INDOSUEZ WEALTH MANAGEMENT

Marketing Material

MONTHLY HOUSE VIEW

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Focus
Shifting Power

Architects of Wealth

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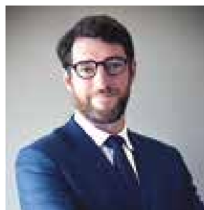
STRATEGIC POSITIONING IN UNCERTAIN TIMES



VINCENT MANUEL

Chief Investment Officer, Indosuez Wealth Management

Dear Reader,

The conflict in Ukraine, whose duration, risks of extension and exit scenarios are impossible to predict, is the backdrop for the current regime change in the markets with the word "stagflation[1]" summarising the macroeconomic content. Higher inflation and increased risks of stagnation are the two polarities, two sides of the same coin, and the conflict is the accelerator.

In recent weeks, the markets have moved rapidly from classic risk aversion, marked by a sharp fall in equities and a strong performance of safe havens - very similar to past corrections fuelled by recessionary fears - to phases more comparable to those at the beginning of the year, with equity rotation, volatility and a rise in long term rates.

In the face of uncertainty, there is a strong temptation to cling to the branches of the past. Comparisons with the oil shocks of 1973, 1979 and 1990 abound, as have the many arguments that the world has changed since then. However, several lessons remain valid. First, the idea that rising energy prices almost always lead to a slowdown in growth. Secondly, that central banks are caught between two fires, the risk of a slowdown and rising inflation.

In this volatile and changing context, the position to adopt by investors remains complex, and probably implies looking beyond the conflict, to apprehend the impacts in terms of growth, inflation, monetary policy and the evolution of corporate results.

In this respect, there is no doubt that this economic shock will primarily affect Europe, which is facing a sharper decline in growth than the United States and is more exposed to the risk of energy shortages. The other reason to be more cautious about Europe is that wages are growing at a slower pace than inflation, which will logically translate into lower consumption.

This is reflected in the correction in European equities, which *de facto* incorporates a slowdown in the economic recovery of the Euro Area and doubts on profit growth.

However, it would be illusory to think that the US economy will remain immune to this shock if the rise in energy prices were to persist. Here again, the judge will be the Federal Reserve (Fed), which will have to be flexible if US consumption also weakens. Some warning signs are already there, such as the recent fall in consumer confidence indicators, even though the strength of employment, wages and investment suggest that the US economy will remain in growth mode. This in turn is what makes the Fed confident that the US economy and financial markets can withstand this monetary normalisation.

1 - Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

SHIFTING POWER

The new REPowerEU plan is ambitious because it needs to be. Contrary to oil supplier substitution, new gas sources will take time. Any sudden need to reduce gas imports is most likely going to go through the cuts in individual energy consumption brought about by the impact of higher prices.

A TWIN ENERGY CRISIS

The European Union (EU) produces nuclear and renewable energy domestically, but 60% of the EU's energy needs are imported putting it to a real disadvantage compared to a net exporting US. Russia is the main energy supplier in petroleum (approximately 25%), gas (Chart 1) and solid fossil fuels (55%).

This dependence is a major threat to price stability today when price volatility is extraordinarily high. Energy prices, that constitute 10% of the Euro Area's inflation consumption basket, was up 31.7% in February and will continue to rise given the rise in gas and oil prices.

10%
cut in Russian gas supply is a 0.7% fall in Euro Area GDP

In case of a partial shutdown provoked by sanctions escalation, European industry dependence on Russian gas could create shortages and disruptions. The European Central Bank (ECB) has analysed each sector's dependency on gas and has estimated that a 10% reduction in gas supply could hit Euro Area GDP growth by 0.7%.

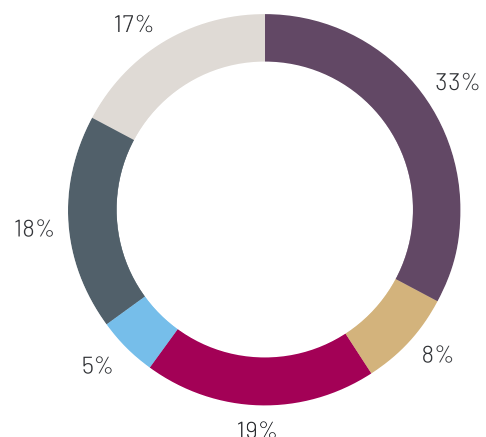
Reducing reliance on fossil fuels was already a focus of the 2021 "Fit for 55" package. A new fast track plan "RePowerEu" was introduced early March by the European Commission with the aim to reduce: Europe's over-dependence on imported Russian energy by two-thirds (approximately 100 billion cubic metres - BCM) and the impact of higher energy prices on consumers.

REDUCING RELIANCE

The biggest part of the plan is attempting to reduce Russian gas imports by changing gas suppliers and to a lesser extent increasing production of bio methane (Chart 2). The EU plans to turn to alternative Liquefied Natural Gas (LNG) producers in Qatar, Egypt and West Africa, while diversifying its supply through pipelines from Algeria or Norway. It also relies heavily on the ability to frontload renewable energy projects in solar, wind, green hydrogen and accelerating the use of heat pumps. The plan is also based on the reduction of energy demand either through improved efficiency or changes in consumer behaviour.

CHART 1: NATURAL GAS SUPPLY TO EUROPE BY SOURCE AS % OF TOTAL, 2020

- Russia pipeline & LNG imports
- North Africa & other non-Europe pipeline
- Norway pipeline
- Netherlands pipeline
- Other Europe pipeline
- Other LNG imports



Source: BP Statistical Review, Indosuez Wealth Management.

Details need to be hammered out, but we can already decipher two main macroeconomic takeaways:

- **The plan requires major infrastructure investment.** Contrary to oil barrels, LNG requires infrastructure to liquefy the gas on departure and regasify on arrival. European capacities are adapted to the current demand, but not to an additional demand of 50 BCM. Moreover, infrastructure for routing gas from Spain (where a good part of the delivered LNG could arrive) to Eastern Europe is most likely insufficient. Finally, the frontloading of renewable energy production also implies bringing forward massive investments in this sector.

  There is also an issue on the demand side, increased European demand of 50 BCM is equivalent to a little over a 10% increase in global demand, which combined with hiking up storage capacity targets in Europe, will provoke a demand shock on the LNG market.

- **The energy-mix is necessary, but also inflationary.** On top of demand-led price pressures, Europe will inevitably need to offer an additional premium to have the liquefied natural gas transported to the old continent via Asia. Furthermore, the transition towards renewable energies is also considered inflationary in the short term given the higher cost of production and need for currently high priced commodities.

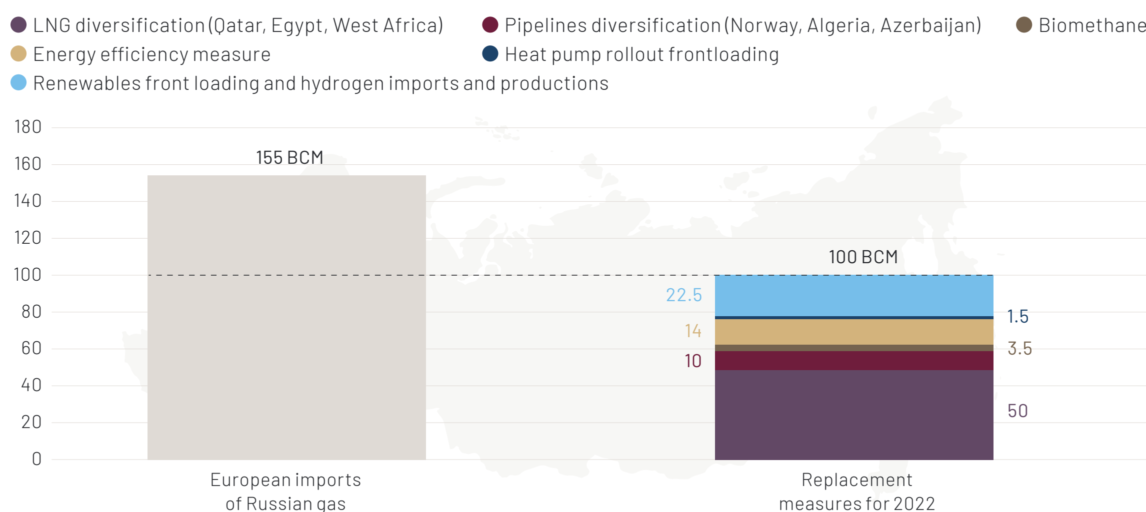
HELPING CONSUMERS

The second prong of RePowerEU is aimed at limiting the impact of the crisis on the most vulnerable population by allowing member states to prolong existing and impose temporary price regulation and transfer mechanisms (including tax measures on wind fall profits and the use of emission trading revenues). These measures would be financed in part by levies on companies deemed to have profited from the higher energy prices, a difficult balancing act if these same companies are expected to support a part of the new investment needs. These levies are not as bad as financial markets had feared as they are - thus far - limited to the end of June.

NEVER WASTE A CRISIS

The plan is consciously very ambitious and is more a roadmap than a definite target. It can also be viewed as a contingency plan, as it requires member states to increase gas stocks to 90% capacity (compared to around 30% today). Europe does not have a choice, as the stakes are high. Nevertheless, this crisis is also an opportunity for Europe to diversify energy producers, catapult its energy transition to renewables and find energy independence. It also continues to unite the member states as the infrastructure of tomorrow will need to be financed by the euro issuances of today.

CHART 2: REDUCTION BY 2/3 OF RUSSIAN GAS IMPORT'S DEPENDENCY FOR 2022, BCM



Source: European Commission, Indosuez Wealth Management.

THE END OF A CYCLE?

The post COVID-19 recovery will have been very short lived. Confidence indicators for businesses and consumers are taking a double hit from inflation and uncertainty from the Ukraine war. Even if some zones are more exposed than others, the conflict will take its toll on every continent.

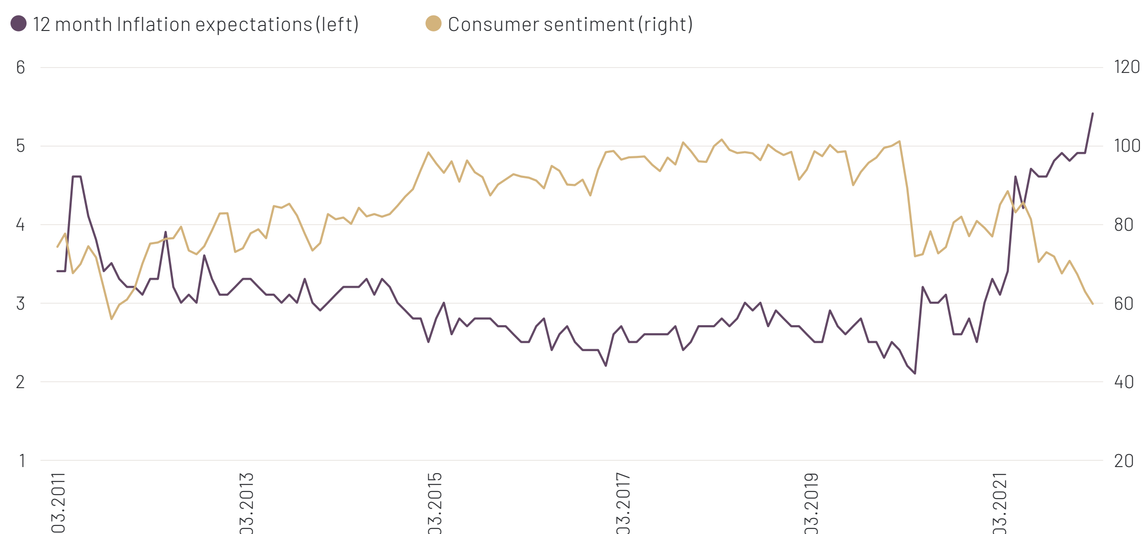
A clear warning that the recovery in
EUROPE IS AT RISK

The Ukraine conflict is hitting the European continent hard. Although manufacturing surveys picked up in the first two months of 2022, consistent with industrial output rising in Q1, the Euro Area ZEW Economic Sentiment index took a plunge to a two-year low in March after four solid months of recovery (-38.7 in March from +48.6 in February). This indicator of investor sentiment can be very volatile, but the extent of the turnaround gives a clear warning that the recovery in Europe is at risk. Inflation in the Euro Area is at 5.8% year-on-year, with all components rising, in particular energy prices (+32%) and food prices (+4.1%). European consumers can however rely on renewed fiscal expansion and still relatively accommodative monetary policy (compared to the US).

THE US CONSUMER

US consumers benefit from stronger wage gains than in Europe as well as positive wealth effects from the housing market. The latter has shown no signs of slowing. Shelter prices continued to contribute to the rise in the overall consumer price index in February (4.7% and 7.9% respectively in year-on-year terms) along with energy prices (26%) and food prices (7.9%). Producer prices also rose in February (10%) as supply chain disruptions are being prolonged by the Ukraine war. This along with capacity constraints and labour shortages caused the US ISM services index to fall four points in February. The latest US jobs report gave some hope for businesses, however as the labour market participation rate that had dropped during the pandemic is now only one percentage point away from its pre-pandemic level. This may have been driven by dwindling savings and increased consumer concerns in the current context. US March consumer confidence (Michigan University survey) gave its lowest reading since November of 2011 (Chart 3), as inflation expectations rose sharply (5.4%, its highest level since 1981). With all these price increases as well as the prospect of further Fed hikes in a predominantly variable rate environment, we indeed have our doubts on the resilience of the US consumer in the coming months especially with a less supportive fiscal policy stance.

CHART 3: MICHIGAN CONSUMER SENTIMENT, POINTS



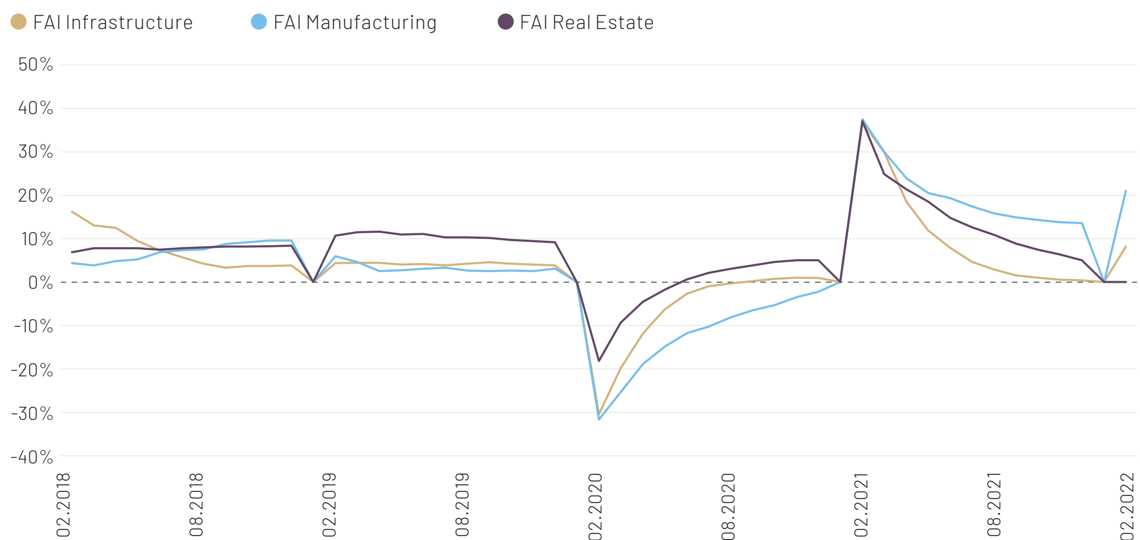
Source: University of Michigan, Indosuez Wealth Management.

All in all, even if it is difficult to forecast in this exceptionally uncertain environment, we have revised down our Euro Area GDP forecasts to 2.5% growth in 2022 and also US growth to 2.7%. This reflects a structurally higher negative impact on Euro Area growth from energy price hikes as well as a stronger than expected hit on consumption as wages are rising much slower than in the US. Risks to Euro Area growth are skewed to the downside, notably if uncertainties were to drive capital expenditure down, while growth and investment in the US energy sector could be further enhanced from oil prices remaining above the USD 100 mark and increased foreign energy demand for oil and gas.

CHINA NOT ENTIRELY IMMUNE

Finally, the Chinese economy has also been dragged into the Ukraine crisis politically, but also economically as petrol and gas represent 17% of their total imports. Inflation is significantly lower (0.9% year-on-year in February), thus saving the People's Bank of China (PBoC) from the dilemma of having to choose between growth and inflation. Activity slowed at the start of 2022, albeit from high levels and a lot less than the consensus had expected (7.5% year-on-year industrial production versus in 9.6% December, retail sales 6.7% from 12.5% and exports 16% from 21%). Looking ahead, China is relying on its past strengths to stimulate growth through the supply side, notably through a massive infrastructure deal (Chart 4). The resurgence of lockdowns and expected slowing in demand from major trading partners will seriously hamper China's ability to reach it's - albeit enviable - target growth of 5.5% in 2022. Foreign investors are increasingly worried of a risk of US sanctions extended to China if Beijing were to provide support to Moscow, the strong equity correction that occurred in mid-March led authorities to reassure markets and provide ample support, with a more constructive stance potentially signalling the end of the regulatory crackdown initiated in 2021.

CHART 4: CHINESE FIXED ASSET INVESTMENT (FAI), YOY, %



Source: National Bureau of Statistics China, Indosuez Wealth Management.

EURO HIGH YIELD OUTFLOWS

The credit spread widening has been brutal and the sell-at-any-price behaviour has created unjustified valuation distortions. Valuations are now much more attractive, especially given the low default environment.

CENTRAL BANKS

At its March meeting, the European Central Bank (ECB) has confirmed its recent hawkish tone with an emphasis on its inflation mandate. The central bank unexpectedly accelerated its wind-down of monetary stimulus, signalling it's more concerned with record inflation rather than weaker economic growth. ECB officials pledged to slow bond buying from the start of May, and said they could halt the program as soon as the third quarter. They tried to temper their message by making the subsequent interest-rate hike less automatic, keeping all options open depending on the macro outlook.

In the US, the Federal Reserve (Fed) has confirmed the expected 25 bps rate hike at the mid-March meeting. Despite recent geopolitical developments and weaker consumer data, Jerome Powell seemed to suggest that the FOMC's plan for tightening remains intact, even if the Committee "will proceed carefully along the lines of that plan". The Fed should begin the reduction of its balance sheet during the summer. With 6 additional rate hikes of 25 bps signalled by the Fed dot plot for 2022, and 3 to 4 additional hikes in 2023, it is a credible action plan to fight inflation, but could increase the economic slowdown risks that the Fed will have to monitor closely.

6 ADDITIONAL RATE HIKES

of 25 bps signalled by the Fed dot plot for 2022

GOVERNMENT BONDS

The monetary policy shift in Europe fuelled the increase in yields. Despite the worsening geopolitical situation in Europe, the prospect of further increases in inflation is putting pressure on the ECB. On a short term horizon, volatility remains high and the market is reacting to various contradictory forces (flight to quality, rise in inflation expectations, hawkish central banks…). Consequently, we decided to lower our conviction on euro government bonds.

With a Fed turning more hawkish and towards quantitative tightening, the "safe heaven" power of US treasuries has diminished a lot. The longer part of the curve has been more sensitive to risk aversion and the negative impacts on growth. The US curve already flattened strongly but increasing inflation pressures could continue to penalise short term yields. The balance sheet runoff is expected to affect the medium to longer term part of the curve, but the Standing Repo Facility should help managing the runoff. At this stage, we do anticipate a bear parallel shift for the US yield curve.

INFLATION-LINKED BONDS

European breakeven posted impressive performance since the beginning of the Ukrainian conflict. Germany 5-year breakevens even touched 5%. Inflation markets in Europe are still pricing in lower inflation in the long term compared to the short term. The risk remains that if the actual dynamic stays in place, long term inflation expectations might start to rise significantly and the perception that inflation is out of control too.

In the US, the February CPI print showed persistent strength in underlying core components. In light of the shift toward more inertial categories of inflation and the escalating conflict in Ukraine, economists now expect faster inflation throughout 2022 and 2023. Consequently, 2-year US Inflation breakevens peaked at 4.7%, with the outperformance of US Short Term TIPS (Treasury Inflation Protected Securities). At this stage, markets foresee a higher structural inflation rate with US 10-year breakeven at 2.9% as of 9 March.

CREDIT

The credit asset class was heavily hit by the risk-off environment caused by the broader geopolitical developments. Indeed, investors try to assess what impact higher commodity prices and Russian exposure may have on corporate earnings and creditworthiness. European financials, with strongest direct and indirect Russian exposure, suffered the most.

Investment grade (IG) credit spreads have widened too much and after the ongoing correction, the segment has become attractive again.

At the current juncture, the supportive backdrop for IG credit remains with above trend economic growth and net rating upgrades. Risk aversion has also impacted very negatively subordinated debts whose valuations have sorely cheapened.

On European high yield (HY), outflows drove panic selling. The credit spread widening has been brutal (Chart 5) and the sell-at-any-price behaviour has created unjustified valuation distortions. Valuations are now much more attractive, especially given the low default environment.

US high yield spreads were relatively resilient (+35 bps last month). They remain tight compared to historical levels, but it takes into account expected very low default rates and the lower level of distressed indicators. We remain defensive within this "risky" segment, favouring BB's with low duration.

We have decided to raise our score for Credit across the board with EUR IG, US IG credit, sub financials and EUR HY being the most favoured markets.

EMERGING MARKETS

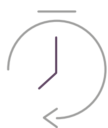
Emerging credit suffered from the elevated uncertainty from defaults by Russian issuers and potential repercussions on the rest of emerging market (EM) corporates. The rise in commodity prices provides support to growth and external balances of EM commodity exporters, but could weigh on manufacturing exporters. We have slightly increased our score for Latam given the significant weight of Brazilian corporates.

CHART 5: EVOLUTION OF PAN-EUROPEAN HIGH YIELD INDEX, BPS

Source: Bloomberg, Indosuez Wealth Management.

CHANGE OF PARADIGM

The Russian invasion is a clear game changer from the previous base case view on Equity. The market is now focused on the war in Ukraine with two main concerns: the direct impact on corporate earnings from sanctions on Russia and the indirect impact of the sharp rise in energy and commodity prices - coupled with a tightening of supply chains - on inflation and growth.



VALUATIONS are back to levels not seen for a long time

EARNINGS AND VALUATION

On the earnings side (Chart 6), the magnitude of downgrades will depend on the moves on commodity prices, as well as the duration of the dislocation. Supply chain bottlenecks remain equally a concern. These elements have started to weigh on earnings estimates. Some revisions indicators of profit forecast revisions are turning negative for the first time since January 2021.

On the positive side, valuations are back to levels not seen for a long time with discount versus historical averages close to 15% for the STOXX 600.

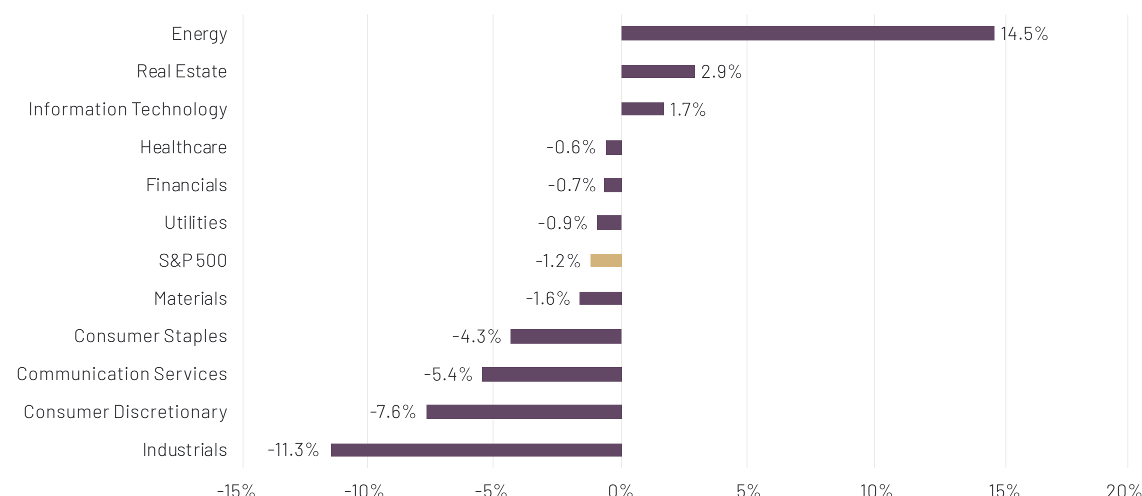
UNITED STATES

Since November 2021, the US market had largely suffered from the rise in long term rates. A rise linked to the increase in inflationary fears and a monetary policy that is expected to be much less accommodating.

Since the beginning of the Ukrainian conflict, the US markets have been outperforming again even if on a year-to-date basis, performance is close to Europe. Indeed, the US is geographically far from the conflict zone, the US economy is essentially domestic and, above all, it benefits from a quasi-autonomy in energy.

The US market appears to be less at risk from the conflict as most large US companies have strong balance sheets, high margins and good pricing power. However, the valuation of this market is particularly sensitive to long term interest rates and the Fed's actions will continue to play a determining role in the evolution of stock prices. The main vulnerability lies in the higher valuations metrics that are sensitive to a further rise in bond yields, translating into a thinner equity risk premium.

CHART 6: Q1 2022 S&P 500 EARNINGS REVISIONS, %



Source: FactSet 04.03.2022, Indosuez Wealth Management.

EUROPE

Europe will be the region most affected by the Ukraine war given its dependence on Russian gas imports and the repercussions of the economic sanctions towards Russia (supply chain disruptions and rising energy and raw material prices). As long as geopolitics dominate the debates we prefer to be relatively cautious on the European markets. Even if they have already de-rated substantially, and trade cheap, the negative impact on earnings is still ahead of us and the visibility is limited on the magnitude of the forthcoming profit downgrades. That being said, investors need to keep in mind that the recent correction already integrates expected downward revisions.

EMERGING MARKETS

The current Ukraine/Russia conflict added an enormous amount of negative pressure on Asian equities and China's in particular. From the second week of the conflict on, Chinese equities were hit by a major panic sell-off wave that spread to all sectors, amplified by targeted lockdowns related to the current flare up in COVID-19 cases in China. At this time, we are not expecting a full-fledged countrywide lockdown. Policy framework is more supportive, as Chinese authorities are keeping their monetary and fiscal easing bias, while the regulatory crackdown seem to be on pause. We are expecting further fiscal support (tax cuts) and further monetary easing, as well as fine tuning policies in the real estate sector.

Despite difficult market conditions, we are keeping our focus on corporate fundamentals and retain a positive stance for 2022. After the recent months downward earnings revisions, Asia is still expected to deliver double digit EPS growth. The 15% rebound of the MSCI China on 16 March reveals that the market had reached extremely high levels of pessimism.

STYLE: WILL GROWTH AND QUALITY DECOUPLE?

A hawkish Fed combined with a slowing growth profile and weak technicals call for a defensive posture, volatility is going to stay high in the new market regime. This will reinforce the relative attractiveness of quality fundamentals such as visibility, stability, resilience and low volatility. This environment is supportive for Quality stocks, which is now our favourite style.

The Value side is in schizophrenia mode with on one side a quick de-rating on autos, banks and other Cyclicals like industrials and on the other side a positive momentum on the energy and materials sectors driven by the strong rebound in commodity prices. It is in this second part that we want to maintain our focus. This style will remain more volatile as long as geopolitics dominate, but it offers attractiveness notably when combined with Quality stocks on a Barbell strategy.

QUESTION EVERYTHING

The Ukrainian crisis has made Forex markets question certain assumptions like the correlation of commodity currencies to risk appetite, whilst confusing the outlook for EUR, USD and other reserve currencies. The greatest impacts will be felt in the reserve management space – where the unprecedented sanctions on Russian foreign currency reserves will have long term implications for all reserve managers' choices.

EUR

Risks look asymmetrically skewed in favour of EUR recovery.

The drop in EUR since the beginning of the Ukraine conflict is a natural reaction to such a significant conflict on the Euro Area's doorstep, but equally the EUR has been heavily impacted by the prospects of lower GDP growth and more expensive energy. Relative macro momentum is expected in play against the EUR as the US economy is expected to resist better to this dual geopolitical and commodity shock. However, with already strong inflation going higher and the EUR so weak, there is a growing risk the ECB will want to fight inflation with the end of quantitative easing and the return of interest rates in positive territory, which could boost EUR. However, it is largely a matter of relative rates as the Fed is expected to raise rates much faster. There are clear headwinds against a strong appreciation of the EUR, but in the short term we think that risks are tilted in favour of the EUR, unless the conflict gets significantly worse.

Growing risk the
ECB
will want to fight inflation

COMMODITY CURRENCIES

Resilient, as long as things do not get worse.

Investors have noted the strength of commodity currencies in G10 space (AUD, CAD, NOK, NZD) and EM (ZAR, BRL) despite significantly risk-off markets. Are they a haven or a hedge in this crisis? Their strength is well justified by the high prices of commodities, but if these prices continue to climb (e.g. oil above USD 160 per barrel), the consequent demand destruction will impact global growth so severely that these currencies would suffer again. They are likely to remain supported in both the ongoing conflict and in a resolution of the conflict, but after the strength already seen they only present tactical opportunities rather than hedging benefits.

USD

Hawkish Fed does not manage to lift the USD any further.

A hawkish Fed that managed to even exceed hawkish market expectations was initially met with a lacklustre performance from the USD, highlighting how much Forex market attention has been diverted from Fed/COVID-19 to geopolitics, and the market relief of mid-March helped other currencies against the greenback in the short term. However, cool heads will take note that the Fed is promising rates close to 3% at the end of 2023 and the yield curve is flat, a tempting prospect if risk sell-offs begin pushing investors into cash.

GOLD

Testing record highs and finding new long term supports.

Gold's record high just above USD 2'070 per ounce was tested, as the break through USD 2'000 quickly derailed into a frenzied market (Chart 7). A "double-top" technical resistance at USD 2'070 and rising USD rates create headwinds for Gold, which will most likely intensify if the conflict is resolved.

On the other hand, gold's long term equilibrium price has gained a subtle, yet significant support, as heavy sanctions on Russia's foreign currency reserves have shown Gold to be the only truly liquid reserve currency, free from political noise– and we may well see quietly increased reserve manager bids supporting Gold in the long run.

CNY

First steps as a global reserve currency, but still early days.

Chinese yuan came under pressure for the first time in months as renewed lockdowns amid a surge in COVID-19 cases spooked equity market investors. However, the weakness lasted as long as the equity sell-off, as Chinese authorities pledged to support markets. The yuan also recovered a little. At 6.35 yuan strength is starting to look stale, as monetary policy loosening in China versus monetary policy tightening in the US will begin to weigh on investors who came to the yuan for real yield. Also worth noting that the yuan appears to have taken its first concrete steps as a global reserve currency through the Ukraine crisis, even if it still has a long way to go.

CHART 7: LIFTING THRESHOLDS, GOLD PRICES IN USD PER OUNCE

Source: Bloomberg, Indosuez Wealth Management.

INVESTMENT SCENARIO AND ALLOCATION

Conflict leads to a violent surge of VOLATILITY AND MARKET CORRECTION

MACRO AND MARKETS SCENARIO

- This conflict in Ukraine has led to a violent surge of volatility and market correction, with many implications for markets on a short and medium term basis.
- The significant rise of commodity prices, with oil already correcting from recent highs around USD 140, should remain highly volatile, and is driving down macroeconomic expectations and margins outlook.
- Growth scenario revised on the downside, affecting Europe more than the US. In the Euro Area the FY 2022 growth should be reduced from 4% towards circa 2.5%, while the downside in the US should be more limited, (but from a lower initial assumption) from 3.5% towards 2.5 to 3%.
- On a full-year basis, we should avoid a global recession, but technically, quarter-on-quarter GDP growth could stagnate or become negative in H2 notably in Europe. These numbers remain highly uncertain and scenario driven, and going forward, resilience of consumers and corporates' capital expenditures are key to the global growth outlook.
- Inflation expectations for the year revised upwards towards 5 to 6% in Europe and the US, with a high uncertainty on the road ahead for 2022 depending on the spill-over of energy to core inflation.
- Therefore, central banks are expected to increase interest rates; the Fed engaged the first hike and will continue to do so throughout the year, as evidenced by the latest FOMC projections, advancing the idea that price stability is a necessary condition for sustainable growth of the US economy. Thus, markets are so far buying the FOMC dots plot, Fed funds are to reach 2.8% by the end of 2023, with the outcome highly dependent on the US economy's capacity to with-stand current headwinds and faster rate hikes.
- This weaker outlook could potentially shorten the window for rate hikes in 2022, if growth were to fade in the year-end. In Europe, the ECB has accelerated tapering in order to enhance its optionality, and raise rates earlier than expected, should inflation continue to rise, and here again, if growth remain positive.
- Earnings growth in 2022 is expected to be revised down by analysts since it is widely accepted that a 1% correction in European GDP leads to a 10% negative effect on earnings, which would drive earnings growth to a low single digit this year in developed markets (vs. high single digit previously). In sector a terms, this impact will be quite asymmetric as value sectors such as energy, materials, banks healthcare and technology should resist more than industrials and consumer goods, which are more prone to be affected by margin pressures.
- Corporate spreads have widen significantly in this volatility shock without expectations of rising defaults this phenomena already started before the Ukraine conflict and seems related to a repricing normalisation trend connected to higher bond yields and central bank normalisation.

ALLOCATION STRATEGY

- This new environment with higher uncertainties and revised perspectives, warrants a neutral approach on risk, even if a lot of bad news seem already priced in and markets seem to be ready to rebound upon any constructive news coming from the Ukraine conflict or policy in China.
- On the back of risk and amendments to growth expectations, we have reduced our degree of conviction on Euro Area equities in the past weeks, and had adopted a more neutral position between Europe and the US, even if Europe could rebound faster in the short term. Meanwhile, we keep our long-standing conviction on China, which suffered recently, but benefits from higher earnings growth and better policy support.
- We remain long term oriented on our credit positions, acknowledging a severe repricing, but without strong worsening of fundamentals. This starts to offer attractive absolute returns for new entrants with a long term horizon and carry philosophy. This will be dependent on the growth outlook, as recession generally drives spreads higher.
- This context has been driving a rotation in macro hedges to the benefit of inflation breakevens, while safe haven currencies and gold are vulnerable to a relief rally. Duration on government bonds was helpful during the correction phase, but is vulnerable to the rapid change of market regime, and to higher inflation expectations and anticipated rate hikes. Within the club of safe havens, gold should however remains supported by this inflationary regime, notably if central banks are hesitant to raise rates.

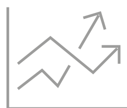
KEY CONVICTIONS

	TACTICAL VIEW (ST)	STRATEGIC VIEW (LT)
FIXED INCOME		
GOVERNMENTS		
Core EUR 10Y (Bund)	=/-	=
EUR Periphery	=	=/-
US 2Y	=/-	=
US 10Y	=/-	=
EUR Breakevens Inflation	=	=
US 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.

OVERVIEW OF SELECTED MARKETS

DATA AS OF 17 MARCH 2022



GOVERNMENT BONDS	YIELD	4 WEEKS CHANGE (BPS)	YTD CHANGE (BPS)
US Treasury 10Y	2.17%	20.91	66.05
France 10Y	0.83%	13.10	63.80
Germany 10Y	0.38%	15.30	56.40
Spain 10Y	1.33%	11.20	76.30
Switzerland 10Y	0.40%	12.80	53.20
Japan 10Y	0.20%	-1.90	13.60

BONDS	LAST	4 WEEKS CHANGE	YTD CHANGE
Governments Bonds Emerging Markets	36.92	-7.91%	-5.86%
Euro Governments Bonds	212.90	-0.44%	-2.59%
Corporate EUR high yield	202.98	-2.20%	-4.99%
Corporate USD high yield	316.10	-0.60%	-4.91%
US Government Bonds	309.75	-1.15%	-3.29%
Corporate Emerging Markets	46.07	-6.16%	-9.67%

CURRENCIES	LAST SPOT	4 WEEKS CHANGE	YTD CHANGE
EUR/CHF	1.0393	-0.61%	0.17%
GBP/USD	1.3149	-3.43%	-2.83%
USD/CHF	0.9371	1.81%	2.65%
EUR/USD	1.1091	-2.38%	-2.45%
USD/JPY	118.60	3.18%	3.06%

VOLATILITY INDEX	LAST	4 WEEKS CHANGE (POINTS)	YTD CHANGE (POINTS)
VIX	25.67	-2.44	8.45

EQUITY INDICES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
S&P 500 (United States)	4'411.67	0.72%	-7.44%
FTSE 100 (United Kingdom)	7'385.34	-2.02%	0.01%
STOXX 600	450.49	-3.03%	-7.65%
Topix	1'899.01	-1.67%	-4.68%
MSCI World	2'981.31	-0.92%	-7.75%
Shanghai SE Composite	4'237.70	-8.46%	-14.22%
MSCI Emerging Markets	1'120.93	-9.81%	-9.02%
MSCI Latam (Latin America)	2'441.51	2.67%	14.63%
MSCI EMEA (Europe, Middle East, Africa)	230.70	-20.63%	-16.32%
MSCI Asia Ex Japan	717.52	-8.92%	-9.09%
CAC 40 (France)	6'612.52	-4.81%	-7.56%
DAX (Germany)	14'388.06	-5.76%	-9.42%
MIB (Italy)	24'123.58	-9.55%	-11.79%
IBEX (Spain)	8'412.00	-2.99%	-3.46%
SMI (Switzerland)	12'061.87	-0.11%	-6.32%

COMMODITIES	LAST PRICE	4 WEEKS CHANGE	YTD CHANGE
Steel Rebar (CNY/Tonne)	4'920.00	2.84%	8.18%
Gold (USD/Oz)	1'942.89	2.34%	6.22%
Crude Oil WTI (USD/Bbl)	102.98	12.23%	36.92%
Silver (USD/Oz)	25.58	7.16%	9.56%
Copper (USD/Tonne)	10'243.00	3.16%	5.38%
Natural Gas (USD/MMBtu)	4.99	11.23%	33.78%

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

MONTHLY INVESTMENT RETURNS, PRICE INDEX

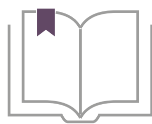
FTSE 100 · Topix · MSCI World · MSCI EMEA · MSCI Emerging Markets
STOXX 600 · S&P 500 · Shanghai SE Composite · MSCI Latam · MSCI Asia Ex Japan

BEST PERFORMING

DECEMBER 2021	JANUARY 2022	FEBRUARY 2022	4 WEEKS CHANGE	YTD (17.03.2022)
-0.83%	7.29%	4.73%	2.67%	14.63%
-1.56%	2.43%	0.39%	0.72%	0.01%
-2.30%	1.08%	-0.08%	-0.92%	-4.68%
-2.46%	-1.93%	-0.47%	-1.67%	-7.44%
-2.64%	-3.12%	-2.40%	-2.02%	-7.65%
-3.40%	-3.88%	-2.65%	-3.03%	-7.75%
-3.64%	-4.84%	-3.06%	-8.46%	-9.02%
-3.92%	-5.26%	-3.14%	-8.92%	-9.09%
-4.14%	-5.34%	-3.36%	-9.81%	-14.22%
-7.05%	-7.62%	-10.33%	-20.63%	-16.32%

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.

Cyclicals: Cyclicals refers to companies that are dependent on the changes in the overall economy. These stocks represent the companies whose profit is higher when the economy is prospering.

Defensives: Defensives refers to companies that are more or less immune to the changes in the economic conditions.

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.

Growth: Growth style refers to companies expected to grow sales and earnings at a faster rate than the market average. As such, growth stocks are generally characterised by a higher valuation than the market as a whole.

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.

Quality: Quality stocks refers to companies with higher and more reliable profits, low debt and other measures of stable earnings and strong governance. Common characteristics of Quality stocks are high return to equity, debt to equity and earnings variability.

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.

Stagflation: Stagflation refers to an economy that is experiencing simultaneously an increase in inflation and stagnation of economic output.

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.

Value: Value style refers to companies that appear to trade at a lower price relative to its fundamentals. Common characteristics of value stocks include high dividend yield, low price-to-book ratio, and a low price-to-earnings ratio.

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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