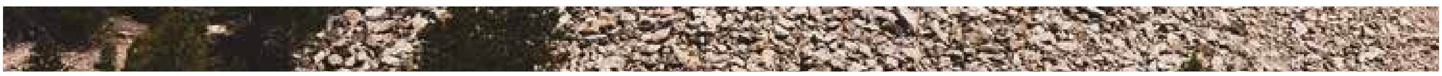
MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – SEPTEMBER 2020

MARKETING MATERIAL

FOCUS
JOE BIDEN'S ECONOMIC PROGRAMME

EQUITIES
ALL-TIME HIGHS...



EDITORIAL

VINCENT MANUEL

Chief Investment Officer,
Indosuez Wealth Management

THE US ELECTION: THE MARKET MOVER OF THE YEAR END?

Dear Reader,

After a relatively quiet summer characterised by positive surprises in second quarter earnings, what should we expect from markets by year-end? We are in the process of a rotation in driving market factors and this continues to evolve. After a spring rebound orchestrated by central banks and macro momentum, and a summer fuelled by stronger than expected bottom up data, this autumn should be driven mostly by the political outlook in the US and the pace of the macroeconomic rebound in the second half of the year (especially after somewhat disappointing activity surveys and weaker Q2 GDP figures than expected).

The US equity markets are back to all time highs, notably technology giants who have confirmed their status as winners of the new environment and further increased their grip on the global economy. Most of the summer heat on US Equities is concentrated on these technology leaders. The term "secular growth" has never been more accurate to depict the business model of companies characterised by growth seemingly immune to cyclical bumps. However, this does not mean that they are protected from the challenges of traditional companies; one should just look into the elevated operating margins of the FAANG* to see that these companies face cost-related issues as well. It is generally admitted that the one single risk that could question their leadership would be an antitrust-driven break-up of these companies. One should wonder how though: it is easier to dismantle a conglomerate than a powerful algorithm. Furthermore, recent regulations on data protection could play the role of a barrier to entry precisely protecting the market position of these leaders. However, antitrust issues are there, and now coming this time not from the government, but from companies participating in the US technology ecosystem.

This topic will be one discussed during the presidential campaign which will fully kick-off this month, after the Republican convention held in Charlotte. We have all learned to be more humble when it comes to interpreting polls and establishing forecasts, but we still have to try and anticipate the market implications of each scenario, bearing in mind that hedging strategies implemented ahead of the elections are sold right after and regularly produce the opposite result. On that front, financial markets are sending us somewhat conflicting messages: whilst foreign exchange traders seem to price in a Biden victory with a potential majority at the Senate (therefore weighing on the greenback), equity markets are not positioned for a scenario where the new Biden administration would have room to apply its program and increase corporate taxes and minimum wages. Investors need to think longer term than politics, but this election could be a game-changer for markets, from USD and gold to equities and treasuries.

The moment of truth is approaching and one should remember politics is not a world of economic rationality, but about psychology and perception. The very particular nature of this election can only increase the risk of surprises in a country where the last election result was decided by 10'000 voters in Michigan (two over 74 years of age candidates, a very unusual and polarising President facing a liberal long-timer adopting more radical proposals, an expected higher participation rate, but also a higher proportion of postal votes which could trigger many bulleting rejections). Therefore, one thing is for sure, a Biden presidency is not yet a done deal.

* FAANG is an acronym that refers to the stocks of five prominent American technology companies: Facebook, Amazon, Apple, Netflix; and Alphabet (formerly known as Google).

FOCUS

JOE BIDEN'S ECONOMIC PROGRAMME

The Democratic presidential candidate in 2020, former US Vice President Joe Biden has presented an ambitious, over three trillion dollar, plan to "Build-Back-America". The plan is built on four main policy pillars to aid the economic recovery.

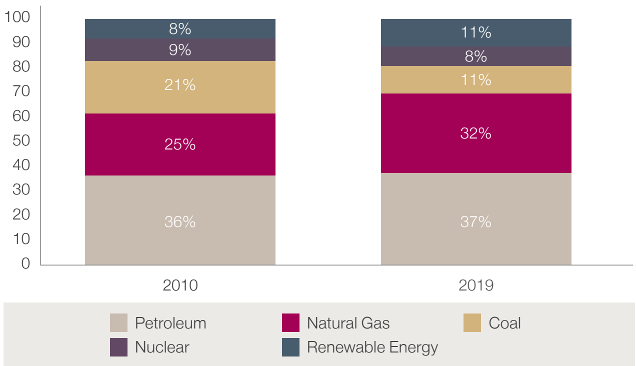
PILLAR 1: CLEAN ENERGY AND SUSTAINABLE INFRASTRUCTURE

The heart of this policy is the "Clean Energy Revolution" whereby Biden aims to invest 2 trillion dollars over his first four-year term with two main goals: i.) achieve net-zero emissions by 2050 and ii.) eliminate carbon emissions from power plants by 2035. The latter is an important point as it essentially requires that all of America's electricity come from carbon-free sources (whether solar, wind, hydro, nuclear, biomass, etc.) by 2035.

In more detail, the plan includes the following main initiatives:

- Pursue a historic investment in clean energy innovation by spending 40 billion annually on clean energy research;
- Position the US auto industry to increase demand for American-made, American-sourced clean vehicles (investing 5 billion dollars over five years to improve battery technology for electric vehicles and add charging stations, end subsidies for fossil fuels…);
- Make dramatic investments in energy efficiency in buildings (including completing 4 Million Retrofits, building 1.5 million dollars New Affordable Homes, upgrade and weatherise buildings…);
- Modernise and expand infrastructure (reinforce public transport in municipalities, expand the nation's rail system, invest in high-speed rail, give Amtrak incentives to become fully electric, expand broadband, or wireless broadband via 5G, to every American...).

US PRIMARY ENERGY CONSUMPTION BY SOURCE, %



Source: EAI, Indosuez Wealth Management.

PILLAR 2: EDUCATION, HEALTH AND CAREGIVING

In the context of the health crisis, Biden has dedicated a large part of his plan to addressing social issues, such as caregiving, education and expanding healthcare reforms:

- Better caregiving with a 775 billion dollar plan (ensure access to child care and offer universal preschool to three-and four-year olds, 5'000 dollars tax credit and social security credits for informal caregivers..);
- Ensure access to community college facilities and a 50 billion dollar plan on workforce training (notably by providing two years of community college without tuition and other high-quality training programs);
- On the health front, Biden plans to expand Obamacare subsidies to reach more middle-income families and allow qualified residents in states that do not expand Medicaid to sign up for the universal health plan for free. Reminder, the US still has one of the highest shares of people without basic medical coverage when compared to other developed economies.

PILLAR 3: "BUY AMERICAN"

In Biden's words, "bolster American industrial and technological strength and ensure the future is made in all of America by all of America's workers". The aim is to appeal to Trump voters, but also to revamp the US economy, while reinstating the role of the US as a leader on the global trade front.

- 400 billion dollar procurement investment over four years to power new demand for American products;
- 300 billion dollar investment in innovation and technologies (this funding is indirectly linked to Pillar 1 as it is dedicated in part to electric vehicle technology, artificial intelligence and 5G);
- A "pro-American" trade strategy: Biden aims to restoring American leadership in strategic areas such as clean energy, artificial intelligence, and quantum computing. On the topic of confronting China's trade barriers, Biden has expressed the desire to work with US allies to present a united front in trade tensions.

FOCUS

JOE BIDEN'S ECONOMIC PROGRAMME

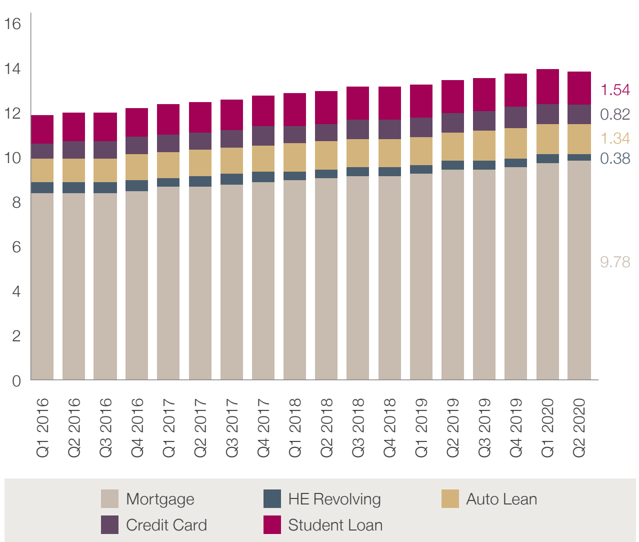
PILLAR 4: ADDRESSING THE WEALTH GAP

Revitalising the middle class and making it more racially inclusive is a cornerstone of Biden's campaign. In addition to his education plan, Biden intends to increase the minimum wage, forgive certain student loan payments and increase access to 401K plans. Biden has also weaved specific investments targeting racial inequality in the above mentioned recovery plans.

KEY MEASURES

- Increase the federal minimum wage to 15 dollars per hour across the country;
- Introduce more than 150 billion dollars in new capital and opportunities for small businesses;
- Implement a range of student loan forgiveness measures (in addition to the proposed COVID-19 student loan forgiveness plan to cancel up to 10'000 dollars in student loan debt for each borrower);
- Require publicly traded companies to disclose data on the racial and gender composition of their corporate boards;
- Increase access to 401K pension plans;
- Strengthen the Fed's focus on racial economic gaps (enhance its surveillance and targeting of persistent racial gaps in jobs, wages, and wealth).

US HOUSEHOLD DEBT TRILLIONS, STUDENT LOANS >10% OF HOUSEHOLD DEBT, USD



Source: New York Fed Consumer Credit Panel/Equifax, Indosuez Wealth Management.

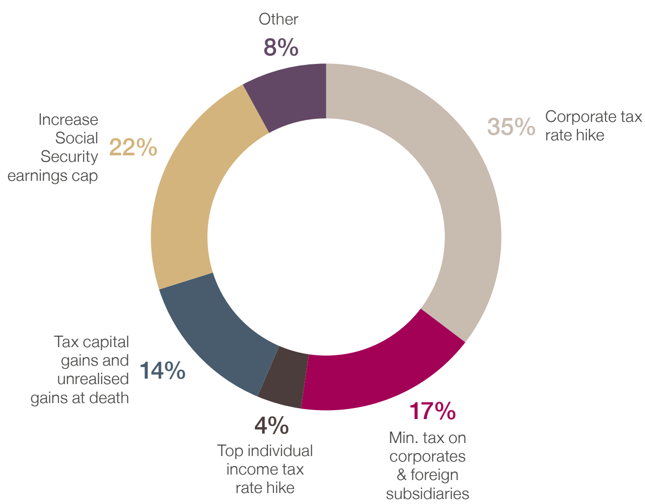
HOW AND WHO WILL FUND THIS PLAN?

The Biden administration will attempt to raise federal revenue by 3.8 trillion dollars (>15% of GDP) over the first 10 years. The plan is highly progressive, with new tax increases borne almost entirely by very high-income households.

KEY MEASURES

- Raise the federal corporate tax rate to 28% (versus 21% today and 35% prior to 2017);
- Set a 15% corporate minimum tax and double minimum tax profits of foreign subsidiaries of US firms;
- Restore a top individual income tax to 39.6% (up from 37%);
- Tax capital gains as ordinary income and at death for very high earners;
- Subject wages > 400'000 to social security payroll tax;
- Unwind certain Trump tax breaks.

BIDEN ESTIMATED TAX PLAN BY TYPE OF MESURE



Source: CRFB, Tax Foundation, Indosuez Wealth Management.

WHAT'S NEXT?

It is still too early to predict who will win the 2020 Presidential elections and judging from the 2016 elections, it would be unwise to try. To secure this reform program, however, Biden will need to retain Democrat's control of the House of Representatives and win the Senate (see political risk outlook on page 14).


The pace of the recovery
in activity could disappoint.

MACRO ECONOMICS

LOOKING (WRONGLY) FOR A V-SHAPE SCENARIO

Looking at financial markets recent performance and people's behaviour, notably from their summer-holiday destinations, things may seem to have reverted back to an almost normal, pre-COVID-19 world. This is far from true from a macro standpoint or with regards to the pandemic. Although we have seen a stabilisation in new COVID-19 cases, and no acceleration of mortality rates, we are also witnessing a 2nd wave of cases in Europe, including France.

In any case, the economic damage has been massive since the start of the year, and notably during Q2.

GAUGING THE INFLICTED PAIN Q2-2020

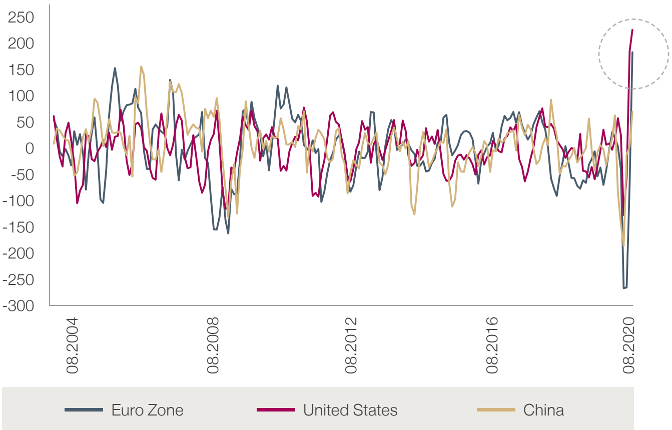
	Q2-2020 GDP QoQ Growth versus Q1-2020/Non Annualised
FRANCE	-13.8%
UNITED KINGDOM	-20.4%
ITALY	-12.4%
GERMANY	-9.7%
SPAIN	-18.5%
EUROPEAN UNION	-11.9%
UNITED STATES	-10.0%
JAPAN	-7.8%
CHINA	11.5%

Source: Bloomberg, Indosuez Wealth Management.

China is ahead in the recovery cycle, as its GDP rebounded by 11.5% (quarter on quarter) in Q2 (+3.2% year-on-year), with a deception on services and a positive surprise on manufacturing.

While several countries and sectors remain in contractionary territory, world GDP is expected to rebound during Q3. Nevertheless, the pace of the recovery in activity could disappoint.

CITIGROUP ECONOMIC SURPRISE INDEX AT NEW HIGHS



Source: Citigroup, Datastream, Indosuez Wealth Management.

Surveys and cyclical monthly indicators have to be taken with a pinch of salt in the current exceptional circumstances: for example, the strong rebound in the purchasing managers indices (PMIs) observed in June and July is partly due to a very low-base effect. Some companies in the established panels may not have operated at all during the lockdown months, thus distorting the signals provided by the PMI indices. The usual relationship between the PMI and growth may therefore not be valid anymore.

With the job market taking time to recover, consumer confidence will be a key driver in the continuation of the rebound, in the short-term. Such confidence will depend on wealth effects and income generation.

Regarding the latter, we notice that as part of their support policies, the various governments borrowings allowed them to start an emergency payments chain that resulted in maintaining or event increasing workers' income level for less working hours. The most striking example of this can be found in the US, where personal income levels hit an all-time high at the end of April 2020.

Extending the support schemes to contain vulnerability is now paramount. Government policies have to shift from emergency help to targeting a longer-term recovery.

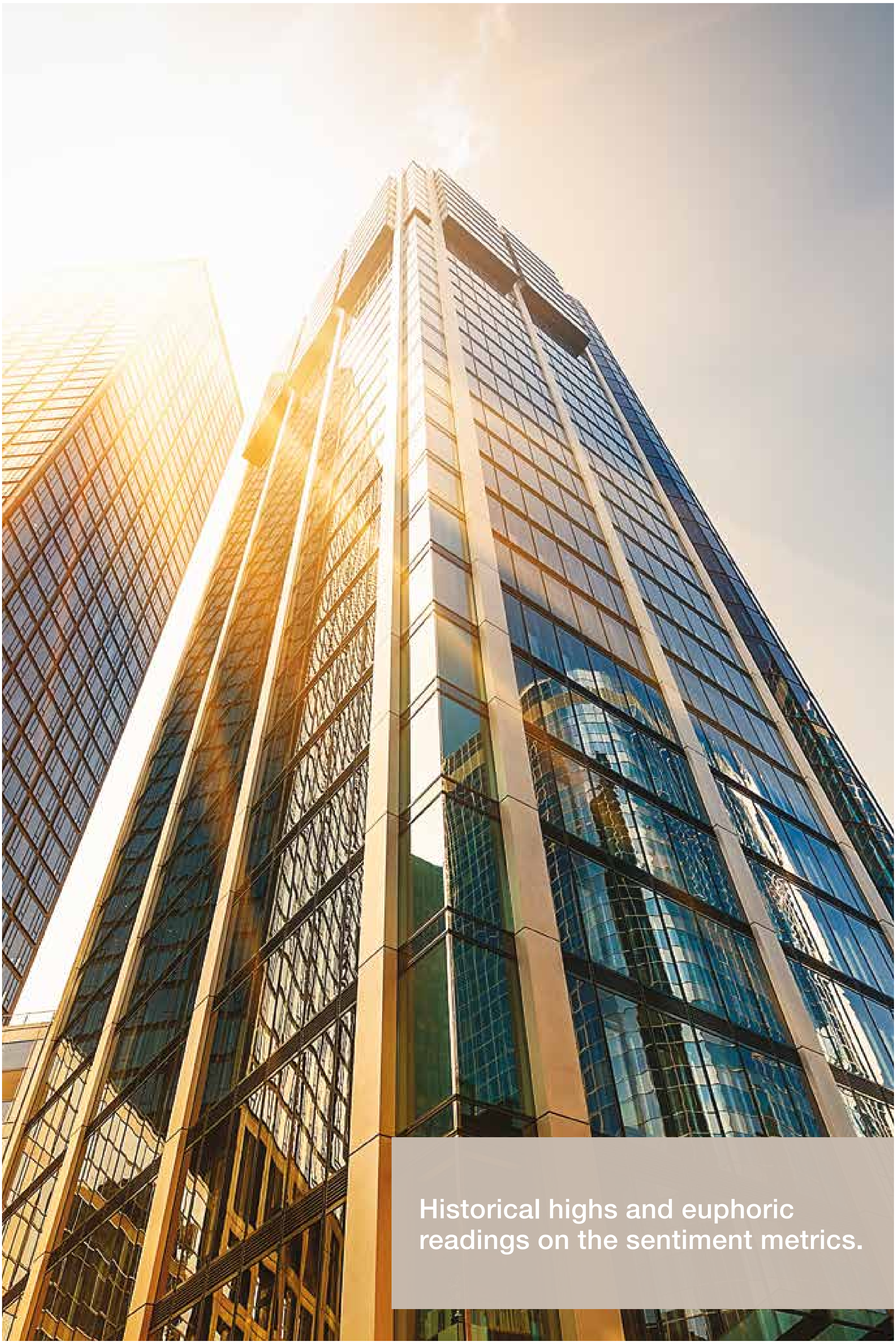
Whereas most of the European countries have phase out their initial furlough schemes and implemented new measures, several US support programs ended last July. The difficulties encountered by Congress to enable other support measures suggest more of a U-shaped recovery than a V-one.

Despite some setbacks, the fiscal policy expansion has been massive and global. It was recently fuelled by the European Recovery Plan, and more is expected on this front at national levels, though a lot will depend on the US election. Countries are providing sizable fiscal support through budgetary measures, as well as off-budget liquidity. The wide array of measures deployed is certainly helpful, but some of them will only have an impact in the medium term.

Regarding the wealth effect, data is lagging. Unsurprisingly, the negative performance of stock markets translated into a negative wealth effect in Q1 2020, to the tune of a staggering 6'548 billion dollars in the case of US households. Data for Q2 will be released on 21 September: the stock market rebound will undoubtedly have generated a large positive wealth effect.

The US case is certainly idiosyncratic, as the income transfers and the wealth effects have been larger than in other countries, and as we approach the time of the presidential election in November this year.

The latter is adding a layer of uncertainty to the US (and the world) economic outlook. However, whatever the outcome we believe that this will not derail very accommodative monetary policies of large central banks, all the more as inflation should remain below their targets.



Historical highs and euphoric readings on the sentiment metrics.

EQUITIES

ALL-TIME HIGHS...

- Despite valuations at historical highs and euphoric readings on the sentiment metrics, equities continue to advance even making some symbolic new all-time highs on the Tech-driven indices (Nasdaq and more recently S&P 500).
- Second quarter earnings have surprised to the upside and the investors seem to ignore many issues that would have been disruptive in the past to focus on the potential economic recovery and the hopes that a coronavirus vaccine would be soon approved.
- Even with some volatility and risks rising in the coming months with the US election, the perception that the central banks are going to do "whatever it takes" to prevent any stock market decline should keep any downside limited.

UNITED STATES

US equities are strongly outperforming other regions this year. US Earnings season was significantly better than expected, especially in technology and e-commerce making earnings revisions already in positive territory, while they are still negative elsewhere. Even if the Nasdaq keeps the lead, the market is pulled up by all sectors (except energy) and by all market capitalisations with a remarkable rebound in Small & Mid Caps.

Could the coming US election derail that strong momentum? A Democratic sweep could bring some potential corrections led by fears of higher taxes and potential inflation. However, when stocks weaken into an election they generally tend to recover relatively quickly as the reality check is quite often not as bad as feared.

EUROPE

European markets have continued to lag, notably versus the US, this difference of performance is mostly totally explained by the relative earnings trends between the two regions and by sector/style differences. In that context, the relative valuation in term of P/E multiples is broadly in line with the average discount of 20% versus the US. The performance gap expressed in local currencies is thiner when concerted into a single currencies given the USD weakening.

Nevertheless, some elements are turning progressively more positive notably in terms of policy response with the setup of the European Recovery Fund, peripheral spreads, which were historically a source of concern, are now well behaved. In case of a reversal of the USD weakening, the context could be more beneficial to European equities.

EMERGING MARKETS

The Chinese economy has emerged from lockdown first and is now fully back on stream. A combination of strong and better-than-expected PMI numbers, monetary easing (targeting SMEs and the rural sector), fiscal easing and capital market reforms did all contribute to the recent improvement in investor sentiment. We expect a strong earnings recovery in 2021 led by consumption, infrastructure spending and tech. Within Asia equities, we remain overweight China (A-shares in particular), neutral South Korea and Singapore, and underweight India and ASEAN (ex. Singapore).

INVESTING STYLE

Beyond some very transitory tactical opportunities for Value bounces, Growth stocks are likely to stay in the lead over the medium term. The market and the flows are focusing on the secular themes among them, "disruptive technology" and "climate change" are taking a large part, most of the stocks in these themes are on the growth side. A durable rebound on long-term interest rates would be necessary to have a more structural impact on the "Value" segment.

SECTOR PREFERENCES

Technology, consumer staples and pharma were the only three sectors to record positive earnings growth in the second quarter (US). Technologies are likely to keep delivering strong growth and contrary to the 2'000 episode, the sector is: not stretched on the P/E relative metric, has healthy balance sheets and strong cash-flow generation.

We remain underweight on financials. Low nominal yields will be a drag on banking and valuation alone is not going to be a sufficient trigger for a sustainable rebound.

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.


Central Banks committed
to maintain real rates
at very low levels.

FIXED INCOME

CONTINUATION OF THE NORMALISATION OF SOVEREIGN AND CREDIT SPREADS

- Low volatility on rates and spreads in a dull summer.
- Central banks: adjusting to summer *farniente*?

CENTRAL BANKS

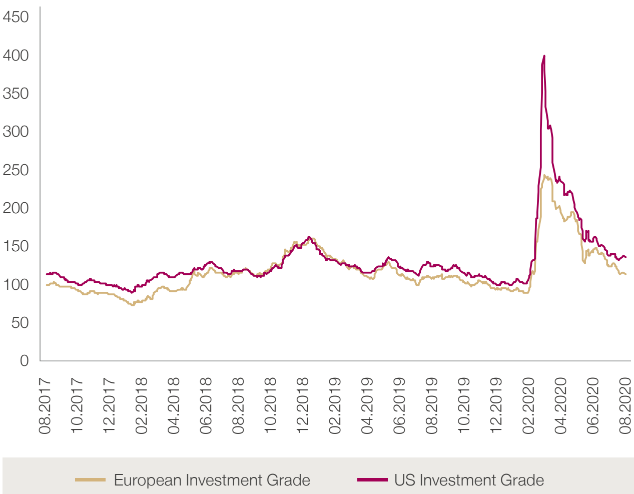
Central banks continue to heavily support economies. However, during the summer, the European Central Bank purchases in both APP (Asset Purchase Programme) and PEPP (Pandemic Emergency Purchase Programme) drastically diminished as well as emergency facility usage from the Fed. Let's be reassured, central bank balance sheets are likely to keep surging over the coming months and years, with their commitments to maintain real rates at very low levels.

INVESTMENT GRADE & HIGH YIELD

Credit markets continued to perform in July and more modestly in August, despite growing tensions between China and the US. Thanks to a better than expected Q2 earnings season and an improving outlook for the second half of 2020, investors have been shifting down in quality to get higher yields.

For European and US IG credit markets, the recent rally erased most of the March spread widening. Valuations are not expensive, but credit premiums have normalised. The weakening in corporate fundamentals and the high uncertainty in the default rate outlooks call for more caution on US high yield companies (especially B's and CCC's).

INVESTMENT GRADE CREDIT TRADE EVOLUTION, BPS



Source: Bloomberg, Indosuez Wealth Management.

GOVERNMENT BONDS & PERIPHERALS

With central banks buying sovereign bonds, and a strong demand from investors, the volatility of sovereign bond yields has decreased.

Inflation breakevens outperformed showing rising inflation expectations, but at modest levels.

Regarding peripherals, the Support to mitigate Unemployment Risks in Emergency (SURE programme) has already been requested for a total of 95 billion euros. Peripheral spreads have retraced around 80% to 95% from year-to-date wides, thanks to technicals and despite more fragile fundamentals.

EMERGING MARKETS BONDS

The search for yield has benefited this asset class (predominately high yield and Latin American issuers).

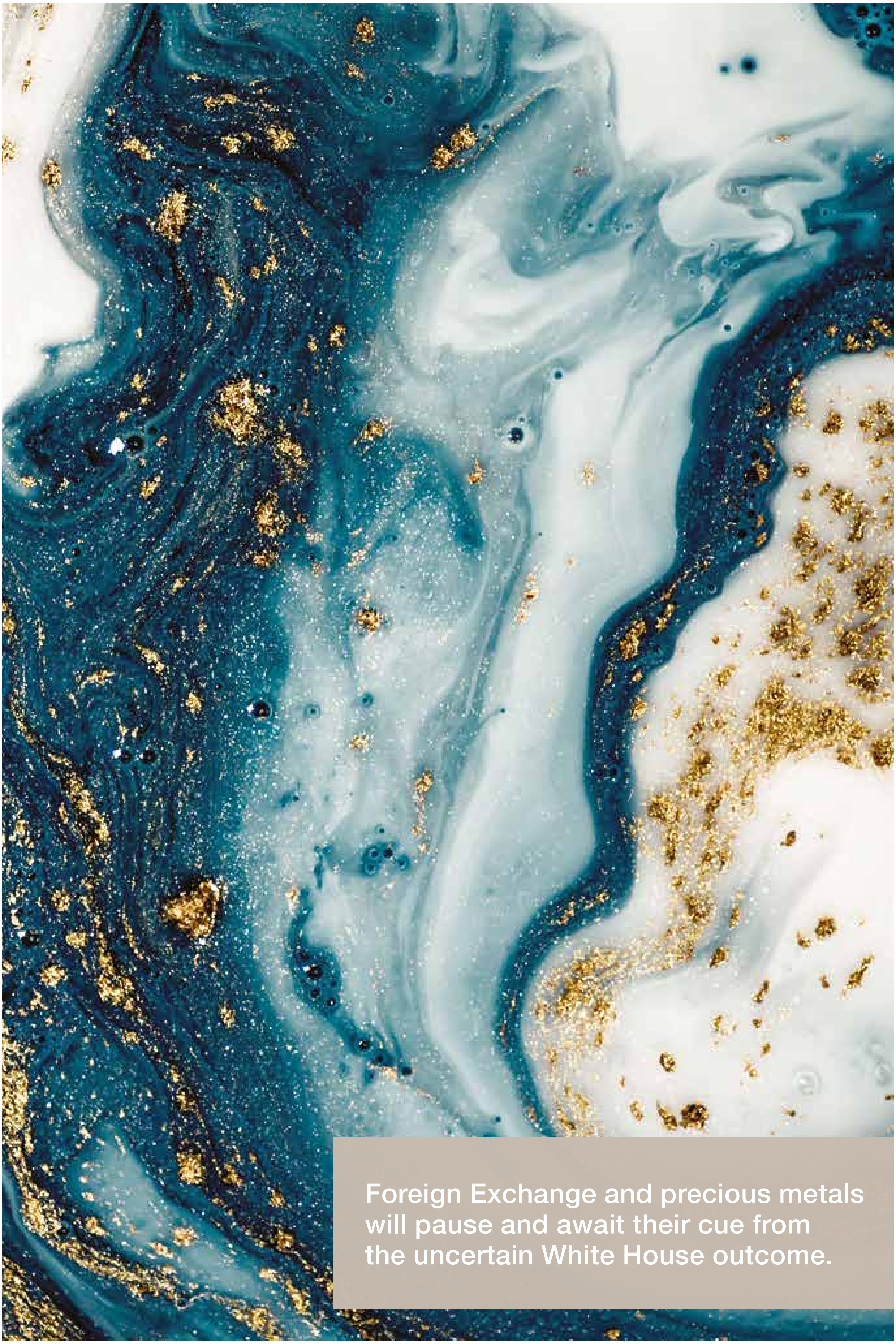
The macroeconomic backdrop has not changed much. There are still many concerns and the recovery momentum seems less strong for many Latin American countries. We do expect episodes of volatility during H2, but with smaller swings.

Furthermore, we still favour Asia over Latin America on the back of better fundamentals.

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.



Foreign Exchange and precious metals will pause and await their cue from the uncertain White House outcome.

FOREX

A NOT SO QUIET SUMMER

- Forex and precious metals will pause and await their cue from the uncertain White House outcome.

US DOLLAR (USD)

Persistent negative real rates continue to weigh heavily on the greenback as it plumbs new lows virtually every week, a trend unlocked by the positive outcome of the European Summit in late July. The ongoing and uninterrupted selling has begun to establish a somewhat oversold technical condition which could require caution following the release of the Federal Reserve's meeting minutes. It appears that anticipated yield curve control by the FOMC may not be delivered depending on economic data. Furthermore, given that the performance of the dollar index has taken on a distinct correlation to Trump's satisfaction polling index, now that the COVID-19 pandemic is addressed more seriously at last by a now-masked President, his ratings rebounded into a too-close-to-call November election. Stretched positioning into safe haven euro and Swiss francs to the detriment of the US dollar also suggests at least a corrective pause in what appears more and more like a secular dollar downtrend. A fiscally expansionist Biden presidency is hardly likely to alter the perceived loss of dollar exceptionalism underway.

EURO (EUR)

No longer excessively undervalued, newfound fiscal togetherness in Europe has given a welcome appreciation boost to the common currency as breakup fears justifiably dissipate. However, this common debt issuance breakthrough risks being overshadowed by yet another wave of virus infections since the reopening of European Union (EU) tourism. Another wave of unchecked EU centric infection rates, after having previously been a relative bright spot, could well take some gloss off the euro's stretched outperformance relative to peers. Worth noting the rebound to 1.2000 EUR/USD is less far from the perceived 1.25 PPP (Purchasing Power Parity) equilibrium valuation magnet. As such, further strengthening beyond 1.2300 will now be harder to achieve and needs a greater transatlantic relative GDP tilt combined with deeper US debt trap fears.

Volatile range trading between 1.16 and 1.21 into the US political election is likely before an inevitably eventful year-end.

SWISS FRANC (CHF)

The Swiss National Bank has been as proactive as ever in their ongoing attempts to slow the recurring inflows of investors in dire need of safe haven assets. Now that governments everywhere almost without exception have intervened due to the health crisis to borrow heavily to soften the blow and deploy all the unconventional bazookas in their arsenal simultaneously, the Swiss franc remains one of the “GO-TO” portfolio alternatives. Even more surprisingly - following the EU breakthrough on common fiscal policy the Swiss franc gave up very little of its pent-up strength versus the euro. It now appears that only a vaccine breakthrough could dent the Swiss franc despite significant speculative long positioning. Growing investor fears of intentional fiat currency debasement policies will buoy safe havens on any bouts of weakness.

GOLD (XAU)

Predictably the yellow metal also managed to post an all time high against the US dollar. Its parabolic rise and record all time ETF inflows from western portfolio managers has been impressive to say the least. The rally was largely correlated to the compression of US government bond yields and thus deepening negative real yields. The record at USD 2’075/oz is all the more impressive given the backdrop of record low demand emanating from the Far East. It must be noted that annual physical demand from India is on course to post a 26 year low just as Chinese demand similarly remains muted as the People’s Bank of China in contrast displays no need for the unconventional zero to negative monetary policies in motion elsewhere.

Caution is now advised given even our most bullish in-house targets have been achieved, sentiment appears excessively positive and speculative positioning is at an all time high. Profit taking now appears likely into the US election uncertainty as the risk reward balance is reassessed. In the short term gold will remain subject to a likely marginal rebound in US bond yields, especially if and when promising vaccine news occurs.

We remain structurally positive on gold into weakness as a barbell portfolio hedge allocation, but will not be surprised if a new range develops between 1’800/2’100, unless rate curves steepen unexpectedly or unless risk-on further fragilises the precious metal.

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

- Recovery pace could disappoint into the 3rd quarter as target restrictive measures related to COVID-19 refrain from a full economic recovery and unemployment could weigh on the rebound in consumption;
- However, we should avoid a second lockdown and fiscal policy measures will start to kick-in;
- Country selectivity is key within developed and emerging economies as the pandemic has been the driver of a stronger dispersion of GDP growth and debt sustainability metrics.

Policy Mix

- Monetary policy should remain supportive as the inflation rate and employment data are below targets;
- Fiscal policy expansion has been massive, recently fuelled by the European Recovery Plan, and more is expected on this front at national level, though a lot will depend on the US election;
- The wide array of measures deployed (rate cuts, refinancing and recapitalisation, asset purchases, guarantees, loans, employment subsidies, public spending and investments) is helping to limit corporate bankruptcies, credit-crunch risks, and households indebtedness.

Political outlook

- Political risk is almost disappearing from Europe even if the Brexit issue is not resolved yet;
- The shift of political uncertainties to the US is intensified and the election should be a close call, with high uncertainties related to the campaign momentum, the fate of swing states and the effect of postal voting;
- Although Biden is ahead, and polls suggest a possible Democrat Senate (which could increase the probability of high minimum wages and corporate taxes), but it is too early to consider this as a done deal; our central scenario at this stage is still a Biden victory with split majorities at Congress.

Corporate earnings

- The second quarter earnings season brought positive surprises in the US and in Europe whilst maintaining a strong polarisation and greater disruption with tech giants crowned as undisputed winners of this new environment;
- Some cyclical industries also posted positive surprises here and there, but broadly speaking, technology, staples and healthcare are the only sectors to post positive growth in Q2 2020;
- Corporate bankruptcies are on the rise notably in the US energy sector, but should not reach 2009 levels.

Valuations

- After this strong rebound, equity valuations appear less appealing and credit spreads are tighter;
- However, the rebound was concentrated on a handful of technology stocks in the US and there are still opportunities in the equity market, whilst carry offered by credit assets is still attractive.

US ELECTIONS: BIDEN VERSUS TRUMP

BIDEN WINS	TRUMP WINS
Scenario: **Democrat House** **Republican Senate** ■ No major fiscal changes; ■ Greener agenda; ■ Social policies; ■ Question mark on anti-trust for US Technology; ■ Softer diplomacy with China & Europe. Best scenario for markets. Structural imbalances prevail. International relations & global trade easing/multilateralism. Neutral for the dollar which should weaken slightly in the long term.	**Scenario:** **Democrat House** **Republican Senate** ■ More of the same; ■ No re-election constraint; a more political uncertainty on trade and foreign affairs. Probably positive for equities in the short term (potential anticipation and further tax cuts). More dangerous in the medium term (political & geopolitical risk). Neutral for the dollar which should weaken slightly in the long term.
Scenario: **Democrat House & Senate** ■ Greater capacity to implement the fiscal plan (although bipartisan deal requires a 3/5 majority); ■ US Government funding needs continue to increase. Risk on US equities. Less growth, more inflation? Question mark on US rate curve (depends if the Fed monetization policy continues/risk of conflict of objectives if inflation rises). Negative for the dollar.	**Scenario:** **Republican House & Senate** ■ More fiscal reforms? **Democrate House & Senate** ■ Hung politics? In both cases, debt increases.

Source: Indosuez Wealth Management.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

ASSET CLASSES

Equities

We maintain our preference for US equities and China but have reduced our underweight on Europe, which could benefit from the recovery plan, a potential reversal of foreign exchange movements and more international visibility in case of a Biden victory. Beside our geographical preferences, we continue to favour quality stocks and secular themes such as environment, technology and societal transformations.

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 through US 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 US political momentum and funding pressure.

Currencies

We are neutral on EUR/USD assuming that the weakening of the dollar could come to an end or at least a pause.

Gold

Gold should stabilise around current levels and is supported by low rates but could be at risk in case of a rate curve steepening or alternatively an acceleration of the equity bull market.

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 26 AUGUST 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'443.62	7.00%	6.59%
FTSE 100 (United Kingdom)	6'037.01	-1.51%	-19.96%
Stoxx Europe 600	369.75	0.56%	-11.08%
Topix	1'625.23	3.58%	-5.58%
MSCI World	2'422.95	5.35%	2.73%
Shanghai SE Composite	4'761.95	4.24%	16.24%
MSCI Emerging Markets	1'114.72	3.02%	0.01%
MSCI Latam (Latin America)	1'962.68	-6.76%	-32.73%
MSCI EMEA (Europe, Middle East, Africa)	217.94	0.42%	-18.55%
MSCI Asia Ex Japan	731.62	4.53%	6.30%
CAC 40 (France)	5'008.27	1.61%	-16.22%
DAX (Germany)	13'061.62	1.76%	-1.41%
MIB (Italy)	20'030.05	0.64%	-14.79%
IBEX (Spain)	7'108.40	-1.90%	-25.56%
SMI (Switzerland)	10'308.39	-0.45%	-2.91%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'746.00	-2.09%	-1.32%
Gold (USD/Oz)	1'928.18	-1.54%	27.08%
Crude Oil WTI (USD/Bbl)	43.35	5.63%	-29.00%
Silver (USD/Oz)	26.27	8.27%	46.60%
Copper (USD/Tonne)	6'529.00	0.80%	5.75%
Natural Gas (USD/MMBtu)	2.49	38.28%	13.70%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	22.03	-3.41	8.25

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.07	-0.11%	-1.04%
GBP/USD	1.32	1.70%	-0.79%
USD/CHF	0.91	-1.11%	-6.09%
EUR/USD	1.18	1.02%	5.55%
USD/JPY	106.39	1.24%	-2.04%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.68%	10.45	-123.40
France 10Y	-0.14%	5.90	-25.30
Germany 10Y	-0.43%	7.60	-24.50
Spain 10Y	0.38%	2.70	-8.40
Switzerland 10Y	-0.49%	10.00	-1.60
Japan 10Y	0.03%	1.20	5.00

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	41.96	-0.94%	-4.40%
Euro Governments Bonds	219.67	-0.19%	0.98%
Corporate EUR high yield	198.10	1.11%	-2.74%
Corporate USD high yield	303.25	1.04%	-0.24%
US Government Bonds	326.17	-0.11%	5.87%
Corporate Emerging Markets	52.07	0.78%	0.53%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

MAY 2020	JUNE 2020	JULY 2020	4 WEEKS CHANGE	YTD (26.08.2020)	
6.81%	7.87%	12.75%	7.00%	16.24%	BEST PERFORMING
6.23%	7.68%	10.73%	5.35%	6.59%	
4.63%	6.96%	8.42%	4.53%	6.30%	
4.53%	5.19%	8.02%	4.24%	2.73%	
3.62%	3.20%	5.51%	3.58%	0.01%	
3.04%	2.85%	4.69%	3.02%	-5.58%	
2.97%	2.51%	2.44%	0.56%	-11.08%	
0.58%	1.84%	-1.11%	0.42%	-18.55%	
-1.16%	1.53%	-4.02%	-1.51%	-19.96%	
-1.41%	-0.31%	-4.41%	-6.76%	-32.73%	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.