INDOSUEZ
WEALTH MANAGEMENT

MONTHLY HOUSE VIEW

Marketing Material - June 2021

Focus
Surging commodity prices: a COVID-19 butterfly effect?

Architects of Wealth

• Table of contents

HAS THE COUNTDOWN STARTED FOR THE FED?

VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

If we consider the latest official publications, the US Federal Reserve (Fed) still has some time to wait, as the most recent US jobs report showed stagnation in the creation of jobs over the month of April. This could justify a posteriori Jerome Powell's decision to prioritise employment over inflation in setting the Fed's monetary policy.

However, if we look at US inflation in April, we are already at the highest level in the past several years in terms of monthly inflation growth, even after adjusting for the base effect linked to energy, which inevitably and a minima raises the question of the Fed ending its asset purchases. Households' inflation expectations are also on the rise, reflecting the strong sensitivity to gas pump prices as well as the inflation present in many consumer goods segments. All these signals justify a discussion in the coming months of a tapering of the Fed's asset purchases, which could start in early 2022. However, short term rates should remain at their current level until the start of the following year.

This question is emerging in a highly particular year of growth during which the coordinated recovery of the main Western countries must help to end the recession and underemployment as quickly as possible. Everything depends on what "quickly" means: a few months or quarters in the United States, and probably a few years in the Euro Area, where the implementation of the recovery plan has been slow. This is an important question for currencies in the second half of the year: will the end of lockdowns and the recovery plan bring European growth up to the dynamic level seen in the United States?

And yet, increasing public spending is not the path to long term economic growth, and may even hamper it, unless this spending is focused on investments (infrastructure, digital, education, etc.) and accompanied by reforms aiming to boost economic productivity.

It is no coincidence, then, that the Biden government's response in the US, like that of European governments, has been focused on investments. It is also interesting to note that in this context, Italy seems to want to take advantage of this phase to initiate reforms of organisations aimed at improving its productivity, which has continued to lag behind that of its European neighbours.

But should we fear a fiscal slowdown in 2022, after a highly monetary 2020 and a 2021 marked by budgetary recovery? In any case, it would be logical to anticipate that the corporate tax rate (which has sharply decreased over the past four decades) would be increased to contribute to financing a return of the welfare state that came under attack in the 1980s. This was the essence of Janet Yellen's remarks at the most recent International Monetary Fund (IMF) summit. The challenge will be to find a sustainable balance in government financing methods in an increasingly dual economy, as digital disruption grows.

One thing seems certain: governments cannot sustainably increase their spending and, at the same time, continue to lower tax rates, without endangering their long term recovery trajectories. Potential growth and innovation remain the long term objectives of these plans, and the 2022-2023 growth trajectory will likely act as a test for these recovery plans' effectiveness.

Against this backdrop, beyond the recovery of Cyclical and Value sectors that should continue this year, Schumpeterian growth[1] could again dominate Keynesian growth[2] and investors could continue to prioritise countries and actors driven by innovation and sustainable growth, perhaps to the detriment of Cyclical sectors and countries whose growth model is based too strongly on the accumulation of debt. Following this cyclical recovery that should extend to all countries in the second half of the year, we may find more divergence next year.

1 - Schumpeterian growth: growth model characterised by the focus on technological progress and productivity gains.
2 - Keynesian growth: growth model characterised by government interventionism via the implementation of contra-cyclical recovery measures in order to support demand during periods of undesired downturn in activity.

SURGING COMMODITY PRICES: A COVID-19 BUTTERFLY EFFECT?

While China's emergence and urbanisation triggered the last commodity cycle two decades ago, commodity prices are recently jumping at a steady pace. Short term effects such as constrained supply chains due to COVID-19 pandemic and reopening economies are fueling these inflationary pressures; the infrastructure plans as well as the green transition should play a role in the long run.

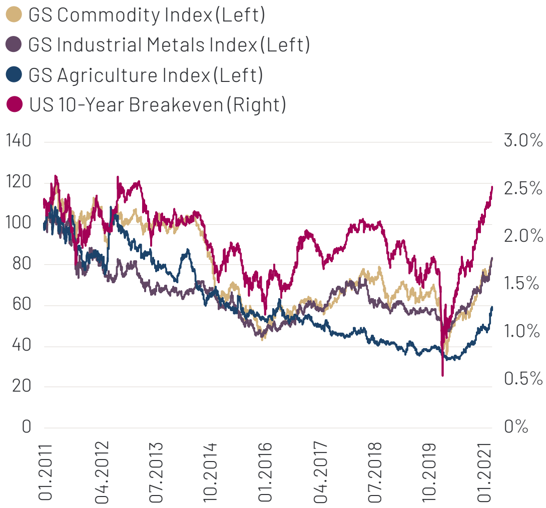
Goldman Sachs Commodity Index up more than

90%

over the past 12 months

For a few months now, almost all commodity prices have been surging, extending the market rebound observed since mid-2020. The Goldman Sachs Commodity Index is now up more than 90% over the past twelve months, reaching levels not seen since 2015 (Chart 1), amid rises in both energy and non-energy commodity prices. Indeed, precious and industrial metal prices are soaring with copper and palladium prices evolving near their all-time highs. Likewise, agricultural prices have seen spectacular growth, with soybean and corn prices doubling in one year. On the other hand, oil prices are back to their pre-pandemic levels, though this trend has recently eased due to surging COVID-19 cases in Asia, especially India, and with progress being made towards a deal to lift sanctions on Iran, which could boost crude supply.

CHART 1: RISING COMMODITY PRICES ARE FUELING INFLATION EXPECTATIONS, BASE 100



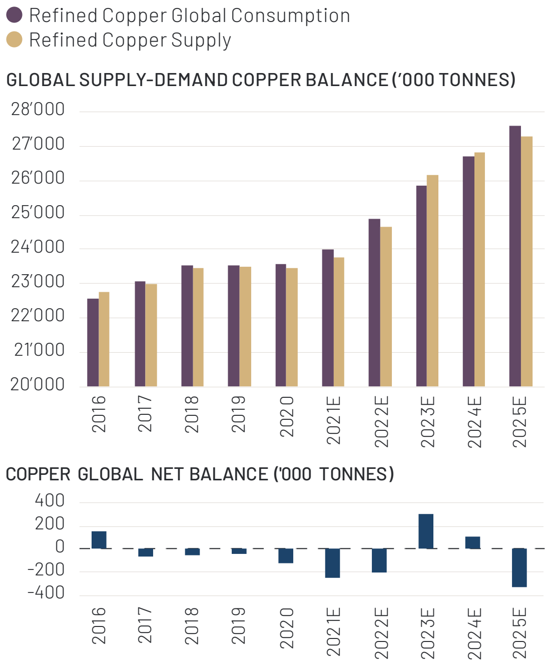
Source: Bloomberg, Indosuez Wealth Management.

GLOBAL RECOVERY WITH CONSTRAINED SUPPLY CHAINS

Like any asset, commodity prices are determined by the play of supply and demand. In this game, COVID-19 has definitely modified the short term equilibrium. If the global economy tumbled in 2020, the early booming recovery of China, combined with the recent acceleration of the United States, which is expected to grow by 6.2% this year, are clearly boosting the global demand for commodities, especially copper (Chart 2).

On the supply-side, the pandemic has led to shortages in several areas: mines have had to close, extraction in shale oils fields were interrupted and a lack of workers has also weighed on agricultural production capacity. Combined with specific events such as flooded mines in Russia, dry weather in Brazil or even the recent Suez Canal blockage, this created the perfect storm for commodity prices to skyrocket.

CHART 2: COVID-19 INCREASED SHORT TERM COPPER IMBALANCE



E = Estimates.
Source: Goldman Sachs, Indosuez Wealth Management.

More than
50%
of the commodity market is now in backwardation

As a result, more than 50% of the commodity market is now in backwardation. The current one-year futures premium has even climbed to its highest level since at least 2007 for some commodities: 16% in soybean, 17% for tin, 22% in corn; a testament to the strength of the unbalance between demand and supply.

However, several key factors should be tracked over the medium-term. Indeed, once supply disruptions abate and demand normalises, the rallye may fade. Oil prices could be hit by higher OPEC supply and global recovery of commodity exporters, easing of fiscal stimulus, as well as the rebalancing of China's growth mix could cap rising commodity prices.

GREEN TRANSITION: A LONG TERM CATALYST

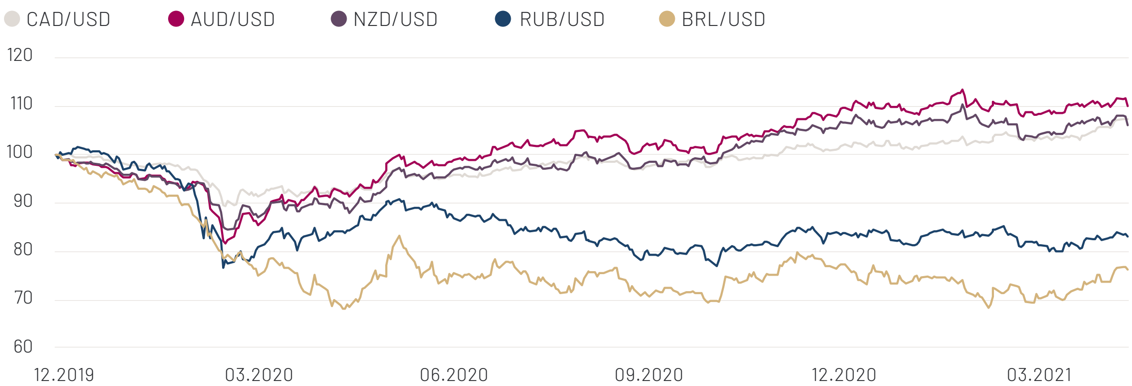
Beyond short term factors, structural shifts are also playing a role. Upcoming infrastructure plans as well as a rising demand for specific commodities coming from the electronic sector should support some commodity prices. More importantly, emphasis by governments toward reducing CO_2 emmissions and developping sustainable projects to meet the goals of the Paris agreement on climate change will act as a true catalyst. Among others, growth in the biofuels market, which is expected to climb at an 8.3% rate over the next decade, will drive higher demand for soybean oil while industrial metals such as copper, platinum or palladium will benefit from their use in the construction of battery charging infrastructure and green transition projects.

MARKET IMPLICATIONS

Soaring commodity prices have had a de facto influence on inflation. As all eyes turn to measures of inflation and whether it might last longer than expected, commodity prices are fueling investor fears, with US 10-Year breakeven rate reaching new highs. Thus, on a top-down approach, rising commodity prices should be a key factor to monitor the global asset allocation of portfolios. On a bottom-up approach, with producer prices up 6.2% in the US and 6.8% in China in April, the central issue is whether companies will be able to pass on input cost in their selling prices.

Finally, some countries could benefit from commodity inflation. For instance, metals, like copper, iron or aluminium, represent a major source of export revenue for 35% of emerging and developing economies. Thus, some currencies are positively correlated with commodity prices. Australia, which is the most abundant coal and iron ore exporter, or Canada, which counts vast regions of unspoiled landscapes rich in commodities, are very sensitive to commodity prices, explaining the recent outperformance of their currency (Chart 3). However, investors should keep in mind that this holds "all other things being equal" and obviously, other factors need to be taken into account. For example, although Brazil is one of the main exporters of iron ore and agricultural products, the poor performance of the BRL is mainly due to the sanitary situation over the recent months.

CHART 3: AUSTRALIAN AND CANADIAN DOLLARS BENEFITS FROM HIGHER COMMODITY PRICES, BASE 100



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

03 • Macro economics

US INFLATION IS IN EVERYONE'S MIND

In May, central macroeconomic news was coming from the United States. The latest labour market official data negatively surprised economists and suggests that the Fed has more time before deciding to taper. However, price dynamics surprised investors, bringing to the forefront the question of the Fed's credibility with regard to the temporary aspect of inflation.

UNITED STATES

Economic recovery across the Atlantic has been confirmed, with GDP growing by an annualised rate of 6.4% in the first three months of this year, now standing at 0.9% below its pre-pandemic levels. Among the contributors, private consumption, which is up +10.7% on an annualised basis, is obviously the main driver of growth thanks to the successive stimulus plans. Conversely, changes in inventories and foreign trade have logically been a drag. However, as the activity continues to strengthen, attention is turning to labour market figures and inflation measures.

Indeed, key news came from the US latest labour market report where non-farm payrolls strongly missed economists' forecasts. While notable job gains were recorded in leisure and restaurants, reflecting the reopening of the US economy, they were offset by losses in temporary help services, couriers and messengers and auto manufacturing. Explanations include a shortage of skilled workers, lack of childcare services, supply chains constraints, and the opportunity cost due to enhanced unemployment benefits. Thus, only 266'000 jobs were created, well below the one million awaited in April, which pushed the unemployment rate up to 6.1% (compared to an expected drop to 5.8%).

Headline inflation came in way above consensus at

4.2%

The other big surprise was the April inflation numbers. Although analysts were all expecting base effect to play out, headline inflation came in way above consensus at 4.2% (versus 3.6% expected). While this was also due to rising commodity prices, particularly in energy (Chart 4), with gasoline up 50% in a year, core inflation still stands above the Fed's target at 3% and is up 0.9% compared to March, the biggest increase since April 1982, with upward pressure coming from the multiplication of bottlenecks in the US economy, a record 10% leap in used car prices and inflationary pressures within the services sector (+2.5%). This higher inflation number is forcing consumer expectations upwards (4.6% vs. 3.4%). Accelerating input costs and the news flow coming from large companies such as McDonald's or Amazon regarding wage increases, are also raising concerns among investors, who are starting to fear longer than expected inflation. Yet, the FOMC reiterated that inflation should be up only 2.4% this year.

EUROPE

While activity contracted by 0.6% quarter-on-quarter in Q1 (-0.8% expected), everything points to an upcoming improvement as vaccination rates keep increasing (32% within the Europe Union) and restrictions once again eased.

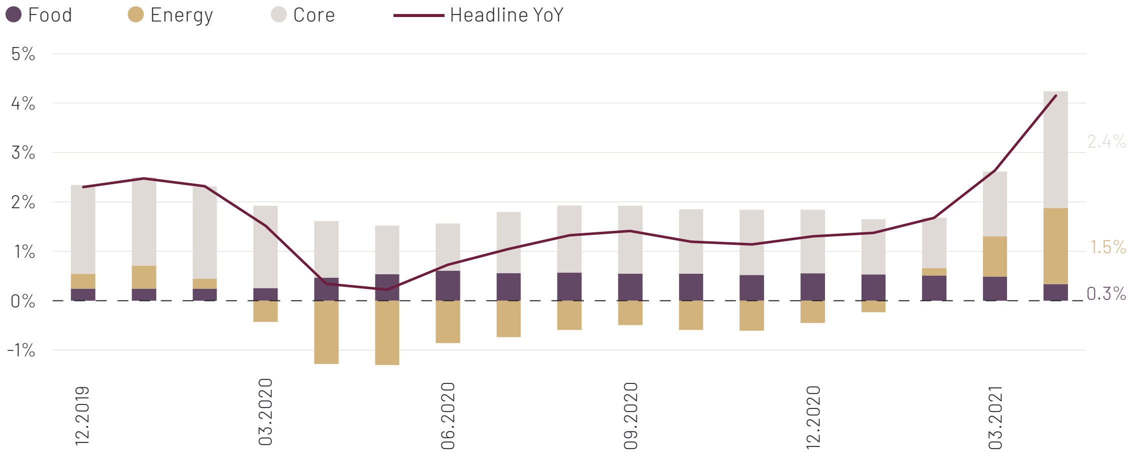
Indeed, even if it has not yet fully recovered, the outlook for industrial production and orders continues to improve and ZEW economic sentiment jumped 18 points to 84 in May reflecting increasing optimism. Capacity utilisation quickly recovered to its highest level since mid-2017 and despite persistent constraints on mobility, retail sales surprisingly recovered, returning to pre-crisis level.

Activity surveys (May PMIs published on 21 May) which came out above expectations confirmed the optimistic view of Europe's macroeconomic recovery in the second half of 2021.

CHINA

Within emerging markets landscape, China still stands out, but macro momentum is now decelerating. Industrial production increased 9.8% on a yearly basis down from 14.1% last month while retail sales climbed 17.7% but were below expectations (24.9%). Rising housing prices (+4.8% in April) remains the major concern and drive the monetary policy stance. Thus, new loans growth edged down to 12.3% (versus 12.5% expected) as the People's Bank of China (PBoC) asked major lenders to maintain a stable and reasonable growth. Besides, while CPI inflation remains subdued by pork cycles, PPI numbers rose 6.8%, above expectations amid steady recovery in domestic production, rising commodity prices and base effects.

CHART 4: ENERGY DRIVES PRICES DYNAMIC
BUT CORE INFLATION WAS ABOVE FED'S TARGET, %



Source: Bloomberg, Indosuez Wealth Management.

04 • Fixed Income

THE WIND OF OPTIMISM ON ECONOMIES BLOWS THE RATES MARKETS

As the vaccination effort gains momentum in some developed countries while the pandemic rages in others, markets are anticipating prolonged inflation rates above central banks' targets. While cautiousness remains key in this abnormal economic context in a mirror effect compared to 2020, we are still challenging the long term effects of the pandemic on long term demography, growth and inflation.

Inflation remains the key theme for investors as the April release at 4.2% exceed forecasts by 0.6% annualised in the US, while the employment market disappointed with lower than estimated job creation. Producer price indices in several countries printed in the high single digit or low double digit area, comforting markets with underlying tensions on prices. Nevertheless, the US yield curve performed in April with lower yields, especially in the 30 years down from 2.39% to 2.30%. In Europe, the market has a three-month lag and yields rose sharply since mid-April. Accelerating vaccination and reopening the economy's prospects ahead of the summer touristic season help governments and professional forecasters to raise their economic perspectives. This rise in European benchmark yields is accompanied by wider spreads in peripheral countries.

All eyes on
FED'S
tapering calendar discussion

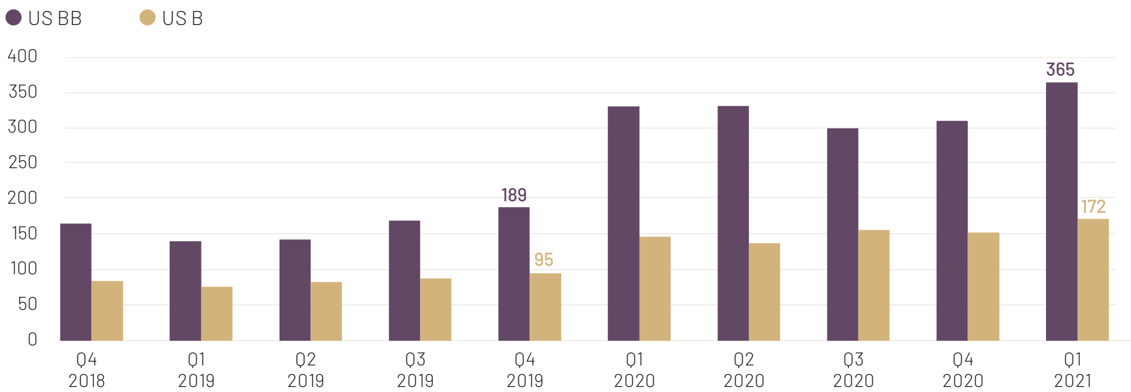
CENTRAL BANKS

So far, the Fed and the European Central Bank (ECB) have maintained their accommodating monetary policies, and should do so for the foreseeable future, but the debate of the tapering horizon for the Fed will remain the focal point for fixed income investors in the coming weeks following the recent inflation rise. We expect that Jerome Powell may give some guidance on this at the upcoming Jackson Hole symposium. The ECB June meeting will have to be monitored as well. Meanwhile the Bank of England reduced its bond purchase program, mainly for technical reasons. On the other hand, the Bank of Canada and Banco do Brazil raised their benchmark rates: the countries linked to commodity prices and/or some emerging ones face overheating in some sectors in their economies.

CORPORATE BONDS

Credit markets hold their stable pattern in a very low volatile environment. Fundamentals are improving along with the strong earnings season (Chart 5). The most impacted sectors are still recovering from the pandemic, such as travel and leisure, car manufacturers and banks. The Value segment of the credit market, also known as the CCC bucket in the high yield sector outperformed both in the US and the euro markets.

CHART 5: US CORPORATES BB VS. B MEDIAN CASH AND EQUIVALENTS, USD MILLION



Source: Capital IQ, Indosuez Wealth Management.

Companies are able to finance their cash needs at rates that will not derail their business. Low default rates explain part of the spread tightening, as well as the low volatile global environment. Going forward the high yield market could barely be immune to a spike in volatility in the equity market.

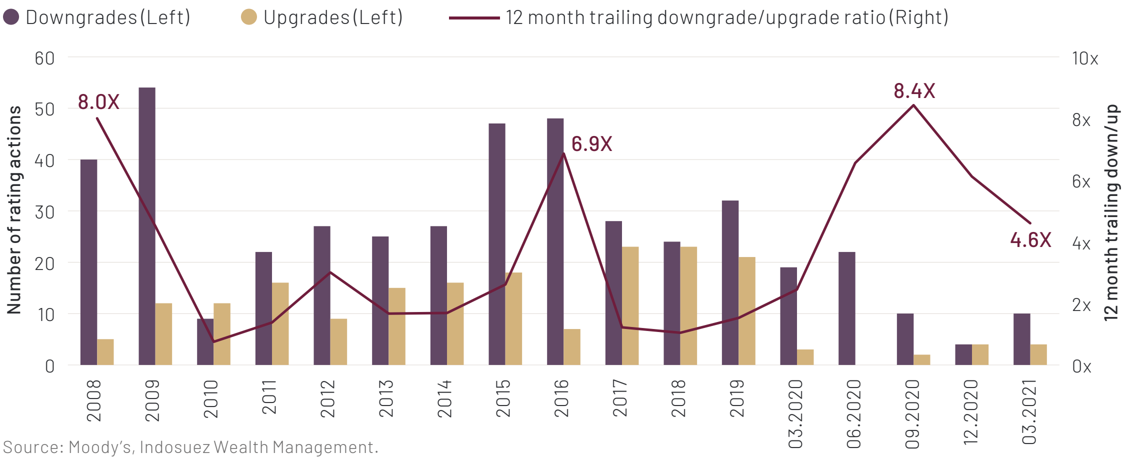
The deeply subordinated debt issued by banks (the so called AT1 market) has performed very well since the beginning of the year, and so far, all banks called their existing bonds at the first call date. They refinance those calls by issuing medium to long term new AT1s. We consider those new bonds are too rich and prefer to reconsider our very bullish view on this asset class to a neutral view, on relative value considerations and past the very strong set of results publications.

EMERGING DEBT

The emerging markets are still lacking positive catalysts in the second quarter. The rising commodity prices, coupled with cost-led pressures from Emerging Markets (EM) foreign exchange weakness in high-yielders and ongoing supply bottlenecks are set to keep EM inflation momentum firm in coming months.

In more detail, the EM Corporates have been more resilient than other EM fixed income during times of rising rates, and we expect the current period to be no different. The shorter duration and high yield preference provide buffer against rates rise and curve steepening pressure. For months now, we continue to see Value on Asia credit but we must acknowledge that the overall market sentiment is currently weaker (Chart 6) with ongoing sanctions from the US executive order 13'959[3], uncertainties in weak LGFVs[4], the recent Huarong's saga...

CHART 6: ASIA HY - 2/3 OF RATED UNIVERSE ARE CHINESE CREDITS, WEAK LIQUIDITY TEMPERATES UPGRADE PATH



Source: Moody's, Indosuez Wealth Management.

3 - Executive Order 13'959 is a US Presidential Executive Order signed on November 12, 2020 by President Donald Trump. Its stated goal is "Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies".
4 - Local Government Financing Vehicles.

05 • Equities

EXCEPTIONAL EARNINGS SEASON AND INFLATION

Records are made to be broken, and from this point of view, the earnings season has surpassed all expectations, resulting in a sharp acceleration of earnings revisions for 2021 which are now expected to increase by 35% globally this year. The recovery cycle is still on track supported by vaccine deployments and gradual easing in lockdowns. This strong expansion phase is going to shift at a certain point toward a more mature one which implies less directional equity market, although it is still too early to play that move.
Even if the overall scenario remains favourable, the risk of a short term correction cannot be ruled out in a context where sentiments/positioning are particularly bullish and some negative divergences tend to materialise. The recent focus on inflation could be the catalyst for this short term correction but downside should remain limited.

Over 2021 Global EPS growth is now expected to be

+35%

UNITED STATES

The US earning season appears to be exceptional in terms of earnings surprises with 85% of companies of the S&P 500 reported profits above expectations while first quarter earnings growth rate stands 20% above the market expectations at 50%.

Yet, despite this exceptional earnings season, the lack of a positive reaction from equities after the releases is undeniable. Indeed, if the earnings season started with a significant euphoria among investors, inflation concerns progressively take the lead over good publications.

With the PPI[5] up 6.2% in April, representing the largest year-over-year increase since the US Bureau of Labor Statistics began tracking this measure in 2010, and with 175 companies of the S&P 500 reporting the term "inflation" during their Q1 earnings calls (the highest overall number since at least 2010), concerns about inflation are rising.

Furthermore, inflation and, of course, interest rates play a huge role in the valuation of stocks. In such a context, performance gaps between the most expensive and the cheapest securities is exacerbated. In fact, over the last 30 days, the 25% of securities with the lowest valuation ratios have increased by 6.2% while the 25% of the most expensive stocks have fallen by 7.6% in the US. Inflation is a risk factor that we monitor carefully.

EUROPE

We confirm our constructive view on the European equity market. First, EPS growth will be strong this year and, above all, earning estimates for 2021 and 2022 continue to be revised up at a quicker pace thanks to a very good Q1 earning season as vaccinations accelerate which bodes well for the reopening of economies. Second, Europe is more tilted towards Value sectors than the United States or Emerging Markets and we should note that these sectors are still at a significant discount compared to the market average despite having the best EPS momentum in over six months, which the market has yet to fully reward. Third, valuation is supported by the current negative real interest rates environment and as long as they do not rise sharply, investors will cope with the current levels of price earnings ratio. Finally, Europe is at the forefront of the ESG[6] trend and a good way to get exposure to some Secular Growth Themes we like (disruptive technology, sustainable development or new consumer trends to name a few). Among risk factors to monitor, a deception on growth recovery or alternatively a strong rise of the euro could be headwinds for European equities (notably exporters) as it happened in 2017.

5 - Producer Price Index.
6 - Environmental, Social and Governance.

Conditions that favour VALUE STOCKS are under way

EMERGING MARKETS

At this time, there seems to be no real direction in Asian equity markets, which remain rather volatile for now. Global sentiment seems to drive Asian equity market performance way more than fundamentals at this time: worrying trends in COVID-19 infection cases in Asia (mainly India) and stop-and-go jitters on rising US interest rates, inflation fears and regulatory pressure on some Chinese sectors (e.g. e-commerce and education) are all fueingl a choppy equity market environment in Asia.

Fundamentally, the real, ongoing, economic recovery in China, now in normalisation mode, and positive expected EPS growth bode well for sectors such as semiconductors, consumer and industrials in Asia.

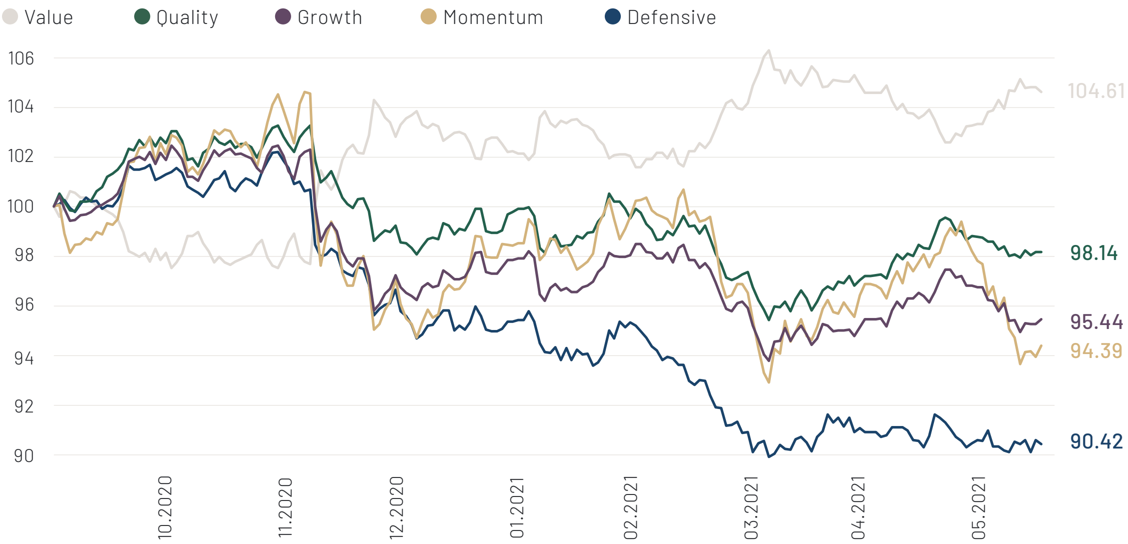
Within Asian equities, we remain overweight on China, neutral on South Korea, Singapore Indonesia, the Philippines and underweight on India, Taiwan, Malaysia and Thailand.

As fundamental investors, we remain focused on actual earnings generation, sustainability and visibility.

STYLE & SECTORS

The conditions that favor Value sectors, such as inflation forward rising, steeper yield curves or higher commodity are under way. Thus, the Value factor has been outperforming the broad market in Europe over the last 8 months while on the other hand under Quality and Growth stocks lagged in relative terms (Chart 7). Cyclical value should remain supported in the current context, but valuation has become stretched for some of them. Thus, we progressively shift from some expensive Industrial/Cyclical sectors which have generally priced a strong economic recovery (Capital Goods, Chemicals, Semis,..) into "deep Value" or at least reflation-driven segments which has lagged behind such as Financials that should benefit from rising yields. Basic resources and Oil also represent a good way to play the commodities repricing and rising inflation expectations.

CHART 7: MSCI EUROPE VALUE STYLE IS TAKING THE LEAD



Source: Bloomberg, Indosuez Wealth Management.

USD STILL VULNERABLE

May saw USD vulnerabilities continue to show and translate into moves across Foreign Exchange and Precious Metals markets, most visible in the strong recovery of Gold. Q2, however, remains the quarter for the EUR as it has been boosted by the vaccine rollout and brighter prospects for the global economy. At the same time a small recovery in option market volatilities is also symptomatic of markets with greater uncertainty.

$

USD
remains vulnerable

USD - UNABLE TO MAINTAIN STRENGTH OFF SURPRISE CPI DATA

The US dollar remains vulnerable against almost all counterparts except the interest rate sensitive Japanese yen. Despite a surprisingly high core inflation spike (albeit somewhat expected), the US 10 year government bond yields failed to surpass the April highs. As such, the ever-dovish FOMC rhetoric has so far calmed nerves over more than “mere transient” price pressures. The focus will now return on the upcoming heavy slew of US Treasury auctions. Assuming fairly adequate take up, the US dollar should fail to bounce for long unless US yields spike higher.

The zenith of the current US growth burst coupled with peaking year on year inflation fears may well be occurring today. If this is proven correct, the greenback could resume its trend weakening cycle just as improving vaccination and consumer spending rates are seen elsewhere. Into the third quarter beyond this temporary and relative US exceptionalism, the dollar is likely to underperform, especially relative to European and Asian currencies as focus returns instead to the worsening twin deficits.

€

EUR
potential to see
2021 highs

EURO - A SWEET SPOT LIES HOPEFULLY AHEAD

Europe is clearly on the mend and slowly but surely gaining momentum in its fight to vaccinate the population. Although this will take more time, it is likely to occur whilst the US and Chinese growth bursts have already peaked. Given the EU current account surplus backdrop and pro-cyclical track record from prior global growth recovery phases, the euro has the potential to see new 2021 highs into year-end. Let's keep in mind that so far this calendar year, EUR/USD has been locked into a relatively narrow range YTD. We suspect however that it will be breached to the topside beyond the 1.2349 highest level versus USD at some point in Q2/Q3.

BRL – FINALLY A REPRIEVE, FOR NOW

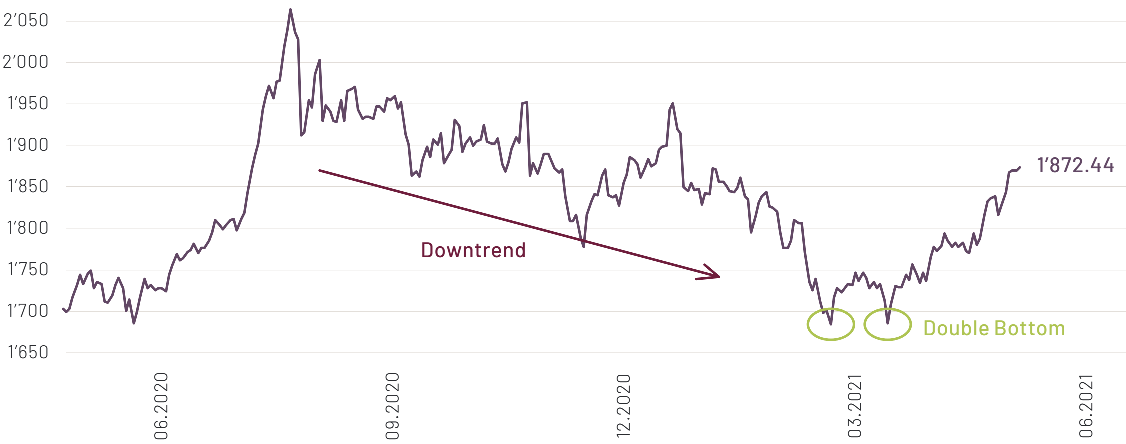
The Brazilian real finally managed to stage a comeback to 5.25 to the USD as the government and congress overcame a budget impasse, and the central bank came in with another strong rate hike eliminating the previous yield disadvantage that BRL was suffering.

Whilst these two moves have helped, the BRL is not out of the woods yet – macroeconomic fundamentals may be set to improve, but since former president Lula is likely to run for re-election next year (and is outperforming incumbent Bolsonaro in the polls) the dark cloud of political debate and fiscal derailing will likely keep the BRL from gaining beyond 4.80 to the USD.

GOLD – TAKING OFF AGAIN?

After rejecting support at USD 1'670 for a second time, and then recovering above USD 1'850, technical analysts have rightly pointed out a "double bottom" (Chart 8) formation in Gold and called an end to the depreciation downtrend from last year's record high at USD 2'075. Growing concerns about inflation in the coming months and repricing of early tapering by the Fed have prompted investors to buy the yellow metal as a hedge against inflationary pressures. Physical demand in Asia and central bank reserves' diversification out of the US dollar were particularly supportive of the yellow metal. The combination of low yields, weaker US dollar and rising inflation remain a positive environment for Gold.

CHART 8: GOLD MAKES A DOUBLE BOTTOM, IN MARCH, USD



Source: Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION

GLOBAL SCENARIO

- The central investment scenario remains well anchored, based on the assumption of a strong recovery boosted by supportive policy mix and accelerating vaccination.
- This recovery is well advanced in China, probably near to peak acceleration in the US and delayed in the Euro Area and in some emerging markets lagging in terms of vaccination.
- The main inflexion of the scenario versus previous months is paradoxical in the US: on the one hand, a disappointing job creation trend (which may well be a temporary phenomenon but leads us to think that the Fed has time before entering into tapering) and on the other hand an acceleration on inflation (which appears as more than a short term transitory factor).

Better prospects on the Euro Area where **VACCINATION HAVE ACCELERATED**

- The other source of inflexion consists in better prospects on the Euro Area where vaccination rates have accelerated since early April which should lead to a broader recovery in the second half, and stabilising/weakening macro momentum in China.
- This global landscape has important implications on financial markets, with a strengthening of the European currency, a rate steepening since late March and rerating of Europe equities.
- This scenario leads us to maintaining our constructive view on risk assets but tactically more neutrality on risk positioning after a strong market trend in the past months: credit spreads are tight and do not offer much room for further compression and equally for any degradation of fundamentals.
- The main alternative scenario relies on the risk of a stronger increase of inflation, leading to stronger steepening of yield curves, which could harm simultaneously bonds and equities.
- The other alternative scenario with a lower probability would be triggered by a disappointment in macro recovery, should there be renewed lockdowns, lower fiscal multipliers or delayed transmission of stimulus plans.
- Overall, in this constructive scenario we anticipate more macro volatility and economic surprises that could lead to more volatility in various asset classes.

FIXED INCOME

- We anticipate a moderate steepening of interest rates.
- We do not anticipate further compression of credit spreads which have reached historically lows levels, which could justify a more neutral view on assets such as subordinated financials.
- However, Carry strategies on high yield markets should deliver positive returns in the medium term.
- Inflation linked notes offer an interesting hedge in the medium term against higher inflation but breakevens have performed strongly in the recent weeks and could consolidate.
- Neutral/constructive view maintained on emerging debt in USD which could suffer from interest rates hikes, but relative carry to volatility and rating remains attractive in Asian corporate debt despite short term challenges (COVID-19, China normalisation and debt management, Emerging Markets (EM) central banks hiking rates, political risk).
- Emerging debt in local currencies could benefit from the return of carry and recovery of several emerging currencies.

EQUITIES

- Constructive view maintained on equities globally, after a strong earnings season leading to a strong upward revision of Fiscal Year 2021 EPS expectation on both slides of the Atlantic.
- A preference on European equities which offer a good exposure to Value and Cyclical themes, and a neutral view on US equities.
- Equity valuations are stretched and probably vulnerable to higher rates, but we do not identify a catalyst which could justify a bear-market type correction at this stage.
- Portfolio positioning should favour Value and Cyclical plays against quality and defensive stories, which are more vulnerable to higher rates, but globally a good balance is maintained between Value and innovative Secular Growth.
- A strong allocation to Value is in itself a good hedge against inflation and higher rates.
- Strategic conviction maintained in China despite short term challenges.

Value remains a good hedge against
INFLATION & HIGHER RATES

FOREX AND PRECIOUS METALS

- EUR/USD: the expected window for a stronger USD into Q2 2021 may have disappeared as the Euro Area exits lockdowns and accelerates vaccinations; after navigating into a tight range, the EUR/USD could face stronger volatility in the coming months; we should however expect the ECB to react to further appreciation of the euro which could cap the euro beyond 1.25.
- CNY: positive conviction maintained, justified by high real rates and monetary normalisation.
- Constructive view maintained on commodity currencies such as AUD and NZD.
- Emerging currencies: interesting trend arising from countries currently hiking interest rates, which could give birth to the return of the carry theme on BRL for example, despite existing challenges on the sanitary, fiscal and political context.
- Gold: after a recent recovery above its 200-day moving average explained by low real interest rates, gold seems more vulnerable in the short term to higher long term rates, but remains a good hedge in the long run against inflation, currency debasement and USD weakening.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
Core EUR 10Y (Bund)	=	=
EUR Periphery	=	=/-
USD 10Y	=/-	=
CREDITS		
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	=/+	+
EQUITIES		
GEOGRAPHIES		
Europe	+	=
United States	=	=/+
Japan	-	-/=
Global EM	=	=/+
Latin America	-/=	=
Asia ex-Japan	-/=	=
China	=/+	+
STYLES		
Growth	=/+	+
Value	+	-/=
Quality	-/=	=
Cyclical	=/+	=
Defensive	-/=	-/=
FOREX		
United States (USD)	=	-
Euro Area (EUR)	=/+	+
United Kingdom (GBP)	=/-	+
Switzerland (CHF)	-	=
Japan (JPY)	=/-	=
Brazil (BRL)	=/+	=
China (CNY)	=	+
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 19 MAY 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.67%	11.55	75.78
France 10Y	0.28%	21.00	62.60
Germany 10Y	-0.11%	15.20	46.10
Spain 10Y	0.61%	21.60	56.40
Switzerland 10Y	-0.13%	12.50	42.50
Japan 10Y	0.08%	0.30	6.00

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	43.79	0.48%	-3.23%
Euro Governments Bonds	218.34	-0.76%	-1.72%
Corporate EUR high yield	210.88	0.04%	1.85%
Corporate USD high yield	322.40	-0.02%	1.33%
US Government Bonds	321.35	-0.14%	-1.39%
Corporate Emerging Markets	52.03	-0.17%	-2.02%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.10	-0.31%	1.76%
GBP/USD	1.41	1.32%	3.26%
USD/CHF	0.90	-1.40%	2.15%
EUR/USD	1.22	1.16%	-0.34%
USD/JPY	109.22	1.05%	5.78%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	22.18	4.68	-0.57

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'115.68	-1.38%	9.57%
FTSE 100 (United Kingdom)	6'950.20	0.80%	7.58%
Stoxx Europe 600	436.34	-0.07%	9.35%
Topix	1'895.24	0.37%	5.02%
MSCI World	2'910.94	-0.75%	8.21%
Shanghai SE Composite	5'172.27	1.44%	-0.75%
MSCI Emerging Markets	1'327.54	-0.70%	2.81%
MSCI Latam (Latin America)	2'479.34	3.47%	1.12%
MSCI EMEA (Europe, Middle East, Africa)	269.71	2.48%	11.79%
MSCI Asia Ex Japan	863.16	-1.40%	2.40%
CAC 40 (France)	6'262.55	0.84%	12.81%
DAX (Germany)	15'113.56	-0.54%	10.17%
MIB (Italy)	24'486.69	1.35%	10.14%
IBEX (Spain)	9'070.70	6.47%	12.35%
SMI (Switzerland)	11'045.20	-1.46%	3.19%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	5'379.00	4.22%	27.46%
Gold (USD/Oz)	1'869.62	4.23%	-1.51%
Crude Oil WTI (USD/Bbl)	63.36	3.28%	30.59%
Silver (USD/Oz)	28.01	5.41%	6.04%
Copper (USD/Tonne)	10'001.50	5.89%	28.79%
Natural Gas (USD/MMBtu)	2.96	10.10%	16.74%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

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

BEST PERFORMING

FEBRUARY 2021	MARCH 2021	APRIL 2021	4 WEEKS CHANGE	YTD (19.05.2021)
3.08%	6.08%	5.24%	3.47%	11.79%
2.61%	4.80%	4.52%	2.48%	9.57%
2.45%	4.25%	3.82%	1.44%	9.35%
2.31%	4.24%	3.19%	0.80%	8.21%
1.83%	3.98%	2.41%	0.37%	7.58%
1.22%	3.55%	2.37%	-0.07%	5.02%
1.19%	3.11%	2.02%	-0.70%	2.81%
0.73%	-1.70%	1.81%	-0.75%	2.40%
-0.28%	-2.66%	1.49%	-1.38%	1.12%
-3.10%	-5.40%	-2.85%	-1.40%	-0.75%

WORST PERFORMING

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

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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Edited as per 25.05.2021.

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.