



Investment strategy – *Re-opening*

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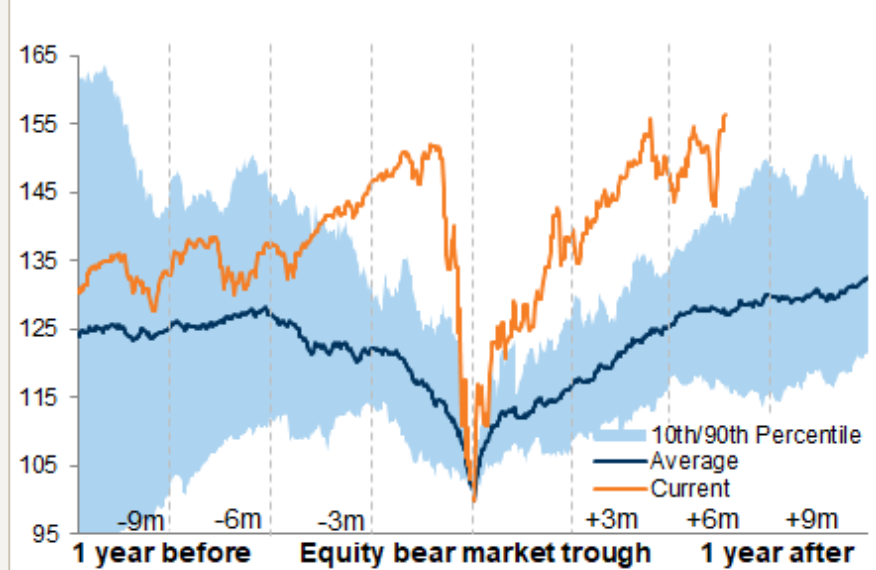
01 WHERE DO WE STAND?

2020: extraordinary in every respect



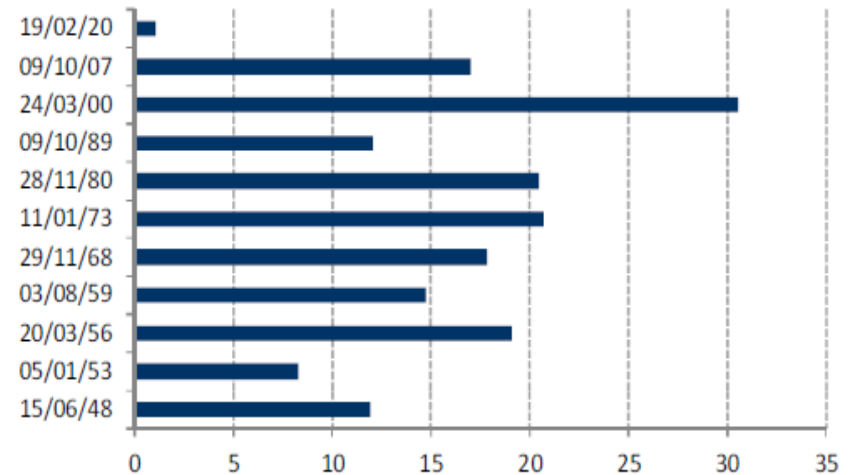
Unprecedented collapse and rebound

MSCI World around bear markets since 1970



Covid represented a shock not a cyclical or structural bear market

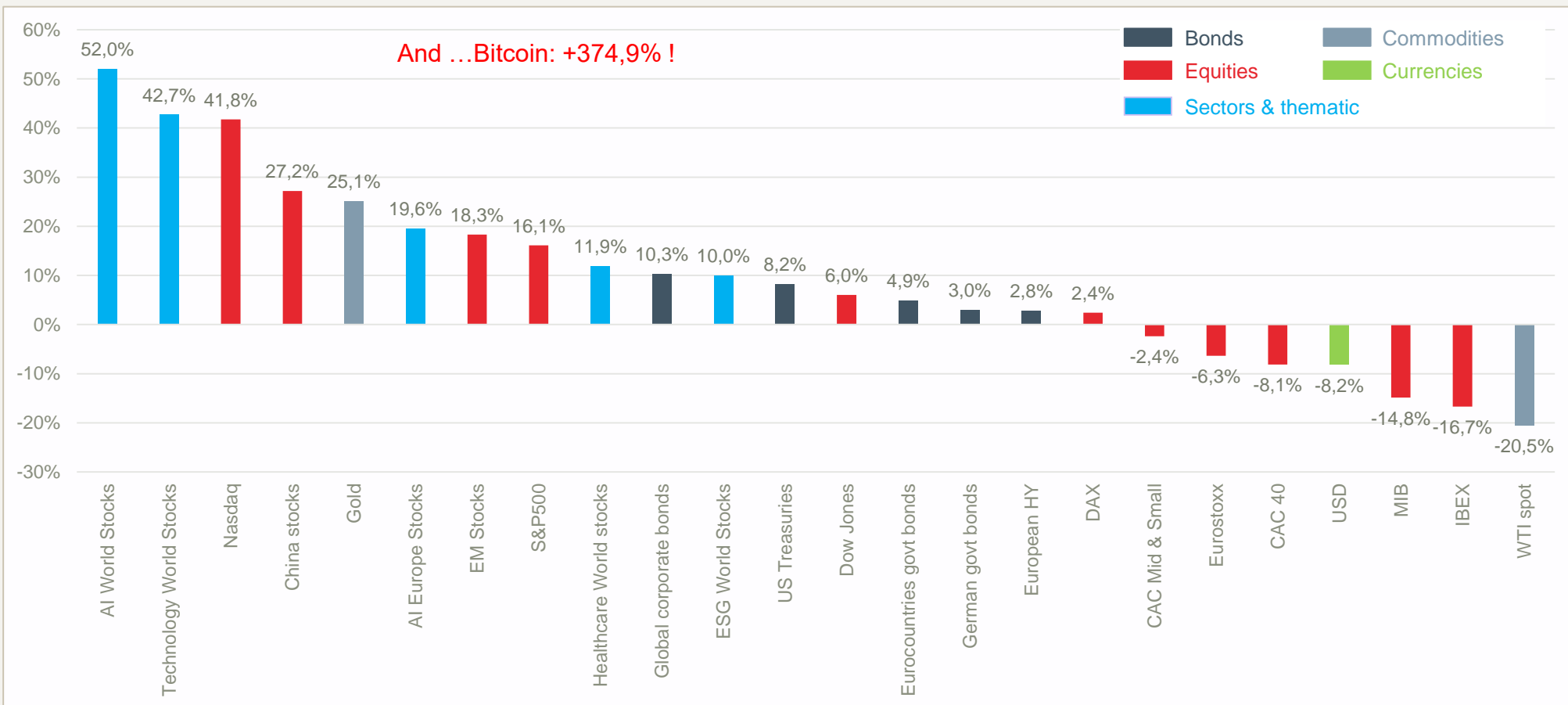
S&P 500: length of bear markets after crisis (in months)



2020: the year of all records



Performance of main indices in 2020



Source: ODDO BHF AM, Bloomberg, 12/31/2020

On the European market, investors have been cautious over the last 3 years, more positive very recently



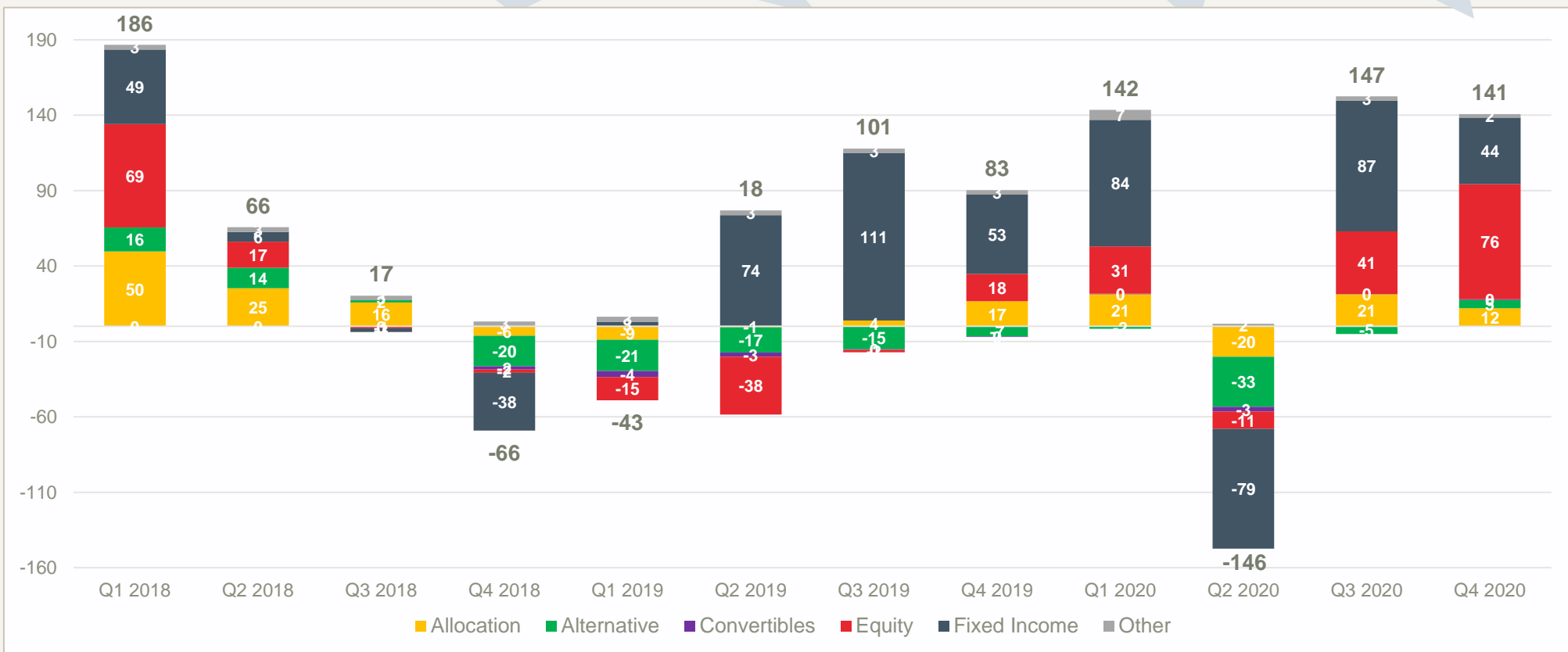
Market dynamics

Q4 2018 Market crash: Stoxx600 -13.1% **Reasons:** trade war, geopolitical risks, unexpected drop in German GDP

2019: market driven by share buy-backs from large US firms
Risk averse investors due to geopolitical uncertainties

March 2020: Covid-19 – Stoxx600 -35% peak to trough Feb-Mar.

November 2020: Vaccine news: large equity inflows

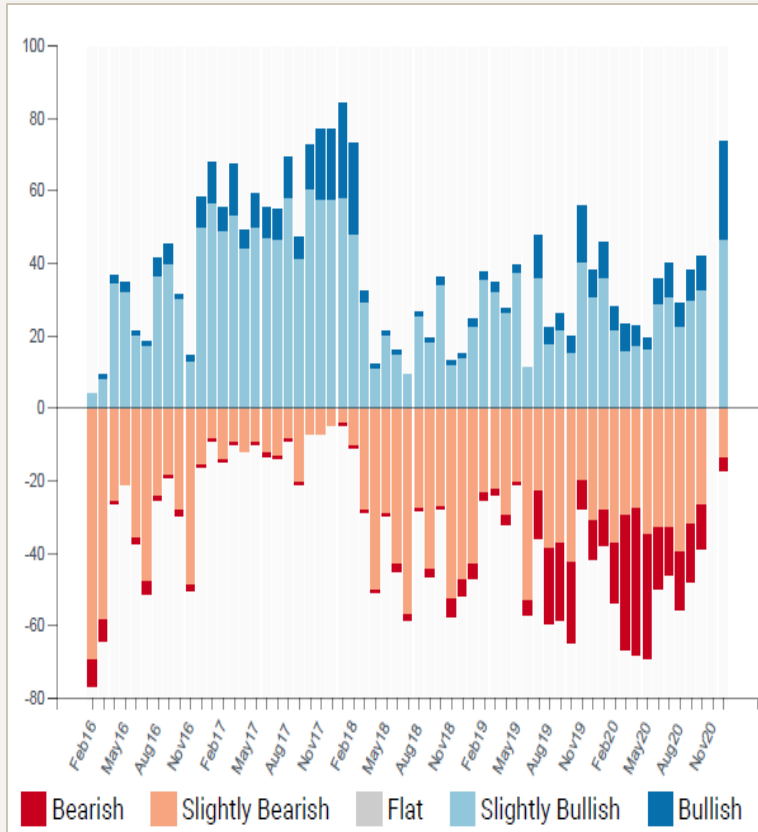


3Y trend: shift from European to Global equities & rise of ESG investing (European ESG AUM +150%)

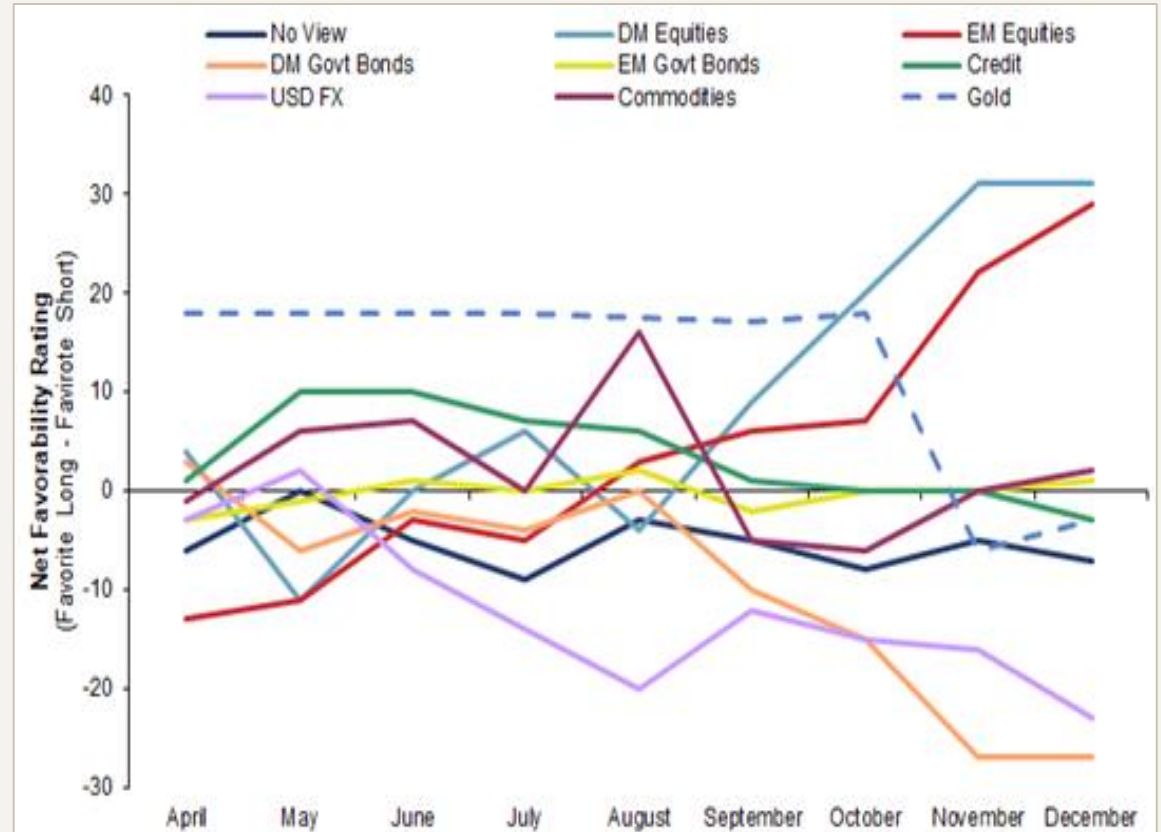
In which mindset are investors for 2021?



What's your view on risky assets?



Which asset class do you favor for the coming months?



Source: ODDO BHF AM, GS Marquee Quick poll, 922 Clients respondents, December 2020

Entering the decade ahead in an even more complex environment





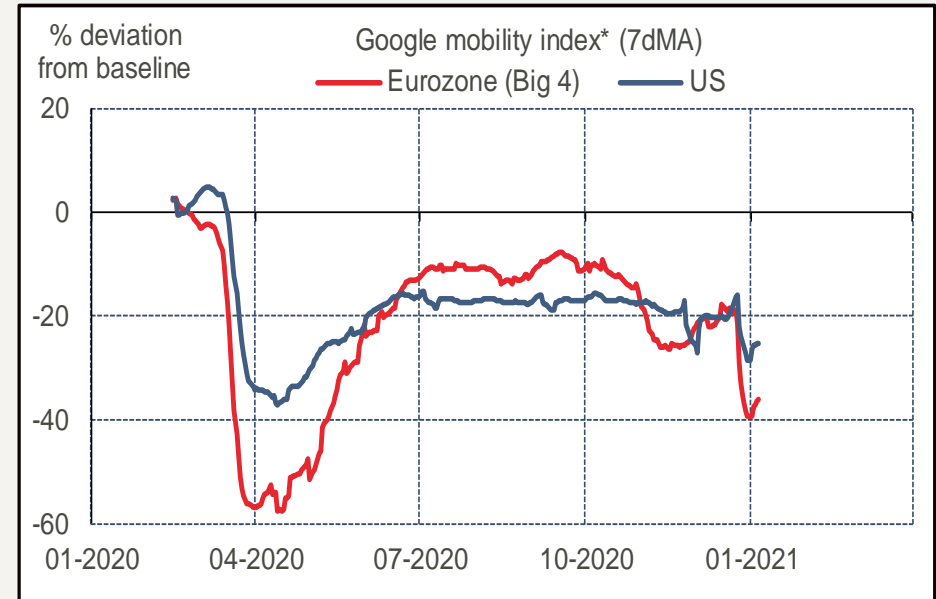
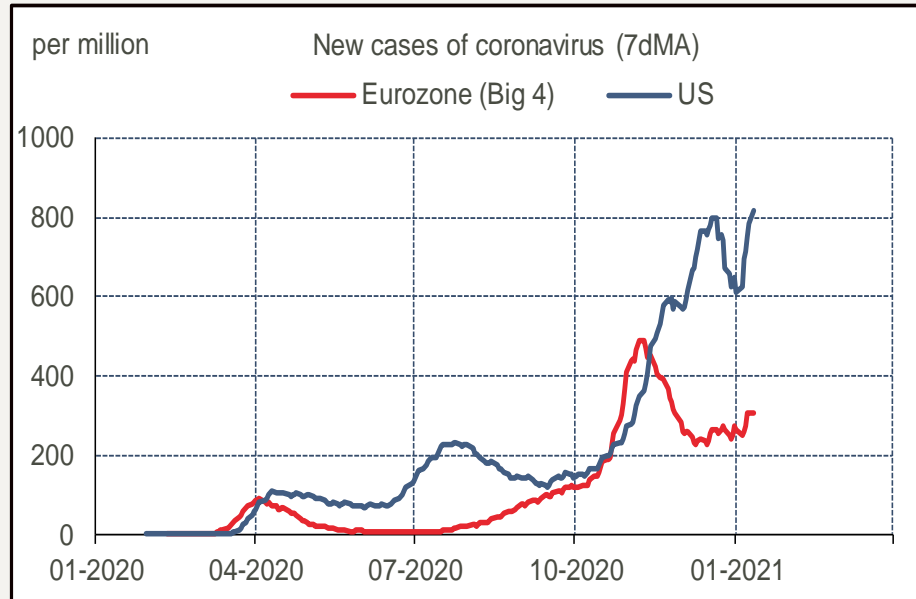
02 MACRO ECONOMIC PERSPECTIVES

On **V**irus, **V**accines and **V**-shapes

Escaping the Virus/Lockdowns

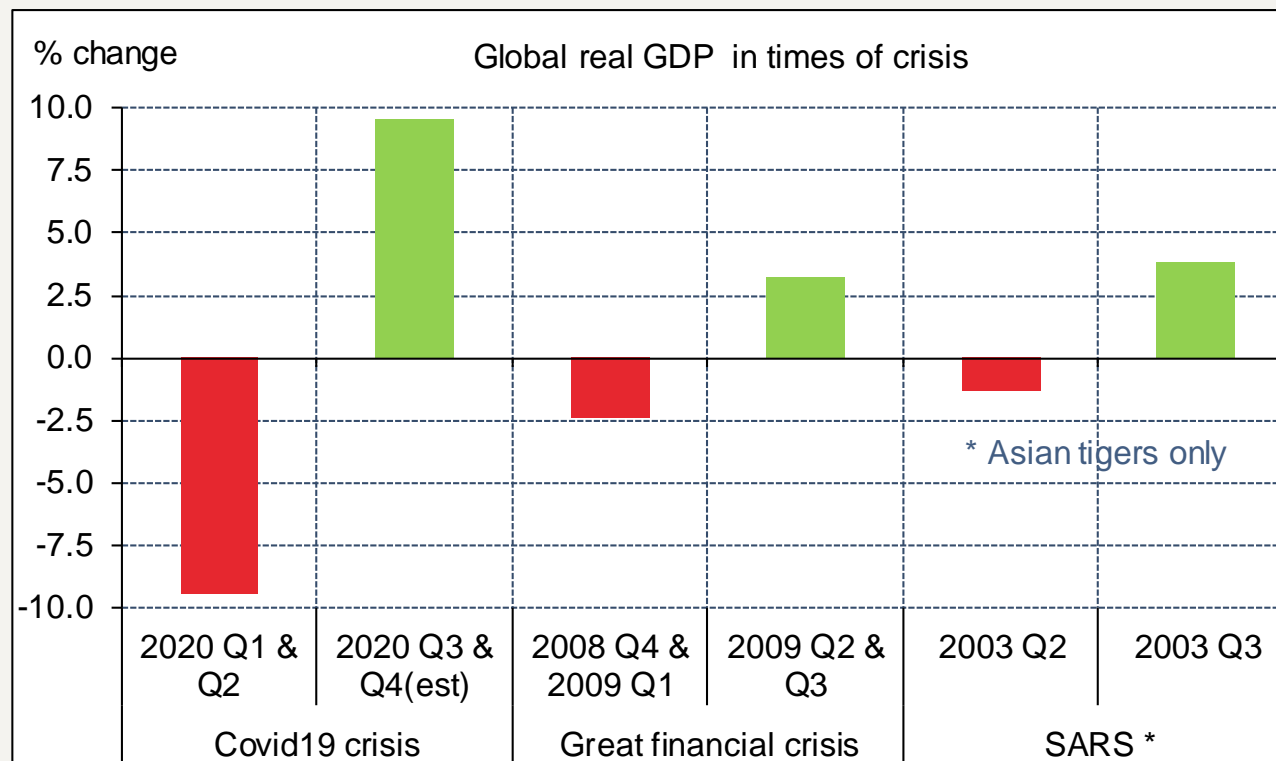
(inputs in the macro scenario for 2021)



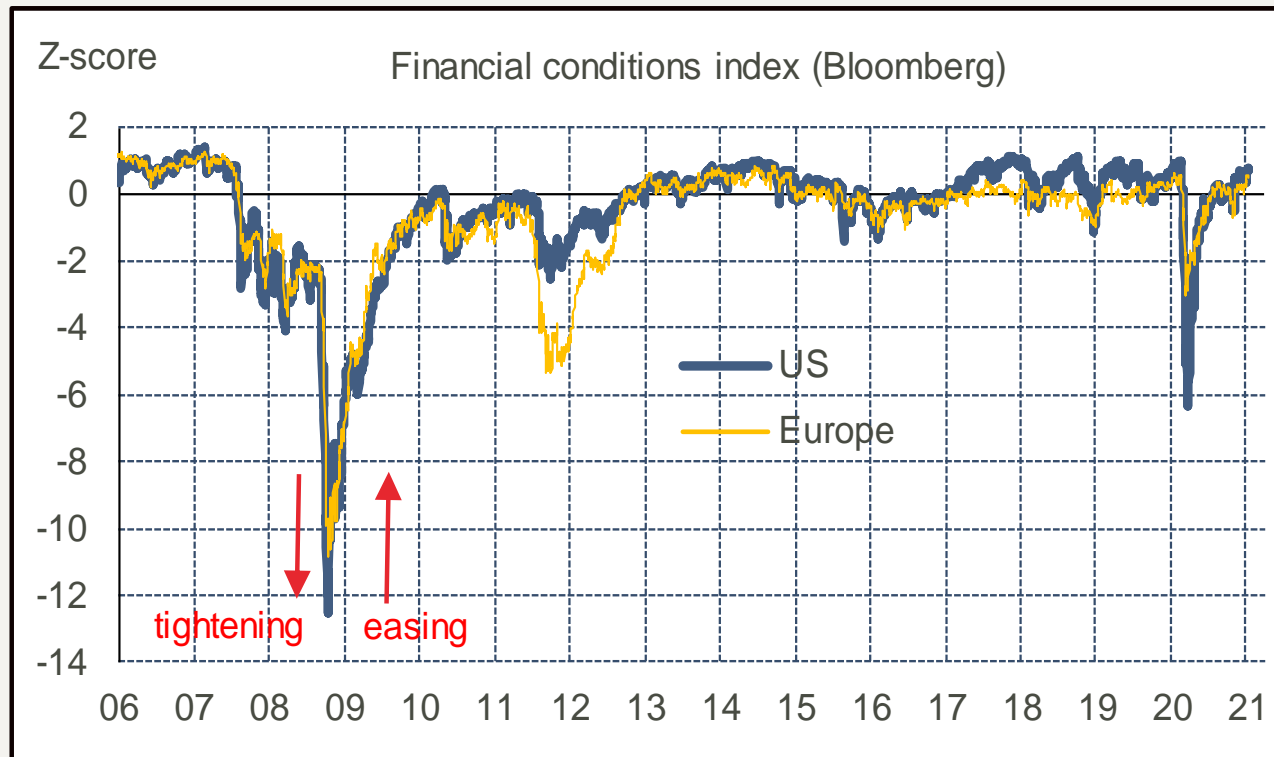


Virus / Mobility / Activity - Changing relationships over time

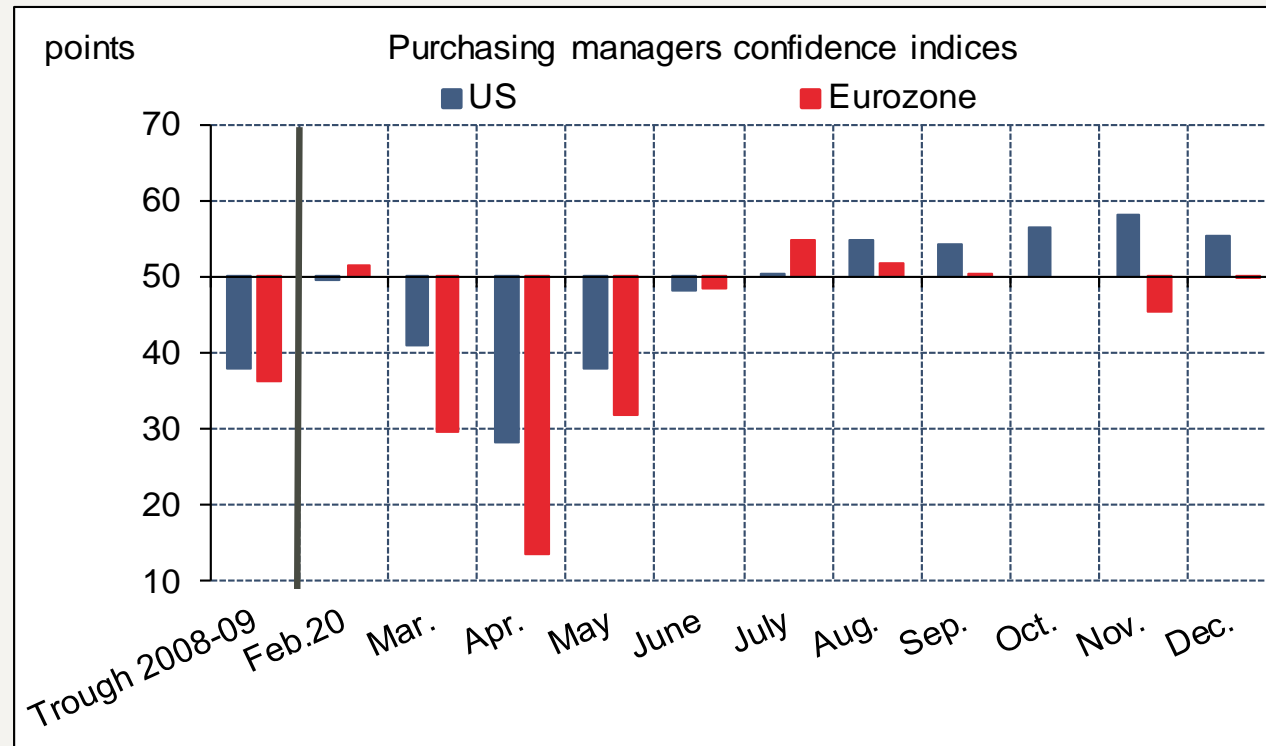
- At the start of the pandemic
 - Stopping the virus = Stopping personal mobility = Stopping economic activity
- Over time...
 - Decrease in the negative impact of the pandemic on mobility
 - Decrease in the negative impact of mobility on activity



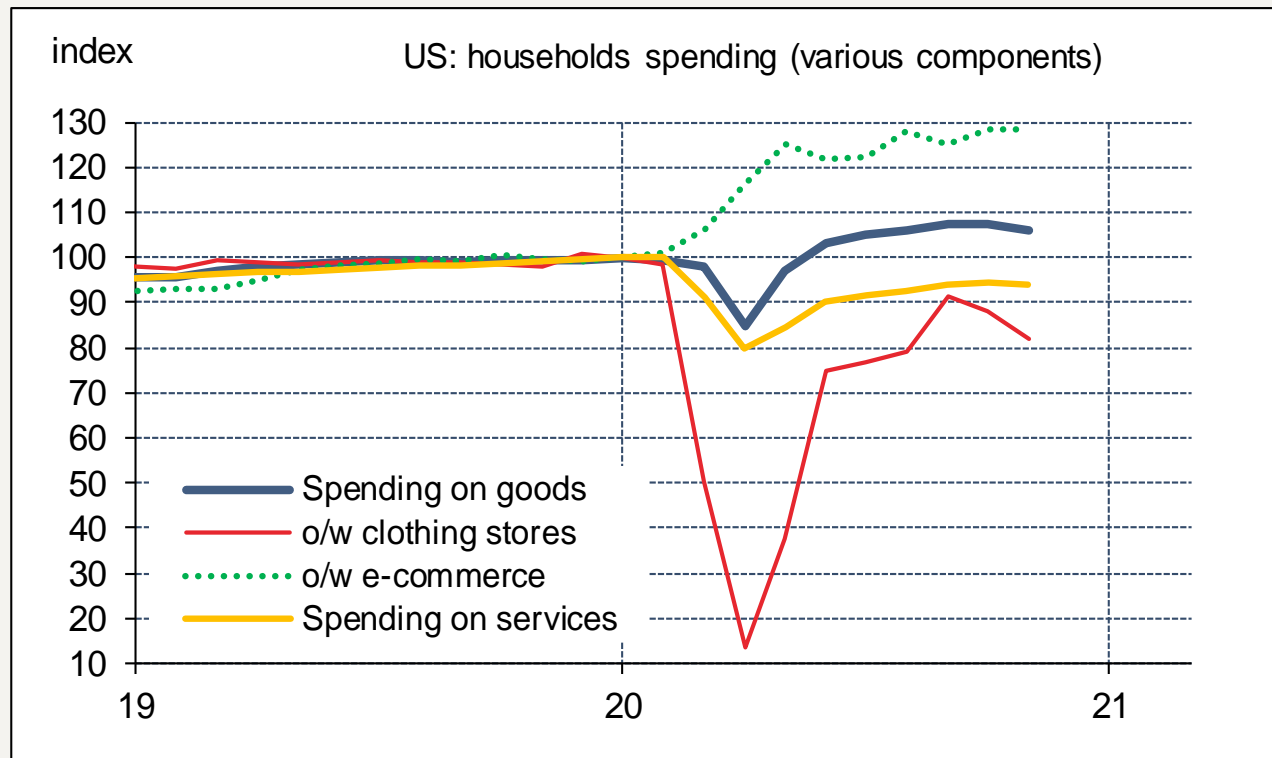
- Reversibility of the shock likely to be higher than usual
 - The Covid-19 recession was event-driven (an exogenous shock), not process-driven as is usual in economic downturns (imbalances or policy tightening, i.e. endogenous corrections)
 - The return to the pre-pandemic level of activity is likely to be quicker than in a typical recession, with fewer economic scars than after the Great Financial Crisis.



- No financial crisis, no credit crunch
 - Financial turmoil is a crisis amplifier as a result of feedback loops on the real economy
 - Policymakers learned the lessons from the Great Financial Crisis, i.e. act swiftly/decisively
 - Financial conditions are back to the pre-pandemic situation, i.e. very accommodative.



- Among businesses, sentiment is close to its pre-pandemic level
 - The corporate depression of March–May (1st lockdown) was swiftly overcome
 - More room for improvement in the services sector
 - Hopes of mass vaccination >>> Disruptions caused by health restrictions

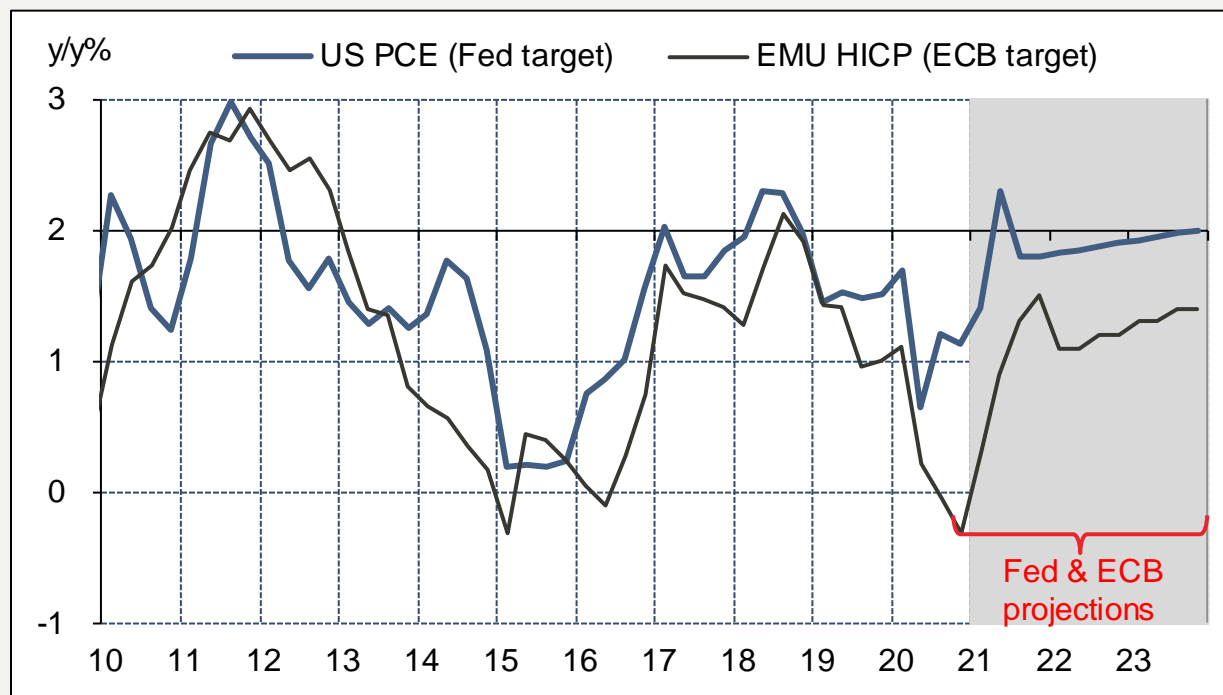


- Among households, confidence is weakened by unemployment fears
 - Overall, higher government transfers have offset lower labor income (“forced savings”)
 - A new pattern of consumption during the pandemic (goods vs services)
 - Pent-up demand likely to revive pandemic-hit industries

Macro outlook

(central case and risks to the outlook)



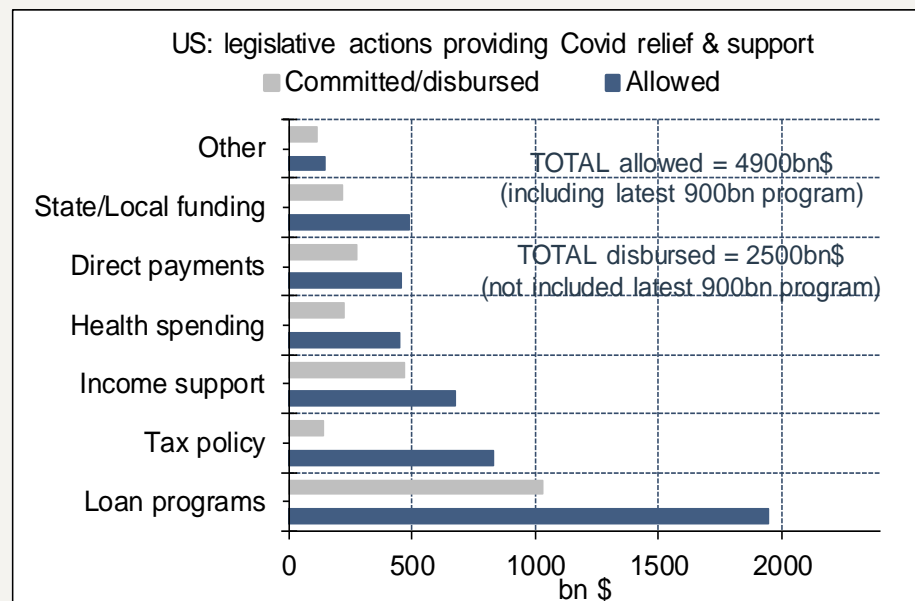
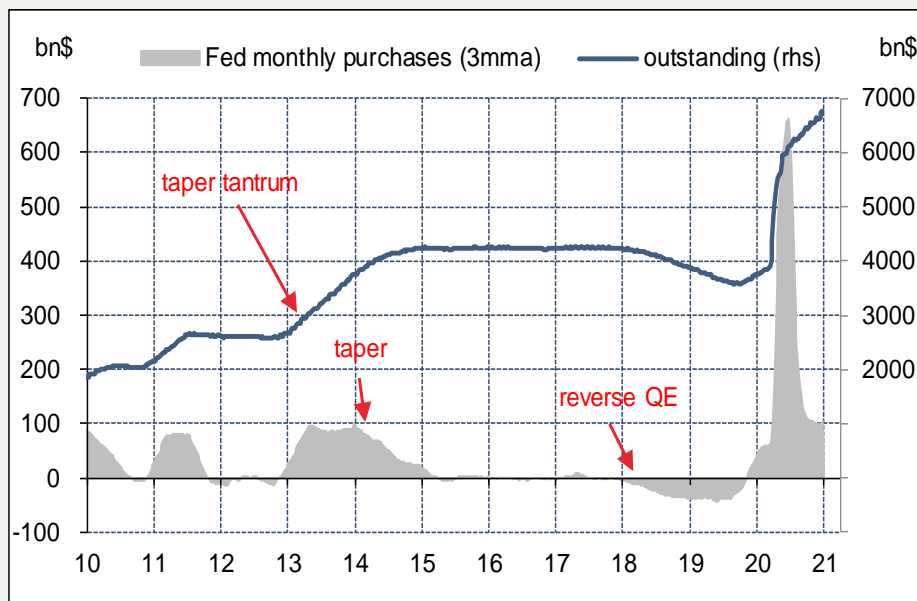


Core inflation is likely to rise while remaining below central banks' targets

- Robust recovery + accommodative policy-stance = reflation hopes. As a mirror image of price dynamics in 2020, strong rebounds are expected in headline inflation figures

Risks to the inflation outlook

- Downside risks are related to the global output gap and secular stagnation dynamics (investment shortfall, ageing). Upside risks are related to a stronger-than-expected economic catch-up.

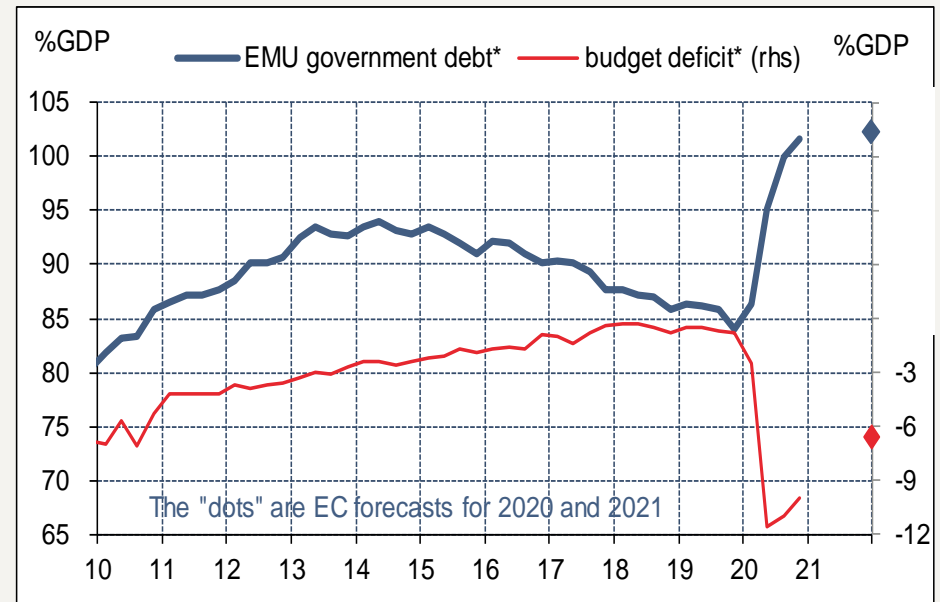
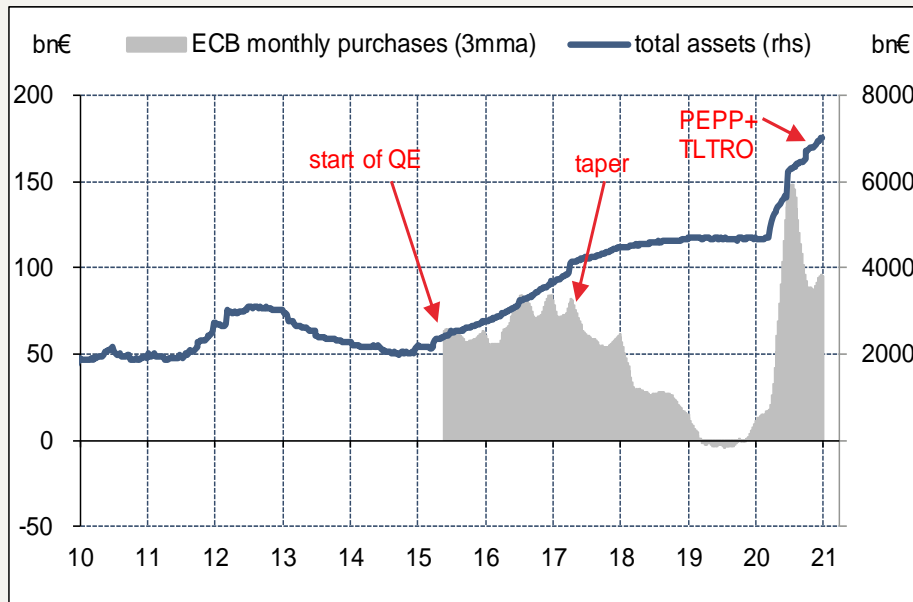


Monetary policy

- The Fed operates under a so-called “FAIT” strategy (flexible average inflation target), i.e. it is committed to keep policy rates at zero even if inflation overshoots the 2% target. The debate on tapering the assets purchases might gain momentum later this year.

Fiscal policy

- The stimulus plan voted at end-2020 is expected to be short-lived. With Democrats controlling the Senate, additional stimulus is likely, along with higher taxes and more regulation.



Monetary policy

- The ECB operates *de facto* under a “yield spread control” strategy, i.e. it adjusts its monetary policy in order to avoid financial fragmentation, both on sovereign and corporate debt market. The exit strategy is not expected to start in earnest before 2023

Fiscal policy

- National fiscal policies are freed from the Maastricht constraints for a second year in a row. The EU Recovery & Resilience Facility is ratified and expected to be rolled out in the coming months.

Real GDP forecasts: ours (updated January 12th) vs others



	FORECASTS - REAL GDP GROWTH*																
	Average			2020				2021				Consensus**		IMF		OECD	
	2019	2020	2021	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	2020	2021	2020	2021
World	2.8	-3.8	5.5											-4.4	5.2	-4.2	4.2
US	2.2	-3.5	4.5	-5.0	-31	33	4.8	2.4	5.1	4.4	3.7	-3.6	4.0	-4.3	3.1	-3.7	3.2
EMU	1.3	-7.1	5.1	-14	-39	60	-8.2	3.3	12	6.7	3.3	-7.3	4.7	-8.3	5.2	-7.5	3.6
- Germany	0.6	-5.3	4.5	-7.4	-34	38	0.0	-4.0	17	6.2	3.3	-5.4	3.9	-6.0	4.2	-5.5	2.8
- France	1.5	-9.1	6.4	-22	-45	98	-16	5.0	16	6.0	3.1	-9.3	5.9	-9.8	6.0	-9.1	6.0
- Italy	0.3	-8.8	5.7	-20	-43	80	-7.9	3.5	7.6	7.2	4.1	-9.0	4.9	-10.6	5.2	-9.1	4.3
- Spain	2.0	-11.4	5.6	-19	-55	84	-5.1	3.5	9.4	9.0	6.1	-11.7	6.1	-12.8	7.2	-11.6	5.0
UK	1.4	-10.1	4.0	-11.5	-56	81	0.0	-15	26	13	2.8	-11.1	5.3	-9.8	5.9	-11.2	4.2
Japan	0.3	-5.2	3.0	-2.1	-29	23	6.1	2.8	2.0	2.0	2.0	-5.3	2.6	-5.3	2.3	-5.3	2.3
China (y/y%)	6.2	1.9	9.8	-6.8	3.2	4.9	6.1	19	7.9	6.7	5.5	2.1	8.0	1.9	8.2	1.8	8.0

* y/y or q/q annualised rate, except for China (y/y% only)

**7 Dec. 2020

13 Oct.2020

1er Dec.2020

- Downside risks in Q1 ⇒ negative impact on 2021 GDP growth average
- To be offset over Q2-Q3 ⇒ no impact on end-2021 level of real GDP
- Above-trend growth in H2 2021, and likely also in 2022
- Forecasts' uncertainty for 2021 higher than usual
- Bottom line: room for positive surprises in 2021



03 OPPORTUNITIES & POSITIONING

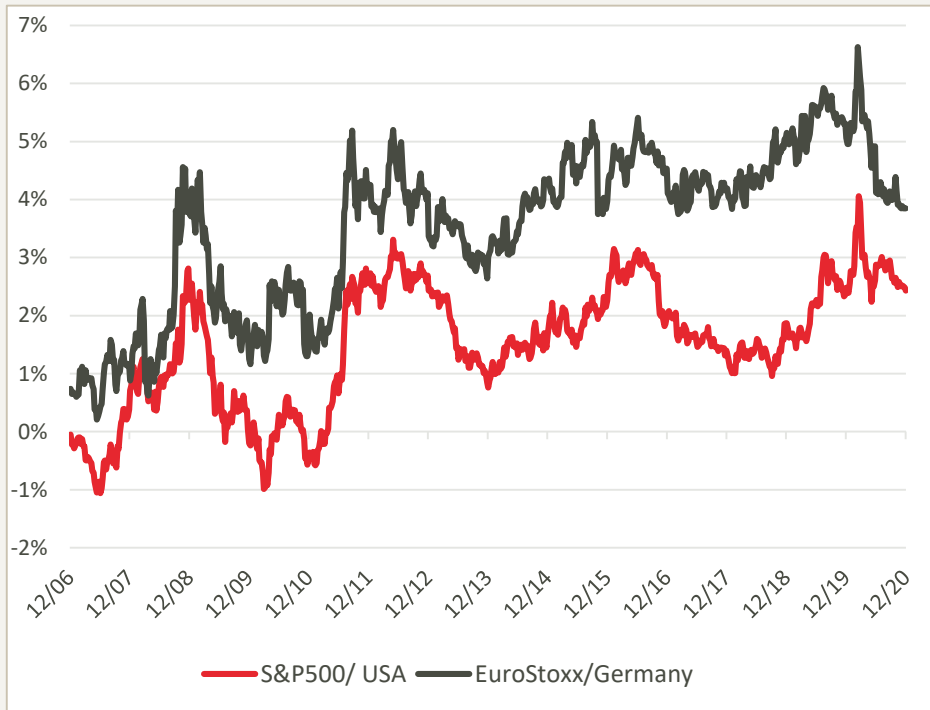
Two major game changers



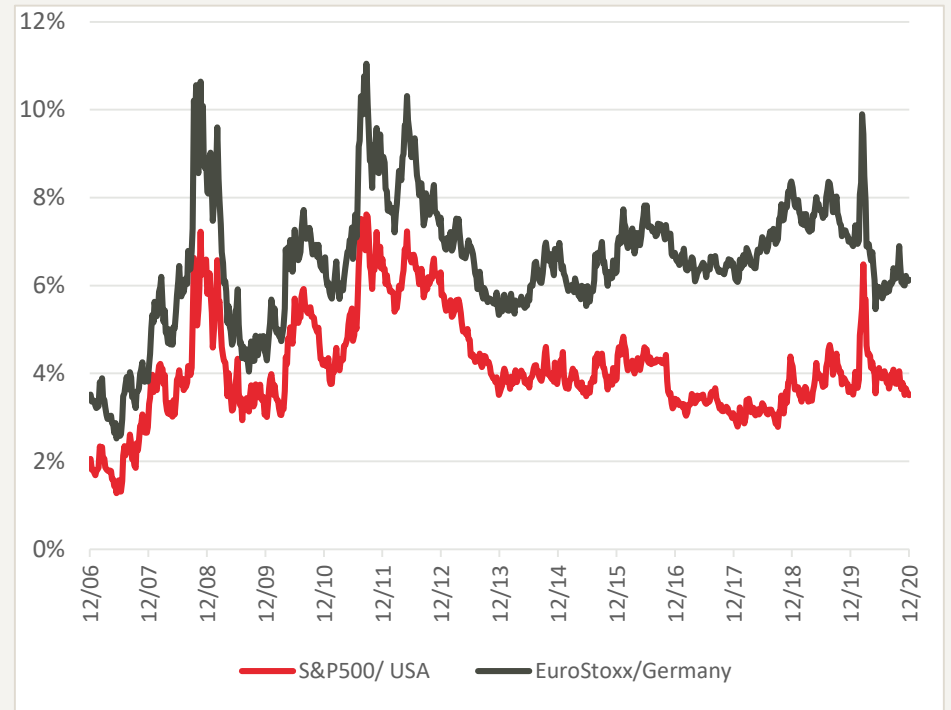
As we expect a strong economic rebound, favor equities over fixed income



Dividend Yield (12mth fwd) - Sovereign real yield (10Y)



Return on shares (1/PE) - sovereign rate (10 year nominal yield)



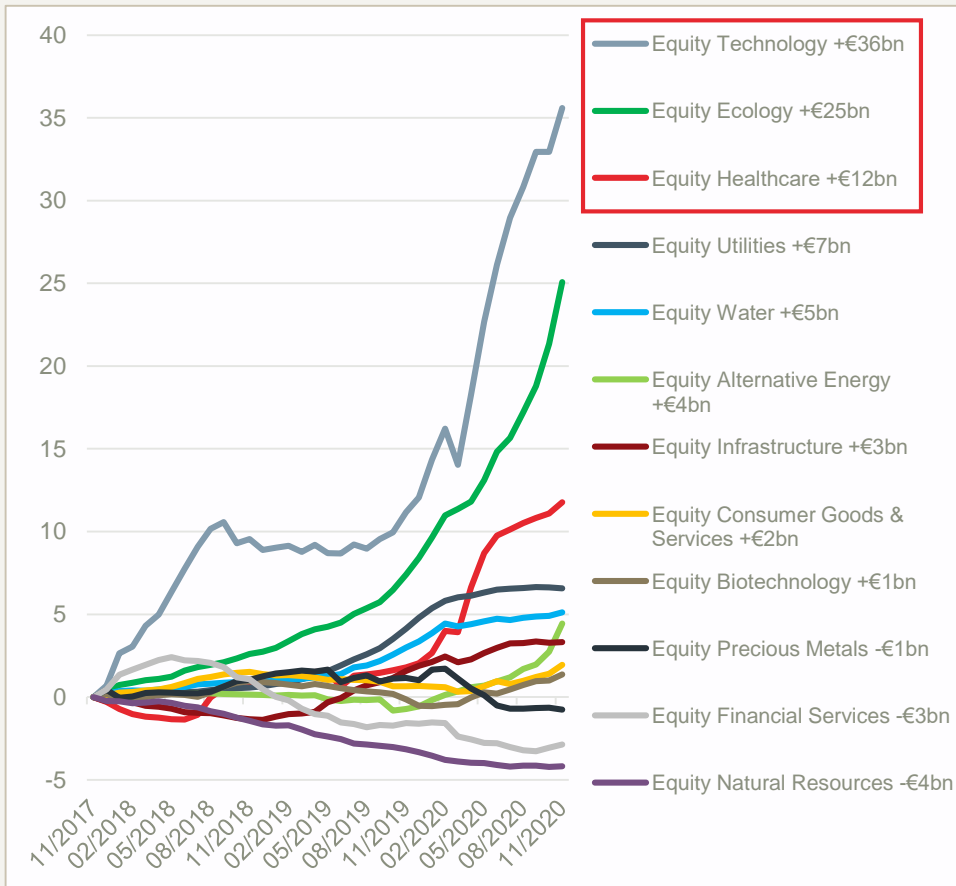
Equities
Our convictions



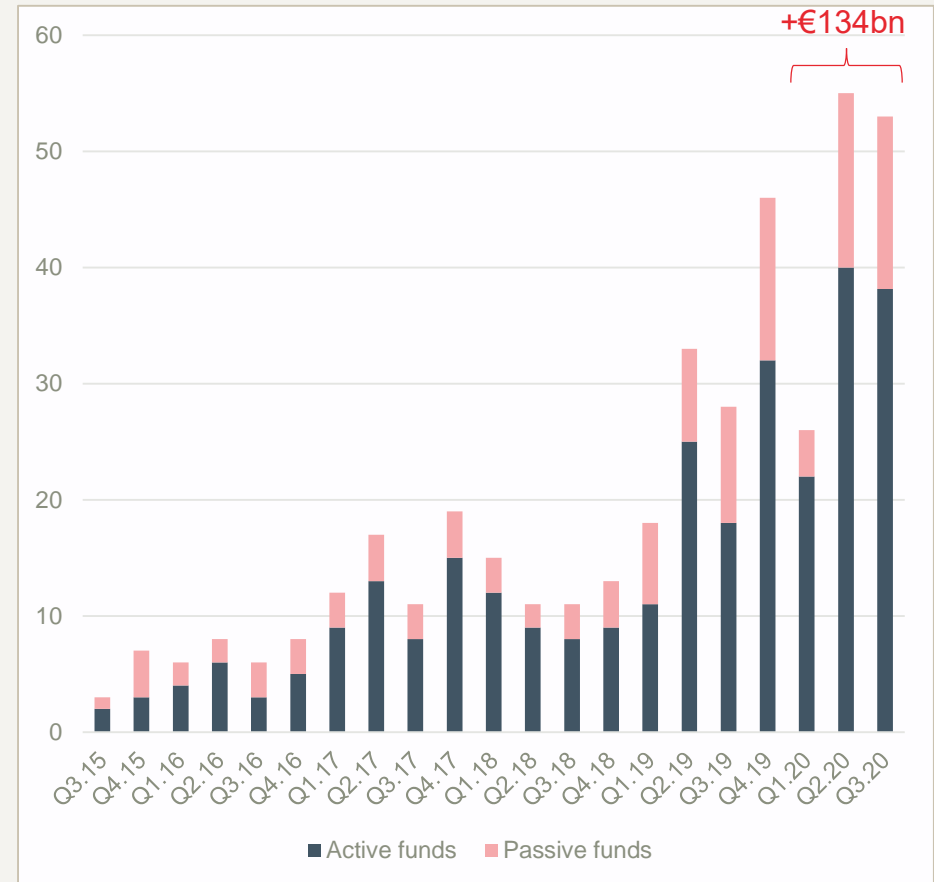
The Covid19 crisis is an accelerator of structural trends



Cumulated net flows over 3 years - sectors breakdown

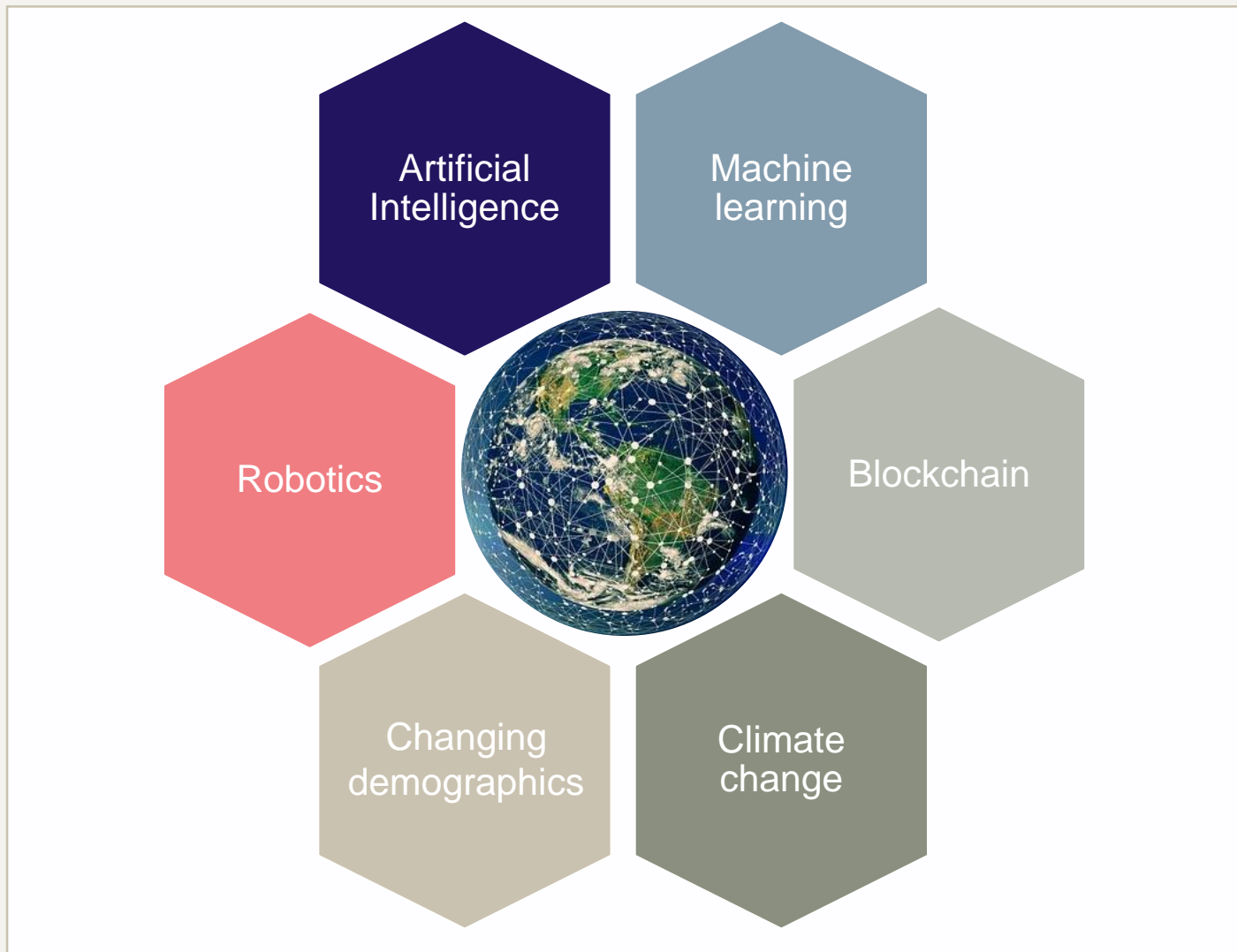


Quarterly ESG fund flows (€bn)



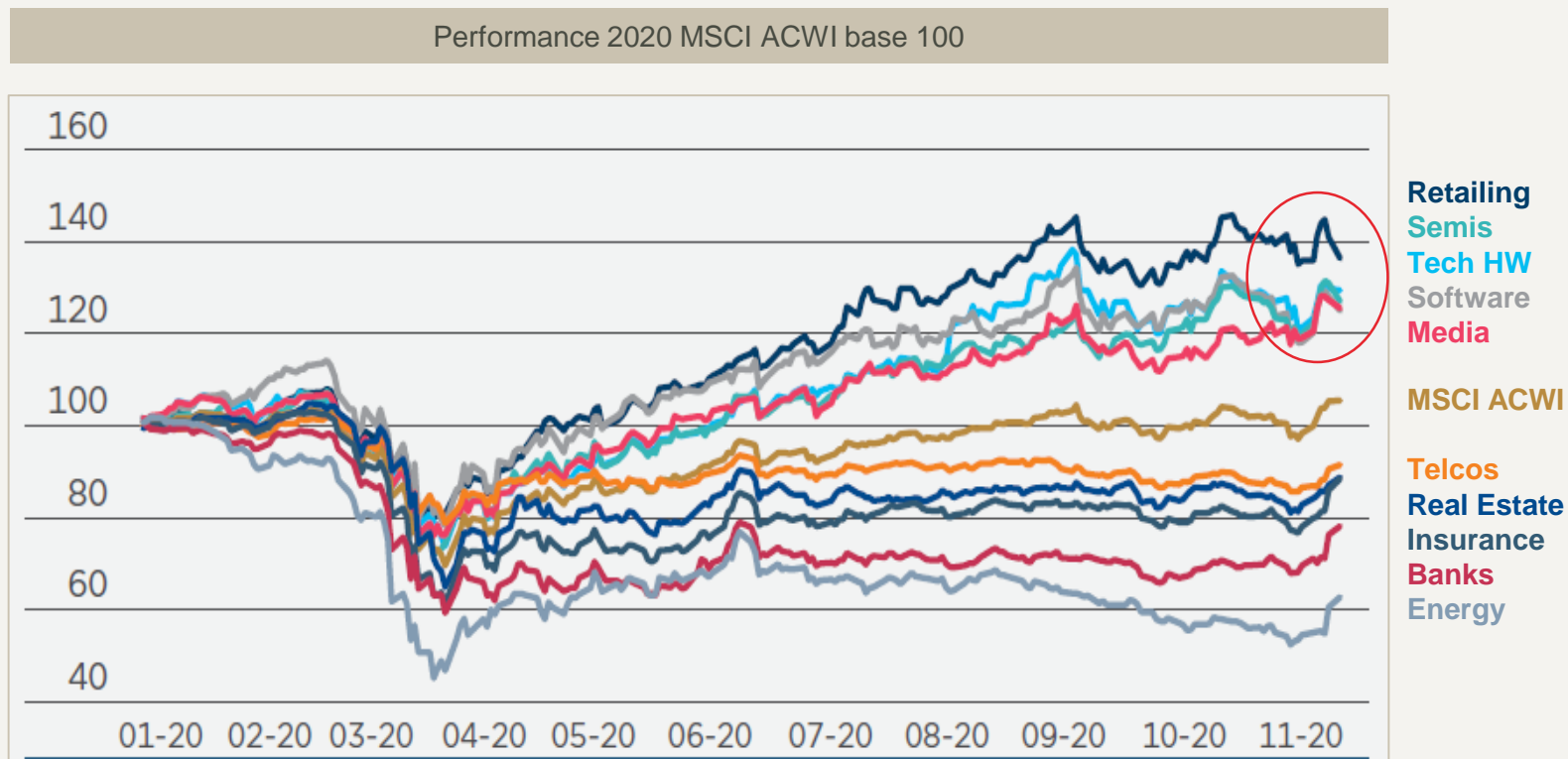
Sources: ODDO BHF AM, Morningstar. (exc. MM & ETFs) | Data as of 11/30/2020

How to capture value out of disruptive megatrends?



Sources: ODDO BHF AM, Towards 2050: Megatrends in Industry, Politics and the Global Economy, BMI Research 2018 edition

Invest in global thematic equities on a long-term basis



Sources: ODDO BHF AM, Datastream as of November 2020

Invest in the ecological transition for steady performances and alpha creation



Performance of indices over 5 years



A global momentum



- **COP21:** 195 countries have ratified a historic agreement with the aim of keeping temperature increase below 2°C above pre-industrials levels
- But the defined commitments put the world on a warming trajectory of +2.7 to +3.1°C
- **European Green Deal:** European Commission proposal to dedicate 25% of the EU budget to climate transition and to reduce GHG emissions by 55% compared to 1990 levels by 2030.
- **Acceleration of investments in China** (€52bn in 2020, new target to reach carbon neutrality by 2060)
- **New potential momentum in the USA** with the election of Joe Biden (2,000bn\$)

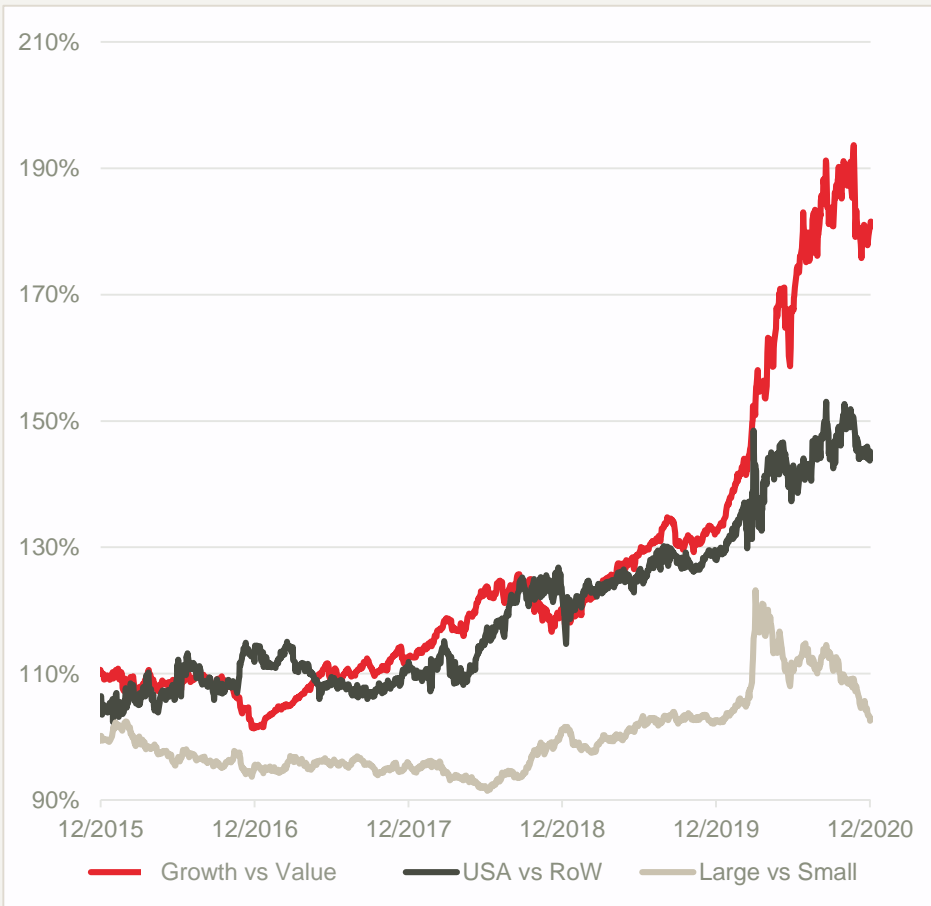
An annual investment need
from \$1,500bn to \$2,000bn

Opportunities for investors able to participate
in this new global momentum

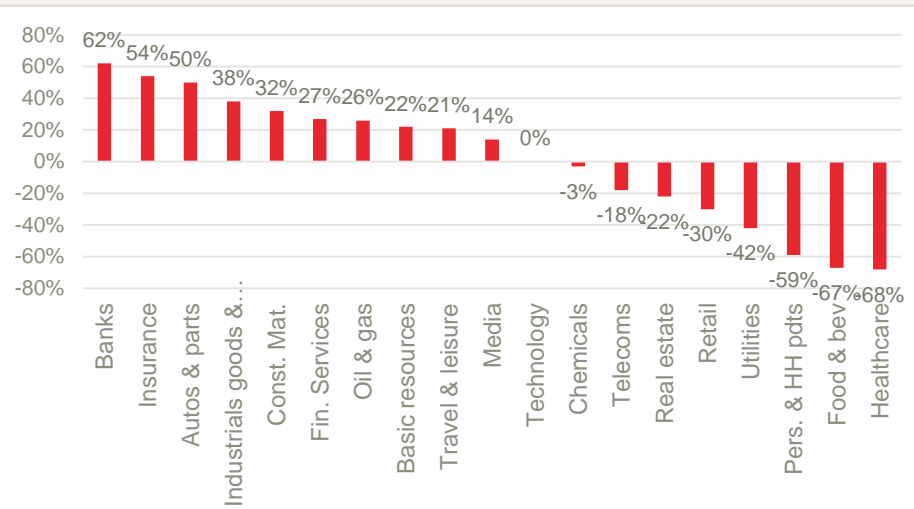
The “post Covid” period favors some rotation in sectors/size/geography/style



Performance gaps



European sectors correlation to US bond yield (10y)



Why now?

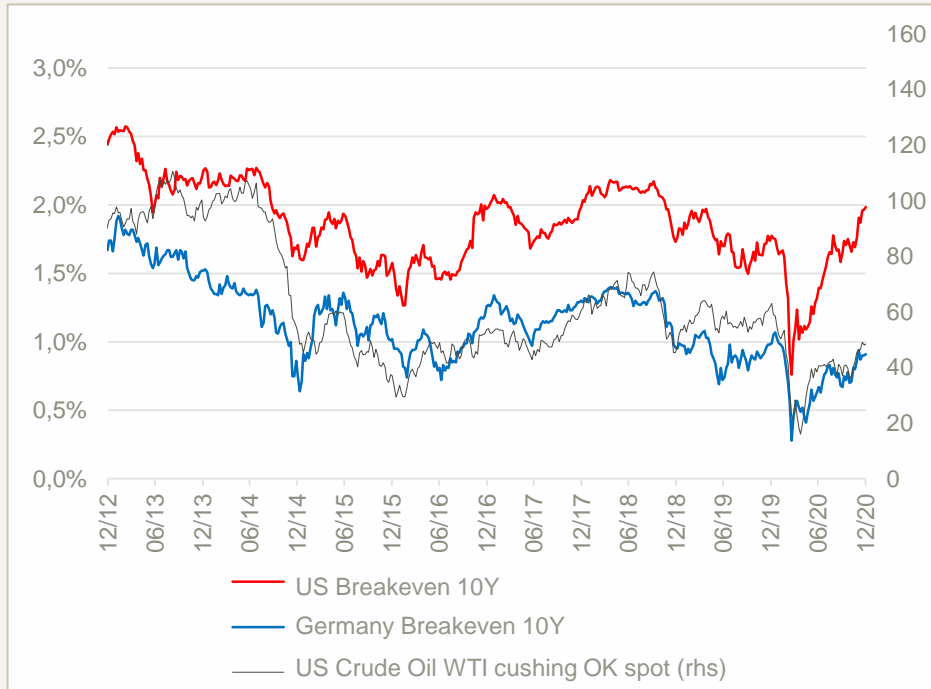
- The vaccines are a game changer
- Ratification of recovery funds has been implemented, bigger plans in the US
- Stronger than expected rebound for the economy
- Reopening of the economies will unleash forced savings
- Political risk fading in the US and in Europe
- Stabilization of the oil output
- And maybe confidence coming back...

Source: ODDO BHF AM , Bloomberg, 12/15/2020 | Bloomberg finance L.P

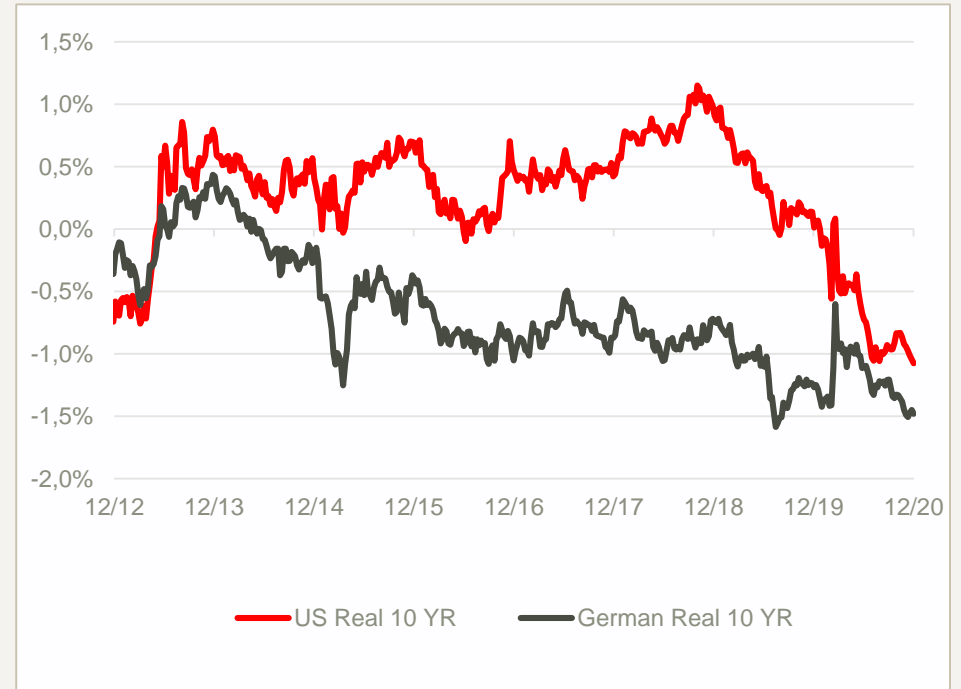
Slightly higher real rates and steeper curves: the ingredients of the rotation



US and Germany 10Y breakeven and US WTI

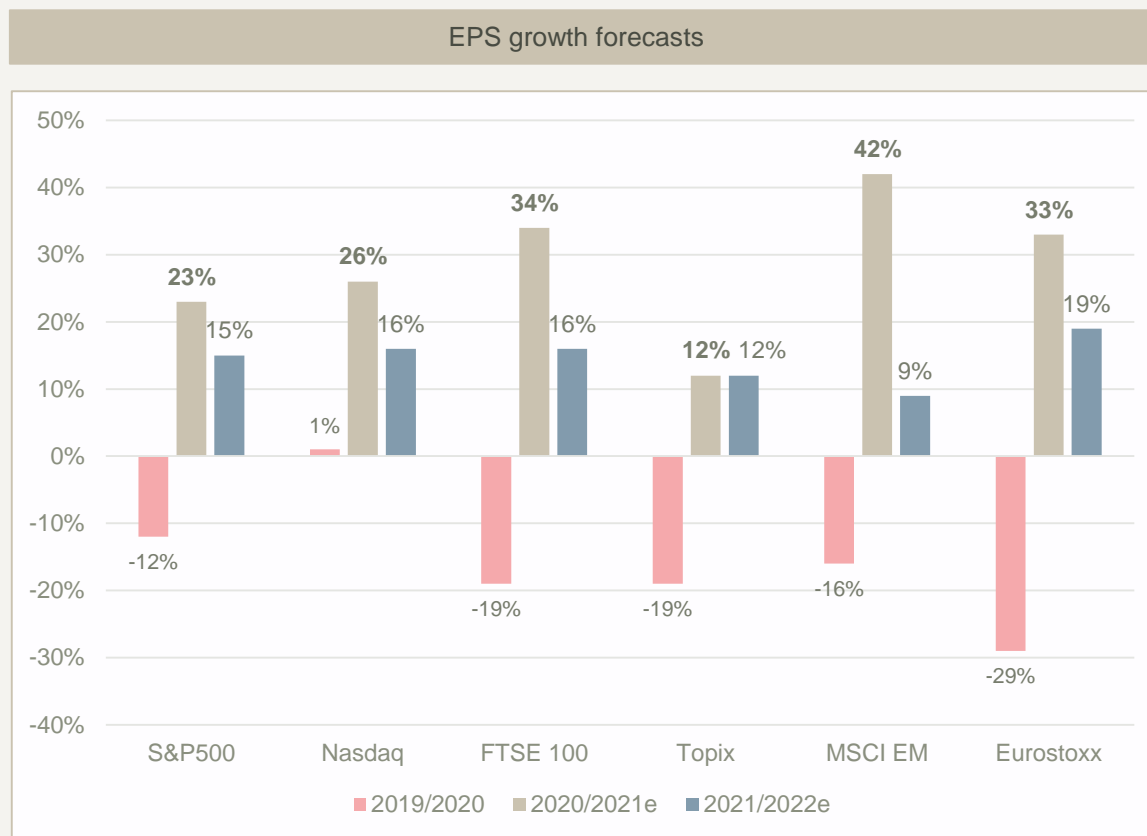


US & German real yields 10 years



Source: ODDO BHF AM, Bloomberg, data as of 12/31/2020

Performance will be driven by EPS growth and not PE expansions



Sources: ODDO BHF AM SAS, Bloomberg | Figures as of 12/31/2020

Sectors: favor those that should benefit from the recovery through EPS growth



	Europe				US			
	12-month forward P/E, dec. 2020	2020 EPS growth	2021 EPS growth	Dividend yield	12-month forward P/E, dec. 2020	2020 EPS growth	2021 EPS growth	Dividend yield
Eurostoxx 600 / S&P 500	17,5 x	-29%	33%	3,0%	23,3	-17%	31%	1,5%
Commodities								
Basic resources	12,1 x	1%	43%	4,6%	22,1	-14%	43%	1,9%
Oil & Gas	14,5 x	-85%	307%	4,8%	47,2	-58%*	21%*	2,9%
Cyclicals								
Automotive and spare parts	9,5 x	-86%	713%	3,0%	49,8	-90%	153%	0,2%
Chemicals	23,2 x	-23%	37%	2,4%	24,8	-21%	30%	1,8%
Construction and materials	17,6 x	-25%	33%	2,8%	31,2	1%	7%	0,8%
Industrial goods and services	22,8 x	-30%	33%	2,1%	24,6	-42%	51%	1,6%
Media	17,9 x	-32%	27%	2,7%	17,6	3%	11%	1,5%
Technology	28,7 x	-6%	18%	1,0%	28,7	2%	26%	1,0%
Travel & leisure	-260,7 x	-341%	97%	0,8%	21,9	-19%	35%	2,7%
Financials								
Banks	11,0 x	-51%	36%	4,6%	14	-37%	25%	2,7%
Insurance	10,1 x	-23%	35%	5,4%	11,9	-8%	18%	2,6%
Financial services	14,9 x	-17%	-10%	2,8%	21,8	-11%	22%	na
Real estate	18,6 x	-6%	12%	3,4%	45,8	-21%	25%	3,2%
Defensives								
Food & beverages	19,9 x	-13%	10%	3,1%	18,2	3%	5%	3,6%
Healthcare	18,0 x	-1%	10%	2,6%	17	2%	40%	1,6%
Household & personal care	18,4 x	2%	3%	3,0%	25,4	14%	3%	2,2%
Retailing	24,8 x	-50%	80%	2,2%	35,8	-1%	28%	0,5%
Telecommunications	14,2 x	-3%	9%	4,8%	22,7	-6%	26%	1,0%
Utilities	17,3 x	-9%	13%	4,2%	17,7	5%	-10%	3,5%

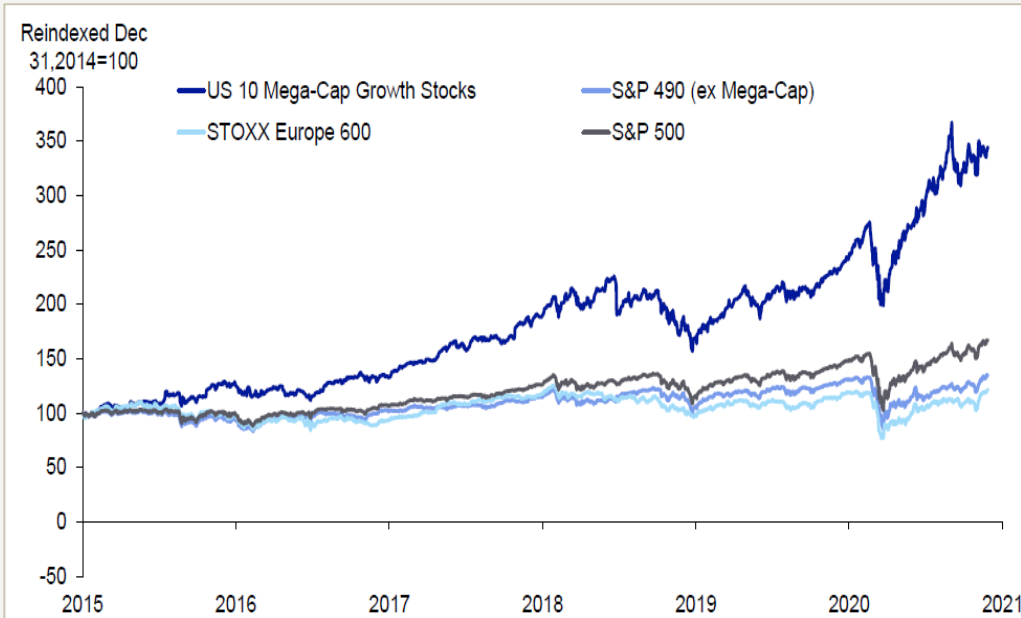
*data taking into account only companies with positives results, otherwise, negative expectations.

Source: ODDO BHF AM SAS, FactSet. Figures as of 01/04/2021

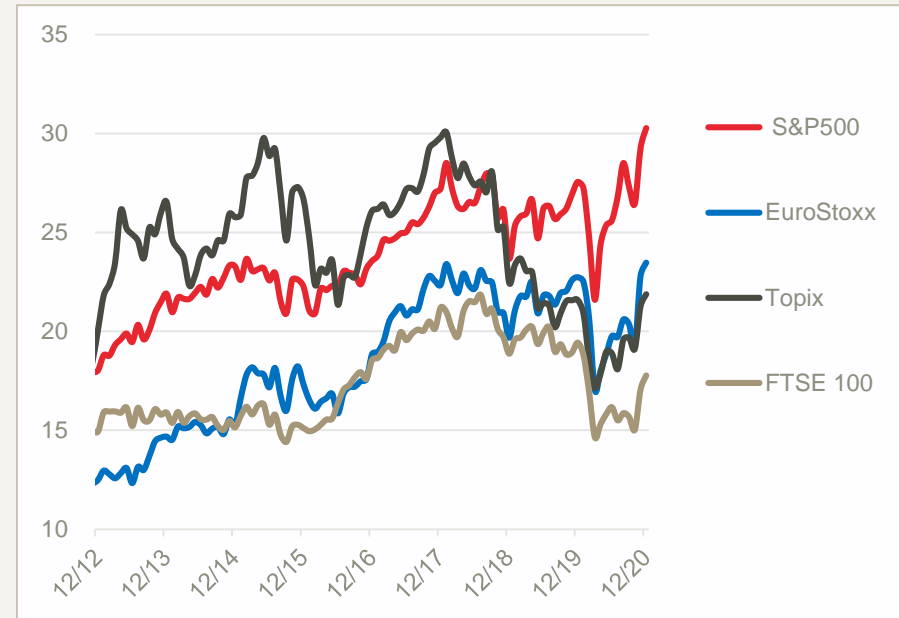
Geography: favor European stocks (including UK 😊)



Market caps in USD terms



10 years CAPE

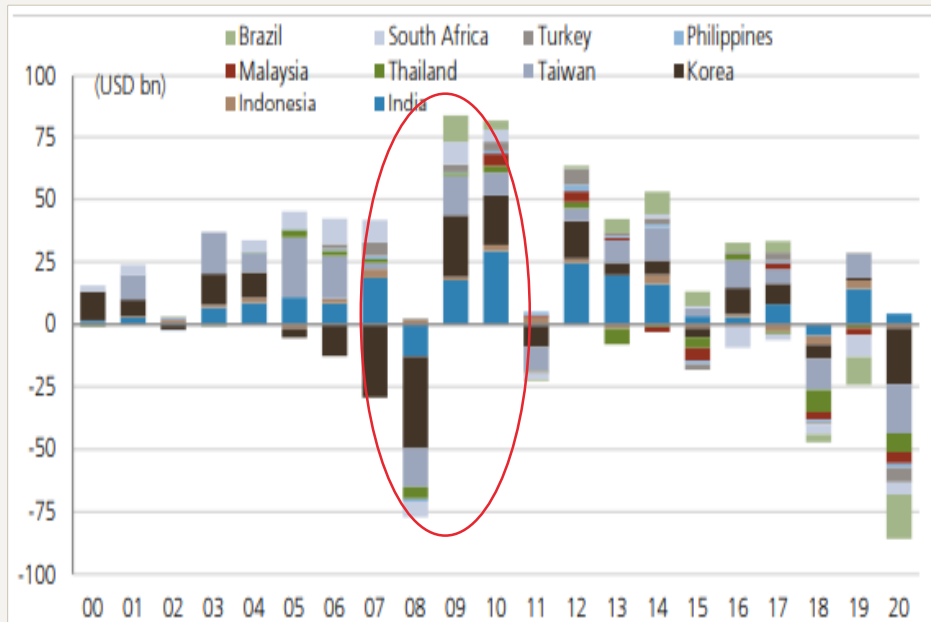


- ✓ Earnings catch-up vs US
- ✓ More attractive valuations
- ✓ A bigger tilt to cyclical names
- ✓ More diversified indexes after the tech rally in the US

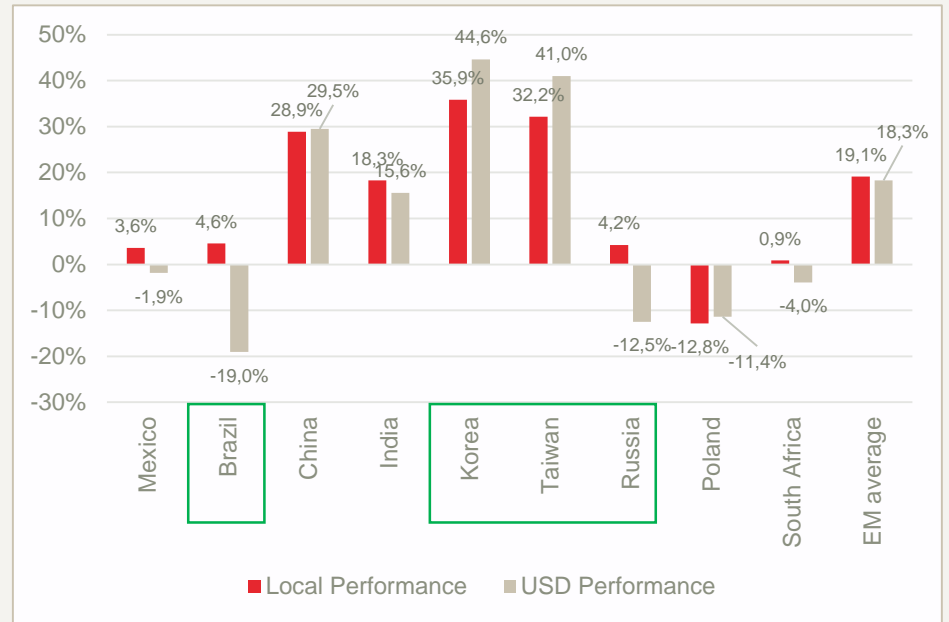
Geography: EM equities as a tactical play



Cumulative flows into EM ex China equities have room to rebound



Equities performance on major emerging markets

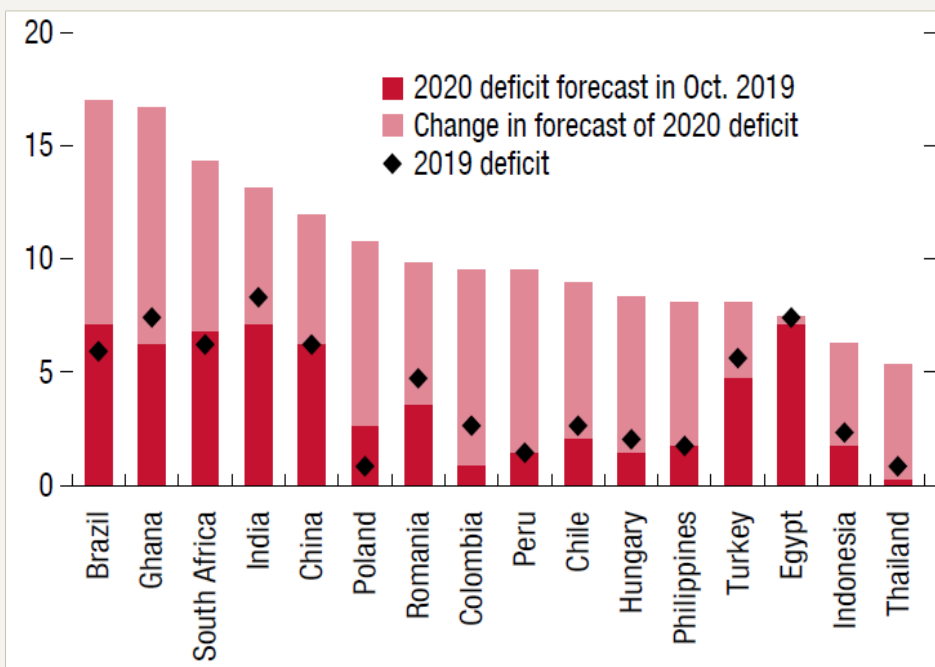


Sources : UBS, ODDO BHF AM, data as of 01/2021, Bloomberg, data as of 12/31/2020

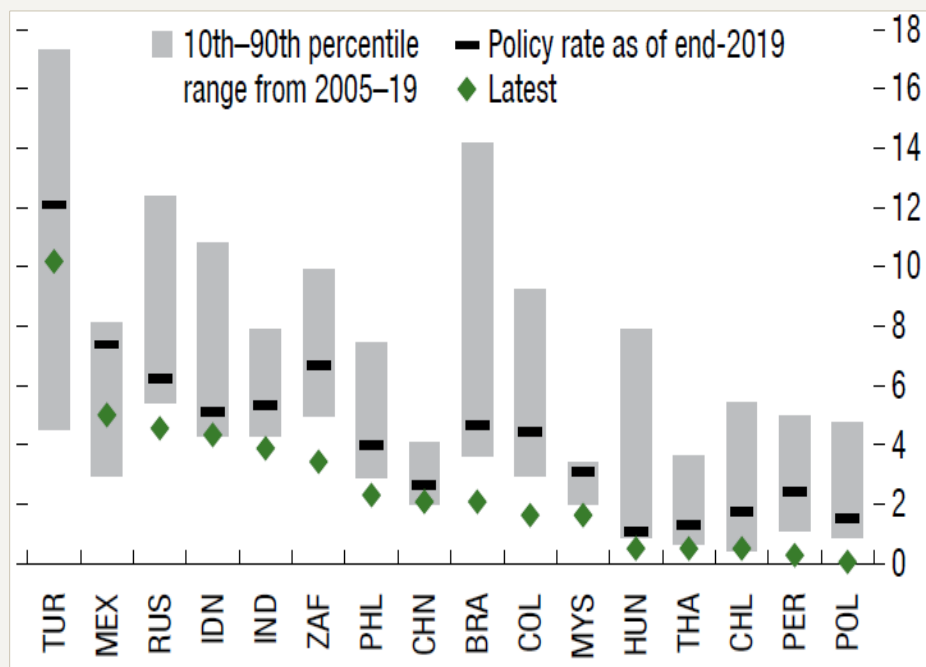
Geography: Yet EM equities remain vulnerable



Deficit to GDP ratio mostly elevated

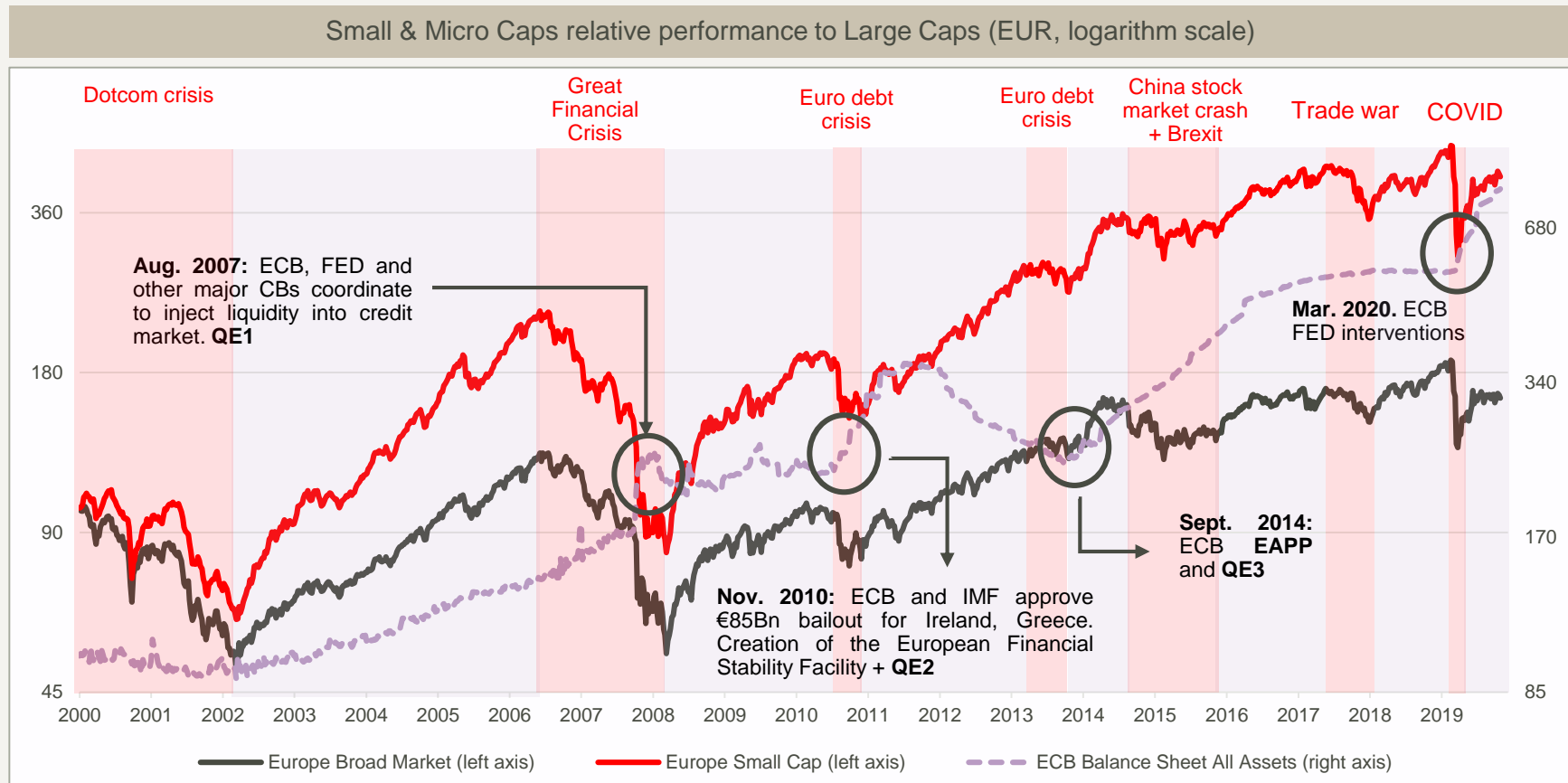


Central Banks with compressed leeway



Sources : ODDO BHF AM, UBS, IMF, 12-2020

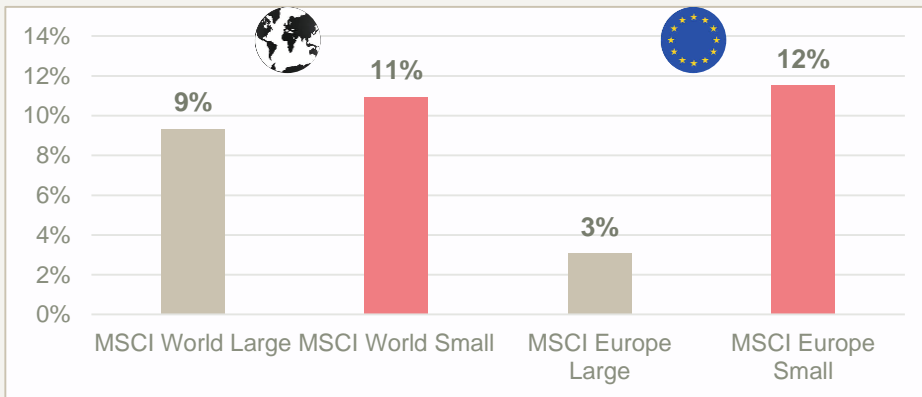
Size: Small Caps have traditionally been the main beneficiaries of relaunch policies



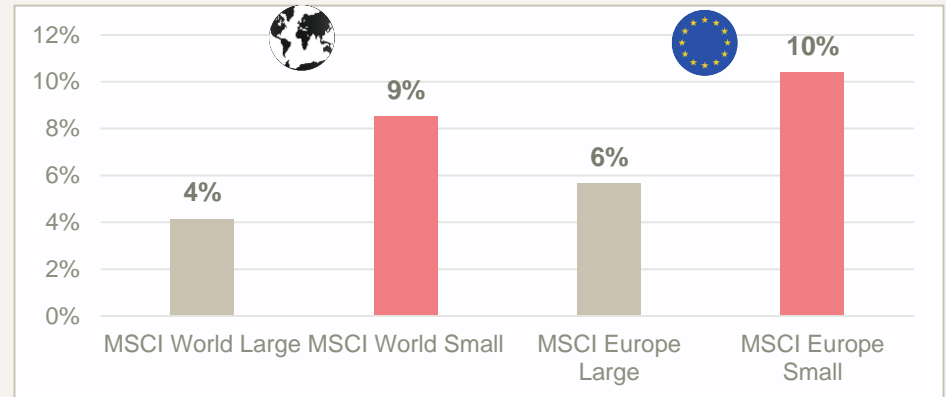
Sources : ODDO BHF AM, Bloomberg, data as of 12/31/2020

Size: favor small caps with attractive valuations and that will benefit from the rebound

Performance of Small vs Large caps – CAGR 2010-2021



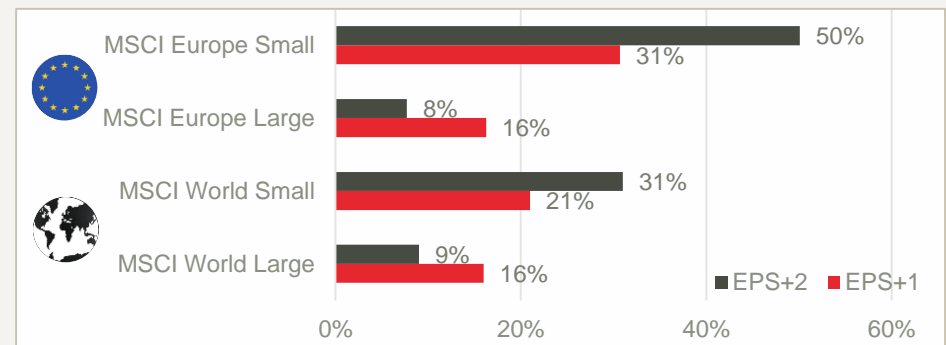
EPS Growth of Small vs Large caps – 2015-2019



Trailing PE

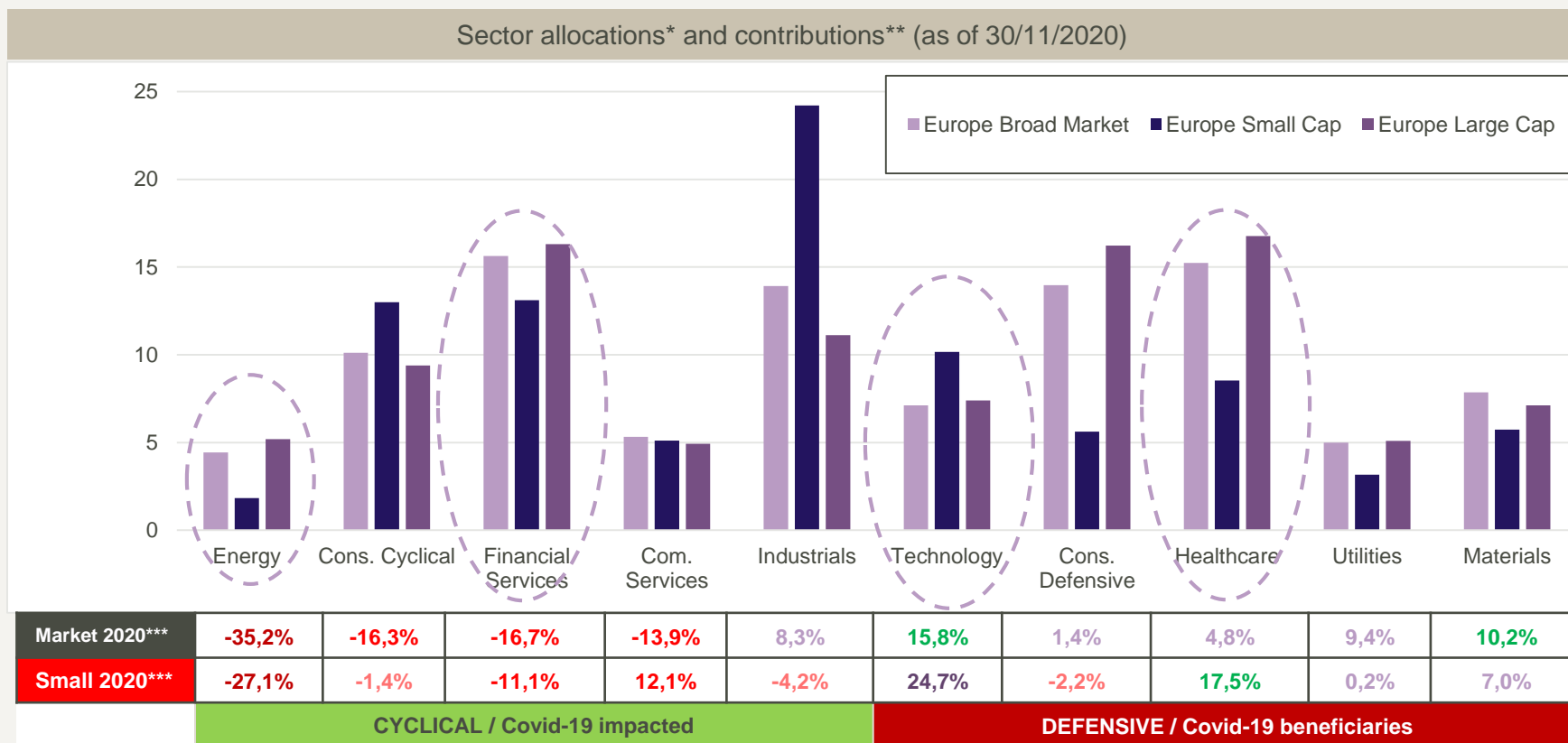
Trailing PE (based on EPS 2019)	Current	Histo
Smid	21,8	18,9
Large	23,6	18,5

Expected EPS Growth of Small vs Large caps – 2021 / 2022



Sources : ODDO BHF AM, data as of 12/31/2020

Size: Small caps are over-weighted on cyclical sectors

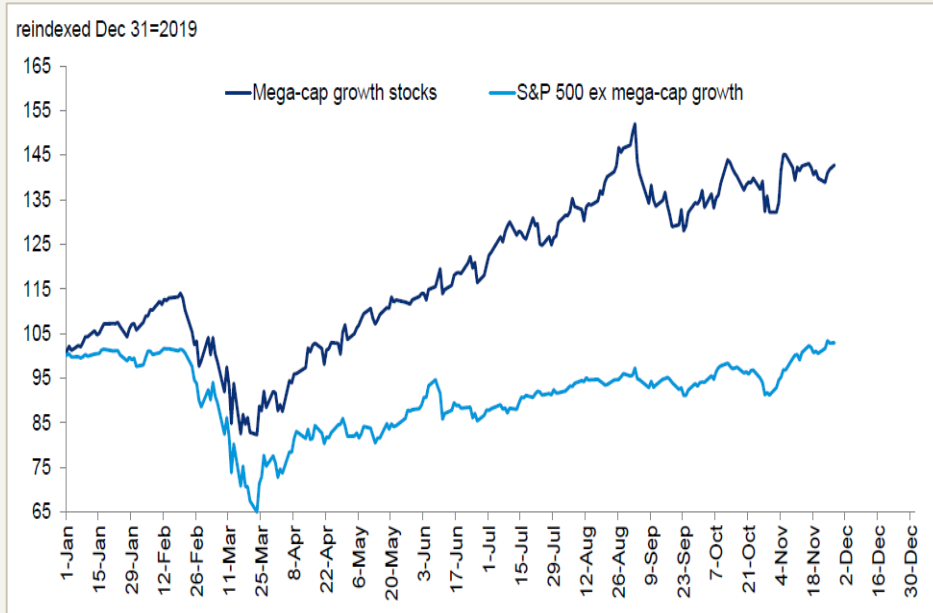


Sources : ODDO BHF AM, *Morningstar Direct. **MSCI | Data as of 31/12/2020 | *** Data as of 30/11/2020

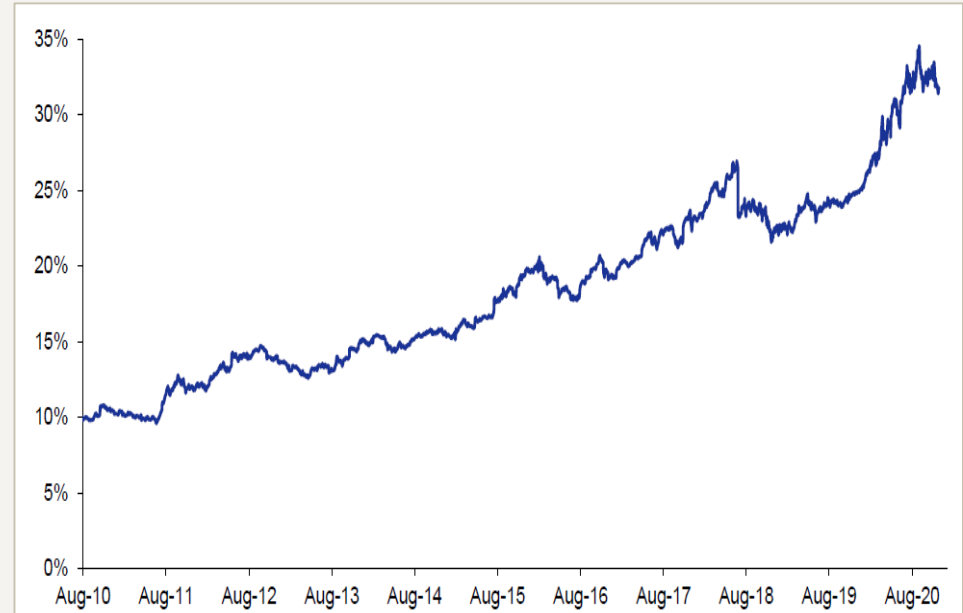
Style: Time to take profit on bond proxies & some tech names



S&P 500 mega-cap growth vs others



Proportion of S&P500 contributed by the top 10 mega-cap growth stocks



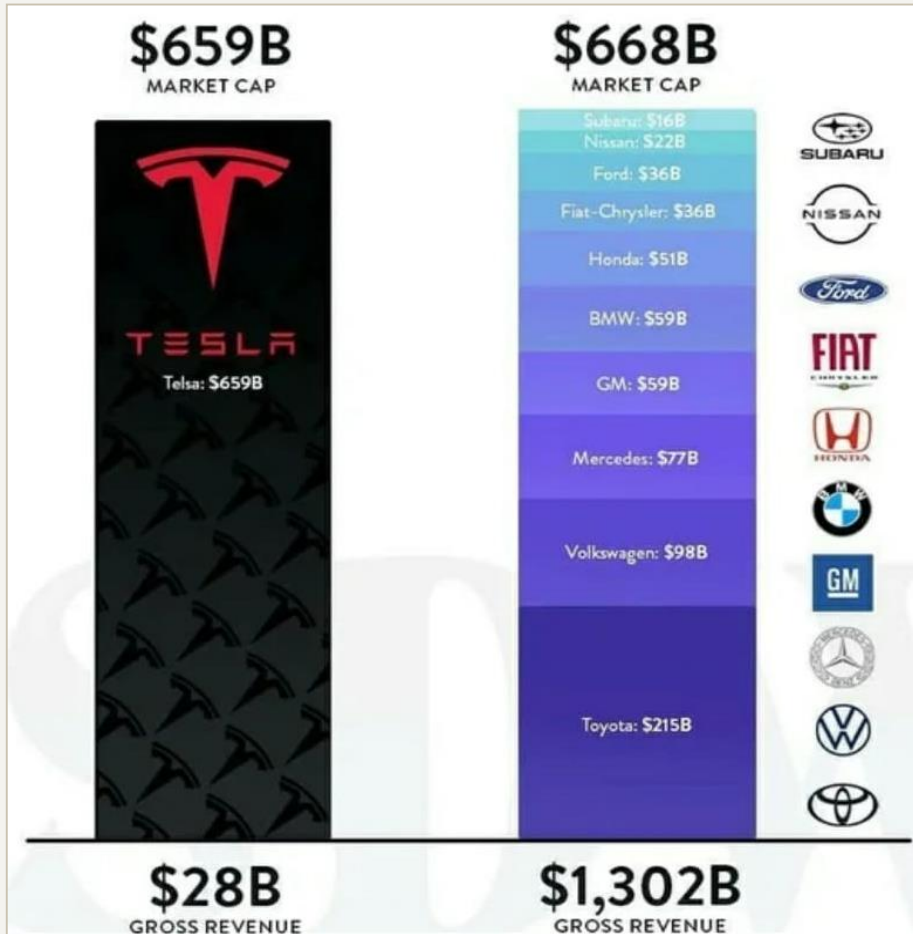
Top 10 mega stocks include: Microsoft, Apple, Amazon, Google, Facebook, Visa, Mastercard, NVIDIA, Netflix, Adobe

Source: ODDO BHF AM, DB Global Research, Bloomberg, Finance "LP

Style: But what is irrational or new reality?



Tesla vs competitors



Tesla, speculation or anticipation?

Yes, a performance driven by:

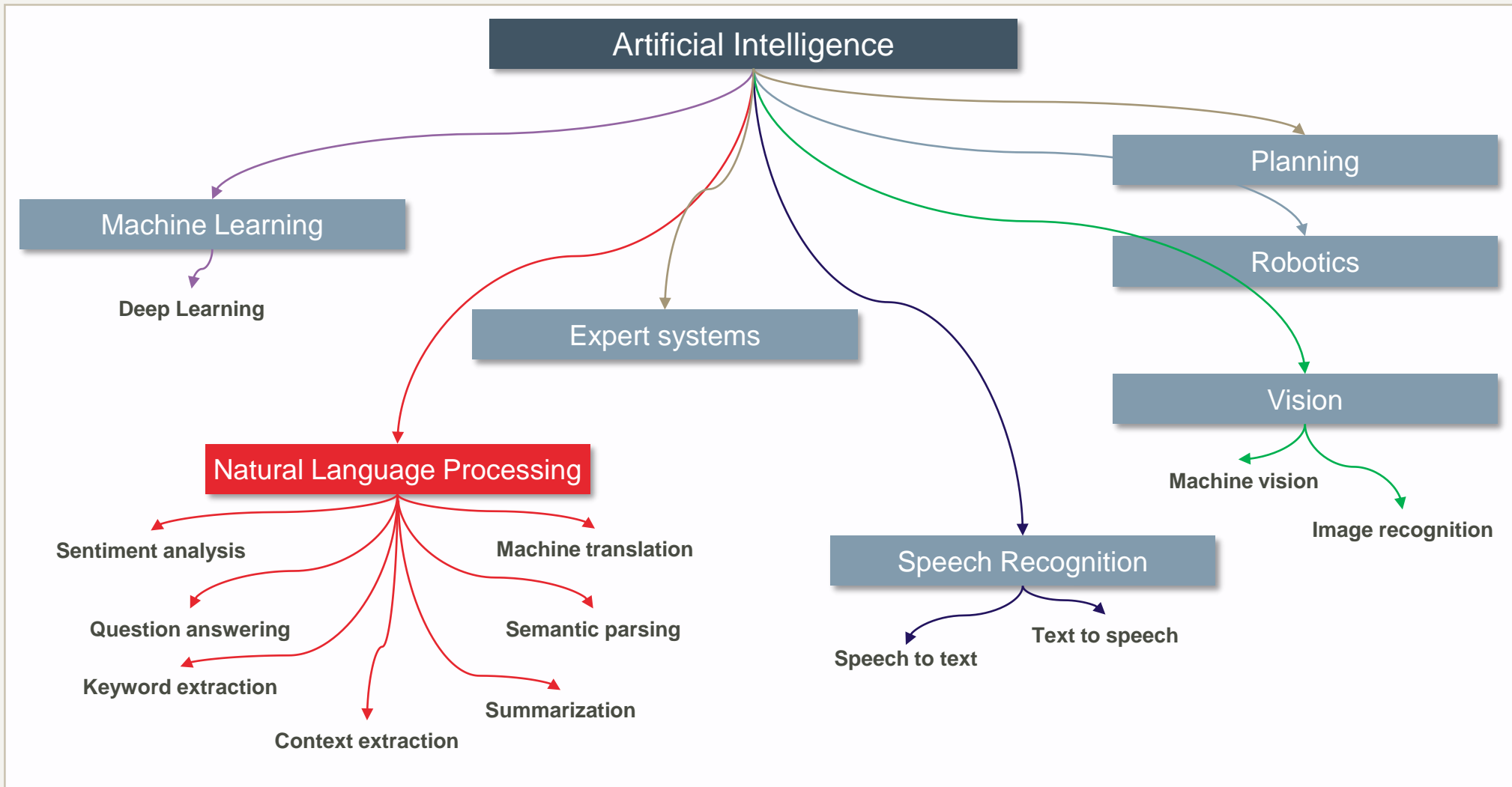
- Central banks and excess of liquidity
- Its entry in the S&P500
- Retail investors: Robinhood
- The « aura/personality » of Elon Musk

Yet:

- An industry forced to change due to climate emergency & governments policies
- Tesla produced only 500,000 cars but it is already more than all competitors' electric cars
- Very advanced factories allowing to produce on the main markets & continents
- A strong technological edge & imposing its standards
- Advanced software & client relationship: online sales & remote update of cars' software
- Competitors facing several barriers: talents, investment, organizational change & refusal to change

A way to do it with method: Artificial intelligence & Natural Language Processing (NLP)

An approach to analyze unstructured data

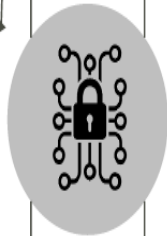




Language is multi dimensional

Natural Language Processing is a really complex topic in Computer Science and Machine Learning

Textual data is highly dimensional (languages, words, characters, combinations of words and characters)



Context matters ("Apple is a company" VS "I eat an apple")

Irony and humor are difficult concepts for computers

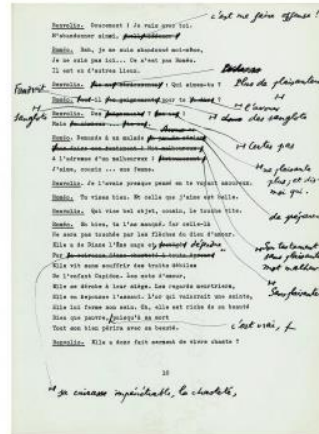
Words don't mean anything (Happy? I am happy. I am not happy)

How to structure « unstructured »...

A computer only understand matrices of numerical data, any text must be translated accordingly



What we see



What the computer sees



- Bag-of-words
- Tf-idf
- Word2Vec
- Entity extraction
- Etc ..

How ?

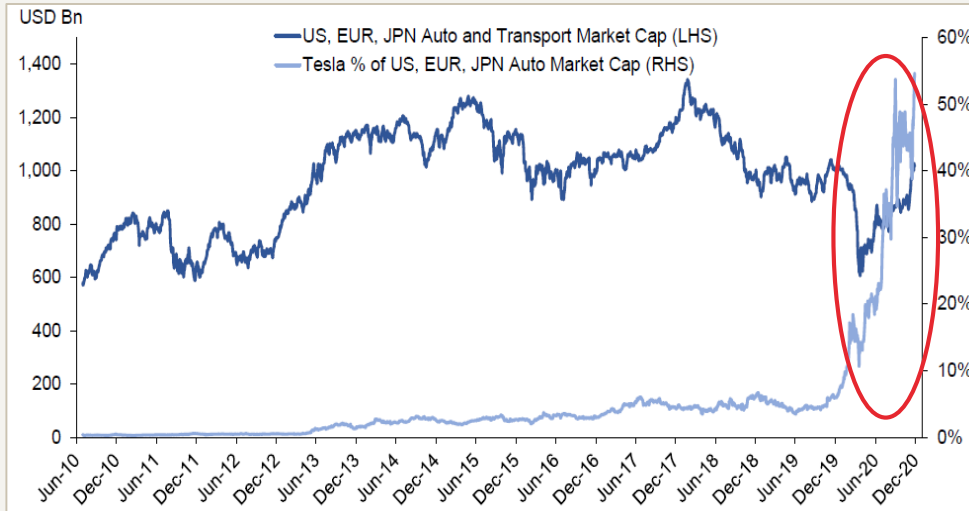
80%

of the world data today is unstructured data

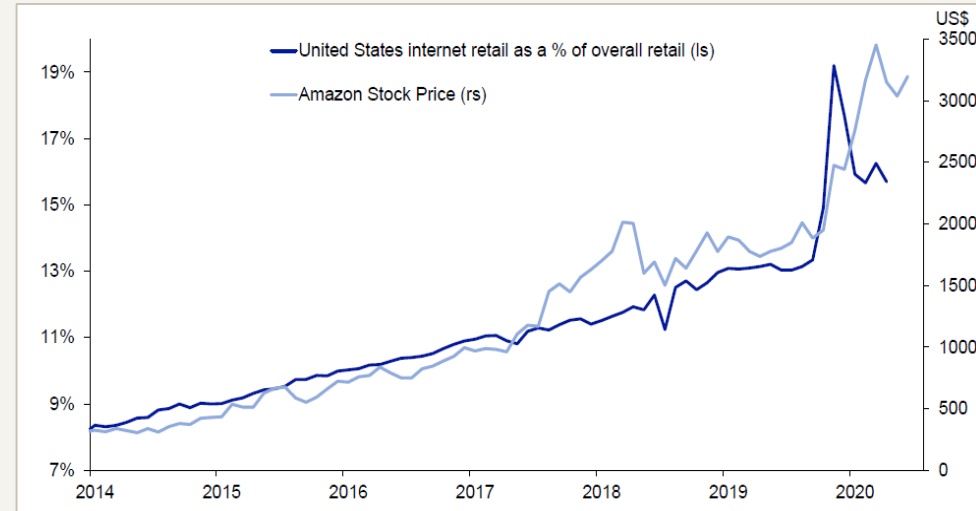
It allows us to “disrupt ourselves” in the way we analyze companies...



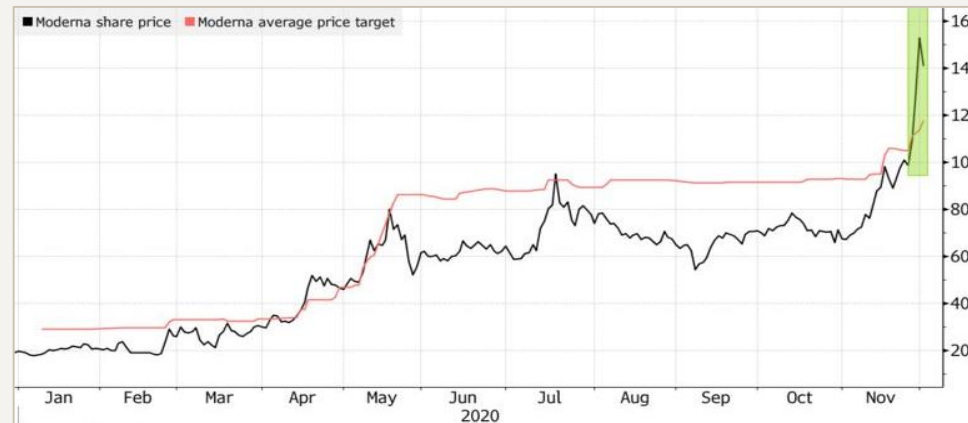
Tesla market cap relative to US, EU, JPN equity auto sectors



Amazon stock price and internet sales in the US



Moderna



Source: ODDO BHF AM, DB Global Research, Bloomberg



Megatrends

Ecological transition
E-economy
Artificial intelligence

Geography

Europe
Emerging markets

Sectors

Automotive
Banks
Construction & materials
Oil & gas

Size

Small caps

Growth

Take profit on bond proxies &
on some tech names

Fixed Income

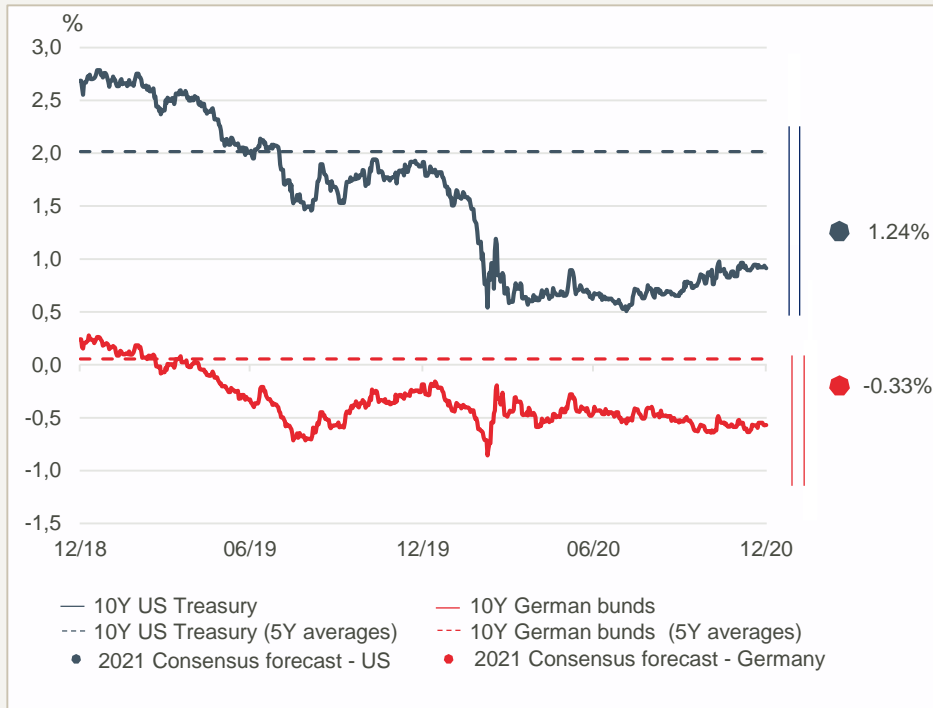
Our convictions



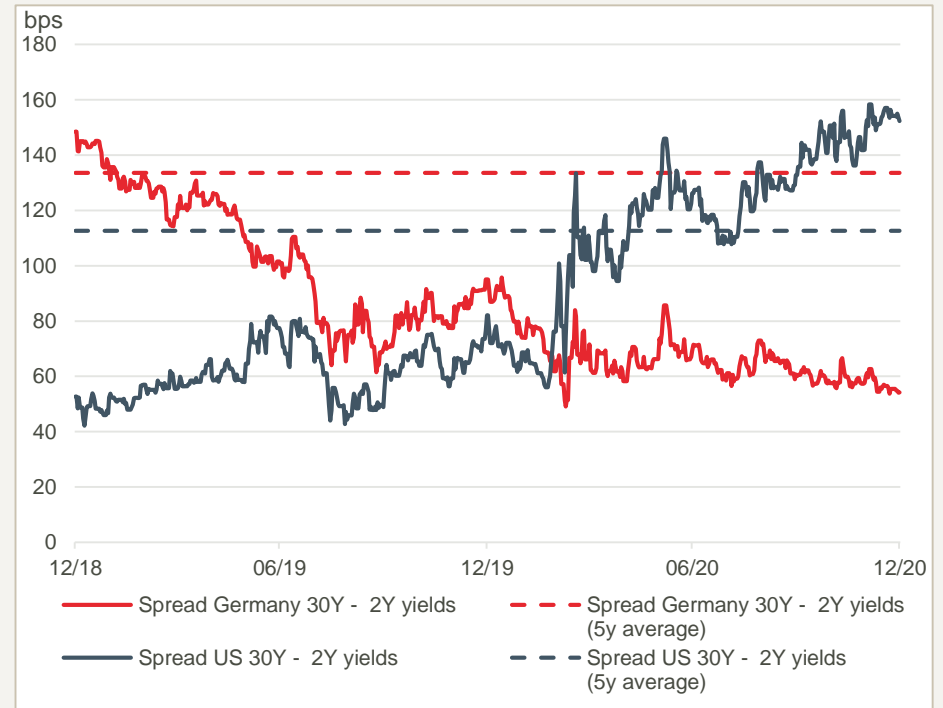
Rates: no gain and maybe some pain



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



German & US 2yr - 30yr yield curve (over 2 years)



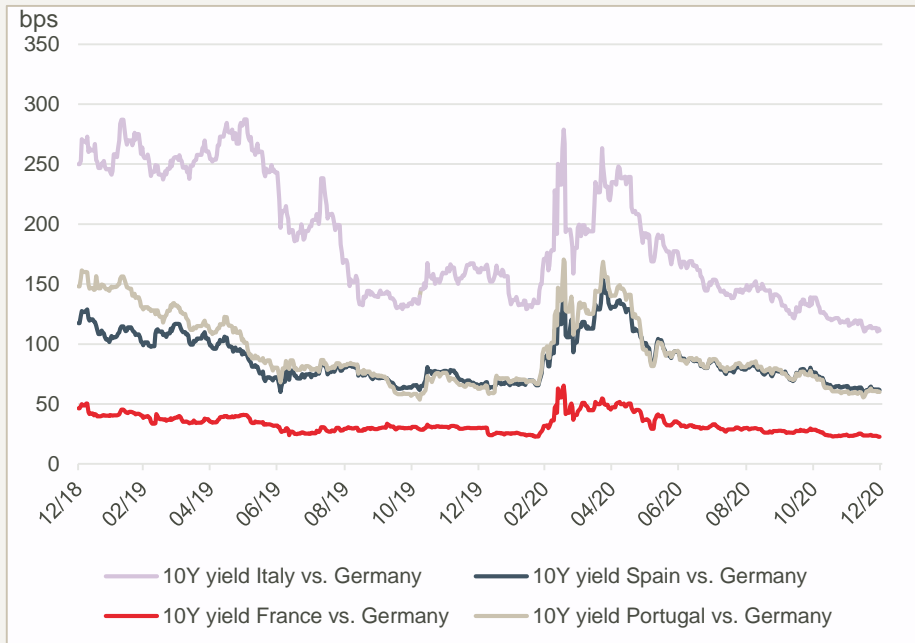
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | LHS: Data as of 12/30/2020; RHS: Data as of 12/30/2020

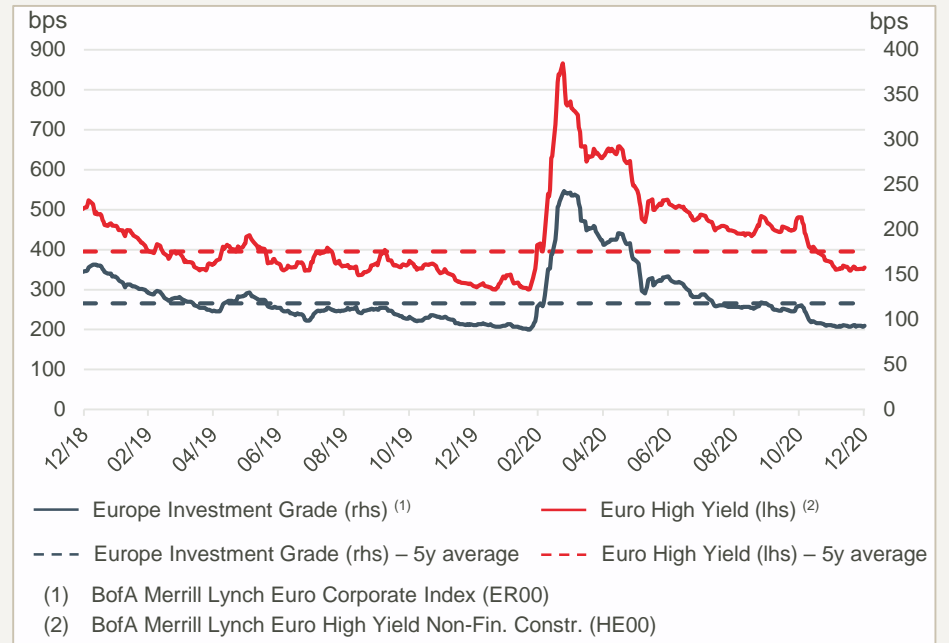
On credit: spreads are tight, go only for carry



Main Eurozone country spreads (over 2 years)

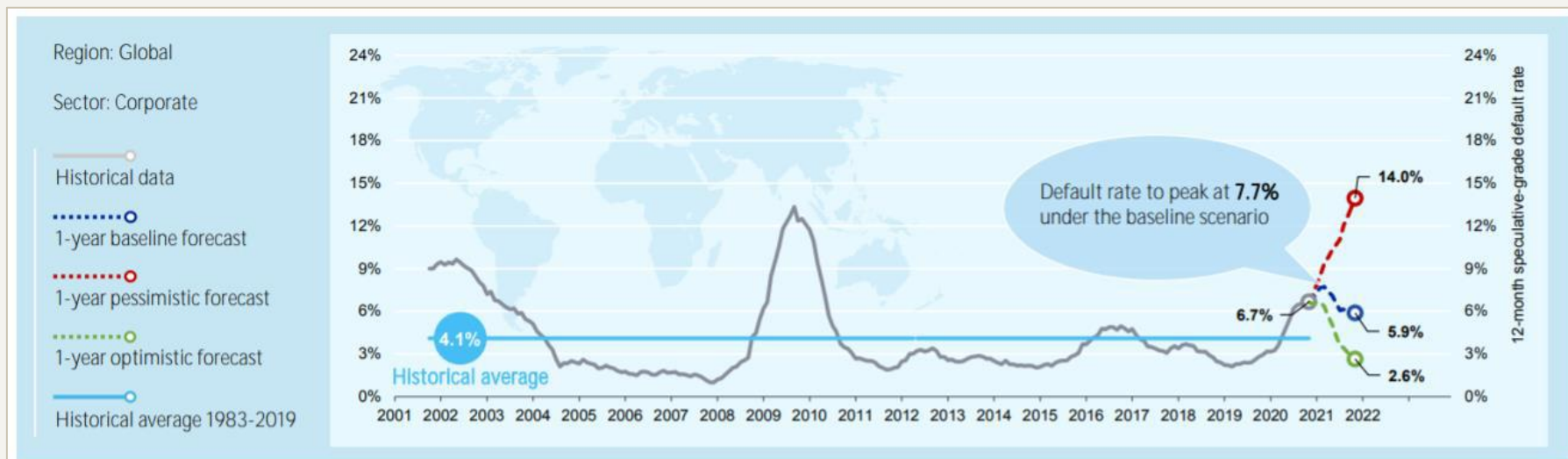


Change in credit spreads* IG & HY (over 2 years)



Source: ODDO BHF AM, Bloomberg, Moody's, datas on 12/30/2020

Default cycle appears less severe than expected

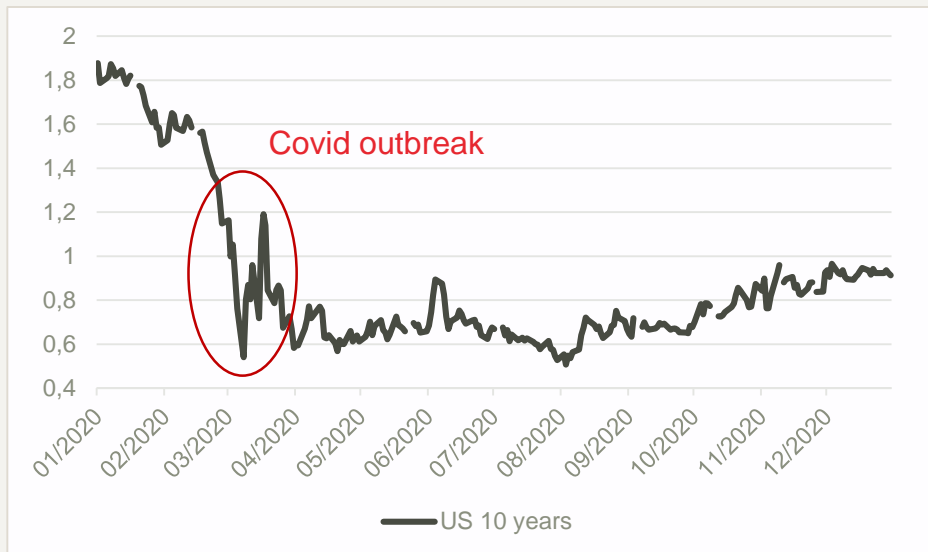


Macroeconomic assumptions	Unemployment rate* (%):				HY spread* (bps):				
	3-month period ending in:	Feb 2021	May 2021	Aug 2021	Nov 2021	Feb 2021	May 2021	Aug 2021	Nov 2021
Baseline scenario		6.4	6.2	6.0	5.8	499	462	490	509
Pessimistic scenario		7.9	9.3	10.4	10.8	989	1,227	1,062	891
Optimistic scenario		6.2	6.0	5.8	5.5	467	388	403	425

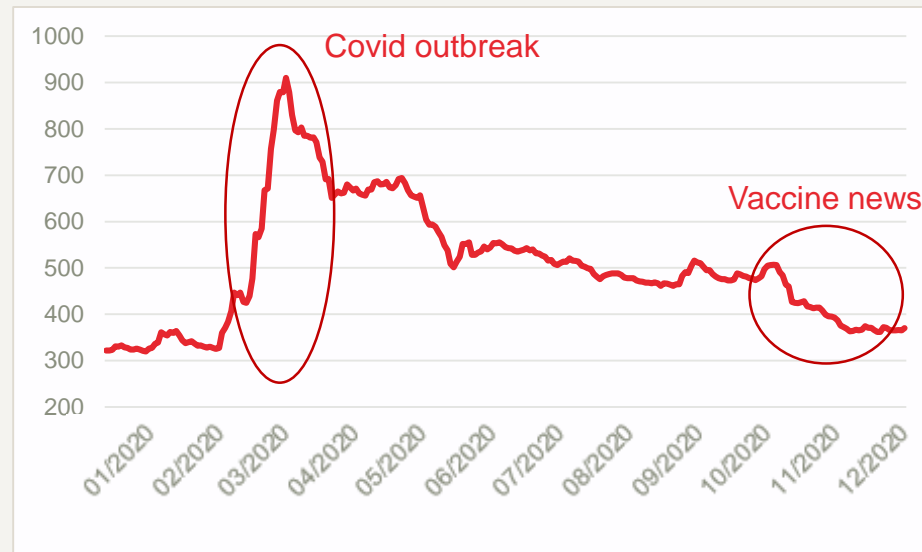
So, what can we do? Go for flexibility and seize opportunities



US sovereign bond 10 years over 2020



Spread to worst – HY credit – Europe



Sources: ODDO BHF AM | Bloomberg data as of 01/06/2021

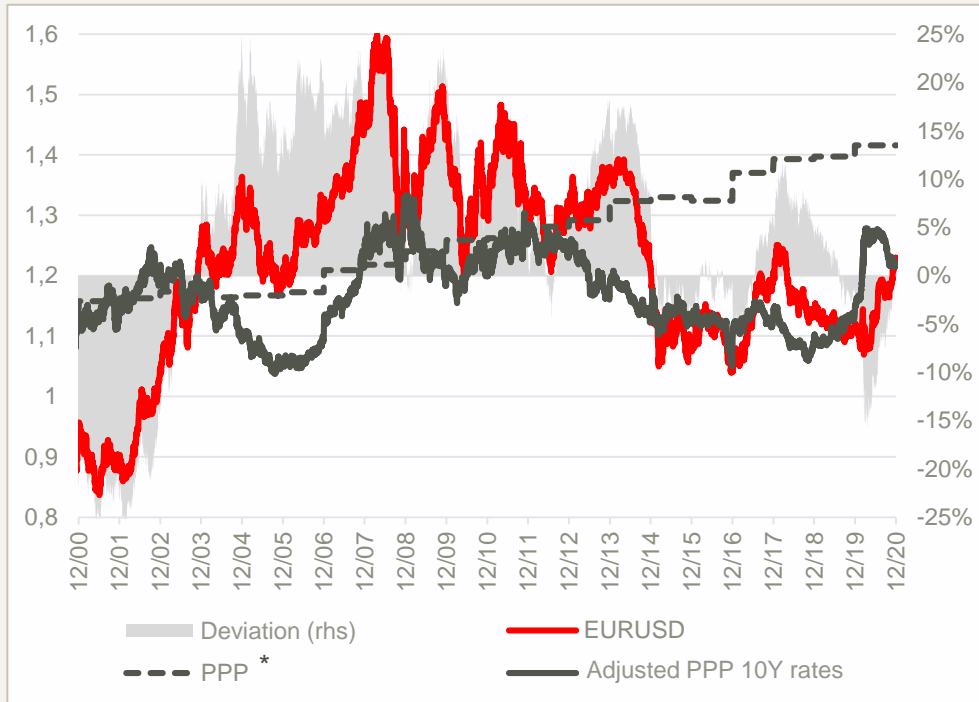
Other asset classes
Which positioning?



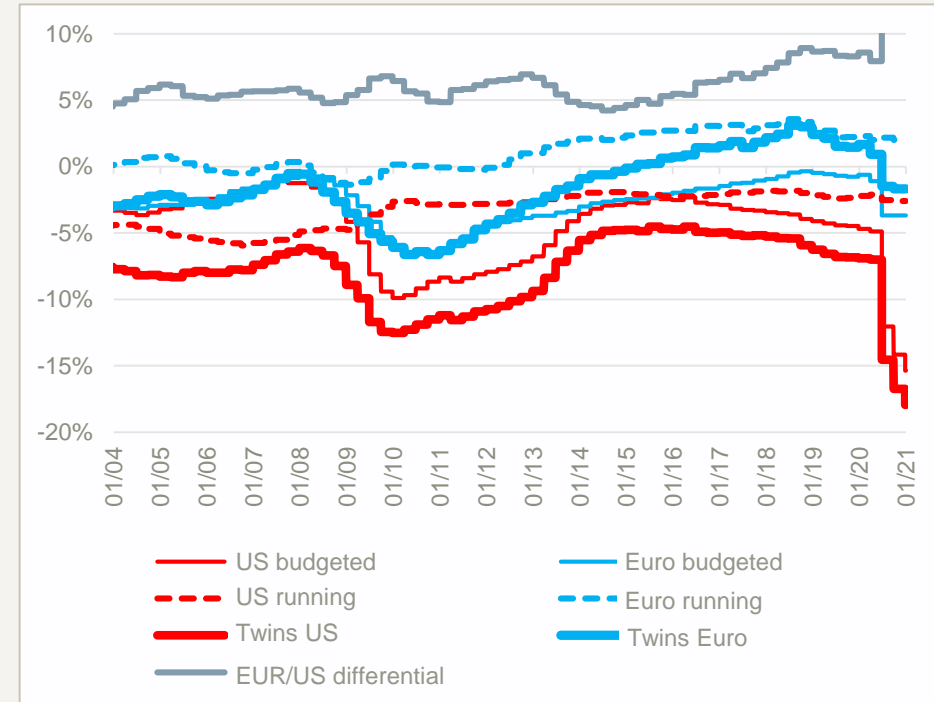
Favor currencies that would benefit from a general trade improvement



EUR USD: parities and interest rate differential



Balances surplus & deficits

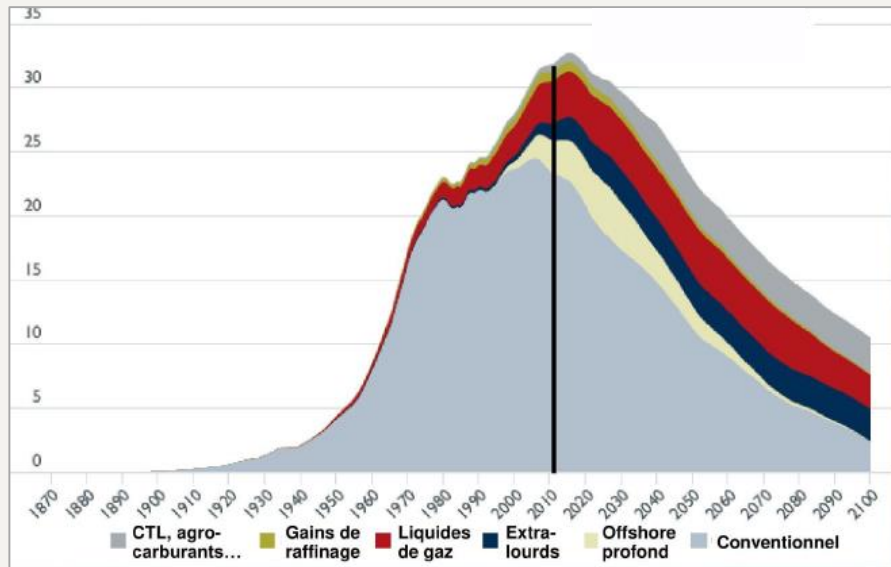


Source: ODDO BHF AM, Bloomberg | Data as of 01/05/2021 | PPP* Purchasing Power Parity

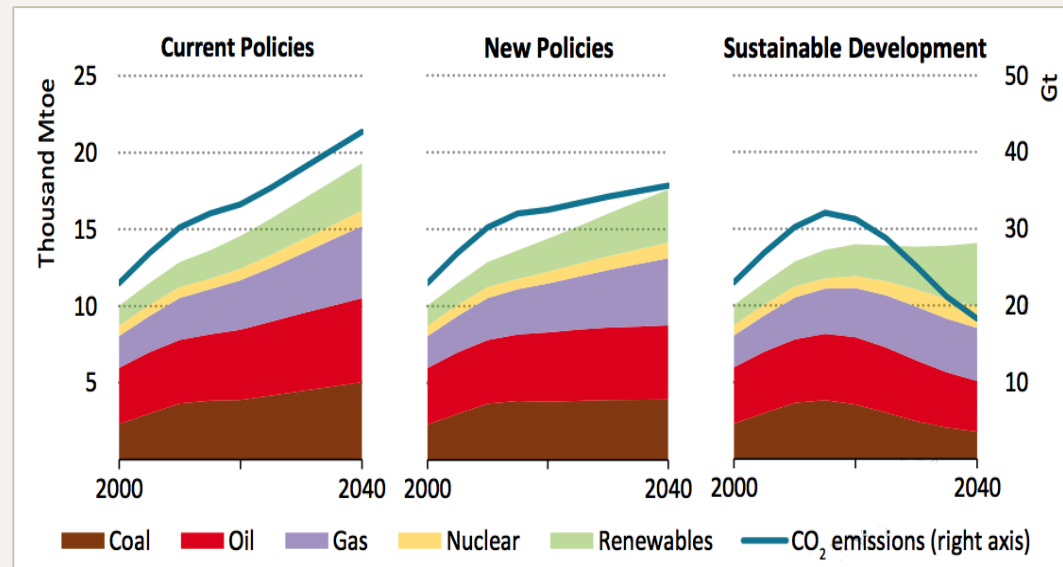
Commodities are going to benefit from the recovery



Simulation of the world production of "liquids"



World primary energy demand by fuel and energy-related CO₂ emissions

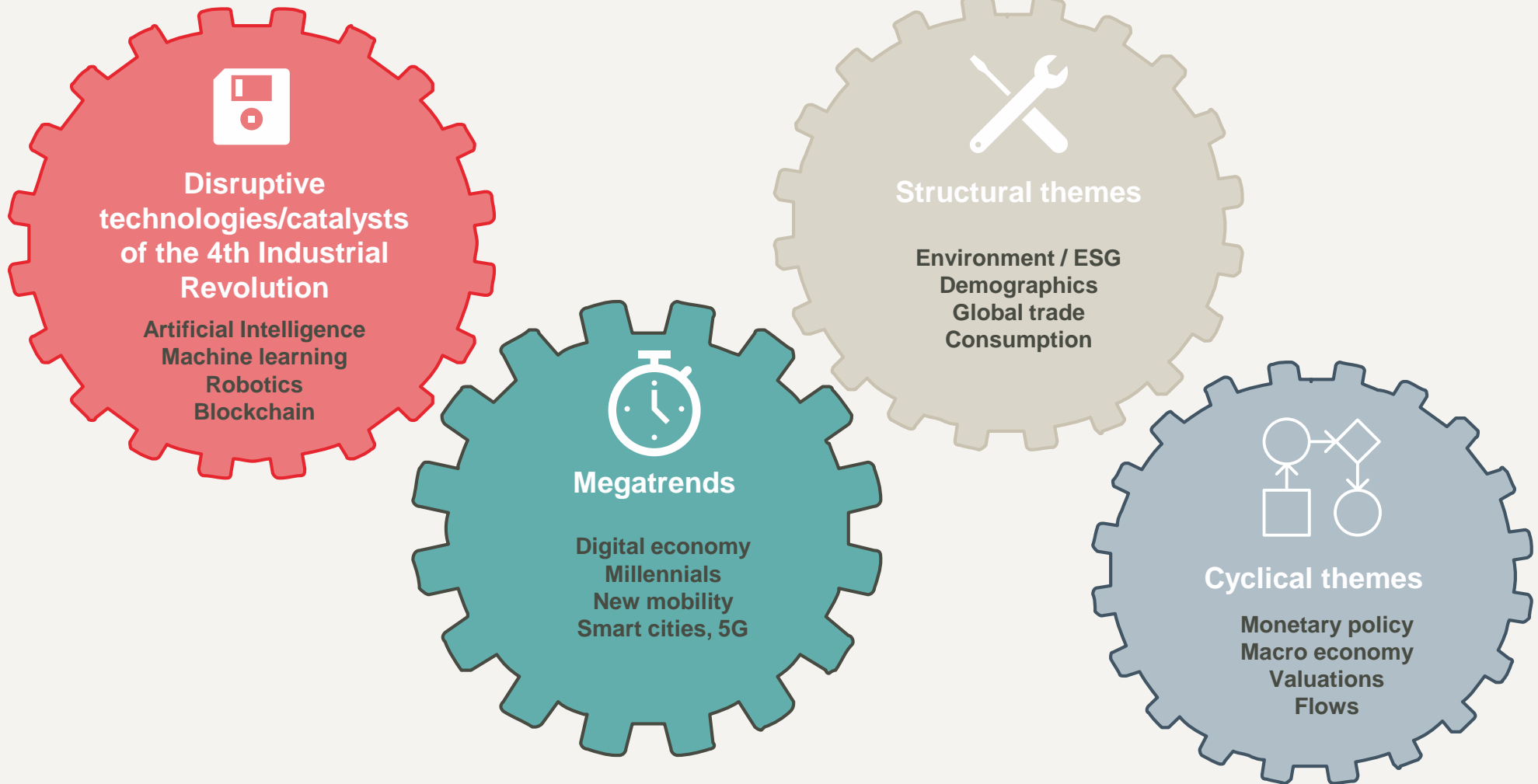


Sources: ODDO BHF AM | Carbonbrief, 2017 | "transport energy futures: long-term oil supply trends and projections", Australian Government, Department of Infrastructure, Transport, Regional development and local government, bureau of infrastructure, transport and regional economics (BITRE), Canberra (Australia), 2009



CONCLUSION

Combining a traditional approach and a data driven approach can help generate value over the long term and uncover interesting opportunities



Some risks that should not be underestimated



Tech bubble bursting with higher rates?



Virus variant, Vaccine refusal & serious side effects?



Bankruptcies



US post elections policy



How we are positioned



Asset classes	Overweight	Neutral	Underweight
Equities	<ul style="list-style-type: none"> European equities through small caps Sectors: Construction, oil, automotive, banks, tech and healthcare New economy: 5G, Greentech, Healthtech 	<ul style="list-style-type: none"> US small caps 	<ul style="list-style-type: none"> US large caps European growth stocks and bond proxy global stocks
Fixed Income	<ul style="list-style-type: none"> Flexible bond allocation 	<ul style="list-style-type: none"> European HY IG bonds Italian government bonds 	<ul style="list-style-type: none"> US and core European govies
Commodities	<ul style="list-style-type: none"> Oil metals 		
Currencies	<ul style="list-style-type: none"> EUR, Emerging local currencies 	<ul style="list-style-type: none"> JPY 	<ul style="list-style-type: none"> USD
Alternatives	<ul style="list-style-type: none"> Merger arbitrage, infrastructure Private equity 	<ul style="list-style-type: none"> High vol strategies 	<ul style="list-style-type: none"> CTAs

Source: ODDO BHF AM



ODDO BHF Live event – « *highlights* »

Videos of the event can be found on our [LinkedIn](#) page
and soon on our [website](#)!





ODDO BHF Asset Management SAS (France)

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

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