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> We maintain our constructive view on risky assets. The recent decline in long rates is giving risk premia some breathing space. We are taking a long equity, short duration stance

All you need is pricing power

NOVEMBER 2021

Last month we were wondering about companies' ability to maintain their margins in the face of rising input costs. The answer is crystal clear, we are witnessing a spectacular earnings season.

In Europe, 60% of companies have released their figures. EPS data disclosed so far came in 10% above consensus estimates. The consensus now expects EPS to rise by 60% (yes, you read that correctly) year-on-year in 2021 (+15% from 2019 levels).

This is even more impressive in the US.

Across all sectors, the impact of rising raw material costs was limited. Indeed, most of them were able to increase prices to cope with rising costs. But the negative effect could be more significant in the coming months in key sectors such as automotive, capital goods, food and consumer staples. Only two sectors appear to be benefiting fully from supply chain bottlenecks: semiconductors and transport, with high demand and limited capacity pushing up prices.

COVID has caused a lot of disruption, particularly in sectors such as automotive, where demand collapsed in 2020 but then rebounded strongly in 2021. This combined shock to both supply and demand has generated capacity adjustment problems, in addition to a more structural trend of adapting and securing supply chains. Thus, de-globalisation is a major trend and some countries, such as the United States, are trying to relocate their production.

There are two main reasons for this:

1. The desire to be less dependent on China as a trading partner, initiated by Mr Trump, and also pursued by the new US administration as well as by other countries.
2. Decarbonization. Consumers (especially younger ones) are much more sensitive to ESG issues -mostly environmental- and are pushing for manufacturers to reduce their transport costs in order to reduce their carbon footprint.

Rising raw material costs have recently been followed by across-the-board price increases that are passed on to consumers. However, manufacturers are also looking at ways to refocus their production, towards those products for which end demand is least price sensitive, thereby offsetting lower volumes with higher margins (reducing their carbon footprint in the process). For example, some car manufacturers appear to be restricting the production of low-margin cars, allowing them to use the chips in high-end cars with higher margins and thereby optimizing their product mix.

In addition, European manufacturers are sourcing more materials and production from North Africa and other emerging markets and moving away from China to reduce transport costs.

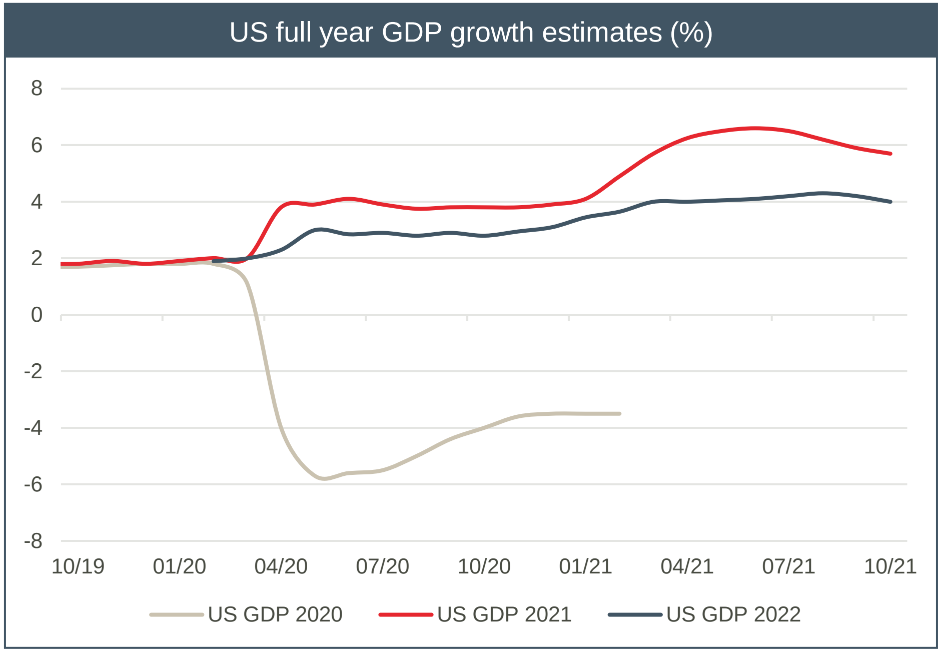
All in all, we maintain our constructive view on risky assets. The recent decline in long rates is giving risk premia some breathing space. We are taking a long equity, short duration stance. However, we are cautious of certain valuations that are already too stretched in view of the still buoyant macroeconomic cycle. We favour cyclical stocks, following a slight decrease in response to the fall in interest rates. As for emerging markets, valuations are looking more attractive but the long-awaited signal of a Chinese recovery is yet to materialise. So some patience is required here. We are adding convexity to portfolios by buying volatility in bonds, equities and currencies. The current performance permits to give up a little bit of premium in order to preserve what has been achieved, as the recent trajectory has been, in our opinion, a little too straight, so some slight consolidation might be in the cards over the next few months... time to catch our breath.

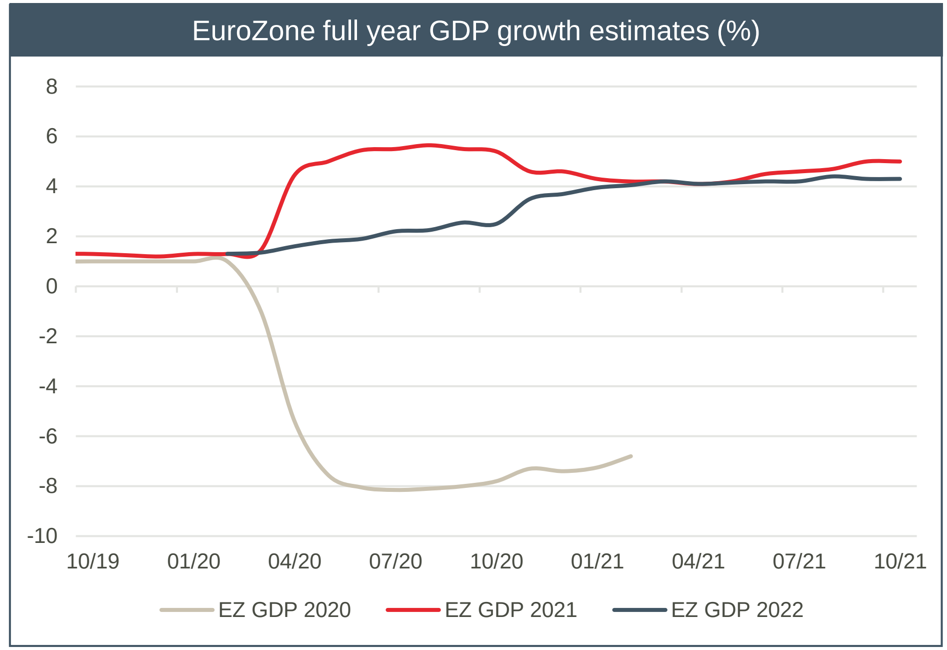
With less support from central banks, we are entering a new, probably more volatile era, where alpha will rise to its former glory. A more responsive and tactical positioning is therefore recommended.

01 MACROECONOMIC OUTLOOK

Growth outlook

Consensus forecasts for 2022 remain relatively stable





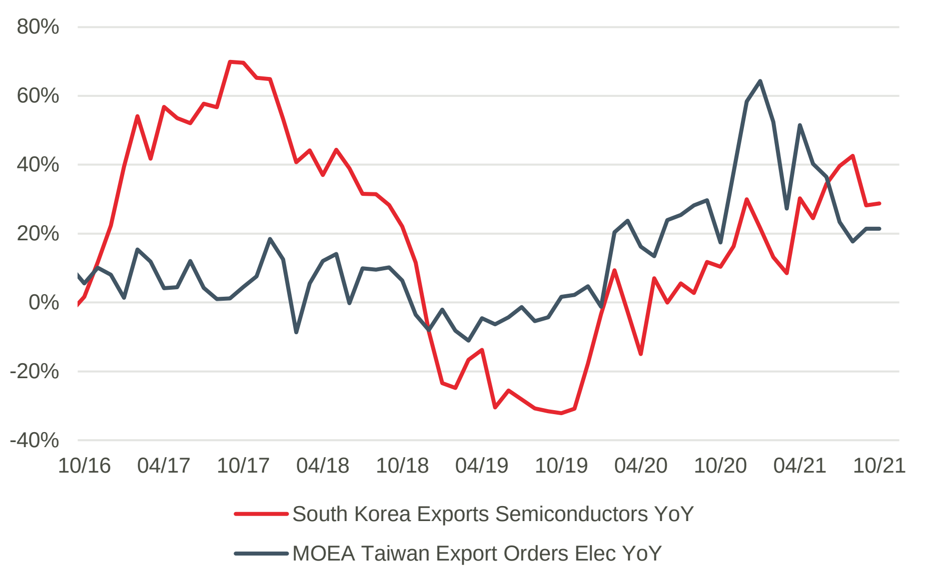
- Near-term expectations have been successively downgraded.
- But longer-term, forecasters expect pent-up demand in 2022 to make up for lost output in Q3 and Q4 2021.

Sources: ODDO BHF AM SAS, Bloomberg | Data as of 10/29/2021

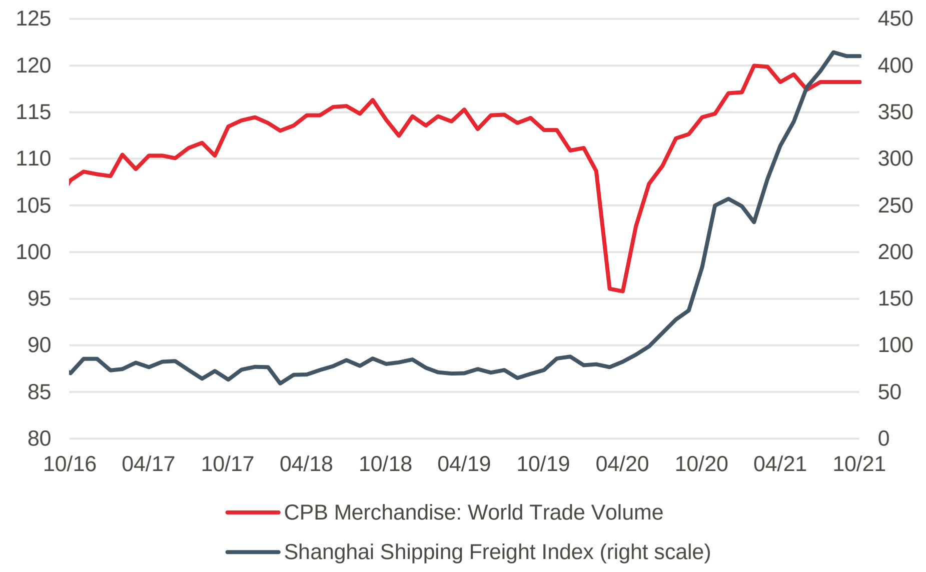
Global trade

Trade volume still massively hampered by supply bottlenecks

Exports volumes



Transport volumes and costs

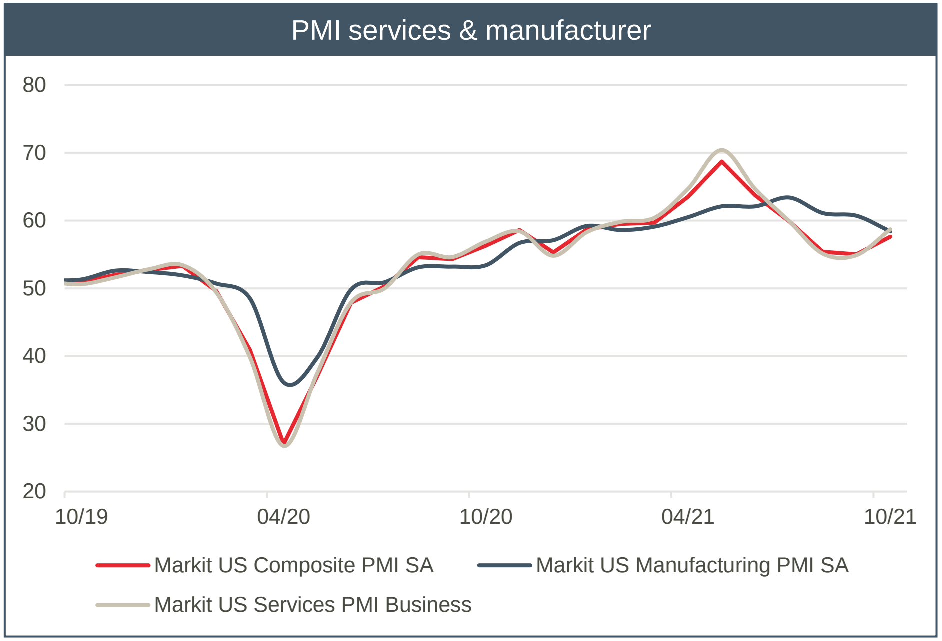


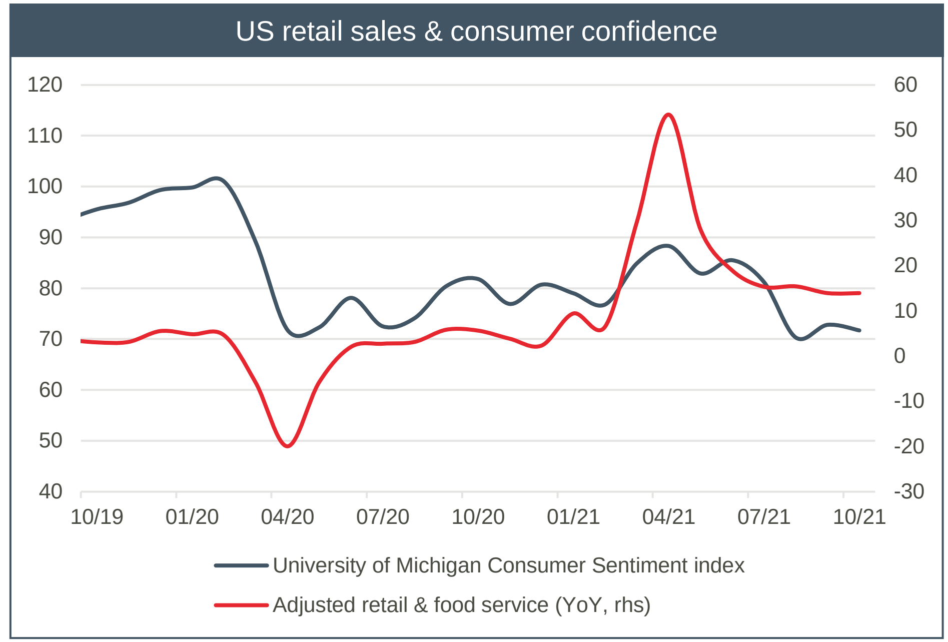
- Shipping freight indices show some silver linings as upward price pressure has significantly reversed during October.

Sources: ODDO BHF AM, Bloomberg, 10/29/2021

USA

Many crosscurrents





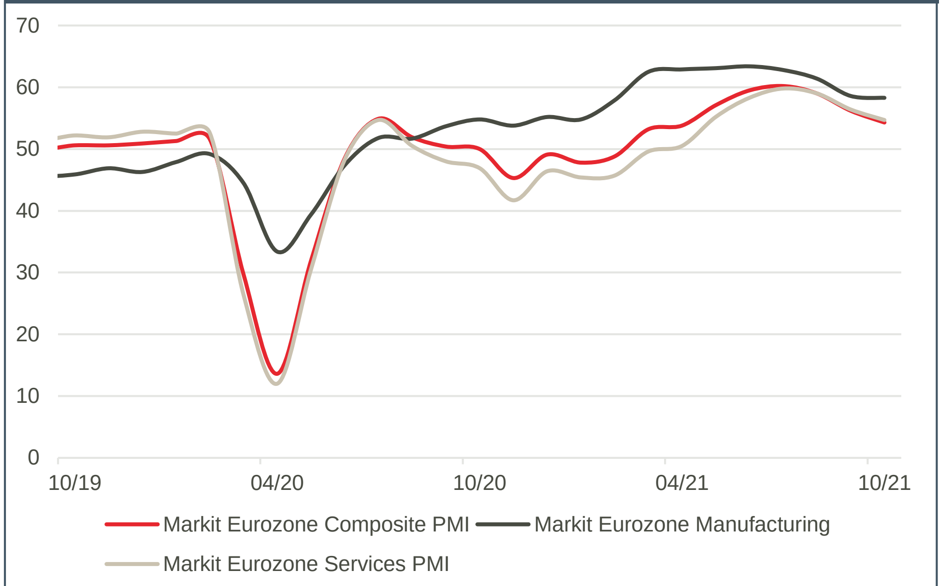
- Q3 GDP came in below expectations at 2% QoQ ar., but consumption was more upbeat.
- ISM relatively resilient to supply bottlenecks, but new orders with a negative surprise and prices paid up again.
- Moreover, record high supplier delivery times component does not signal any ease in supply shortages.
- Consumption should remain healthy thanks to receding covid infections and extremely high excessive savings for private households
- Q4 GDP is likely to see a rebound from the weak Q3 reading.

Sources: ODDO BHF AM, Bloomberg, 10/29/2021

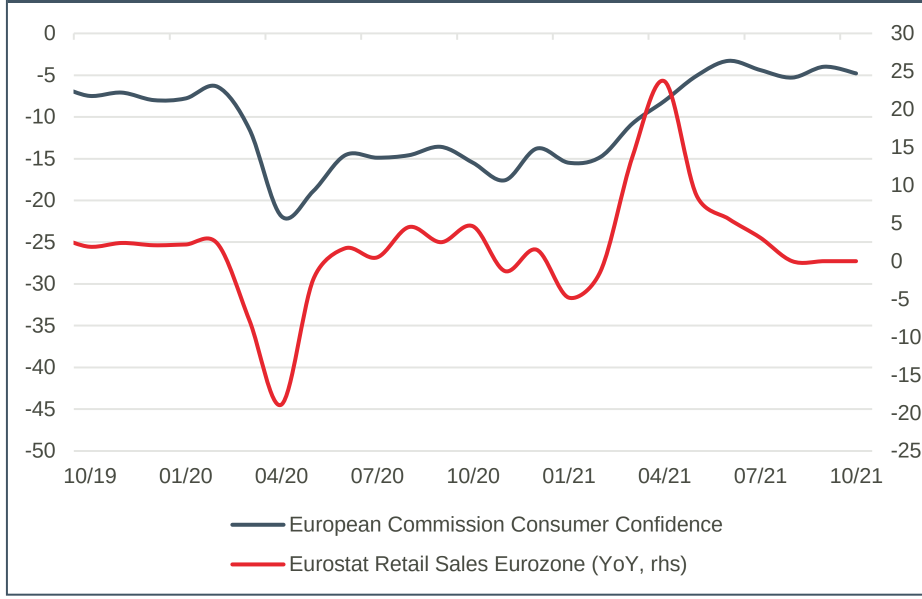
Europe

Speed bump ahead

PMI services & manufacturer



Euro Area retail sales & consumer confidence

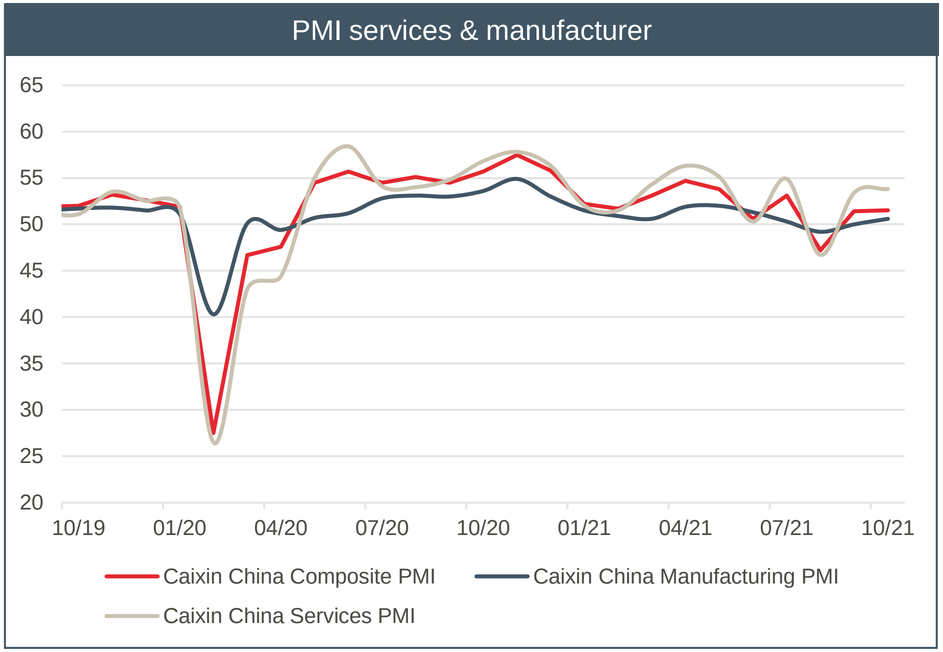


- While in the US covid is receding, the Eurozone is seeing possible slight reductions in mobility due to the building 4th wave in infections.
- Supply shortages are more persistent than thought and add to downside risks for Q4.
- Germany is being hit hardest, because the industrial sector is much more dominant than in the rest of the Eurozone.

Sources: ODDO BHF AM, Bloomberg, 10/29/2021

China

Deleveraging continues

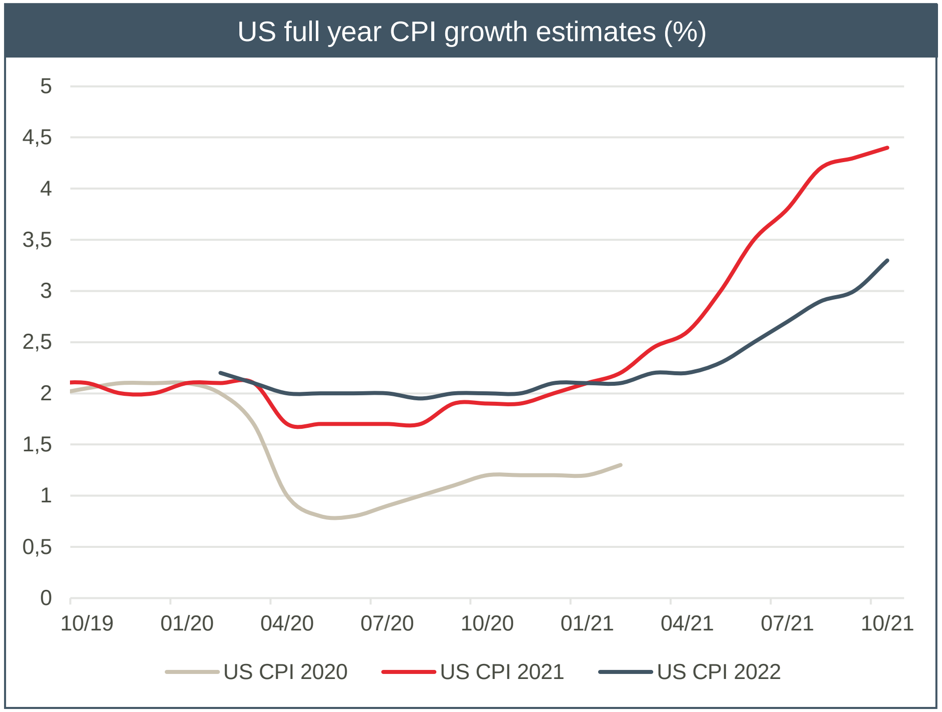


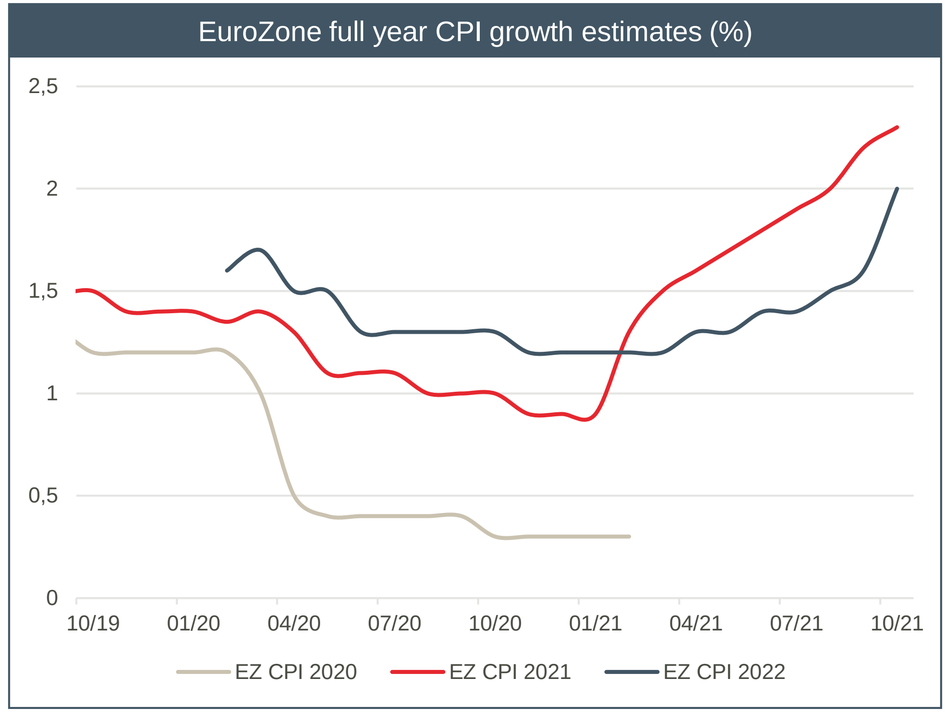
- Slightly diverging signals from October Chinese PMI.
- While the official composite figure slowed further to 50,8, the Caixin number edged marginally up to 51,5.
- Deflating the real estate bubble, while keeping growth dynamics intact will remain to be a delicate balancing act.
- Accommodative policy measures are likely if growth decelerates too much, but they will be relatively small in size.

Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 10/29/2021

Inflation expectations

Still anchored?





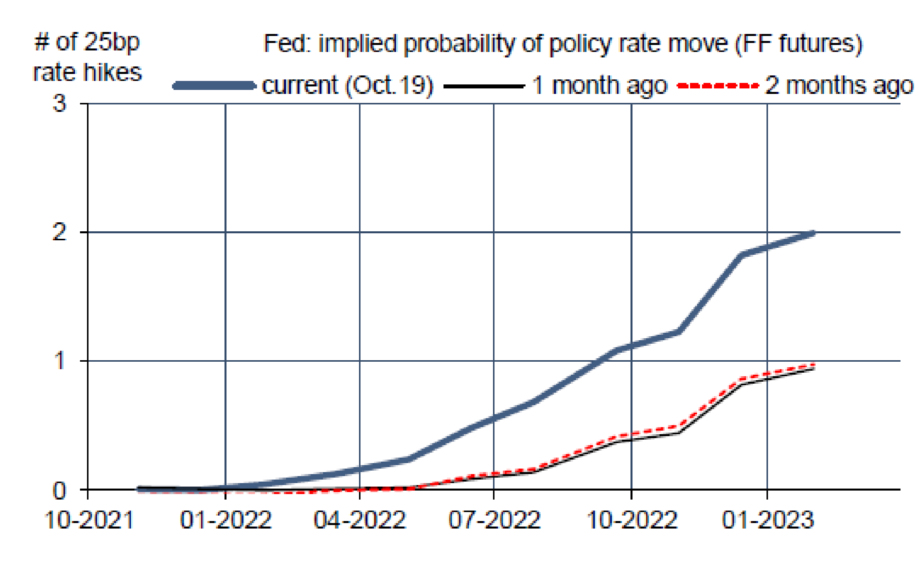
- Break-even rates for inflation linker declined markedly in early November, reflecting heightened expectations for earlier and more rate hikes.
- Household surveys signal high inflation expectations short-term, but still around historical norms in the longer tenors.

Sources: ODDO BHF AM, Bloomberg, as of 10/29/2021

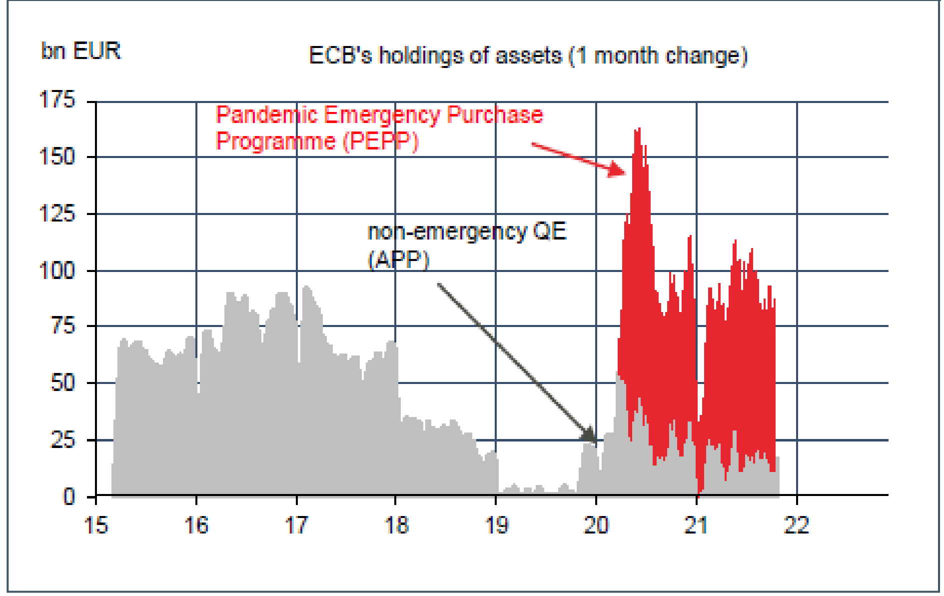
FED & ECB policies

Central Banks getting serious

FED monetary policy



ECB: net purchase of assets under PEPP (1 week change, bn€)



- Markets have brought forward rate hikes for the Fed and ECB in the wake of early movers like the BoC, Norges Bank, RBA or most likely the BoE.
- Those hike expectations were a bit overdone at the end of October and have since receded, given more dovish statements from the Fed and the Bank of England.
- The Fed tried to struck a more balanced approach at its meeting, as it still relies on the transient nature of the inflation spike, while acknowledging also structural forces.
- Fed tapering to end mid 2022, followed probably by two rate hikes until the end of 2022.
- ECB left the hard part for the December meeting, but we expect it to announce a further reduction in PEPP and increase of APP after PEPP stops in March and moreover, to again push back rate hike expectations for 2022.

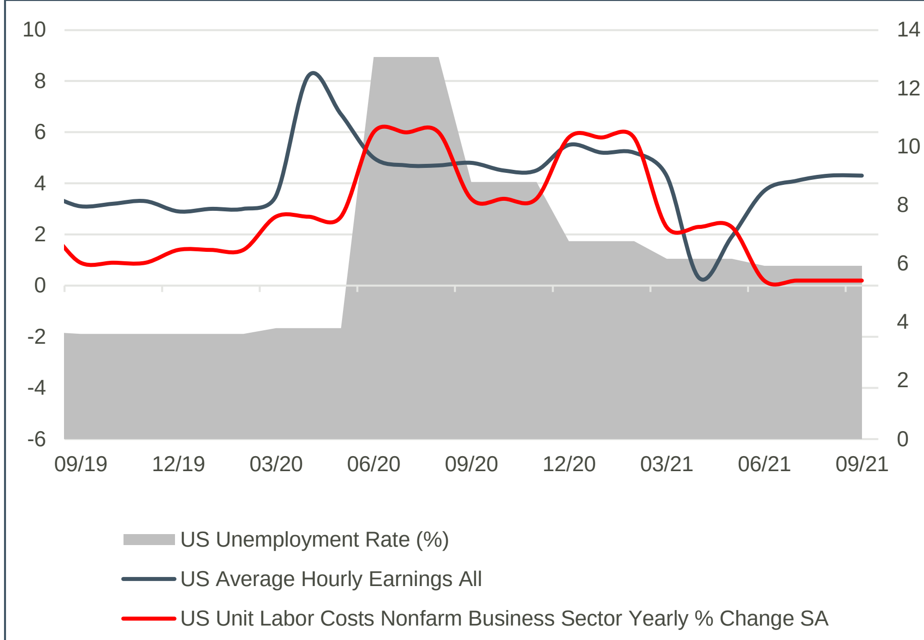
Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg, data as of 10/29/2021

US job market

The Fed`s big gamble

Employment and business climate

Employment and Unit labor costs



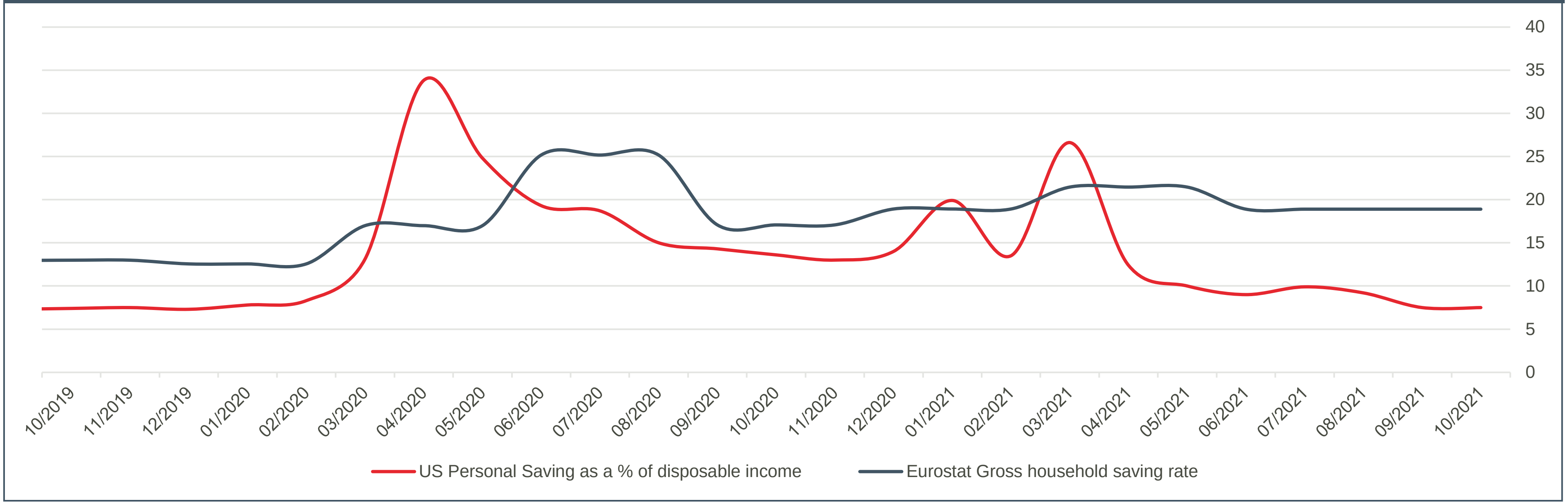
- Improvement in job creation is so far underwhelming, despite record high job openings and quit rates.
- Participation rate should increase over coming months, but fall short of the pre-covid level.
- That could lead to higher wages across the board and would question the transitory inflation narrative of the Fed, unless productivity gains increased markedly.

Sources: ODDO BHF AM SAS; Bloomberg Data as of 10/29/2021

Savings

A lot to spend

Households saving rates – US vs Europe



- US households have accumulated 2.2 tr since the start of the pandemic thanks to fiscal transfers.
- In the Eurozone the savings rate hovers around a stunning 18%.
- Those healthy household balances should support demand for quite some time.

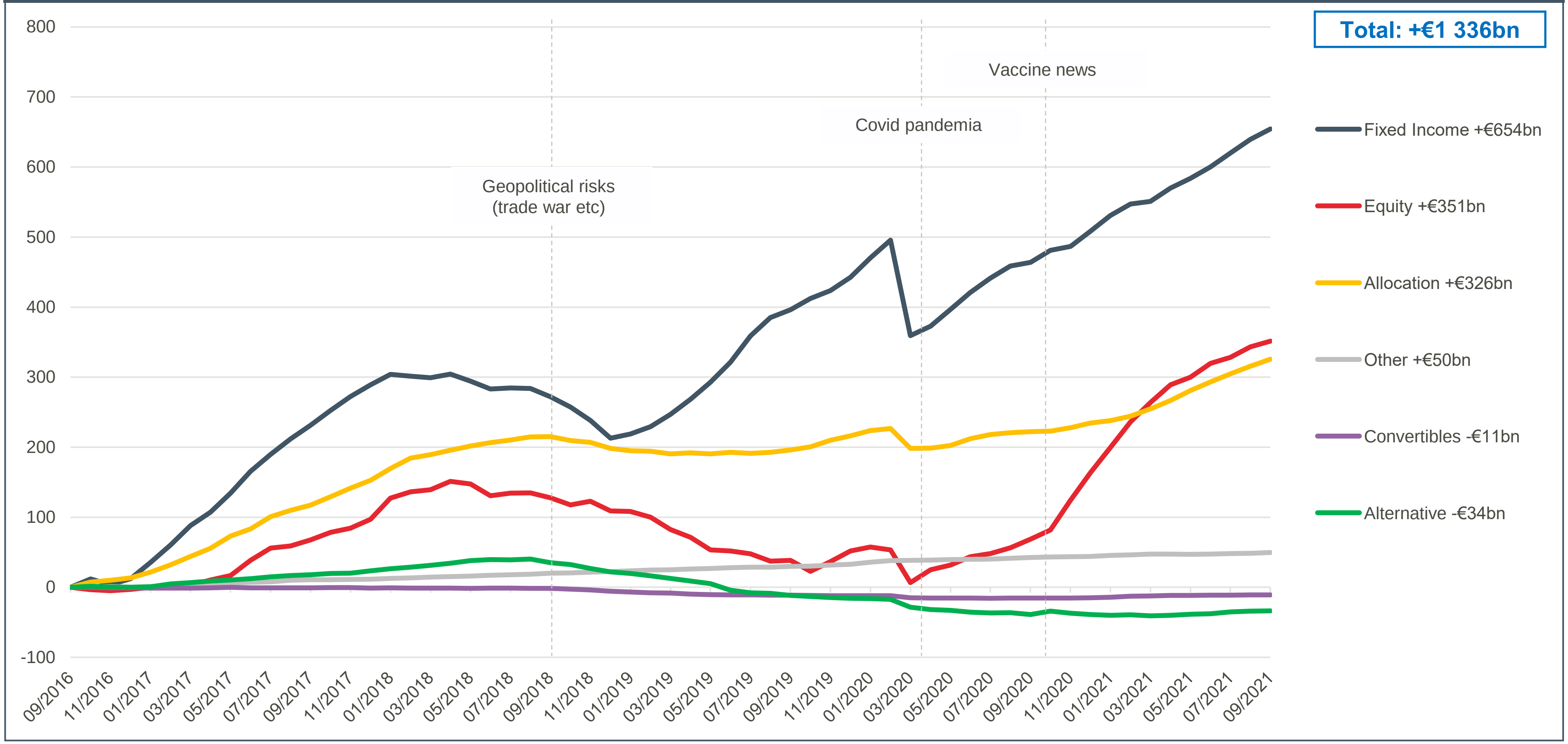
Sources: ODDO BHF AM, Bloomberg, datas as of 10/29/2021

02 MARKET ANALYSIS

European mutual fund flows – 5 years trend

Equity inflows remain strong

European mutual funds: 5 years cumulative fund flows (€bn)

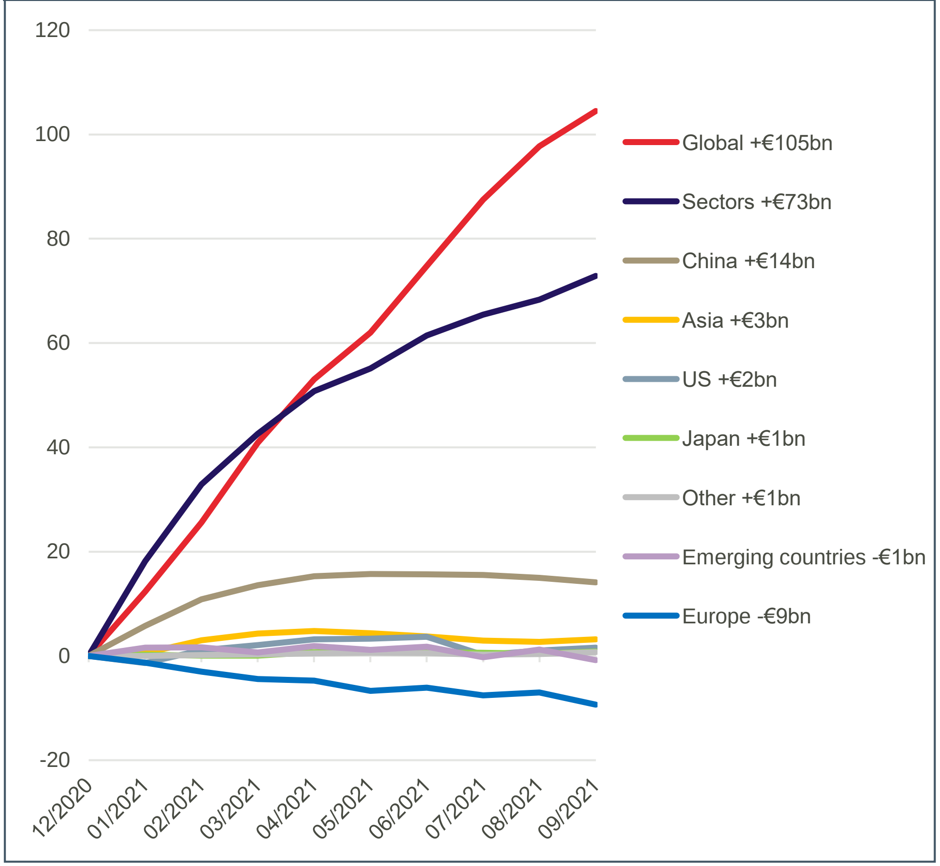


Source : Morningstar. Data as of 30.09.2021 (Europe OE ex ETF ex MM ex FoF ex Feeder (domiciled, most compr.)

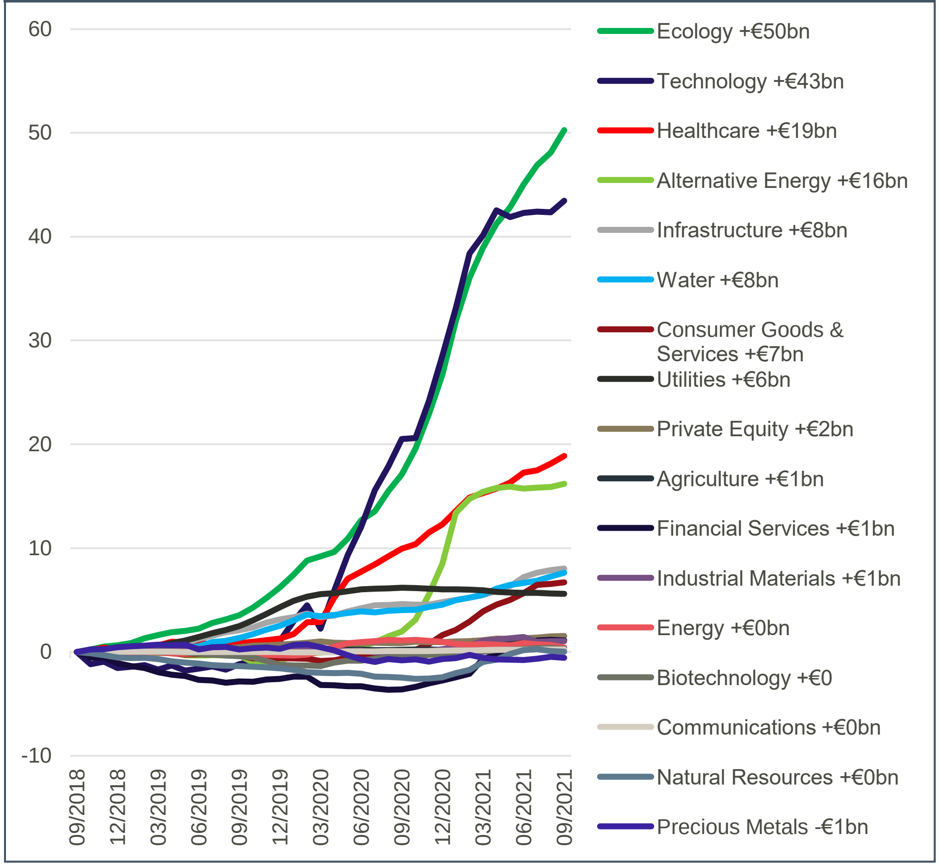
European mutual fund flows – equity flows

Europe and Emerging Markets have decoupled from the inflow surge

YTD Cumulative flows by region



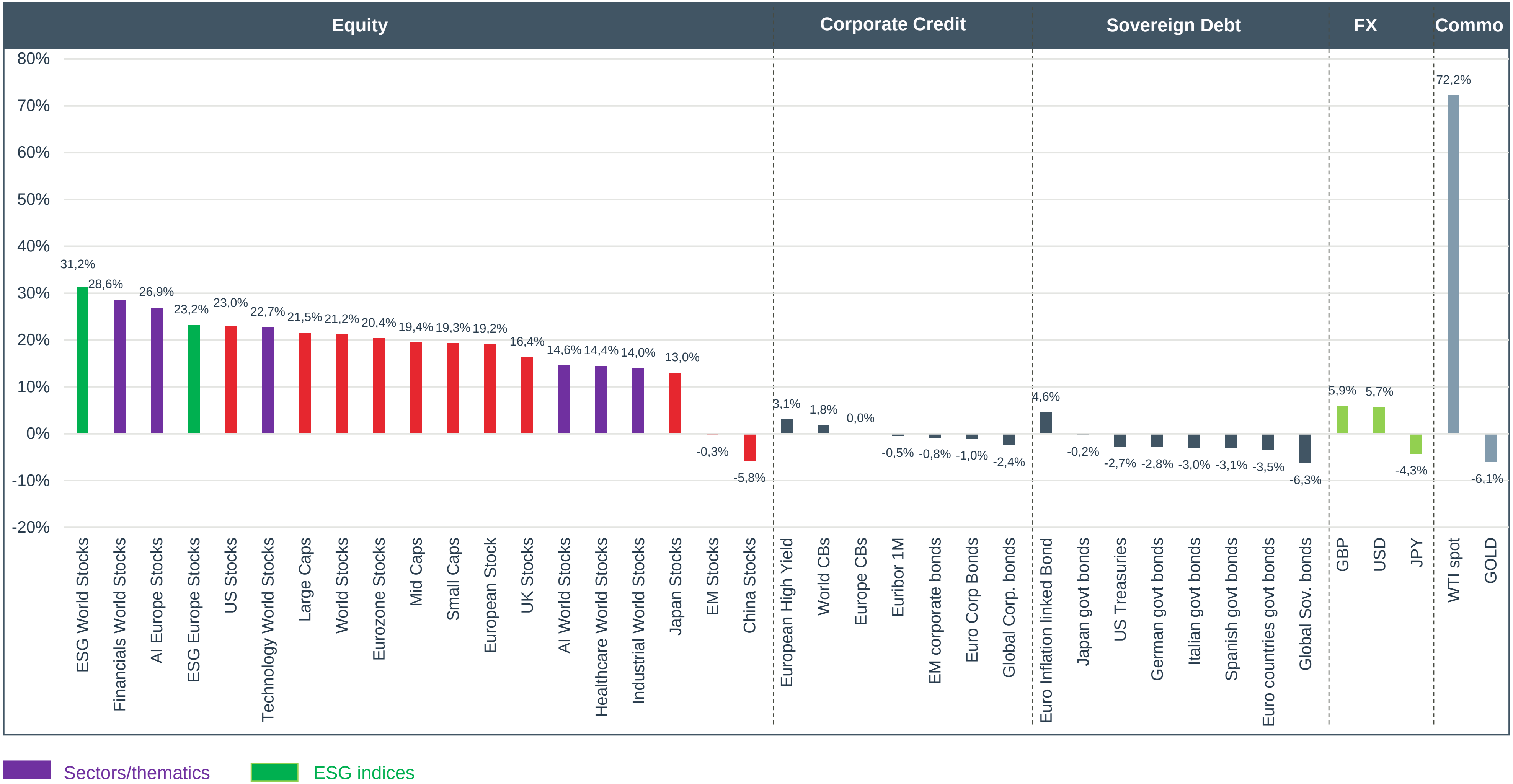
3 years cumulative net flows - sectors breakdown



Source : Morningstar. Data as of 30.09.2021 (Europe OE ex ETF ex MM ex FoF ex Feeder (domiciled, most compr.)

Year-to-date performances of asset classes

Equities take it all



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

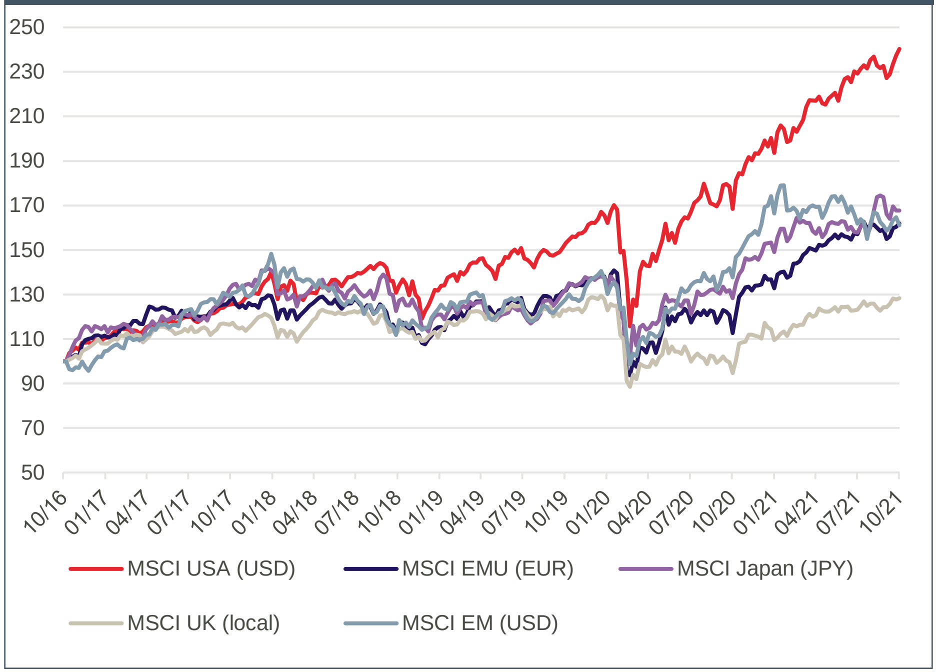
Sources: Bloomberg and BoA ML as of 10/31/2021; performances expressed in local currencies

EQUITIES

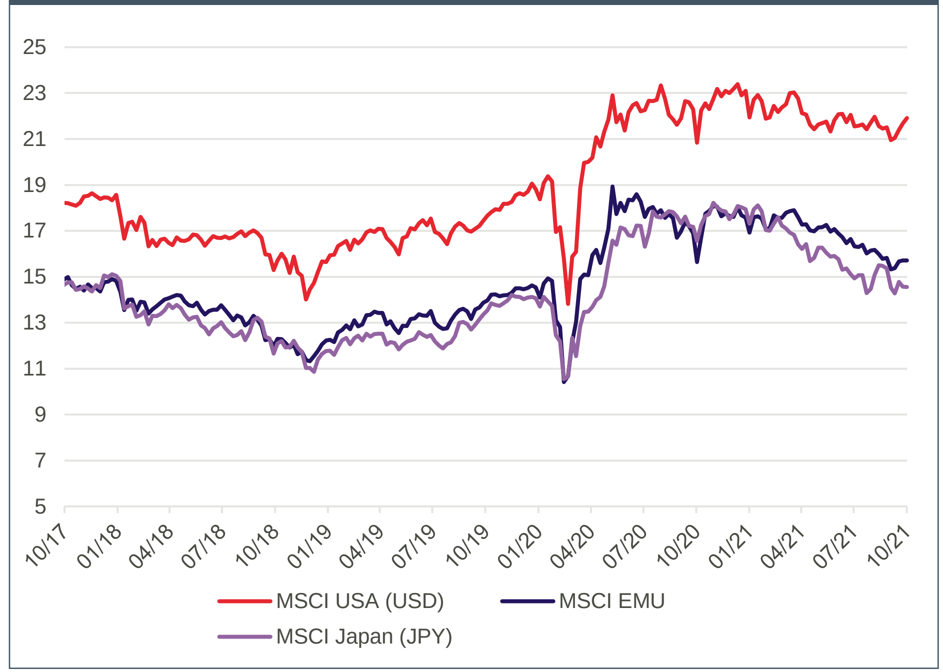
Equities

Equities keep on delivering…

5-year equity market performance



5-year price/earning ratio



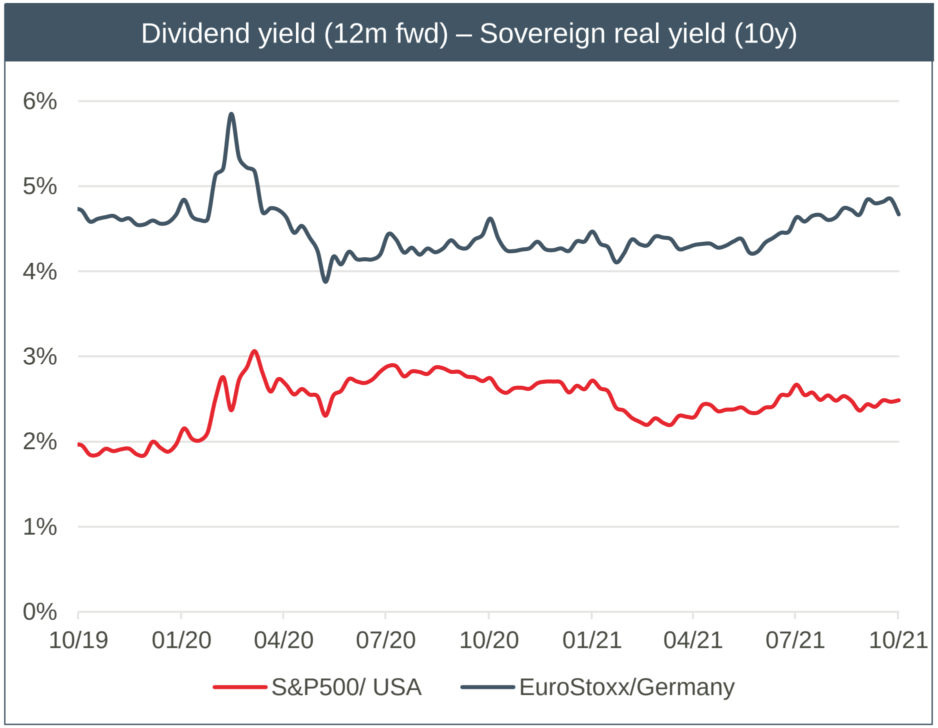
- Markets strongly rebounded in October. Led by US equity indexes, developed markets overperformed emerging ones.
- A fading JPY (-1.8% vs USD) was not enough to support Topix, which strongly underperformed (-2%, after a massive rally in September…)
- As US yields moved up a little bit more, but far less than expected inflation, real yield eventually moved lower; the longer part of the US curve also moved lower. Those two moves in the bond market provided support for growth and tech outperformance, as illustrated by Nasdaq (+7,4%) strongly overperforming the small caps of Russell2000 (+3.2%).

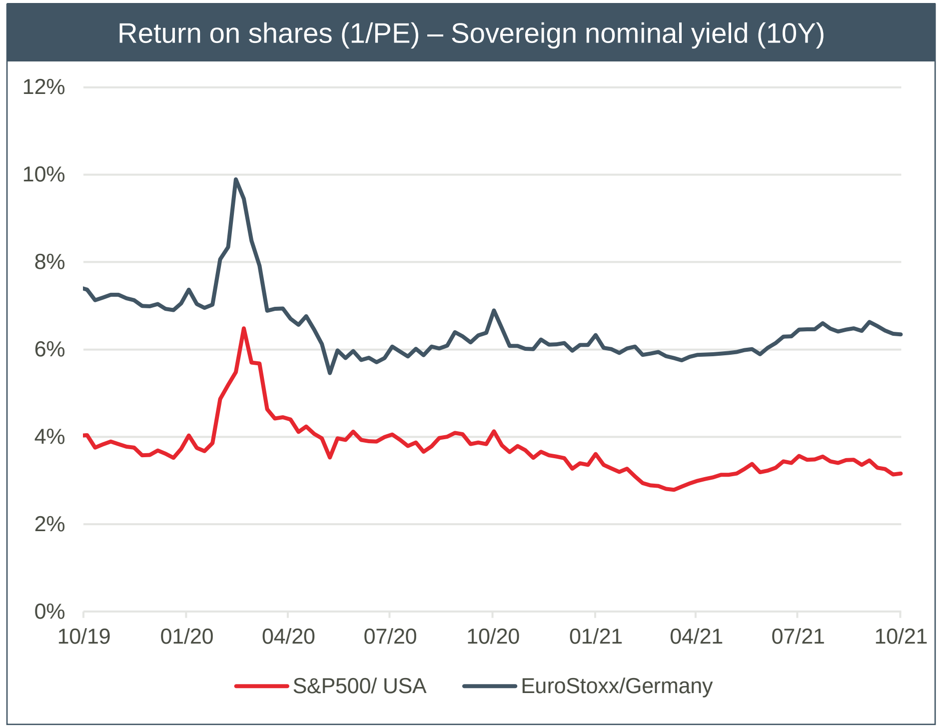
Past performances are not a reliable indicator of future performances and are not constant over time.

Source: Bloomberg, ODDO BHF AM SAS | Datas as of 10/29/2021

Risk premiums

Real yields matter…





- With US and German 10Y yield moving higher and equity indexes rebounding, risk premia may appear to have shrunk.
- But with implied future inflation jumping through the roof (at one point, 10 years ahead estimates reached 2.0% for Germany, 2.7% in the US and …4.2% in the UK) real yields are in fact stable or even lower through October, making equity still as much comparably attractive.

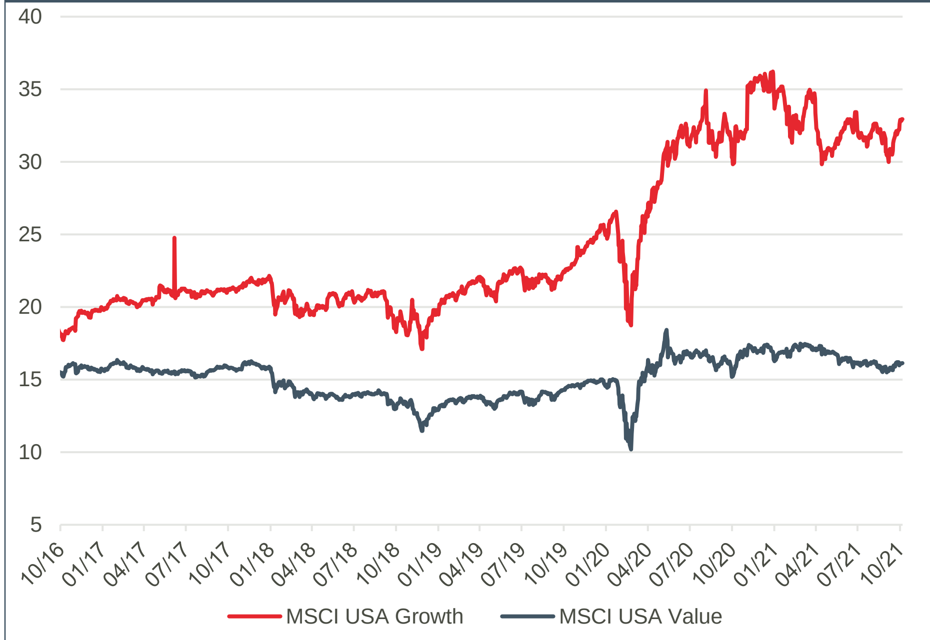
Past performances are not a reliable indicator of future performances and are not constant over time.
Source: Bloomberg, ODDO BHF AM SAS | Figures as of 10/29/2021

Equities performances – styles differential

US and Growth stocks back in the driving seat…

World equities factor performances

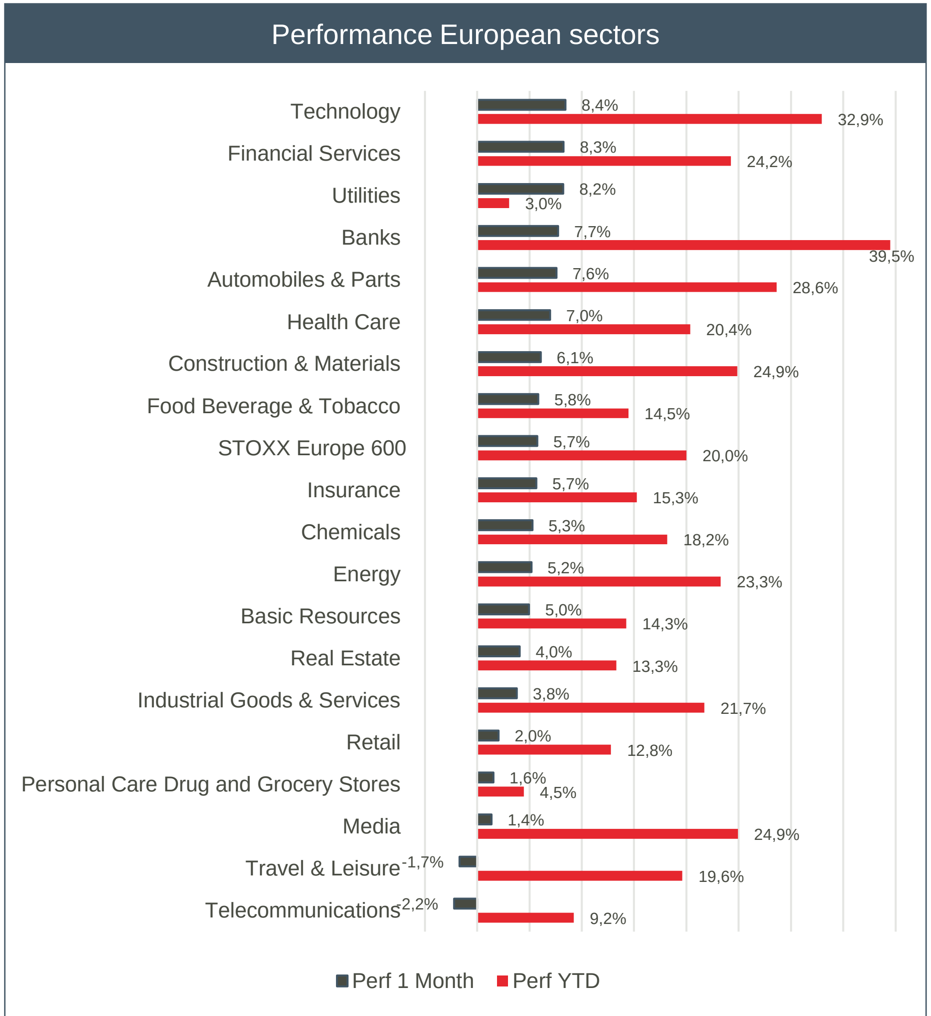
P/E differential growth vs value

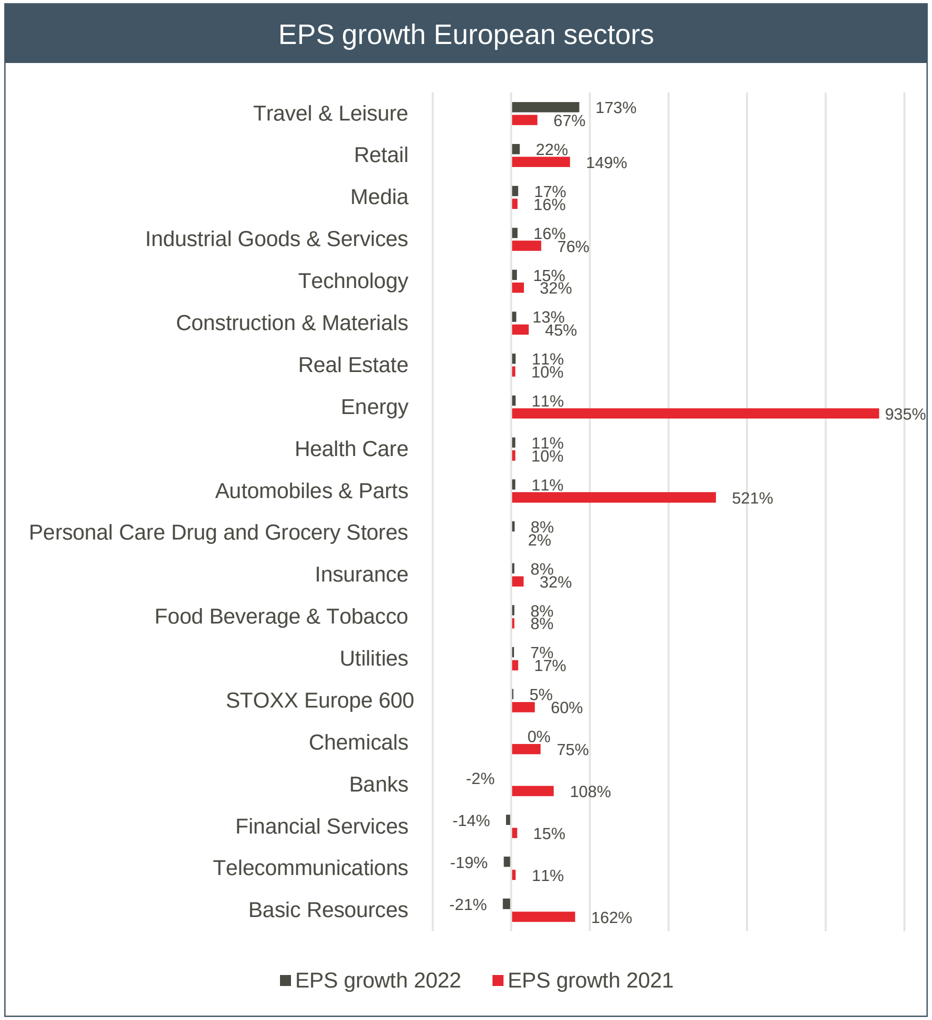


Sources: ODDO BHF AM SAS, Bloomberg | Figures as of 10/29/2021

European equities - sectors

Tech and financial services perform well in October



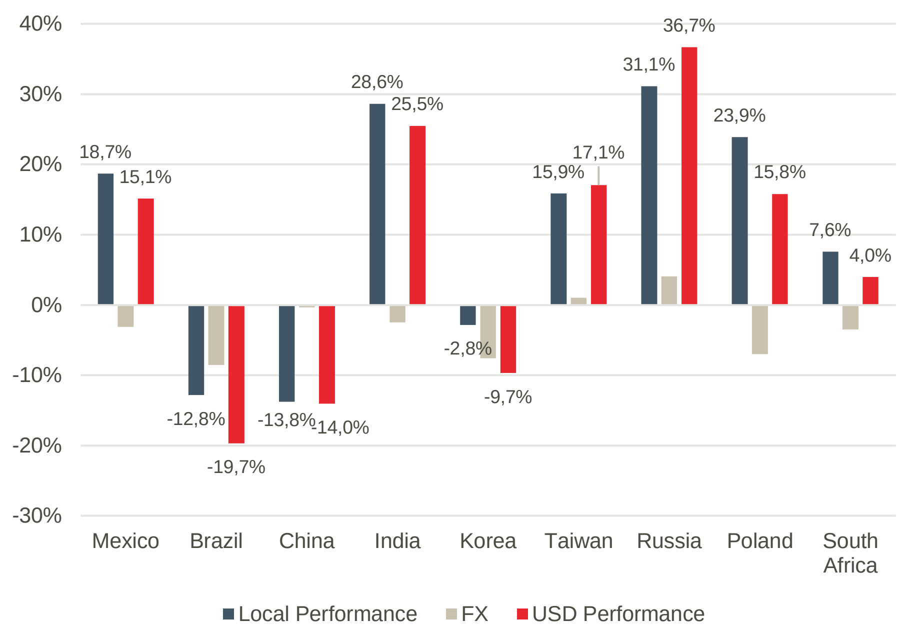


Source: ODDO BHF AM SAS, Factset, data as of 10/29/2021

Emerging markets

Cheap but waiting for the catalyst

Equities performance on major emerging markets

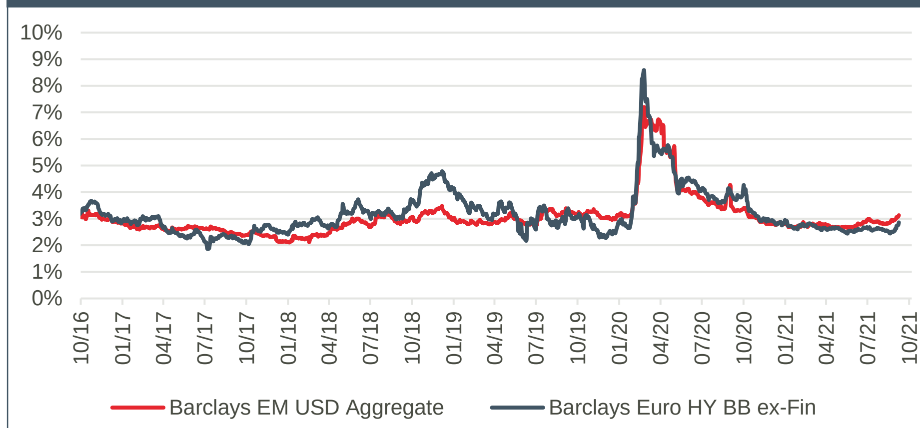


- Chinese stocks seem to stabilize, both A-shares and H-Shares
- Nice rebound for Jakarta(+7%) or Johannesburg (+5%)
- Brazilian assets prices kept on falling, with Bovespa crashing -7% (in BRL, which lost -4% more vs USD)

EPS (including losses) growth and PE (local currency)

Indices	PE 12m fwd	2020 EPS growth	2021 EPS growth	2022 EPS growth	Dividend yield
MSCI EM	13,3	-17%	63%	6%	2,8%
MSCI CHINA	14,7	-9%	12%	16%	1,9%
MSCI KOREA	10,1	5%	117%	-4%	1,9%
MSCI INDIA	25,7	-27%	92%	18%	1,2%
MSCI INDONESIA	18,3	-30%	28%	20%	2,7%
MSCI PHILIPPINES	22,1	-52%	58%	27%	1,6%
MSCI MALAYSIA	15,1	-26%	45%	5%	3,9%
MSCI RUSSIA	7,0	-60%	163%	3%	7,8%
WSE WIG INDEX	11,8	-33%	158%	-6%	2,7%
MSCI TURKEY	5,6	5%	91%	9%	7,5%
MSCI SOUTH AFRICA	10,0	-9%	82%	10%	4,6%
MSCI BRAZIL	6,5	-40%	220%	-14%	7,9%
MSCI COLOMBIA	10,2	-77%	266%	21%	3,1%
MSCI MEXICO	14,8	-50%	140%	5%	2,9%

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



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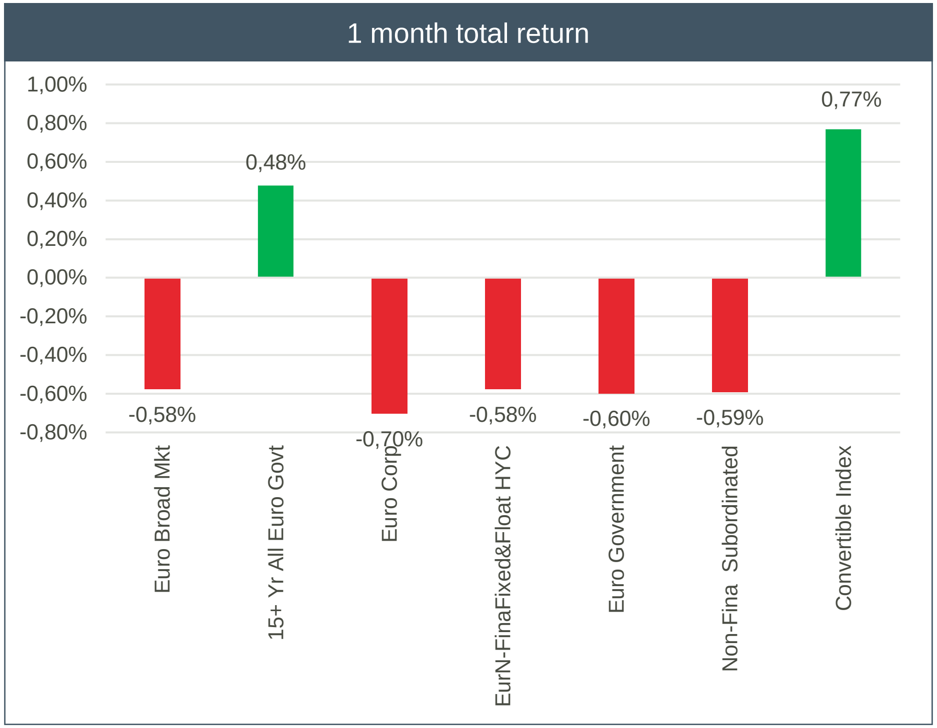
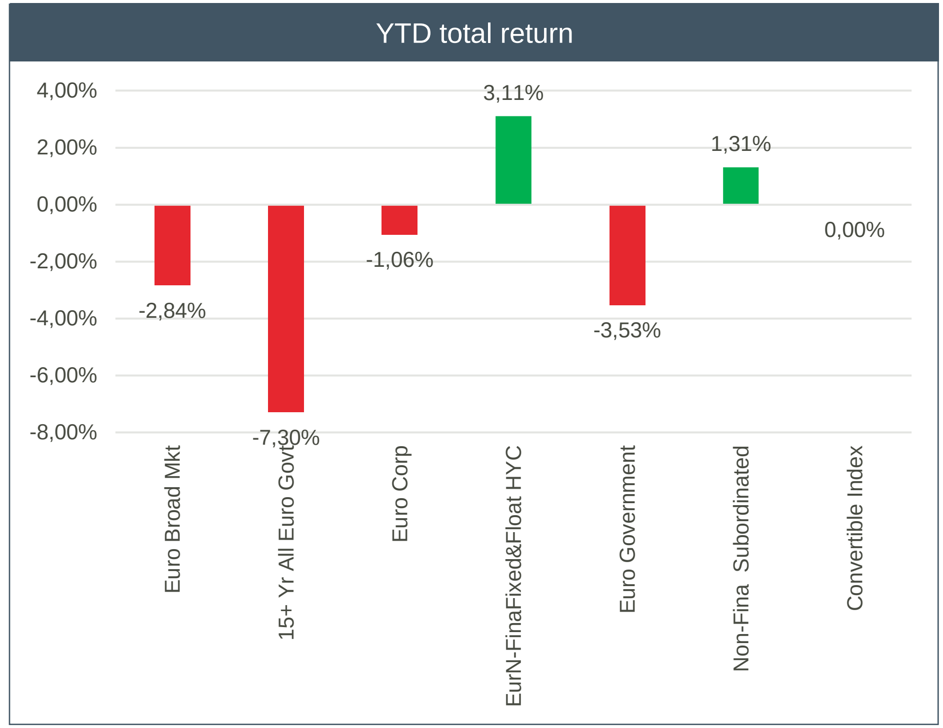
Sources: Bloomberg, ODDO BHF AM SAS | Data at 10/29/2021

FIXED INCOME

Performance fixed income segment

Pressure remains





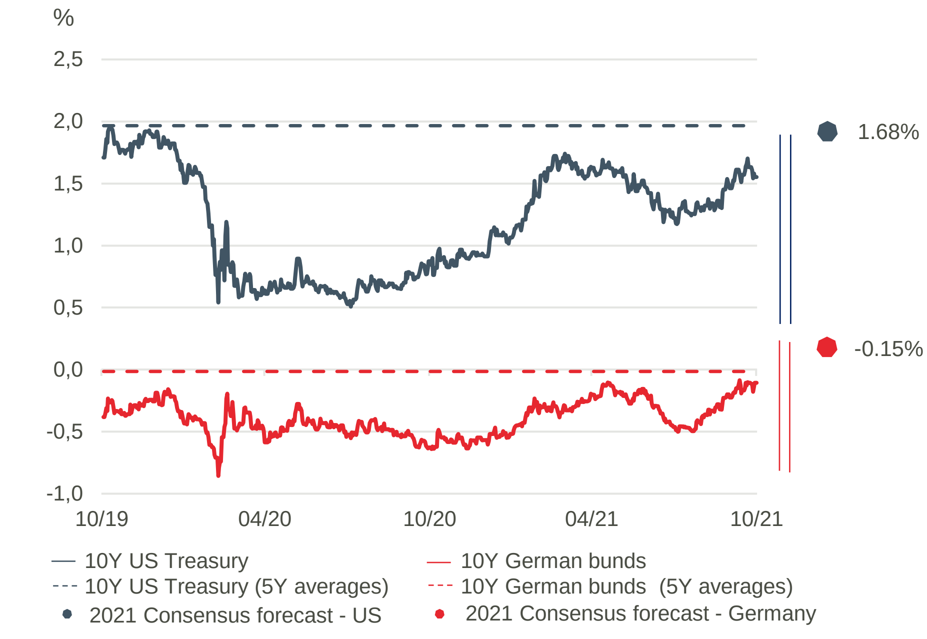
- In October, very long Government bonds had the upper hand with even positive performances.
- However, spreads in corporates and peripheral bonds widened and the short-end of yield curves came under meaningful upside pressure, resulting in a very poor month for most fixed income investors.

Source: ODDO BHF AM, Bloomberg, data as of 10/29/2021

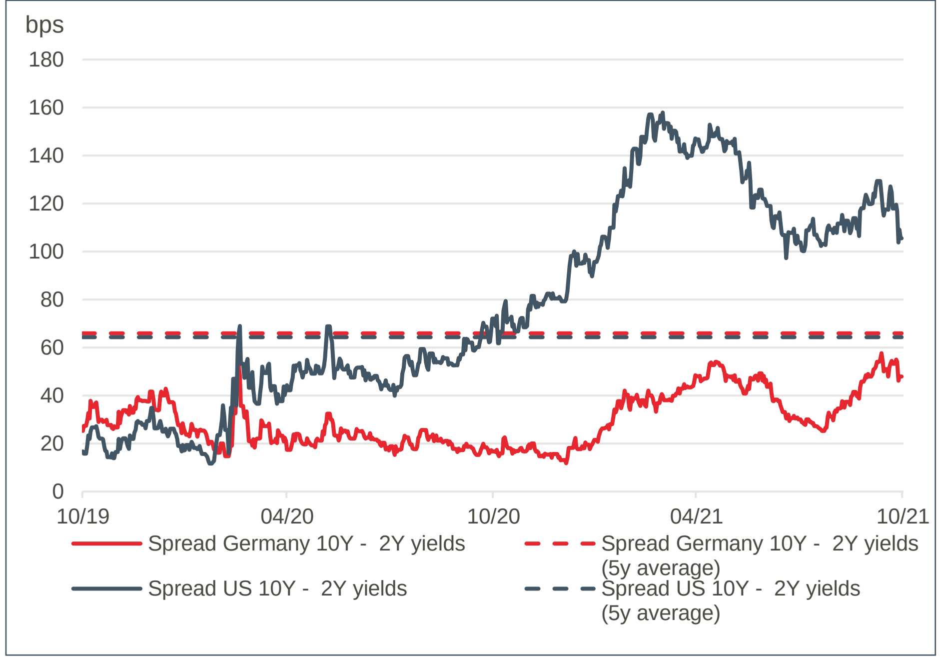
Rates

Curve gyrations – signal or just noise?

German & US 10-year bond yields (over 2 years)



German & US 2 year – 10-year yield curve (over 2 years)



- Volatility in fixed income has increased markedly over October.
- The most dramatic move was a sharp uptick in short end yields, while 30-year plus rates even declined.
- Although, a part of that flattening was attributable to technical and positioning factors, investors are increasingly nervous about possible policy errors of central banks
- Despite the recent resteepening in November, curves are likely to flatten again when taper and hiking cycles progress.
- 10-year Bunds may be temporarily supported by the current growth dent in Europe, cautious central banks and positive year-end technicals for Government bonds.

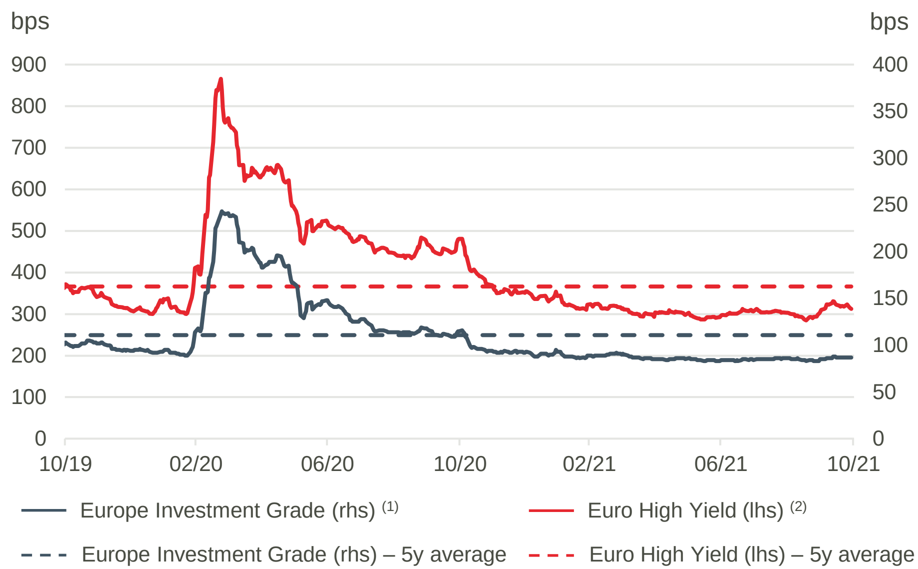
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast │Sources: ODDO BHF AM SAS, Bloomberg│LHS: Data as of 10/31/2021; RHS: Data as of 10/31/2021

Credit Spreads

Keep calm and carry on

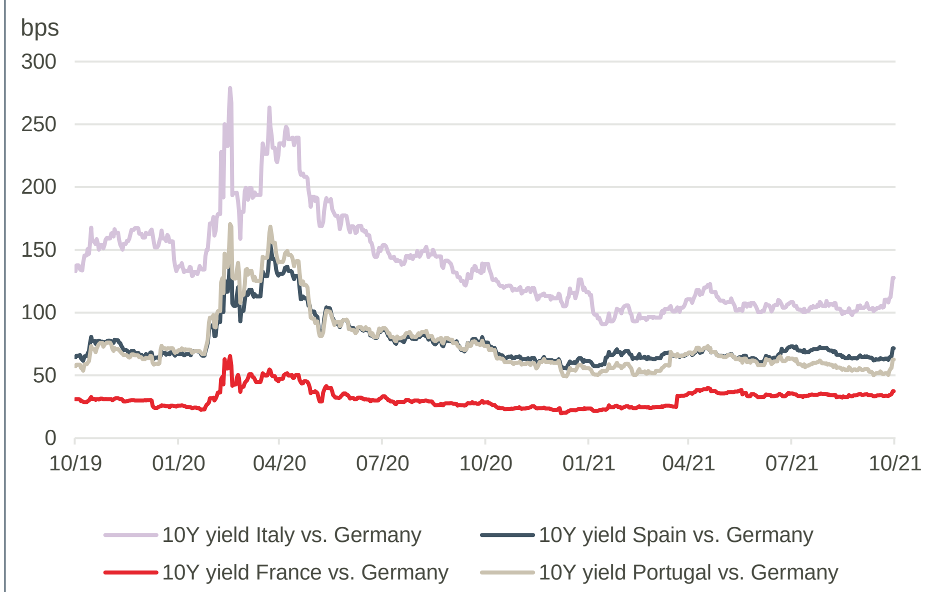
Credit spreads IG & HY (over 2 years)



(1) BofA Merrill Lynch Euro Corporate Index (ER00)

(2) BofA Merrill Lynch Euro High Yield Non-Fin. Constr. (HE00)

Main Eurozone country spreads (over 2 years)



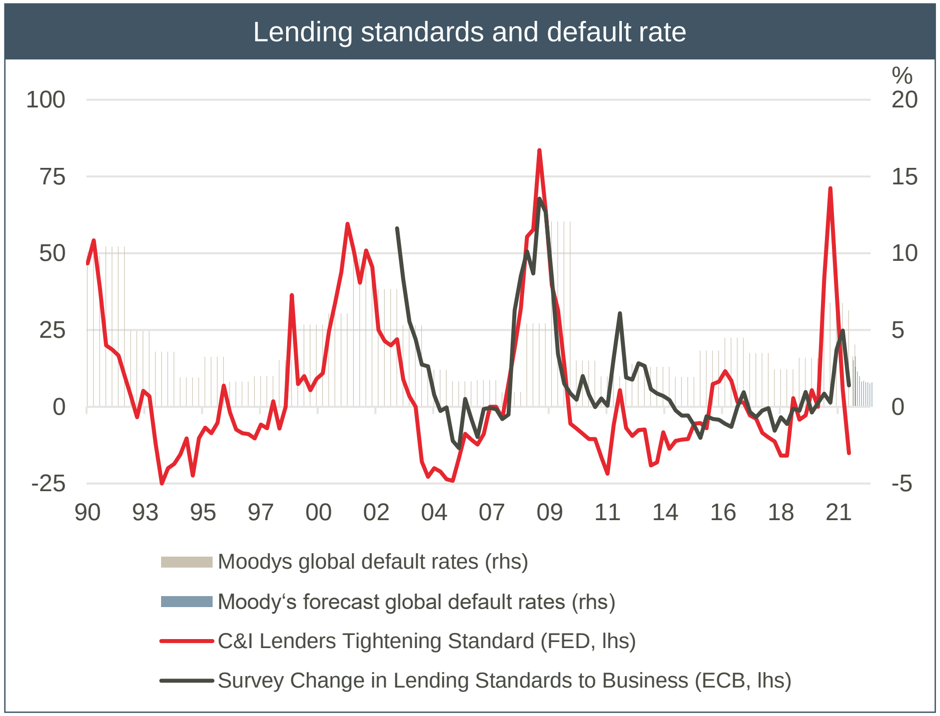
- Potential for spread tightening appears to be limited, but stronger widening also unlikely.
- APP increase with focus on corporate bonds should support spreads further.
- Strong investor demand with limited supply pressure and sound corporate balance sheets also quite positive.

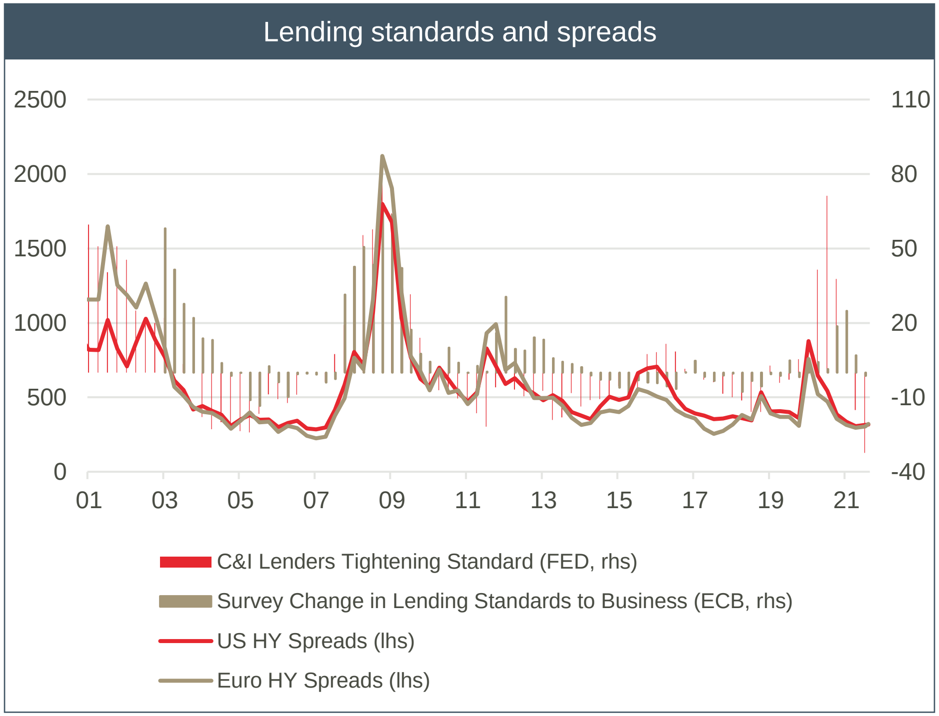
Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: ODDO BHF AM SAS, Bloomberg | Data as of 10/31/2021

Financial conditions

Still accommodating





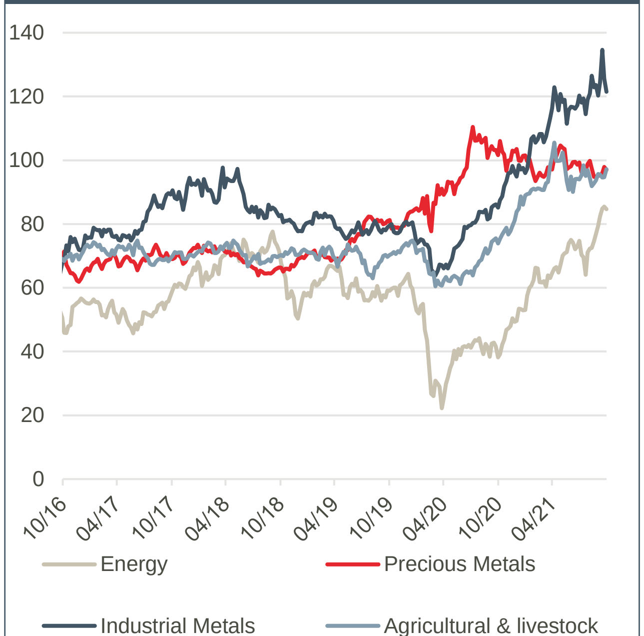
Source: Fed, ECB, Bloomberg | Moody's as of 09/30/2021, Lending Standard & Survey Change as of 09/2021, Spreads as of 10/31/2021

COMMODITIES & CURRENCIES

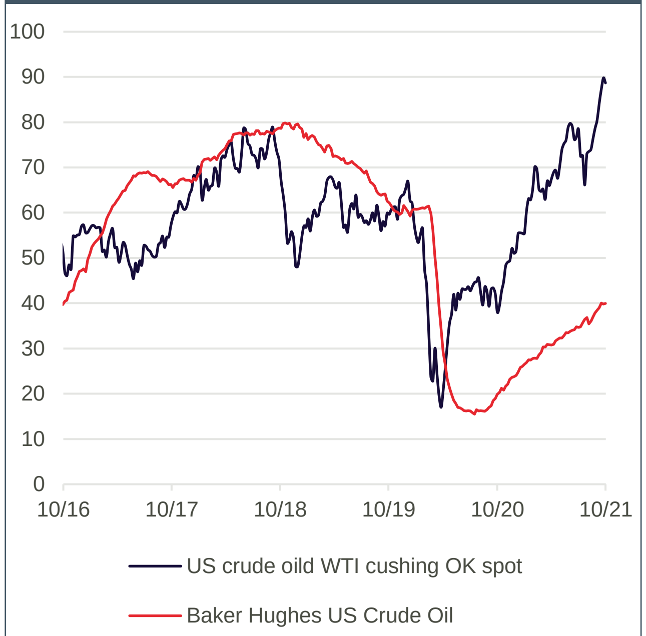
Commodities

Albeit a few months late, “peak inflation” seems to be nearing

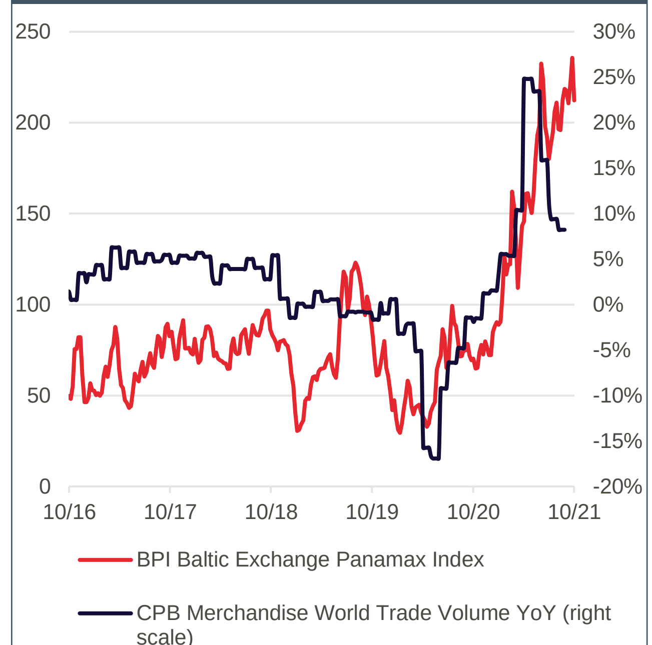
Metals



Oil



Freight



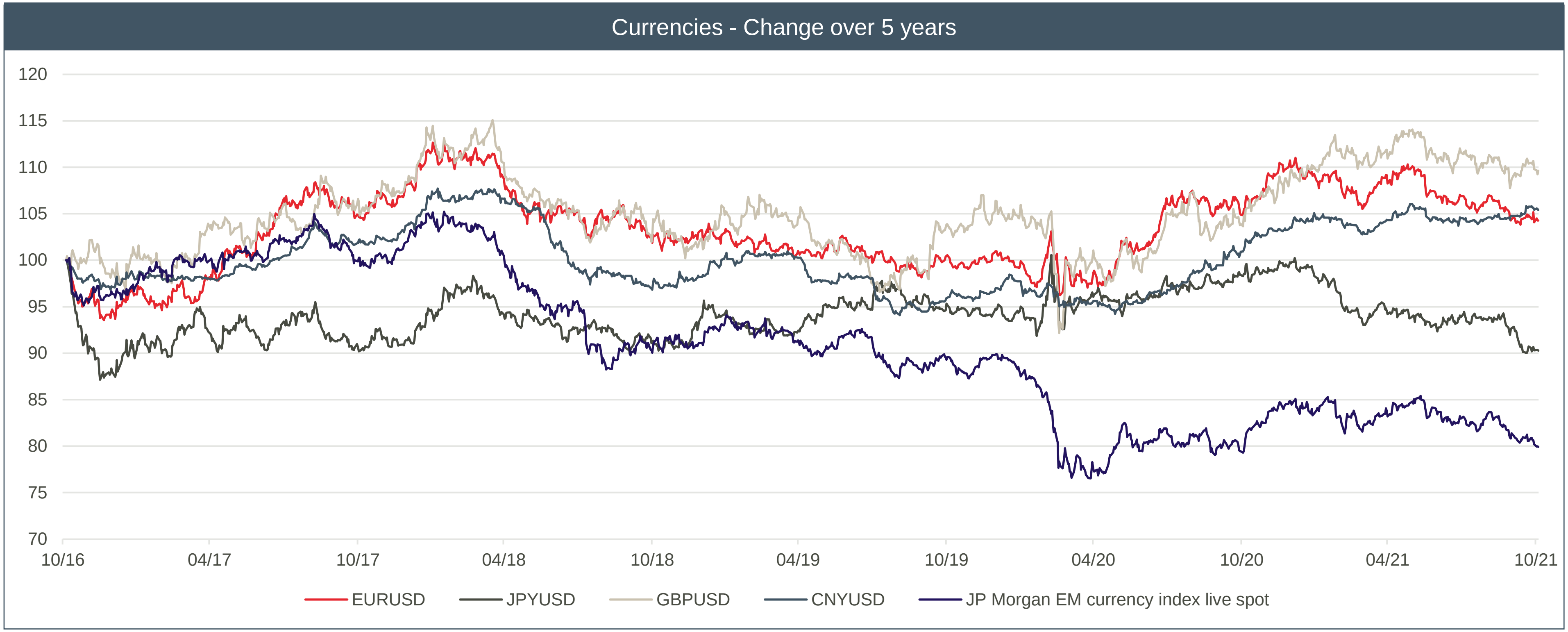
- Oil prices moved up as OPEC does not seem to increase quotas more than 400k extra b/day.
- In spite of significant spikes during the month, most industrial metals ended the month with prices quite close to the average seen since the summer.
- Freight cost indexes eventually stabilized in October.

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 10/29/2021

Currencies

All eyes on the FED



- Incoming tapering and fears of USD scarcity kept the greenback rallying slightly more vs major peers.
- Some developed currencies, mostly commodity exposed, managed to rebound vs USD (AUD +5%, CAD +3%)

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 10/31/2021

03 CURRENT CONVICTIONS

Scenarios

Our 6-month view

Central scenario:
Growth acceleration in Europe, peaking growth in the US while China slows down, still positive earnings momentum

70%

Europe
- Growth acceleration with vaccination rates outperforming the US
- Overall recovery lagging vs the United States, China, but GDP growth momentum is picking up in Europe while getting less in the US/China
- Positive corporate earnings momentum continues
- Fiscal and monetary policy will continue to support financial markets

US
- With economic sentiment, GDP growth and also inflation peaking, the management of growth normalization will be in the focus
- Corporate fundamentals strong with EPS upward revisions
- Fiscal support remains overall high, while lower household support should accelerate job creation in the next months
- Current monetary support might get less as tapering discussions started, but future rate hikes are decoupled from tapering

Assets to overweight
- Equities (focus on high quality cyclicals)
- Credit

Assets to underweight
- Sovereigns

Strategy
- Flexibility
- Hedging (options, gold,…)

Alternative scenario: Interest rate risk fueled by more persistent increase in US inflation and intensifying rate hike discussion

25%

- Wage growth and continuation of supply-demand imbalance resulting in broad based inflation increase
- Central banks' view of just „transitory" inflation increase is tested by the market
- Reduction of growth potential & pressure on equity valuations

Assets to overweight
- Inflation-hedged bonds
- Alternative strategies
- Cash

Assets to underweight
- Equities
- Core Sovereigns

Alternative scenario: Increase in protectionism from geopolitics and pandemia extension in EM

5%

- Geopolitical risks materializing
- China politics and corporate debt issues with increased negative effects on global financial markets
- Covid-19 surge in EM disrupting global supply chains and cooling down global economy

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 11/04/2021

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			0		
	Japan			0		
Convertible bonds	Europe			0		
	USA			0		
Currencies	USD / €		-1			
	YEN / €			0		
	GBP / €			0		
Commodities	Gold			0		
	Crude oil			0		

Change vs the previous month

Source: ODDO BHF AM, comments as of 11/04/2021

Our current convictions for each asset class

Government bonds	Core Europe	-1
	Peripheral Europe	-1
	USA	-2
Corporate bonds	Investment grade Europe	0
	Credit short duration	1
	High Yield Europe	-1
	High Yield USA	-1
	Emerging markets	0
Money market	Developed markets	0
Alternative assets	Private Equity	1
	Private Debt	1
	Real Estate	-1
	Hedge Fund	0

Change vs the previous month

Source: ODDO BHF AM, comments as of 11/04/2021

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 or 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.

Our latest publications

MONTHLY INVESTMENT BRIEF

October 2021 – Navigating a market in transition

July 2021 – Reflation in ambush!

June 2021 – A recovery whithout overheating

May 2021 – « Welcome to France! »

April 2021 – « Twist again »

March 2021 – The XXL Biden effect

Febrary 2021 – Destination rather than journey

MARKET VIEWS

August 23rd 2021: Bretton Woods, 50 years on: Gold, inflation and diversification

July 5th 2021 – China: stop or again?

June 21st 2021 – Bitcoin: technological innovation or pure hype?

May 17th 2021 - When the chips are down

May 3rd - SPACs: Opportunities and risks for investors in Europe

April 8th 2021 - Covid 19 crisis: impacts on listed real estate

March 22nd 2021 – Sugar Rush

March 9th 2021 - How should investors react to the rise of long-term rates?

February 9th 2021 – Will inflation pick up in 2021 in Europe and the United States?

INVESTMENT STRATEGIES

September 2021 – « Breathless? »

January 2021 – Re-opening

SUSTAINABLE INVESTING

Sustainable investing - ODDO BHF AM's approach

Basics of Sustainable Investing

White paper – The ecological transition: a sustainable investment opportunity

White paper – Human Capital – a factor or resilience and differentiation

ESG: the key to unlocking opportunities in Small Caps

VIDEOS

#Moments - ODDO BHF Polaris Range - ODDO BHF AM

#Moments - ODDO BHF Green Planet: the ecological transition, a sustainable investment opportunity

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