MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – DECEMBER 2020

MARKETING MATERIAL

FOCUS

COVID-19 VACCINE – THE SILVER BULLET

EQUITIES

POSITIVE OUTCOMES

EDITORIAL

VINCENT MANUEL

Chief Investment Officer,
Indosuez Wealth Management

IS SANTA CLAUS COMING BEFORE THANKSGIVING THIS YEAR?

Dear Reader,

In early November a contagious optimism has led to a strong acceleration of markets despite the evidence of a GDP contraction in Europe in the fourth quarter and a worrisome COVID-19 dynamic in the US. A powerful cocktail composed of politics and healthcare is pushing investors to look beyond short-term challenges and to price in a better outlook in 2021.

Has political risk disappeared? The US election delivered our base case scenario and with a more limited margin than what polls mentioned, as expected as well. The attempts of Donald Trump to contest the election will probably go nowhere. Political risk seems to have dissipated, along with a now lower probability of both a corporate tax hike and an ambitious fiscal stimulus.

Have all uncertainties vanished though? In our view, there are three low-probability elements to monitor. First, the run-off election in Georgia for the Senate which is critical for Republicans to secure the Senate. Second, the transition of the oval office will be by no means a smooth process and Trump appears to intend to bully other countries until his last day as President. Thirdly, with a pandemic that continues to accelerate, how are markets to react to a political gridlock with a Congress incapable of agreeing on emerging measures?

Is the vaccine a game changer? Not in the opinion of Christine Largarde when it comes to the European Central Bank (ECB) economic forecasts. But the reality is that it is improving significantly the outlook for 2021 with lower probabilities of further lockdowns, and a greater chance of a broader cyclical rebound. So maybe Ms Lagarde's comments refer to the short-term risks that would justify injecting additional stimulus.

From a market perspective, the vaccine is a real game changer; investors and traders may have overreacted to the Pfizer surprise announcement by dumping violently quality and momentum stocks and rushing to cover their short positions on value and cyclical sectors.

The succession of reflation/goldilocks[1] regimes these past weeks has been a source of headaches for portfolio managers, as they had just been removing their hedges on technology on the back of a divided Congress.

Nevertheless, this positive news flow will not lead central banks and governments to stop the stimulus any time soon. Credit markets are positioned for an extension of the ECB stimulus, which will absorb a significant proportion of the euro investment grade market, whilst lower rates boost equity valuations. Can we have it all at the same time though? Is it reasonable to think that we can have an acceleration in the recovery next year and a recovery of value stocks without a harmful steepening of the yield curve?

This Santa Claus narrative relies on a narrow path that is probably only sustainable temporarily: a global growth recovery without a recovery of inflation. Central banks have already warned that short-term overshooting of inflation will not derail their dovish stance. But controlling the entire curve is another story. In the end, it is a credibility call: as long as the market is persuaded that the vaccine will not shorten the forward guidance, we should not worry too much on steepening. The second risk lies in Forex markets. The now very consensual weakening call on the dollar should not be too rapid, otherwise it may jeopardise the long expected recovery of European equities. Meanwhile, optimism seems to bring investors their Christmas presents before Thanksgiving, which has already been a technical turnaround point for markets in the past. As usual, the long- term is more certain than the day to come…

1 - Goldilocks : an economy that performs well without creating inflation and which enables central banks to remain accommodative: "not too hot or too cold but just right"… as the popular children's story says!

FOCUS

COVID-19 VACCINE – THE SILVER BULLET

Few topics will ever have bolstered markets and turned heads as the announcement of the better than expected efficiency ratio of the new COVID-19 vaccine trial announced on the 9 November 2020. The enthusiasm and reassurance that we will someday "return to normal" is not yet apparent in economic surveys and will take time to translate into hard data. However, as the second and third waves of the pandemic threaten the recovery in the developing world, the vaccine news gave households and businesses their first glimpse of visibility for 2021.

HISTORIC EFFORTS TO FIND A NEW VACCINE

Studies began in January 2020 to decode the SARS-CoV-2 genome. Existing vaccines (such as Tuberculosis) have been tested to see if they could protect against COVID-19, while new vaccines are being developed to either weaken coronaviruses or deliver coronavirus's own genetic material or proteins to provoke an immune response. These new vaccines have been on trial in humans since in March 2020, and now twelve have reached the final stages of testing.

THE DEVELOPMENT CYCLE OF A VACCINE AND NUMBER OF VACCINES CURRENTLY BEING TESTED

PHASE 1	PHASE 2	PHASE 3	APPROVED
38	17	12	0
Vaccines testing safety and dosage	Vaccines in expanded safety trials	Vaccines in large-scale efficacy tests	Vaccines approved for full use

Source: New York Times, Coronavirus Vaccine Tracker (17.11.2020), Indosuez Wealth Management.

Thus far, the two genetic-based vaccines from Pfizer-BioNTech (BNT162b2 mRNA) and Moderna (mRNA-1273) have announced successful preliminary analyses on the basis of their phase 3 trials (tested on 43 and 30 thousand patients respectively) and are now both stated as 95% effective (with a 94% efficacy in the +65 age group for Pfizer). One factor that sets the Moderna vaccine apart, is that it can be kept in a regular fridge at between 2°C and 8°C for 30 days.

The Pfizer vaccine, by contrast, needs to be kept ultra-cold with dry ice, at -70°C or below. That makes the Moderna vaccine easier and most likely cheaper to distribute. Pfizer and BioNTech's vaccine, like almost all the others in clinical trials, requires two doses.

It is also important to note that to date, two vaccines have reached the approval phase by Russian health authorities (Sputnik V developed by the Moscow-based Gamaleya Research Institute and EpiVacCorona), but these vaccines had not entered Phase 3 clinical trials at the time.

WHEN WILL THE FIRST VACCINES BE AVAILABLE?

The trials are still ongoing. Pfizer/BioNTech produced safety data this week, completing one of the last steps necessary for the vaccine to gain Emergency Use Authorisation (EUA) with the US Food and Drug Administration (FDA). Moderna is continuing to accumulate data and estimates that they should be ready to submit their application in the next few weeks. If their vaccine is authorised, Pfizer-BioNTech expect to produce 50 million doses in 2020 and up to 1.3 billion doses of their vaccine worldwide by the end of 2021. Moderna expects approximately 500 million doses per year and possibly up to 1 billion doses per year, beginning in 2021.

CHALLENGES AHEAD AND QUESTIONS UNANSWERED

The efficiency ratios announced were higher than initial expectations. Nevertheless, challenges remain, notably on the immunity duration of the new vaccine and production capacities. The cost of the vaccine (between 32 and 37 US dollars per dose according for Moderna vaccine) will also be an issue for distribution especially for emerging and developing countries with already strained public finances.

Finally, beyond the urgency of 2021, can vaccination be limited to vulnerable groups and still be effective at controlling the pandemic? According to a recent Ipsos survey many citizens do not want to be vaccinated, as they do not trust the efficiency or content of the vaccine. Fortunately, the survey also points out that the trust and acceptance of the vaccine increases with age.

FOCUS

COVID-19 VACCINE – THE SILVER BULLET

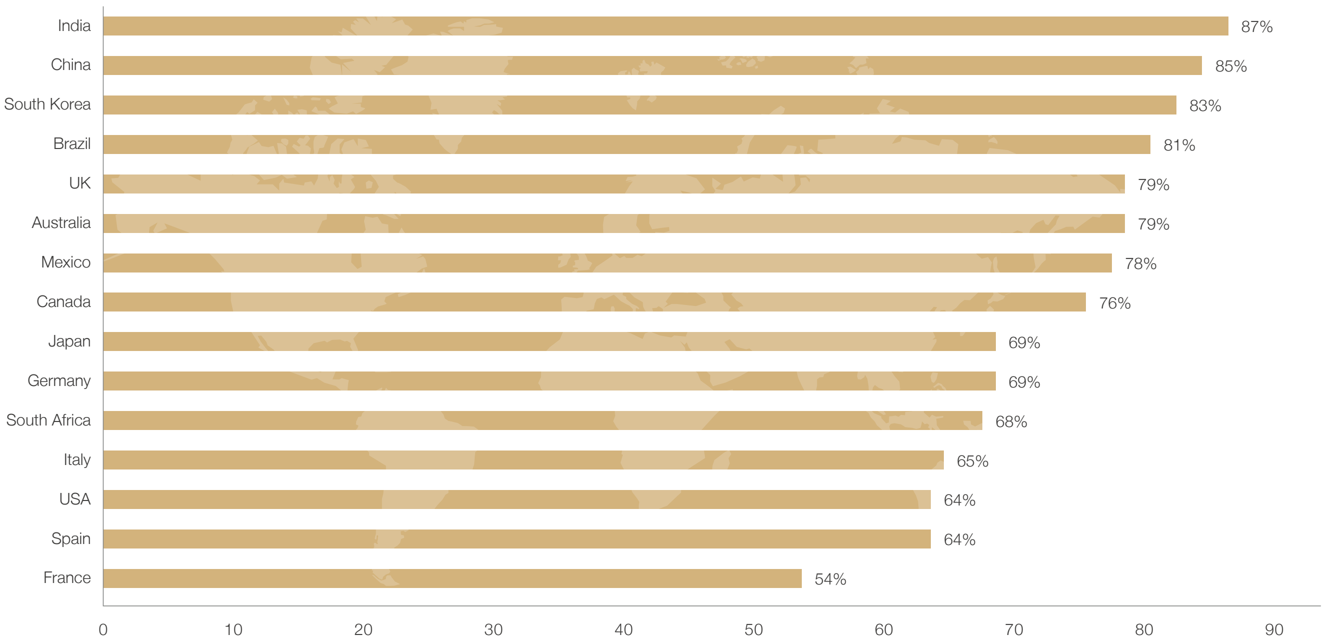
THE VACCINE IS A MAJOR CONFIDENCE BOOST

The vaccine will probably be allocated first to the more vulnerable groups who are more likely to fill hospital beds, especially at peak times during the pandemic (people above 50 years-old or with pre-existing health conditions). This could flatten infection curves and maintain intensive care bed capacity. With the worst-case economic scenario (prolonged national lockdowns) significantly reduced by mid-2021, households will be more inclined to spend (after a period of forced savings) and still-viable companies may already consider rebuilding inventories and halt job-shedding. In this context, there is a considerable growth potential for the second half of 2021.

However, we do not expect in Europe a robust return in investment in 2021, contrary to the United States, the adjustment in the labour market and bankruptcies linked to the crisis has been artificially slowed by the furlough schemes and other government support measures.

In Asia, where the virus has been mostly tamed by social distancing measures, the impact of the vaccine on economic growth can be twofold: an increase in external demand as developing economies reopen and intensive production of vaccine-related medical supplies (notably China). For other emerging markets, where governments can difficultly afford vaccines during this first load, it is most likely that the positive effects will take place in the beginning of 2022.

PEOPLE WHO SAY THEY WILL GET VACCINATED AGAINST COVID-19 IF A VACCINE WAS EVER AVAILABLE, %



Source: Ipsos, Indosuez Wealth Management.

It is too early to revise up GDP forecasts.

MACRO ECONOMICS

IT'S GOING TO GET WORSE BEFORE IT GETS BETTER

While vaccine hopes reduce the risk of widespread lockdowns in 2021, it does not solve the COVID-19 waves currently underway, which risks tipping western economies back into recession in the fourth quarter of 2020.

Before the second wave struck, third quarter GDP still remained 3.5% below pre-pandemic levels in the US, -4% in major Euro Area countries and lagged behind at -9% in Spain and the UK. Chinese GDP is 4% higher than pre-COVID-19 levels and strengthening.

EUROPE: A PAUSE IN THE RECOVERY

Since September, Europe has fallen further behind in the recovery process. The PMI composite output index declined from 54.9 in July to 50 in October on the back of a deterioration in Services. France has been one of the hardest hit euro members in terms of infection rates thus far; the INSEE estimates that the economy will contract by 4.5% quarter-on-quarter in Q4 with a worst-case scenario of -6% (compared to -14% in Q2). The Q4 contraction in the Euro Area as a whole is expected to be less harsh. Measures have been less stringent this time round on construction and industrial sectors. Finally, inflation (at -0.3% year-on-year in October) is to remain moderate going ahead, weighed down by energy prices and high labour market slack. The European Central Bank (ECB) is expected to introduce further easing measures as the new European fiscal arms takes time to come into play, despite considerable progress in its funding scheme.

US: BETTER THAN EXPECTED THUS FAR

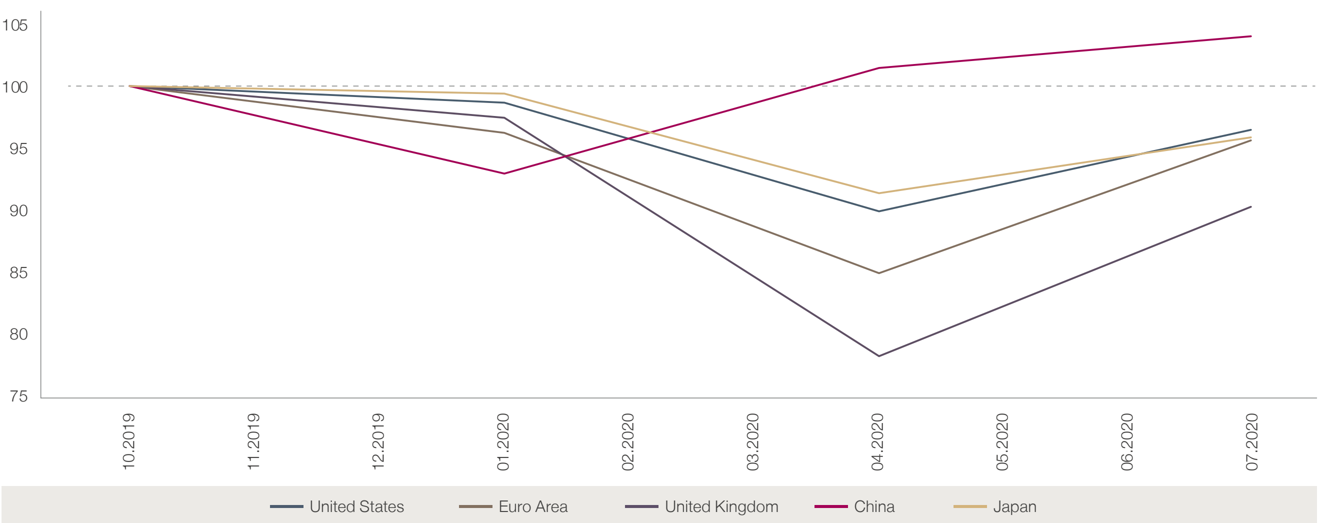
In the US, the recovery in activity and the jobs market continued to progress in the autumn despite election uncertainty. Retail sales rose 5.7% compared to October 2019, while the unemployment rate fell to 6.9% (vs. 14.7% in April). Nevertheless, as the pandemic strengthens and additional fiscal stimulus remains unclear, the outlook for year-end growth is also skewed to the downside (Conference board Q4 GDP forecast: 2.2% annualised rate).

Looking ahead, the lower growth momentum going into 2021 will weigh on annual growth, while the vaccine confidence boost is expected to support consumption going into H2 2021 (see Focus page 4). Uncertainty is abnormally high and it is too early to revise up GDP forecasts on the back of positive vaccine news (currently at 4.1% for the Euro Area in 2021 according to the European Commission and 3.4% for the US according to the Fed).

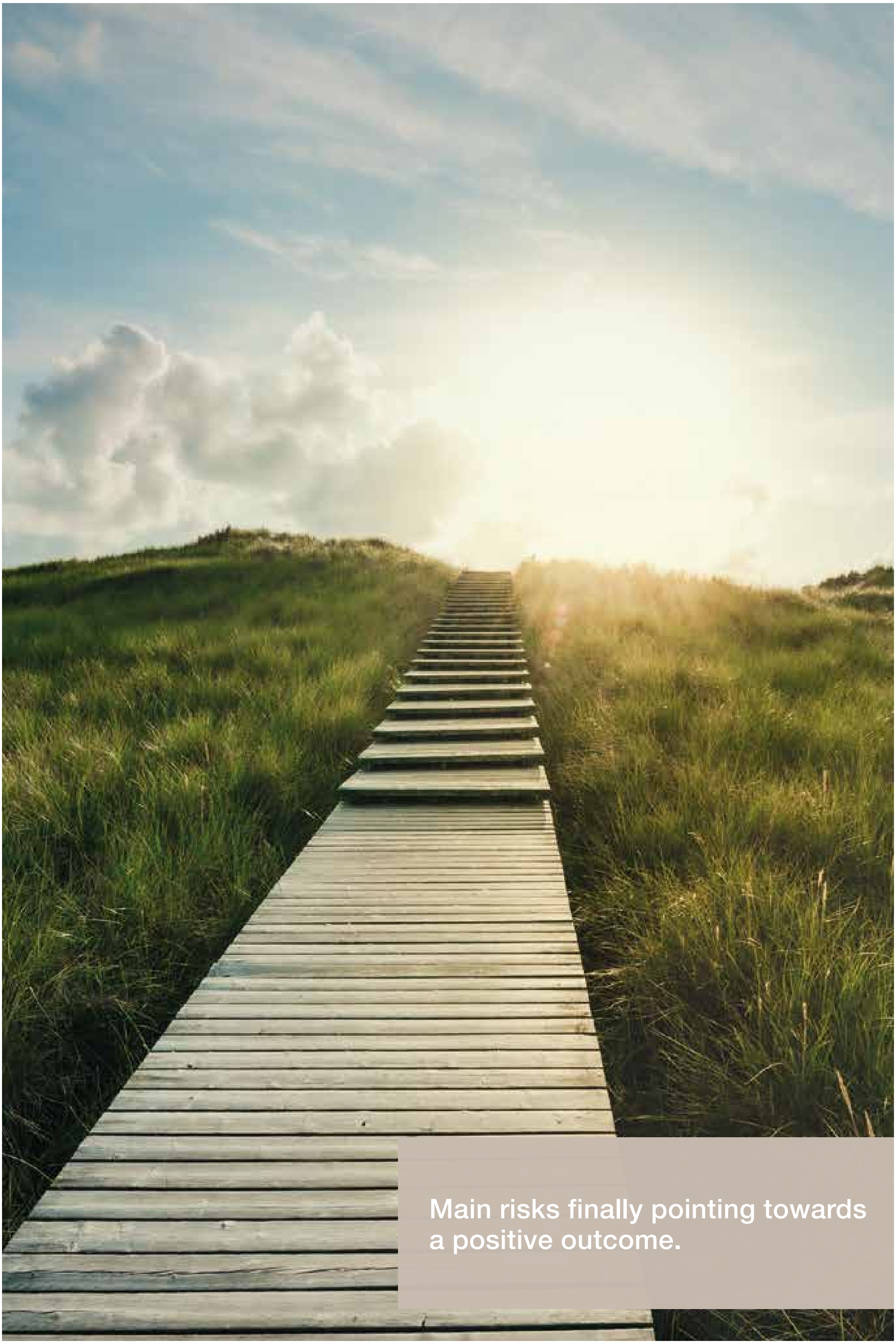
LOOK EAST FOR THE ECONOMIC RECOVERY

Finally, the ambitions of Asian economies has been further strengthened with China's recent 5-year investment plan focused on reinforcing domestic growth and the signature of a regional Asian trade deal (90% of tariffs between China, Japan and 13 other countries are expected to disappear in 20 years). While trade agreements already existed between many of these states, this is a clear step towards regionalisation.

THE UNEVEN GLOBAL ECONOMIC RECOVERY, Q4 GDP 2019=100



Source: National accounts, Indosuez Wealth Management.


Main risks finally pointing towards a positive outcome.

EQUITIES

POSITIVE OUTCOMES

- Uncertainty around the US election has been removed and the current setup, a Biden victory without a blue wave, might be one of the best scenarios.
- The third quarter earnings season has finally proved to be a record one with 82% of beats in the US and 17% of EPS surprises for the S&P 500.
- The announcement by Pfizer of a vaccine implies more confidence in a 2021 economic recovery, providing a broadly positive backdrop for global equity markets.

EUROPE

The European market recently had a very good run. The recent news flow implies more confidence in an economic recovery in 2021, the same is true for corporate profits. The cheap valuation and its cyclical and beta bias could be the new trigger for the area. This combined with Environmental Social and Governance (ESG) refocus and the climate change theme could favour some new inflows into the zone.

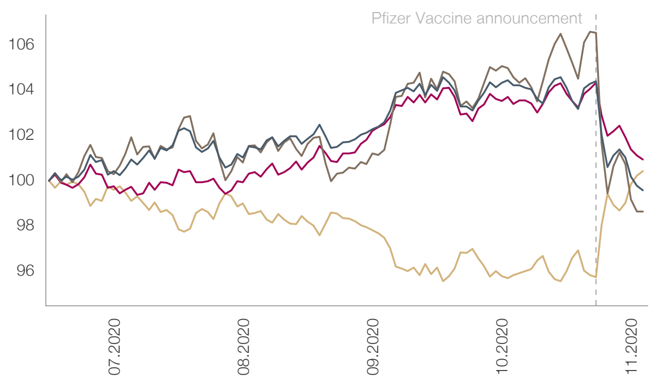
UNITED STATES

The market was concerned about the potential risk that a blue wave would have led to higher tax rates which could have impacted corporate earnings, especially, for the technology and healthcare sectors. A more balanced scenario on the US election front and the very encouraging results of tests for a vaccine have relieved the market and, in particularly, the big losing sectors from this health crisis. The Russell 2000 - the US Small & Mid-cap index - could be one of the major beneficiaries of this rotation, as it is now achieving all-time highs and this trend could last.

EMERGING MARKETS

Chinese, Taiwanese and South Korean equities have led Asia equity performances so far this year. Despite the recent rotation, we still believe Chinese equities are attractive (A-shares in particular), on top of a positive data momentum on PMIs, retail sales have also picked up recently. We remain neutral South Korea and Singapore, and underweight India and ASEAN (excluding Singapore).

STRONG ROTATION INTO VALUE



Source: Bloomberg, Indosuez Wealth Management.

Nevertheless, the technical deep value rebounds have benefited previous laggards such as ASEAN and Latin America and could be a short term positive driver for these regions.

INVESTING STYLE

In this pro-risk environment the Value/Low Quality side of the market clearly outperformed the Growth/High Quality side. We suspect it should continue this way as the valuation discount of Value is still very important while its relative EPS momentum should continue to improve. This confirms our recent shift towards more Cyclical/Value in our portfolios mainly at the expense of Defensives companies. Nevertheless, despite these recent evolutions, we still keep some secular growth themes (notably “Sustainable development” and “disruptive tech”) as a large part of our core portfolio.

SECTOR PREFERENCES

Theses evolutions have some impact in term of sector allocation: Basic Resources, Construction Materials and (in part) Capital Goods/Chemicals, would benefit from greater infrastructure spending and their cyclical bias.

Even if the banking sector stays under structural pressure it could benefit from a short term rebound given its very low valuation, good relative earnings per share (EPS) momentum and a potential lift on dividend ban by the ECB in December. Energy should continue to suffer from ESG-related outflows after this strong short term 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 to compensate the recession due to lockdown measures.

FIXED INCOME

VACCINE CLICHÉS APLENTY

- The hunt for yield enters a new era as investors diversifiy their portfolios.
- Diversification should not happen at the expense of underlying risk knowledge.

CENTRAL BANKS

Developed market's central banks stand ready to counter-balance the recession's effects of new lockdown measures. Financing conditions are expected to remain loose for the foreseeable future. The European Central Bank (ECB) is expected to increase its bond purchase program in December, while the Fed will probably extend the maturity of its USD 80 billion monthly purchases of US treasuries.

GOVERNMENT BONDS

Short segments of yields curves are well anchored across developed markets (DM) as central banks increase their forward guidance. Nevertheless, long segments are more volatile, especially in the US, as the macro-economic backdrop remains supportive, inflation data is in positive territory and exogenous risks factors tend to fade (political, economic). The rise in US long term yields does not affect the European curve, nor emerging markets (EM).

In Europe, the European Union (EU) financing program now safeguards peripheral countries. The SURE (Support to mitigate Unemployment Risks in an Emergency) financing has started in October, attracting more than EUR 200 billions interests from global investors. This program reduces the spreads divergence risks between European sovereigns.

INVESTMENT GRADE & HIGH YIELD

Risk premiums remain well supportive as of early November, on the back of renewed euphoria across markets. In terms of sectors, industrials and transportation, which were still laggards in terms of spreads compression, benefited from the great rotation. This trend is also reflected in terms of rating performances: in the high yield (HY) market, the CCC bucket outperformed in recent weeks, thanks to renewed appetite from deep value investors. As we go into year end, spread compression should continue and the carry favours credit investments. In the banking industry, mergers and acquisitions in Europe have sent positive signals to investors, and the deeply subordinated segment offers value to investors. The hybrid corporate area appears cheap compared to senior curves.

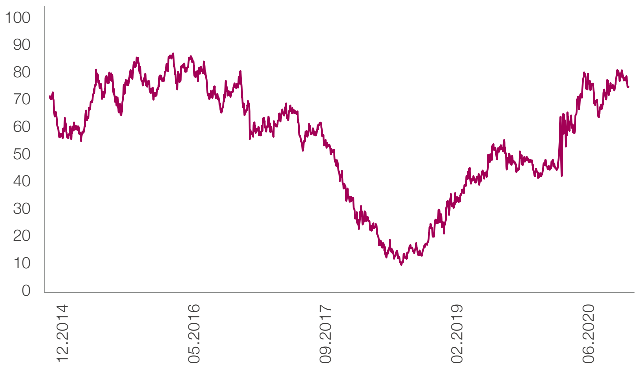
EMERGING MARKETS BONDS

The post-US election environment for EM also needs to be considered against a Q4 macro outlook for DM that has dimmed. It's not a direct hit for EM due to: North Asia's continuing strength as it manages the virus more successfully, the larger share of the manufacturing sector in EM countries, and the fact that several large EM countries suffered from prolonged first waves of COVID-19 that are just coming to an end.

The search for yield remains: USD weakening and relatively modest default rates could continue to support emerging bonds.

In China, the market is supported with consistent fund inflows in a global yield hunting environment. Our dedicated teams keep an overweight Chinese HY properties on a deleveraging trend. Spread differentials between North Asia and South East Asia could tighten when COVID-19 will be brought under control.

US LONG TERM YIELDS RISING: NEW TREND OR BUYING OPPORTUNITY?, %



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

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.

Yuan continues to be the surprise currency story of the year.

FOREX

THE USD IS ON A NEGATIVE ROAD

- Chinese yuan gaining favour on an international scale.
- EUR is increasingly the least ugly of the reserve currencies.

EURO (EUR)

Whilst EUR yields are not attractive and we recognise the stagnant nature of Euro Area economic growth over the last few years, if we consider only reserve currencies, then EUR is increasingly the "least ugly duckling" – it does not suffer from overvaluation, it has a significant current account surplus, the EU is slowly resolving longstanding geopolitical issues (north/south burden sharing, Brexit), and the new class of EU-backed bonds will be highly attractive assets for reserve managers. Hence we remain long term bullish on the EUR. In the short term whilst EUR is likely to find it hard to break far higher than 1.20 given the momentum seen already in 2020, year-end activity may bring us closer to that break higher.

US DOLLAR (USD)

The negative real interest rate and the record low spread between the Fed and ECB rates are the main drivers of the USD weakening trend since May; these drivers should not reverse any time soon. First, recovering global trade flows will lead to growth in export revenues, fuelling demand for exporter currencies such as EUR. Second, historically low USD-hedging costs will encourage businesses and investors to convert USD proceeds into home currencies (rather than holding them for carry). Third, growing export revenues will lead to boosted central bank reserves which are in a long-term trend of diversification away from the USD. All in all, the balance of short term forces could evolve: the absence of a blue wave and the weakening macro in Europe reduces the weakening pressure on the USD; but in 2021, the perspective of a global macro rebound driven by the vaccine should lift emerging currencies and the euro versus the dollar.

POUND STERLING (GBP)

As we write signs are pointing towards a UK-EU trade-deal. For the UK however this is just the end of the beginning of life outside the EU, ahead lies an arduous process to restructure the trade borders of the UK economy, with little no clear vision yet of what place the country wants to take in the trading world. This will leave the UK economy, and by consequence the GBP, stuck in status quo for now – with USD weaker this year than last, the range for GBP/USD has shifted higher to 1.25-1.38 in our view. After that, GBP will likely remain depressed versus 2014 highs at 1.60-1.70, until investors can understand the UK's new relationship with the world, and decide how to invest in GBP.

CHINESE YUAN (CNY)

Yuan continues to be the surprise currency story of the year. Strengthening has been achieved by effective COVID-19 control versus the vulnerable US dollar. Investors are waking up to the relative yield attraction on offer in the renminbi onshore bond market. As the People's Bank of China has been the most "hawkish" in their easing of monetary policy, their currency continues to attract fresh portfolio fixed income allocations. China is the only one to still provide positive "real" yields versus G10 counterparts. Although yuan has just hit a two year high of 6.5400 and looks overbought, we remain constructive on pullbacks into 2021 as Chinese growth recovers and outperforms peers. As per SWIFT, yuan's share as payment currency for global trade has now moved up further to fifth position albeit still below 2% in absolute terms. Finally, China's 28% of global currency reserves will further reinforce the attraction for international money managers.

GOLD (XAU)

We believe Gold will stay in an uptrend as long as QE (quantitative easing) and negative rates policies continue to sustain large fiscal deficits in the developed world, however for now it appears to have paused. The news of successful vaccine trials saw Gold plummeting USD 115 in one day – the second largest one-day fall in 2020 – on the back of safe haven selling down to the first support range in spot at USD 1'850-70. The move shows a market with significant positioning, and makes us consider that Gold may yet correct further before going higher again, especially given the 50 and 100 day moving averages inverted in mid-November (confirming a pause in the uptrend). However, there is strong support at the 200 day moving average currently around USD 1'800.

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

MACRO OUTLOOK

- An uneven recovery, with China above 2019 GDP, US and Euro Area at around 4% below Q3 2019 GDP, and countries such as UK/Spain or other emerging markets which are more remote in terms of recovery.
- A likely contraction of GDP in Europe in Q4 whilst so far activity trends and sentiment indicators have been more positive in the US, but subject to stricter lockdown rules if the pandemic continues to accelerate.
- The vaccine is a game changer for 2021 with greater probability of a global rebound favourable to cyclical sectors and to countries with a higher beta to global growth such as Europe and emerging markets.

POLITICAL CONTEXT AND POLICY MIX

- The Biden election provides a more supportive scenario with less international tensions expected.
- Monetary policies will remain very supportive in the US, in Europe and in Japan, and more can be done.
- Fiscal policy should remain accommodative and reactive to any additional worsening of the pandemic.
- In the US, the likely Republican majority at the Senate will prevent the capacity of a large fiscal stimulus and tax reform, a positive catalyst for sectors potentially affected, but a less reflationary scenario, and subsequently more support expected from the Fed to compensate the lower support from the fiscal side.
- We can expect a bipartisan deal on some emergency measures covering both households and corporates, but the timing is very uncertain.
- In Europe, frugal voices against the Recovery Fund are still loud, but the plan should go through in the end, and the perspective of a vaccine does not compromise the plan.
- In emerging markets, the policy mix has globally less room for manoeuvre and many central banks are not in a position to cut rates further unless they are ready to weaken their currencies.

BOTTOM UP FUNDAMENTALS

- The third quarter confirmed a better resilience of corporate earnings and a greater rebound versus Q2 earnings than expected, with record positive surprises notably in the US.
- Default rates are expected to rise, but are relatively concentrated on several sectors (business services, hotels and leisure for instance) and on some low ratings, and are relatively well priced-in.

ASSET VALUATIONS

- Credit spread compression has been significant in the past month but HY and IG markets do not trade at the highest valuation percentiles. Further compression could occur.
- This strong monetary support is a significant driver for further spread compression in 2021.
- Equity valuations appear stretched in many countries on a P/E basis but are inflated by low rates as reflected by the equity risk premiums which are still far from stretched compared to long-term averages.
- Polarisation remains elevated between quality/growth and value/cyclicals, and the recent factor rotation reflects the vulnerability of projecting the 2020 market positioning into 2021 in a different environment.

TECHNICAL INDICATORS AND SENTIMENT INDICATORS

- The recent news flow (US elections, vaccine perspectives and Q3 earnings) produced a market acceleration despite the COVID-19 acceleration which moved back as a second tier market driver. Equity markets are now technically stretched and sentiment indicators such as the bull/bear index confirm that view.
- Beyond these indicators, a lot of good news is priced in, which in turn makes markets vulnerable to profit taking.

MARKET REGIME

- Volatility is expected to continue to decrease (towards 20 or below), which could be a trigger for yield-searching institutions to increase equity exposure, a supportive factor for market flows.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

ALLOCATION CONVICTIONS

Equities:

- We have adopted an overweight view on equities around the US elections and reinforced that view with the perspective of a vaccine being distributed in the first half of 2021.
- We remain positive on secular growth, but are progressively rebalancing portfolios towards a barbell approach with a greater exposure on cyclical and value stocks.
- We are increasing our conviction on high beta regions such as Europe and global emerging markets.

Fixed Income:

- We anticipate a moderate steepening of US yield curves notably if we are progressing on a route towards a vaccine, but the absence of a blue wave, and less fiscal stimulus needed if a vaccine is distributed, should limit the magnitude of steepening.
- EUR curves should remain close to current levels with low inflation and strong action by the ECB.
- We continue to be constructive on carry strategies on investment grade and high yield.
- We remain constructive on emerging debt; we keep a preference for Asia, but highlight that flows could positively affect Latin America and Eastern Europe as well as local currency bonds in 2021.

Currencies:

- Moderate dollar weakening against EUR, a constructive long-term view on renminbi, more momentum on emerging currencies, but more visibility and probably a better risk-adjusted trade on Asian currencies.

Gold:

- As a negatively correlated asset to the dollar, gold weakness should remain strategically supported by our expectation of a weakening US Dollar. An acceleration above USD 1'950 seems unlikely in this constructive environment, but any movement towards the 200-day moving average USD 1'800 could be exploited.

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 18 NOVEMBER 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'567.79	3.85%	10.43%
FTSE 100 (United Kingdom)	6'385.24	10.54%	-15.34%
Stoxx Europe 600	390.54	8.25%	-6.08%
Topix	1'720.65	5.07%	-0.04%
MSCI World	2'543.36	5.19%	7.84%
Shanghai SE Composite	4'891.67	2.06%	19.41%
MSCI Emerging Markets	1'207.55	6.12%	8.33%
MSCI Latam (Latin America)	2'189.85	11.95%	-24.95%
MSCI EMEA (Europe, Middle East, Africa)	228.27	8.01%	-14.69%
MSCI Asia Ex Japan	793.33	5.83%	15.26%
CAC 40 (France)	5'511.45	13.55%	-7.81%
DAX (Germany)	13'201.89	5.13%	-0.36%
MIB (Italy)	21'622.66	13.29%	-8.01%
IBEX (Spain)	7'981.50	17.18%	-16.42%
SMI (Switzerland)	10'565.12	5.75%	-0.49%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'089.00	11.84%	7.72%
Gold (USD/Oz)	1'872.24	-2.71%	23.40%
Crude Oil WTI (USD/Bbl)	41.82	4.47%	-31.51%
Silver (USD/Oz)	24.45	-3.14%	36.42%
Copper (USD/Tonne)	7'088.50	1.39%	14.81%
Natural Gas (USD/MMBtu)	2.71	-10.29%	23.89%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	23.84	-4.81	10.06

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.08	0.58%	-0.51%
GBP/USD	1.33	0.94%	0.12%
USD/CHF	0.91	0.66%	-5.70%
EUR/USD	1.19	-0.07%	5.71%
USD/JPY	103.82	-0.74%	-4.41%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.87%	4.75	-104.74
France 10Y	-0.32%	-1.20	-43.90
Germany 10Y	-0.56%	3.40	-36.70
Spain 10Y	0.08%	-12.40	-38.40
Switzerland 10Y	-0.48%	4.10	-0.40
Japan 10Y	0.01%	-1.70	3.30

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	43.65	3.31%	-0.55%
Euro Governments Bonds	221.98	0.16%	2.04%
Corporate EUR high yield	203.98	2.20%	0.15%
Corporate USD high yield	311.24	1.97%	2.39%
US Government Bonds	325.26	-0.13%	5.57%
Corporate Emerging Markets	52.43	1.85%	1.24%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

AUGUST 2020	SEPTEMBER 2020	OCTOBER 2020	4 WEEKS CHANGE	YTD (18.11.2020)
8.16%	0.45%	2.76%	11.95%	19.41%
7.01%	-1.48%	2.35%	10.54%	15.26%
6.53%	-1.63%	1.98%	8.25%	10.43%
3.40%	-1.68%	-1.19%	8.01%	8.33%
2.86%	-1.77%	-2.77%	6.12%	7.84%
2.58%	-2.72%	-2.84%	5.83%	-0.04%
2.09%	-3.59%	-3.14%	5.19%	-6.08%
1.26%	-3.92%	-4.52%	5.07%	-14.69%
1.12%	-4.75%	-4.92%	3.85%	-15.34%
-6.36%	-5.54%	-5.19%	2.06%	-24.95%

BEST PERFORMING

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.