# Monthly Investment Brief

ODDO BHF ASSET MANAGEMENT

## « Mask-on mode »

May 2020

Share prices have soared recently as central banks and governments delivered a rapid and unlimited response to the crisis, but the equity markets might now face another setback albeit probably without falling back to their March lows. Investor behaviour should soon stop being governed by emotion -for lack of data and a clear outlook- and instead adopt a more pragmatic attitude as the economy reopens.

We are not of the view that the global economy is heading for another Great Depression or prolonged period of forced debt reduction. However, the shock created by Covid-19 is on such a scale that it will prevent economic activity from bouncing back to pre-crisis levels any time soon. This might seem somewhat disappointing in the short term as the surge in share prices (which followed a bout of panic selling) could soon give way to a more rational analysis of the profile and degree of the recovery in economic activity and corporate earnings over the coming year. We are concerned that the market has once again jumped too far ahead of the fundamentals. Investors appear to be very confident that economic activity will successfully get going again in an orderly manner.

Many countries are attempting to reopen their economies. But in order to do so safely and resume previous production levels, the world will need a series of medical breakthroughs and the widespread application of a treatment that is far more convincing than the initial results achieved with existing Covid-19 treatments applied so far.

In addition, the S&P 500 benchmark index has bounced back into its mid-2019 trading range (although non-US global stocks are still well below these levels). And yet the global economy (the USA included) is on a much weaker footing than it was a year ago. Earnings have shrivelled while forecasts are hardly upbeat and offer little visibility on the long term. Prices have been propped up by share buybacks in recent years, but this support has evaporated. It is also worth noting that a bearish phase on the equity markets generally draws to an end when the performances of sectors or investment styles that drove historical bullish phases begin to turn around. But this has not yet happened. Quite the contrary, in fact, as tech stocks and secular growth stocks have continued to dominate, thereby enabling the US markets to continue outperforming. US investors are factoring in just a 20% drop in earnings per share in 2020 and above all a 25% rebound in 2021, and they therefore strike us as being particularly complacent. We certainly do not doubt that the central banks will continue to provide unlimited support, but the fact is that companies are going to emerge from the crisis carrying even heavier debt burdens than before and will not be able to increase their investment capacity. So there is little chance of unemployment being absorbed at all rapidly in the USA, and this will take a toll on consumer spending which is a key growth driver of the US economy. In this respect we can learn a lot from consumer behaviour in China. Although the consumption of staples has indeed caught up there, the same cannot be said of durable goods. Equity investors in the euro zone expect earnings to fall more steeply (-35%) but also to bounce back and find themselves at end-2021 just 20% below their 2019 levels. Unless governments coordinate their action more closely, this scenario seems unrealistic to us, especially as Europe's potential growth was and still is much weaker than the USA's.

**So what strategy to adopt?**

Tactically, we have trimmed our equity exposure a little further (we were neutral with a defensive slant) but reiterate our positive long-term view of the credit markets which are benefiting from the unfailing support of the central banks. Here too, there is some cause for caution as spreads have recently tightened significantly, and we do not advise investors to increase their positions at these levels.

However, the credit markets do have one major advantage in today's zero interest rate world and that is very high positive yields (about 5%-7% depending on the maturity in the high yield segment) which, thanks to considerable carry gains, make it possible to purchase hedging. In what form? A reduction in direct exposure and a build-up of the cash component, but also the construction of convex profiles by buying put options with volatility now at far more reasonable levels. Paying a put option premium enables an investor to continue benefiting from the rally, if indeed there is a rally. Because any core scenario needs to be set against an alternative scenario, such as significant progress on tackling the pandemic (vaccines, treatments, elimination of the virus, etc.) or simply confirmation of the saying "*Don't fight the central banks*".

To conclude... for the sake of caution and in light of the recent rebound, we believe the best approach is to "wear a mask when venturing outside". Not to shy away from current circumstances but to protect ourselves and strive to overcome our vulnerability to this disease and its effects, most of which are out of our control. The aim, laid bare this time, is to pay lower prices for quality assets that will survive this unprecedented crisis. And here again, we cannot afford to get it wrong.

Source: ODDO BHF AM, written on 05/04/2020


# 01 CURRENT CONVICTIONS

# Scenarios

## Our 6-month view

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

**65%**

**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

**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

**10%**

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

**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

**25%**

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

**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 05/06/2020

# Our current convictions for each asset class

| | | |
|---|---|---|
| Equities | Large cap Eurozone | 0 |
| | Mid cap Eurozone | 0 |
| | Small cap Eurozone | 0 |
| | UK | 0 |
| | USA | 0 |
| | Emerging markets | -1 |
| | Japan | 0 |
| Convertible bonds | Europe | 1 |
| | USA | 0 |
| Currencies | USD / € | 0 |
| | YEN / € | 0 |
| | GBP / € | 0 |
| Commodities | Gold | 2 |
| | Crude oil | 1 |

Change vs the previous month

Source: ODDO BHF AM, comments as of 05/06/2020

# Our current convictions for each asset class

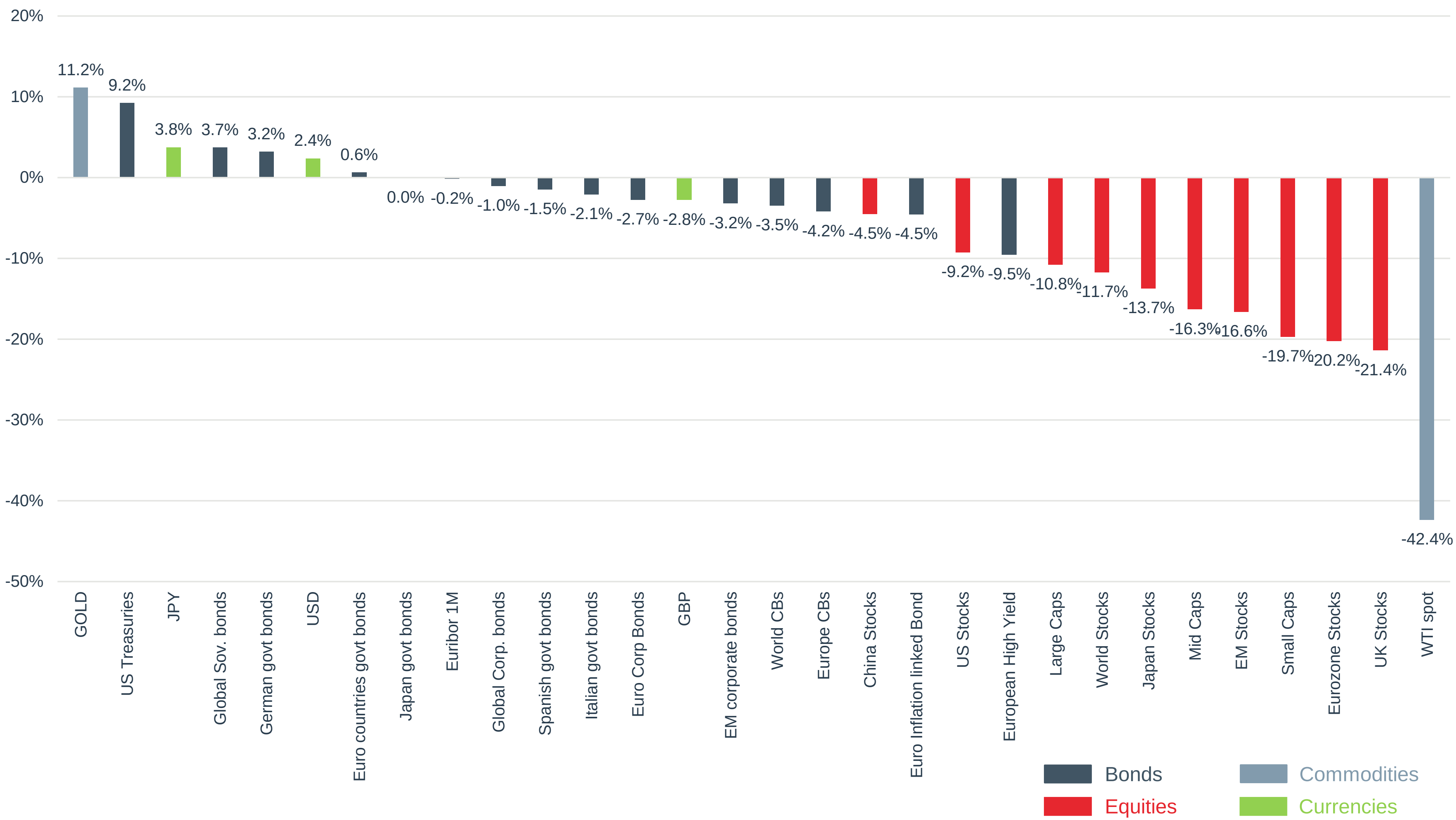
| | | |
|---|---|---|
| Government bonds | Core Europe | 0 |
| | Peripheral Europe | 0 |
| | USA | 0 |
| Corporate bonds | Investment grade Europe | 1 |
| | Credit short duration | 1 |
| | High Yield Europe | 0 |
| | High Yield USA | 0 |
| | Emerging markets | 0 |
| Money market | Developed markets | 1 |
| Alternative assets | Private Equity | 1 |
| | Private Debt | 1 |
| | Real Estate | 0 |
| | Hedge Fund | 1 |

Change vs the previous month

Source: ODDO BHF AM, comments as of 05/06/2020


# 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 04/30/2020; performances expressed in local currencies

# Historical performances of asset classes

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gold | 5.1% | 25.5% | 29.4% | 10.1% | 7.1% | 28.1% | -1.4% | -10.6% | 8.0% | 13.5% | -1.6% | 18.3% | 11.2% |
| US Gvt bonds | 14.0% | -3.7% | 5.9% | 9.8% | 2.2% | -3.4% | 6.0% | 0.8% | 1.1% | 2.4% | 0.8% | 7.0% | 9.2% |
| German Gvt bonds | 12.2% | 2.0% | 6.2% | 9.7% | 4.5% | -2.3% | 10.4% | 0.3% | 4.1% | -1.4% | 2.4% | 3.1% | 3.2% |
| Eurozone Gvt bonds | 9.1% | 4.4% | 1.1% | 3.3% | 11.2% | 2.3% | 13.2% | 1.6% | 3.3% | 0.1% | 1.0% | 6.8% | 0.6% |
| Euro Libor 1m | 4.0% | 0.7% | 0.4% | 0.9% | 0.2% | 0.1% | 0.1% | -0.1% | -0.3% | -0.4% | -0.4% | -0.4% | -0.1% |
| EM corporate bonds | -12.4% | 30.9% | 9.2% | 5.6% | 13.2% | -1.3% | 3.9% | -1.0% | 5.5% | 7.3% | -1.4% | 11.6% | -2.5% |
| US equities | -37.6% | 26.3% | 14.8% | 1.4% | 15.3% | 31.8% | 12.7% | 0.7% | 10.9% | 21.2% | -5.0% | 30.9% | -9.2% |
| European High Yield | -34.2% | 74.9% | 14.3% | -2.5% | 27.2% | 10.1% | 5.5% | 0.8% | 9.1% | 6.7% | -3.6% | 11.3% | -9.5% |
| EM sovereign bonds | -10.9% | 28.2% | 12.0% | 8.5% | 18.5% | -6.6% | 5.5% | 1.2% | 10.2% | 9.3% | -4.6% | 14.4% | -9.8% |
| EM equities | -53.3% | 78.5% | 18.9% | -18.4% | 18.2% | -2.6% | -2.2% | -14.9% | 11.2% | 37.3% | -14.6% | 18.4% | -16.6% |
| Eurozone equities | -44.9% | 27.3% | 2.4% | -14.9% | 19.3% | 23.4% | 4.3% | 9.8% | 4.4% | 12.5% | -12.7% | 25.5% | -20.2% |
| WTI spot | -53.5% | 77.9% | 15.2% | 8.2% | -7.1% | 7.2% | -45.9% | -30.5% | 45.0% | 12.5% | -24.8% | 34.5% | -69.1% |
| **Spreads (%age points)** | **67.5%** | **82.2%** | **28.9%** | **28.5%** | **34.3%** | **38.4%** | **59.0%** | **40.3%** | **45.4%** | **38.7%** | **27.2%** | **34.9%** | **80.3%** |

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

## Colour scale

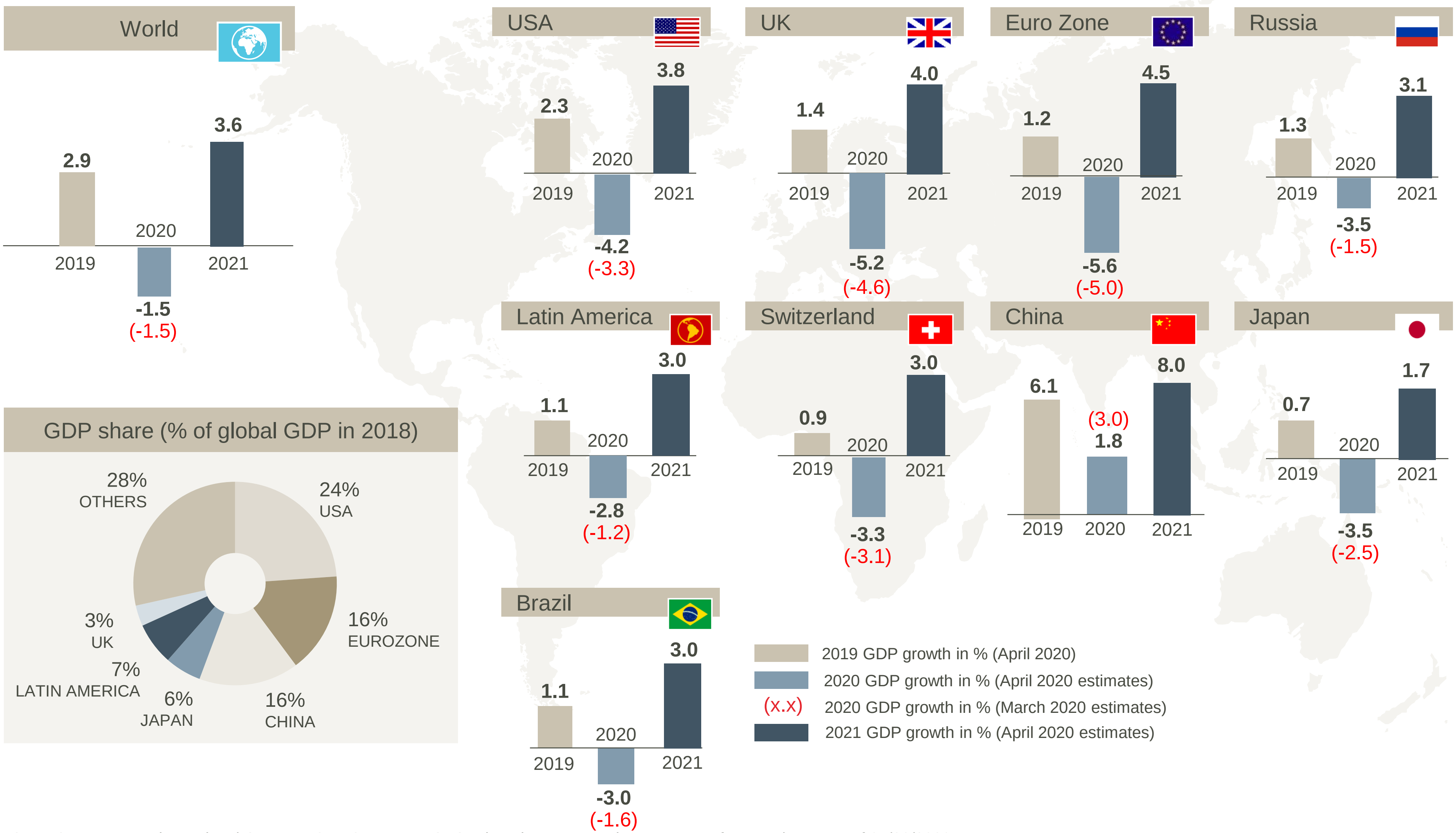
Best performance — Worst performance

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|

Sources: Bloomberg and BoA ML as of 04/30/2020 ; performances expressed in local currencies

# Global GDP* growth forecast

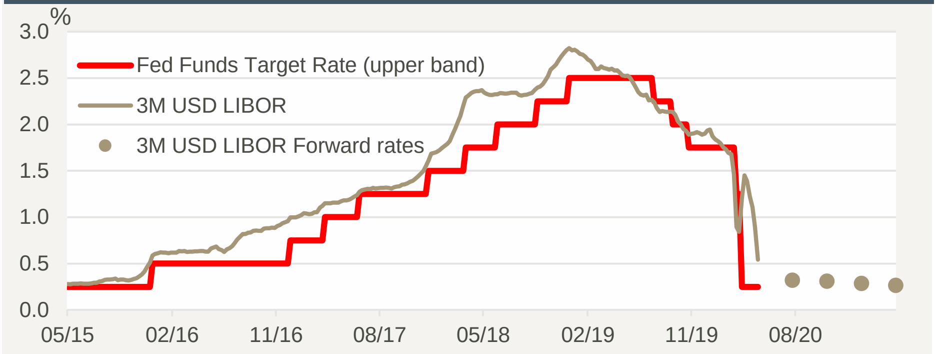
## Consensus forecasts are still lagging reality



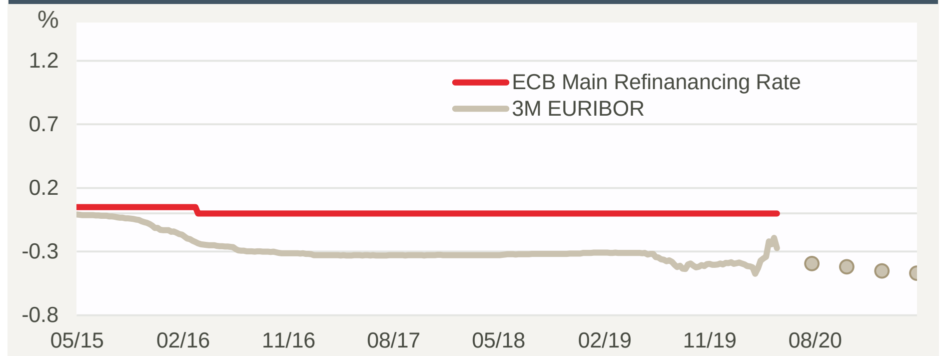

*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 04/30/2020

# Monetary policy & inflation expectations

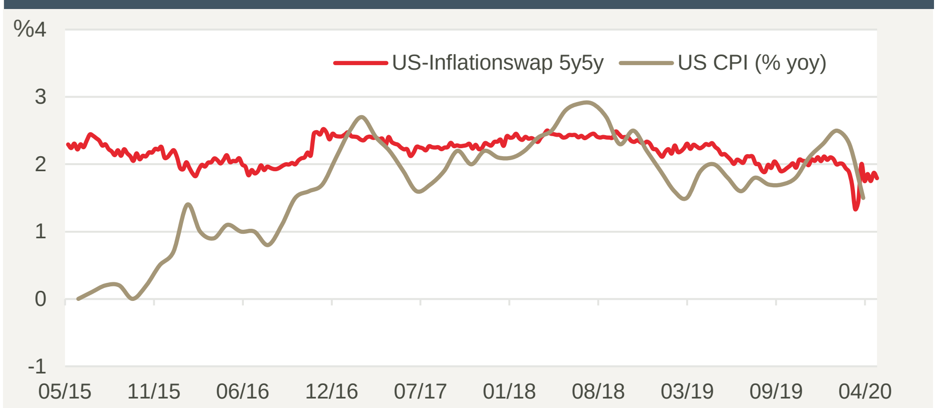
**Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs**



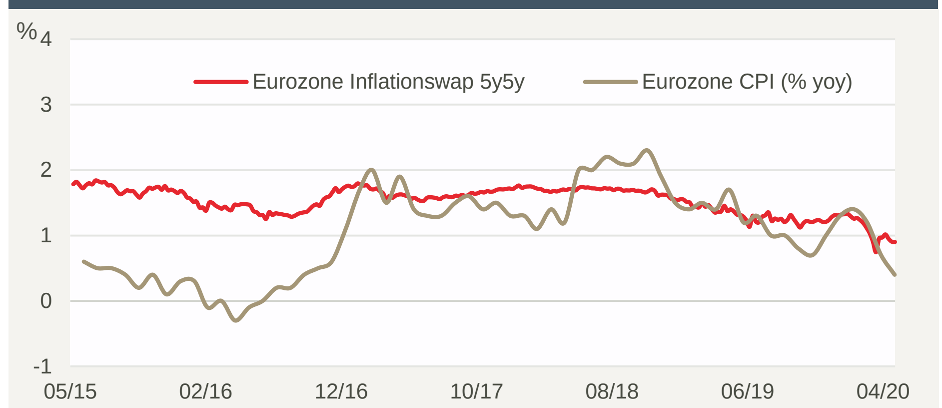

**ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs**




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




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



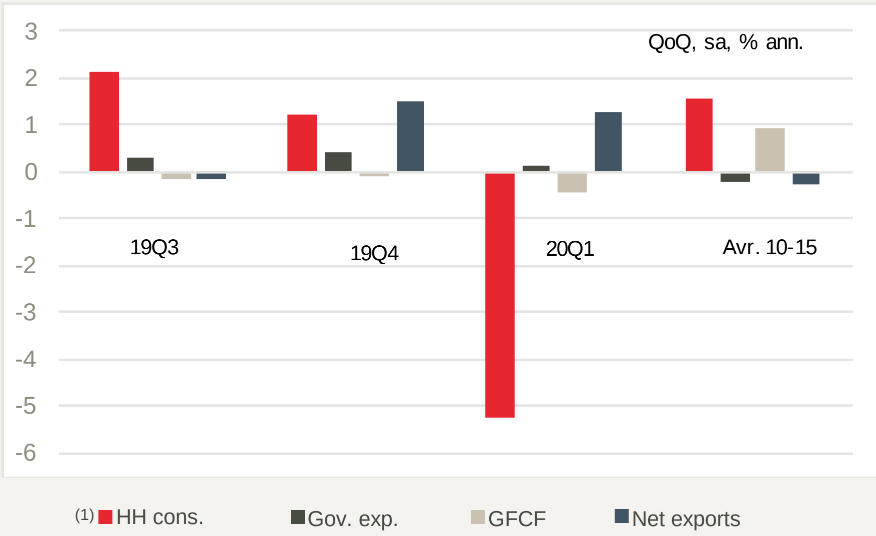

- Massive QE programmes by FED and ECB have avoided a credit crunch and prevented financial conditions to tighten significantly
- ECB CSPP is much more supportive for Investment Grade than FED measures (although here are fallen angels included)
- Ruling of German Constitutional Court is no game changer, but could hamper ability for future deviations from restrictions (e.g. capital key) as a de-facto constraint

Sources: Bloomberg, ODDO BHF AM GmbH, as of 04/30/2020

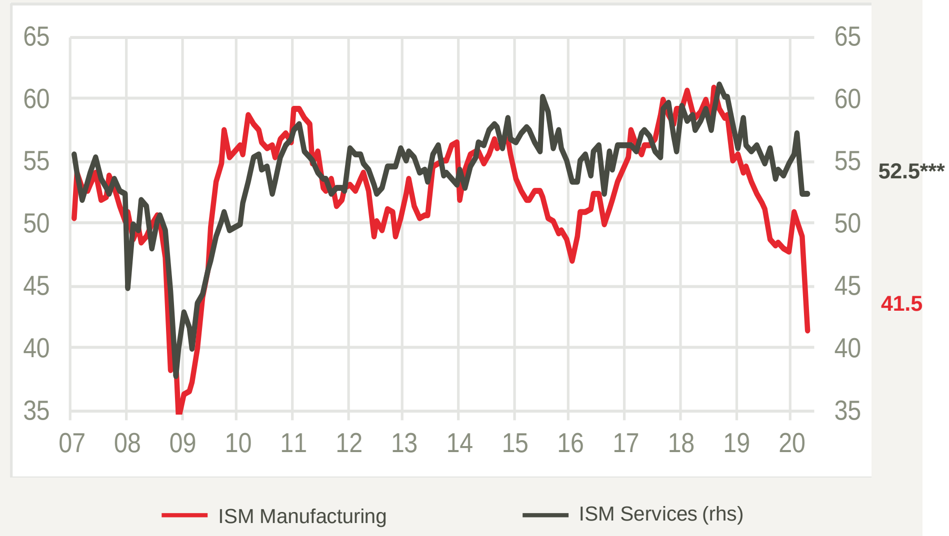
# USA

## From bad to worse

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




**Business confidence****




- Q1 came in at -4.8%, worse than expected, but much more trouble ahead for Q2
- Revision risk for current indicator releases rather to the downside
- Manufacturing and service PMI drop sharply, despite being inflated by supplier delivery times component
- Unemployment likely to explode towards plus 20% rates

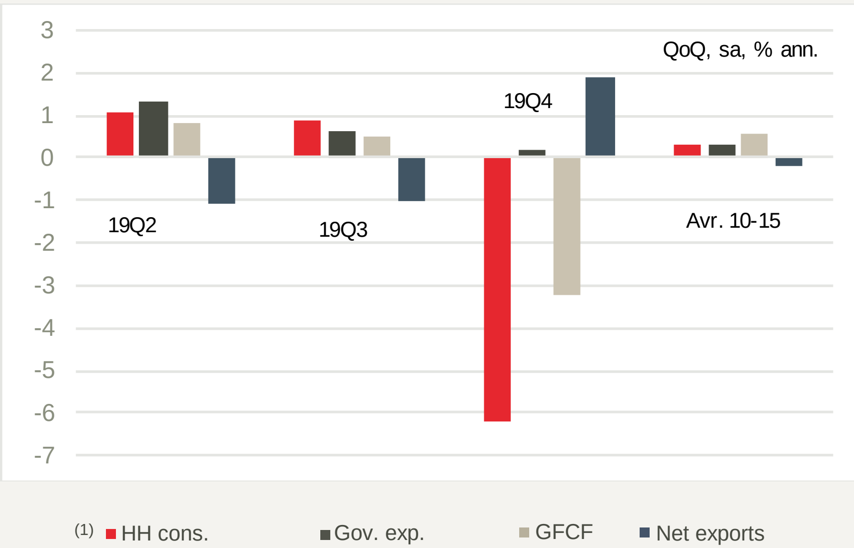


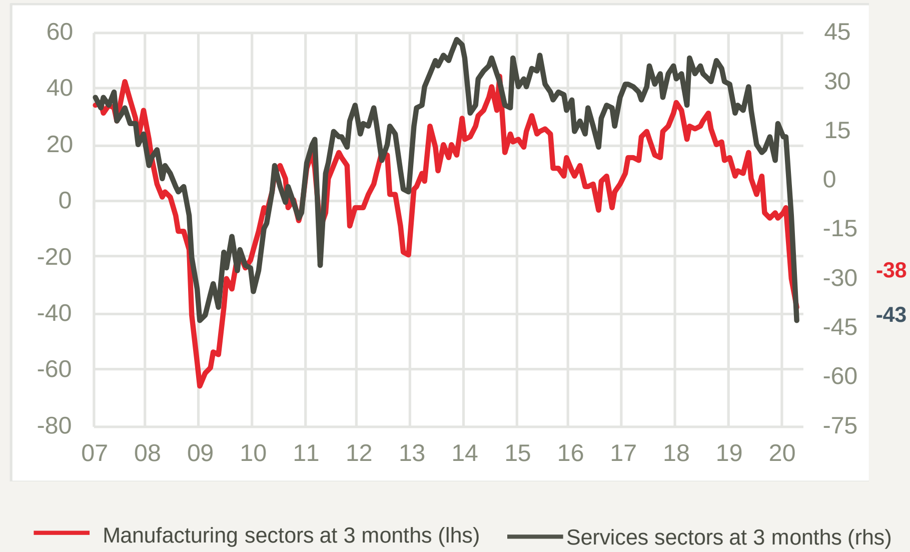
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation Net exports.
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 03/31/2020 | **Data as of 04/15/2020 | ***Data as of 03/15/2020

# Japan

## State of emergency for longer

| Contributions to GDP (QoQ, seasonally adjusted, % annualised)* | Business confidence** |
|---|---|



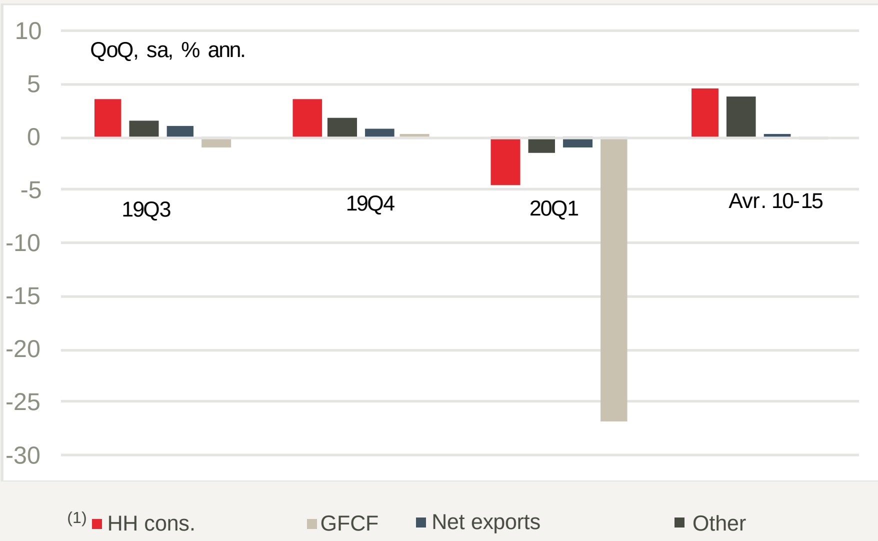

- State of emergency has been extended for roughly a month, further dragging on economic activity
- BoJ expanded credit easing measures
- April consumer sentiment collapsed to an all-time low hinting to extended weakness in retail sales
- Unemployment rate still low, but in for a significant rise

(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 04/15/2020

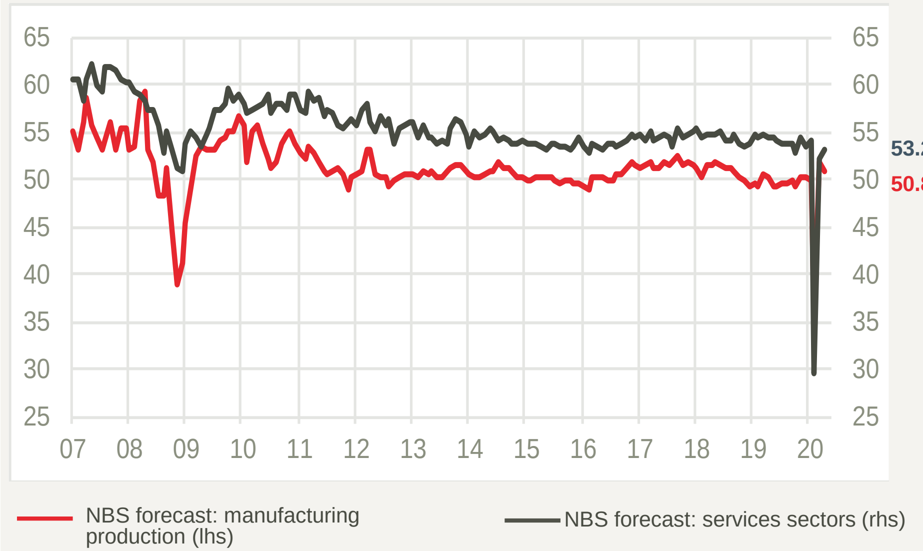
# China

## More signs of a gradual improvement

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




Business confidence**



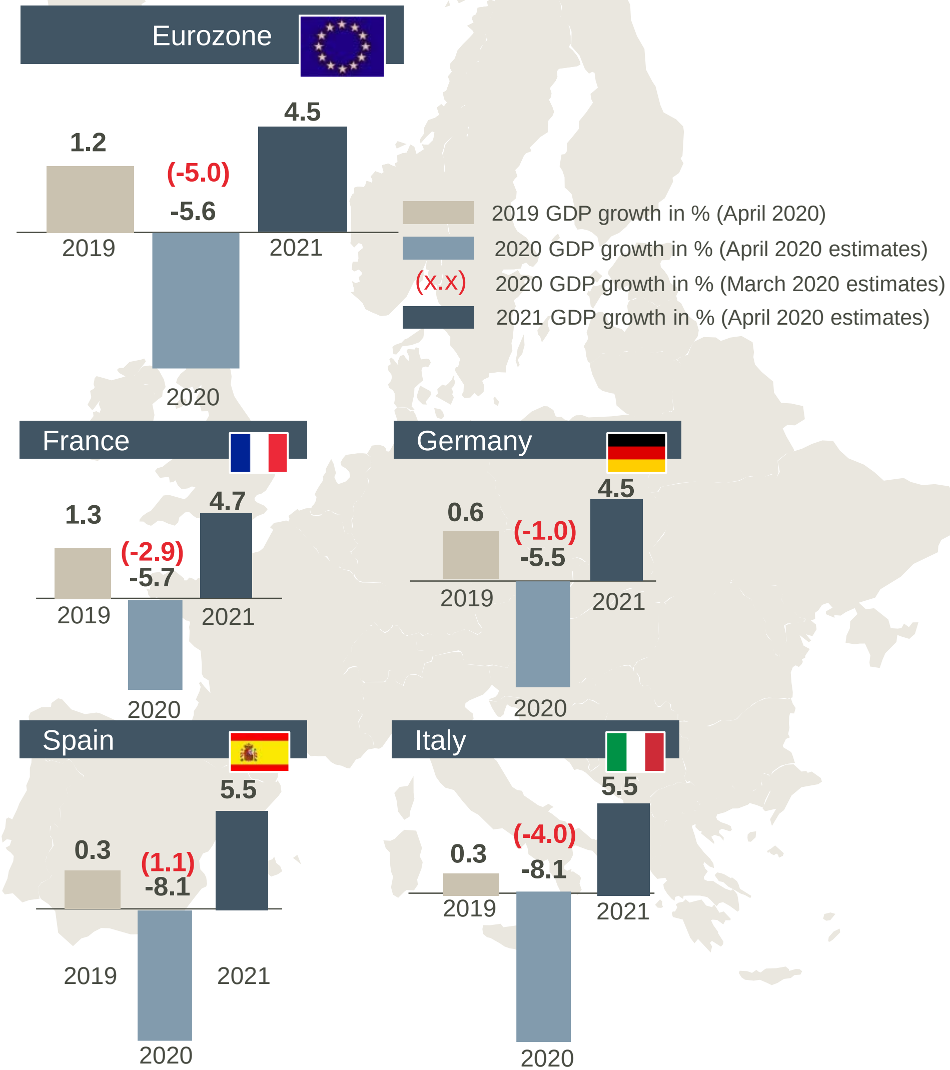

- April composite PMI improved slightly, but fell short relative to expectations
- Caxin service PMI still reflects weakness at 44.4 and is consistent with better but still soft high frequency data (mobility, air pollution)
- China is already past the bottom in economic collapse which occured in March. Therefore, the country could be a blueprint for other economies how to cope with the virus, while trying to reach normality



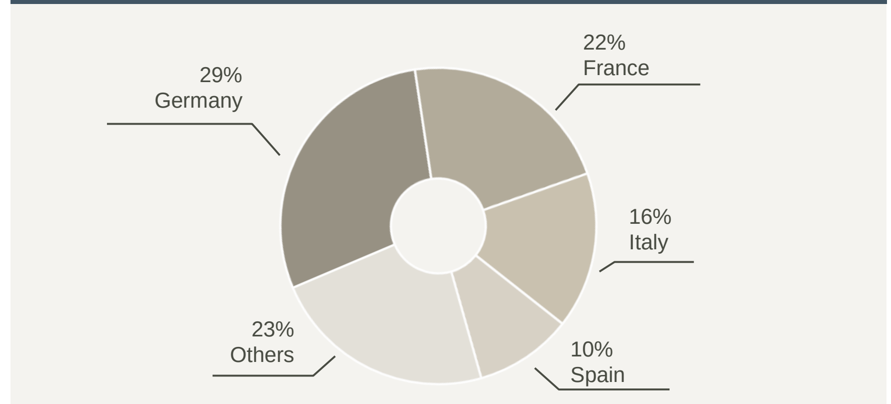
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 3/31/2020 | **Data as of 04/15/2020

# Eurozone

## Job retentions schemes offer a good buffer in grim times




GDP share (% of total Eurozone GDP)



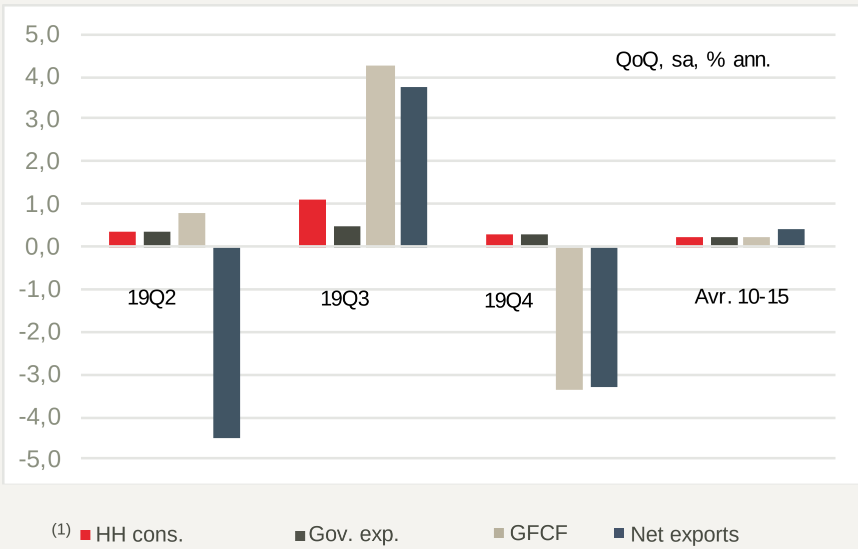

- The first readings for Q1 GDP have been worse than expected with -3,8% qoq.
- Revisions to the downside are quite likely
- Spain and France seem to be hit hardest with -5,8% and 5,2% resp.
- Q2 will be much worse with a possible 40% plus slump (saar)
- June should offer some relief as restrictions are being lifted successively

Sources: ODDO BHF AM SA; Bloomberg Economist Forecast. Data as of 04/2020

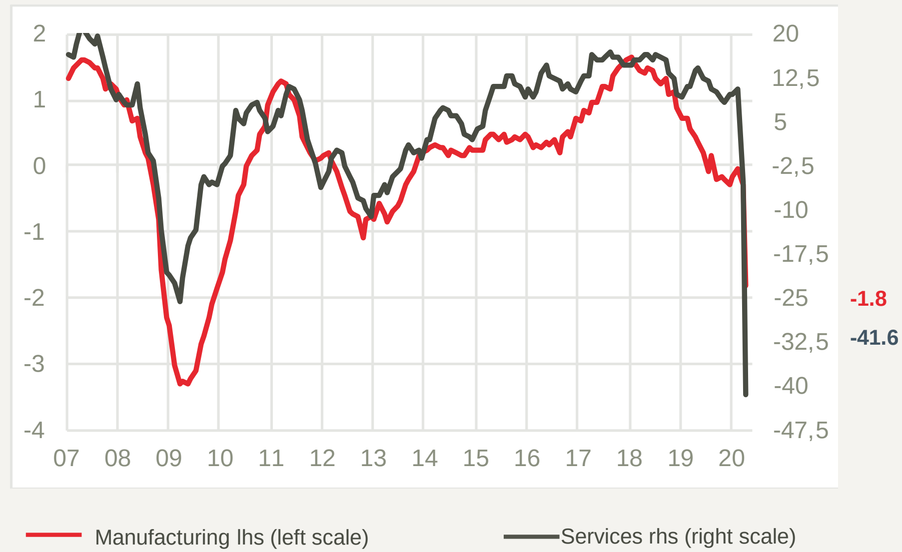
# Eurozone

## At the trough

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




**Business confidence****



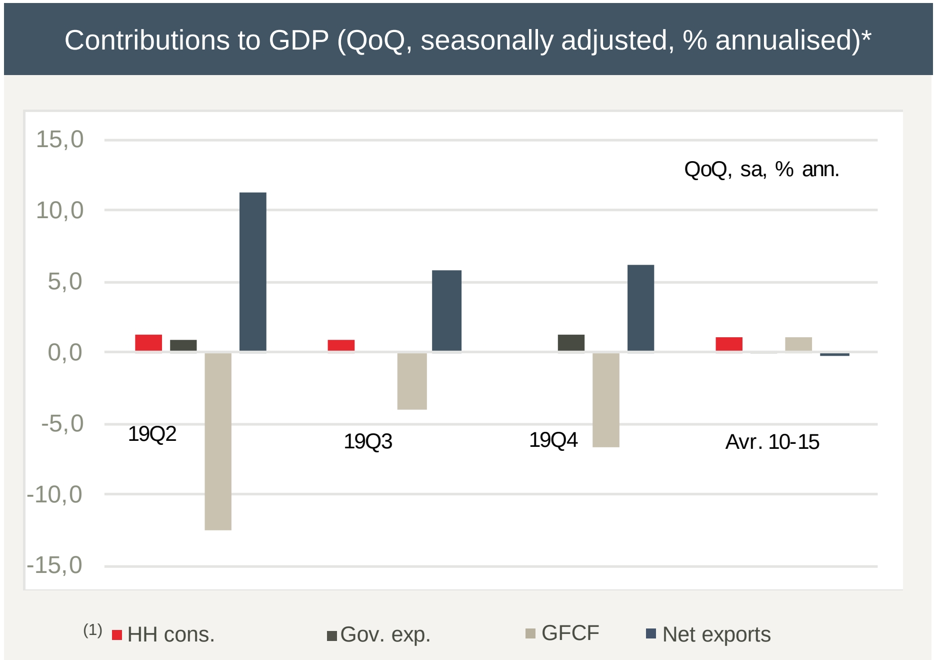

- Broad based weakness in Q1 GDP at -3.8%
- France and Spain hit hardest given the strictest lockdowns. Italy a tad better despite heavy constraints
- Q2 will be much worse with April/May hitting the trough of the recession
- Job retention shemes buffer the blow and allow flexibility once a certain degree of normality is reached

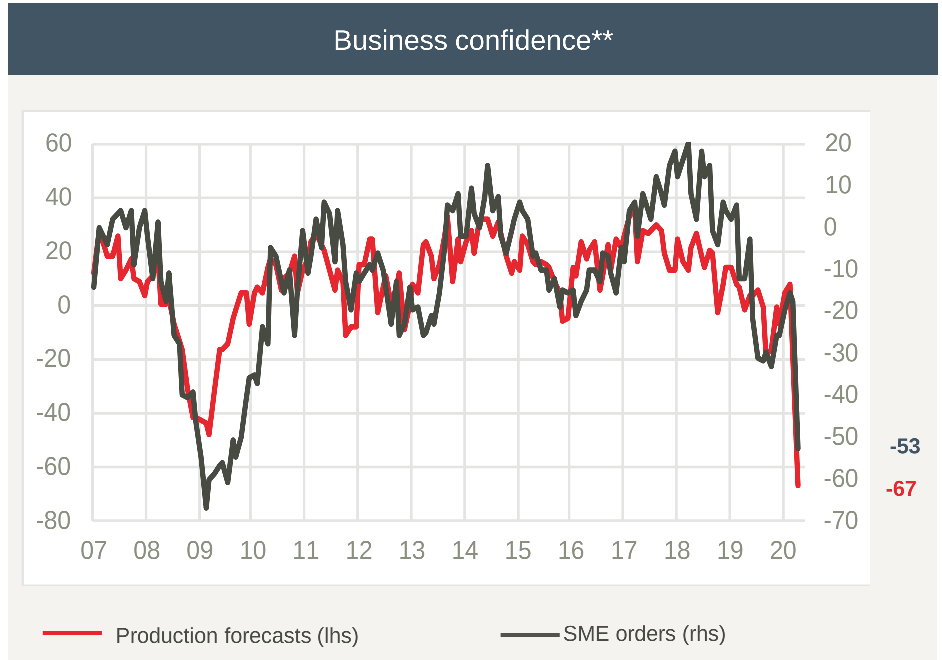
Monthly Investment Brief

(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 04/15/2020

# United Kingdom

## PMI collapse dwarfs GFC experience



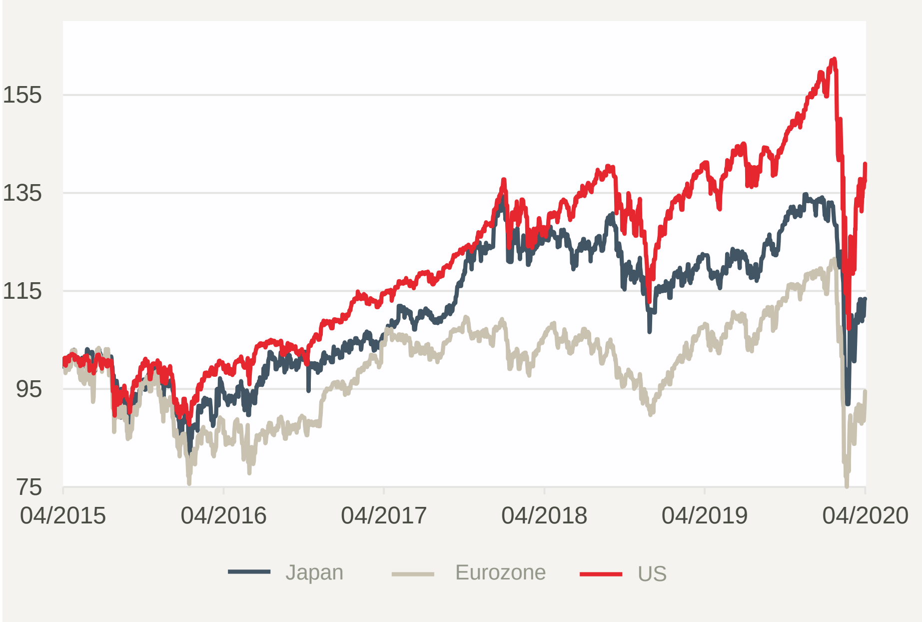




- BOE signals more stimulus to support economy
- Economic sentiment plunged in April but nevertheless likely still understates the drop in GDP this quarter

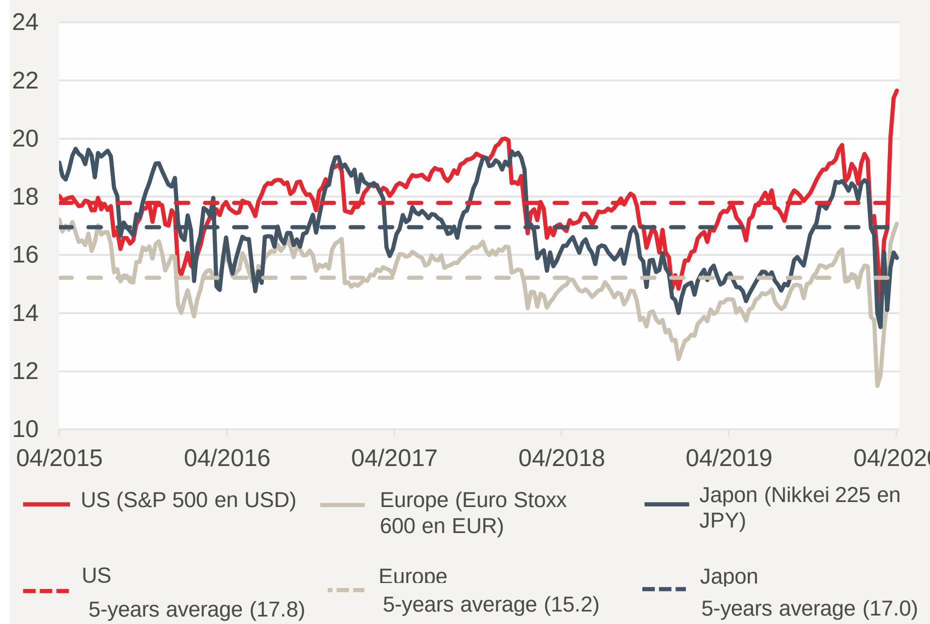
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 12/31/2019 | **Data as of 04/15/2020

# Equities – overview

## 5-year equity market performance




## 5-year price/earning ratio




- The rallye of risky assets started in late March kept on going, but slightly faded by the end of April.
- Dispersion is rising across sectors and countries. Nasdaq100 posted a monthly gain of 15% (reaching positive YtD perf) and small caps also overperformed (Russell 2000 rebounding +13% after a strong underperformance during the previous months). Meanwhile EuroStoxx and FTSE100 only appreciate by 7% and 4%, as policies regarding lockdowns easing and countercyclical budgetary measures may appear more distant.



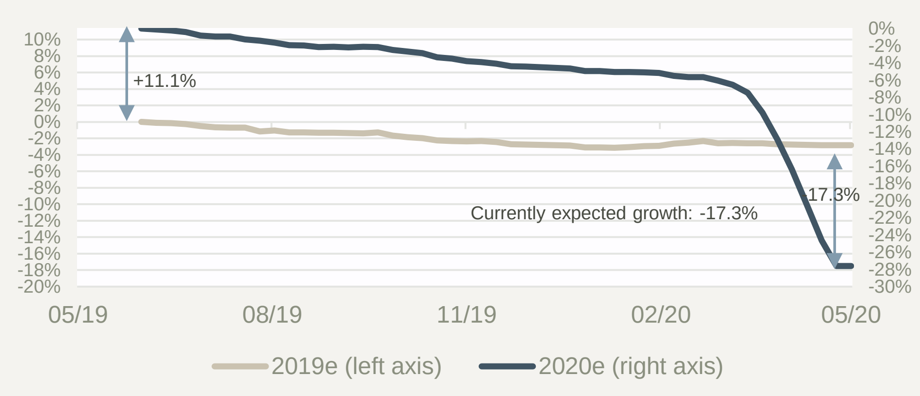
**Past performances are not a reliable indicator of future performances and are not constant over time.**

*See Glossary, page 27 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 04/30/2020

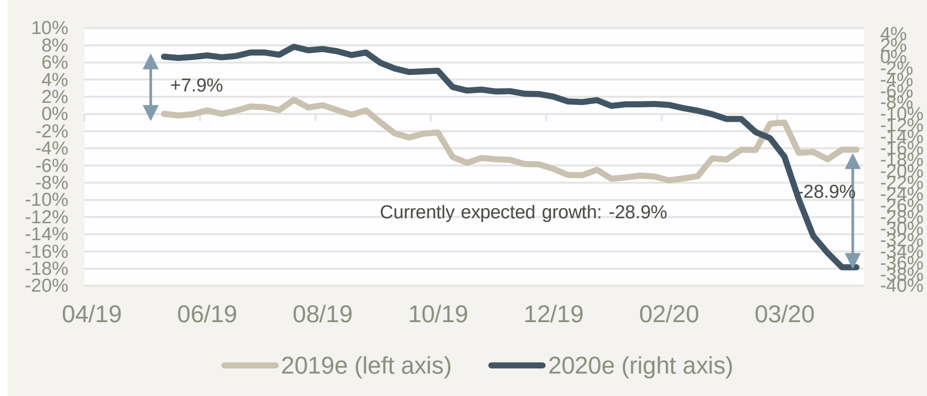
# Equities – EPS trends*

*estimated earnings revisions & changes in expected growth

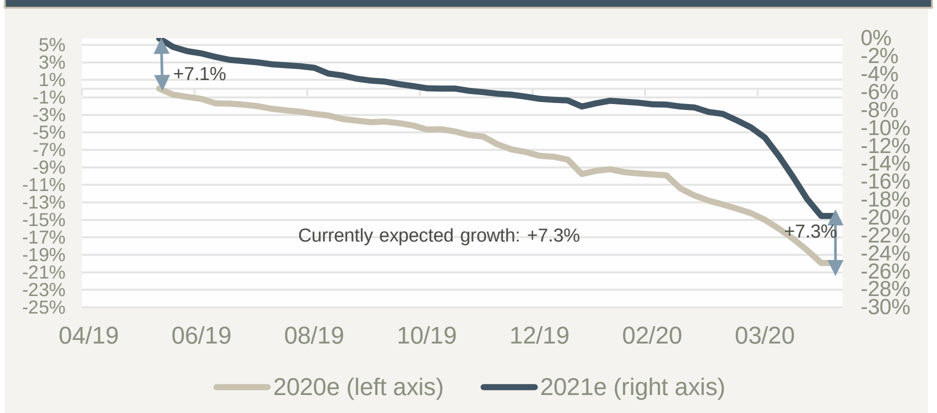
## MSCI USA



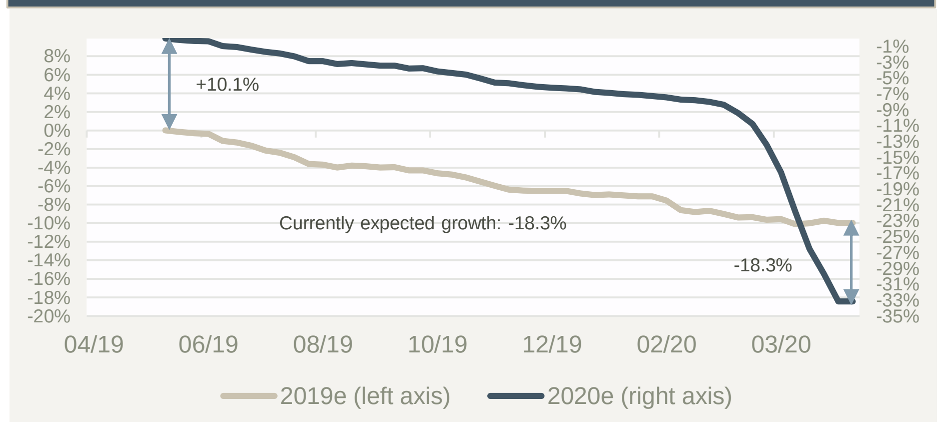

## MSCI UK




## Topix




## Zone Euro




- Q1 earning season is currently being published in line with the recently diminished expectations. Investors anyway seem to look far beyond those, as just a minor part of the current downturn was impacting in Q1.
- Full years estimates are being revised down days after days, and all eyes will be on Q3 estimates, to gauge the speed and potential of the recovery of toplines and margins, once (and if) lockdowns are indeed lifted.

Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 04/30/2020

# European equities

## Some sectors deeply affected by Covid-19, do not track valuations

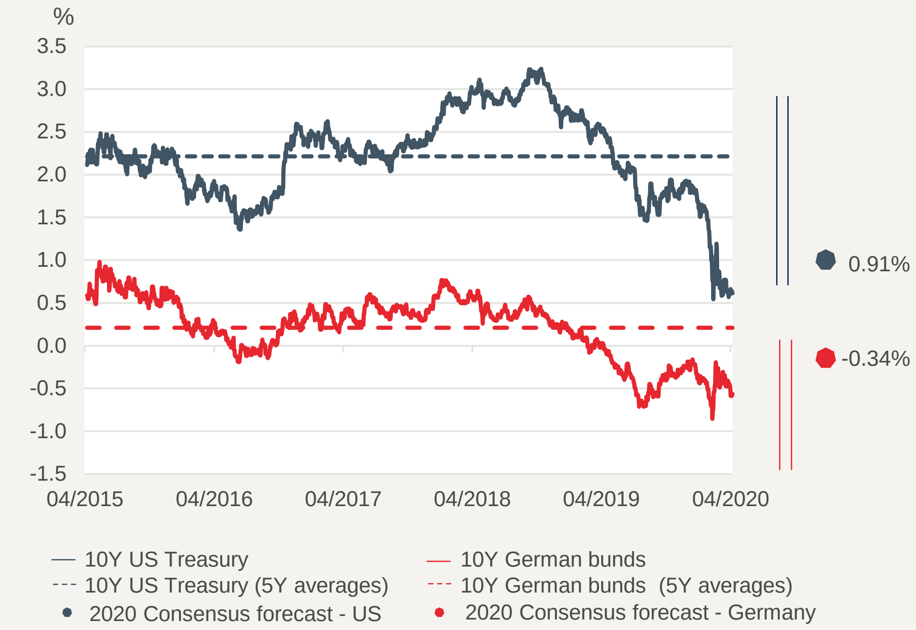
| | 12-month forward P/E, May 2020 | 2018 EPS growth | 2019 EPS growth | 2020 EPS growth | 2021 EPS growth | Dividend yield | YTD Perf. | 1 month perf. |
|---|---|---|---|---|---|---|---|---|
| STOXX Europe 600 | 16,7 x | 5% | 3% | -24% | 28% | 3,8% | -18,9% | 8,6% |
| **Commodities** | | | | | | | | |
| Basic resources | 12,8 x | -2% | -24% | -25% | 30% | 5,3% | -26,3% | 9,2% |
| Oil & Gas | 27,2 x | 40% | -16% | -73% | 160% | 8,9% | -37,4% | -3,2% |
| **Cyclicals** | | | | | | | | |
| Automotive and spare parts | 12,4 x | -10% | -17% | -52% | 114% | 2,9% | -29,0% | 20,3% |
| Chemicals | 20,7 x | 4% | -11% | -12% | 20% | 3,0% | -14,8% | 11,0% |
| Construction and materials | 16,6 x | 8% | 17% | -24% | 28% | 3,5% | -21,9% | 11,8% |
| Industrial goods and services | 18,7 x | 5% | 6% | -23% | 32% | 2,9% | -24,2% | 12,2% |
| Media | 15,5 x | 10% | 0% | -21% | 24% | 3,3% | -24,8% | 8,6% |
| Technologies | 22,6 x | 8% | 7% | -1% | 27% | 1,4% | -7,9% | 14,0% |
| Travel & leisure | 276,0 x | -4% | -5% | -97% | 3399% | 2,3% | -37,3% | 17,5% |
| **Financials** | | | | | | | | |
| Banks | 10,3 x | 13% | 2% | -46% | 38% | 5,3% | -37,5% | 7,5% |
| Insurance | 8,7 x | 10% | 7% | -6% | 17% | 6,8% | -28,0% | 6,7% |
| Financial services | 16,8 x | -42% | 140% | -49% | 38% | 3,6% | -17,9% | 12,6% |
| Real estate | 15,0 x | 19% | 0% | 0% | 10% | 4,5% | -24,6% | 6,2% |
| **Defensives** | | | | | | | | |
| Food & beverages | 21,4 x | 4% | 7% | -8% | 15% | 2,6% | -11,2% | 5,0% |
| Healthcare | 18,0 x | 4% | 6% | 3% | 12% | 2,7% | -1,2% | 9,1% |
| Household & personal care | 16,9 x | 7% | 2% | -7% | 15% | 3,4% | -12,7% | 8,9% |
| Retailing | 20,8 x | 6% | 0% | -16% | 28% | 2,7% | -15,5% | 8,3% |
| Telecommunications | 12,4 x | -9% | -3% | 2% | 12% | 5,7% | -17,4% | 4,4% |
| Utilities | 14,5 x | -12% | 24% | -5% | 9% | 5,1% | -11,3% | 5,6% |

Source: ODDO BHF AM SAS, FactSet. Figures as of 05/01/2020

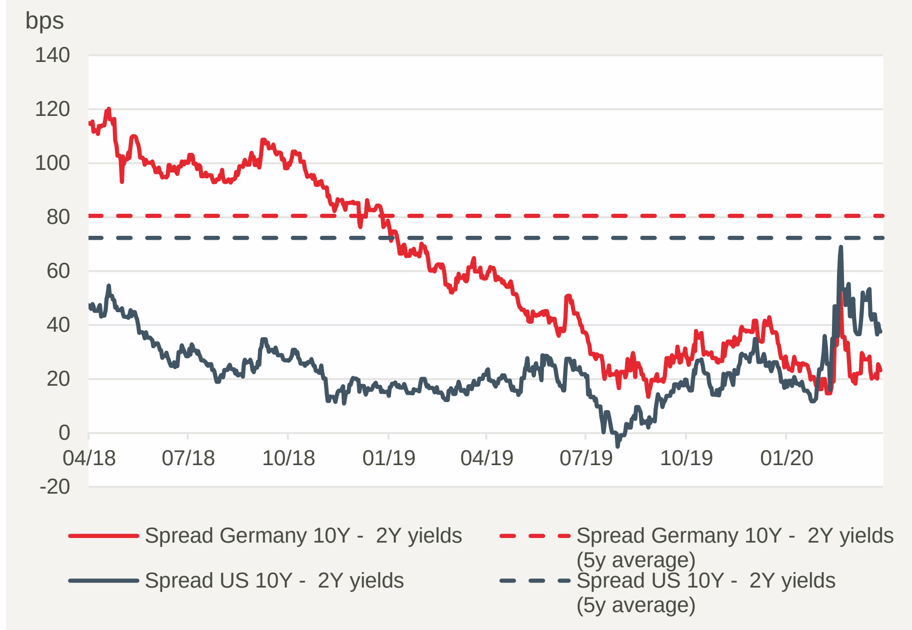
# Fixed income – Rates

## From elevated volatility to boredom

German & US 10 - year bond yields (over 5 years)




German & US 2yr - 10yr yield curve (over 5 years)




- Central banks are desperate to absorb the supply shock and keep rates stable
- Volatility has significantly diminished since the margin call in mid March
- Expect rates to range trade for the time being, but with reduced correlation to equities
- Hedge ability of Bunds and US Treasuries is therefore greatly reduced

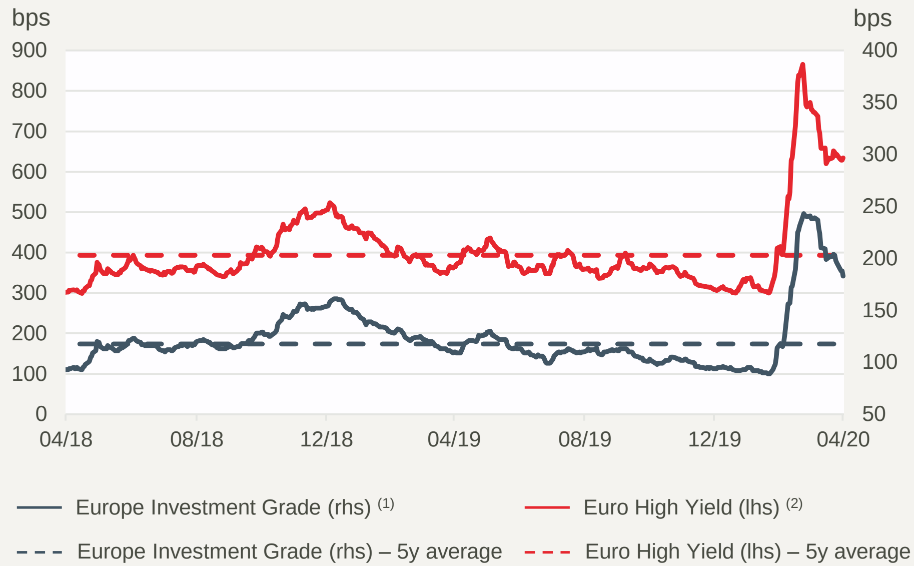
**Past performance is not a reliable indicator of future performance and is not constant over time.**

(1) Bloomberg Economic Forecast │Sources: ODDO BHF AM SAS, Bloomberg│LHS: Data as of 04/30/2020; RHS: Data as of 04/30/2020

# Fixed income – Credit Spreads

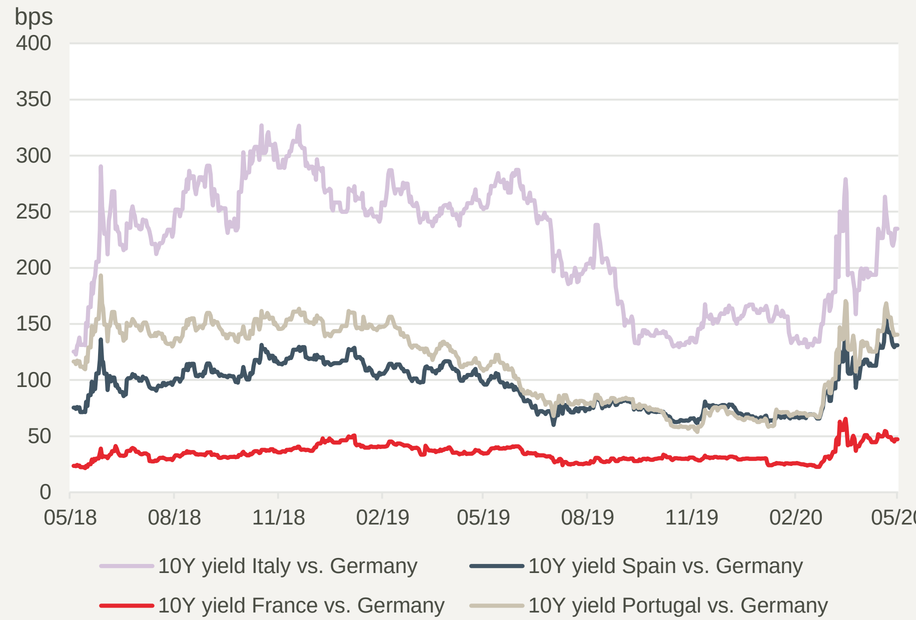
## ECB backstop is an obvious game changer

Credit spreads* IG & HY (over 2 year)




(1) BofA Merrill Lynch Euro Corporate Index (ER00)
(2) BofA Merrill Lynch European Currency High Yield Index (HP00)

Main Eurozone country spreads (over 2 years)




- Monthly purchases of approximately 25 -30bn in IG corporates are a significant support for the asset class
- Carry and absolute yield levels still are attractive, despite almost 60bp spread tightening from the March highs
- Italy`s spreads have come under pressure on fears of the ballooning debt ratio
- Fitch so far the most proactive rating agency
- Race to the bottom like in 2012-2014?
- We expect BTP spreads to widen slightly and then to settle in a 250-300bp range for 10-years

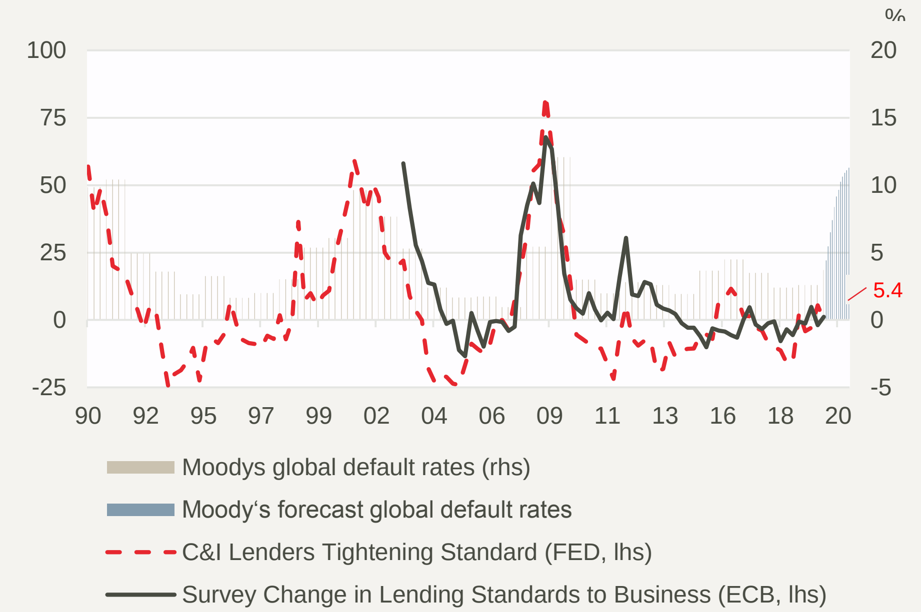
**Past performance is not a reliable indicator of future performance and is not constant over time.**

Sources: ODDO BHF AM SAS, Bloomberg | Data as of 04/30/2020

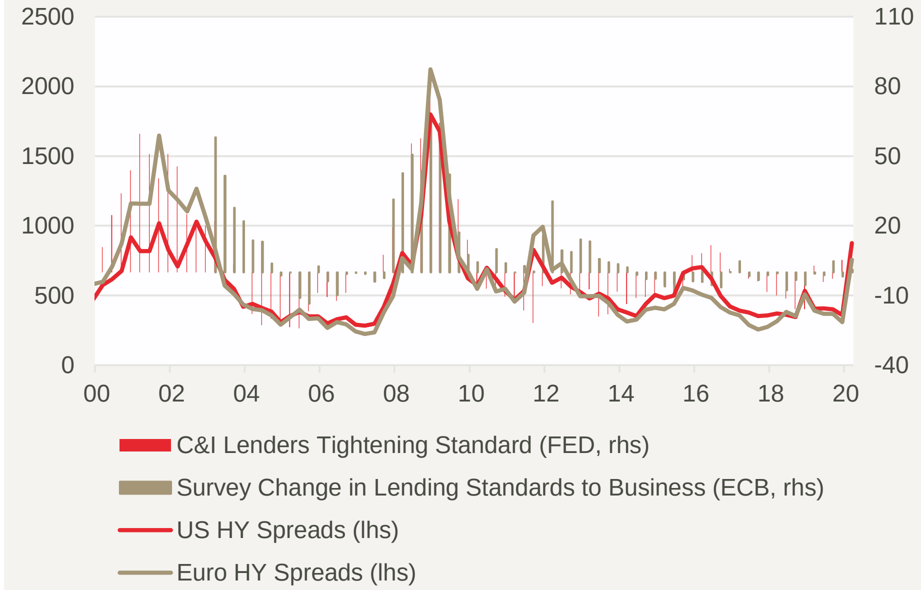
# Commercial and industrial lending standards

## Expected default rates will rise substantially

### Lending standards and default rate




### Lending standards and spreads



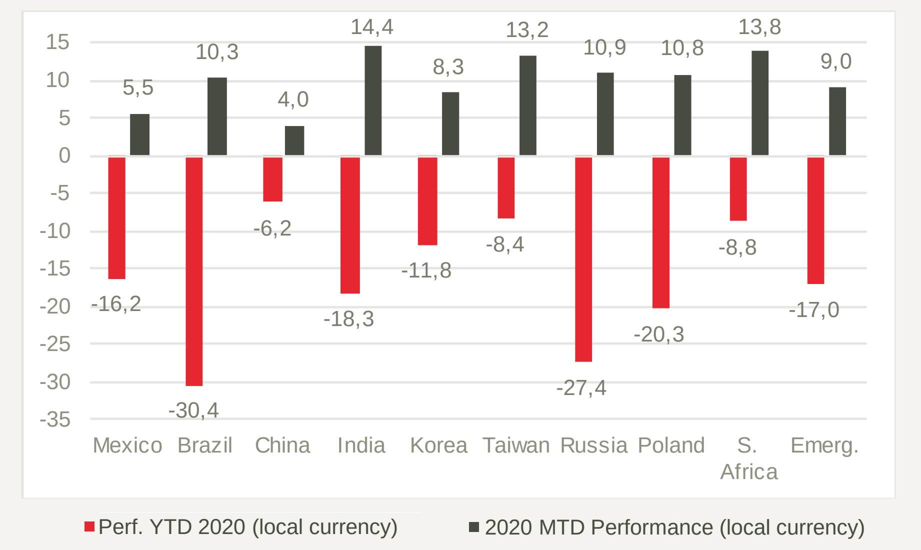

- European high yield market is better shielded than its US counterpart
- Rating structure in Europe is superior and oil impact is insignificant

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

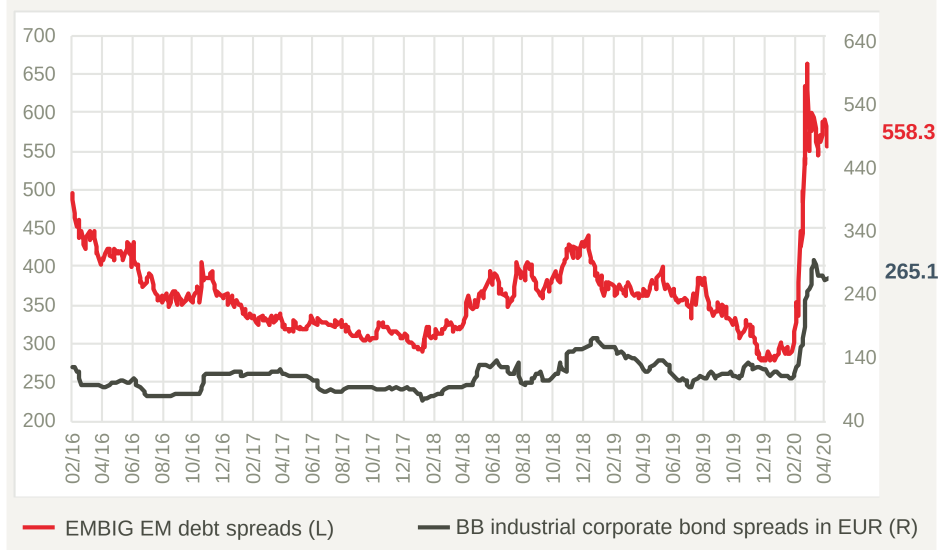
# Emerging markets

## USD debt appears to be attractive on carry

**Equities performance on major emerging markets**




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




- GEM equities have held in relatively well compared to DM counterparts
- USD debt has underperformed relative to other asset classes as flows are still unsupportive
- But carry is attractive and the asset class trails behind in performance



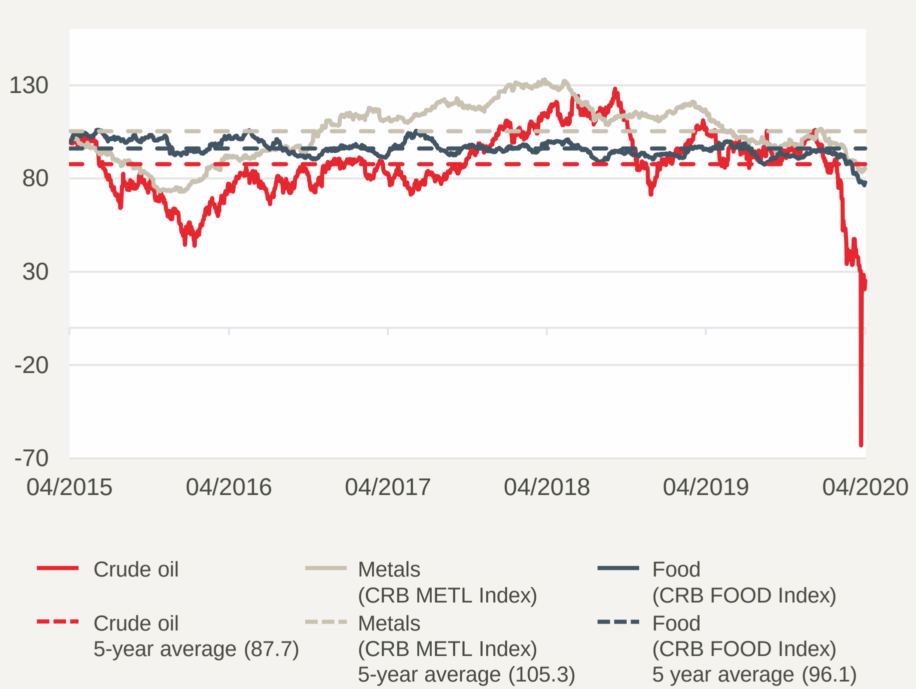
**Past performances are not a reliable indicator of future performance and are not constant over time.**

Sources: Bloomberg, ODDO BHF AM SAS | Data at 05/05/2020

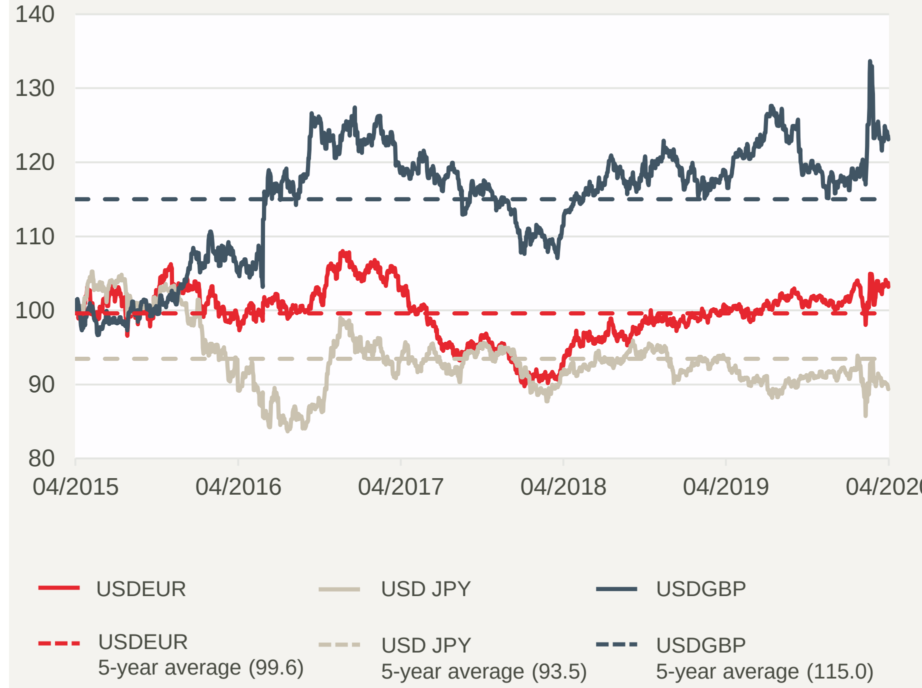
# Currencies and commodities

## Oil hit from super contango trade, supply and demand shock

Commodities - Change over 5 years




Currencies - Change over 5 years




- WTI oil quotations slumped temporarily to an unprecedented -37 USD for the front month future, on massive oversupply, waning storage capacity and investor positioning for the “super contango”
- While demand is expected to be extremely sluggish for the time being, the supply shock is self corrective
- Full storage capacities and strongly rising prices for it, failing shale producers and efforts by OPEC+ to cut the production further, should unwind the overhang slowly and stabilise prices

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/30/2020

# Our publications on sustainable finance

| | | |
|---|---|---|
| *Sustainable finance: ODDO BHF AM's approach* | | Go to site |
| *Sustainable finance, basics* | | Go to site |
| *Integration of ESG criteria at ODDO BHF AM* | | Go to site |
| *ESG flash - Resilience* | | Go to site |

# Glossary

| | |
|---|---|
| **How performances are calculated** | 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. |
| **Volatility** | 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. |
| **Credit spreads (credit premiums)** | 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. |
| **Investment grade** | Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard & Poor's of the equivalent. |
| **High yield** | High-yield bonds are speculative bonds rated lower than BBB- (Standard & Poor's) or the equivalent. |
| **PE (price-earnings ratio)** | 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. |

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# Notes