BACK TO BUSINESS

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LA FRANÇAISE
INVESTING TOGETHER

New start, new format. Against a broadly uncertain macroeconomic and financial backdrop, despite growth starting to show some positive signs, La Française AM gives you its reading of the markets, along with its convictions for the end of the year.

MARKET UPDATE

Jean-Luc HIVERT

President & Global Head of investments of LFAM

The synchronisation of fiscal and monetary policies, the increase in vaccination and the gradual reopening of economies have enabled the world economy to rebound strongly: **the economic recovery is not, however, synchronous between different regions of the world and sectors of activity.**

The world economy is expected to grow by 6% in 2021 according to the latest IMF forecasts. The outlook has been gradually upgraded for developed countries, and for emerging countries it remains largely unchanged at 6.3%. **As for China**, once the world's leading driver for growth, the country is facing a slowdown in its activity against the backdrop of the resurgence of the pandemic and efforts to catch up running out of steam.

In the US, Joe Biden's administration injected $1.9 trillion (9% of GDP) into the economy in March 2021, adding to the $900 billion stimulus plan announced in December 2020. **Additional fiscal stimulus measures** are expected in the second half of 2021. Simultaneously, the European Union started to distribute funds from its €750 billion 'Next Generation EU' recovery plan, the majority of which will be committed over the period 2021-2023[1]. The beneficiary countries have a reform and investment programme in line with the EU's climate and digital transition objectives.

Sharpening the focus on central banks, the Fed and the ECB remained cautious, **deeming inflationary pressures likely to pass**. However, the Fed is communicating effectively and preparing the markets for a decrease in its asset purchases by the end of the year. This is already the case in the UK, Canada and Australia, where central banks have already opted to scale down their asset purchase programmes. As for the **emerging countries**, they are sometimes in a **more complex situation**. Thus, the central banks of Brazil, Russia, Turkey, Hungary and Chile raised their key rates following inflationary pressures linked to the rebound in commodities, in the absence of massive vaccination, their economies continue to suffer from health constraints.

The greatest concern for investors at the moment remains the **health risk**. The increase in the number of cases in the United States, the delay in vaccination and the loss of effectiveness of the vaccine against the Delta variant are all fuelling these concerns. The zero COVID strategy of certain countries (Asia, Japan, Australia, New Zealand) could also find themselves in difficulty and disrupt new global production chains. We will then have to **expect downward growth revisions** primarily in China and the United States.

In this uncertain environment, we have identified resilient areas liable to benefit from the recovery of the global economic cycle:

High Beta	**ESG**	**Equities**
Strategy uncorrelated with interest rate movements	*Prospects for sustainable growth*	*Continued positive trend*

[1] Bloomberg, as at August 2021

HIGH BETA – SUBORDINATED DEBT

The performance of the subordinated debt segments has been very satisfactory in terms of total return since the beginning of the year, particularly for European perpetual bank debt known as Additional Tier 1 (AT1) – dubbed "CoCos" – which recorded a peak performance of +5.9% for the EUR field and +4.2% for the USD field, while subordinated insurance debt (Tier 1 and Tier 2) has risen by 1.9% and non-financial Corporate Hybrid debt by +2.5%[2] (Markit iBoxx indices at 13/08/2021 in YTD performance). **"High Beta" securities – i.e. those with a high spread base – clearly outperformed other securities, which in turn were more sensitive to the ups and downs of sovereign rates.**

We expect the European subordinated debt market to continue to benefit from favourable conditions in the coming quarter, including:

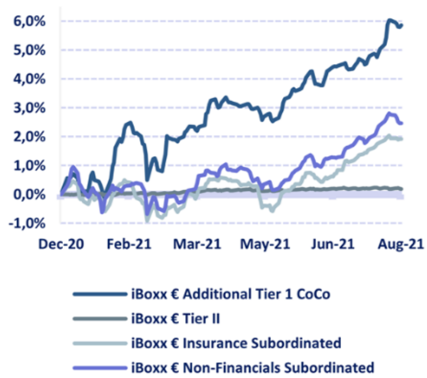
- Resilient and improving financial and non-financial business **fundamentals** as the global economy gradually reopens
- **European central bankers in** no hurry to tighten monetary policy while continuing to hold European rates and investment grade credit field spreads through securities purchase programmes (APP and PEPP)
- The **shortage of EUR bonds offering positive yields**, forcing investors to "hunt" yield where it still exists
- Attractive **valuations in relative terms and from a historical perspective,** particularly for AT1s

We therefore maintain our favourable opinion on subordinated debt, which has comfortable relative spreads and lower sensitivity to interest rates ("duration"). Our order of preference by segment is as follows: (i) AT1 CoCos in EUR, (ii) AT1 CoCos in USD, (iii) Corporate Hybrids in EUR, (iv) Restricted Tier 1 subordinated insurance debt, (v) certain Tier 2 bank debt in EUR of second tier banks.

Additional Tier 1 & Tier 2 CoCos bank debt:

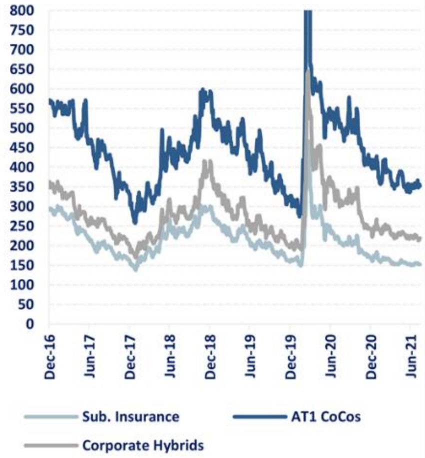
During the Covid-19 crisis, the ECB tightened its grip on the banking sector to protect the health of its balance sheet. Authorisation for the resumption of dividend distributions and share buybacks and the publication of stress tests at the end of July **give us confidence in the robustness of bank balance sheets**, which have been preserved during the last few quarters and in our view should not deteriorate significantly in the coming quarters. Solvency levels are expected to fall back to pre-crisis levels, while future bad debts are already adequately provisioned.

Evolution of the performance of the iBoxx € subordinated indices, indexed at the end of 2020 (total return; in %)



Sources: La Française, Bloomberg, Markit. Data as at 13 August 2021. Past performance is not a reliable indicator of future results.

Spread vs average sovereign bonds of subordinated debt indices in EUR



Sources: La Française, Bloomberg, Credit Suisse. Data as at 13 August 2021.

[2] Markit iBoxx indexes as at 13/08/2021, YTD performance

The sector continues to consolidate, either willingly (CaixaBank & Bankia, Intesa & UBI Banca) or forcibly (Monte dei Paschi perhaps with UniCredit), which is positive in terms of profitability and financial strength prospects.

AT1€ valuations are attractive in terms of yield (2.8% yield on average call), and this is one of the **few areas of the European credit market where average spreads remain wider than before the crisis** (see chart above). European AT1s denominated in USD offer a yield of 3.1%, which is lower on average than the EUR pool once adjusted for the cost of currency hedging and seem less attractive to us at some distant points of the curve, due to a rather low spread slope. Finally, we are finding value in some Tier 2 EUR issues of second-tier banks rated high yield, particularly in Spain. AT1s outside Europe and US Preferred Shares (US Tier 1s) seem to us to be less attractive in relative terms due to their spread base and often lower liquidity.

Hybrid Corporate Debt and subordinated insurance debt:

These two segments have seen their performance take off late this year thanks to the easing of sovereign rates, and therefore retain a higher natural sensitivity to interest rate changes. We see **little potential for spread tightening in Tier 2s and former Tier 1 insurance**, while the new Restricted Tier 1s, in our view, do harbour spread value. On the corporate hybrid side, we find value in high yield rated issues such as Telefonica, SES, Repsol or EDF, which offer attractive yields compared to comparable senior unsecured debt.

Average bad debt ratios (Non-Performing Loans; NPL as a % of loans) and Common Equity Tier regulatory equity ratio of European banks

Sources: La Française, Bloomberg, Bloomberg Barclays indexes. Data as at 13 August 2021.

We still find the subordinated debt market very attractive, due to well oriented fundamentals, and a high carry for credit securities in the BBB-BB category on average. Moreover, they still have the potential for outperformance via spreads, in an environment of very low interest rates and low volatility remains under control thanks to the ECB.

Paul GURZAL, *Head of Credit*

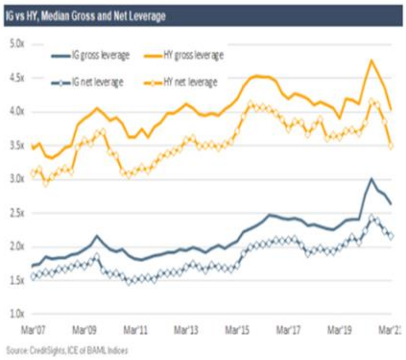
Jérémie BOUDINET, *Portfolio manager & Credit Analyst*

HIGH BETA – HIGH-YIELD

Technical factors remain a strong driver towards the search for yield. High-yield (HY) and subordinated debt are the only liquid bond asset classes that offer positive real returns (i.e. inflation-adjusted nominal returns). In Europe, the average nominal yield of government debt is currently 0%[3] (ICE BOA ML index ticker "W0GE") and that of investment grade private debt is 0.28%[4].

On another hand, the **outlook on defaults on HY debt** remains **very favourable, particularly in Europe and the United States**, thanks to the economic recovery following the health crisis and the support of central banks (FED, ECB, BOE, etc). The **financial situation of companies has clearly improved** with a debt ratio that has returned to the pre-Covid level (see graph opposite).

Changes in gross and net leverage ratios in the US



Sources: CreditSight, ICE of BAML Indexes.

Finally, **corporate liquidity has never been so high** in the face of **very low maturities** (barely 7% of the stock of debt of HY companies in Europe and the US is due over the next two years vs. a balance sheet cash position of 30% of gross debt outstanding). The situation is somewhat different and **less favourable in emerging markets**.

That being the case, we keep our default forecasts for 2021 unchanged: +3.5% for the US HY which is down by 50% in 2021, +2.5% for Europe HY (stable) and between +4/+7% for Emerging HY. In our view, the greatly feared **consequences of the end of state aid** in Europe and the US on the **solvency of companies** will be **negligible** from our perspective. For example, in France, according to the latest statistics from BPI France, 67% of the State Guaranteed Plans (Plans Garantis par l'État – PGE) granted have never been used, with less than 2% involving French HY companies. In fact, 99% of PGEs were contracted by very small businesses.

On the macroeconomic side, **we do not see any disruptive elements in the short to medium term** likely to impact the current economic recovery and financial conditions. The health situation is still fragile in emerging countries; the Fed's tapering and the German elections may create a little more volatility in the markets but do not constitute disruptive elements that could cause a significant widening of credit spreads and a sudden increase in defaults.

With regard to **Asian and Chinese HY debt**, which we have avoided since the beginning of the year, we are taking a **more "constructive" view**. We are starting to seize some opportunities, particularly in China on certain "best in class" issuers, which feature solid fundamentals, but which have suffered from recent tensions.

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3 ICE BOA ML Index, « WOGE » ticker, as at the end of August

4 ICE BOA ML Index, « ER00 » ticker, as at the end of August

More specifically, we favour "BB" or "Xover" issuers with good liquidity, strong balance sheets and quality assets.

Indeed, the **risk premium** between the Chinese HY market[5] and the global HY market[6] is at its highest since 2011 at 720 bps or 3 standard deviations from the historical average (250 bps). At current levels, 1080 bps of spreads for the Chinese HY index and 812 bps for Asian HY[7], the markets anticipate a default rate of 15.5% and 12% respectively over the next 12 months for these two zones (assuming a recovery rate of 30%). This level now largely incorporates the specific cases of companies currently in difficulty, such as Evergrande, and which, in our view, is incompatible with the situation of the economies in this region.

Risk premium differential between the Chinese HY market and the global HY market

Source: Bloomberg, data as at 25/08/2021.

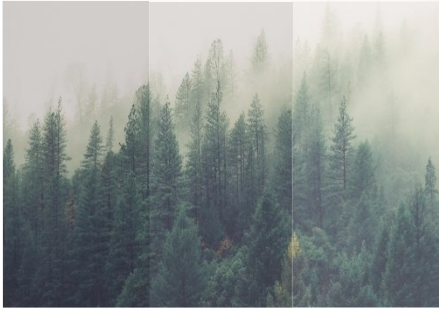
This spread differential is not justified by an economic growth differential between China and the rest of the world. Growth forecasts for China for 2021 remain above the average for developed countries (+8% for China vs 6% for developed countries). It further **reflects a resurgence of specific risks** following a deliberately restrictive policy by the Chinese government to limit the risk of a bubble in the property market and control the level of corporate debt (the "**3 Red Lines**" policy is part of this framework). This being the case, the Chinese government's intention is not to provoke a wave of uncontrolled bankruptcy but **rather to eliminate non-performing companies** for a better allocation of resources over time. In China, defaults are "supervised" by the central government according to political, economic, and social prerogatives. The recent recapitalisation of Huarong is a perfect example of such.

In this environment, our views on high yield debt remain unchanged. We maintain a positive outlook on the asset class for the remainder of the year, with global index spreads[6] expected to continue to move in a 320-360bps channel (currently 350bps). We believe that carry will be the key performance driver for Q4 2021. The only change in strategy from the beginning of the year is in emerging debt, particularly Asian and Chinese HY. Indeed, we are starting to see some opportunities following the 350bps[5-7] spread widening after the bankruptcy of China Fortune Land and the specific events on Evergrande (China's largest property developer) and Huarong (China's state-owned bad bank).

Paul GURZAL, *Head of Credit*
Akram GHARBI, *Head of High-Yield Credit*

[5] ICE BOA ML ticker, « ACYC » ticker
[6] ICE BOA ML Index, « HW00 » ticker
[7] ICE BOA ML Index, « ACHY » ticker

ESG - INTEREST RATES



The news over recent months reminds us that the effects of climate change are real and cannot be ignored. We are witnessing an increase in the **number of extreme weather events around the world**, with **ever-increasing damage costs**. The impact on economies is likely to be particularly significant over the next few decades if nothing is done to limit global warming and reduce greenhouse gas (GHG) emissions. We therefore understand the urgency for countries to act now and accelerate the transition to a low-carbon economy.

The ESG (Environmental, Social, Governance) sovereign debt market seems to be following the trend of the bond credit market with a few years delay. The interest of countries in issuing labelled bonds (green, social, sustainable) is clearly increasing, as is that of investors. 2021 looks set to be another record year for labelled sovereign and quasi-sovereign issues with USD 150 billion of new issues at the end of July 2021, roughly the same level as for the whole of 2020.

Europe dominates the market, with France, Italy and Germany issuing over €23 billion of green bonds. The labelled bond market is relatively advanced in Latin America, particularly in Chile, which is particularly active in this area as it accounts for 50% of labelled issues in the JP Morgan Emerging Market Dollar Debt benchmark (sovereign and quasi-sovereign).

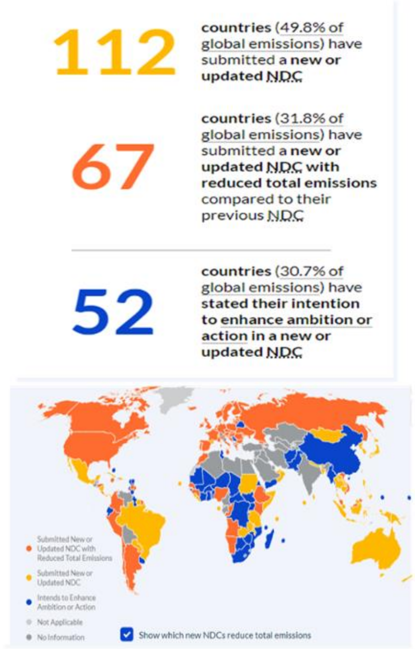
Given the current context, we believe that **the sovereign green bond market will continue to develop over the next few years**, offering new sources of opportunity for bond investors. The challenge of energy transition is considerable and requires a strong political commitment at state level. Recently, we have seen a global awakening with many countries updating their climate commitments (Nationally determined contributions) under the Paris Agreement. Some have increased their GHG reduction ambitions and made a commitment to be carbon neutral by 2050.

China, the world's largest consumer of energy and GHG emitter, is trying to catch up by **formulating new climate commitments**, which still lack ambition. It has announced that it will achieve carbon neutrality by 2060 and a 25% share of non-fossil fuel energy in its primary energy consumption by 2030 (compared to about 16% at present). Its carbon intensity reduction target is over 65% by 2030 compared to 2005 levels.

The United Kingdom formulated an ambitious commitment in April 2021 and is **thus acquiring real "climate credibility"** as it plays host to COP26 in November: to reduce by 2035 its emissions by 78% compared

Annual change in labelled emissions (Green, Social & Sustainable in billions of dollars)

Sources: HSBC, La Française AM, data as at 31/07/2021.



Source : ClimateWatch – NDC Enhancement Tracker to 1990 levels, which would amount to halving its 2019 emissions. The UK is a global leader in decarbonisation with a strong deployment of renewable energy in recent years.

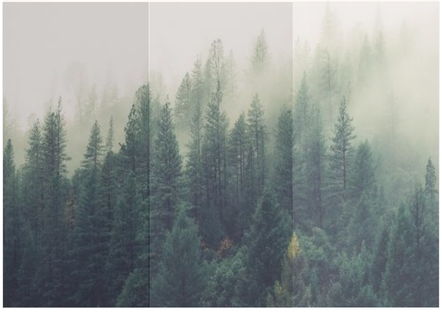
In the United States, the world's second largest emitter of greenhouse gases and a major energy producer, Joe Biden's arrival in the Oval Office and the country's return to the Paris Agreement **marks a real break with his predecessor in terms of climate policy**: the US is now committed to a 50-52% reduction in emissions by 2030 compared to 2005 levels. Looking in more detail, the electricity sector is expected to be carbon neutral by 2035, which we think is very ambitious. At this stage, we lack details on the different measures that will be taken to understand how this will be achieved, but in our view the outlook is very positive, and we are looking forward to the future infrastructure plan.

Europe still has a significant lead over other parts of the world. In July 2021, the European Commission published “Fit for 55” – **a set of measures aimed at making a commitment** to a 55% reduction in emissions by 2030 compared to 1990 levels a realistic prospect, and therefore to take a new step in the decarbonisation of the European Union in the transport, building and industry sectors. Among its measures, the introduction of a Carbon Border Adjustment Mechanism (CBAM), a carbon tax at the EU's borders to prevent “carbon leakage” – i.e. the relocation of activities linked to carbon taxation – is ambitious. This operational plan should be in place by 2026.

The transition to a low carbon economy presents risks and opportunities for countries to analyze. Thus, Europe is seen as a leader in the energy transition, and we favour the debts of countries that are very committed to renewable energies, such as the United Kingdom, Spain, and Italy. The latest announcements in the United States seem promising, but it deserves the concretization of the investments to see the first virtuous effects. In the emerging world, we have a strong exposure to Romania, which is committed to phasing out coal by 2032 and which stands out in the category of “climate winners” with low carbon intensity.

Maud MINUIT
Head of Fixed Income, Cross Asset and Total Return

ESG – CREDIT



The ESG thematic in the bond market is no longer merely a background trend. It represents a **veritable paradigm shift**. These developments can be seen first and foremost in the explosion of ESG-labelled issues, but they go far beyond that, since everything is contributing to a transformation of the credit market to **take into account ESG constraints and opportunities**: regulations, fiscal, tax and monetary policy guidelines, impacts on companies' strategic plans, on their financial ratings and therefore on their valuations.

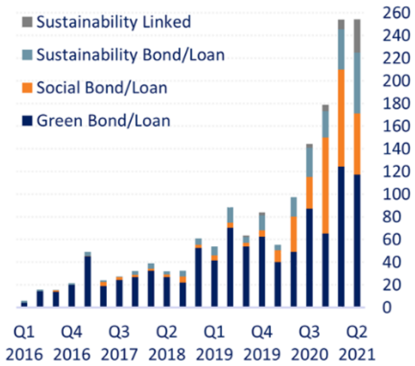
ESG-labelled issues (Green, Social, Sustainability and Sustainability-Linked Bonds) have already exceeded the total issued in 2020 in the first half of 2021 (USD 531 bn according to our data). This trend comes both from government/sovereign issues and from the corporate sphere, whose ESG issues have increased fivefold year-on-year in the first half of the year, according to Morgan Stanley, including EUR 45 bn in the EUR-Investment Grade field alone since the beginning of the year.

Here are the main upcoming trends that we have been identify:

- **Finally, real sectoral diversity!** For a long time reserved for the Investment Grade (IG) market, especially financials and utilities, ESG issues are now really gaining ground in the high-yield sector and in other more varied sectors. Of course, in proportion, ESG IG issues will remain in the majority (they will represent almost 90% of ESG issues in 2021) due to the very structure of the European bond market, but volumes are growing significantly in high yield with benchmark size issues and in our view, this is not going to stop anytime soon.

- **Sustainability-linked bonds (SLBs) are set to grow strongly**. At the end of 2020, the ECB accepted the eligibility of these securities for its asset purchase programmes, which should sustainably contribute to the development of this market segment. This is a good thing, as it allows new companies to release issues while clearly identifying environmental objectives, but the proliferation of such operations highlights the difficulty – if not the impossibility – of monitoring and judging all the environmental performance indicators which differ for each issue and each issuer. And so SLBs operate in line with traditional issues and do not take into account the potential coupon step-up in case of the objectives not being achieved. The ambitions of SLBs are therefore variable, as are their structures, which may allow certain negative practices to take place, such as the possibility of early redemption of the bond even before the possible triggering of the "step-up", or the use of funds raised to pay a dividend to the shareholder.

Quarterly evolution of ESG-labelled issues on a global scale (amounts USD billion)



Sources: Bloomberg, La Française. Data as at end of June 2021.

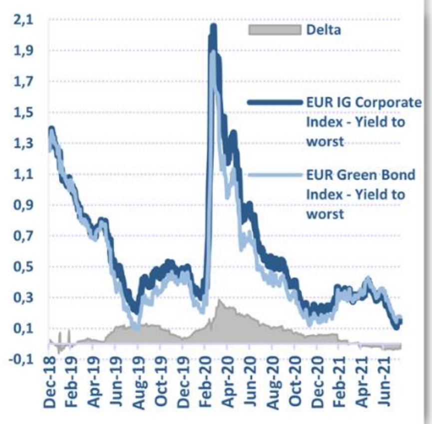
Sector-based distribution of outstanding ESG-labelled issues worldwide (as % of amounts issued)

Sources: Bloomberg, La Française. Data as at the end of June 2021.

- The **standardisation of Green Bonds in sight.** The European Commission published a proposal on 6 July 2021 for a legislative framework for the **European Green Bond Standard (EU GBS)**, which could be implemented during 2022. To summarise the proposal's key measure: all Green Bonds subject to this standard will have to be fully **aligned with the European Taxonomy**, the last delegated acts of which are expected to be published by the end of 2021. This is a very positive initiative in our view, which will increase the comparability of corporate Green Bonds and make it easier to measure their ambition. Perhaps this will put a stop to the runaway growth of Green Bonds, as the amounts issued will have to be 100% aligned with Green activities as identified by the Taxonomy?

- **The "Greenium" is over for the time being.** This concept, which defines the valuation premium that ESG issues can enjoy, should in our view no longer be relevant for the field of corporate bonds. This is already apparent when comparing a traditional IG€ index with a Green index (see chart), but we also believe that, **unless there is a sharp increase in volatility**, it is much less likely that ESG-labelled issues will be able to trade significantly at higher prices than comparable non-ESG securities. Indeed, the growth of ESG issues is such that they are increasingly "replacing" the non-ESG market, which in our opinion is normalising the distortions between demand and supply, especially since the supply of funds with ESG typologies (Article 8 or 9 according to SFDR regulations) is also growing strongly and is increasingly taking precedence over allocations to traditional bond funds.

Corporate IG€ and Corporate Green Bonds € indices return and differential (in %)



Sources: La Française, Bloomberg, Bloomberg Barclays indexes. Data as at 13 August 2021.

*Beyond ESG-labelled issues, we are convinced that these areas will **significantly affect the corporate bond market**. European companies are **being forced to adapt** their strategic direction to take into account new regulations and laws, such as the Taxonomy, the "EU Fit for 55" plan, etc. The reduction and neutralisation of greenhouse gas emissions is now **one of the most scrutinised objectives for any company**, regardless of its field of activity. Investors are making no mistake and are gradually identifying (and therefore sanctioning) the "laggards", whose financial and stock market performance will suffer from these allocation movements. **Allocation movements towards companies and ESG area funds are also likely to amplify these basic trends more strongly and rapidly starting in 2022.***

Paul GURZAL, *Head of Credit department*

Jérémie BOUDINET, *Portfolio manager & Credit Analyst*

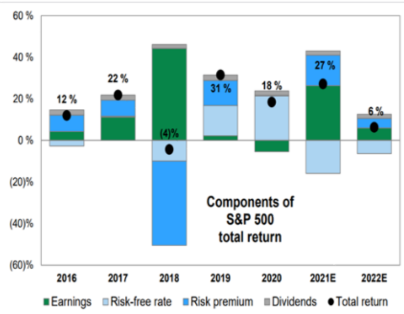
EQUITIES – LARGE CAPS

Global equities have been very strong in 2021, with the MSCI ACWI World Index up more than 15% (in Euros, as of 30/08), **thanks in part to rising corporate earnings forecasts**. As companies recover from the pandemic, S&P500 revenues are 15% and profits 34% above 2019 levels (JP Morgan consensus). The vast majority of **developing country equity markets saw a similar rebound** with a notable performance by European indices (Stock 600, +20% as of 30/08) for once in line with the US (S&P500 +26% as of 30/08), thanks to a **more pronounced post-crisis catch-up potential.**

It is important to note that 2021 has been characterised by high volatility across sectors and styles: until April, cyclical and value sectors dominated, **fuelled by the prospect of a return to normality.** Defensive sectors dominated the market in the second quarter, and the downward movement in bond yields, are more related to growth concerns, which we believe is a classic end-of-cycle move.

Decomposition of the return of the S&P 500

Total return reflects changes in earnings, risk-free rate, risk premium and dividends



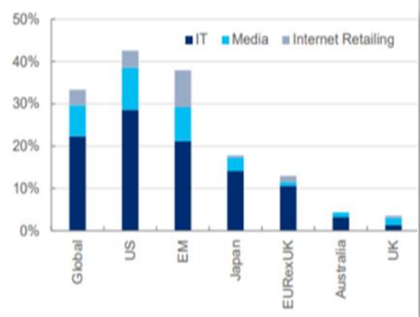
Sources: FactSet, Goldman Sachs Global Investment Research. Data as at August 5, 2021.

Equity and bond markets are likely to resume their advance in tandem. Although the market is expected to peak at some point, the dynamics of activity in the second half of the year **will remain well above trend.** The Delta variant will certainly not lead to a return to severe restrictions and **central banks will only gradually withdraw excess liquidity**. We believe that equities will remain largely unaffected by price turbulence in certain "bubble" areas such as cryptos and SPACs. Overall, valuation levels are not of concern.

In addition, retail investor flows into equities remain resilient and financing conditions remain simple. Share buybacks and dividend payments have returned with a vengeance, with record highs announced in the first quarter.

Strong merger and acquisition activity is expected to be a strong theme for the second half of 2021. On the other hand, we do not rule out a brief but abrupt period of market consolidation as the market begins to assess the gradual reduction in yields. This is not necessarily worrying, given the strong earnings growth at the beginning of the cycle. We believe that 2022 will benefit from further end-of-cycle catch-up improvements and could be closer to +15%. These increases in EPS would help limit the damage caused by the rise in real rates, as was the case earlier this year. Growth stocks seem to be particularly sensitive to real returns, while yield stocks seem to be less sensitive. This is largely due to a long-term trend in growth stocks. However, we remain positive on growth stocks given their superior quality profile.

Growth sector exposure



Source: Citi. Data as at August 5, 2021.

We can assume the US equity market to be more vulnerable to rising real yields, while the UK and Europe should be much less vulnerable. In addition, the **spread between dividend yields and bond yields** still favours these two areas.

As for Japan, which suffered in the second quarter not only from a harsh lockdown but also from the collateral damage of the Chinese market debacle, we **believe it is well placed to benefit from the recovery in global growth.**

As for emerging markets, the risk/return profile is improving, not least because the **credit impulse in China** seems to have bottomed out and is starting to fade. In general, emerging countries perform better as the growth and earnings gap with developed countries narrows.

Overall, we remain positive on equities, given their reasonable valuation levels and their advantage in terms of yield. We are favouring Europe, the UK and Japan over the US, as the latter being more cyclical/valuable in a late cycle environment across the Atlantic. In addition, we believe that the impact on potential earnings of the new US administration's tax increases could weigh on the market in the near future. In emerging markets, we remain very selective overall and are keeping our distance from China with investments outside the regulatory focus area.

*In addition, we have a **positive position on the theme of energy transition**, which is a major challenge for companies (through recycling, waste treatment, use of renewable energy, water saving). The majority of companies in this sector have a high level of cash flow visibility.*

*We particularly like the **technology** sector (especially digitalisation, artificial intelligence and the cloud) given the strong demand from companies to improve their productivity. Moreover, this sector should benefit from **environmental issues** and is supported by the **growth of e-commerce**.*

Nina LAGRON, CFA
Head of Large Cap Equities

UPCOMING SCHEDULE AND CONCLUSION

GDP figures for the second quarter of 2021 demonstrated the **strength** of **the economic rebound** in **developed countries**, driven mainly by household consumption and increases in investment spending, in line with the **reopening of economies**. This logically resulted in the results of companies overall of excellent quality and overwhelmingly above the consensus, which itself was revised upwards several times in recent months. Under these conditions, while fiscal and monetary support should continue to underpin the recovery, are the impactful themes of the summer likely to reverse the macroeconomic trend and the continued bullishness of risky asset markets?

The most pessimistic among us are concerned about:

- A less positive public health situation. Countries that have adopted a "Zero-Covid" strategy are increasingly being forced to close their economies. The others are continuing to bet on long-term herd immunity and are not likely to impose new lockdowns.
- New international tensions with China and regulatory measures to favour the middle classes for political purposes. The target sectors are currently education, technology, property, and luxury goods. Other products considered ostentatious could be affected.
- Inflationary pressures in the United States persist, but the Fed continues to consider them transitory, which does not prevent it from preparing for tapering by the end of the year. Good US employment trends and wage pressures are heading this direction.
- An earlier loss of momentum in the economic cycle, which is beginning to be reflected in the declining economic surprise indexes since last June.

In addition, there are some unresolved issues: doubts about the passage pf the stimulus packages sought by Joe Biden and under discussion in the House of Representatives. President Biden's rocky start makes it difficult to win over the more hesitant Democratic votes at this stage; or the risks of overheating among certain economic sectors suffering from material shortages and which are difficult to resolve in the short term. The risk aversion schedule for the next few weeks will be busy:

However, we remain confident about the medium-term trend of the markets even if short-term bullish catalysts are rare. Liquidity remains plentiful and central bankers have all the arguments to stay "*behind the curve*". Thus, on fixed income markets, we remain positive on high-beta assets, given the good fundamentals, limited volatility and contained default rates. ESG assets, whether equities or fixed income, should continue to benefit from the exponential action of regulators and the implementation of measures aimed at all economic actors. On the equity side, given current valuations, we mainly favour the Eurozone and the UK, which should benefit from the recovery of the economic cycle. As for French small and mid-caps, they should show better health in the coming months and catch up with large caps.

Subordinated Debt and Coco's strategies are available only to professional investors as defined below. Execution services shall only be provided to professional investors. Non-professional clients (negative target market) are excluded.
Professional investors have the following characteristics:

- sound knowledge of financial products and transactions:
- experience in the financial industry.

Subordinated Debt and Coco's strategies are not accessible for non-professional investors, unless they obtain professional investment advice AND investment in the strategy is solely for the purpose of diversification or a mandate has been signed.

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