

Monthly Investment Brief

A fragile stabilisation

April 2020

It seems futile indeed to make predictions about the economy and the market when there is so much uncertainty about the pandemic itself. To be perfectly honest, no one really knows how things are going to pan out over the coming year. Only if a vaccine or effective treatment becomes available reasonably soon will it be possible to successfully halt the pandemic and put a cost to it. In the meantime, the social and economic disruption will intensify further until the spread of the virus begins to slow.

We therefore dare not make any projections about the magnitude of the recession, the unemployment rate or even the drop in corporate earnings. The world's leading epidemiologists are still as yet unable to assess the effects of the lockdown, let alone build scenarios for easing the quarantine. How does one assess the consequences in this case? To do so would not be of much use, and it would make little sense.

So what should an investor do?

- We can no longer rule out the extreme risk of a pandemic that might last and even intensify. Although this is not the most likely scenario (fortunately), it would trigger such a broad economic depression that all types of assets would be affected. If all the signs were to point in this direction, investors would have to be able to liquidate their most risky assets, i.e. prioritise liquidity. Amid such uncertainty, we all need to question our assumptions all the time and be prepared to make a U-turn if necessary. This is the first stage of our analysis, i.e. survival, the aim being to not make too much of a dent in one's risk capital or risk budget and to have resources to reinvest.
- The most likely and consensual scenario (based on what we know today) is that the pandemic will end during the summer and that the quarantine measures will be eased only slowly as it will be a complex process. So we can expect major macro and microeconomic impacts on the countries most affected by the pandemic. However, the speed and scale with which the authorities are introducing monetary and fiscal stimulus packages are likely to limit the length of the recession and help to avoid a depression.
- Nor should we rule out the possibility that a drug, vaccine or other specific parameter (e.g. heat) might wipe out the virus and help life return to normal. This too seems rather unlikely, but in this case risky assets would enjoy a boomerang effect accentuated by the liquidity injected by central banks and the economic stimulus plans launched by governments. Once again, the aim for investors is to prioritise agility and liquidity so that they can rapidly take up positions again on the most sought-after assets.

In short, irrespective of how investors are positioned today, what clearly matters most now is being able to adjust allocations depending on events and on how investors interpret them. After all, we must not forget that the financial markets do not always behave in a rational and logical way by analysing and correlating the situation with macro or microeconomic factors; their behaviour is also driven by human and cognitive factors. There is therefore a possibility that the "market" might, at some point, decide that the worst is over and deploy the massive flood of liquidity unleashed by the central banks.

To conclude, I would like to offer you a FactSet analysis which shows that the MSCI World index delivered an annualised return of 7.5% over the 15 years up to the end of December 2019.

If you missed the 40 best trading sessions, you would have lost 2.5% on an annualised basis.

Stay invested... in liquid assets; illiquid assets, meanwhile, are still a good option for investors looking to avoid volatility and who have no liquidity needs for the next 8 years.



Current convictions

Macroeconomic analysis

Market analysis



01 CURRENT
CONVICTIONS



Our 6-month view

Central scenario: Global growth negatively impacted by coronavirus outbreak, but disruptions are only temporary

Europe

- Coronavirus outbreak causing disruptions on the supply side and the demand side and will negatively affect economic growth at least in the first half of 2020
- Massive intervention from both monetary and fiscal policymakers to mitigate the coronavirus shock

US

- Economy to strongly decline at least in the first half of 2020 on the back of coronavirus outbreak
- Massive intervention from both monetary and fiscal policy to mitigate the coronavirus shock

65%

Assets to overweight



- Equities
- Credit

Assets to underweight



- Sovereigns

Strategy



- Flexibility
- Hedging (options, gold,...)

Alternative scenario: Interest rate risk fueled by surprise jump in the US inflation and growing US budget deficit

- Wage acceleration
- Surging oil prices fuelled by an escalation of political tensions in Middle East
- Reduction of growth potential

10%

Assets to overweight



- Inflation-hedged bonds
- Alternative strategies
- Cash

Assets to underweight



- Equities
- Core Sovereigns
- High Yield credit

Alternative scenario: Increase in protectionism from geopolitics and pandemia extension

- Global recession with a risk on financial equilibrium
- Geopolitical risks materializing
- China: risks of economic rebalancing
- Brexit: No deal risk

25%

Assets to overweight



- Money Market CHF & JPY
- Volatility
- Core government bonds

Assets to underweight



- Equities
- High Yield credit

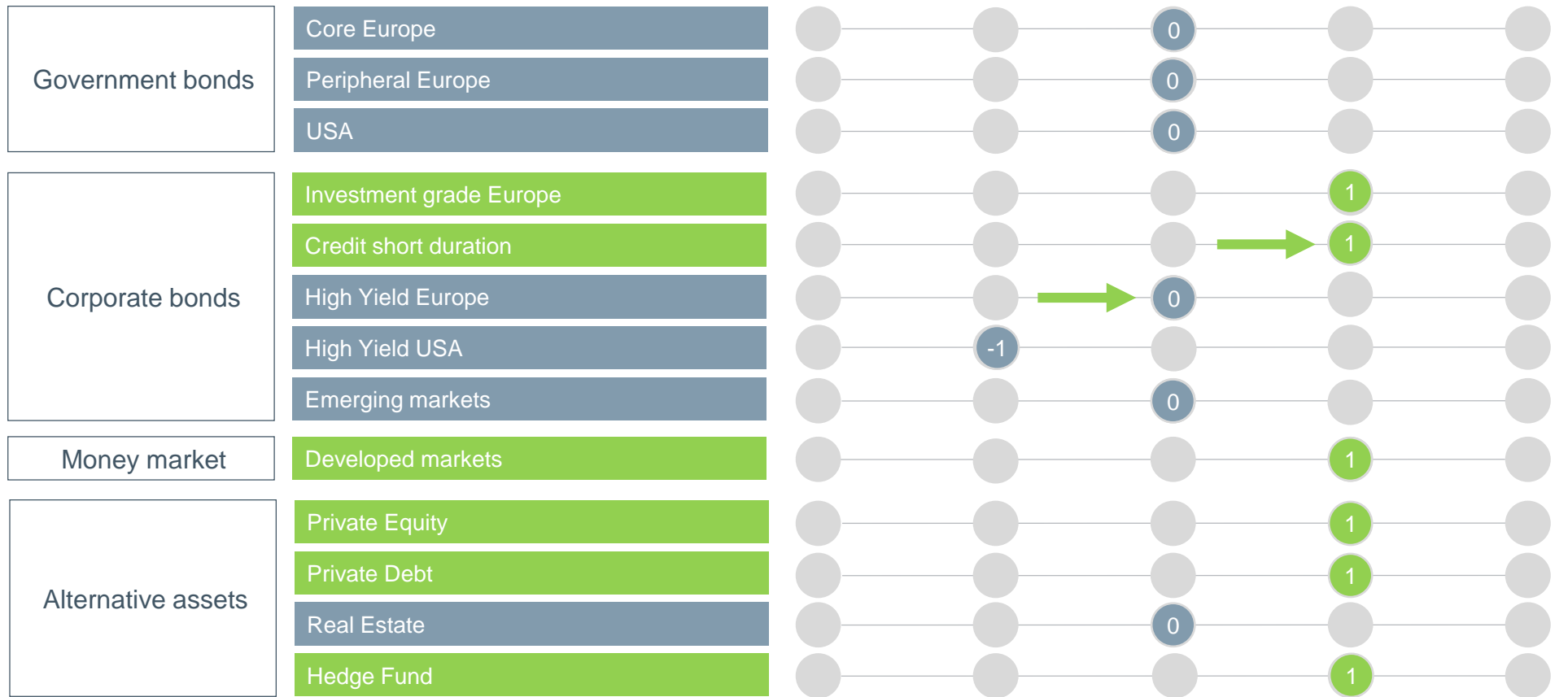
Source: ODDO BHF AM, comments as of 03/25/2020



Our current convictions for each asset class



Source: ODDO BHF AM, comments as of 03/25/2020

Our current convictions for each asset class



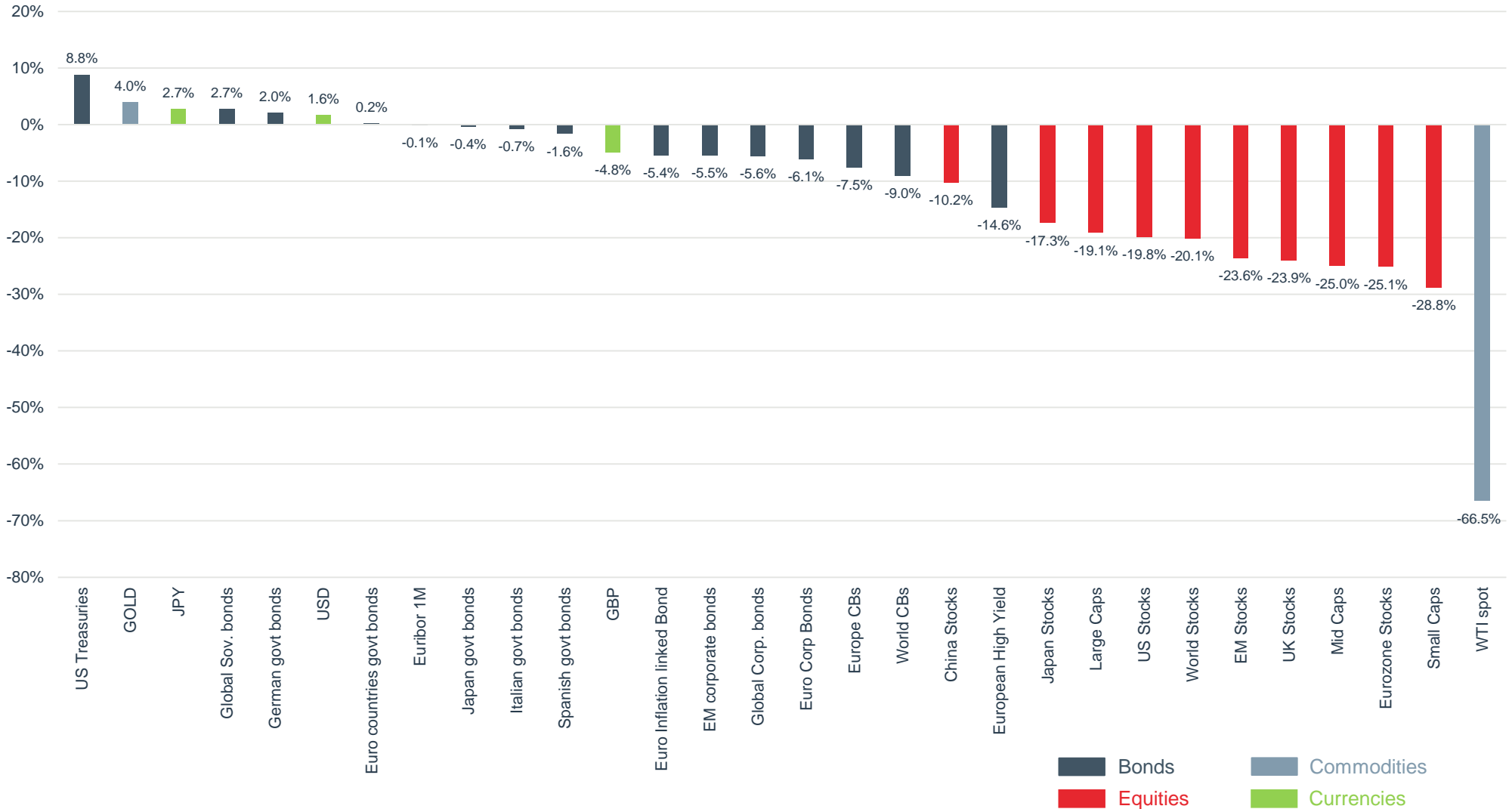
 Change vs the previous month


Source: ODDO BHF AM, comments as of 03/25/2020



02 MACROECONOMIC AND MARKET ANALYSIS

Year-to-date performances of asset classes



Past performances are not a reliable indicator of future performances and are not constant over time.

Sources: Bloomberg and BoA ML as of 03/31/2020; performances expressed in local currencies

Historical performances of asset classes



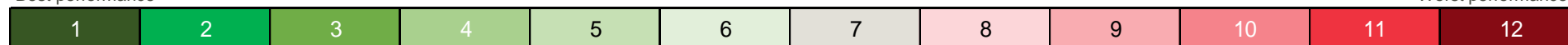
	2013	2014	2015	2016	2017	2018	2019	2020 YTD
US equities	31.8%	12.7%	0.7%	10.9%	21.2%	-5.0%	30.9%	-19.8%
Eurozone equities	23.4%	4.3%	9.8%	4.4%	12.5%	-12.7%	25.5%	-25.1%
WTI spot	7.2%	-45.9%	-30.5%	45.0%	12.5%	-24.8%	34.5%	-66.5%
Gold	28.1%	-1.4%	-10.6%	8.0%	13.5%	-1.6%	18.3%	3.9%
EM sovereign bonds	-6.6%	5.5%	1.2%	10.2%	9.3%	-4.6%	14.4%	-11.9%
EM corporate bonds	-1.3%	3.9%	-1.0%	5.5%	7.3%	-1.4%	11.6%	-4.8%
EM equities	-2.6%	-2.2%	-14.9%	11.2%	37.3%	-14.6%	18.4%	-23.6%
European High Yield	10.1%	5.5%	0.8%	9.1%	6.7%	-3.6%	11.3%	-14.6%
Eurozone Gvt bonds	2.3%	13.2%	1.6%	3.3%	0.1%	1.0%	6.8%	0.2%
US Gvt bonds	-3.4%	6.0%	0.8%	1.1%	2.4%	0.8%	7.0%	8.8%
German Gvt bonds	-2.3%	10.4%	0.3%	4.1%	-1.4%	2.4%	3.1%	2.0%
Euro Libor 1m	0.1%	0.1%	-0.1%	-0.3%	-0.4%	-0.4%	-0.4%	-0.1%
Spreads (%age points)	38.4%	59.0%	40.3%	45.4%	38.7%	27.2%	34.9%	75.3%

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Colour scale

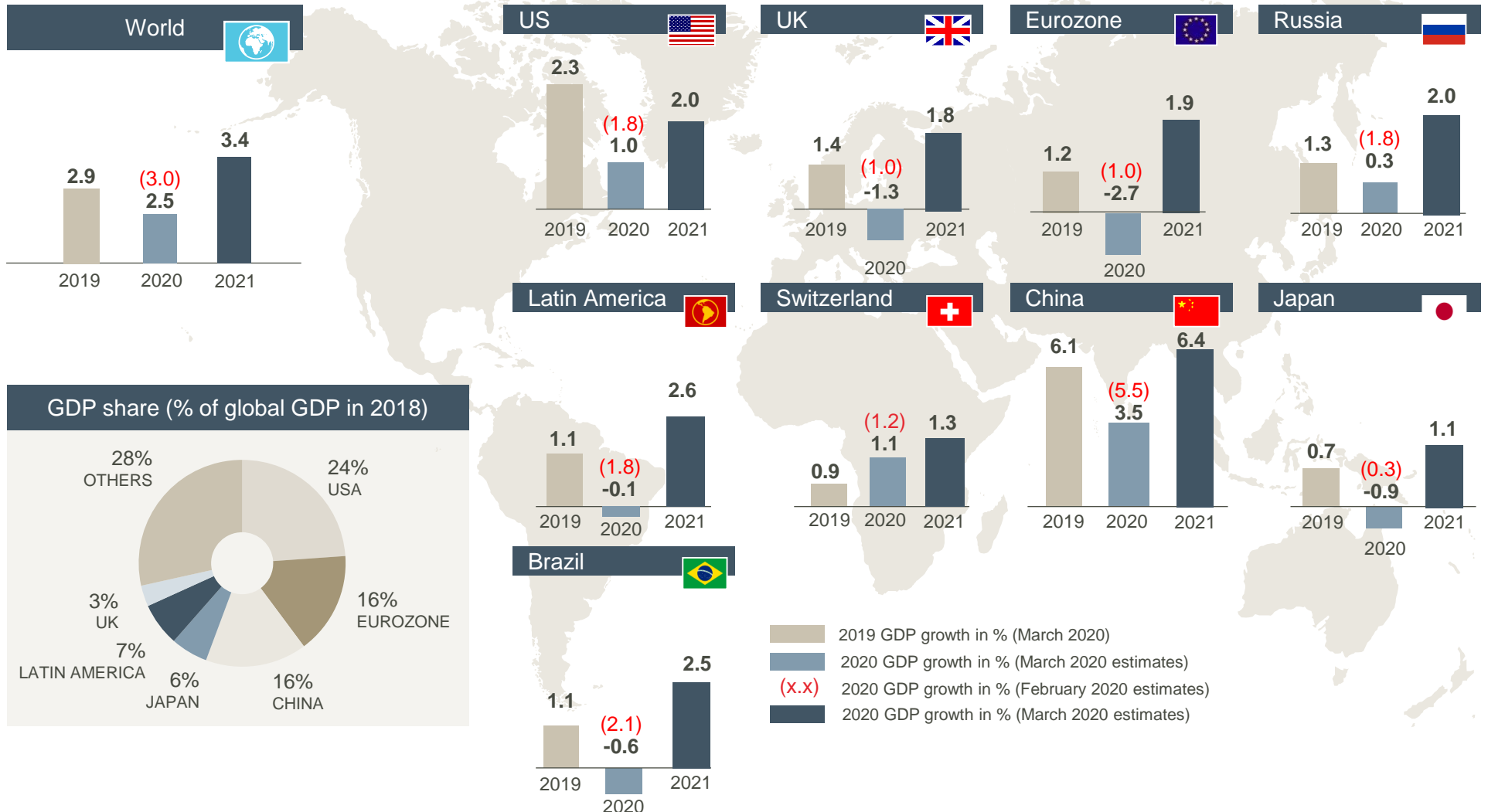
Best performance

Worst performance



Sources: Bloomberg and BoA ML as of 03/31/2020 ; performances expressed in local currencies

Global GDP* growth forecast

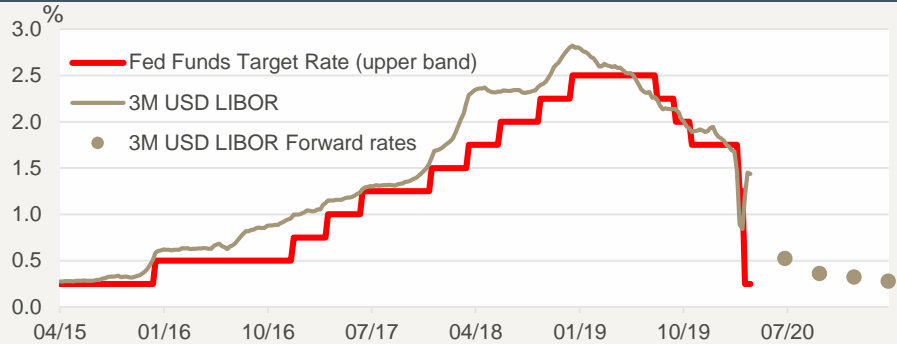


*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 03/31/2020

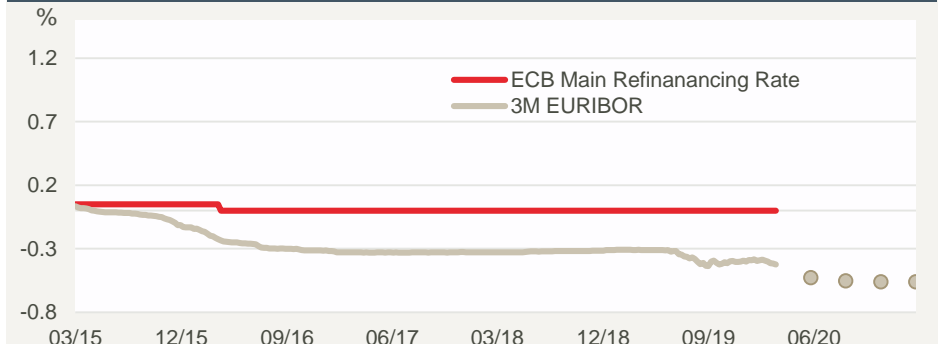
Monetary policy & inflation expectations



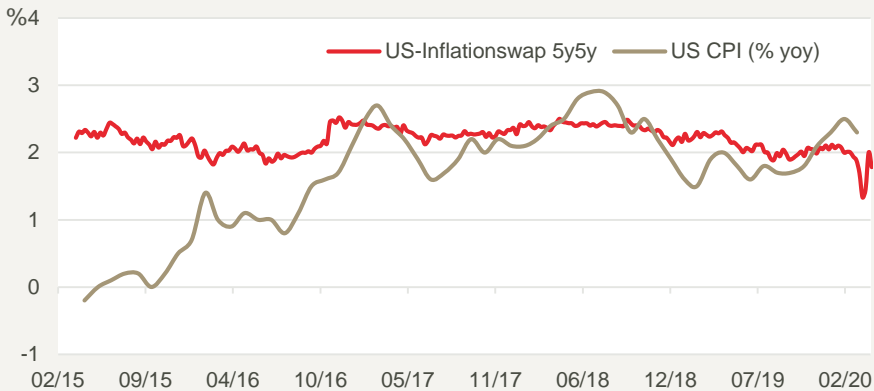
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



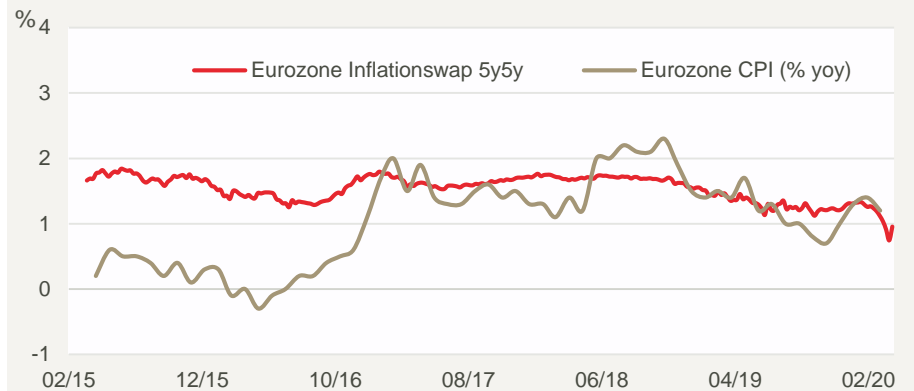
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



Market-implied inflation expectations (5y5y) & US CPI (%yoy)



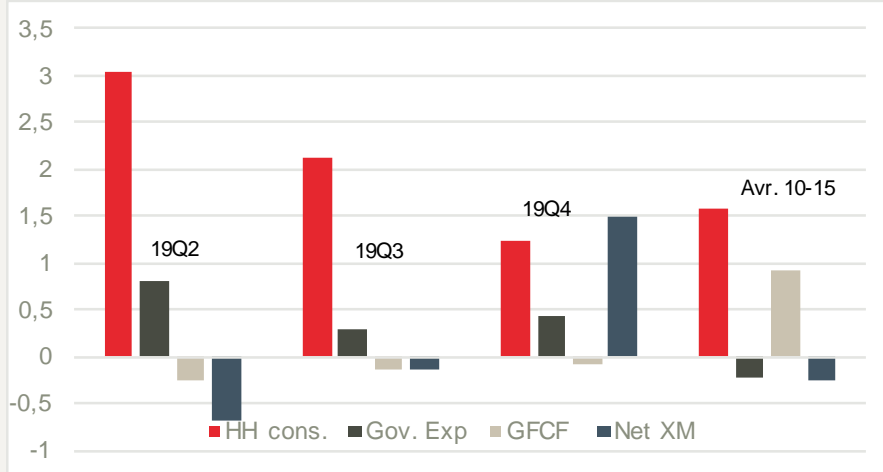
Market-implied inflation expectations (5y5y) & Eurozone CPI (%yoy)



Sources: Bloomberg, ODDO BHF AM GmbH, as of 03/31/2020

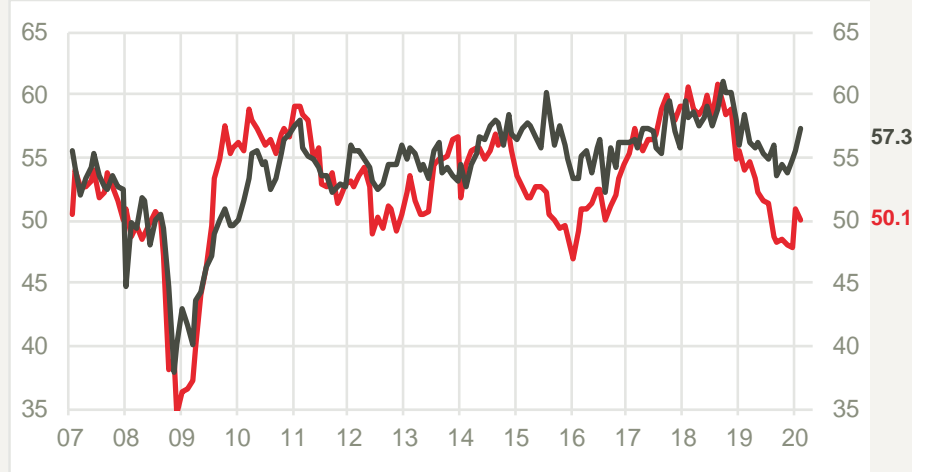


Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



(1) ■ HH cons. ■ Gov. exp. ■ GFCF ■ Net exports

Business confidence**

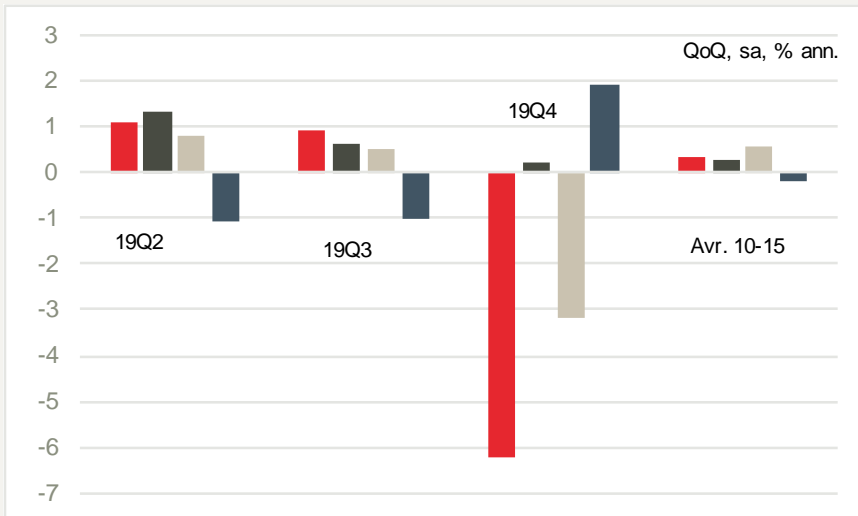


— ISM Manufacturing — ISM Services (rhs)

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation Net exports.
 Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 12/31/2019 | **Data as of 02/15/2020

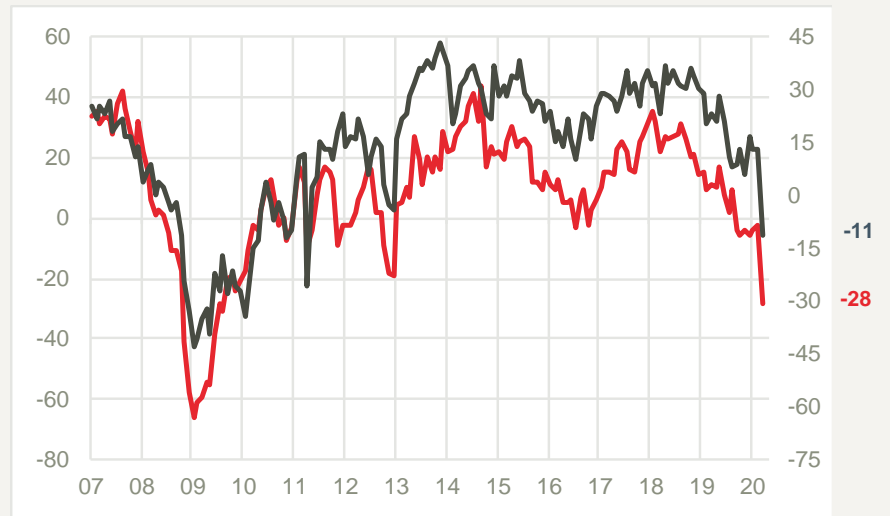


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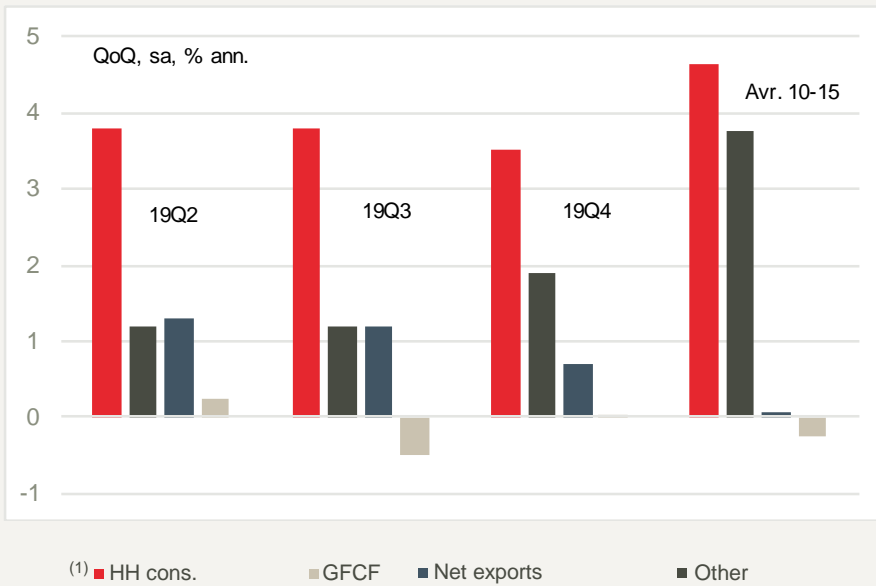


— Manufacturing sectors at 3 months (lhs) — Services sectors at 3 months (rhs)

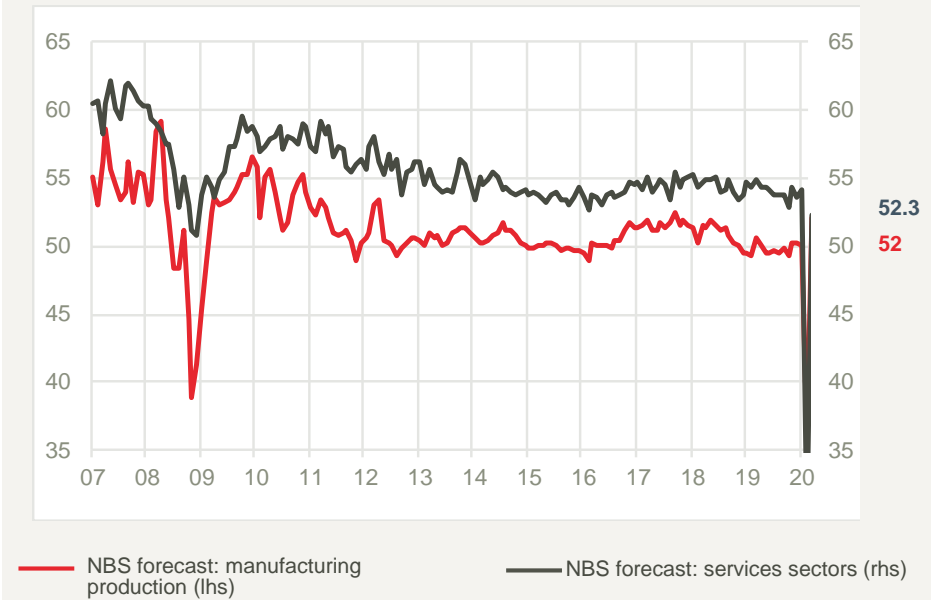
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment) Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 12/31/2019 | **Data as of 03/15/2020



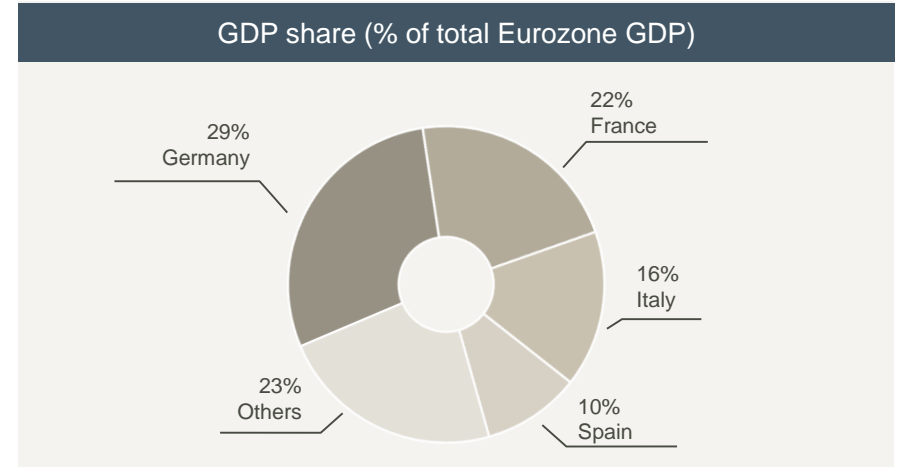
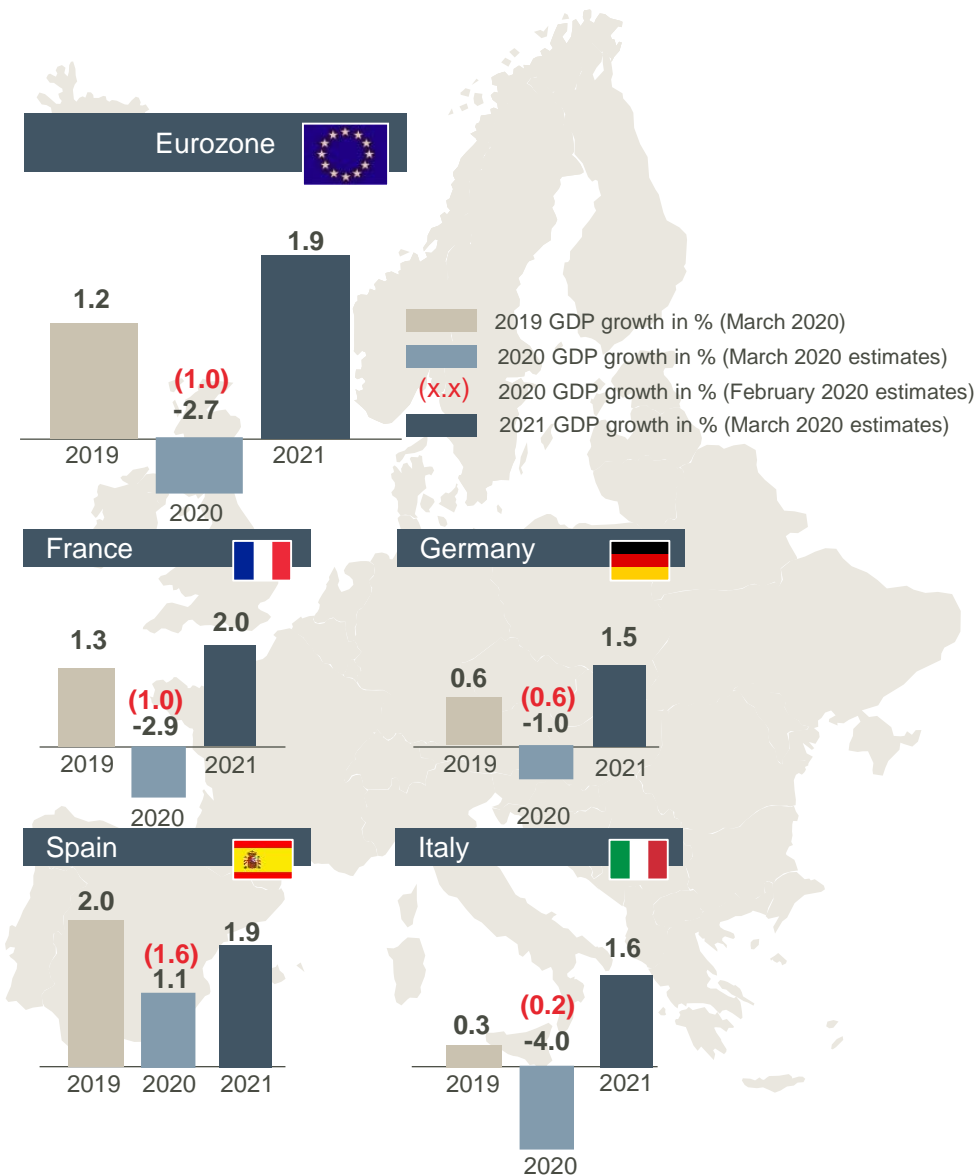
Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



Business confidence**



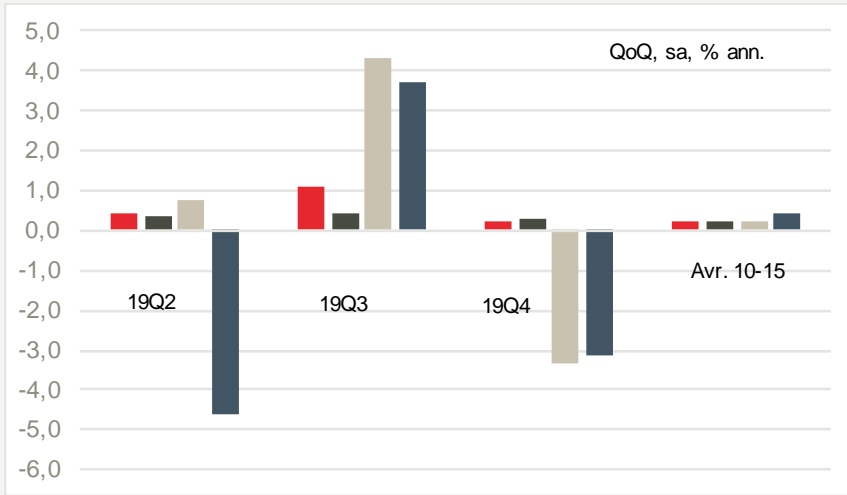
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
 Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 12/31/2019 | **Data as of 03/15/2020



Sources: ODDO BHF AM SA; Bloomberg Economist Forecast. Data as of 03/2020

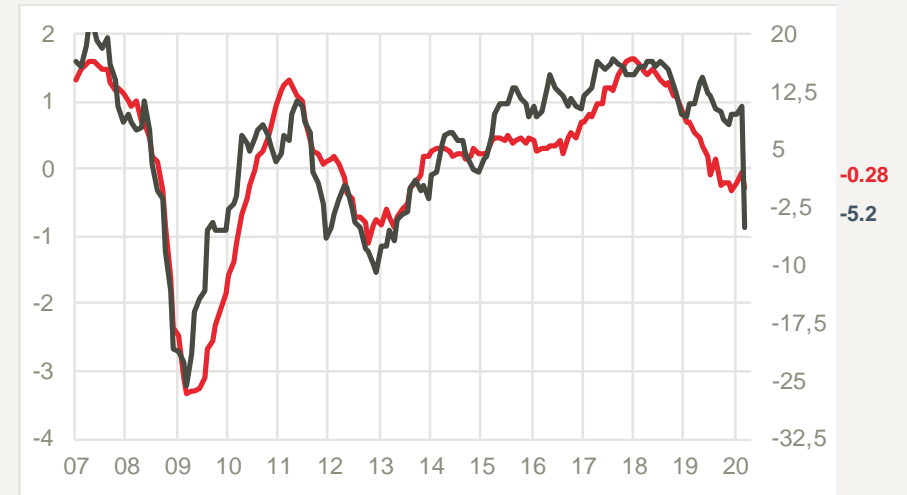


Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



(1) ■ HH cons. ■ Gov. exp. ■ GFCF ■ Net exports

Business confidence**

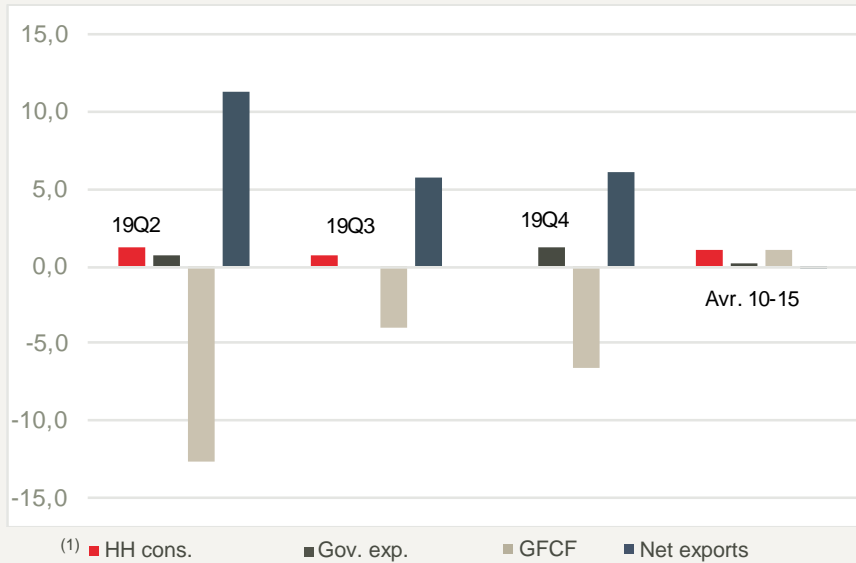


— Manufacturing lhs (left scale) — Services rhs (right scale)

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
 Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 12/31/2019 | **Data as of 03/15/2020



Contributions to GDP (QoQ, seasonally adjusted, % annualised)*



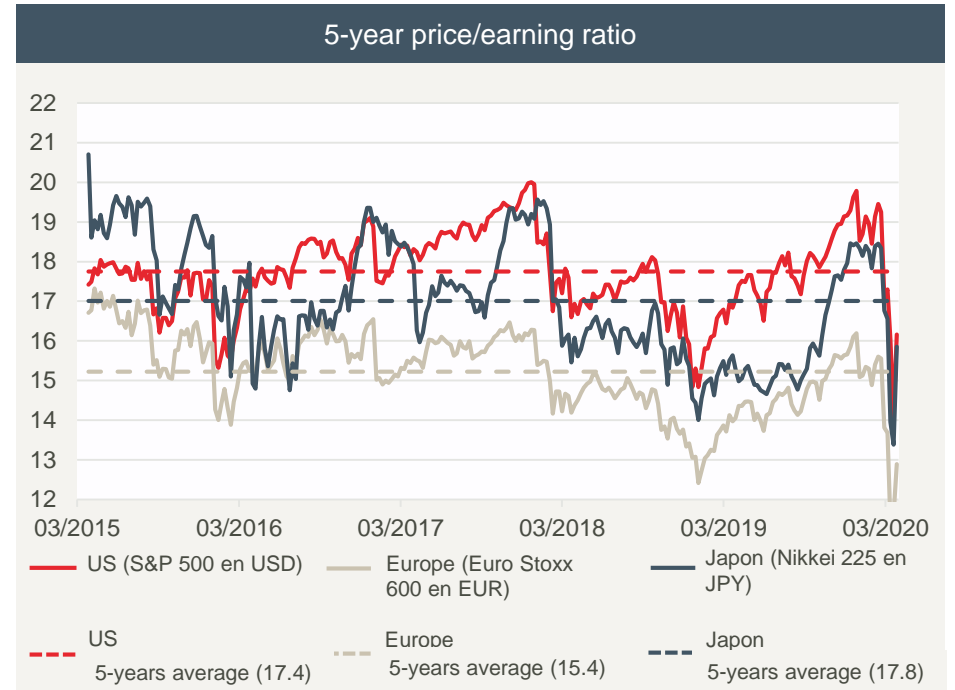
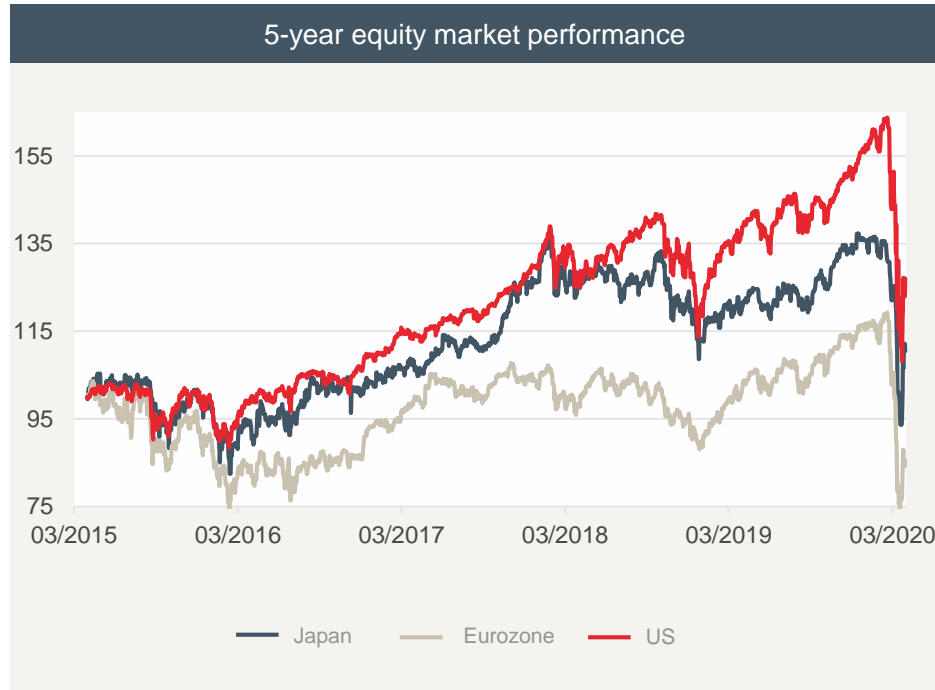
Business confidence**



(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)

Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 12/31/2019 | **Data as of 01/15/2020 | (1) data as of 03/15/2020

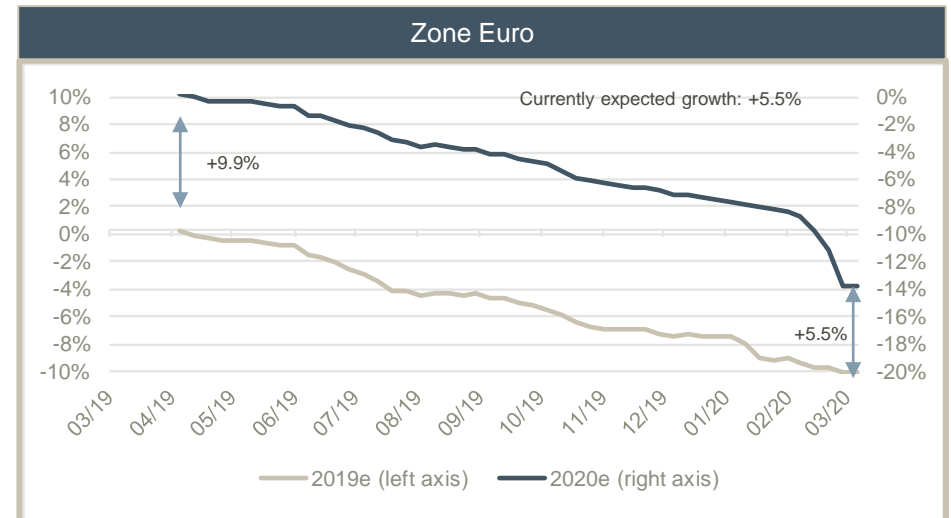
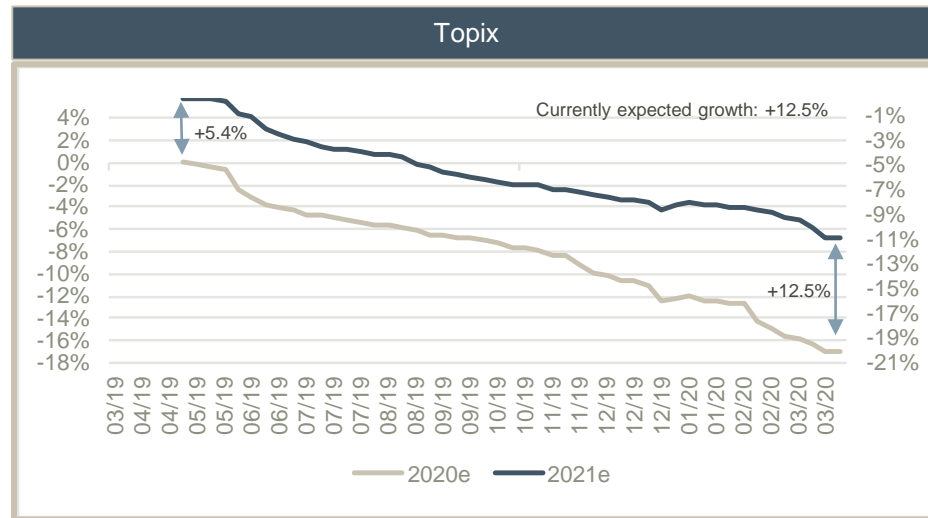
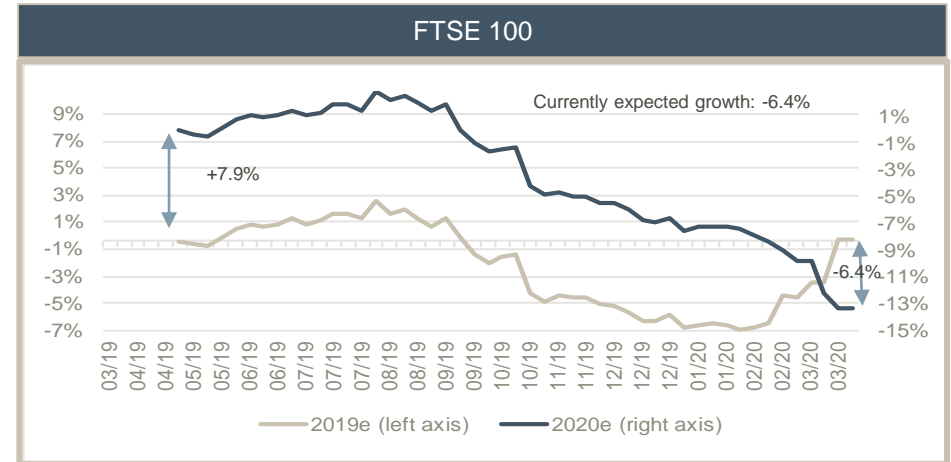
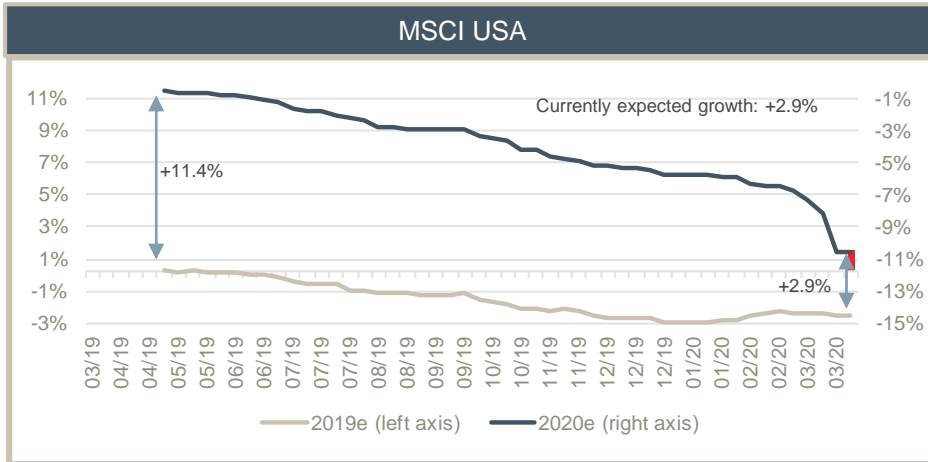
Equities – overview



Past performances are not a reliable indicator of future performances and are not constant over time.

*See Glossary, page 27 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 03/31/2020

Equities – EPS trends*



Monthly Investment Brief

*estimated earnings revisions & changes in expected growth

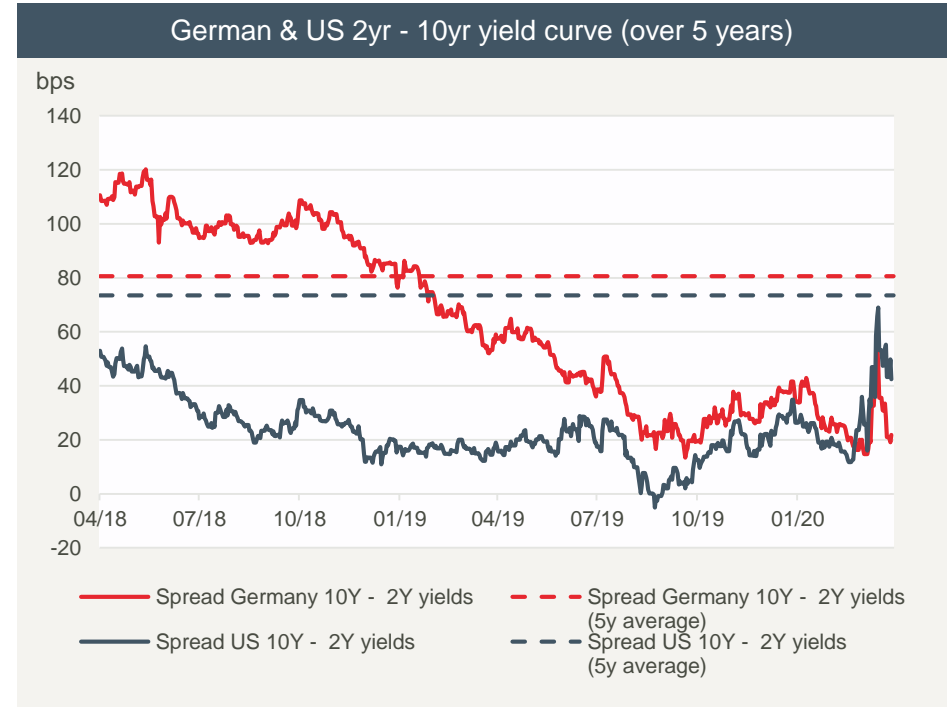
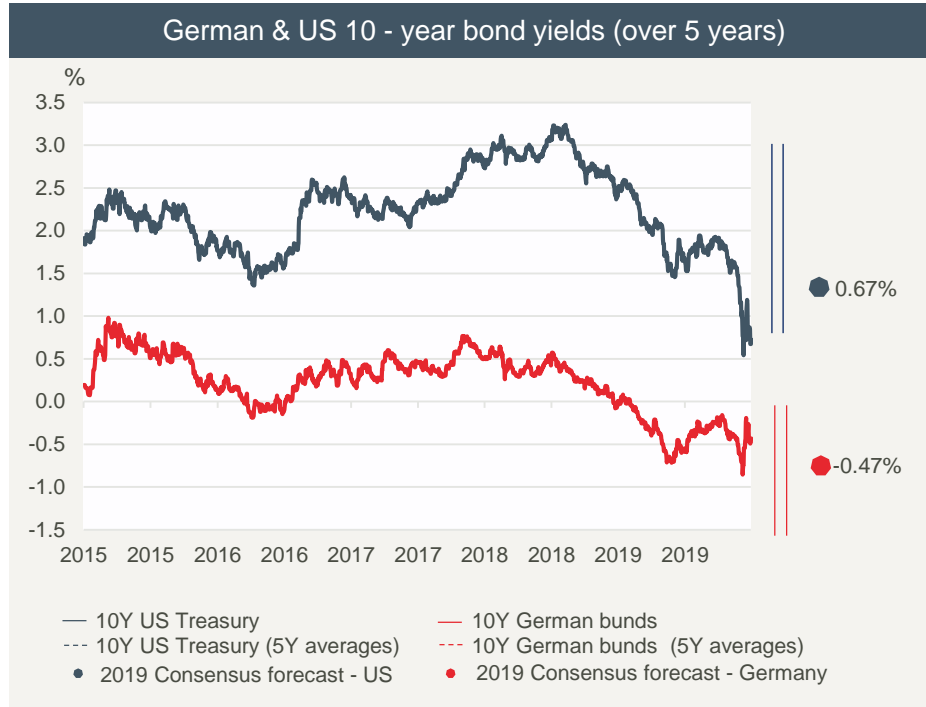
Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 03/31/2020

European equities



	12-month forward P/E, Mar. 2020	2017 EPS growth	2018 EPS growth	2019 EPS growth	2020 EPS growth	Dividend yield	YTD performance
STOXX Europe 600	13,0 x	23%	5%	3%	-5%	4,6%	-23,0%
Commodities							
Basic resources	9,3 x	111%	-2%	-24%	0%	6,6%	-30,0%
Oil & Gas	15,8 x	83%	40%	-16%	-48%	9,3%	-34,8%
Cyclicals							
Automotive and spare parts	6,4 x	34%	-10%	-18%	-8%	5,1%	-37,6%
Chemicals	17,1 x	24%	4%	-11%	1%	3,4%	-20,7%
Construction and materials	11,9 x	13%	8%	17%	2%	4,2%	-26,7%
Industrial goods and services	13,8 x	14%	5%	7%	-1%	3,6%	-29,2%
Media	12,2 x	10%	10%	0%	-3%	4,3%	-27,9%
Technologies	18,4 x	11%	8%	7%	14%	1,6%	-16,4%
Travel & leisure	10,9 x	14%	-4%	-5%	-18%	4,3%	-43,5%
Financials							
Banks	6,3 x	49%	13%	1%	-5%	8,8%	-38,4%
Insurance	7,7 x	-9%	10%	7%	8%	7,3%	-29,3%
Financial services	14,4 x	16%	-42%	140%	-43%	4,0%	-24,3%
Real estate	13,5 x	12%	19%	1%	6%	5,2%	-26,7%
Defensives							
Food & beverages	18,8 x	10%	4%	7%	1%	3,0%	-14,8%
Healthcare	16,1 x	4%	4%	6%	6%	3,0%	-9,1%
Household & personal care	14,8 x	19%	7%	2%	1%	4,0%	-18,1%
Retailing	16,7 x	3%	6%	0%	1%	3,4%	-20,5%
Telecommunications	11,9 x	19%	-9%	-3%	8%	5,8%	-19,5%
Utilities	13,5 x	5%	-12%	24%	1%	5,4%	-13,0%

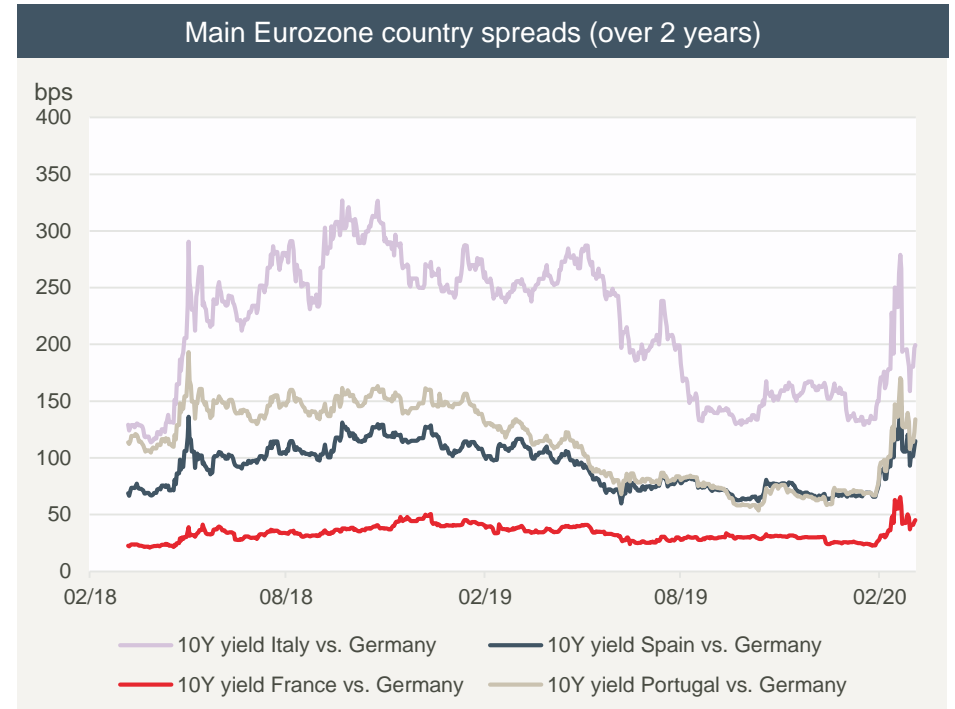
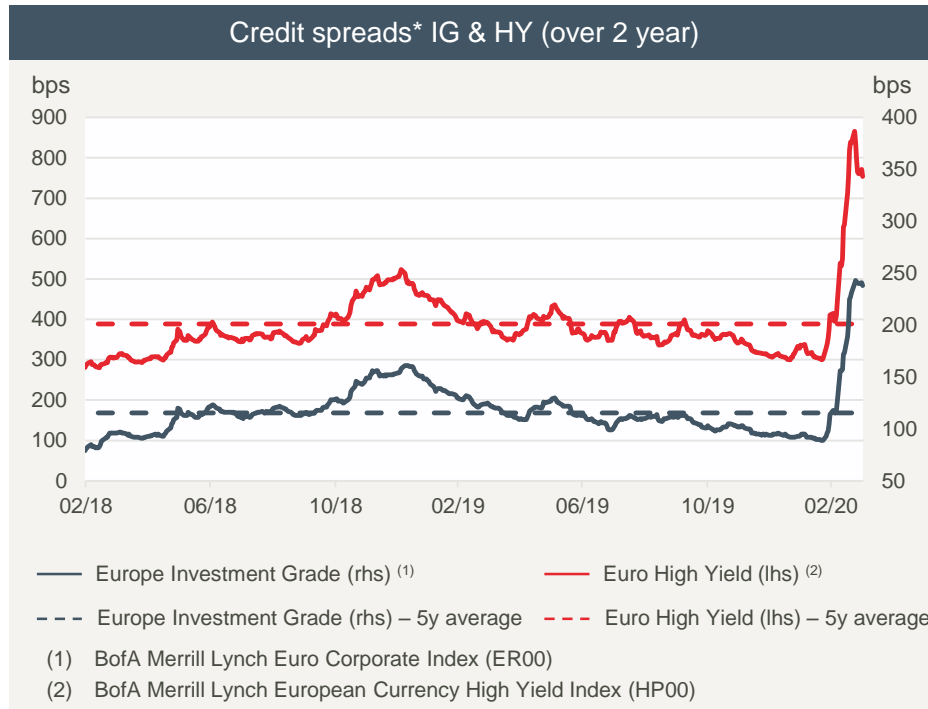
Source: ODDO BHF AM SAS, FactSet. Figures as of 01/04/2020



Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | LHS: Data as of 03/31/2020; RHS: Data as of 03/31/2020

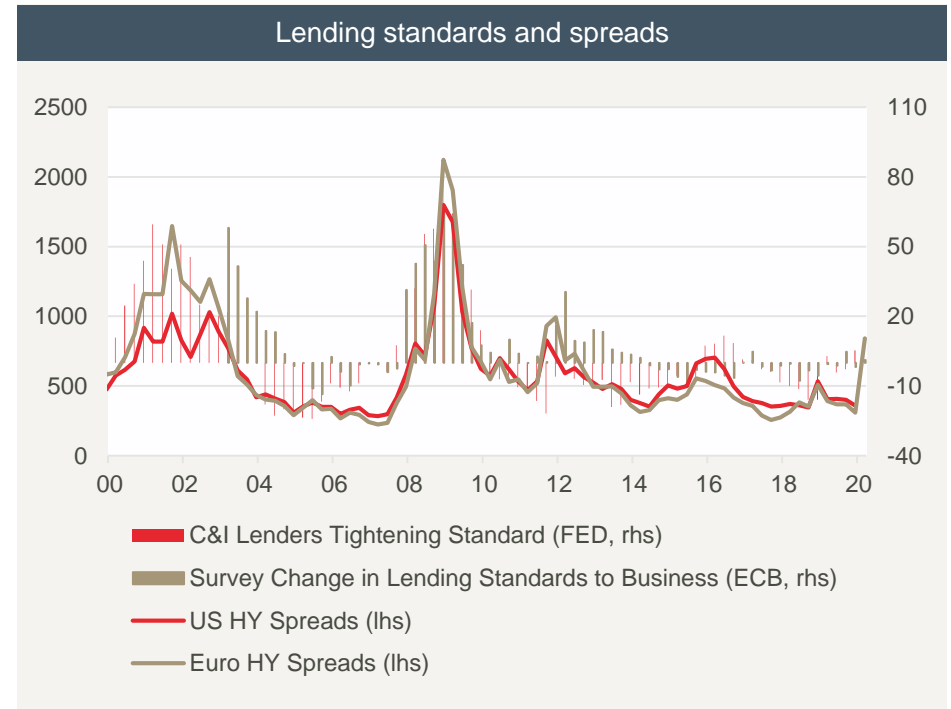
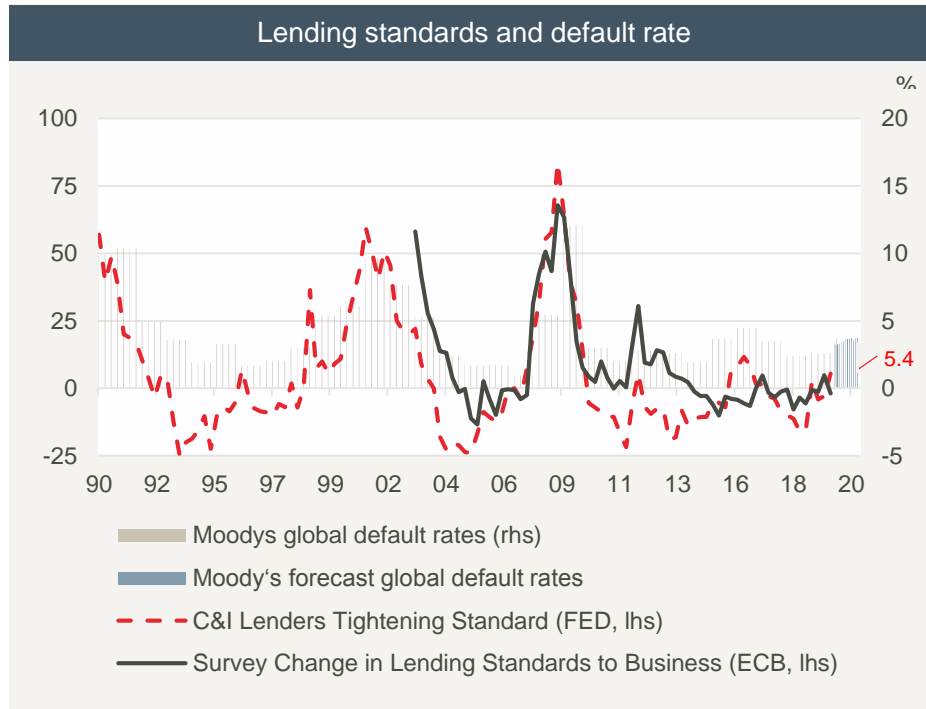
Fixed income – Credit Spreads



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Sources: ODDO BHF AM SAS, Bloomberg | Data as of 03/31/2020

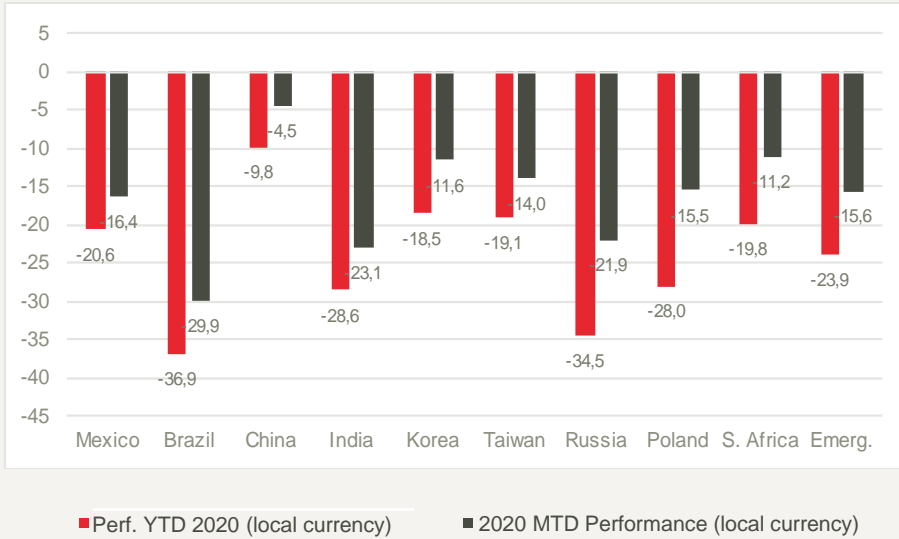
Commercial and industrial lending standards



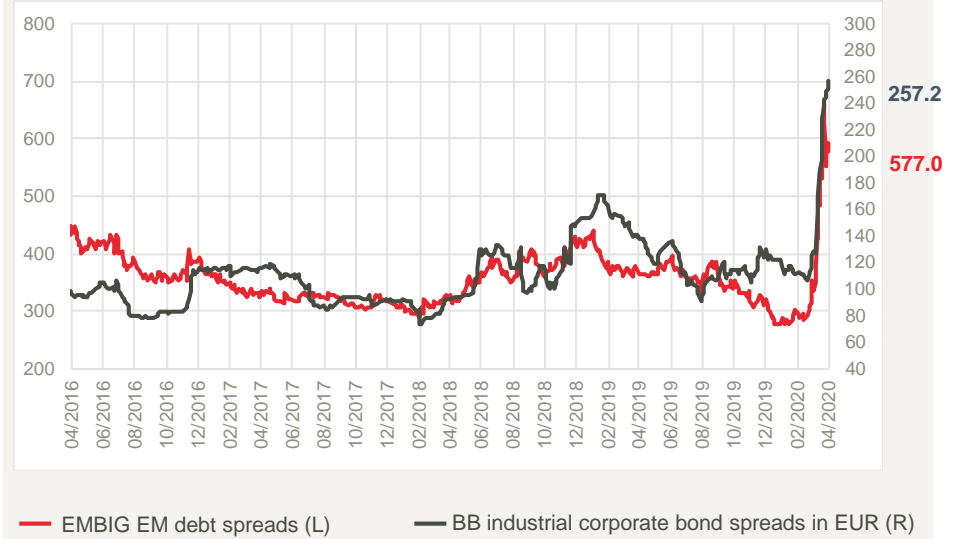
Source: Moody's as of 31/03/2020, Fed, ECB, Bloomberg | Data as of 03/31/2020



Equities performance on major emerging markets

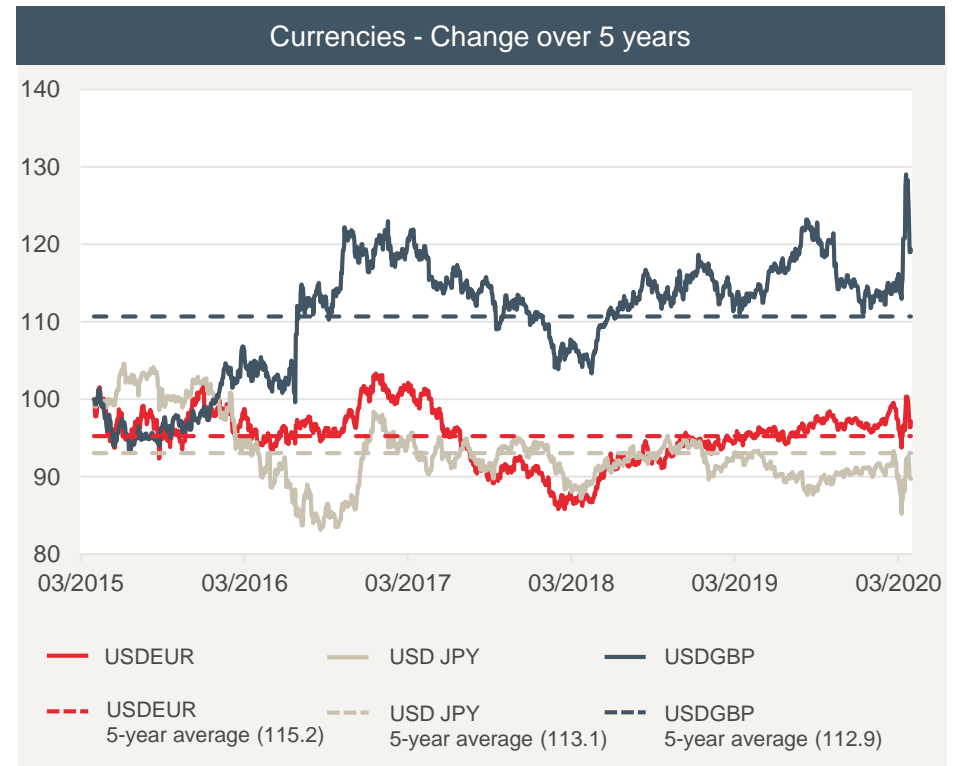
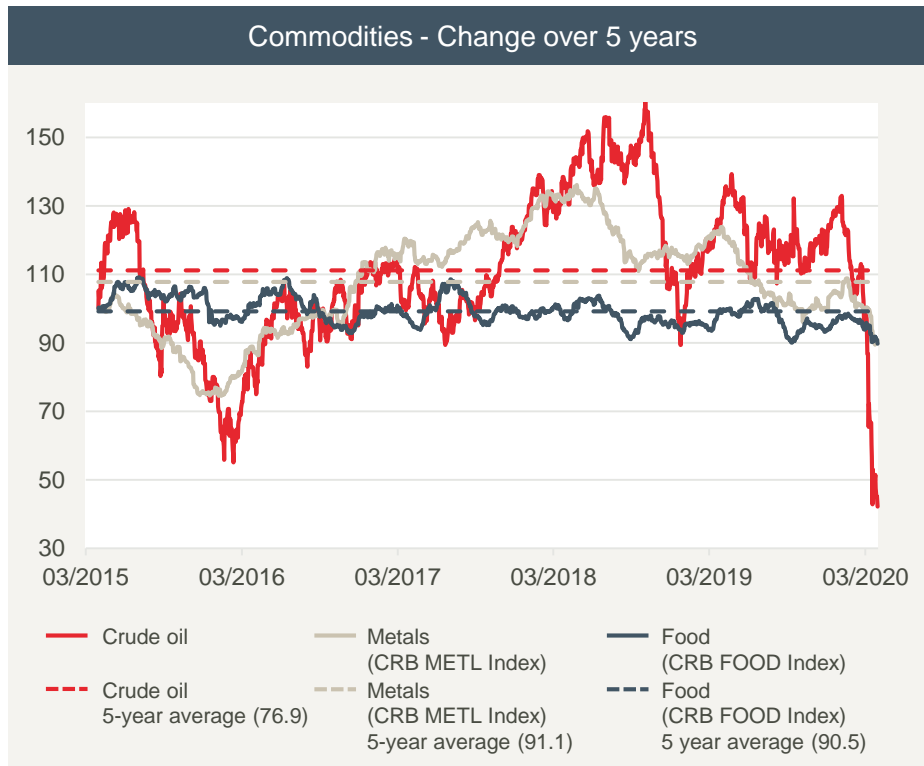


EM debt spreads vs. BB industrial corporate bond spreads in EUR



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Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/01/2020



Past performances are not a reliable indicator of future performance and are not constant over time.

Sources: Bloomberg, ODDO BHF AM SAS | Data at 03/31/2020



Discover our guide
« Basics of sustainable investing »



<p>How performances are calculated</p>	<p>Cumulative fund performance is calculated based on dividends reinvested. Annualised performance is determined on an annual, 365-day actuarial basis. A fund's performance relative to its benchmark index is expressed as arithmetic difference. Static indicators are generally calculated on a weekly tick that is taken on Fridays, or failing that, on the day prior to valuation.</p>
<p>Volatility</p>	<p>Volatility is a risk indicator measuring the level of fluctuations observed in a portfolio (or index) over a defined period. It is calculated as annualised standard deviation of absolute returns within a defined period of time.</p>
<p>Credit spreads (credit premiums)</p>	<p>The credit spread is the risk premium or the difference between the yields of corporate bonds and that of sovereign bonds with the same characteristics.</p>
<p>Investment grade</p>	<p>Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard & Poor's of the equivalent.</p>
<p>High yield</p>	<p>High-yield bonds are speculative bonds rated lower than BBB- (Standard & Poor's) or the equivalent.</p>
<p>PE (price-earnings ratio)</p>	<p>A stock's price-earnings ratio is equal to the stock's price divided by the issuing company's earnings per share. It is also called the "earnings multiple". It depends mainly on three factors: the company's forecast earnings growth, the risk associated with these forecasts, and the level of interest rates.</p>

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