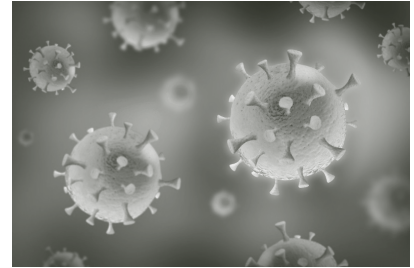




ODDO BHF

## Stay on the field and don't go offside



### MARKET FLASH

MARCH, 19th 2020

#### Market conditions

Against the backdrop of increasingly stringent measures to contain the Covid-19 virus in Europe and the USA, a significant slump in economic activity is to be expected, at least in the coming weeks, combined with considerable losses in sales and earnings in many companies. This leads to massive distortions, especially in the equity and credit markets. The volatility on the stock markets is close to the highs reached during the financial crisis of 2008; the market for corporate bonds is currently practically illiquid, and sales are only possible there at extreme discounts.

Since last Friday, the Eurostoxx50 index has dropped 5.7% to around 2430 points at midday. For its part, the S&P500 opens this Wednesday at 2436.5, down 10% since Friday evening's close.

The movement initiated since last Thursday to sell assets traditionally labelled as "safe havens" continues. The only real refuge now seems to be cash.

Sovereign rates are thus tightening sharply, with the 10-year US yield approaching 1.2% during Wednesday's session (compared to a low of 0.4% a week ago), the German Bund falling from -0.9% to -0.3%, and the Italian BTP even approaching 3% on Wednesday.

On the commodities side, WTI oil dropped below \$25, its lowest level since 2003, and gold continues its decline (-1.6% this week, close to -10% since the highs).

The Euro depreciated over the week from 1.11 to 1.09 against the Dollar.

Last week's massive FED injections and cross funding lines with other central banks were therefore not enough to calm investors, as all assets became worthy of being sold to obtain liquidity, especially in dollars.

#### Movements in the portfolios and outlook

While our funds are generally holding up well relative to their indices and peers, the past few days have not spared anyone.

**On the equity side**, our flagship fund ODDO BHF Avenir Europe fell over the week but continues to outperform its benchmark.

The ODDO BHF Immobilier fund, which had resisted remarkably well so far, is embarked by the tsunami of profit taking and the rise in rates linked to expectations of recovery.

**On the fixed income side**, the bond allocation strategy (ODDO BHF Credit Opportunities) is fulfilling its defensive role this week. Our High Yield Dated Bond funds are down this week. The ODDO BHF Global Target 2026 shows yield levels relatively high but at the price of an increased stress on the credit.

**For the Polaris portfolios**, given the high degree of uncertainty regarding the duration and extent of the forthcoming burdens, the portfolio management team currently maintains its fundamentally defensive orientation and a slight underweighting of the equity component. Within this framework, however, we are already shifting into quality stocks that are not very sensitive to the effects of the corona crisis or are even able to benefit from it. These include, for example, stocks from the consumer staples (e.g. Reckitt Benckiser, Nestlé, Unilever), technology (e.g. Amazon) or pharmaceutical/medical technology (e.g. Roche, Thermo Fisher, Novo Nordisk) sectors. The time is not yet ripe for a significant increase in the equity allocation. We would only consider increasing it at significantly lower valuation levels - for the DAX, for example, at a price-to-book ratio of below one, i.e. at levels tested in periods of extreme stress in financial markets in the past.

ODDO BHF

12, boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone: 33(0)1 44 51 85 00 - Fax: 33(0)1 44 51 85 10 - [www.oddo-bhf.com](http://www.oddo-bhf.com)  
ODDO BHF SCA, a limited partnership limited by shares with a capital of €70,000,000 - RCS 652 027 384 Paris - approved as a credit institution by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and registered with ORIAS as an insurance broker under number 08046444.

[www.oddo-bhf.com](http://www.oddo-bhf.com)



# ODDO BHF

The portfolio management teams are currently maintaining their fundamentally defensive stance and a slight underweight in the equity component.

To return to overweight, we are considering two scenarios:

**1.** A further 10% (or about -50% YTD) drop in equities, which would provide an additional cushion to position our portfolios on quality stocks over the long term by extracting ourselves from the current extreme volatility. Even if fiscal and budgetary measures remain incomplete and require adjustments, governments have taken the measure of systemic risk. Support will be provided at all costs. Despite a recession that is proving deep, the long-term performance outlook is fantastic and historic.

**2.** Contagion: if the inflection point seen in China after 20 days of containment is also seen in Italy, then investors can take stock and assess the risk/return trade-offs more rationally. After a 35% decline, what macroeconomic recession and what profit recession are already in the prices? The rebound could be as violent as the fall. But let's be clear, we won't see the highs again this year. This crisis will not be without implications for the global economy. The impact on consumer purchasing power will be important and many companies will surely have to revisit their business models.

As an illustration, here are some levels of valuation :

- On the High Yield, spreads of 900 basis points correspond to a cumulative probability of default of 50% over 5 years with a recovery rate of 30%.
- LVMH is offering to buy Tiffany at 135 USD per share, it is quoted at ...115 USD

An "ocean of opportunities" is opening for investors in the coming months. You must be able to stay on the field and don't go offside. But today, we have to wait for the real signals.

And above all, take care of yourself.



**Laurent Denize**

Global co-CIO  
ODDO BHF Asset Management



**Jan Viebig**

CIO  
ODDO BHF TRUST

## Disclaimer

This document has been prepared by ODDO BHF for information purposes only. It does not create any obligations on the part of ODDO BHF.

The opinions expressed in this document correspond to the market expectations of ODDO BHF at the time of publication. They may change according to market conditions and ODDO BHF cannot be held contractually responsible for them.

Before investing in any asset class, it is strongly recommended that potential investors make detailed enquiries about the risks to which these asset classes are exposed, in particular the risk of capital loss.

## ODDO BHF

12, boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone: 33(0)1 44 51 85 00 - Fax: 33(0)1 44 51 85 10 - [www.oddo-bhf.com](http://www.oddo-bhf.com)  
ODDO BHF SCA, a limited partnership limited by shares with a capital of €70,000,000 - RCS 652 027 384 Paris - approved as a credit institution by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and registered with ORIAS as an insurance broker under number 08046444.

[www.oddo-bhf.com](http://www.oddo-bhf.com)



**ODDO BHF**

---



**ODDO BHF**

12, boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone: 33(0)1 44 51 85 00 - Fax: 33(0)1 44 51 85 10 - [www.oddo-bhf.com](http://www.oddo-bhf.com)  
ODDO BHF SCA, a limited partnership limited by shares with a capital of €70,000,000 - RCS 652 027 384 Paris - approved as a credit institution by the Autorité  
de Contrôle Prudentiel et de Résolution (ACPR) and registered with ORIAS as an insurance broker under number 08046444.

[www.oddo-bhf.com](http://www.oddo-bhf.com)



**ODDO BHF**

**ODDO BHF**

12, boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone: 33(0)1 44 51 85 00 - Fax: 33(0)1 44 51 85 10 - [www.oddo-bhf.com](http://www.oddo-bhf.com)  
ODDO BHF SCA, a limited partnership limited by shares with a capital of €70,000,000 - RCS 652 027 384 Paris - approved as a credit institution by the Autorité  
de Contrôle Prudentiel et de Résolution (ACPR) and registered with ORIAS as an insurance broker under number 08046444.  
[www.oddo-bhf.com](http://www.oddo-bhf.com)