Investment Strategy Focus

Summary

1. **Macro risk eases from peak, upgrade US equities to Neutral**: macro risk indices are falling from recent peaks, with financial conditions improving. These factors are positive for risk assets, including stocks. We have moved US equities to Neutral (from Negative).

2. **Upgrade to Neutral on US long-term government bonds.** High inflation and a steep expected increase in the US Fed Funds rate have forced US and German bonds yields sharply higher. Government bonds have suffered their worst quarter in history. We prefer short-term (2-3Y) US Treasury bonds.

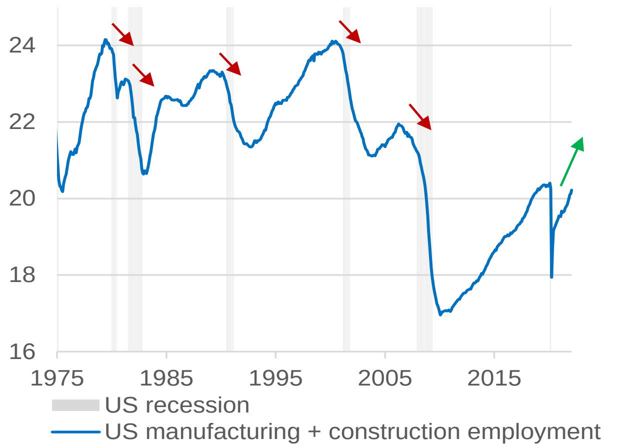
3. **Lower growth, higher inflation:** triple-digit oil and gas prices keep inflation high and depress future growth. We revise our growth forecasts lower, inflation expectations higher. Despite these headwinds, we still look for above-trend European and US growth in 2022. Commodities, related equities outperform during high inflation.

4. **Potential re-rating opportunities in Chinese equities** over this year, should positive policy signals translate into easing financial conditions, and the implementation of specific measures to support the property market. Our Neutral EM, Chinese equities stance could change, if we see these catalysts emerge.

5. **Circular economy leaders post strong recovery:** we see an attractive entry point for investment products focused on the circular economy, energy efficiency and renewable energy.

Contents

US CYCLICAL EMPLOYMENT PREDICTS RECESSIONS, BUT NOT PRESENTLY



Source: Bloomberg

Edmund Shing, PhD

Global CIO

BNP Paribas Wealth Management

Focus: the Inverted Yield Curve

An "inverted yield curve" is not the end of the world

What is an "inverted yield curve" in bond markets? An inverted yield curve means that a short-term (e.g. 2-year) US Treasury bond is paying a higher interest rate than long-term (e.g. 10-year) US Treasury bonds.

Why does this scare investors? Each of the last 6 economic recessions occurred after this 2y-10y US yield curve had inverted (turned negative). Recessions tend to be bad for economically-sensitive risk assets - stocks, high yield credit, real estate and private equity.

A signal, not a cause of recession. An inverted yield curve is not the catalyst that sparks a recession. Rather, it highlights that bond investors are worried about the US economy's long-term growth prospects.

Not every yield curve inversion leads to recession. There have been instances when this US yield curve has turned negative, but have not resulted in a recession. June 1998 was one such occasion. But more often than not since 1979, recessions have eventually followed.

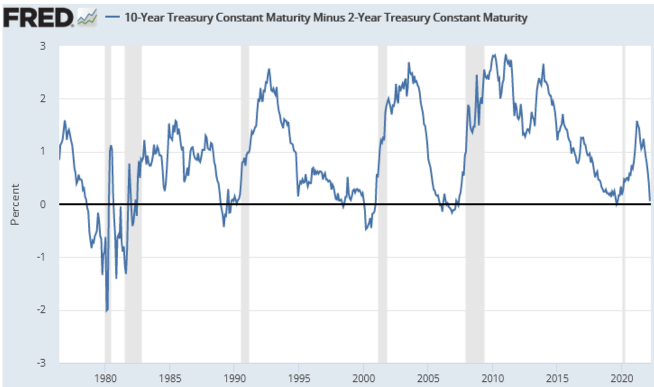
Stock markets peak 10 months post yield curve inversion, on average. Timing any potential recession on the back of this bond market signal is difficult. Previous recessions (1973 and after) have started on average 21 months after initial yield curve inversion, but with huge variability around this average period.

What is more, the S&P 500 stock index has averaged a further 12% gain from the initial yield curve inversion to the final stock market peak (which has averaged 10 months after inversion).

Which sectors outperform post inversion? Defensive sectors have tended to outperform in the past when the 2-year US bond yield was higher than the 10-year yield, including Utilities, Pharmaceuticals and Consumer Staples.

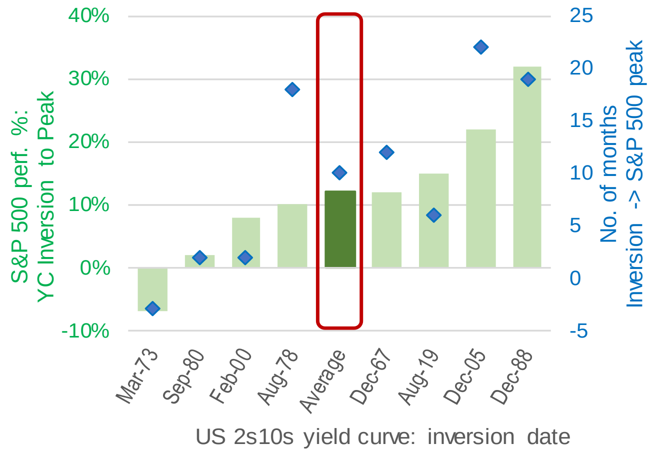
One big difference today: real interest rates. In past yield curve inversions, real rates have averaged +2%, slowing economic growth. Today, the 10-year real US bond yield remains negative at -0.5%, thus far lower.

THE LAST 6 US RECESSIONS FOLLOWED AN INVERTED 2Y-10Y YIELD CURVE



Source: St Louis Fed. Note: shaded areas represent recessions

HISTORICALLY, S&P 500 INDEX PEAKED 10 MONTHS AND 12% HIGHER POST INVERSION



Source: BNP Paribas, Bloomberg

Investment Conclusion

Even if the current US bond yield curve inverts (i.e. 2-year bond yield above 10-year yield), this does not guarantee that a recession is coming. We look for a downturn in cyclical employment as confirmation of looming recession. Even if a recession is signalled, it may still not arrive for 2 years or more. Most importantly, stock markets have usually gained (average of 12%) for c. 10 months after a yield curve inversion. Favour defensive sectors post inversion, we prefer the Health care sector.

The Big Picture: Economic Outlook

Base scenario: slow decline in inflation

Recent business, and especially consumer surveys, have shown the impact of the military conflict in Ukraine (see chart). There are, however, significant differences between countries and sectors. The eurozone is most exposed due to the high share of energy imports. Indeed, in Germany, the IFO Business Climate index has fallen sharply whereas in France, the decline of business surveys is more limited. Services tend to hold up somewhat better than Manufacturing.

Underlying fundamentals, however, remain solid. **Job creation is very strong** in most western economies, and this should support income. **Growth in 2022 is expected at 2.8% in the eurozone and 3.7% in the US. For 2023, we see 2.7% and 2.5% respectively**.

The military conflict in Ukraine has increased the uncertainty of how fast inflation can decline. We remain confident that inflation rates will peak over the coming months, albeit at high levels. The speed at which inflation rates fall back depends a lot on the evolution of oil prices. **In our base scenario, we expect eurozone inflation at 6.7% and 3.2% for this and next year respectively. For the US, the figures are 7.5% and 3.4%.**

Alternative scenarios: negative and positive

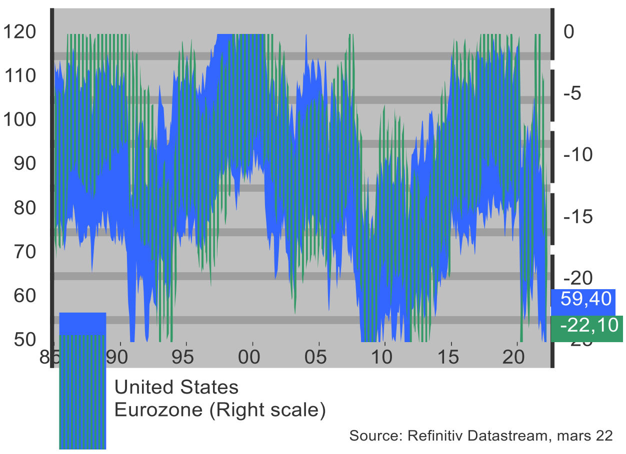
Negative scenario - Oil price spike, gas rationing. The realistic worst-case scenario is a total halt of oil and gas imports from Russia. This would lead to a further spike in prices (oil prices could reach USD180), and also to a gas rationing-shock. The economies most at risk from such a gas supply cut are Germany, Finland, and Eastern Europe (see chart below).

Under this scenario, **growth in the eurozone would be just above zero this year** (0.7%) and would probably include two consecutive quarters of negative growth. We would, however, expect a rebound in 2023 with +3.3%. The United States, much less affected by such a scenario, would see growth about 1% lower this year compared with the base-case scenario (2.4% versus 3.7%).

Positive scenario - a relatively quick resolution of the conflict, where de-escalation would come gradually. Sanctions would not be withdrawn immediately, thus supply disruptions would continue. We would still expect business and consumer sentiment to improve, as governments proceed with their infrastructure and defence spending programmes. Compared with our base-case case, growth in the eurozone would be about 0.7% and 0.3% higher this and next year respectively. For the US the differences would be much smaller.

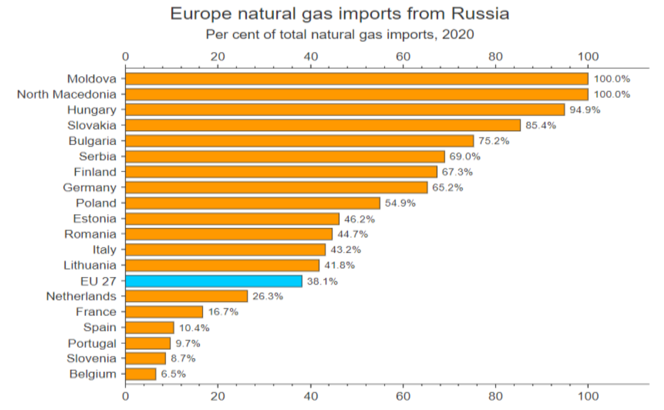
Guy Ertz

SHARP FALL IN CONSUMER CONFIDENCE



Source: Refinitiv Datastream, mars 22

EASTERN EUROPE, GERMANY MOST EXPOSED TO RUSSIAN NATURAL GAS IMPORTS



Source: Refinitiv Datastream, N/A

CONCLUSION

Due to the recent sharp fall in business, and especially consumer confidence, we have revised our growth forecasts. The eurozone is most exposed due to the high share of energy imports. We look for 2.8% growth in the eurozone and 3.7% in the US. For 2023, the figures are 2.7% and 2.5% respectively. We expect eurozone inflation at 6.7% and 3.2% for this and next year respectively. For the US, the figures are 7.5% and 3.4%.

Bond Outlook

A historic bond sell-off

Playing catch-up? Market participants have consistently reassessed higher the expected pace of rate hikes in the US and the eurozone amidst accelerating inflation. In February, headline inflation was close to 8% in the US and close to 6% in the eurozone. Market participants now expect the Fed to deliver another 200bps of rate hikes by the end of the year, and the ECB to hike rates by about 55bps. We doubt this will be achieved. We also doubt that this will bring inflation down, as much of it is driven by energy prices and supply chain disruptions.

Massive moves. The consequence of the repricing of interest rate hikes and the Fed's intense focus on fighting inflation is a massive upward move in bond yields (see chart). Rate volatility has jumped to levels close to those seen during the pandemic shock.

We have increased our 12-month targets as a result, to 2.50% for the 10-year Treasury yield and to 0.75% for its German equivalent.

We expect a flatter yield curve (difference between the 10-year rate and the 2-year) in the US. An inversion of the yield curve may occur, but we do not see it lasting, neither do we anticipate a recession this year or next.

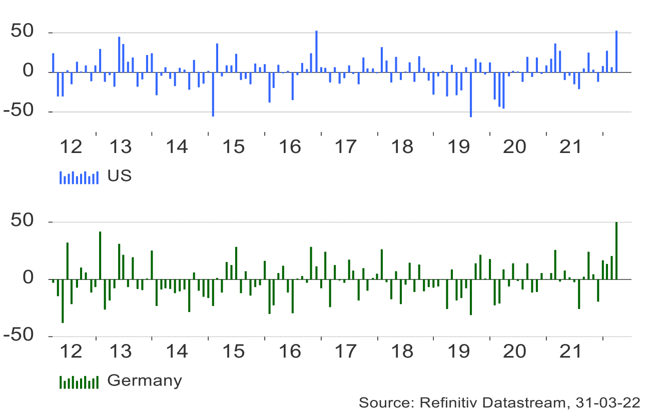
Q1 2022 – a red quarter for bonds. With bond yields soaring, government bonds performed terribly in March: Q1 2022 showed the worst quarterly performance in history! US Treasuries have lost 5.6% since the beginning of the year (see chart) and their eurozone equivalents have fallen 6.0%. Peripheral government bonds have not done better on average. Spreads over bunds actually widened slightly in Italy, Spain and Portugal, while Greek spreads widened more substantially given the uncertainty about the ECB support.

Change of view. In the wake of the sharp rise in bond yields, **we turn Neutral from Negative on long-term government bonds with a preference for the US over the eurozone given the absolute level of yield**.

With the US 10-year yield at 2.5%, upside risk is limited, unless –not our main scenario– the Fed decides to actively sell its bond portfolio as part of its balance sheet reduction strategy. The yield curve is steep up to the 3-year point and flat for longer maturities. We therefore prefer short-term US government bonds up to the 3-year maturity.

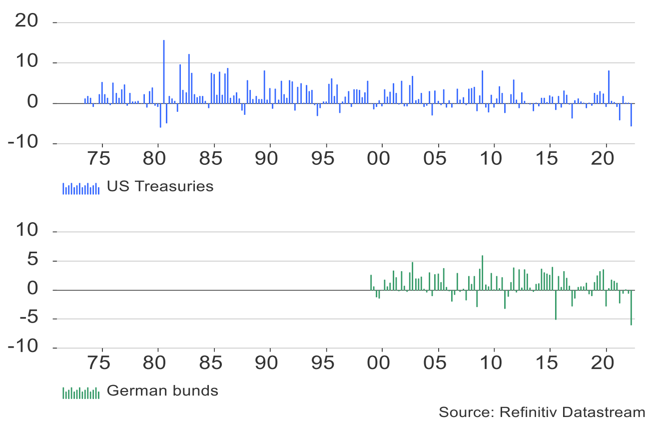
Edouard Desbonnets

MONTHLY CHANGES OF 10-YEAR YIELDS (IN BPS)



Source: Bloomberg, BNP Paribas (WM), as of 28 March 2022

US GOVERNMENT BONDS - QUARTERLY TOTAL RETURNS (IN %)



Source: Bloomberg, BNP Paribas (WM), as of 28 March 2022

CONCLUSION

High inflation and a sharp reassessment of the pace of monetary policies have led to massive moves in US and German bond yields. Government bonds have just ended their worst quarter in history. We turn Neutral from Negative on long-term government bonds, with a preference for the US (2-3 year maturities) over the eurozone given the absolute level of yield.

Equity and Commodities Outlook

Upgrade US stock exposure to Neutral

There are four key reasons to believe this current US stock market rebound can continue:

- **Solid earnings momentum**: US stocks are forecast 9% 2022e EPS growth, plus the 12-month forward S&P 500 EPS forecast continues to rise;
- **Valuations have fallen** over 10% to a S&P 500 2022e P/E ratio of 19x, still not cheap but certainly less expensive than at the end of 2021;
- M**arket-implied risk is receding**, with the VIX Volatility index falling to 20, and the Citi Global Macro Risk index falling to 0.8 from a peak of 0.91;
- **Share buybacks** should remain a key support for stocks at this point, focusing on the Tech, Banks and Health care sectors in particular.

Neutral overall: we remain Neutral overall on Equities as an asset class (including in Europe, Emerging Markets), as we await further potential reduction in uncertainties.

Equity rebound can continue, short term

Potentially past peak uncertainty: oil and gas prices have fallen back significantly from February peak levels, to ease inflationary pressures on the consumer.

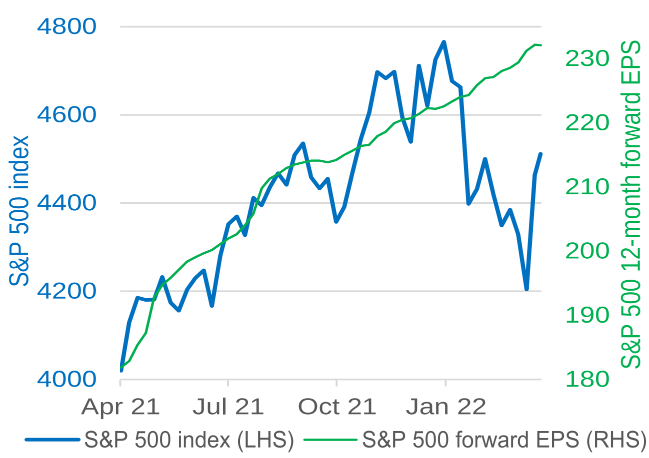
Financial market measures of uncertainty have equally declined from recent peaks. This easing stress in the global economy and markets suggests better days ahead for stocks, real estate, corporate credit and private equity.

Investor confidence surveys have recently hit long-term lows: surveys, such as the American Association of Individual Investors (AAII) bull-bear survey and the Investors' Intelligence Investor Sentiment index, measure the confidence of investors.

These surveys highlight that investor sentiment was extremely depressed at end-February 2022.

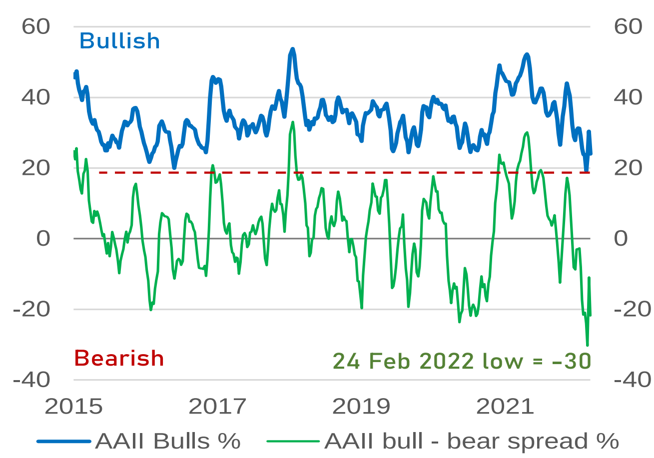
The 8-year low in the AAII survey (-30 AAII low bull-bear reading on 24 February) suggests a 12% return to stock markets over the next 6 months.

S&P 500 CORRECTS, BUT EPS FORECASTS RISE



Source: BNP Paribas, Bloomberg

US RETAIL INVESTORS MOST PESSIMISTIC IN 8 YEARS ON 24 FEBRUARY, 2022



Source: BNP Paribas, Bloomberg

CONCLUSION

Upgrading US stock view to Neutral: we believe that there is room for this stock rally to run. However, given key ongoing uncertainties around a) how far the Federal Reserve will raise rates; b) how high commodity-influenced inflation will stay; and c) how much the US economy will slow, we are only raising our view to Neutral at this stage as the risk of a 2023 recession remains live.

Asia Outlook: Where next for China?

China Equities: a "Show Me" Market

Key catalysts to monitor:

China equities have rebounded following the State Council's pledge to support financial markets and economic growth. How sustainable is this rally?

Our checklist of catalysts to monitor:

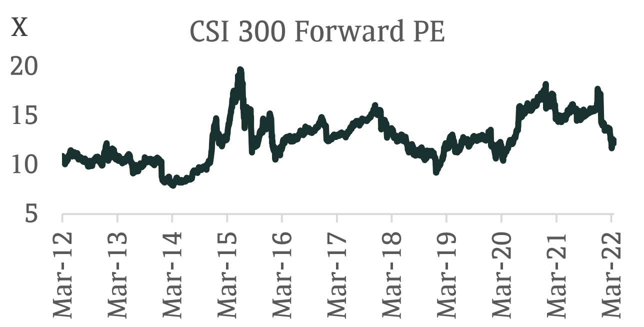
- **COVID-19 concerns:** currently, Omicron is spreading in China as illustrated by the recent shutdowns in Shanghai. There will be some risks to global supply chains and China's 5.5% GDP growth target. However, via employing multiple shifts and factory worker isolation procedures, the impact will be manageable. Furthermore, China has given conditional approval for Pfizer's Paxlovid, a therapeutic drug. Finally, for the first time, zero-COVID policies are being debated. There could be a gradual change in policy after the Party Congress's meetings later in the year.
- **Share buybacks**: in addition, China technology and other companies are announcing large share-buybacks to take advantage of cheap valuations. This helps to cap downside risk and reflects the confidence of management in the long-term prospects of these companies.
- **Policy easing and the property market:** while the State Council spoke about stabilising the property market, we await to see specific measures to achieve that objective.

  A key variable is the reopening of the on-shore funding market for property developers. On the other hand, the impact of the existing RRR (Reserve Requirement Ratio) and rate cuts are starting to be felt as China's credit impulse has improved recently. Also, speculation is growing regarding a loosening of property restrictions in more regions & cities.
- **Regulatory risk premium:** US-China regulators are discussing an agreement on cross-border auditing regulations to avert delistings. Recently, the US side characterised any resolution as "premature". The China government remains supportive of Chinese companies to list overseas. Any confirmed agreement on regulations on the attractively-valued technology sectors would lead to a decline in risk premium. If there is no agreement, many companies are already dual-listed and the formal process for delisting takes three years. Lastly, the finalised details regarding domestic regulation of the technology sector is a key for clarity on the sector.
- **De-escalation of geopolitical tensions and sanction fears**

In summary, these are some of the key catalysts to monitor to unlock the value in China equity markets.

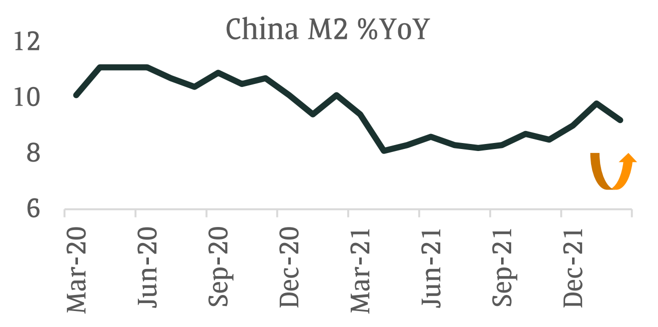
Prashant Bhayani

VALUATION OF CHINA A-SHARES STILL ATTRACTIVE



Source: Bloomberg, BNP Paribas (WM), as of 31 Mar 2022

CHINA M2 POISED TO REBOUND



Source: Bloomberg, BNP Paribas (WM), as of 31 Mar 2022

CONCLUSION

While we retain a Neutral stance on China equities overall for now, we see re-rating opportunities in Chinese equities and selected China credit over the course of this year should these positive policy signals translate into the implementation of specific measures, and effectively revive financial conditions.

Gradual accumulation is recommended in China A-shares and other sectors of the market on weakness, as the majority of catalysts are heading in the right direction.

Theme of the Month

Circular Economy back in vogue

We are very wasteful today: circular think-tank CRCLR found that a clothing item in wealthy Europe is worn on average just seven times before disposal. More disturbingly, a third of food produced globally is thrown away. This wasteful model results in the average person producing 1.2kg of refuse per day.

Out with the Linear economy, in with the Circular economy: we need to move away from the extract-make-use-dispose product cycle, and increasingly move towards a circular model - **a new model inspired by nature.** There is no waste in nature. Materials are not thrown away or wasted, but instead remain in "closed loops". Products are designed and manufactured in a way for their lives to be a) extended through smart design; b) easily repairable, and to be either c) reused again or d) easily recycled at the end of its lifetime.

"Upcycling" is the new fashion trend: to "upcycle" means to recycle or reuse something in a way that increases the original object's value. So, upcycling is taking something old and creating **something new.**

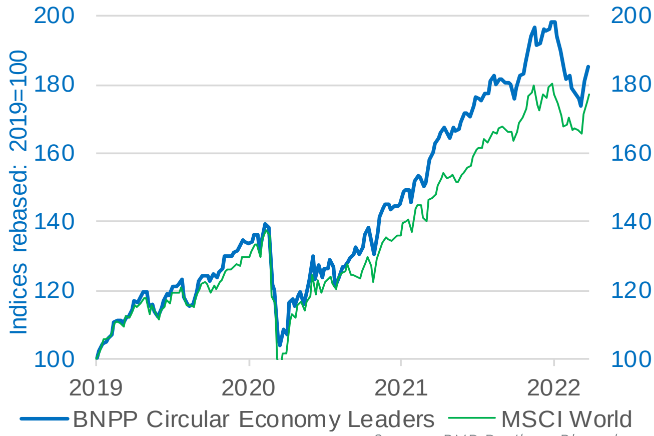
Don't think second-hand, think more of buying "vintage", "preloved", "preowned" clothes and goods.

Exponential increase in raw materials prices are a huge economic incentive: not only do consumers increasingly want to be more mindful of the environment in their choices, but it now makes more sense for their wallets.

Commodity prices +33% in euros since November 2021: in just four months, commodity prices (energy, metals, foodstuffs) have increased overall by 33% in euro terms. In recent years, the developed world has been used to ever-cheaper commodity prices, but this is over. From now on, higher costs and our limited budgets prevent us from being so wasteful.

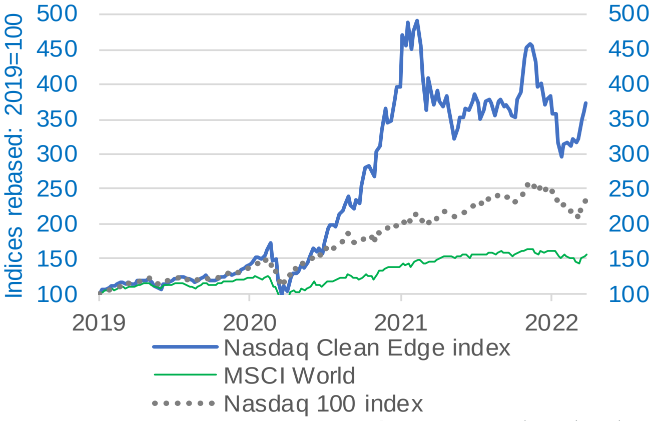
Circular economy leaders, clean energy, energy efficiency indices all post strong recent recovery: post the recent selloff in stock markets in Q1 2022, we see an attractive entry point for investors in funds and other investment products focused on the circular economy, energy efficiency and renewable energy.

CIRCULAR ECONOMY INDEX HAS OUTPERFORMED MSCI WORLD SINCE 2019



Source: BNP Paribas, Bloomberg

CLEAN ENERGY HAS BEEN A HUGE WINNER OVER TIME, WHILE VOLATILE



Source: BNP Paribas, Bloomberg

SUBTHEMES AND INDICES TO FOCUS ON

Circular Economy Leaders
Energy Efficiency
Smart Grid Infrastructure and Renewable Energy Storage
Renewable/Clean Energy

Summary of our main recommendations

	Current Recom	Prior Recom	Constituents	We like	We avoid	Comments
EQUITIES	=	=	Markets	UK, Japan, Latin America and China A-shares. S. Korea, Singapore and Indonesia.		Historically low long-term real rates and accommodative financial conditions support the upward trend in global stocks, long term. We continue to recommend a more defensive sector stance.
			Sectors	We like Financials, Health Care, EU Real Estate, Precious/ 'battery' metals, Construction Materials, Semiconductors.		We have become more defensive in our sector allocation. We continue to recommend a more defensive sector stance, biased towards quality dividend/dividend growth and buyback strategies.
			Styles/ Themes	Megatrend themes		Inflation hedging, Circular Economy themes
BONDS	=	-	Govies	US short-term Treasuries	Eurozone short-term Govies	We increase our 10-year yield 12-month target to 2.50% in the US and 0.75% in Germany. We turn Neutral after the strong rise in bond yields on US and German long-term government bonds.
			Segments	EM bonds in HC & LC and Eurozone convertible bonds. Rising stars and fallen angels in corporates		
			Maturities	Lower than benchmark		
CASH	=	=				
COMMO-DITIES	+	+		Gold, Base metals		Gold: Investors looking to hedge stagflation risks and CB purchases should keep gold in the $1900-2100 range in the next 12 months. Industrial metals: The super cycle for base metals is reinforced by the need to accelerate the energy transition and to reduce dependence on Russia. Oil should stabilize in the $95-105 range at the end of 2022.
FOREX			EUR/USD			We keep our EUR/USD target of USD1.12 (value of one euro) for the next 12 months.
REAL ESTATE	+	+		REITs, warehouses, healthcare, UK		BNP Paribas REIM favours healthcare property exposure given strong demographic drivers and a lack of good quality assets. UK to outperform Continental Europe.
ALTERNATIVE UCITS				Macro and event-driven		

Economic, FX forecast tables

BNP Paribas Forecasts			
GDP Growth %	2021	2022	2023
United States	5.7	3.7	2.5
Japan	1.7	1.6	2.0
United Kingdom	7.5	3.6	1.7
Eurozone	**5.3**	**2.8**	**2.7**
Emerging			
China	7.7	4,9	5,5
India*	8.1	9,5	7,3
Brazil	5.0	-0,5	0
Russia	4.5	-8,5	3,1

* Fiscal year

BNP Paribas Forecasts			
CPI Inflation %	2021	2022	2023
United States	4.7	7.5	3.4
Japan	-0.2	-	-
United Kingdom	2.5	-	-
Eurozone	**2.6**	**6,7**	**3.2**
Emerging			
China	0.9	2.1	2.5
India*	5.4	6.3	5.2
Brazil	8.3	9	5.7
Russia	7	18.2	5

* Fiscal year

	Country	Spot 31/03/2022		Target three months		Target twelve months	
				Trend	Mid	Trend	Mid
Against euro	United States	EUR / USD	1,12	Positive	1,08	Neutral	1,12
	United Kingdom	EUR / GBP	0,85	Positive	0,82	Positive	0,82
	Switzerland	EUR / CHF	1,03	Neutral	1,03	Negative	1,08
	Japan	EUR / JPY	136,22	Positive	127	Positive	132
	Sweden	EUR / SEK	10,33	Negative	10,7	Negative	10,7
	Norway	EUR / NOK	9,57	Neutral	9,60	Neutral	9,60
Against dollar	Japan	USD / JPY	122,02	Positive	118	Positive	118
	Canada	USD / CAD	1,24	Neutral	1,25	Neutral	1,25
	Australia	AUD / USD	0,75	Neutral	0,76	Neutral	0,76
	New Zealand	NZD / USD	0,70	Neutral	0,70	Neutral	0,70
	Brazil	USD / BRL	4,76	Negative	5,00	Negative	5,00
	Russia	USD / RUB	84,50	Negative	100,0	Negative	90,0
	India	USD / INR	75,95	Neutral	76,0	Negative	78,0
	China	USD / CNY	6,35	Neutral	6,35	Negative	6,50

Source: BNP Paribas, Refinitiv Datastream. As of 31 March, 2022

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

Jean-Rolland DESSART
Chief Investment Advisor

Isabelle ENOS
Investment Advisor

ITALY

Luca IANDIMARINO
Chief Investment Advisor

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Xavier TIMMERMANS
Senior Investment Strategist, PRB

GERMANY

Stephan KEMPER
Investment Strategist

Stefan MALY
Financial and Technical Expertise Manager

LUXEMBOURG

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

Pictures from Getty Images.