Monthly Investment Brief

A return to (almost) normal

December 2020

The announcement by Pfizer / BioNTech and then Moderna of a vaccine with 95% efficiency clearly changed investors' perspective offering a vision of the end of the pandemic or at least of its consequences. The announcement by Oxford / AstraZeneca is also a source of optimism, even if the trial results are less conclusive. In addition, other vaccines are currently in the final stages of testing. Ultimately, approximately 1.5 billion people worldwide could be vaccinated over the next 6 months. Without obscuring the many problems related to vaccine transport and storage, public acceptance of mRNA technology, mass production, and managing its diffusion, it is reasonable to think that there is light at the end of the tunnel.

Our baseline scenario is that vaccines should allow a gradual reopening of the economic sectors that are currently shut down. If this is the case, they will lead to an improvement in employment, a return of consumer and business confidence, and an acceleration of aggregate demand driven by spending of involuntary savings. With less fear of being infected, consumers will return to stores, restaurants, hotels, etc. This will have a very positive impact on investment and profit growth. This will result in higher stock prices, notably a catch-up of cyclical and discounted stocks, as well as higher bond yields and commodity prices.

But as always, the devil is in the details. Thus, even if vaccines are widely adopted, short-term threats to economic activity remain. Counter-intuitively, the realization that the end of the pandemic is near may lead to a temporary period during which households remain cautious and behave very conservatively. After all, few consumers will want to contract the virus just before a vaccine becomes available. In addition, the vision of an end of containment reduces the urgency for tax authorities to provide additional support to the population and small businesses. These two dynamics could lead to a sharp contraction in spending in the first quarter of 2021, which would hurt equity markets.

In this context, what do we do?

Once again, central banks and fiscal stimuli will certainly come to the rescue of the markets. We do not doubt the support of the central banks, especially in the United States, even if, after the election, the Fed has currently adopted a wait-and-see attitude towards the new government. On the other hand, any further delay in the ratification of the stimulus plans on both sides of the Atlantic will take away a few points of growth and reduce expectations of an increase in corporate earnings capacity. Let's hope that our governments become even more aware of the urgency of these plans, given that the halt to past plans made the economy "embark on a downward trend" (approximately 1.5 points of GDP after the end of the Care Act in the United States). This is the challenge of asset allocation for 2021, but we remain optimistic about the trajectory of risky assets over the next six months. The catch-up effect and flows are only just beginning.

We will meet you in early January to discuss our investment strategy, with a central question: how to manage the exit from the crisis and such high levels of debt? As far as debt management is concerned, we see two main options for lowering debt ratios: an increase in taxes and/or faster growth in nominal GDP. The first option is difficult; beyond being unpopular, raising taxes (or savings) is deflationary and could worsen the debt arithmetic by raising real interest rates. At the same time, nominal rates can no longer fall because central banks will do everything possible to return to inflation levels capable of reducing the debt burden. Unfortunately, growth is below potential and unemployment is struggling to be reduced. The best scenario remains a sustainable economic recovery (in every sense of the word).

Happy holidays to all and take care.

01 CURRENT CONVICTIONS

Scenarios

Our 6-month view

Central scenario: Global growth recovering from sharp recession with strong monetary and fiscal policy support

Europe & US

65%

- COVID-19 outbreak has resulted in most severe recession. Recovery has started in Q2 and 2020 growth figures could be better than feared. Consumer confidence to increase on promising COVID-19 vaccine news.
- Unprecedented intervention from both monetary and fiscal policy will also mitigate the coronavirus shock

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 surprise jump in the US inflation and growing US budget deficit

15%

- Wage acceleration
- Surging oil prices fueled 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

20%

- Global recession with a risk of 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 12/02/2020

Our current convictions for each asset class

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

Change vs the previous month

Source: ODDO BHF AM, comments as of 12/02/2020

Our current convictions for each asset class

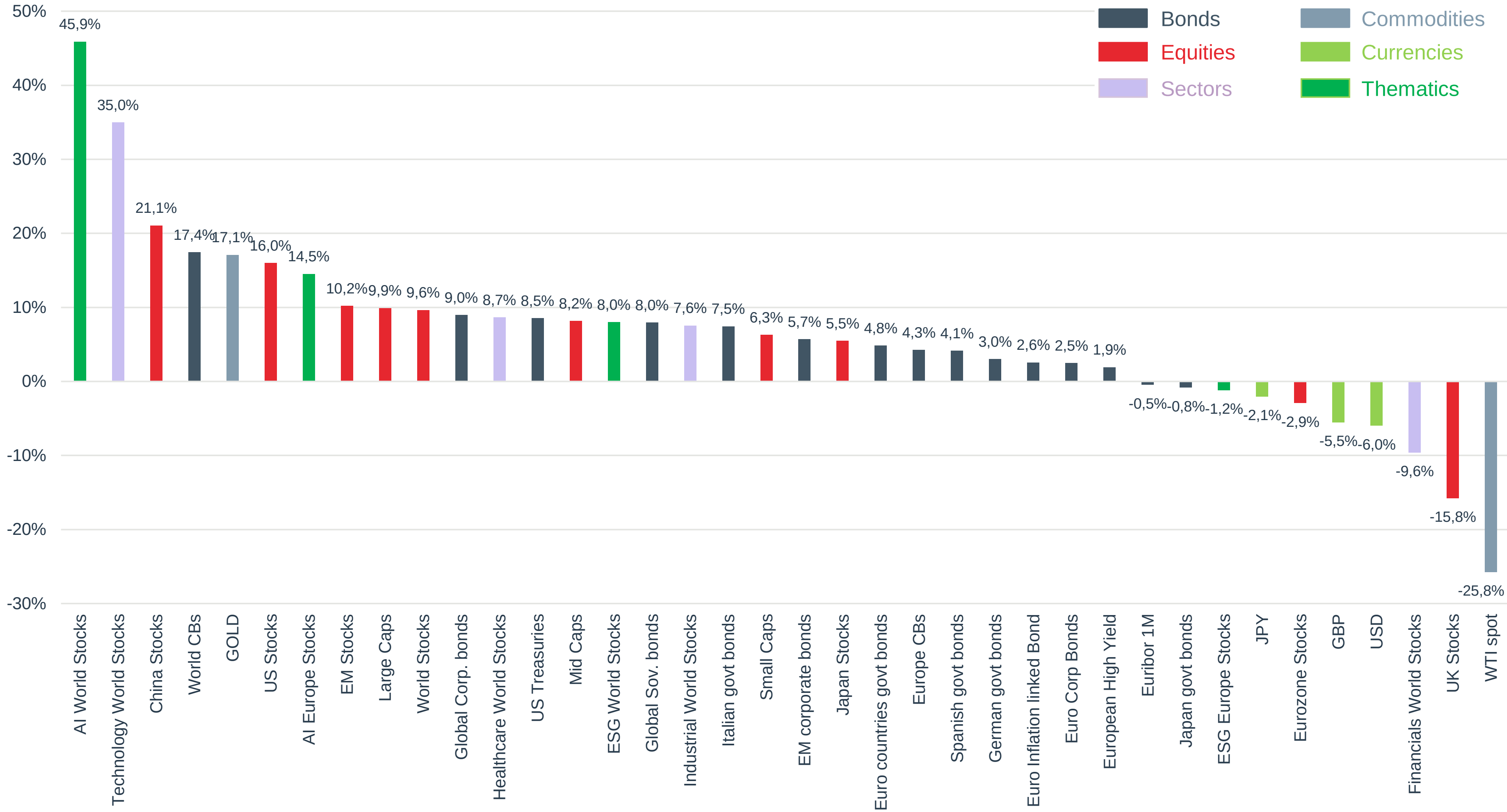
Government bonds	Core Europe	0
	Peripheral Europe	1
	USA	0
Corporate bonds	Investment grade Europe	1
	Credit short duration	1
	High Yield Europe	1
	High Yield USA	0
	Emerging markets	0
Money market	Developed markets	1
Alternative assets	Private Equity	1
	Private Debt	1
	Real Estate	0
	Hedge Fund	0

Change vs the previous month

Source: ODDO BHF AM, comments as of 12/02/2020

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 11/30/2020; 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%	17,1%
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%	16,0%
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%	10,2%
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%	8,5%
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%	6,4%
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%	4,8%
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%	4,0%
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%	3,0%
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%	1,9%
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%
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%	-2,9%
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%	-25,7%
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%**	**42,8%**

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

Colour scale

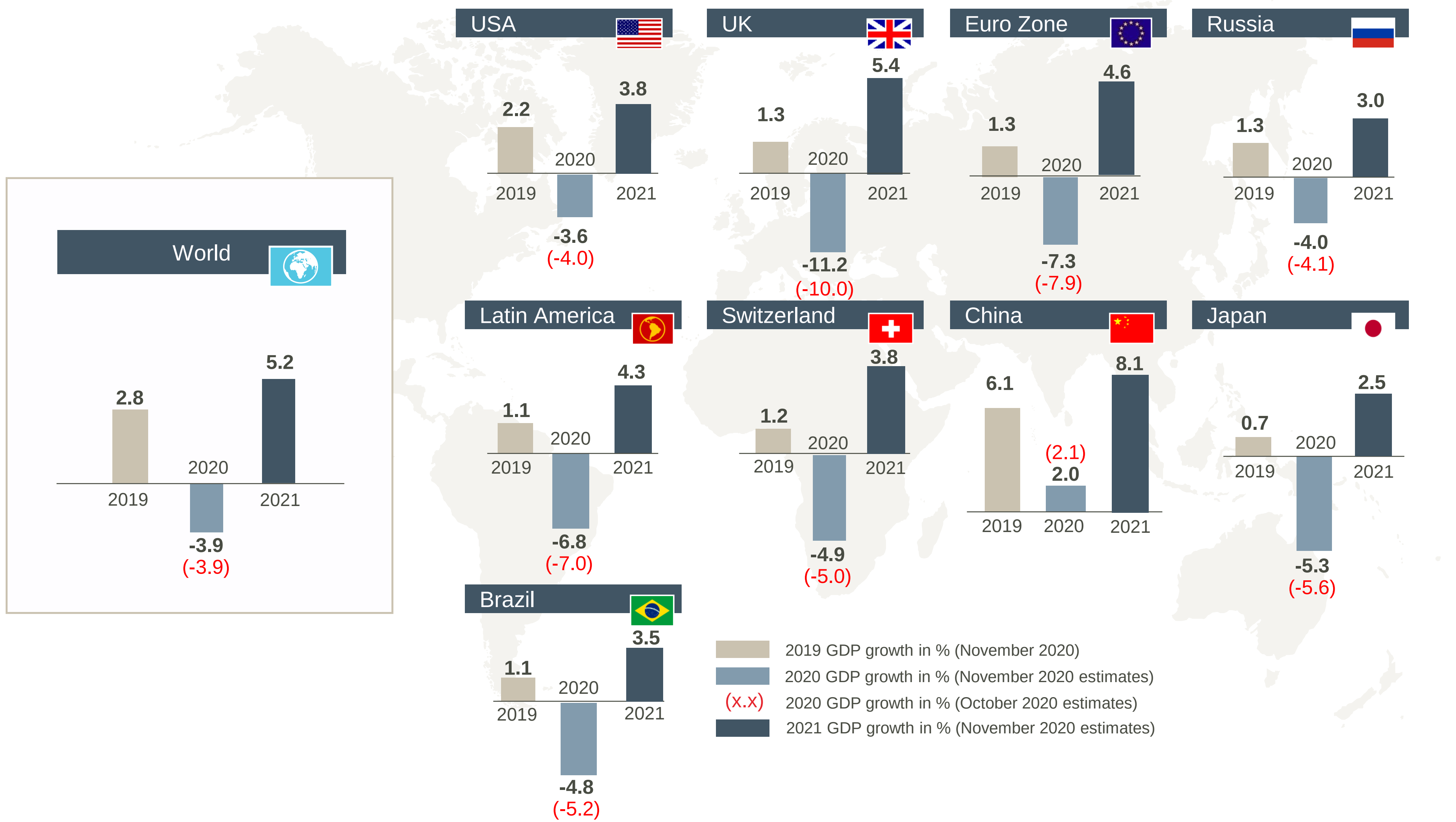
Best performance — Worst performance

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

Sources: Bloomberg and BoA ML as of 11/30/2020 ; performances expressed in local currencies

Global GDP* growth forecast

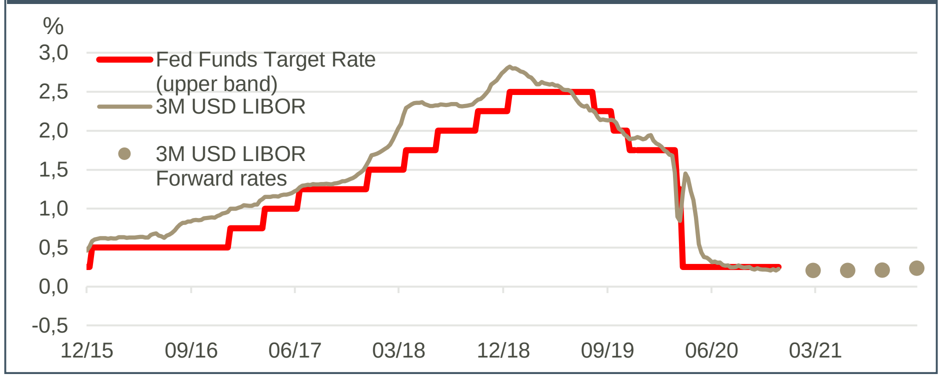
China makes the difference



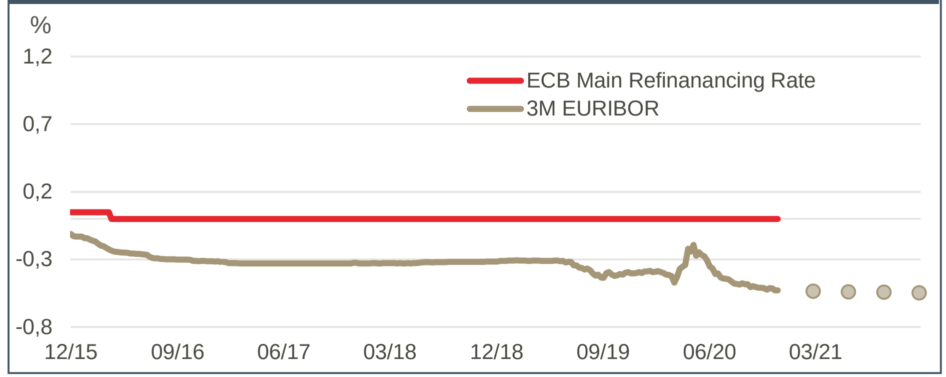
*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 11/30/2020

Monetary policy & inflation expectations

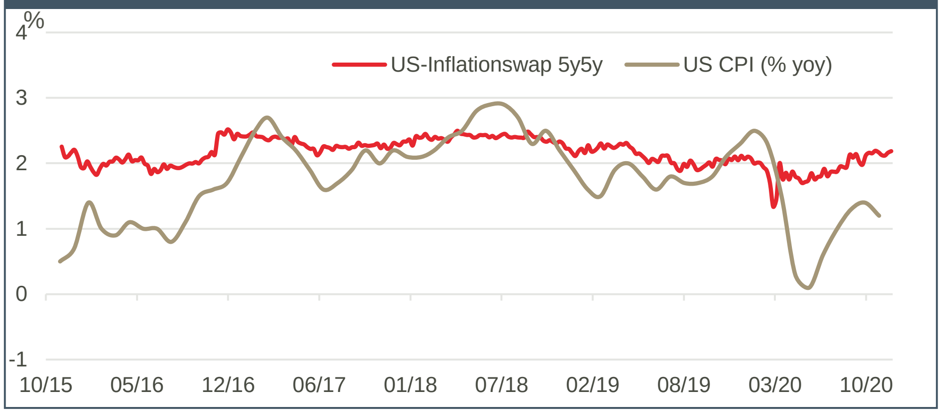
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



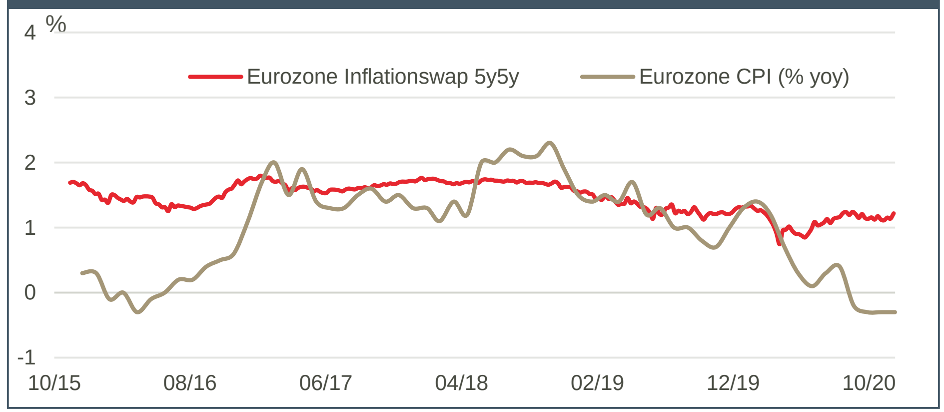
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



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



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



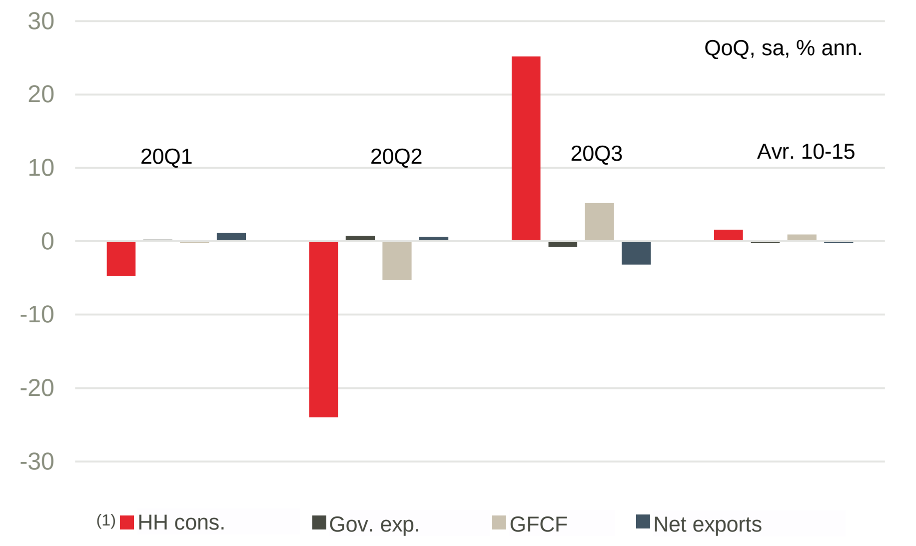
- Extension of PEPP by the ECB is a done deal, but will Euro appreciation require additional action, eventually?
- FED could surprise positively in order to compensate for lack of fiscal stimulus and sunset of 13(3) measures at the end of the year

Sources: Bloomberg, ODDO BHF AM GmbH, as of 11/30/2020

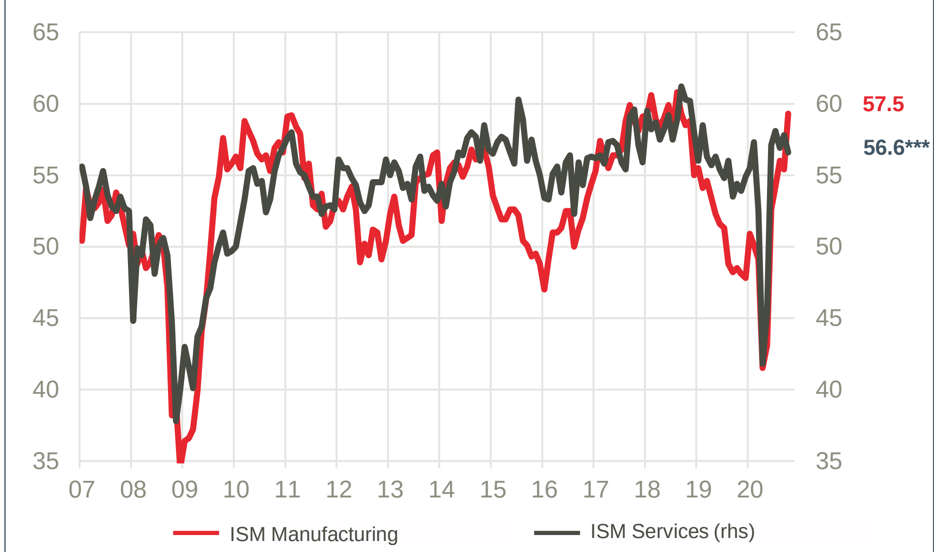
USA

Risks for Q1 are looming

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



Business confidence**



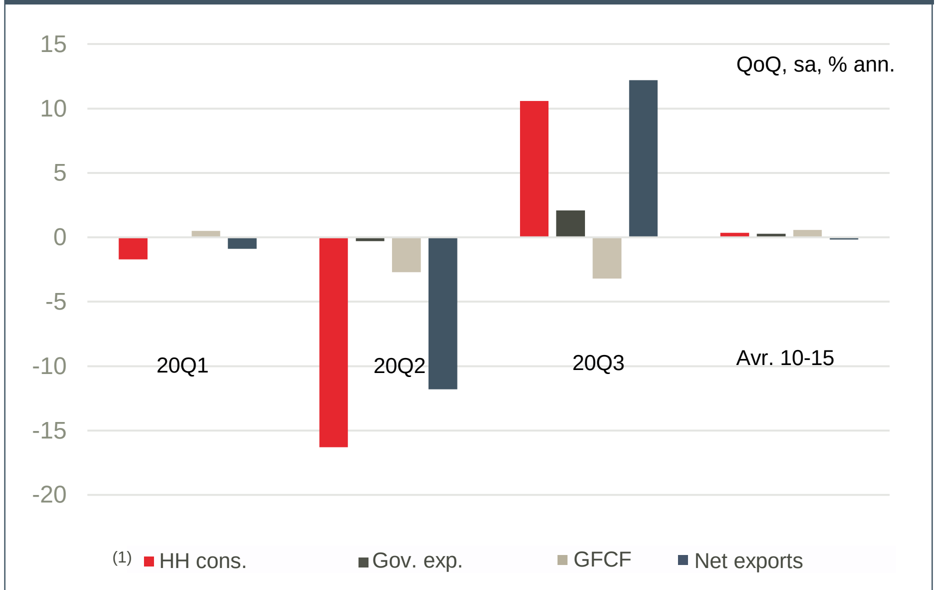
- Q4 GDP looks quite healthy – Atlanta Fed expects around 11% qoq annualized.
- Q1 2021 more of a problem as spiking infection rates lead to increased restrictions and heightened lockdown measures across states
- The housing sector continues to boom in the wake of the decline in interest rates
- But the improvements in the labor market are fading quickly and will reverse soon as signaled by the November NFP of just 245k
- For the time being, an extremely high savings rate and a high disposable income are sufficient to compensate weaker employment

(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 11/30/2020 |** Data as of 11/15/2020 | ***Data as of 10/15/2020

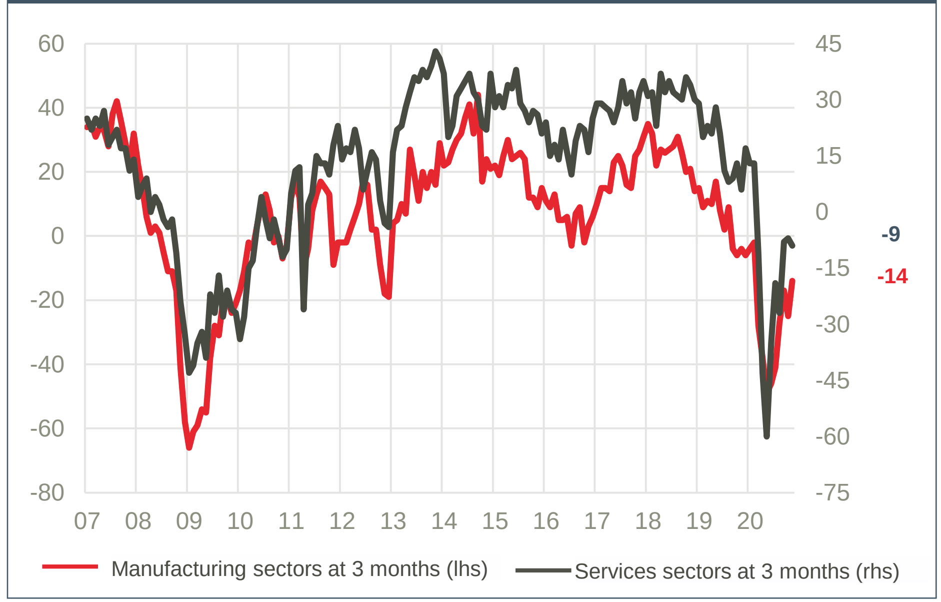
Japan

Third Covid wave is starting to have an impact

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



Business confidence



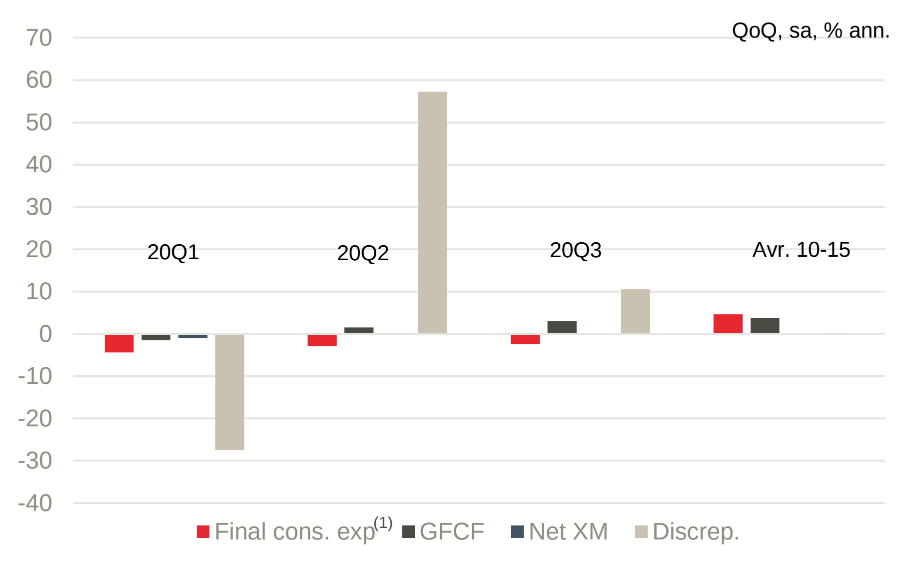
- Retail sales have been healthy into November
- Third Covid wave, however, raises warning flags on consumption in December
- Mobility indicators appear to have eased lately
- Industrial activity is still on a recovery path

(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 11/30/2020 | **Data as of 11/15/2020

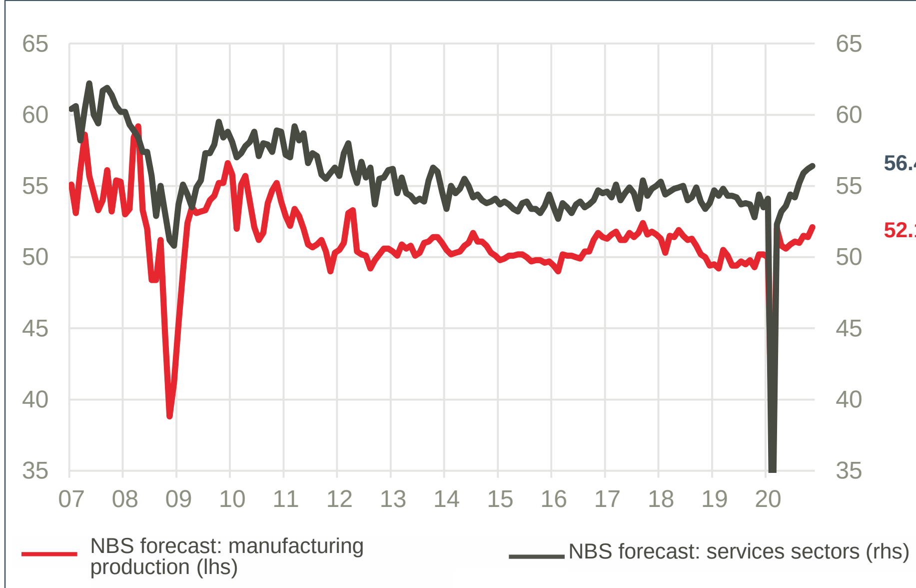
China

Momentum improves further

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



Business confidence**

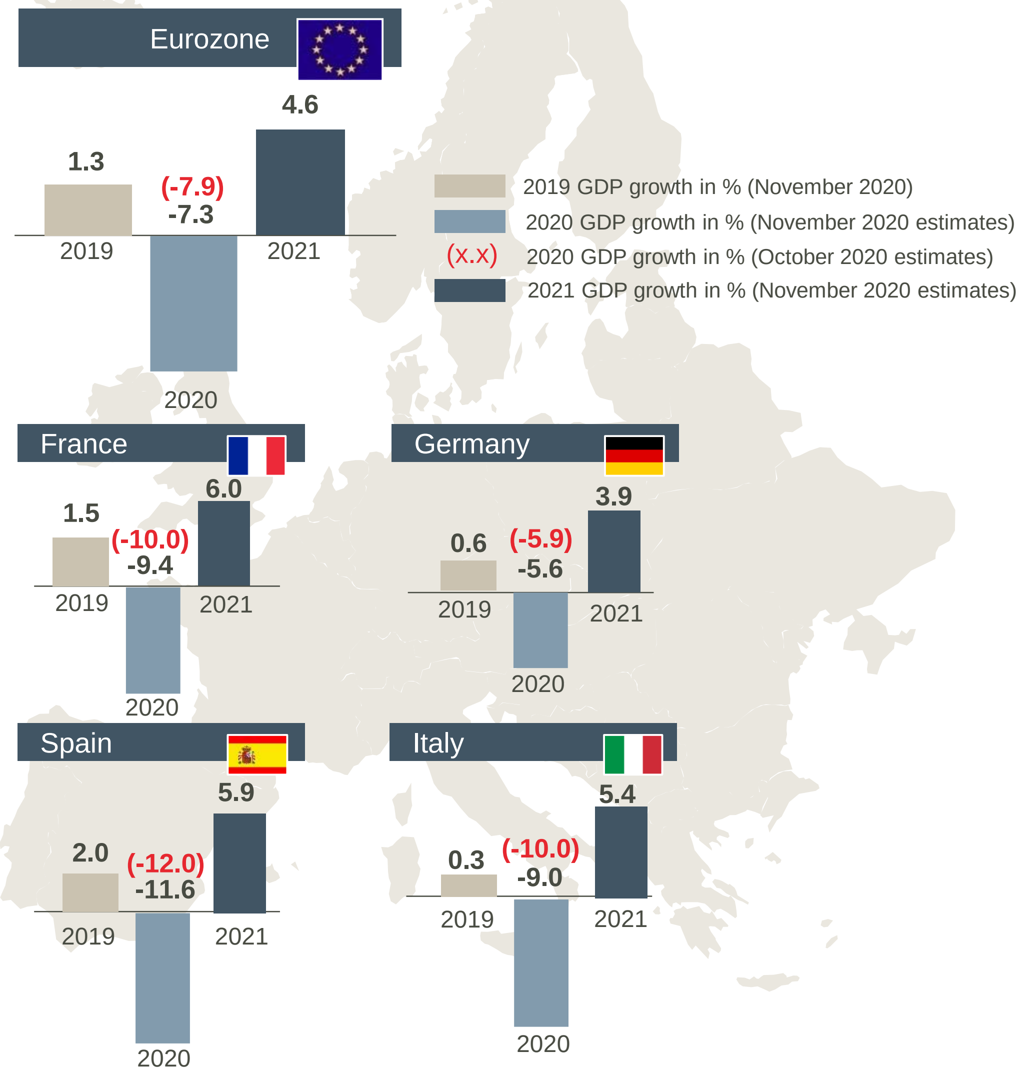


- Strong November PMI show that the recovery is alive
- NBS manufacturing PMI came in above expectations, rising 0.7pt to 52.1 (the highest since October 2017)
- Caixin manufacturing PMI beat expectations again in November, rising 1.3pts to 54.9, the highest reading since December 2010
- The rising employment component suggests that finally the recovery has been feeding through to the labor market

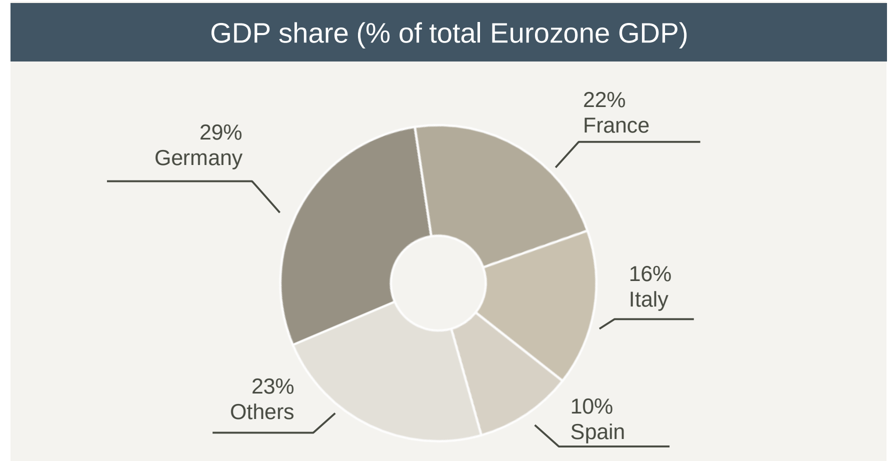
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 11/30/2020 | **Data as of 11/15/2020

Eurozone

Q4 GDP with downside risks



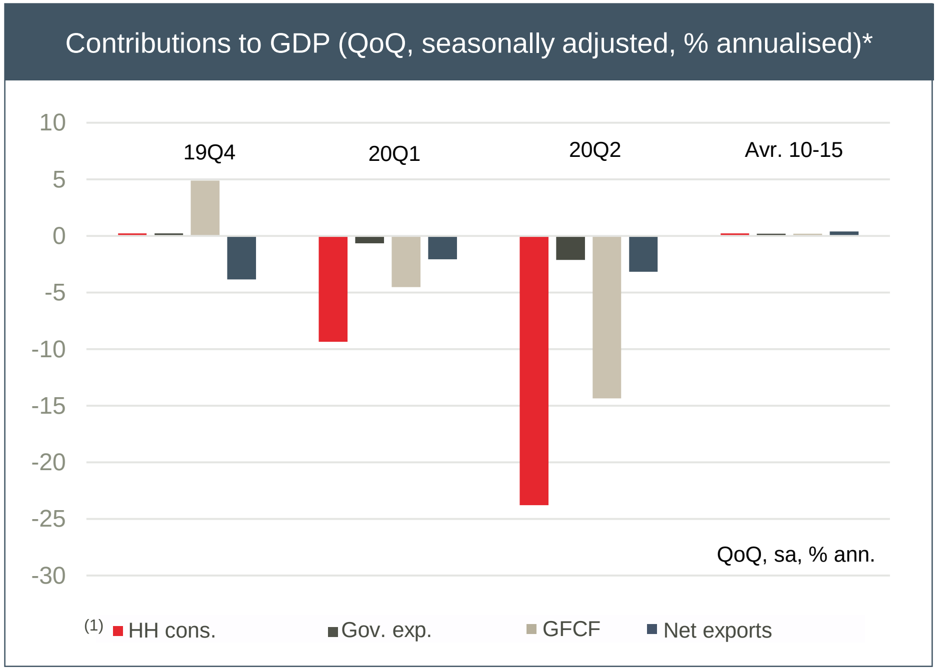
Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 11/2020

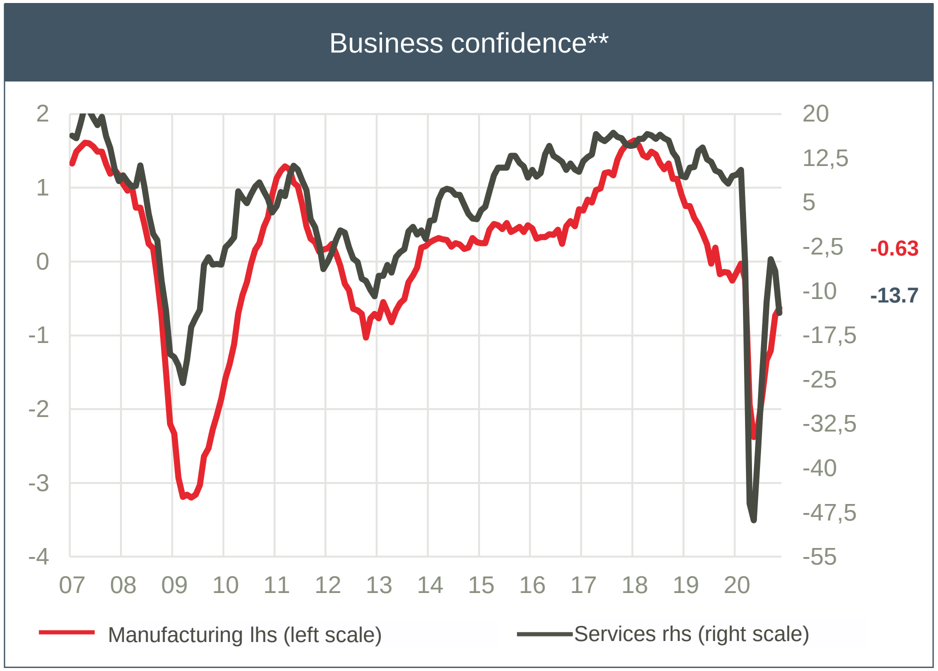


- As most governments have imposed lockdowns and restrictions, Q4 will see a significant contraction of about 3-3,5%. This is unpleasant, but very moderate compared to Q2 (-11,8% qoq)
- Germany appears to be the laggard because the lockdown was late and light compared to other European countries
- Since restrictions especially in Germany may continue for longer, the risk of some economic weakness spilling over into Q1 2021 has increased

Eurozone

No relief yet





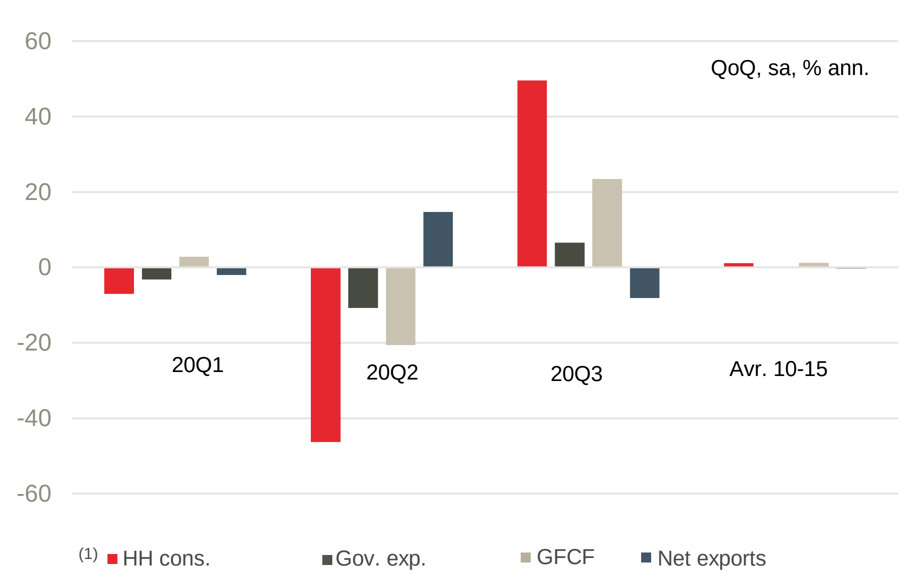
- November composite PMI collapses almost 5 points to 45,3
- The great divergence between relatively resilient manufacturing indicators and soft service activities remains in place
- As does the regional split between Germany on one side and France, Italy, Spain on the other in the light of different lockdown regimes
- October data in Germany quite strong with 2,6% mom in retail sales and 3,2% for industrial production

(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 11/30/2020 | **Data as of 11/15/2020

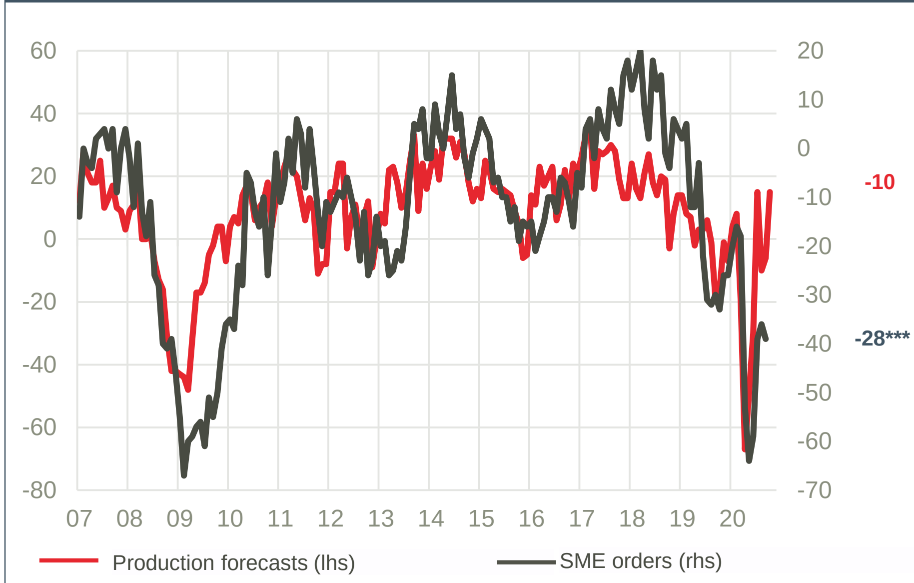
United Kingdom

Still some evidence for a bare-bone Brexit deal

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



Business confidence**



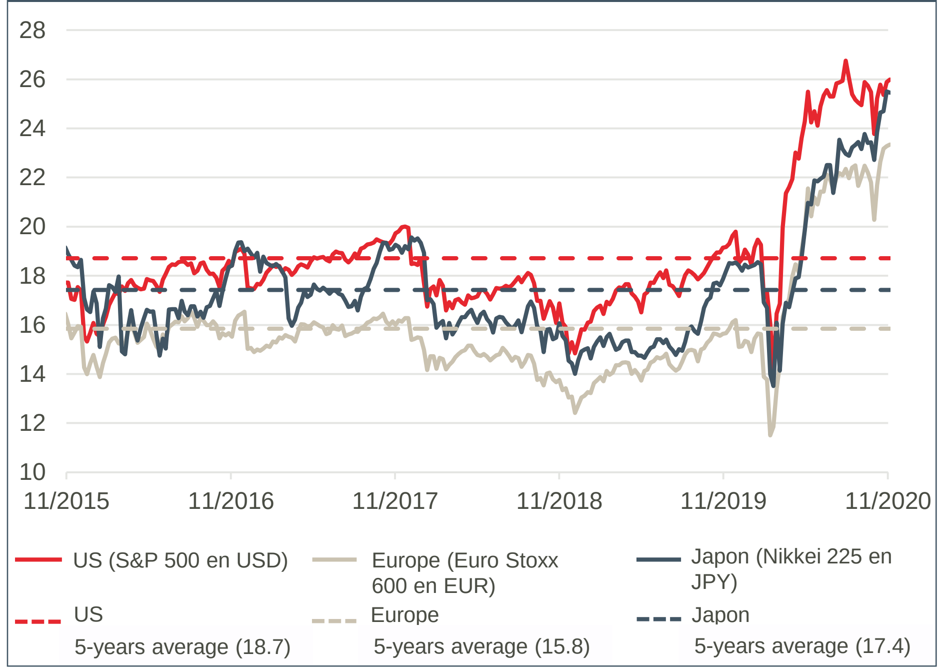
- Incoming data have been surprising to the upside
- Manufacturing PMI at 55,6 at a healthy clip
- Services PMI at 47,6 almost two points above expectations
- Brexit deal will be crucial for maintaining the momentum

(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 11/30/2020 | **Data as of 11/15/2020 | ***Data as of 10/15/2020

Equities – Overview

5-year equity market performance

5-year price/earning ratio



- After equity markets crashed in the final weeks of October, facing US elections and imminent return of European lockdowns, November saw an immediate rally, taking global markets to new all time highs.
- After a few breathtaking days of uncertainty, equity investors praised the US elections outcomes, with J.Biden probably facing a Republican Senate. Trade-wars are thus expected to recede while the major tax-hike plan scenario also seems avoided.
- Msci World (in local currency) moved up 12%, with EuroStoxx50 jumping 18%, and US small-caps strongly overperforming (+18% vs +11% for S&P500).
- The main movers were « value » sectors or geographical areas, while « high PE ratio » exposures were penalized as US yields moved somewhat higher.
- Emerging markets, which had been quite defensive in the previous meltdown, only gained 9% globally, also with a sudden rotation into « value » areas (Msci Brazil 24%, Russia 21%,, Thailand 21% Mexico 19%...)

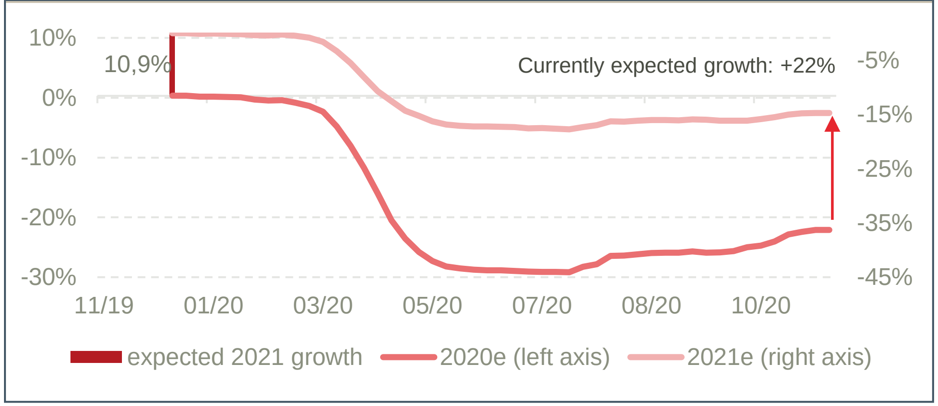
Past performances are not a reliable indicator of future performances and are not constant over time.

*See Glossary, page 27 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 11/30/2020

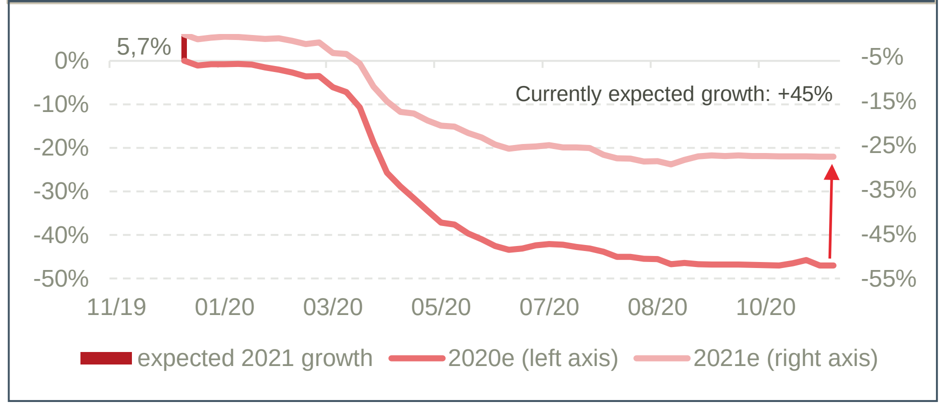
Equities – EPS trends*

*estimated earnings revisions & changes in expected growth

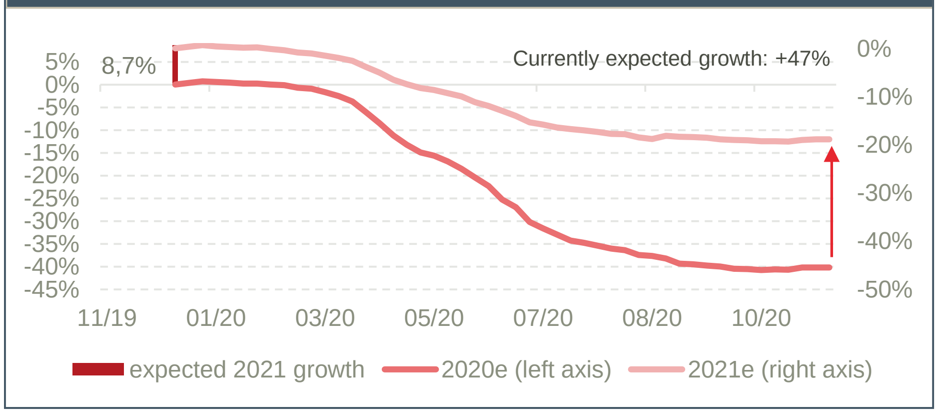
MSCI USA



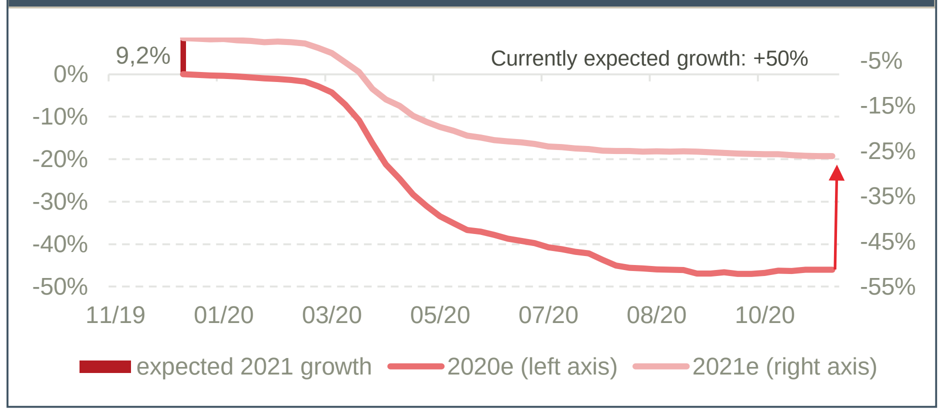
MSCI UK



Topix



Zone Euro



- Estimates for both 2020 and 2021 earnings are rather stable since end of August, except in the US where 2020 estimates are rebounding (mainly due to Q3 publications).
- This US improvement still doesn't extend significantly into 2021 expectations, as companies communicated about future headwinds and the end of the V-shape recovery, especially Covid 19 3rd wave starts to hit North America.
- JPY and EUR recent appreciation vs USD partly explains the less vigorous EPS trend in Japan and Eurozone.

Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 11/30/2020

European equities

Normalisation of risk premiums with the announcement of vaccines. Focus on the momentum of the earnings review

	12-month forward P/E, Nov. 2020	2018 EPS growth	2019 EPS growth	2020 EPS growth	2021 EPS growth	Dividend yield	YTD Perf.	1 month perf.
STOXX Europe 600	17,7 x	5%	3%	-30%	32%	3,0%	-5,2%	8,5%
Commodities								
Basic resources	13,4 x	-2%	-24%	-5%	33%	4,3%	7,4%	22,9%
Oil & Gas	17,4x	40%	-16%	-86%	315%	4,4%	-22,2%	29,3%
Cyclicals								
Automotive and spare parts	13,9 x	-10%	-17%	-85%	654%	2,9%	0,9%	17,5%
Chemicals	23,3 x	4%	-13%	-23%	37%	2,5%	3,8%	3,8%
Construction and materials	18,2 x	7%	17%	-25%	33%	2,8%	-1,9%	8,4%
Industrial goods and services	23,0 x	5%	6%	-30%	32%	2,1%	1,4%	8,3%
Media	18,3 x	10%	0%	-33%	29%	2,8%	-10,7%	9,3%
Technologies	28,0 x	8%	7%	-6%	19%	1,0%	15,3%	10,2%
Travel & leisure	-660,5 x	-4%	-5%	-347%	99%	0,7%	-16,1%	23,0%
Financials								
Banks	12,0 x	13%	2%	-51%	36%	4,2%	-19,2%	29,9%
Insurance	10,3 x	9%	7%	-22%	34%	5,4%	-14,6%	17,6%
Financial services	14,2 x	-42%	140%	-17%	-9%	2,9%	1,0%	9,2%
Real estate	17,9 x	19%	0%	-6%	12%	3,6%	-14,7%	8,3%
Defensives								
Food & beverages	21,7x	4%	7%	-13%	+11%	3,2%	-8,2%	+5,7%
Healthcare	17,9 x	4%	6%	0%	11%	2,6%	-3,5%	-2,5%
Household & personal care	18,4x	7%	2%	+2%	+1%	3,1%	-0,8%	-3,8%
Retailing	25,9 x	6%	0%	-45%	66%	2,1%	8,2%	10,0%
Telecommunications	14,8 x	-9%	-5%	-4%	9%	4,6%	-12,7%	9,5%
Utilities	16,8 x	-12%	24%	-9%	13%	4,3%	4,1%	3,9%

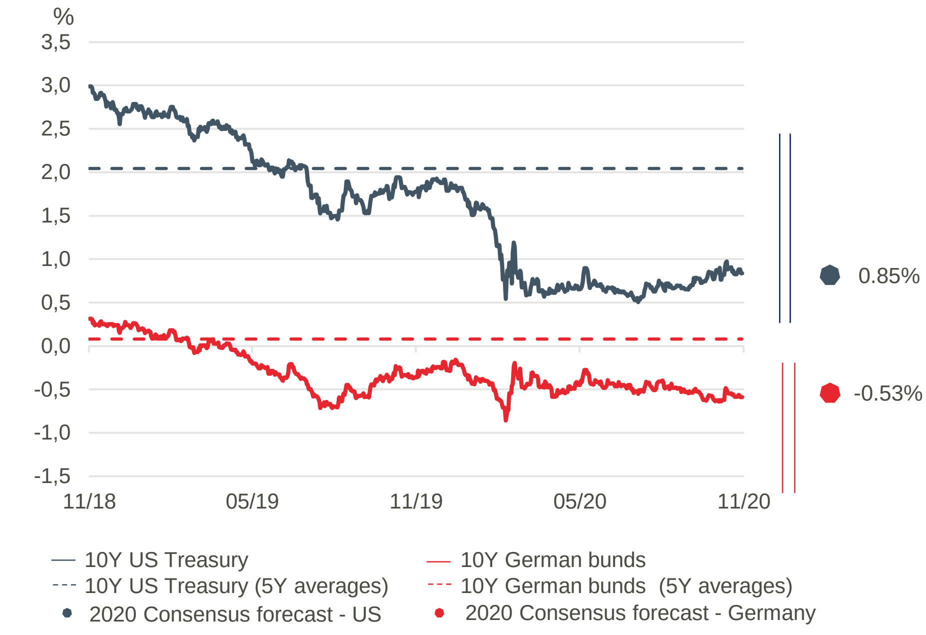
Source: ODDO BHF AM SAS, FactSet. Figures as of 12/04/2020

- November was a record month in terms of both the absolute performance of the indices and the violence of the rotation of growth/value styles and defensive/cyclical themes.
- The announcement of effective vaccines makes it possible to envisage a return to normality in certain sectors of the economy and therefore a significant adjustment of risk premiums in the sectors most affected by the pandemic.
- While this rotation towards multiple lows has been historic in its magnitude, it has been accompanied by a very favourable earnings revision momentum in recent weeks, particularly in the banking, automobile and commodities sectors.
- The rotation towards value may continue with the improvement in earnings momentum and the economic recovery expected for 2021.
- However, the structural driver for the rise in interest rates is still missing. Advantage in this context to quality growth cyclicals.
- Despite an impressive track record, the technology sector should perform well, particularly through its cyclical components (software and IT investments).
- After a period of marked underperformance due to turnover and the US elections, the healthcare sector is returning to an extremely attractive risk/reward profile.

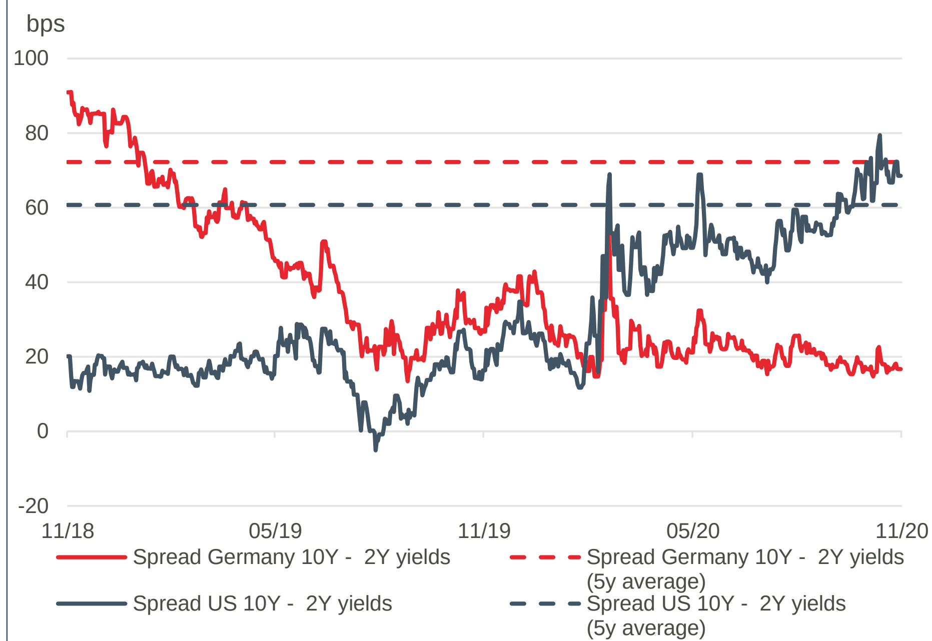
Fixed income – Rates

Bunds unscathed by higher US rates for now

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



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



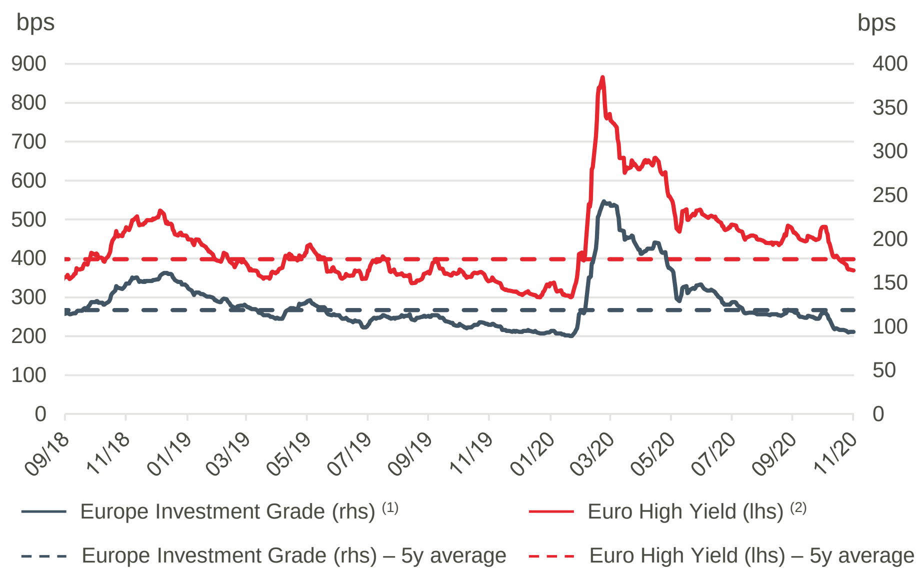
- US Treasuries rates have been under some upward pressure as expectations for a fiscal deal were revived
- This has also resulted in a steeper US curve
- Meanwhile, Bund yields continue to trade in a very narrow range, leading to the widest Bund/US Treasury spread since March
- We expect this rangebound environment to hold for now unless the ECB were to cut the depo further, opening also leeway for longer yields to grind lower

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 11/30/2020; RHS: Data as of 11/30/2020

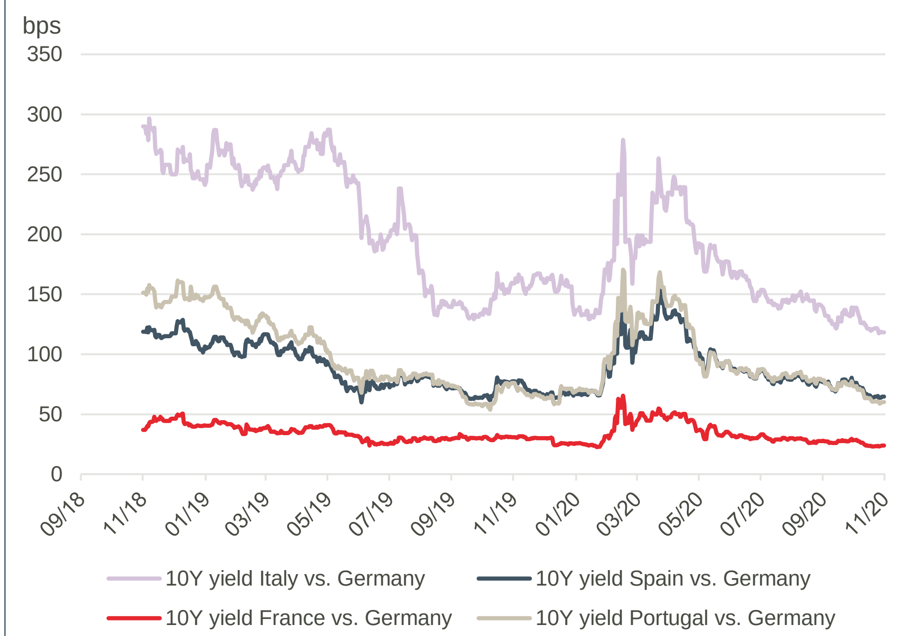
Vaccine-news and Biden-win propelled spreads lower

Credit spreads IG & HY (over 2 year)



(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)



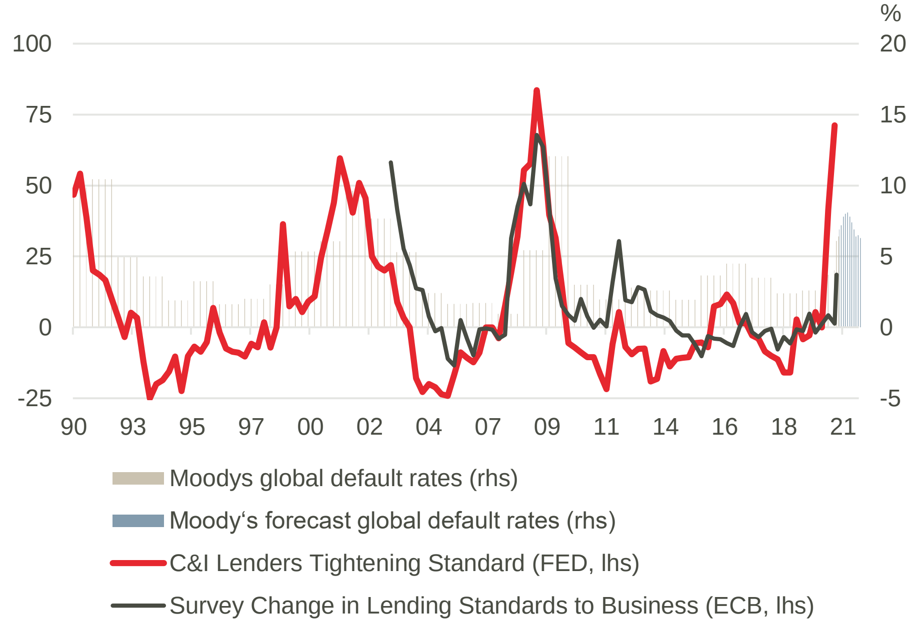
- November marked a tremendous spread rally across all credit segments
- High yield bonds posted one of the best months since years
- Investment grade papers are now back at the January spread levels
- Further spread tightening might be harder to achieve, but ECB and favorable demand supply dynamics keep compression intact

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

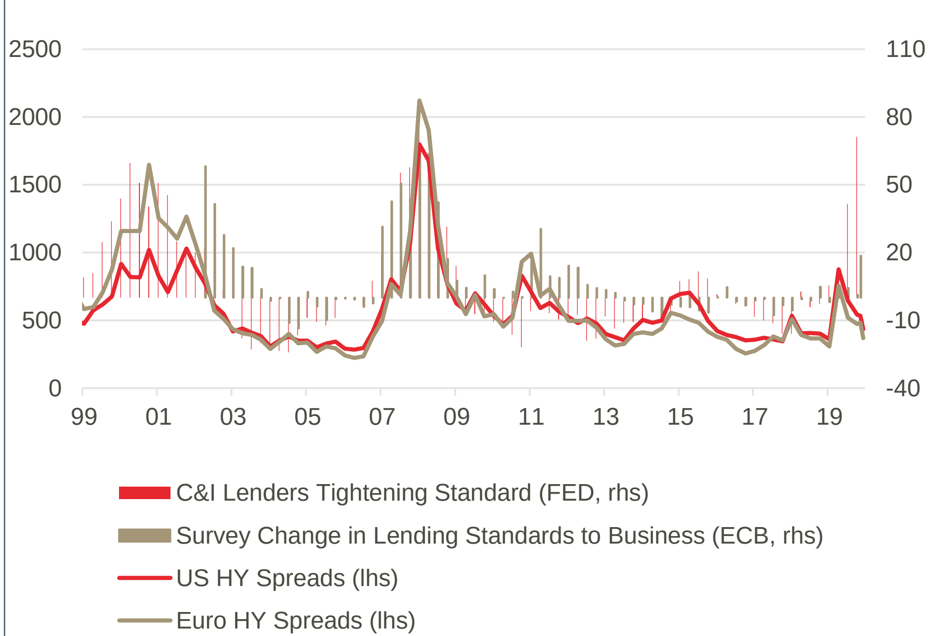
Sources: ODDO BHF AM SAS, Bloomberg │Data as of 11/30/2020

Commercial and industrial lending standards

Lending standards and default rate



Lending standards and spreads

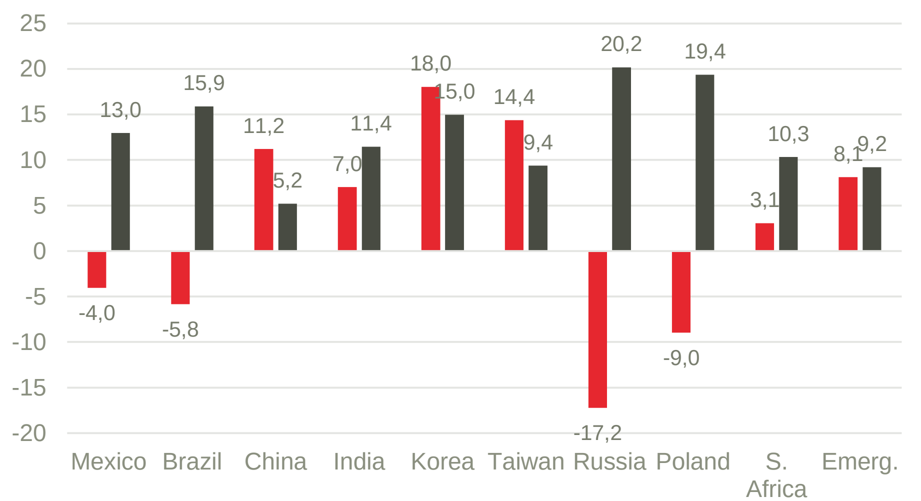


Source: Moody's as of 11/30/2020, Fed, ECB, Bloomberg | Data as of 11/30/2020

Emerging markets

Catch-up potential

Equities performance on major emerging markets



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

- Emerging equities underperformed their DM peers in November
- But still muted investor inflows leave potential for catch-up
- EM debt spreads have lagged the rally in credit spreads and offer still attractive carry
- We diversify from EM hard currency bonds into local bonds in order to profit from local currency potential

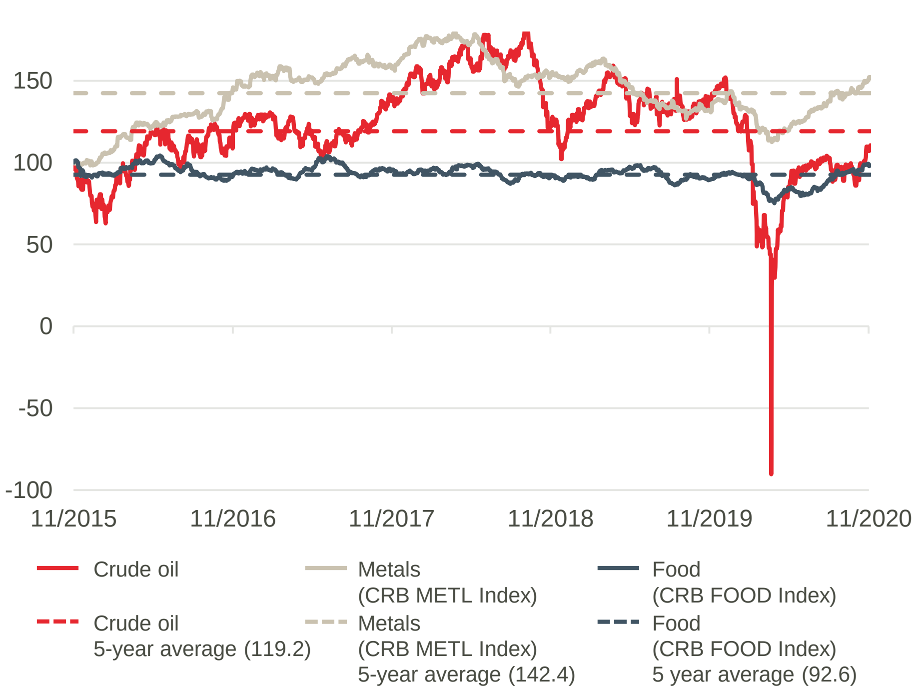
Past performances are not a reliable indicator of future performance and are not constant over time.

Sources: Bloomberg, ODDO BHF AM SAS | Data at 11/30/2020

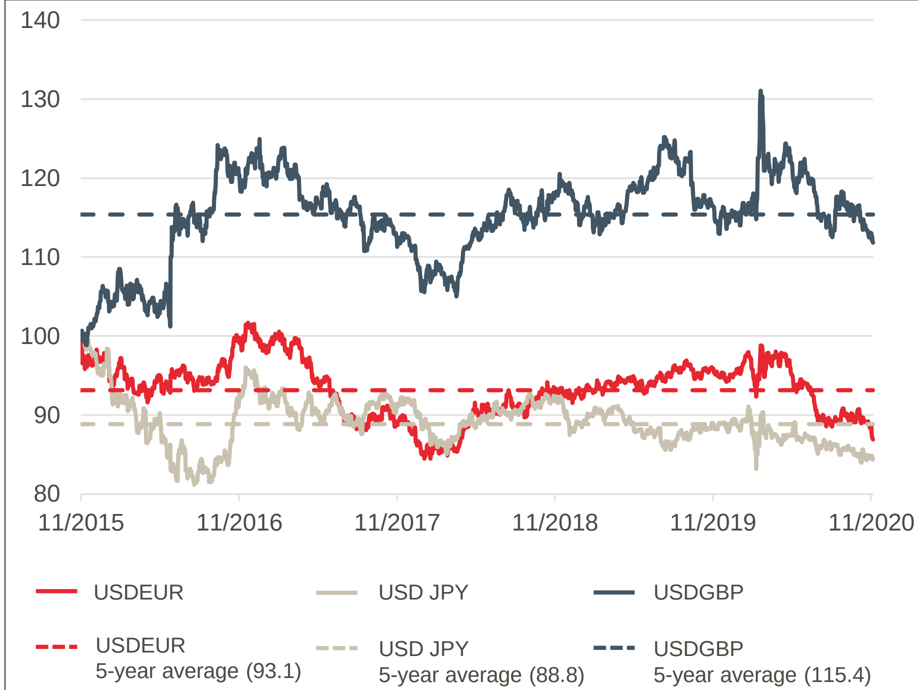
Currencies and commodities

Euro rally will not be sustained near-term

Commodities - Change over 5 years



Currencies - Change over 5 years

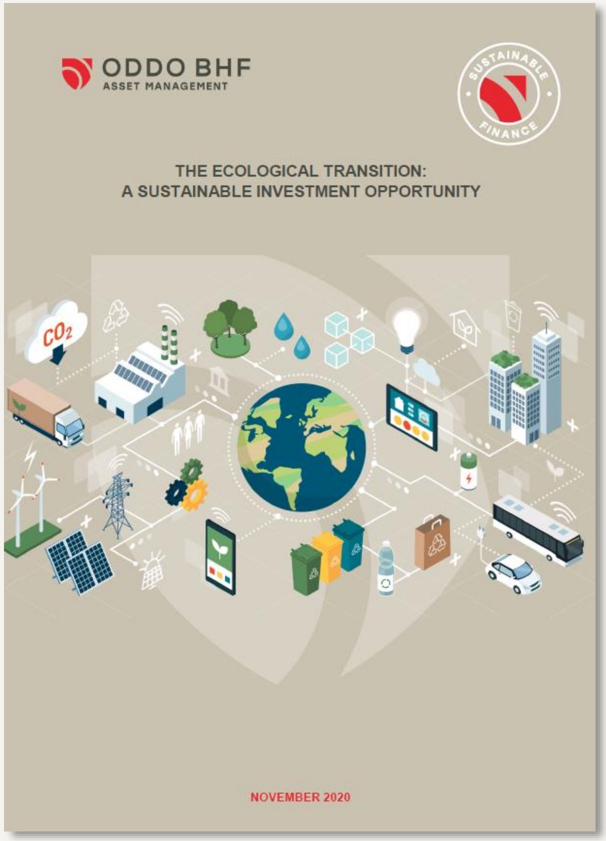


- EUR/USD managed to jump over 1,21, out of the recent trading range
- Two Euro supporting factors have lost steam: The interest rate differential is increasing again and growth dynamics speak for the US rather than the Eurozone
- Structural twin deficits in the US are a point of weakness, but are unlikely to exert pressure near-term
- Therefore, the potential for imminent Euro gains should be very limited and a subsequent USD bounce becomes quite likely

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 11/30/2020

Our publications on sustainable finance



There is a growing awareness of the need to steer a global ecological transition that will take us towards a model of sustainable development, with new ways of producing, consuming and travelling.
In response to this challenge, both public and private actors must rally in meeting investment needs of $1500bn to $2000bn annually between now and 2030.
ODDO BHF Asset Management wants to play an active role in this effort, including the reallocation of financial flows to the ecological transition. To do so, we have identified opportunities for significant growth and creation of value in four main areas of the transition: clean energy, energy efficiency, sustainable mobility and conservation of natural resources.

Discover our new whitepaper: **"The ecological transition: a sustainable investment opportunity"**

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 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.

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Notes