INVESTMENT STRATEGY

THIS TIME IS DIFFERENT

SECOND QUARTER 2020

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MARKET VIEWS

OUR TWELVE-MONTH VIEW

	U/W	N	O/W
Equities	Japan Equities EM Equities	U.S. Equities U.S. Growth vs Value EMU Equities	U.S. Staples vs. Discretionary U.S. Quality U.S. Financials EMU Financials EMU Cons. Discretionary UK Equities Tactical Buy
Fixed Income	10Y UST 10Y Bund SPGBs BTPs U.S. Credit IG EUR Credit HY EM Debt HC	U.S. Credit HY 2Y Schatz 10Y Gilt 10Y JGBs	2Y UST EUR IG Credit GBP IG Credit
FX		EURUSD	
Commodities		Copper	(Brent Tactical Buy) Gold
Hedge Funds	L/S Equity Market Neutral	L/S Equity Directional L/S Credit Global Macro Systematic Global Macro Discretionary EM Global Macro CTAs	Special Situations Merger Arbitrage FI Multi-Strategy

U/W Underweight
N Neutral
O/W Overweight

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EXECUTIVE SUMMARY

Macro & Market Views

As DM countries enter glaciation to contain the pandemic, the toll on their economies will be described with superlatives. Exit strategies will need careful balancing between two evils: risking an outbreak relapse or jamming the economic recovery. Our base case is a recession with the bulk of the hit in Q2. We see a U-shaped recovery unfolding in Q3 and Q4 supported by stimulus but constrained by restrictions remaining in place. Companies may also seek to unload their ballooning debt, constraining employment, and capex. In our view, the liquidity crisis is unlikely to morph into a solvency crisis, unless the pandemic were to last much longer than expected.

Longer term, this crisis could leave scars, including an accelerating deglobalization. Political and geopolitical shifts are also possible when the time for a crisis-management assessment comes. The crisis could alter U.S. elections prospects while EU integration could be under pressure from its current lack of economic coordination and renewed border checks within the Schengen area.

A majority of tactical indicators seem consistent with a market trough. Yet, until we know more about the time to return to 'normal', the true economic impact of shutdowns and the degree of stimulus' pass-through to the real economy, a decisive risk reweighting looks premature to us.

Credit markets went through extreme dislocations, paving the way for juicy opportunities. We are Neutral on U.S. High-yield and O/W on EU and UK High-grade, amid central bank asset purchases. The U.S. Treasury yield curve bear-steepening highlights policy support but also doubts about the recovery. We see U.S. 10Y Treasury yields rebounding towards 1.5% within a year, consistent with a U-shaped normalization scenario. We expect a bear-steepening in Bunds despite ECB's purchases. We are Neutral on U.S. equities amid fair valuation. We favor Quality and remain O/W Staples vs. Discretionary. Attractively valued Financials should benefit from a steeper yield curve. In Europe, we favor cheaper and more defensive UK to EMU equities. EU Consumer Discretionary stocks exposed to China look attractive. We are also O/W Financials.

EM economies remain behind the virus curve and are facing multiple pressures, prompting us to U/W EM equities and debt. The OPEC+ alliance tumbled and while a coordinated cut appears speculative, the world output is set to decrease as the pandemic crushes global demand. We see Brent prices recovering towards $35/b by the end of Q2, supported by lower global output and a U-shaped recovery. Gold's technicals look stretched but global tail-risks, deflation fears, massive monetary, and fiscal stimulus are powerful fundamental drivers. We are O/W on gold for hedging purposes.

Alternative Strategies

Alternative strategies were initially resilient during the turmoil, but cracks appeared mid-March as most strategies, except CTAs, experienced losses. Our views were defensive: O/W Event-Driven and Relative Value, N CTAs & Global Macro, U/W L/S Equity.

Going forward, we reduce credit risks while looking for opportunities in selected areas. Overall, we maintain a preference for Event-Driven vs. L/S Equity. We cut exposure to Global Macro in EM and L/S Credit to N. Both are vulnerable to the global economic contraction and to capital outflows. Low beta strategies might still be able to perform however. We upgrade Fixed Income Arbitrage to O/W. The strategy is less sensitive to economic downturns than L/S Credit and might benefit from opportunities in fixed income.

We maintain the O/W stance on Merger Arbitrage. Wide deal spreads are an opportunity for discretionary strategies, which can shorten portfolio duration and take advantage of price dislocations on safe deals. Finally, our stance on L/S Equity (U/W), Global Macro (N) and CTA (N) remains unchanged. It is important to note that CTAs have met expectations with regards to their risk mitigation features while Market Neutral L/S faced more difficulties.

MACRO & MARKET VIEWS

FINANCIAL MARKETS RATTLED BY COVID-19

Risk assets closed their worst quarter since the great financial crisis ('GFC') of 2008. Equity markets dropped about -20% in local currency with Eurozone ('EMU') equities underperforming at almost -25%. Similarly in corporate high yield markets (Bloomberg-Barclays indices), Europe issues fared worse than their U.S. counterparts with total returns of -15.1% and -12.7%, respectively.

Aside from cash, few assets provided shelter for investors: U.S. Treasuries (Bloomberg-Barclays 7-10-year index) played their safe haven role, offering about 10% total return over the period. The corresponding maturities yielded only 2% for German Bunds while returns on European peripheral issues ended the quarter in negative territory. Gold, the price of which gained more than 6% but with a spike in volatility, offered limited protection.

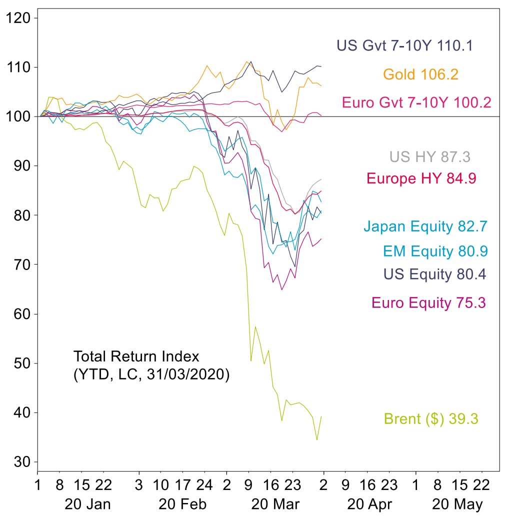
During the early stages of the coronavirus (SARS-CoV-2) outbreak, financial markets hardly reacted to the epidemic that seemed limited to two Chinese provinces where it triggered drastic containment measures in January. Aside from oil prices which started to price-in the expected fall in Chinese demand for energy, most assets seemed resilient, exhibiting similar patterns than those seen in past viral episodes such as the 2002-03 SARS or the March-2013 Avian flu.

The situation took a turn for the worse late February when the coronavirus disease 2019 ('Covid-19') spread to Europe and then all other continents (except Africa, relatively spared at first). On 11 March, the World Health Organization ('WHO') declared that Covid-19 can be characterized as a pandemic.

As of 3 April, 1 million cases have been reported in over 200 countries and territories, resulting in more than 50 000 deaths, 93% of which outside China. The coronavirus hit Europe severely, particularly affecting Italy and Spain with more than 110 000 cases. Germany and France, with about 73 000 and 60 000 respectively, closely followed. The epidemic that started later in the U.S. worsened dramatically over the last two weeks, prompting authorities to issue directives to stay at home.

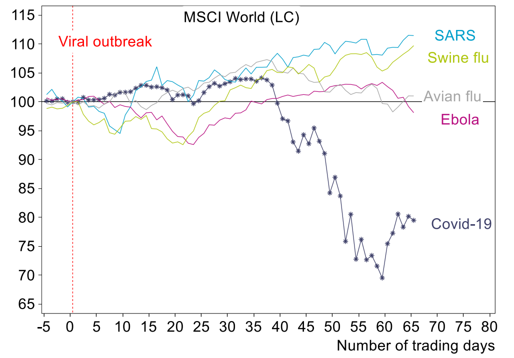
The pandemic overwhelmed health systems around the world, leading authorities to try to lower the peak of infected people needing intensive care. Dedicated to slow down the pandemic, policymakers imposed measures ranging from social distancing to partial containment to full lockdown. **A third of world population is now under some form of containment, thereby crushing world economic activity.**

Asset Class Performances (total return indices)



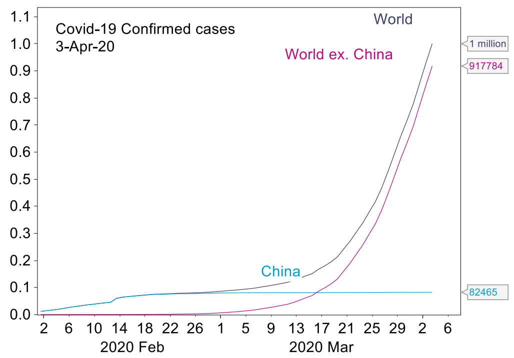
Source: Macrobond, Lyxor AM

This time is different



Source: Macrobond, Lyxor AM

The Covid-19 pandemic



Source: Macrobond, Lyxor AM

"SCIO ME NIHIL SCIRE"

When examining the Covid-19 pandemic, the Socratic paradox comes to mind: "I know that I know nothing" or so little. At this stage, there is still a long list of unknowns.

1) The number of infected persons: It is likely much higher than the confirmed cases that represent people tested positive for Covid-19. Most countries, confronted with a shortage of tests, have chosen not to test those with mild (or no) symptoms.

2) Test accuracy: while there is little doubt that a positive test rightly signals an infected person, preliminary research from China and anecdotal evidence from field doctors suggest that the most common (RT-PCR) test may give false-negative results about 30% of the time.

3) The effective mortality: apparent mortality rates range from 0.5% in Singapore to more than 12% in Italy. The dispersion likely reflects volume of testing alongside healthcare system quality and population characteristics.

4) Modes of transmission: according to WHO, the Covid-19 virus is primarily transmitted between people through respiratory droplets and contact routes. Yet, recent scientific publications suggest that there has been airborne transmission as well.

5) Contagiousness: the virus seems most contagious during the first three days after the onset of symptoms, but asymptomatic transmission has been identified in some countries. The current official estimated range for the incubation period is 2 to 14 days but longer incubation periods could not be ruled out.

To be sure, we could add to the list that the actual viral mechanism is not fully known, and that a cure and a vaccine have yet to be found.

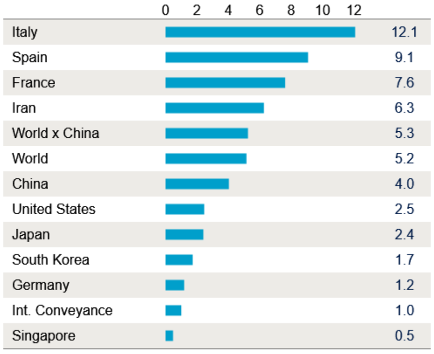
The many unknowns mean major uncertainties over the length and severity of containment measures, which in turn translate into little to **no visibility on the length and magnitude of the disruption in economic activity** that unsettled financial markets. **Our stress indicator rose to levels unseen since the Great Financial Crisis** ('GFC').

"GUESTIMATING" GROWTH

Prominent scientists are developing complex models to estimate the spreading of the virus and its casualties. Waiting for their results and in an ultra-simplistic approach, we just tried to "guestimate" when the epidemic growth rate will decelerate materially, which would likely send a positive signal to financial markets.

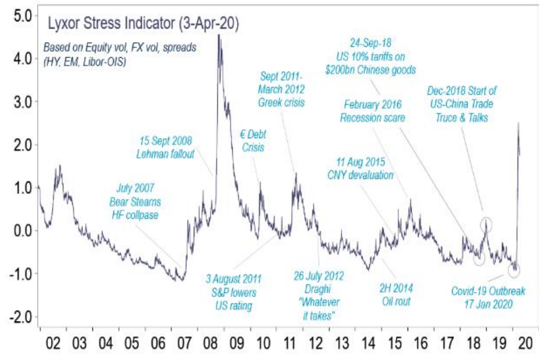
We applied the Hubei province spread pattern to 80 hot spots with at least 200 confirmed cases on 27 March.

Covid-19 Apparent Mortality Rates



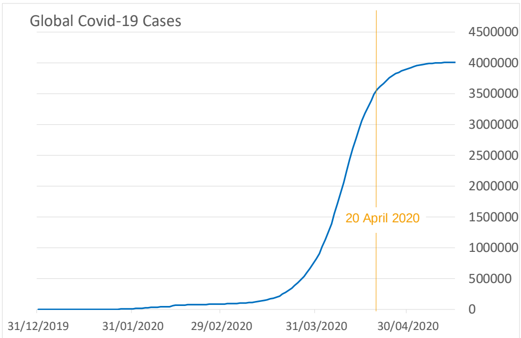
Source: Macrobond, Lyxor AM

Financial stress at its highest since GFC



Source: Macrobond, Lyxor AM

Covid-19 "guestimates"



Source: Lyxor AM

We assumed all countries / states applied similar containment measures. We did not adjust for size or density of population. (Also, many more hot spots would have to be considered today). The world confirmed cases would follow a sharp rise before stabilizing late April. We have little confidence in the stabilization level suggested by the results, but **we believe that the growth in confirmed cases will decelerate significantly around mid-April.**

Also, on the positive side, we keep in mind that more than 100 clinical trials are ongoing across the world and that the race to find a cure is unparalleled.

Without credible past referential and limited real-time data, investors and authorities are struggling to estimate first and second round effects of shutdowns and stimulus. In particular, the true impact of the outbreak on supply chains, consumption, and capex.

We took guidance from China to shock each constituents of the main GDP contributors. China saw a drop of about -35% of activity in provinces under full lockdown, of about -20% in areas under partial restrictions. The details revealed that spending for catering services, auto, clothing, furniture suffered the most. Capex and manufacturing data for January-February suggested that mining, food, chemicals, drug and tech businesses were the most resilient, while construction dropped -80% nationwide. Meanwhile, corporate profits plunged nearly -40%, with private companies in electronics, machinery, auto, and industrials particularly hit.

We assumed that most developed economies would face a lockdown for about a month and a half, preceded, for some countries, by one or two weeks of partial restrictions. We reckoned that a return to more normal conditions would also require at least 45 days. Finally, we factored a U-shaped recovery over Q3 and Q4 to reflect a gradual return to normalcy for companies and consumers depending on the magnitude of the surge in unemployment and the extent of policy support.

Overall, we anticipate for most developed economies a major contraction in activity in Q2 that may not be fully overcome before 2021 despite the unprecedented support announced by central banks and governments.

WHATEVER IT COSTS … 13% OF WORLD GDP AND COUNTING

The ongoing major liquidity crisis threatens to morph into a solvency crisis. Eager to warrant a normal functioning of the financial system, to prevent a wave of corporate defaults and to safeguard growth prospects, policymakers unleashed unprecedented measures.

Major central banks reacted swiftly, announcing a wide range of measures at unscheduled meetings. The Federal Reserve ('Fed') cut the federal funds rate by 150bps to a [0% ; 0.25%] range and resumed its quantitative easing with a $700bn assets purchase program. The Fed then added an open-ended program, expanding the scope of eligible assets to commercial mortgage-backed securities. New emergency programs were later established, including USD liquidity swaps with foreign central banks, primary dealer credit facility, money market mutual fund liquidity facility, and corporate credit facilities (primary & secondary markets) to ease business financing stress.

Economic impact of social distancing

Outbreak Shock Assumption	Partial Restrictions	Full Lockdown
EMU		
Household Cons.	-2%	-17%
Capex	-2%	-31%
Public Spending	2%	13%
Import & Export	-2%	-25%
US		
Household Cons.	-2%	-15%
Capex	-3%	-23%
Public Spending	2%	15%
Import & Export	-2%	-25%

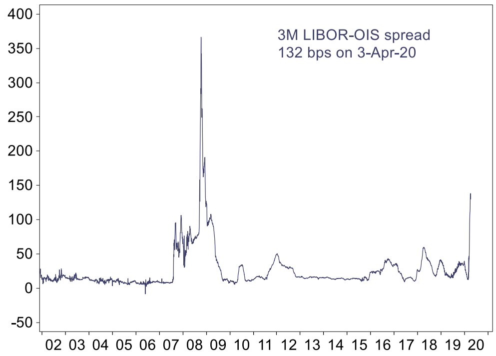
Source: Lyxor AM

U.S. & EMU growth "guestimates"

Real GDP estimates	Q1 q/q non-SAAR	Q2 q/q non-SAAR	Q3 q/q non-SAAR	Q4 q/q non-SAAR	FY 2020 FY/FY-1
EMU	-1.0	-4.6	+1.5	+2.0	-2.9
US	-0.1	-4.9	+1.0	+1.5	-0.4

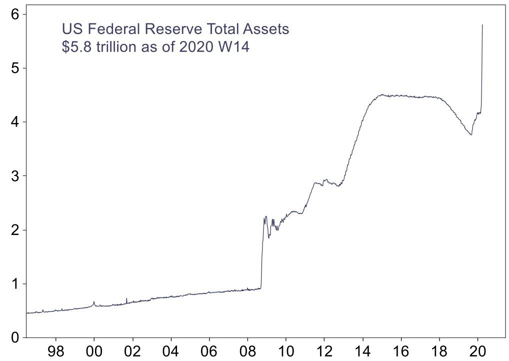
Source: Lyxor AM

Significant short-term funding pressure



Source: Macrobond, Lyxor AM

The Fed swiftly providing massive liquidity



Source: Macrobond; Lyxor AM

In the same vein, The Bank of England ('BoE') cut its bank rate by 65bps to 0,1%, a new record low. The BoE introduced a new Term Funding Scheme with additional incentives for SMEs and reduced the capital buffer rate for UK banks to 0%, in order to spur a substantial increase in lending. The European Central Bank ('ECB') chose to keep the already below zero policy rate unchanged but launched a new €750bn Pandemic Emergency Purchase Program to be deployed flexibly, after adding €120n to its existing QE program, and increasing the capacity of TLTRO3. The ECB also announced relief on capital and liquidity requirement for banks and recommended to them not to distribute dividends for the next six months.

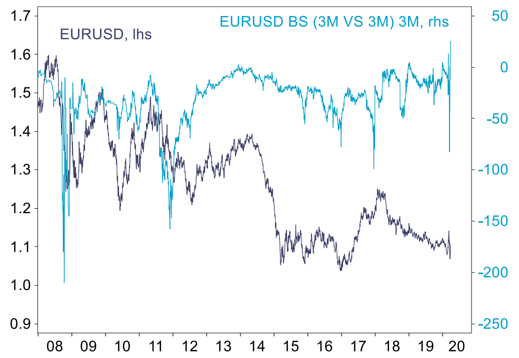
Governments promptly reacted to the unprecedented drop in activity inherent to containment measures by **adding massive fiscal stimulus to monetary support**. The U.S. Congress voted a $2.2tn rescue package with more than $500bn in tax rebates and unemployment insurance for households. Major provisions are targeting small business short-term financing needs, corporate lending support through the Exchange Stabilization Fund ('ESF') and corporate tax relief. In Europe, major countries have launched their own fiscal "bazooka". Total EU announced budget spending represents so far about 2.5% of GDP, with Germany contributing nearly half through a €122bn package. Not to mention state loans guarantees which represent 24% of GDP in Germany, 12% in France and 20% in Italy. In the UK, the Chancellor announced £50bn stimulus and £330bn loan guarantees. Most of the packages include income subsidies for affected worker, tax deferrals, social security deferrals or subsidies and even debt holidays in Italy, Spain, and the UK.

Across the world, colossal measures have been taken to support consumption and to ensure that businesses will remain liquid and solvent once the health crisis is under control. Most economies are bracing for a deep recession in the coming months. **We believe that the key question beyond the magnitude and length of the fall is the pace of recovery.** Announced (and potential) policy support should be enough to restart activity … **if effectively implemented.** Anecdotal evidence suggests that measures to ease business short-term funding stress may take more time and resources than hoped.

Our central scenario is rather constructive: we believe that Covid-19 will be a transitory shock and that policy dedication will prevent the pandemic to morph from a liquidity crisis into a solvency crisis.

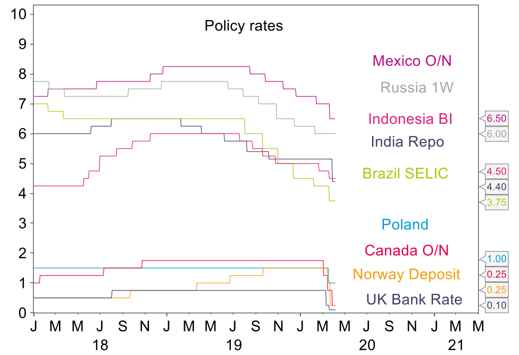
Yet, as detailed above, risks are high. The global economy has entered uncharted territories. We err on the cautious side and prefer to refrain from adding risk until positive signs on the virus spread and on policy stimulus efficacy appear.

The Fed swap lines eased USD funding stress



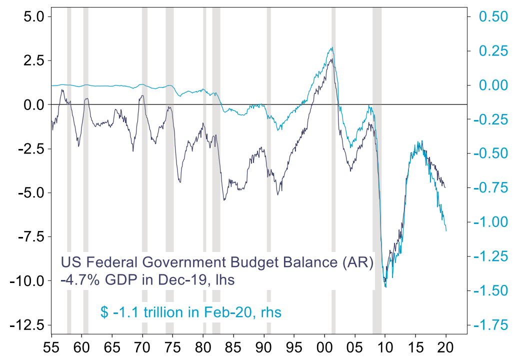
Source: Macrobond, Lyxor AM

Most Central Banks are easing policy



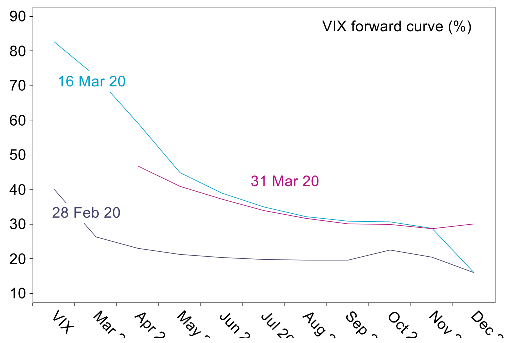
Source: Macrobond, Lyxor AM

Towards record government deficits



Source: Macrobond, Lyxor AM

Equity markets anticipate a slow normalization



Source: Macrobond, Lyxor AM

BRENT: TWIN SUPPLY AND DEMAND SHOCKS

The OPEC+ meeting on March 6 was expected to lead to output cuts. Instead the alliance collapsed with the start of a Russian-Saudi oil prices war, emphasizing their diverging goals. Russia likely wants to grab market shares and may target an equilibrium price below U.S. producers' breakeven levels. In contrast, the Saudis seem eager to support higher prices to fund their long-term growth plans.

The price war will hurt both sides, but we suspect Russia can hold longer than Saudi Arabia. The Saudis have greater financial reserves ($500bn) but Russia has a lower burn rate. Russian oil product exports account for about 40% of the State's revenues and the budget is balanced at a $40/b price. We expect the Saudis to blink first and start cutting production by the summer.

Hopes for a coordinated output cut of 10 mb/d among the three largest producers recently gathered steam. This outcome is not likely in our view. In the U.S., the energy sector is heterogeneous and highly fragmented. Moreover, there are limited legal means to impose a broad production cut. Russia might prefer letting markets find an equilibrium price, forcing out a number of small producers. Russia might also condition an agreement to the easing of sanctions, requiring an elusive bipartisan vote in the U.S. A bilateral agreement between the U.S. and Saudi Arabia could stand better chances, providing the Saudis with a way out of the crisis.

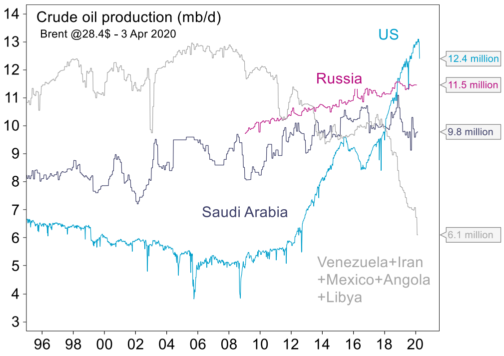
Coordinated or not, there is no question that world output is set to decrease. The pandemic is exerting an even bigger downward pressure on global demand, which could plunge by -25% in Q2. The clock is ticking before storage capacities get fully used, possibly by June. Geopolitics would stay in the back seat as the U.S. and Iran avoid major escalation, while other oil producers' governments would not be pushed to the brink yet.

We see Brent prices recovering towards $35/b by the end of Q2 and above $50/b by yearend, supported by lower global output and a U-shaped economic recovery, once the virus outbreak is dealt with.

A worst-case, with the twin oil supply and demand shocks prolonging into H2, would keep prices below $30/b. In a best case, a V-shaped economic recovery and a bilateral or trilateral output cut agreement could push prices around $60/b by year-end.

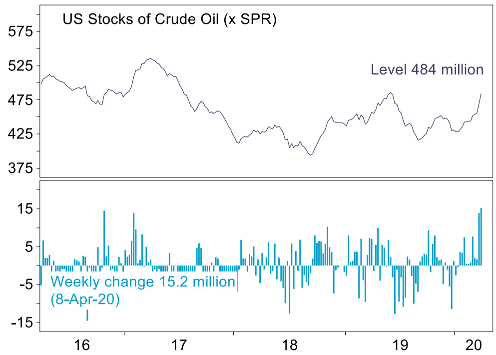
We are strategically O/W, but favor opportunist tactical calls in the short-term, as prices are likely to stay volatile until some clarity returns.

Oil market-share war



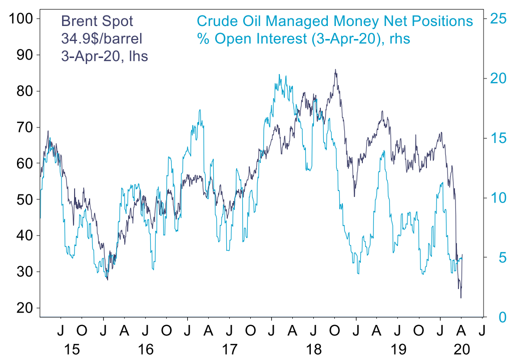
Source: Macrobond, Lyxor AM

Oil stocks are piling up



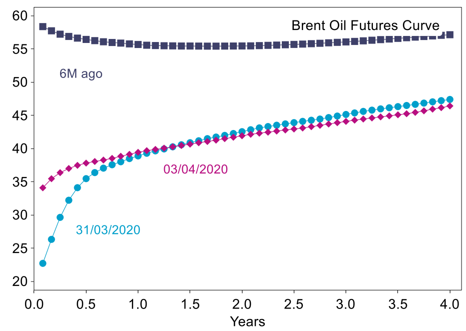
Source: Macrobond, Lyxor AM

Speculative positions quite stretched



Source: Macrobond, Lyxor AM

Rumors of OPEC+ deal in early April



Source: Macrobond, Lyxor AM

WE PREFER U.S. OVER EMU HIGH-YIELD

The high-yield ('HY') market is not a no-brainer and positioning in the segment is quite challenging since safeguarding corporate financial health is the key to preventing the crisis from morphing into a solvency crisis. Central banks and governments are deeply aware and concerned by the issue as demonstrated by the unprecedented measures taken to ease business financing stress and lean against the worrying outflows suffered by the asset class.

The spreads on Bloomberg-Barclays indices (which can be partly theoretical when issues are not trading) widened dramatically to levels unseen since the GFC. Moreover, when adjusting for 5-year swaps to capture the corporate idiosyncratic risk, we find that high-yield markets are pricing a deep recession and its ensuing solvency crisis and even more so in the U.S. than in the Eurozone.

We reckon that the oil price war could constitute a major headwind for the U.S. HY market where Energy issues represent about 8.4% versus 1.3% in the Eurozone segment. Yet, as detailed in the above section, we see Brent prices recovering towards $35/b by the end of Q2.

The decisive factor prompting us to favor U.S. over EMU high-yield is policy support. While the ECB quickly offered credible aid to corporations faced with cash flow issues, EMU members failed (so far) to coordinate the necessary ambitious stimulus program.

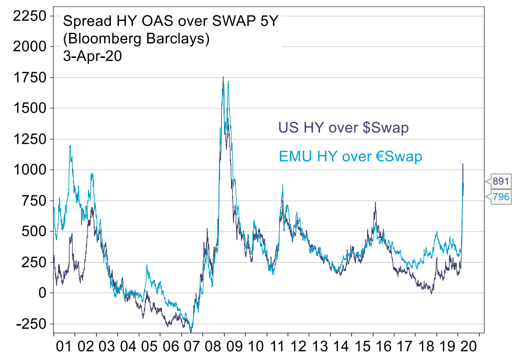
In the U.S. the Fed $200 bn support to investment-grade ('IG') corporates was swiftly complemented by $454 bn allocated by Congress to the ESF controlled by the Treasury. The funds will be used to take equity stakes in special purpose vehicles ('SPV') created by the Fed to purchase non-government assets. The Fed then lends to the SPV an amount depending on its expectation of the SPV's potential loss. The leverage can reach 10 times if the estimated loss is 10%.

Companies will soon publish their Q1 results and their cash-flow burnout rate, which we believe will be massive on both sides of the Atlantic, but the potential backstop seems much larger in the U.S.

Our coherence model suggests that € high-yield issues are attractively valued compared to other asset classes, especially equities. Yet, as explained in a below section, we remain cautious on Italian debt and we see a risk of stress on EMU high-yield financials, loaded with Italian debt.

All in all, we rate U.S. and EMU High-yield, Neutral and U/W respectively.

High-yield spreads over Swaps



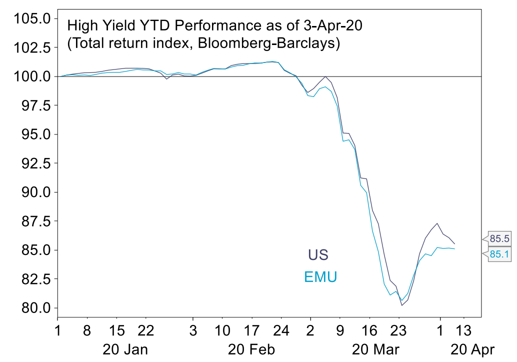
Source: Macrobond, Lyxor AM

U.S. High-yield sector breakdown

U.S. Corporate High Yield (BBG-Barclays) - 1 Apr 2020				
INDUSTRY_SECTOR	Weight	OAS weighted average	Duration weighted average	Rating weighted average
Basic Materials	5.6%	836	4.6	B+
Communications	22.5%	672	4.2	B+
Consumer, Cyclical	15.7%	940	4.4	B+
Consumer, non-Cyclical	20.6%	712	4.6	B+
Diversified	0.1%	1326	3.3	B
Energy	8.4%	2069	3.9	B+
Financial	9.6%	782	4.2	BB-
Industrial	10.3%	828	4.0	B+
Technology	4.6%	702	3.8	B+
Utilities	2.5%	601	4.1	BB-
Total ex- Energy	91.6%	767	4.3	B+
Total	100%	877	4.3	B+

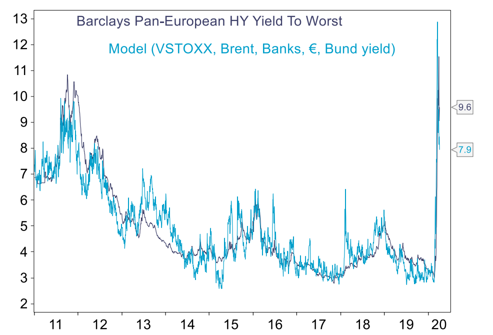
Source: Bloomberg, Lyxor AM

Favor U.S. High-yield amid policy support



Source: Macrobond, Lyxor AM

EMU High-yield attractive valuation vs. Equities



Source: Macrobond, Lyxor AM

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THE U.S. ELECTIONS NOT IMMUNE TO COVID

Election prospects, as estimated using PredictIt bets, seem altered by the virus breakout. Biden's comeback as the most likely democratic nominee (thus barring the way to the leftist candidate Sanders) already hurt Trump's re-election chances. Then the Covid-19 spreading further compressed Trump's advantage to the point where Biden even took the lead mid-March. Since then, Trump and Biden are running neck and neck.

Noteworthy, prospects for the balance of power in Congress changed as well. The Democratic House - Republican Senate combination has been caught up by the full Democratic congress scenario. If elected, Biden could rule with a fully supportive Congress. His agenda will have to be adjusted to drastically different economic conditions than those considered when designing campaign pledges. Corporate tax hikes are unlikely to gather support as surviving businesses try to recoup their Covid-related losses. By contrast, generous unemployment benefits, Medicare for All, and personal-tax increases for the high-income earners remain probable. We expect a shift in Biden's relatively pro-trade stance towards more "Made in U.S.A." The cleaner energy agenda, often synonymous of higher energy prices may be postponed or downplayed in a period of recovery.

STEEPER U.S. TREASURY YIELD CURVE

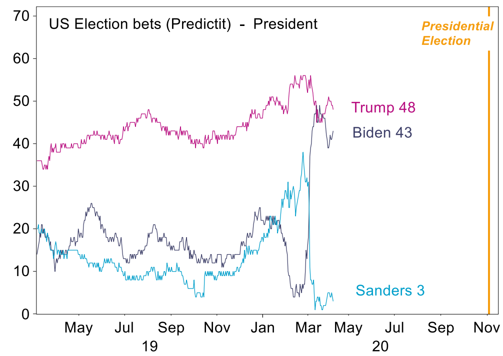
As Covid-19 and related lockdowns take their toll on economic activity, paralyzing entire sectors such as airlines and tourism, core inflation risks look skewed to the downside. Factoring-in our constructive scenario on oil prices, our fitted model suggests that CPI inflation should stay low but above 1.5% a year from now.

At about 1% in early April, 10-year U.S. breakeven seem priced for a worse scenario than our base case, offering tactical buying opportunities, in our opinion.

The Fed deployed an impressive monetary arsenal to prevent the economy from falling in the depression-deflation vicious circle. **Additionally, we think the Fed could do more should confidence fail to return in Main Street and Wall Street.** In particular, it could emphasize a longer-term forward guidance with a high inflation target. It could add a quantitative guidance to its recommendation to banks to run down their capital and liquidity buffers. We doubt that the Fed will chose negative rates or the yield curve control, two strategies with ambiguous results.

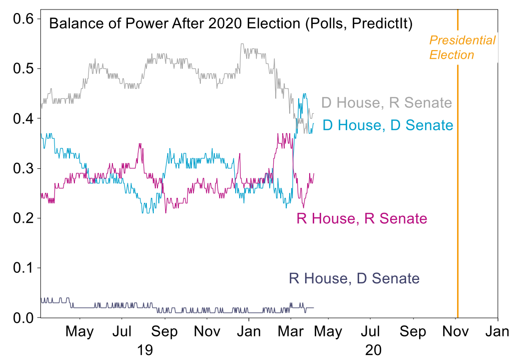
The U.S. Treasury yield curve steepened, discounting the likely positive effects of policy support on growth as well as its impact in terms of swelling deficit.

Trump and Biden running neck and neck



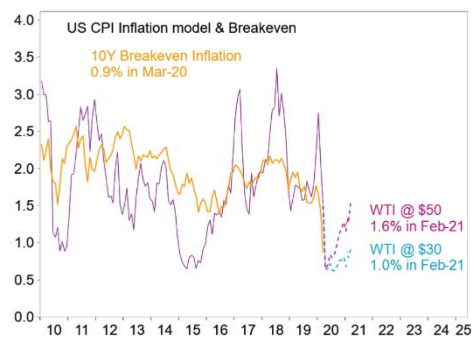
Source: Macrobond, Lyxor AM

A different balance of power after Covid-19?



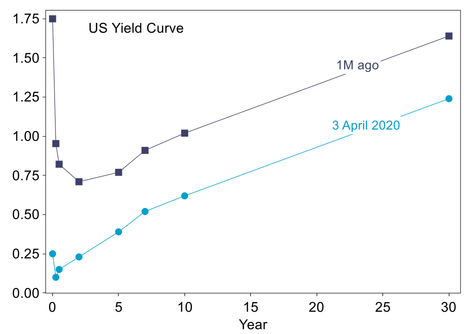
Source: Macrobond, Lyxor AM

U.S. inflation risks skewed to the downside



Source: Macrobond, Lyxor AM

Further potential steepening ahead



Source: Macrobond, Lyxor AM

We see further potential steepening ahead and expect the 10-year yield to reach 1.5% a year from now, which reflects our U-shaped normalization recovery scenario for the world economy.

NEUTRAL FAIRLY VALUED U.S. EQUITIES

Corporate revenues will likely drop dramatically during the lockdown period and probably recover slowly thereafter. Factoring-in our estimates for U.S. growth, inflation, and oil prices in 2020 in our top-down fitted model of S&P 500 sales growth, we find that 2020 revenues will likely fall about -1% versus 2019 on average.

Operational leverage means that margins should be affected as well. Yet, we see offsetting factors such as lower energy costs and diminishing wage pressures. Also, productivity should only be impaired for a short period. The eye-catching surge in jobless claims over the last two weeks illustrate business reactivity to the halt in activity. We think that on average in 2020, S&P 500 companies should see a limited margins erosion.

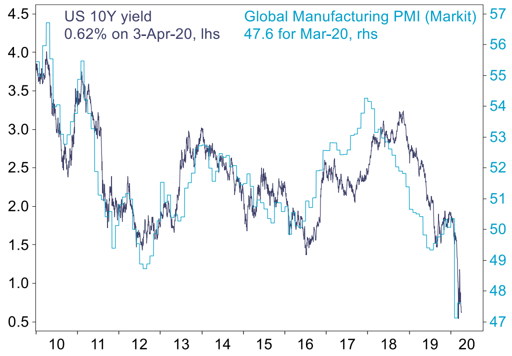
We expect fewer share buybacks as Covid-19 accentuates cash flows burnout, and thus no positive contribution to EPS growth. **All in all, we believe EPS should fall roughly -5% in 2020.** For once, our estimate is close to the bottom-up consensus estimate calculated by Bloomberg. Also, in a rare occurrence, the top-down consensus shown by Bloomberg looks similar. **To be sure, the looming earnings season and its potential misses could prompt downward revisions but the pivotal factor in our view remains the dynamics of the H2 recovery.**

The valuation picture is tricky. Equity risk premiums ('ERP') as measured with Shiller cyclically adjusted earnings or with consensus trailing EPS suggest that equities are cheap relative to bonds. Given the unprecedented distortion of bond markets, we prefer to consider the 12-month forward PE ratio, which is back to its 30-year mean. **We keep a neutral stance on U.S. equities and favor selected themes and sectors.**

At times of great uncertainty, we **O/W Quality stocks** that overperformed so far and will likely remain among investors safe choices. In the same vein, we keep an **O/W Staples vs. Discretionary** amid cheap relative valuation.

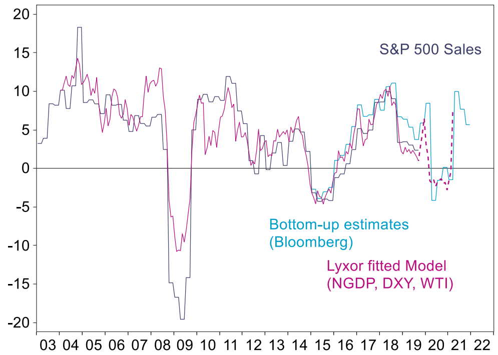
The defensive calls reflect our reluctance to add risk in the very near future. However, as described in previous sections, our central scenario calling for a slow normalization amid massive policy support, is rather constructive. Therefore, **we O/W attractively valued U.S. Banks** for their cyclicality. The sector should benefit from the yield curve steepening and will likely remain under the Fed's special care.

10Y yield to reflect the world return to normalcy



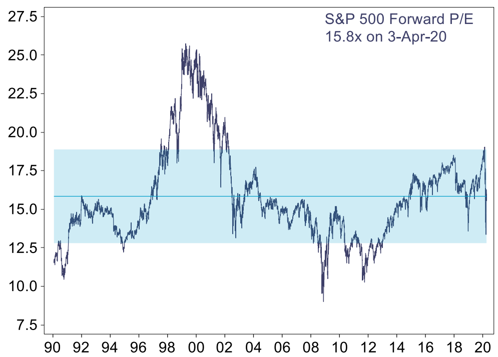
Source: Macrobond, Lyxor AM

Bleak corporate sales growth in 2020 (%)



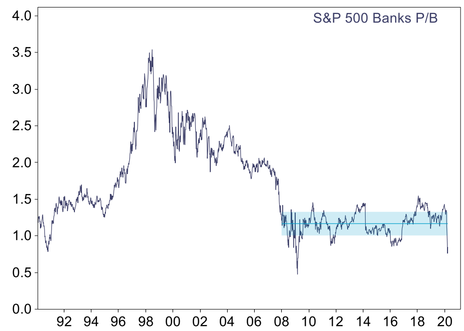
Source: Macrobond, Lyxor AM

S&P 500 looks fairly valued



Source: Macrobond, Lyxor AM

U.S. Banks depressed valuations



Source: Macrobond, Lyxor AM

EUROPEAN RATES: BETTER SAFE THAN SORRY

Towards a steepening of the EUR curve. The economic shock related to Covid-19 led to an unprecedented response from authorities. Germany announced early April a sharp revision of its issuance programme, bringing estimates of total supply of T-bills and bonds in 2020 to more than EUR 450bn, up from EUR 210bn announced at end- 2019. Net supply is set to be above EUR 200bn in 2020, which will partially be absorbed by ECB purchases. Yet, the net-net supply of German bonds will turn positive, in the order of EUR 50 to 70bn, which should lift the term premium.

2Y Schatz at N. We expect the German 2-year yield to head towards the ECB deposit rate over the next 12 months (from the -20bps spread on March 31st), as market participants price in that the ECB is unlikely to cut rates deeper in negative territory. Despite the slightly negative expected return in total return (-1%) we have the 2Y Schatz at N for defensive purposes.

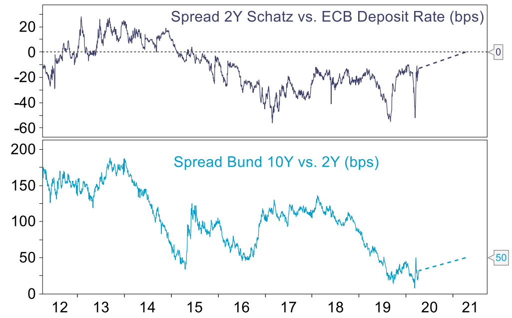
10Y Bund at U/W. With regards to the 2y-10y segment of the curve, we expect the spread to widen from the current 22bps to 50bps in 12 months, on the back of strong supply and a rebound in activity. This would push the 10-year Bund towards 0% and translate into a c. -5% return, leading us to express an U/W stance.

U/W Southern Europe Sovereigns. The massive shock on public finances deteriorated the credit profile of peripheral sovereigns, which was vulnerable prior to the Coronavirus crisis. Italy's sovereign rating could be downgraded to high yield considering that the parameters that determine a country's debt sustainability deteriorated: primary balance, nominal growth and interest rates. This will exacerbate the positive snowball effect, by which an interest-growth differential greater than zero fuels by itself public debt.

The ECB announced a massive purchase program, which may open opportunities for tactical investors. We estimate that the ECB will purchase € 11-13bn-worth of Italian sovereign debt per month until year-end, not far from the country's refinancing needs. Some form of agreement within the eurozone to provide financial support to Italy and probably Spain will ease downside risks. But over the medium to long term, we stay cautious given the elevated uncertainties on the shape of public finances in the next 12-18 months.

N 10Y Gilts. The Bank of England eased its monetary stance with rate cuts and asset purchases worth £200bn (c. 10% of GDP). A temporary extension to the Ways and Means facility was announced, which allows the BoE to directly fund the government. We expect the 2y-10y curve to steepen slightly, to 35bps in 12 months from 23ps now. The performance of the 10Y Gilt is expected to be in the range of -2% but given BoE's elevated room for maneuvering, we stand N.

Towards a steepening of the German curve



Source: Macrobond, Lyxor AM

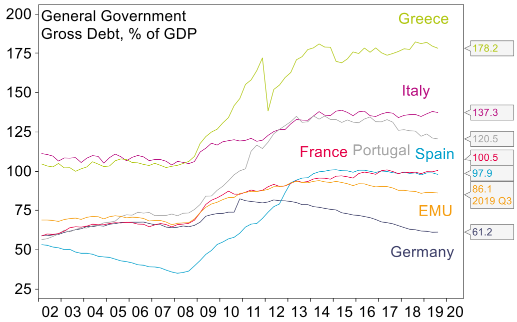
ECB to purchase €100bn worth of assets/ month at least until year-end

	Outstanding APP purchases as of end-March € bn	%	Expanded monthly purchases incl. PEPP* € bn	Split based on recent purchases** %	Expanded monthly purchases incl. PEPP (alt. split)** € bn
PSPP	2 160	81.0%	91.8	76%	85.9
CBPP3	274	10.3%	11.7	8%	9.4
CSPP	202	7.6%	8.6	12%	13.7
ABSPP	31	1.2%	1.3	4%	4.4
Total	2 666	**100%**	**113.3**	**100%**	**113.3**

* Assumes future purchases are split across programmes as before
** Based on gross purchases at end-March

APP: Asset Purchase Program; PSPP: Public Sector; CBPP3: Covered Bond; CSPP: Corporate Sector; ABSPP: Asset Backed Securities; PEPP: Pandemic Emergency Source: ECB, Lyxor AM

How far can public debt jump?



Source: Eurostat, Macrobond, Lyxor AM

Estimated sovereign purchases by the ECB

	Capital key (%)	Adjusted for EMU members (%)	Estimated net monthly sovereign purchases until year-end (€ bn)*
Belgium	3.0	3.6	2.8
Germany	21.4	26.4	**20.4**
Greece	2.0	2.5	1.9
Spain	9.7	11.9	**9.2**
France	16.6	20.4	**15.8**
Italy	13.8	17.0	**13.1**
Netherlands	4.8	5.9	4.5
Portugal	1.9	2.3	1.8
Others	8.1	10.0	7.7
Sovereigns			**77.3**
Supra & agencies			**8.6**
Total EMU	***81.3***	***100.0***	***90.9***

* Includes APP and PEPP. Source: ECB, Lyxor AM

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EUROPEAN EQUITIES: PREFER UK TO EMU

European equities suffered sharp losses since the February peak of the MSCI World. The STOXX Europe 600 is down in excess of -25% in total return, while the MSCI World is down -20% as of March 31. From a country perspective, Spain and Italy suffered the most while the UK's FTSE 100 outperformed the EMU.

The recent outperformance of UK vs. EMU equities is in line with historical evidence in bear markets over the past 20 years. Yet, during market rebounds i.e. 12 months after the trough, the EMU outperformed the UK, dividends included, most of the times.

Given our cautious stance, we have a slight preference for UK equities vs. the EMU. Valuation is more attractive in the UK; the dividend yield is structurally more elevated, and the consensus earnings picture appears less dire than for the EMU. A higher weighting of the energy sector in the UK is also aligned with our medium-term constructive stance on oil. In the EMU, we prefer core markets vs. peripherals due to the higher fiscal room to support economic activity.

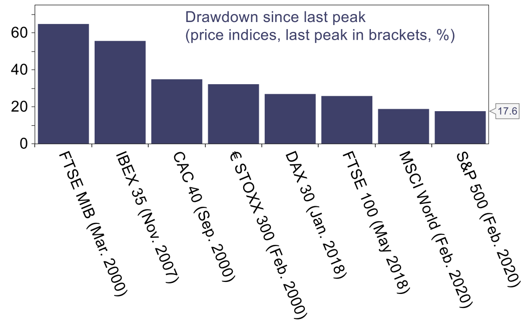
EMU sectors: is it now the time for financials?

Financials has been the most difficult sector to trade in the EMU. It is one of the very few sectors in negative territory over the past decade, in total return. Falling interest rates, tighter regulatory pressure and new entrants in payment systems and digital services contribute to explain this bleak picture. At end-March, the ECB asked banks not to pay dividends until at least October 2020 and also to refrain from share buybacks. Dividend futures on the Euro Stoxx 50 Banks experienced a sharp sell off.

Our view is that despite the uncertain road ahead regarding the resilience of loan books during the current recession, the adjustment in financials' stock prices has been very severe. Going forward, fiscal stimulus is expected to steepen the yield curve and regulatory pressures is likely to ease further, which should contribute to Financials' recovery.

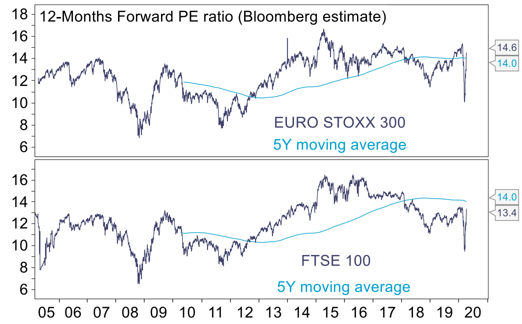
Consumer Discretionary exposed to China. As mobility in China is normalizing ahead of Europe and the U.S., economic activity has started to rebound. The Composite PMI experienced a sharp rebound in March from the record low registered in February. We believe this is likely to be supportive for companies in the consumer discretionary sector exposed to the region. Chinese nationals represented c.35% of the luxury sector sales in 2019 according to Société Générale's estimates. From a valuation standpoint, the EMU consumer discretionary sector is also attractive after the recent derating.

EMU equities underperform in bear markets



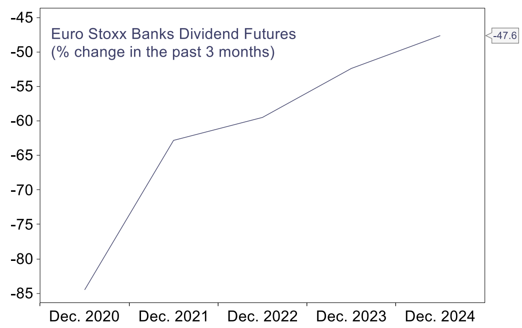
Local currency. Source: Bloomberg, Macrobond, Lyxor AM

A valuation discount in the UK vs. EMU



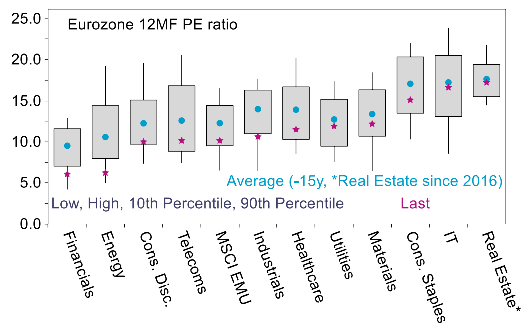
Source: Bloomberg, Macrobond, Lyxor AM

ECB asked banks not to pay dividends until Oct. 20



Source: Bloomberg, Macrobond, Lyxor AM

Consumer Discretionary stocks derated severely



Source: I/B/E/S, Macrobond, Lyxor AM

JAPANESE ECONOMY: OUTLOOK KEEPS ON DARKENING

A stream of economic shocks

Japan is coping with a series of shocks, which will likely translate into a severe recession in 2020. Its economy has been weakened by the global trade war, a major typhoon, before enduring a deeper toll than expected from the consumption tax hike. The delay of the Olympic Games, reluctantly decided by the end of March, will further erode economic prospects and sentiment. Investments on infrastructures have already been spent, but the anticipated spike in consumption will likely have to wait for another year. With most part of the world entering a temporary glaciation, the plunge in global trade may yet again sap Japan's economy.

Now seriously threatened by Covid-19

While close to the initial virus epicenter, the island had managed to dodge serious home expansion, avoiding costly lockdowns. Unfortunately, the acceleration of cases by mid-March could jeopardize this one area of resilience. With thousands of infection cases, Japan is now past the point of the virus exponential inflection. A high-quality healthcare system and available protection equipment would help the country win out this battle, but lockdowns are set to intensify.

Stimulus keeps on inflating

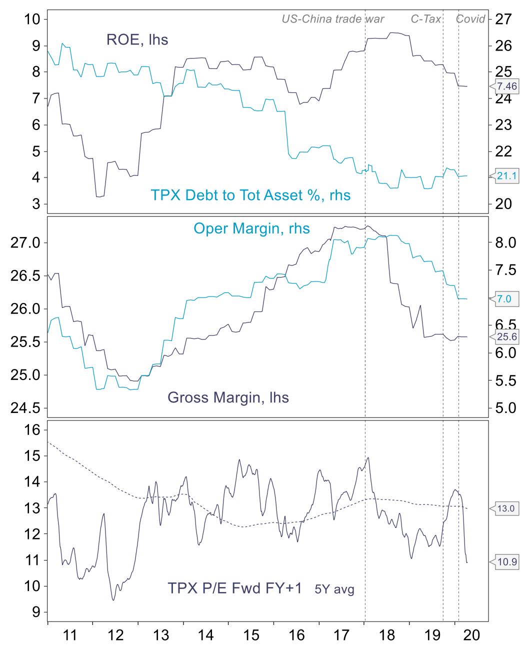
In response, a state of emergency has been declared and another stimulus package was announced. It is rather aiming at supporting consumption and differing tax and social security payments than increasing public spending. While the size surprised on the upside (JPY108bn, over 20% of GDP), it is not clear yet how much will be saved by households and companies instead of spending it. The economy should also get support from the drop in oil prices.

JAPANESE EQUITIES: RELATIVELY UNAPPEALING

Japanese stocks' revenues are about half exposed to domestic markets. The loss of 2020 revenues from the delayed Olympic games seems factored in, but intensifying shutdowns as the virus progresses would lead to further downward revisions, especially for the more vulnerable smaller caps. Japan stocks' elevated exposure to abroad activity is not bringing much comfort either given the likely plunge in global trade.

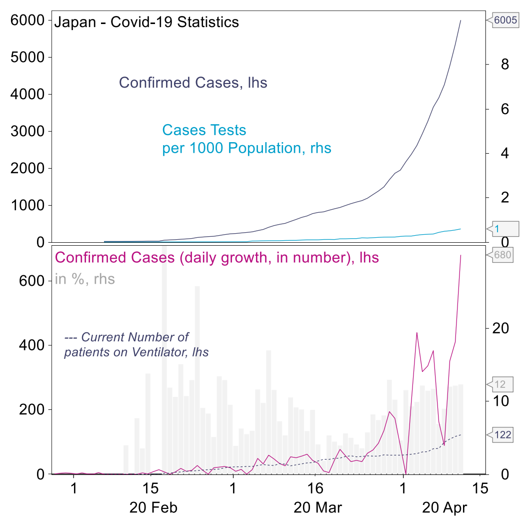
Our FX tactical indicators do not point to substantial JPY appreciation vs. USD, yet risk remains tilted to the upside for the JPY. After vanishing in H2 2019, the equity-FX correlation normalized, back in negative territories.

Margins under further pressure



Source: Macrobond, Bloomberg, Lyxor AM

Japan under Covid threat



Source: Macrobond, Lyxor AM

Top-line growth is expected to correct sharply, reflecting both domestic and external weakening demand. Pressures on operating margins are set to prolong and buybacks could decline. We see Japanese stocks lagging other markets in the recovery. Yet, we suspect downside risks are limited, floored by valuation levels hovering near their lows and by authorities' interventions.

The tactical appeal seems limited after the recent short-squeeze, rebuilding positioning and with limited room for pending foreign purchase. Technical are now neutral. All in all, we are U/W on Japanese equities relative to other regions.

EM ECONOMIES: UNEVEN BUT MULTIPLE PRESSURES

The crisis is not over for EM countries, which are facing uneven but tremendous pressures.

First, as the pandemic is spreading worldwide, the growth in cases might only be at its beginning in MEA and Latam, while it seems past the peak in most of Asia ex-India. Health infrastructures and the ability to impose lockdowns also widely differ across countries. Overall, we suspect the virus expansion might take longer to contain than in China and DM economies. This could crucially strain their social stability and economic balances.

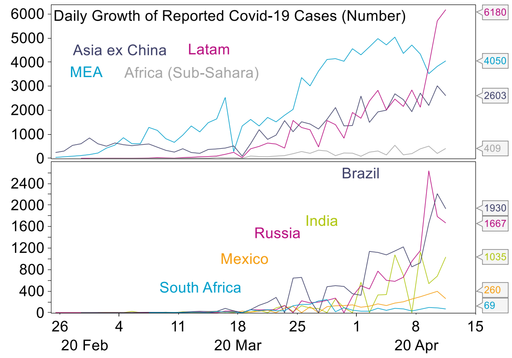
Second, EM economies are leveraged to business cycles. Latam and CEE tend to be sensitive to activity in the U.S. and EMU, respectively. In contrast, Asia is both sensitive to Chinese activity - which is recovering - and to global trade – which is in free fall.

Third, authorities' ability to stimulate their economies would be constrained in a majority of EM countries. Those most vulnerable to capital outflows and/or carrying heavy external debts could even be constrained in cutting rates or else could face serious FX depreciation. Argentina, South Africa, Turkey, and Indonesia look particularly vulnerable, but we expect that the credit quality in most countries will also deteriorate with rising fiscal deficits.

Fourth, exposure to oil prices is an obvious differentiating factor. Producers in Latam and MEA are facing a steep drop in oil revenues, in part from a price war on the supply side (that the largest producers are trying to end) and above all from the collapse in demand. Meanwhile, oil importers (Asia ex-Malaysia and CEE ex-Russia) are likely to get a boost.

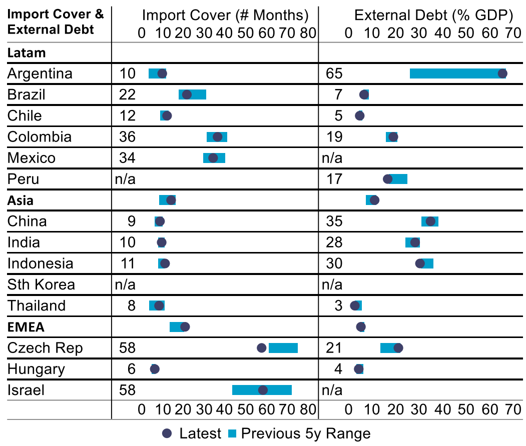
Last but not least, EM economies structurally face deglobalization, a trend that gained steam before the virus outbreak but that is just likely to accelerate. Globalization and intertwined supply chains would remain in the coming decade, but multilateral trade agreements appear to have reached their limits (in terms of complexity and their lack of flexibility). They might increasingly get replaced by bilateral or partial trade arrangements. We expect more regional and intra-regional trade and supply chains. As a result, the growth in global trade could stand in a [0-5%] range going forward vs. a [10-15%] range observed in the last two decades. This would be a major challenge for EM countries, requiring heavy and painful shifts in their economic models.

EM countries still behind the virus curve



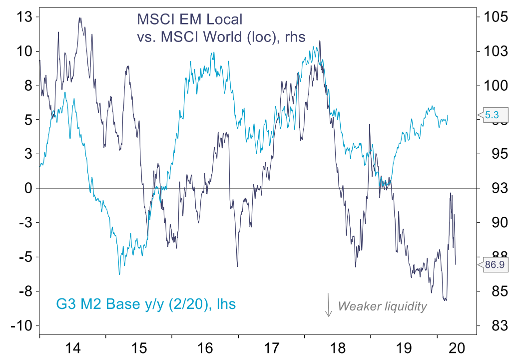
Source: Macrobond, Lyxor AM

High but uneven pressures to strain EM countries



Source: Macrobond, Lyxor AM

DM stimulus to eventually support EM markets



Source: Bloomberg, Macrobond, Lyxor AM

On the positive side, EM countries will ultimately be supported by DM massive injections of liquidity and fiscal spending later this year.

While dispersion is rising across countries, overall, we expect EM economies (ex China) to lag in the recovery once the outbreak is dealt with.

CHINESE ECONOMY: POST-OUTBREAK RECOVERY UNDER SCRUTINY

As the first country to face the virus outbreak and enforce lockdowns, China will now be under scrutiny as it reopens factories and gets back to work. Activity appears to have shrunk about -35% in provinces under full lockdown (and about -20% in areas under partial restrictions). Analysts will now wait for Chinese guidance regarding the toll on activity over the deconfinement phase.

Mobility restrictions are likely to prolong for weeks if not for months, as local or imported re-acceleration of virus cases keeps authorities cautious. Additionally, with lasting people's fear and plunging employment (the nationwide surveyed unemployment rate already surged nearly 2ppt as of end of February to 6.2%), we suspect the rebound in consumption will disappoint. A spike in durable goods and higher-range/luxury products sales is likely, but the most seasonal products and consumption services would see a more gradual recovery. Households savings would also remain strong.

Various trackers of business activity suggest factories are now running at about 80/90% of their cruise rate. However, they will be constrained by the temporary collapse of external demand as DM countries are not fully done with virus containment, and then by their U-shaped recovery.

In the longer run, China will also likely continue to battle the issues that existed before the outbreak: a raging trade and tech world competition and domestic excess financial leverage.

On the bright side, the Chinese economy is about to witness the effects from its early stimulus. These will likely further intensify, especially in infrastructures (utilities, housing and regional integration, as well as in tech and healthcare) to support employment. Risks from capital outflows deteriorated (with USDCNY once again above 7), but not sufficiently to be a major constraint for stimulus.

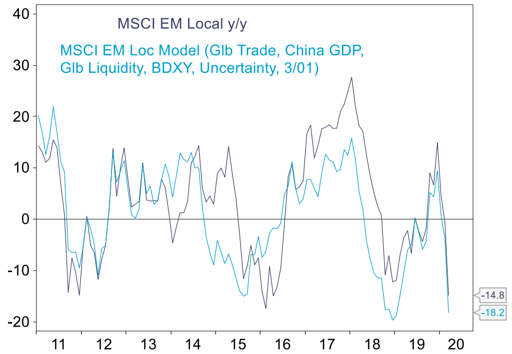
While Chinese growth is likely to see a major cut in 2020 it is likely to outperform the rest of EM countries.

EM EQUITIES: LAGGING IN THE WORLD RECOVERY

U/W EM equities (ex China) likely to lag, behind the virus curve

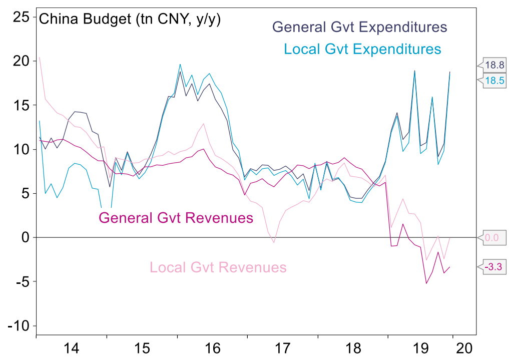
The spread of the virus, largely at its beginning in EM countries (excluding China), is likely to prevent any meaningful recovery in EM equities. While China and DM countries are about to contain the outbreak, the discount in EM equities doesn't compensate

EM Equities not in Buy zone yet



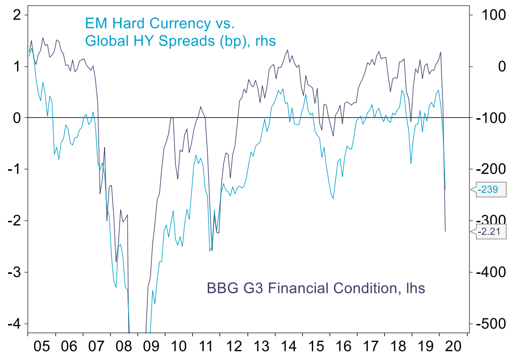
Source: Bloomberg, Macrobond, Lyxor AM

Chinese stimulus coming to the rescue



Source: Bloomberg, Macrobond, Lyxor AM

EM Debt likely to remain under pressure



Source: Macrobond, Lyxor AM

investors for the elevated virus risks and slow prospects of recovery.

Stimulus in DM and Chinese economies will eventually boost markets, but with delays in our view. Reassuring measures of bank liquidity, fading solvability stress, a fully satisfied U.S. dollar demand from EM countries and stabilization in EM flows will be key indicators in addition to virus statistics.

EM equities' combined sensitivity to their three main pillars (global trade, Chinese growth, and

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global liquidity) points to further weakness, leading us to be U/W on the asset class.

We are Neutral on Chinese Equities

The advanced stage of China in the virus expansion would help Chinese stocks outperform most EM equities. While the full extent of the virus shock will soon appear in economic releases, these would also be the first to witness the recovery. The intensifying stimulus would also be a significant catalyst for Chinese equities.

Yet, the upside will be capped in our view considering the gradual pace of the recovery and with limitations from external demand. **We are Neutral on the segment.**

EM DEBT UNDER PRESSURE FOR LONGER

The macro environment described earlier largely applies to the EM debt asset class, in hard currency ('HC'). Investors' concerns about EM weak links will likely persist until a clear world recovery is unfolding. The multiple challenges hitting EM countries will severely strain the credit stability of some countries, with risks of spillover. Local policy responses will be constrained in size or constrained by risk of capital outflows. The asset class would rather depend on external DM stimulus. In the meantime, we expect corporate default rates to rise substantially, potentially threatening sovereign paper. We see some selling pressure in HC bonds persisting for longer.

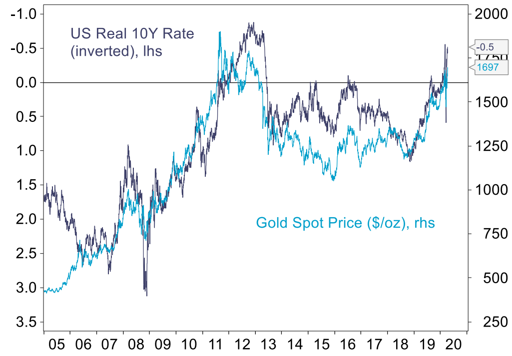
Heavy dislocations in the segment opens bottom-up opportunities, witnessed by record spread divergence from averages in some countries. The lack of EM bond issuance will also be supportive. Moreover, rising global liquidity will eventually trigger a catch up. **For now, though, we are U/W on EM HC debt.**

GOLD: FUNDAMENTAL SUPPORT

Gold's tactical patterns are getting stretched. The asset class does not seem particularly cheap relative to its traditional benchmarks, sentiment appears now outright bullish and gold is still largely owned by investors and central banks. Gold also lost his innocence when it briefly but severely sold off in March, due to margin calls and to the rebound in U.S. real yields. It eroded some of gold risk/reward profile, requiring downside protections going forward. Finally, dollar resilience will probably persist, keeping downside risks.

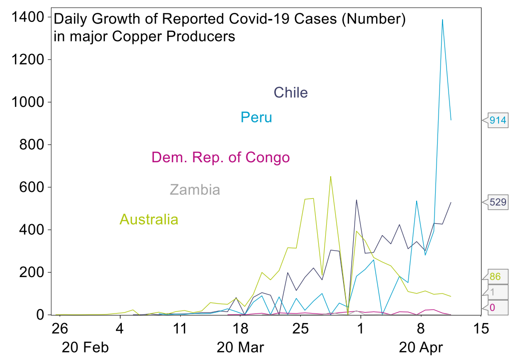
However, fundamentals are now clearly aligned in support of gold. Global tail-risks, deflation fears, massive monetary and fiscal accommodation are powerful structural drivers. These would overcome

Strong fundamental support for Gold



Source: Bloomberg, Macrobond, Lyxor AM

Copper large suppliers might me constrained



Source: Macrobond, Lyxor AM

tactical weaknesses. **We remain O/W on gold for hedging purposes. Later this year, when, as we expect, a world recovery unfolds, the appeal of gold is likely to lose support.**

COPPER: PACED BY THE CHINESE DEMAND RECOVERY

The selling pressure is probably not fully over yet on copper. The negative shock on demand might not be fully shown yet in Chinese end-demand, and especially in the rest of the world. Gradual exit strategies, USD resilience could also constrain the copper recovery, all the more since it remained resilient relative to other assets without signs of extreme selling pressures.

Yet, it should largely participate in the coming world recovery, especially from China, which accounts for half of the world demand. The virus expansion in some of the major producers (Chili and Peru in particular) could also strain copper supply. Finally, the long-term copper drivers remain in place in our view.

We are tactically Neutral on copper, but strategically O/W.

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ALTERNATIVE STRATEGIES

KEY VIEWS

Alternative strategies were fairly resilient during the first weeks of the turmoil in February, but cracks appeared in March. Amid rising liquidity tensions, wide moves in credit markets hurt L/S Credit. An unusual widening of deal spreads caused losses on Merger Arbitrage, while high beta strategies such as Directional L/S and Special Situations posted losses. On the positive side, CTAs were rather immune to market movements.

Our views on alternative strategies were defensive prior to the selloff. We were constructive on Event-Driven and Relative Value (O/W), Neutral (N) on CTAs and Global Macro and defensive on L/S Equity (U/W). Going forward, we made to some adjustments to reduce risk marginally while looking for opportunities in selective areas. Overall, we maintain our preference for Event-Driven (O/W) vs. L/S Equity (U/W).

- We cut exposure to strategies such as Global Macro in EM and L/S Credit (both downgraded to Neutral). The former is vulnerable to a spreading of Covid-19 in EM. In a worst-case scenario, a sovereign debt crisis in EM would hurt long biased EM-Macro strategies, though some strategies might be able to perform in this environment. Meanwhile, L/S Credit strategies are exposed to the contraction in economic activity which will fuel corporate defaults on both sides of the Atlantic. We prefer selectivity in both strategies.
- We upgrade Fixed Income Arbitrage to O/W from Neutral. The strategy is less sensitive to economic downturns than L/S Credit and might benefit from arbitrage opportunities in fixed income.

We maintain the O/W stance on Merger Arbitrage. Wide deal spreads, at time of writing, are an opportunity for experienced and discretionary strategies. They can play defense by shortening the duration of their portfolio while taking advantage of price dislocations on deals with a high probability of completion. The strategy is structurally defensive: its returns have historically been among the least volatile (3.7% annualized for the HFRI Merger vs. 5.2% for the HFRI Composite over the past ten years); ii) it exhibits a low equity market beta (20% vs. 40% for the HFRI Composite) and lower maximum drawdown (19.4%). Going forward, we expect risk adjusted returns to remain attractive for investors, even in difficult market conditions.

Finally, our stance on L/S Equity (U/W), Global Macro (N) and CTA (N) remains unchanged. It is important to note that CTAs have met expectations with regards to their risk mitigation features while Market Neutral L/S faced more difficulties.

KEY VIEWS

L/S Equity (Underweight)

U/W L/S Market Neutral

N Directional L/S

Event Driven (Overweight)

O/W Merger Arbitrage

O/W Special Situations

L/S Credit/ Fixed Income Arbitrage (Overweight)

N L/S Credit (downgraded)

O/W Multi-Credit FI Arbitrage (upgraded)

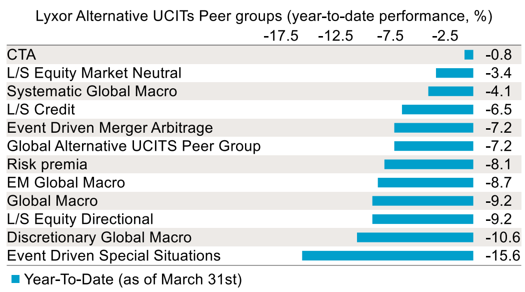
Global Macro (Neutral)

N EM Macro (downgraded)

N Systematic and Discretionary Macro

CTAs (Neutral)

Performance of liquid hedge fund strategies



See methodology of Lyxor Peer Groups in the appendix.
Source: Bloomberg, Lyxor AM

Investment views on hedge-fund strategies

	U/W	N	O/W
Hedge Funds	L/S Equity Market Neutral	L/S Equity Directional L/S Credit (-) Global Macro CTAs	Special Situations Merger Arbitrage FI Multi-Strategy (+)

(-) is a downgrade; (+) is an upgrade
Source: Lyxor AM

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CTA & MACRO (UNCHANGED AT N)

CTAs have navigated the market selloff remarkably well (-0.2% in March), thanks to long bond positions and defensive trades in commodity and FX markets. Long precious vs. base metals and short energy trades were helpful as the OPEC+ disagreed on oil production cuts. Long USD vs. EUR was rewarding as USD funding shortages during the market stress fueled the currency.

CTAs protected against downside risks thanks to a negligible or in some cases short stance on equities. The strategy cut long equity positions in February and then delivered on its risk mitigation features. But we refrain from upgrading to O/W. The main source of risk would be a rise in bond yields if the risk adverse mood reverses. We stand Neutral on the strategy, structurally, and reaffirm its attractiveness in portfolios for the long run.

With regards to Global Macro (-7.6% in March), every sub strategy was down but Systematic Macro outperformed (-1.9%). Their long equity positioning was initially harmful, but as risk assets rebounded after the March 23rd trough, they managed to outperform other sub strategies in March. Meanwhile, Discretionary Macro underperformed (-8.5%) on the back of curve flattening trades in the 2-10y segment and short positions on the long end that went wrong. Then, we downgrade EM-Macro strategies (-8.6%) to N as we want to protect portfolios against a potential spread of the Coronavirus in developing countries, which would deteriorate the credit profile of sovereign issuers. We stay Neutral on Discretionary and Systematic strategies. The significant heterogeneity within these categories suggest a bottom up approach, i.e. fund picking, should prevail.

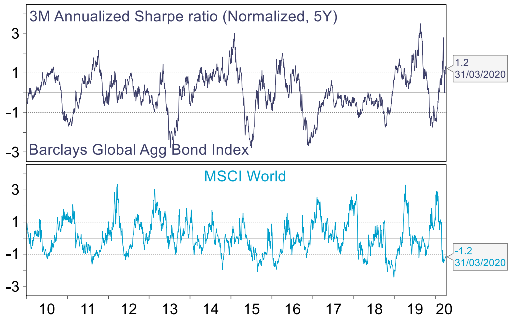
PREFER FI ARBITRAGE TO L/S CREDIT

We upgrade Fixed Income Arbitrage to O/W but downgrade L/S Credit strategies to Neutral.

Historically, such strategies have demonstrated to be highly sensitive to a deterioration in liquidity conditions, causing wide moves in credit spreads and related derivative instruments. Although we are aware of downside risks, we believe liquidity issues are being addressed by central banks, which have provided unprecedented funding to the financial system on both sides of the Atlantic.

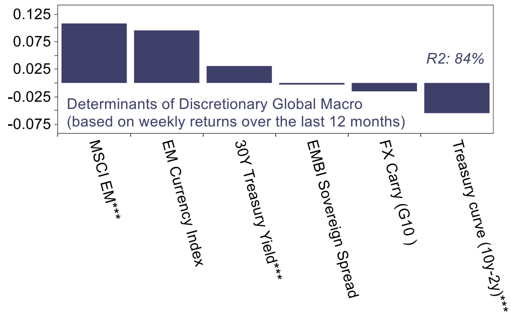
We prefer Fixed Income Arbitrage vs. L/S Credit to the extent that the former is less vulnerable to a contraction of economic activity and a rise in corporate defaults. It may also take advantage of market dislocations as record fiscal packages were announced by sovereigns. Basis trading has been rewarding for Fixed Income Arbitrage strategies for instance. Within L/S Credit, we prefer low beta strategies.

CTAs absorbed recent shocks remarkably well



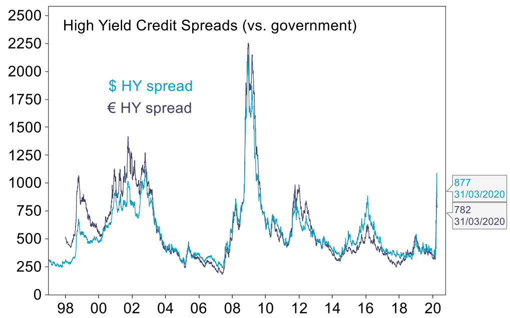
Total return/ local currency. Normalized series (mean 0, standard deviation 1). Source: Macrobond, Lyxor

Discretionary Global Macro underperformed



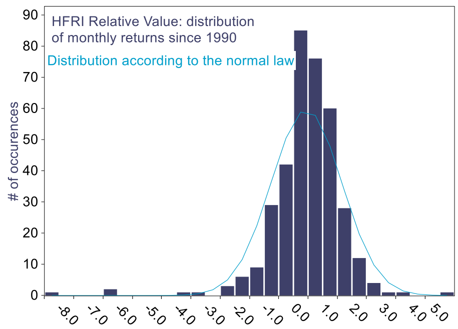
*** Significant at 99% confidence level. Source: Bloomberg, Macrobond, Lyxor AM

L/S Credit faced headwinds but was overall resilient



OAS spreads. Source: BAML, Macrobond, Lyxor AM

The strategy exhibits negative skewness due to its vulnerability to liquidity conditions



Source: Macrobond, Lyxor AM

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EVENT-DRIVEN (UNCHANGED AT O/W)

Event-Driven strategies suffered during the market turmoil. Special Situations were down -11.9%, hampered by its beta and difficulties to generate alpha in such market conditions. More surprisingly, Merger Arbitrage was down -7.2%. It was among the most resilient strategy during the first part of the turmoil. But during the second and third week of March, deal spreads widened indiscriminately, approaching levels last seen during the global financial crisis. A rebound has started to take shape since the trough on March 18 but volatility in returns was far above normal levels in March.

Going forward, we believe that the deal spread widening brings opportunities for discretionary managers who can take advantage of the asymmetry between risk and reward for some deals with a short duration. Some deal spreads have started to tighten significantly, such as Mellanox / NVIDIA on the news that China's antitrust agency has reached an agreement with the acquirer. This had a knock-on effect on deals such as Cypress Semiconductors / Infineon Technologies and Tiffany / LVMH that are awaiting the China's State Administration for Market Regulation approval.

Our stance on Event-Driven stays O/W. This is one of the few areas where we are adopting an opportunistic approach since we see an attractive risk-reward.

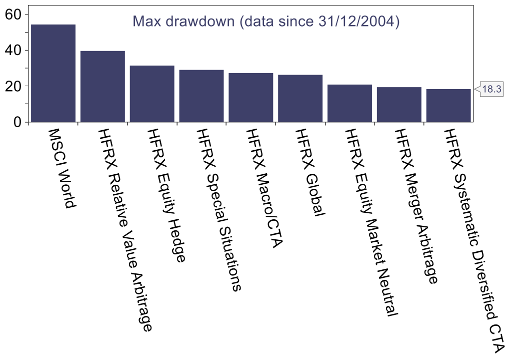
L/S EQUITY (UNCHANGED AT U/W)

L/S Equity strategies weathered the first part of the market sell off quite well. Until March 11, negative beta contribution for most directional managers was offset by strong alpha driven by favorable sector and factor exposure. Short books were also efficient. However, performance deteriorated by mid-March, as market moves were amplified by deleveraging/ risk control measures to reduce underlying volatility exposure. Some European regulators also announced short ban measures to limit selling pressure. Overall, performance in March was down -6.5% for Directional managers and -2.6% for Market Neutral L/S. Managers with no or low beta and tightly monitoring factor exposure did well.

With regards to Market Neutral strategies, they did not provide the expected protection due to long positions on Value and Momentum stocks vs. short positions on Quality and Low Beta ones, according to our estimates.

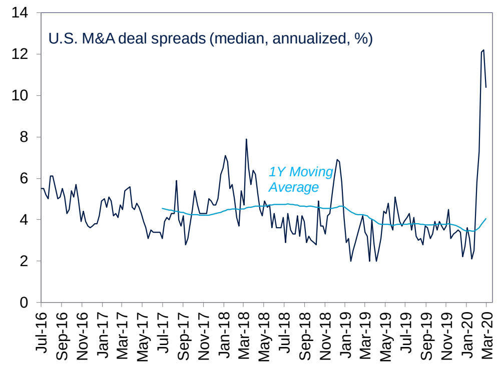
Going forward, we stay **Neutral on Directional strategies and reiterate our preference for the variable-biased ones. We also stay U/W on Market Neutral L/S, especially the quantitative ones, given their structural vulnerability to factor rotations.** Combined with leverage, this is likely to continue to provide disappointing results. From a bottom-up perspective, there has been elevated dispersion and some strategies still managed to do well.

Merger Arbitrage is a defensive strategy



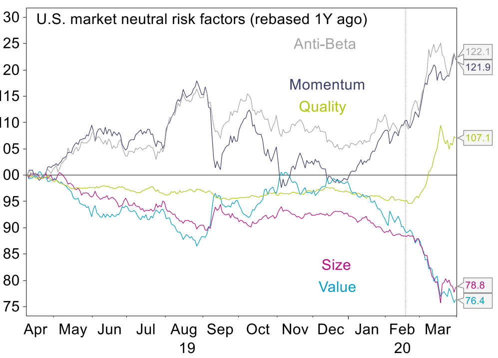
Based on HFRX indices. Source: HFR, Macrobond, Lyxor AM

Wide deal spreads as a source of opportunity



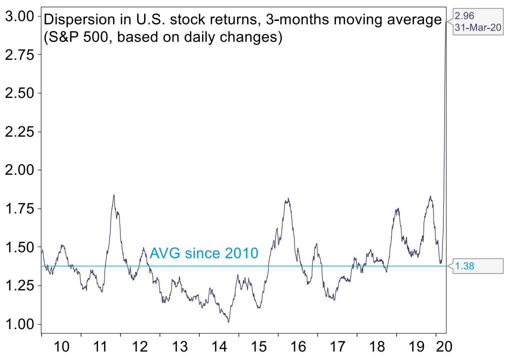
As of March 27th. Deal universe includes spreads in the 0-30% range. Source: UBS, Lyxor AM

Defensive equity risk factors protected portfolios



Source: Dow Jones, Macrobond, Lyxor AM

Stock dispersion: an opportunity for some L/S



Source: Macrobond, Lyxor AM

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METHODOLOGICAL APPENDIX ON LYXOR ALTERNATIVE UCITS PEER GROUPS

The information contained in this report on the performance of hedge funds is based on publicly available information. The universe of underlying funds is relatively stable but varies depending on the criteria of inclusion presented below. It is based on an unbiased selection from our team of hedge fund analysts.

Performance is calculated on a daily basis, using an arithmetic average (equally weighted average).

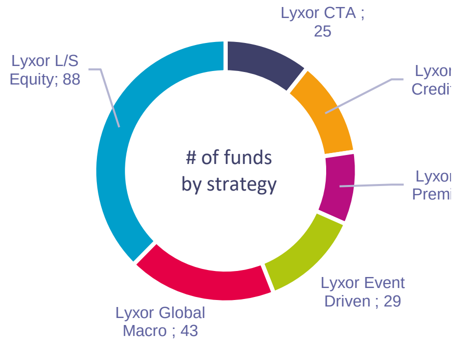
Regarding share classes used in these peer groups, we selected the primary share class as referenced in Bloomberg. Non-USD share classes are hedged in USD based on hedging costs available on Bloomberg.

As of March 2020, there are 234 strategies across the main categories in the industry, representing USD 196 billion of assets under management.

The criteria of inclusion are fourfold:

- We only include UCITS strategies;
- Assessment by Lyxor's Hedge Fund selection team based on funds' materials or manager interaction;
- We only include strategies with assets under management of at least USD 50 million; and
- We only include strategies with at least a one-year track record.

Lyxor Alternative UCITs Peer Groups: number of funds by strategy



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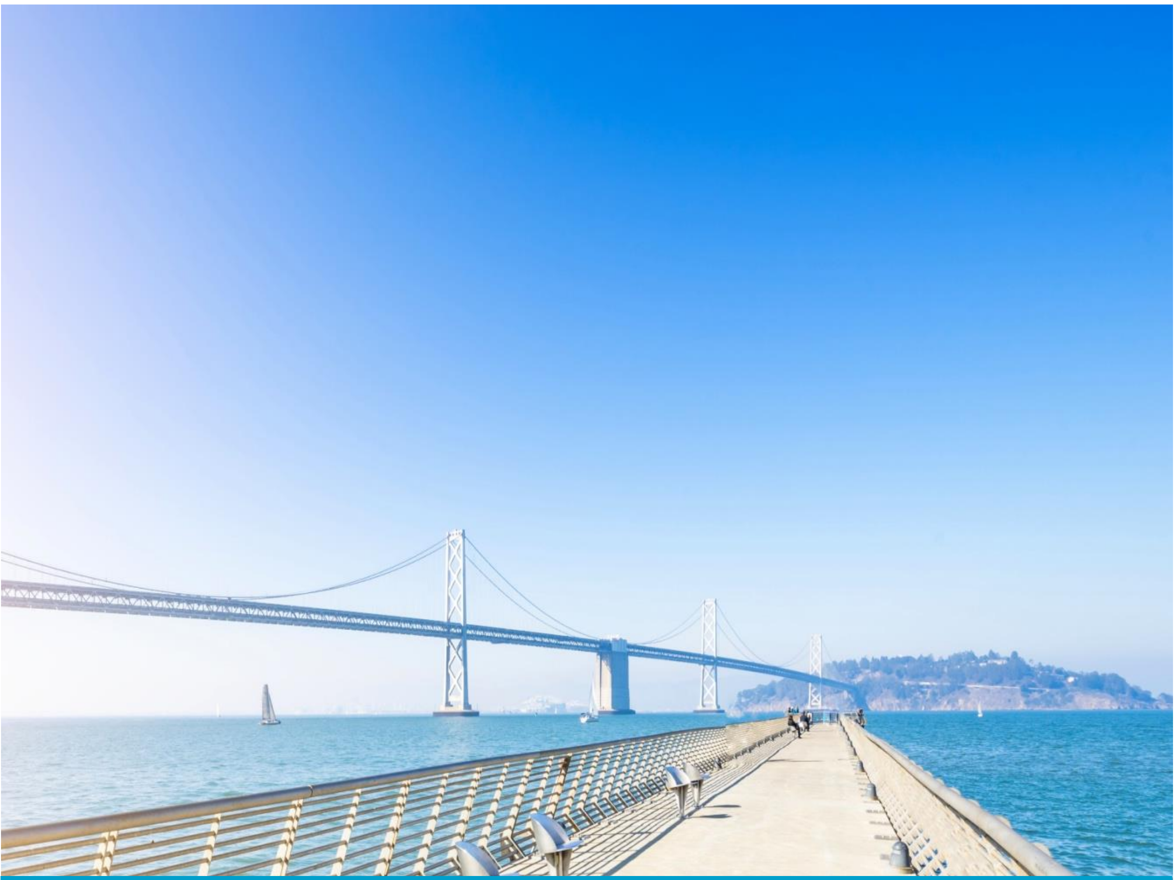

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