



Investment strategy – *Defying gravity*

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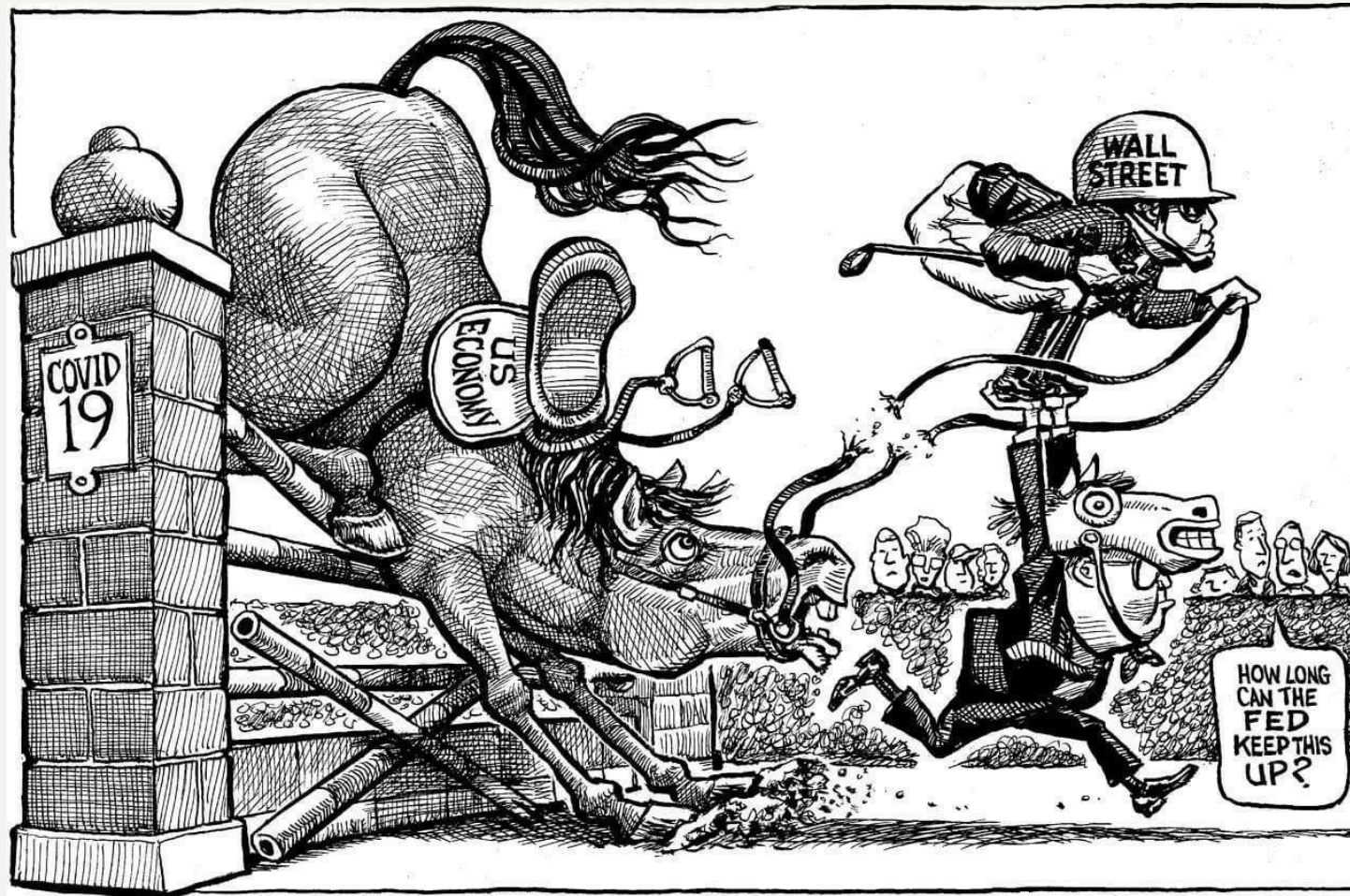
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01 WHERE DO WE STAND?

Is it still time to invest in risky assets?

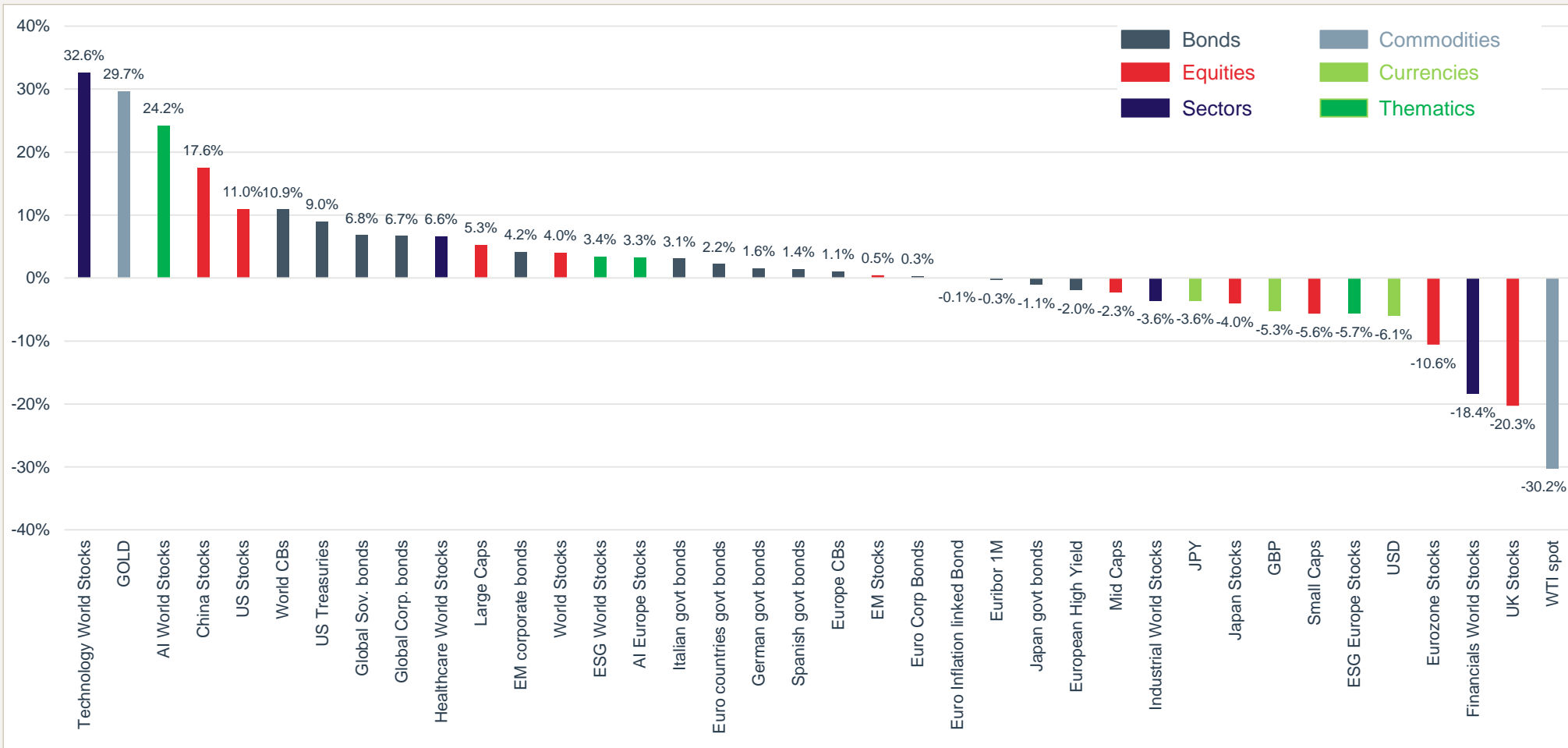


Source: ODDO BHF AM, Economist.com

Tech continues to set records amidst an overall retracing of almost 80%

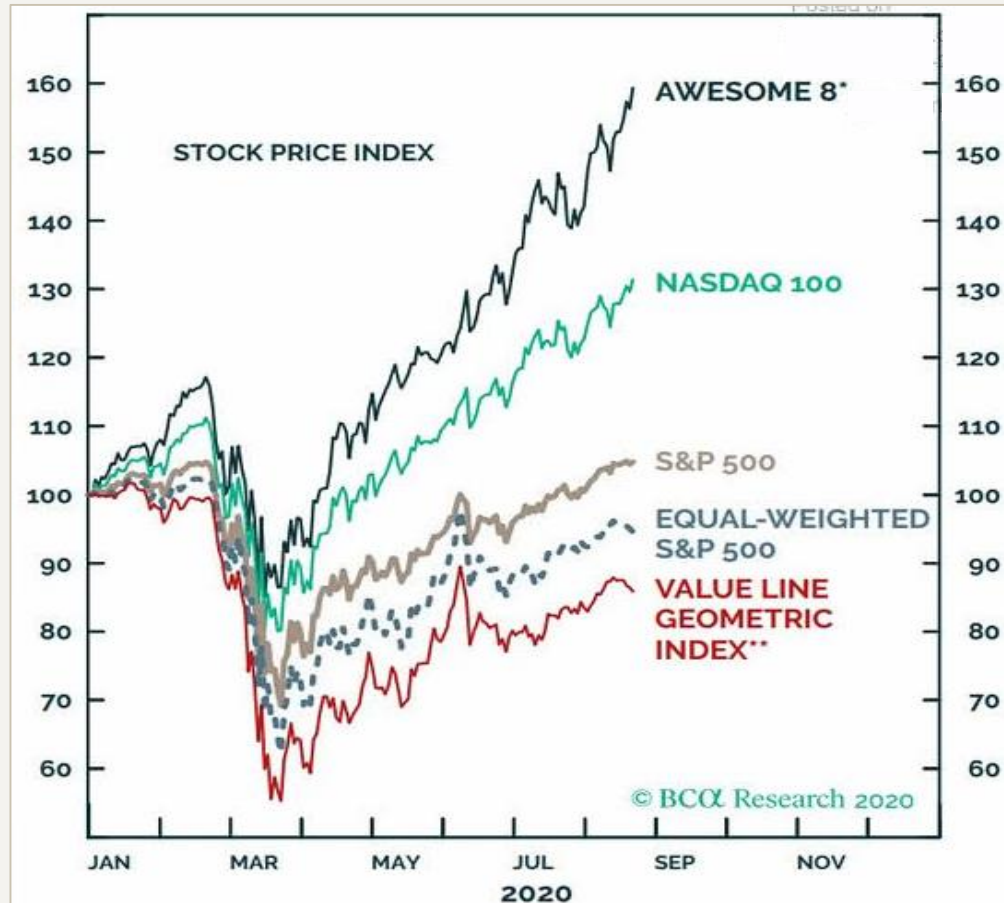


Year-to-date performances of asset classes



Source: ODDO BHF AM, Bloomberg, 08/31/2020

Behind the *mask* of technology, less flourishing performances



* Market cap weighted index of Amazon, Apple, Facebook, Google, Microsoft, Netflix, Nvidia, Tesla

** Index tracks the median move of stocks using equally-weighted values and is calculated geometrically rather than arithmetically

Source: ODDO BHF AM, BCA Research

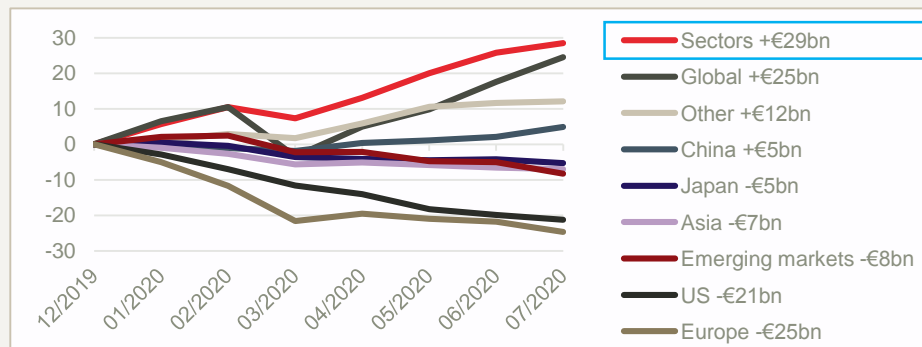
Money-market, technology, healthcare, the environment: all safe havens?



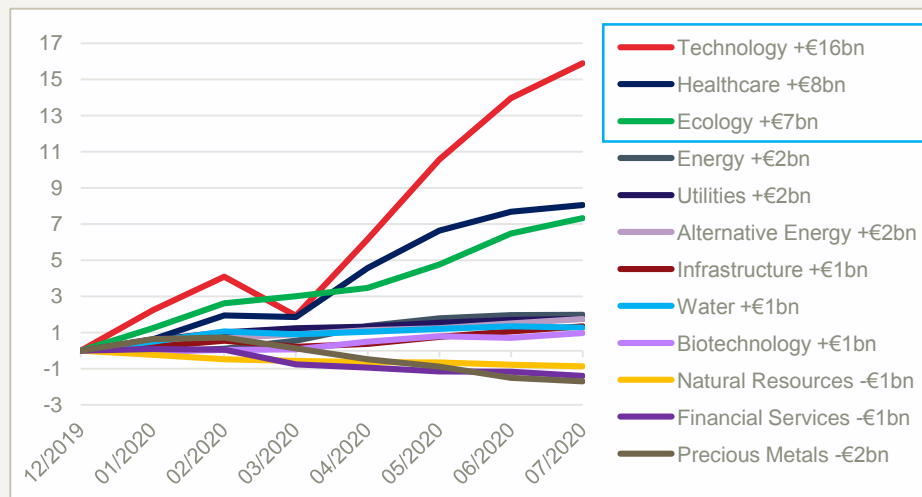
YTD change in AUM by asset class worldwide

Asset class	% AUM
Money market	19.7%
Fixed income	2.2%
Equities	-0.3%
<i>Global</i>	1.3%
<i>US</i>	-0.4%
<i>Europe</i>	-2.2%
<i>Japan</i>	4.8%
<i>Emerging markets</i>	-3.8%
Active equity	-2.2%
Passive equity	1.8%

YTD flows in european equity mutual funds (ex ETFs)



YTD flows into the main thematics/sectors (ex ETFs) (€bn)

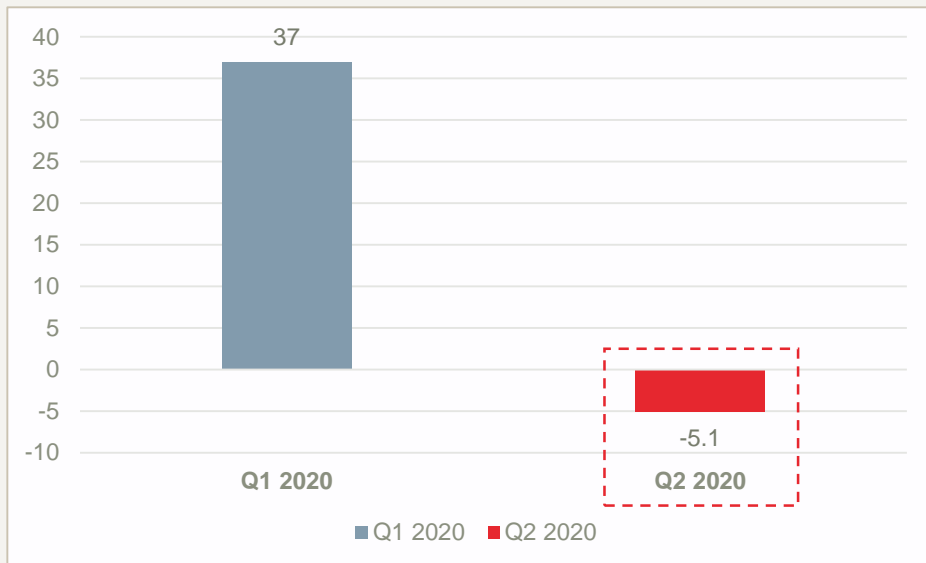


Source: ODDO BHF AM, EPFR Global, BofA | Morningstar categories, data as of 07/31/2020

Institutional investors have been cautious since the crisis began But not retail investors: « *it's time to do money* »



German example: Institutional investors flows* (€bn)



European example: YTD mutual fund flows (€bn)

	01/20	02/20	03/20	04/20	05/20	06/20	07/20	YTD
Fixed Income	27.5	23.9	-132.4	18.0	25.6	26.8	19.7	9.2
Other	2.8	2.1	0.5	0.6	0.5	0.7	0.7	8.0
Equities	6.8	-3.4	-44.4	20.2	7.9	12.5	3.8	3.5
Allocation	7.7	2.7	-27.2	0.5	3.6	9.8	6.0	3.2
Convertibles	0.1	-0.2	-2.8	-0.4	-0.1	0.2	-0.3	-3.5
Alternative	-0.4	-0.6	-19.4	-7.1	-3.5	-3.9	-2.4	-37.3
Total	44.5	24.6	-225.6	31.9	34.1	46.0	27.6	-16.9

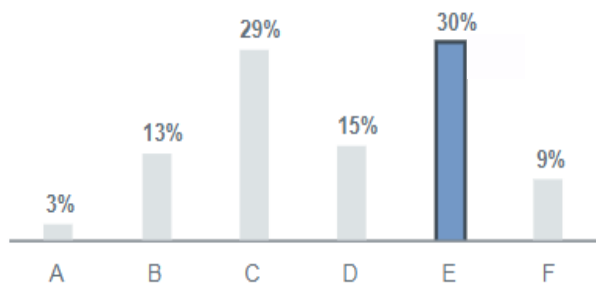
*flows into real estate, securities and private equity funds

Source: ODDO BHF AM, BVI, Morningstar. Data as of 07/31/2020 (Europe OE ex ETF ex MM)

But for how much longer?

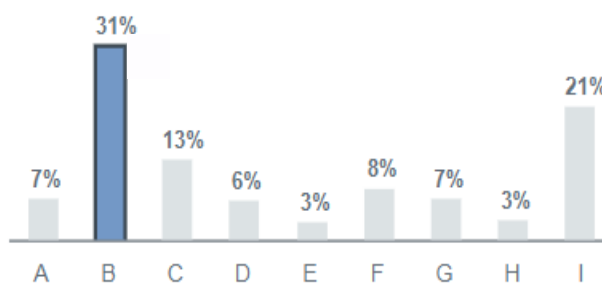


1. What's your view on risky assets?



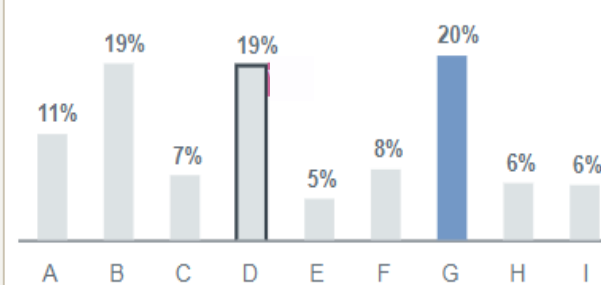
- A No Conviction
- B Bearish
- C Slightly Bearish
- D Neutral
- E Slightly Bullish
- F Bullish

2. What is your favorite asset class to go long?



- A No View
- B DM Equities
- C EM Equities
- D DM Govt Bonds
- E EM Govt Bond
- F Credit
- G USD FX
- H Crude
- I Gold

3. What is your favorite asset class to short?



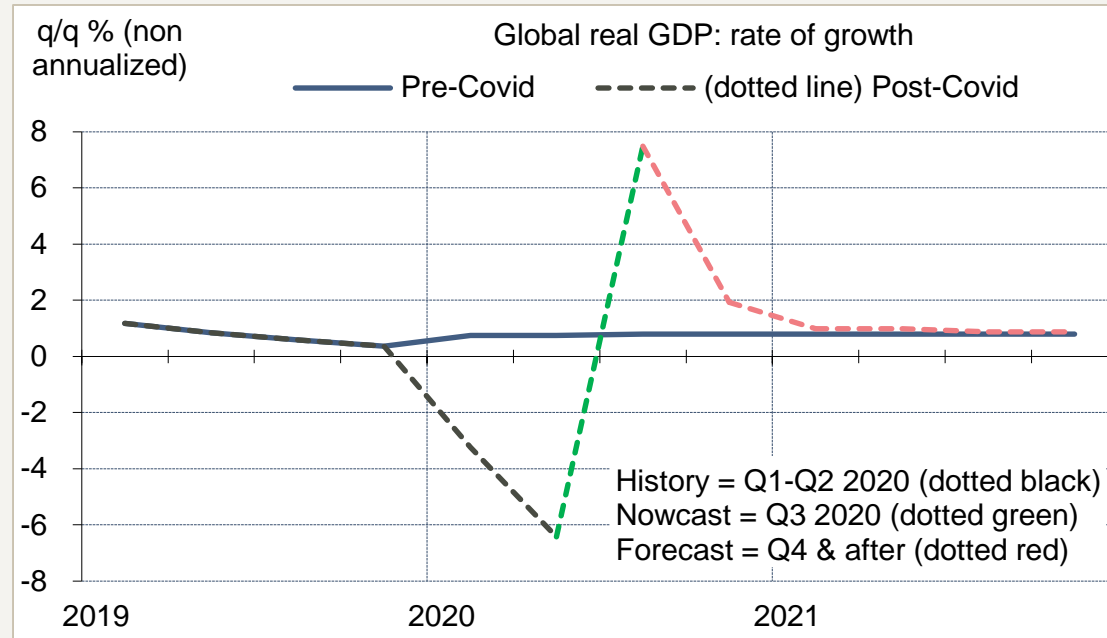
- A No View
- B DM Equities
- C EM Equities
- D DM Govt Bonds
- E EM Govt Bond
- F Credit
- G USD FX
- H Crude
- I Gold



02 MACRO ECONOMIC PERSPECTIVES



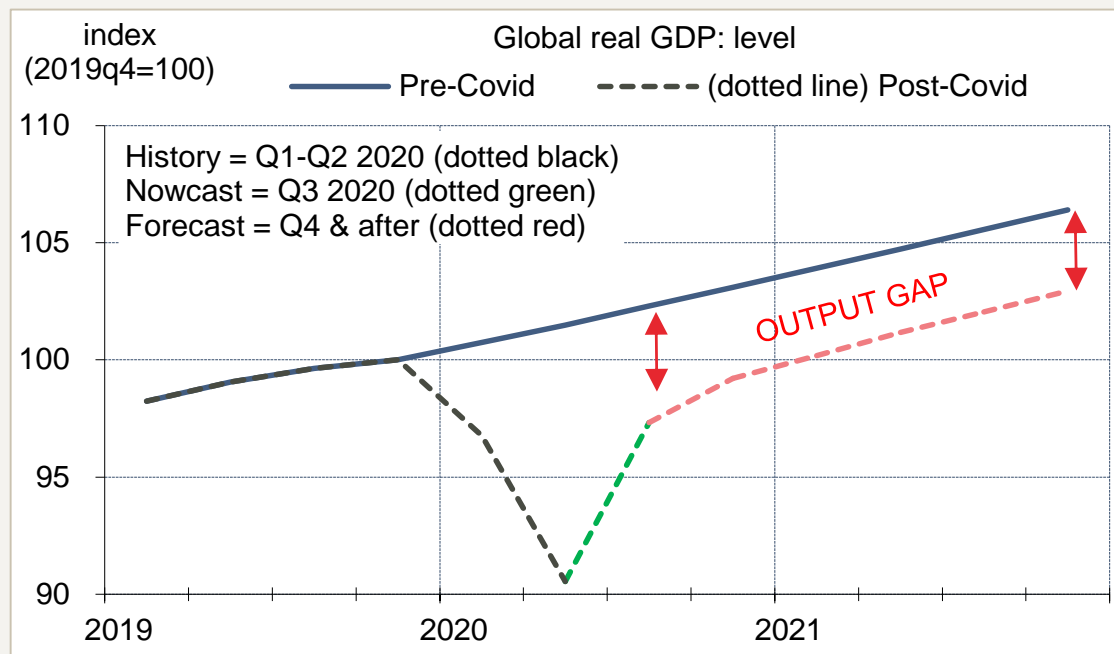
Economic collapse is confirmed in H1 2020 → Strong (technical) rebound is underway since May



- Real GDP growth (quarter-on-quarter non annualized figures)
 - Q1 2020: Global -3.2% / US: -1.3% / Eurozone: -3.6% / China: -10.0%
 - Q2 2020: Global: -6.4% / US: -9.1% / Eurozone: -12.1% / China: +11.5%
 - Q3 2020: Global: ≈+7.5% (nowcast estimate)
- Recession is more severe / more global / but shorter than in 2008-09

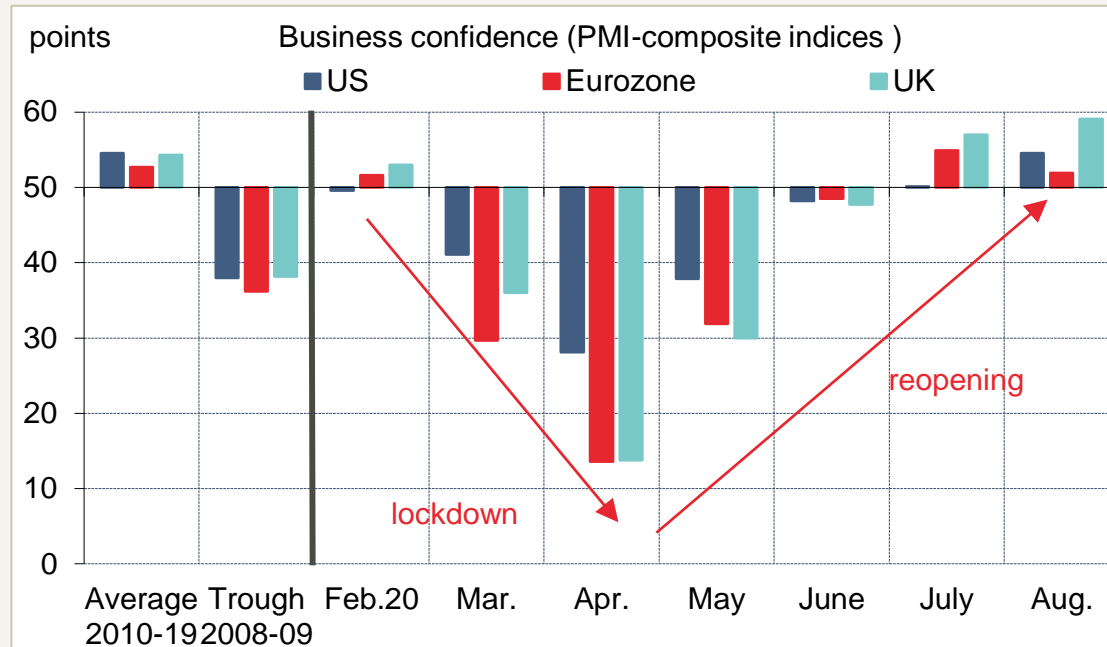
A complete revamp of the economic outlook

→ Downward revision seems to be over



- **Current consensus forecasts for global GDP growth (year average)**
 - 2020: $\approx -4.5\%$ (too pessimistic, given the ongoing recovery / $\approx -3.25\%$ is more likely in our view)
 - 2021: $\approx +5.5\%$ (the range of outcomes around this figure is quite extensive in our opinion)
 - The two years combined would leave global real GDP approx. 5% below its pre-crisis trend
- **Higher output gap implies inflation pressure will remain muted**

Business is back in expansion, with huge differences across sectors → A short-term relief, but investment plans on hold

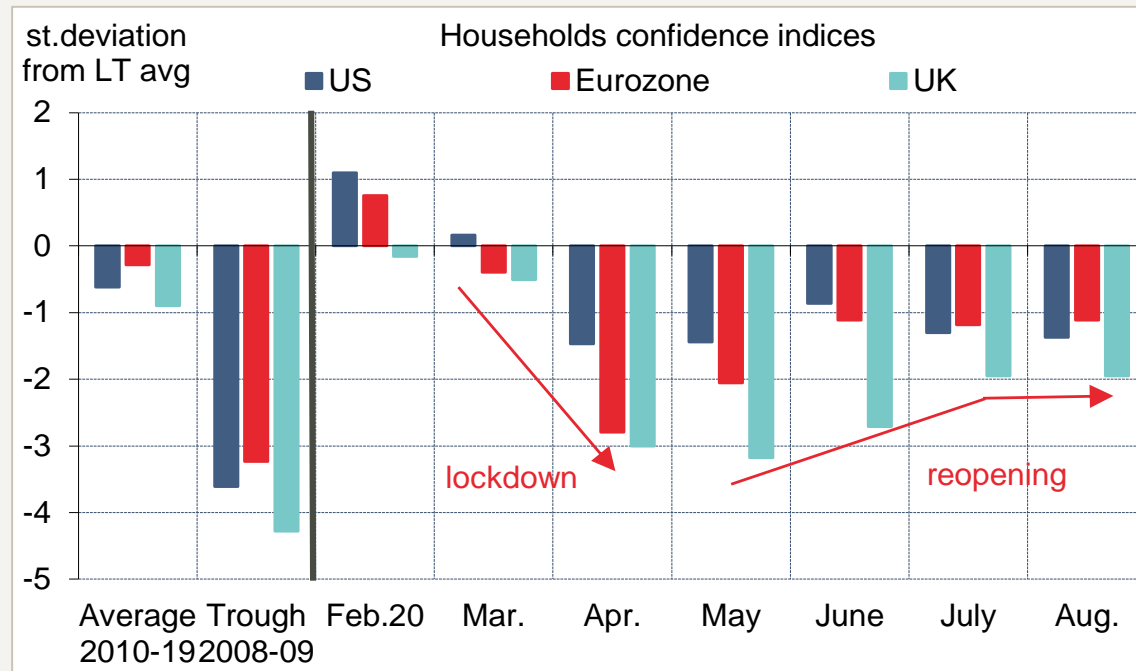


- **Business confidence**

- Unprecedented moves, both down and up.
- Macro data was unanimously negative (Mar-April), then positive (May-to-date).
- Going forward, the economic newsflow is likely to get more mixed

A strange recession from the households' viewpoint

→ The negative impact might be delayed

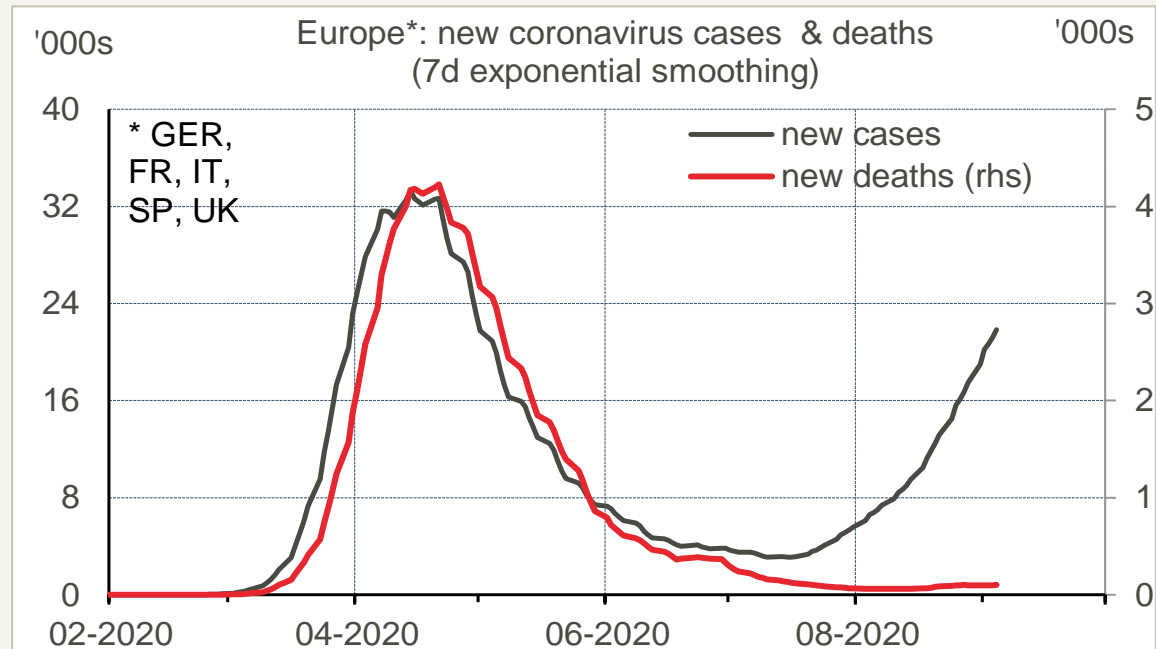


- **Consumer confidence / spending / wealth**

- The lockdown-related decline in confidence was cushioned by income-supporting measures
- The rebound is hampered by unemployment fears
- The pandemic paradox: households (at the aggregate level) became richer
- Spending on goods is back to / above its pre-virus level, but that's not the case for services

Events to watch (1) – First and foremost, the pandemic situation

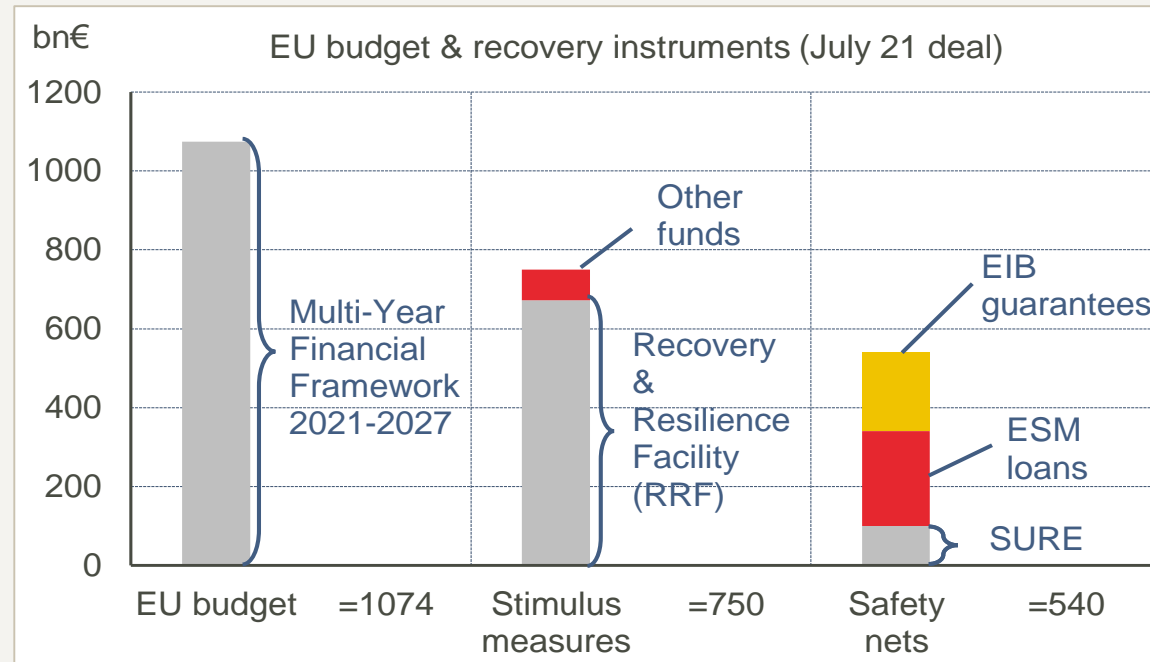
→ More cases but no appetite for new lockdowns



- Still many unanswered regarding the virus
 - How deadly is it? Is it seasonal? How do people catch it? Where are we in the quest for treatments? What is the immunology of this virus?
- Macro implications: a higher degree of uncertainty / a lower level of mobility (and activity)
 - Back-to-normal conditions unlikely as long as there is no mass-scale vaccination

Events to watch (2) – Economic policy

→ Fed and ECB committed to easing / EU fiscal U-turn



- **Monetary policy stance**

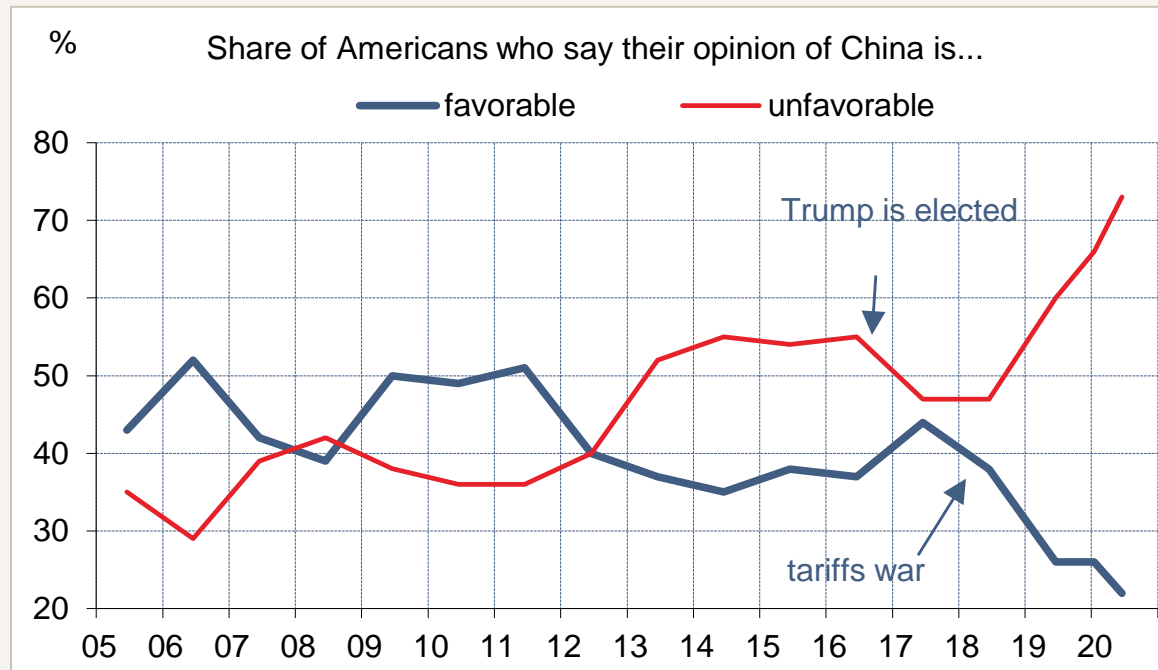
- Policy rates: lower for longer / QE: no pre-set limits / Strategy: inflation overshooting is desired (easier said than done)

- **Great expectations regarding the EU stimulus plan / Implementation will take time**

- For the first time since the euro was created, the dogma of fiscal restraint is unlikely to frame the European policy-mix in the years to come. Fiscal stimulus plans are part of policy communication. Do not mix announcement and implementation (possible delays and failures).

Events to watch (3) – Politics

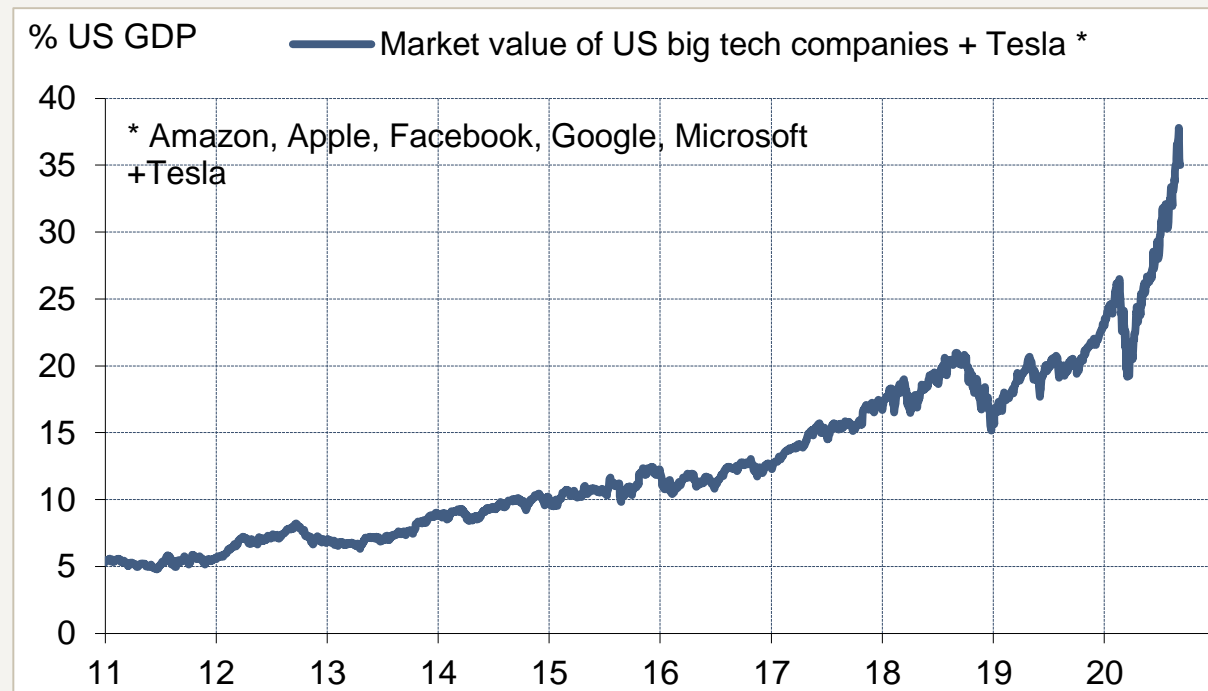
→ Baseline assumptions: Biden victory / no-deal Brexit



- **US elections (Nov 3rd): Presidential election is key, but the Senate race is also very important**
 - Democrats united to kick Trump out of the White House / Biden policy stance: on the left of Obama, but not as radical as Trump claims / US-China tensions likely to remain / Not sure that the final result will be known on the day of the election (in-mail voting)
- **Brexit (Dec.31): 3 unsettled issue: 1) fisheries, 2) level playing field, 3) governance of the FTA**
 - October 31 is the real deadline if a FTA is to be ratified before the end of 2021

Events to watch (4) – Financial risk

→ Low rates encourage growth... and financial excess



- Overall financial conditions have normalized, but there are signs of unsustainable developments
 - Thanks to central banks' intervention, a financial crisis has been avoided
 - Low interest rates and the commitment to keep them low is positive for the recovery
 - There are signs that some valuations are moving away from fundamentals (definition of a bubble)
 - Another round of financial instability would delay/hamper the recovery

Our GDP forecasts (updated Sept.3rd)



- 2020 might not be as bad as initially expected
- The momentum will slow down from Q3
- Forecasts' uncertainty for 2021 higher than usual
- Baseline scenario: positive factors will prevail

	FORECASTS - REAL GDP GROWTH*																
	Average			2019				2020				Consensus**		IMF		OECD	
	2019	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	2020	2021	2020	2021
World	3.1	-3.2	5.9											-4.9	5.4	-6.0	5.2
US	2.2	-4.2	4.6	2.9	1.5	2.6	2.4	-5	-32	26	7	-5.2	4.0	-8.0	4.5	-7.3	4.1
EMU	1.3	-6.6	5.9	2.0	0.8	1.1	0.1	-14	-40	57	7	-7.9	5.7	-10.2	6.0	-9.1	6.5
- Germany	0.6	-5.3	4.6	2.5	-2.0	1.2	-0.1	-8	-33	35	7	-6.1	4.7	-7.8	5.4	-6.6	5.8
- France	1.5	-8.2	7.8	2.2	1.0	0.6	-0.8	-21	-45	91	5	-9.6	7.2	-12.5	7.3	-11.4	7.7
- Italy	0.3	-8.3	6.8	0.8	0.5	0.0	-0.9	-20	-42	71	7	-10.2	5.7	-12.8	6.3	-11.3	7.7
- Spain	2.0	-10.2	7.5	2.3	1.5	1.6	1.7	-19	-56	98	7	-11.7	6.9	-12.8	6.3	-11.1	7.5
UK	1.5	-9.0	6.1	2.7	-0.2	2.1	0.0	-8	-60	97	13	-9.9	6.4	-10.2	6.3	-11.5	9.0
Japan	0.7	-5.4	3.0	2.8	1.7	0.2	-7.0	-2	-28	17	7	-5.3	2.5	-5.8	2.4	-6.0	2.1
China (y/y%)	6.2	1.8	8.1	6.4	6.2	6.0	6.0	-7	3	5	6	2.1	7.8	1.0	8.2	-2.6	6.8
	*y/y or q/q annualised rate, except for China (y/y% only)											**10 Aug. 2020		24 June 2020		10 June 2020	



03

OUR ANALYSIS: OPPORTUNITIES & CONVICTIONS





More state intervention



More debt



More inflation?



A weaker dollar



Lower profit margins



More technology



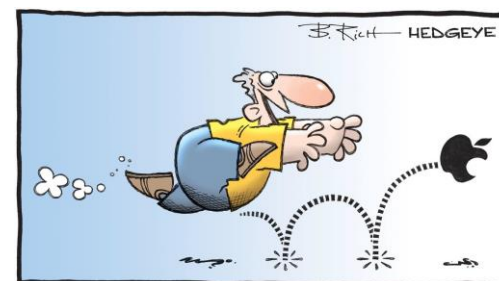
More ESG



Less travels



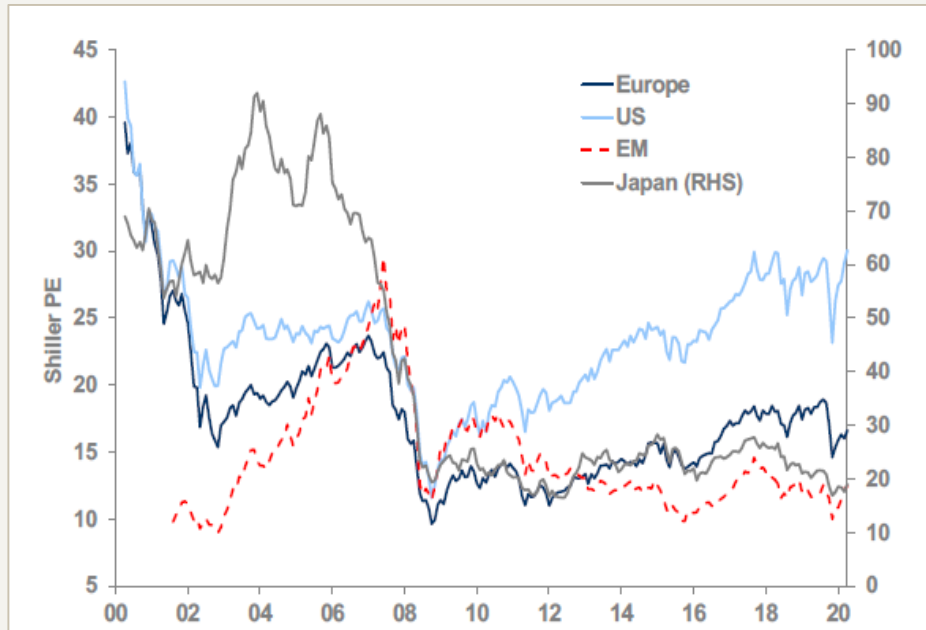
FAVOR EQUITIES OVER FIXED INCOME



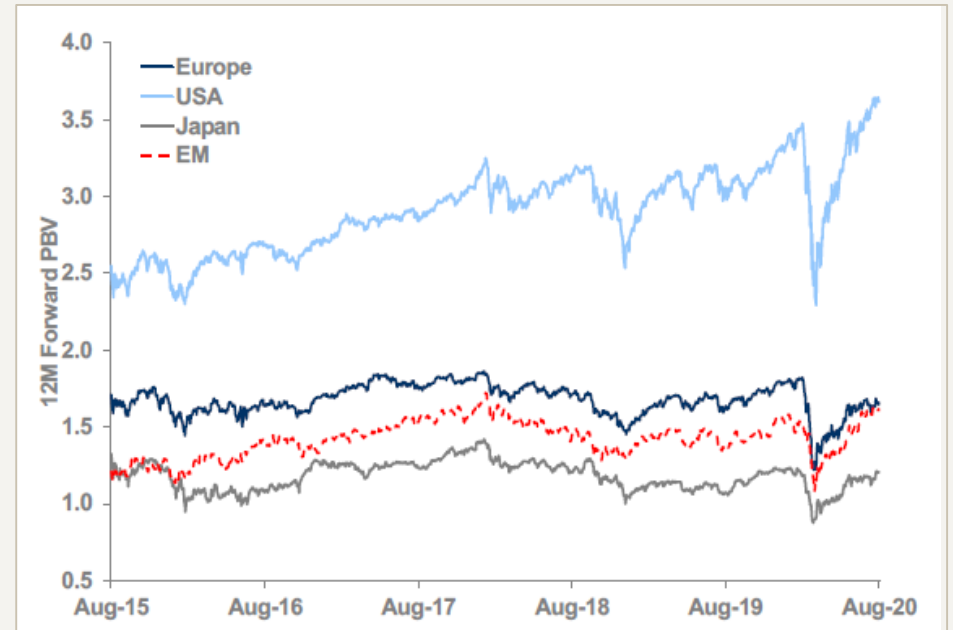
Valuations are at all-time highs



Global Shiller P/E

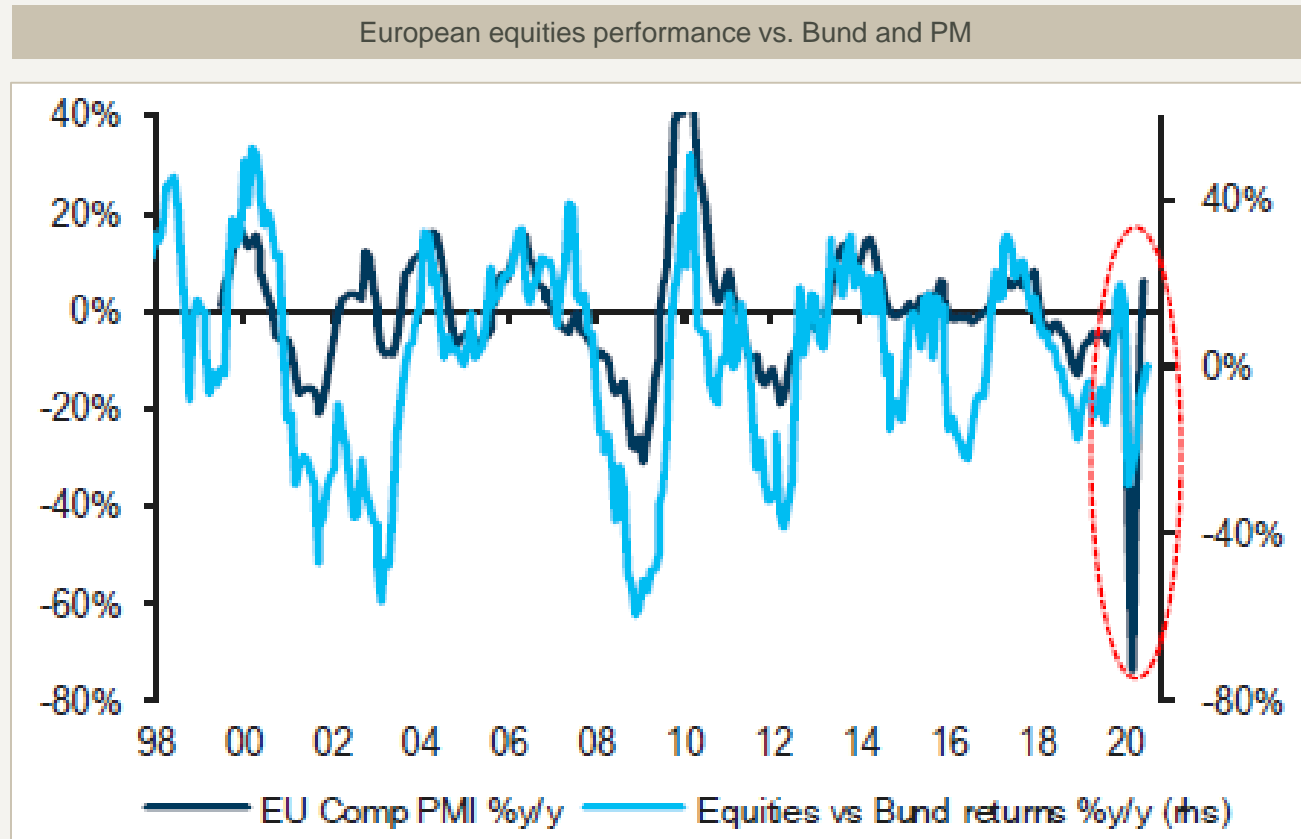


Global P/BV



Source: ODDO BHF AM, Morgan Stanley Research, MSCI, Haver, IBES, 08/2020

The equity rally is, on the whole, consistent with the improvement in economic data



Source: ODDO BHF AM, Bloomberg, Barclays , Datastream, 08/2020

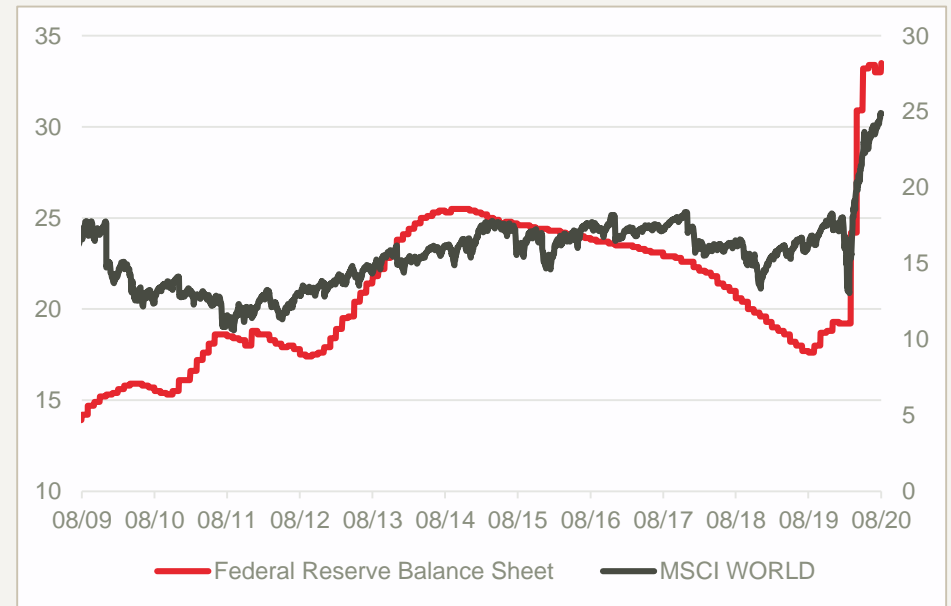
Liquidity injected by central banks will continue to drive asset prices



Liquidity & change in Global PE



FED balance sheet (\$bn) & MSCI World P/E



Source: ODDO BHF AM, Barclays Research, Bloomberg, 08/2020

Lower interest rates have more than offset *growth* stocks' weaker results



L'ORÉAL
PARIS

(cosmetics)

zalando

(e-commerce)

Valuation
€230

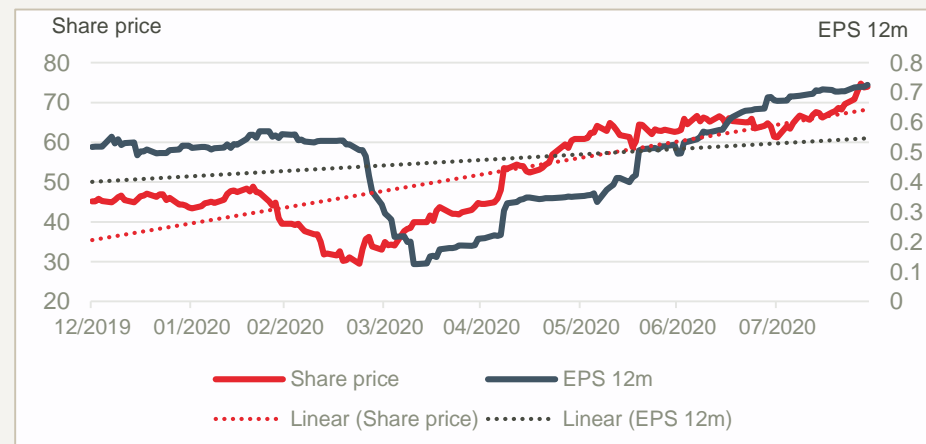
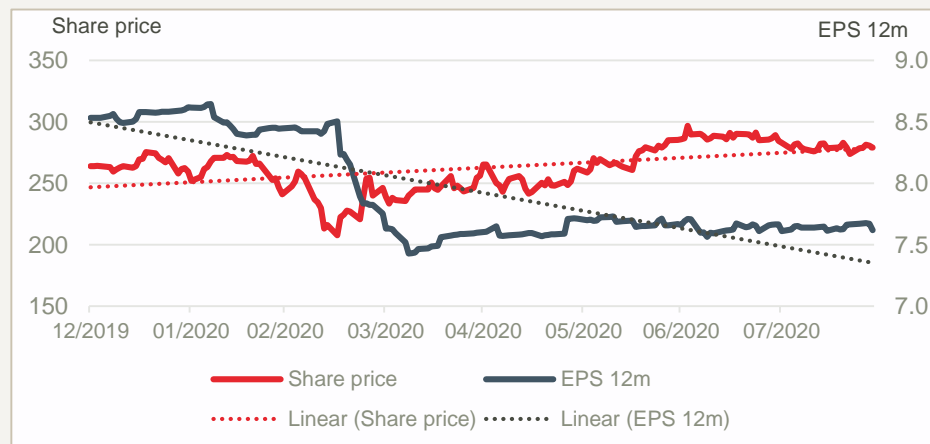
Discount rate
Δ-1%
(from 7% to 6%)

Valuation
€280 **+22%**

Valuation
€49

Discount rate
Δ-1%
(from 8% to 7%)

Valuation
€60 **+22%**



Share price	EPS 12m	EBITDA 12m
+6%	-11%	-4%

Share price	EPS 12m	EBITDA 12m
+64%	+40%	+13%

Sources : ODDO BHF AM SAS, Datastream, Bloomberg, valuation scenarios as of 07/24/2020 | share price evolution and EPS as of 08/28/2020

Cyclical and Value stocks do not rebound



(steel industry)



MICHELIN

(consumer goods)

Valuation
€27

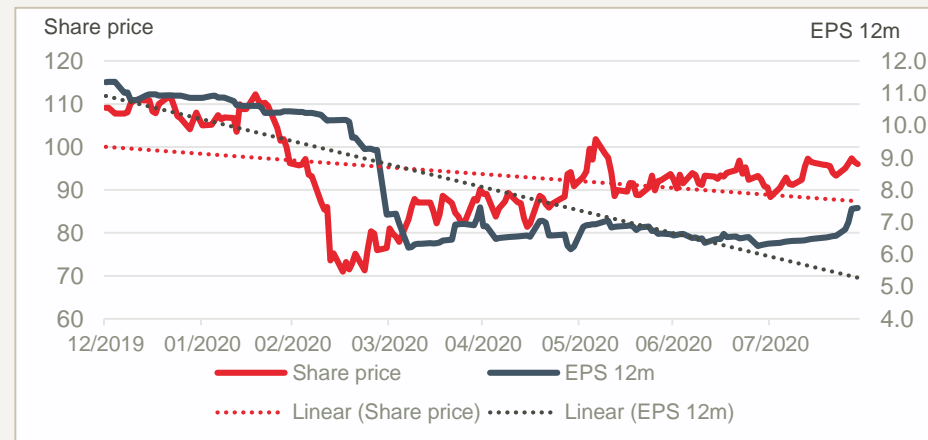
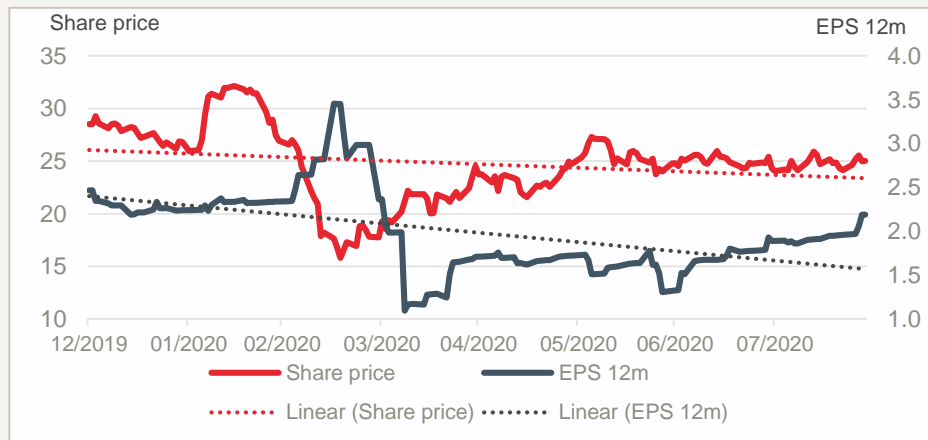
Discount rate
Δ-1%
(from 10% to 9%)

Valuation
€31 **+15%**

Valuation
€101

Discount rate
Δ-1%
(from 8.5% to 7.5%)

Valuation
€121 **+20%**



Share price	EPS 12m	EBITDA 12m
-12%	-11%	-15%

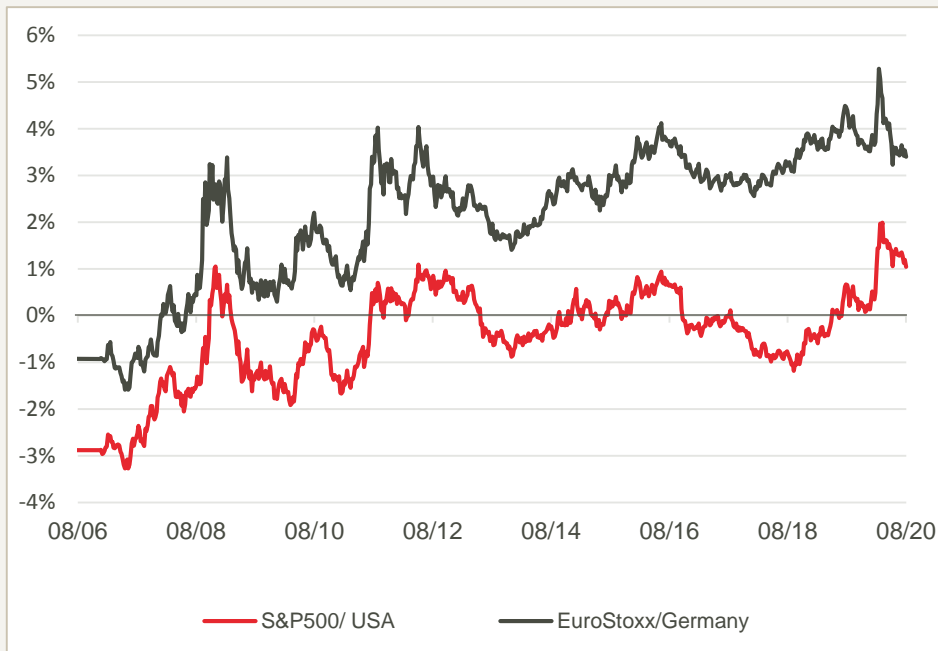
Share price	EPS 12m	EBITDA 12m
-12%	-34%	-25%

Sources : ODDO BHF AM SAS, Datastream, Bloomberg, valuation scenarios as of 07/24/2020 | share price evolution and EPS as of 08/28/2020

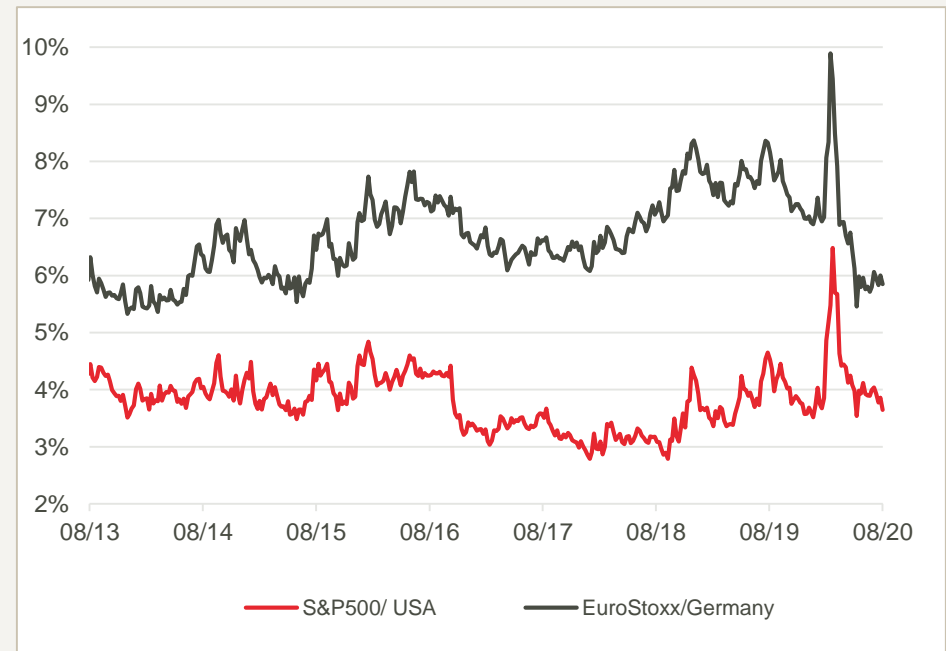
We are overweighting equities, as their risk premiums are still attractive



Dividends yield minus Sovereign yields (10-year nominal rate)

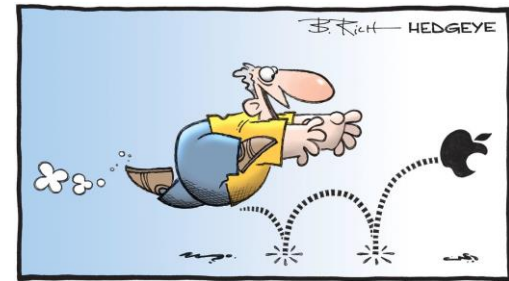


Earnings yield (1/PE) minus Sovereign yield (10-year nominal rate)





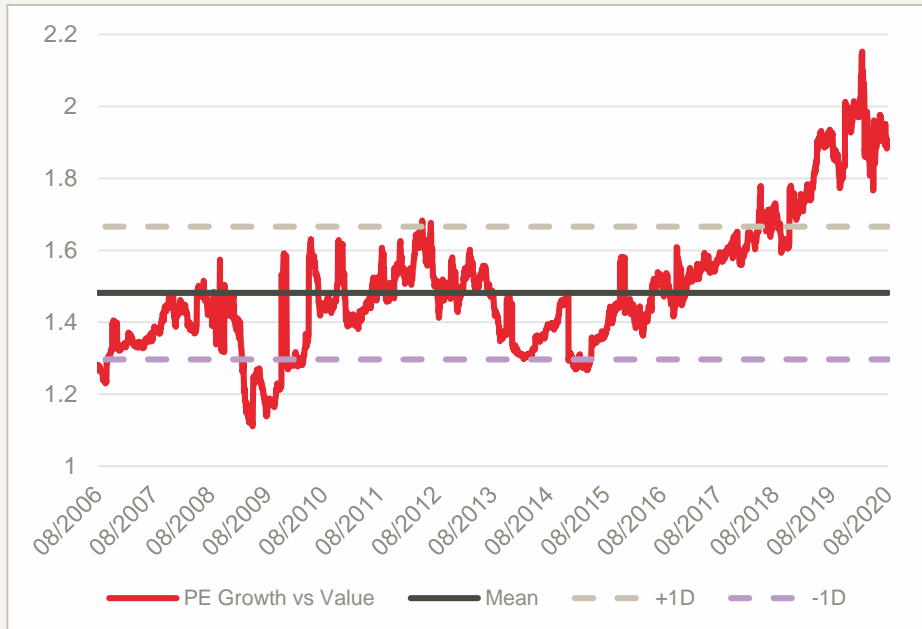
FAVOR GROWTH STOCKS



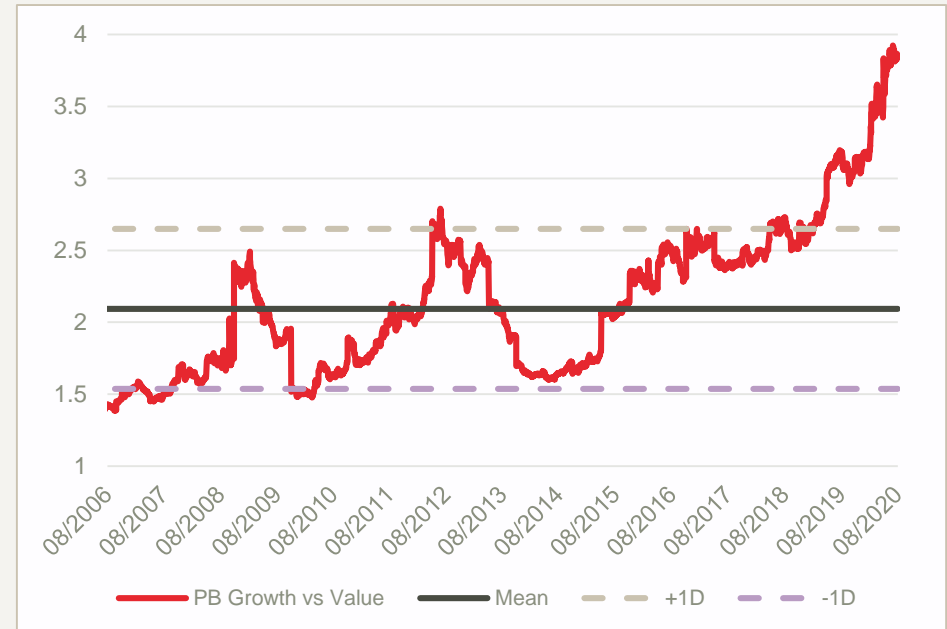
We don't expect an across-the-board resurgence in *value* stocks



P/E Differential of *Growth* vs. *Value* stocks



Growth vs *Value* P/Book



Source: ODDO BHF AM, Bloomberg, 08/31/2020

We don't expect an upturn in inflation



Inflationary forces	Our scenario
<ul style="list-style-type: none"> Energy up and production maintained 	<ul style="list-style-type: none"> Limited
<ul style="list-style-type: none"> Re-industrialisation, development of short production lines in strategic sectors → need for large and expensive workforce 	<ul style="list-style-type: none"> Limited
<ul style="list-style-type: none"> Supply choc with declining or taxed imports and supply-constrained by the increase in bankruptcies 	<ul style="list-style-type: none"> Likely



Deflationary forces	Our scenario
<ul style="list-style-type: none"> Large inventories & abundance of oil 	<ul style="list-style-type: none"> Likely
<ul style="list-style-type: none"> Digitalisation – e-commerce exponential development during this period (online purchases, hours of streaming, etc) 	<ul style="list-style-type: none"> Very likely
<ul style="list-style-type: none"> Sectors that have broken down with a health stigma may face a slow recovery of activity: tourism, hotels etc. 	<ul style="list-style-type: none"> Very likely



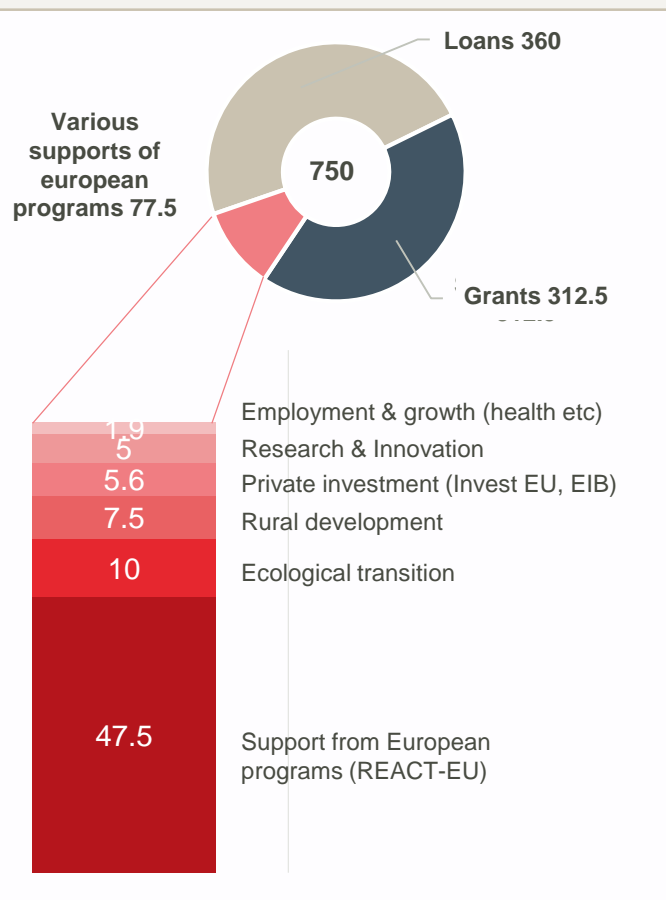
FAVOR EUROPEAN EQUITIES



The European Recovery Plan will provide a boost to European equities



« Next Generation EU »: €750bn



Valuation multiples of the European and American markets

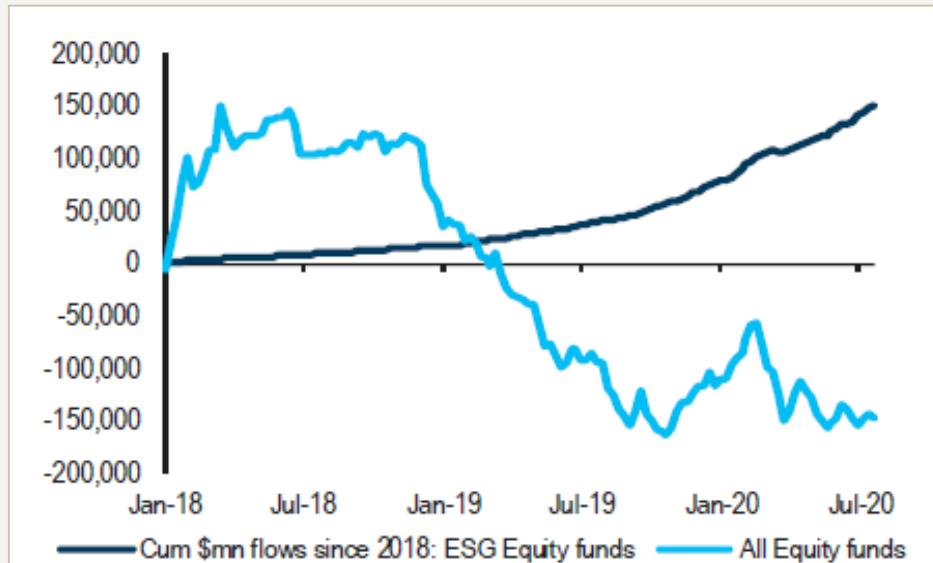
Index	PE 21e	EV/EBITDA 21e
MSCI Europe Small Cap	17.5X	11.7X
MSCI Europe	16.1X	9.8X
S&P 500	20.5X	13.6X
S&P 500 Small Cap	20.1X	11.2X

Source: ODDO BHF AM, European Commission, Bloomberg, data as of 07/31/2020

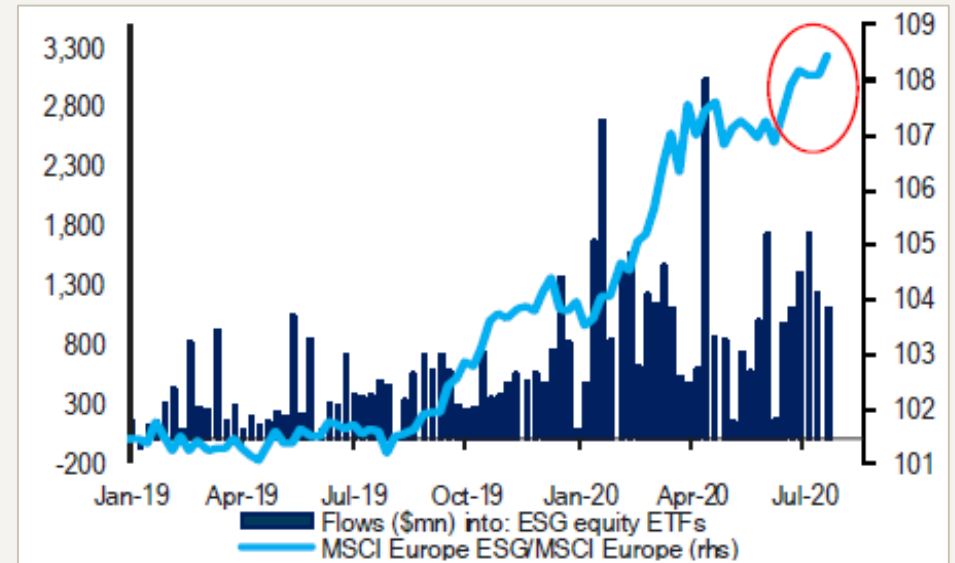
ESG funds should be among the main beneficiaries of the Recovery Plan



Flows in ESG equity funds



Performance of ESG equity funds



Source: ODDO BHF AM, Barclays Research, EPFR, Datastream, 08/2020

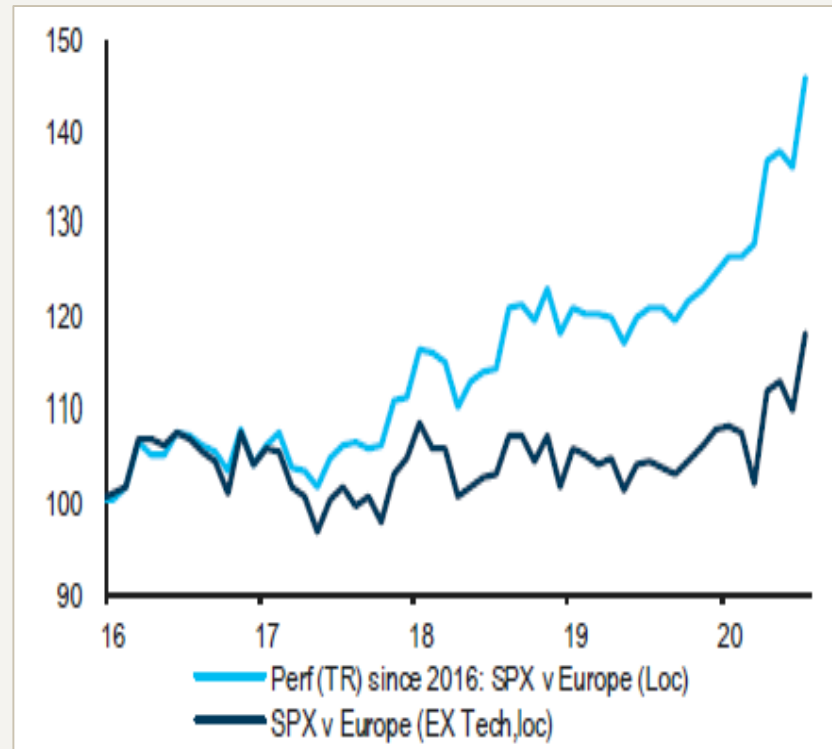
A growth-oriented European pool, with lots of opportunities for *stock-pickers*



MSCI Europe: sector index weight (%)






Sectors	jan-00	jan-10	jan-15	jan-20	Current	Change since 2000	Change since 2010
Health Care	8.8%	10.3%	13.5%	13.8%	16.3%	7.5%	6.0%
Technology	10.3%	2.7%	3.5%	6.0%	7.6%	-2.7%	5.0%
Industrials	8.4%	9.5%	11.1%	13.9%	13.6%	5.2%	4.0%
Consumer Disc.	9.3%	7.2%	10.7%	10.0%	9.8%	0.5%	2.6%
Consumer Staples	6.9%	12.0%	13.7%	13.9%	15.0%	8.1%	3.0%
Real Estate	0.6%	0.9%	1.3%	1.4%	1.4%	0.8%	0.5%
Utilities	5.0%	6.4%	4.3%	4.4%	5.1%	0.2%	-1.3%
Materials	4.4%	9.5%	7.6%	7.3%	7.9%	3.4%	-1.7%
Communication services	17.5%	7.1%	5.2%	4.4%	4.1%	-13.4%	-3.0%
Energy	7.5%	11.3%	7.8%	6.7%	4.3%	-3.1%	-6.9%
Financials	21.3%	23.1%	21.4%	18.0%	14.8%	-6.4%	-8.3%

Europe vs US performance exc. Tech



Sources : ODDO BHF AM, Morgan Stanley Research, MSCI, Barclays, Bloomberg, 08/2020

Overweight those sectors benefitting most from the Recovery Plan: tech & healthcare

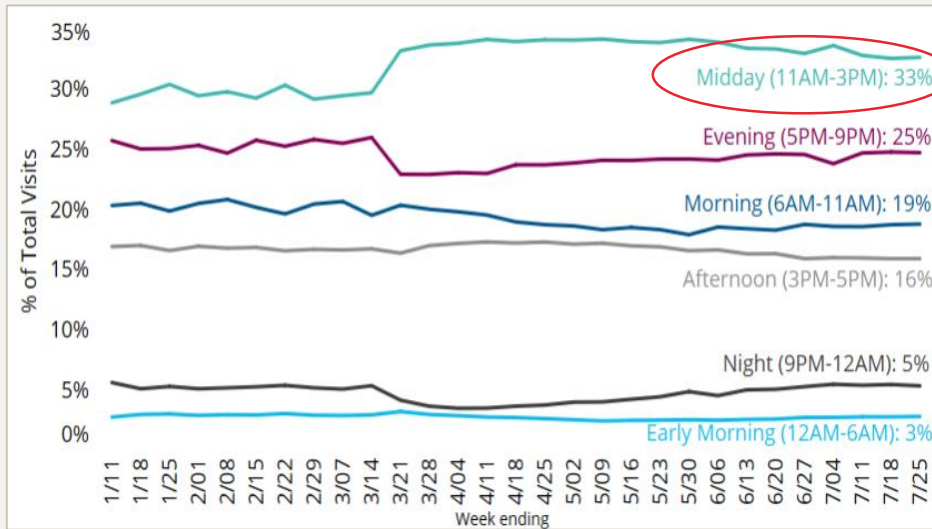
	Technology	Health care
PE 12m fwd Sept. 2020	26.3x vs 33.1x in the US	17.9 x vs 16.6 x in the US
EPS growth 2019	7%	6%
EPS growth 2020	-1%	0%
EPS growth 2021	28%	12%
YTD performance	12.60%	-2.50%
Example of securities	  	 

Source: ODDO BHF AM SAS, FactSet. Data as of 08/28/2020 | examples mentioned above are for illustration purpose only and do not constitute investment recommendations

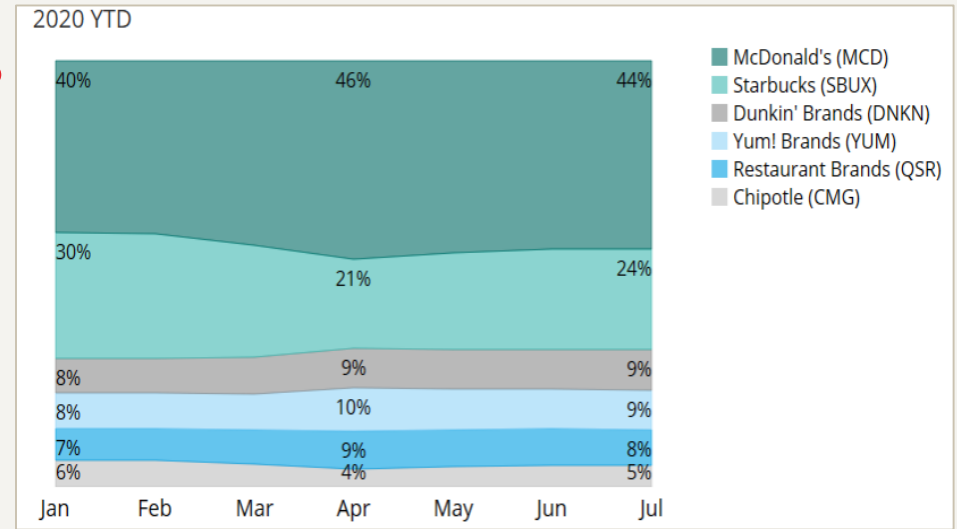
Daily monitoring of high-frequency data is essential in seizing promising thematic



Total consumer foot traffic % share of daypart



Lunch share of visits (11am-3pm)



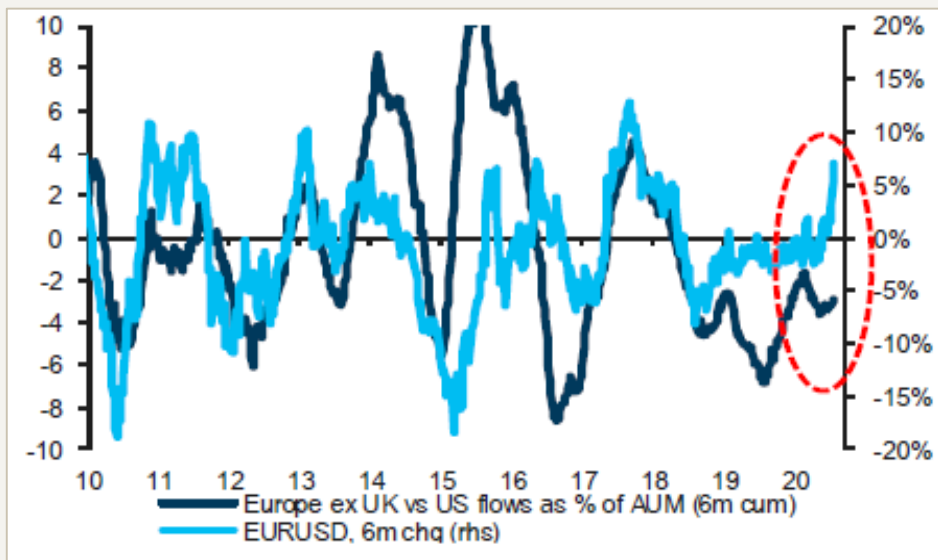
« Weekdays are the New Weekend »

Source: ODDO BHF AM, Earnest Research, 08/2020

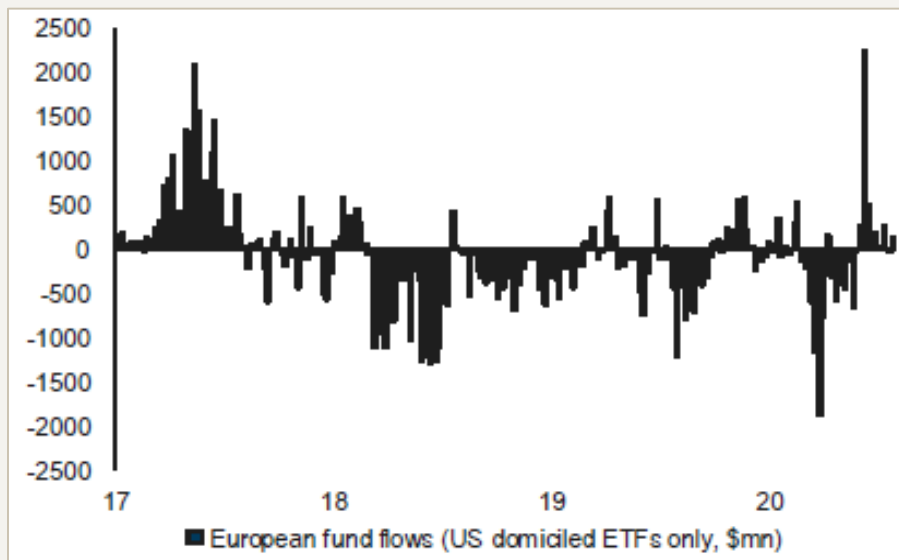
A return of US investors would provide a major boost to European markets



EUR/USD and European vs US fund flows



Flows into European ETF listed in the US



Source: ODDO BHF AM, Barclays Research, EPFR, Datastream, 08/2020



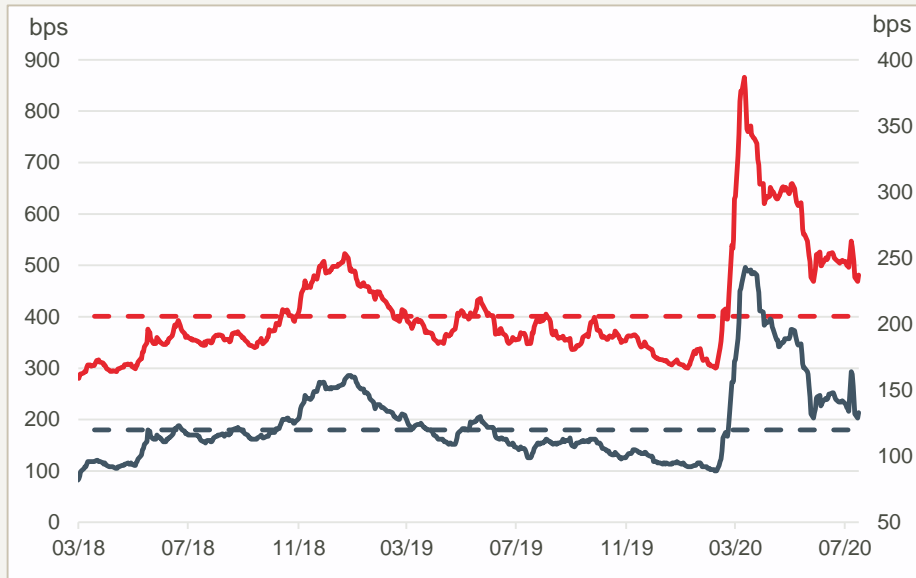
FAVOR EUROPEAN HIGH YIELD



Spreads are at a low



Credit spreads IG & HY (over 2 years)

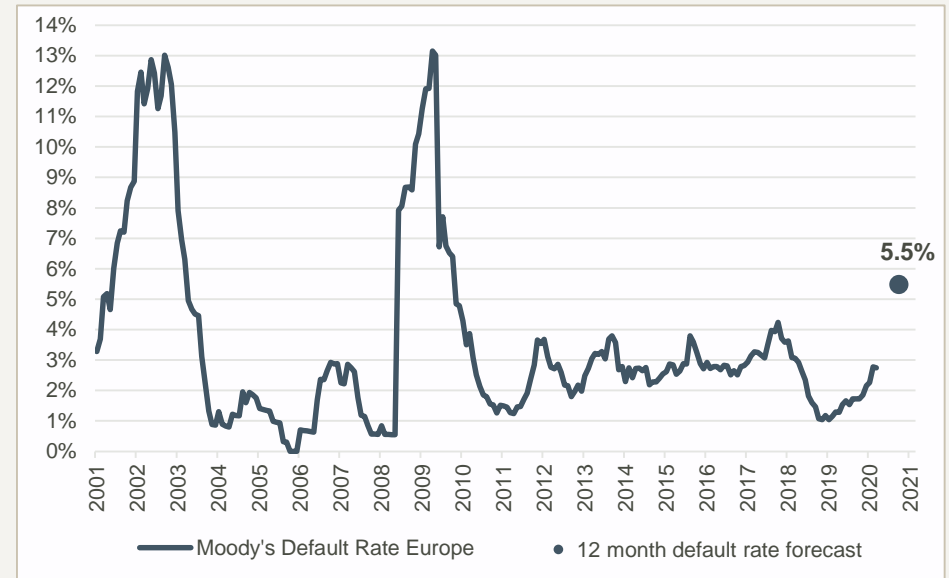


— Europe Investment Grade (rhs) ⁽¹⁾ — High Yield EUR (lhs) ⁽²⁾
 - - - Europe Investment Grade (rhs) – 5y average - - - High Yield EUR (lhs) – 5y average

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

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

Europe 12 months defaults rate forecast

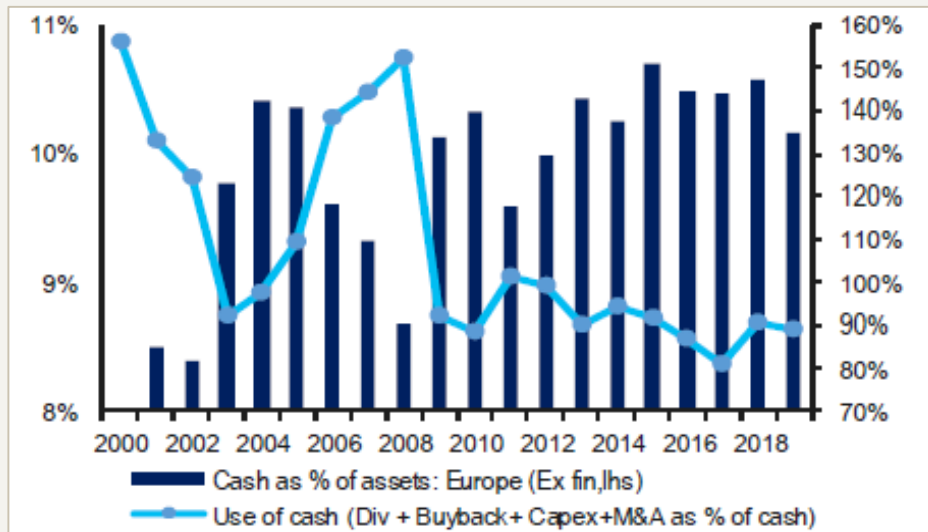


— Moody's Default Rate Europe • 12 month default rate forecast

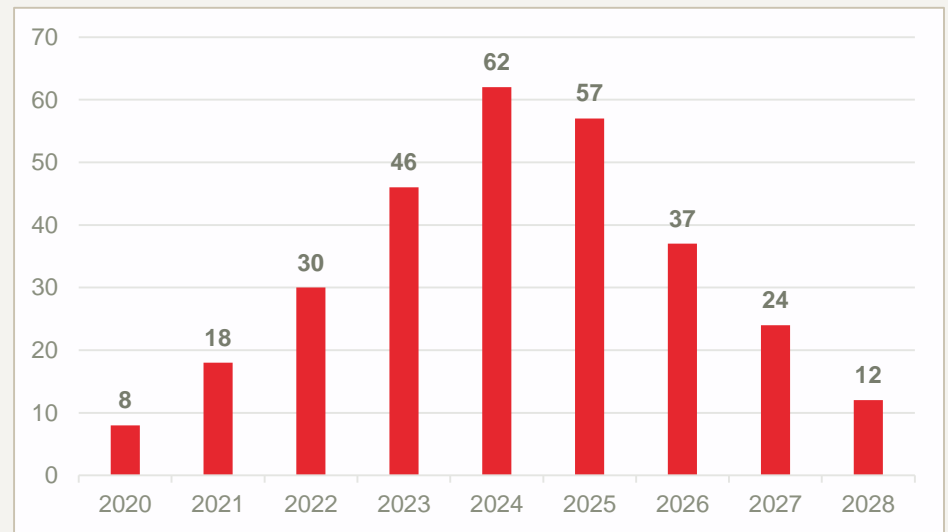
We remain confident in European HY, given abundant liquidity and the lack of refinancing walls



Liquidity levels



Maturity wall* (€bn)



*Maturity wall, pan-Europe HY ex-financials

Source: ODDO BHF AM, Barclays Research, datastream, worldscope

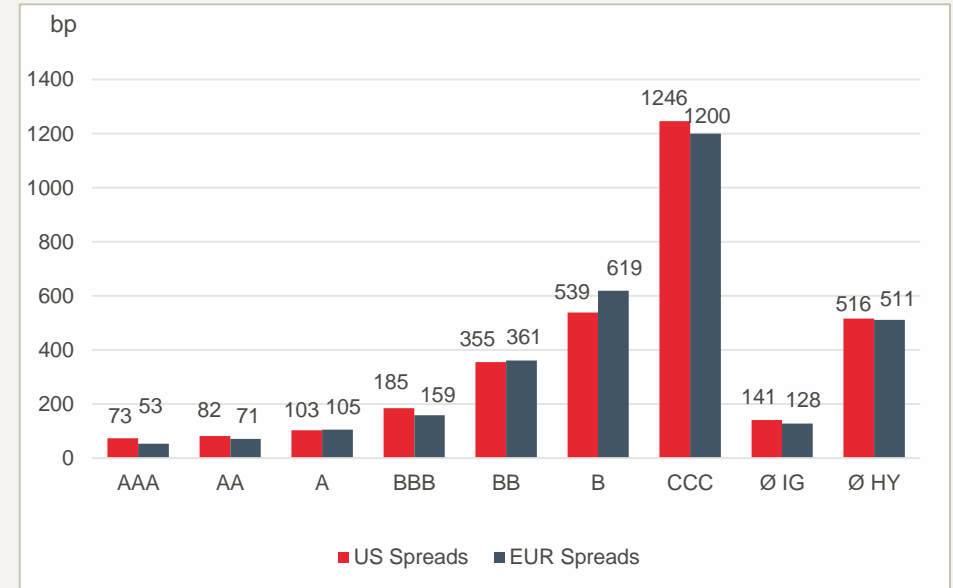
European High Yield offers greater value than Investment Grade



Comparison European HY vs European IG

	Euro High Yield	Euro IG
Yield to maturity	4.29%	0.65%
Modified Duration to Worst	3.56	5.23
Modified Duration to Maturity	3.93	5.31
Ø Rating	BB3	A3
Share of CCC Bonds in the Index	8.0%	-
Share of BB Bonds in the Index	66.7%	-
Share of Energy Sector in the Index	5.6%	5.9
Default Forecast for one year*	5.5%	-

Spreads per rating



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

*Moody's Default forecast as of 08/31/2020 | Source: BofA ML, Moody's. data as of 08/31/2020 | Spread data for US High Yield excluding Financials (HCNF), for Euro High Yield excluding Financials (HEAE)



FAVOR SHORT
DURATIONS



We are overweighting short durations



Euro High Yield scenario analysis for the next 12 months

Yield to worst (%)



Extreme downside:

Spreads: +500 Bps
Return: -10.7%

Slight downside:

Spreads: +100 Bps
Return: +0.8%

No change:

Spreads: +0 Bp
Return: +3.9%

Slight upside:

Spreads: -50 Bps
Return: +5.5%

Strong upside:

Spreads: -100 Bps
Return: +7.0%

Short duration scenario analysis for the next 12 months

Yield to worst (%)



Extreme downside:

Spreads: +500 Bps
Return: -4.6%

Slight downside:

Spreads: +100 Bps
Return: +0.8%

No change:

Spreads: +0 Bp
Return: +2.2%

Slight upside:

Spreads: -50 Bps
Return: +2.9%

Strong upside:

Spreads: -100 Bps
Return: +3.6%

High yield scenario: Yield graph based on BofA Merrill Lynch Euro High Yield Fixed Floating Rate Constrained Index ex Financials | Return scenario based on Euro High Yield Bond strategy (main characteristics : yield to call = 3.84%, modified duration to worst = 3,50%)

Euro credit short duration scenario: Yield graph based on ICE BofAML Indices 80% HE0B and 20% ER01 (main characteristics of Euro Credit Short Duration Strategy: yield to call = 2.14%, modified duration to worst = 1.86). The shown estimates can differ from actual results. Calculations are based on yield and duration to worst. Hypothesis: yield changes are evenly distributed over 4 quarters and occur mid of each quarter. The duration stays constant over time. The estimates are not supposed to assume any returns shown as guaranteed. The Yield to Maturity (YtM) is the estimation at a certain date of the expected rate of return of a bond portfolio if the securities are held to maturity. It does by no means constitute a promised return. It can, therefore, be affected by interest rate risks, default risks, reinvestment risks and the fact that bonds may not be held until maturity. The Yield to worst (YtW) is the estimation at a certain date of the worst expected rate of return of a bond portfolio of which some of the securities would not be held until maturity but redeemed at the discretion of the issuer (call). It does by no means constitute a promised return. It can, therefore, be affected by interest rate risks, default risks, reinvestment risks and the fact that bonds may not be held until maturity.

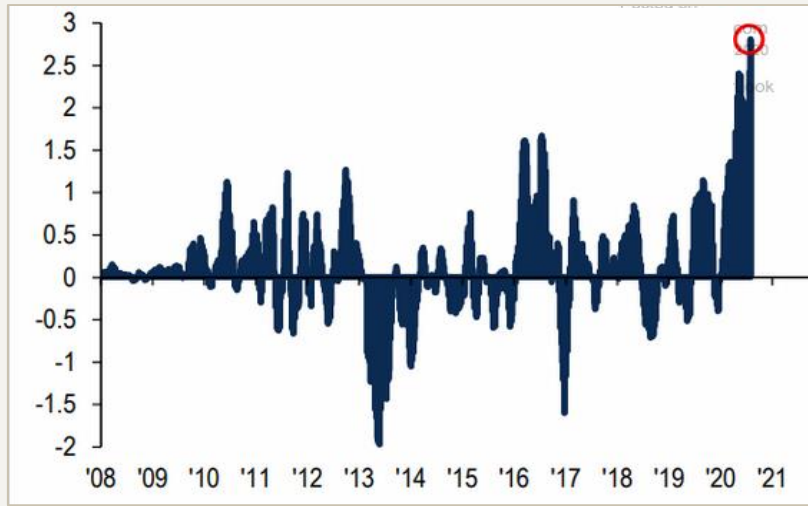


DO NOT FORGET
DEFENSIVE ASSETS

We remain cautious on gold, which may have already peaked



Weekly flows into Gold (\$bn)



US real yield & gold price

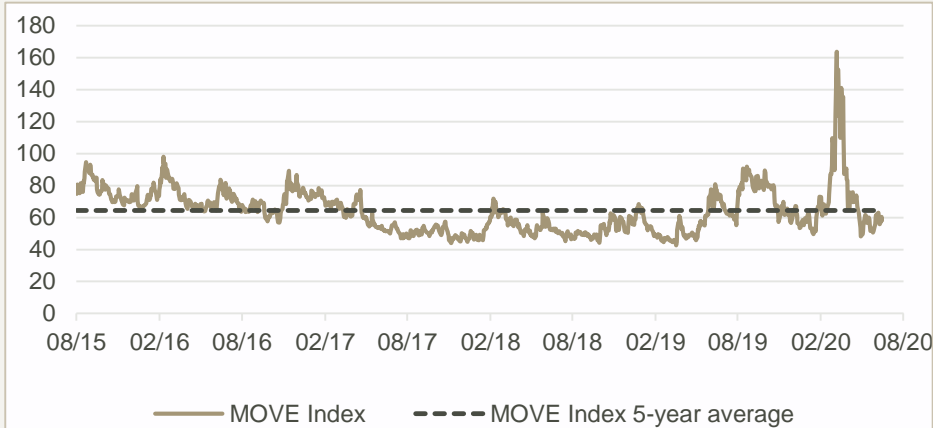


Source: ODDO BHF AM, ODDO BHF, Refinitiv, Datastream, data as of 08/21/2020 | BofA Global Investment Strategy, EPFR

Buying volatility helps maintain asymmetry in portfolios



Interest rate volatility



European equity volatility: Vstoxx



Correlation between US Treasuries and S&P


















CONCLUSION

How we are positioned



Favor		Maintain		Avoid	
	European small caps equities		European High Yield Short duration		Energy
	Growth equities		Break-even inflation		Companies with negative future cash flows
	ESG equity funds		Technology		Companies with ESG controversies
	EUR vs USD		Health Care		Companies with weak growth and high debt levels
	Equity and interest rate volatility				



ODDO BHF Asset Management SAS (France)

A portfolio management firm certified by the French Financial Markets Authority (AMF) under n°GP 99011. Established in the form of a simplified joint-stock company with authorised capital of €9,500,000. Entered into the Paris Register of Trade and Companies under number 340 902 857.

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