Monthly Investment Brief

The XXL Biden effect

ODDO BHF ASSET MANAGEMENT

March 2021

A 1,900 billion dollar stimulus plan

We recently discussed the potential impact of the new reflationary environment on the valuation of risky assets and reiterate our message of caution in the short term. That being said, and as the equity markets' forward march has recently been derailed by rising bond yields, a new boost to indices is likely to come in 2021 from earnings growth, which is far greater than expected. We are raising our performance targets on global equities based on higher earnings-per-share forecasts, i.e., +5% vs. our initial forecasts for 2021, hence an estimated EPS growth at +32%. Our optimism is driven by the size of the "Biden stimulus", which has passed both houses of Congress. We had been expecting no more than 1,400 billion dollars. The final figure is 500 billion dollars higher. The various stimulus packages now total an amount equivalent to 25% of US GDP. At 1,900 billion dollars, this stimulus plan is unprecedented in size, but also in its component measures, as it is composed mainly of direct payments to households and small business loans (SMEs) "guaranteed" by the Fed. We are therefore likely to see an unprecedented pick-up in consumer spending if the stimulus measures are accompanied by a vaccination-driven increase in household confidence. In addition to the "Biden stimulus", remember that forced household savings (equivalent to about 10% of GDP) are also likely to contribute to a strong acceleration in growth to beyond its potential in 2021.

Upgraded earnings growth forecasts

The amounts at stake are colossal and justify an upgrade in our EPS forecasts, particularly those for the fourth quarter, which are likely to be even more robust than expected. Even so, this upward revision of earnings sequences represents only a 10% CAGR between 2019 and 2022e. Yes, this period includes the pandemic, but, on average and globally, companies have demonstrated a remarkable capacity for adjustment and resilience. For example, MSCI World companies' EBITDA margin has slipped from an average of 17.5% in the past five years to 15.7% in 2020 but is likely to turn back up in 2021.

Equity valuations are still reasonable

The S&P 500's aggregate P/E was 18.5 times forward earnings in December 2019, when the 10-year yield was about 2% and real yields at 15 basis points away. We expect US-10-year yields to settle in at about 1.80% in 2022 and point out that, although 10-year real US yields have risen recently, from -1.10% to -0.80%, they are still far into negative territory. Pricing in this higher EPS forecast into forward valuations, P/E falls from 22x to 19.5x, which is still reasonable against the backdrop of financial repression on interest rates. Pay close attention, however, to sector, style and geographical dispersion, something we have commented on extensively. Regardless, the assessment is definitely positive for the year as a whole. A reversal in the trend would require a much steeper run-up in interest rates or a miscommunication by the Fed. And that is not part of our current scenario.

Caution nonetheless on risky assets in the short term

Our baseline strategy is to forego adding to positions at these levels and to take advantage of a likely consolidation to add to global equity exposure. The US has once again surprised in its responsiveness and flexibility, while the Eurozone is bogged down in supply and distribution bottlenecks for vaccines, something that risks dampening the macroeconomic recovery. The differential in future growth of the two regions is a new factor to take into account. In the event of a marked gap in the coming months we will raise our weighting of US equities and reduce that of Europe, even though the cyclical bias is not as strong in the US.

01 CURRENT CONVICTIONS

Scenarios

Our 6-month view

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

65%

Europe & US

- 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

20%

- 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 pandemic extension

15%

- Global recession with a risk of financial equilibrium
- Geopolitical risks materializing
- China: risks of economic rebalancing

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 03/03/2021

Our current convictions for each asset class

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

Change vs the previous month

Source: ODDO BHF AM, comments as of 03/03/2021

Our current convictions for each asset class

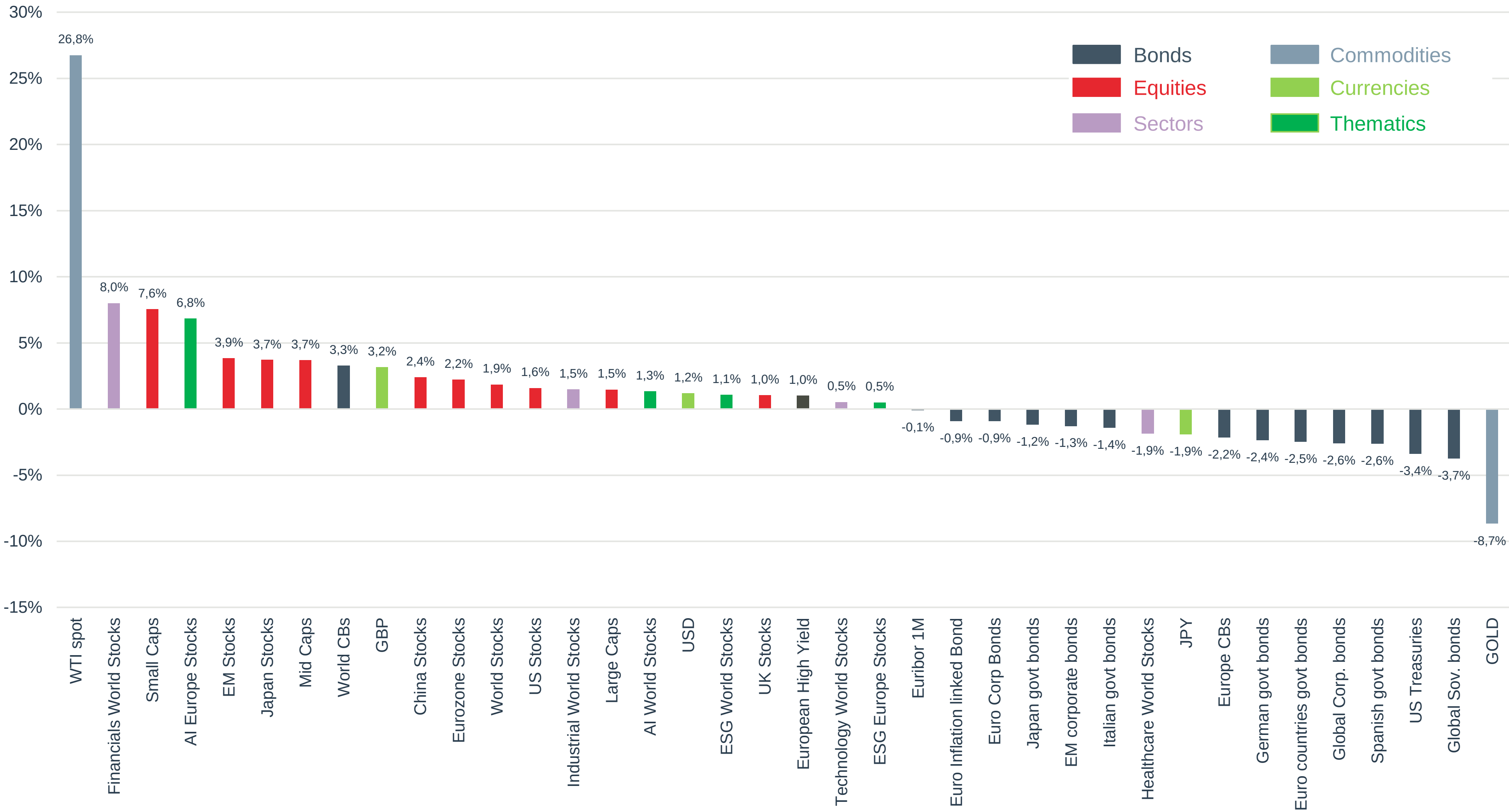
Asset class	Segment	Conviction	Change vs the previous month
Government bonds	Core Europe	-1	
	Peripheral Europe	0	
	USA	-2	←
Corporate bonds	Investment grade Europe	0	←
	Credit short duration	1	
	High Yield Europe	1	
	High Yield USA	0	
	Emerging markets	-1	←
Money market	Developed markets	1	
Alternative assets	Private Equity	1	
	Private Debt	1	
	Real Estate	0	
	Hedge Fund	1	→

← → Change vs the previous month

Source: ODDO BHF AM, comments as of 03/03/2021

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 02/26/2021; performances expressed in local currencies

Historical performances of asset classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD
WTI spot	-53,5%	77,9%	15,1%	8,2%	-7,1%	7,2%	-45,9%	-30,5%	45,0%	12,5%	-24,8%	34,5%	-20,5%	26,8%
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%	18,3%	3,9%
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%	-1,0%	2,2%
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%	20,7%	1,6%
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%	2,8%	1,0%
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%	-0,5%	-0,1%
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%	6,5%	-1,3%
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%	-2,4%
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%	4,9%	-2,5%
US Gvt bonds	14,0%	-3,7%	5,9%	9,8%	2,2%	-3,3%	6,0%	0,8%	1,1%	2,4%	0,8%	7,0%	8,2%	-3,4%
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%	5,9%	-3,7%
Gold	5,8%	24,4%	29,6%	10,1%	7,1%	-28,3%	-1,4%	-10,4%	8,1%	13,5%	-1,6%	18,3%	25,1%	-8,5%
Spreads (%age points)	**67,5%**	**82,2%**	**29,1%**	**28,5%**	**34,3%**	**60,1%**	**59,0%**	**40,3%**	**45,4%**	**38,7%**	**27,3%**	**34,9%**	**45,7%**	**35,2%**

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

Colour scale

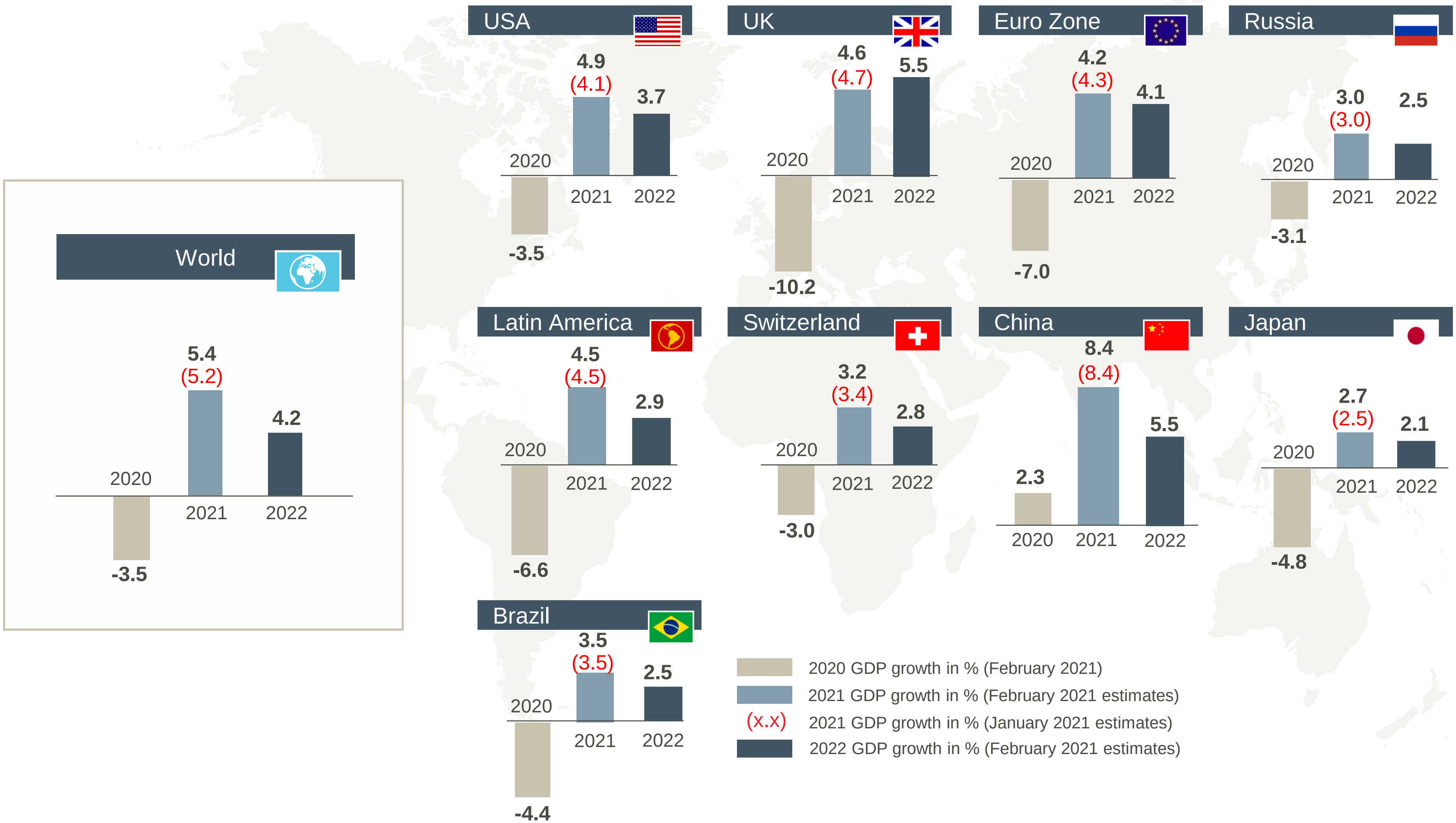
Best performance — Worst performance

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

Sources: Bloomberg and BoA ML as of 02/26/2021 ; performances expressed in local currencies

Global GDP* growth forecast

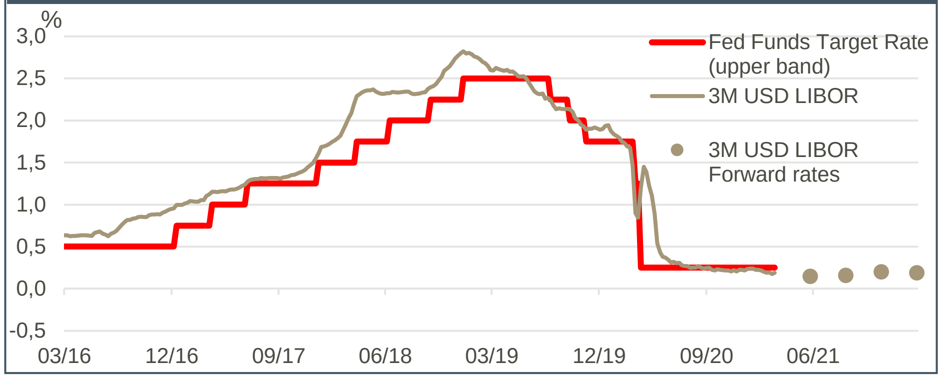
Consensus revised up in US, down in Eurozone



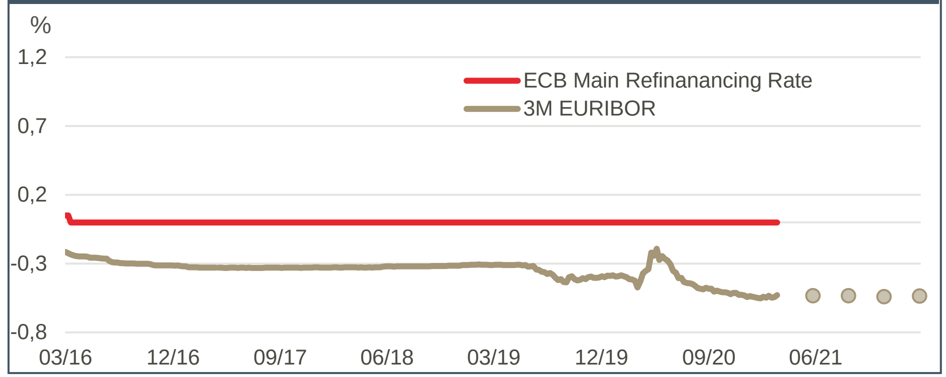
*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 02/26/2021

Monetary policy & inflation expectations

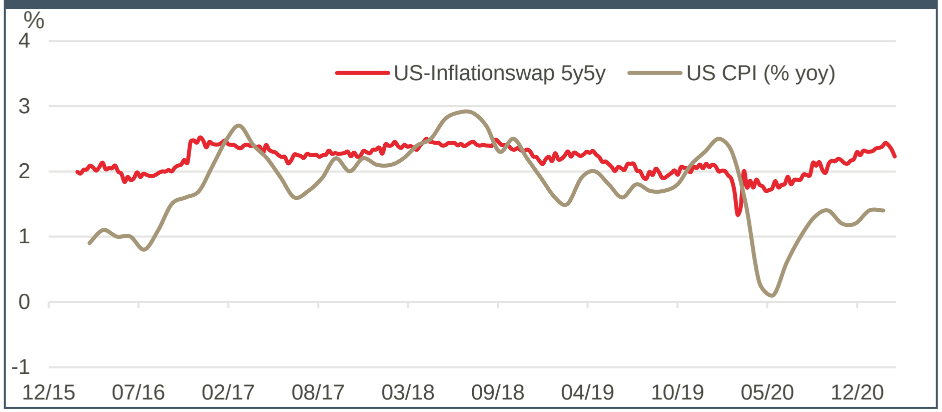
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



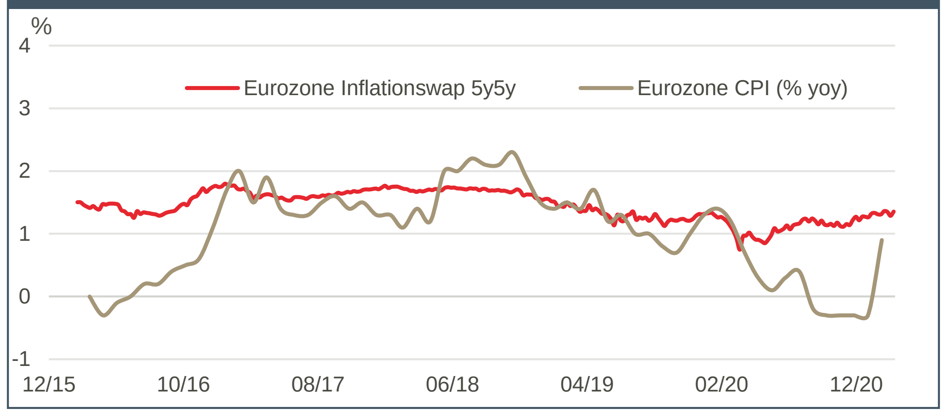
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



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



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

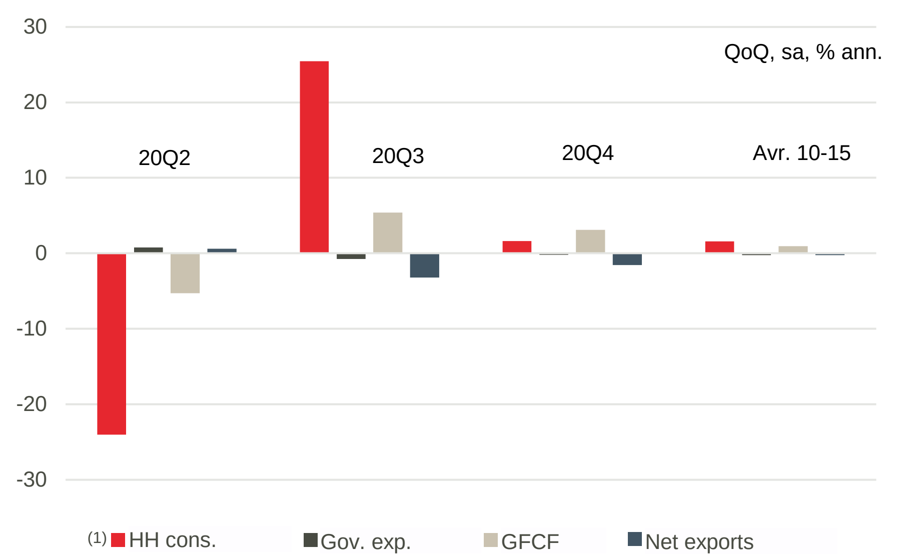


- FED appears relaxed about higher yields and said it needs much more time to reach employment and inflation goals
- Operation twist could be an instrument to buffer yield pressure
- ECB struggles to “walk the talk”. Verbal interventions have so far not been echoed in PEPP buying

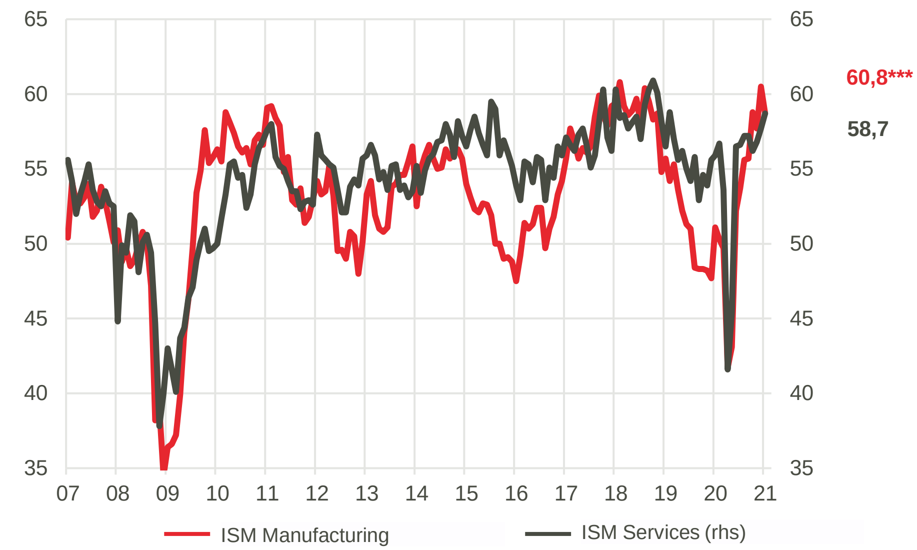
Sources: Bloomberg, ODDO BHF AM GmbH, as of 02/26/2021

The bounce has only just begun

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



Business confidence**

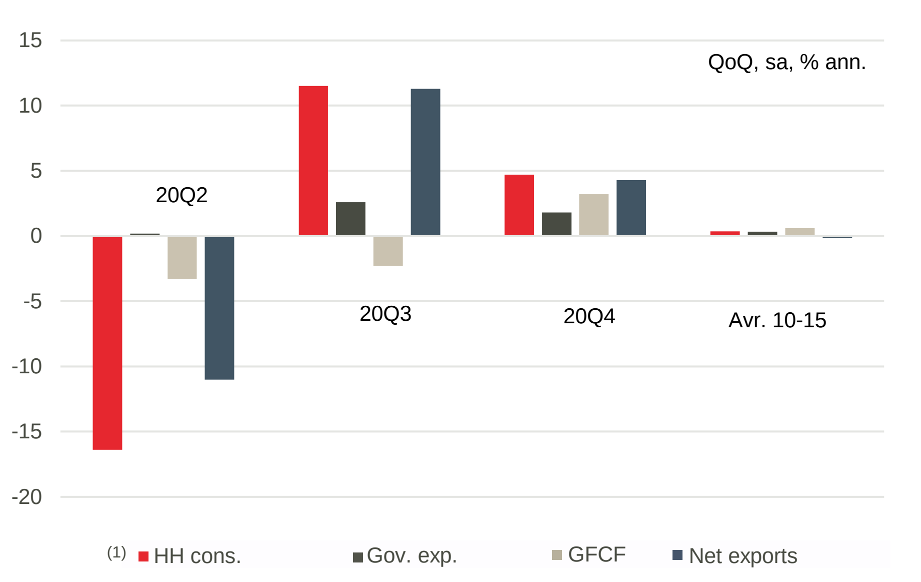


- Recent stimulus packages and fading restrictions are lifting the economy
- Latest Q1 GDP NOW estimates from the Atlanta Fed point to a whopping 8,4% ar
- Even employment shows signs of improvement: nonfarm employment jumped by 379,000 in February and the unemployment rate ticked down to 6.2%
- With the next stimulus package shortly before passing and tremendous vaccination progress, the output gap will be closed very soon

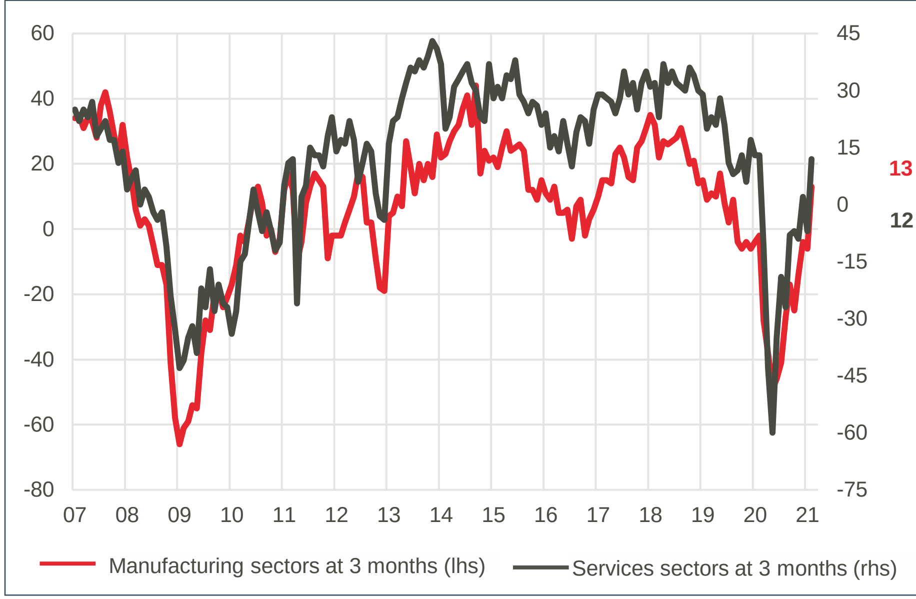
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation Net exports.
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *data as of 02/28/2021 |** Data as of 01/15/2021 | ***Data as of 02/15/2021

Not so big in Japan

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



Business confidence



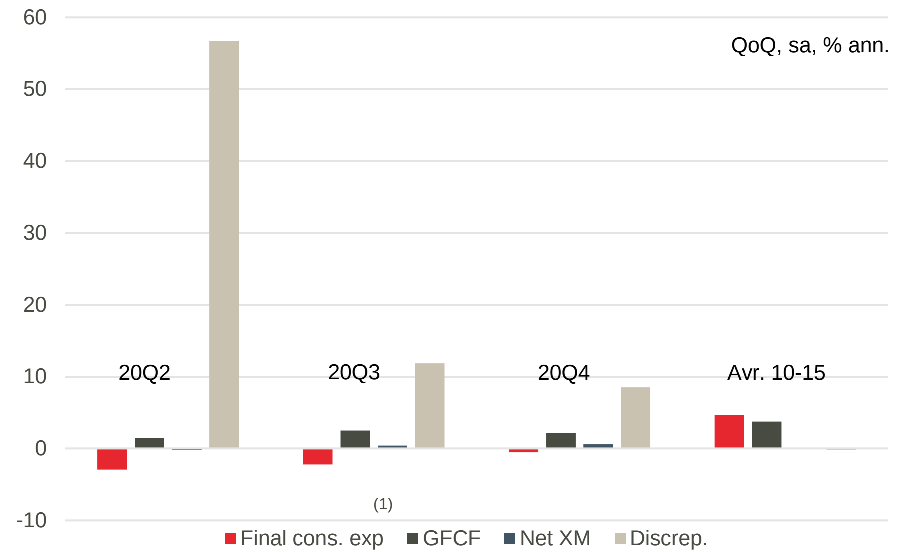
- State of emergency in Tokyo area has been extended for another two weeks
- Q4 GDP has been slightly revised upwards on business spending
- BoJ consumption activity index plunged in January, with a sharp contraction in services
- But the economy should continue to recover as consumers gain confidence

(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 02/28/2021 | **Data as of 02/15/2021

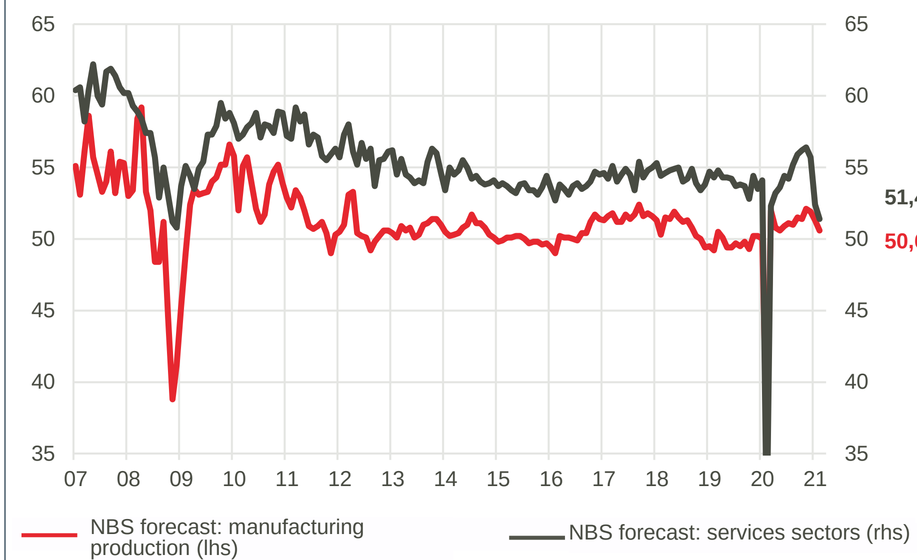
China

A first speed bump

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



Business confidence**

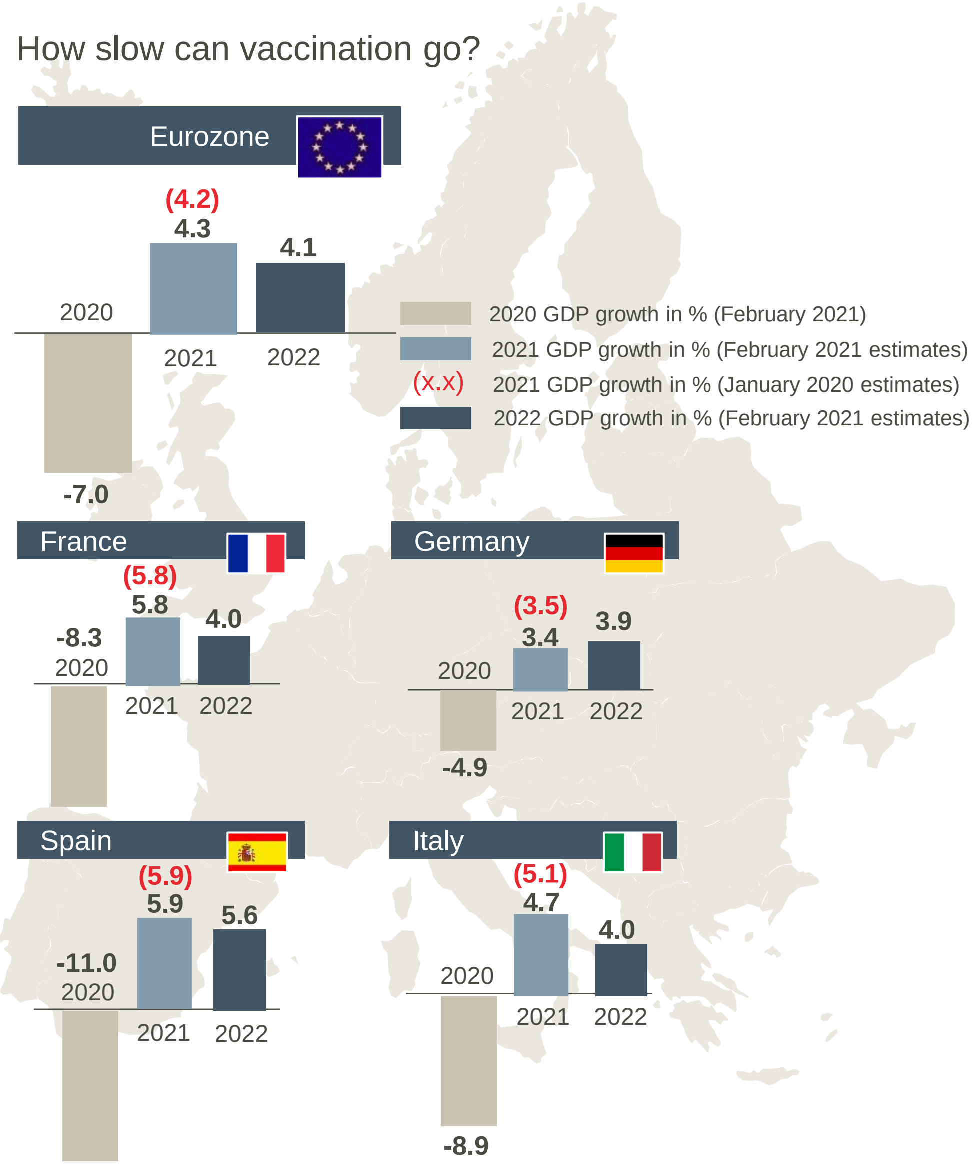


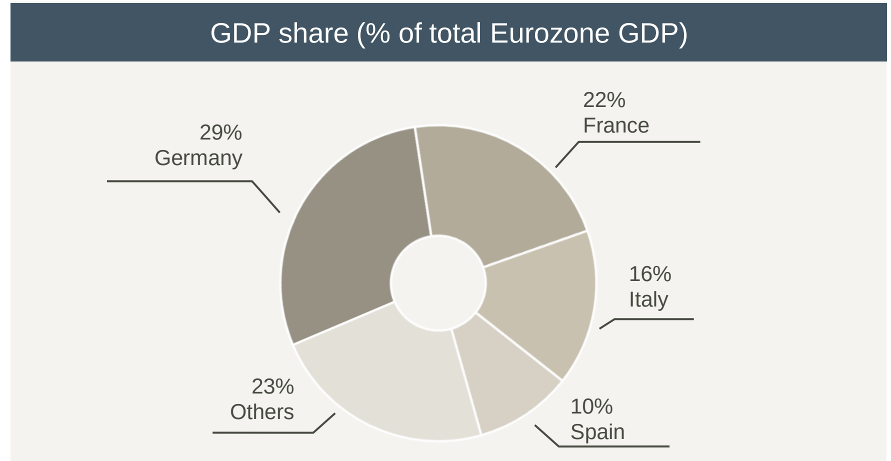
- Economic momentum is slightly decelerating from a strong level
- February PMIs drifted lower on almost every subcomponent: Caixin PMI edged down to 51,7 from 52,2 with both sectors loosing steam
- Moderation is stronger than the usual seasonal pattern, but should reverse in response to booming trade
- Still a plus 9% growth rate possible in 2021

(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 02/28/2021 | **Data as of 02/15/2021

Eurozone

How slow can vaccination go?





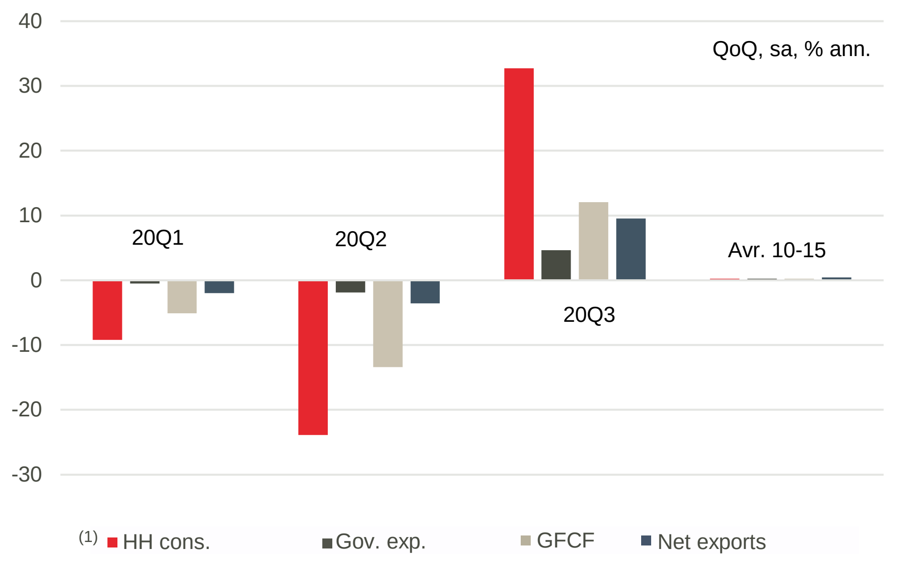
- Slow vaccination progress and mobility restrictions lengthen period of underperformance
- Healthy manufacturing sectors sending a positive signal

Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 02/2021

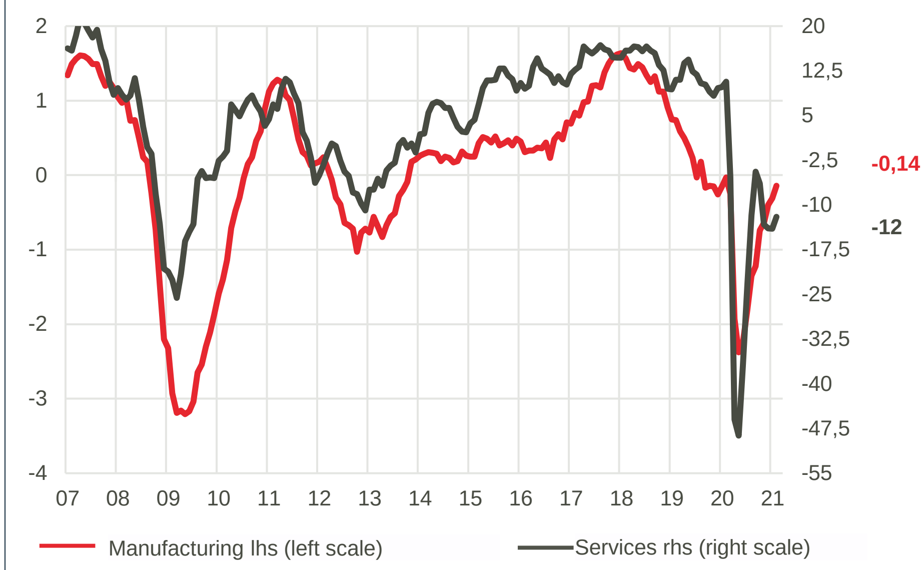
Eurozone

Growth gap to US and Asia widens again

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



Business confidence**



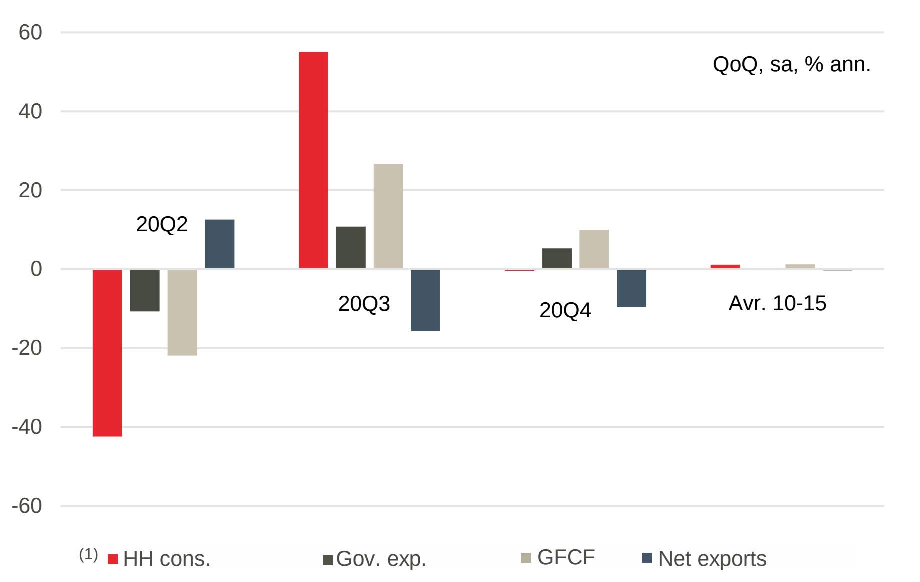
- February manufacturing PMIs surged 3 points to 57,9
- Germany did best with 60,7. However, a note of caution as the numbers have been inflated by supply disruptions
- Even the service sector showed a bit of improvement
- Inflation started to unwind some distortions in February but is poised to rise strongly over the next months
- ECB under pressure to be bolder, its recent communication sent a reassuring signal to markets

(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 02/28/2021 | **Data as of 02/15/2021

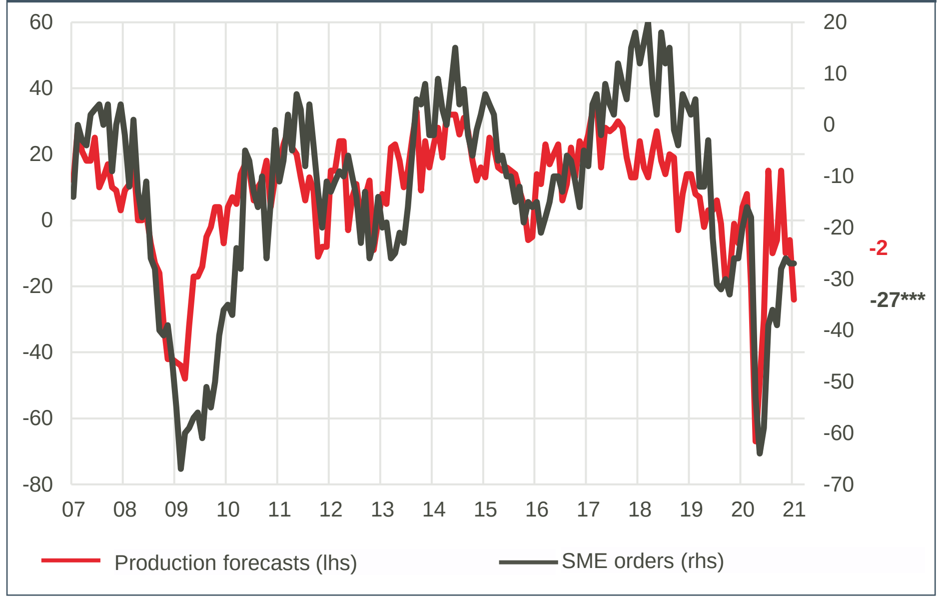
United Kingdom

From laggard to leader in Europe

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



Business confidence**

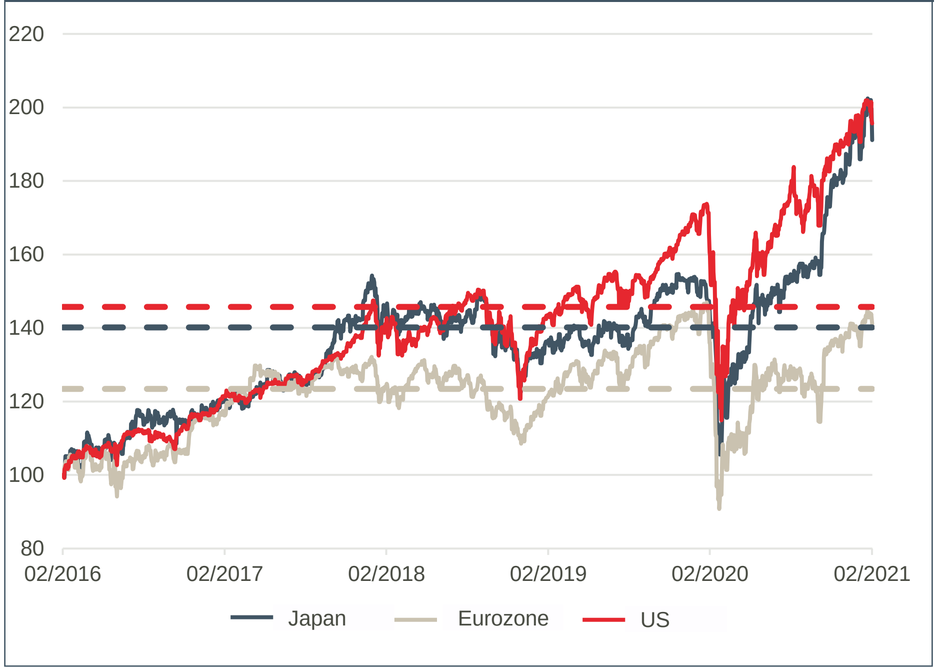


- Large stimulus boost for this year
- Tax hikes pushed back to 2023
- No change in BoE stance for longer

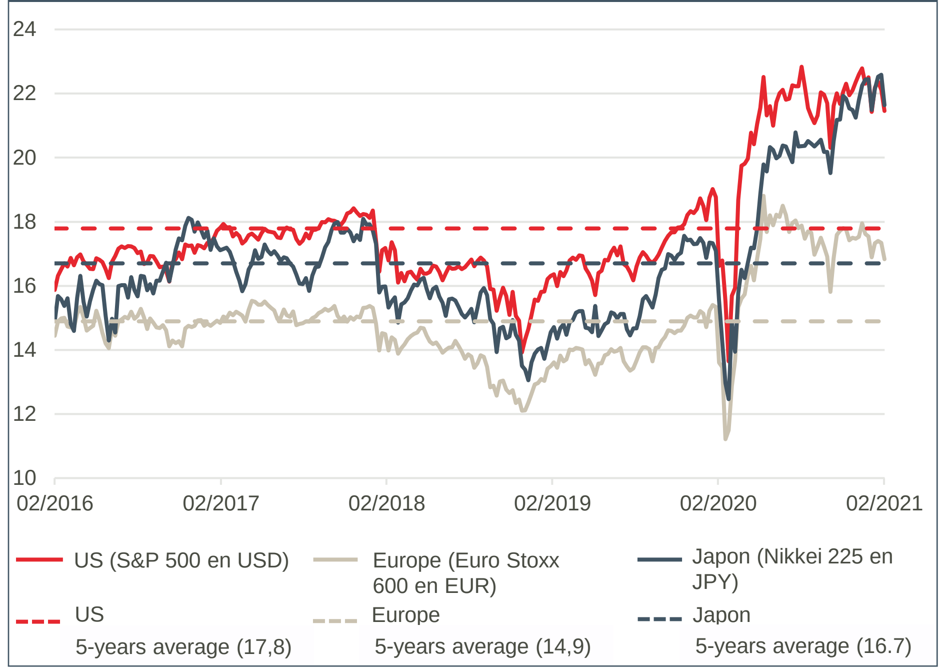
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 02/28/2021 | **Data as of 02/15/2021 | ***Data as of 01/15/2020

Equities – Overview

5-year equity market performance



5-year price/earning ratio



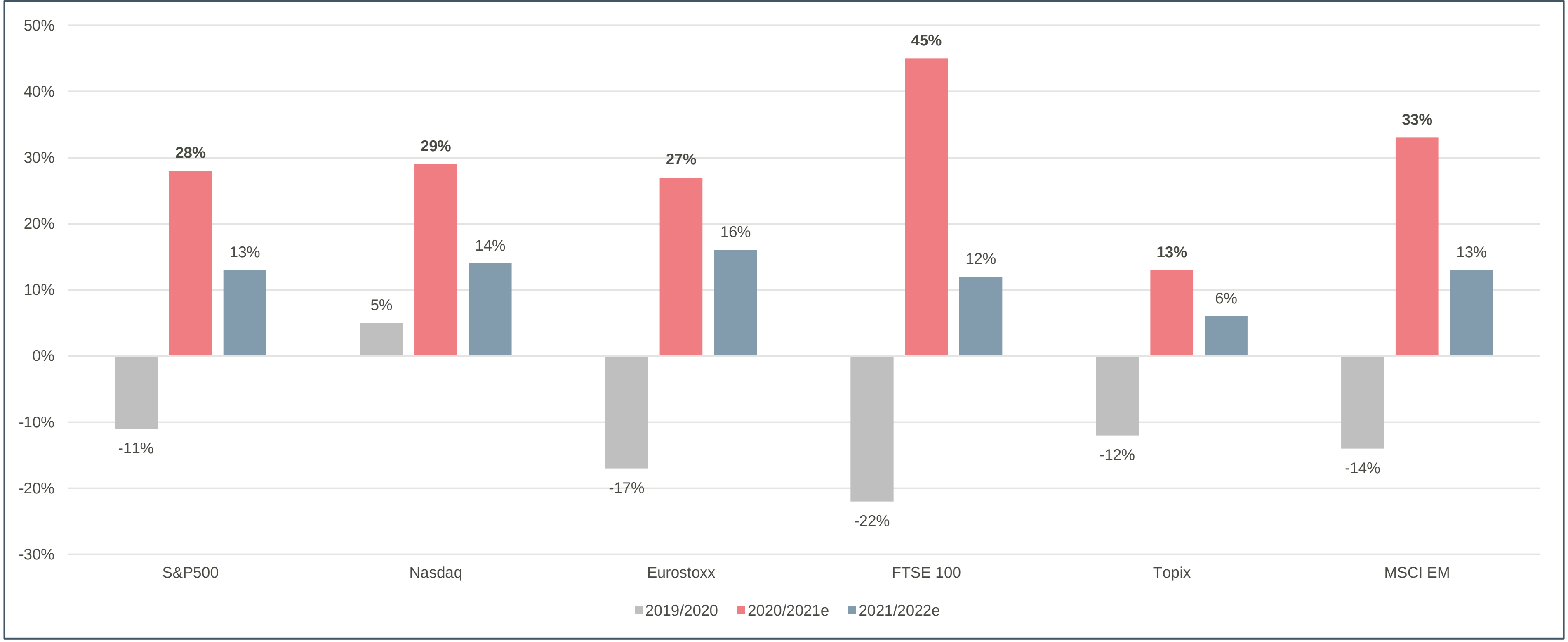
- After a temporary bout of nervousness by January's end, global equity markets rebounded sharply in February, once more reaching new highs.
- EuroStoxx gained 3.6%, led by banks (+19%). Topix (+3.0%) and S&P500 (2.8%) closely followed, while Emerging markets lagged slightly (+0.7% in USD).
- Nasdaq was flat, and MSCI China lost 1%, as profit takings on 2020 best performing themes continued.
- While 2020 Q4 published earnings massively beat expectations, 2021 expected earnings remained rather stable during the month.
- In spite of equity markets bouncing back into positive territory YTD, implied volatilities are still well above beginning-of-year levels, reflecting investors' uncertainties about mid-term monetary policy.

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 02/26/2021

Equities – EPS trends

EPS growth estimates*



- Q4 2020 publications showed that companies margins were extremely resilient in a challenging macro environment that weighted on toplines, but not much on earnings.
- No significant change of aggregate expected results for FY 2021. At sector level, earnings were revised significantly up in the Autos, Bank and Basic Resources sectors.

*Positive earnings only
Sources: ODDO BHF AM SAS, Bloomberg | Figures as of 03/01/2021

European equities

Rotation and reflation: first advantage to stocks with the best earnings growth momentum

	12-month forward P/E, Mar. 2021	2019 EPS growth	2020 EPS growth	2021 EPS growth	Dividend yield	YTD Perf.
STOXX Europe 600	16,9 x	3%	-28%	33%	3,1%	1,5%
Commodities						
Basic resources	11,0 x	-25%	15%	60%	4,9%	14,4%
Oil & Gas	15,8 x	-16%	N/S	36%	4,3%	6,7%
Cyclicals						
Automotive and spare parts	8,9 x	-17%	-77%	465%	3,4%	5,7%
Chemicals	21,4 x	-13%	-19%	38%	2,5%	-1,5%
Construction and materials	17,9 x	17%	-21%	24%	2,8%	2,3%
Industrial goods and services	22,6 x	6%	-30%	35%	2,0%	3,4%
Media	18,0 x	0%	-29%	20%	2,7%	3,8%
Technologies	29,1 x	7%	-3%	17%	1,0%	5,8%
Travel & leisure	-60,2 x	-5%	-350%	87%	0,8%	12,5%
Financials						
Banks	11,1 x	2%	-52%	50%	4,6%	12,1%
Insurance	10,4 x	7%	-22%	31%	5,3%	3,7%
Financial services	14,7 x	141%	-9%	-12%	2,8%	4,8%
Real estate	18,1 x	0%	-5%	7%	3,3%	-4,1%
Defensives						
Food & beverages	17,8 x	7%	7%	10%	3,2%	-5,6%
Healthcare	18,0 x	6%	0%	5%	2,7%	-2,5%
Household & personal care	18,5 x	2%	1%	10%	3,1%	-3,4%
Retailing	23,6 x	0%	-49%	78%	2,3%	0,2%
Telecommunications	14,2 x	-5%	12%	-7%	4,5%	1,0%
Utilities	15,4 x	24%	-7%	13%	4,5%	-6,8%

- Continued outperformance of the Cyclicals segment, driven in particular by excellent earnings momentum in the Energy, Automotive and Banking sectors.
- The rise in interest rates has led to a second wave of rotation towards discounted stocks, resulting in significant sector dispersion at the expense of long-duration components.
- Reflation" and "back-to-work" themes should continue to be favored by investors in light of the vaccination curves and stimulus plans around the world.
- The rotation towards stocks with reasonable multiples and quality cyclicals should therefore continue with the improvement in earnings momentum and the economic recovery expected for 2021/22.
- In this context, the banking sector remains tactically a good investment, especially as earnings momentum is very positive.
- While the technology sector could suffer in the short term from rising interest rates, its cyclical components (semiconductors, software, IT services) remain attractive given the persistent strong earnings growth outlook.
- After a period of marked underperformance due to rotation and the US elections, the health care sector has regained an extremely attractive risk/reward profile for the second half of the year.

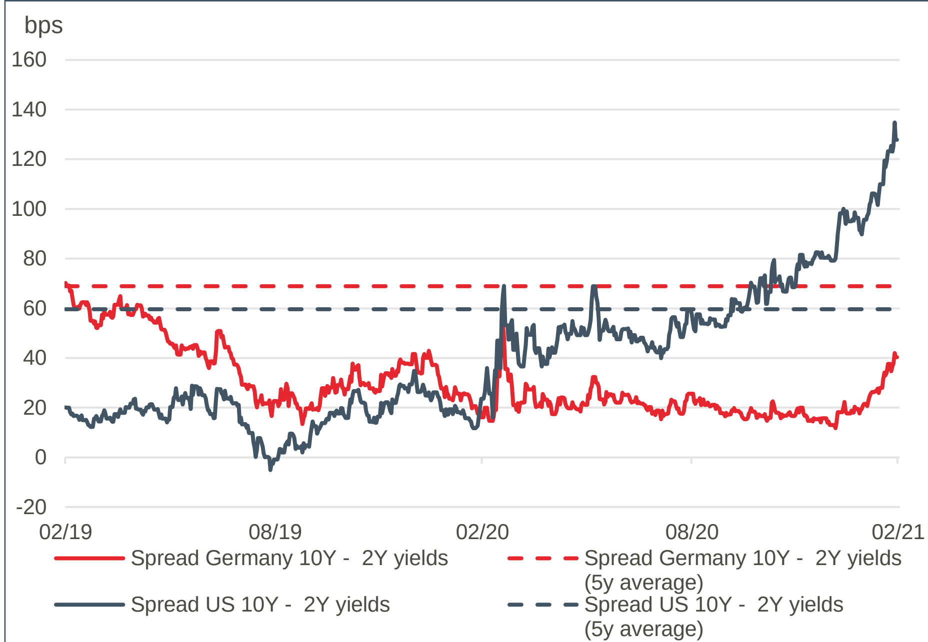
Source: ODDO BHF AM SAS, FactSet. Figures as of 03/01/2021

Fixed income – Rates

From boredom to driving force

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

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



- 10-year Treasuries have surged around 110bps from their August lows
- As break even rates stagnate around 2.2%, real yields had to buffer the recent rate increase and rose 35bp within 4 weeks
- While short-term oversold conditions and central bank support may signal an exhaustion of the current upward yield move, inflation pressure and rebounding economies will renew the pressure on yields
- ECB will have to step-up bond buying significantly in order to stem the tide from rising US-yields

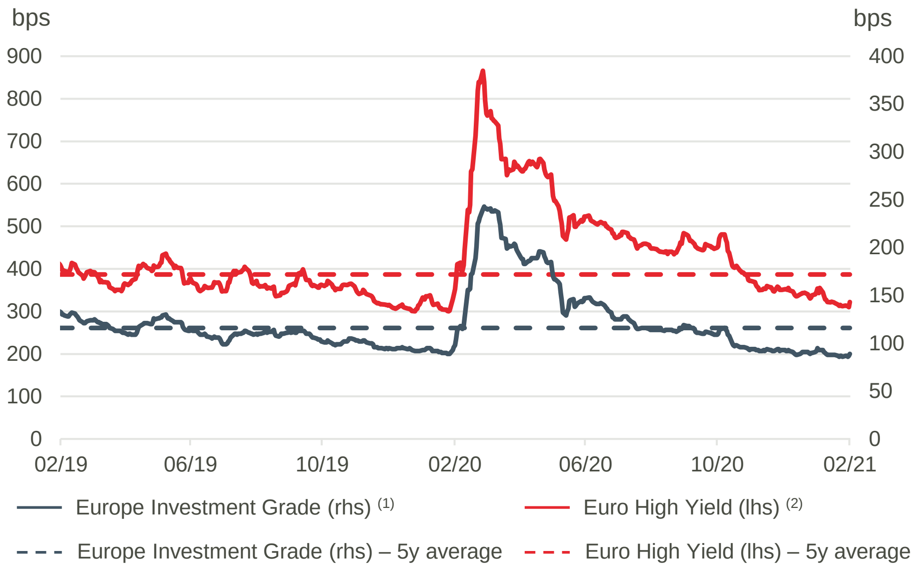
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast │Sources: ODDO BHF AM SAS, Bloomberg│LHS: Data as of 02/26/2021; RHS: Data as of 02/26/2021

Fixed income – Credit Spreads

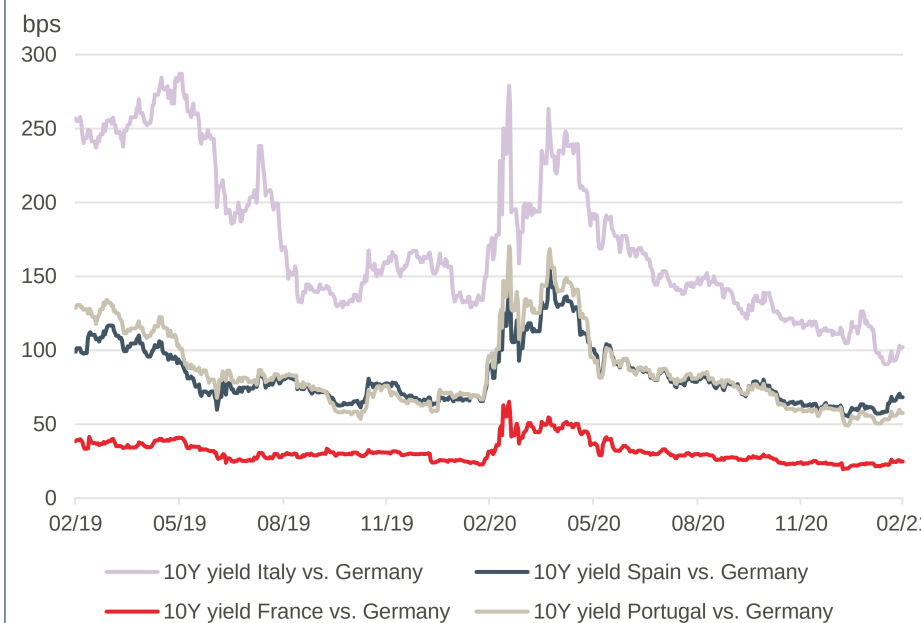
Credit shows resilience

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)



- Increased rate volatility is slightly negative for credit spreads
- However, spread moves have been very modest as demand/supply dynamics are very positive for investment grade bonds and high yield is profiting from economic recovery
- Idiosyncratic risks tend to play an increasing role

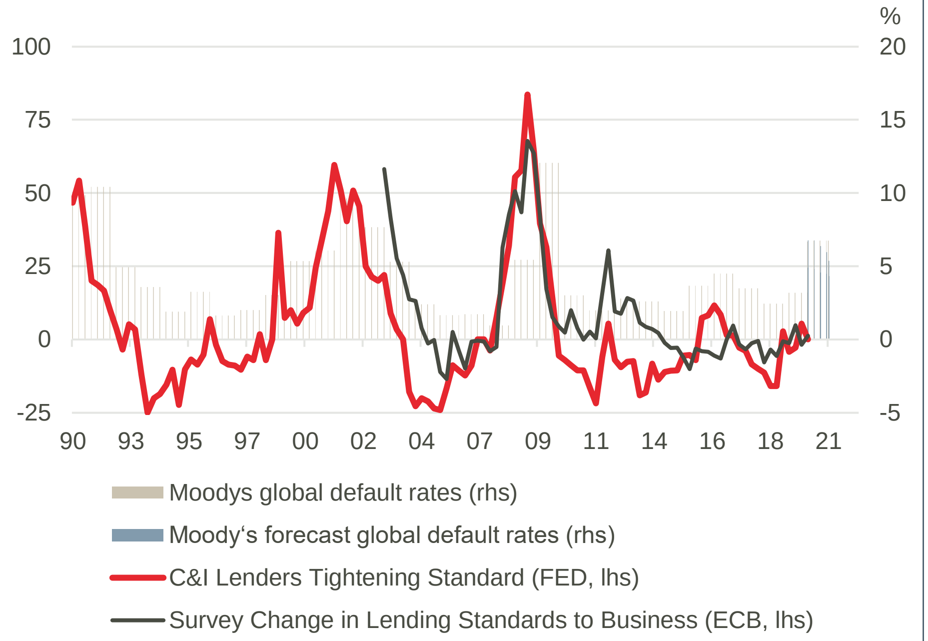
Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: ODDO BHF AM SAS, Bloomberg | Data as of 02/26/2021

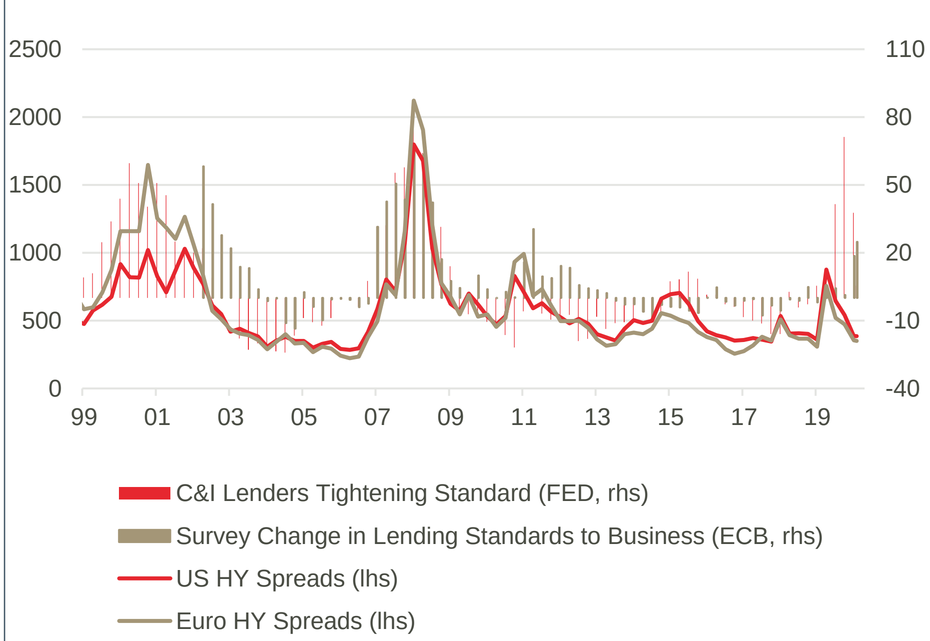
Commercial and industrial lending standards

Central Banks eager to reverse any tightening in financial conditions

Lending standards and default rate



Lending standards and spreads

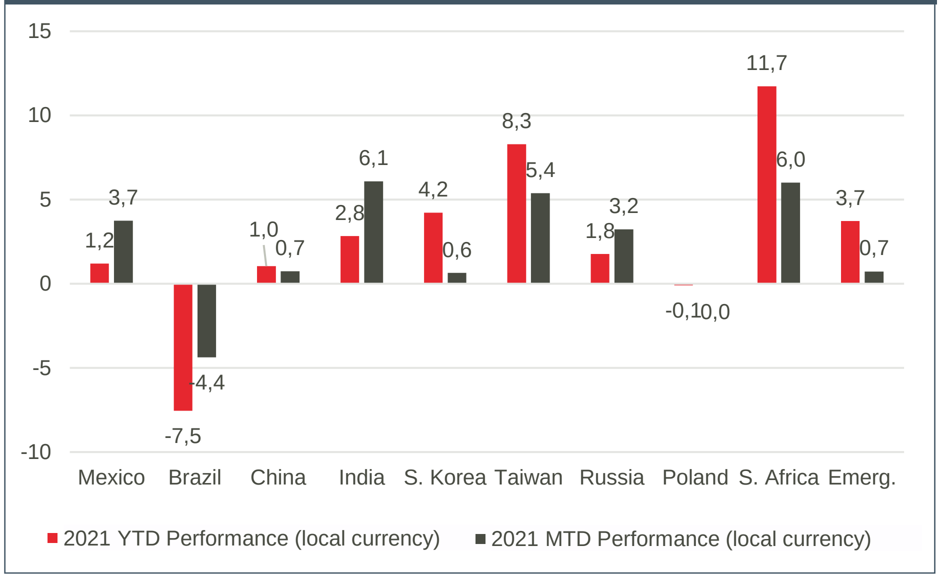


Source: Moody's as of 02/08/2021, Fed, ECB, Bloomberg | Data as of 02/26/2021

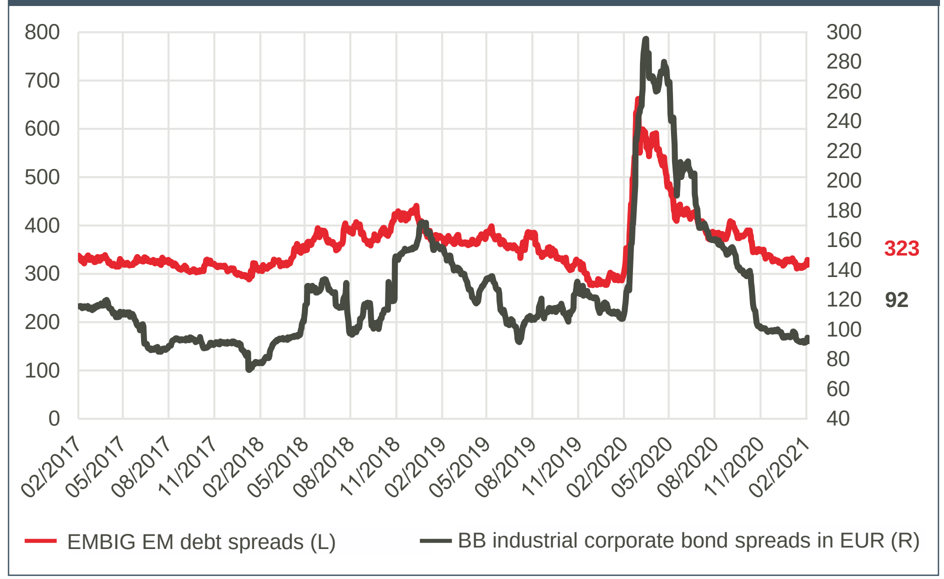
Emerging markets

Investors rush to the exit over fears of a "taper tantrum 2.0"

Equities performance on major emerging markets



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

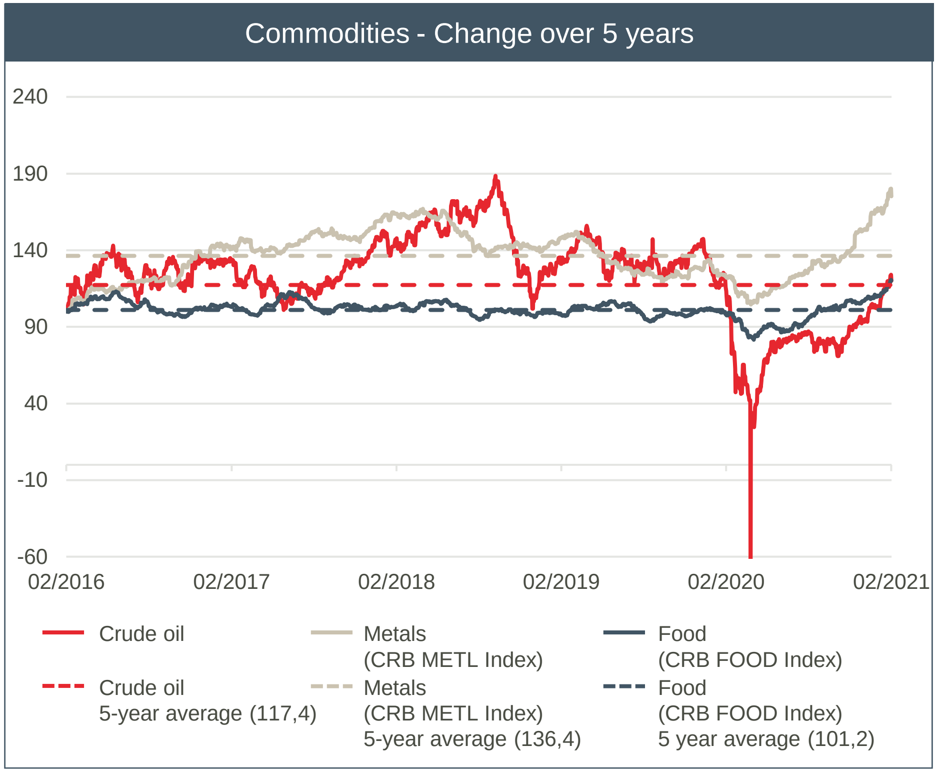


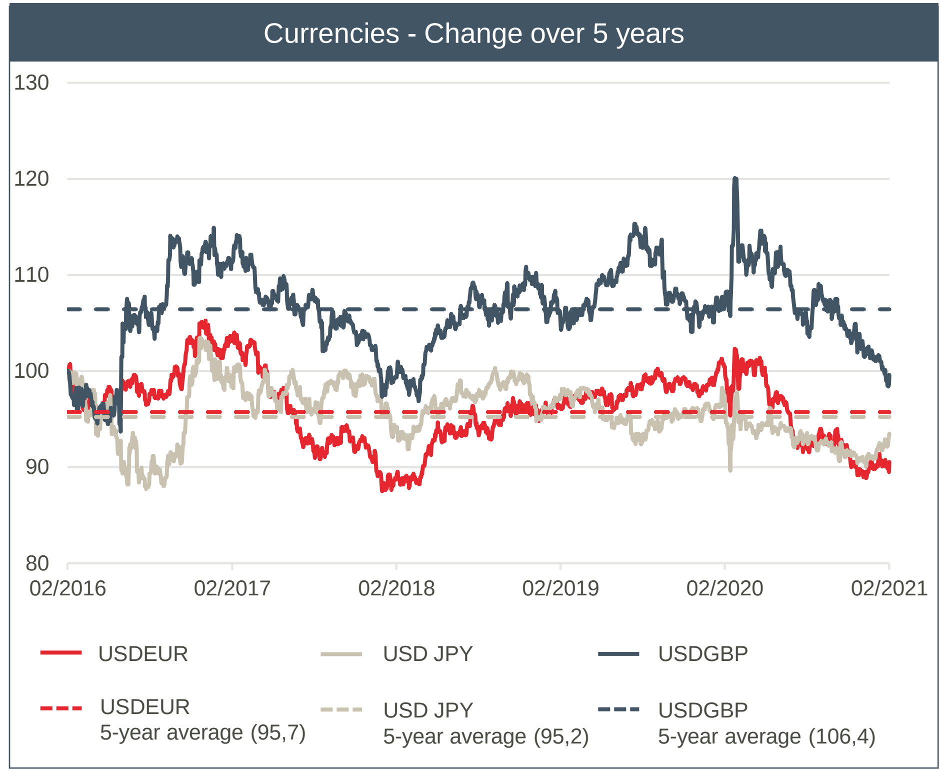
- EM debt has collapsed almost 7% YTD on surging US-yields and a rebound in the US Dollar
- Equities have also been under immense pressure since mid February
- Another taper tantrum is a risk but with a low probability, as the FED now acts under its FAIT strategy and will be eager not to repeat the mistake of 2013
- We see short-term value in oversold GEM markets, but expect underperformance relative to developed markets as long as the reflation story is intact

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 03/01/2021

Gold – not so shiny anymore



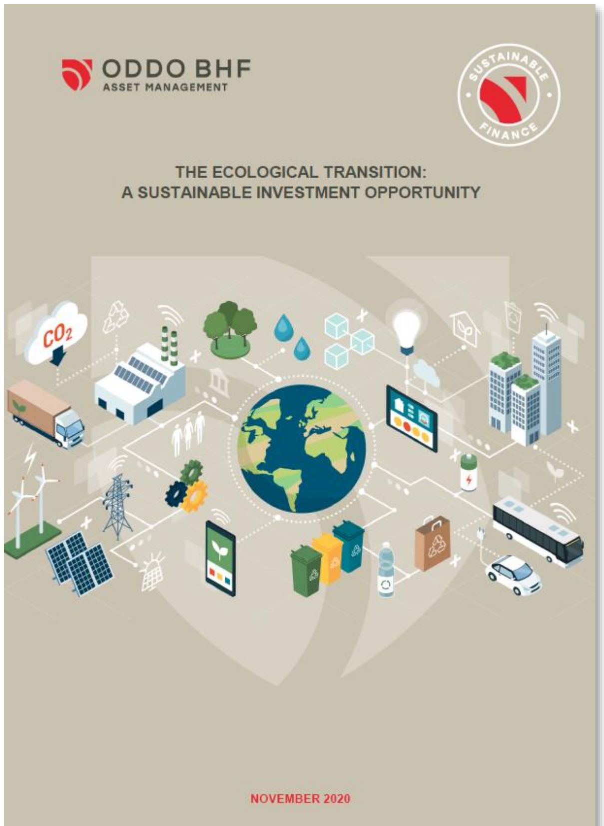


- A bit of consolidation for booming commodities lately and a sigh of relief for gold
- This is likely to reverse as economies open-up and rebound sharply
- Gold may surrender to the mix of rising real yields, the slow motion rebound in the USD and a still crowded investor positioning and test the 2020 lows

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 02/26/2021

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