INVESTMENT STRATEGY

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Covid-19 Crisis & Scenario
Covid-19 outbreak

Covid-19 Confirmed cases
1-Apr-20

World

World ex. China

China

Covid-19 Apparent Mortality Rate (%)

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Macrobond, Lyxor AM
This time is different

<table>
<thead>
<tr>
<th>Event</th>
<th>1st death</th>
<th>1st WHO notification</th>
<th>Media buzz</th>
<th>1st case abroad</th>
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<tbody>
<tr>
<td>Covid-19</td>
<td>9-Jan-20</td>
<td>20-Jan-20</td>
<td>17-Jan-20</td>
<td>31-Dec-19</td>
</tr>
<tr>
<td>Ebola</td>
<td>28-Dec-13</td>
<td>31-Mar-14</td>
<td>29-Sep-14</td>
<td>15-Sep-14</td>
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<tr>
<td>Swine Flu</td>
<td>6-May-09</td>
<td>27-Apr-09</td>
<td>24-Apr-09</td>
<td>11-Jun-09</td>
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<tr>
<td>SARS</td>
<td>30-Nov-02</td>
<td>12-Mar-03</td>
<td>17-Mar-03</td>
<td>27-Feb-03</td>
</tr>
</tbody>
</table>

- Macrobond, Lyxor AM
This time is different (2)
Financial Stress at its highest since GFC

Lyxor Stress Indicator (1-Apr-20)

Based on Equity vol, FX vol, spreads (HY, EM, Libor-OIS)

Key Points:
- 15 Sept 2008 Lehman fallout
- July 2007 Bear Stearns HF collapse
- 3 August 2011 S&P lowers US rating
- 11 Aug 2015 CNY devaluation
- 24-Sep-18 US 10% tariffs on $200bn Chinese goods
- 26 July 2012 Draghi "Whatever it takes"
- 2H 2014 Oil rout
- Dec-2018 Start of US-China Trade Truce & Talks
- Covid-19 Outbreak 17 Jan 2020

Macrobond, Lyxor AM
Surge in cross-asset correlation

Cross Asset Correlation, lhs

3M pair-wise average absolute correlation between daily returns of Equity EM & DM, Global Bonds, US High-Yield & Commodities

Price Dispersion (3M MA daily returns), rhs

Macrobond, Lyxor AM
Covid-19 spreading guestimates

- April 1st: 853,200 confirmed cases & 41,887 deaths
- Hubei spreading pattern applied to about 80 hotspots (including 12 US states) with at least 200 confirmed cases
- Assuming all 80 countries/regions apply similar containment measures
- More hotspots will probably have to be added in the following days so risks to those guestimates seem skewed to the upside
- Guestimate > 4.5M confirmed cases by April end
Covid-19 spreading guestimates & cure/vaccine hopes

- Mid-April, significant deceleration that could reassure markets
- >100 clinical trials in China, US, South Korea & Thailand
- Remdesivir (Gilead) trial results to be published April 27th
- Vaccine: Biotech Moderna already testing but about 1.5 years needed to get a product available

Lyxor AM
Covid impact “Guestimates”

Chinese experience YTD: Full lockdown => -35% of activity, Partial Restriction => -20%

- Nationwide Spending: -25%
  Incl. Catering: -45%, Auto -40%, Clothing -35%, Furniture -35%, Oil Products – 25%, e-Comm -3%, Food/Bev. +8%

- Nationwide Capex: -25%
  Incl. per sector: Construction -80%, Utilities/Mining/Food -5/-10%, all Other -30/-35%
  Incl. per regions: Hubei -75%, Hubei adjacent regions: -35%, Coastal regions -20%, Isolated regions -25%

- Nationwide IP: -15%
  Incl. per sector: Mining/Food/Chemicals/Drug/Tech -10/-15%, All Other -20/-30%
  Incl. per regions: Hubei -45%, Isolated regions -5/-10%, All Other regions -15/-20%

Technical recession likely in DM followed by a U-shape recovery

- “Guestimates” Methodology:
  Chinese data as a guide to shock main GDP constituents: Cons. Capex Gov. Import/Export
  Shock estimations for 2 types of mobility restrictions
  Partial Restriction Shock Assumption \[ \text{Assumption} \times \text{Length} \]
  Full lockdown Shock Assumption \[ \text{Assumption} \times \% \text{Population (GDP weighted)} \]

- Main assumptions:
  1M½ of lockdown in most DM economies
  Gradual return to normal conditions over 1M½
  U-shaped Q3 & Q4 recovery depending on magnitude of unemployment surge & policy response
# Covid impact “Guestimates” (2)

## Real GDP estimates

<table>
<thead>
<tr>
<th></th>
<th>Q1 q/q non-SAAR</th>
<th>Q2 q/q non-SAAR</th>
<th>Q3 q/q non-SAAR</th>
<th>Q4 q/q non-SAAR</th>
<th>FY 2020 FY/FY-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU</strong></td>
<td>-1.0</td>
<td>-4.6</td>
<td>+1.5</td>
<td>+2.0</td>
<td>-2.9</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>-0.1</td>
<td>-4.9</td>
<td>+1.0</td>
<td>+1.5</td>
<td>-0.4</td>
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### Assumptions EU

<table>
<thead>
<tr>
<th>Assumption</th>
<th>EU</th>
<th>US</th>
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<tbody>
<tr>
<td>% Pop in Partial Restrictions (GDP weighted)</td>
<td>65%</td>
<td>50%</td>
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<tr>
<td>Length in months</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>% Pop in Full Lockdown (GDP weighted)</td>
<td>35%</td>
<td>100%</td>
</tr>
<tr>
<td>Length in months</td>
<td>0.5</td>
<td>1.0</td>
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### Assumptions US

<table>
<thead>
<tr>
<th>Assumption</th>
<th>EU</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Pop in Partial Restrictions (GDP weighted)</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Length in months</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>% Pop in Full Lockdown (GDP weighted)</td>
<td>35%</td>
<td>90%</td>
</tr>
<tr>
<td>Length in months</td>
<td>0.5</td>
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## Outbreak Shock Assumption

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<th>Partial Restrictions</th>
<th>Full Lockdown</th>
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<tbody>
<tr>
<td><strong>EMU</strong></td>
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<tr>
<td>Household Cons.</td>
<td>-2%</td>
<td>-17%</td>
</tr>
<tr>
<td>Capex</td>
<td>-2%</td>
<td>-31%</td>
</tr>
<tr>
<td>Public Spending</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td>Import &amp; Export</td>
<td>-2%</td>
<td>-25%</td>
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<tr>
<td><strong>US</strong></td>
<td></td>
<td></td>
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<tr>
<td>Household Cons.</td>
<td>-2%</td>
<td>-15%</td>
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<tr>
<td>Capex</td>
<td>-3%</td>
<td>-23%</td>
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</tr>
<tr>
<td>Import &amp; Export</td>
<td>-2%</td>
<td>-25%</td>
</tr>
</tbody>
</table>
Brent Oil: OPEC+ collapse & Demand shock
ST Neutral (target $35 end-Q2); LT O/W ($50 end-2020)

- **Worst (30%)** OPEC-Russia cold war & demand crash & L-recovery
  OPEC +2.4 mb/d (SA2 AE0.2 K0.2)
  Russia +0.5 mb/d
  S/D: 6 mb/d ; Yearend target: $25

- **Medium (50%)** OPEC+ minor cut deal & U-recovery in H2
  OPEC -0.6 mb/d (SA-0.3 AE-0.1 K-0.1)
  Russia -0.05 mb/d ; Other -0.25 mb/d
  S/D: 1.7 mb/d ; Yearend target: $50

- **Best (20%)** Deal & V-recovery in H2
  Supply back in control
  OPEC -0.6 mb/d (SA-0.3 AE-0.1 K-0.1)
  Russia -0.05 mb/d, Other -0.1mb/d
  S/D: 1.0 mb/d ; Yearend target: $60

- Bear sentiment stretched
  Futures pos. < 4% OI (= 10Y lows)

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**Diagram Notes:**
- Crude oil production (mb/d)
- Brent @25.5$ - 1 Apr 2020
- Bear sentiment stretched
- Futures pos. < 4% OI (= 10Y lows)

**Additional Notes:**
- Macrobond, Lyxor AM
Oil: Tactical buy amid stretched bear sentiment
Target $30 Stop-loss $23
Gold: O/W for hedging feature
Target $1600/oz end-Q2 & end-2020

Supportive fundamentals
- Technical recession, rising tail-risks, and possible deflation fears
- Monetary & fiscal stimulus & debt surge likely to warrant low real rates for long
- Alternative to cash

But volatility likely to persist
- Not particularly cheap; bull sentiment; still largely owned by investors & central banks
- Recent selloff eroded gold’s risk/reward, requiring downside protections and likely capping the upside
- Dollar bullish trend
- Downside risk in case of V-shape recovery

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Gold Spot Price 1590 $/oz 2-Apr-20, lhs
US Real 10Y Rate (reversed scale) -0.32%, rhs

- Macrobond, Lyxor AM
The Fed (14) swap lines eased dollar funding stress

- A euro basis swap is a derivative that allows the holder to swap EUR for USD
- The more negative the value of the swap, the greater the demand for USD
Neutral EURUSD
Speculative positions unwinding

USD NC Net positions
(CFTC, % open interest, 24-Mar-20)

EUR NC Net positions
(CFTC, % open interest, 24-Mar-20)

- Macrobond, Lyxor AM
Equity markets distrust policy measures

VIX forward curve (%)

- 16 Mar 20
- 31 Mar 20
- 28 Feb 20

Macrobond, Lyxor AM
### Fiscal Responses

**U.S.**
- **$2tn stimulus package including:**
  - $301 bn in direct cash payments
  - $500 bn government lending program
  - $367 bn in federally guaranteed small business loans
  - $250 bn to extend unemployment insurance to gig and freelance workers
  - $221 bn in business tax cuts + $150 bn in money for state governments
  - $130 bn for hospitals and other healthcare providers
  - $32 bn in cash grants to cover wages at airlines + $10 bn for the postal service
  - $48 bn for agriculture and nutrition programs
  - $27 bn to fund drugs and vaccines for the coronavirus

**UK**
- **£330 bn package of loan guarantees**
  - £50 bn fiscal package & additional measures
    - Tax deferrals & Cash grants to small businesses & Debt repayment holidays
    - Sick pay for people who need to self-isolate, and a subsidy to cover the costs of sick pay for small businesses
    - Grants covering up to 80% of worker’s salaries (expected to cost £78bn)
    - Increase in safety net tax credits for people (£7 bn) + £1bn for renters
    - Deferring the next quarter of VAT (£30bn)

**Japan**
- **$15 billion stimulus package**

**EU/ECB**
- **1% GDP crisis-fighting fiscal measures + Liquidity facilities of at least 10% GDP**
  - £37bn to cushion the bloc’s healthcare sector, the labour market and SMEs
  - 8bn of working capital lending for 100,000 European firms, w/ efforts to boost the amount up to £20bn
  - Flexibility on budget deficits

**Italy**
- **€25bn fiscal package**
  - State loans or credit guarantees for companies
  - One-off payments of €500/person for the self-employed
  - Cash bonus for Italians still working during the lockdown

**Germany**
- **€500 bn in loans available to affected companies**
  - €122.5 bn fiscal package
    - €50bn plan to provide direct grants to SME and self-employed
    - One-off payment of €9,000 for 3M for companies with up to 5 employees; €15,000 to those with up to 10 employees

**France**
- **€300 bn of state loan guarantees**
  - €45 bn fiscal package
    - Paid temporarily layoff
    - Income subsidies for affected workers

**Spain**
- **€200 bn stimulus package**
  - €100bn of state loan guarantees
  - Debt repayment holidays
  - Income subsidies for affected workers

### Monetary Responses

- **Fed Fund 50bps then 100 bps cut**
- **Massive reverse repo (adding $2tn of liquidity to the banking system)**
- **Assets Purchases:**
  - 1st announcement: +$700bn (+$500bn UST & +$200bn MB5)
  - 2nd announcement: unlimited amount of UST and MB5 + CMBS and new lending facilities providing up to $300bn corporate bonds & ETF markets
- **reserve requirement ratios to 0%**
- **Primary credit rate 150bps cut**
- **CP Funding Facility + Primary Dealer Credit Facility + MM Mutual Fund Liquidity Facility**
- **Coordinated Central Bank action to enhance the provision of $ liquidity**
Liquidity vs. Solvency

Central scenario
- Transitory shock
- Policy dedication to support corporate solvency (and avoid surging NPLs)
- « Only » a liquidity crisis

Risks
- Uncharted territories
- Covid spreading (wider? Revival?…)
- Containment: Soft => longer ?
- Growth recovery shape? Delay?
- Corporate deleveraging?

➢ Too early to add risk
➢ Waiting for >0 signs on:
   a. virus spreading/cure
   b. policy measures efficacy in preventing massive corporate defaults
HY Stress: CBs trying to lean against worrying outflows

Figure 1: Recent corporate bond fund outflows

<table>
<thead>
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<th>Fund mandate</th>
<th>Latest weekly</th>
<th>Last 4 weeks combined</th>
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<tr>
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<td>Amount</td>
<td>% net assets</td>
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<tr>
<td>EU IG corp.</td>
<td>-€3.6bn</td>
<td>-1.7%</td>
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<tr>
<td>EU HY</td>
<td>-€1.3bn</td>
<td>-2.3%</td>
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<tr>
<td>US IG corp.</td>
<td>+$2.0bn</td>
<td>0.9%</td>
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<tr>
<td>US HY</td>
<td>-$2.3bn</td>
<td>-1.0%</td>
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<tr>
<td>Global IG corp.</td>
<td>-$2.5bn</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Global HY</td>
<td>-$3.0bn</td>
<td>-2.1%</td>
</tr>
<tr>
<td>EU IG mixed</td>
<td>+€1.3bn</td>
<td>0.5%</td>
</tr>
<tr>
<td>US IG mixed</td>
<td>-$30.8bn</td>
<td>-2.4%</td>
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<tr>
<td>Global IG mixed</td>
<td>-$5.4bn</td>
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<tr>
<td>EM hard ccy</td>
<td>-$7.3bn</td>
<td>-3.3%</td>
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Source: Deutsche Bank, EPFR

Macrobond, Lyxor AM
Neutral US High Yield amid massive policy support

- $3tn BBB Market vs. $1tn HY Market
  Downgrade of a sizeable share of BBB market would be hard to absorb
- Fed $200bn support to IG corporate complemented by $454bn allocated to Exchange Stabilization Fund
- The Fed will determine the leverage (10 times if the expected loss is 10%)
  Total potential backstop $4tn to $5tn
- WTI already down to $20 per barrel

- Macrobond, Lyxor AM
U/W European High-Yield

- ECB credible support but non-coordinated policy stimulus
- Persistent risk on peripheral debt
- Possible stress on EMU Financials, loaded with Italian debt …
- … and related spillover effect on HY market heavily weighed in financials

### EMU Corporate High Yield (BBG-Barclays) - 31 Mar 2020

<table>
<thead>
<tr>
<th>INDUSTRY_SECTOR</th>
<th>Weight</th>
<th>OAS weighted average</th>
<th>Duration weighted average</th>
<th>Rating weighted average</th>
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<tbody>
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<td>Basic Materials</td>
<td>7.3%</td>
<td>732</td>
<td>3.7</td>
<td>BB-</td>
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<tr>
<td>Communications</td>
<td>21.8%</td>
<td>564</td>
<td>5.0</td>
<td>BB-</td>
</tr>
<tr>
<td>Consumer, Cyclical</td>
<td>15.0%</td>
<td>998</td>
<td>4.0</td>
<td>BB-</td>
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<tr>
<td>Consumer, non-Cyclical</td>
<td>17.9%</td>
<td>729</td>
<td>4.2</td>
<td>B+</td>
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<tr>
<td>Diversified</td>
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<td>722</td>
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<td>BB-</td>
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<tr>
<td>Energy</td>
<td>1.3%</td>
<td>873</td>
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<td>BB</td>
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<tr>
<td>Financial</td>
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<td>801</td>
<td>3.6</td>
<td>BB</td>
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<td>Industrial</td>
<td>12.7%</td>
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<td>3.9</td>
<td>BB-</td>
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<td>Technology</td>
<td>1.6%</td>
<td>1484</td>
<td>3.9</td>
<td>B</td>
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<tr>
<td>Utilities</td>
<td>2.8%</td>
<td>457</td>
<td>3.6</td>
<td>BB</td>
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<tr>
<td>Total ex-Energy</td>
<td>98.7%</td>
<td>764</td>
<td>4.1</td>
<td>BB-</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>765</td>
<td>4.1</td>
<td>BB-</td>
</tr>
</tbody>
</table>
US assets
Unprecedented shock on activity

US Initial Jobless Claims, rhs
US Unemployment rate, lhs

Real GDP (26W ar), lhs
US LEI (26W ar), rhs

Macrobond, Lyxor AM
U.S. Elections: Trump not immune to Covid-19

US Election bets (Predictit) - President

- Trump 49
- Biden 42
- Sanders 5

Balance of Power After 2020 Election (Polls, Predictit)

- D House, D Senate 38%
- D House, R Senate 41%
- R House, R Senate 26%
- R House, D Senate 2%

Lyxor AM
Biden’s agenda

- Obama’s legacy+
- Budget to increase $3tn over N10Y
- ▲ taxes for wealthy individuals & large companies
- ▲ public spending: infrastructure, education, clean energy
- Pro-labor: minimum wage to $15
- No strong commitment (bank tax, anti-trust) that would hurt Tech or Banks
- Most pro-trade Democratic candidate
- No major policy change in the likely case of divided Congress
US Inflation risks skewed to the downside

US CPI Inflation model & Breakeven

10Y Breakeven Inflation
0.9% in Mar-20

WTI @ $70
2.4% in Feb-21

WTI @ $50
1.6% in Feb-21

WTI @ $30
1.0% in Feb-21

Macrobond, Lyxor AM
US Treasury Yield curve steepening amid policy support

1M ago

Latest

US Yield Curve

Federal Budget Balance % GDP
(1Y chge bps, pushed 1Y, reversed), rhs

Macrobond, Lyxor AM
US Treasuries: O/W 2Y & U/W 10Y
1Y Target 10YY@1.5% \( \Leftrightarrow E(r) \approx -5\% \)
S&P 500 Sales growth slowdown

- Quarterly growth estimates translate into -0.4% real GDP growth in 2020
- Forecasts with nominal GDP growth +1% for 2020 and +3.5% in 2020; DXY stable and WTI recovering to 40$
- S&P 500 sales per share falling -0.3% in 2020

Macrobond, Lyxor AM
Consensus EPS growth revised down into negative territory

- Bumpy quarterly profile
- Overall 2020 sales stalling
- Similar conclusion for margins. Limited margin erosion overall in 2020
  - lower energy costs
  - little to no wage pressures
  - productivity impaired for a short period
Neutral US Equity

- Valuation looking fair in our “transitory shock” scenario
- But further downside should growth shock last and liquidity crisis turn into a prolonged solvency crisis
- Not compelling enough to add risk

S&P 500 Forward P/E chart

- Macrobond, Lyxor AM
O/W US Quality
Keep O/W US Staples / Discretionary

US S&P 500 P/E ratio - Consumer Discretionary / Staples

- Macrobond, Lyxor AM
O/W US Financials: steeper yield curve
Neutral US Growth/Value
Sector Valuation
EUROPE
ECB package: better safe than sorry

- ECB: €750bn Pandemic Emergency Purchase Programme (PEPP) of private (incl. non financial CP) and public sector sec. (incl. Greece) until at least end-2020 € 83.3bn /m deployed flexibly
- PEPP to include all assets eligible to APP
- APP expanded +€120bn until year-end = €13.3bn /m on top of existing €20bn /m
- New 3M LTROs (attracted € 109.1bn from 110 banks, stld. on Wed.) to bridge until June TLTRO III (easier terms & collateral standards)
- All in all, € 116.6bn/ m to be purchased for 9M, starting in April

### ECB's APP: outstanding amounts and new purchases

<table>
<thead>
<tr>
<th></th>
<th>£bn</th>
<th>%</th>
<th>New monthly purchases*</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSPP</td>
<td>2136</td>
<td>82%</td>
<td>95.6</td>
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<tr>
<td>Covered Bond PP3</td>
<td>272</td>
<td>10%</td>
<td>12.2</td>
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<tr>
<td>CSPP</td>
<td>198</td>
<td>8%</td>
<td>8.9</td>
</tr>
<tr>
<td>ABS PP</td>
<td>30</td>
<td>1%</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,605</strong></td>
<td><strong>100%</strong></td>
<td><strong>116.6</strong></td>
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</table>

* Assumes split across programmes remains the same

#### PSPP: new purchases by country

<table>
<thead>
<tr>
<th>Capital key</th>
<th>Adjusted for EMU members</th>
<th>New monthly PSPP purchases until year-end (£ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Germany</td>
<td>21.4</td>
<td>26.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Greece</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Spain</td>
<td>9.7</td>
<td>11.9</td>
</tr>
<tr>
<td>France</td>
<td>16.6</td>
<td>20.4</td>
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<tr>
<td>Italy</td>
<td>13.8</td>
<td>17.0</td>
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<td>The Netherlands</td>
<td>4.8</td>
<td>5.9</td>
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<tr>
<td>Austria</td>
<td>2.4</td>
<td>2.9</td>
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<td>Portugal</td>
<td>1.9</td>
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<tr>
<td>Finland</td>
<td>1.5</td>
<td>1.8</td>
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<tr>
<td>Others</td>
<td>2.9</td>
<td>3.5</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>81.3</strong></td>
<td><strong>100.0</strong></td>
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<tr>
<td><strong>Non EMU</strong></td>
<td><strong>18.7</strong></td>
<td><strong>0.0</strong></td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
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</table>
ECB’s balance sheet to expand & excess liquidity to increase
ECB outlook: higher tiering multiplier more likely than rate cuts

Flexibility on asset purchases

ECB on 18/03: “fully prepared to increase the size of asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed”; “allows for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions”
U/W German Bunds
Target 5Y5Y@1.4% ; Target 10YY: 0% ⇔ $E(r)\approx -5\%$
Neutral on UK Gilts
12M Target range [0.5% ; 0.7%]

- 16/03 Gov. Bailey after Carney
- BoE: 65bps Bank Rate cut & £200bn asset purchases (Gilts & IG credit) & Term Funding Scheme
- BoE holdings under the Asset Purchase Facility to rise to £645bn (30% GDP).
- Major policy support to help IR upward normalization but Brexit dampening impact on nominal growth to widen UK-US spread back towards -80 bps

Macrobond, Lyxor AM
Buy € & £ IG on asset purchase tailwind
Caution on peripherals for now (U/W)

ECB asset purchases: € 146bn in 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Maturing debt</th>
<th>Budget deficit (incl. Interests)</th>
<th>Total</th>
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<td>2020</td>
<td>108.5</td>
<td>70</td>
<td>178.5</td>
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<td>2021</td>
<td>193.5</td>
<td>60</td>
<td>253.5</td>
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<td>2022</td>
<td>161.1</td>
<td>40</td>
<td>201.1</td>
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<td>2023</td>
<td>199.4</td>
<td>35</td>
<td>234.4</td>
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<td>2024</td>
<td>138.6</td>
<td>35</td>
<td>173.6</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>801.2</strong></td>
<td><strong>240.0</strong></td>
<td><strong>1041.2</strong></td>
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</tbody>
</table>

Italy's refinancing needs (EUR bn)

Italy's primary balance (General Government) (4 quarters cumulated, EUR bn)
Prefer UK to EMU equities
Defensiveness & Valuation

Drawdown (price index, %)

Euro STOXX 300
FTSE 100

12MF PE ratio (BBG Best)

EURO STOXX 300
FTSE 100

Macrobond, Lyxor AM
EMU sectors: play China’s recovery w/ Per. & Hous. Goods Curve steepening to support Banks (O/W)
JAPAN & EMERGING MARKETS
U/W Japan Equity

Tailwinds
- Attractive valuation
- Unified policy BoJ & Government
- Solid Health System that should limit the impact of Covid-19
- Low Brent price at about $25 /barrel

Headwinds
- Sensitivity to global trade
- Olympic games postponed 1Y
- Yen safe heaven feature
EM Economies: slow recovery in sight

Few EM hiding places amid multiple pressures

- EM economies are leveraged to the cycle and to global trade
- Latam and CEE highly sensitive to US and EU shutdowns, respectively. Asia highly sensitive to China and global trends
- Oil producers (Latam, Russia) hit by price war. Oil importers to get some support (Asia ex-MAL and non-RU CEE)
- Vulnerability to capital outflows: some countries might be forced to hike rates or to stay put (weakest links remain ARG, SA, TUR, INDO)
- EM countries might also face virus expansion and shutdown, especially the ones with poorer healthcare infrastructures
- EM economies face structural deglobalization trend, amplified by Covid 19

Why we think EM economies will need to adapt lower global trade growth

Versatile alliances and norms/trade/tax backdrops

- A multipolar world would contrast with the bipolar cold-war period or the US-superpower period, when global order was imposed by 1 or 2 powers
- The US and China will be the most significant centers, EU and Russia will also matter. Other smaller alliances to rise, to navigate larger powers
- Without a clear global order and clear regional blocks, countries will probably favor partial and shifting alliances. This would lead to a changing environment for trade, capital flows, security partnerships, tax, climate regulations etc.

A peak in globalization

- Globalization & intertwined supply chains would remain
- But multilateral trade agreements appear to have reached their limits (complexity & lack of flexibility), and might get replaced bilateral or partial trade arrangements
- Expecting more region/intra-region trade & supply chains
- Global trade to grow [0-5%] vs [10-15%] before

Greater economic nationalism and social pressures to result in more confrontational approaches

- Weaker world economic growth, constrained by a peak in globalization and worsening demographic dynamics (too many young or too many seniors depending on the regions)
- Painful transition from accelerating technology trends (with transitory impacts on jobs)
- Versatile alliances and rules, greater economic nationalism
- Could lead to more frequent regional and local conflicts
- Overall a more complex environment for multinational firms and EM economies
Prefer US HY to EM Debt (HC)

- Difficult backdrop for several EM countries
- LATAM & EMEA represent about 2/3 EM debt and both regions look vulnerable to Covid-19 spreading and related downgrades
- Dispersed policy support
- Bottom up credit picking likely impaired for now but appealing opportunities in store
China economy: Normalization under constraints

Chinese stabilization seems underway…

- Heavy toll from a 2M shutdown: Activity -35% in Hubei, -20% in other large regions
- But activity returning to normal (~80-90%)
- Helped by a peak in new virus cases and heavy stimulus (targeted PBoC measures, bolder fiscal initiatives)

But still faces risks and a capped upside

- Lower DM demand and U-shaped recovery
- Local or imported re-acceleration of virus cases to warrant authorities cautiousness
- US tariffs since truce still in place, could intensify after US election (higher risk from Trump than Biden)

We see GDP settling around +3 or +4%

• Macrobond, Lyxor AM
What we look for before stepping back

- Markets showing fading solvency stress
- Stabilization in EM flows
- Stabilization in oil prices
- Some visibility in Covid-19 spreading in Latam & EMEA
- A peak in US Covid-19 expansion

EM Equities recovery likely to lag DM’s

Too many unknowns
# Our Views

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<td>FI Multi-Strategy</td>
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</table>
Agenda

- Apr 4: US primaries/caucus (4 states)
- Apr 15: South Korean general elections
- Apr 25: Germ CDU convention (new leader)
- Apr 27: Chinese test results on Gilead’s drug (Covid-19)
- Apr 28: US primaries (6 states)
- Jun 9-10: OPEC meeting
- Jun 10-12: G7 Leader’s Summit
- Jul 13-16: Democratic Convention
- Aug 24-27: Republican Convention
- Aug 27: Jackson Hole central banking Conference
- Nov 3: US presidential Elections
- Nov 21: G20 summit
- End 2020: ECB policy strategic review
- Dec 31: UK-EU transition period ends
Reversal risk for safe-havens

Gold $1590, lhs
Global Aggregate Bond Market Value
Share of Negative yield debt = 17.8%, rhs

Yield Curve as of 02/04/2020

- Italy
- US
- UK
- France
- Japan
- Netherlands
- Germany

Macrobond, Lyxor AM
Global manufacturing U-shaped recovery likely in H2
GROWTH MOMENTUM

US activity indicators - Standardized

GROWTH

ACCELERATION

Last -1m -3m -1y

Chinese activity indicators - Standardized

GROWTH

ACCELERATION

Last -1m -3m -1y

EMU activity indicators - Standardized

GROWTH

ACCELERATION

Last -1m -3m -1y

UK activity indicators - Standardized

GROWTH

ACCELERATION

Last -1m -3m -1y

Japanese activity indicators - Standardized

GROWTH

ACCELERATION

Last -1m -3m -1y

Swiss activity indicators - Standardized

GROWTH

ACCELERATION

Last -1m -3m -1y
GROWTH MOMENTUM

US activity indicators (Standardized)

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<td>Industrial prod., YoY%</td>
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<td>Cons Conf</td>
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<td>GROWTH</td>
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<td>Industrial prod., YoY% (QoQ)</td>
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ACCELERATION

- Last
- -1M
- -3M
- -1Y
INFLATION MOMENTUM

EMU Inflation Momentum (standardized 2005- )

-3 -2 -1 0 1 2 3

- CPI Headline, YoY%
- CPI Core, YoY%
- Breakeven 5Y
- Survey Prof. Forecasters
- Wages, YoY%

GROWTH

- CPI Headline, YoY% (QoQ)
- CPI Core, YoY% (QoQ)
- Breakeven 5Y (QoQ)
- Survey Prof. Forecasters (QoQ)
- Wages, YoY% (QoQ)

ACCELERATION

- Last -1M -3M -1Y

GROWTH

- Last -1M -3M -1Y

ACCELERATION

- Last -1M -3M -1Y

GROWTH

- Last -1M -3M -1Y

ACCELERATION

- Last -1M -3M -1Y
Bank refinancing challenges are addressed by the ECB
TLTRO III calendar, allotment & TLTRO II early repayments

TLTRO III maturity dates: 24 Jun, 30 Sep, 16 Dec, 24 Mar 2021
TLTRO II maturity dates: 24 Jun, 30 Sep, 16 Dec, 24 Mar 2021
TLTRO II early repayment (notification date): 18 Jun 2019 (€ 25.9bn), 11 Sep 2019 (€ 31.8bn), 04 Dec 2019 (€ 146.8bn), 11 Mar (€ 92.6bn); 10 June; 16 Sep, 2 Dec

Dates in the chart refer to deadlines for banks to submit bids (previous day: announcement; following day: publication of allotment results; 1 week after: settlement; 2 years after: early repayment; 3 years after: original maturity). Link (TLTRO III), Link & link (TLTRO II)
Excess liquidity to drag €STR further below the floor

€STR = wholesale € unsecured O/N inter-bank rate (EONIA = €STR+8.5 bps)
The asset purchase programs – eligibility criteria

- Since Jan 2017, purchases of assets with yields below the deposit rate can take place under PSPP.
- On Sep 2019, the ECB extended possibility of buying assets with yields below the deposit rate to all programs (CBPP3, ABSPP, CSPP).
- PSPP purchases in the secondary market (only) include:
  - Nominal and inflation-linked central government bonds and bonds issued by recognized agencies (90% of PSPP purchases since Dec. 2018).
  - Regional and local governments, international organizations and multilateral development banks located in the euro area (10%).
- Securities purchased under PSPP and CSPP:
  - Must have a minimum remaining maturity of 1 year (6 months CSPP) and a maximum remaining maturity of 31 years at the time of purchase.
  - Will be subject to an issue limit (33%), an aggregate holding limit (33%), except for supra-nationals (50%).
  - PSPP will be allocated across issuers on the basis of the ECB’s capital key.
  - CSPP purchases (IG only) take place both on primary & secondary markets.
US-China Truce; Phase 2 unlikely before US elections
Tensions possible next summer

- Dec 15 tariff off
- Sept tariff on $120bn Chinese goods cut from 15% to 7.5%
- China to buy an additional $200bn of U.S. goods & services over N2Y
- Renewed tensions next summer
  - Intellectual property issues
  - Disappointments over Chinese purchases

![Graph: US Agricultural Exports to China ($bn)](image)

- Macrobond, Lyxor AM
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