MONTHLY HOUSE VIEWS

July 2021

The group Global Investment Committee was held this week to review the outlook and investment strategy in light of the unfolding coronavirus epidemic. These are the conclusion highlights.

Macro

The success of the vaccine rollout in many countries has allowed for the unlocking of economies and a gradual return to normality. However, the re start lead to a spike in inflation weighing on sentiment as it could trigger a hawkish turn in central banks' monetary policy. The approval of the "NextGenerationEU" plan provides a positive backdrop for Eurozone economy and should strengthen the outlook for the forthcoming two years. China was first to recover from the COVID-19 pandemic. While continuing to grow at a good pace we witness a slowdown in some leading indicators, which could indicate that the country's growth momentum has peaked. The global GDP growth momentum continue to firm up despite worries over new COVID variants arising.

Central Banks

Recent central bank meetings confirmed monetary policy will remain accommodative short term. Policymakers are convinced that the overshoot to their 2% inflation targets will prove transitory. Inflation is indeed largely explained by weak base effect, shortages, and bottlenecks linked to the reopening of the economy. Wage inflation is still subdued and employment is far from recovering pre crisis level. While maintaining the Flexible Average Inflation Targeting ("FAIT") framework allowing inflation to overshoot short term, the Federal Open Market Committee (FOMC) delivered a hawkish surprise, with the median forecast now suggesting two rate hikes in 2023. This has pushed up front end yields while long terms interest rates eased somewhat implying "bull flattening" of the US yield curve. Meanwhile, the European Central Bank (ECB) maintained its dovish tone. Christine Lagarde, the ECB president, considers it is "premature and unnecessary" to discuss questions related to ending Pandemic Emergency Purchase Programme (PEPP), especially as unemployment remains high and wage pressures muted. At the margin, the pace of bond buying will accelerate ahead of the summer holidays. Putting it all together we believe, monetary policy will remain strongly supportive for some time having in mind the large inventory of government bond issuance to fund recovery plans.

Markets

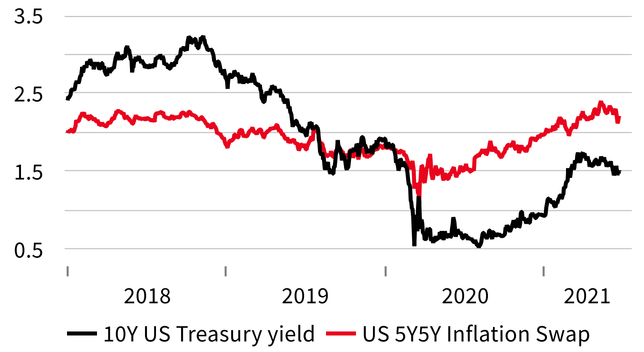
Even if the spike in inflation does prove transitory, ultra-low bond yields do not look sustainable and we expect them to resume their rise, pushing bond prices lower. The difference in yield between corporate bonds and sovereigns (known as "credit spreads") is narrow, offering little value for investors. Our preferred asset class thus remains equities. Although equity valuations might look rich in absolute terms they are not relative to bonds. From a total returns perspective there is actually little alternative to equities over the medium term. Gold fell after the Federal Reserve pivot on interest rate outlook but remains attractive to hedge tail risk. Despite the recent rise of the US dollar, we continue to expect euro and dollar yields to rise in parallel and the currency pair to remain sideways.

Bottom line

The environment continues to favour equities and we remain Overweight but have made some adjustments in regional allocations. We have upgraded our view on the US back to Neutral on the back of a buoyant recovery. US GDP forecasts are revised up to 7% for this year by the Fed and spike in inflation should prove transitory. To balance portfolios, we downgraded our view on Japan to Neutral as the pandemic drags on. We also continue to recommend a balanced mix between Growth and Value and look for companies that have good pricing power to pass on the increase in input prices to consumers so as to preserve margins. Fixed income markets should be kept Underweight in portfolios, in particular advanced economy sovereign bonds, although the yields available on emerging bonds remain attractive. Among diversification tools, we are still Neutral on hedge funds and Overweight on gold.

The sharp pickup in inflation expectations seem to be on pause

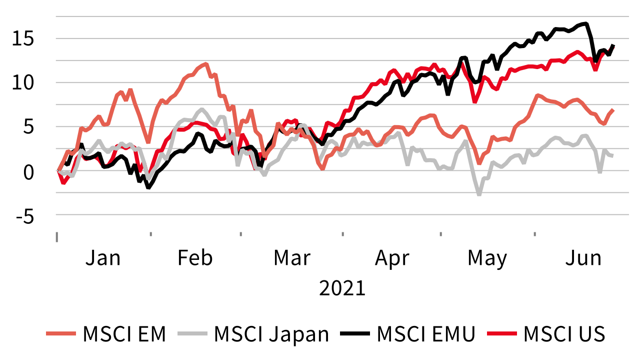
5Y-5Y US Inflation Swap vs 10Y US Treasury yield



Sources: SGPB, Macrobond, Fed, 24/06/2021

Japanese and EM equities have underperformed

YTD performance (%) - MSCI Total Return (USD)



Sources: SGPB, Macrobond, MSCI, 24/06/2021

Unless otherwise specified, all figures in this report were taken from the following sources on 25/06/2021: Bloomberg and Datastream.

OUR ASSET ALLOCATION

The table below presents the latest conclusions of our Global Investment Committee

Summary house views

Asset class	Sub-class		Strong U/W	U/W	N	O/W	Strong O/W	Change since last GIC
EQUITY		**GLOBAL EQUITY**				X		
EQUITY		**United States**			X			+
EQUITY		**Eurozone**				X		
EQUITY		**United Kingdom**				X		
EQUITY		**Japan**			X			-
EQUITY		**Emerging**			X			
FIXED INCOME	SOVEREIGN	**GLOBAL RATES**		X				
FIXED INCOME	SOVEREIGN	**U.S. Treasuries**	X					
FIXED INCOME	SOVEREIGN	U.S. Breakeven			X			
FIXED INCOME	SOVEREIGN	**Bunds**	X					
FIXED INCOME	SOVEREIGN	EMU Breakeven			X			
FIXED INCOME	SOVEREIGN	**Gilts**	X					
FIXED INCOME	SOVEREIGN	Gilts Breakeven			X			
FIXED INCOME	SOVEREIGN	**EM Govies ($)**			X			
FIXED INCOME	CORPORATE	**U.S. IG**		X				
FIXED INCOME	CORPORATE	**U.S. HY**		X				
FIXED INCOME	CORPORATE	**EMU IG**		X				
FIXED INCOME	CORPORATE	**EMU HY**		X				
FIXED INCOME	CORPORATE	**UK IG**		X				
FIXED INCOME	CORPORATE	**UK HY**		X				
FIXED INCOME		**Duration USD***		X				
FIXED INCOME		**Duration EUR***		X				
FIXED INCOME		**Duration GBP***		X				
FOREX		**EURUSD**			X			
FOREX		**USDJPY**			X			
FOREX		**GBPUSD**			X			
FOREX		**EURCHF**				X		
FOREX		**EM FX (vs. USD)**			X			
CMDTY		**Brent**			X			
CMDTY		**Gold**				X		
ALTERNATIVE		**ALT. STRATEGIES**			X			
ALTERNATIVE		**L/S Equity**			X			
ALTERNATIVE		**Event-Driven**				X		
ALTERNATIVE		**FI Arbitrage**			X			
ALTERNATIVE		**Global Macro / CTAs**			X			

	Positioning	*Duration
O/W	Overweight	Long – 7-10 years
N	Neutral	Intermediate – 5-7 years
U/W	Underweight	Short – 3-5 years

EQUITIES	
United States	Growth stocks easily outperformed value amid fears that the Fed will remove its accommodative policies and raise rates sooner than markets had anticipated. Nevertheless, Jay Powell reaffirmed that there will be no rate hikes based only on inflation risks, which is for him temporary. We have decided to upgrade our view to Neutral.
Eurozone	The NGEU plan has been approved which confirms our positive view on the region. We continue to be Overweight with a preference for more cyclically-sensitive sectors.
UK	The UK is facing a resurgence of new cases of coronavirus and a spike of inflation. We remain Overweight.
Switzerland	The market is dominated by high-quality, defensive stocks, which should provide downside protection.
Japan	Japan is still stuck in the pandemic. We have cut exposure tactically to Neutral.
Emerging (EM)	Several Chinese major indicators missed analysts' expectations. We remain Neutral.

FIXED INCOME	
Sovereigns	Government bonds remain unattractive, offering negligible or negative yields to investors. We are Strong Underweight.
Duration*	We still prefer shorter-dated bonds across markets, which are less sensitive to any rises in rates.
Inflation-linked	We expect disinflationary forces return in 2022. We are Neutral.
Investment Grade	Spreads have tightened further towards historic lows. We remain Underweight.
High Yield	HY yields and spreads remain close to historic lows and we've stuck to an Underweight stance.
Emerging debt (in € and $)	The backdrop of further increases in US 10-year Treasury yields ahead will cap upside for EM debt. We remain Neutral.

CURRENCIES	
EUR/USD	We expect euro and dollar yields to rise in parallel, which argues for sideways trading in coming months. We remain Neutral
GBP/USD	The latest wave of new cases of coronavirus should put sterling's rally on pause.
EUR/GBP	We expect the euro to trade sideways against sterling in coming months and remain Neutral.
USD/JPY	We expect strong cyclical recovery in Japan in H2, which should help the yen stabilise against the dollar.
EUR/CHF	Both the euro zone and Switzerland should register strong cyclical recoveries in H2 which should encourage risk appetite and a shift away from safe havens like the Swiss franc.
Emerging	With US rates set to grind gradually higher, we expect EM currencies to trade sideways for now.

ALTERNATIVES	
Hedge funds	Our preferred strategies are Special Situations, directional L/S Equity, discretionary Global Macro and CTAs.
Gold	With inflation set to rise faster than bond yields, we expect gold prices to continue their recovery. Gold is still the best alternative to equities. We remain Overweight.
Oil	After hitting a two-year high on stronger demand expectations, the rise in COVID-19 cases in the UK and stronger dollar from the Fed's hawkish shift put downward pressure on prices.

Source: SGPB, 25/06/2021
* Duration: short = 3-5 years, medium = 5-7 years, long = 7-10 years
HY = High Yield bonds (higher return but greater risks), IG = Investment Grade bonds (higher quality but lower return)

GLOBAL ECONOMIC FORECASTS

Growth and inflation

YoY changes in %	Real gross domestic product growth					Consumer price indices				
	2019	2020	2021F	2022F	2023F	2019	2020	2021F	2022F	2023F
World (Mkt FX weights)	2.6	-3.3	5.6	4.2	3.1	2.8	2.5	2.9	2.5	2.6
World (PPP weights)**	2.9	-3.1	5.7	4.4	3.5	3.6	3.6	3.7	3.1	3.1
Developed countries (PPP)	1.6	-4.7	5.0	4.0	2.3	1.4	0.7	2.1	1.7	1.8
Emerging countries (PPP)	3.9	-2.0	6.2	4.6	4.4	5.2	5.7	4.8	4.1	4.0
Developed countries										
US	2.2	-3.5	6.3	3.9	2.3	1.8	1.2	3.3	2.5	2.4
Eurozone	1.3	-6.7	4.4	4.1	2.1	1.2	0.3	1.8	1.1	1.3
Germany	0.6	-5.1	2.9	4.1	1.9	1.3	0.4	2.4	1.1	1.5
France	1.8	-8.0	6.0	4.1	1.9	1.3	0.5	1.7	0.9	1.3
Italy	0.3	-8.9	4.4	3.9	1.5	0.7	-0.2	1.4	0.9	1.0
Spain	2.0	-10.8	5.3	5.6	3.6	0.8	-0.3	1.8	1.0	1.1
UK	1.4	-9.8	6.9	5.8	2.0	1.8	0.9	1.7	2.0	1.6
Japan	0.0	-4.7	2.0	3.3	1.7	0.5	0.0	0.0	0.7	1.0
Switzerland	1.1	-2.7	2.8	2.9	1.9	0.4	-0.7	0.1	0.4	0.7
Australia	1.9	-2.4	5.8	4.0	3.0	1.6	0.9	2.0	1.6	2.0
Emerging countries										
China	6.0	2.3	8.5	5.0	5.0	2.9	2.5	0.9	1.6	2.2
South Korea	2.0	-0.9	3.8	3.0	2.5	0.4	0.5	1.7	1.3	1.5
Taiwan	3.0	3.1	5.3	2.6	3.3	0.8	-0.2	1.5	1.4	1.6
India* **	6.3	4.0	-7.3	8.8	6.9	3.4	4.8	6.2	5.1	4.8
Indonesia	5.0	-2.1	4.4	5.1	5.2	2.8	2.0	2.3	2.8	2.9
Brazil	1.4	-4.4	4.7	1.7	1.7	3.7	3.2	6.6	4.3	3.5
Mexico	-0.2	-8.5	6.3	3.3	2.4	3.6	3.4	5.1	4.0	3.7
Chile	0.9	-5.8	7.9	3.3	2.8	2.3	3.0	3.4	2.7	3.1
Russia	2.0	-3.0	3.1	2.3	2.1	3.5	3.1	4.3	3.4	3.9
Slovakia	2.5	-4.8	4.3	4.5	3.3	2.8	2.0	2.0	2.3	1.9
Czech Republic	2.2	-5.6	3.3	4.6	3.4	2.8	3.2	2.5	1.9	1.8

Sources: SG Cross Asset Research / Economics, IMF, 9 June 2021
* (f: forecast)
** PPP: Purchasing Power Parity
*** In India, the numbers are averaged over the Fiscal Year, ending in March.

Forecast figures are not a reliable indicator of future performance.

MARKET PERFORMANCE

Developed market equities	Performance – total return (in local currency)								
	Current level	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
S&P500	4266	1.8%	10.1%	14.4%	42.1%	50.1%	63.7%	88.6%	130.5%
DJ Euro Stoxx 50	4122	2.3%	9.2%	18.3%	32.5%	25.6%	30.8%	31.5%	73.7%
FTSE100	7110	1.1%	6.9%	12.1%	20.2%	3.0%	3.8%	11.8%	40.6%
Topix	1947	1.9%	1.9%	9.0%	25.9%	31.9%	19.7%	32.4%	81.1%
MSCI AC World ($)	719	1.9%	9.1%	12.3%	40.6%	43.4%	50.5%	69.0%	108.4%

Developed market bonds	Performance - total return (in local currency)								
	Yield to maturity	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
BAML Corp Euro IG	0.45%	0.5%	0.0%	-0.5%	3.4%	3.0%	7.5%	8.3%	11.0%
BAML Corp Euro HY	2.86%	0.9%	1.6%	3.0%	11.1%	9.5%	14.5%	16.3%	28.5%
BAML Corp US IG	2.14%	1.5%	2.8%	-1.5%	3.4%	13.2%	25.1%	23.1%	27.7%
BAML Corp US HY	4.59%	1.3%	2.7%	3.3%	14.0%	13.9%	21.9%	26.0%	42.8%
BAML Corp UK IG	1.81%	1.0%	1.2%	-3.0%	2.6%	9.6%	17.1%	16.2%	28.7%
FTSE US Sovereign 3-7y		-0.2%	0.2%	-1.5%	-1.3%	6.7%	14.6%	12.5%	11.6%
FTSE Germany Sovereign 3-7y		0.1%	-0.7%	-1.0%	-1.0%	-1.6%	0.1%	0.2%	-0.5%
FTSE UK Sovereign 3-7y		0.0%	0.0%	-1.5%	-1.4%	1.6%	4.7%	3.7%	4.9%
FTSE Japan Sovereign 3-7y		0.0%	0.0%	-0.1%	-0.1%	-1.0%	-0.4%	-0.3%	-1.4%

Emerging market equities	Performance – total return (in USD)								
	Current level	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
MSCI EM	1367	3.4%	6.0%	6.9%	38.4%	36.6%	36.4%	50.5%	93.8%
MSCI EM Asia	743	3.1%	3.9%	5.0%	38.3%	48.1%	41.1%	59.3%	112.3%
MSCI EMEA	276	2.3%	11.2%	16.5%	35.4%	12.1%	21.2%	27.0%	47.7%
MSCI Latam	2687	8.6%	20.6%	11.7%	44.2%	-0.2%	21.9%	22.8%	47.4%

Emerging market bonds	Performance – total return (in USD)								
	Yield to maturity	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
BAML EM Sovereign	4.14%	0.7%	3.5%	-1.5%	9.1%	6.9%	18.4%	16.2%	25.3%
Asia	3.22%	0.7%	3.0%	-0.3%	5.9%	9.9%	24.9%	22.7%	31.3%
EMEA	4.06%	0.3%	3.5%	-0.7%	11.3%	12.3%	23.9%	22.4%	31.5%
Latam	4.70%	1.2%	3.6%	-3.3%	7.6%	-1.4%	8.4%	5.6%	14.8%
BAML EM Corp	3.57%	0.6%	1.4%	-0.1%	7.4%	10.3%	20.2%	19.8%	24.1%
Asia	3.48%	0.4%	0.4%	-0.5%	4.3%	15.1%	24.3%	24.6%	31.5%
EMEA	2.97%	0.4%	2.5%	1.0%	9.1%	13.3%	24.7%	25.2%	40.7%
Latam	4.32%	1.2%	2.6%	0.0%	12.9%	9.9%	19.4%	19.3%	24.3%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 24/06/2021), YTD = year-to-date

BAML: Bank of America Merrill Lynch
Corp: Corporate
EM: Emerging Market
EMEA: Europe, Middle East, Africa
IG: Investment Grade
HY: High Yield
LatAm: Latin America
Gvt: Government

MARKET PERFORMANCE

		Performance					
Currencies	**Current**	**YTD**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
EUR/USD	1.19	-2.3%	6.0%	4.7%	2.4%	6.6%	7.3%
USD/JPY	111	7.4%	3.6%	3.3%	0.8%	-0.4%	8.5%
EUR/CHF	1.10	1.3%	2.7%	-1.2%	-4.9%	0.9%	1.2%
GBP/USD	1.39	1.8%	12.1%	9.3%	4.9%	9.5%	1.8%
EUR/GBP	0.86	-4.1%	-5.4%	-4.2%	-2.4%	-2.6%	5.5%

		Performance					
10-year yields	**Current**	**YTD (bps)**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
USA	1.5%	58	80	-53	-141	-66	-9
GER	-0.2%	39	25	12	-52	-44	-13
UK	0.7%	55	55	-8	-58	-29	-35

		Performance					
Commodities	**Current**	**YTD**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
Gold in USD	1781	-6.2%	0.5%	26.3%	40.3%	41.7%	35.5%
Oil (Brent) in USD	75.7	45.8%	87.4%	17.6%	1.3%	65.7%	55.2%

		Performance					
Equities	**Current**	**YTD**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
S&P 500	4266	14.4%	42.1%	50.1%	63.7%	88.6%	130.5%
Euro Stoxx 50	4122	18.3%	32.5%	25.6%	30.8%	31.5%	73.7%
FTSE 100	7110	12.1%	20.2%	3.0%	3.8%	11.8%	40.6%
Topix	1947	9.0%	25.9%	31.9%	19.7%	32.4%	81.1%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 24/06/2021), bps = basis points

BAML: Bank of America Merrill Lynch
Corp: Corporate
EM: Emerging Market
EMEA: Europe, Middle East, Africa
IG: Investment Grade
HY: High Yield
LatAm: Latin America

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