

Economic and financial outlook

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Commercial document intended exclusively for Professional Investors

March 2021

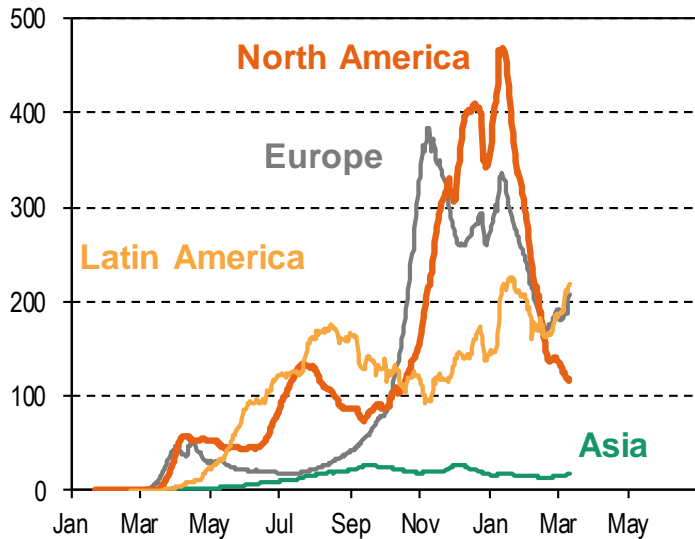


1. The pandemic A race of two horses

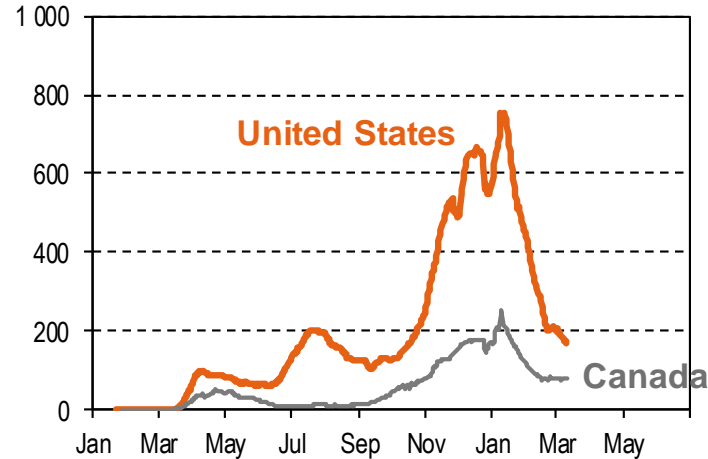
New cases have fallen in most part of the world

New daily COVID-19 cases (per million people, smoothed over 1 week)

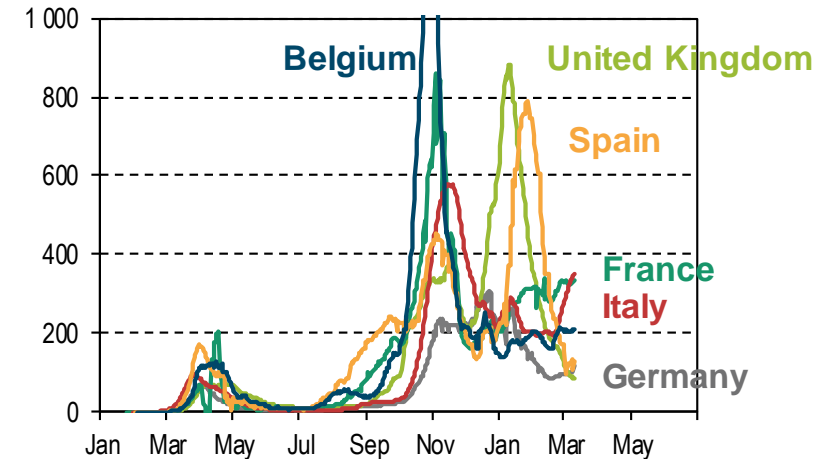
By region



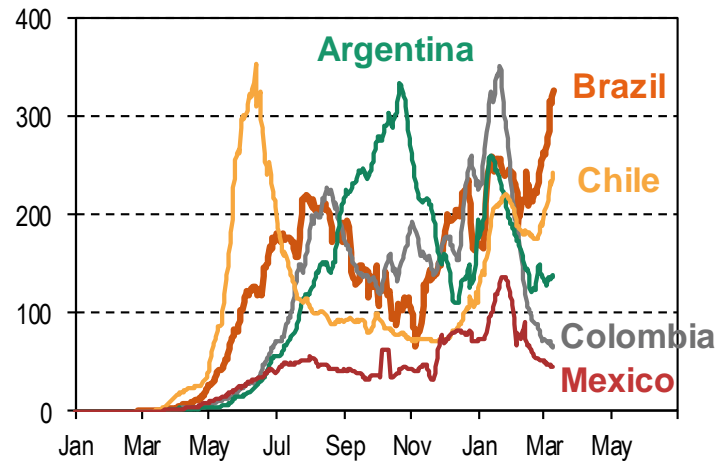
North America



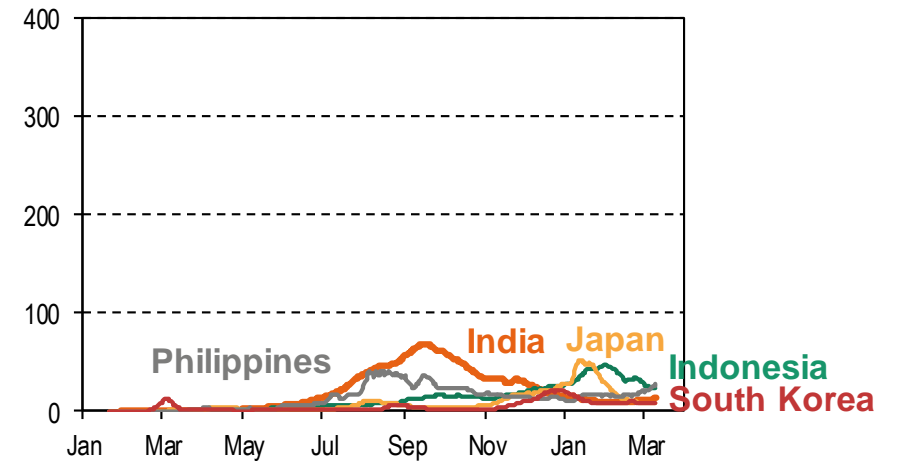
Europe



Latin America



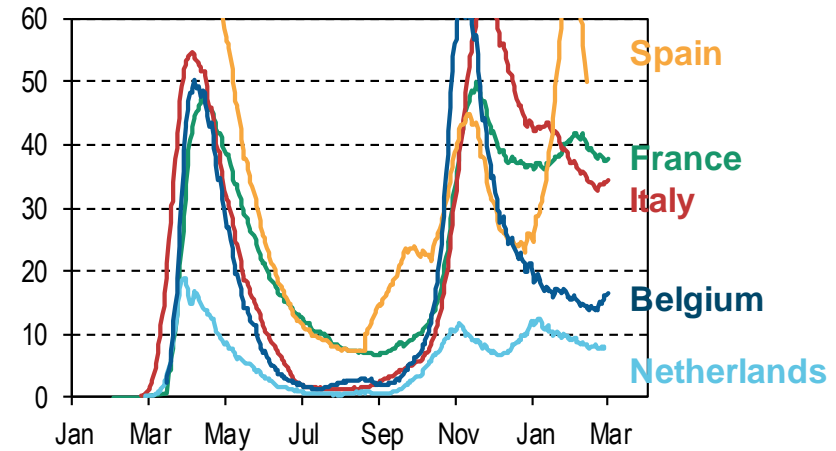
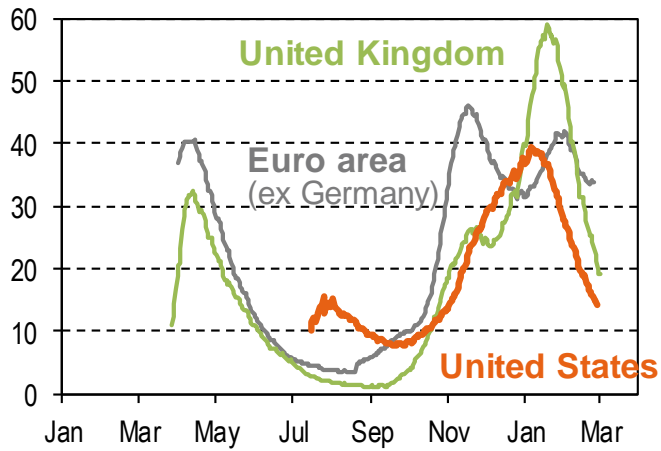
Asia



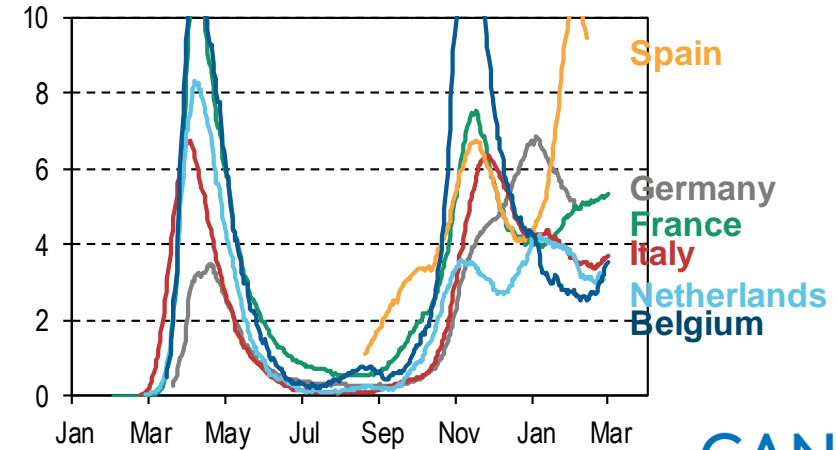
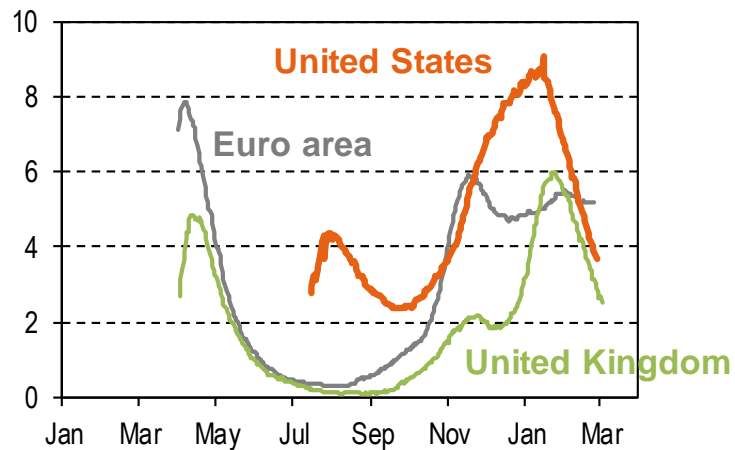
In the EU however, hospital and ICU bed occupancy rates remain pretty elevated

Current COVID-19 patients hospital occupancy

Hospital beds occupied
(per 100 000 people)

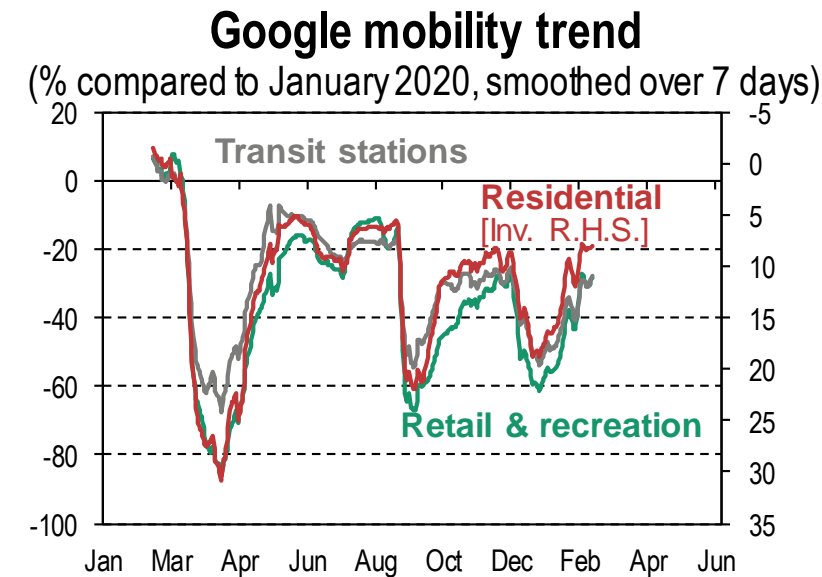
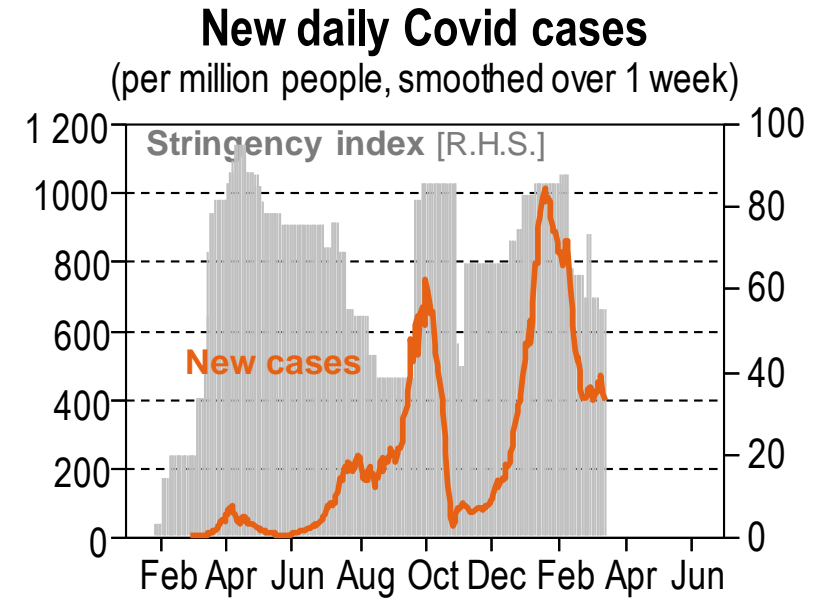
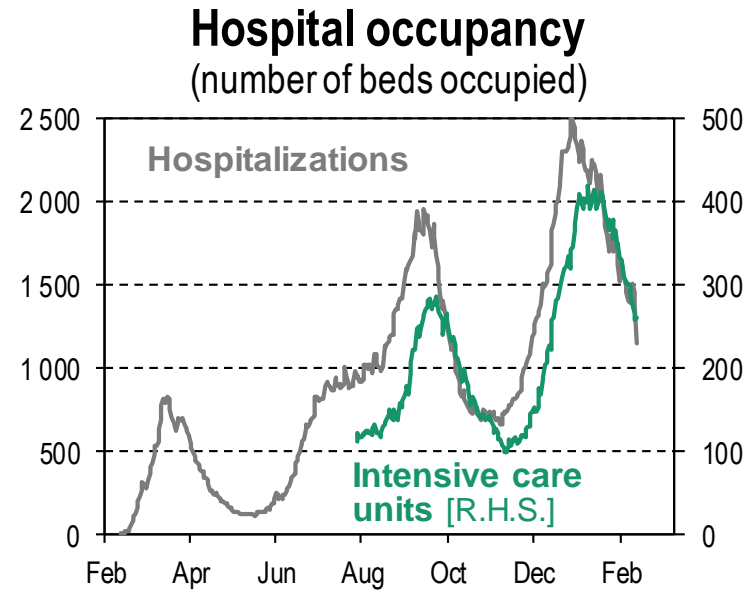
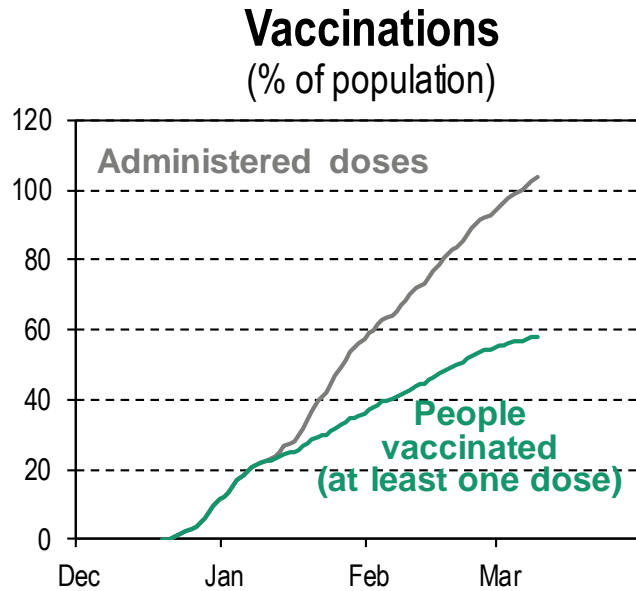


ICU beds occupied
(per 100 000 people)



Sources: OWID, Candriam

In Israel, a massive vaccination campaign has helped curbed new cases and hospitalizations



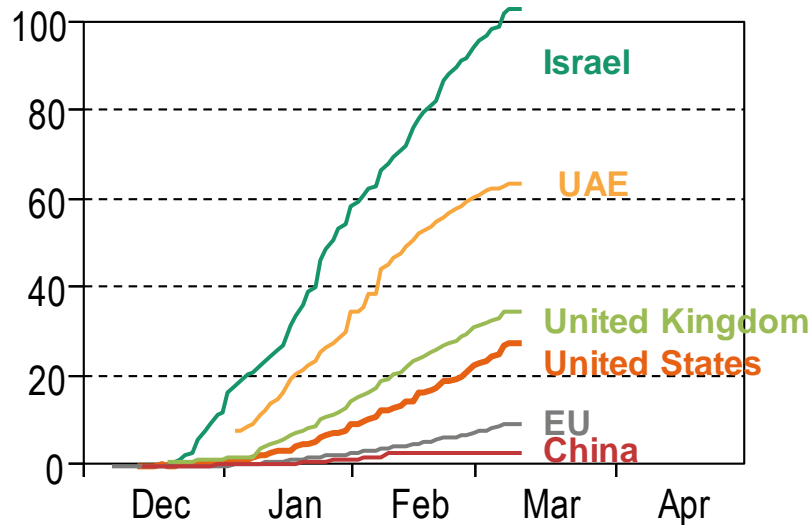
Sources: OWID, Refinitiv Datastream, Candriam

Vaccination is however proceeding at very uneven paces across countries



Number of administered doses

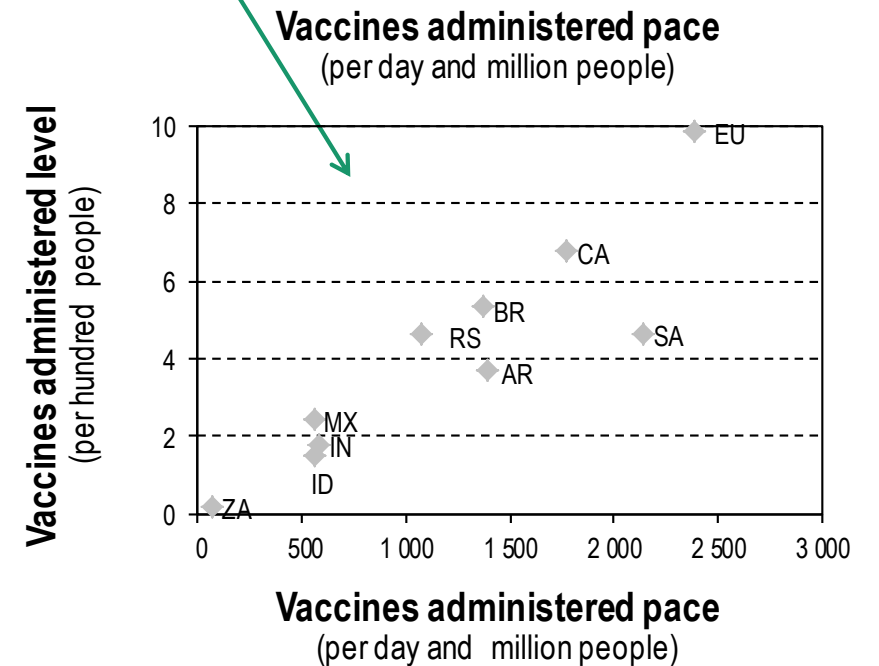
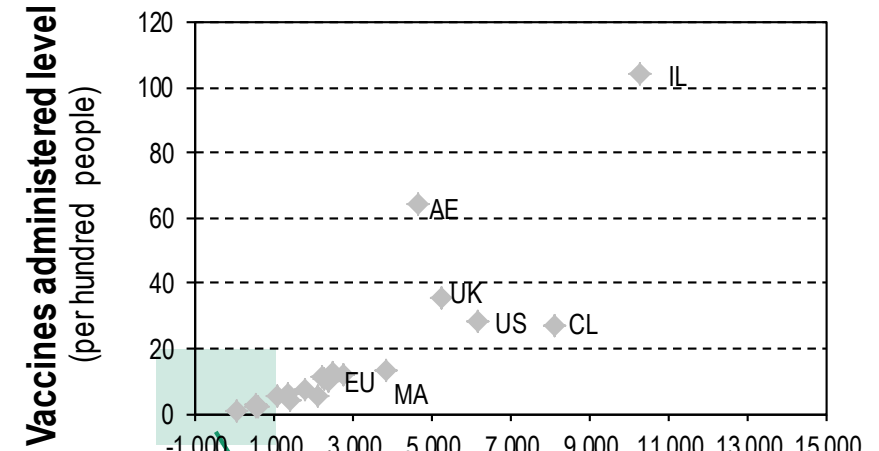
(per hundred people)



Share of vaccinated population needed to reach herd immunity

	Effective R		
	SARS Cov 2	British strain	
	1.5	2.1	2.6
50%	67%	87%	87%
60%	56%	87%	87%
70%	48%	75%	87%
80%	42%	65%	76%
90%	37%	58%	68%
100%	33%	52%	61%

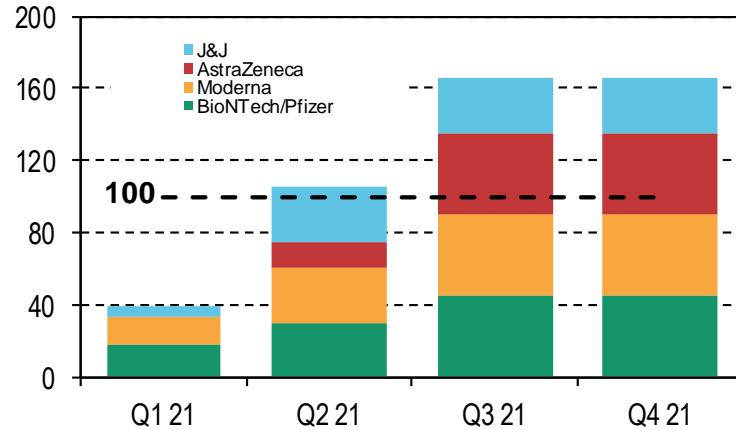
Vaccines administered, level and pace



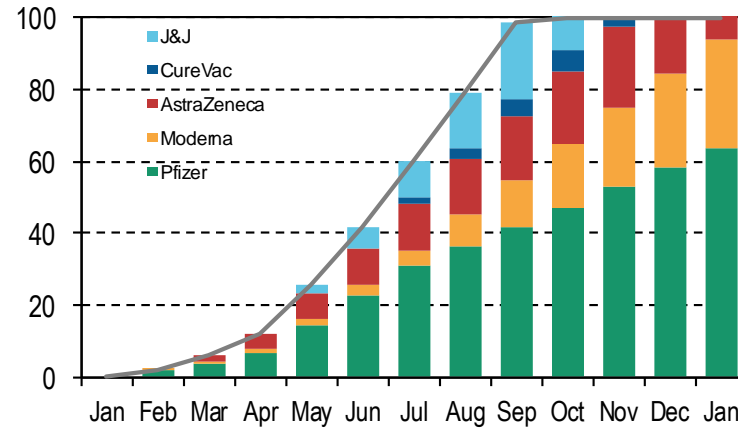
Without an acceleration in the EU in particular, it will take months before reaching “herd immunity” while in the United States this could be achieved by Summer

Vaccine rollout schedule (% of population)

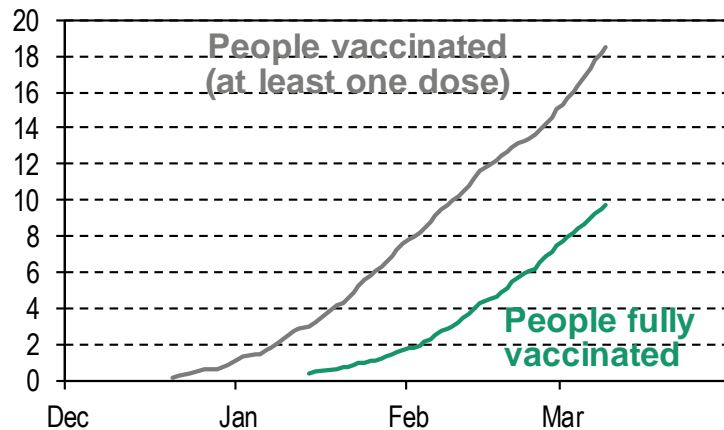
United States



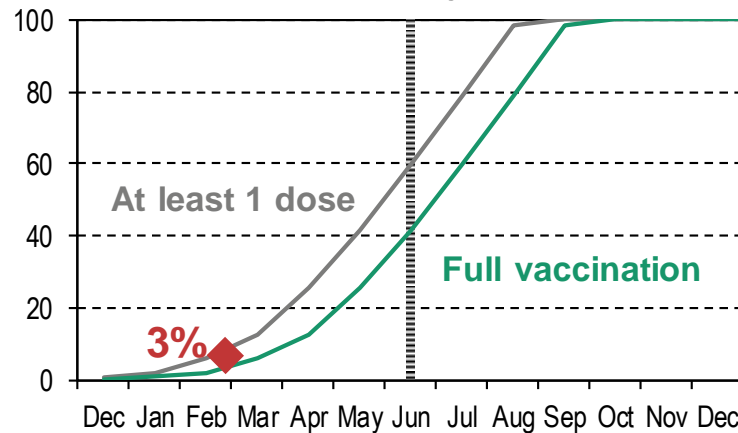
European Union



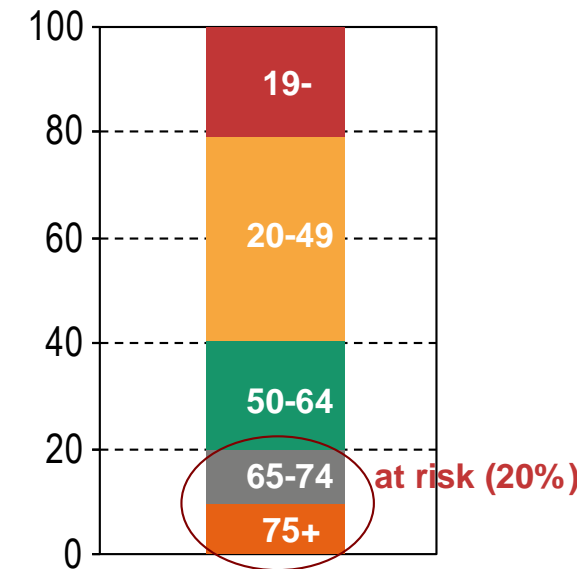
Vaccination



1st dose and fully vaccinated



EU Population by age (%)



Population at risk is composed of people older than 65 (20% of EU population) and people with comorbidity, which brings the total to approximately **30% of the EU population.**

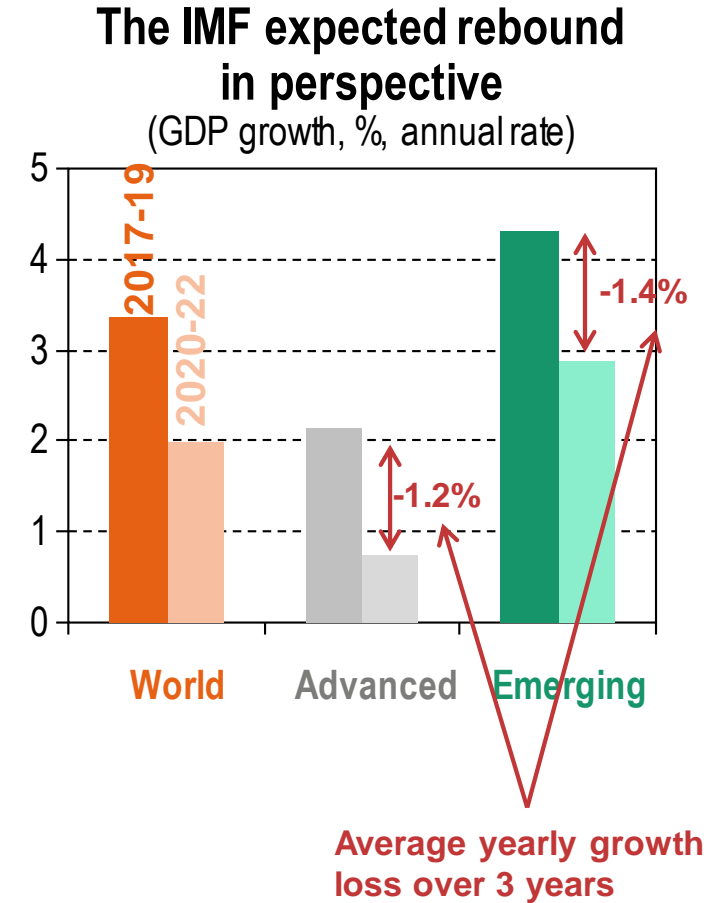
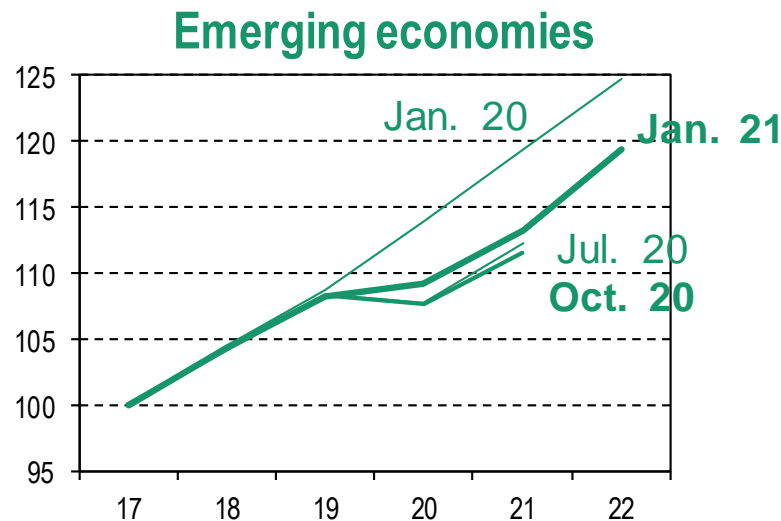
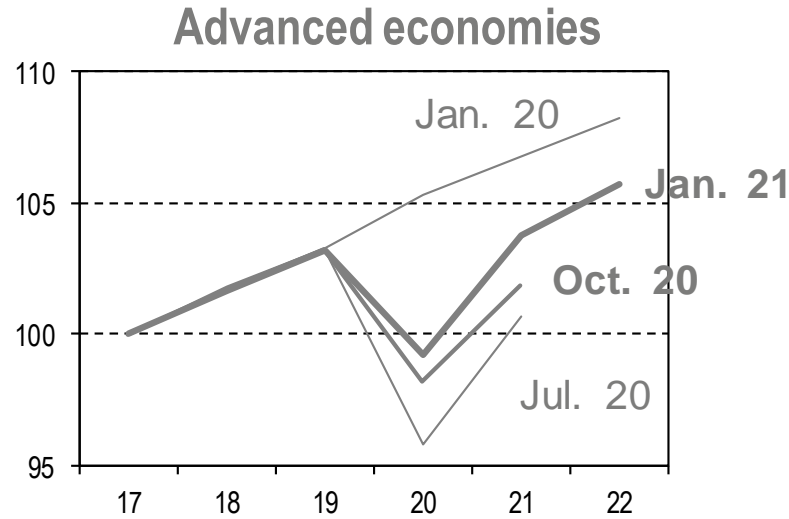
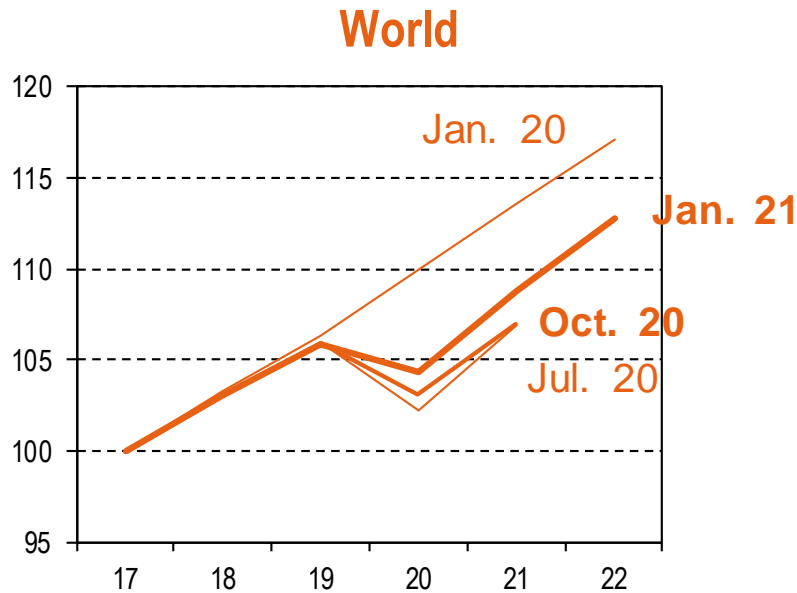


2. Global economy Recovering from an unprecedented shock

In January, the IMF revised its world GDP growth forecasts to 5.5% in 2021... but put in perspective the expected rebound is far from impressive

IMF real world GDP revisions

(Q4 2017 = 100, end of year level)

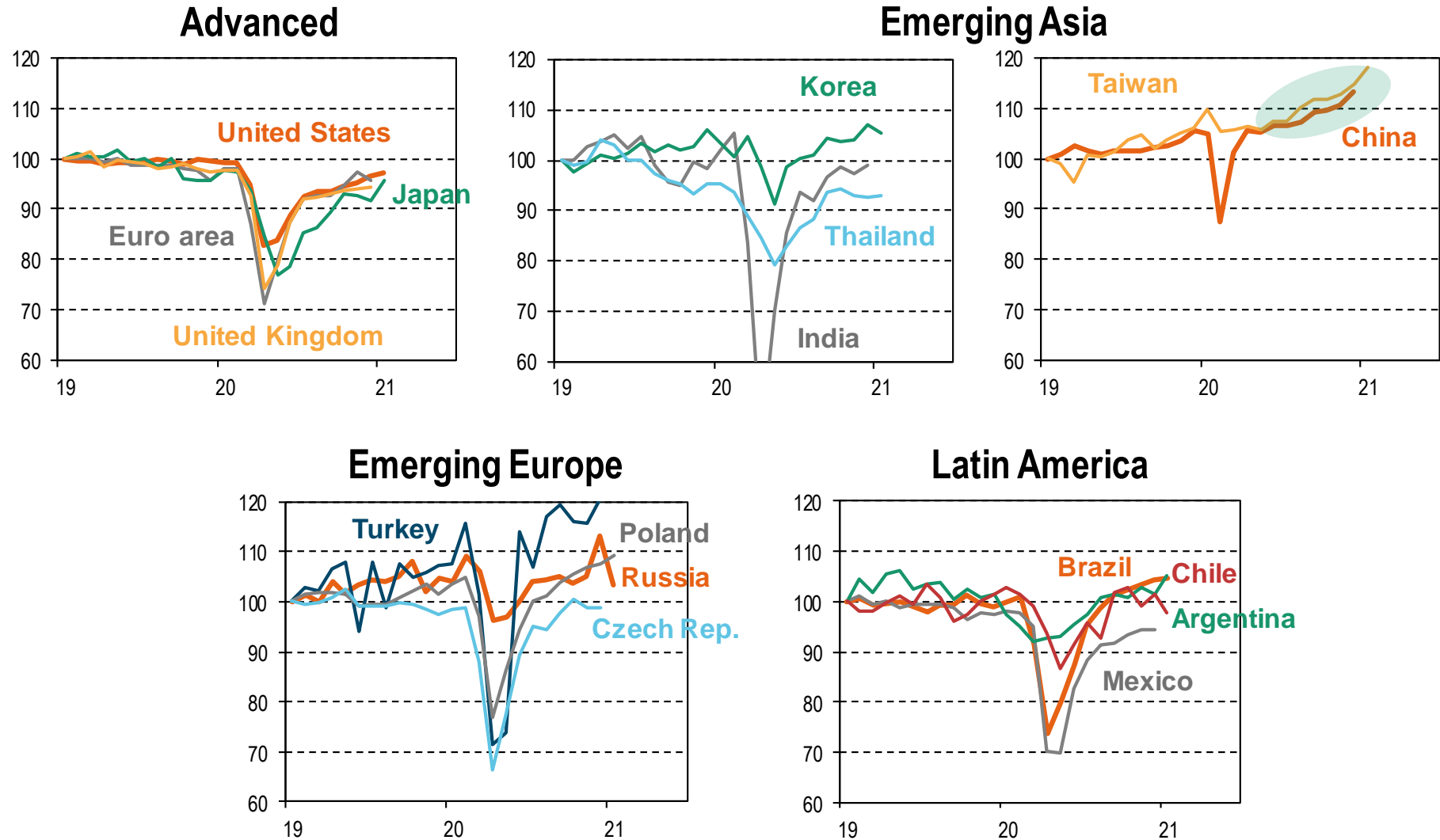


Global trade and industrial production have continued to recover

World trade and industrial production
(2010 = 100)



Industrial production
(January 2019 = 100, manufacturing)

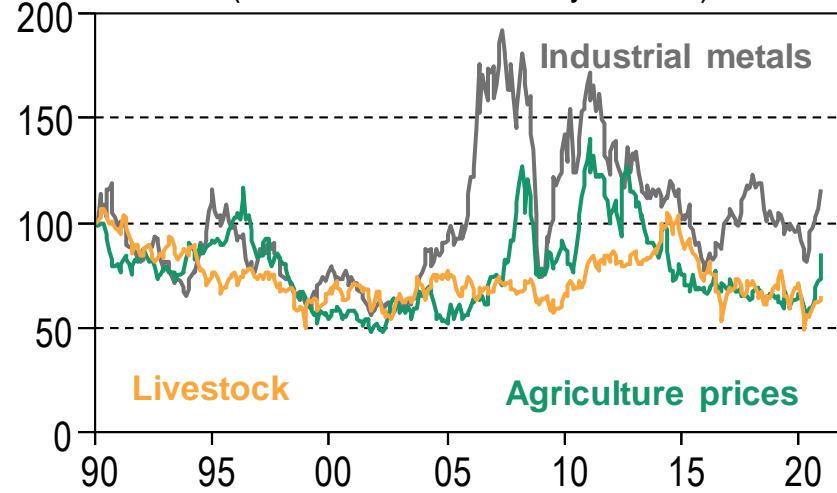


Sources: Refinitiv Datastream, Candriam

Commodity prices have increased recently: rising Chinese demand...

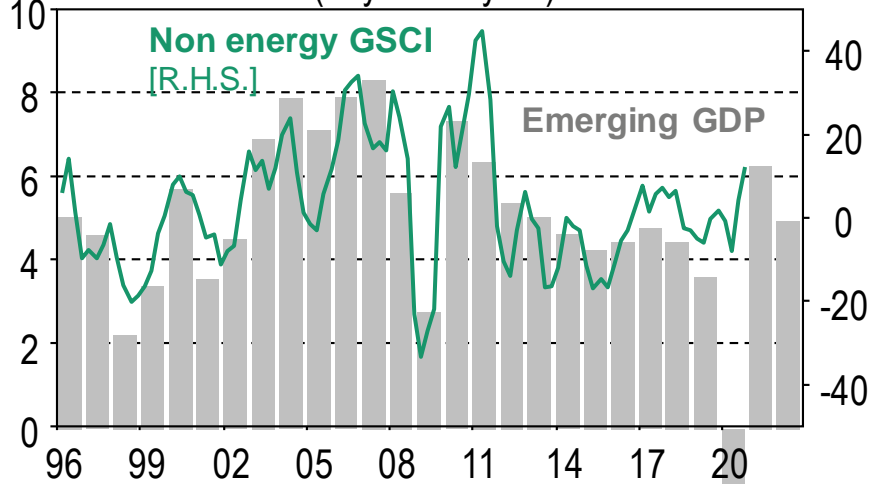
Real GSCI commodity prices

(1990 = 100, deflated by US CPI)



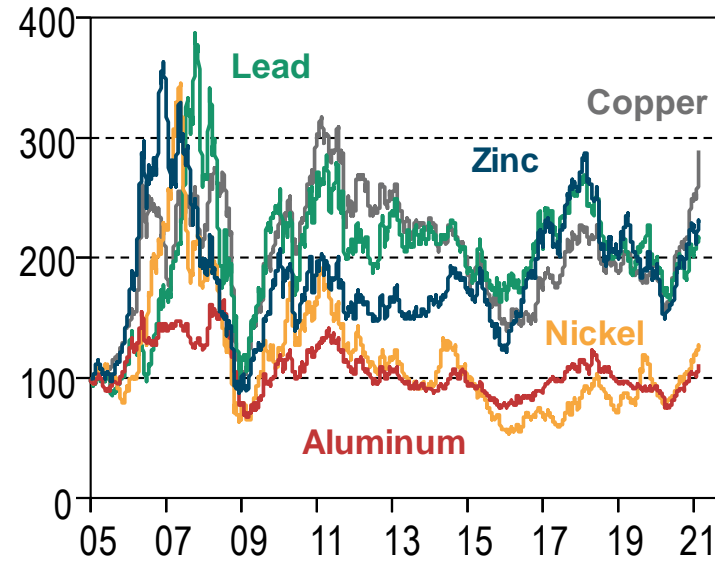
Commodity prices and activity

(% year on year)



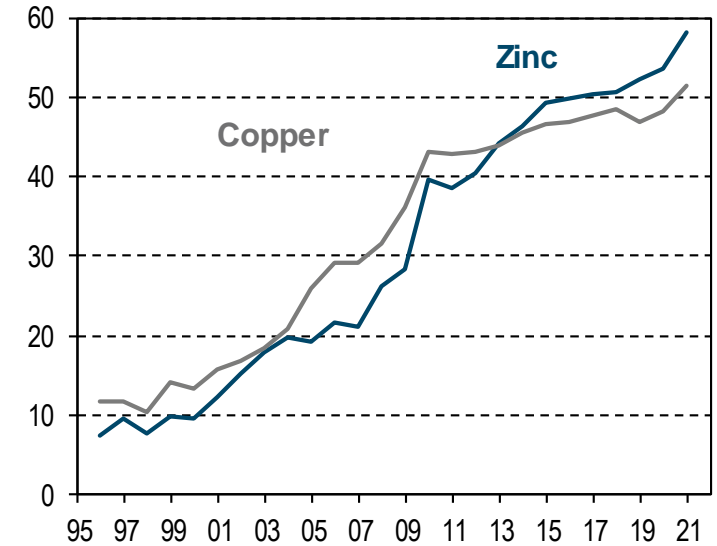
Industrial metals prices

(Jan. 2005 = 100, GSCI indices)



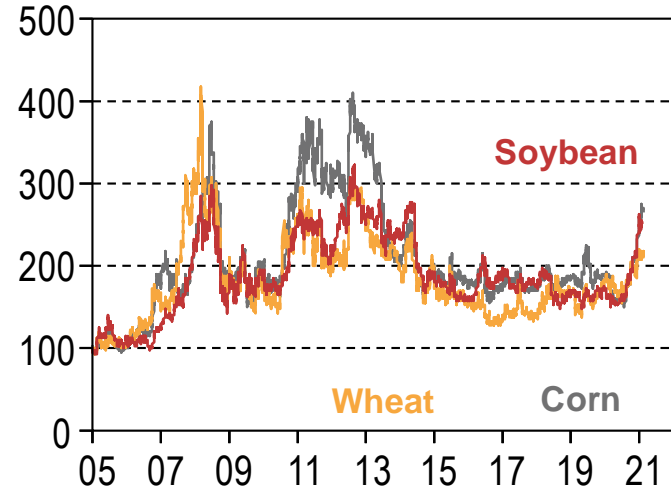
China share in world demand

(%)

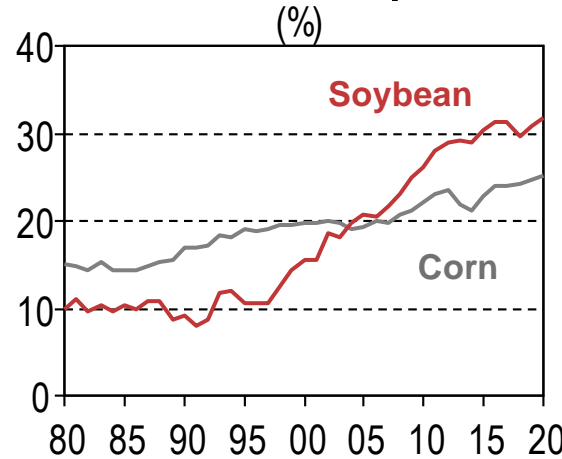


... as well as low inventories and speculative positions, all seem to have played a role

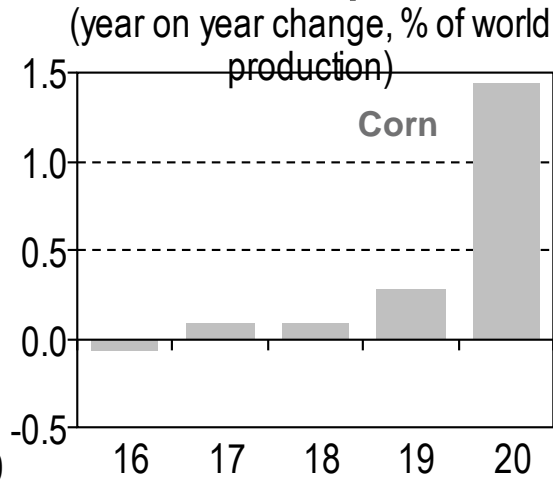
Agricultural commodity prices
(Jan. 2005 = 100, GSCI indices)



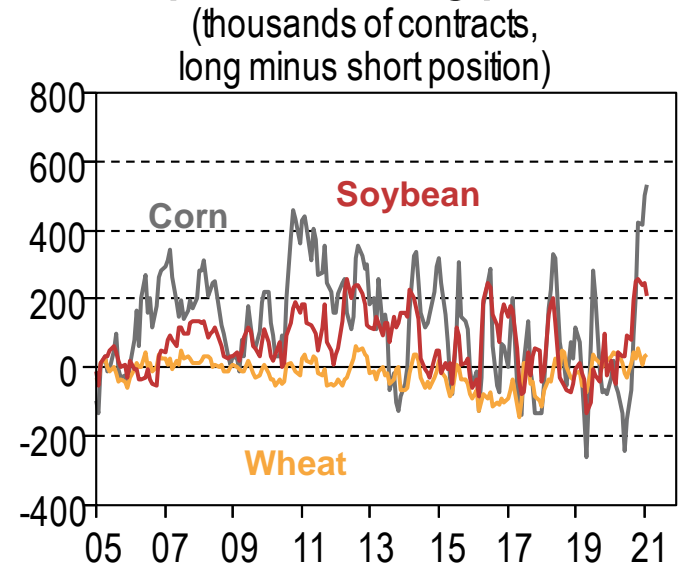
China share in world consumption
(%)



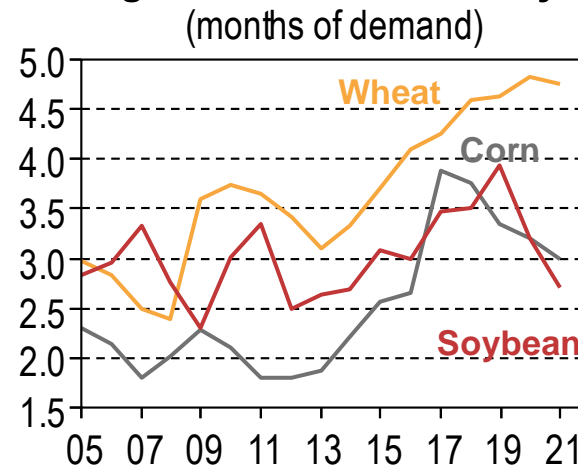
China imports



Net speculative long positions



World agricultural commodity stocks



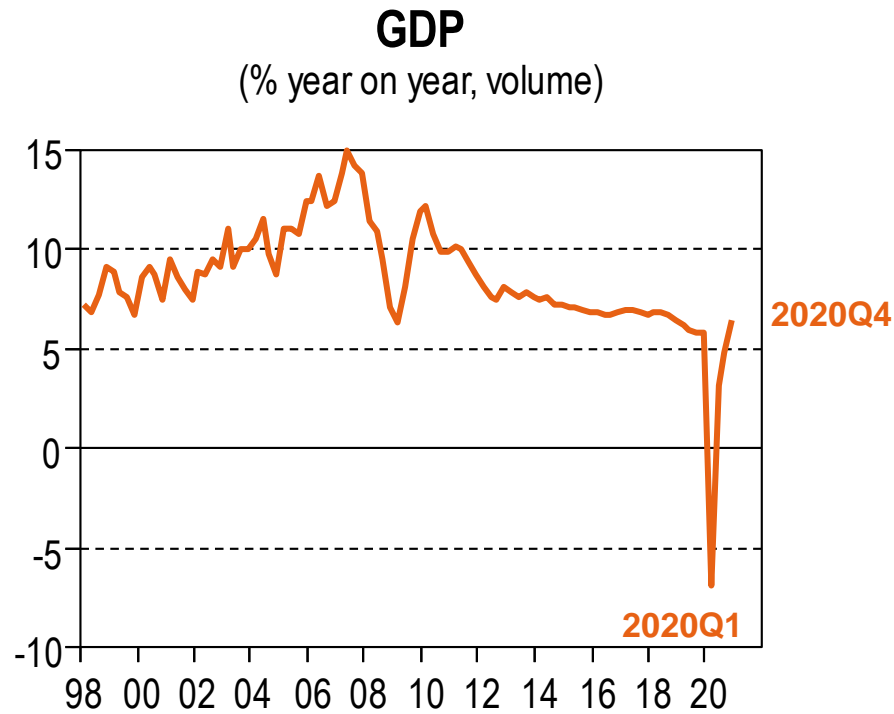
Sources: Refinitiv Datastream, USDA, Candriam



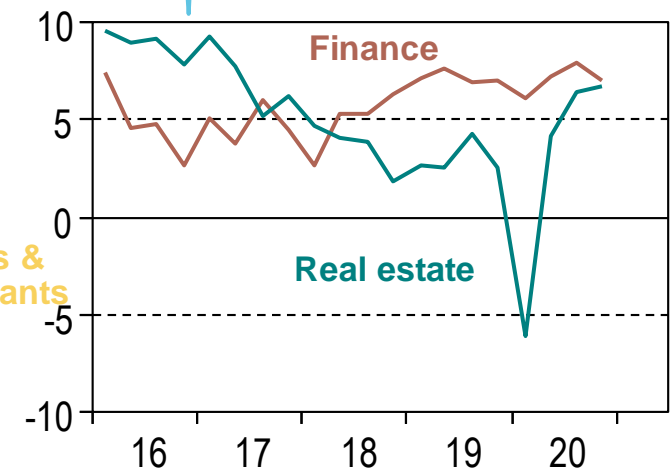
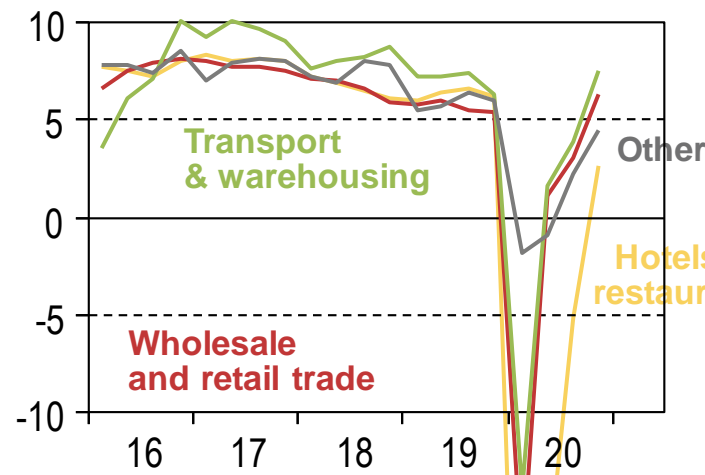
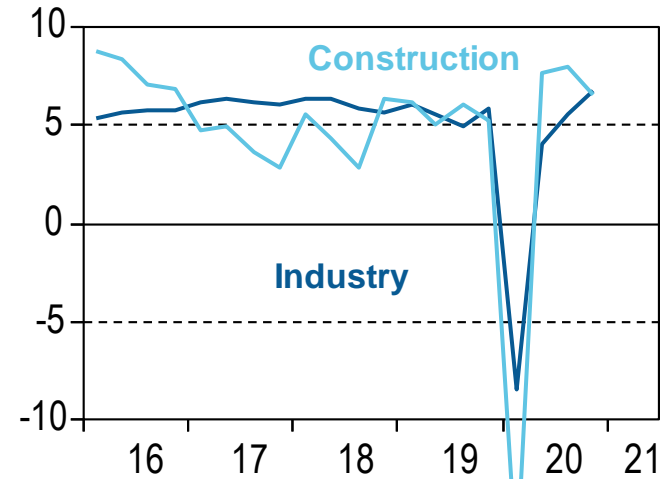
The 128th Canton Fair in Guangzhou, China, October 16, 2020. /Xinhua

3. China Accommodative... with moderation!

After a sharp fall, activity has now clearly picked up... even in the most hit services sector



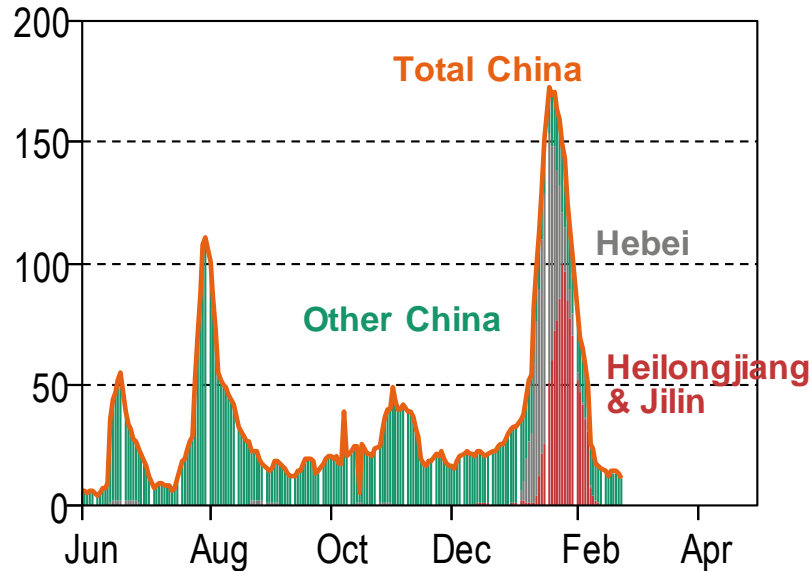
GDP by sector
(% year on year, volume)



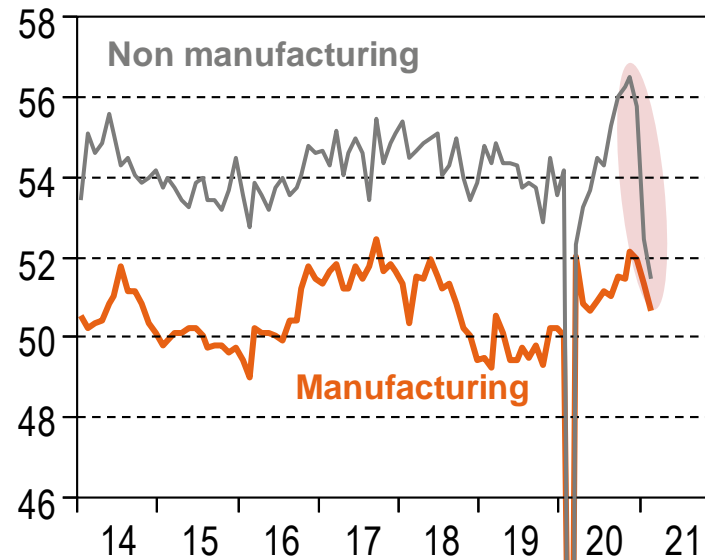
Sources: Refinitiv Datastream, Candriam

The early 2021 slowdown should be short-lived

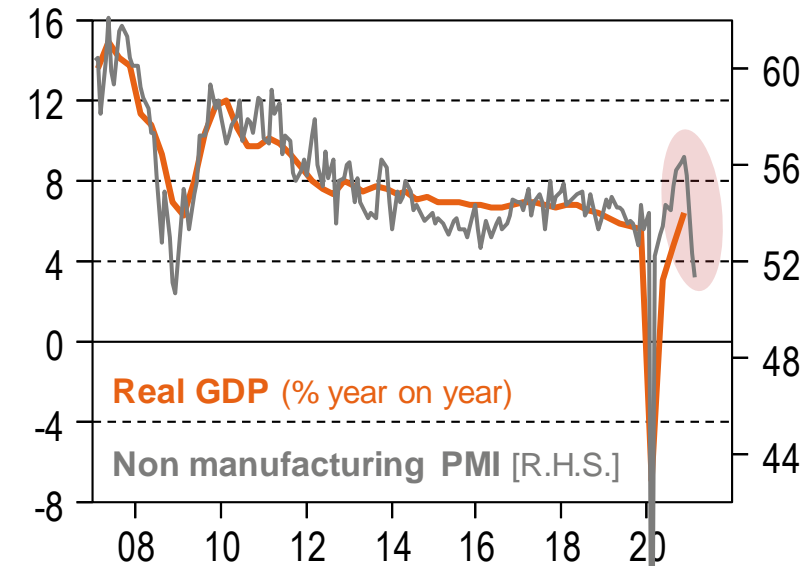
China: New daily cases COVID 19 (7D MAV)



China NBS PMI index



GDP growth & non manufacturing PMI

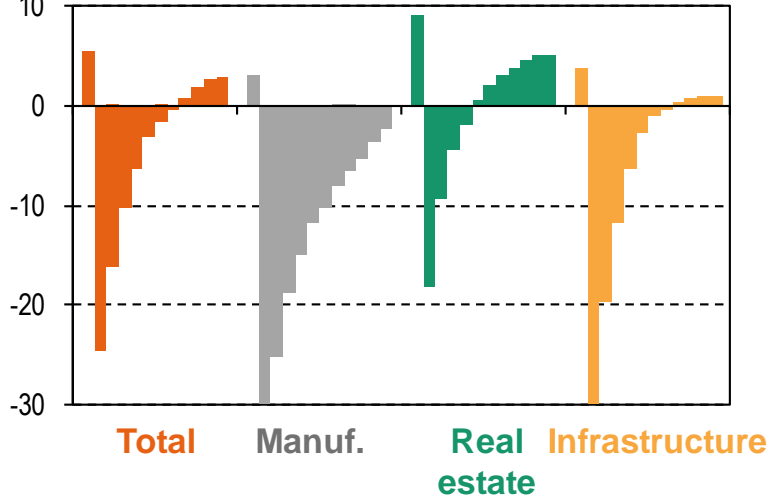


Sources: Refinitiv Datastream, Candriam

Investment has recovered, but authorities have taken measures to prevent excesses in the real estate sector

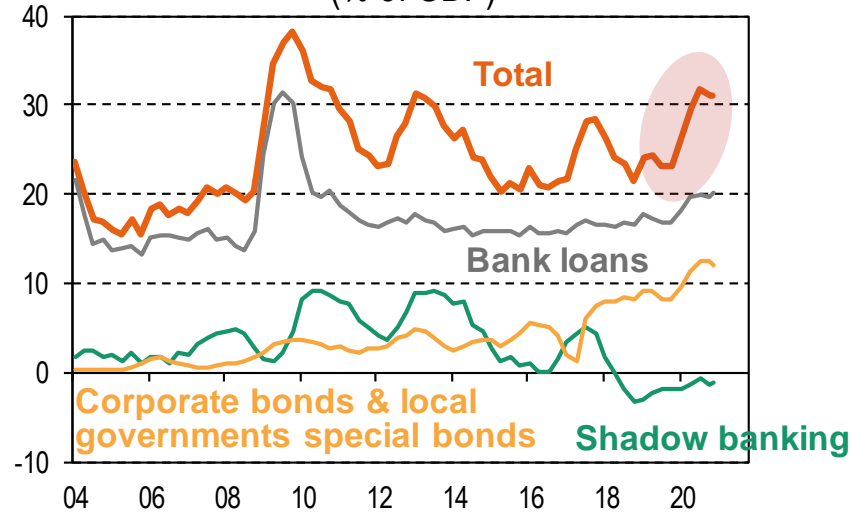
Fixed asset investment

(% year on year cumulated growth since beginning of year, January – December 2020)



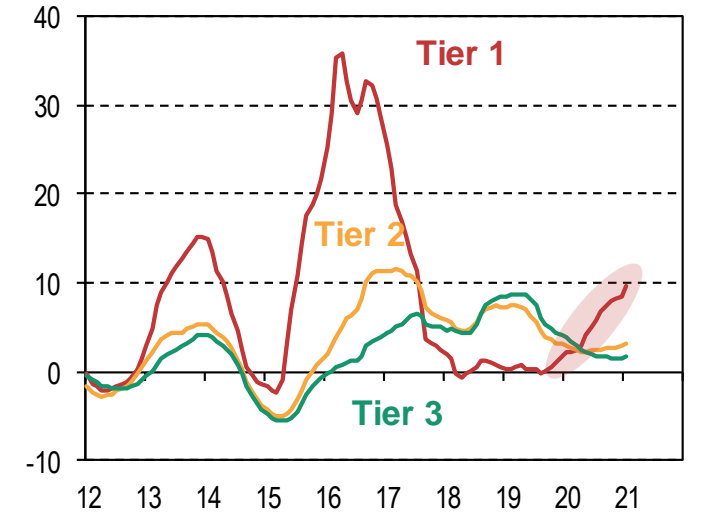
Total credit flow to the economy

(% of GDP)

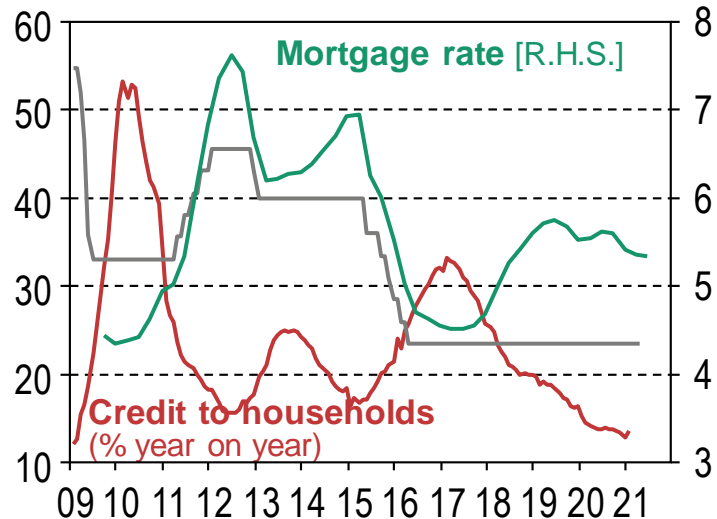


Housing prices

(2nd hand residential buildings, % year on year)



Mortgage loans to households



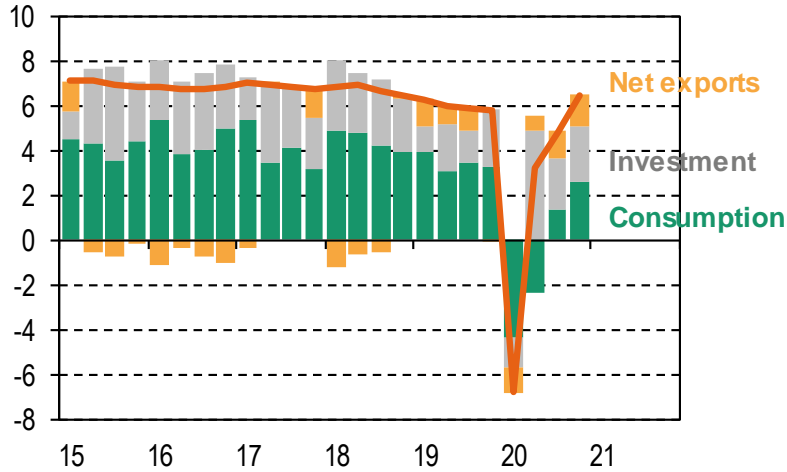
Beijing has tightened regulations on property developers bond financing to force them to reduce their leverage.

A concentration management system was introduced to cap the proportion of outstanding property loans (including mortgage loans) to total RMB loans.

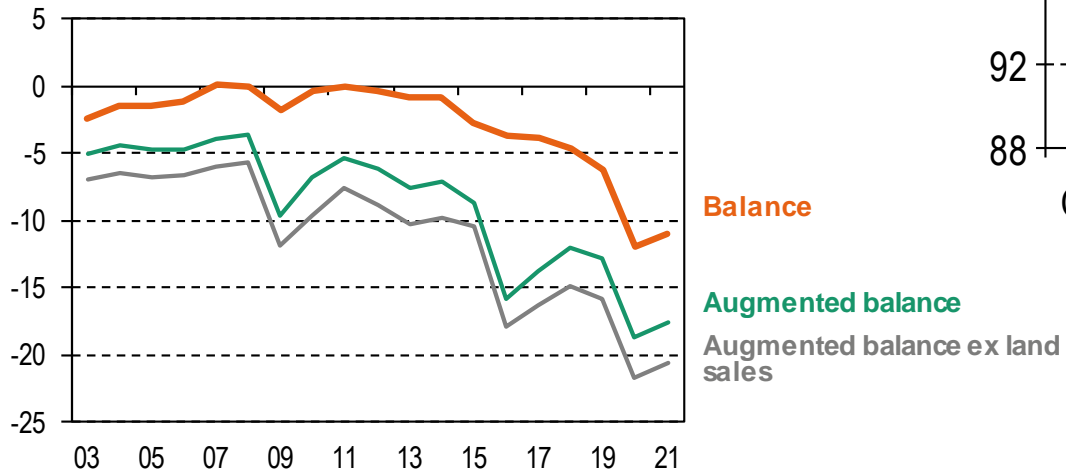
Future growth of property loans will likely be roughly in line with total lending.

GDP is back on its former trajectory... and authorities will try to keep it there

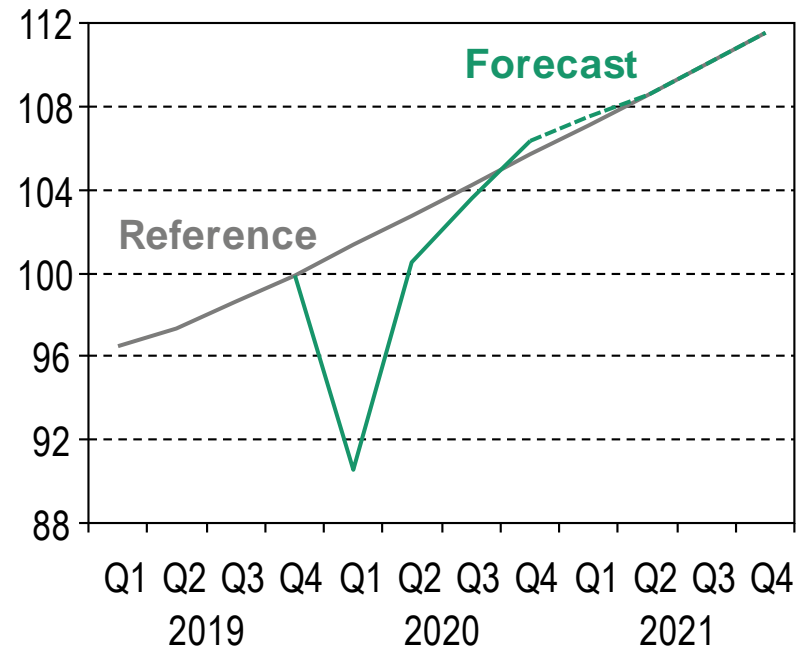
Contribution to real GDP growth (% year on year)



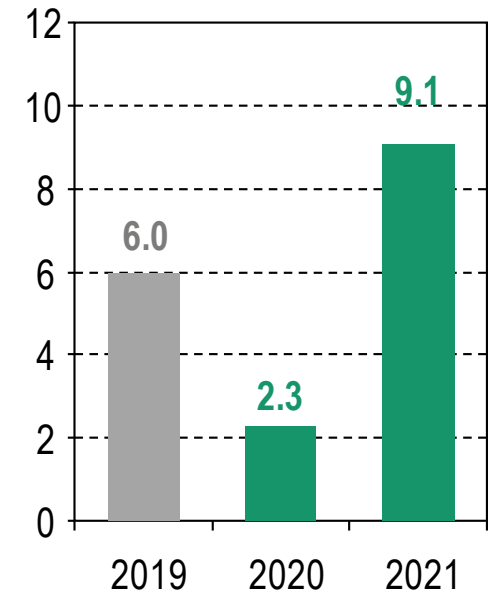
General government balance (% of GDP)



Real GDP trajectory (Q4 2019 = 100)



Real GDP growth (%, annual average)



Since mid-2020, the yuan has appreciated sharply against the dollar

Yuan / dollar exchange rate



FX reserves (\$ billion)

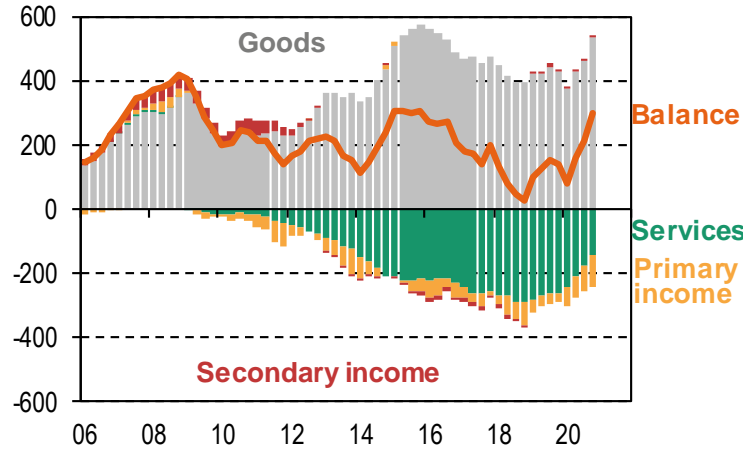


Sources: Refinitiv Datastream, Candriam

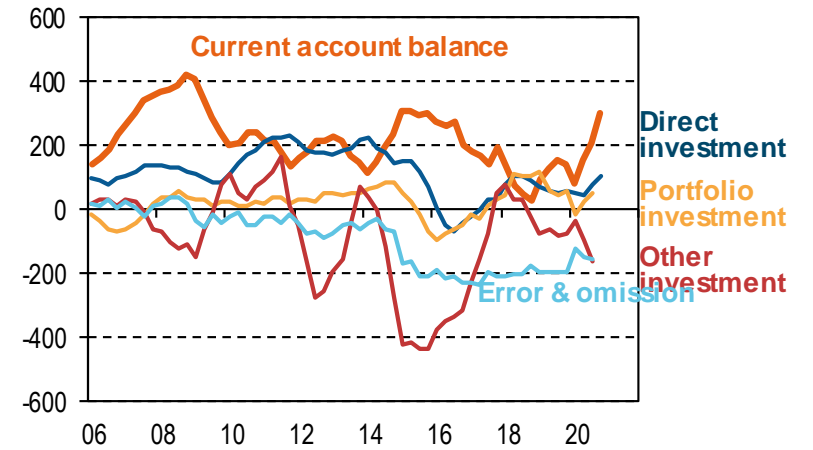
Balance of payments

(\$ billion, smoothed over 1 year, annual rate)

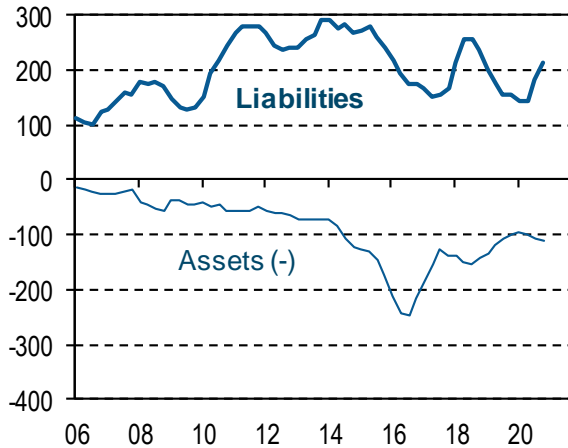
Current account balance



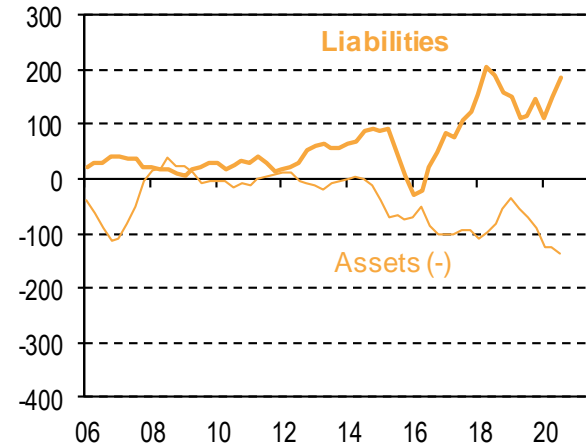
Financial account balance



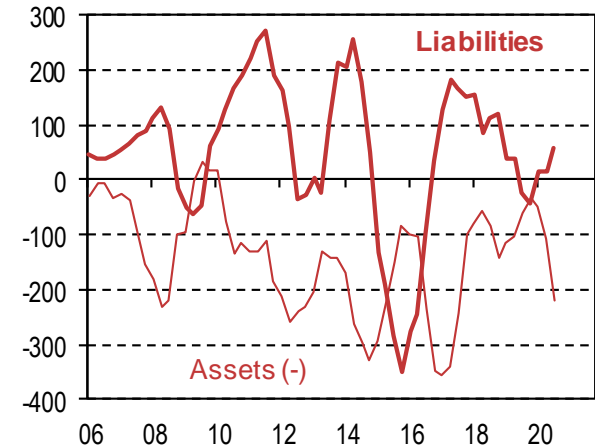
Direct investment



Portfolio investment



Other investment

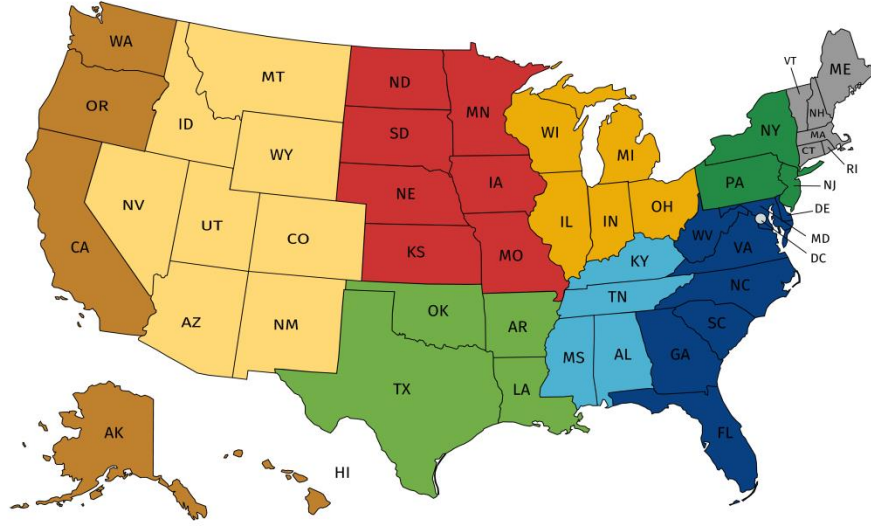
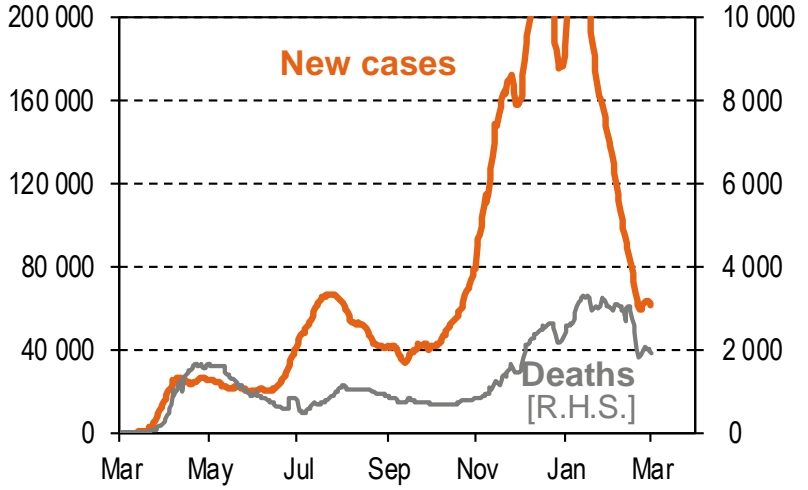




4. United States A boosted recovery

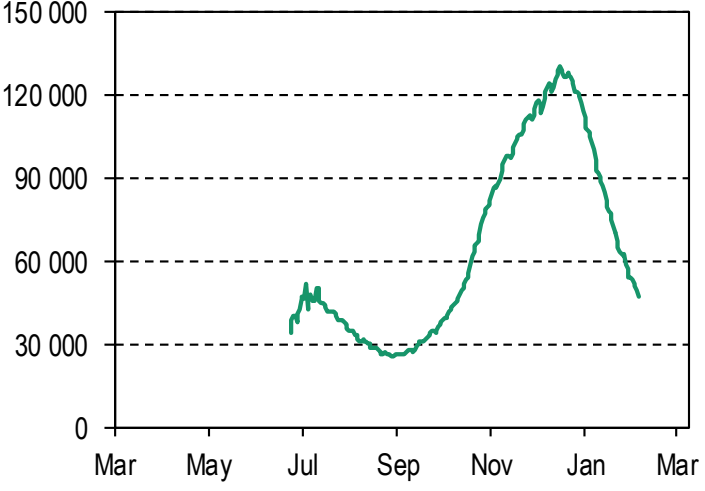
The epidemic is receding

New daily COVID-19 cases and deaths
(smoothed over 1 week)



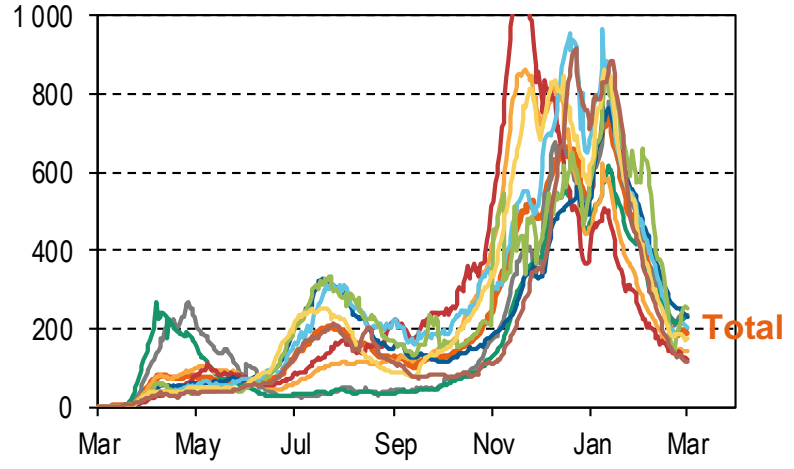
- West North Central
- East North Central
- East South Central
- Mountain
- West South Central
- South Atlantic
- New England
- Middle Atlantic
- Pacific

Hospital beds occupied

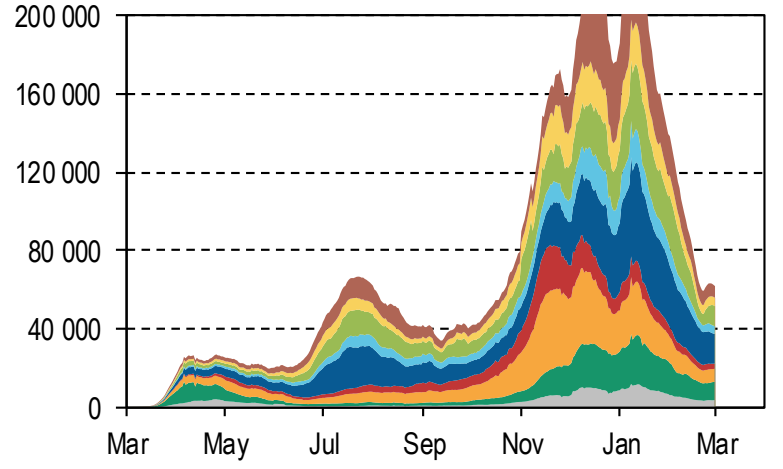


New daily Covid-19 cases

(per million inhabitants)



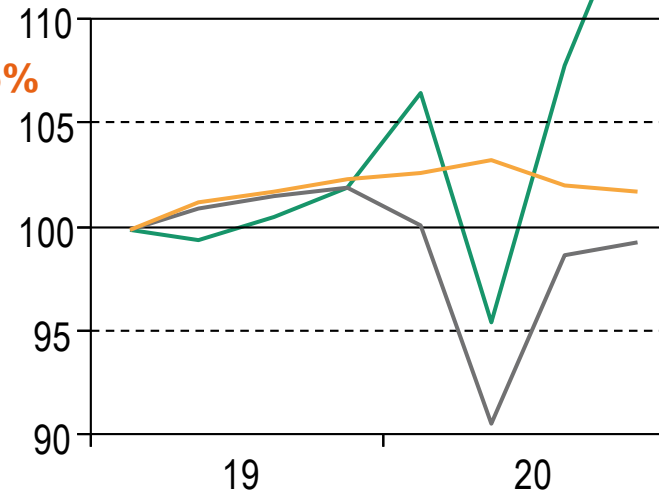
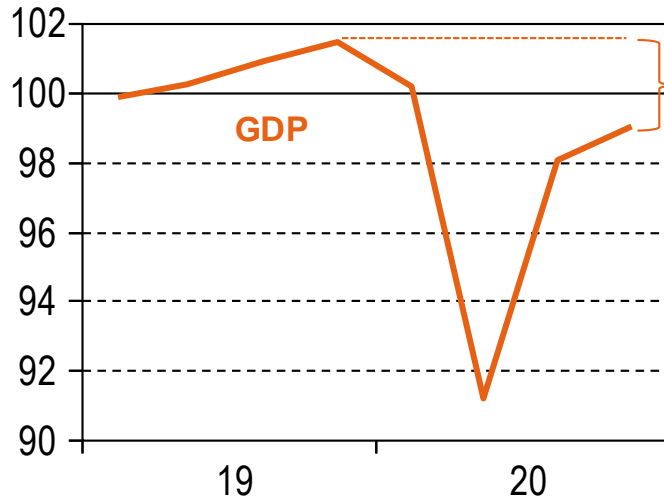
(number of cases)



The economy slowed in Q4, but investment spending remained strong

GDP and its components

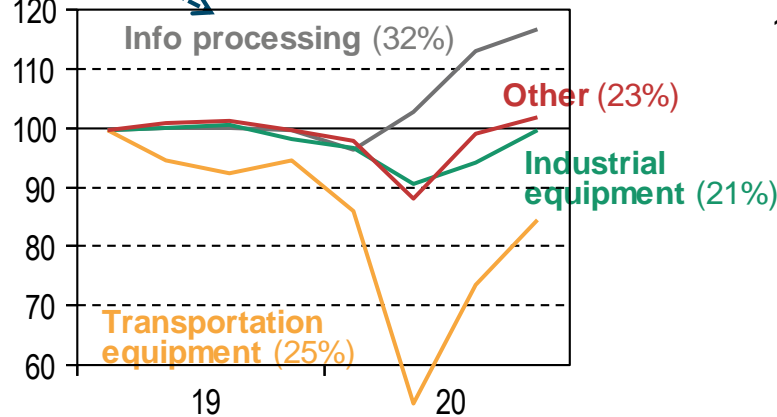
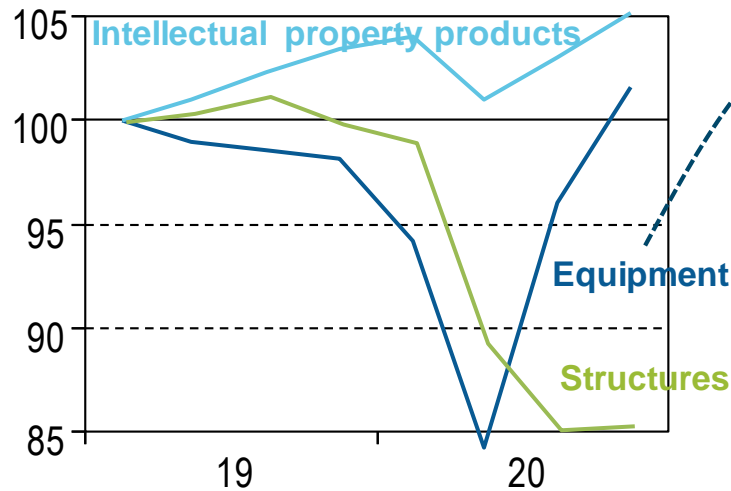
(2019 = 100, volume)



Residential investment

Government spending

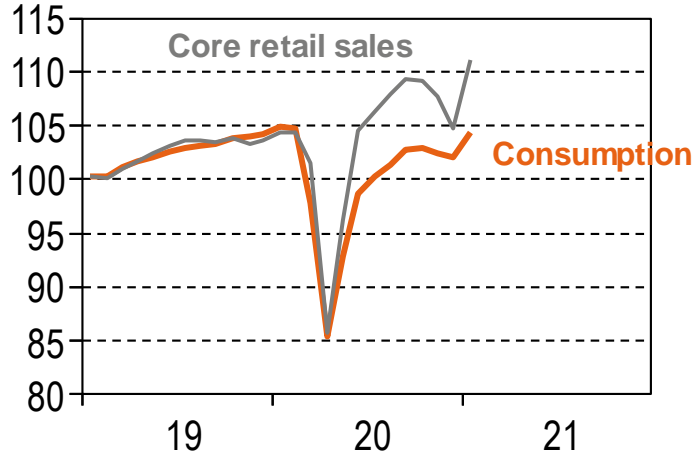
Consumption



Consumption bounced back in early 2021... especially among low-income households

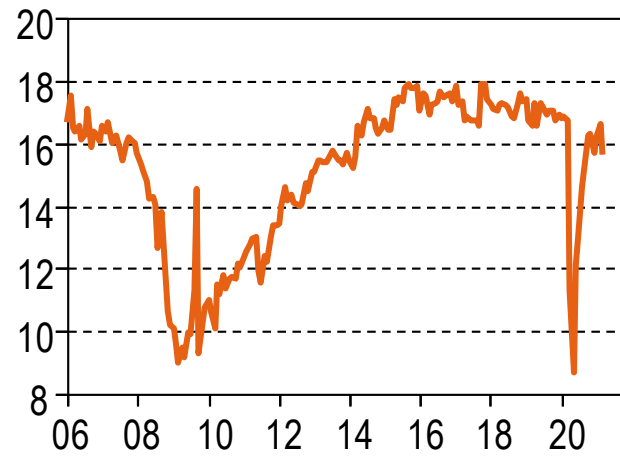
Retail sales and consumption

(January 2019 = 100, nominal)



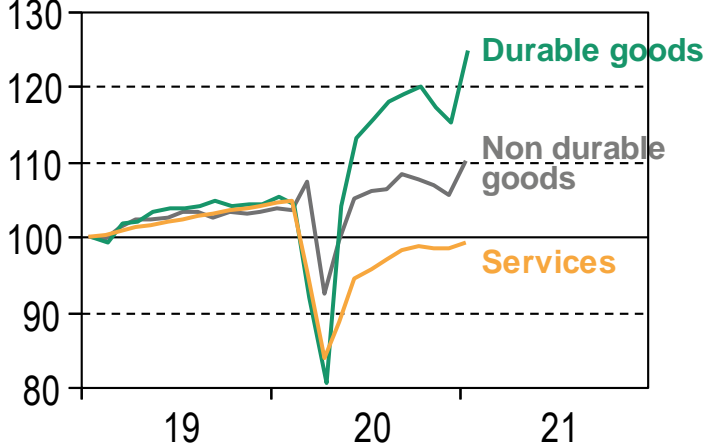
Car sales

(millions, annual rate)



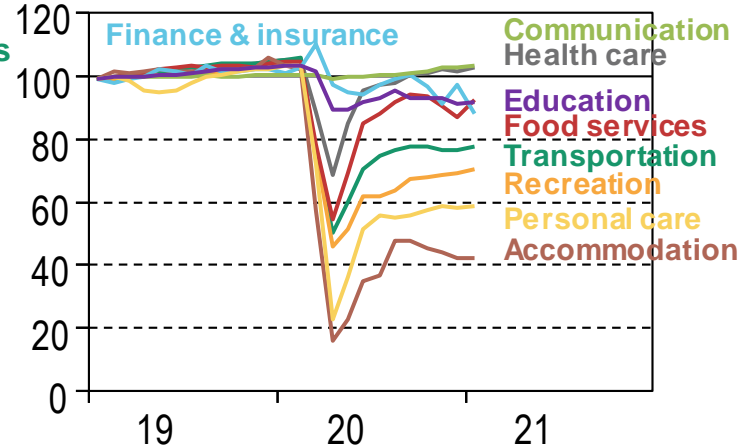
Consumption

(January 2019 = 100, nominal)



Services

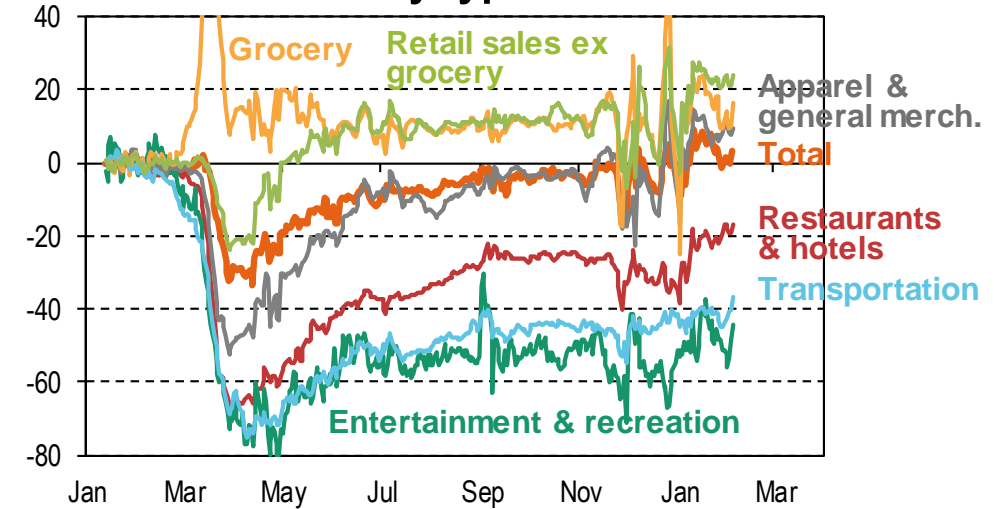
(January 2019 = 100, nominal)



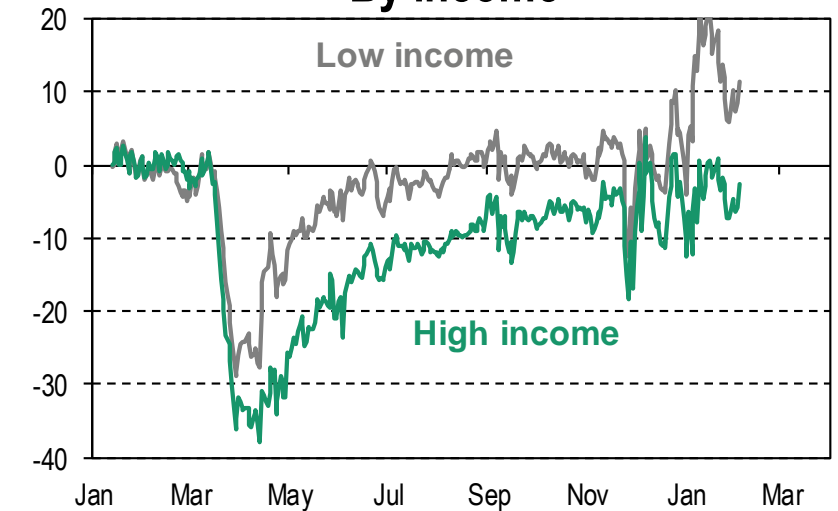
Consumer spending tracker

(% change since January 2020)

By type



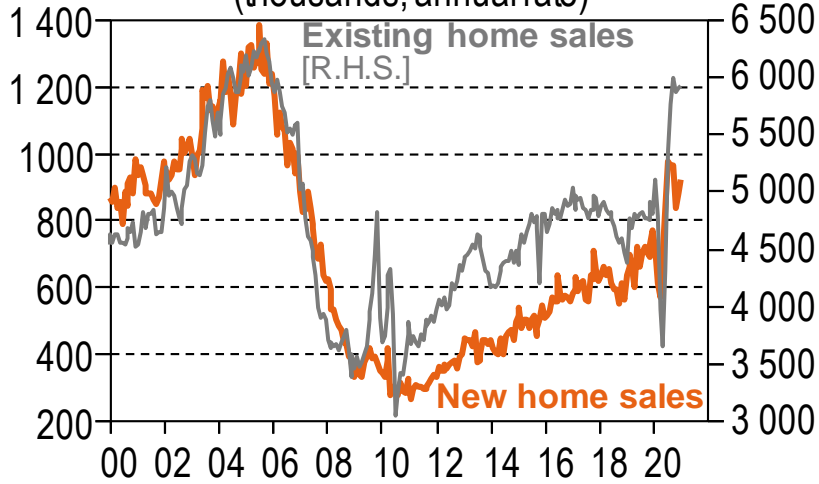
By income



Low interest rates have clearly supported residential investment... while pushing house prices up

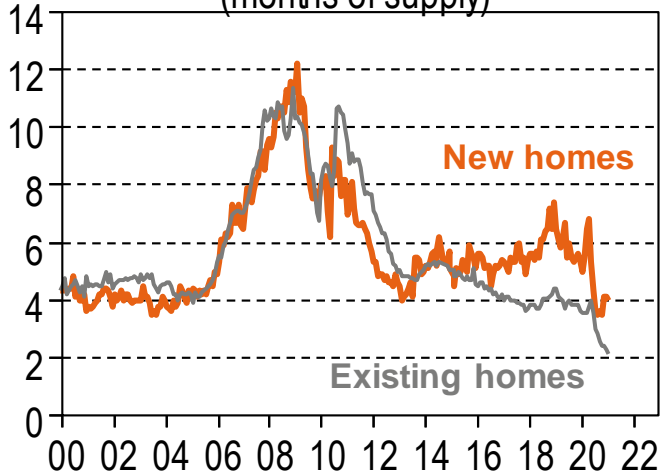
Existing and new home sales

(thousands, annual rate)



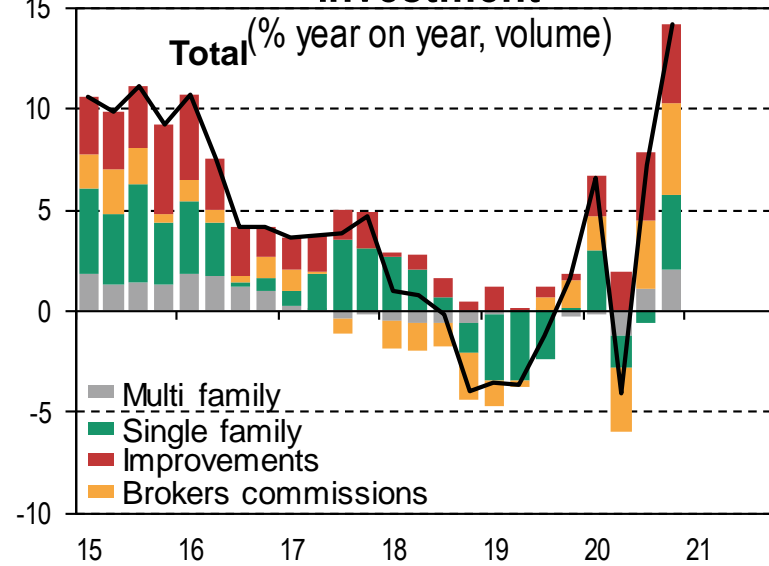
Home inventories

(months of supply)



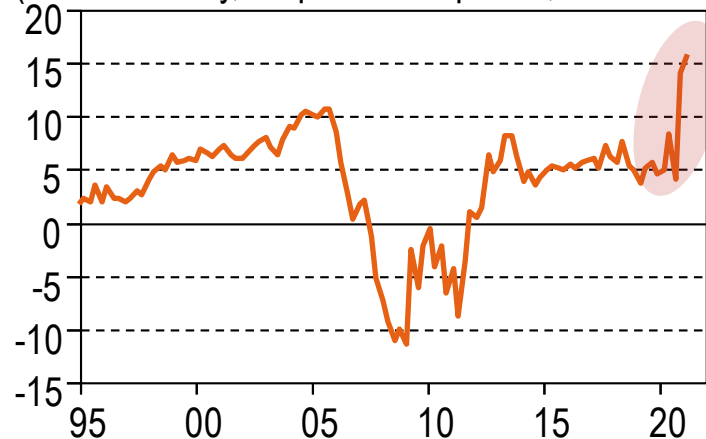
Contribution to residential investment

Total (% year on year, volume)

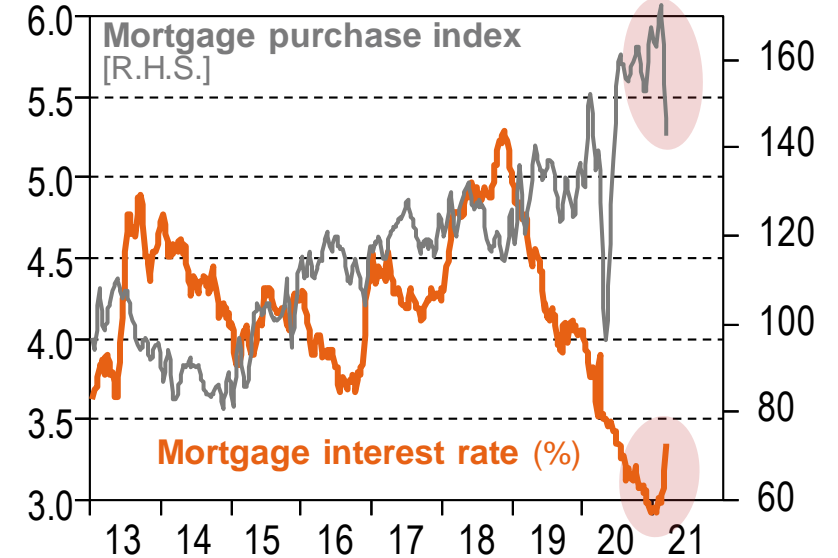


FHFA house price index

(Purchase only, % quarter on quarter, annual rate)



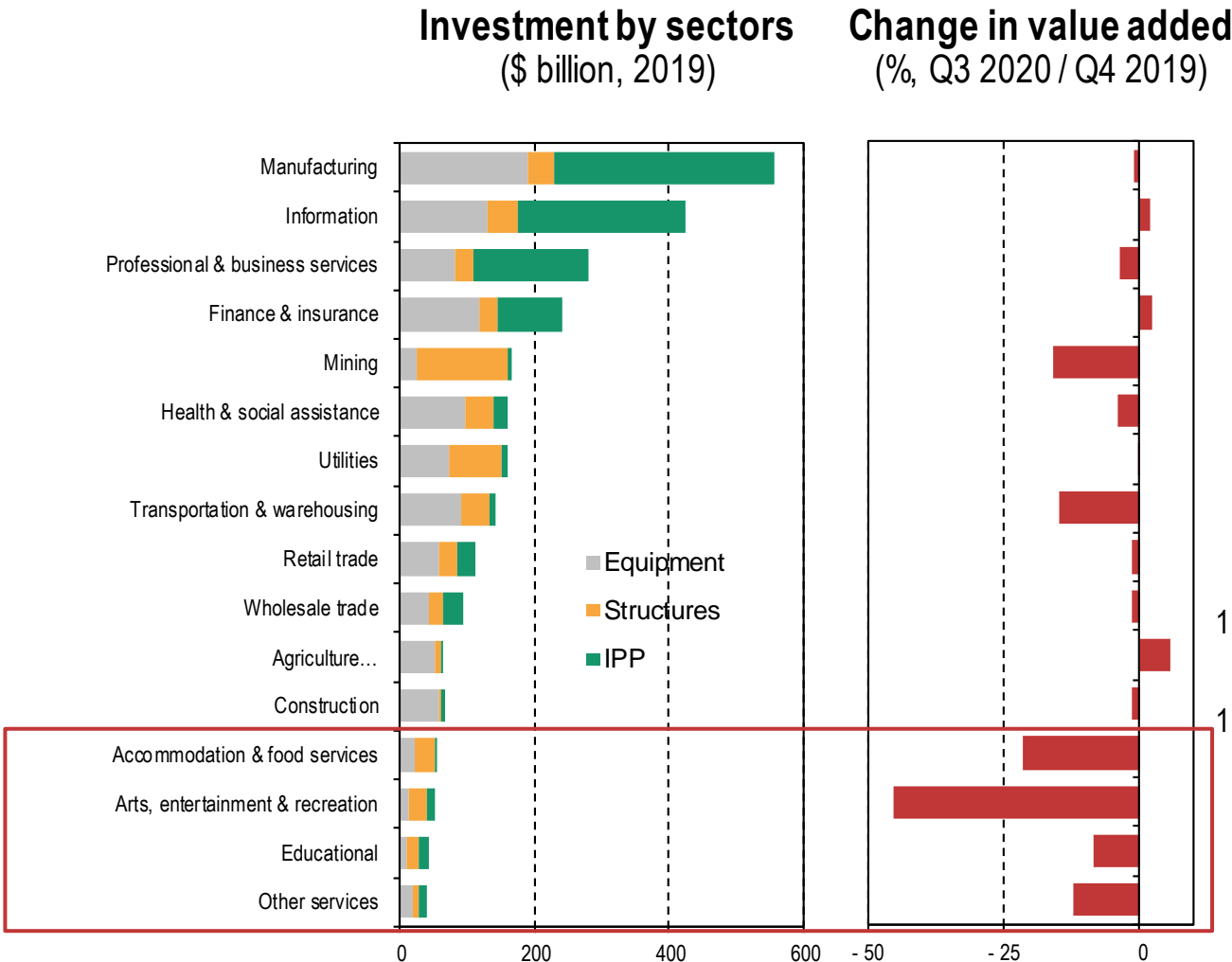
Mortgage purchase index



From now on, the pickup in mortgage rates combined with increased house prices should curb residential investment growth.

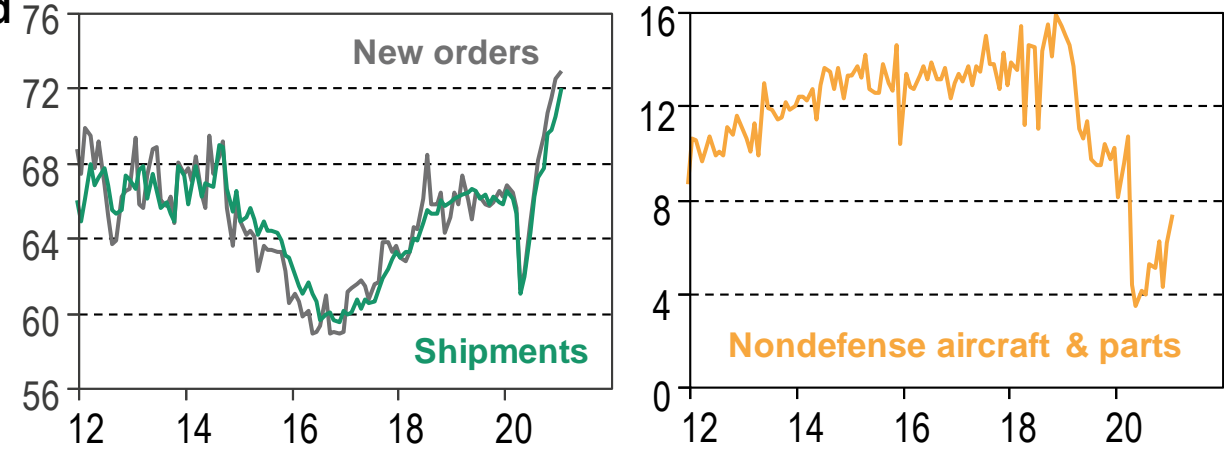
The recovery in business investment should support growth in 2021

The weight of covid affected sectors in investment is relatively low



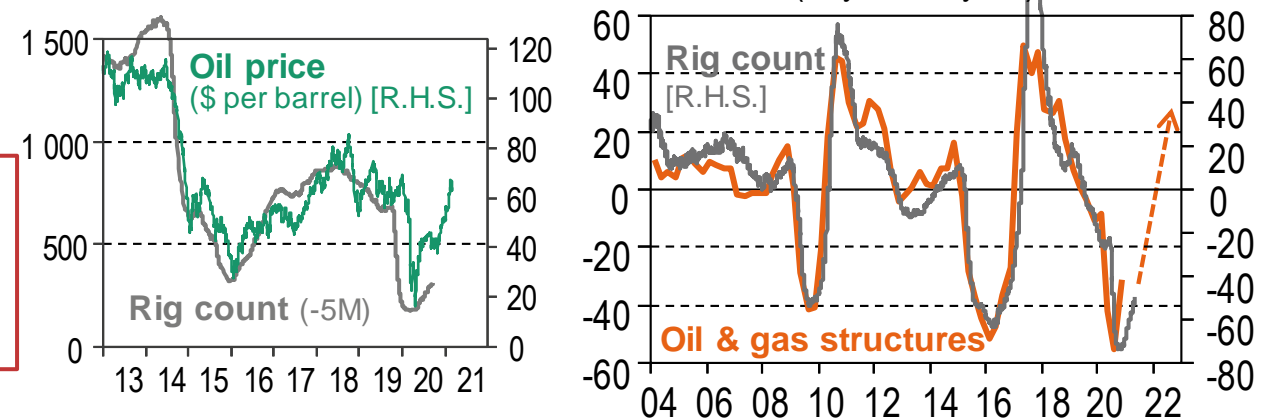
Core new orders and shipments

(billions of dollars)



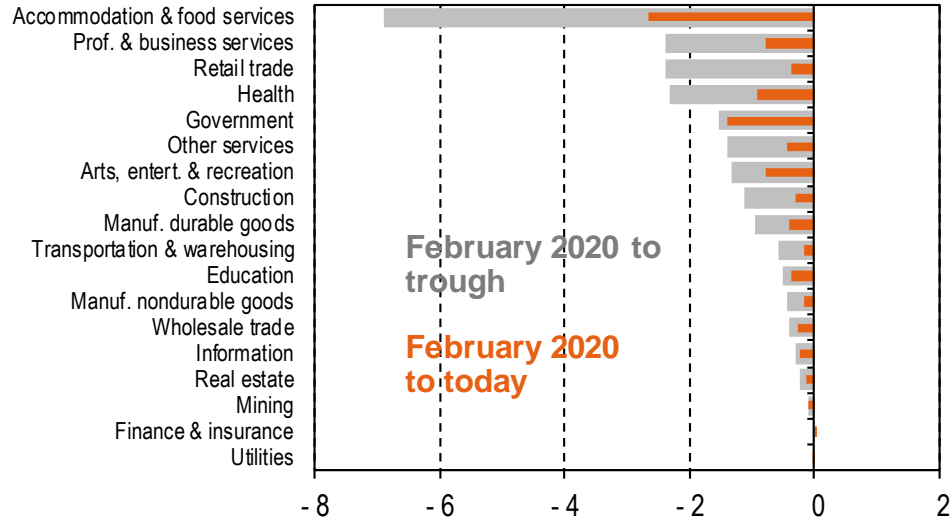
Oil price, rig count and investment in structures

(% year on year)

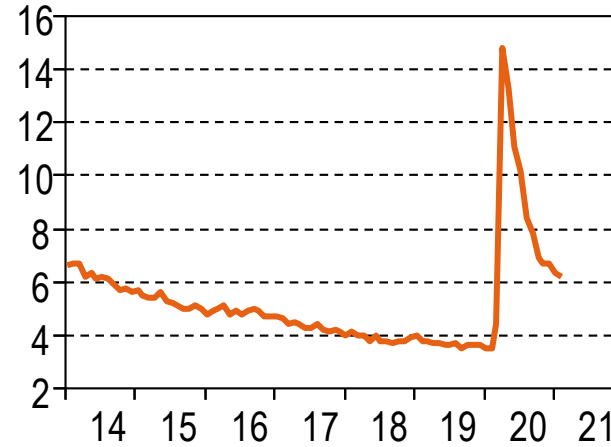


Despite the rebound in activity, 9 million jobs were still missing by February 2021

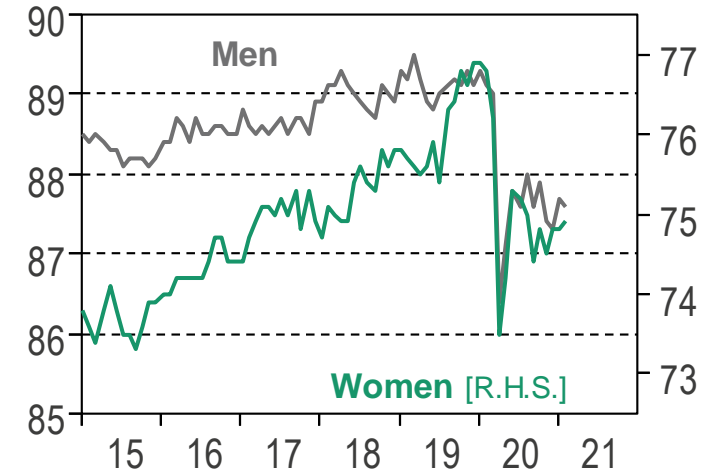
Change in employment by industry
(millions)



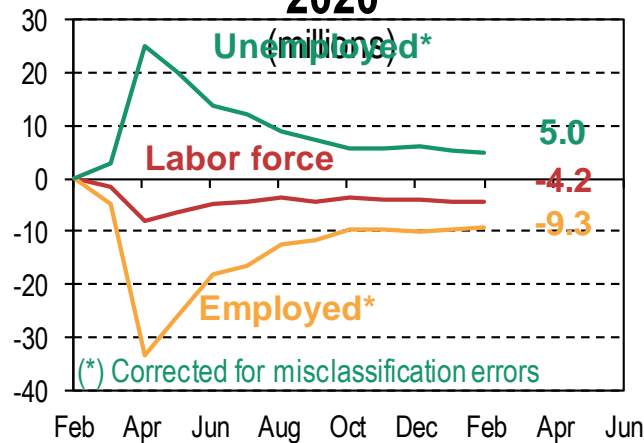
Unemployment rate
(%)



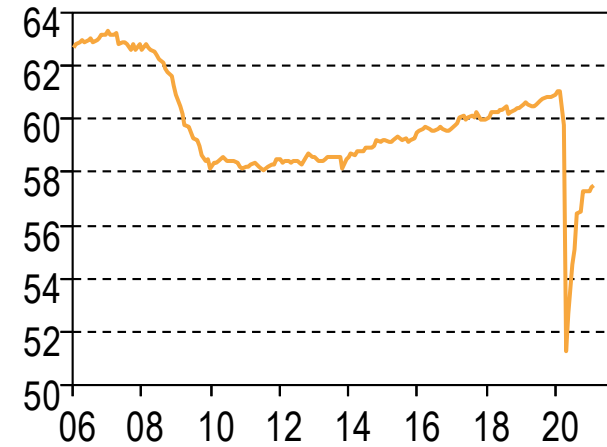
Prime age participation rate
(%)



Cumulated in employment change since February 2020

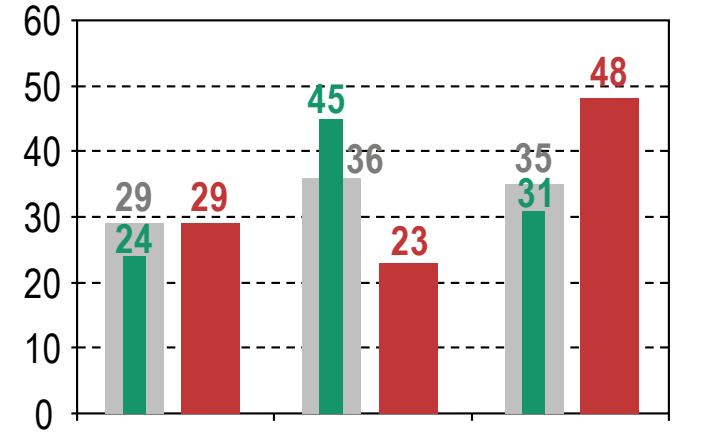


Employment rate
(%)

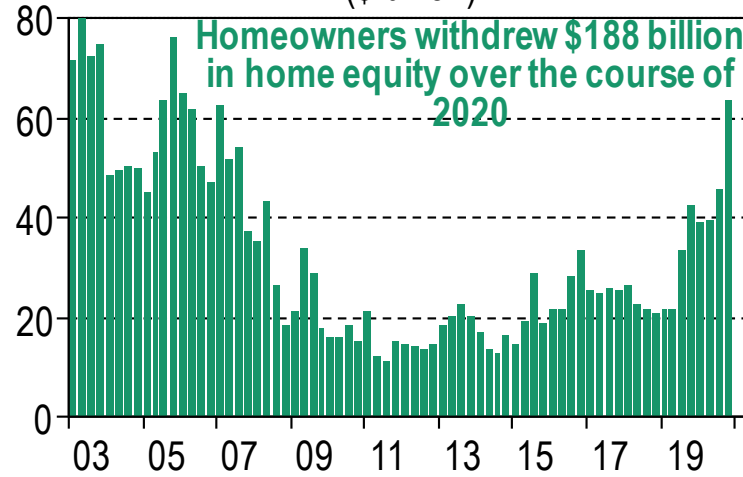


Still, the support provided by the Federal Reserve and the Budget has helped prevent a sharp deterioration of most households financial situation

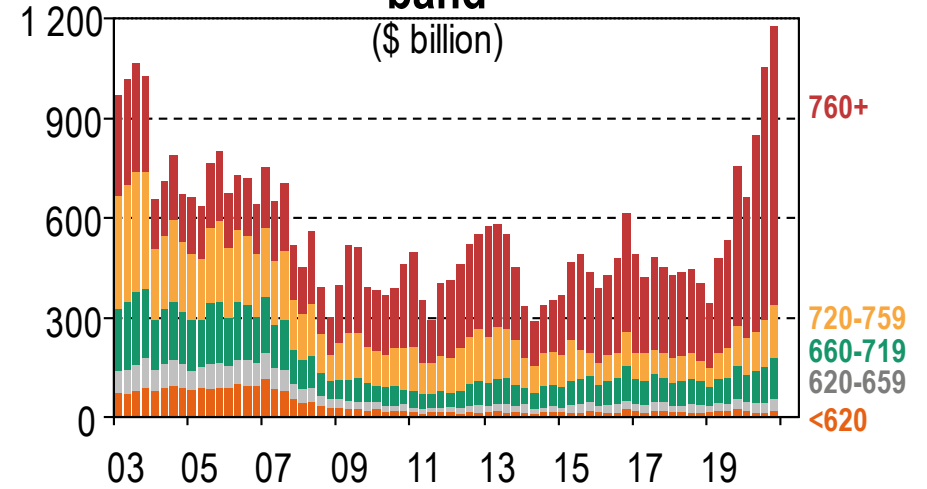
How was the CARES Act money spent ?



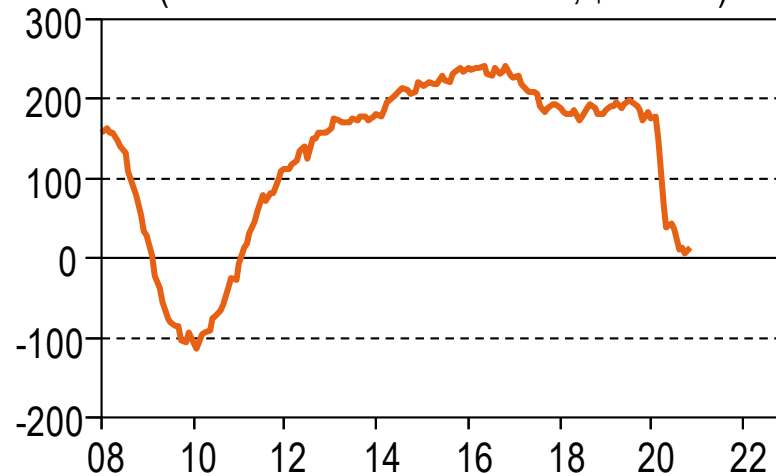
Cash out refinancing (\$ billion)



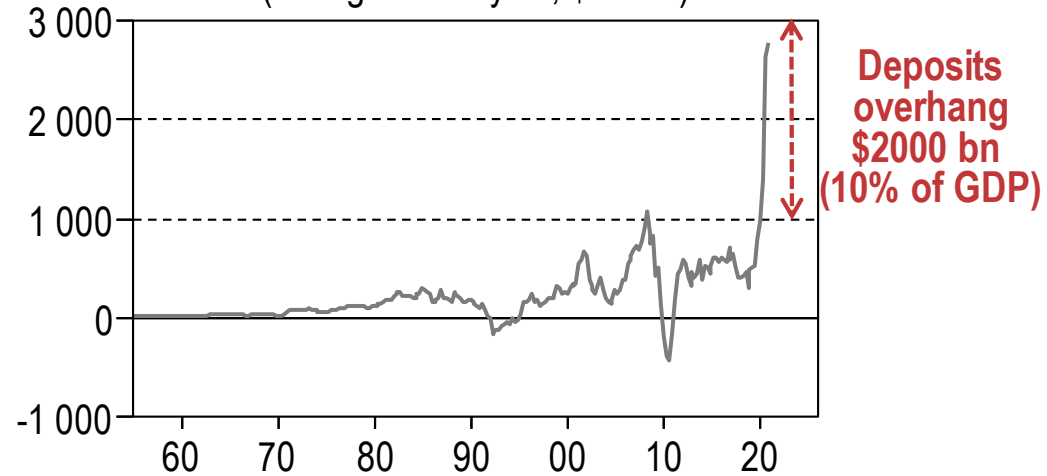
Newly originated mortgages by credit score band (\$ billion)



Consumer credit (annual flow over 12 months, \$ billions)



Household deposits (change over 1 year, \$ billion)

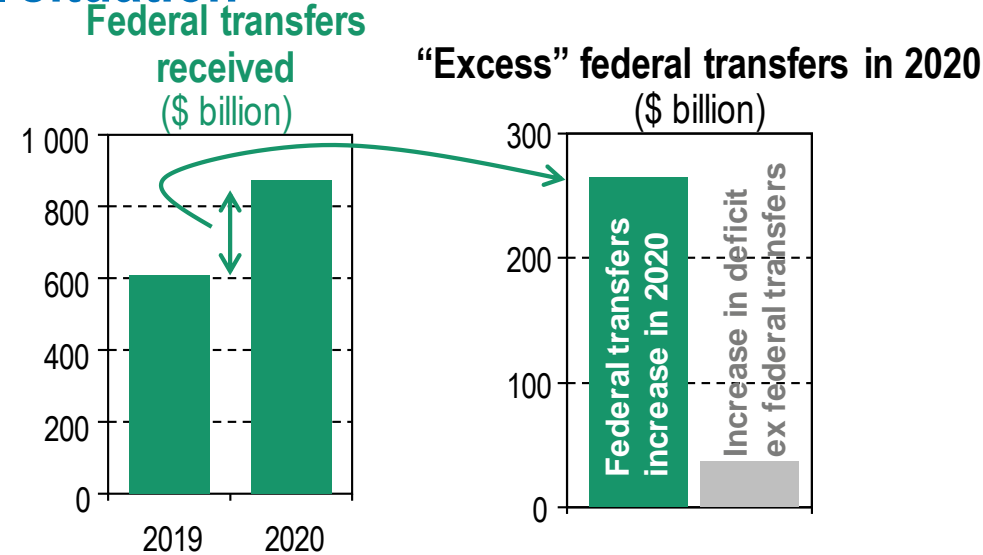
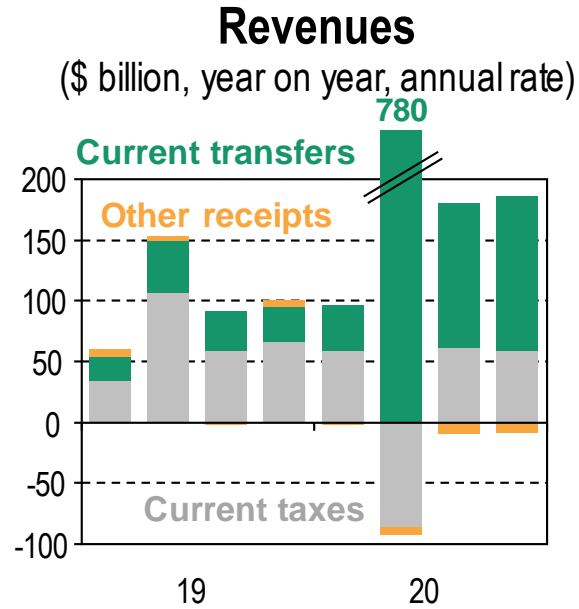
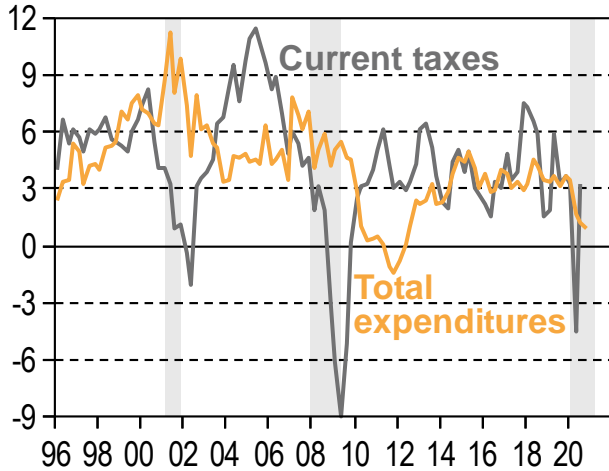


Sources: Refinitiv Datastream, Candiam

While on average S&L governments received ample support, many cities are in a dire financial situation

S&L tax receipts & expenditures

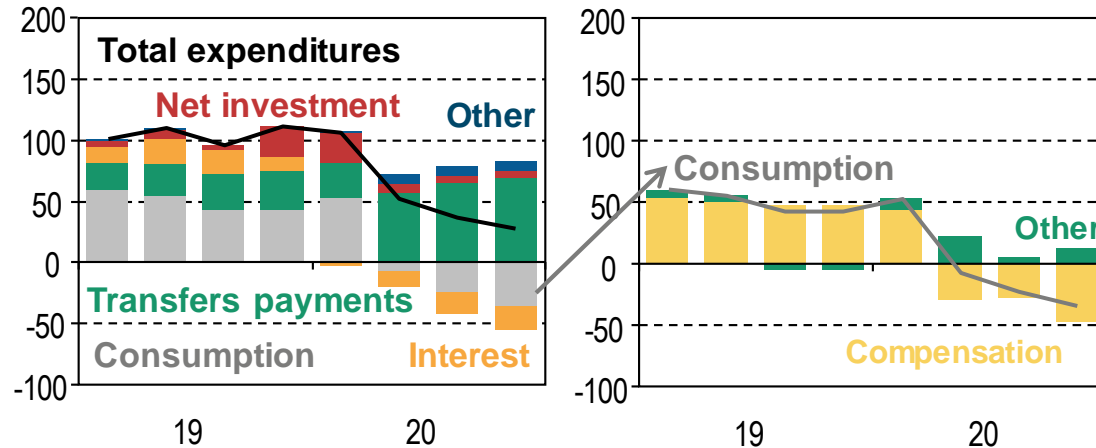
(% year on year change)



By end of 2020, S&L had received \$230bn more in federal transfers than the deterioration of their budget balance

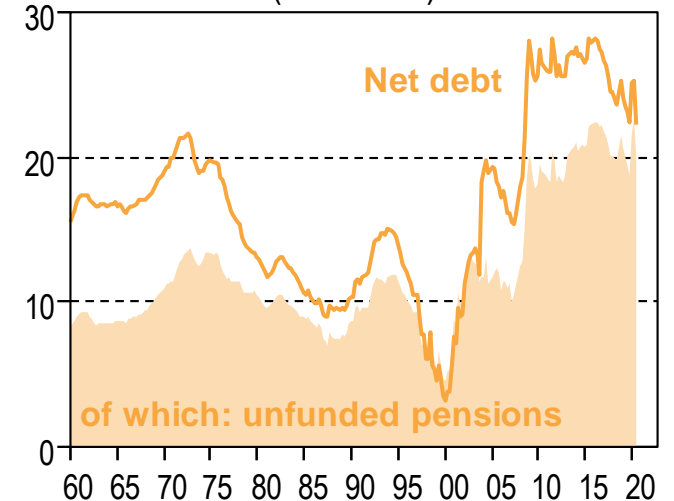
Expenditures

(\$ billion, year on year, annual rate)



S&L debt

(% of GDP)

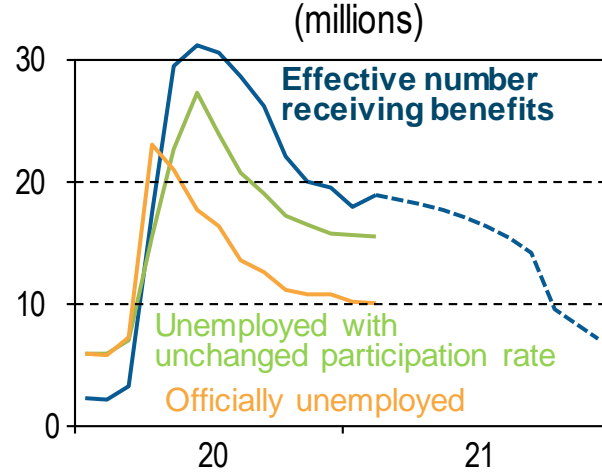


Sources: BEA, Refinitiv Datastream, Candriam

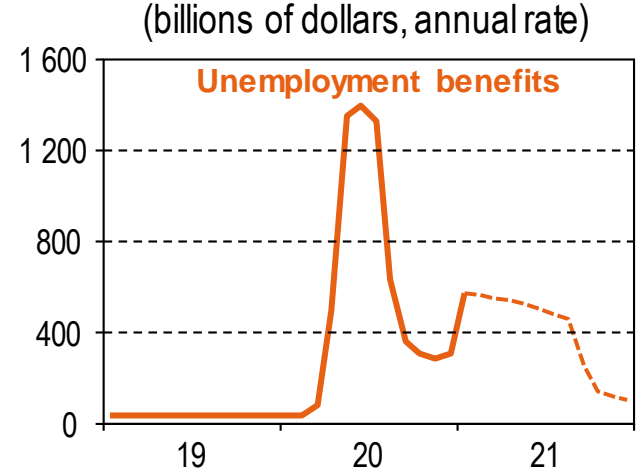
The American Rescue plan will provide substantial additional support to the unemployed, to lower-income households and to the S&L governments

Provision	Deficit impact
Provide \$1,400-per-person stimulus checks	\$422bn
Extend unemployment programs through August 29 with a \$300/week supplement	\$246bn
Provide aid to state and local governments	\$350bn
Provide funding for national vaccination program, testing, and other COVID containment efforts	\$85bn
Fund school reopening and increase funding to school and colleges	\$170bn
Expand Child Tax Credit, Child Care Tax Credit and Earned Income Tax Credit mostly for one year	\$143bn
Provide emergency rental assistance and assist homeless	\$30bn
Provide mortgage payment assistance	\$10bn
Other policy changes	\$470bn
Total Reported Cost	\$1.9 trillion

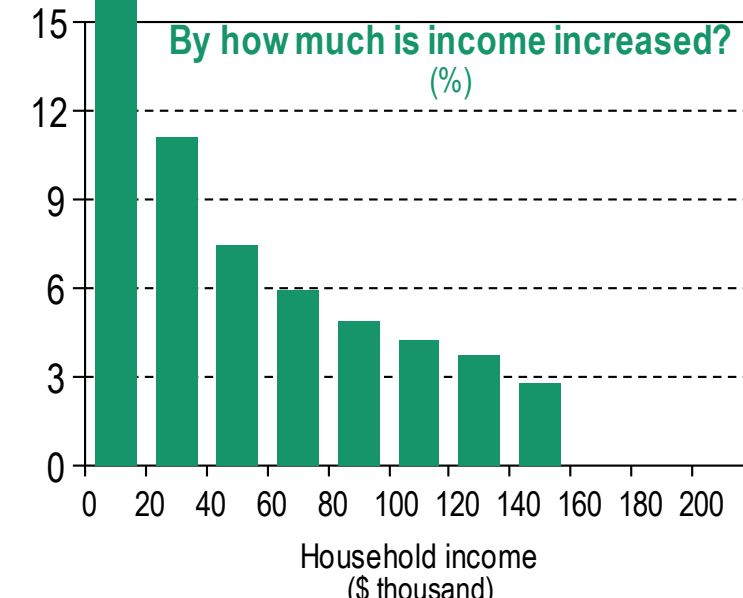
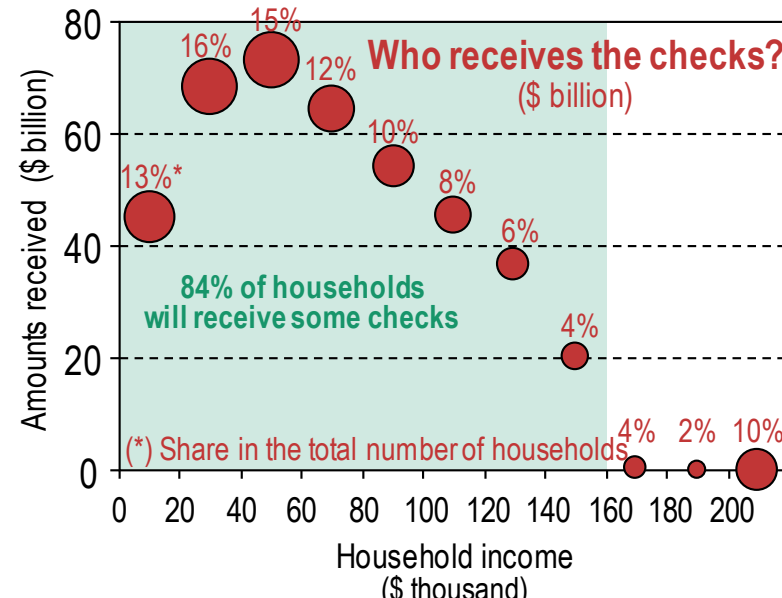
Number receiving benefits



Benefits paid



Impact of the \$1 400 checks on households

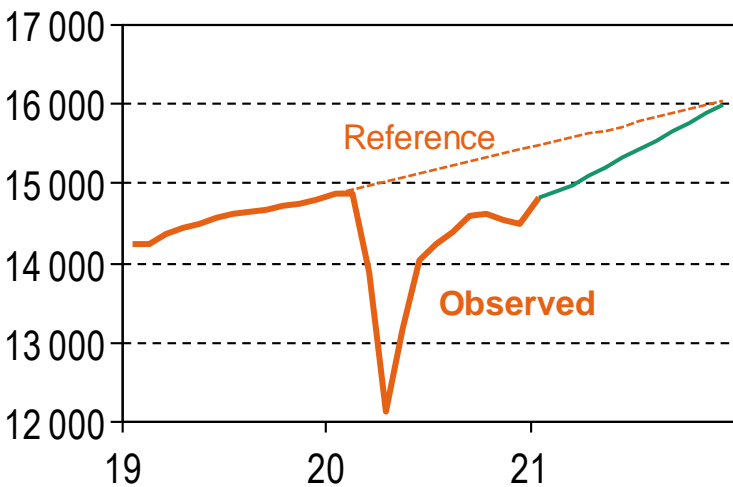


Sources: CRFB, Refinitiv Datastream, Census Bureau, Candriam

Given the size of the fiscal stimulus, excess saving could keep on accumulating... ... and consumption spending could be significantly lifted above trend !

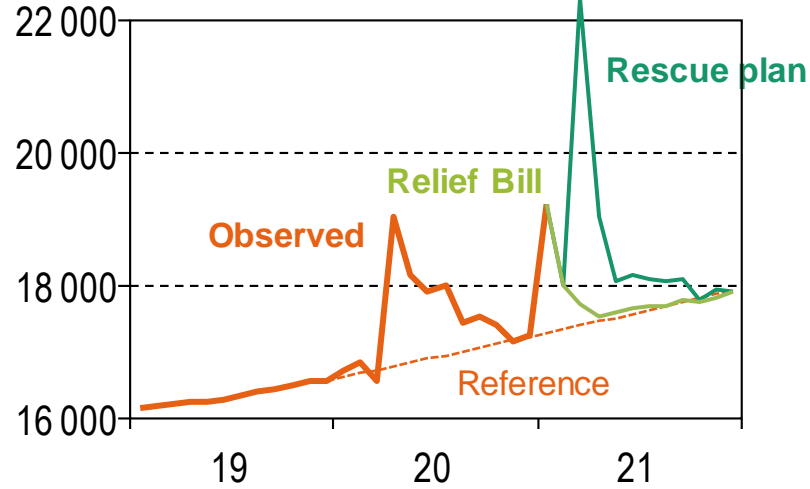
Consumption

(\$ billion, annual rate)



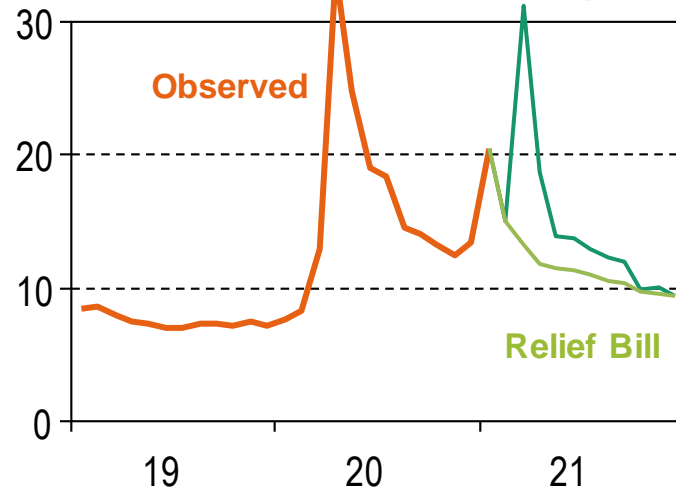
Disposable income

(\$ billion, annual rate)



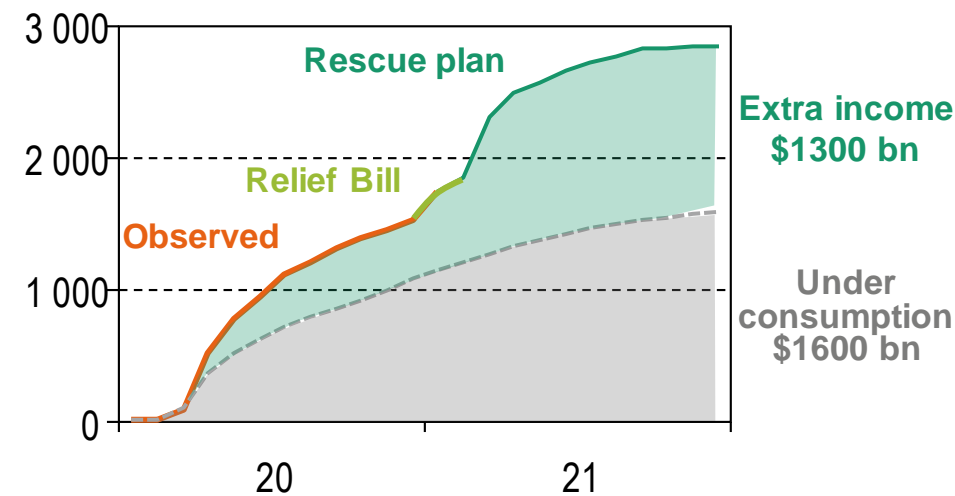
Saving rate

(%)



Potential excess saving

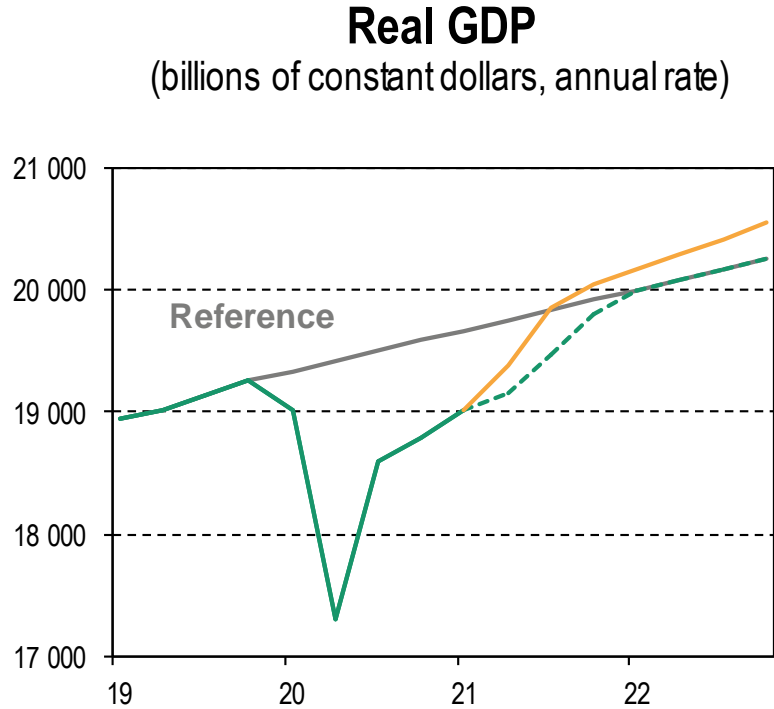
(\$ billion, cumulated since January 2020)



The extra income component of saving is accruing mainly to lower income households, while the under consumption is mainly attributed to the higher income ones.

Sources: Refinitiv Datastream, BEA, Candriam

An “above trend” growth scenario is becoming likely: it would meet the Fed and Treasury policy objectives...without necessarily triggering long lasting inflationary pressures

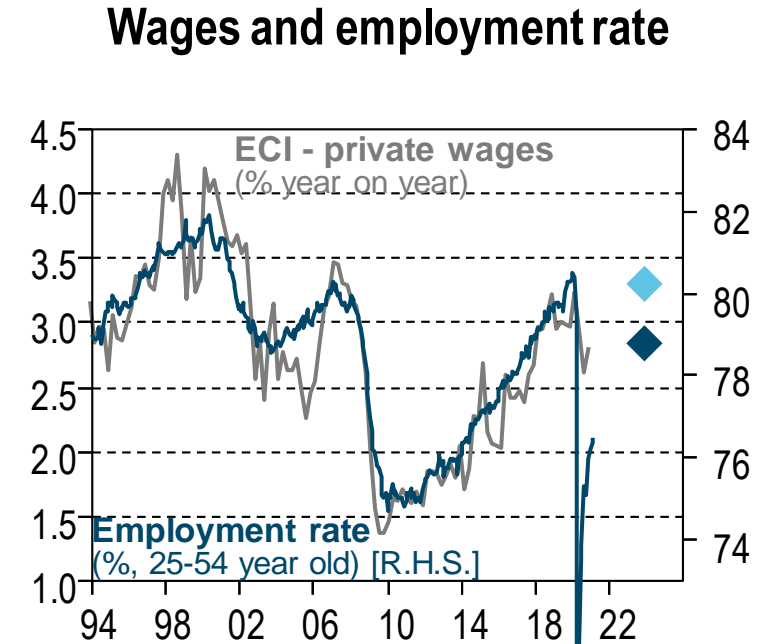
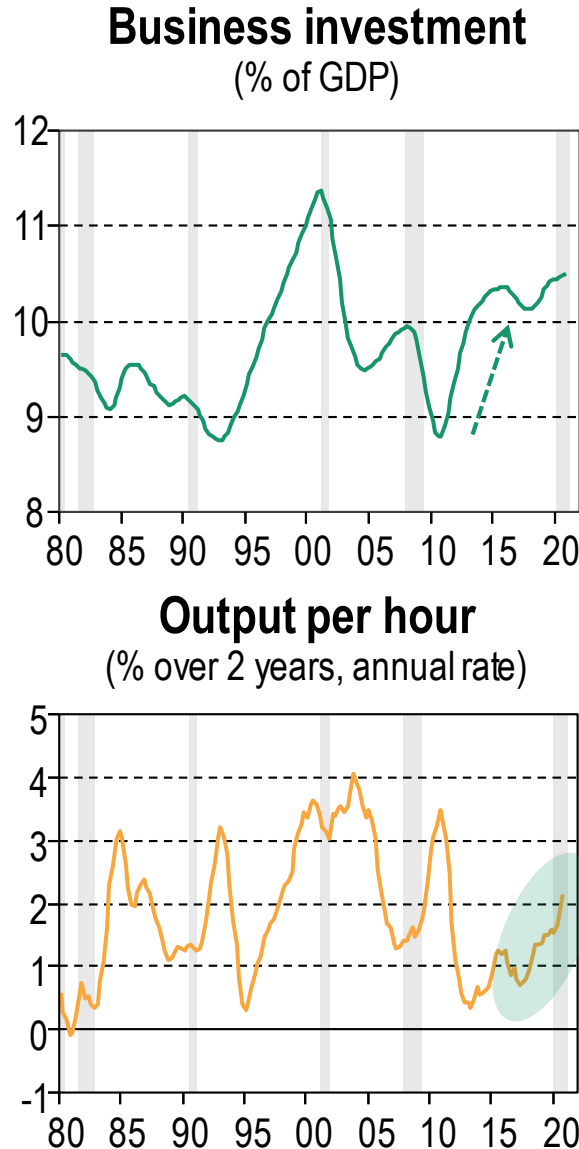


Back to trend

2021 = 5.1%
2022 = 4.0%

Main scenario

2021 = 6.2%
2022 = 4.0%



+4% GDP growth in 2022
and productivity at 1%

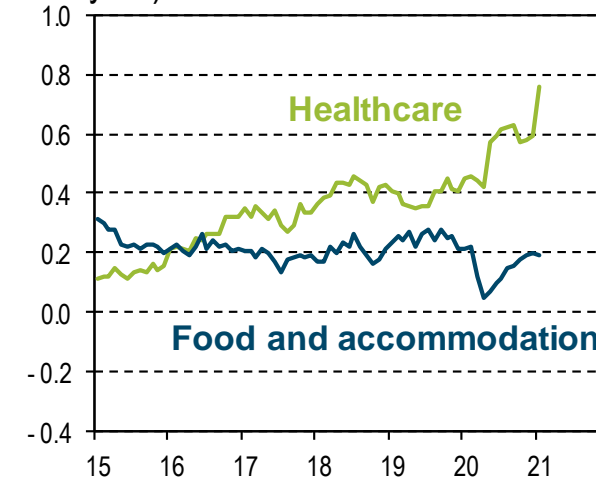
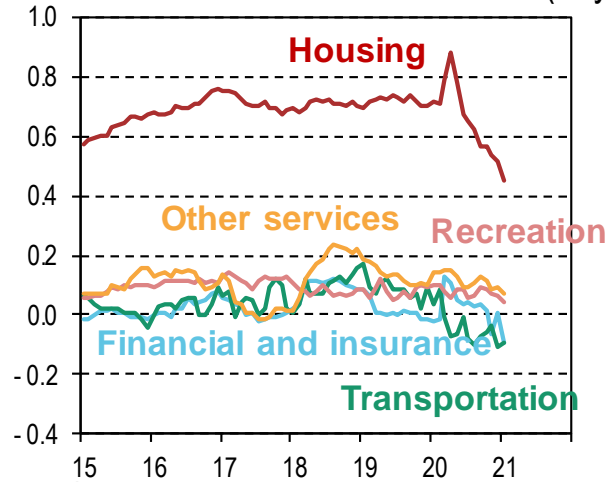
+4% GDP growth in 2022
and productivity at 2%

Sources: Refinitiv Datastream, Candriam

Despite the recent acceleration in the PPI, getting the core market based PCE durably above 2% will take some more time!

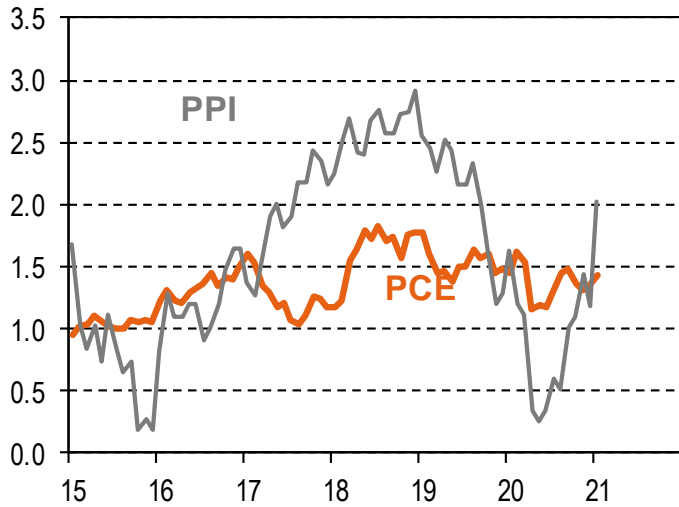
Services contribution to market-based PCE

(% year on year)



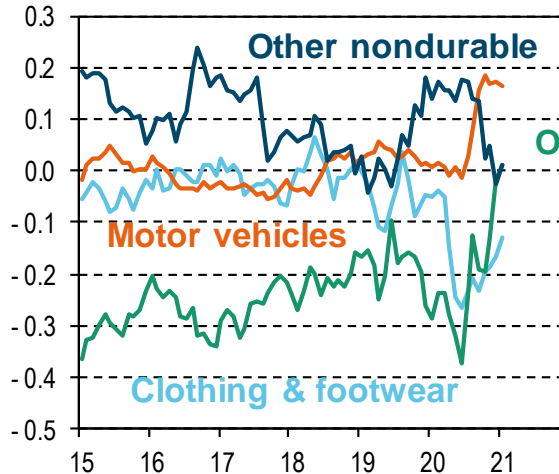
Core PCE market-based and core PPI

(% year on year)



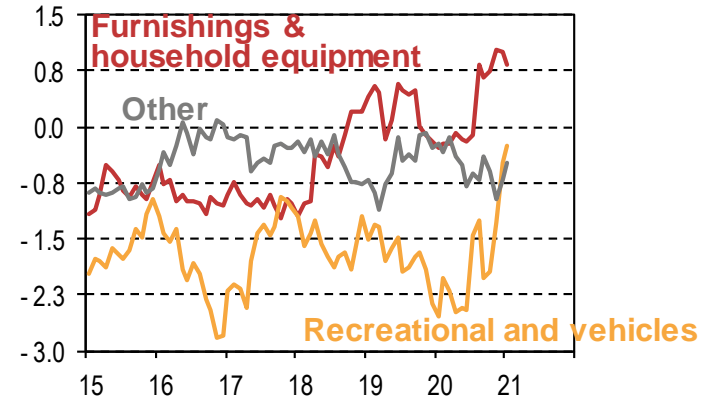
Goods contribution to market-based PCE

(% year on year)



Contribution to other durable goods

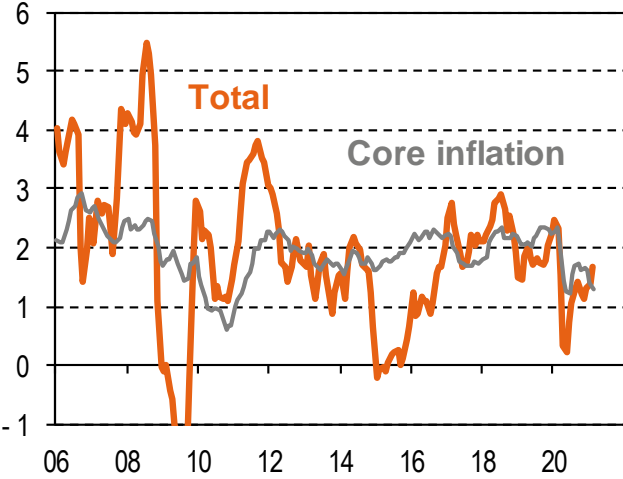
(% year on year)



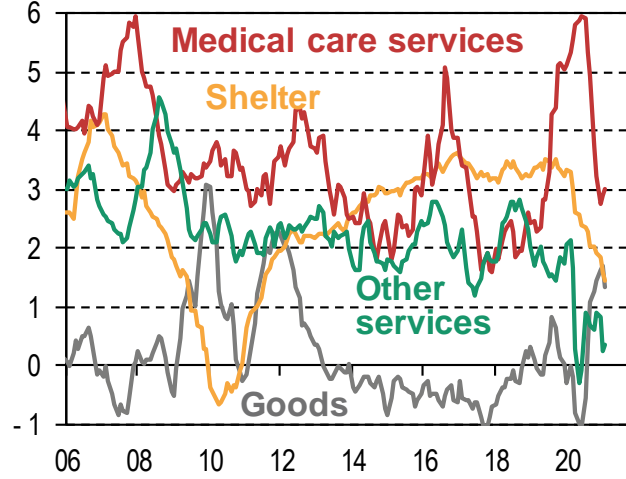
Sources: Refinitiv Datastream, Candriam

In the near term however, the CPI is bound to move upwards from depressed levels

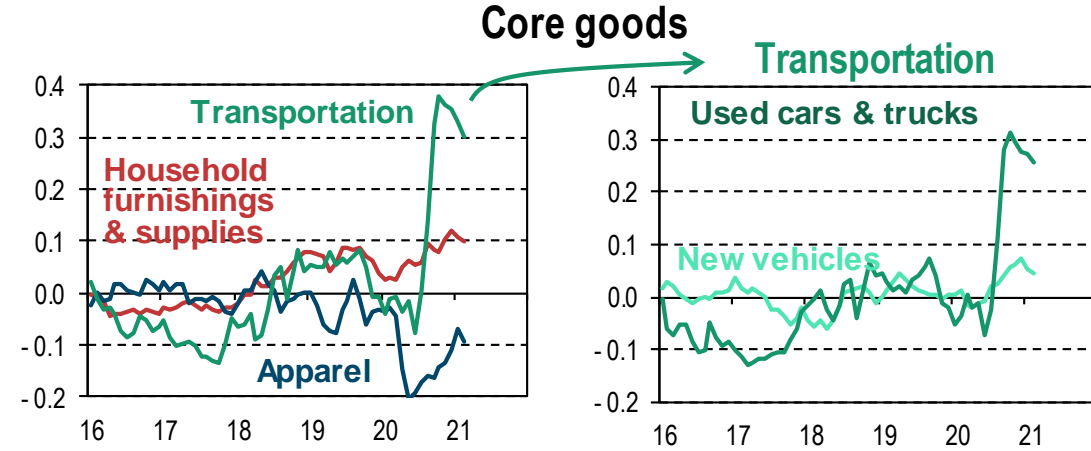
Inflation
(CPI, % year on year)



Core components



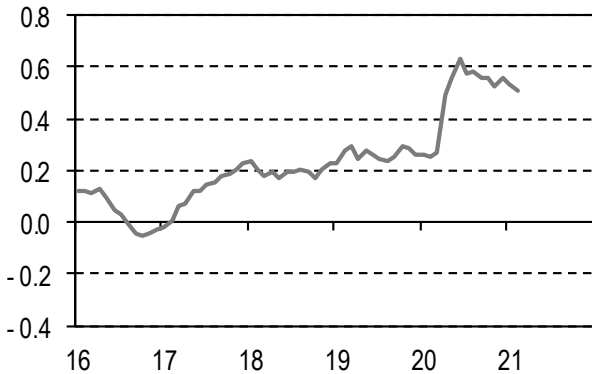
Contribution to total inflation
(% year on year)



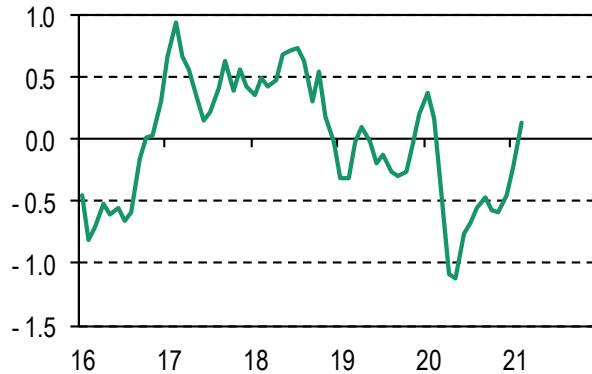
Contribution to total inflation

(% year on year)

Food

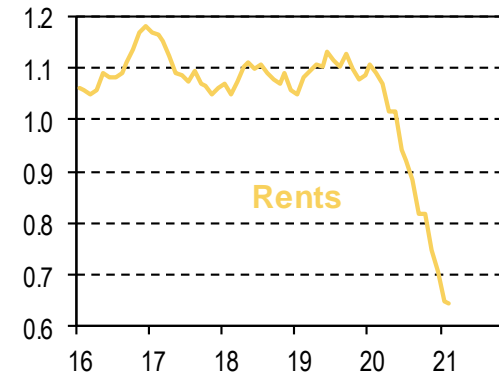


Energy

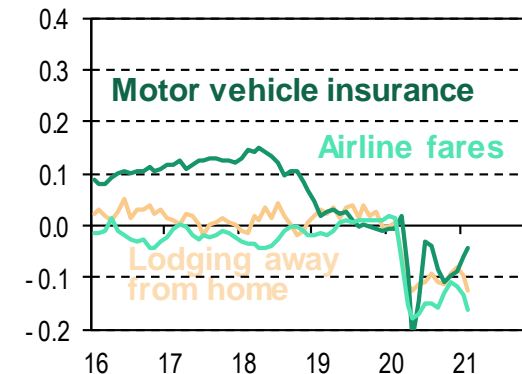


Core services

Shelter

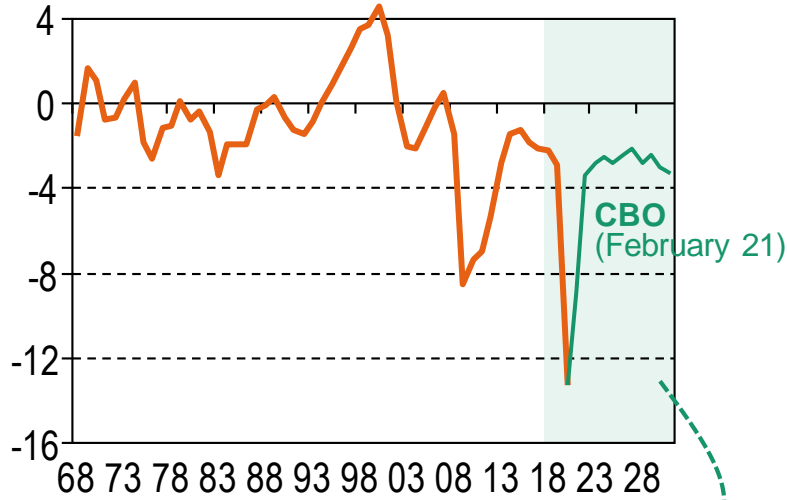


Transportation

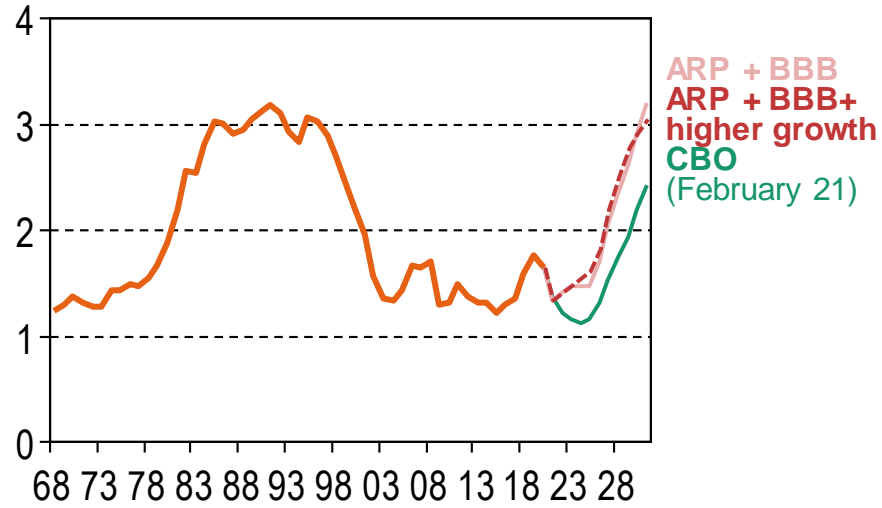


The federal deficit should remain significant in 2021, pushing debt to unseen levels

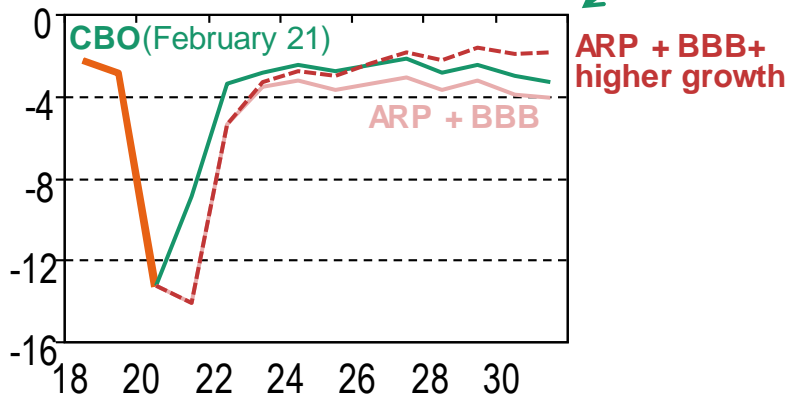
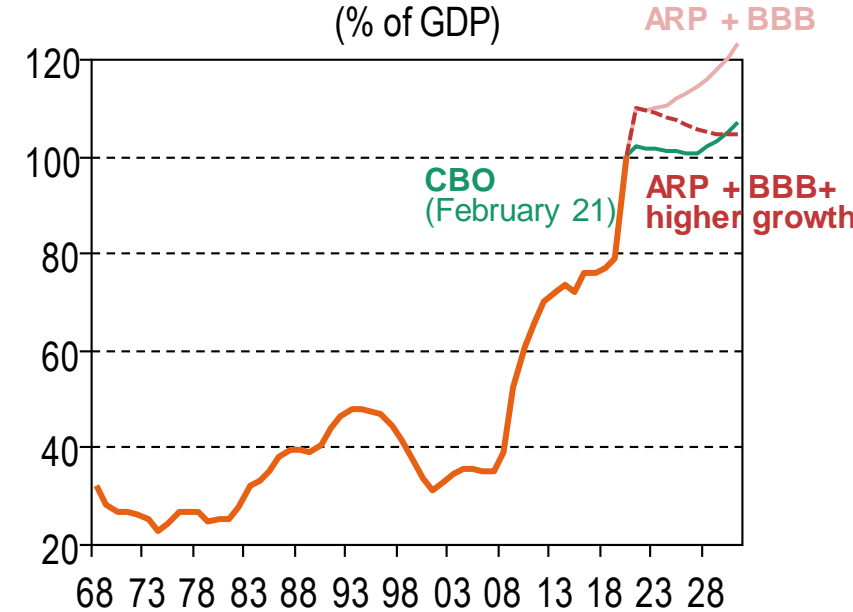
Primary balance
(% of GDP)



Net interest payments
(% of GDP)



Debt held by the public
(% of GDP)



American rescue plan (ARP)

\$1 900 bn over FY2021-31.
\$1 200 bn and \$400 bn respectively
in FY21 and FY22.

Build back better (BBB)

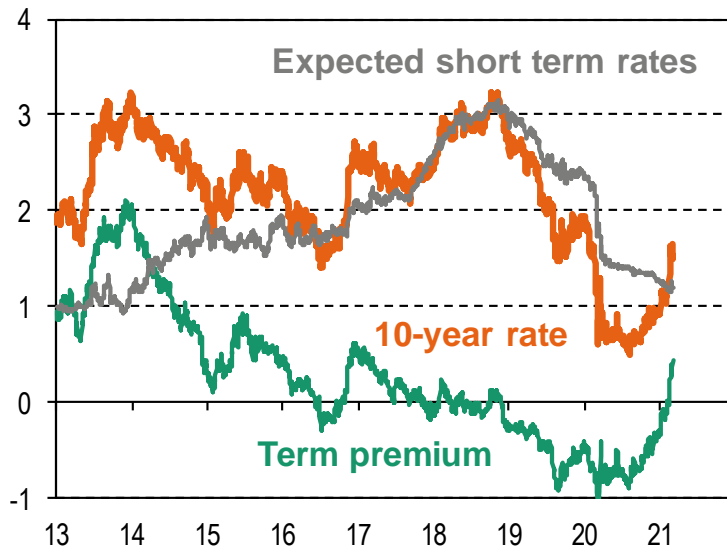
\$2 000 bn infrastructure plan spent
over 10 years from FY22 (\$200bn
per year)

Given the size of the public deficit and despite the ongoing QE, Treasury debt issuance to be absorbed by the private sector will significantly increase

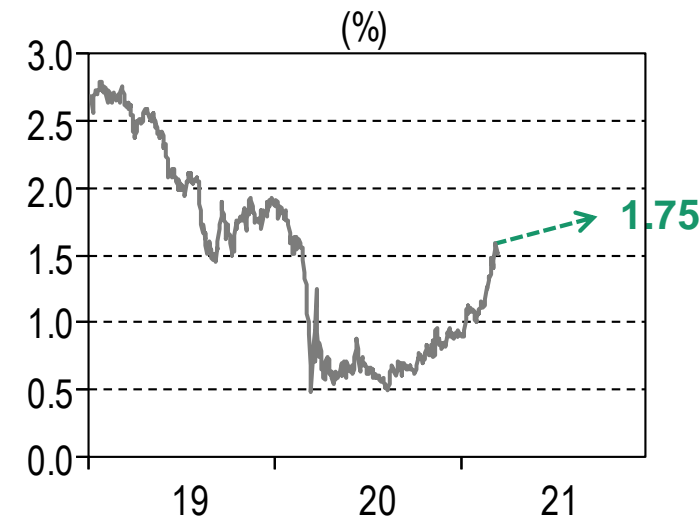
Treasury securities supply (\$ billion)

	Treasury financing needs	Net issuances	Bills	Notes & bonds	Change in cash holding	Total cash held
Q1 2020	365	481	241	240	116	516
Q2 2020	1 526	2 745	2 422	323	1 219	1 734
Q3 2020	401	469	-51	520	68	1 802
Q4 2020	648	605	-65	670	-43	1 760
2020	2 940	4 300	2 547	1 753	1 360	
Fed purchases			162	2 205		
Rest to be absorbed by the private sector			2 385	-453		
Constant share of Bills at 23.5%						
2021	3 527	2 167	805	1 362	-1 360	400
Fed purchases				960		
Rest to be absorbed by the private sector				402		
Share of Bills back to 15%						
2021	3 527	2 167	-1 289	3 456	-1 360	
Fed purchases				960		
Rest to be absorbed by the private sector				2 496		

Macro drivers of 10-year Treasury rate (%)



Our forecast of 10-year interest rate (%)

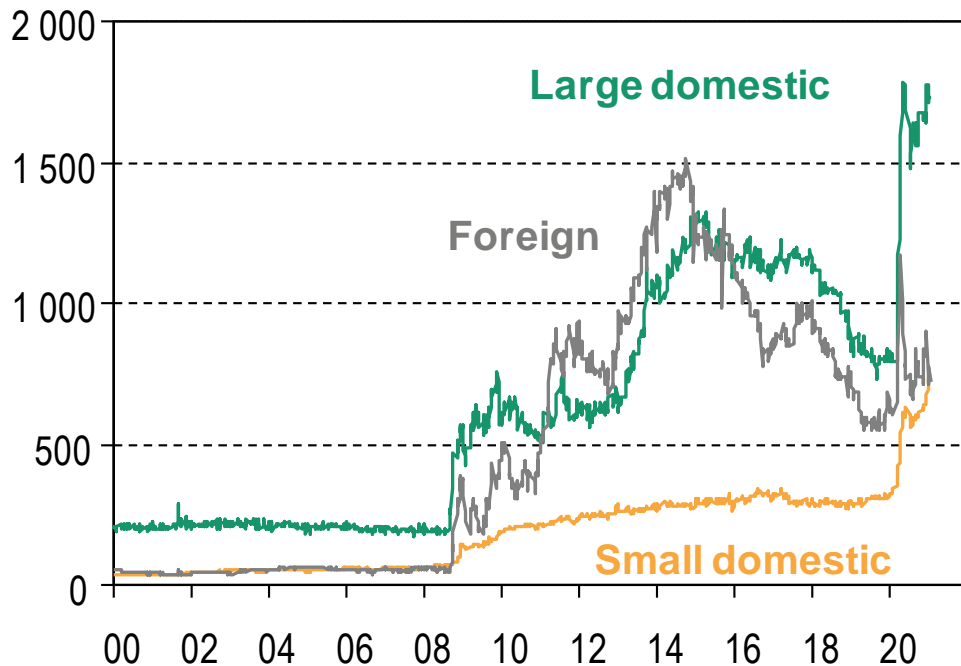


4b. Memo

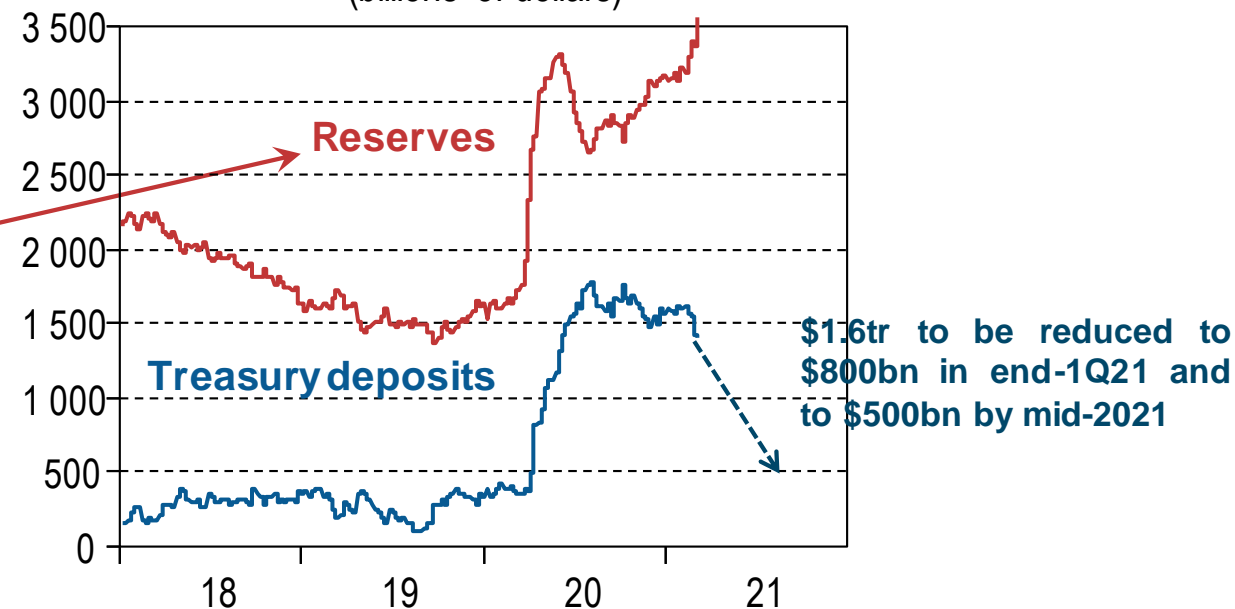
A growing downward pressure on the short end of the yield curve

While US large banks already have a lot of cash, the US Treasury signaled a strong intention to reduce its deposits at the Fed

Cash assets* of depository institutions (billions of dollars)



Banks' reserves & Treasury deposits at the Fed (billions of dollars)



(*) Includes vault cash, cash items in process of collection, balances due from depository institutions, and balances due from Federal Reserve Banks.

Why does the Treasury plan to get rid of its excess cash?

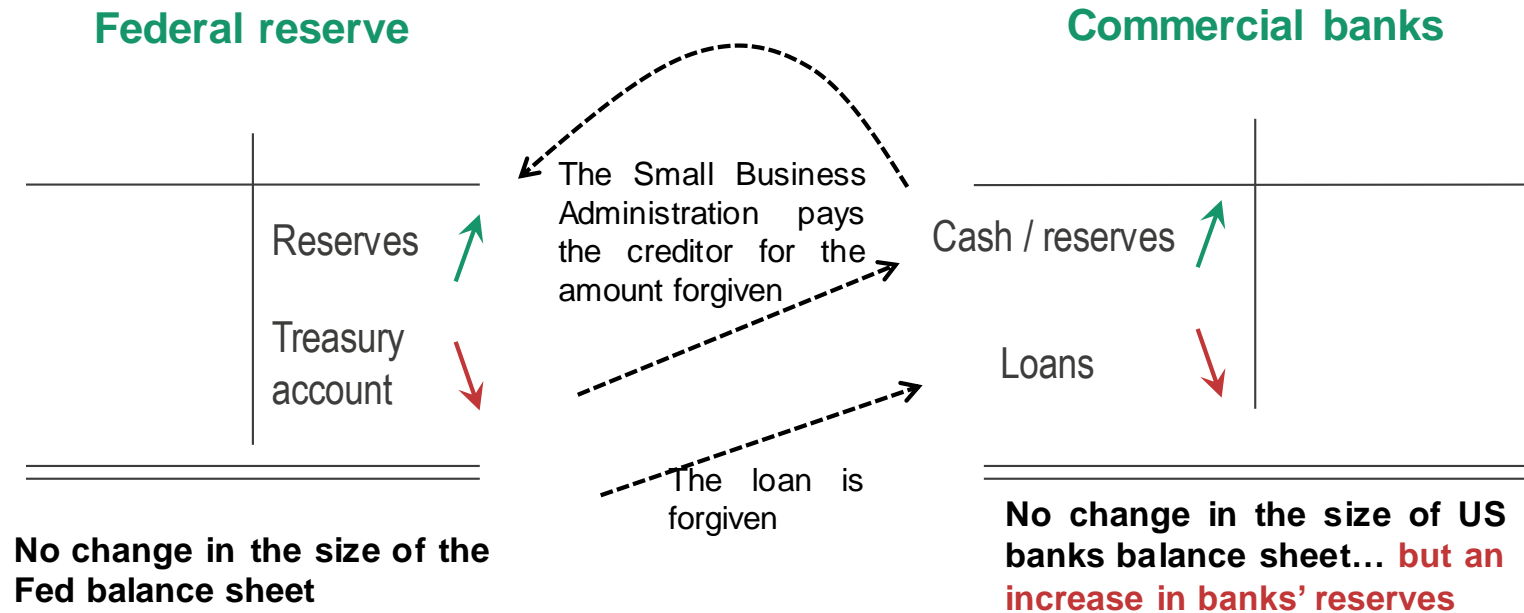
The projected decrease of Treasury General Account (TGA) reflects a desire for Treasury to manage its deposit at the Fed back to more normal levels before debt ceiling legislation expires on August 1, 2021: under the budget law adopted in August 2019, which includes a debt ceiling limit, the TGA should be reduced to \$133bn by August 2021.

The \$900bn stimulus program passed in end-2020 repurposed around **\$570bn of unspent funds from the CARES Act**, mostly funds for PPP loans that were never taken out and unused funds from Fed credit facilities: this partly explains why the Treasury General Account is abnormally full of cash.

So, part of the decrease of the TGA could happen through converting the existing PPP loans to grants over the next two months (so far, the conversion of PPP loans to grants was slow with just over \$100bn converted between October and mid-January).

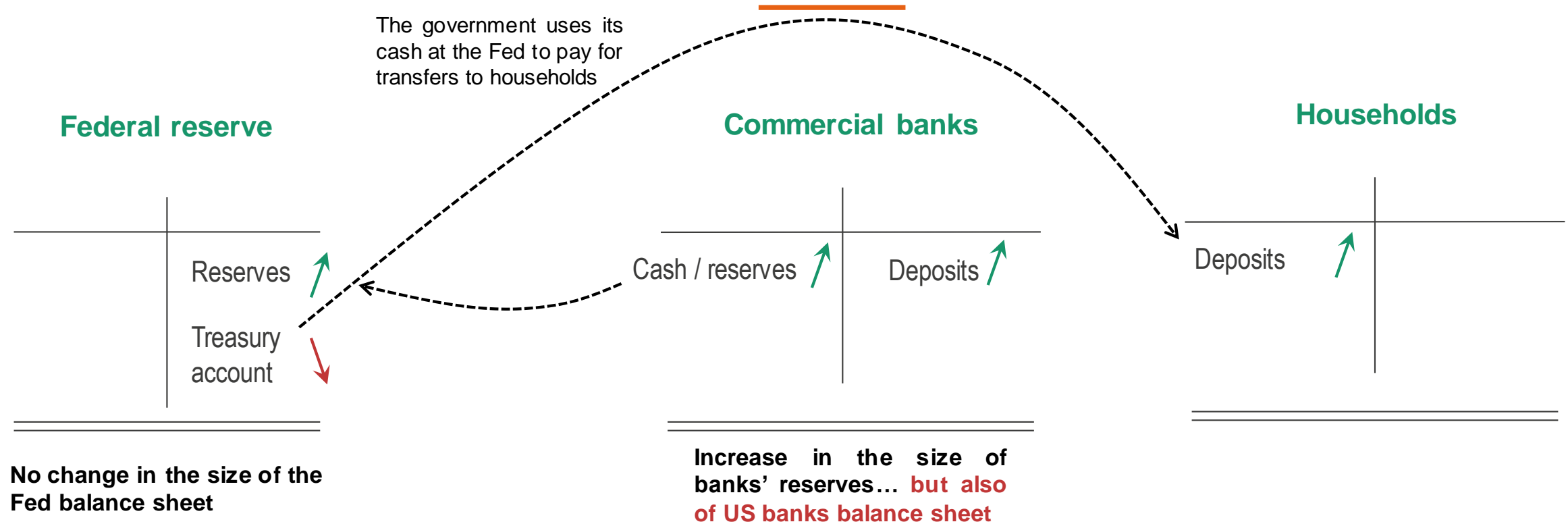
The rest will be financing additional spending.

If existing PPP loans are converted to grants, this will increase the amount of bank reserves but not their balance sheet



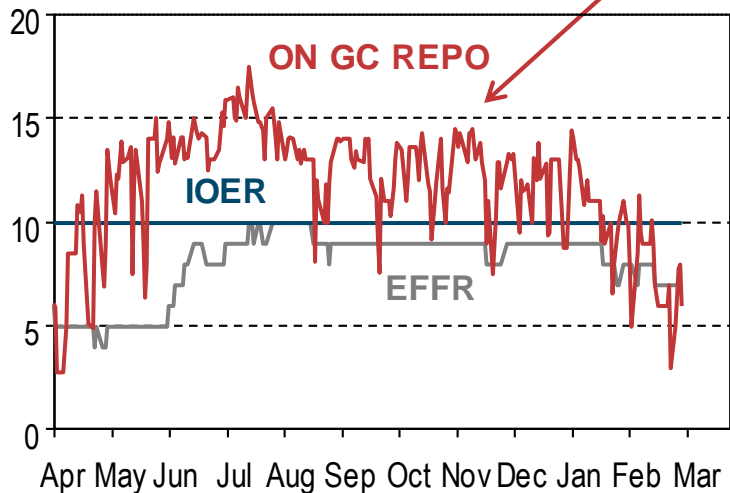
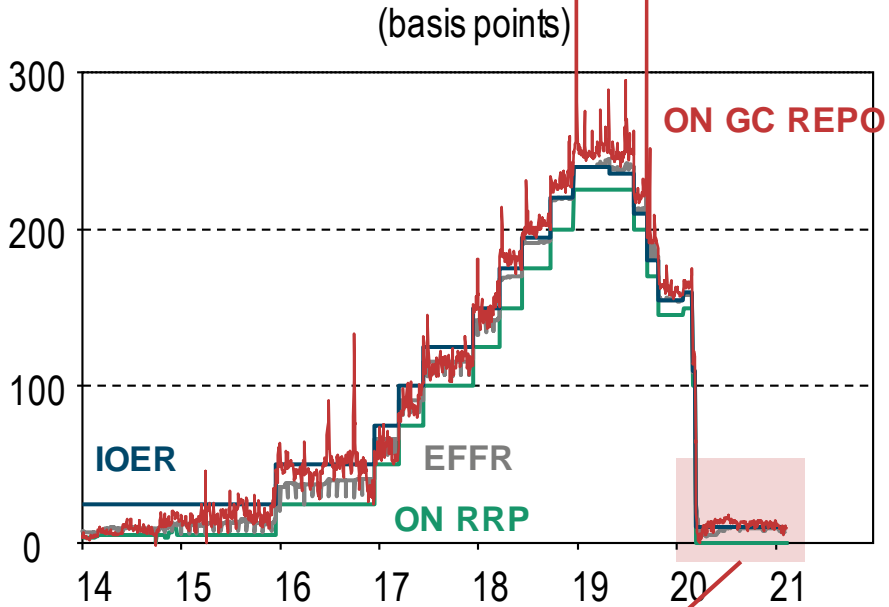
A decline in the Treasury account balance at the Fed would effectively replace loans with reserves in commercial banks' assets and it will replace Treasury deposit with reserves in the Fed's liabilities.

If the Treasury depletes its cash to finance increased government spending, this will increase the amount of bank reserves but also the size of their balance sheet



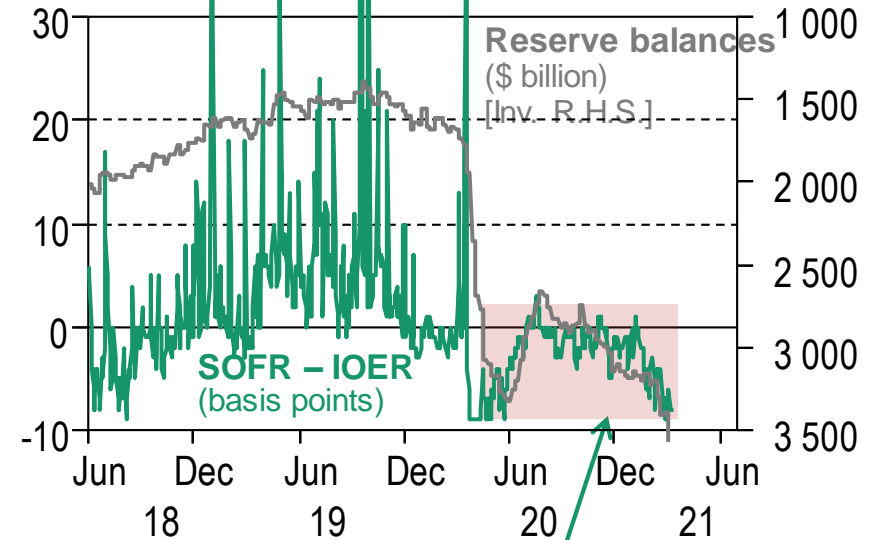
The problem is that without a loosening of the Supplementary Leverage Ratio, the size of the balance sheet of many US banks will be constrained. To accommodate an increase of \$1 trillion of reserves, they may have to raise more capital.

Increase in reserves will reverberate within the money market space and suppress yields at the front end of the yield curve



Interest rate On Excess Reserves
 Overnight Reverse Repo rate
 Effective Fed Funds Rate
 Overnight General Collateral Repo rate
 Secured Overnight Financing Rate
 (overnight interbank rate)

SOFR - IOER spread and bank reserves

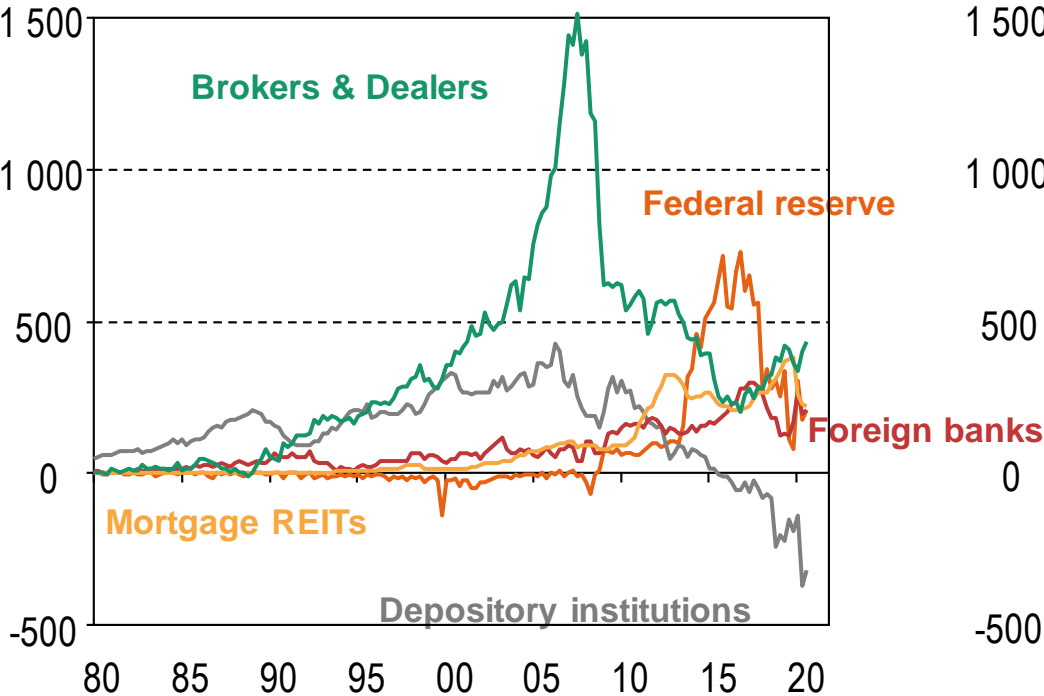


After the sharp increase in reserves during H1 2020, volatility in Fed funds – IOER spread and SOFR – IOER spread have already been significantly reduced.

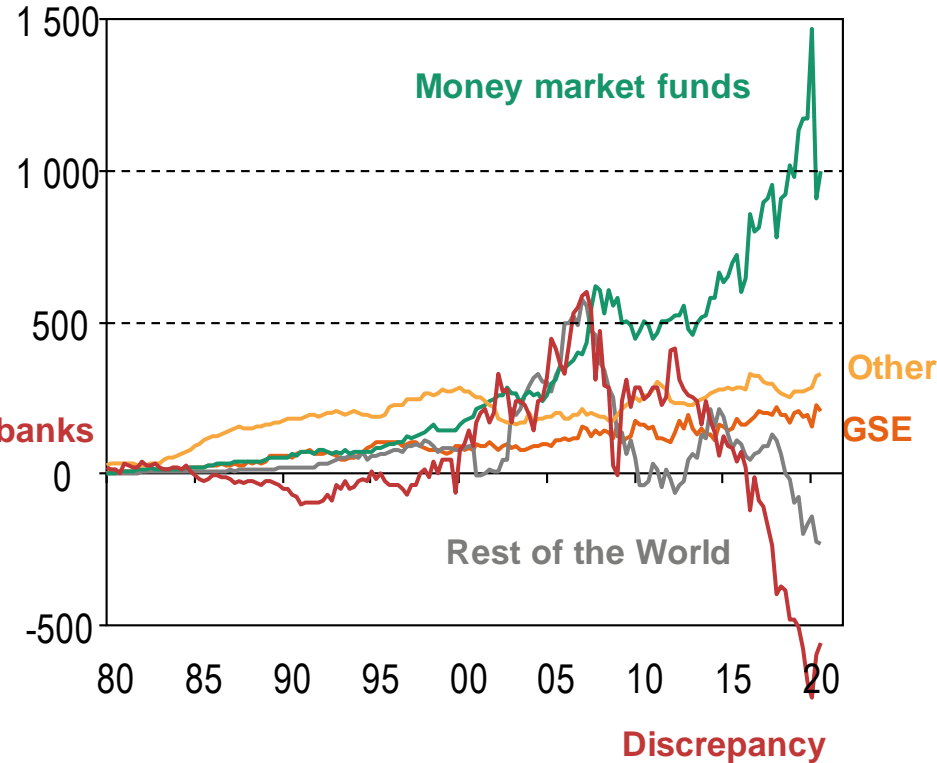
Money market funds could provide an outlet to banks' excess reserves, but with reverse repo* rates at zero, investing in MMF might not be very attractive...

The security repurchase market (including Fed funds markets operations, billions of dollars)

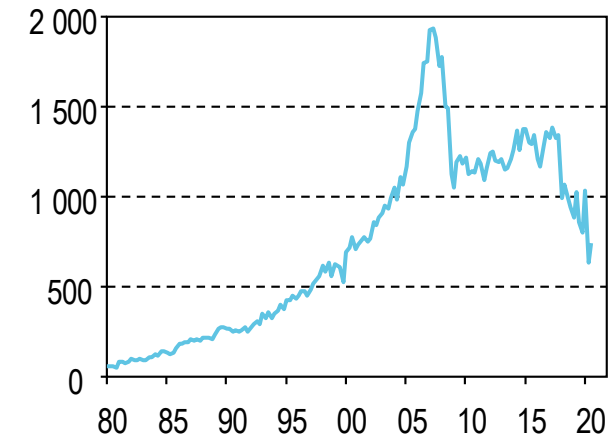
Borrowers



Lenders



Memo. Total repo market



➔ If money market rates get closer to 0%, the Fed might have to slightly increase the IOER.

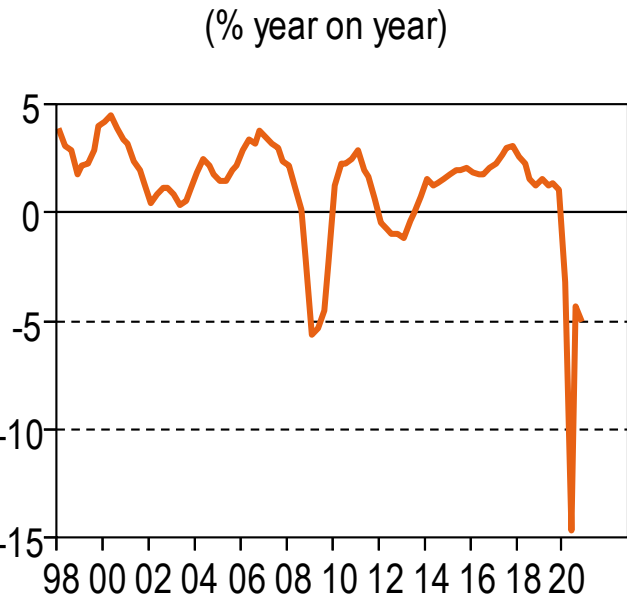
(*) ON RRP operations support interest rate control by setting a floor on wholesale short-term interest rates.



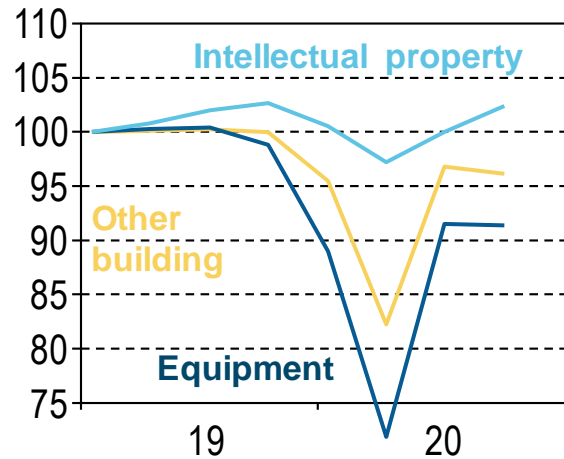
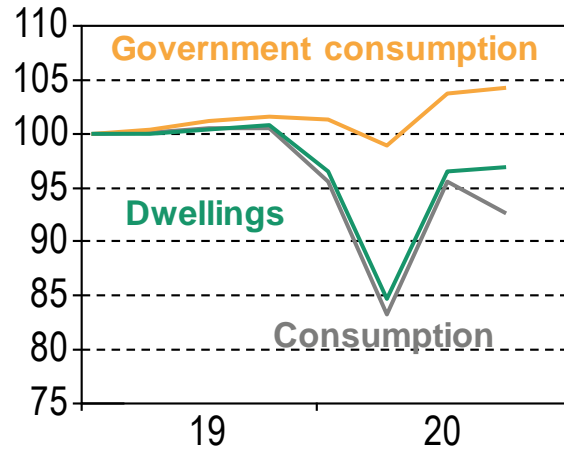
5. Euro area A recovery on hold...

By end 2020, GDP was still far below trend, especially in Southern countries

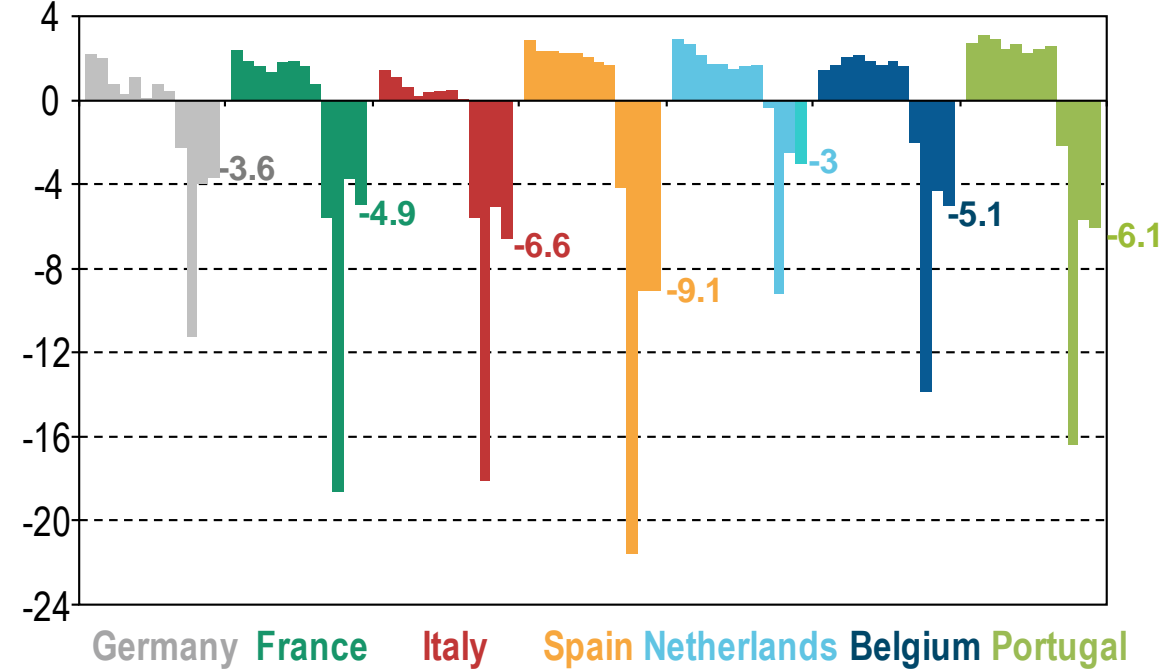
Euro area real GDP



Euro 4 largest countries (2019 Q1 = 100)



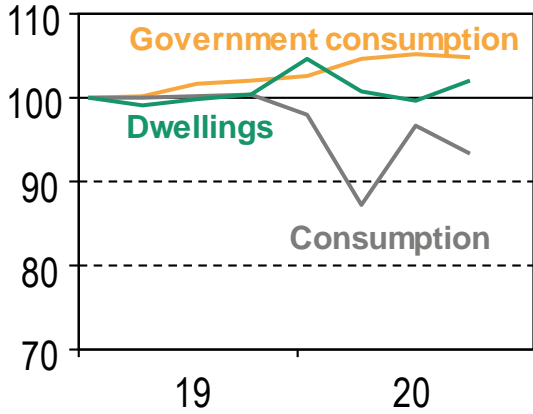
Real GDP growth by country (% year on year)



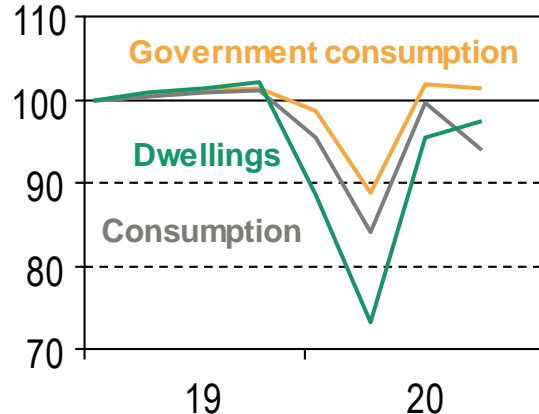
Consumption and equipment investment were significantly below “normal”

Components of real GDP
(2019 Q1 = 100)

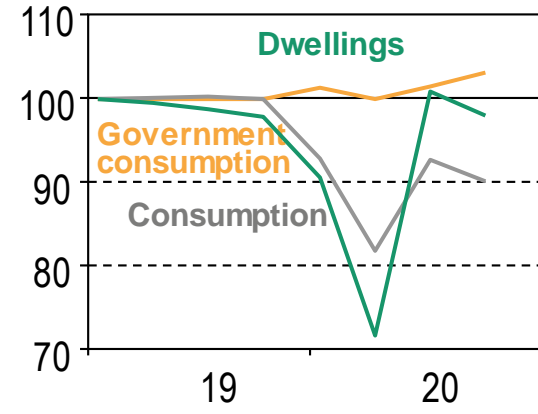
Germany



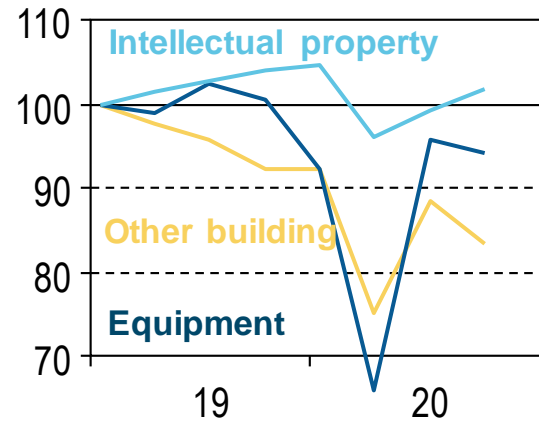
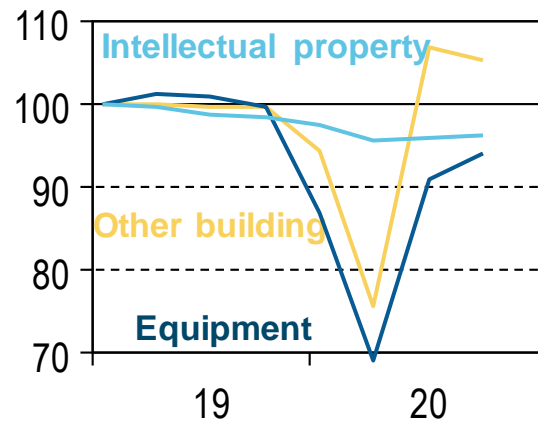
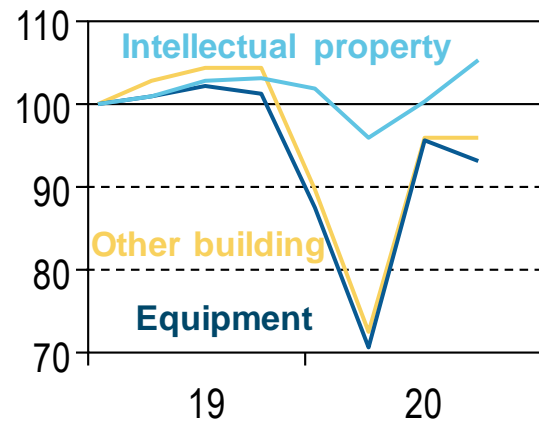
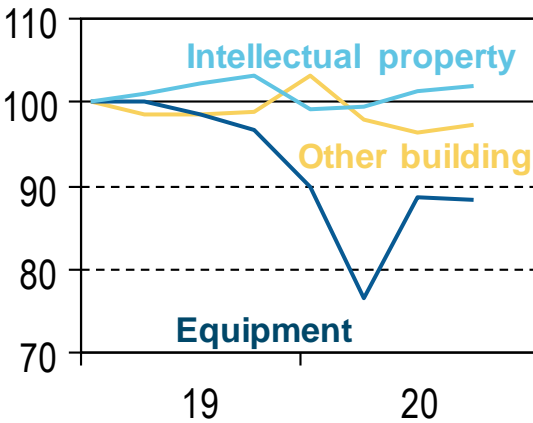
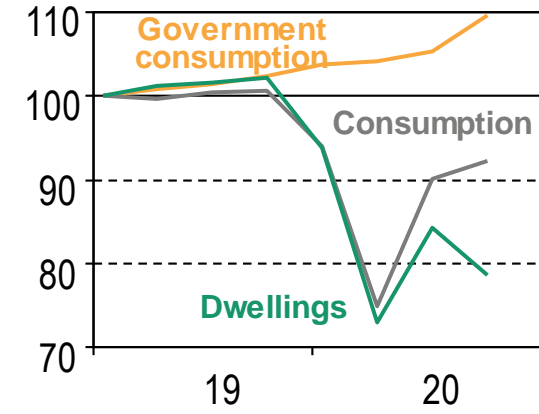
France



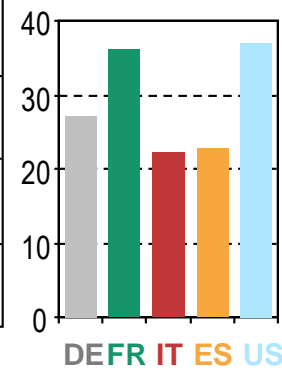
Italy



Spain



Memo: share of IPP in total business investment

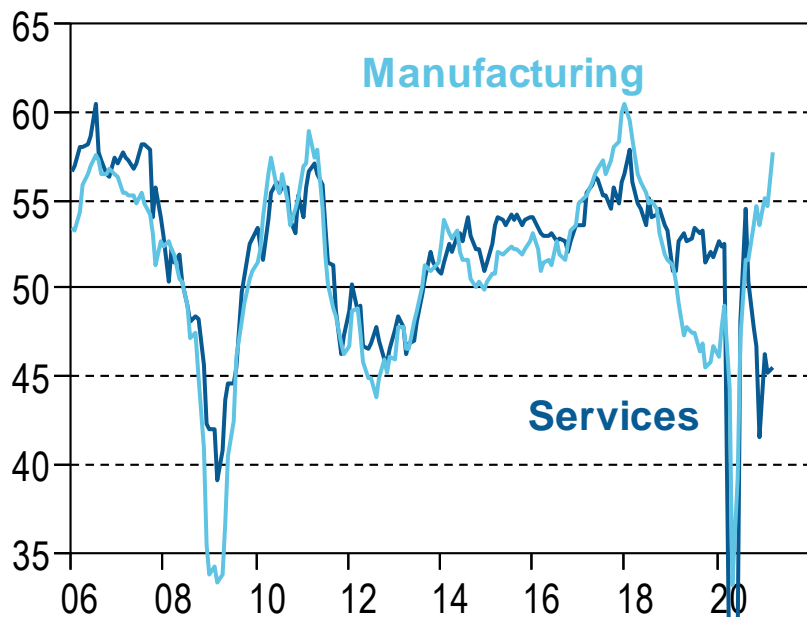


Sources: Refinitiv Datastream, Candriam

Recent indicators point to an improving situation in the manufacturing sector but the weakness in the service sector is still there

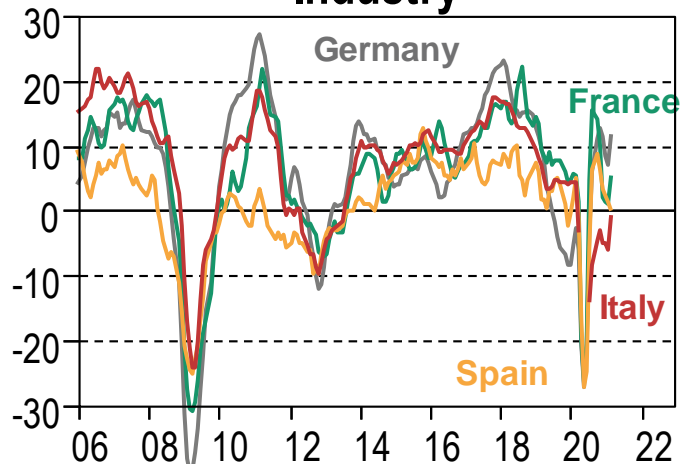
EC survey - production expectations

Euro area PMI

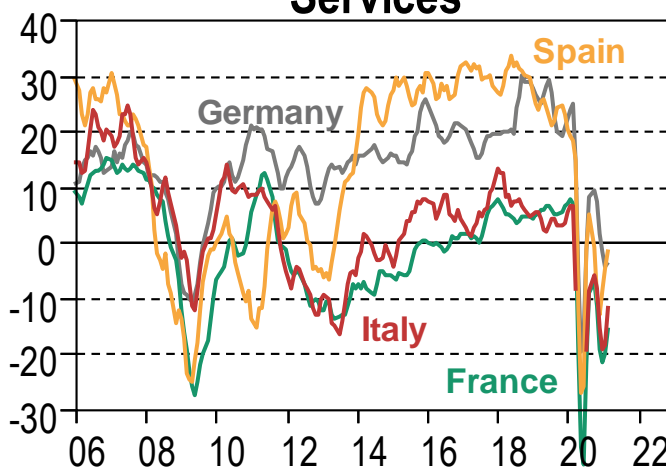


Sources: Refinitiv Datastream, Candriam

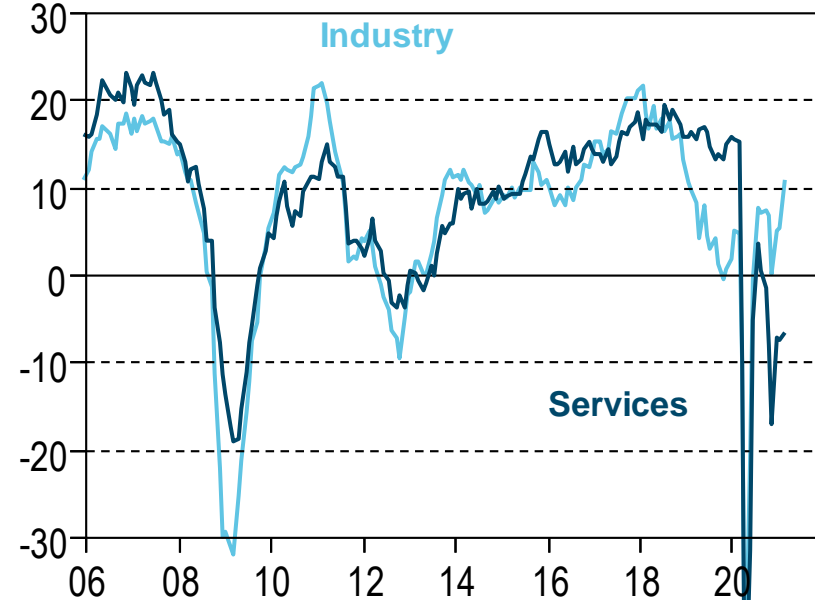
Industry



Services



Euro area

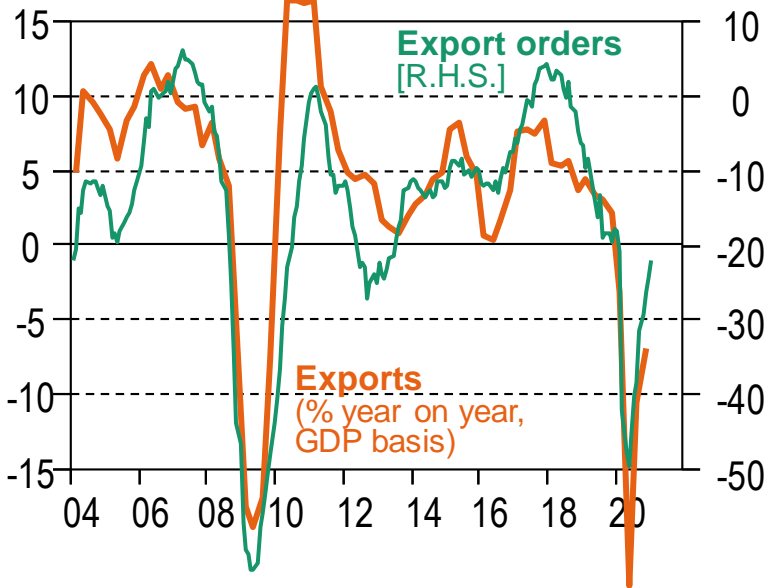


The expected rebound in world growth should support the recovery...

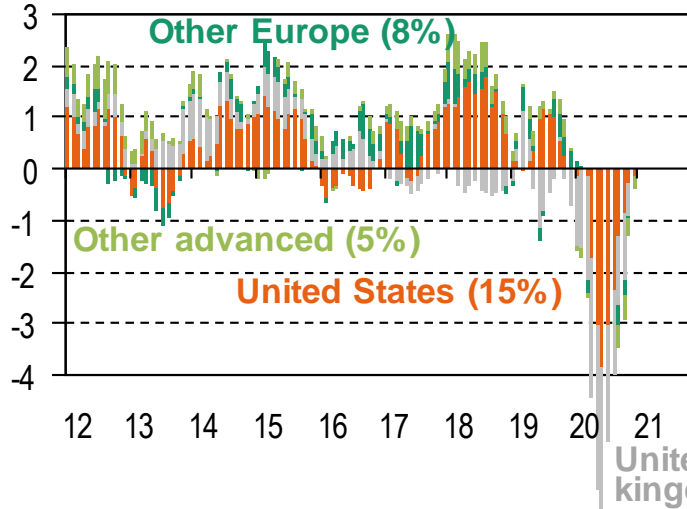
Extra euro area exports

(% year on year, contribution, volume)

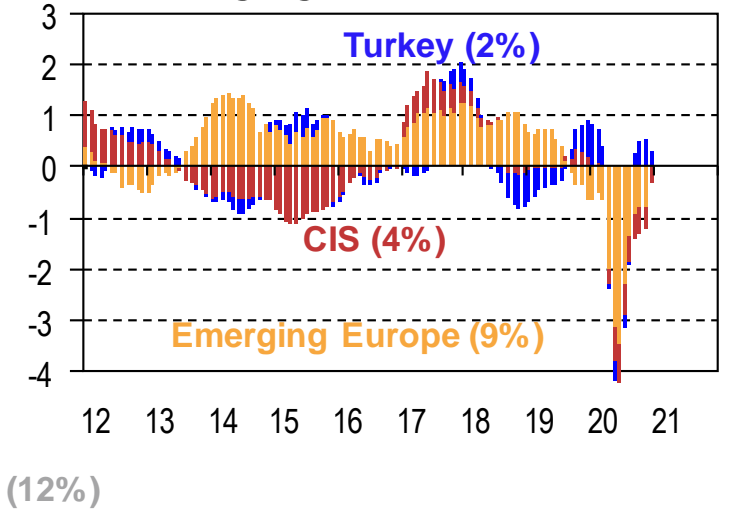
Export orders



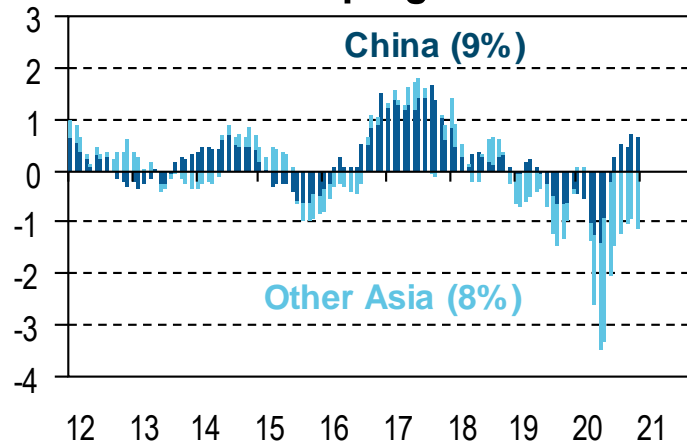
Advanced economies



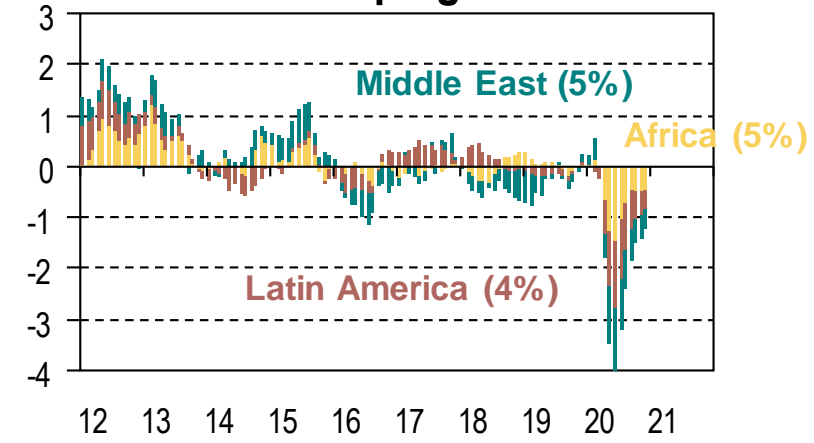
Emerging Europe & Russia



Developing Asia



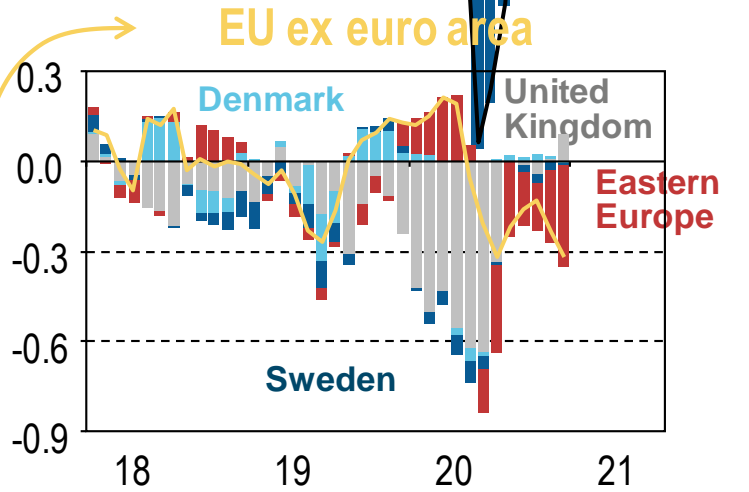
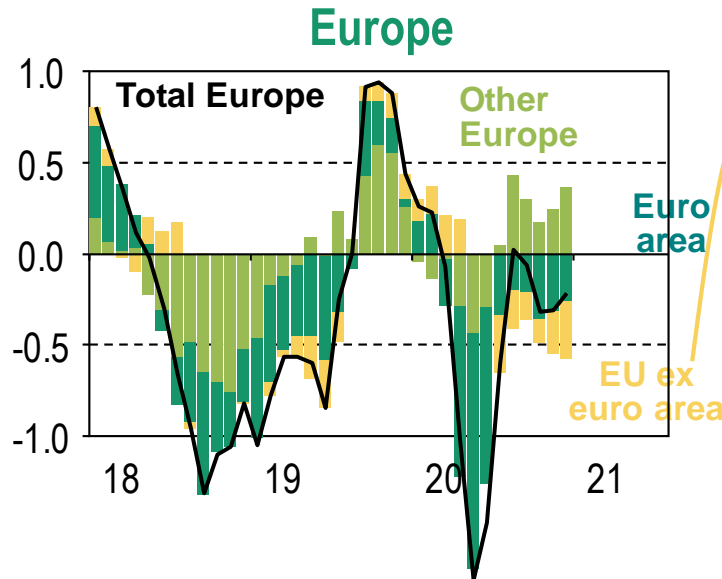
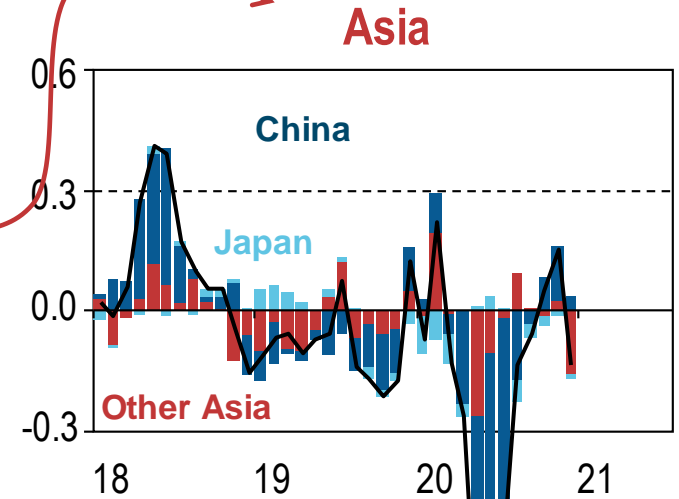
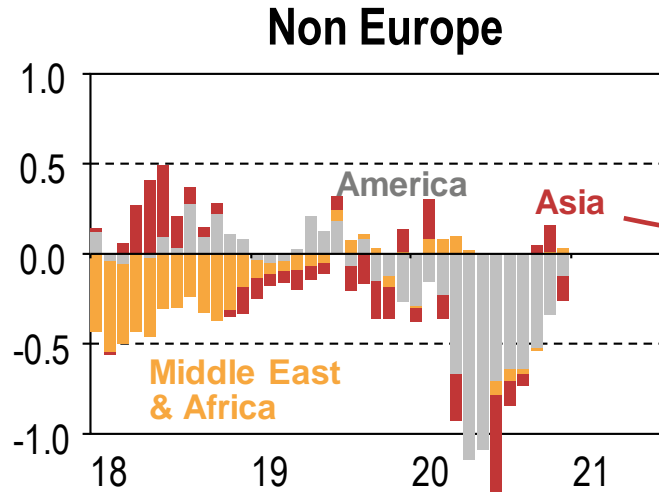
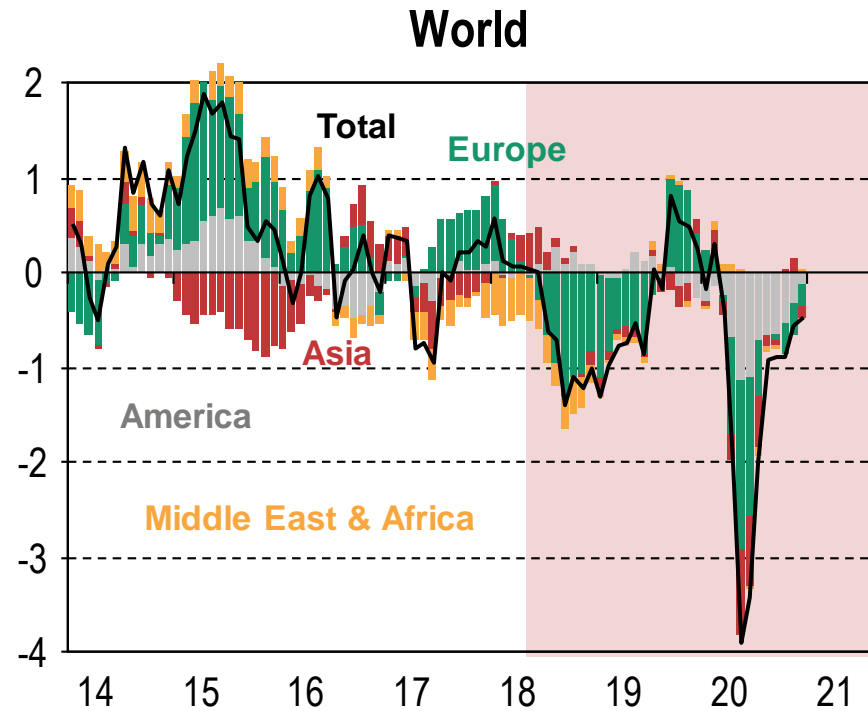
Other developing countries



Sources: Refinitiv Datastream, Candriam

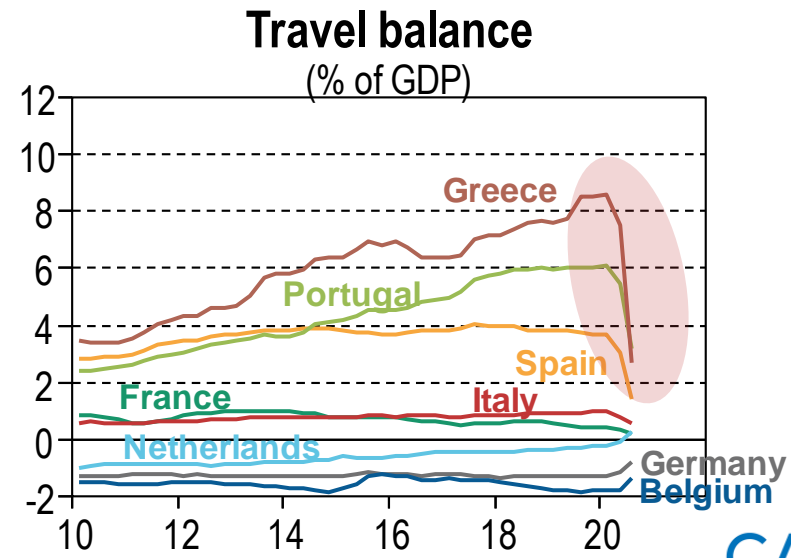
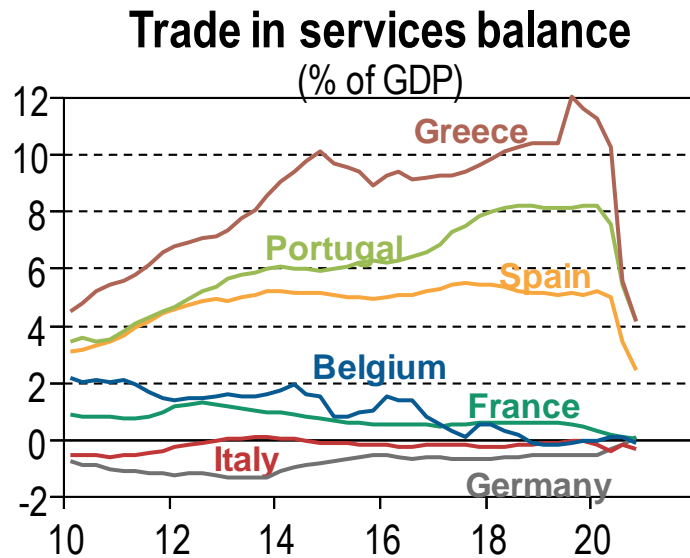
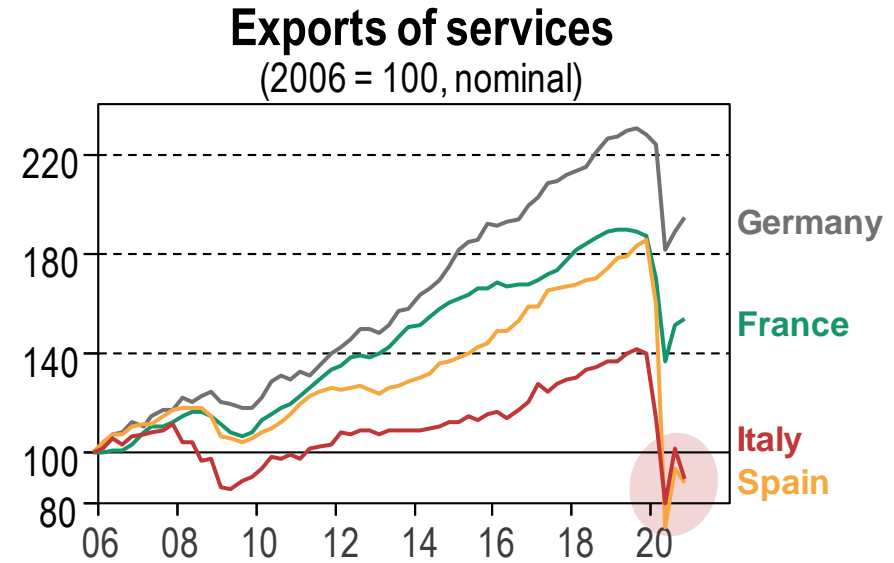
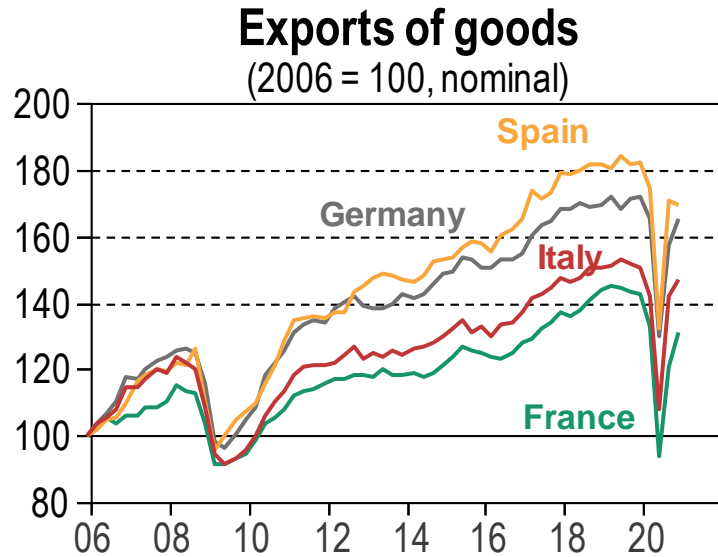
... especially in Germany

Net trade contribution to German growth by region or countries
(% of GDP, 3-month moving average, nominal)



Sources: Refinitiv Datastream, Candriam

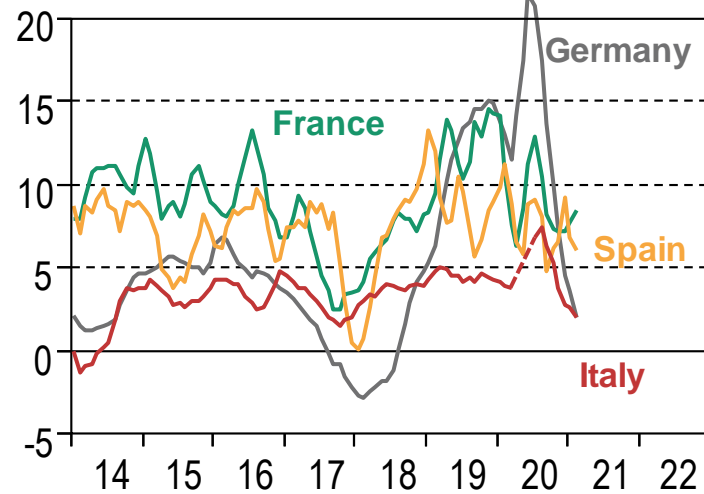
Depressed travel activity is however likely to continue to weigh on Southern European economies



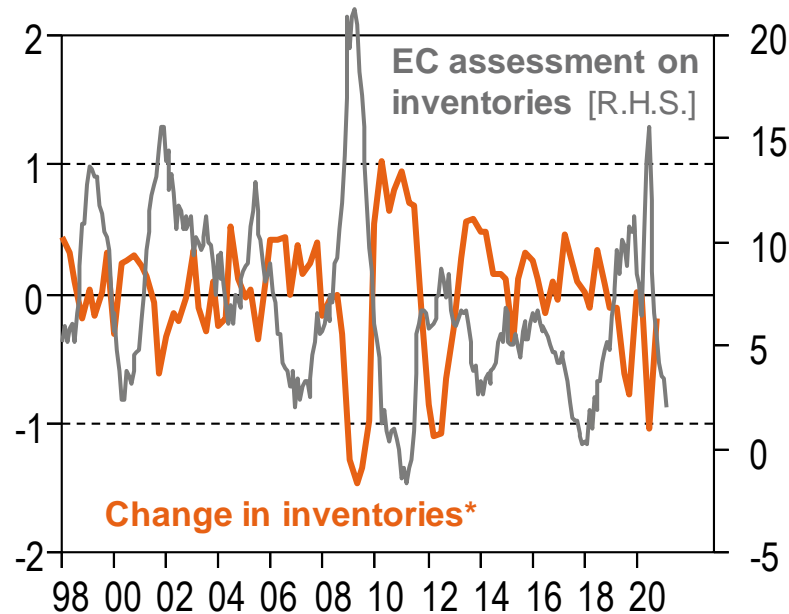
Inventories are low but part of the coming rebound may benefit rest of the world suppliers

Firms' assessment of inventories (EC survey)

Assessment of inventories by country

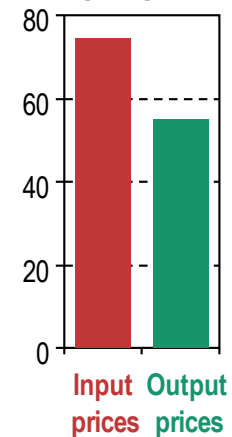


Assessment of inventories in the euro area



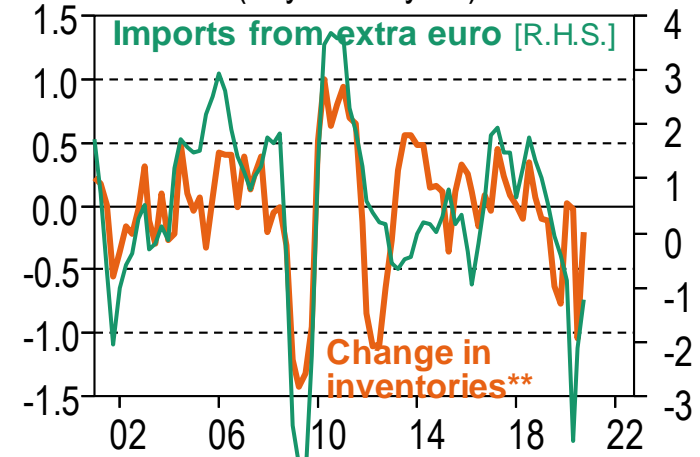
(*) Contribution to year on year GDP growth

PMI input and output prices



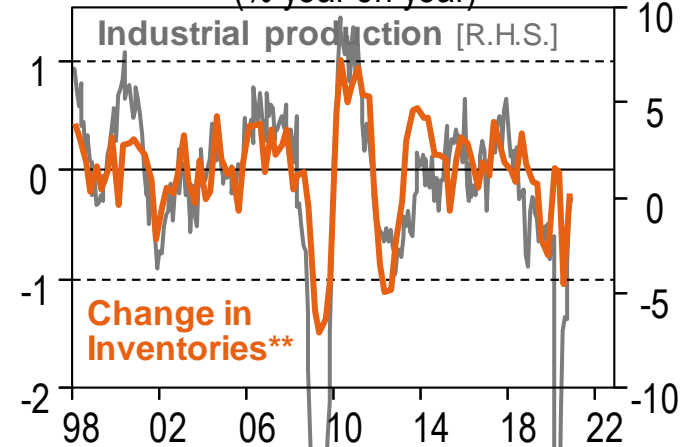
Inventories and imports

(% year on year)



Industrial production and inventories

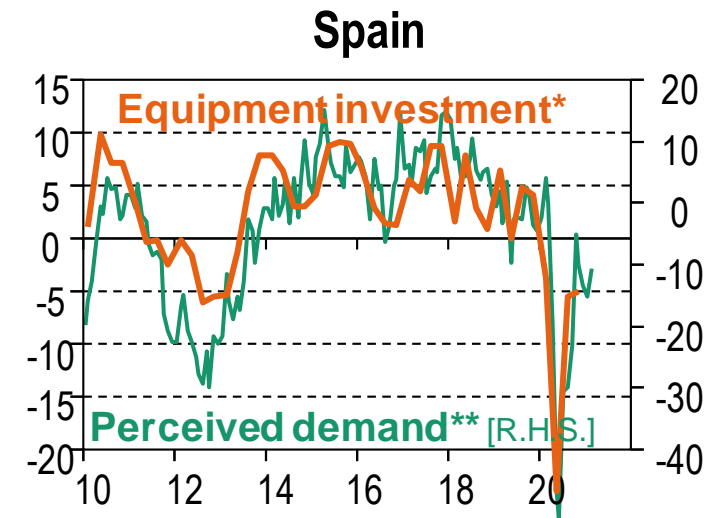
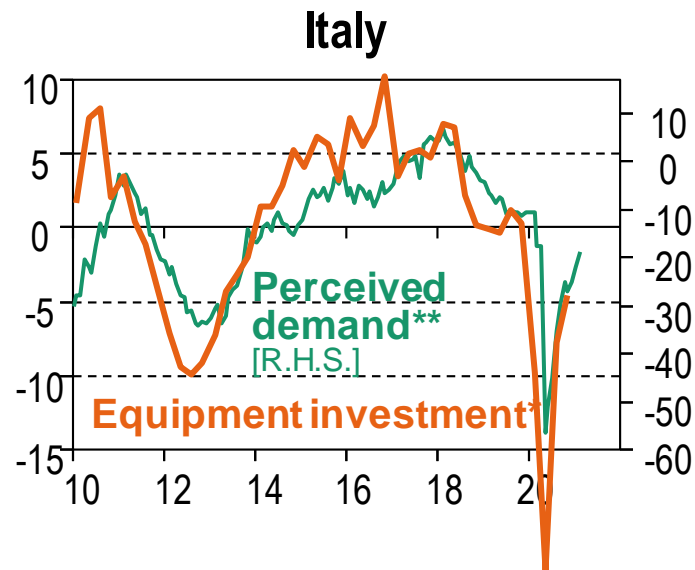
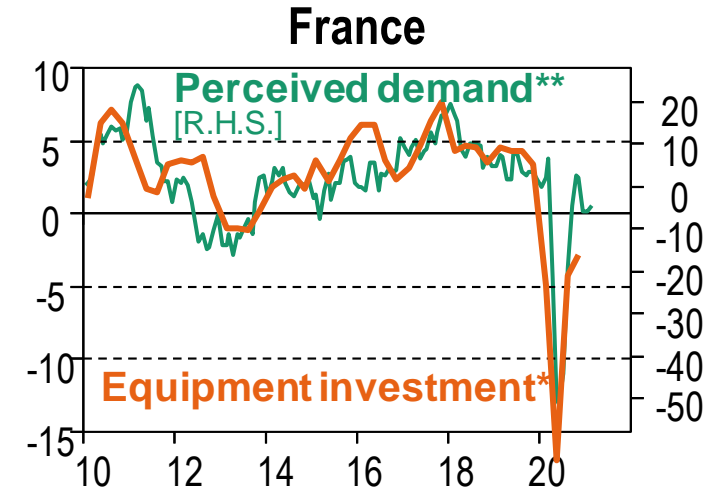
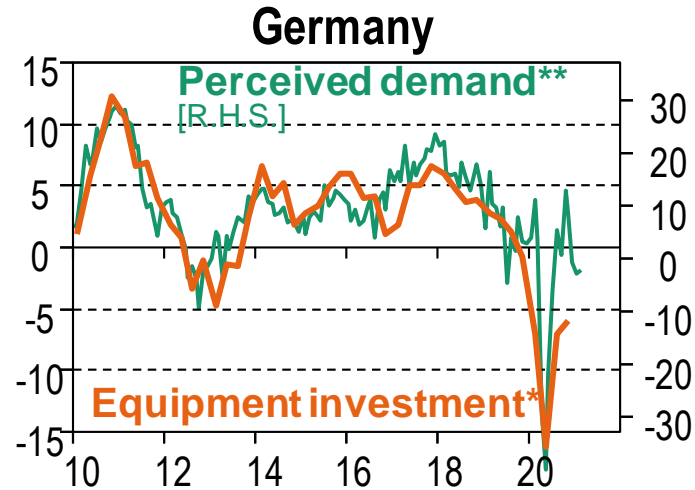
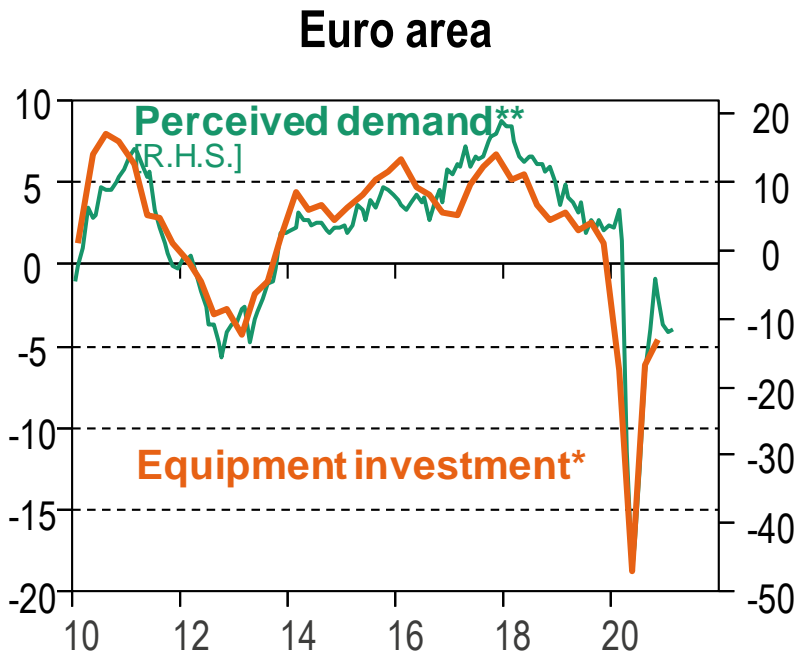
(% year on year)



(**) Contribution to GDP

Equipment investment should rebound with demand...

Equipment investment and perceived demand



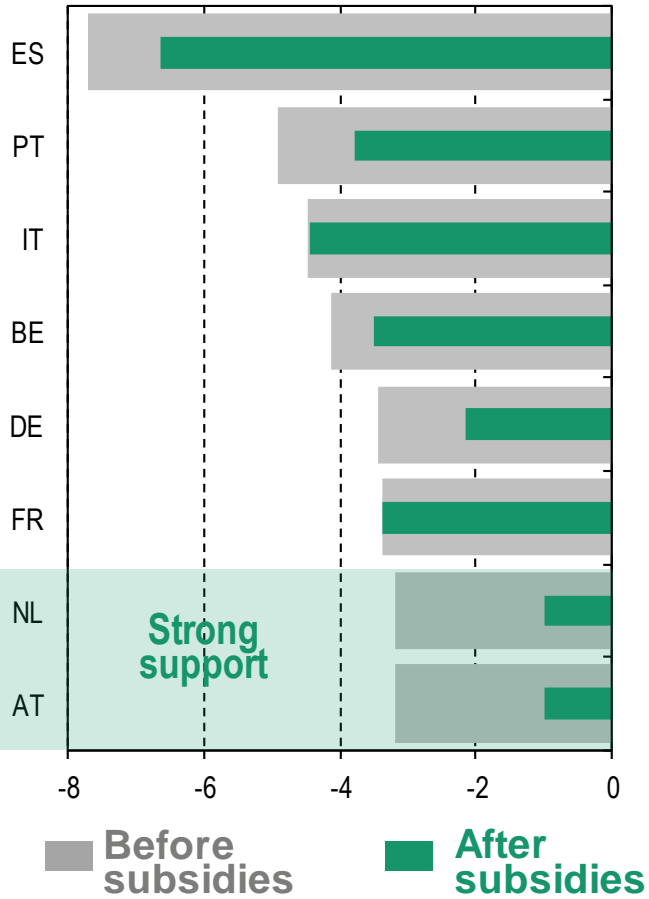
(*)% year on year (including intellectual property rights)

(**) Composite indicator: 0.7 x industry production trend + 0.3 x services recent evolution in demand

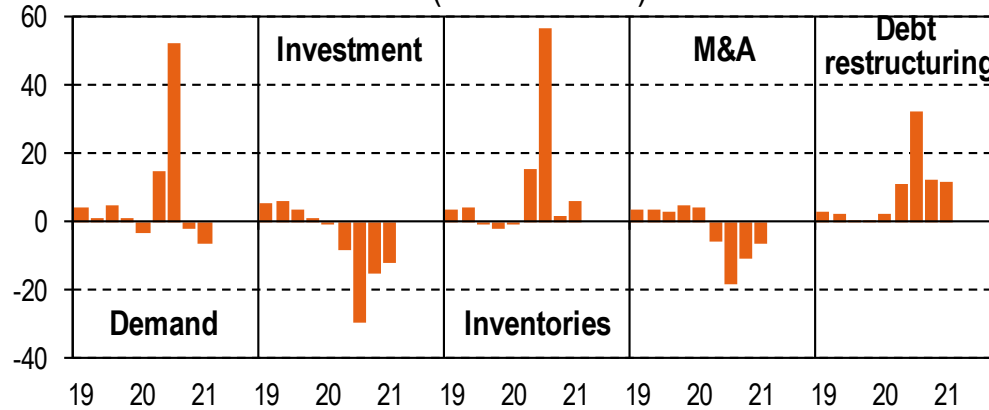
Sources: Refinitiv Datastream, Candriam

... but firms' gross operating income has been severely affected in many countries and loan demand for investment is still weak

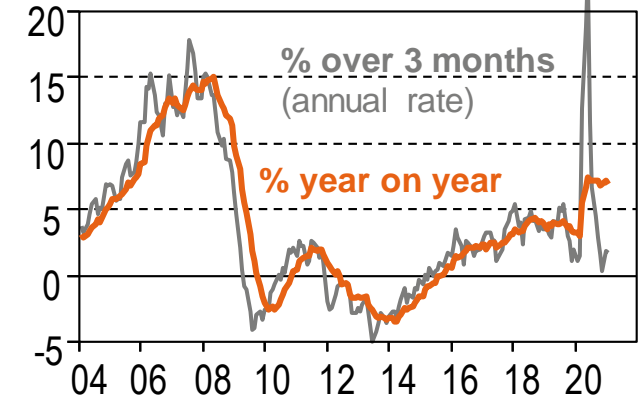
Gross operating surplus before and after subsidies
(% of country's trend GDP)



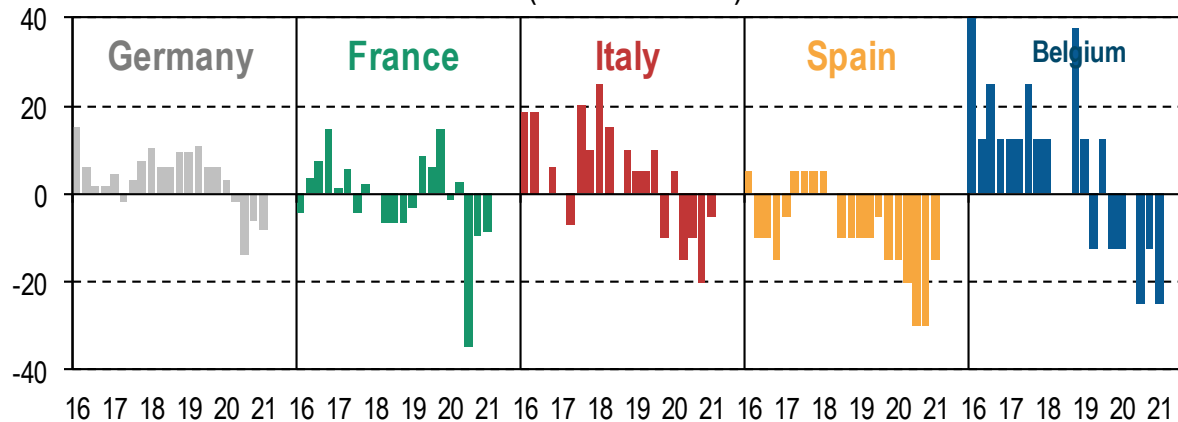
Demand for loans to NFC and factors affecting demand in the euro area
(last 3 months)



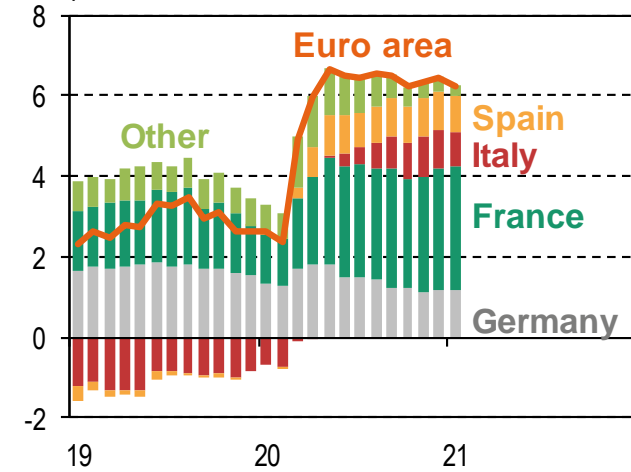
Loans to non financial corporates (NFC)
(%)



NFC loan demand for investment by country
(last 3 months)



Loans to NFC by country
(% contribution to euro area NFC loans)

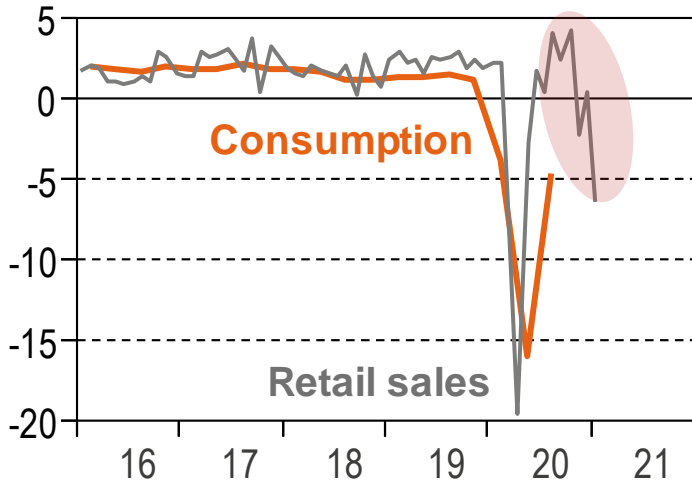


Sources: Refinitiv Datastream, ECB, Candriam

Consumption indicators have been weakened by the “last” wave, but real time data point to a slow recovery

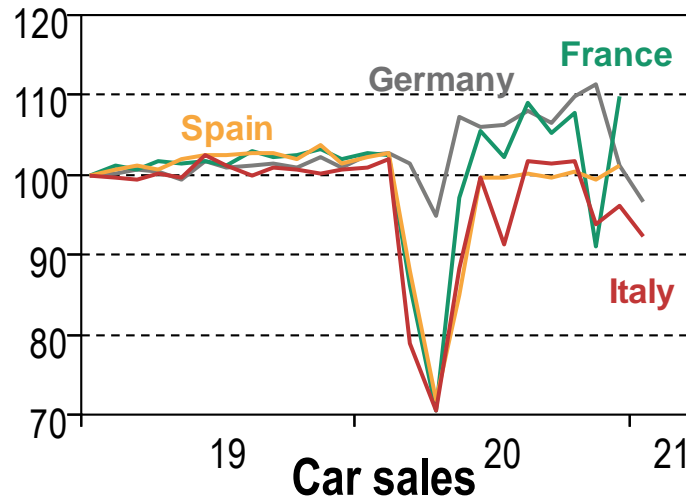
Consumption and retail sales

(% year on year, real)



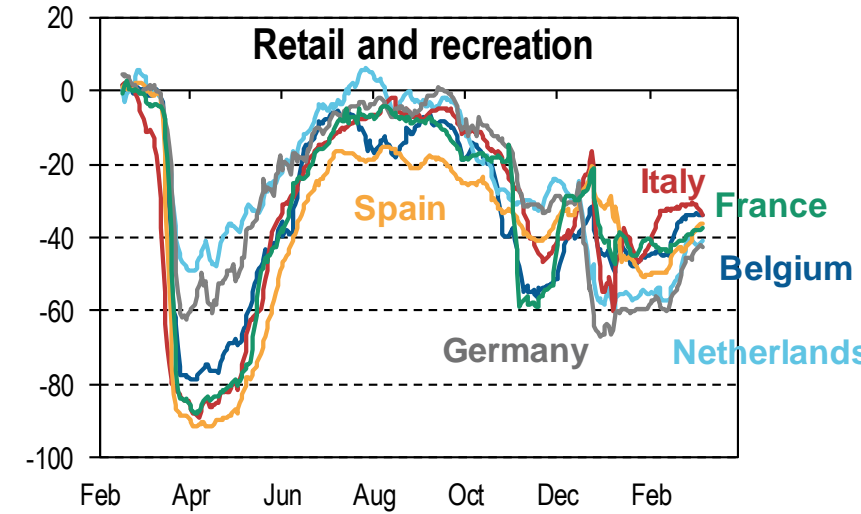
Retail sales ex cars

(2019 = 100)



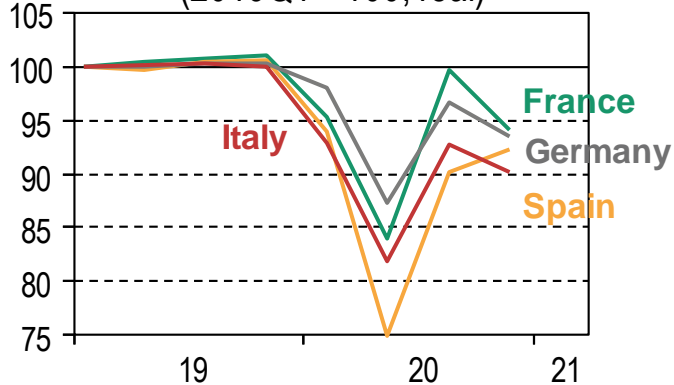
Google mobility trends

(% compared to January 2020, smoothed over 7 days)



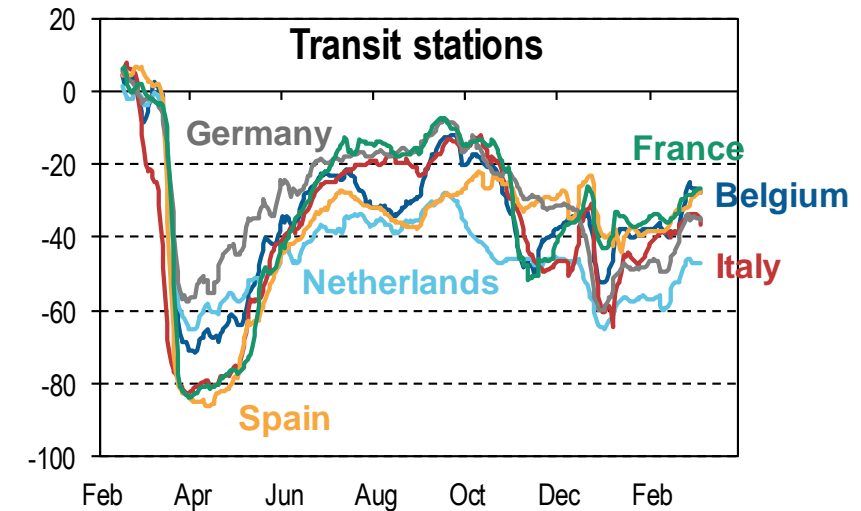
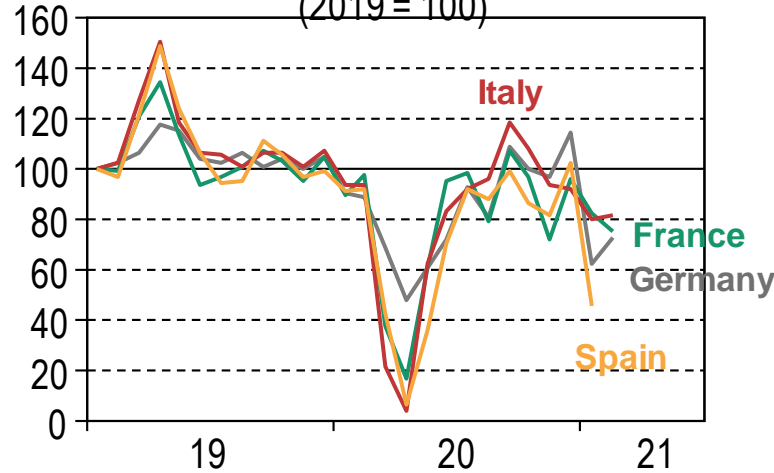
Consumption

(2019Q1 = 100, real)



Car sales

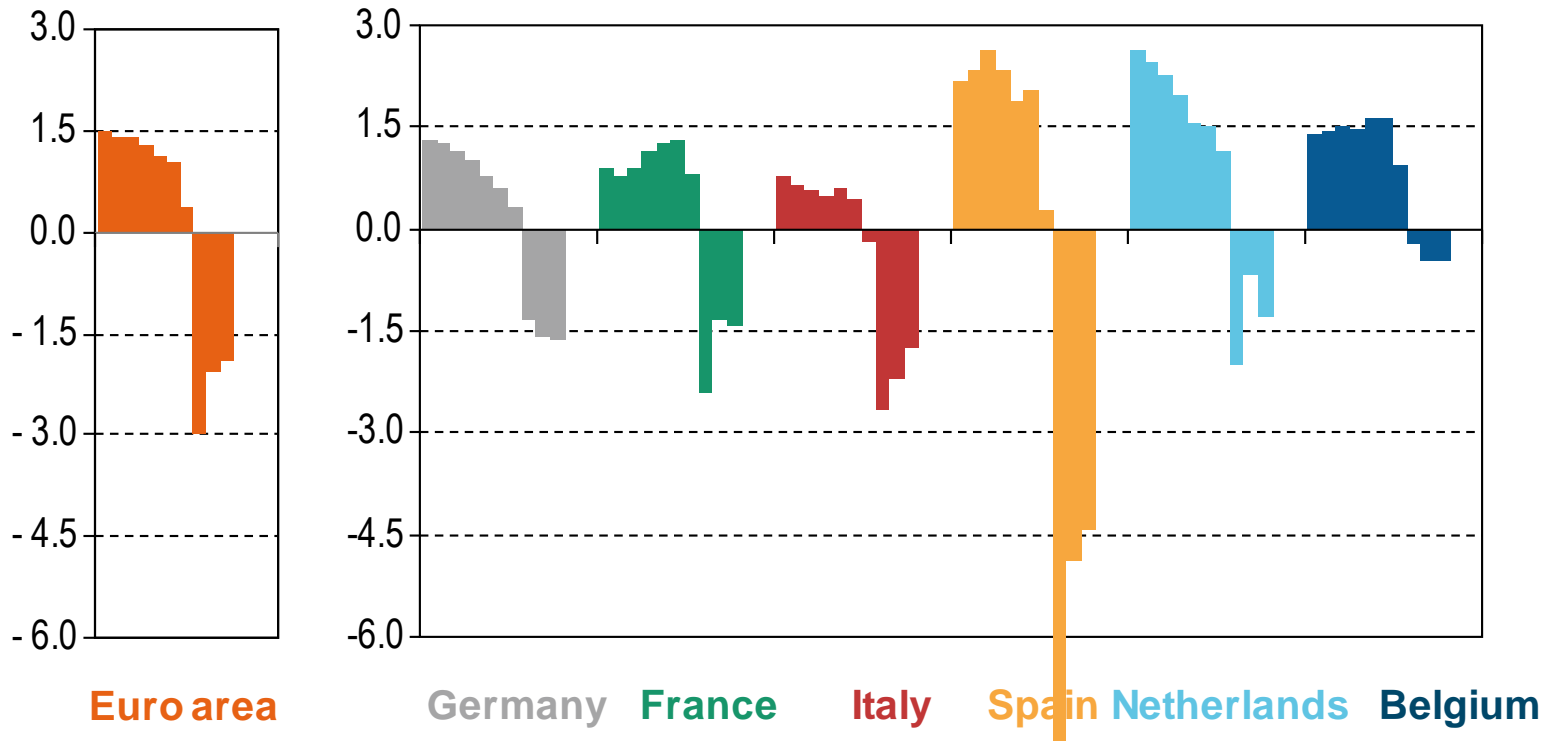
(2019 = 100)



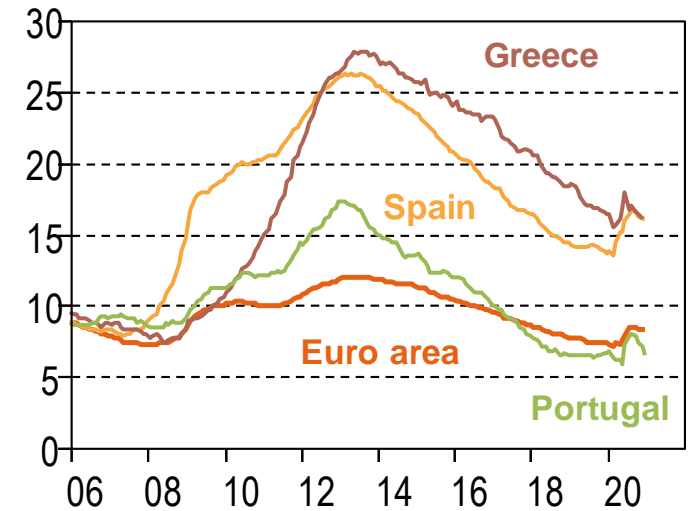
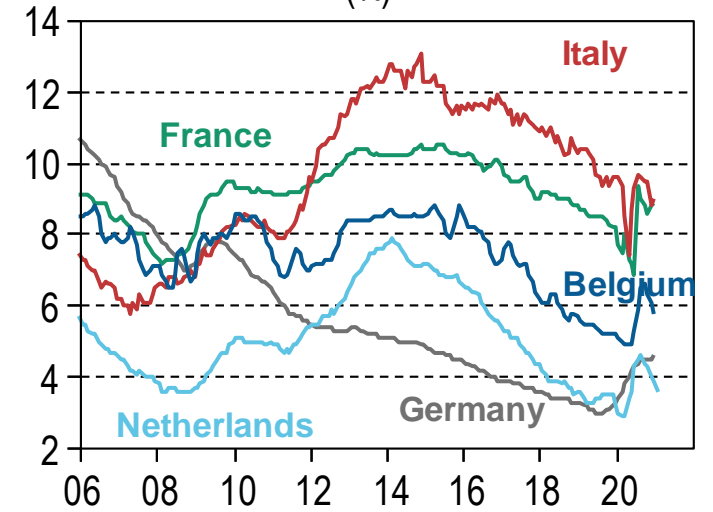
Sources: Refinitiv Datastream, Google Mobility Reports, Candriam

All across the euro area, governments have prevented an upsurge in unemployment rates...

Employment growth in the Euro area (% year on year, 2018 Q3 to 2020 Q3 or Q4)



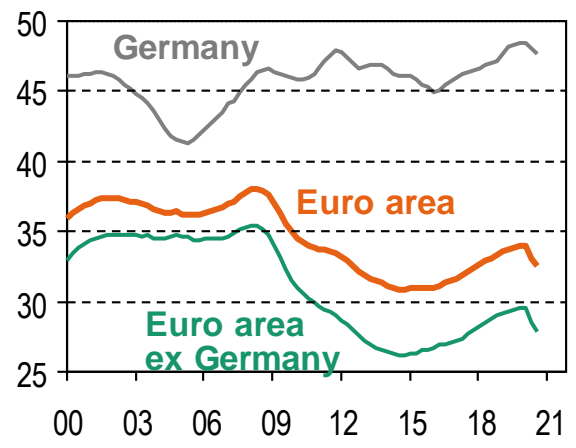
Unemployment rate (%)



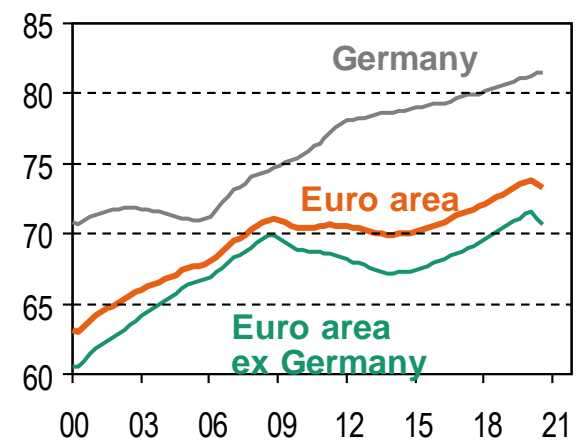
... but employment rates for prime age men and younger people have fallen again... especially in the Southern part of Europe where they were already weak!

Employment rates
(%)

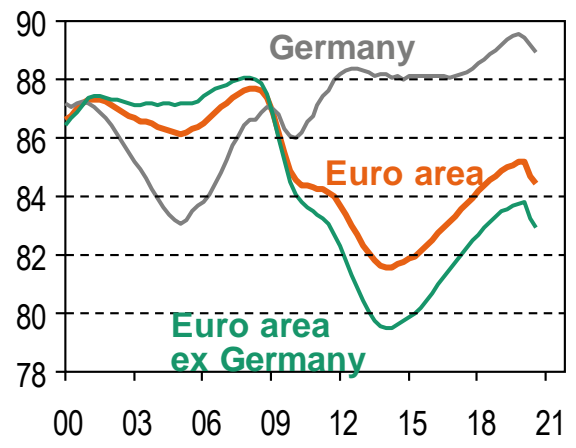
15 to 24-year old



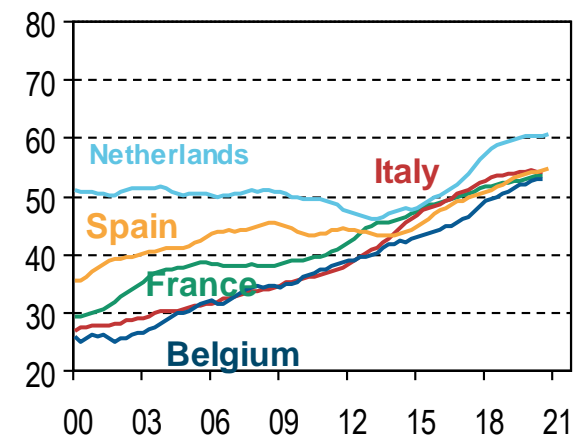
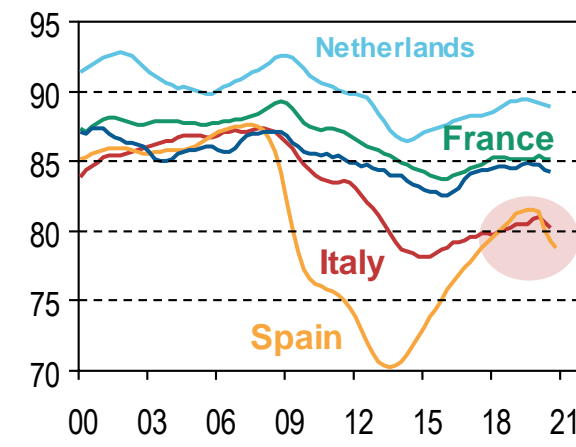
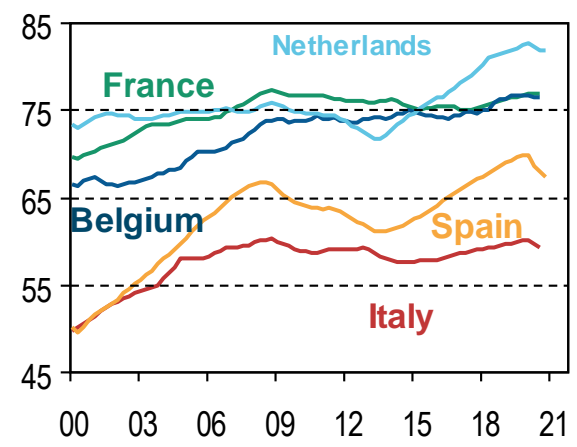
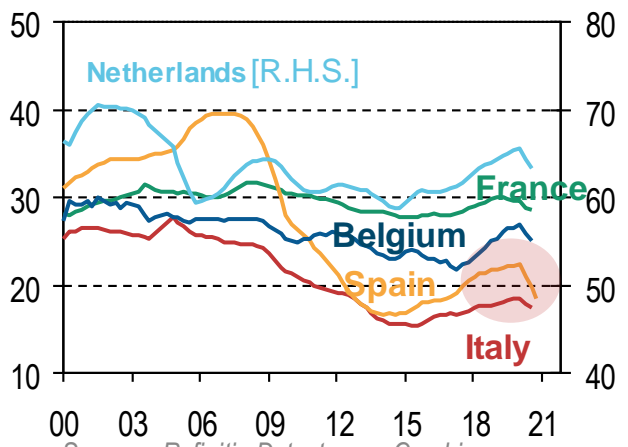
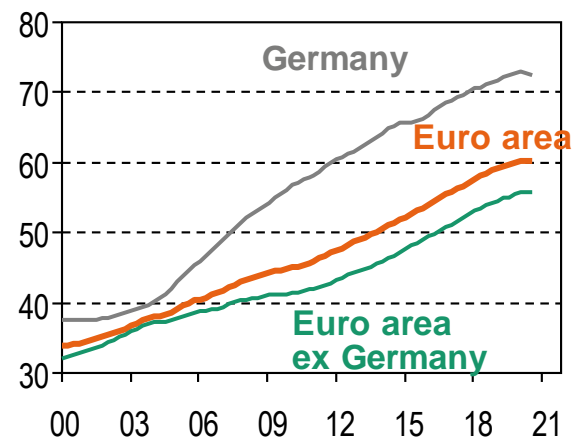
25 to 54-year old, women



25 to 54-year old, men



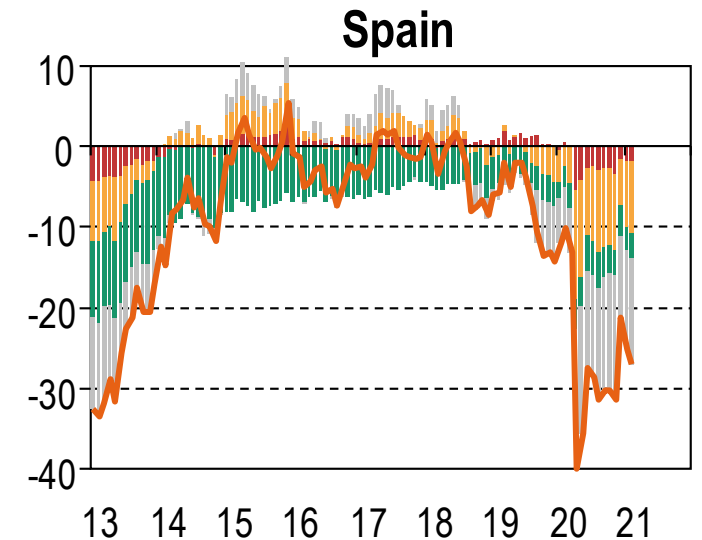
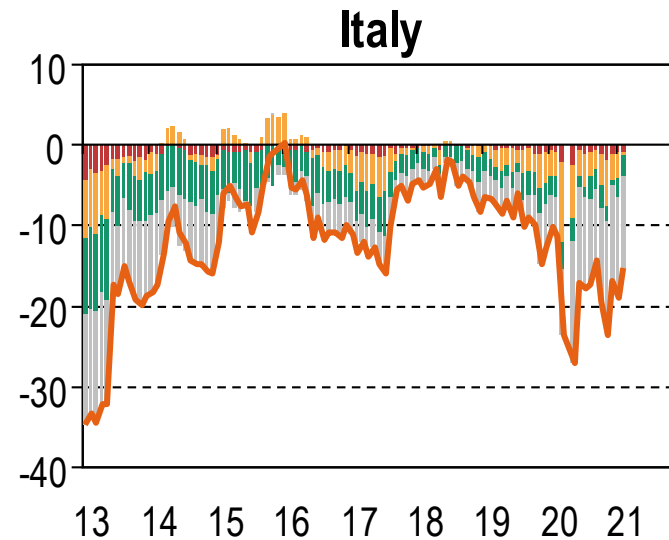
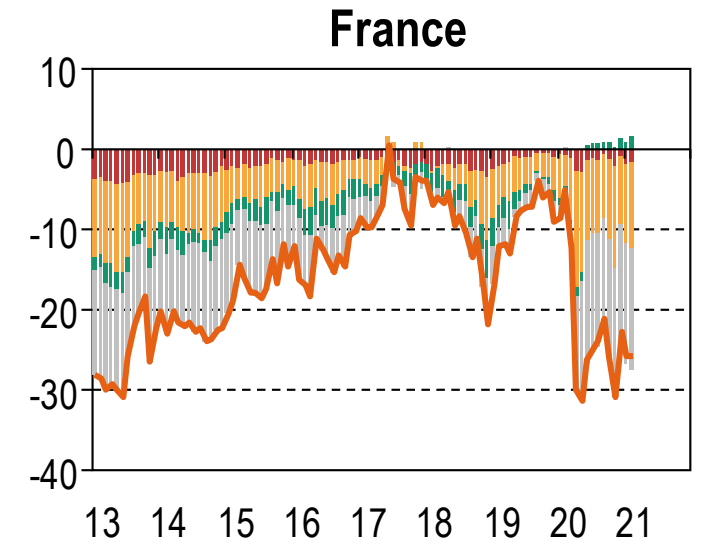
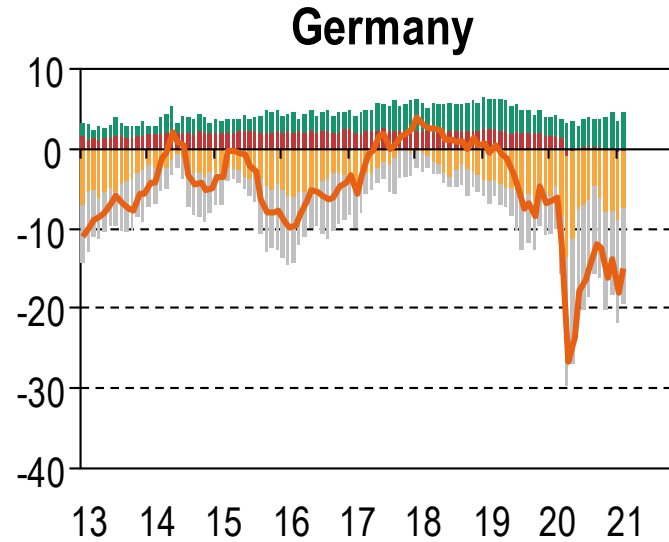
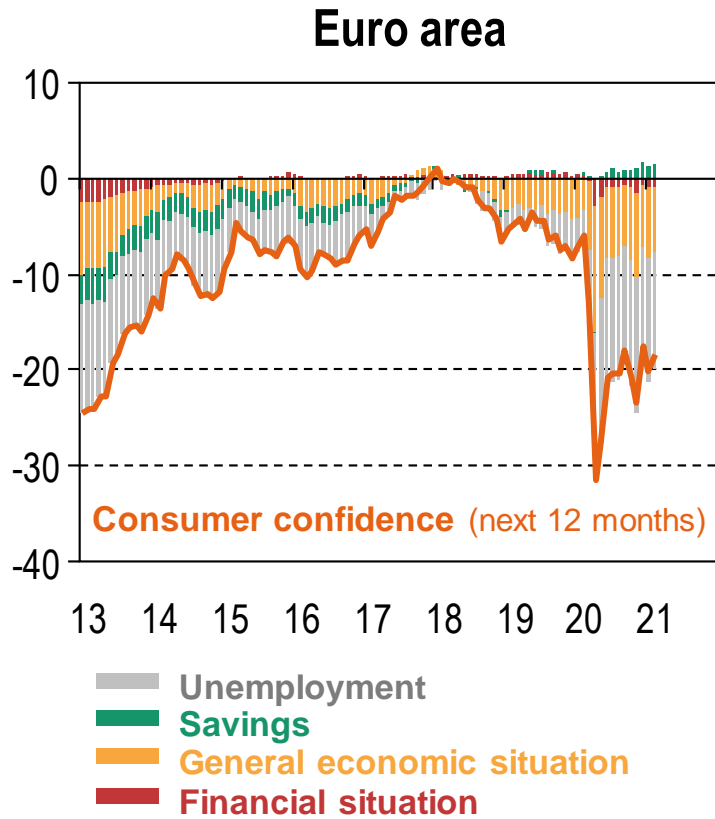
55 to 64-year old



Sources: Refinitiv Datastream, Candriam

Household confidence is pretty depressed notably by the labor market situation

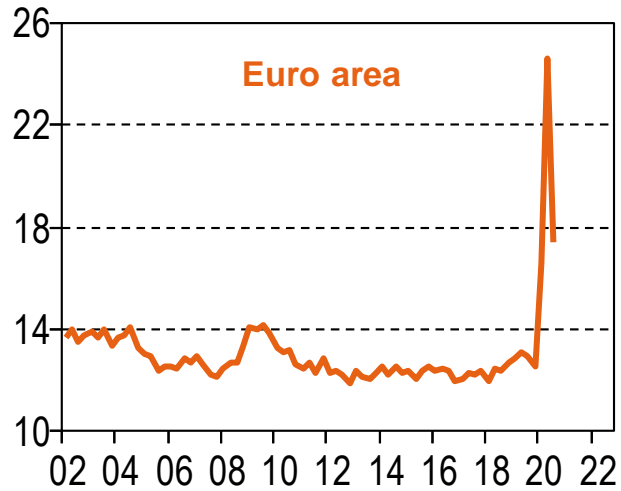
Consumer confidence



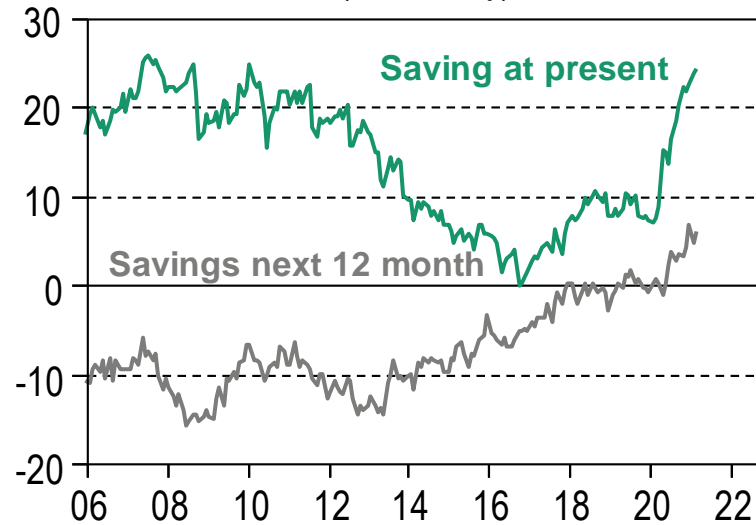
Sources: Refinitiv Datastream, Candriam

Still, social distancing has led European households to accumulate €500 billions of excess savings...

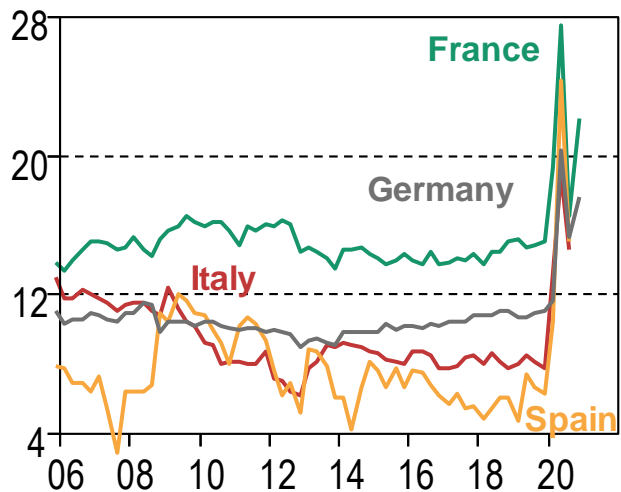
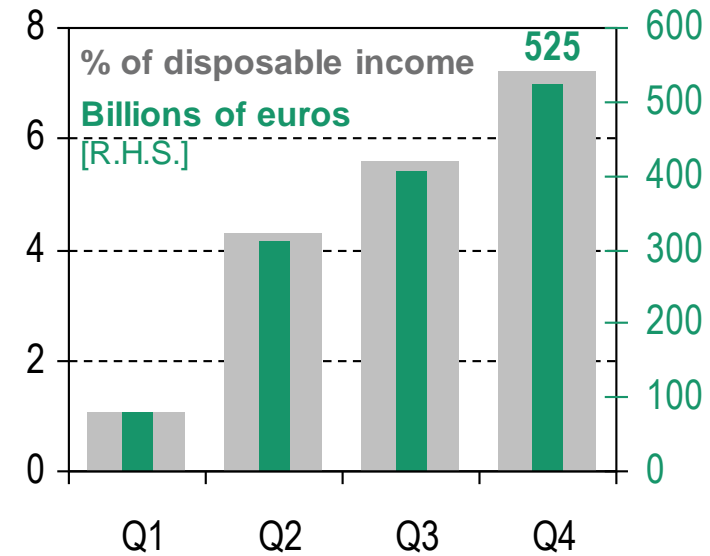
Household saving rate
(% of disposable income)



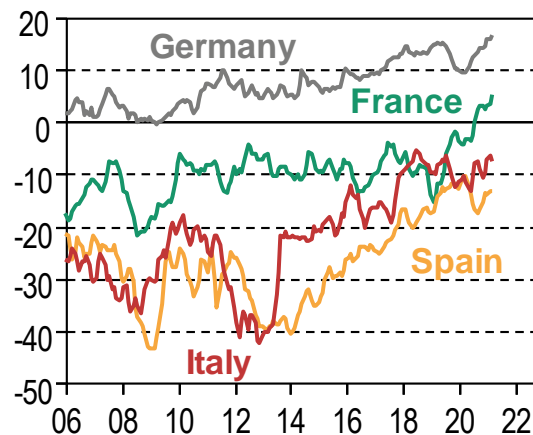
Savings intentions
(EC survey)



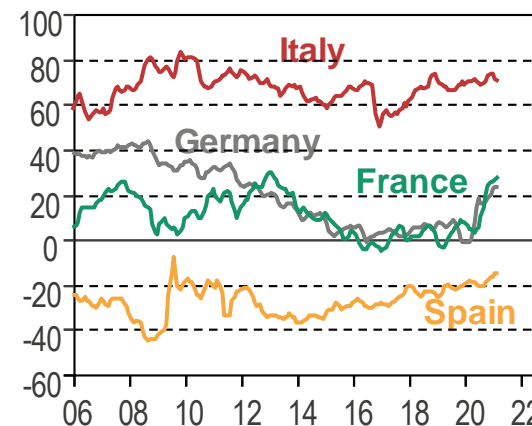
Cumulated excess financial savings in the euro area in 2020



Savings next 12 months



Savings at present



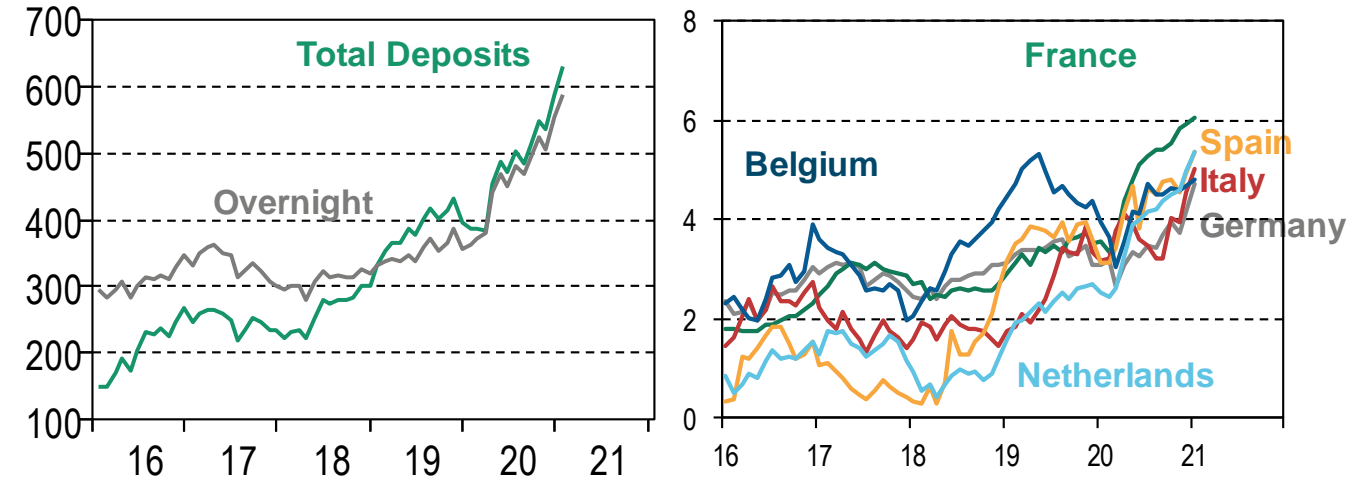
Sources: Refinitiv Datastream, Candriam

... held mainly in the form of deposits

Households deposits increase over last 12 months

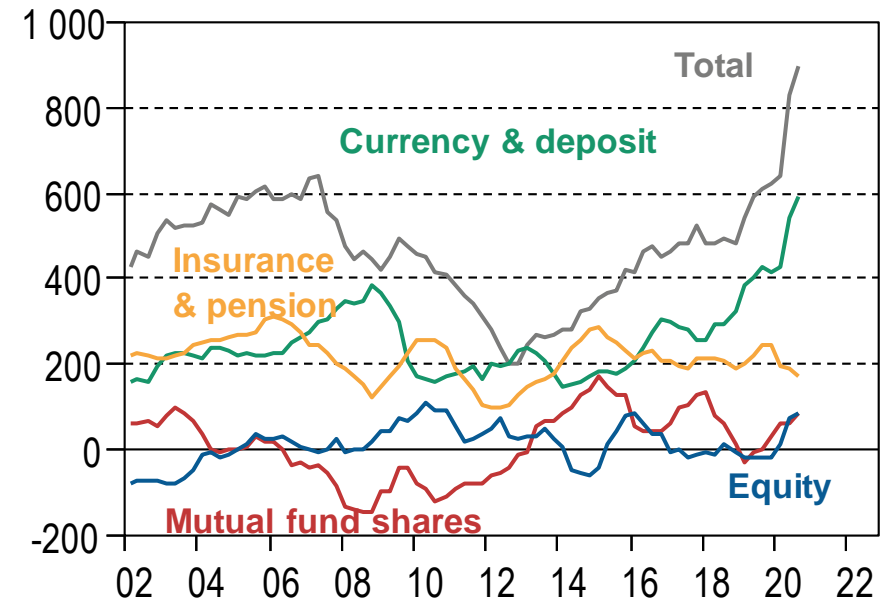
(€ billion)

(% of country's GDP)



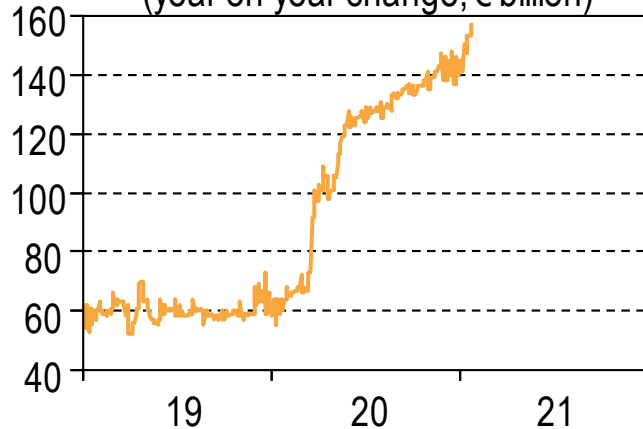
Households net acquisition of financial assets

(€ billion, annual rate)



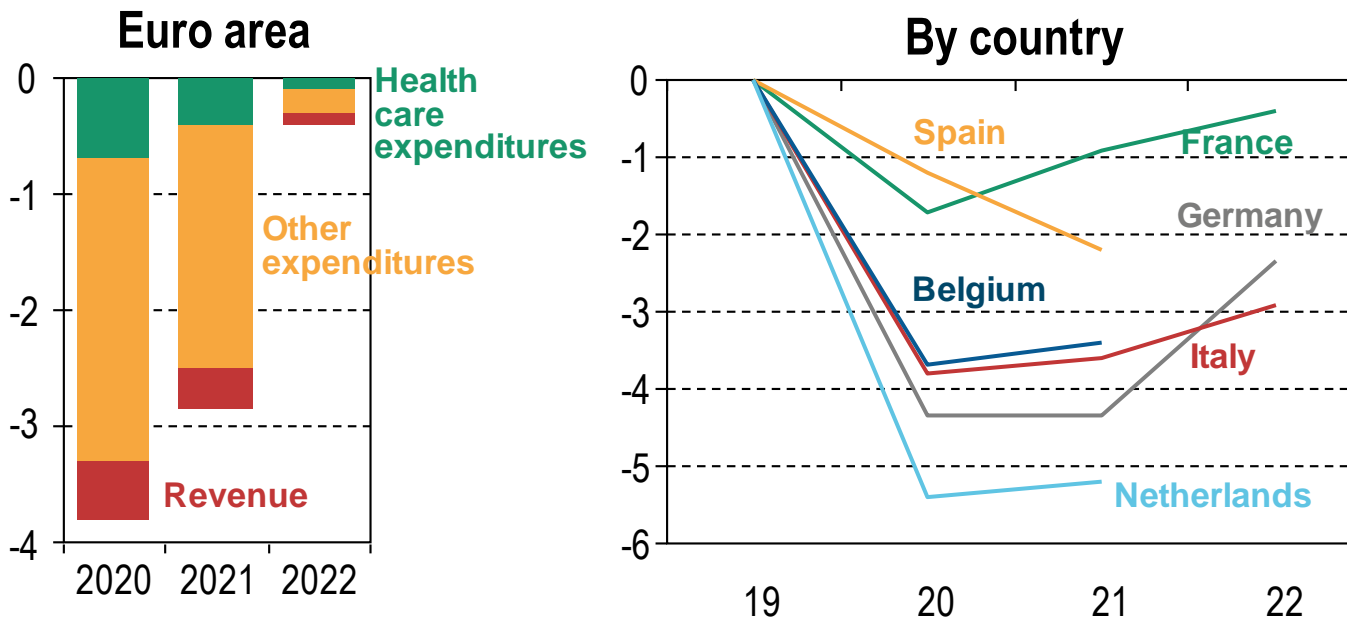
Currency in circulation

(year on year change, € billion)



While national fiscal policies have been active at mitigating the effects of the pandemic, European governments are now relying only on *Next Generation EU* to boost the recovery

Cumulated change in cyclically adjusted government balances (% of GDP, since 2019)

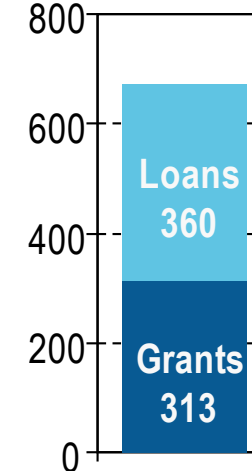


“EU GDP is projected to reach its 2019 level towards the middle of 2022. Therefore, *current preliminary indications would suggest to continue applying the general escape clause in 2022 and to de-activate it as of 2023.*” European Commission

Sources: Refinitiv Datastream, Candriam

Recovery and Resilience Facility

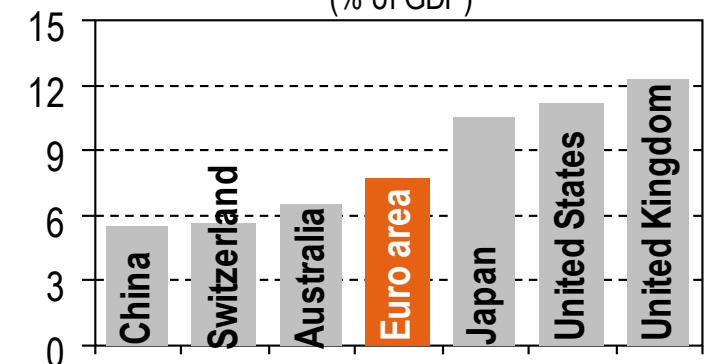
(billions of euros)



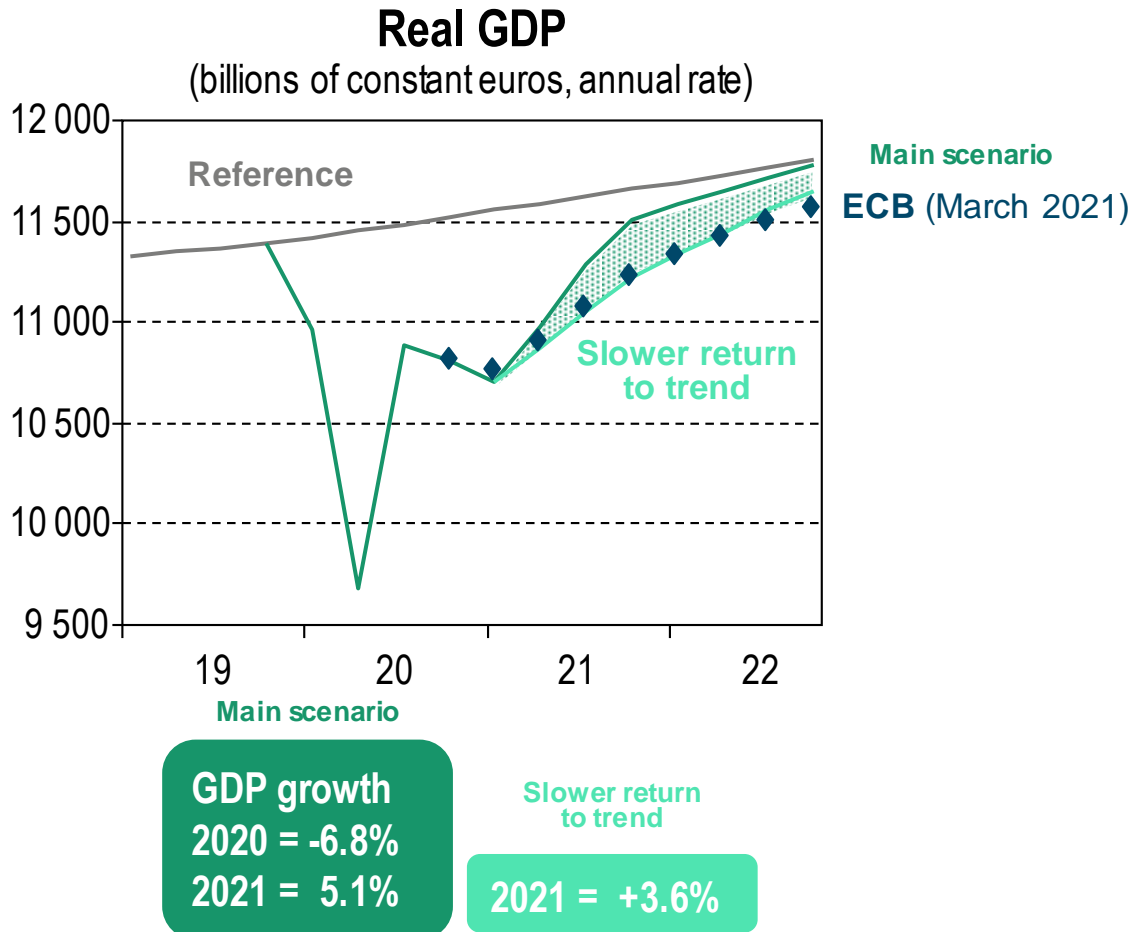
In the most favorable case, EU GDP growth is expected to be **0.5% higher on average over 2021-24** (and the potential GDP level will be increased by 1% afterwards, under the assumption that all grants and half of the loans are used to increase productive public investment).

Memo: change in government deficit between 2019 and 2020

(% of GDP)

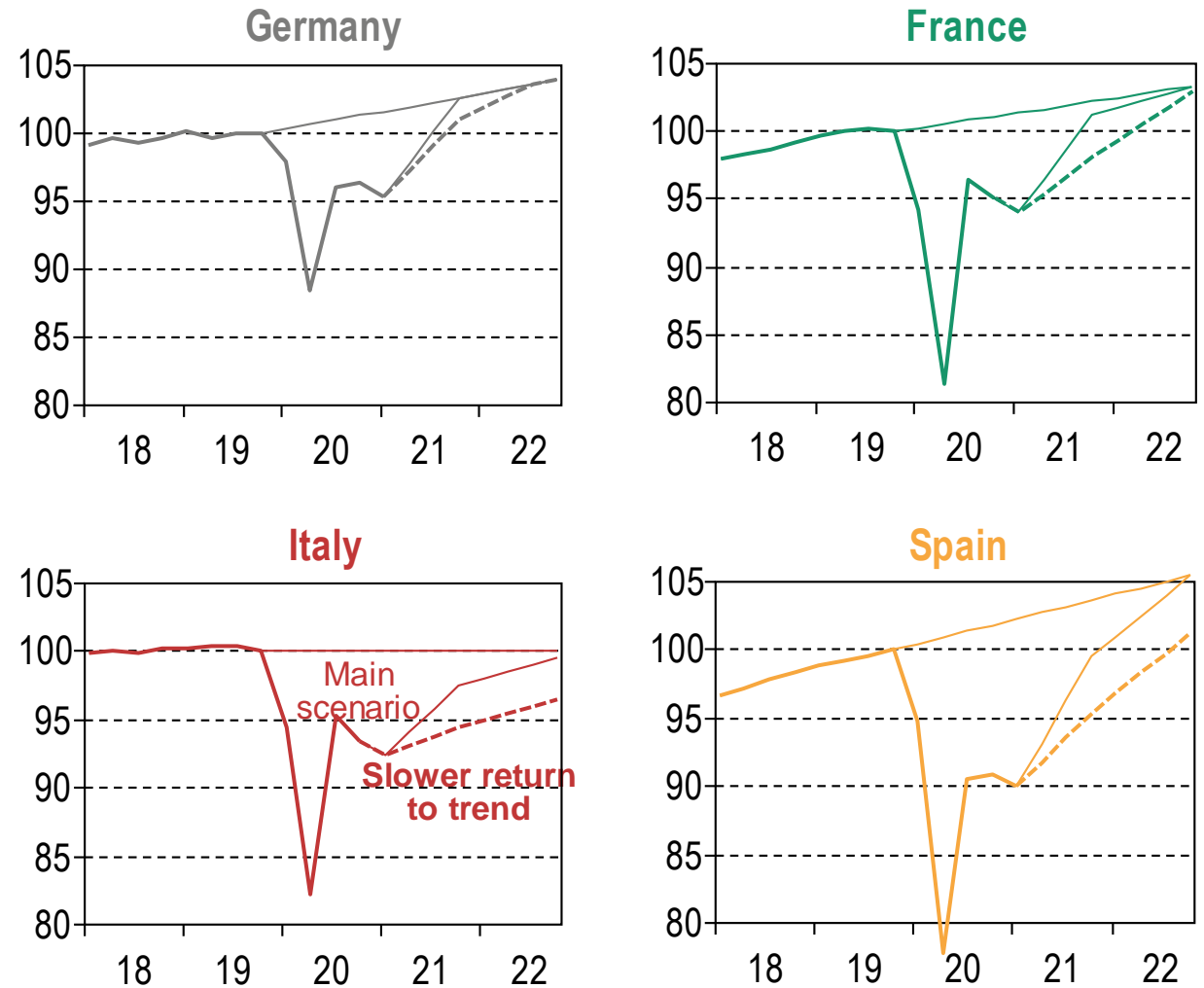


Even if on average GDP is almost back on trend by end of 2021, it will likely take longer for the most affected economies



Real GDP by country

(2019 Q4 = 100)



Sources: Refinitiv Datastream, ECB, Candriam

With a still incomplete recovery, there is no reason to expect a sustained acceleration in inflation

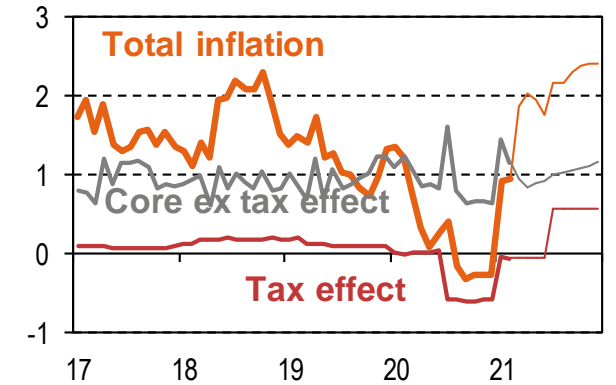
Consumer Price Index (% year on year)

Core inflation

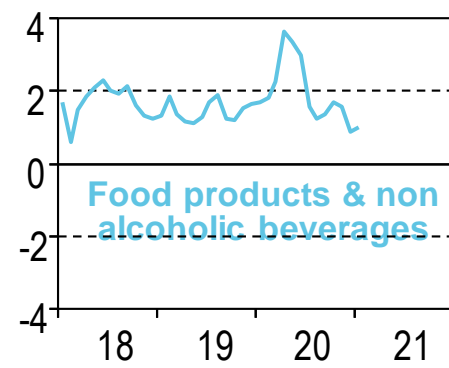
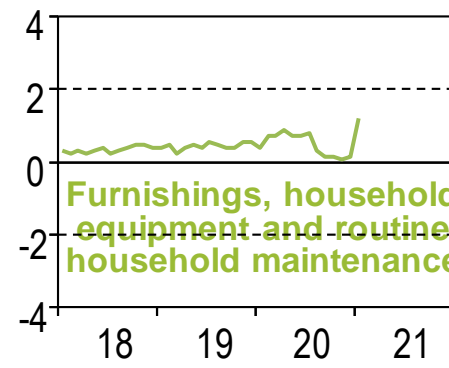
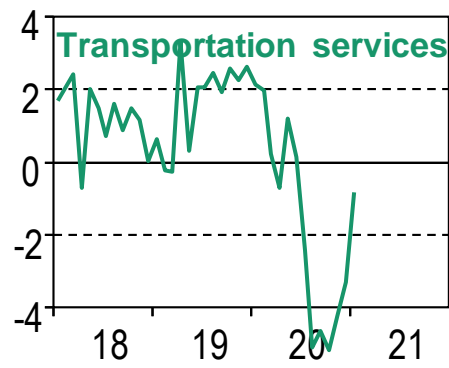
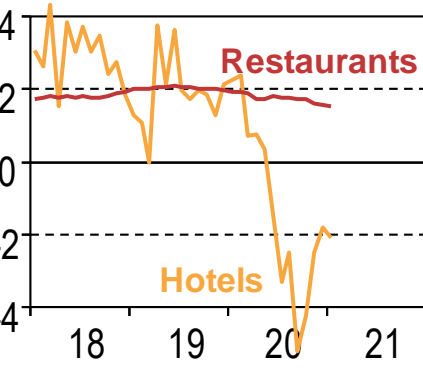
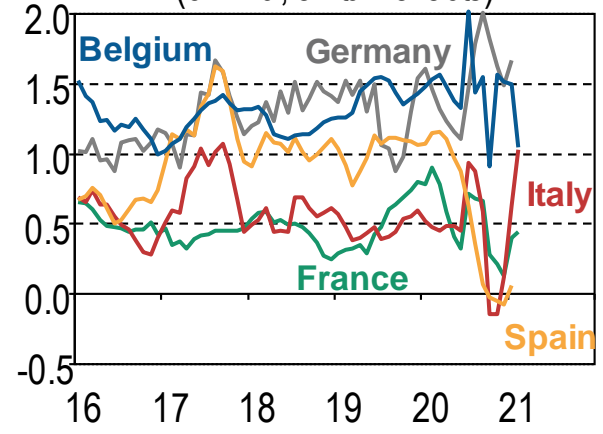
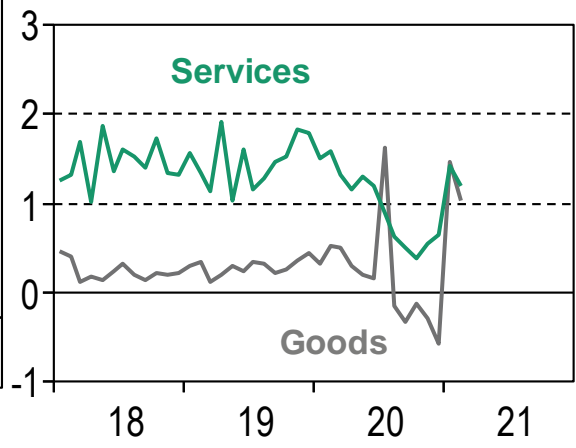
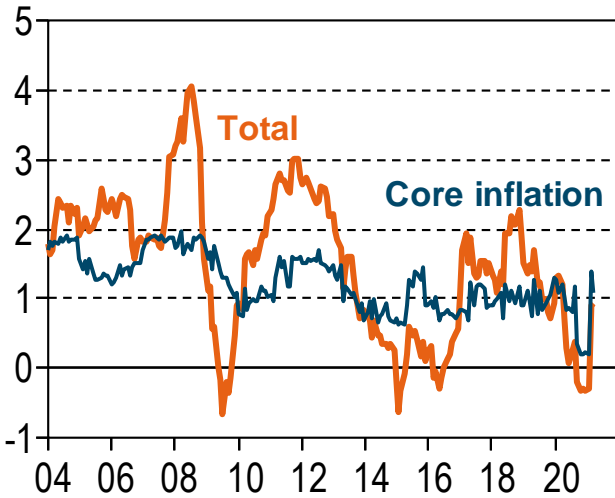
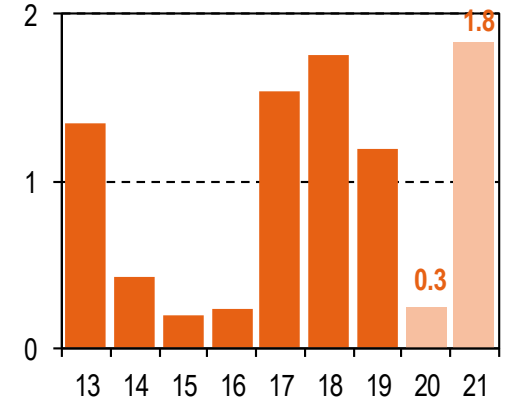
(3mma, ex tax effects)

Forecasts

(% year on year)



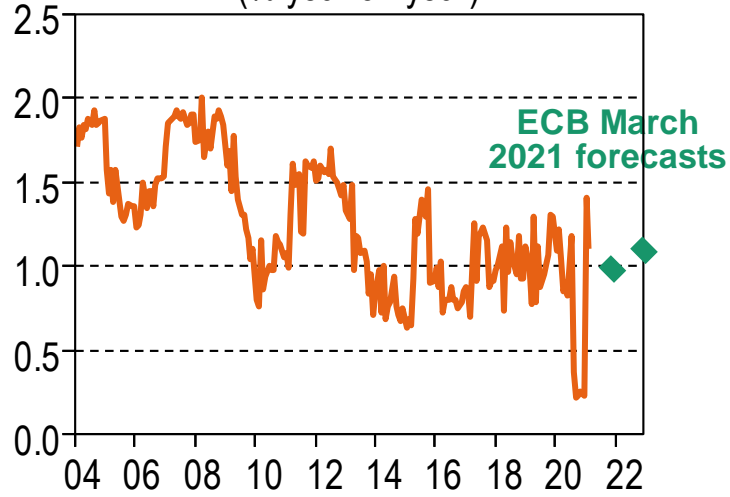
(% annual average)



In such an environment, the ECB has no reason to hesitate doing whatever it can to support growth

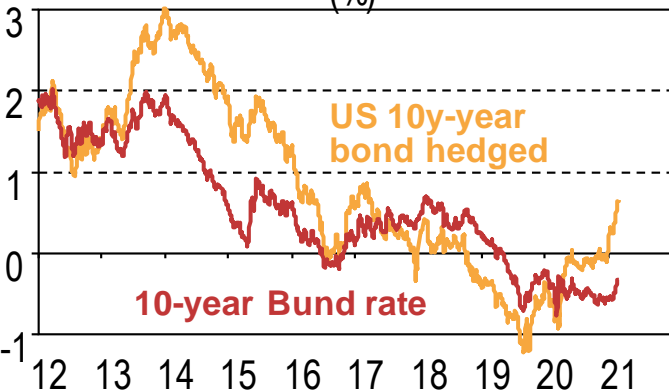
Core inflation and ECB forecasts

(% year on year)



10-year interest rates

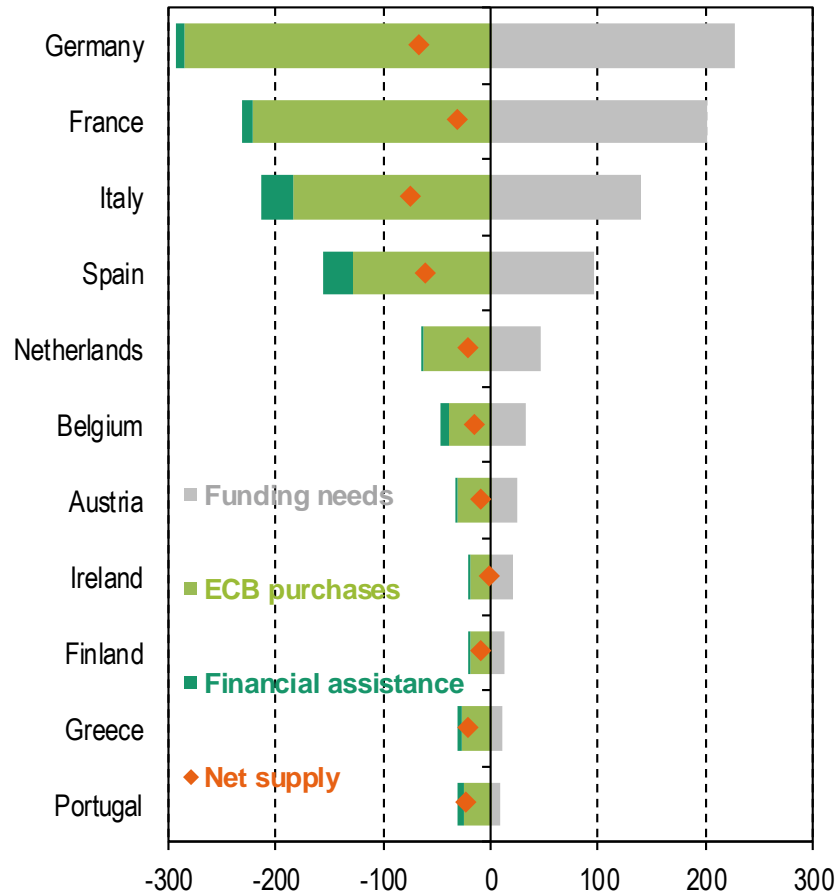
(%)



Sources: Refinitiv Datastream, Eurostat, Candriam

General government net issuance needs

(€ billion)



Declarations on recent interest rates movements

“The size of the movements is not such that this is a particularly worrisome development.”

Jens Weidmann

“There is reason to be optimistic about the second half of the year when the lockdowns will be lifted... What the market is actually doing is pricing that optimism.”

Klaas Knot

“Yields have risen from very low levels”

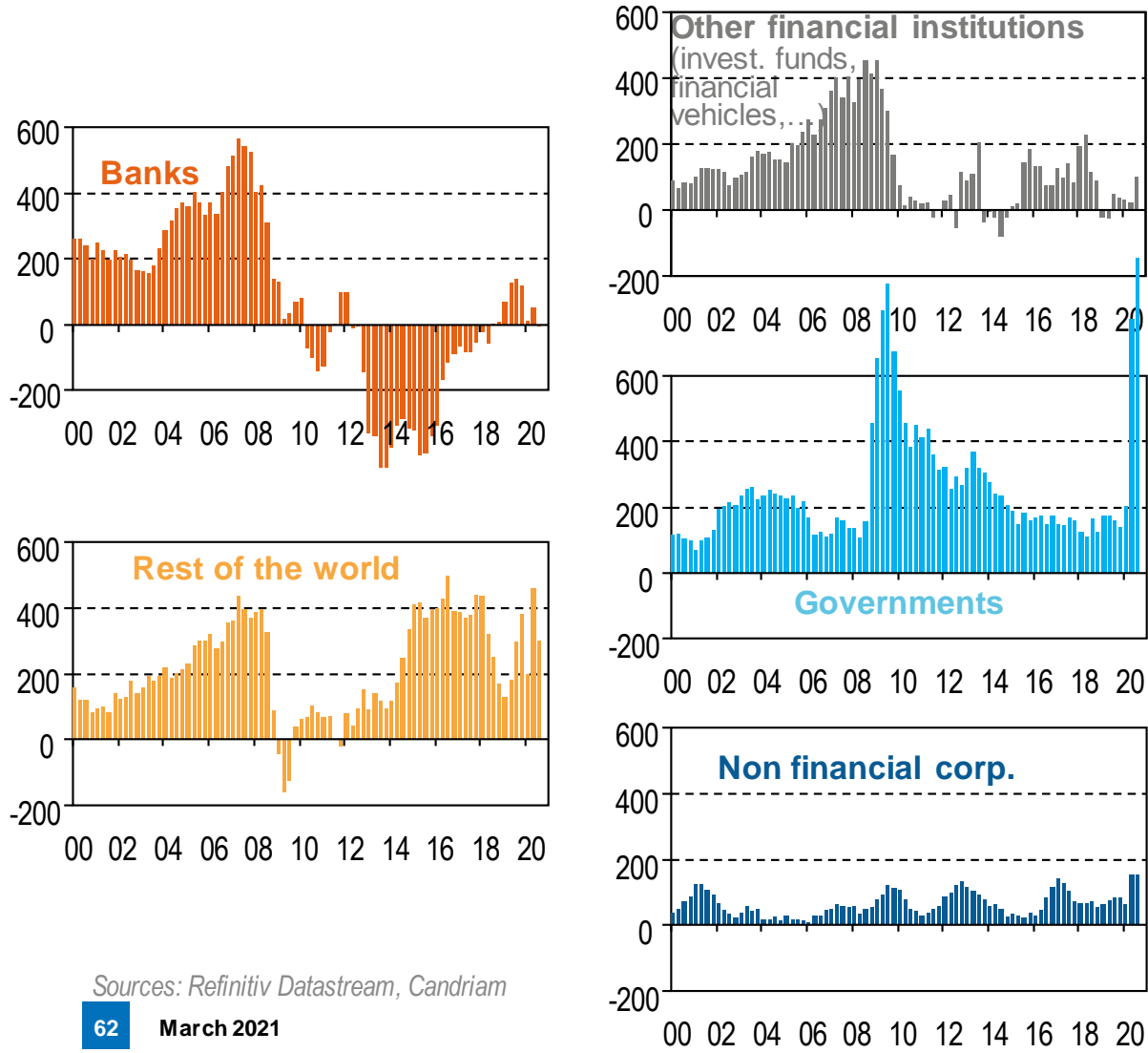
Luis de Guindos

“There are other elements in this tightening of financing conditions, including excessive spillovers and tensions on the term premia. In so much as this tightening is unwarranted, we can and must react against it, starting with an active flexibility of our PEPP purchases.”

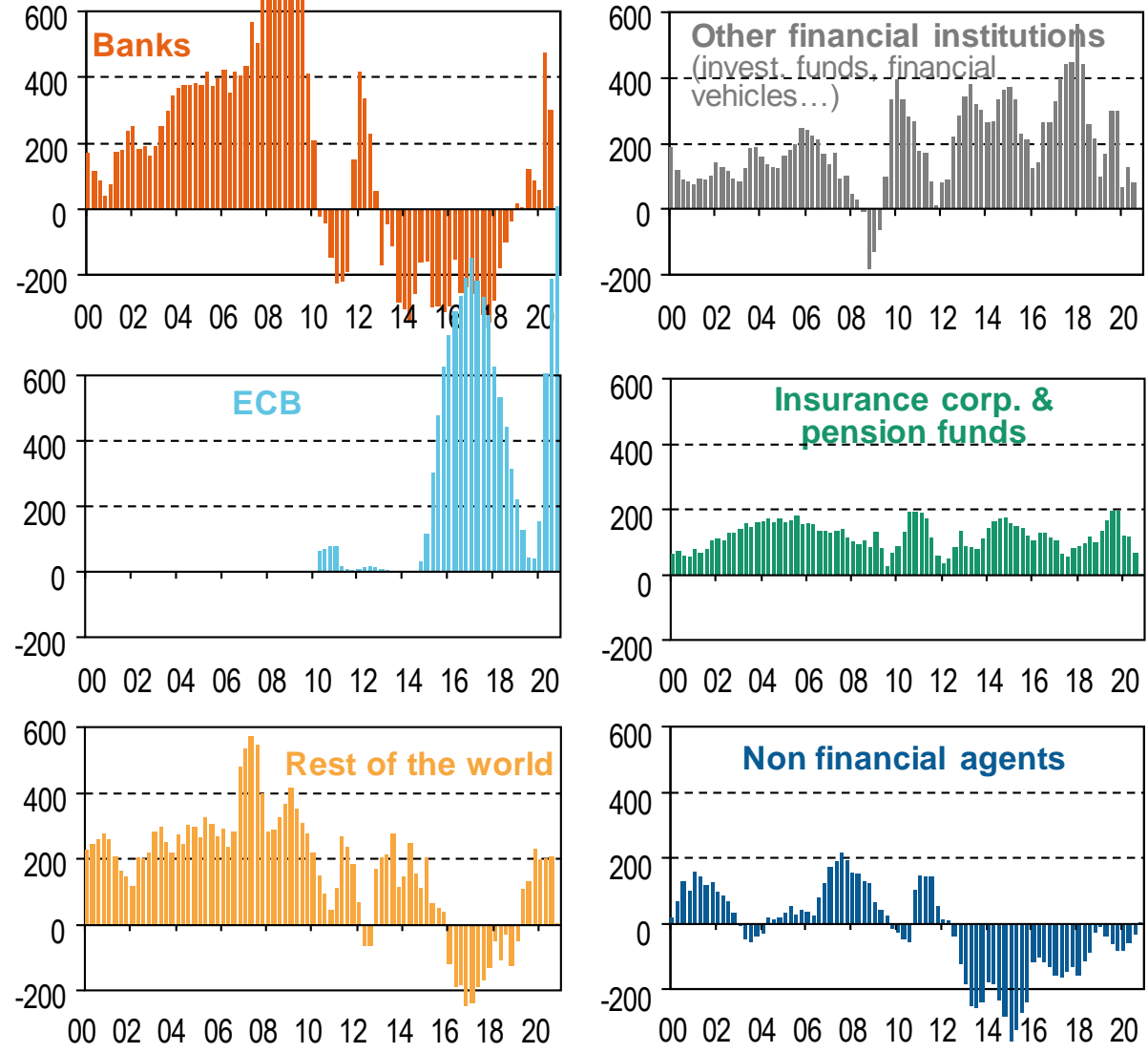
Villeroy de Galhau

Memo: bond market supply and demand

Net suppliers of debt securities
(€ billion, moving average over 4Q, annual rate)



Net buyers of debt securities
(€ billion, moving average over 4Q, annual rate)



Sources: Refinitiv Datastream, Candriam

CANDRIAM 

A NEW YORK LIFE INVESTMENTS COMPANY

Cross-Asset Strategy

A Delicate Transition Phase

Nadège Dufossé
Stefan Keller
Thibaut Dorlet
Michel Le Bras

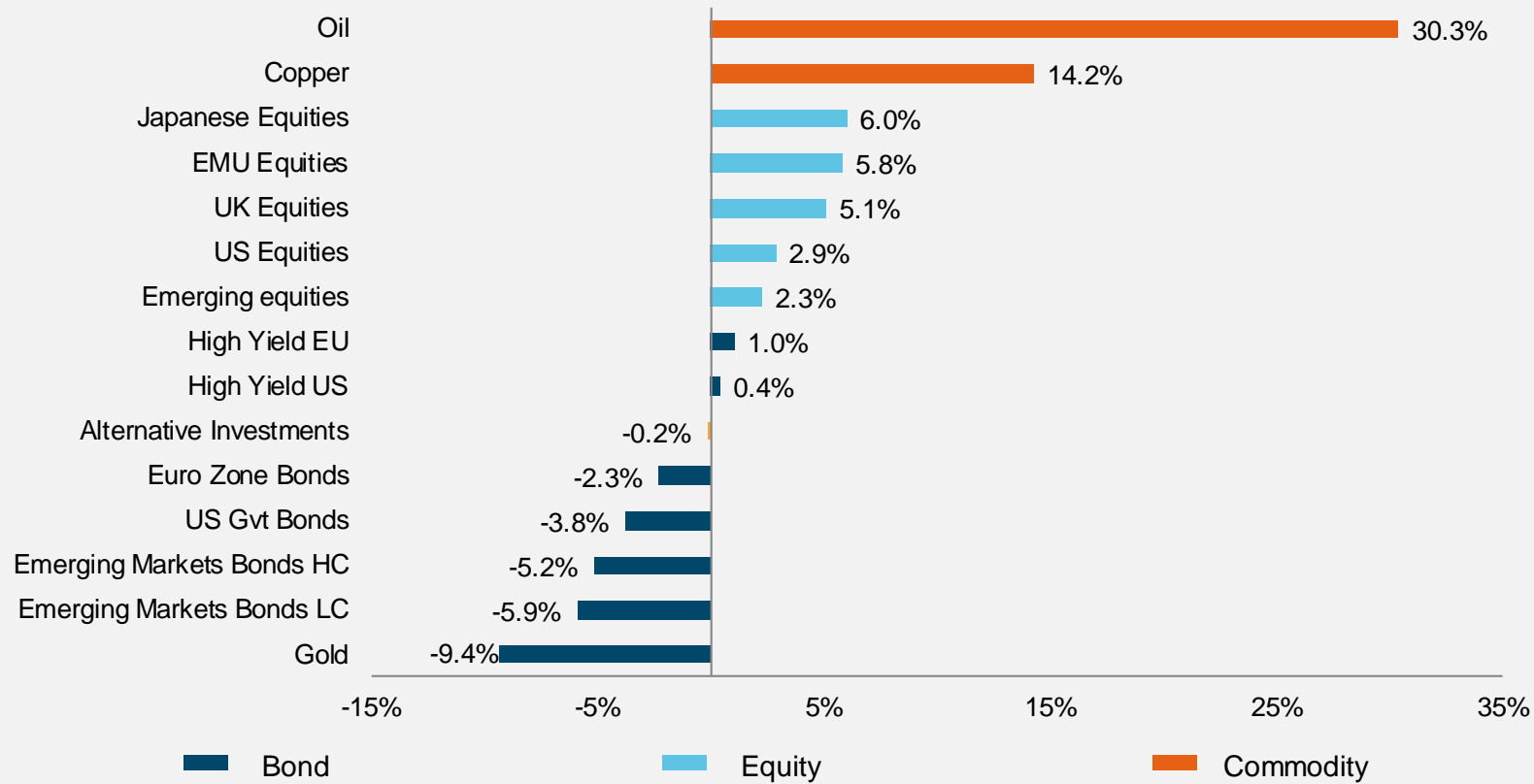
Commercial document intended exclusively for Professional Investors

March 2021

Risky Assets up, Safest Assets down



YTD Performances in local currency (as of March 9th)



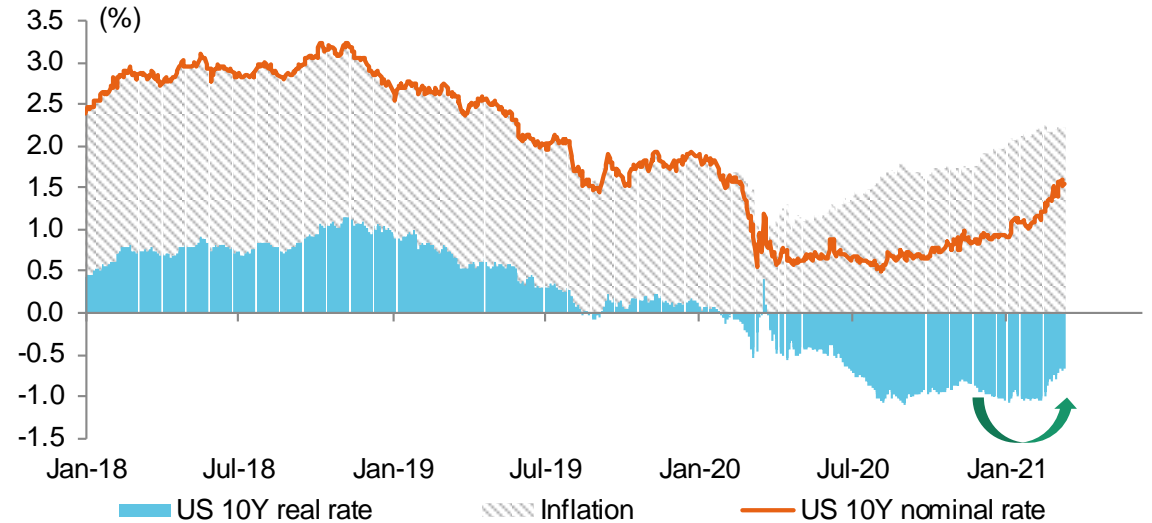
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Data as of 9th of March 2021

Source: Candriam Multi-Asset Strategy, Bloomberg ©

Accelerated rates' increase has triggered a style rotation...

- More recently, the increase in nominal rates has reflected a slight increase in real rates, while inflation expectations have stabilised.
- The “value” style is outperforming “growth” and “momentum” in Europe and in the US but is still far from filling the gap opened last year.



Relative performance vs MSCI US	31 Dec 20 - 09 Mar 21	2020	5Y	10Y
	US Value	4.1%	-20.4%	-48.2%
US Growth	-4.1%	21.7%	54.4%	114.4%
US Small Caps	9.6%	-2.5%	3.4%	-28.2%
US Quality	-2.6%	1.6%	14.6%	47.3%
US Min Vol	-3.9%	-15.6%	-43.3%	-45.3%
US Momentum	-5.2%	8.2%	21.7%	70.7%

Relative performance vs MSCI Europe	31 Dec 20 - 09 Mar 21	2020	5Y	10Y
	Europe Value	3.5%	-9.6%	-14.4%
Europe Growth	-3.6%	9.2%	12.8%	41.6%
Europe Small Caps	1.9%	7.9%	22.5%	81.7%
Europe Quality	-4.2%	8.9%	14.1%	74.3%
Europe Min Vol	-6.0%	-0.7%	-14.6%	18.3%
Europe Momentum	-4.6%	14.4%	20.9%	88.2%

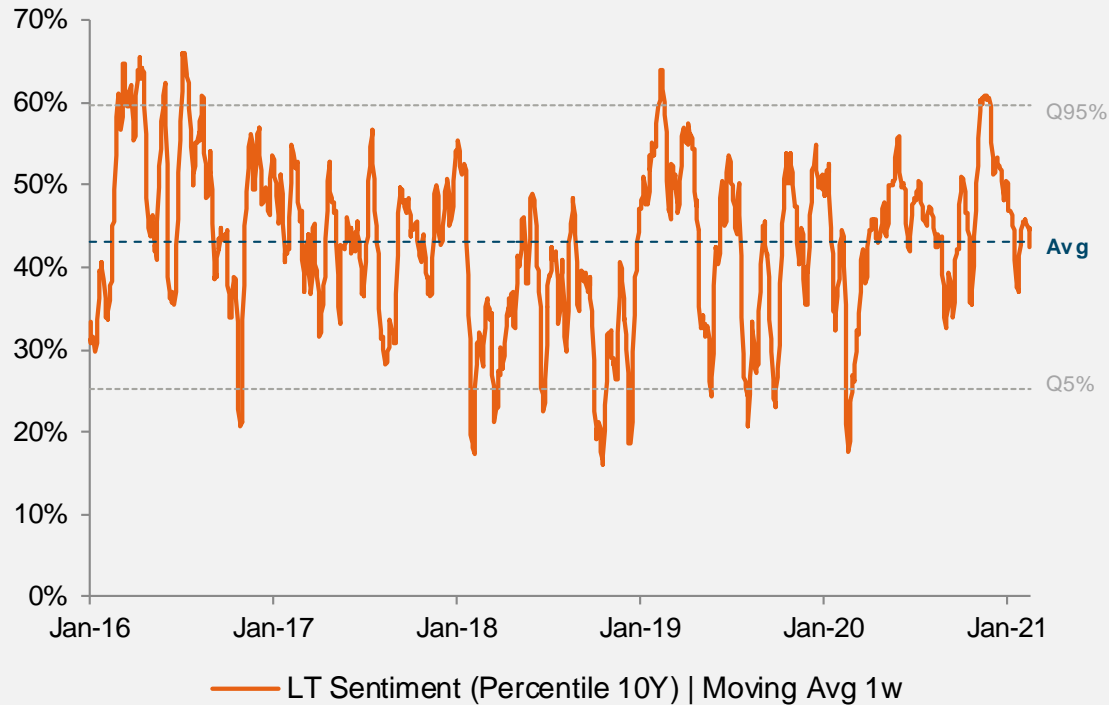
Data as of 9th of March © 2020 MSCI Inc. All rights reserved

Source: Candriam Multi-Asset Strategy, Bloomberg ©

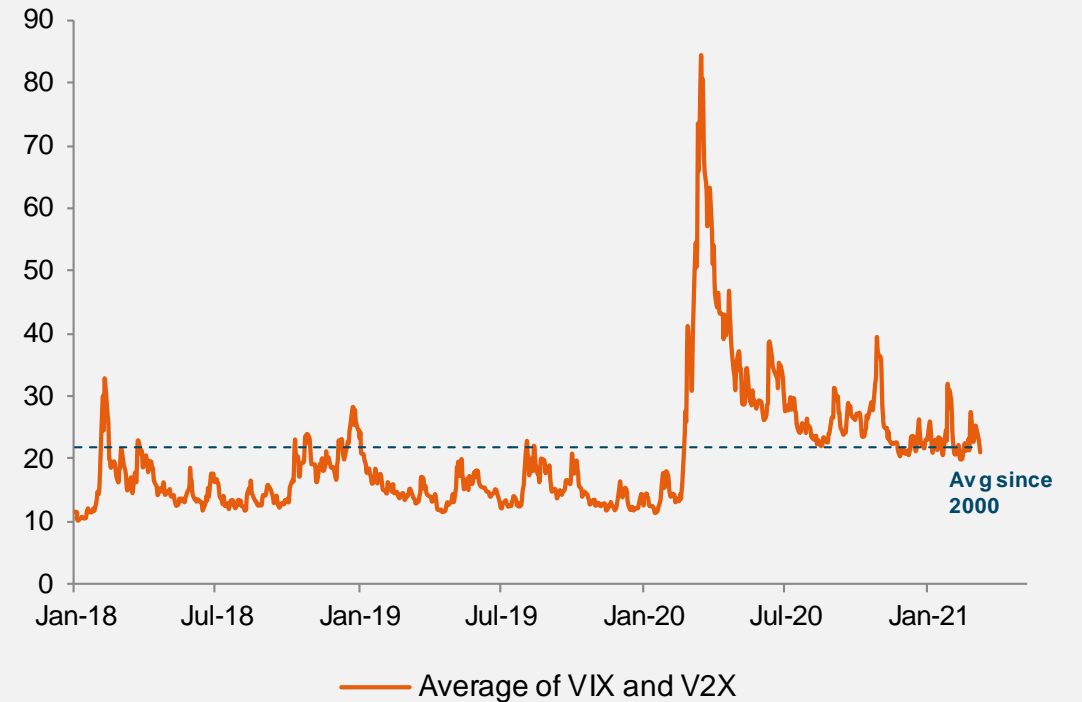
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... and has weighted on investors' sentiment

Investors' sentiment* not excessively optimistic anymore

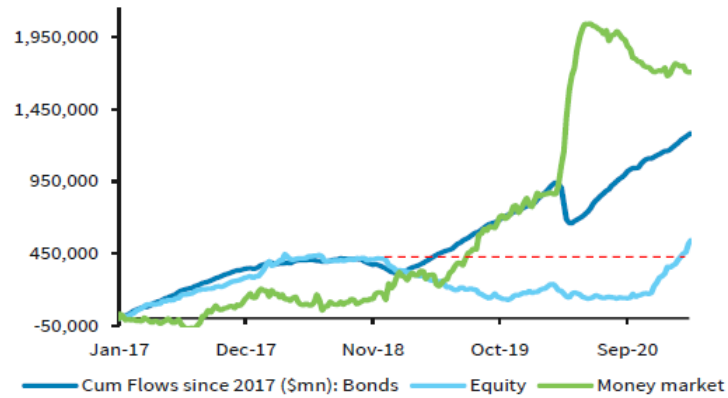


Volatility remains above its long term average

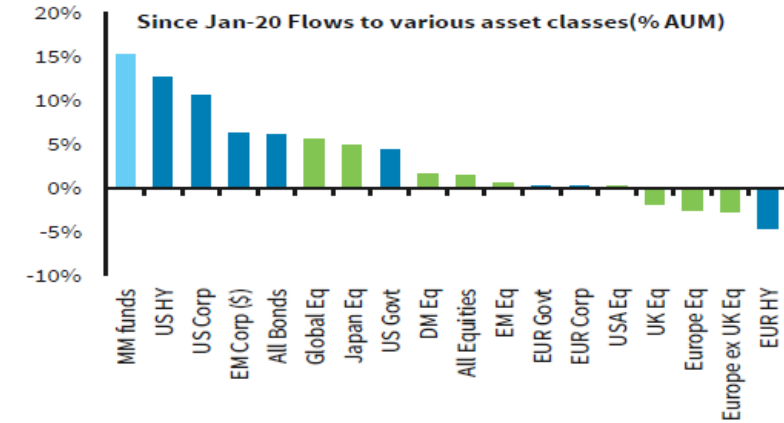


Room for positive equity inflows, particularly in Europe

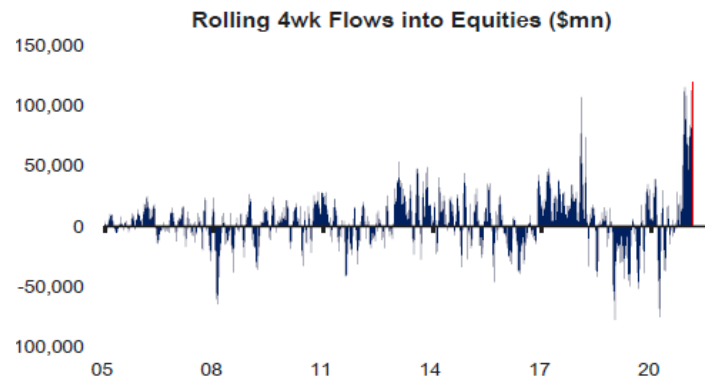
Cumulative Flows since 2017 (\$Mn)



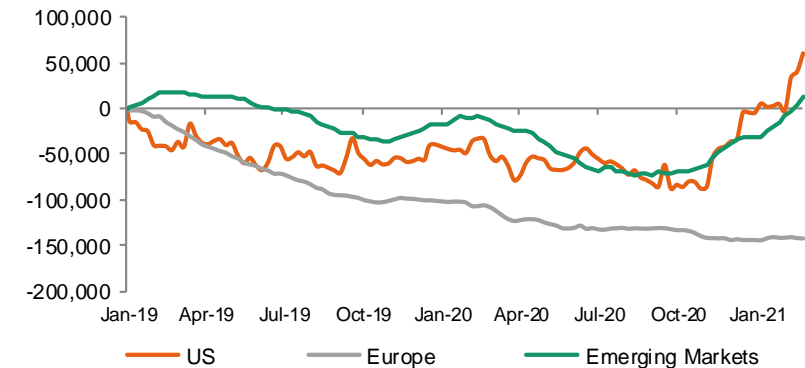
Since Jan-20, Cumulative flows (% AUM)



Rolling 4 wks flows into Equities (\$mn)

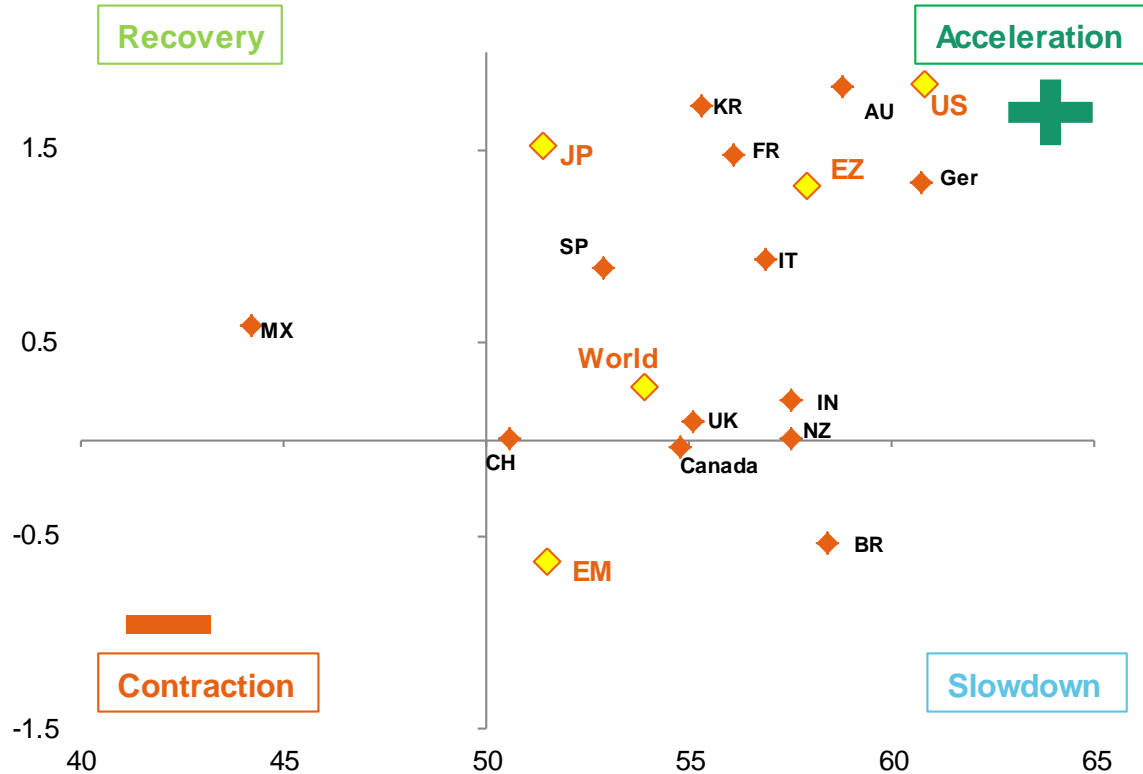


Cumulative Flows into Equity

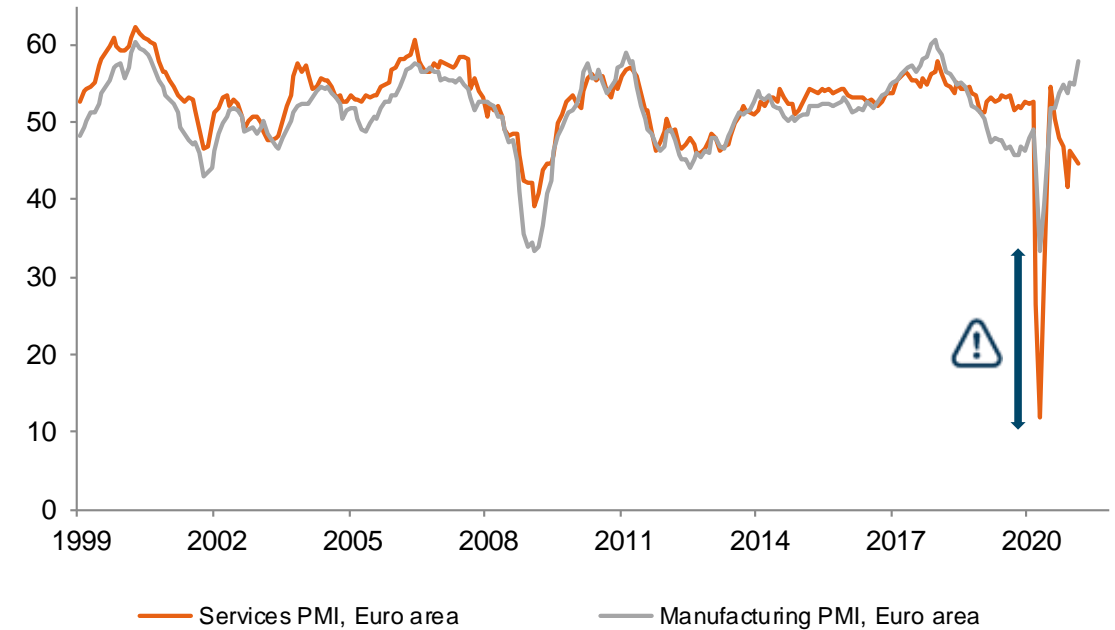


Fundamentally good news are driving the expansion

Manufacturing expansion is accelerating widely



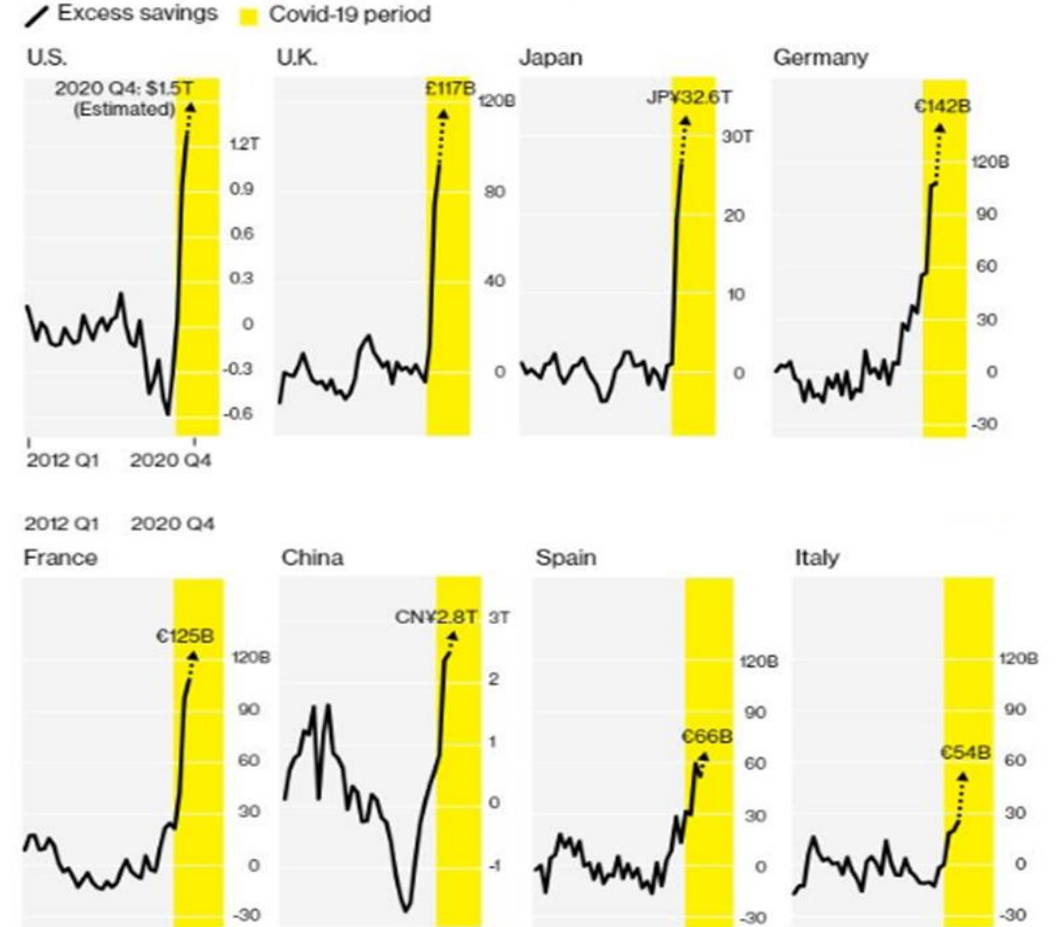
Services VS. Manufacturing: still a large gap to fill



Consumption boom looming



- 1 The reflation trade could well move into the next phase as the economy reopens
- 2 Lockdown barriers to spending combined with stimulus-boosted incomes have left consumers with massive pent-up savings
- 3 Household excess savings have increased sharply across the world...

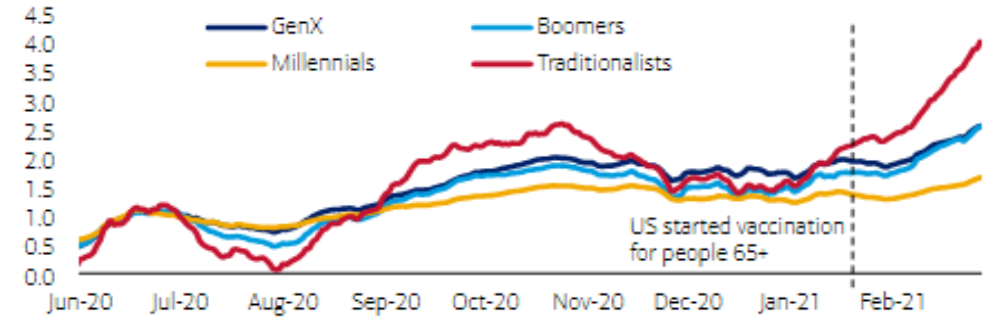


Getting a sense of post-vaccine behavior



People aged 73-92 (Traditionalists) show a sharp gain in airline spending post vaccination launch

BAC airline spending, index, June 2020 average =1 for each demographic group, 14-day moving average



Spending on airlines shows an uptick

(daily % yoy of the 7-day moving average of spending levels)

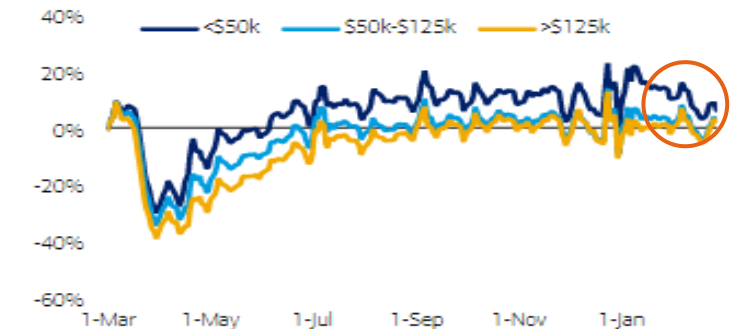


Spending at restaurants and bars showed noticeable improvements



Total card spending for the lowest income group slowed down meaningfully

(daily % yoy of the 7-day moving average of spending levels)

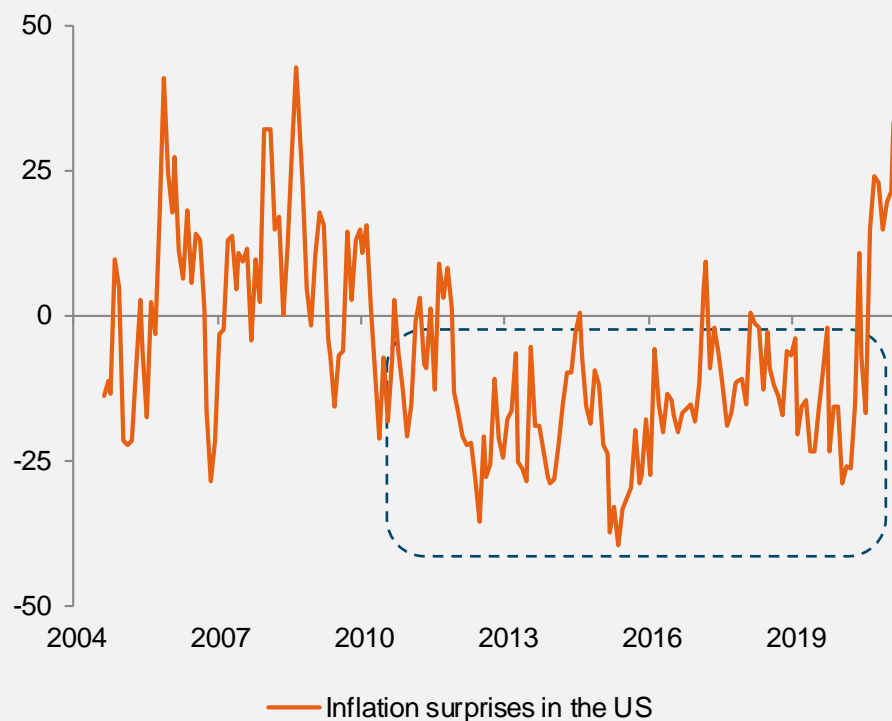


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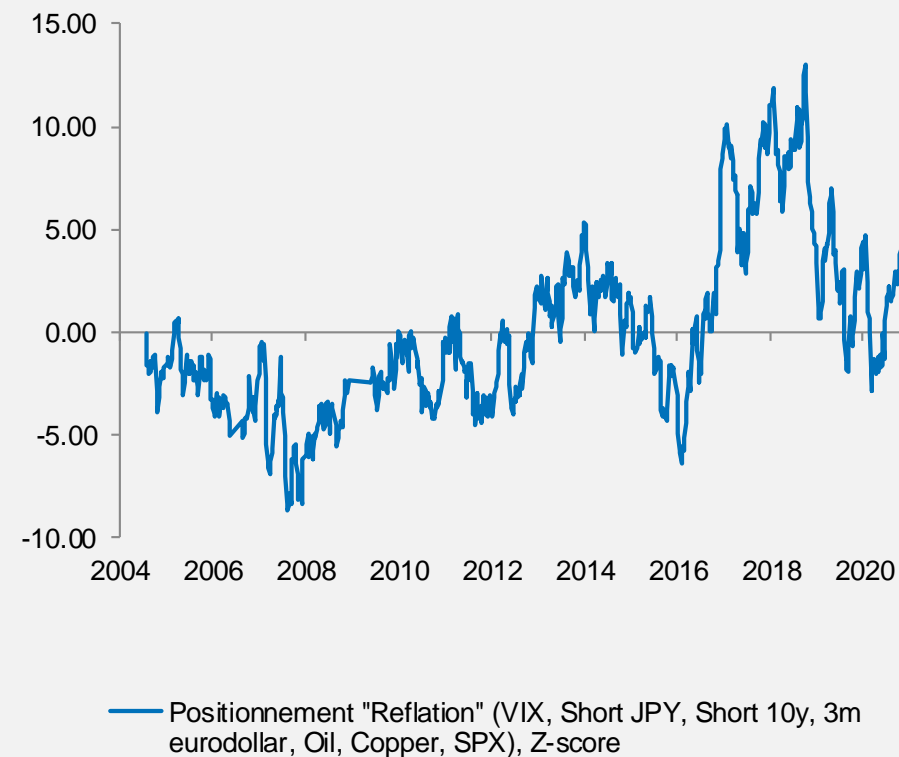
Sources: BofA Merrill Lynch ©, CandriamCross Asset Strategy

Reflation = REcovery + inFLATION

Recent news flow marks a shift from more than a decade of negative surprises on inflation



Accordingly "reflation" positioning has recovered



Current drivers of rising bond yields

1 Demand Shock

If bond yields, equity valuations and inflation expectations all rise, this can be attributed to expectations of stronger demand pushing growth and inflation higher

2 Supply Shock – e.g 1973

If bond yields and inflation expectations rise, but equity valuations fall, this can be attributed to a supply shock -- like lower oil supply -- pushing inflation higher but crimping growth

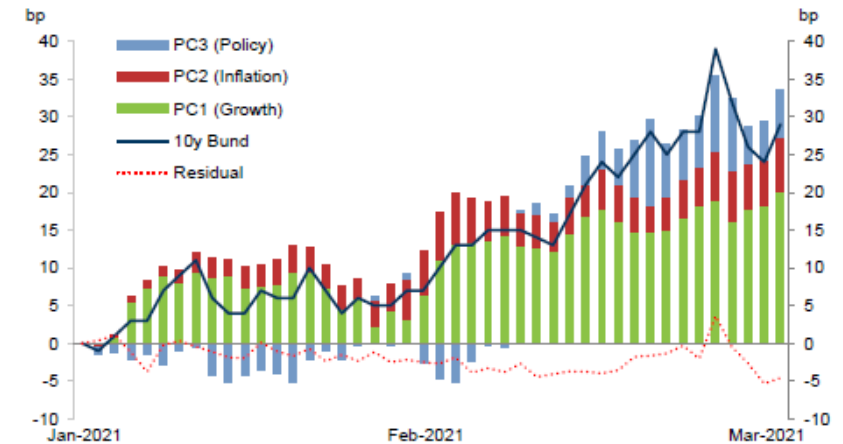
3 Monetary policy shock – e.g 2013

If bond yields rise but equity valuations and inflation expectations fall, this can be attributed to expectations of tighter monetary conditions.

Bond yield drivers

	Demand shock	Supply shock	Monetary Policy shock
10y Yield	+	+	+
S&P500 CAPE	+	-	-
Inflation expectations	+	+	-

Decomposition of bond yield drivers



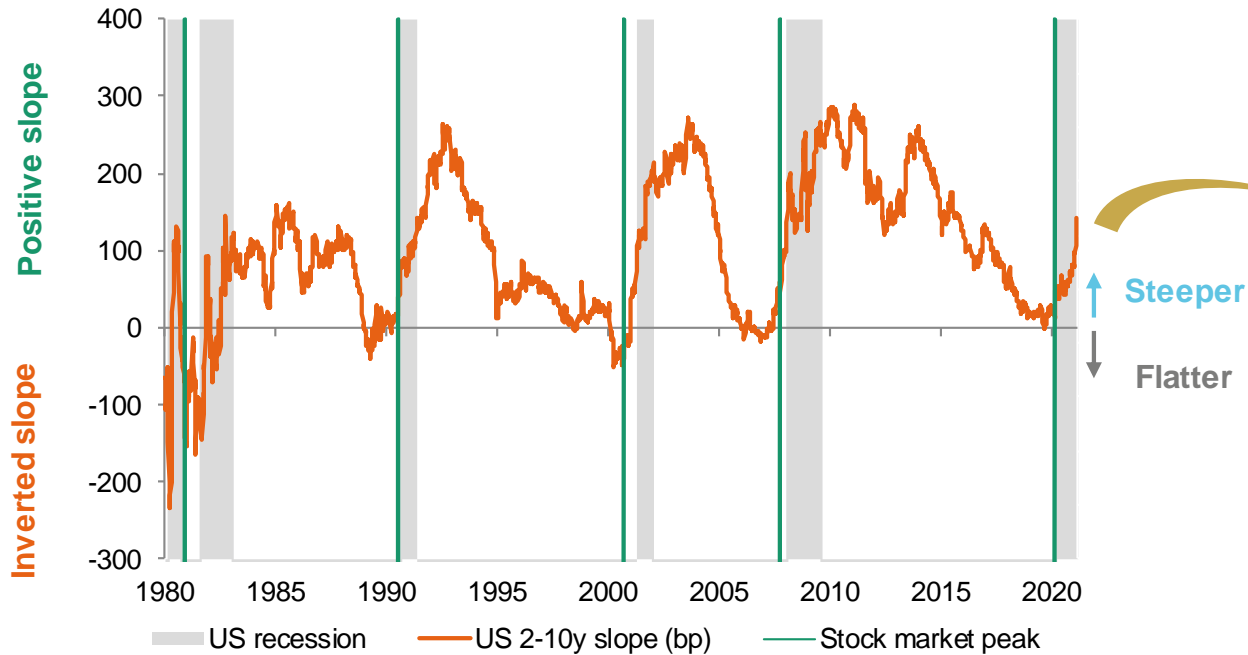
Source: Goldman Sachs Global Investment Research

The impact on bonds and equities

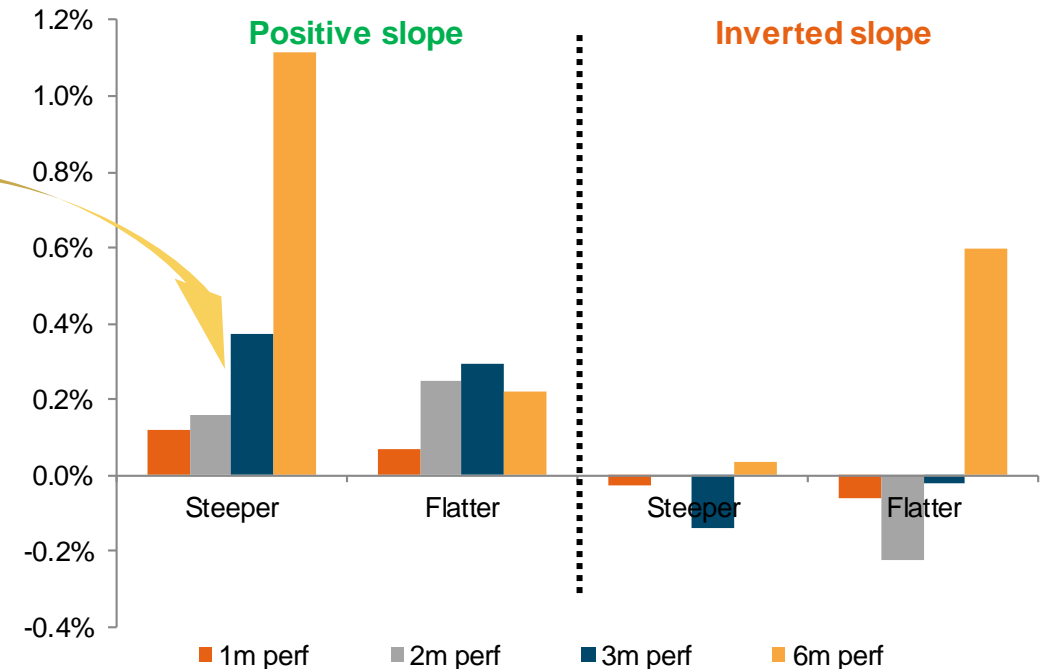


Historically, the best environment for equities is a positive slope with a steepening yield curve

US yield curve and stock market peaks



S&P500 avg. performances over different time horizons according to the yield curve environment



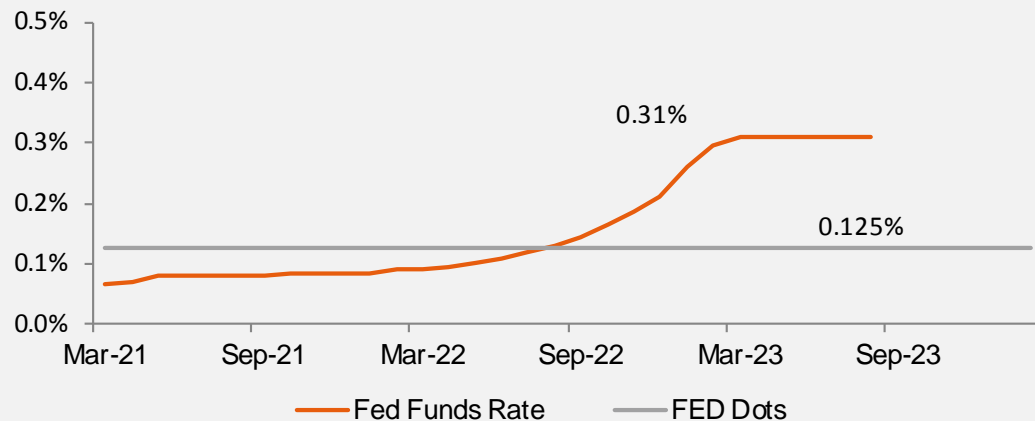
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Sources: Bloomberg®, CandriamCross Asset Strategy

Credibility of Central banks key in this transition phase



Fed Funds Rate vs Expectations

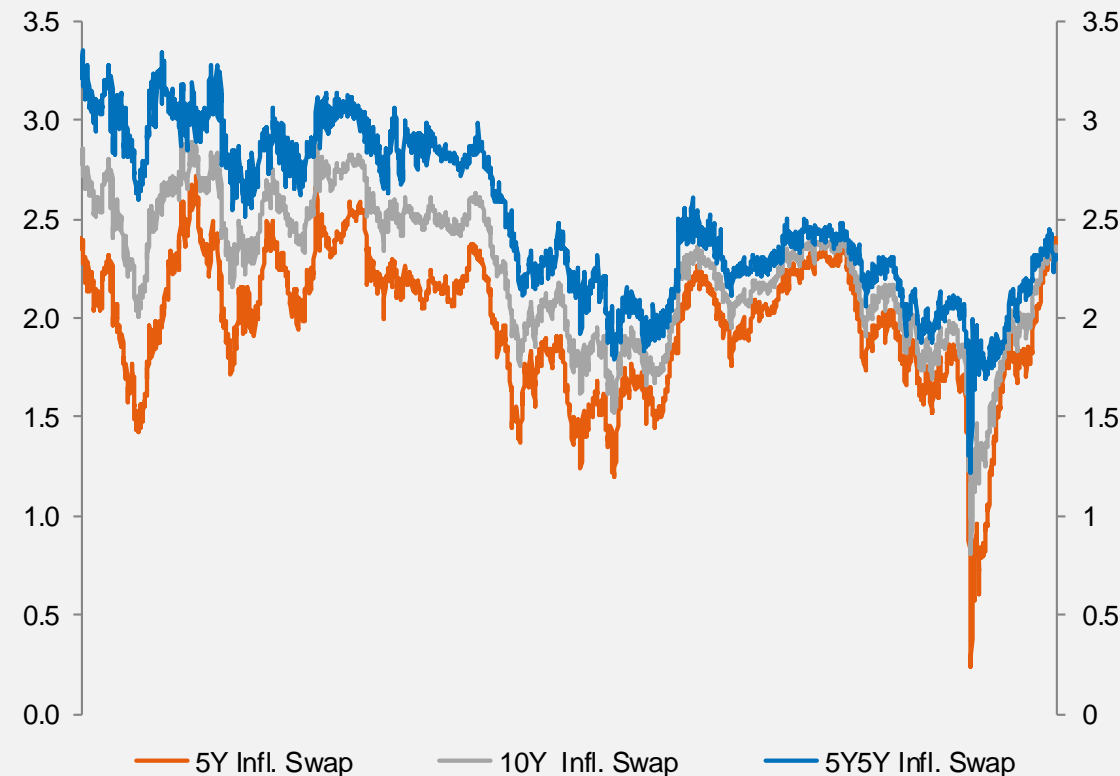


US: last reduction in monetary support

	Date	Delay between event and date of first rates increase (in months)
Tapering Announcements	Sep-13	-26
End of QE 3	Oct-14	-13
First Rates Increase	Dec-15	0
Balance Sheet Reduction	Sep-17	22



US Inflation Swaps

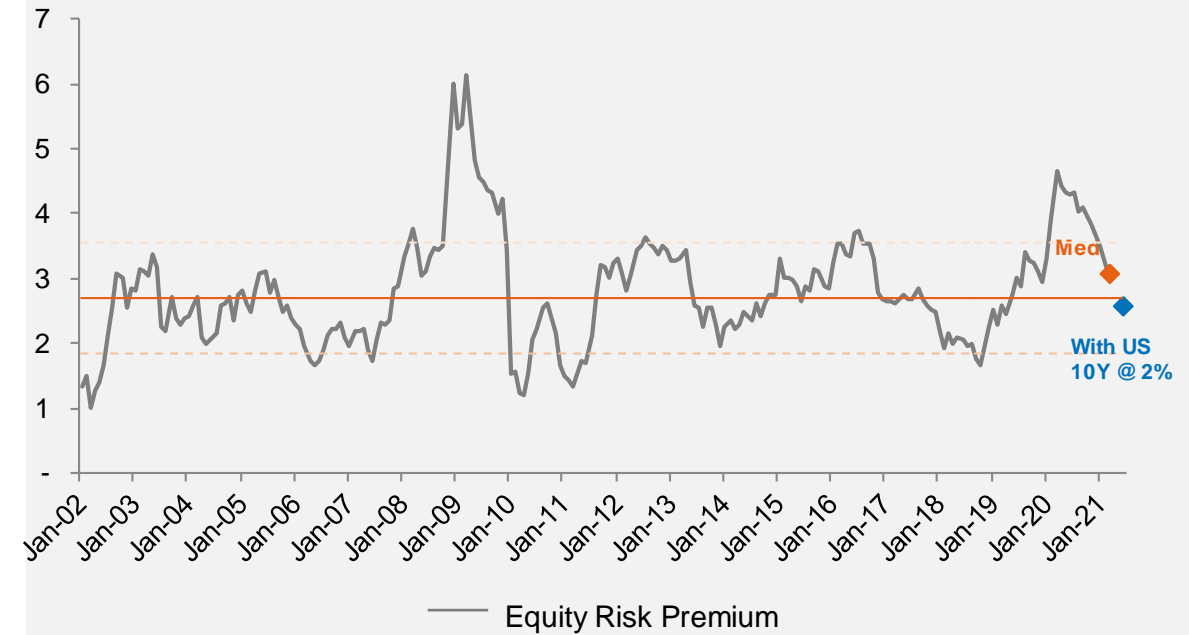


Equity valuation: attractive Vs. bonds

PE 12 months Forward

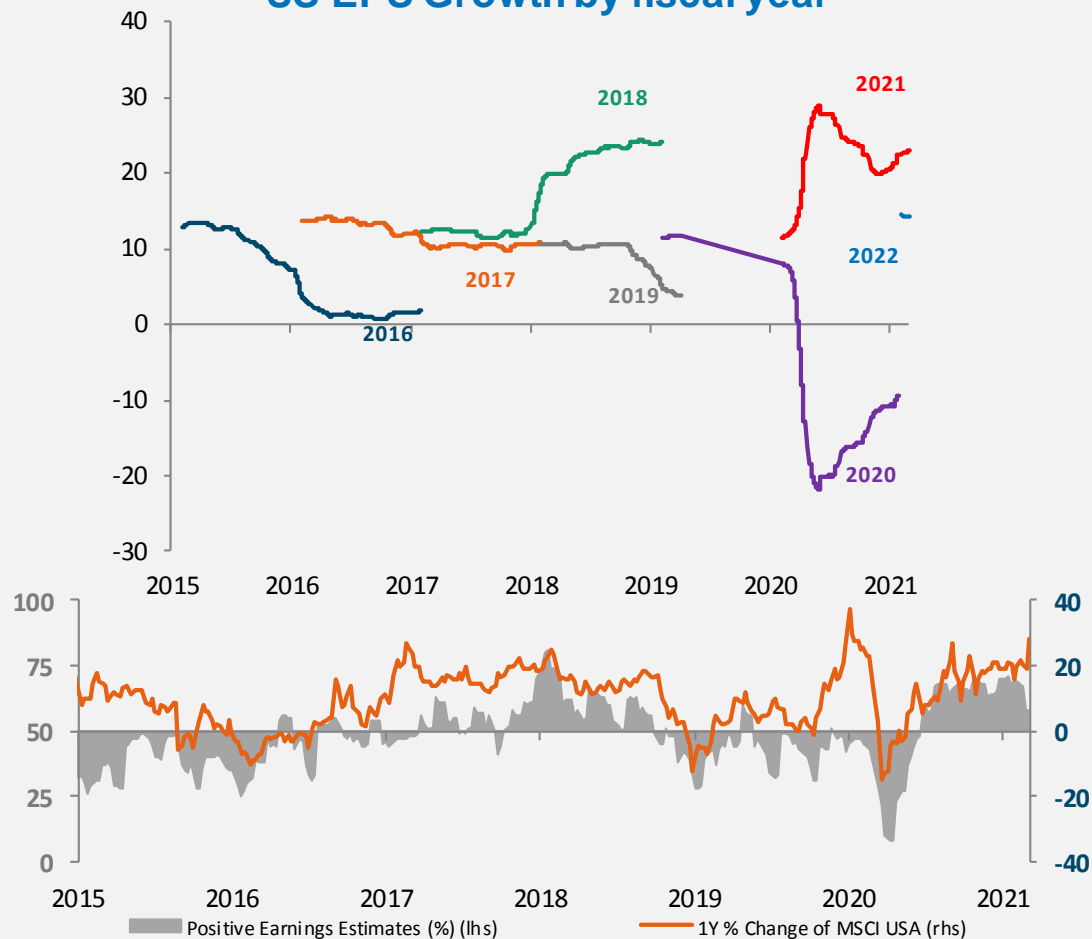


US Equity Risk Premium

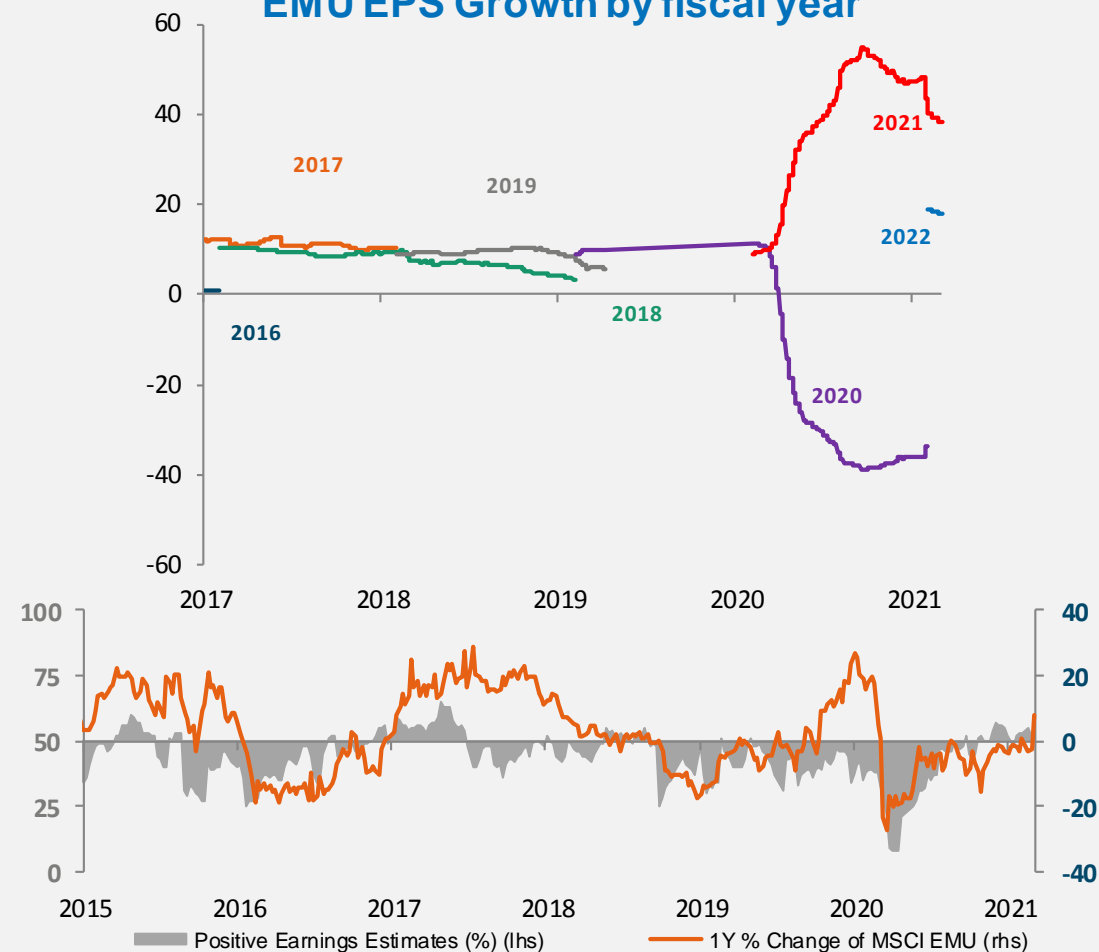


Earnings growth will now be the key driver

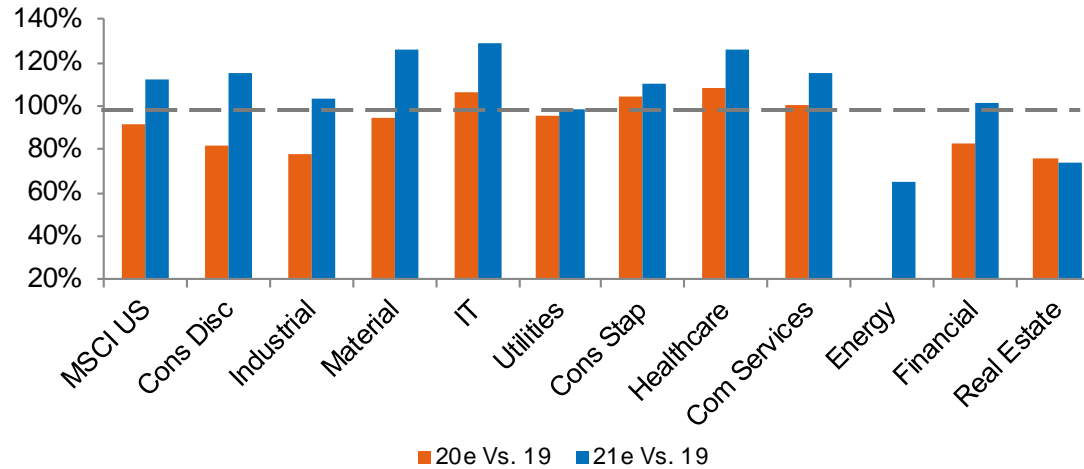
US EPS Growth by fiscal year



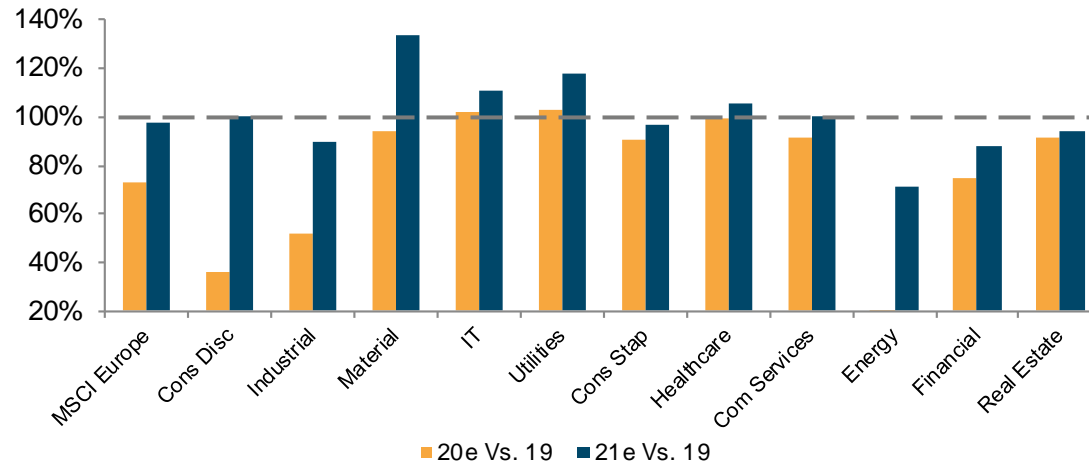
EMU EPS Growth by fiscal year



Expected earnings recovery in 2021



- » In the US, thanks to the resilience of the IT, communication services, Healthcare and consumer staples sectors, Earnings in 2020 have suffered **less than feared**.
- » For 2021, analysts are expecting earnings **19% above the level of 2019**.

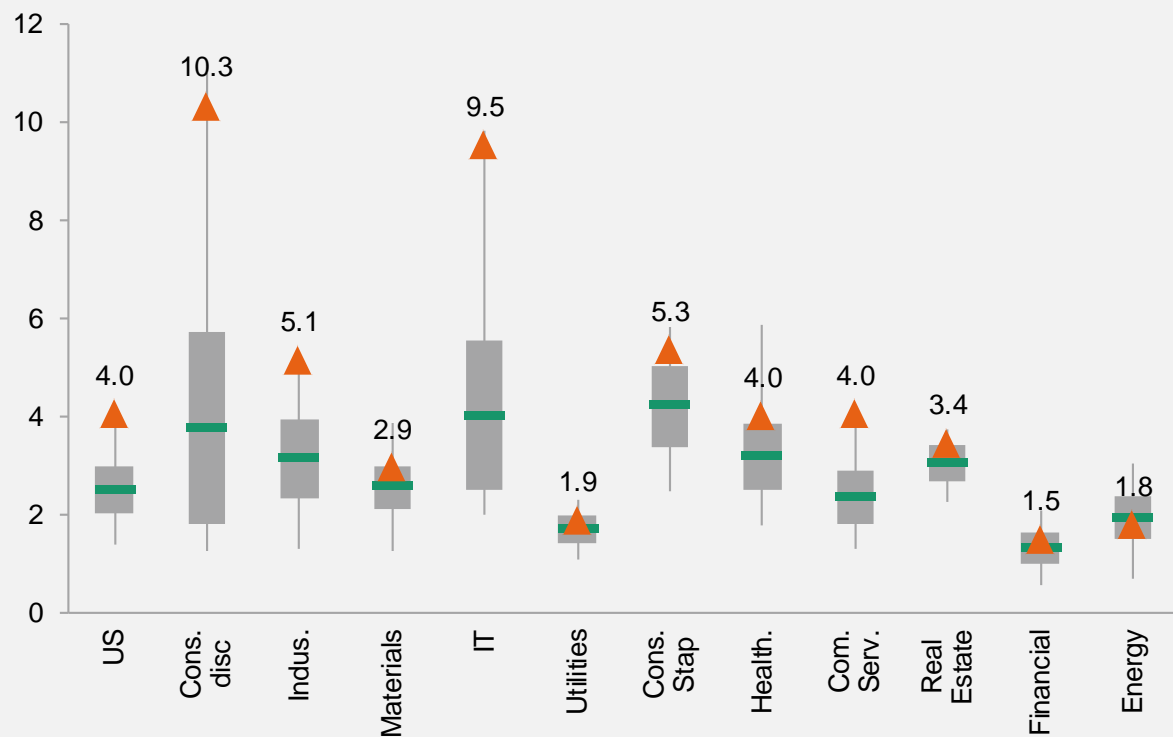


- » European corporates' earnings have been much **more impacted** by the Covid crisis but are expected to recover in 2021 the level of 2019.

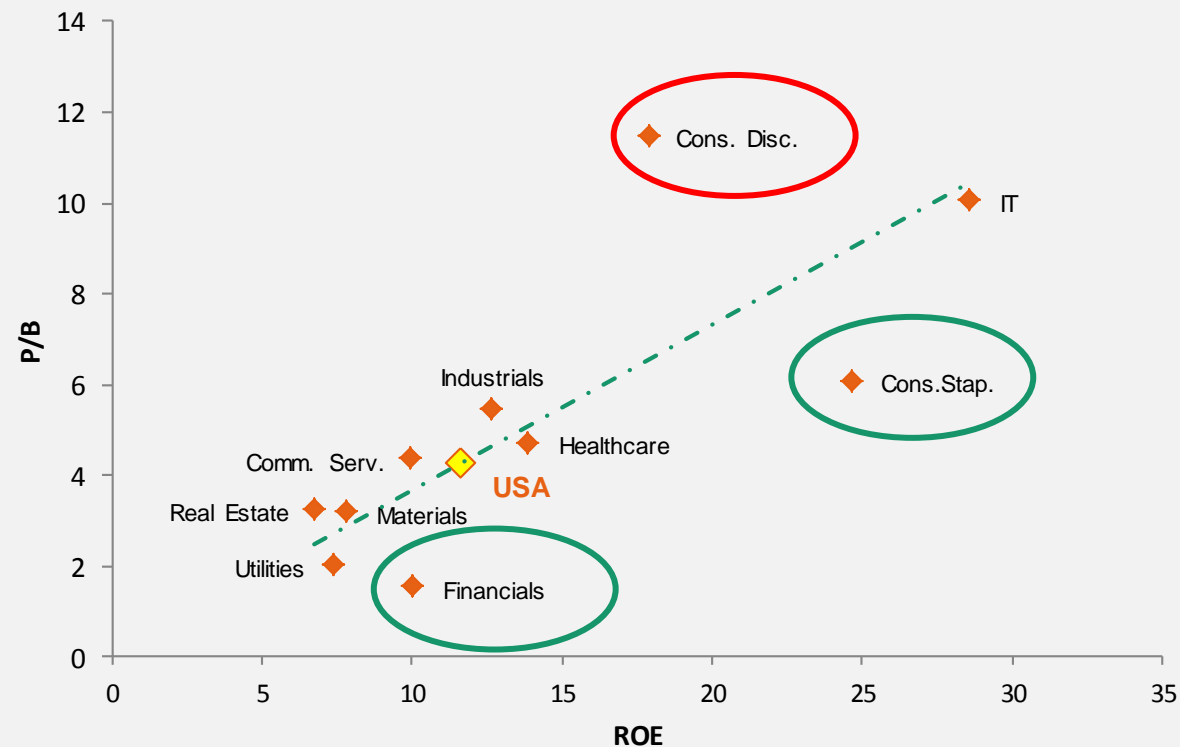


US Sectors: valuation is globally consistent with the profitability

Valuation of US Sectors (P/BV)



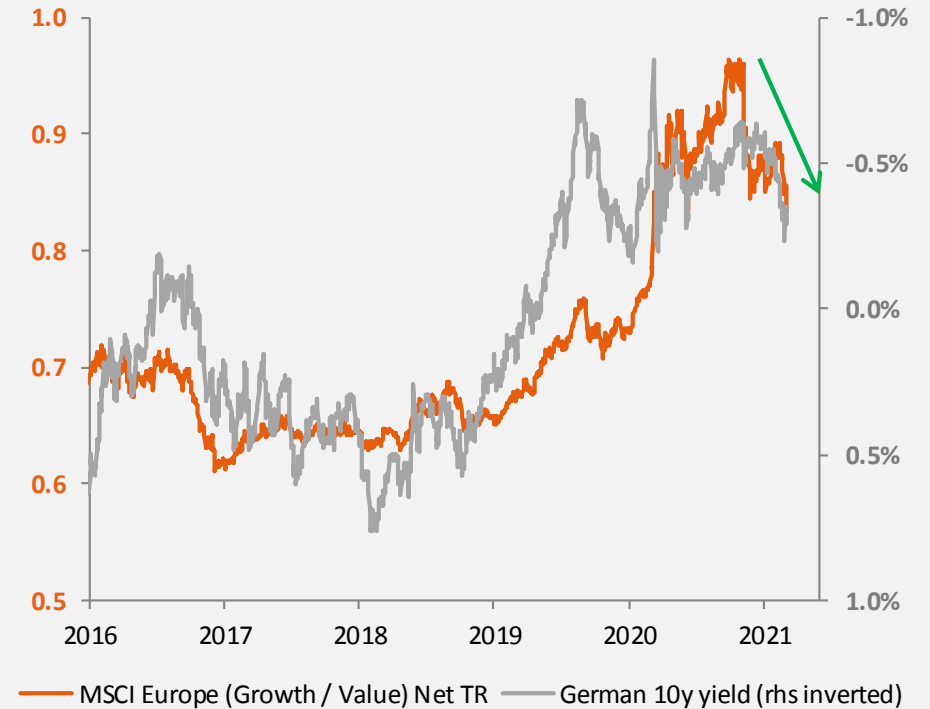
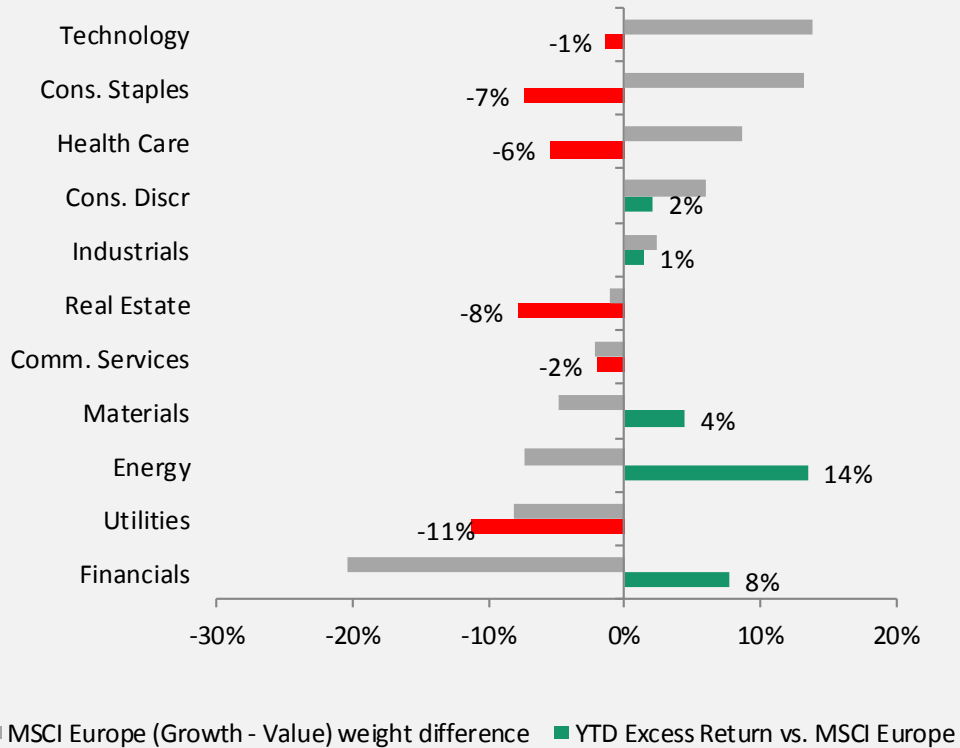
ROE vs P/B – US Sectors



Equity rotation into value assets

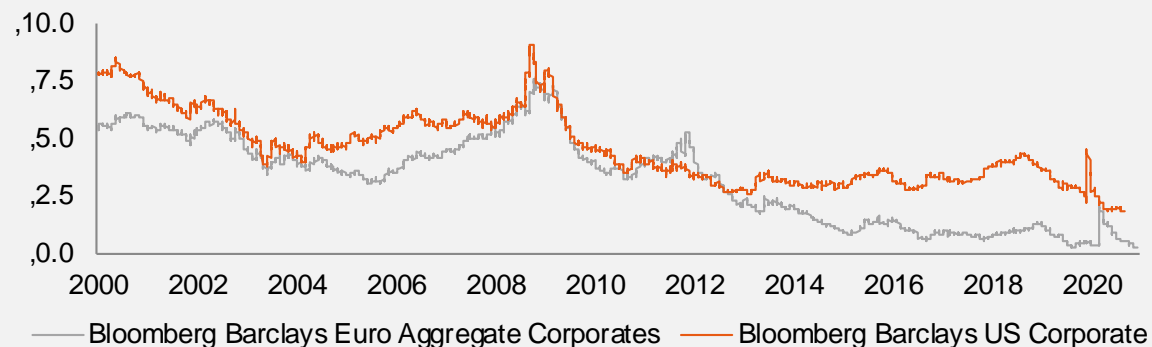


More catch up to expect



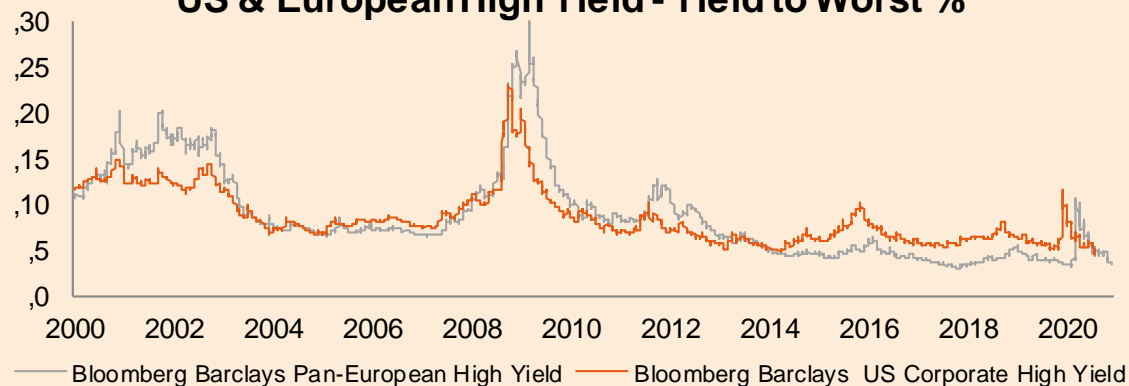
Within credit, a quest for carry

US & European Invest. Grade - Yield to Worst %



Spreads are back to historical low, leaving only few space for appreciation...

US & European High Yield - Yield to Worst %



Gold: a more challenging environment over the short term

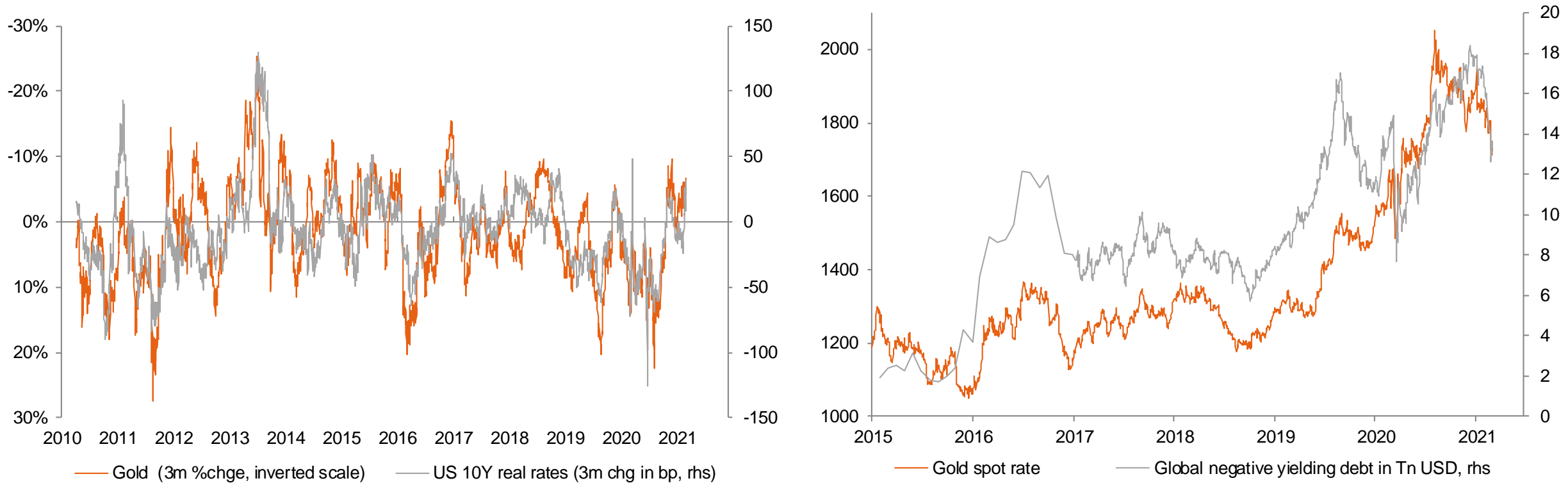


What we observed...

A strong **negative correlation** with real rate changes (at -0.9)

Gold relative attractiveness **challenged by rising bond yields**

Stock of **negative yielding bonds** peaked mid-December

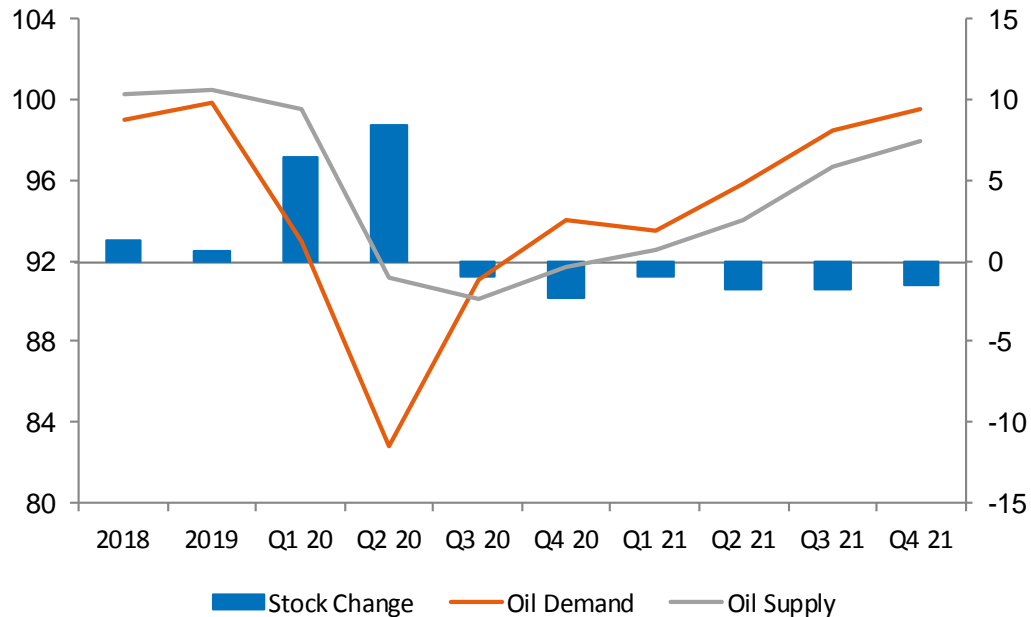


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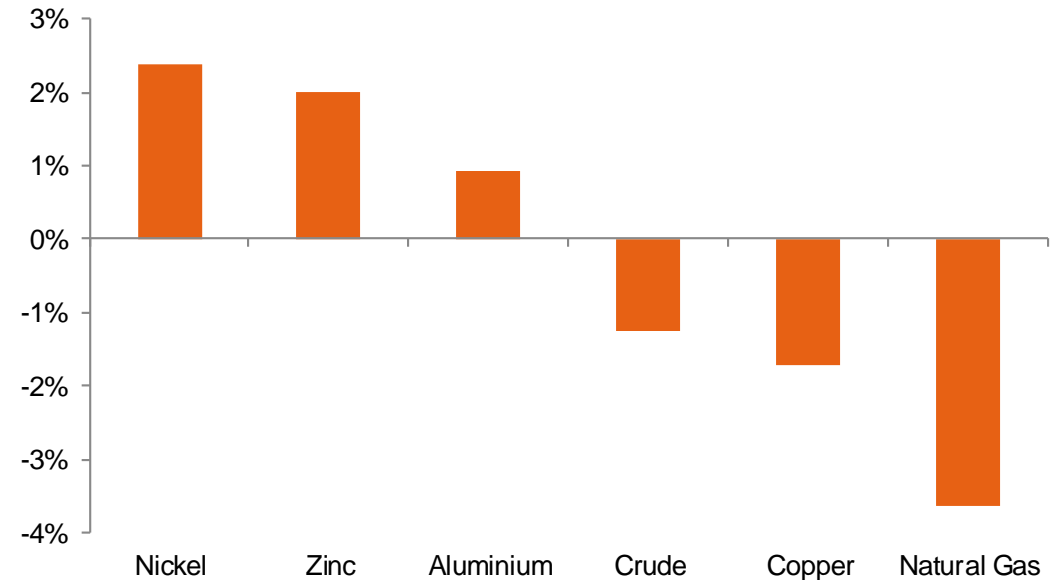
Sources: Bloomberg®, Candriam Cross Asset Strategy

Commodities: contrasted supply constraints

Oil supply is increasing but should remain below demand increase



Commodities - Global balance as a % of demand - 2021



Key messages



Expected recovery...

... becoming more widespread and robust

Markets transitioning towards a normalisation phase



Policy uncertainty is also rising

but higher yields and a steepening curve remain compatible with equity upside as long as earnings growth accelerates.



Yields should be capped at some point

...by the intervention of central banks and the disappearance of the argument "There Is No Alternative"

Central banks credibility key to enter into a healthier "growth-driven" regime



New leadership for Value stocks

Favouring European equities and continuing equity inflows



Positioning for a "reflation trade"

Supporting European equities, Global banks, Small caps, Commodities, negative for DM govies

Portfolio implications



Keeping a balanced approach

Thinking about the next move: Consumer staples (US and Europe), long term winners such as Sustainability, China domestic shares, Dax, Healthcare

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Candriam Bonds	266	Luxembourg	SICAV
Candriam Equities L	233	Luxembourg	SICAV
Candriam GF	1392	Luxembourg	SICAV
Candriam Money Market	644	Luxembourg	SICAV
Candriam Quant	347	Luxembourg	SICAV
Candriam Sustainable	1493	Luxembourg	SICAV
Cleome Index	1275	Luxembourg	SICAV

Nombre de la IIC	Num. Reg	Domicilio	Forma legal SICAV
Candriam Diversified Futures	1532	France	FCP
Candriam Global Alpha	1563	France	FCP
Candriam Index Arbitrage	707	France	FCP
Candriam Long Short Credit	798	France	FCP
Candriam Monétaire SICAV	1472	France	SICAV
Candriam Risk Arbitrage	711	France	FCP
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