

Equities Focus

Summary

- Equities not so expensive in an “everything is expensive” world:** while global equities' forward PE of 18.7x looks expensive against a long-term average of 15x, government bonds, credit and cash look even worse value. *We maintain our positive stance on equities.*
- Long-term expected stock market returns remain positive:** the combination of dividend income, profit growth and P/E valuations point to 5%+ nominal long-term expected returns for Euro, UK, EM and Japanese equities, with US a little lower. *Prefer world ex-US equity exposure.*
- Growth has rallied, but don't give up on Value:** the equal-weighted Nasdaq 100 reached new all-time highs at end-June, underlining the resurgence of the tech-led growth factor in June. *But with higher long-term rates and investment growth in prospect, Value should still do well.*
- More positive on China internet:** following a 31% sell-off in Chinese internet stocks on the back of increased regulatory scrutiny and subsequent fines, we believe these stocks will benefit from strong e-commerce and product momentum e.g. in video games in H2. *We turn positive on the China technology sector.*
- Sectors - Upgrade Construction Materials to positive:** this sector should profit from US and European (green) infrastructure investment plans, and ongoing pricing power.

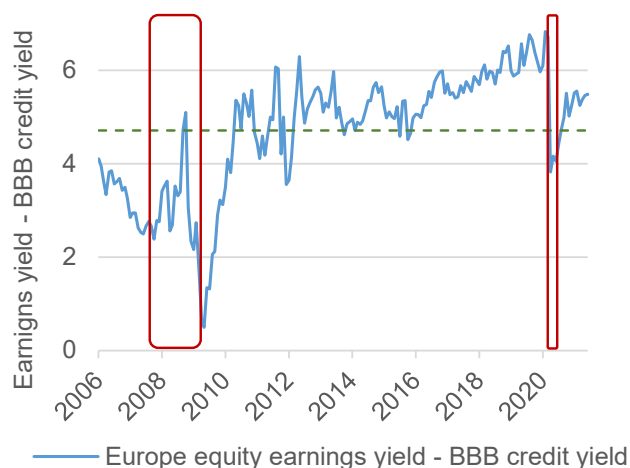
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EUROPEAN EQUITIES LOOK GOOD VALUE VERSUS BBB CREDIT AND BONDS



Source: BNP Paribas Wealth Management

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Global Equities view

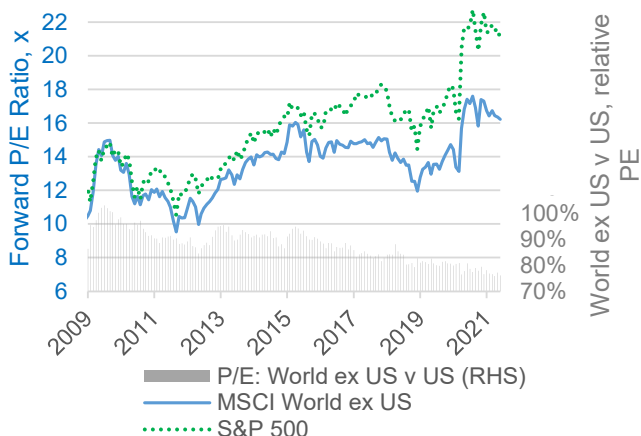
Are stock markets too expensive?

Should I stay or should I go? Investors are understandably nervous about their stock market exposure, after a near-30% rise in global equities since the end of October 2020. No one wants to be long of equities, should they experience another sharp bear market as seen only too recently in March 2020, and before that in late 2018.

But ex-US valuations have not risen much globally of late: the MSCI World ex-US index's forward PE ratio has only risen from 15.8x in October 2020 to 16.2x today. Since November 2020, forward earnings have risen 26% on strong quarterly earnings reports, as the world recovers from pandemic-induced recession.

Equities not so expensive in an "everything is expensive" world: while the S&P 500's 12-month forward PE of 21.3x looks rich compared with a 16x long-term average, other asset classes such as government bonds, credit and cash look even worse value. World ex-US stocks represent better value.

WORLD EX-US STOCKS TRADE 24% CHEAPER THAN US STOCKS, A RECORD DISCOUNT



Source: BNP Paribas Wealth Management, Bloomberg

The trend remains our friend

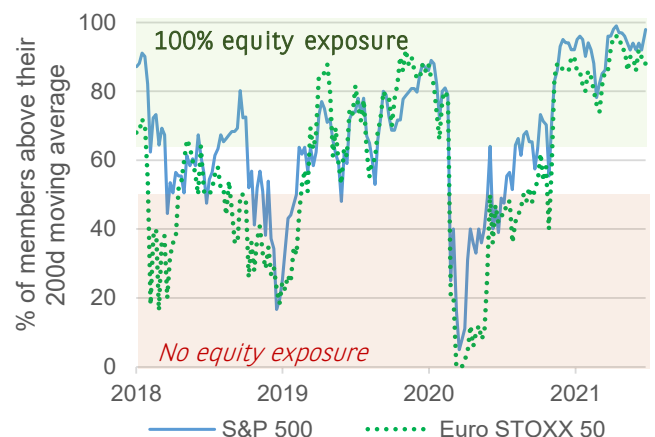
The majority of stocks trend higher: 92% of S&P 500 stocks sit above their own 200-day moving averages, with Europe close behind at 88% of STOXX Europe stocks above their own 200-day moving averages.

The 65%, 50% stock allocation rule: the proportion of stocks above their 200-day moving averages remains a potent indicator for equity allocation. Allocation to stocks can be simplified to a basic rule – if the proportion of stocks exceeding their 200-day moving average is 65% or above, then one can be fully invested in equities.

If, however, this proportion is between 50% and 65%; then one should only be 50% allocated to stocks. Below 50%, one should not have any allocation to stocks.

Implementing this allocation rule in 2018 and 2020 would have avoided much of the drawdown in equity markets on each occasion; although one would also have been slow to buy back into the subsequent market rallies. For now, this rule suggests maintaining a full exposure to equities.

MORE THAN 65% OF STOCKS ABOVE THEIR OWN 200-DAY MOVING AVERAGE = 100% EQUITY EXPOSURE



Source: BNP Paribas Wealth Management, Bloomberg

CONCLUSION

It seems too early to reduce equity exposure while trend-following works so well in the midst of a strong global economic recovery. Most importantly, central banks continue to fuel liquidity growth, while governments are also boosting growth via fiscal spending programmes. As always, watch for the US Federal Reserve's first moves to "take away the punchbowl" via tapering and, eventually, interest rate hikes. This will be a sure sign to adopt a more cautious asset allocation stance.



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Top themes

Play semis for Artificial Intelligence, global chip shortages

We remain believers in Semis: the key segment within technology that we continue to prefer is semiconductor companies, notably semiconductor equipment makers. Not only are chipmakers at the forefront of developments in artificial intelligence and machine learning; but they also benefit from the global explosion in demand for central and video processor, memory, storage, sensor and 5G-related semiconductor chips.

Since 2014, the semiconductor has led the performance in the wider tech sector, with an annualised performance of nearly 27% per year on average since 2009. This compares with 20.4% for the Nasdaq Composite, and 15.5% for the S&P 500 indices.

Think of silicon chips as the basic building blocks of modern computation, the 21st century equivalent of ball bearings that you find in every motor that enabled the Industrial Revolution.

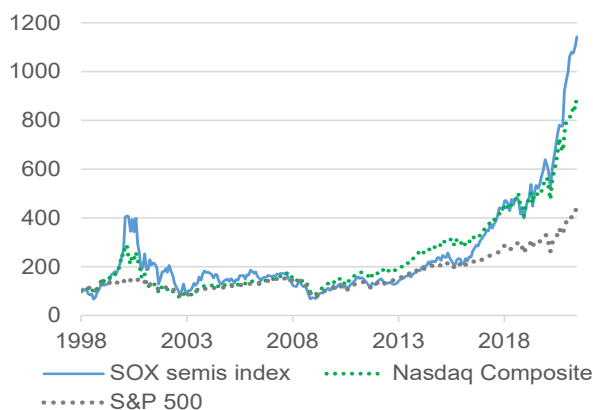
Include a quality bias into your stock market exposure

Quality will win out (over time): our longstanding bias to the Quality factor, particularly in European equities, continues to play out well in 2021. So far this year, the Europe Quality factor index has gained 16.6% since the beginning of the year; 0.7% ahead of the benchmark MSCI Europe index. This adds to the better performance over time of the Europe Quality factor, which has gained 54% cumulatively since the start of 2018, far ahead of the MSCI Europe's 24% over the same period.

Quality provides a partial downside buffer: a good portion of this relative outperformance has been generated in bear market phases such as Q4 2018 and Q1 2020, when the Quality factor lost less ground than the benchmark index (i.e. Quality has a downside beta of less than 1).

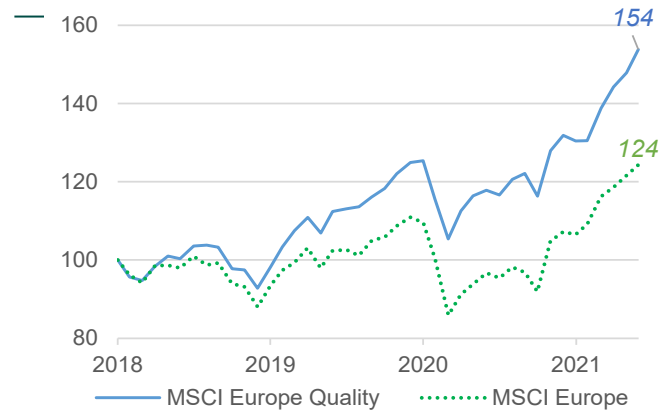
ESG/SRI indices benefit from a clear Quality bias: recall that broad sustainable equity indices tend to have a quality bias by construction, and have also demonstrated similar outperformance since 2016.

SEMICONDUCTORS HAVE LED US STOCKS, NASDAQ INDEX SINCE 2014



Source: Bloomberg

QUALITY FACTOR HAS MORE THAN DOUBLED THE BENCHMARK PERFORMANCE SINCE 2018



Source: Bloomberg. Total return performance, rebased

CONCLUSION

Key thematic convictions for July (and beyond) include the semiconductor sector, Chinese tech (after a substantial sell-off since February) and both global and European Quality factor exposure (e.g. via ETFs and funds).



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Sector outlook

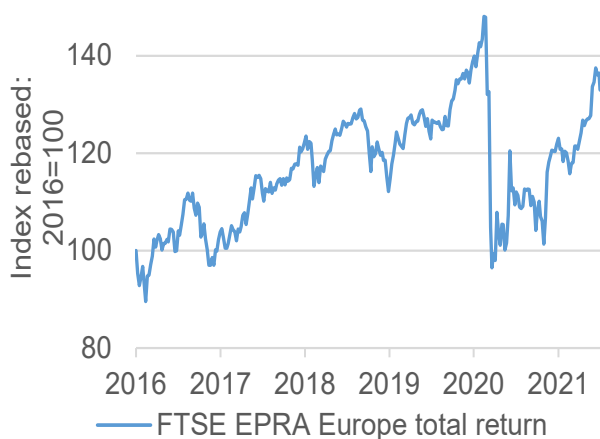
We like cheap/ lagging sectors with improving fundamentals and cash flows

Growth and real estate sectors have performed well in June, while in contrast deep cyclical sectors such as Financials and Basic Materials have consolidated due to the retracement in inflation expectations and the correction in long-term bond yields.

Prefer European real estate: Real estate in the US has recovered very well this year. Momentum remains strong and fundamentals continue to improve, but we now suggest focusing more on European real estate, which has lagged over this recovery so far.

Other cheap sectors or with good/improving momentum include Health Care, Financials (we expect very good returns to shareholders in the coming years!), **Semiconductors and European Energy.** Vulnerable segments are ultra-long duration stocks, especially those with disappointing, little or no earnings (mainly in the tech space; we suggest reduce exposure to this segment on any rebound).

EUROPEAN REAL ESTATE HAS NOT FULLY RECOVERED YET (SEE BELOW THE FTSE EPRA NAREIT DEVELOPED EUROPE INDEX)



Source: Bloomberg

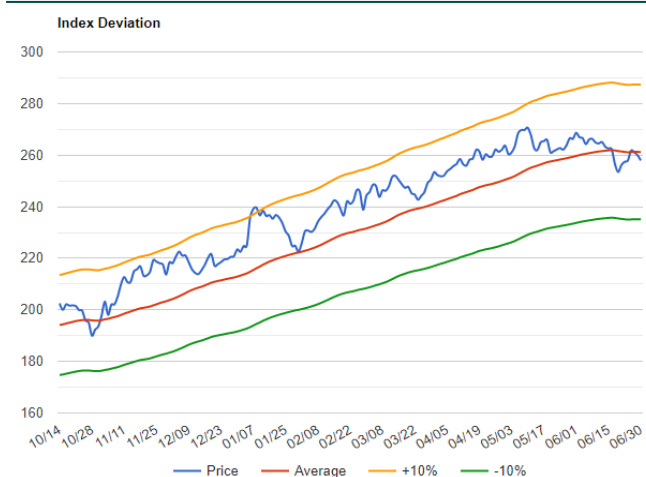
We now upgrade Construction Materials to +

Year-to-date, aside from US real estate, **cyclicals are still leading the pack** (see chart in page 5). We have become more selective among cyclicals. Alongside Financials, we like some sub-sectors of Materials, such as Precious Metals and **Construction Materials - which we now upgrade to Positive.** These segments should indeed be key beneficiaries of the US and European green recovery plans.

Construction Materials companies offer more and more **green solutions, such as isolating materials and carbon capture. Infrastructure plans and new trends in housing should support construction for many years** and we believe this potential is underestimated by the market. Besides, inventories are low and balance sheets are now quite solid.

News flow to come: in the coming weeks, we will observe how quickly China is cooling down, how the new coronavirus Delta variant spreads and impacts the global economy, and to what extent inflation and rising rates/yields remain major concerns.

MSCI ACWI CONSTRUCTION MATERIALS INDEX: BETTER ENTRY POINTS NOW AFTER THE RECENT CONSOLIDATION



Source: Bloomberg

CONCLUSION

We suggest sound diversification, favouring the cheapest sectors with good or improving cash flows among cyclicals and defensives. Financials, Health Care, Real Estate, Precious Metals, Construction Materials, Semiconductors and EU Energy look the best sectors to hold. In contrast, avoid Utilities and sub-industries that could suffer from rising energy/raw material prices such as Household and Personal Care products. We upgrade the Construction Materials sector to Positive.



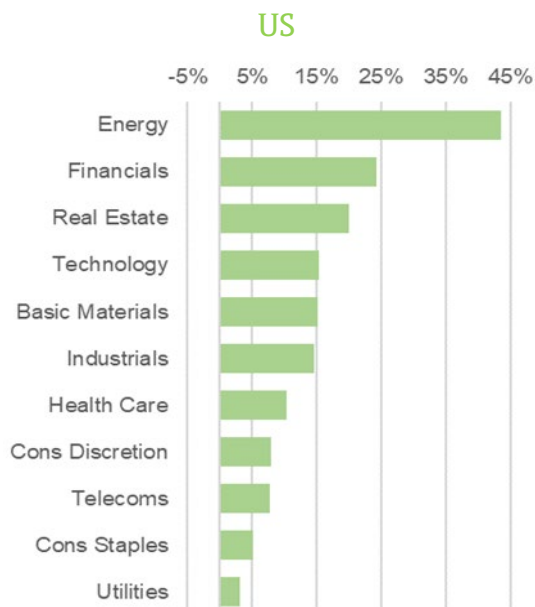
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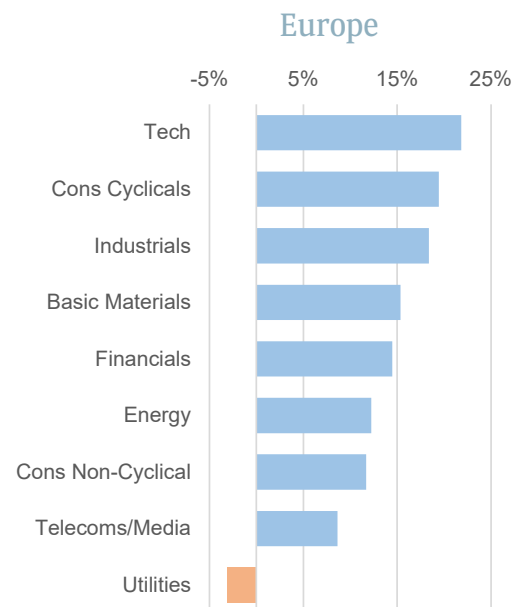
Sector preferences

	Sector	Industry (Level 2)		
Reco	(Level 1)	+	=	-
+	Health care	Pharmaceuticals + Biotech Health Care equip. + services		
	Financials	Banks + Diversified Fin. Insurance		
	Real Estate	Real Estate		
=	Industrials		Commercial Services Infrastructure, Capital Goods, Transportation	
	Materials	Gold/Precious Metals Construction Materials	Materials	
	Energy	EU Energy	US Energy	
	Technology	Semiconductors	Tech Hardware Software & Services	
	Consumer Discretionary		Luxury Goods Consumer Services Retail Automobiles + Components	
	Communication Services		Telecoms Media	
	Consumer Staples		Food & Beverages Food Retail	Household & Personal Care Products
-	Utilities			Utilities

US and Europe sector performance, year-to-date



Source: FTSE Russell. Note: performance to 25 June



Source: Bloomberg. As of 29 June 2021



IBES forecasts for Europe & US (Source: IBES)

Price index - in €																						
29/06/2021	PE				EPS Growth - %				1m / 3m % Δ in EPS								Sales growth - %			1m / 3m % Δ in Sales		Divid end yield (%)
	2021	2022	2023	12m fwd	2021	2022	2023	12m fwd	2021	2022	2023	12m fwd	2021	2022	2023	2021	2022	2023	2021			
MSCI EUROPE (€) (*)	17,4	15,8	14,7	16,5	44,2	9,9	8,1	23,6	1,1	7,9	0,6	3,8	0,2	2,5	0,9	5,8	10,7	4,2	2,28	0,4	1,77	2,4
(*) EU15 + Switzerland + Norway																						
MSCI UK (£)	13,2	12,5	12,0	12,9	65,4	5,6	4,3	27,3	2,0	10,2	1,0	4,3	0,3	1,1	1,6	7,3	17,8	3,9	1,0	1,0	2,3	3,1
MSCI Switzerland (CHF)	21,1	19,2	17,7	20,1	10,2	9,8	8,6	9,9	0,3	1,8	0,0	1,3	-0,1	1,4	0,2	1,5	3,6	4,2	-0,6	0,1	0,9	2,3
MSCI Germany	16,2	14,3	12,9	15,1	42,2	13,7	10,3	24,7	0,1	8,4	0,5	4,5	0,3	4,0	0,3	6,3	7,6	4,6	4,0	0,2	2,1	2,4
MSCI France	19,0	16,8	15,4	17,8	77,0	13,1	8,6	36,4	1,1	9,4	0,7	4,3	0,3	3,3	0,9	6,7	11,8	4,4	2,3	0,4	2,1	2,2
MSCI Spain	16,8	14,2	12,5	15,3	28,1	18,5	12,8	22,9	0,1	6,3	1,2	4,2	0,9	3,1	0,7	5,1	5,2	3,2	2,9	0,1	-1,1	3,0
MSCI The Netherlands	26,6	23,2	20,7	24,9	20,8	14,8	11,7	17,1	0,5	5,2	0,1	4,3	0,5	3,7	0,4	4,8	5,4	4,5	4,1	0,1	3,0	1,4
MSCI Belgium	21,3	20,0	17,5	20,6	30,7	6,4	13,8	16,9	2,0	10,1	-0,4	3,0	-1,2	2,5	0,8	6,3	3,7	2,2	4,9	-0,7	0,4	1,6
MSCI EUROPE ENERGY	10,3	9,3	9,2	9,8	858,9	10,5	1,7	90,6	5,3	28,8	3,4	11,2	-0,4	2,3	4,3	18,9	44,0	4,6	-5,7	1,5	5,0	4,4
MSCI EUROPE MATERIALS	12,2	13,4	14,4	12,8	79,0	-8,8	-6,8	20,1	3,2	19,4	2,4	14,1	1,4	7,8	3,0	17,5	25,1	-0,4	-1,2	1,0	6,1	3,0
MSCI EUROPE INDUSTRIALS	24,2	20,7	18,5	22,3	87,4	16,6	12,0	40,2	0,7	7,3	0,7	4,1	0,5	3,4	0,8	5,5	7,7	5,9	4,6	0,3	1,5	1,9
MSCI EUROPE CAP GDS	24,6	20,4	18,1	22,2	67,9	20,4	12,7	36,7	0,4	3,7	0,8	3,7	0,6	4,0	0,6	3,7	6,1	6,0	4,6	0,1	0,8	1,9
MSCI EUROPE COML SVS/SUP	25,5	22,8	20,8	24,2	19,6	11,4	10,0	15,3	0,4	2,5	0,3	2,1	0,0	1,2	0,3	2,3	7,2	5,7	5,0	0,1	1,1	2,0
MSCI EUROPE TRANSP	21,1	20,6	18,8	20,9		2,2	9,6	113,3	3,1	37,9	0,8	8,9	0,2	1,7	1,9	21,6	16,9	5,6	4,1	1,4	5,8	1,3
MSCI EUROPE CONS DISCR	21,5	17,5	15,4	19,3	170,3	22,4	14,0	62,9	0,4	9,2	0,8	5,9	0,6	5,1	0,7	7,5	19,0	8,3	5,9	0,4	1,7	1,1
MSCI EUROPE AUTO & COMPO	9,3	7,9	7,1	8,5	335,4	17,7	11,6	77,1	-0,1	13,7	0,8	7,6	0,0	4,3	0,4	10,3	20,3	6,5	4,7	0,3	1,2	1,4
MSCI EUROPE CONS DUR/APP	31,3	26,9	24,0	29,0	79,4	16,4	12,2	38,3	1,8	8,0	1,8	7,6	1,3	8,4	1,8	7,9	20,1	8,4	7,2	0,7	3,6	1,2
MSCI EUROPE CONS SVS	62,3	29,5	23,5	38,0	197,1	110,7	25,8	154,7	-1,2	-5,9	-0,5	0,5	0,6	4,4	-0,5	-1,4	1,2	21,1	8,1	-0,2	-1,2	0,2
MSCI EUROPE RETAILING	43,7	32,4	25,8	38,2	73,9	34,8	25,7	50,2	-0,5	-4,5	-1,2	-4,1	1,3	-0,3	-0,6	-4,0	22,1	11,9	11,2	0,9	3,9	1,1
MSCI EUROPE CONS STAPLES	22,0	20,0	18,6	20,8	8,0	9,8	7,6	9,6	-0,2	0,1	-0,1	0,4	0,0	0,6	-0,2	0,2	1,8	3,7	3,3	0,1	0,5	2,5
MSCI EUROPE FD/STAPLES RTL	14,2	13,3	12,6	13,9	14,1	6,6	5,7	12,5	-0,5	-1,9	0,1	-2,3	0,1	-3,5	-0,3	-2,2	0,1	2,2	2,1	0,3	0,1	3,4
MSCI EUROPE FD/BEV/TOB	22,2	20,0	18,5	20,9	9,7	10,9	8,2	11,0	0,0	0,5	-0,1	0,8	0,0	1,1	0,0	0,7	3,7	5,2	4,2	0,0	0,9	2,5
MSCI EUROPE H/H PERS PRD	24,8	22,9	21,5	23,8	0,8	8,2	6,5	4,5	-0,6	-0,3	-0,3	0,4	-0,2	1,0	-0,4	0,1	2,0	3,9	3,9	0,0	0,5	2,4
MSCI EUROPE HEALTH CARE	19,3	17,5	15,9	18,4	4,1	10,4	9,9	7,3	0,0	0,5	-0,3	-0,6	-0,3	-0,6	-0,1	-0,1	4,7	5,8	5,2	-0,1	-0,2	2,6
MSCI EUROPE H/C EQ/SVS	28,1	24,6	21,7	26,2	14,7	14,2	13,5	14,1	0,9	1,8	0,4	1,3	0,3	1,3	0,6	1,5	4,4	6,6	6,1	0,0	-1,2	1,2
MSCI EUROPE PHARM/BIOTEC	18,1	16,5	15,1	17,2	2,8	9,9	9,4	6,4	-0,1	0,3	-0,4	-0,9	-0,4	-0,9	-0,2	-0,3	4,8	5,5	4,9	-0,1	0,1	2,9
MSCI EUROPE FINANCIALS	11,1	10,4	9,4	10,6	28,7	9,3	10,2	17,7	1,0	8,3	0,1	2,2	0,5	2,6	0,5	5,2	-4,0	2,9	3,2	0,2	0,6	2,7
MSCI EUROPE BANKS	10,2	9,3	8,3	9,7	51,4	9,8	11,9	26,2	1,5	16,0	0,7	4,6	1,3	4,9	1,1	9,7	1,4	2,0	2,8	0,3	1,4	1,6
MSCI EUROPE DIV FIN	14,4	14,0	12,4	13,7	-3,8	11,0	12,9	3,1	0,3	4,8	-0,2	0,9	-0,3	2,9	0,0	3,7	-28,5	0,1	26,0	0,4	3,6	1,8
MSCI EUROPE INSURANCE	10,8	10,1	9,5	10,4	21,9	7,8	6,2	14,1	0,5	0,1	-0,5	-0,5	-0,3	-0,8	0,0	-0,2	-0,7	3,9	-0,5	0,2	-0,3	4,7
MSCI EUROPE REAL ESTATE	21,5	19,4	18,5	20,4	0,7	10,8	4,9	6,2	-0,4	4,3	-0,1	1,1	0,2	3,3	-0,3	2,5	-2,7	4,1	4,4	0,0	0,6	2,7
MSCI EUROPE IT	32,8	28,4	25,2	30,4	16,4	15,6	12,7	15,0	0,3	7,7	0,3	5,7	0,2	4,0	0,3	6,6	10,2	7,5	6,3	0,0	2,0	0,9
MSCI EUROPE S/W & SVS	32,0	28,1	24,6	29,9	7,3	13,9	14,2	11,0	-0,2	3,1	-0,4	0,8	-0,5	0,7	-0,3	1,9	9,2	8,1	7,5	-0,1	0,2	1,3
MSCI EUROPE TCH H/W/EQ	23,5	20,5	18,4	22,0	-3,6	14,6	11,4	3,4	1,4	7,9	0,6	4,1	0,7	3,1	1,0	6,0	1,8	4,3	3,3	0,3	1,4	0,9
MSCI EUROPE COMM. SERVICES	17,3	15,6	14,0	16,5	3,0	11,2	11,1	7,2	0,1	-0,6	-0,2	-2,1	-0,3	-2,1	0,0	-1,2	1,0	1,7	1,6	-0,1	0,0	3,8
MSCI EUROPE TELECOM	15,8	14,4	13,0	15,2	-0,5	9,5	10,8	4,7	0,2	-0,2	-0,3	-2,4	-0,3	-2,4	0,0	-1,1	1,1	0,8	1,0	-0,1	0,0	4,4
MSCI EUROPE MEDIA & ENTER.	23,1	19,6	17,5	21,4	19,0	17,7	12,3	17,7	0,1	-2,1	-0,1	-1,0	-0,5	-1,0	0,2	-1,5	0,7	6,1	4,4	0,1	0,1	1,8
MSCI EUROPE UTILITIES	16,9	15,7	15,1	16,4	10,2	7,6	4,3	8,7	-0,2	0,4	0,0	0,5	-0,8	-0,4	-0,2	0,3	9,9	2,6	1,8	-0,3	-1,6	4,3

29/06/2021	PE				EPS Growth - %				1m / 3m % Δ in EPS								Sales growth - %			1m / 3m % Δ in Sales		Divid end yield (%)
	2021	2022	2023	12m fwd	2021	2022	2023	12m fwd	2021	2022	2023	12m fwd	2021	2022	2023	2021	2022	2023	2021			
MSCI USA	23,2	20,9	18,9	21,9	36,2	10,7	10,5	20,3	0,6	8,7	0,4	5,38	0,43	4,84	0,51	6,94	12,6	6,6	5,4	0,3	2,6	1,9
MSCI USA ENERGY	20,1	15,7	15,3	17,6		28,1	2,6	156,5	5,8	25,8	4,5	17,7	3,5	11,9	5,0	21,1	39,6	3,5	-2,2	0,5	7,2	4,1
MSCI USA MATERIALS	17,4	17,3	16,9	17,3	66,7	0,9	2,1	25,6	3,3	18,2	2,6	13,6	0,8	8,9	2,9	15,9	19,2	2,1	1,6	1,0	5,5	1,8
MSCI USA INDUSTRIALS	25,5	21,3	18,8	23,1	43,1	19,8	13,0	28,8	0,1	6,3	0,4	5,2	0,4	4,5	0,3	5,8	11,4	7,1	5,2	0,2	2,6	1,5
MSCI USA CAP GDS	24,6	20,4	18,1	22,2	41,3	20,3	12,8	28,2	0,0	5,5	0,3	4,8	0,2	3,8	0,1	5,1	11,1	7,4	4,7	0,2	1,9	1,6
MSCI USA COML SVS/SUP	31,8	28,2	24,6	29,9	13,9	12,7	13,0	12,4	0,1	4,1	0,1	3,6	-0,1	3,4	0,1	3,8	10,6	6,9	6,1	0,1	2,2	1,0
MSCI USA TRANSP	25,5	21,1	18,5	23,3	68,7	21,4	13,8	39,8	0,7	10,1	1,0	7,4	1,3	7,2	0,8	8,8	12,6	6,4	6,5	0,4	4,6	1,5
MSCI USA CONS DISCR	36,9	28,2	24,0	31,9	65,9	30,8	18,3	44,4	2,3	11,6	1,0	8,6	0,8	7,8	1,6	10,0	18,2	13,3	8,9	0,3	2,5	1,5
MSCI USA AUTO & COMPO	36,8	28,6	26,2	32,2	69,7	28,7	9,0	43,9	9,2	8,5	2,1	10,0	1,9	9,1	5,1	9,3	17,9	16,5	4,1	0,6	-4,4	0,3
MSCI USA CONS DUR/APP	19,7	17,6	16,1	18,8	38,8	11,7	11,2	20,6	2,7	9,4	2,5	9,2	1,3	10,6	2,7	9,7	19,3	9,7	8,1	0,6	3,5	1,3
MSCI USA CONS SVS	123,5	30,2	22,9	46,4		308,9	32,1		0,7	-5,5	0,7	5,5	0,7	3,7								

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