



ODDO BHF Asset Management

Investment strategy - *Europe at a crossroads*

June 2020

Laurent Denize – Global co-CIO

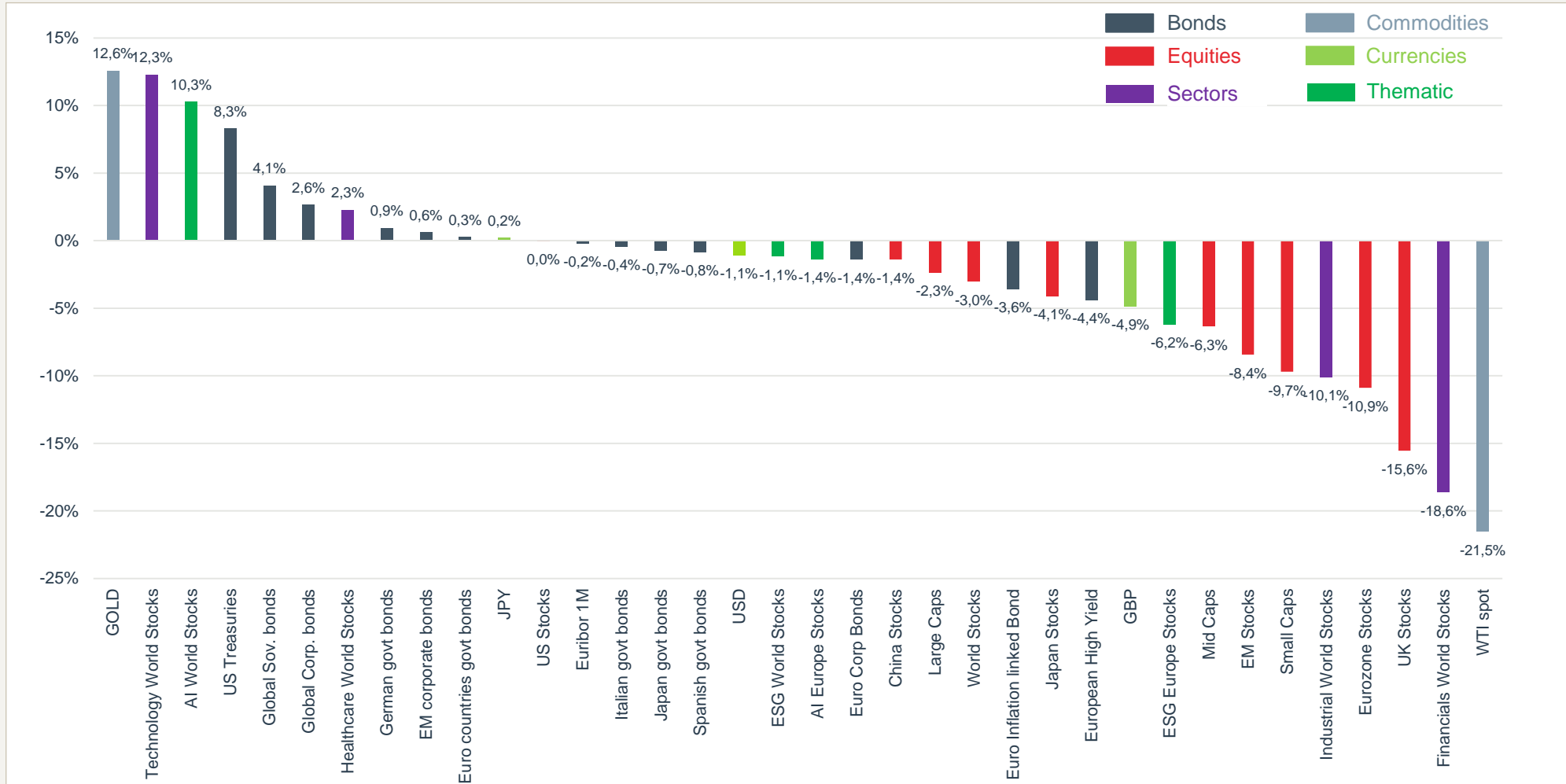


01 WHERE DO WE STAND

Almost all risky markets have retraced at least 50% of their crisis-induced moves



YTD asset class performances

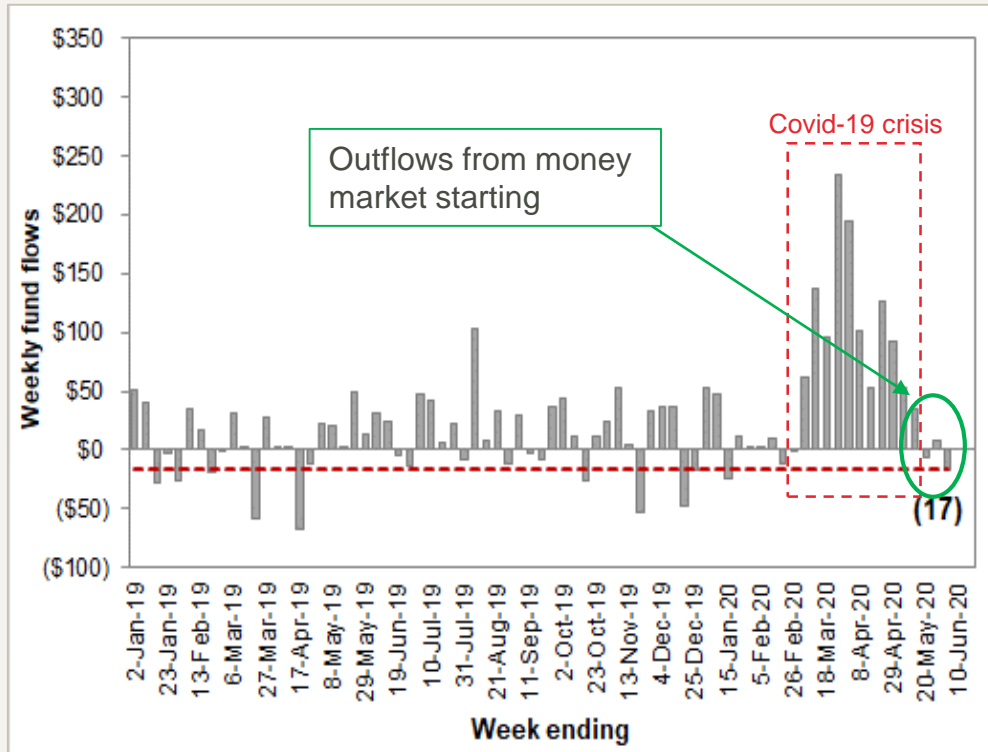


Source: ODDO BHF AM, Bloomberg, 06.10.2020

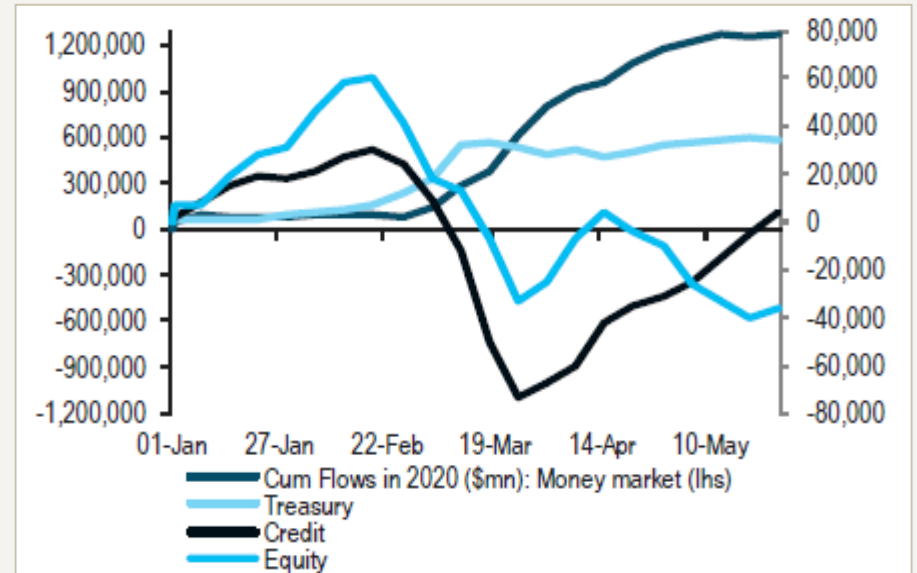
Investors are back in a risk-on mood



Global money market fund flows, weekly (bn\$)



YTD Cumulative flows by asset class

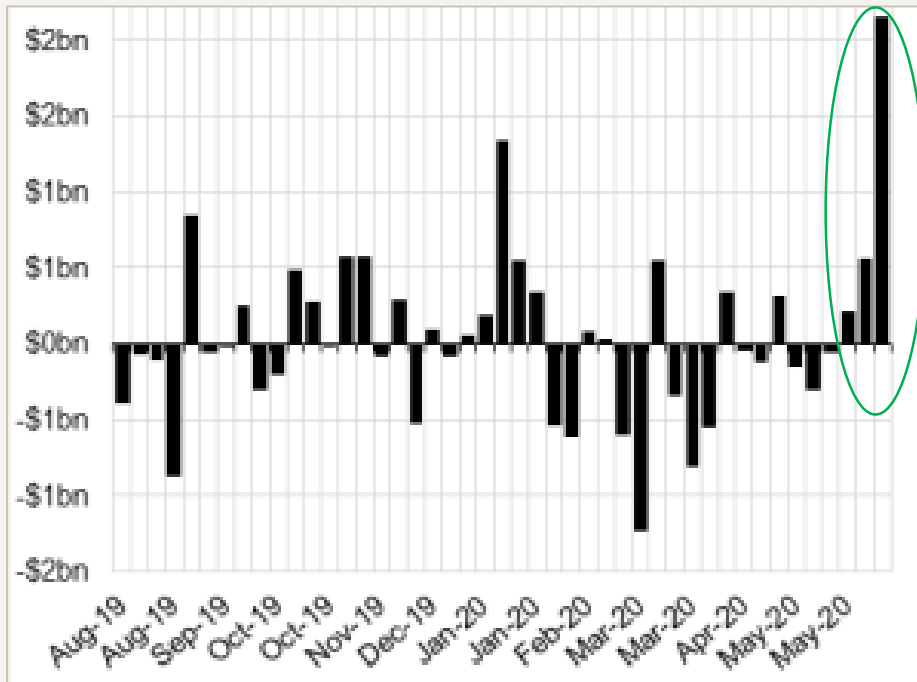


Source: ODDO BHF AM, EPFR Global, Barclays

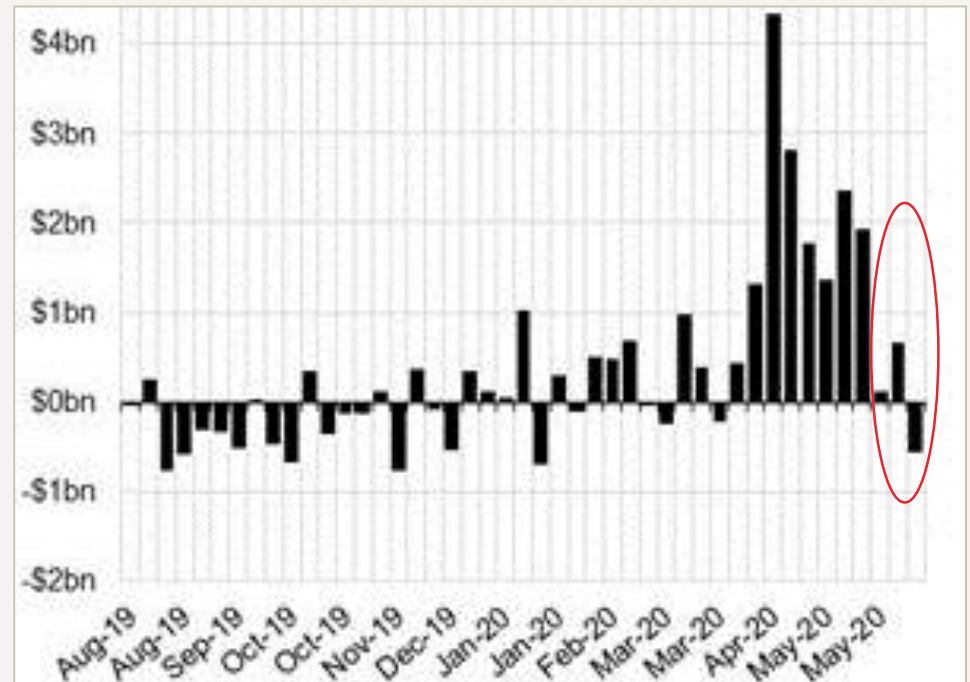
Equity flows: is the recent appetite for Cyclicals a real trend?



Industrials sector fund flows



Healthcare sector fund flows

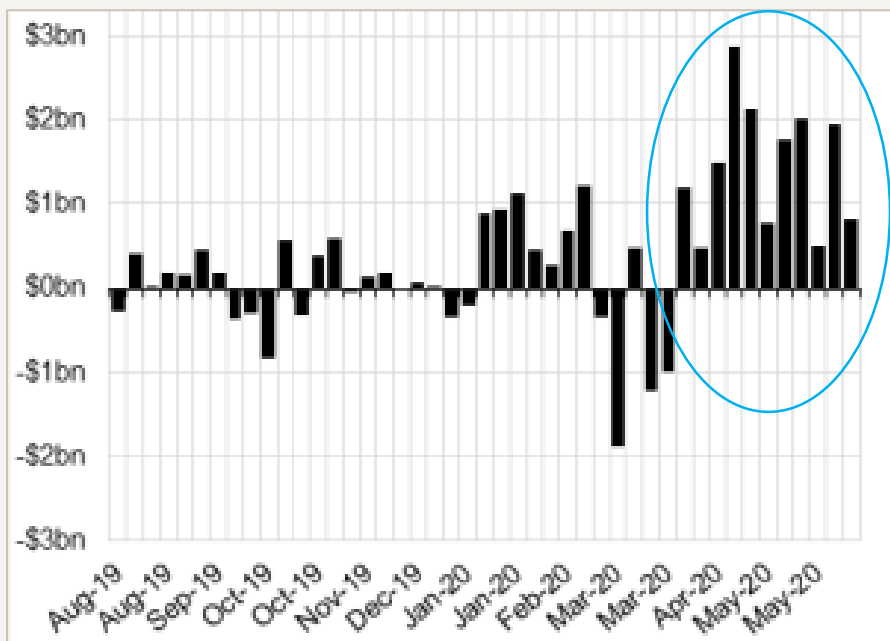


Source: ODDO BHF AM, Exane

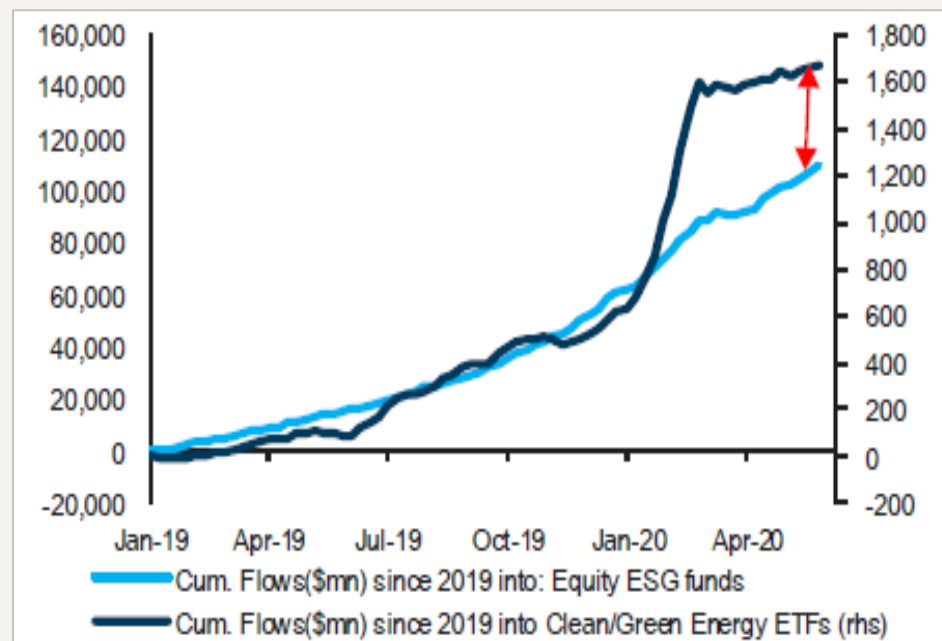
A structural one for “megatrend sectors” like Technology and ESG



Technology sector fund flows



ESG fund flows

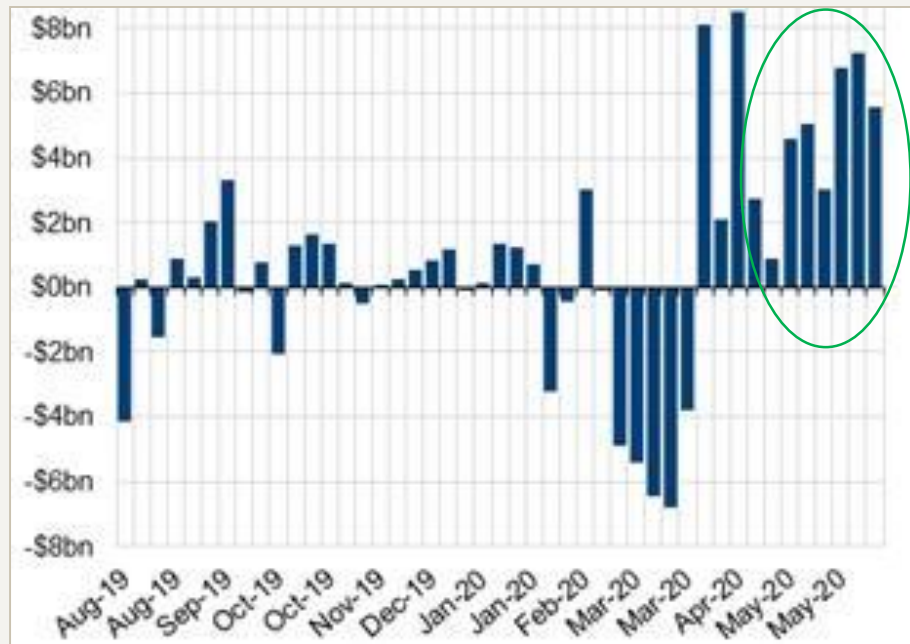


Source: ODDO BHF AM, Exane, Barclays

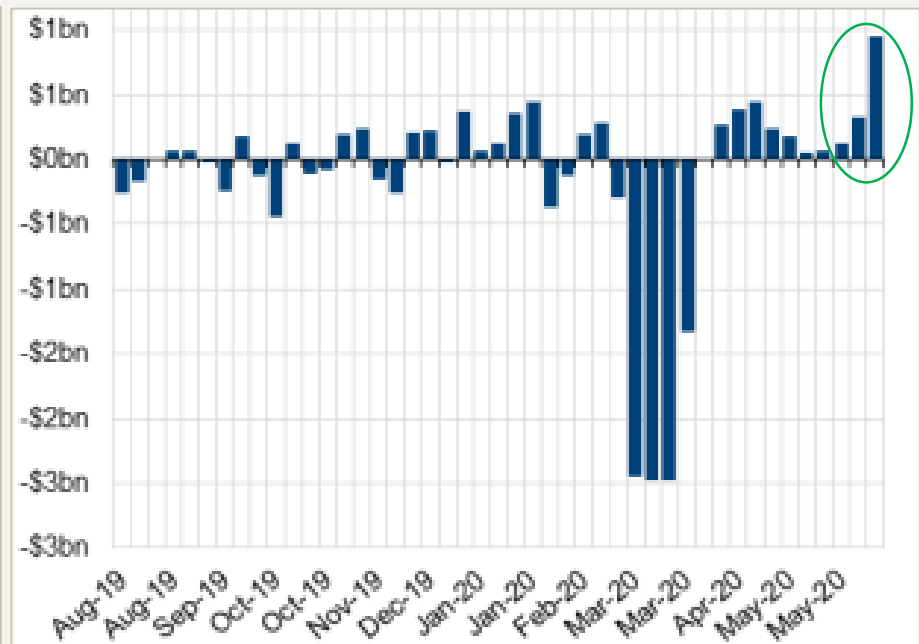
High Yield flows: In FED we trust, starting to kick-off a global move towards HY bonds



US High Yield Bond fund flows



EUR High Yield Bond fund flows





02 MACROECONOMIC OUTLOOK



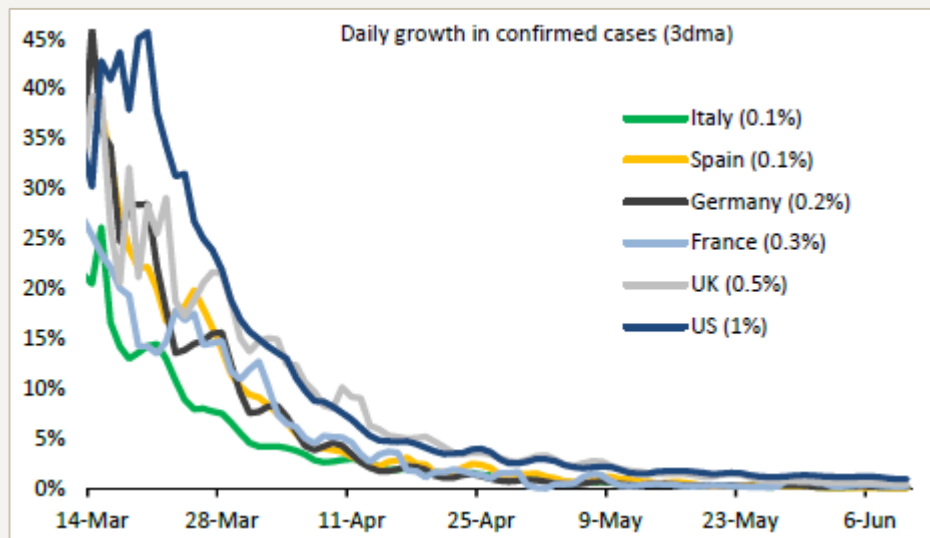
WORLD



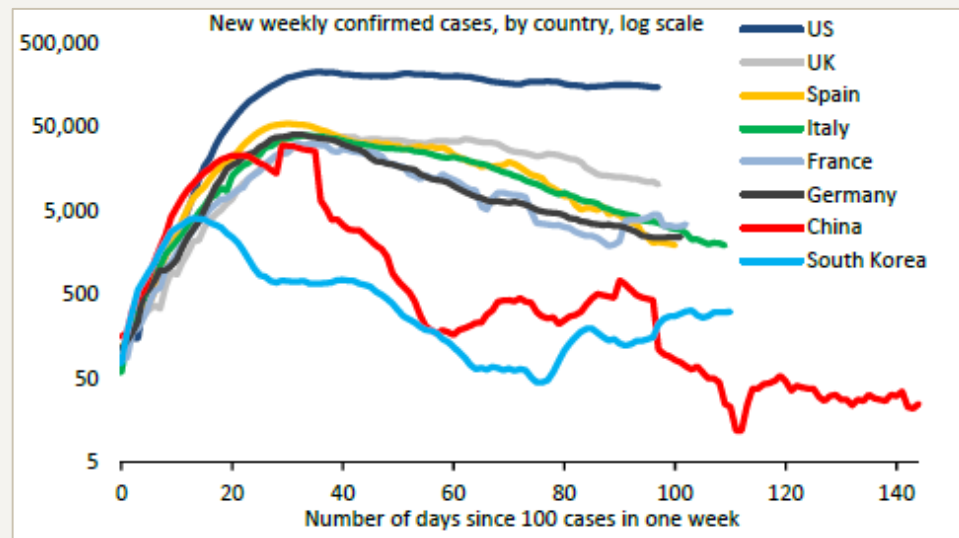
A fading pandemic in most of the developed countries



Daily growth in confirmed cases



New weekly confirmed cases by country (log scale)

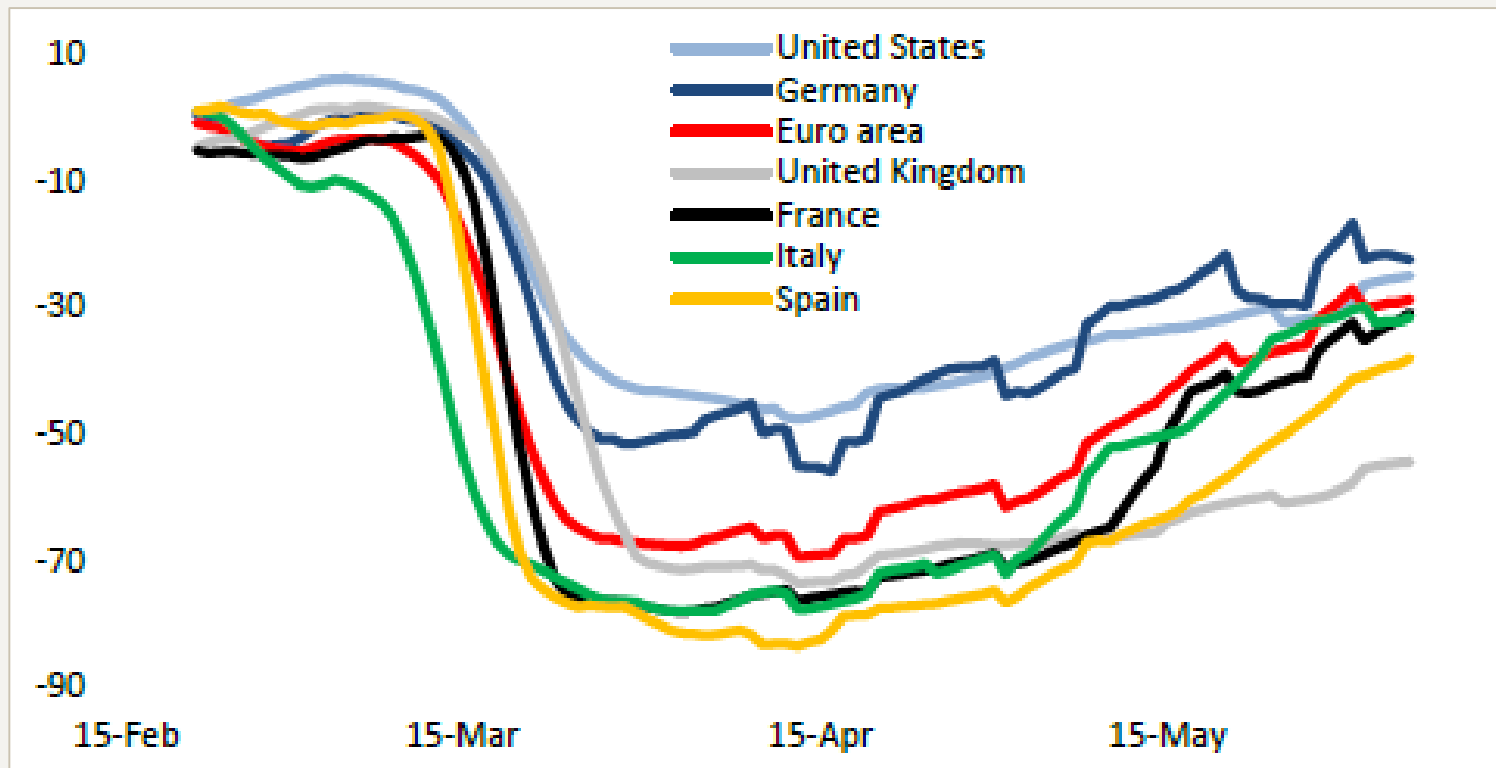


Source: ODDO BHF AM, Worldometer, BofA Global Research

A de-containment resulting in a kick restart of the economic activity



Mobility at workplaces, retail and recreation (average), % change from baseline, 7dma



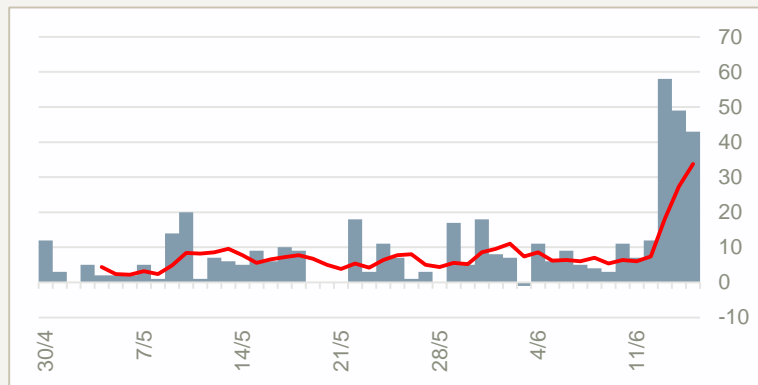
We are monitoring the risk of a second wave



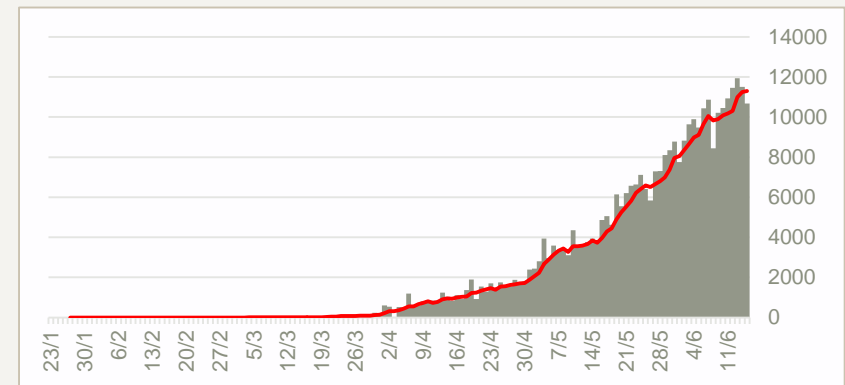
Evolution of new Covid-19 cases in the US

City	Cases as % of population		Cases as % of tested	
	May-14	June-14	May-14	June-14
New York	1.8	2.0	26.4	13.1
New Jersey	1.6	1.9	31.6	15.2
California	0.2	0.4	6.8	5.4
Florida	0.2	0.4	7.1	5.4
Texas	0.2	0.3	7.1	6.8

Evolution of new Covid-19 case in China



Evolution of new Covid-19 case in India

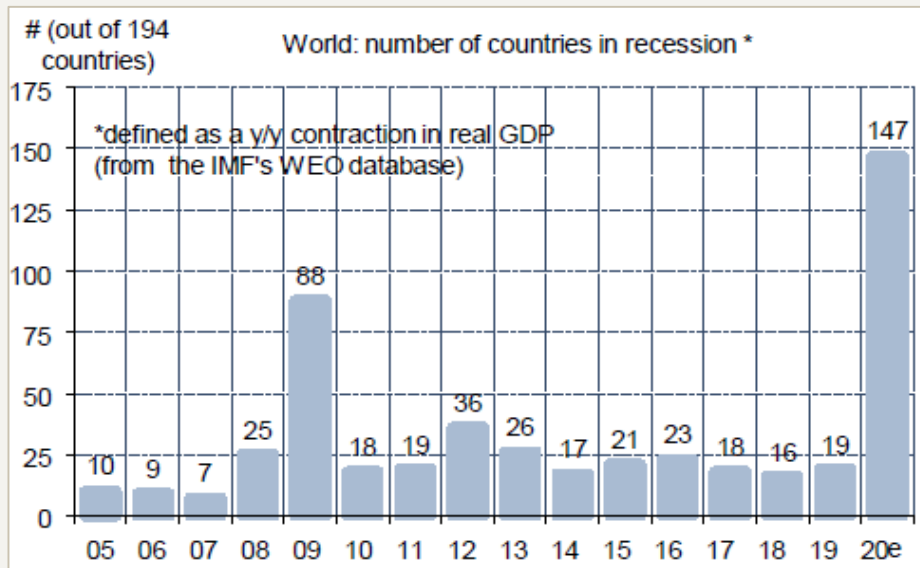


Source: ODDO BHF AM, Bloomberg

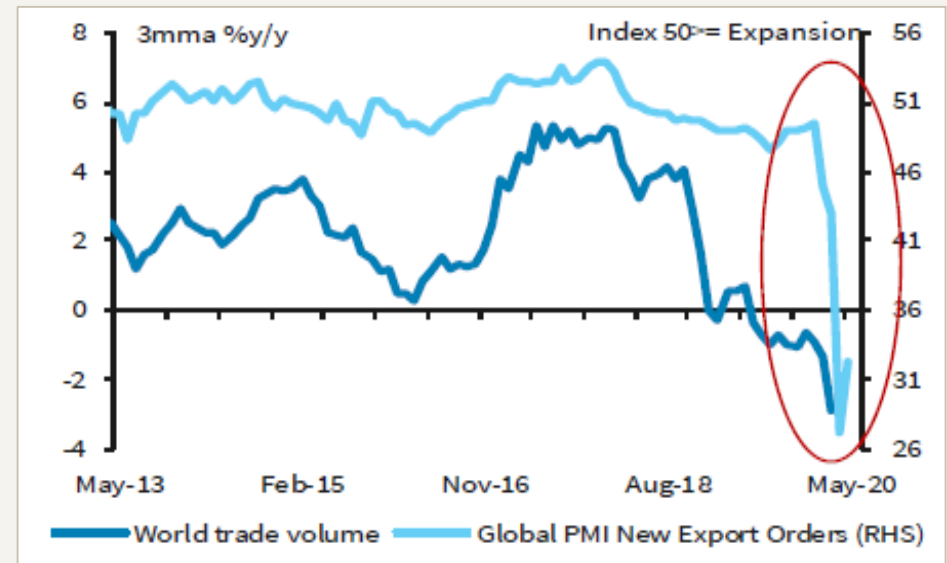
An administrative decision has created a shock of unprecedented magnitude



World: number of countries in recession



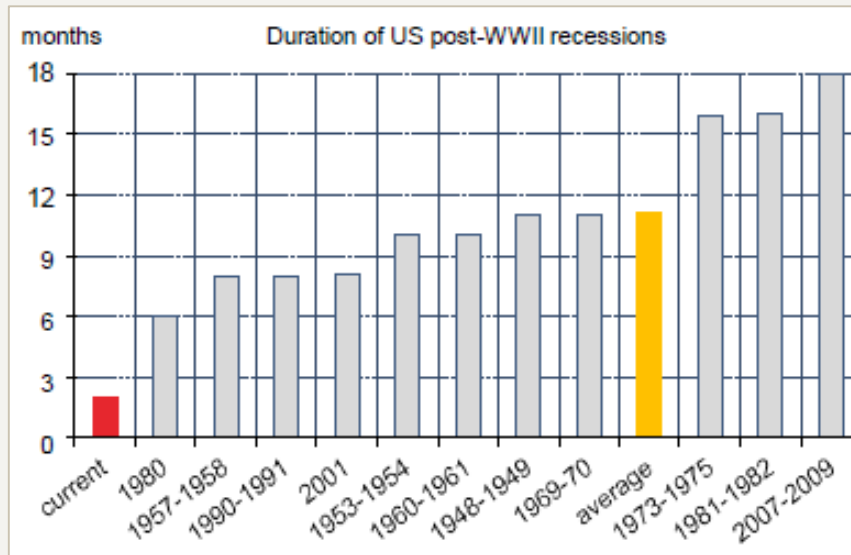
World: Evolution of trade volume



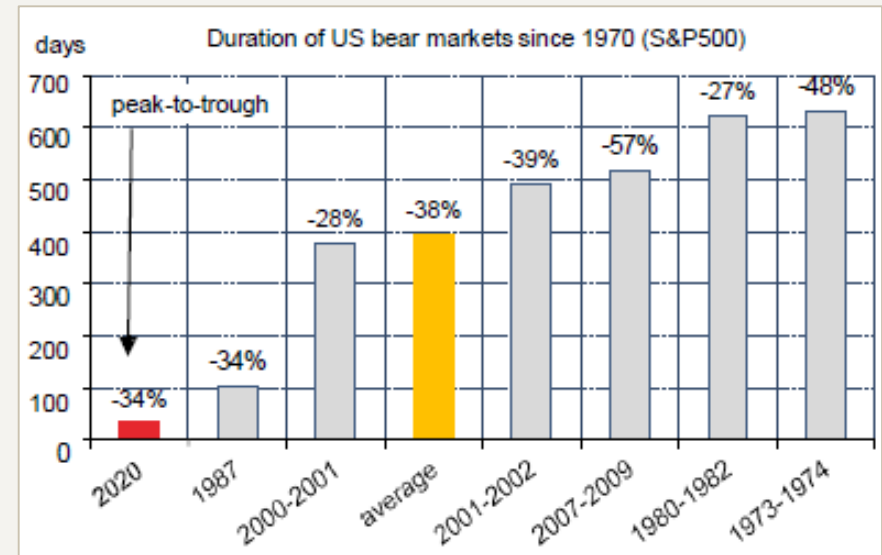
But maybe the shortest recession and bear market on record



Duration of US recessions



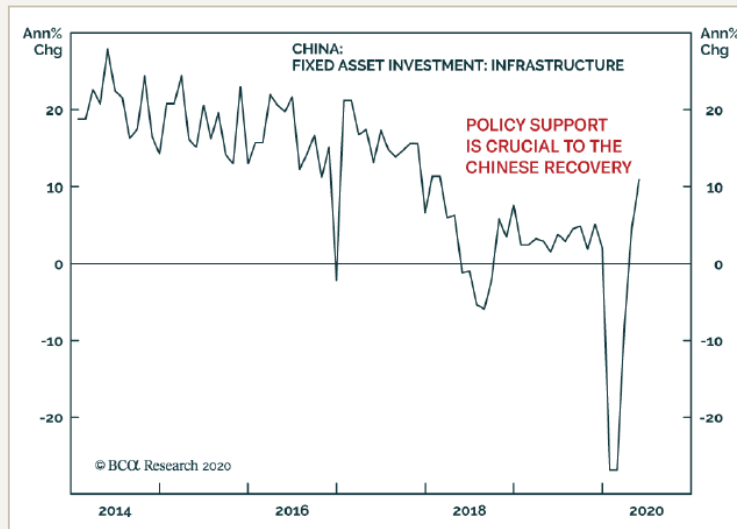
Duration of US bear markets



Source: ODDO BHF, ODDO BHF Securities, Thomson Reuters



Infrastructure investments in China



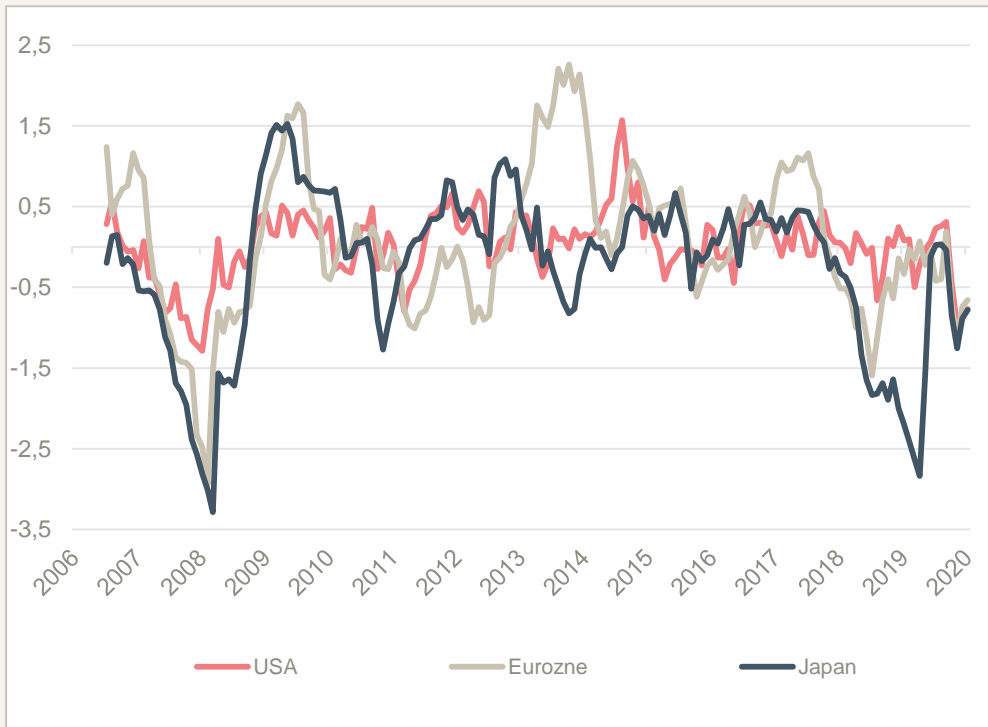
Retail demand in China



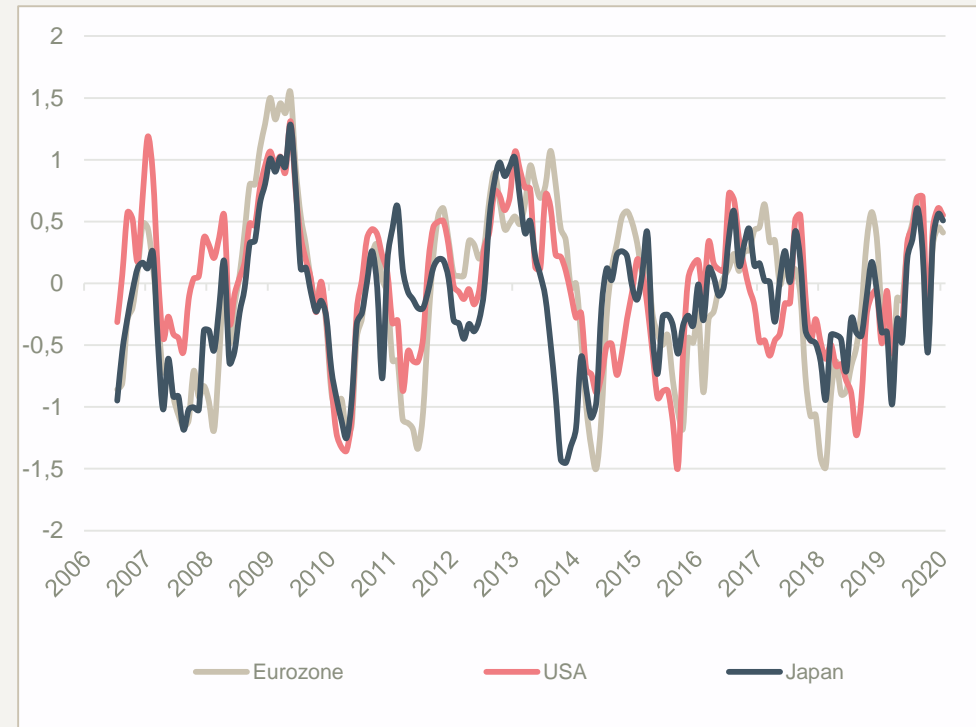
Leading indicators are turning positive



Consumer confidence – Z-Scores



Companies growth perspectives – Z-Scores

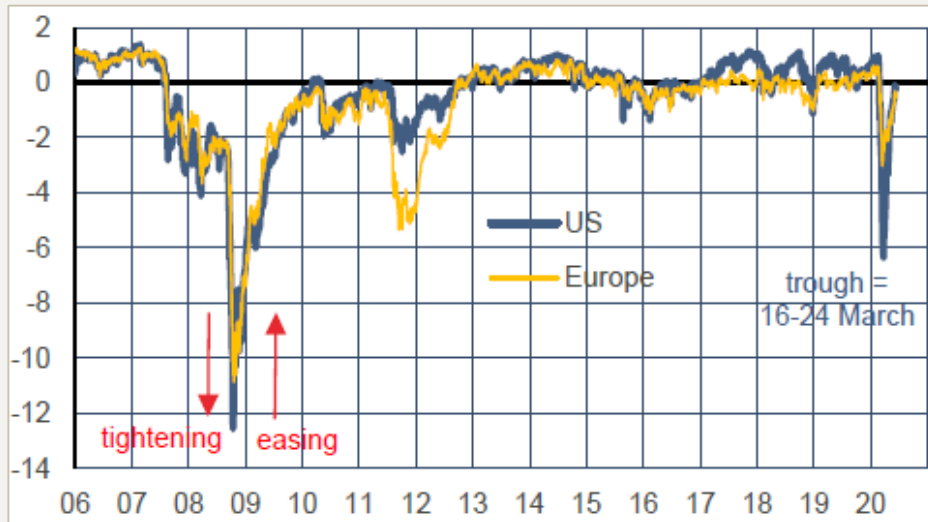


Source: ODDO BHF, Bloomberg, June 2020

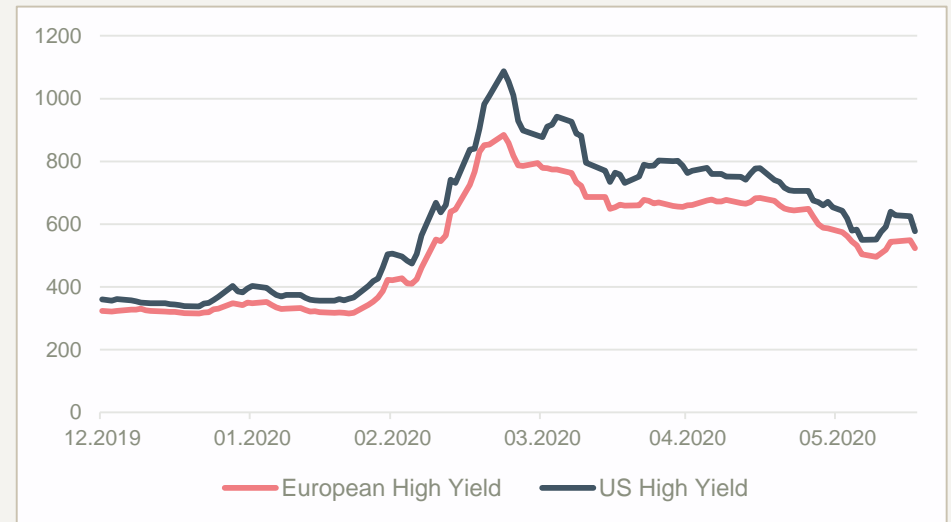
Thank you central banks!



Financial conditions index – z-score



Evolution of spreads US & Europe



Source: ODDO BHF AM, ODDO BHF Securities, Bloomberg



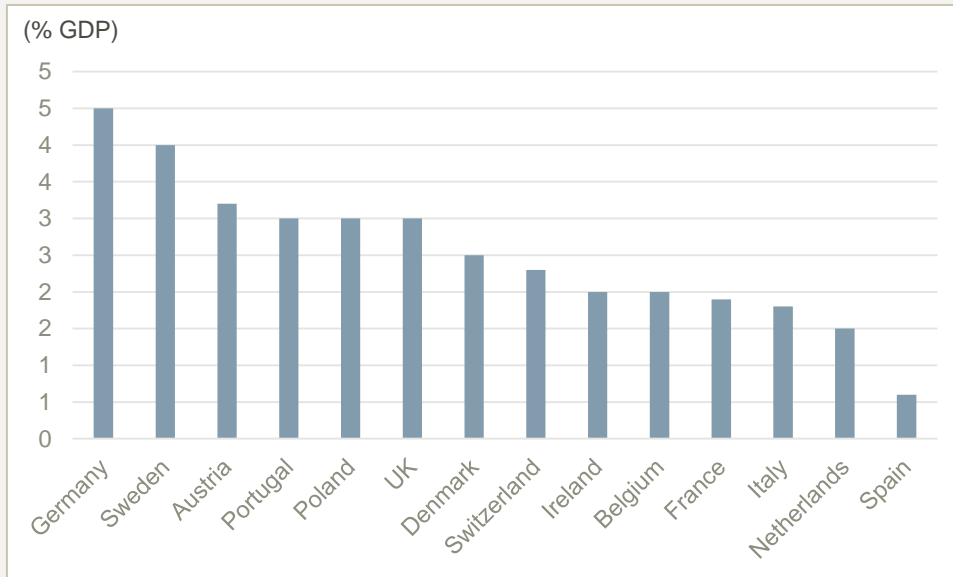
EUROPE



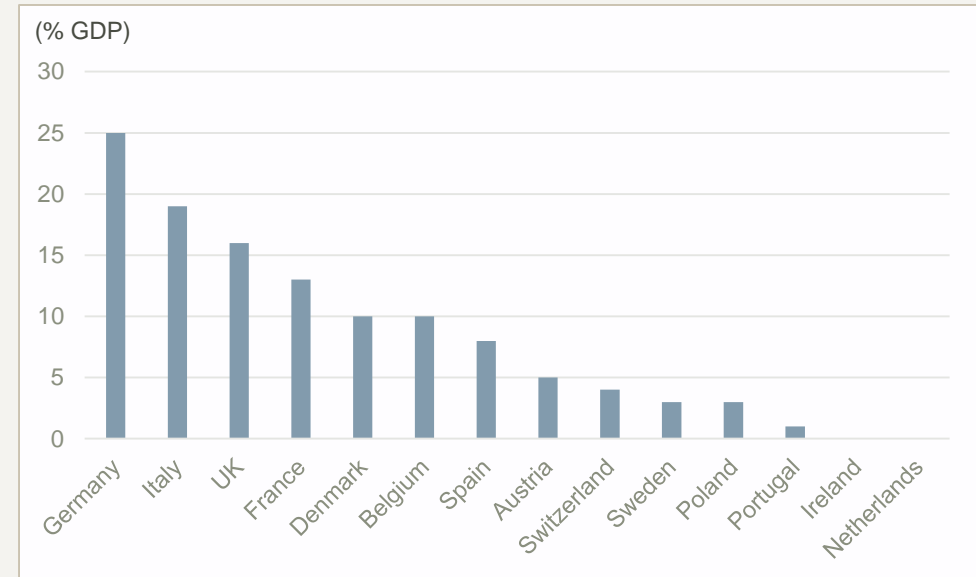
At last, a quick and extensive reaction from governments on fiscal measures



Fiscal measures announced by governments



Guarantees and liquidity assistance announced



And... an unprecedented solidarity



A Franco-German proposition

&

A European proposition



€750bn

European Recovery Fund proposal

Pillar 1

Support the recovery of Member States

- Grants: €405bn
- Loans: €250bn

Pillar 2

Kick-start the economy & help private investments

- €56bn provisioning for guarantees

Pillar 3

Learning the lessons from the crisis

- €39bn grants

Examples of induced costs / benefits

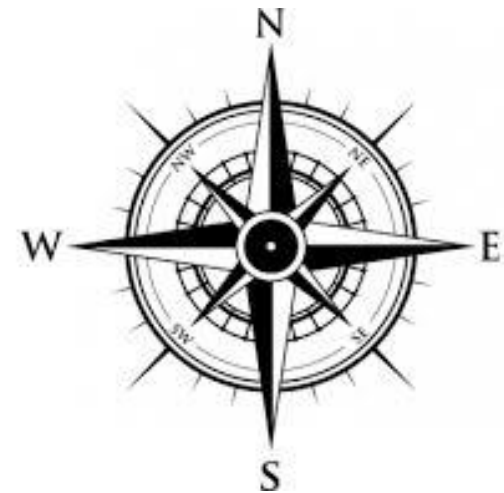
	Main contributors	Loss	% GDP
	Germany	-€89bn	-2.2%
	France	-€35bn	-2.6%
	Netherlands	-€21bn	-2.5%



	Main beneficiaries	Gain	% GDP
	Spain	+€55bn	4.4%
	Italy	+€38bn	2.1%
	Poland	+€24bn	4.5%



MEDIUM-TERM IMPLICATIONS OF THE COVID-19 CRISIS



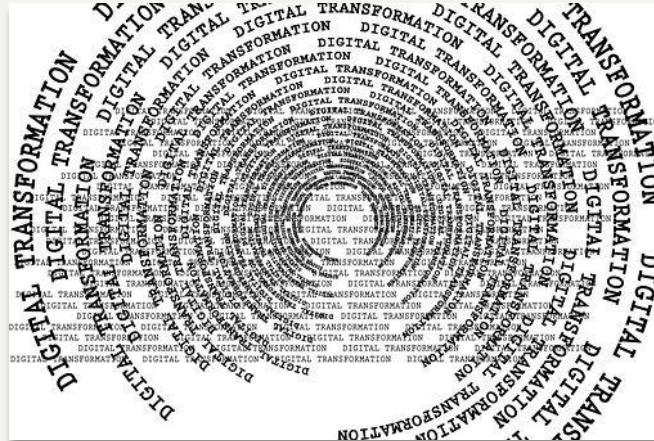
Some trends already identified before the Covid-19 crisis



Climate change



Green & sustainable planet



Technological change



Artificial Intelligence



Demographic change



Rise of Millennials

New trends accentuated by the Covid-19 crisis



More Tech

- Digitalization
- Online collaborative tools
- IT infrastructures



{NOUSTACHE
BIKES

greenyellow
l'énergie entre vos mains

NEOEN



More ESG

- Focus on Social and Governance aspects
- Sustainable infrastructures
- Smart & Sustainable mobility

Different Consumption

- Food delivery
- Local products
- E-commerce / online grocery



Uber
Eats

DOORDASH

amazon

zalando



Less Globalisation

- Trade war
- Re allocation of strategic resources

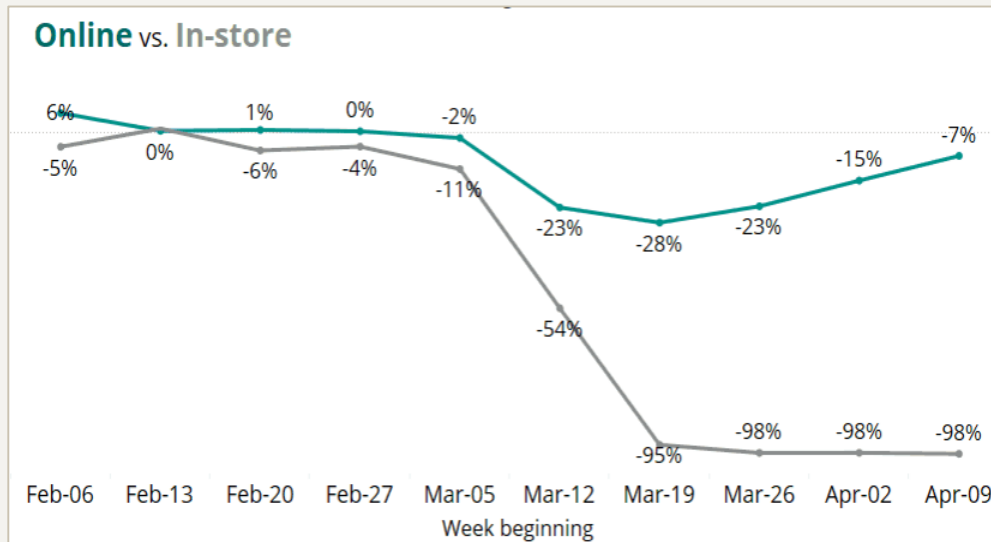


BIOMÉRIEUX

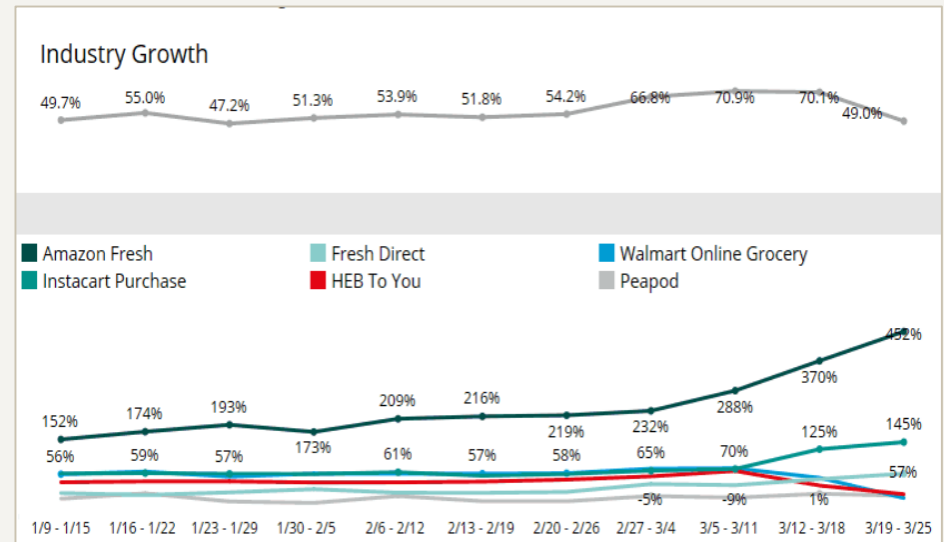
AstraZeneca



Retail yoy sales growth by channel in the US



Online grocery – yoy sales growth in the US



Source: ODDO BHF AM, Earnestresearch.com

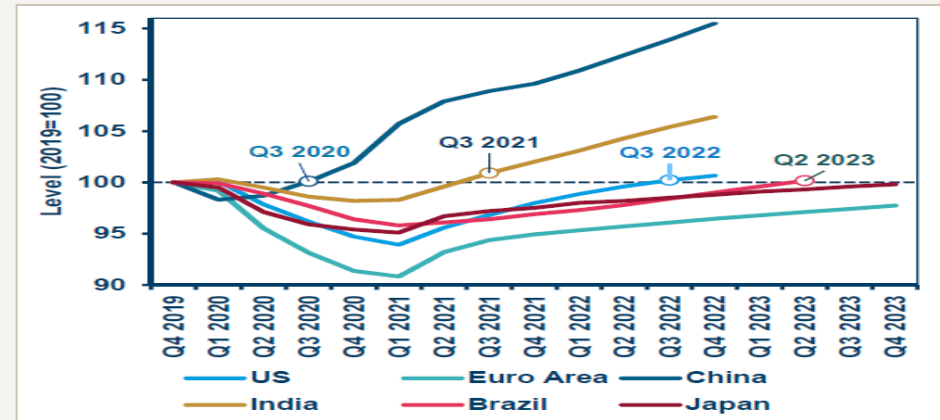
What do we expect for 2020 and 2021?



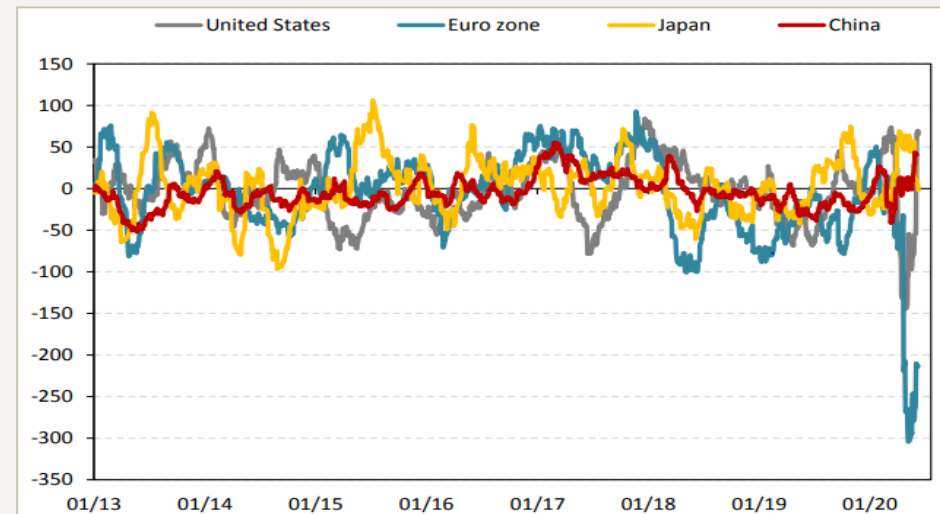
Real GDP growth (%)

	2019 Y/Y	2020 f Y/Y	2021 f Y/Y
Euro area	1.2	-7.6	5.0
➤ Germany	0.6	-6.2	4.9
➤ France	1.3	-9.0	6.0
➤ Italy	0.3	-10.2	5.5
➤ Spain	2.0	-9.1	5.9
USA	2.3	-5.7	3.9
Japan	0.7	-4.9	2.2
United Kingdom	1.4	-7.8	5.5
China	6.1	1.7	8.0

Real GDP recovery by country / area



Macro economic surprises



Source: ODDO BHF, Bloomberg; Median forecast, as of 03 June 2020 (Table), Amundi, Exane Derivatives, Bloomberg



WHAT RISKS TO OUR GLOBAL SCENARIO



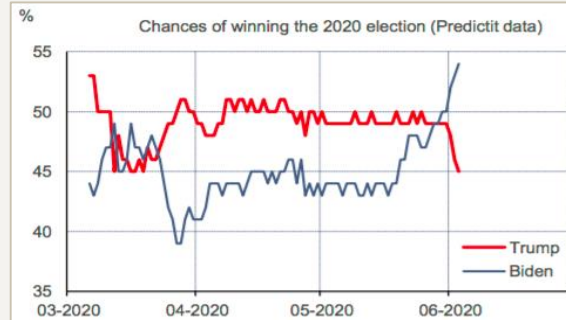
Several risks should not be underestimated



US / China conflict



US Elections



EU negotiations failure



Fall viral outbreak



Unemployment



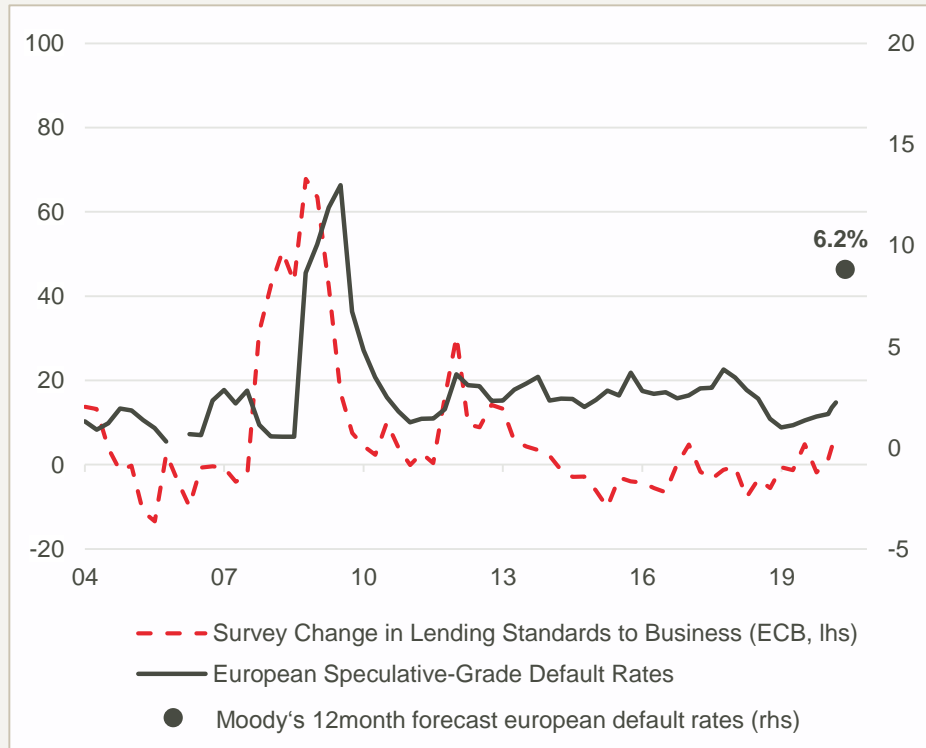
Bankruptcies



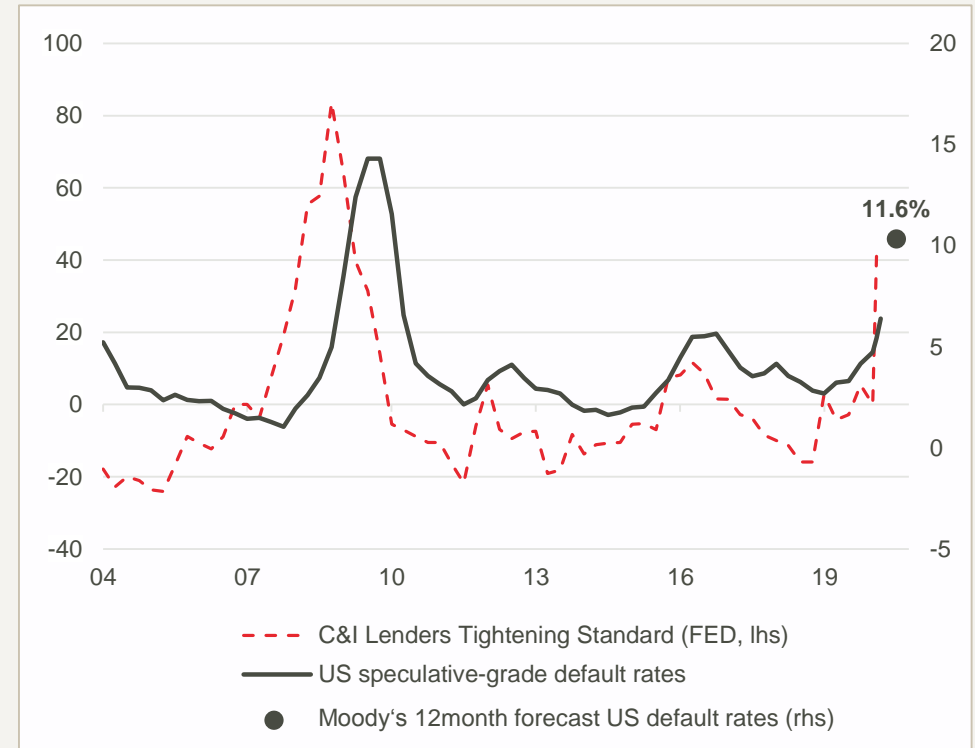
Risk 1: Rise in bankruptcies



Lending standards (ECB) and default rate



Lending standards (FED) and default rate

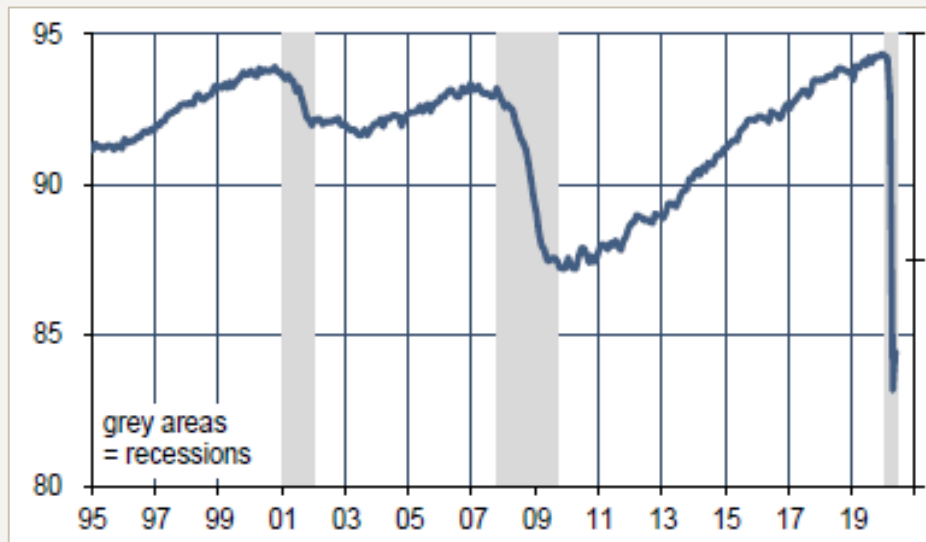


Source: ODDO BHF AM, Moody's as of 31/05/2020, Fed, ECB, Bloomberg | Data as of 31/05/2020

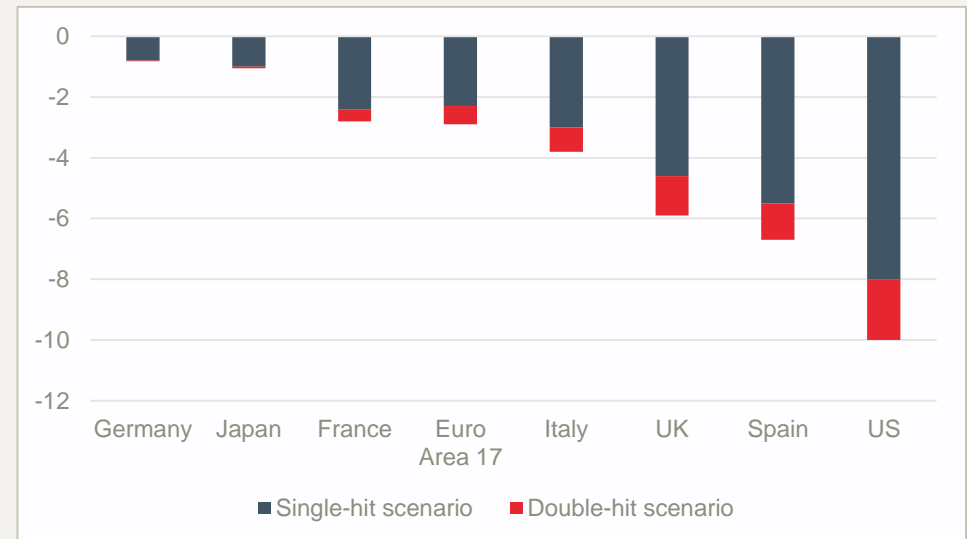
Risk 2: Worsening of employment conditions



US: share of the population fully utilized



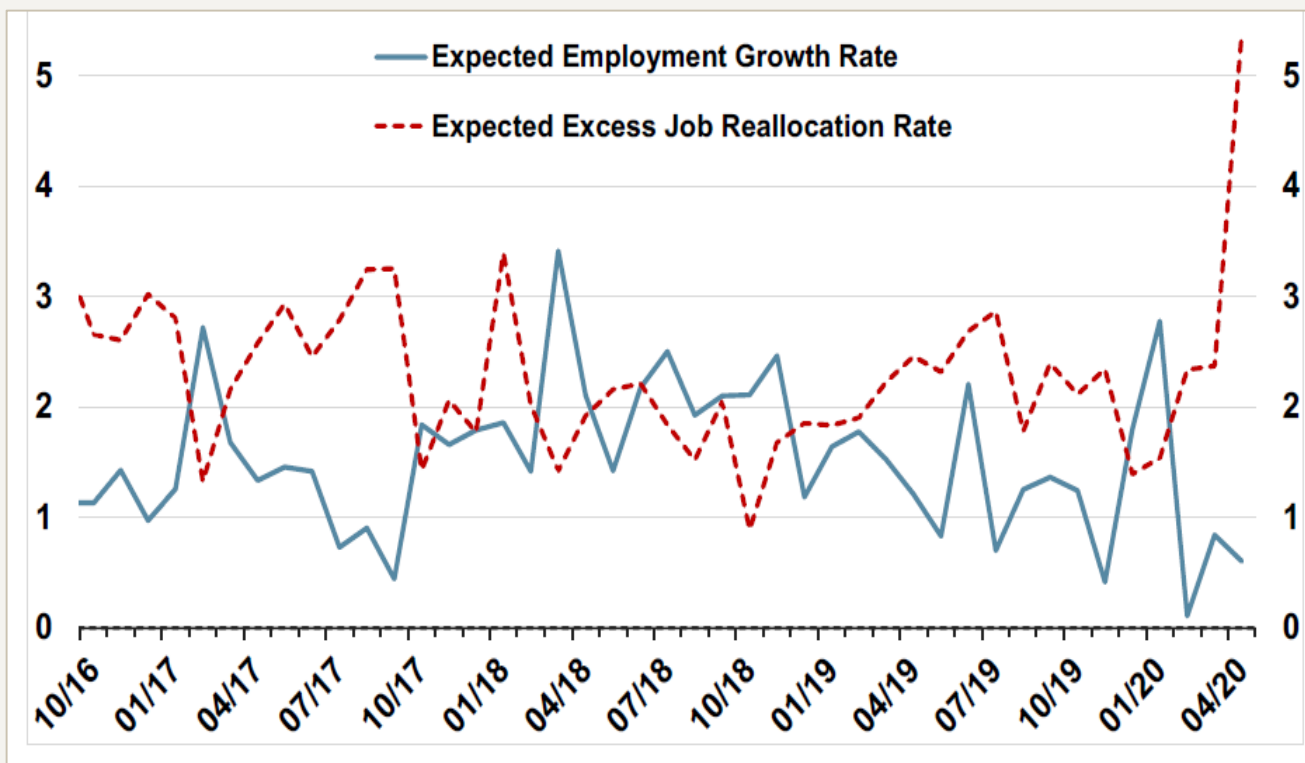
Jobs variation in 2020



Unless the Covid-19 triggers a job reallocation shock?



Expected employment growth and expected excess job reallocation rate in the US
(12-month % change)

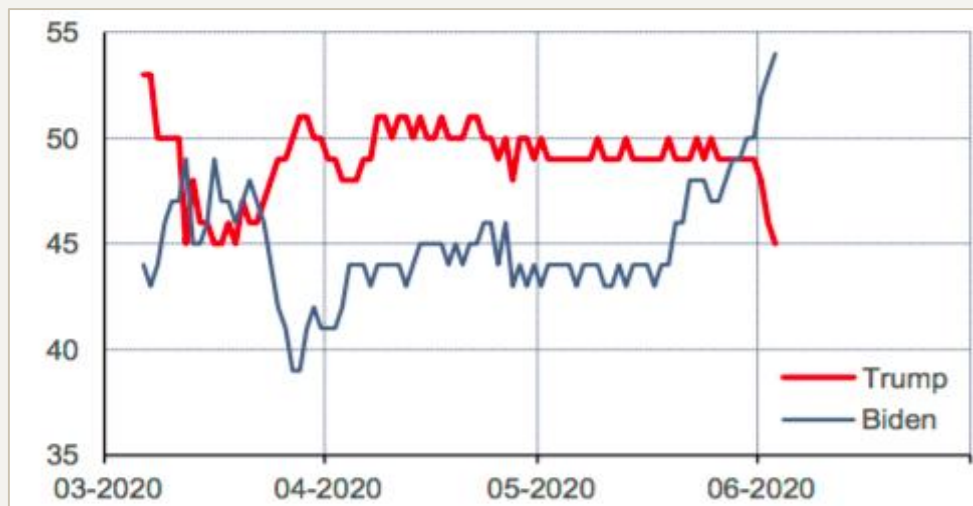


Source: ODDO BHF AM, Working paper "Covid-19 is also a reallocation shock", Jose Maria Barrero, Nick Bloom, and Steven J. Davis, May 2020

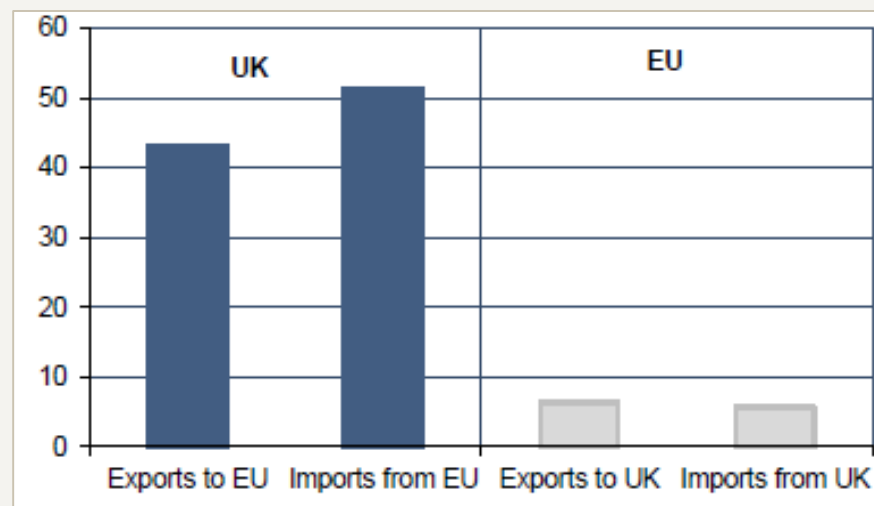
Risk 3: Political uncertainties



Chances of winning the 2020 US election (in %)



UK-EU: bilateral trade of goods and services (2019 - % of total)

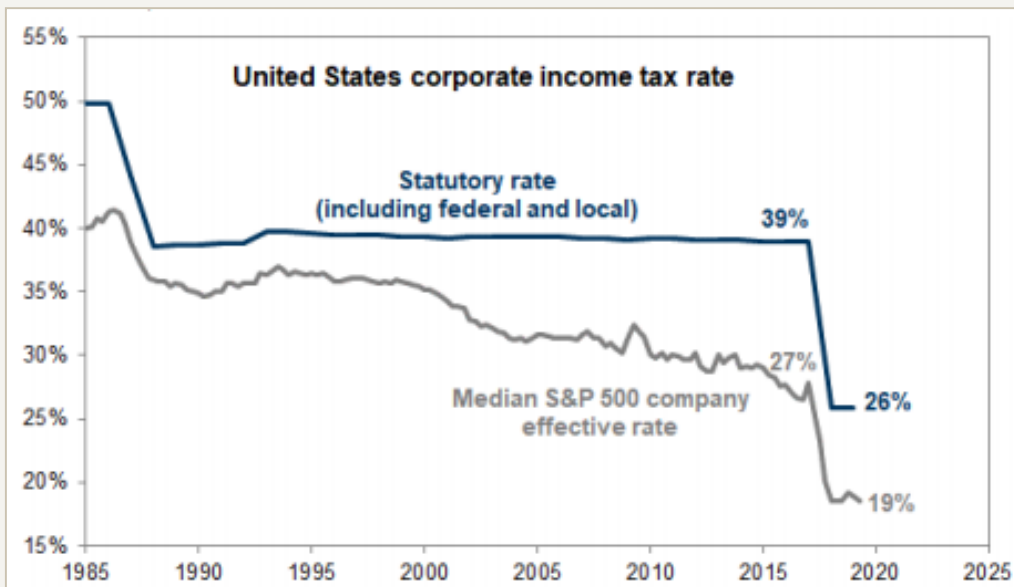


Source: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, fivethirtyeight.com

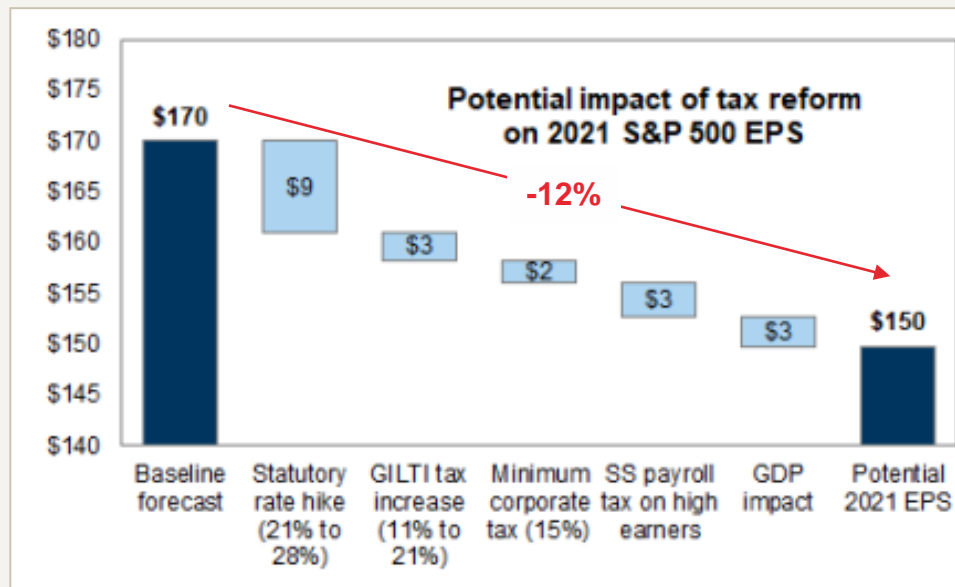
And in particular in the US with potentially major implications



United States corporate income tax rate



Potential impact of tax reform on 2021 S&P 500 EPS



Source: ODDO BHF AM, Goldman Sachs



03 MARKET ANALYSIS

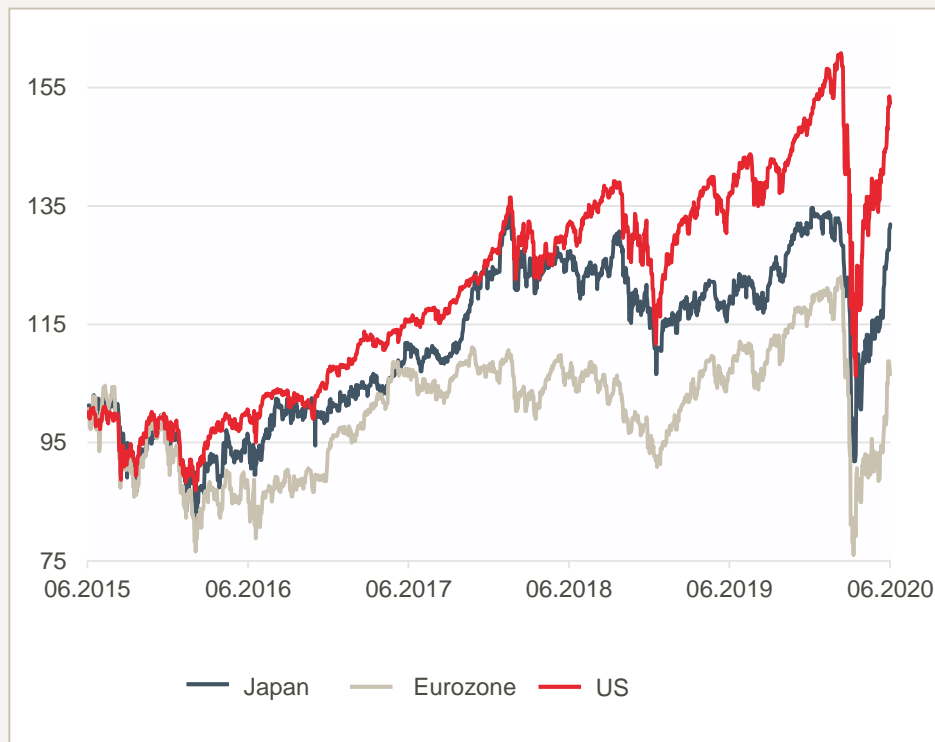


EQUITIES

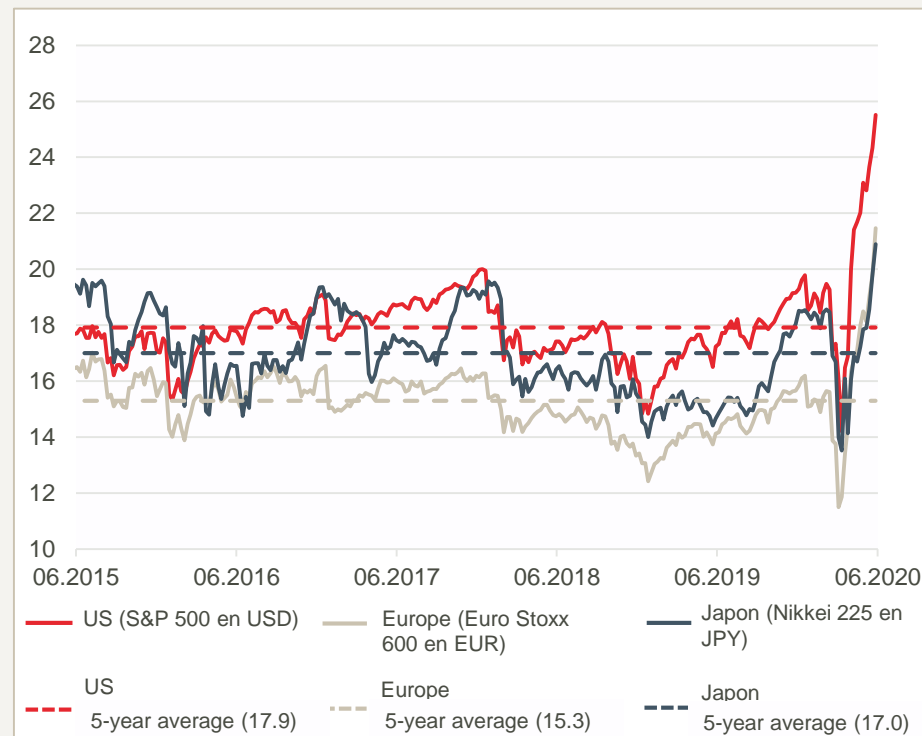
As if 2020 earnings were not a part of the equation anymore?



5-year equity market performance



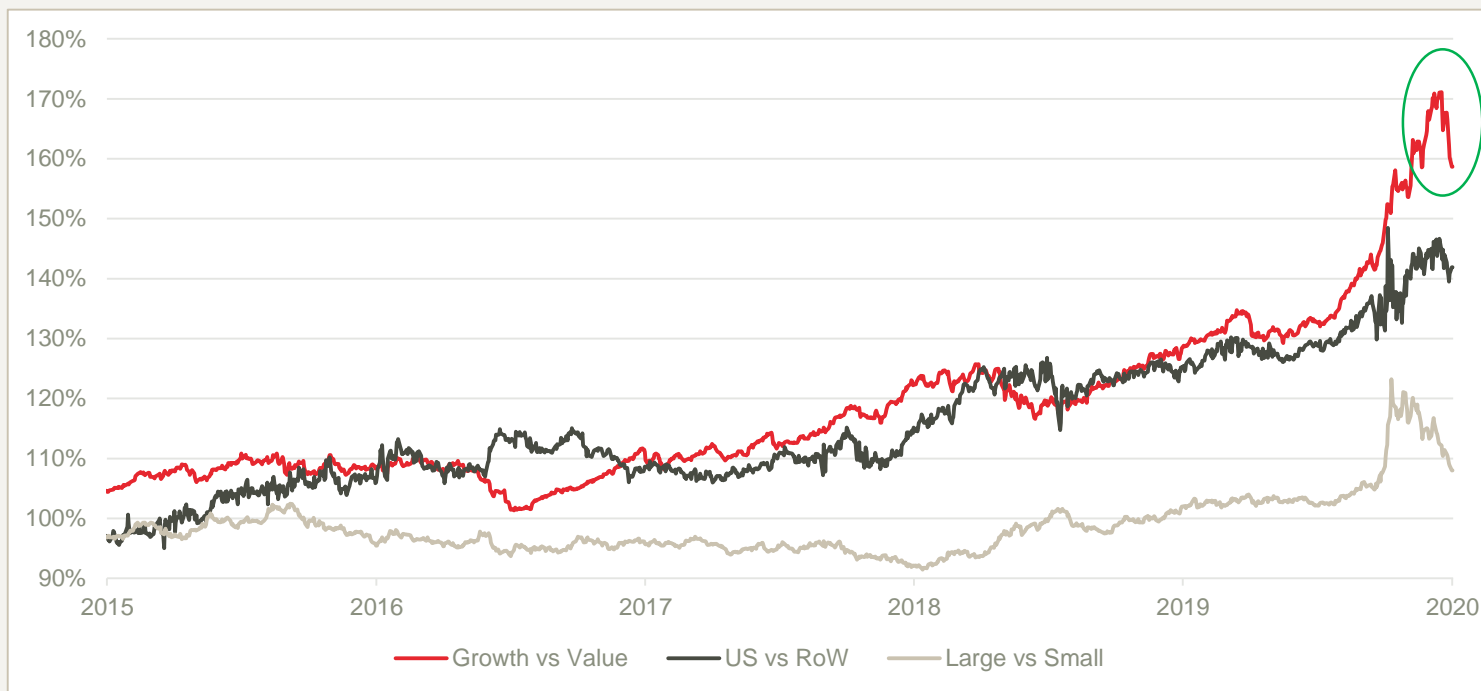
5-year price/earning ratio



The billion dollar question : a real start of the great rotation or...not



Performance gap



Period	Total yield	Value	Growth	Momentum	Quality	Low vol.
Since April	6%	8%	-1%	-6%	-3%	-12%
May	-6%	-7%	5%	3%	3%	1%
1st week of June	13%	17%	-6%	-9%	-6%	-13%
Since 13th of May (Peak/trough)	18%	24%	-5%	-13%	-8%	-21%

Source: ODDO BHF AM, Bloomberg

Investors entered this phase heavily invested in quality/growth stocks



European mutual funds performance breakdown

European funds	YTD	Jan.	Feb.	Mar.	Apr.
% outperforming	65%	69%	66%	43%	87%
Value vs Growth	-20.1%	-3.8%	-1.9%	-10.2%	-2.5%
Banks relative	-28.6%	-4.4%	0.7%	-18.2%	-5.0%
Energy relative	-21.0%	-6.4%	-6.5%	-0.1%	-9.5%

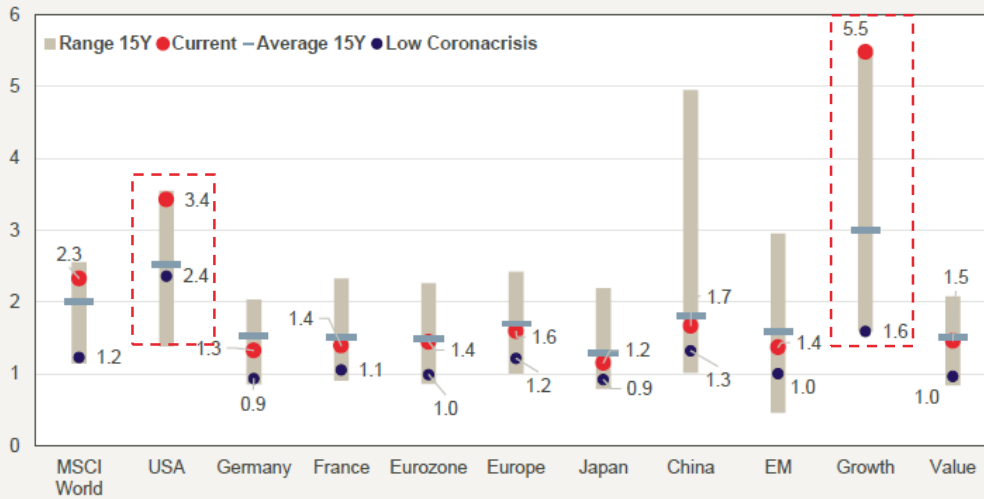
US mutual funds performance breakdown

US funds	YTD	Jan.	Feb.	Mar.	Apr.
% outperforming	60%	53%	71%	45%	58%
Value vs Growth	-22.8%	-5.4%	-3.3%	-6.5%	-4.2%
Banks relative	-34.8%	-7.5%	-5.1%	-16.5%	-2.3%
Energy relative	-30.0%	-11.1%	-7.5%	-25.7%	-15.0%

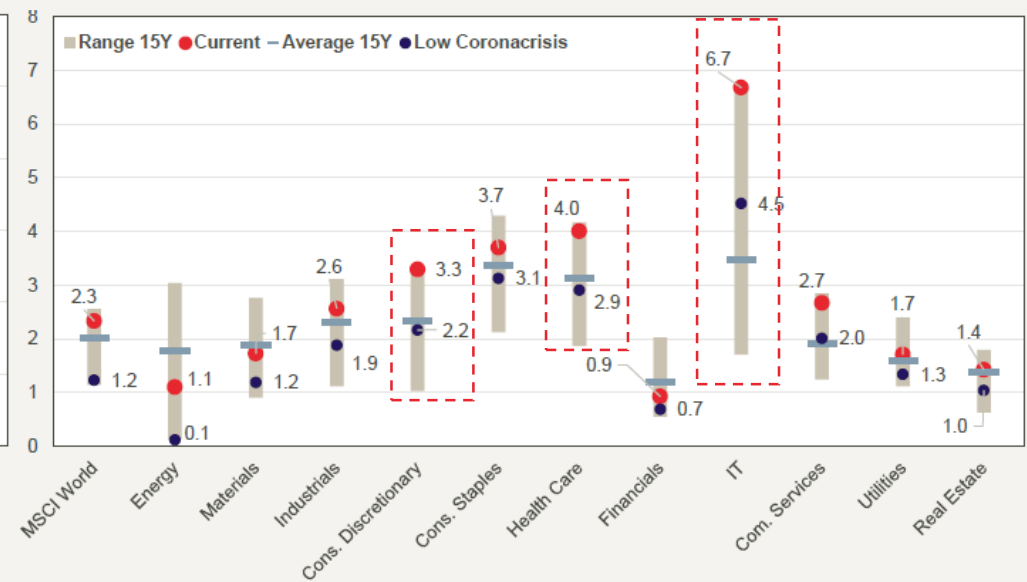
The valuation gap between growth and value stocks is large



Overview P/B-Ratios selected countries and styles (MSCI indices)



Sector overview P/B ratios MSCI World Index

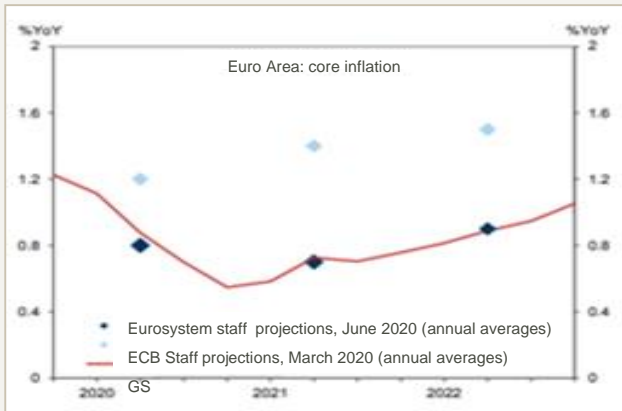


Source: ODDO BHF, JP Morgan, Bloomberg (from 30.09.2005 to 02.06.2020), Low Coronavirus (from 31.01.2020 to 02.06.2020)

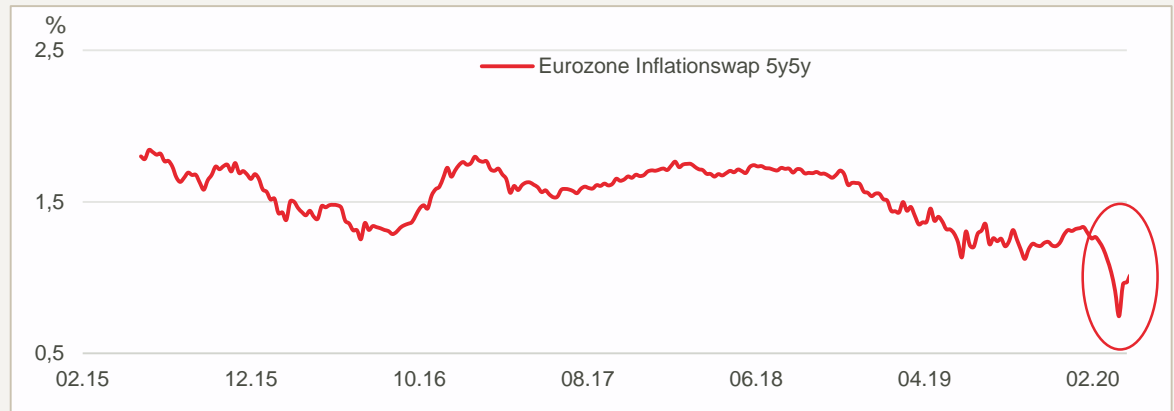
Investors do not anticipate any possible inflation increase, yet



Core inflation in Euro area



Market-implied inflation expectations (5y5y)



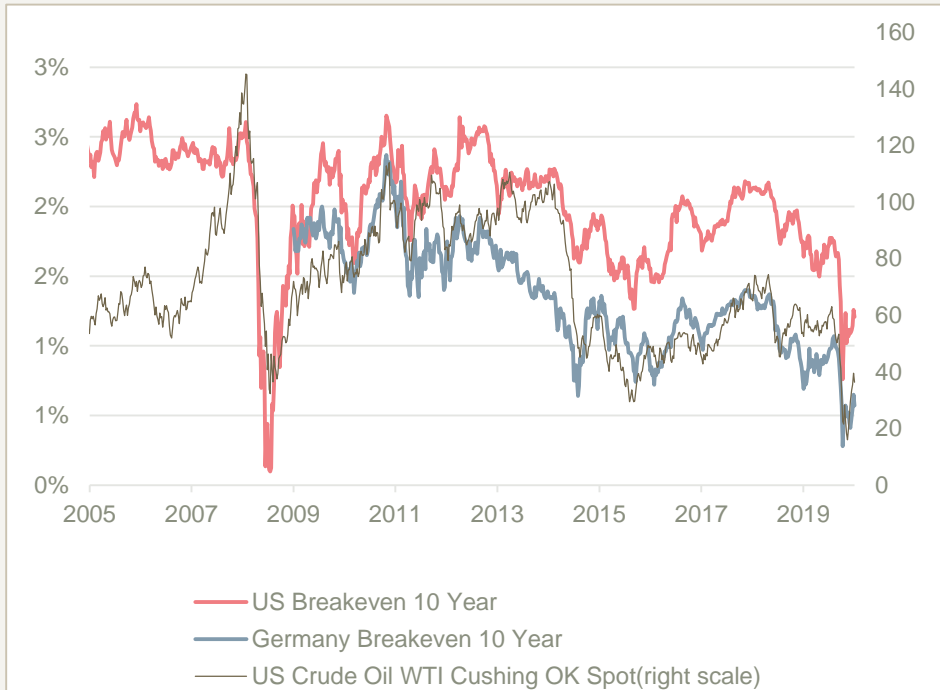
Inflationary forces	Deflationary forces
<ul style="list-style-type: none"> • Energy up and production maintained (OPEC+ announces -9.6mb/d until July and until August) 	<ul style="list-style-type: none"> • Large inventories and abundance of oil
<ul style="list-style-type: none"> • Re-industrialisation, development of short production lines in strategic sectors → need for a large and expensive workforce 	<ul style="list-style-type: none"> • Digitalisation - e-commerce exponential development during this period (online purchases, hours of streaming etc)
<ul style="list-style-type: none"> • Supply shock with declining or taxed imports and supply constrained by the increase in bankruptcies 	<ul style="list-style-type: none"> • Sectors that have broken down with a health stigma may face a a slow recovery of activity: tourism, hotels, etc.

Source: ODDO BHF AM, Bloomberg data as of 05.31.2020, Goldman Sachs Investment Research

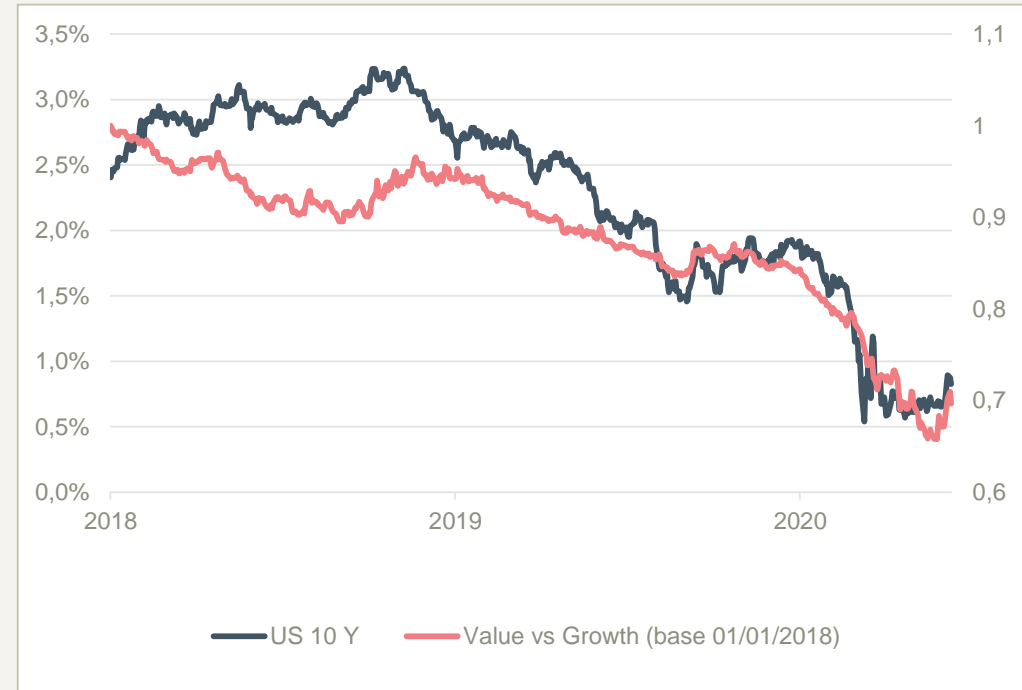
Higher rates are likely to favor the rotation, but do not expect a significant move



US and Germany 10Y breakeven and US WTI



Value vs Growth and bond yield

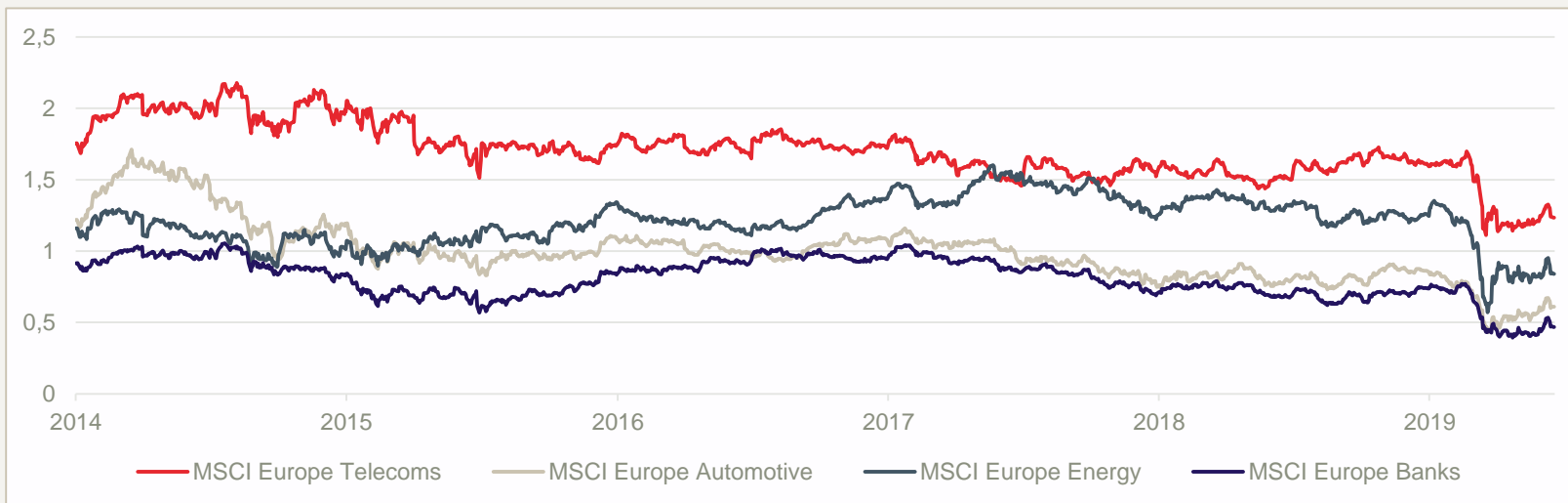






Source: ODDO BHF AM, Bloomberg

Why we consider “Value” should stay “Value”



Value sectors – Price/book ratios



Sector	 Telecoms	 Automotive	 Energy	 Banks
Disruptive forces	<ul style="list-style-type: none"> To be transformed “as service” rather than network providers IoT, AI, Blockchain, Quantum Computing, 5G 	<ul style="list-style-type: none"> Electrification (EV) Shared mobility services Environment & energy efficiency Robotics, sensors, AI 	<ul style="list-style-type: none"> Decentralization Decarbonization Digitalization Battery storage capabilities Smart cities 	<ul style="list-style-type: none"> Regulation Digitalisation Cybersecurity

Source: ODDO BHF AM, EPFR, Barclays; Bloomberg

In that context, which sectors to favor?



	12-month forward P/E, June 2020	2018 EPS growth	2019 EPS growth	2020 EPS growth	2021 EPS growth	Dividend yield	YTD Perf.	1 month perf.
STOXX Europe 600	18,8 x	5%	3%	-30%	33%	3,1%	-10,0%	9,7%
Commodities								
Basic resources	15,8 x	-2%	-24%	-28%	34%	4,3%	-11,5%	15,9%
Oil & Gas	36,9 x	40%	-16%	-79%	214%	5,5%	-27,0%	14,8%
Cyclicals								
Automotive and spare parts	19,6 x	-10%	-17%	-69%	197%	2,3%	-16,7%	17,4%
Chemicals	23,6 x	4%	-13%	-14%	22%	2,7%	-4,6%	9,9%
Construction and materials	20,0 x	8%	17%	-29%	35%	2,9%	-9,8%	13,2%
Industrial goods and services	23,2 x	5%	6%	-31%	40%	2,3%	-11,5%	15,2%
Media	18,0 x	10%	0%	-26%	28%	2,8%	-16,3%	9,3%
Technology	25,3 x	8%	7%	-3%	29%	1,2%	3,7%	10,0%
Travel & leisure	-9,2 x	-4%	-5%	-151%	257%	1,2%	-26,8%	17,9%
Financials								
Banks	13,7 x	13%	2%	-55%	54%	3,6%	-25,7%	20,7%
Insurance	10,4 x	10%	7%	-13%	22%	5,8%	-17,3%	16,7%
Financial services	21,2 x	-42%	140%	-58%	38%	3,0%	-7,5%	9,3%
Real estate	17,5 x	19%	0%	-5%	11%	3,8%	-16,3%	9,7%
Defensives								
Food & beverages	22,7 x	4%	7%	-11%	16%	2,5%	-8,2%	2,0%
Healthcare	18,5 x	4%	6%	1%	13%	2,6%	0,2%	-0,6%
Household & personal care	19,3 x	7%	2%	-13%	18%	2,9%	-5,9%	7,6%
Retailing	24,8 x	6%	0%	-25%	37%	2,2%	-6,1%	8,5%
Telecommunications	14,3 x	-9%	-5%	-4%	11%	4,8%	-8,6%	10,3%
Utilities	16,3 x	-12%	24%	-8%	11%	4,5%	-1,4%	11,4%

Source: ODDO BHF AM SAS, FactSet. Figures as of 06/08/2020

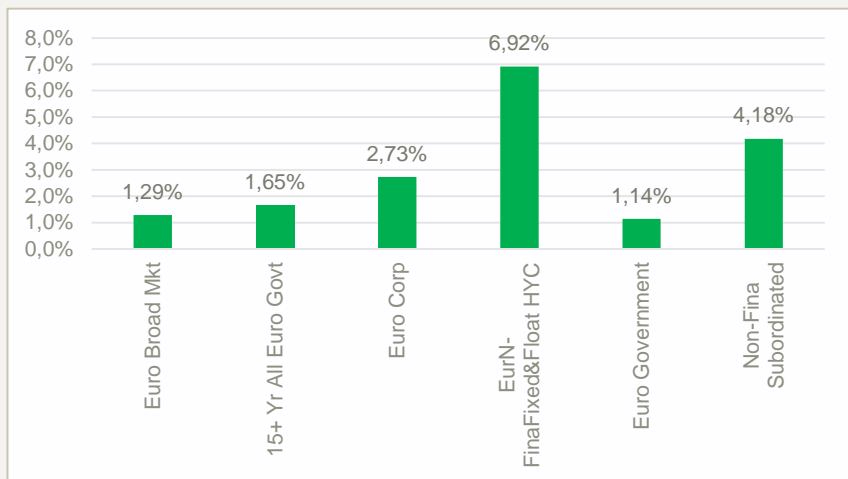


FIXED INCOME

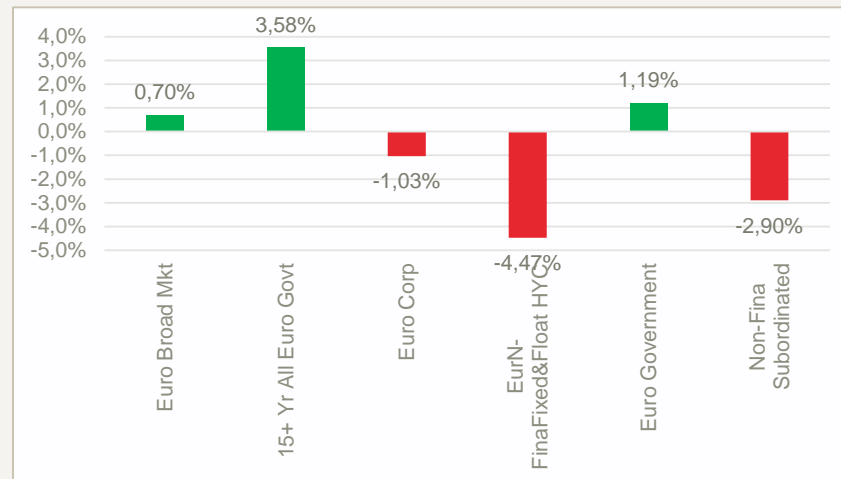
Bankruptcies, what bankruptcies?



1-month total return



YTD total return



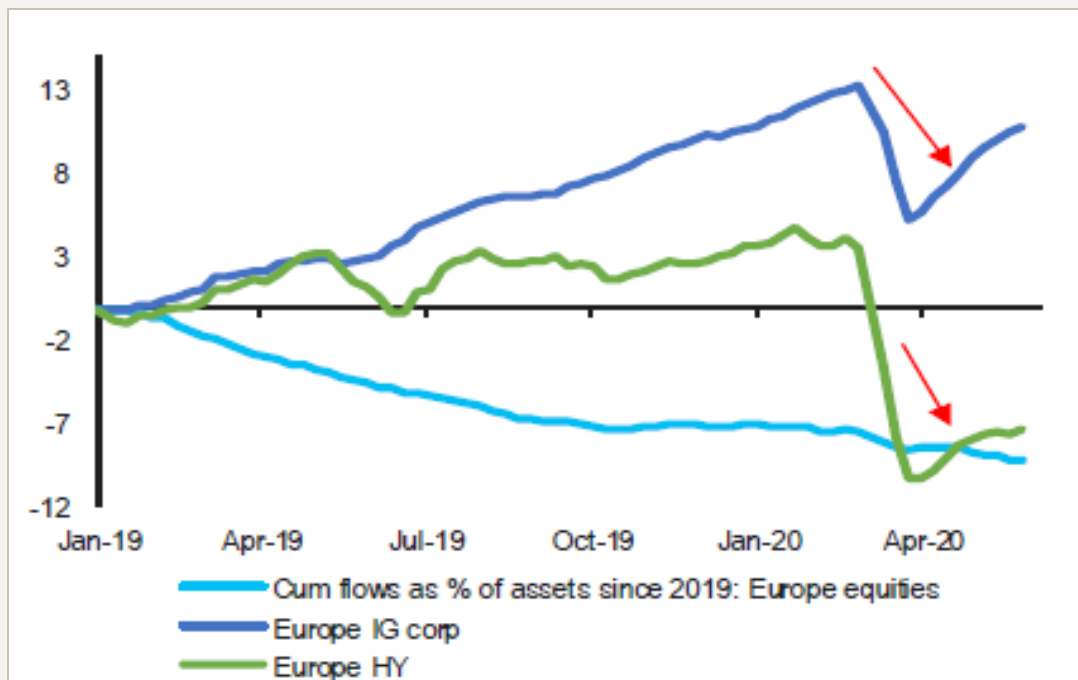
Name	Current effective duration as of (06.16.2020)	Current effective yield (as of 06.16.2020)
Euro Broad Mkt	7.4	0.23
15+ Yr All Euro Govt	18.8	0.80
Euro Corp	5.3	0.81
EurN-FinaFixed&Float HYC	3.6	4.63
Euro Government	8.4	0.13
Non-Fina Subordinated	4.2	2.09

- Significant risk on rally over the last month, driven by European recovery fund proposal and ECB action
- High Yield supply/demand imbalance (subdued issuance, only partially offset by Fallen Angel), which appears to be a key driver of outperformance

Large recent positive inflows on fixed income segments



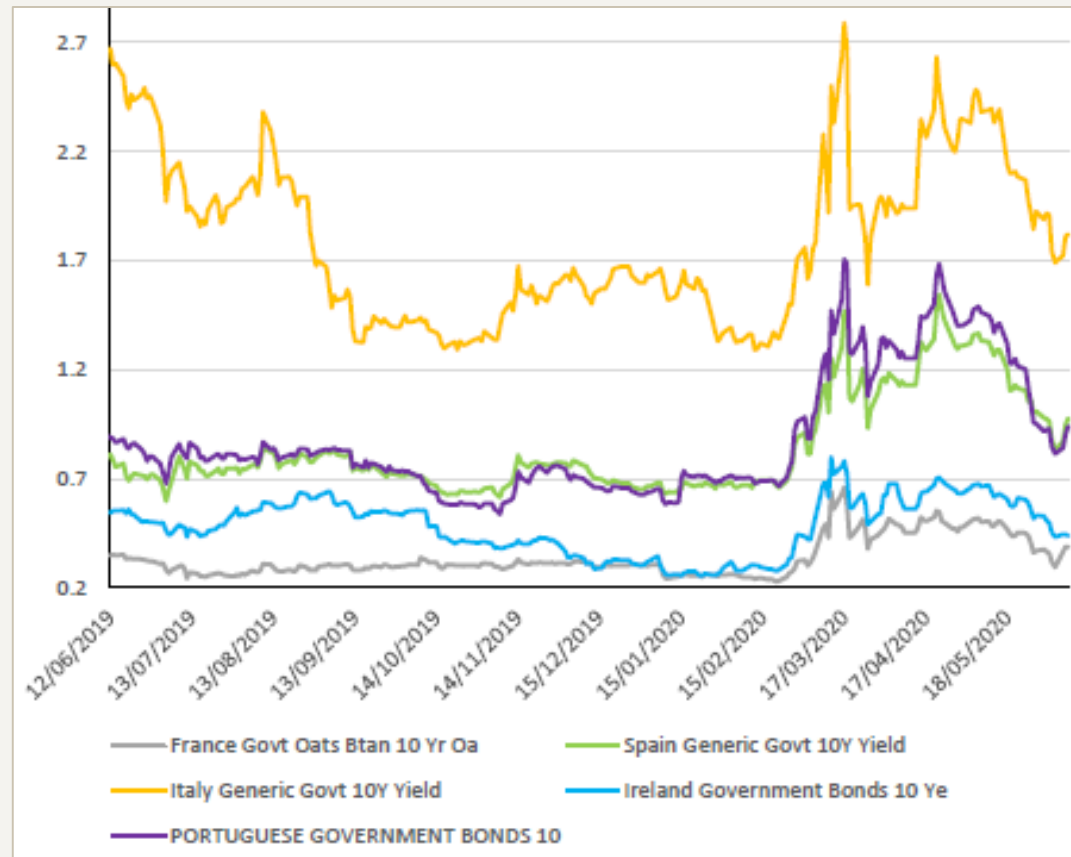
Cumulative flows since 2019 (€bn)



The Franco-German Recovery plan and ECB's buying program ease tensions

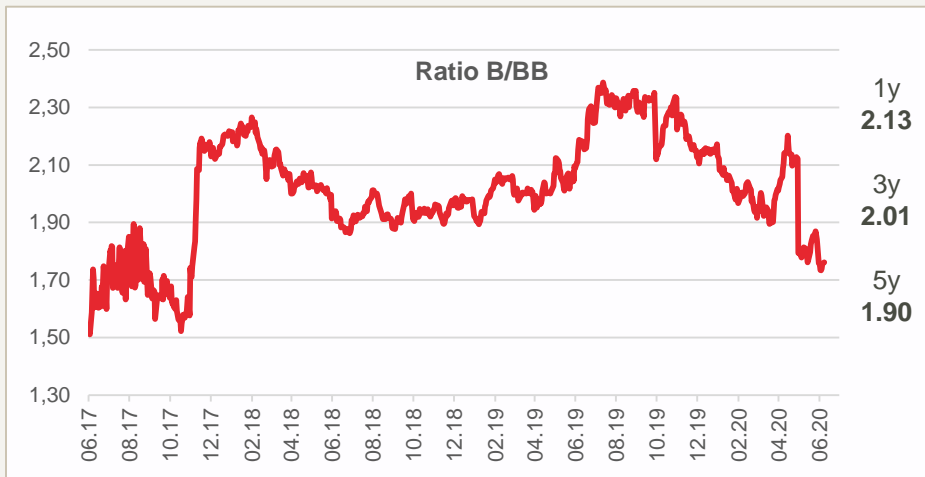
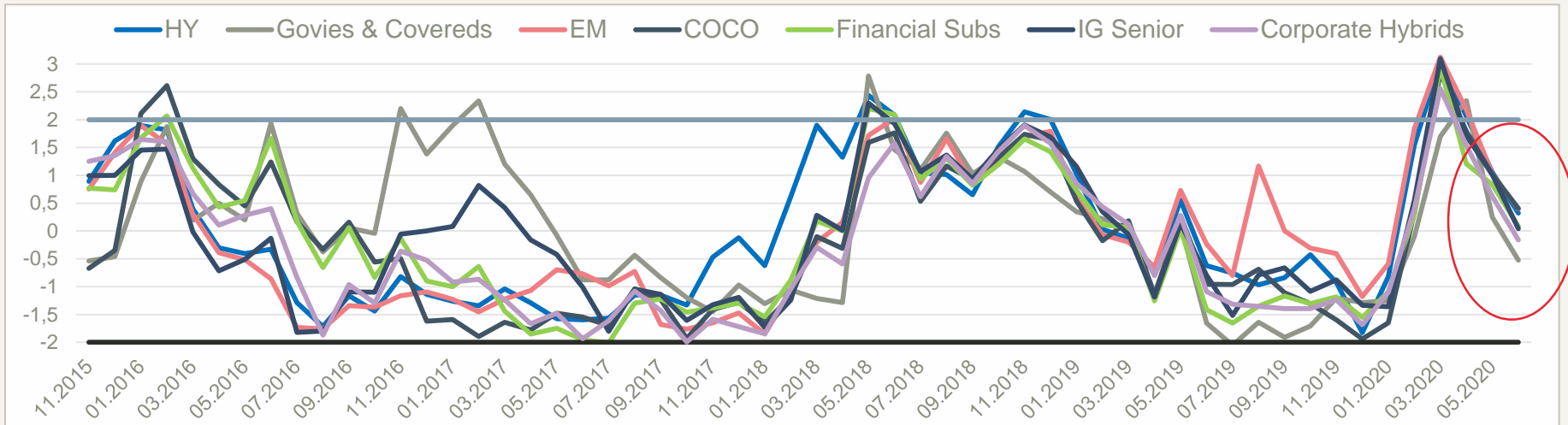


Eurozone: Spread 10Y – 12 Months



Source: ODDO BHF AM, Bloomberg

Bargain on credit is over, back to selection and cautiousness



Normalised spread level:

- After sharp rally spreads have moved from strongly oversold to a largely fair level
- Extreme data points a highly reliable market indicator historically

High Yield Market dispersion:

- Recent single B/ BB outperformance might be overdone given uncertain macroeconomic outlook

Which strategy on the fixed income side?



	Where do we stand?	Which positioning?
Rates	<ul style="list-style-type: none"> A lot of good news has been priced in already, Bund to stay in a trading range, central bank QE and forward guidance to ensure yields will stay low, like yield curve control 	<ul style="list-style-type: none"> Neutral, overweight periphery
Investment Grade	<ul style="list-style-type: none"> Spreads will be tighter at year end, massive policy support 	<ul style="list-style-type: none"> Keep overweight
High Yield	<ul style="list-style-type: none"> Tactically a set back is possible, medium term returns will be positive 	<ul style="list-style-type: none"> Short term: keep neutral
Subordinated Financials	<ul style="list-style-type: none"> Compression trends will remain intact, low volatility driven by central bank interactions will lead to ongoing compression sub vs. senior 	<ul style="list-style-type: none"> For sophisticated investors only, high volatile returns
US Credit	<ul style="list-style-type: none"> Very strong FED back stop, issuance to drop in H2, defaults in HY might rise, both segments to benefit from low yield environment, maybe also some consolidation in HY near term 	<ul style="list-style-type: none"> Overweight IG, neutral HY
EM Credit	<ul style="list-style-type: none"> Spread have already sharply tightened, carry trade might work, however there are also fundamental issues 	<ul style="list-style-type: none"> Take profit

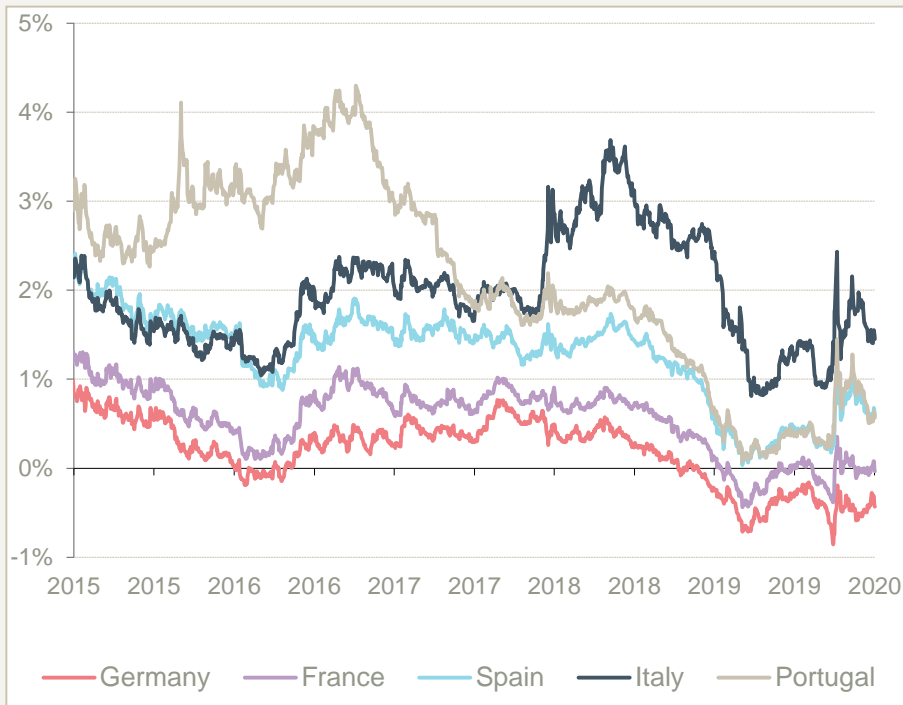


OTHER ASSET CLASSES

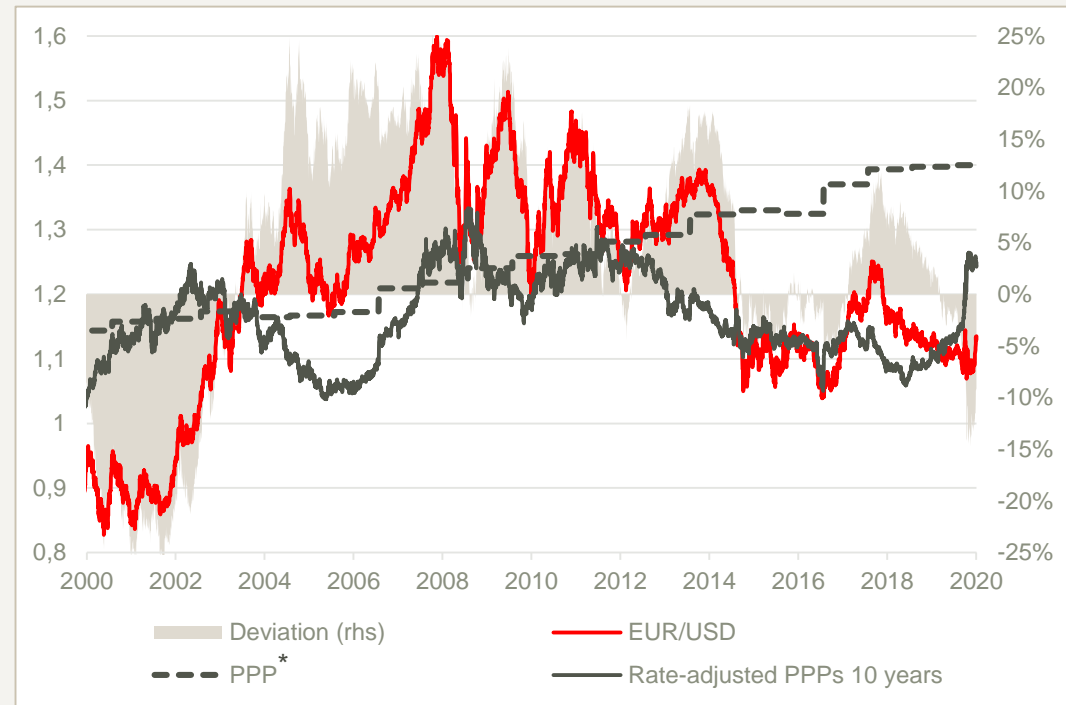
EUR/USD may finally shift upwards



10Y sovereign yields



EUR USD: parities and interest rate differential

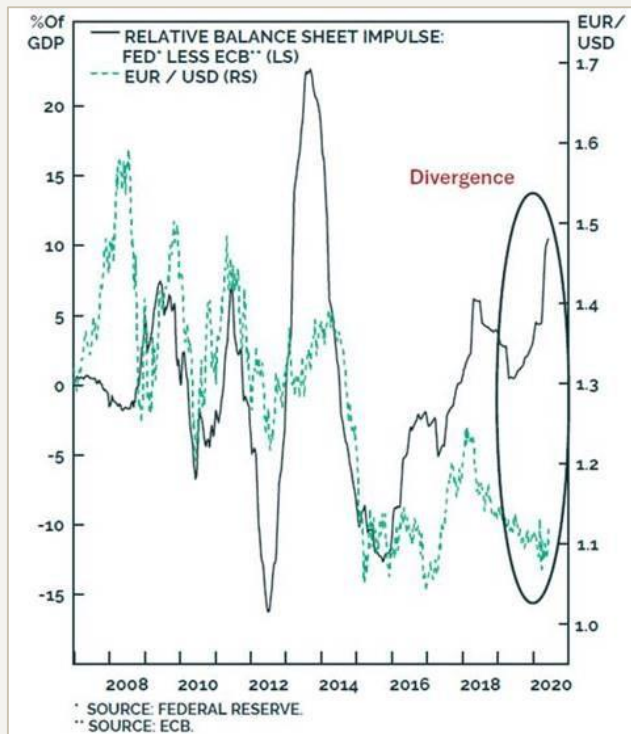


Source: ODDO BHF AM, Bloomberg | Data as of 06.02.2020 | PPP* Purchasing Power Parity

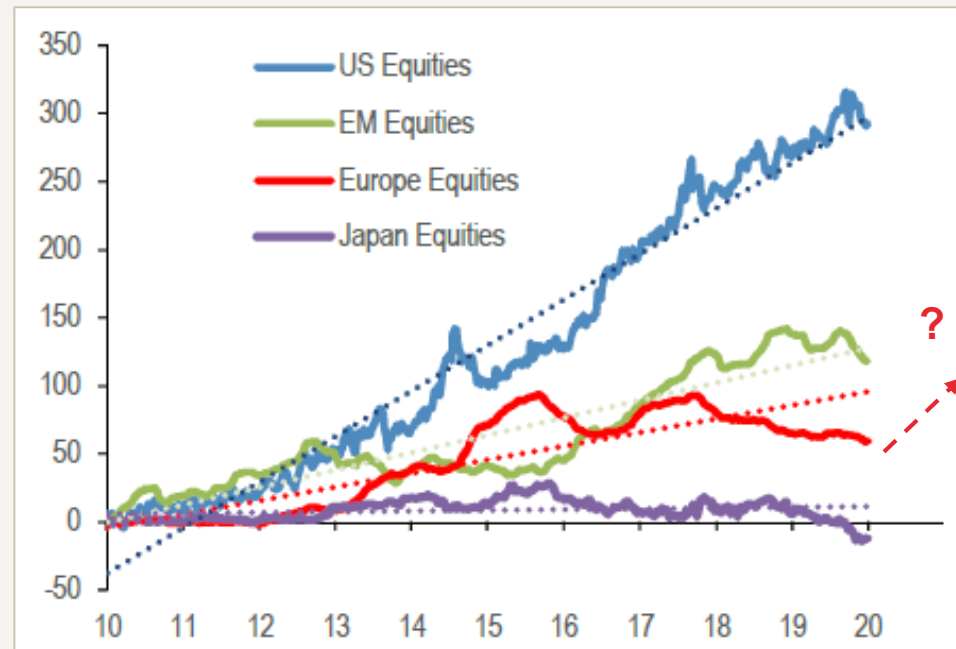
Global investors have shunned EM and Europe for 2 years, and Japan for 4 years. It's time for a change



Relative balance sheet impulse



Cumulative flows into equity markets (\$bn)



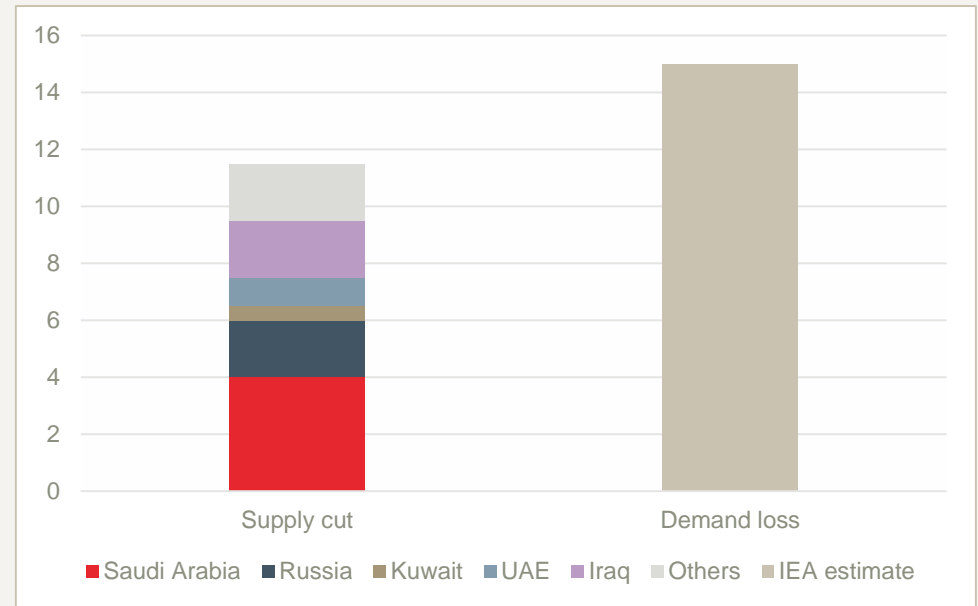
Commodities stabilizing at last



Crude oil, 5 years variation



Oil supply-demand in June



Source: ODDO BHF AM, Bloomberg, 06.17.2020



04 OUR POSITIONING



Conditions for a sustained recovery in risky assets

- Significantly falling infection rates ✓
- Maximum backstops by central banks and governments ✓
- Maximum fear factor and falling volatility ✓
- Lockdown exit strategies, allow extensive normalization ✓
- Bottom formation Economic development ✓
- Bottom formation Profit expectations ✗



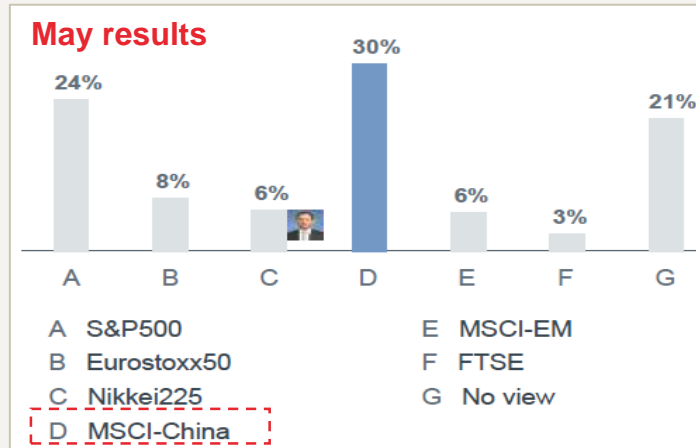
Positionings

- **Equities:** neutral with a possible setback due to valuations, but lows already reached. A buy the dip mood
- **Investment Grade:** Bonds clearly overweight due to Backstop
- **High Yield** interesting from a carry point of view, but hard to see more spread tightening in the coming 3 months
- **Interest rate** development between supply shock and monetization. Range bound
- **Peripheral bonds:** Opportunities if coordination is at work in Europe
- **Regions:** More positive on EUR risky assets than US ones
- **Inflation linked:** Overweight. In Eurozone inflation expectations (5yr/5yr) at 1.1% remains at an all time low

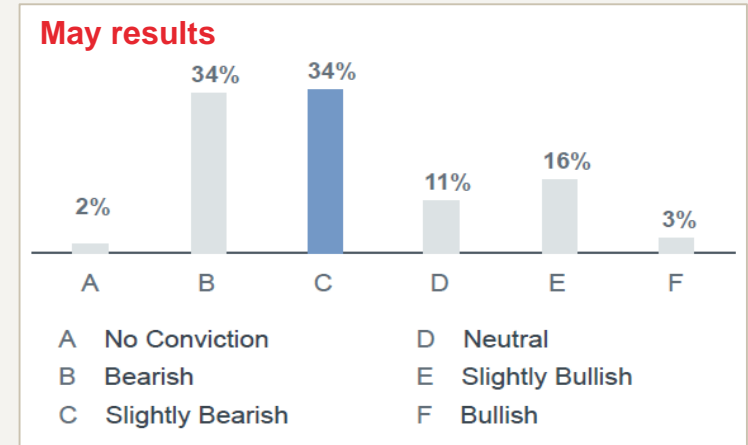
Investors views – Marquee QuickPoll June 2020 Results



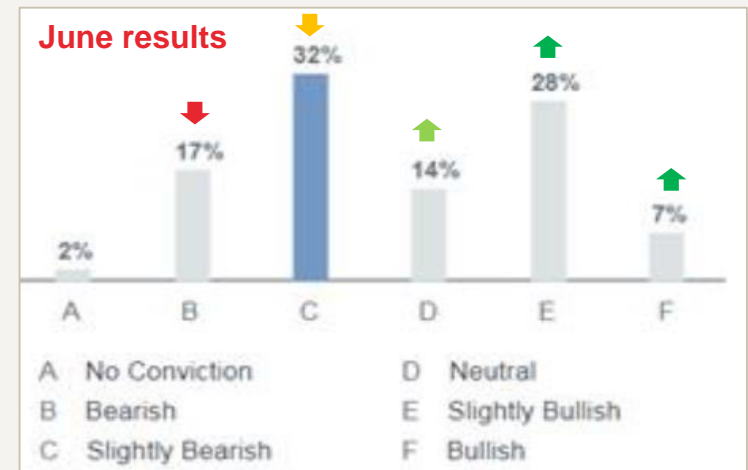
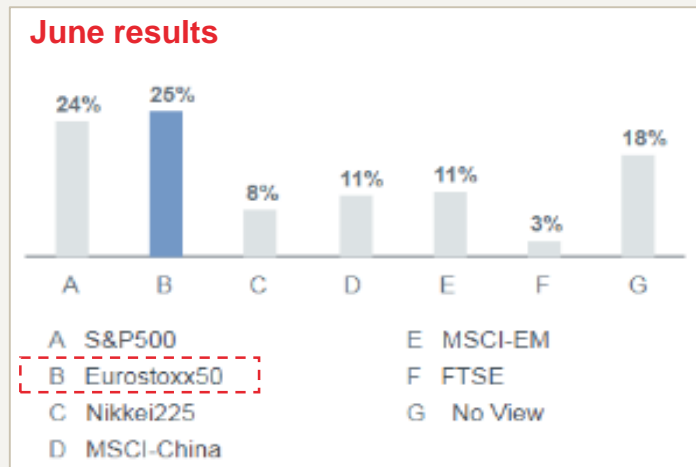
« Which major equity market do you expect to perform best in **May**? »



« What's your view on risky assets? »



« Which major equity market do you expect to perform best in **June**? »



Source: ODDO BHF AM, GS, Marquee Quick Poll, June 4th 2020, Past performances are not a reliable indicator of future performances and are not constant over time



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