

Letter from the CIO

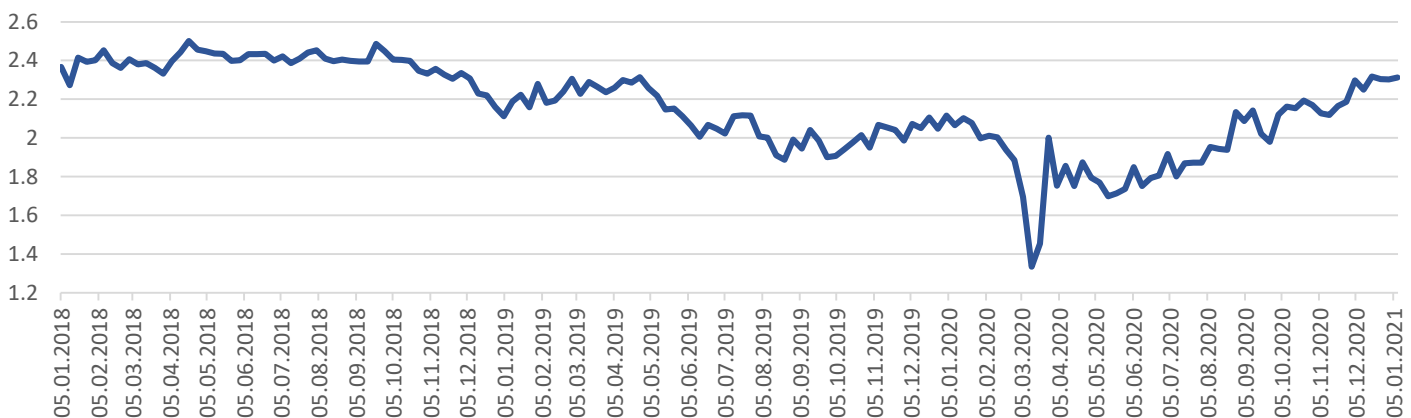
January 2021

A Touch of Optimism

The year 2021 got off on the right foot for financial markets, supported by several key events including the announcement of a historic Brexit agreement reached between Brussels and London, after more than 4 years of suspense and twists and turns. Negotiations finally led to the signing of a free trade treaty based on the principle of 'zero tariffs and zero quotas' never reached before with the EU. The risk of a trade break between the European Union and the United Kingdom seems to have been dispelled. In the United States, the agreement in Congress between Republicans and Democrats on a recovery plan of more than 900 billion dollars, as well as the confirmation of the nomination of Joe Biden as President of the United States, are among the positive factors that help clear the horizon. Donald Trump who is

now more than ever weakened by the sad episode of the Capitol invasion, is on the verge of leaving the reins to the Democrats. Surprisingly, the unexpected victory on January 6th of the last two seats of the Senate in the conservative state of Georgia further provides the Democratic Party with control of both executive and legislative power. This opens the door to more latitude to implement the revival policy promised by Joe Biden, and closes the door to reality TV and amateurism! This is what the markets have been celebrating since the beginning of the year. Finally, and although the pandemic continues to rage throughout the world, the start of vaccination campaigns is also a source of optimism. The way out of the crisis will undoubtedly be achieved through obtaining a collective immunity, even if there are still many unknowns surrounding these vaccines.

USD Inflation Swap Forward 5Y5Y



Source: Bloomberg / Banque Heritage

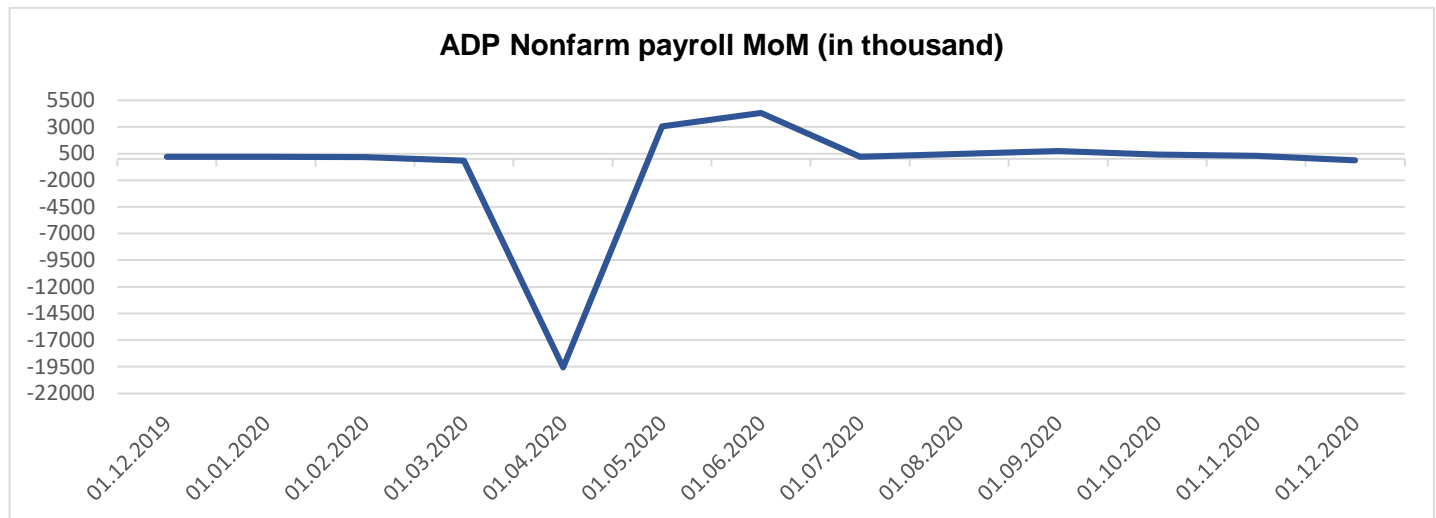
The so-called "risky" financial assets continue to grind higher, massively supported by the central banks' stimulus plans, which unfortunately have little effect on the real economy. It all remains fragile, the labour market still being under pressure due to the pandemic. Illustratively, the US economy destroyed some 140,000 jobs in December for the first time in eight months, while analysts were forecasting an increase of 70,000 new jobs. The resurgence of the pandemic after Thanksgiving is thus reflected in the state of the US economy. Nevertheless, our central scenario remains rather optimistic. The substantial fiscal stimulus package passed by Congress in December (Supplemental Appropriations Act) should put money in the consumer's pocket and push back the gigantic wall of personal difficulties awaiting Americans. Growth in the first quarter could therefore be very strong, following a +33% increase during the third

quarter (q/q) and expectations of around 4% additional growth for the last three months of 2020. Other measures could also be voted in the coming weeks by the new president with the aim to sustain the economic recovery and to support employment. The U.S. Federal Reserve is expected to maintain its key interest rates at current levels and to continue its assets purchasing program at the same pace as in 2020. With the arrival of J. Yellen at the Treasury Department, known for her rather "dovish" behaviour when she was President of the FED, the Powell-Yellen duo will have all the weapons, be it fiscal, budgetary or monetary, to maintain the necessary momentum for a sustainable economic recovery. This is what the bond market currently seems to indicate, the 10-year US Treasury bond's yield having steepened by 35 basis points over the last two months, underscoring expectations of higher growth over the long term. Finally,



it is likely that all of the stimulus measures will allow inflation to resurface. Currently rising at an annual rate of +1.3%, indicators point to an increase of inflation in the medium term. Of course, this phenomenon has to be carefully monitored, but with the FED's decision last year to allow annual price increases of more than 2.0% a tightening of monetary policy is not to be feared in the

near future, even in the event of a start of a price shock. The big unknown for us probably remains the impact of the future fiscal policy on companies. Biden had promised to raise the corporate tax rate from 21% to 28% at the federal level. Will he apply it, to what extent? To be monitored...



Source: Bloomberg / Banque Heritage

Our positioning remains anchored in a scenario favouring equities over government bonds and corporate credits. The conjunction of extremely low interest rates, improvement of the political situation in the United States, and the arrival of vaccines all justify the current risk premiums. We are still in the era of TINA (There Is No Alternative) and the numerous PUT options in the market make the asset class, if not attractive, at least resilient.

In the face of rising rates and its impact on the bond market, we are maintaining our slight overweight in equities, combining both a quality and a cyclical bias. The improvement in economic growth and inflation expectations and as well as the steepening of yield curves are all factors that have led us to strengthen our positions in the energy and banking sectors in recent weeks, both in the United States and in Europe.

We wish you a great year 2021, and above all, good health!

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