C.I.A. NETWORK

Investment Strategy Navigator

July 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

EQUITY +	Global	+	European stocks are still the preferred stock market destination, outperforming the US and emerging markets, and attracting substantial flows.
	Markets	+	**Tactical risk of recovery in US growth stocks**: Do not be surprised to see a short-term bounce in US technology mega-caps.
	Sectors	+	We stay positive on Financials, Health Care, Real Estate, Semiconductors and EU Energy and add Precious Metals and Construction Materials to our sector preferences **Remember - defensives lead over Summer**: We continue to recommend a more defensive sector stance for now, biased towards quality dividend/dividend growth strategies,...
BOND -	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. We turn neutral from positive on US short-term bonds.
	Invest. Grade	=	We stay neutral 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 reduce our 3-month EURUSD target to 1.17 (value of one euro) and to 1.22 for the 12-month target.
	USD	=	We see selective opportunities for currencies to strengthen against the dollar. This is the case for the AUD and NZD after the recent pullback. In Emerging markets, we expect a strengthening of the Russian currency.
COMM +	Oil	=	Global demand is on path to reach pre-pandemic levels while supply is still restricted. The outlook for the end of the year is bullish but in the short term we prefer to remain neutral as oil is overbought and political factors may evolve (Iran, OPEC+)
	Gold	+	Gold remains our preferred hedge against economic, financial et geopolitical risks. We remain convinced that central banks will be inclined to keep real rates as low as possible given the high level of public debts.
	Base metals	=	We moved our stance on base metals from positive to neutral end of May as we expected a lower demand from China in H2. The long term outlook remains bullish.
ALTERNATIVE /	Alt. UCITS	=/+	We have a preference for Macro, Relative Value and Event Driven strategies. Neutral on Long/Short Equity.
REAL ESTATE +	Real Estate	+	Real Estate has a key role in a diversified portfolio: in an increasingly low-yield world, delivering an annual average 6.3% return. Low real interest rates are supportive.

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	-4,7	2,2	3,3
United Kingdom	1,5	-9,8	7,8	5,6
Eurozone	**1.3**	**-6,7**	**4,8**	**5,2**
Germany	0,6	-5,1	3,7	5,5
France	1,5	-8	6	4,6
Italy	0.3	-8,9	5,2	4,5
Emerging		**-4,7**	**5,6**	**5,2**
China	6,1	2,3	8,7	5,3
India*	4,2	-7,2	8,4	9,4
Brazil	1,1	-4,1	5,5	3
Russia	1,3	-4,5	4,5	3

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

Inflation

BNP Paribas Forecasts

CPI Inflation %	2019	2020	2021	2022
United States	1,8	1,2	3,9	2,7
Japan	0,5	0,0	0,0	0,2
United Kingdom	1,8	0,9	1,8	2,5
Eurozone	**1,2**	**0,3**	**2,1**	**1,8**
Germany	1,4	0,4	2,7	1,8
France	1,3	0,5	1,8	1,3
Italy	0,6	-0,1	1,5	1,9
Emerging		**3,9**	**4,9**	**4,3**
China	2.9	2,5	1,7	2,8
India*	4,8	6,1	5	5
Brazil	3,7	3,2	7,2	4,8
Russia	4,3	3,4	5,8	4,3

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

POSITIVE RISKS (EQUITIES)

1. Vaccine rollout continues to follow its course in DMs, coupled with new COVID treatments, it lets us believe in the continuation of the gradual reopening of economies particularly in Europe. The service industry is expected to profit from this summer's reopening as people start spending their accumulated savings.
2. The ECB's monetary accommodation is expected to continue and should provide European equities with continued support.

NEGATIVE RISKS

1. Current stimulus programs could be hindered by rising bond yields (especially real yields) that would in turn affect growth prospects.
2. Political and Geopolitical risks are high and are expected to remain high, with local conflicts not to be excluded and further sanctions and tariffs a possibility.
3. Covid-19 variants are expected to continue to appear. Certain strains could turn out to be resistant to treatments or vaccines, delaying the end of the pandemic and increase its cost.
4. Long term inflation could rise based on a combination of a retreat in globalization, Baby boomers entering retirement and policy makers wanting to run the economy hot.

02

Global macro

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

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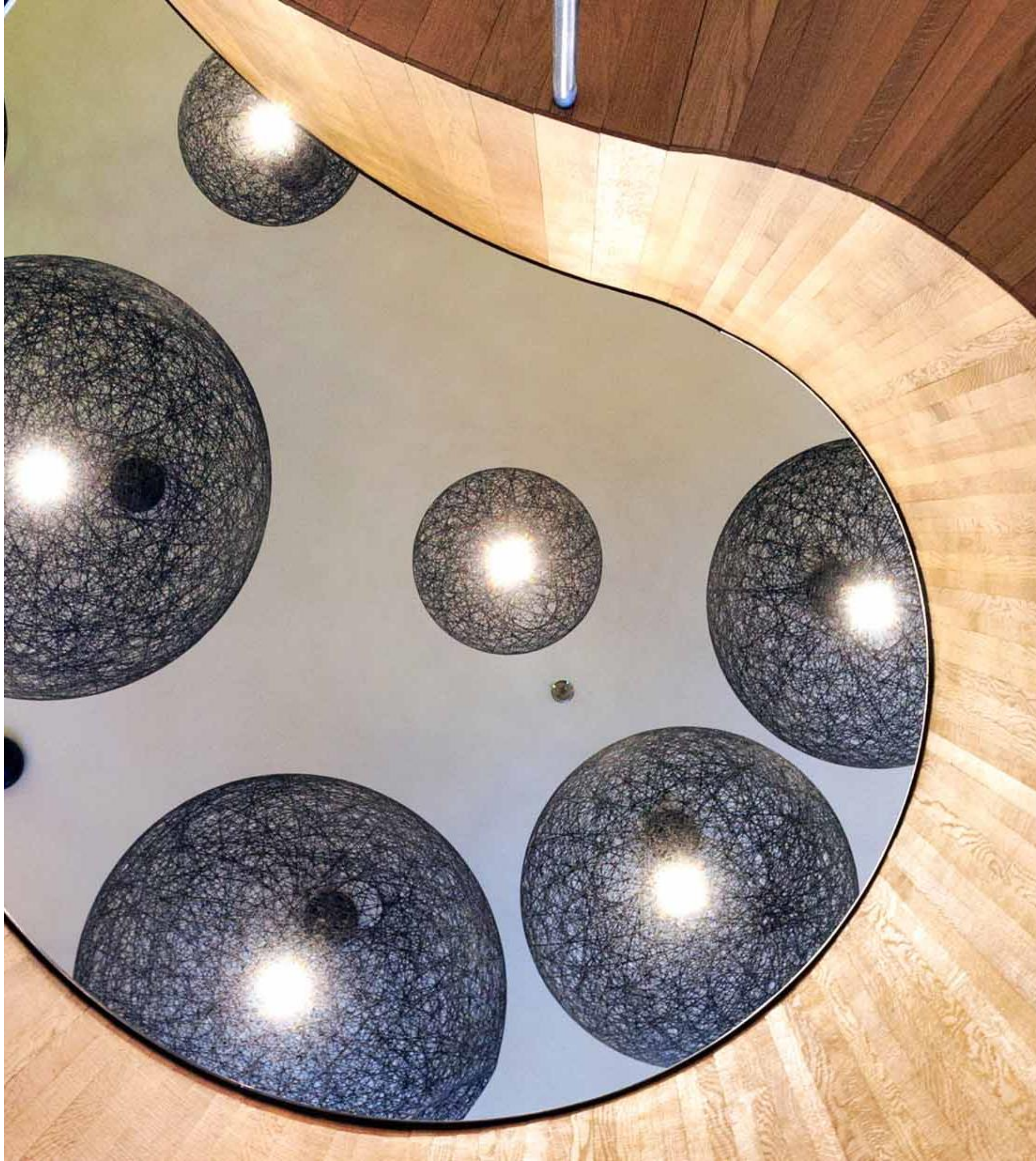


Economic growth and inflation

On track for strong recovery

ECONOMIC GROWTH

Our view is more positive compared to global consensus, with a global strong and sustained recovery. In the US and the EU, stimulus, policy and economic reopening are contributing to our strong growth expectations. In Emerging markets we see outputs rising to pre-pandemic levels.

- The US is reopening, with on site offices starting to become the new normal again. Having benefited from strong stimulus and low financing rates the economy is now benefiting from an ever increasing vaccination rate which supports our high growth expectations.
- We still expect the Eurozone to show very strong growth numbers in H2 2021, with the current supportive ECB policy; sustaining businesses investments and easy access to capital. Consumer and business sentiment will continue to improve and favor multiplier effects.
- Emerging markets show good prospects of growth for 2021 and 2022 with a risk of a new COVID wave appearing in non-vaccinated populations being a possible disruptor.

BNP Paribas Forecasts

GDP Growth %	2019	2020	2021	2022
United States	2.2	-3,5	6,9	4,7
Japan	0,3	-4,7	2,2	3,3
United Kingdom	1,5	-9,8	7,8	5,6
Eurozone	**1.3**	**-6,7**	**4,8**	**5,2**
Germany	0,6	-5,1	3,7	5,5
France	1,5	-8	6	4,6
Italy	0.3	-8,9	5,2	4,5
Emerging		**-4,7**	**5,6**	**5,2**
China	6,1	2,3	8,7	5,3
India*	4,2	-7,2	8,4	9,4
Brazil	1,1	-4,1	5,5	3
Russia	1,3	-4,5	4,5	3

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

INFLATION

Current high inflation figures are largely driven by base effects and industry specific supply chain constraints. This trend should continue and peak around year-end in the US and early 2022 in the Eurozone. Long-term inflation prospects are more unsure, but we foresee a return to pre-Covid levels.

- Current inflation drivers appear to be temporary, with specific industries seeing supply side constrains and unemployment benefits delaying the come back to the job market . We expect a normalization during Q3-Q4 2021.
- US inflation is likely to see elevated levels until the end of the year with high energy prices, supply side pressures and residual base effect. The situation should start normalizing in 2022.
- With the exception of China, Emerging markets are seeing elevated levels of expected and observed inflation.
- While Inflation in general will probably overshoot central bank targets, we do not believe they will do so durably, outside of specific developing markets.

BNP Paribas Forecasts

CPI Inflation %	2019	2020	2021	2022
United States	1,8	1,2	3,9	2,7
Japan	0,5	0,0	0,0	0,2
United Kingdom	1,8	0,9	1,8	2,5
Eurozone	**1,2**	**0,3**	**2,1**	**1,8**
Germany	1,4	0,4	2,7	1,8
France	1,3	0,5	1,8	1,3
Italy	0,6	-0,1	1,5	1,9
Emerging		**3,9**	**4,9**	**4,3**
China	2.9	2,5	1,7	2,8
India*	4,8	6,1	5	5
Brazil	3,7	3,2	7,2	4,8
Russia	4,3	3,4	5,8	4,3

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

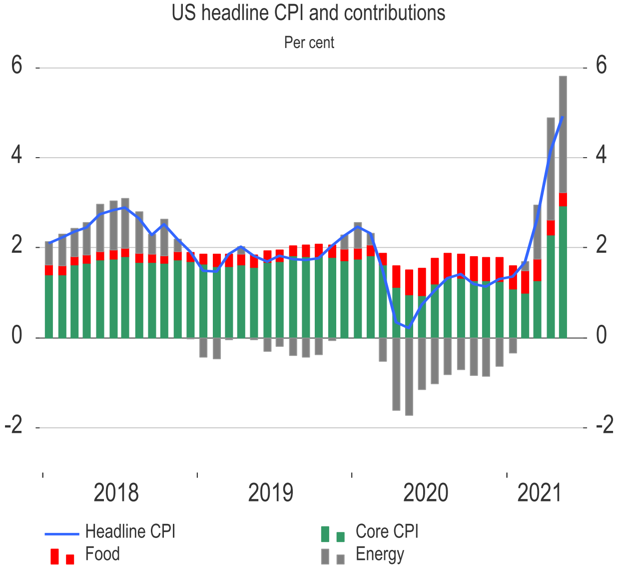
US Inflation

A temporary rise, with a mid-term upside risk

A TEMPORARY AND TRANSITORY SHORT TERM PEAK

May's CPI surprised to the upside, coupled with disappointing employment figures. The key risk is about tight labor market, especially in the US and a potential rise in wages driving inflation.

- US consumer prices were up sharply. With a strong YoY rise in Energy and Core, driven mainly for the month of May by limitations in the supply chain of cars in the US. Automobile renting companies trying to rebuild inventory after selling it off in March and April 2020, and with no new cars arriving on the market, second hand car prices shot up. The situation is expected to normalize with the end of the semiconductor shortage and not bleed out into other markets.
- The rise in energy prices is linked to the petroleum price increase observed since mid-May. The signing of an nuclear deal with Iran is expected to grow supply and eliminate pressures.
- More supply linked inflation spikes are possible until supply chains completely recover from COVID, which we expect to happen by the end of 2021 or early 2022.

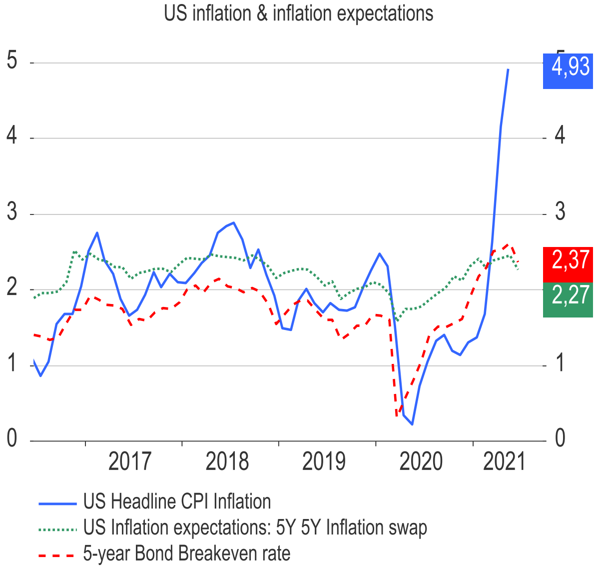


Source: Refinitiv Datastream, mai 21

... WITH SIGNIFICANT MID-TERM UPSIDE RISKS

While long term inflation indicators do not yet show markets pricing in high inflation for the coming years, a case can be made around multiple arguments on why US inflation might be higher than expected in coming years.

- Countries pushing companies to shift key industrial production lines back on national territory will likely lead to rising prices passed on to consumers, likely candidates to move back on home soil are medical equipment producers and chip markers.
- The oncoming retirement of the baby boomer generation represents a risk as the richest generation to live will be able to spend without contributing to the economy's productivity.
- The Fed might be looking to run the economy hotter than anticipated, which would drive up wages through very low unemployment figures. In turn the higher costs would be transferred to consumers and push up inflation numbers.
- It is still our opinion, that while these contributors will be monitored, inflation should not overshoot central bank targets over the long-term.



Source: Refinitiv Datastream, mai 21

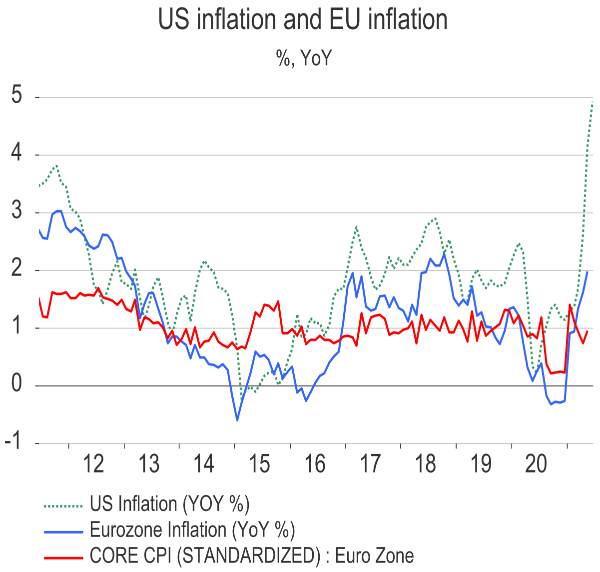
EU Inflation

Temporary rise in inflation with balanced risks

RECENT TREND

Inflation in the Eurozone rose sharply at the start of the year from pandemic lows in 2020. Recent releases showed a continued rise in headline inflation, but the core measure is much more stable, especially compared to US values.

- EU inflation is staying well below the US. The recent upturn was linked to elevated energy prices relative to last year and thus a strong base effects. We do not see these numbers as being a reason for concern medium-term.
- The ECB's current dovish position shows that it prioritizes employment over inflation, and that temporary elevated inflation will not necessarily have a direct effect on policy decisions.
- We do not observe further inflationary pressures on other CPI components, especially regarding the service sector such as accommodation, transport (excluding automobile purchases and maintenance) and communications, were in deflationary territory in May.



Source: Refinitiv Datastream, juin 21

DEFLATION VS INFLATION – BALANCED RISKS

In light of recent events we have revised our inflation expectations slightly up in Europe, to 2,1 % in 2021 and 1,8% 2022. We still believe current inflation drivers are temporary and will start fading late 2021 or early 2022.

- Inflation is likely to rise further in the coming months and jump above the ECB target of 2%. Certain countries like Germany could see even stronger but still temporary pushes in inflation.
- We do not expect broad based wage increases across the euro zone, because of the structural weaknesses in the job market. Capacity utilization figures confirm this point of view.
- The risk of 'self fulfilling' expectations should be monitored. Consumer and finance professional surveys, and inflation linked financial assets and derivatives are being used to monitor market expectation of inflation, which are staying low at the moment. (See chart).

Source: Refinitiv Datastream, mai 21

PMIs : Very confident developed markets

Generally rising PMIs

DEVELOPED

In the US, we saw a strong drop in the services PMI index which is closer to the manufacturing PMI. European PMI scores have been rising, confirming their moves into positive territory over the past 3 months. In the UK, while numbers are down over the month, they are up sharply this year.

- The strong PMI figures across the Eurozone and the UK support the view of a take-off in activity and strong GDP growth over the summer months. Improvements in services reflect the re-opening of the sector, thanks to effective vaccination rollouts, while manufacturing output remains resilient at high levels.
- German services PMI rose sharply to 58.1, its all time high, as the Manufacturing PMI stabilized at 64.9 close to its all time high.
- US services PMI fell to 64.8, amidst growing concerns over inflation in the US. The manufacturing PMI seems to be less affected, rising to 62.6.

févr-21	mars-21	avr-21	mai-21	juin-21		PMI
53,9	55	55,9	56		Manufacturing	World
52,8	54,7	57	59,4		Services	
53,2	54,8	56,7	58,4		Composite	
56,5	58,5	59,3	59,8		Manufacturing	Developed
53,2	55,4	58,1	61,8		Services	
53,9	55,9	58,2	61,2		Composite	
58,6	59,1	60,5	62,1	62,6	Manufacturing	US
59,8	60,4	64,7	70,4	64,8	Services	
59,5	59,7	63,5	68,7	63,9	Composite	
57,9	62,5	62,9	63,1	63,1	Manufacturing	Eurozone
45,7	49,6	50,5	55,2	58	Services	
48,8	53,2	53,8	57,1	59,2	Composite	
60,7	66,6	66,2	64,4	64,9	Manufacturing	Germany
45,7	51,5	49,9	52,8	58,1	Services	
51,1	57,3	55,8	56,2	60,4	Composite	
56,1	59,3	58,9	59,4	58,6	Manufacturing	France
45,6	48,2	50,3	56,6	57,4	Services	
47	50	51,6	57	57,1	Composite	
56,9	59,8	60,7	62,3		Manufacturing	Italy
48,8	48,6	47,3	53,1		Services	
51,4	51,9	51,2	55,7		Composite	
52,9	56,9	57,7	59,4		Manufacturing	Spain
43,1	48,1	54,6	59,4		Services	
45,1	50,1	55,2	59,2		Composite	
55,1	58,9	60,9	65,6	64,2	Manufacturing	UK
49,5	56,3	61	62,9	61,7	Services	
49,6	56,4	60,7	62,9	61,7	Composite	
51,4	52,7	53,6	53	51,5	Manufacturing	Japan
46,3	48,3	49,5	46,5	47,2	Services	
48,2	49,9	51	48,8	47,8	Composite	

Source: Refinitiv Datastream

BRICS

Emerging countries' PMIs were mostly suggesting expansion (level above 50) in May. However, we can see that India's PMI fell below 50 with the Delta variant representing a heavy drag for the economy. Brazil's PMIs are moving back closer to expansion levels with services at 48.3.

- India saw a strong resurgence of the Delta variant of COVID leading to PMI levels dropping to 50.8 and 43.3 for manufacturing and services respectively. (5pp and 8pp drops). This drop in confidence illustrates the danger COVID variants represent for economies with low vaccination rates.
- The Chinese PMIs are showing signs of retreat closer to 50 in light of restrictive policy measures and political tensions with the US.
- Russia's PMI figures moved back above 50 in early 2021 with a Composite PMI at 56.2 in May .

févr-21	mars-21	avr-21	mai-21	juin-21		PMI
51,6	51,3	52,2	52		Manufacturing	Emerging
51,7	52,9	54	53,2		Services	
52	52,6	53,5	52,8		Composite	
58,4	52,8	52,3	53,7		Manufacturing	Brazil
47,1	44,1	42,9	48,3		Services	
49,6	45,1	44,5	49,2		Composite	
51,5	51,1	50,4	51,9		Manufacturing	Russia
52,2	55,8	55,2	57,5		Services	
52,6	54,6	54	56,2		Composite	
57,5	55,4	55,5	50,8		Manufacturing	India
55,3	54,6	54	46,4		Services	
57,3	56	55,4	48,1		Composite	
50,9	50,6	51,9	52		Manufacturing	China
51,5	54,3	56,3	55,1		Services	
51,7	53,1	54,7	53,8		Composite	
53	57,4	56,2	57,8		Manufacturing	South Africa

Source: Refinitiv Datastream

China and Global Trade

A fragile but positive outlook

A MORE CAUTIOUS POLICY APPROACH FOR CHINA

Weaker than expected consumer demand has stifled the momentum generated by very strong initial post pandemic results in China. This is not only due to political measures such as limiting mobility on public holidays, but is also to fundamental factors such as income inequality or a slow income growth.

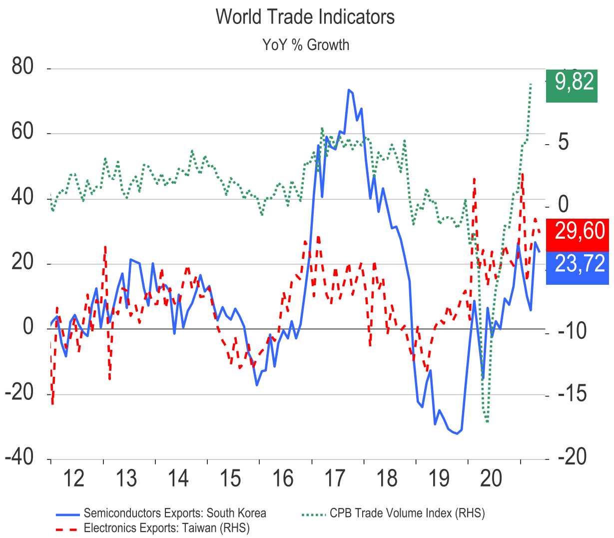
- Policy is believed to be the underlying factor, with the authorities supporting the economy with less stimulus than after the global financial crisis.
- This is reflecting their focus on long term stability and financial risks. We think this is evident in the official growth target for 2021 being an unambitious 6%.
- Against this backdrop, we revise our 2021 growth forecast slightly lower, from 9.2% to 8.7% while our forecast for next year remains a below consensus 5.3%.
- The policy rate (1y MLF) should remain unchanged at 2.95% until the end of 2022.

Source: Refinitiv Datastream, Q1 21

TRADE IS ON TRACK

Global trade is continuing its strong recovery as seen in the data of the CPB Trade volume index. Semi-conductors are recovering slower than expected due to ongoing trade tensions between USA & China. Service Sector and especially tourism and transportation are still weak.

- The recent Australia-UK trade deal is the first one the UK negotiated independently, and is a good sign for future trade deals.
- Further vaccination efforts will provide countries with better trade prospects, and support further booming trade volumes.
- Recent PMI figures show high levels of confidence by market participants, particularly in Europe, where figures suggest that a normalization is well underway.
- Trade in services, especially tourism and transportation, (representing 40% of service exports) is still fragile and far from pre-pandemic highs. These sectors are particularly exposed to new variants.



Source: Refinitiv Datastream, mai 21

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

03

Fixed income

Central Banks
Bond Yields
Government Bonds
Corporate Bonds
Emerging Market Bonds

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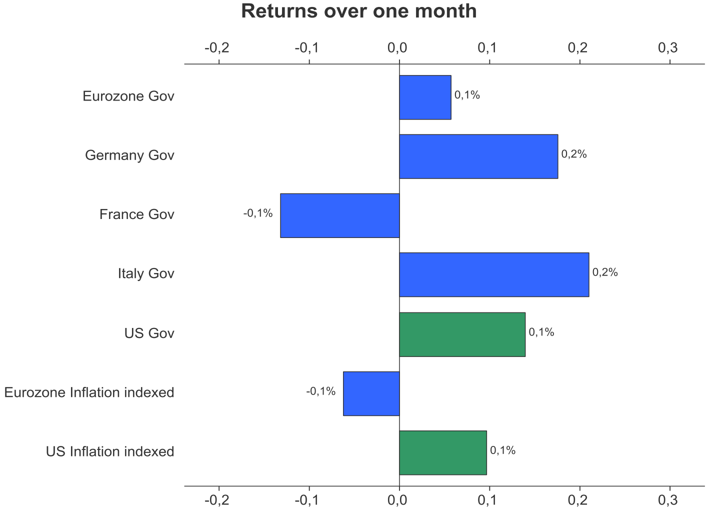
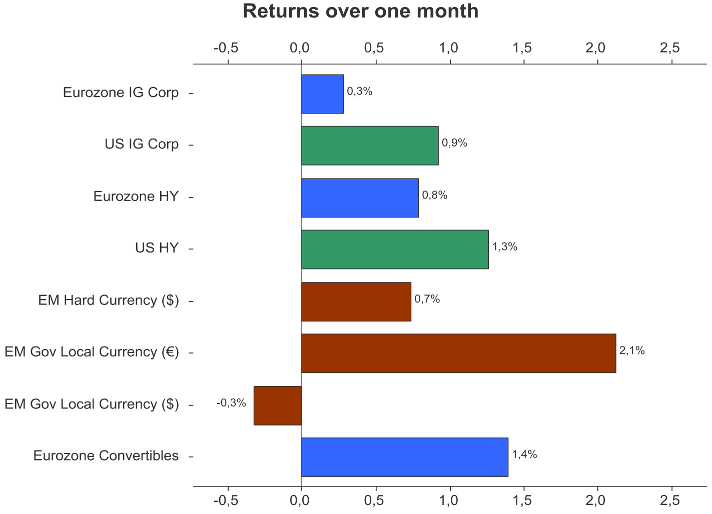
Fixed income at a glance

Inflation concerns eased, notably in the US where fears were higher, causing US long-term bond yields to drop. The Fed pivoted, became less patient with inflation and suggested interest rate hikes in 2023. US short-term yields began to rise. In contrast, the ECB reaffirmed its ultra dovish policy stance. Most fixed income asset classes gained month-to-date, with long-term bond yields falling or remaining range-bound and credit spreads tightening.



Source: Refinitiv Datastream, 25/06/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)



Source: Refinitiv Datastream, 25/06/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)

Central Banks

The Fed and the ECB show more optimism but their countries are at a different stage of the recovery with a different fiscal response. The ECB will remain dovish for a while. The Fed will taper its QE early next year and hike rates in early 2023, in our view.

Government Bonds

Our 10-year bond yield targets are 2% in the US and 0% in Germany in one year. We stay negative on long-dated government bonds.

We turn neutral from positive on US short-dated government bonds as short-term bond yields are now less anchored by the Fed.

Peripheral bonds

The search for yields benefit higher yielders in the eurozone. We stay neutral on peripheral bonds as spreads are tight and the absolute levels of yields are low.

Corporate Investment Grade (IG) Bonds

Fundamentals are improving as earnings have strengthened but valuations are rich, particularly in the eurozone. As such, we are neutral on eurozone IG corporate while remaining positive on US peers. Bond scarcity to be a positive technical support for the asset class.

Corporate High Yield (HY) Bonds

HY bonds are expensive an yields are at their historical lows. We prefer fallen angels and rising stars. Both are mispriced during the transition to the other asset class, offering a spread pick up.

Emerging Market (EM) Bonds

EM bonds in hard currency should continue to rebound thanks to the global recovery, negative real rates in developed countries and lower expected volatility in US rates. The market welcomes central banks that tighten policies to stop inflation. We stay positive on EM bonds.

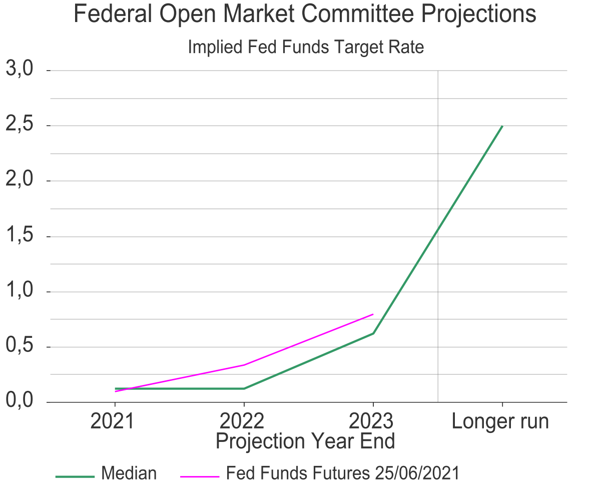
Central banks

Still a few months away from tapering

THE FED

The Fed pivoted in June, while remaining very dovish (QE still in place), showing less patience towards the surge of inflation, signalling taper and earlier-than-expected rate hikes. We expect the tapering decision to be announced in September and executed in January 2022. We bring forward our expectations for the first rate hike to 1Q23 from 3Q23.

- The Fed surprised the market in the June meeting. The policy remains very dovish but pivoted as the Fed showed less patience on inflation and signalled two rate hike in 2023 (see chart) from none in the March FOMC meeting.
- Policymakers are now talking about tapering, while Powell indicated that they are still meetings away from a decision.
- Overall, the Fed has signalled taper and earlier-than-expected rate hikes and financial conditions have barely moved.
- We expect the tapering announcement in September and the execution in January 2023. We bring forward our expectations for the first rate hike to 1Q23 from 3Q23 as the Fed seems to prioritise inflation over employment, should it have to make a choice between its dual mandate.

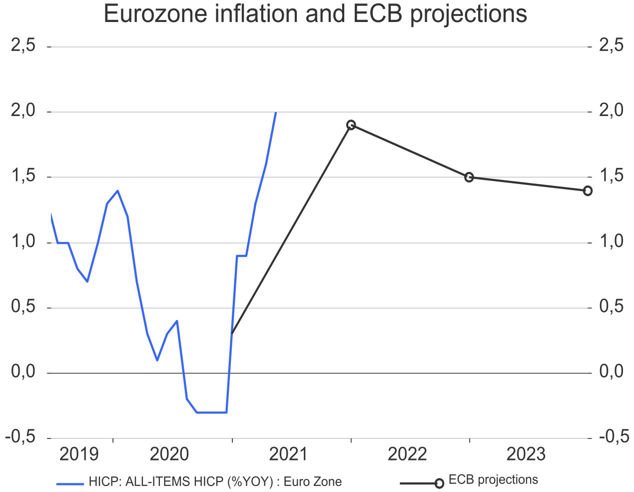


Source: Refinitiv Datastream, N/A

THE ECB

The ECB is more optimistic about the economy but not ready to change the course of its ultra loose monetary policy. A premature tightening would jeopardise the recovery. We expect more news in September.

- The ECB maintained its ultra dovish policy in June. It kept the significantly higher pace of purchases that it started in March for the PEPP. The ECB saw risks to the growth outlook as "broadly balanced", for the first time since December 2018. The surge of inflation is seen temporary (see chart). 2023 inflation forecast is under target.
- The main goal of the ECB is to avoid a premature tightening of financing conditions for companies and households.
- While the pace of the PEPP is maintained higher, the amounts purchased may revealed to be more modest as the ECB adjust them to the market liquidity, that typically declines in the summer period.
- In September, we expect the ECB to go back to a “normal” pace of purchase for the PEPP and to deliver the conclusion of its strategic review (cementing a dovish policy and adopting a sort of inflation average targeting).



Source: Refinitiv Datastream, mai 21

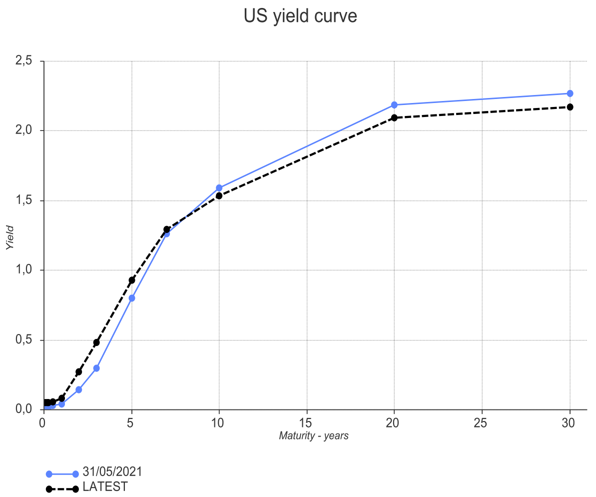
Bond yields and Inflation expectations

Short-term pause in a bear market

BOND YIELDS

We expect long-term bond yields to trend higher after the summer, in both the US and the eurozone. Our 12-month targets for 10-year rates are 2% in the US and 0% in Germany.

- German short- and long-term rates have barely moved compared to end of May. This is not the case in the US where short-term yields moved higher while long-term yields dropped following the FOMC meeting (see chart).
- We keep our scenario where we expect long-term yields to be broadly range-bound during the summer before trending higher as the Fed announces taper.
- 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).
- Our 12-month targets for 10-year yields are 2% in the US and 0% in the eurozone.

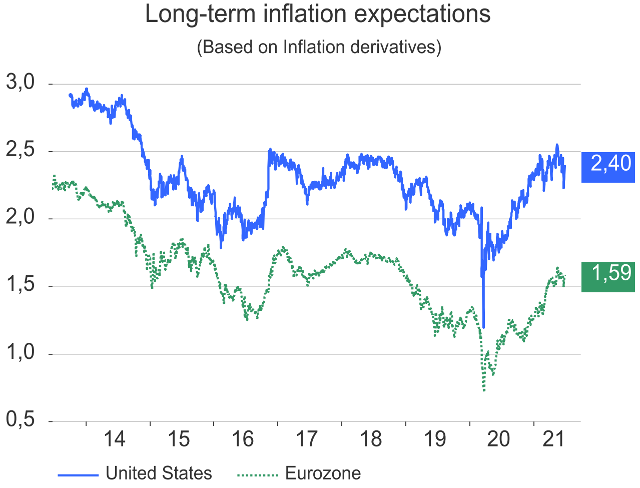


Source: Refinitiv Datastream, 25/06/2021

INFLATION EXPECTATIONS

We prefer to stay neutral on inflation-linked bonds. Breakevens could rise again but inflation-linked bonds are vulnerable to the expected rise in real yields given the long duration of such bonds.

- As actual inflation data surged, inflation expectations declined from their peak in both the US and the eurozone (see chart).
- Inflation concerns eased, notably in the US where fears were higher. Fed's president Bostic sums it up by saying that temporary is going to be a little longer than the Fed expected initially, rather than it being two to three months, it may be six to nine months.
- We think breakevens could rise further in both the US and the eurozone. Yet, in contrast to the fall seen in Q2, we expect real yields to rise gradually as economic growth improves and tightening being the next policy move by developed market central banks. All in all, we prefer to stay neutral on inflation-linked bonds in both the US and the eurozone.
- We prefer floating rate notes or funds that actively manage duration in order to hedge against inflation and possible rising rates, especially in the US.



Source: Refinitiv Datastream, 28/06/2021

Government Bonds

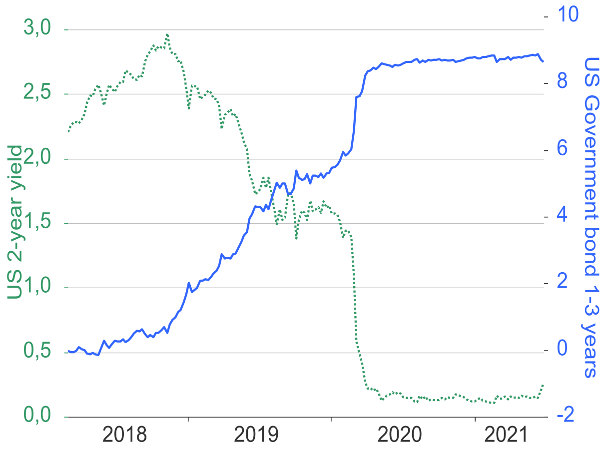
Prefer peripheral bonds

US AND GERMAN GOVIES

We turn neutral from positive on US short-dated government bonds as short-term bond yields are now less anchored by the Fed. We stay negative on US and German long-term government bonds, and also negative on German short-term government bonds.

- We turn neutral from positive on US short-dated government bonds. The total return has been strong at the inception of the recommendation, then stalled for a year as short-term yields were stuck (see chart), making it an alternative to cash for USD investors. After the FOMC meeting, US short-term yields are not as much anchored as they were and may grind moderately higher.
- Regarding long-dated US government bonds, we are negative. Yields are likely to rise despite foreign and liability-driven investment buying.
- We are also negative on German government bonds. Short-term yields are deeply negative and we expect long-term yields to edge higher.
- On a relative basis, we prefer short duration.

US Government bond 1-3 years, Total return



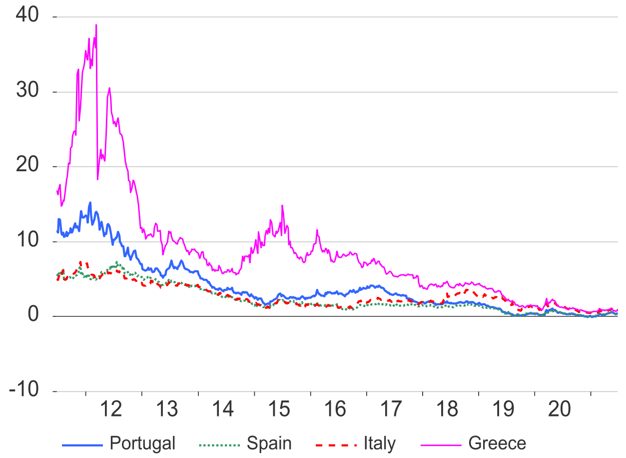
Source: Refinitiv Datastream, 25/06/2021

EUROZONE PERIPHERAL BONDS

The search for yields benefit higher yielders in the eurozone. We stay neutral on peripheral bonds as spreads are tight and the absolute levels of yields are low.

- Peripheral spreads tightened another 3bps month-to-date as the ECB extended its higher pace of purchases through the PEPP.
- Periphery spreads may tighten further during the summer because of the shortage of issuance. From September onwards, spreads may reverse along with the resurgence of supply and the debate over end of the PEPP.
- Italian bonds are more at risk with PEPP tapering. The impact should be limited if the ECB increases both the amount and the flexibility of the PSPP, which seems likely.
- The search for yields benefit higher yielders in the eurozone. Both Greek and Italian 10-year bond were well bid. Foreign investors even bought 85% of the Italian bond.
- We stay neutral on the asset class as spreads are tight and the absolute levels of yields are low (see chart).

10-year government bond yields



Source: Refinitiv Datastream, 25/06/2021

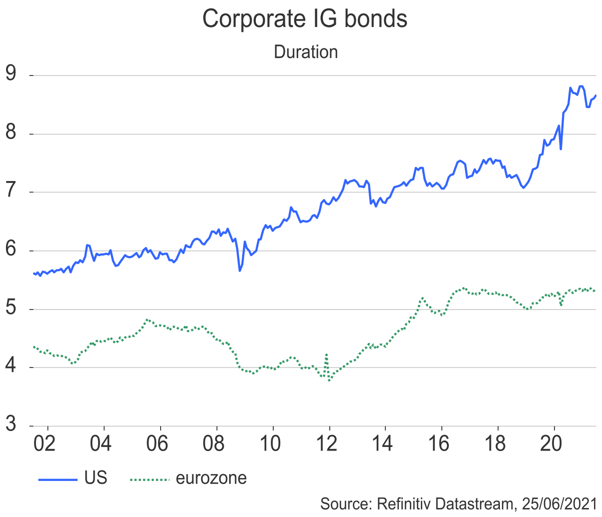
Corporate Bonds

High cash prices

INVESTMENT GRADE (IG)

Fundamentals are improving as earnings have strengthened but valuations are rich, particularly in the eurozone. As such, we are neutral on eurozone IG corporate while remaining positive on US peers. Bond scarcity to be a positive technical support for the asset class.

- We are neutral on eurozone IG corporates. Spreads may not be able to tighten enough to compensate for the expected rise in bond yields.
- We stay however positive on US IG corporates, despite relatively high valuations. Inflation fears in the US have receded after the hawkish Fed pivot at the June FOMC meeting. That is likely to benefit US IG bonds given their long duration (see chart). Also, the decline in supply during the summer is a technical supportive factor. We stay positive on US IG bonds.
- The Fed began to liquidate the portfolio of corporate bonds it had built up during the crisis. Demand is expected to be strong given the shortage of quality bonds, especially those with short maturities. We do not see a risk of spreads widening.

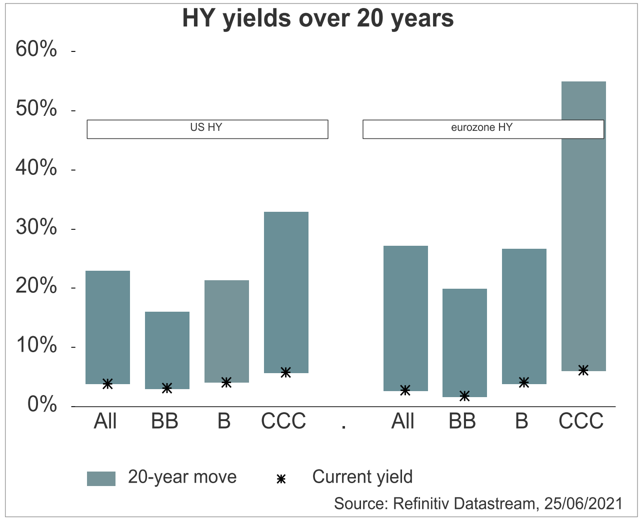


Source: Refinitiv Datastream, 25/06/2021

HIGH YIELD (HY)

HY bonds are expensive an yields are at their historical lows. We prefer fallen angels and rising stars. Both are mispriced during the transition to the other asset class, offering a spread pick up.

- The short duration of the asset class (4 years in both the US and eurozone) benefit HY bonds in the current environment of rising bonds yields.
- The default cycle is improving. A large number of companies have issued debt this year to refinance. This lowers their interest expenses, pushes out their maturities and lowers the default risk. It also means lower returns for investors in the future.
- HY bonds are expensive. Yields are at their historical lows in both the eurozone and the US, for each and every cohort (see chart). Hence, we prefer to stay neutral on HY bonds.
- Therefore we prefer fallen angels and rising stars. Both are mispriced during the transition to the other asset class, offering a spread pick up. In the US, S&P counts nearly upgrades from HY for one downgrade from IG.



Source: Refinitiv Datastream, 25/06/2021

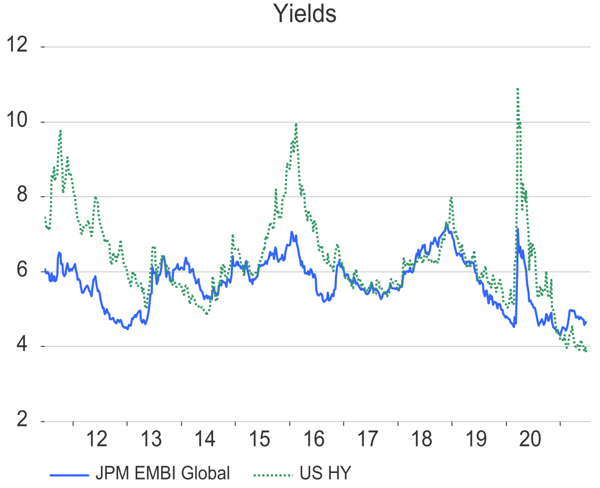
Emerging Market Bonds

EM bonds are attractive

EM BONDS IN HARD CURRENCY

EM bonds in hard currency should continue to rebound thanks to the global recovery, negative real rates in developed countries and expected lower volatility in US rates. We stay positive on EM bonds in hard currency.

- EM bonds have rebounded lately but are still lagging US HY bonds (see chart). The global recovery and higher real interest rates relative to developed markets (real yields are negative in the US) are a tailwind for EM HC bonds, while the expected Fed taper is a headwind.
- Yet, compared to the 2013 taper tantrum, we can argue that EM vulnerability has fallen sharply, thanks to stronger current accounts, low foreign ownership of government debt (despite higher debt/GDP ratios), lower inflation, higher international reserves and the fact that EM central banks are ahead of developed central banks in terms of policy normalisation. In addition, US tapering seems to be much better telegraphed this time, allowing markets to reprice expectations and positioning.
- We stay positive on the asset class.

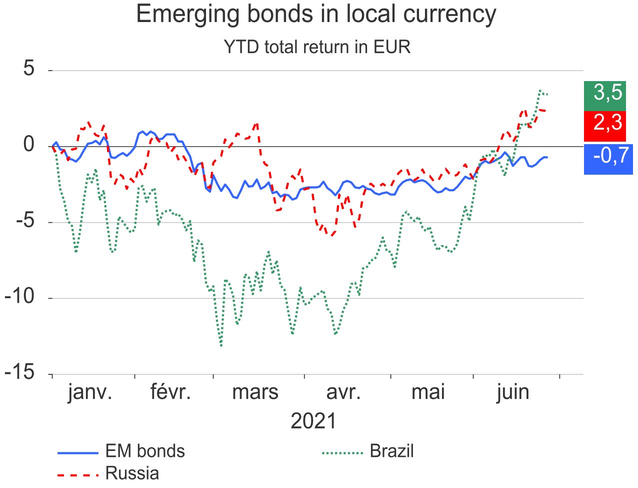


Source: Refinitiv Datastream, 28/06/2021

EM BONDS IN LOCAL CURRENCY

We stay positive on EM local bonds. Bonds whose central banks were the most proactive against inflation actually outperformed thanks to stronger currencies.

- Some emerging market central banks have started to normalise their abnormally low policy rates in the wake of inflation.
- Interestingly, investors are favouring countries whose central banks are aggressively tightening policies to get ahead of inflation, like Brazil and Russia (see chart). A lot of the rise in inflation and expected monetary policy tightening has already been priced into local curves.
- Similarly, investors are staying away from low-yielding countries whose central banks are very relaxed with inflation, like Poland and Hungary.
- A further rise in inflation could push up breakevens gradually, even though they are already at historically elevated levels. This is particularly positive for EM currencies given their sensitivity to short-term breakevens, but negative for EM rates as it drives up short-end rates.
- We stay positive on EM local bonds.



Source: Refinitiv Datastream, 28/06/2021

04

Forex

VS EUR
VS USD

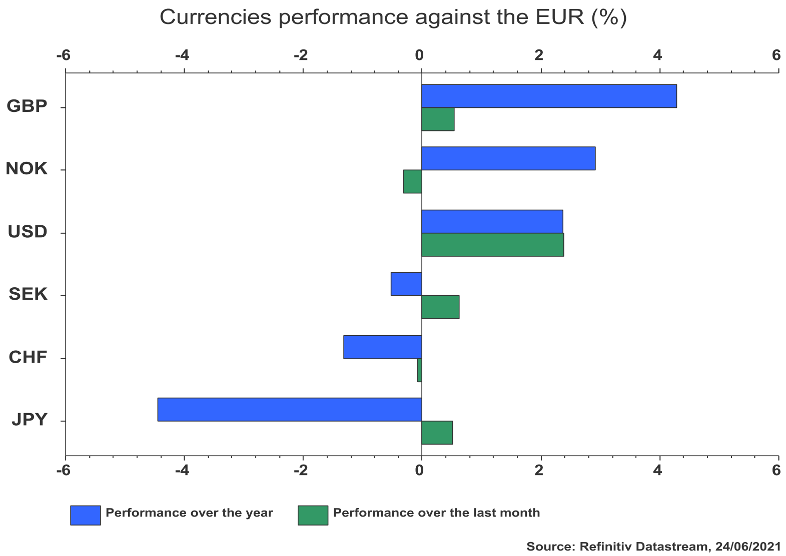
BNP PARIBAS
WEALTH MANAGEMENT

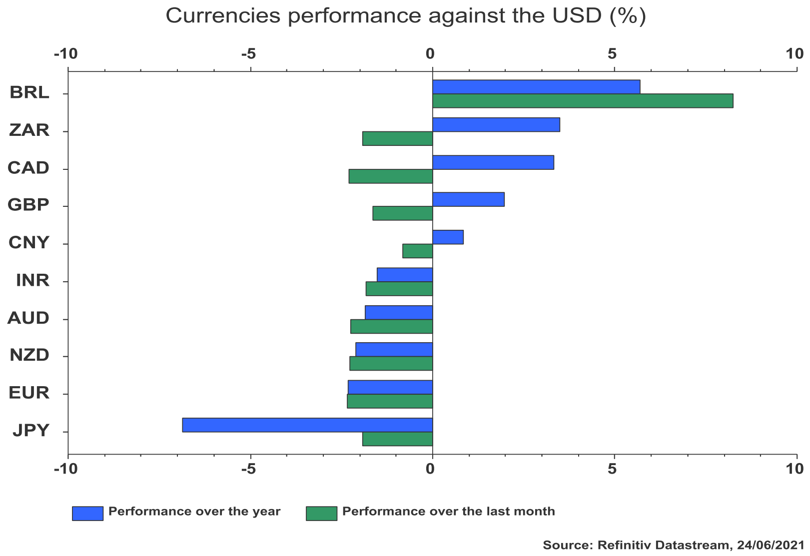
Forex at a glance

The USD made a comeback over recent weeks. The move was supported by renewed risk aversion linked to fears over renewed lockdowns and long-term growth prospects. The sudden fall in long-term rates relative to short-term ones also supported the dollar.

We could see the recent dollar strength persisting somewhat over the summer months as we expect increased volatility in financial markets. We decided to raise our 2-year yield forecast to 0.6% from 0.4% in 12 months. This suggests less downside for the US dollar against the euro over the coming year. Our new EURUSD target is 1.22.

We think the outlook for emerging markets remains broadly positive, but the upside may be lower than in past quarters and differentiation is necessary. We think that some emerging currencies have more upside as for example for Russia and Brazil.





EUR/USD

	Country	Spot 30/06/2021		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,186	1,17	1,22
	United Kingdom	EUR / GBP	0,857	0,85	0,84
	Switzerland	EUR / CHF	1,096	1,11	1,14
	Japan	EUR / JPY	131,6	130	135
	Sweden	EUR / SEK	10,14	10,00	10,00
	Norway	EUR / NOK	10,20	9,80	9,60
Against dollar	Japan	USD / JPY	111,0	111	111
	Canada	USD / CAD	1,238	1,22	1,22
	Australia	AUD / USD	0,751	0,78	0,80
	New Zealand	NZD / USD	0,699	0,72	0,75
	Brazil	USD / BRL	5,018	4,90	4,80
	Russia	USD / RUB	73,05	70,0	68,0
	India	USD / INR	74,33	72,0	72,0
	China	USD / CNY	6,461	6,40	6,40

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

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

VS. EUR

	Country		Spot 01/07/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,187	Neutral	1,17	Negative	1,22
	United Kingdom	EUR / GBP	0,861	Neutral	0,85	Positive	0,84
	Japan	EUR / JPY	132,4	Neutral	130	Negative	135
	Switzerland	EUR / CHF	1,097	Neutral	1,11	Negative	1,14
	Australia	EUR / AUD	1,587	Positive	1,50	Positive	1,53
	New-Zealand	EUR / NZD	1,699	Positive	1,63	Positive	1,63
	Canada	EUR / CAD	1,471	Positive	1,43	Neutral	1,49
	Sweden	EUR / SEK	10,17	Neutral	10,00	Neutral	10,00
	Norway	EUR / NOK	10,22	Positive	9,80	Positive	9,60
Asia	China	EUR / CNY	7,672	Positive	7,49	Neutral	7,81
	India	EUR / INR	88,48	Positive	84,24	Neutral	87,84
Latam	Brazil	EUR / BRL	5,950	Positive	5,73	Neutral	5,86
EMEA	Russia	EUR / RUB	86,96	Positive	81,90	Positive	82,96

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

Outlook for currencies versus EUR

The USD made come back over recent weeks. The recent dollar strength could persist over the summer months. Over the coming year, the euro will be supported by a stronger economic momentum and a risk on environment. Less downside for the USD. We revise our 3- and 12-month targets.

- The Fed changed a bit the tone at the June FOMC meeting. It suggested less patience when it comes to inflation and signaled earlier-than-expected rate hikes according to the median of all policymakers' rate forecasts. This suggests that the Fed may slightly speed up the process of reducing the bond purchases, allowing it to make a first rate hike in the first quarter of 2023. This would be about 6 months earlier than suggested previously. This also suggests that US short-term bond yields could become less anchored by the Fed over the next few quarters and may grind higher with higher volatility. We thus decided to raise our 2-year yield forecast to 0.6% from 0.4% in 12 months.
- This suggests less downside for the US dollar against the euro over the coming year. **We thus reduced our 12-month target to 1.22 (value of one euro).**
- We still expect some push from the euro late this year as the economic momentum should be more favorable for the Eurozone. Indeed, we expect a sharp rebound in activity based on the reopening and pent-up demand. We also expect more sighs of implementations of expenditure programs all over Europe.
- We could see the recent dollar strength persisting somewhat over the summer months as we expect increased volatility in financial markets.
- **In summary, we reduce our 3-month EURUSD target to 1.17 (value of one euro) and to 1.22 for the 12-month target.**

VS. USD

	Country		Spot 01/07/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,187	Neutral	1,17	Positive	1,22
	United Kingdom	GBP / USD	1,378	Neutral	1,38	Positive	1,45
	Japan	USD / JPY	111,5	Neutral	111,00	Neutral	111,00
	Switzerland	USD / CHF	0,924	Negative	0,95	Neutral	0,93
	Australia	AUD / USD	0,748	Positive	0,78	Positive	0,80
	New-Zealand	NZD / USD	0,699	Positive	0,72	Positive	0,75
	Canada	USD / CAD	1,239	Neutral	1,22	Neutral	1,22
Asia	China	USD / CNY	6,464	Neutral	6,40	Neutral	6,40
	India	USD / INR	74,56	Positive	72,00	Positive	72,00
Latam	Brazil	USD / BRL	5,013	Positive	4,90	Positive	4,80
	Mexico	USD / MXN	20,02	Neutral	19,70	Positive	19,00
EMEA	Russia	USD / RUB	73,27	Positive	70,00	Positive	68,00
	South Africa	USD / ZAR	14,44	Neutral	14,50	Negative	15,00

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

Outlook for currencies versus USD

We see selective opportunities for currencies to strengthen against the dollar. This is the case for the AUD and NZD after the recent pullback. In Emerging markets, we expect a strengthening of the Russian currency.

- Both Australia and New Zealand have a positive economic outlook. The management of the coronavirus crisis and the sensitivity to commodity prices, and to global equities (especially for Australia) should support the AUD and NZD. Tensions with China remain a downside risk, given the importance of China for exports.
- In Australia, the central bank may end its 3-year yield curve control soon, the July meeting being a possibility. The probability of a rate hike before 2023 seems however low given the RBA's forecasts. The Reserve Bank of New Zealand lowered the hurdles to hike rates and implied three rate hikes every year from 2Q2022 in its projections.
- **We keep our 3- and 12-month AUDUSD targets at 0.78 and 0.80 respectively. For the NZDUSD our targets are 0.72 and 0.75 for 3- and 12 months respectively. This suggests upside for both currencies.**
- In Russia, additional rate hikes and reduced political risks could further boost the positive trend of the currency. **Therefore, we adjust our 3-month USDRUB target to 70 and keep 68 for our 12-month target (upside for RUB).**
- The growth recovery in Brazil should be sustained by rising commodity prices. The country is witnessing price pressures and we have revised up our inflation forecast. The central bank should continue raising rates supporting the currency. The potential uncertainty around next year's elections and a gradual rise in concerns regarding debt sustainability could limit the upside. **We adjust our 3-month USDBRL target to 4,9 and keep 4.8 for our 12-month target. This suggests moderate upside for the BRL given the recent rise.**

05

Equities

BNP PARIBAS WEALTH MANAGEMENT

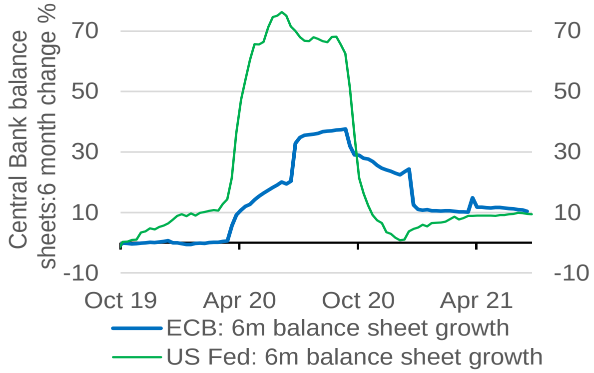
Equities at a glance

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 just under 15x, government bonds, credit and cash look even worse value. We maintain our positive stance on equities.

Expected stock market returns in the 5%-8% range: Based on our long-term equity returns model, we estimate long-term (nominal) stock returns from 5% for Japan to over 8% for the UK. Post inflation, stocks should still deliver positive real returns, unlike bonds (1.2%), credit (1.5%) or cash.

While the US stock market is more expensive than its historic average at present, our model still suggests a 5.5% long-term return for US stocks. According to our model, there is more potential in Eurozone and UK stocks. Our model may be under-estimating future Japanese stock returns, if Japanese companies decide to pay higher dividends out of their cash-rich balance sheets.

Federal Reserve, ECB balance sheets still growing at > 20% annualised



Source: Bloomberg

Sectors: EU Materials

European Construction & Materials look strong: Strong investment demand, combined with government-driven US and EU infrastructure spending and very strong end-housing markets all point to strong sales, earnings growth for European Construction/Materials (which are global in nature).

Factors: Stay the course with Value

Growth has rallied, but don't give up on Value: The equal-weighted Nasdaq 100 has 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.

Theme: European mid-caps still strong

European mid-caps continue to benefit from cyclical upswing, end of lockdowns, supply shortages: Focus on the German MDAX index for exposure to domestic consumption growth, investment growth and higher profit margins from supply shortages.

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, we would use the current technology sector strength to sell and reposition into US mid-caps/value, world ex US equity exposure.

Risks

Watch for market complacency, as this is usually the most dangerous time for stock markets. For now, the SKEW index highlights strong pricing for tail risk put options. Investors are still hedging their long equity positions, thus not so complacent.

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

Global Equities view

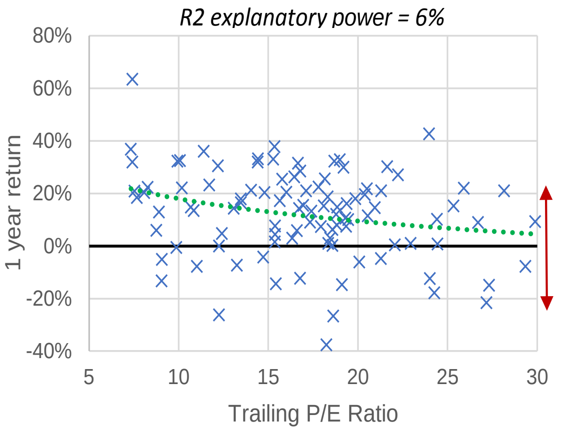
Europe outperforms when banks rally

WHY THE P/E RATIO GETS TOO MUCH ATTENTION

Using the P/E ratio, or valuation in general, to try to gauge how much you should invest in the stock market is a poor strategy. Over a period like 6 month to 1 year, look at: (1) Price momentum (how fast are stock prices going up/down?), (2) Earnings momentum (how fast are earnings increasing?), and (3) Liquidity (how fast is the global money supply increasing?) rather than the P/E ratio.

- I hear from investors and clients all the time about their worries over their stock market exposure, because "the market is expensive", generally citing that the stock market's P/E ratio is substantially above average.
- But does this fact actually matter all that much? To test the hypothesis that the market P/E ratio is an important driver of future stock market returns, I looked at the US stock market from 1970 to now.
- For each month, I looked at the starting (historic) S&P 500 P/E ratio and the subsequent 1-year return (price + dividend).
- As you can clearly see from the scattergram, the relationship between the two is not strong at all

Starting P/E ratio only explains 6% of the subsequent 1-year market return



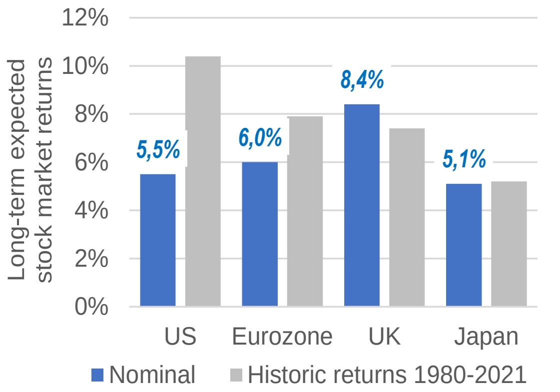
Source: BNP Paribas WM, Bloomberg

ARE STOCK MARKETS TOO EXPENSIVE? NO

Our 3-factor expected returns model for equities project long-term returns in the 5%-8% range: Based on this simple model, we estimate long-term returns for the main developed stock markets from 5% for Japan to over 8% for the UK. Even accounting for inflation, stocks should still deliver positive real returns, unlike bonds, credit or cash.

- **Our simple long-term model points to modest expectations:** we have constructed a long-term expected returns model for equities, on the basis of 3 factors:
- **Forward dividend yield**: the income expected over the next 12 months from the stock market;
- **Long-term earnings growth**: how quickly have earnings grown over the long-term?
- **Valuation adjustment**: Is the stock market overly cheap or expensive versus the long-term average? If expensive, then returns will be lower; if cheap, then expected returns should be boosted.

Our 3-factor model points to positive expected stock market returns



Source: BNP Paribas WM, Bloomberg

Asian Equities view

TURNING MORE POSITIVE ON CHINA INTERNET SECTOR

Focus on Asian recovery themes

ASIA COUNTRY PREFERENCE

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

- China's central bank injected liquidity for the first time since March 2021. We expect monetary policy to remain largely neutral in 2H, but may gradually shift towards an easing bias when necessary,

- We turn more positive on the China internet sector: (i) valuations are much more reasonable after correction YTD; (ii) key concerns on regulation around anti-trust and fintech sector are priced in; (iii) there are subsectors with catalysts in the 2H e.g. in mobile games, Tencent and Netease are expected to launch high profile titles in the coming months; and online travel agencies where domestic trends have recovered to pre-Covid levels; (iv) investments in new initiatives in e-commerce is already well expected, with stocks likely to show positive momentum after passing the peak quarterly losses; (v) as China macro growth momentum decelerates in 2H, we expect interest in secular growth names to be rekindled.

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	-0.2	5.8	22.5	15.6	2.1	2.1	37.0	12.3	11.4
North Asia	China	0.1	1.4	25.9	15.5	2.2	2.2	16.6	18.3	11.1
	Hong Kong	-1.1	9.5	2.1	17.4	1.4	2.6	32.1	13.3	8.4
	South Korea	3.1	10.0	34.0	11.7	1.4	2.2	97.6	5.5	13.1
	Taiwan	0.2	16.0	28.6	16.2	2.9	2.2	41.2	3.0	18.9
South Asia	India	2.3	14.7	16.8	22.7	3.7	1.1	33.8	16.7	12.8
	Indonesia	-4.0	-9.8	-9.5	15.2	2.5	2.5	28.7	20.1	14.9
	Malaysia	-1.9	-6.0	-1.7	14.0	1.7	3.3	110.4	-7.3	12.1
	Philippines	5.5	-1.9	-9.7	18.4	1.9	1.4	51.9	27.1	7.5
	Singapore	-1.1	9.4	-12.8	14.4	1.3	2.8	44.3	14.2	8.0
	Thailand	-0.6	4.8	-13.9	19.0	2.2	2.2	58.5	15.0	8.7

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

Sector Allocation

Some uncertainties are coming back; be diversified and selective!

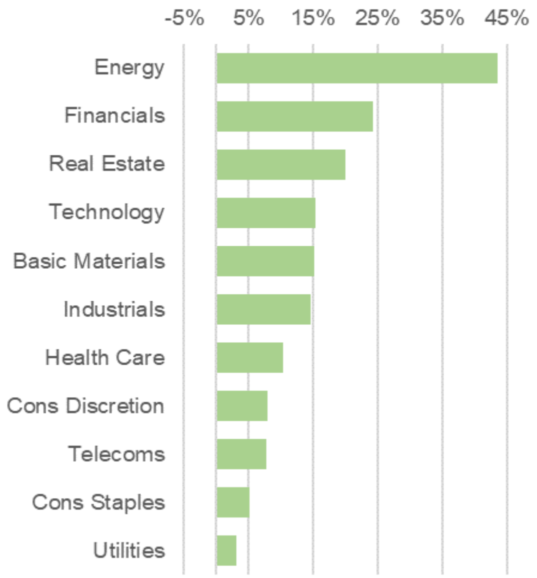
WE LIKE CHEAP/ LAGGING SECTORS WITH IMPROVING FUNDAMENTALS AND CASH FLOWS

Equity markets are still performing well and have registered more gains in June MTD (as at 25/6). Some weaker data from China and from the US, the Delta variant of the Covid-19 as well as the FED confirming that the inflation is a 'temporary issue' have pushed investors to book profits on cyclical sectors that had been performing well over the last 12 months such as Industrials, Materials or Travel & Leisure.

We suggest a 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 places to be. On the other hand, avoid Utilities and sub-industries that could suffer from rising energy/ raw materials prices such as Household and Personal Care products.

- Best sectors so far in June have been Energy, Tech and Real Estate in the US whereas in Europe, HealthCare, Technology and Energy were leading. On the other hand, in June, underperformers globally were deep cyclicals such as Financials or Basic Materials but also vulnerable sectors to higher rates/ bond yields such as Consumer Staples or Utilities.
- **YTD, cyclicals are still leading the pack.** We have become more selective among cyclicals. Next to Financials, we still like some segments of Materials such as **Precious Metals and <u>Construction Materials we now upgrade to +.</u> These segments should profit from the US and European (green) recovery plans.**
- Other cheap/ improving sectors are HealthCare, Real Estate, Semiconductors and EU energy.

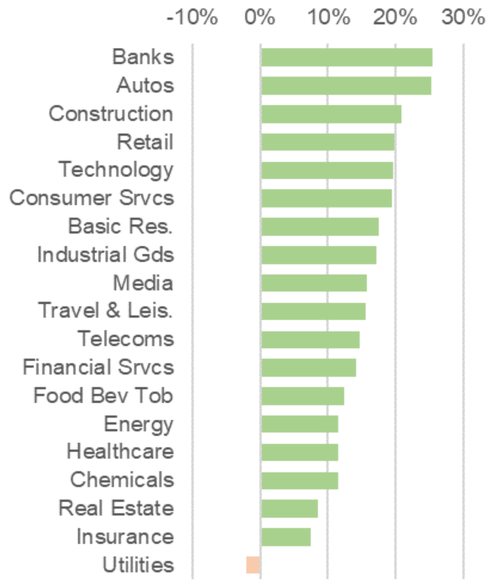
US sectors: year-to-date performance



Source: FTSE Russell. Note: performance to 25 June

- **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.**
- Real estate in the US has been performing very well this year. Momentum is still good and fundamentals improving but after the recent great performance, we suggest to focus more on the European real estate, still lagging in the recovery.
- In the coming weeks, we will observe how much China is cooling down, also how the new delta coronavirus variant bites and how much inflation and rising rates/ yields remain a big concern or not. Coming half year corporate results should also shed some more light and could lead us to review some recommendation.

Europe sectors: year-to-date performance



Source: STOXX. Note: performance to 27 May

06

Commodities

Oil
Gold
Base Metals

Commodities at a glance

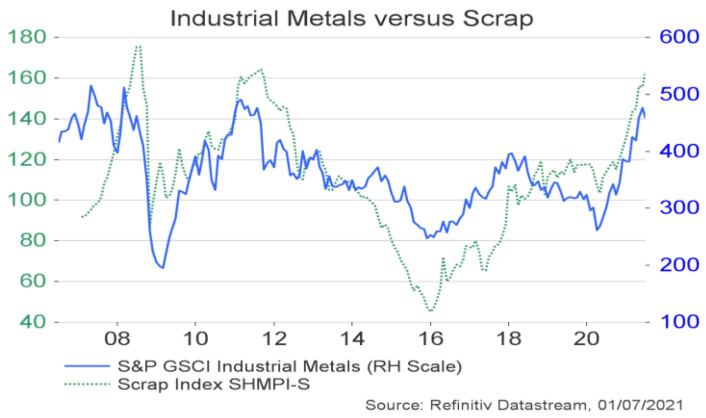
Gold: after rallying to $1910 early in June, the ounce suffered heavily from the Fed's change of tone and the resulting USD appreciation. Gold seems to find some support around $1780/oz.

Base metals are correcting their strong rise of the beginning of the year. Copper gained 36% in 2021 till mi-May and since have given back 11% (1/7).

Oil: the Brent is reaching new 2.5 year high above $75/barrel, having risen 46% YTD (1/7).

BASE METALS

We moved our stance on base metals from positive to neutral end of May as we expected a lower demand from China in H2. The long term outlook remains bullish.

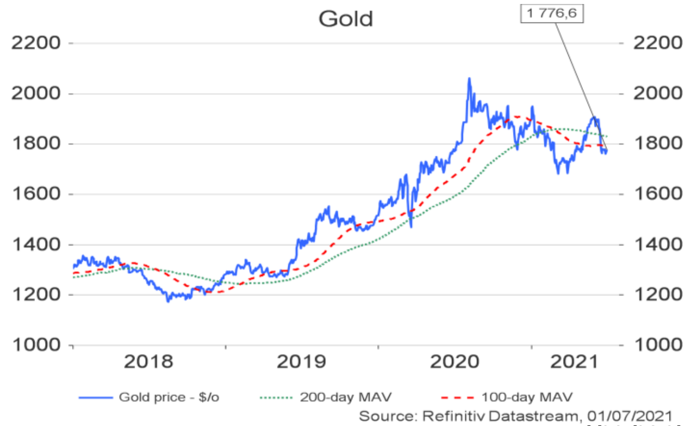


OIL

Global demand is on path to reach pre-pandemic levels while supply is still restricted. The outlook for the end of the year is bullish but in the short term we prefer to remain neutral as oil is overbought and political factors may evolve (Iran, OPEC+)

GOLD

Gold remains our preferred hedge against economic, financial et geopolitical risks. We remain convinced that central banks will be inclined to keep real rates as low as possible given the high level of public debts.



Our position for this month

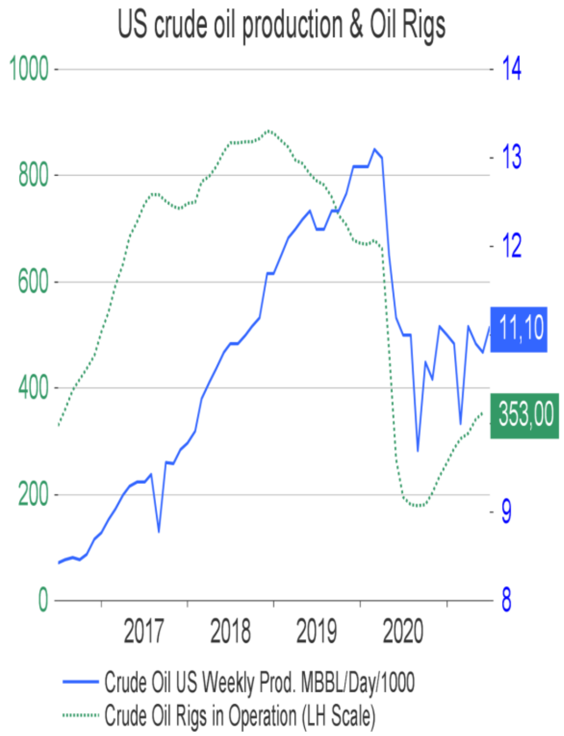
Evolution of our position from last month

Oil

Growing demand and supply discipline should prevent a major correction

Rising oil demand as economies reopen, strong OPEC+ supply discipline and a delayed comeback of Iranian exports as US-Iran negotiations drag on have pushed Brent prices above 75$/b. **Outlook for year-end is bullish but crude oil is now overbought and vulnerable to any change in political factors (OPEC+, Iran), hence our neutral stance.**

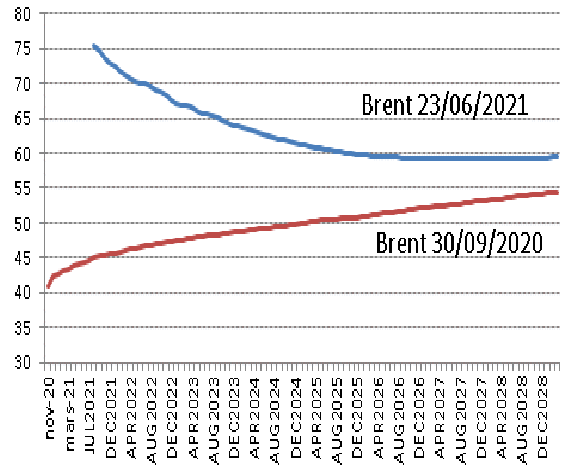
- The OPEC+ supply restriction policy was hugely successful and encourages them to continue. On 1/7 they have agreed to reduce their production cuts (5,7m b/d at the end of July) by 0,4 mb/d each month till the end of the year. It's a bit too few to accommodate the increasing demand.
- Willing to produce more, the UAE is dissenting but a compromise looks likely.
- In the US, the number of active shale oil rigs continues to increase slowly as compagnies focus on cashflows and dividends. The production is expected to increase but the total US output should remain well below its pre-covid peak .
- When demand will be back at pre-pandemic level 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, 01/07/2021

The term structure of the Brent futures remain in strong backwardation leading to a high rolling yield of 9,0% (1/7) 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: Bloomberg

Gold

The harsher tone from the Fed has led to a decline in inflation expectations, a rise in real yields and a stronger dollar which have severely impacted gold. We do not believe it's a lasting market reversal. The real rate downside potential is limited but the high level of government debts makes a significant increase of real rates unsustainable.

- Historically, periods with very high debt/GDP ratios were characterized by negative real interest rates
- A 1% increase in real rates with the current level of US debt (debt/GDP of 130%) ultimately leads to an additional interest cost of 1,3% of GDP each year. This is only conceivable in economies where the LT growth potential is much higher than currently anticipated
- 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 reinforcing gold as the preferred hedge against a depreciation of the fiat currencies
- Medium term supply and demand dynamics remain positive for the precious metal.
- Gold remains our preferred hedge against economic, financial and geopolitical risks

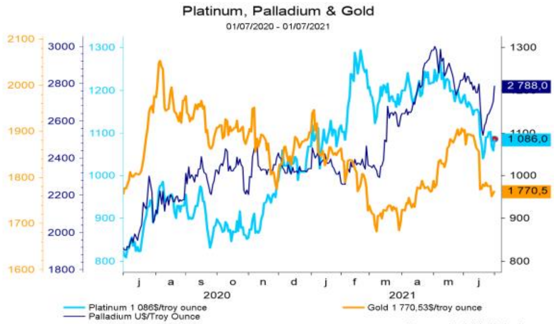
Source: Refinitiv Datastream, 01/07/2021

Silver – Platinum - Palladium

Silver, platinum and palladium also corrected in line with gold and industrial metals but all three remained above their rising 200 days moving average. Medium term outlook remain bright due to the increasing demand for industrial usage linked to energy transition while there are constraints on the supply side.

- Although more volatile, sliver prices resisted better than gold ytd.
- 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 its 20% rise since the beginning of the year.
- 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).

Source: Refinitiv Datastream



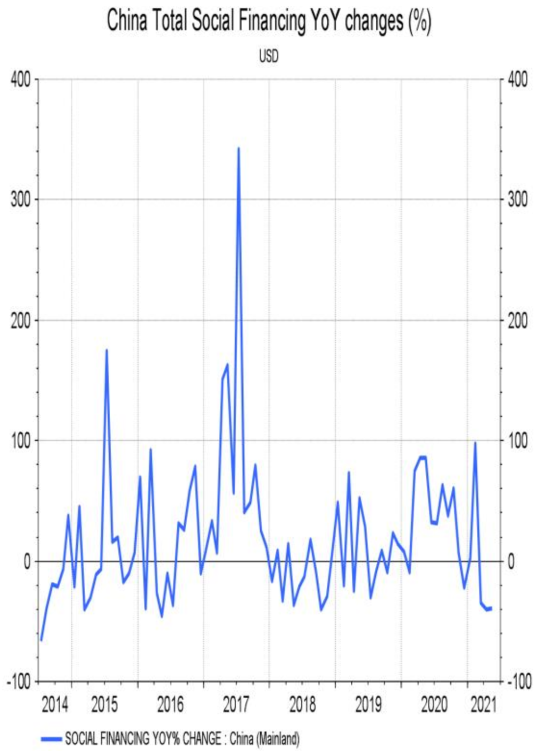
Source: Refinitiv Datastream

Base Metals

Medium term prospects remain bullish

We changed our stance form positive to neutral at the end of May as China's demand is expected to cool in the coming months. Moreover Chinese authorities are taking measures to tame the speculation on commodities and have decided to sell part of their **reserves in copper, aluminum and zinc. However base metals medium term outlook remains bullish.**

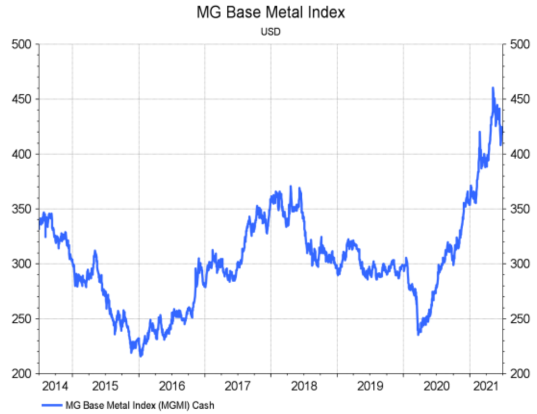
- Credit flows have weakened in China (total social financing has began to contract on a 12-month basis and the credit impulse has dropped below zero). This is usually followed by a slowdown that should reduce the demand for base metals in H2 (China accounts for 58% of the global copper demand).
- Moreover 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 was overdue. We do not expect it to be very pronounced. The Bloomberg base metal spot index is still up 21% ytd (1/7)



Source: Refinitiv Datastream, mai 21

- Copper: on the production side, supply-chain disruptions and logistical bottlenecks seem to be easing. We are near the end of a supply-demand mismatch.
- 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.

Source: Refinitiv Datastream, 01/07/2021



Source: Refinitiv Datastream, 01/07/2021

07

Alternatives

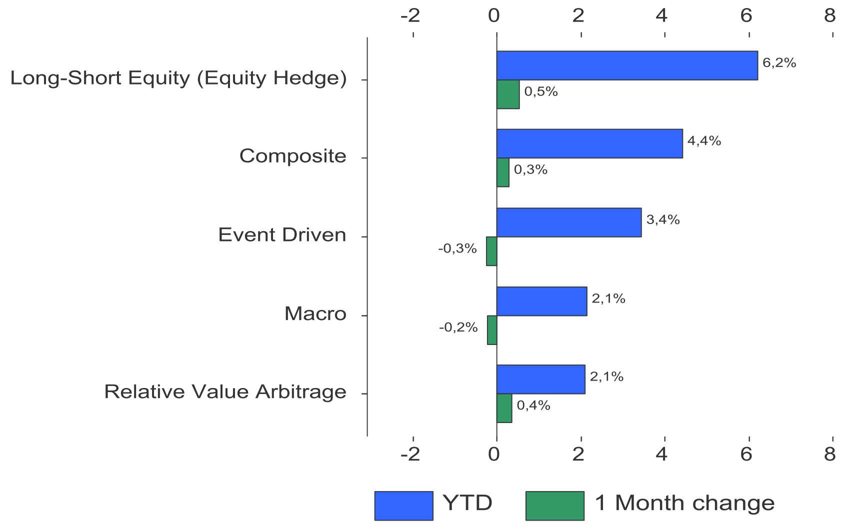
Alternative Investments

Alternative Investments at a glance

The performances within alternative UCITS strategies remain strong this year with positive performance in all sub-strategies. The best performers were long-short equity (especially beginning of the year) and event-driven. Relative value arbitrage is lagging .

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

Alternative UCITS (HFRU index)



Source: Refinitiv Datastream, 25/06/2021

Global Macro

Positive. Macro strategies may offer protection from potential pressure on expensive risk assets should inflation prove to become permanent. We see far reaching measures (regulatory, fiscal), with likely impacts on all asset classes. Fundamental macro traders are best equipped to anticipate those, as seen already through inflation pressures and the impact on EMs.

Long / Short Equity

Neutral. Momentum has been a key support for managers. It was centered around growth stocks, There has been a move towards value sectors, which managers are reluctant to embrace. The recent short squeeze has led to low single short exposure. Long/short managers also face challenging sector and factor rotations. A typicla example has been the rebound of Covid losers (cyclicals), and the rich valuation of "Covid winners" (technology, ESG…).

Event Driven

Positive: Borrowing costs remain cheap, and there is plenty of cash with corporates and P.E. funds. This is a key support for M&A, IPOs, SPACs…. SPACs have gone through a severe correction after the strong upside in the past 6 months, but they will continue to provide arbitrage opportunities. Distressed: the most vulnerable sectors are recovering, This means fewer reorganizations and opportunities going forward.

Relative Value

Positive: Covid-19 and rising rates should generate corporate debt winners and losers, which true long & short credit managers can trade. Little spread compression potential after historical rally and decreasing dispersion between good and bad issuers. The expected rise in interest rates generates opportunities for fixed income arbitrage. Convertible bond arbitrage remains in a sweet spot, after record issuance post crisis and high equity volatility.

08

Real Estate

Residential
Industrial/Logistics
Office
Retail
Specialised

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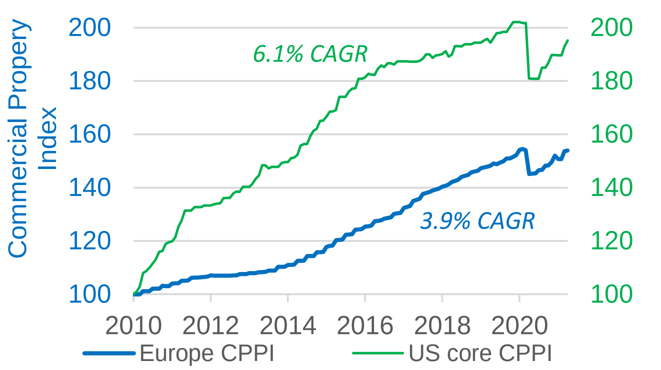
WEALTH MANAGEMENT

Real Estate at a glance

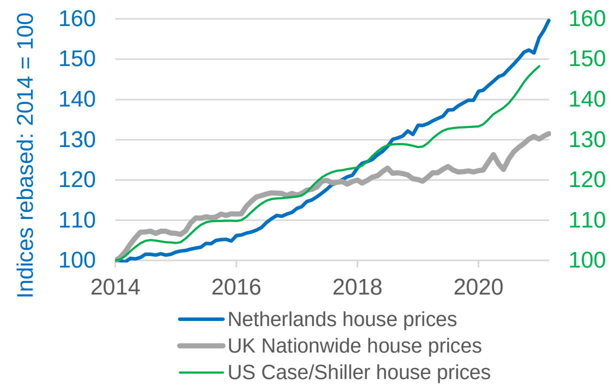
Real Estate has a key role in a diversified portfolio: in an increasingly low-yield world, Real Estate can play a key role in diversifying away from equities and bonds/credit, providing income that is generally inflation-hedged and which is hard to find today in fixed-income. Since 2001, global listed Real Estate has outperformed global equities, sovereign bonds and credit, delivering an annual average 6.3% euro return.

Good growth in US, EU property values



Source: Green Street

Cheap financing rates drive residential housing prices up



Source: Bloomberg.

Sectors: Warehouses in strong demand

Industrial/logistics: warehouse demand is very high in the US, UK and Continental Europe thanks to structural growth in online retail and reshoring of production. The sweetest spot is in warehouses and distribution centres close to major cities such as London, Paris, Amsterdam and Berlin.

Regional: Focus on UK recovery

UK REITs recover quickly as Brexit fears fade: with continued strength in domestic re-opening consumption growth, combined with a progressive return to offices by companies, UK listed real estate is performing well as a re-opening play.

Death of the office is greatly exaggerated

We will still need offices:
(1) Boosting team creativity and productivity;
(2) Clean separation between work and home life;
(3) Promotion prospects more limited when full-time remote working;
(4) Social interaction, mental wellbeing.

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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