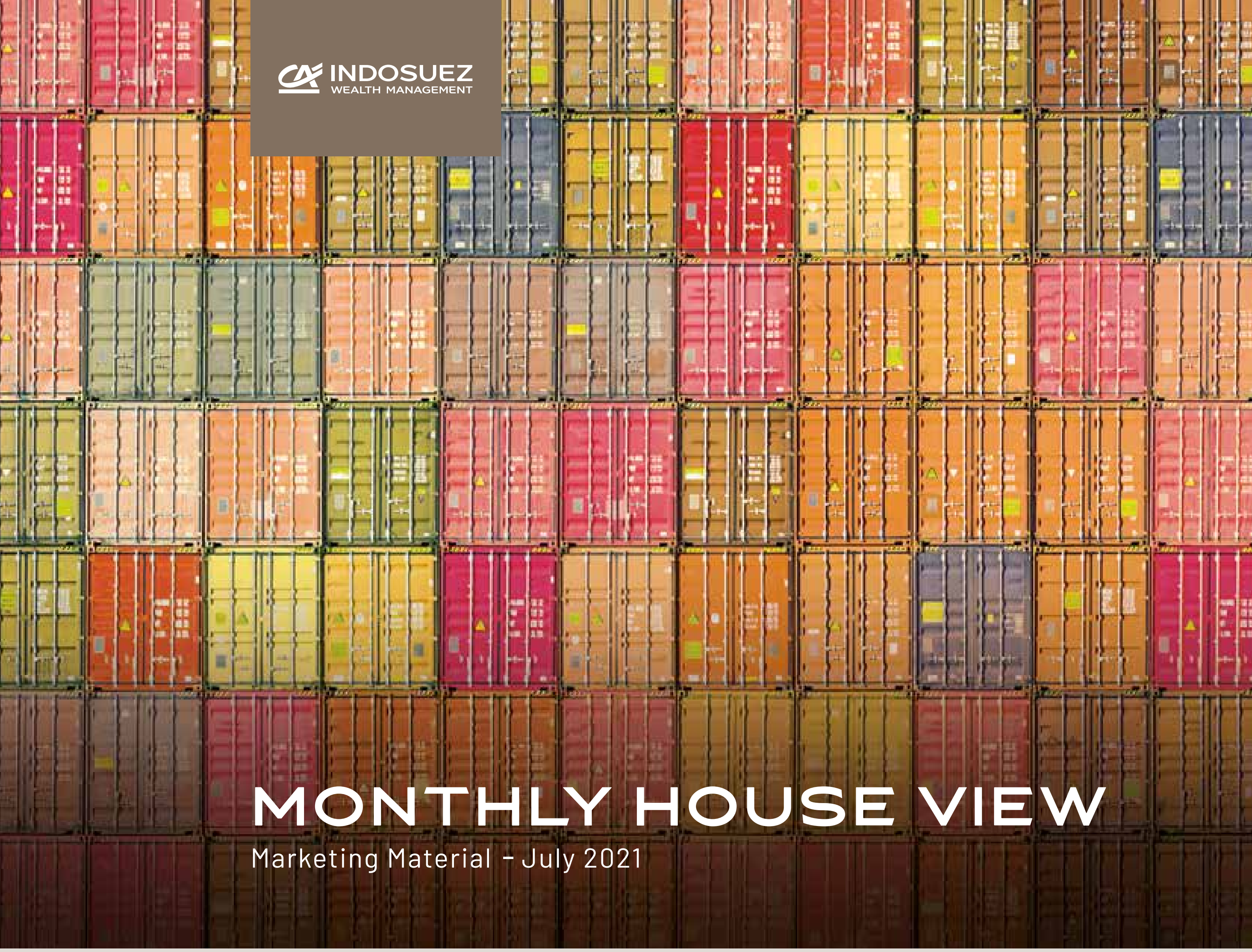

MONTHLY HOUSE VIEW

Marketing Material - July 2021

Focus

Pricing power: a way to handle higher inflation

Architects of Wealth

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SURPRISE PARTY

VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

The scenario of a strong economic recovery, with inflation also projected to rise, has been clearly mapped out for several quarters now. Luckily springtime dished out a few surprises to keep us on our toes.

Chief among them is the change in US long yields. It stands to reason that, with the economy gaining speed and inflation surprising to the upside, even temporarily, we might have expected the increase in long yields to resume. In reality, in the second quarter the US yield curve flattened – despite the rebound in long yields observed after the Fed meeting – as demonstrated by the well-subscribed US Treasury issues. There has been no lack of attempts at interpretation, ranging from the idea that the markets are already looking beyond the rise in inflation to the one that disappointments on job creations are giving the Fed, and thus the bond markets, some time.

That is why the markets' reaction to Jerome Powell's press conference on 16 June was so important, with a surprise increase in rate predictions for 2023 which caused the US 10-year yield to climb and led to a pick-up in so-called Value stocks (and financials in particular), which have underperformed for a month. Gold has been hit the hardest in this environment, reminding us that there is no safe haven that works in every market regime.

Never lose hope in Europe: that is perhaps another nice surprise from this spring, which saw a sharp acceleration in the vaccination campaigns which had lagged the United States. Given the galloping momentum of Biden's America, media coverage had portrayed Europe as bogged down by the Brussels technocracy. A few months later, France boasted 30 million partially vaccinated people, and ultimately it seems there is likely only a one-quarter lag between the US cycle and the European cycle.

If we take together the historic recovery, record earnings season and supportive economic policy, and add in negative real rates pushing equity market valuations higher, in the spring investors enjoyed exceptional conditions that are rarely in place in reality.

However, the question now is whether the markets might be overly optimistic or whether this combination of highly favourable factors will last. If the forward momentum were to subside somewhat, which would make sense, the outlook for the second half of the year would then rely on the central banks, which would be even closer to the heart of the action. With a rapid rebound in growth and inflation, which could last beyond this quarter, it would be logical for the central banks to suggest that an end to their balance sheet policy is in sight.

That is the key question for the summer: will the Fed be able to maintain an ultra-accommodative policy for long? If this is done early and gradually and helps keep real rates low to ensure that valuations are maintained and the debt is sustainable, investors may remain confident, but the Fed is increasingly walking a fine line.

While the Fed's message remains cautious on the possibility that it will tighten its monetary policy in the coming months, the key point of the last meeting of the members of the FOMC was the dot plot surprise, with two rate hikes now expected in 2023 versus none previously. If the timing between the tapering of the Fed's purchases and the rate hike narrows, this could cause more disruptions in the market.

In other words, a continued rise in the markets is based on a subtle equation, which a communication error by the central bank could quickly subvert.

Once again, it's likely all about the inflation outlooks; if this rise is temporary, the central banks – and thus investors – will still have some time on their hands. If inflation continues to surprise and stabilises at a much higher level and raises concerns about an overly accommodative monetary policy error, investors would be expected to increasingly adjust their equity positioning, while the question of the sustainability of sovereign debt could surface again. We are truly moving quickly from the virtuous circle to Dante's inferno.

See you at the end of August in Jackson Hole and, until then, have a great summer!

PRICING POWER: A WAY TO HANDLE HIGHER INFLATION

Combined with increasing demand due to reopening economies, supply difficulties related to rising freight prices, rising commodity prices and bottlenecks, are all pushing up input costs. While these factors are likely to put pressure on company margins, those recording a high pricing power should be able to withstand higher inflation and thus be sought after by investors.

For the third consecutive month, prices paid by United States' consumers rose more than expected with the annual inflation rate accelerating to 5% in May, 0.3% above the forecasts. Beyond low base effects, huge price increases were reported in energy and in the automobile sector, where used car and truck prices are up 30% on a yearly basis. Indeed, the used auto market faces massive auction purchase by rental fleet operators who are seeking to build back their fleets at a time of shortages of new vehicles. Finally, the housing market also played an important role as rent increases continue mainly due to rising prices of materials used to build.

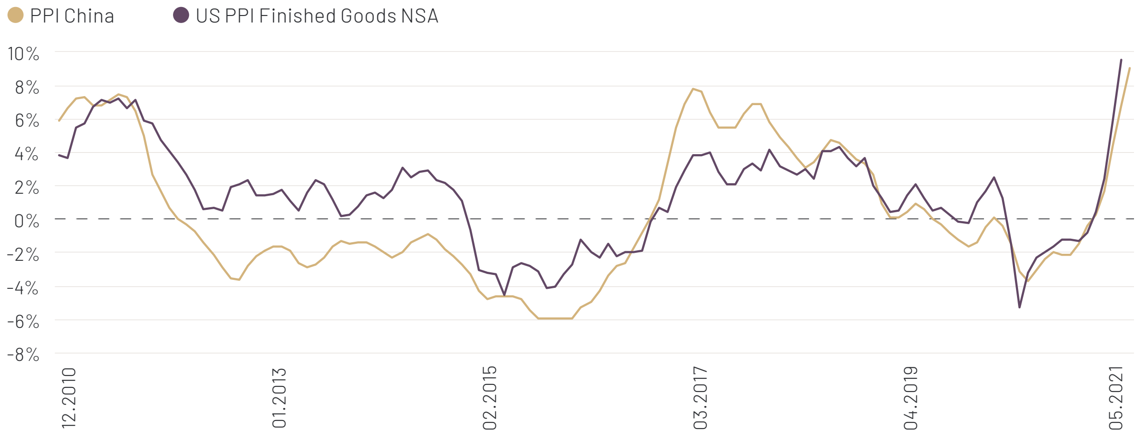
However, although headline and core consumer inflation figures are catching all the attention from market participants as it remains one of the metrics monitored by the Federal Reserve to pilot its monetary policy, – with labour market data being the other one – the same story of rising prices is playing out when looking at input costs recorded by US companies. This could bring some turbulences at a bottom-up level.

SEVERAL FACTORS COULD PUT PRESSURE ON CORPORATES' PROFIT MARGIN

As highlighted in our June's Monthly House View, commodity prices are surging with records price levels registered for copper, iron ores and other raw materials in the wake of economies reopening. This has been paired with government focus on rebuilding infrastructure as well as new investments toward green transition.

As a result, companies' input costs are recording strong increases. China's producer price index rose 9% in May from one year ago, above the 8.5% increase expected. This is the fastest pace of growth over twelve years, leading some companies to stop taking new orders and resulting in sentiment falling to a four-month low. The same situation is observed across the Atlantic as producer prices went up 6.2% versus 5.9% a month ago (Chart 1).

CHART 1: PRODUCER PRICES ARE RISING AT THEIR STRONGEST PACE OF THE DECADE, %, YOY



Source: Bloomberg, Indosuez Wealth Management.

Beyond raw material prices, warehousing, inventories but also transportation costs have all skyrocketed (Chart 2). If the Suez Canal blockage that arose in late March put pressure on maritime traffic, it happened at a moment where major European ports such as Rotterdam were already on the verge of asphyxiation due to COVID-19 traffic disturbances. Waiting times for vessels to berth at Shenzhen port have climbed from half a day to 16 days, causing a domino effect that has triggered a rise in demand for road transports.

The cost of shipping a container from Shanghai to a European port increased eightfold between August 2020 and April 2021, while the Baltic Dry Index, which gives an indication of the cost of freighting raw materials on some twenty maritime routes in the world has risen to its highest level since 2010.

SHIPPING COSTS from Shanghai to Europe increased eightfold year-on-year

Looking ahead, some pressures could also come from the labour markets. As latest US labour market data showed, companies are still facing difficulties in hiring workers, especially qualified ones. In turn, some firms have started raising wages leading to an increase of 0.5% in average hourly earnings in the US in May.

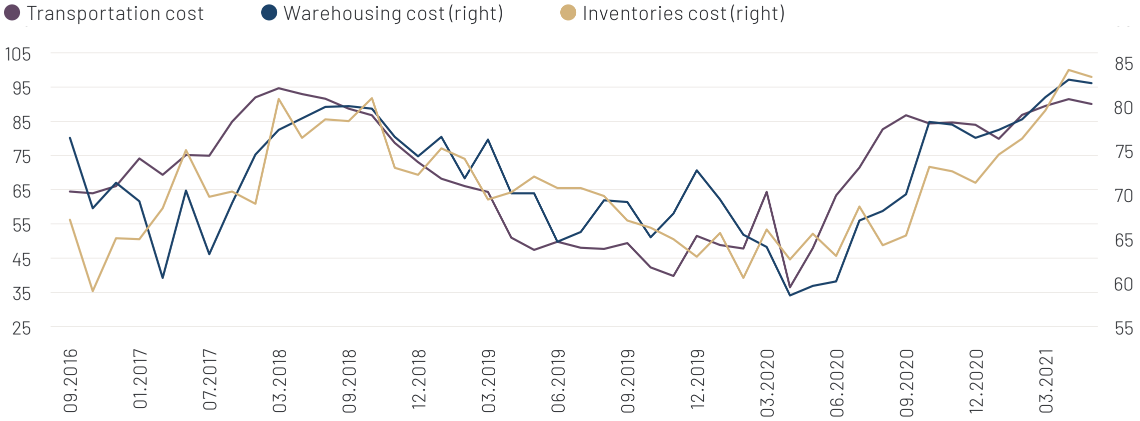
COMPANIES WITH PRICING POWER COULD GAIN IN MOMENTUM

In this context, a higher share of US companies signalled a rise in their input costs. Thus, while corporates' earnings may be at risk in an inflationary and competitive environment, firms that have high pricing power could have the capacity to resist higher inflation. We can broadly distinguish two types of companies which could defend their margin in a rising price environment. Firstly, we have companies with pricing power towards customers that have the capacity to pass through the price increase to their end-clients without eroding margins and volume. And secondly, we have those with pricing power towards suppliers which have the capacity to dictate prices from their suppliers, therefore avoiding input price increases.

Furthermore, a few business model characteristics can help in assessing the level of pricing power of a company. Among others, having a strong brand, operating in a monopoly or within an oligopoly, holding numerous patents, being holder of a cutting-edge technology, offering premium goods or having the ability to manage scarcity of goods accordingly, are several characteristics that can provide high pricing power.

Thus, even though the question about the transitory aspect of the inflation is still open for debate, the reality is that some companies have started to hike their prices. If volumes are not dropping – which is currently not the case – those firms could probably benefit from this environment and attract investors in the coming months.

CHART 2: WAREHOUSING, INVENTORIES AND TRANSPORTATION COSTS SKYROCKETED OVER THE PAST 12 MONTHS



Source: LMI, Exane BNP Paribas estimates, Indosuez Wealth Management.

US INFLATION IS SURGING WHILE EUROPE IS CATCHING UP

In June, US consumer prices climbed at the fastest pace since 2008 while growth finds support in a strong recovering services sector. Meanwhile, Europe is catching up as the vaccine rollout accelerates and economies start reopening.

UNITED STATES

The economic dynamic remained strong in the United States, US ISM PMIs came out at very high levels in May with manufacturing PMI increasing from 60.7 in April to 61.2 in May and services PMI standing at 64 its record level since its creation in 1997.

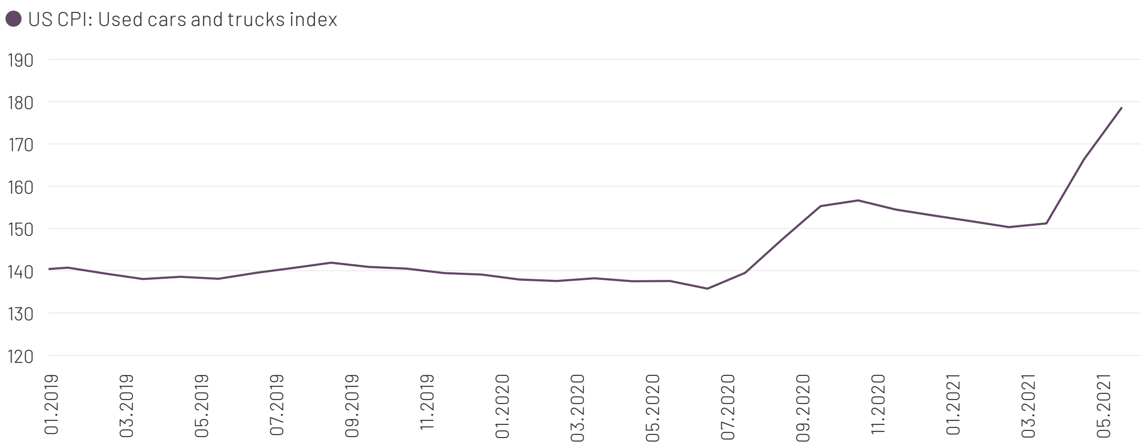
The US economy added 559'000 new jobs in May, below markets forecast of 650'000 but above the disappointing 278'000 figure of April. Therefore, the unemployment rate fell from 6.1% in April to 5.8%. Particularly, notable job gains occurred in services with 489'000 new jobs added (292'000 for Leisure and hospitality). Nevertheless, companies (notably in industrial sectors) still struggle to attract workers which translated into a 0.5% increase of average hourly earnings in May. This could be temporary as the current government cheques to households will end in early September. For its part, inflation continues to animate the markets as it accelerated again in May to 5% from 4.2% in April and above market forecasts of 4.7%.

Headline inflation increased at the fastest pace since 2008:

5%

At the same time, core inflation stands at 3.8% way above the Fed's target. Beyond low base effects, among the factors explaining in the acceleration of inflation – which is expected to peak in Q2 2021 – we can find rising consumer demand as the economy reopens, increasing commodity prices, supply constraints and higher wages as companies are forced to deal with a labour shortage. Besides, the index measuring prices for used cars and trucks increased 7.3% in May (Chart 3). In this context of temporarily high inflation, the FOMC left rates and the pace of quantitative easing (QE) unchanged in June. However, Fed officials indicated that rate hikes could come as soon as 2023 while no increases were expected until at least 2024 following the previous meeting in March. The Fed also raised its GDP forecast for 2021 to 7%, with headline inflation expected to hit 3.4% this year (versus 2.4% expected in March) before falling back to 2.1% in 2022. The unemployment rate is expected to drop to 4.5% in 2021 and 3.8% in 2022.

CHART 3: THE INDEX FOR USED CARS AND TRUCKS* INCREASED 7.3% IN MAY



* Used cars and trucks account for about one-third of the increase in the CPI in May.

Source: Federal Reserve Bank of St. Louis, Indosuez Wealth Management.

EUROPE

Economic sentiment keeps improving in the Euro Area as the vaccination campaign continues to accelerate (more than 40% of the population has received at least on dose of the vaccine in June compared to less than 10% at mid-March) and some countries start to reopen their economy. For example, Germany saw several cities counting weekly case number below the threshold of 100 per 100'000 inhabitants that had triggered strict lockdown measures. Sentiment index in Euro Area witnessed an uptick in confidence, which also translated into healthier figures for PMI Composite which jumped from 53.8 in April to 57.1 in May, beating expectations. Retail sales readings for April went down 3.3% due to the restrictions imposed for non-essential stores, but are expected to recover as saving rates in the Euro Area at the end of Q1 2021 were 9.2% higher than their pre-pandemic level.

The annual inflation rate accelerated to 2% in May – the highest reading since October 2018 – from 1.6% in April and above market forecasts of 1.9%, mainly driven by the increase in the cost of energy (13.1% versus 10.4% in April).

Such a spike in inflation was already expected due to base effects and temporary factors. Despite inflation topping its 2% target, the European Central Bank (ECB) kept its asset purchases unchanged after the June meeting. The ECB also upgraded its GDP growth and inflation forecasts respectively to 4.6% and 1.9% for 2021 and 4.7% and 1.5% for 2022, while core inflation was still far below the target in May with an increase from 0.7% to 0.9%.

CHINA

The credit impulse index for China fell again in May, its lowest level since 20 March as the People's Bank of China (PBoC) is trying to progressively normalise its policy by reducing pandemic-driven stimulus and contain the debt level. Beijing also announced it will strengthen price controls on iron ore, copper, corn, and other major commodities to ensure surging prices do not hurt country's recovery as the gap between PPI and CPI increased by 7.7% in May, the highest on record. Among the components dragging down the CPI, pork prices fell 23.8% in May as farmers try to sell their animals amid a fresh swine flu outbreak.

04 • Fixed Income

THE ENVIRONMENT OF LOW CREDIT SPREADS COULD PERSIST FOR A WHILE

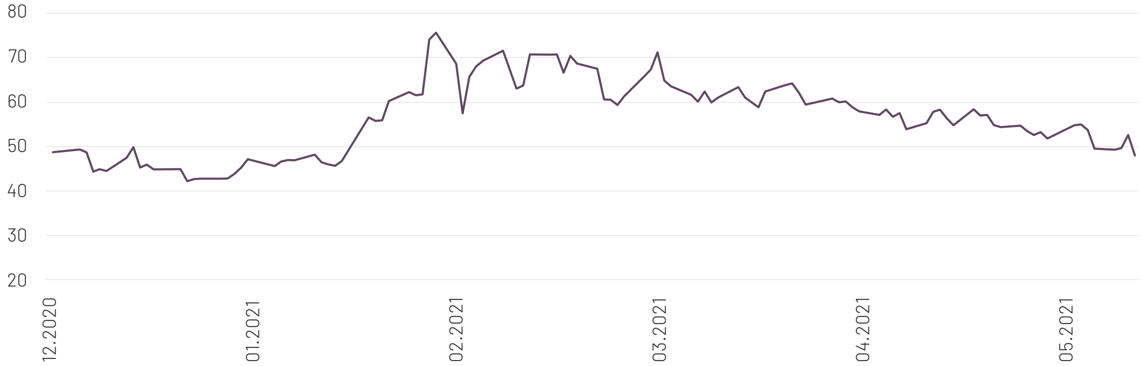
Strong consensus on the positive direction of economic growth, the stability of supportive fiscal and monetary policies and the huge amount of liquidity in the system is keeping demand for credit strong even with modest return expectations ahead.

CENTRAL BANKS

Despite accelerating growth and inflation releases on the upside, central banks are maintaining their ultra-accommodative policy. The ECB reiterated its statement to provide cheap financing conditions by renewing its pledge to maintain faster emergency bond-buying program. On its side, the Fed has started to talk about tapering. However, given the central bank belief that the recent rise in inflation is mostly temporary and the current level of unemployment is still far from its pre-pandemic level, we do not foresee any shift before early 2022. Nevertheless, members of the Federal Open Market Committee also brought forward their expected date for raising policy interest rates, with the median projection shown by the "dot plots" now pointing to two hikes set for 2023. This was a "hawkish" surprise as market participants were focusing more on a change of tone/guidance on the tapering.

This year, the US curve posted an important "bear-steepening" movement. European rates demonstrated that they are not immune to a rise in term premium in global yield curves. In the last two months, the pressure has calmed down and yields have dropped despite inflation releases on the upside. Indeed, the recent decrease in US Treasury yields is supporting the Fed's narrative on inflation and that any changes in ultra-accommodative policy will likely happen very gradually. However, as reinforced by the last FOMC meeting, we are expecting more volatility (Chart 4) and rising pressure on US interest rates in the coming months.

CHART 4: EVOLUTION OF US RATE IMPLIED VOLATILITY - 2021

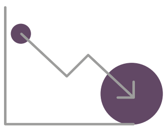


Source: ICE BofA MOVE Index, Indosuez Wealth Management.

CORPORATE BONDS

Credit spreads paused last month after the impressive rally in 2021. Investment grade (IG) credit valuations are stretched but the growth recovery environment should continue to help the asset class to outperform sovereign bonds. Within the IG universe, investment opportunities remain increasingly scarce. We still favour BBB's and sub financials, expecting, at best, carry like return. It is likely that the low spread environment could last for many more months. In fact, strong consensus on the positive direction of economic growth, the stability of supportive fiscal and monetary policies and the huge amount of liquidity in the system is keeping demand for IG credit strong, even with modest return expectations ahead. With low/negative risk-free rates, investors are unlikely to pass up spread carry even if they believe an economic downturn lies 16-24 months ahead.

In regard to high yield (HY) Credit, fundamentals are improving and we do expect benign default rate activity to continue. With very little volume trading at distressed levels, wide-open capital markets, and a strong earnings and economic backdrop, we believe that it is very likely that US default rate will decline around 2% at the end of 2021, which is well below historical average.



Default rates may decline around

2%

at the end of 2021

EMERGING DEBT

The differential between Emerging countries growth and Developed markets growth is turning negative in Q2 2021. However, good news emerged from the improvement in Emerging credit metrics especially considering the macro environment. We see scope for Emerging spreads to slightly compress amid pockets of cheapness. We continue to favour shorter duration given the flatness of emerging credit curves and the high yield segment which provide more cushion against potential rising yields pressure. Strategically, Asia credit is preferred but we must acknowledge that the overall market sentiment is currently weaker on the back of the credit tightening environment, negative news flows and the rise of idiosyncratic risks in China.

EQUITY MARKETS ON TOPS

The peak of the cycle is getting closer, but it is still too early to turn defensive: if US PMI surging to an all-time high, which can reasonably be considered close to a peak, the Euro Area PMI is set to continue rising over the coming months notably on the service side.

2021 Global EPS growth expectations revised up to **+35%**, followed by **+11%** in 2022

The expansion phase is supported by vaccine deployment, the gradual easing of the restrictions which are still in place in many areas and the easy base effects across a range of consumer indicators. The upcoming implementation of the US fiscal package and the European Union (EU) recovery fund will be equally supportive.

Inflation fears have been reinforced by the spike in commodities' prices but have recently faded with their stabilisation. This will allow the Fed to stick to the view that the inflation is indeed "transitory" and the "fiscal cliff" should continue to be pushed out.

UNITED STATES

The S&P 500 continues to rise and set new all-time highs while at the same time the implied volatility indicator, the VIX, hits one-year lows, although a rebound has been observed post-Fed committee. The market is driven by a calm climate linked to the reopening of the economy, vaccination programs and budget spending plans. While US long rates had caused a strong style rotation between Growth and Value since the start of the year, this rotation has stalled in an environment where rates have eased since the end of March.

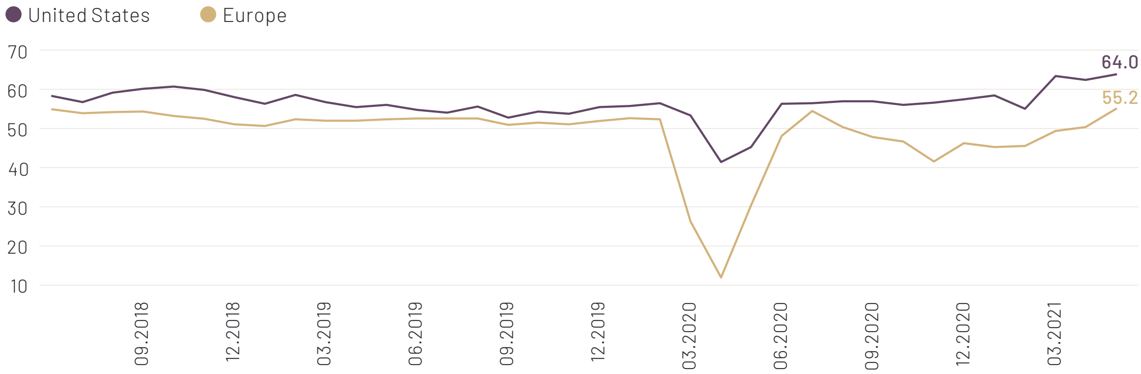
On a month-to-month basis, the US equity market was once again dominated by Information Technology and Communication Services, while Materials and Financials performed the worst.

Finally, investors remain very attentive to any data showing inflationary pressures because any slippage could have negative consequences on the US equity markets.

EUROPE

We confirm our positive stance on the European equity markets for the months to come. Indeed, the economic recovery is on track: the pace of vaccination will likely catch-up to the UK and the US, composite PMI should continue to improve (Chart 5), and the Recovery Fund will be implemented in the summer. In addition, the European market is tilted more towards value sectors than the rest of the world and this should be seen as an advantage when the economic activity is accelerating. Secondly, EPS expectations will continue to be revised up. And thirdly, the current absolute valuation levels can be sustained given the negative real interest rate environment we should stay in.

CHART 5: PMI SERVICES USA VS. EUROPE



Manufacturing PMIs have surged to historic highs and should be peaking soon. However the Services are likely to catch-up next, notably in Europe where the economy has just started reopening.

Source: Bloomberg Finance L.P., Indosuez Wealth Management.

Finally, historically low positioning on the area and recent inflows could be another positive factor. However, it is important to keep in mind that technical and sentiment indicators are stretched, calling for some cautiousness (Chart 6).

EMERGING MARKETS

There is currently no real direction in Asian equity markets. Overhanging jitters related to COVID-19 infection trends and US inflation/rising rates should keep global investors wary of Emerging Markets equities over the near term.

Yet, the Chinese economy is now in a normalisation mode. Economic data releases remain vastly positive in absolute terms, albeit at a slower pace than in recent months. We believe that the next leg in Chinese growth will be found in consumer/reopening sectors. We remain positive on Chinese equities on a fundamental basis as well as the semiconductor sector in Asia.

We believe that the market has not truly priced in the severity of the ongoing COVID-19 wave in Southeast Asia and India yet. This could mean headwinds to these stock markets down the line.

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

Within Asia equities, we have recently increased our Korea exposure to overweight. We are thus currently overweight on China, South Korea and Singapore, neutral on Indonesia and the Philippines and underweight on India, Taiwan, Malaysia, and Thailand.

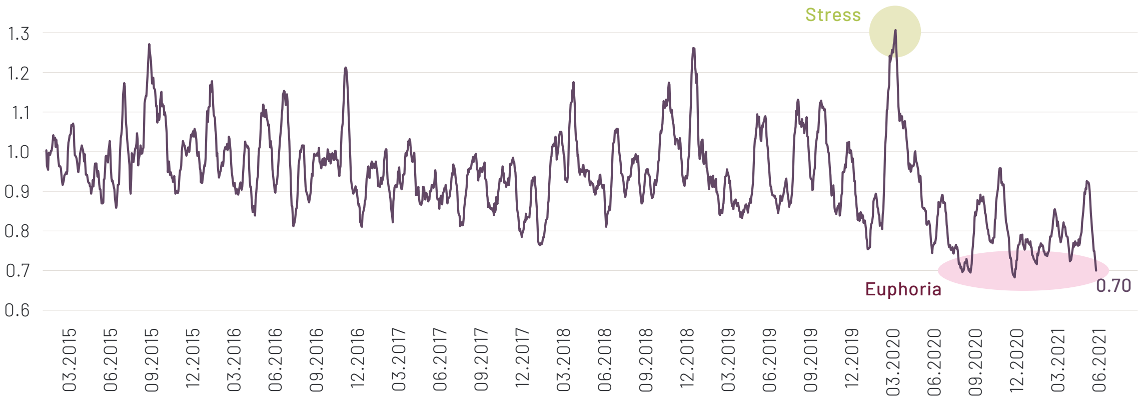
STYLE & SECTORS

A number of Defensives such as Healthcare and Consumer Staples have seen better performance in the past weeks, consistent with a pause in US bond yields and inflation expectations. If bond yields rise further, this should weigh on these sectors again. Weaker momentum on earning revisions and low pricing power should equally be a drag on relative performance.

The conditions that favour Value sectors are still under way even if we have seen a stabilisation last month in commodities' prices and inflation expectations.

On the other side, growth stocks' momentum is slowly improving after the weakness of the past months, but we think that as companies are facing rising input costs, the market will focus more on pricing power and operational leverage rather than on valuation impact. From this point of view, the Technology segment offers a good alternative.

CHART 6: PUT/CALL RATIO, MARKET SHOWING SIGNS OF EUPHORIA



Put/call ratio is back to lowest level confirming that the market is mainly positioned on the upside with strong opened positions on the Call side. We consider that point from a contrarian point of view. When the markets are too optimistic, they become more vulnerable to a potential negative catalyst, as investors risk to reverse their positions.

Source: Bloomberg Finance L.P., Indosuez Wealth Management.

06 • Forex

USD FINDS SUPPORT IN QUIET SUMMER MARKETS

USD weakness finally took a breather in June amidst initially subdued activity and then a hawkish Fed turn. FX markets seem to be in wait and see mode looking for new themes to trade as the usually quieter summer period starts, giving time to clean up positions and consider new directions. However, the hawkish Fed turn may open the door to other central banks to move their policies.

Strong post-pandemic levels near

5.00

USD/BRL

GBP – NEEDS MORE ENERGY

Until now the pound had been riding a wave powered by the Brexit agreements of last year, a well-advanced vaccination programme, and very positive forward looking economic indicators. However, this wave appears to be running out of energy, and the pound has struggled to make further gains since mid-May. The government furlough scheme was due to expire this month which will test the true state of the labour market, and the forced delay to re-opening by four weeks will likely dent sentiment in the short term. The silver lining, however, lies in the interest rate outlook – the Bank of England (BoE) has starting making some minor hawkish soundbites, and if the reopening does in fact prove to be as strong as hoped we could soon see GBP racing ahead again.

BRL – AT HIGHS

In June the Brazilian Real reached very strong post-pandemic levels near 5.00 USD/BRL thanks to higher interest rates, the disappearance of political clouds (in the short term) and the commodity rally – all fuelling unwinds of USD hedges. Indeed, we believe that the Real has room to appreciate up to 4.80 to the USD (the absolute strongest level seen post-pandemic, in June-2020), particularly if the USD retreats any further during the summer. We do however also recognise dark clouds on the distant horizon: the 2022 presidential election will bring the voice and volatility associated with former president Lula's bid for re-election. Whilst there are large upside risks to the BRL, we do not think they outweigh the downside risks yet.

CNY – WE GO NEUTRAL

The Chinese yuan has appreciated 12% against the US dollar since the lows of 7.19 in May 2020 (Chart 7). While Chinese authorities have mostly limited themselves to verbal intervention so far, the PBoC announced an increase in the foreign exchange reserve ratio for the first time in a decade. This indicates that the central bank is reluctant to allow a one-way appreciation of the yuan. While China's fundamentals remain supportive for the currency on the long run, we are turning more neutral on the short term. On the long run, we remain buyers of the Chinese yuan on dips and are awaiting a correction toward 6.50 against US dollar before initiating a long position.

EUR – RESISTANCE FOUND

EUR/USD
upside should be limited

Last week, the ECB left its interest rates unchanged at 0% (refinancing rate) and -0.5% (deposit rate) as was widely expected. The PEPP programme purchases is awaited to be conducted at a significantly higher pace over the summer. The Euro Area GDP growth and inflation have been revised higher for the next couple of years. However, Christine Lagarde noted that any discussion of tapering would be totally premature and reiterated that the EU and the US were at different stages in terms of economic cycles. Consequently, the EUR/USD upside should be limited. With the recent pivot in Fed rhetoric, the market will be more focused on the US data and Fed-speak. After the fall back below 1.20, it is likely EUR/USD is going to range trade for the summer with support at 1.18.

USD – WEAKNESS FIRMLY PAUSED

The Fed meeting in June smashed the pause button on USD weakness for the foreseeable future – whilst rates markets were still doubting the Fed's ultra-dovish messaging, FX markets that had gotten carried away with a USD-bearish view were promptly corrected back to the middle of 2021 ranges. That said, the Fed's hawkish turn is not a reason to build a USD-bullish case either yet – they are still promising very accommodative policy for a long time, and once the market gets over its initial excitement, we are likely to settle into a "USD-neutral" mode for the summer. In the meantime, US inflation and deficits are still very high, so the outlook remains as unclear as ever, but economic data will certainly bring more volatility as positive data will further encourage USD interest rate repricing.

CHART 7: USD/CNH COMPLETES THE DOUBLE TOP

Source: Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION

GLOBAL SCENARIO

- The central investment scenario remains well anchored, based on the assumption of a strong recovery boosted by supportive policy-mix and accelerating vaccination campaigns.
- This recovery is getting near to peak acceleration in the US with the Euro Area catching up.
- This inflexion of the scenario is confirmed by higher activity surveys in May in the Euro Area reflecting the easing of lockdown measures pointing out for a strong GDP recovery in H2 2021.
- Macro data remains volatile with US job creation affected by stimulus cheques to households that should probably resolve in the coming months.
- US inflation figures have surprised on the upside in May, with 5% YoY price increase and core inflation at 3.8% year on year, reflecting base effects and a rising number of bottlenecks; the peak of inflation was expected to occur in Q2 2021, but could remain at an elevated plateau in H2 2021 with remaining base effects in year-end 2021 (vs. a world returning to lockdowns in Q4 2020).
- This continued improvement of the environment translates in higher earnings growth (notably in cyclical and reopening sectors) and by lower default rates.
- Simultaneously it raises the question of the normalisation calendar of central banks, which will be the key focus of investors in the coming months and may affect the direction of risk assets.

FIXED INCOME

- We anticipate a moderate steepening of interest rates after a moderate flattening of curves in Q2 2021.
- We do not anticipate further compression of credit spreads which have reached historically lows levels, which could justify a more neutral view on assets such as subordinated financials.
- However, carry strategies on high yield should deliver positive returns in the medium term.
- Inflation linked notes offer an interesting hedge in the medium term against higher inflation but breakevens have performed strongly in April and started to consolidate in May as expected.
- Neutral/constructive view maintained on emerging debt in USD which could suffer from interest rates hikes, but relative carry to volatility and rating remains attractive in Asian corporate debt; elsewhere, fundamentals are starting to improve in Latin American corporates.
- Emerging debt in local currencies has benefited from the return of carry and recovery of several emerging currencies as we expected in the last two months.

EQUITIES

- Constructive view maintained on equities globally, after a strong earnings season leading to a strong upward revision of FY 2021 EPS expectation on both sides of the Atlantic.
- A preference on European equities which offer a good exposure to Value and Cyclical themes, and a neutral view on US equities.
- Equity valuations are stretched and probably vulnerable to higher rates, excessive euphoria, and seasonal volatility but we do not identify a catalyst that could fuel a massive summer correction.
- Positioning should favour Value and Cyclical plays against quality and defensive stories, which are more vulnerable to higher rates, but a good balance is maintained between Value and Secular growth.
- A strong allocation to value is in itself a good hedge against inflation and higher rates.
- Strategic conviction maintained on China with a market recovery that started in mid-May.

FOREX AND PRECIOUS METALS

- EUR/USD: Fed meeting of June has put USD weakening on pause; going forward, the EUR/USD could be more influenced by tapering discussion than euro macro recovery, and this could cap the EUR strength.
- CNY: tactically more neutral since late May with a weakening towards 6.50/6.60 against USD.
- Yen: an interesting entry point with a multiyear low against euro.
- Emerging currencies: after an expected recovery of BRL, more neutrality at this level against USD.
- Gold: after a recent recovery explained by lower real interest rates, gold has been affected by the rate steepening that followed the Fed meeting and is vulnerable in the short term but remains a good hedge in the long term against inflation, currency debasement, and USD weakening.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
Core EUR 10Y (Bund)	=	=
EUR Periphery	=	=/-
USD 10Y	=/-	=
CREDITS		
Investment grade EUR	=/-	=/+
High yield EUR/BB- and >	=	=/+
High yield EUR/B+ and <	=	=
Financials Bonds EUR	=	=/+
Investment grade USD	=	=/+
High yield USD/BB- and >	=	=/+
High yield USD/B+ and <	=	=
EMERGING DEBT		
Sovereign Debt Hard Currency	=	=/+
Sovereign Debt Local Currency	=	=
Latam Credit USD	=/-	=/-
Asia Credit USD	=	+
Chinese Bonds CNY	=/+	+
EQUITIES		
GEOGRAPHIES		
Europe	=	=/+
United States	=	=/+
Japan	-	-/=
Global EM	=	=/+
Latin America	-/=	=
Asia ex-Japan	-/=	=
China	=	+
STYLES		
Growth	=/+	+
Value	+	-/=
Quality	-/=	=
Cyclical	=/+	=
Defensive	-/=	-/=
FOREX		
United States (USD)	=	-
Euro Area (EUR)	=/+	+
United Kingdom (GBP)	=	=/+
Switzerland (CHF)	=/-	=
Japan (JPY)	=/+	=
Brazil (BRL)	=/-	=/+
China (CNY)	=/-	+
Gold (XAU)	=/-	=/+

Source: Indosuez Wealth Management.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 16 JUNE 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.58%	-9.56	66.22
France 10Y	0.13%	-15.00	47.60
Germany 10Y	-0.25%	-13.90	32.20
Spain 10Y	0.40%	-21.10	35.30
Switzerland 10Y	-0.21%	-8.70	33.80
Japan 10Y	0.05%	-3.20	2.80

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	43.72	-0.16%	-3.38%
Euro Governments Bonds	220.07	0.79%	-0.94%
Corporate EUR high yield	213.05	1.03%	2.90%
Corporate USD high yield	326.13	1.16%	2.50%
US Government Bonds	321.58	0.07%	-1.32%
Corporate Emerging Markets	52.11	0.15%	-1.86%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.09	-0.94%	0.80%
GBP/USD	1.40	-0.90%	2.33%
USD/CHF	0.91	0.50%	2.65%
EUR/USD	1.20	-1.48%	-1.81%
USD/JPY	110.71	1.36%	7.23%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	18.15	-4.03	-4.60

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'223.70	2.62%	12.45%
FTSE 100 (United Kingdom)	7'184.95	3.38%	11.21%
Stoxx Europe 600	459.86	5.39%	15.24%
Topix	1'975.86	4.25%	9.49%
MSCI World	3'008.48	3.35%	11.84%
Shanghai SE Composite	5'080.49	-1.77%	-2.51%
MSCI Emerging Markets	1'370.00	3.20%	6.10%
MSCI Latam (Latin America)	2'650.39	6.90%	8.10%
MSCI EMEA (Europe, Middle East, Africa)	281.56	4.39%	16.70%
MSCI Asia Ex Japan	882.57	2.25%	4.70%
CAC 40 (France)	6'652.65	6.23%	19.84%
DAX (Germany)	15'710.57	3.95%	14.52%
MIB (Italy)	25'767.54	5.23%	15.90%
IBEX (Spain)	9'202.20	1.45%	13.98%
SMI (Switzerland)	11'982.03	8.48%	11.94%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'966.00	-7.68%	17.68%
Gold (USD/Oz)	1'811.47	-3.11%	-4.58%
Crude Oil WTI (USD/Bbl)	72.15	13.87%	48.70%
Silver (USD/Oz)	27.81	-0.70%	5.30%
Copper (USD/Tonne)	9'667.00	-3.34%	24.48%
Natural Gas (USD/MMBtu)	3.25	9.68%	28.04%

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

	MARCH 2021	APRIL 2021	MAY 2021	4 WEEKS CHANGE	YTD (16.06.2021)
BEST PERFORMING +	6.08%	5.24%	7.75%	6.90%	16.70%
	4.80%	4.52%	5.29%	5.39%	15.24%
	4.25%	3.82%	4.06%	4.39%	12.45%
	4.24%	3.19%	2.14%	4.25%	11.84%
	3.98%	2.41%	2.12%	3.38%	11.21%
	3.55%	2.37%	1.30%	3.35%	9.49%
	3.11%	2.02%	1.26%	3.20%	8.10%
	-1.70%	1.81%	1.01%	2.62%	6.10%
	-2.66%	1.49%	0.76%	2.25%	4.70%
− WORST PERFORMING	-5.40%	-2.85%	0.55%	-1.77%	-2.51%

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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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.