51%
EUR/USD	1.21	-0.66%	-0.90%
USD/JPY	103.54	-0.03%	0.28%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	21.58	-1.73	-1.17

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'851.85	4.39%	2.55%
FTSE 100 (United Kingdom)	6'740.39	3.77%	4.33%
Stoxx Europe 600	410.84	3.88%	2.96%
Topix	1'849.58	4.78%	2.49%
MSCI World	2'761.48	4.15%	2.66%
Shanghai SE Composite	5'476.43	9.37%	5.09%
MSCI Emerging Markets	1'400.97	11.36%	8.50%
MSCI Latam (Latin America)	2'467.23	1.82%	0.63%
MSCI EMEA (Europe, Middle East, Africa)	252.87	5.35%	4.81%
MSCI Asia Ex Japan	923.23	12.89%	9.53%
CAC 40 (France)	5'628.44	1.82%	1.39%
DAX (Germany)	13'921.37	2.46%	1.48%
MIB (Italy)	22'650.78	2.35%	1.88%
IBEX (Spain)	8'204.10	1.62%	1.62%
SMI (Switzerland)	10'945.46	5.12%	2.26%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'168.00	-4.54%	-1.23%
Gold (USD/Oz)	1'871.84	-0.06%	-1.40%
Crude Oil WTI (USD/Bbl)	53.24	10.64%	9.73%
Silver (USD/Oz)	25.77	-0.22%	-2.45%
Copper (USD/Tonne)	8'044.50	2.56%	3.59%
Natural Gas (USD/MMBtu)	2.54	-2.65%	0.00%

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

BEST PERFORMING ⊕

OCTOBER 2020	NOVEMBER 2020	DECEMBER 2020	4 WEEKS CHANGE	YTD (20.01.2021)
2.76%	21.61%	11.60%	12.89%	9.53%
2.35%	13.93%	7.15%	11.36%	8.50%
1.98%	13.73%	6.62%	9.37%	5.09%
-1.19%	12.66%	6.32%	5.35%	4.81%
-2.77%	12.35%	5.06%	4.78%	4.33%
-2.84%	11.12%	4.14%	4.39%	2.96%
-3.14%	10.75%	3.71%	4.15%	2.66%
-4.52%	9.21%	3.10%	3.88%	2.55%
-4.92%	7.98%	2.84%	3.77%	2.49%
-5.19%	5.64%	2.48%	1.82%	0.63%

⊖ WORST PERFORMING

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.