MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – OCTOBER 2020

MARKETING MATERIAL

FOCUS
INFLATION: THE ATLANTIC DIVIDE?

EQUITIES
SHORT TERM CORRECTION?

EDITORIAL

VINCENT MANUEL

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"THE FUTURE IS NO MORE UNCERTAIN THAN THE PRESENT" WALT WHITMAN

Dear Reader,

Are the expectations of consumers and companies the best guide for future growth as often established by economists?

2020 is such an unusual year that traditional indicators used by strategists and allocators to gauge the economic momentum run the risk of sending strong misguided signals, blurred by both base effects and psychological effects. After astonishing macro surveys in July reaching the cycle high levels of 2017/2018, purchasing manager indices came back to more neutral levels in August, which could lead us to revise down our expectations for the Q3 recovery. The Bank of France has just sent a different message and upgraded its Q3 growth estimate to 16%. In a way, the cautious players are warming up whilst the momentum chasers are cooling down.

In this unusual context, new indicators based on artificial intelligence are being developed, such as mobility trackers, and suggest that Europe would be back to its February levels. It is hard to draw conclusions from these indicators, but globally, conflicting and bumpy data would generally favour, volatility of inflation expectations and currencies and more noise ahead of central bank meetings.

This is a bit what happened over the last two months, with some momentum on potential inflation normalisation driving a steepening of US and Europe rate curves. That moment did not last long, as in August inflation in the Euro Zone entered into negative territory and the European Central Bank (ECB) highlighted the deflationary pressure derived from a stronger euro.

The acceleration of the technological shift seems easier to have foreseen. In a low growth environment with many industries facing significant uncertainties, companies benefiting from endogenous structural growth drivers benefit from a valuation premium. However, something powerful is going on behind share prices. We may be just witnessing one of the most important value transfers in the last decades. After a significant transfer of value to oil makers in the 70s, telecommunications companies in the 90s, or banks in the 2000s, the technology structural cycle accelerates and captures now a greater proportion of S&P earnings, not only valuation. This is not a purely market story, but also a reflection of our daily lives which are - whether we like it or not - more and more digital. That should not come at any price though, and the recent technical correction is a healthy adjustment.

This period of acceleration is also an opportunity to change the ground rules. In the US, to avoid any debate on the relevance of a zero interest rate policy in a rebounding economy with inflation that could overshoot the 2% threshold in 2021, Jerome Powell basically changed the rules of the game and adopted an average inflation target, an idea that was already present in the vision of Janet Yellen, but never formalised.

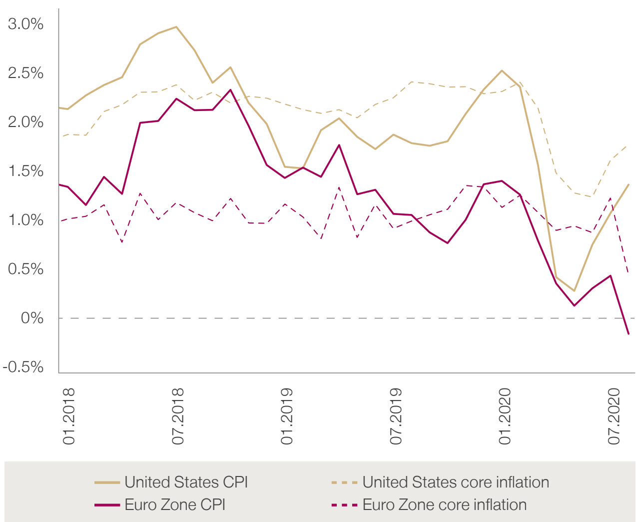
One thing is certain: history tells us that crisis are generally times where country and industry leaderships change. In a nutshell, being short-sighted on inflation, volatility or technical analysis on indices is the best way to miss long-term transformations of capitalism called industrial revolutions.

FOCUS

INFLATION: THE ATLANTIC DIVIDE?

Both sides of the Atlantic are currently experiencing historical drops in activity and surges in public deficits, however the change in prices has recently evolved differently in the Euro Zone than in the United States. We believe this a temporary phenomenon, and that pressure on prices, other than technical effects and base-effects from energy prices, remains globally weak.

INFLATION: UNITED STATES VERSUS EURO ZONE, %



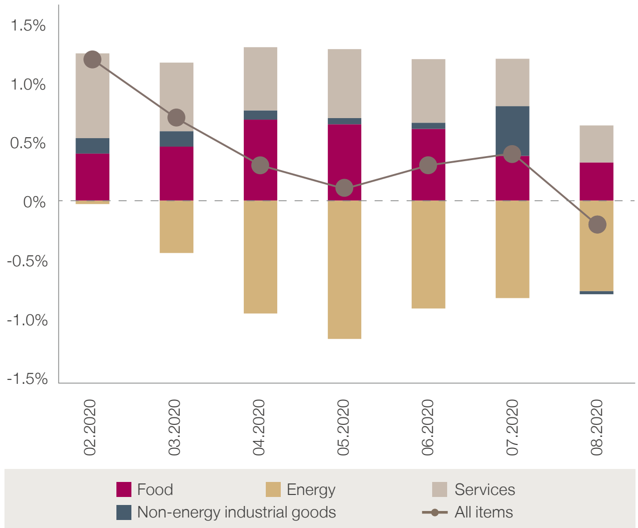
Source: Eurostat, Bureau of Labour Statistics, Datastream, Indosuez Wealth Management.

EURO ZONE: NEGATIVE INFLATION, WHAT'S GOING ON?

Inflation at the Euro Zone level surprised markets to the downside in August, with headline inflation moving into negative territory for the first time in more than four years. Energy prices were the main factor pushing down prices, albeit less than in previous months. Core inflation (excluding the more volatile categories of food and energy prices) also slowed significantly from 1.2% in July to 0.4% in August. The increase in prices of non-energy industrial goods has also been slipping. Nevertheless, our main concern remains the evolution in service prices, traditionally a source of price inflation and worth almost half of the basket of goods used to measures prices in the Euro Zone.

The latter only increased by 0.7% on an annual basis in August 2020 compared to 1.3% in the same month in 2019. The pandemic has indeed weighed disproportionately on the service sector, with slashes in prices in airlines and hotels for example. There have also been technical effects from the recent VAT cut in Germany and delayed summer sales.

EURO ZONE: CONTRIBUTIONS TO INFLATION BY SUBCOMPONENT, %



Source: Eurostat, Indosuez Wealth Management.

US INFLATION: HIGHER THAN INITIAL MARKET EXPECTATIONS IN AUGUST

The annual inflation rate in the US increased to 1.3% in August of 2020 from 1% in July, exceeding market forecasts of 1.2%. This rise in prices is linked to a less significant fall in energy prices (-9% over the year compared to -11.2% in July). However, core inflation also accelerated in August to 1.73% from 1.57% in July. This is linked to a sharp increase in the price of used cars (accounting for 40% of the increase in total inflation). The pandemic led consumers to shy away from public transport and demand for new cars, causing used car prices to surge to 50-year highs. Inversely, like in Europe, prices decreased again in services, notably transport and apparel (-5.9% vs -6.5%). Food and shelter prices remained steady.

FOCUS

INFLATION: THE ATLANTIC DIVIDE?

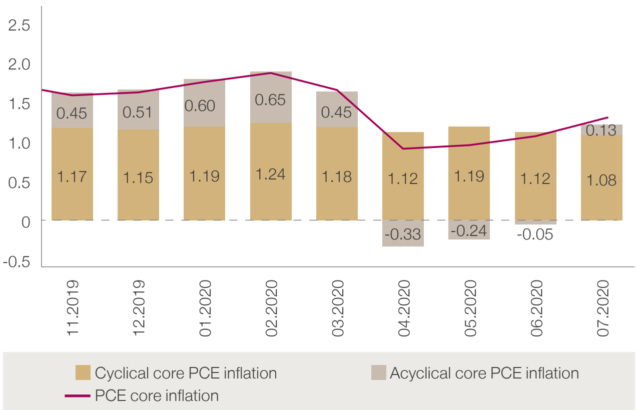
ACYCLICAL COMPONENTS CONTRIBUTING TO DOWNWARD PRESSURE ON PRICES IN THE US

If we take a closer look at inflation dynamics in the US, the Personal Consumption Expenditures (PCE) measure – is viewed as the Federal Reserve's preferred inflation gauge. Based on the methods described in Mahedy & Shapiro (2017), the PCE inflation measure can be decomposed into two categories:

- Cyclical components including categories where prices tend to be more sensitive to overall economic conditions (for example airline prices);
- Acyclical components including categories that are more sensitive to industry-specific factors (for example healthcare prices that can be administered by governments).

The data shows that cyclical pressures on inflation have only minorly decelerated since the beginning of the crisis. The fall in acyclical component was much stronger, even if the latter rose in July for the first time in three months thanks to a small increase in healthcare prices, while non-healthcare acyclical prices continued its four-month long decline.

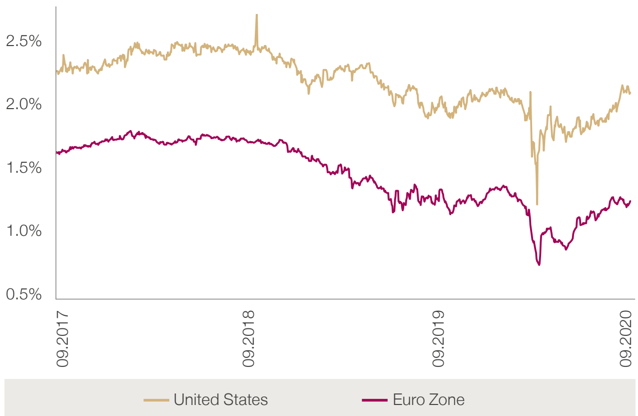
UNITED STATES INFLATION: CYCLICAL VERSUS ACYCLICAL COMPONENT



Source: Datastream, Indosuez Wealth Management.

Furthermore, a recent working paper from Shapiro (August 2020) analysed the effects that COVID-19 had on supply-sensitive and demand-sensitive price categories. He concluded that the majority of the decline in core PCE inflation following the pandemic was attributable to sectors experiencing negative demand. Therefore, these negative factors should begin to ware off as the recovery unfolds. This may explain why market inflation expectations, although anchored, continue to anticipate a further increase in prices.

INFLATION EXPECTATIONS, %



Source: Datastream, Indosuez Wealth Management.

WHAT'S NEXT: A CONTINUED INFLATION DIFFERENTIAL IS EXPECTED

As energy prices recover from their plunge in April 2020, we should expect to see positive base effects on inflation over the coming months on both continents.

However, differences in the evolution of prices will continue as the strengthening of the euro will translate in downward pressure from lower import prices in the Euro Zone and the opposite will be true for the US given the recent depreciation in the dollar. Repercussions of the recession on the labour market will put downward pressure on prices, but the adjustment in the labour market is likely to be quicker in the US than in Europe.

Looking beyond these effects, fundamentals are under pressure from the crisis, notably on the demand side, central banks will continue to remain more focused on growth rather than inflation. This is in line with the Fed's breakthrough policy change on a "new average inflation target" (AIT) of 2%, which will allow it to leave inflation to run higher and keep interest rates low for years to come (until late 2023 to be precise) in order not to hamper the already bumping economic recovery.

In essence what Fed Chairman Jerome Powell could be hoping to achieve is to reinforce expectations of inflation in order for people to assume that inflation will not undershoot the 2% target and, in theory, stimulate the economy by getting consumers to think that inflation will be high in the future and therefore it is better to spend now rather than later.

Finally, we expect inflation in the US to gravitate around 1.2% in 2020, accelerating in 2021 but remaining below the Fed's initial target of 2%. In the Euro Zone, inflation which is currently at a lower level should remain weak in 2020 (0.25%) and with a modest acceleration in 2021 remaining below 1% as the recovery takes time to gain traction.

The return in consumer confidence will be key.

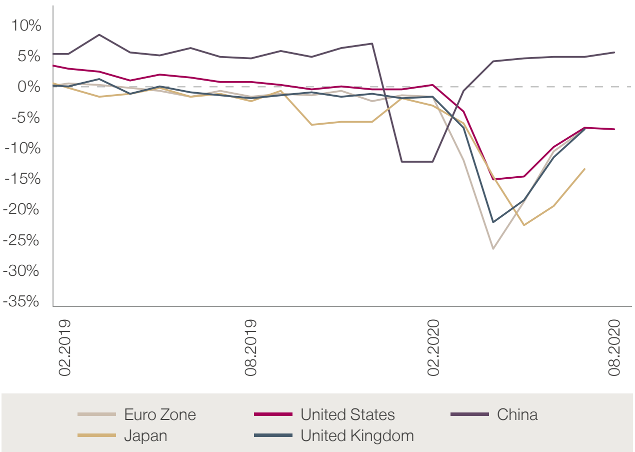
MACRO ECONOMICS

THE ECONOMIC RECOVERY: KEEP CALM AND CONSUME

After a summer filled with high hopes from market rallies and upbeat economic survey readings, hard data has proved that the global recovery will be progressive and strongly policy-driven.

The rebound in industrial production began to weaken in July in Europe (+4.1% over the month compared to +9.5% in June). In the United States, industrial production disappointed in August (at only 0.4% over the month compared to a consensus forecast of 1%), but this was mainly due to temporary weather factors. On both sides of the Atlantic production remains 7% below the same period last year. There are, however, reasons for optimism as we look to China where the lockdown ended in February and the nascent recovery now appears to be broadening in the absence of a second wave of COVID-19. China, has used its old economic model of construction, investment and low-end exports to prop up its economy, where industrial production has now grown for five straight months on a yearly basis (at 5.6% in August).

INDUSTRIAL PRODUCTION, YEAR-ON-YEAR, %



Source: National sources, Datastream, Indosuez Wealth Management.

With regards to the service sectors, PMI indices in the service sector stalled in their recovery in the Euro Zone as a whole in August. The pandemic has restricted the recovery in activity across the globe, especially as the second wave touches largely service-led economies, such France, Spain and India.

On the demand side, retail sales have begun to recover albeit at a slow pace. Chinese retail sales turned slightly positive for the first month in August (0.5%) after a seven month decline.

In the developed world, retailers are waiting anxiously for consumers to feel sufficiently confident to purge into their accumulated lockdown savings in order to consume. This, however, will take time as the recovery in employment picks up slowly. In the US non-farm payrolls rose 1.371 million in August, easing from 1.734 million in July (remaining 11.5 million below the pre-pandemic level).

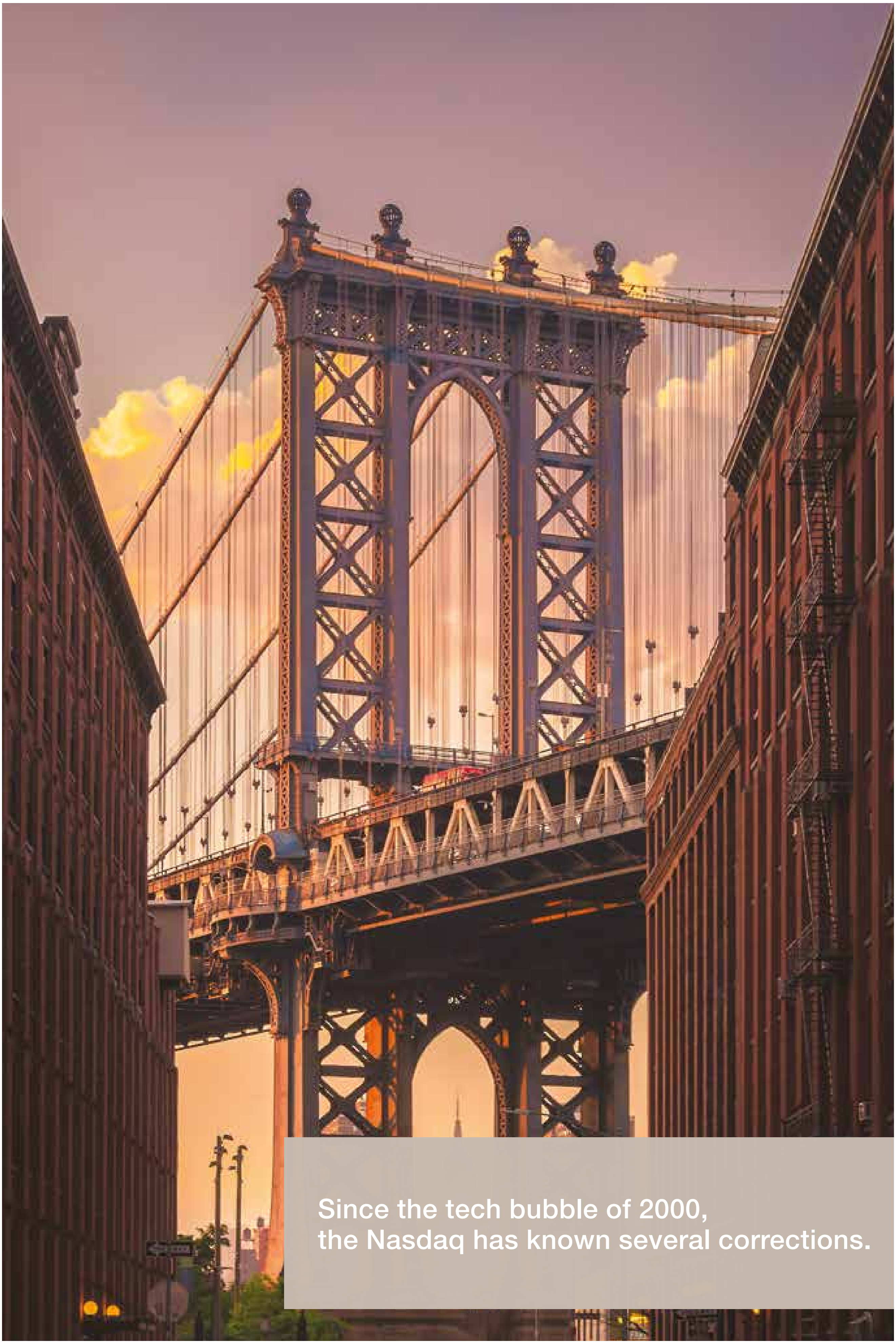
The evolution in the Euro Zone unemployment rate remains relatively flat (7.9% in July compared to 7.7% in June) compared to the US (8.4% in August compared 10.2% in July and 4.4% in March), as recourse to short-term work schemes remain substantial in Europe. National stimulus plans announced in France and Germany (and soon to be announced in Italy and Spain), differ in their target policies, but ultimately aim to improve consumption (a reduced VAT rate in Germany as of July) or foster companies ability to employ (extension in short-term work schemes and lower production taxes introduced in the French package). Nevertheless, the unemployment rate is expected to increase higher in the Euro Zone in 2020 as we approach year end (ECB annual forecast at 8.5%), while a drop is expected in the US (7.6% according to the last FOMC further projections).

MORE MODEST GROWTH & POLITICAL UNCERTAINTY IN Q4

With the number of COVID-19 cases beginning to fall in the US, but returning to peak levels in Europe it is beginning to sink in that the pandemic will take longer to shake-off and will most likely have long-term effects on potential growth. Furthermore, with public debt ratios at historical highs (increasing from 114% of GDP on average in the G7 economies to 134% in 2020), central bank support will remain essential in maintaining spreads low as the recovery in demand takes time to gain traction.

Looking ahead, the return in consumer confidence, will be a key indicator to watch (US and Euro Zone indices remain 30% below pre-COVID-19 levels compared to 7% in China). We expect to see more modest GDP growth figures in Q4 after a strong rebound in Q3. The year-end will also be characterised by a strong return in political risk in the US, UK (Brexit) and even elsewhere in Europe with the recent political turmoil in Turkey and Greece.

Emerging markets as a whole will contract for the first time ever in 2020 (-1.2% according to IMF estimates). China is one of the few exceptions that is expected to post positive growth forecasts in 2020 (along with Egypt). Monetary and fiscal policy have less room to maneuver in most emerging markets, particularly the case for Latin American countries such as Brazil and to a lesser extent Mexico.



Since the tech bubble of 2000,
the Nasdaq has known several corrections.

EQUITIES

SHORT-TERM CORRECTION?

- The recent correction in the US has triggered many concerns for investors, notably on a potential end of the rally. The rebound of more than 60% from the bottom (S&P 500) coupled with the extreme positioning in call options highly raised the probability of a short-term correction.
- If the recent sell-off did not intensify further, the whole episode could simply end up encouraging the bulls to buy the dip. The driver of the rebound remaining intact for the moment.
- The Fed's new monetary policy framework confirms that they will keep short term rates at extreme lows even if inflation picks up and vaccines became more likely, which could trigger a cyclical turn around, adding momentum to the earning trend already led by the digital revolution.

VALUATIONS

Forward P/E (price-to-earnings ratio) for S&P 500 have moved recently to the highest level since the late-1990s and they are based on IBES projections which implied a 27% rebound in 2021 from 2020. Even after the recent correction of the S&P 500, the 2021 P/E ratio remains 20.6x, a 20% premium on the historical average. That would limit the potential upside if, on the other side, other asset classes were not offering such a poor return. Even on these levels, from a risk premium stand point, equities remain attractive versus bonds.

UNITED STATES

The uncertainty dominating the US presidential election keeps implied volatility at high levels. When the election deadline will be exceeded, volatility should drop and thus attract the flow of certain systematic funds.

Before that, the US market should remain animated. September is traditionally a poor month for Equities and this is even more the case during presidential election years. The month is characterised by a low flow of corporate news and, as a result, investors' attention is dominated by the noise of political debates. In fact, still historically, the market's low point is generally around October 10, which is the start of the third quarter of the publication season.

EUROPE

European markets have globally been sideways since the end of May. They have recently enjoyed much better EPS revisions trends than during spring. This improvement is backed by: better than expected H1 earning seasons, the progressive economic recovery and the support from public administrations (governments, EU Recovery Fund and the ECB). European EPS evolution for this year and next is nonetheless still lagging the US trends. The valuation discount versus the rest of the world is just below the historical average so this point is not strong enough to justify in itself an outperformance of Europe.

EMERGING MARKETS

China's ongoing improvement in economic data has contributed to an encouraging turn in investor sentiment toward Asia. Earnings revisions have recently turned positive for the region, in China, Taiwan and India, in particular.

The picture is more negative for ASEAN (except Indonesia). China's consumption driven economic re-balancing, structural reforms and infrastructure investment remain intact and will likely accelerate as part of counter-cyclical growth measures. In the region, we remain overweight China, neutral South Korea and Singapore, and underweight India and ASEAN (ex. Singapore).

SECTOR PREFERENCES & INVESTING STYLE

After a rally since the March trough, the technology segment has recently suffered a quick sell-off, as did the Nasdaq losing more than 11% in only 3 days. It is quite usual during a rally to see this kind of correction. Since the tech bubble of 2000, the Nasdaq has known several corrections of around 13% before the trend finally reached its summit with a total performance above +300%.

We remain overweight technology and Growth vs Value particularly as: bond yields are likely to stay low for long, capex in IT have been structurally on the rise for many years and the recent crisis has accelerated the digital revolution.

EQUITIES KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GEOGRAPHIES		
EUROPE	-/=	=
UNITED STATES	+	=/+
JAPAN	-/=	-/=
GLOBAL EM	=/+	+
LATAM	-	-/=
ASIA EX-JAPAN	=	=
CHINA	+	+
STYLES		
GROWTH	=/+	=/+
VALUE	-/=	-/=
QUALITY	=	+
CYCLICAL	=	-/=
DEFENSIVE	=	=/+

Source: Indosuez Wealth Management.

Opening the door for further accommodation.

FIXED INCOME

THE INFLATION QUEST

- "If we judge that inflationary pressures are restrained and the economy can achieve balanced growth, we can keep interest rates at very low levels", Toshihiko Fukui, governor of the Central Bank of Japan, March 2003 to March 2008.
- The search for inflation will keep our minds busy for a long period of time.

CENTRAL BANKS

The European Central Bank (ECB) contemplates the results of it's liquidity injection programmes raising it's inflation forecast for 2021 to 1% vs 0.8% in June. The rise in the euro currency poses a threat to the inflation target, the market is pricing-in a 10 bps cut in spring 2021. At the Jackson Hole symposium, Jerome Powell released a new set of targets for the Fed: the 2% inflation target becomes asymmetrical, while unemployment becomes the main target. The Bank of England is expected to open the door for further accommodation in November. A weaker job market, low inflation and fragile consumption could put the 2% inflation target at risk and trigger more action.

GOVERNMENT BONDS

The Fed's target shift announced in late August at Jackson Hole steepened the US yield curve and temporarily ended the yield rally which prevailed for the summer. In October, the EU will start issuing bonds to finance the SURE program (Support to mitigate Unemployment Risks in an Emergency), as a rehearsal of the issuances expected to finance the EUR 750 billions recovery fund.

INVESTMENT GRADE (IG)

This year is already a record year for private sector financing across maturities. This bond offering matches increasing investor demand, competing with central banks appetites. Many companies pre-financed their funding needs for the end of the year, and probably the beginning of 2021. Activity is expected to slow down in the last quarter, fuelled by ongoing demand and low issuance activity, spreads should remain at the tightest end of their range.

UNITED STATES INTEREST RATE SPREAD 10 YEARS VERSUS 30 YEARS, BPS

Source: Bloomberg, Indosuez Wealth Management.

HIGH YIELD (HY)

With more than a hundred defaults since the beginning of the year (according to Moody's), the US HY market already surpasses previous years in terms of default activity. The peak is expected in the first quarter of 2021, close to 8.7% worldwide. Investors in the need for yield purchased the lowest rated bonds: the CCC bucket performed 2.44% in August. This reflects investors confidence in riskier assets. As exogenous risks are known, only an increase in volatility in the stocks market could derail this rally.

EMERGING MARKETS BONDS

The macro backdrop is to remain uncertain with concerns over weakening policy support and uncertainty from the US elections and US-China tensions. Emerging markets assets are to be supported by USD currency weakening and a relatively modest year-to-date default rates. We think there are likely to be episodes of volatility in the second half of the year, but with much smaller swings. Discrepancies remain large by region, thus we continue to favour Asian credit versus Latin American on the back of better overall visibility and higher credit quality on average.

FIXED INCOME KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GOVERNMENTS		
CORE EUR 10Y (BUND)	=	=
EUR PERIPHERY	=	=/-
USD 10Y	=	=
CREDIT		
INVESTMENT GRADE EUR	=	=/+
HIGH YIELD EUR/BB- AND >	=	=/+
HIGH YIELD EUR/B+ AND <	=	=/-
FINANCIALS BONDS EUR	=/+	+
INVESTMENT GRADE USD	=	+
HIGH YIELD USD/BB- AND >	=	=/+
HIGH YIELD USD/B+ AND <	=/-	=/-
EMERGING DEBT		
SOVEREIGN DEBT HARD CURRENCY	=	=/+
SOVEREIGN DEBT LOCAL CURRENCY	=/-	=/-
LATAM CREDIT USD	=/-	=/-
ASIA CREDIT USD	=	+
CHINESE BONDS CNY	=/+	+

Source: Indosuez Wealth Management.

Acute political uncertainty lies ahead.

FOREX

OUR HOUSE VIEW

- Negative "real" yields matter and will persist.

EURO (EUR)

For the first time since May 2018, EUR/USD traded above 1.2000 levels early September on the back of a weaker dollar across the board. At the same time, several European Central Bank (ECB) officials have expressed concerns about the exchange rate.

At its last meeting, the ECB left its monetary policy unchanged. The governing council has debated on the strength of the euro, but agreed that there is no need to overreact to its gains. ECB president Christine Lagarde added that the central bank does not target exchange rate, but highlighted the importance of the value of the euro as a driver of inflation.

As positioning and technical indicators are now stretched, further euro strengthening will now be harder to achieve.

We expect the currency pair to trade in a range between 1.16 and 1.21 ahead of the highly uncertain US election.

US DOLLAR (USD)

At the Jackson Hole Economic Symposium, the Federal Reserve has introduced its new flexible average inflation target (AIT) framework. This should keep US real rates yields at historically depressed levels for longer. The Fed median dot plot (a chart that records each Fed official's forecast) shows that rates will remain close to zero until the end of 2023.

Following the Fed's easing policy earlier this year the US dollar has lost its rate advantage. Prospects of more Fed money printing, US fiscal splurging and continued low interest rates have weighted on the US dollar.

After dropping 10% since its peak last March, the dollar index has recovered some ground recently.

The outlook of the dollar should be driven by the US growth outlook and the US presidential elections in less than 2 months. Finally, the US dollar is vulnerable to potential prospects of less business-friendly policies if Joe Biden wins the presidency and democrats gain control over the congress in November.

POUND STERLING (GBP)

September was not a good month for the GBP as the British government chose to forge ahead with legislation that would contradict the Brexit withdrawal agreement last year.

It is no surprise that the EU objected to this, but even more damaging were objections from other countries such as the USA who saw the UK turning back on a signed international treaty - if the UK ever wants to be trustworthy on the international stage this needs to be avoided.

The fact that GBP had a relatively strong summer meant that the subsequent fall has only been moderated to levels of 0.92 EUR/GBP and 1.28 GBP/USD representing a market that says "I'm nervous about Brexit but not too worried". Negotiations will inevitably heat up in October, and as we have done for a while now we remain neutral on GBP - it's too messy to get involved.

CHINESE YUAN (CNY)

The Yuan has continued its stellar recovery from 7.10 down to below 6.80 to the US dollar in September, mostly underpinned by the weaker US dollar, China's apparent successful economic recovery and "exit from COVID-19 precautions".

It's also worth noting that whilst we were all distracted by daily infection numbers, the yield spread of Chinese over US 10-year government bonds climbed to a record wide of 2.50%. At the same time, as western central banks have embarked on renewed currency-debasement by printing money to fund enormous fiscal deficits, the Chinese have made a point of sticking to monetary orthodoxy (i.e. not debasing the currency).

So whilst in the short term the Chinese yuan has strengthened already significantly, we are seeing more long-term fundamental positives building a foundation under the currency, and would not be surprised to see continued shifting of capital towards Chinese markets to its benefit.

FOREX & PRECIOUS METALS KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
UNITED STATES (USD)	=	=/-
EURO ZONE (EUR)	=	=/+
UNITED KINGDOM (GBP)	=	=
SWITZERLAND (CHF)	=/-	=/-
JAPAN (JPY)	+	=
AUSTRALIA (AUD)	=/+	+
CANADA (CAD)	=/+	+
NORWAY (NOK)	=/+	+
BRAZIL (BRL)	=	=
CHINA (CNY)	=/+	+
GOLD (XAU)	=	=/+
SILVER (XAG)	=	+

Source: Indosuez Wealth Management.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

INVESTMENT SCENARIO

Macro outlook

- Activity surveys and confidence indicators suggest that the macro momentum has weakened since July and that the recovery pace could disappoint in the coming months;
- However, the recovery should be strong in the third quarter as reflected by the upwards revision on Q3 GDP by the Bank of France this month (+16% vs Q2-2020), but will logically weaken in the fourth quarter;
- Inflation remains low and should stay negative in Europe until year end, but increase in 2021 closer to 1% in Europe and 2% in the US, which will not lead central banks to abandon their accommodative stance;
- Policy mix is strong and fiscal policies will contribute to the global growth acceleration towards 5% in 2021;
- Strong dispersion between emerging markets with a better outlook in Asia than in Latin America;
- COVID-19 remains the main risk that could weigh on the recovery as the second wave is confirmed in Europe;
- US elections should be a close call, and uncertainty is increased by mail-in voting; the worst case for the markets could be a contested victory with recounting of bulletins to be arbitrated by the Supreme Court.

Default rates

- Global high yield default rates increased above 6% in August according to Moody's, notably due to the US HY market (close to 9% with 112 out of 137 defaults YTD) and concentrated on the energy sector as well as retail and business services; the overall default rate in the US should peak between this winter and spring 2021 above 11% (with a strong increase of defaults also expected in hotels, gaming and leisure) before contracting towards 9% in summer 2021. However, other sources suggest much lower default rates YTD in the US HY market (around 6%), mostly impacted by energy (US HY default rate below 4% ex energy);
- In Europe default rates stand around 3% YTD. Going forward, default rates in euro high yield should not exceed 5% to 6% in Europe in 2021. This picture could be blurred by COVID-19 response plans which may delay the occurrence of defaults (rising proportion of zombie firms), with default rates which could plateau for some time.

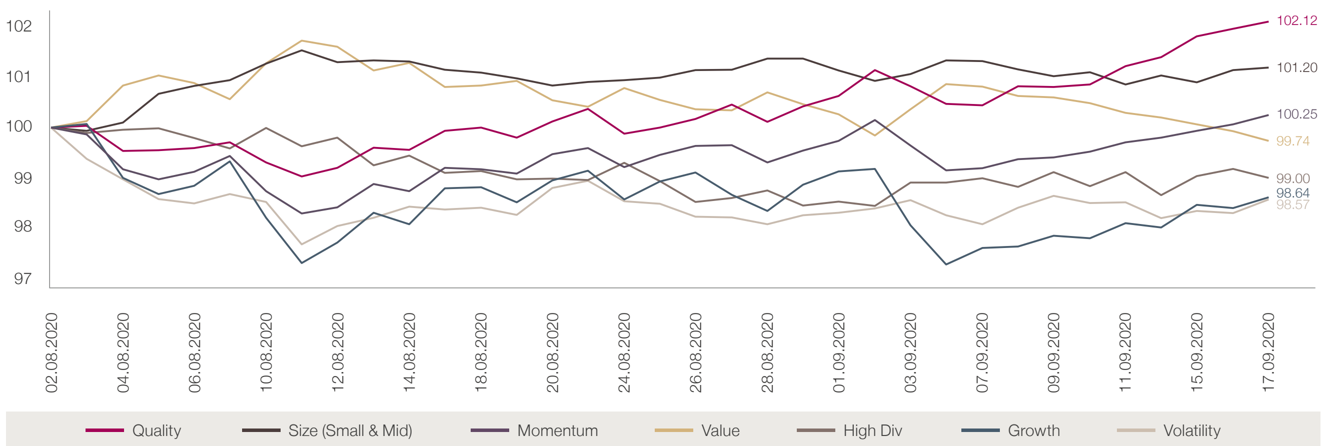
Corporate earnings

- Earnings expected for the FY 2020 have improved in the US on the back of a better than expected Q2 earnings season;
- FY 2021 expectations appear high (over 25% for the MSCI World) and subject to further revision, but reflect mostly a strong base effect on a very depressed earnings level in 2020;
- On a geographical basis, China and northern Asia equities dominate, followed by US equities and Europe with a more severe EPS contraction in 2020, reflecting more cyclical components of the European indices.

Valuations

- Price earnings ratios look unattractive on a historical basis, but equity risk premiums are in line with long term averages;
- Credit spreads could offer potential for further compression if defaults do not reach worst case predictions, as the normalisation of the risk premium is mostly done.

MSCI FACTORS RELATIVE PERFORMANCE, EUROPE



Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

ASSET CLASSES CONVICTIONS

Equities

We maintain our preference for US equities and China, but have reduced last month our underweight on Europe, which could benefit from: the recovery plan, a potential reversal of foreign exchange movements and more international stability in case of a Biden victory. The technical correction on US technology offers a short-term recovery potential. Strategically we continue to favour quality stocks and secular themes.

Fixed income

We remain confident in credit in developed markets and remain selective in emerging markets with a preference for Asia. Central banks' support and the search for safe havens lead us to keep an exposure on duration though Treasuries, whilst monitoring a potential steepening of the curve that could be driven either by a partial normalisation of inflation, or by market reactions to the US political context and funding pressure.

Currencies

We are neutral on EUR/USD assuming that the weakening of the dollar is mostly done at this stage; in the longer run, we think that the greenback could further weaken on the back of twin deficits and heavy money printing financing the accumulation of federal debt.

Gold

Gold should stabilise between USD 1'800 and 1'950, but could be at risk in case of a rate curve steepening. In the long term, monetary accommodation and currency debasement are supportive for the value of gold against most currencies.

KEY CONVICTIONS

EQUITIES	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GEOGRAPHIES		
EUROPE	-/=	=
UNITED STATES	+	=/+
JAPAN	-/=	-/=
GLOBAL EM	=/+	+
LATAM	-	-/=
ASIA EX-JAPAN	=	=
CHINA	+	+
STYLES		
GROWTH	=/+	=/+
VALUE	-/=	-/=
QUALITY	=	+
CYCLICAL	=	-/=
DEFENSIVE	=	=/+
FIXED INCOME		
GOVERNMENTS		
CORE EUR 10Y (BUND)	=	=
EUR PERIPHERY	=	=/-
USD 10Y	=	=
CREDIT		
INVESTMENT GRADE EUR	=	=/+
HIGH YIELD EUR/BB- AND >	=	=/+
HIGH YIELD EUR/B+ AND <	=	=/-
FINANCIALS BONDS EUR	=/+	+
INVESTMENT GRADE USD	=	+
HIGH YIELD USD/BB- AND >	=	=/+
HIGH YIELD USD/B+ AND <	=/-	=/-
EMERGING DEBT		
SOVEREIGN DEBT HARD CURRENCY	=	=/+
SOVEREIGN DEBT LOCAL CURRENCY	=/-	=/-
LATAM CREDIT USD	=/-	=/-
ASIA CREDIT USD	=	+
CHINESE BONDS CNY	=/+	+
FOREX		
UNITED STATES (USD)	=	=/-
EURO ZONE (EUR)	=	=/+
UNITED KINGDOM (GBP)	=	=
SWITZERLAND (CHF)	=/-	=/-
JAPAN (JPY)	+	=
BRAZIL (BRL)	=	=
CHINA (CNY)	=/+	+
GOLD (XAU)	=	=/+

Source: Indosuez Wealth Management.

MARKET MONITOR (LOCAL CURRENCIES)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 16 SEPTEMBER 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'385.49	0.32%	4.79%
FTSE 100 (United Kingdom)	6'078.48	-0.55%	-19.41%
Stoxx Europe 600	373.13	0.96%	-10.27%
Topix	1'644.35	1.90%	-4.47%
MSCI World	2'403.50	0.38%	1.91%
Shanghai SE Composite	4'657.36	-1.76%	13.69%
MSCI Emerging Markets	1'116.99	1.60%	0.21%
MSCI Latam (Latin America)	2'007.60	1.18%	-31.19%
MSCI EMEA (Europe, Middle East, Africa)	217.30	-0.48%	-18.79%
MSCI Asia Ex Japan	731.85	1.87%	6.33%
CAC 40 (France)	5'074.42	1.95%	-15.12%
DAX (Germany)	13'255.37	2.14%	0.05%
MIB (Italy)	19'963.99	-0.46%	-15.07%
IBEX (Spain)	7'110.80	0.23%	-25.54%
SMI (Switzerland)	10'520.00	2.35%	-0.91%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'680.00	-2.44%	-3.06%
Gold (USD/Oz)	1'959.26	1.57%	29.13%
Crude Oil WTI (USD/Bbl)	40.16	-6.45%	-34.23%
Silver (USD/Oz)	27.35	0.05%	52.64%
Copper (USD/Tonne)	6'777.00	1.38%	9.77%
Natural Gas (USD/MMBtu)	2.27	-6.55%	3.56%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	26.04	3.50	12.26

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.07	-0.81%	-1.01%
GBP/USD	1.30	-1.00%	-2.19%
USD/CHF	0.91	-0.63%	-5.92%
EUR/USD	1.18	-0.19%	5.38%
USD/JPY	104.95	-1.10%	-3.37%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.70%	1.68	-122.06
France 10Y	-0.22%	-3.90	-33.90
Germany 10Y	-0.49%	-1.10	-29.70
Spain 10Y	0.26%	-2.90	-20.40
Switzerland 10Y	-0.47%	0.60	0.20
Japan 10Y	0.02%	-1.10	3.50

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	42.74	1.88%	-2.62%
Euro Governments Bonds	220.48	0.08%	1.35%
Corporate EUR high yield	199.50	0.93%	-2.05%
Corporate USD high yield	303.67	0.67%	-0.10%
US Government Bonds	326.48	0.05%	5.97%
Corporate Emerging Markets	52.00	-0.10%	0.41%

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

MONTHLY INVESTMENT RETURNS, PRICE INDEX

JUNE 2020	JULY 2020	AUGUST 2020	4 WEEKS CHANGE	YTD (16.09.2020)	
7.87%	12.75%	8.16%	1.90%	13.69%	BEST PERFORMING
7.68%	10.73%	7.01%	1.87%	6.33%	
6.96%	8.42%	6.53%	1.60%	4.79%	
5.19%	8.02%	3.40%	1.18%	1.91%	
3.20%	5.51%	2.86%	0.96%	0.21%	
2.85%	4.69%	2.58%	0.38%	-4.47%	
2.51%	2.44%	2.09%	0.32%	-10.27%	
1.84%	-1.11%	1.26%	-0.48%	-18.79%	
1.53%	-4.02%	1.12%	-0.55%	-19.41%	
-0.31%	-4.41%	-6.36%	-1.76%	-31.19%	WORST PERFORMING

Source: Bloomberg, Indosuez Wealth Management.
Past performance does not guarantee future performance.

FTSE 100 | Topix | MSCI World | MSCI EMEA | MSCI Emerging Markets
Stoxx Europe 600 | S&P 500 | Shanghai SE Composite | MSCI Latam | MSCI Asia Ex Japan

GLOSSARY

Backwardation: Refers to a situation where a futures contract's price is below the spot price of the underlying. The opposite situation is referred to as Contango.

Barbell: An investment strategy that exploits two opposing ends of a spectrum, such as going long both the short- and long-end of a bond market.

Basis point (bps): 1 basis point = 0.01%.

Below par bond: A bond trading at a price inferior to the bond's face value, i.e. below 100.

Bottom-up: Analyses, or investment strategies, which focus on individual corporate accounts and specifics, as opposed to top-down analysis which focuses on macro-economic aggregates.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

Bund: German sovereign 10-year bond.

Call: Refers to a call option on a financial instrument, i.e. the right to buy at a given price.

CFTC (Commodity Futures Trading Commission): An independent US federal agency with regulatory oversight over the US commodity futures and options markets.

COMEX (Commodity Exchange): COMEX merged with NYMEX in the US in 1994 and became the division responsible for futures and options trading in metals.

Contango: Refers to a situation where the price of a futures contract is higher than the spot price of the underlying asset. The opposite situation is referred to as Backwardation.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates, expressed in years. The longer the duration of a bond, the more its price is sensitive to any changes in interest rates.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to "operating earnings".

EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and euro-member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

EPS: Earnings per Share.

ESG: Environmental, Social and Governance.

ESMA: European Securities and Markets Authority.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

Futures: Exchange-traded financial instruments allowing to trade the future price of an underlying asset.

G10 (Group of Ten): One of five groups, including also the Groups of 7, 8, 20 and 24, which seek to promote debate and cooperation among countries with similar (economic) interests. G10 members are: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK and the US with Switzerland being the 11th member.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

GHG: Greenhouse gases.

Gulf Cooperation Council (GCC): A grouping designed to favour regional cooperation between Oman, Saudi Arabia, Kuwait, Bahrain, United Arab Emirates and Qatar.

High yield: A category of bonds, also called "junk" which ratings are lower than "investment grade" rated bonds (hence all ratings below BBB- in Standard & Poor's parlance). The lower the rating, the higher the yield, normally, as repayment risk is higher.

Hybrid securities: Securities that combine both bond (payment of a coupon) and share (no or very long maturity date) characteristics. A coupon might not be paid, as with a dividend.

iBoxx investment grade/high yield indices: Benchmarks measuring the yield of investment grade/high yield corporate bonds, based on multi-source and real-time prices.

IMF: The International Monetary Fund.

Investment Grade: A "high quality" bond category rated between AAA and BBB- according to rating agency Standard & Poor's.

LIBOR (London Interbank Offered Rate): The average interbank interest rate at which a selection of banks agree to lend on the London financial market. LIBOR will cease to exist in 2020.

LME (London Metal Exchange): The UK exchange for commodities such as copper, lead, and zinc.

Loonie: A popular name for the Canadian dollar which comes from the word "loon", the bird represented on the Canadian one dollar coin.

LVT: Loan-to-Value ratio; a ratio that expresses the size of a loan with respect to the asset purchased. This ratio is commonly used regarding mortgages, and financial regulators often cap this ratio in order to protect both lenders and borrowers against sudden and sharp drops in house prices.

Mark-to-market: Assessing assets at the prevailing market price.

OECD: Organisation for Economic Co-operation and Development.

OPEC: Organisation of Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

Policy-mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

PMI: Purchasing Managers' Index.

Put: An options contract that gives the owner the right, but not the obligation, to sell a certain amount of the underlying asset at a set price within a specific time period. The buyer of a put option believes that the underlying stock price will fall below the option price before expiration date. The value of a put option increases as that of the underlying asset falls, and vice versa.

Quantitative Easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

Renminbi: Translating literally from Chinese as "currency of the people", this is the official name of China's currency (except in Hong Kong and Macao). It is also frequently referred to as the yuan.

Russell 2000 Index: A benchmark measuring the performance of the US small cap segment. It includes the 2000 smallest companies in the Russell 3000 Index.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

SRI: Sustainable and Responsible Investments.

Subordinated debt: Debt is said to be subordinated when its repayment is conditional upon unsubordinated debt being repaid first. In return for the additional risk accepted, subordinated debt tends to provide higher yields.

Swap: A swap is a financial instrument, often over the counter, that enables two financial flows to be exchanged. The main underlyings used to define swaps are interest rates, currencies, equities, credit risk and commodities. For example, it enables an amount depending on a variable rate to be exchanged against a fixed rate on a set date. Swaps may be used to take speculative positions or hedge against financial risks.

USMCA: The United States-Mexico-Canada Agreement, signed by the political leaders of the three countries on 30 September, 2018, replacing NAFTA (created in 1994).

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

Wedge: A wedge occurs in trading technical analysis when trend lines drawn above and below a price chart converge into a arrow shape.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: The World Trade Organisation.

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The banks of the Indosuez Wealth Management Group are preparing for the replacement or restructuring of interbank interest rates, such as the LIBOR, EURIBOR and EONIA, the fixing terms of which will be strengthened significantly, as decided by the financial market authorities and banking agents. At the European level, the European Central Bank began publishing the €STR (Euro Short Term Rate) in October 2019, which will sit alongside the EONIA until December 2021 and will replace it in January 2022. Concerning the EURIBOR, the European Money Markets Institute confirmed in November 2019 that the transition phase for the Hybrid EURIBOR has been completed, paving the way for full restructuring between now and December 2021. Each IBOR interest rate (e.g. the LIBOR US Dollar) will also be overhauled between now and the end of 2021. Accordingly, the Swiss National Bank announced in June 2019 the introduction of its own policy interest rate in Swiss francs, calculated based on the SARON (Swiss Average Rate Overnight) with the goal of creating forward rates that will also be calculated based on the SARON.
The Indosuez Wealth Management Group is following all of these reforms very closely and has a specific framework to cover all related legal, commercial, and operational impacts. For now, you are not required to do anything in relation to your financing operations or investments indexed to the benchmark rates concerned by these changes. You will receive further information once a better picture surrounding the details of the replacements are known. Please feel free to contact your account manager if you have any questions.