MONTHLY HOUSE VIEW

Marketing Material – January 2022

Focus

France: a stellar recovery within the Euro Area

Architects of Wealth

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WHAT CAN WE EXPECT IN 2022?

VINCENT MANUEL
Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

As we close out 2021, a year of strong performances and many surprises, we turn our attention to what 2022 may have in store for us.

A year of normalisation. First, because we expect the inflation rate to gradually return to more normal levels, which will take longer than expected; second, because supply chains should start to run more smoothly again; and, lastly, because economic policy should return to a more neutral stance, with an end to "whatever it takes" and monetary support.

A year of moderation. This means more modest growth outlooks and earnings growth expectations more consistent with long-term averages. The economy and the financial markets are changing gears, shifting from a rapid recovery (in which all asset classes perform well) to a more traditional trajectory, in which the decorrelation between equities and bonds is expected to increase, as we first saw at the beginning of 2021.

A year of differentiation. Because with a more moderate earnings growth outlook, the performance gap between sectors and between stocks is likely to widen, and will certainly benefit the pricing power leaders, whose margins are more resilient, as well as trailblazers in technology disruption, which seems to accelerate every day.

A year of diversification. One of the risks often raised on the US market is the high concentration in a smaller number of stocks, a manifestation of the "winner takes all" syndrome in the market indices. Some of these actors hit their peaks several quarters ago, and this year the Chinese stock markets showed us that buying the largest capitalisations in the index blind is not necessarily the best option (particularly when fundamentals are no longer what they should be). Informed investors will therefore be able to appropriately spread their risks and actively manage them.

While there is still time for us to make our wishes for next year, after a year of very positive market performances, we can only hope that the central banks will be able to navigate their way through this transitory environment without any major communication errors. In many ways, it looks like we will be walking a tightrope between inflationary pressures and risks to growth in 2022. Let us hope, then, that 2022 does not bring disappointment and disillusionment!

We wish you all happy reading and all the best for the holiday season.

FRANCE: A STELLAR RECOVERY WITHIN THE EURO AREA

The downturn in the French economy in 2020 was the sharpest since the end of World War II. But the country has bounced back thanks to a "swift and effective" government response, putting France's economy on par with its pre-pandemic level as of end-2021. In addition to being an election year, 2022 is expected to be a year of economic normalisation, mirroring other developed countries.

FRANCE TAKES THE LEAD on the road to economic recovery among core Euro Area countries

RELAXATION OF RESTRICTIONS BOOSTED ECONOMIC ACTIVITY

While the shutdown of the global economy and the health restrictions imposed in France cost the country 8 points of growth in 2020, the scale of the stimulus measures and the reopening of the economy as of the second quarter of 2021 led to a sharp rebound in activity (+1.3% in the second quarter, +3% in the third quarter). For full-year 2021, growth is thus estimated at about 6.5%, which puts France in the lead on the road to economic recovery among core Euro Area countries (namely Germany, Italy, and Spain). Better still, France has staked its claim as the first of these four nations to return to its pre-pandemic level. This may come as a surprise when we consider that France is the top tourist destination in the world.

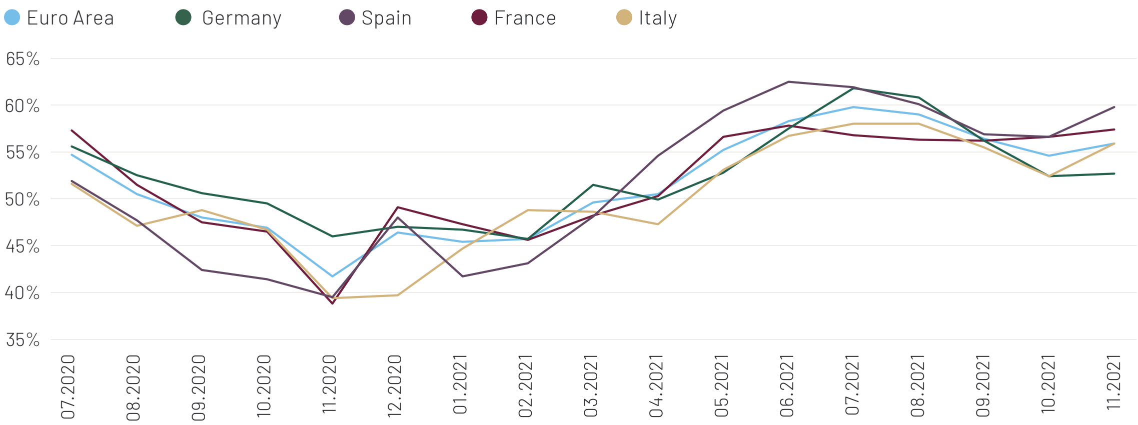
The government's strategy of easing its health restrictions starting in May 2021, and thus of increasing mobility while keeping the risk of a significant acceleration of the epidemic in check, led to a boost in consumption (+5% in the third quarter).

Unsurprisingly, it was the resilience of the services sectors that has driven economic activity recently, in contrast to neighbouring countries (Chart 1). Furthermore, while the business climate has hit record levels over the last decade, household and non-financial company investment has been a real support factor: this component has returned to its pre-pandemic level since March.

IF 2021 WAS THE YEAR OF "WHATEVER IT TAKES", WHAT'S NEXT FOR 2022?

Over the last 20 months, the French government has spent 134 billion euros on emergency measures. While this helped preserve household consumption capacity in 2021, these measures also helped protect jobs. The unemployment rate has returned to its pre-crisis level of 8% and hiring momentum has proven particularly robust, but has not led to significant wage hikes (2% to 3% on average in 2021).

CHART 1: A RESILIENT FRENCH SERVICES SECTOR THANKS TO THE RIGHT BALANCE OF RESTRICTION EASING, %



Source: Bloomberg, Indosuez Wealth Management.

The flipside to this fiscal spending is a larger public deficit, at 9.1% of GDP in 2020 and 8.4% expected in 2021, along with an increase in the debt-to-GDP ratio from 97.6% pre-pandemic to nearly 115% this year.

But while 2022 will mark the end of the "whatever it takes" approach, fiscal support is expected to remain high with the government anticipating a public deficit of 4.8% next year and public debt at 114% of GDP. In particular, the emergency plans will give way to long-term *stimulus* plans: 30 billion euros of the 100 billion euros in the FranceRelance plan – one of the largest national plans in Europe (as a percentage of GDP), which is being incorporated into the European NextGenerationEU plan – still has to be spent in 2022. And this does not include the public spending linked to the France 2030 investment plan, which was passed in October and is worth 30 billion euros.

170
BILLION EUROS:
the savings surplus accumulated by French households at end-2021

SEVERAL FACTORS WORTH WATCHING IN 2022

French growth is expected to be around 4% in 2022, still well above the long-term trend and potential growth, but this estimate could be revised upwards or downwards for several reasons.

First, the savings surplus accumulated by French households is expected to exceed 170 billion euros at end-2021 according to the Banque de France: this provides upside bias to growth since it is likely to boost consumption. For example, the use of 20% of this surplus could contribute 0.9 points of GDP in 2022. There are, however, a number of risk factors:

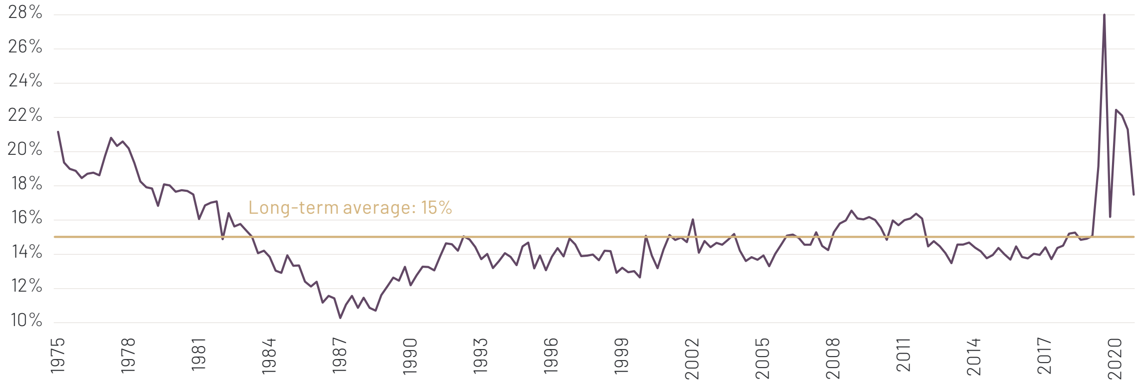
- While inflation, currently at 2.8% year-on-year (and estimated at 2.3% for full-year 2022), is nowhere near the levels seen in the USA, it is characterised by a sharp acceleration in energy prices, including electricity. This could widen the gulf between the real increase in purchasing power and households' perception, and thereby limit consumption.
- Preserving purchasing power at the macro-economic level masks disparities at the micro-economic level: households with the highest incomes accumulated the most savings, but their propensity to consume is much lower.
- The latest news on the health front could dampen household confidence and ultimately cause the savings rate to stabilise at a high level (around 18% currently *versus* 15% on average before the crisis, see Chart 2). This would delay the positive impact expected from French household dissaving.

Second, while the supply chain woes seem to be easing, we are not out of the woods as a reduction in mobility due to potential new health restrictions could depress activity once again.

Lastly, we must consider the risk relating to the impact of the presidential election on economic policy and investor confidence. Although we place little stock in the scenario of an extremist candidate winning and having an adverse impact on the country's economic outlook, we could see some companies take a wait-and-see approach to their investment projects in the first quarter of 2022.

To be continued.

CHART 2: THE USE OF THE HOUSEHOLD SAVINGS SURPLUS PROVIDES UPSIDE BIAS TO FRENCH GROWTH IN 2022, %



Source: Bloomberg, Indosuez Wealth Management.

AN ECONOMIC LANDSCAPE BLURRED BY THE OMICRON VARIANT

The economic activity in the US is expected to pick up in the fourth quarter after a slowdown in Q3. On the other hand, the deployment of a new wave of infection and the identification of the new Omicron variant constitutes a downside risk in Europe, which could extend into early 2022. Finally, this situation could once again burden supply chains if Asia were to be affected.

US unemployment rate decrease from 4.6% to 4.2%

UNITED STATES: A BOOST IN Q4 BEFORE NORMALISATION NEXT YEAR

After a weak third quarter due to the effects of the pandemic and supply constraints, activity should rebound to end the year on a high note, with the Atlanta Fed's GDP nowcasting indicators estimating that US annualised growth could reach 7.2% in Q4. This momentum could be driven by continued strong consumption thanks to the existing savings surplus and job creation. Although the latter disappointed in November (+210'000 new jobs compared to 550'000 expected), the household survey data painted a different picture, with a decrease in unemployment from 4.6% to 4.2%. We could therefore expect a revision of the increase in job creation in the next publications.

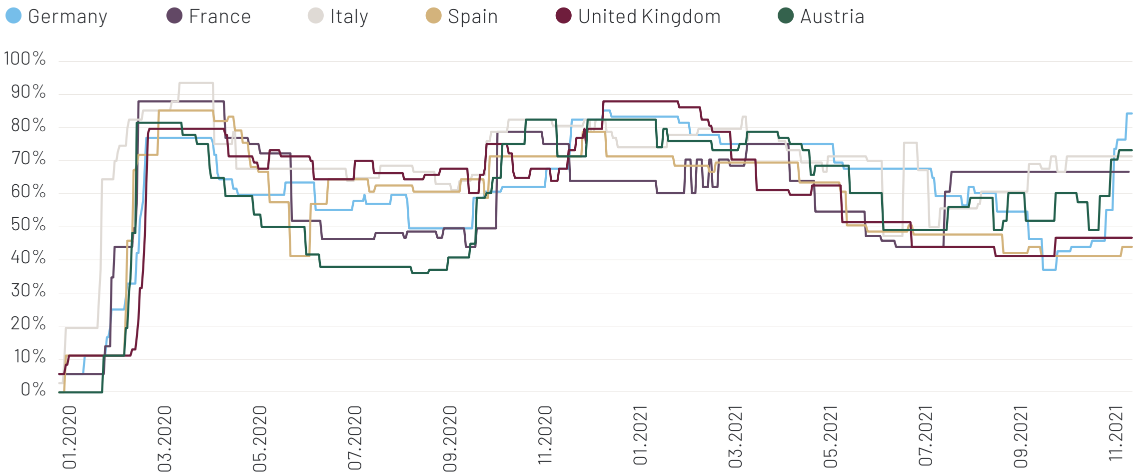
This buoyancy in the labour market has pushed wages up to 4.8%. While these effects are not yet generating second round effects on inflation, the yearly rise in prices has continued to accelerate (+6.8% in November) and remains increasingly broad-based.

We are not drastically changing our scenario for 2022, with inflation still expected to stabilise at a high level, and eventually reverting from Q2 2022 onwards but remaining well above the central bank's target. But the risk is on the upside, as supply chain disruptions may finally persist for longer than expected due to the resurgence of the epidemic, despite some encouraging signals on freight prices and lower supplier delays.

EUROPE: THE OMICRON VARIANT BRINGS SHORT-TERM MACROECONOMIC VOLATILITY

While activity had been quite resilient in recent months in Europe, this fifth wave of COVID-19 combined with the appearance of the more contagious Omicron variant has clouded the region's short-term prospects. This situation has halted the gradual reopening observed over the last six months with a downward inflection in the mobility indices of certain countries (Chart 3).

CHART 3: COVID-19 STRINGENCY INDEX IS PICKING UP AGAIN IN SOME EUROPEAN COUNTRIES, %



Source: Our World in Data, Indosuez Wealth Management.

This could therefore delay household dissaving and the rebalancing of consumption from goods to services. It should also be felt in the next publications of business climate and household surveys, which would imply a risk on the economic dynamics of the coming months.

However, this risk seems to be limited by the experience of governments and the effectiveness of vaccines: we therefore confirm our scenario of growth at high levels in 2022, above potential but down from 2021.

At the same time, inflation, which stands at 4.9% in the Euro Area and is mainly characterised by a rise in energy prices, could peak in the coming months before also returning to more normal levels while staying above the 2% threshold. Finally, while the labour market remains dynamic, the labour shortage remains limited to certain sectors and is not producing a worrying rise in wages. However, the United Kingdom is to some extent an exception, as wages are up by more than 4% year-on-year, probably also reflecting the implications of Brexit.

PBoC
seems more inclined to support its economy

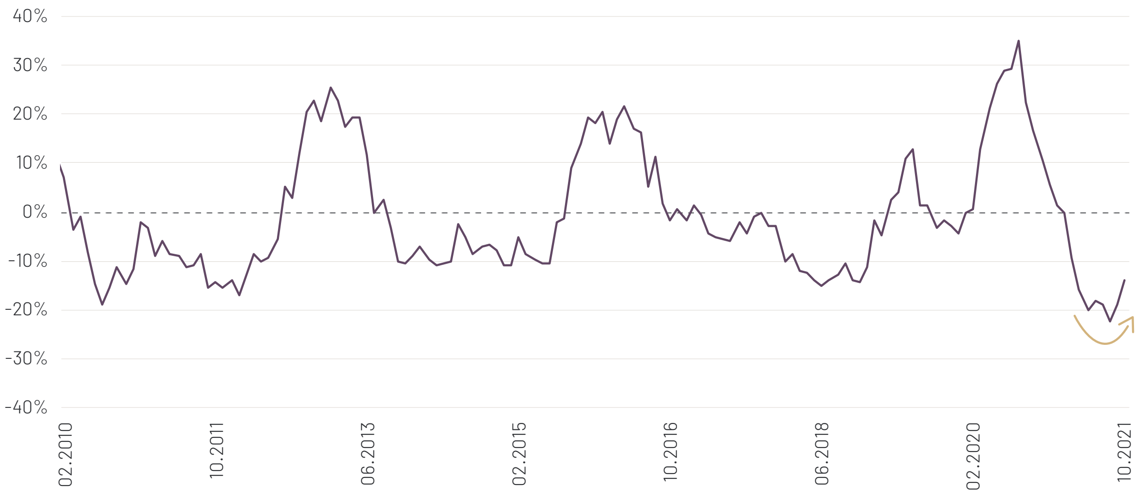
CHINA: STABILISING GROWTH IS THE KEY WORD

Further East, growth is expected to reach 6-7% annualised in Q4 as some signs of improvement in the manufacturing sector have been observed in connection with the recent increase in energy production, but also in exports as reflected by the latest encouraging figures on world trade. The main risk to growth next year remains the slowdown in the property sector, as we hear every week of new difficulties from property developers, linked to the now official bankruptcy of Evergrande. The other risk, which applies more generally to the whole of Asia, comes from the epidemic which could impact production lines again and delay policies to live with COVID-19, like in South Korea.

On the other hand, there is some positive news coming from the People's Bank of China (PBoC), which after lowering its reserve requirement ratio now seems more inclined to support its economy, and should continue to favour monetary support measures targeted at SMEs and green investments.

This accommodative signal, contrasting with what we can observe within the developed world, is also reflected in the Chinese Credit Impulse (Chart 4), which now appears to be bottoming out: a slightly more encouraging development for the year 2022.

CHART 4: CHINA CREDIT IMPULSE MAY HAVE BOTTOMED OUT, 6-MONTH CHANGE, %



Source: Bloomberg, Indosuez Wealth Management.

A SLOWING IS EXPECTED IN MID-2022 FOR EUROPEAN AND US INFLATION RELEASES

We continue to expect significant slowing in the year ahead, but we do not expect the data to be validated in the coming months. In our central scenario, we do not foresee a change in the inflation regime. However, the utilisation of US tips continues to be an attractive tool in the case of the materialisation of an alternative scenario with higher structural inflation.

ECB
intention to keep stimulating the economy

CENTRAL BANKS

In the Euro area, the European Central Bank (ECB) is intending to keep stimulating the economy aggressively. Decisions regarding the evolution of the QE (quantitative easing) program might be postponed into early 2022 as the health situation deteriorates in Europe. We anticipate no rate hikes for the coming years and a recalibration of the Asset Purchase Program to address the end of the PEPP (pandemic emergency purchase programme).

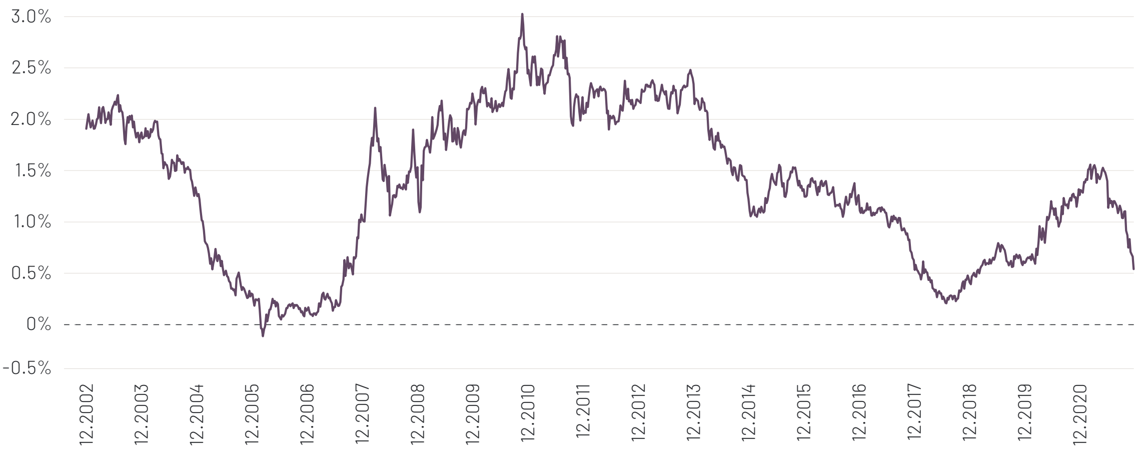
Until now, the Fed has been patient in the face of the supply-driven surge in inflation under the belief that it will fade. However, the latest data suggests that even if supply is coming back, robust demand is generating tighter conditions. The latest labour market data and inflation figures has driven the Fed to accelerate the reduction of asset purchases, as previously announced, which would end between February and mid-March 2022. Besides, the dot plots showed a Fed less divided than in the past, with 3 rate hikes now planned for 2022: essentially what the market expected, albeit with one more rate hike than what was predicted in our scenario last month.

UNITED STATES

In comparison to its European peers, the US yield curve has been more volatile. With long-term yields dropping and short-term yields rising on the back of sooner and firmer tightening, the US curve has strongly flattened recently. The movement was exacerbated by mounting concerns that the Omicron strain will crimp the economic rebound, affecting long term rates. The recent flattening movement is not all that surprising given that the Fed is turning more hawkish; however, the magnitude of the move is significant, with the 5s30s part of the US curve (Chart 5) having flattened by 85 bps since March, particularly given that the Fed has not even begun to tighten. On the back of the recent and heavy flattening, and with the Fed needing to see some transmission of its tightening policy to the longer part of the curve, we anticipate a very moderate steepening on 5s30s part of the curve.

Regarding inflation breakevens, the recent decline was due to more hawkish messages from the Fed, but also the risk off environment. We continue to expect significant slowing in the year ahead, but we do not expect the data to be corroborative in the coming months.

CHART 5: EVOLUTION OF US 5S30S RATE SLOPE, %



Source: Bloomberg, Indosuez Wealth Management.

In our central scenario, we do not foresee a change in the inflation regime and believe that breakeven should slightly retrocede next year. For hedging purpose, the utilisation of US tips continues to be an attractive tool in the case of the materialisation of an alternative scenario with higher structural inflation.

CREDIT

The credit asset class recently underperformed with the new wave of restrictions and a decidedly hawkish turn from the Fed. For European and US IG credit spreads, the spread tightening of 2021 has been erased in the last month. We believe spread volatility is likely to be higher next year given the uncertainties around the tightening of monetary policy. Nevertheless, this will not change the supportive backdrop for high-grade credit thanks to above trend economic growth, less bond supply, and strong demand. Despite the tight level of spreads, we do not see anything to push them much wider either. Regarding subordinated debts, the corporate hybrids segment has showed signs of weakness, but on a valuation standpoint it will look attractive again when rates volatility stabilises. New supply and crowded long positions remain the biggest cons.

Last month, European and US high yield spreads substantially widened by roughly 50 bps. With low realised default, thin default forecast, and improving fundamentals, carry strategies remain highly attractive.

We have lowered our strategic scoring for euro investment grade (IG) and US IG to neutral, mainly because we anticipate spread volatility to be higher in the coming years. For riskier credit segments like euro HY, US HY, and Subfinancials, we have decided to raise our tactical scoring to neutral after the recent credit spread widening.

EMERGING MARKETS

The emerging credit asset class continued to underperform. For once in 2021, Asian credit was not the laggard and spreads tightened very modestly. Indeed, the Latin American region suffered the most, being more sensitive to US rising yields and inflationary pressures. While technicals are not as supportive as before, valuations remain stretch despite the recent correction. Regarding Asia, Asia IG and mainly China IG offer some spread pick-up compared to euro and US IG. Given recent PBoC actions to sustain growth and intensifying credit differentiation towards quality, we have decided to rise our tactical scoring to neutral. The Asian high yield segment remains very dependant of the evolution of the Chinese property sector, which remains under stress. The financing channel remains challenging if not completely shut for a vast majority of private homebuilders. We do not anticipate a major change in the deleveraging stance from regulators. More dovish statements on the sector from Politburo and recent "loosening" actions from the PBoC have led to a slight improvement in the overall sentiment, despite the increasing number of defaulting companies.

LOOKING AT 2022

We confirmed our positive view on Equity for 2022: equities are supported by global economic growth above its long-term potential, central bank policy that is broadly accommodative (despite Fed tapering), and low real yields.

2022 EPS GROWTH
could slightly be revised on the upside

We continue to expect earnings to be the main driver of returns, similar to 2021, and the current consensus projections for next year (around 6-7% for the MSCI World) could slightly be revised on the upside. This scenario is still dependant on the evolution of the sanitary crisis. We do not see the recent Omicron variant as a game changer for our scenario, even if short term volatility could remain high.

UNITED STATES

The S&P 500 is within 2% of its all-time high as of mid-December, despite an episode of investor stress related to the discovery of a new variant. Beyond COVID-19, market participants remain concerned about inflation news and the Fed's reaction to inflationary pressures.

However, US companies are confident, with strong balance sheets and nearly USD 7 trillion in cash to deploy (in dividends, buybacks, capex, or acquisitions). As an example, for S&P 500 companies, Capex is expected to grow by 15% over 2022, with more than 40% of this investment going to technology. Buybacks should support equity markets too, with tech companies among the biggest sectors along with Financial and Healthcare which drive buybacks.

Moreover, EPS growth for 2022 is expected to be around 7%, leaving some rooms for potential upgrade.

So, we maintain our constructive view for the US which is the perfect example of the Growth with high pricing power theme. Valuations are high *versus* the rest of the world, but largely justified by stronger profitability, remaining capacity to increase margins, buybacks, and sectorial breakdown.

EMERGING MARKETS

China zero-COVID policies and the energy shortage are still burdening economic activity. Beijing's commitment to have companies' shares listed domestically rather than in the US has added pressure recently, and regulatory uncertainty is likely to continue to bring volatility.

On the other hand, signs of fundamental growth in China are encouraging and a more favourable policy backdrop should arrive soon. PBoC recently unveiled a monetary policy facility to support green projects lending. We forecast domestic consumption to continue on a gradual and steady pace into the next year, and we expect the Central Economic Work Conference in December to set policy stance for 2022 with "stability" as the key emphasis.

Finally, the good combination of stronger earnings growth with attractive relative valuation are pushing in favour of more exposure to China in 2022, but we are still waiting for better earnings momentum as a confirmation, due to the lack of evidence at the moment (Chart 6).

For Asia ex - Japan, earnings have already fully recovered and lie above pre-COVID levels. India, Singapore, and the Philippines have recently seen earnings upgrades into 2022. South Korea and Taiwan continue to offer opportunities driven by technology and a global cyclical recovery.

JAPAN

The health situation continues to improve significantly due to the acceleration of vaccination. The tax support plan and the improvement in the supply chain situation expected in 2022 should support domestic consumption in Q1. The acceleration on EPS revisions combined with record cheap valuations should drive equity markets. Moreover, the Japanese market is historically a good regional hedge on potentially rising bond yields.

EUROPE

We maintain our positive stance on European equities for the coming months. Indeed, Europe is providing an attractive valuation in absolute terms, and in relative terms *versus* history and vs other asset classes.

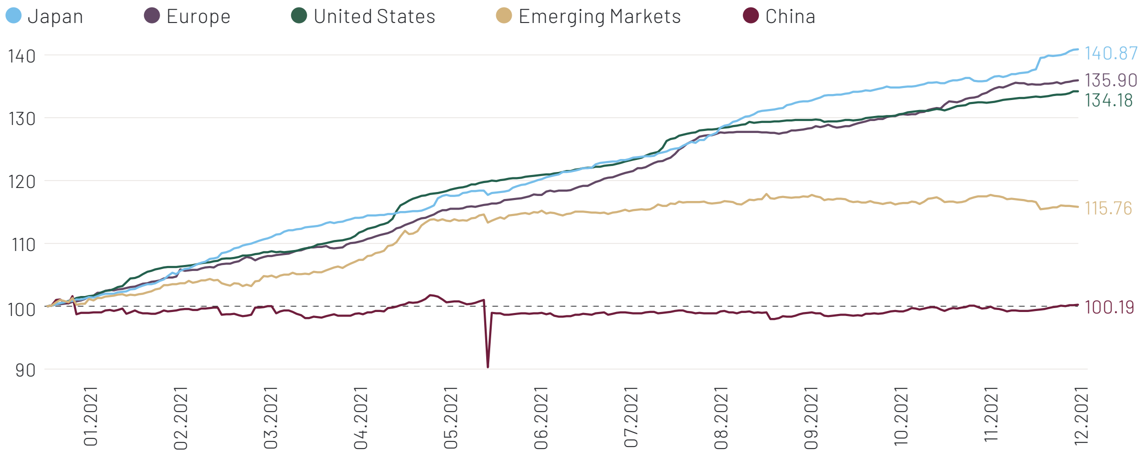
EPS growth expectations for 2022 are reasonable (+5%) while revisions trends continue to reside in positive territory despite well-known headwinds (input costs, salary inflation, supply chain disruptions, new round of lockdowns in some geographies...). Pricing power will likely remain as a key investment theme for the months to come. Finally, Europe is a good hedge on potential rising bond yields as the weight of value sectors is higher than in the US.

THEMATICS: DISRUPTIVE TECHNOLOGY

The Technology sector remains one of the best places to be given its strong structural advantages. In fact, the sector benefits from a combination of structural tailwinds like strong pricing power and growth of secular themes (digitalisation, artificial intelligence (AI), cloud, electric vehicles, internet of things...). In addition, technology fundamentals are supportive, through strong balance sheets, significant buybacks, and the rise of Capex. For example, US Capex are expected to rise at record rates with an estimated growth of around 15% in 2022 after +8.2% in 2021. One of the most interesting observations regarding the broader Capex spending is its changing nature with the structural rise of the proportion dedicated to the information technology segment explained by an increasingly information-driven society.

THE TECHNOLOGY sector remains one of the best places

CHART 6: EPS GROWTH FOR MAJOR DEVELOPED MARKETS, BASE 100, 31.12.2020



Note: The strong EPS growth drove markets up in most developed markets with all time high level for the US and Japan index.
Source: Bloomberg, Indosuez Wealth Management.

CNY WINS THE 2021 FOREX RACE

Forecasts for 2021 turned out to be all wrong, with USD reigning near-supreme whilst CNY was the only major currency to climb even further in strength (showing the importance of real yield). GBP might be set to take off if risk appetite remains positive, whilst the EUR's healthy fundamentals are not enough to match the opportunities in the rest of the Forex universe.

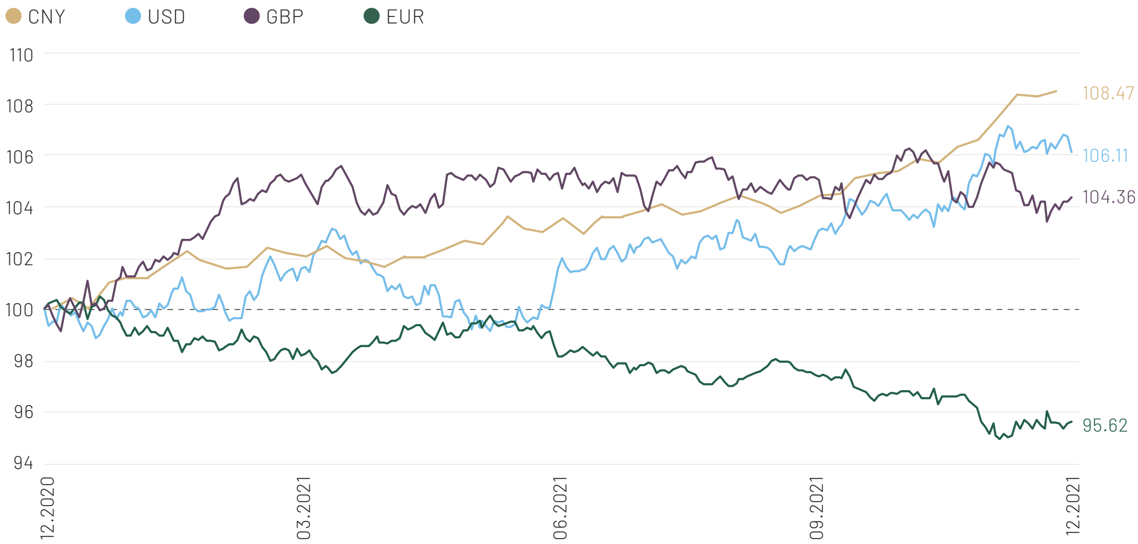
USD: STILL THE KING OF CURRENCIES

Initial predictions for USD performance in 2021 were all bearish, yet we finish the year not only with a very strong USD but also no end in sight (as of yet) for progressively more hawkish Fed policies (chart 7). Economic *momentum*, monetary policy divergence, and short-term rates differentials between major economies continue to drive USD strength. We see little reason for this to revert in the coming months, notably ahead of French elections, unless the global growth outlook weakens and cancels some of the rate hikes anticipated in the US. Into year-end 2022 however, we could anticipate other currencies to gain ground once the Fed tightening is well priced in. Therefore, we anticipate only a moderate weakening of the dollar on a twelve month basis. To us, however, the important takeaways for investors are: 1) watch economic data and Fed messaging very, very closely, and 2) for now the USD has the rate advantage.

EUR: NOT BAD, BUT NOT GOOD ENOUGH

Despite the launch of the NextGenerationEU and numerous other factors that had been previously highlighted as potential drivers of EUR strength, the single currency is ending 2021 about 5% weaker YoY (in trade-weighted terms). And it's not that fundamentals are looking weak in Europe (current COVID-19 wave notwithstanding), but rather that the fundamentals of other G10 currencies are looking better than the euro's. As Forex is always a game of "relative value", EUR has just ended up being a funding currency of choice. Looking ahead, investors will need to pay close attention to ECB messaging and try to determine when the direction of monetary policy finally starts to turn hawkish. Political uncertainties could also contribute to some volatility and pressure on the euro in Q1.

CHART 7: TRADE WEIGHTED INDICES OF USD, GBP EUR AND CNY NORMALISED FOR RELATIVE PERFORMANCE IN 2021, BASE 100, 31.12.2020



Source: Bloomberg, Indosuez Wealth Management.

£

POUND
looking like an
ATTRACTIVE
CURRENCY
to hold in 2022

GBP: ALREADY HIKING UP

The British pound finishes 2021 as the first major reserve currency to start hiking interest rates. After confusing markets in November because of COVID-19, the Bank of England (BoE) concluded that the Omicron variant was simply a further reason to hike given the inflationary risks associated to it (using similar reasoning to Norway's central bank) and gave a full hawkish review in December. Coupled with positive Brexit developments which had previously unnerved investors, the visible risks in the UK investment story are gradually fading away, leaving the pound looking like an attractive (high-beta) currency to hold in 2022.

CNY: THE FX WINNER YET AGAIN IN 2021 – ALBEIT TIME FOR A PAUSE

Divergent monetary policy paths most likely lie ahead as the PBoC now prioritises the stability of domestic growth above all. Following the swift -50 bps cut in the RRR level, the Central Bank has displayed their intentions to address the property developer concerns brewing at home. Thus, we cannot exclude a benchmark prime rate cut below 3.85% as a follow-up measure. This should serve to cap the strongest currency of the year yet again in 2021 *vis-à-vis* the US dollar, whilst the FOMC accelerated the QE taper policy underway to address runaway core CPI. These contrasting decisions could see some long overdue profit taking in the Renminbi towards 6.45/USD within an ongoing long term appreciation trend. Further international investor diversification into the positive "real yielding" RMB on any dip is likely to counteract any short-term weakening phase.

07 • Asset Allocation

KEY CONVICTIONS FOR 2022

Global economic growth:

4%

expected in 2022

5 PILLARS OF THE SCENARIO

- **Economic Growth:** 4% global growth expected, with some risks during the first quarter 2022 due to the new variant's circulation, but still benefiting from a still supportive monetary and a generous fiscal policy, the former insuring the sustainability of the latter.
- **Inflation trend:** above central banks' target, around 3.5% in the US and 2.5% in Europe, starting the year at a high pace as in Q4 2021, and progressively decreasing by spring 2022.
- **Long-term rates:** probably under control in the US as long as inflation expectations stay contained.
- **Central banks:** characterised both by diverging normalisation speeds, notably between a dovish ECB and a hawkish Fed expected to end tapering in March and forecasting up to three rate hikes in 2022 as per the latest dot plots.
- **Earnings growth** back at more reasonable level, in the high single digit area, and double digit in Asia.

6 IMPLICATIONS ON INVESTMENT STRATEGY

- **Asset classes' allocation:** multi asset portfolios still positioned on a risk-on mode, favouring equities, but with maintained exposure on high yield and emerging debt.
- **Geographies:** a beginning of the year still focused on developed markets, but with an exposure on emerging assets (equities, debt, and currencies) that could increase gradually.
- **Style:** a balanced view maintained between secular growth and value stocks, with a preference for pricing power champions. Investors should continue to focus on long-term themes such as disruptive technology, environment, emerging middle class, and social trends in mature markets such as millennials or human capital.
- **Carry:** as we do not anticipate a massive disruption on yield curves, we believe that investors can keep their exposure on corporate bonds, bearing in mind that the 2 to 5 years part of curves will be the most reactive to Fed policy, while longer term bonds will reflect more surprises on inflation.
- **Currencies:** we think it is too early to call for a correction of the US Dollar in H1 2022, notably against the euro, as long as currencies largely reflect divergences in monetary policies and relative macro and political uncertainties. That being said, cheap emerging currencies could find support if the Fed does not surprise with more hikes than expected.
- **Macro hedges:** given the remaining uncertainty on the inflation path and upcoming political events of 2022, keeping some exposure to gold or to safe havens such as Yen could be beneficial to portfolios, but overall cash buffers should remain the best hedge and source of funding for arising opportunities.

KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
Core EUR 10Y (Bund)	=/-	=
EUR Periphery	=	=/-
USD 10 Y	=/-	=
EUR Breakevens Inflation	=	=
USD Breakevens Inflation	=/-	=
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	=/+	-/=
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.

08 • Market Monitor (local currencies)

OVERVIEW OF SELECTED MARKETS

DATA AS OF 15 DECEMBER 2021

GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	1.46%	-13.24	54.33
France 10Y	-0.02%	-12.50	32.70
Germany 10Y	-0.36%	-11.60	20.80
Spain 10Y	0.35%	-13.80	30.40
Switzerland 10Y	-0.28%	-16.00	26.80
Japan 10Y	0.05%	-2.60	3.10

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	40.36	-2.65%	-10.81%
Euro Governments Bonds	220.33	0.25%	-0.83%
Corporate EUR high yield	213.44	-0.09%	3.09%
Corporate USD high yield	329.12	0.06%	3.44%
US Government Bonds	320.25	0.04%	-1.73%
Corporate Emerging Markets	51.06	-0.31%	-3.84%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.0440	-0.64%	-3.44%
GBP/USD	1.3262	-1.67%	-2.98%
USD/CHF	0.9251	-0.38%	4.51%
EUR/USD	1.1289	-0.27%	-7.59%
USD/JPY	114.04	-0.04%	10.45%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	19.29	2.18	-3.46

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'709.85	0.45%	25.39%
FTSE 100 (United Kingdom)	7'170.75	-1.65%	10.99%
Stoxx Europe 600	470.76	-3.92%	17.98%
Topix	1'984.10	-2.66%	9.94%
MSCI World	3'175.11	-1.43%	18.03%
Shanghai SE Composite	5'005.90	2.46%	-3.94%
MSCI Emerging Markets	1'214.50	-5.62%	-5.94%
MSCI Latam (Latin America)	2'078.93	-1.64%	-15.21%
MSCI EMEA (Europe, Middle East, Africa)	269.37	-7.58%	11.65%
MSCI Asia Ex Japan	780.45	-5.62%	-7.41%
CAC 40 (France)	6'927.63	-3.20%	24.79%
DAX (Germany)	15'476.35	-4.77%	12.81%
MIB (Italy)	26'666.08	-4.16%	19.94%
IBEX (Spain)	8'275.00	-7.99%	2.49%
SMI (Switzerland)	12'530.95	-0.55%	17.07%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'303.00	-1.35%	1.97%
Gold (USD/Oz)	1'776.92	-4.85%	-6.40%
Crude Oil WTI (USD/Bbl)	70.87	-9.56%	46.06%
Silver (USD/Oz)	21.51	-14.54%	-18.57%
Copper (USD/Tonne)	9'199.50	-2.20%	18.46%
Natural Gas (USD/MMBtu)	3.80	-21.05%	49.74%

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

BEST PERFORMING

SEPTEMBER 2021	OCTOBER 2021	NOVEMBER 2021	4 WEEKS CHANGE	YTD (15.12.2021)
3.54%	6.91%	-0.83%	2.46%	25.39%
1.26%	5.59%	-1.56%	0.45%	18.03%
0.30%	4.55%	-2.30%	-1.43%	17.98%
-0.47%	2.43%	-2.46%	-1.64%	11.65%
-3.41%	2.13%	-2.64%	-1.65%	10.99%
-4.25%	1.32%	-3.40%	-2.66%	9.94%
-4.29%	0.93%	-3.64%	-3.92%	-3.94%
-4.36%	0.87%	-3.92%	-5.62%	-5.94%
-4.76%	-1.43%	-4.14%	-5.62%	-7.41%
-11.39%	-5.38%	-7.05%	-7.58%	-15.21%

WORST PERFORMING

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

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

Blockchain: A technology for storing and transmitting information. It takes the form of a database which has the particularity of being shared simultaneously with all its users and generally does not depend on any central body.

BLS: Bureau of Labor Statistics.

BNEF: Bloomberg New Energy Finance.

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

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.

Deflation: Deflation is the opposite of inflation. Contrary to inflation, it is characterised by a sustained decrease in general price levels over an extended period.

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

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 non-operating expenses.

EBITDA (Earnings Before Interest, 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 Area member countries' monetary policy.

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

Economies of scale: Decrease in a product's unit cost that a company obtains by increasing the quantity of its production.

EPS: Earnings per share.

ESG: Non-financial corporate rating system based on environmental, social and governance criteria. It is used to evaluate the sustainability and ethical impact of an investment in a company.

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.

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

Gig economy: system characterised by flexible, temporary or freelance jobs.

IEA: International Energy Agency.

IMF: The International Monetary Fund.

Inflation breakeven: Level of inflation where nominal bonds have the same return as inflation-linked bonds (of the same maturity and grade). In other words, it is the level of inflation at which it makes no difference if an investor owns a nominal bond or an inflation-linked bond. It therefore represents inflation expectations in a geographic region for a specific maturity.

Inflation swap rate 5-year, 5-year: A market measure of what five-year inflation expectations will be in five years' time. It provides a window into how inflation expectations may change in the future.

IPPC: The Intergovernmental Panel on Climate Change.

IRENA: International Renewable Energy Agency.

ISM: Institute for Supply Management.

Japanification of the economy: Refers to the stagnation the Japanese economy has faced in the last three decades, and is generally used to refer to economists' fears that other developed countries will follow suit.

Metaverse: A metaverse (portmanteau of meta and universe) is a fictional virtual world. The term is regularly used to describe a future version of the internet where virtual, persistent and shared spaces are accessible via 3D interaction.

OECD: Organisation for Economic Co-operation and Development.

Oligopoly: An oligopoly occurs when there is a small number of producers (supply) with a certain amount of market power and a large number of customers (demand) on a market.

OPEC: Organization of the Petroleum Exporting Countries; 14 members.

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

PMI: Purchasing Managers' Index.

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.

Pricing power: Refers to the ability of a company or brand to increase its prices without affecting demand for its products.

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.

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.

Secular stagnation: Refers to an extended period of little or no economic growth.

SRI: Sustainable and Responsible Investments.

Uberisation: Term derived from the name of US company Uber which develops and operates digital platforms that connect drivers and riders. It refers to a new business model that leverages new digital technologies and is part of the sharing economy, insofar as it puts customers in direct contact with service providers, at a reduced cost and with lower prices.

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.

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: World Trade Organization.

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