BNP PARIBAS WEALTH MANAGEMENT

2021 Investment Themes

Half-Year Update

June 2021

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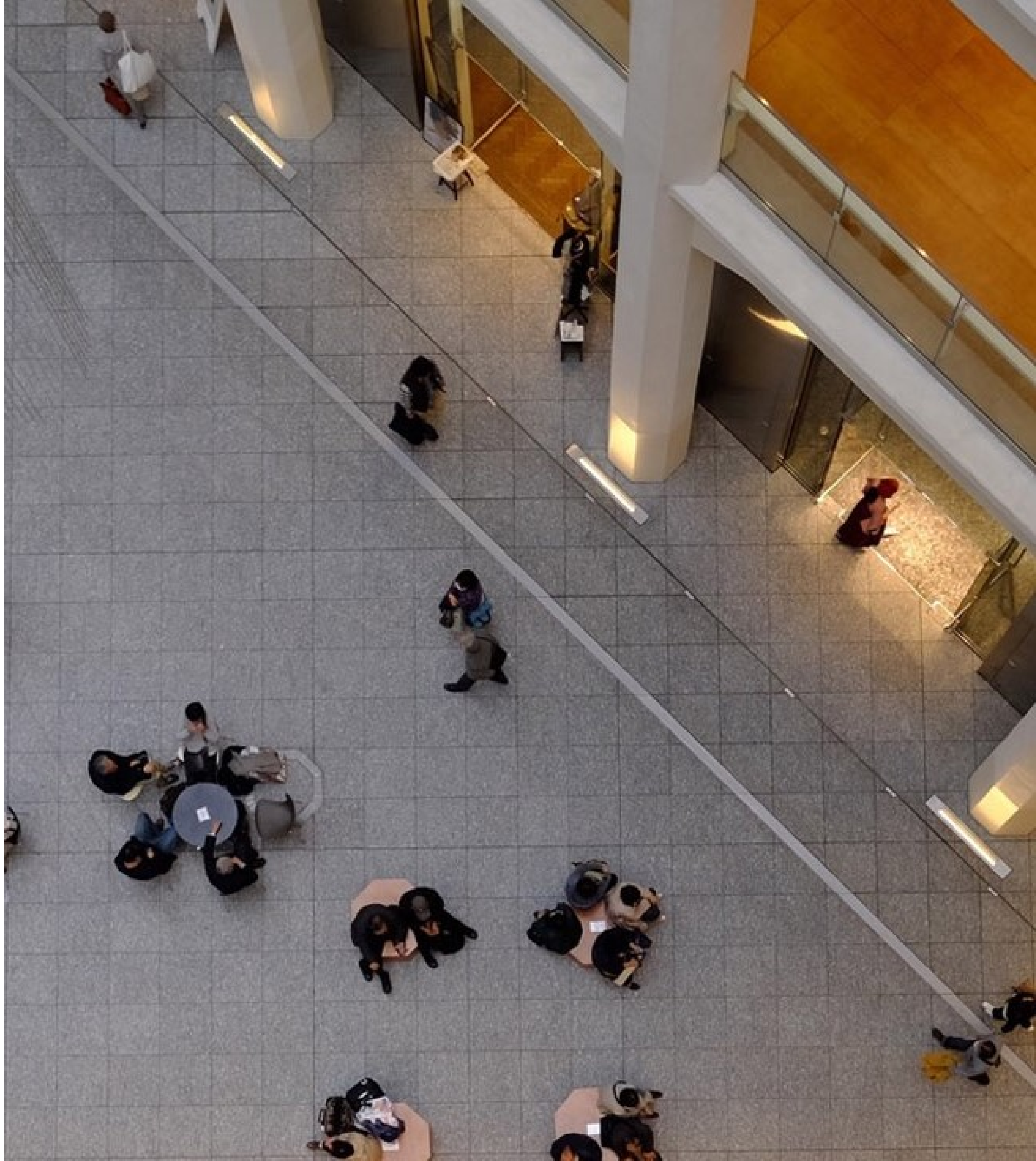
WEALTH MANAGEMENT

The bank
for a changing
world

04

Prepare for the consumption *tsunami*



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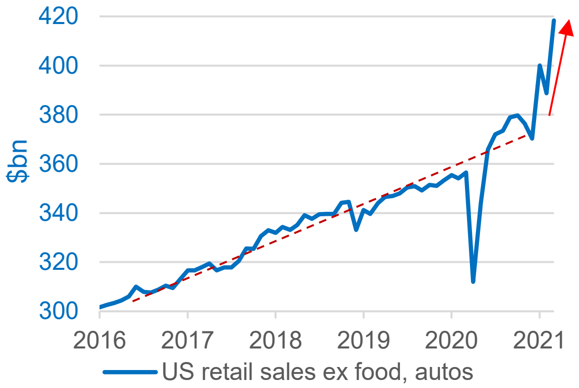
The savings *tsunami* is about to hit

MEDIUM-TERM, HIGH RISK

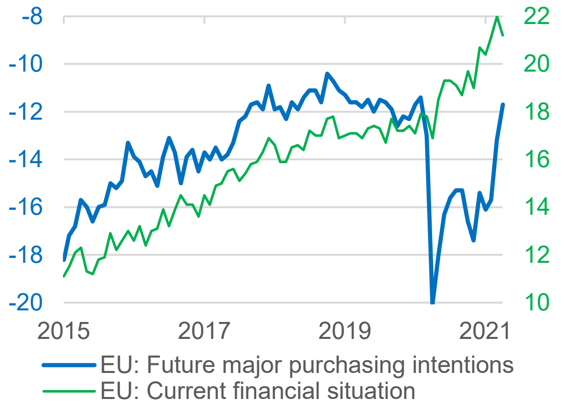
- **"Revenge" consumption:** travel and travel-related consumption, housing-related demand (construction, DIY, furniture). Banks and Real Estate should profit from strong consumption growth.
- **Structural consumption growth trends**: pet care, personal health & fitness (health nutrition, home exercise equipment/sportswear, fitness trackers) and 5G smartphones.
- **Growth of click-and-collect hybrid model**: consumers like to browse products online, but are ready to visit physical stores to check out products, ask for advice and then purchase or collect what they have ordered online, which in turn speeds up fulfilment times.

US retail sales explode in 2021



Source: Bloomberg

EU household finances are strong and ready to spend



Source: Bloomberg

Households strike back

The savings *tsunami* will be released: households around the world have accumulated at least USD5.4 trillion in excess savings since the start of the Coronavirus pandemic with USD2+ trillion of this amount expected to be spent as countries reopen, approaching herd immunity.

Vaccination programmes allow reopening: evidence from Israel, the US and UK suggests that COVID-19 infections and hospitalisation rates collapse once vaccination rates reach 40-60% of total populations. Continental Europe should achieve this vaccination rate by end-June at the current daily rate of vaccination, pointing to an acceleration in consumer spending over the second half of this year. But with new COVID-19 infection rates falling rapidly in most Western countries, on the back of beneficial effects of accelerating COVID-19 vaccination programmes, these physical restrictions should be gradually eased over Q2 2021.

Households are desperate to spend: we would expect these two trends to result in a boom in household consumption over the remainder of 2021, fuelling a strong earnings recovery in a number of service sectors, such as finance, retail, travel & leisure, media and autos.

We focus on consumption categories which have already exhibited robust growth over the past few months, including DIY and home improvement, gardening, pet care as well as sporting goods and "athleisure" clothing.

Once travel restrictions and national lockdowns are lifted, we can expect lockdown-weary consumers to rush to travel once again. The World Tourism Organisation expects domestic tourism to return faster than international tourism, boosting demand for petrol/diesel via increased car journeys and also for hotels for short stays and weekend breaks.

Clothing, luxury goods catch up: in addition, when social gatherings (in some form) are permitted once again, we expect people to spend on cosmetics, perfumes and celebration clothes as they will be able to dress up and socialise in safe conditions again. This could be good news for luxury goods companies, which have suffered from the drop in duty-free retail sales and restrictions on social events.

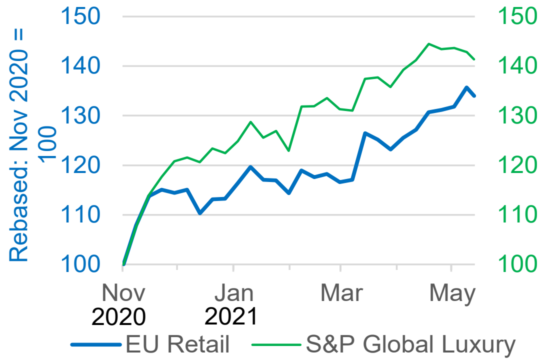
Daily life revolves around smartphones/5G: just how central are mobile phones to our daily lives? Well, consider the following facts: smartphone users worldwide will reach 3.8 billion this year; 47% of US smartphone users say they couldn't live without their device; 62% of smartphone users have made a purchase with the device; in-app advertising will rise to USD 201 billion by 2021; 99% of all internet users in China used their mobile devices to go online in 2020.

Conclusion: super-fast 5G mobile internet is triggering the next huge global wave of smartphone upgrades, aided by excess savings burning a hole in consumers' pockets. This will inevitably boost 5G infrastructure providers, handset makers and semiconductor manufacturers.

E-entertainment, Financials and Real Estate to benefit

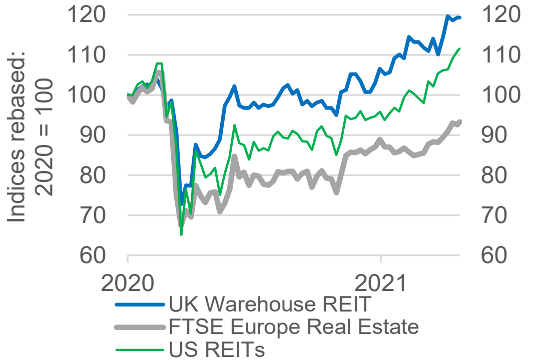
- **E-consumption habits**: e-gaming, 5G-related mobile internet phones + infrastructure, audio & video streaming, semiconductors, AI/Big Data-assisted personal shopping recommendations, e-transportation (electric cars, scooters, hydrogen vehicles).
- **Consumer environment to benefit Banks and Real Estate:** with more households able to pay back their loans and/or take out new loans to buy a car or to move out of city centres to further afield.
- **Online and omnichannel retail:** logistics real estate, logistics operators, ecological packaging, online retail fulfilment, online retailers, cybersecurity (for consumer trust).

Retail and Luxury get a vaccine boost



Source: Bloomberg

Certain UK and US Listed Real Estate have exceeded pre-COVID-19 levels



Source: Bloomberg

E-entertainment and some Materials are still doing well

E-consumption continues to develop, though obviously there will be a slowdown in growth in 2021 as consumers leave their homes more. Key beneficiaries will be restaurants, hotels, amusement parks, shopping malls and other entertainment venues.

Nonetheless, after more than a year of lockdowns in various forms, a large chunk of the population that was previously uncomfortable with computers and online surfing cannot do without the internet today. Online purchases have accelerated and market shares will keep growing. **E-commerce, streaming, video gaming, and e-sports** are capturing a widening audience and the latest corporate results confirm the rising popularity of these new pastimes. Increasingly powerful equipment and telecom infrastructure are needed to support this growth. The resulting severe component shortages remain an unresolved issue.

The earnings of companies designing and producing new **high-end semiconductors, telecom components and equipment** are booming as super-fast 5G mobile internet becomes a reality.

Real Estate companies providing data centres and other tech facilities are also doing well.

Demand for more ecological products, such as hybrid or electric cars, is driving structural demand growth for "battery" metals (copper is reaching new highs) **and rare-earth components that are increasingly scarce.**

Financial institutions and Real Estate are now also profiting

When whole swathes of economies were closed down in early 2020, fears emerged that the financial systems would suffer considerably. However, thanks to the prompt intervention of monetary and political authorities, the massive support plans put in place helped to avoid the collapse that some commentators had predicted.

Banks had previously provisioned large amounts for expected bad loans, and are now in a position to significantly take back these provisions. **Banks reported stellar Ql 2021 earnings, much better than expected.** Balance sheets are robust (some banks continue to grow via mergers and acquisitions). With the resumption of dividend payouts this year, the Banking sector is attractive again, even cheap, and has lagged the wider stock market recovery up to now. **Robust balance sheets, excess cash and the consumption recovery will underpin lending growth.** A strong online presence has become an absolute necessity. Financial institutions providing easy, reliable and attractive online services will be the winners.

Real Estate is another sector to benefit from the reopening of economies (and has also lagged the stock market recovery). Needless to say, warehousing and logistics did well during the pandemic and will continue to do so. Going forward, shopping malls and residential real estate should also benefit from consumers shopping more and looking for more living space following extended lockdowns. Companies are now encouraging staff to come back to the office. **US real estate has performed very well upon reopening, and we expect Europe to follow suit.**

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