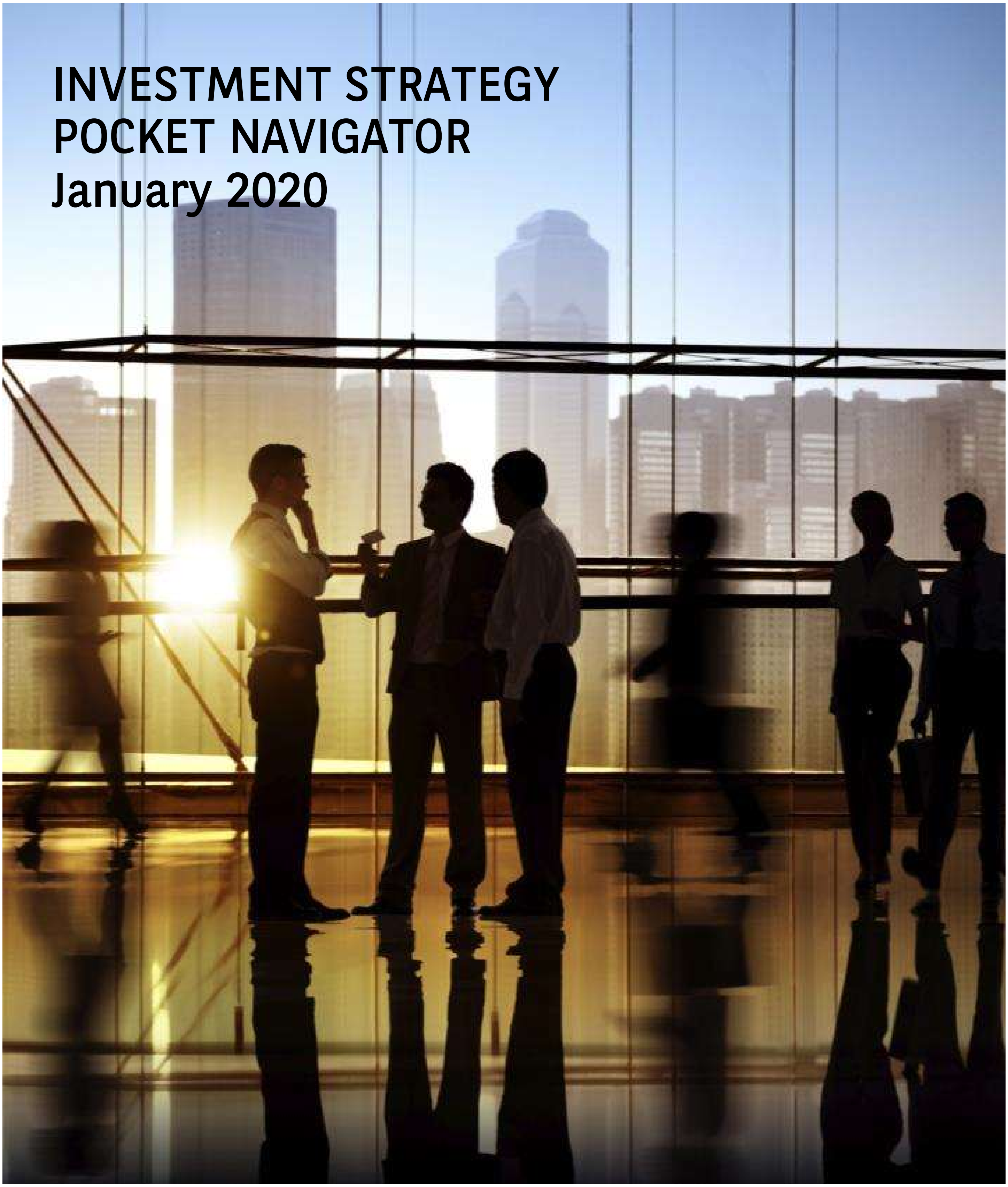
INVESTMENT STRATEGY
POCKET NAVIGATOR
January 2020



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

IN BRIEF

- Economic outlook at a glance
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ECONOMIC OUTLOOK AT A GLANCE

KEY ECONOMIC VIEWS

Growth

	BNP Paribas Forecasts			Forecasts Revisions (%)	
GDP Growth %	**2019**	**2020**	**2021**	**2019**	**2020**
Advanced	**1.7**	**1.1**	**1.6**		
United States	2.3	1.5	2.0	+0.2	0.0
Japan	1.0	0.2	0.7	-0.2	0.0
United Kingdom	1.3	1.1	1.7	+0.2	+0.5
Eurozone	**1.1**	**0.8**	**1.3**	**0.0**	**+0.1**
Germany	0.5	0.4	1.2	+0.1	+0.2
France	1.3	1.1	1.3	+0.1	+0.1
Italy	0.2	0.2	0.6	+0.2	+0.1
Spain	2.0	1.7	1.6	-0.2	+0.1
Emerging	**3.8**	**4.0**	**4.2**		
China	6.1	5.7	5.8	+0.2	+0.1
India*	5.8	5.5	6.0	-0.7	-0.8
Brazil	1.0	2.0	3.0	+0.5	0.0
Russia	0.9	1.5	1.5	-0.3	-0.5

Inflation

	BNP Paribas Forecasts			Forecasts Revisions (%)	
CPI Inflation %	**2019**	**2020**	**2021**	**2019**	**2020**
	1.5	**1.6**	**1.4**		
United States	1.8	2.4	1.9	0.0	+0.6
Japan	0.5	0.6	0.3	-0.1	+0.3
United Kingdom	1.8	1.5	1.8	-0.1	-0.3
Eurozone	**1.2**	**1.0**	**1.0**	**+0.1**	**+0.2**
Germany	1.4	1.2	1.2	0.0	+0.2
France	1.3	1.0	1.1	+0.1	0.0
Italy	0.7	0.5	0.5	+0.1	0.0
Spain	0.8	0.8	0.9	0.0	+0.1
Emerging	**4.6**	**4.6**	**3.6**		
China	2.8	3.5	1.5	+0.4	+0.7
India*	3.0	3.3	3.5	0.0	0.0
Brazil	3.7	3.4	3.7	0.0	-0.1
Russia	4.7	3.8	4.0	-0.1	-0.0

Source BNP Paribas – Refinitiv Datastream

MAIN MARKETS & FINANCIAL RISKS

Positive Risks (Equities)

1. The two key risk factors for the global economy, the U.S.-China trade tensions and the outcome of Brexit, have seen a key improvement, at least temporarily thanks to the Sino-U.S. "Phase 1" deal and the clear victory of Conservatives in the UK elections. These developments limit the global uncertainty in the coming months and therefore, global growth may reaccelerate in 2020 due to the release of pent-up demand.

2 The extremely low, or even negative, government bond yields in the Euro Area create additional fiscal leeway that could be used in order to revive economic growth. More than expected fiscal easing in Germany would produce positive spill overs for other Euro Area countries, as well, but it is too early for conclusions at this stage.

Negative risks

1. The vote prohibiting the extension of the transition period beyond December 2020 limits the time for negotiations between the EU and the UK about their future relationship. Therefore, a "hard" Brexit becomes again more likely. This development constitutes a new source of uncertainty for businesses and consumers in the UK.

2 The U.S., elections in November 2020 create uncertainty that may lead businesses to postpone their investments. It will be challenging for the U.S. and China to enforce their "Phase 1" trade deal. The next round of negotiations is expected to be much more difficult

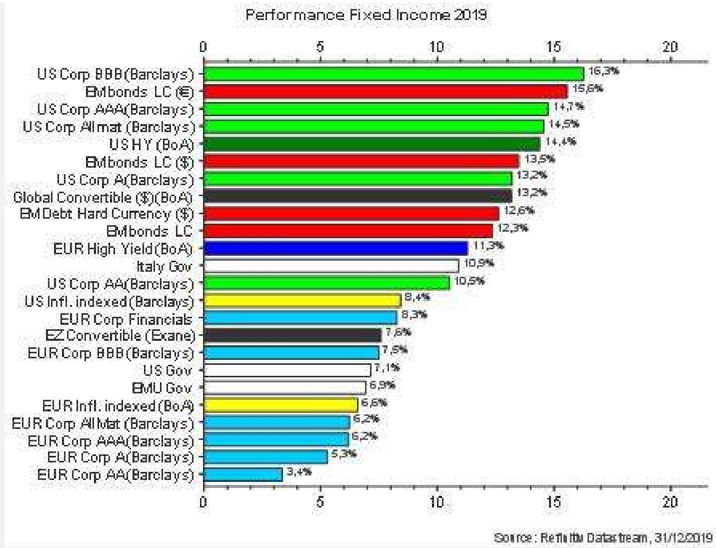
3 Honk Kong protests have not dissipated, there is an outburst of social turmoil in Latin American countries, and the new tensions in the Middle East are a real short-term threat.

FINANCIAL MARKETS AT A GLANCE

EQUITIES	+	GLOBAL	+	• **The 2020 outlook: dividends will be major contributors to the total return.** Upside potential is constrained by limited earnings expansion, fair valuations and an overbought condition. • **An element of TINA but not of FOMO yet.** There is an element of "there is no alternative" (TINA) due to the search for yield forced by financial repression. Fundamentals still are the main driving force. At some stage FOMO (fear of missing out) will take over. We are not there yet.
		MARKETS	=/+	• **Overweighting US stocks still,** in an environment of below potential global growth. • **A clearing sky warrants overweighting the Euro Area:** declining political uncertainties, encouraging macro trends and an attractive dividend yield of 3.2%. • **Overweighting the UK:** revaluation potential unlocked. • **Positive on Emerging Markets**, with growth set to re-accelerate.
		SECTORS	+	• **Upgrading Energy to positive,** on attractive valuations and positive medium-term outlook. • **Globally: positive on Healthcare and Financials.** • **In Europe: positive on Technology (instead of only on telecom Equipment Manufacturers) and Construction Materials.**
BONDS	-	GOVIES	-/=	• We are **negative on German govies**, whatever the maturity, and on long-term US govies. • We are **positive on the front-end of the US yield curve for USD-based investors** as short-term yields have limited upside. • We remain **neutral on periphery debt** (Portugal, Italy, Spain).
		INVEST. GRADE	+	• We **prefer corporate bonds** over government bonds. • We **like EUR and US IG bonds with a duration at benchmark. We focus on quality credit in the US but we do not make this discrimination in the Eurozone**. • We are positive on Eurozone convertible bonds.
		HIGH YIELD	=	• **We are neutral** on both US and Eurozone **High Yield.**
		EMERGING	+/=	• **We are positive on EM local currency bonds,** for both USD and EUR based investors, and **EM hard currency corporate bonds**. **Neutral on EM hard currency**.
FOREX	/	GBP	=	**We revised our EURGBP target from 0.88 to 0.85 (current levels) over the next 3 months and keep the 12-month target at 0.88.**
		SEK&NOK	-	**Concerning Scandinavian currencies, we revised our 3-month targets to current levels. We also move our stance from neutral to negative and recommend reducing the positions.**
COMMOS	=	OIL	=	• We expect Brent prices to remain most of the year 2020 in $60-70/b range.
		GOLD	+	• We keep our positive stance on Gold and upgraded our trading range to 1450-1650 for the coming 6 to 12 months.
		BASE METALS	=	• We expect industrial metals to remain range bound until we see a more decisive pickup of the world economy
ALTERNATIVES	/	REAL ESTATE	=	• Positive for a 'value-added' commercial real estate via high quality funds. We are Positive on value-added strategies across emerging markets..
		Alt. UCITS	/	• We keep a preference for Macro and Long-Short equity.

FIXED INCOME AT A GLANCE

- In 2019, best performers were risk assets (emerging bonds, high yield bonds in the US and in the eurozone) and bonds with long maturities as long-term yields dropped.
- Risk assets gained also in December thanks to better sentiment given the US-China Phase 1 trade agreement, accommodative central banks and improved macro economic data.
- We expect all major central banks in developed countries to stay on hold in 2020 as global growth proves resilient and geopolitical risk recedes.
- Bonds yields are likely to move slightly higher. We forecast 2.00% for the 10-year Treasury yield and -0.25% for the Bund yield by the end of the year.



Source : Refinitiv Datastream, 31/12/2019

CENTRAL BANKS

- We revised our Fed scenario and no longer see two rate cuts this year. We expect the Fed to stay on hold in 2020.
- We expect the ECB to leave rates unchanged in 2020.

GOVERNMENT BONDS

- We revised up our bond yield targets as risk premia diminished.
- We forecast 10-year yields to reach 2.00% in the US and -0.25% in Germany in 12 months.
- We stay positive on US short-term bonds for USD-based investors and negative for both US long-term bonds and German bonds.

INVESTMENT GRADE (IG)

- We keep a positive view on both EUR and US credit, with duration at benchmark.
- We prefer quality issuers in the US.
- Technicals (supply and demand) are supportive.

EMERGING MARKETS BONDS

- In emerging hard currency debt, we prefer corporate bonds (positive view) to government bonds (neutral view).
- We are positive on EM local bonds as we believe that EM currencies can appreciate, that emerging central banks can cut rates further and yields are attractive relative to developed markets.

PERIPHERAL & HIGH YIELD (HY)

- The periphery debt is quite expensive but we keep a neutral stance on the asset class given the ECB bond buying programme. Spreads could narrow a little further as the ECB will absorb most of next year's net supply. Peripheral markets are set to benefit from the persistence of negative yields in core markets.

- The Fed and the ECB accommodative stance support high yield bonds, by keeping rates low and therefore limiting expected default rates. We stay neutral on HY bonds though. Spreads could widen quickly if recession risk rises as liquidity tends to drop sharply in period of stress.

Our position for this month

Evolution of our position from last month

FOREX AT A GLANCE

- The announcement of a limited trade deal between the US and China has fuelled the risk sentiment by the year-end. Meanwhile, the main political risk faded in Europe. The Economic Surprise Index continues to move in favour of the Eurozone, supporting the upside for the **EURUSD.**

- The **British pound** lost its previous gains in the days following general elections. Johnson's pledge to rule out a possible extension of the transition materialized. the fear of a possible cliff-edge over the coming months and a potential return to WTO rules in case of no-deal rose.

- The **SEK** and the **NOK** rallied from their lowest levels and met our near term targets respectively 10.50 and 9.80. We see little upside from here and prefere to reduce the exposure.

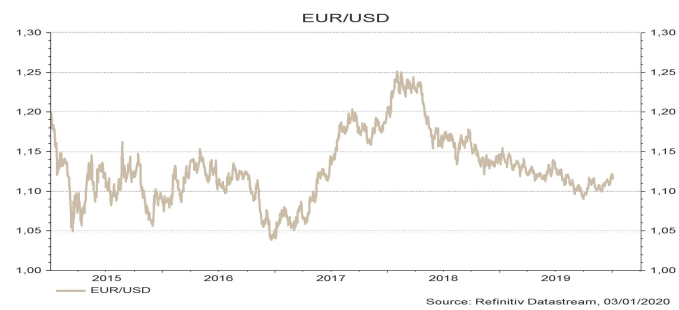
	Country	Spot		Target three months		Target twelve months	
		1/6/2020		Trend	Mid	Trend	Mid
Against euro	United States	EUR / USD	1.12	Neutral	1.12	Neutral	1.14
	United Kingdom	EUR / GBP	0.85	Neutral	0.85	Negative	0.88
	Switzerland	EUR / CHF	1.09	Neutral	1.10	Negative	1.12
	Japan	EUR / JPY	121	Neutral	119	Neutral	121
	Norway	EUR / NOK	9.85	Neutral	9.80	Neutral	9.80
Against dollar	Japan	USD / JPY	108	Neutral	106	Neutral	106
	Canada	USD / CAD	1.30	Neutral	1.30	Neutral	1.28
	Australia	AUD / USD	0.69	Negative	0.68	Neutral	0.70
	New Zealand	NZD / USD	0.67	Negative	0.65	Neutral	0.66
	Brazil	USD / BRL	4.06	Neutral	4.00	Neutral	4.00
	Russia	USD / RUB	62.1	Negative	64.0	Negative	64.0
	India	USD / INR	71.9	Neutral	72.0	Neutral	72.0
	China	USD / CNY	6.97	Neutral	7.00	Neutral	7.00

Source : BNP Paribas WM

Currency forecasts

EUR/USD

- Downside risks weigh on the USD since we anticipate that the US economy will remain weak over the first part of 2020. We keep our target at 1.12 in a 3-month horizon.
- Near term, main drivers still suggest a depreciation of the USD. We keep our target at 1.14 in a 12-month horizon.

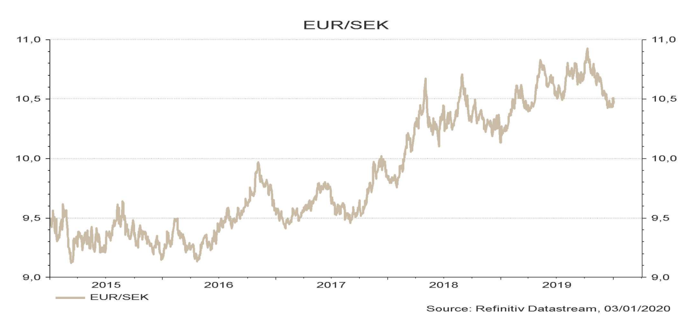


EUR/GBP

- We think that the sterling is pricing the "good news". We thus revised our EURGBP target from 0.88 to 0.85 (current levels) over the next 3 months.
- Near term, the GBP should be subject to some volatility. We keep our cautious stance and maintain the EURGBP target at 0.88 over the next 12 months.

EUR/SEK & EUR/NOK

- We revised our 3-month targets to current levels (respectively 10.50 from 10.60 and 9.80 from 10.20, value for 1 euro).
- We also move from a neutral to negative stance and recommend reducing the exposure.



Our position for this month

Evolution of our position from last month

EQUITIES AT A GLANCE

- The 2020 outlook: dividends will be major contributors to the total return. Upside potential is constrained by limited earnings expansion, fair valuations and an overbought condition.
- An element of TINA but not of FOMO yet. The search for yield is leading to TINA (there is no alternative). Fundamentals still are the main driving force though. At some stage FOMO (fear of missing out) will take over. We are not there yet.
- Country preferences: the US, Euro zone, the UK and Emerging markets.
- Sector preferences: adding energy.

Earnings growth should accelerate in 2020 but consensus expectations are too ambitious in our view

	EPS growth		
	19 (current year)	20 (next year)	12M fwd
MSCI AC World	0,3	9,8	9,7
MSCI Dev Mkts	0,1	8,9	8,8
MSCI EM Mkts	1,3	14,8	14,6
S&P500	1,1	9,1	9,5
TSX Comp	3,0	8,4	8,2
Euro Stoxx	-0,6	10,3	10,4
DAX	-5,0	12,9	13,0
CAC	-1,8	11,5	11,4
MIB	5,9	5,7	5,7
IBEX	-6,3	10,7	10,8
AEX	-15,0	15,6	15,6
FTSE100	-4,2	7,1	6,8
SMI	7,5	9,6	9,6
Topix	-6,0	-0,2	6,8
ASX200	-1,4	4,6	4,7

Source: IBES

GLOBAL EQUITIES

+

- The primary trend remains up, with global growth set to reaccelerate.
- Upside potential is constrained by limited earnings expansion, fair valuations and an overbought condition.
- Dividends will be significant contributors to the total return.

EMERGING MARKETS

+

- The "phase one" trade deal between the US and China helps improving sentiment.
- Policies are supportive. Their positive impact is starting to become visible.
- Growth differential turns in favour of emerging markets. A moderate rise in bond yields will help.

SECTOR PREFERENCES

+

- Upgrading Energy on attractive valuations and positive medium-term outlook.
- Positive on Financials and Healthcare.
- In Europe, positive on Technology.
- Within Materials, EU Building Materials have an opportunity to shine, on a mix of cost control and pricing power.

DEVELOPED MARKETS

+

- US stocks can keep outperforming in a low growth environment.
- Euro area equities are well placed to capitalise on a rebound in global economic acticity.
- Revaluation potential has been unlocked for UK stocks.

INVESTING STYLE

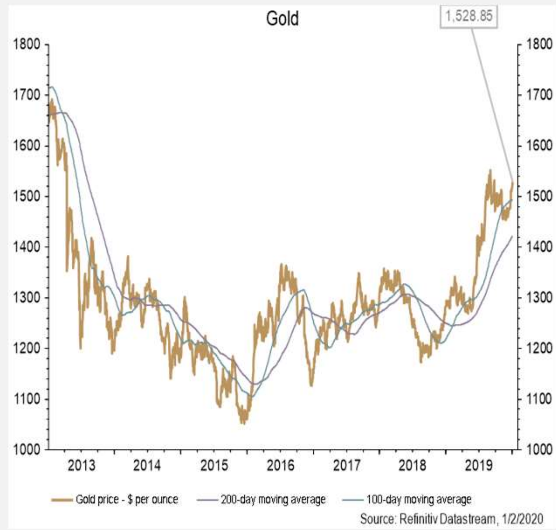
- Value over growth, thanks to a reduction in political uncertainties, an improving economic outlook and some upside for bond yields.
- SMID caps will capitalise on improving economic momentum. They will benefit from a bigger weight in cyclicals.

= - + Our position for this month

Evolution of our position from last month

COMMODITIES AT A GLANCE

- **Gold:** the precious metal ended the year on a strong note at $1517/oz (+20% in EUR) in spite of a return of the risk appetite and reached a 6-year high at §1590 after the killing of the most important Iranian general.
- **Base metals:** Most base metals ended 2019 in negative territory except nickel (+31%) and copper (+3%)
- **Oil:** Crude posted its biggest annual gain in three years amid elevated tensions in the Middle East, signs that US crude stockpiles fell further and on the back of the new supply restrictions decided by the OPEC+. The Brent ended 2019 at $66/b and jumped to $70/b when US-Iran tensions escalated.



GOLD

Very low real interest rates, central bank purchases and limited supply from gold mines remain key positive factors for gold. Any burst of geopolitical tensions would only add an additional argument. We raise our expected trading range for 2020 to $1450-1650/oz.

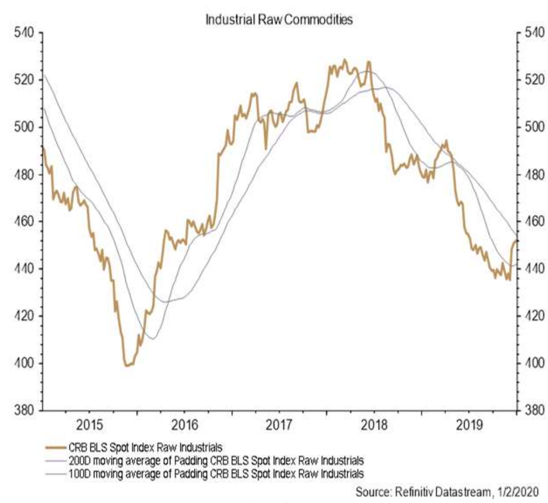
BASE METALS

We expect industrial metals to remain range bound until we see a more decisive pickup of the world economy and more notably China. Copper and aluminum would be the main beneficiaries of a lasting de-escalation of the US-China trade conflict.

OIL

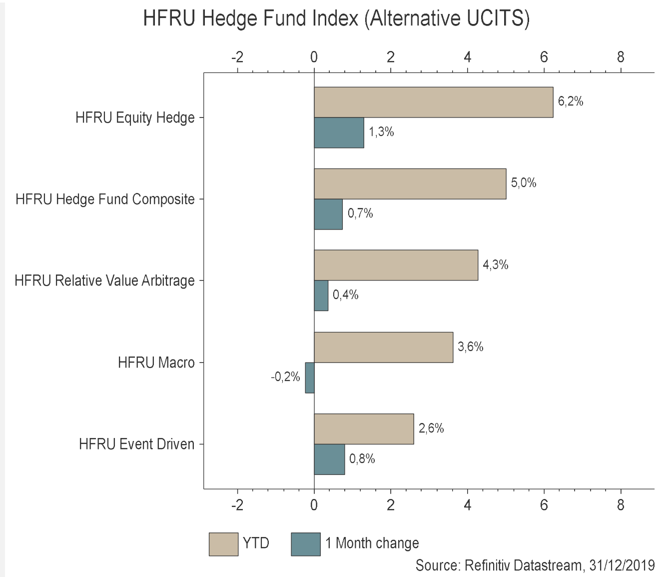
The risk of Iranian retaliations after the killing of his most important general should maintain a risk premium on crude prices. But we do not expect a sharp price increase because of the present excess supply and possible investment surge in US shale oil should prices remain high.

We keep our $60-70 expected trading range.



ALTERNATIVE INVESTMENTS AT A GLANCE

- "Long-Short" equity or "Equity Hedge" was the top performing strategy again, driven by both global market trends and asset selection. Macro and Event Driven strategies were lagging the global index but all strategies recorded a positive performance in 2019 (see chart).
- We continue to focus our recommendations on Global macro and long-short equity strategies



GLOBAL MACRO

We remain positive. Dispersion among emerging markets should provide opportunities. Trade war and populism challenge economic growth and are also likely to continue to cause volatility, and opportunities for macro traders.

LONG SHORT EQUITY

Positive opinion. Expensive growth stocks and struggling value stocks should lead to winning strategies. Structural drivers such as low yields and disruptive innovations should drive the performance in this segment.

EVENT DRIVEN

Neutral: Performance was mixed, with a crowded situation around the attribution of 5G bandwidth in the US that detracted, but positive events in Europe. Distressed debt underperformed again.

RELATIVE VALUE

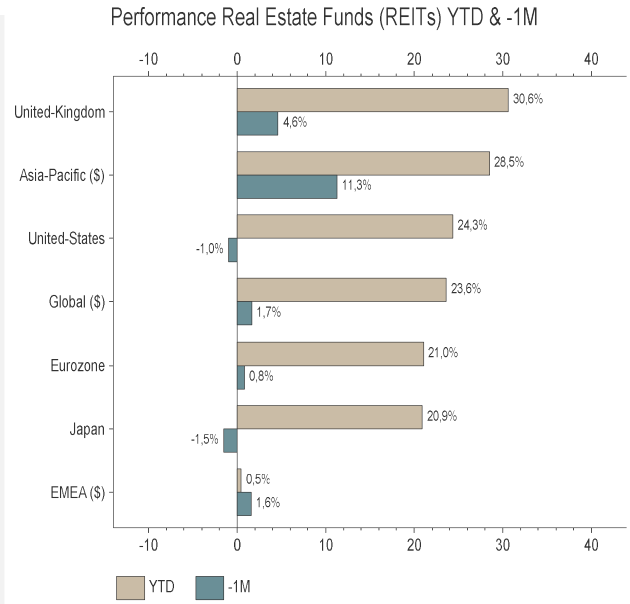
The dispersion of returns continued. Investors favouring higher quality credits benefitted as these credits outperformed their lower rated counterparts. We keep a neutral stance.

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

REAL ESTATE AT A GLANCE

- REIT markets performed very well in 2019. The total return exceeded the 30% threshold in a number of European countries such as France and Belgium. North American REITs also posted a nice return (in USD)/. Asia showed a more distorted picture for the same period, with the discrepancy between Singapore/Japan and Hong Kong being particularly noticeable.

- We have adopted a more cautious stance on REITs since early November. However, we do not expect a serious correction, though rather a stabilization of REIT prices.



Source: Refinitiv Datastream, 31/12/19

MATURE MARKETS

Neutral recommendation for European commercial 'core markets'. We aim to have a neutral opinion on "core" and "prime" real estate. Although we have been warning against expensive prime property markets for a number of years, we believe that the total return before leverage (net rental income + capital gains) could be attractive for 2019, particularly for logistics and office property. However, capital appreciation returns are expected to slow down in 2020 and 2021, so secured rental income generated by tier-1 assets should be the only investment rationale in the near future.

Positive for a "value-added" commercial investment strategy, executed by first-class asset managers.

EMERGING MARKETS

We remain positive for emerging markets but investors should be aware that **real-estate dynamics for these markets are roughly the same as for the more economically mature markets**. For example, offices need to be energy-efficient everywhere, e-commerce is booming everywhere as well and public transport/infrastructure works have become mega-important. **In other words, diversification benefits may be less important than many investors think, while the risks (currency risks,...) are still high(er).**

We only focus on local "value-added" strategies, as this is the only way to create sufficient value for investors.

PROPERTY STOCKS

We remain Neutral on REITs with 'long-only' strategies, **irrespective of geography**, as we expect REIT to stabilize at rather high levels in the current negative/low-interest rate environment. There's an investment risk in the event of higher real interest rates, although this is not our basic scenario. Gross dividend yields in the region of 4% on average, which remains attractive relative to the very low corporate/government bond yields.

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

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WEALTH MANAGEMENT

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