

INVESTMENT STRATEGY– What's next?

Completed on September 14, 2018

Are US equities the only game in town? Paradoxically, various asset classes have disappointed despite global growth of almost 4%, driven by the US economy. These poor performances are due to heightened risks, which have undermined the outlook.

What are the risks?

1. The trade war: The USD 110 billion in tariffs currently being implemented are almost insignificant on a global economic scale. The real threat to global growth is from the danger to free trade agreements. China, for example, is having to stop its deleveraging efforts in order to jump-start its economy through credit, a measure that is at odds with its objectives. Even so, the impact is already showing up in the weakest emerging markets, which are being subject, all at once, to the Chinese economic slowdown, a stronger dollar, and higher oil prices (for importing countries). Moreover, considering the specific problems in Argentina, Venezuela and Turkey, we find it difficult to be bullish on these markets until the first signs of stabilisation show up.

2. The rise of pro-sovereignty movements: It is fair to wonder about the economic rationality of some political decisions that are being dictated by populist electoral considerations. Such decisions are having a heavy fiscal impact, which makes forecasts even more uncertain.

3. Normalisation of monetary policies: Tighter monetary policies are likely to trigger an outflow of liquidity on a market that over the past decade has ridden a wave of asset purchases and low interest rates. The weaning period is likely to be painful and could lead to readjustments in allocations, particularly towards real assets.

What can we look forward to the rest of the year?

All is not lost. Far from it. Companies are having no problem weathering this challenging phase and are raising their earnings growth significantly (between 10 and 25% depending on the geographical region). So it is worth staying invested in US and European equities, especially as those markets are still affordable, as seen in the contraction in their valuation multiples over the past year (in the US earnings are projected to grow by 25% in 2018, while share prices have risen by only 10%). In Europe, we are at last seeing some upward movement in analysts' 2019 forecasts. This is a first, encouraging sign!

In bonds, we are returning to convertible bonds and high-yield bonds after the recent decline in volatility and the widening in spreads of the riskiest bonds. As for government bonds, we reiterate our negative view in light of the unfavourable risk/return pairing.

Even so, we are not overlooking increased risks and are long solid currencies such as the dollar, yen and Swiss franc.

Italy is still on a tightrope and the two coalition leaders' rhetoric could make it challenging to submit a budget by 15 October. At a 250bp spread vs. the 10-year German yield, there is more room for widening than narrowing. Time to reduce exposure to Italian bonds!

Another risk would lie in a spike in oil prices due to a break in the supply chain and a run-up in political risk in the Middle East. The Norwegian krone is a safe bet, as it is undervalued and recently became decorrelated from rising oil prices, as the central bank plans to raise its rates and as inflation is accelerating.

Lastly, private equity continues to offer a solid outlook for returns without being subject to short-term volatility in valuations.

INVESTMENT STRATEGY

Completed on September 14, 2018

Disclaimer

ODDO BHF AM is the asset management division of the ODDO BHF Group. It is the common brand of three legally separate asset management companies: ODDO BHF AM SAS (France), ODDO BHF PRIVATE EQUITY (France) and ODDO BHF AM GmbH (Germany).

This document has been drawn up by ODDO BHF ASSET MANAGEMENT SAS, 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 fund presents 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.

From January 3, 2018, when ODDO BHF ASSET MANAGEMENT provides investment advisory services, please note that it's always on a non-independent basis pursuant to the European Directive 2014/65/EU (so-called "MIFID II Directive"). Please also note that all recommendations made by ODDO BHF ASSET MANAGEMENT are always provided for diversification purposes.

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