HOUSE VIEWS

FEBRUARY 2022

FAVOURABLE PERSPECTIVES BEHIND TURBULENT MARKETS

In developed economies, financial market volatility has spiked, and equities drifted down since the turn of the year. Investors' main concern right now is how monetary authorities will react to longer than expected high inflation prints, with fears they may ultimately be forced to act in ways that hamper recovery. Another worry is that rising tensions around Ukraine could put sustained pressure on energy prices. Such pressures, feeding into an already pumped inflationary environment, could force a sharper tightening of monetary policy with a yet harsher impact on economic activity.

Fundamentals still healthy. Despite these risk, we expect the recovery to continue in developed economies. Growth should remain generally strong. Corporates and households healthy balance sheets remains a supportive factor. Financial conditions will be another ongoing plus, with real interest rates still negative. Inflation is likely to tail off over the year, although it could stay above central bank targets for some months yet. Central banks will continue to normalise their monetary policy. The Federal Reserve, for instance, looks set to start winding down its balance sheet and raising policy rates. In contrast, the ECB is likely to stick to its highly accommodative policy as underlying inflation is projected to be more contained in the euro zone.

We remain Overweight on equity markets. Uncertainties may keep volatility bubbling, but it is still a supportive environment for risky assets. We retain our Overweight on the US market and Euro area, both of which still have good earnings prospects. We also remain Overweight on emerging Asia equities. China is still prey to short-term risks, but the medium-term outlook for its economy remains strong. Other emerging markets look less attractive and risk a scenario of sustained modest growth, high inflation, and political dangers.

Unless otherwise specified, all statistics and figures in this report were taken from Bloomberg and Macrobond on 01/27/2022.

SOCIETE GENERALE
Private Banking

OUR STRONGEST CONVICTIONS

A continued recovery in developed economies despite policy normalization

Economic growth should remain sustained in the coming quarters, due to the good financial health of companies and households. The necessary normalization of fiscal and monetary policies should generate uncertainty and heterogeneity between countries.

Expected downward inflation in the United States and transitory inflation in the Euro area

The Federal Reserve will remain vigilant to the risks of persistent high inflation by normalizing its policy in the coming months. In the Euro area, inflation is expected to remain transitory, allowing the ECB to maintain an accommodating monetary policy.

Asia stands out from the rest of the emerging economies

Many emerging economies are experience sluggish growth, sustained inflation, and high political risks. Asia stands out with contained inflation levels and favourable medium-term growth prospects.

An allocation favouring equities

We have opted for an overall Overweight allocation to the equity markets, particularly to the United States and the Euro area for developed markets, and to Asia for emerging markets.

A balanced allocation between Value and Growth stocks

We maintain a balanced allocation in terms of styles between Growth stocks and discounted cyclical stocks (Value). Diversification seems to us the best option in the current volatile environment.

Overweight gold and the dollar versus the euro

We continue to overweight gold and the dollar to benefit from their safe haven status. The dollar could also continue to appreciate against the euro as a result of faster action by the Federal Reserve relative to the ECB.

OUR ASSET ALLOCATION

The table below presents the conclusions of our lastest Global Investment Committee (GIC)

			Summary house views				
			UW	Slight UW	N	Slight OW	OW
EQUITY		GLOBAL EQUITY				■	
EQUITY		United States				■	
EQUITY		Euro area				■	
EQUITY		United Kingdom			■		
EQUITY		Japan			■		
EQUITY		Emerging				■	
FIXED INCOME	SOVEREIGN	GLOBAL RATES		■			
FIXED INCOME	SOVEREIGN	U.S. Treasuries	■				
FIXED INCOME	SOVEREIGN	Bunds	■				
FIXED INCOME	SOVEREIGN	Gilts	■				
FIXED INCOME	SOVEREIGN	EM Govies ($)			■		
FIXED INCOME	CORPORATE	U.S. IG		■			
FIXED INCOME	CORPORATE	U.S. HY		■			
FIXED INCOME	CORPORATE	EMU IG		■			
FIXED INCOME	CORPORATE	EMU HY			■		
FIXED INCOME	CORPORATE	UK IG		■			
FIXED INCOME	CORPORATE	UK HY		■			
FOREX		EURUSD		■			
FOREX		USDJPY			■		
FOREX		GBPUSD			■		
FOREX		EURCHF			■		
FOREX		EM FX (vs. USD)			■		
ALT.		Brent			■		
ALT.		Gold				■	
ALT.		Hedge funds			■		

ECONOMIC OUTLOOK

Recovery set to continue despite shift in fiscal and monetary policy

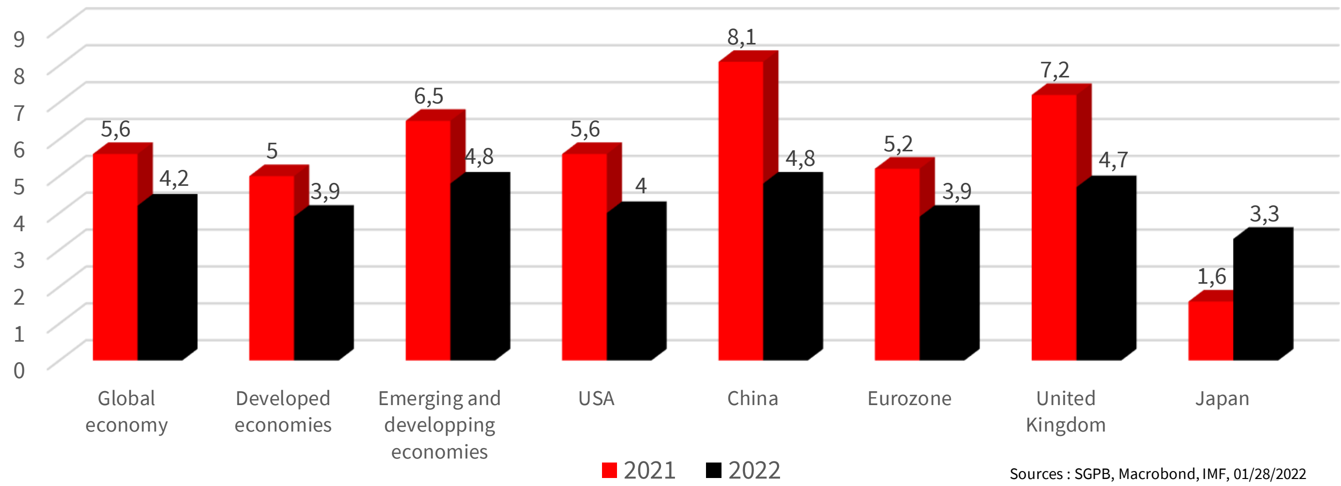
Economic policies propped up activity through the pandemic but are now normalizing. Fundamentals in advanced economies look sound enough to sustain recovery – albeit at a slower pace than in 2021. Inflation will ease back over the year but could top central bank targets for some months yet. The Fed will start to tighten monetary policy, while the ECB will stay in accommodative mode. Emerging economies outside Asia face the threat of embedded meagre growth and high inflation, coupled with political risks.

Fundamentals are sound enough in developed economies. After weighing in with strong support for their economies at the peak of the COVID crisis, governments are now looking to shift policy gradually back toward normal in a still shaky health situation. Corporates and household balance sheets look strong enough to sustain the recovery and built-up savings should keep consumption ticking over. Normalising labour markets and still favourable monetary and financial conditions, despite recent shifts, are other ongoing supportive factors.

Inflationary risks need close watching, particularly in the United States. Strong demand and constraints on supply are generating severe pressures on production chains and pushing up input prices. Probably, these pressures should gradually ease over the course of the year, allowing inflation to fall back to levels closer of central bank target, who will be able to take a gradual approach to normalising policy. But there is a real risk these tensions may drag on, particularly in the United States. If so, it could mean monetary policy being tightened faster than currently expected. In the Euro area, price pressures are mainly due to external factors and the threat is more of weaker economic activity than lastingly higher inflation. The ECB will thus leave monetary policy accommodative.

Emerging economies at risk of stagflation. Many emerging economies are confronting stagflation, a situation where inflation rises while growth stagnates. Their central banks are also tending to tighten policy more than expected. One exception is China, where inflation remains under control and monetary policy is being eased to perk up a manifestly sluggish economy.

IMF growth projection (January 2022)



Sources : SGPB, Macrobond, IMF, 01/28/2022

FIXED INCOME

Unpromising environment for bonds

The Federal Reserve is expected to begin its interest rate tightening cycle and should also begin to reduce its balance sheet in a context of inflation that remains very high. In contrast to other central banks, the ECB should maintain favorable monetary conditions in 2022 in an environment of low domestic inflationary pressures. Overall, this environment remains unpromising for bonds.

Fixed income

United States. 10-year sovereign yields have been heading up since December, gaining nearly 40 bp to 1.8%. The rise comes amid Fed plans to normalise policy with the beginning of the rate hike cycle and the reduction of its balance sheet. The reassessment of monetary policy has been stronger felt at the short end of the yield curve, with 2-year rates touching 1% and now discounting market expectations of at least 4 rate hikes in the coming year. This sharper rally at the short end has driven a flattening of the curve. We think the 10-year yield will continue its gradual escalation against a backdrop of still strong economic growth, inflation stuck above 2% throughout 2022 and monetary policy tightening. We therefore remain heavily Underweight on US sovereign bonds.

Euro area. European yields have mimicked US yields since December. 10-year yields on the German bund rose by up nearly 30 bp to -0.07% amid high inflation and the prospects of monetary policy tightening in the United States. Meanwhile, money markets are again betting the ECB will raise deposit rates by year end. We, however, expect the ECB to sustain its accommodative policy through 2022 as inflation is mainly due to external factors (rising energy prices) and the ECB's stated forward guidance for a rate rise should will be unmet. As a result, Euro area sovereign rates look set to rise more gradually than those in the United States. We remain strongly Underweight on Euro area sovereign bonds.

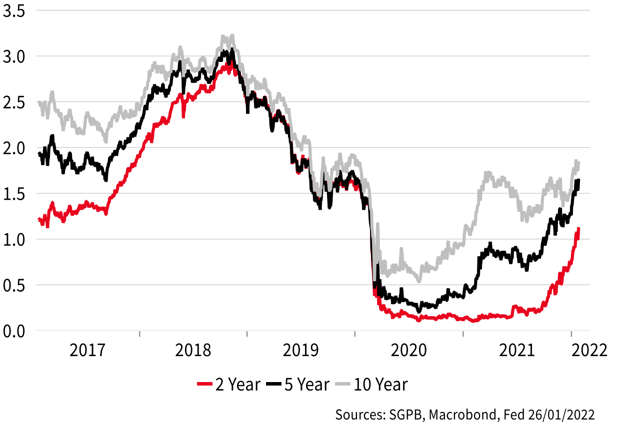
United Kingdom. Yields on 10-year gilts also rose to 1.2%. The Bank of England's monetary policy committee is widely expected to raise policy rates 25bp to 0.50% at its next meeting to address widespread inflationary pressures.

Credit

United States & Euro area. We remain Neutral on high-yield credit in both these economic zones. Strong growth prospects and inflation still hovering above 2% are good news for corportate balance sheets, easing default risks. The yield on risky (BBB-rated) US assets remains above 2.5% at a stable 110 bp spread over the US benchmark.

Emerging markets. We remain Neutral on emerging market bonds. The growth outlook remains challenging due to highly restrictive economic policy-mix, greater inflationary pressure, and ongoing political risks in many economies, including Russia, Turkey, and Brazil. However, Asian economies are bucking the trend, sustaining healthy growth prospects and modest inflation.

US Treasury rates



Sources: SGPB, Macrobond, Fed 26/01/2022

EQUITIES

A favorable, yet disturbed, context

Despite high volatility and tightening monetary policy, we think equity markets still harbour good opportunities. The economic outlook remains healthy and earnings prospects are still tempting given the negative real interest rates. We remain Overweight on this market, balancing styles and sticking to our geographical allocation (the United States, Euro area and Asia).

United States. US equity indices have slumped since the start of the year. We read this as a correction of overvalued stocks rather than any change in trend. Economic fundamentals remain sound. The IMF expects the US economy to grow by 4% in 2022. Real interest rates will remain negative. All of which is good for risky assets. The recent market correction hit mainly growth stocks as a recovering economy and rising rates favoured cyclical value stocks trading on discounts. Not that growth stocks should be ignored, as the US economic recovery is already well advanced in its cycle, as large IT companies have strong balance sheet and increasing expected earnings. We therefore continue to balance exposure to both styles and Overweight the United States market.

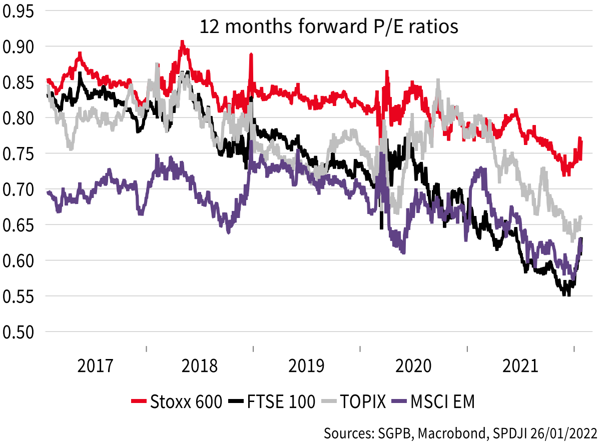
Euro area. Euro area equities are among the most attractively valued in the developed world. The zone's economic cycle is still lagging a stage behind the US and thus is offering attractive upside. Note too that in the Euro area, unlike the United States, fiscal and monetary support is set to continue for some months yet. On top of this, inflation is lower than in the United States, the economy is still not back to pre-COVID levels and there is a significant backlog of savings built up during the crisis. All these factors suggest a fairly supportive outlook for the Euro area market. We therefore remain Overweight.

United Kingdom. The British equity market defied the recent fall, thanks to its favourable sector make-up (heavy in energy and financials). The market remains tempting with P/E ratios (the ratio of companies' share price to their earnings) much cheaper that we see elsewhere. On the other hand, the country is suffering higher inflation than the Euro area. And while fiscal policy is still supportive of the economy and stock market, monetary policy is less so. The Bank of England has already hiked rates once, well ahead of its US and European counterparts, and will continue to move policy back toward normal as it seeks to rein in inflation. Overall, we remain Neutral on this market.

Japan. We remain Neutral on Japanese equities. Japanese company profits should be boosted by a healthy global economy and falling yen as they earn much of their profits abroad (USD 96 billion of repatriated profits in 2021). That said, headline growth for Japanese econmy remains weak and dividends per share low (2%) compared to similar markets.

Emerging markets. We remain Overweight, while keeping an eye on the divergences between emerging economies. China looks attractive. Its market fell back in 2021 and the medium-term outlook for the economy is encouraging, particularly with the current easing of monetary policy. In other emerging economies clouds are gathering – with the threat of stagflation (low growth and high inflation) and political risks.

Relative valuation of equity indices compared to the S&P500



Sources: SGPB, Macrobond, SPDJI 26/01/2022

FX RATES

Still Overweight on the Dollar versus the Euro

The Fed's monetary tightening, with the restrictive bias introduced by Jerome Powell, as well as rising geo-political risks continue to maintain a favorable environment for the dollar.

Dollar index (DXY). The dollar is holding relatively steady against a basket of leading advanced and emerging market currencies. The cycle of central bank policy tightening in emerging markets (Latin America) and some advanced economies should support these currencies against the dollar. However, the dollar should trade strongly in coming months thanks to the growth gap between the US economy and the rest of the world and ongoing current account surpluses in Asia and Europe. Finally, the dollar is also a valuable safe haven in the current high-risk environment.

EUR/USD. The euro has weakened slightly against the dollar since November, and now buys just USD 1.11. We remain slightly Underweight on EUR/USD. The US Fed is set to tighten monetary policy with a first rate hike in March and a likely reduction of its balance sheet, while the ECB looks set to keep policy accommodative. A combination that should bolster the dollar in its euro cross.

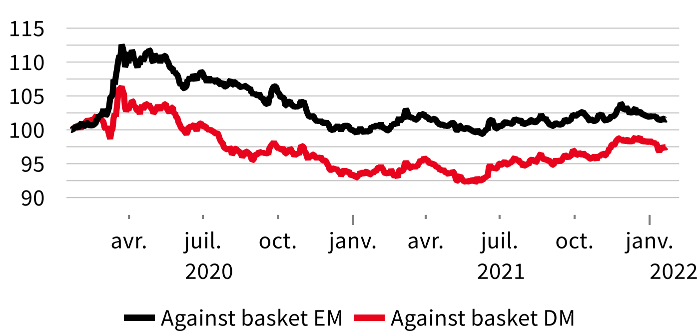
GBP/EUR. Sterling has gained 2% against the euro since December, mainly because of the Bank of England's policy tightening. This gap in monetary policy should keep the pound generally strong in coming months. However, sterling remains vulnerable to ongoing trade tensions between the EU and UK.

USD/JPY. The yen is on a broad downtrend versus the dollar, falling 2% since December. The Bank of Japan left monetary policy unchanged through January, continuing to control the yield curve with underlying inflation still running at a negative -0.8%. The sharp divergence in monetary policies should help the dollar against the yen. But a number of risks (geopolitical, equity markets) and the inflation gap should limit downside pressure on the JPY. We remain Neutral on the USD/ JPY.

EUR/CHF. The Swiss franc has been broadly unchanged against the euro for a month now. Swiss inflation has ticked up but remains below that of the euro zone (0.8% in December). With the Swiss monetary authorities standing ready to cap any rise in the CHF we remain Neutral on the EUR/CHF.

EM FX (vs USD). The currencies of the major emerging economies have had mixed performances since December. On the one hand, Latin American currencies experienced significant appreciation against the dollar, with the BRL and CLP rising by 5% and 4% respectively, on the back of a strong tightening of monetary policies and good performance of commodity prices. On the other hand, the TRY and the RUB suffered significant declines due to the continuation of an accommodative monetary policy in an environment of high inflation for the former and the rise of geopolitical risks for the latter.

Evolution of the dollar index (100= Nov 2019)



Sources : SGPB, Macrobond, Fed, 21/01/2022

ALTERNATIVES

Seeking diversification

We remain Overweight on gold, mainly for its role as a hedge against market fluctuations. We remain Neutral on oil, expecting price pressures to gradually ease as the year goes on. We still see hedge funds as less appealing from a portfolio-balancing perspective, but they could be useful as protection against market turbulence. We therefore remain Neutral on this asset class.

Commodities

Oil. Oil prices have hit highs early in the year. At one point, Brent was trading at USD 90 a barrel, its highest since 2014. WTI is also selling at record prices, currently USD 88 a barrel. The reason: limited stocks, buoyant demand, OPEC+ still capping production and rising geopolitical tensions (Ukraine/Russia). However, these price pressures should fade, and tensions gradually evaporate, as growth slows. Which is why we remain Neutral on oil.

Gold. Gold is doing well in the current climate of rising inflation and slowing economic growth. Gold, currently traded at USD 1,800 an ounce, retains its safe haven position. Note that in these times of volatile stock markets, the gold price has held steady, being relatively immune to such fluctuations. It thus looks like an essential diversification asset. We remain Overweight.

Hedge Funds

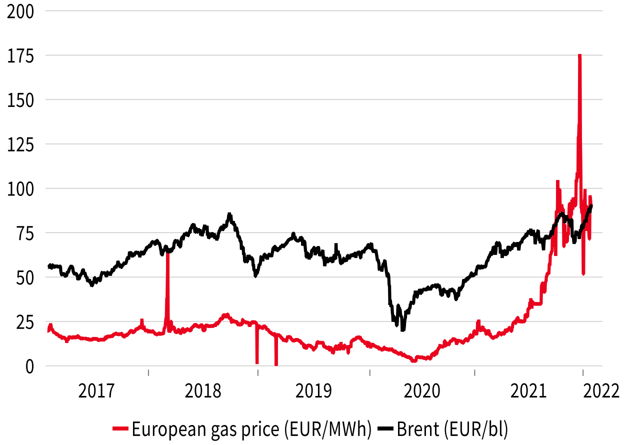
Long/Short Equity. We still like L/S market neutral funds for their ability to provide "performance protection" in the current climate of high volatility and sector switching on equity markets.

Event Driven. Times are still good for these funds. Plenty of restructurings and M&A with companies sitting on ample cash or happy to raise finance on current bargain terms.

Fixed Income Arbitrage. We are still cautious on funds taking positions in sovereign debt, given our scenario of a gradual rise in interest rates. We prefer funds positioned on the credit side, which stand to profit from particularly tight conditions on this market. Such funds also offer protection against rate widening.

Global Macro / CTA. Commodity Trading Advisors (CTAs) offer traditional protection against market volatility, which looks set to persist. As for Global Macro funds, managers will have to pick particularly carefully amid uncertainty about the economic recovery.

Energy prices are skyrocketing



Sources: SGPB, Macrobond, 27/01/2022

GLOBAL ECONOMIC FORECASTS

YoY (%)	GDP growth, volume				Inflation			
	2020	2021f	2022f	2023f	2020	2021f	2022f	2023f
World (PPA)	-3,1	5,6	4,0	3,3	3,4	4,3	3,8	3,2
Developed markets (PPP)	-4,5	5,0	3,4	2,1	0,7	2,9	2,7	1,9
Emerging markets (PPP)	-2,0	6,1	4,4	4,0	5,5	5,3	4,6	4,2
Developed markets								
US	-3,4	5,6	3,6	2,6	1,2	4,6	3,5	2,8
Euro area	-6,5	5,1	3,4	1,6	0,3	2,5	2,5	1,5
Germany	-4,9	2,7	3,5	1,3	0,4	3,1	2,4	1,6
France	-8,0	6,7	3,0	1,5	0,5	2,0	2,1	1,5
Italy	-9,0	6,2	3,9	2,0	-0,2	1,8	2,3	1,4
Spain	-10,8	4,7	5,0	2,8	-0,3	3,0	2,9	1,2
United Kingdom	-9,7	6,9	4,3	2,0	0,9	2,4	3,7	2,4
Switzerland	-2,5	3,4	3,3	1,8	-0,7	0,4	0,6	0,8
Czech Republic	-5,8	2,5	3,5	3,0	3,2	3,6	4,5	3,0
Japan	-4,7	2,3	2,6	0,8	0,0	-0,2	0,9	0,5
Emerging markets								
China	2,3	8,1	4,9	4,6	2,5	0,8	2,1	2,3
India	-7,0	9,5	6,2	5,2	4,9	5,5	4,6	4,2
Russia	-3,0	4,0	2,5	1,5	3,6	6,8	4,0	4,0
Brazil	-4,4	5,0	1,7	2,0	3,2	8,3	5,0	3,5

*f: forecast
** (USD): weighted at current prices
*** (PPA): weighted at parity purchase power
Source: SG group, Dec 2021

MARKET PERFORMANCES & FORECASTS

Main Central Bank rate	Jan-21	Dec-21	Jan-22	3M	12M
US (high range)	0,25	0,25	0,25	0,50	1,00
Euro area (dep. rate)	-0,50	-0,50	-0,50	-0,50	-0,50
UK	0,10	0,10	0,25	0,50	1,00

10Y Sovereign yield	YTD	-1M	Jan-22	3M	12M
US	1,71	1,55	1,81	1,8	2,4
Germany	-0,09	-0,23	-0,04	0	0,25
France	0,23	0,19	0,29	0,3	0,55
UK	1,12	1,01	1,28	1,1	1,4

FX rate	YTD	-1M	Jan-22	3M	12M
EUR/USD	1,13	1,13	1,12	1,11	1,1
EUR/CHF	1,04	1,04	1,04	1,07	1,07
GBP/USD	1,36	1,35	1,34	1,30	1,25
USD/JPY	115,8	114,9	115,4	115	113

Commodity prices	Début année (%, var)	-1M (%, var)	Jan-22	3M (%, var)	12M (%, var)
Brent	12,3%	13,6%	90,02	-11%	-16,0%
Gold	-0,7%	-0,4%	1796,57	8,0%	-5%

Equities (MSCI, tot return, EUR)	Début année (%, var)	-1M (%, var)	Jan-22	3M (%, var)	12M (%, var)
US	-6,6%	-8,5%	4 738	2,0%	7,6%
Euro area	-4,8%	-2,8%	2 875	7,0%	14,0%
United Kingdom	4,3%	6,7%	1 544	-0,5%	0,06
Japan	-8,2%	-6,4%	1 797	2,0%	7%

Souces: Bloomberg, Macrobond, SGPB

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