

March 2019



We reiterate our recommendation of relative caution in the short term on risky assets



### Can the year-to-date rally in risky assets keep going?

With its downward revision of euro zone growth and inflation, the ECB confirmed the signs of a global slowdown that had been seen in PMI figures. Risk premiums have fallen sharply, and investors have sold into the rally in order to lessen their exposure to risky assets.

Macroeconomic indicators have not worsened at the same pace worldwide. Manufacturing has been sluggish, while services and the job market have continued to fare well. As we expected, the Chinese authorities have taken appropriate measures to stabilise growth, while the latest euro zone figures are less alarming and are trending towards 1.5% growth.

Against this backdrop, we reiterate our recommendation of relative caution in the short term on risky assets, as the markets could very well consolidate, albeit less for fundamental reasons than technical ones. However, any significant dip (> 5%) should be treated as an opportunity to reinvest. Macroeconomic momentum is likely to improve in the coming months with the initial impact of the Chinese stimulus package, a boost in the euro zone from fiscal stimulus of almost 0.5%, the ECB's continued dovish stance, and US growth that is close to its potential, driven by the Fed's wait-and-see attitude.

Granted, analysts are still revising their forecasts downward, but the 4% US earnings growth projection looks overly conservative to us, given sales growth that has been at +6.5% for two years now.

### Positioning

#### Overweight emerging equities vs. developed market ones

At 12 times 12-month forward earnings, emerging markets are trading at multiples below those seen during the 2015/2016 crisis. In addition to the Chinese stimulus package, a Sino-US trade agreement would be a strong catalyst for an even more aggressive reallocation by international investors.

When adjusted for sector biases (technology in particular), the euro zone is trading at just a 5% discount to US markets, based on our estimates. That's not enough as things currently stand. We are overweighting export-intensive companies over domestic ones in a context of a weak euro.

**In government bonds**, despite the rally on the announcement of ECB refinancing measures, we are steering clear of sovereign paper as long as there is no greater clarity on Brexit. Uncertainty on this issue is beginning to test investors' nerves and could trigger significant volatility.

**In corporate bonds**, the narrowing of high-yield bonds is also likely to stall, but, as with equities, it would be worth adding to exposure in the event of a significant widening in spreads.

In conclusion, we are taking some of our profits on European mid and small caps and are adding to our equity indices hedges while remaining invested. In this way, we are building up convex portfolios with attractive risk-reward profiles.



Current convictions

Macroeconomic analysis

Market analysis



# CURRENT CONVICTIONS

# 01



## Our 6-month view

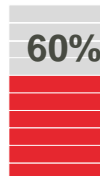
### Central scenario : Global growth expected to stabilize in 2019 after the slowdown in the last quarters

#### Europe

- Economic slowdown expected to near the trough (first signs of improvement in industrial production)
- Near-term political risks have reduced but remain worrisome (No-deal Brexit, Germany, France, Italy, Spain)
- Accommodative monetary policy prolonged at least until 2020

#### US

- Economy still solid despite some headwinds (i.e. government shutdown)
- Fed put interest rate hikes on hold, has to decide to be accommodative or restrictive depending on macroeconomic data
- Uncertainty coming from more protectionism and regulation



#### Assets to overweight



- Equities (neutral to constructive depending on region)
- Credit

#### Assets to underweight



- Sovereigns

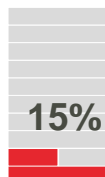
#### Strategy



- Flexibility
- Hedging (options, gold,...)

### Alternative scenario: Interest rate risk fueled by surprise jump in the US inflation and growing US budget deficit

- Wage acceleration
- Surging oil prices fuelled by an escalation of political tensions in Middle East
- Reduction of growth potential



#### Assets to overweight



- Inflation-hedged bonds
- Alternative strategies
- Cash

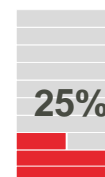
#### Assets to underweight



- Equities
- Core Sovereigns
- High Yield credit

### Alternative scenario: Increase in protectionism and contagion from emerging markets

- US-China trade war impacting global supply chains
- Geopolitical risks materializing (Emerging markets, Middle East...)
- China: risks of economic rebalancing
- Brexit: no deal



#### Assets to overweight



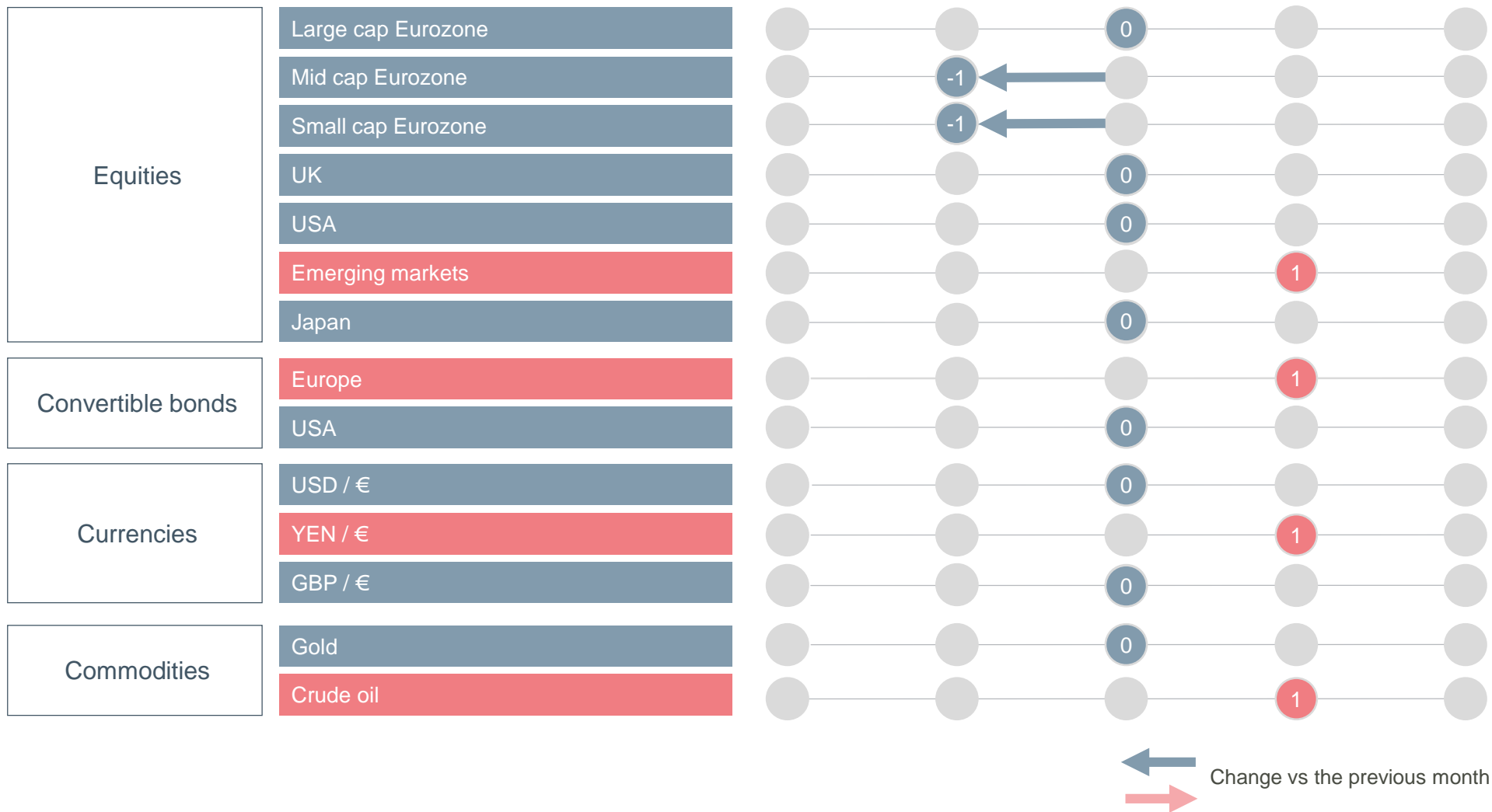
- Money Market CHF & JPY
- Volatility
- Core government bonds

#### Assets to underweight



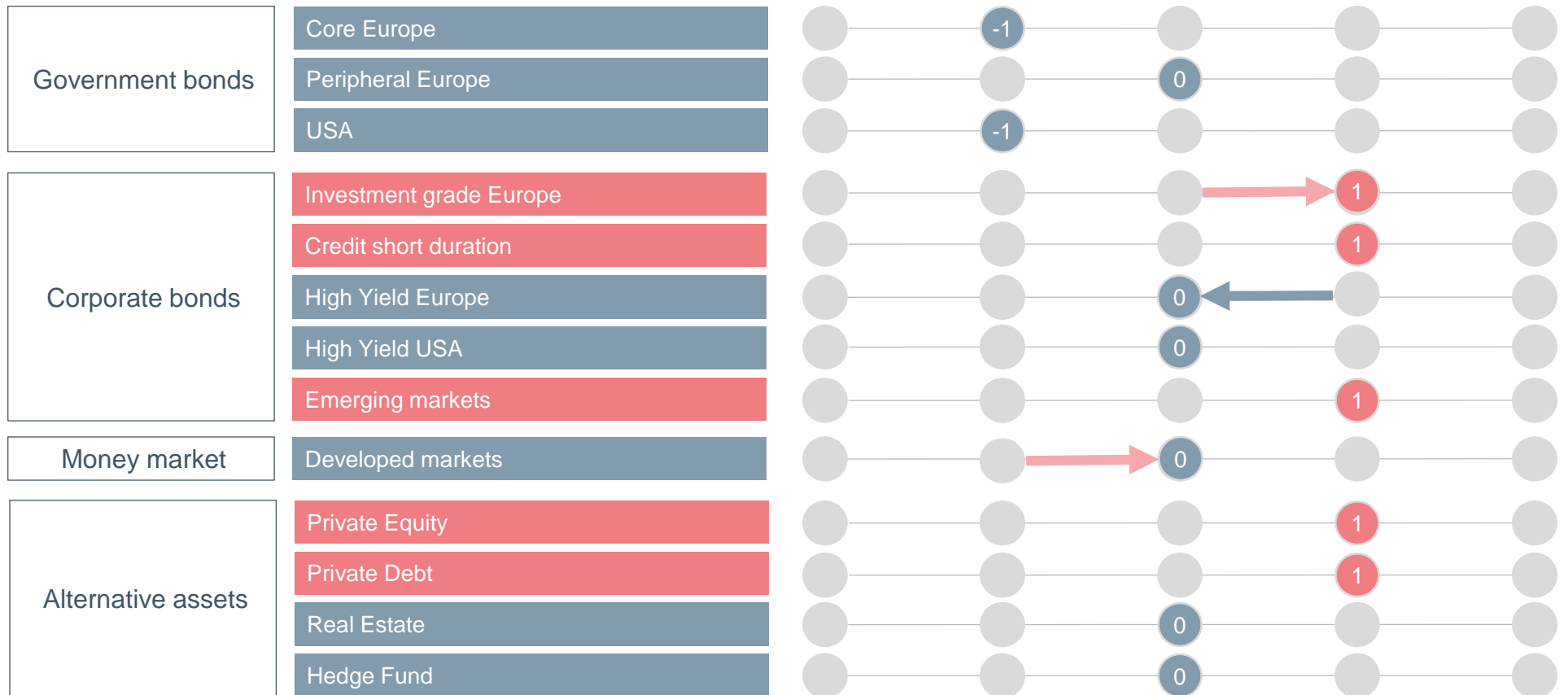
- Equities
- High Yield credit

# Our current convictions for each asset class



Comments as of 13/03/2019

# Our current convictions for each asset class



Change vs the previous month

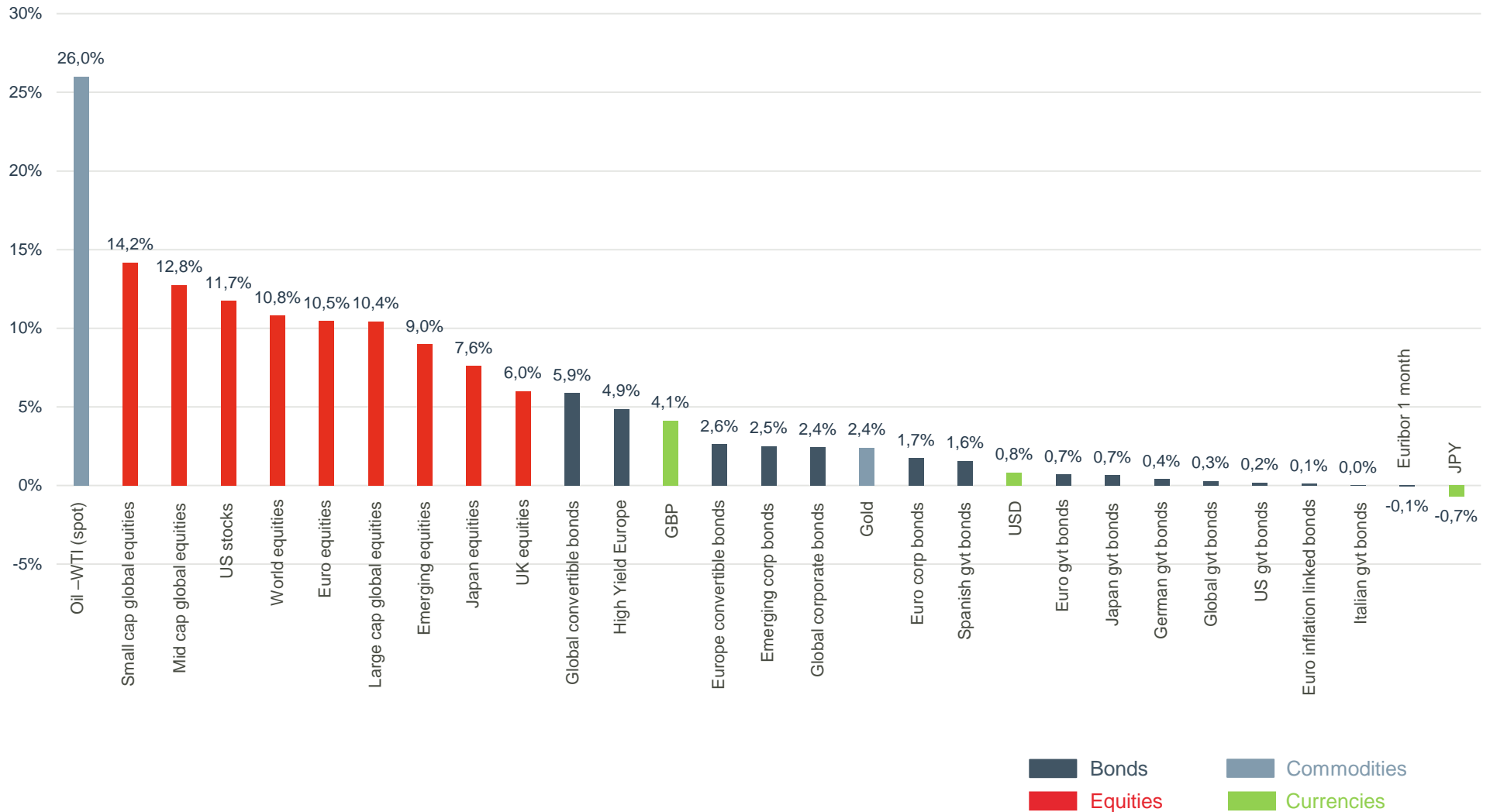
Comments as of 13/03/2019



# MACROECONOMIC AND MARKET ANALYSIS

# 02

# 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 02/28/2019; performances expressed in local currencies



# Historical performances of asset classes

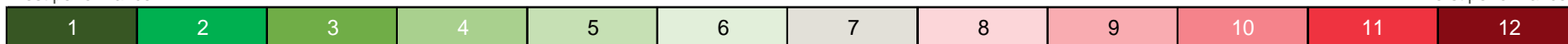


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
WTI spot	-53.5%	77.9%	15.2%	8.2%	-7.1%	7.2%	-45.9%	-30.5%	45.0%	12.5%	-24.8%	26.0%
US equities	-37.6%	26.3%	14.8%	1.4%	15.3%	31.8%	12.7%	0.7%	10.9%	21.2%	-5.0%	11.7%
Eurozone equities	-44.9%	27.3%	2.4%	-14.9%	19.3%	23.4%	4.3%	9.8%	4.4%	12.5%	-12.7%	10.5%
EM equities	-53.3%	78.5%	18.9%	-18.4%	18.2%	-2.6%	-2.2%	-14.9%	11.2%	37.3%	-14.6%	9.0%
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%	5.1%
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%	4.1%
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%	2.5%
Gold	5.1%	25.5%	29.4%	10.1%	7.1%	28.1%	-1.4%	-10.6%	8.0%	13.5%	-1.6%	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%	0.7%
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%	0.4%
US Gvt bonds	14.0%	-3.7%	5.9%	9.8%	2.2%	-3.4%	6.0%	0.8%	1.1%	2.4%	0.8%	0.2%
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%	-0.1%
<b>Best-worst performance</b>	<b>67.5%</b>	<b>82.2%</b>	<b>28.9%</b>	<b>28.5%</b>	<b>34.3%</b>	<b>38.4%</b>	<b>59.0%</b>	<b>40.3%</b>	<b>45.4%</b>	<b>38.7%</b>	<b>27.2%</b>	<b>26.1%</b>

## Colour scale

Best performance

Worst performance



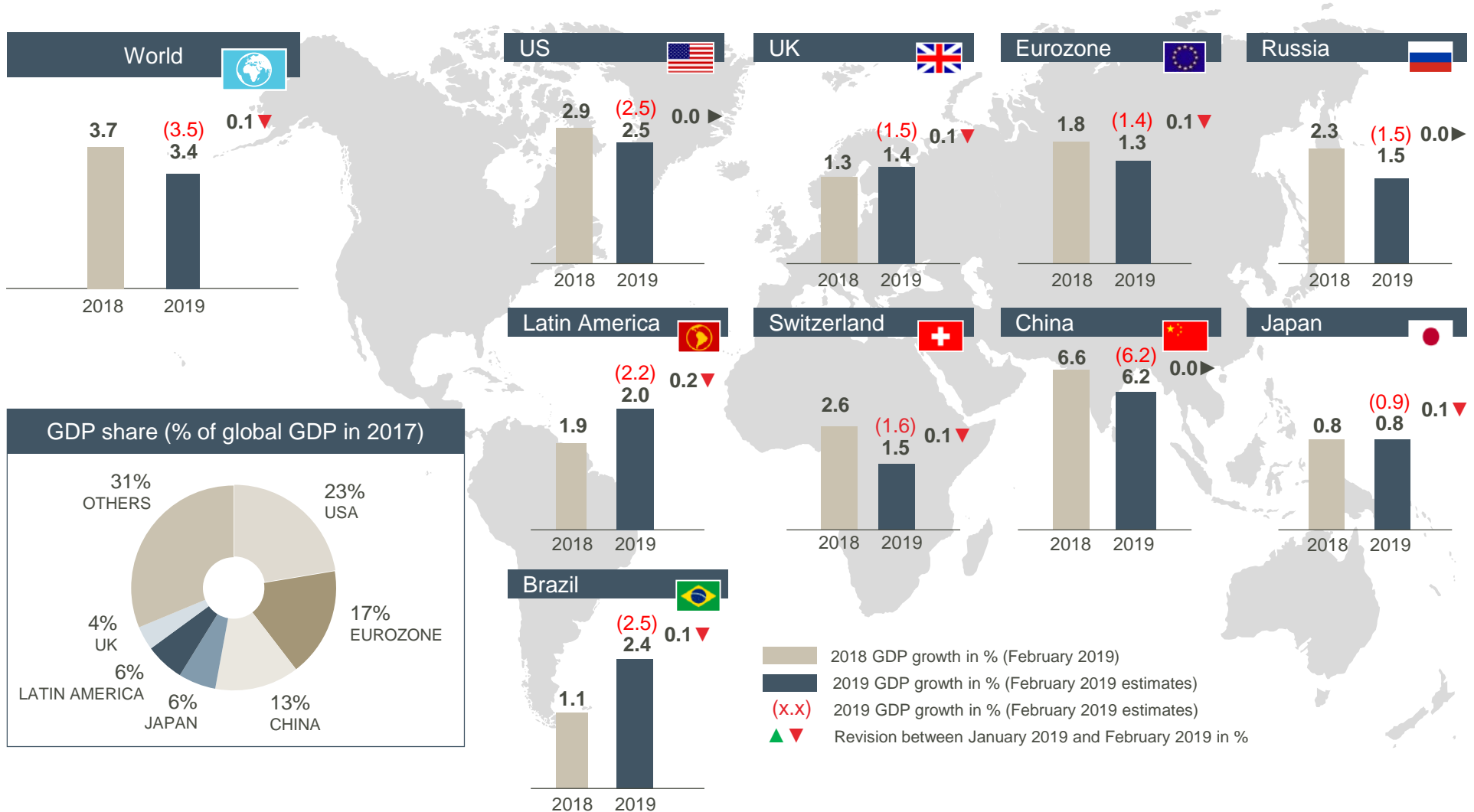
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# Global GDP\* growth forecast



Consensus forecasts drift lower

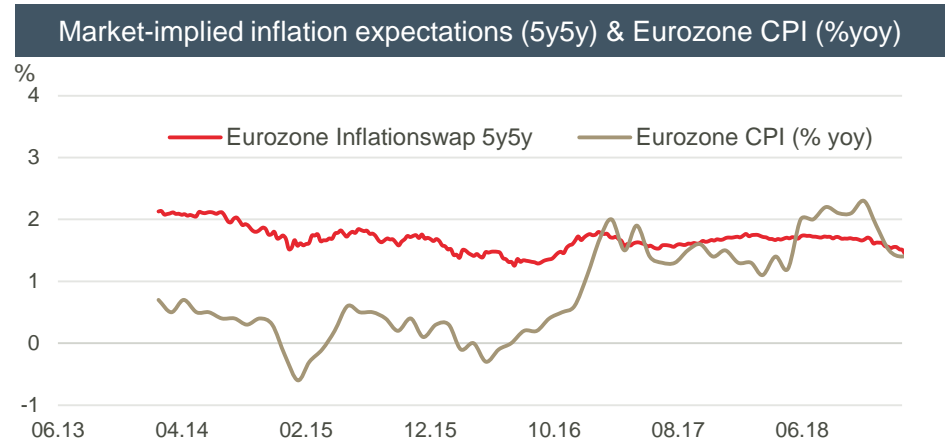
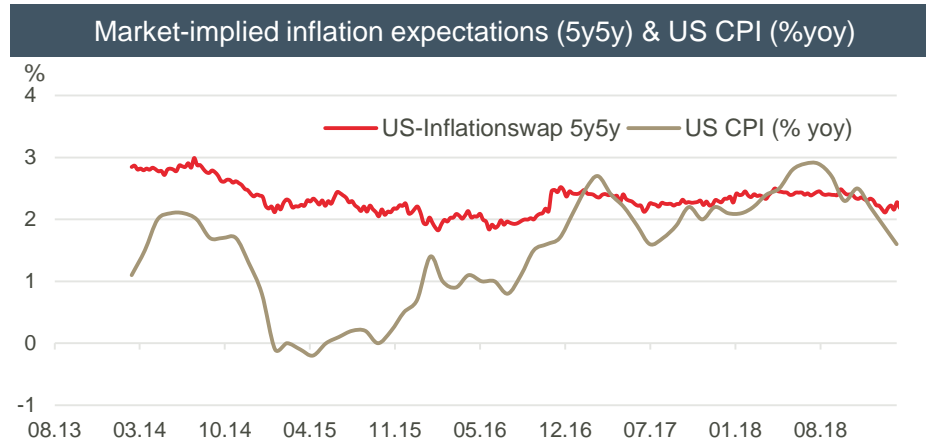
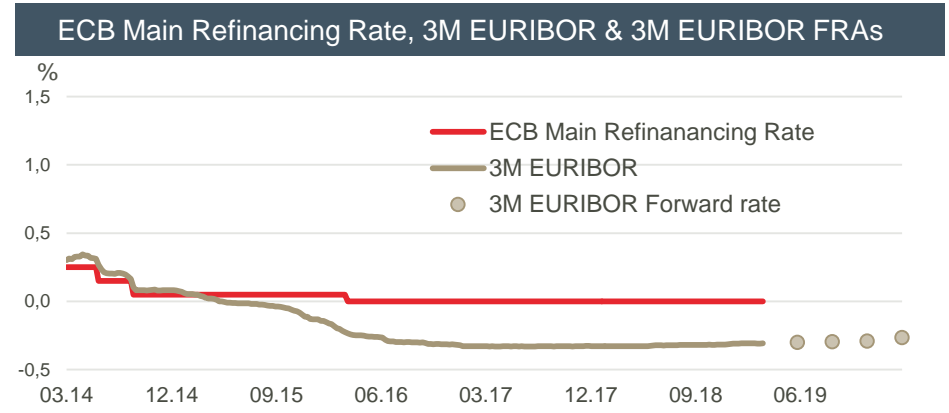
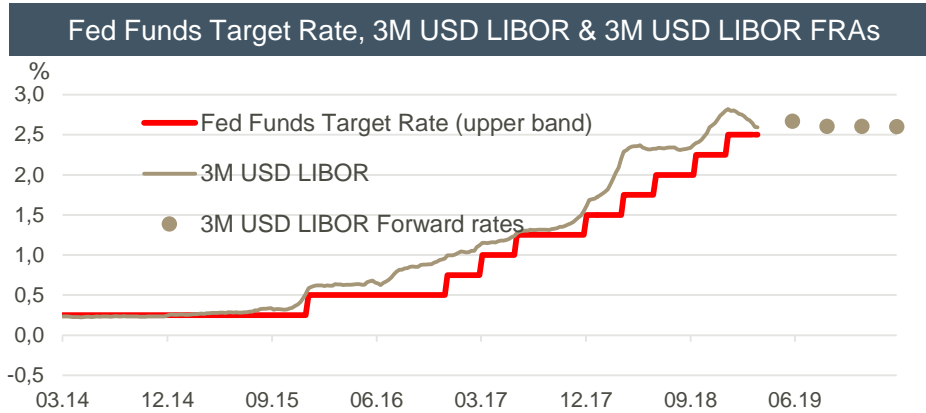


\*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 02/28/2019

# Monetary policy & inflation expectations



## Accommodative signals from central banks

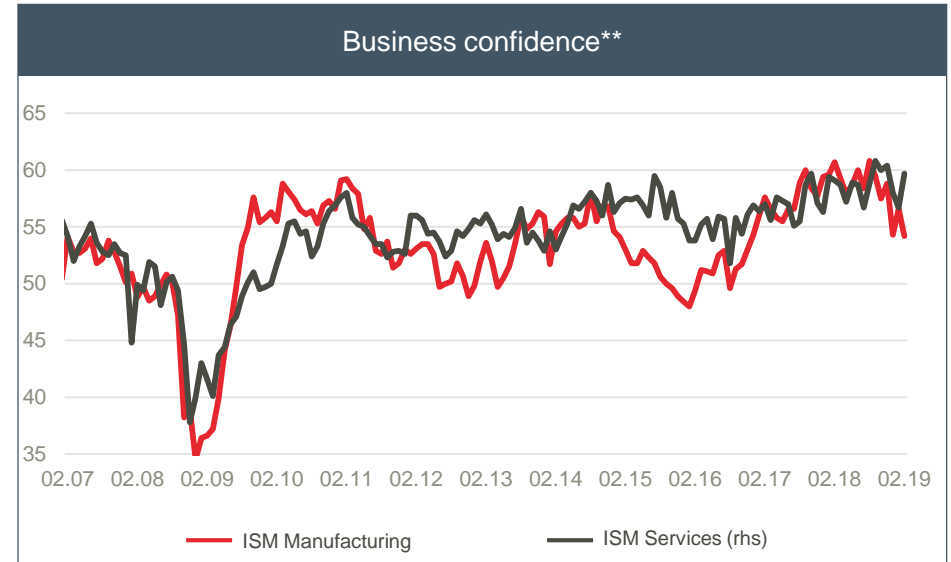
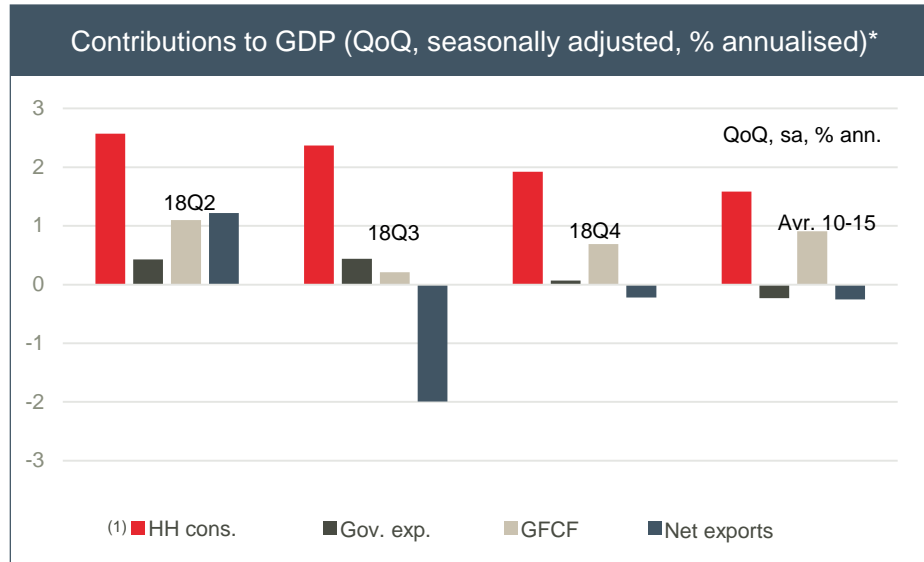


- FED made a spectacular turn into a pause and patience mode, even contemplating an end to the balance sheet run-off at year's end
- Markets are even pricing-in a cut at the end of 2019
- In Europe, the ECB had every reason to act faced with the sudden weakening of the economic outlook. It has done so by postponing until 2020 the debate on the first interest rate increase, by extending still further its reinvestment policy and by offering banks a new long-term refinancing programme.

Sources: Bloomberg, ODDO BHF AM GmbH, as of 02/28/2019



A more dovish stance

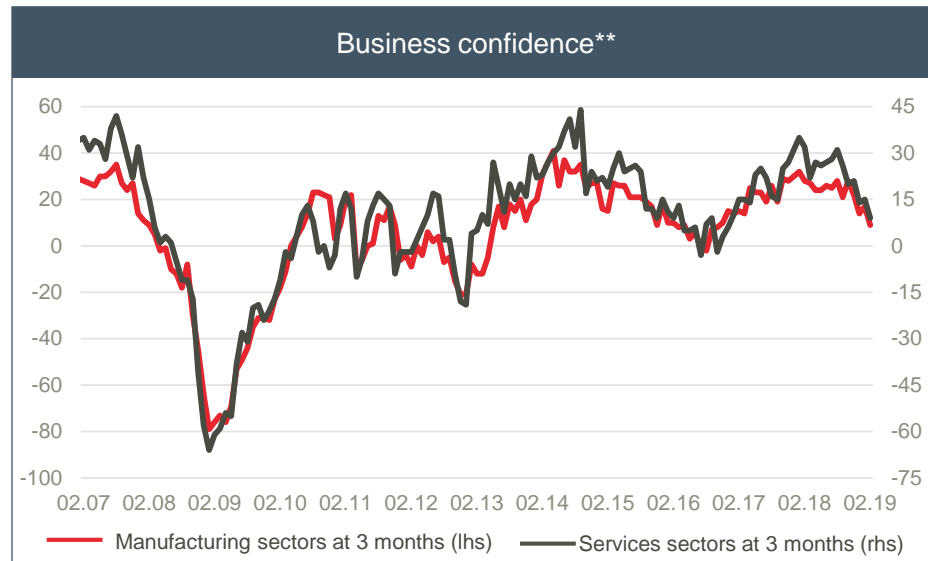
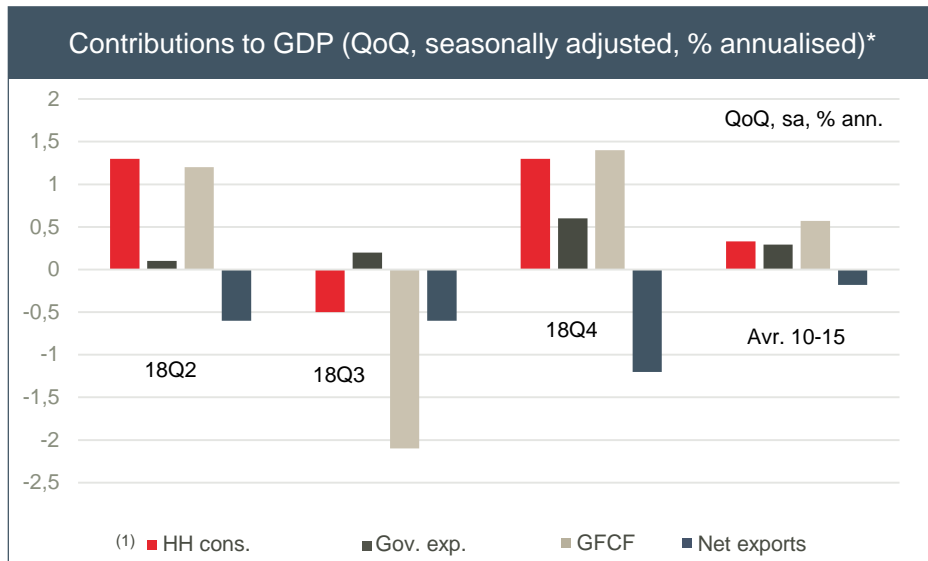


- The Federal Reserve continued to take a more dovish stance
- Nonfarm payrolls increased by 20 thousand in February of 2019, following an upwardly revised 311 thousand rise in January and well below market expectations of 180 thousand. It is the lowest job gain since February of 2017. But wages continues to accelerate (+3.4%) and unemployment rate below 4%
- Consumer demand is still very robust while manufacturing is softening
- The strength of business confidence and employment conditions indices suggests that underlying demand remains solid

(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 12/31/2018 | \*\*Data as of 02/28/2019



## Leading indicators are still on the weak side

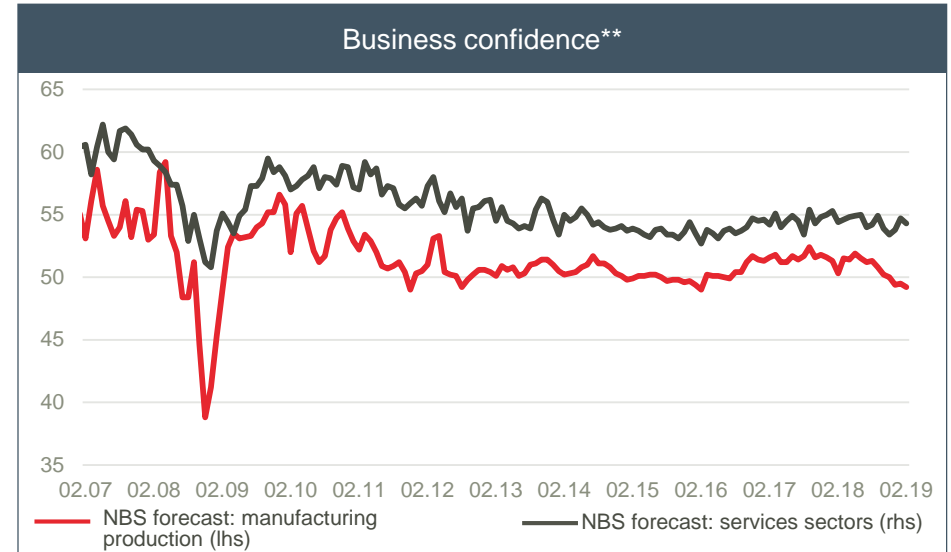
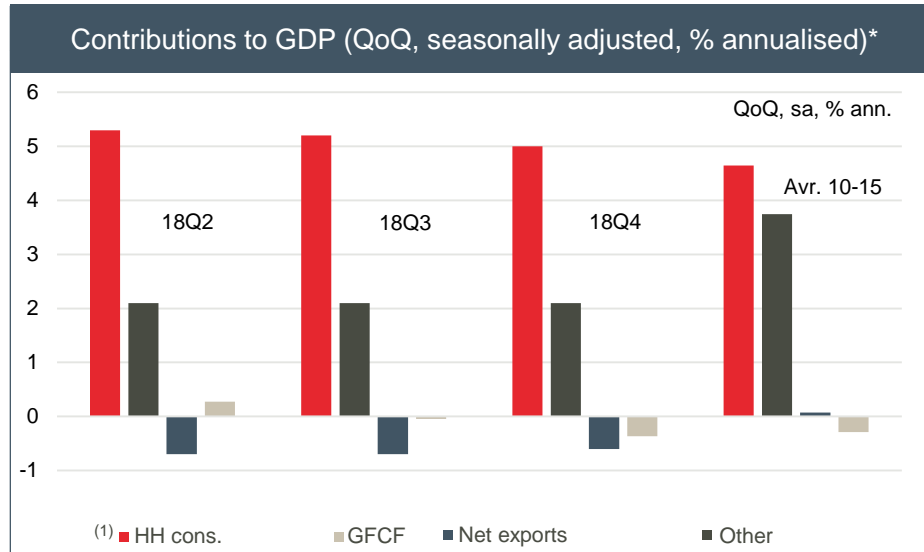


- Japanese economy returned to Growth in Q4, supported by a household consumption and gross capital formation.
- Soft sentiment indicators and weaker PMI's
- Labour market remains tight, with unemployment rate at 2.4%

(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 12/31/2018 | \*\*Data as of 02/15/2019

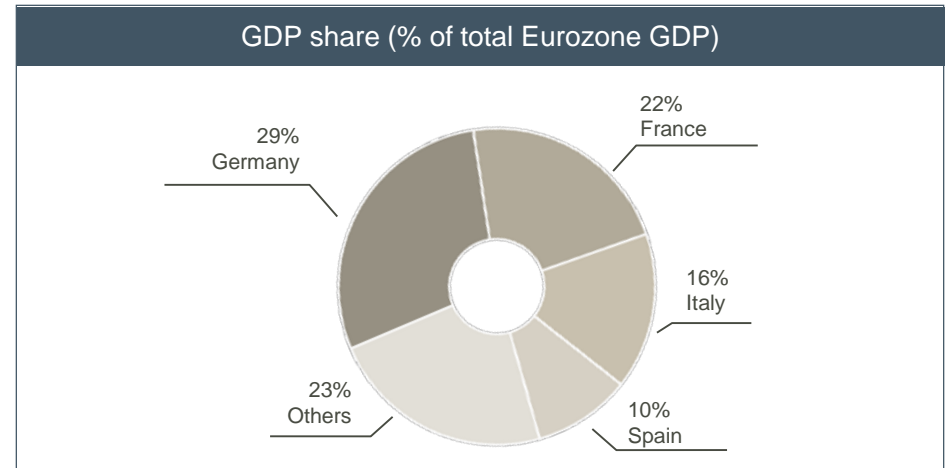
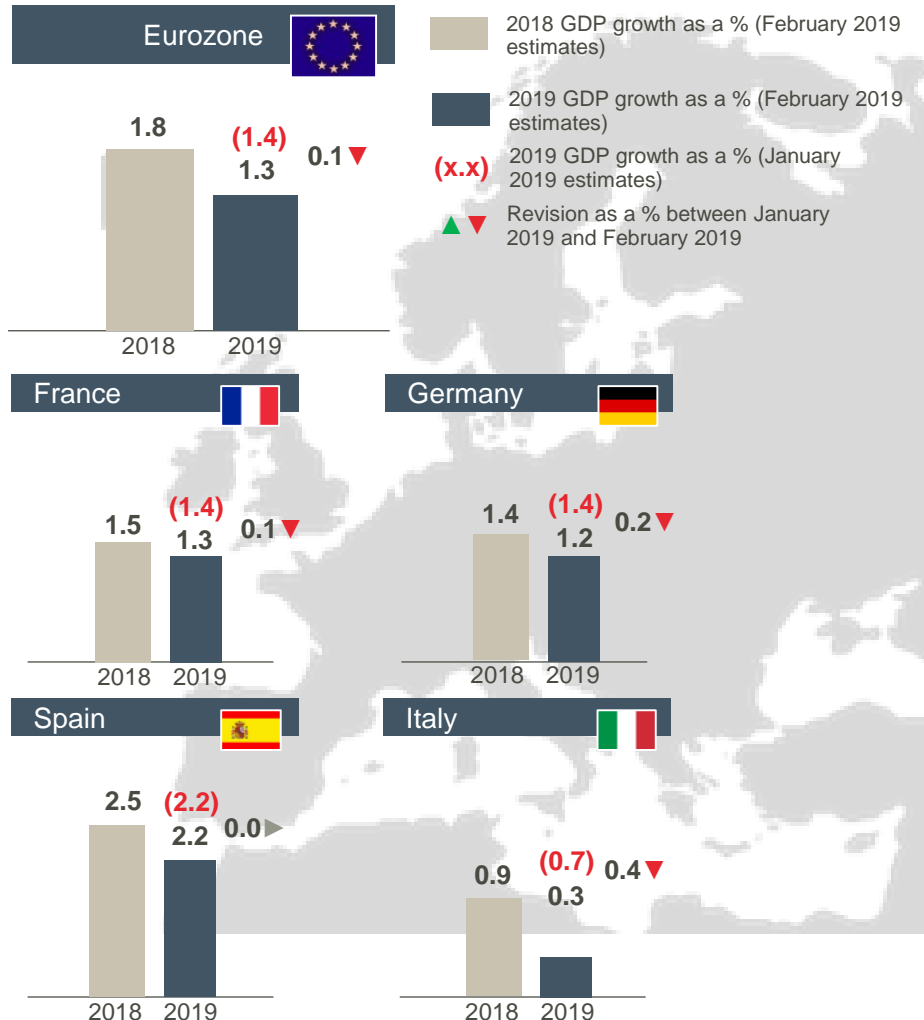


Chinese authorities have taken measures to stabilise growth not more for the time being.



- The Chinese government set the GDP growth target to the range of 6-6.5% for 2019
- And announced further fiscal support to the domestic economy through VAT reduction
- Foreign trade surprised to the downside with unexpected weak exports figures
- PMI Caixin better than expected

(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 12/31/2018 | \*\*Data as of 02/15/2019

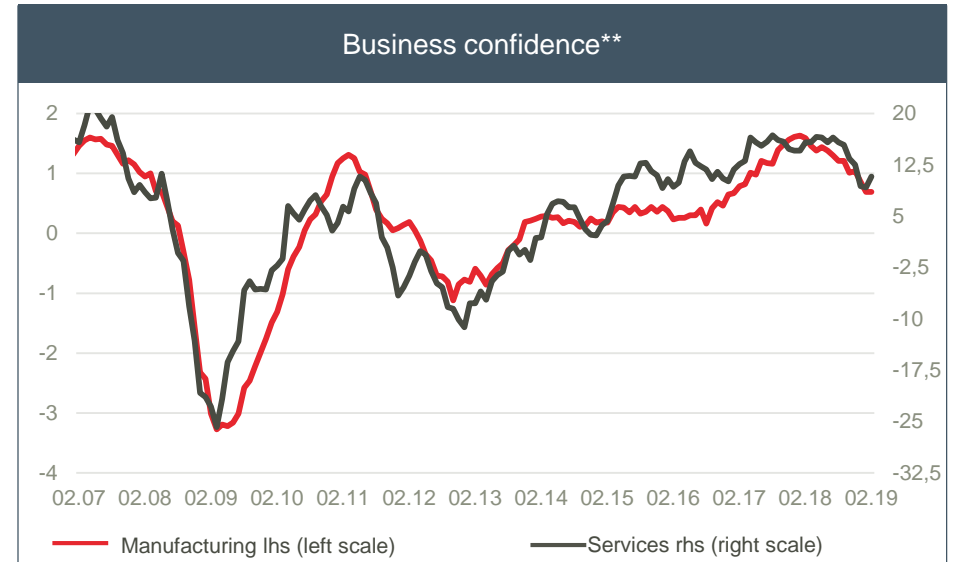
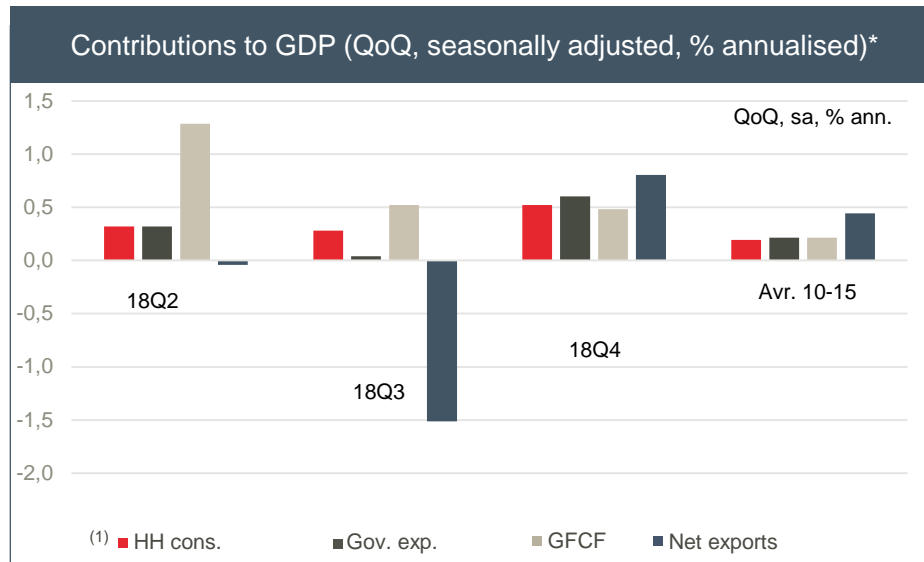


- After a year in decline, the first tentative signs of a stabilisation of business confidence in Europe are emerging, especially in services.
- The manufacturing sector is in recession. Germany is the worst affected, especially its backbone represented by the automotive sector.
- Several export markets have experienced or are experiencing a loss of momentum, to varying degrees (China, UK and Turkey).

Sources: ODDO BHF AM SA; Bloomberg Economist Forecast. Data as of 02/2019



## Signs of a stabilization of business confidence in Europe are emerging



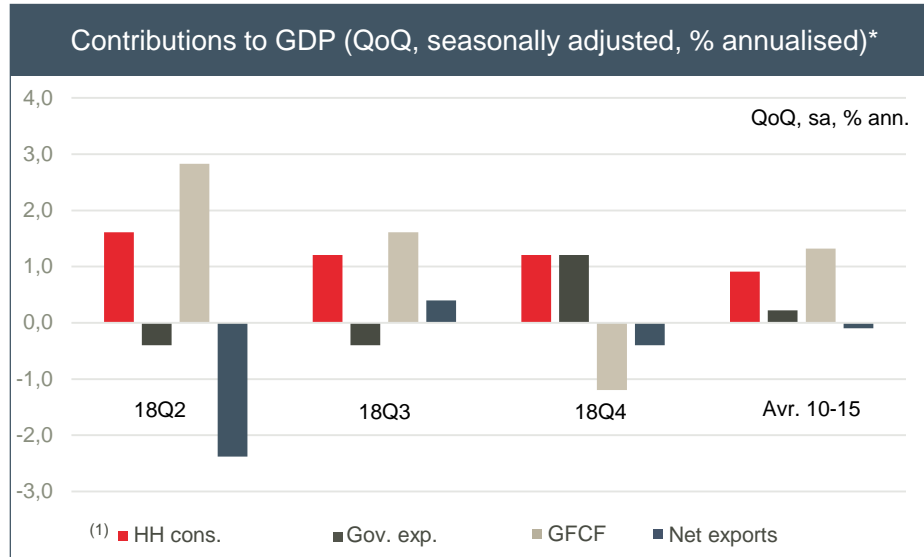
- The Eurozone quarterly economic growth was confirmed at 0.2 percent in the fourth quarter of 2018
- The expansion was driven by net exports, household consumption, fixed investment and public spending
- ECB announced a new TLTRO and adjusted the forward guidance to a later date, no rates hike in 2019
- Signs of a stabilization of business confidence in Europe are emerging, especially in services. The manufacturing sector is in recession

(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 12/31/2018 | \*\*Data as of 02/15/2019





A new deadline ? And under which conditions ?

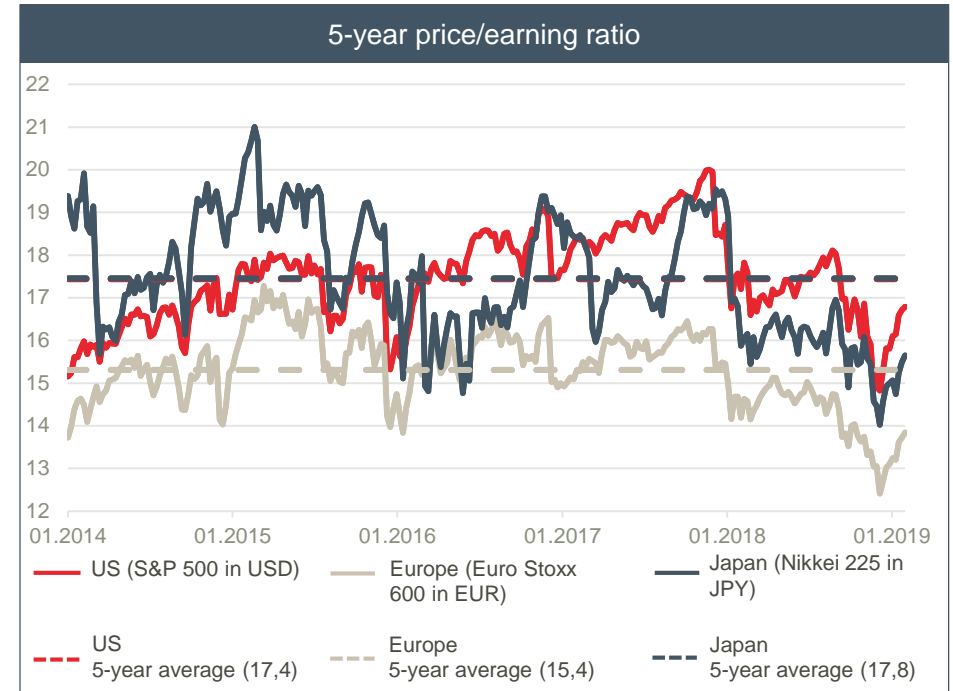


- The British economy grew by 0.2 percent on Q4 2018, easing from a 0.6 percent expansion in the previous period and matching market expectations.
- Private consumption and government expenditure were the main contributors, while gross capital formation and net trade contributed negatively
- Still no outcome on the Brexit
- Risk of hard Brexit is not negligible and hardly priced

(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 12/31/2018 | \*\*Data as of 02/15/2019



## The rally continues into February



- The markets continued to rally in February, with the MSCI World AC up almost 3%.
- The Eurozone was the top performing market, with a 4% gain, driven mainly by hopes of a solution on the trade and Brexit fronts.
- The US market also continued to rally, with a gain of more than 3%. Emerging markets turned in the only flat performance in February but after a very strong showing in January.

- February's gains resulted in a re-rating on all markets.
- In the US, the overall P/E moved back to its mid-November levels, at 16.8x, but the market is still trading at a 6% discount to its five-year average.
- In Europe, the P/E moved up to 13.8x, which is a discount of about 10% to its five-year average.

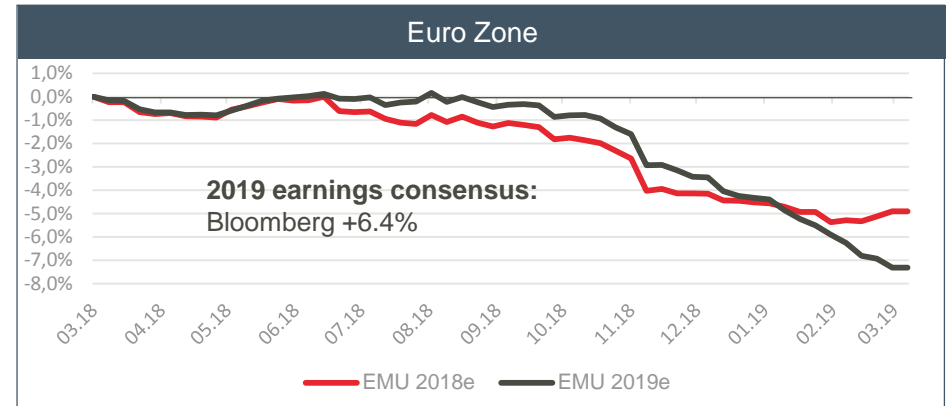
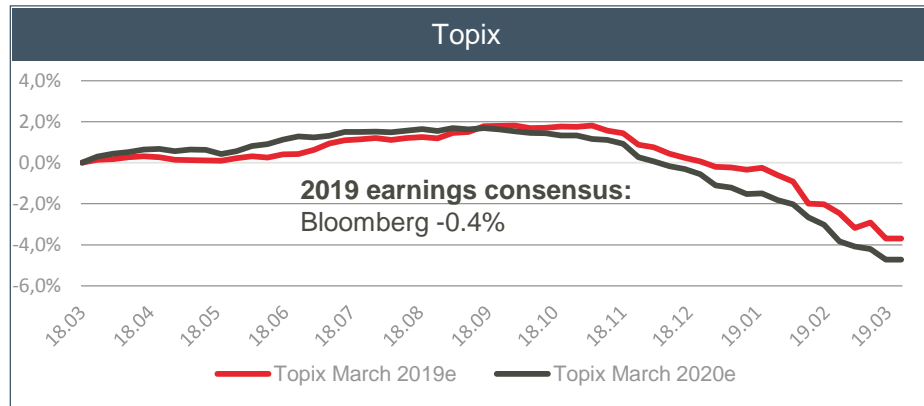
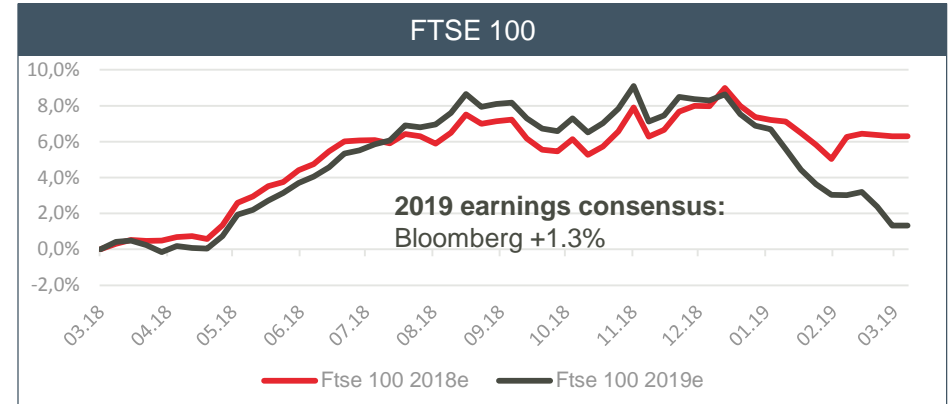
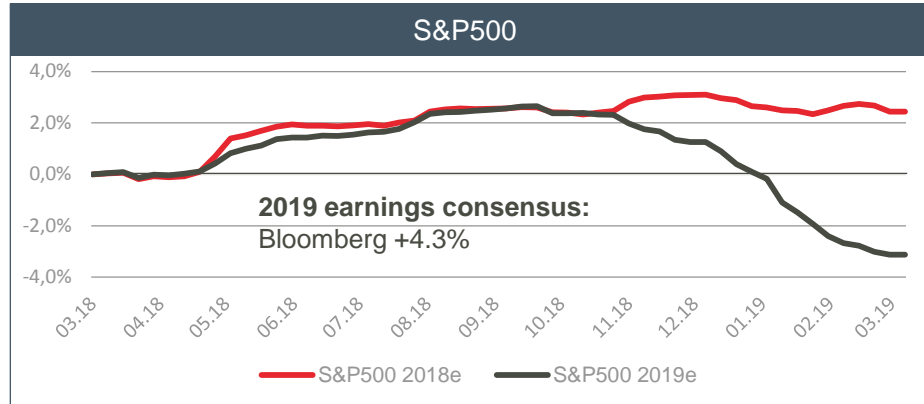
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\*See Glossary, page 26 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 28/02/2019

# Equities – EPS trends



The picture continues to darken worldwide



- Despite a rather decent reporting season for the fourth quarter of 2018, 2019 forecasts were downgraded further on all the major markets.
- Since the end of October, earnings forecasts have been lowered by about 5% on the US market and as much as 7% in the UK and Europe.

Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 28/02/2019



A lower risk premium continues to provide a cushion against downgrades of earnings forecasts

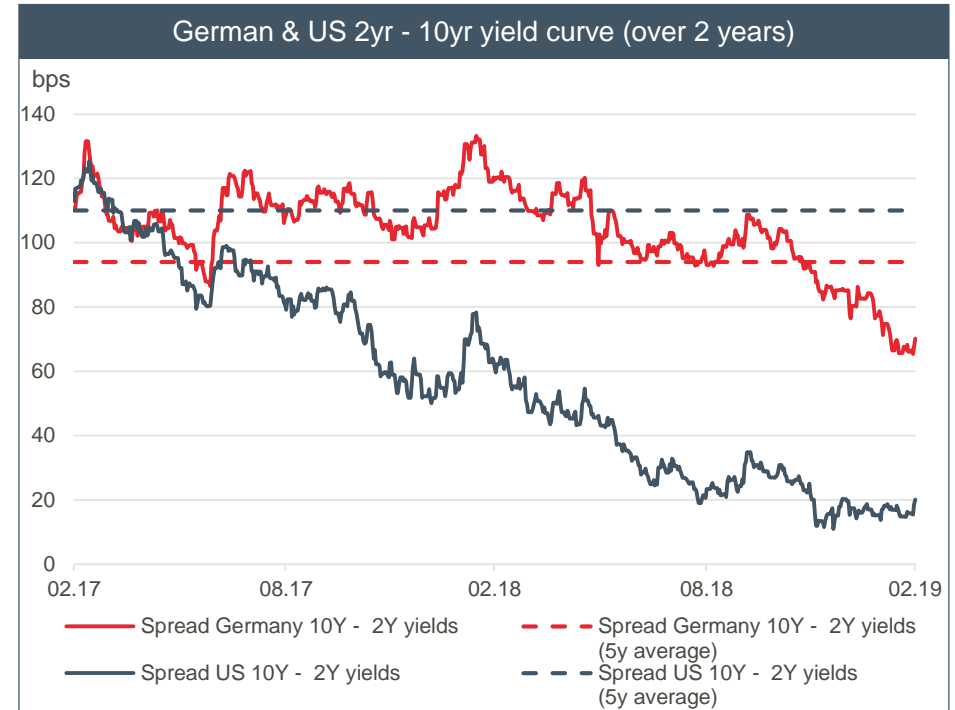
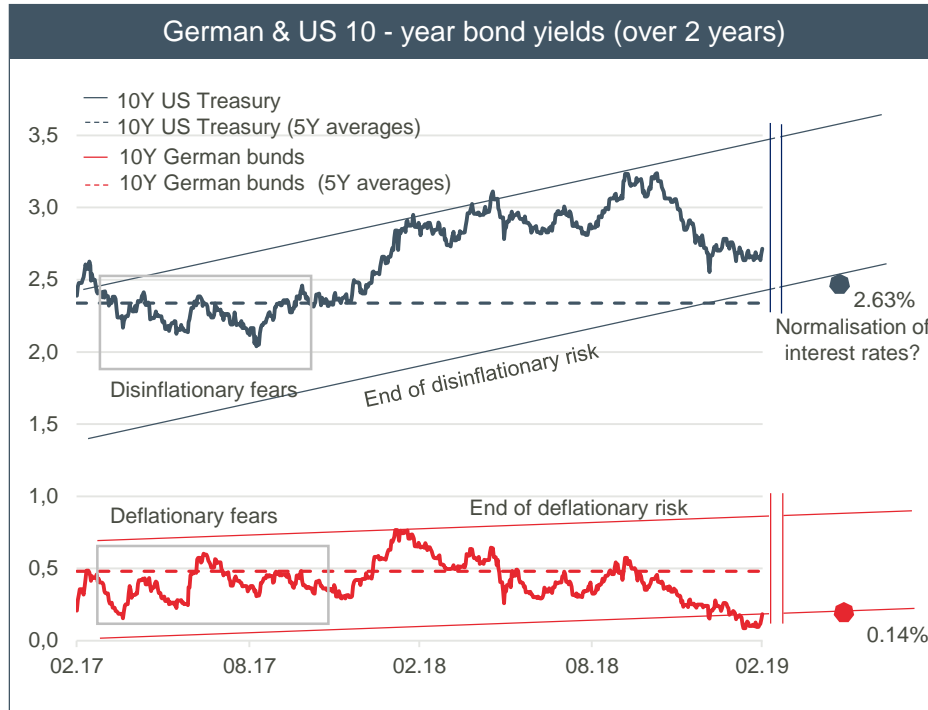
	12-month forward P/E, March, 2019	2017 EPS growth	2018 EPS growth	2019 EPS growth	Dividend yield	YTD performance
STOXX Europe 600	13.6 x	21%	5%	8%	3.9%	11.1%
<b>Commodities</b>						
Basic resources	10.8 x	111%	-2%	2%	4.9%	16.3%
Oil & Gas	11.7 x	83%	40%	4%	5.3%	9.9%
<b>Cyclicals</b>						
Automotive and spare parts	6.9 x	34%	-10%	9%	4.5%	14.8%
Chemicals	17.4 x	25%	4%	4%	2.9%	11.8%
Construction and materials	14.2 x	14%	8%	18%	3.4%	15.2%
Industrial goods and services	15.6 x	14%	4%	13%	2.9%	13.5%
Media	15.4 x	10%	10%	3%	3.4%	9.6%
Technologies	19.5 x	11%	8%	13%	1.8%	13.9%
Travel & leisure	13.0 x	14%	-4%	7%	3.1%	7.8%
<b>Financials</b>						
Banks	9.2 x	50%	14%	6%	5.7%	8.8%
Insurance	10.4 x	-9%	10%	15%	5.4%	13.5%
Financial services	14.1 x	16%	-42%	75%	3.5%	11.0%
Real estate	17.2 x	12%	16%	-1%	4.3%	8.8%
<b>Defensives</b>						
Food & beverages	19.9 x	10%	4%	11%	2.6%	13.0%
Healthcare	16.9 x	4%	4%	5%	3.0%	9.3%
Household & personal care	15.6 x	18%	7%	6%	3.7%	11.8%
Retailing	16.5 x	3%	6%	9%	3.2%	17.7%
Telecommunications	13.3 x	19%	-10%	5%	5.9%	-2.5%
Utilities	14.0 x	6%	-12%	15%	5.3%	7.5%

- The market rally spilled over from January into February on a possible favourable outcome to the Sino-US trade conflict and dovish language from central banks.
- The full-year reporting season is in full swing, with fewer knee-jerk reactions to guidance from some companies that was conservative but in no way foreboding of disaster.
- This confirms that the market had been overly pessimistic on Q4 2018 results.
- The momentum of earnings forecasts is still clearly on the downside, due to the slowdown in the global economy.
- Cyclicals (construction, chemicals and technology) continued to outperform defensives (utilities, telecoms and real estate).
- The valuation gap between high-P/E stocks and low-P/E ones is at its widest.
- For the equity risk premium to shrink any further, there will have to be a sustained lull in trade tensions and an orderly Brexit.

Source: ODDO BHF AM SAS, FactSet. Figures as of 04/03/2019



## Bond rally has come to a halt



- Recent rally in government bond has come to a halt
- At these very low levels Bunds may have priced in a lot of economic downside already, leaving little potential. However, yield upside is also constrained on lower for longer attitude and likely falling headline inflation

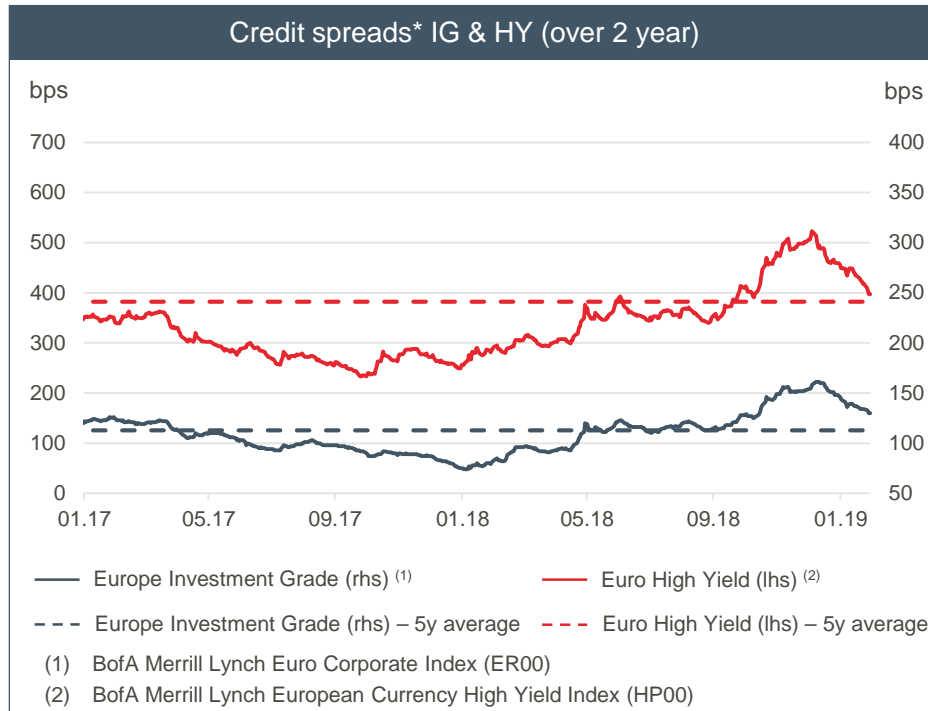
- Directional curve flattening has stopped
- Temporarily there may be some room for resteeptening, but in the medium-term a flatter curve is very likely

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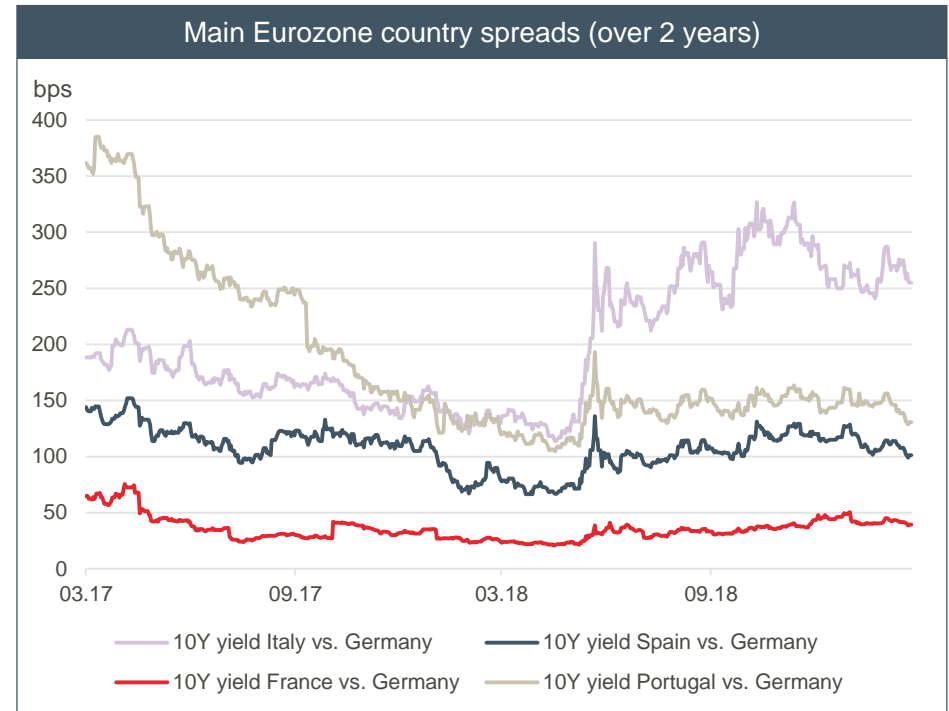
(1) Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | LHS: Data as of 28/02/2019; RHS: Data as of 28/02/2019



## Credit recovery continues



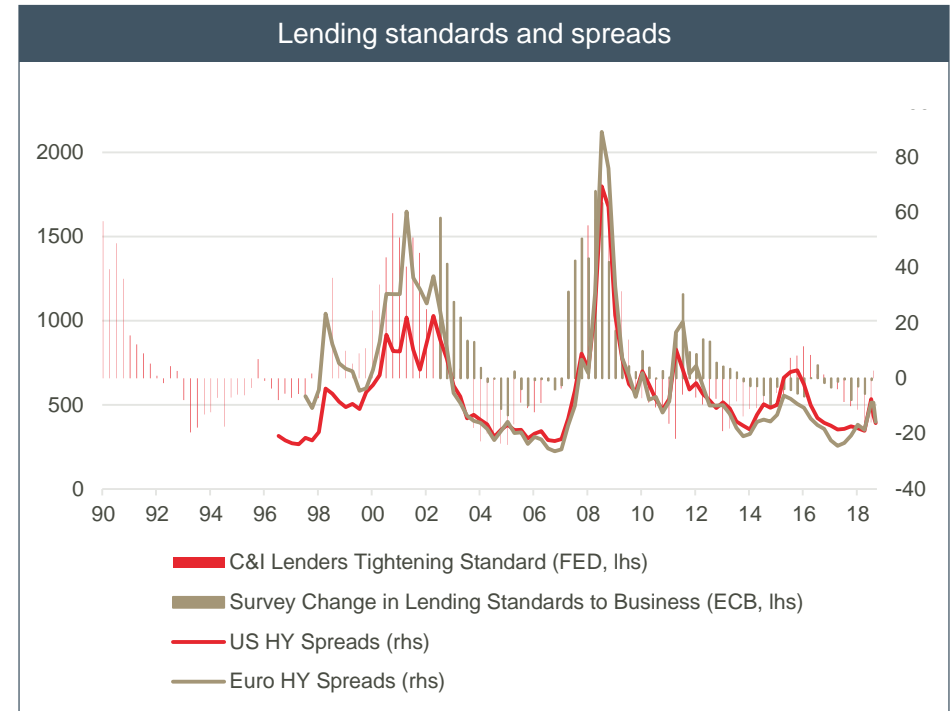
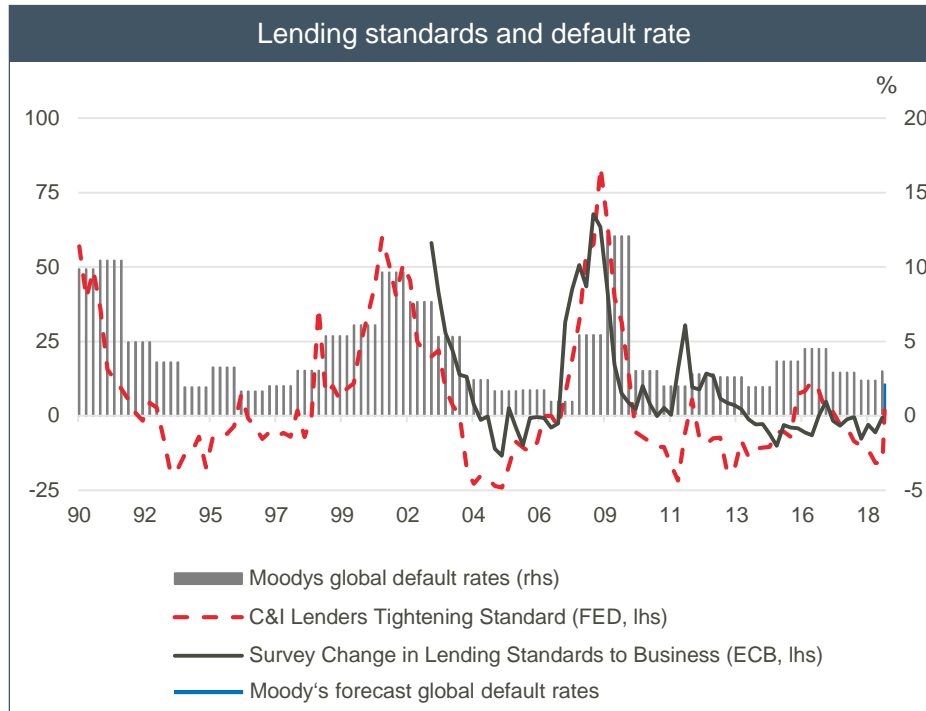
- Credit continued to perform positive in February with inflows into both, EUR-Investment Grade and High Yield funds.
- Despite higher new issuance activity, investor demand remained healthy pushing secondary market spreads tighter.



- Italy has come under pressure again as the economy is in recession territory
- Fears appear misplaced as long as the Eurozone can recover over the coming months

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Sources: ODDO BHF AM SAS, Bloomberg | Data as of 28/02/2019



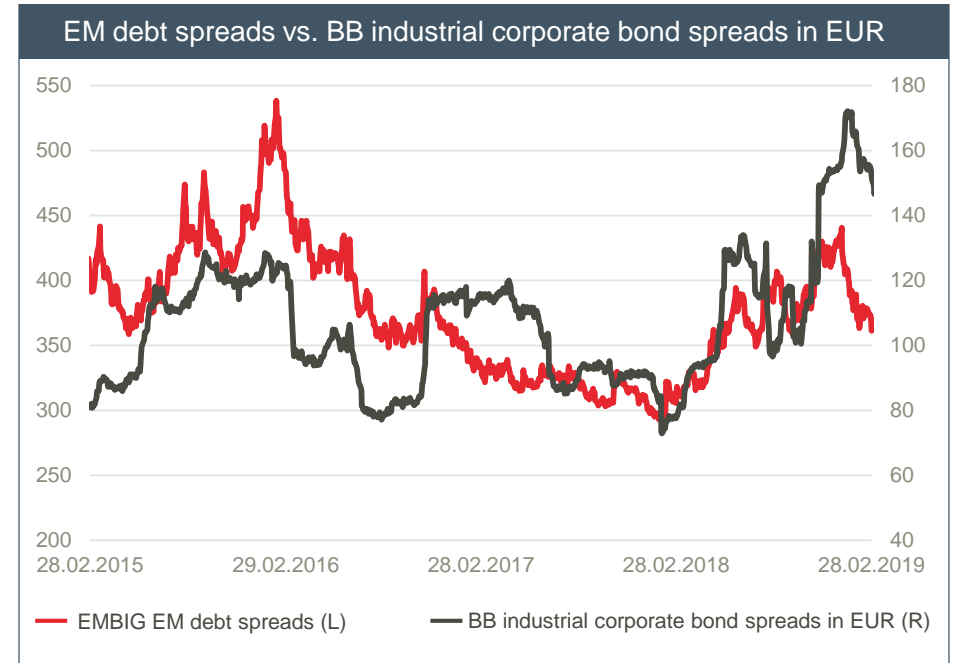
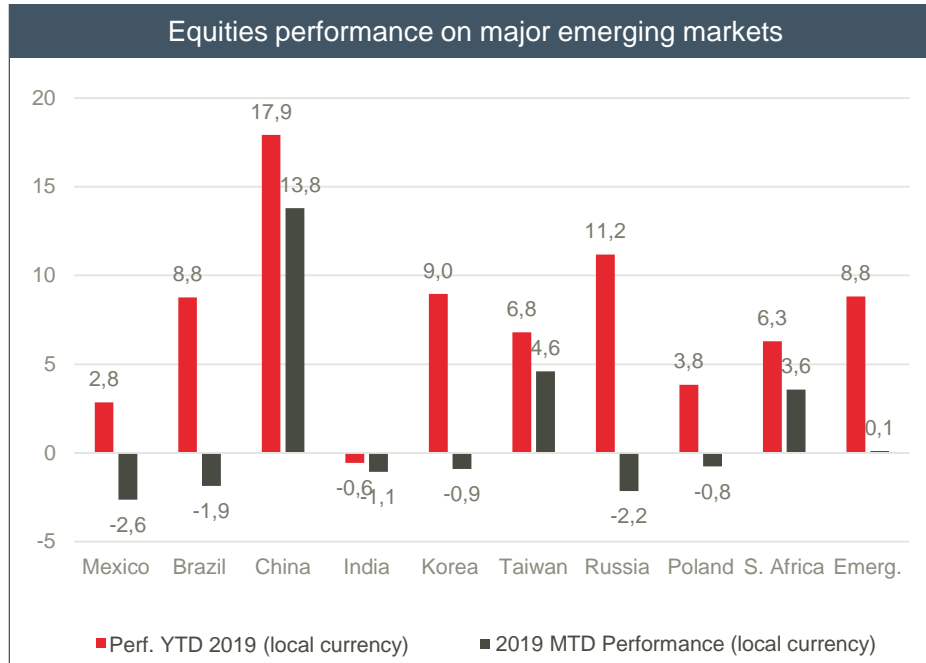
- So far, no indication of significantly rising default rates
- Forecast of default rates per end of January 2020: global 2.1%

- Spreads and lending standards move parallelly

Source: Moody's as of 28/02/2019, Fed, ECB, Bloomberg | Data as of 28/02/2019



## Still a buy on the equity side

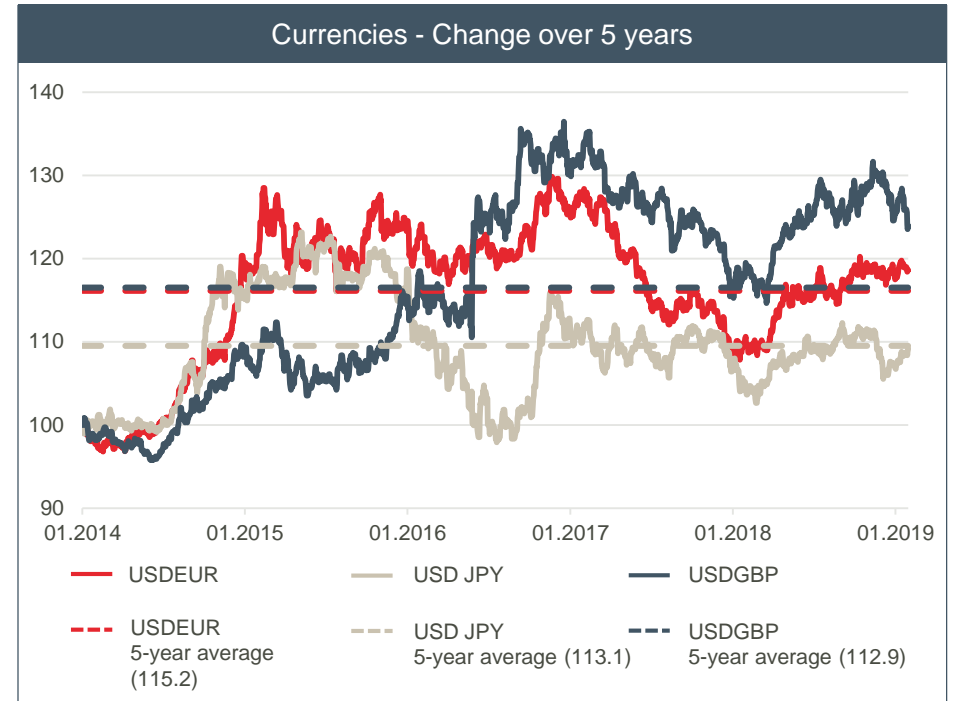
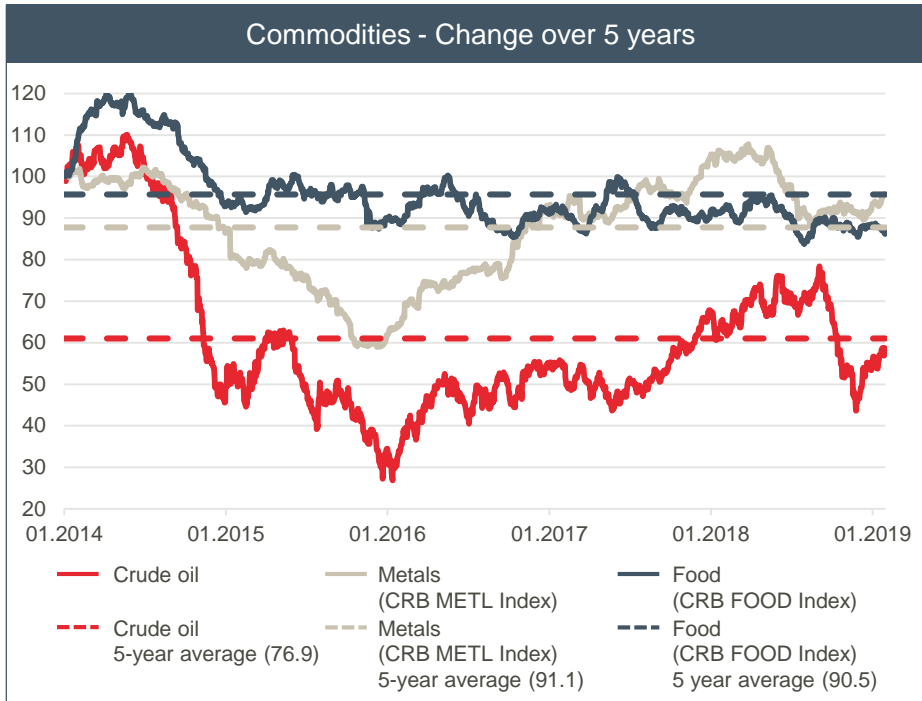


- Flat performance for the global index, with important dispersion across the regions
- China continues to post impressive returns thanks to positive sentiments over US-China trade negotiation
- Tougher month for Latin America and Russia which retreat by around 2%

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 28/02/2019





- Stability for metals and food, while the rebound of crude oil continued in February
- Oil still more driven by supply than demand issues
- USD still stuck between dovish Fed and inactive ECB

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 02/28/2019



<p>How performances are calculated</p>	<p>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.</p>
<p>Volatility</p>	<p>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.</p>
<p>Credit spreads (credit premiums)</p>	<p>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.</p>
<p>Investment grade</p>	<p>Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard &amp; Poor's of the equivalent.</p>
<p>High yield</p>	<p>High-yield bonds are speculative bonds rated lower than BBB- (Standard &amp; Poor's) or the equivalent.</p>
<p>PE (price-earnings ratio)</p>	<p>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.</p>

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