QUARTERLY HOUSE VIEWS

Q2 2021

Inflating Expectations

Macro

With infection rates still stubbornly high across the EU, vaccine shortages hampering inoculation programmes and lockdowns being extended, it is looking increasingly likely that the euro zone may not exit recession until Q3. However, global business confidence strengthened in March and fiscal and monetary policies remain powerful supports – we continue to expect a synchronised global upturn in H2. China has completed its recovery from the pandemic crisis and authorities have signalled that less policy support is now required. Moreover, with President Biden now advocating at $3 trillion infrastructure investment plan (taking fiscal spending since December to 27.8% of GDP), overheating will remain a concern for economists.

Central Banks

Recent central bank meetings have confirmed that policy will remain very easy. Despite upgrades to this year's growth and inflation projections, the Federal Reserve (Fed) still sees no need to raise rates before end-2023. And the European Central Bank (ECB) has reacted swiftly to some modest tightening in financial conditions by announcing a "significantly higher" pace in asset purchases over Q2. Economists expect a spike in inflation measures this spring as the enormous rise in raw material prices over the past year feeds into the data but central bankers remain unperturbed, judging that this will be a transitory phenomenon.

Markets

The macro environment of rising inflation expectations fuelled by fiscal spending has pushed sovereign yields sharply higher since last summer, particularly in USD and GBP, and further upside is possible. Corporate bond spreads (the difference in yields with sovereigns) remain tight, offering little value for investors. In the near term, recent dollar strength might persist given widening growth and yield differentials vs the euro zone but, longer-term, fundamentals should weigh on the greenback. Global equity markets remain close to mid-February's all-time highs but there has been a shift away from highly-valued growth stocks towards cheaper, more cyclically-sensitive sectors and regions.

Bottom line

Equity markets have risen steadily since end-December and valuations now face a challenge from rising yields – we have scaled back exposure but remain Overweight. Within regions, we have locked in some profits on emerging markets and upgraded our view on the UK. We also continue to highlight the attractions of "Value" stocks and sectors (which rank as cheap on ratios such as price-to-book-value, dividend yield and price-to-earnings). No changes to our negative view on advanced-economy sovereign bonds and we also remain Underweight on credit (corporate bonds). We continue to expect the euro to regain ground against the dollar as cyclical recovery takes hold in H2.

Unless otherwise specified, all statistics and figures in this report were taken from Bloomberg and Datastream on 26/03/2021

THE FUTURE IS YOU SOCIETE GENERALE Private Banking

OUR STRONGEST CONVICTIONS

Commodity currencies in demand

Thanks to progress on vaccinations and supportive monetary and fiscal policies, H2 2021 should see a cyclical recovery in economies which should boost demand for raw materials. Moreover, supply of a number of key commodities has been constrained by under-investment in recent years due to falling prices, the US-China trade war and pandemic-induced disruption. This creates the preconditions for further upside in raw material prices which should be of direct benefit to commodity currencies like the Australian dollar, the Canadian dollar and the Norwegian krone.

Asian local currency bonds offer a rare source of yield

As you will learn on page 7, fixed income markets offer little for investors. Sovereign yields are rising, bringing capital losses, and corporate bond spreads are tight, offering little protection against credit risk. One bright spot however is Asian local currency debt – credit quality is improving with many countries moving into current account surplus over the past year and the yields on offer are attractive. For example, 10-year Chinese government bonds currently offer yields of around 3.2% and the CNY has strengthened 9.6% against the dollar since last May's low.

Remaining Overweight global equities

Global equity markets have registered one of the best 12-month performances on record as investors banked on a rapid recovery from the pandemic-induced recession. With a global synchronised pick-up in activity now looming in H2, we have decided to lock in some profits, taking overall equity exposure back from Strong Overweight to Overweight. The overall backdrop remains supportive however – profits for the MSCI World index should rise some 28.5% this year after tumbling 14.1% in 2020 and strong growth should continue into 2022.

Rotate towards Value

Ever since the subprime crisis and great recession, Growth stocks have outperformed Value (see page 9 for definitions), taking them to 20-year highs in overvaluation. Moreover, bond markets have begun to normalise with yields sharply higher since last August, often a harbinger of a switch from Growth to Value. In addition, Value stocks tend to be found in more cyclically-sensitive sectors, exactly those areas which stand to gain most from the impending global recovery.

Locking in some profits on EM equities

In periods of rising yields and dollar strength, emerging market assets can come under pressure – many countries and companies issue bonds in dollars, an uncomfortable situation when borrowing costs are rising along with the greenback. Moreover, EM equities have had a strong run since we upgraded allocations last September, outperforming other regions, and we have decided to lock in some profits. Nonetheless, we view any weakness in prices as temporary and remain Overweight.

Let's stay flexible

Markets have rallied hard over the past year although the pandemic continues to force governments across Europe to keep lockdown restrictions in place, pushing the euro zone back into recession. With vaccination programmes still suffering from supply disruptions, the near-term outlook is uncertain. However, brighter days do lie ahead, and we expect that cyclical recovery in H2 will bring new opportunities. Investors should remain flexible, ready to make tactical adjustments to portfolios as circumstances evolve.

OUR ASSET ALLOCATION

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

Summary house views

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

	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	We remain Neutral on US equities, which reached new all-time highs in mid-March, and stress the importance of diversifying into more cyclically-sensitive, undervalued sectors.
Eurozone	Eurozone equities resumed the outperformance begun in November as markets reacted to excellent vaccine trial results. We continue to be Overweight the region with a preference for more cyclically-sensitive sectors.
UK	The rapid progress in vaccinations has bolstered business confidence and the UK ranks as the cheapest major market. We have upgraded UK equities to Overweight
Switzerland	The market is dominated by high-quality, defensive stocks, which should help cushion any downside.
Japan	We remain Overweight on Japanese equities, which recently reached levels not seen since early 1991 but this time without any exaggeration in valuations.
Emerging (EM)	We have decided to lock in some profits on EM equities after a strong run since we upgraded exposure in September and have scaled back exposure from Strong Overweight to Overweight.

FIXED INCOME	
Sovereigns	Government bonds remain unattractive, offering negligible or negative yields to investors. We keep a Strong Underweight position.
Duration*	We prefer shorter-dated bonds, which are less sensitive to rising yields, across markets.
Inflation-linked	Inflation is likely to subside after a commodity-price-induced spike over spring and summer.
Investment Grade	Investment Grade credit spreads should remain low, helped by central bank purchases.
High Yield	High Yield bonds remain more vulnerable to the economic challenges, especially the weakest issuers.
Emerging debt (in € and $)	We continue to recommend a Neutral position, with a particular focus on Asian issuers given better macro fundamentals.

CURRENCIES	
EUR/USD	The Euro remains deeply undervalued in purchasing power parity terms, by some -16%.
GBP/USD	Sterling has begun to correct from late February's overbought levels thanks to the UK's rapid vaccination rollout and the roadmap to end restrictions by late June
EUR/GBP	Post-Brexit disruptions may weigh on sterling against the euro in coming months.
USD/JPY	The dollar looks overbought versus the yen after a sharp rally in recent months.
EUR/CHF	Confidence has grown that 2021 will see global cyclical recovery, which has helped weaken the franc. We expect a period of consolidation in EUR/CHF.
Emerging	We expect the renminbi to consolidate in coming months before heading higher again.

ALTERNATIVES	
Hedge funds	Our preferred strategies are Special Situations, directional L/S Equity, discretionary Global Macro and CTAs.
Gold	Fiscal spending and hopes of easing lockdown restrictions have weakened demand for safe havens. Gold prices should recover once real rates fall again.
Oil	We expect oil prices to consolidate in coming months as supply cuts compensate for sluggish near-term demand.

Source: SGPB, 26/03/2021
* 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)

ECONOMIC OUTLOOK

Will reflation last?

Vaccination programmes are accelerating, bringing closer the prospect of reduced restrictions on activity (especially in the US and the UK), and fiscal and monetary policies are combining to provide massive support for households, companies and financial markets. Will all this lead to overheating and inflation?

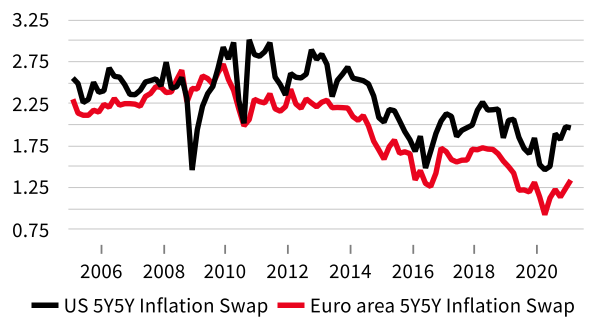
As highlighted in our March House Views, markets have been unsettled by a combination of factors – the extraordinary scale of central bank asset purchases and deficit spending; the rapid growth in money supply as households receive direct remittances from governments; overheating fears stoked by hopes that vaccinations will get economies back to normal; and the massive jump in commodity prices since last March.

These factors have prompted a scramble by investors to reassess inflation risks. Swap contracts on investor expectations of where 5-year US inflation will be in 5 years' time have shot up from 1.22% last March to 2.41%. Contracts on euro zone inflation have doubled from 0.72% to 1.49% in only twelve months. And breakeven rates – another measure of expected inflation derived by subtracting the yield of an inflation-linked sovereign bond from a fixed-coupon bond of equivalent maturity – tell the same story.

This dramatic shift in inflation fears has put downward pressure on fixed-income bonds as investors demand more protection against inflation, pushing yields higher (yields move inversely to bond prices). Ten-year US Treasuries currently offer a 1.63% yield, up from last August's 0.85% historical low – the Bloomberg Barclays index of long-dated Treasuries has registered a 18.6% loss since then.

In turn, the downturn in bond markets has fuelled a rapid rotation in equity markets. Some market darlings such as mega-cap US tech stocks reached stretched valuations – the IT sector trades at a 68% premium to its 10-year average price-to-earnings ratio – which were only tolerable when compared to even more overvalued bonds. In recent months, investors have begun to reallocate towards Value stocks, which tend to benefit when yields are on the rise.

5-year/ 5-year inflation swaps have surged



Source: SGPB, Macrobond, 25/03/2021

Despite these shifts, central banks remained unperturbed in their March meetings. Last summer, the Fed shifted its priorities to focus on maximum employment – meaning it wants unemployment below the pre-pandemic lows – while indicating that it would be comfortable with a spell of inflation above its 2% target. This message was reinforced by policy-makers' March projection of no key rate hikes for the next three years. Similarly, the Bank of England stressed that little had changed in its medium-term outlook and that it was in no hurry to raise rates. And faced with tightening financial conditions, the ECB announced it would step up the pace of asset purchases in Q2, which will help keep core bond yields low and periphery yield spreads tight.

Moreover, we do not expect these inflationary pressures to last. Current fiscal spending is designed to alleviate near-term problems for low-income households, the unemployed and businesses and will do little to enhance long-term growth prospects. And rapid money-supply growth has simply led to a build-up in savings, not an increase in velocity – the rate at which money circulates in an economy – which might be a harbinger of inflationary pressure. Furthermore, structural disinflationary factors, such as ageing populations or technology-driven productivity gains, have not disappeared.

Bottom line. Commodity prices will fuel a spike in inflation in coming months which will keep bond yields under pressure, notably in USD and GBP, but we expect this to be a transitory phenomenon. Central bankers appear to agree and are likely to keep key rates unchanged, while enormous asset purchases will contribute to stemming any excessive upward pressure on bond yields.

FIXED INCOME

Facing challenges

Today's environment of reflating economies and spiralling debt issuance to finance fiscal largesse presents a challenging backdrop for fixed income markets. Our allocations are unchanged – Strong Underweight in sovereign bonds and Underweight in "credit" (i.e., investment grade (IG) and high yield (HY) corporate bonds).

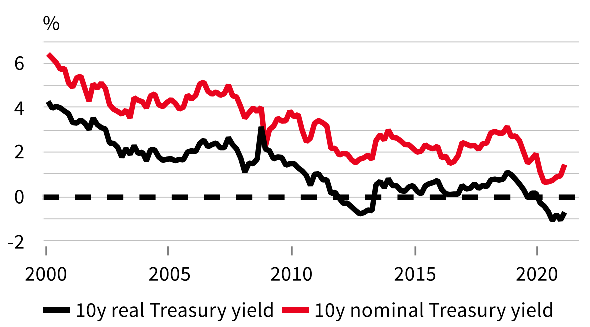
Sovereigns

US. Inflation expectations have shot higher fuelled by commodity prices, rapid easing of lockdown restrictions and massive fiscal spending, pushing bond yields up to their highest level since last February. Further upside is possible – we expect to see 2.0% 10-year Treasury yields over the next year – especially if President Biden's $3 trillion green infrastructure investment plan gains traction in Congress, given the massive bond issuance this would entail. However, we expect the spike in inflation to prove transitory – as a result, the bulk of the downswing bond prices is likely now behind us.

Eurozone. In comparison with Treasuries and UK gilts, upside in core euro zone bond yields has been rather modest – 10-year Bund yields rose from -0.57% in early January to -0.23% in late February before easing back to -0.37%. There are several explanations – the euro zone is likely to experience a third consecutive quarter of recession in Q2, slow vaccine roll-outs have left countries vulnerable to a third wave in COVID-19 infections and the ECB recently stepped up the pace of its enormous €1.85 trillion asset purchase programme. With such low yields on offer, we remain Underweight.

UK. Since end-2019, 10-year sovereign ("gilt") yields have swung from 0.79% to historic lows at 0.08% and back to 0.75%. Like the US, the UK has made rapid progress in vaccinations, enabling the government to announce that restrictions will be lifted in late June and raising fears of a spike in inflation. However, the BoE shows no inclination to tighten policy as it still sees little overheating risk on the horizon.

10-year US Treasury yields are up



Source: SGPB, Macrobond, 25/03/2021

Credit

US. Yields on IG bonds have tracked those on Treasuries higher since end-December, leaving "spreads" (i.e., yield differentials) at only 106 bp, close to all-time lows. With further downside in prices of Treasuries likely, IG offers little value and we remain Underweight. Speculative-grade HY bond yields at 4.34% afford little compensation for default risk and we stick to an Underweight stance.

Eurozone. At only 0.17%, yields on euro IG bonds remain deeply unappealing given core inflation at 1.1% in February. The ECB's accelerated asset purchases over the next quarter will prevent much downside in prices but such low yields offer little prospect of capital gains. We remain Underweight. HY bonds in EUR have little more to offer – yields at 3.19% are only just above 2017's historical lows and spreads have barely budged in recent weeks. With recession likely to drag into Q2, we've kept an Underweight stance.

UK. There is little more value in sterling-denominated credit. IG spreads over gilts have risen a meagre 7bp from mid-February's record low and GBP HY yields are only marginally above recent all-time lows. Such valuation levels reflect the BoE's accommodative stance and the looming cyclical recovery as restrictions are wound down, but further gains are unlikely. We remain Underweight.

Emerging debt

Among global sovereign bond markets, EM issuers stand out with spreads over US Treasuries of 309bp. Despite rising US yields and a stronger dollar, EM debt markets have held firm, no doubt aided by robust growth led by China and improving fundamentals (Mexico and Indonesia are running current account surpluses for the first time in a decade). All in all, we remain Neutral.

EQUITIES

Taking some profits

Global equities have gained 73% since their 2020 low on March 23 and we have decided to lock in some profits, scaling back allocations from Strong Overweight to Overweight. The macro backdrop remains supportive and investors should rebalance portfolios towards more cyclically-sensitive sectors and markets.

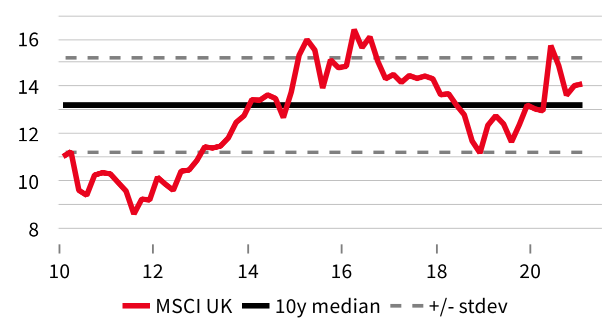
US. Large-cap US equities reached new all-time highs in mid-March and remain close to those levels. However, this masks a marked rotation which has seen Growth sectors like Information Technology lag while Value stocks in areas such as small caps, Industrials and Materials have outperformed. One of the key triggers has been the massive shift higher in bond yields – when high long-term growth in a company's cash flows is discounted using higher rates, the net present value of its stock comes under pressure. It is no surprise therefore that periods of rising rates often see Value outperforming Growth.

The high-growth companies in question are likely to continue to thrive as households and businesses adjust to the long-term fallout from the pandemic, but they are unlikely to provide market leadership for now. Moreover, the heavy weight of megacap tech stocks in US indices means that earnings are likely to be less sensitive to the cyclical pick-up in activity. As a result, we remain Neutral.

Eurozone. The EU has suffered numerous delivery problems which have hampered its vaccine rollout, leaving the region vulnerable to a new wave in coronavirus infections. As a direct consequence, lockdown restrictions have been tightened and extended, meaning that recovery has been delayed. However, with a new vaccine becoming available in April and further deliveries on the way, we are confident that H2 will see a robust pick-up in activity.

The sector breakdown of euro zone equities means that the index is skewed towards cyclically-sensitive Value stocks, which helps explain why 2021 earnings growth forecasts for the euro zone at 37.1% are much higher than the 24.7% in the US. The strongest growth this year is expected in cyclical sectors such as Consumer Discretionary, Industrials and Materials.

UK valuations close to the 10-year average



Source: SGPB, Macrobond, W12 2021

Investors appear to be looking ahead to the recovery, which has helped euro zone equities resume their outperformance vs the US. We remain Overweight.

UK. We have upgraded UK equities to Overweight. The rapid progress in vaccinations has bolstered business confidence, as witnessed by March's flash purchasing manager surveys and analysts have upgraded 2021 earnings forecasts by almost 6% over the past 3 months to 48.3%. Moreover, the UK ranks as the cheapest major market we follow, trading at 13.7 times forward earnings, a modest 4% premium to the average over the past decade.

Switzerland. Swiss equities have underperformed most other European markets since end-December. In a context of cyclical recovery, high-quality defensive companies like those listed in Zurich have been shunned in favour in stocks which should derive more benefit from the pick-up in growth. Nonetheless, earnings forecasts are solid and corporate fundamentals remain robust, which should help cushion any downside.

Japan. The Bank of Japan recently revised its asset purchase guidelines, shifting its focus for equity ETFs from the Nikkei 225 index to the more representative Topix, which is up 8.4% since the start of the year. Japanese stocks are well-placed to take advantage of robust growth across Asia-Pacific, earnings forecasts are being revised higher and valuations are rather reasonable at 17.7 times forward earnings and a 1.9% dividend yield. All in all, we remain Overweight.

Emerging Markets. We have decided to lock in some profits on EM equities after a strong run since we upgraded exposure in September and have scaled back exposure from Strong Overweight to Overweight. Analysts are continuing to revise earnings forecasts higher, in particular in laggard markets like Brazil and Russia, and valuations remain relatively attractive. However, Asia's resilience in the face of the pandemic means that there may be less cyclical upside there than in markets like the euro zone and the UK, while dollar strength often proves a headwind for EM.

INVESTMENT IDEA

Value Redux

Vaccination programmes continue to make good progress, President Biden has just signed into law a $1.9 trillion fiscal aid package and investors are gaining confidence in the cyclical outlook for recovery. All these elements combined have pushed bond yields sharply higher on hopes of reflation, sparking a rotation in equity markets into laggard sectors and markets.

The economic backdrop has pushed our economists to revise their global GDP forecasts for 2021 higher, taking US growth to 4.9% and the euro zone to 4.1%, the fastest pace in 20 years thanks to rapid recovery in H2. In turn, this economic upturn will foster a cyclical pick-up in earnings.

In terms of sectors, the greatest earnings upside is in cyclically-sensitive areas such as Energy, Materials or Industrials, which tend to look attractive on valuation metrics. Index providers like MSCI divide the stock universe into two categories – Growth in historic and forecast earnings and sales and Value in ratios like price-to-book-value, dividend yield or price-to-earnings. Unsurprisingly, Growth stocks have dramatically outperformed Value over the post-subprime crisis period as investors have placed a premium on earnings growth, which has been a rare commodity in a sluggish global economy. Moreover, central banks have kept liquidity abundant via asset purchases and interest rates at historical lows, which has boosted Growth stock valuations close to all-time highs.

But some factors are emerging to justify a shift towards Value. First, as the name suggests, Value stocks look cheap compared to their peers. And, given the above-mentioned elements, we are seeing extreme levels of price discrepancy between Growth and Value, leaving a huge gap to fill.

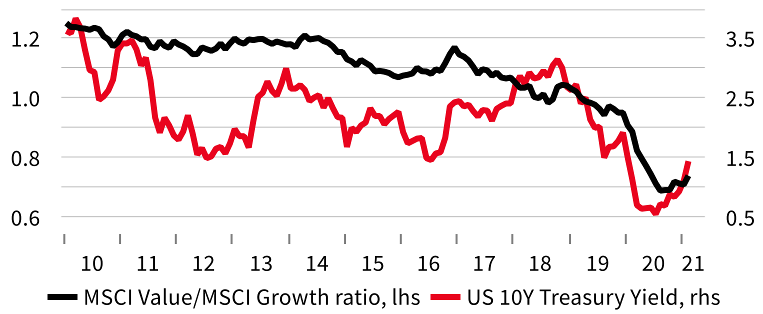
Second, due to post-vaccination reopening of economies bolstered by fiscal and monetary support, we can look ahead to a surge in corporate revenues, boosted by higher levels of inflation in the near term. This will tend to benefit Value stocks, which by definition derive more of their value from near-term earnings, in contrast to Growth stocks which are driven more by their expected earnings in the long term. Moreover Value, helped by the improving macro outlook, rising yields and inflation expectations, is the sector with the greatest earnings upside.

Finally, with the Fed seeing no compelling need to intervene to counter curve-steepening (i.e., the difference between short and long-term rates), the strengthening growth and inflation outlook will continue to push long-dated yields higher. Recent steepening in the curves has taken some of the shine off Growth stock valuations and rekindled interest in Value. Indeed, rising yields have a disproportionately negative effect on assets with longer duration cash flows – discounting those cash flows at higher rates leads to a lower net present value for highly-valued equities. This helps explain why steepening yield curves are often viewed as a prerequisite for Value stock outperformance.

Looking ahead therefore, the stage seems set for a reversal in investor preferences with Value stocks having begun to regain some of the lost ground in recent months - this rotation into Value could continue as economic growth continues to accelerate.

Bottom line. We would caution against a wholesale switch in style allocation in portfolios. Growth stocks have been popular for solid fundamental reasons and the cyclical pick-up in activity is unlikely to impair their long-term earnings potential. Moreover, although long rates are set to remain above crisis lows, we expect central banks to remain active buyers of fixed income bonds, which will help keep sovereign yields lower than they would have been otherwise. We recommend keeping a broad diversification across both Growth and Value in portfolios.

Rising yields suggest that Value will outperform Growth



Sources: SGPB, Macrobond,MSCI, U.S. Dpt of Treasury 02/2021

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.

CURRENCIES

Waiting for synchronised recovery

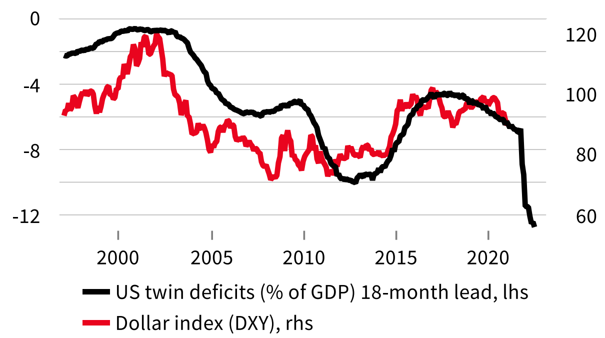
The US dollar was sharply oversold in early January and has now corrected back to last autumn's levels. In coming months, we expect sideways trading in foreign exchange markets until a synchronised cyclical recovery in the second half pushes other currencies higher against USD.

Dollar Index. The dollar index – against other advanced economy currencies – has strengthened steadily since reaching its low on January 5. This coincided with the Democratic victories in Georgia handing control of Congress to President Biden, who has since embarked on massive fiscal spending, raising growth and inflation expectations and widening yield differentials in favour of the greenback. The strength may persist in the near future, but we expect the dollar to weaken again in H2.

EUR/USD. The euro has broken below its recent trading range against USD and returned to the 1.16-1.19 area where it traded between August and November. We expect the consolidation to continue in the short-term given continued recession conditions in the euro zone and the sharp divergence in 10-year yields in recent months – the gap has skyrocketed from 105 bp in July to 200 bp. However, Biden's spending plans will worsen the US budget deficit dramatically while the euro zone's large current account surplus should help close its marked undervaluation against USD.

GBP/USD. As we expected, sterling has begun to correct from late February's overbought levels against the dollar at 1.42. The macro backdrop remains unchanged. The rapid ramp-up in vaccinations has brought new case numbers decisively lower and the roadmap to end restrictions by late June looks feasible; the BoE sounded a more optimistic note at its recent meeting, pushing negative rates further out of the picture. However, trade tensions with the EU on Brexit implementation continue to rumble in the background. In sum, we remain Neutral for now.

Twin deficits should weaken the dollar index



Source: SGPB, Macrobond, BEA, U.S. Dpt of Treasury, 25/03/2021

USD/JPY. The dollar looks overbought after a rapid rally from 103 vs JPY in early January to over 109. In part, the move reflects optimism on US fiscal spending and reflation, which has widened Treasury yield differentials vs Japanese Government Bonds. In response, the Bank of Japan has widened its yield curve control range on 10-year bonds from +/- 5 bp around 0% to 25 bp. Looking ahead, we expect USD/JPY to consolidate a bit below current levels.

EUR/CHF. The Swiss National Bank's 2020 annual report highlighted just how active the central bank was during the first half when its currency interventions to cap CHF strength reached 90bn Swiss francs out of the annual total of 110bn. Since safe-haven flows began to wane last summer, the franc has weakened against the euro, a move which accelerated during February as traders positioned themselves for reflation. Looking ahead, we expect the recent consolidation in EUR/CHF to continue.

EM currencies. JP Morgan's index of emerging currencies has pulled back from mid-February's 12-month high as rising dollar rates have eaten into investor confidence in EM currencies – historically, such episodes have put pressure on emerging borrowers' ability to service their dollar debt obligations. However, the pandemic has helped improve many countries' current account balances – for example, Indonesia and India have swung into surplus for the first time in a decade. Also, global investors have shied away from weak links like Turkey where the bulk of foreign-currency bonds are held by domestic corporations and households. All in all, EM currencies should trade sideways for now.

USD/CNY. The US-China summit in Alaska in mid-March – the first involving the Biden administration – was marked by sharp rhetoric on both sides of the table. As we expected, the new president has decided to keep a hard-line stance on bilateral relations. This suggests that Beijing may see less need to let the CNY strengthen against the dollar – a move which has helped alleviate trade tensions since last summer – and will let the currency trade in a range for now. Notwithstanding such considerations, investment flows into China should continue given the attractive real yields on offer.

INVESTMENT IDEA

Playing the commodity cycle

“Commodity currencies” are simply those issued by the largest producers and exporters of raw materials. Moves in the price of those commodities typically have a major impact on exporters’ trade balance and current account. Moreover, a boom in raw material activity tends to boost the domestic economy, helping improve the budget balance through higher tax revenues. Hence, when raw material prices are strong, fundamental drivers for commodity currencies (such as their budget and current account balance) tend to improve, helping boost their exchange rate. We view the Australian dollar (AUD), the Canadian dollar (CAD) and the Norwegian Krone (NOK) as three particularly interesting commodity currencies.

Although Australia only ranks 13th in the world in terms of GDP, the AUD is one of the five most frequently traded currencies. The country produces significant amounts of iron ore, coal, oil and gas, gold and silver, copper and aluminium, most of which is for export. Unsurprisingly, Australia’s geographic proximity and diversified raw material reserves mean that China is its major export market. In addition, Australia has suffered less from the pandemic than other advanced economies (only 11 cases per 10,000 inhabitants versus 926 in the US or 677 in France), helping keep business confidence buoyant (March’s flash surveys in manufacturing and services both came in well above forecasts). Moreover, Australia is a member of a new Asia-Pacific trade pact which will further boost export potential.

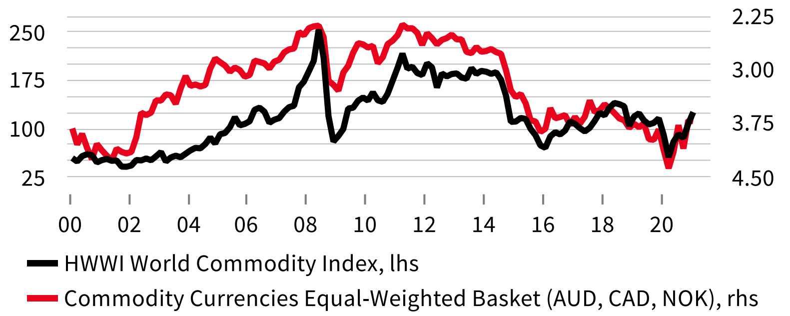
Canada has the world’s third-largest proven reserves of oil, its second-largest export earner after cars. It is also a major exporter of gold, wheat, aluminium and iron ore. GDP expanded at a strong 9.6% annualised pace over Q4, well ahead of analysts’ expectations of 7.5%. The Bank of Canada kept policy on hold at its March meeting and is unlikely to taper its asset purchase program until recovery is well under way and inflation closer to the top of its target range at 2%. In the interim, stronger oil prices are likely to keep the CAD buoyant.

In Norway, the oil industry is such a large component of GDP that statisticians calculate a separate “mainland” series to remove the volatility linked to swings in oil prices. In 2020, mainland GDP contracted by 2.5%, a remarkable performance compared to other European countries. The Norges Bank has a triple mandate (steady growth and inflation, and financial stability) meaning that it worries less about deflation than, for example, the ECB. Policymakers are becoming more optimistic about the outlook for their economy and are preparing markets for an interest rate rise as soon as September 2021. With a quarter of GDP linked to oil and gas, strengthening demand should help bolster the NOK.

Commodity prices have recovered by some 93% from their March 2020 lows but are only back to 2018 levels and remain well below their 2008 highs. With the global-economy emerging from its pandemic-induced recession and fiscal stimulus likely to focus on commodity-intensive infrastructure projects, we expect that demand for raw materials will remain robust over the next couple of years. Catch-up demand for housing will require base metals and energy while decarbonisation and electric vehicles will also boost demand for metals. These factors suggest that raw materials’ prices have further to run.

Bottom line. Given their strong correlation to commodity prices over recent decades, we believe that a basket comprising the AUD, CAD and NOK has the potential to register strong outperformance versus the US dollar in a context of reflationary economic policies and rising demand.

Strong correlation between commodity currencies and commodities



Sources: SGPB, Macrobond, Macrobond, HWWI, 01/2021

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

Heading for a fall in real yields

We expect oil prices to consolidate in coming months as supply cuts compensate for sluggish near-term demand. Gold prices should stabilise once real rates fall again. In hedge funds, our preferred strategies are Special Situations, directional L/S Equity, discretionary Global Macro and CTAs.

Commodities

Oil

After touching $70 per barrel in mid-March, Brent oil prices have registered their first significant correction since November's vaccine announcements. A flurry of tightened lockdown restrictions across Europe in recent weeks have led analysts to factor in an extended period of reduced mobility, hitting petrol consumption by motorists. We don't expect there to be much downside in prices however – OPEC and its allies (OPEC+) are maintaining supply discipline, having postponed this month's planned 500,000 barrels per day (b/d) increase in output; and US production is still over 2 mb/d below last March's levels.

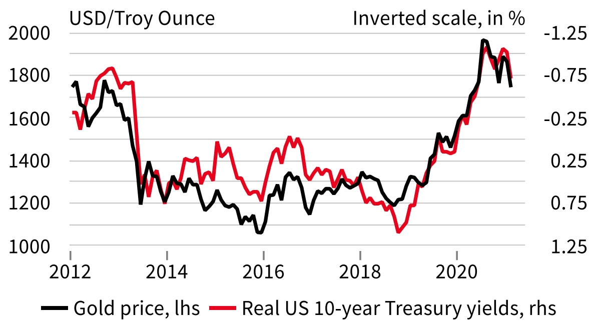
Looking ahead to H2, we expect oil demand to recover across advanced economies as the euro zone exits recession and seasonal demand in the US kicks in. However, this should coincide with increased supply – Saudi Arabia is likely to unwind its voluntary 1 mb/d cuts; US shale fields will be able to increase output given higher prices; and more Iranian oil could find its way onto the market if US sanctions are eased (already, China is importing 1 mb/d in defiance of the embargo on Tehran).

We continue to see Brent trading between $60 and $70 /b in coming months.

Gold

Central banks made small net sales of gold in January, led by Turkey which is facing severe currency volatility. Gold ETFs saw outflows in February amounting to 84.7 tonnes (t), some 2% of their total holdings, as prices slipped on the back of rising bond yields. As a non interest-bearing asset, gold looks relatively less attractive when real rates (i.e., after inflation) are rising, as they have since early August when gold hit its all-time high within 48 hours of 10-year Treasury yields hitting their all-time low.

Gold prices should stabilise once real rates fall again



Source: SGPB, Macrobond, BLS, LMBA, 25/03/2021

Early signs of a pick-up in physical demand for gold continue to emerge. Official Indian imports hit a 21-month high of 91t in February, boosted by lower domestic prices and purchases ahead of the wedding season. In China, retail gold consumption boomed in February during the Lunar New Year holiday, which should lead to a rise in wholesale demand in March as retailers replenish stocks.

Looking ahead, the impending spike in inflation should bring real yields lower again, which should help put a floor under gold prices.

Hedge funds

Long/Short (L/S) Equity

Our Neutral allocation is split between an Overweight view on managers who keep some directional exposure to equities and an Underweight in Market Neutral funds which hedge out any sensitivity to swings in the market. The former should benefit from the favourable backdrop for stocks while the latter may struggle given rapid rotations between sectors and style factors.

Event Driven

We remain Overweight in Event Driven strategies with a clear preference for Special Situations funds, idiosyncratic managers who tend to focus on undervalued opportunities and who retain some exposure to market direction. Merger Arbitrage funds – which aim to profit from price discrepancies between M&A predators and their prey – offer a bit less performance potential for now.

Fixed Income Arbitrage

L/S Credit looks less appealing in an environment of rising Treasury yields which has increased the volatility – and therefore risk – in portfolios. Within the strategy, European managers could outperform US funds – inflationary pressures are less intense, upside in yields has been modest and volatility has been lower.

Global Macro / CTAs

Trend-followers (known as Commodity Trading Advisors, or CTAs) remain at Overweight, given their mix of exposures to solid trends in currencies, rates and commodities. We have kept Global Macro funds at Neutral for now – discretionary managers looking for tactical opportunities should outperform systematic funds but EM specialists face headwinds from rising rates and dollar strength.

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
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
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
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	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
18/09/19	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
29/11/19	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
30/03/20	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
26/06/20	Waste not, want not	Reducing, reusing and recycling waste products will ensure growing demand for waste management specialists	Strategic
26/06/20	Reinventing the factory	The wake-up call served by COVID-19 will force increasing numbers of industrialists to embrace the Industry 4.0 revolution	Strategic
29/09/20	Redefining the future of payments	COVID-19 will accelerate the shift from cash and traditional means of payment to the dominance of digital solutions in global payments systems.	Strategic
29/09/20	The Changing Consumer	With Millennials giving way to Generation Z consumers, profound changes are are sweeping consumption patterns.	Strategic
25/11/20	Emerging Asian debt in local currencies	Resilient growth across emerging Asia, strengthening currencies and attractive yield differentials should prove a winning combination for local currency debt markets.	Tactical
25/11/20	Insurance-Linked Securities – Marching to a Different Beat	ILS represent a source of uncorrelated returns. After three years of larger-than-average numbers of natural catastrophes, time to relaunch the ILS theme.	Strategic
25/11/20	New Energies, New Horizons	Completing the transition to net zero emissions will require massive public and private investment. And hydrogen is likely to play a leading role.	Strategic
26/03/21	Value Redux	Value stocks having begun to regain some of the lost ground in recent months - this rotation into Value could continue as economic growth continues to accelerate.	Strategic
26/03/21	Playing the commodity cycle	Given their strong correlation to raw material prices over recent decades, commodity currencies (AUD, CAD and NOK) have the potential for strong outperformance.	Tactical

Denotes a change from our previous Quarterly

Strategies closed

Launched	Conviction	Closing rationale	Type
29/11/19	The HealthTech Revolution – Investing for a healthier future	In an environment where investors may seek to rotate towards Value stocks in cyclical industries, HealthTech may struggle to keep pace	Strategic

Sources: Societe Generale Private Banking, Datastream. Data as at 26/03/2021 * Strategic: 1-3 years. Tactical: 3-12 months

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	-3.6	5.3	3.8	3.2	2.9	2.2	2.2	2.2	2.5
World (PPP weights)**	2.9	-3.5	5.3	4.1	3.6	3.6	3.2	2.9	2.8	3.0
Developed countries (PPP)	1.6	-5.0	4.4	3.2	2.4	1.4	0.7	1.5	1.5	1.7
Emerging countries (PPP)	3.8	-2.5	6.0	4.7	4.4	5.3	5.0	4.0	3.7	3.9
Developed countries										
US	2.2	-3.5	4.9	2.8	2.7	1.8	1.2	2.0	1.9	2.1
Eurozone	1.3	-6.8	4.1	3.6	2.1	1.2	0.3	1.7	1.1	1.1
Germany	0.6	-5.3	2.9	4.0	1.9	1.3	0.4	2.4	1.1	1.3
France	1.5	-8.2	5.9	3.2	2.0	1.3	0.5	1.5	1.0	1.1
Italy	0.3	-8.9	4.5	3.0	1.4	0.7	-0.2	1.2	0.9	0.7
Spain	2.0	-11.0	5.3	5.0	3.6	0.8	-0.3	1.3	0.9	0.9
UK	1.4	-9.9	5.2	5.7	2.0	1.8	0.9	1.5	1.9	2.0
Japan	0.3	-4.9	3.5	2.8	1.4	0.5	0.0	0.2	1.2	1.3
Switzerland	1.1	-3.0	2.6	2.8	1.9	0.4	-0.7	0.0	0.4	0.7
Australia	1.9	-2.4	4.2	3.3	3.1	1.6	0.9	1.8	1.6	2.0
Emerging countries										
China	6.0	2.3	8.5	5.0	5.0	2.9	2.5	0.7	1.6	2.2
South Korea	2.0	-0.9	2.9	2.7	2.3	0.4	0.5	1.2	1.3	1.4
Taiwan	3.0	3.1	4.3	2.6	3.0	0.8	-0.2	1.4	1.5	1.5
India* **	6.3	4.0	-7.9	9.5	6.3	3.4	4.8	5.8	4.3	4.2
Indonesia	5.0	-2.1	4.5	5.1	5.3	2.8	2.0	2.3	2.8	3.0
Brazil	1.4	-4.4	3.6	1.9	1.9	3.7	3.2	5.5	3.7	3.5
Mexico	0.0	-8.5	5.0	2.5	2.0	3.6	3.4	3.7	3.1	3.2
Chile	1.1	-5.9	8.3	3.7	2.8	2.3	3.0	3.7	2.9	3.1
Russia	1.3	-3.1	3.0	2.3	2.1	4.2	3.7	4.5	3.9	4.0
Slovakia	2.3	-5.2	4.5	4.4	3.6	2.8	2.0	1.6	2.0	2.3
Czech Republic	2.2	-6.0	2.5	3.9	2.6	2.8	3.2	1.8	1.9	2.1

Sources: SG Cross Asset Research / Economics, IMF, 25 March 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	3910	2.2%	6.0%	4.5%	60.7%	45.0%	59.9%	80.1%	111.8%
DJ Euro Stoxx 50	3833	4.1%	8.6%	8.3%	40.6%	23.5%	28.2%	26.8%	52.1%
FTSE100	6675	0.9%	3.7%	4.4%	21.0%	0.4%	8.7%	6.6%	33.2%
Topix	1956	1.5%	10.2%	8.4%	40.6%	30.2%	26.1%	38.8%	60.4%
MSCI AC World ($)	664	-0.3%	4.6%	3.1%	58.5%	38.1%	42.8%	63.2%	91.4%

Developed market bonds	Performance - total return (in local currency)								
	Yield to maturity	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
BAML Corp Euro IG	0.41%	0.4%	-0.3%	-0.5%	9.9%	5.6%	7.8%	10.0%	12.6%
BAML Corp Euro HY	2.98%	0.1%	1.5%	1.4%	25.6%	10.7%	12.5%	17.5%	28.1%
BAML Corp US IG	2.30%	-0.6%	-3.8%	-4.3%	13.8%	14.6%	20.8%	23.3%	28.4%
BAML Corp US HY	4.91%	-0.3%	1.1%	0.6%	30.7%	14.3%	20.6%	26.1%	46.5%
BAML Corp UK IG	1.85%	0.4%	-3.1%	-3.9%	13.2%	11.5%	16.7%	18.6%	31.5%
FTSE US Sovereign 3-7y		0.0%	-1.6%	-1.6%	0.0%	9.3%	14.4%	13.9%	13.6%
FTSE Germany Sovereign 3-7y		0.7%	-0.2%	-0.3%	0.5%	0.1%	1.8%	1.2%	1.2%
FTSE UK Sovereign 3-7y		0.3%	-1.2%	-1.4%	-0.3%	2.5%	5.7%	4.2%	6.6%
FTSE Japan Sovereign 3-7y		0.2%	-0.1%	-0.1%	-0.2%	-0.8%	-0.5%	-0.6%	-1.2%

Emerging market equities	Performance – total return (in USD)								
	Current level	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
MSCI EM	1288	-6.7%	3.2%	0.1%	57.9%	29.9%	19.4%	48.1%	81.5%
MSCI EM Asia	714	-8.1%	3.9%	0.3%	60.9%	41.1%	30.4%	65.0%	100.8%
MSCI EMEA	249	-1.2%	4.2%	3.7%	47.8%	6.3%	-6.4%	10.7%	33.6%
MSCI Latam	2251	0.2%	-6.3%	-7.4%	44.1%	-12.1%	-17.3%	-2.4%	26.3%

Emerging market bonds	Performance – total return (in USD)								
	Yield to maturity	1m	3m	YTD	12m	2Y	3Y	4Y	5Y
BAML EM Sovereign	4.41%	-1.9%	-4.6%	-5.0%	18.6%	7.8%	10.0%	15.6%	25.1%
Asia	3.43%	-0.8%	-3.0%	-3.2%	13.9%	12.0%	18.8%	22.8%	30.7%
EMEA	4.41%	-2.8%	-3.6%	-4.2%	22.3%	13.1%	14.5%	22.0%	29.5%
Latam	4.90%	-1.0%	-6.7%	-7.1%	16.2%	-0.9%	0.2%	4.6%	16.9%
BAML EM Corp	3.63%	-0.8%	-1.3%	-1.6%	18.1%	12.8%	18.3%	21.3%	27.1%
Asia	3.39%	-0.5%	-0.8%	-1.0%	12.9%	15.6%	18.6%	24.0%	32.7%
EMEA	3.21%	-1.3%	-1.3%	-1.5%	19.5%	13.8%	17.9%	25.2%	44.7%
Latam	4.55%	-0.8%	-2.3%	-2.8%	28.7%	12.0%	16.6%	20.7%	26.3%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 25/03/2021), 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 AND FORECASTS

Currencies	Current	Forecasts: 3 months	Forecasts: 12 months	Performance: YTD	12m	2Y	3Y	4Y	5Y
EUR/USD	1.18	1.19	1.24	-3.7%	8.1%	4.0%	-4.8%	8.9%	5.4%
USD/JPY	109	107	104	5.7%	-1.8%	-0.7%	4.2%	-1.9%	-3.4%
EUR/CHF	1.11	1.10	1.13	2.3%	4.0%	-1.5%	-5.5%	3.3%	1.3%
GBP/USD	1.37	1.38	1.36	0.4%	15.5%	4.0%	-2.8%	10.1%	-2.9%
EUR/GBP	0.86	0.86	0.91	-4.1%	-6.5%	0.0%	-2.0%	-1.1%	8.5%

10-year yields	Current	Forecasts: 3 months	Forecasts: 12 months	YTD (bps)	12m	2Y	3Y	4Y	5Y
USA	1.6%	1.7%	2.0%	70	76	-80	-121	-79	-28
GER	-0.4%	-0.3%	-0.2%	19	-9	-36	-91	-80	-56
UK	0.7%	0.8%	1.0%	53	29	-26	-72	-47	-73

Commodities	Current	Forecasts: 3 months	Forecasts: 12 months	YTD	12m	2Y	3Y	4Y	5Y
Gold in USD	1731	1750	1900	-8.8%	7.3%	31.0%	28.3%	38.6%	41.8%
Oil (Brent) in USD	61.8	65.0	70.0	19.0%	122.3%	-8.2%	-12.0%	21.9%	54.9%

Equities	Current	Forecasts: 3 months	Forecasts: 12 months	YTD	12m	2Y	3Y	4Y	5Y
S&P 500	3910	4050	4100	4.5%	60.7%	45.0%	59.9%	80.1%	111.8%
Euro Stoxx 50	3833	4000	4150	8.3%	40.6%	23.5%	28.2%	26.8%	52.1%
FTSE 100	6675	6925	7200	4.4%	21.0%	0.4%	8.7%	6.6%	33.2%
Topix	1956	2035	2110	8.4%	40.6%	30.2%	26.1%	38.8%	60.4%

Source: Societe Generale Private Banking, Bloomberg, Datastream (data as of 25/03/2021), 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

Forecast figures are not a reliable indicator of future performance.

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