INDOSUEZ
WEALTH MANAGEMENT

MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – JANUARY 2021

MARKETING MATERIAL

FOCUS
UK MARKET: FISHMAN'S FRIEND

EQUITIES
HIGH HOPES FOR THE NEW YEAR

EDITORIAL

VINCENT MANUEL

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2021: BACK TO NORMALITY OR FAST FORWARD?

"Science knows no country" Louis Pasteur

Dear Reader,

At the time of closing 2020, a year of all extremes (unprecedented pandemic, record recessions, unprecedented response from economic policy, spectacular equity rebounds), one can wonder what awaits us. Will 2021 see a return to some kind of normality?

From a political and health standpoint, there is no doubt about it: a new president in the United States with a return to a more usual rhetoric and to more classic relations between nations; and a hope that the vaccination campaigns will put an end to the succession of lockdown/unlock phases. The race against the pandemic will have brought vaccines to the market in record time.

Social trends tell a different story and it is astonishing to see how the two lockdown waves in 2020 gave way to diametrically opposed reactions. The spring lockdown materialised a breach in our daily lives and gave birth to the somewhat naive idea of a "new world" (less consumerism, more focus on health and respect for the environment). On the contrary, the autumn lockdown showed how much the people wanted more than ever a return to the world before symbolised by simple aspirations, like: traveling again, going out, getting together and going shopping. The idea that our lives would go digital may have found its limit. Coincidently, the hope born from the successful vaccine trials this autumn gave rise to an outperformance of stocks linked to the real economy compared to those of the digital world.

The fight against global warming is undoubtedly the area in which a return to the past is not an option. The sustainability of our growth models is the central issue in overcoming the crisis; governments have decided to act on it and are turning their backs on fiscal austerity. Indeed the energy transition is one of the only areas where current and future generations can get into debt.

Something new emerges in this front: the convergence of environmental priorities of the United States, Europe and China. Indeed, Biden's America aims to return to the Paris Agreement and to make significant investments to transform the US energy model. For its part, China, now the world's leading CO_2 emitter, has set itself an ambition of carbon neutrality by 2060.

No return to the past for Europe either. The history of European construction shows that it has progressed especially during phases of political or economic crisis, as much by necessity as by a clear conscience of the urgency. The crisis of the previous decade had settled the monetary debate to ensure the sustainability of the Euro Area. This pandemic was no exception to the rule and was also the catalyst for unprecedented progress in European budgetary solidarity.

The strong consensus around the idea of a strong and prolonged fiscal response also contrasts with the ideological consensus around fiscal austerity that prevailed during the Euro Area one sovereign debt crisis. This new, less frugal consensus reflects a pragmatic response to health, economic and social emergencies that with a context of low interest rates makes it possible to finance. More fundamentally, it is the stability of our governments and the survival of our democracies that is at stake, in the face of growing inequalities and social tensions already strong before the pandemic, and which it has only exacerbated. Here too, the future will tell if we have adopted an overly naïve view of the sustainability of our growing debt piles, which raises the question of the value of our currencies. Perhaps this is reflected in record soaring gold and bitcoin this year…

At this very special end of the year, we send you our best wishes for health and happiness, to you and your loved ones for this New Year, which will hopefully fulfil the immense aspirations of populations and governments.

Happy reading and a very happy New Year 2021 to all.

FOCUS

UK MARKET: FISHMAN'S FRIEND

On the eve of the United Kingdom exit from the European market, it may seem uncanny to take an interest in this region that has been for the most part shunned by foreign investors.

A SHORT-TERM RECOVERY IN CONFIDENCE

The end of 2020 has been eventful for the UK, with significant upside derived from earlier than expected vaccine distribution, which partly eclipsed the seemingly never-ending Brexit saga. The lighter lockdown and temporary boost from pre-Brexit stockpiling should make for a more modest downturn in the fourth quarter. The average UK all-sector PMI for the fourth quarter landed at 50.6 (compared to 30.5 in Q2). The service sector contraction has been offset by solid growth in construction and manufacturing. Exceptional government support measures have also been extended until spring 2021 (furlough schemes, VAT cuts and deferrals, stamp date etc.) and will continue to limit the lockdown impact on demand (retail sales up 5.8% year-on-year in October).

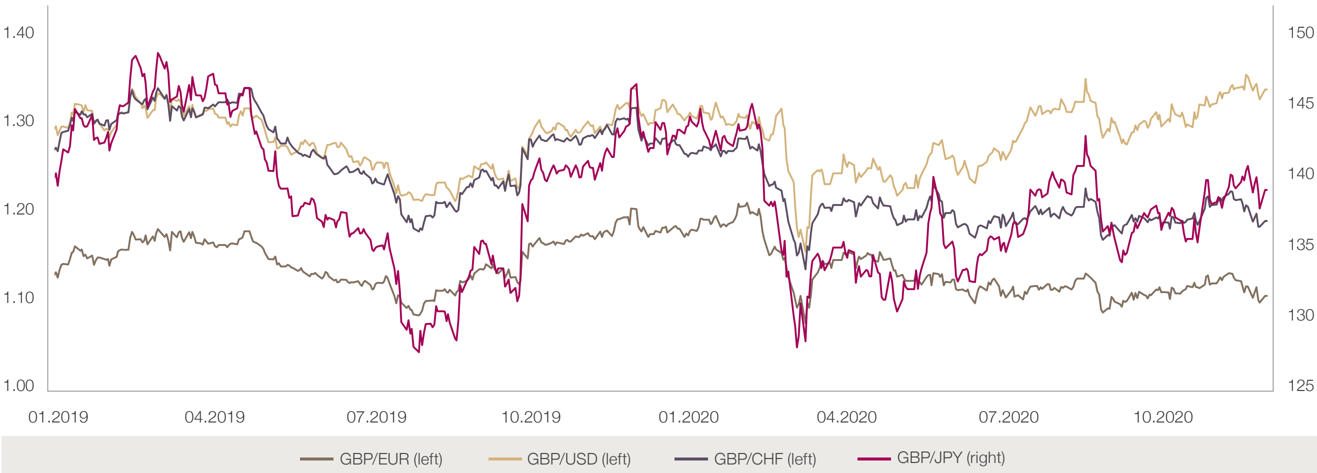
With the vaccine now in play, the mechanical reopening of the service economy is expected to gain traction as of H2 2021. A trade deal would be particularly positive for goods sector, but non-tariff barriers are expected to have a significant negative impact regardless of the trade scenario in Q1 2021. Nevertheless, after a deeper plunge in growth in 2020 relative to the rest of its European counterparts (October monthly GDP at -7.9% compared to pre-COVID-19 levels), we see ample room for recovery in the UK in 2021. Inflation is expected to strengthen, but remain below the 2% target in 2021. The inflationary effect of Brexit will most likely be compensated by the deflationary scars of the COVID-19 crisis and by the appreciation of the GBP coming from the disappearance of Brexit uncertainty.

GBP: BETTER, BUT MACRO-FUNDAMENTALS REMAIN POOR

With this increase in cyclical optimism, the sterling has engaged into a recovery path this autumn against other currencies. In trade-weighted terms, the Bank of England (BoE) exchange rate index (ERI) increased by 4% from mid-September to end November, before falling by 2% since early December bogged down once again by Brexit uncertainty. This picture is nuanced depending on the currency: GBP appreciated in November against US dollar (which weakened after the US election), but lost territory against the euro. The latter means that GBP has still further room to appreciate in an orderly Brexit scenario, though this will also depends upon relative macro momentum and relative degree of monetary easing.

Indeed, the relative degree of our optimism for the recovery is diluted by the continued weak fundamentals on which the UK economy resides. A high government sector deficit (13% of GDP compared to 9% for the Euro Area), low private sector savings (24% of GDP compared to 29% for the Euro Area), a current account deficit (3.1% of GDP compared to a Euro Area surplus of 2.6%) and increases in inequalities, all support investor weariness with regard to the UK economy in the medium term and lead us to believe that any significant rally in the GBP will most likely be short-lived. Furthermore, the Bank of England (BOE) has thus far resisted the implementation of negative interest rates, but is expected to remain highly accommodative, as inflation remains tame (+0.3% year-on-year in November).

GBP VS BASKET OF CURRENCIES



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

FOCUS

UK MARKET: FISHMAN'S FRIEND

TOUGH LOVE FOR UK EQUITY MARKETS, BUT UPSIDE IS NOT TO BE DISCARDED

The UK was the worst performing equity region in 2020, down 14% in US dollar terms year-to-date 2020 (compared to +6% for the Europe MSCI excluding the UK and +16% in the US), lagging European peers for five years now. The drop was less pronounced on the FTSE 250 index that is more representative of domestic UK activity. The latter has recovered by 14% since the beginning of November (compared to +16% Eurostoxx 600).

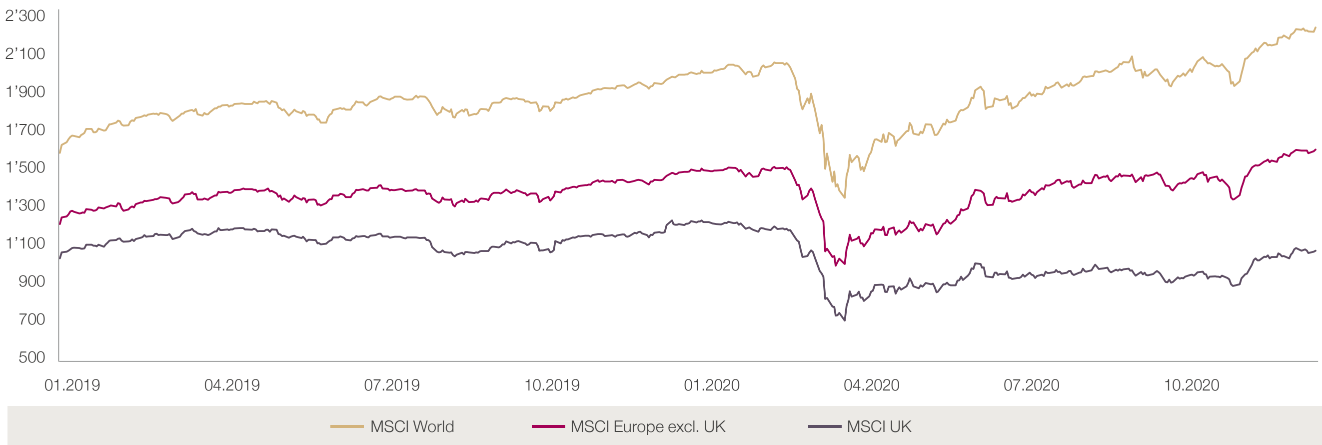
Some of the underperformance can be linked to sector exposure, as the MSCI UK is overweight energy (9% of the MSCI UK vs 4% in Europe) and consumer staples (22% vs 14%) that have underperformed the Global index and underweight consumer discretionary (7% vs 11%) and IT (1% vs 7%) which outperformed. Broadly speaking, the UK market is more value than the US or Euro Area equity market. Nevertheless, even taking into account these different sector weights, UK sectors have tended to underperformed, linked in part to the lack of investor confidence and therefore investor positioning in the UK market.

In this context, an economic recovery in 2021 combined with a (thin) Brexit trade deal with the European Union (EU) agreed before year-end 2020 would bring about a catch-up rebalancing of portfolios in favour of UK equities. MSCI EPS growth of 37% is expected in 2021 (compared to -36.3% in 2020). Furthermore, with a significant share of value stocks, the FTSE should benefit from the ongoing shift from cyclical to value sectors.

We expect a positive outcome from the trade deal to mainly impact the GBP, which could see some large swings in December as liquidity falls. Markets having already factored in at least a partial trade agreement, but the long-term picture indicates that there is probably more room to go, at least at the time of writing this piece on 16 December 2020.

In the case of an unexpected no-deal, however, the impact on the GBP could fall hard, and potentially down to 1.25.

MSCI INDICES, USD



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

Central banks ready to withstand temporary inflation strengthening.

MACRO ECONOMICS

BRIDGING THE GAP

WAITING FOR THE RECOVERY

As lockdowns continue to be implemented on a stop and go basis, high frequency indicators point to a contraction in the Euro Area and a slowdown in the US in Q4 2020. As underlined by the recent PMI data, sharp divergences persist in sectors, with the manufacturing recovery continuing to progress despite the restrictions in activity, notably in Germany and the US. The services sector will need to wait for the vaccination distribution (expected to commence before year-end in the European Union (EU) after the first approvals in the UK and US earlier this month) to embark on a durable recovery path.

The 2021 recovery is expected to be progressive as consumer pent-up demand in services is not as strong as for goods and the unemployment rate will remain above pre-COVID-19 levels in 2021, in particular in Europe where the adjustment in employment compared to the slowdown in activity has merely begun. Nevertheless, we continue to see an upside potential from an increase in consumer and investor confidence currently held back by continued uncertainty over the sanitary and economic outlook. The reopening of economies in 2021 related to vaccine campaigns could precisely boost pent-up demand in services and investments, most probably from Q2 onwards, which will add to the base effect on a weak Q2 2020 GDP.

Nevertheless, the vaccine optimism is not leading central banks and governments to reduce their support. Governments are making progress to ensure renewed fiscal support in 2021 with: the US stimulus deal waiting to be unlocked, the EUR 750 billion recovery fund expected to be up and running for the first funds as of H2 2021 and the Japanese fresh economic stimulus package worth 73.6 trillion yen (USD 708 billion) including subsidies to promote domestic travel, digitalisation and carbon reduction incentives to the spur the economy.

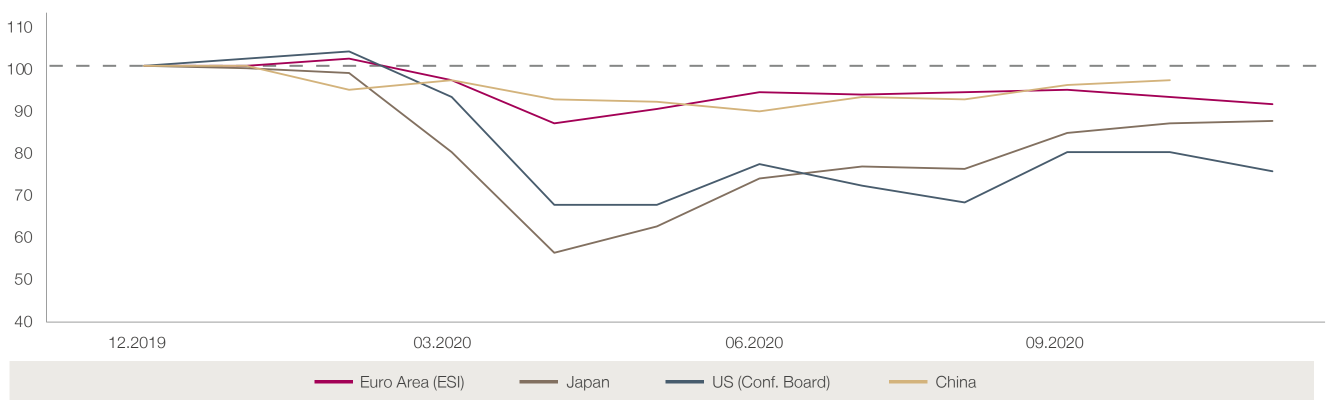
INFLATION EXPECTATIONS RISE

Finally, monetary policy is expected to remain accommodative in 2021 in developed countries as central banks keep their eyes on the recovery and are ready to withstand temporary inflation strengthening, especially with strong energy price base effects expected in spring 2021. Inflation is expected to remain more modest in Europe given the significant labour market slack, while expectations for inflation in the US rise and could strengthen if demand recovers faster than supply. The Fed will keep a close eye, but with its new inflation-targeting regime is not expected to make a rate move before 2023 according to the forward guidance and dot plots, even if reassuringly the unemployment rate is now expected to fall to 4.2% in 2022 and inflation to reach 1.9% the same year as per the December FOMC. The December meeting indicates that disappointment on the Fed's capacity to control the curve steepening is a tail risk in 2021.

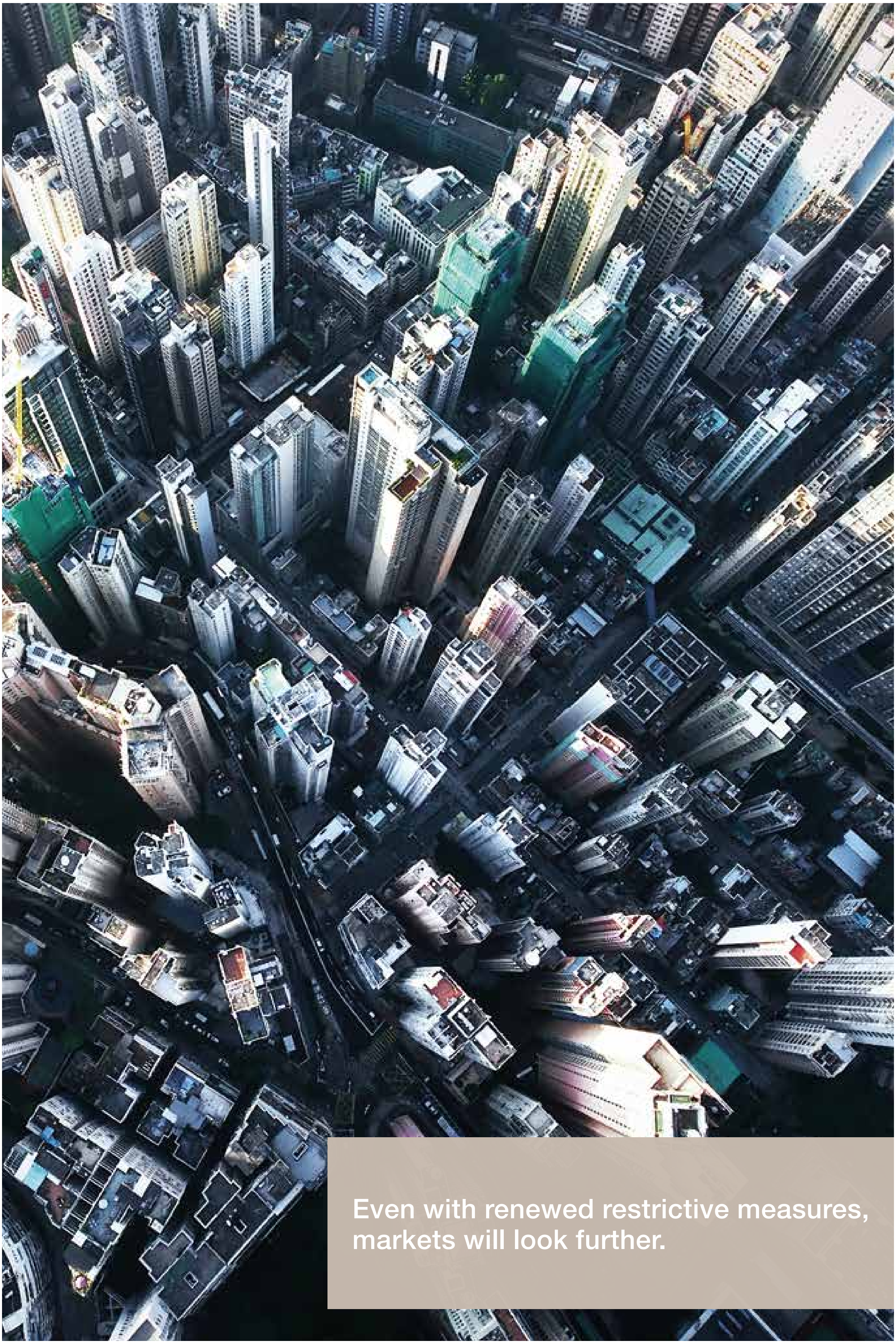
EMERGING MARKET RECOVERY BROADENING

The recovery in Asia in 2021 is expected to broaden, notably to the other members of the new regional trade block (RCEP) and India which suffered from a severe GDP drop in 2020. Latin American economies are expected to return to growth in 2021, but with a slower wwrecovery pace and weaker macro-fundamentals (notably in Brazil). Finally, the progressive recovery in oil production and lack of investments may cap the return in activity in Russia and MENA (Middle East and North Africa) economies.

CONSUMER CONFIDENCE, 100=DECEMBER 2019



Source: ESI, Conference Board, Japan Cabinet, China Bureau of Statistics, Indosuez Wealth Management.



Even with renewed restrictive measures, markets will look further.

EQUITIES

HIGH HOPES FOR THE NEW YEAR

- 2021 is full of promises for equity markets, it will be the year of the vaccine, the year of the reopening, the year of the recovery.
- At the same time, monetary policy should remain supportive, trade uncertainty could ease and fiscal stimulus will likely continue to be rolled out.

EUROPE

The European market is more tilted towards cyclicals and value sectors than its US or Emerging Market counterparts. This composition should continue to be seen as a relative advantage given the pro-risk context we experienced since the end of October. Moreover, despite the recent outperformance, valuation is still attractive compared to the rest of the world, while EPS (earnings per share) momentum has been good for the last couple of months. Finally one also has to keep in mind that Europe is at the forefront of the ESG (Environmental, Social and corporate Governance) trend and will benefit from strong political commitments on some mega trends like decarbonisation or digitalisation. The EUR/USD strengthening pace could however be a tailwind.

UNITED STATES

Joe Biden's election is finally official. The risk of a Democratic Senate remains on the agenda, however, the new US president reassured Wall Street by appointing Janet Yellen, former Fed chair, as future Treasury Secretary. This appointment was very well received by investors who hope for better coordination of monetary and budgetary policies.

Expectations for a fiscal deal by the end of the year are still alive as the Democratic (Nancy Pelosi) and Republican (Mitch McConnell) camps are set to meet again. A bipartisan stimulus package of approximately USD 900 billion is expected by the consensus.

EMERGING MARKETS

China remains our favourite zone in Asia. Chinese authorities are putting technology, healthcare, domestic consumption, infrastructure and environmental policies at the core of the upcoming 14th 5-year plan (2021-2025). The overall target is to increase domestic demand and consumption hence continuing the country's transition away from relying mainly on exports. Core economic data remained stronger in Northern Asia than in the rest of the region. ASEAN economies have been hit much harder by the COVID-19 crisis than China. But 2021 could reverse that hierarchy as the cyclical/value style is well represented in South East Asian equities which could also benefit from: Chinese growth, global trade growth, the return of travel and the regional trade deal. Within this area, we prefer Indonesia, Singapore and the Philippines over Malaysia and Thailand.

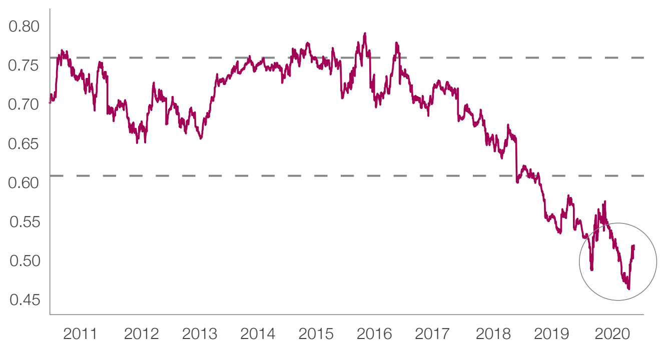
STYLE AND THEMES

We expect to see a continued rotation of leadership into Cyclical/Value (supported by stronger GDP and steeper yield curves) and a valuation differential, which remains significant even after the historical November rotation.

The catch-up of the Value segment does not mean that Growth stocks should be avoided. Stocks with long-term secular growth prospects still continue to be in the core of our allocation.

Among them we still favour the Environmental theme. It benefits from the ambitious objectives in term of emissions reduction and from a financial point of view, the persistent inflows coming from a growing numbers of institutional mandates and a rising popularity among Millennials.

STILL POTENTIAL UPSIDE FOR THE ROTATION INTO VALUE*



* MSCI Europe Value Index/MSCI Europe Growth.
Source: Bloomberg, Indosuez Wealth Management.

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.

ECB to boost monetary support.

FIXED INCOME

STRONG TAILWINDS IN PLACE TO PROPEL CREDIT SPREADS NEXT YEAR

- The European Central Bank escalated its campaign to shield the Euro Area from a possible double-dip recession by boosting monetary support.
- Attractiveness of Asian credit valuations, despite higher spreads for Latin American corporates.

CENTRAL BANKS

In view of the economic fallout from the resurgence of the pandemic, the ECB decided to boost monetary support. The "Pandemic Emergency Purchase Programme" (PEPP) has been increased to 1.85 trillion euros and prolonged by nine months. Favourable terms on "Targeted longer-term refinancing operations" (TLTRO-III) have been extended by 12 months. The Fed, which recently adopted an average inflation targeting inflation framework, disappointed investors in December, but going ahead should extend the average maturity of their treasury purchases in order to shield the US economy.

GOVERNMENT BONDS

Optimism regarding a COVID-19 vaccine and expected greater supply for US treasuries (to finance huge deficits and additional stimulus packages) pushed 10-year yields to their highest level since the crisis. The US yield curve bear-steepening movement of recent months has a good chance of continuing. However, as long as monetary policy remains very accommodative, the steepening should remain limited, especially if the recovery is more modest than expected.

European and US inflation breakevens strongly outperformed since mid-November benefiting from a risk-on market environment and rapid recovery in oil prices.

INVESTMENT GRADE & HIGH YIELD

Credit markets heavily outperformed last month. Hopes raised by positive news around a COVID-19 vaccine and a US fiscal stimulus package have been the main drivers.

Strong tailwinds should continue to favour credit spreads along with positive sentiment and technicals. The hunt for yield remains intact and should benefit riskier credit segments, including high yield.

On the back of the recent credit spread rally, we have decided to reduce the valuation score on all credit segments except for financials and Asian credit. At the same time, we have decided to improve the fundamental score on European high yield (HY), US investment grade (IG) and US HY thanks to credit metric stabilisation.

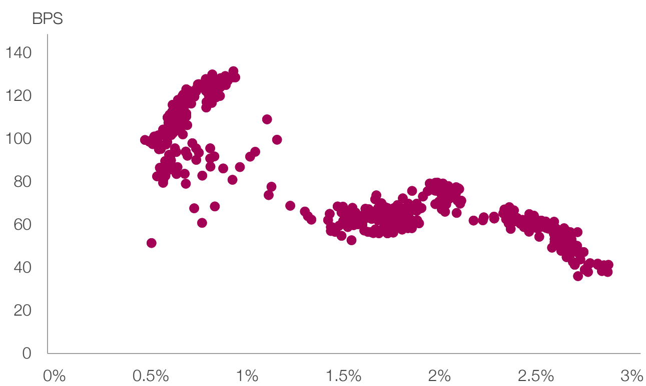
EMERGING MARKETS BONDS

On the macroeconomic side, next year's recovery is expected to be driven by Asia. The global environment should remain supportive for emerging market (EM) companies given the strong fundamental footing. High yield valuations should better benefit from the 2021 recovery, while investment grade spreads are not far from pre-pandemic levels.

Despite higher spreads for Latin American corporates, Asian valuations appear more attractive, especially for sectors sensitive to Chinese growth.

The relatively modest default rates and US Dollar weakening continue to support the emerging credit asset class.

US YIELD SLOPE 5S30S VS 10 YEAR YIELD



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.


The US dollar cannot seem to buy a friend.

FOREX

THE GREENBACK ENDS 2020 ON A SLIPPERY SLOPE

- As US dollar fundamentals shake, gold remains solid.
- The euro and the yuan become more attractive, teasing the eye of their central banks.

EURO (EUR)

In 2020 the EUR leaped a significant milestone with the start of fiscal transfers between Euro Area countries (through the pandemic EU Recovery Fund). This means that the euro break-up tail risks have been significantly reduced, at the same time as opening the door to the creation of a vast pool of AAA-rated assets that could attract flows from investors and reserve-managers looking to diversify away from the weakening USD. As we start 2021 this (and hopefully an end to the Brexit saga) will be an important force supporting the EUR, and the foreign exchange market will be closely watching data on the weight of EUR in international reserves.

US DOLLAR (USD)

The US dollar cannot seem to buy a friend. The alarming cocktail of COVID-19 mismanagement, bickering in Washington over much needed stimulus, legal wrangling over disputed election results and the nomination of a dovish Janet Yellen to the US Treasury have weighed heavily on USD. Sovereign wealth allocators are steadily reducing exposure to the dollar as currency debasement fears mount, whilst a potential final hour EU-UK free trade agreement would further propel the EUR and GBP. Although current sentiment and 2021 market forecasts are becoming quite USD bearish, only a rapid and effective US vaccine program could reverse the prevailing psychology and delay an apparently inevitable underperformance versus G10 peers.

CHINESE YUAN (CNY)

The Chinese recovery continues to impress, further illustrating the continental drift favouring Asia, a trend we believe will persist into 2021. The stronger yuan reflects record trade surpluses and growing foreign currency reserves. Foreign direct investment flows into their bond markets continue unabated. However, this fortunate backdrop poses a headache for the People's Bank of China (PBoC) who may start leaning against yuan strength. They do not wish to lower rates which would fuel already robust internal demand, as such we clearly remain CNY constructive on pullbacks but expect that further gains will be more gradual and intentionally pullbacks, muted via PBoC fixing policies in 2021. Furthermore, a hopefully successful global vaccine deployment would temper the strong Chinese export surge of medical supplies and devices in 2021.

GOLD (XAU)

Gold had an incredible 2020, making record highs versus dollar at USD 2'075/oz, followed by the recent correction we expected to the 200-day moving average around USD 1'800/oz and a correction that shows the market was excessively long gold in overheated speculation. However, the fundamentals for gold remain as solid as the metal itself – continued monetisation of fiscal splurges through central banks printing money to support economies through the crisis is a timeless ticket to higher gold prices. It almost feels like gold can only go up – whether because of continuous QE (quantitative easing) to combat low inflation and crises, or because inflation could take off and investors buy gold for protection. The only way gold can go lower again is if we see a return to growth without inflation.

FOREX & PRECIOUS METALS KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
UNITED STATES (USD)	=	=/-
EURO AREA (EUR)	=	=/+
UNITED KINGDOM (GBP)	=/+	=
SWITZERLAND (CHF)	=/-	=/-
JAPAN (JPY)	=/-	=
AUSTRALIA (AUD)	+	=/+
CANADA (CAD)	+	=/+
NORWAY (NOK)	+	=/+
BRAZIL (BRL)	=	=/+
CHINA (CNY)	=	+
GOLD (XAU)	=	=/+
SILVER (XAG)	=/-	+

Source: Indosuez Wealth Management.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

INVESTMENT SCENARIO FOR 2021 IN 10 POINTS

- A year of macroeconomic recovery driven by the vaccine-led reopening of economies and base effects vs. Q2 2020. Beyond short-term factors, GDP growth could be fragile in the first quarter, but should strengthen thereafter.
- A supportive policy-mix both on the fiscal and the monetary side:
  - Central banks will continue to increase their asset purchase programs and keep interest rates at present levels, which should limit the steepening of yield curves.
  - Governments are putting in place significant stimulus plans, which will go beyond the recessive effect of the pandemic; aimed at boosting investments and accelerating the transition to more sustainable growth.
- This favourable macroeconomic and monetary context should help all risky assets, which should perform positively despite their strong performance recorded since late March.
- 2021 will mostly be a year of carry on fixed income after a strong spread rally, which still has some room to go on high yield and emerging markets, but most of the rerating is behind us now. Both the search for yield and macro-optimism are driving flows into the risker market segments of fixed income (developed and emerging high yield).
- This low yield environment should also probably push investors to structurally increase their equity allocation as reflected by record flows these past weeks. A positive equity performance is expected, but returns should be lower than the double digit earnings growth expected in 2021, which is relatively well reflected by current valuations.
- It will also be a year of relative value on equities, with an outperformance expected from value and cyclical stocks; indeed even after the strong rerating of this themes since October, the decade-long rally on quality and secular growth stories means that there is further room for potential in 2021, notably on sectors which were the most affected by the pandemic.
- This rotation narrative played by equity investors could also lead to an outperformance of international equities vs US equities. Europe is the home of many of the value/cyclical stocks and also of climate action leaders praised by ESG funds which should continue to attract significant flows. Emerging assets should continue to do well and are widely expected to outperform developed markets under the central scenario of a rapid vaccine distribution.
- Duration should be less supportive in portfolios than in 2019-2020, but our central scenario assumes a moderate steepening in the US curve, which should not harm absolute return from carry.
- The US dollar weakening trend that we called out for last year and voiced again in spring has materialised. Vaccine-led macro-optimism could lead to a revision in the target trend for the EUR/USD towards 1.25. This level corresponds to a threshold at which the ECB could try to talk down the currency louder (as in 2017). It could also become self-defeating for European equities story.
- Gold continues to be supported by this negative interest rate environment, but it could be more vulnerable in 2021 if the vaccine and the reopening of economies trigger more reflation-driven market anticipations.

Several conditions are required for this scenario to materialise: among others, earnings growth should not disappoint, default rates should remain limited and macro momentum should not fade too significantly.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

TWO ALTERNATIVE SCENARIOS

- **Downside case (10-15% probability):** with delayed vaccine distribution, a weak macro year start in the US and in the Euro Area, which could trigger negative earnings revisions, curve flattening and anti-rotation on equities.
- **Upside case (20-25% probability):** with a better macro-economic acceleration, stronger release in pent-up demand, capex unlocking and more steepening of the US curve (50-75 basis points) which would trigger reallocation from fixed income towards equities, and a more pronounced rotation towards value.

SIX RISK FACTORS TO FOLLOW IN 2021

- **Run-off elections in Georgia:** early January US politics could unveil a surprise dual Democrat win which would mean a 50/50 Senate with Kamala Harris as swinging vote; this could change the market perception of the Biden victory as it could trigger renewed angst regarding tax reform.
- **Excessive steepening of the yield curve:** should the 10 Year move significantly above 1.5-1.75%, the amplification of the rotation could harm the quality/growth style which drove 2020 performance and therefore the overall market direction would become negative. Investment grade would suffer widening as absolute return from carry would not be immune from a duration effect.
- **China relationship:** Joe Biden's victory led to lot of optimism regarding the outlook of international relations. We should not discard the risk of a more confrontational approach, which would reinstall equity volatility, RMB weakening and profit taking on Chinese equities.
- **Pandemic uncertainties** and notably the capacity of emerging markets to benefit rapidly from a broad distribution of the vaccine.
- **Macro momentum and earnings revisions:** the recent upward repricing of equities and credit markets offer little room for disappointment as markets largely price in a rapid economic recovery and double-digit EPS growth.
- **Excessive EUR strength** could weaken the story on European equities (on the contrary, emerging equities are more positively correlated to emerging market currencies than a weak USD).

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 AREA (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 16 DECEMBER 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'701.17	3.74%	14.56%
FTSE 100 (United Kingdom)	6'570.91	2.91%	-12.88%
Stoxx Europe 600	396.08	1.42%	-4.75%
Topix	1'786.83	3.85%	3.80%
MSCI World	2'654.79	4.38%	12.56%
Shanghai SE Composite	4'953.87	1.27%	20.93%
MSCI Emerging Markets	1'263.82	4.66%	13.38%
MSCI Latam (Latin America)	2'444.37	11.62%	-16.22%
MSCI EMEA (Europe, Middle East, Africa)	240.44	5.33%	-10.14%
MSCI Asia Ex Japan	821.97	3.61%	19.43%
CAC 40 (France)	5'547.68	0.66%	-7.20%
DAX (Germany)	13'565.98	2.76%	2.39%
MIB (Italy)	21'986.52	1.68%	-6.47%
IBEX (Spain)	8'139.50	1.98%	-14.76%
SMI (Switzerland)	10'341.18	-1.01%	-2.60%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'200.00	2.71%	10.64%
Gold (USD/Oz)	1'864.80	-0.40%	22.90%
Crude Oil WTI (USD/Bbl)	47.82	14.35%	-21.68%
Silver (USD/Oz)	24.99	2.20%	39.42%
Copper (USD/Tonne)	7'836.00	10.55%	26.92%
Natural Gas (USD/MMBtu)	2.68	-1.29%	22.29%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	22.50	-1.34	8.72

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.08	-0.03%	-0.54%
GBP/USD	1.35	1.78%	1.90%
USD/CHF	0.89	-2.86%	-8.40%
EUR/USD	1.22	2.93%	8.80%
USD/JPY	103.47	-0.34%	-4.73%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.92%	4.62	-100.12
France 10Y	-0.33%	-0.70	-44.60
Germany 10Y	-0.57%	-1.40	-38.10
Spain 10Y	0.02%	-5.80	-44.20
Switzerland 10Y	-0.57%	-6.50	-10.30
Japan 10Y	0.01%	-0.70	2.60

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	44.97	3.02%	2.46%
Euro Governments Bonds	222.25	0.12%	2.16%
Corporate EUR high yield	206.93	1.44%	1.59%
Corporate USD high yield	316.15	1.58%	4.00%
US Government Bonds	325.67	0.12%	5.71%
Corporate Emerging Markets	53.11	1.30%	2.55%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

SEPTEMBER 2020	OCTOBER 2020	NOVEMBER 2020	4 WEEKS CHANGE	YTD (16.12.2020)	
0.45%	2.76%	21.61%	11.62%	20.93%	BEST PERFORMING
-1.48%	2.35%	13.93%	5.33%	19.43%	
-1.63%	1.98%	13.73%	4.66%	14.56%	
-1.68%	-1.19%	12.66%	4.38%	13.38%	
-1.77%	-2.77%	12.35%	3.85%	12.56%	
-2.72%	-2.84%	11.12%	3.74%	3.80%	
-3.59%	-3.14%	10.75%	3.61%	-4.75%	
-3.92%	-4.52%	9.21%	2.91%	-10.14%	
-4.75%	-4.92%	7.98%	1.42%	-12.88%	
-5.54%	-5.19%	5.64%	1.27%	-16.22%	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.