

# Performance review of our 10 investment themes for 2019

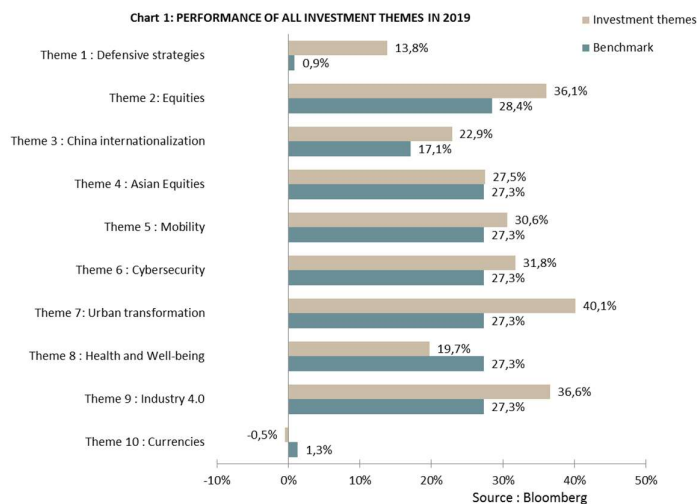
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**Guy ERTZ**  
Chief Investment Advisor

## IN A NUTSHELL:

**Our 2019 investment themes have performed very well and in most cases and have outperformed their respective benchmark.**



*After a relatively benign first half, the summer of 2019 was proved challenging, as recession fears resurfaced and investors pushed bond yields to multi-year lows. During the fall, political risks receded and the global economy showed signs of stabilisation. Also, muted inflation in major economies allowed central banks to adopt easing policies. These developments favoured risky assets, especially equities, while bond yields had a modest recovery.*

## Defensive Themes

### Theme 1: Volatility: adopting cautious strategies via defensive investments and real assets

This theme is aimed at investors with a more cautious risk profile, and it is for all investors, regardless of their reference currency. It covers investments in alternative strategies (Newcits funds), structured products and rural land.

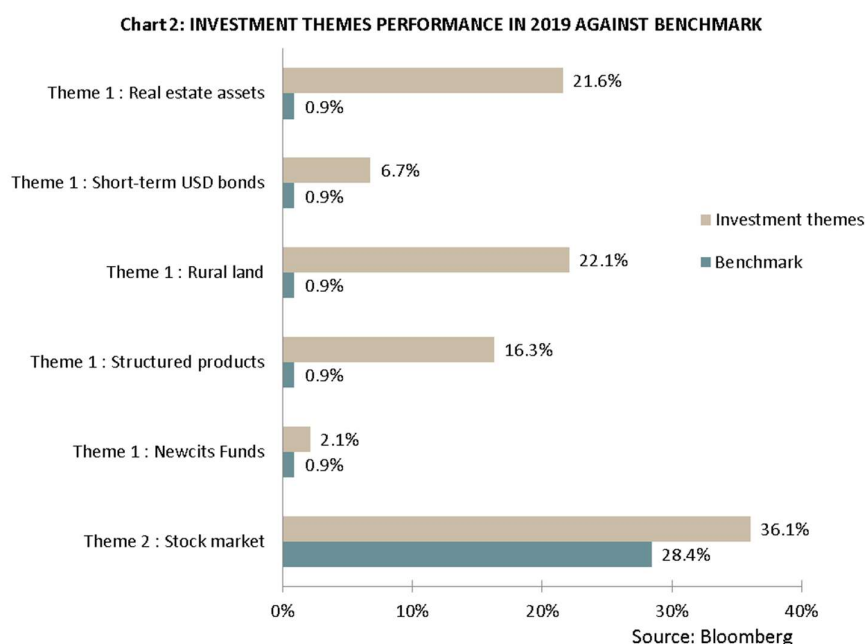
For investors whose reference currency is the dollar, we also like US short-dated bonds. For investors whose reference currency is the euro, we also recommend real estate assets.

Our defensive strategies have delivered more than 10% in returns on average, comfortably beating their benchmark (composite US-Eurozone inflation). Our selection of structured products has been one of the top performing defensive strategies for both USD and EUR-based investors, with returns above 15%, on average. Real estate assets have also been a highlight for EUR-based investors, with year-to-date return above 20%.

### Theme 2: Nearly the end of the stock market cycle: favouring solid companies

This was a core investment for anyone seeking to invest in the equity markets with a more defensive approach. We thus looked for companies offering high profitability, healthy balance sheets and little exposure to the economic cycle.

*The performance of our second theme, measured by the MSCI World Quality Index, has been remarkable with returns of more than 35%. Our theme has outperformed its benchmark, the broader MSCI World Index, by almost 10%*



## Themes related to Asia

### Theme 3: Riding the internationalisation of the financial markets

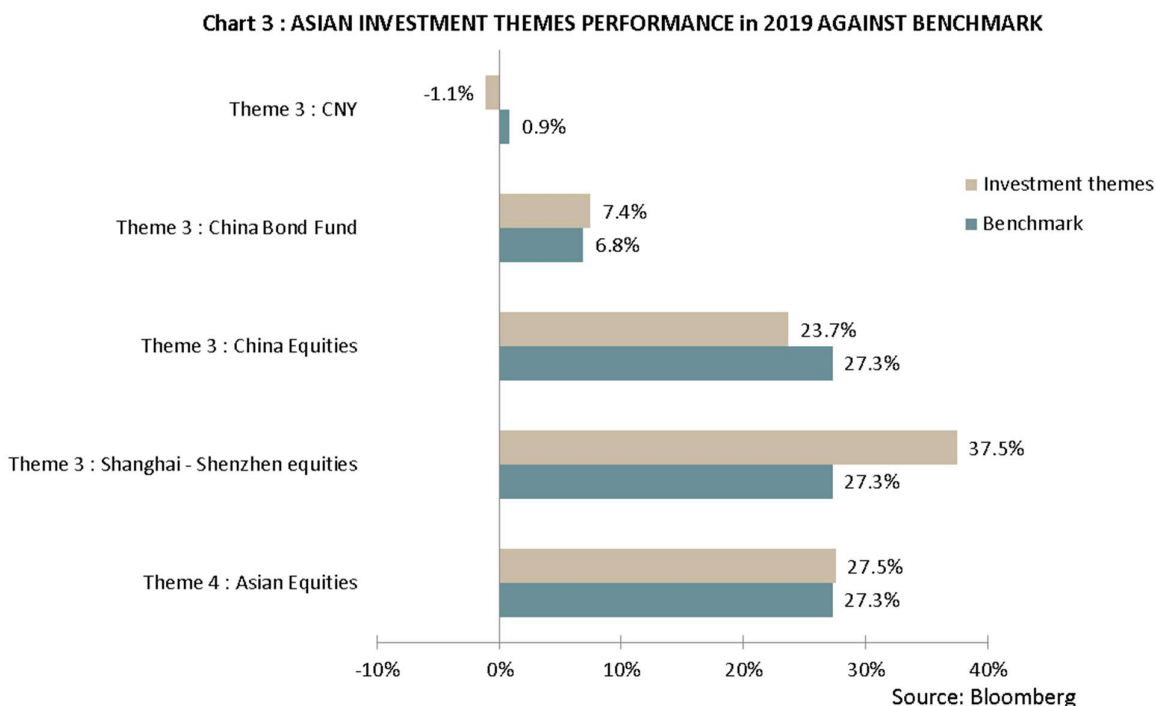
China's journey of liberalisation had continued to accelerate with its stock, bond and currency markets opening up further. The A-share market, onshore bond market and currency market (RMB) were the three financial channels that China has been focusing on to achieve internationalisation.

*Our China-focused theme has delivered returns above 20%, beating its composite bond/equity benchmark. The equity component of our theme (CSI300 Index & MSCI China) has an average performance of 30% and is 3% higher than the performance of world equities, measured by the MSCI All Countries World Index. The theme's bond component returned about 7%, slightly above the Bloomberg-Barclays Global Aggregate Bond Index. Also, the Chinese yuan has depreciated by 1.2% against the dollar, which has gained 0.8% relative to a basket of currencies. See Chart 3.*

### Theme 4: International trade tensions: anticipating the redistribution of roles in Asia

This theme focused on specific EM sectors/stock benefitting from the shift/upgrade of supply chains due to ongoing trade tensions.

*The performance of our fourth theme, measured by the returns of a tailored stock portfolio, has been 28% in 2019, similar to its benchmark, the MSCI ACWI. See Chart 3.*



## Long-term equity Themes

### **Theme 5: Responsible and innovative mobility: transforming the way we get around**

The challenge of more efficient mobility offered investment opportunities across the whole value chain. This theme addressed all responsible mobility solutions (urban, logistics, individual and shared transport).

*The investment vehicle for our smart mobility theme, the SPDR S&P Kensho Smart Mobility ETF, has gained 31% in 2019 and has outpaced its benchmark, the MSCI ACWI, by 3%.*

### **Theme 6: Tomorrow's security: modernising protection & cybersecurity and using the blockchain**

Security has become a major concern for individuals, businesses and governments. This fast-growing market offers attractive prospects for companies operating in the protection of goods and people, quality control and cybersecurity.

*The cybersecurity theme, tracked by the ISE Cyber Security Index, has performed solidly, gaining 32% in 2019. It is ahead of its benchmark, the MSCI ACWI, by 4%.*

### **Theme 7: Urban transformation: promoting a more efficient water and waste management**

This theme identified investment opportunities in companies offering innovative solutions for water management and a more efficient waste treatment.

*Our top performing theme for 2019 has been Urban Transformation. It has delivered a stellar return of 40% in 2019, according to its tracking index, BNP Paribas Waste Management Index, which includes the top 25 companies in this sector. This performance compares favourably with the return of the benchmark, the MSCI ACWI, which was up by 27% in 2019. See chart 4.*

### **Theme 8: Health and well-being: focusing on the business of longevity**

By 2050, life expectancy worldwide is set to increase by seven years. One consequence would be that people will have more free time and will seek to have a healthier lifestyle, especially as seniors have never been in such a strong financial position.

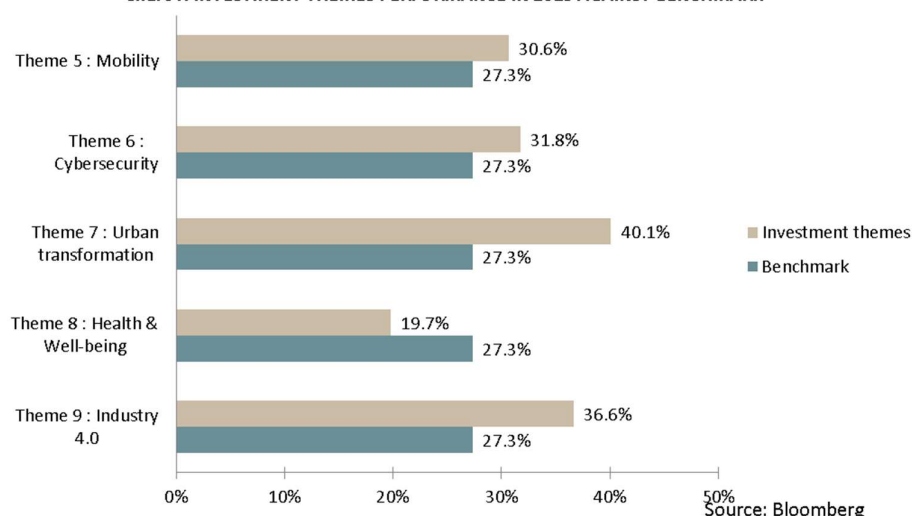
*The performance of our theme about health and well-being is captured by the BNP Paribas Global Gold Grey Select 30 Index, which includes companies related to the ageing population. The index has recorded a return of 20% in 2019, which is 8% short of its benchmark return, the MSCI ACWI. See chart 4 below.*

### **Theme 9: Industry 4.0: betting on the winners of the current revolution**

The business world is undergoing another industrial revolution, the fourth to date. Industry 4.0 spans a very wide universe including robotics, connected objects, artificial intelligence, cloud technology, Big Data, 3D printing, etc.

*Our "Industry 4.0" theme is among the top performers of 2019. It has delivered a spectacular return of 37% in 2019, and has outpaced its benchmark, the MSCI ACWI, by 9%. The theme's performance is measured by the Solactive Industry 4.0 Index, which includes leading technology companies. See chart 4 below.*

Chart 4: INVESTMENT THEMES PERFORMANCE IN 2019 AGAINST BENCHMARK

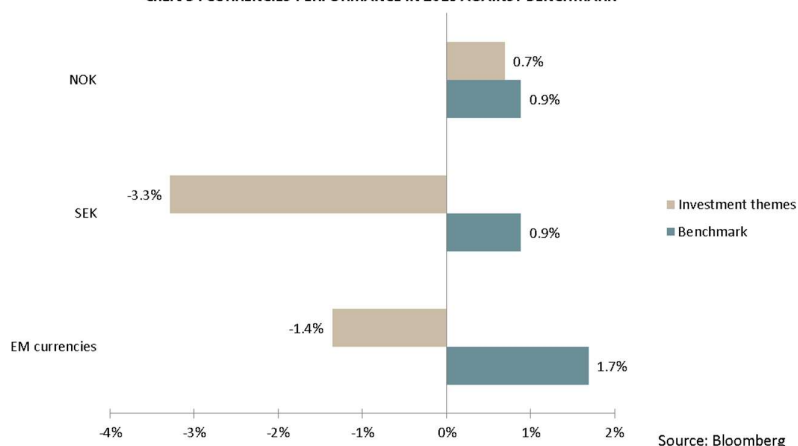


### Theme 10: Currencies: finding diversification opportunities

In an environment of low yields in euro coupled with some upside potential for the currency, a positioning in the Norwegian krone (NOK) or Swedish krona (SEK) represented an opportunity for additional returns for euro-based investors. We became more cautious at the end of the year, as the Scandinavian currencies disconnected from their traditional fundamentals. Recently, the Norwegian and Swedish krone rallied and met our 12-month targets. Regarding emerging market currencies, our rationale was based on their attractiveness for dollar-based investors, after their steep depreciation.

*Our currency-focused theme has recorded losses on average in 2019. The Swedish currency has depreciated against the euro by 3.0% in 2019, while the Norwegian currency appreciated by 0.8%. Both currencies underperformed their benchmark, the Euro Area inflation, which increased by 0.9%. Emerging Market currencies, which constitute the third component of our theme, have lost ground against the dollar. The 2019 return is -1.4%, according to the J.P. Morgan Emerging Market Currency Index, and lags 3.1% behind the benchmark, which is CPI inflation in the U.S.*

Chart 5 : CURRENCIES PERFORMANCE IN 2019 AGAINST BENCHMARK



## BNP Paribas Wealth Management's Chief Investment Advisor (CIA) Network



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### **US**

Wade BALLIET  
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