

May 2019

So, patience is the watchword, in one direction or the other. Value has seldom been created by rushing in or out.

In recent days, Mr. Trump's threats to break off negotiations and the rolling out of tariff hikes have called into question the upward trend that began at the beginning of the year. The escalation in the Sino-US trade war is a serious threat to markets.

Apart from this significant risk, the macroeconomic environment has evolved favourably so far. Thus, since the beginning of the year, we observe:

More dynamic global growth is likely to strengthen even more with a stabilisation in the manufacturing sector, albeit with continued regional differences.

1. Fed efforts to stop the withdrawal of liquidity and to cap dollar-financing costs promoted the carry trade and risky assets, as it generally happens.
2. Global exports decelerated less, which was crucial for the global economy and earnings.

While an agreement is still more likely than not, we are trading on risk asymmetry and holding onto a neutral position in risky assets. In the meantime, we are not standing idly by and are adjusting our portfolios to increased volatility:

- By taking profits on emerging equities and bonds (due to their heavy exposure to global trade);
- By moving to a neutral stance (we were underweighted) on European small cap equities with the decline in short-term political risk (with the Brexit deadline extended and only a limited threat from European elections);
- By expanding our allocation of quality bonds to exploit duration and still-attractive carry with a view to a possible rate cut linked to risk aversion.

We don't want to "de-risk" the portfolios at this point, but are preparing adjustments for each possible scenario:

**A: If trade talks are shut down, with an escalation in the trade war**

- We would sell all emerging positions
- We would sharply reduce our exposure to risky equities and high-yield bonds (with a target exposure of no more than 25%/30%)
- We would buy JPY and German government bonds

**B: If a Sino-US trade agreement is reached**

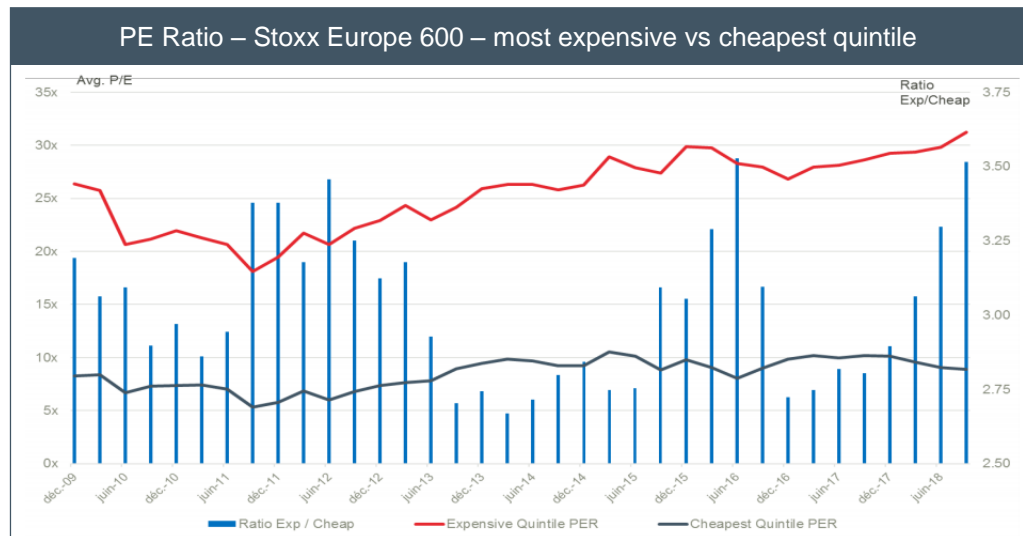
- We would buy European cyclical and value stocks
- We would buy emerging market shares, Asian ones in particular
- We would buy high-yield portfolios that overweight cyclicals (which are more exposed to B-ratings)
- We would short the USD vs. EUR even more

While the equity markets are no longer trading at a discount to their historical levels, there are still two types of upside catalysts:

- An upward revision in earnings-per-share forecasts, which, all other things being equal, have reached lows of 3.5% growth in the US and 4.5% in Europe for 2019;
- An aggressive rotation into value companies, which could benefit from a significant compression of multiples.

So, patience is the watchword, in one direction or the other. Value has seldom been created by rushing in or out.

# To deal or not to deal



Past performance is not a reliable indication of future returns and is not constant over time.  
 Source: ODDO BHF AM, Factset, data as of 31/03/2019



Current convictions

Macroeconomic analysis

Market analysis



# CURRENT CONVICTIONS

# 01



## Our 6-month view

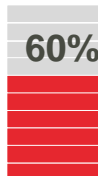
### Central scenario : Global growth stabilizing. US-China and US-EU trade tensions in the spotlight

#### Europe

- Economic slowdown expected to near the trough except for Germany
- Near-term political risks have been reducing (upcoming focus on the US-EU trade issue?)
- Accommodative monetary policy prolonged at least until 2020

#### US

- Economy still solid despite some headwinds
- Fed put interest rate hikes on hold, has to decide to be accommodative or restrictive depending on macroeconomic data
- Uncertainty coming from more protectionism and regulation



#### Assets to overweight



- Equities (neutral to constructive depending on region)
- Credit

#### Assets to underweight



- Sovereigns

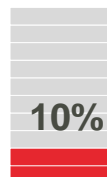
#### Strategy



- 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



#### Assets to overweight



- Inflation-hedged bonds
- Alternative strategies
- Cash

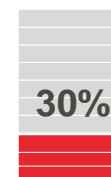
#### Assets to underweight



- Equities
- Core Sovereigns
- High Yield credit

### Alternative scenario: Increase in protectionism and contagion from emerging markets

- US-China trade war impacting global supply chains
- Geopolitical risks materializing (Emerging markets, Middle East...)
- China: risks of economic rebalancing
- Brexit: no deal



#### Assets to overweight



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

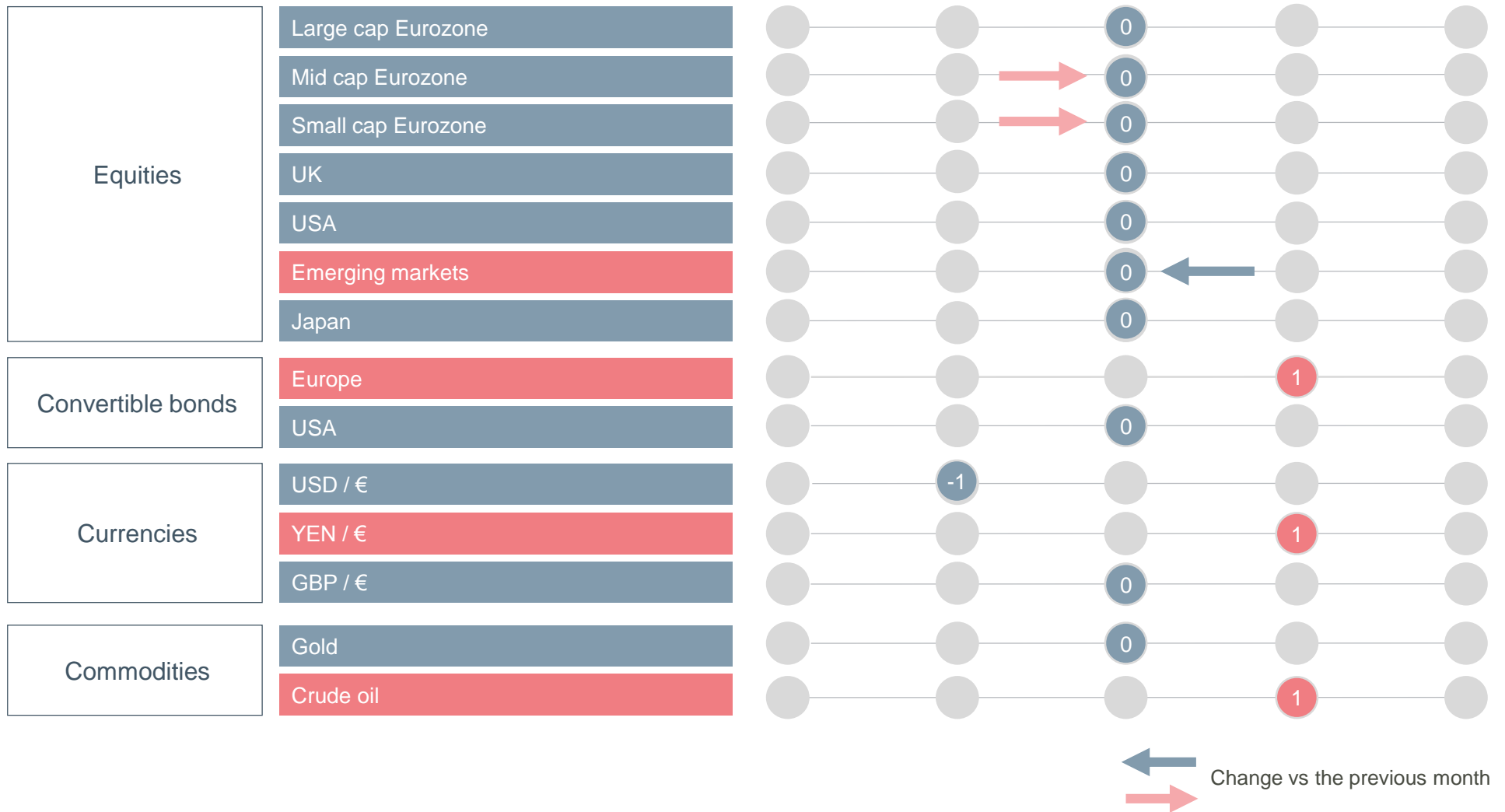
#### Assets to underweight



- Equities
- High Yield credit

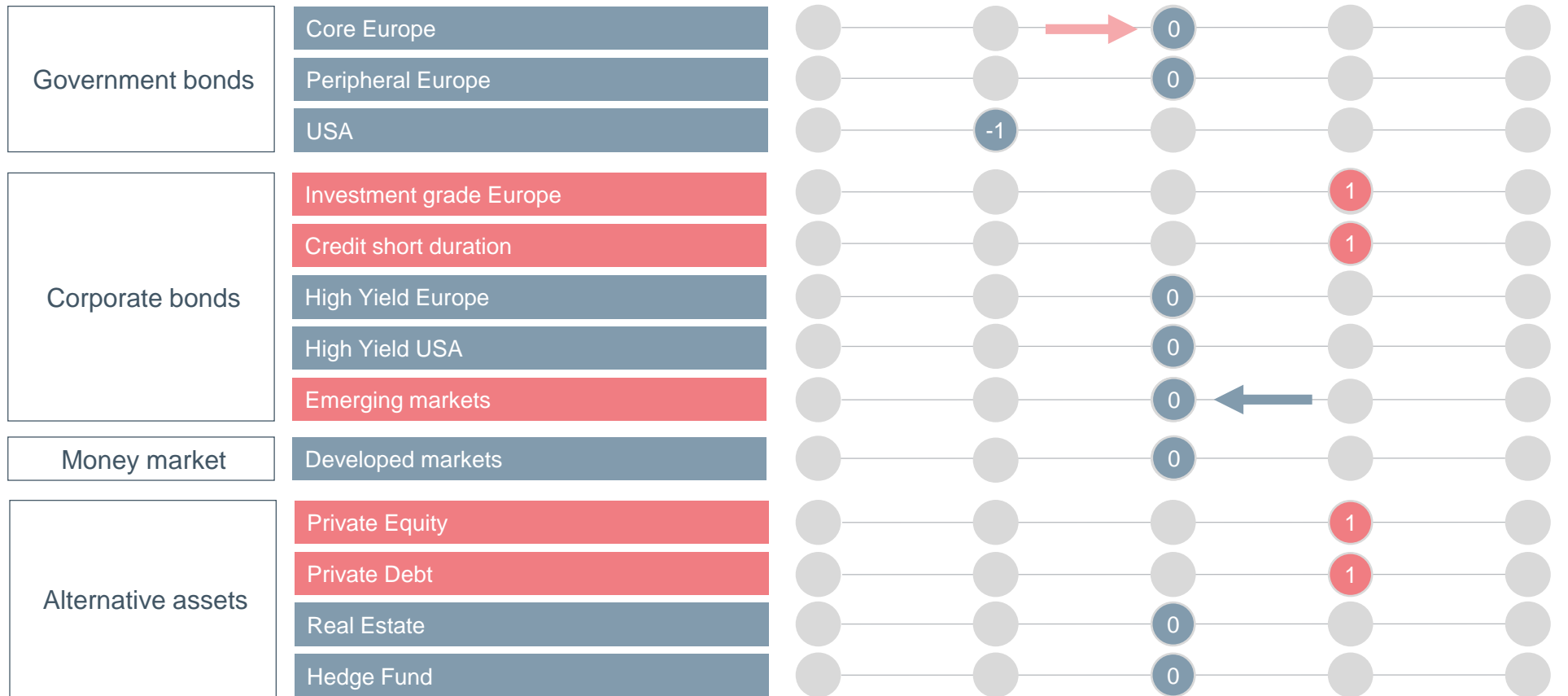
Comments as of 05/07/2019



# Our current convictions for each asset class



Comments as of 05/07/2019

# Our current convictions for each asset class



 Change vs the previous month  


Comments as of 05/07/2019

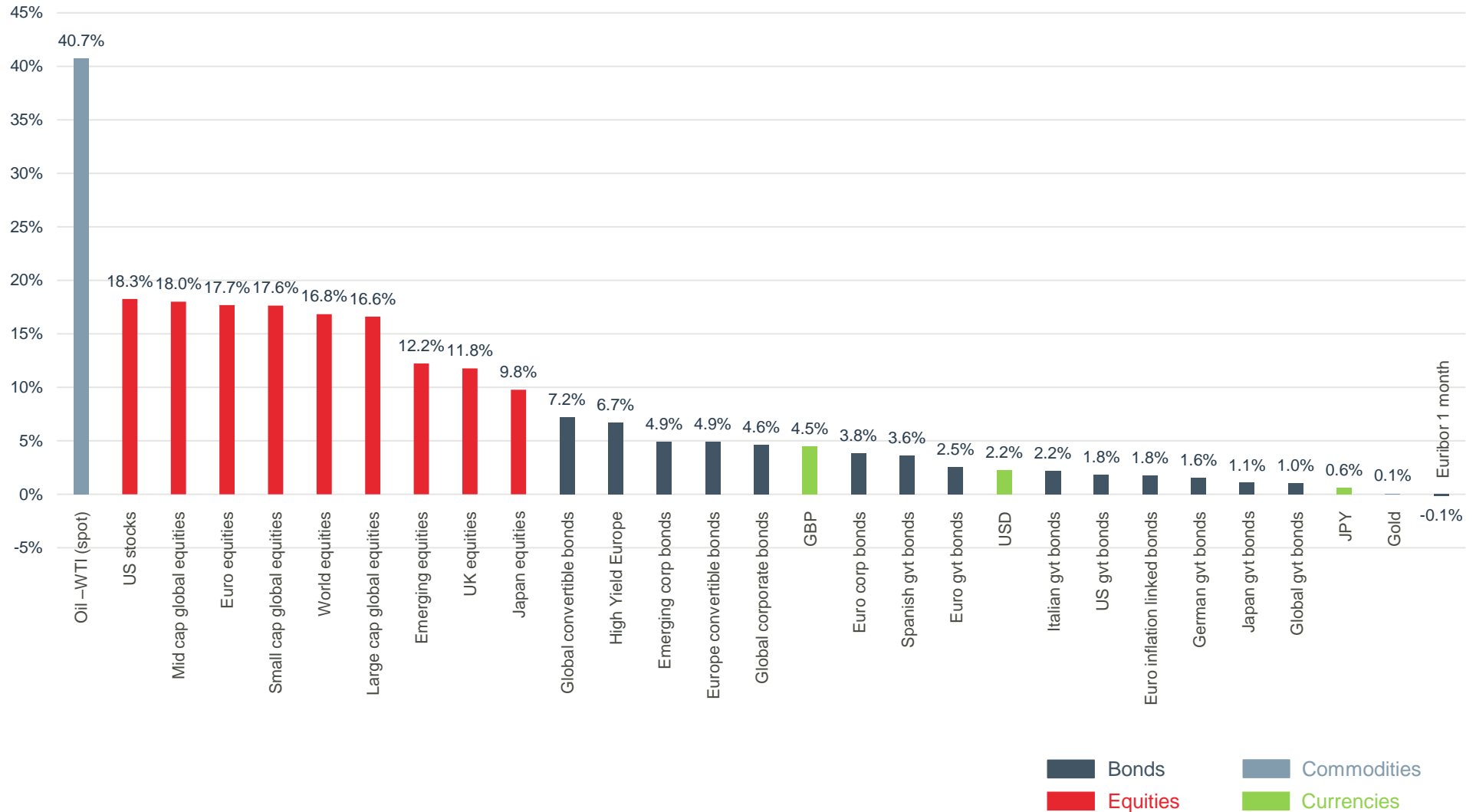


# MACROECONOMIC AND MARKET ANALYSIS

# 02



# 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 04/30/2019; performances expressed in local currencies

# Historical performances of asset classes



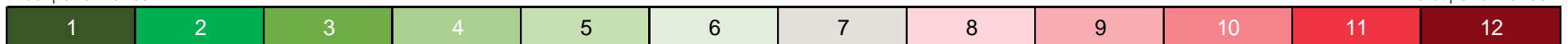
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
WTI spot	-53.5%	77.9%	15.2%	8.2%	-7.1%	7.2%	-45.9%	-30.5%	45.0%	12.5%	-24.8%	40.7%
US equities	-37.6%	26.3%	14.8%	1.4%	15.3%	31.8%	12.7%	0.7%	10.9%	21.2%	-5.0%	18.3%
Eurozone equities	-44.9%	27.3%	2.4%	-14.9%	19.3%	23.4%	4.3%	9.8%	4.4%	12.5%	-12.7%	17.7%
EM equities	-53.3%	78.5%	18.9%	-18.4%	18.2%	-2.6%	-2.2%	-14.9%	11.2%	37.3%	-14.6%	12.2%
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%	6.7%
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%	6.7%
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%	4.9%
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%	2.5%
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%	1.8%
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%	1.6%
Gold	5.1%	25.5%	29.4%	10.1%	7.1%	28.1%	-1.4%	-10.6%	8.0%	13.5%	-1.6%	0.1%
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%	-0.1%
<b>Spreads (%age points)</b>	<b>67.5%</b>	<b>82.2%</b>	<b>28.9%</b>	<b>28.5%</b>	<b>34.3%</b>	<b>38.4%</b>	<b>59.0%</b>	<b>40.3%</b>	<b>45.4%</b>	<b>38.7%</b>	<b>27.2%</b>	<b>40.8%</b>

Monthly Investment Brief

## Colour scale

Best performance

Worst performance



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

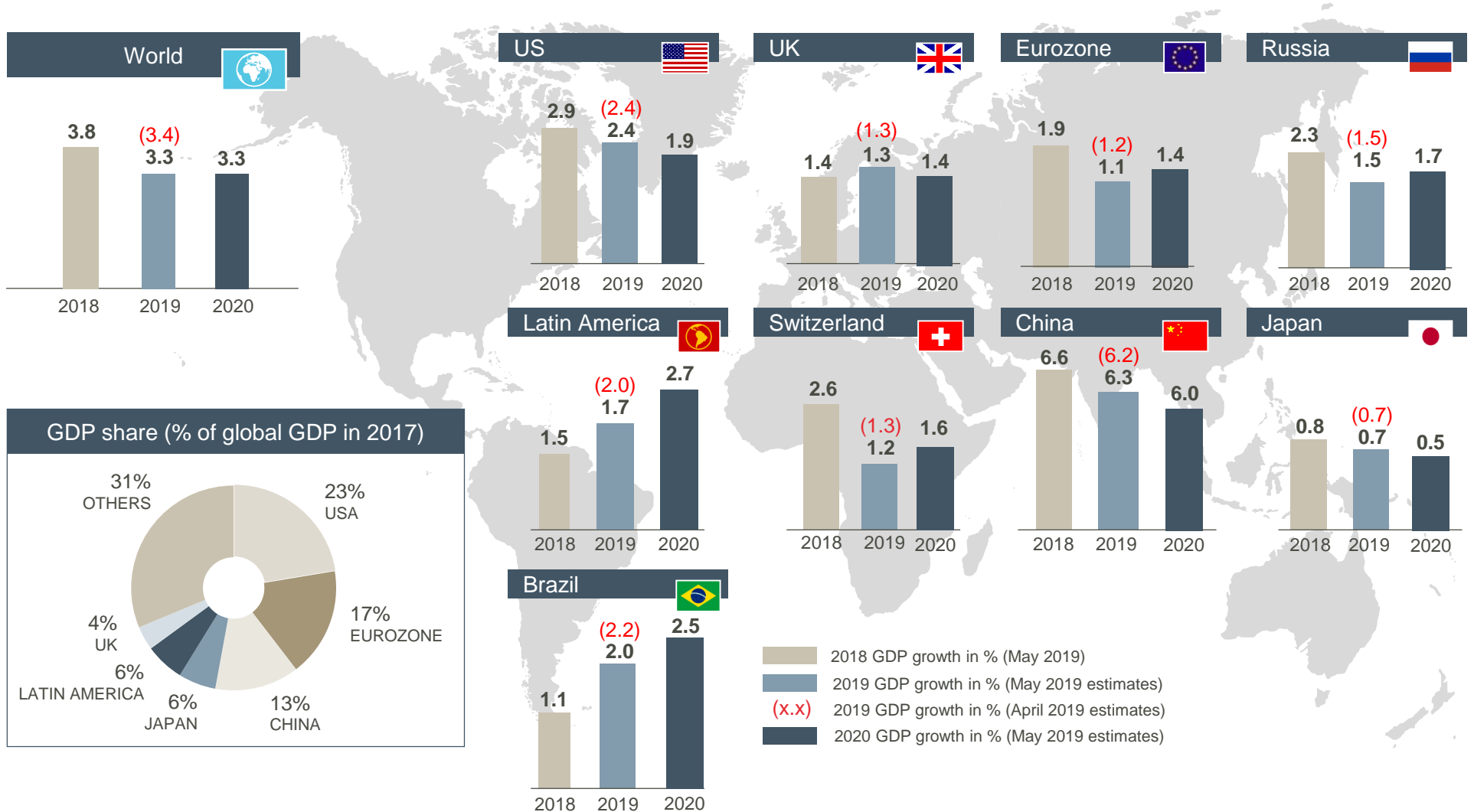
Sources: Bloomberg and BoA ML as of 04/30/2019 ; performances expressed in local currencies



# Global GDP\* growth forecast



Consensus forecasts are bottoming out

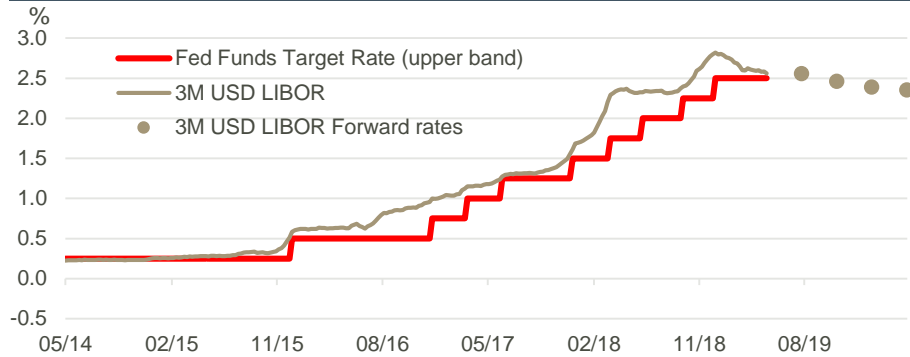


\*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 04/30/2019

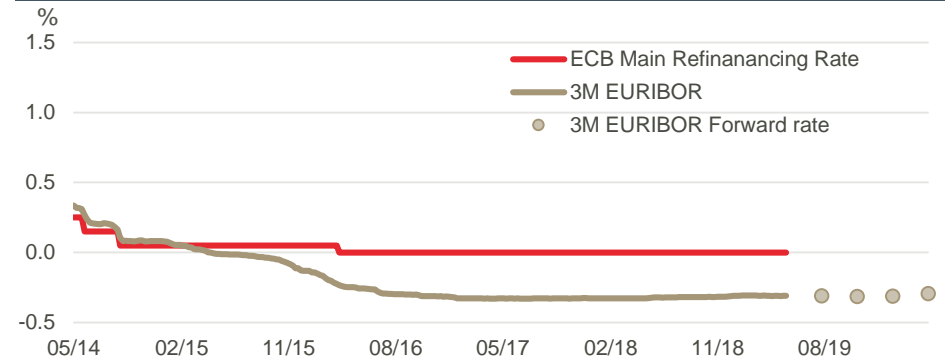
# Monetary policy & inflation expectations



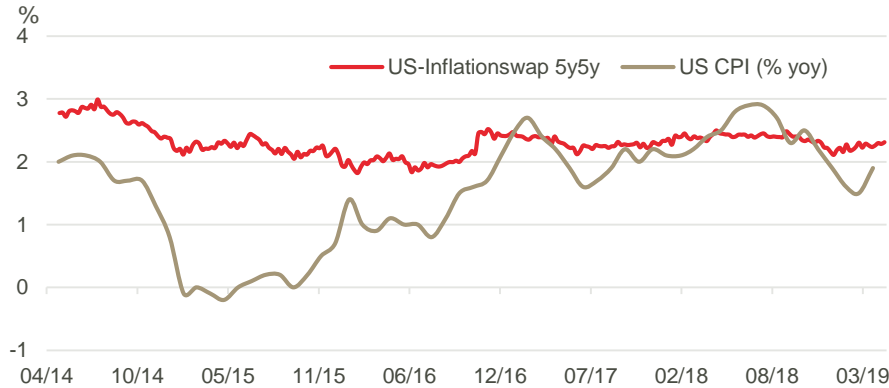
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



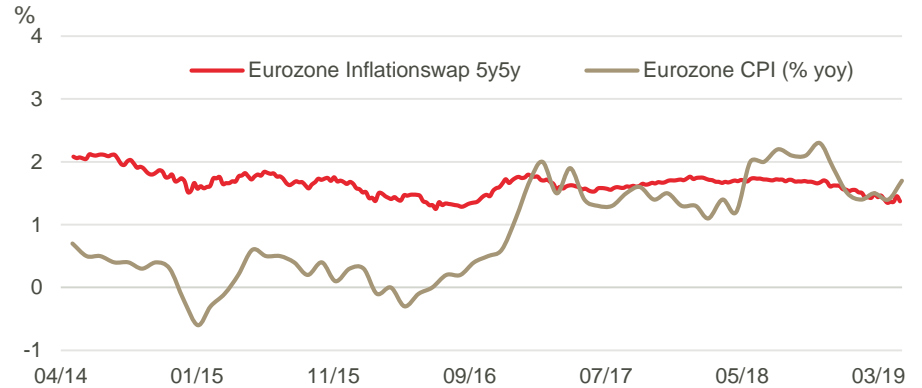
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



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



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

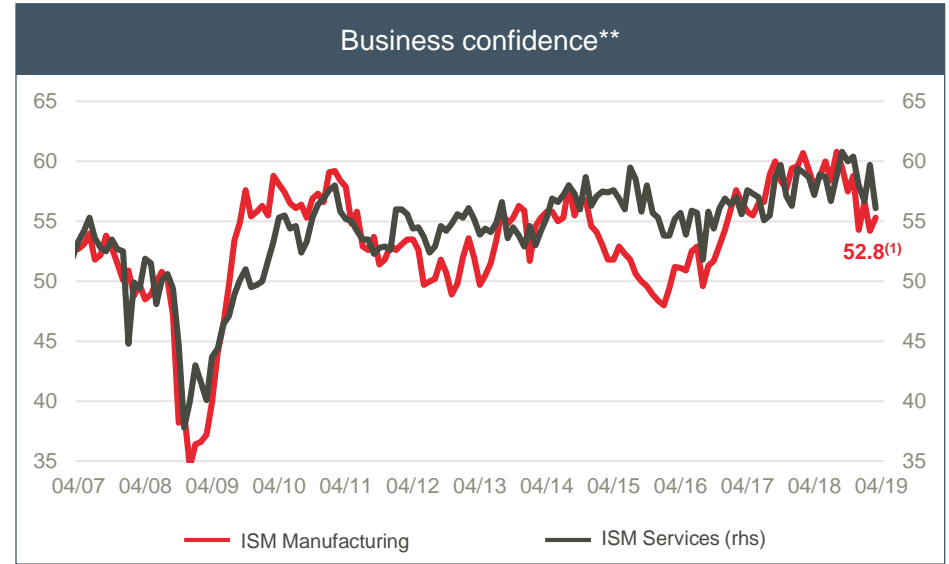
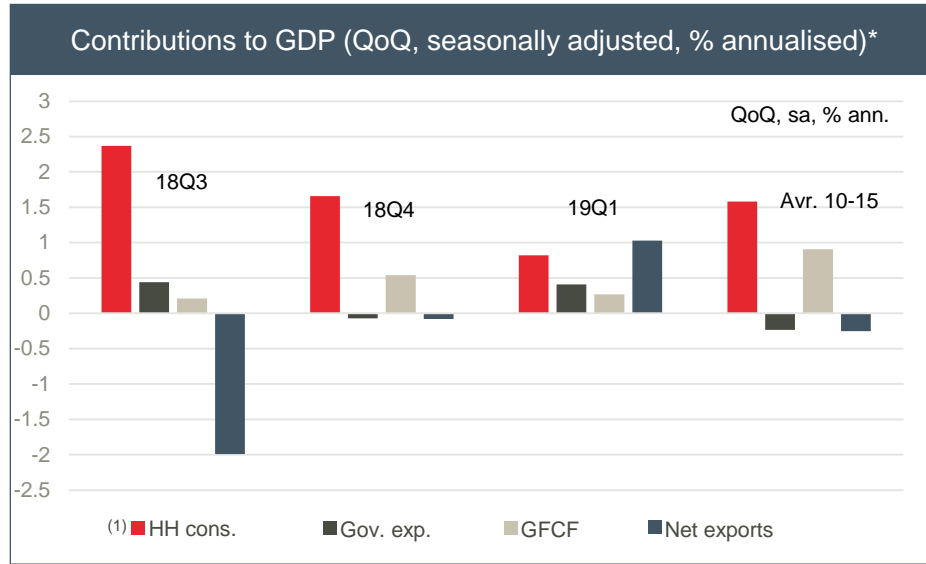


- ECB is likely to expand forward guidance beyond Q1
- FED will be on the sidelines for the time being. Current market expectations for a cut at the end of 2019 appear premature
- Balance sheet reinvestment from September onwards keeps policy neutral

Sources: Bloomberg, ODDO BHF AM GmbH, as of 04/30/2019



Strong at the surface, but a tad weaker on closer inspection



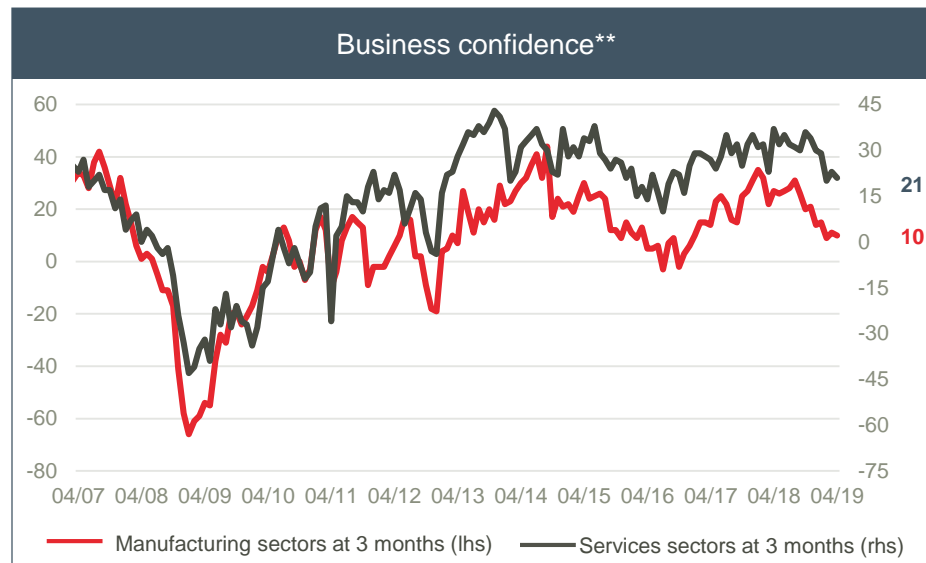
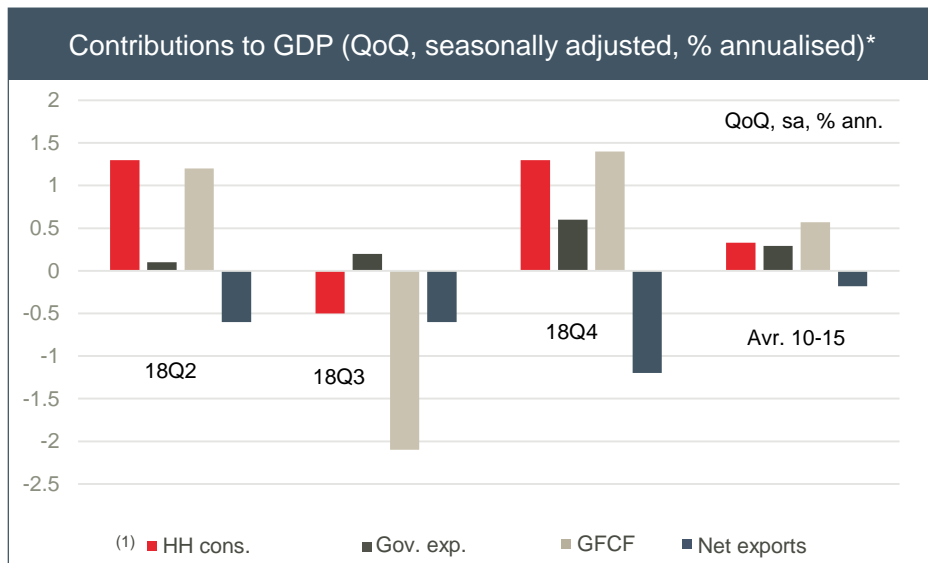
- Q1 very strong at 3.2%, but partly boosted by inventory buildup
- PMI point to weaker activity data going forward
- Labor market indicators remain “red hot”
- Weaker CPI readings mostly transitory

(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 03/29/2019 | \*\*Data as of 03/15/2019 | (1): data as of 15/04/2019



## A mixed bag

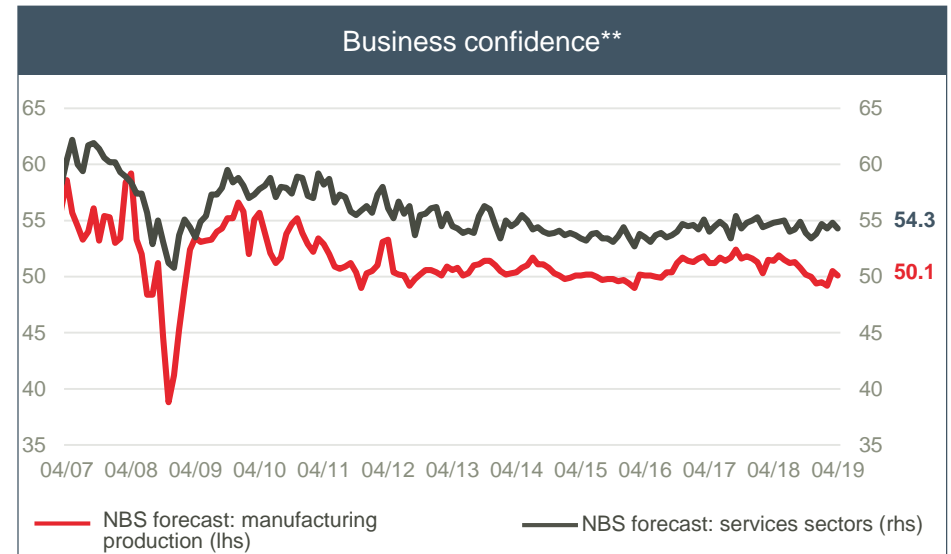
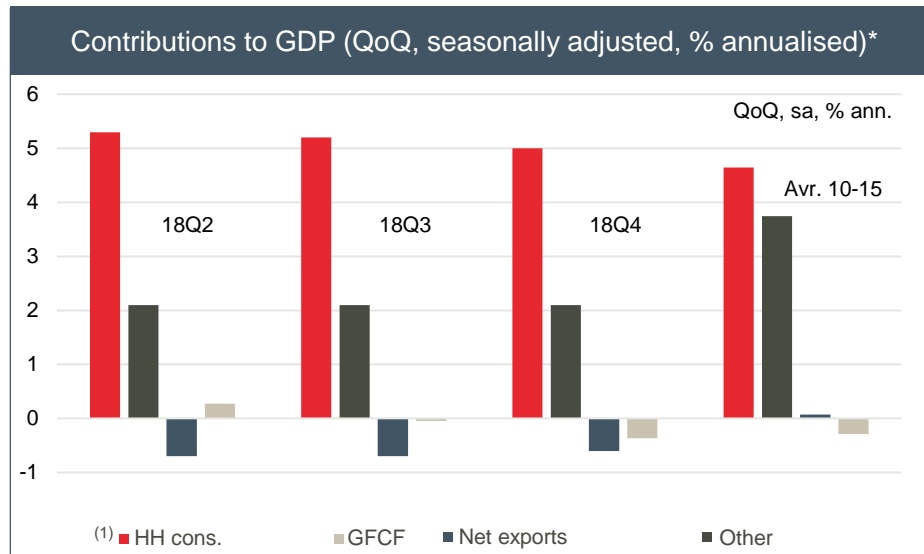


- Weaker industrial production data in March
- But a slight improvement in April PMI
- Some improvement in Tokyo CPI

(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 12/31/2018 | \*\*Data as of 04/15/2019

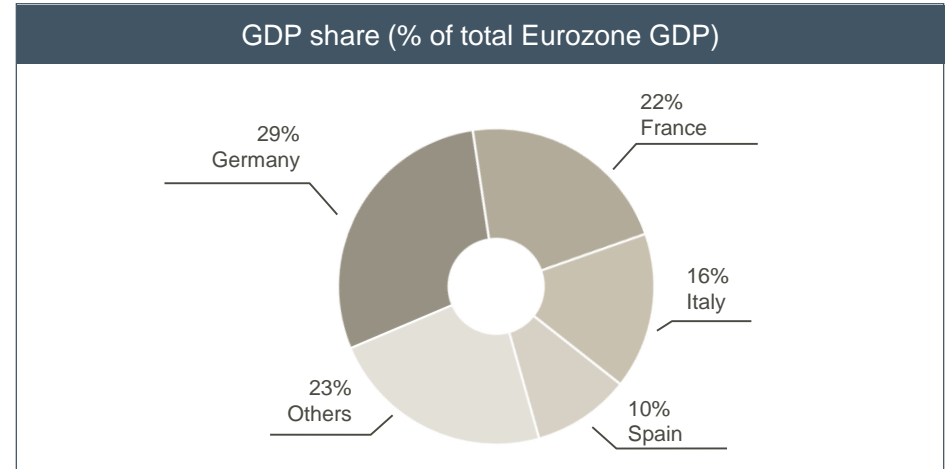
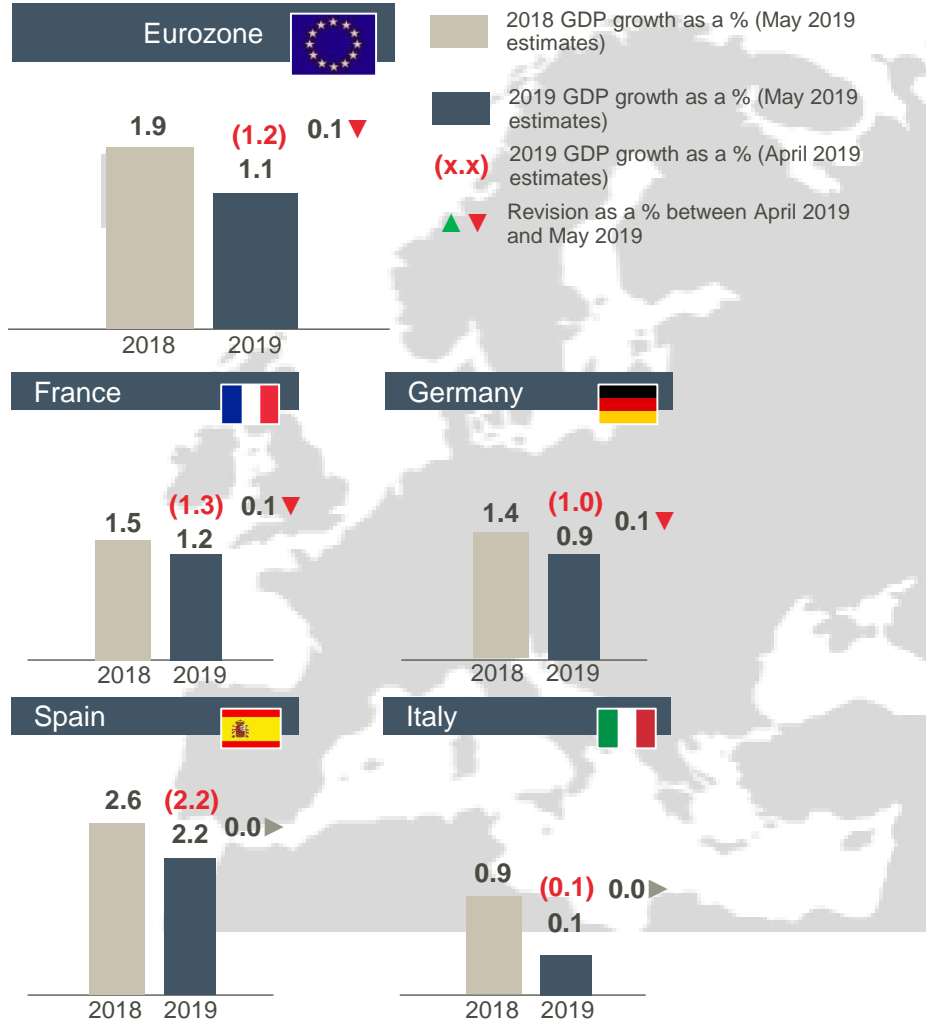


## Finally stabilization



- After a strong rebound in March, April economic readings came in slightly weaker
- Q1 GDP quite upbeat at 6,4%
- The trade truce with the US and a package of supporting measures have finally resulted in an economic rebound
- However, the recent tariff increase on 200bn of Chinese exports to the US could dent the ongoing recovery

(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 12/31/2018 | \*\*Data as of 04/15/2019



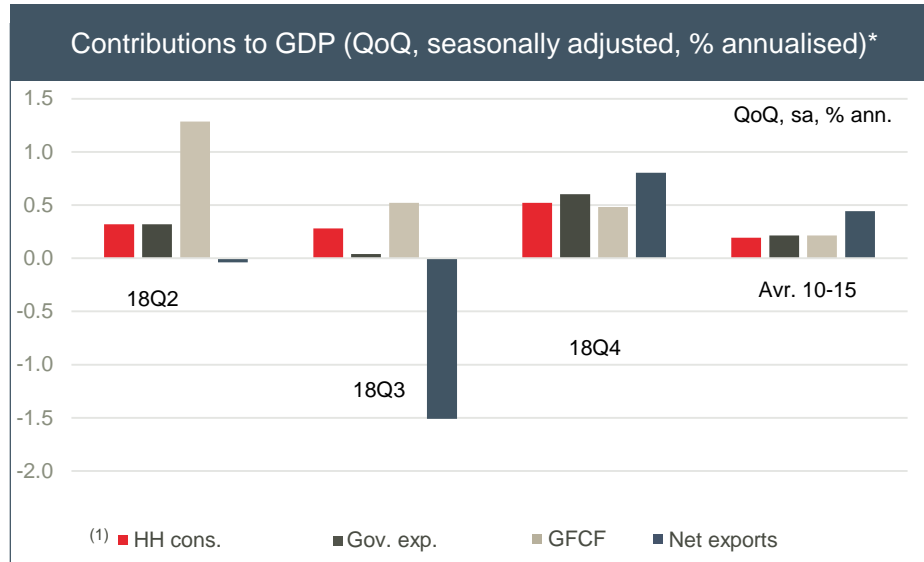
- The divergence between soft and hard data is still at extremes
- Very weak manufacturing PMIs have been offset by robust service indicators
- Recent positive production data show that the industrial sector may converge towards the resilient service sector
- Risk is for a continued weakness in manufacturing that spills over into consumer demand

Sources: ODDO BHF AM SA; Bloomberg Economist Forecast. Data as of 04/2019





## Mind the gap

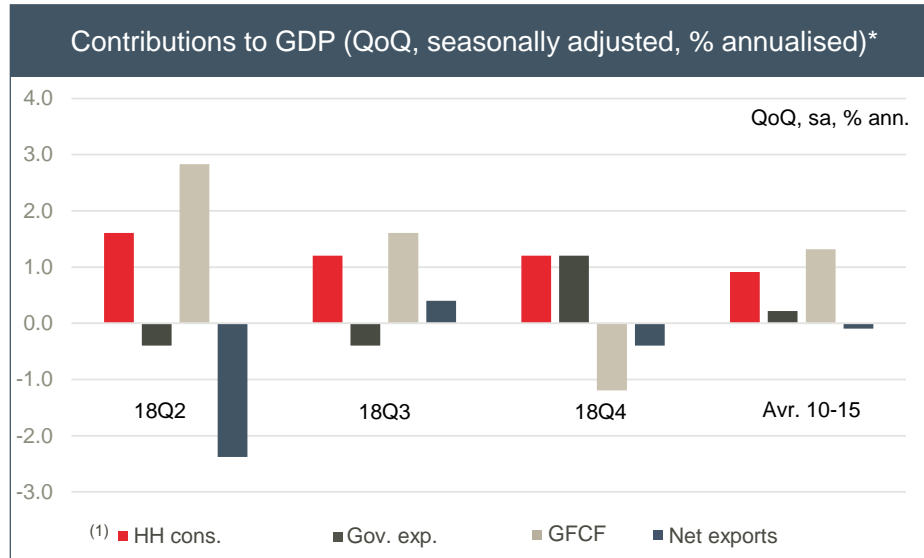


- Some green shoots in manufacturing activity across countries, while private demand remains very resilient
- Germany still the weak link in manufacturing
- Huge gaps between upbeat service and weak manufacturing PMIs as well as between soft and hard data indicators
- Economic rebound in manufacturing is underway, albeit with little dynamic so far

(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 12/31/2018 | \*\*Data as of 04/15/2019



## Brexit uncertainty shows up in the data



- BoE signals no urgency on rates
- But leaves a tightening bias
- April PMI reflect growth probably at around a mere 1%
- March IP surprised to the upside

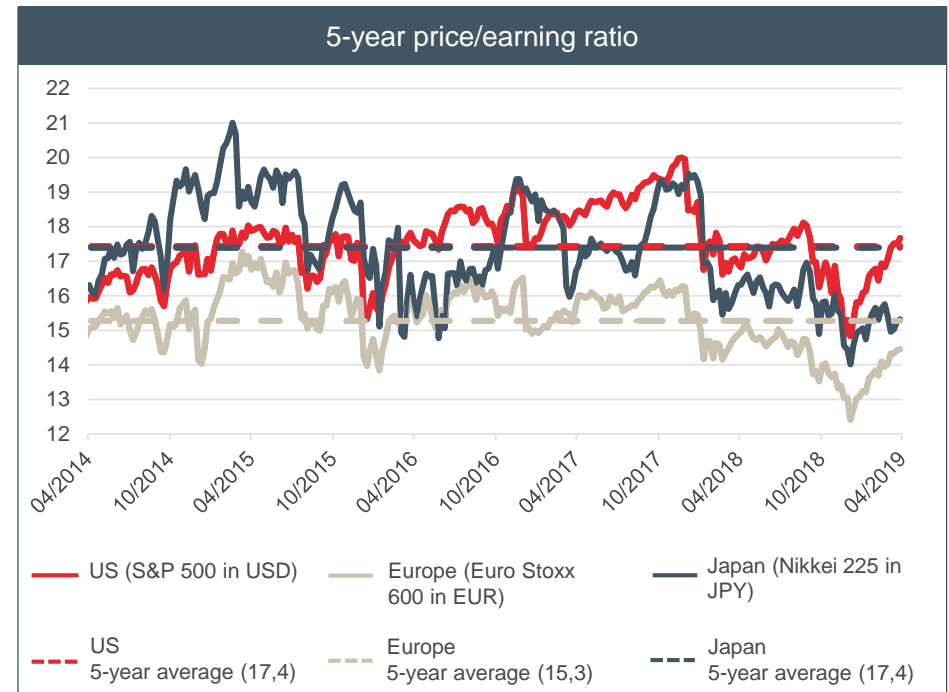
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)  
 Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. \*Data as of 12/31/2018 | \*\*Data as of 04/15/2019



Up almost 16% in the first quarter!



- The markets refused to take a breather in April, with the MSCI World (in dollars) up by more than 3%
- The euro zone was the top performer, with a gain of 5.3%, driven mainly by a further outperformance by growth stocks and companies exposed to global growth
- The S&P 500 gained 4%, driven by the outperformance of tech stocks (+4.8% by the Nasdaq)
- Japan and emerging markets underperformed, edging up by about +2%



- Valuations naturally became stretched, with the US (P/E of 17.7x) moving above its five-year mean (17.4x) for the first time since October 2018
- Valuations are less demanding in Europe, with a P/E of 14.5x, which is still 6% below its five-year average...
- ...and even less so in Japan, which is trading at a 12% discount (with a P/E of 5.3x)

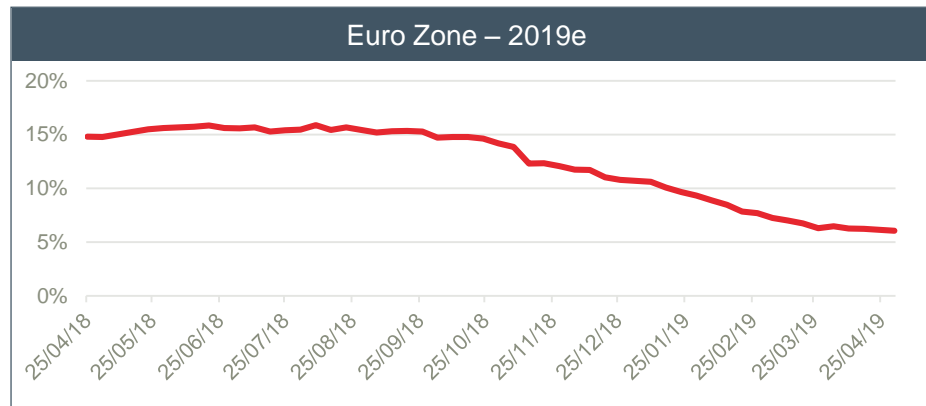
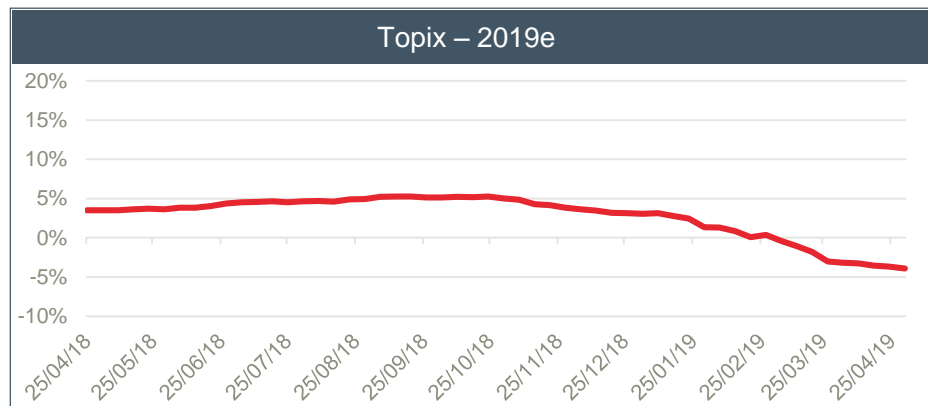
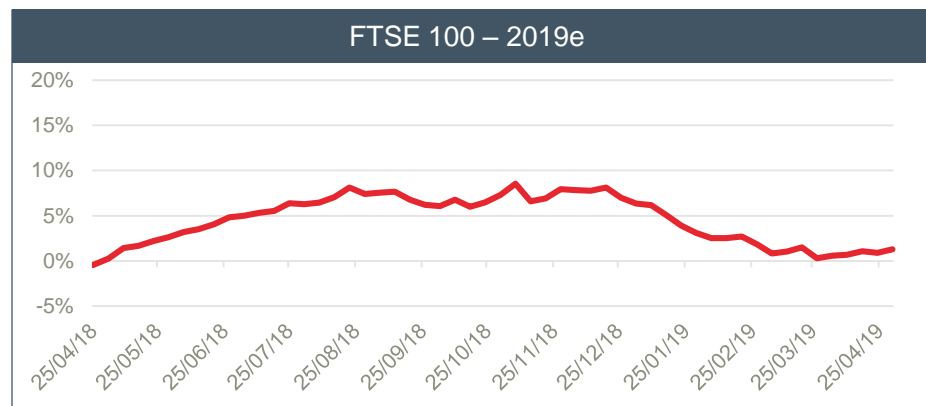
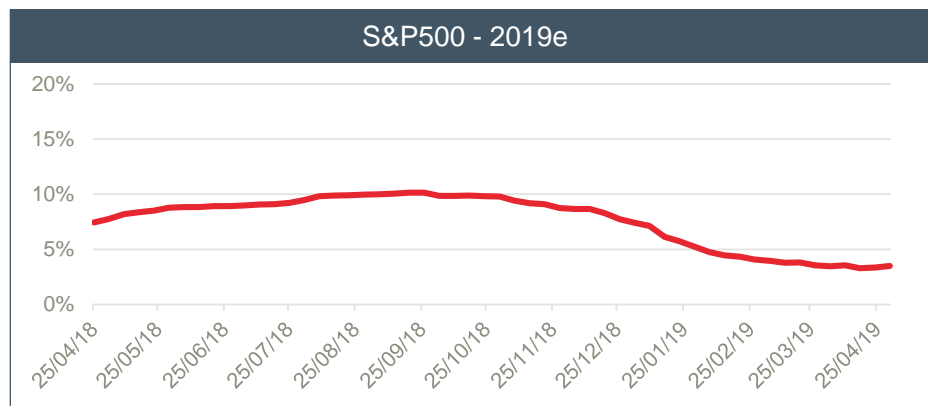
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\*See Glossary, page 27 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 30/04/2019

# Equities – EPS trends



Earnings forecasts being upgraded, except in Japan



- After several months of almost constant downgrades, 2019 earnings growth forecasts have levelled off in the euro zone and are turning up tentatively in the US and UK.
- This stabilisation comes amidst some positive surprises in first-quarter earnings releases, particularly in the US.
- For the moment, Japan is still on the sidelines, with earnings growth forecasts still being revised downward.

Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 30/04/2019



Equity markets are getting support from corporate earnings and macroeconomic indicators... for now

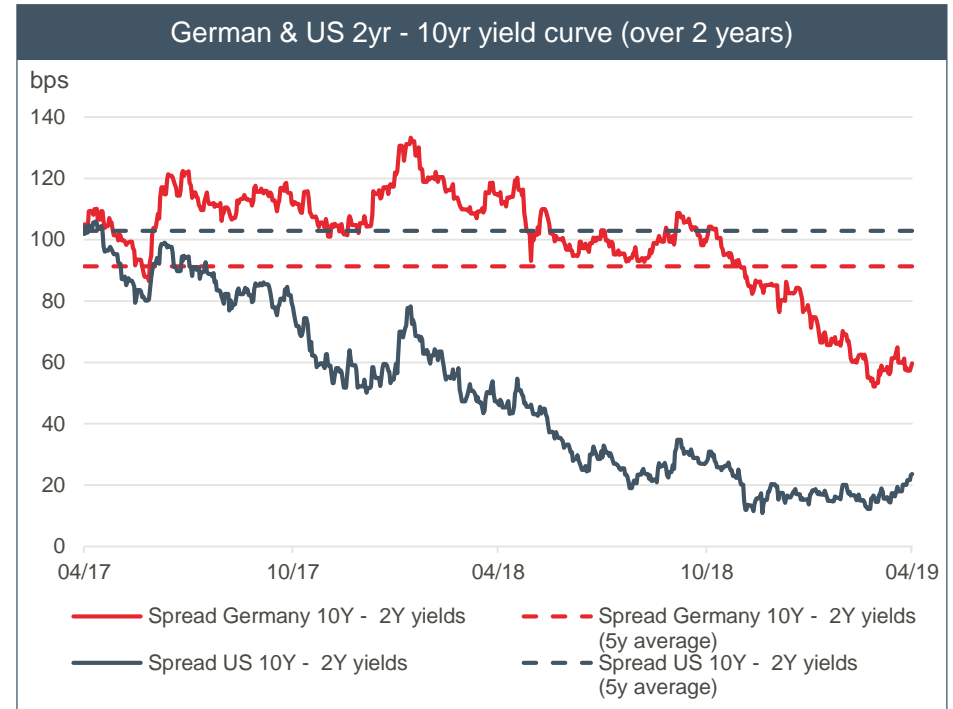
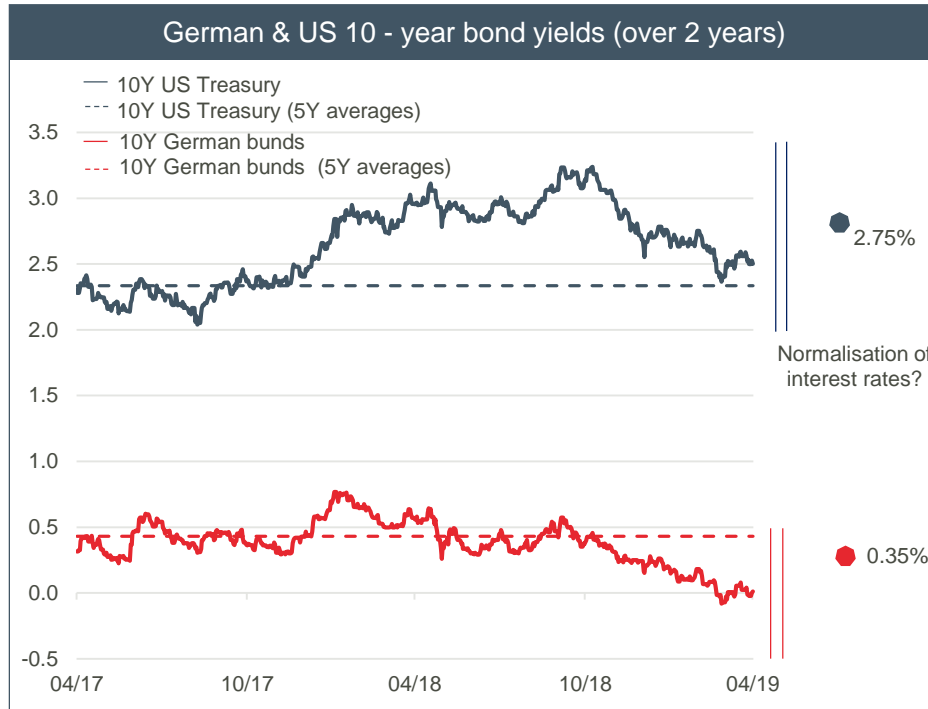
	12-month forward P/E, May. 2019	2017 EPS growth	2018 EPS growth	2019 EPS growth	Dividend yield	YTD performance
STOXX Europe 600	14.0 x	21%	5%	7%	3.8%	15.6%
<b>Commodities</b>						
Basic resources	10.2 x	111%	-2%	6%	5.2%	16.0%
Oil & Gas	11.6 x	83%	40%	5%	5.3%	12.0%
<b>Cyclicals</b>						
Automotive and spare parts	7.5 x	34%	-10%	13%	4.2%	20.2%
Chemicals	18.0 x	24%	4%	1%	2.8%	16.9%
Construction and materials	15.0 x	14%	8%	17%	3.1%	22.6%
Industrial goods and services	16.6 x	14%	5%	12%	2.8%	20.2%
Media	16.0 x	10%	10%	2%	3.4%	14.1%
Technologies	21.2 x	11%	8%	9%	1.7%	23.9%
Travel & leisure	13.3 x	14%	-3%	5%	3.0%	8.1%
<b>Financials</b>						
Banks	9.5 x	50%	13%	5%	5.6%	12.4%
Insurance	10.6 x	-9%	10%	13%	5.3%	17.2%
Financial services	15.8 x	16%	-42%	33%	3.3%	19.3%
Real estate	17.3 x	12%	16%	-1%	4.2%	11.9%
<b>Defensives</b>						
Food & beverages	20.7 x	10%	4%	12%	2.5%	20.2%
Healthcare	16.8 x	4%	4%	4%	3.0%	10.0%
Household & personal care	16.4 x	19%	7%	6%	3.5%	19.3%
Retailing	17.5 x	3%	6%	7%	3.1%	22.6%
Telecommunications	13.8 x	19%	-9%	3%	5.7%	0.6%
Utilities	14.1 x	6%	-12%	15%	5.2%	9.2%

- European indices rose again, extending the rally that began in late December after the overwrought pessimism of the fourth quarter of 2018.
- The shift in central bank rhetoric was the main reason for the equity market rally in the first quarter, which was driven mainly by defensive growth stocks.
- There was a slight shift in April, as cyclical/value stocks outperformed in reaction to a strong earnings season and reassuring macro indicators.
- Downward earnings forecast momentum appears to be stabilising, which is a major plus for market sentiment.
- The market's average P/E has levelled off at 14x, but with extremely wide dispersions between stocks.
- The prospect of a return to a calmer business climate raises some hopes for stabilisation in global growth, but this will depend on the Sino-US trade agreement.
- A confirmation of these few positive points by macroeconomic figures could trigger a sector rotation into the most cyclical stocks...
- ...especially as the P/E gap between quality/growth stocks and the most cyclical stocks remains historically high.

Source: ODDO BHF AM SAS, FactSet. Figures as of 05/03/2019



## Another run towards the lows?



- Bund yields have declined close to the lows on sluggish inflation, the pivot of central banks and partly weak fundamentals
- However, 10-year Bunds appear rich against a likely economic recovery in the Eurozone
- Thus, after a deal in trade talks has been reached a rebound in yields over the 0% handle is likely

- US curve to re steepen slightly on a steady FED and improving inflation data, as temporary factors will fade
- Eurozone curve still with some flattening potential

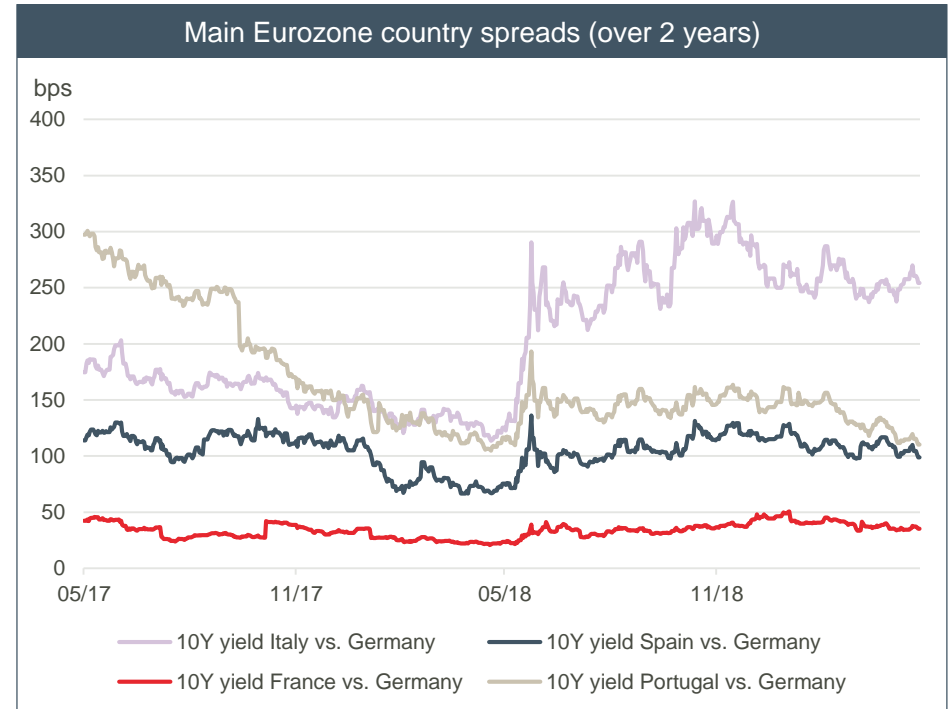
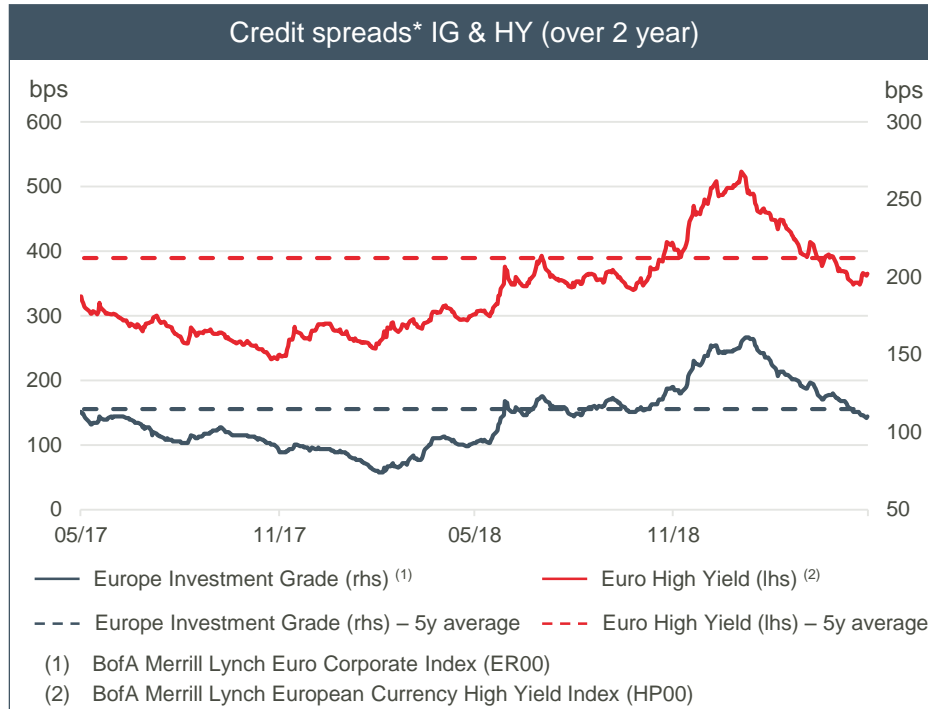
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(1) Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | LHS: Data as of 30/04/2019; RHS: Data as of 30/04/2019

# Fixed income – Credit Spreads



## Credit still the sweet spot



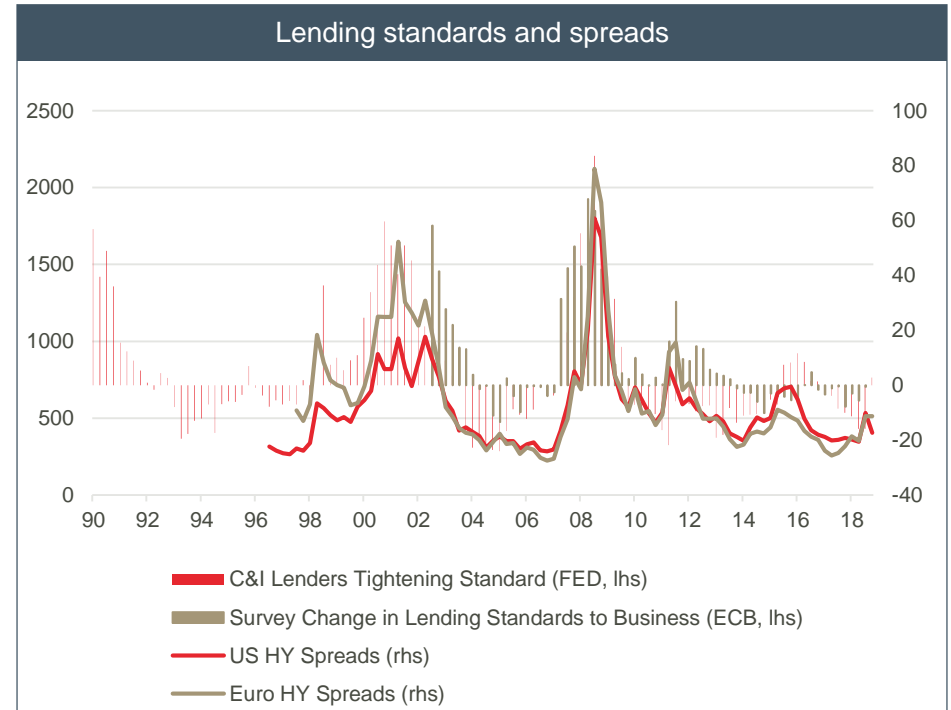
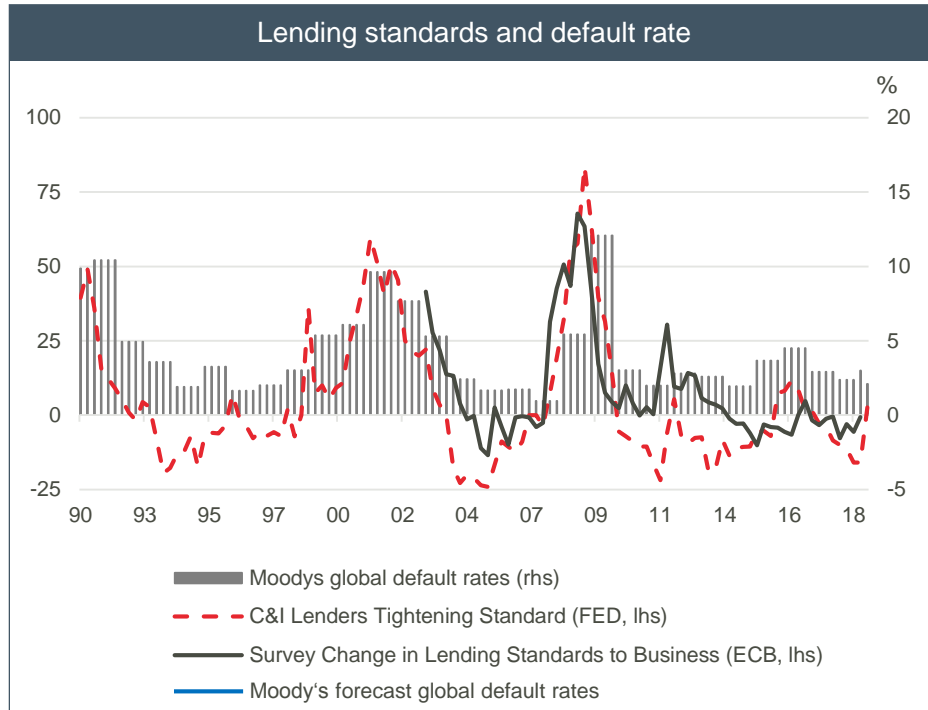
- Spread rally still leaves some tightening potential, but returns are more likely to come via carry and curve rolldown
- Demand remains high with ample liquidity and slightly lower supply especially for High Yield bonds

- Italy stands out in spread terms as the political risk premium remains high
- However, as long a spread volatility stays relatively low, carry and potential for spread tightening remain attractive

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Sources: ODDO BHF AM SAS, Bloomberg | Data as of 30/04/2019

# Commercial and industrial lending standards

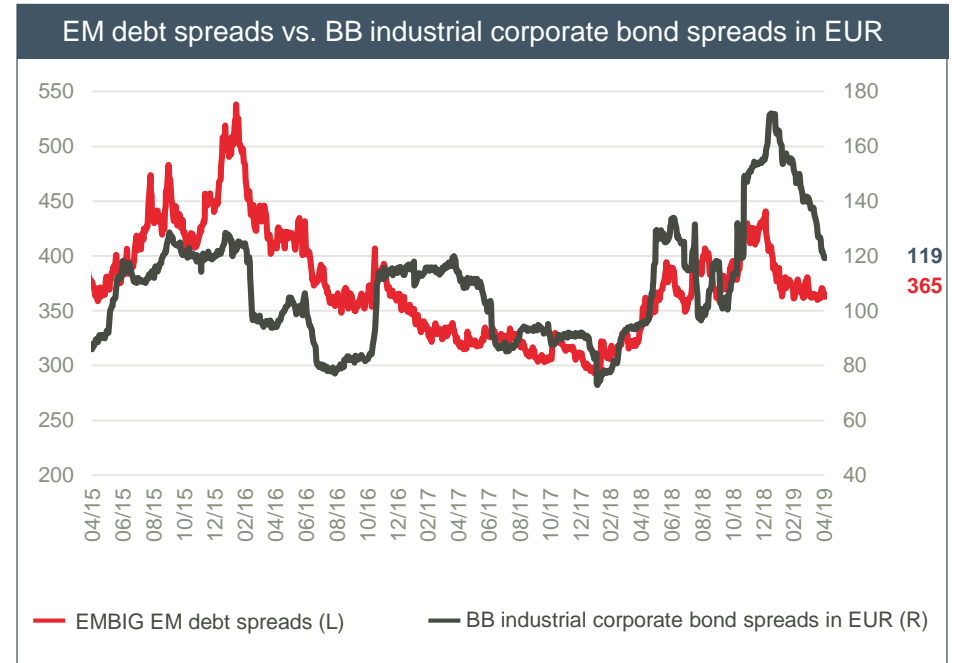
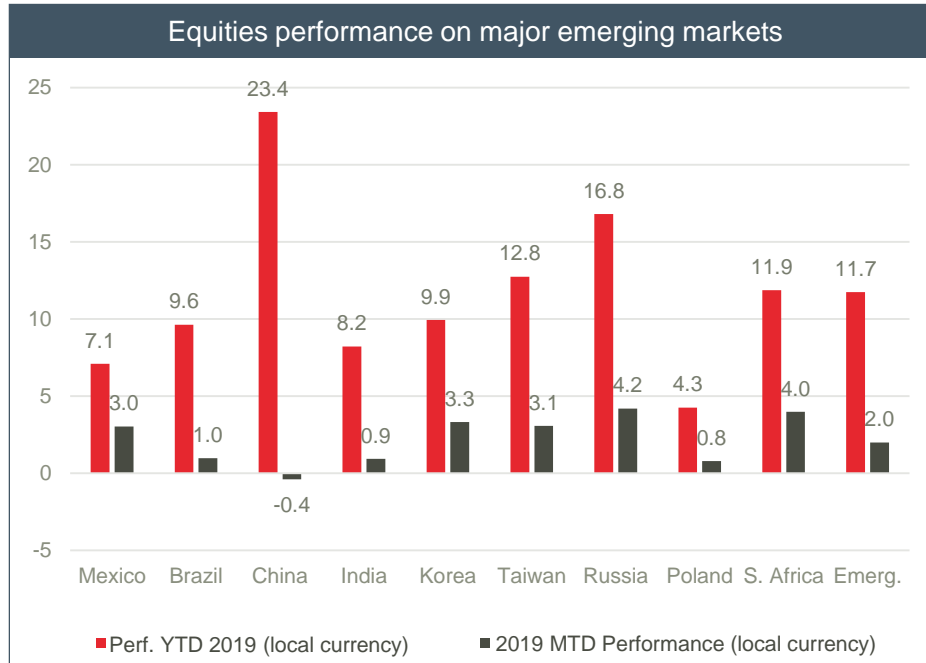


Source: Moody's as of 29/03/2019, Fed, ECB, Bloomberg | Data as of 29/03/2019





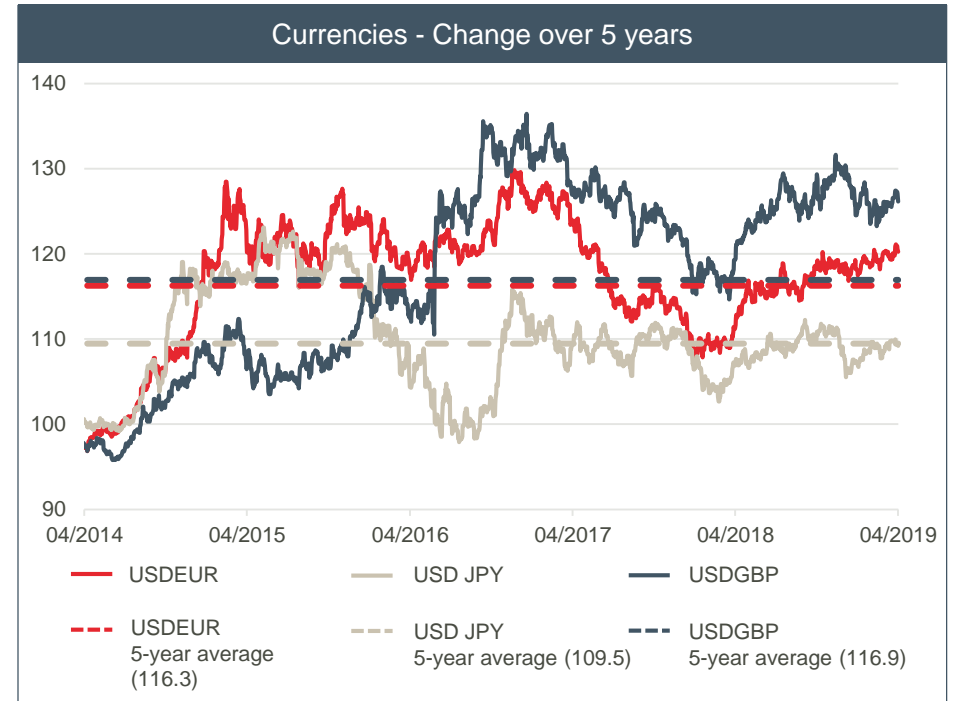
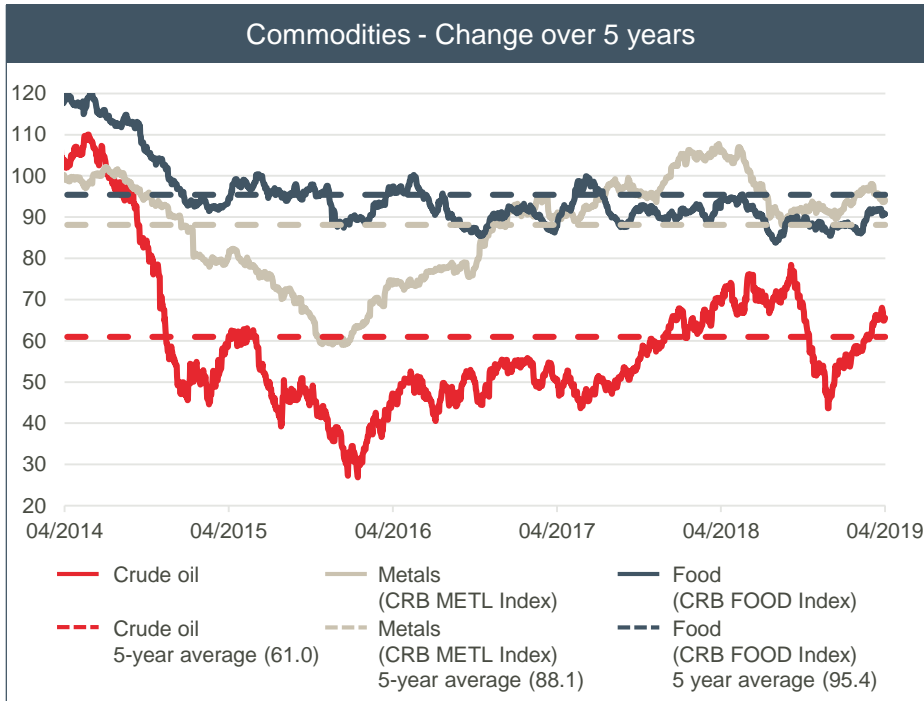
## EM equities lagging the rally



- Emerging market equity performance keeps lagging developed markets
- With renewed fears about an escalation in trade talks, this is unlikely to reverse anytime soon
- However, valuations are again attractive and should buffer market downturns

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/30/2019



- FX volatility remains depressed despite the recent deterioration in trade talks
- USD further in a range trading mode for the time being
- Only a more dovish FED could change that picture

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/30/2019



<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 &amp; Poor's of the equivalent.</p>
<p>High yield</p>	<p>High-yield bonds are speculative bonds rated lower than BBB- (Standard &amp; 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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