C.I.A. NETWORK

# Investment Strategy Navigator

April 2021

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

# Agenda

01 Introduction

02 Global macro

03 Fixed income

04 Equities

05 Commodities

06 Alternatives

01

# Introduction

Financial markets at a glance
Economic Outlook & Risks

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# Financial markets at a glance

| | | | |
|---|---|---|---|
| + EQUIT | Global | + | Of the classic smart beta factors, most performed in line over March with the exception of US Momentum, which showed sharp underperformance. Leaders in March were curiously companies with low quality, and high debt levels. |
| | Markets | + | Regional bias to EM, Japan, eurozone, UK.<br>Neutral on US exposure, given rising risks to mega-cap Tech from increasing regulation, taxation and long-term interest rates. |
| | Sectors | + | US banks lead the way, touching their highest level since 2007. In Europe, bank earnings trends in Q1 remain strong supporting a near 5% dividend yield. We like Materials, Industrials, Financials, EU energy and Real Estate. |
| - BOND | Govies | -<br>+ | On a 1-year horizon, the bear market is intact. We increased our 10-year bond yield target to 2% in the US and 0% in Germany in one year. We stay negative on long-term bonds and positive on US short-term bonds. |
| | Invest. Grade | + | We stay positive on US and eurozone IG bonds. Valuations are tight but the environment remains positive. We favour duration at benchmark (eurozone: 5 years, US: 8 years). |
| | High yield | = | There is a lot of dispersion in the HY asset class, which makes it more a market for bond pickers. We prefer fallen angels. |
| | Emerging | + | We stay positive on EM bonds. The bulk of the sharp rise in real yields has probably already taken place. EM currencies should appreciate in the medium-term. |

| | | | |
|---|---|---|---|
| / FOREX | EUR/CHF | = | We adjust our EURCHF targets to 1.11 over a 3-month horizon and to 1.14 over a 12-month horizon (value of one euro). This suggests further upside for the euro. |
| | EUR/USD | = | We keep our EURUSD target to 1.20 and 1.25 for the next 3 and 12 months, respectively. This suggests further upside for the euro. |
| | USD/JPY | = | We adjust our 3- and 12-month USDJPY targets to 111. This suggests a stable pair from now on. |
| | USD/CNY | = | We adjust our 3-month target to 6.6 (from 6.5) and our 12-month target to 6.5 (from 6.4) for the USDCNY (value of one dollar). |
| + COMM | Oil | = | We moved from positive to neutral in March after the strong rally. Excess capacities are still huge and should come back progressively on the market. We expect Brent to trade in the $55-65 range in 2021 and higher after. |
| | Gold | + | Inflation fears, perceived excessive money creation,, negative real yields and expected USD weakness, should push gold back to $2000/oz or above. |
| | Base metals | + | Chinese demand, fiscal stimuli around the world, focus on infrastructure spending and energy transition, lack of investments in recent years are ingredients for a new super cycle. |
| / ALTERNATIVE | Alt. ucits | =/+ | We have a preference for Long-Short, Relative Value et Event Driven strategies. Neutral on Global Macro |

# Economic outlook

## KEY ECONOMIC VIEWS

### Growth

| *BNP Paribas Forecasts* | | | | |
|---|---|---|---|---|
| GDP Growth % | 2019 | 2020 | 2021 | 2022 |
| United States | 2.2 | -3.5 | 6.9 | 4.7 |
| Japan | 0.3 | -4.8 | 3 | 2.3 |
| United Kingdom | 1.5 | -10.2 | 6.1 | 6 |
| **Eurozone** | **1.3** | **-6.8** | **4.2** | **5** |
| Germany** | 0.6 | -5.3 | 3 | 4.8 |
| France** | 1.5 | -8.2 | 6.1 | 4.4 |
| Italy** | 0.3 | -8.9 | 5 | 3.9 |
| **Emerging** | | | | |
| China | 6.1 | 2.3 | 9.2 | 5.3 |
| India* | 4.2 | -7.2 | 12.5 | 4.1 |
| Brazil | 1.1 | -4.1 | 2.5 | 3 |
| Russia | 1.3 | -4.5 | 4 | 3 |

* Fiscal year / ** Under review
*Source: BNP Paribas – 29/03/2021*

### Inflation

| *BNP Paribas Forecasts* | | | | |
|---|---|---|---|---|
| CPI Inflation % | 2019 | 2020 | 2021 | 2022 |
| United States | 1.8 | 1.2 | 2.5 | 2.2 |
| Japan | 0.5 | 0.0 | -0.3 | 0.0 |
| United Kingdom | 1.8 | 0.9 | 1.4 | 2.1 |
| **Eurozone** | **1.2** | **0.3** | **1.7** | **1.4** |
| Germany** | 1.4 | 0.5 | 1.3 | 1.2 |
| France** | 1.3 | 0.5 | 0.6 | 1.2 |
| Italy** | 0.6 | -0.2 | 0.5 | 1.3 |
| **Emerging** | | | | |
| China | 2.9 | 2.5 | 1.8 | 2.8 |
| India* | 4.8 | 6.2 | 4.9 | 4.6 |
| Brazil | 3.7 | 3.2 | 6.5 | 4 |
| Russia | 4.3 | 3.4 | 5.1 | 4 |

* Fiscal year / ** Under review
*Source: BNP Paribas – 29/03/2021*


### POSITIVE RISKS (EQUITIES)

1. Major progress on the vaccination process that lead to a faster herd immunity could bring a positive surprise.

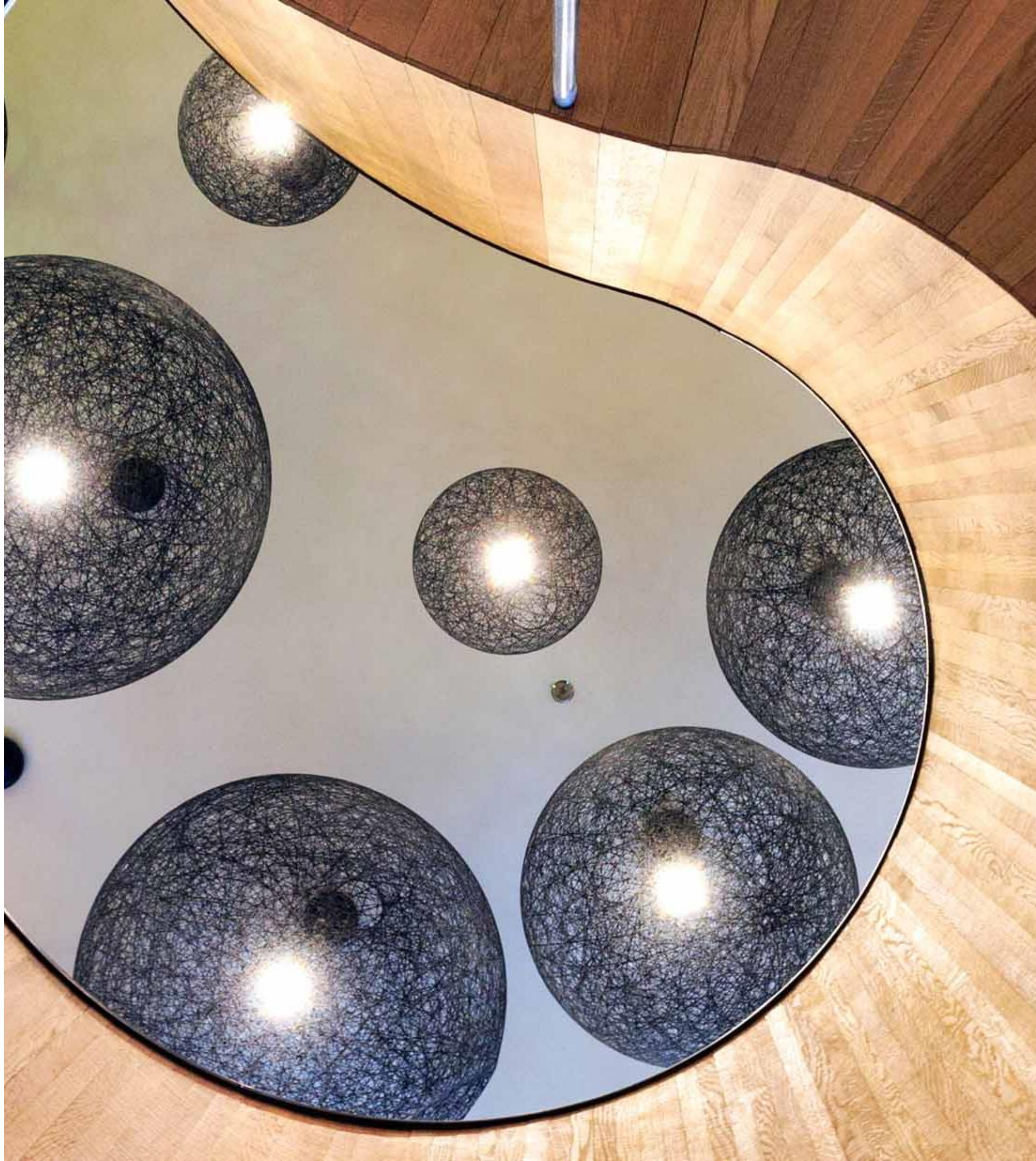
### NEGATIVE RISKS

1. A sharpoer than expected rise in yields, especially real yields, could limit the full effect of the stimulus programs and hurt risky assets.
2. Vaccines may not be efficient enough on the new Covid-19 strains. It may delay the end of the pandemic and increase its cost. Experts are not excluding a world with the virus on long term.
3. The Biden's administration measures against China may raise back trade tensions and is a medium-term risk.
4. A fallback of inflation could bring back fears of Japanisation with low demand and a permanent rise in saving ratios).
5. Political/Geopolitical risks remain elevated around the world. A renewed local conflict cannot be excluded.

02

# Global macro

Economic growth and inflation
PMIs : Europe Services are still behind
Consumer spending is the key
The US Stimulus



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# Economic growth and inflation

Last lockdowns in Europe waiting for herd immunity

## ECONOMIC GROWTH

In the US, vaccination progress and the important fiscal stimulus are going to boost the growth. In Europe, lockdowns are still in place but we can expect vaccination to accelerate and herd immunity to be achieved. Hospitals are still under pressure.

- In the US, Vaccination progress and fiscal support should 'turbo charge' growth in 2021/22.
- Even if the vaccination process is slower than expected in Europe due to the lack of deliveries from Astra Zeneca, we can expect a sharp recovery during Q2/Q3.
- The vaccines distribution is accelerating and death rates should fall as vulnerable patients are being vaccinated. Hospitals are still under pressure.
- New lockdowns in Europe are again slowing down the economy but we can expect a progressive return to normal at the end of Q2 and during Q3.

*BNP Paribas Forecasts*

| GDP Growth % | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| United States | 2.2 | -3.5 | 6.9 | 4.7 |
| Japan | 0.3 | -4.8 | 3 | 2.3 |
| United Kingdom | 1.5 | -10.2 | 6.1 | 6 |
| **Eurozone** | **1.3** | **-6.8** | **4.2** | **5** |
| Germany** | 0.6 | -5.3 | 3 | 4.8 |
| France** | 1.5 | -8.2 | 6.1 | 4.4 |
| Italy** | 0.3 | -8.9 | 5 | 3.9 |
| **Emerging** | | | | |
| China | 6.1 | 2.3 | 9.2 | 5.3 |
| India* | 4.2 | -7.2 | 12.5 | 4.1 |
| Brazil | 1.1 | -4.1 | 2.5 | 3 |
| Russia | 1.3 | -4.5 | 4 | 3 |

* Fiscal year / ** Under review
*Source: BNP Paribas – 29/03/2021*

## INFLATION

Our inflation forecasts have been increased for 2021 & 2022.
As vaccination is accelerating, inflation should rise very gradually to levels consistent with central banks' targets.

- Inflationary pressures should remain generally weak over 2021-22 across both advanced and emerging economies.
- Both demand and supply are being held down by virus related lockdown restrictions. In the US, a surge in inflation in Q2/Q3 is likely to fade before reheating in H2 2022. In the UK, inflation should near the MPC's 2% target by year end.
- There are still a lot of excess capacities and the potential for people to come back to the job market. This limits the inflation risk especially in Europe. Both ECB & FED will have little reason to change their policy stance and should remain exceptionally accommodative.

*BNP Paribas Forecasts*

| CPI Inflation % | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| United States | 1.8 | 1.2 | 2.5 | 2.2 |
| Japan | 0.5 | 0.0 | -0.3 | 0.0 |
| United Kingdom | 1.8 | 0.9 | 1.4 | 2.1 |
| **Eurozone** | **1.2** | **0.3** | **1.7** | **1.4** |
| Germany** | 1.4 | 0.5 | 1.3 | 1.2 |
| France** | 1.3 | 0.5 | 0.6 | 1.2 |
| Italy** | 0.6 | -0.2 | 0.5 | 1.3 |
| **Emerging** | | | | |
| China | 2.9 | 2.5 | 1.8 | 2.8 |
| India* | 4.8 | 6.2 | 4.9 | 4.6 |
| Brazil | 3.7 | 3.2 | 6.5 | 4 |
| Russia | 4.3 | 3.4 | 5.1 | 4 |

* Fiscal year / ** Under review
*Source: BNP Paribas – 29/03/2021*

# PMIs : European Services are still behind

March values may be too optimistic in Europe

## DEVELOPED

In the US, we observe high levels of PMIs with Composite PMI at 59.1 in March. Surprisingly, the Eurozone the PMI rose by 3.7 pts to 52.5 moving into positive territory for the first time since last September. However, Spain and France have negative PMI pulled down by the Services PMI.

- German composite PMI rose sharply to 56.8, a 3-year high, as the Manufacturing PMI reached a new all time high of 66.6. Services PMI also breached into positive area in March.
- In the UK, expectations of reopening pushed the Services PMI from negative territory to 56.8.
- As the survey has been conducted between 12-23 March it will only partly reflect the recent tightening in mobility restrictions across Europe. Input and output prices rose strongly, especially in manufacturing.
- Spain & France still have negative PMIs.

| nov-20 | déc-20 | janv-21 | févr-21 | mars-21 | | PMI |
|---|---|---|---|---|---|---|
| 53.8 | 53.8 | 53.6 | 53.9 | | Manufacturing | World |
| 52.2 | 51.8 | 51.6 | 52.8 | | Services | |
| 53.1 | 52.7 | 52.3 | 53.2 | | Composite | |
| 53.8 | 54.8 | 55.2 | 56.4 | | Manufacturing | Developed |
| 51.4 | 51.1 | 51.6 | 53.2 | | Services | |
| 52.2 | 52 | 52.4 | 53.8 | | Composite | |
| 56.7 | 57.1 | 59.2 | 58.6 | 59 | Manufacturing | US |
| 58.4 | 54.8 | 58.3 | 59.8 | 60 | Services | |
| 58.6 | 55.3 | 58.7 | 59.5 | 59.1 | Composite | |
| 53.8 | 55.2 | 54.8 | 57.9 | 62.4 | Manufacturing | Eurozone |
| 41.7 | 46.4 | 45.4 | 45.7 | 48.8 | Services | |
| 45.3 | 49.1 | 47.8 | 48.8 | 52.5 | Composite | |
| 57.8 | 58.3 | 57.1 | 60.7 | 66.6 | Manufacturing | Germany |
| 46 | 47 | 46.7 | 45.7 | 50.8 | Services | |
| 51.7 | 52 | 50.8 | 51.1 | 56.8 | Composite | |
| 49.6 | 51.1 | 51.6 | 56.1 | 58.8 | Manufacturing | France |
| 38.8 | 49.1 | 47.3 | 45.6 | 47.8 | Services | |
| 40.6 | 49.5 | 47.7 | 47 | 49.5 | Composite | |
| 51.5 | 52.8 | 55.1 | 56.9 | | Manufacturing | Italy |
| 39.4 | 39.7 | 44.7 | 48.8 | | Services | |
| 42.7 | 43 | 47.2 | 51.4 | | Composite | |
| 49.8 | 51 | 49.3 | 52.9 | | Manufacturing | Spain |
| 39.5 | 48 | 41.7 | 43.1 | | Services | |
| 41.7 | 48.7 | 43.2 | 45.1 | | Composite | |
| 55.6 | 57.5 | 54.1 | 55.1 | 57.9 | Manufacturing | UK |
| 47.6 | 49.4 | 39.5 | 49.5 | 56.8 | Services | |
| 49 | 50.4 | 41.2 | 49.6 | 56.6 | Composite | |
| 49 | 50 | 49.8 | 51.4 | 52 | Manufacturing | Japan |
| 47.8 | 47.7 | 46.1 | 46.3 | 46.5 | Services | |
| 48.1 | 48.5 | 47.1 | 48.2 | 48.3 | Composite | |

Source: Refinitiv Datastream

## BRICS

Emerging countries' PMI are mostly in positive territory in February. However, we can see that China's PMI is low during Q1 and may suffer again due to the Suez Canal crash. India has very encouraging PMIs values. Brasil's PMIs are still very low with Services PMI at 47.1.

- After imposing the world's strictest lockdown, India's PMI has recovered since September to positive territory and high values (February PMI Composite: 57.3). In Brazil, the Bolosonaro view of the pandemic with a « natural » herd immunity failed and led the country to negative Services & Composite PMIs. However, the Manufacturing PMI is high since July.
- The Chinese PMI is slowing down in early 2021 compared to Q4 2020 but is still close to the PMI average of Emerging countries.
- Russia's PMI figures moved back into positive territory in early 2021 with a Composite PMI at 52.6 in February.

| nov-20 | déc-20 | janv-21 | févr-21 | mars-21 | | PMI |
|---|---|---|---|---|---|---|
| 53.9 | 52.8 | 52.1 | 51.5 | | Manufacturing | Emerging |
| 54.3 | 53.8 | 51.6 | 51.7 | | Services | |
| 54.9 | 54.1 | 52.1 | 52 | | Composite | |
| 64 | 61.5 | 56.5 | 58.4 | | Manufacturing | Brazil |
| 50.9 | 51.1 | 47 | 47.1 | | Services | |
| 53.8 | 53.5 | 48.9 | 49.6 | | Composite | |
| 46.3 | 49.7 | 50.9 | 51.5 | | Manufacturing | Russia |
| 48.2 | 48 | 52.7 | 52.2 | | Services | |
| 47.8 | 48.3 | 52.3 | 52.6 | | Composite | |
| 56.3 | 56.4 | 57.7 | 57.5 | | Manufacturing | India |
| 53.7 | 52.3 | 52.8 | 55.3 | | Services | |
| 56.3 | 54.9 | 55.8 | 57.3 | | Composite | |
| 54.9 | 53 | 51.5 | 50.9 | | Manufacturing | China |
| 57.8 | 56.3 | 52 | 51.5 | | Services | |
| 57.5 | 55.8 | 52.2 | 51.7 | | Composite | |
| 52.6 | 50.3 | 50.9 | 53 | | Manufacturing | South Africa |

Source: Refinitiv - Datastream

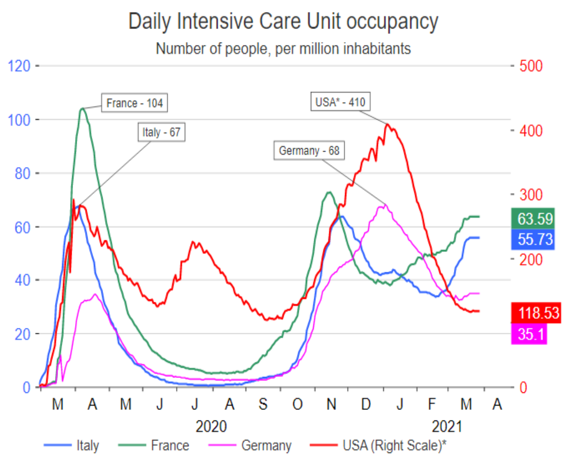
# Consumer spending is the key

The economic recovery is expected and mobility will be key

## US COVID STRATEGY BEAR ITS FRUITS

The key for reversing lockdowns is the data regarding hospitals and intensive care. The pace of vaccination has lead to a rapid improvement in the US. Europe is witnessing the opposite trend short-term. With the arrival of much more vaccine doses the gap should start to close.

- With almost 30% of the population having received at least once vaccination and 15% two doses, the US has been well in advance relative to Eurozone countries. That has been key to help the number of people in hospital fall sharply (see chart).
- This reduced a lot the risk that patients would be refused access to hospitals because of capacity constraints and is probably the main reason why authorities reversed lockdown measures.
- Europe is witnessing the opposite trend short-term. With the arrival of much more vaccine doses the gap should start to close gradually.

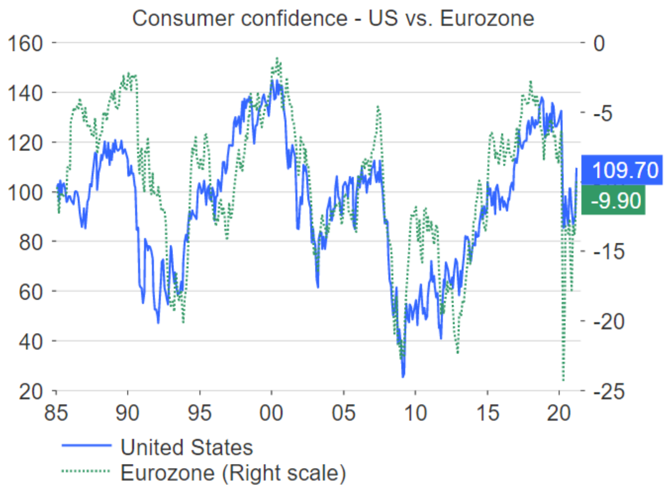



Source: Refinitiv Datastream, 29/03/2021
*Inpatient Beds, Occupied by Covid-19 Patients

## US CONSUMPTION SHOULD BE LEADING

US retail Sales are expected to follow closely consumer confidence. Both should be seeing a very strong rebound over the coming months. This together with high business confidence and business investment will be a source of multiplier effects. Europe will be lagging A bit due to the slow vaccination and rising Intensive care occupancy.

- Consumer surveys have seen a moderate rebound at this stage (see chart).
- The reopening of the US economy is ongoing and early indicators such as mobility indicators suggest a sharp rise of confidence and spending.
- The gradual improvement on the job market should accelerate the process.
- In the Eurozone there will be a catching up process in terms of vaccination and the reversal of lockdowns. That will probably need another month or more to become visible.




Source: Refinitiv Datastream, Mar 21

# The US Stimulus

## The US stimulus is huge, no capacity constraints this and next year

## FISCAL STIMULUS – A MULTI-YEAR STORY

In addition to the 1.9$ trillion America Rescue plan, we expect a "Build Back Better" Program that could provide a USD2-4trn in additional fiscal stimulus over the next 10 years. The labor market could fully recover over the next two ye ars.

- Totaling 1.9$ trillion or 9 percent of GDP, the American Rescue Plan ranks among the largest stimulus packages ever launched in the United States (see table).
- The rescue plan will close the output gap even with a low multiplier. The labor market could recover more quickly if the multiplier effect turns out to be higher.
- We expect also a Build Back Better Program that could provide a USD2-4trn in fiscal stimulus over the next 10 years.
- We now see potential positive risks outweighing negative risks

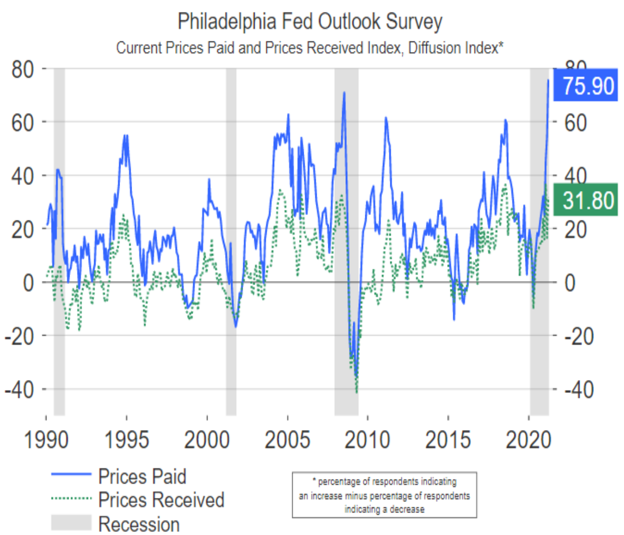
| THE AMERICAN RESCUE PLAN (USD BILLION) | |
|---|---|
| HOUSEHOLDS | 910 |
| Direct stimulus checks | 400 |
| Tax credits (children, individuals) | |
| Jobless benefits boost | 270 |
| Health insurance (extension of Obamacare...) | 80 |
| PUBLIC SERVICES AND INSTITUTIONS | 763 |
| Transfers to state and local governments | 350 |
| Transfers to schools and universities | 170 |
| Funding for testing and vaccination campaigns | 123 |
| Other (social welfare actions...) | 120 |
| COMPANIES | 226 |
| Transfers to ailing sectors | 140 |
| Transfers to pension systems | 86 |
| TOTAL | 1900 |

Source : COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET, US TAX FOUNDATION, BNP PARIBAS

## HOW MUCH IS TOO MUCH?

We expect an acceleration in inflation and inflation expectations. The persistent labor market slack is expected to prevent a durable acceleration in wage growth and inflation. Structural forces such as digitalization and demographics will also limit upside pressures in 2021-22.

- Temporary factors such as supply chain constraints and rising commodity prices should push inflation higher. Most of the pressure should be in Q2 and Q3 this year for the US and a few months later for the Eurozone.
- The recent rise in producer prices and of the components of price paid and received in business surveys suggest rising price pressures. This is especially true for earlier stages in the production chain.
- It will key to see how much of the rise can be passed on to final consumers and how far profit margins will come under pressure.
- We expect this input price pressure to be temporary. Medium-term the main risk should come from the job market and wages. That should not be the case before 2023.




Source: Refinitiv - Datastream

03

# Fixed income

Central Banks
Bond yields and Inflation expectations
Government Bonds
Corporate Bonds
Emerging Market Bonds

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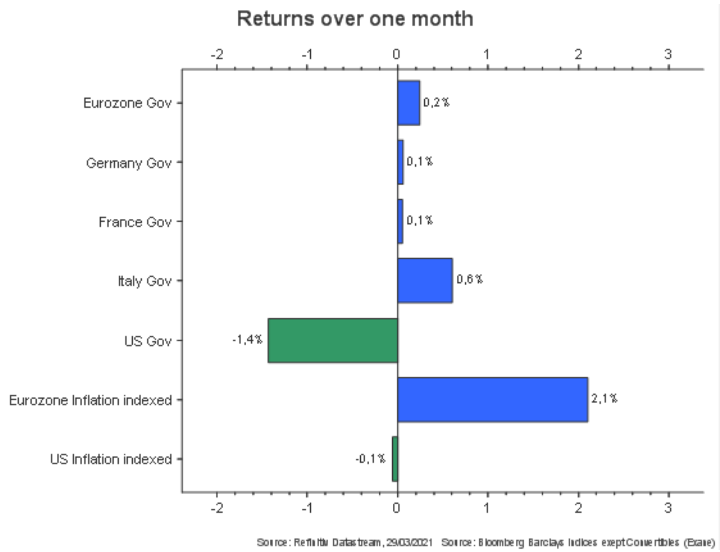
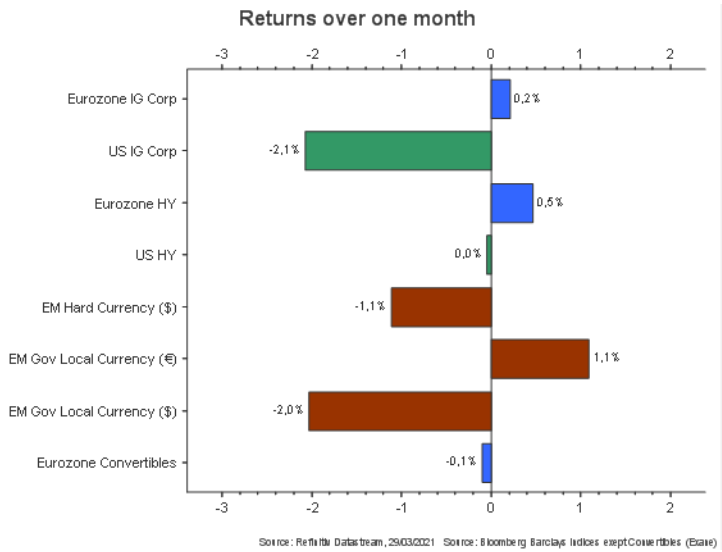
# Fixed income at a glance

The level of US yields continued to dominate the headlines. Their recent rise hit US government bonds, US corporate bonds with long maturities and some emerging market bonds. Bonds in the eurozone were not impacted much as the ECB pushed back against higher yields in the eurozone.




## Central Banks

Both the ECB's and the Fed's monetary policies are driven by output rather than outlook. They should remain dovish until economic improvement is visible in the actual data. We expect the Fed to announce the reduction of its bond purchases by the end of the year.

## Government Bonds

Long-term rates could stabilise in the very short-term. On a 1-year horizon, the bear market is intact. We increased our 10-year bond yield target to 2% in the US and 0% in Germany in one year. We stay negative on long-term bonds and positive on US short-term bonds.

## Peripheral bonds

We are neutral on peripheral bonds. The ECB is supportive but spreads are close to all-time lows, making peripheral bonds vulnerable to a rise in Bund yields.

## Corporate Investment Grade (IG) Bonds

We stay positive on US and eurozone IG bonds. Valuations are tight but the environment remains positive. We favour duration at benchmark (eurozone: 5 years, US: 8 years).

## Corporate High Yield (HY) Bonds

There is a lot of dispersion in the HY asset class, which makes it more a market for bond pickers. We prefer fallen angels. Valuations are tight but are likely to remain so as the default cycle improves.

## Emerging Market (EM) Bonds

We stay positive on EM bonds. The bulk of the sharp rise in real yields has probably already taken place. EM currencies should appreciate in the medium-term. Inflation fears appear overdone.

# Central banks

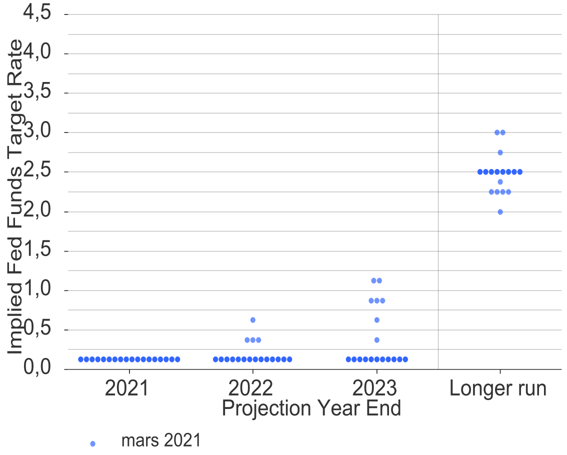
A long way from rate hike

## THE FED

The Fed awaits substantial improvement on the employment and inflation fronts before changing its policy. We expect the tapering announcement at the end of the year and a first rate hike in 3Q23.

- Although the Fed has revised its economic projections upward, it does not see any imminent tapering and does not plan to raise rates in the next two years (see chart). This contrasts with the market's expectations of a rate hike in late 2022 and 3 rate hikes in 2023.
- The Fed wants to see inflation above the 2% mark for some time and wants to get maximum employment before hiking its key rates. The Fed projects a temporary rise in inflation in 2021, but not beyond.
- Financial conditions, the labor market and inflation are the key indicators that will drive any change in monetary policy.
- We anticipate the announcement of the reduction in asset purchases in 4Q21 with implementation in 2Q22 and a first rate hike in 3Q23.

Federal Open Market Committee Projections



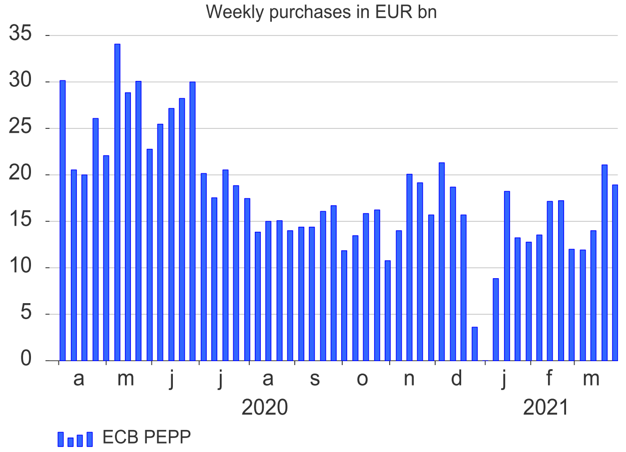

Source: Refinitiv Datastream, 15/02/2021

## THE ECB

The ECB will remain accommodative to maintain favourable financial conditions. We expect no change in rates or asset purchases for the foreseeable future.

- In contrast to the Fed, the ECB sees the rise in bond yields as a strong headwind for the economic recovery, given the lower growth and inflation prospects. Hence, the ECB pledged to substantially increase the pace of net purchase of bonds via the pandemic QE programme – which it did (see chart).
- Long-term inflation expectations remain subdued and the ECB will see through temporary inflation spike. As a matter of fact, it increased its 2021 inflation forecast to 1.5% from 1%.
- The ECB will prevent a tightening of financial conditions.
- We think that the ECB will remain highly accommodative even when the economy improves and inflation picks up. We expect no change in rates or QE for the foreseeable future.

ECB Pandemic Emergency Purchase Programme




Source: Refinitiv Datastream, 26/03/2021

# Bond yields and Inflation expectations

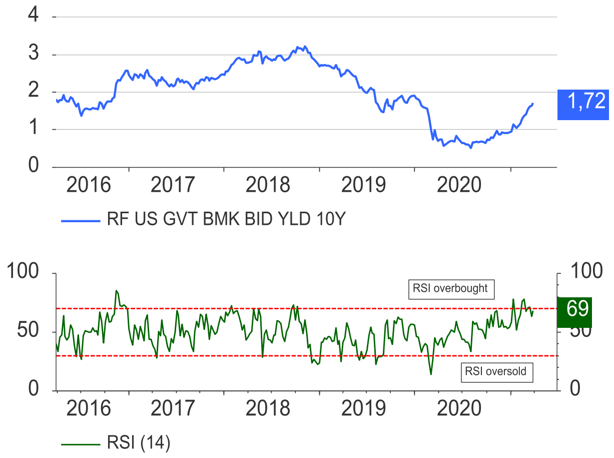
Short-term pause in a bear market

## BOND YIELDS

Long-term rates could stabilise in the very short-term. On a 1-year horizon, the bear market is intact and we revised up our bond yield targets to 2% (from 1.40%) for the 10-year Treasury yield and to 0% (from -0.25%) for its German peer.

- The US 10-year note hoovers in oversold positions (see chart), which triggered some systematic buy signals. Yields start to be attractive for life insurance funds globally even after currency hedge. Long-term rates could stabilise in the very short-term as rate volatility subsides. Technical analysis second that view.
- Yet, the bear market remains intact and we see the US 10-year yield reaching 2% (1.4% previously) in one year. This is because of an improved outlook for both growth and inflation, and more intense discussions on tapering by year end.
- The German 10-year yield is likely to be vulnerable to the rise in US yields and could rise in anticipation of the end of the pandemic QE's net purchase in March 2022. We lift our 12-month target to 0% from -0.25% for the German Bund yield.

US 10-year yield and RSI



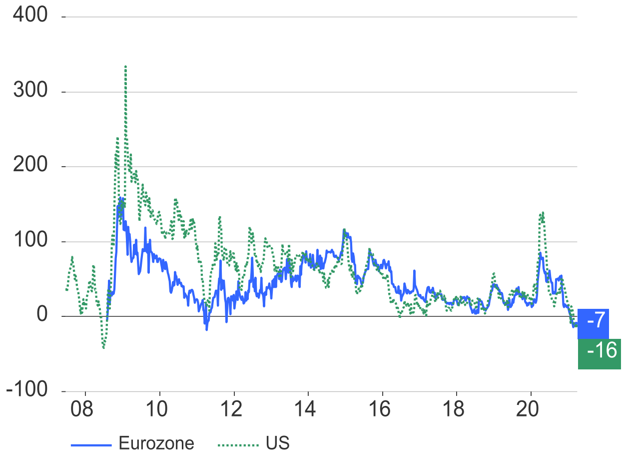

Source: Refinitiv Datastream, 30/03/2021

## INFLATION EXPECTATIONS

We see more inflation risk in the US than in the eurozone, but the market has already repriced strongly the inflation risk in the US. As such, we stay neutral on inflation-linked bonds.

- The inflation curve has inverted in both the US and the eurozone (see chart). Inflation markets are pricing higher inflation in 2 years than in 10 years. This is consistent with a temporary spike of inflation linked with higher oil price and supply chain disruption.
- The inflation curve is likely to remain inverted as central banks see through temporary inflation spike (flexible average inflation targeting at the Fed).
- Inflation risks lie more in the US than in the eurozone in our view, as the US is likely to close the output gap faster than the eurozone. Yet, the 10-year TIPS breakeven seems fairly priced to us at 2.3% and therefore have limited potential to rise further. We prefer to stay neutral on inflation-linked bonds. We prefer floating rate notes or funds that actively manage duration in order to hedge against inflation, especially in the US.

Inflation Linked Swaps, 10-year yield minus 2-year yield




Source: Refinitiv Datastream, 30/03/2021

# Government Bonds

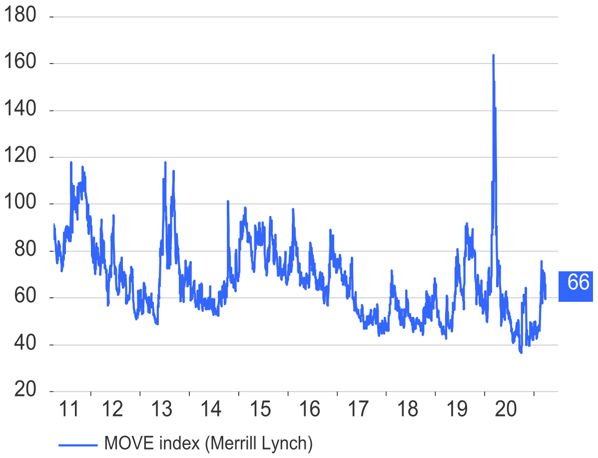
Prefer peripheral bonds

## US AND GERMAN GOVIES

After a very short-term relief, bond yields may continue to tick up. We stay negative on both German government bonds and US long-term government bonds. We remain positive on US short-term government bonds for USD-based investors (limited returns expected).

- Rate volatility dropped in the US (see chart). Fears of low appetite for the massive monthly bond issuances faded and the Fed provided clarity on a regulatory issue (SLR ratio). US Treasuries have become attractive at around 1.7% and triggered some buying from life insurance funds globally. A hedged Treasury note yields 1.3% for yen-based buyers, compared to 0.1% for the Japanese government bond.
- In the eurozone, the ECB increased its pace of bond purchase to successfully stop the rise in yields.
- We keep a negative stance on German government bonds and long-term US Treasuries given negative expected return on a one-year horizon. We stay positive on US short-term government bond, as an alternative to cash (limited expected returns).

Bond market volatility



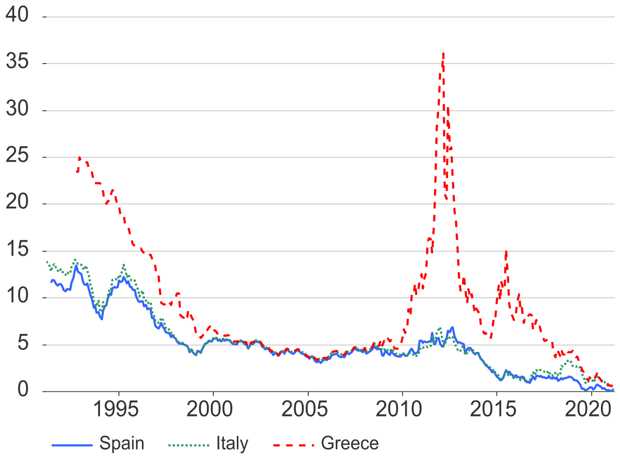

Source: Refinitiv Datastream, 30/03/2021

## EUROZONE PERIPHERAL BONDS

We are neutral on peripheral bonds. The ECB is supportive but spreads are close to all-time lows, making peripheral bonds vulnerable to a rise in Bund yields.

- Periphery bonds have performed well month-do-date. Spreads are currently trading less than 10bps away from their historic lows.
- Realised volatility have trended lower thanks to the ECB who reiterated a dovish stance and substantially increased its bond purchases.
- Bond yields have reached low levels (see chart). The Greek 10-year bond has broadly the same yield (0.88%) than the US 10-year Treasury once hedged for currency risk.
- After bottoming out in Q2, we expect peripheral spreads to re widen slightly.
- Peripheral bonds are vulnerable if Bund yields surge as spreads are already low. We keep a neutral stance on peripheral bonds.

10-year government bond yields




Source: Refinitiv Datastream, 29/03/2021

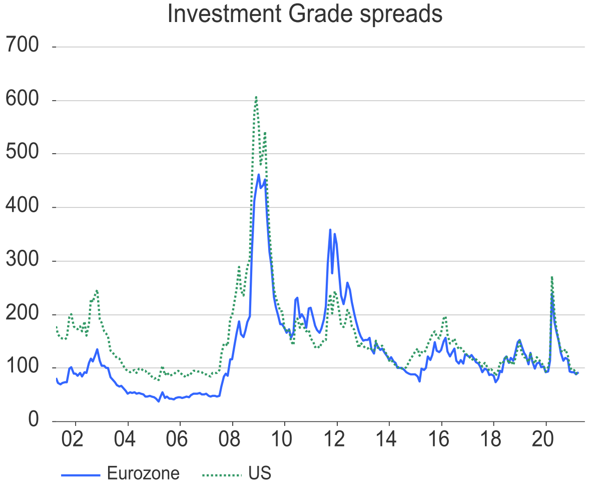
# Corporate Bonds

Tight spreads but could go tighter

## INVESTMENT GRADE (IG)

We stay positive on US and eurozone IG bonds. Valuations are tight but the environment remains positive with improving fundamentals, easy financial conditions and positive supply/demand dynamics. We favour duration at benchmark (eurozone: 5 years, US: 8 years).

- Credit fundamentals have improved. Earnings expectations have been revised upward at the strongest pace in over a decade. Companies have generated a lot of cash as they have reduced their working capital. Leverage has peaked in the US and should peak this quarter in Europe.
- Valuations are tight but not yet extreme. Credit spreads (see chart) could tighten another 10bps thanks to positive supply/demand dynamics, solid fundamentals, easy financial conditions and favourable macro momentum.
- Expected returns are low in the eurozone due to the low level of yields.
- The biggest risk is an earlier-than-expected market repricing of the Fed tapering.

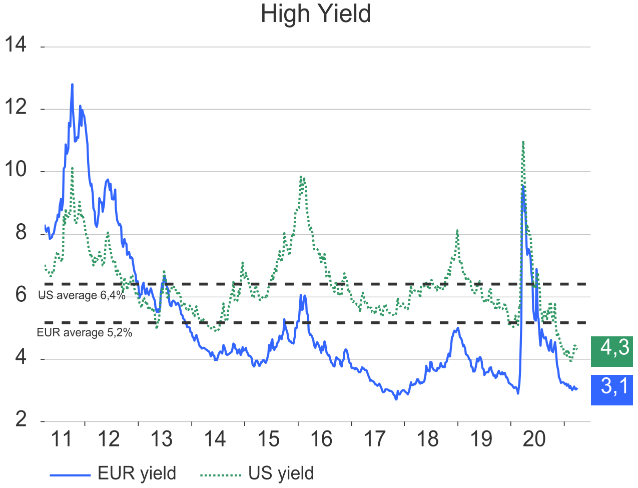



Source: Refinitiv Datastream, 30/03/2021

## HIGH YIELD (HY)

There is a lot of dispersion in the HY asset class, which makes it more a market for bond pickers. We prefer fallen angels. Valuations are tight but are likely to remain so as the default cycle improves.

- The improved economic outlook means the default cycle is improving.
- We prefer fallen angels bonds to HY bonds. Valuations are tight as well but the risk profile is more attractive. Fallen angels bonds offer a little spread pick up compared to BBs (the best segment of HY). There is a lot of dispersion in the HY asset class, which makes it more a market for bond pickers.
- The average yields of HY bonds fell way below their 10-year average (see chart).
- The primary market has been vey active in the first quarter of the year, particularly in the US where companies pulled forward their debt issuance plans.
- US HY funds posted outflows in 8 of the last 11 weeks. Investors pulled money out of HY bonds given high valuations and interest rate risk, to invest in loans, which have floating rates.




Source: Refinitiv Datastream, 31/03/2021

# Emerging Market Bonds

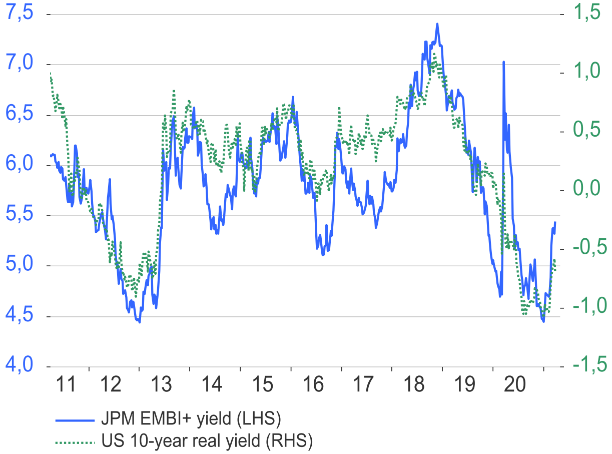
EM bonds are attractive

## EM BONDS IN HARD CURRENCY

We stay positive on EM bonds in hard currency, assuming that the bulk of the sharp rise in real yields has probably already taken place.

- EM bonds in hard currency have been hit by the quick and sharp rise of US real yields (see chart).
- We assume that real rates can edge higher but that the bulk of the rise is already done. Also, the rate volatility has peaked and is likely to come back to normal levels. ETFs are now seeing inflows coming back to the asset class.
- There are discussions on an increase in the IMF Special Drawing Rights. Such a measure would help emerging countries.
- EM should benefit from the vaccine-led global recovery. Higher growth prospects and higher commodity prices usually leads to higher breakeven inflation rates, which lead to positive returns for EM bonds in hard currency.

Emerging bonds in hard currency and US real rate




Source: Refinitiv Datastream, 31/03/2021

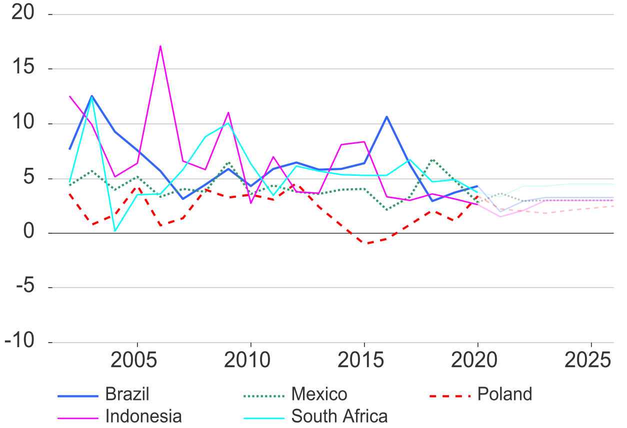
## EM BONDS IN LOCAL CURRENCY

We keep a positive stance on EM bonds in local currency. EM currencies should appreciate in the medium-term. Inflation fears appear overdone.

- EM rates have not the same sensitivity to higher US real rates. EM local currency high yield has a large negative impact from a rise in US real yields and a large positive impact from a rise in US breakeven inflation. Low-yielding local rates are less impacted by both factors.
- The currency moves has a great impact on the overall performance. EM FX is driven mostly by global USD liquidity conditions, growth expectations and short-term real rates. Hence, we expect EM currencies to appreciate further in the medium-term.
- A few central banks surprised the market with higher-than-expected rate hikes (Brazil, Russia, Turkey) on inflation fears. The market pricing of future rate hikes, like in Brazil, seems aggressive to us.

Inflation in emerging markets

IMF Forecast




Source: Refinitiv Datastream, 19

04

# Forex

VS EUR
VS USD

BNP PARIBAS
WEALTH MANAGEMENT

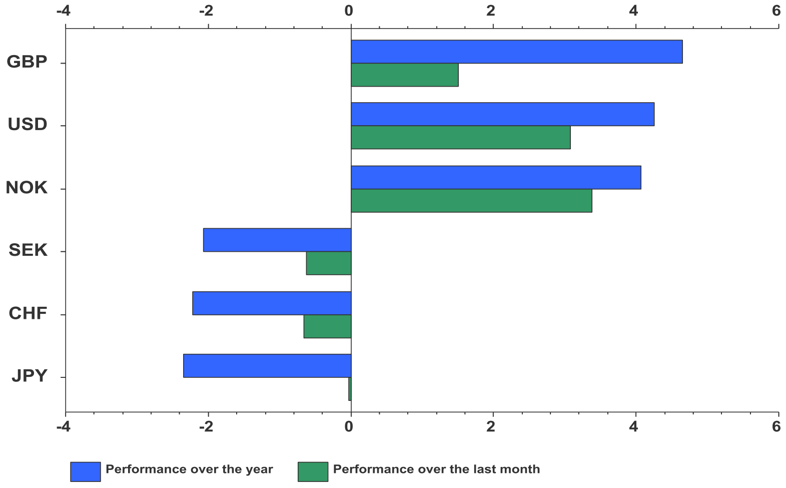
# Forex at a glance

The month of March saw the greenback performing very well across the board. Rising Treasury yields and the positive domestic developments contrast strongly with most countries. That said, we expect the EUR to get back on track in the near-term and keep our targets at 1.20 (value of 1 euro) and 1.25 over the next 3 and 12 months, respectively.

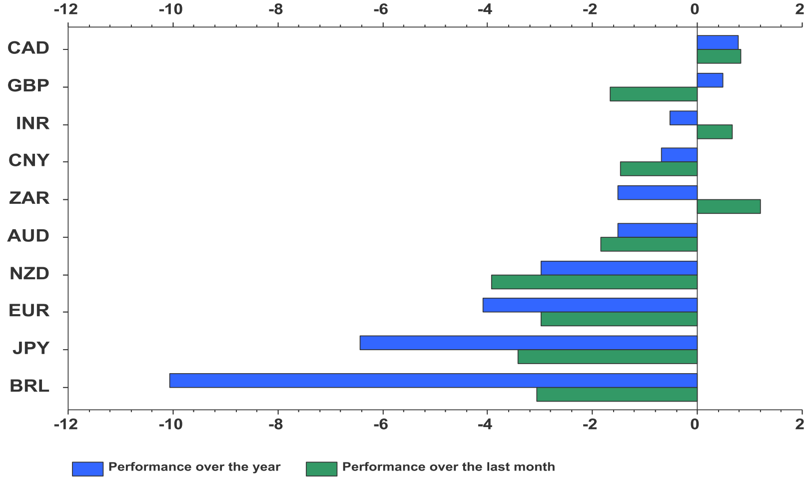
The EURCHF has been trending up in 2021 despite the turmoil linked to the most recent lockdown measures. The long-term growth outlook supports the EUR. We adjust our 3- and 12-months targets to 1.11 and 1.14 (value of one euro), respectively.

The Japanese Yen has depreciated against the dollar by more than 6% so far this year. The positive outlook over the next 12 months is not favorable for the Yen. We adjust our USDJPY targets over the next 3 and 12 months to 111 (value of one dollar).

The long-term outlook vs the USD remains positive for the Chinese Yuan despite the current headwinds, but to a lesser extent. We adjust our USDCNY 3-month target to 6.6 and our 12-month target to 6.5 (value of one dollar).

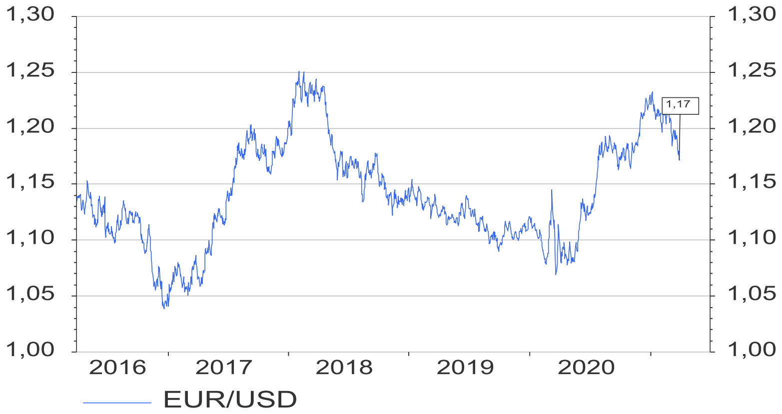


Source: Refinitiv Datastream, 30/03/2021



Source: Refinitiv Datastream, 30/03/2021

## EUR/USD



Source: Refinitiv Datastream, 31/03/2021

| | Country | Spot 31/03/21 | | Target 3 months | Target 12 months |
|---|---|---|---|---|---|
| Against euro | United States | EUR / USD | 1.17 | 1.20 | 1.25 |
| | United Kingdom | EUR / GBP | 0.85 | 0.86 | 0.86 |
| | Switzerland | EUR / CHF | 1.10 | 1.10 | 1.14 |
| | Japan | EUR / JPY | 130 | 133 | 139 |
| | Sweden | EUR / SEK | 10.23 | 10.20 | 10.20 |
| | Norway | EUR / NOK | 10.02 | 10.10 | 9.90 |
| Against dollar | Japan | USD / JPY | 111 | 111 | 111 |
| | Canada | USD / CAD | 1.26 | 1.25 | 1.25 |
| | Australia | AUD / USD | 0.76 | 0.76 | 0.80 |
| | New Zealand | NZD / USD | 0.70 | 0.72 | 0.75 |
| | Brazil | USD / BRL | 5.77 | 5.30 | 4.50 |
| | Russia | USD / RUB | 75.67 | 74.0 | 68.0 |
| | India | USD / INR | 73.5 | 75.0 | 75.0 |
| | China | USD / CNY | 6.56 | 6.60 | 6.50 |

Source: Refinitiv Datastream

Our position for this month
Evolution of our position from last month

# VS. EUR

| | Country | | Spot 31/03/2021 | Trend | Target 3 months (vs EUR) | Trend | Target 12 months (vs EUR) |
|---|---|---|---|---|---|---|---|
| | United States | EUR / USD | 1.17 | Negative | 1.20 | Negative | 1.25 |
| | United Kingdom | EUR / GBP | 0.85 | Neutral | 0.86 | Neutral | 0.86 |
| | Japan | EUR / JPY | 130 | Negative | 133 | Negative | 139 |
| | Switzerland | EUR / CHF | 1.10 | Neutral | 1.11 | Negative | 1.14 |
| | Australia | EUR / AUD | 1.54 | Negative | 1.58 | Neutral | 1.56 |
| | New-Zealand | EUR / NZD | 1.68 | Neutral | 1.67 | Neutral | 1.67 |
| | Canada | EUR / CAD | 1.48 | Neutral | 1.50 | Negative | 1.56 |
| | Sweden | EUR / SEK | 10.22 | Neutral | 10.20 | Neutral | 10.20 |
| | Norway | EUR / NOK | 10.02 | Neutral | 10.10 | Neutral | 9.90 |
| Asia | China | EUR / CNY | 7.69 | Negative | 7.92 | Negative | 8.13 |
| | India | EUR / INR | 86.1 | Negative | 90.0 | Negative | 93.75 |
| Latam | Brazil | EUR / BRL | 6.77 | Positive | 6.36 | Positive | 5.63 |
| EMEA | Russia | EUR / RUB | 88.5 | Neutral | 88.8 | Positive | 85 |

Source: Refinitiv Datastream

## Outlook for currencies versus EUR

We keep our bearish scenario for the USD as we expect a strong global recovery supporting risk appetite this year. The low short-term rate differential remains the main driver and should prevent the dollar from appreciating against the euro. The growing difference in deficits should also weigh on the dollar.

- The positive outlook and the stimulus package have pushed US Treasury yields higher.
- The Fed is expected to keep short-term yields low for a long time and that should be a negative factor for the dollar. Indeed, we anticipate the announcement of the reduction in asset purchases in Q4 2021 with implementation in Q2 2022 and a first rate hike in Q3 2023.
- Given the strong contrast between Europe and the US with regard to the covid-19 situation, the euro should recover quickly as vaccines allow the European economies to emerge from the most recent string of lockdowns measures. **Therefore, we keep our EURUSD target to 1.20 and 1.25 for the next 3 and 12 months, respectively. This suggests further upside for the euro.**
- The CHF weakened against the euro despite renewed lockdowns in the Eurozone. We believe that the Swiss National Bank measures and the global outlook offer ground for the euro to keep appreciating against the Swiss currency. Indeed, the SNB kept its ultra-expansive monetary on hold on March 25th.
- After considerably expanding its balance sheet in 2020, the SNB is not expected to normalize it until substantial CHF depreciation has been achieved.
- **Therefore, we adjust our EURCHF targets to 1.11 (from 1.08) over a 3-month horizon and to 1.14 (from 1.11) over a 12-month horizon (value of one euro). This suggests further upside for the euro.**

# VS. USD

## Outlook for currencies versus USD

| | Country | | Spot 31/03/2021 | Trend | Target 3 months (vs USD) | Trend | Target 12 months (vs USD) |
|---|---|---|---|---|---|---|---|
| | Eurozone | EUR / USD | 1.17 | Positive | 1.20 | Positive | 1.25 |
| | United Kingdom | GBP / USD | 1.38 | Neutral | 1.40 | Positive | 1.45 |
| | Japan | USD / JPY | 111 | Neutral | 111 | Neutral | 111 |
| | Switzerland | USD / CHF | 0.94 | Neutral | 0.93 | Positive | 0.91 |
| | Australia | AUD / USD | 0.76 | Neutral | 0.76 | Positive | 0.80 |
| | New-Zealand | NZD / USD | 0.70 | Positive | 0.72 | Positive | 0.75 |
| | Canada | USD / CAD | 1.26 | Neutral | 1.25 | Neutral | 1.25 |
| Asia | China | USD / CNY | 6.55 | Neutral | 6.60 | Neutral | 6.50 |
| | India | USD / INR | 73.3 | Negative | 75.0 | Negative | 75.0 |
| Latam | Brazil | USD / BRL | 5.77 | Positive | 5.30 | Positive | 4.50 |
| | Mexico | USD / MXN | 20.52 | Positive | 20.0 | Positive | 18.0 |
| EMEA | Russia | USD / RUB | 75.43 | Positive | 74.0 | Positive | 68.0 |
| | South Africa | USD / ZAR | 14.83 | Neutral | 15.0 | Neutral | 15.0 |
| | USD Index | DXY | 93.20 | Neutral | 91.7 | Negative | 88.9 |

Source: Refinitiv Datastream

We expect a lower demand for safe-haven currencies . We adjust our 3- and 12-month USDJPY targets to 111(from 104 and 102, respectively). We adjust our 3-month target for the USDCNY to 6.6 (from 6.5) and our 12-month target to 6.5 (from 6.4) due to a reduced yield differential.

- The steepening of the US Treasury curve and upward revisions in US growth have propelled the USDJPY to very high levels. At its March 19th meeting, the Bank of Japan (BOJ) confirmed the expansion of its 10y yield curve control target range to +/–0.25%, but except that we expect the BOJ to leave its stance unchanged for the foreseeable future.
- The currency is likely to remain under pressure in the coming months due to reduced safe-haven demand amid a global growth recovery and further widening yield differentials with the U.S.
- **Therefore, we adjust our 3- and 12-month USDJPY targets to 111 (from 104 and 102, respectively). This suggests a stable pair from now on.**
- The move up in US treasury yields these last few weeks has eroded the yield advantage of Chinese government bonds over the US ones. The decline in PMIs reflects the slowing underlying momentum. China also has a more neutral monetary stance as well which could impact the CNY. We expect the Central Bank to continue to focus on stabilizing macro leverage and financial risk control. Lastly, higher commodity prices, especially for crude oil, could raise import values and thus reduce the trade surplus, which can in turn weaken the currency.
- **Therefore, we adjust our 3-month target to 6.6 (from 6.5) and our 12-month target to 6.5 (from 6.4) for the USDCNY (value of one dollar). This suggests some downside near-term for the CNY followed by a period of appreciation over the year.**

05

# Equities

Global Equities view
Theme in Focus
Asian Equities view
Sector Allocation
Sector Preferences

BNP PARIBAS
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# Equities at a glance

**Steeper yield curve can coexist with higher equities:** Given the acceleration in global growth forecasts post Biden's $1.9 trillion stimulus package, with potentially a further $3 trillion jobs and infrastructure package to follow. The ECB are playing their part by increasing their monthly bond purchases, to calm euro yields.

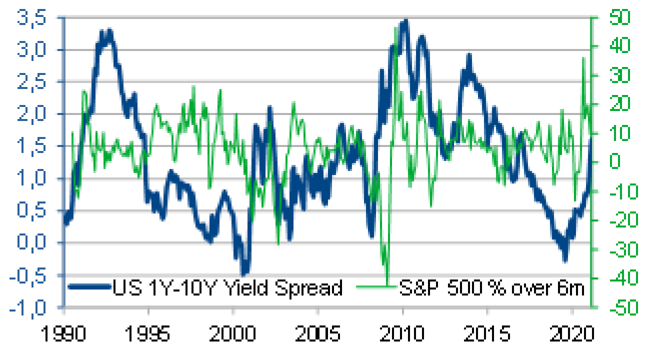
**Near-term inflation worries overplayed:** 10-year Treasury yields have pulled back from the 1.7% level, as high unemployment and temporary base effects should fade by late 2021. The Fed remains measured.

**Earnings momentum favours value, reopening plays**: Earnings momentum in value stocks has hit a multi-year high, led by Banks and homebuilders.

**The UK remains a strategic choice**: The depressed valuation of UK equities, combined with early April reopening of the consumer economy and a cyclical value bias make this a key positive regional view.

**Positive still on equities, but beware Big Tech**: Signs of potential underperformance in US Big Tech build – we would rotate into US cyclical value.

## Steeper yield curve, rising S&P 500




*Source: BNP Paribas, Bloomberg*

## Sectors: Banks in focus

**Banks continue to outperform**: US banks lead the way, touching their highest level since 2007. In Europe, bank earnings trends in Q1 remain strong supporting a near 5% dividend yield. **We like Materials, Industrials, Financials, EU energy and Real Estate.**

## Factors: Low Quality has been winning!

⊕ **Low quality, high debt best in March**: Of the classic smart beta factors, most performed in line over March with the exception of US Momentum, which showed sharp underperformance. Leaders in March were curiously companies with low quality, and high debt levels.

## Theme: Semiconductor structural growth

⊕ **Semiconductors the strategic choice:** with strong order demand combined with supply disruption at key auto chip supplier Renesas, the semiconductor sector remains our favourite Technology subsector. We focus in particular on semiconductor equipment manufacturers.

## Regional Allocation: UK, Japan over Nasdaq

⊕ Regional bias to EM, Japan, eurozone, UK: Europe led the way in common currency terms over March, with the UK very attractive on a cyclical value basis. Non-UK investors can benefit from exposure to stronger sterling.

⊜ Neutral on US exposure, given rising risks to mega-cap Tech from increasing regulation, taxation and long-term interest rates. Remember that highly-valued tech stocks are very long duration assets.

## Risks

⊜ Slow Euro vaccine rollout and renewed restrictions have held back certain reopening plays, but we expect the Eurozone to bounce back sharply in Q2, boosting consumption sectors.

# Global Equities view

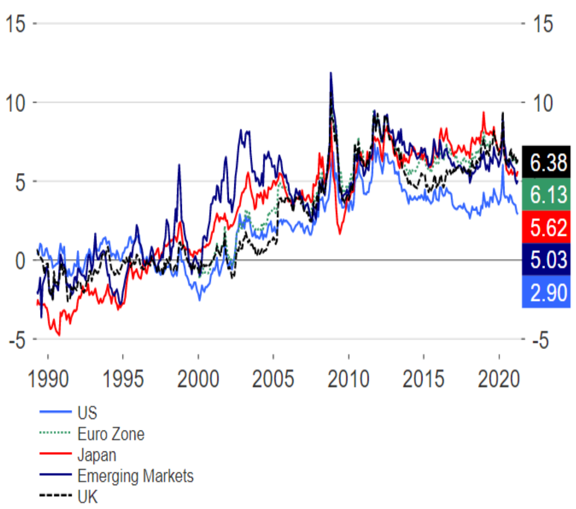
Equity risk premia remain high, supporting equities over bonds

## LONG WAY TO GO BEFORE RISING YIELDS TO HURT EQUITIES

The three key drivers for equities globally have not changed: 1) Plentiful liquidity thanks to central banks and governments, 2) negative long-term real yields underpinning valuations and 3) strong rebound in earnings momentum for 2021 and 2022. Should VIX implied volatility fall durably below 20, we could also see a new, favourable volatility regime installed.

- **Equities still offer good value**: when judging equity market valuations relative to sovereign bond and investment grade credit, equity risk premia still point to good value in global equities, notably in the UK, Eurozone and Japan.
- **Strong earnings momentum post Q4 2020 results**: STOXX Europe consensus earnings forecasts for 2021 and 2022 continue to be revised higher, +5.4% since the start of 2021, and +1.4% over March alone. This is even better than for US companies – the S&P 500 index's 2021 aggregate earnings forecasts have risen by 5.6% since the start of this year, and by +0.6% over March.
- But Japan's earnings momentum is trhe most impressive of all: the TOPIX index's 2021 consensus earnings forecast has improved by 13%since the start of 2021, and over 5% over March alone.

Equity Risk Premia remain elevated



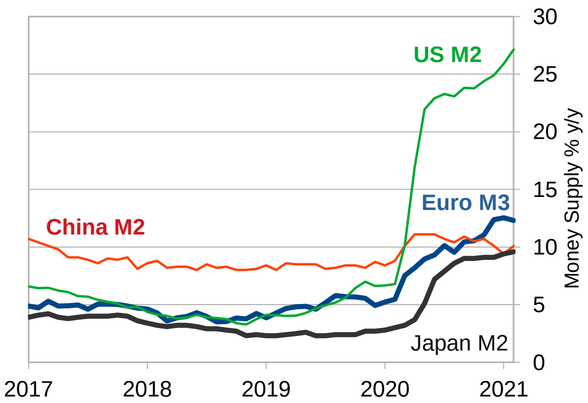

Source: Refinitiv Datastream, 31/03/2021

## MONEY SUPPLY GROWTH = BOOMING LIQUIDITY

Financial conditions remain very loose despite the recent backing up of US bond yields to 1.6%. Long-term real rates remain solidly negative in the US, Eurozone and UK, while money supply growth also accelerates in the US, Eurozone and UK. Add the $1400 stimulus checks recently mailed out to qualifying US households, to result in booming liquidity conditions for global equity markets.

- **Liquidity abundant**: ECB excess liquidity has reached a new high at end-March of almost EUR4 trillion; while the Goldman Sachs US financial conditions index sits close to its lowest levels in over 10 years.
- The upshot of the efforts of central banks and governments to support the global economy is ongoing acceleration in broad money supply growth, evident in the US, Eurozone, Japan and UK.
- **According to EPFR**, the USD1.9 trillion of US fiscal stimulus has added fresh fuel to the global reflation narrative. This narrative in turn has lit a fire under flows to Equity Funds, which took in over USD20 billion for the fifth straight week to Mar 12, and remained on track for a new Q1 2021 quarterly inflow record as year-to-date flows moved within striking distance of the USD240 billion mark.

Strong money supply growth globally




*Source: Bloomberg*

# Theme in Focus

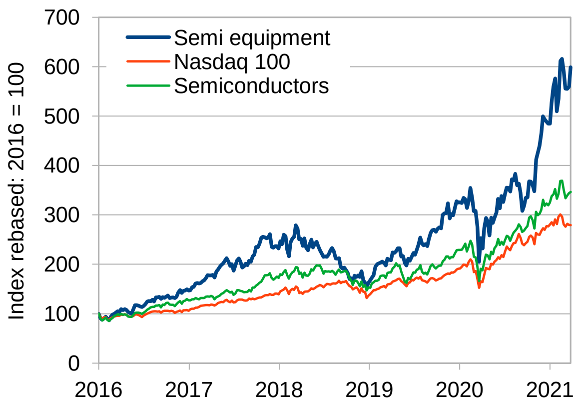
Strategic focus on semi equipment makers

## SEMI EQUIPMENT MAKERS HIT A SWEET SPOT

Of late, the widespread semiconductor chip supply shortages have hit global technology and auto companies, with a lack of supply of graphics processors, DRAM memory and even LCD panels. Combined with the geopolitical strategic nature of this key technology sector for the US and China, semi equipment makers look best placed to benefit.

- **Widespread chip shortages:** A number of global carmakers including Ford, Stellantis and Nio have announced temporary plant shutdowns due to q shortage of chips for their cars.
- **Taiwan the new semi battleground**: with Taiwanese foundry companies the focus of global outsourced semiconductor production, Taiwan has become a new strategic battleground as China strives to develop its own domestic semiconductor industry. The US is also increasing domestic production of semi chips, so as to lessen its dependence on Taiwan.
- **Semi equipment makers to see a strong upcycle**: semi industry investment looks set to explode over the next 2+ years as a result of these trends, with Artificial Intelligence, 5G and cryptocurrency/blockchain development driving structural semi demand growth.

Semi equipment makers are best placed today




*Source: BNP Paribas, Bloomberg*

## FACTORS: THE VALUE ROTATION CONTINUES

In March, Value continued to lead the way in factor terms in both Europe and the US, while Small-caps saw some under-performance after very strong performance since November 2020. We remain positive on cyclical value exposure given the strong trend of macro growth upgrades, steepening yield curves and the impressive run of earnings forecast upgrades, especially in value stocks.

| Factors | 01 Jan - 30 Mar 2021 | 28 Feb - 30 Mar 2021 |
|---|---|---|
| **Europe:** | | |
| Value | 10,2% | 6,2% |
| Quality | 8,6% | 5,1% |
| Momentum | 7,2% | 5,1% |
| Small-cap | 6,8% | 2,1% |
| Low Volatility | 6,2% | 6,8% |
| **US:** | | |
| Momentum | 17,6% | 2,4% |
| Small-cap | 17,2% | -1,6% |
| Value | 9,1% | 4,3% |
| Quality | 8,1% | 2,0% |
| Low Volatility | 2,3% | 4,1% |

*Source: BNP Paribas*

# Asian Equities view

## CHINA STOCKS: MAJORITY OF NEGATIVE NEWSFLOW ALREADY PRICED IN

### ASIA COUNTRY PREFERENCE

| + | = | – |
|---|---|---|
| COUNTRY | | |
| China, Taiwan<br>Singapore<br>South Korea<br>India, Indonesia | Thailand<br>Malaysia<br>Philippines | - |

Sharp rise in longer-term US yields and concerns over domestic policy tightening (including the increasing regulatory pressure on China's tech giants) triggered a long overdue correction in Chinese equities in February and March. Administrative measures have been used in the tightening of the tech and property sectors to shape a more sustainable and competitive landscape for the former and to curb the bubble for the later. Concerns over monetary tightening could be overdone as monetary conditions remain steady in China. Foreign fund flows remain strong with Hong Kong stock market seeing 30 consecutive weeks of net inflows.

We believe a lot of negative news on the anti-trust regulatory headwind on China techs and the potential de-listing of China ADRs in the US are already priced. Valuations, especially for some quality tech names, have become attractive again, offering medium-term buying opportunities for investors.

## Asian techs' valuations look attractive again

### STRONG EARNINGS GROWTH IS EXPECTED IN 2021

| | | 1-month (%) | YTD (%) | 2020 (%) | Forward PE (x) | Trailing PB (x) | Dividend Yield (%) 2021f | EPS Growth (%) 2021f | EPS Growth (%) 2022f | ROE (%) 2021f |
|---|---|---|---|---|---|---|---|---|---|---|
| | Asia Ex-Japan | -2.8 | 2.4 | 22.5 | 16.6 | 2.1 | 2.2 | 28.4 | 16.8 | 10.8 |
| North Asia | China | -6.6 | -0.8 | 25.9 | 16.2 | 2.3 | 2.0 | 17.8 | 17.6 | 10.5 |
| North Asia | Hong Kong | 1.1 | 8.0 | 2.1 | 17.5 | 1.4 | 2.6 | 33.3 | 10.4 | 8.6 |
| North Asia | South Korea | 0.2 | 4.4 | 34.0 | 13.6 | 1.3 | 2.3 | 56.0 | 23.3 | 12.3 |
| North Asia | Taiwan | 2.6 | 13.3 | 28.6 | 18.3 | 2.9 | 2.3 | 19.0 | 10.6 | 16.9 |
| South Asia | India | 0.4 | 3.7 | 16.8 | 22.4 | 3.5 | 1.2 | 34.7 | 18.5 | 9.4 |
| South Asia | Indonesia | -1.4 | -1.4 | -9.5 | 16.2 | 2.5 | 2.6 | 30.2 | 21.5 | 14.4 |
| South Asia | Malaysia | 1.6 | -1.9 | -1.7 | 14.3 | 1.7 | 3.0 | 91.1 | -6.4 | 11.5 |
| South Asia | Philippines | -2.2 | -7.3 | -9.7 | 16.5 | 1.7 | 1.6 | 50.8 | 22.7 | 8.4 |
| South Asia | Singapore | 6.3 | 10.7 | -12.8 | 14.6 | 1.2 | 3.1 | 43.5 | 16.1 | 6.8 |
| South Asia | Thailand | 5.2 | 7.5 | -13.9 | 19.4 | 2.0 | 2.2 | 46.7 | 20.6 | 8.3 |

*Source: Datatstream, BNP Paribas (WM) as of 30 March 2021*

# Sector Allocation

Stay with Cyclical Exposure

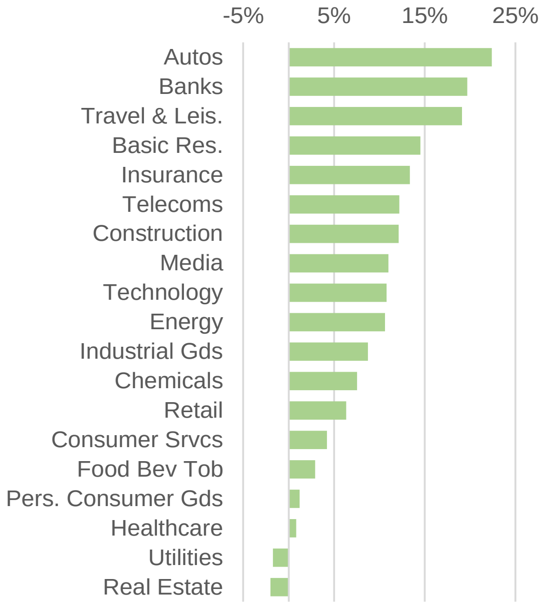
## CYCLICALS STILL HAVE POTENTIAL !

Business confidence is reaching new highs. The economy is recovering faster and stronger than expected, particularly the manufacturing sector, and in these countries well advanced in their vaccination campaigns (US, UK, Israel, etc). Inflation expectations are rising and yield curves keep steepening.

Cyclicals are not that expensive yet, especially as long as the economic indicators and earnings revisions are going up. Growth sectors remain vulnerable due to their higher valuations. We are comfortable with our current sector allocation and we do not change our views this month.

- Paradoxically, due to some reassuring comments from the political and monetary authorities about inflation (and some control of the long term yields!), March has rather been a consolidating month for the sectors that have been leading in the stock markets recovery (energy, materials, industrials, etc).
- And the other way round for Growth/ defensive sectors traditionally weak in a strong economic and rising yields environment (utilities, consumer staples, health care, real estate were better). Deep value (sub-) sectors have kept performing well (autos ex Tesla, banks).
- **We think that the big rotation from Growth/ Defensives towards Value/ Cyclicals is NOT over**, especially now that Mr. Biden and the democrats have started to promote a huge infrastructure plan in the US.

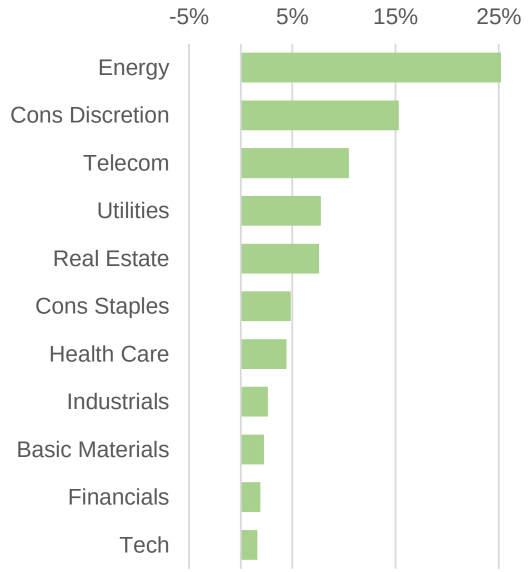
Europe sectors: year-to-date performance




*Source: STOXX. Note: performance to 30 March*

- **Some of the best 'hedges' against rising yields and inflation are real assets and equity, particularly Banks (they hold the best sector correlation with rising yields). Also, we still like Materials, Industrials and Real Estate.**
- The most risky sectors in the current environment (inverted correlation with rising yields) are Consumer staples and Utilities (both are rated 'negative').
- **Also, after great performances in 2020 and early 2021, Big Tech is vulnerable and relatively expensive.** We therefore favour a thematic approach for technology (we like semiconductors, 5G, AI, e-Gaming). And we propose a similar approach for consumer discretionary and for communication services.
- Healthcare (=) remains a good defensive diversification but some selectivity/ stock picking is necessary.

US sectors: year-to-date performance




*Source: FTSE Russell. Note: performance to 30 March*

# Sector Preferences

| | SECTOR (MSCI level 1) | INDUSTRY (MSCI level 2) + | = | - |
|---|---|---|---|---|
| + | Materials | Materials | | |
| | Industrials | Commercial Services & Supplies<br>Infrastructure<br>Capital Goods<br>Transportation | | |
| | Financials | Banks & Divers. Fin.<br>Insurance | | |
| | Real Estate | Real Estate | | |
| = | Energy | EU Energy | US Energy | |
| | Technology | | Tech Hardware<br>Software & Services<br>Semiconductors & Equip | |
| | Health Care | | Pharmaceuticals & Biotech<br>Health Care Equipt, tech & Services | |
| | Consumer Discretionary | | Consumer Durables & Apparel (Luxury goods)<br>Consumer Services<br>Retail<br>Automobile & Components | |
| | Communication Services | | Telecom<br>Media | |
| - | Utilities | | | Utilities |
| | Consumer Staples | | | HPC<br>Food & Beverage<br>Food Retail |

Source: BNP Paribas - WM

06

# Commodities

Oil

Gold & Base Metals

# Commodities at a glance

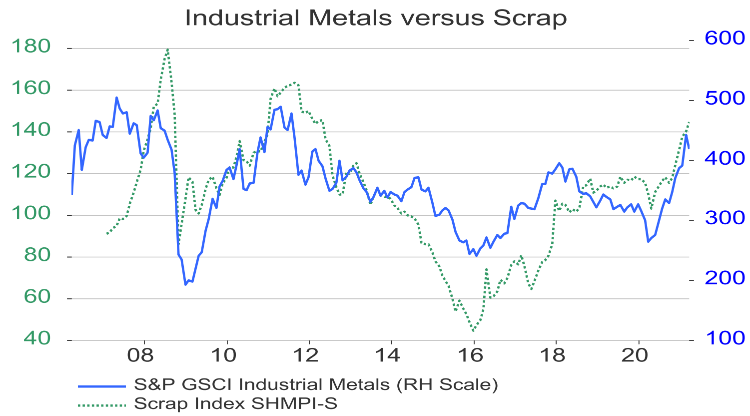
**Gold**: higher US bond yields, USD strength and a strong appetite for risky assets on the back of improving growth outlook explain gold underperformance. The ounce dropped to $1680.

**Base metals**: after their strong rally in the first two months, industrial metals consolidated their advance in March leaving tin at +23% ytd, copper +13% and aluminium also +13% (26/3)

**Oil**: After reaching $71 in March on the back of stronger growth outlook, Brent price dropped on new lockdown measures in Europe to $60 before rebounding during the blockage of the Suez canal.

## BASE METALS

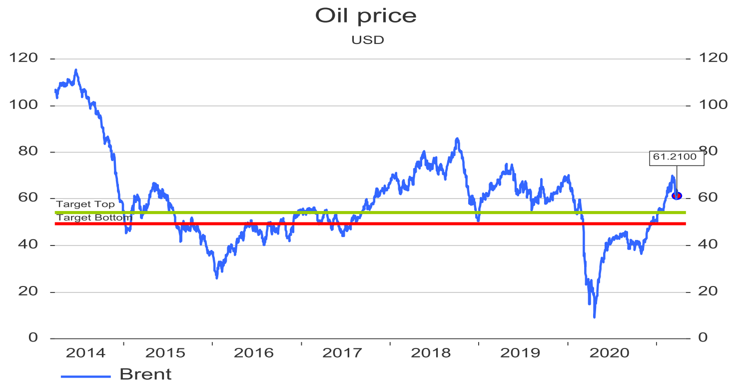
Chinese demand, fiscal stimuli around the world, focus on infrastructure spending and energy transition, lack of investments in recent years are ingredients for a new super cycle.




Source: Refinitiv Datastream, 3/25/2021

## OIL

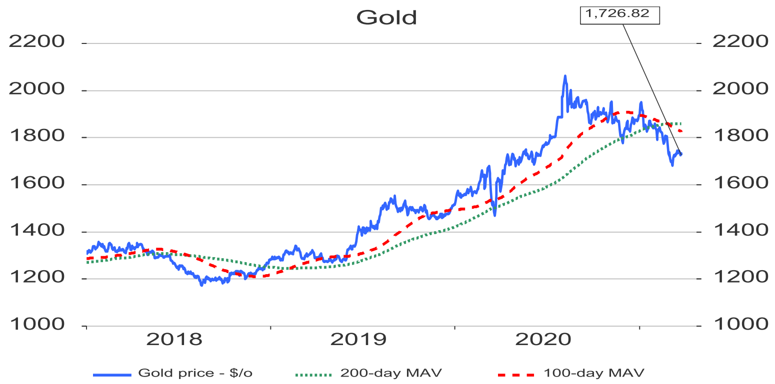
We moved from positive to neutral in March after the strong rally. Excess capacities are still huge and should come back progressively on the market. We expect Brent to trade in the $55-65 range in 2021 and higher after.




Source: Refinitiv Datastream, 3/25/2021

## GOLD

Present price weakness offer buy opportunities. Inflation fears, perceived excessive money creation,, negative real yields and expected USD weakness, should push gold back to $2000/oz or above.




Source: Refinitiv Datastream, 3/25/2021

Our position for this month

Evolution of our position from last month

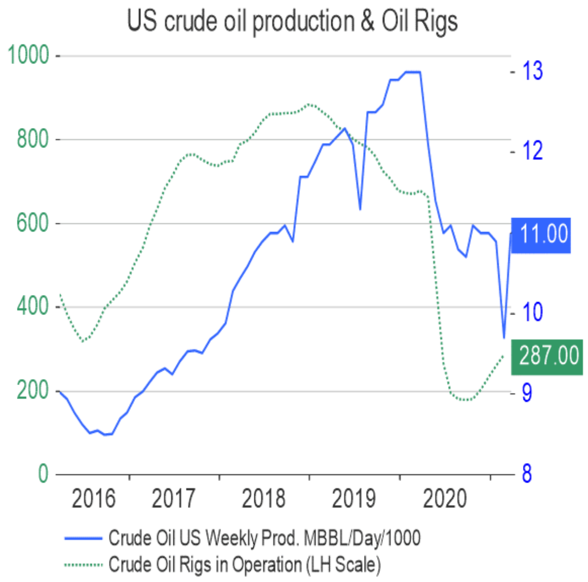
# Oil

## Light at the end of the tunnel

New lockdown restrictions in Europe and Brazil have spoked the oil market. While Europe reopening is pushed to Q3, the US growth outlook has been revised higher, so the net effect should not change significantly the demand balance of the year . We expect Brent to trade in the range $55-65 in 2021 and higher after. So in the short term we are neutral on oil but positive on the medium term

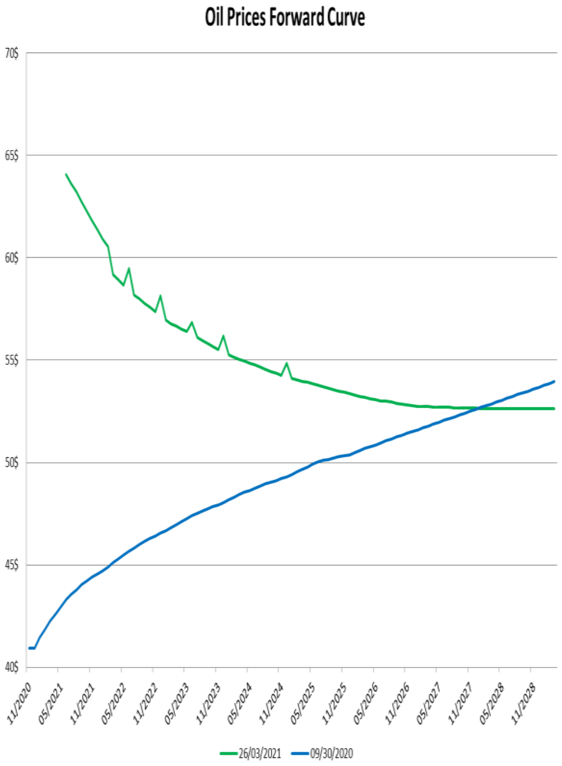
The term structure of the Brent futures is now in strong backwardation leading to a high rolling yield of 9% on one year. This with our positive outlook for the coming years are reasons for investors to keep their oil ETFs or buy on dips.

- Saudi Arabia decision to extend its 1mb/d production cut in April and OPEC+ to keep their quotas unchanged left the total production restraints in excess of to 7 mb/d..
- The US shale oil industry is slowly recovering but the total US output remain well below its pre-covid peak (11 mb/d vs 13)
- The vaccines roll-out should boost demand in H2
- The medium-term outlook is bullish due to the low level of investment decisions made during the 2014-2017 downturn and again in 2020. Financing new investments will become more difficult as their long term profitability is put into question by the energy transition. As a consequence, a spike in price is likely between 2022 and 2025. This could accelerate the energy transition, which negative impact on oil demand is expected to become significant from 2025.




Source: Refinitiv Datastream, 3/25/2021

- **Backwardation**: is when the prices for future delivery decline in function of the maturity of the contracts
- **Contango**: is the opposite situation, prices for future delivery increase in function on the maturity of the contracts.
- **Rolling yield**: Commodity funds and ETFs invest via the future market and as they do not want to take delivery of the commodities they "roll the contracts" i.e. sell the contracts about to mature to buy new ones with a longer maturity. If they buy at a cheaper price, they make a gain when the contract arrives close to maturity (everything else unchanged), they have a positive rolling yield. In a contango situation, the rolling yield is negative.
- Final commodity users are usually ready to pay a higher price for immediate delivery. When supply is constrained and demand increases, the backwardation tend to increase. Inversely, excess supply tends to lead to contango.




Source: Refinitiv - DataStream

# Gold

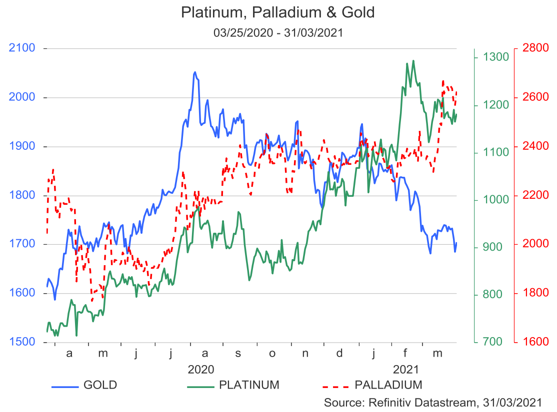
Further weakness below $1700/oz should offer buying opportunities. It's just a matter of time before inflation fears, worries of excessive money printing, negative real interest rates and a resumption of dollar weakness propel gold prices back to $2000 or above. We expect central banks to prevent long term yields to rise too fast and too high.

- Historically, periods with very high debt/GDP ratios were characterized by negative real interest rates
- Jay Powell pledged support 'as long as it takes' and foresee no rate hikes in 2022-23.
- The ballooning twin deficits should lead to renewed dollar weakness and benefit gold.
- Worries related to the medium term consequences of the use of unconventional monetary instruments are good for gold. This is why gold is a also hedge against a weak growth scenario requiring even more QE.
- Gold is also a hedge against an overheating scenario (rising inflation)
- Gold's supply and demand dynamic remains positive for the precious metal. Investors are the marginal buyers/sellers moving the prices. The positioning on the future market is now quite negative (a positive contrarian indicator)
- Risk scenario: strong growth with rising real yields


# Silver – Platinum - Palladium

We are positive on silver, platinum and palladium not only because of our view on gold and real assets, but also on account of the increasing demand for industrial usage linked to energy transition while there are constraints on the supply side.

- Silver is used for solar panels and connectors, palladium for autocatalytic converters (rising demand due to stricter emission standards and carbon taxes), while platinum is increasingly becoming a substitute for palladium in the automotive industry and should play a key role in the hydrogen economy (electrolysers and fuel cells).
- The silver-gold ratio is positively correlated (76%) with the ratio of cyclical stocks versus the overall market (silver outperforms gold when cyclical stocks outperform).
- Platinum is the critical metal used in the process that separates water into hydrogen and oxygen. Platinum also has a small jewelry market. Jewelry demand will remain healthy due to platinum's hefty discount to gold.
- The palladium market has been in deficit since 2012. Demand has risen sharply over the years as auto-makers use more of the metal to meet tightening emission standards of diesel-powered vehicles. Supply disruption due to a flooding of 2 Norilsk's mines in Russia (8% of the global production) sent prices up 25%.

07

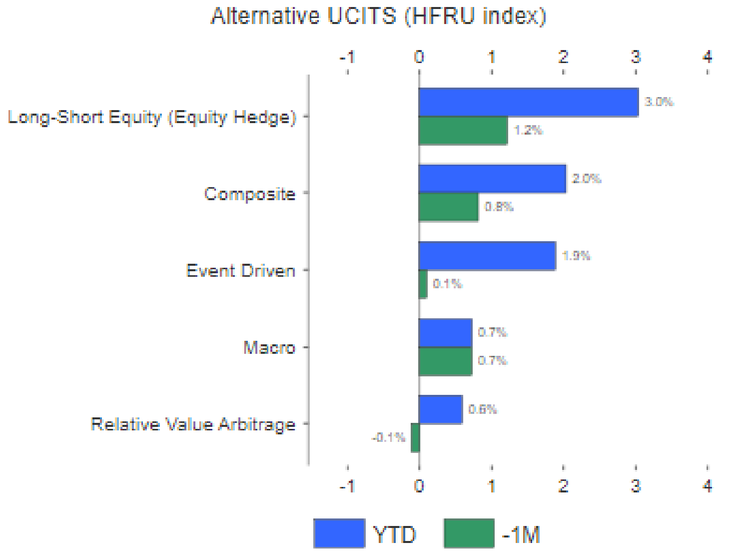
# Alternatives

Alternative Investments

# Alternative Investments at a glance

Hedge funds enjoyed a very strong month in February across many strategies. Performance in equity and credit strategies recovered strongly during the first half of the month.

**We have a preference for Long-Short, Relative Value et Event Driven strategies.**



Source: Refinitiv Datastream, 29/03/2021

## Global Macro

**Neutral**. Protection role of macro funds less important even if still present. With the Biden agenda (large infrastructure spending, tax hikes, regulations), one can expect pressure on the dollar, rising and volatile rates, possibly inflation, and possibly pressure on equities and emerging markets

## Long / Short Equity

**Positive opinion**. Even as the pandemics risk decreases, there will be winners and permanent losers, giving long/short opportunities for stock pickers. US government plans to raise taxes, increase regulations, and rising rates/inflation should have a differentiated impact on equity sectors and industries.

## Event Driven

**Positive**: Active capital market activity to continue: M&A, IPOs, spinoffs, SPACs as borrowing costs remain cheap, corporates have replenished cash balances, and private equity has ample cash to deploy. Some areas of SPACs have become liable to corrections. M&A spreads remain attractive due to the significant amount of large deals and after the recent period of volatility.

## Relative Value

**We are positive**: Covid-19 continues to generate winners and losers, which credit long-short managers can exploit, long and short. As economies recover, there is potential for these managers to express longs in cyclical, beaten down sectors. Convertible bond arbitrage is in a sweet spot, with record issuance post crisis (also including SPACs), and high single stock volatility.

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