



Laurent Denize

Global CIO
ODDO BHF AM



We remain constructive on equities for the coming 6 to 12 months



“Welcome to France!”

Corporate and personal taxes are expected to rise in the US over the next 12 to 18 months.

Corporate taxes look set to increase under the American Jobs Plan. Among other things, the plan provides for an increase in the tax rate from 21% to 28% and a higher minimum tax on foreign profits. We have already commented extensively on the estimated impact on earnings (a reduction of around 10%), which for the time being remains largely overlooked by investors as growth momentum is strong.

In terms of personal tax rates, the reform could prove more dangerous for equity markets. Under the American Families Plan, Biden is proposing to raise the marginal rate to 39.6% for taxpayers earning \$400,000 or more, and also to dramatically increase the tax rate on capital gains for those earning more than \$1 million from a base rate of 20% to 39.6%. The 3.8% tax on investment income that funds Obamacare would remain, taking the total capital gains tax rate to 43.4% for this group of taxpayers. We are almost tempted to say “Welcome to France!” This increase is likely to have significant repercussions. For individuals earning more than \$1 million, the proposed change in the capital gains tax rate would bring the rate back to the level that prevailed in the late 1970s. Given the current valuation of stocks, it seems hard to imagine that such a shift would not trigger a short-term sell-off of stocks to lock-in profits at lower tax rates.

We have identified other risks that could limit risky assets’ upside potential, such as new variants, tapering in the US, and tougher credit conditions in China, but none of these appear to be much of a threat. Accordingly, we remain constructive on equities for the coming 6 to 12 months and advise investors to continue overweighting stocks vs. bonds. Within equities, we are overweighting value stocks vs. growth stocks, cyclicals vs. defensives, and small and mid caps, even though some of the readjustment of performance in small caps has already played out. Meanwhile, we remain short the US dollar.

Within a global equity portfolio, we continue to overweight non-US equities (in Europe and emerging markets) with a view to a catching-up phase, as – let’s face it – their current lag had not been expected when the year began.

Lastly, we are keeping duration low in the portfolios and limiting our credit exposure to short-dated high-yield bonds.

As you can see, we expect rotation (we’ll call it cyclical rotation) to resume. We are therefore raising our weighting of banks, with a more comprehensive angle to capture sector disruption, which is proving to be more horizontal than vertical. Payments, digital finance, fintech – the burgeoning promises in finance are unlikely to disappoint this time. Goldman Sachs’ 30% ROE tells us how good the going is in banking. At 0.6 times book value in Europe, there is still time to build up a stake.

MAY 2021



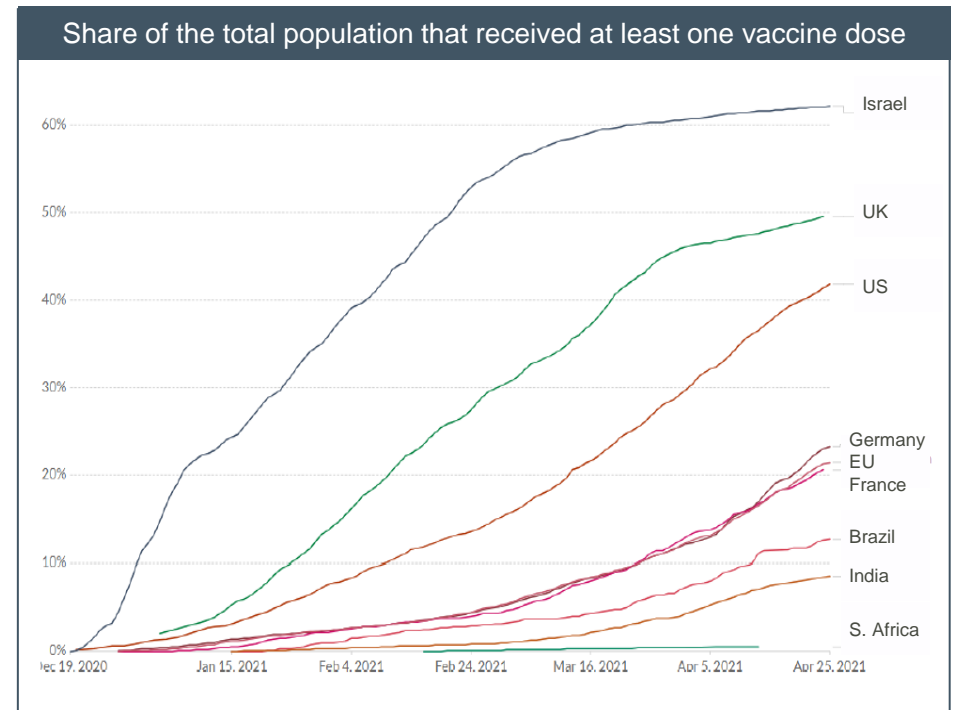
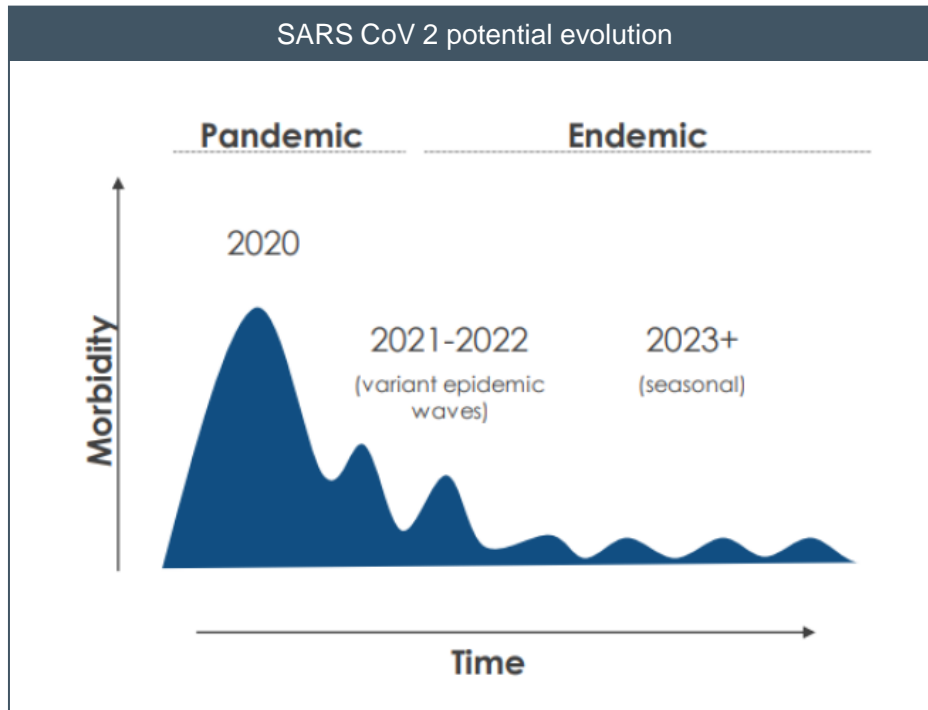
01

MACROECONOMIC OUTLOOK

Covid19: year 2



From a Pandemic to an Endemic situation ...

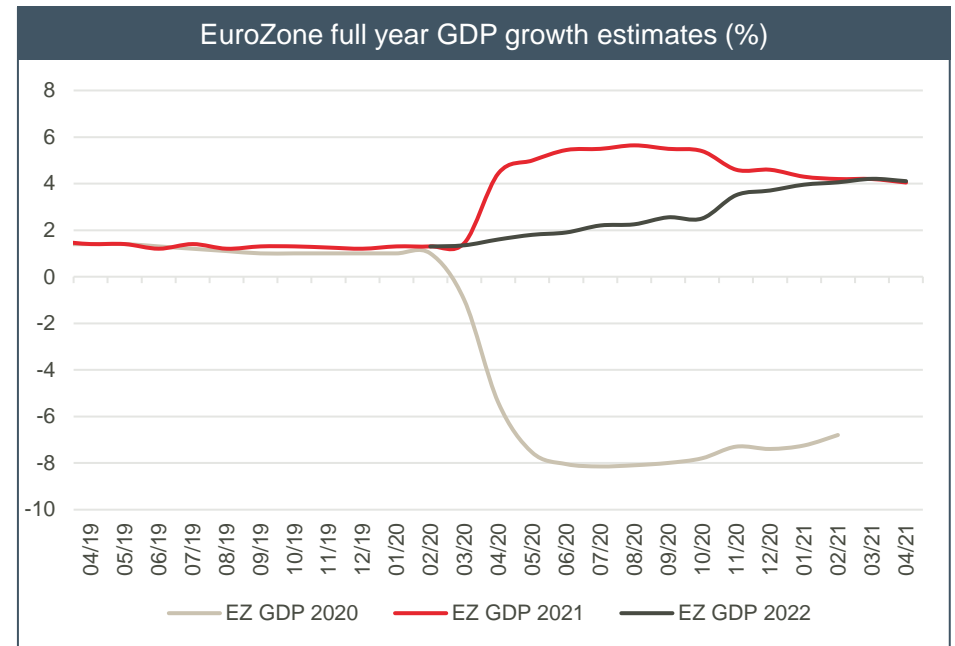
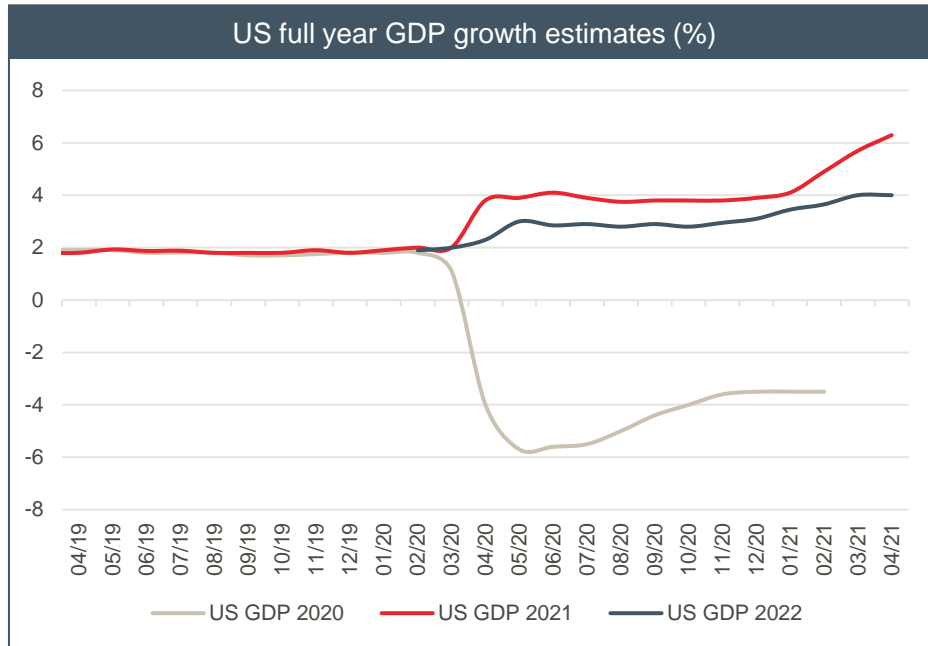


Sources: ODDO BHF AM SAS, ODDO BHF Corporates & Markets, Moderna, <https://ourworldindata.org/>

Growth outlook



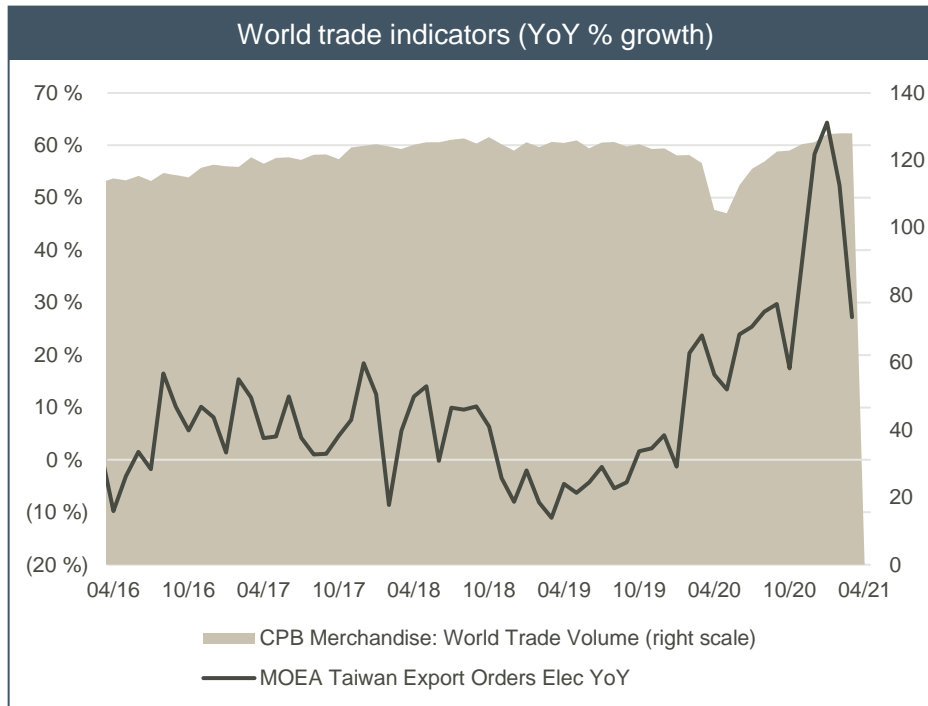
A different trajectory between the eurozone and the US



Sources: ODDO BHF AM SAS, Bloomberg | Data as of 04/28/2021

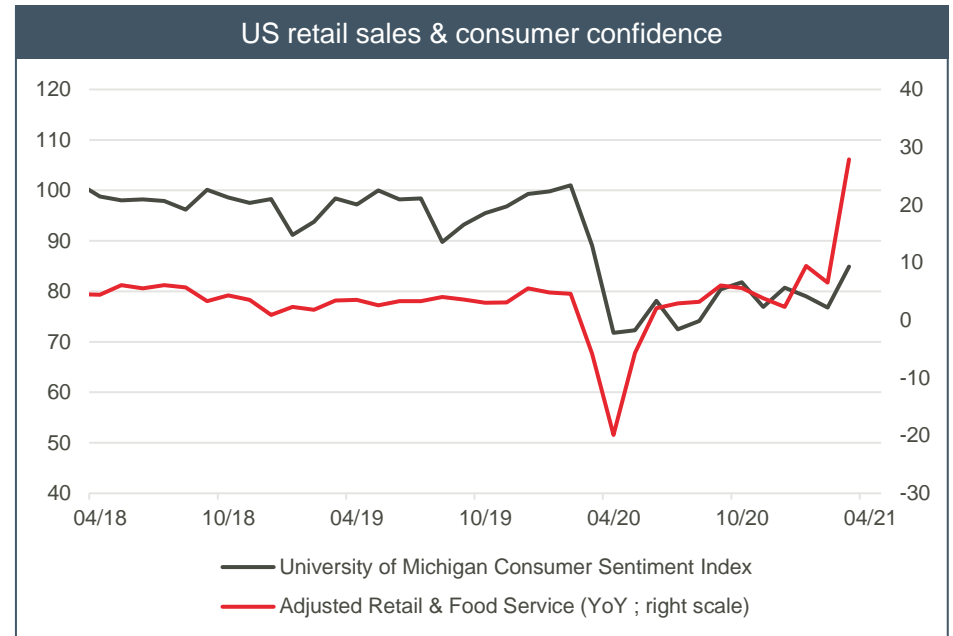
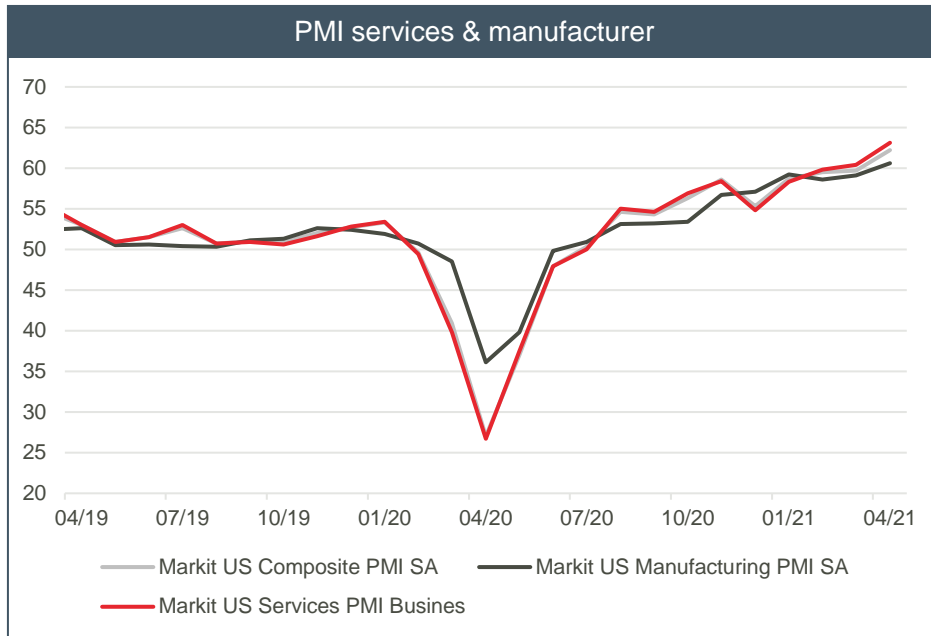


Back from lows but still some room. Beware of supply-chain delays





“Unstoppable” – how much is too much?



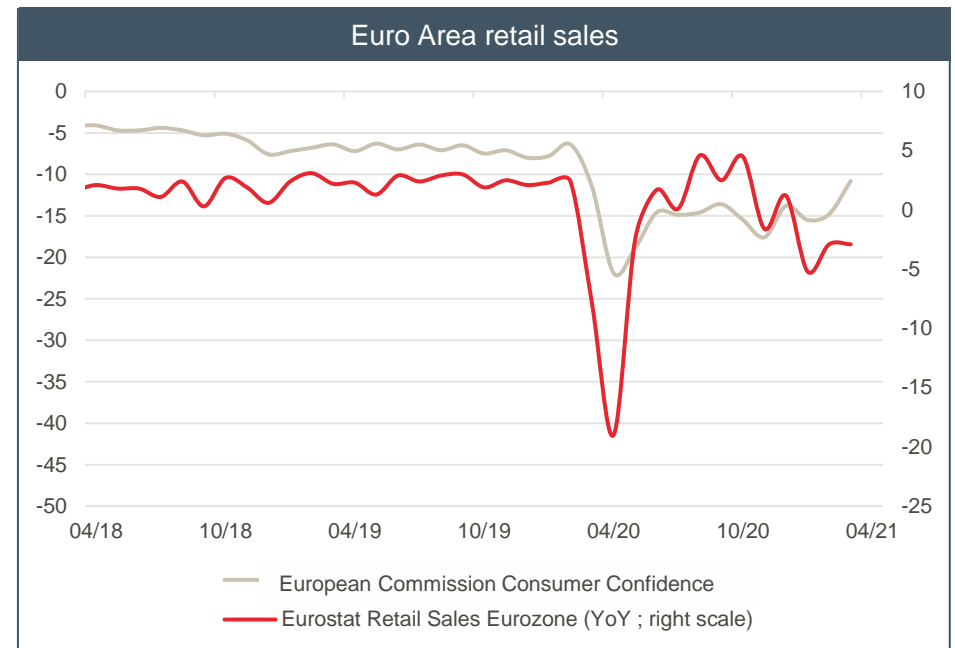
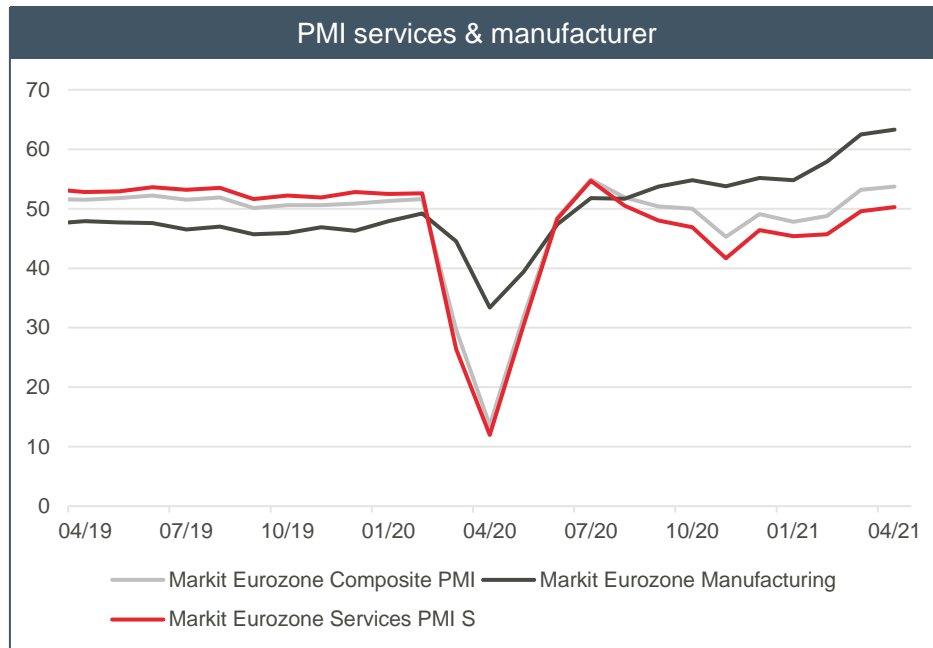
5 000bn\$ (+ 4 100bn\$)

- CARES Act: 2200 bn\$
- Consolidated Appropriations Act: includes 900 bn\$ stimulus
- American Rescue Plan Act: 1900 bn\$
- *Yellen’s infrastructure plan: 2300 bn\$? - to be funded by tax hikes for budget reconciliation?*
- *American Families Plan: 1 800bn\$? – partly funded by income tax hikes?*

Sources: ODDO BHF AM, Bloomberg, 04/28/2021



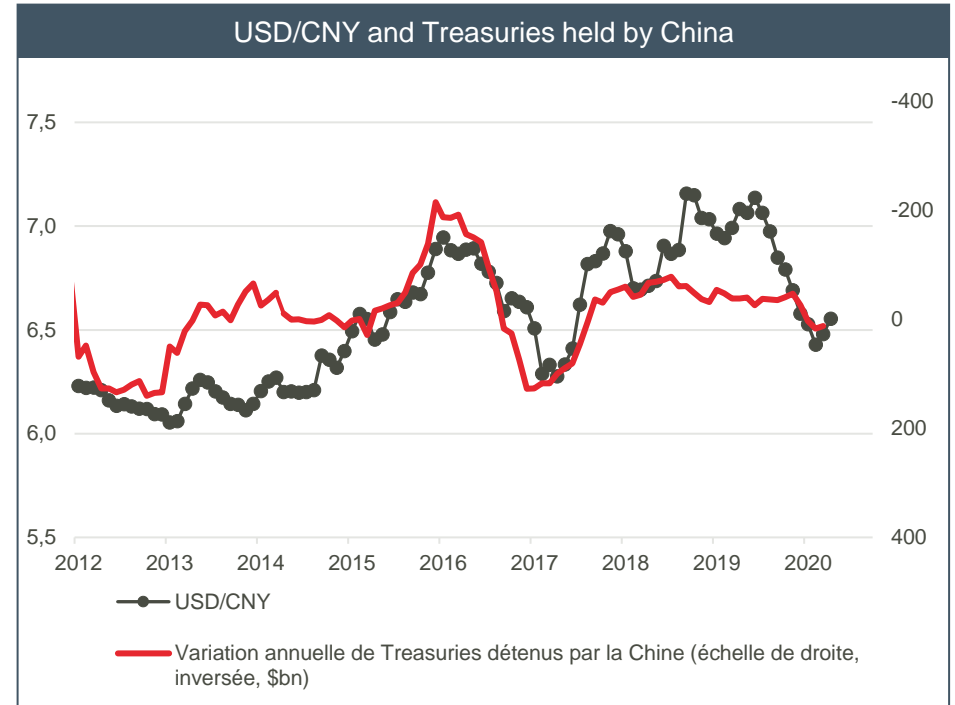
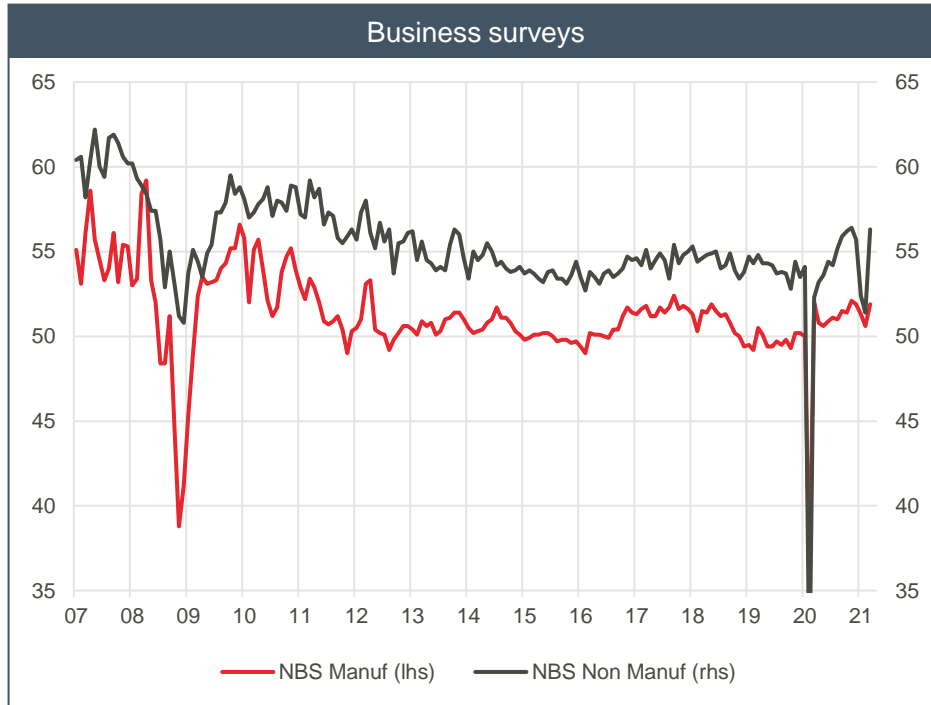
The laggard: the economy still held back by health restrictions



China



In “control mode”

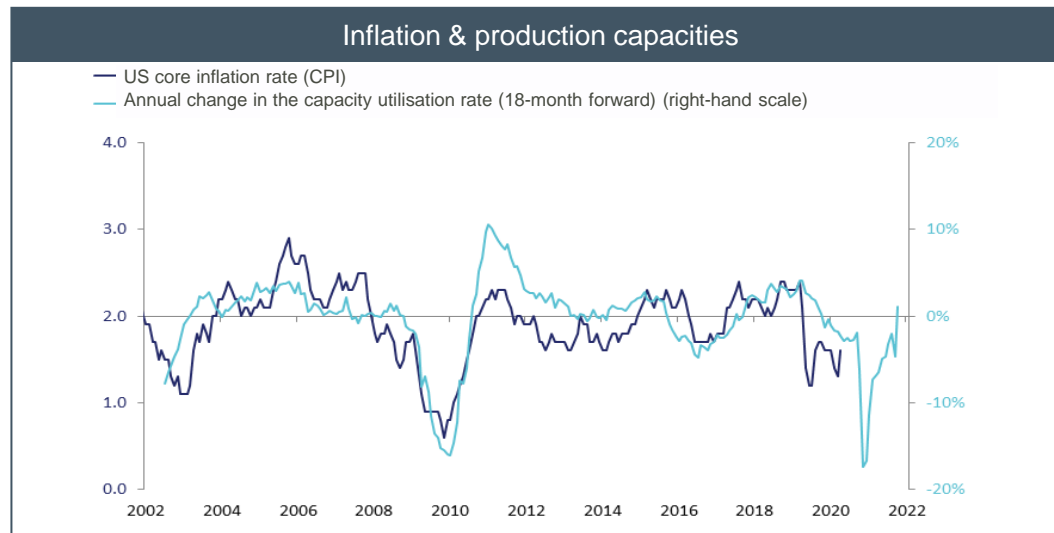
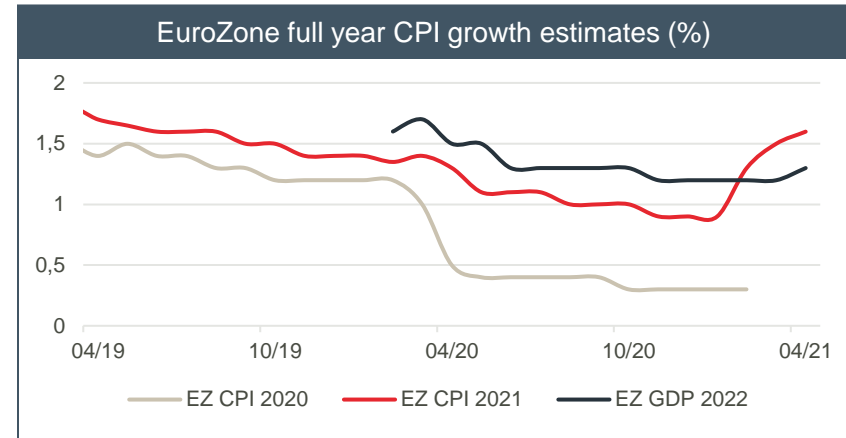
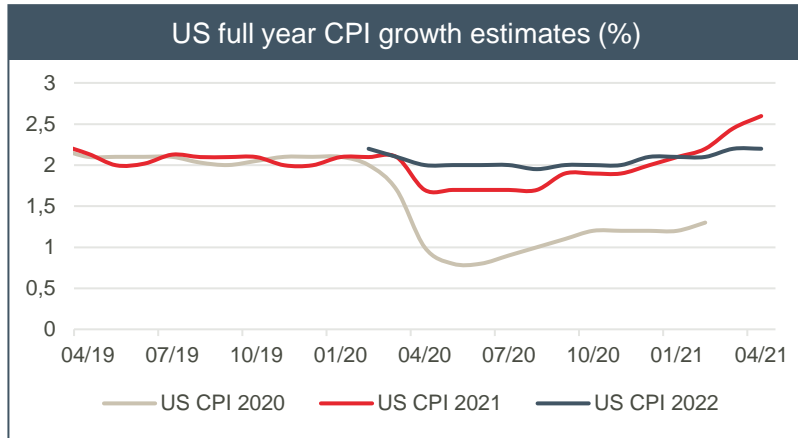


Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 28/04/2021

Inflation expectations



Not there yet

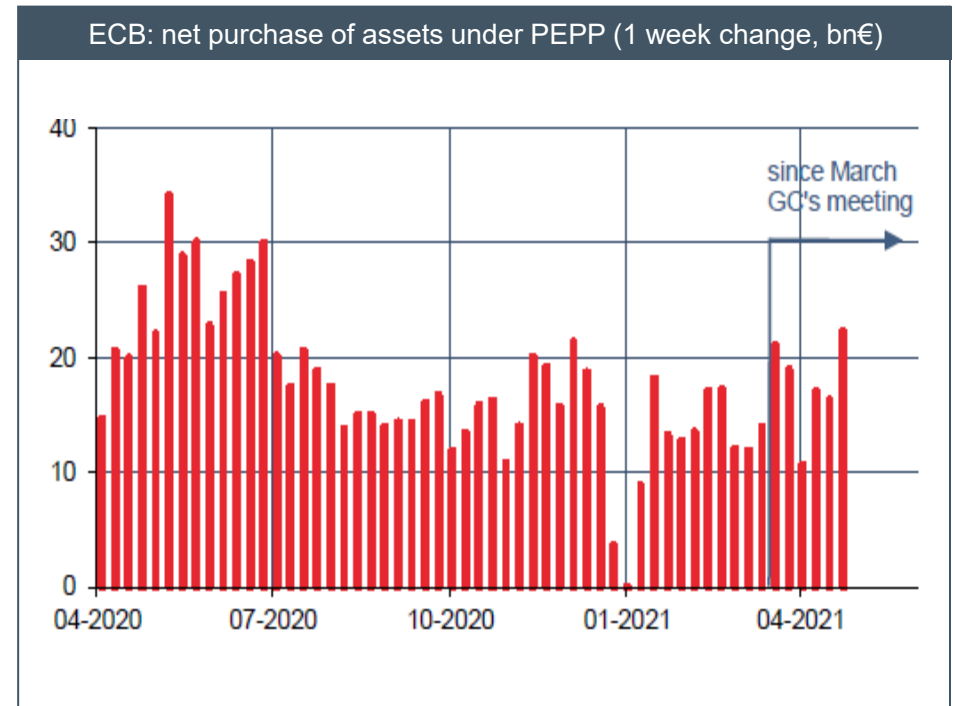
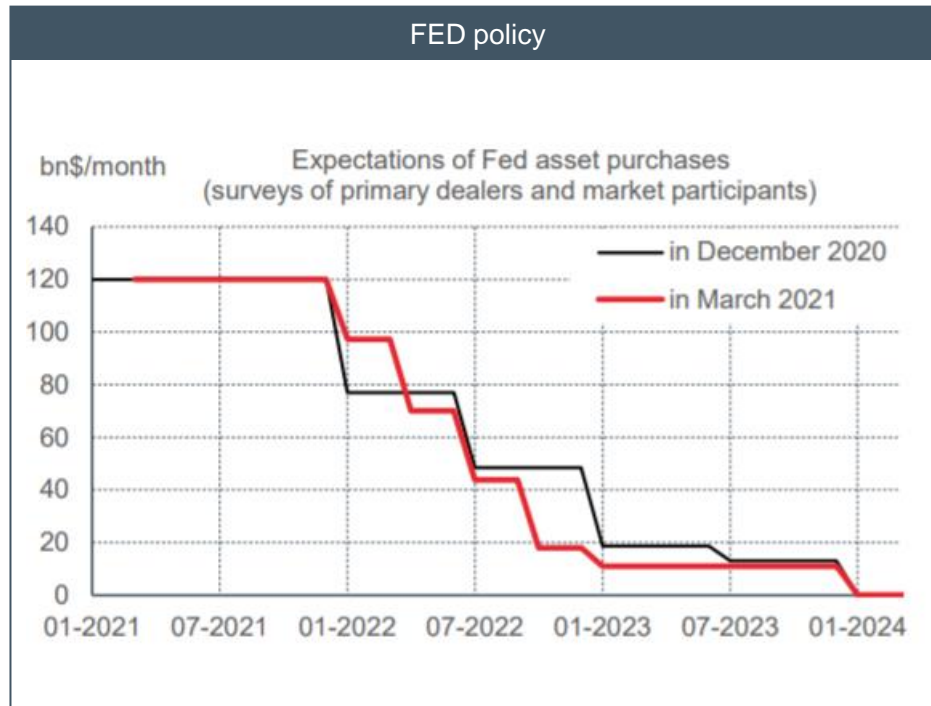


Sources: ODDO BHF AM, Bloomberg, as of 04/28/2021

FED & ECB policies



Do not expect any significant change

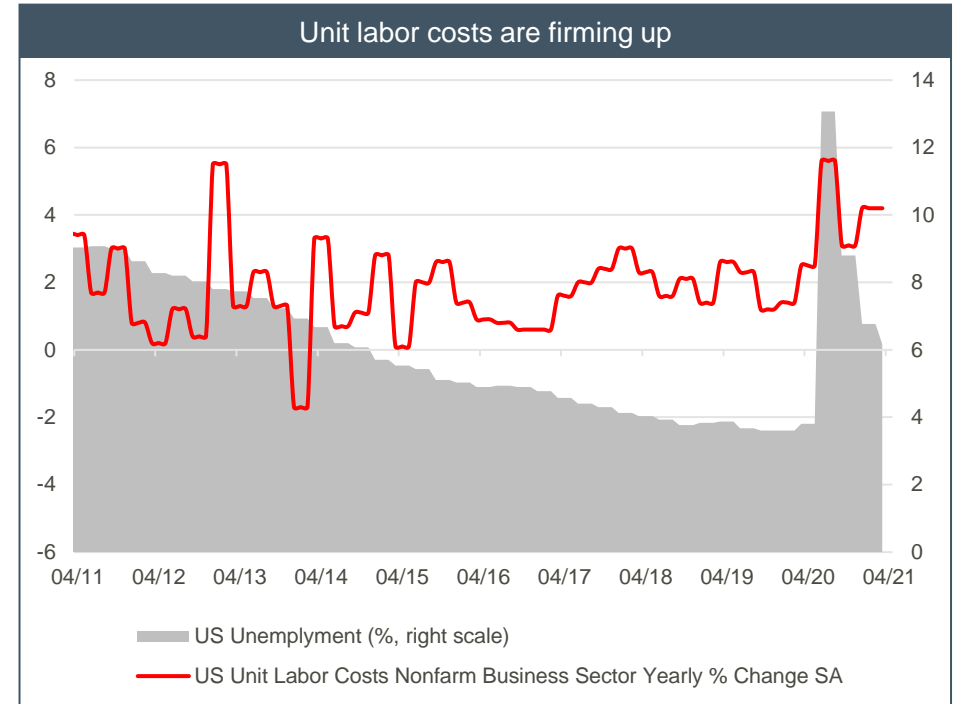
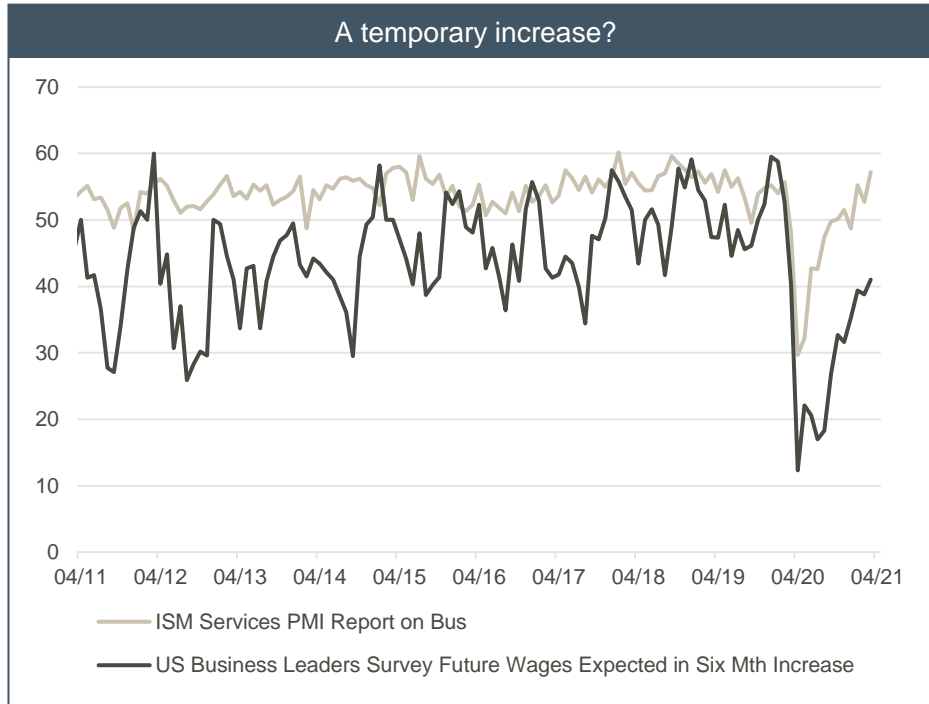


Sources: ODDO BHF AM, ODDO BHF Securities, Thomson Reuters, Bloomberg

US job market



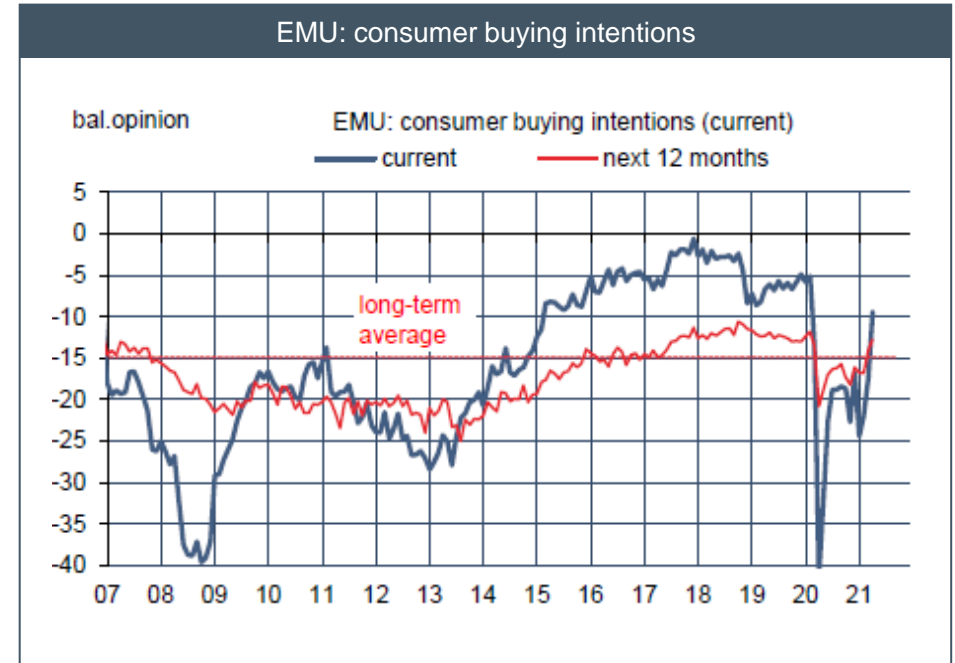
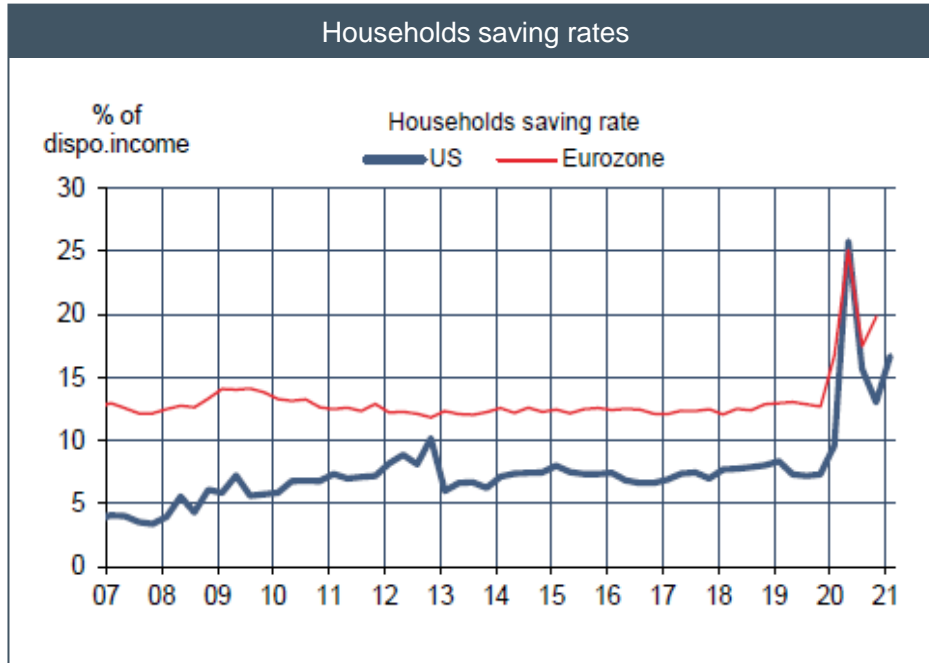
Wage's acceleration?



Savings



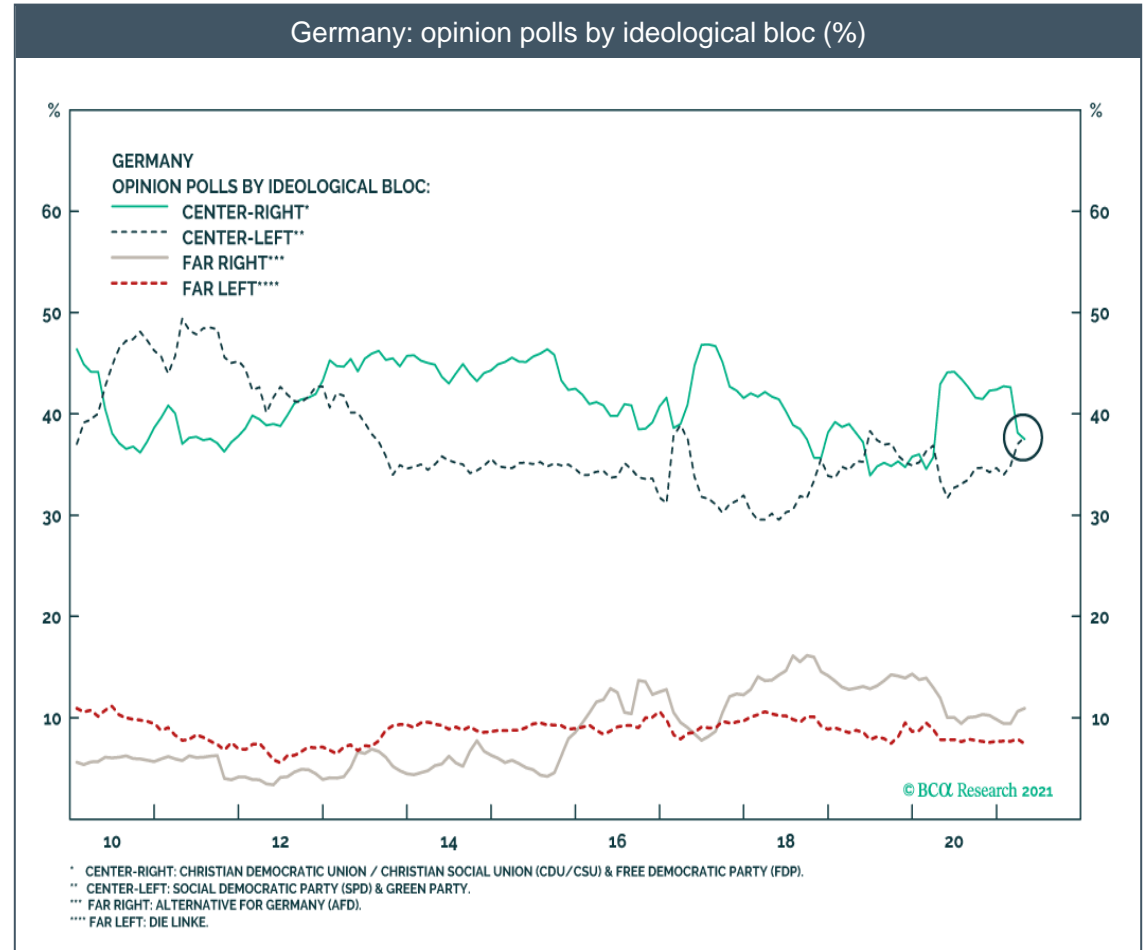
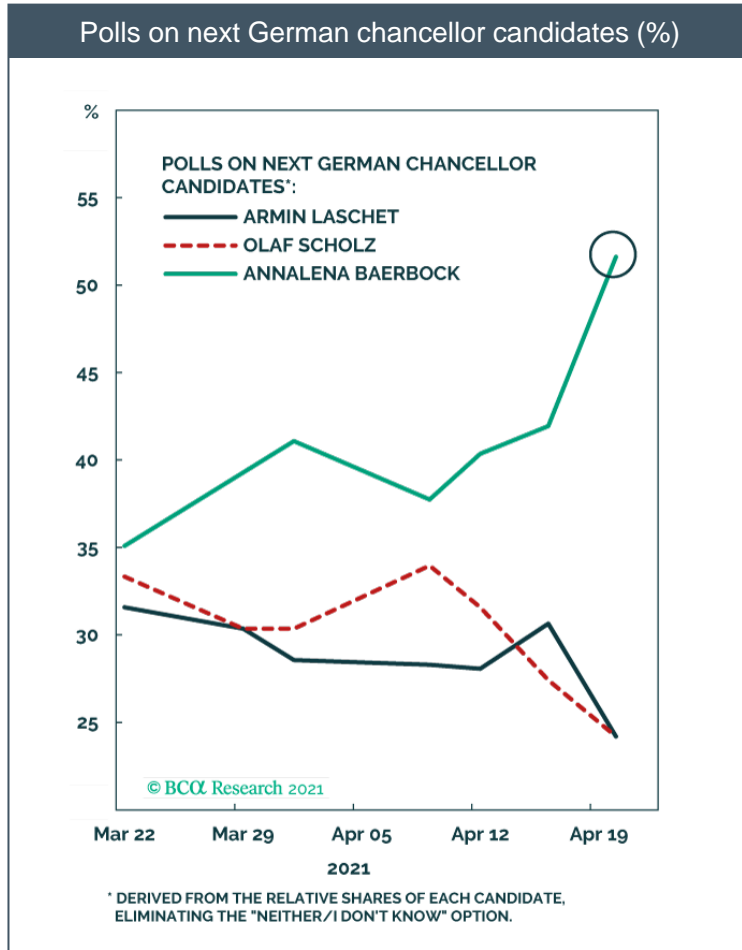
Are we about to see a consumer demand shock?



POLITICS: German elections



The country goes green... and left

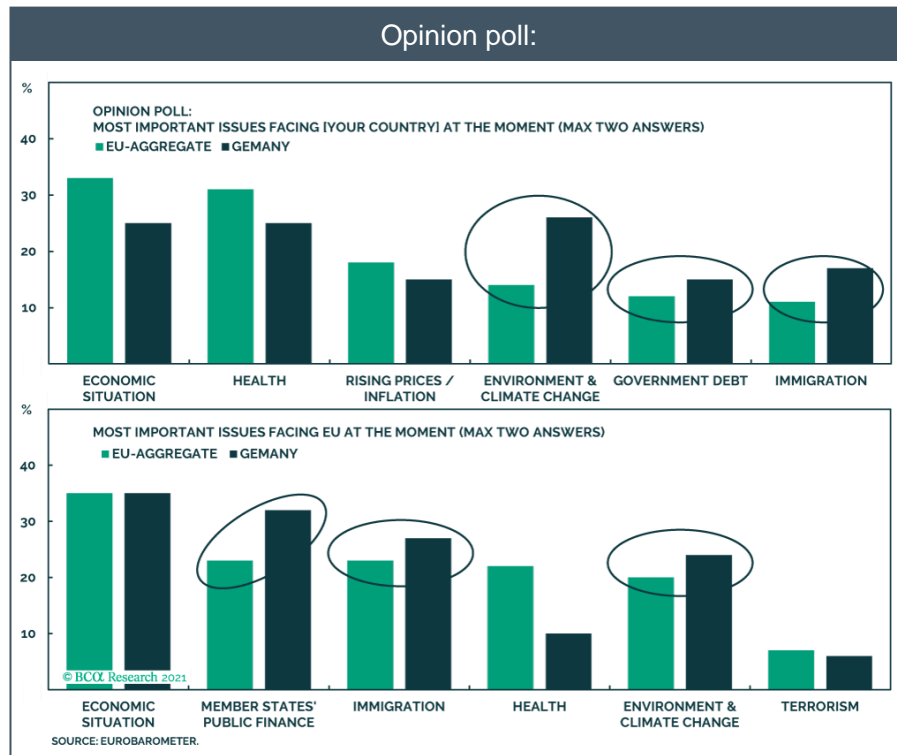


Sources: ODDO BHF AM, BCA Research, Forsa & INSA polls, various polling agencies

POLITICS: German elections



A Keynesian move?



Political positions

PARTY	CANDIDATES	POLITICAL POSITIONS						
		FISCAL POLICY	MONETARY POLICY	TRADE	IMMIGRATION	CLIMATE CHANGE	RUSSIA	CHINA
CDU	ARMIN LASCHET	MODERATE	MODERATE	DOVISH	DOVISH	MODERATE	MODERATE	DOVISH
SPD	OLAF SCHOLZ	DOVISH	DOVISH	DOVISH	DOVISH	HAWKISH	MODERATE	MODERATE
GREENS	ANNALENA BAERBOCK	ULTRA-DOVISH	ULTRA-DOVISH	HAWKISH	DOVISH	ULTRA HAWKISH	HAWKISH	HAWKISH
FDP	CHRISTIAN LINDNER	HAWKISH	HAWKISH	DOVISH	MODERATE	MODERATE	HAWKISH	MODERATE

Sources: ODDO BHF AM, Eurobarometer, Politico, BBC News, Euractiv, Foreign Policy, Deutsche Welle news, Wall street Journal, Reuters

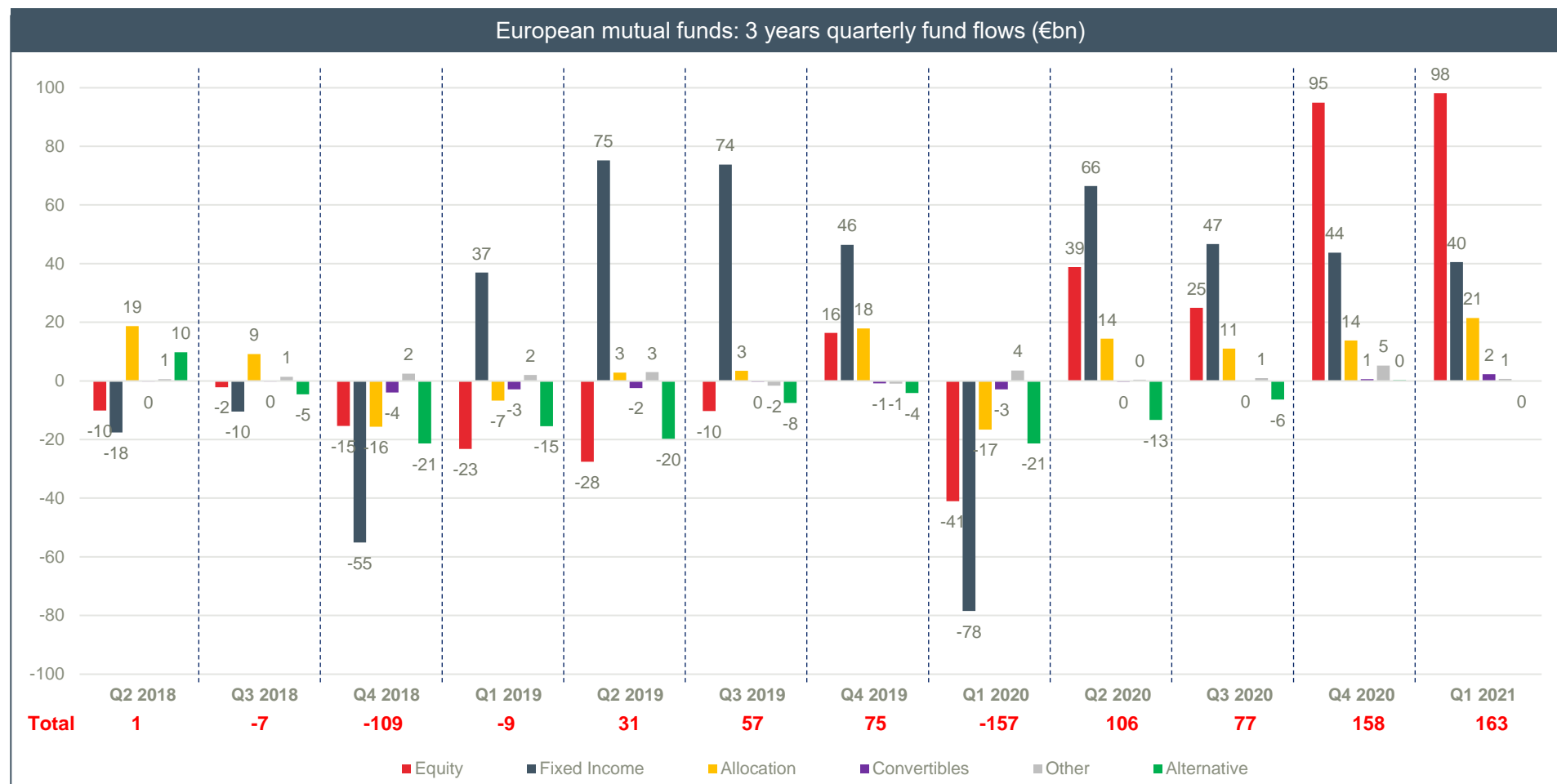


02 MARKET ANALYSIS

European mutual fund flows – 3 years trend



Back on equities since “first vaccine announcements” in November 2020

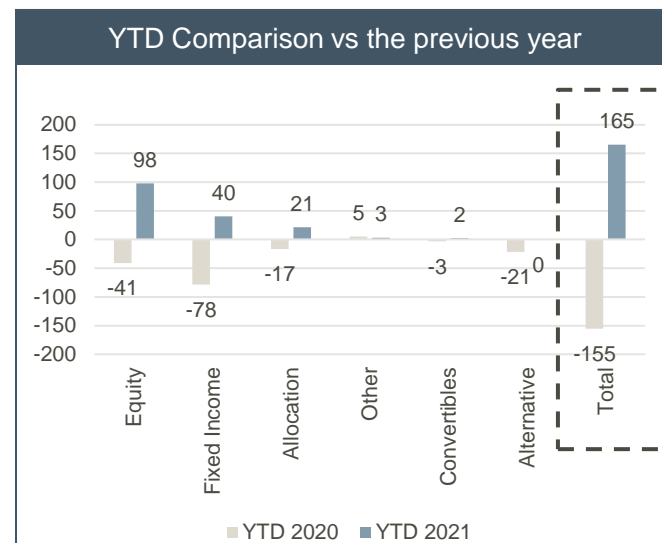
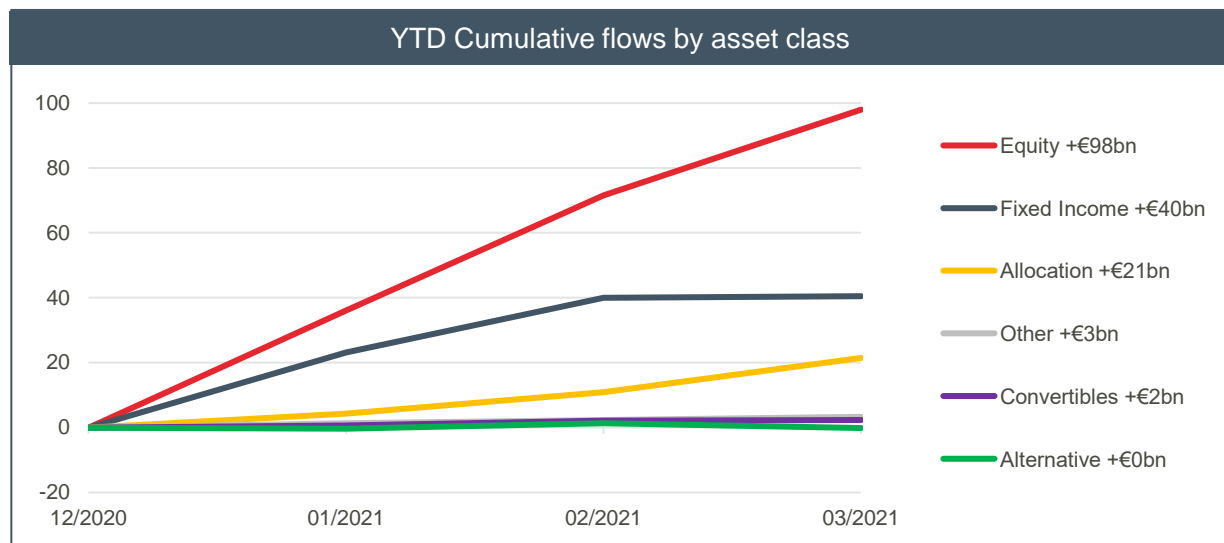


Source : Morningstar. Data as of 31.03.2021 (Europe OE ex ETF ex MM ex FoF ex Feeder (domiciled, most compr.))

European mutual fund flows – year-to-date outlook



Equity it is



YTD month flows by asset class

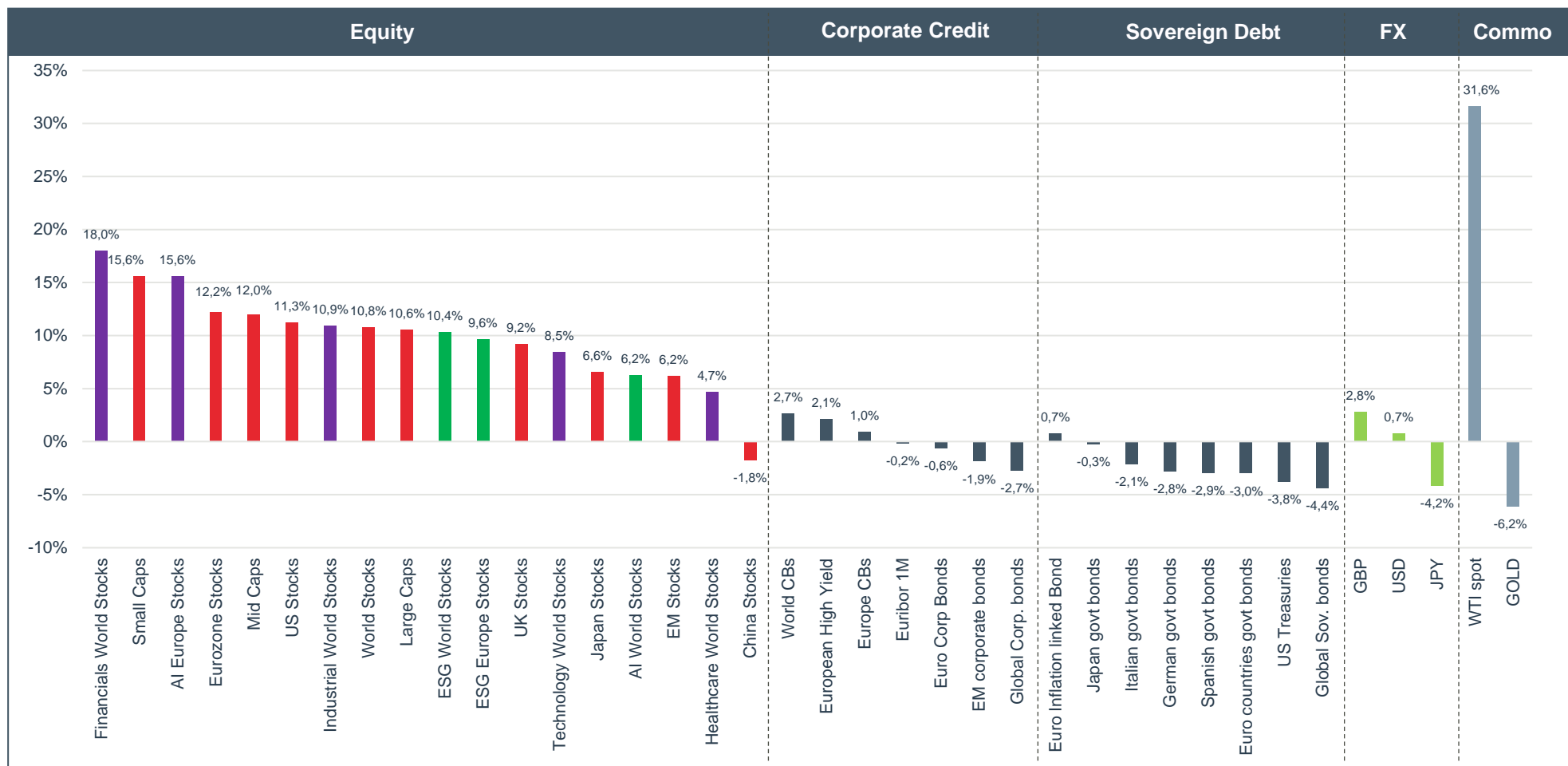
	01/2021	02/2021	03/2021	04/2021	05/2021	06/2021	07/2021	08/2021	09/2021	10/2021	11/2021	12/2021	YTD	YTD 2020	Delta
Equity	36	35	26										98	-41	139
Fixed Income	23	17	0										40	-78	119
Allocation	4	7	11										21	-17	38
Other	1	1	1										3	5	-2
Convertibles	1	1	0										2	-3	5
Alternative	0	2	-1										0	-21	21
Total	65	63	37										165	-155	321

Source : Morningstar. Data as of 31.03.2021 (Europe OE ex ETF ex MM ex FoF ex Feeder (domiciled, most compr.))

Year-to-date performances of asset classes



Confidence in the economic recovery



■ Equities
 ■ Sectors
 ■ Thematics

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

Sources: Bloomberg and BoA ML as of 04/28/2021; performances expressed in local currencies

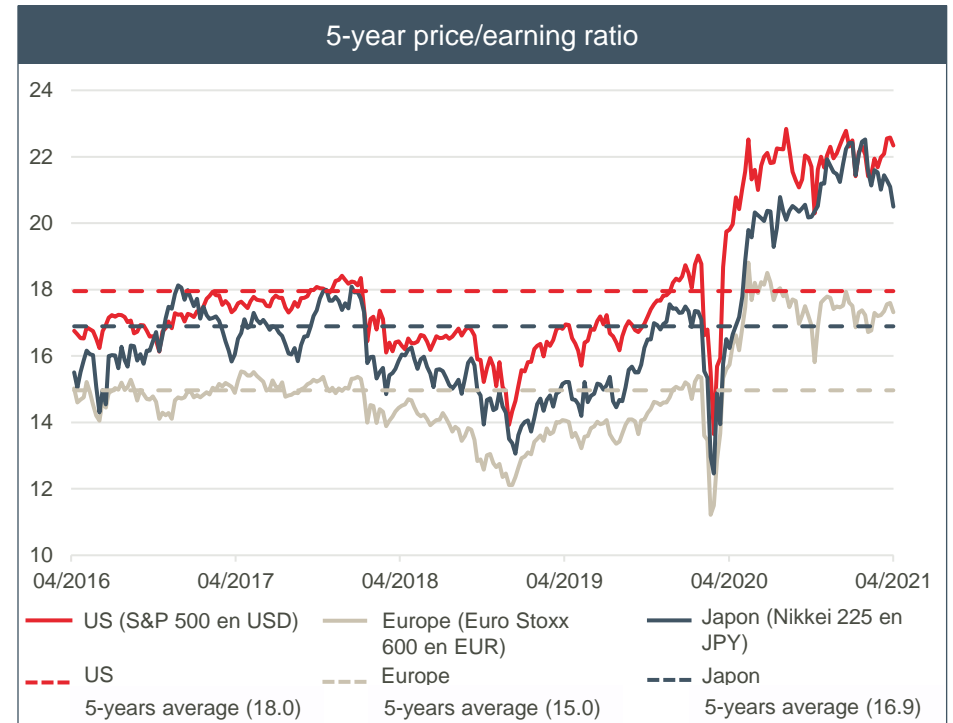
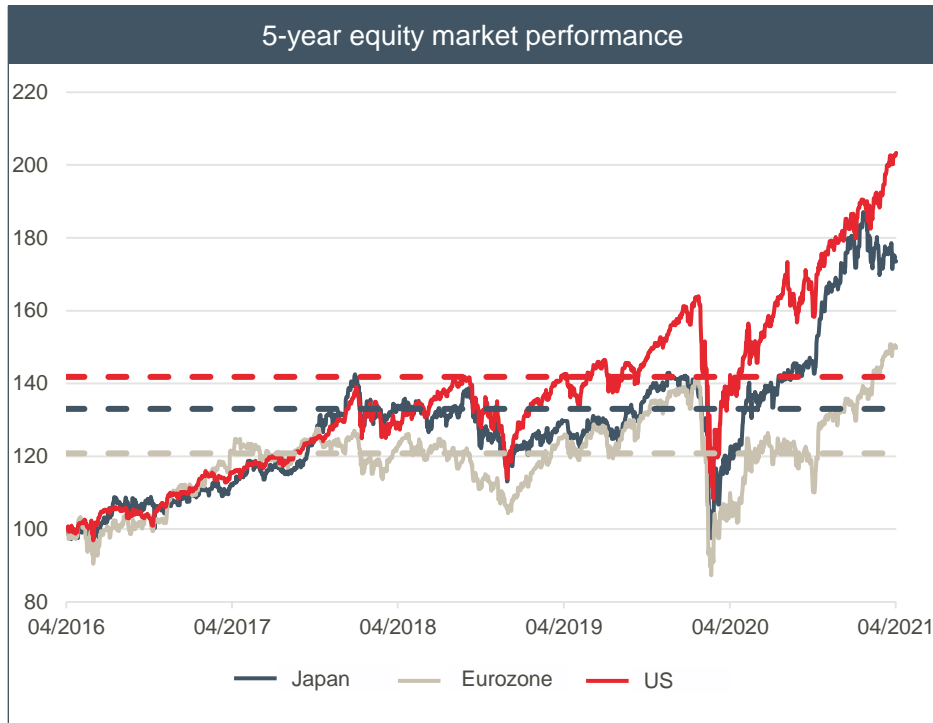


EQUITIES

Equities



Out of gravity



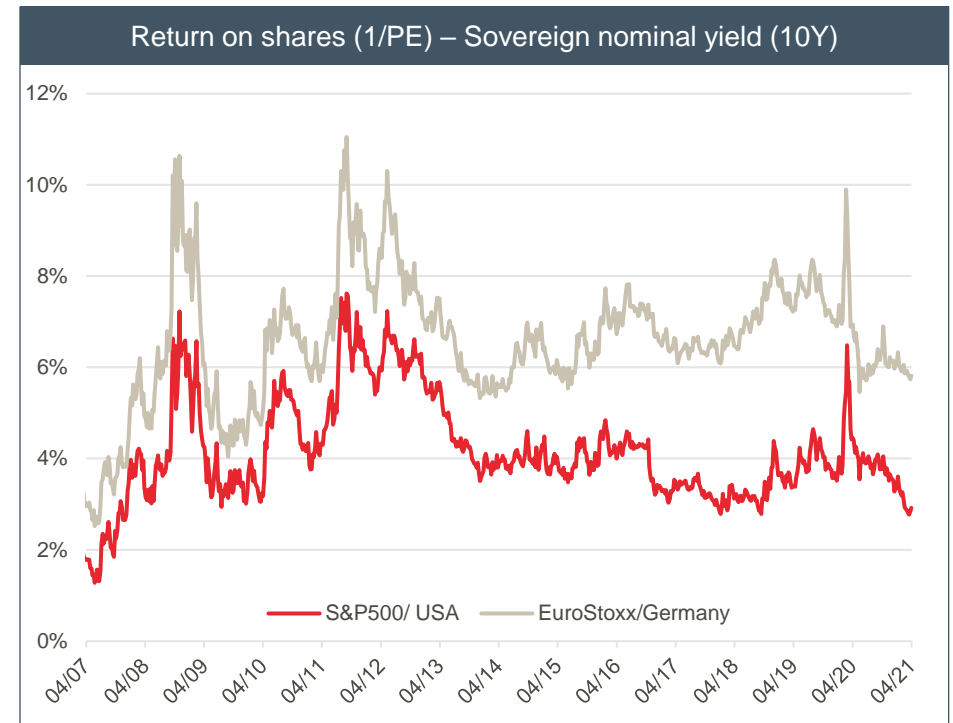
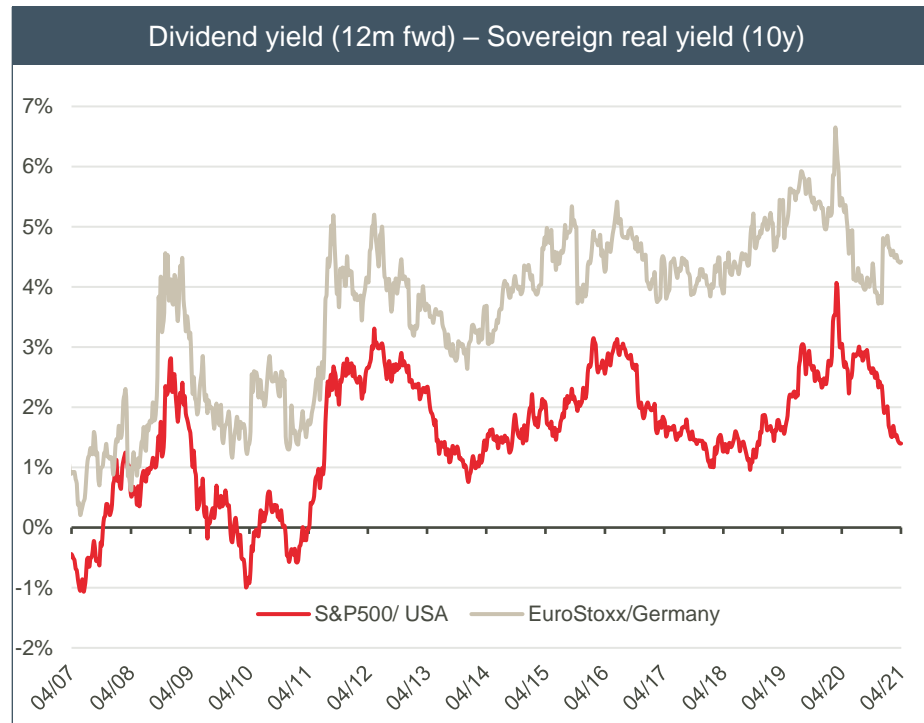
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Source: Bloomberg, ODDO BHF AM SAS | Datas as of 04/29/2021 | Datas as of 04/23/2021

Risk premiums



Risk premia have sharply compressed in the US



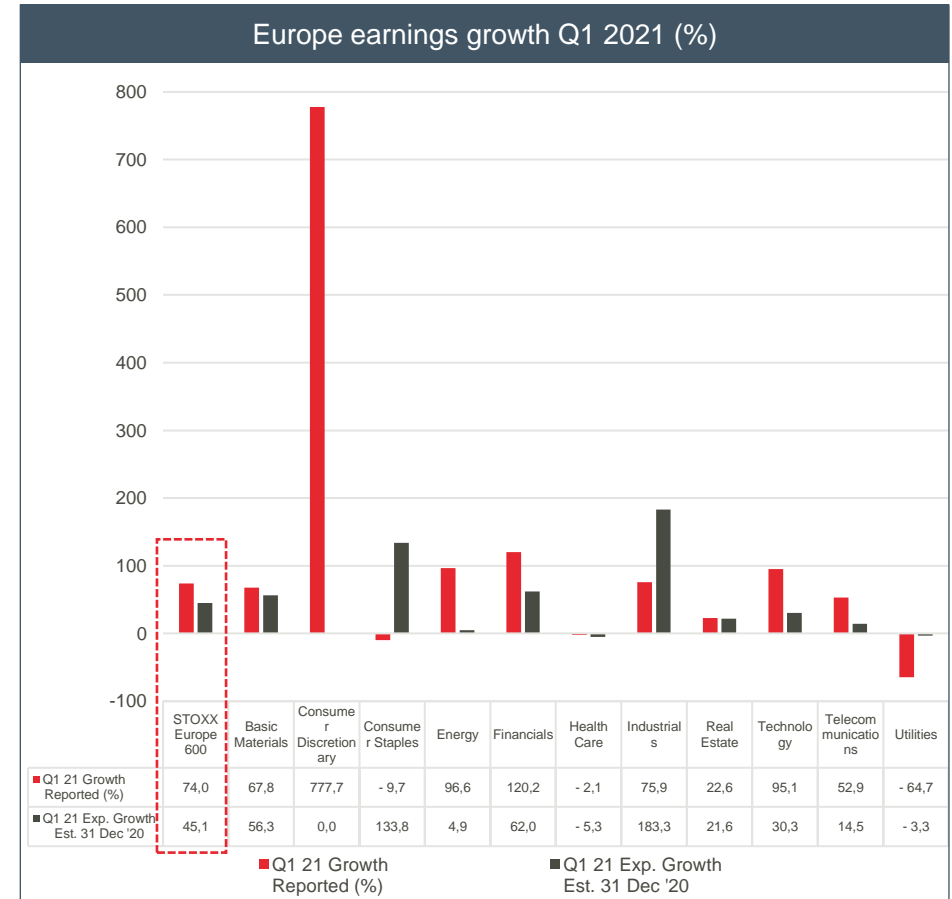
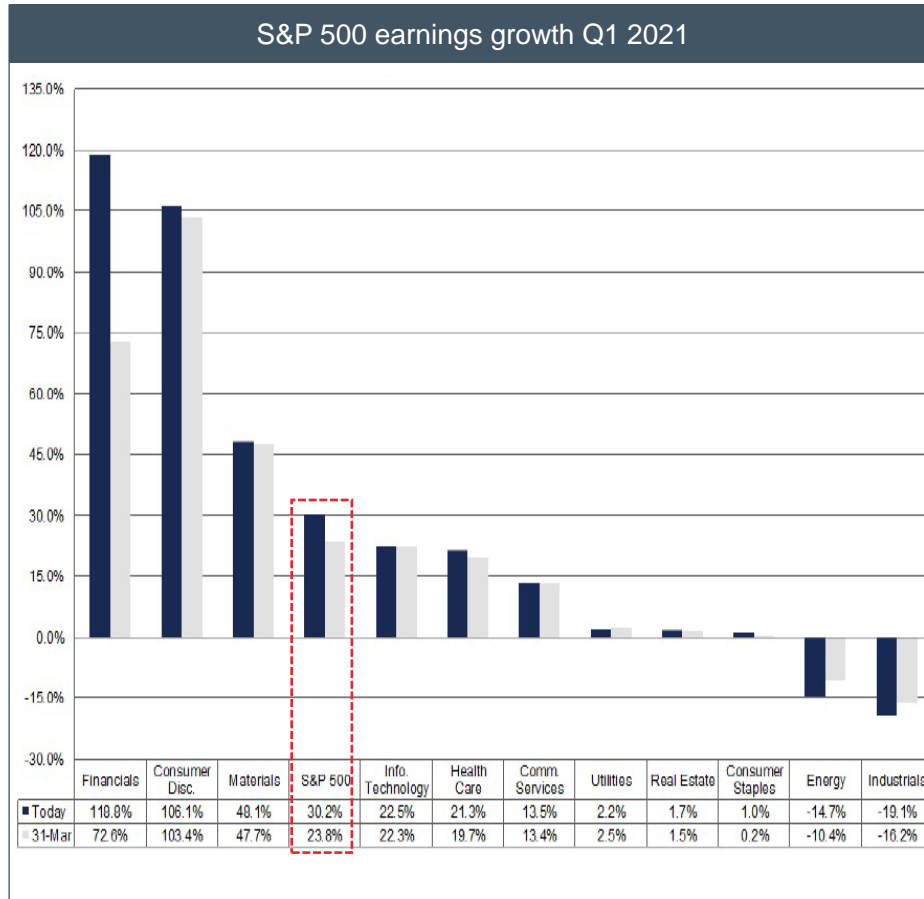
Past performances are not a reliable indicator of future performances and are not constant over time.

Source: Bloomberg, ODDO BHF AM SAS | Figures as of 04/23/2021

Earnings growth



US-earnings: still a strong momentum

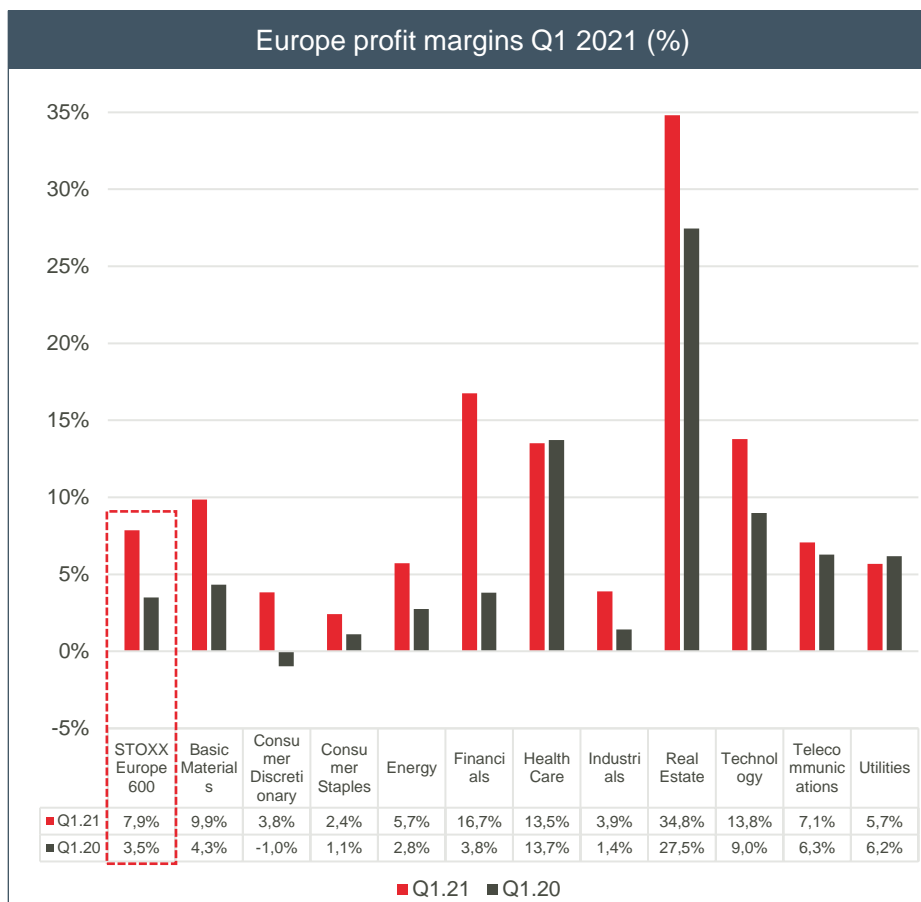
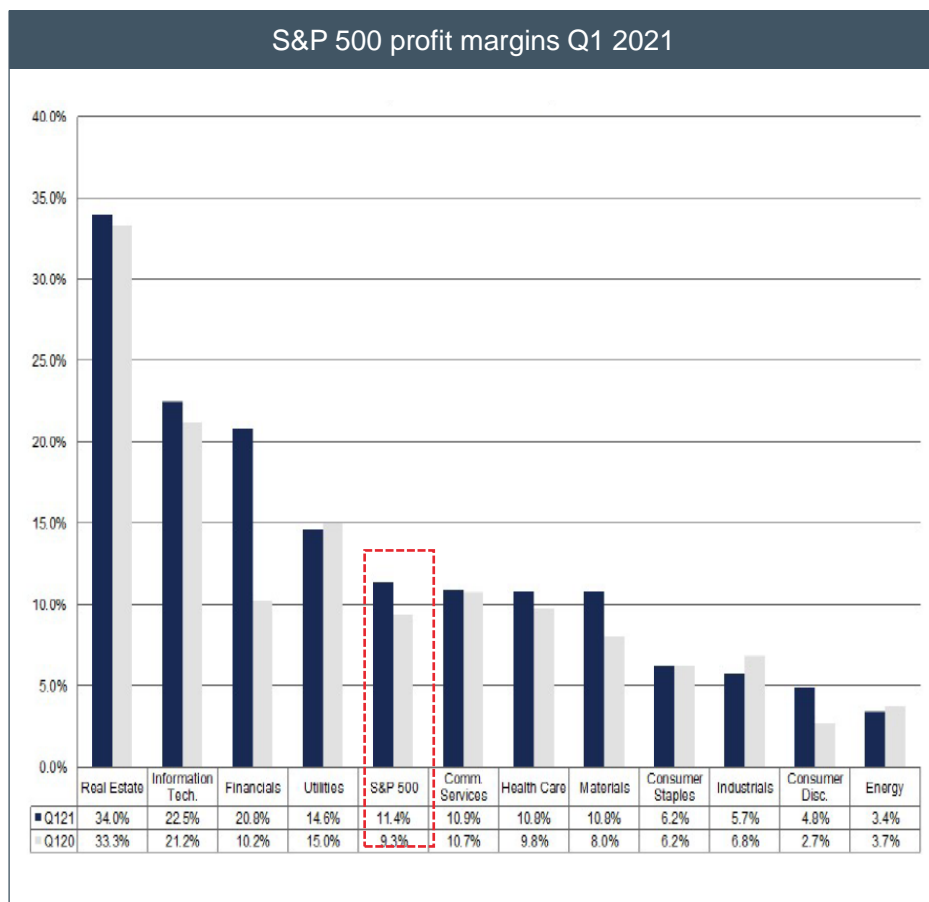


Source: ODDO BHF AM, FactSet, as of 04/19/2021, blended earnings | Factset data as of 05/03/2021

Profit margins



Increase in profit margin as a key driver: From 9.3% in Q1 2020 to 11.4% in Q1 2021

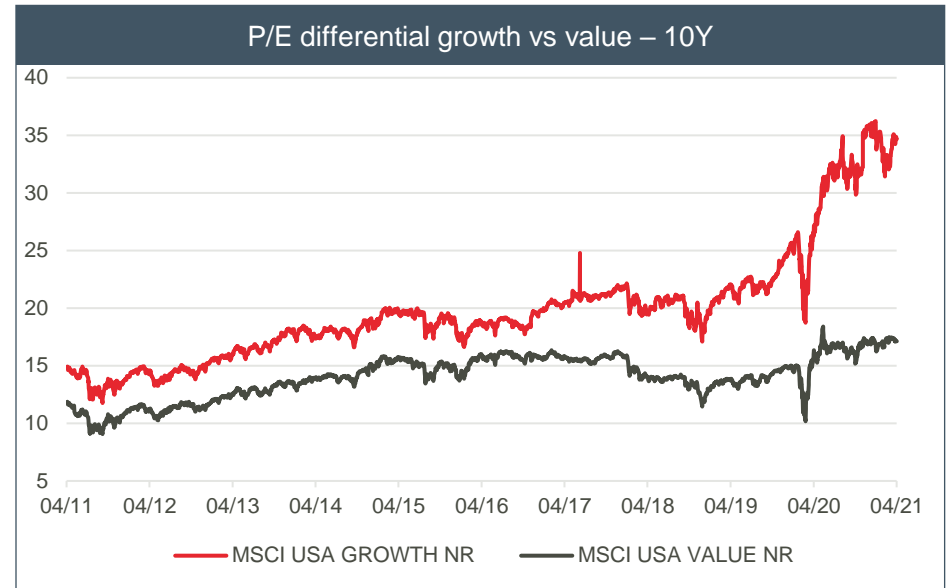
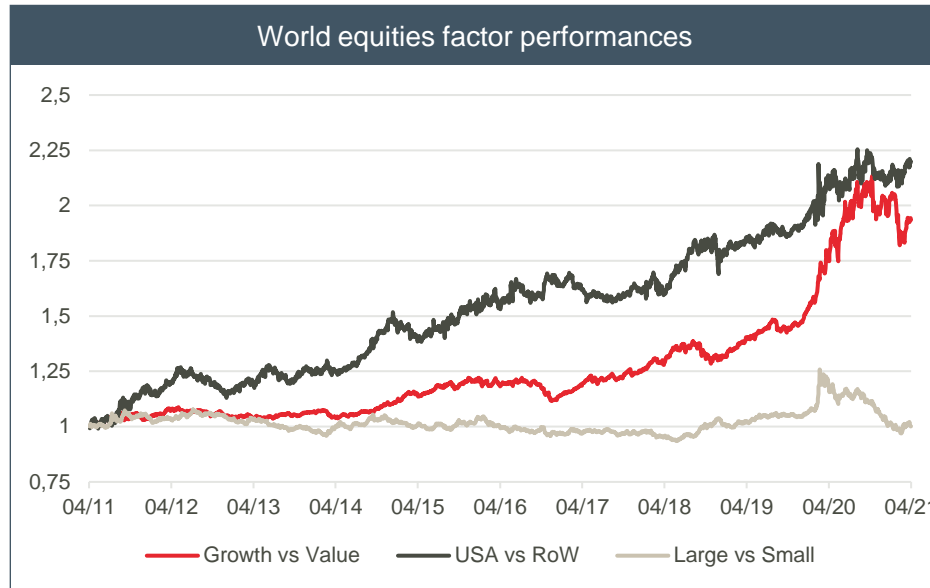


Source: ODDO BHF AM, FactSet, as of 04/19/2021, blended earnings | Factset data as of 05/03/2021

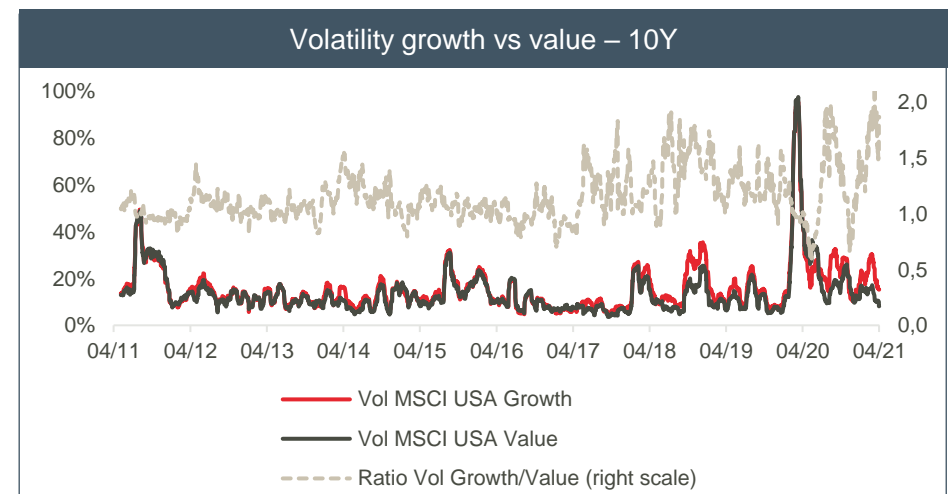
Equities performances – styles differential



We do expect a new value leg in the coming months



- For the last three years, the growth style overperformance has been the biggest market theme in the equity space.
- Half of this overperformance was driven by rerating
- This has stalled since October 2020, while US yields slightly rose.

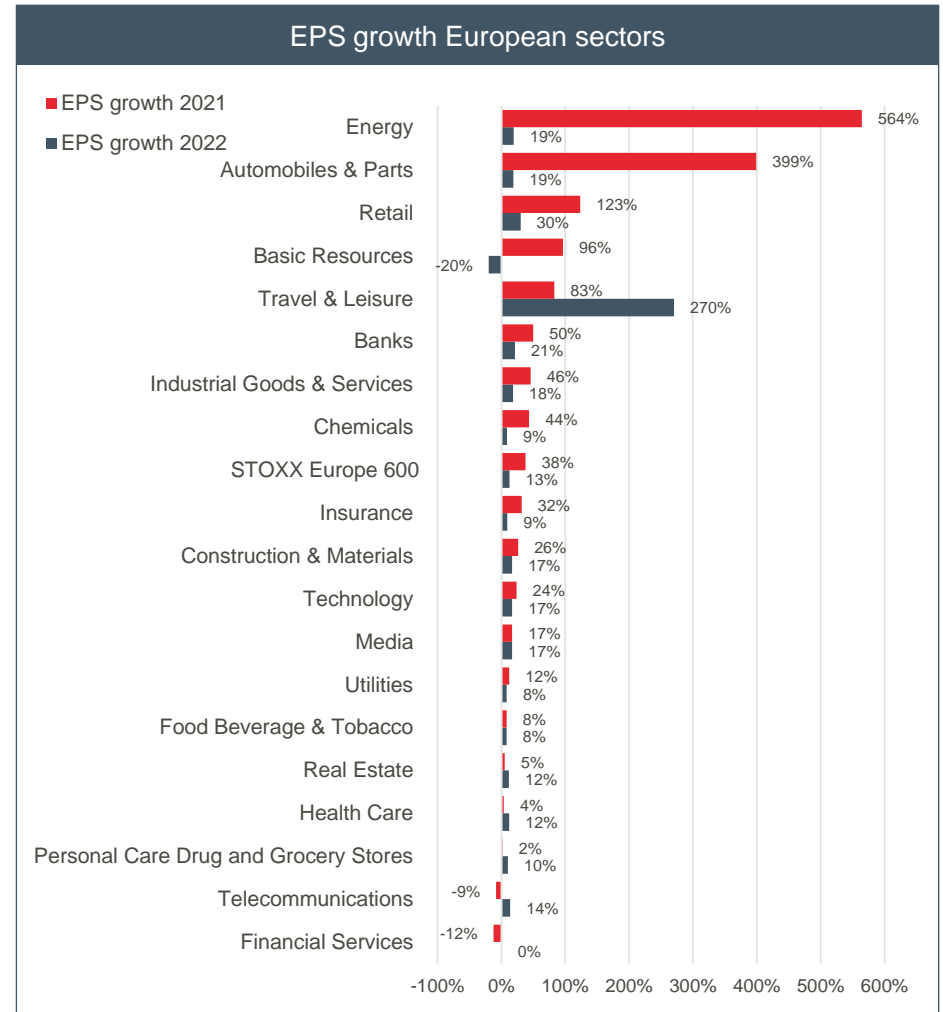
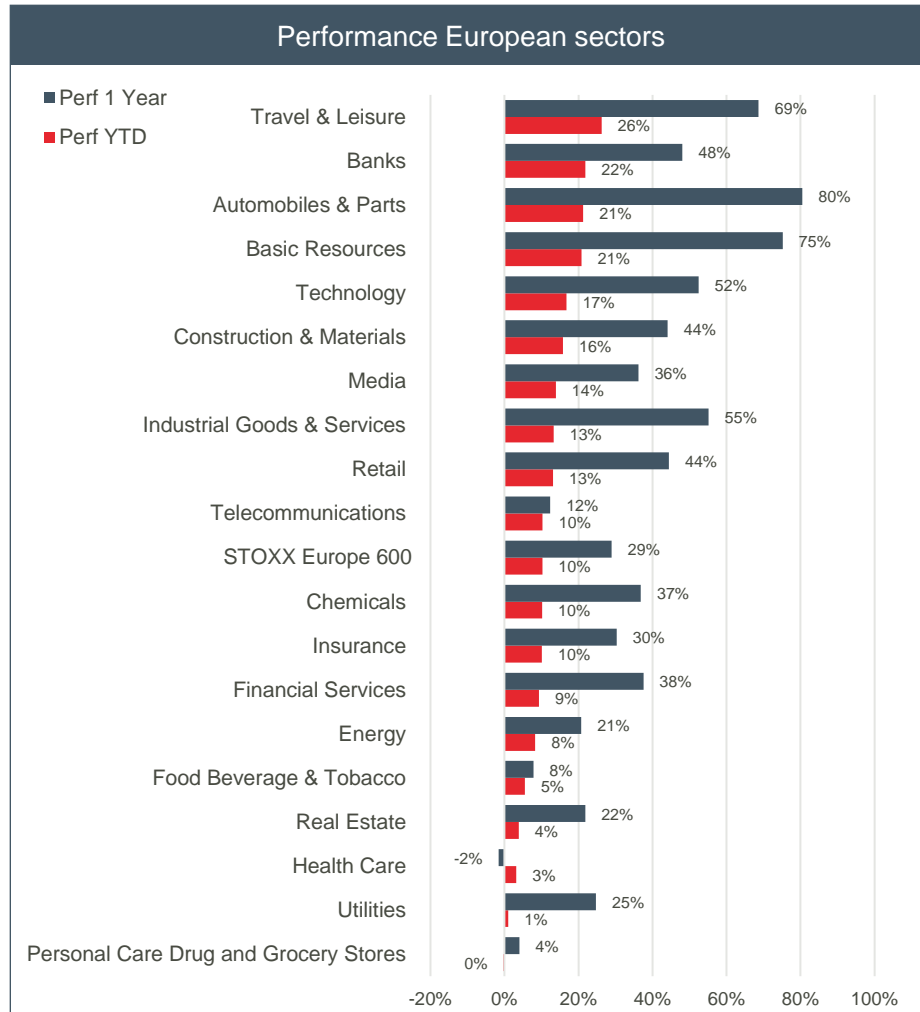


Sources: ODDO BHF AM SAS, Bloomberg | Figures as of 04/28/2021

European equities - sectors



Continue to play the rotation towards value and cyclicals

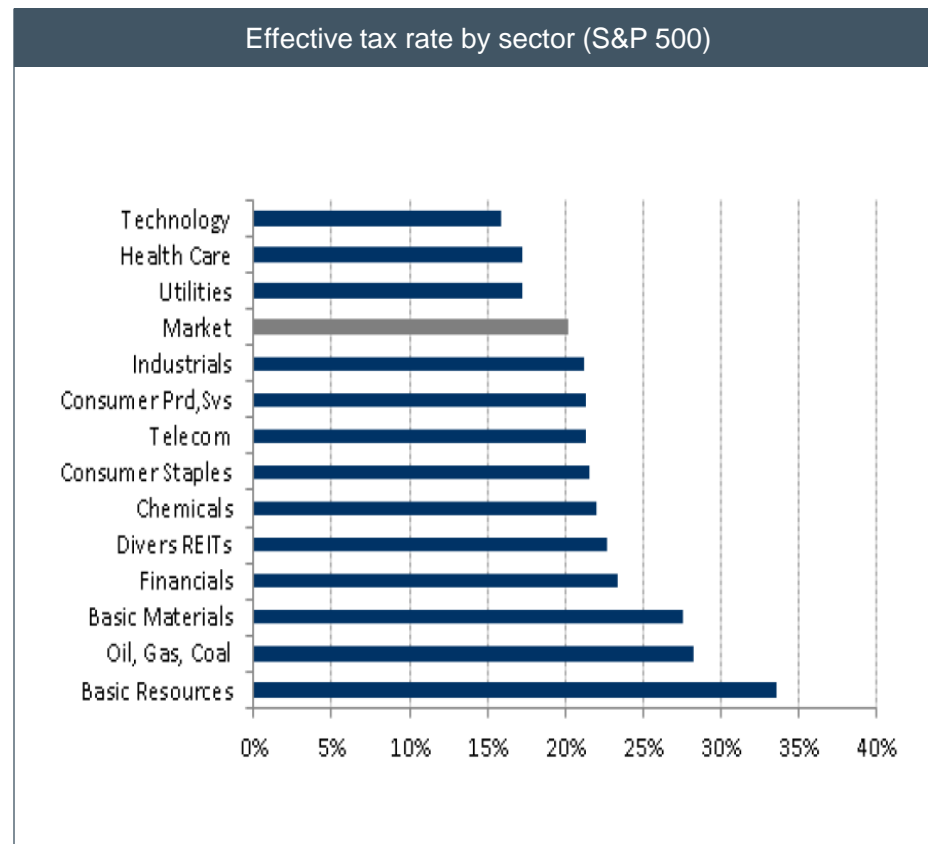
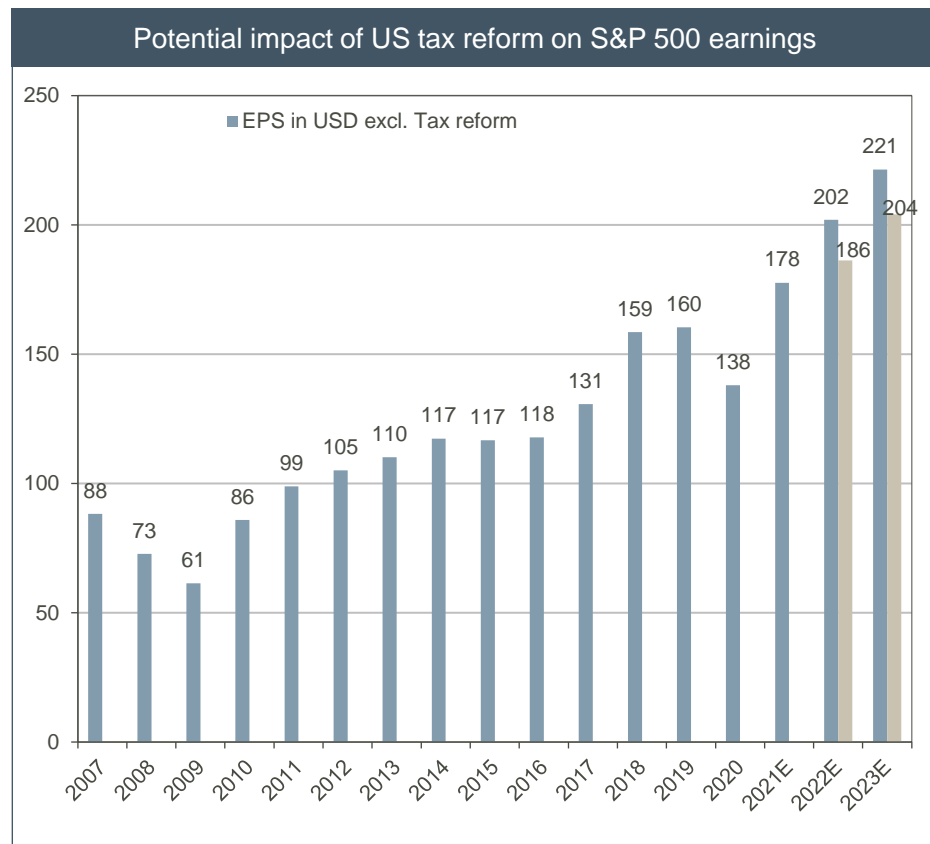


Source: ODDO BHF AM SAS, Factset, data as of 04/29/2021

USA reforms' impacts



Investors are too complacent about Biden's initiative



Source: ODDO BHF AM, FactSet, 01.01.2007-31.12.2023, tax reform impact: estimates based on broker consensus (Goldman Sachs, UBS, Credit Suisse), Goldman Sachs, as of: 19.04.2021

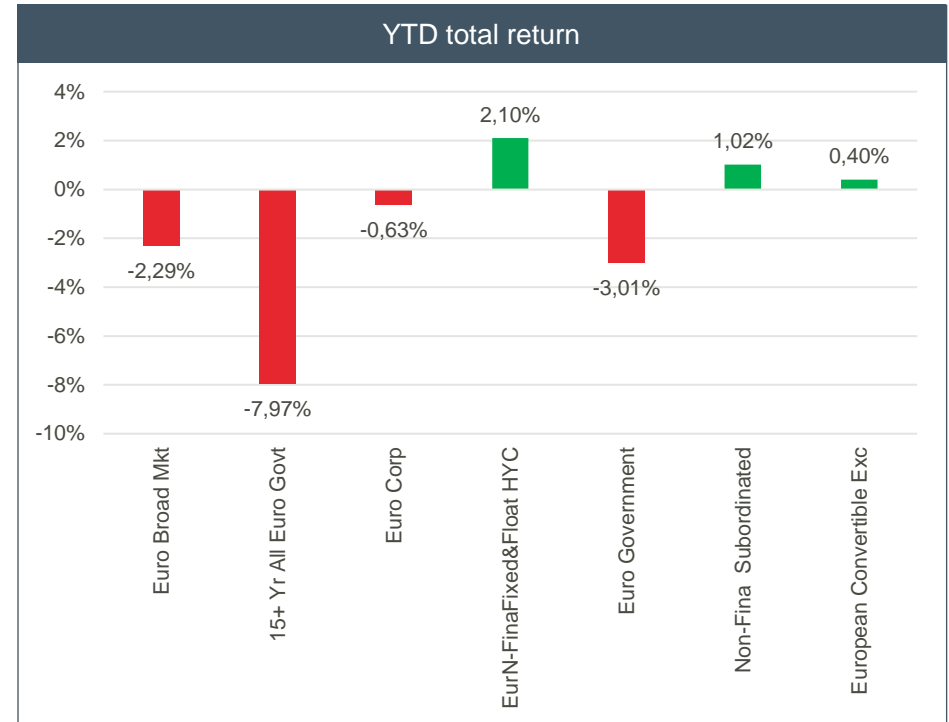
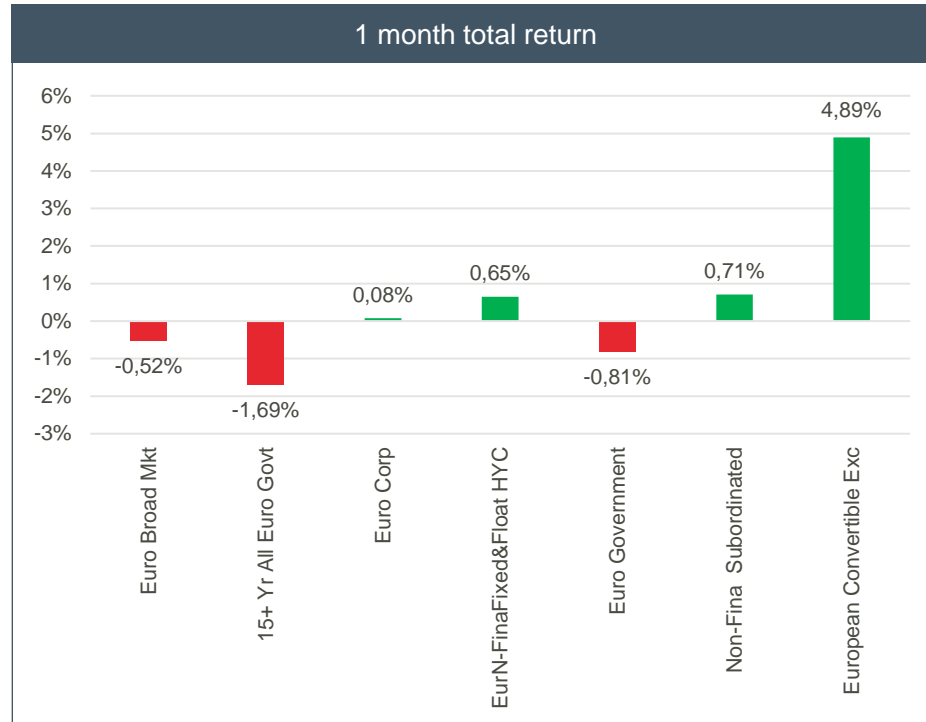


FIXED INCOME

Performance fixed income segment



Play credit versus duration

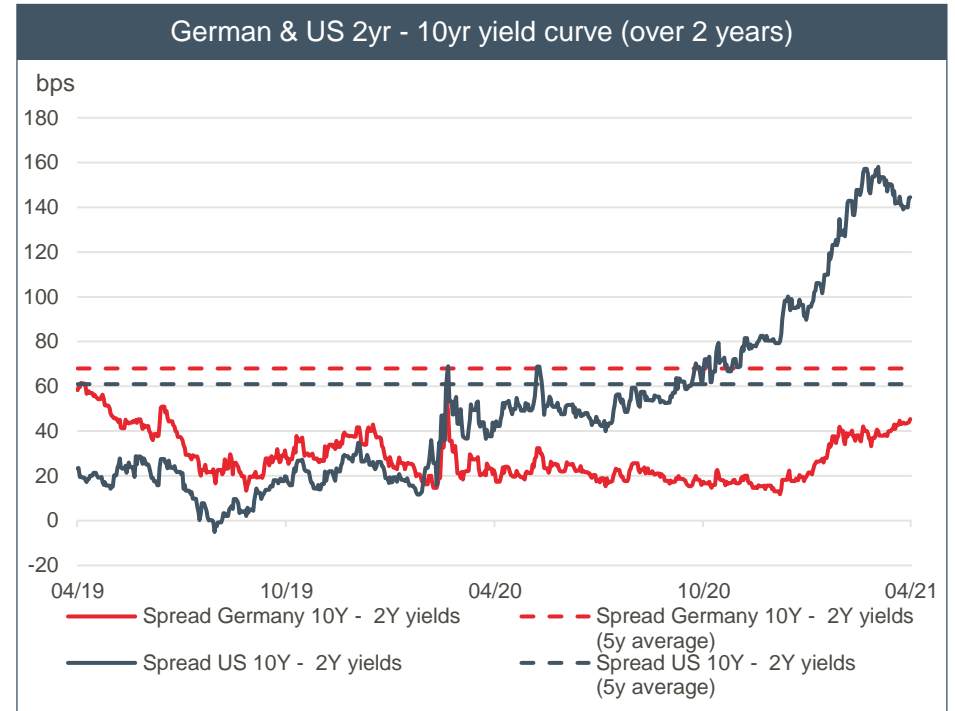
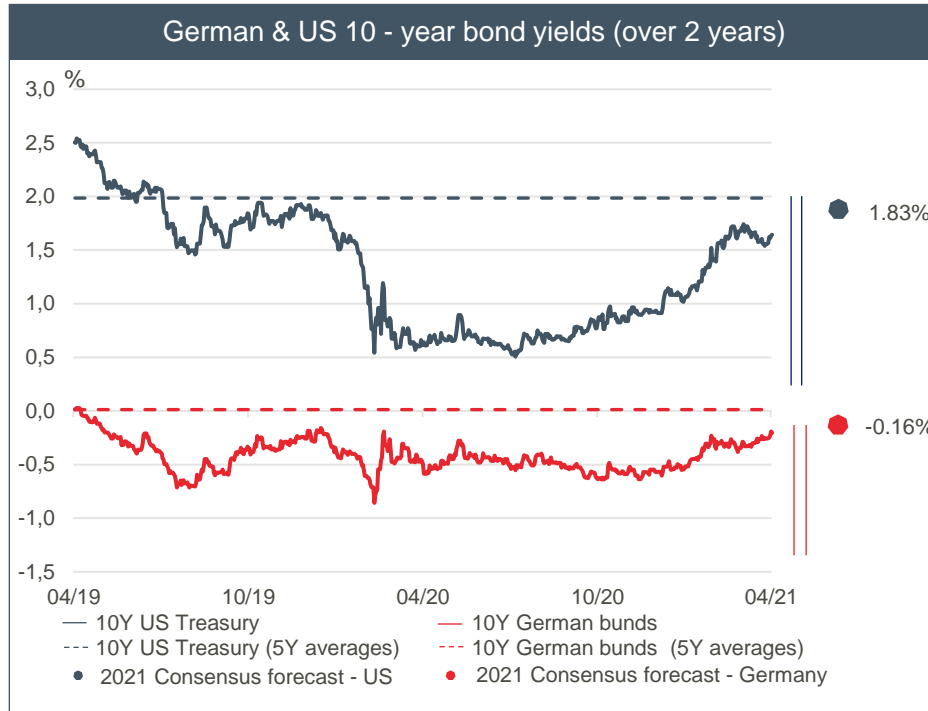


Source: ODDO BHF AM, Bloomberg, data as of 04/29/2021

Rates



We target respectively 2% and 0% for the Us and German 10YR rates



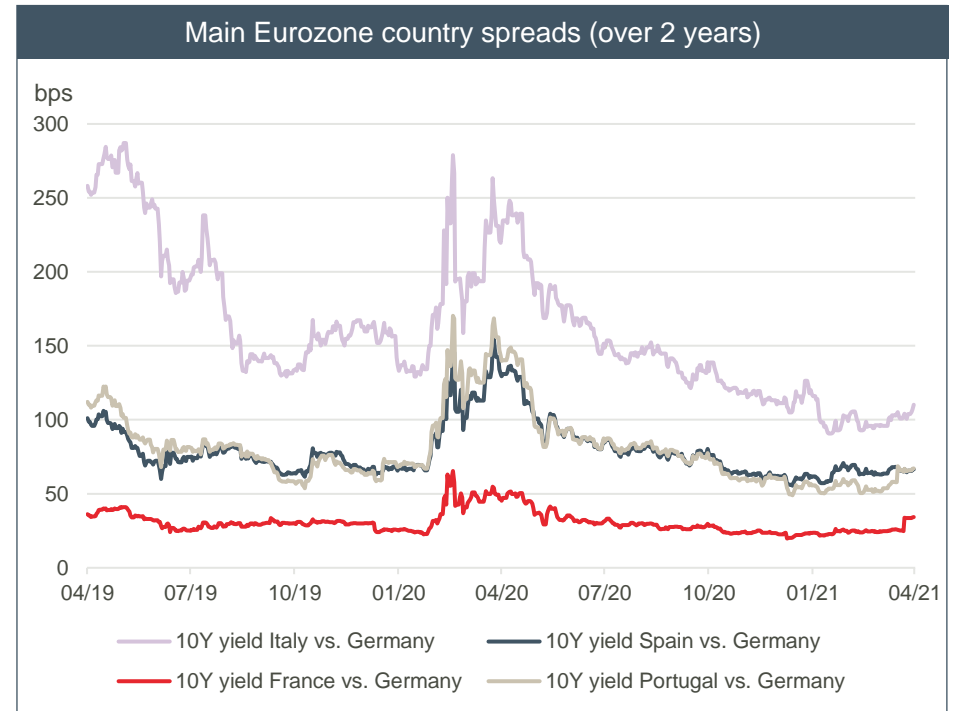
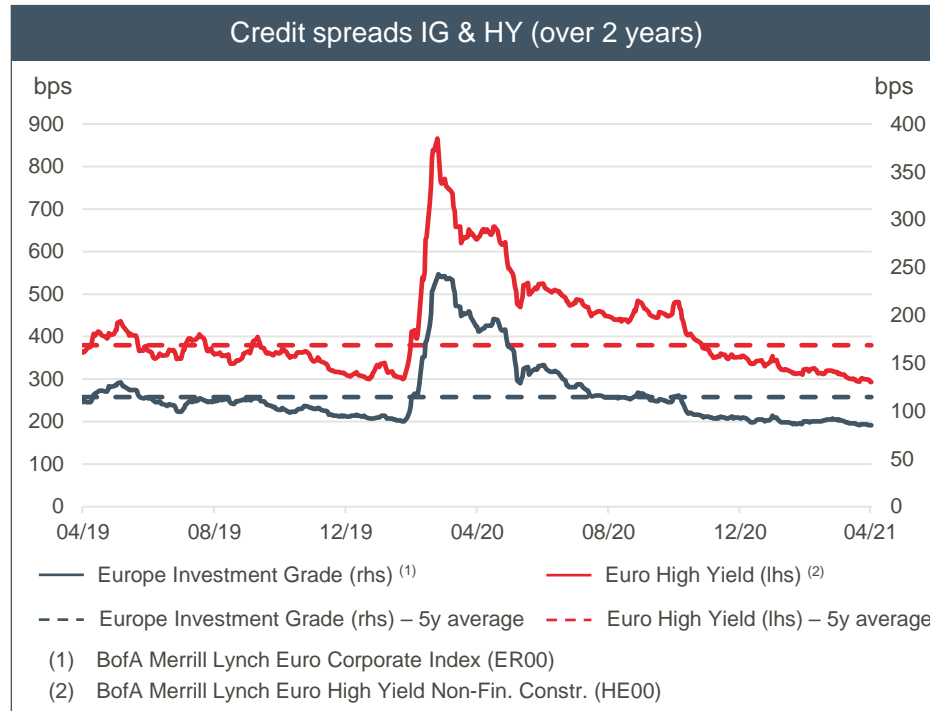
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | LHS: Data as of 04/29/2021; RHS: Data as of 04/29/2021

Credit Spreads



Back to the lows

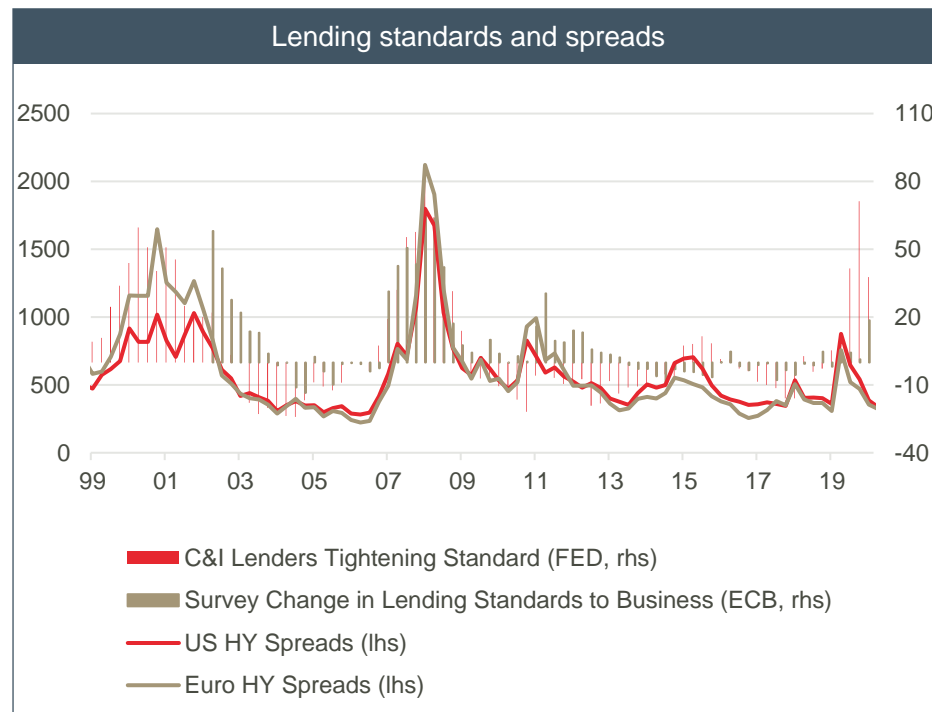
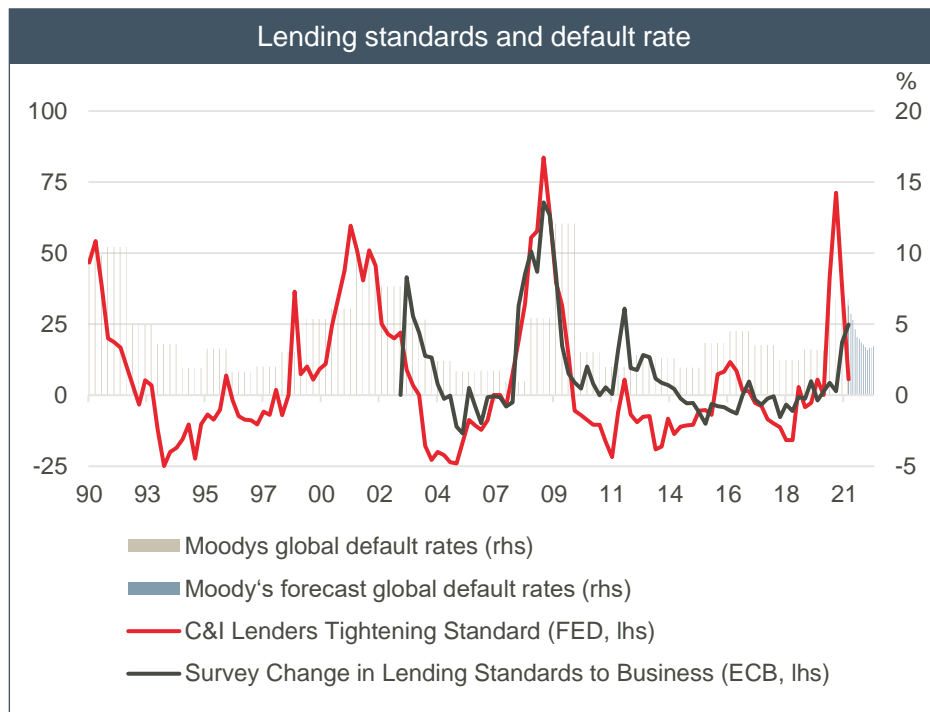


Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: ODDO BHF AM SAS, Bloomberg | Data as of 04/29/2021



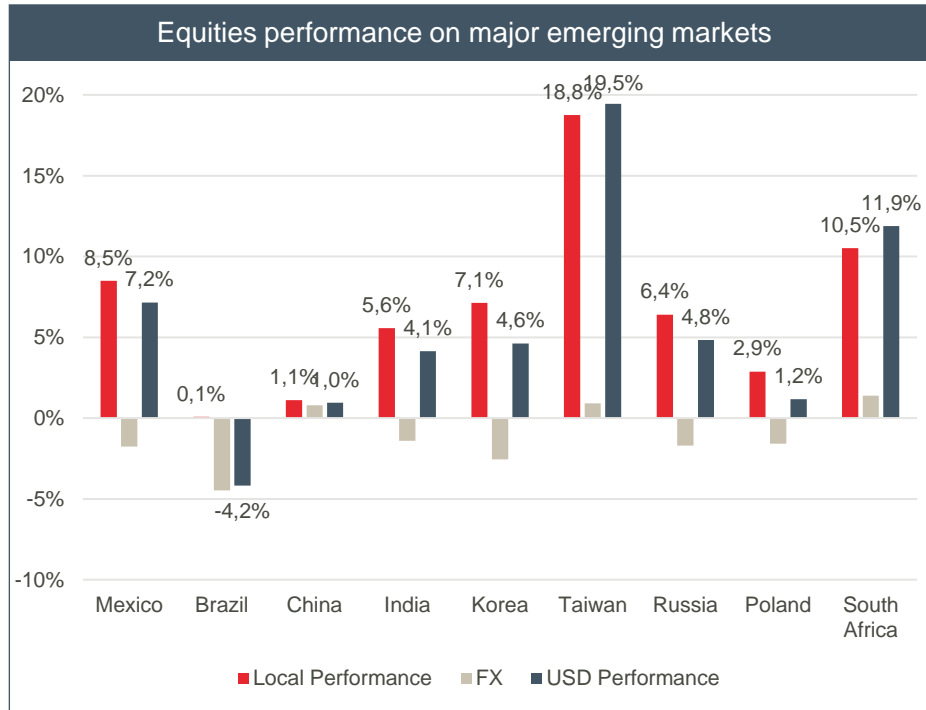
Loose credit standards delay any sharp increase in bankruptcies



Emerging markets

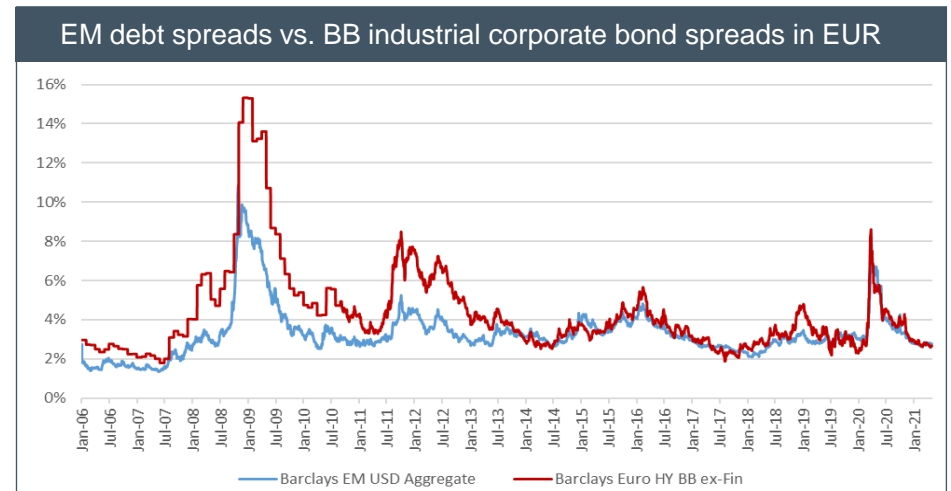


Performance is a function of the strength of the pandemic



EPS (including losses) growth and PE

	PE 12m fwd	2020 EPS growth	2021 EPS growth	2022 EPS growth	Dividend yield
MSCI MEXICO NR	14.0	-51%	138%	8%	3.1%
MSCI BRAZIL NR	9.2	-39%	169%	-4%	4.5%
MSCI CHINA NETR USD	16.7	-9%	21%	17%	1.6%
MSCI INDIA Net USD	20.8	-30%	91%	15%	1.4%
MSCI Korea Net USD	14.0	33%	61%	22%	1.7%
MSCI TAIWAN Net USD	18.4	29%	27%	8%	2.9%
MSCI RUSSIA NR	7.7	-65%	122%	8%	8.0%
MSCI Poland Net USD	12.1	-7%	33%	2%	3.4%
MSCI South Afr Net USD	10.8	-15%	83%	16%	3.5%
MSCI EM NR	15.2	-17%	54%	14%	2.4%
MSCI FRONTIER MKT NR	12.0	-9%	29%	15%	3.5%



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

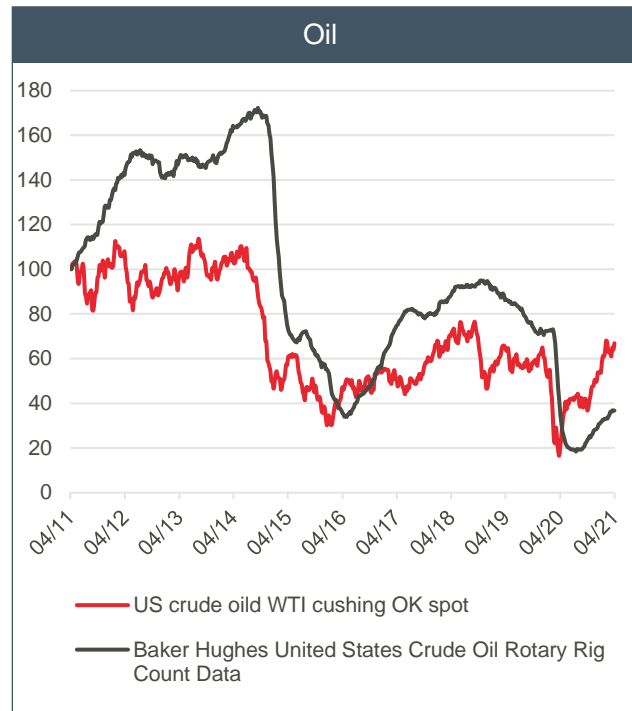
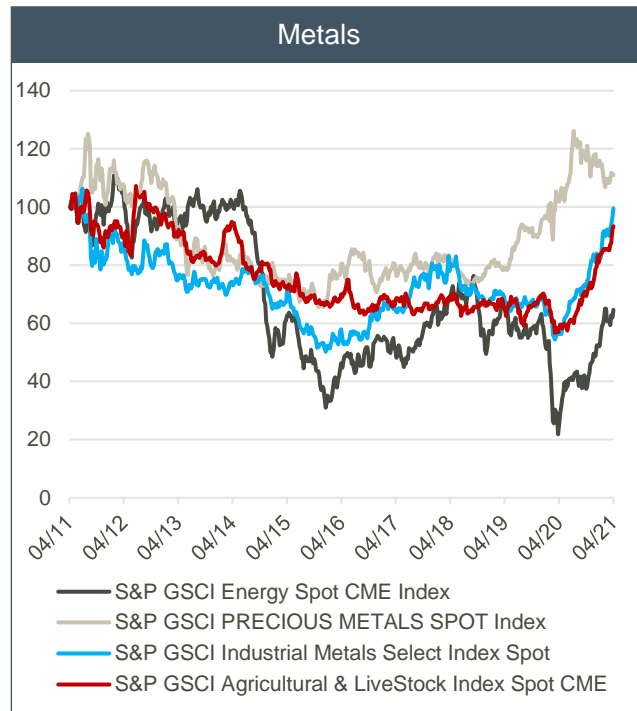
Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/30/2021



COMMODITIES & CURRENCIES



Surfing on the recovery wave but partially curbed by ESG constraints



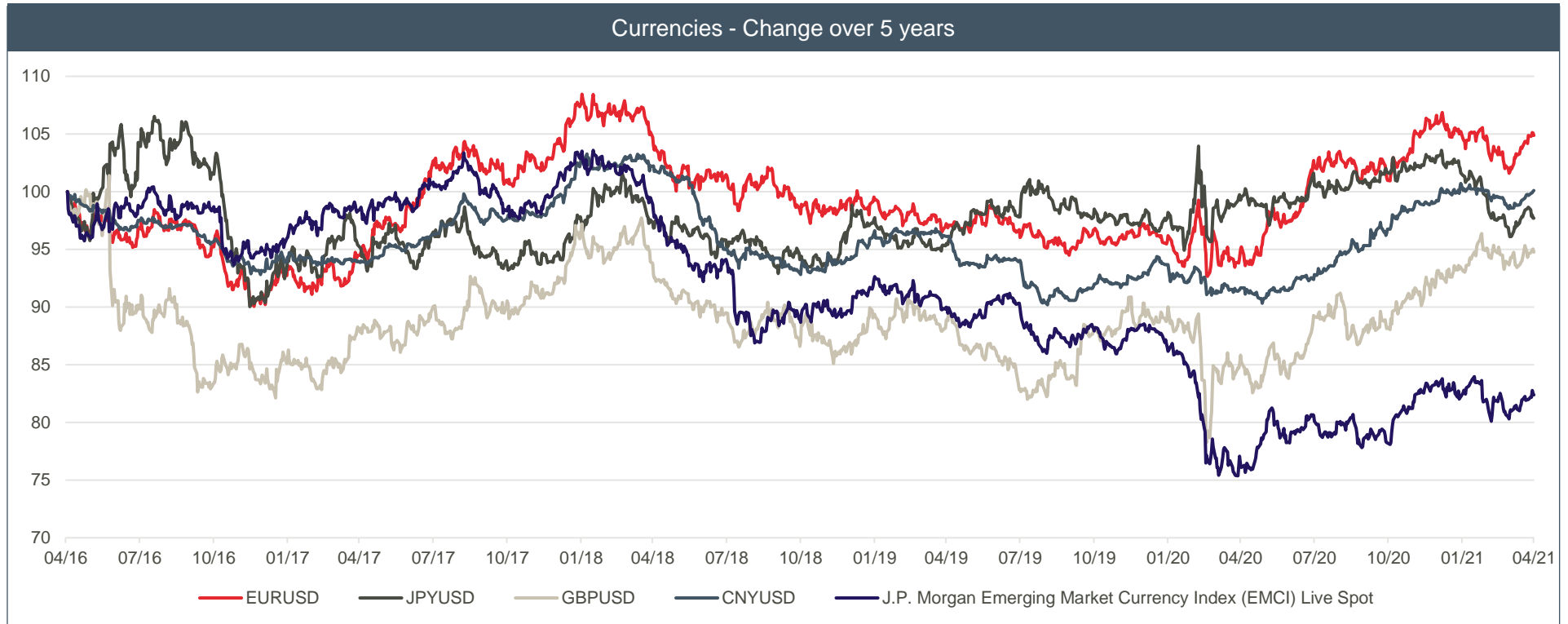
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Currencies



Emerging currencies hurt by the lack of visibility on the pandemic



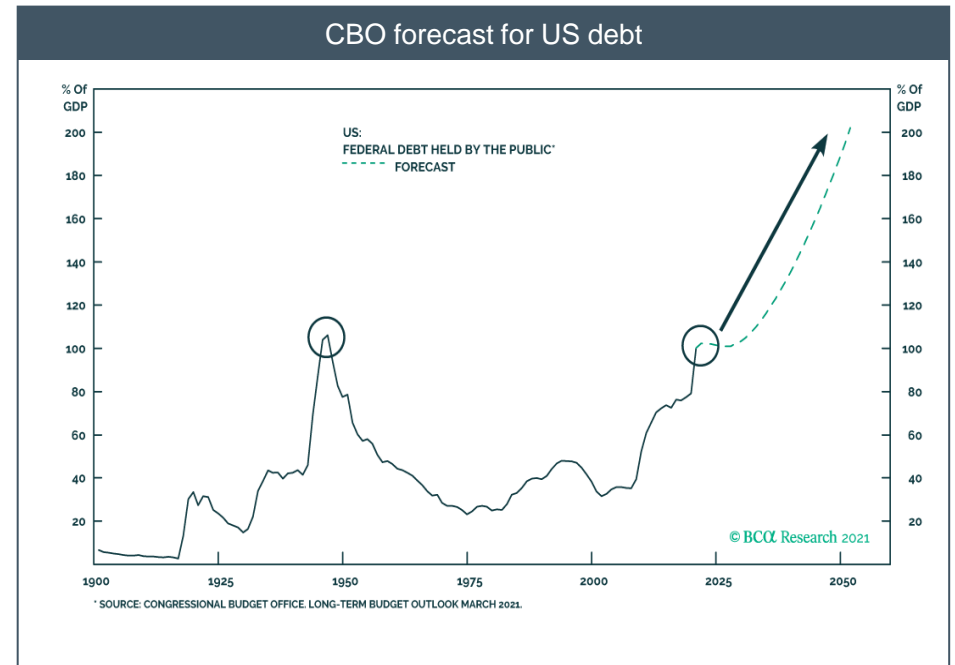
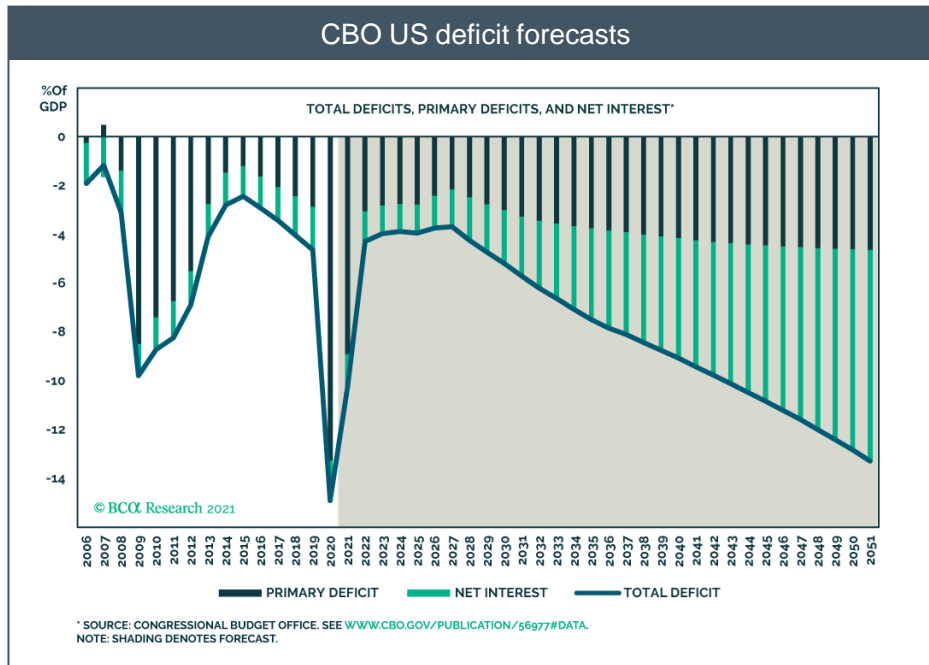
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Sources: Bloomberg, ODDO BHF AM SAS | Data at 04/30/2021

The USD has just started to weaken



US deficit forecasts are not boding well for any strengthening of the dollar







03 CURRENT CONVICTIONS

Structural challenges



Long-term trends and potential risks

Horizon	Structural trend	Potential financial risks	Risks at 12 months	Recent changes
Short term <1 year	Monetary expansion	Excess of debt	Increasing 	Increase in bankrupts in H2 2021
	US earnings supercycle	Decline in margins	Increasing 	Rising input prices
	European identity crisis	Hard Brexit, Ital-Exit	Decreasing 	OECD Reform 2.0 will support tax harmonisation in the Eurozone!
Mid term 1-5 years	China's economic transition	Economic and political crisis	Decreasing 	New five-year strategy for the Chinese government
	The globalisation of inequalities	Political instability	Increasing 	New US fiscal plan expected
Long term > 5 years	Ageing of the world population	Secular stagnation and decline	On going	China is getting concerned
	Global warming	Natural disasters and over-regulation	Non foreseeable	Greening of public expenditure



Our 6-month view

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

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

65%

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

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

20%

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

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

15%

Assets to overweight



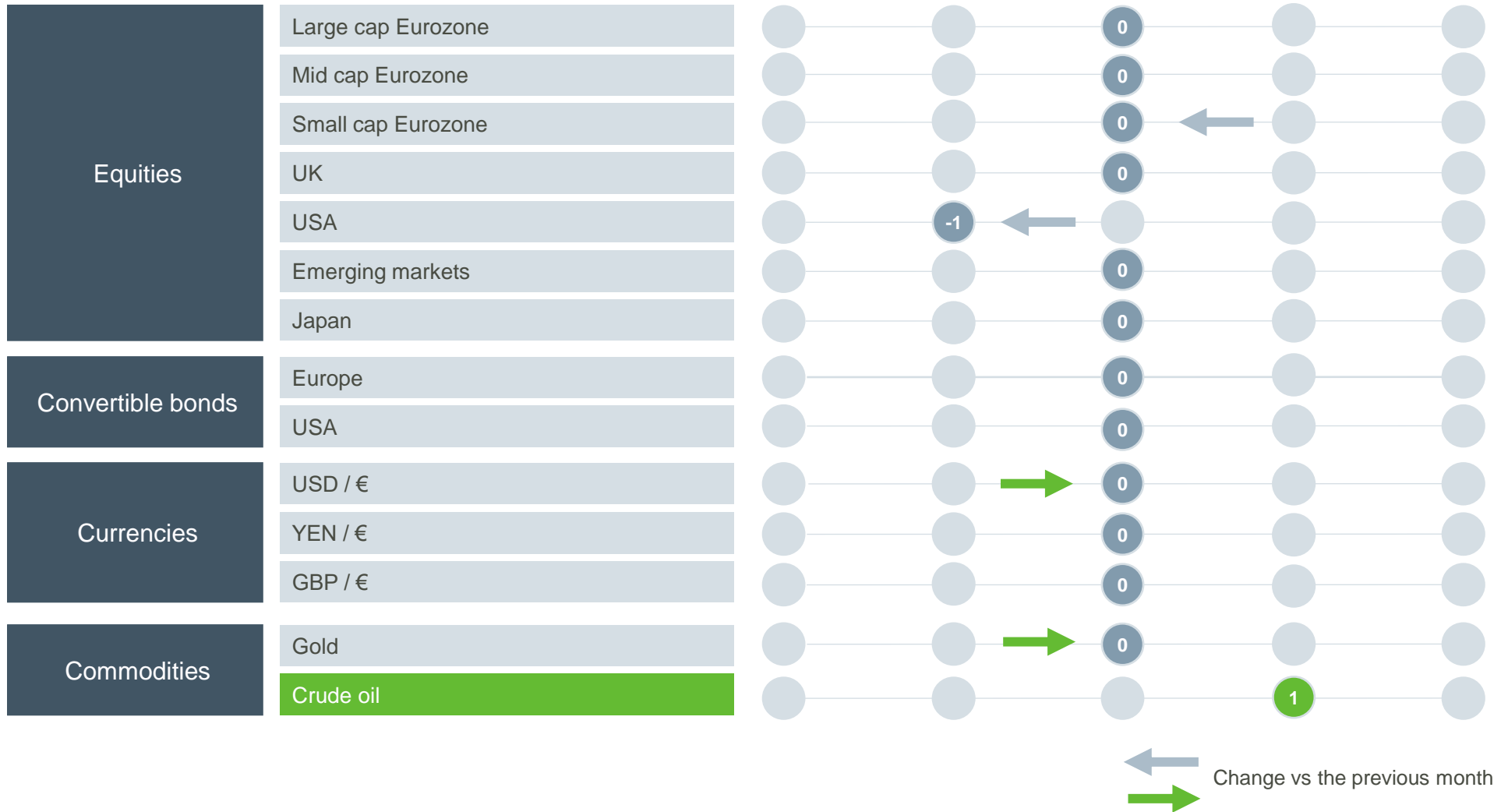
- Money Market CHF & JPY
- Volatility
- Core government bonds

Assets to underweight



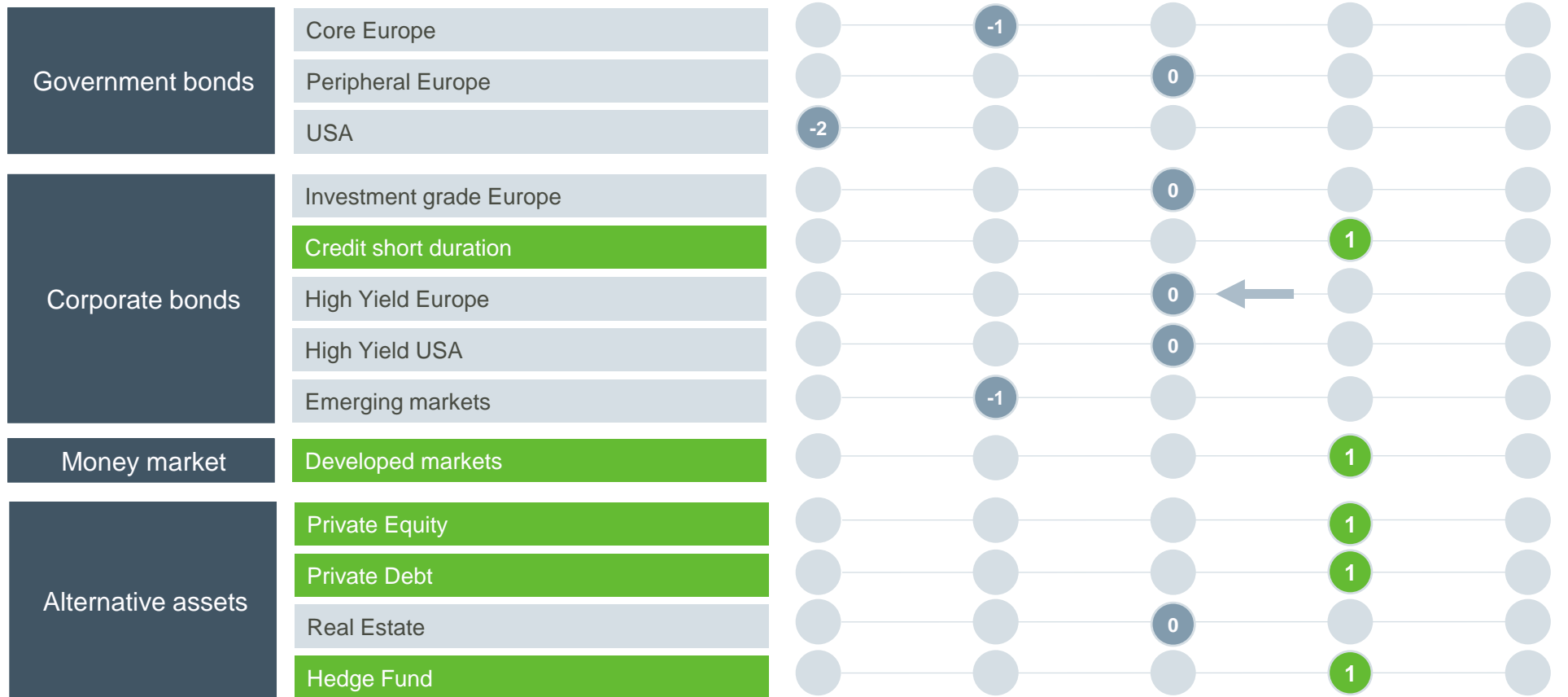
- Equities
- High Yield credit



Our current convictions for each asset class



Source: ODDO BHF AM, comments as of 05/06/2021

Our current convictions for each asset class



 Change vs the previous month


Source: ODDO BHF AM, comments as of 05/06/2021



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.



MONTHLY INVESTMENT BRIEF

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[March 2021 – The XXL Biden effect](#)

[February 2021 – Destination rather than journey](#)

MARKET VIEWS

SPAC

[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

[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 of resilience and differentiation](#)

Contributors to this Monthly Investment Brief

**Nicolas Chaput**

Global CEO
ODDO BHF AM

Emmanuel Chapuis, CFA

Co-head of fundamental equities
ODDO BHF AM

Matthieu Barriere, CFA

Multi asset portfolio manager
ODDO BHF AM SAS

Pia Froeller

Head of asset allocation products
ODDO BHF AM GmbH

Matthias Lackmann

Asset Manager Corporate Credit IG
ODDO BHF AM GmbH

Laurent Denize

Global CIO
ODDO BHF AM

Maxime Dupuis, CFA

Global Head of Marketing & Products
ODDO BHF AM

Bjoern Bender, CFA

Head of fixed income products
ODDO BHF AM GmbH

Romain Gaugry

Fund manager – asset allocation
ODDO BHF AM SAS

Gunther Westen

Global Head of Asset Allocation
ODDO BHF AM

Eugénie Leclerc

Marketing & Strategy
ODDO BHF AM SAS

Jérémy Tribaudeau, CFA

Head of Equity Products
ODDO BHF AM SAS

Pierre Mathis

Product manager asset allocation
ODDO BHF AM SAS



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

12. boulevard de la Madeleine - 75440 Paris Cedex 09, France - Tel. : 33 (0)1 44 51 85 00