MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – JUNE 2020

MARKETING MATERIAL

FOCUS

WHEN EMERGING MARKETS FOREX CARRY YIELDS MELT AWAY

EQUITIES

VALUATIONS BACK ON TOP

EDITORIAL

VINCENT MANUEL

Chief Investment Officer,
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UNLOCKING THE UNKNOWN

"A throw of dice never will abolish chance" Stéphane Mallarmé (1897)

Dear Reader,

As major economies are trying to lift lockdown measures, investors are pondering the catalysts of the continuation of the recovery versus the reasons for renewed market weakness in this unknown territory.

Obviously, the bet of lifting the lockdown is motivated by the dire need to save the economy rather than by any solid confidence in the exit of the pandemic, as experts had recommended a longer lockdown. It is as if in the minds of our governments, the survival instinct now prevails over the precautionary principle. This means that we have to live with uncertainty, and this goes beyond epidemiologic probabilities.

Among the factors of uncertainty, the question of unemployment and the speed at which the US economy can recreate the 20 million jobs lost in April is crucial. In line with Blanchard/Summers concept of hysteresis, some economies may take time to recreate those jobs, and could find a new equilibrium at a higher structural rate of unemployment, notably if sectors fail to bounce back rapidly such as recreation and leisure. Looking at corporates, the Q1 season was neither disappointing not reassuring, but a confirmation of our assumption of a 25 to 30% hit on full-year earnings, with a question mark that is shifting to the recovery pace.

Going forward, the policy mix will continue to be a driver of the confidence-recovery path. Should European countries agree on the proposed EUR 500 billion plan consisting in raising debt at the European Union level, this would be a strong catalyst for the euro and peripheral debt. The German Constitutional Court has created uncertainty around the European Central Bank (ECB), but we remain confident that the European institution will overcome this challenge, which is an opportunity to clarify simultaneously the mandate of the ECB and the supremacy of European courts over national jurisdictions. In history, the European Union has only been able to achieve significant progress by overcoming financial or political crises; so we could expect progress on this front, even if this is bumpy path with political road blocks and unexpected events on the way.

This sunny spring, one may wonder whether the old saying "sell in May and go away" will be valid this time around. Can traditional market seasonality patterns work in such a specific year? Beyond the unavoidable short term noise that will affect market direction, we find many fundamental reasons to remain constructive regarding financial markets on a medium-term perspective: people are returning to work, consumers are back, and earnings revision could stabilise and enable investors to focus on the 2021 recovery.

We are entering a new regime for investors, based on several paradoxes, with lower interest rates but more carry, with visible secular growth trends though more uncertainty surrounds capital returns. This should push investors to revisit the way they look at their portfolios and resist to rely too much on short-term emotions. Investors have to live and invest with uncertainty. Rationally, when interest rates are lower, the present value of visible future growth increases. This is the rationale of the quality-growth strategy. When uncertainty is high, the value of time increases and patience of long-term investors is well rewarded. This is carry strategy in a nutshell. Finally, any crisis is the catalyst of an acceleration of disruption of business models: this is the rationale of secular growth themes, which investors should focus their attention on.

FOCUS

WHEN EMERGING MARKETS FOREX CARRY YIELDS MELT AWAY

EMERGING MARKET CURRENCIES

Emerging market currencies as a bloc have been the the worst-performing in foreign exchange markets since the onset of the COVID-19 crisis. Escalating investor outflows have now accelerated further as political tensions have since emerged in Russia and Brazil in particular. Tumbling oil prices, GDP growth, and inflation rates have enabled swift action by all these central banks desperately attempting to soften the recessionary blows. Thus the acute health crisis has brought on a re-evaluation of the underlying fundamentals which in several countries were already fragile at best to begin with. As such, the traditionally enhanced yield attraction on offer is rapidly melting away and no longer perceived as adequate enough of a reward vis a vis the uncertain risk factors to be assumed.

In Brazil, the central bank unanimously slashed the Selic rate by 75 basis points to a record low of 3% in early May to address the deep economic impact underway. This was a larger cut than forecast and came after a 50 basis point cut delivered in March. These actions since late 2019 represent a whopping halving of the yield attraction with more to come late June. The real swiftly followed suit by depreciating across the board to record low levels. A key cabinet resignation of Justice Minister Sergio Moro dealt another blow to the Bolsonaro's government already reeling from its Trump-like anti-lockdown standoff with its state governors.

WILL IT GET WORSE?

Could it possibly get any worse after this 45% currency drop in 2020 alone from 4 to 6 versus the US dollar? Unfortunately yes, as foreign direct investment flows returned back home upon hearing that Brazil's parliament fast-tracked a constitutional amendment allowing the central bank to buy local corporate and its own government bonds. This copy-cat debt-monetisation debasement policy will become a flashing warning sign for investors wary of the country's commitment to a stable real.

The last straw now lies precariously with the highly respected and reformist Finance Minister Paulo Guedes remaining within the cabinet coupled with the central bank's depleted 330 billion US dollars worth of foreign reserves. We now fear that they will at best be able to smooth the currency descent albeit implicitly welcomed as a means to reduce their trade deficit as opposed to reversing the fall in the real. The risk reward balance has abruptly shifted, cooling off any appetite for what carry advantage is still left to be extracted.

In Russia, the central bank similarly slashed its benchmark repo rate by 50 basis points to 5.5% , the lowest level in 6 years with another cut likely late June.

FOCUS

WHEN EMERGING MARKETS FOREX CARRY YIELDS MELT AWAY

OIL PRICES

Plummeting Brent and Urals crude prices after OPEC+ Russia output impasse already pressured President Putin's popularity. The health crisis worsening at home has further complicated his quest to run for power beyond 2024. The timeline regarding the since-delayed referendum on changing this constitutional limit will remain highly uncertain and determine or could even threaten Mr Putin's hold on power. This political backdrop coupled with the massive oil oversupply will hardly attract significant currency investor inflows until economic demand resurfaces in earnest. The Russian central bank will, however, wish to avert an all-out currency debasement phase. A return-to-the-mean recovery in the ruble will be gradual and closely correlated with Brent oil prices that are highly unlikely to see a 'V' shaped recovery.

In April, the Turkish central bank also surprised with a deeper than expected 100 basis point cut in their one week repo rate to a new low of 8.75%. Of importance is this low yield level in comparison to the appetising 24% interest rate available as recently as September 2018. It goes without saying that the crisis at hand is a severe blow to Turkey's depressed trade balance, manufacturing activities, and tourism inflows no longer generating needed hard currency.

It is especially difficult for Turkey given their sizeable foreign currency debt outstanding to react given limited room on the fiscal stimulus front in case this health crisis spirals out of control. As such, the central bank has allowed the lira to slide 23% to new all-time lows versus the greenback as inflation dissipates month after month at home.

The Turkish central bank's policy response, although not explicitly voiced, is likely to keep the lira intentionally weak to counteract the risks faced, reiterating that “a cautious stance is needed to keep inflation on a downward trajectory”. This mix does not bode well for a sustainable recovery just yet despite what appears on the surface as a tempting “relative” yield play.

RISKS FOR ASSET ALLOCATION

As the graphic below and the quote both suggest “catching a falling knife is not without its perils”. Cheap valuation and negative momentum do not always reconcile well.

In our humble opinion, the higher albeit plunging relative yields on offer in the now “submerged” emerging markets do not currently justify the risks for asset allocation.

Required visibility into the long-term assessment of these export-dependent countries is lacking now more than ever. A less risky alternative, however, without anywhere near the same yield attractiveness nor risks, might be to consider some emerging Asian country's currencies that are better armed to combat the virus and with more resilient domestic demand credentials to weather out this health storm from currently cheap valuation levels. After all, sometimes yield alone is just a mirage not worth the illusion it reflects.

EMERGING MARKET CURRENCY INDEX

Source: Bloomberg, Indosuez Wealth Management.

Household consumption will be negatively impacted by the rise in unemployment.

MACRO ECONOMICS

IS APRIL THE LOW OF THIS CYCLE?

RETURN OF THE "R" WORD

Recession in almost every country is a known unknown, meaning that a sharp contraction in economic activity is now certain, but the length and depth of the recession in the various national economies is uncertain. Governments and monetary authorities have put in place a number of measures to counter-balance the negative impact of the COVID-19 pandemic.

As expected, the quarterly GDP growth rates were negative during Q1 2020. This translated into YoY figures barely positive in the USA, and negative in most other countries (see table below).

GDP GROWTH RATE AND UNEMPLOYMENT RATE*

	Q1 GDP %, QoQ	Q1 GDP %, YoY	Unemployment rate, %
Brazil	-	-	12.2
China	-9.8	-6.8	6.0
Euro Zone	-3.8	-3.2	7.4
France	-5.8	-5.4	7.8
Germany	-2.2	-2.3	5.8
Indonesia	-2.4	3.0	5.0
Italy	-4.7	-4.8	8.4
Japan	-0.9	-2.0	2.5
Mexico	-1.6	-1.6	3.3
Russia	-	1.6	4.7
South Korea	-1.4	1.3	3.8
Spain	-5.2	-4.1	14.4
Switzerland	-	-	3.3
United kingdom	-2.0	-1.6	3.9
United States	-4.8	0.3	14.7

* Latest available figure
Source: Bloomberg, Indosuez Wealth Management.

Economic data for the month of April have been or are currently released all over the world. Against this, allow us to use as a warning a quote from N. Mahfouz: the Egyptian Nobel prize winner characterised April as the "month of dust and lies". So, what will appear when the dust settles?

Despite the macro-economic releases in the US (notably retail sales and factory output registered the steepest declines on record) and most of Europe's being at record lows, we should expect further poor data releases in coming months given the slow easing of lockdowns, supply chain disruptions, and demand at lower levels than in the pre-COVID-19 phase.

BEWARE OF UNEMPLOYMENT

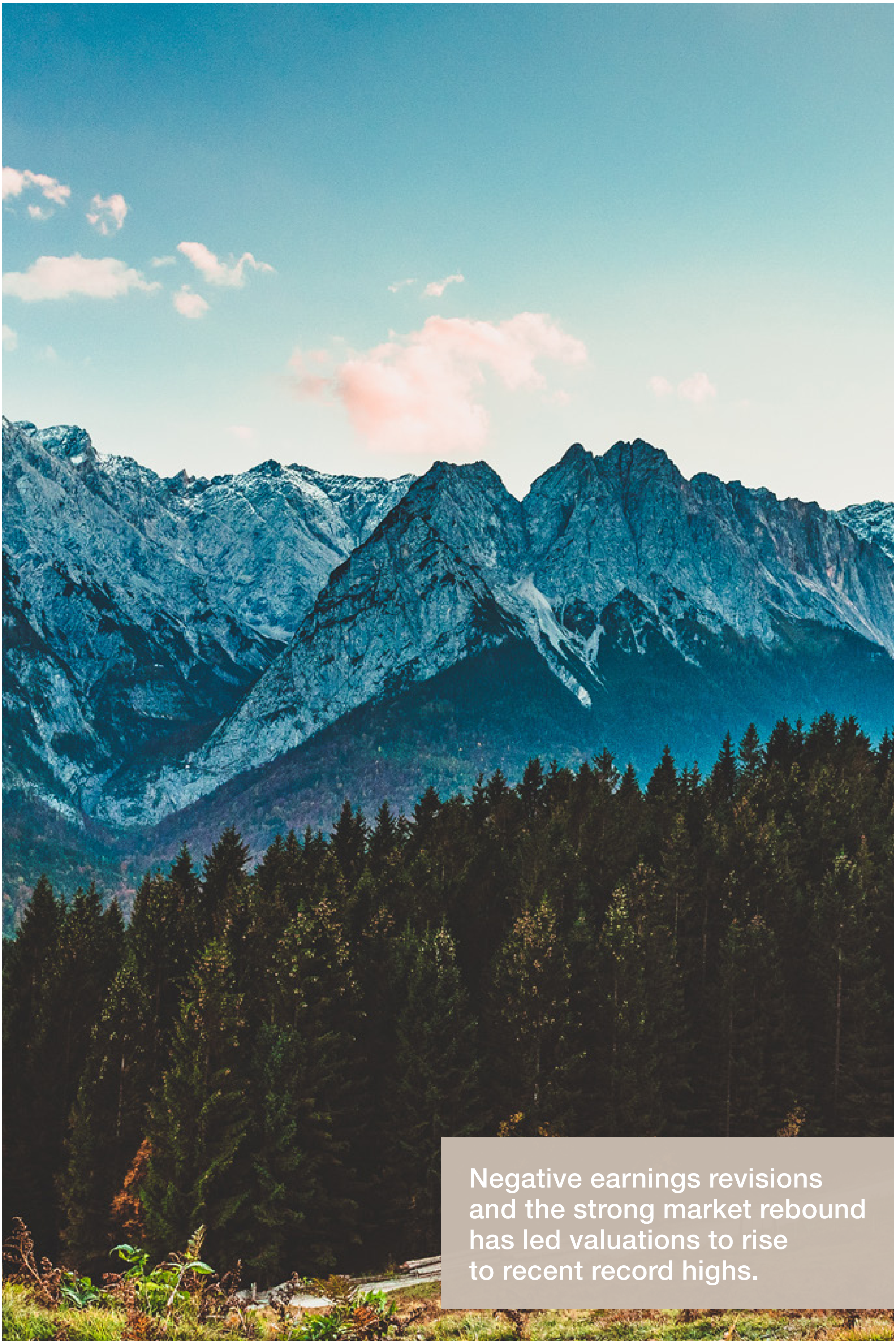
More specifically, household consumption will be negatively impacted by the rise in unemployment, although a short burst of spending linked to a "survival relief" may happen.

In the US, the month of April saw 20.5 million jobs lost (monthly net change) with an unemployment rate of 14.7%. This nearly erased the 22 million job gains seen between February 2010 (130 million employed) and February 2020 (152 million employed). Given the strong correlation existing between continuing claims and the unemployment rate we expect the latter to spike higher in May.

March unemployment rose to 7.4% in the Euro Zone (6.6% in the European Union) after a 12-year low in February of 7.3%. A high was reached in February 2013 at 12.1%, and the average since 2000 is 9.4%.

Looking at the whole world, the International Labour Organization (ILO) estimates 130 million full-time jobs lost in Q1 2020, equal to 4.5% of jobs globally. For Q2, this rises to 305 million jobs, and 10.5% of the global labour market.

In a nutshell, the employment/unemployment data may improve in the coming months, but the labour market will end 2020 in a much worse state than at the start of the year.



Negative earnings revisions and the strong market rebound has led valuations to rise to recent record highs.

EQUITIES

VALUATIONS BACK ON TOP

- Equity momentum remains very solid in the short term driven by the improvement in the news flow from the sanitary crisis, the end of the lockdown, and the massive packages of fiscal and monetary measures announced.
- At the same time, the earning season has driven a continuing flow of negative revisions. US and European earning expectations have been downgraded respectively by 20% and 27% since March.
- This trend, combined with the short-term market rebound, has generated a quick rerating of the valuation of main indices. Inless than two months, the P/E of the S&P 500 has gone from 14 to almost 21.

EUROPE

Europe's stock markets have suffere steep declines in 2020, with big gaps between sectors (healthcare +5% versus financials -35%). This polarisation is also true in terms of valuation. Relative to the US, and adjusted for sector breakdown differences, Europe is at a 20% discount, not far from the all-time highs. Nevertheless, sector leadership is an important consideration for regional preferences. European equities tend to underperform when value does, notably versus the US which is more linked to the growth style.

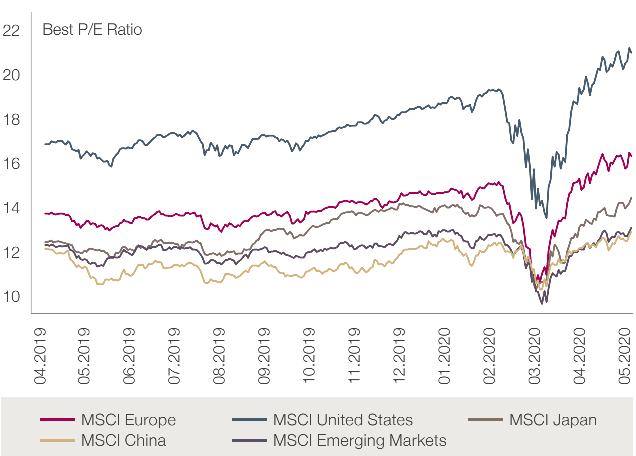
UNITED STATES

The Federal Reserve (Fed) has announced almost unlimited buying of all public and private debt. The Fed has never before gone this far and this seems to have convinced some investors. Admittedly, the valuation of the American market does not seem attractive if we look at historical P/E. On the other hand, in terms of relative valuation versus interest rates, the conclusion is reversed.

JAPAN

The region has lagged. Japanese valuations appear attractive but the market lacks a catalysts for a rerating. Japanese corporates have significantly improved their profitability over the past few years but it still remains below that of other major economies.

MSCI WORLD INDEX, BEST P/E RATIO



Source: Bloomberg, Indosuez Wealth Management.

EMERGING MARKETS

In Asia, we are expecting a strong earnings recovery in 2021 after the COVID-19 outbreak which first caused supply-side shocks in China in Q1 2020 and subsequently expanded to an external-demand contraction. China is almost fully back on-stream from lockdown since the reopening in Wuhan on 8 April 2020. We are expecting the Chinese recovery to continue into H2 2020, mainly led by consumption and infrastructure spending. We are currently overweight China (A-shares in particular), neutral South Korea and Singapore, and underweight India & ASEAN.

INVESTING STYLE

The value versus growth tilt continues to be strongly correlated to the direction in bond yields. Given the huge performance differential, the valuation discount of value versus growth has continued to widen to reach an unprecedented level.

Some "reversal to the mean" trades could happen, but they were all short-lived in the past few years. Quality/defensive styles are likely to continue to outperform in the medium term, as bond yields are kept under control by central banks.

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.


Rising real yields across regions;
a key driver for all assets classes.

FIXED INCOME

SURF THE LIQUIDITY WAVE FOR YOUR NEXT VACATION

- Each and every central bank provides liquidity to markets.
- Their actions postpone the debt-sustainability question for governments and corporates.

CENTRAL BANKS

For years, central banks have provided liquidity to governments, then to big corporate, and now the waterfall reaches smaller companies in the high yield (HY) territory. The Federal Reserve starts its HY ETF (Exchange-Traded Funds) purchase programme while resisting the political call for negative interest rates. The European Central Bank (ECB) announced a new round of TLTROs, with an attractive -1% financing rate. The take-up could amount to EUR 750 billion which, added to existing TLTROs, could finance up to EUR 1'500 billion. The European institution is also rumoured to explore HY investment.

GOVERNMENT BONDS & PERIPHERALS

Today, governments raise hundreds of billions in debt to finance budget deficits at very low rates even on very long maturities. As central banks almost directly buy those bonds, the competition with private investors remains strong and prevent any sharp rise in yields. Inflation-linked investment suffers currently from bleak perspectives. The drop in inflation has caused real yields to rise across regions - a key driver for all assets classes.

Peripheral bonds in Europe are caught in a volatile situation following the German constitutional court's ruling concerning oversight of the ECB's pre-COVID bond-buying programme. The recently proposed EUR 500 billion recovery fund raises perspectives for the European economy and reduces the risks for non-core countries. The spread volatility year to date reminds investors about the risks affecting indebted European governments.

BLOOMBERG BARCLAYS GLOBAL AGGREGATE NEGATIVE-YIELDING DEBT, MARKET VALUE, USD BILLION

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

INVESTMENT GRADE & HIGH YIELD

Credit markets have recovered from the March lows, benefiting from central banks' buying programmes which comforted investors' sentiment: flows recovered both in funds and ETFs in every region. Investment-grade markets both in the US and in Europe now face a wave of downgrades, but compared to previous recessions the loss for investors is muted. Those markets now discount economic deterioration risk and provide sufficient carry for investors. On the high-yield side, fundamentals are worsening very quickly, but government-guaranteed loans could delay and smooth the default wave, leading to a period of prolonged uncertainty. Selectivity will be key in the near future. Within the high-yield segment, we have a preference for BB over B issuers.

EMERGING MARKETS BONDS

In the emerging sphere, we favour hard currency investments, hedged against currency depreciation. In Asia, we identify pockets of value in China HY and some Indonesia HY issuers with sufficient liquidity for the next 12 months. Accordingly, China industrials and India HY have lower liquidity profiles. In Latin America, we keep a cautious stance given the deteriorating 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.

Germany and France propose initiative for a joint EUR 500 billion recovery fund.

FOREX

OUR HOUSE VIEW

- Cracks appear in the mighty dollar's reign.

US DOLLAR (USD) AND EURO (EUR)

Cracks are appearing in the mighty dollar's reign. Provocative dollar devaluation comments from President Trump did not go unnoticed by currency market participants. Nor did Chairman Powell's dovish "not now" response to the need for further unconventional stimulus tools in the form of a negative federal funds rate.

Furthermore, the joint proposed initiative by Chancellor Merkel and President Macron for a EUR 500 billion recovery fund financed through the EU budget served to weigh on the now zero-yielding greenback. Although scepticism surrounds this surprise announcement, the fact that Germany has altered its position regarding de facto grants and burden-sharing is a major potential positive for the world's second most liquid and still undervalued currency.

As such, the dollar remains quite vulnerable as deficits and debt monetisation persist, especially if the political horizon improves elsewhere. We thus remain cautious in the short term awaiting more details from the European Commission's meeting on 27 May.

Of note is the 200-day moving average resistance level on EUR/USD at 1.1015 which must be monitored closely on a weekly closing basis. A move in the dollar below this level would ring in a weaker range into the summer.

SWISS FRANC (CHF)

What a difference sprung upon us all so suddenly.

Just as EU debt financing fears saw upward pressure on the Swiss franc accelerate and the SNB intervene heavily at 1.0510 versus the euro - the surprise German-French fiscal plan was unveiled. This impetus saw the Swiss franc drop the most in a single day since the spring of 2017 as hope reappeared for a draft form of fiscal union in the European Union.

This may ease the pressure and scrutiny of the Swiss National Bank for now as a re-evaluation of the EU funding risks will occur into the autumn. Their balance sheet is already bloated from successive bouts of euro buying towards the new 1.0500 'line in the sand'.

However, we do not expect a sustainably weak Swiss franc beyond the headline news effect until it is clearly determined in Brussels that the Netherlands and Austria are also on board with the promising plan - so don't hold your breath! After all, the underlying Swiss debt ratios and macro fundamentals are far superior to all peers, maintaining its solid safe-haven appeal come what may.

POUND STERLING (GBP)

June is shaping up to be a dangerous month for the pound. Now that Covid-19 has become a less (if still very significant) overbearing feature of the news cycle we can concern ourselves with the earlier favourite topics such as Brexit, whose return to the papers was an unsurprising negative for the pound in May. The current state of affairs regarding Brexit is the same as before, and discussions will likely accelerate going into the end-June deadline for extending the transition period to which the UK is still adhering (at least publicly) despite the health crisis. On top of this, the pound is suffering from the Bank of England potentially opening the door for negative interest rates and further policy easing to help the economy. On the other hand, these two factors are already mostly priced-in so perhaps June could see a solution to both? Either way it is going to be an interesting month.

BRAZILIAN REAL (BRL)

May was another terrible month for the BRL when politics joined fiscal and economic stress as yet another factor weighing on the currency, making it crash to new all-time lows near 6 BRL to the US dollar.

The catalyst was the sudden departure of the well-respected Justice Minister Sergio Moro - a former judge admired for his role in the "Car Wash" investigations of Brazilian political corruption - whose allegations that President Bolsonaro was interfering with the management of the federal police for personal motives have created a political scandal and opened investigations that could lead to presidential impeachment. The instability and unpredictability generated by these events leaves us very cautious regarding Brazil and the real.

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.


No significant flattening
of yield curves is expected.

ASSET ALLOCATION

INVESTMENT SCENARIO AND ALLOCATION

SUMMARY OF OUR MACRO-ECONOMIC SCENARIO

- We expect a significant drop in GDP in the second quarter, followed by a gradual recovery in the second half of 2020, while a full recovery to 2019 GDP levels will likely only be reached towards the end of 2021.
- Interest rates will most likely remain lower for longer, with record monetary easing around the world.
- Significant fiscal support is providing a backstop to activity and massive guarantees of corporate loans could limit the increase in defaults.
- A record increase in government debt raises sustainability issues and increases rating risk.
- Political uncertainty is on the rise, but the Euro Zone could surprise positively which should survive this crisis with an expanded economic-policy toolbox and fiscal solidarity.

KEY INVESTMENT CONVICTIONS

- We do not anticipate any significant flattening of yield curves, but exposure to US and core Euro government bonds can add protection in portfolios in case of renewed market weakness.
- With considerable support from central banks, we favour carry strategies on quality credit and the upper segment of the high yield market, whilst staying away from the energy and automotive sectors.
- We also believe that the TLTRO programme of the European Central Bank provides a positive investment case regarding euro financial debt, which is well protected by high capital ratios.
- In Asia, we expect the crisis to accelerate China's access to the status of a world-leading economy, with policy-mix flexibility and lower dependency on foreign flows than other emerging economies, thus favouring holders of RMB-denominated debt and domestic equities in the long run, despite the volatility caused by renewed trade tensions.
- The rest of the emerging sphere warrants caution regarding local currency bonds, where carry has been destroyed by currency depreciation, reflecting a growing downgrading risk, notably in countries with weaker current accounts, foreign exchange reserves, and higher external debt.
- Regarding equity markets, this pandemic and the subsequent lockdown of economies is the catalyst of an acceleration in the disruption and greater polarisation of economies; this is beneficial to the technology leaders, healthcare companies, and global brands which earnings have proved more resilient. In the short term, value and cyclical stocks can bounce back after a significant correction but strategically we believe that quality/growth will continue to lead. In a low-growth environment, secular and sustainable growth themes should represent a growing share of investors' portfolios.
- The US dollar should remain strong in this uncertain environment, but any positive political development regarding the European recovery-fund plans could be the trigger of an appreciation in the euro, in a context where the interest rate differential with the euro curve has not been this low for years.
- Global uncertainty, coupled with significant money printing, should sustain the value of gold, which has already rallied sharply and is therefore vulnerable to any negative news flow and risk-on acceleration; but in the medium term, gold should remain at elevated levels.

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 21 MAY 2020

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	2'948.51	5.39%	-8.74%
FTSE 100 (United Kingdom)	6'015.25	3.24%	-20.25%
Stoxx Europe 600	340.26	2.11%	-18.18%
Japan Topix	1'491.21	4.57%	-13.37%
MSCI World	2'074.10	5.05%	-12.06%
China Shanghai Index	3'913.80	2.19%	-4.46%
MSCI Emerging Markets	930.01	4.28%	-16.57%
MSCI Latam (Latin America)	1'676.15	5.04%	-42.55%
MSCI EMEA (Europe, Middle East, Africa)	200.12	8.25%	-25.21%
MSCI Ex-Japan	608.99	3.20%	-11.52%
CAC 40 (France)	4'445.45	-0.12%	-25.64%
DAX (Germany)	11'065.93	5.25%	-16.48%
MIB (Italy)	17'087.06	0.45%	-27.31%
IBEX (Spain)	6'686.10	-0.90%	-29.98%
SMI (Switzerland)	9'790.85	1.72%	-7.78%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	3'553.00	0.79%	-6.40%
Gold (USD/Oz)	1'727.00	-0.20%	13.82%
Crude Oil WTI (USD/Bbl)	33.92	105.58%	-44.45%
Silver (USD/Oz)	17.34	12.88%	-3.27%
Copper (USD/Tonne)	5'390.50	4.46%	-12.69%
Natural Gas (USD/MMBtu)	1.71	-5.79%	-21.88%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (in points)	YTD CHANGE (in points)
VIX	29.53	-11.85	15.75

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.06	1.02%	-2.11%
GBP/USD	1.22	-0.98%	-7.80%
USD/CHF	0.97	-0.56%	0.40%
EUR/USD	1.10	1.61%	-2.35%
USD/JPY	107.61	0.01%	-0.92%

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (in bps)	YTD CHANGE (in bps)
US Treasury 10Y	0.67%	7.05	-124.55
France 10Y	-0.06%	-13.60	-17.40
Germany 10Y	-0.50%	-7.00	-30.90
Spain 10Y	0.63%	-41.90	16.30
Switzerland 10Y	-0.49%	-8.90	-1.40
Japan 10Y	-0.01%	0.10	1.50

CORPORATE BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	39.92	6.68%	-9.05%
Euro Governments Bonds	217.23	1.07%	-0.15%
Corporate EUR high yield	184.31	0.89%	-9.52%
Corporate USD high yield	283.76	2.78%	-6.65%
US Government Bonds	325.36	0.12%	5.61%
Corporate Emerging Markets	49.24	3.58%	-4.92%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

FEBRUARY 2020	MARCH 2020	APRIL 2020	4 WEEKS CHANGE	YTD (21.05.2020)	
6.82%	-6.44%	12.68%	8.25%	-4.46%	BEST PERFORMING
-2.50%	-7.14%	10.80%	5.39%	-8.74%	
-5.17%	-12.24%	10.18%	5.05%	-11.52%	
-8.76%	-12.51%	9.00%	5.04%	-12.06%	
-8.94%	-13.47%	8.90%	4.57%	-13.37%	
-9.07%	-13.81%	6.24%	4.28%	-16.57%	
-9.67%	-14.80%	6.14%	3.24%	-18.18%	
-10.18%	-15.61%	5.95%	3.20%	-20.25%	
-11.88%	-21.58%	4.35%	2.19%	-25.21%	
-13.51%	-34.63%	4.04%	2.11%	-42.55%	WORST PERFORMING

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

FTSE 100 · Japan Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
Stoxx Europe 600 · S&P 500 · China Shanghai Index · MSCI Latam · MSCI 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.
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