ODDO BHF ASSET MANAGEMENT

Navigating a market in transition

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> Companies able to pass on higher input prices, particularly raw material prices, to their customers will continue to see growth in their earnings series

After a record reporting season for the second quarter of 2021 – the best in 10 years – what can we expect from companies' earnings prospects in an environment that is becoming a little less favourable? On top of the factors that are well known – growth that has peaked in several parts of the world, bottlenecks, bankruptcies of real- estate companies in China – the recent spike in energy prices may cast doubt on companies' ability to keep their margins so high.

What does the consensus say?

In 2021, five sectors accounted for about 75% of growth in global EPS (earnings per share): energy, banking, mining, autos and consumer goods. The consensus of analysts have lowered their 2022 EPS growth forecasts from +17% at the start of the year to +7/8% currently in the case of European companies. This reflects negative base effects but also a highly cautious view of the recent increase in input prices.

What are the main factors influencing results?

1. **Growth:** The main downside risk is in China, with its dual shift towards greater regulation (i.e., a state-led reallocation of capital) and redistribution ("common prosperity"). China possesses many sources of leverage for preventing harmful fallout from an Evergrande bankruptcy, but its new "growth model" that is less dependent on corporate and real-estate debt will, at least in the short term, provide less momentum to global growth.

2. **Inflation:** Some bottlenecks have lasted longer than initially expected. Shortages have now extended to energy supplies in several regions, including Europe and China. The most extreme case is the UK, which has seen panic buying of petrol, leading to the closing of service stations, which has only worsened the shortages. The energy squeeze is creating downside risks to economic activity, upside risks to inflation, and political risks (including the politization of the inflation risk). Even so, we do not share the stagflation scenario being bandied about by some commentators. We believe that, yes, growth will weaken, but from extremely high levels. Clearly, central banks are more nervous than they were at the start of the year, and the risk of "monetary error" is rising.

3. **The euro,** which had been a headwind for European companies, is now a tailwind, as about 50% of listed European companies' revenues come from abroad. The euro's recent weakness is therefore good news and will ultimately have a positive impact on the most export-intensive companies.

4. **Pricing power.** Companies able to pass on higher input prices, particularly raw material prices, to their customers will continue to see growth in their earnings series. And it's true that analysts' revisions of 12-month forward EBIT (earnings before interest and taxes) have shifted in favour of companies with high pricing power. Keep in mind that such companies' stocks have outperformed their peers by about 20% on average over the past year, and that their two-year relative P/Es are trading at a 7% discount to their 10-year average.

5. **Earnings and margins:** After record earnings and margins, there is now a risk of seeing momentum deteriorate – for several reasons. The index for which we have the most data is, obviously, the S&P. There are some sectors that call for caution, notably the hardware sector given a decline in CTOs' planned spending on IT equipment and rising inventory levels. Second, over the past three months, wages have soared by an annualised 35% in air freight and logistics and by 15% at restaurants. Even so, dispersion is extremely wide, as average wage growth is still only 4% for S&P companies. But the trend is clearly upward. Third, tax reform could lead to a downward revision of about 5% in S&P 500 earnings per share forecasts for 2022. This is less than expected, given the delay in implementation. However, initial results confirm the companies' ability to raise prices higher than the rise in their costs, thus allowing them to hold onto their margins. The question is, for how much longer? Caution is thus the watchword, with high valuations allowing for some unpleasant surprises.

What is the best possible positioning in this context?

Once the pandemic and bottlenecks recede, companies will be less able to raise their prices on the grounds of "shortages". The real test is still ahead, with, on the one hand, players who create added value recognised by customers and, on the other hand, companies that suffer from the rising cost of raw materials with no flexibility on sale prices.

In Europe, we are more optimistic than the consensus for 2022. Nominal GDP growth, weighted by the countries with which European companies trade, could be +8% in 2022. We therefore believe that this operating leverage is being underestimated.

Against this backdrop, we are overweighting banks, pharmas, autos and, for investors who are less focused on ESG criteria (which are rather central for us), energy. We are steering clear of heavily regulated utility-type companies, as well as luxury goods and techs, which are overexposed, respectively, to China and higher interest rates.

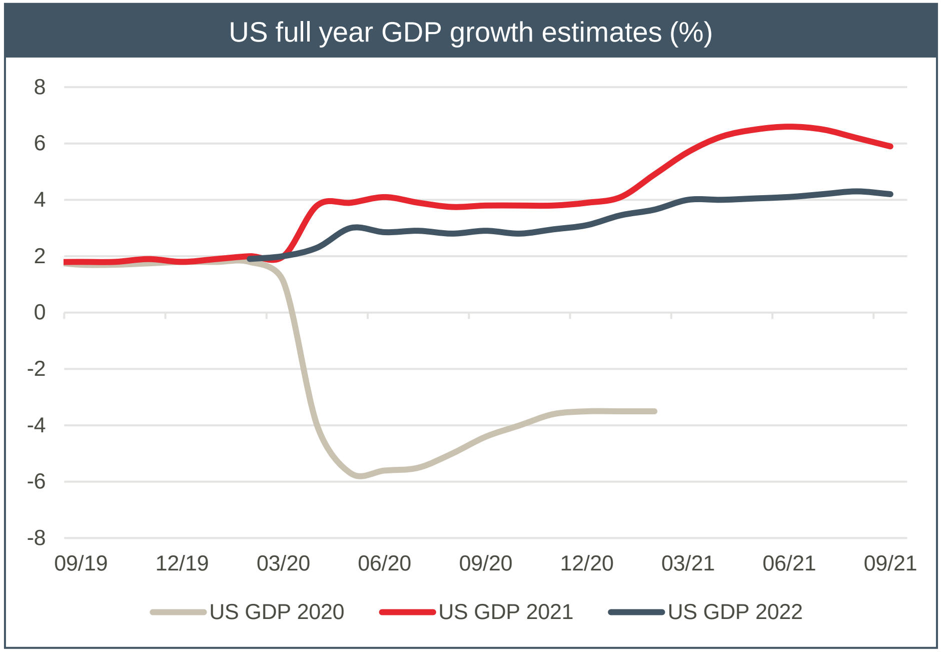
After numerous false starts, rotation is in progress. Don't miss out!

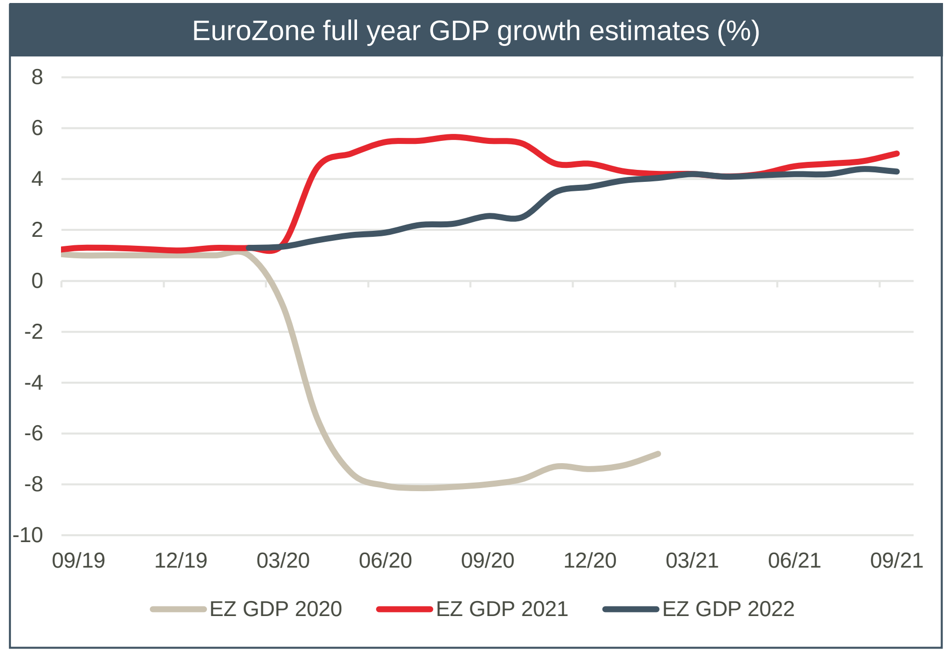
Source: ODDO BHF AM, comments as of 14/10/2021

01 MACROECONOMIC OUTLOOK

Growth outlook

Consensus forecasts flattening out





- Despite downside risks for growth, expectations have been fairly stable for 2022

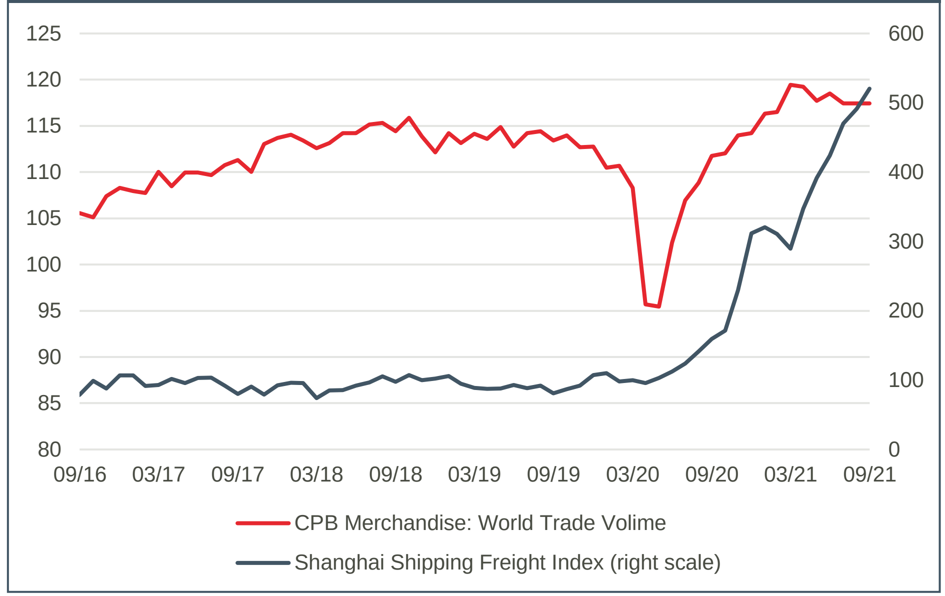
Sources: ODDO BHF AM SAS, Bloomberg | Data as of 09/30/2021

Global trade

Supply imbalances hampering trade volume

Exports volumes

Transport volumes and costs

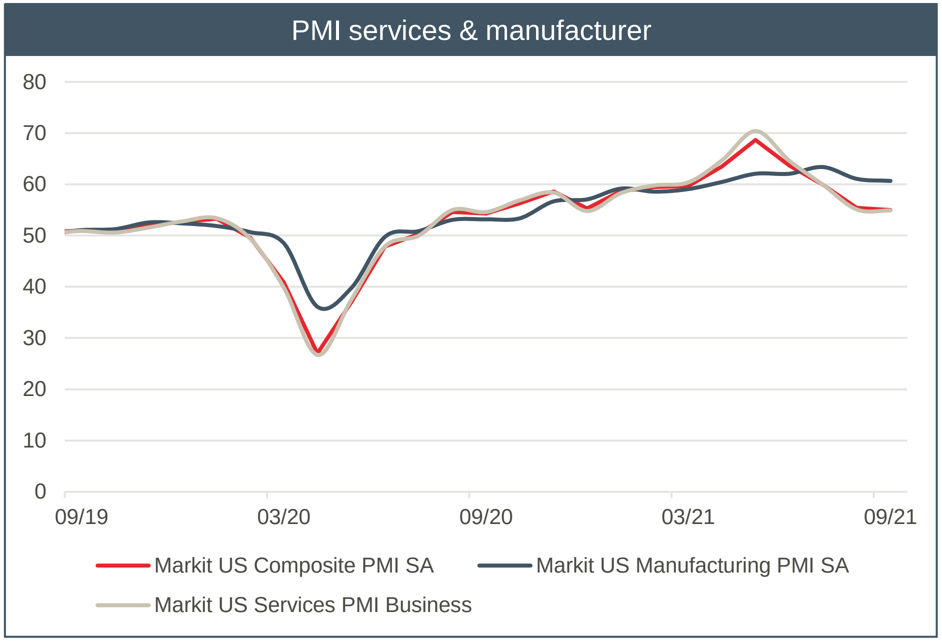


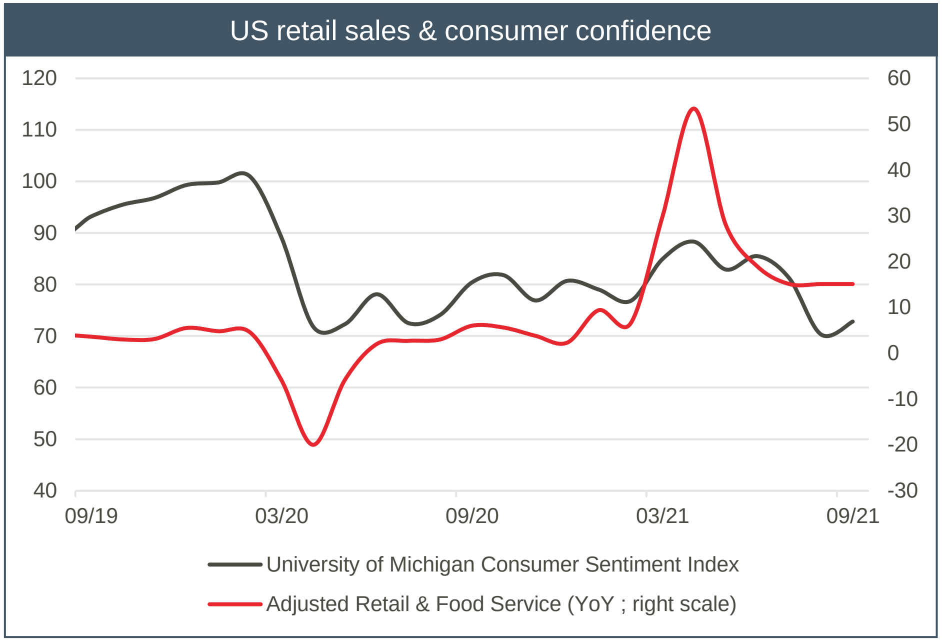
- Limitations on transport capacities and supply bottlenecks are hurting trade

Sources: ODDO BHF AM, Bloomberg, 09/30/2021

USA

Growth dent ahead





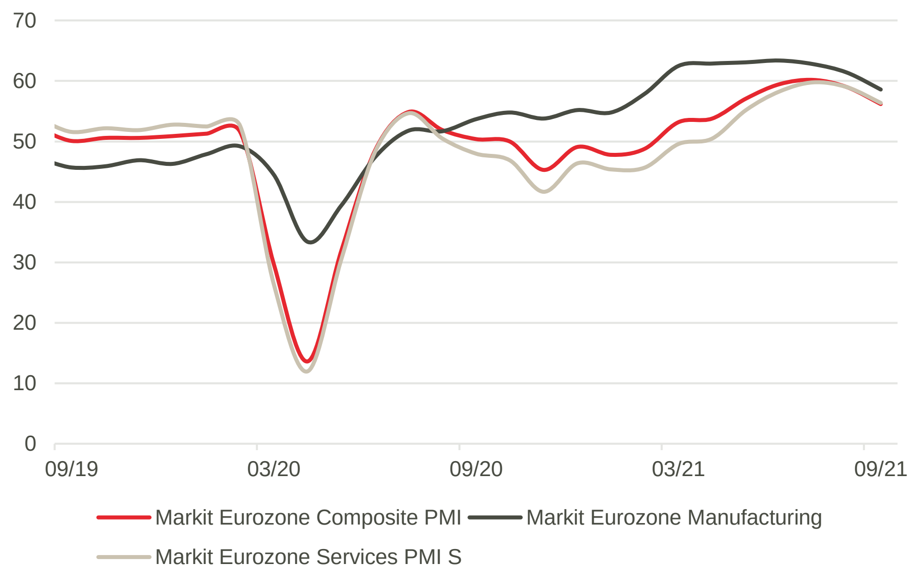
- ISM manufacturing data for September showed a positive surprise relative to expectations, but higher readings on delivery times and prices paid subsets are clouding the positive news
- Another big miss in September non-farm payrolls. The economy added only 194k jobs while 500k had been expected. Next month should see a significant rebound as schools and child-care facilities have reopened, benefits have ended and the covid wave is abating. However, supply restrictions may put a lid on the improvement
- Risk for growth is to the downside in Q3 and Q4 GDP, but healthy private sector balance sheets and a fading covid wave should buffer the dent

Sources: ODDO BHF AM, Bloomberg, 09/30/2021

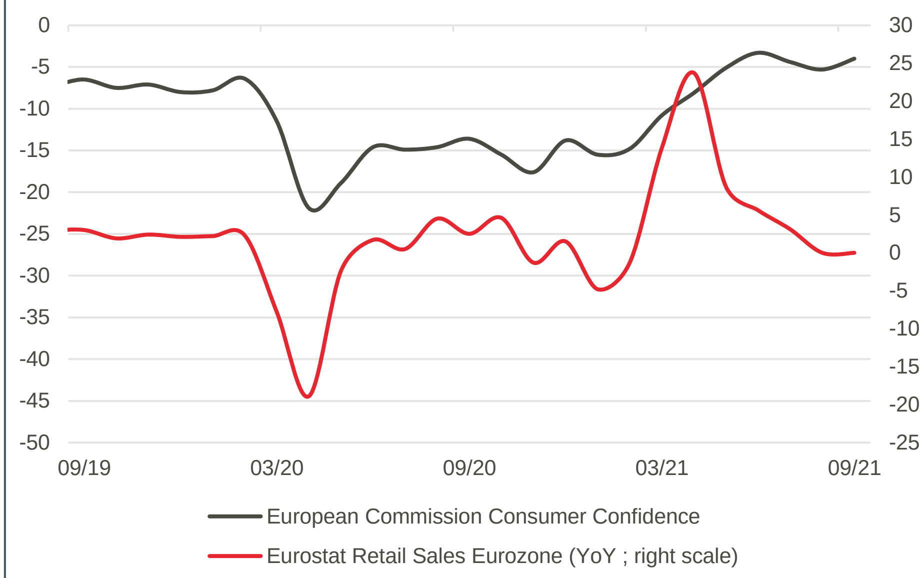
Europe

Supply shocks introduce higher forecast uncertainty

PMI services & manufacturer



Euro Area retail sales & consumer confidence

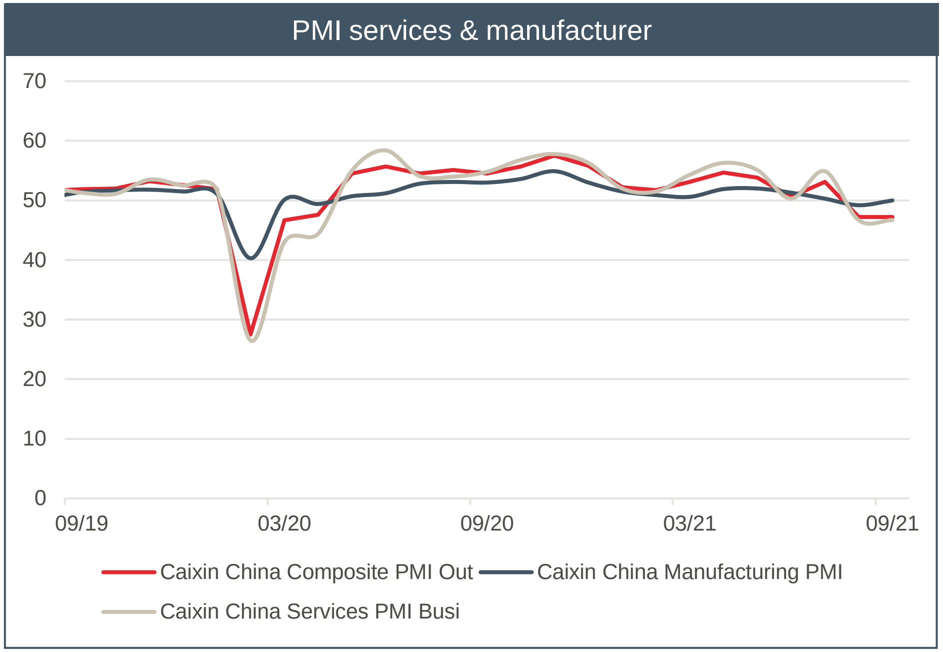


- Gas price and supply shocks are adding risks to Q4 growth
- Cross-country divergence as gas price shock and bottlenecks in the auto sector are most pronounced in Germany

Sources: ODDO BHF AM, Bloomberg, 09/30/2021

China

Between a rock and a hard place



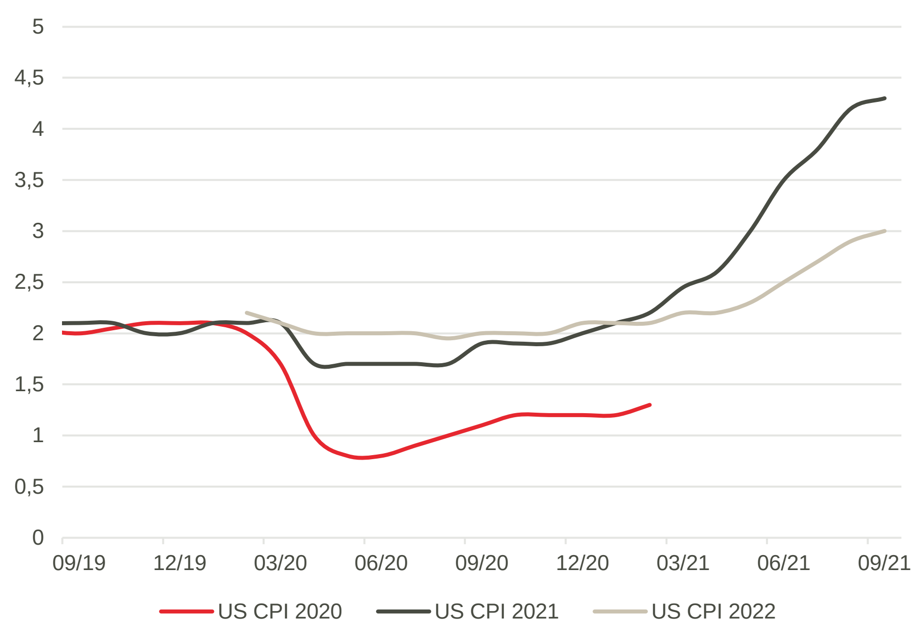
- Composite Caixin PMI for September offered relief with a 4.2-point improvement to 51.4
- The jump can partly be explained by the receding Delta wave
- Current restrictive policy mix plus the deleveraging in the property sector remain drags on growth
- The downside risk for the economy might lead to a slightly more supporting policy via monetary and fiscal measures, but magnitude is restricted given the goal of transforming the economic structure

Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 09/30/2021

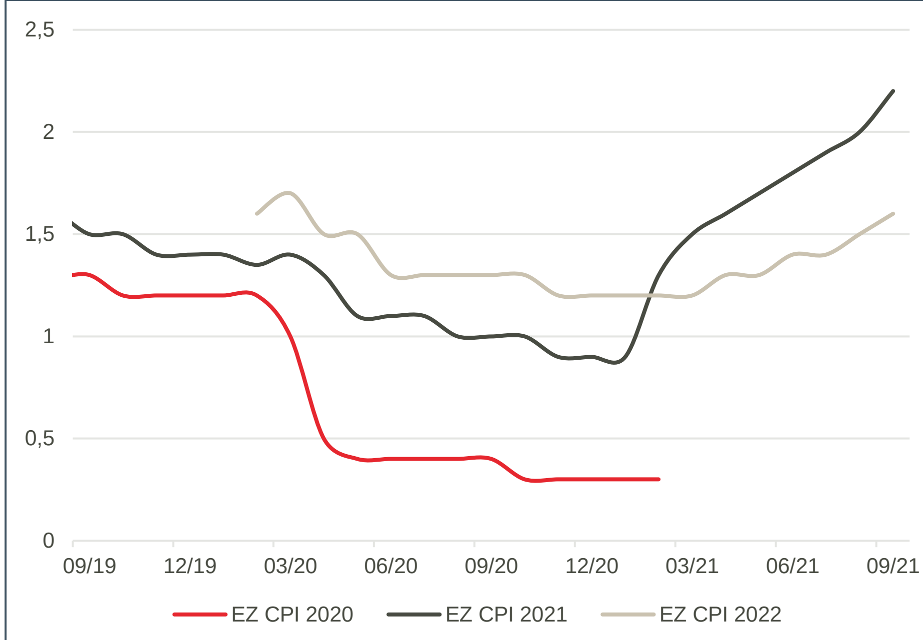
Inflation expectations

Longer-term expectations grinding higher

US full year CPI growth estimates (%)



EuroZone full year CPI growth estimates (%)



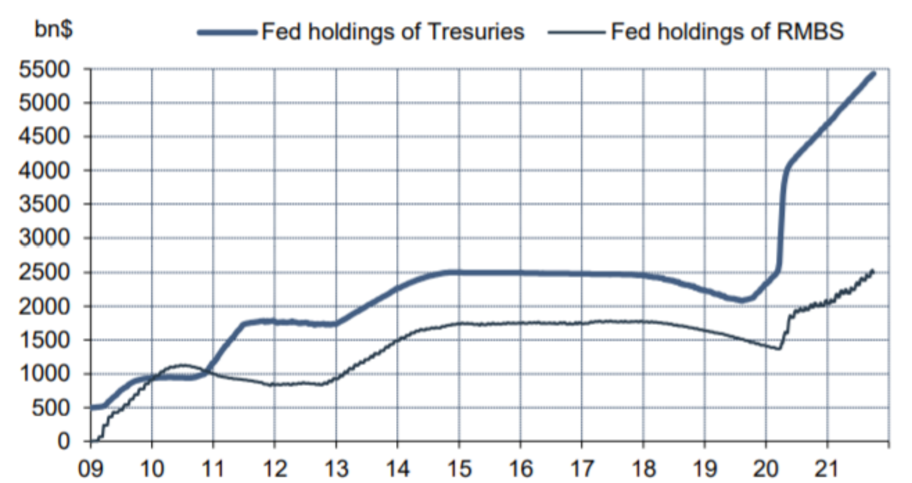
- Higher expectations not yet a concern for Central Banks, but will be watched closely – especially in the US

Sources: ODDO BHF AM, Bloomberg, as of 09/30/2021

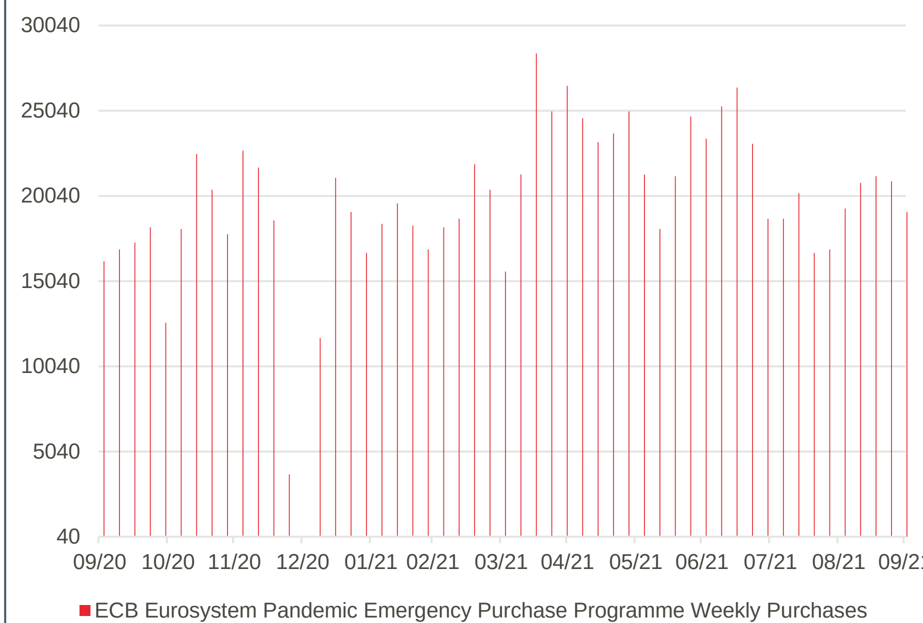
FED & ECB policies

How long is transitory?

FED monetary policy



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



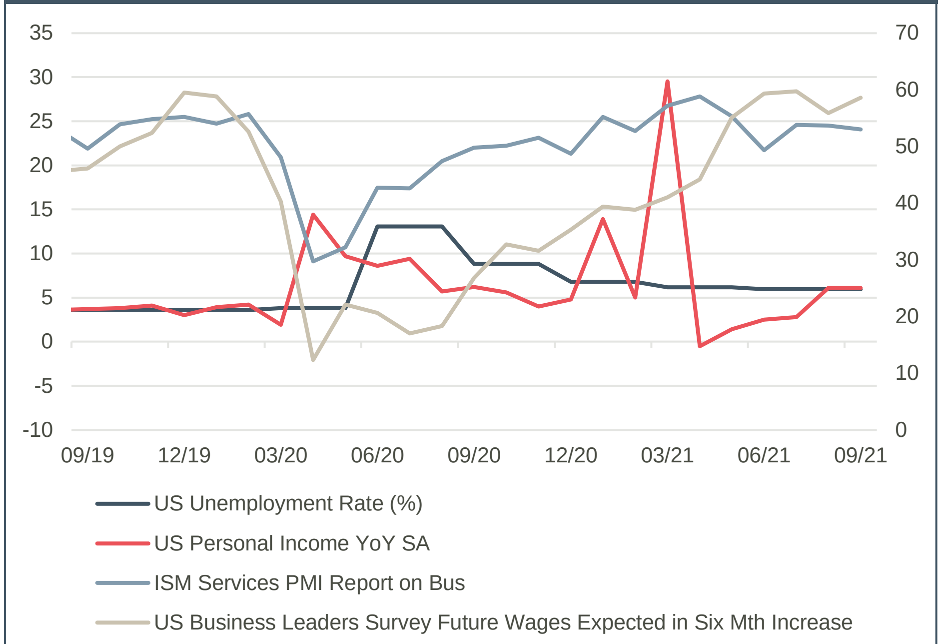
- While inflation appears to plateau or even rise for longer than initially thought, growth has hit an air pocket
- This whiff of stagflation puts the Fed in a quandary
- While tapering will go ahead, the lift off for rates may be postponed depending on the development of the inflation/growth balance
- ECB may be underestimating the structural impact of climate transmission and housing for inflation prints

Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg, data as of 30/09/2021

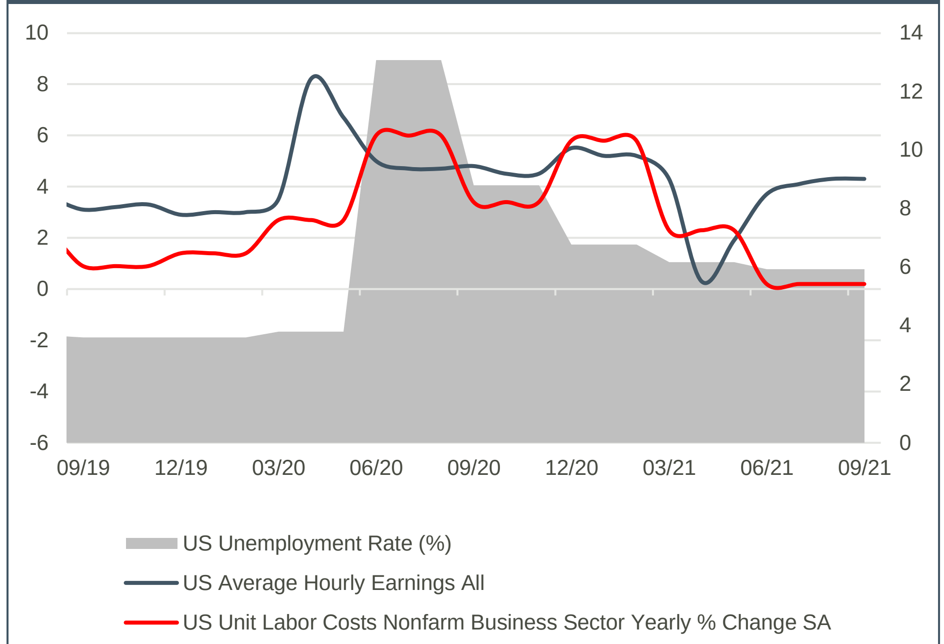
US job market

Supply distortion?

Employment and business climate



Employment and Unit labor costs



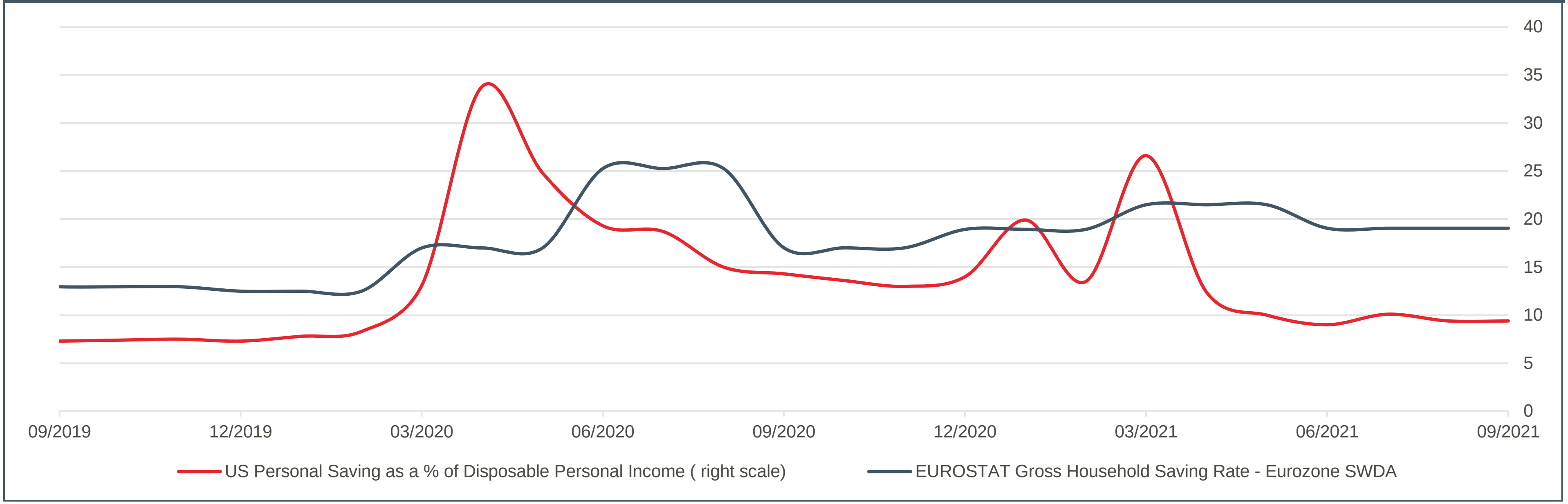
- Job demand still exceeds supply by far
- Jobs hard to fill indicator at multi-decades high reflects ongoing labor market imbalances
- Over the next months reopened schools and stopped benefits should lead to significantly higher job growth
- Evidence of higher wages in some sectors

Sources: ODDO BHF AM SAS; Bloomberg Data as of 09/30/2021

Savings

Household savings still extremely healthy

Households saving rates – US vs Europe



- Pent-up demand will still support economic activity with a bias towards services

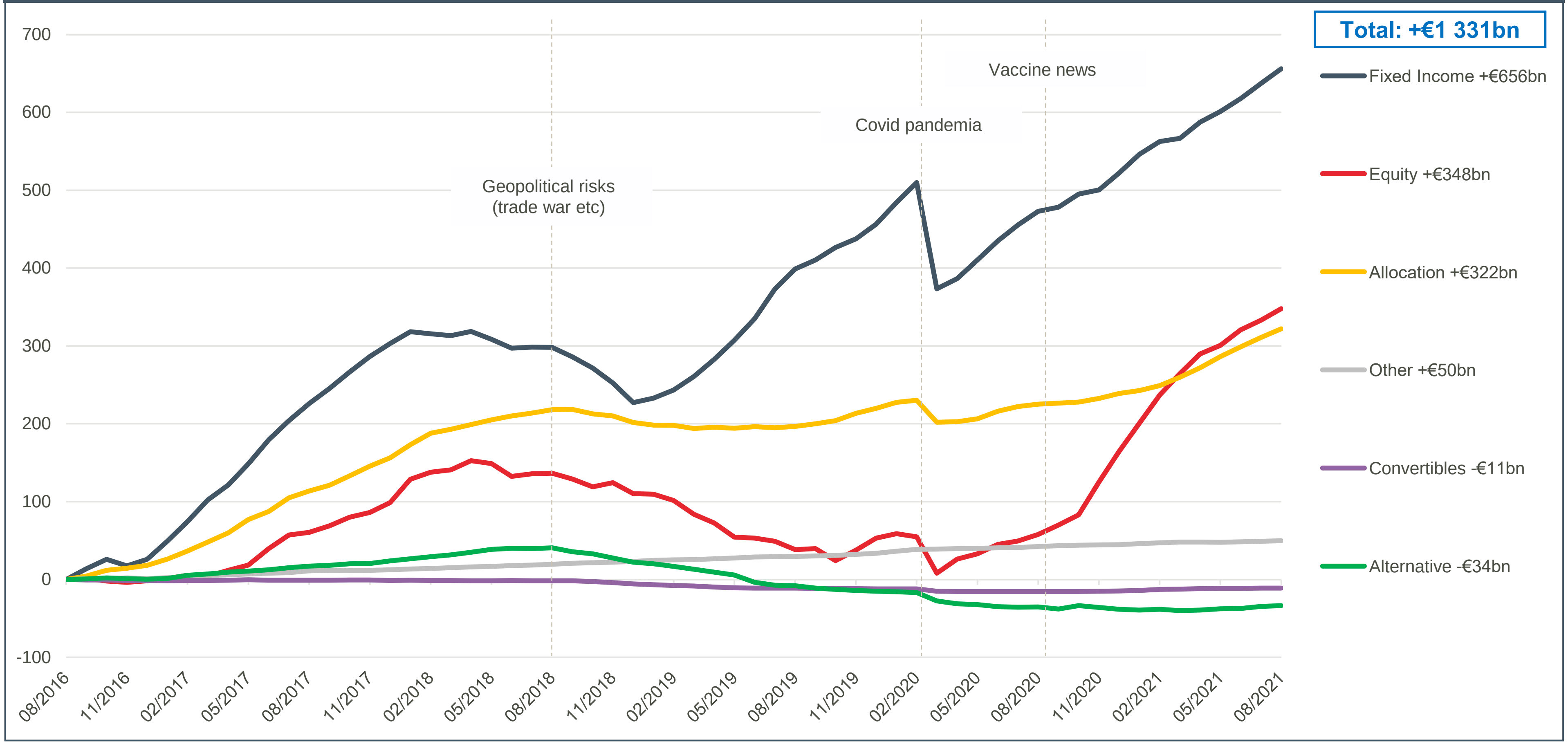
Sources: ODDO BHF AM, Bloomberg, datas as of 09/30/2021

02 MARKET ANALYSIS

European mutual fund flows – 5 years trend

Equities recovered further

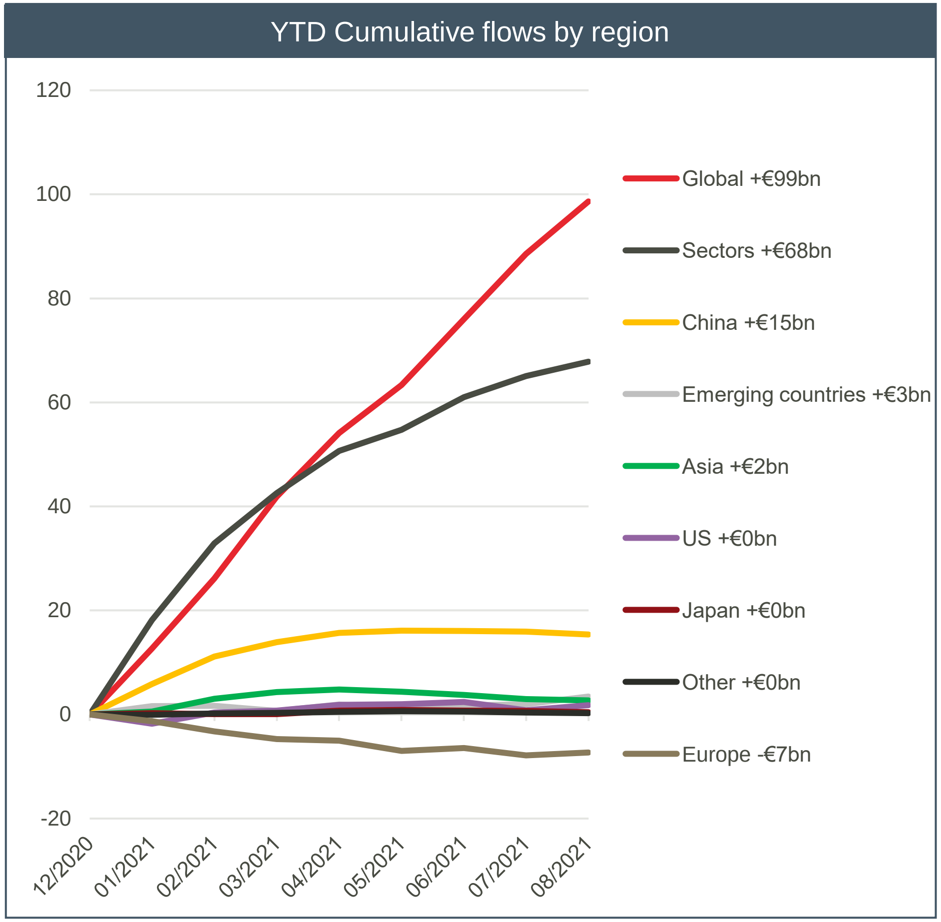
European mutual funds: 5 years cumulative fund flows (€bn)

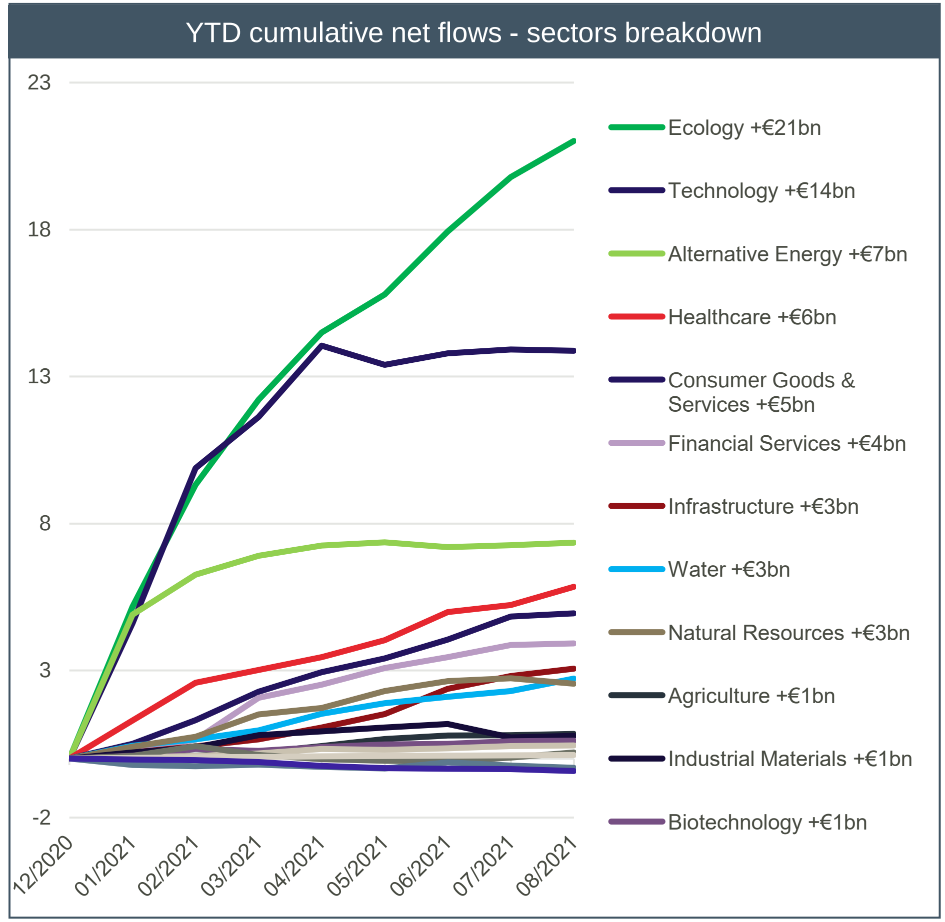


Source : Morningstar. Data as of 31.08.2021 (Europe OE ex ETF ex MM ex FoF ex Feeder (domiciled, most compr.)

European mutual fund flows – year-to-date equity flows

Europe remains underinvested

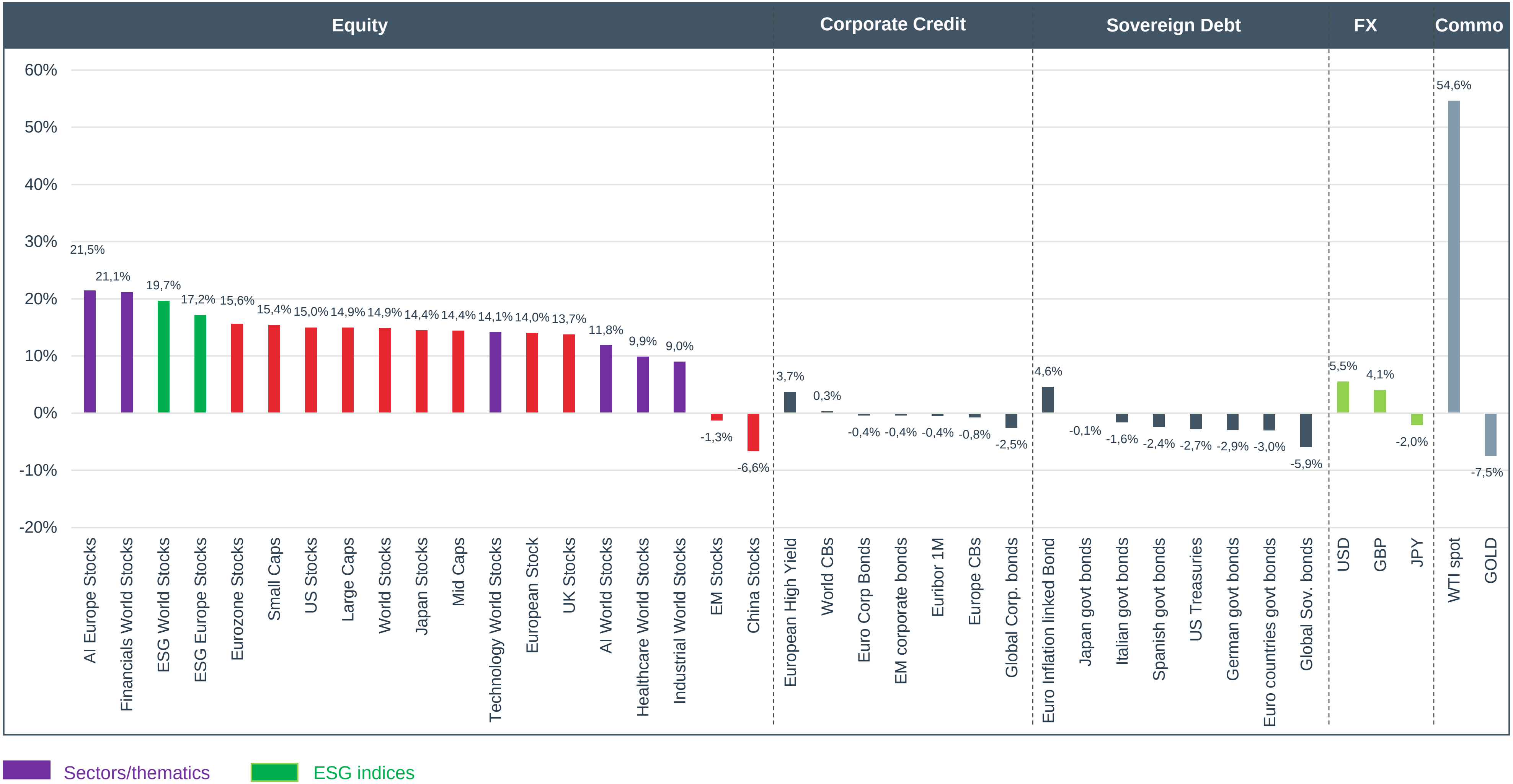




Source : Morningstar. Data as of 31.08.2021 (Europe OE ex ETF ex MM ex FoF ex Feeder (domiciled, most compr.)

Year-to-date performances of asset classes

Skyrocketing energy prices starting to weigh on listed asset classes



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

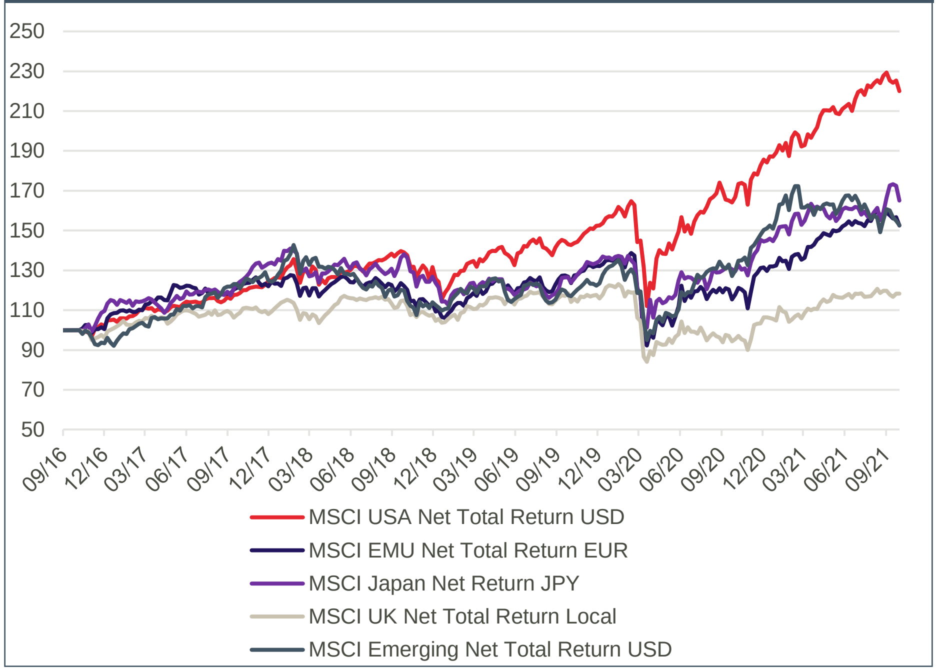
Sources: Bloomberg and BoA ML as of 09/30/2021; performances expressed in local currencies

EQUITIES

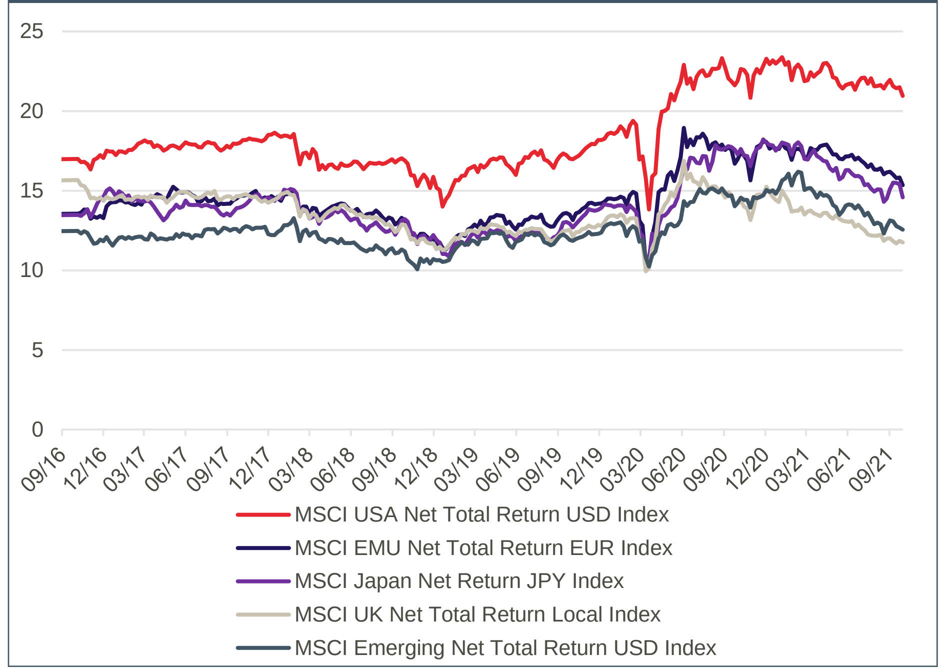
Equities

A pause in the rally?

5-year equity market performance



5-year price/earning ratio



- Multi year high valuations seem to have reached their limit.
- Multiples in all areas (to a lesser extent in the USA) have declined recently, under the influence of the recent consolidation, and still rising estimated forward earnings as 2022 gets closer.

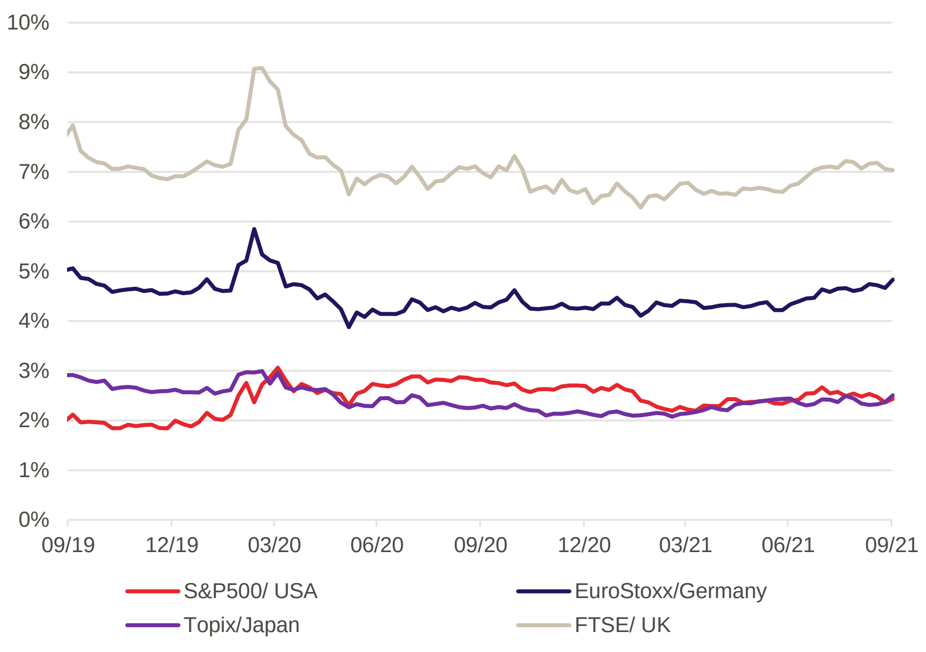
Past performances are not a reliable indicator of future performances and are not constant over time.

Source: Bloomberg, ODDO BHF AM SAS | Datas as of 09/30/2021

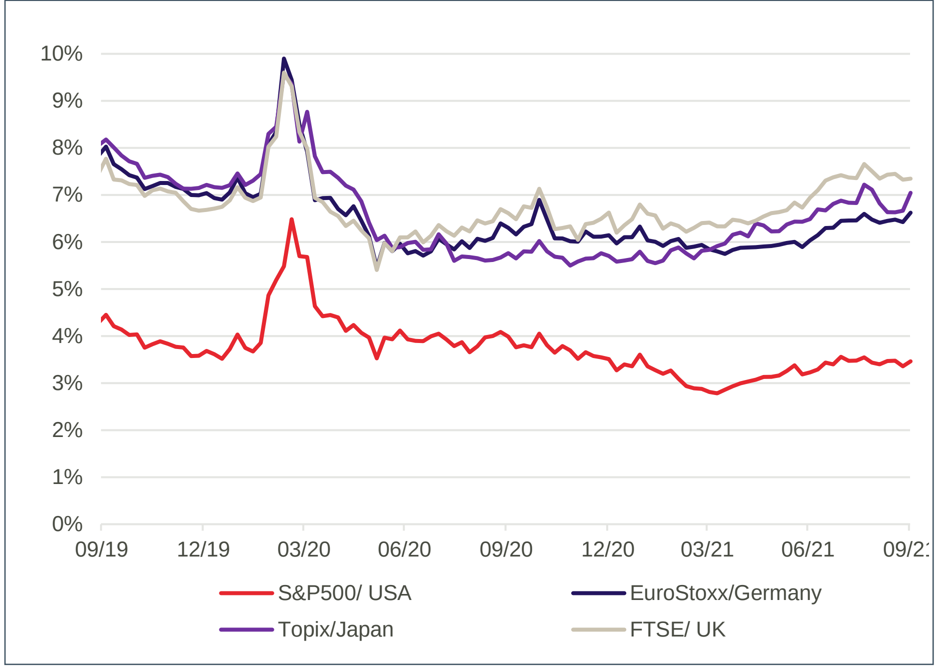
Risk premiums

A mixed picture

Dividend yield (12m fwd) – Sovereign real yield (10y)



Return on shares (1/PE) – Sovereign nominal yield (10Y)



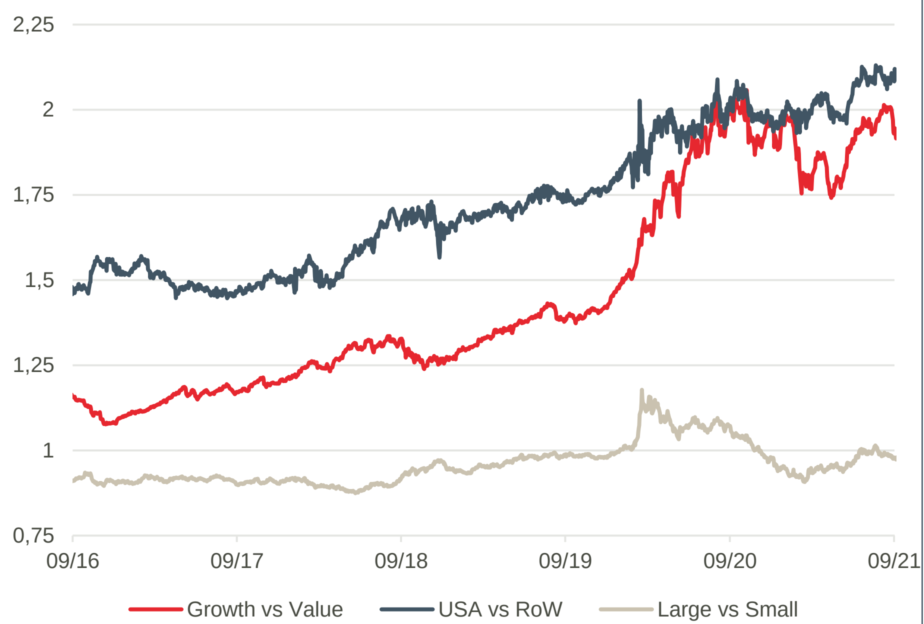
- While European nominal yields moved up , implied inflation expectations rose as fast: dividend yields thus still compares favourably with real yields.
- On the contrary, if comparing US earning yield vs sovereign nominal yields, the metric remains close to decade's lows.

Past performances are not a reliable indicator of future performances and are not constant over time.
Source: Bloomberg, ODDO BHF AM SAS | Figures as of 09/30/2021

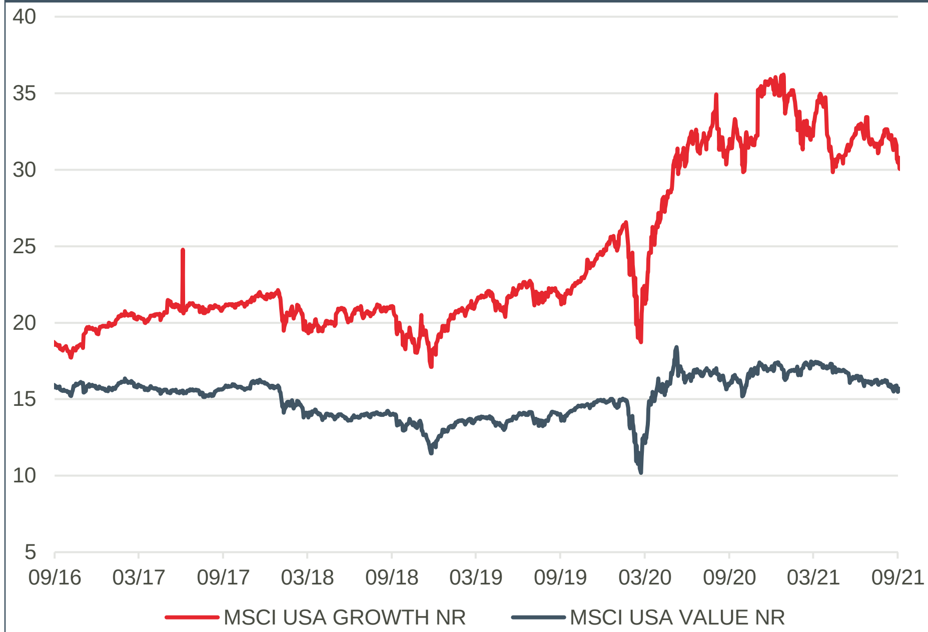
Equities performances – styles differential

The “growth vs value” trade has stalled then reversed in September, as yields rebounded

World equities factor performances



P/E differential growth vs value

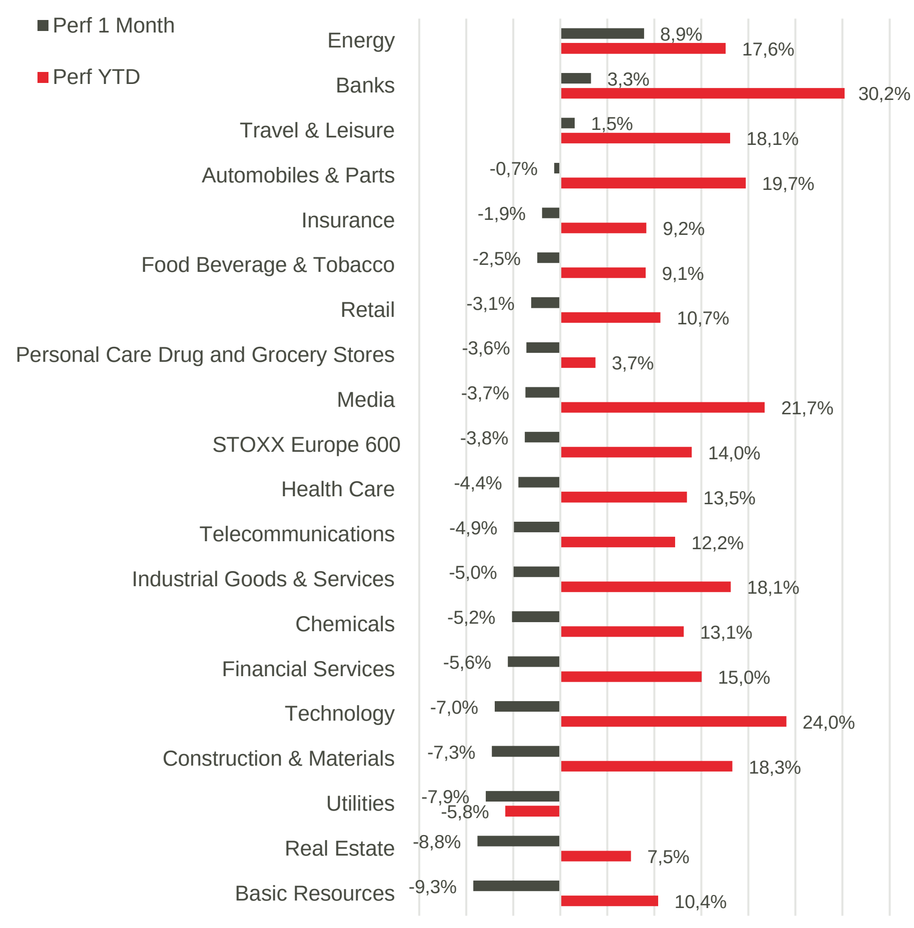


Sources: ODDO BHF AM SAS, Bloomberg | Figures as of 09/30/2021

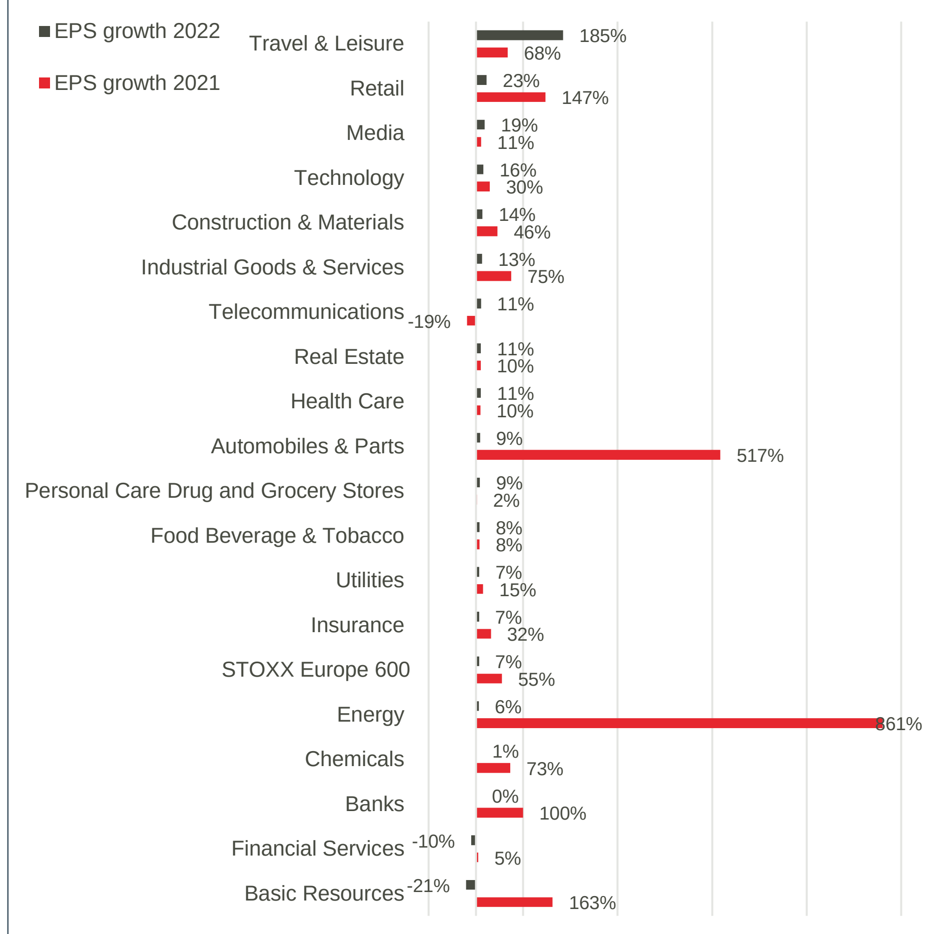
European equities - sectors

Banks and Oil fared well in September

Performance European sectors



EPS growth European sectors

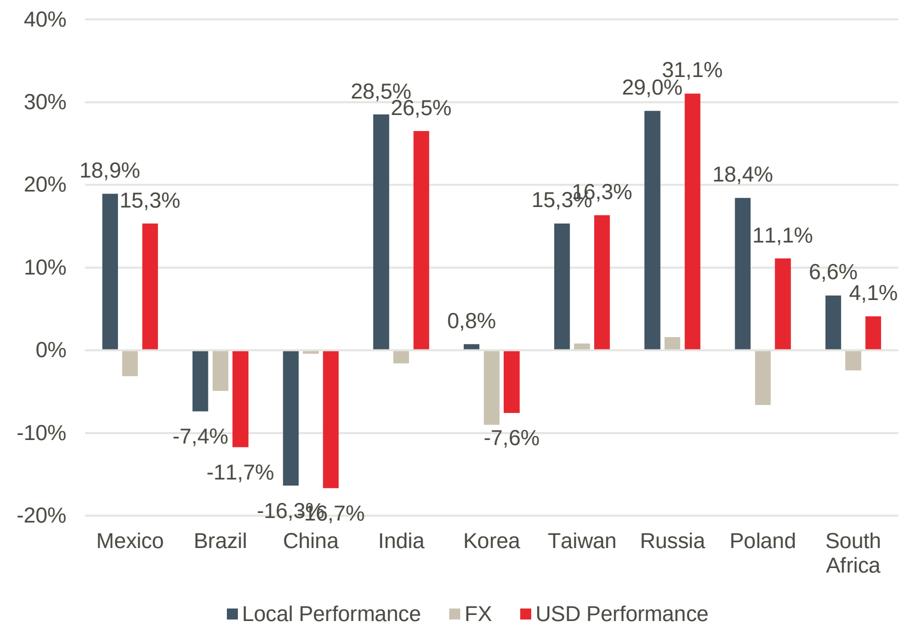


Source: ODDO BHF AM SAS, Factset, data as of 09/30/2021

Emerging markets

Dispersion and volatility

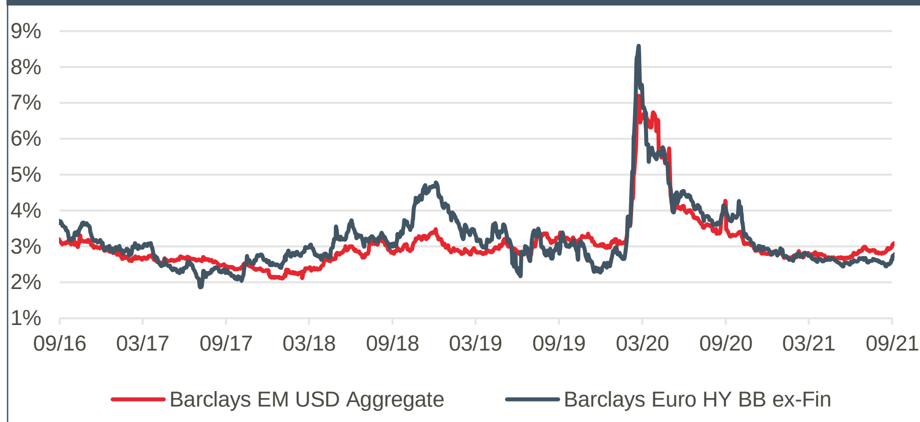
Equities performance on major emerging markets



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

Indices	PE 12m fwd	2020 EPS growth	2021 EPS growth	2022 EPS growth	Dividend yield
MSCI EM	13,0	-17%	63%	6%	2,8%
MSCI CHINA	14,2	-10%	13%	16%	1,9%
MSCI KOREA	10,1	5%	116%	0%	1,9%
MSCI INDIA	25,8	-28%	91%	17%	1,2%
MSCI INDONESIA	17,8	-30%	28%	21%	2,8%
MSCI PHILIPPINES	20,5	-52%	61%	26%	1,6%
MSCI MALAYSIA	15,0	-26%	47%	4%	3,9%
MSCI RUSSIA	7,2	-60%	149%	1%	7,5%
WSE WIG INDEX	12,3	-33%	136%	1%	2,8%
MSCI TURKEY	5,2	5%	80%	12%	8,1%
MSCI SOUTH AFRICA	9,4	-9%	89%	8%	4,9%
MSCI BRAZIL	6,5	-40%	243%	-12%	6,8%
MSCI COLOMBIA	10,4	-77%	265%	18%	3,6%
MSCI MEXICO	14,0	-50%	147%	3%	3,0%

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



- In September, the extra volatility from emerging markets vs developed ones was impressive.
- Over the month, MSCI EM posted a loss of -4.2% (similar to MSCI World). But performances (in local currency) ranged between -7% in Brazil or -5% in Hong-Kong, and +3% in India or +6% in Russia.

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

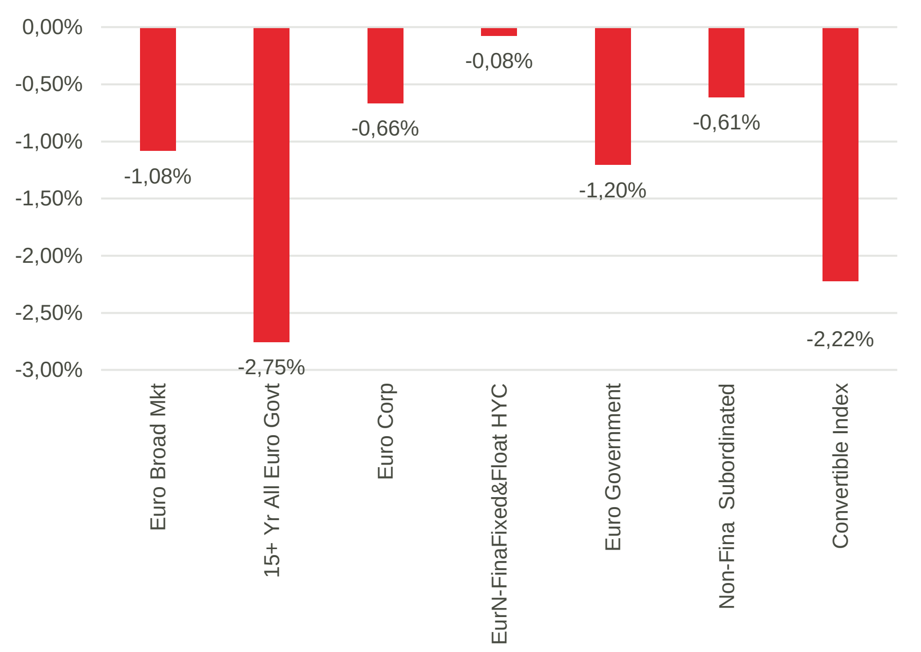
Sources: Bloomberg, ODDO BHF AM SAS | Data at 09/30/2021

FIXED INCOME

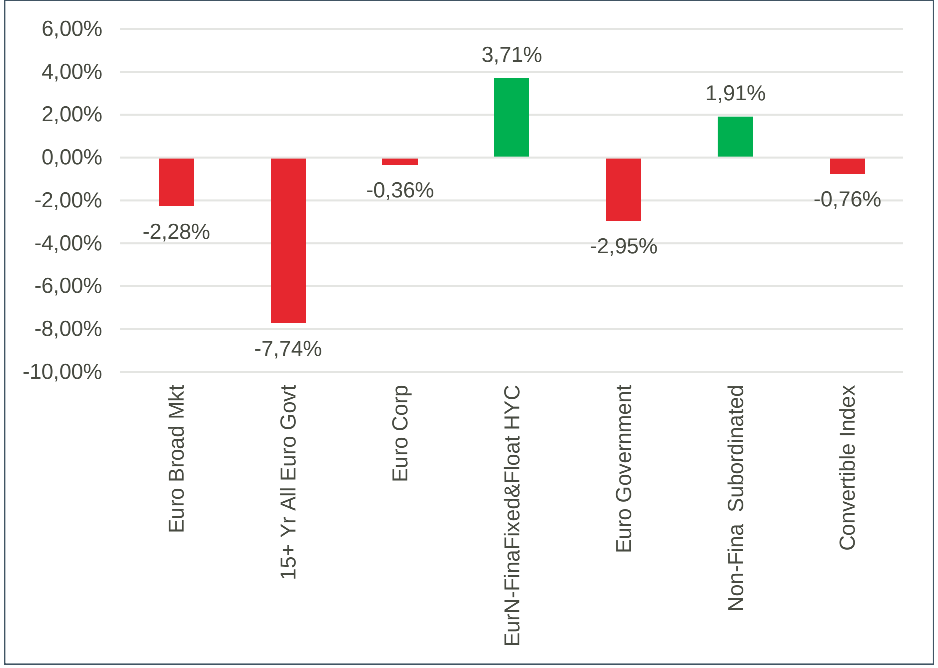
Performance fixed income segment

The yield rollercoaster started again

1 month total return



YTD total return



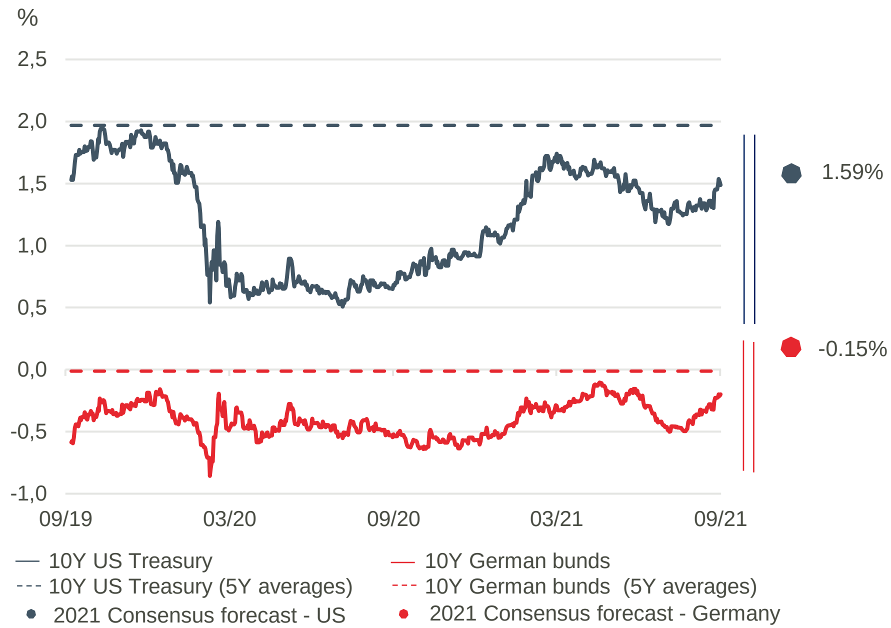
- Duration sectors are under pressure again and have hit the yield highs from end of May

Source: ODDO BHF AM, Bloomberg, data as of 09/30/2021

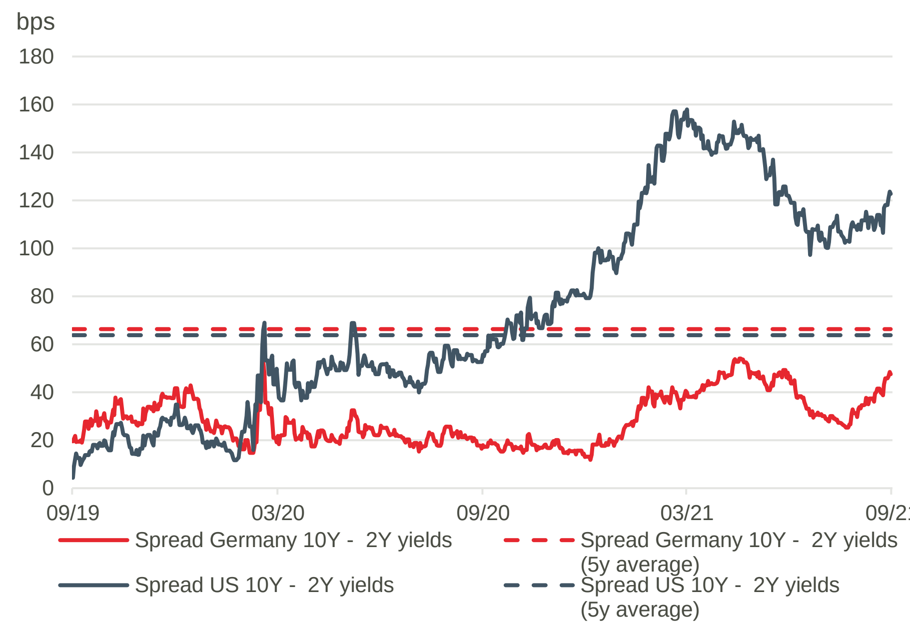
Rates

Déjà vu

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



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



- A sharp sell-off from the July lows took the market to the may highs in rates
- The current stagflation narrative should exert further pressure on yields
- However, if the growth drag is stronger than anticipated, markets may stabilize in a bullish flattening mode as rate hike expectations are put back

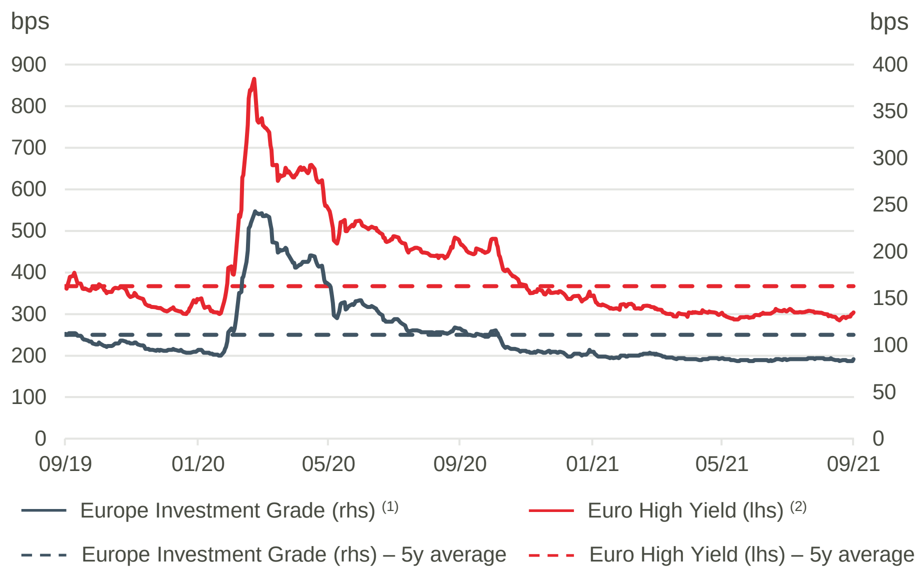
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast │Sources: ODDO BHF AM SAS, Bloomberg│LHS: Data as of 09/30/2021; RHS: Data as of 09/30/2021

Credit Spreads

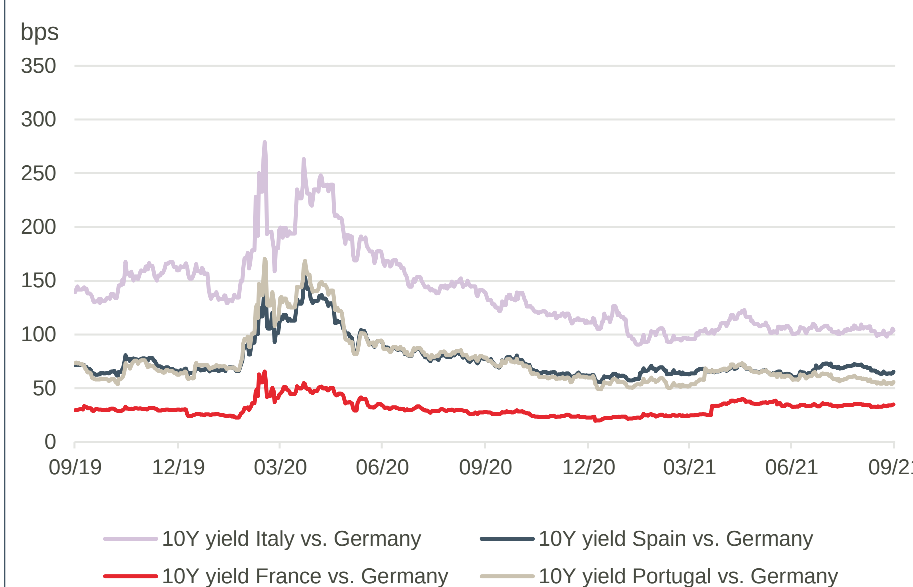
Recent slight widening not yet a signal

Credit spreads IG & HY (over 2 years)



(1) BofA Merrill Lynch Euro Corporate Index (ER00)
(2) BofA Merrill Lynch Euro High Yield Non-Fin. Constr. (HE00)

Main Eurozone country spreads (over 2 years)



- Risk aversion has triggered slightly wider spreads foremost in High Yield
- Given the magnitude of support by the ECB and the still robust economy, risk for significantly wider spreads is fairly limited

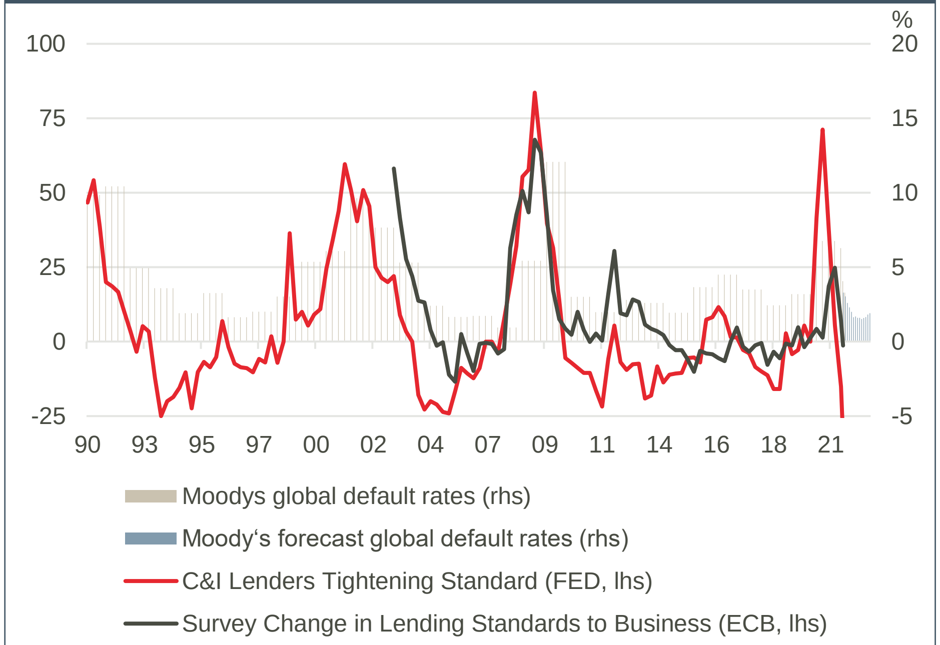
Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: ODDO BHF AM SAS, Bloomberg | Data as of 09/30/2021

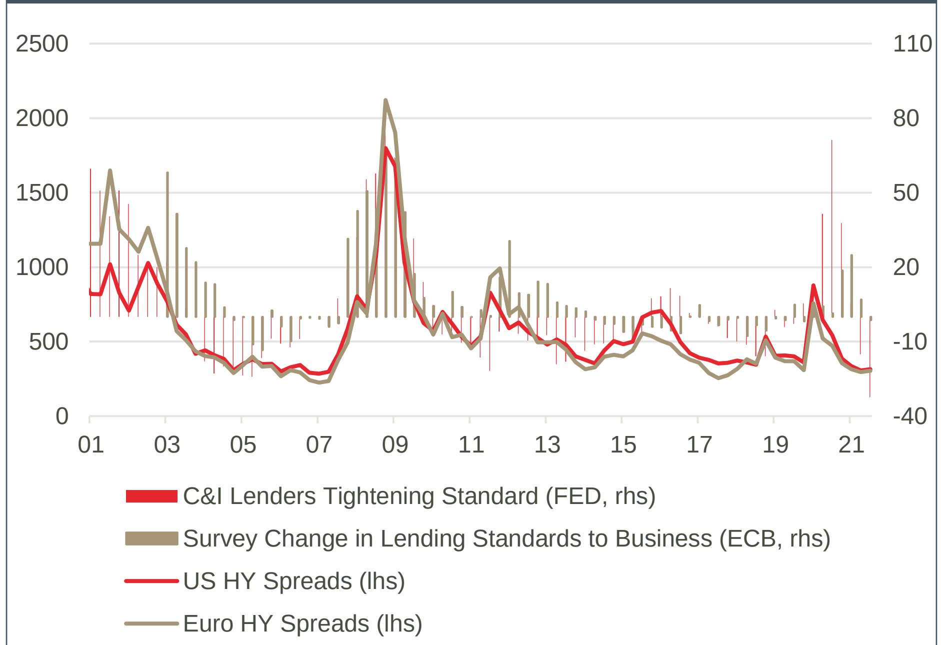
Financial conditions

Conditions are still very supportive

Lending standards and default rate



Lending standards and spreads



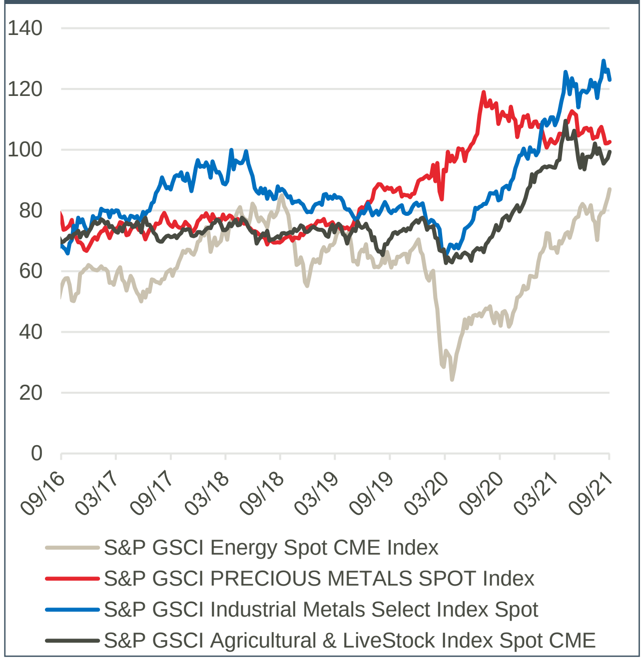
Source: Fed, ECB, Bloomberg | Moody's as of 08/31/2021, Lending Standard & Survey Change as of 09/2021, Spreads as of 09/30/2021

COMMODITIES & CURRENCIES

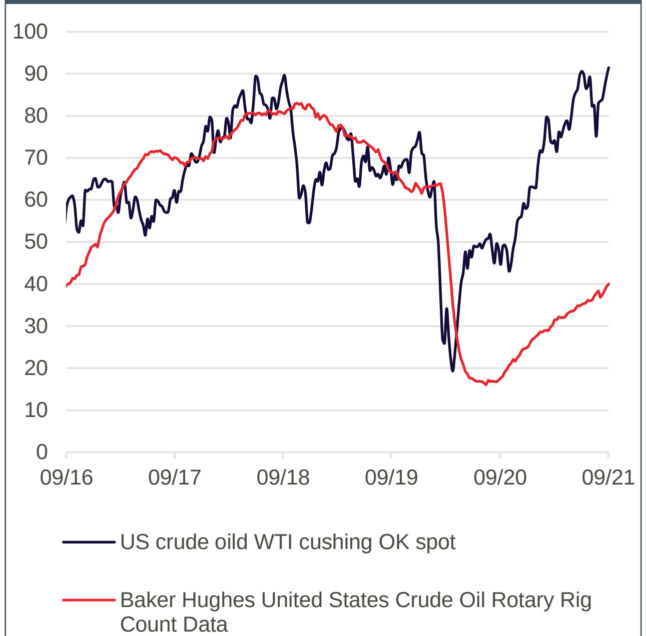
Commodities

Prices keep on rising

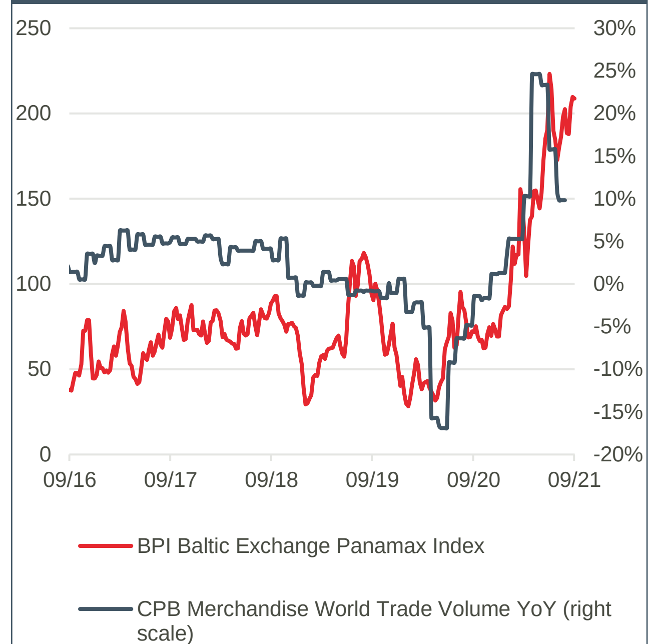
Metals



Oil



Freight



- Precious metals apart, most commodities or freight indexes moved higher, adding to inflation fears.
- However, agricultural prices seem to have stabilized, although on a rather high level.

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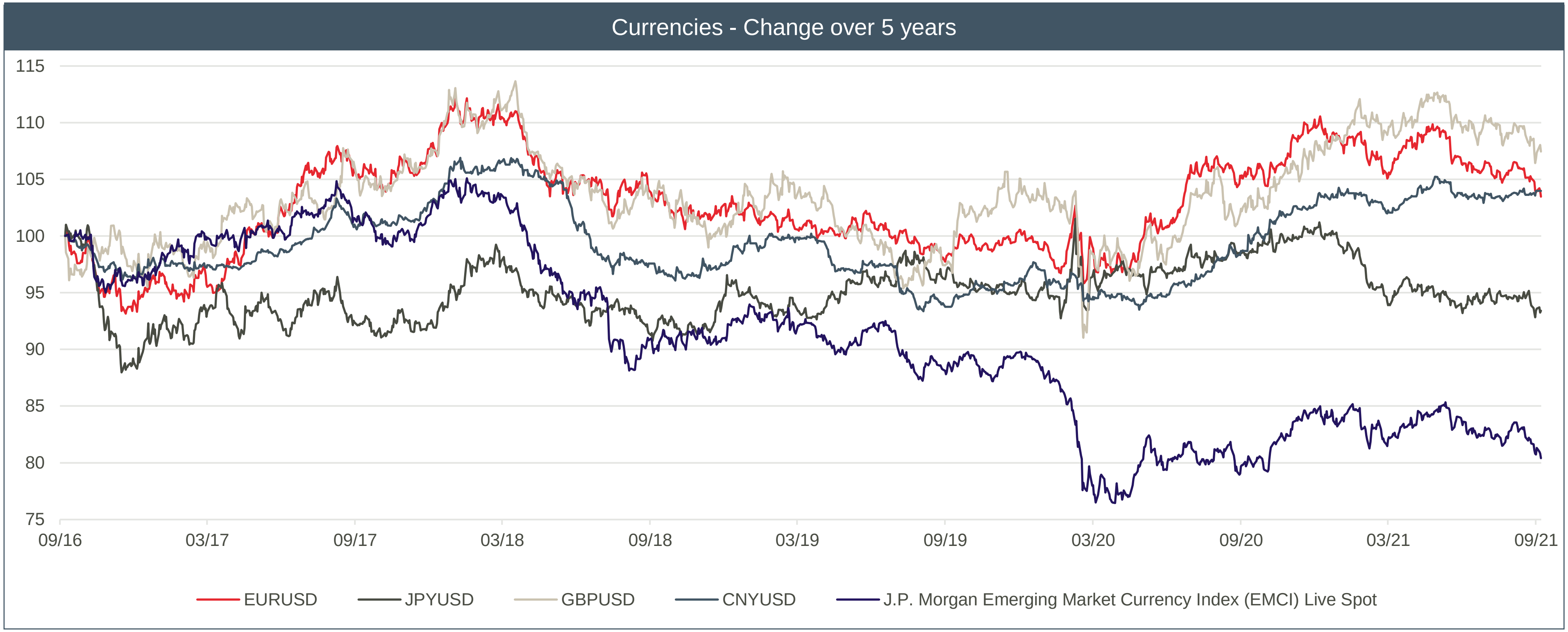
Sources: Bloomberg, ODDO BHF AM SAS | Data at 09/30/2021

Currencies

Rising USD



- The greenback appreciated quite uniformly vs peers, as first FED's hike are now priced to happen as early as S2 2022.

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 09/30/2021

03 CURRENT CONVICTIONS

Scenarios

Our 6-month view

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

70%

Europe

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

US

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

Assets to overweight

- Equities (focus on high quality cyclicals)
- Credit

Assets to underweight

- Sovereigns

Strategy

- Flexibility
- Hedging (options, gold,…)

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

25%

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

Assets to overweight

- Inflation-hedged bonds
- Alternative strategies
- Cash

Assets to underweight

- Equities
- Core Sovereigns

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

5%

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

Assets to overweight

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

Assets to underweight

- Equities
- High Yield credit

Source: ODDO BHF AM, comments as of 10/06/2021

Our current convictions for each asset class

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

Change vs the previous month

Source: ODDO BHF AM, comments as of 10/06/2021

Our current convictions for each asset class

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

← → Change vs the previous month

Source: ODDO BHF AM, comments as of 10/06/2021

Glossary

How performances are calculated	Cumulative fund performance is calculated based on dividends reinvested. Annualised performance is determined on an annual, 365-day actuarial basis. A fund's performance relative to its benchmark index is expressed as arithmetic difference. Static indicators are generally calculated on a weekly tick that is taken on Fridays, or failing that, on the day prior to valuation.
Volatility	Volatility is a risk indicator measuring the level of fluctuations observed in a portfolio (or index) over a defined period. It is calculated as annualised standard deviation of absolute returns within a defined period of time.
Credit spreads (credit premiums)	The credit spread is the risk premium or the difference between the yields of corporate bonds and that of sovereign bonds with the same characteristics.
Investment grade	Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard & Poor's or the equivalent.
High yield	High-yield bonds are speculative bonds rated lower than BBB- (Standard & Poor's) or the equivalent.
PE (price-earnings ratio)	A stock's price-earnings ratio is equal to the stock's price divided by the issuing company's earnings per share. It is also called the "earnings multiple". It depends mainly on three factors: the company's forecast earnings growth, the risk associated with these forecasts, and the level of interest rates.

Our latest publications

MONTHLY INVESTMENT BRIEF

July 2021 – Reflation in ambush!

June 2021 – A recovery whithout overheating

May 2021 – « Welcome to France! »

April 2021 – « Twist again »

March 2021 – The XXL Biden effect

Febrary 2021 – Destination rather than journey

MARKET VIEWS

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

July 5th 2021 – China: stop or again?

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

May 17th 2021 - When the chips are down

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

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

March 22nd 2021 – Sugar Rush

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

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

INVESTMENT STRATEGIES

September 2021 – « Breathless? »

January 2021 – Re-opening

SUSTAINABLE INVESTING

Sustainable investing - ODDO BHF AM's approach

Basics of Sustainable Investing

White paper – The ecological transition: a sustainable investment opportunity

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

ESG: the key to unlocking opportunities in Small Caps

VIDEOS

#Moments - ODDO BHF Polaris Range - ODDO BHF AM

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

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