

FIXED INCOME
"A FISCAL AND MONETARY
BAIL-OUT"

Peter De Coensel
CIO Fixed Income DPAM

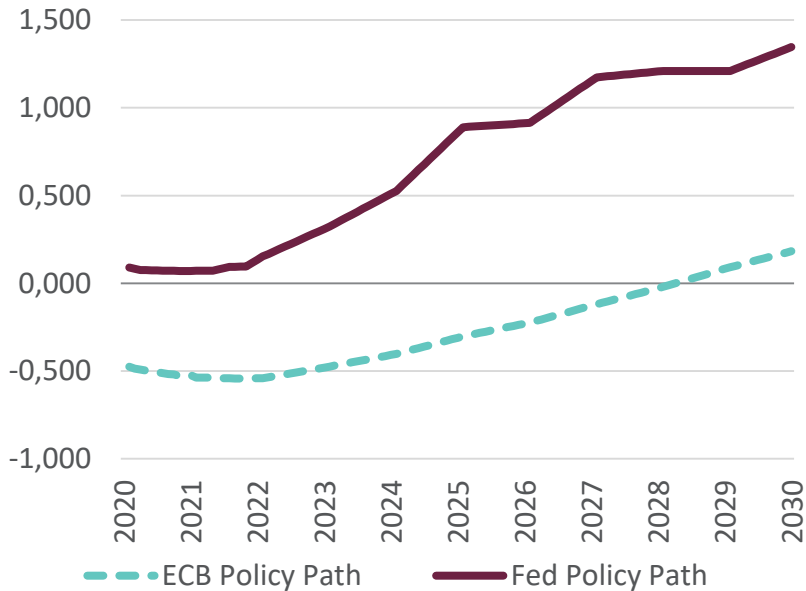
1

RATES AND INFLATION



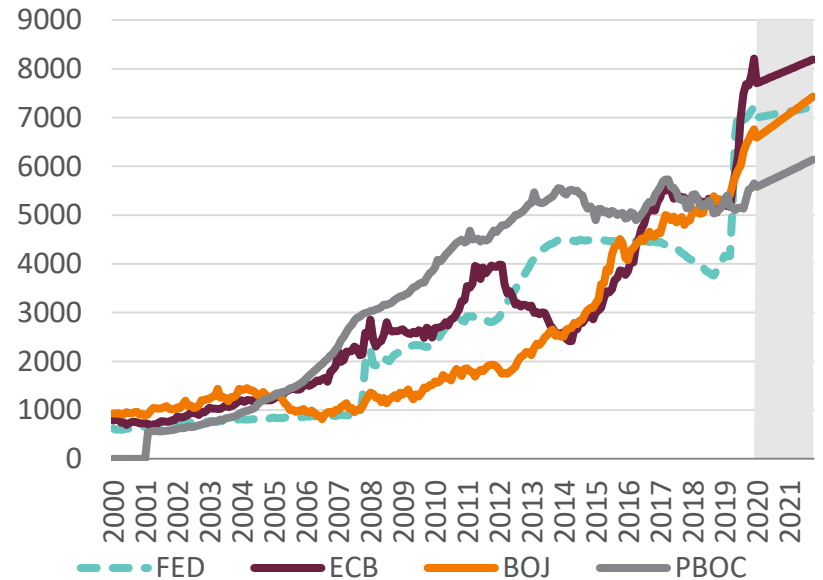
MONETARY BAIL-OUT

ECB and Fed Policy Path



Source: Bloomberg, December 2020, Based on Eonia forward rates and US forward deposit rates

Major Central Bank Balance Sheets

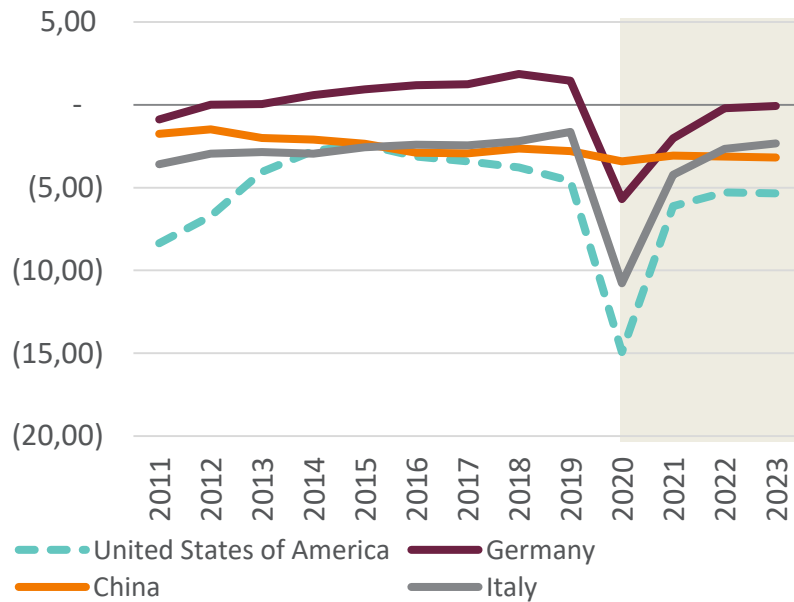


Source: ECB, Federal Reserve, Bank of Japan, December 2020. Grey area is current pace of expansion of the past 4 months extrapolated for 2020-2021, converted in USD (bn)



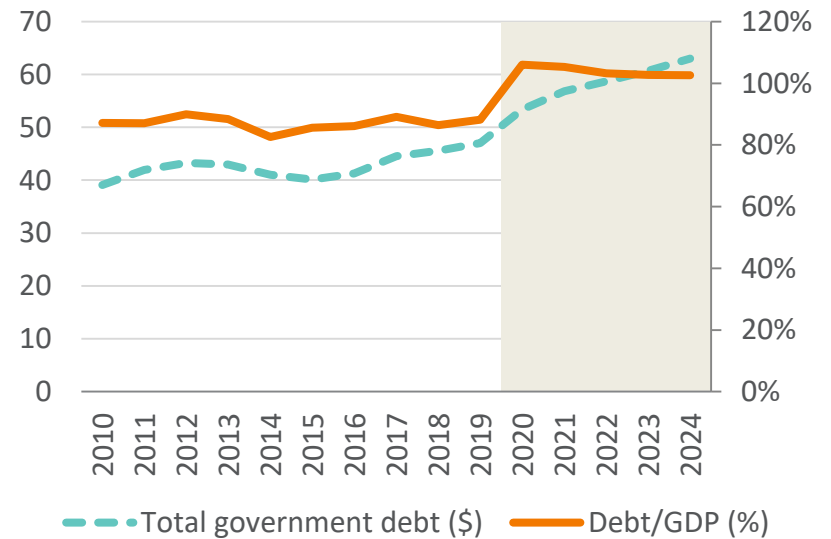
FISCAL BAIL-OUT

Budget Deficits: past and expected



Source: DPAM, Fitch Solutions, shaded is Fitch forecast, December 2020

OECD Government Debt and Expenditure

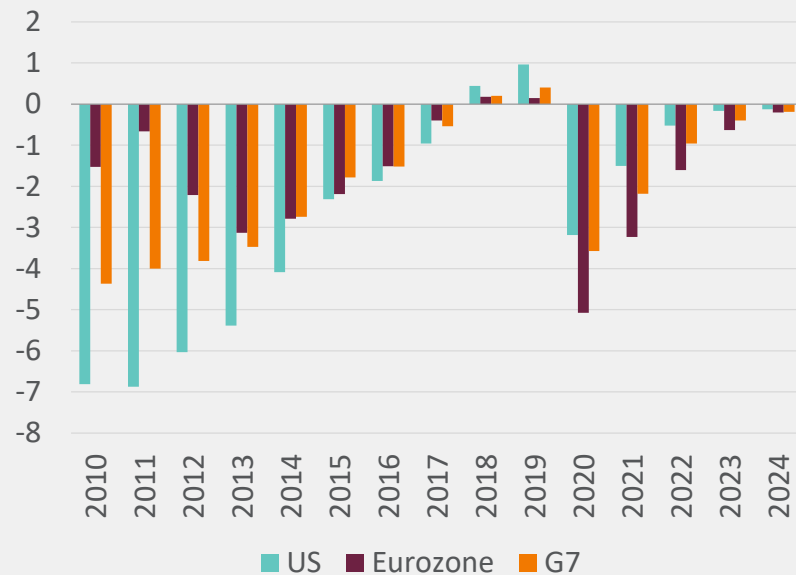


Source: DPAM, Fitch Solutions, shaded is Fitch forecast, USD Trillion, December 2020



COVID CRISIS CREATED SLACK STIMULUS EXPECTED TO CLOSE IT

Output Gap



Source: IMF, Output gap as a percentage of potential GDP, December 2020

- In the second half of 2021, we expect to see a broad-based economic recovery based on the combined forces of fiscal and monetary stimulus.
- Eventually leading to **some price pressures** at a later stage (2022+)



STABILITY OF RATE EXPECTATIONS

10Y Rates 5Y-Forward

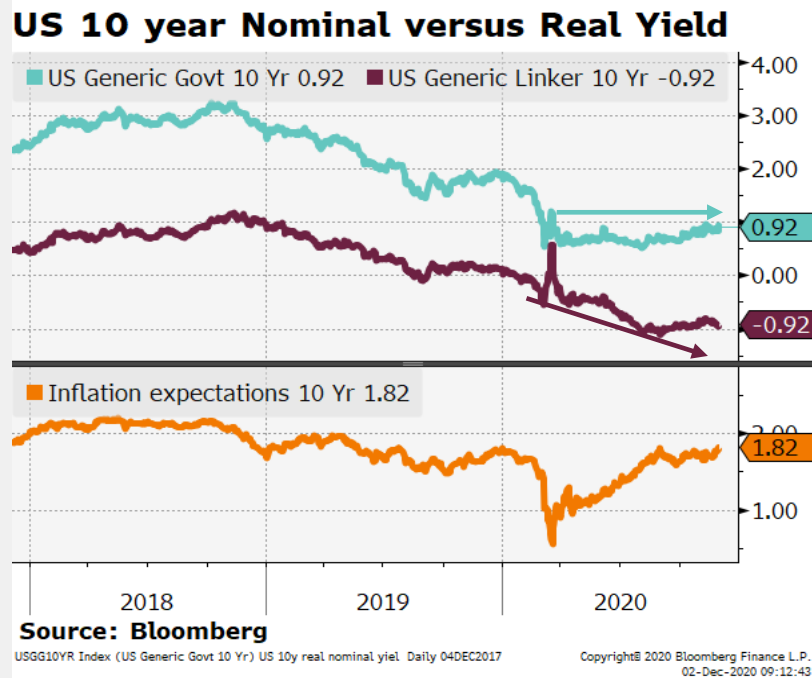


Source: Bloomberg, December 2020

- We expect **stable nominal rates** for years to come
- Based on a very accommodative stance from **central banks**
- Despite strong fiscal and monetary stimulus, despite new vaccines
- *How will any inflation expectations be priced?*



HIGHER INFLATION EXPECTATIONS MAINLY THROUGH LOWER REAL YIELDS



Source: Bloomberg , December 2020

- Market likely to price a recovery in inflation ahead of time mainly through **lower real rates**
- The medium to long-term outlook remains supportive of low real rates:
 - Low productivity growth
 - High debt overhang
- The market has already been pricing lower real yields over the past few months, with a **recovery in inflation expectations**



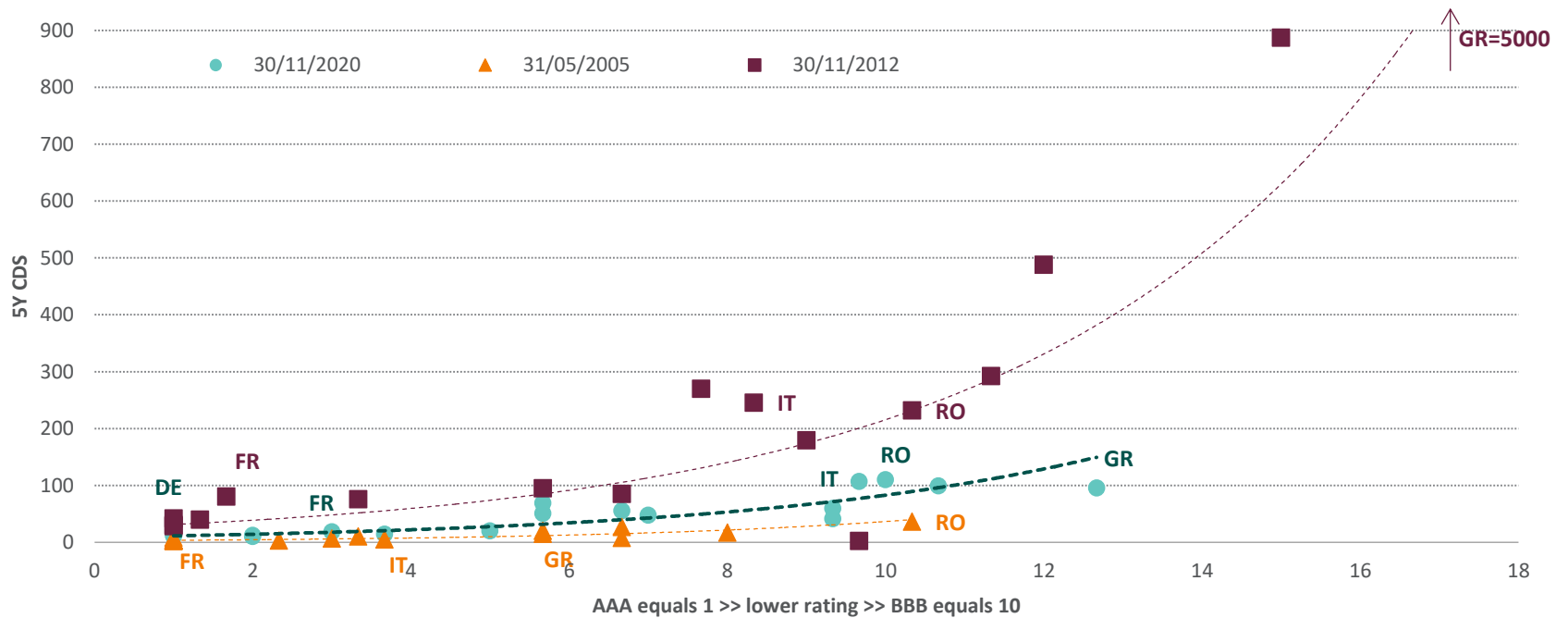
2

EUROPEAN PERIPHERY



- Given continued monetary support by the ECB with limited fiscal risk, the hunt for yield theme will keep on suppressing spreads -

CDS PRICING VERSUS RATINGS



Source: DPAM, JP Morgan, 30.11.2020

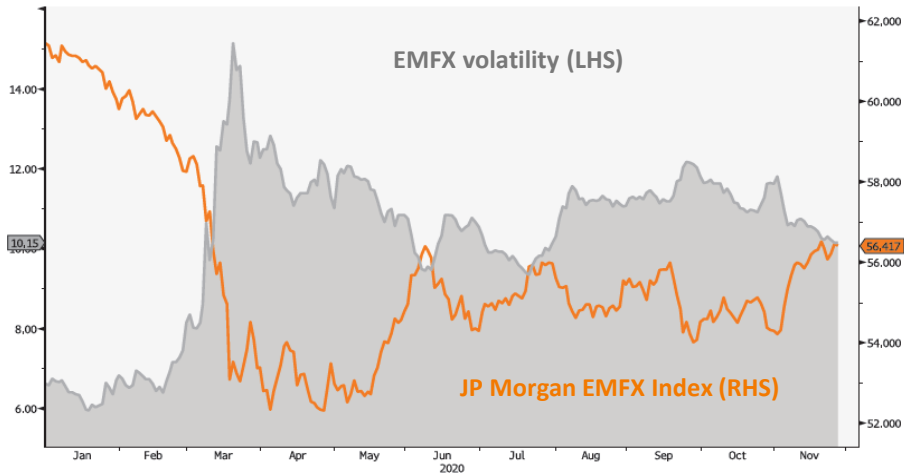
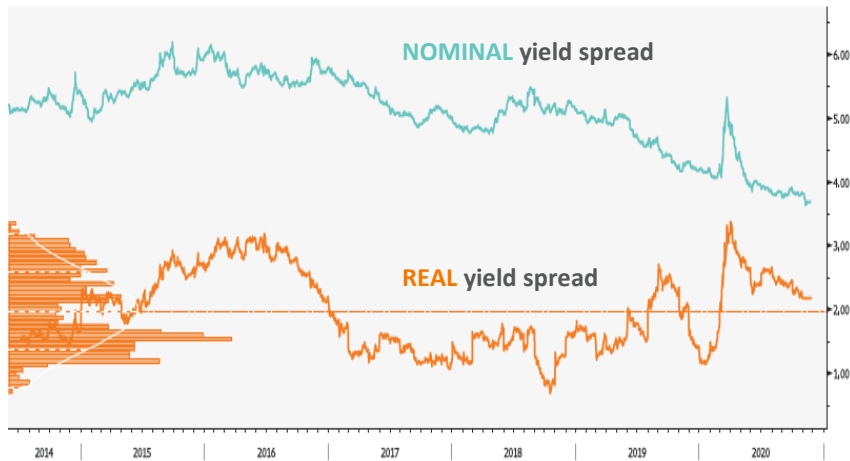


3

EMERGING MARKETS



EMERGING MARKETS DEBT **OUTLOOK**



Central bank policy has been the mayor driver of performance:

- 30+% of EM Central banks have used non-conventional tools
- Nominal yield spreads are at historical low levels, but real yield spreads are still above the average
- EMFX valuations have been deeply affected and EMFX volatility has increased

The bulk of easing is behind us:

- **EMFX has lagged the recent recovery in risk assets and will be the main driver of performance**
- Currencies of countries with positive REAL benchmark rates will lead the bullish momentum: Mexico, South-Africa, Indonesia, Malaysia

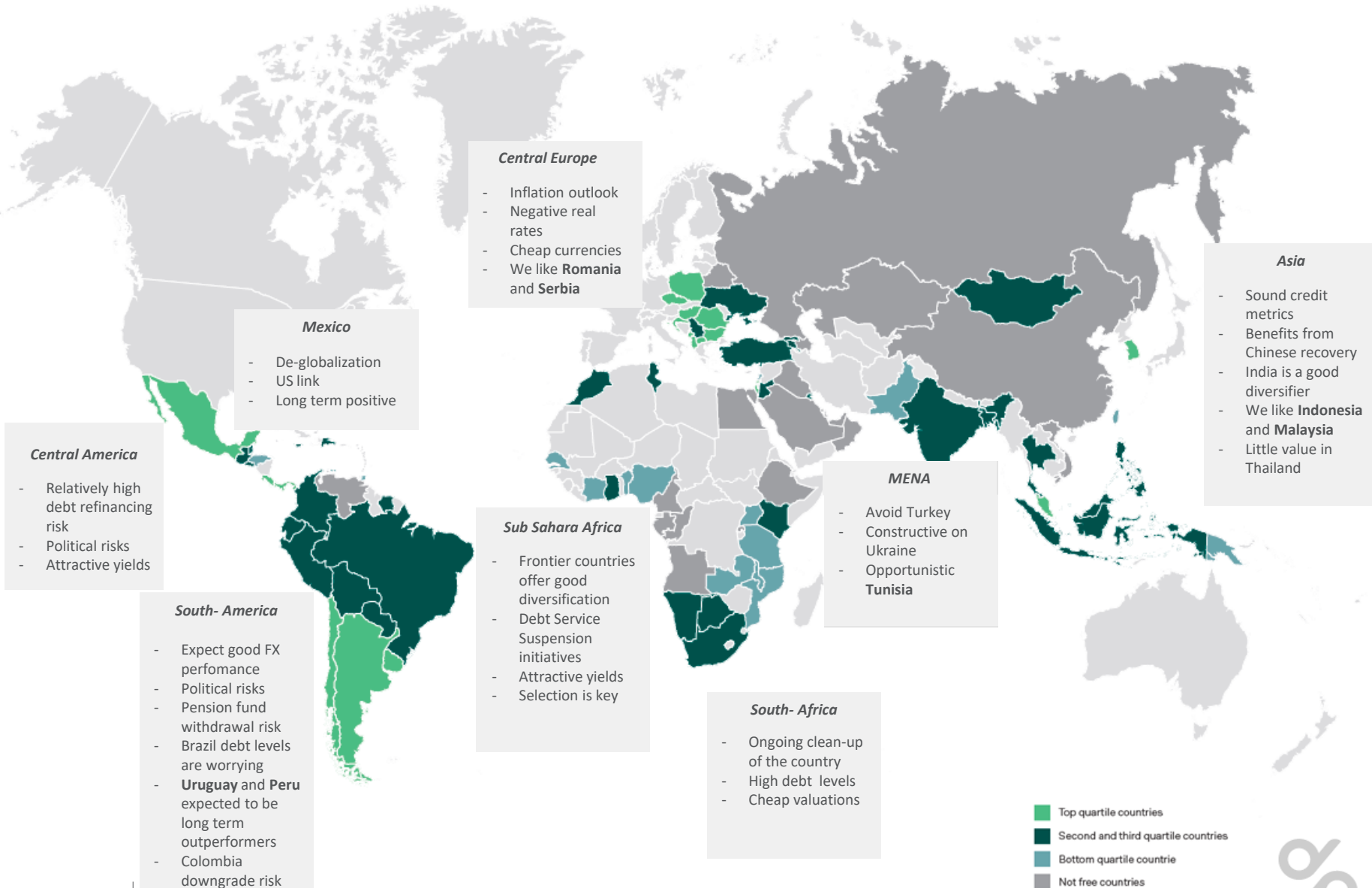
We believe that the combination of a BIDEN-HARRIS win and the good news on vaccine effectiveness are **POSITIVE** catalysts for emerging markets:

- Global synchronized growth
- Lower volatility
- Low DM real yields
- Low positioning versus history
- Be attentive to external vulnerabilities

Are likely to drive **search for carry** amongst investors



EMERGING MARKETS DEBT OUTLOOK



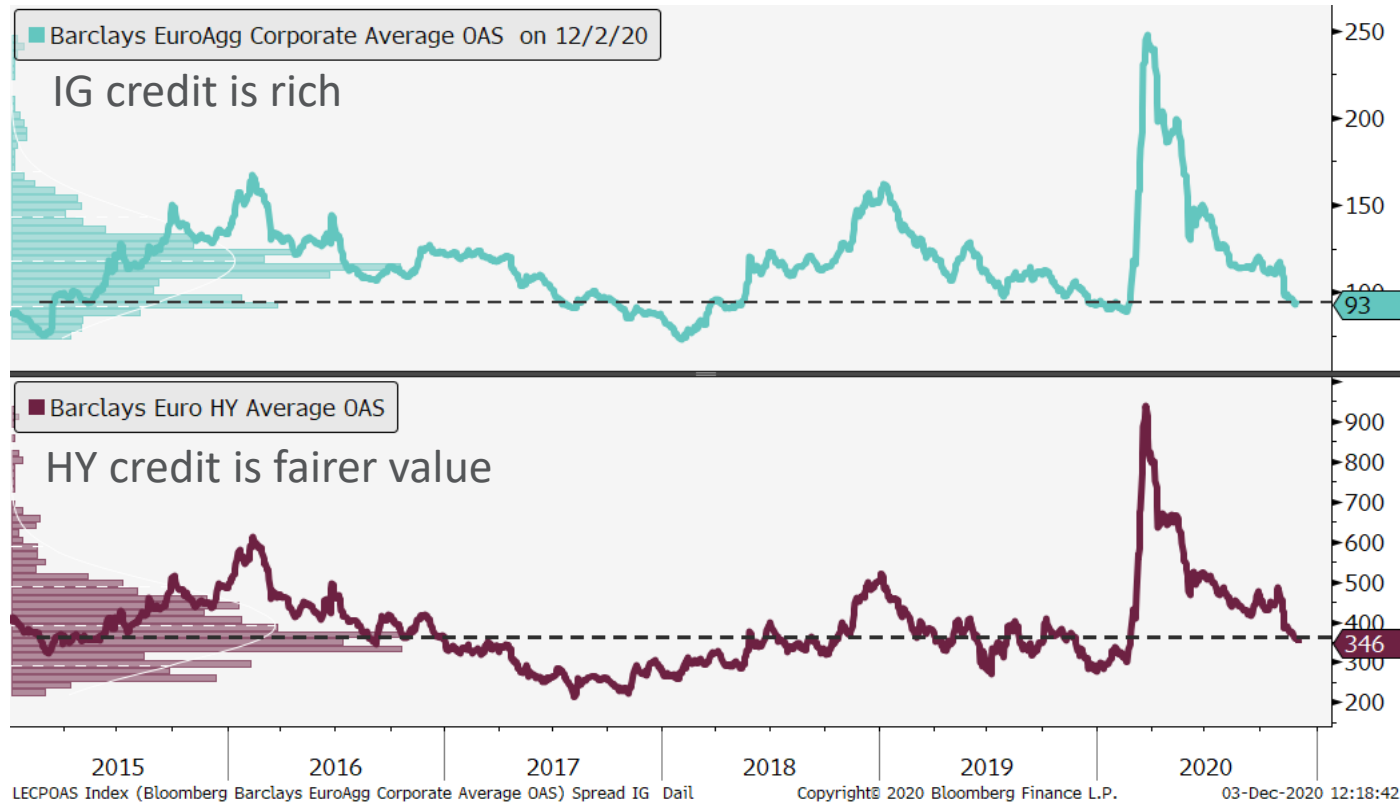
4

CREDIT



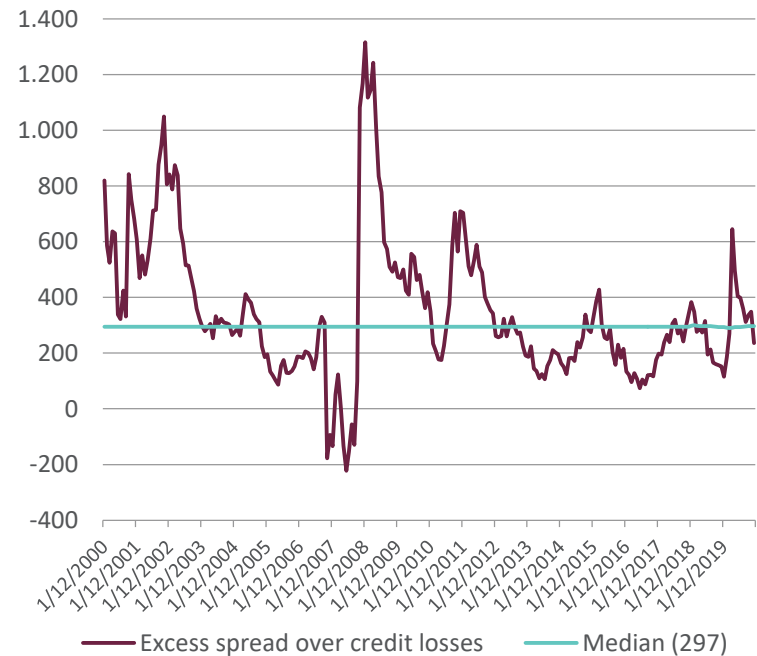
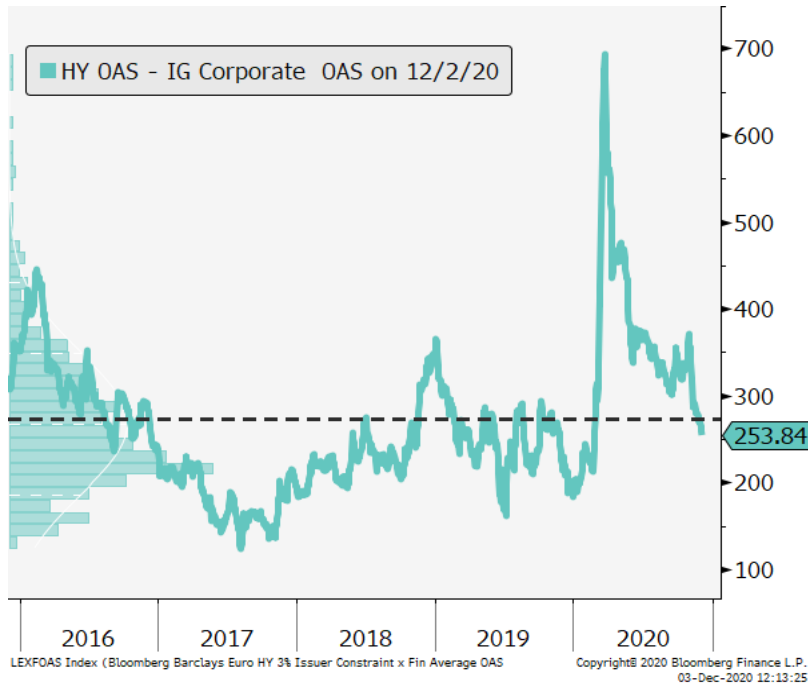
- Given continued monetary support by the ECB with limited fiscal risk, the hunt for yield theme will keep on suppressing spreads -

IG EURO VERSUS HIGH YIELD EURO



EUR HIGH YIELD

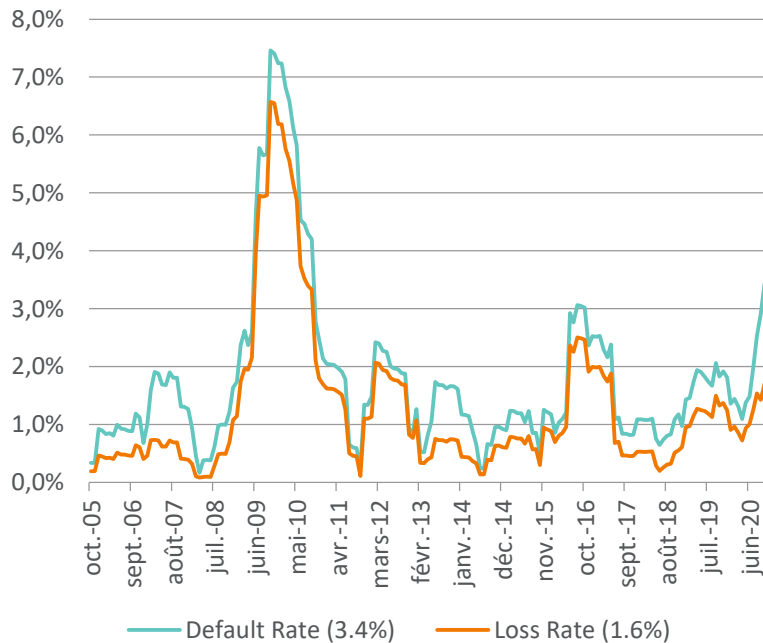
RELATIVE AND ABSOLUTE ATTRACTIVENESS



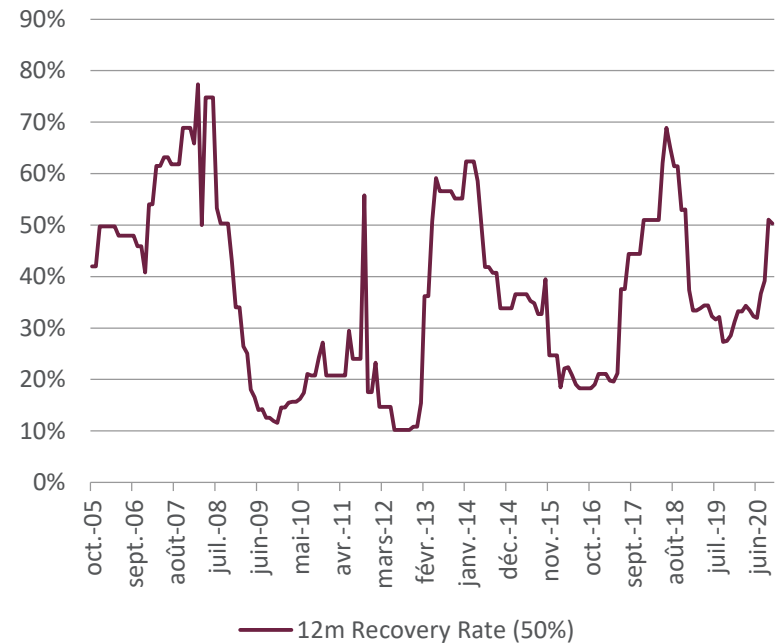
Source: JPMorgan, Bloomberg, DPAM, 30.11.2020



LOW DEFAULTS AND LOSS EXPERIENCE DRIVEN BY UNSEEN POLICY SUPPORT IN 2020



Source: JPMorgan, 30.11.2020



Source: JPMorgan, 30.11.2020



5

CONVERTIBLE BONDS

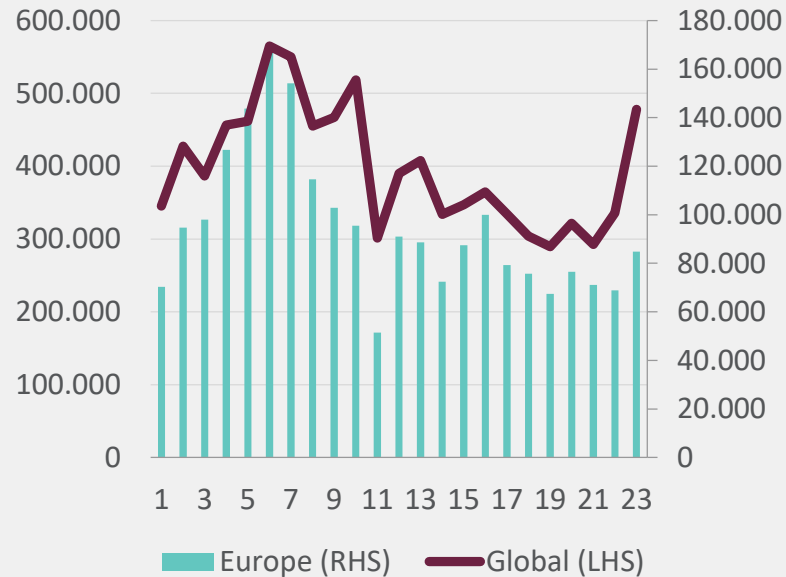


- Convertible Bonds -

A PROMISING YEAR

EQUITY MARKETS AND M&A

Convertible Bond Markets: Global and Europe



Source: ICE BofA Convertible Bond Indices, market size (USD), December 2020

- Convertible bond performance and **new issue market** has been solid & vibrant over 2020. This momentum will remain intact over 2021.
- In Europe we see more than 10% upside in equity markets. We are less constructive on technology & software sectors. Region wise we are highly positive on Asian equity markets
- We continue to expect strong M&A activity
- We expect, on average, a return of **8% next year**















HEAD OFFICE Belgium

LOCAL OFFICES

 degroofpetercam.com	 dpamfunds.com
 +32 2 287 91 11	 Rue Guimard 18, 1040 Brussels Belgium
 Dpam @degroofpetercam.com	 publications.dpamfunds.com
 /degroofpetercam	 /company/dpam

 CH Place de l'Université 8 , 1205 Geneva +41 22 929 72 23	 IT Corso Europa 15, 20122 Milano +39 02 12412 4673
 DE Mainzer Landstrasse 50, 60325 Frankfurt am Main +49 69 27 40 15 295	 LU Rue Eugène Ruppert 12, L - 2453 Luxembourg +352 45 18 581
 ES Paseo de la Castellana 141, Planta 19, 28046 Madrid +34 91 5720 366	 NL De Entree 238 A, 1101 EE Amsterdam +31 2 05 73 54 05
 FR Rue de Lisbonne 44, F-75008 Paris +33 1 73 44 56 66	



DISCLAIMER

The information contained in this mail and attachments (hereafter the 'documents') is provided for pure information purposes only.

Present documents do not constitute investment advice nor do they form part of an offer or solicitation for the purchase of shares, bonds or mutual funds, or an invitation to buy or sell the products or instruments referred to herein.

Applications to invest in any fund referred to in these documents can only validly be made on the basis of the Key Investor Information Document (KIID), the prospectus and the latest available annual and semi-annual reports. These documents can be obtained free of charge at Degroof Petercam Asset Management sa, the financial service provider or on the website www.dpamfunds.com.

All opinions and financial estimates herein reflect a situation at the date of issuance of the documents and are subject to change without notice. Indeed, past performances are not necessarily a guide to future performances and may not be repeated.

Degroof Petercam Asset Management sa ("DPAM") whose registered seat is established Rue Guimard, 18, 1040 Brussels and who is the author of the present document, has made its best efforts in the preparation of this document and is acting in the best interests of its clients, without carrying any obligation to achieve any result or performance whatsoever. The information is based on sources which DPAM believes are reliable. However, DPAM does not guarantee that the information is accurate and complete.

Present documents may not be duplicated, in whole or in part, or distributed to other persons without prior written consent of DPAM. These documents may not be distributed to private investors and their use is exclusively restricted to institutional investors.

For investors in Switzerland, the prospectus, the articles of incorporation of the fund, the latest activity reports and the key information documents are available free of charge at Bank Degroof Petercam (Switzerland) Ltd, 8 Place de l'Université, 1205 Geneva, Representative Agent and Paying Agent. It is reminded that past performances are not necessarily a guide to future performances and may not be repeated. Performance does not include commissions or fees charged on subscription or redemptions' units.

