MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – JULY 2020

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VINCENT MANUEL

Chief Investment Officer,
Indosuez Wealth Management

RECOVERY REALITY OR MONETARY ILLUSION?

Dear Reader,

A strong market acceleration has occurred since mid-May, with evidence of panic buying and short covering, and a violent rotation away from quality/momentum and into cyclical/value stocks.

Some may wonder if this movement is sustainable or exaggerated, and if it relies on firm ground or on unreasonable hopes.

Let us start with the positive side of the story and the three main arguments it relies on.

Firstly, the reopening of economies has started to reveal better than expected recovery patterns in the US. March market panic reflected the widespread recognition of a sharp recession in Q2, the symmetric rebound acceleration in May was synchronised with the easing of lockdown measures and in June with better than expected employment data and retail sales in the US. The rebound of oil prices has reduced the stress on producing countries and on the oil sector in the US.

Secondly, central banks have continued to intensify actions with an increase of the emergency asset purchase programme of the European Central Bank (ECB), and a stronger support provided by the US Federal Reserve to credit markets. This is expected to limit the magnitude of default rate increases.

Thirdly, governments continue to increase the magnitude of their fiscal action - it is true in Japan, which doubled the size of its plan; it is true in the US, with a USD 1 trillion spending plan on infrastructure; and it is true in Europe, which is currently in process of agreeing on a EUR 750 billion recovery plan including EUR 500 billion of grants. It seems to be true as well in China with could increase its macro support.

However, this positive narrative should not distract us from the challenges and significant uncertainties ahead of us. This is the less shiny side of the equation.

Where will the European unemployment rate be in one year? Will the emergence of a second wave of the COVID-19 infection in China lead to broader renewed lockdown measures? Are markets still too optimistic regarding the recovery of earnings and underestimating default rates?

What is certain is that the recent recovery of equity markets also reflect mechanical effects of monetary activism and the return of Fed Funds rate in to the ZIRP territory (zero interest rate policy). Lower rates warrant high present values for future earnings, and lower rates imply that equity prices rise if investors price companies on the back of a stable equity risk premium versus long-term rates. In a way, this mathematical evidence could be seen as a form of monetary illusion or as an actuarial artefact, which does not reflect the challenges around the prospect of net cash returns on equities and corporate bonds. If dividends and stock buy-backs are questioned and if corporate default rates are on the rise, investors should request higher risk premiums. As stocks continue to rise and spread tighten, the margin for error is getting thinner.

This could be one of the market themes around the Q2 earnings season, as a continued increase of markets and rotation into value would probably need to require a bottom-up confirmation at this stage.

We wish you pleasant reading and a wholesome summer.

FOCUS

STRONG RALLY ON THE CREDIT MARKET

FAST AND FURIOUS!

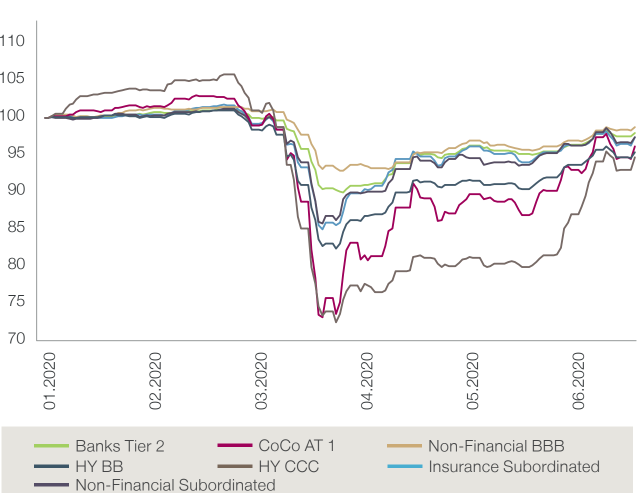
Excluding the recent bout of volatility, rally on the credit markets has been significant over the past weeks, supported in particular by new central banks announcements, through different forms of policy response.

The ECB increased the run rate of its existing corporate bond purchase programme, acting as a regular buyer of eligible Investment Grade (IG) bonds in both primary and secondary markets, extending recently its PEPP (Pandemic Emergency Purchase Programme) by EUR 600 billion to a total of EUR 1'350 billion (EUR 110 billion/month, including EUR 10 billion from the credit market). In contrast, the US Fed's corporate bond facilities are more targeted to be a funding/liquidity backstop rather than a straightforward QE program. The Secondary Market Corporate Credit Facility (SMCCF), opened since 12 May, has been purchasing ETFs only (circa USD 5 billion: 83% IG/17% HY) up until recently (15 June) where it started buying individual bonds. Buying capacity on the Primary Market Corporate Credit Facility (PMCCF) is of USD 750 billion. Even if both are unlikely to hit their limit, the indirect benefit of the Fed easing is significant, and thus supportive for the US credit market.

STRONG RALLY FOR HIGH YIELD

Spread tightening for high yield (HY) specifically has been strong up to Mid-June. The European HY segment finished May up by 3%, and was up over 3% already as of 10 June. Speed of the rally has been almost as great as the sell-off, enabling to reverse 70-80% of the widening led by the COVID-19 crisis for European credits, with a performance seen as a barbell of ratings - the strength in BB-rated and CCC-rated names, and persistent weakness among single Bs.

YEARLY TOTAL RETURN FOR MAJOR EUROPEAN IBOXX CREDIT INDICES



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

The CCC segment has often reached distressed levels, whilst hard defaults have been very rare for now among European names thanks to combination of supportive monetary and fiscal measures but also because of the lower weight of energy producers and more issuers from defensive industries within the CCC category compared to the US HY index.

US HY segment is now back in line with its European counterpart globally, but with much more decompression on the US side at the rating level. While Fed actions have supported fallen angels, a lack of direct fiscal support for energy producers has led to clear reaction in terms of credit spreads and concentration of increasing default rates.

In terms of sectors, dispersion is still there but has also shrank, average spreads of defensive credits are at levels close to before the COVID-19 crisis.

BUT DETERIORATING TREND OF CREDIT FUNDAMENTALS

In contrast, credit fundamentals keeps deteriorating in the context of global recession and only a gradual recovery in sight. Rating drift has become negative for Europe and fallen angels (EUR 300 billion) and companies affected year-to-date, exceeding figures of the five previous full years. The same trend is also being seen in the US.

According to Moody's, the trailing 12-month global speculative-grade default rate climbed to 4.7% in May, up from 4.1% in April and 2.3% a year earlier, surpassing the long term average of 4.1%. Overall, 25 Moody's-rated corporate issuers defaulted in May (26 in April).

The Oil & Gas sector (eight defaults) and Retail sector (six defaults) were particularly hard hit, with an increase in the number of large defaults (10 companies on more than USD 1 billion of debt each). Moody's forecasts that the global default rate will increase further to 9.2% by year-end and peak at 9.5% by February 2021 before dropping back to 9.0% by May 2021, assuming a severe economic contraction in 2Q20 to be followed by a slow recovery in H2 2020.

FOCUS

STRONG RALLY ON THE CREDIT MARKET

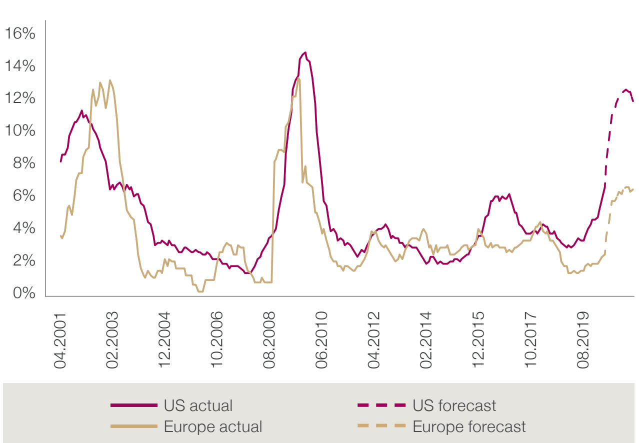
DEFAULT RATE FORECASTS: NOT TOO PESSIMISTIC?

But a high degree of uncertainty around virus containment efforts in different parts of the world as well as around the timing of vaccine development also means a high risk of divergence compared to the baseline scenario.

Under Moody's pessimistic scenario, the global default rate would rise substantially to 16.3% in 2021 and surpass the 2009 peak of 13.3%. In this case, US HY spread would widen to the 880 bps-1'550 bps range in the next four quarters. Under the optimistic scenario, the default rate would rise to only 5.0% by May 2021 and HY spread would then fall to circa 400 bps.

It is worth noticing that in Moody's baseline scenario, the European HY default rate is expected to trend lower from November 2020, and from March 2021 for the US, with lower default rates than last global financial crisis, but large differences by sectors and by corporate credit profile.

US AND EUROPEAN DEFAULT RATES, ACTUAL AND FORECAST, %



Source: Moody's, Indosuez Wealth Management.

Are HY spreads sufficient to reflect the potential spike in defaults or is the recent regain of volatility a signal that the strong recovery has been exaggerated?

Credit markets, and more specifically the HY market across currencies, are not immune to a volatility spike in equity markets.

Nevertheless, backstops from central banks prevent investors from sharp deteriorations on market values, while more limited increase of default rates than anticipated by rating agencies makes us see rating agencies baseline scenario as too pessimistic.

STILL GOOD VALUE AMONG IG AND SOLID HY CREDITS

We thus maintain a cautiously optimistic stance on the credit market, considering that investors are still well rewarded to hold credit bonds, in a lower-for-longer rates environment, despite recent spread tightening.

Positioning on IG credits versus HY looks the most appropriate and cautious investment approach for bond portfolios – valuation on IG segment is still wider than historical levels while supportive actions from the central banks are to continue, as well as robust demand from overseas investors.

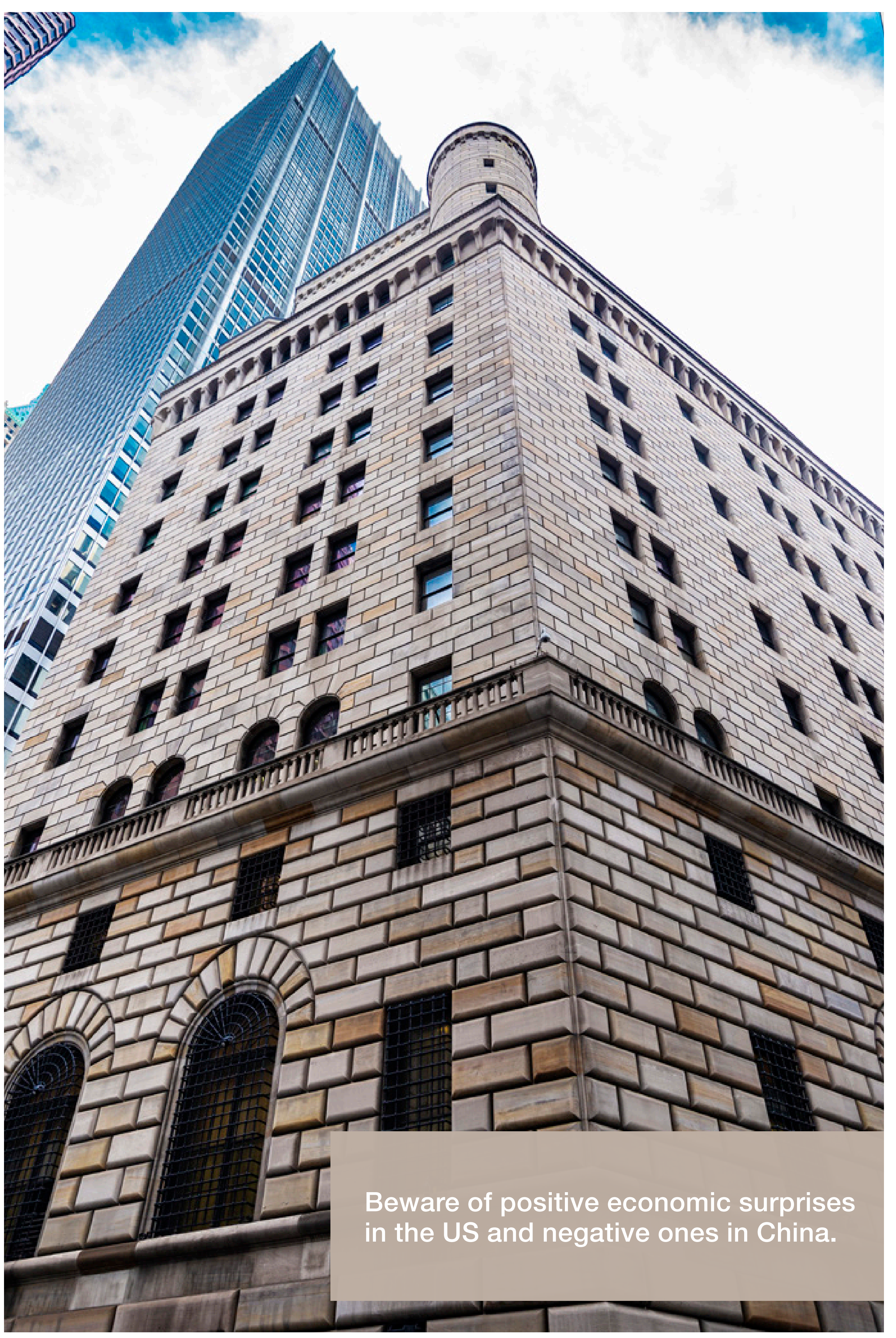
We, however, also see good value within BBs credits with a market expected to remain particularly discriminative between solid BBs and lower-rated credits which are facing increasing default risks (particularly on the US front).

Ensuring a selective approach within this HY segment, we then continue to favour less sensitive COVID-19 sectors, through issuers which confirm resilient business model, good liquidity to cover working capital swing and short term debt, manageable financial leverage and low operating leverage with low fixed costs.

EUROPEAN EUR IBOXX INDICES PERFORMANCE, %

AS OF JUNE 15TH	BANKS TIER 2	INSURANCE SUBORDINATED	NON-FINANCIAL BBB	NON-FINANCIAL SUBORDINATED	COCO AT 1	HY BB	HY CCC
YTD	-3%	-4%	-2%	-3%	-6%	-5%	-7%
Sell-off (19.02.2020)	-11%	-16%	-8%	-15%	-28%	-18%	-31%
Recovery (23.03.2020)	8%	12%	5%	12%	28%	15%	28%

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



Beware of positive economic surprises in the US and negative ones in China.

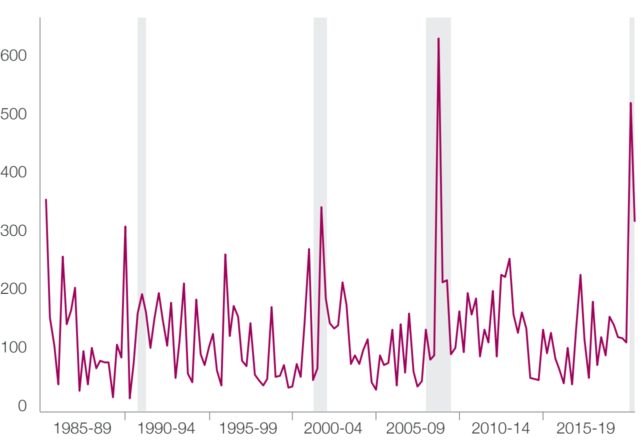
MACRO ECONOMICS

LIVING ONE DAY AT A TIME

FROM QUARTERLY TO DAILY

The US National Bureau of Economic Research (NBER) officially called Q4 2019 the peak of the US expansion in quarterly terms, and February 2020 the peak in monthly terms. It ended the record 128 months of US economy expansion. But the length and depth of the recession is uncertain, as it is in most other national economies. While March is the first month in the current US recession, it is the Q2 2020 data that will be the worst. The US Q2 GDP most recent forecasts show an unusually large dispersion, ranging from -67% (annualised) to -7.5%. Thus, the high uncertainty currently prevailing in terms of sanitary and economic conditions are reflected in the forecast range. The US economic policy uncertainty index is displayed in the chart below. The grey areas are recession periods.

US ECONOMIC POLICY UNCERTAINTY INDEX



Source: Bloomberg, Baker, Bloom and Davis, Indosuez Wealth Management.

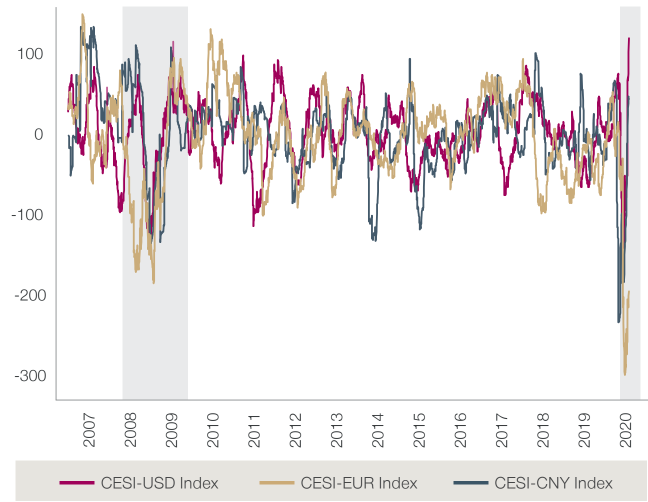
While quarterly data as GDP figures are released with some lag (we will have to wait until the end of July to get the first estimate of Q2 growth), higher frequency data could give us more up-to-date information. With this in mind, we notice that the uncertainty index is computed on a daily basis.

Daily mobility data is also available. The change in routing requests since 13 January 2020 based on Apple maps show increases of 23% in Germany, 14% in Italy and USA, and a decrease of 25% in UK. In other words, we have passed the April trough. The Google Mobility Index for Europe seems to confirm that the low is behind us, but remains below its February value.

Turning to China, the COVID-19 outbreak started earlier than in the rest of the world, which means that Q1 could be the peak of the crisis. However, assessing the strength of the rebound is more difficult due to the timing of the Chinese New Year (25 January to 4 February 2020). Therefore, it is difficult to separate its impact from the effects of the pandemic. That being said, we observe that the daily coal usage some 3 months after the beginning of the New Year is above its 2015-2019 average. It may sound positively too optimistic, as other statistics (home transactions, steel usage) while displaying a rebound did not break above the average.

All in all, there was room for positive surprises in terms of economic data in China and in the US (retail sales jumped 17.7% MoM in May, twice the expected gain, and the unemployment rate fell to 13.3%), as can be seen in the chart below.

CITI ECONOMIC SURPRISE INDICES



Source: Bloomberg, Indosuez Wealth Management.

However, some degree of caution has to be applied to China, as shown by the release of below expectations May imports (-16.7% YoY). This may signal a clunky recovery.

All of this did not impress the central banks, as they chose to err on the side of caution. We cannot help but recall the wording of Jerome Powell, the Chairman of the US Federal Reserve, “not even thinking about thinking about raising rates”. No doubt that most of the other central banks will not depart from this stance.

Sharpest equity rebound in history.

EQUITIES

EXTREME ROTATION

- March's rebound has turned into a panic buying rush amplified by a strong rotation from defensive/growth towards cyclical/value. The current move is already the sharpest rebound of the market's history with a magnitude close to a 45% rise in less than 3 months (for the S&P 500). It has been driven by the end of the lockdown, the announcement of massive fiscal and monetary packages and a global short positioning of investors.
- This extreme rebound associated with the sharp deterioration on earnings expectation has led P/E valuation levels on the highest level for the past 20 years.

EUROPE

In Europe, as for the rest of the world, the EPS momentum has been much better recently after a very negative trend in March and April. Europe is more tilted towards value and cyclical sectors which means the region tends to outperform when economic activity is picking up in a sustainable way and when interest rates are rising, which is not the base case given the current ECB policy.

UNITED STATES

The rebound of the US market continues, supported by budget stimulus, liquidity injections from the Fed and the prospect of reopening. In this context, all sectors posted increases, whether it be the companies which have suffered the most from confinement or companies in the new economy which have used this crisis as an opportunity to accelerate technological development, in particular on work organisation. Besides, the Nasdaq is once again reaching all-time high.

EMERGING MARKETS

Asia ex. Japan top line and bottom line growth have now stabilised at low single digit levels for 2020. A strong earnings recovery in 2021 is expected. Chinese corporate earnings have proved relatively resilient so far, as downward revisions have been rather mild versus the rest of Asia. China's COVID-19 related stimulus measures appear to be substantial and the recovery should continue into H2 2020, led by consumption, infrastructure spending and technology.

JAPAN

The Bank of Japan is still very active and has recently doubled its pace of ETF purchases. The cheap valuation can be a hedge. The market has suffered a lot of outflows from foreign investors. Now the positioning looks light which could be a support and should limit any potential downside.

INVESTING STYLE

The recent magnitude of factor volatility is unprecedented, and the rally in value over the past three weeks is already quite advanced even if this value/cyclical rotation could sustain for a few more weeks. In the long term, the value versus growth tilt continues to be strongly correlated to the direction of bond yields and from that point of view, the recent move is not going to be sustained.

SECTOR PREFERENCES

The magnitude of factor rotation has clearly impacted the recent sectorial performances. Between the 15 May and the 8 June, cyclicals such as autos, travel, banks are all up around +25%, whilst healthcare is up just less than 4%, delivering a spread of 2'100 bps.

SENTIMENT AND POSITIONING

At the overall market level, investor positioning has turned net long, with short interest having come down as optimism over re-opening has spurred a risk-on dynamic in markets. Considering the very defensive positioning since March which can partly explain the recent acceleration of the markets on the upside, we now think this positive driver is not going to help further.

EQUITIES KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GEOGRAPHIES		
EUROPE	-/=	=
UNITED STATES	=/+	=/+
JAPAN	-/=	-/=
GLOBAL EM	=/+	+
LATAM	-/=	=
ASIA EX-JAPAN	=/+	=
CHINA	+	+
STYLES		
GROWTH	=	=/+
VALUE	-/=	-/=
QUALITY	=/+	+
CYCLICAL	=	-/=
DEFENSIVE	=	=/+

Source: Indosuez Wealth Management.

Central Banks supporting economies.

FIXED INCOME

TECHNICALS: STRONG SUPPORTS FOR RATES AND INVESTMENT GRADE CREDITS

- Central bank easing to be effective for a long period.
- Investment Grade credit, safer place for yield search.

CENTRAL BANKS

Central banks continue to support economies, providing liquidity to governments, banks and corporates. Regarding the ECB, TLTRO's liquidity reached EUR 1'023 billion. The Pandemic emergency purchase programme (PEPP) has been raised to EUR 1'350 billion with the horizon extended to at least the end of June 2021.

The current easing is not ready to stop!

The US Fed signalled during last FOMC committee that it will keep pumping stimulus into the US economy until jobs come back.

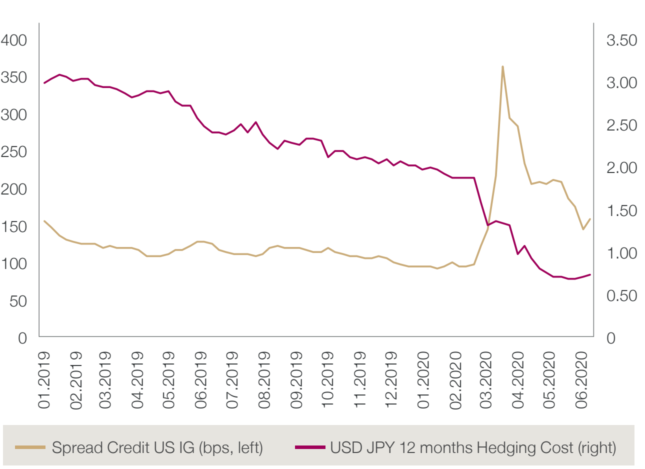
GOVERNMENT BONDS & PERIPHERALS

With central banks buying sovereign bonds, and a strong demand from investors, a significant rise in rates is unlikely in the near future.

Inflation breakevens outperformed since the beginning of May. However, we expect the deflationary trend to continue in the near term before recovering alongside a rebound in economic conditions.

Peripherals: The recently announced EUR 750 billion recovery fund has reduced the risks for non-core countries. Peripherals spreads have tightened further after the increase in size announcement.

US INVESTMENT GRADE CREDIT MORE APPEALING FOR JPY INVESTORS



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

INVESTMENT GRADE & HIGH YIELD

Credit markets performed strongly in May and early June. Recovery from virus lockdowns and absence of significant second wave concerns so far, have contributed to the recovery rally.

The asset class benefited from central banks buying programs and rising investor confidence. Falling currency hedging cost as well as increasing spreads and low rates have also fuelled foreign demand for US and Euro IG credits.

However, corporates fundamentals are weakening quickly, especially for HY companies. A high uncertainty in the default rate outlook remains but government guaranteed loans could have a positive impact on the default surge.

EMERGING MARKETS BONDS

Emerging spreads have tightened a lot since May. The strength of the recovery in terms of performance has been prominent, especially for the HY segment and Latam credits.

Macroeconomic uncertainty remains high and we expect to see increasing regional divergence.

Asian corporates should show higher resilience on the back of better fundamentals.

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.

USD comes off its pedestal.

FOREX

OUR HOUSE VIEW

- Euro break-up tail risk reduced whilst USD under pressure from all sides.

US DOLLAR (USD)

The greenback has been under pressure recently as lockdown measures have been progressively eased while the US faced political tensions at home. Risk sentiment remains the main driver for the US dollar which has been acting as a safe haven since March, strengthening during risk-off periods and weakening during risk-on periods.

Recent civil unrest in the US and concerns about a second COVID-19 wave have weighed on President Trump's approval and on the US dollar. Adding insult to injury, the prospective EU recovery fund (see below) has boosted the euro's appeal as the second most-held reserve currency, thus catalysing USD weakness.

Beyond the pandemic, we expect the US dollar to be sensitive to the US November presidential elections polls. Rising support for Joe Biden should create uncertainty about the policy direction and weaken the US dollar in the long-term.

EURO (EUR)

The euro has rallied recently boosted by the positive developments regarding the EU Recovery Fund and the ECB following with further easing measures.

The possibility of debt mutualisation between the European members and larger than expected fiscal transfer should remove the risk of a Euro Zone break-up and boost the outlook for the euro in the long-term.

In term of positioning, market has been running long euro positions for some time now, suggesting that some positives are already in the price of the single currency.

As long as the EU recovery package stays under discussion, we expect EUR/USD to be capped at 1.15 and good news of approval could open the way towards 1.17. On the downside, the 200-day moving average will act as a support at 1.1025.

POUND STERLING (GBP)

Underlying factors are re-gaining importance for the pound and all are expected to keep it volatile, uncertain, and slightly devalued. Brexit talks have intensified again now that both EU and UK governments have bandwidth to deal with them, the main development in June was that no extension will be arranged to the deadline for a trade deal at end-2020.

On the other hand monetary policy is adapting to the health crisis as the Bank of England and markets all toy with the idea of negative rates and/or more quantitative easing. What is important for the pound will be - intensified talks can lead to Brexit progress, a potential GBP positive (in this respect it feels like all the negatives are already priced in), whilst negative rates or quantitative easing do not seem to threaten much given the rest of the developed world does not pay interest either and is printing money. This leaves GBP likely to remain depressed but supported.

SWISS FRANC (CHF)

Improvement in global risk sentiment and reduced euro area cohesion risk have taken some appreciation pressure off the Swiss franc especially against the euro. At its last meeting, the Swiss National Bank kept interest rates at minus 0.75% and said that aggressive foreign exchange interventions remain its main tool.

The high value of the Swiss franc, deflationary risks and sluggish economic growth caused by the COVID-19 pandemic leave very few open choices for the central bank.

On top of the domestic economy, the Swiss National Bank is still constrained by its European neighbour, waiting for development on the EU Recovery fund this summer.

BRAZILIAN REAL (BRL)

BRL had an incredible 20% recovery down to 4.80-90 USD/BRL as markets got excited with the idea of a V-shaped recovery, dragging the BRL higher along with the rest of risk assets in markets - this to us was a herd movement that completely ignored the underlying fundamental problems facing Brazil.

Problems which are summed up as rampant COVID-19 contagion, little fiscal space to support through the crisis, and continued political uncertainty as President Bolsonaro swings between conflict and peace-making with judiciary and politicians.

The crutch still supporting the case for BRL is that economy minister Paulo Guedes continues to have full backing of the President and is staying in place for now. Our message when global markets push the BRL up, holders should consider it an opportunity gifted by the herd mentality.

FOREX & PRECIOUS METALS KEY CONVICTIONS

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

Source: Indosuez Wealth Management.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

INVESTMENT SCENARIO

Central Case (50% probability):

- Sharp but short recession followed by a progressive recovery in Q4 2020 and in 2021;
- Slightly better recovery than expected earlier notably in the US as early as end of Q2 (ie. retail sales), but a risk of slower recovery in Europe and an increase of unemployment into 2021 in the Euro Zone;
- No return to global lockdown in case of an isolated second wave (economic impact too costly);
- Amplified fiscal support in major economies (US, Japan, China, Europe);
- Stabilisation of earnings revisions for 2020 and rebound in 2021;
- Monetary policy and state guarantees capping default rates which increase moderately.

Alternative Case #1 (25% probability) which could be fuelled by:

- Prolonged economic weakness, slower recovery than expected in H2 2020 and in 2021;
- Limited effect of monetary policy on the GDP recovery and default rates;
- Political tensions leading to greater trade fragmentation; delay in the European plan implementation;
- Renewed trend of negative earnings revisions for instance triggered by Q2/Q3 results;
- Risk of a second wave of pandemic (as witnessed in China).

Alternative Case #2 (25% probability):

- A firm V-shape recovery as early as in H2 2020;
- No second pandemic wave;
- Positive earnings revisions in H2 2020;
- Continued improvement in unemployment decrease in the US, and limited job destruction in Europe;
- No significant increase of default rates.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

ASSET CLASSES

Equities

- Slight underweight reflecting a constructive view but acknowledging a strong recovery and elevated valuations;
- Maintained focus on quality and visibility but a more neutral view on defensive versus cyclical stocks;
- Preference for US equities (home of technology leaders, better EPS momentum) versus Europe and Japan;
- Within emerging economies, a preference for China (long term trends on technology, middle class).

Fixed income

- Keep carry despite the spread tightening, on the back of central banks' support and more limited increase of default rates than anticipated by rating agencies;
- Positive conviction on corporate IG, financial subordinated debt and BB HY;
- Selectivity on emerging debt given unequal macro fundamentals, pandemic risk and policy headroom;
- Increase duration in view of central banks' commitment to low rates and to reduce portfolio drawdowns.

Currencies and precious metals

- USD vulnerability versus EUR is increasing as political risk reduces in Europe and increases in the US, whilst rate differential and hedging costs are the lowest for the last 5 years;
- Gold vulnerable to risk-on sentiment but remains a good hedge in portfolios in view of remaining risks.

KEY CONVICTIONS

EQUITIES	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
GEOGRAPHIES		
EUROPE	-/=	=
UNITED STATES	=/+	=/+
JAPAN	-/=	-/=
GLOBAL EM	=/+	+
LATAM	-/=	=
ASIA EX-JAPAN	=/+	=
CHINA	+	+
STYLES		
GROWTH	=	=/+
VALUE	-/=	-/=
QUALITY	=/+	+
CYCLICAL	=	-/=
DEFENSIVE	=	=/+
FIXED INCOME		
GOVERNMENTS		
CORE EUR 10Y (BUND)	=	=
EUR PERIPHERY	=	=/-
USD 10Y	=	=
CREDIT		
INVESTMENT GRADE EUR	=/+	=/+
HIGH YIELD EUR/BB- AND >	=	=/+
HIGH YIELD EUR/B+ AND <	=/-	=/-
FINANCIALS BONDS EUR	=/+	+
INVESTMENT GRADE USD	=/+	+
HIGH YIELD USD/BB- AND >	=	+
HIGH YIELD USD/B+ AND <	=/-	=/-
EMERGING DEBT		
SOVEREIGN DEBT HARD CURRENCY	=	=/+
SOVEREIGN DEBT LOCAL CURRENCY	=/-	=/-
LATAM CREDIT USD	=/-	=/-
ASIA CREDIT USD	=	+
CHINESE BONDS CNY	=/+	+
FOREX		
UNITED STATES (USD)	=/+	-
EURO ZONE (EUR)	=/-	+
UNITED KINGDOM (GBP)	=	=
SWITZERLAND (CHF)	=	=
JAPAN (JPY)	+	=
BRAZIL (BRL)	=	=
CHINA (CNY)	=	=/+
GOLD (XAU)	=/-	+

Source: Indosuez Wealth Management.

MARKET MONITOR (LOCAL CURRENCIES)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 16 JUNE 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	3'124.74	6.90%	-3.28%
FTSE 100 (United Kingdom)	6'242.79	4.01%	-17.23%
Stoxx Europe 600	363.33	7.02%	-12.63%
Topix	1'593.45	7.23%	-7.43%
MSCI World	2'219.10	7.65%	-5.91%
Shanghai SE Composite	4'014.57	1.47%	-2.00%
MSCI Emerging Markets	989.87	6.99%	-11.20%
MSCI Latam (Latin America)	1'944.42	20.91%	-33.36%
MSCI EMEA (Europe, Middle East, Africa)	207.85	5.27%	-22.32%
MSCI Asia Ex Japan	642.07	5.34%	-6.71%
CAC 40 (France)	4'952.46	11.09%	-17.16%
DAX (Germany)	12'315.66	11.20%	-7.04%
MIB (Italy)	19'625.63	15.21%	-16.51%
IBEX (Spain)	7'495.30	13.41%	-21.51%
SMI (Switzerland)	9'842.56	2.77%	-7.29%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'706.00	4.34%	-2.37%
Gold (USD/Oz)	1'726.53	-1.06%	13.79%
Crude Oil WTI (USD/Bbl)	38.38	18.09%	-37.14%
Silver (USD/Oz)	17.65	-1.34%	-1.50%
Copper (USD/Tonne)	5'728.50	6.97%	-7.22%
Natural Gas (USD/MMBtu)	1.61	-11.80%	-26.27%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	33.67	3.14	19.89

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.07	0.96%	-1.30%
GBP/USD	1.26	2.61%	-5.16%
USD/CHF	0.95	-2.06%	-1.58%
EUR/USD	1.13	3.12%	0.45%
USD/JPY	107.32	-0.36%	-1.19%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.75%	6.46	-116.47
France 10Y	-0.05%	-3.40	-16.80
Germany 10Y	-0.43%	3.70	-24.00
Spain 10Y	0.53%	-10.80	6.70
Switzerland 10Y	-0.43%	8.30	4.30
Japan 10Y	0.01%	1.60	3.30

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	40.83	4.80%	-6.97%
Euro Governments Bonds	218.51	0.70%	0.44%
Corporate EUR high yield	193.88	5.95%	-4.81%
Corporate USD high yield	295.34	5.23%	-2.84%
US Government Bonds	325.06	-0.02%	5.51%
Corporate Emerging Markets	50.62	4.52%	-2.26%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

MARCH 2020	APRIL 2020	MAY 2020	4 WEEKS CHANGE	YTD (16.06.2020)
-6.44%	12.68%	6.81%	-2.00%	20.91%
-7.14%	10.80%	6.23%	-3.28%	7.65%
-12.24%	10.18%	4.63%	-5.91%	7.23%
-12.51%	9.00%	4.53%	-6.71%	7.02%
-13.47%	8.90%	3.62%	-7.43%	6.99%
-13.81%	6.24%	3.04%	-11.20%	6.90%
-14.80%	6.14%	2.97%	-12.63%	5.34%
-15.61%	5.95%	0.58%	-17.23%	5.27%
-21.58%	4.35%	-1.16%	-22.32%	4.01%
-34.63%	4.04%	-1.41%	-33.36%	1.47%

BEST PERFORMING

WORST PERFORMING

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

FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
Stoxx Europe 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

GLOSSARY

Backwardation: Refers to a situation where a futures contract's price is below the spot price of the underlying. The opposite situation is referred to as Contango.

Barbell: An investment strategy that exploits two opposing ends of a spectrum, such as going long both the short- and long-end of a bond market.

Basis point (bps): 1 basis point = 0.01%.

Below par bond: A bond trading at a price inferior to the bond's face value, i.e. below 100.

Bottom-up: Analyses, or investment strategies, which focus on individual corporate accounts and specifics, as opposed to top-down analysis which focuses on macro-economic aggregates.

Brent: A type of sweet crude oil, often used as a benchmark for the price of crude oil in Europe.

Bund: German sovereign 10-year bond.

Call: Refers to a call option on a financial instrument, i.e. the right to buy at a given price.

CFTC (Commodity Futures Trading Commission): An independent US federal agency with regulatory oversight over the US commodity futures and options markets.

COMEX (Commodity Exchange): COMEX merged with NYMEX in the US in 1994 and became the division responsible for futures and options trading in metals.

Contango: Refers to a situation where the price of a futures contract is higher than the spot price of the underlying asset. The opposite situation is referred to as Backwardation.

CPI (Consumer Price Index): The CPI estimates the general price level faced by a typical household based on an average consumption basket of goods and services. The CPI tends to be the most commonly used measure of price inflation.

Duration: Reflects the sensitivity of a bond or bond fund to changes in interest rates, expressed in years. The longer the duration of a bond, the more its price is sensitive to any changes in interest rates.

EBIT (Earnings Before Interest and Taxes): Refers to earnings generated before any financial interest and taxes are taken into account. It takes earnings and subtracts operating expenses and thus also corresponds to "operating earnings".

EBITDA (Earnings Before Interests, Taxes, Depreciation and Amortisation): EBITDA takes net income and adds interest, taxes, depreciation and amortisation expenses back to it. It is used to measure a company's operating profitability before non-operating expenses and non-cash charges.

ECB: The European Central Bank, which governs the euro and euro-member countries' monetary policy.

Economic Surprises Index: Measures the degree of variation in macro-economic data published versus forecasters' expectations.

EPS: Earnings per Share.

ESG: Environmental, Social and Governance.

ESMA: European Securities and Markets Authority.

Fed: The US Federal Reserve, i.e. the central bank of the United States.

FOMC (Federal Open Market Committee): The US Federal Reserve's monetary policy body.

Futures: Exchange-traded financial instruments allowing to trade the future price of an underlying asset.

G10 (Group of Ten): One of five groups, including also the Groups of 7, 8, 20 and 24, which seek to promote debate and cooperation among countries with similar (economic) interests. G10 members are: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK and the US with Switzerland being the 11th member.

GDP (Gross Domestic Product): GDP measures a country's yearly production of goods and services by operators residing within the national territory.

GHG: Greenhouse gases.

Gulf Cooperation Council (GCC): A grouping designed to favour regional cooperation between Oman, Saudi Arabia, Kuwait, Bahrain, United Arab Emirates and Qatar.

High yield: A category of bonds, also called "junk" which ratings are lower than "investment grade" rated bonds (hence all ratings below BBB- in Standard & Poor's parlance). The lower the rating, the higher the yield, normally, as repayment risk is higher.

Hybrid securities: Securities that combine both bond (payment of a coupon) and share (no or very long maturity date) characteristics. A coupon might not be paid, as with a dividend.

iBoxx investment grade/high yield indices: Benchmarks measuring the yield of investment grade/high yield corporate bonds, based on multi-source and real-time prices.

IMF: The International Monetary Fund.

Investment Grade: A "high quality" bond category rated between AAA and BBB- according to rating agency Standard & Poor's.

LIBOR (London Interbank Offered Rate): The average interbank interest rate at which a selection of banks agree to lend on the London financial market. LIBOR will cease to exist in 2020.

LME (London Metal Exchange): The UK exchange for commodities such as copper, lead, and zinc.

Loonie: A popular name for the Canadian dollar which comes from the word "loon", the bird represented on the Canadian one dollar coin.

LVT: Loan-to-Value ratio; a ratio that expresses the size of a loan with respect to the asset purchased. This ratio is commonly used regarding mortgages, and financial regulators often cap this ratio in order to protect both lenders and borrowers against sudden and sharp drops in house prices.

Mark-to-market: Assessing assets at the prevailing market price.

OECD: Organisation for Economic Co-operation and Development.

OPEC: Organisation of Petroleum Exporting Countries; 14 members.

OPEC+: OPEC plus 10 additional countries, notably Russia, Mexico, and Kazakhstan.

Policy-mix: The economic strategy adopted by a state depending on the economic environment and its objectives, mainly consisting of a combination of monetary and fiscal policy.

PMI: Purchasing Managers' Index.

Put: An options contract that gives the owner the right, but not the obligation, to sell a certain amount of the underlying asset at a set price within a specific time period. The buyer of a put option believes that the underlying stock price will fall below the option price before expiration date. The value of a put option increases as that of the underlying asset falls, and vice versa.

Quantitative Easing (QE): A monetary policy tool by which the central bank acquires assets such as bonds, in order to inject liquidity into the economy.

Renminbi: Translating literally from Chinese as "currency of the people", this is the official name of China's currency (except in Hong Kong and Macao). It is also frequently referred to as the yuan.

Russell 2000 Index: A benchmark measuring the performance of the US small cap segment. It includes the 2000 smallest companies in the Russell 3000 Index.

SEC (Securities and Exchange Commission): The SEC is an independent federal agency with responsibility for the orderly functioning of US securities markets.

Spread (or credit spread): A spread is the difference between two assets, typically between interest rates, such as those of corporate bonds over a government bond.

SRI: Sustainable and Responsible Investments.

Subordinated debt: Debt is said to be subordinated when its repayment is conditional upon unsubordinated debt being repaid first. In return for the additional risk accepted, subordinated debt tends to provide higher yields.

Swap: A swap is a financial instrument, often over the counter, that enables two financial flows to be exchanged. The main underlyings used to define swaps are interest rates, currencies, equities, credit risk and commodities. For example, it enables an amount depending on a variable rate to be exchanged against a fixed rate on a set date. Swaps may be used to take speculative positions or hedge against financial risks.

USMCA: The United States-Mexico-Canada Agreement, signed by the political leaders of the three countries on 30 September, 2018, replacing NAFTA (created in 1994).

VIX: The index of implied volatility in the S&P 500 Index. It measures market operators' expectations of 30-day volatility, based on index options.

Wedge: A wedge occurs in trading technical analysis when trend lines drawn above and below a price chart converge into a arrow shape.

WTI (West Texas Intermediate): Along with Brent crude, the WTI is a benchmark for crude oil prices. WTI crude is produced in America and is a blend of several sweet crude oils.

WTO: The World Trade Organisation.

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The banks of the Indosuez Wealth Management Group are preparing for the replacement or restructuring of interbank interest rates, such as the LIBOR, EURIBOR and EONIA, the fixing terms of which will be strengthened significantly, as decided by the financial market authorities and banking agents. At the European level, the European Central Bank began publishing the €STR (Euro Short Term Rate) in October 2019, which will sit alongside the EONIA until December 2021 and will replace it in January 2022. Concerning the EURIBOR, the European Money Markets Institute confirmed in November 2019 that the transition phase for the Hybrid EURIBOR has been completed, paving the way for full restructuring between now and December 2021. Each IBOR interest rate (e.g. the LIBOR US Dollar) will also be overhauled between now and the end of 2021. Accordingly, the Swiss National Bank announced in June 2019 the introduction of its own policy interest rate in Swiss francs, calculated based on the SARON (Swiss Average Rate Overnight) with the goal of creating forward rates that will also be calculated based on the SARON.

The Indosuez Wealth Management Group is following all of these reforms very closely and has a specific framework to cover all related legal, commercial, and operational impacts. For now, you are not required to do anything in relation to your financing operations or investments indexed to the benchmark rates concerned by these changes. You will receive further information once a better picture surrounding the details of the replacements are known. Please feel free to contact your account manager if you have any questions.