MONTHLY HOUSE VIEW

Marketing Material – May 2021

Focus
Make Infrastructures Great Again

Architects of Wealth

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SMELLS LIKE ANIMAL SPIRITS

VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

"Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations (...). Most, probably, of our decisions to do something positive (...) can only be taken as the result of animal spirits – a spontaneous urge to action rather than inaction."

John Maynard Keynes,
The General Theory of Employment, Interest and Money, 1936.

Dear Reader,

How should we interpret the current optimism of the equity markets, and how far can it go before encountering obstacles? Avoiding the term bubble, we can talk about enthusiasm, even euphoria, on the markets. Some signs are obvious: low volatility, record buying volumes, sky-high valuation multiples and stock prices that seem to be having analysts running behind daily. Market observers are competing to explain this reality.

A first theory could be a new price equilibrium. In sum, equity markets have found a new valuation system, justified by an alignment of positive factors: global economic recovery, strong earnings growth, secular transformations leading to new sources of growth and productivity gains. But we know the limits of this refrain: every time we construct a theory to justify record valuations ("this time is different", as Kenneth Rogoff would say), reality catches up with us, a mirror of our excess optimism.

Another theory is a rational bubble. Rational in that investors are reacting positively to the signal sent out by the fiscal authorities (which have become the reassuring factor of the cycle) and monetary authorities (which have become the market makers for financial assets). This reasoning finds its limit, however, as this equilibrium is generally only temporary; because the excess debt ends up resulting either in higher taxes, inflation, or in lower growth, which in all cases comes down to reducing real long-term returns. A lesson from the history of economic policy: the means used to exit a crisis are often the cause of the next crisis.

A third explanation, which carries on from the second: excess leverage, subsidised by economic policies, is creating significant distortions in the prices of financial assets. If investors take advantage of the windfall from short-term zero-interest lending and the US government cheques to buy financial assets, we can understand why markets are beating our expectations. The popularity of stock market investing among US households partially validates this theory.

A last interpretation could be a somewhat traditional short-sighted springtime effect. Investors would simply be extrapolating the very strong growth of 2021, which is partly due to a very strong base effect following the contraction of earnings in 2020. A sort of mathematical illusion and short-termism that does not factor in the probable slowdown in growth after 2022, and which often ends when the good news is priced in and the positive surprise ratio drops.

This leads us back to Keynes. After a traumatic year in 2020 on the health, human and economic fronts, our natural tendency is to switch from pessimism to optimism and focus on the good news, through the visceral need to be positive and project into the future, even when the present remains complex and uncertainties lie ahead. And our reflex - natural or conditioned by the over-abundance of information - is to react to the present. An initial step towards a sort of rationality would be to keep this in mind, to profit from the situation without excess, and be ready to react when the bears wake up...

MAKE INFRASTRUCTURES GREAT AGAIN

While the American Rescue Plan has been successfully managed by President Biden's administration, the White House is now moving full steam ahead in order to rebuild and reshape the United States. Although necessary, this massive and ambitious upcoming plan appears to be a bigger challenge as it is already facing controversy over its funding, even among Democrats.

USD 2.59
trillion: the US infrastructure investment gap

28%
Biden's desired level of corporate taxes

THE US INFRASTRUCTURE INVESTMENT GAP

Despite being the wealthiest country in the world (in terms of GDP), the United States is ranked thirteenth when it comes to the overall quality of infrastructure. Though the United States' infrastructure scores a higher grade (C-), the last American Society Civil Engineers' conclusion reveals that the overdue bill on infrastructure is a long way from being paid off: the total investment gap increased to USD 2.59 trillion over 10 years (from USD 2.1 trillion).

If nothing is done this could cost as many as 3 million jobs by 2039, hence why President Biden named this upcoming infrastructure plan the "American Jobs Plan". This package, which is only the first of a two-part broader economic plan that could amount to USD 4 trillion (the second part being the "American Family Plan" which should be dedicated to childcare, education and health), is expected to cost USD 2.25 trillion over 8 years.

REBUILDING AMERICA

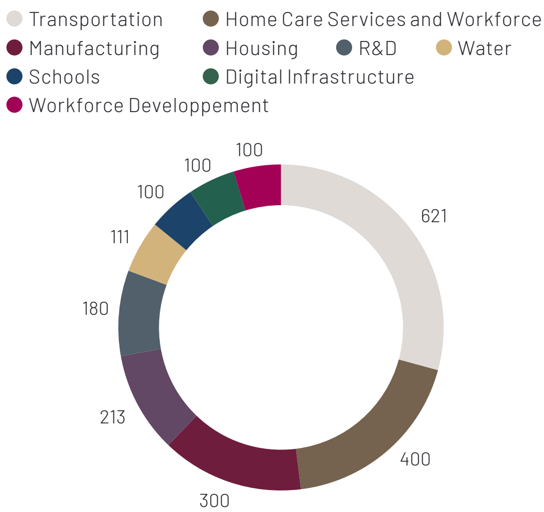
Unlike previous major stimulus packages, this "once-in-a-generation" plan should address long-standing problems. According to the White House proposal, over USD 620 billion would be dedicated to transportation improvements: fixing highways, rebuilding bridges, upgrading transit systems as well as developing a national network of charging stations. Tax incentives would also be offered to incentivise electric vehicle purchases as part of a USD 174 billion investment. Beyond transportation infrastructure, USD 400 billion would be spent on developing a better access to health and home care while improving wages for these workers.

Another priority relies on building a high-quality manufacturing sector (USD 300 billion allocated) with a strong focus on supporting domestic manufacturers, especially in the semiconductor industry. Part of this package also includes "pandemic preparedness", "clean energy" and "creating innovation hubs". Hundreds of billions of dollars will also be allocated to boosting innovation, enhancing broadband access via 5G, improving housing energy efficiency and building schools (Chart 1).

LEVY CORPORATES AND HIGH-EARNER TAXES

As the United States already spent trillions of dollars to relaunch the economy, several options needed to be leveraged to fund this plan. Among the proposals, hiking the corporate tax from 21% to 28% over fifteen years; raising the global minimum tax on multinationals to 21% and levying a 10% offshoring surtax represent the major part of the deal. Biden's administration is also expecting to generate revenue from high-earning Americans by raising the tax rate to 39.6%.

CHART 1: INFRASTRUCTURE PLAN BREAKDOWN PER THEMATIC, USD BILLIONS



Source: CNN Politics, Indosuez Wealth Management.

Combined with new capital gains taxes, removal of tax benefits on inheritance as well as some federal spending cuts, these measures would entirely fund the upcoming expenses.

A BIPARTISAN APPROACH SEEMS UNLIKELY

However, while some Republicans have hinted that they may subscribe to the national reconstruction effort (Chart 2), others have already called for a narrow plan (USD 615 billion). Furthermore, as mentioned by Senate Minority Leader Mitch McConnell, the Republicans see the proposal as a "Trojan horse" aimed at concealing tax increases, hence why the plan in its current state would be a no-go for the GOP. Even though President Biden is calling for a bipartisan approach, reaching the 60 votes needed in the Senates looks unlikely.

One strategy to get around the Republican filibuster would be to use the so-called budget reconciliation rules which would allow the proposal to pass with a simple majority. With Democrats holding only 50 seats in the Senate and relying on Vice President Kamala Harris to break the tie, any divergence within the Democrats would prevent the plan from being adopted. As of today, Democrats do not form a common block: Senator Manchin would prefer a 25% corporate tax while others want the SALT[1] deduction cap to be repealed in order to get their greenlight.

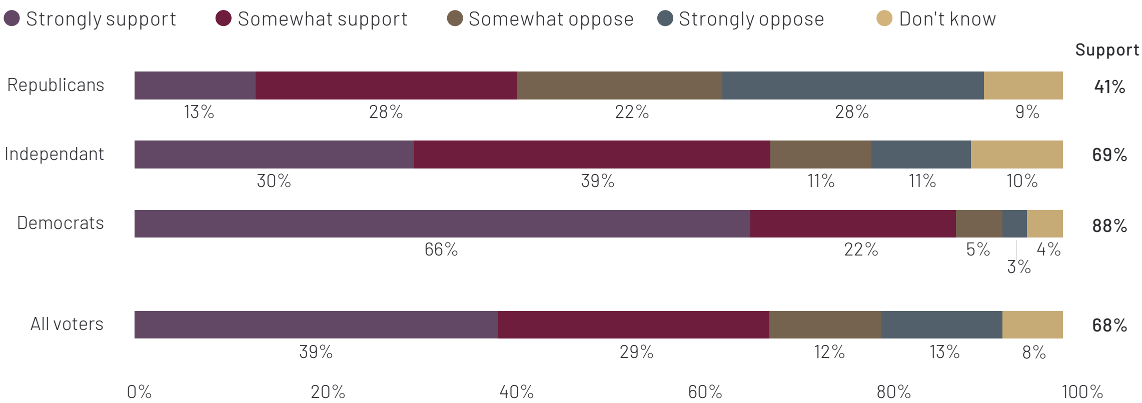
Though Biden's administration expects to pass the package this summer, this infrastructure plan faces challenges, and some compromises could be necessary. Republicans are suggesting potential "user-fees" to levy on the users of federal services. Ambitions could also be revised downwards on climate and social justice.

MARKETS LOOK AT THE GLASS HALF FULL

Stocks that should benefit from this plan have already gained in momentum, but a future tax hike seems to have been only partially integrated by investors, which reflect their expectations for a less than 28% rate.

If tax reform is fully adopted, the drop in S&P 500 EPS in 2022 could be as much as 9%, although not all companies would be affected in the same way. Financial, industrial and consumer staples companies, which were the main beneficiaries of the 2017 tax cuts, would be primarily affected by higher corporate tax, while proposals for a minimum tax on foreign profits pose the greatest risk to "low-tax" growth sectors such as information technology and healthcare. On the other hand, stocks related to construction or green mobility could gain in attractiveness.

CHART 2: THE INFRASTRUCTURE PLAN FIND SUPPORT ACROSS ALL VOTERS, %



Source: Vox and Data for progress, Indosuez Wealth Management.

1 - SALT stands for State and Local Taxes. Introduced as part of the Tax Cuts and Jobs Act, the USD 10'000 cap on the SALT deduction is a mean to broaden the individual income tax base.

A NEW LOCOMOTIVE FOR GLOBAL GROWTH

While China has relied on investments and exports to become the main engine of growth in 2020, it is now looking to shift its growth mix towards consumption. Across the Atlantic, the US economy is expected to contribute more strongly to global growth in 2021 buoyed by the successive stimulus packages and the upcoming infrastructure plan. Europe should only take over in the second half of the year.

A TURNING POINT IN CHINA?

As mentioned last month, China is now booming. The world's second biggest economy reported an 18.3% increase in the first quarter buoyed by huge based effect, yet the growth is still strong compared to Q1 2019 (+10.3%).

CHINA
rebalancing growth remains key for 2021

However, if Chinese GDP growth was mainly driven by strong investment and net export components over the past months (Chart 3), rebalancing growth remains key for 2021 as depicted in the Dual Circulation strategy unveiled last year. Indeed, exports jumped 30.6% in March and are likely to be sustained in Q2 but some signs show that their contribution should trend downward: easing in stay-at-home products, higher commodity prices pushing some exporters away from taking orders as well as consumers potentially switching from goods to services in the near future.

In this context, consumption, which was a drag in 2020 is expected to rebound in 2021. Despite a high saving rate, retail sales increased more than expected (+34.2% versus +28%) and catering services finally returned to pre-pandemic levels.

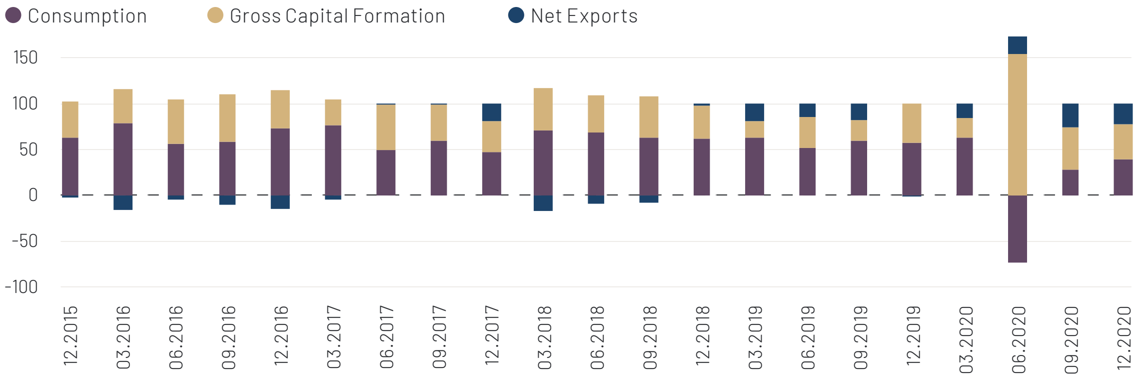
On top of that, 24 measures have been taken to boost online and offline consumption especially by fostering retail businesses and boosting the development of digital culture and tourism. Investments should also remain strong notably in infrastructure.

Also, if monetary conditions started to reverse with outstanding yuan loans growth decreasing to 12.6% and broad money supply decelerating (+9.4% in March, +10.1% previously), the attitude of Chinese authorities should remain watchful in order to avoid provoking an abrupt change. Long story short, regulatory scrutiny is expected to step up to control excesses in the property sector while continuing to support council priorities.

UNITED STATES: A GOOD MACRO-MOMENTUM

Though consumption was affected partly due to weather effects in February, retail sales bounced back in March, showing a 27.7% surge year-on-year buoyed by the USD 1'400 stimulus checks that are lending in household bank accounts.

CHART 3: CHINA CONTRIBUTION SHARE TO THE GROWTH OF GDP PER COMPONENT, %



Source: Bloomberg, Indosuez Wealth Management.

US headline inflation reached
2.6%
in March

Further increase could be expected as payments continue and progressive reopening of restaurants boosts the food service component. Looking at job markets data, the trend is still supportive: the weekly initial jobless claims reached a new 12-month low at 576 thousand mid-April. Headline inflation printed 2.6% (versus 1.7% previously) mainly due to upward pressure coming from energy (+13.2%). Core inflation rose 1.6% (versus 1.3%), led by travel-related parts. The Federal Reserve confirmed that the economic reopening will drive a temporary upward pressure on prices but also highlighted that it should fade as the economy enters a new normal.

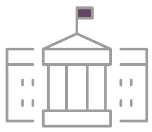
EVERYTHING IS STILL AHEAD OF US IN EUROPE

In Europe, inflation rose 1.3%, the highest since January 2020 yet it remains below ECB's target. Rising commodity prices as well as base effects should keep the inflation going higher in Q2.

Excluding food and energy prices, the Euro Area's core inflation slowed to 0.9% in line with consensus, allowing the ECB to maintain its supportive policy. Unlike the U.S., economic activity is still not recovering yet: both industrial production (-1.6% in February) and retail sales (-2.9%) decreased on a yearly basis. Nevertheless, this trend should reverse progressively as vaccination rates increase, a trend already reflected within leading economic indicators. Euro Area's Composite PMI reached 53.2, led by a strong manufacturing sector (+4.6 pts at 62.5) especially in Germany (66.6). Across the Channel, although GDP shrank by 7.8% year-on-year in February, the United Kingdom is gradually easing restrictions with nonessential shops now allowed to reopen partially, which should support consumption in the coming months.

RESILIENCE OF CREDIT SPREADS DESPITE THE RISING RATE ENVIRONMENT

Given the very accommodative policies from central banks, the massive economic rescue packages and the future infrastructure and jobs package in the United States, corporate bonds should continue to outperform sovereign bonds in the coming months. Stabilising credit metrics together with declining default rates are expected to outweigh the relative expensiveness of some credit segments valuations.



Fed 10y real rate to remain between

0 & 0.5%

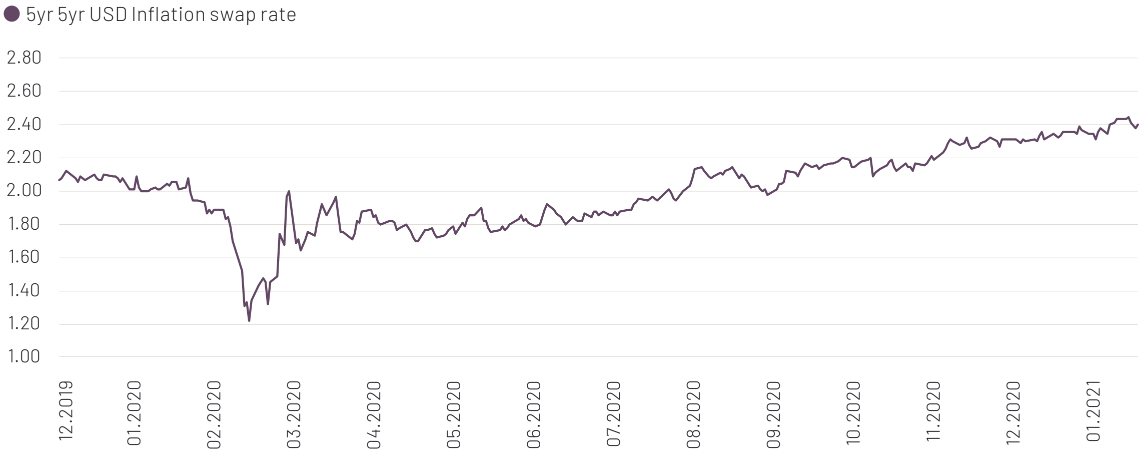
CENTRAL BANKS

Central banks are maintaining their accommodative and dovish stance. The European Central Bank (ECB) reiterated its statement to provide financing conditions as cheap as possible. On its side, the Fed reiterated that there is no rush for either tapering or tightening. Regarding inflation, the Fed does not forecast a sustained inflation regime. Instead, the central bank anticipates that inflation readings would edge down next year after base effects and supply constraints effects fade. Besides, Fed forecasts suggest a 10 year real rate to remain between 0 and 0.5%.

GOVERNMENT BONDS

Since the beginning of the year, the US curve posted a vigorous "bear-steepening" movement. The 10-2 year treasury yield spread has continued to widen despite the recent stabilisation of US inflation expectations (Chart 4). Indeed, positive macroeconomic dynamics, the upcoming infrastructure and family plan fiscal package, increasing pressure regarding bank Asset and Liability Management and massive US Treasury supply are fuelling the movement. However, more recently, short covering factors but also strong bond auctions have pushed yield lower.

CHART 4: US MARKET'S FUTURE INFLATION EXPECTATIONS, %



Source: Bloomberg, Indosuez Wealth Management.

EM corporates more RESILIENT

CORPORATE BONDS

Credit spreads are continuing their rally in 2021. Despite the rising rate environment, credit spreads remain more than resilient aided by a better than expected growth environment and the stabilisation in credit metrics. Investment grade credit valuations are not cheap but thanks to higher carry, they should continue to outperform treasuries in the current recovery environment. BBB's and Sub financials concentrate the best opportunities within the investment grade. In regard to high yield credit, improving growth trends, rising commodity prices and the recent massive infrastructure plan (in the US) are fuelling the strong tightening in spreads. CCC's and "Value" sector such as Transportation, Energy and Travel and Leisure continue to outperform. On US high yield, it is important to note that the strong performance takes place despite heavy issuance volumes and negative outflows.

EMERGING DEBT

The outlook for emerging credit is favoured by improving growth but negatively impacted by the current rising rate environment and specific credit risk, notably in Chinese SOEs (State Owned Enterprises). Regarding credit, Emerging Markets (EM) corporates have been more resilient than other EM fixed income segments during times of rising rates and we expect the current period to behave the same way. We see scope for Emerging spreads to slightly compress amid pockets of cheapness and continue to favour shorter duration and the high yield part which provide more cushion against curve steepening pressure. We continue to strategically favour Asia credit but we have decided to lower our tactical scoring to neutral on the back of recent negative news flows and the rise of idiosyncratic risk.

EARNINGS SEASON KICK-OFF!

After a rise from 0.50% up to 1.70%, 10-year yield are stabilising around 1.60%, giving markets a break in the current recent leadership trends. Despite this strong move on the upside in US bond yields, equity markets have been able to deliver strong positive returns (+26% for the MXWO in the same period, from August 2020 until now) with constant decrease in volatility.

Even if some signs of exuberance are materialising and another step of rising bond yield is expected in the following months, we still think this bull market has further to go.

Global Inflows into Equities have reached

USD 576 bn

The recovery cycle is still in its early phase. Vaccine deployments and gradual easing in lockdowns, strong consumer financial position, continued fiscal support and favourable base effects across a large range of economic indicators are going to be supportive for the current market trend. Investors, however, should monitor the dynamic of macro & earnings momentum as fading optimism could drive renewed seasonality in markets. Indeed, sentiment indicators are pointing to the fact that the market is too complacent, so the risk of a short-term correction cannot be ruled out.

However, since excess liquidity and central bank support will stay in place, we believe any correction would remain limited.

UNITED STATES

We keep our neutral on our US exposure, as the market looks more expensive but fiscal stimulus and vaccination progress should boost economic and EPS performance.

We see this new earnings season as equally supportive for the equity market. Negative-to-positive earnings preannouncement ratio is at 25-year lows in the US, which suggest an overall comfort with existing estimates, and potential upward move in earnings expectations.

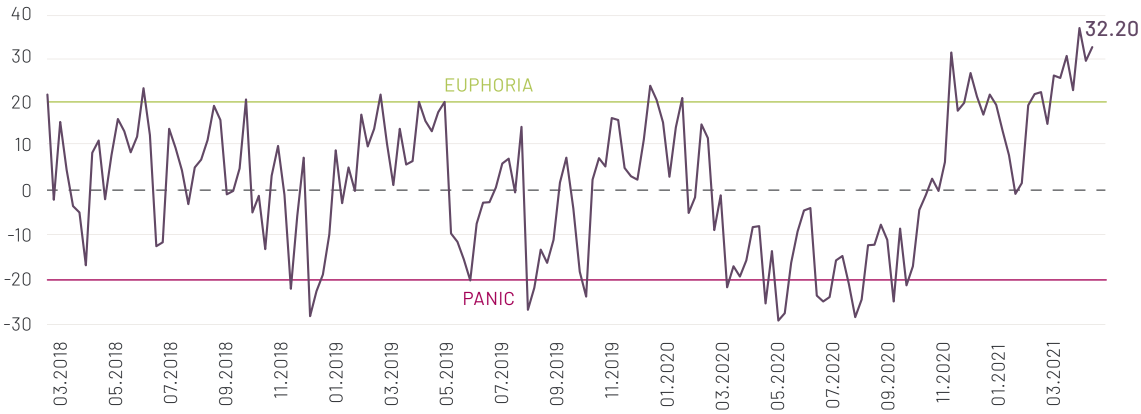
The Q1 earnings season is beginning in a climate of euphoria marked by a VIX at its lowest level in a year and a bull/bear index reaching new highs (Chart 5).

Only 10% of S&P 500 companies have published and, therefore, it is certainly too early to draw any conclusions. However, the largest banks have already disclosed their profits and these are much better than expected by the consensus.

EUROPE

We confirm our constructive stance on the European equity markets for the coming months. Our conviction is based on three main drivers: style, EPS trends and valuation.

CHART 5: THE BULL/BEAR INDEX IS AT ITS HIGHEST LEVEL SINCE 2018



Source: Bloomberg, Indosuez Wealth Management.

Over 2021 Global EPS growth is expected to be

+29%

In terms of style, the European market is more tilted towards cyclicals and value sectors than the rest of the world and this has been seen as an advantage when economic activity accelerates.

Regarding EPS growth, Europe should lead the pack this year and revision momentum has been on a strong upward trend for several months in a row (Chart 6). In Europe, the earnings season is even less advanced but growth companies in technology & luxury are posting strong results.

On the valuation front, Europe remains relatively attractive, recording a bigger discount to US equities, and still benefits from an environment of negative real interest rates.

Finally, Europe is at the forefront of the ESG trend and in a good place to get exposure to some secular growth themes we like for the long run (disruptive technology, sustainable development or new consumer trends to name a few).

EMERGING MARKETS

Asia equity markets have been rather volatile over the past 2 months mostly due to negative global investor sentiment towards China and overhanging COVID-19 fears in India and ASEAN.

We believe the current correction is mostly a reflection of profit-taking on some high-flyers from 2020 triggered by negative sentiment due to fear of rising US interest rates, renewed US/China tensions and regulatory pressure on some Chinese sectors (e.g. e-commerce and education).

Latest manufacturing and services PMI numbers were positive for China. However, economic data is less positive for the rest of Asia. Renewed COVID-19 fears in India and Thailand keep us cautious on these countries for the time being.

Overhanging COVID and US inflation/rising rates should keep global investors wary of Emerging Markets equities over the near term. However, earnings growth dynamic continues to be supportive in the medium term for China and Northern Asia.

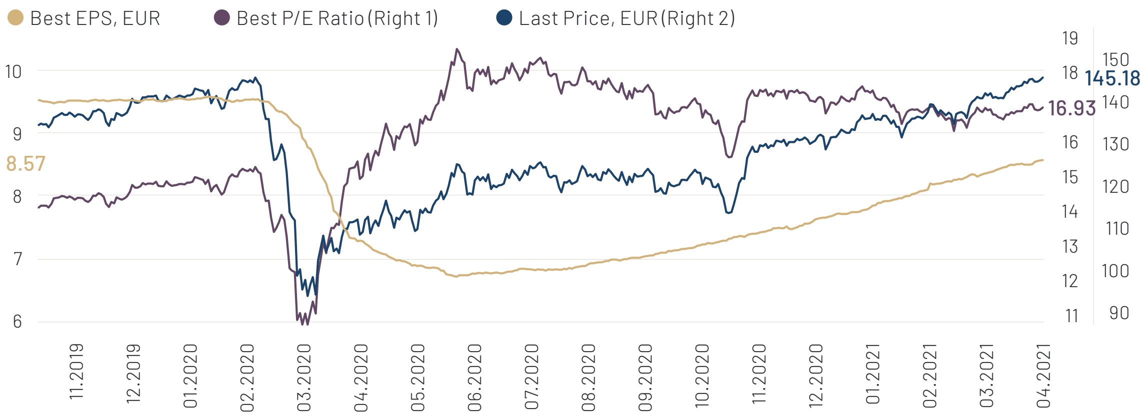
Therefore, within Asian equities we remain overweight on China, neutral on South Korea, Singapore, Indonesia, and the Philippines while we remain underweight on India, Taiwan, Malaysia and Thailand.

INVESTING STYLE

We continue to focus on a polarised approach, with our Value exposure that was increased during the last quarter of 2020 (with a large exposure to Cyclical stocks) on our side, and secular growth themes (Disruptive tech, sustainable development and Millennials) on the other; finally, we remain overweight on the IT sector where earnings prospects remain healthy and balance sheets strong.

We think it is too early to come back on the defensive sector as EPS are likely to lag the global recovery and rising bond yields should also weigh on relative performance.

CHART 6: EPS MOMENTUM IS LEADING THE MARKET*



*EPS 12m Fwd up +11 % YTD has helped market Valuation to slightly decrease despite the strong performance of the MSCI Europe in the past months.
Source: Bloomberg, Indosuez Wealth Management.

USD'S CORRECTIVE RALLY FADING ALREADY

The first half of April saw a 180 degree reversal of the strongest Q1 trends in FX & Precious Metals markets, in tandem with fixed income pressures cooling off: the USD retraced a large portion of its Q1 gains whilst Gold's "double bottom" supported price action means it could be ending its long downtrend from last year's record highs.

EUR: GREEN SHOOTS IN EUROPE

A reprieve for EUR in April as the relentless weakness in Q1 finally abates exactly at the same time as the quarter turned (the recovery in EUR/USD from 1.17 upwards began on 1st of April). In the background a lot of this recovery is due to recent USD weakness, but there are also some fundamental positive changes to monitor – first is the increasing pace of vaccinations in the EU which had lagged so far. Second and more subtle is the German political climate, wherein voters are starting to favour the more fiscally profligate Greens in this year's elections that will replace Merkel. Such a change could mark an important shift in European fiscal policy which would be EUR positive.

GOLD: DON'T FALL SO FAST

Whilst March was an awful month for Gold where it seemed like the downtrend was accelerating, as soon as the quarter turned we saw a recovery in the Gold price bouncing off USD 1'677 lows up to USD 1'780 at the time of writing. Behind this is mostly the lower US Treasury yields (and more importantly for Gold – lower USD implied real yields) and the weaker USD, and technical analysts are quick to point out that a "double bottom" was formed in the price during March (at USD 1'677) which indicates it could continue to climb up to USD 1'830. We are wary still of the impact that higher US yields might have this year, as a recovery in yields would cap gains, and the downtrend from August USD 2'075 highs is still in place.

Stability bodes well for the higher yielding
CNY

USD gives back
50%
of its gains in Q1

CHF: NO LONGER A MANIPULATOR

Switzerland was finally lifted from the US designation of currency manipulator even though it continues to trip some of the thresholds that would lead to it. Whilst this hasn't really impacted CHF (when the designation was previously implemented the Swiss National Bank (SNB) basically ignored this) it will lift a minor tail risk that would lead the currency to appreciate. Since EUR/CHF climbed from 1.08 to 1.10 at the end of February the currency pair has remained very stable between 1.10 and 1.11, and we expect the Franc will stay on the defensive unless there is a serious risk-off event which derails the recovery.

USD: CORRECTIVE RECOVERY FADING ALREADY

The 2021 rebound in the greenback is losing upward momentum despite confirmation of ebullient US consumer optimism. Retail sales data demonstrated the pent-up savings deployment potential once the gradual re-opening of the economy is enabled. Better than expected vaccine rates seem to be getting somewhat "priced-in" requiring a new impetus to buoy the dollar beyond its worsening and structural twin deficit concerns (Chart 7).

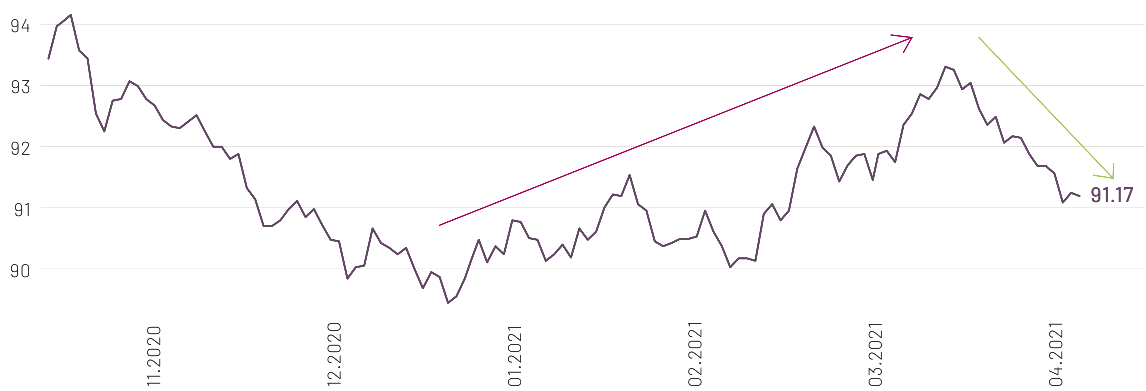
Furthermore, Europe has now accelerated their vaccination programs providing clear hope for a similarly strong rebound in growth in H2. We must keep in mind that historically the US dollar is an anti-cyclical currency, and given its significant trade and current account deficits, underperforms as global growth and trade swiftly recovers from growth shocks.

Instead, the exporting nations benefit from increased US sales and higher dollar receivables which they promptly convert back into their own base currencies. Thus, into H2 2021 we fear this bounce represents a mere pause in the dollar's ongoing downtrend. It may well last throughout the summer as US GDP appears stellar and bond yields support prior to the inevitable catch-up phase anticipated for others "across the pond'.

CNY: STABILITY ABOVE ALL

The People's Bank of China (PBoC) has managed to stabilise the yuan, neutralising the rapid inflows into their fixed income markets by asset managers desperate as ever for positive "real" yields. Despite the exceptional year on year economic data releases, the currency has backtracked vis-a-vis the US dollar. Instead, the intentional goal has been to mirror the fluctuations of the Euro versus the dollar thus maintaining an even keel with their key EU trading partner. In fact, since 2017 the static EUR/CNY parity has effectively been unchanged within a frozen +/- 3% range. Such stability bodes well for further gradual diversification and carry trade inflows into the higher yielding yuan. Recent BIS data released suggests more and more Central Bank reserve allocators have selected to diminish their USD component now collectively below 60% in favour of alternative exposures such as the underweighted Chinese renminbi - a trend we believe is more than likely to persist ahead.

CHART 7: USD INDEX



Source: Bloomberg, Indosuez Wealth Management.

07 • Asset Allocation

INVESTMENT SCENARIO AND ALLOCATION

Global growth above

5%

INVESTMENT STRATEGY

MACROECONOMIC TREND: A RECOVERY YEAR

- A multi-speed recovery, with global growth above 5%, a supportive backdrop for risk assets.
- United States: vaccination campaigns, base effect and significant fiscal stimulus leading to a record growth pace with GDP growth probably exceeding 7% in 2021 and 3% in 2022. However, maximum acceleration probably recorded in the second half with a risk of decreasing momentum thereafter.
- Europe: a recovery delayed by renewed lockdowns, slower vaccination campaigns, but rising activity and sentiment indicators reflecting an anticipated acceleration in the second half.
- China: GDP growth above 8%, a slight liquidity tightening, but an overall supportive policy-mix and a very progressive normalisation.
- Inflation: strong but temporary rise of US inflation in the second quarter, with uncertain effect of the supersized US stimulus on the medium term inflation rate.
- Monetary policy: still supportive in Europe and in the US in 2021-2022, but normalisation on its way in emerging markets (liquidity/leverage fine tuning in China, and with other central banks fighting inflation and weaker currency).
- Fiscal policy: very supportive in 2021 and probably peaking in 2022, with uncertainties around the perspective of rising taxes in the US.

YIELD CURVE STEEPENING IN MOTION

- Recent flattening of the US yield curve reflecting stabilisation of inflation anticipations, in line with our assumption of a bumpy road on rates with sensitivity to short-term macro developments.
- We stick to our scenario of further steepening of the 10Y yield towards 1.8% -2% this year.

BOTTOM-UP FUNDAMENTALS

- Positive earnings momentum in the past weeks confirming a strong rebound of earnings in 2020.
- Positive start of the Q1-21 earnings season in the US.
- Lower default rates and deleveraging process in 2020 that should lead to positive rating migration.

VALUATIONS AND SENTIMENT

- Recent market appreciation leading to more stretched valuation levels in most markets.
- Rising signs of euphoria on developed equities: record flows, low volatility, bull/bear indices and technical indicators, which lead to a consensual view that the traditional market seasonality ("sell in May") could take place this year (contrary to 2019 & 2020).
- On credit margins, resilient spreads despite volatility on US government bonds a compression now continuing in the riskiest compartments of the market.

ASSET ALLOCATION CONVICTIONS

EQUITIES

- Constructive view on equities, with a continued rotation towards Value stocks (cyclical and reflation plays), but tactically more neutral after a strong rebound of markets in the past twelve months.
- Overweight conviction maintained on European equities, despite the delayed recovery, as Europe offers a rich playing field for Value stories and benefits from a potentially higher USD.
- Neutral view on US equities, given higher valuations and more vulnerability of the Quality Growth style to a potential renewed steepening of US long-term rates.
- Maintained long-term constructive view on Asia, centred on China and diversified on cyclical south-east Asia, but emerging equities affected by outflows in a rising USD context, and after a strong rerating of Chinese equities in 2019-2020; cautiousness maintained on Latin America.

Emerging equities affected by
OUTFLOWS

FIXED INCOME

- Moderate underweight maintained on duration.
- Constructive view on carry on high-yield corporate and financial debt.
- Investment grade: total return vulnerable to higher rates but resilient spreads.
- Asian bonds: still a valid conviction with an interesting risk/reward profile despite vulnerability to US rates.

FOREX AND COMMODITIES

- Supporting short-term factors for the USD (policy-mix and macro trend differential) despite weaker external fundamentals. USD could be stronger in the short term, but EUR/USD to rebound in the second half of 2021 in relation with the reopening of European economies. Constructive view maintained on CNY. yen seen as an interesting hedge but vulnerable to higher long term US rates.
- Cautious view maintained on gold in the short term (attractive below USD 1'700 and probably capped around USD 1'850 in this context). Currency debasement theme remains a supportive factor in the medium/long-term.

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 21 APRIL 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.56%	-5.29	64.23
France 10Y	0.07%	18.40	41.60
Germany 10Y	-0.26%	9.10	30.90
Spain 10Y	0.39%	11.80	34.80
Switzerland 10Y	-0.25%	4.10	30.00
Japan 10Y	0.07%	0.60	5.70

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	43.58	2.49%	-3.69%
Euro Governments Bonds	220.02	-0.44%	-0.97%
Corporate EUR high yield	210.80	0.56%	1.81%
Corporate USD high yield	322.47	1.00%	1.35%
US Government Bonds	321.81	0.17%	-1.25%
Corporate Emerging Markets	52.12	0.10%	-1.85%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.10	-0.14%	2.08%
GBP/USD	1.39	1.79%	1.91%
USD/CHF	0.92	-1.99%	3.59%
EUR/USD	1.20	1.88%	-1.48%
USD/JPY	108.08	-0.60%	4.68%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	17.5	-3.70	-5.25

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'173.42	7.31%	11.11%
FTSE 100 (United Kingdom)	6'895.29	2.72%	6.73%
Stoxx Europe 600	436.64	3.13%	9.43%
Topix	1'888.18	-2.09%	4.63%
MSCI World	2'932.98	5.99%	9.03%
Shanghai SE Composite	5'098.74	3.45%	-2.16%
MSCI Emerging Markets	1'336.87	2.96%	3.53%
MSCI Latam (Latin America)	2'396.22	6.30%	-2.27%
MSCI EMEA (Europe, Middle East, Africa)	263.19	4.71%	9.09%
MSCI Asia Ex Japan	875.44	2.54%	3.86%
CAC 40 (France)	6'210.55	4.43%	11.87%
DAX (Germany)	15'195.97	4.01%	10.77%
MIB (Italy)	24'161.38	-0.20%	8.67%
IBEX (Spain)	8'519.80	0.90%	5.53%
SMI (Switzerland)	11'209.09	1.31%	4.72%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	5'161.00	9.93%	22.30%
Gold (USD/Oz)	1'793.79	3.41%	-5.51%
Crude Oil WTI (USD/Bbl)	61.35	0.28%	26.44%
Silver (USD/Oz)	26.57	5.43%	0.60%
Copper (USD/Tonne)	9'445.00	5.21%	21.62%
Natural Gas (USD/MMBtu)	2.70	6.91%	6.03%

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

	JANUARY 2021	FEBRUARY 2021	MARS 2021	4 WEEKS CHANGE	YTD (21.04.2021)
BEST PERFORMING +	3.98%	3.08%	6.08%	7.31%	11.11%
	2.97%	2.61%	4.80%	6.30%	9.43%
	2.70%	2.45%	4.25%	5.99%	9.09%
	1.07%	2.31%	4.24%	4.71%	9.03%
	0.23%	1.83%	3.98%	3.45%	6.73%
	-0.80%	1.22%	3.55%	3.13%	4.63%
	-0.82%	1.19%	3.11%	2.96%	3.86%
	-1.05%	0.73%	-1.70%	2.72%	3.53%
	-1.11%	-0.28%	-2.66%	2.54%	-2.16%
– WORST PERFORMING	-6.80%	-3.10%	-5.40%	-2.09%	-2.27%

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 23.04.2021.

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.