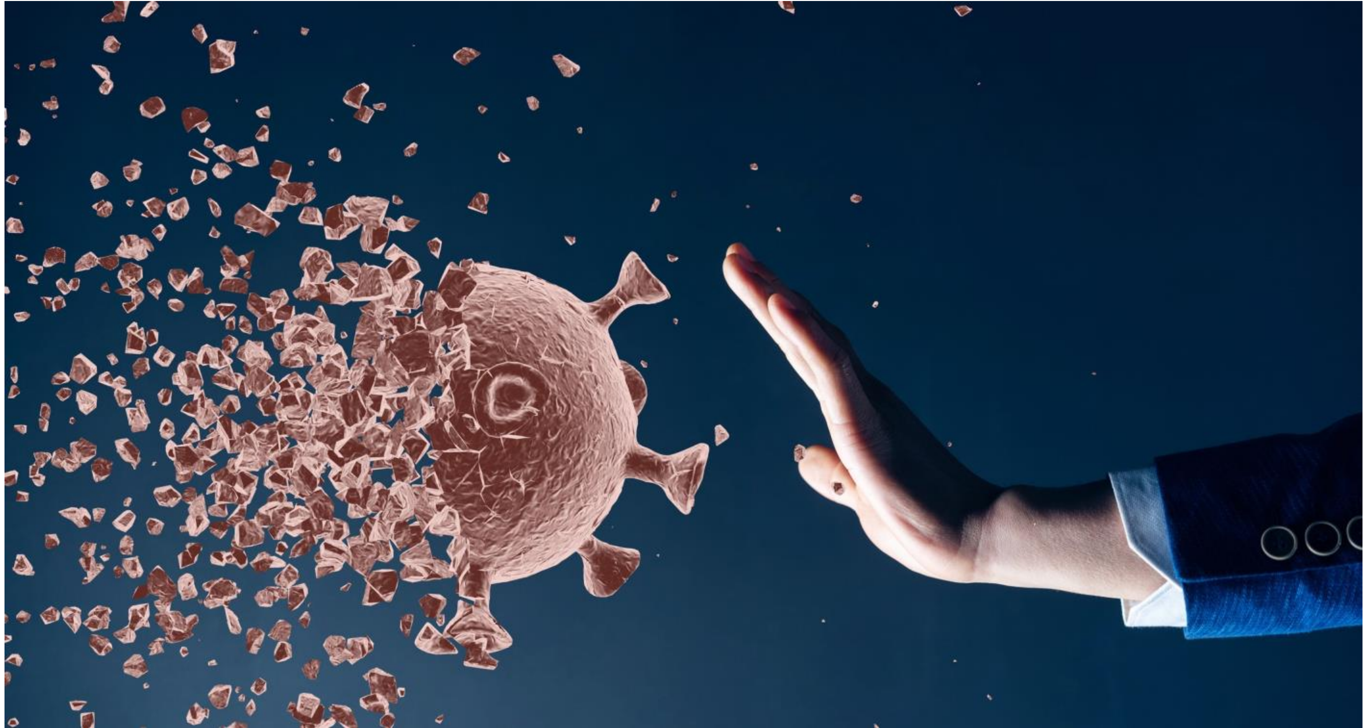
QUARTERLY HOUSE VIEWS

Q2 2020



On the Defensive

Macro

With an estimated one third of the world's population in lockdown, the economic impact of the fight to stem the spread of the coronavirus will be severe. Recent business confidence figures suggest that conditions are worse in services than manufacturing, reflecting the precipitate closure of most businesses in affected countries. Policy settings have been rapidly adjusted to provide support for households and companies to help mitigate the economic distress the shutdowns will cause. Activity in China is picking up steadily and the authorities plan to lift the last restrictions in Hubei province in early April. After a sharp economic slowdown in Q1 and Q2, we expect the pandemic to begin to wane in Europe and the US, enabling recovery to take hold in the second half and strengthen in 2021.

Central Banks

Central banks have scrambled to adjust policy settings in light of the hit to market liquidity and financial conditions caused by the Covid-19 slump in activity. Key rates have been slashed to zero or lower across the board, and central banks have stepped up their programmes to purchase vast amounts of government bonds and corporate debt. These measures will do little to kickstart activity in the short term but they should be successful in ensuring that financial and interbank markets continue to function satisfactorily.

Markets

As growth forecasts have been cut, risk assets like equities and High Yield (HY) bonds have come under heavy selling pressure. This has triggered margin calls for some leveraged investors, forcing them in turn to liquidate other assets, including safe havens like gold and government bonds. Volatility – often used to measure aversion to risk – has shot higher with markets registering large swings in both directions. We expect markets to remain nervous with new Covid-19 cases continuing to rise and we remain defensive in our stance.

Bottom line

We suggest continuing to hold reduced exposure to equities and bonds in portfolios and to boost cash reserves. Within fixed income, our preferred segment is Investment Grade (IG) corporate bonds while HY looks vulnerable to a spike in default rates. Within equities, we would favour emerging markets, especially in Asia where China, South Korea and Taiwan have proven successful in containing the coronavirus outbreak, enabling resumption of output. We suggest raising exposure to Hedge Funds and to cash reserves, which should enable investors to take advantage of the buying opportunities which the ongoing correction will doubtless offer.

In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.
CAO9/H1/2020

OUR STRONGEST CONVICTIONS

Play defence

With the global economy entering a sharp recession, corporate profits and credit quality should come under pressure while government bonds offer little value. Accordingly, we suggest scaling back exposure to both equities and bonds to build a cash reserve, to be deployed once the coronavirus pandemic begins to come under control and lockdown measures are eased.

Little upside left in the US dollar

In recent weeks, the greenback – a traditional safe haven in crises – has been pushed higher by a global shortage of dollars as businesses started to shut down. However, the Fed has acted swiftly to ensure ample supply via 14 international central banks, helping ease the dollar lower. Moreover, the US advantage in terms of interest and growth rates has diminished sharply. We expect the dollar to weaken towards year-end.

Prefer Investment Grade corporate bonds to riskier credits

The global recession will pressure borrowers with the weakest balance sheets, raising default risks in areas like High Yield. Moreover, as risks have risen, market liquidity has dried up as market-makers have been unable to absorb selling pressure. In reaction, central banks in Europe and the US have launched aggressive purchase programmes for Investment Grade corporate bonds, which should put a floor under prices.

Emerging Asian equities should outperform

Business activity in China has begun to pick up after February's lockdown and is currently running at around 85% of normal levels. Elsewhere in Asia, risk mitigation measures against the coronavirus appear to have been successful with relatively low numbers of new cases and fatality rates in Hong Kong, Taiwan or South Korea. We believe emerging Asian equity markets should be able to outperform other regions.

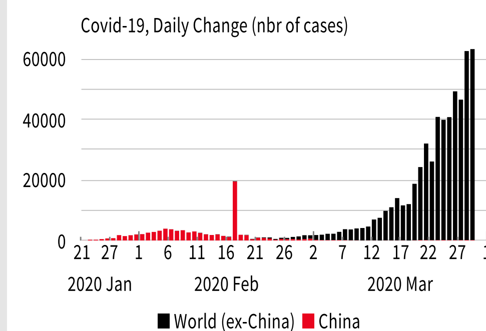
Gold and Hedge Funds for diversification

Hedge fund strategies often combine directional exposure to financial markets with short sales, meaning that their returns can have low sensitivity to market direction, an advantage during bear markets. Moreover, the ongoing dislocation in markets is throwing up new opportunities. Gold's safe-haven characteristics often come to the fore during market turmoil, and it provides useful diversification to holdings in equities.

Stay flexible

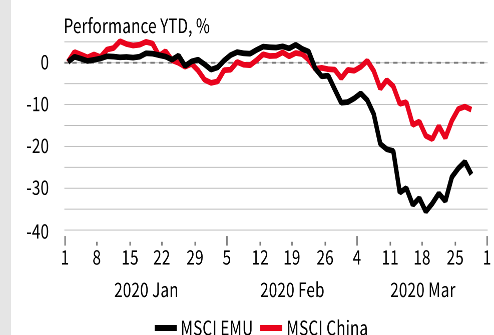
Having suggested cutting exposure to financial markets and boosting cash buffers as the scale of the coronavirus pandemic became clear, we continue to monitor the situation carefully. The policy response from central banks and governments has been massive in scale and decisive in pace. We continue to suggest keeping a flexible stance in order to seize opportunities in markets once they arise.

New cases have not yet begun to slow



Source: Macrobond, Bloomberg, 30/03/2020

Asian equities should outperform



Source: Macrobond, 27/03/2020

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OUR ASSET ALLOCATION

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

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

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

SOCIETE GENERALE
Private Banking

EQUITIES	
United States	Markets are bracing for a deep recession and volatility levels are extreme. We are Underweight.
Europe	Investors face elevated uncertainty regarding the duration and scale of the pandemic. We are Underweight
Eurozone	With the peak in new cases still ahead, lockdowns are likely to last well into the second quarter.
UK	UK is now facing the Covid-19 crisis, only a few weeks after the end of Brexit uncertainty. We are Underweight.
Switzerland	Swiss high-quality blue chips should remain sought after, suggesting continued resilience for now.
Japan	The ongoing restrictions in Japan and the lockdowns in place in its major export markets are likely to see the recession continue into Q2. We are Underweight.
Emerging (EM)	We expect activity to gradually return to normal levels by early Q3 which should help Asian bourses continue to outperform Western peers.

FIXED INCOME	
Sovereigns	Although central bank easing should keep downward pressure on yields, sovereign bonds offer little value.
Duration*	We prefer shorter-dated bonds across markets.
Inflation-linked	We are Underweight Inflation-linked bonds, as upside inflation risks should be contained by the poor growth outlook
Investment Grade	Mounting worries have pushed up credit spreads but central bank buying should provide a floor under prices. We suggest a Neutral stance.
High Yield	Given the current macroeconomic backdrop, HY issuers remain vulnerable. We are Underweight.
Emerging debt (in € and $)	Yield spreads are widening and will likely stay under pressure in the near term. We have downgraded our stance to Neutral.

CURRENCIES	
EUR/USD	The euro has rebounded somewhat from virus-driven lows. But at present, upside potential is limited. We are Neutral.
GBP/USD	Over the next couple of months as Western economies enter recession, it's very difficult to imagine a significant rebound in GBP/USD.
EUR/GBP	Government stimulus programmes on both sides of the Channel will push budget deficits much higher. No major moves are expected.
USD/JPY	Given the current spread of Covid-19 and both currencies' safe-haven status, no major moves are expected.
EUR/CHF	If the lockdown of economies were to be prolonged, further CHF strength would likely trigger additional SNB measures.
Emerging	The pandemic – and collapse in oil prices – have made EM currencies a lightning rod for volatility. We are Neutral.

ALTERNATIVES	
Hedge funds	Ongoing dislocation in markets is throwing up new opportunities for hedge fund managers and we suggest moving overall exposure to Overweight.
Gold	Having reduced equity exposure, we also suggest scaling back gold to Neutral.
Oil	Collapsing demand and oversupply suggest Brent prices could remain under pressure and we move Underweight.

Source: SGPB, 27/03/2020
* 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)

ECONOMIC OUTLOOK

Sudden stop in activity

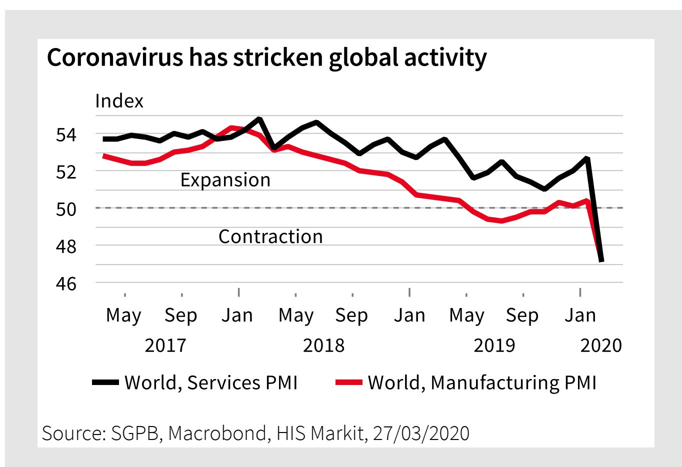
The lockdowns and disruption are going to have an unprecedented impact on the global economy, the inevitability of which has caused policymakers to act with great speed, reaching deep into their toolbox. Nonetheless, it is likely we have already entered a global economic recession.

Recession is likely here already

In a world dominated by the coronavirus, let us begin with some good news. New coronavirus cases appear to have subsided in the China, and fears of a "second wave" have not materialised. Several measures indicate a slow return to pre-virus activity levels: coal consumption is about 90% of last year's level; crude steel output is at about 80% of usual. The situation in other Asian countries, notably South Korea and Japan, also appears to be stabilising. In Italy, although the daily number of new cases is still high at about 5,000, the rate of increase appears to be slowing.

Nonetheless, there is more bad news than good. A third of the world's population is now living under some form of lockdown. Viral transmission figures across Europe, most notably in Spain, continue to increase. The number of new cases in the UK – where a lockdown has finally been enacted – is also increasing. Infections are shooting up in the US, where there are now 69,000 confirmed cases – the World Health Organization (WHO) has warned the country could become the new epicentre of the virus.

The lockdowns and disruption are going to have an unprecedented impact on the global economy. Chinese retail sales fell 20.5% year-on-year in February with industrial production down 13.5%. First quarter GDP will register a steep decline. Europe and the US will be hit in the first quarter too, but much greater damage will be wrought in the second. In the euro zone, business confidence surveys for March showed a near collapse in services, hitting levels well below those reached during the 2007-2009 financial crisis. A recession is inevitable, and it will cause businesses to fail and unemployment to rise.



Source: SGPB, Macrobond, HIS Markit, 27/03/2020

The policy response has been impressive

The inevitability has caused fiscal policymakers to act with great speed, reaching deep into their toolbox. The US senate passed a sweeping bipartisan deal to deliver $2 trillion (about 10% of GDP) in government relief, including loans and grants for businesses, increased unemployment benefits and direct payments to the public. Euro zone countries have committed at least €1.5 trillion in spending and loan guarantees to protect business and workers too, while the UK has unveiled a raft of support, including a pledge to pay 80% of independent workers' wages up to £2,500 per month.

Monetary policymakers are also acting with extraordinary urgency. Central banks have slashed borrowing costs, with global rates now converged at zero or below. Moreover, every major central bank has restarted quantitative easing (QE). The US Federal Reserve has announced unlimited US government bond purchases and will also buy US corporate bonds to provide critical liquidity. The European Central Bank will spend €750 billion on euro zone government and corporate debt. The Bank of England has cut rates to a record low 0.1% and increased its QE program by a further £200 billion. The Bank of Japan has doubled its purchases of domestic equities.

Bottom line. We face extraordinary levels of uncertainty. Although the worst predictions may never materialise, it pays to prepare for them when it comes to investment strategy and portfolio construction. It is likely we have already entered a global economic recession and contractions tend to be punishing for risk assets.

In addition to our existing preferences for high-quality bonds, gold and low-volatility alternative investments – assets which help mitigate the impact of black swan events such as a global pandemic – we have advocated reducing risk further since the advent of this crisis, in particular via high-yield debt and equities, in order to build sizeable cash buffers.

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FIXED INCOME

Maintain a cautious stance on riskier debt

Massive support from central bank asset purchase programmes will support Sovereign and, increasingly, Investment Grade bonds. However, with uncertainties regarding the virus and the economic outlook at extraordinary highs, riskier fixed income segments, i.e. High Yield (HY), remain vulnerable and we keep a cautious stance.

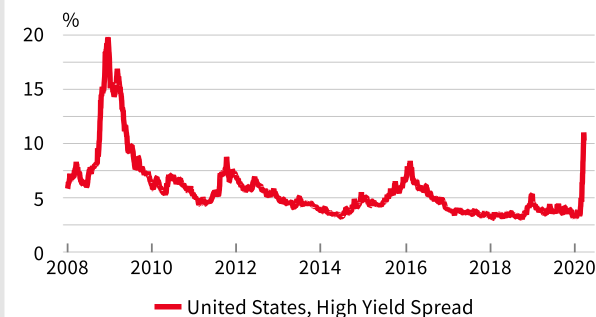
Sovereigns

US. The rapid drop in US Treasury yields came to a halt at the beginning of March, even as investor risk aversion continued to rise and risky assets to plunge. A few factors may explain this unusual move – for example, investors needing to meet margin calls have raised cash through easier-to-sell, liquid assets like government bonds. Beyond such technical considerations, investor focus may be shifting from the positive impact of central bank purchases to worries about increased supply from fiscal stimulus, thereby contributing to higher yields. However, we expect such concerns to ease in due course – fiscal spending unlikely to drive yields up for some time with the Fed buying huge amounts of bonds via its new open-ended purchase programme.

Eurozone. Core euro zone government bond yields have followed a similar trajectory, as bond sales to finance liquidity requirements have pushed yields higher. This is unlikely to continue. The ECB has stepped up its efforts – under its new Pandemic Emergency Purchase Programme (PEPP), it will now purchase an additional €750bn in sovereign and corporate bonds, while also scrapping issue and issuer limits to give itself more flexibility. The PEPP will be executed in addition to its existing programmes, bringing the total amount of purchases to an estimated €1050bn by year-end, a significant amount. This should keep downward pressures on yields, both in the core and in the periphery of the euro zone.

UK. 10-year government bond yields in the UK also moved up sharply from their March 9 lows, before decreasing again. Like its peers abroad, the Bank of England (BoE) has stepped in, cutting rates from 0.75% to 0.10% and announcing £200bn of additional bond purchases, which should help keep rates low.

HY spread widening may not be over yet



Source: SGPB, Macrobond, 27/03/2020

Credit

US. Mounting worries about the economic impact of coronavirus containment measures have pushed up credit spreads (the yield differential over Treasuries) across the board. Better rated IG spreads now stand at 324 basis points (bp), which can be compared to the peaks at 270bp during the 2002 recession and around 600bp at the height of the financial crisis in 2008. Riskier HY spreads stand at over 1000 bp, around 2002's levels but well below the 2000bp reached in 2008. On our estimates, this implies a default rate for HY issuers over the next year between 9% and 16%. This compares to peaks in defaults of around 11% in 2002 and 15% in 2009. Moreover, uncertainty remains extremely high regarding the length of the health crisis – any extension into the second half could weigh significantly on credit quality. While a good amount of bad news has already been discounted, prudence is still required in the fragile HY segment. We prefer stronger ratings in IG, and in particular short-term bonds which will be included in the new Fed corporate bond purchase programme.

Eurozone. At around 800 bp, HY spreads are still well below the levels reached during previous crises. Like in the US, visibility on default rates remains low and, although HY markets have already suffered, there is still room for further deterioration. Prudence is therefore still required. The IG segment will not be immune to bad news, but the new ECB programme will help mitigate the impact. The central bank did not disclose how it will split purchases between public and private issuers but, given the large amount of bonds to be purchased by year-end, we expect the impact on corporate bonds to be sizeable.

UK. While the BoE has announced a new round of measures to support credit markets, it is still uncertain how much it will purchase in corporate bonds. Although IG bonds are likely to benefit from BoE support, the squeeze on HY issuers is set to be severe.

Emerging debt

Emerging debt markets have been hit hard by the economic slowdown, weak liquidity and rapid outflows. Consequently, yield spreads are widening and will likely stay under pressure in the near term. We have downgraded our stance to Neutral.

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EQUITIES

On the defensive

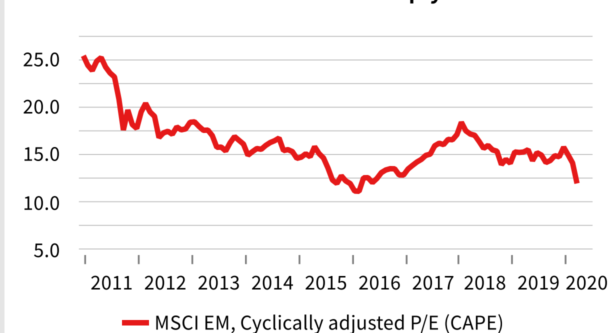
Global equity markets registered all-time highs in mid-February before being propelled into the fastest bear market in history as the scale of the CoViD-19 pandemic became clearer. Markets are bracing for a deep recession and volatility levels are extreme – daily moves of +/- 3% or more have been the recent norm. The policy response from central banks and governments has been impressive but the peak in new cases still lies ahead. A defensive Underweight stance remains advisable.

US. The sudden stop in normal activity across the US has plunged equity markets straight from mid-February's all-time highs into a bear market. Volatility indices – often used as a proxy for risk aversion – have hit levels last seen in October 2008 during the global financial crisis. Investors face elevated uncertainty regarding the duration and scale of the pandemic and the impact of containment measures on GDP and corporate profits. Weekly jobless claims have shot up to all-time highs, suggesting a deep recession, comparable in depth to 2008-2009. Accordingly, policy makers have eased decisively, seeking to minimise the fallout and hoping to foster a rapid recovery once the outbreak comes under control.

We continue to suggest a defensive approach, scaling back exposure to Underweight and continuing to focus on non-cyclical sectors. Consumer Staples and Utilities should remain relatively resilient while Healthcare will face less political pressure in the runup to November's elections given its central role in combating the pandemic.

Eurozone. The CoViD-19 outbreaks across the region have pushed governments to deploy extraordinary measures to contain the spread, which are plunging the economy into recession. With the peak in new cases still ahead, the restrictions are likely to last for much of the second quarter and recovery thereafter is likely to be gradual. The ECB and national governments have acted quickly and in vast size to mitigate the impact on businesses and households and the policy mix is likely to remain extremely supportive throughout the year. Stock prices have dived into bear market territory given the vast uncertainties, but analysts are only just beginning to adjust their over-optimistic earnings forecasts for the year.

MSCI EM valuations have fallen sharply



Source: SGPB, Macrobond, 27/03/2020

For now, a defensive stance remains appropriate. Rallies during a bear market can be impressive but tend to be short-lived. Our preference goes to sectors which are less sensitive to this severe downswing in the cycle such as Healthcare, Consumer Staples and Utilities, in particular those companies with solid dividends.

UK. The UK has belatedly followed its continental neighbours into lockdown. Activity was only just beginning to recover from the Brexit-related uncertainties which dogged the economy until December's decisive election result and is now back in recession. Attention has shifted from trade negotiations with the EU to the immediate crisis at hand, but markets are unlikely to worry about more remote risks for now. Cyclical sectors such as Energy and Materials – large weights in UK indices – should be avoided at present in favour of more defensive stocks.

Switzerland. The makeup of the equity market is heavily skewed towards global leaders in defensive sectors like Consumer Staples and Healthcare, helping cushion the downside in prices compared to Switzerland's neighbours. The Swiss franc continues to attract safe-haven flows – normally a problem for such an export-sensitive market – but its high-quality blue chips should remain sought after, suggesting continued resilience for now.

Japan. The Japanese economy was already weakened by last autumn's consumption tax hike when the coronavirus epidemic began to spread beyond China. The ensuing restrictions in Japan and the lockdowns in place in its major export markets are likely to see the recession continue into Q2. The hoped-for boost to tourism and consumption from the Olympics has been postponed. Nonetheless, growth in the number of cases has remained below 10% in recent weeks, prompting hopes that further containment measures domestically might be avoided, and the equity market has proved somewhat resilient.

Emerging Markets. Emerging market equities have followed developed markets lower as the pandemic has unfolded, spreading to Eastern Europe and Latin America. However, Asian economies – led by China – were first to react and are now first to be able to emerge from restrictions and shutdowns. We expect activity to gradually return to normal levels by early Q3 which should help Asian bourses continue to outperform Western peers. We suggest continued preference for EM – and Asia in particular – within a generally Underweight stance on equities.

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INVESTMENT IDEA

Harvesting Independent Returns

Academic studies have often concluded that company dividend payments represent a substantial portion of historic equity returns, especially when reinvested in the stock market, creating a powerful compounding effect. It is less well known however that there is an active market in index dividends, where forthcoming payments are traded via future contracts.

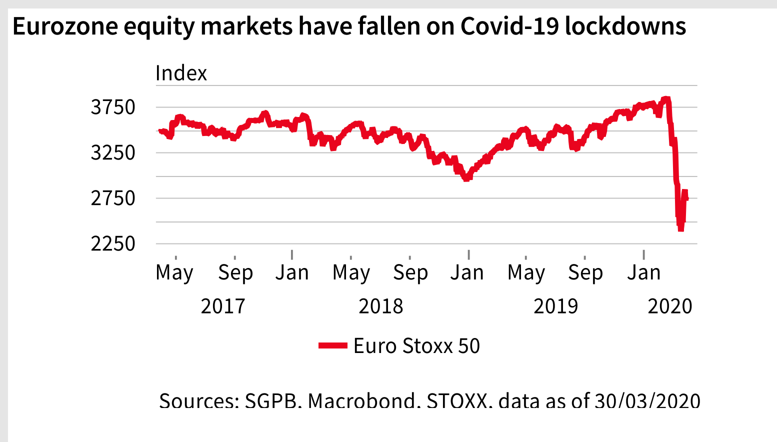
This market is particularly well developed in Europe, thanks to widespread use of structured products which often have an equity index as the underlying asset. This means that the trading desks which create these products find themselves with exposure to future streams of dividend payments, which they often hedge via dividend futures. The resulting selling pressure means that futures often trade at a wide discount to the actual dividends companies intend to pay, especially during rocky times for markets.

The left-hand chart shows the current market prices for dividend futures for the Euro Stoxx 50 index over the next few years – the longer the time horizon, the lower the market price. The top line shows consensus forecasts from the IBES database for the same calendar years – analysts expect dividends to rise quite sharply in coming years. However, we believe that bottom-up analysts may be over-optimistic about companies' ability to increase dividend pay-outs. And so, we have calculated our own top-down estimates, with dividends set to fall 2% for 2020 given the coronavirus impact on corporate profits. We then expect a gradual recovery in 2021 continuing through to 2024. This still leaves an attractive gap with today's market prices.

This opportunity has a couple of interesting characteristics. First, companies tend to fix their dividends at a percentage of their sustainable trend in earnings, meaning that dividends tend to be less volatile than yearly changes in profits. Second, in order to compensate investors for the risks involved in holding their shares, companies seek to preserve as much of the dividend as possible during difficult times. And third, performance potential does not depend on any movement in equity prices over time, providing a source of uncorrelated returns.

However, dividend future contracts can be volatile. In particular, longer-dated contracts are vulnerable to investment bank selling during corrections, often creating an attractive entry point to invest in this theme. But as time elapses and dividend payments are announced by index members, uncertainty decreases and so does volatility in the dividend futures.

Bottom line. In times of market turbulence, dividend future prices tend to come under selling pressure, creating an opportunity for patient investors who are confident in companies' commitment to continue to serve rising dividends to their shareholders. Investing via the futures also provides a return which is independent from the performance of the underlying equity index.



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INVESTMENT IDEA

Sustainability for the Long Term

The coronavirus pandemic has thrown a number of deep-seated economic and business beliefs and practices into question. Cross-border and cross-continent supply chains have been shown to be no stronger than their weakest link. And just-in-time production processes, with little capital tied up in inventories, have shown their limits when a lack of components can halt output. Moreover, many companies had borrowed heavily to finance share buybacks, weakening their balance sheets and leaving them vulnerable when cash flow dries up. We believe that the crisis will spark a profound rethink within corporations and indeed within society at large.

Indeed, the rethink has already started in many cases. Perfumers like LVMH and Coty have switched their production lines to produce hand sanitiser. Fashion companies like Giorgi Armani and Canada Goose have switched theirs to making garments for healthcare workers. Automakers like GM and Tesla have turned to making much-needed medical equipment like ventilators. Global banks have launched world solidarity programmes, even as they keep credit and liquidity flowing through the financial system. Companies across the globe have realised that they can make a meaningful contribution to address the public health crisis.

Cynics may say that businesses will revert to their previous model once activity picks up. We are not so sure. We believe that companies with sound and sustainable environmental impact, social responsibility and corporate governance practices (ESG) are better placed than their peers.

First, companies will have to build more robust supply chains to mitigate the risks they currently face. They will also need to run higher levels of inventory to ensure they can continue to meet orders. And with many corporations risking default on their borrowings, finance directors will take a hard look at how much debt their balance sheets can bear.

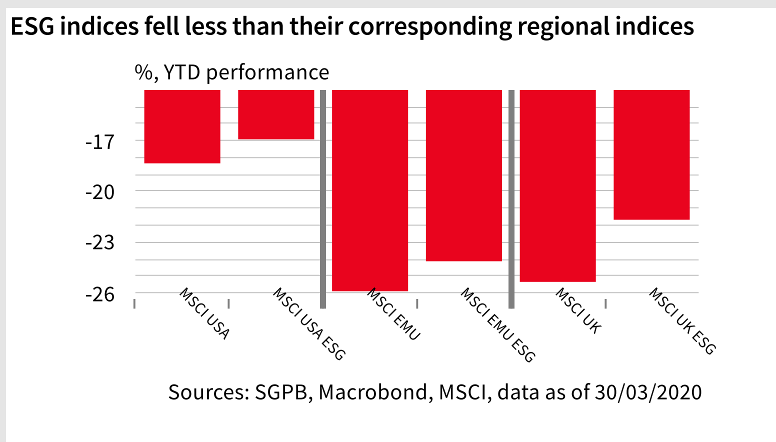
Second, the overnight shift to remote working and social distancing for hundreds of millions of office staff worldwide poses problems for any company with a high degree of employee dissatisfaction. Those with better working practices – in terms of employee health and welfare, leave entitlement or childcare – tend to see higher levels of employee engagement, a competitive advantage during an extended lockdown. Indeed, studies have shown that companies with high Glassdoor ratings – a website where employees post workplace ratings – tend to outperform during market downturns.

Third, crises such as today's call into question the viability of many business models and many companies may not survive. On the other hand, companies with high ESG scores and sustainable business practices are less likely to go bankrupt on a five year horizon according to data compiled by Bank of America.

Moreover, listed companies with higher ESG scores have seen fewer downgrades to earnings forecasts than their peers since the start of the crisis, according to figures from both Refinitiv and Sustainalytics. And this has translated into better performance during the bear market – a recent Morningstar study shows that 67% of sustainable US equity funds rank in the top half of their peer groups since the market's all-time high in February.

Bottom line. If 2019 was the year when many companies took environmental considerations on board, 2020 looks set to be the year when social responsibility comes to the fore. Companies which have already improved their ESG practices look better placed to survive this year's recession and to thrive in years ahead. Rather than a tool to enhance a company's image during times of expansion, we believe that high sustainability standards will prove a key competitive advantage for long-term success.

ESG indices fell less than their corresponding regional indices



Sources: SGPB, Macrobond, MSCI, data as of 30/03/2020

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CURRENCIES

Resumption of trends must await the end of coronavirus restrictions

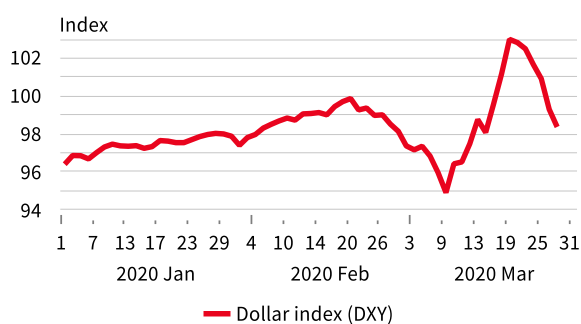
The coronavirus impact is the driving force in all markets at present, and currencies are no exception. Currency volatility is expected to remain at highly elevated levels.

Dollar Index. The dollar is king, for now at least. Demand has skyrocketed with investors and businesses needing access to the global reserve currency. The Fed has been pushing out additional dollars via 14 international central banks, but the greenback has only eased modestly from recent highs. USD safe-haven strength in times of trouble is not new but it has been exacerbated this time by the sudden stop in activity and widescale panic in markets. Short-term rates have been cut to nearly zero, closing the gap with rates in many other currencies but the market is not ready yet to focus on fundamentals. That focus will shift, but only over time.

EUR/USD. The euro has rebounded somewhat from virus-driven lows of €1.07, to trade at a slightly less anaemic €1.10. The ECB and the Fed are expected to remain in active loosening mode for the foreseeable future, keeping interest rate and government bond yield differentials very tight. Moreover, government stimulus programmes on both shores of the Atlantic will push budget deficits much higher. However, investor desire for the perceived safety of the US dollar is likely to win out for now. Higher levels for the euro must await the end of lockdowns.

GBP/USD. Sterling has tumbled precipitously since the March 9 high of 1.32 to the dollar, falling to levels not seen since the mid-1980s at 1.14, well below the post Brexit vote low near 1.1850. Market liquidity had dried up and large sell orders were triggered. In two surprise moves, the Bank of England cut rates by 65bps to 0.1% and introduced GBP 200 billion of new stimulus via purchases of Gilts and corporate bonds. Over the next couple of months as Western economies enter recession, it's very difficult to imagine a significant rebound in GBP/USD. This is not an environment conducive to pound strength.

The US dollar has risen against major currencies



Source: SGPB, Macrobond, 27/03/2020

USD/JPY. The Japanese yen is considered a safe-haven currency, and usually witnesses enormous flows during times of market stress. This time was no different, at least initially. In the first part of March, the yen strengthened from ¥112 to ¥102 against the dollar – a rise of nearly 10%. However, it has since retraced much of that strength, trading back at ¥110. Partly, this was due to a jump in coronavirus cases in Tokyo and fears of a lockdown. Another factor was simply the relentless dash for US dollar liquidity.

EUR/CHF. Like the yen, the Swiss franc has been keenly sought after as the pandemic has spread, taking it to levels against the euro last reached in 2015. Perhaps surprisingly, the Swiss National Bank has refrained from cutting rates or increasing asset purchases, preferring currency intervention to attempt to slow the franc's advance. If the lockdown of economies were to be prolonged, further CHF strength would likely trigger additional SNB measures. However, sustained weakening against the euro will have to await the end of the crisis.

EM currencies. In normal times, falling US interest rates would bolster emerging market currencies. However, these are not normal times. The pandemic – and collapse in oil prices – have made EM currencies a lightning rod for volatility, with sell-offs matching those witnessed during the 2008 global financial crisis. Currencies such as the Mexican peso and Russian rouble have lost 15-20% against the dollar and many EM central banks have slashed rates to support growth. On the upside however, downward pressures have eased for now following massive cash injections by the Fed to keep dollars well supplied.

USD/CNY. The Chinese yuan has had a difficult year thus far, weakening from 6.86 in mid-January to about 7.08 now against the dollar. The country was the first to go into lockdown, putting downward pressure on the CNY, later exacerbated by the rush to buy dollars. However, since those early days, much has changed. New cases appear to have subsided, fears of a "second wave" have not materialised and business is slowly returning to pre-virus levels, even in the outbreak's epicentre in Hubei province. With Chinese factories beginning to ramp up output, we would expect the yuan to strengthen back below 7 by the second quarter.

Past performance should not be seen as an indication of future performance. Investments may be subject to market fluctuations, and the price and value of investments and the income derived from them can go down as well as up. Your capital may be at risk and you may not get back the amount you invest.

ALTERNATIVES

Upgrading Hedge Funds to Overweight

Collapsing demand and oversupply suggest Brent prices could remain under pressure and we move Underweight. Having reduced equity exposure, we also suggest scaling back gold to Neutral. Ongoing dislocation in markets is throwing up new opportunities for hedge fund managers and we suggest moving overall exposure to Overweight.

Commodities

Oil

Crude oil prices have plumbed new depths in March as the market has been buffeted by two simultaneous storms. Coronavirus shutdowns are set to slash demand, by between 10 to 20% of global consumption according some recent estimates, over coming weeks. And hopes of further production cuts by OPEC and Russia were dashed in early March when their agreement fell apart, pushing Saudi Arabia to announce it would ramp up production by 25% to 12.3 million barrels per day (mb/d) from April.

Brent prices have tumbled over 60% since January 1 to $25 per barrel, the lowest level since 2003, putting severe pressure on leveraged producers in the US shale fields and pushing them to slash spending plans as default risk looms. For now, US output remains at a record 13mb/d but sharp falls in production are expected later this year.

The second half should see a gradual resumption of demand as coronavirus shutdowns are lifted. However, despite cuts in US output, the world is likely to remain awash in oil. All in all, we suggest moving Underweight.

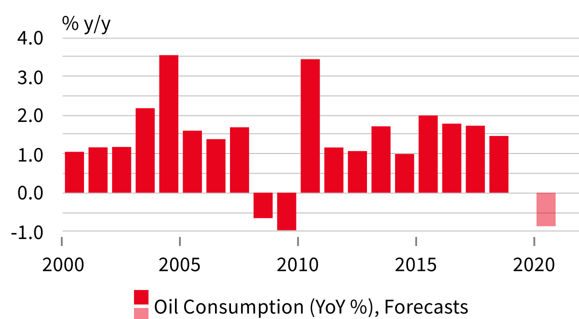
Gold

Gold prices experienced a sharp sell-off from their early-March highs, dipping 12% as leveraged investors were hit by margin calls, forcing them to liquidate holdings in safe havens such as sovereign bonds and gold. However, prices then rebounded by some 11% as demand resumed.

Inflows to gold ETFs remain robust, totalling some 167 tonnes (t) year-to-date according to the World Gold Council, after 400t last year. Moreover, emerging world central banks continue to top up their gold reserves, adding 41t in January after accumulating over 650t last year. In addition, supply of gold bars to investors has been hit by the coronavirus shutdown – three of the world's largest gold refineries in Switzerland have suspended smelting while shipping of gold has been hit by the widespread cancellation of flights by airlines.

Gold's safe-haven status has been precious this year in terms of portfolio construction, providing an offset to equity market volatility. Although it remains our preferred diversification vehicle, we have recently scaled back suggested equity allocations and hence downgrade our stance on gold to Neutral.

Oil demand is expected to decline sharply



Source: SGPB, Macrobond, BP, 27/03/2020

Hedge funds

Long/Short (L/S) Equity

For now, global equities are trading more on risk-off, risk-on sentiment than fundamentals making life difficult for L/S Equity managers, except those with a bias towards short positions. Such sharp reversals in momentum are also challenging for L/S Market Neutral funds as correlations between stocks tend to rise. We suggest moving Underweight.

Event Driven

The coronavirus-driven recession has led investors to question whether M&A deals will complete, pushing spreads between predator and prey much wider. This huge dislocation improves the potential profits from Merger Arbitrage and we remain Overweight. Special Situations funds – which specialise in deals such as spin-offs – should benefit from increased corporate restructuring.

Fixed Income Arbitrage

The illiquidity and rising default risk in credit markets suggests that exposure to L/S Credit should be scaled back to Neutral. On the other hand, Multi-Strategy Fixed Income Arbitrage should see new opportunities as central banks ramp up their asset purchase programmes across the board. We suggest moving Overweight.

Global Macro / CTAs

The illiquidity and rising default risk in credit markets suggests that exposure to L/S Credit should be scaled back to Neutral. On the other hand, Multi-Strategy Fixed Income Arbitrage should see new opportunities as central banks ramp up their asset purchase programmes across the board. We suggest moving Overweight.

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TACTICAL AND STRATEGIC THEMES

Strategies still open

Launched	Conviction	Strategy description	Time horizon
27/11/14	Blue gold (Water)	Many regions of the world face large water supply disruptions. Water remains underpriced.	Strategic
15/06/16	How demographic changes shape future spending	Population growth and ageing generate investment opportunities in several sectors.	Strategic
06/07/17	Millennials: Redefining the rules	Companies able to anticipate and/or adapt quickly to new consumer trends will be the main beneficiaries of millennials' growing spending power.	Strategic
06/10/17	Convertible Bonds – Yin and Yang	CB combine the attributes of different asset classes in one security. As long as their credit quality is not impaired, they can offer unlimited upside with downside protection.	Strategic
08/12/17	Insurance-Linked Securities – Marching to a Different Drum	ILS represent a source of uncorrelated returns for bond portfolios. The recent drawdowns linked to US hurricanes create a new opportunity in this segment.	Strategic
29/03/18	Artificial Intelligence: from fiction to reality	Global spending on artificial intelligence is expected to rise from $12bn in 2017 to $57.6bn in 2021. As investment increases, AI should bring transformation to nearly every sector.	Strategic
07/12/18	Cybercrime – the omnipresent risk	As internet connectivity in the global economy has become indispensable, the scale of cyber risks means sustained investment in cybersecurity.	Strategic
07/12/18	The return of the "national champion"	As globalization is grinding to a halt and state interventionism is fast expanding, some national champions are expected to reap benefits from higher protection and support	Strategic
20/03/19	Bridging the gender gap	Gender equality represents a strategic advantage from which businesses can draw lasting benefits. Investing in such companies should allow investors to reap those rewards.	Strategic
21/06/19	5G Technology: a breakthrough for telcos	The 5G revolution could create attractive investment opportunities for network suppliers and businesses able to leverage the capabilities offered by the new network.	Strategic
21/06/19	Africa's business revolution	Africa is the new frontier in terms of growth and investment. Rapid expansion across the continent is creating attractive opportunities for risk-taking entrepreneurs and investors.	Strategic
21/06/19	Climate change – stepping-up decarbonisation	The global transition to a low-carbon economy offers investment opportunities in a wide range of sectors.	Strategic
21/06/19	Green (Bond) shoots	With improving liquidity, green bonds are a promising asset class offering both positive impact and long-term sustainability.	Strategic
18/09/2019	Food for Thought – Sustaining the World	The challenge of feeding the world creates investment opportunities in companies making food production healthier and more sustainable.	Strategic
29/11/2019	The Final Frontier – Space investment lifts off	Rapid technological progress in satellites and rockets and the proliferation of start-up entrants are opening up an investment frontier.	Strategic
29/11/2019	The HealthTech Revolution – Investing for a healthier future	Rising costs and growing needs will force disruption of healthcare by technology insurgents.	Strategic
30/03/2020	Dividend futures – Harvesting independent returns	Market turbulence creates opportunities for patient investors in dividend futures	Tactical
30/03/2020	ESG – Sustainability for the Long Term	We believe that high sustainability and ESG standards will prove a key competitive advantage for long-term success	Strategic

Sources: Societe Generale Private Banking, Datastream. Data as at 30/03/2020 * Strategic: 1-3 years. Tactical: 3-12 months

Denotes a change from our previous Quarterly

Strategies closed

Launched	Conviction	Closing rationale	Type
20/03/2019	Macro to boost Emerging debt	EM debt markets are set to be hard hit by global recession, weak liquidity and rapid outflow.	Tactical
29/11/2019	Northern Exposure	Tumbling oil prices are putting downward pressure on the NOK	Tactical

Sources: Societe Generale Private Banking, Datastream. Data as at 30/03/2020

GLOBAL ECONOMIC FORECASTS

Growth and inflation

YoY changes in %	Real gross domestic product growth					Consumer price indices				
	2017	2018	2019f	2020f	2021f	2017	2018	2019f	2020f	2021f
World (Mkt FX weights)	3,4	3,2	2,6	1,1	2,7	2,6	3,0	2,8	2,7	2,3
World (PPP weights)**	3,9	3,7	3,0	2,0	3,4	3,2	3,8	3,7	3,6	3,1
Developed countries (PPP)	2,5	2,3	1,7	-0,5	1,3	1,7	1,9	1,4	1,1	1,2
Emerging countries (PPP)	4,9	4,7	3,9	3,6	4,7	4,3	5,0	5,2	5,3	4,3
Developed countries										
US	2,4	2,9	2,3	-1,4	0,8	2,1	2,4	1,8	1,7	1,1
Eurozone	2,6	1,9	1,2	-0,7	1,2	1,5	1,8	1,2	0,4	1,2
Germany	2,5	1,5	0,6	-1,0	1,1	1,7	1,9	1,3	0,5	1,1
France	2,4	1,7	1,3	-0,8	1,4	1,2	2,1	1,3	0,6	1,2
Italy	1,8	0,7	0,3	-1,4	0,5	1,4	1,2	0,7	0,2	1,2
Spain	3,0	2,6	2,0	-0,4	0,8	2,0	1,7	0,8	-0,2	1,2
UK	1,8	1,4	1,4	0,3	1,1	2,7	2,5	1,8	1,3	1,9
Japan	1,9	0,8	0,7	-0,5	2,1	0,5	1,0	0,5	0,0	1,0
Switzerland	1,7	2,5	0,9	-0,3	1,0	0,5	0,9	0,4	-0,3	0,1
Australia	2,4	2,8	1,8	1,5	2,8	2,0	2,0	1,6	1,7	1,8
Emerging countries										
China	6,9	6,6	6,1	4,5	6,4	1,5	2,1	2,9	3,4	1,9
South Korea	3,2	2,7	2,0	0,5	3,0	1,9	1,5	0,4	1,0	1,4
Taiwan	3,1	2,6	2,7	1,5	3,1	0,4	1,0	0,8	0,1	0,8
India* **	6,8	7,4	5,3	4,7	6,3	3,3	4,0	3,4	4,4	4,0
Indonesia	5,1	5,2	5,0	4,4	5,1	3,8	3,2	3,0	2,9	3,0
Brazil	1,1	1,1	1,1	0,7	1,6	3,4	3,7	3,7	3,8	3,5
Mexico	2,4	2,0	-0,1	-0,4	1,5	6,0	4,9	3,6	3,4	3,0
Chile	1,3	4,0	1,2	1,0	2,4	2,2	2,7	2,3	3,8	2,7
Russia	1,6	2,3	1,3	1,3	1,9	3,5	3,1	4,2	3,1	4,3
Slovakia	3,2	4,1	2,3	1,2	2,6	1,4	2,5	2,8	2,0	1,7
Czech Republic	4,5	2,9	2,4	0,4	2,4	2,5	2,1	2,8	2,9	1,6

Sources: SG Cross Asset Research / Economics, IMF, 27 March 2020
* (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	2630	-15,4%	-18,4%	-18,2%	-4,8%	3,0%	19,1%	40,1%	41,7%
DJ Euro Stoxx 50	2848	-20,4%	-24,3%	-23,7%	-11,2%	-6,7%	-8,3%	10,0%	-7,5%
FTSE100	5816	-16,7%	-22,8%	-21,9%	-15,3%	-7,6%	-9,8%	12,7%	3,7%
Topix	1399	-12,8%	-19,0%	-18,7%	-11,3%	-12,2%	-3,0%	12,1%	-0,5%
MSCI AC World ($)	447	-16,9%	-20,5%	-20,5%	-9,5%	-7,1%	7,7%	26,3%	19,4%

Developed market bonds		**Performance - total return** (in local currency)							
	Yield to maturity	**1m**	**3m**	**YTD**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
BAML Corp Euro IG	1,91%	-7,7%	-6,9%	-0,8%	-3,6%	-1,5%	0,5%	2,8%	3,4%
BAML Corp Euro HY	7,20%	-15,8%	-15,7%	-6,2%	-10,6%	-9,1%	-5,0%	3,6%	3,2%
BAML Corp US IG	4,04%	-9,4%	-6,2%	7,2%	2,2%	7,9%	10,1%	14,6%	15,5%
BAML Corp US HY	9,88%	-15,6%	-15,5%	-3,4%	-9,8%	-4,6%	-0,3%	15,9%	11,1%
BAML Corp UK IG	3,20%	-9,0%	-6,7%	4,4%	-0,4%	4,0%	5,8%	17,3%	16,7%
FTSE US Sovereign 3-7y		2,9%	5,9%	5,7%	9,7%	14,9%	14,3%	14,0%	17,0%
FTSE Germany Sovereign 3-7y		-0,6%	0,0%	0,3%	0,1%	1,8%	1,2%	1,2%	2,5%
FTSE UK Sovereign 3-7y		0,9%	1,9%	2,0%	2,9%	6,1%	4,5%	6,9%	10,1%
FTSE Japan Sovereign 3-7y		-0,3%	0,1%	0,1%	-0,4%	-0,2%	-0,3%	-0,9%	0,7%

Emerging market equities		**Performance – total return** (in USD)							
	Current level	**1m**	**3m**	**YTD**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
MSCI EM	851	-18,2%	-23,0%	-23,4%	-16,5%	-23,7%	-4,5%	17,0%	1,6%
MSCI EM Asia	459	-14,8%	-18,3%	-18,8%	-11,6%	-18,9%	3,7%	26,3%	9,8%
MSCI EMEA	181	-25,3%	-31,6%	-32,0%	-25,3%	-34,1%	-22,4%	-6,3%	-19,9%
MSCI Latam	1691	-33,0%	-42,0%	-41,6%	-36,4%	-40,4%	-28,9%	-7,9%	-19,0%

Emerging market bonds		**Performance – total return** (in USD)							
	Yield to maturity	**1m**	**3m**	**YTD**	**12m**	**2Y**	**3Y**	**4Y**	**5Y**
BAML EM Sovereign	7,23%	-14,1%	-12,9%	-2,0%	-7,2%	-5,4%	-0,4%	7,8%	11,4%
Asia	5,00%	-10,8%	-7,9%	6,1%	0,4%	6,6%	10,2%	17,3%	21,2%
EMEA	7,21%	-13,9%	-13,3%	-1,4%	-6,0%	-4,9%	1,4%	7,7%	12,8%
Latam	8,49%	-16,1%	-14,9%	-6,6%	-12,5%	-11,4%	-7,3%	3,6%	5,1%
BAML EM Corp	6,48%	-10,6%	-8,5%	2,4%	-2,3%	6,1%	8,7%	13,8%	17,7%
Asia	5,41%	-6,8%	-4,4%	5,6%	1,0%	0,4%	5,0%	12,4%	20,8%
EMEA	6,45%	-10,8%	-9,4%	2,0%	-2,0%	-5,7%	0,3%	16,0%	12,5%
Latam	8,83%	-17,7%	-15,6%	-3,7%	-8,9%	5,2%	9,0%	14,0%	15,4%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 27/03/2020), 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 AND FORECASTS

Currencies	Current	Forecasts 3 months	Forecasts 12 months	Performance YTD	12m	2Y	3Y	4Y	5Y
EUR/USD	1,10	1.11	1.16	-3,8%	-2,1%	-11,4%	2,1%	-1,2%	1,3%
USD/JPY	110	110	105	0,0%	-0,9%	4,0%	-1,6%	-3,1%	-8,1%
EUR/CHF	1,06	1.04	1.09	-5,6%	-5,1%	-9,7%	-0,7%	-2,6%	1,4%
GBP/USD	1,22	1.27	1.33	-4,4%	-7,6%	-14,2%	-2,1%	-13,7%	-17,8%
EUR/GBP	0,90	0.87	0.87	0,5%	6,0%	3,4%	4,4%	14,5%	23,3%

10-year yields	Current	Forecasts 3 months	Forecasts 12 months	Performance (in local currency) YTD (bps)	12m	2Y	3Y	4Y	5Y
USA	0.8%	0,6%	1,3%	-188	-160	-203	-159	-109	-119
GER	-0.4%	-0.5%	0,0%	-62	-36	-89	-78	-55	-59
UK	0.4%	0.3%	0.6%	-87	-61	-104	-80	-106	-119

Commodities	Current	Forecasts 3 months	Forecasts 12 months	Performance (in USD) YTD	12m	2Y	3Y	4Y	5Y
Gold in USD	1631	1625	1725	27,3%	24,1%	20,3%	30,6%	33,6%	35,2%
Oil (Brent) in USD	26.6	27.0	33.0	-50,0%	-60,9%	-62,1%	-47,6%	-33,4%	-54,2%

Equities	Current	Forecasts 3 months	Forecasts 12 months	Performance (Total return in local currency) YTD	12m	2Y	3Y	4Y	5Y
S&P 500	2630	2600	2900	-18,2%	-4,8%	3,0%	19,1%	40,1%	41,7%
Euro Stoxx 50	2848	2750	3100	-23,7%	-11,2%	-6,7%	-8,3%	10,0%	-7,5%
FTSE 100	5816	5600	6250	-21,9%	-15,3%	-7,6%	-9,8%	12,7%	3,7%
Topix	1399	1450	1600	-18,7%	-11,3%	-12,2%	-3,0%	12,1%	-0,5%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 27/03/2020), 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

Forecast figures are not a reliable indicator of future performance.

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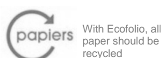

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