Monthly Investment Brief

Is the market already vaccinated?

November 2020

Pfizer's announcement of preliminary positive results from its coronavirus vaccine trial has had a substantial impact on financial markets. Pfizer, the company that developed the vaccine in collaboration with the German biotechnology company BioNTech SE, released preliminary data suggesting that the vaccine was more than 90 percent effective. The U.S. pharmaceutical giant also said it plans to seek emergency approval for its two-dose vaccine from the FDA before the end of November, after more safety data has been collected. Pfizer says it expects to produce enough doses to immunize 15 to 20 million people by the end of the year.
In response to this news, U.S. equities nearly reached an all-time high, the price of WTI crude oil rose 7% and the 10-year U.S. Treasury yield reached 0.9%. In addition, hopes of a reopening of the economies allowed the stocks that were penalized this year to significantly outperform.
The divergent impact of the pandemic on the equity market is clearly reflected in the relative performance discrepancy between *Growth* and *Value* stocks. The former are generally more sensitive to the economy, while the latter, which are strongly focused on technology stocks, have benefited from the boom in online shopping, home-based work and, above all, the fall in interest rates.
Does Pfizer's announcement "finally" mark a decisive turning point in the relative performance of *Value* stocks? "Yes" is a tempting answer, but for now there is still too much uncertainty about the vaccine and its efficacy to answer too assertively. First, the vaccine has to be stored under extreme conditions, which could lead to a number of major logistical obstacles. Second, a "miracle" vaccine must be both effective and safe, and Pfizer's statements focused on the first point. Investors should have more information on the safety of the vaccine later this month.
The bottom line for investors is that yesterday's announcement is a significant step toward ending the pandemic. It is the signal we have been waiting for to reposition ourselves on cyclical stocks. As a result of this promising news, we are therefore starting to rotate our portfolios towards quality cyclical stocks in order to diversify our pure growth positioning. We are also taking profits on the most expensive names on the stock market (certain “stay-at-home”-technology stocks because very high multiples seem less justified to us in a normalization process).
Nevertheless, our conviction is that this is not (yet) the time to move to a pure rotation from "Growth" to "Value". Some Value sectors are indeed discounted for good reasons and disruption or regulation will not disappear overnight. Moreover, even if we could see a violent return to the average, it is likely to be short-lived as long as potential economic growth does not accelerate dramatically. A second signal would be a ratification of stimulus programs in both the United States and Europe combined with a monetary policy that continues to be very accommodating. We are not far from that point, but patience is needed, one must wait for the confirmation of a signal in an investment policy. As you all know, timing remains key.

We therefore add risk on 3 axes:

1. We diversify portfolios by slightly accelerating sector rotation with high quality cyclical stocks.
2. In credit, we are increasing our positioning in European High Yield, which offers an attractive risk/return profile and remains largely uncorrelated to interest rates.
3. We are increasing our positioning in Emerging Markets

For investors who can withstand very high volatility, repositioning on banks in the short term makes sense. The valuation on the bottom line, the reassuring sequence of recent results, and the prospect of a more flexible regulation in the payment of dividends are all arguments in favor of the banking sector. This tactical move must remain disciplined by rapid profit-taking and a maximum allowable level of losses, which, if reached, must result in a sale at a loss.
Caution nevertheless, our conviction is that the long-term performance in your portfolios will essentially come from strategic rather than tactical positioning.

Some of the recommended movements only concern certain allocation funds and cannot necessarily be applied to all strategies

Source: ODDO BHF AM, written on 11/10/2020

01 CURRENT CONVICTIONS

Scenarios

Our 6-month view

Central scenario: Global growth recovering from sharp recession with strong monetary and 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. Weak consumer confidence to increase on promising COVID-19 vaccine news.
- Unprecedented intervention from both monetary and fiscal policymakers will 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

Δ+5%

15%

- 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 pandemia extension

Δ-5%

20%

- Global recession with a risk of financial equilibrium
- Geopolitical risks materializing
- China: risks of economic rebalancing
- Brexit: No deal risk

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 11/10/2020

Our current convictions for each asset class

Equities	Large cap Eurozone	1
	Mid cap Eurozone	1
	Small cap Eurozone	1
	UK	-1
	USA	0
	Emerging markets	1
	Japan	0
Convertible bonds	Europe	0
	USA	0
Currencies	USD / €	-2
	YEN / €	0
	GBP / €	-1
Commodities	Gold	-1
	Crude oil	0

Change vs the previous month

Source: ODDO BHF AM, comments as of 11/10/2020

Our current convictions for each asset class

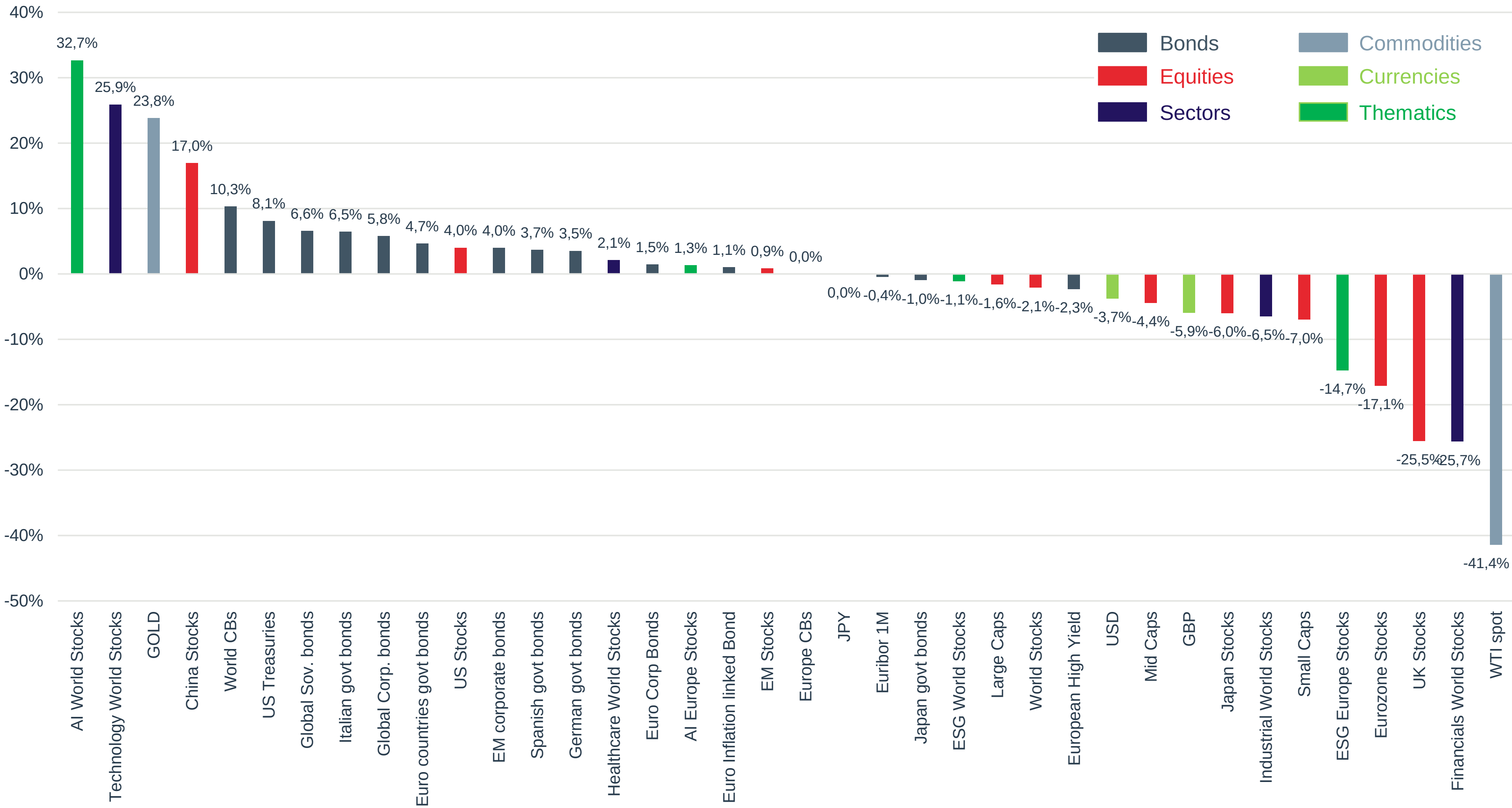
Asset class	Segment	Conviction
Government bonds	Core Europe	0
	Peripheral Europe	1
	USA	0
Corporate bonds	Investment grade Europe	1
	Credit short duration	1
	High Yield Europe	1
	High Yield USA	0
	Emerging markets	0
Money market	Developed markets	1
Alternative assets	Private Equity	1
	Private Debt	1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

Change vs the previous month

Source: ODDO BHF AM, comments as of 11/10/2020

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 10/31/2020; performances expressed in local currencies

Historical performances of asset classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 YTD
Gold	5,1%	25,5%	29,4%	10,1%	7,1%	28,1%	-1,4%	-10,6%	8,0%	13,5%	-1,6%	18,3%	23,8%
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%	7,0%	8,1%
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%	4,7%
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%	4,0%
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%	4,0%
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%	3,5%
EM equities	-53,3%	78,5%	18,9%	-18,4%	18,2%	-2,6%	-2,2%	-14,9%	11,2%	37,3%	-14,6%	18,4%	0,9%
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%	0,3%
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%	-0,4%
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%	-2,3%
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%	-17,1%
WTI spot	-53,5%	77,9%	15,2%	8,2%	-7,1%	7,2%	-45,9%	-30,5%	45,0%	12,5%	-24,8%	34,5%	-41,4%
Spreads (%age points)	**67,5%**	**82,2%**	**28,9%**	**28,5%**	**34,3%**	**38,4%**	**59,0%**	**40,3%**	**45,4%**	**38,7%**	**27,2%**	**34,9%**	**65,2%**

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

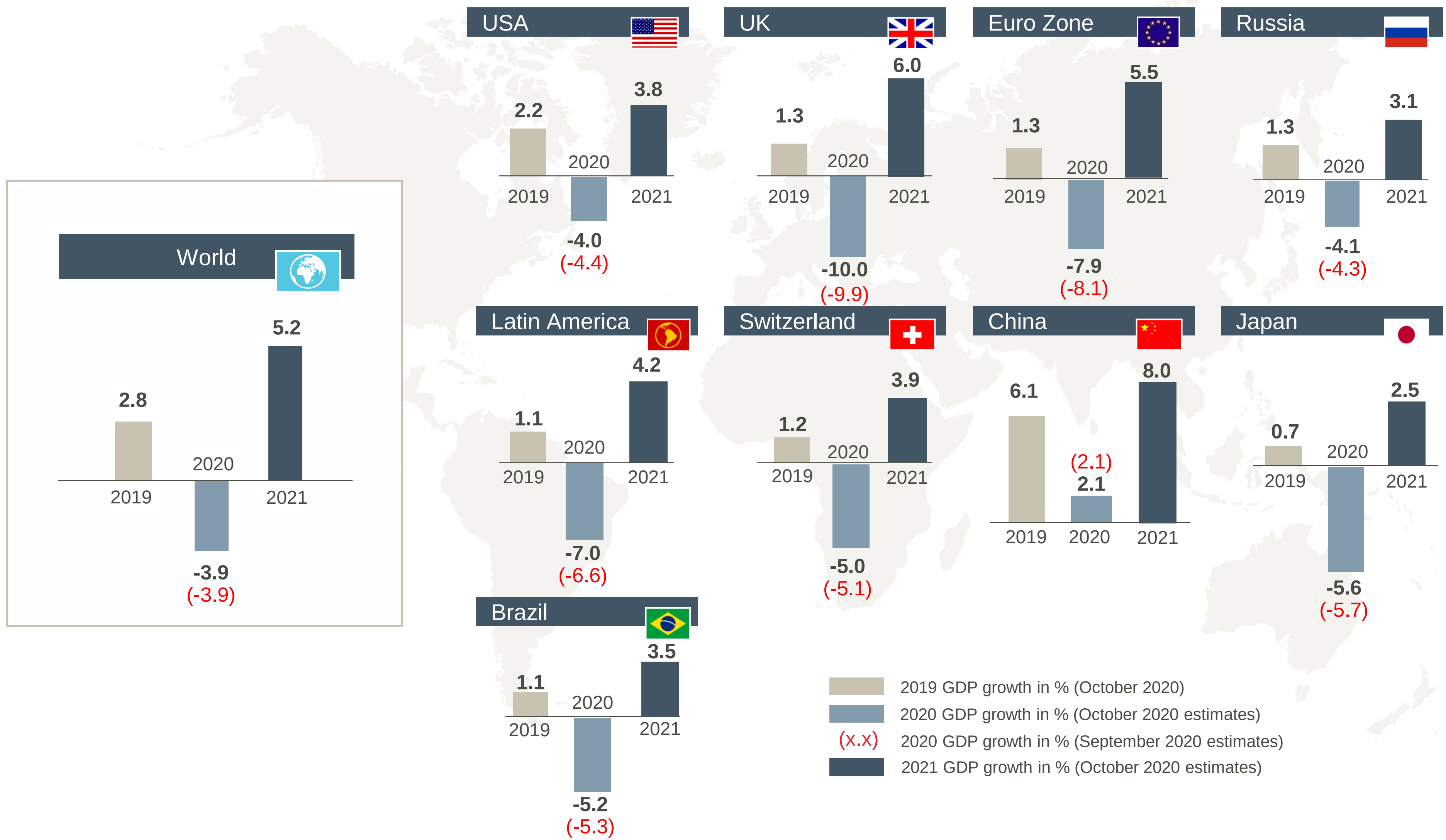
Colour scale

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

Sources: Bloomberg and BoA ML as of 10/31/2020 ; performances expressed in local currencies

Global GDP* growth forecast

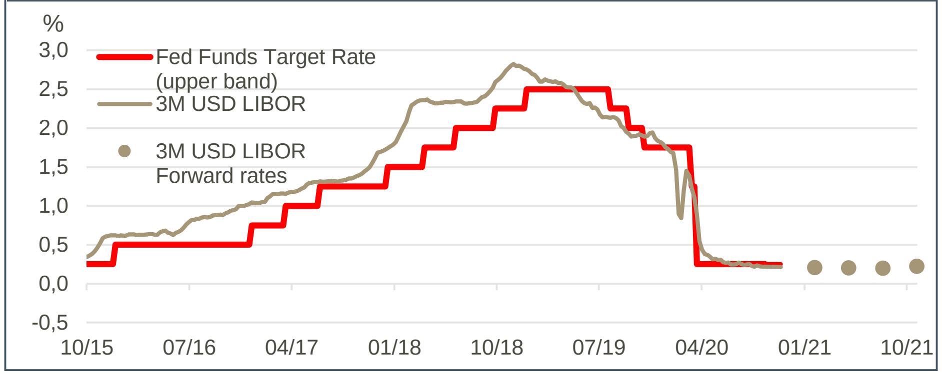
2nd and 3rd Covid waves create downside potential



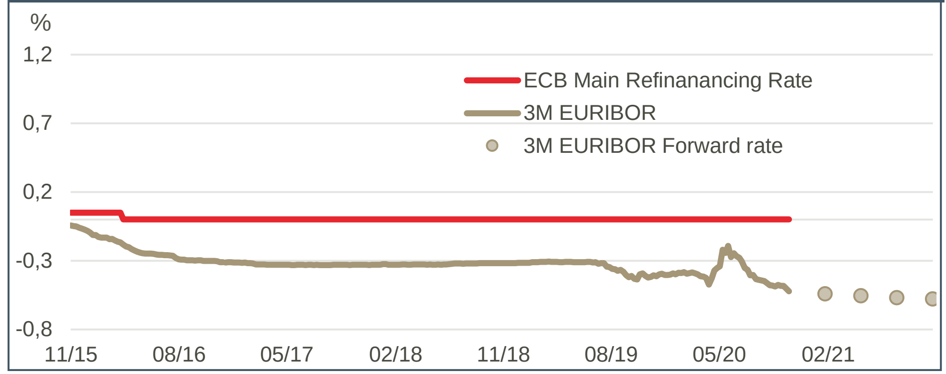
*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 10/31/2020

Monetary policy & inflation expectations

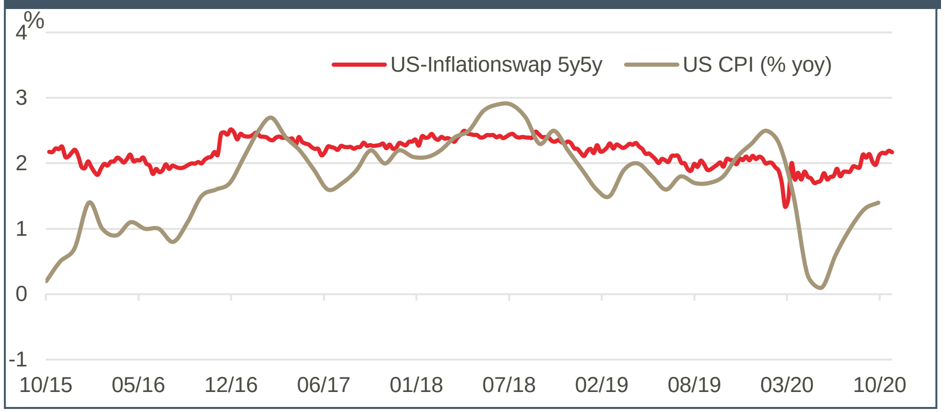
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



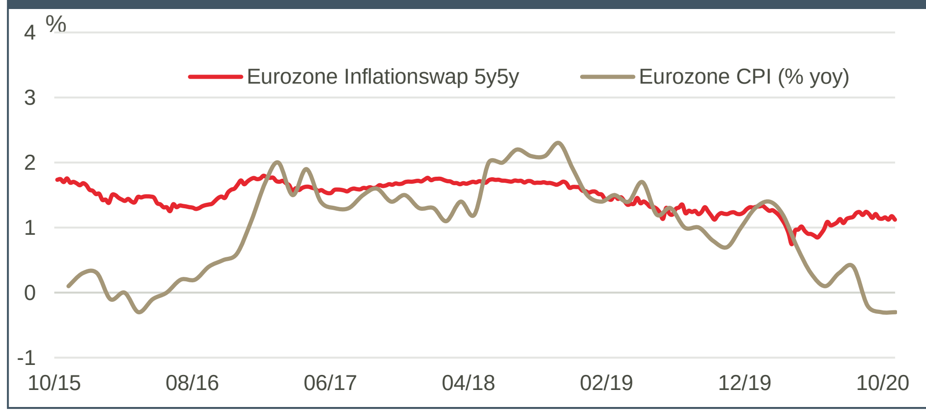
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



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



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



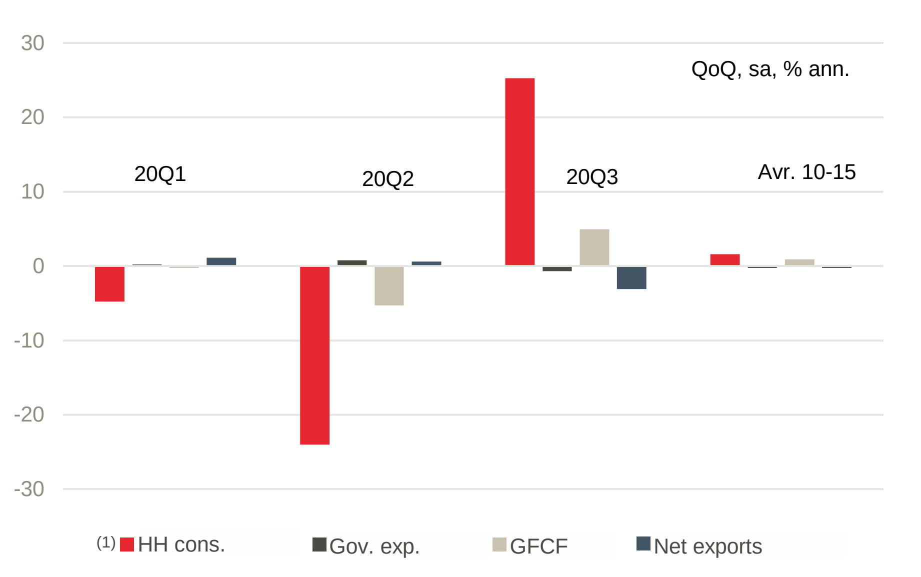
- More monetary stimulus ahead: the ECB is expected to enlarge PEPP by approx. 400-500bn Euro in its December meeting
- The FED may also add support as a massive US fiscal package has become less likely after the election
- China to export disinflation to the world

Sources: Bloomberg, ODDO BHF AM GmbH, as of 10/31/2020

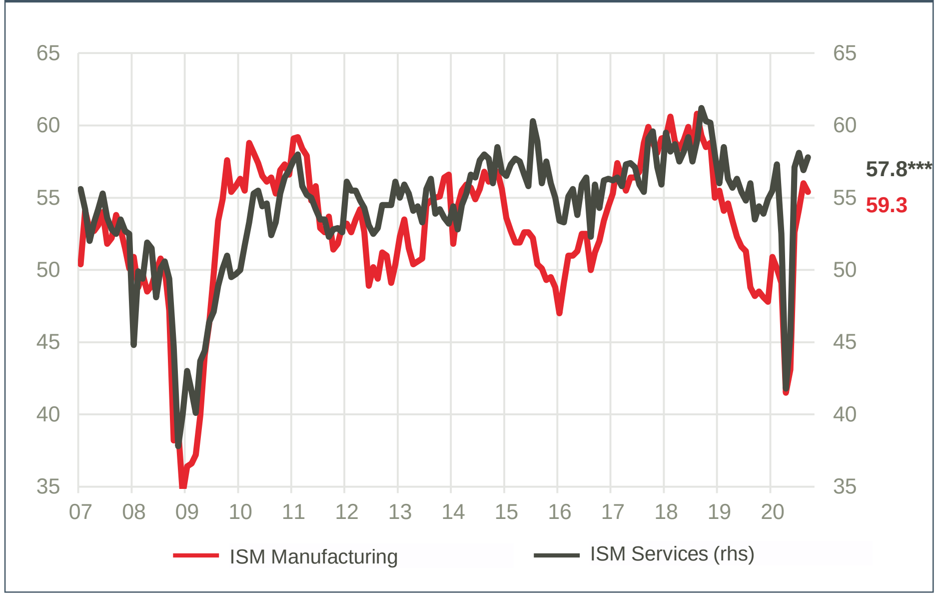
USA

Blue ripple instead of blue wave

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



Business confidence**



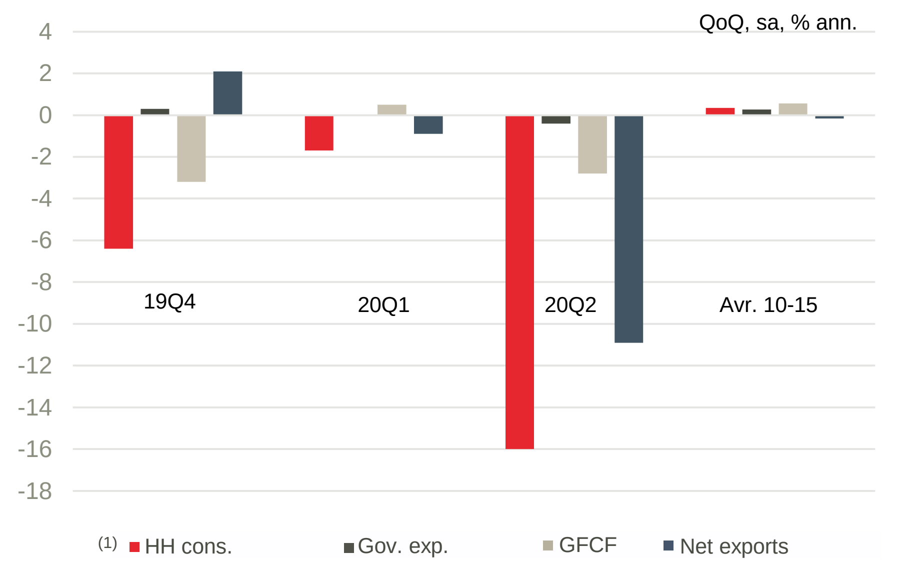
- Strong 33,1% GDP rebound in 3Q. Initial 4Q consumer spending looks solid
- Another increase in the October ISM manufacturing to 59,3 reflects robustness of the industry sector
- Labour market improvements, however are fading
- Increasing covid cases and less than expected fiscal support increases downside risk near-term

(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 10/31/2020 |** Data as of 10/15/2020 | ***Data as of 09/15/2020

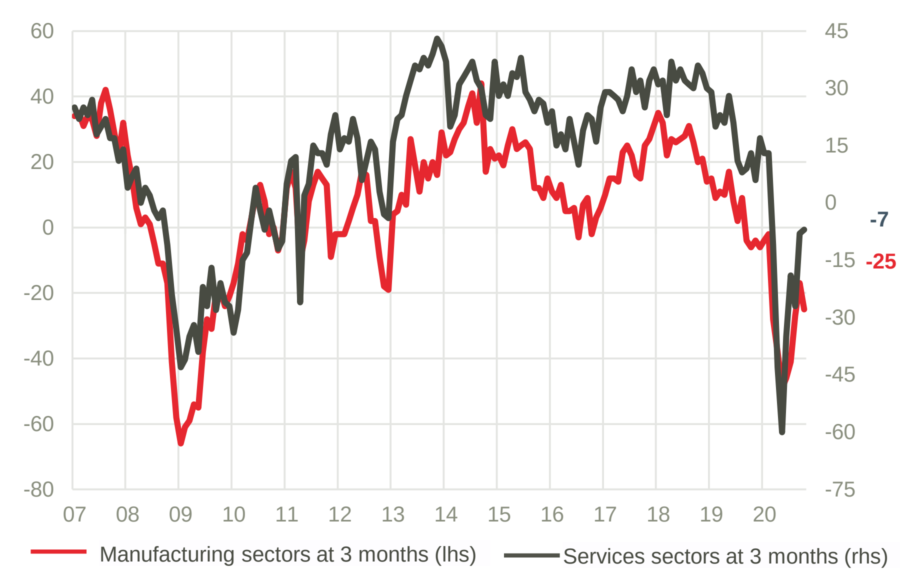
Japan

Good virus control lifts spending

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



Business confidence



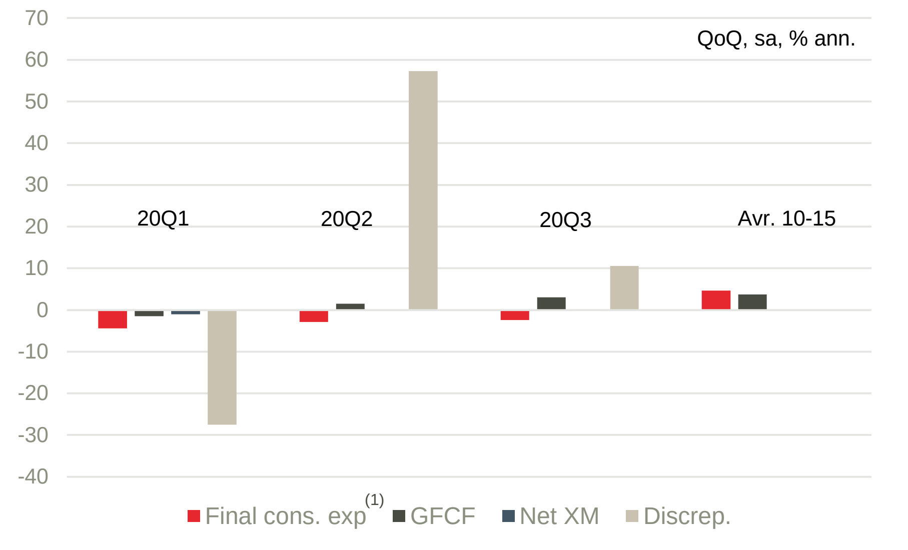
- Government plans to extend the service subsidy program
- Upbeat consumer sentiment in October, while retail sales weakened slightly in September
- Industrial production in September posted a quite strong showing therefore underlining the intact recovery process

(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 10/31/2020 | **Data as of 10/15/2020

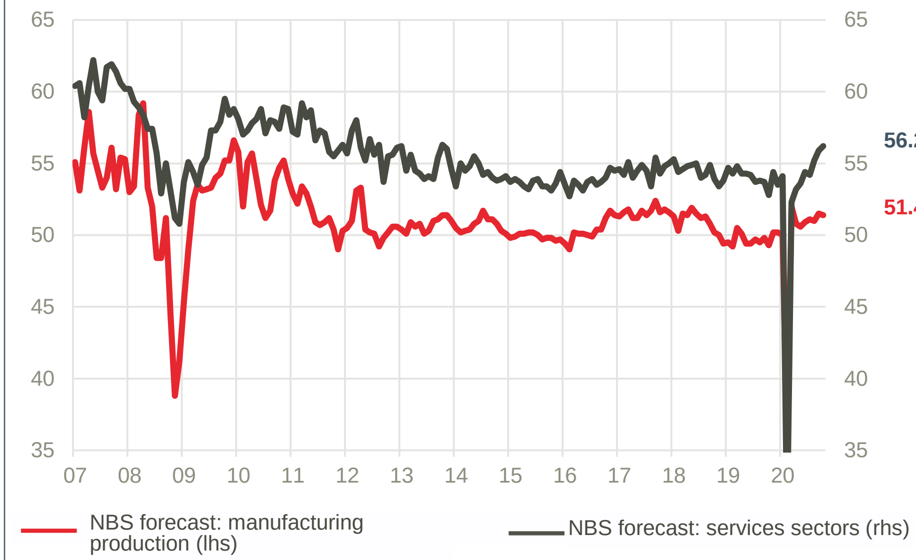
China

Harvesting the merits of strict virus control

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



Business confidence**

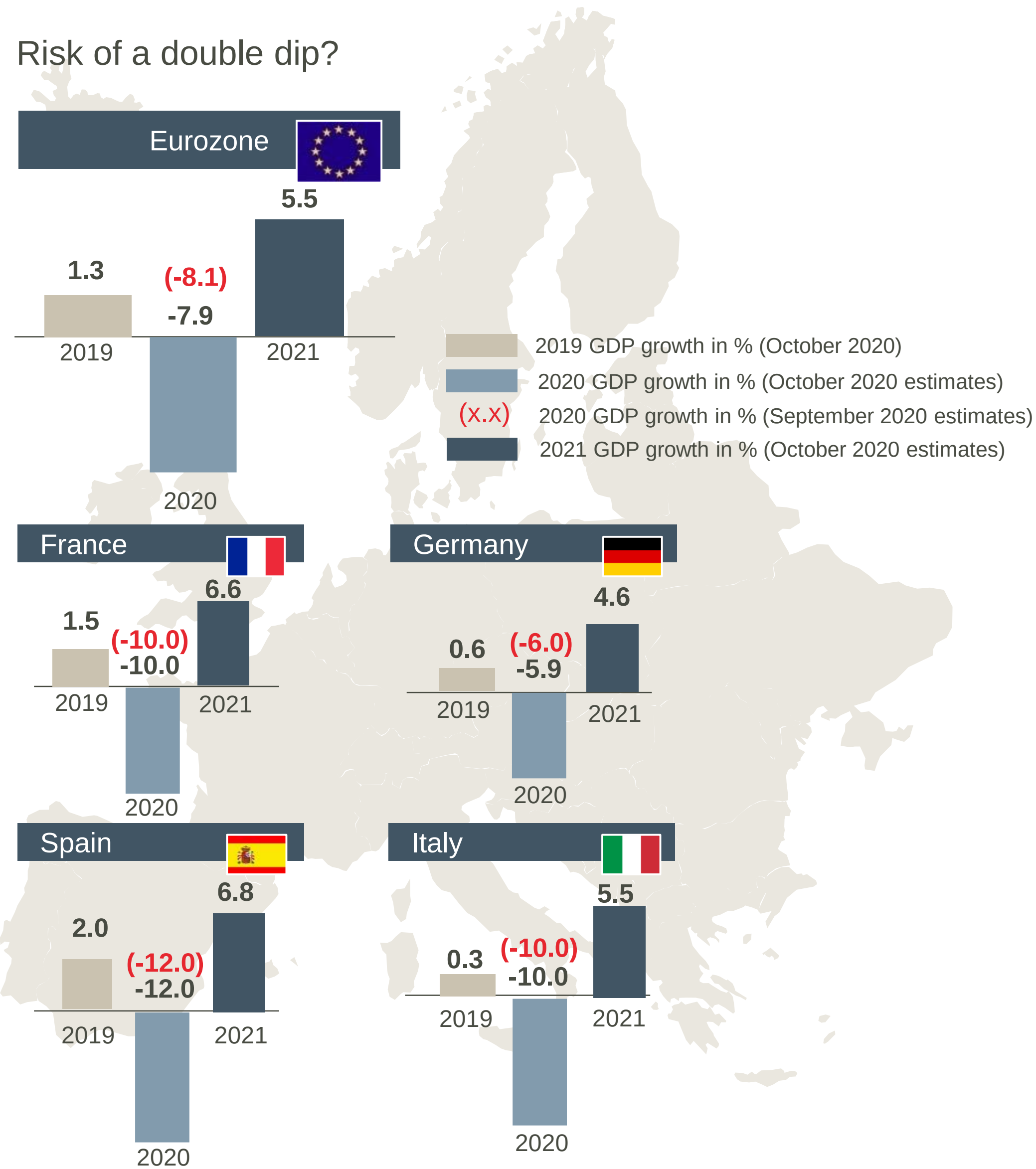


- The recovery continues
- Caixin PMI continues to improve as has September industrial production (6,9%)
- Helped by strict virus control, consumption also recovered healthily
- Retail sales edged up by 3,3% yoy

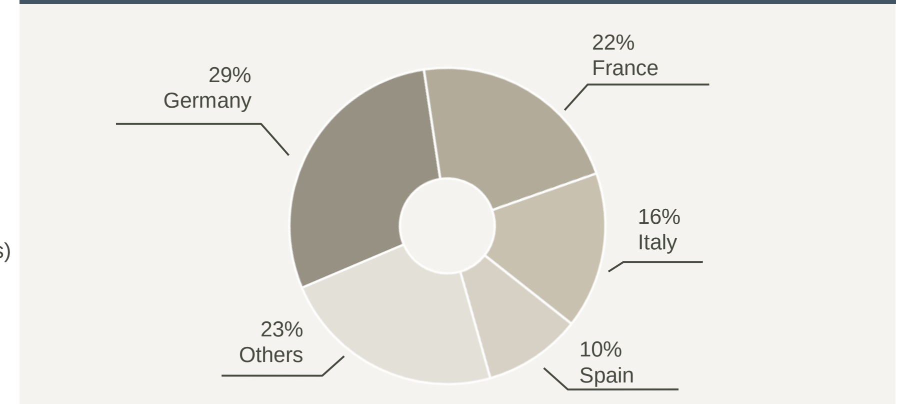
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 10/31/2020 | **Data as of 10/15/2020

Eurozone

Risk of a double dip?



GDP share (% of total Eurozone GDP)



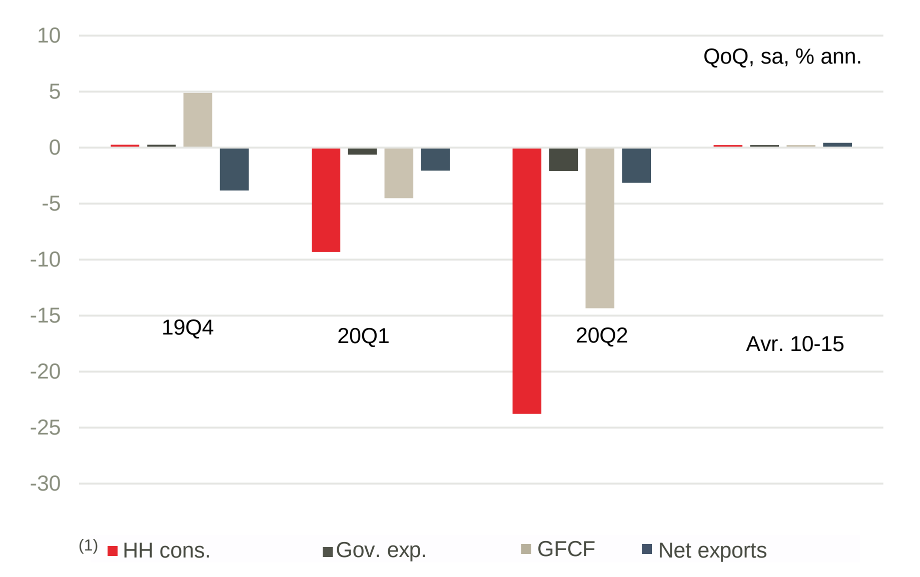
- As restrictions and lockdowns have been imposed across Europe Q4 GDP is likely to be hit hard between -2,5% to -3% qoq
- If those measures have to be continued longer than November, economic weakness is likely to spill over into January
- This would certainly raise the odds for a double dip

Sources: ODDO BHF AM SAS; Bloomberg Economist Forecast. Data as of 10/2020

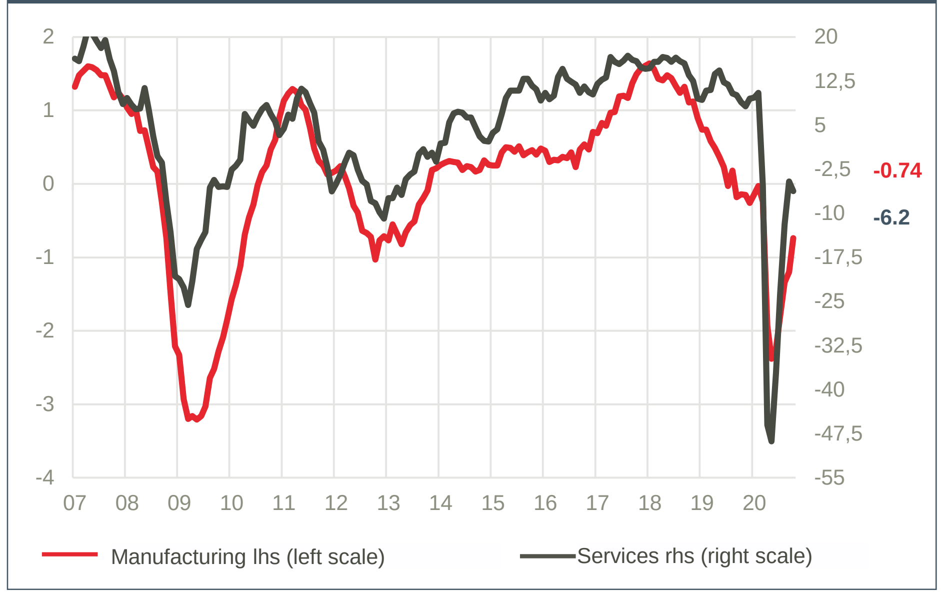
Eurozone

2nd Covid wave will put Q4 GDP in negative territory

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



Business confidence**



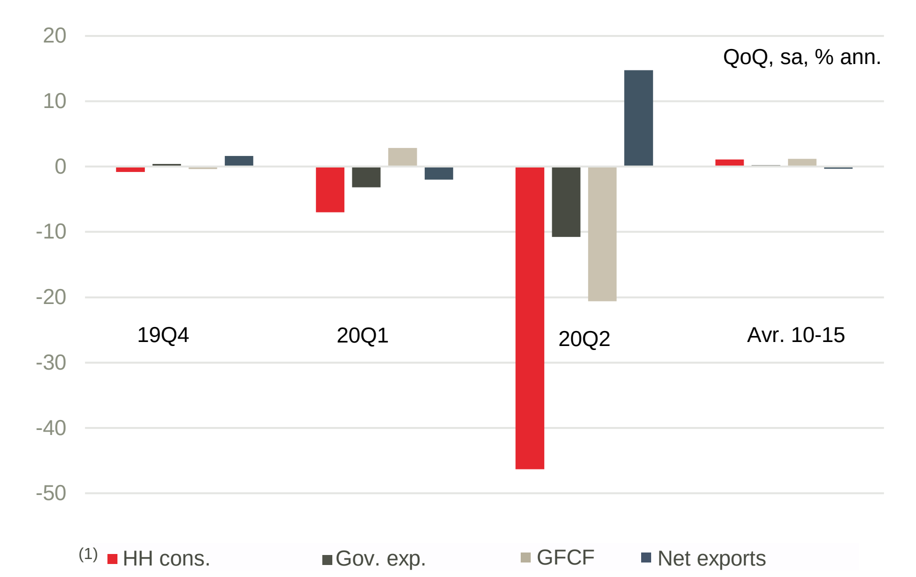
- 3Q20 came out at a whopping 61,1% qoq ar, beating expectations by a large margin
- That highlights the rebound potential should covid come under control
- October PMI has been revised up, helped by better results in Germany
- Bank lending data show first signs, albeit not uniform, of credit strains
- ECB has been clear to add to monetary support in December, probably by increasing PEPP by approx. 500bn Euro

(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 10/31/2020 | **Data as of 10/15/2020

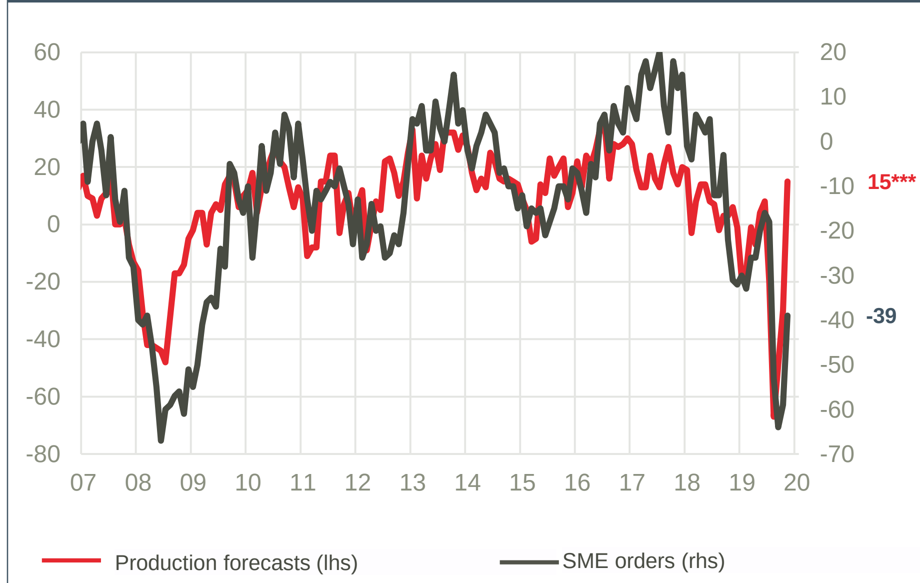
United Kingdom

BOE moves big time

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



Business confidence**



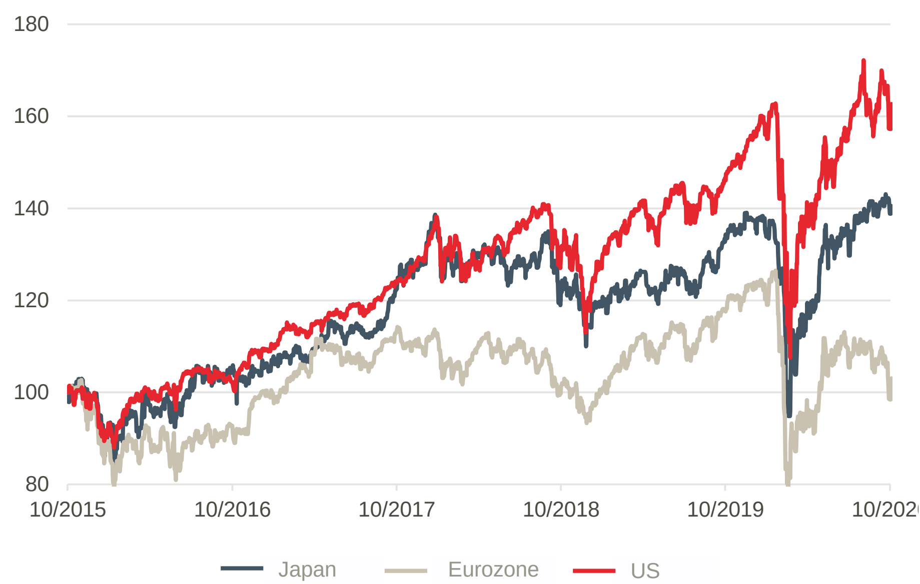
- BOE stepped up QE by 150 bn GBP and stands ready to do more
- The move exceeded expectations by far
- Lockdown is very likely to push Q4 GDP into the red

Monthly Investment Brief

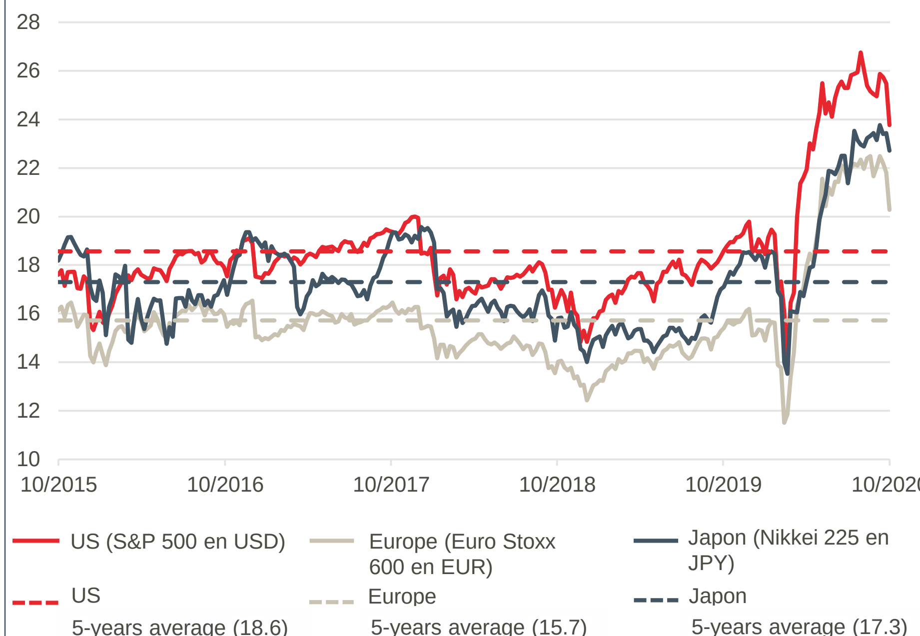
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 10/31/2020 | **Data as of 07/15/2020 | ***Data as of 10/15/2020

Equities – overview

5-year equity market performance



5-year price/earning ratio



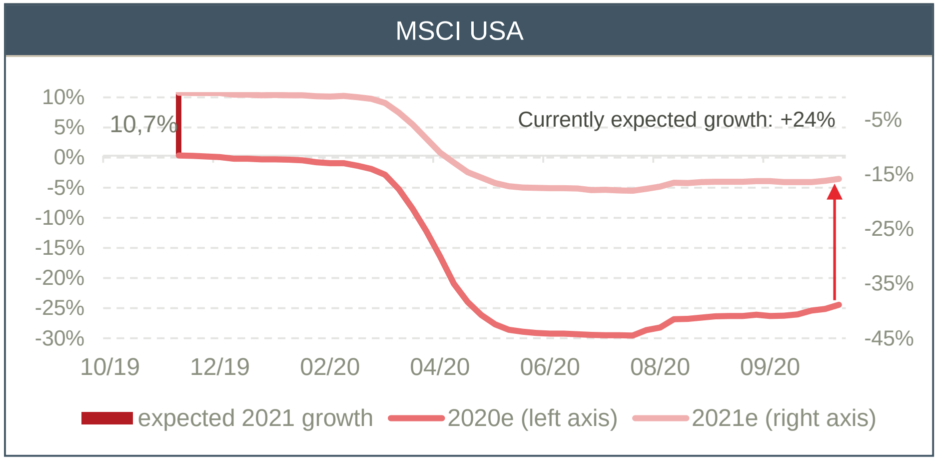
- Among sustained volatility, October was a second consecutive risk-off month for global equities (Msci World -3,1% in local currencies)
- While end of August highs were almost reached around the middle of October, the regular increase of Covid-19 incidence rates and the pressure of the incoming US elections pushed developed equities downwards in the second half of the month.
- As many investors expected a Blue-sweep in the US elections, US sovereign yields jumped significantly (10 year moved from 0,7% to 0,9%).
- Value portfolios overperformed slightly, as well as Asian indexes, be it emerging (China +5%, Korea +1%) or developed markets (Topix +1%).
- As companies publish their Q3 figures, earnings on average beat expectations in Europe and in the USA, but often come with increasingly cautious guidances.

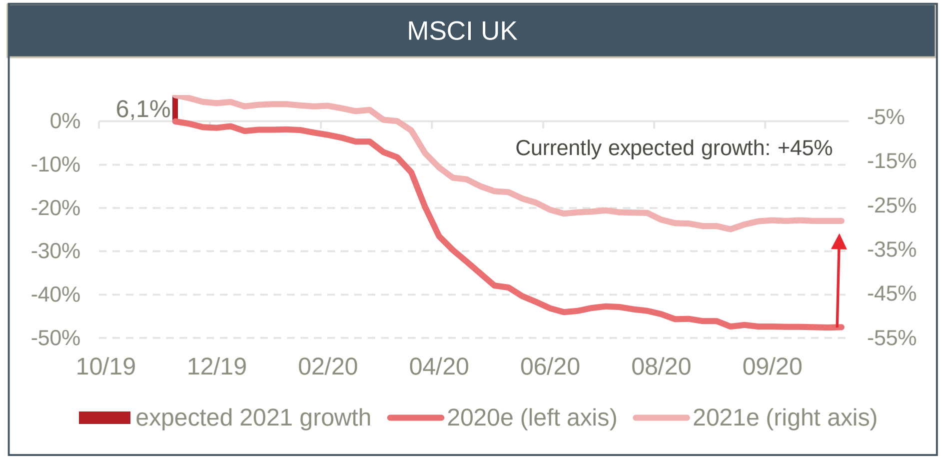
Past performances are not a reliable indicator of future performances and are not constant over time.

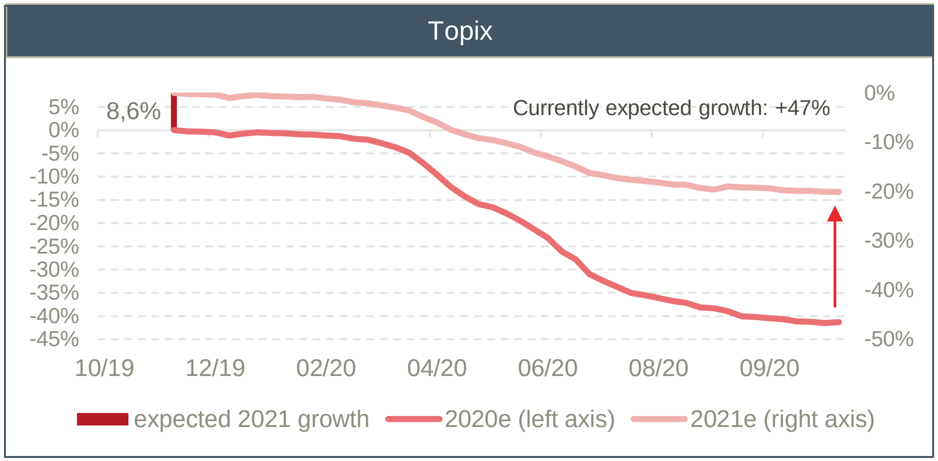
*See Glossary, page 27 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 10/31/2020

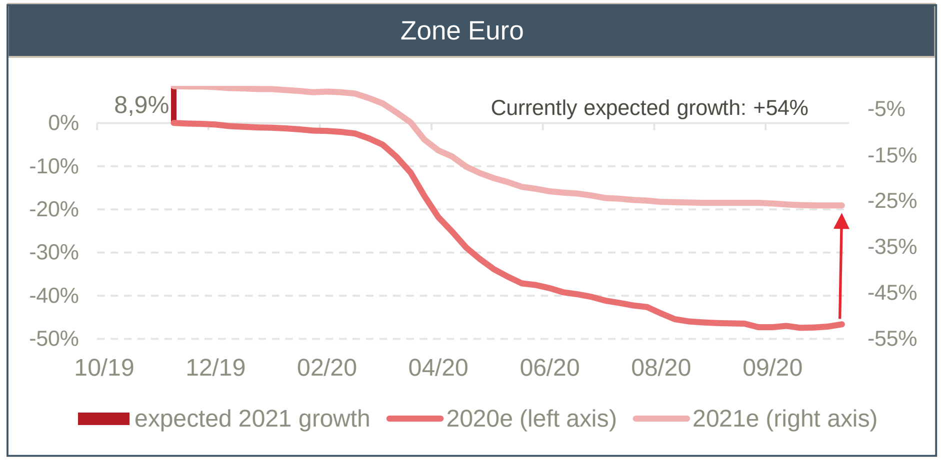
Equities – EPS trends*

*estimated earnings revisions & changes in expected growth









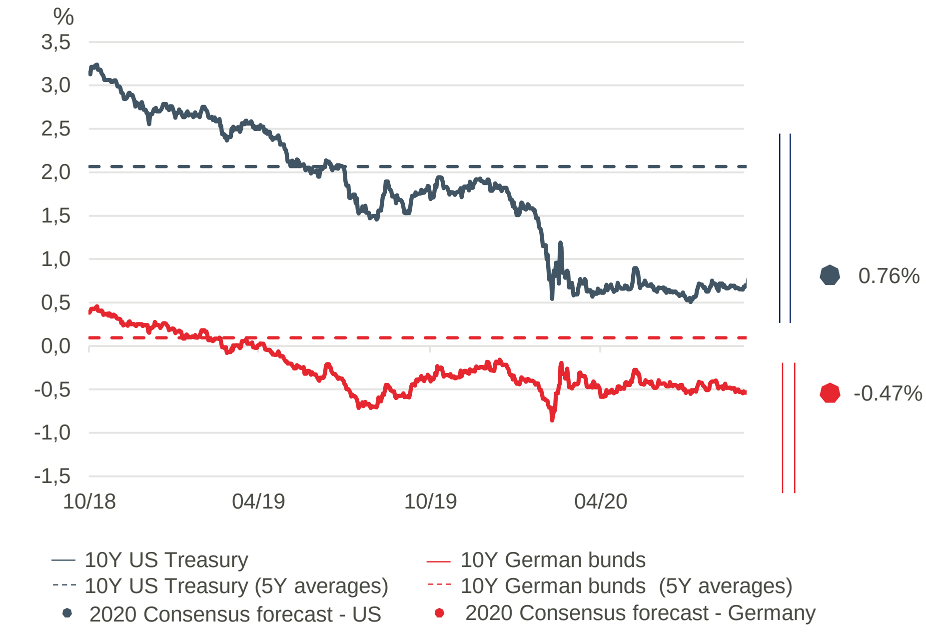
- With a staggering annualized growth rate of GDP in Q3, US companies also posted better than expected sales and earnings. Hence, estimates for 2020 FY earnings have significantly rebounded from summer's lows.
- This translates only very marginally into 2021 expectations, as companies communicated future headwinds and the end of the V-shape recovery.
- In other developed economies, expectations for earnings have been stable since summer.

Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 10/31/2020

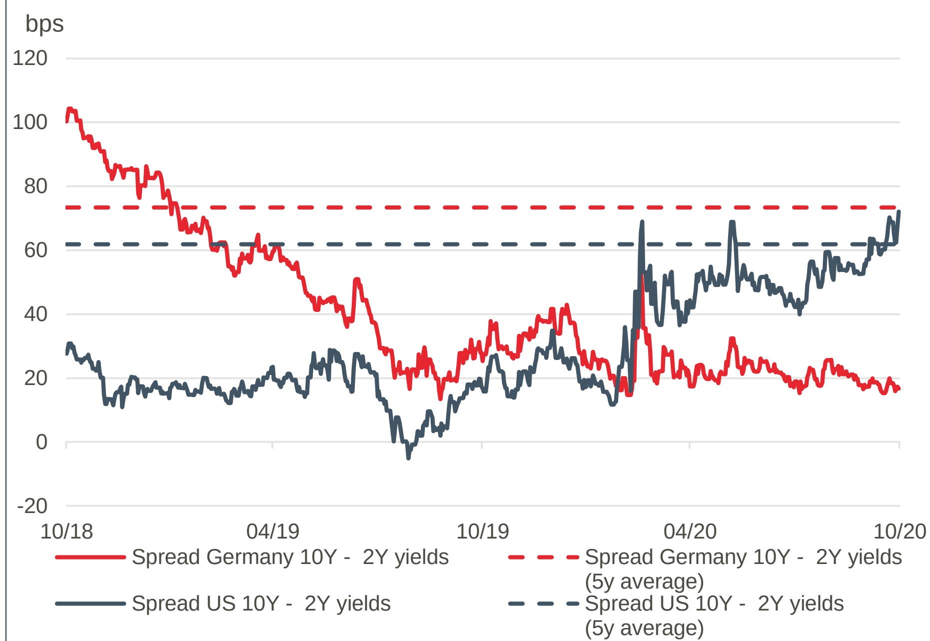
Fixed income – Rates

Bunds adhere to lowest level in months

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



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



- While 10-year Bunds managed to rally to their lowest level in months, US Treasuries have been under upward pressure
- As the “blue sweep” scenario is being priced out we expect the Bund/US Treasury spread to narrow a bit further
- US curve steepening trend has reversed with a likely divided US government, but should re-emerge next year
- From current yield levels, Bunds have little leeway for a further fall unless the ECB cuts the depo rate further

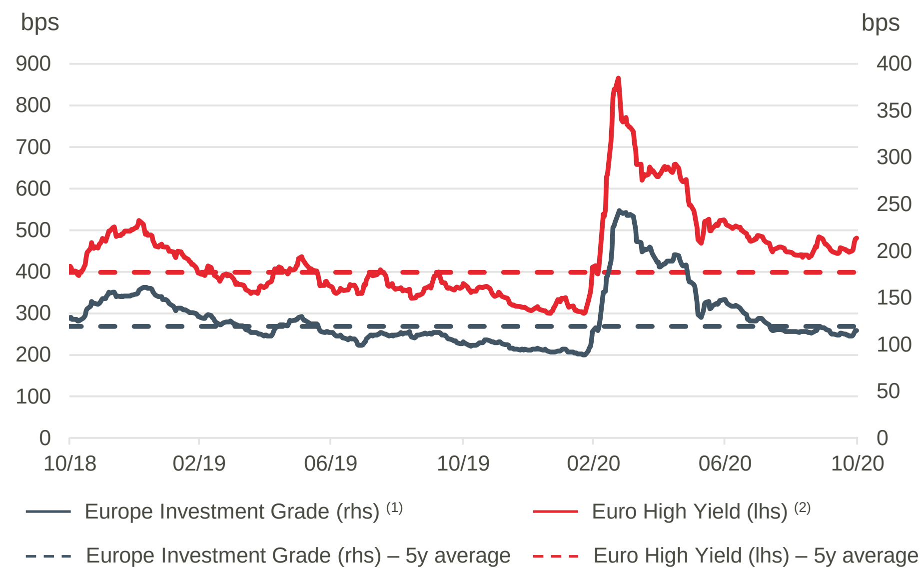
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast | Sources: ODDO BHF AM SAS, Bloomberg | LHS: Data as of 10/31/2020; RHS: Data as of 10/31/2020

Fixed income – Credit Spreads

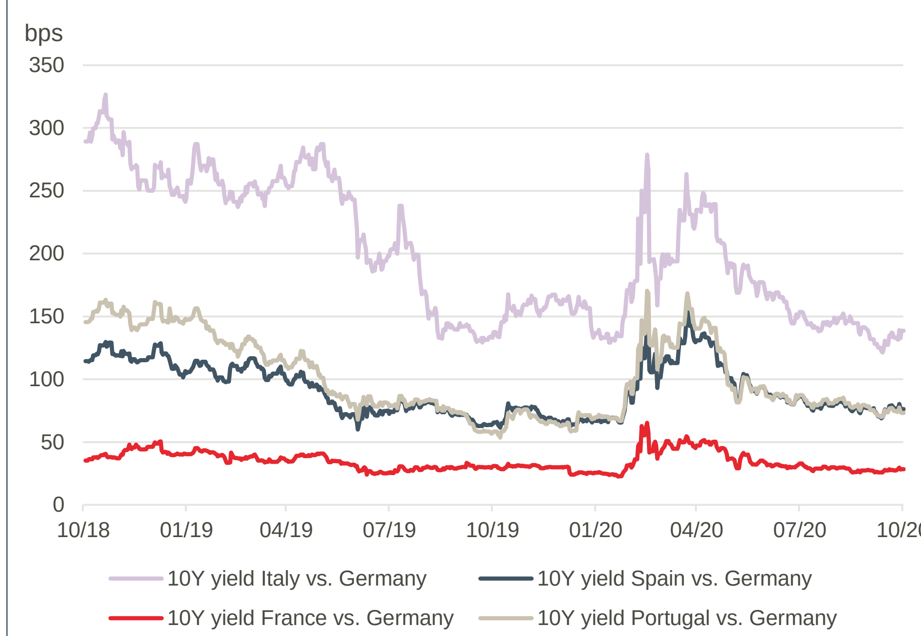
Easy, squeezy

Credit spreads IG & HY (over 2 year)



(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)



- Very favorable supply, demand dynamics and strong ECB support hint to tighter spreads
- Companies have brought forward refinancing, so that issuance volume has been underwhelming in H2
- Additional support via more QE from the ECB to come in December
- Peripheral spreads remain supported by the PEPP program and the envisaged EU recovery fund

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

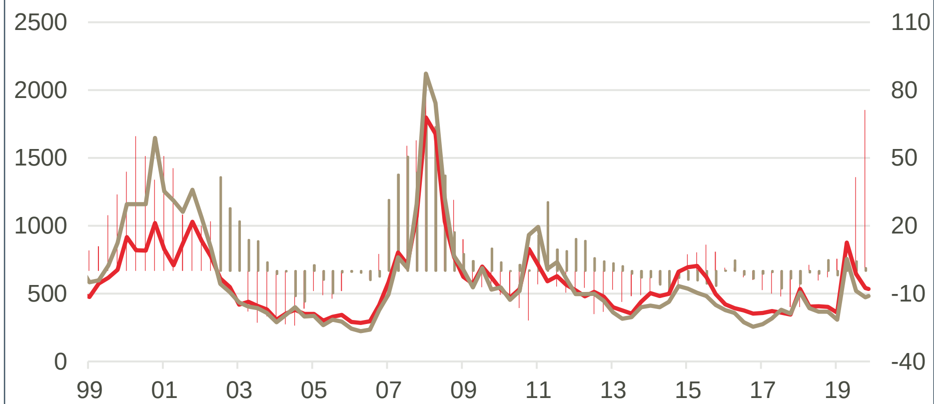
Sources: ODDO BHF AM SAS, Bloomberg | Data as of 10/31/2020

Commercial and industrial lending standards

Lending standards and default rate

Moodys global default rates (rhs)
Moody's forecast global default rates (rhs)
C&I Lenders Tightening Standard (FED, lhs)
Survey Change in Lending Standards to Business (ECB, lhs)

Lending standards and spreads

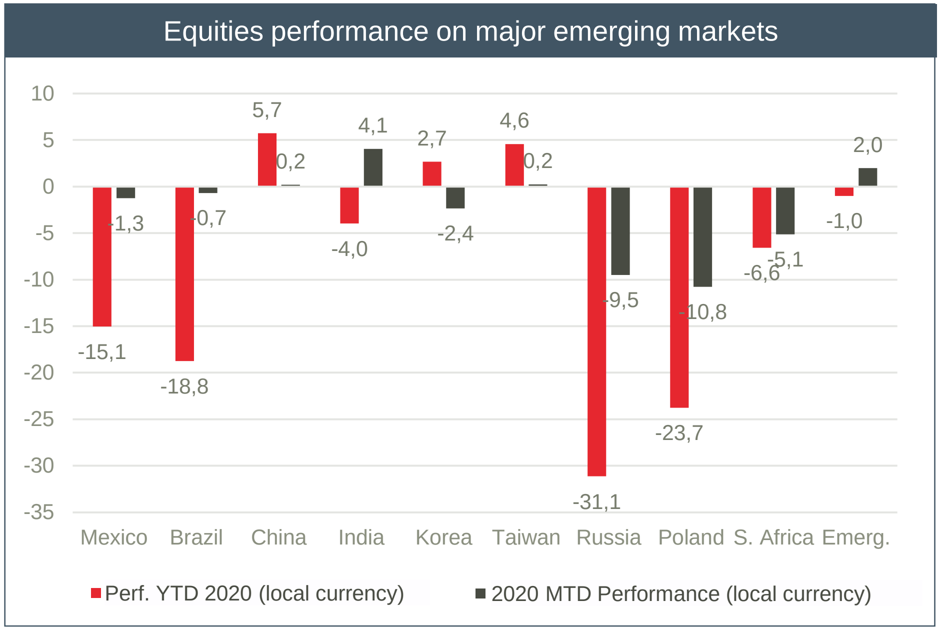


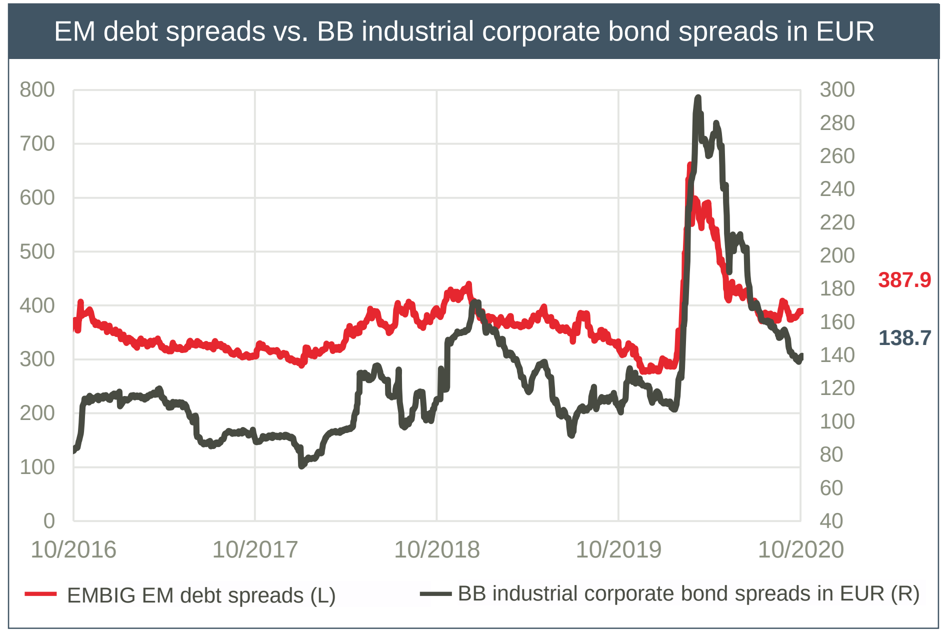
C&I Lenders Tightening Standard (FED, rhs)
Survey Change in Lending Standards to Business (ECB, rhs)
US HY Spreads (lhs)
Euro HY Spreads (lhs)

Source: Moody's as of 09/30/2020, Fed, ECB, Bloomberg | Data as of 10/31/2020

Emerging markets

In a sweet spot?





- Emerging equities outperformed their DM counterparts by a large margin in October and moved in tandem with the surge in early November
- Although there might be a setback in relative performance, we see better opportunities in EM in the medium-term
- Positions are light and emerging countries, especially the Asian region are dealing with covid much better. Moreover, Latin America should be supported by less covid constraints as it enjoys the summer season
- Emerging bonds (USD) have rallied 3% as a reaction to the “blue sweep” being priced out
- Although, this price action seems a bit exaggerated, EM bonds still appear to have value

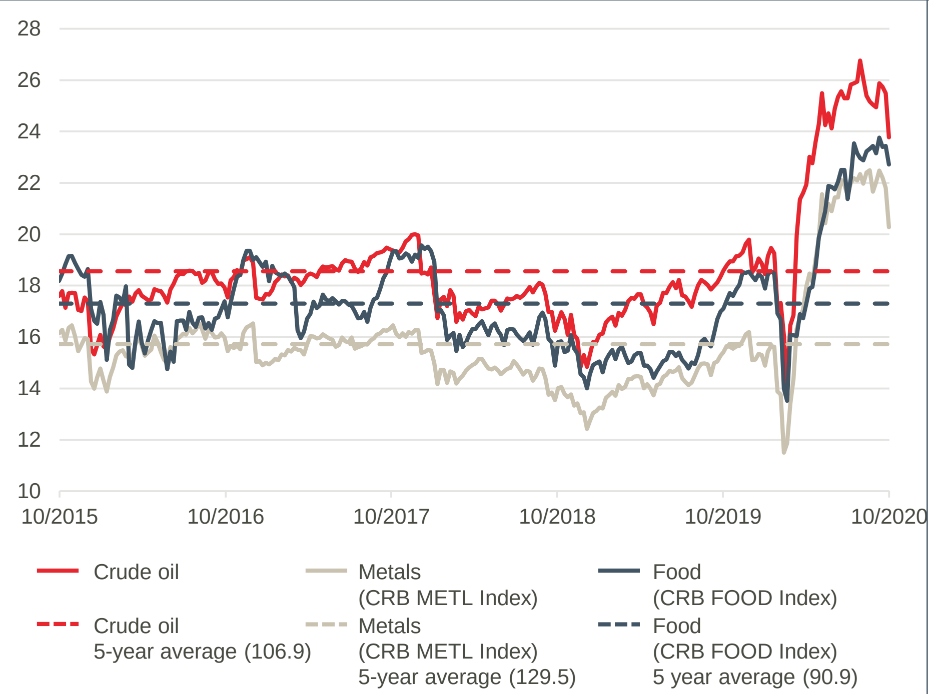
Past performances are not a reliable indicator of future performance and are not constant over time.

Sources: Bloomberg, ODDO BHF AM SAS | Data at 10/31/2020

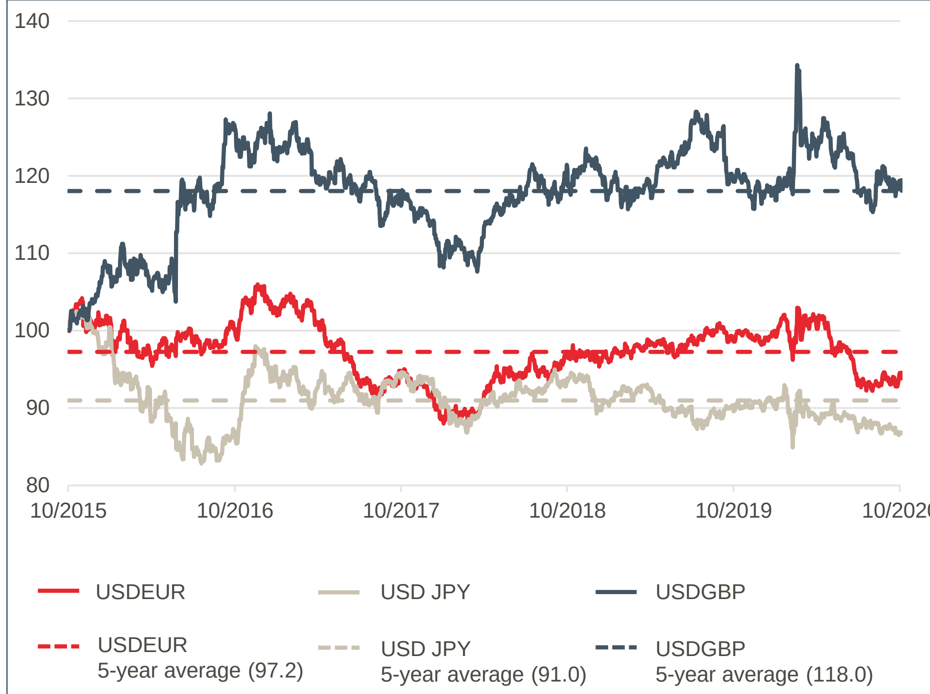
Currencies and commodities

Rebound continues

Commodities - Change over 5 years



Currencies - Change over 5 years

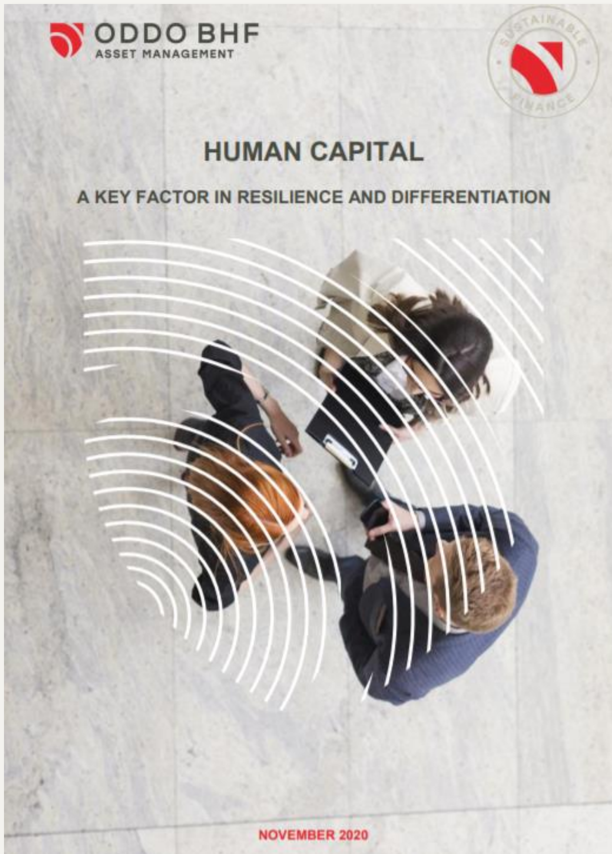


- China has built up a huge inventory in commodities over the last months
- The unwind could lead to temporary headwinds for certain commodities
- EUR/USD sticks to established ranges for now

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 10/31/2020

Our publications on sustainable finance



At ODDO BHF Asset Management, human capital analysis has always been at the heart of our proprietary ESG research methodology. Recent news have shown how much the resilience of companies is closely linked to the quality of human capital and a key source of sustainable long term growth. To explain our approach, we are publishing a new white paper **"Human capital: a key factor of resilience and differentiation".**

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.

Contributors to this Monthly Investment Brief

Nicolas Chaput
Global CEO & Co-CIO
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

Janis Heck
Asset Manager High Yield
ODDO BHF AM GmbH

Laurent Denize
Global Co-CIO
ODDO BHF AM

Maxime Dupuis
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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ODDO BHF Asset Management SAS (France)

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

Notes