C.I.A. NETWORK

Investment Strategy Navigator

June 2021

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Agenda

01

Introduction

Financial markets at a glance
Economic Outlook & Risks

BNP PARIBAS
WEALTH MANAGEMENT

Financial markets at a glance

EQUITIES	+	Global	+	**Europe preferred**: For once, European stocks are the preferred stock market destination, outperforming the US and emerging markets, and attracting substantial flows.
		Markets	+	**Value stocks continue their run higher**: Value stocks continue to outperform, helped by higher inflation expectations and a strong Q1 results season. **Tactical risk of recovery in US growth stocks**: Do not be surprised to see a short-term bounce in US technology mega-caps.
		Sectors	+	Remember - defensives lead over Summer: We continue to recommend a more defensive sector stance for now, biased towards quality dividend/dividend growth strategies,...
BONDS	-	Govies	- +	Our 10-year bond yield targets are 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 turn neutral from positive on eurozone IG corporate bonds, while maintaining our positive stance on US corporates.
		High yield	=	We prefer to stay neutral on the HY asset class given tight valuations on average. We prefer fallen angels and rising stars as they offer a spread pick up.
		Emerging	+	We stay positive on EM bonds. US yields have stabilised and EM currencies have potential to appreciate in the medium-term.

FOREX	/	EUR/USD	=	We adjust our EURUSD target to 1.25 (from 1.20) and 1.25 (value of one euro) for the next 3 and 12 months, respectively. This suggests further upside for the euro.
		USD/INR	=	We adjust our 3- and 12-month USDINR targets to 72 (from 75). This suggests room for more appreciation for the rupee.
		USD/RUB	=	We adjust our 3-month USDRUB target to 72 and keep our 12-month target to 69.
		USD/BRL	=	We adjust our 3-month USDBRL target to 5.1 and keep our 12-month target to 4.8.
COMMOS	+	Oil	=	A possible comeback of the Iranian oil production if sanctions are lifted would add to excess capacities which are still elevated. We expect Brent to trade around $60-70 in H2 2021.
		Gold	+	Negative real yields, inflation fears, perceived excessive money creation and expected USD weakness, should push gold back to $2000/oz. Gold remains our preferred hedge against economic, financial et geopolitical risks.
		Base metals	=	We move Base metals from positive to neutral as we expect a lower demand from China in H2. We could have reached an intermediate top as the long term trend remains bullish.
ALTERN ATIVES	/	Alt. UCITS	=/+	We have a preference for Macro, Relative Value and Event Driven strategies. Neutral on Long/Short Equity.
REAL ESTATE	+	Real Estate	+	The value proposition for European Real Estate in particular is astounding at 4.3%-5% prime yields. The industrial (warehouse), office and retail segments of the listed US REIT sector continue to rebound, driven by economic strength and a return to offices.

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
Source: BNP Paribas – 25/05/2021

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	0.4	2.1	1.5
France	1.3	0.5	1.4	1
Italy	0.6	-0.1	1.5	1.4
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
Source: BNP Paribas – 25/05/2021

POSITIVE RISKS (EQUITIES)

1. The vaccination progress and new Covid treatments could led to faster and broader opening of economies, especially in Europe where we can expect a progressive return to a normal situation from summer. Demand could be boosted more than expected thanks to the accumulated savings.

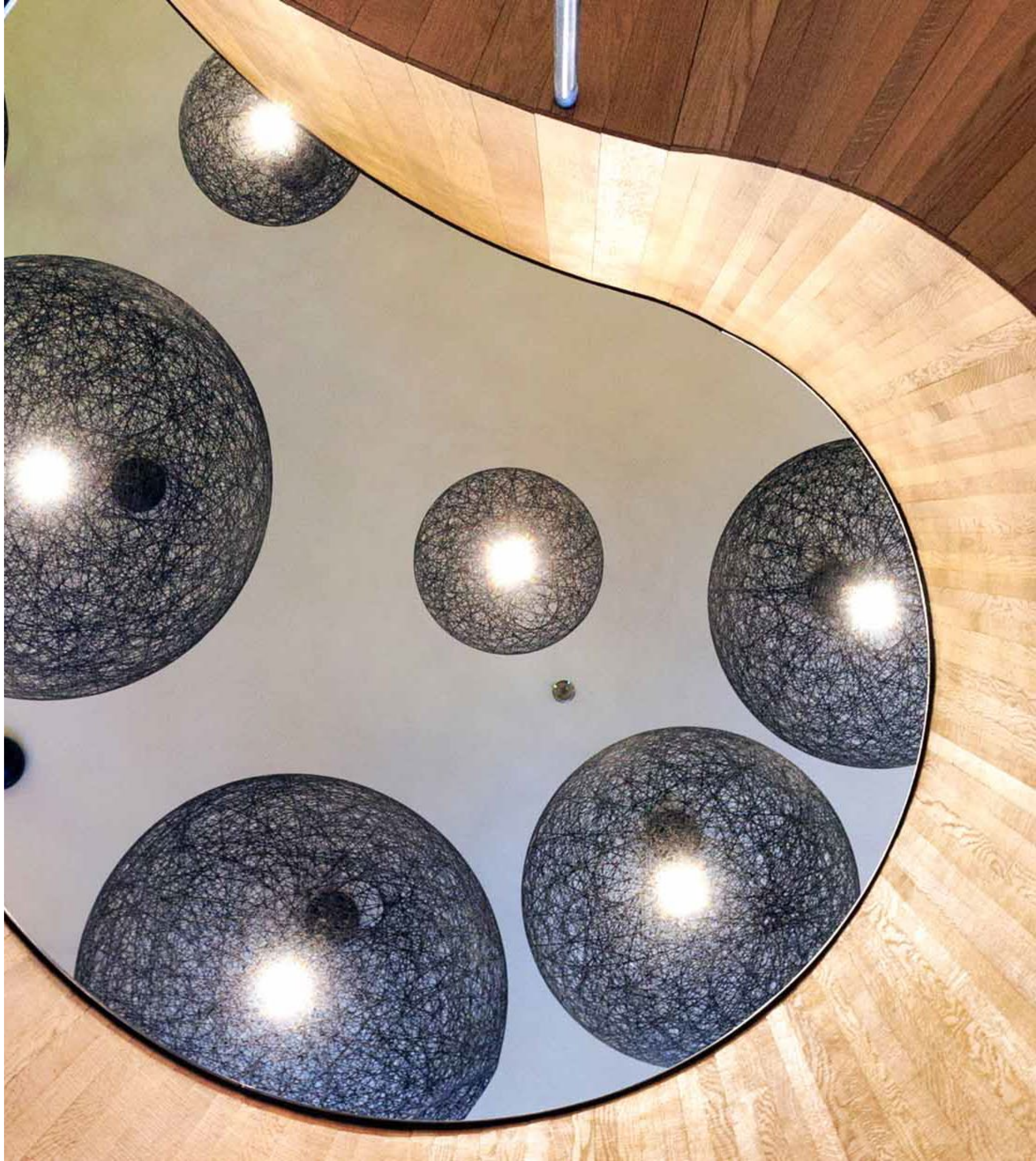
NEGATIVE RISKS

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

02

Global macro

Economic growth and inflation
EU recovery
Inflation & Commodities
Global trade and mobility



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Economic growth and inflation

Recovery on track

ECONOMIC GROWTH

Strong recovery with overshoot of the pre-pandemic GDP levels thanks to the additional plan in the US with the "Build Back Better" infrastructure plan. The outlook is very positive based on the lessons from the recent reopening in the UK and the US.

- The US economy is now recovering fast, driven by a vaccination reopening trend. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008.
- The positive effects of the EU fiscal stimulus programs combined with the boost in demand linked to the reopening will lead to a major acceleration in growth in the second half of the year. Consumer and business sentiment will improve further and favor multiplier effects.
- In China, authorities are expected to reduce very gradually their fiscal policy support measures and continue the cautious credit policy tightening. That will be a positive driver medium-term.

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* Fiscal year
Source: BNP Paribas –25/05/2021

INFLATION

Base effects and supply chain constraints will lead to an overshoot in inflation. This trend should peak around year-end in the US and early 2022 in the Eurozone

- Look for Inflation for very inflation rates over the coming months. Most effects should however be temporary and lead to a normalization from Q4 on.
- 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 is still a lot of excess capacity and the potential for people to return to the job market. This limits the inflation risk, especially in Europe.
- Inflationary figures will stabilize at higher levels compared to pre-Covid but should not overshoot central banks targets durably.

BNP Paribas Forecasts

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Source: BNP Paribas – 25/05/2021

Eurozone Economic Recovery

Looking for a breakthrough over the coming months

EU FISCAL BOOST

The fiscal policy has been more effective than many had assumed so far. Europe's fiscal framework is likely to change due to the pandemic and the global shift in political policies over the EU.

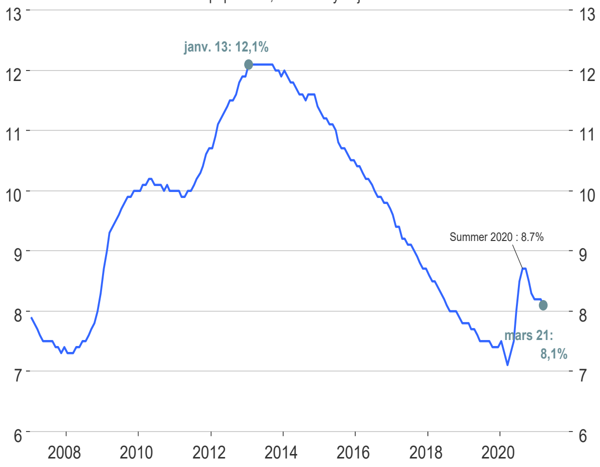
- While Europe's fiscal framework was under scrutiny even before 2020, the pandemic has made the need to reform imperative.
- In our view, the EU is likely to make more progress towards a better fiscal framework than many observers are assuming given the changes inspired by the pandemic and broader political shifts in Europe.
- A new framework, to our opinion, should focus on making countries rules easier to enforce, less pro-cyclical and more conducive to investments.
- There is considerable uncertainty about the path ahead, given that the formal EU level discussion has not yet opened.

Source: Refinitiv Datastream, Q4 20

EMPLOYMENT IS ON ITS WAY TO NORMALIZATION

Pandemic has caused significant job losses in 2020. Since H2 2020, unemployment rate is coming down and is still 1 percentage point above pre-pandemic levels. Governments support have limited the rise and reopening will be the key driver of further decrease in unemployment rates.

- After spiking in summer 2020 to 8,7%, unemployment is progressively deflating and was at 8,1% at the end of Q1.
- The pandemic has caused significant job losses although government support measures have limited the rise in the unemployment rate. A further increase is expected for this year but recent survey data suggest there is a potential for positive surprises in terms of labour market developments: hiring intentions by companies are on the rise.
- Business Climate in the eurozone has spiked in early May to 1.13, a high level, unseen since Q3 2018. Figures reached back positive territory in early April.



Source: Refinitiv Datastream, mars 21

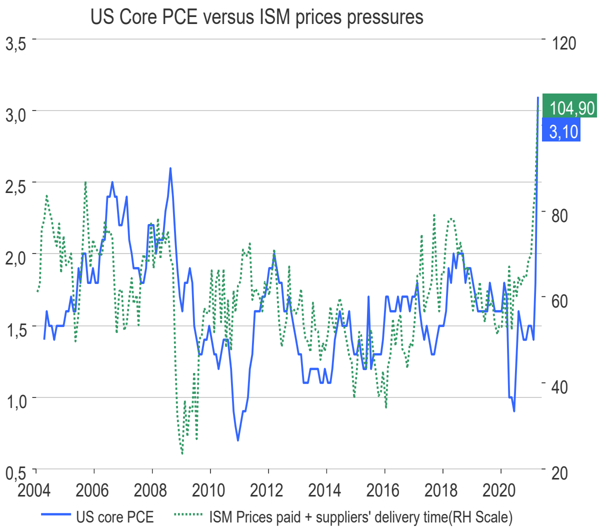
Inflation

Inflation & commodities xx

INFLATION, SUPPLY CHAINS AND COMMODITY PRICES

Recent price trends were driven by several transitory and idiosyncratic factors both the US and Europe . Inflation is however expected to stabilize at higher levels compared to pre-covid due to the multi-year stimulus programs and higher levels of employment.

- Companies have been reporting longer delivery lags and rising input costs, but the historical experience in the US and the euro area shows that the impact on inflation should be temporary and limited (see chart).
- Most industrial commodity prices reached their trough around April last year while oil price around mid-year. With commodity prices stabilizing, year-on-year comparisons will be less and less extreme. This will drive down inflation at the end or turn of the year.
- Since the 1990s, spikes in manufacturing price pressures had limited impact on core inflation. A key trend has been the anchored inflation expectations as well as competitive pressures that make businesses, fearing a loss in market share, reluctant to raise their prices. This was common to the US and the Eurozone.

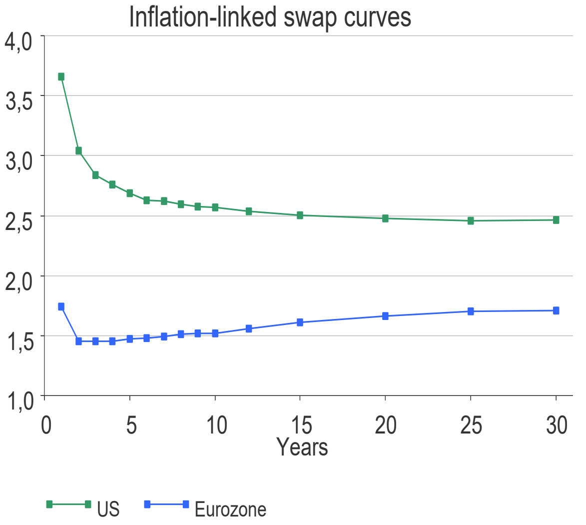


Source: Refinitiv Datastream, avr. 21

WHAT WE NEED TO MONITOR

Inflation expectations will play a key role in the coming months. They are sensitive to the most recent inflation figures and these will remain high until autumn. We need to monitor whether inflation expectations do break key levels, especially in the US.

- The key short-term will be the risk of 'self fulfilling' expectations. Indeed, economic agents are highly influenced by the most recent inflation figures. These will still be very high the next few months.
- We need to monitor surveys from consumers, financial professionals and the expectations underlying financial assets such as inflation linked bonds and derivative contracts (e.g. inflation swaps). The key is that US long-term inflation expectations as measured by inflation swaps or breakeven, rates do not rise sharply (see chart).
- Ultimately, the US employment market will be the key for sustained inflation overshooting. It would need very high job creation over a quarters and the participation rate to jump before wage-prices dynamics lead to that.



Source: Refinitiv Datastream, 28/05/2021

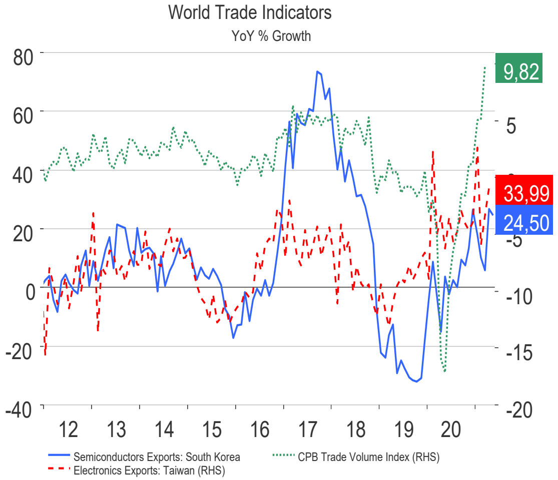
Global Trade & Mobility

Global trade is promising but mobility across the world is still low

TRADE VOLUME IS BOOMING IN 2021

A sharp recovery is observed for World trade. Semi-conductors are recovering slower as the trade tensions between USA & China are still having an impact. World Merchandise trade has recovered much quicker than anticipated.

- While the recovery is slow and uncertain and the hope is focused on vaccination, global trade volumes are booming.
- The impressive rebound passed through the ceiling reaching new all time highs. It shows a strong resilience compared to previous crises as 2008 when it took three years for figures to returned to pre-crisis levels.
- PMIs are promising in the US and in Europe (above 60) and show that the situation is on its way back to normalization in the world.
- However, trade in services is still fragile and evolving especially in tourism and transport that accounted for nearly 40% of all global exports of services before the pandemic.

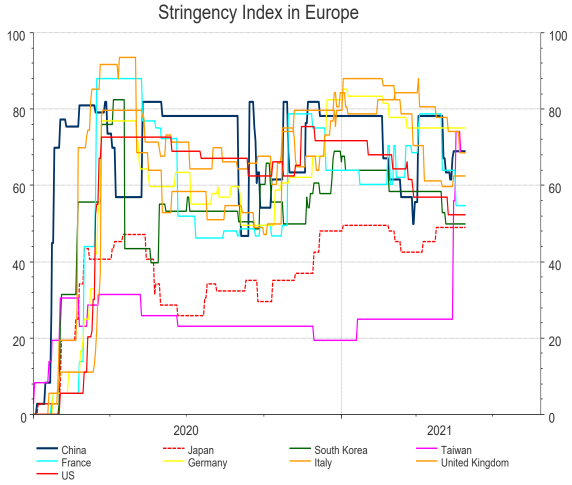


Source: Refinitiv Datastream, mai 21

MOBILITY IS IMPROVING GRADUALLY

In the US and in the UK, vaccination progress is promising and is leading to softening restrictions and normalization is on its way.

- The Google's mobility index shows promising figures with the Retail and Recreation reaching -7%, slowly improving. In New York, the same trend is observed with -15%.
- In Europe, the Google's mobility index is also recovering gradually with the reopening: the Retail & Recreation in France reaching -35% while Germany follows the same trend with -28% even if the figures are still very negative.
- In Asia, India shows a critical resurgence since early Q2 2021 with a spike in early May with 400 000 Covid-19 cases per day. This situation is creating doubt and uncertainty for the future about the end of the pandemic.



Source: Refinitiv Datastream, 28/05/2021

03

Fixed income

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

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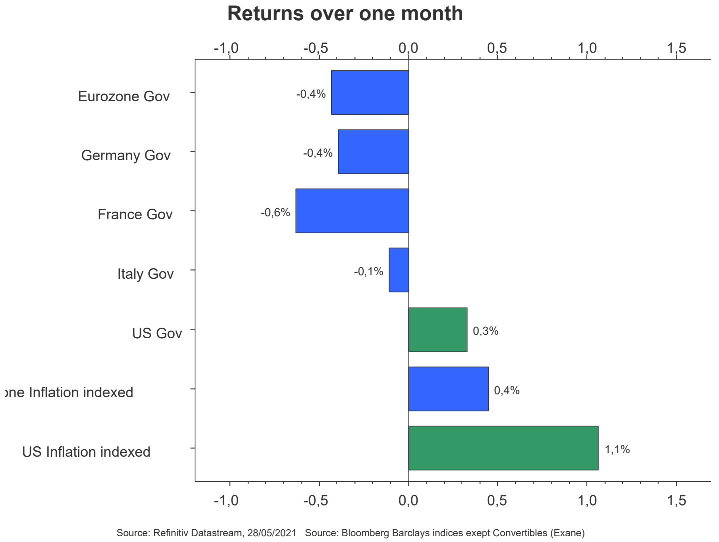
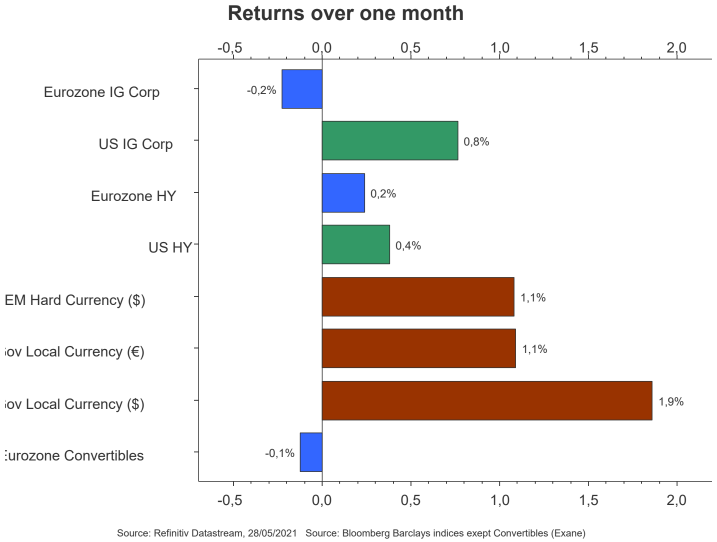
Fixed income at a glance

The bond market showed some doubts about the speed and the amplitude of the recovery. Long-term bond yields have dropped recently on the back of lower inflation expectations and lower real yields. Both the Fed and the ECB wait for more clarity after uneven economic data, prompting them to remain dovish. Credit and EM bonds outperformed.





Central Banks

After the tapering decision of the Bank of Canada and the Bank of England, markets await for the decision of the Fed and the ECB. We expect the Fed to announce the tapering in September, with implementation in early 2022. We think the ECB will reduce the pace of its purchases in September (not be considered as a tapering).

Government Bonds

Long-term bond yields are looking for a catalyst to move again and the direction is likely to be higher. Our 10-year bond yield targets are 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 have a neutral stance on peripheral bonds. Yields are low and the potential for further spread compression is limited. As a matter of fact, Greek spreads are now tighter than Italian spreads.

Corporate Investment Grade (IG) Bonds

We turn neutral from positive on eurozone IG corporate bonds, while maintaining our positive stance on US corporates. Valuations are stretched, notably in the eurozone, where low yields provide very little buffer against higher interest rate.

Corporate High Yield (HY) Bonds

While opportunities exist (BBs have lagged the recovery contrary to Bs and CCCs), we prefer to stay neutral on the HY asset class given tight valuations on average. We prefer fallen angels and rising stars as they offer a spread pick up.

Emerging Market (EM) Bonds

We stay positive on EM bonds. US yields have stabilised and EM currencies have potential to appreciate in the medium-term. The expected stronger economic growth and high commodity prices are favourable for EM countries.

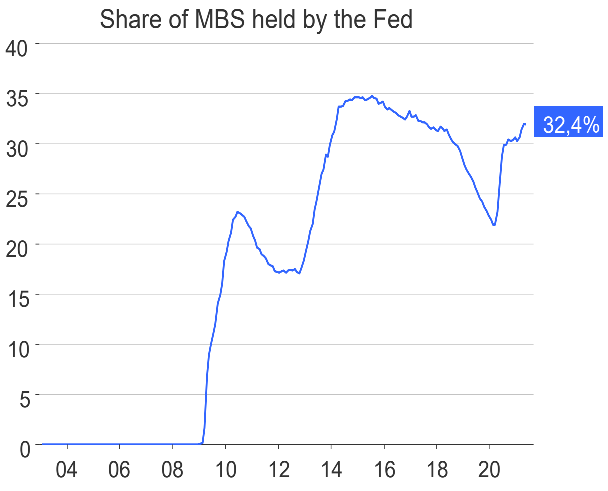
Central banks

Still a few months away from tapering

THE FED

The latest economic data has been very uneven. The Fed is likely to wait for more clarity. We expect the Fed to reduce slowly its net purchases (tapering) in early 2022 and to announce that in September.

- The latest economic data has been very uneven, making the speed of the economic recovery difficult to assess. The Fed is likely to wait for more clarity.
- Inflation expectations stand at 2% according to the Fed's own gauge, a perfect number, not too low, not too high. Thus, unemployment is more of a concern than rising inflation -which is seen as transitory-.
- A number of policymakers think it is appropriate to begin discussing tapering.
- In our view, the Fed will start discussing tapering at the June meeting and will announce its decision in September. The tapering is likely to be a slow process and be implemented in early 2022. The tapering could start with MBS given that the Fed's own a large part of the market (see chart) and that the housing sector is in a good shape.

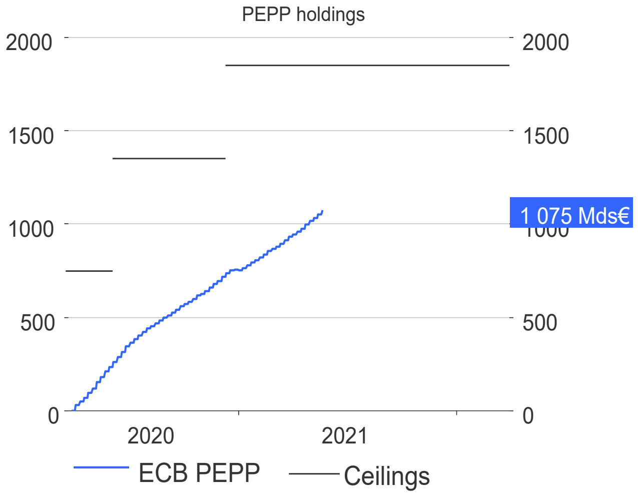


Source: Refinitiv Datastream, 26/05/2021

THE ECB

Following recent speeches from influent policymakers, it seems that the ECB will maintain its current "substantially" higher pace of purchase for a few more months. We think they will reduce it to a more sustainable pace in September.

- Recent speeches from influent policymakers were very dovish. The fresh set of economic data that will be delivered at the June meeting will show an improvement in the economic activity but will likely not be good enough to convince the majority to reduce the emergency measures yet.
- We expect the ECB to reiterate its dovish stance at the June meeting as inflation is still far away from the target.
- The September meeting may be the one when the ECB announces the results of its strategic review (cementing its dovish stance) and a reduction of net purchases from the "substantially higher" pace that was decided in March, to a more sustainable pace of purchase. We don't expect the ECB to extent its PEPP beyond March 2022 (see chart). The ECB will manage the transition carefully via more QE (or more flexibility) and TLTROs (loans to banks).



Source: Refinitiv Datastream, 21/05/2021

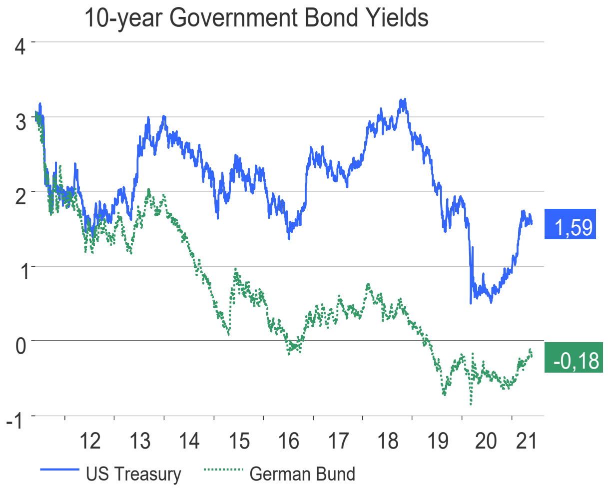
Bond yields and Inflation expectations

Short-term pause in a bear market

BOND YIELDS

Long-term bond yields are looking for a catalyst to move again and the direction is likely to be higher. Our 12-month targets for 10-year rates are 2% in the US and 0% in Germany.

- The sharp selloff seems behind us now (see chart). The US 10-year yield have stalled. Real rates declined and inflation expectations moderated. In Germany, the 10-year yield increased marginally on the back of inflation expectations while real rates were muted.
- Long-term bond yields are looking for a catalyst to move again and the direction is likely to be higher. Higher realised inflation, higher wage growth and the announcement of the tapering are potential reasons for bond yields to take another leg higher. We keep our 10-year targets at 2% in the US and 0% in Germany in 12 months. We do not think that the tapering will create such turbulences as in 2013 given that the market already partially adjusted (real yields and term premium have moved up).

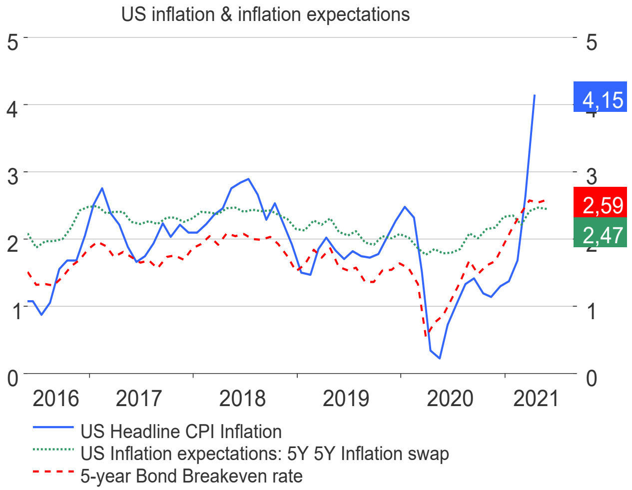


Source: Refinitiv Datastream, 31/05/2021

INFLATION EXPECTATIONS

Inflation-linked bonds seem fairly valued to us, with breakevens having limited upward potential. The asset class has a long duration. We prefer to stay neutral on inflation-linked bonds.

- The big debate is about inflation in the US (see chart). Realised inflation surged, while the 5-year breakeven inflation increased and the 5-year 5-year inflation swap rate stalled. This suggests that markets believe the Fed when it says that inflation is transitory.
- The inflation picture is different in the eurozone and the moves are more modest. Realised inflation ticked up but inflation expectations are still way below the 2% mark.
- We see more inflation risk in the US than the eurozone given the much bigger size of the budget and monetary stimulus. However, we prefer to stay neutral on inflation-linked bonds. US breakeven rates have limited upside from current levels. We prefer floating rate notes or funds that actively manage duration in order to hedge against inflation, especially in the US.



Source: Refinitiv Datastream, avr. 21

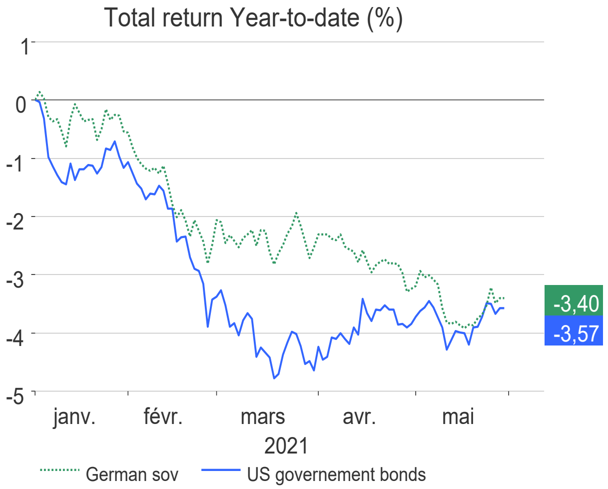
Government Bonds

Prefer peripheral bonds

US AND GERMAN GOVIES

We stay negative on long-term US and German government bonds, assuming another leg higher in bond yields in the summer. We are positive on US short-term government bonds as an alternative to cash for USD-based investors.

- Government bonds have recorded negative returns since the beginning of the year (see chart).
- The US 10-year bond offers about 100bps additional yield for EUR-based investors after currency hedged compared to the bund yield. For Japanese investors, the gain is about 120bps compared to their domestic yield.
- We stay negative for now on long-dated Treasuries as we think yields will increase again after the current break. We keep our positive stance on short-dated government bonds as the Fed is far from raising rates and the market is too sanguine about it. Expected returns are limited tough. We stay negative on German government bonds. The ECB is dovish but does not stand in the way of rising yields.

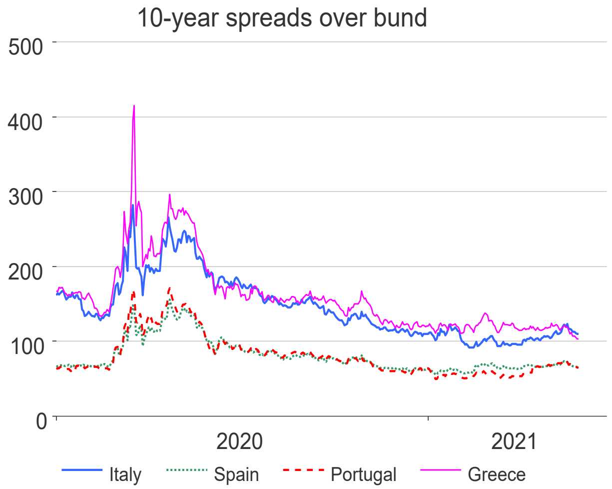


Source: Refinitiv Datastream, 31/05/2021

EUROZONE PERIPHERAL BONDS

We have a neutral stance on peripheral bonds. Yields are low and the potential for further spread compression is limited.

- Peripheral spreads tightened moderately in May and trade below pre-pandemic levels (see chart).
- Spreads initially widened in Italy on political concerns. There was speculation that Prime Minister Draghi could replace President Mattarella when his mandate ends, in 8 months, which would lead to an early election for the role of Prime Minister.
- The ECB's QE and PEPP purchases act as a backstop in case peripheral spreads widen. Indeed, a spread widening could cause an unwarranted tightening of financial conditions.
- Peripheral bonds offer attractive carry relative to core countries and the risk of a credit rating downgrade is limited in our view. We prefer to stay neutral given the absolute low level of yields and ahead of the ECB meeting where hawks may ask for reducing the PEPP pace of purchase.



Source: Refinitiv Datastream, 31/05/2021

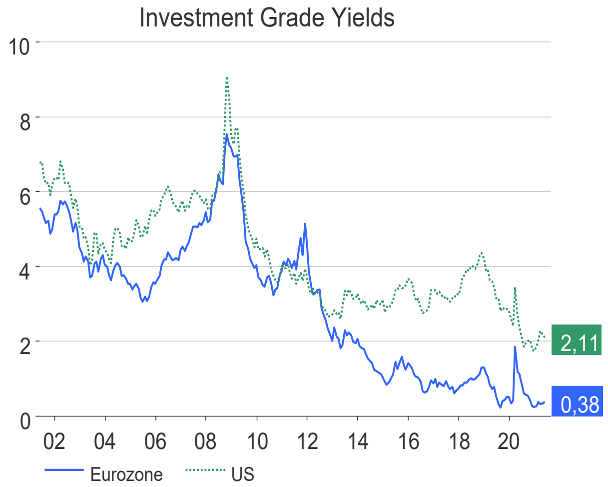
Corporate Bonds

High cash prices

INVESTMENT GRADE (IG)

We turn neutral from positive on eurozone IG corporate bonds, while maintaining our positive stance on US corporates. Valuations are stretched, notably in the eurozone, where low yields provide very little buffer against higher interest rate.

- Credit spreads may stay tight given the expected low supply. Expected returns would then depend on the evolution of the bund and Treasury yields.
- Credit fundamentals have strengthened thanks to the recovery but have stopped making progress in the eurozone lately. There were 3 fallen angels in May and no rising stars for the first time in 5 months.
- In the eurozone, IG yields have dropped to very low levels (see chart), making the asset class vulnerable to rising interest rates. A 6bps increase in the German 5-year yield would lead to negative expected returns. Hence, we turn neutral from positive on eurozone IG corporates.
- We stay positive on US IG as yields are higher. The currency-hedged yields is attractive for foreign investors compared to domestic yields.

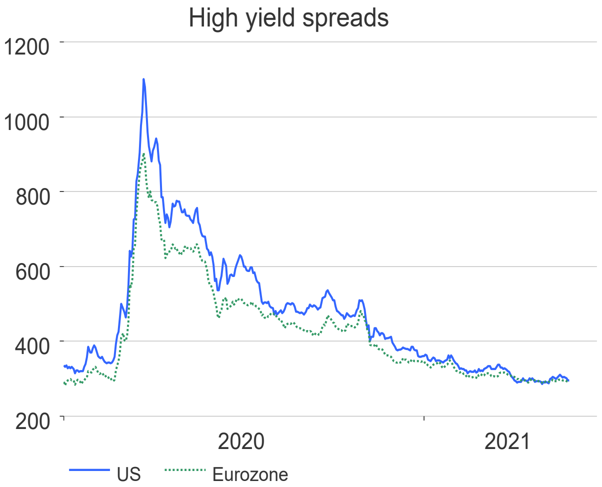


Source: Refinitiv Datastream, 31/05/2021

HIGH YIELD (HY)

While opportunities exist (BBs have lagged the recovery contrary to Bs and CCCs), we prefer to stay neutral on the HY asset class given tight valuations on average. We prefer fallen angels and rising stars as they offer a spread pick up.

- Credit spreads started to widen in May, albeit only slightly, ending several months in a row of tightening (see chart). Flows reversed from last month in both the US and the eurozone.
- HY offer greater cushion against interest rate increases than IG, given its higher credit risk.
- We prefer to stay neutral on HY bonds, given tight valuations, especially on the lower-rated cohort where all the upside on reflation seems priced in.
- We prefer fallen angels and rising stars due to their spread behaviour. Both offer a pick up in spreads. Fallen angels usually enter the HY space with higher spreads than existing BBs and rising stars enter the IG space with higher spreads than existing BBBs. Their spreads normalise only after a month or two on average.



Source: Refinitiv Datastream, 31/05/2021

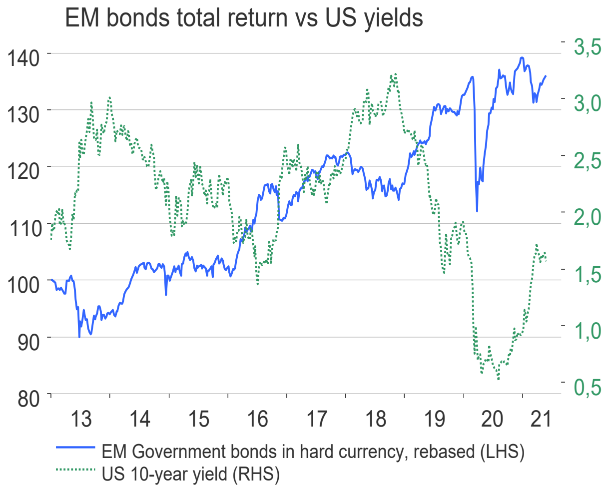
Emerging Market Bonds

EM bonds are attractive

EM BONDS IN HARD CURRENCY

We stay positive on EM bonds in hard currency as US yields have stabilised. The expected stronger economic growth and high commodity prices are favourable for EM countries.

- EM bonds outperformed most other asset classes in May, benefitting from the stabilisation of US Treasury yields.
- The Covid situation remains a drag for most EM countries. Expected progress will ultimately lead to tighter credit spreads.
- The expected stronger economic growth and high commodity prices are generally favourable for EM countries. The market may thus focus on the reopening play and commodity producers.
- The risk to our view is another rapid surge in US Treasury yields, like the 2013 Fed tapering (see chart). A repeat to the same magnitude is unlikely in our view.
- EM offer attractive yields (3.8%) compared to developed economies.

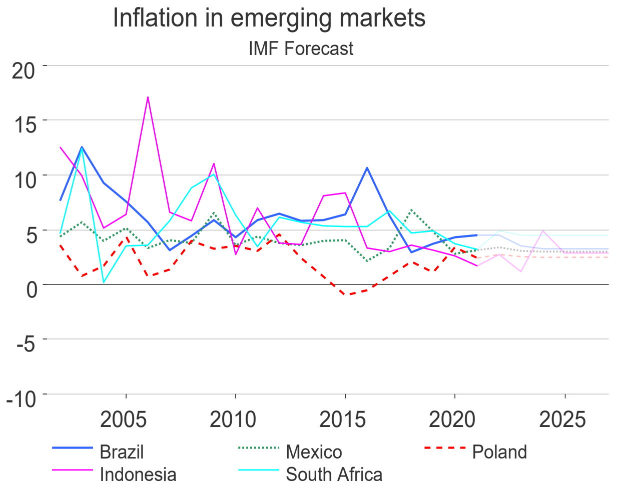


Source: Refinitiv Datastream, 31/05/2021

EM BONDS IN LOCAL CURRENCY

We stay positive on EM local bonds as EM currencies have potential to appreciate in the medium-term.

- EM local bonds performed well in May and positive developments on EM currencies added to the performance.
- The Fed tapering, should it come earlier-than-expected, or stronger-than-expected (not our base case), could spur outflows from local bond markets. Countries with larger foreign holdings, like Peru, Czech Republic and South Africa would be more at risk.
- We stay positive on EM local bonds as EM currencies have potential to appreciate in the medium-term. EM FX is driven mostly by global USD liquidity conditions, growth expectations and short-term real rates.
- Rising inflation is a risk as central banks may raise their policy rate in response. The market pricing is for some countries quite aggressive in our view relative to forecasted inflation (see chart).



Source: Refinitiv Datastream, 20

04

Forex

VS EUR
VS USD

BNP PARIBAS
WEALTH MANAGEMENT

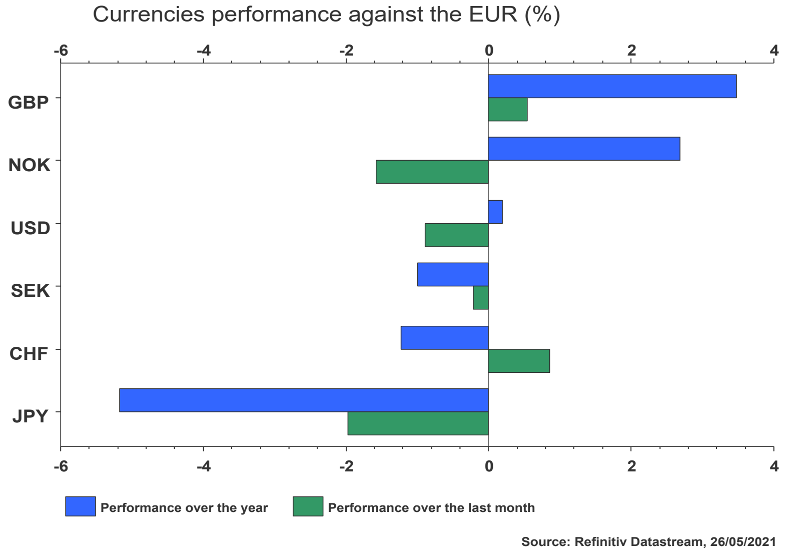
Forex at a glance

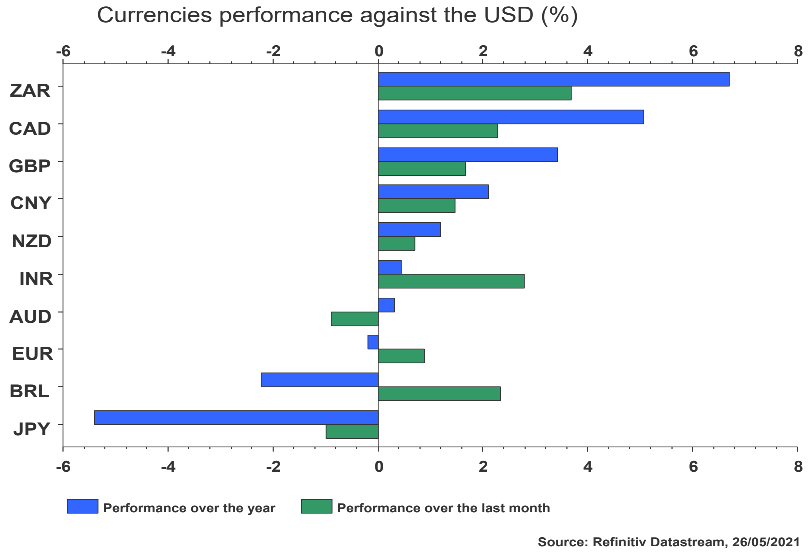
The month of May saw the greenback losing ground across the board, with the DXY down to 89.97 from its peak of 91.29 early May. Europe is closing the vaccination gap and several EMs central banks have started hiking rates. We expect a return of broader dollar weakness and the EUR to appreciate over the summer and adjust our 3-month target to 1.25 (value of 1 euro) and keep our 12-month target to 1.25 as well.

The INR has performed extremely well over the last month (+2.8% against the USD) in a challenging context. While it remains exposed to a softer current account, the fiscal spending and the FDI should support the currency. We expect the USD to stand at 72 (value of one dollar) over the year.

The BRL and RUB are two other currencies on which we hold a positive view. Their central banks have started hiking rates to combat rising inflation figures and we expect other rate hikes to follow. The domestic factors have also improved and reduced their respective risk premium. We adjust our 3-month USDBRL and USDRUB targets (value of oe dollar) to 5.1 and 72, respectively. Their respective 12-month targets remain unchanged at 4.8 and 69.

We also adjust our targets on the CNY to see a rather lateral move over the coming months (6.40 for the 3 and 12-month targets).





EUR/USD

	Country	Spot 03/06/21		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.22	1.25	1.25
	United Kingdom	EUR / GBP	0.86	0.85	0.84
	Switzerland	EUR / CHF	1.10	1.11	1.14
	Japan	EUR / JPY	134	133	139
	Sweden	EUR / SEK	10.1	10	10
	Norway	EUR / NOK	10.13	9.8	9.60
Against dollar	Japan	USD / JPY	110	111	111
	Canada	USD / CAD	1.21	1.24	1.22
	Australia	AUD / USD	0.77	0.78	0.80
	New Zealand	NZD / USD	0.72	0.72	0.75
	Brazil	USD / BRL	5.08	5.30	4.80
	Russia	USD / RUB	73.26	74.0	68.0
	India	USD / INR	73	75.0	75.0
	China	USD / CNY	6.39	6.40	6.40

Our position for this month

Evolution of our position from last month

VS. EUR

Region	Country		Spot 03/06/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	*1.22*	Negative	1.25	Negative	1.25
	United Kingdom	EUR / GBP	*0.86*	Neutral	0.85	Positive	0.84
	Japan	EUR / JPY	*134*	Negative	139	Negative	139
	Switzerland	EUR / CHF	*1.10*	Neutral	1.11	Negative	1.14
	Australia	EUR / AUD	*1.58*	Neutral	1.60	Neutral	1.56
	New-Zealand	EUR / NZD	*1.69*	Negative	1.74	Neutral	1.67
	Canada	EUR / CAD	*1.47*	Negative	1.53	Negative	1.53
	Sweden	EUR / SEK	*10.10*	Neutral	10.00	Neutral	10.00
	Norway	EUR / NOK	*10.13*	Positive	9.80	Positive	9.60
Asia	China	EUR / CNY	*7.79*	Negative	8.00	Negative	8.00
Asia	India	EUR / INR	*88.94*	Neutral	90.0	Neutral	90.00
Latam	Brazil	EUR / BRL	*6.19*	Negative	6.38	Positive	6.00
EMEA	Russia	EUR / RUB	*89.23*	Neutral	90.0	Positive	85

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

Outlook for currencies versus EUR

We remain bearish on the USD. We are past the peak of repricing US exceptionalism, other countries should catch up as the laggards close the vaccination gap and fully reopen their economies. The rate differential for short maturities should remain low for long.

- The US have had a head start to their economic recovery but the trade and current account deficits are widening. The US could see large equity outflows from foreigners as the PMI differential between the US and Europe shifts in favor of the old continent. This environment has brought renewed dollar weakness.
- Despite strong US growth and rising nominal yields, US real yields have continued to decline relative to trading partners. It is no surprise as inflation rose to 4.2% YoY in April, the highest level since 2008. It was expected that inflation would rise, but investors were still surprised by the extent to which it did. We still don't see tapering and rate hikes in the short-term as various employment measures suggest some slack. A sustainable overshoot of the inflation target could force the Fed to react. This remains unlikely over the coming year.
- Vaccination campaigns are well advanced in Europe as well. There are talks of vaccination passports to allow cross border travel, which should help the Euro Area countries narrow the GDP growth gap with the US in Q2 and perhaps outgrow the US in Q3. Additional stimulus coming from the Recovery Fund and the ECB potentially announcing tapering at its June meeting should support the euro as well.
- **Therefore, we adjust our EURUSD target to 1.25 (from 1.20) (value of one euro) for the next 3 months. We keep our 1.25 target in one year. This suggests further upside for the euro.**

VS. USD

Outlook for currencies versus USD

	Country		Spot 03/06/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	*1.22*	Positive	1.25	Positive	1.25
	United Kingdom	GBP / USD	*1.42*	Positive	1.47	Positive	1.49
	Japan	USD / JPY	*110*	Neutral	111	Neutral	111
	Switzerland	USD / CHF	*0.90*	Neutral	0.89	Neutral	0.91
	Australia	AUD / USD	*0.77*	Neutral	0.78	Positive	0.80
	New-Zealand	NZD / USD	*0.72*	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	*1.21*	Neutral	1.22	Neutral	1.22
Asia	China	USD / CNY	*6.39*	Neutral	6.40	Neutral	6.40
	India	USD / INR	*73.0*	Neutral	72.0	Neutral	72.0
Latam	Brazil	USD / BRL	*5.08*	Neutral	5.10	Positive	4.80
	Mexico	USD / MXN	*19.95*	Neutral	19.7	Positive	19.0
EMEA	Russia	USD / RUB	*73.26*	Neutral	72.0	Positive	68.0
	South Africa	USD / ZAR	*13.56*	Negative	14.5	Negative	15.0
	USD Index	DXY	*90.04*	Neutral	88.4	Neutral	88.4

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

Broader dollar weakness should bode well for EMs currencies. We expect riskier assets to attract flows as the pandemic gets under control. Moreover, central banks around the world have started their rate hike cycles, which the Fed is not expected to do so in the next twelve months.

- The INR remains vulnerable to rising commodity prices and a softer current account. That said, investments flows continue to support the currency, helped by a pro-cyclical fiscal deficit.
- The Reserve Bank of India is not expected to raise interest rates this fiscal year, instead it is supporting growth as the country grapples with the coronavirus. With the infections having peaked, the outlook has improved. It has shifted its focus on containing the 10-year bond yield to finance its spending plans, instead of fighting against the appreciation of the rupee.
- **Therefore, we adjust our 3- and 12-month USDINR targets to 72 (from 75). This suggests room for more appreciation for the rupee.**
- The RUB has appreciated over the last month, taking advantage of some dollar weakness. Also helping is that geopolitical tensions have decreased, reducing the big risk premium in the RUB. Additional rate hikes should be coming and the upcoming summit between Biden and Putin could further boost the positive trend of the currency. **Therefore, we adjust our 3-month USDRUB target to 72 and keep our 12-month target to 69.**
- The BRL offers good upside as well, despite the health crisis. The BCB has started hiking rates and others are on the way, boosting the carry. The basic balance is pointing to FX appreciation and the domestic fiscal situation is better. The potential uncertainty around next year's elections could limit the upside. **Therefore, we adjust our 3-month USDBRL target to 5.1 and keep our 12-month target to 4.8.**

05

Equities

Global Equities view
Theme in Focus
Asian Equities view
Sector Allocation

BNP PARIBAS
WEALTH MANAGEMENT

Equities at a glance

Europe preferred: For once, European stocks are the preferred stock market destination, outperforming the US and emerging markets, and attracting substantial flows.

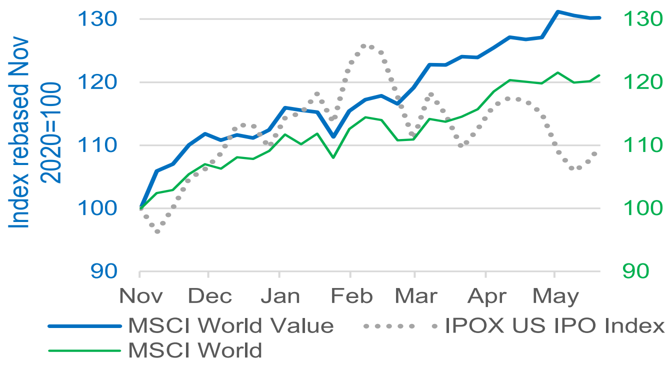
Value stocks continue their run higher: Value stocks continue to outperform, helped by higher inflation expectations and a strong Q1 results season.

Tactical risk of recovery in US growth stocks: After a 35% drop from peak in the ARK Innovation ETF and A 37% decline from February peak for the SPAC index, do not be surprised to see a short-term bounce in US technology mega-caps. But we retain a long-term caution on this equity market segment.

Remember - defensives lead over Summer: We continue to recommend a more defensive sector stance for now, biased towards quality dividend/dividend growth strategies,...

We remain positive on equities overall, with a preference for Eurozone and UK stocks

Value beats overhyped IPO stocks by > 20% since November 2020



Source: BNP Paribas, Bloomberg

Sectors: Banks

European banks +30% year to date now: The Banks sector continues its strong run, boosted by higher inflation breakevens and a steeper yield curve, strong economic recovery and better-than-expected Q1 results. Stay positive on Banks.

Factors: Size still works in Europe, but US?

Size works in Europe, but fades in the US: Over Q2 to date, small-caps continue to lead in Europe. Over the year to date, S&P 600 small-caps have led the S&P 500 by 23% v 12%, and threatens a new upside breakout that could widen this gulf in relative performance over June.

Theme: Equities hedged with volatility

Play defence by combining long equities with long volatility: This VEQTOR strategy combines an underlying long equity market exposure (e.g. S&P 500) with downside protection, using long exposure to implied volatility which acts as a hedge in case of equity market correction.

Regional Allocation: UK, eurozone over US

Regional bias to EM, Japan, eurozone, UK: The UK remains very attractive on a cyclical value basis. Non-UK investors can benefit from exposure to stronger sterling. We also like to buy Chinese and Taiwanese equities on current weakness, with a focus on local A shares.

Neutral on US exposure, but watch for upside risk in short-term from Large-Cap technology revival, as retail fund flows swing back to equity funds post a 35% drop in the ARK Innovation ETF, poster child for US growth.

Risks

Watch for higher volatility on the back of predictably higher inflation prints in the US over the next few months, with higher commodity prices and a large base effect.

Our position for this month

Evolution of our position from last month

Global Equities view

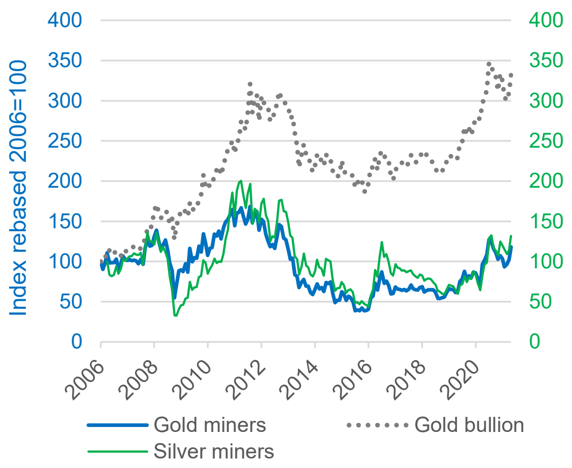
Europe outperforms when banks rally

FOCUS ON BANKS, PRECIOUS METALS MINERS

One neglected area for investment in equity markets are precious metals miners. While we recently downgraded our sector view on Materials to neutral following an amazing run-up in base metals and global diversified mining companies, we are still very positive on the prospects for precious metals miners as gold threatens to return to $2000/oz, and as silver challenges the $29/oz level once again.

- **Precious metals miners could be poised for a sharp rally:** The ingredients are in place for a potentially explosive rally in precious metals miners over the next few months, for the following reasons:
- 1. Gold, silver and Platinum Group Metals prices have all rallied substantially, and are moving upwards yet again as real rates fall and inflation rises.
- 2. Earnings momentum has been extremely positive at precious metals miners given their operational leverage to these higher prices, with more positive momentum likely.
- 3. Valuations remain very low, single-digit P/Es, strong free cash flows and now often paying generous dividends too.
- 4. Rather than spend on heavy investment to boost capacity, miners are focused on boosting profitability instead.

Gold & Silver Mines: Catch up to Gold coming?



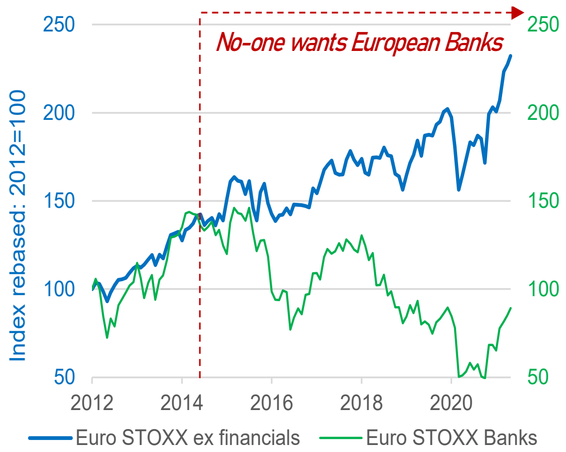
Source: BNP Paribas WM, Bloomberg

EUROPE ONLY OUTPERFORMS WHEN FINANCIALS RALLY

One thing is clear from looking at historic periods of Europe outperformance v Rest of World, notably the US. Given the open and cyclical nature of the European economy, and the preponderance of financials in weighting terms in the region's stock markets, European financials (banks, insurance) have to rally for Europe to outperform.

- **Europe really performs when Banks perform:** Just as the 10-year streak of US out-performance has been driven by a relative overweighting in growth sectors such as Technology, Biotech and Consumer Discretionary, Europe is biased towards more cyclical "value-oriented" sectors such as Industrial Goods and Financials.
- Since 2015, the extreme under-performance of European banks versus non-financials has been the key factor driving European equity under-performance.
- But equally well, the current rally in European banks has now become a key factor in this year's outperformance by European equities versus the US and Emerging Markets. Our positive Banks view suggests optimism for Europe too.

Plenty of potential catch-up for Financials



Source: BNP Paribas WM, Bloomberg

Asian Equities view

Focus on Asian recovery themes

DOMESTIC CHINA A-SHARES BREAK ABOVE RECENT RANGES

ASIA COUNTRY PREFERENCE

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

- After a few months of consolidation, domestic China A-shares broke above recent ranges and outperformed in May. Investor concern over margin squeeze is fading as Chinese authorities stepped up to contain commodity prices which helps ease inflation fear. Recent strengthening in RMB due to USD weakness, optimism ahead of Chinese Communist Party's 100th anniversary in July as well as no aggressive liquidity tightening as originally feared also contributed to the improving sentiment. We remain our positive stance on China equities.

- We also maintain our positive view on Taiwan. The negative news on the surge in domestic Covid cases is mostly priced with the equity market seeing a 10% intra-month correction in May. There is so far no signs of supply chains disruption as business continues as usual unless the Covid situation deteriorates rapidly and the government needs to raise the alert level to 4 which involves closure of some businesses. The recent correction offers good buying opportunities especially for the semiconductor sector as the megatrend of electrification and de-carbonization will continue to drive structural demand for semiconductor chips.

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	-0.4	4.5	22.5	15.2	2.0	2.2	35.4	12.8	11.3
North Asia	China	-0.8	0.1	25.9	15.2	2.1	2.2	16.4	17.1	11.0
	Hong Kong	1.8	12.2	2.1	17.8	1.4	2.5	32.4	13.4	8.4
	South Korea	-0.4	5.9	34.0	11.5	1.3	2.3	93.9	7.2	12.7
	Taiwan	-4.7	13.0	28.6	15.9	2.8	2.4	34.1	7.1	18.6
South Asia	India	4.8	10.4	16.8	21.7	3.5	1.2	33.5	16.6	12.8
	Indonesia	-2.8	-8.6	-9.5	14.5	2.3	2.5	34.6	20.3	15.3
	Malaysia	-2.1	-4.5	-1.7	14.0	1.6	3.1	97.0	-7.1	11.9
	Philippines	-0.2	-11.1	-9.7	15.7	1.6	1.6	51.1	24.1	7.7
	Singapore	-2.0	10.2	-12.8	14.0	1.2	2.9	43.9	14.5	8.1
	Thailand	-2.2	3.7	-13.9	17.3	1.9	2.3	55.0	14.5	8.7

Source: Datastream, BNP Paribas (WM) as of 27 May 2021

Sector Allocation

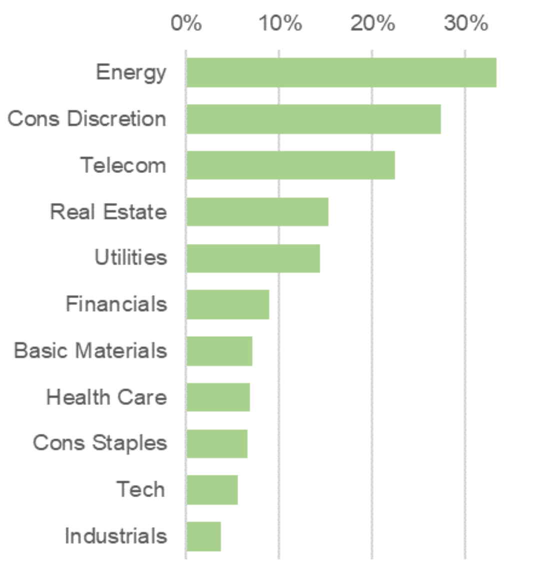
WE FAVOUR CHEAP AND LAGGING SECTORS BUT ALSO SOME EXPOSED TO THE REOPENING

Seasonally more defensive but do not miss the reopening trade !

As we expected, equity markets have started to consolidate their gains YTD, particularly the tech stocks. Outside the tech space, main indices have managed to register some gains in May (as of 27/5). On the one hand, the short term resurgence of inflation makes many investors nervous. But on the other hand, corporate results have been strong on both sides of the Atlantic, a strong support for the equity markets.

- **US Consumer discretionary, Utilities & Techs are in the red in May whereas those sectors that provide some hedge against inflation have been strong: Energy, Materials and Financials.**
- **Gold and goldminers performed very well. Summer seasonality is positive for gold**, currently rebounding (a commodity on which we remain positive).
- **YTD, cyclicals are leading the pack.** After strong gains globally over the last 12 months, we recommended more selectiveness last month among Materials and Industrials (both are in = now). These sectors are quite correlated with China, currently trying to control a possible economic overheating and speculation on commodities.
- The most risky stocks are those having soared to very expensive levels whereas profitability remains low or inexistent.

US sectors: year-to-date performance

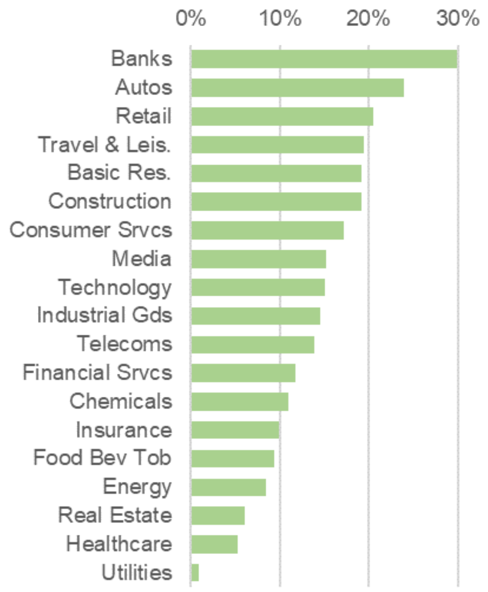


Source: FTSE Russell. Note: performance to 27 May

We suggest some rebalancing towards sectors and industries still relatively cheap, generating strong cash flows, paying good dividends and with an improving outlook. Financials, Health Care, Real Estate, Precious metals, Semiconductors and EU energy look the best places to be. On the other hand, avoid Utilities and those industries that could suffer from rising raw materials prices such as Household and Personal Care.

- **Sell into Tech Strength:** We continue to recommend rotation out of ultra-long duration US Technology, especially out of those names with disappointing, little or no earnings. **However, Semiconductors remain interesting due to the unmet demand that shall last for a long time.**
- **Getting seasonally more defensive, we like some segments of Consumer Staples** and **Health Care**, particularly innovators, but also those companies generating strong cash flows (providing good dividends & buy backs) as well as Med Tech due to the resumption in elective surgeries.
- **Financials remain undervalued** whereas their situation is getting better and better. They also provide one of the best hedge against inflation and should profit from the reopening of the economy. **Real estate, Retail, Travel and Leisure also have the potential to further recover thanks to consumers thirsty to go out to spend their excess saving.**

Europe sectors: year-to-date performance



Source: STOXX. Note: performance to 27 May

06

Commodities

Oil
Gold & Precious Metals
Base Metals

BNP PARIBAS
WEALTH MANAGEMENT

Commodities at a glance

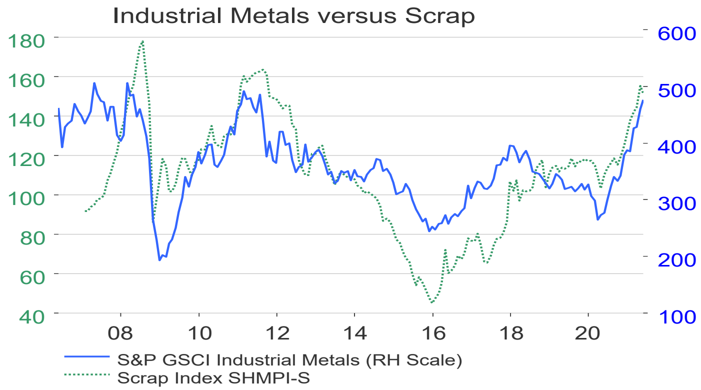
Gold broke above its 200 days moving average on the back of lower real bond yields and a slightly lower USD. The cryptocurrencies sharp correction is also helping.

Base metals rallied powerfully in April to reach a 9 year top early May. Since the start of 2021, the Bloomberg Industrial Metal Index has gained 20%.

Oil: After reaching $71 in March on the back of stronger growth outlook, Brent price moved sideways to end May around $68/barrel.

BASE METALS

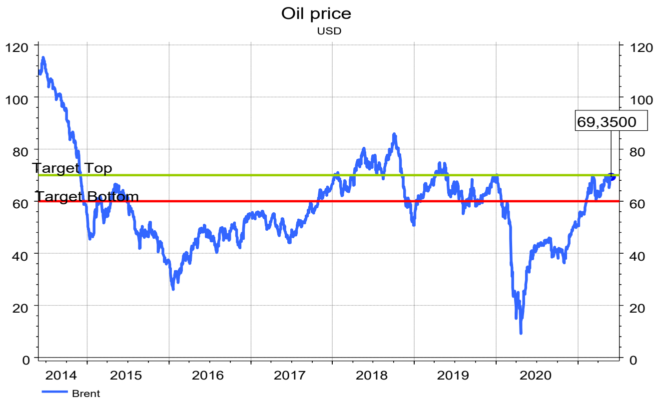
We move Base metals from positive to neutral as we expect a lower demand from China in H2. We could have reached an intermediate top as the long term trend remains bullish.



Source: Refinitiv Datastream, 28/05/2021

OIL

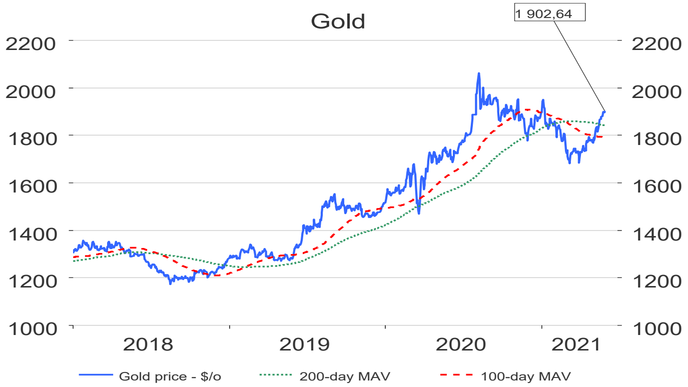
A possible comeback of the Iranian oil production if sanctions are lifted would add to excess capacities which are still elevated. We expect Brent to trade around $60-70 in H2 2021.



Source: Refinitiv Datastream, 28/05/2021

GOLD

Negative real yields, inflation fears, perceived excessive money creation and expected USD weakness, should push gold back to $2000/oz. Gold remains our preferred hedge against economic, financial et geopolitical risks.



Source: Refinitiv Datastream, 28/05/2021

Our position for this month

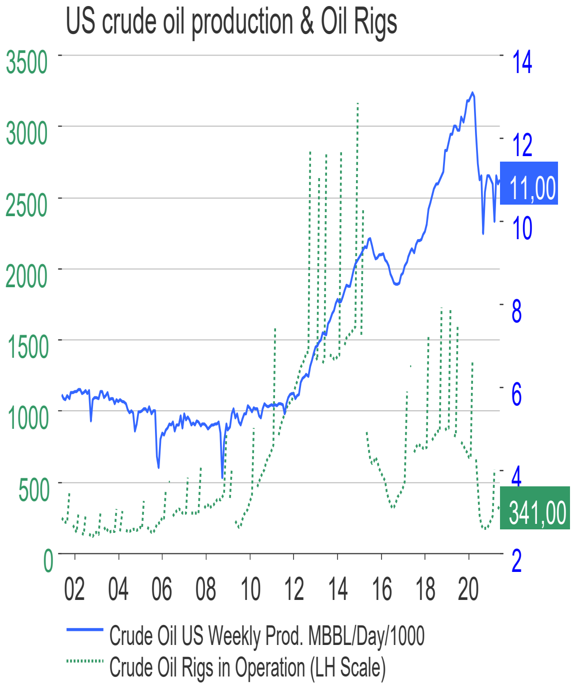
Evolution of our position from last month

Oil

Excess capacities are still huge

Oil prices are maintained at artificially high levels by the OPEC+ production restrictions. The prospect of a comeback of Iranian exports if sanctions are lifted and the slowly increasing US shale oil production should weigh on prices in H2. We expect Brent to trade around $60-70 in the coming months and higher after.

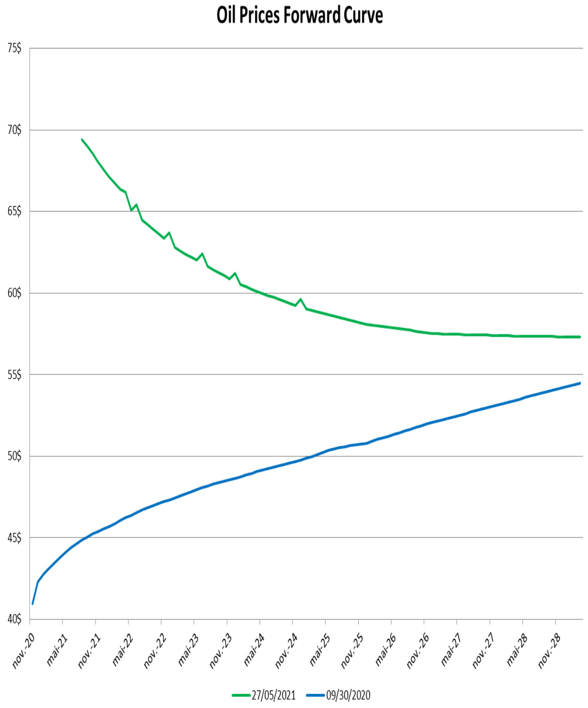
- OPEC+ will “almost certainly” ease cuts in June by 700k b/d to 6,6m b/d but the move for a further 840k b/d rise to 5,7m b/d in July might be in question if the US allow a initial return of 500k b/d of Iranian exports from July-Aug..
- In the US, the number of active shale oil rigs has increased to 341 (from a low of 177). The industry is slowly recovering but the total US output remain well below its pre-covid peak (11 mb/d vs 13)
- Once demand will be back at pre-pandemic levels, possibly early next year and all idled barrels back on the market, there will be little excess capacities left due to the low level of investment decisions made since the 2014 downturn. From there, any further demand increase could push prices towards $80-90/b.



Source: Refinitiv Datastream, 28/05/2021

The term structure of the Brent futures remain in strong backwardation leading to a high rolling yield of 6% 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.

- **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.

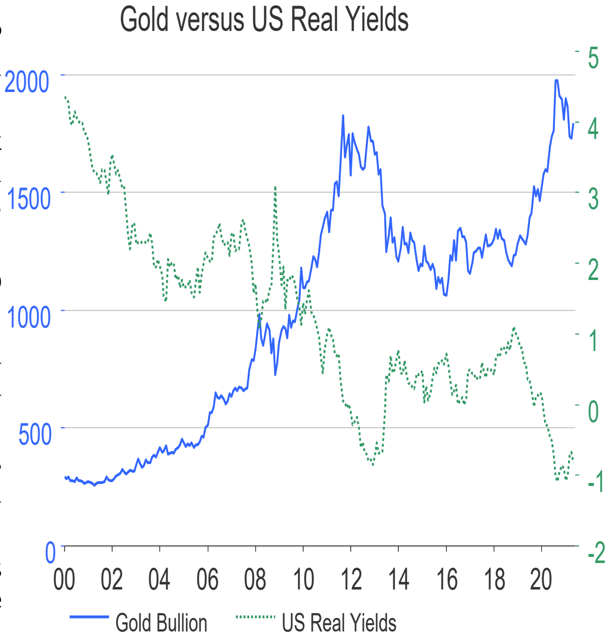


Source: BNP Paribas WM

Gold

Gold price broke above its 200 days moving average helped by lower real bond yields and a weaker dollar. Further real rate downside potential is now limited but the high level of government debts should restrain the ability of central banks to tighten policy, ultimately capping bond yields. Gold appears also to be a better store of value and a better hedge against economic, financial and geopolitical risks than cryptocurrencies.

- Historically, periods with very high debt/GDP ratios were characterized by negative real interest rates
- Jay Powell continue to hammer that present inflation pressures are transitory that the Fed is ready to accept an inflation above its 2% target
- 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.
- The sharp correction of cryptocurrencies is also favorable to gold as they had drained all the speculative juice out of the market
- Gold's supply and demand dynamic remains positive for the precious metal. Investors are the marginal buyers/sellers moving the prices. May was the first month of 2021 with positive flows into gold ETFs
- Risk scenario: strong growth with low inflation and rising real bond yields



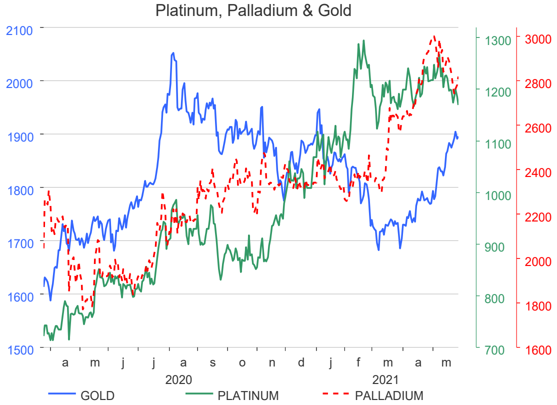
Source: Refinitiv Datastream, 28/05/2021

Silver – Platinum - Palladium

We remain very 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).
- Sliver rebounded much faster than gold above its 200 days moving average, a clear sign of strength. Typically silver outperforms gold when cyclical stocks outperform the overall market.
- Palladium is consolidating its 30% rally between March and early May as the 2 flooded Russian mines (8% of the global production) are resuming their activities easing a deficit existing since 2012.
- Platinum is also consolidating is 20% rise at the beginning of the year.

Source: Refinitiv Datastream, 28/05/2021



Source: Refinitiv Datastream, 28/05/2021

Base Metals

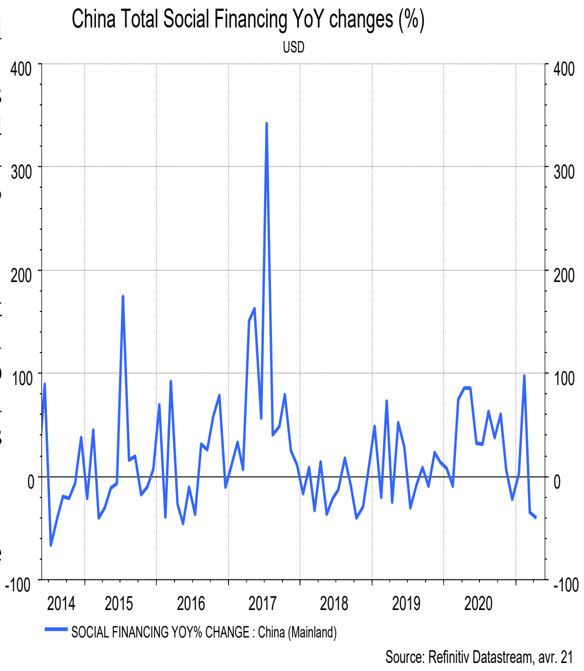
Medium term prospects remain bullish

Our positive stance on copper, nickel and other base metals such as tin has been well rewarded with new all-time highs in copper and tin. But with China's economy cooling short-term, we take tactical profits and downgrade base metals to neutral.

- Credit flows have weakened in China (total social financing has began to contract on a 12-month basis and the credit impulse has dropped below zero). This is usually followed by a slowdown that could reduce the demand for base metals in H2 (China accounts for 58% of the global copper demand).

- Moreover Chinese authorities consider the that Chinese growth is too concentrated on infrastructure and construction and want to reorient it towards private consumption and high technologies which are less base metals intensive.

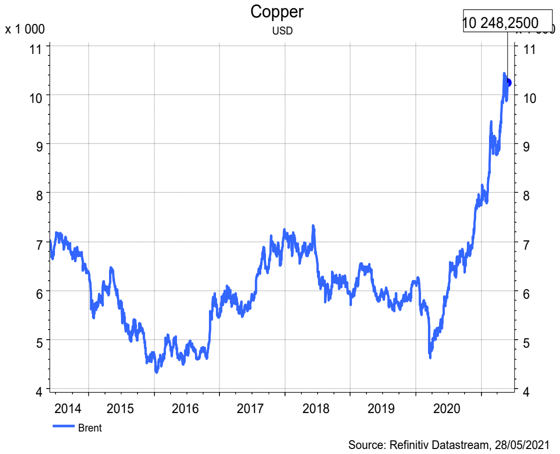
- Green energy accounts only for 3,5% of the copper demand today.

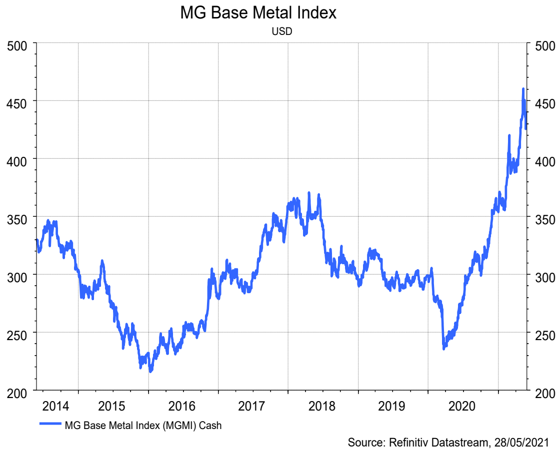


- After the strong rally, a consolidation / correction is overdue. The Bloomberg Industrial Metal Index was quite overbought after rising 80% since March 2020 and 22% ytd.

- The positioning is very long for nickel, aluminum and copper.

- The medium term outlook for copper remains bullish as demand will increase for the needs of the energy transition while supply is constrained by the lack of recent investments. It takes between 5 and 10 years to open and operate a new mine.





07

Alternatives

Alternative Investments

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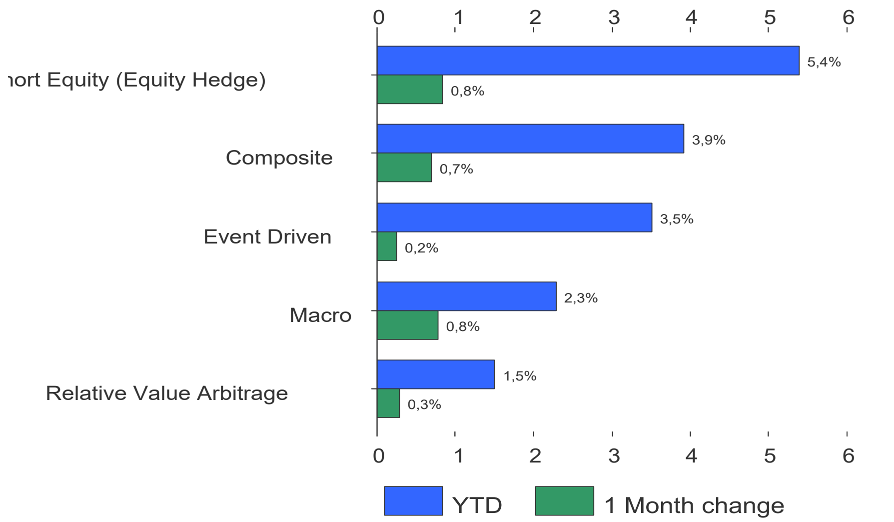
Alternative Investments at a glance

Alternative UCITS continued their strong start to 2021 with another sequence of positive performance in April. Gains were shared across most strategies, with macro and long-short equity outperforming.

We have a preference for Macro, Relative Value and Event Driven strategies. Neutral on Long/Short Equity.

Alternative UCITS (HFRU index)



Source: Refinitiv Datastream, 27/05/2021

Global Macro

Positive. The new US Administration is enacting far reaching measures (regulatory, fiscal), with likely impacts on corporations and markets. Fundamental macro traders are best equipped to anticipate those, as seen already through inflation anticipations. Macro strategies may offer protection from potential pressure on equity valuations and risk assets in general.

Event Driven

Positive: Capital market activity to continue: M&A, IPOs, SPACs… as borrowing costs remain cheap, and plenty of cash with corporates and private equity funds. Most sectors hit by Covid-19 (energy, retail, leisure…), are recovering. This means fewer reorganization opportunities going forward (distressed).

Long / Short Equity

Neutral. Long/short managers face challenging sector and factor rotations after the rebound of Covid losers (cyclicals), and the rich valuation of "Covid winners" (technology, ESG…). Momentum is likely to remain unstable as it moves towards value sectors, which managers are reluctant to embrace.

Relative Value

Positive: Despite now tight spreads, Covid-19 will still generate winners and losers, which true long & short credit managers can trade. Rising interest rates may also impact weaker indebted businesses. With near-term liquidity needs, liability management trades are an area of opportunity. Convertible bond arbitrage remains in a sweet spot, after record issuance post crisis (also including SPACs), and high equity volatility.

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

08

Real Estate

Real Estate

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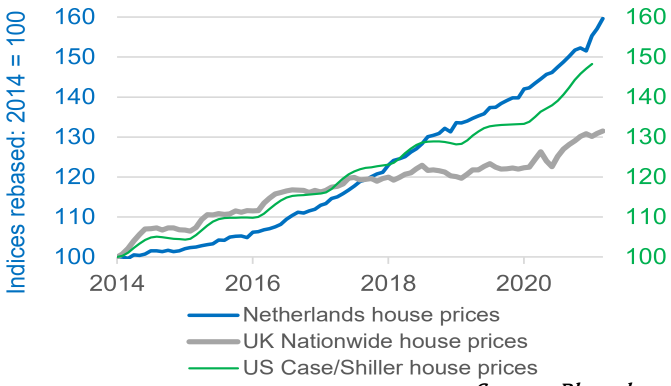
WEALTH MANAGEMENT

Real Estate at a glance

Real Estate continues to rally with re-opening: The value proposition for European Real Estate in particular is astounding at 4.3%-5% prime yields, given that EU investment-grade credit offers only a 0.4% yield, and Eurozone average 10-year sovereign bonds a 0.2% yield.

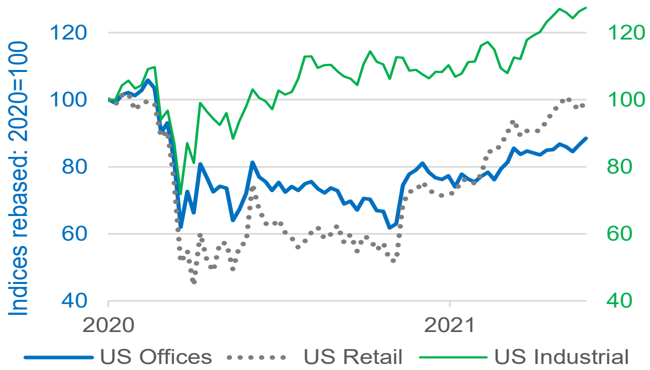
US REITs continue to rally on reopening, falling COVID case numbers: the industrial (warehouse), office and retail segments of the listed US REIT sector continue to rebound, driven by economic strength and a return to offices and physical retail and entertainment.

Low rates drive residential property up



Source: Bloomberg

All key US REIT segments rebound



Source: Bloomberg. Note: Bloomberg US REIT indices

Sectors: Continued growth in logistics

Everyone wants warehouses: the continued expansion of online retail and now the click-and-collect hybrid retail model remains the key driver of warehouse demand in the UK and Continental Europe. Industrial/logistics still offers a strong combination of positive rental growth and 5% yield in Europe.

Regional: Focus on UK re-opening

Strong growth in industrial (warehouses): the structural trend to online and click-and-collect shopping continues to drive demand for logistics and warehouses in UK commercial real estate, with BNP Paribas RE forecasting strong future returns from the prime logistics out to 2025.

Listed: All US REIT segments rebound

Listed Real Estate likes reopening: The collapse in US COVID cases following widespread vaccination is driving a return to offices and shopping centres from East to West, with companies increasingly keen to return to at least a mixture of work-at-home and office attendance as soon as possible.

Preferred sectors, regions

Industrial/logistics (warehouses), residential and specialist sectors (e.g. cellphone towers, datacenters, elf-storage) are preferred as more defensive, growth-oriented real estate sectors. Prime city centre offices remain attractive, as the "death of offices" narrative is in our view vastly exaggerated..

In contrast, retail remains a difficult sector in Europe and the US (aside from supermarkets), with the lagged effect of bankruptcies and vacancies still to have its full effect. That said, look at the strong performance of the US Retail REIT segment since November 2020... A strong rebound in consumption could drive renewed interest.

Risks: Higher long-term interest rates

Real estate generally likes higher inflation as the growth in rents and property demand from a booming economy outweighs any modest rise in long-term financing costs. However, sharply higher long-term rates could deal a short-term setback to the Real Estate markets.

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