Monthly Investment Brief

In doubt, no one despairs

November 2019

With equity markets up by an average 20% worldwide, and with all asset classes into positive territory, the question inevitably rises: what to do now? Take some profits or stay invested?

Macroeconomic view: Despite seemingly stabilising economic indicators in China, as well as in the US and Europe, the markets could have trouble dealing with what seems to be the end of an unprecedented global monetary easing cycle. The market will have to manage the disparities between persistent expectations of easing in developed and emerging market economies (an additional 30bps from the Fed, another 10bps from the ECB, etc.), and the reality of central bank decisions. Hitting the reset button on expectations would probably mean a rise in long bond yields and, hence, capital losses on government bonds.

A solid job market and rising ISM manufacturing index are providing additional proof that the US economy is still in good health. If, as we expect, global growth levels off, or even accelerates a bit (from +3% to +3.4%), there will no longer be any need to lower key rates. Central banks, meanwhile, are at the end of their rope and believe that monetary policy can no longer support growth, as was the case previously. So, if the economy does run out of steam, it will be time to activate tax or budgetary levers. That could happen in 2020.

Microeconomic view: In the United States, third-quarter results are surprisingly strong (with positive surprises up 4.86%). In Europe, they are, on the whole, in line with forecasts, albeit after those forecasts had been slashed. Companies are likely to benefit from better growth prospects, monetary easing, and the de-escalation of trade tensions. Cyclically exposed companies and mid-caps are likely to be the first beneficiaries of this short-term trend. Even so, analysts' expectations are still too high and are likely to hold back EPS growth-driven performances. So reratings (and therefore lower risk premiums) and high dividend payout rates will be needed more than strong earnings growth.

Flows: There's no getting around it: never has a such a rally come with such heavy outflows from equity funds. In the event of a rebound in economic indicators and a further receding of geopolitical risks, market gains could be driven by the return of both institutional and retail investors.

Valuations: This is where the greatest uncertainty likes. Are equities expensive or cheap?

Among listed assets, only equities offer value, with implied returns of almost 7% in an environment of low, or even negative, interest rates. Credit can offer an attractive carry alternative, although risk premiums appear to offer less absolute and relative value.

Positioning: Despite the risks to the global economy, investors are likely to continue to overweight equities to bonds in a balanced portfolio.

As a countercyclical currency, the US dollar is likely to weaken amidst an improvement in global growth. The combination of stronger growth and a weaker dollar could boost commodities prices and, hence, emerging markets.

In terms of styles, cyclical sectors are likely to outperform defensives in the short term, but without a sustained rotation into them.

Ten-year yields will stay low for some time to come but are unlikely to fall any further. Even in the event of a recession, reflationary stimulus plans would limit their safe-haven impact.

Even so, a strong macroeconomic signal is still needed for an aggressive rotation back into equities, especially in the event of a slight rise in interest rates.

We therefore recommend the following strategy: stretch out your investments in risky assets (currently equities) on a monthly basis, in order to ride the cycle with a five-year minimum investment horizon.

CURRENT CONVICTIONS

01

Scenarios

Our 6-month view

Central scenario : First signs of stabilization of global growth. US-China trade tensions easing

Δ: +10%

65%

Europe

- Continuing macroeconomic divergence between robust domestic demand and ongoing weakness/recession in the industrial sector in some countries, i.e. Germany. Potential spill-over of weakness into service sector to be monitored
- Political risks have faded somewhat (Brexit, Iran, Hongkong/China)
- Accommodative monetary policy prolonged at least until 2021

US

- Economy still solid despite headwinds. Potential spill-over of weakness from manufacturing into service sector to be monitored
- Fed to stay accommodative to prolong expansion but questions about independence of central bank
- Uncertainty coming from more protectionism, regulation and geopolitical risks

Assets to overweight

- Equities (still neutral)
- Credit

Assets to underweight

- Sovereigns

Strategy

- Flexibility
- Hedging (options, gold,…)

Alternative scenario: Interest rate risk fueled by surprise jump in the US inflation and growing US budget deficit

5%

- Wage acceleration
- Surging oil prices fuelled by an escalation of political tensions in Middle East
- Reduction of growth potential

Assets to overweight

- Inflation-hedged bonds
- Alternative strategies
- Cash

Assets to underweight

- Equities
- Core Sovereigns
- High Yield credit

Alternative scenario: Increase in protectionism and contagion from emerging markets

Δ: -10%

30%

- US-China trade war impacting global supply chains
- Geopolitical risks materializing (Emerging markets, Middle East…)
- China: risks of economic rebalancing
- Brexit: deal after general election

Assets to overweight

- Money Market CHF & JPY
- Volatility
- Core government bonds

Assets to underweight

- Equities
- High Yield credit

Comments as of 06/11/2019

Our current convictions for each asset class

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

Change vs the previous month

Comments as of 06/11/2019

Our current convictions for each asset class

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

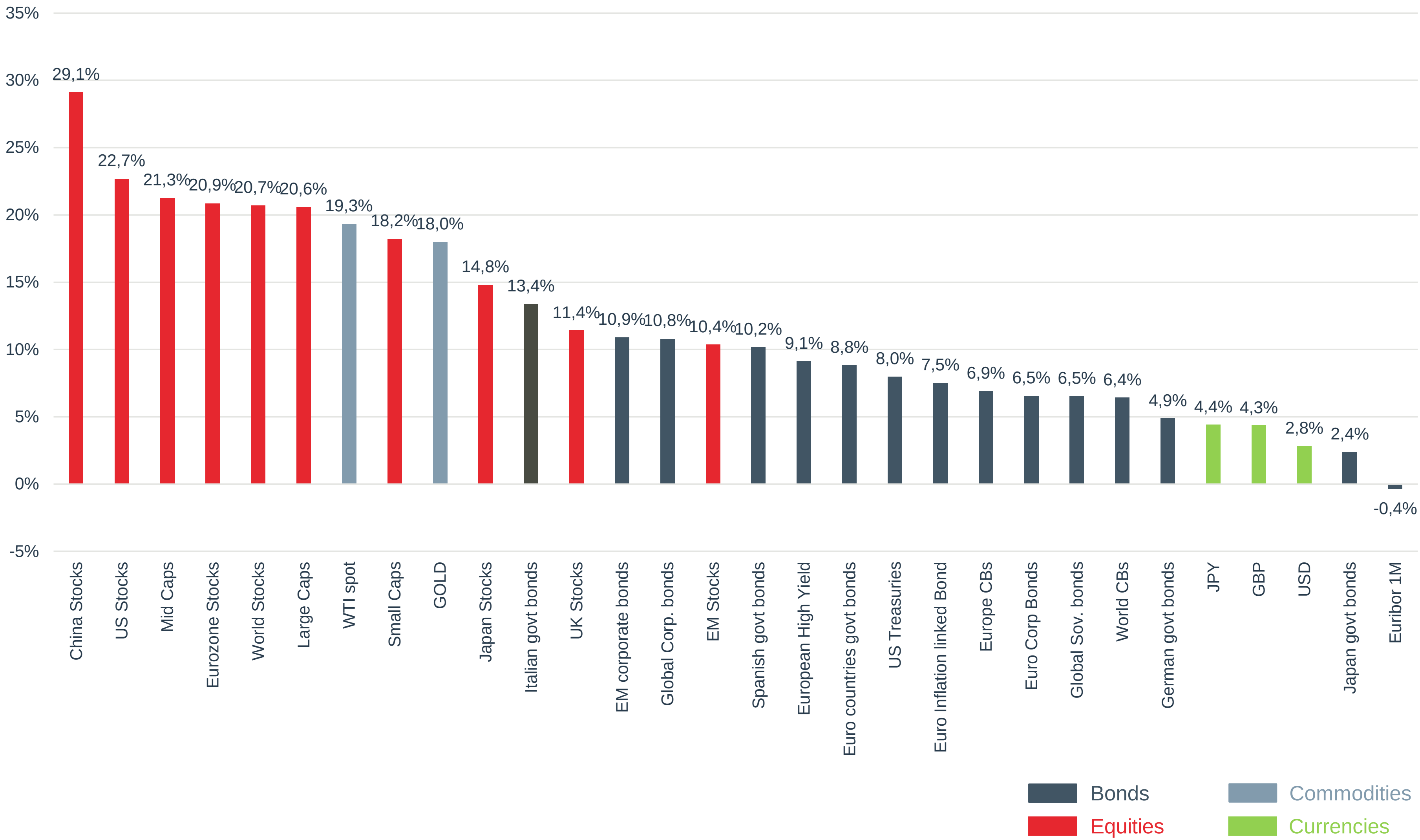
Change vs the previous month

Comments as of 06/11/2019

MACROECONOMIC AND MARKET ANALYSIS

02

Year-to-date performances of asset classes



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

Sources: Bloomberg and BoA ML as of 10/31/2019; performances expressed in local currencies

Historical performances of asset classes

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
US equities	-37.6%	26.3%	14.8%	1.4%	15.3%	31.8%	12.7%	0.7%	10.9%	21.2%	-5.0%	22.7%
Eurozone equities	-44.9%	27.3%	2.4%	-14.9%	19.3%	23.4%	4.3%	9.8%	4.4%	12.5%	-12.7%	20.9%
WTI spot	-53.5%	77.9%	15.2%	8.2%	-7.1%	7.2%	-45.9%	-30.5%	45.0%	12.5%	-24.8%	19.3%
Gold	5.1%	25.5%	29.4%	10.1%	7.1%	28.1%	-1.4%	-10.6%	8.0%	13.5%	-1.6%	18.0%
EM sovereign bonds	-10.9%	28.2%	12.0%	8.5%	18.5%	-6.6%	5.5%	1.2%	10.2%	9.3%	-4.6%	12.5%
EM corporate bonds	-12.4%	30.9%	9.2%	5.6%	13.2%	-1.3%	3.9%	-1.0%	5.5%	7.3%	-1.4%	10.9%
EM equities	-53.3%	78.5%	18.9%	-18.4%	18.2%	-2.6%	-2.2%	-14.9%	11.2%	37.3%	-14.6%	10.4%
European High Yield	-34.2%	74.9%	14.3%	-2.5%	27.2%	10.1%	5.5%	0.8%	9.1%	6.7%	-3.6%	9.1%
Eurozone Gvt bonds	9.1%	4.4%	1.1%	3.3%	11.2%	2.3%	13.2%	1.6%	3.3%	0.1%	1.0%	8.8%
US Gvt bonds	14.0%	-3.7%	5.9%	9.8%	2.2%	-3.4%	6.0%	0.8%	1.1%	2.4%	0.8%	8.0%
German Gvt bonds	12.2%	2.0%	6.2%	9.7%	4.5%	-2.3%	10.4%	0.3%	4.1%	-1.4%	2.4%	4.9%
Euro Libor 1m	4.0%	0.7%	0.4%	0.9%	0.2%	0.1%	0.1%	-0.1%	-0.3%	-0.4%	-0.4%	-0.3%
Spreads (%age points)	**67.5%**	**82.2%**	**28.9%**	**28.5%**	**34.3%**	**38.4%**	**59.0%**	**40.3%**	**45.4%**	**38.7%**	**27.2%**	**23.0%**

Colour scale

Best performance / Worst performance

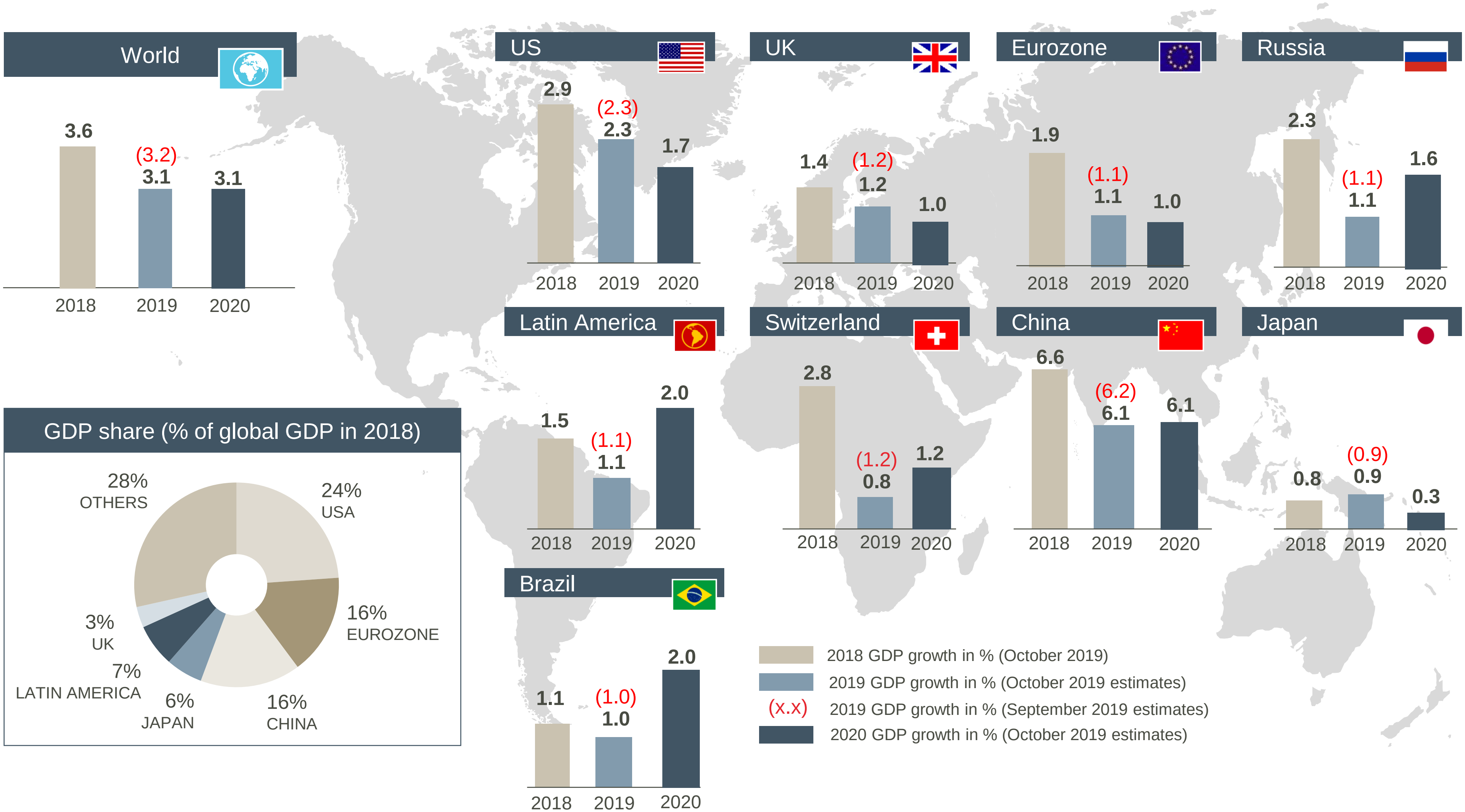
1	2	3	4	5	6	7	8	9	10	11	12

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

Sources: Bloomberg and BoA ML as of 10/31/2019 ; performances expressed in local currencies

Global GDP* growth forecast

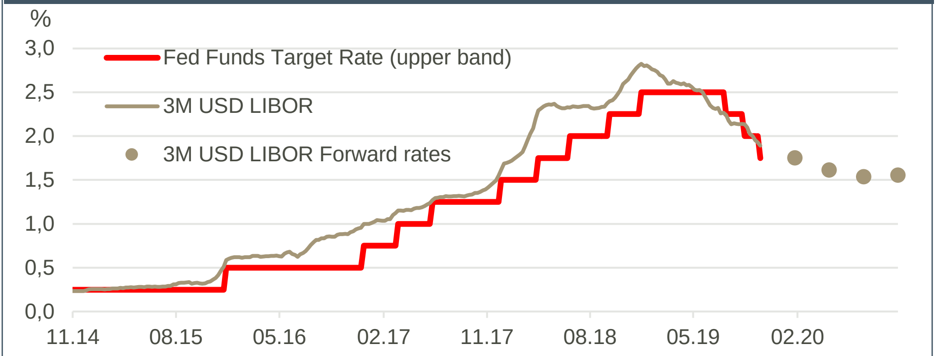
Downward revisions have abated



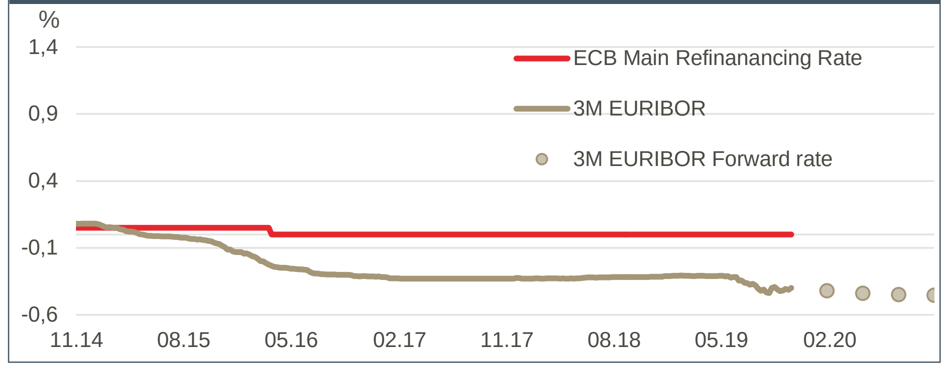
*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 10/31/2019

Monetary policy & inflation expectations

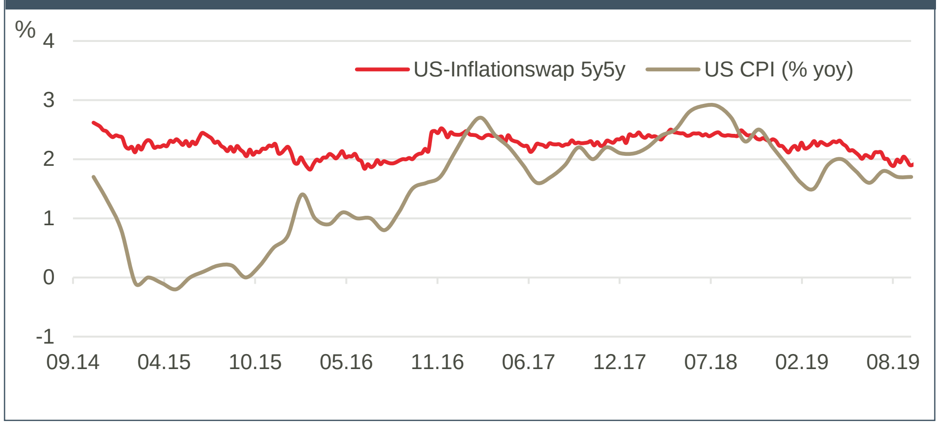
Fed Funds Target Rate, 3M USD LIBOR & 3M USD LIBOR FRAs



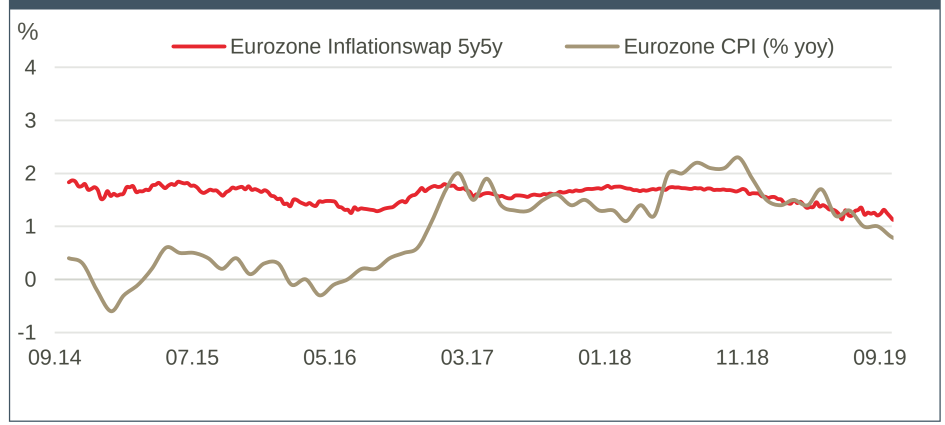
ECB Main Refinancing Rate, 3M EURIBOR & 3M EURIBOR FRAs



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



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



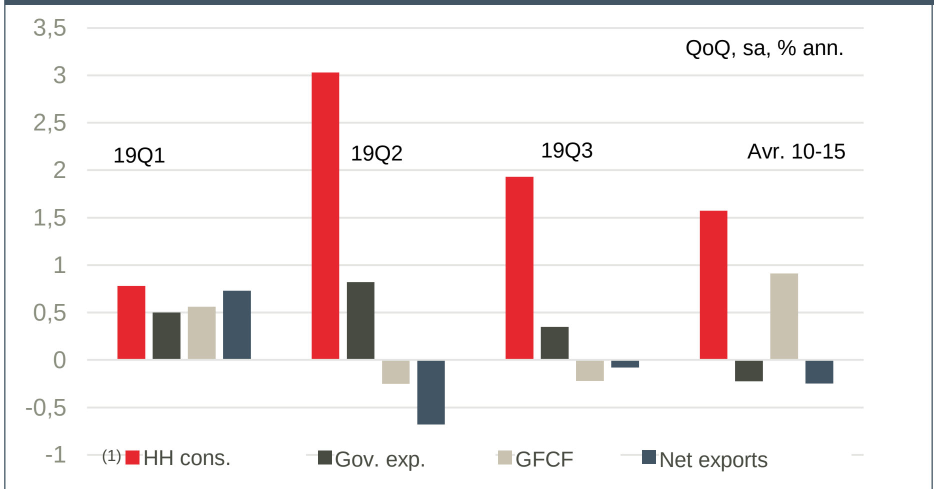
- FED in an extended pause modus after 3 insurance cuts
- Outlook now much more data dependent – one further cut priced until mid 2020
- Lagarde-ECB to continue present stance

Sources: Bloomberg, ODDO BHF AM GmbH, as of 10/31/2019

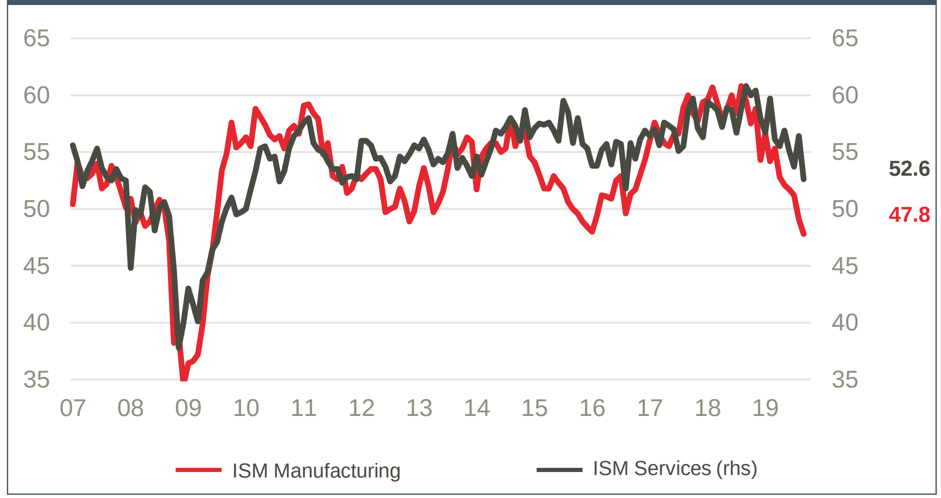
USA

Consumers save the day

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



Business confidence**



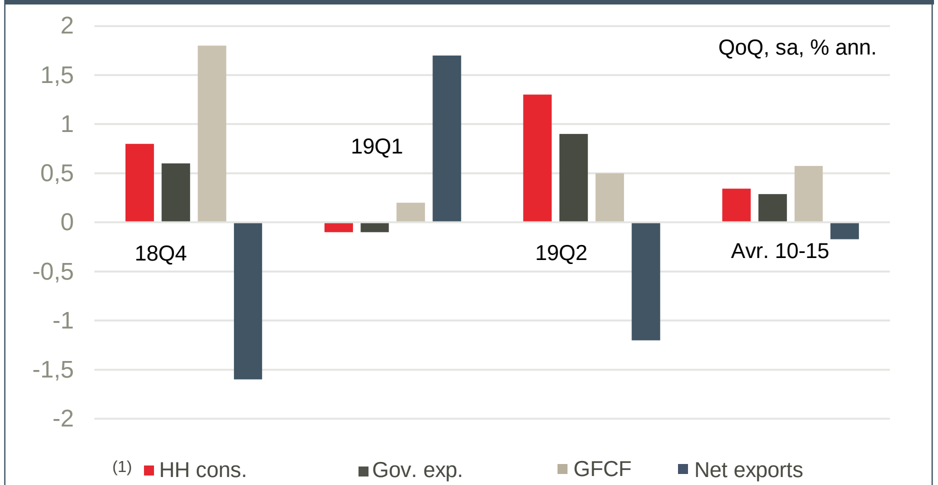
- Q3 came in at a solid 1,9% clip with consumer and government spending the main drivers
- Capex declined the second quarter in a row
- A bit of inventory build-up could present a headwind for Q4
- PMI and regional reports remain sluggish, but labor market is strong despite GM strike
- Fed done for now

[(1)] HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation Net exports.
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 09/30/2019 | **Data as of 09/15/2019

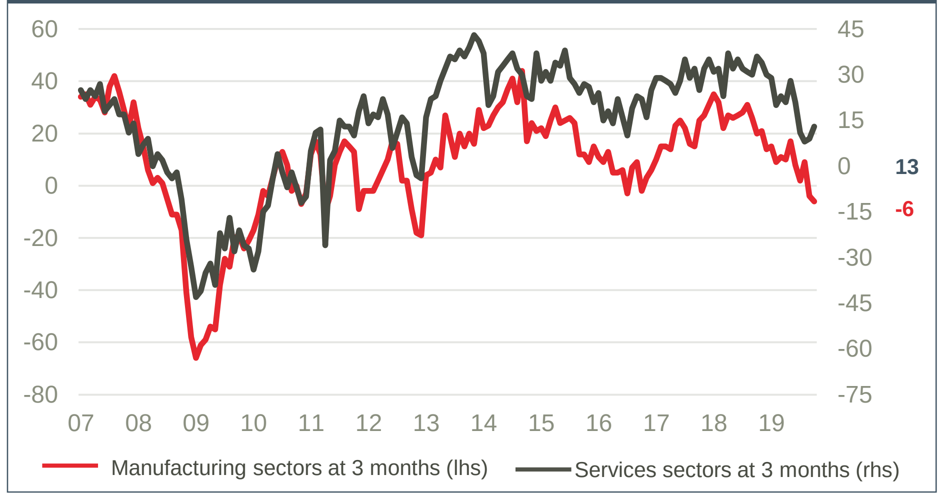
Japan

BOJ still reluctant to ease

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



Business confidence**

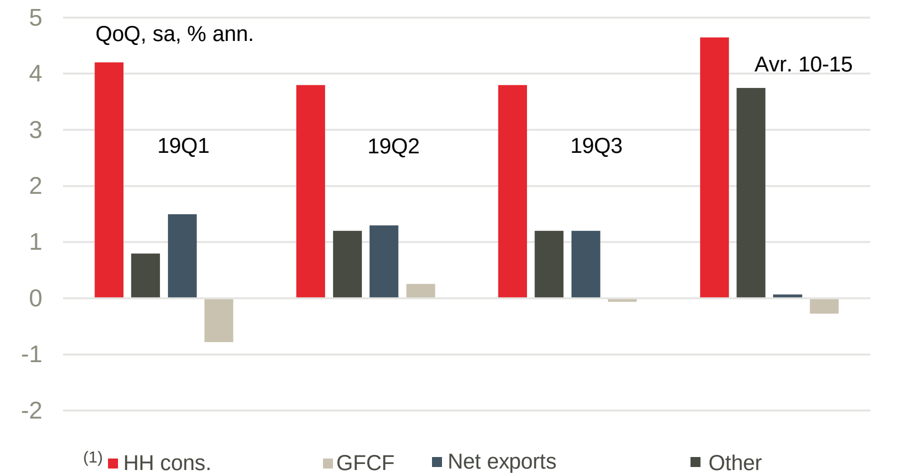


- Industrial production in September show a strong rebound, but outlook remains weak
- Retail sales quite upbeat in September, but exaggerated on brisk demand ahead of the VAT hike
- The BoJ still refrains from easing, despite downward revisions for growth and inflation

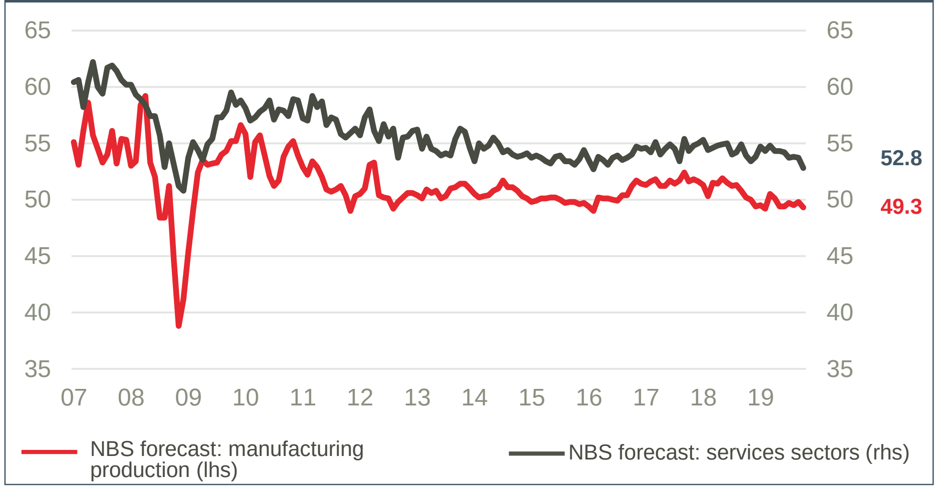
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment) Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 09/30/2019 | **Data as of 10/15/2019

PMI send conflicting signals

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



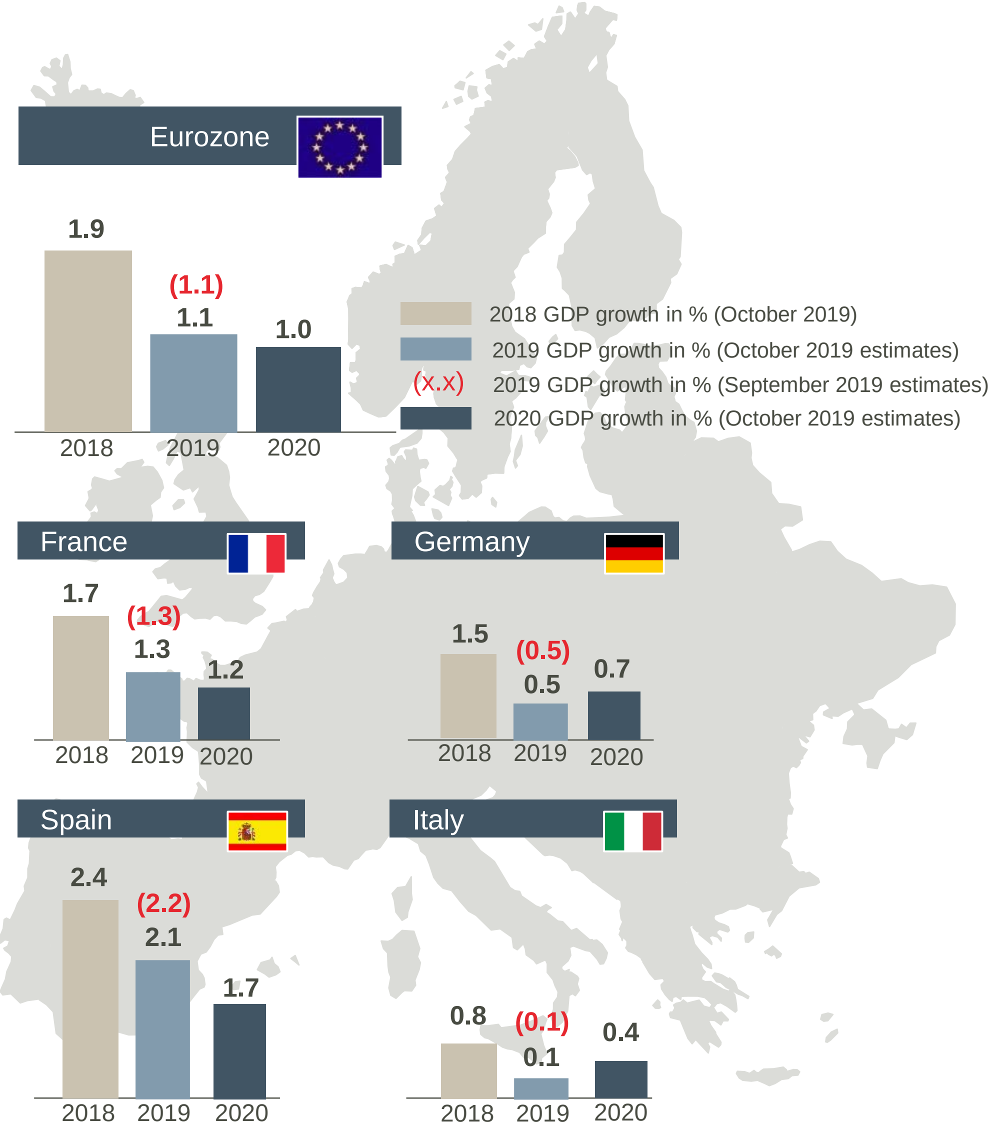
Business confidence**



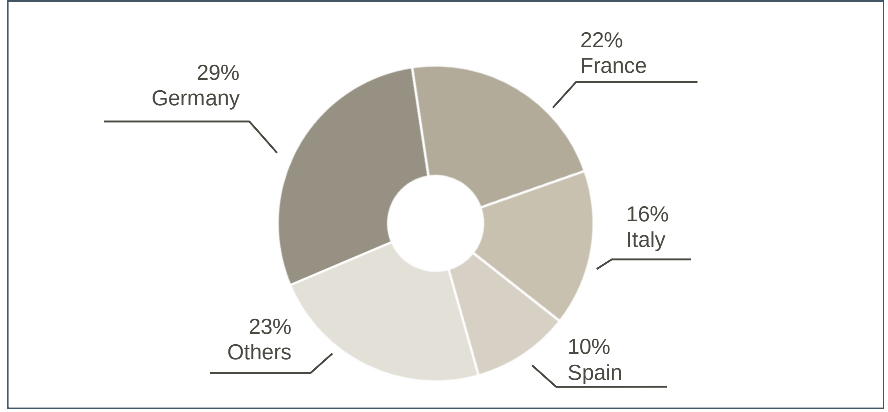
- Growth seems to have stabilized at close to 6%, but should weaken slightly to just below 6% in the quarters ahead
- Caixin and NBS PMI diverge and send conflicting signals
- Caixin probably more export oriented and thus profiting more from stimulus measures and improved trade sentiment

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 09/30/2019 | **Data as of 10/15/2019

Eurozone



GDP share (% of total Eurozone GDP)



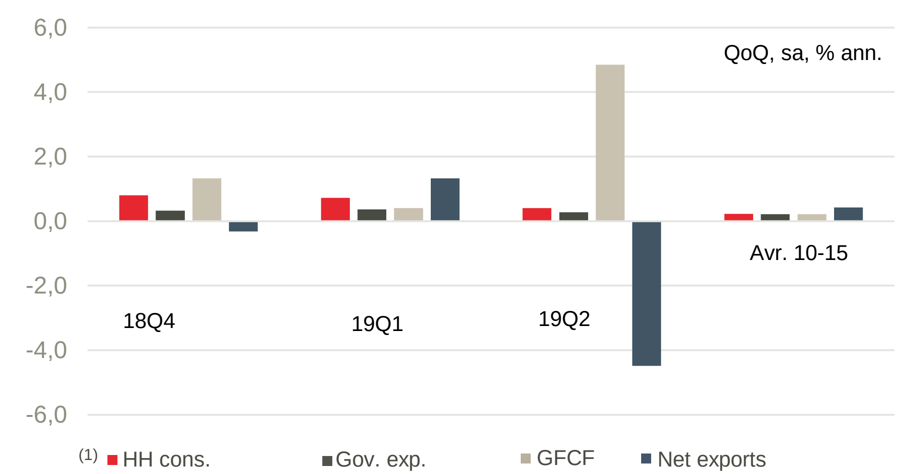
- Germany hit hardest by trade uncertainty and dwindling capex investment
- France is holding up well, as manufacturing sector is only half of Germany's and fiscal policy is mildly expansive
- Italy is hovering around recession levels, but has a chance to stabilize
- Spain still the strongest country, but looses momentum on political stalemate

Sources: ODDO BHF AM SA; Bloomberg Economist Forecast. Data as of 10/2019

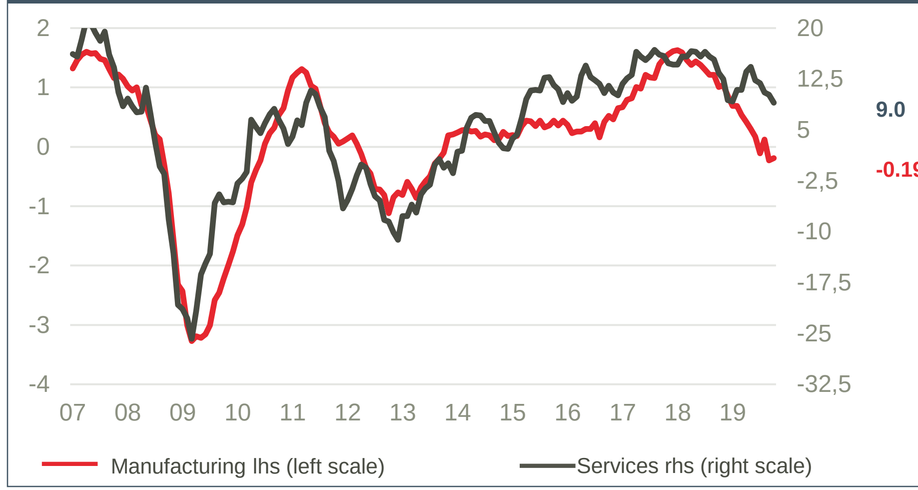
Eurozone

Blue skies through the tears?

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



Business confidence**



- Q3 came in at 1.1% yoy with notable differences across countries
- Weakest link is still Germany where growth most likely was flat (release date 14th Nov.), while Italy and Spain picked up slightly compared to Q2
- Manufacturing PMI revisions in October posted some minor improvements
- Spillover from industrial weakness into services limited so far

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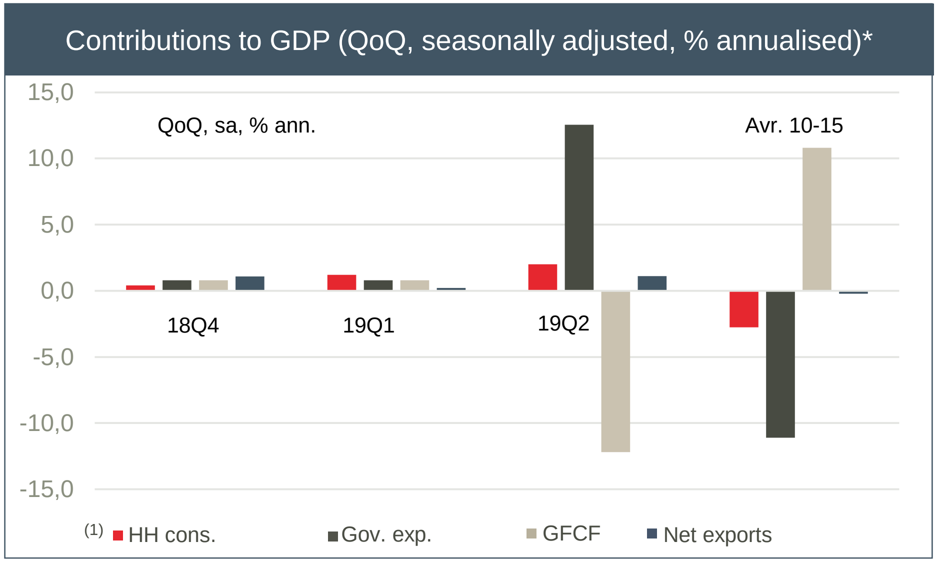
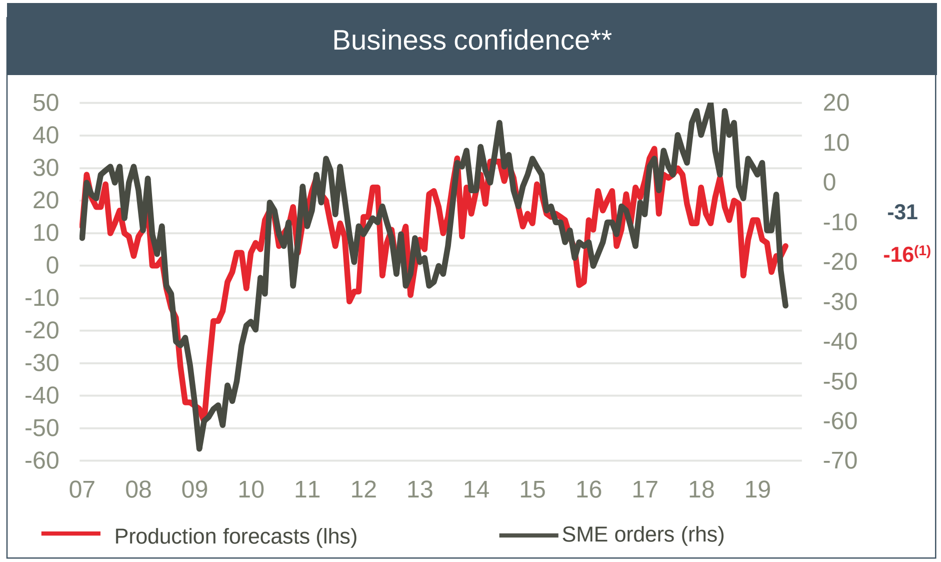
(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 09/30/2019 | **Data as of 10/15/2019

United Kingdom

That was the easy part





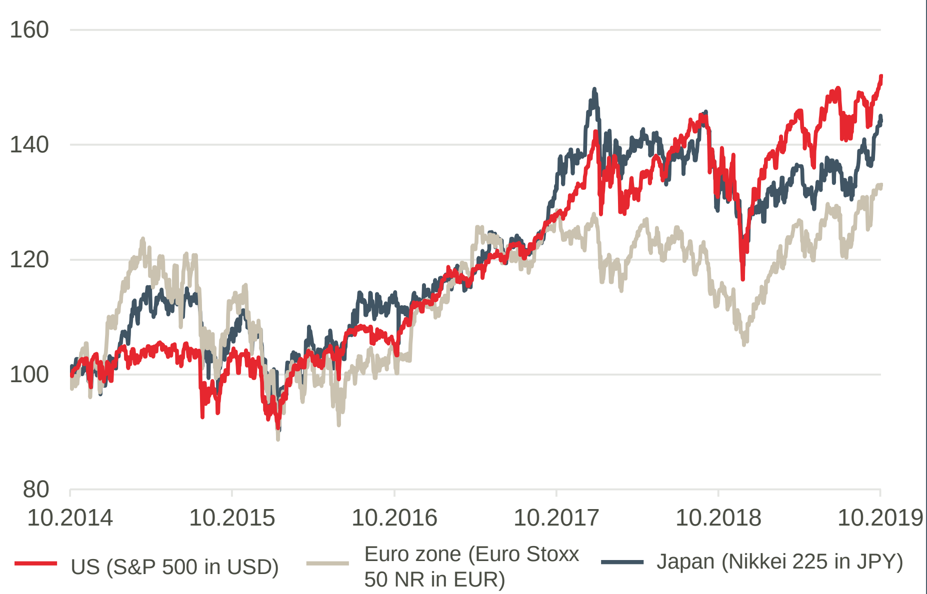
- Slight improvement in manufacturing PMI masks ongoing weakness
- Election date fixed for Dec. 12th
- Polls show a conservative lead, but have to be treated with caution, given the first past the post voting system
- Hard Brexit now appears to have a very low probability, but a vote to leave is only the entry ticket for negotiations on the split-up

(1) HH cons.: household consumption / Gov. exp.: government expenditure / GFCF: gross fixed capital formation (investment)
Sources: Bloomberg, Thomson Reuters, Datastream, ODDO BHF AM SAS. *Data as of 09/30/2019 | **Data as of 07/15/2019 | (1) data as of 10/15/2019

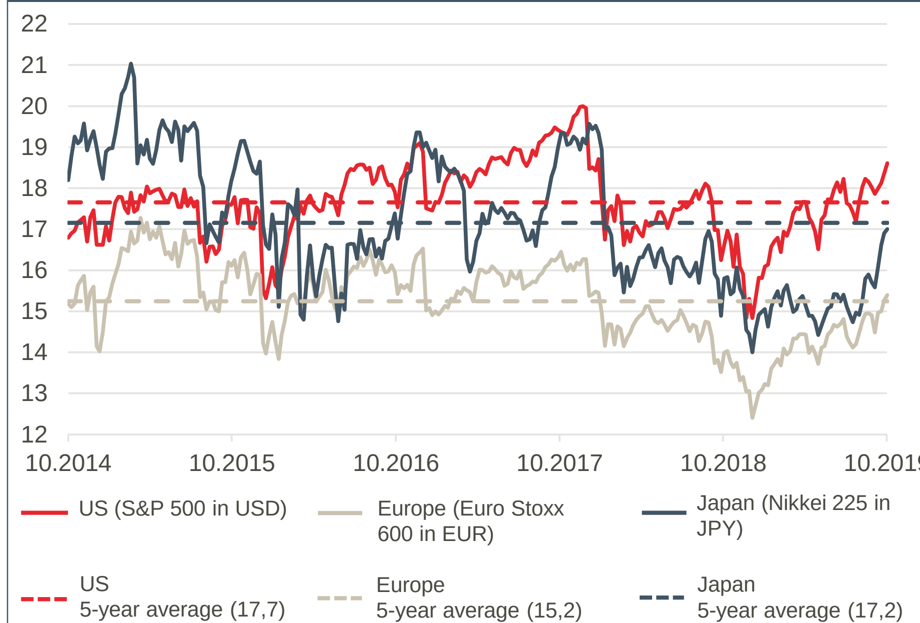
Equities – overview

The markets are at their highs

5-year equity market performance



5-year price/earning ratio



- Nothing is holding the markets back, with the MSCI World All Countries gaining another 2.7% (in $) in October
- Japan once again turned in the top performance, with a 4.9% gain, followed by emerging markets, at +4.2%
- Gains were a little smaller in Europe (+1.2% by the MSCI EMU) and the US (+2.2%), but the S&P 500 is now at its all-time high, at close to 3040 points as of the end of October

- Gains in the indices, combined with earnings momentum that is still negative, has pushed valuations to at least near their five-year averages, but often even higher than that.
- In the US, the market PE is now at 18.6x, or a 6% premium to its five-year average
- Only the Japanese market is still slightly under its five-year average (-0.6%), while Europe is currently trading at a premium on this basis (1.3%)

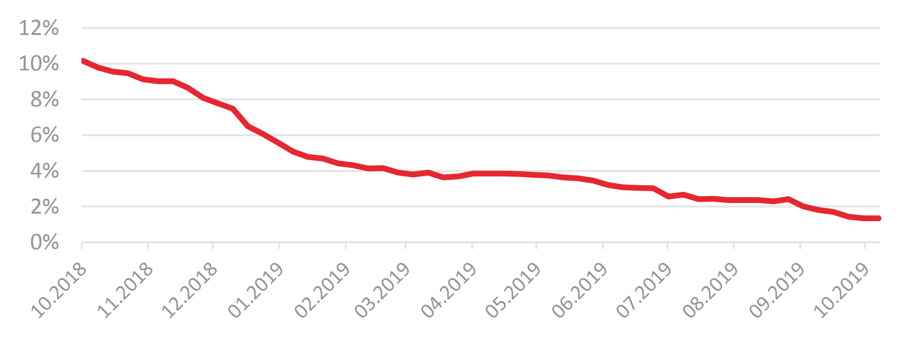
Past performances are not a reliable indicator of future performances and are not constant over time.

*See Glossary, page 26 | Source: Bloomberg, ODDO BHF AM SAS | Figures as of 31/10/2019

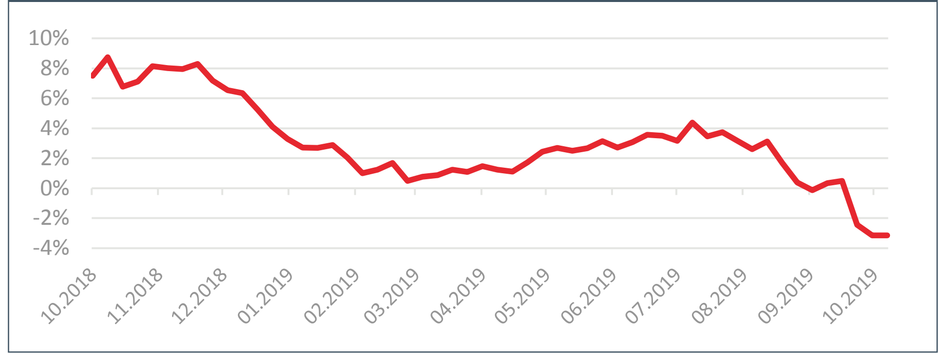
Equities – EPS trends

Stabilisation in the US but negative momentum elsewhere

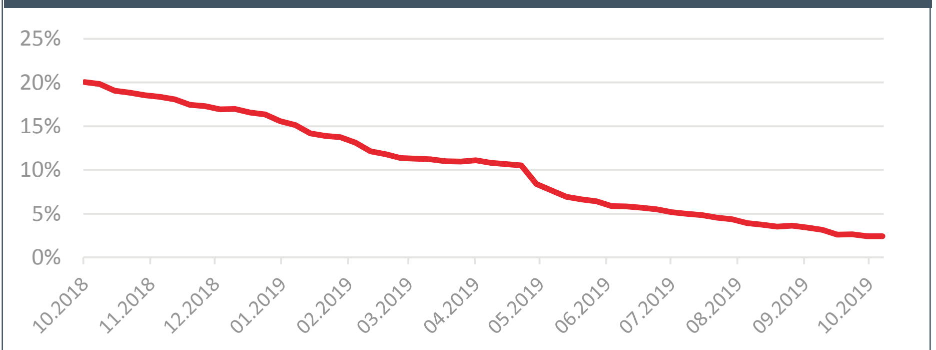
S&P500 - 2019e



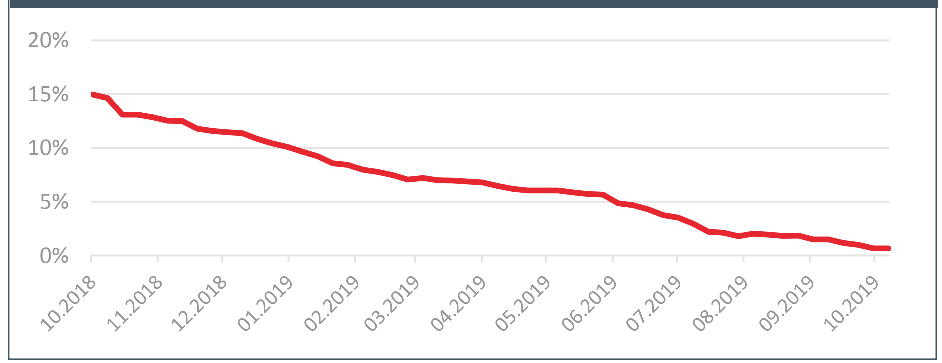
FTSE 100 – 2019e



Topix – 2019e



Euro Zone – 2019e



- Relative stability in US earnings momentum against a backdrop of third-quarter earnings that once again beat analysts’ forecasts
- Earnings growth is now projected at almost nil in the euro zone this year, but close to -4% in the UK.

Sources: ODDO BHF AM SAS, Deutsche Bank AG/London. |Thomson Reuters | Figures as of 31/10/2019

European equities

The easing in the trade war pushes market indices to their year's highs

	12-month forward P/E, Nov. 2019	2017 EPS growth	2018 EPS growth	2019 EPS growth	Dividend yield	YTD performance
STOXX Europe 600	14.4 x	23%	4%	3%	3.7%	18.3%
Commodities						
Basic resources	11.1 x	111%	-2%	-15%	5.2%	8.0%
Oil & Gas	11.6 x	83%	40%	-11%	5.7%	3.9%
Cyclicals						
Automotive and spare parts	7.8 x	34%	-10%	-5%	4.0%	16.3%
Chemicals	19.6 x	24%	4%	-9%	2.8%	21.3%
Construction and materials	15.4 x	13%	8%	18%	3.0%	31.4%
Industrial goods and services	17.0 x	14%	6%	9%	2.8%	24.5%
Media	15.6 x	10%	10%	2%	3.4%	13.9%
Technologies	20.7 x	11%	8%	10%	1.6%	27.4%
Travel & leisure	14.0 x	14%	-4%	-5%	2.8%	13.4%
Financials						
Banks	8.9 x	49%	13%	2%	6.0%	2.0%
Insurance	10.6 x	-9%	10%	11%	5.2%	19.6%
Financial services	16.0 x	16%	-42%	33%	3.4%	27.1%
Real estate	17.7 x	12%	19%	0%	4.0%	19.5%
Defensives						
Food & beverages	20.8 x	10%	4%	9%	2.5%	25.0%
Healthcare	17.5 x	4%	4%	7%	2.8%	21.9%
Household & personal care	16.3 x	19%	7%	4%	3.5%	20.2%
Retailing	17.6 x	3%	6%	3%	3.1%	23.6%
Telecommunications	14.4 x	19%	-9%	3%	4.9%	5.9%
Utilities	14.9 x	6%	-12%	19%	4.8%	19.9%

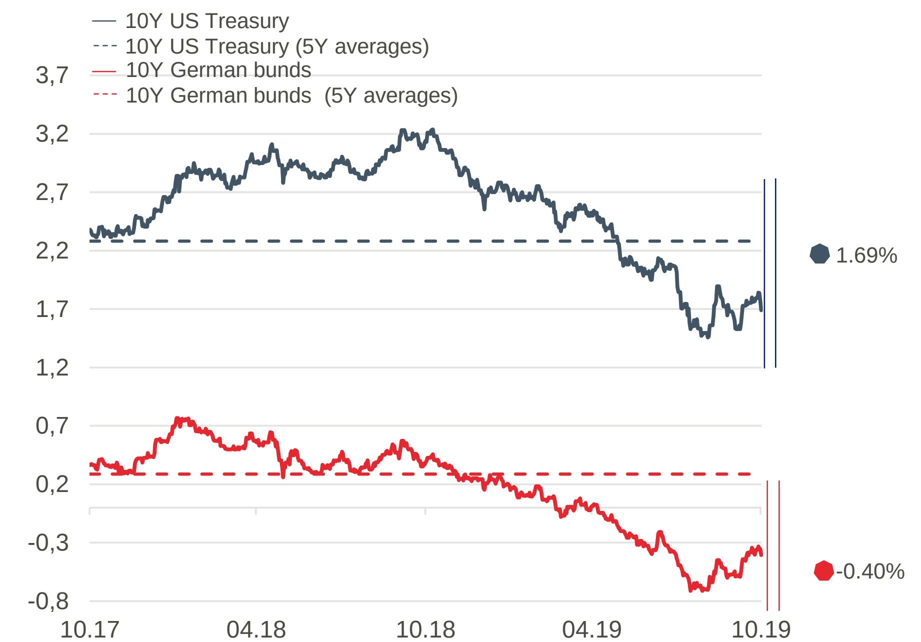
- A new spurt in the indices, driven mainly by cyclicals, particularly auto and manufacturing stocks.
- This rotation into cyclical and value stocks and their outperformance are being driven by the easing in Sino-US trade tensions and a global macro situation that seems to have bottomed out, despite further weakness in earnings momentum.
- Defensives have suffered some setbacks, including earnings releases, which have tended to fall short of forecasts in the case of some food & beverage stocks and staples.
- Reporting season confirms the negative trend in earnings momentum, with forecasts probably still too ambitious for 2020.
- But the levelling off in PMI manufacturing numbers may suggest that earnings momentum has bottomed out in cyclicals.
- Any more favourable outcome to Brexit and the trade war is likely to create rather aggressive style rotations, with risk premiums moving closer back to normal.

Source: ODDO BHF AM SAS, FactSet. Figures as of 11/04/2019

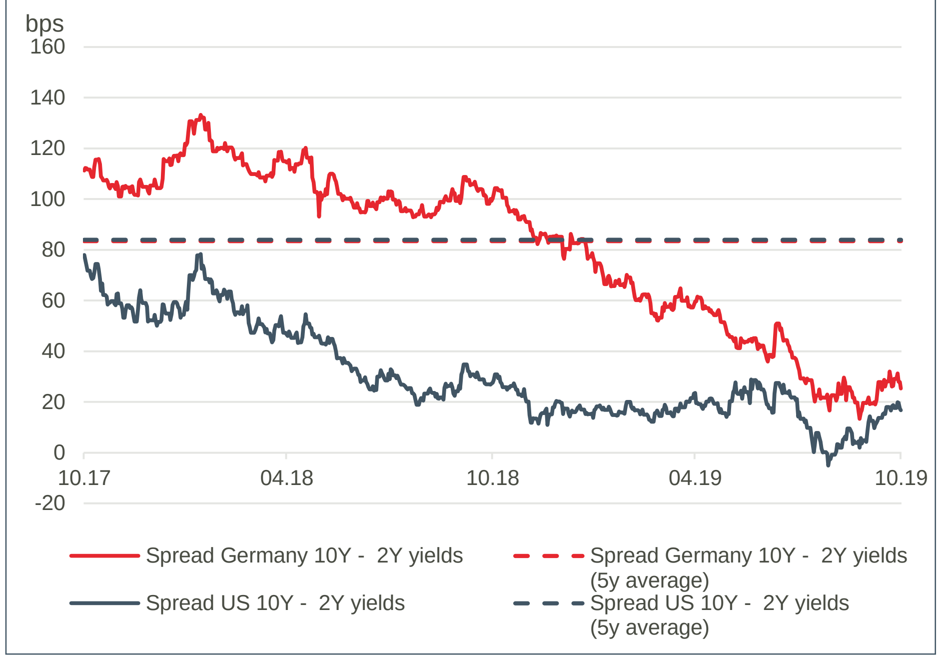
Fixed income – Rates

Yields can rise after all

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



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



- Yields have retraced some of their recession premium on fading growth scares
- Consolidation may extend a bit further on still crowded positions and tentative signs of economic stabilization
- But technical factors like PSPP and limited free float to put a lid on any rate sell-off

- The recent rate sell-off has seen curves re-steepening slightly
- Despite some possible further re-steepening, medium-term flattening in the Eurozone has not run its course yet

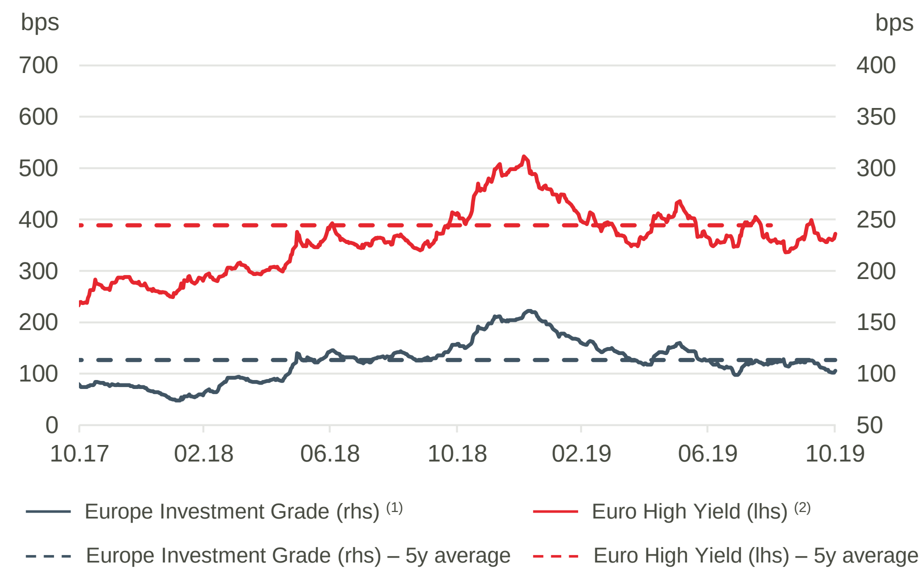
Past performance is not a reliable indicator of future performance and is not constant over time.

(1) Bloomberg Economic Forecast │Sources: ODDO BHF AM SAS, Bloomberg│LHS: Data as of 31/10/2019; RHS: Data as of 31/10/2019

Fixed income – Credit Spreads

Carry still the only game left in the fixed income world

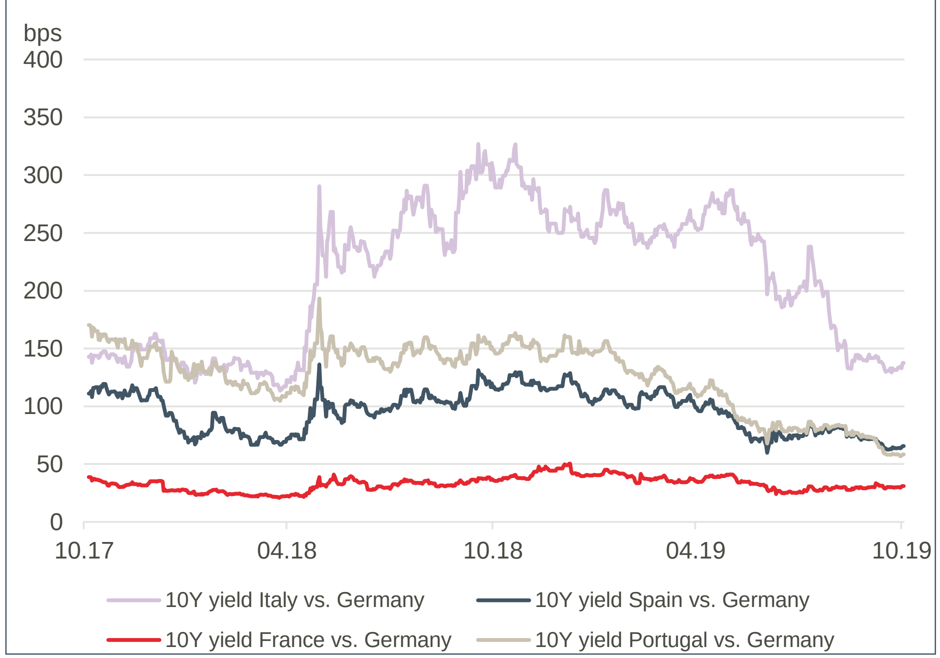
Credit spreads* IG & HY (over 2 year)



(1) BofA Merrill Lynch Euro Corporate Index (ER00)

(2) BofA Merrill Lynch European Currency High Yield Index (HP00)

Main Eurozone country spreads (over 2 years)



- Investment grade has very well digested a record new issue volume in September
- Spreads have grinded lower on brisk demand in anticipation of CSPP
- Despite recent tightening, credit fundamentals favour continued outperformance
- High yield has been more vulnerable to idiosyncratic risks
- Economic risk well reflected in an elevated B/BB spread ratio

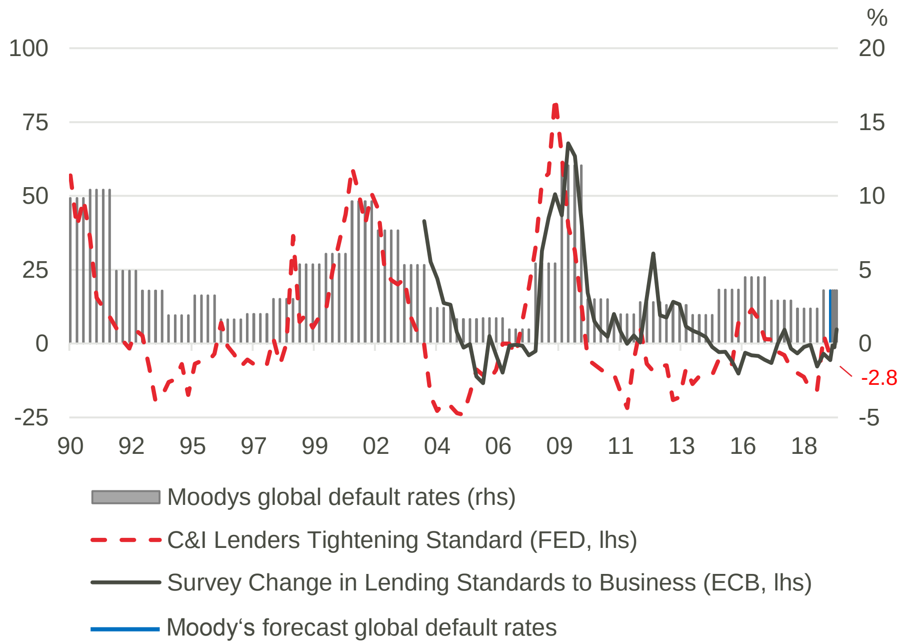
- Italian BTP rally has stalled around 140bp spread level for 10-year paper
- However, there is additional potential to below 100bp on carry and rolldown aspects as the BTP curve still sticks out

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

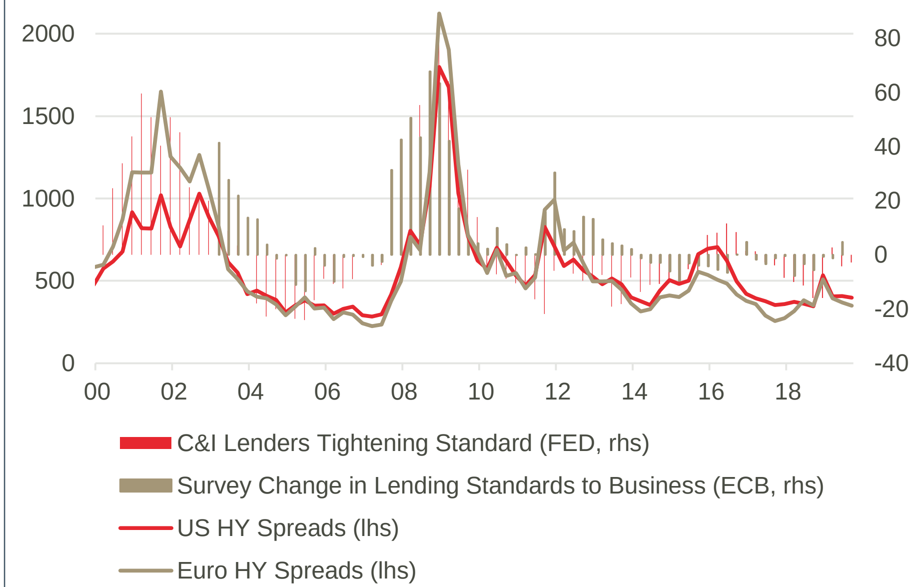
Sources: ODDO BHF AM SAS, Bloomberg | Data as of 31/10/2019

Commercial and industrial lending standards

Lending standards and default rate



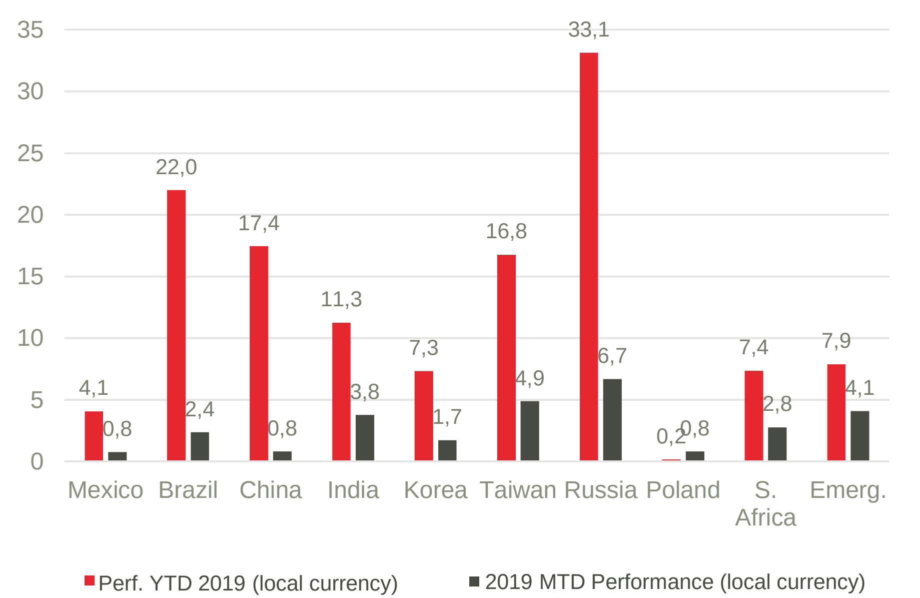
Lending standards and spreads



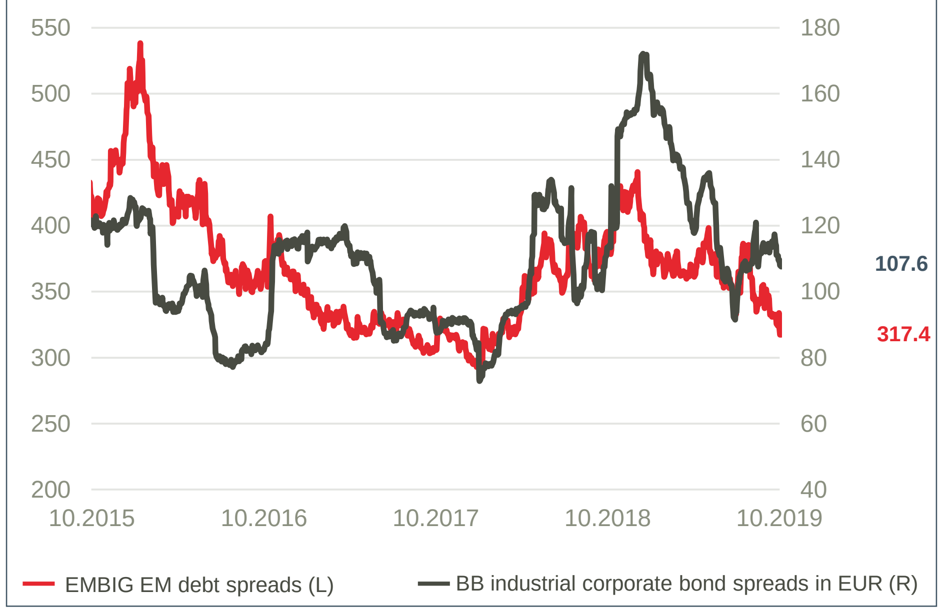
Source: Moody's as of 30/09/2019, Fed, ECB, Bloomberg | Data as of 30/09/2019

Back into favour

Equities performance on major emerging markets



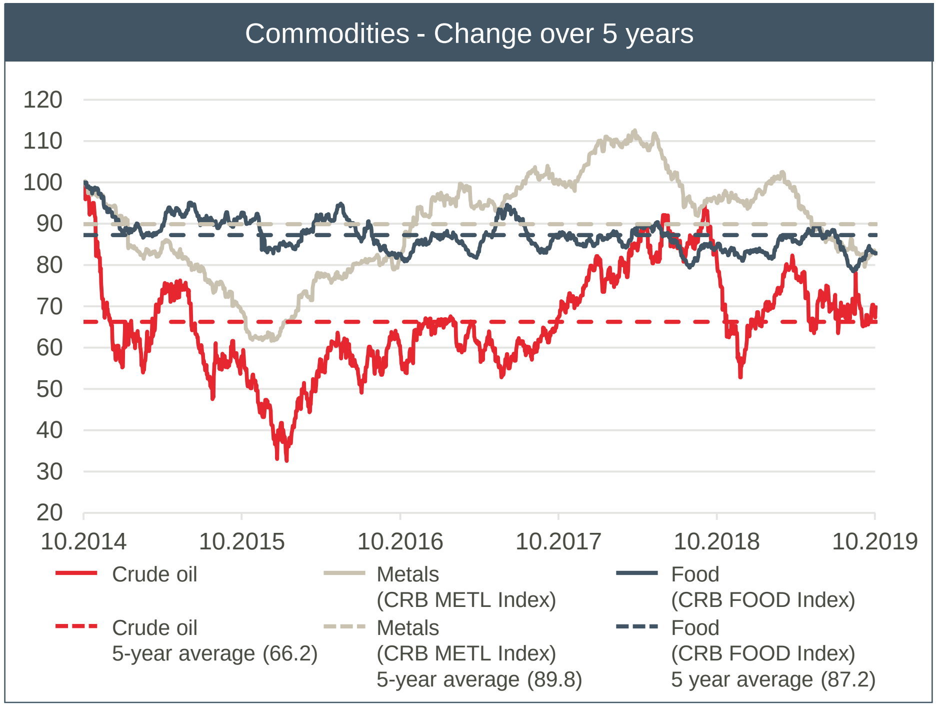
EM debt spreads vs. BB industrial corporate bond spreads in EUR

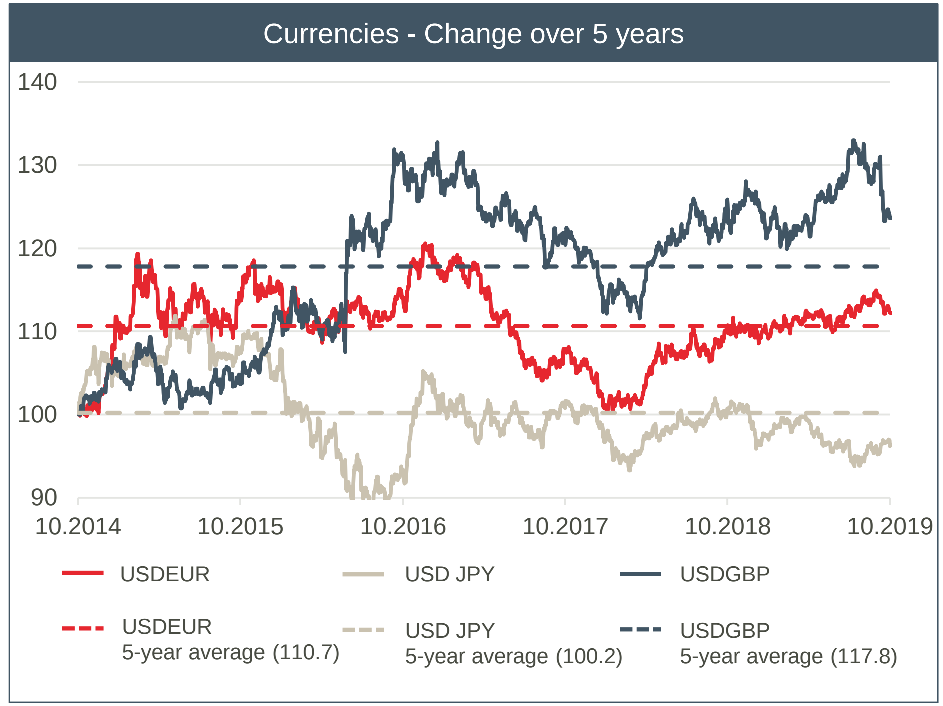


- Fading headline risks and improving risk sentiment has led to renewed interest in lagging EM assets
- Rotation evident from hard currency bonds into local bonds and equities
- Fundamental stabilization, lower political risk and fairly clean investor positioning leaves potential for a further rally in EM equities

Past performances are not a reliable indicator of future performance and are not constant over time.
Sources: Bloomberg, ODDO BHF AM SAS | Data at 11/04/2019

Currencies and commodities





- Crude is likely to accept current ranges as oversupply is being compensated by political risk
- USD/EUR is drifting higher but should stay rangebound for the time being
- Better relative growth in the EZ and structural headwinds from elevated trade and budget deficits in the US to strengthen Euro in 2020

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

Sources: Bloomberg, ODDO BHF AM SAS | Data at 10/31/2019

Glossary

How performances are calculated	Cumulative fund performance is calculated based on dividends reinvested. Annualised performance is determined on an annual, 365-day actuarial basis. A fund’s performance relative to its benchmark index is expressed as arithmetic difference. Static indicators are generally calculated on a weekly tick that is taken on Fridays, or failing that, on the day prior to valuation.
Volatility	Volatility is a risk indicator measuring the level of fluctuations observed in a portfolio (or index) over a defined period. It is calculated as annualised standard deviation of absolute returns within a defined period of time.
Credit spreads (credit premiums)	The credit spread is the risk premium or the difference between the yields of corporate bonds and that of sovereign bonds with the same characteristics.
Investment grade	Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard & Poor's of the equivalent.
High yield	High-yield bonds are speculative bonds rated lower than BBB- (Standard & Poor's) or the equivalent.
PE (price-earnings ratio)	A stock’s price-earnings ratio is equal to the stock’s price divided by the issuing company’s earnings per share. It is also called the “earnings multiple”. It depends mainly on three factors: the company’s forecast earnings growth, the risk associated with these forecasts, and the level of interest rates.

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Notes