INDOSUEZ
WEALTH MANAGEMENT

Marketing Material - October 2021

Focus
China: The Quest for Common Prosperity

Architects of Wealth

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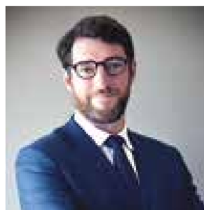
IS THIS A REAL NORMALISATION?



VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

Recent months have been enough to make a market economist's head spin. In just a few months, we have gone from recession to recovery, from recovery to acceleration, and now from acceleration to "normalisation". It's like a film in fast forward that we would like to rewind so we can go back to the end of 2020 — a time of euphoria about a historic and an inflationless recovery, rather than already questioning ourselves about the pace of growth, and the start of an inflation trajectory, a trajectory so unusual that we cannot call what we are going through a "normalisation".

What do we actually mean when we talk about normalisation? It is the idea of slowing growth rates and a return to average of margin levels, along with a return to more conventional fiscal and monetary economic policies after the unprecedented support from governments and central banks.

Some will see a risk in using this idea of normalisation right now: first, because growth forecasts for next year are still well above both the historical average and potential growth. Second, because an orthodox view of monetary policies will not be coming back: if the Fed is to be believed, we will likely be living with zero interest rates until full US employment while the central banks' balance sheets remain quite large as they continue to purchase public debt, which will also not return to its pre-COVID-19 level.

And what about the rising tide of inflation, which has reached levels not seen for a very long time? While this is mostly due to temporary factors related to commodities and pandemic-related supply chain disruptions, the re-emergence of supply constraints in a world of global competition is unusual and US wages are rising 3% to 4% without a return to full employment.

We are therefore in something of a paradoxical situation. The order of the steps as well as the return to more usual earnings growth (7% to 8% next year) is something we know. However, the resurgence of inflation and the numerous supply-side disrpútions is quite unusual.

The risk is that the governments' and central banks' toolbox, which worked so well to get out of this self-inflicted recession, could prove ineffective when it comes to optimising the growth/inflation mix. The latter now looks like it can be more fully explained by imbalances and discontinuities, in the face of Keynesian tools that are better suited to regulating consumption and investment. This aligns more with adaptation than normalisation.

CHINA: THE QUEST FOR COMMON PROSPERITY

The beginning of the year has been very turbulent for Chinese equity markets due to unexpected interventions by Chinese policy makers in sectors such as technology, education, real estate, and gaming. However, while these actions may be detrimental to capital markets in the short term, they serve a long-term strategic purpose driven by Xi Jinping: the quest for common prosperity.

In 2020, GDP *per capita* level of

USD 8'400

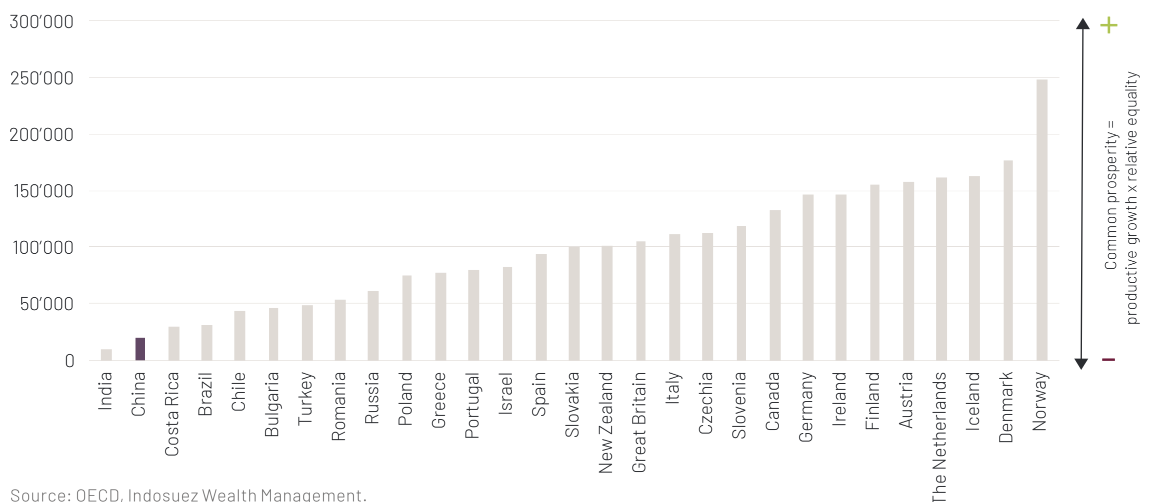
below the USD 37'200 average of OECD countries

WHAT LIES BEHIND "COMMON PROSPERITY"?

While in the early decades of China's reform and opening-up period, the Chinese Communist Party allowed individuals and regions to "get rich first"; it is now focusing on common prosperity for all. President Xi Jinping, emphasising this initiative, has called it "an essential requirement of socialism". Common prosperity encompasses not only the idea that China should generate productive growth, but that it must also move towards a more equitable wealth distribution created by its economy. China aims to reach an income level equivalent to that of developed countries by 2035, especially by doubling its GDP *per capita* over the next 15 years. This objective implies an average growth rate of over 4.5% by 2035 for China while OECD's path should follow a 1.5% average growth rate over the same period. However, China faces many challenges in its quest for shared prosperity (Chart 1):

- In 2020, GDP *per capita* level of USD 8'400 is well below the USD 37'200 average of the OECD countries;
- The global context is less favourable for China than for countries that have reached high-income levels and benefitted from the post-war recovery as well as rapid globalisation;
- The population working-age is expected to decline by 2035 according to UN projections;
- High level of debt due to inefficient investments particularly in construction sector;
- Inequalities continued to increase over the past decades with the top 10% accounting for more than 40% of pre-tax national income against less than 15% for the bottom 50% in 2019.

CHART 1: GDP PER CAPITA/GINI INDEX



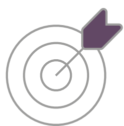
Source: OECD, Indosuez Wealth Management.

Keeping common prosperity in mind, policy makers have named the Zhejiang region the pilot area with a 2025 plan that puts forward 52 missions and objectives related to income, employment, housing, education and public health. The plan aims to double the household income in the next 10 years by achieving targets such as wage share in GDP of at least 50%, 80% of residents with gross disposable income between RMB 100K and RMB 500K, 75% urbanisation rate or 70% higher education enrolment rate.

This could be seen as a two-headed dragon with a production segment (prosperity) and a distribution segment (common). The former would concern production factors, with the objective of increasing the labour factor (increase the birth rate or reduce the costs of access to housing or healthcare), but also productivity by promoting the most innovative sectors. This segment would also include policies in terms of market functioning (anti-monopoly, financial regulation, commodity market). The second segment would focus more heavily on reducing inequalities: redistribution of wealth, tax policies on property or/and wealth and donations to charity programs. Moreover, reducing inequalities also requires better access to specific services such as education (regulation on after-school tutoring companies late July).

SHORT-TERM PAIN FOR LONG-TERM GAIN

This revolution undertaken by Xi Jinping does not mark the end of a certain idea of capitalism in China or of the will to innovate. China cares more than ever about innovation but wants to restructure its economy and reorient its growth towards promising industries (technology and green transition) that will enable the country to assert its technological independence from the United States (namely on semiconductors and materials). It is important to keep in mind that these measures are being implemented to allow China to ensure durable growth in the longer run, by favouring demographic growth and a better allocation of investments, although this will take time to materialise.



Regulations meet a long-term objective:
TO PROMOTE MORE SUSTAINABLE GROWTH

An increase in the average income level would translate into higher domestic consumption in China. However, the path to common prosperity is not so linear and will depend on the ability of policy makers to communicate and coordinate their interventions at the sector-level with compensatory policies at the macroeconomic level. Indeed, the Chinese regulations may have adverse effects on economic growth in the near term:

- Reduction in activity and employment in the targeted sectors;
- Tightening of financing conditions that may follow financial markets reactions to sector crack-down (widening of credit spreads and decline in the equity markets);
- Increasing level of uncertainty leading investors to lower their private investment in the country.

In the coming months, further monetary and fiscal policies should be supportive. Particularly, the People's Bank of China (PBoC) vows to boost credit growth by yearend while fiscal expenditures and local government bond issuance should accelerate. In addition, the State Council voted a RMB 300 billion additional re-lending quota to support SMEs.

CONCLUSION

From a strategic perspective, the investment case lies in the ability of the authorities to transform the Middle Kingdom into a high-income country with a dominant middle class supporting domestic consumption within the next 15 years. From a tactical perspective, the transformations currently underway require extreme attention to sector allocation in order to avoid sectors that are most sensitive to possible regulation and favour those that are in line with the government's long-term objectives.

BOTTLENECKS FORCE ECONOMIC RECOVERY TO SLOW DOWN ON THE SHORT TERM

If the lifting of sanitary restrictions buttressed by vaccinations in developed countries, together with the major stimulus plans, led to an unprecedented rebound in economic activity, the second part of the year looks more complicated. This acceleration, which was perhaps too sharp, has led to major supply chain disruptions in a context where Asian countries are still affected or are only just recovering from a new COVID-19 wave.

2.2 MILLION more job openings than unemployed workers

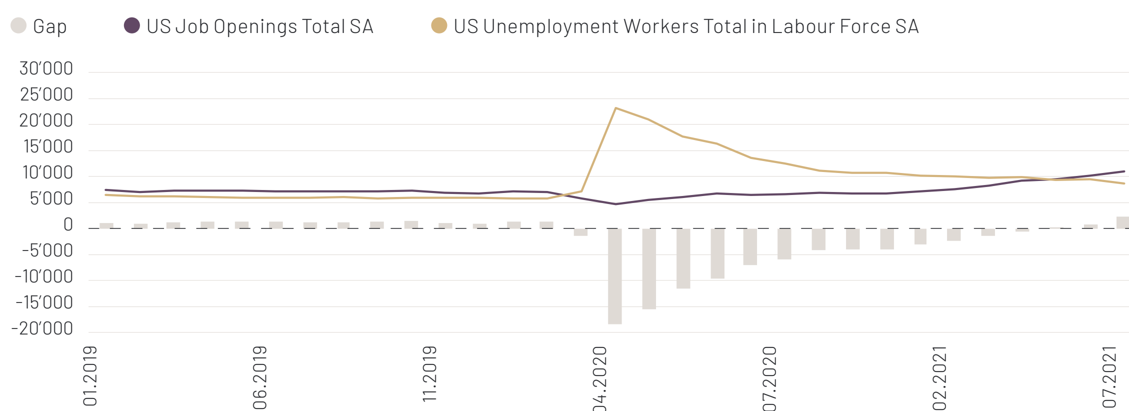
UNITED STATES: INFLATION FIGURES DIVERGENCE AHEAD?

The past months have seen consumer inflation increasing drastically as the reopening pushed the prices of the most cyclical components upwards. However, over the past two readings, headline inflation has stopped accelerating and the August's headline figure at 5.3% shows signs that it is slightly cooling. In particular, the monthly figure shows inflation eased to +0.3%, a seven-month low, amid declines in transportation (mainly airline airfares) and hotel prices as well as steady inflation within services. Also, as base effects will start to turn negative, we could expect inflation to continue declining in the coming months, but only under the condition that shelter price pressures or wage increases do not materialise.

Meanwhile, looking at the producer prices, the picture is quite different with headline figure rising to 8.3%, from 7.8% in July. There are several explanations for such a high number: rising raw materials and commodity prices, soaring transportation costs, and labour shortage.

These factors have led some plants to limit future operations, despite powerful demand. This could affect the economic activity on the short term. Indeed, while all surveys show strong factory growth - the New York Empire State Manufacturing jumped to 34.3 in September (from 18.3) and the ISM PMI reached 59.9 in August - the sub-indices have witnessed a sharp increase in backlogs and unfilled orders, which has led to record delivery times. In addition, companies are also struggling to attract workers: the gap between job openings and unemployed workers reaches record highs at 2.2 million (Chart 2) while last NFP figures missed expectations (253K jobs added *versus* 750K expected) amid COVID-19 resurgence over the summer. If this can explain the enduring dovish message from Fed Chair Powell, the newest data coming from the labour markets will be key in helping us to better assess the agenda of the Federal Reserve as regards to the tapering start date. The latter is currently expected to take place by the end of the year.

CHART 2: THERE ARE NOW A RECORD 2.2 MILLION MORE JOB OPENINGS THAN UNEMPLOYED WORKERS IN THE UNITED STATES, THOUSANDS



Source: Bloomberg, Indosuez Wealth Management.

EUROPE: BRIGHT AUTUMN, CLOUDY WINTER?

Economic activity is still climbing back up from the depths of the pandemic crisis: PMI indices have stabilised at high levels in recent months, industrial production rose again over the summer, while labour markets continue to improve. This economic backdrop has pushed the European Central Bank (ECB) to announce that it will moderately lower the pace of its 1.85 trillion pandemic emergency purchase programme (PEPP). Ms. Lagarde made clear that this reflects a recalibration of the monetary policy rather than a tapering: purchases are expected to decrease from EUR 80 billion to around EUR 70 billion.

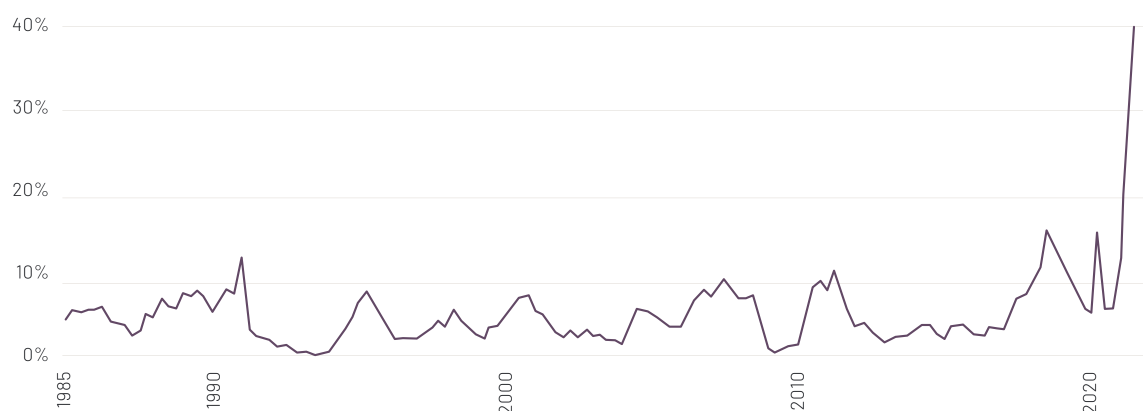
Moreover, despite the ECB raising its 2021 GDP growth projections from 4.6% to 5% and inflation from 1.9% to 2.2%, President Lagarde has also pointed to a number of risks for the upcoming future, such as resurgence of COVID-19 and increasing bottlenecks. Supply chain disruptions could affect some countries (Chart 3) –Germany is the most at risk here, as the shortage of semiconductors could hold back their automotive sector activity. Finally, the current energy price situation also needs to be monitored, especially as winter arrives. Soaring gas and carbon allowance prices could spill over on electricity prices, forcing some plants to limit their production, especially in the UK.

CHINA: DISAPPOINTING MACRO FIGURES ARE CALLING FOR PBOC SUPPORT

Steering East, the aggressive zero-COVID-19 strategy pursued by authorities as well as bad weather weighed heavily on the economy over the summer. If markets had expected a rebound in Chinese consumption in August, this did not happen: retail sales disappointed again, collapsing to 2.5% Year-on-Year (compared to an expected +7%), while industrial production slowed to 5.3% from 6.4%. Moreover, soaring commodity prices have not been isolated to the West. China's Producers Price Index (PPI) jumped to 9.5% last month, hurting many medium-sized and downstream factories and forcing authorities to curb raw materials pressure. Finally, the headwinds facing the property sector – especially due to Evergrande's current situation – increased the risk of macroeconomic downturn, as the sector accounts for approximately 14% of the GDP.

Against this backdrop, more analysts now expect the PBoC to provide additional support by the end of the year to avoid a sharp economic slowdown; as for the Evergrande situation, we may expect the Chinese government not to let the property threaten the entire economy. We note, however, that the lack of visibility surrounding the outcome prompts caution.

CHART 3: A RECORD SHARE OF EU MANUFACTURERS REPORT INSUFFICIENT MATERIAL AND EQUIPMENT AS FACTORS LIMITING PRODUCTION, %



Source: Refinitiv, Eurostat, FT, Indosuez Wealth Management.
Past performance does not guarantee future performance.

THE RISE OF GREEN

At the height of the pandemic in Europe in early 2020, a wave of philanthropy raised hopes of a better world. The world is definitely different, but is it better? With governments more indebted and "partners" facing inflationary or geostrategic pressures, thank goodness the boom in responsible finance is providing some glimmers of hope!

UK enters the GREEN BOND market with a splash

GREEN BONDS

The United Kingdom has entered the green bond market. As is often the case, the transaction was very successful: 10 billion pounds sterling was issued for an order book of more than 100 billion pounds sterling. Spain and Italy issued their first green bonds this year for 8.5 billion euros and 5 billion euros, respectively. They have joined the ranks of European sovereign issuers such as France, Belgium, the Netherlands, Ireland, and Germany.

These countries now make the Euro Area the world leader in sovereign issuers of green securities with about 102 billion euros in outstandings. However, with 39 billion euros issued since the beginning of the year, the share of green accounts for only 3.6% of Euro Area sovereign issues (around 1'071 billion euros). There is still significant room for improvement, but this 3.6% is already a nice change from 1% in 2017.

Green bonds are increasingly viewed as key financial assets in the financing of assets compatible with a low-carbon, climate-resilient economy.

CENTRAL BANKS

Evergrande, the troubled Chinese real estate giant, rattled all the markets at the end of September. The first questions date back to the spring, but it wasn't until the Chinese government itself announced that the group would miss its interest payments to the banks that the markets grasped the extent of the risk the Chinese real estate sector poses to the entire economy. In this context, the Chinese Central Bank made two liquidity injections, aiming to reassure markets that were already concerned about the higher regulatory burden in the internet space.

VERY ACTIVE CREDIT MARKETS
in developed countries

In contrast, the European Central Bank (ECB) shifted its message to say it would slow its asset purchases in the coming weeks (Chart 4). Likewise, the US Federal Reserve (Fed) has been preparing the markets for a tapering of its asset purchases.

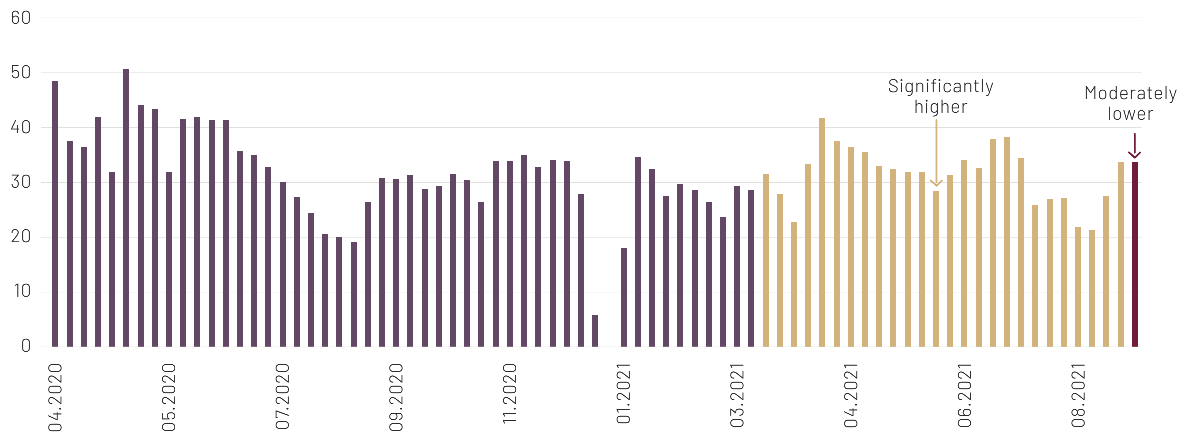
The extreme care taken in wording these announcements tends to limit the increase in rates, the steepening of the curves and tensions on the credit markets. In short, the central banks are performing a real balancing act by gradually withdrawing their monetary support while maintaining accommodative financing conditions.

CREDIT

The credit markets are very active in developed countries, fuelled by multi-tranche primary issues greeted eagerly by investors for both investment grade and high yield. Spreads remain very compressed thanks to robust demand.

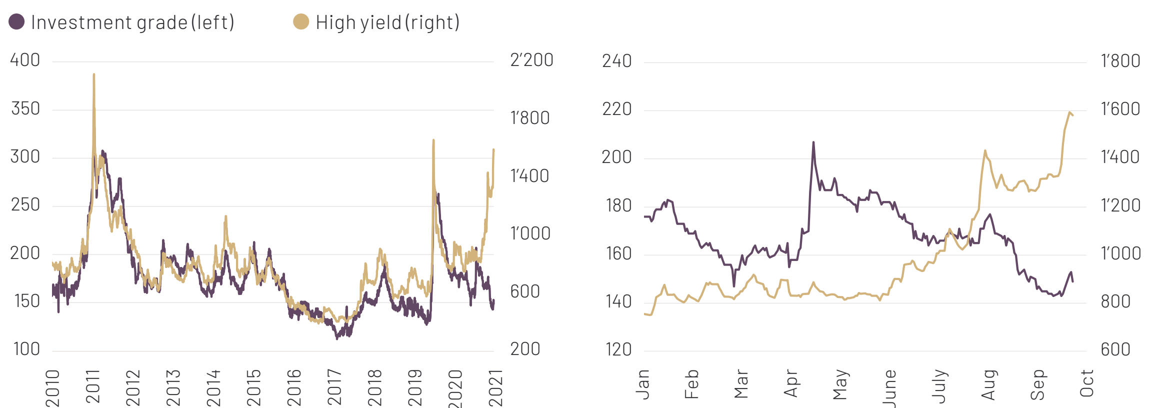
On emerging markets, the stress caused by the Evergrande situation has not, for now, spread to other markets. This specific situation is not without interest: as we write this, private investors in investment products issued by the company — the banks and holders of yuan-denominated and dollar-denominated bonds — are not being treated the same, or *pari-passu* as they say. The question of property law and international contract law is worth asking, in particular for holders of dollar-denominated debt.

CHART 4: ECB ASSET PURCHASES, ALL PROGRAMMES, BILLION EURO



Source: ECB, Natwestmarkets, Indosuez Wealth Management.

CHART 5: SPREADS IN CHINA USD IG AND USD HY



Source: Deutsche Bank, ICE Indices (data to close of 20 September), Indosuez Wealth Management.
Past performance does not guarantee future performance.

ENTERING THE MID-CYCLE

Global activity acceleration was very strong and expected to peak at a certain point as seen in the sequentially weaker PMI. The slowdown on the macro *momentum* and the tapering expectation remain the key risks for Equity investors. The point is that they cannot impact the market together, one keeping the other one away and *vice versa*.

Finally, global growth is expected to slow but stay above trend with potential easing of some headwinds, namely the COVID-19 risk and supply disruptions.

TAPERING
is one of the major subjects of the market today

EARNINGS

If the positive trend of earnings revisions has been one of the main drivers of the equity bull market this year, some headwinds could bring a more balanced news flow in the short term (supply chain disruptions, higher raw material cost, COVID-19 impact).

It will be difficult to further enhance 2021 earnings expectations (already +45% expected for MSCI World); however, the more reasonable expectations for 2022 (+7%) leave greater room for potential estimate upgrades. The Q3 2021 earnings season will start mid-October and will bring more visibility from that point of view.

As long as earnings expectations remain robust and interest rates close to the low path of the range, the relative valuation of equity reinforces the TINA (There is No Alternative) rhetoric and should continue to drive regular inflows on the market.

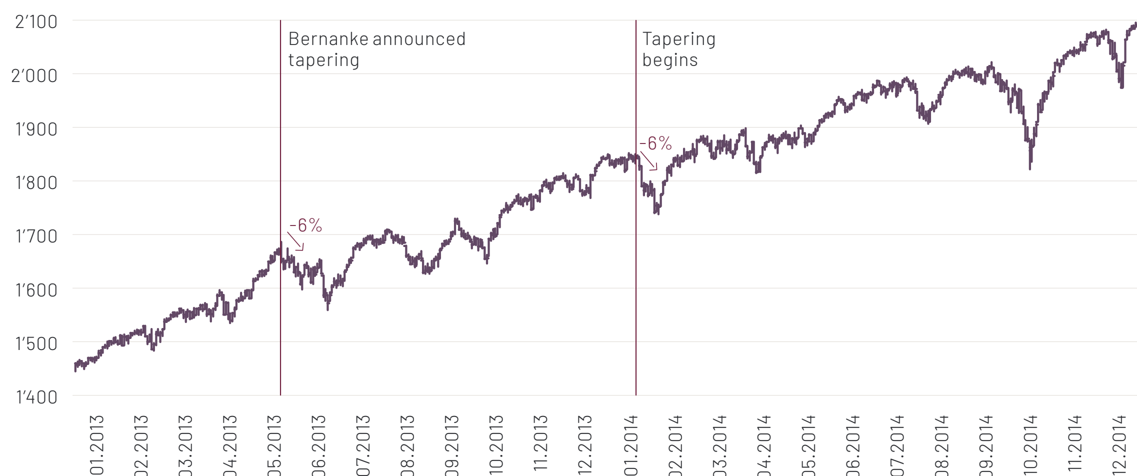
UNITED STATES

In the United States, we are seeing a macroeconomic slowdown with published data emphasising that expectations are systematically below consensus.

Investors are still awaiting clarification on Biden's tax policy, especially the expected increase in taxes on corporate profits in accordance with his election program. As for the Fed, the market is still very attentive to the prospects for tapering (Chart 6).

Since the end of the quarterly earnings season, the US equity market seems to be entering a slight phase of profit taking, which is not unusual as the period between September and mid-October is traditionally less favourable for equities markets. Fortunately, this is statistically followed by the famous end-of-year rally which generally begins at the start of the third quarter earnings season.

CHART 6: S&P 500 DURING TAPERING EPISODE



Note: The previous tapering we experienced in 2013-2014 showed a quick reaction when tapering was announced and began: the S&P 500 lost 6%. But in the end of 2014, the S&P 500 has already exceeded its previous highs with an absolute performance of +24% from the tapering announcement.

Source: Bloomberg Finance LP, Indosuez Wealth Management.

EUROPE

The Euro Area is delivering strong earnings growth and is trading cheap, two good reasons to make the European market one of our favourites for 2021. Furthermore, the COVID-19-related disruptions should gradually disappear due to a very good vaccination rate and the fact that the Recovery Fund is starting to be implemented. These elements should help to keep the Euro Area PMIs robust and above trend.

EMERGING MARKETS

At this time, volatility still runs high in Asian equity markets and China remains the focus of attention. Regulatory pressure by authorities on some sectors (internet, education, Macau gaming) and tensions in the property market due to the recent China Evergrande issue has only added more fuel to the fire. Lingering tensions between the US and China are still at play (more Chinese companies added to the US sanction entity list lately), weighing on the overall sentiment towards Chinese equities.

We believe that the current regulatory environment in China is a reflection of the next fundamental phase of economic development in the country. The Asian nation has reiterated its main goal of maintaining a sustainable, progressive economic growth over the long term. We believe domestic consumption (including sustainable development) will be at the core of China's long-term growth strategy.

JAPAN

We have increased our view on the Japanese market.

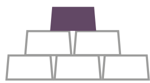
Downside risks to the Japan economic outlook have diminished. The current health situation has significantly improved. The State of Emergency is now reaching its end and some COVID-19 restrictions should ease, which could be supportive for domestic and cyclical stocks. Japan's government is now targeting 60% of fully vaccinated people for the end of September, matching the European level.

On the political side, instability risks have decreased with the current first minister Suga announcing he will not run for re-election. Moreover, the opinion pools in favour of the LDP are increasing and a victory of the party should be supportive for potential reforms and new fiscal stimulus announcement.

06 • Forex

VERY NARROW RANGES

USD has been driven stronger by flight to cover whilst EUR remains under pressure from the ECB winning the "dovishness race". We note the yuan's incredible stability in the face of a year full of Chinese policy changes. Gold's narrowing range could be setting itself up for a breakout.



GOLD
firm support has been established at
USD 1'680/OZ

GOLD - NARROWING RANGE OF DOWNTREND

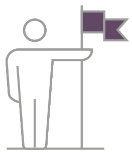
Although USD real yields remain near record negative levels Gold has not yet been able to take off as other forces have kept the USD supported (taper anticipation and risk-off driven buying). There is a clear narrowing of trading range in the Gold price - firm support has been established at USD 1'680/oz, re-tested once again in a flash crash in September driven by illiquid execution of stops in early Monday Asian trading hours, whilst the resistance at USD 1'830 has been stubbornly difficult to break through since June. Such a narrowing range (Chart 7) is often indicative of a potential breakout coming up, especially in an asset that can swing as much as Gold. Given the fundamental drivers of low rates and especially low real yields we continue to favour an upside break.

EUR - A QUIET TIME FOR EUR/USD

Since mid-August, EUR/USD stayed within a thin range between 1.1650 and 1.1900. The interventions of the Fed and the ECB did not create any surprises and we saw the volatility on the pair staying at year lows. As the market still expects Powell to begin tapering this year, the divergence of policies between the Fed and the ECB should be the catalyst for the EUR/USD to move this year end. Also, the recent events in China with Evergrande's issues may add some volatility in the coming weeks. Should the situation worsen, a risk-off environment would probably favour the dollar *versus* the euro.

CHART 7: GOLD'S NARROWING DOWNTREND, USD

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



CNY
posted a three month high at
6.42
per USD

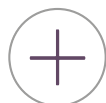
USD - RISK-OFF CONCERNS BUOY THE GREENBACK

The dollar has benefitted from some flight for cover despite dissipating inflation woes. *De facto* developments elsewhere have assisted the dollar's rebound despite a wait-and-see FOMC stand, still unready to signal the inevitable start of quantitative easing (QE) tapering due later this year. It is worth noting that even with the FOMC having tweaked guidance hawkishly in the September meeting, both Fed and markets do not expect rates to reach previous 2.5% highs until after 2024. Going forward, we still see some supporting factors for the dollar in the short term (tapering, relative macro *momentum*, risk aversion, transatlantic spread *versus* low hedging costs), but the case of a moderate weakening of the greenback into 2022 and after and to diversify into other currencies is still valid.

CNY - CHINESE YUAN REMARKABLY STABLE DESPITE DOMESTIC WOES

The renminbi has so far withstood the growing debt market contagion fears linked to the highly leveraged property developers now facing a severe liquidity crunch. Despite the domestic equity market clamp down, the CNY recently posted a three-month high at 6.42 per USD, prior to PBoC push back. As the euro has since weakened *versus* USD, the CNY is now likely to take a breather despite record high foreign inflows and unhedged ownership of top quality Chinese government bonds. Investors will scrutinize the expected PBoC easing and its potential effects on the currency, but authorities could remain focused on anchoring the CNY. These longer term, international portfolio diversification allocations are likely to support the currency on any bouts of deeper weakness, notably given the real yield offered in CNY *versus* other markets.

INVESTMENT SCENARIO AND ALLOCATION



POSITIVE VIEW
maintained on Value and Growth

INVESTMENT SCENARIO

MACRO TRENDS

- Advanced economies continue their recovery but along uneven and somewhat bumpy trajectories, with an expected softening of growth in the US in Q3 2021 due simultaneously to supply slide constraints and demand-side incomplete recovery linked to remaining restrictions.
- China's more pronounced slowdown should lead to more policy support while other emerging markets' delayed recovery could catch up in the coming quarters, depending on their vaccination campaigns.
- GDP growth in 2022 should return to more normal levels but still lie above trend and above potential growth.

INFLATION AND CENTRAL BANKS

- Inflation will remain elevated in the second half of 2021 (between 3% and 4% in Euro Area and around 5% in the US) before converging progressively towards central banks' targets in 2022/2023 (but US inflation still above Fed's target in 2022). Central banks in western countries (Fed, ECB and the Bank of England) should engage a progressive reduction of their asset purchase programs by the end of the year but should remain relatively accommodative with negative real short-term rates in most countries.

FISCAL POLICY

- Fiscal policy will remain supportive as well, with emergency measures of 2020/2021 progressively leaving the floor to structural investment plans in the US and Euro Area. However, investors will pay attention to the proposed increase of corporate taxes in the US.

PROFIT CYCLE AND CORPORATE FUNDAMENTALS

- Earnings growth has surprised again on the upside in the second quarter and has led to positive revisions since then in mature markets, contrasting with less supportive *momentum* in emerging markets. Going forward, we anticipate a strong earnings season in Q3 and Q4 2021 but with a stabilisation of earnings revisions, and a more modest earnings growth in 2022 (in the mid to high single digit area), with the impact of rising input costs and US wages to be monitored.
- Default rates will remain limited in developed markets and should represent a support for credit spreads, while most investors focus on the deleveraging and restructuring process on the Chinese property sector, with refinancing risk to be monitored.

RISK ENVIRONMENT

- Political uncertainty has been on the rise recently, fuelled by the regulatory crackdown in China (which is more structural than a short-term political wave) as well as upcoming elections in Germany and Japan, which should remain harmless for markets.
- China deleveraging/any contagion from Evergrande's situation to Chinese property sector could increase the risk of macroeconomic downturn within China, with a risk of spillover on Asian countries.
- Inflation staying higher for a longer period which could be explained by supply side constraints lasting (bottlenecks not resolved, rising input costs, higher commodity prices), as well as any pressure regarding wage could affect margin sustainability going into next year.

ALLOCATION CONVICTIONS

EQUITIES

- Neutral view overall with a positive view on developed markets, backed by strong fundamentals and supportive policy-mix but with more limited potential in the short term after a strong performance year-to-date. We still prefer European equities where recovery is still on the way while peak of acceleration may be behind us in the US. Still constructive on Chinese equities on the long run, although regulatory crackdown, softer macro, and lack of earnings *momentum* prompt cautiousness on the short term, despite the attractive valuations on the area. We remain underweight on emerging markets outside Asia.
- Positive view maintained on Value and Growth as secular growth stories still offer an appealing shelter against inflation impact on margins while the value style should continue benefiting from a strong rerating of earnings growth and still offer attractive valuation. Besides, we remain positive on quality stocks that benefit from a strong pricing power and offer resilient margins in a context of tensions on input costs.

- Neutral-to-negative on defensive sectors such as utilities, telecom, and real estate, which are more rate sensitive and are more affected by idiosyncratic issues on their business model.

FIXED INCOME

- Underweight maintained on government bonds with some moderate steepening expected on US long term yields. Euro bond yields expected to remain in negative territory, held in portfolios purely for hedging purposes.
- While the stabilisation of inflation expectations is less favourable for inflation-linked bonds, we recognised that they could represent an effective hedge against an adverse scenario of higher than expected inflation over a longer period.
- Constructive view maintained on credit in mature markets, most notably on corporate high yield although increasing supply could be headwind over the short-term. Financial and subordinated debt have performed well. From now on, carry will be the main source of performance.
- Emerging debt: Selectivity is key as attractive valuations are being offset by very weak sentiment and increasing regulatory uncertainty.

CURRENCIES AND PRECIOUS METALS

- The US dollar should remain supported as we are getting closer to tapering, which is expected by year-end. However, any renewed strengthening could be used to diversify to other currencies.
- Japanese yen is still seen as a good hedge within portfolios.
- Besides, we remain constructive on the renminbi on the longer run. Softening macro *momentum* and expected support from the policy-makers could offer entry points in the coming months.
- Gold is suffering from higher real yields but remains attractive on weakness. Watching key USD 1680 support level.

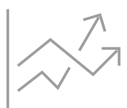
KEY CONVICTIONS

	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 22 SEPTEMBER 2021



GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.30%	-3.84	38.74
France 10Y	0.01%	7.80	35.20
Germany 10Y	-0.33%	9.80	24.70
Spain 10Y	0.31%	0.90	26.80
Switzerland 10Y	-0.25%	8.90	29.90
Japan 10Y	0.04%	1.70	1.80

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	42.99	-0.37%	-4.99%
Euro Governments Bonds	220.95	-0.18%	-0.55%
Corporate EUR high yield	214.72	0.36%	3.71%
Corporate USD high yield	331.36	0.76%	4.15%
US Government Bonds	323.68	0.07%	-0.67%
Corporate Emerging Markets	52.2	-0.51%	-1.69%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.08	0.65%	0.13%
GBP/USD	1.36	-1.02%	-0.35%
USD/CHF	0.93	1.28%	4.58%
EUR/USD	1.17	-0.72%	-4.33%
USD/JPY	109.78	-0.22%	6.32%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	20.87	4.08	-1.88

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'395.64	-2.24%	17.03%
FTSE 100 (United Kingdom)	7'083.37	-0.93%	9.64%
Stoxx Europe 600	463.20	-1.83%	16.08%
Topix	2'043.55	5.57%	13.24%
MSCI World	3'074.36	-1.65%	14.29%
Shanghai SE Composite	4'821.77	-1.56%	-7.47%
MSCI Emerging Markets	1'262.79	-0.98%	-2.20%
MSCI Latam (Latin America)	2'334.20	-5.53%	-4.79%
MSCI EMEA (Europe, Middle East, Africa)	281.03	1.67%	16.48%
MSCI Asia Ex Japan	806.18	-1.45%	-4.36%
CAC 40 (France)	6'637.00	-0.59%	19.56%
DAX (Germany)	15'506.74	-2.23%	13.03%
MIB (Italy)	25'717.46	-1.32%	15.67%
IBEX (Spain)	8'808.40	-1.88%	9.10%
SMI (Switzerland)	11'837.57	-4.26%	10.60%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	5'875.00	13.88%	39.22%
Gold (USD/Oz)	1'768.16	-1.28%	-6.86%
Crude Oil WTI (USD/Bbl)	72.23	5.66%	48.87%
Silver (USD/Oz)	22.87	-3.81%	-13.41%
Copper (USD/Tonne)	9'286.00	-0.75%	19.57%
Natural Gas (USD/MMBtu)	4.81	23.30%	89.25%

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

	JUNE 2021	JULY 2021	AUGUST 2021	4 WEEKS CHANGE	YTD (22.09.2021)
BEST PERFORMING (+)	2.37%	2.27%	3.26%	5.57%	17.03%
	2.22%	1.97%	3.14%	1.67%	16.48%
	1.40%	1.72%	2.90%	-0.93%	16.08%
	1.36%	-0.07%	2.42%	-0.98%	14.29%
	1.07%	-0.49%	2.35%	-1.45%	13.24%
	0.21%	-2.19%	2.08%	-1.56%	9.64%
	-0.11%	-4.24%	1.98%	-1.65%	-2.20%
	-0.41%	-7.04%	1.24%	-1.83%	-4.36%
	-0.94%	-7.76%	0.21%	-2.24%	-4.79%
WORST PERFORMING (−)	-2.02%	-7.90%	-0.12%	-5.53%	-7.47%

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.
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