



**ODDO BHF**  
ASSET MANAGEMENT

*Investment Strategy*  
CARRY ON

September 2022

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*01*

MACROECONOMIC OUTLOOK

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*02*

MARKET ANALYSIS & POSITIONING

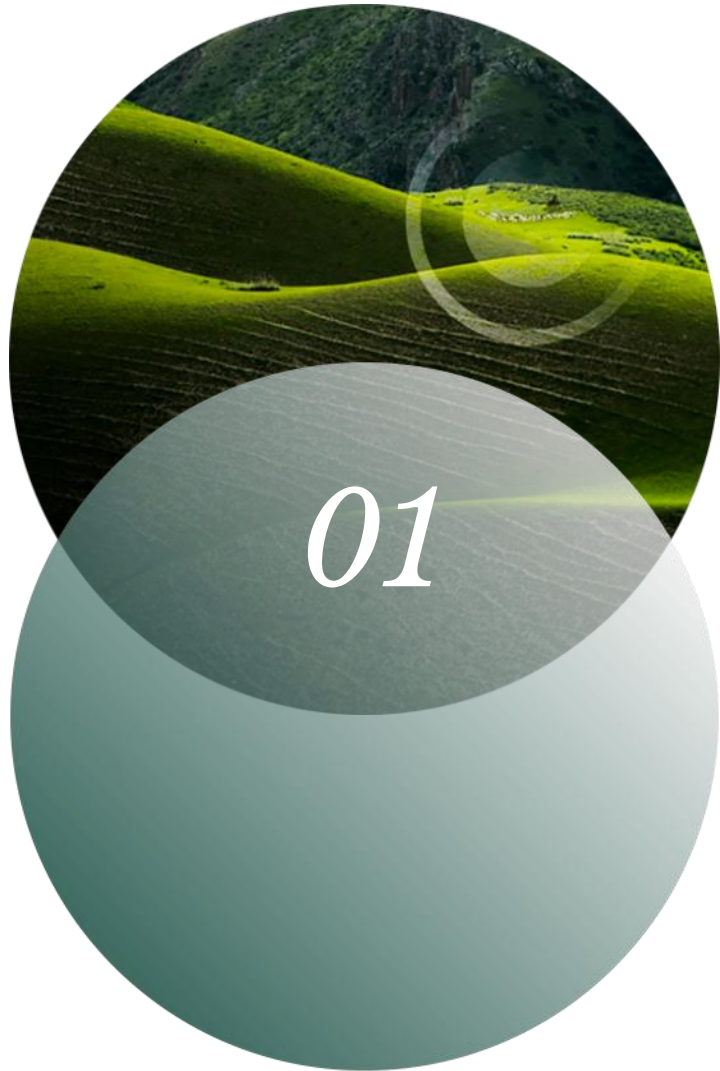
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*01*

MACROECONOMIC OUTLOOK  
*Recession as base case scenario*

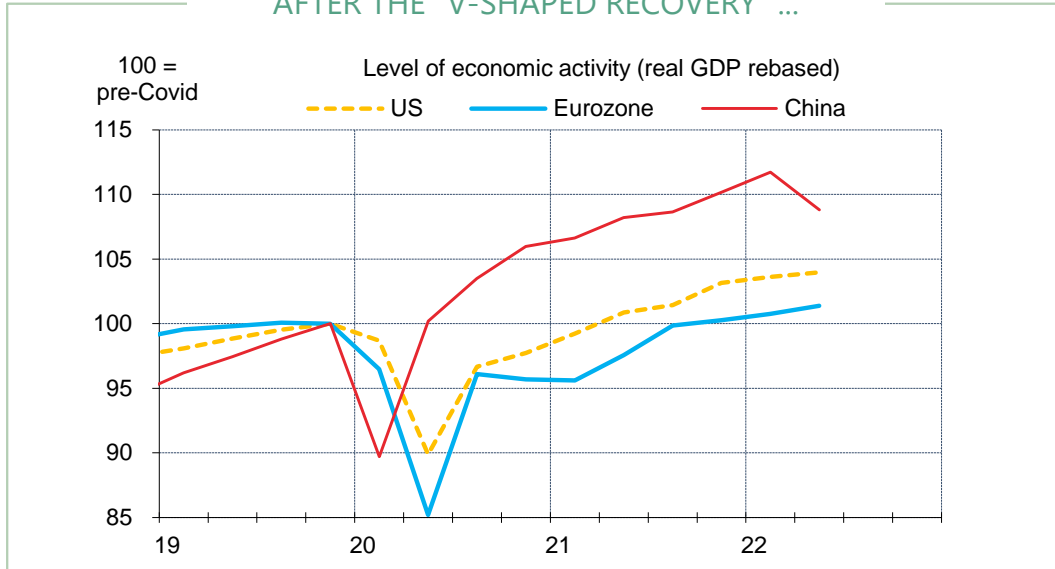


# ECONOMIC CONDITIONS US – EUROPE – CHINA

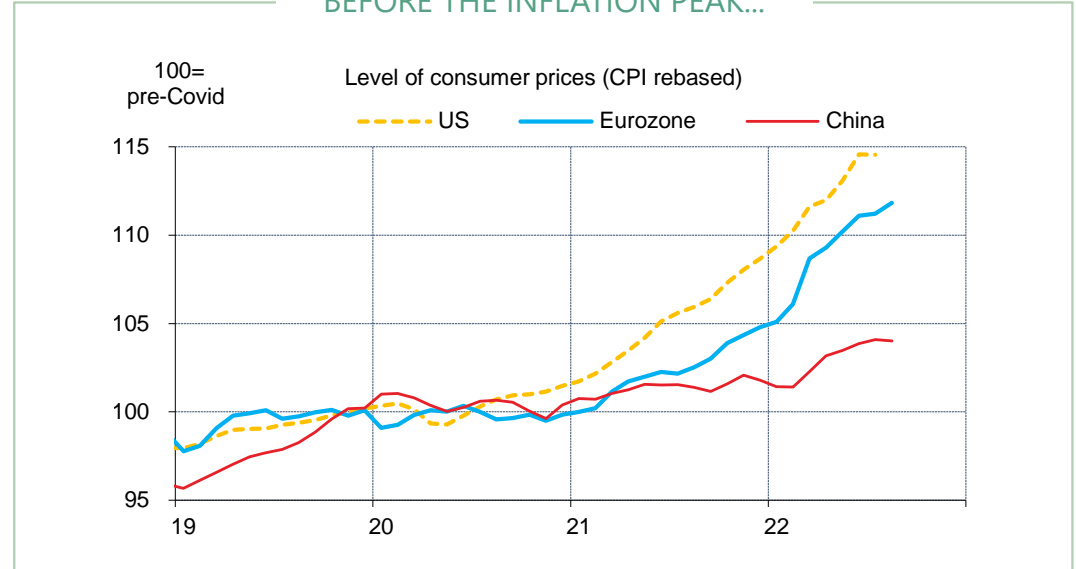


# Global shocks, REGIONAL SHOCKS

AFTER THE "V-SHAPED RECOVERY" ...



BEFORE THE INFLATION PEAK...

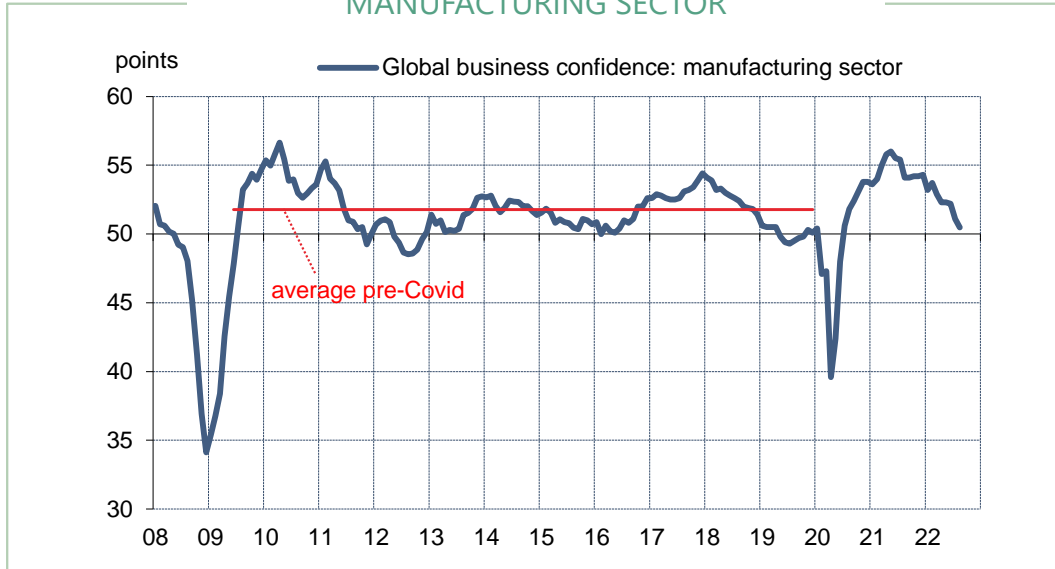


Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg, 06/09/2022

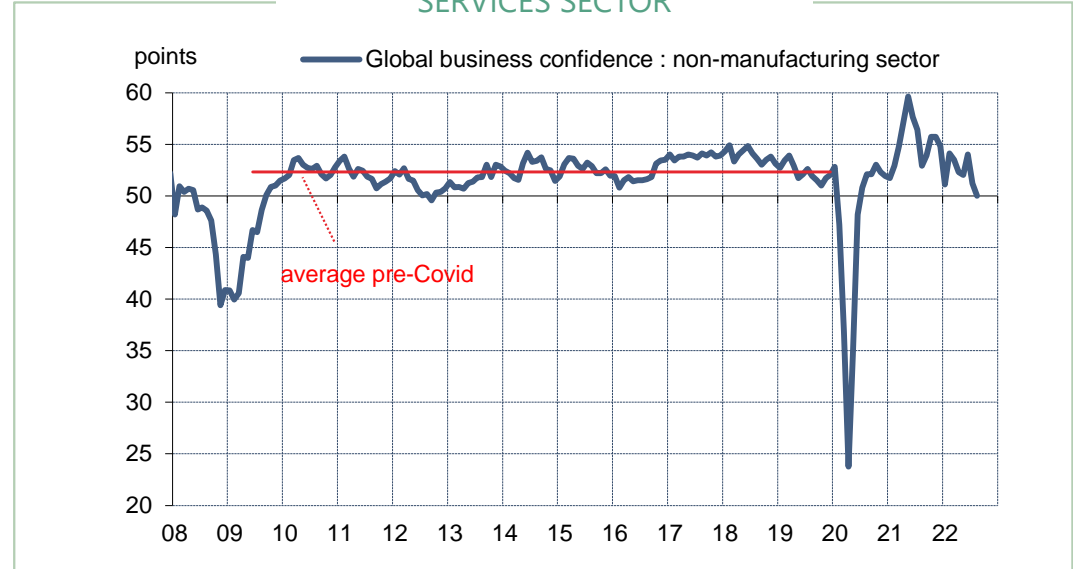


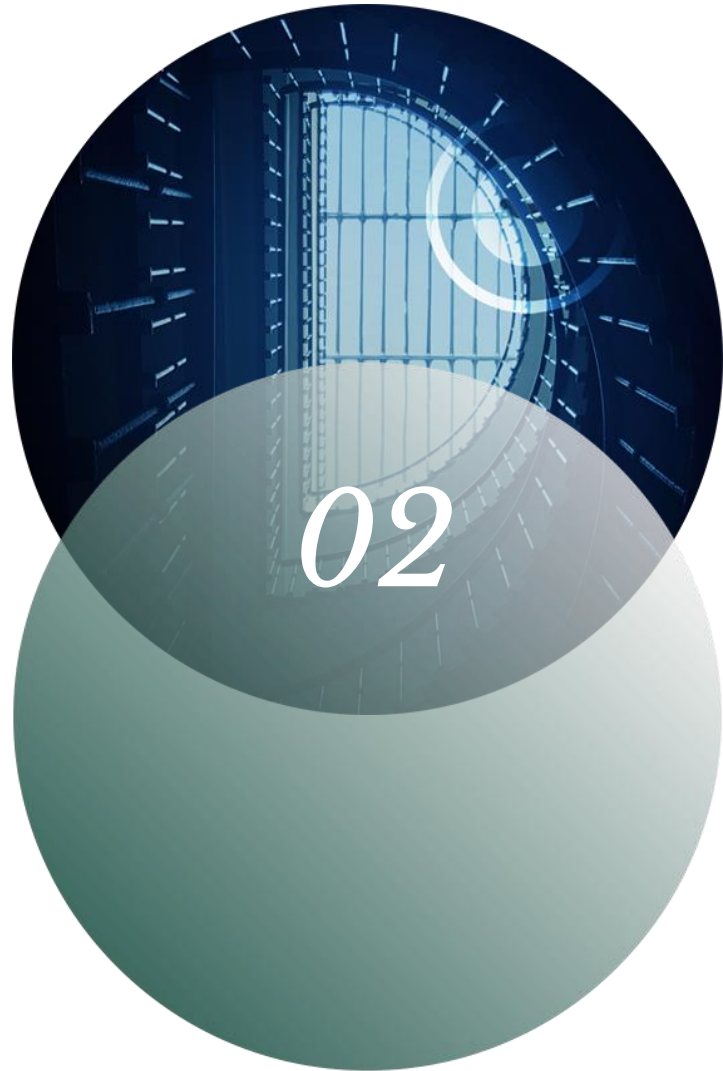
# *Business climate:* ON THE VERGE OF RECESSION

MANUFACTURING SECTOR



SERVICES SECTOR





# INFLATION AND ENERGY CRISIS





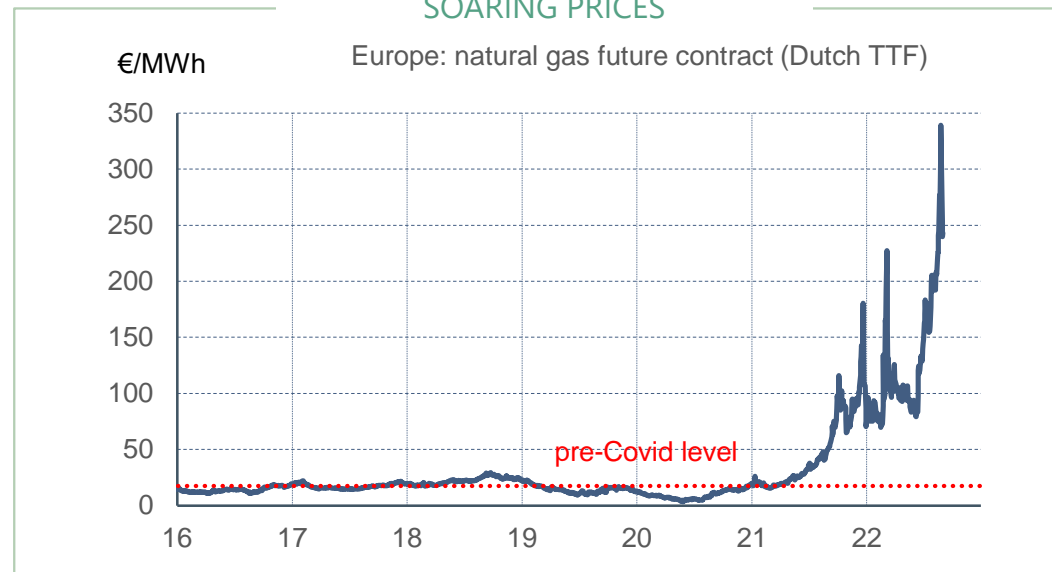
# Energy crisis

## FROM BAD TO WORSE

### RUSSIAN EMBARGO



### SOARING PRICES

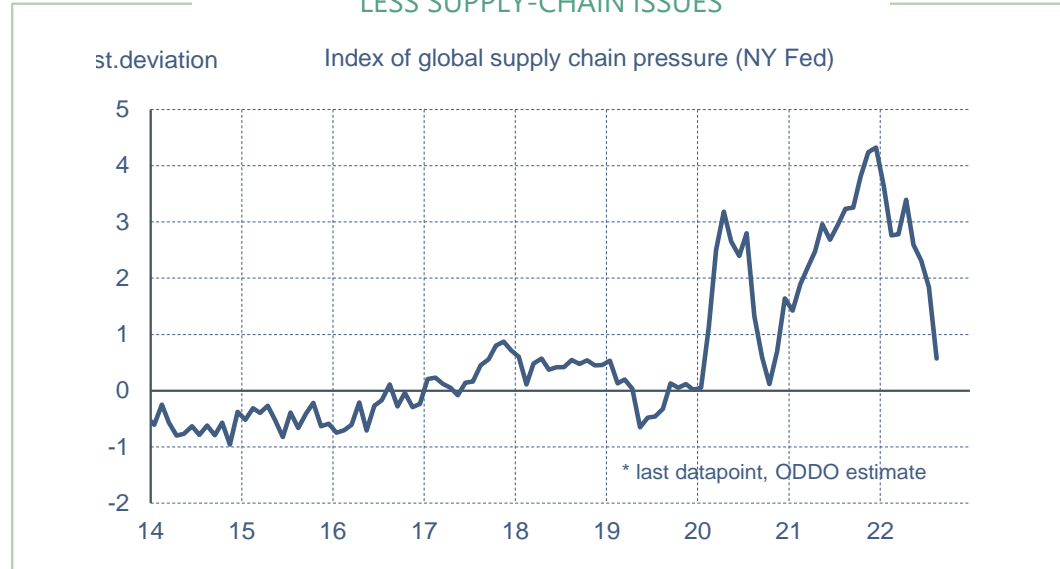


Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg, 06/09/2022



# *World trade distortions:* FROM BAD TO BETTER (SORT OF)

LESS SUPPLY-CHAIN ISSUES



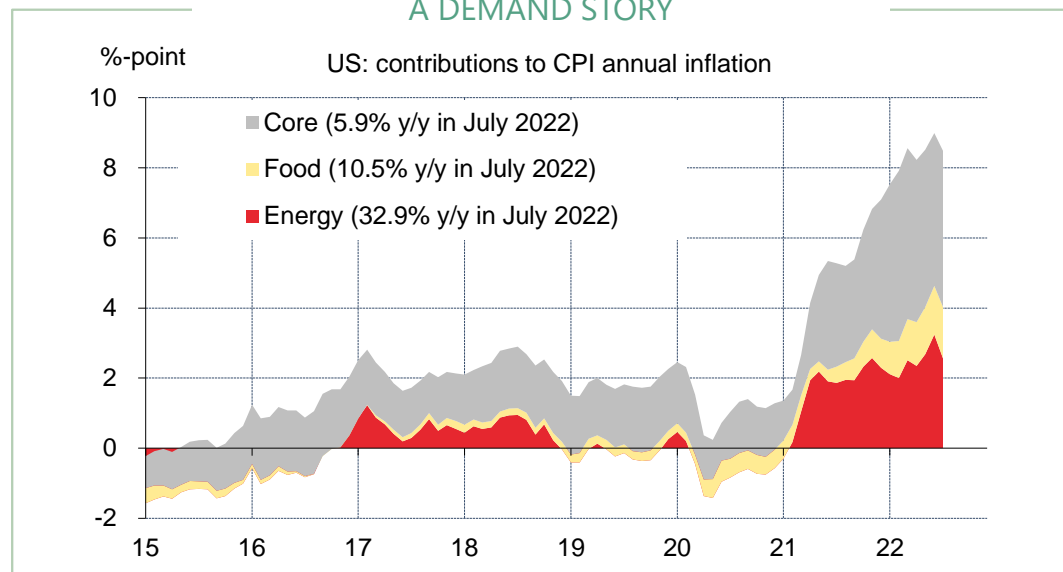
LESS TRAFFIC



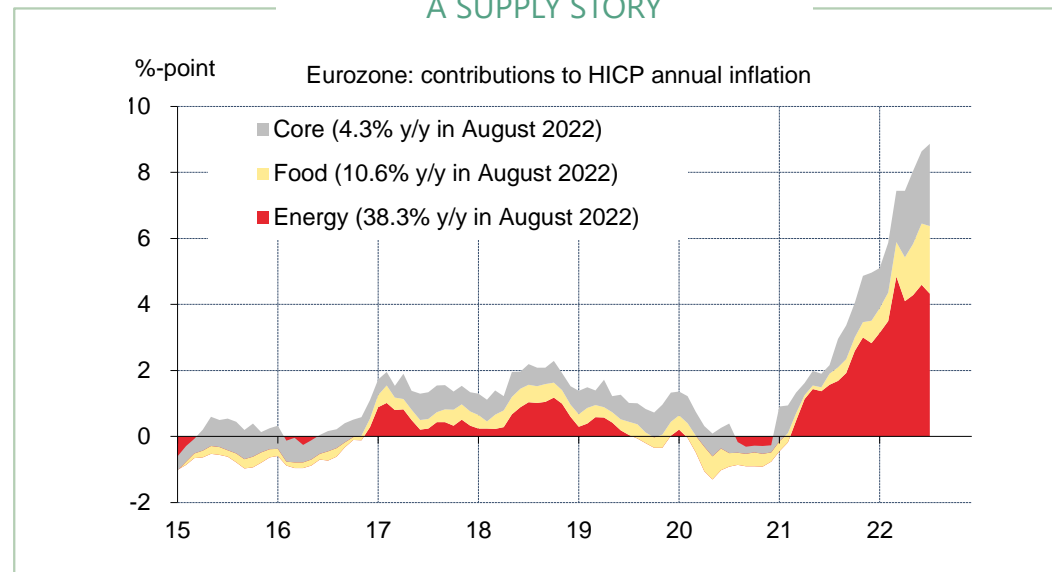


# *Inflation:* ONE SHOCK, TWO STORIES (US VS EUROPE)

A DEMAND STORY



A SUPPLY STORY



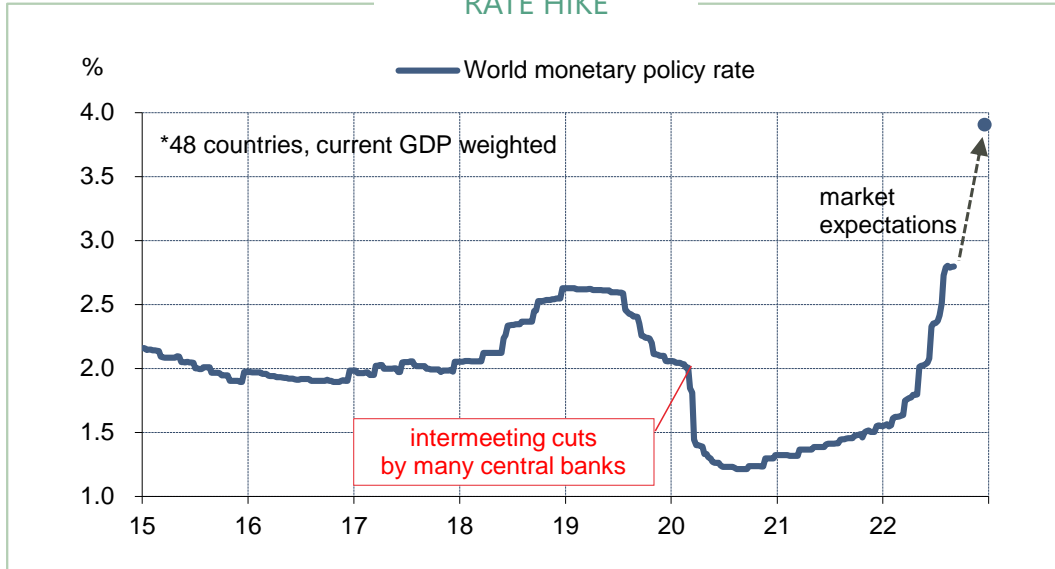


# MONETARY POLICY

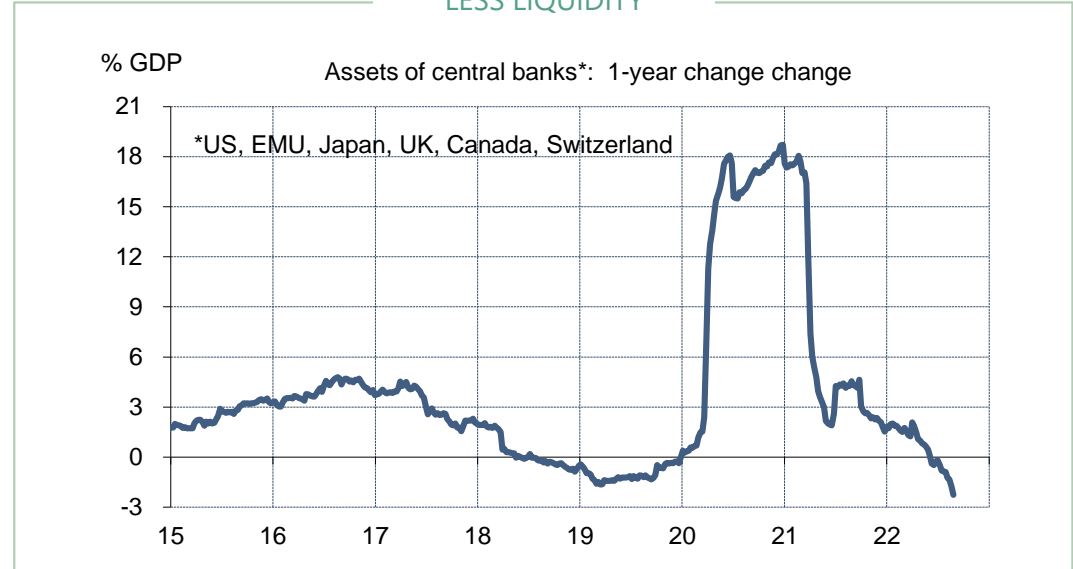


# Monetary policy: HIGHER, FASTER, LONGER

RATE HIKE

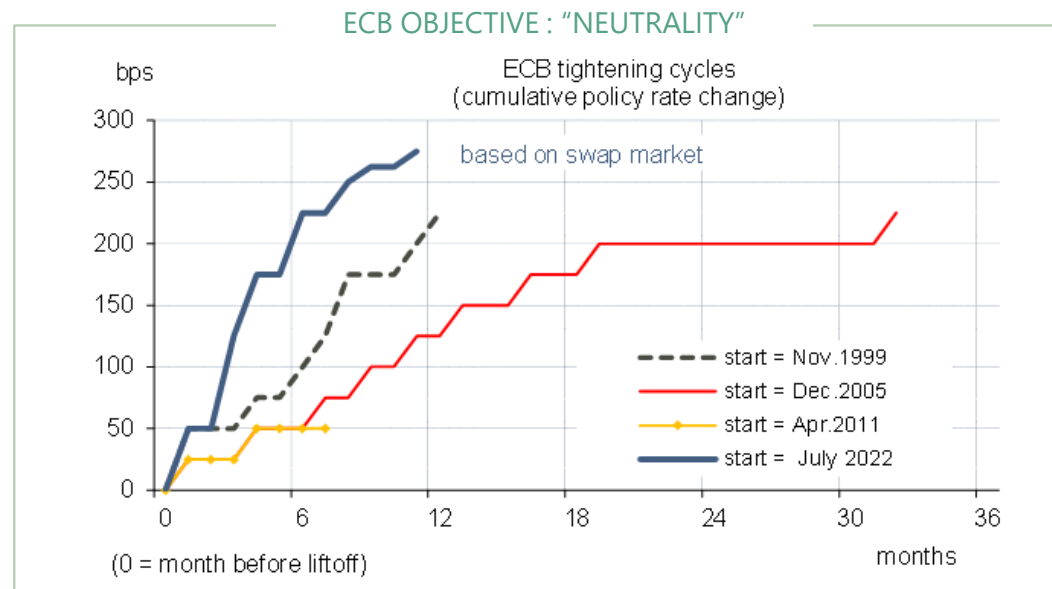
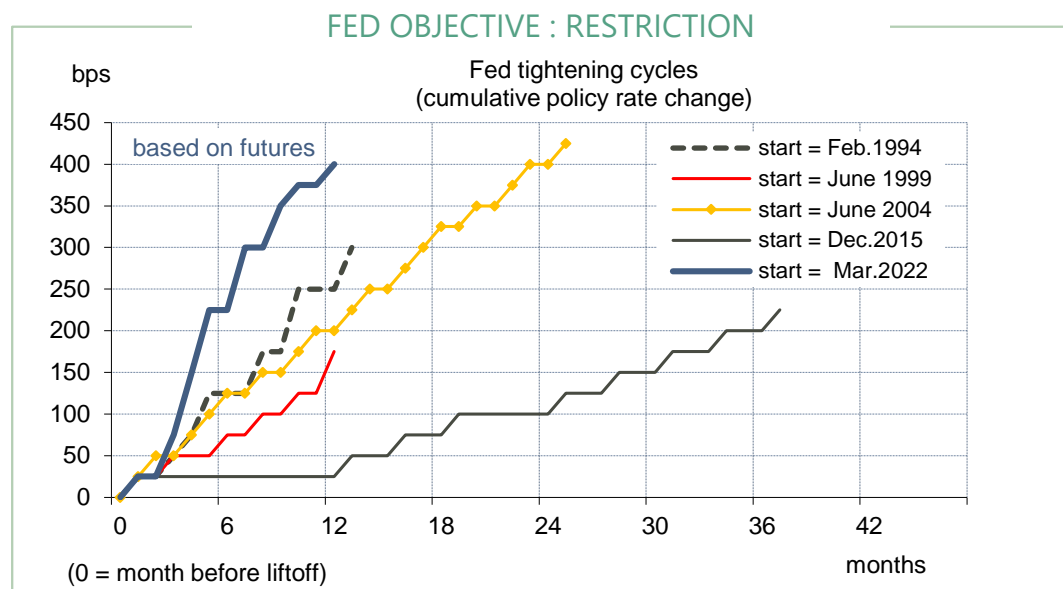


LESS LIQUIDITY





# FED / ECB: SACRIFICING (PART OF) THE GROWTH



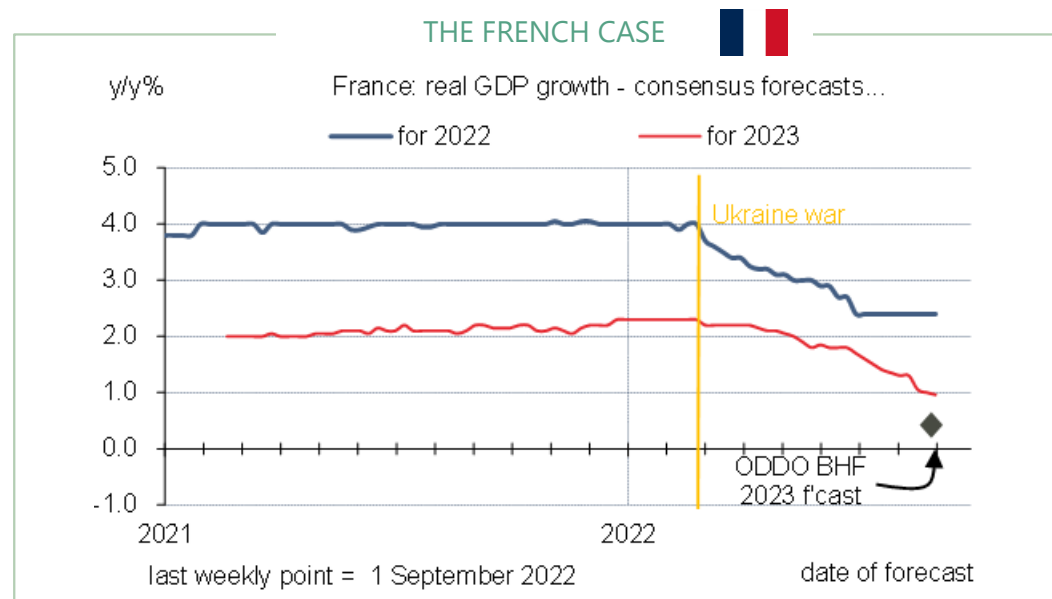
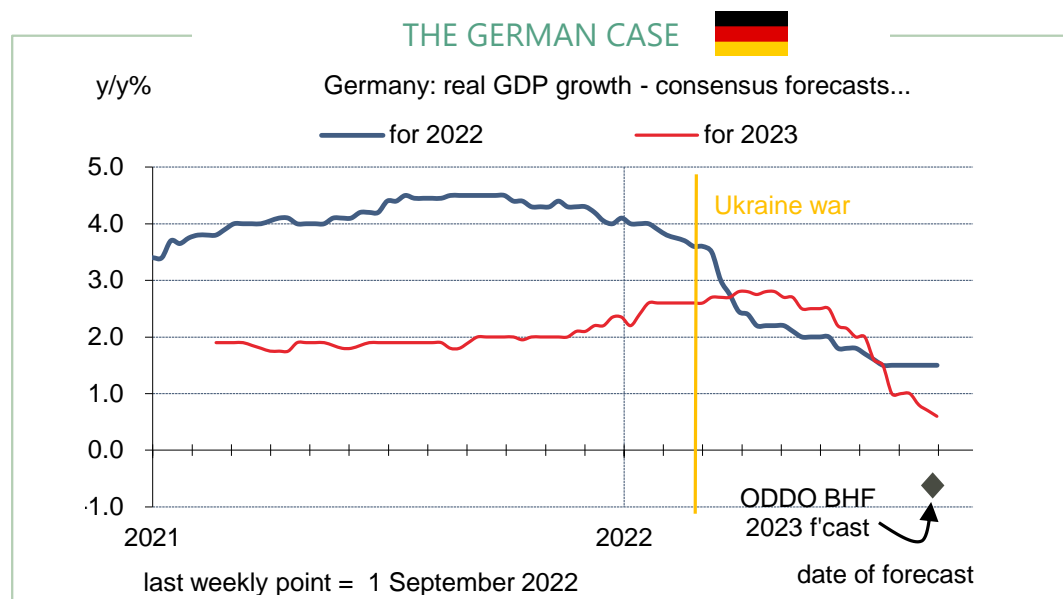
Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg, 06/09/2022



# FRANCE/GERMANY OUTLOOK



# *Recession in Europe:* LENGTH AND MAGNITUDE TO BE DISCUSSED



Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg, 06/09/2022





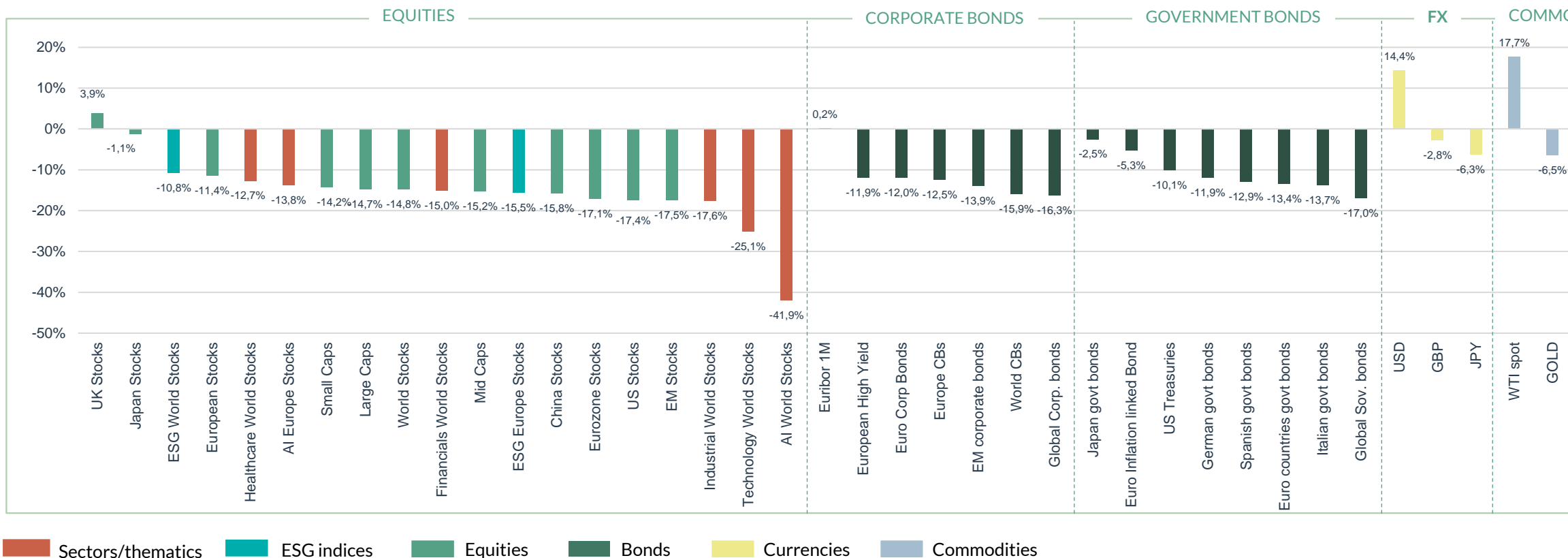
02

MARKET ANALYSIS  
& *positioning*



# Year-to-date performances of asset classes

## ANNUS HORRIBILIS, THE WORST SINCE 2008...



Past performances are not a reliable indicator of future performances and are not constant over time.  
 Sources: Bloomberg and BoA ML as of 08/31/2022 - performances expressed in local currencies

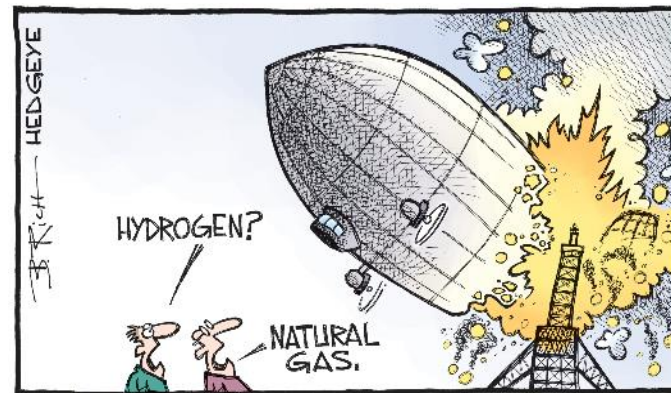


# Key parameters to watch FOR THE COMING MONTHS

## GEOPLITICS



## GAS



## MONETARY POLICY



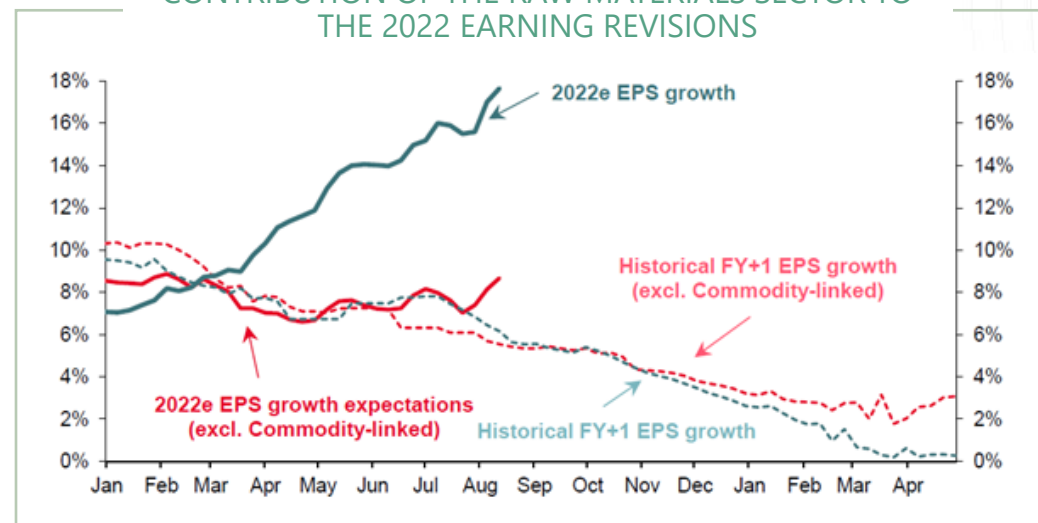





# Better than expected results CONTRIBUTE TO RECENT PERFORMANCE

CONTRIBUTION OF EACH SECTOR TO EARNING INCREASE IN 2022



CONTRIBUTION OF THE RAW MATERIALS SECTOR TO THE 2022 EARNING REVISIONS



Top 3 - Entreprises	Contribution to EuroStoxx 22 growth
TotalEnergies SE 	6,4%
Eni SpA 	1,8%
Repsol SA 	1,0%

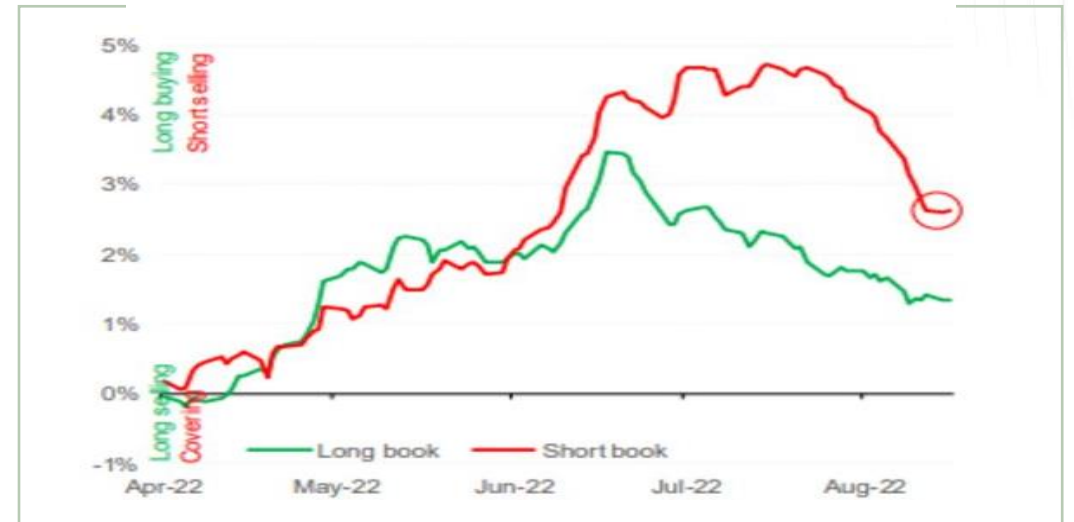


# *A catch-up effect linked to short covering* CONTRIBUTES TO RECENT PERFORMANCE

NORTH AMERICA – SHORT FLOWS (4 WEEKS) VS SPX



COMBINED FLOWS - GLOBAL LONG & SHORT





# Investors further reduce risk ON BOTH EQUITIES AND BONDS

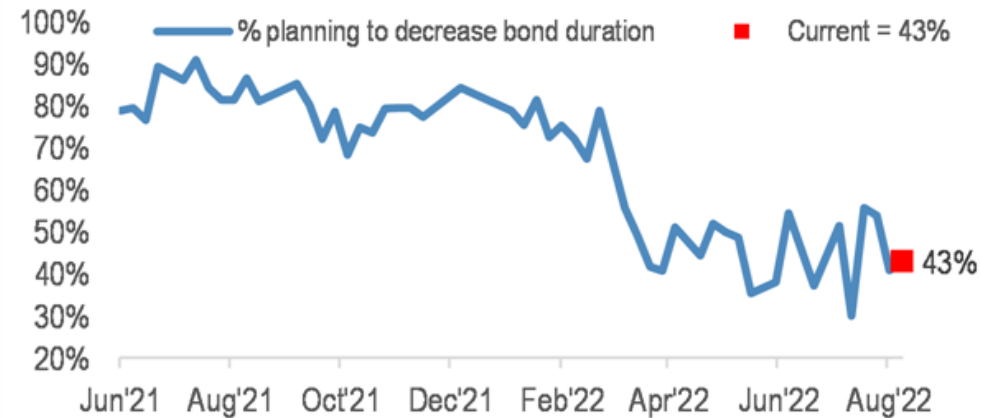
## EQUITY EXPOSURE

Are you more likely to increase or decrease your exposure to equities in the coming days/weeks?

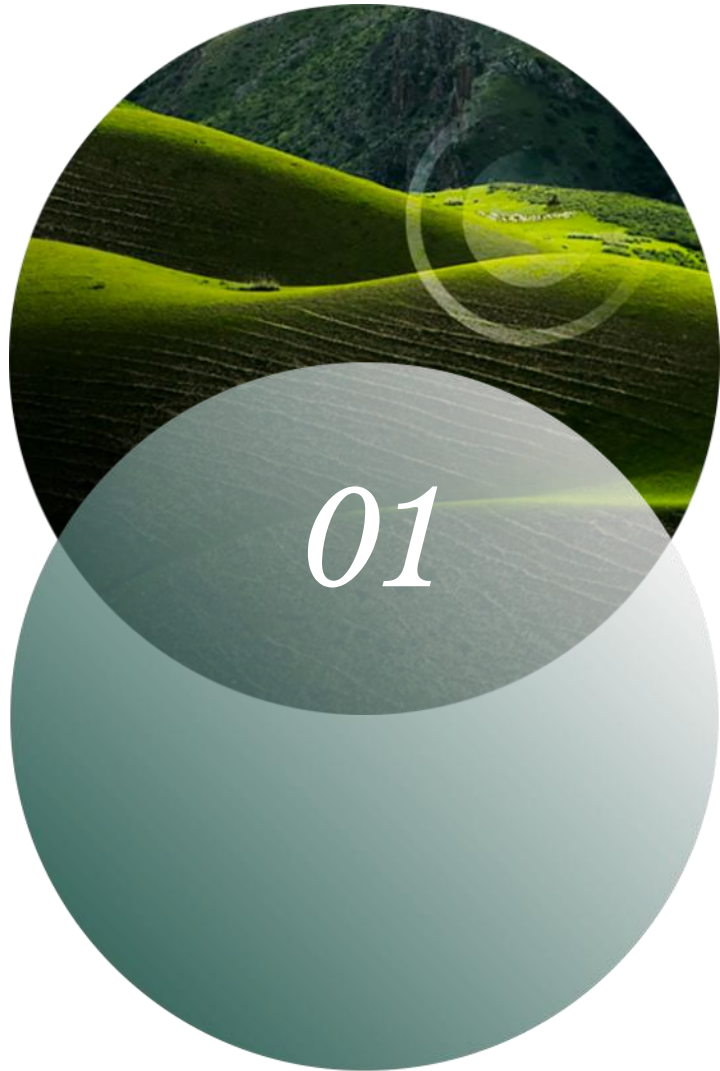


## DURATION IN BOND PORTFOLIOS

Are you more likely to increase or decrease the duration of your bond portfolio in the coming days/weeks?



Sources: ODDO BHF AM SAS, J.P Morgan, 08/2022



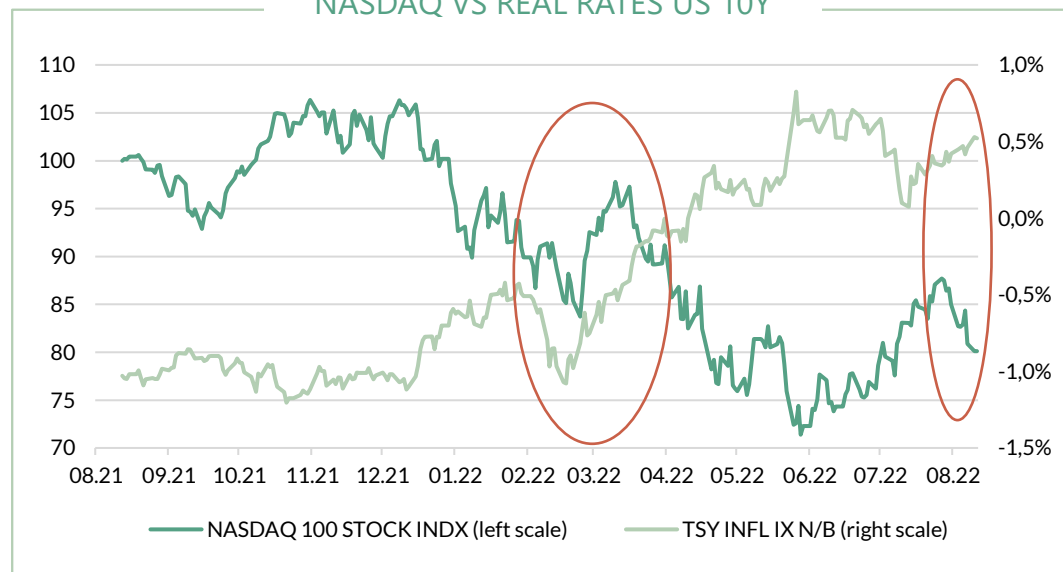
# CURRENT VALUATIONS



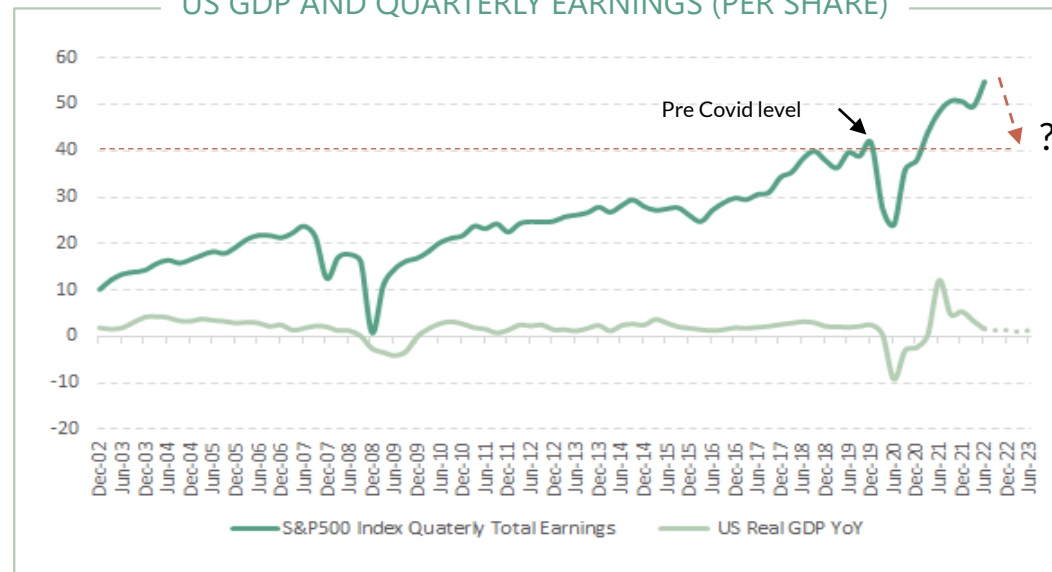
# Equities: rising real rates, falling growth

## A BAD MIX THAT KEEPS WEIGHING ON PERFORMANCE

NASDAQ VS REAL RATES US 10Y



US GDP AND QUARTERLY EARNINGS (PER SHARE)



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

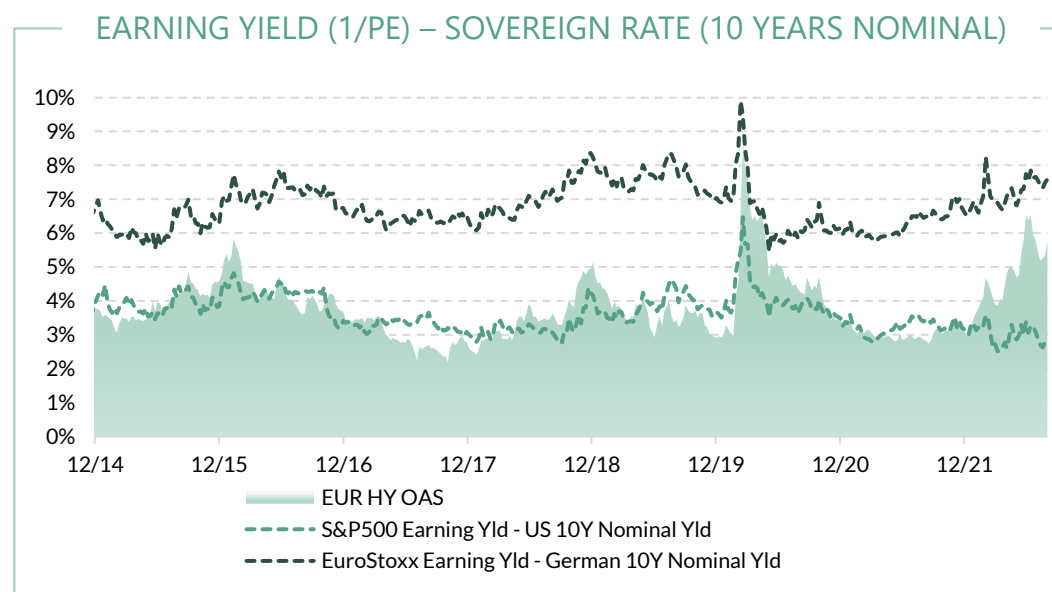
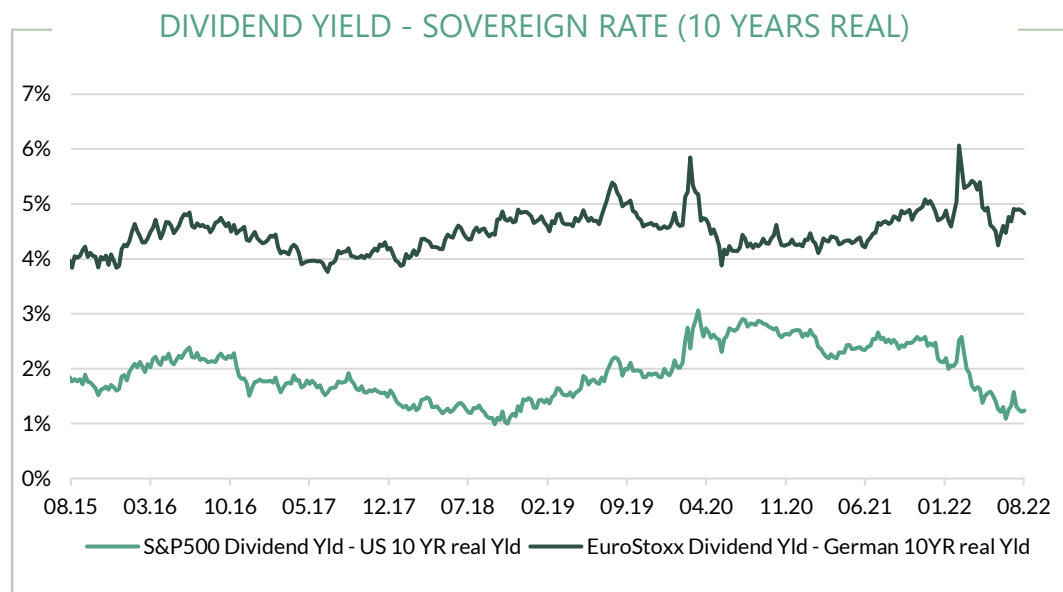
Sources: ODDO BHF AM SAS, Bloomberg | 08/2022





# Equities: risk premiums

## EQUITIES FAIL TO PROVIDE A SUFFICIENT CUSHION



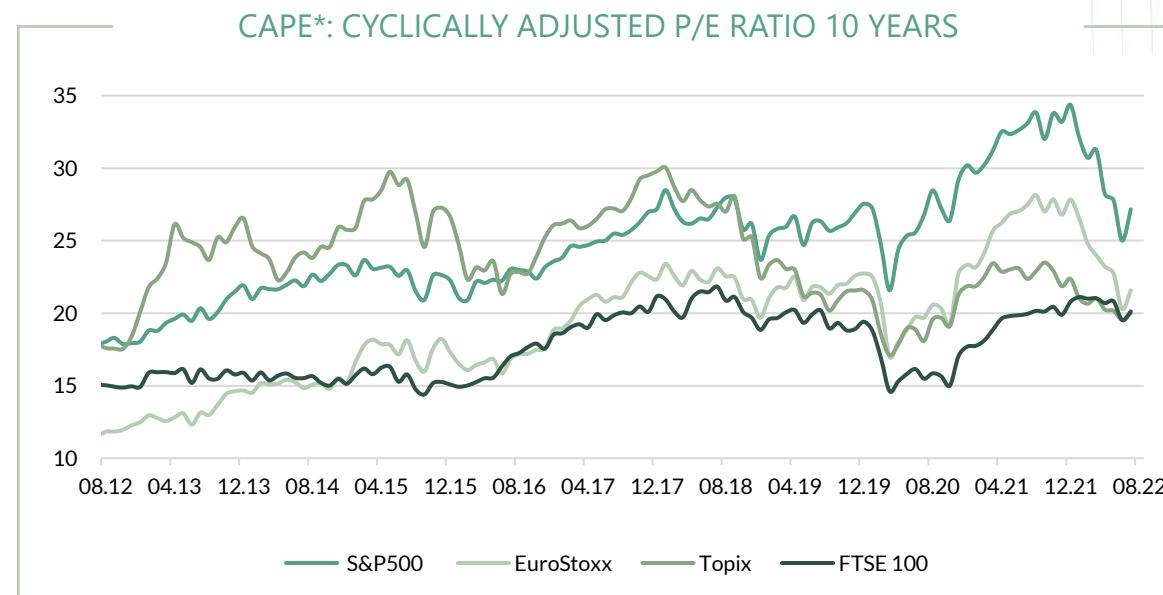
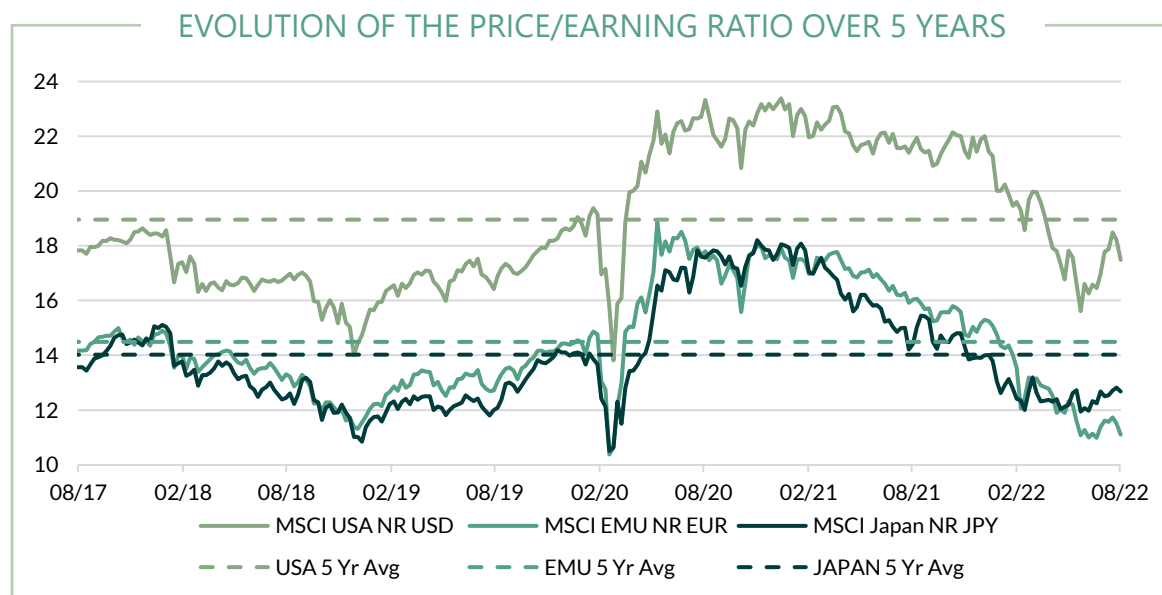
Past performances are not a reliable indicator of future performances and are not constant over time

Source: Bloomberg, ODDO BHF AM SAS | 08/2022



# Equities: a slight re-rating of multiples

## THIS SUMMER'S CATALYSTS SEEM UNSUSTAINABLE

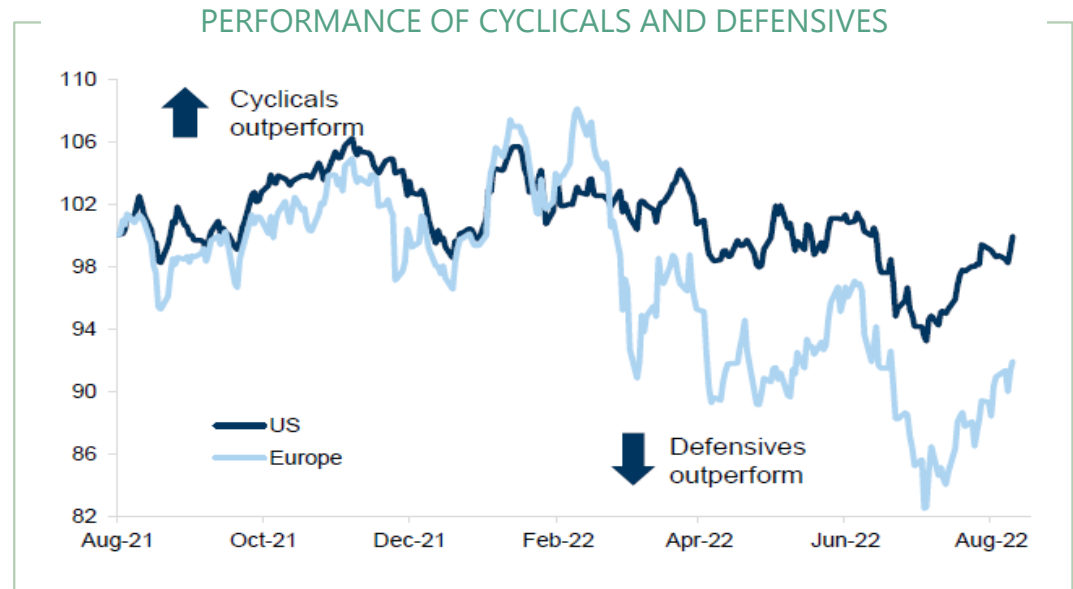
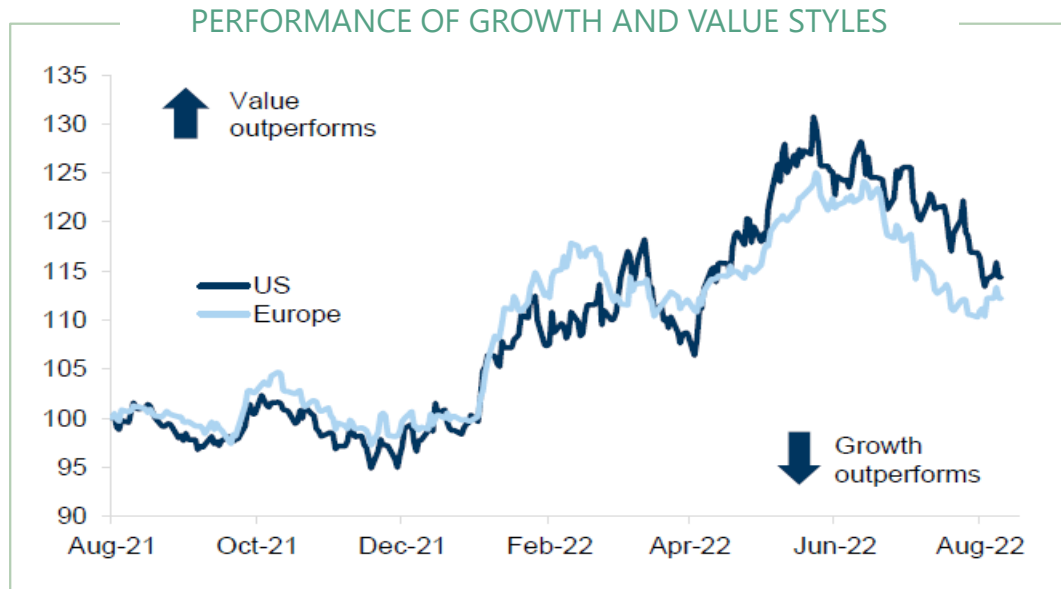


Past performances are not a reliable indicator of future performances and are not constant over time | \*CAPE: Cyclically adjusted price-to-earnings ratio ou Shiller PE

Sources: ODDO BHF AM SAS, Bloomberg | 08/2022



# *Equities: focus today on companies that can handle* A RECESSION AND INFLATION CYCLE



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

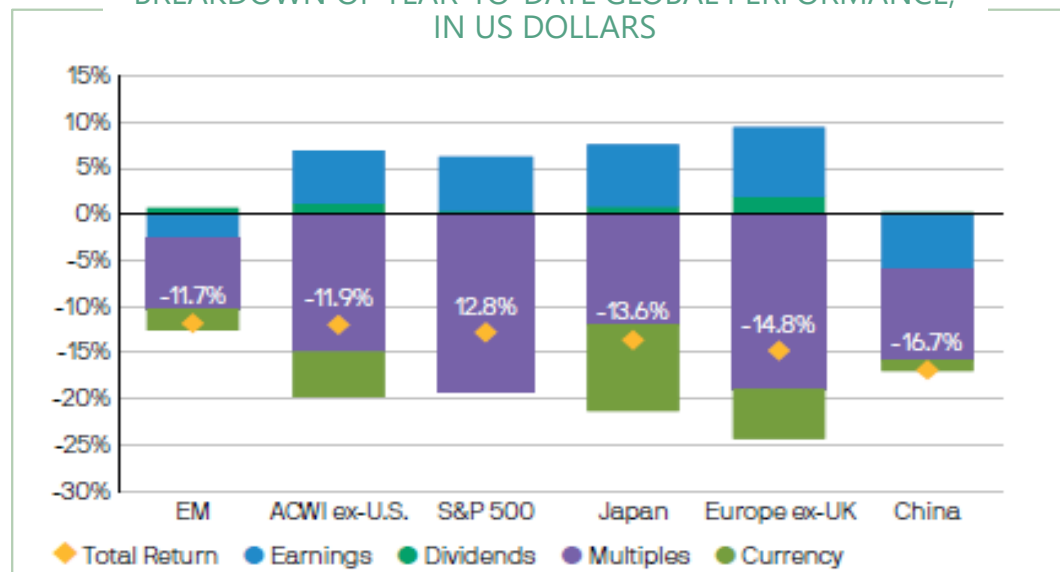
Sources: ODDO BHF AM SAS, GS, 08/2022



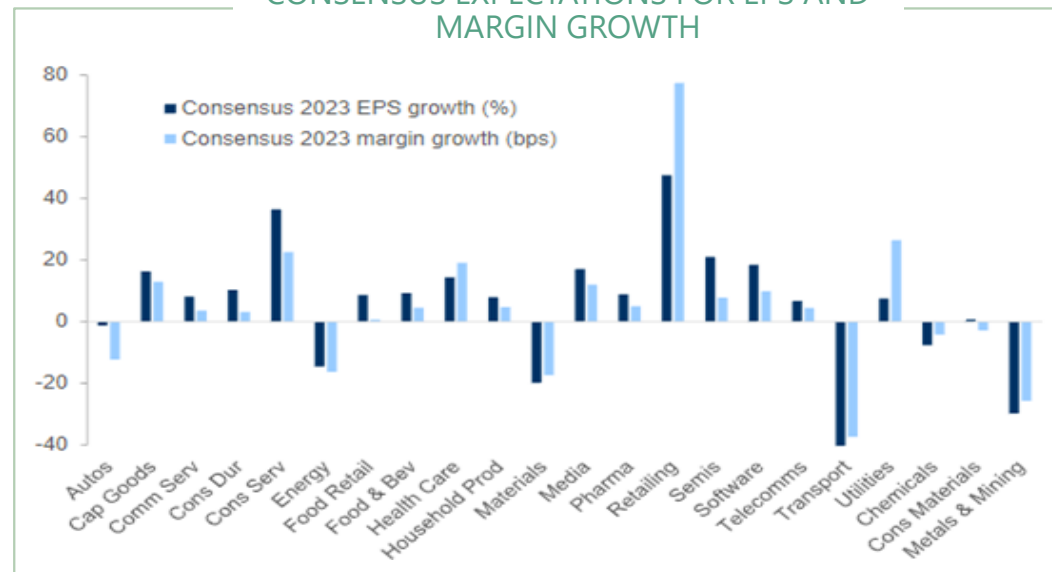
# Equities: margins

## A DECLINE TO BE EXPECTED BUT OF WHAT MAGNITUDE?

BREAKDOWN OF YEAR-TO-DATE GLOBAL PERFORMANCE, IN US DOLLARS



CONSENSUS EXPECTATIONS FOR EPS AND MARGIN GROWTH

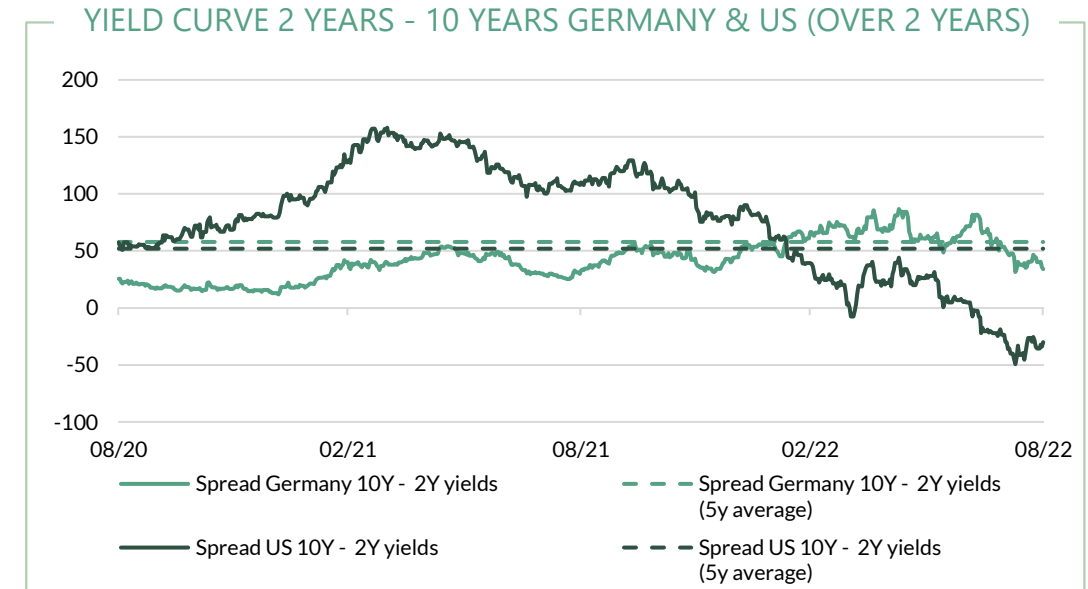
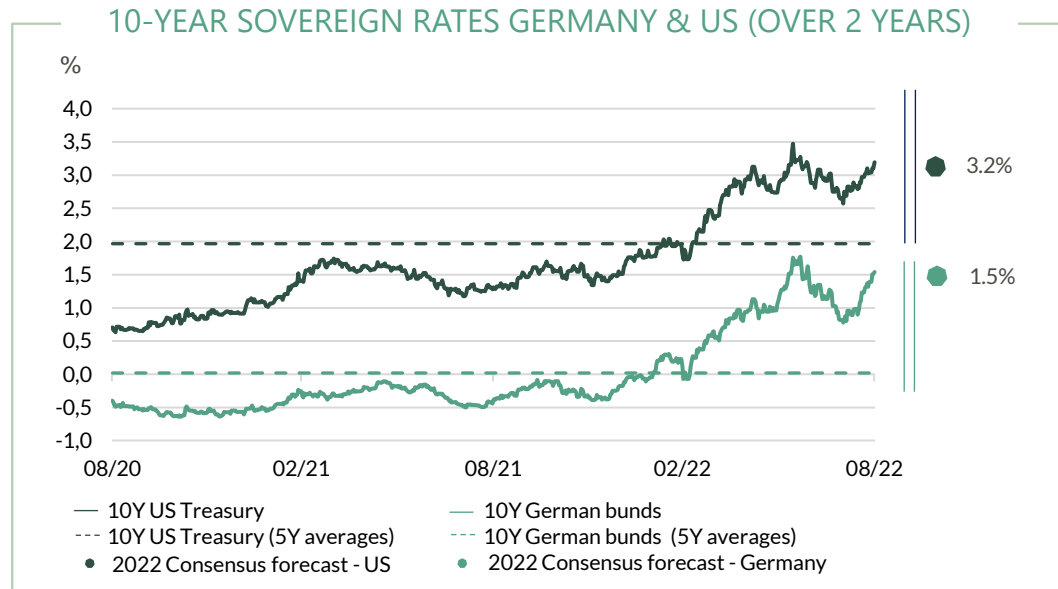


Sources: ODDO BHF AM SAS, JP Morgan Asset Management, MSCI, Refinitiv, IBES, Morgan Stansley, 08/2022



# Sovereign rates

« BEAR FLATTENING\* » WILL PERSIST



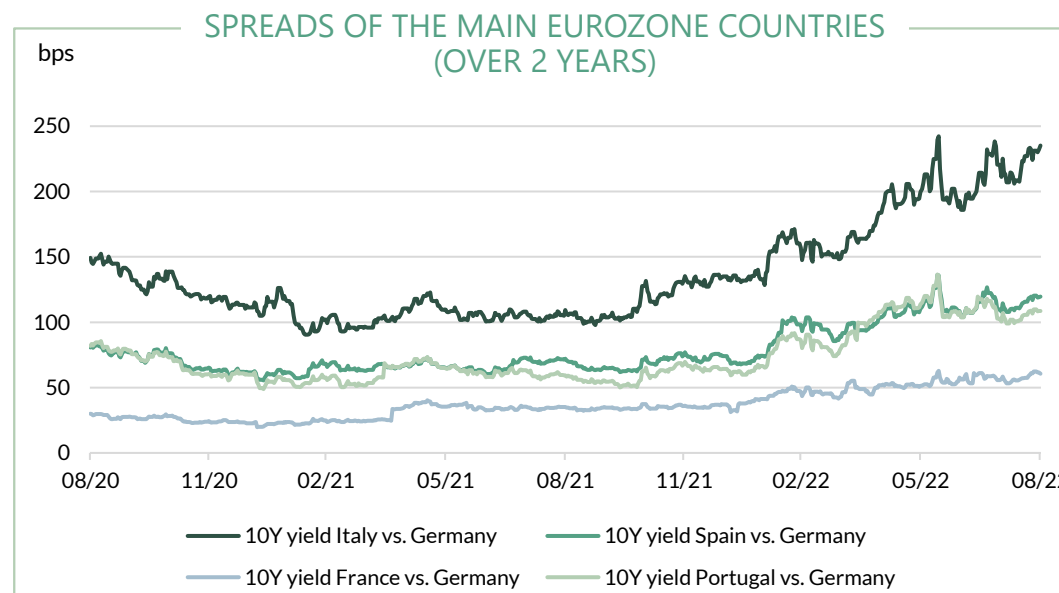
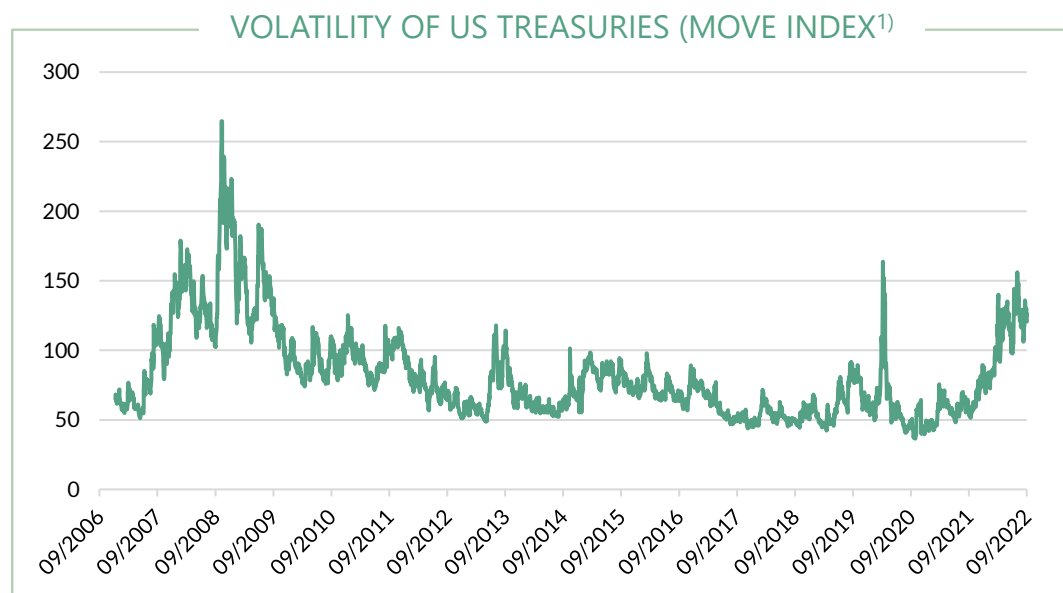
\*Bear flattening occurs when interest rates are rising and the yield curve has flattened

Past performances are not a reliable indicator of future performances and are not constant over time  
 Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | lhs, data as of 08/31/2022; rhs, data as of 08/31/2022



# Sovereign rates

## VOLATILITY AND FRAGMENTATION CAST A SHADOW



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

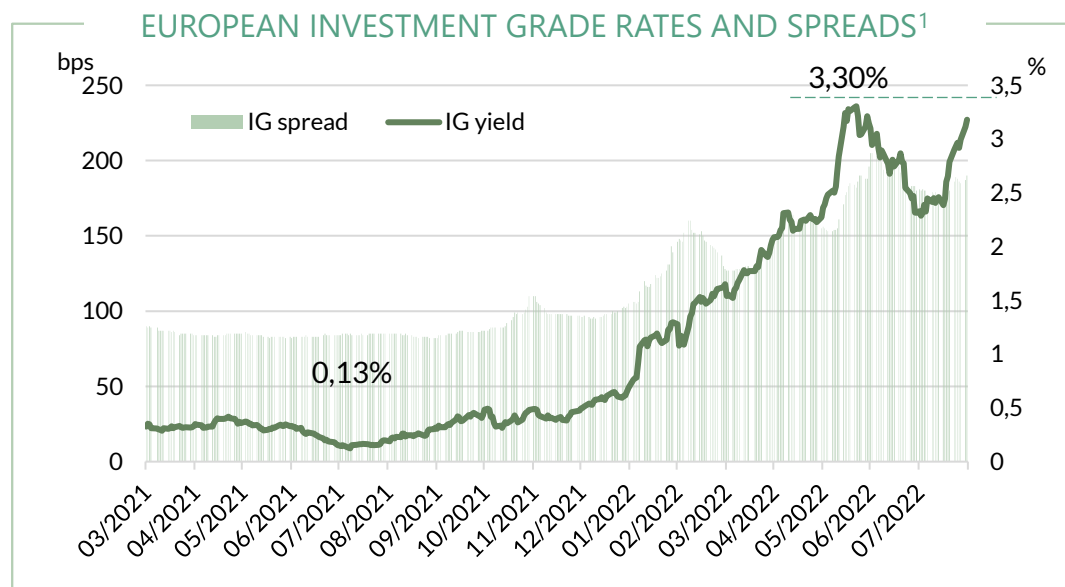
<sup>1</sup> This is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30. (weighted average of 1m2y, 1m5y, 1m10y and 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).

Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | lhs, data as of 08/31/2022; rhs, data as of 08/31/2022

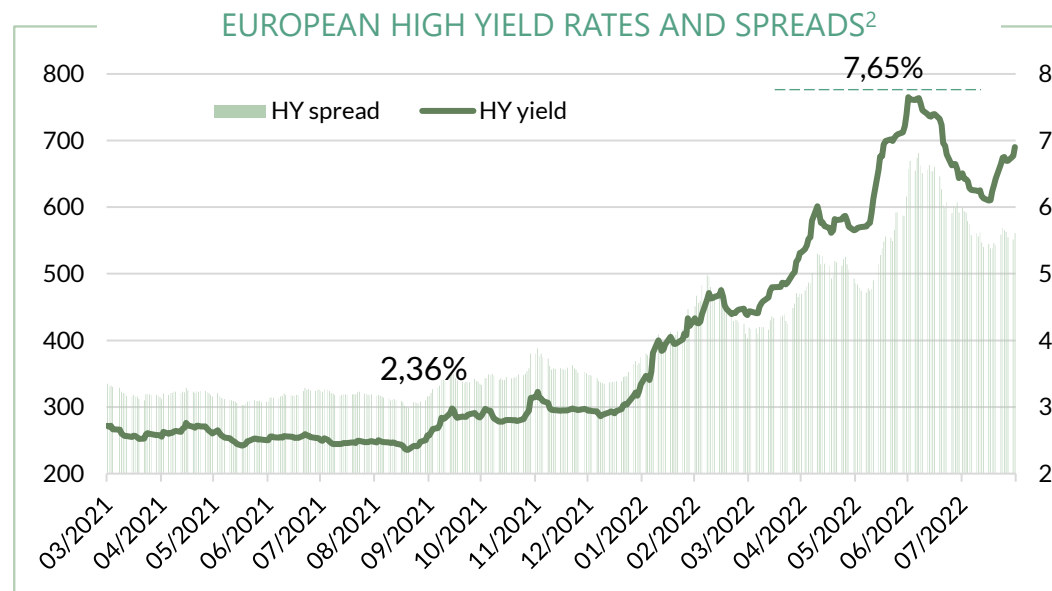


# Credit: a new paradigm

## THAT MAKES CORPORATE BONDS MORE ATTRACTIVE



¹ ICE BofA Euro Corporate Index (ER00); Yield to Worst, Spread to Worst

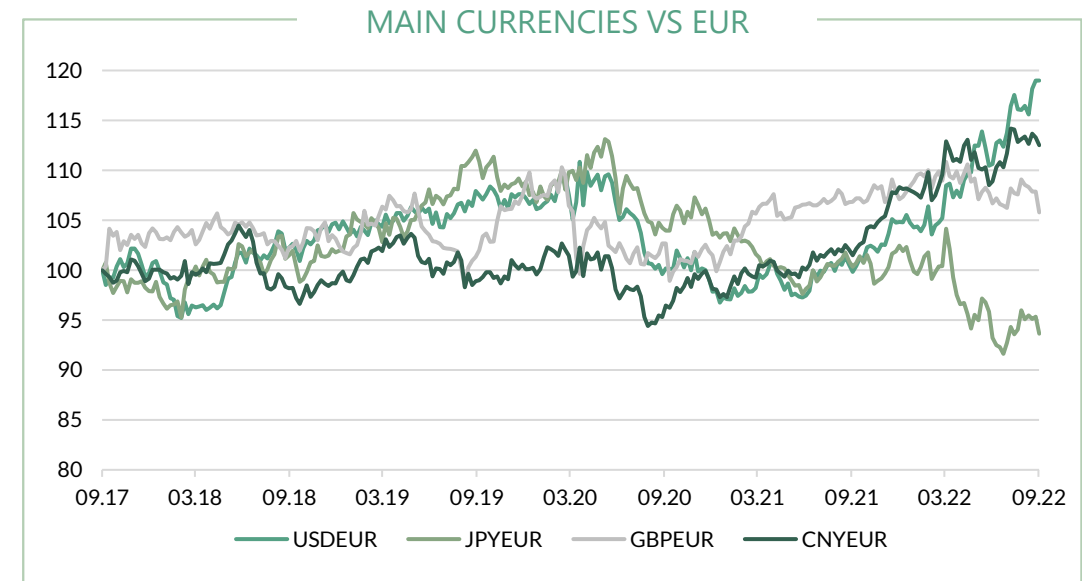
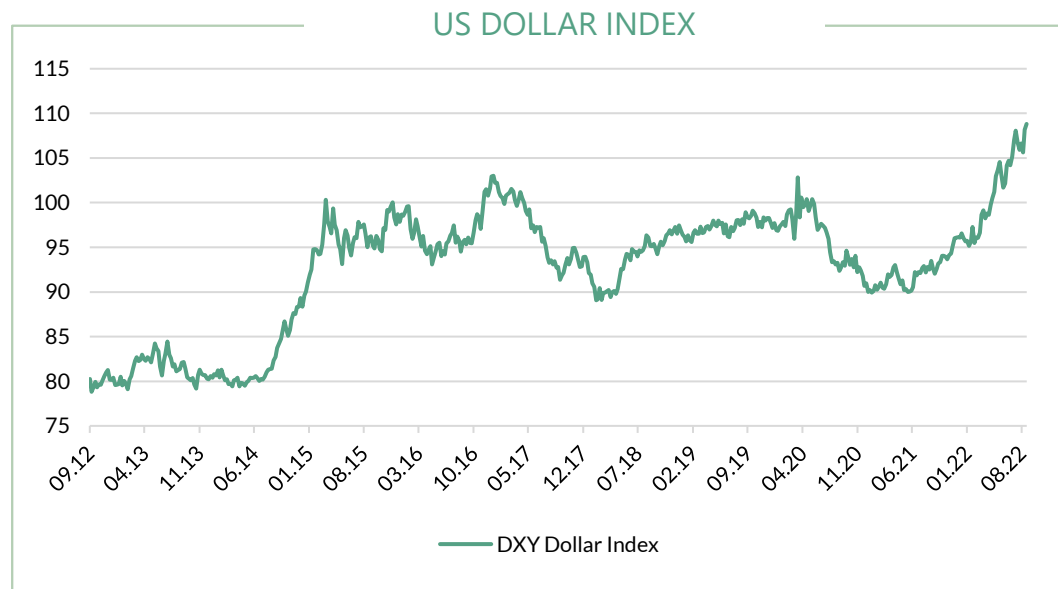


² ICE BofA Euro Non-Financial Fixed & Floating Rate High Yield Constrained Index (HEAE); Yield to Worst; Spread to Worst



# *Currencies: dollar to remain expensive*

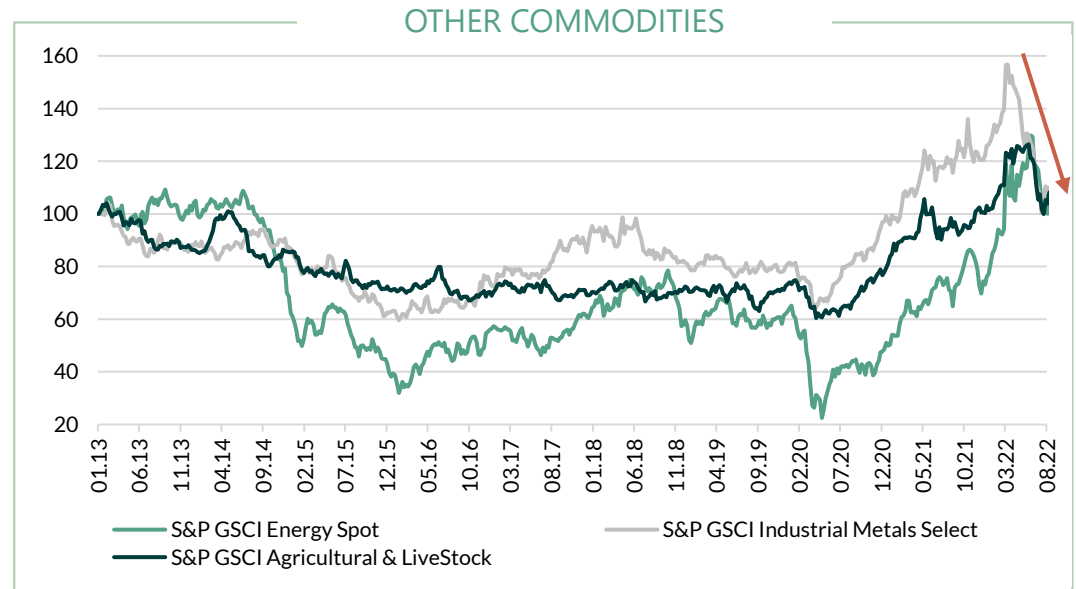
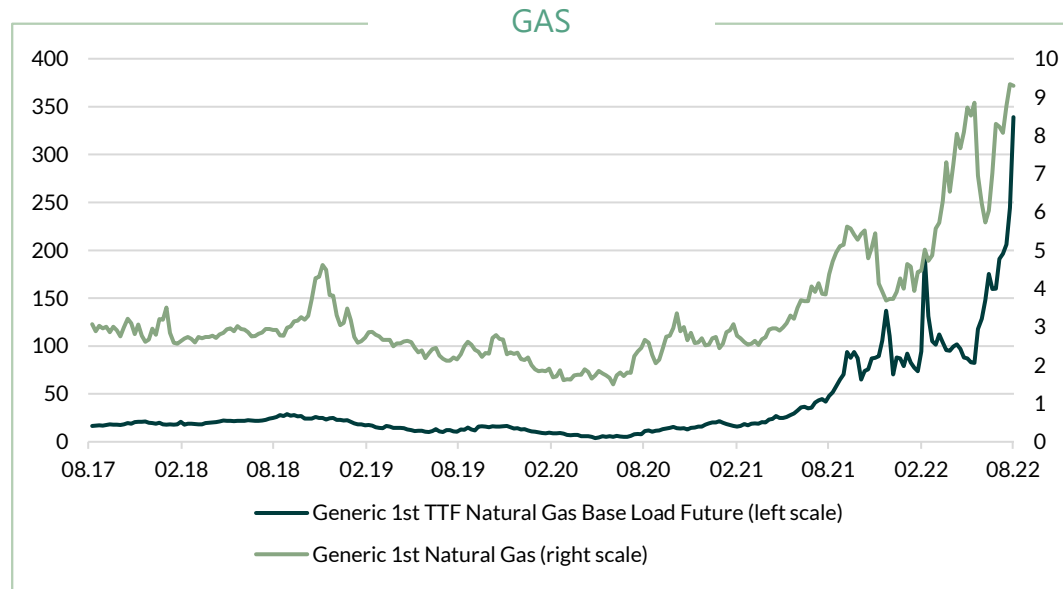
DRIVEN BY GROWTH DIFFERENTIAL AND MONETARY POLICY







# Commodities: *except for gas,* THE DECLINE HAS BEEN MARKED AND IS UNLIKELY TO REVERSE



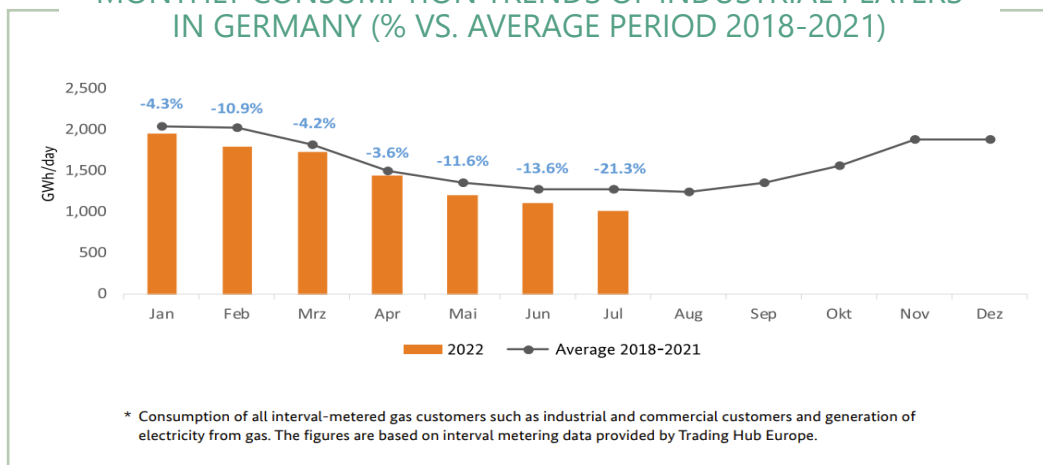
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Sources: Bloomberg, ODDO BHF AM SAS | 08/2022



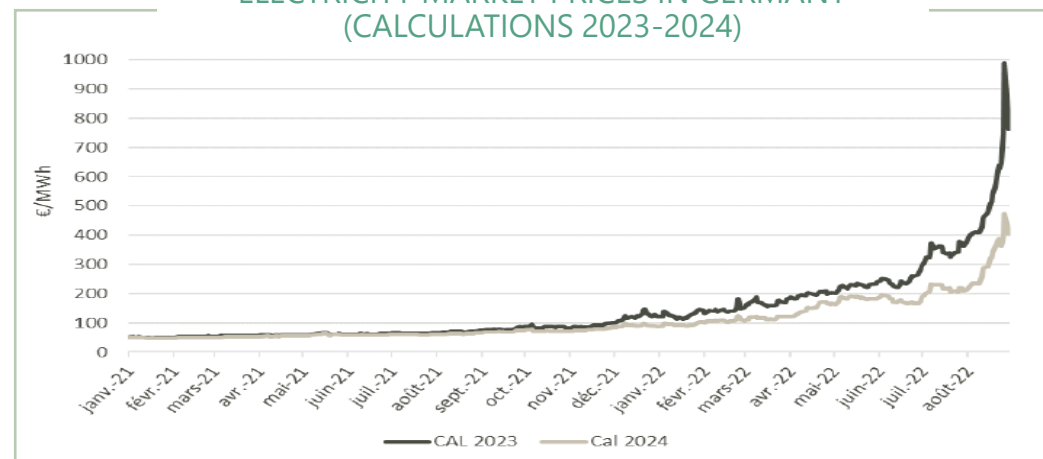
# Gas: Germany has no choice

## BUT TO LIMIT ITS CONSUMPTION WITH AN IMPACT ON GDP

MONTHLY CONSUMPTION TRENDS OF INDUSTRIAL PLAYERS IN GERMANY (% VS. AVERAGE PERIOD 2018-2021)



ELECTRICITY MARKET PRICES IN GERMANY (CALCULATIONS 2023-2024)



### MEASURES PROPOSED BY THE EUROPEAN COMMISSION TO LIMIT THE SURGE IN ELECTRICITY PRICES

1. Cap the price of Russian gas
2. Implement mandatory target reduction of electricity use
3. Cap the earnings of low-carbon electricity producers and redistribute them to the most vulnerable companies and households
4. A special tax on the windfall profits of oil and gas companies
5. Implementing state guarantees to solve the liquidity issues currently faced by electricity suppliers



02

# SCENARIOS AND POSITIONING



# Equities: scenarios for European indices

## OUR VISION UNTIL END OF 2022

### Central scenario

60%

A moderate European recession accompanied by a global slowdown

Europe	2022	2023
Growth	2.0%	1%
CPI	8%	4%
EPS growth	10%	4%
German 10Y yield	1.5%	
P/E 12 months forward	13	
Upside/downside	<b>+5% EuroStoxx 50 (compared to 3500 level)</b>	

#### OVERWEIGHT

- Equities - Low leveraged quality

#### UNDERWEIGHT

- Equities - Regulated sectors
- Equities - Ultra growth

Source: ODDO BHF AM, comments as of 09/05/2022

### 02 Alternative scenario #1

35%

A very strong European recession accompanied by a global recession. No generalized financial crisis

Europe	2022	2023
Growth	-2%	0%
CPI	5%	3%
EPS growth	-4%	1%
German 10Y yield	0,5%	
P/E 12 months forward	12	
Upside/downside	<b>-18% EuroStoxx 50</b>	

#### OVERWEIGHT

- Equities - Defensive, Low leveraged
- Equities - Growth
- Cash

#### UNDERWEIGHT

- Equities - Cyclicals,
- Equities - Indebted companies

### 03 Alternative scenario #2

5%

A very strong European recession accompanied by a global recession. Generalized financial crisis

Europe	2022	2023
Growth	-3%	-2%
CPI	4%	2%
EPS growth	-8%	-5%
German 10Y yield	1%	
P/E 12 months forward	10,5	
Upside/downside	<b>-35% Eurostox 50</b>	

#### OVERWEIGHT

- Cash

#### UNDERWEIGHT

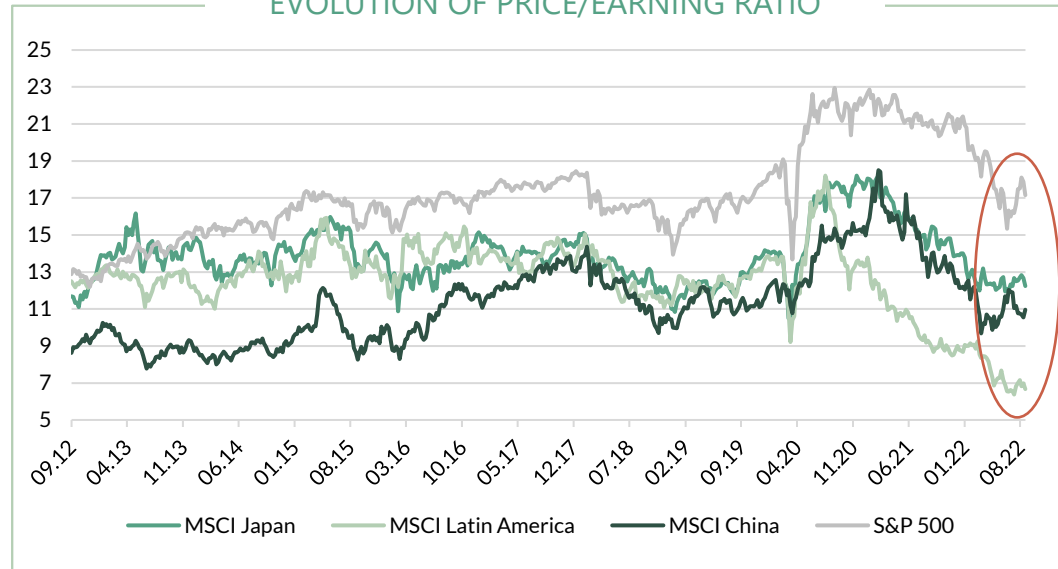
- Equities



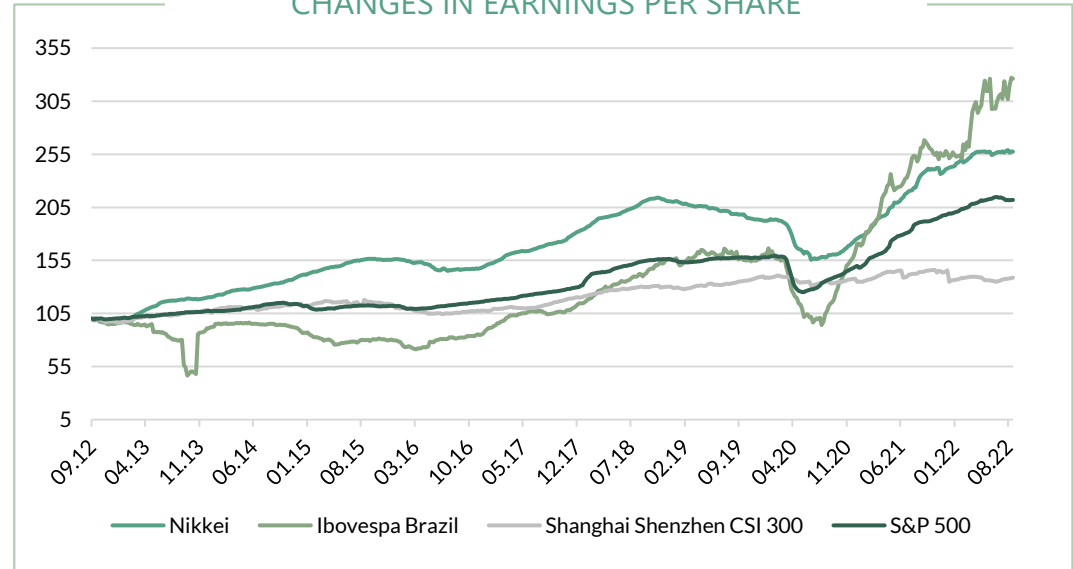
# Equities: regions

## JAPAN AND EMERGING MARKETS OFFER VALUE

EVOLUTION OF PRICE/EARNING RATIO



CHANGES IN EARNINGS PER SHARE



Sources: ODDO BHF AM SAS, Bloomberg, 08/2022



# Equities: sectors and thematic

## WE FAVOUR GLOBAL THEMATIC EQUITIES

### Ecological transition



- Acceleration of the transition to renewable energies fueled by the new geopolitical situation and the need for energy sovereignty (particularly in Europe in the absence of natural resources)
- Excessive valuations in 2020 and 2021 have largely been corrected, with growth prospects intact or even strengthened in the medium/long term

### Food Revolution



- Benefit from the food revolution, which is a strong growth driver
- The nutrition theme is well positioned in the current environment due to its defensive aspect and its lower correlation with interest rates

### Security



- The security market is growing strongly and the margins of companies in the sector are increasing thanks to significant pricing power
- The health crisis has changed our consumption patterns, creating new needs for secure online payments. Current geopolitical tensions highlight the need to better prevent cyber attacks. Governments and companies will continue to increase their protection budgets

### Regulated sector



- Limited pricing power
- Highly leveraged business model not conducive to rising interest rates

### Industry / Chemicals sector



- Adjustment of future inventory levels and rising input costs making it difficult to manage margins
- Valuations under strong pressure but too early to reposition given the risks of recession (wait for the low points in the ISM/PMI manufacturing indices: Q1 2023?)

### Highly indebted companies



- Scissor effect: decrease in revenues, increase in financing costs
- Possible inability to refinance, liquidity and solvency crisis
- High financial leverage not very favourable in an environment of rising interest rates

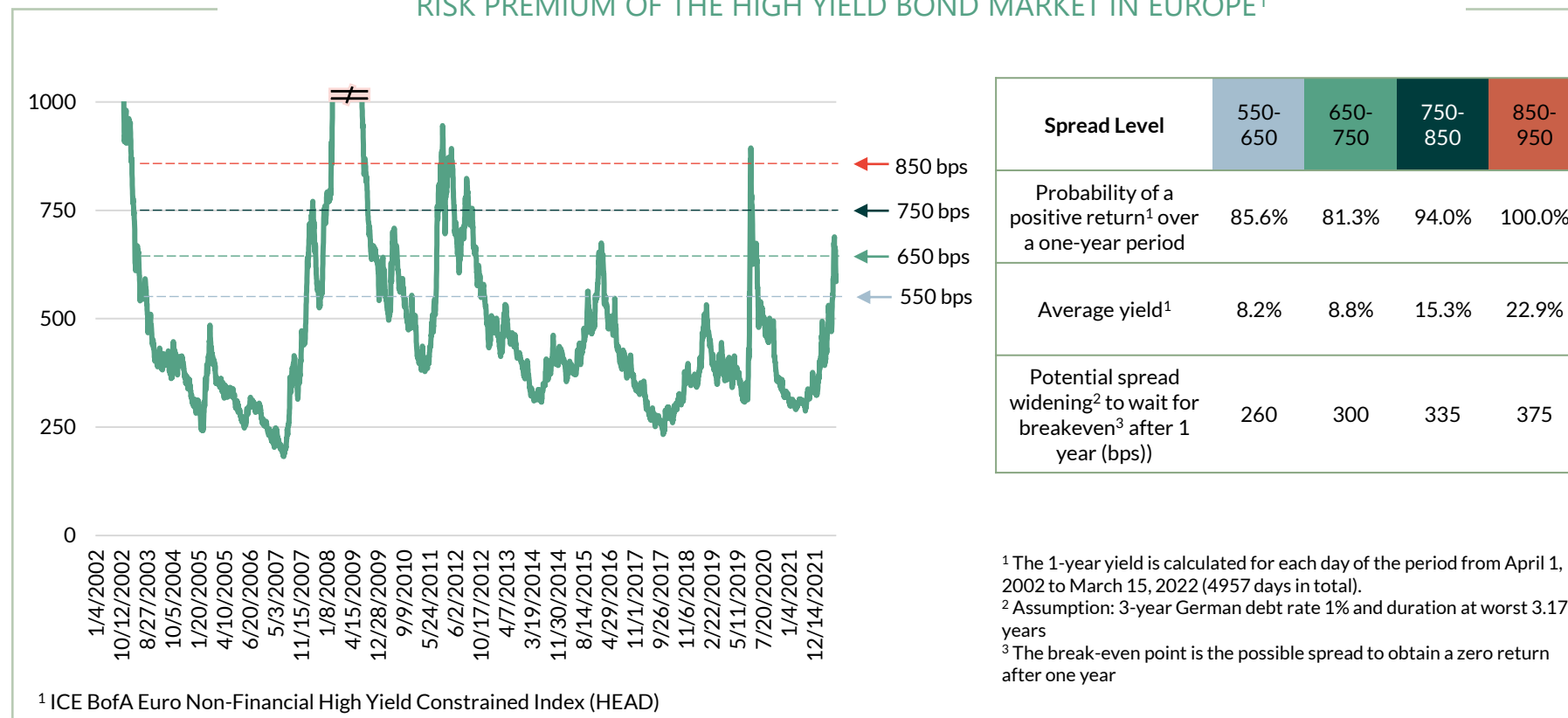




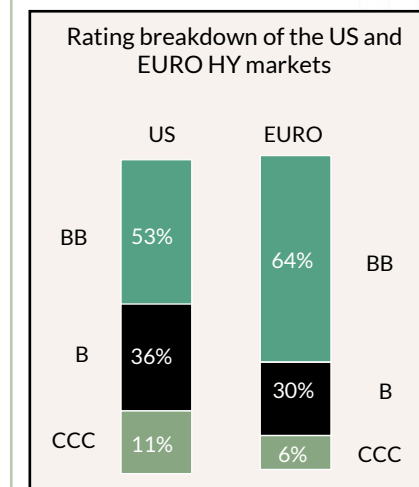
# High Yield Bonds

## A FIRST ENTRY POINT

RISK PREMIUM OF THE HIGH YIELD BOND MARKET IN EUROPE<sup>1</sup>



BREAKDOWN BY RATINGS



The US HY market has a riskier profile than the Euro HY market:

- More CCCs and Bs
- More exposure to the energy sector

<sup>1</sup> The 1-year yield is calculated for each day of the period from April 1, 2002 to March 15, 2022 (4957 days in total).  
<sup>2</sup> Assumption: 3-year German debt rate 1% and duration at worst 3.17 years  
<sup>3</sup> The break-even point is the possible spread to obtain a zero return after one year

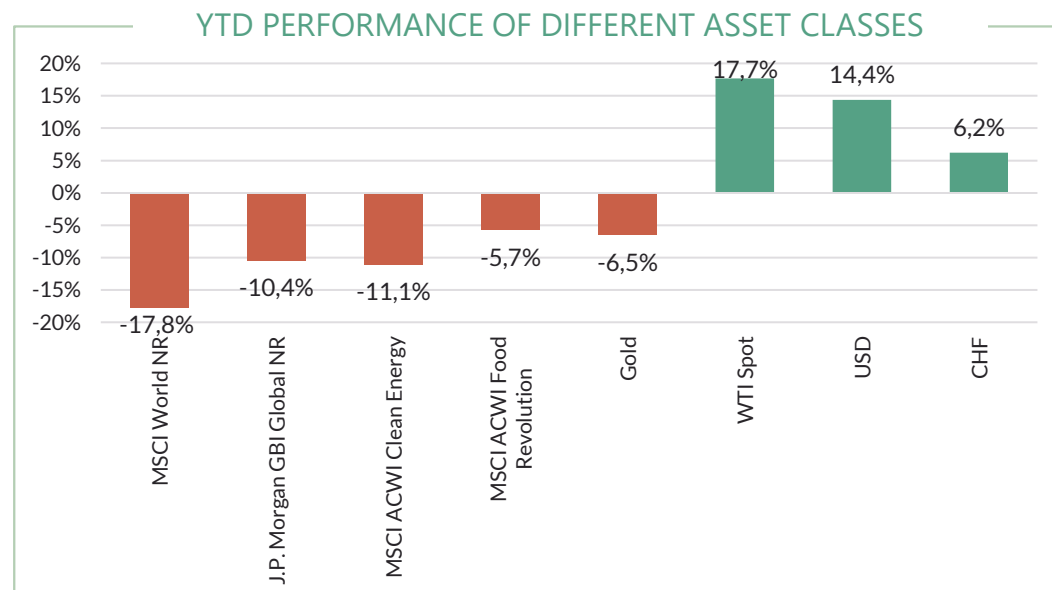
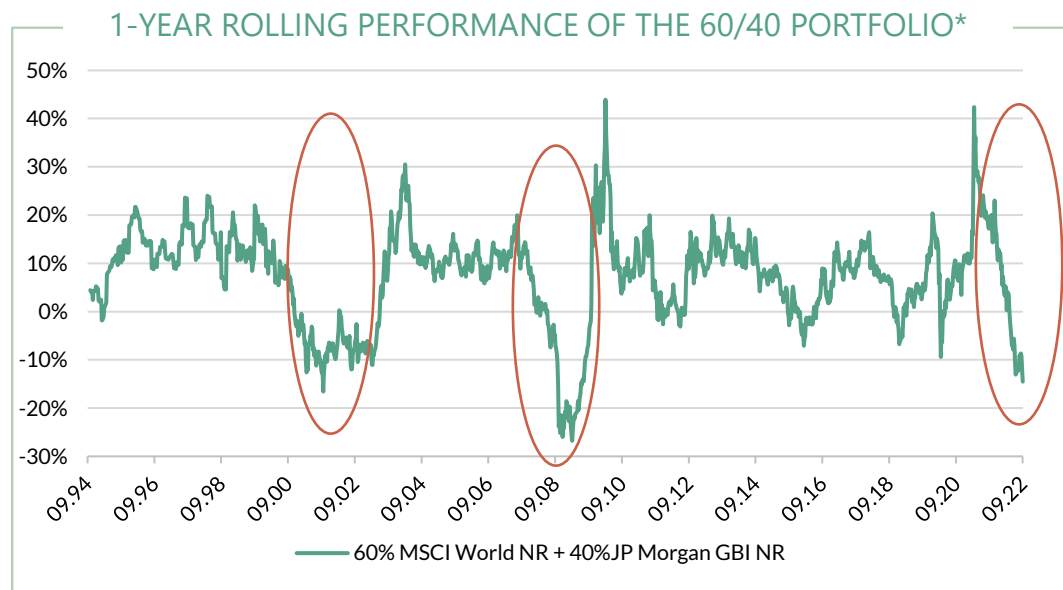
Past performances are not a reliable indicator of future performances and are not constant over time

Source: ODDO BHF AM, 2/09/2022



# Diversification: crucial in this market context

## A RARELY OBSERVED EXTREME CORRELATION



Assets and thematics to diversify portfolios



Assets / Thematics	Convictions
Gold	+
Ecological transition / green	+++
Food revolution / transformation	+++
Oil	++
Currencies / CHF	+++
Private equity	++
Private debt	+

Sources: ODDO BHF AM SAS, Bloomberg, 08/2022 | \*The 60/40 portfolios are allocated 60% to equities and 40% to bonds





# *Private equity (unlisted assets)*

## ADVANTAGES AND DISADVANTAGES

### ADVANTAGES

- ✓ Decorrelated from listed markets
- ✓ Attractive return prospects
- ✓ The best returns come just after a crisis
- ✓ Need to invest steadily through cycles and, above all, not to take your foot off the gas during a market downturn

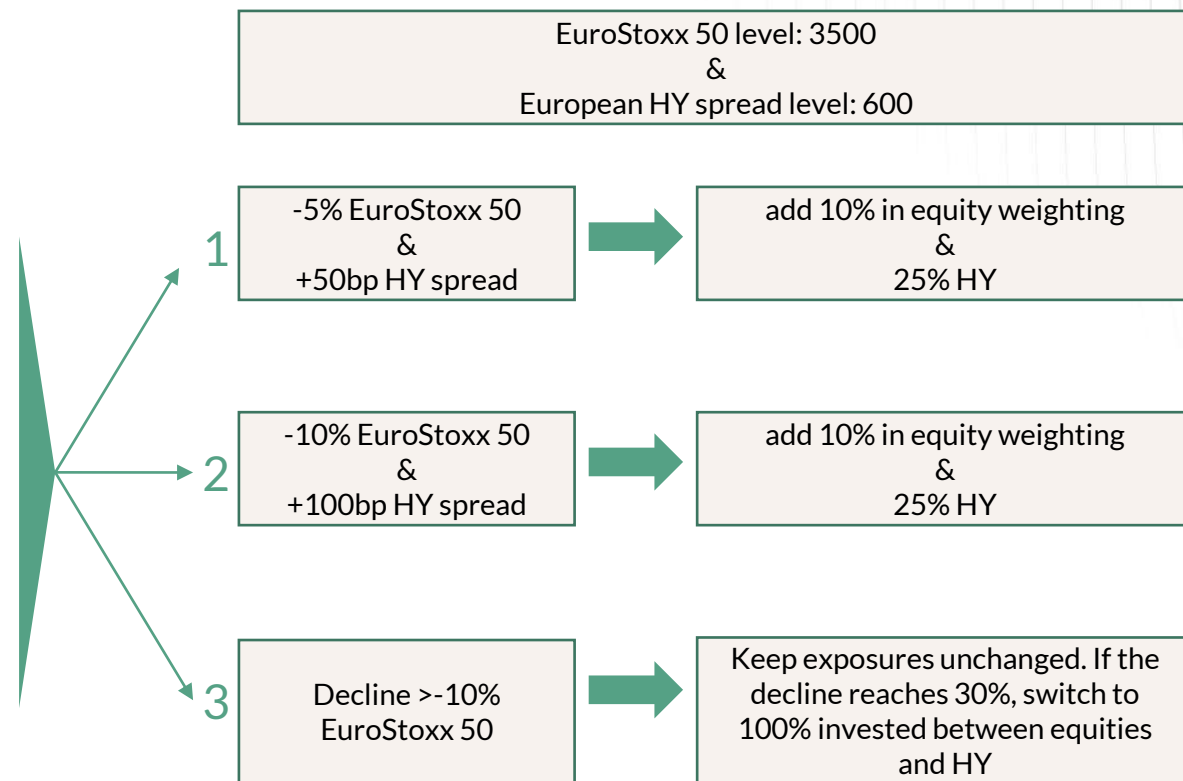
### DISADVANTAGES

- ✗ Valuations could correct in the event of a severe recession
- ✗ Illiquidity
- ✗ For those invested in funds, market timing is impossible because funds invest over a three-year period



# *In summary, the catalysts for a more consistent repositioning*

Catalysts	Expectations
1 Inflation peak	Our chief economist does not expect this to happen in Europe until December
2 Signs that central banks are nearing the end of their upward cycle	That is not the case in Europe, we have only just started
3 A trough in key economic indicators such as the PMI and ISM	Both are still close to 50 today and most likely to fall closer to 40, towards the end of the year
4 A trough in earnings revisions	The earnings revisions are positive today
5 A stabilization of the yield curve	History suggests that the equity market decline ends after the yield curve begins to invert again





# *In a nutshell*

Asset classes	Positioning	Central scenario	
		Tactical	Strategic (long term)
Equities	Regions	Japan / Europe	US / EM
	Size	Large	AllCap
	Styles	Thematics	Quality
	Sectors / thematics	Energy/green/ food	Transition/sovereignty/security
Fixed income	Government bonds	--	-
	High Yield Bonds	+	+
Currencies	USD/€	+	-
Commodities	Gold	=	-
	Crude oil	+	=
Alternatives	Private equity	+	+
	Private debt	=	+
	Listed real estate	-	=



# ODDO BHF

## ASSET MANAGEMENT

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 €21,500,000. Entered into the Paris Register of Trade and Companies under number 340 902 857.

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