Monthly Investment Brief

Should I stay or should I go?

ODDO BHF ASSET MANAGEMENT
ODDO BHF FRANKFURT TRUST

November 2017

For long term investors, stay tuned. For more active investors and for tactical reasons, take profit on equities (mainly US) and partially on credit. Limit your duration exposure.

Global equities have powered ahead in recent weeks, in line with our pro-growth investment stance. Our view remains that the global macro backdrop should continue to support investor economic confidence and drive the valuations higher over the next year.

Still, there is a risk for some near-term disappointments, given that the Chinese housing market and industrial economy are maybe downshifting more than investors acknowledge. Also, the US ISM manufacturing index has been boosted by US dollar weakness and is likely to pull back somewhat.

Moreover, global equities are overbought, at least from a shorter-term perspective. Earning season was strong in the US but slightly disappointing in Europe. To go further up we need some more catalysts. US fiscal policy may provide some more fuel in the US economy engine but final date and full outcome is still not on the table. US Senate Republicans recently unveiled a tax plan that differed from the House of Representatives' version on several key fronts.

It's fair to say that, if yields remain anchored, then equities will receive the full benefit of the strong growth outlook and stock prices would move up on the back of solid profits and a depressed cost of production.

But upward pressure may now gradually build on yields. The deleveraging needs of the global economy have shrunken materially in recent years. The corollary is that developed nations (mainly European ones) are no longer dampening aggregate global economic activity and the disinflationary pulse is easing. Something being dismissed by many investors and leaving room for surprises. M Powell is going to stick to the previous line and hike at least 3 times next year. Asian central banks have changed their bias towards more hiking (Korea, Malaysia, Thailand and somehow China).

This year's wave of US disinflation has been primarily driven by a couple of idiosyncratic non-business cycle factors, the most significant being a telecom pricing war. Without these, the 2017 drop in consumer price inflation and wage growth would not be apparent. Importantly, the forces leading to lower prices in these sectors were not the result of weaker domestic demand. If anything, they are a source of reflation and support the case for further rate hikes.

For long term investors, stay tuned. For more active investors and for tactical reasons, take profit on equities (mainly US) and partially on credit. Limit your duration exposure. There is not enough to gain and too much too lose. Betting on a non-resurgence of inflation seems today very audacious.

Our 6-month view

Central scenario: robust global growth (US, Europe, Emerging markets)

85%

Europe

- Growth acceleration fueled by improving credit conditions and decrease in unemployment
- Monetary policy normalization to be gradually set-in even if i/ it is still very accommodative, and ii/ financial market trends will be more dependent on the development of the real economy than on the support by the central banks

US

- Economy running at cruise speed
- Some positives to expect from Trump's tax reform plan
- Monetary policy normalization has been and should continue to be gradual but questioning about timing and pace

Assets to overweight

- Equities
- Europe credit (HY over IG)

Assets to underweight

- Sovereigns

Strategy

- Flexibility
- Hedging (options, gold,…)

Alternative scenario: inflation rebounds more than expected with some growth

10%

- Wage and/or oil price acceleration
- Reduction of growth potentials once again
- Rapid increase of sovereign yields

Assets to overweight

- Inflation-hedged bonds
- Alternative strategies
- Cash

Assets to underweight

- Equities
- Core Sovereigns
- High Yield credit

Alternative scenario: growth slowdown and risk on global trade due to protectionism

5%

- US: consumption & gross Fixed Capital Formation slow down again
- China: risks of economic rebalancing
- Japan: "Abenomics" fall flat
- Europe: a Japanese-like growth

Assets to overweight

- Money Market CHF & JPY
- Volatility
- Core government bonds

Assets to underweight

- Equities
- High Yield credit

Our current convictions for each asset class – Central scenario

Asset class	Segment	Change from the previous month ↗	Level of conviction				
Equities	Large cap Eurozone	→				1	
Equities	Mid cap Eurozone	→				1	
Equities	Small cap Eurozone	→				1	
Equities	UK	→		-1			
Equities	USA	→			0		
Equities	Emerging markets	↘		-1			
Equities	Japan	→				1	
Convertible bonds	Europe	→			0		
Convertible bonds	USA	→			0		
Government bonds	Core Europe	→		-1			
Government bonds	Peripheral Europe	→			0		
Government bonds	USA	→		-1			

Source: ODDO BHF AM SAS. Data as of 10/31/2017

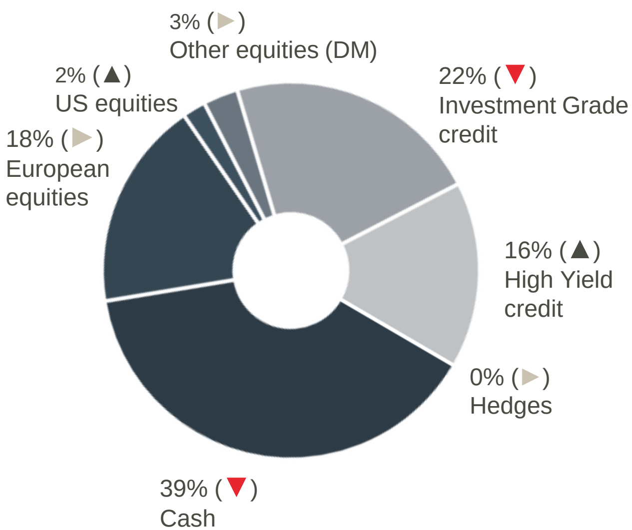
Our current convictions for each asset class – Central scenario

Asset class		Change from the previous month ↗	Level of conviction
Corporate bonds	Investment grade Europe	→	0
	Credit short duration	→	2
	High Yield* Europe	→	1
	High Yield* USA	→	0
	Emerging markets	↘	-1
Money market	Developed markets	→	-1
Currencies	USD / €	→	0
	YEN / €	→	0
	GBP / €	→	-1
Commodities	Gold	→	1
	Crude oil	→	0

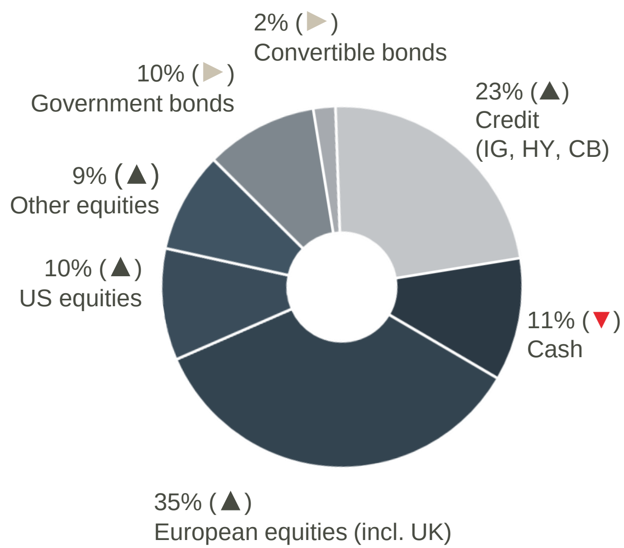
Source: ODDO BHF AM SAS data as of 10/31/2017

Our model portfolios

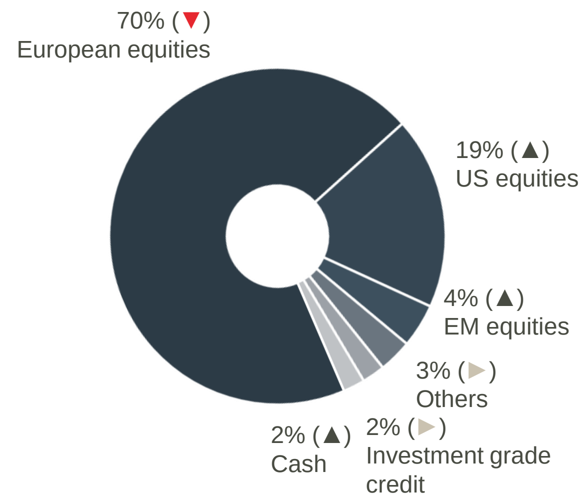
Moderate



Balanced - Dynamic



Dynamic



▶ Change from the previous month

Source: ODDO BHF AM SAS | Data as of 10/31/2017

Portfolio positioning

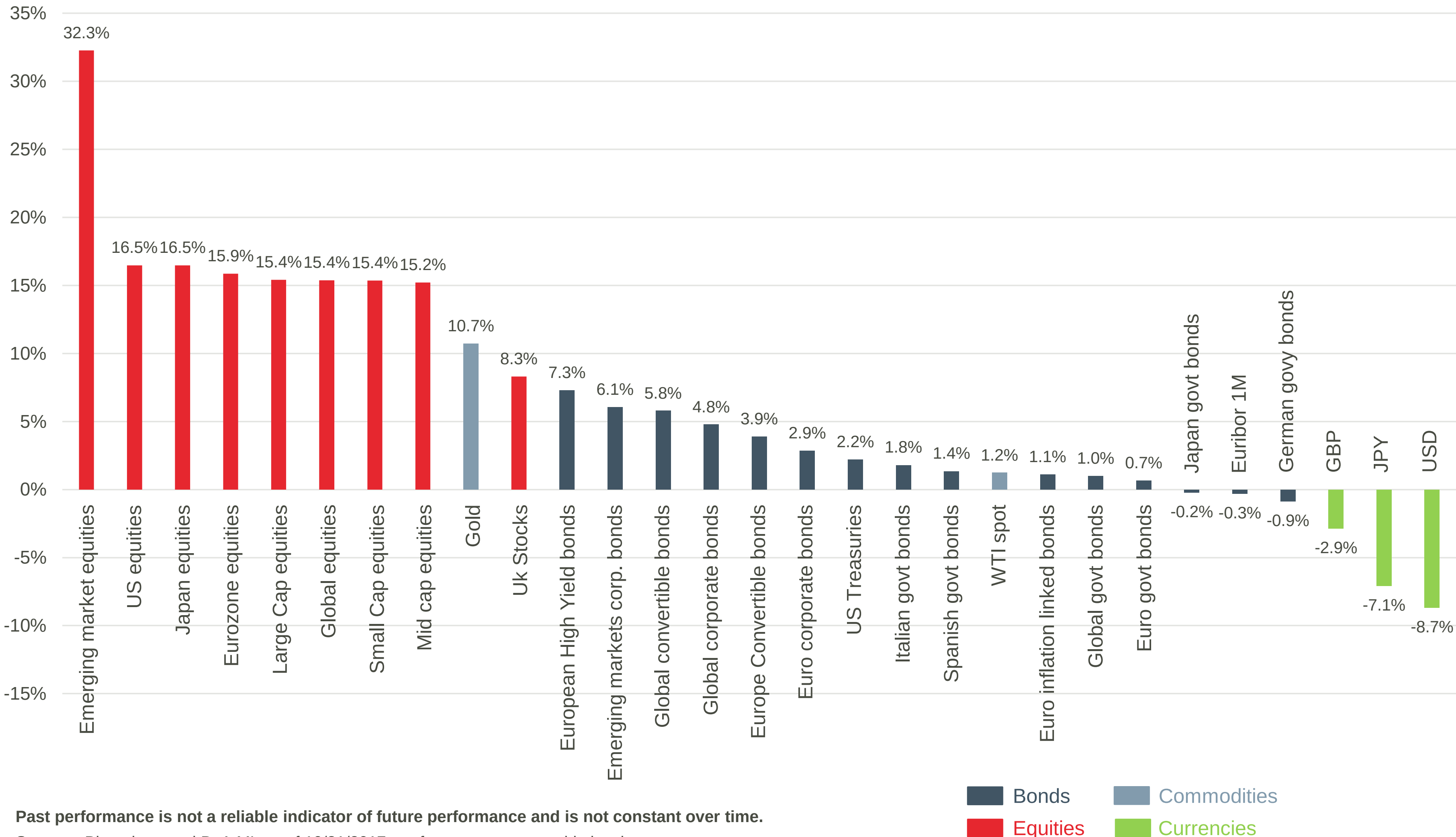
In October, the rally in equity markets made further gains : the MSCI World All Countries (in $) ended the month 2.1% higher. All the regions witnessed positive growths. Japan topped the ranking (+5.6% in Yen), followed by the emerging markets (+3.5%). The Eurozone and the USA posted similar performances, e.g. a bit more than 2% (in local currencies).
Concerning rates, we had a more mixed bag. In Europe, 10-year Sovereign yields softened by 10 bps over the month, whereas they tightened in the US by almost 5bps. In Europe, the move in sovereign yields supported the credit asset class, which registered a gain of about 1%, both for Investment Grade and High Yield.

October also marked the beginning of the result season. In the US, where close to 75% of companies have published their results, sales and profit growths once again did not disappoint with respectively 5.8% and 8.5%. Same for the Eurozone, where sales and profit growth increased by 2% and 5%.

In our balanced portfolio, we added at the beginning of the month 3% to our Japanese equity positions - with a hedged currency risk – as we believed the prices did not take enough into account the positive news flow, from a macroeconomic as well as microeconomic point of views. Valuations levels looked much more affordable in Japan than in other regions. And they still do.
Regarding equities, we also arbitrated between our raw material sensitive positions and European banks, that have been reinforced. The idea is to benefit from any steepening movement of the yield curve, a trend that should start one day or the other.

Year-to-date performance of asset classes

Home run for emerging market equities

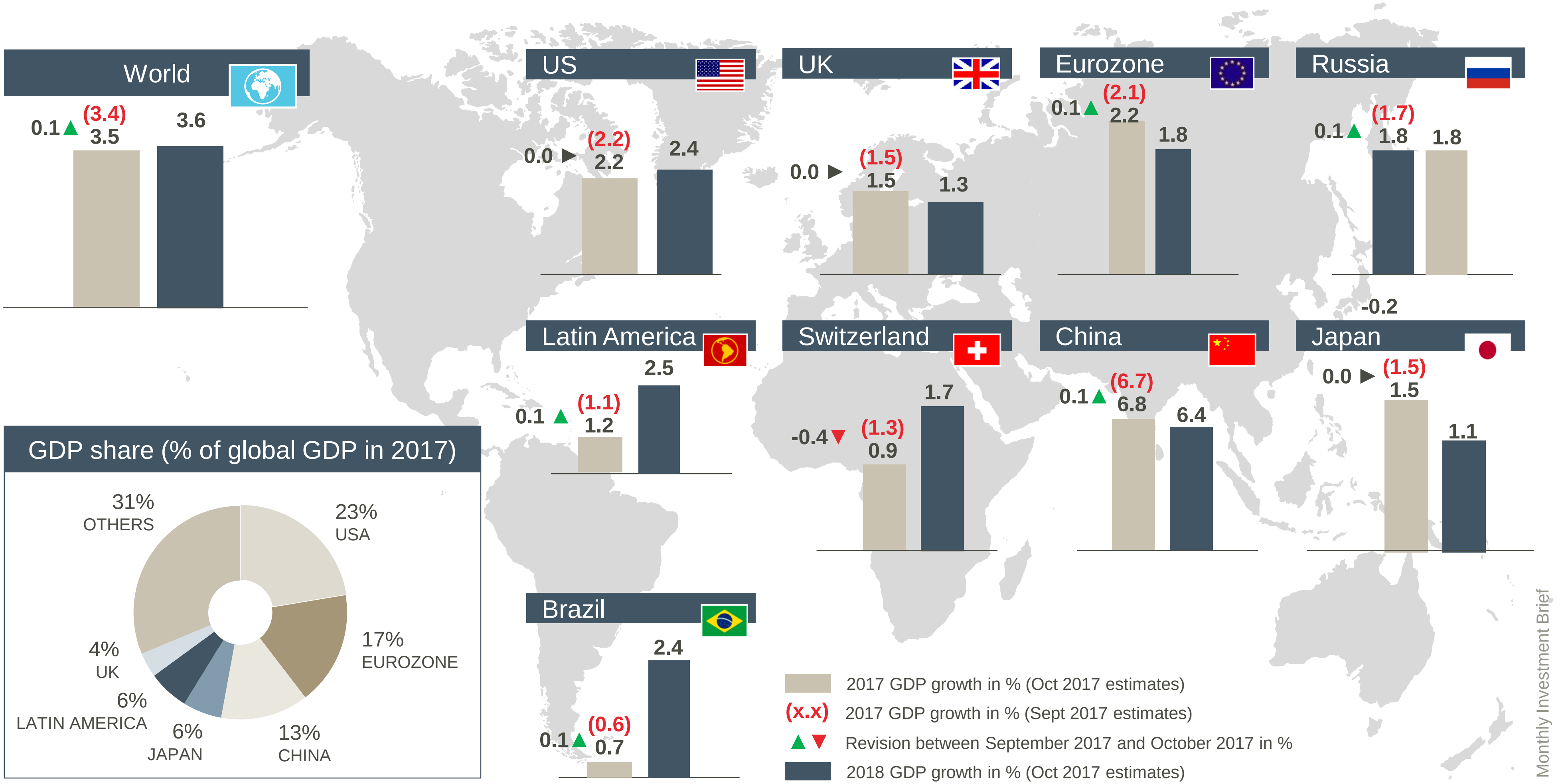


Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: Bloomberg and BoA ML as of 10/31/2017; performance expressed in local currency

Global GDP* growth forecast

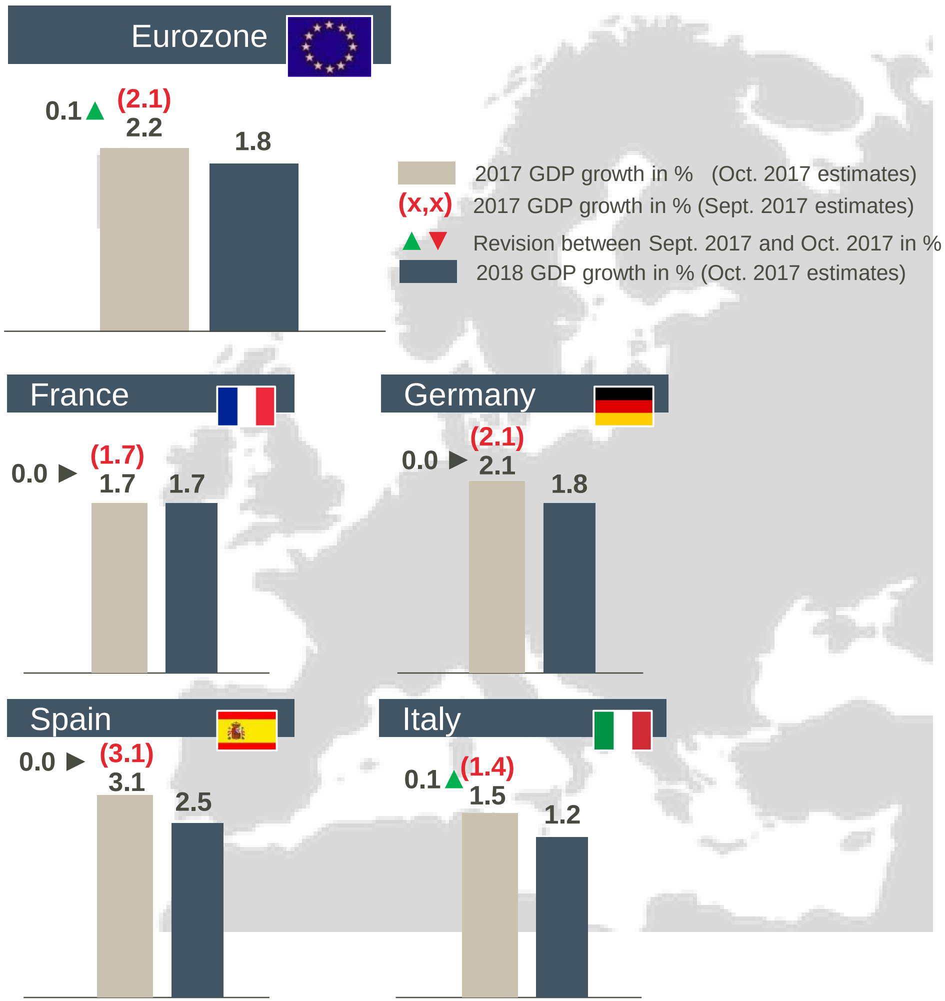
Growth continues to surprise on the upside, but inflation lags



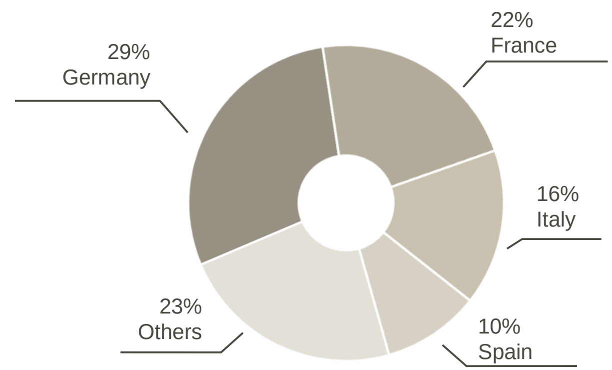
*GDP: Gross Domestic Product | Sources: ODDO BHF AM SAS, Bloomberg economist consensus forecast | Data as of 10/31/2017

Eurozone

Synchronized and robust growth (bis repetitae)



GDP share (% of total Eurozone GDP in 2017)



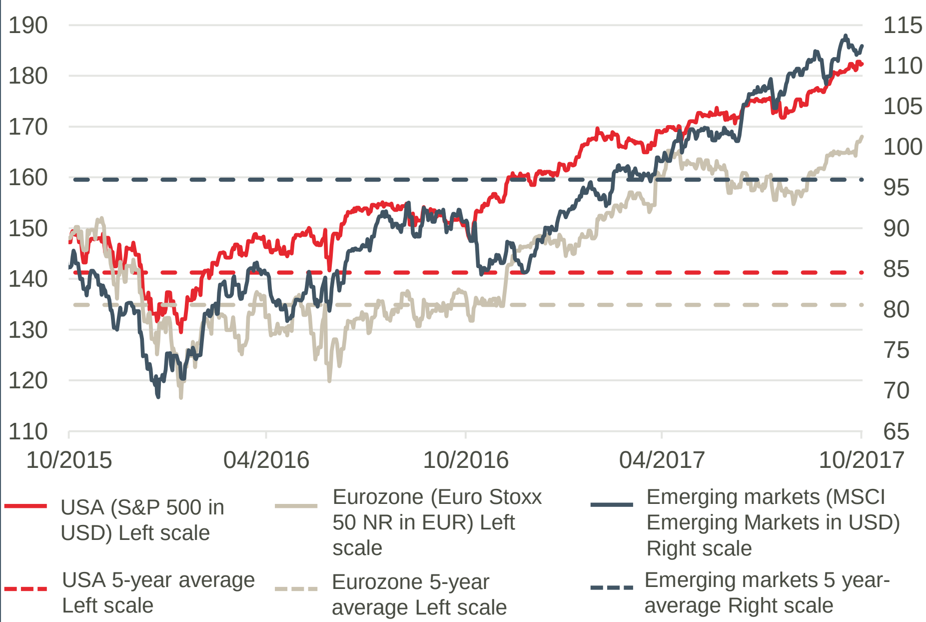
- Synchronized and robust growth remains the main characteristic of the current cycle. Now that the electoral cycle is over – except in Italy - it may become the right period to engage in structural reforms. The ECB insisted (again) they are lagging.
- The Catalonian crisis did not disrupt the economy or provoke any significant volatility spike so far, neither on interest rates nor on the equity markets.
- Growth accelerated in Italy, at a rhythm that should now help the non performing loans level to decrease.
- In Germany, Mrs. Merkel earned a 4th term as Prime Minister, but with a narrower margin than expected. To form a government, she will have to compromise with the Greens and the liberals (FDP)

Sources: ODDO BHF AM S.A; Bloomberg Economist Forecast. Data as of 10/31/2017

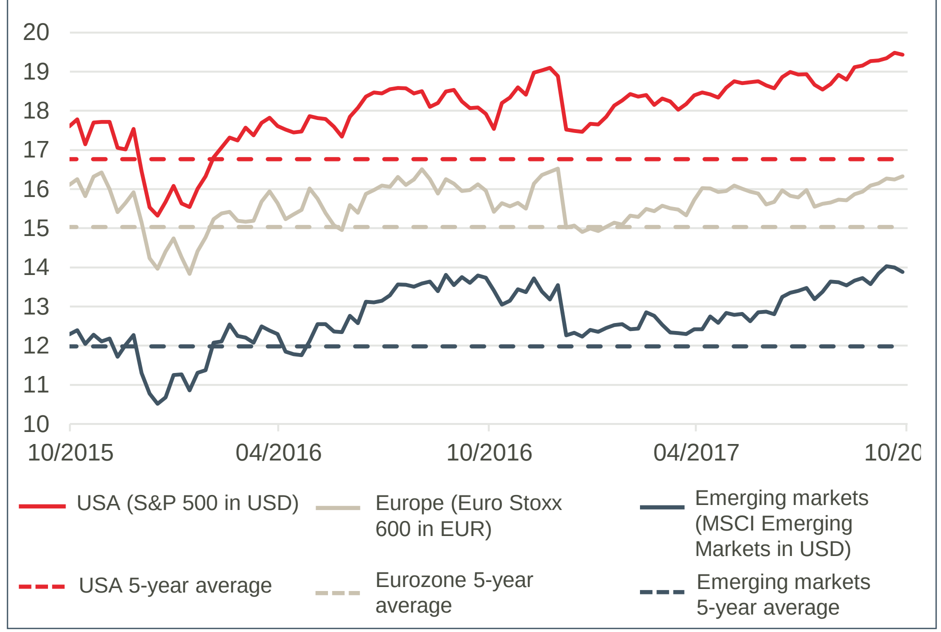
Equities – overview

No crash in October…2017

Two-year equity market performance (base: 100 as of 10/31/2012)



Two-year price/earning ratio



- The main equity markets' valuations increased once again in October, despite regular downward expectations from analysts
- With the exception of Japan, the top performers were emerging markets (+3.5% in dollars)
- The US and the Eurozone performed rather similarly last month (about +2% in local currency) with aggressive rotations into growth stocks

- Naturally, valuations rose further, especially in developed markets, as earnings revision momentum was rather negative last month.
- As usual, the US market continues to trade at a significant premium to Europe. This also reflects the weight of tech stocks in the US.

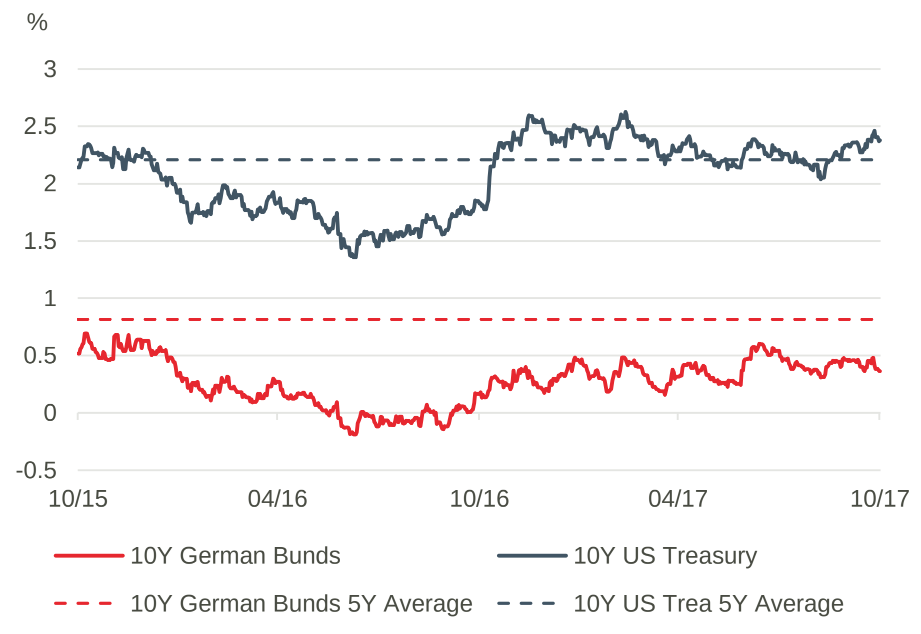
Past performance is not a reliable indicator of future performance and is not constant over time.

*Please refer to glossary on page 37 | Source: Bloomberg, ODDO BHF AM SAS | Data as of 31 October 2017

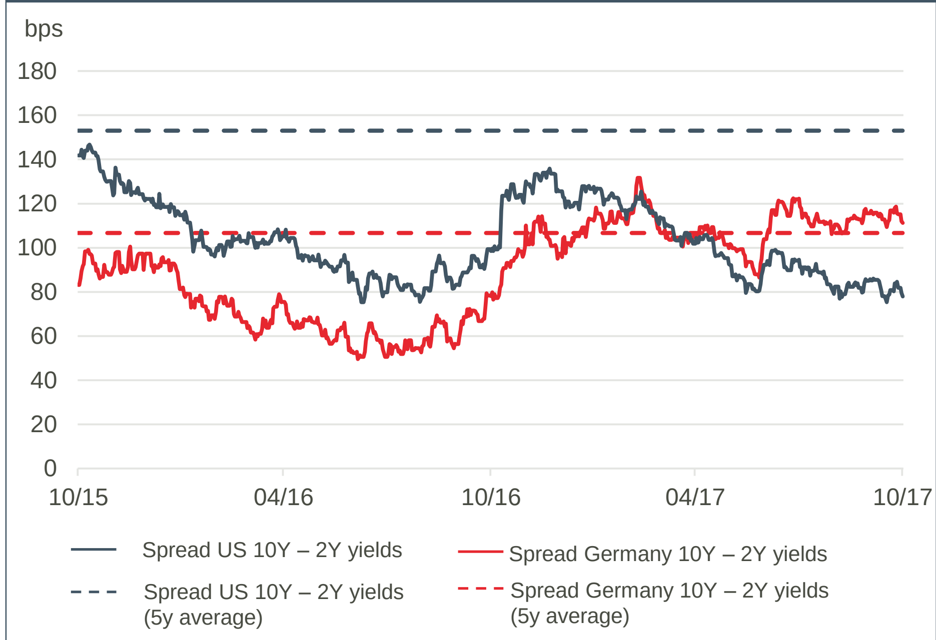
Fixed income – Rates

The reflation theme has legs

German & US 10 - year bond yields (over 2 years)



German & US 2yr - 10yr yield curve (over 2 years)



- Ranges are still holding given the extremely defensive unwinding of stimulus and undershooting inflation prints
- However, US-Treasuries and German Bunds are vulnerable to any positive inflation surprises
- In particular US CPI has the potential to spark a recalibration of the FED normalization path

- Flattening of the US curve has been pronounced given inflation undershoots while policy is being tightened. Expect further bear flattening from here
- Bund curve steepening to continue after the recent pause as monetary policy normalization is upcoming, albeit in a very gradual mode

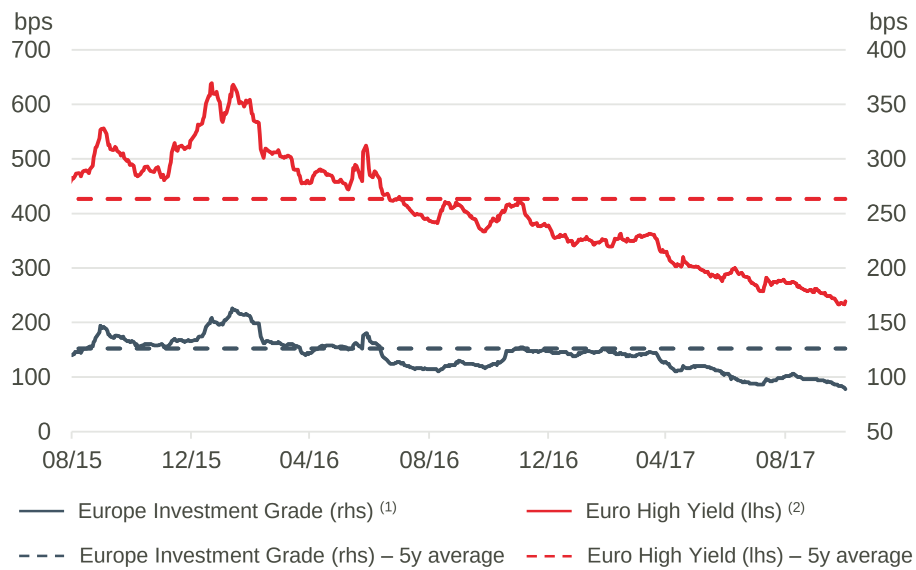
Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: ODDO BHF AM SAS | Data as of 10/31/2017

Fixed income – Credit Spreads

Spread compression to continue despite already low levels

Credit spreads* IG & HY (over 2 year)

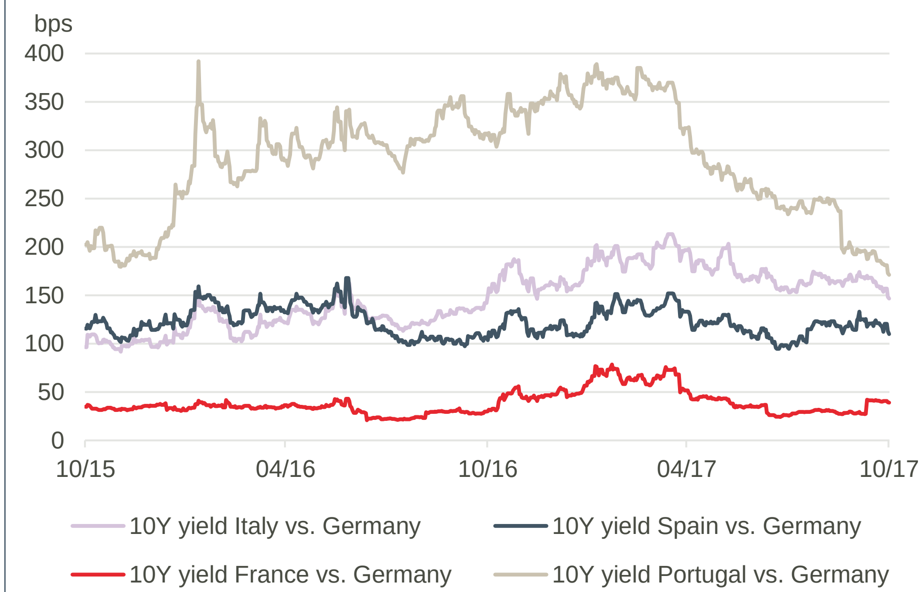


(1) BofA Merrill Lynch Euro Corporate Index (ER00)

(2) BofA Merrill Lynch European Currency High Yield Index (HP00)

- Credit spreads continue to tighten in a bullish market environment
- Spread compression is likely to persist given the dovish stance of the ECB and strong inflows into the asset class

Main Eurozone country spreads (over 2 years)



- Spread compression has gained momentum after the last ECB meeting and broken through important technical hurdles
- Especially, Italy should grind in further relative to Spain and Portugal relative to the peripheral basket

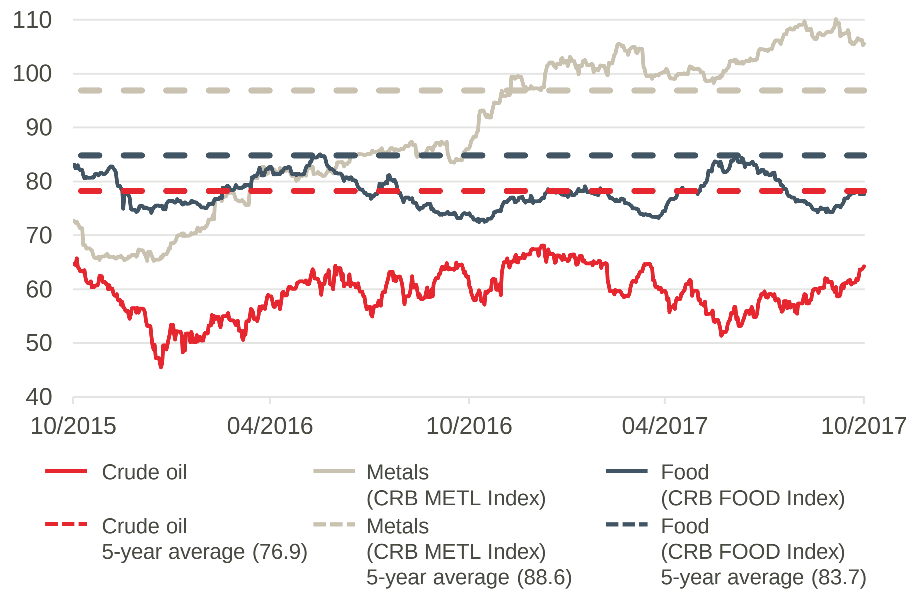
Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: ODDO BHF AM SAS | Data as of 10/31/2017

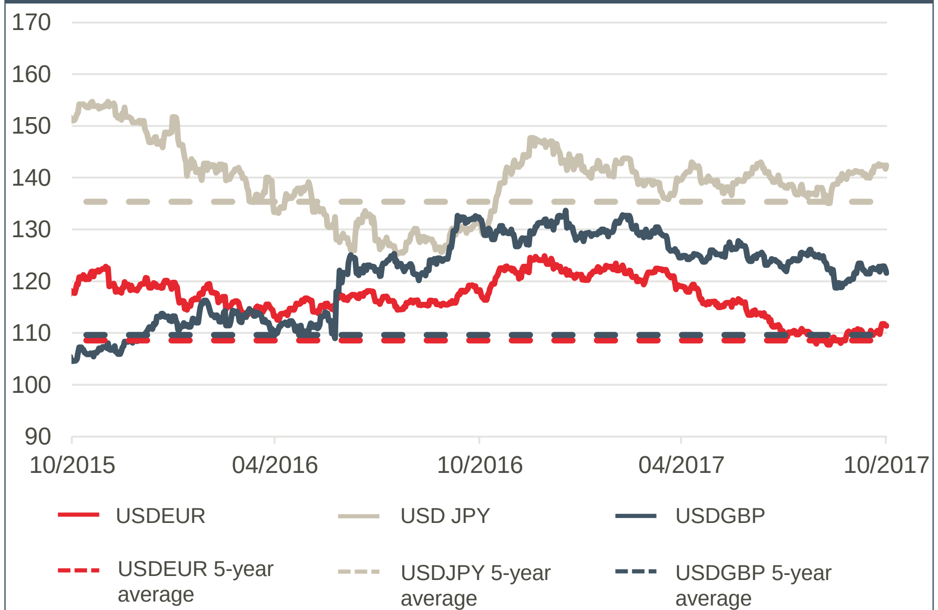
Currencies & commodities

Some volatility

Commodities- evolution over 2 years (base 100 as of 10/31/2012)



Currencies - evolution over 2 years (base 100 as of 10/31/2012)



- The rally in oil prices continued as the OPEC (+ Russia) declared being ready to extend their deal to regulate output. Furthermore, inventories continued to decline.
- Iron ore stabilized in October after loosing some ground in September, whereas most of the other industrial metals (copper, nickel, lithium …) benefit from the expected development of demand for electric cars.

- The USD appreciated in October, in the backdrop of the leading situation of the Fed in the monetary policy tightening cycle.
- The very dovish stance of the ECB added negative pressure on the Euro. Furthermore, the German and Austrian election results as well as the Catalonian crisis did not help the single currency.
- The yen depreciated. Abe's wining bet in calling for anticipated elections gave a new impulse to the dynamic
- The stability of the CNY, e.g. a pause in its appreciation trend, also helped the USD to appreciate.

Past performance is not a reliable indicator of future performance and is not constant over time.

Sources: Bloomberg, ODDO BHF AM SAS | Data as of 10/31/2017

Soon…

Subject to Bafin's approval and worker council's negotiations

ODDO BHF ASSET MANAGEMENT + ODDO BHF FRANKFURT TRUST

One unique brand

ODDO BHF ASSET MANAGEMENT

€61bn
assets under management

3 investment centres
Düsseldorf, Frankfurt and Paris

8 locations
Düsseldorf, Frankfurt, Geneva, Luxembourg, Madrid, Milan, Paris and Stockholm

Source: ODDO BHF AM SAS. Data as of 10/31/2017

Glossary

Performance calculation	Cumulative fund performance is calculated based on dividends reinvested. Annualised performance is determined on an annual, 365-day actuarial basis. A fund's performance relative to its benchmark index is expressed as arithmetic difference. Static indicators are generally calculated on a weekly tick that is taken on Fridays, or failing that, on the day prior to valuation.
Volatility	Volatility is a risk indicator measuring the level of fluctuations observed in a portfolio (or index) over a defined period. It is calculated as annualised standard deviation of absolute returns within a defined period of time.
Credit spread	The credit spread is the risk premium or the difference between the yields of corporate bonds and that of sovereign bonds with the same characteristics.
Investment grade	Investment-grade bonds are bonds issued by issuers rated between AAA to BBB- by Standard & Poor's.
High yield	High-yield bonds are speculative bonds rated lower than BBB- (Standard & Poor's) or the equivalent.
PE (price-earnings ratio)	A stock's price-earnings ratio is equal to the stock's price divided by the issuing company's earnings per share. It is also called the "earnings multiple". It depends mainly on three factors: the company's forecast earnings growth, the risk associated with these forecasts, and the level of interest rates.

Contributors to the monthly investment brief

Nicolas Chaput
Global CEO & Co-CIO
ODDO BHF AM

Karl Stäcker
Managing Director
ODDO BHF FT

Emmanuel Chapuis
Co-head of fundamental equities
ODDO BHF AM

Yann Lepape
Asset allocation portfolio manager & analyst
ODDO BHF AM

Laurent Denize
Global Co-CIO
ODDO BHF AM

Agathe Schittly
Global head of Products & Marketing
ODDO BHF AM

Bjoern Bender
Head of equity & asset allocation products
ODDO BHF AM

Frank Dippold
Product manager, asset allocation
ODDO BHF AM

Gunther Westen
Global deputy head of Asset Allocation
ODDO BHF AM

Laure de Nadaillac
Marketing & Strategy
ODDO BHF AM

Maxime Dupuis
Convertible bond portfolio manager & analyst
ODDO BHF AM

Philippe Vantrimpont
Head of fixed income products
ODDO BHF AM

ODDO BHF AM and FRANKFURT-TRUST Investment-Gesellschaft mbH are the asset management divisions of the ODDO BHF Group. ODDO BHF AM is the common brand of two legally separate asset management companies: ODDO BHF AM SAS (France) and ODDO BHF AM GmbH (Germany).
This document has been drawn up by ODDO BHF ASSET MANAGEMENT for market communication. Its communication to any investor is the responsibility of each promoter, distributor or advisor.
Potential investors are invited to consult an investment advisor before subscribing to the fund regulated by the Autorité des Marchés Financiers (AMF). The investor is informed that the funds present a risk of capital loss, but also many risks linked to the financial instruments/strategies in the portfolio. In case of subscription, investors must consult the Key Investor Information Document (KIID) and the fund's prospectus in order to acquaint themselves with the detailed nature of any risks incurred. The value of the investment may vary both upwards and downwards and may not be returned in full. The investment must be made in accordance with investors' investment objectives, their investment horizon and their capacity to deal with the risk arising from the transaction. ODDO BHF ASSET MANAGEMENT SAS cannot be held responsible for any direct or indirect damages resulting from the use of this document or the information contained in it. This information is provided for indicative purposes and may be modified at any moment without prior notice.
Investors are reminded that past performance is not a reliable indication of future returns and is not constant over time. Performance are presented net of fees except the potential subscription fee charged by the distributor and the local taxes. Any opinions presented in this document result from our market forecasts on the publication date. They are subject to change according to market conditions and ODDO BHF ASSET MANAGEMENT SAS shall not in any case be held contractually liable for them. The net asset values presented in this document are provided for indicative purposes only. Only the net asset value marked on the transaction statement and the securities account statement is authoritative. Subscriptions and redemptions of mutual funds are processed at an unknown asset value.
The Key Investor Information Document and the prospectus are available free of charge from ODDO BHF ASSET MANAGEMENT SAS or FRANKFURT-TRUST Investment-Gesellschaft mbH or at am.oddo-bhf.com / www.frankfurt-trust.de or at authorized distributors. The annual and interim reports are available free of charge from ODDO BHF ASSET MANAGEMENT SAS or on its internet site am.oddo-bhf.com or by simple request to FRANKFURT-TRUST Investment-Gesellschaft mbH.

ODDO BHF Asset Management SAS (France)

Portfolio management company approved by the Autorité des Marchés Financiers under GP 99011.
Société par actions simplifiée with capital of €7,500,000. Trade Register (RCS) 340 902 857 Paris.
12 boulevard de la Madeleine - 75440 Paris Cedex 09 France - Phone : 33 (0)1 44 51 85 00

am.oddo-bhf.com

Notes

Notes