INDOSUEZ
WEALTH MANAGEMENT

MONTHLY HOUSE VIEW

Marketing Material - April 2021

Focus
Economic sector reopening: unlocking growth

Architects of Wealth

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THE MOMENT OF TRUTH?

VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

Structural systemic change or cyclical mini-boom in the US? Regardless of the answer to this question, now central to investors' decision-making, this is likely a moment of truth for the markets, with several possible paths going forward.

One route could be that the rise in inflation in the coming months is only a temporary and purely American spike, due to base effects and a boost in consumption from the stimulus plan. In that case, central banks can reunite their various objectives (moderate inflation, full employment, preservation of favourable financial conditions for businesses and governments) while remaining accommodative for several more years. If that is the case, investors can hold on to their secular Growth stocks as well as their long-duration assets.

The other route is that we see the end of the long downwards trend in rates which would itself reflect pre-crisis equilibriums (moderate inflation, cheap energy, policy-mix more favourable for businesses than employees). Here central banks would face the major medium-term dilemma of deciding between inflation control, on the one hand, and full employment and financing, on the other. And if that scenario comes to pass, market demand would shift more towards commodities and Cyclical stocks than sovereign bonds.

Certain indicators show we are likely at a crossroad. Rising inflation expectations are the first sign. The change in the equity/bond correlation is another manifestation of this shift. The outperformance by value equities, which had fallen out of favour in the last 10 years, is also a sign of what appears to be a new paradigm.

Whether we are experiencing systemic change or just a cyclical normalisation like those of the past, this market regime will have to find a new equilibrium point. That is the entire debate around the stabilisation point to be found on the US 10-year yield, which has been bolstered by opposing forces. Finance can sometimes be better understood as a physics problem (a balance of forces, with demand and inflation on one side and central banks and savings on the other).

The importance that these narratives have taken in today's financial world is cause for concern. As with ideology, one narrative follows another: in a very short time we have moved from the secular stagnation narrative to that of secular reflation. Objectively, there are many reasons to subscribe to it, in particular a political consensus in democracies that need to reconnect with their middle class. But for those who remember the new economy narrative in 2000, this might be a reason to remain somewhat cautious before embracing it wholeheartedly.

But what is a narrative? A representation of reality that seeks to confirm a hypothesis and sometimes deviates from the facts.

In reality, there is no place for ideology when it comes to asset allocation. We are living in rather Darwinian times that are favourable for investors who can adjust pragmatically and gradually to the new reality and incorporate these new parameters into their analytical framework.

Believing that the formulas of the past will continue to work is just as great a danger as ideology; this is true for both economic policy and allocation.

Any comparison with the low-inflation decade is rendered worthless by the fact that 10 years ago we exited a liquidity crisis through asset price reflation, orchestrated by the central banks. This time we are exiting a health crisis through the massive distribution of cash to US households. The consequences will necessarily be different, and the past heroes of asset allocation (gold, technology, treasury bills) will not be the sacred cows for all eternity.

ECONOMIC SECTOR REOPENING: UNLOCKING GROWTH

The world is far from back to normal, but signs of economic reopening are starting to sprout thanks to progress made on the vaccination front and structural changes in consumer behaviour as the pandemic drags on past the one-year mark. Polarisation between sectors remains strong, but while the UK sets out a plan to reopen, the US reopening phenomenon is already unfolding.

Mobility in the US retail & recreation sector is only
15%
below pre-pandemic levels

MOBILITY CHECK: THE US IS VACCINATING AND ON THE MOVE

Google mobility reports give us an idea of the degree of economic reopening across sectors. In the strongly impacted retail and recreation sector, the US is leading the reopening movement, while still remaining 15% below pre-pandemic levels (Chart 1).

In Europe, mobility is actually decreasing again after having progressively recovered since late January, with the UK still amongst the most restrictive in the world (Chart 2).

VACCINATION REMAINS THE KEY TO UNLOCKING ECONOMIES

Today there are clear vaccine leaders: Israel (60% of its population is vaccinated with at least one dose), the UK (36%), the UAE (35%) and the US (21%). Others have seen vaccine progress limited by supply constraints and logistics: the Euro Area (7% of its population) and China (3.65 doses per 100 people compared to 10.75 in France).

Looking ahead the outcome remains uncertain, but targets have been set: the US all above 18 year-old citizens vaccinated by July, the UK all restrictions will be gradually removed by the 21st of June, China 40% of its citizens vaccinated by the end of July and the Euro Area 70% of the adult population by late July. The aim is clear: vaccinate and reopen economies by the end of the summer, even if for China and Euro Area this will require a significant acceleration in the inoculation process.

WHICH SECTORS ARE BENEFITTING FROM THE REOPENING?

Manufacturing has recovered faster than most sectors and suffered less than in the first wave, notably in Europe where exporting has substantially held up production. Industrial production compared to pre-pandemic levels has returned to or exceeded pre-pandemic levels in Europe and China respectively, whereas the US and the UK are merely 5% below, with a setback in the US due to bad weather conditions in February.

CHART 1: CHANGE IN MOBILITY IN THE US BY SECTOR*

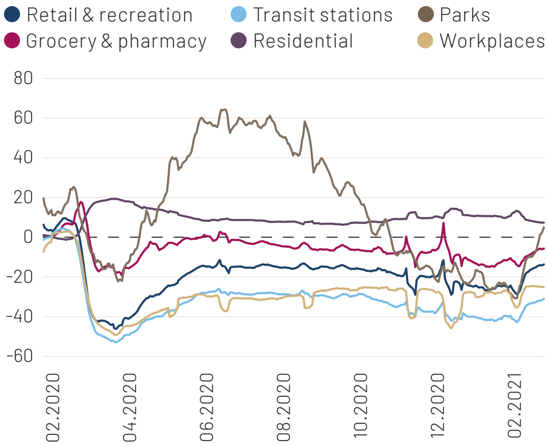
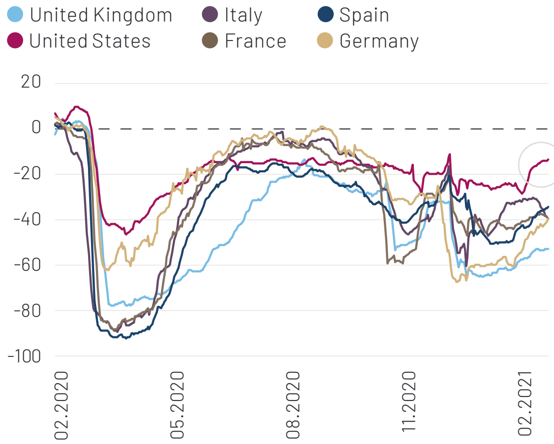


CHART 2: CHANGE IN MOBILITY IN THE RETAIL AND RECREATION SECTOR*



* 7-day rolling average of visitor numbers relative to baseline day before the pandemic outbreak.
Source: Our world in data, Indosuez Wealth Management.

The housing market has outperformed other sectors of the economy during the pandemic, particularly in the US and the UK, supported by low mortgage rates, stimulus measures and demand for more spacious accommodations for home offices and schooling. Housing starts have had a bumpy recovery thus far, but the outlook is promising as building permits surged by 10.7% in the US in January.

The recovery in services is very different across geographies depending on mobility restrictiveness and vaccine progress. Monthly PMI[1] data show that the rate of expansion in activity in the US service sector has now outperformed manufacturing for the first time since autumn. From a consumer point of view, US consumers appear more willing to loosen their purse strings. Non-store retail sales continue to gain market shares, albeit at a slower pace than at the end of the year. Restaurant and beverage places began to recover in January. As Europe remains under tight lockdown, the number of diner tables open for reservation in the US is now at 75% of March 2020's capacity according to according OpenTable data (compared to 66% on average in February).

Number of table reservations in the US at

75%

of 2020 capacity

Finally, the travel sector remains the most globally constrained from the pandemic. The stringency of government measures imposed on international air travel has increased since late 2020, notably in Europe and Asia Pacific (revenue passenger-kilometres are down 86% vs. Jan 2020 for international flights and 47% for domestic travel).

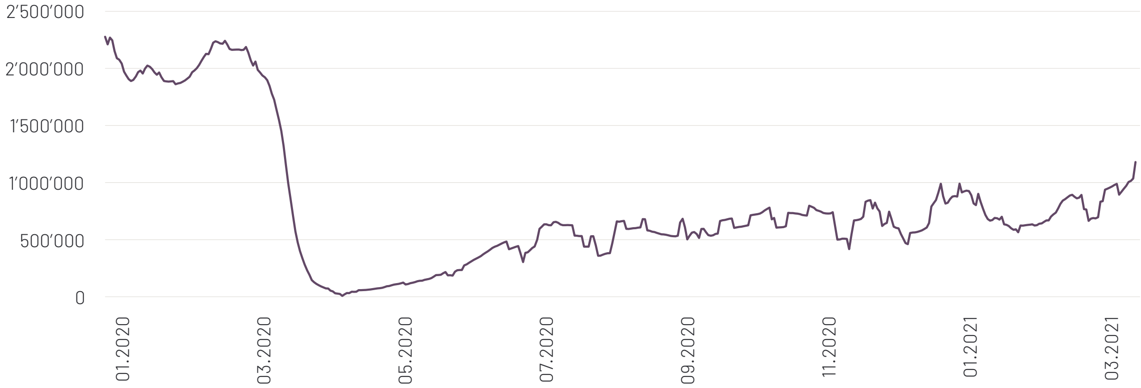
However, domestic travel picked up significantly in the US mid-March (Chart 3) with airline reservations down less than 30% compared to 2019 levels for first time since the pandemic struck. Furthermore, government aid continues to support the sector, multiple major US airlines officially dropped plans to lay off thousands of workers the day after the US Congress approved the economic relief plan.

MARKET PERFORMANCE OF REOPENING THEMES

Increasing economic reopening favours both transportation and industry in the stock market, especially in the United States where the back-to-normal life process is more advanced. Thus, indices largely weighted in airlines and mobility stocks such as the S&P Transportation Select Industry Index (+25% year-to-date) are gaining in momentum and are outperforming the broader market.

Industry and especially housing markets are also benefiting from an optimism rebound. The Dow Jones US Select Home Construction Index is up 20% since the beginning of the year while in the UK the FTSE 350 Construction and Building Materials Index showed a 7% gain outperforming FTSE 100 over the period.

CHART 3: TRAVELLER THROUGHPUT*



*7-day moving average, checkpoint travel numbers.
Source: TSA, Indosuez Wealth Management.

1 - Purchasing Managers' Index.

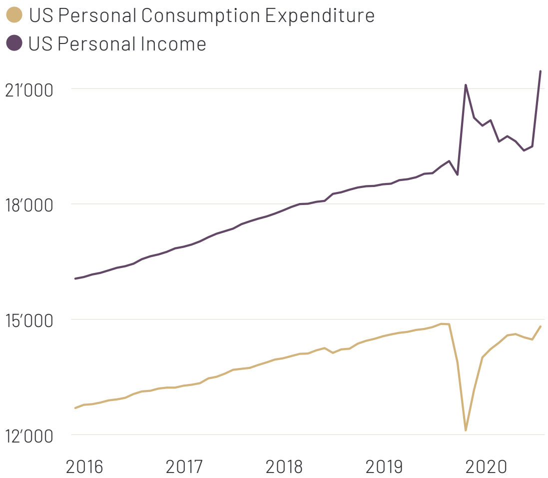
A 3-SPEED WORLD

The United States has put the pedal to the metal by fully adopting its USD 1.9 trillion stimulus package. While it will definitely boost the economy, concerns are rising on higher inflation and shaking markets. In Europe, excluding the UK, the accelerator seems blocked, as new lockdowns are affecting both supply and demand side. Steering east, in China concerns are about properly gauging the use of the brake to deleverage the economy.

ECONOMIC OVERHEATING TO COME IN THE UNITED STATES?

Despite the bad weather that affected consumption and production in February, both hard and soft data show signs that the United States economy is recovering. The number of Americans filing for unemployment benefits fell to 712 thousand early March, reaching a 5-month low. Personal consumption expenditure rose 2.4% in January on a monthly basis following the increase of personal income by 10% (Chart 4), the largest gain since April 2020 due in part to payments received from pandemic response programs. Retail sales are rising on a yearly basis (+6.3%) and the Michigan consumer sentiment Index recorded a one year high (83) in February as the new stimulus plan was approved.

CHART 4: US PERSONAL INCOME BOOSTED UP 10%, USD BILLIONS



Source: BEA, Indosuez Wealth Management.

6.5%
ECD's
US economic
growth forecast
for 2021

The American Rescue Plan Act has been indeed fully adopted at USD 1.9 trillion, surpassing expectations. This plan will give another boost to the US Economy as mentioned by the OECD who increased its 2021 US growth forecast from 3.2% to 6.5% in March (in line with the Fed's revision from 4.2 to 6.5%). Furthermore, 2022 growth forecasts will most likely be positively influenced by the multi-trillion infrastructure package that the administration is now gearing up for as their next big legislative priority and which could be financed by tax increases also to be introduced by year-end.

This optimism on economic recovery fuelled by the acceleration of vaccination and the new stimulus package raised concerns on inflation putting pressure on Treasuries and leading to some turbulence on technology and bond proxies while boosting rotation towards Value plays. Both Janet Yellen and the Fed agreed that it is too early to tighten policy. Inflation, also bolstered by increasing oil prices, could possibly overshoot the target of 2%: a risk that the Biden administration is willing to take.

INCREASED STRINGENCY TO DELAY EUROPE'S RECOVERY

Europe's economic recovery is lagging. Retail sales sharply declined in January (-6.4% on a yearly basis versus +0.9% in December) due to new lockdown restrictions especially in Germany and Italy. Industrial production remained subdued (+0.1% YoY), albeit better than expected. The manufacturing sector has seen some support, but the PMI Composite remains below the expansion threshold (48.8 for the Euro Area in February).

The European Central Bank (ECB) highlighted that the Euro Area economy is expected to contract in Q1-2021 as reopening remains brittle. The ECB's inflation estimate for 2021 has been increased to 1.5% from 1% due to energy price increases and temporary factors. Also, the ECB expects to increase its asset purchases next quarter to cap long term rate increases.

Across the Channel, the recovery remains overshadowed by COVID-19 and a new lockdown, while Brexit effects remain unclear as the drop in exports in January (-18.2%) is most likely a correction from December stock piling. Looking ahead, we see some first signs of vaccine-led optimism in the last PMI survey (composite index up by 9 points in February, skimming the 50-mark threshold).

CHINA'S ECONOMY TO PURSUE NORMALISATION

The Chinese economy is still well ahead in the cyclical recovery. Data from the National Bureau of Statistics showed that industrial production as well as consumption jumped by more than 30% year-on-year in January-February period, with strong basis effects to take into account. Despite authorities efforts to rebalance growth, rising retail sales remain below their pre-epidemic figures.

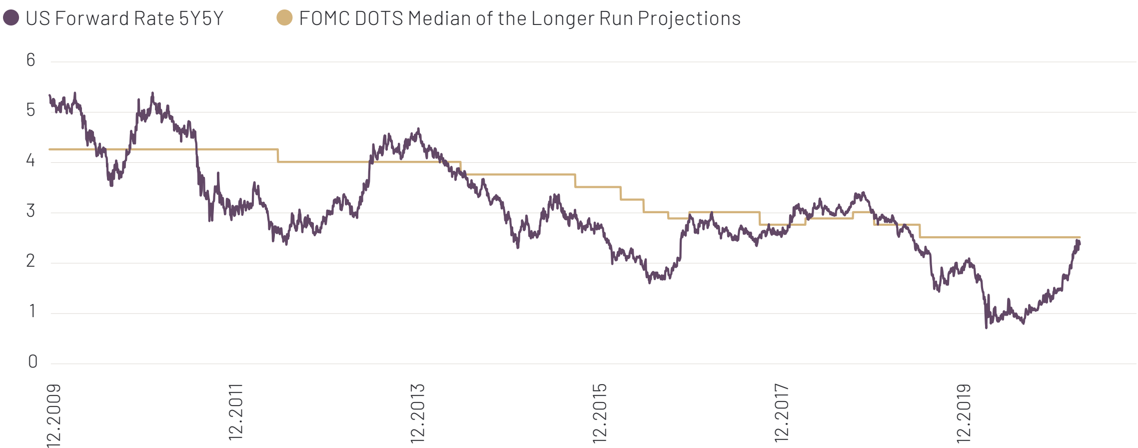
Nevertheless, the time has come for authorities to unwind, but very progressively, their stimulus efforts and help deleverage the Chinese economy. Monetary policy should also turn less accommodative, a hike in rates being expected for the H2-2021. In this domestic-cooling context, trade and high external demand figures should have an increasing impact on Chinese growth forecasts. In its 5-year plan, China set an annual economic growth target at above 6% (in line with the pre-pandemic normalising growth trend).

NORMALISATION OF LONG TERM RATES

Healthy tension: the global fixed income markets are orderly re-pricing for higher growth and inflation expectations. As financial conditions remain accommodative with well-functioning financial markets, central banks are not in full ammunition mode on Yield Curve Control rhetoric. This framework explains the normalisation of real interest rates, reflecting that this movement is not only about inflation. The key question remains: will short term optimism on inflation and growth self-sustain in the medium to long run?

The rise in US long term rates since the beginning of the year (Chart 5) marks one the worst starts for fixed income performances in decades. Technically speaking, real rate increases explain the bulk in rate movements, overshadowing inflation medium term expectations that are, at the time of writing, flat year-to-date (this contrasts with inflation breakevens which are probably overshooting above 2.6% in mid-March).

CHART 5: MARKET VS. FED VIEWS, US INTEREST RATE FORWARD 5Y5Y



Source: Bloomberg, Indosuez Wealth Management.

CENTRAL BANKS

Central banks are beginning to react to the steepening in yield curves, without wanting to disillusion markets on their strong economic rebound forecasts.

The National Bank of Australia defended the up to three years curve, and let long rates move up freely. After lower than usual asset purchases in Q1-2021, the European Central Bank (ECB) is set to increase asset purchases under its Pandemic Emergency Purchase Programme during the second quarter in order to insulate from US rate movements and contain yields. The Fed still points to downside risks in the short term, while recently raising both inflation and growth forecasts. Nevertheless, it kept a dovish speech with low short term rates until 2023, as stated in the DOTS plot. In a way, this is paradoxical, as the steepening pressure is higher in the US than in Euro Area where the question may rather be sovereign spreads control than yield curve control.

The performance of inflation-linked products has offset the modified duration counter-performance since the beginning of the year. As portfolio managers, we have reduced those positions in our portfolios as the expected high inflation figures in April-May are already widely priced in by inflation breakevens.

SHORTER DURATION & HIGH YIELD
buffers against rate

Short term growth prospects are obviously raised by the US fiscal boost, which will spread across the globe, supporting final demand and investment needs. However, as stated by M. Kaplan in 2018: “if these policies do not fundamentally increase the medium-or longer-term growth potential of the US economy, they may have only a marginal impact on the longer-run neutral rate”.

SPREAD PRODUCTS[2]
behave very well in this rising yield environment

Spread products[2] behaved very well in this rising yield environment, driven by economic reopening perspectives (the same as for the stock markets) and, in Europe, ongoing support from the ECB. Investment grade and high yield debt outperformed with limited volatility, as spreads continued to tighten recently. The lower rated CCCs strongly performed in the US driven by energy related issuers, supported by the rebound in oil. In Europe, upgrades and good results published by issuers led performance.

Subordinated debt in developed markets remains one of our favourite investment themes for this year, backed by strong fundamentals and cheap valuations relative to other spread products with comparable fundamentals, ratings and market size. Nevertheless, this segment underperformed in late February/early March, and the correlation with banking stocks broke down, as stocks continued their catch-up movement.

EM OUTLOOK REMAINS POSITIVE, BUT VULNERABLE GOING FORWARD

Emerging market (EM) assets had a weak month in terms of performances, as the rise in US long term yields and the dollar weighed on dollar-based prices. Nevertheless, the emerging market outlook remains positive going forward. The large US fiscal stimulus package and related boost to US GDP, combined with a larger carryover effect from Q4-2020 GDP outcomes are leading to upward revisions across a number of emerging market economies. However, the risks to growth come from a more widespread resurgence of new COVID-19 strains and continued tightening of global financial conditions as well as further strengthening of the US dollar. On the credit front, investment grade spreads are not far from pre-COVID-19 levels. We see scope for emerging spreads to compress amid pockets of cheapness. Shorter duration and high yield preference are providing buffers against rate rises and/or curve steepening pressure. In terms of relative value, Asian Valuations are very attractive, despite higher spreads in Latin America which reflect lower ratings and where we see more macroeconomic and political uncertainties.

2 - Spread product: Agency securities, asset-backed securities, corporate bonds, high yield bonds and mortgage-backed securities are various types of spread product.

IT'S ALL ABOUT RATES!

We remain constructive on the equity market, despite the breakout in bond yields. Along with double-digit EPS growth, GDP recovery is to accelerate supported by base effects, vaccine deployment and economic reopening as well as continued support from monetary and the fiscal stimulus. Flows are back into equities, with an improving trend in Value. Growth stocks remain vulnerable to this rotation in the short term.

Growth, TECHNOLOGY STOCKS under pressure because of rates

Since the beginning of the year, US bond yields have risen sharply, from 0.90% to 1.70%, the latest upside being due to a move up in real interest rates. This is clearly the new focus of equity markets and the driver of the rotation out from big tech and market-favoured secular Growth themes towards more Cyclical/Value names. We believe that equities will be able to incorporate this repricing if it stabilises, but it could take more pain on bond and equity markets before the Fed steps up its asset purchases to limit any uncontrolled acceleration of the bond yield. Volatility will increase if the steepening accelerates and equity markets should be vulnerable to a 10Y yield above 2%.

UNITED STATES

President Joe Biden presented a USD 1.9 trillion plan to fight the COVID-19 pandemic and its effects on the US economy. "We must act and act now, we cannot wait", said the President.

The plan revives hopes of a cyclical recovery, but at the same time fears of a return to inflation are emerging with a stunning impact from US yields.

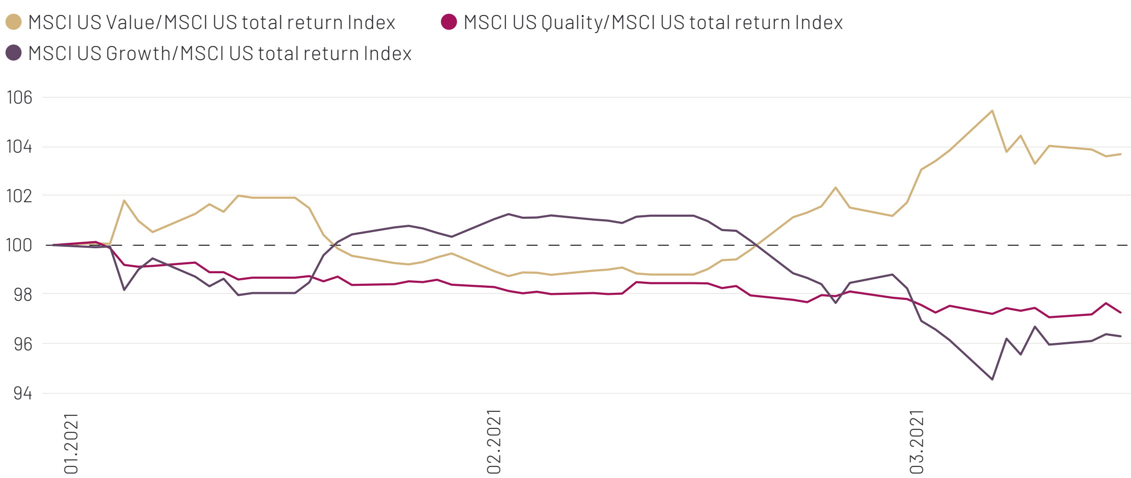
This huge movement has affected companies with the highest valuation ratios as a result of discounting future income at higher interest rates. Growth stocks, technology stocks and the Nasdaq are all under pressure because of rates. Furthermore, the sharp rise in US yields has impacted market leaderships: year to date the US MSCI Value total return index has progressed 9% compared to 5% for US MSCI and 1% for the US MSCI Growth (Chart 6). Overall, EPS growth in the US is expected to be dynamic in 2021, at +22.5% after the limited -6.7% in 2020.

EUROPE

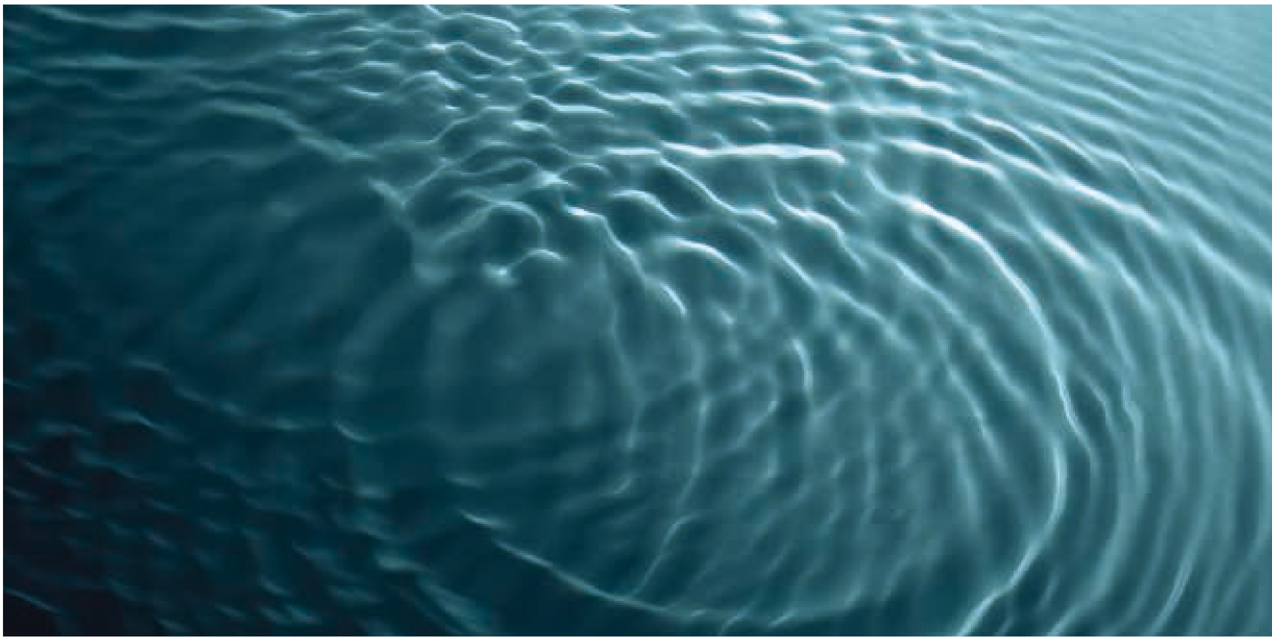
We keep our positive stance on Europe. The European equity market is indeed more tilted towards Cyclicals and Value sectors than its US or Emerging Market counterparts, which gives it an advantage when economic activity accelerates.

In addition, EPS expectations for this year and next continue to be revised up (2021 MSCI Europe EPS growth projected at 33.36% for Value stocks vs. 29.60% for Growth stocks, revised up 6.7% and 4.8% respectively over the past 3 months).

CHART 6: MSCI USA VALUE VS. MSCI USA GROWTH AND QUALITY*



*The sharp rise in US 10Y yields has impacted market leaderships.
Source: Refinitiv, Indosuez Wealth Management.



As a result, the region has been gaining traction among foreign investors, as illustrated by recent positive inflows. Finally, Europe is at the forefront of the ESG trend and a good way to get exposure to some long term Secular Growth Themes, among which we favour the sustainable development theme.

EMERGING MARKETS

A deep SHOCKWAVE all over emerging market equities

Starting from mid-February, mounting concerns and jitters as to a potential rise in inflation and interest rates in the US sent a deep shockwave all over emerging market equity markets. Yet, the actual fundamental situation in Asia is different from the western world. China has mostly used fiscal policy and targeted measures at the height of the COVID-19 crisis, while the economy is now in normalisation mode. The recent correction mostly hit Growth stocks in Asia, but Cyclical Value stocks were not immune either. In fact there were several market sessions of deep bottom fishing all over Asia. Nevertheless, we remain positive on Chinese equities on a fundamental basis. If the news flow improves regarding the scale and pace of rising US interest rates, with some clarification/announcements from the Fed, then investor focus should turn back to fundamentals and lift Growth and Cyclical Value stocks in Asia.

INVESTING STYLE

The last move in real yields helped the most risky part of the Value universe to outperform quickly. Digging into the details of EPS momentum, Value has been stronger than Growth year to date, something the market has not yet fully recognised. This trend could spread in the coming months as: the valuation discount of Value vs. Growth is still elevated on a historical basis and the investment community still appears underweight on the Value segment.

The current tensions on Quality/Growth stock portfolios could get worse in the coming months. If the Fed decides to step up its asset purchases to keep real yields low, then this should push real yields back down which in turn should limit the downside for Growth strategies and offer futures opportunities to buy back.

GBP/USD GETS BOOSTER SHOT

Never will vaccines have had such a driving impact on markets. As the EUR pleads at the mercy of a stronger USD, the GBP continues to fire ahead given its current vaccine strength. Nevertheless, it is the Chinese currency which has further strengthened versus its peers year-to-date.

$

The EU - US opposing backdrop will buoy

THE DOLLAR

EURO (EUR)

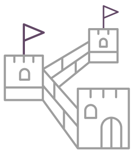
With other currencies driving Forex moves right now, the euro has been left in the backseat in Forex markets of late, held back by several short term factors: the widening macroeconomic momentum, the delay of the vaccine rollout (compared to the UK and the US), and the ECB stepping up its quantitative easing and bond purchases slightly. As a result EUR has been at the mercy of the stronger USD and other currencies. In the medium term it is worth noting that the starting point for EUR is already quite low, which leaves us inclined to believe there is still plenty of upside risks in a world where global trade picks up again on the back of rebounding growth (thus benefitting the exporting Euro Area economy). Until then, recently volatility induced by the US Treasury market means we have to assume a wider potential trading range of 1.17 - 1.23 for EUR/USD, and EUR-bulls have to hope that the pandemic starts receding sooner rather than later.

US DOLLAR (USD)

The greenback's short squeeze has gathered steam despite an ever-dovish policy stance from the FOMC. US bond markets have instead focused upon relatively vigorous retail sales and the promising vaccination roll-out under President Biden's stewardship. It is still way too early to conclude that upgraded US economic growth will create inflation beyond a mere transitory phase. As such, the stoic Fed officials maintain the market's benefit of the doubt albeit for now. However, pent-up US consumer demand given high savings and fresh stimulus checks in hand, impressive COVID-19 management and record-breaking equity indices contrast sharply with the pandemic developments and frustratingly slow vaccine deployment in continental Europe. This opposing backdrop will buoy the dollar for longer and trump the underlying twin deficit concerns at least in the short term until Europe unites their efforts.

POUND STERLING (GBP)

The pound continues to fire on all four cylinders as the United Kingdom moves onto vaccinating over 50 years-old and the market brushes aside the legal spat surrounding Northern Ireland trade which has already erupted less than three months after the trade agreement was signed (that did not take long!). This is typical price action for a strengthening pound which, given its usually large trade deficit, tends to climb slowly in good times and fall rapidly in crises. We continue to think that there is some runway left still ahead before it is time to re-assess, EUR/GBP low post-Brexit was 0.8277 and GBP/USD high was 1.4377, whilst the strengthening trend is still clearly running as we have not broken out of it on the charts yet (Chart 7).



CHINA
possible capital controls
to be relaxed?

RENMINBI (CNY)

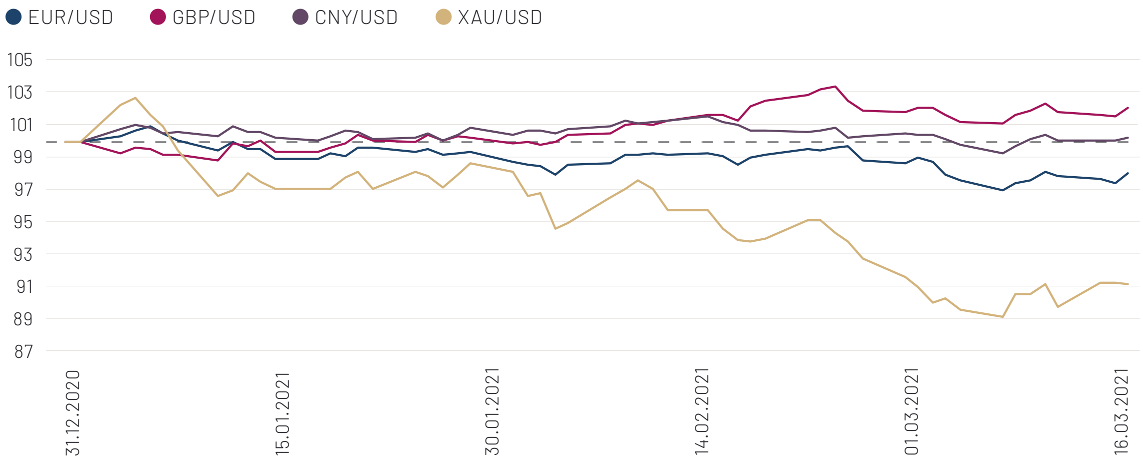
China's exceptional return to economic growth is both highly welcomed yet equally problematic. Pressure on the People's Bank of China (PBoC) has mounted from a tidal wave of liquidity resulting from foreign nation's stimulus policies. Capital continues to flood in uninterrupted and unhedged into Chinese markets offering an attractive relative "real" yield alternative. Furthermore, soaring export demand for Chinese medical supplies has further boosted their trade surplus into fresh record territory. Unsurprisingly, the Chinese currency which already sports the best track record of any G20 member over 5, 3 and 1 year period, has further strengthened versus its peers year-to-date.

As such, the PBoC has begun as forecasted to intervene and "weigh" against the strength maintaining close trade weighted equilibrium with its new number one trading partner Europe. As a needed counterbalance, there is now talk that it's draconian capital controls may well see a relaxation of the USD 50'000 per year conversion limit for mainland residents authorised to buy foreign currency merely for travel, study or work. Such consideration of an increased threshold with potentially new foreign investment avenues demonstrates the tricky task of desired internationalisation of the renminbi albeit as gradually as possible. We remain positive on any corrective pullback opportunities.

GOLD

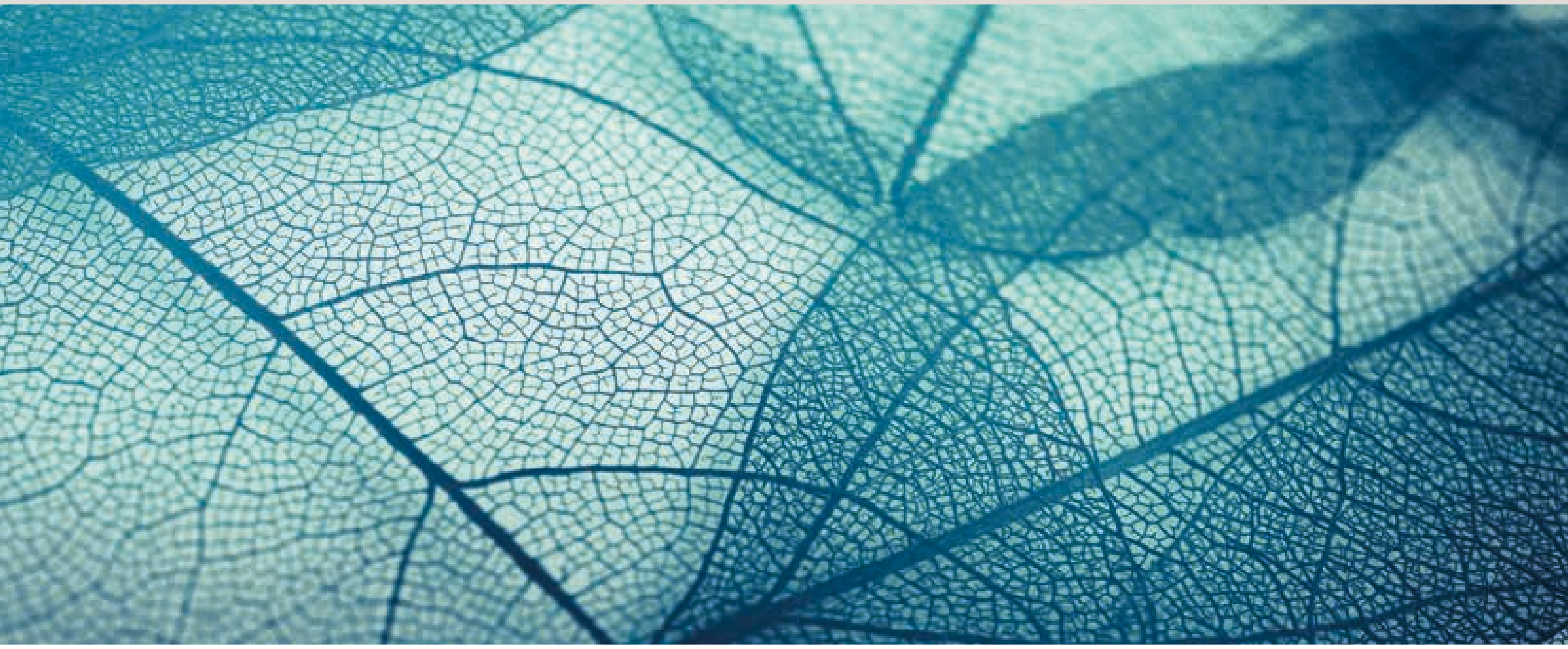
The yellow metal has really taken a beating in March as ETF holdings continued to fall demonstrating a retreat of shorter term investors following the trend lower in place since the all-time high set in August. This movement is also strongly correlated to the increase of real long term rates in the US. That said the pace of depreciation still remains moderated and we have not seen anything near the falls of March 2020 when investors liquidated positions to fund cash needs, so this still feels like a healthy correction from elevated levels. However if inflation fears continue to grow, and the Fed keeps long term real rates suppressed, it is possible that Gold may come back to the centre of attention in its role as an inflation hedge. Important supports lie just below recent lows around 1'660-1'680 where it's starting to look very attractive.

CHART 7: GBP FIRES AHEAD IN Q1-2021, 100 = 31.12.2020



Source: Refinitiv, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION



INVESTMENT STRATEGY

MACROECONOMIC TREND: A RECOVERY YEAR

- A multi-speed recovery, with China already passing peak acceleration, US in a booming year and Europe lagging expected to catch in H2-2021 (more a delayed recovery than a double-dip recession).
- Global growth above 5% which is a supportive backdrop for risk assets globally.

POLICY-MIX: OVERSIZED STIMULUS?

- In the US, an exceptionally pro-cyclical and coordinated fiscal and monetary policy.
- In Europe, an ambitious recovery plan, but which is less frontloaded and demand-driven than in the US.
- In China, a slight liquidity tightening, but an overall supportive policy-mix and a very progressive normalisation.

YIELD CURVE STEEPENING IN MOTION

- A bumpy road on steepening with high sensitivity to short term macro and policy developments.
- Increase of our 10Y yield target from 1.8% to 2% in the second half of the year, with potential for overshooting. This reflects: the USD 1.9 trillion stimulus plan, the incoming infrastructure plan proposal, high energy prices and a strong US recovery justifying a normalisation of long term rates beyond inflation breakevens that have increased rapidly since last year.

2%
US 10Y target in the second half of 2021

BOTTOM-UP FUNDAMENTALS

- A strong Q4-2020 earnings season and a year of double digit EPS growth, with Europe leading the US thanks to strong base effects on Value and Cyclical sectors which are a large contributor to the earnings recovery.
- Lower default rates and deleveraging process in 2020 that should lead to positive rating migration ahead.

VALUATIONS AND SENTIMENT

- Elevated valuations leaving a limited margin for error and remaining vulnerable to an acceleration of rate steepening.
- Polarisation of valuations between sectors is still elevated, contributing to the rotation.
- On credit margins, thinner spreads pushing investors to the riskiest compartments of the market.

RISK FACTORS/ALTERNATIVE CASES

- Excessive interest rate steepening with the 10Y trending above 2% which could be harmful for equities.

Continued
ROTATION
towards Value
stocks

ASSET ALLOCATION CONVICTIONS

EQUITIES

- Constructive view on equities, with a continued rotation towards Value stocks (cyclical & reflation plays).
- Overweight conviction on European equities, despite the delayed macroeconomic recovery, as Europe offers a rich playing field for Value stories and benefits from a potentially higher USD.
- Neutral view on US equities, given higher valuations and more vulnerability of the Quality Growth style to higher US rates.
- Maintained a constructive view on Asian equities, centered on China and diversified on cyclical south-east Asia; cautiousness on Latin America which could be more vulnerable to higher US rates.

FIXED INCOME

- Moderate underweight maintained on duration.
- Constructive view on carry on high yield corporates and financial debt.
- Investment grade: total return vulnerable to higher rates.
- Asian bonds: still a valid conviction with an interesting risk/reward profile despite vulnerability to US rates.

FOREX AND COMMODITIES

- Supporting short term factors for the USD (policy-mix and macro trend differential) despite weaker external fundamentals. EUR/USD to rebound in the second half of 2021. Constructive view on CNY.
- More cautious view on gold and other safe havens (Swiss franc and yen) in the short term. However, gold could be supported if inflation rises and Fed decides to control the curve.

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 16 MARCH 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.62%	30.38	70.47
France 10Y	-0.09%	3.10	25.60
Germany 10Y	-0.34%	1.20	23.50
Spain 10Y	0.31%	2.00	27.00
Switzerland 10Y	-0.27%	-1.60	27.90
Japan 10Y	0.10%	2.10	8.30

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	43.33	-3.69%	-4.24%
Euro Governments Bonds	220.69	-0.07%	-0.66%
Corporate EUR high yield	209.85	0.05%	1.35%
Corporate USD high yield	318.58	-1.02%	0.13%
US Government Bonds	320.99	-0.83%	-1.50%
Corporate Emerging Markets	52.10	-1.31%	-1.88%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.10	1.86%	1.80%
GBP/USD	1.39	-0.09%	1.62%
USD/CHF	0.92	3.61%	4.46%
EUR/USD	1.19	-1.68%	-2.56%
USD/JPY	109.00	2.79%	5.57%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	19.79	-1.67	-2.96

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'962.71	0.77%	5.50%
FTSE 100 (United Kingdom)	6'803.61	0.81%	5.31%
Stoxx Europe 600	426.82	1.82%	6.96%
Topix	1'981.50	0.84%	9.80%
MSCI World	2'823.69	-0.16%	4.97%
Shanghai SE Composite	5'079.36	-12.54%	-2.53%
MSCI Emerging Markets	1'349.07	-6.46%	4.48%
MSCI Latam (Latin America)	2'310.94	-4.42%	-5.74%
MSCI EMEA (Europe, Middle East, Africa)	262.66	1.31%	8.87%
MSCI Asia Ex Japan	886.06	-7.08%	5.12%
CAC 40 (France)	6'055.43	4.65%	9.08%
DAX (Germany)	14'557.58	3.51%	6.11%
MIB (Italy)	24'261.12	3.50%	9.12%
IBEX (Spain)	8'657.70	6.18%	7.23%
SMI (Switzerland)	10'944.48	0.34%	2.25%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'708.00	9.64%	11.56%
Gold (USD/Oz)	1'731.40	-3.51%	-8.79%
Crude Oil WTI (USD/Bbl)	64.80	7.91%	33.55%
Silver (USD/Oz)	25.97	-4.94%	-1.66%
Copper (USD/Tonne)	8'960.50	6.60%	15.38%
Natural Gas (USD/MMBtu)	2.56	-18.12%	0.91%

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

	DECEMBER 2020	JANUARY 2021	FEBRUARY 2021	4 WEEKS CHANGE	YTD (16.03.2021)
BEST PERFORMING +	11.60%	3.98%	3.08%	1.82%	9.80%
	7.15%	2.97%	2.61%	1.31%	8.87%
	6.62%	2.70%	2.45%	0.84%	6.96%
	6.32%	1.07%	2.31%	0.81%	5.50%
	5.06%	0.23%	1.83%	0.77%	5.31%
	4.14%	-0.80%	1.22%	-0.16%	5.12%
	3.71%	-0.82%	1.19%	-4.42%	4.97%
	3.10%	-1.05%	0.73%	-6.46%	4.48%
	2.84%	-1.11%	-0.28%	-7.08%	-2.53%
− WORST PERFORMING	2.48%	-6.80%	-3.10%	-12.54%	-5.74%

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

09 • 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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Edited as per 19.03.2021.

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.
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