C.I.A. NETWORK

Investment Strategy Navigator

May 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	+	Equity markets still in a clear uptrend: the key US, Europe, Japan and Emerging Markets stock indices remain well above their 200-day moving averages, pointing to clear uptrends.
		Markets	+	Regional bias to EM, Japan, eurozone, UK. Neutral on the US.
		Sectors	+	Upgrade Health care to Positive, Consumer Staples to Neutral (but HPC remains Negative); take Industrials, Materials down to Neutral (but Gold miners remain on "positive"). Current preference: Health Care, Financials (incl. Banks), EU Energy and Real Estate.
BONDS	-	Govies	- / +	On a 1-year horizon, the bear market is intact. 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 stay positive on US and eurozone IG bonds. We favour duration at benchmark (eurozone: 5 years, US: 8 years).
		High yield	=	We prefer to stay neutral on the HY asset class given tight valuations. We prefer fallen angels and rising stars as they offer a spread pick up.
		Emerging	+	We stay positive on EM bonds, both hard and local currency. We expect US Treasury yields and the dollar to stabilise and EM currencies should appreciate in the medium-term.

FOREX	/	EUR/GBP	=	We adjust our EURGBP targets (value of one euro) to 0.85 and 0.84 for the next 3 and 12 months (from 0.86). This suggests further upside for the GBP.
		EUR/NOK	=	We adjust our 3-month EURNOK target (value of one euro) to 9.8 (from 10.1) and our 12-month target to 9.6 (from 9.9).
		USD/CAD	=	We adjust our 3-month target to 1.24 and our 12-month target to 1.22 (from 1.25) for the USDCAD (value of one dollar). This suggests further appreciation for the CAD.
		EUR/USD	=	We keep our EURUSD target to 1.20 and 1.25 for the next 3 and 12 months, respectively. This suggests further upside for the euro.
COM MOS	+	Oil	=	Excess capacities are still huge and should come back progressively on the market. We expect Brent to trade around $65 in the coming months and higher at the end of the year. Neutral short term, positive medium term.
		Gold	+	Negative or very low real yields, inflation fears, perceived excessive money creation and expected USD weakness, should push gold back to $2000/oz or above.
		Base metals	+	Base metals are reaching new highs due to vaccination led recovery hopes, fiscal stimuli, focus on infrastructure and energy transition. A decline of the Chinese demand could bring some short term relief.
ALTERN ATIVES	/	Alt. UCITS	=/+	Upgrade Macro to positive and downgrade Long-Short Equity to neutral. We have a preference for Macro, Relative Value and Event Driven strategies.
REAL ESTATE	+	Real Estate	+	Real Estate attractive v Fixed Income. Residential benefits from housing shortages. US REITs on fire.

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 – 02/04/2021

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 – 02/04/2021

POSITIVE RISKS (EQUITIES)

1. The vaccine campaigns and new Covid treatments could led to faster and broader opening of economies. Demand could be boosted more than expected.

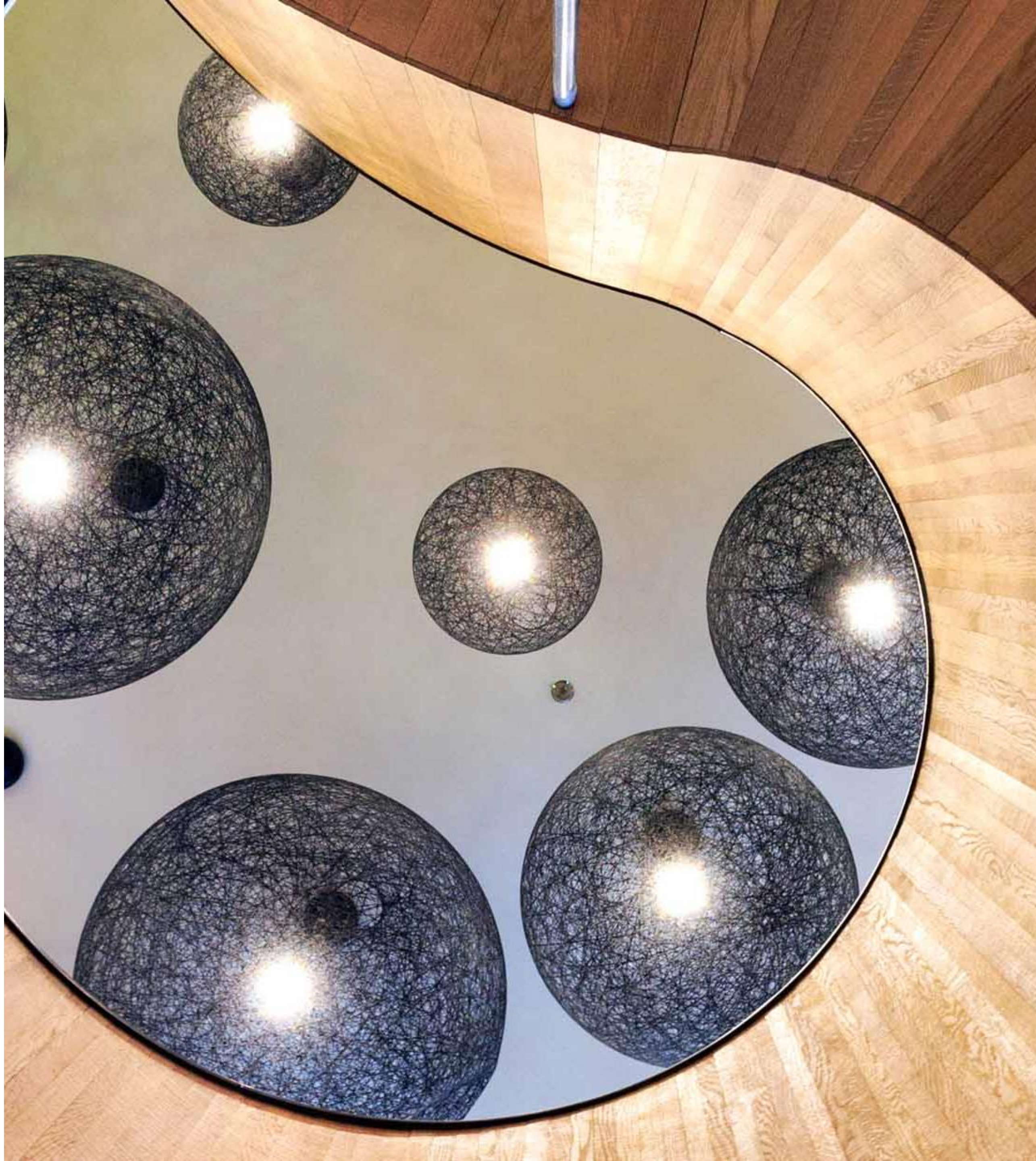
NEGATIVE RISKS

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. new Covid-19 strains could turn out to be resistant to Vaccines. It may delay the end of the pandemic and increase its cost.
3. The **Biden's** administration measures against China may raise back trade tensions and is a medium-term risk.
4. Political/Geopolitical risks remain elevated around the world. A renewed local conflict cannot be excluded.
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 Inflation
US Inflation
BCE Bank Lending Survey
Heat Map ECB
Heat Map FED



Economic growth and inflation

Major synchronized recovery expected

ECONOMIC GROWTH

We expect an overshoot of the pre-pandemic GDP levels with 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.

- In the US, Vaccination progress and the two historical plans should 'turbo charge' growth in 2021/22.
- We can expect a gradual recovery in the Eurozone from May with the removal of the sanitary restrictions and faster recovery from H2.
- COVID-19 vaccine distribution is accelerating and death rates should fall as vulnerable patients are being vaccinated. Hospitals are still under pressure. However, governments in industrial economies bet on the vaccination progress while re-opening their economies.

BNP Paribas Forecasts

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United Kingdom	1.5	-10.2	6.1	6
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* Fiscal year
Source: BNP Paribas – 02/04/2021

INFLATION

Vaccination progress and short term effects will lead to an overshoot in inflation. They should peak around year-end in the US and early 2022 in the Eurozone

- Inflation will continue to rise in the coming months. Most effects should however be temporary.
- 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 pressures should remain generally weak medium-term across both advanced and emerging economies.

BNP Paribas Forecasts

CPI Inflation %	2019	2020	2021	2022
United States	1.8	1.2	2.5	2.2
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EU Inflation

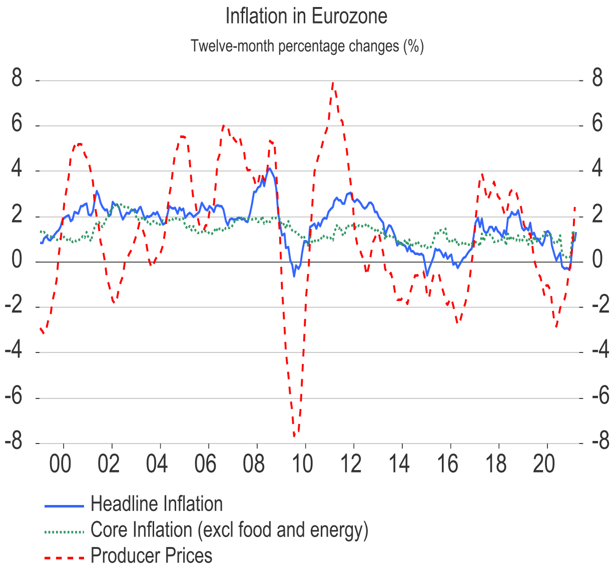
Temporary rise in Inflation with Balanced Risks

TEMPORARY SOURCES OF INFLATION

Inflation in the eurozone rose sharply at the start of the year. Even core inflation that excludes volatile components like energy and food is rising. The recent acceleration in inflation can be explained by temporary factors.

- Inflation in the eurozone rose sharply at the start of the year. Even core inflation that excludes volatile components like energy and food is rising (see chart). In the first three months of this year, inflation rose, reaching an average of +1.0% (year on year). This compares to -0.3% in December 2020 and an average of +0.3% in 2020 as a whole. Core inflation rose to an average of +1.1% for the first quarter of this year.

- The recent acceleration in inflation, can be explained by temporary factors: (1) changes in VAT, (2) higher energy prices and (3) changes in weights in the consumer price index. Business surveys of industrial opinion also suggest that there is a risk of delivery times in supply chains that are likely to maintain an upward pressure on inflation.



Source: Refinitiv Datastream, mars 21

DEFLATION VS INFLATION – BALANCED RISKS

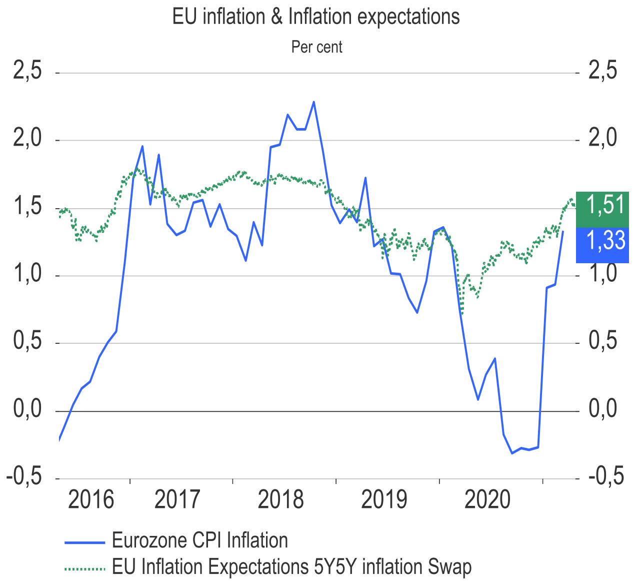
Inflation will rise further and temporarily exceed 2% this year. The temporary effects are expected to fade from the beginning of next year. All in all, we expect 1.7% and 1.4% this and next year. The risk of deflation versus inflation is more balanced now.

- Inflation could pick up further in the coming months and temporarily exceed 2% or even more in some countries such as Germany. These temporary effects are expected to fade from the beginning of next year.

- In addition, the structural weakness of the euro zone job market suggests that the likelihood of wage increases on a larger scale is low. This is also apparent from the analysis of the capacity utilisation rates of companies. However, the risk of 'self fulfilling' expectations should be monitored.

- 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). See chart.

- All in all we expect 1.7% and 1.4% this and next year. The risk deflation versus inflation in now more balanced.



Source: Refinitiv Datastream, mars 21

US Inflation

Sharp but temporary rise with Risks tilted to the Upside

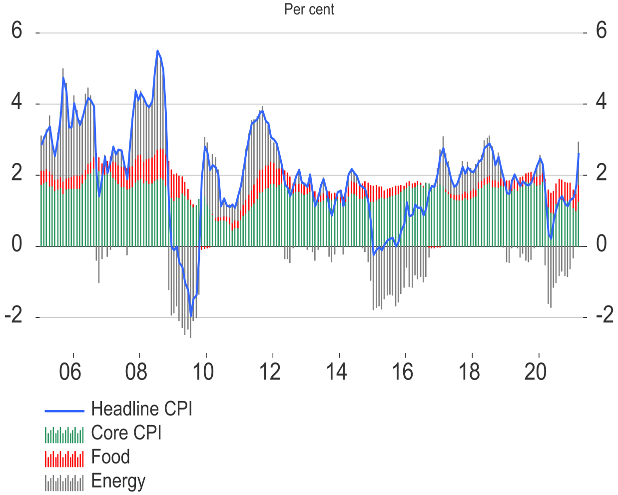
RECENT SOURCES OF INFLATION

In March, inflation was at 2.6% and could even rise to 3% in April. Energy and food price effects were key. Durable goods and travel also saw price increases.

- US consumer prices were up sharply. Energy and food price effects were key in recent months (see chart).
- In March, inflation hit 2.6% and could even rise to 3% in April. Base effects are likely to play a lot as prices will compare to very low levels seen the previous year
- The gradual removal of lockdown measures observed in recent weeks has led to an increase in US household demand for durable goods (automobiles, household equipment, etc.) or even travel.

US headline CPI and contributions

Per cent



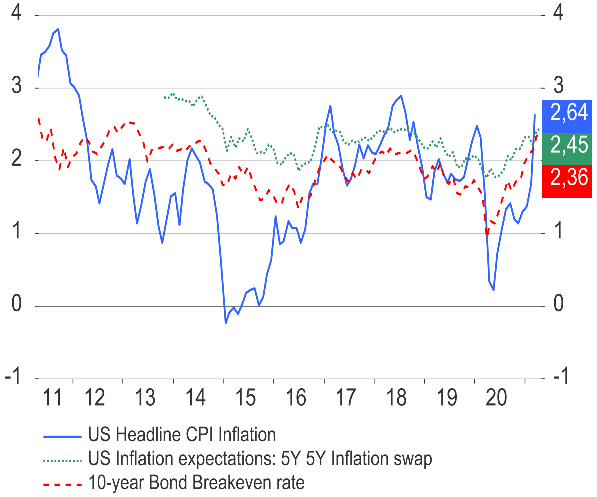
Source: Refinitiv Datastream, mars 21

RISKS TILTED TO THE UPSIDE MEDIUM-TERM

The sharp rise in inflation expected this year, especially in Q2 and Q3, should be transitory. Wages and prices should remain constrained by the slack on the job market. We expect 2.5% and 2.2% this and next year. The risk is however biased to the upside.

- The sharp rise in inflation expected this year, especially in Q2 and Q3, should be transitory. It should peak before the Eurozone, albeit at a higher level (above 3%).
- In the US wages and prices should remain constrained by the slack on the job market at least this year. There is a growing risk that we could see a faster than expected recovery in the job market thanks to the major stimulus programs, especially the multi-year one announced recently.
- As for the Eurozone, the key factors to monitor will be the evolution of input and especially output prices at the company level. Long-term inflation expectations will also be key (see chart).
- All in all we expect 2.5% and 2.2% this and next year. The risk of deflation versus inflation is now more balanced.

US inflation & inflation expectations



Source: Refinitiv Datastream, mars 21

EBC Bank Lending Survey

There is meaningful country-specific differences

MONITOR NEW CORPORATE LOANS

We are observing sustained loan growth in early 2021 compared to last year. However, the strong global growth rates mask negative growth in new corporate loans. Growth is very heterogeneous in the Eurozone (strong in France but weak in the Netherlands.

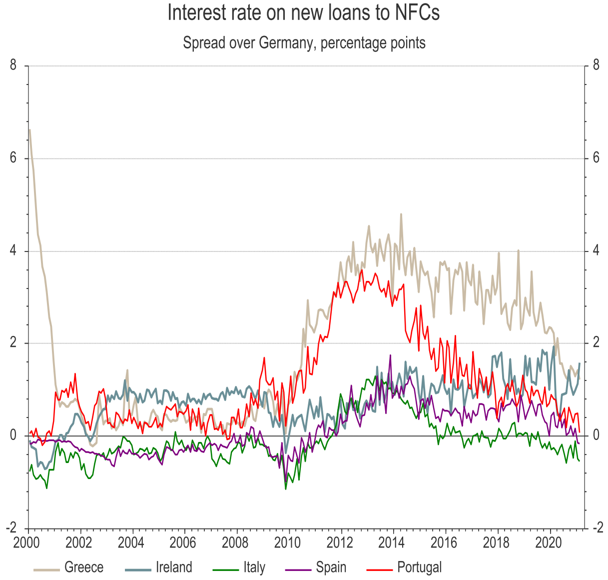
- Growth in total credit from MFIs picked up by 0.2pp to 9,8% in February.
- Credit to the public sector improved to 23.9% from 22.9%. It is the direct consequence of the ECB sovereign bond purchases. While lending to the private sector is unchanged at 4.5%. Growth in household loans is unchanged at 3.
- Credit to NFCs is up by 0.2pp to 7.1%. These y/y comparison masks an important slowdown in incremental terms as new corporate loans are down 12.1% based on the 3 month moving average in January. This needs monitoring.

Source: Refinitiv Datastream, févr. 21

RATES ARE STABLE AROUND RECENT AVERAGE LEVELS

We are observing stable lending rates at low levels. The loan-deposit ratio is steady at 97.5%, way below the early 2020 figures, while growth of monetary aggregates is still picking up with M3 at +12.3%.

- The ECB published the rates for the new corporate loans which remained broadly stable at a volume-weighted level of 1.51% but it was higher in small economies.
- Private sector deposit growth decelerated to 12.5% in February. While the Eurozone's loan-to-deposit ratio declined to 97.5% (104.5% in early 2020).
- Growth rate of M3 decelerated to 12.3% in February but is still one of the highest rates since late 2007. M1 is at 16.4%. The growth rate of monetary aggregates remains faster than that of private sector credit.



Source: Refinitiv Datastream, févr. 21

Heat Map ECB

RESTRICTIONS ARE GOING TO BE REMOVED GRADUALLY

The major trend in May will be the partial reopening of EU economies. The return to a much more favourable situation isn't expected before H2 but the Johnson & Johnson vaccine orders may help achieving high vaccination rates for the end of the summer.

- Approximately 15% of the Eurozone population who received at least one dose of a vaccine. Trade tensions between the EU and the UK may appear due to the non-respect of the contracts about the vaccines by AstraZeneca.

- The Eurozone is catching up and we still expect a strong recovery from the summer on when we move closer to herd immunity. However, there should be permanent scarring of the Covid-19 crisis but less than previously envisaged. In the second half of the year, we expect a very strong recovery with the pent-up demand, fiscal stimulus measures and a very accommodative ECB.

- The Manufacturing PMI has already been rising to 63.6 in April, an all-time highs for the Eurozone and above consensus expectations. The situation has also been improving for the Services PMI with a positive reading at 50.3, above the expectations. Retail Sales and Industrial Production in the Eurozone have still not recovered due to long lasting sanitary restrictions but the May figures may bring a positive surprise.

- The Citigroup Eurozone Economic Surprise index remains at a very elevated level of +165 at end-April, indicating that the stream of better-than-expected economic data releases continues in Europe despite current lockdown restrictions. This also bodes well for growth in future quarters.

Description	Type	Latest Release	10/2020	11/2020	12/2020	01/2021	02/2021	03/2021	04/2021
Hard data									
Industrial production y/y	% y/y	02 - 2021	-2.74	-0.57	0.00	-1.77	-3.04		
Retail Sales y/y	% y/y	02 - 2021	4.41	-1.91	0.83	-5.20	-2.81		
EuroCOIN	% q/q	03 - 2021	-59.89	-59.30	30.76	171.23	196.30	917.20	
Exports y/y	% y/y	02 - 2021	-9.00	-1.13	2.51	-8.94	-5.41		
Survey Indicators									
Composite PMI Index	Index	04 - 2021	50.00	45.30	49.10	47.80	48.80	53.20	53.70
Services PMI Index	Index	04 - 2021	46.90	41.70	46.40	45.40	45.70	49.60	50.30
Manufacturing PMI Index	Index	04 - 2021	54.80	53.80	55.20	54.80	57.90	62.50	63.30
- New orders Index	Index	04 - 2021	49.22	44.25	49.04	47.86	49.03	53.05	53.65
- New export orders Index	Index	04 - 2021	51.68	49.07	50.89	51.14	53.85	58.23	57.60
Economic Sentiment Indicator	Index	04 - 2021	9.90	110.60	192.20	108.30	157.30	165.20	132.10
Consumer confidence	Index	03 - 2021	-15.50	-17.80	-13.10	-13.80	-13.20	-9.90	
Household financial situation expectations	Index	03 - 2021	-4.00	-5.90	-3.00	-4.10	-3.60	-1.10	
Labour market and Wages									
Unemployment rate	%	02 - 2021	8.50	8.30	8.20	8.30	8.30		
US Unemployment rate	%	03 - 2021	6.90	6.70	6.70	6.30	6.20	6.00	
Employment	% y/y	02 - 2021	13.59	10.10	9.78	9.68	12.49		
Inflation									
Headline HICP	% y/y	03 - 2021	-0.28	-0.29	-0.27	0.91	0.94	1.33	
Core HICP	% y/y	03 - 2021	0.23	0.25	0.23	1.41	1.11	0.94	
Market based inflation expectations (5y5y forwards)	%	04 - 2021	1.17	1.21	1.26	1.29	1.35	1.53	1.50
Monetary Dynamics									
M1 y/y	% y/y	02 - 2021	13.00	13.60	14.60	15.50	15.40		
M2 y/y	% y/y	02 - 2021	9.72	10.06	10.99	11.42	11.36		
M3 y/y	% y/y	02 - 2021	9.95	10.35	11.64	11.75	11.47		
Forex									
EURUSD	FX rate	04 - 2021	0.85	0.84	0.82	0.82	0.82	0.85	0.83
NEER	Index	04 - 2021	109.46	108.39	109.59	108.93	109.15	108.08	109.26
Commodity Prices									
Brent Oil Prices USD	$b bl	04 - 2021	39.06	46.32	50.88	55.26	65.86	63.77	66.54
Brent Oil Prices USD	% y/y	04 - 2021	-37.06	-28.54	-26.54	-6.88	19.83	170.79	319.28
Credit Conditions									
Debt securities issued by NFCs m/m	% m/m	02 - 2021	-15.39	-36.85	-448.74	-143.01	34.10		
Debt securities issued by NFCs y/y	% y/y	02 - 2021	107.99	-41.34	-28.94	-56.35	-51.40		
Debt securities issued by MFI m/m	% m/m	02 - 2021	-0.39	-0.73	-1.40	1.06	-0.27		
Debt securities issued by MFI y/y	% y/y	02 - 2021	1.42	0.19	-0.47	-1.33	-1.92		
Composite cost of borrowing indicator - NFCs	%	02 - 2021	1.53	1.51	1.51	1.51	1.48		
Composite cost of borrowing indicator - Households	%	02 - 2021	1.36	1.35	1.32	1.33	1.31		
Interest rate on loan up to €0.25 million	%	02 - 2021	1.95	2.00	2.04	2.16	1.99		
IG credit spread	Index	04 - 2021	1.11	0.93	0.93	0.91	0.89	0.92	0.85
HY credit spread	Index	04 - 2021	4.43	3.62	3.47	3.38	3.11	3.14	2.96
Financial Markets									
Financial conditions index	Index	03 - 2021	-1.68	-1.76	-1.63	-2.55	-2.51	-2.32	
Eurostoxx Index	Index	04 - 2021	348.59	390.82	396.07	402.31	405.70	427.79	443.79
VIX index	Index	04 - 2021	32.46	21.25	21.53	23.02	27.95	18.86	17.64
10 year Bund Yield	%	04 - 2021	-0.57	-0.59	-0.54	-0.56	-0.29	-0.39	-0.30
Average peripheral spreads	bps	04 - 2021	2.81	2.39	2.38	2.31	2.30	2.15	2.38

Source: Refinitiv DataStream / BNP PARIBAS - WM

Heat Map FED

STRONG RECOVERY ONGOING

The Biden's fiscal stimulus is beginning to bears fruits. We can actually see the first positive signals boosted by the reopening in most states. The PMIs are reaching all time highs.

- The Manufacturing PMI has reached 60.6 in April, an all time high while Services PMI is picking up to 63.1 also an all time high. Due to the Covid-19, most countries have very low Services PMI and the US situation with higher Services than Manufacturing PMI is very rare.
- Unemployment is rapidly falling and we observed the first decrease in the Initial Jobless Claims in March compared to last year. The NFIB is still on an upward trend with +2.4pts since last month. We still expect more upside for the Small and Medium Size Enterprise sentiment over the coming months with the country approaching herd immunity.
- The Biden's « Build Back Better » plan could bring another 2.5$trn for the recovery while the fiscal stimulus is still ongoing.
- The vaccination progress in the US is very important and turbo charged the US economic outlook. More than one third of the population (36%) received at least one dose while 22% of the population is fully vaccinated. More than three quarters of the elderly (above 65 years old) received at least one dose (78.5%) while 61% of them received the two doses. This progress is very encouraging for the future and we expect the US to move close to herd immunity by the summer.

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Hard data									
Industrial production y/y	% y/y	03 - 2021	-4.71	-4.73	-3.42	-2.11	-4.77	1.02	
Capacity Utilisation	%	03 - 2021	73.24	73.91	74.67	75.34	73.36	74.39	
Retail Sales y/y	% y/y	03 - 2021	5.60	3.80	2.30	9.40	6.50	27.90	
Industrial new orders y/y	% y/y	02 - 2021	-2.53	-0.18	-0.28	2.85	1.86		
Survey Indicators									
Composite PMI Index	Index	04 - 2021	56.30	58.60	55.30	58.70	59.50	59.70	62.20
Services PMI Index	Index	04 - 2021	56.90	58.40	54.80	58.30	59.80	60.40	63.10
Manufacturing PMI Index	Index	04 - 2021	53.40	56.70	57.10	59.20	58.60	59.10	60.60
- New orders Index	Index	03 - 2021	66.90	65.70	67.50	61.10	64.80	68.00	
- New export orders Index	Index	03 - 2021	75.00	71.00	75.00	75.00	73.00	76.00	
- Orders Inventory Ratio	Index	03 - 2021	1.10	1.10	1.30	0.90	1.00	1.20	
Economic Sentiment Indicator	Index	04 - 2021	113.20	80.80	43.80	69.70	86.50	24.40	38.40
Consumer confidence	Index	04 - 2021	81.80	76.90	80.70	79.00	76.80	84.90	86.50
Household financial situation expectations	Index	04 - 2021	79.20	70.50	74.60	74.00	70.70	79.70	79.70
Labour market and Wages									
Unemployment rate	%	03 - 2021	6.90	6.70	6.70	6.30	6.20	6.00	
Initial Jobless Claims	%	03 - 2021	249.30	273.00	258.70	283.00	242.70	-78.00	
Employment	% y/y	03 - 2021	-5.49	-5.51	-5.61	-5.44	-5.35	-3.01	
Real Wages	% y/y	03 - 2021	4.53	4.52	5.47	5.24	5.23	4.24	
Inflation									
Headline CPI	% y/y	03 - 2021	1.20	1.14	1.30	1.37	1.68	2.64	
Core CPI	% y/y	03 - 2021	1.63	1.66	1.62	1.40	1.28	1.65	
Core PCE	% y/y	02 - 2021	1.40	1.40	1.50	1.50	1.40		
Market based inflation expectations (5y5y forwards)	%	04 - 2021	2.40	2.50	2.50	2.70	2.70	2.80	2.70
Monetary Dynamics									
M1 y/y	% y/y	02 - 2021	342.60	345.40	344.80	350.90	357.10		
M2 y/y	% y/y	02 - 2021	23.80	24.40	24.90	25.90	27.10		
Forex									
EURUSD	FX rate	04 - 2021	0.85	0.84	0.82	0.82	0.82	0.85	0.83
NEER	Index	04 - 2021	109.46	108.39	109.59	108.93	109.15	108.08	109.26
Commodity Prices									
Brent Oil Prices USD	$b bl	04 - 2021	39.06	46.32	50.88	55.26	65.86	63.77	66.54
Brent Oil Prices USD	% y/y	04 - 2021	-37.06	-28.54	-26.54	-6.88	19.83	170.79	319.28
Food Prices	% y/y	03 - 2021	2.18	0.91	1.24	1.41	4.47	5.05	
Credit Conditions									
Debt securities issued by MFI m/m	% m/m	03 - 2021	1.68	2.83	1.00	1.59	1.64	1.76	
Debt securities issued by MFI y/y	% y/y	03 - 2021	18.35	21.15	22.41	23.94	24.31	22.01	
Interest rate on loan up to €0.25 million	%	03 - 2021	4.90	4.70	4.80	4.90	4.90	5.10	
IG credit spread	Index	04 - 2021	1.11	0.93	0.93	0.91	0.89	0.92	0.85
HY credit spread	Index	04 - 2021	4.43	3.62	3.47	3.38	3.11	3.14	2.96
Financial Markets									
Financial conditions index	Index	03 - 2021	-0.47	-0.57	-0.62	-0.62	-0.64	-0.66	
S&P500 Index	Index	04 - 2021	3400.97	3629.65	3703.06	3849.62	3811.15	3974.54	4187.62
VIX index	Index	04 - 2021	32.46	21.25	21.53	23.02	27.95	18.86	17.64
10 year US Yield	%	04 - 2021	-0.93	-0.89	-1.05	-1.02	-0.74	-0.68	-0.79

Source: Refinitiv DataStream / BNP PARIBAS - WM

03

Fixed income

Central Banks

Bond yields and Inflation expectations

Government Bonds

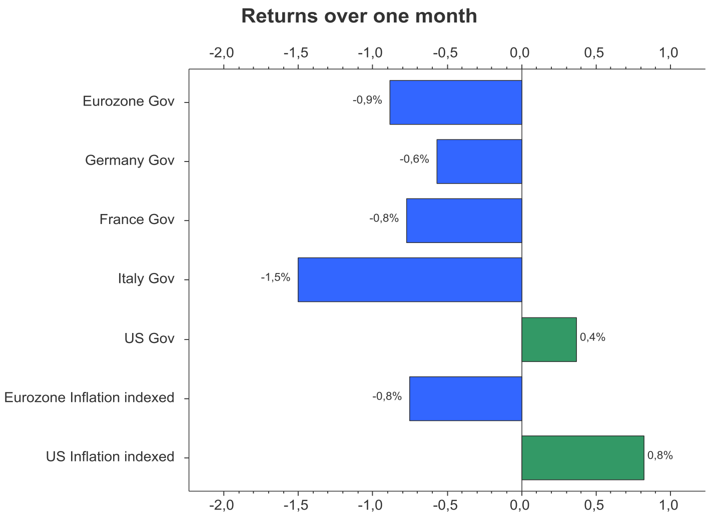
Corporate Bonds

Emerging Market Bonds

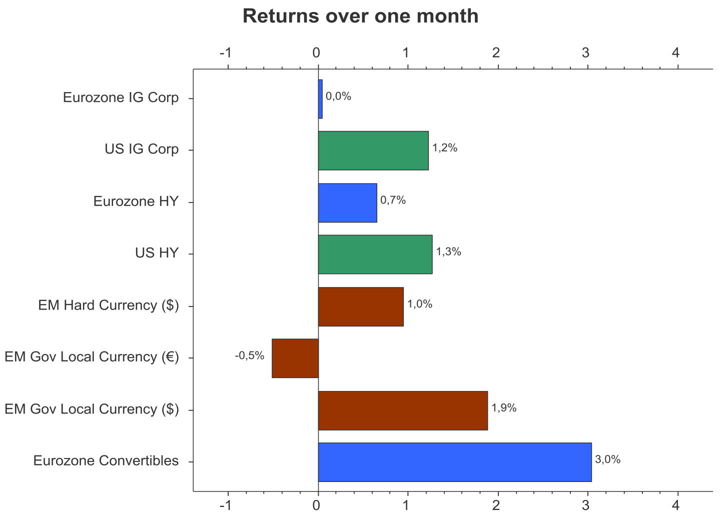
Fixed income at a glance

Valuations recovered in April after a terrible first quarter. Credit and emerging markets in particular recovered as long-term bond yields retraced.

The major selloff seems behind us. We expect calmer markets in the very short term until the Fed and ECB meetings in June.



Source: Refinitiv Datastream, 27/04/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)



Source: Refinitiv Datastream, 27/04/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)

Central Banks

The tapering of the QE programmes is the main subject for the Fed and the ECB. Hawks will be more vocal at the June meetings as projections will show the economic recovery but both Committees will prefer to focus on actual data. We expect a tapering at the Fed in December and the ECB not to extend its PEPP beyond March 2022.

Government Bonds

Long-term rates could stabilise in the very short-term. On a 1-year horizon, the bear market is intact. 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 are neutral on peripheral bonds. Spreads could decrease in the very short term thanks to the ECB's commitment to increase its pace of purchase, before widening ahead of the ECB meeting in June as ECB hawks will be vocal.

Corporate Investment Grade (IG) Bonds

We stay positive on US and eurozone IG bonds as we expect long-term bond yields to stabilise for now before the summer. Valuations are tight but the environment remains positive. We favour duration at benchmark (eurozone: 5 years, US: 8 years).

Corporate High Yield (HY) Bonds

We prefer to stay neutral on the HY asset class given tight valuations. Valuations are already pricing an improvement in fundamentals which remains to be seen. We prefer fallen angels and rising stars as they offer a spread pick up.

Emerging Market (EM) Bonds

We stay positive on EM bonds, both hard and local currency. We expect US Treasury yields and the dollar to stabilise and EM currencies should appreciate in the medium-term.

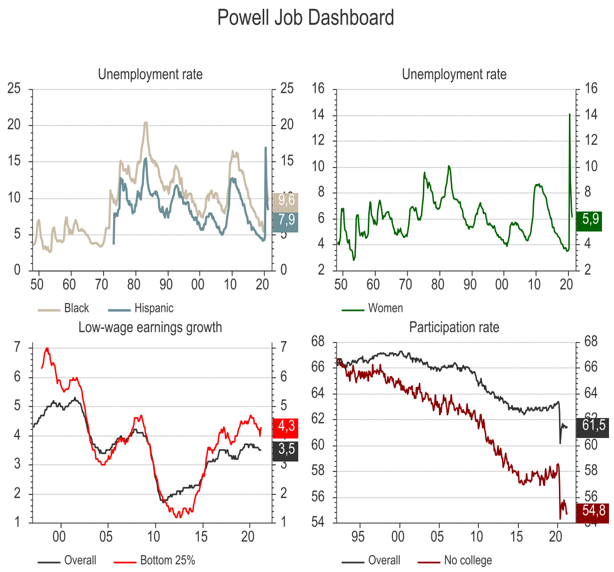
Central banks

A long way from rate hikes

THE FED

We expect the tapering to be decided at the December meeting, but there is a growing risk that it could be in September. That will depend on the progress the economy makes relative to the Fed's two goals: inflation (2% average) and maximizing employment.

- The Fed noted some progress on activity and employment at the April meeting, but not substantial enough to trigger a discussion on tapering.
- Some Fed members want to link the tapering to a certain level of vaccination (75% was cited by Fed's Bullard). That level could be reached during the summer.
- The Jackson Hole meeting (in August) is already planned to be virtual. Therefore, we can expect tapering discussions to occur at the September meeting and possibly the decision being taken in December.
- The decision is very data dependent as the Fed will make sure first that inflation is on track to reach and exceed 2% and that the labour market recovers for all Americans (see chart).

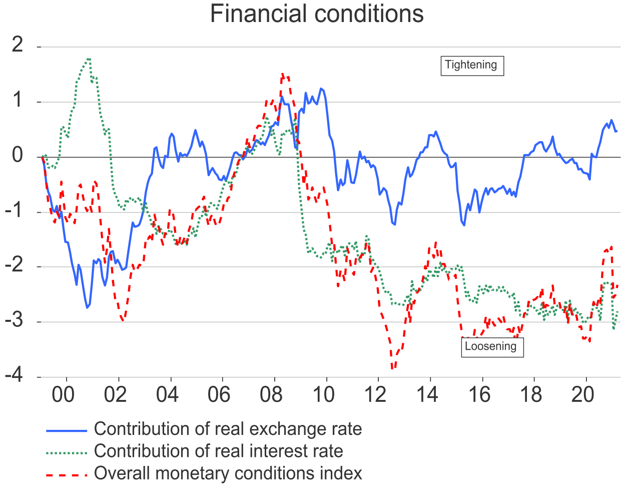


Source: Refinitiv Datastream, mars 21

THE ECB

The June meeting is unlikely to be a repeat of the quiet April meeting. Hawks will call for a PEPP tapering and the Executive Board will pushed back against that idea. The pace of vaccination will be key. We expect the ECB to stay dovish for the foreseeable future.

- The ECB maintained its dovish stance at the April meeting and insisted that the pace of PEPP purchases is being increased. Talks about tapering are premature.
- The overall tone was balanced, recognizing near term challenges from infections and tightening of restrictions, and also optimism on the vaccination campaign and stronger economic rebound.
- The ECB meeting in June will contain a fresh set of economic projections. Given the pace of vaccination, they will likely be improved and hawks will repeat calls for PEPP tapering.
- We expect the PEPP not be extended beyond March 2022. The ECB may communicate on that matter after the summer. Meanwhile, the ECB will insist on maintaining favourable financial conditions (see chart).



Source: Refinitiv Datastream, mars 21

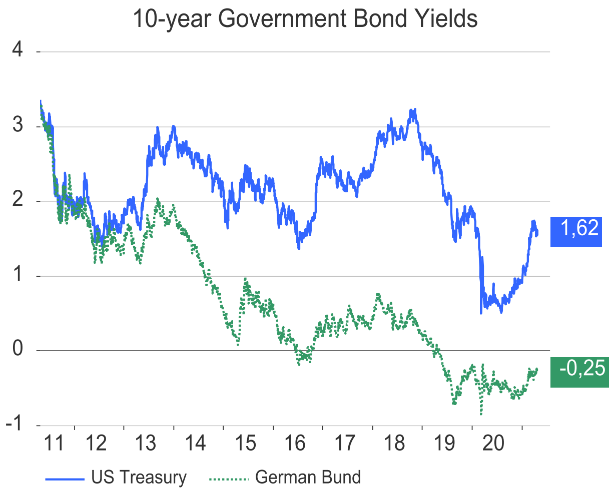
Bond yields and Inflation expectations

Short-term pause in a bear market

BOND YIELDS

After a short-term pause, long-term bond yields move higher once again as actual data confirms the recovery in activity. 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). Long-term rates declined in April, notably in the US where the 10-year note moved back from an oversold position as investors, both foreign (Japanese etc) and domestic (US public and corporate pension funds) stepping in.
- After the pause, we expect long-term bond yields to climb higher, maybe starting in the summer when actual data will show the pent-up demand and higher inflation. We expect the US 10-year yield to rise to 2% in 12 months.
- The ECB has successfully contained the German 10-year yield so far. That force should diminish as the ECB starts talking about ending the net purchase of the PEPP. Our target is 0% for the German 10-year yield in 12 months.

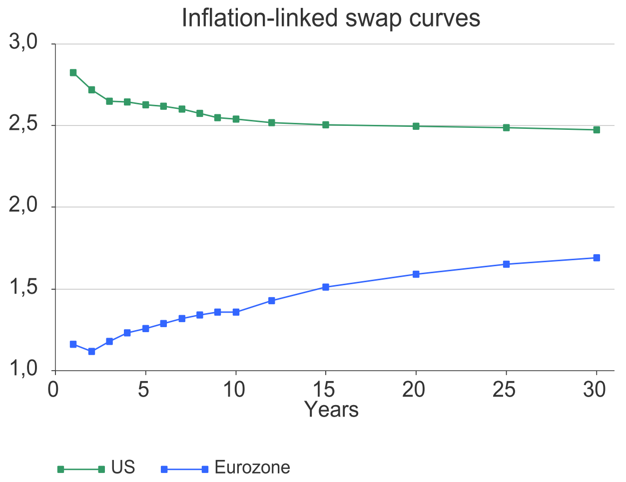


Source: Refinitiv Datastream, 28/04/2021

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 rally in US and eurozone inflation expectations has stalled in April.
- Inflation is likely to increase further in the short term but long-term, disinflationary forces (aging population, technology) are still in place.
- The inflation curve is inverted in the US (see chart), implying a temporary surge and a normalisation in a few years' time. That is the result of the new Fed's FAIT (Flexible Average Inflation Targeting) regime, which tolerates on inflation overshoot in the short-term.
- Inflation-linked bonds seem fairly valued to us, with breakevens having limited upside. Given our outlook for higher long-term rates, we prefer to stay neutral on inflation-linked bonds. We prefer floating rate notes or funds that actively manage duration in order to hedge against inflation, especially in the US.



Source: Refinitiv Datastream, 27/04/2021

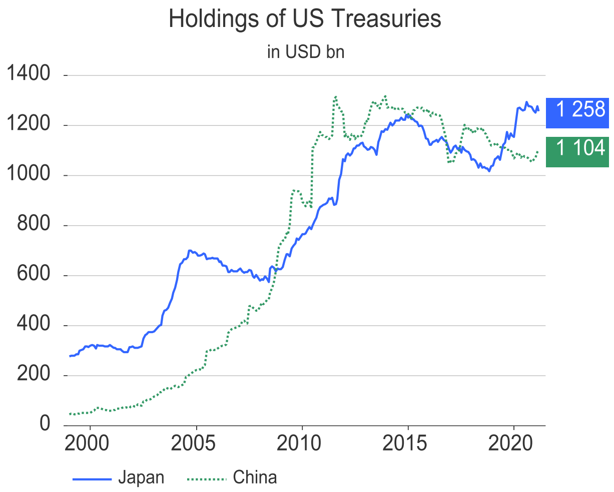
Government Bonds

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.

- Bond auctions in April went smoothly in both the US and the eurozone, even in Italy where the Prime Minister substantially increases the country's debt.
- US public and corporate pension funds rebalanced their portfolio from equities to bonds as yields reached higher levels. Foreign investors also bought Treasuries (see chart) as yields has became attractive on a currency-hedge basis relative to domestic yields.
- We stay negative on long-term US and German government bonds, assuming another leg higher in bond yields in the summer.
- We stay positive on US short-term government bonds. That part of the yield curve should remained pinned by the Fed. Expected returns are limited.

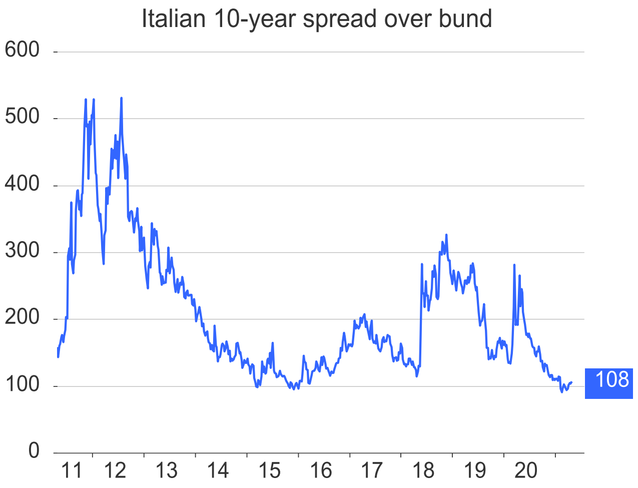


Source: Refinitiv Datastream, févr. 21

EUROZONE PERIPHERAL BONDS

We are neutral on peripheral bonds. Spreads could decrease in the very short term thanks to the ECB's commitment to increase its pace of purchase, before widening ahead of the ECB meeting in June as ECB hawks will be vocal.

- Bond sales attracted solid demand, even ultra-long bonds (Italy 50-year bond). The Italian market doesn't seem very perturbed by the huge spending plan (see chart).
- The ECB and the EU recovery plan acts as a backstop. The ECB insisted that the pace of PEPP purchases is being increased. Yet, the move is not impressive so far.
- Bond yields and spreads increased in April as investors sold existing bonds to make room for new issuances.
- Spreads are likely to retrace in the very short-term thanks to the ECB. Then they could widen ahead of the ECB meeting in June as ECB hawks are likely to be vocal and ask for reducing the PEPP pace of purchase.
- We stay neutral on peripheral bonds.



Source: Refinitiv Datastream, 28/04/2021

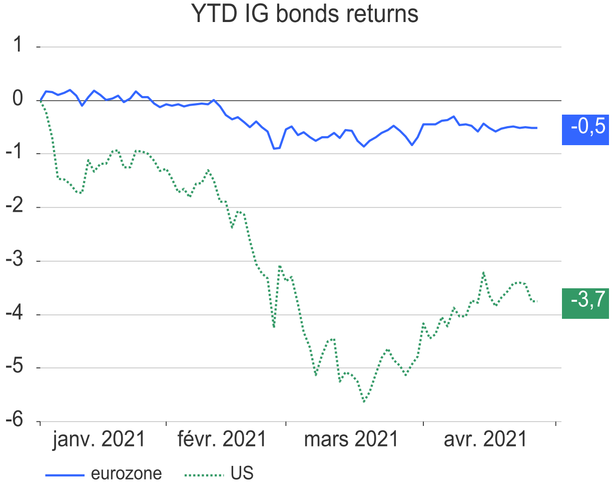
Corporate Bonds

Tight spreads but could go tighter

INVESTMENT GRADE (IG)

We stay positive on US and eurozone IG bonds as we expect long-term bond yields to stabilise for now before the summer. Valuations are tight but the environment remains positive. We favour duration at benchmark (eurozone: 5 years, US: 8 years).

- US IG bonds partially recovered after a terrible 1Q while eurozone IG bonds remained broadly flat (see chart).
- Spreads are low and close to the tight end of the multi year range. They benefit from the ultra loose monetary policy, the improvement in the economy and favorable technicals, although supply is likely to increase temporarily post the earnings season.
- May seasonality is typically negative for credit
- Expected returns are low in the eurozone due to the low level of yields.
- The biggest risk is an earlier-than-expected market repricing of the Fed tapering. That risk should not materialise before the summer. We stay positive on IG bonds.

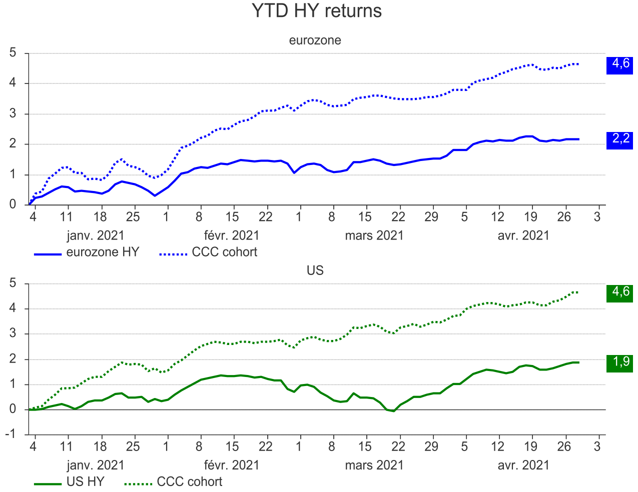


Source: Refinitiv Datastream, 28/04/2021

HIGH YIELD (HY)

We prefer to stay neutral on the HY asset class given tight valuations. Valuations are already pricing an improvement in fundamentals which remains to be seen. We prefer fallen angels and rising stars as they offer a spread pick up.

- The HY asset class continued to fare well, driven by the lower-rated cohort (see chart).
- CCC bonds, which tend to behave more like equities, benefit fully from the expected recovery. The number of distressed debt (HY bonds trading with spreads below 1000bps) fell to a 14-year low thanks to cheap borrowing and investor demand for yield.
- The primary market is running hot, notably in the US, where April is already the busiest month on record for high yield debt issuance, following a record first quarter.
- The access to capital remains is good but the health of the HY market remains mixed. The default rate has begun to flatten (from 6.4% in February to 6.3% in March in the US according to S&P) but remains near the highest levels since the 2007-2009 financial crisis.



Source: Refinitiv Datastream, 27/04/2021

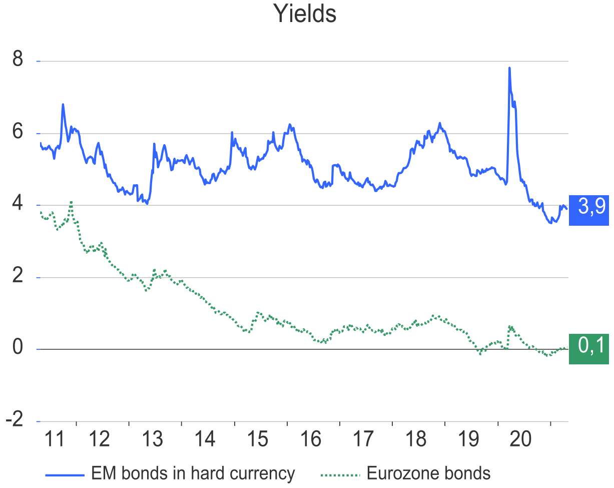
Emerging Market Bonds

EM bonds are attractive

EM BONDS IN HARD CURRENCY

We stay positive on EM bonds in hard currency. The current and expected stabilisation in US real rates should help EM to outperform after the difficult beginning of the year.

- EM bonds in hard currency suffered in 1Q because of the sharp rise of US real yields, but have partially recovered in April.
- The stabilisation of US real interest rates as well as the dollar weakness we expect should allow Emerging Market bonds to continue to pick up.
- The International Monetary Fund is expected to distribute USD 650 billion of new Special Drawing Rights by the summer to emerging countries. Those liquidity provisions will help them to combat the economic effects of the pandemic.
- EM offer attractive yields compared to developed economies (see chart).
- The slower vaccine rollout in EM is a drag.

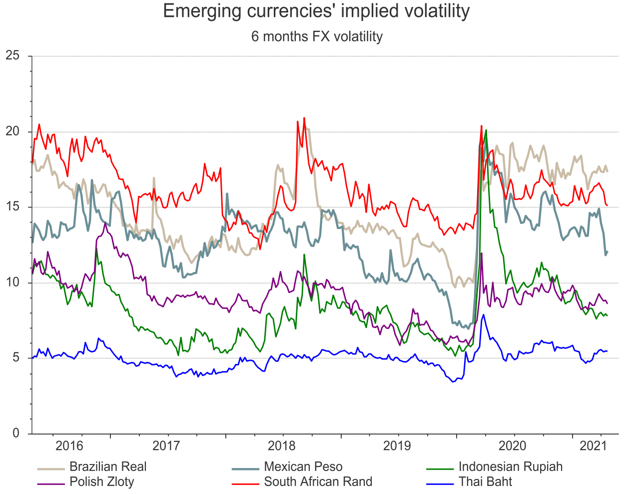


Source: Refinitiv Datastream, 28/04/2021

EM BONDS IN LOCAL CURRENCY

We keep a positive stance on EM bonds in local currency given our outlook for a stabilisation in US rates and dollar. EM local bond can post positive returns considering the elevated yield.

- Sentiment weakened as India is hit hard by the Covid and Russia was sanctioned by the US. Yet, EM local bond posted positive returns in April as yields dropped and currencies stabilised.
- EM currency volatility declined (see chart).
- After the month of March that saw a few central banks surprising the market by hiking rates more than expected, in April, the only notable surprise was the central bank of Russia that hiked rates again, though more to respond to the US sanctions than for inflation fears.
- Inflation is likely to rise gently from historic low levels in EMs. Thus inflation fears seem overdone.
- EM FX is driven mostly by global USD liquidity conditions, growth expectations and short-term real rates. We expect EM currencies to appreciate further in the medium-term.



Source: Refinitiv Datastream, 27/04/2021

04

Forex

VS EUR

VS USD

Forex at a glance

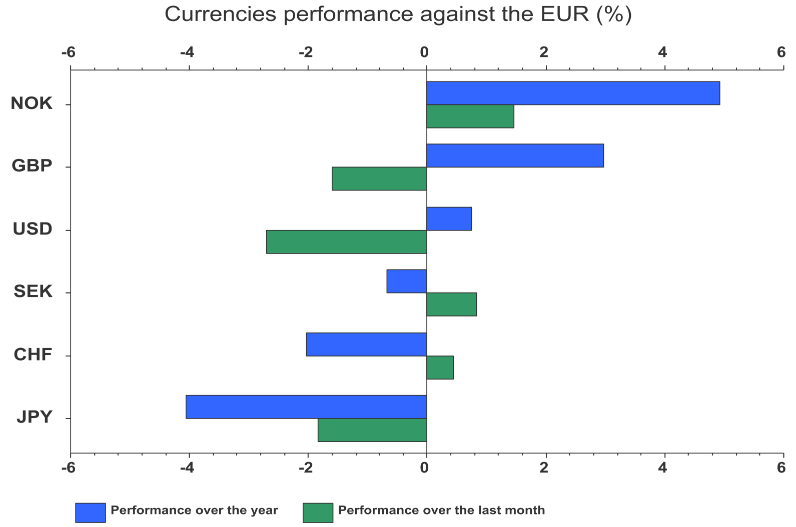
The dollar index has depreciated every week of April so far, with rate expectations cooling. Treasury yields also fell back. As we expected, the dollar started to weaken again. We keep our bullish scenario and expect the EURUSD to stabilize around current levels (1.20, value of 1 euro) and 1.25 over the next 12 months.

We expect the GBP to benefit from the earlier reopening of its economy. We adjust our 3- and 12-month EURGBP targets to 0.85 and 0.84 (value of one euro), respectively.

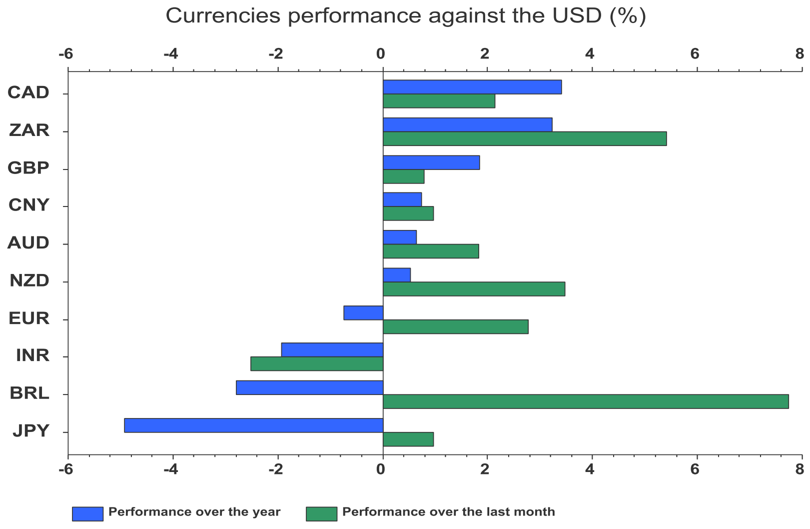
We still believe that the NOK will benefit the most from the reopening among the G10 currencies. The SEK also has further room for appreciation, but to a much lesser extent. We adjust our 3m target to 9.8 for the EURNOK and to 10.0 for the EURSEK (value of one euro). Our 12m targets are now 9.6 and 10.0, respectively.

We still foresee the BRL and MXN to appreciate over the year, but less than previously expected as the domestic scenarios warrant some caution. We update our 12m targets for the USDBRL and USDMXN to 4.8 and 19.0, respectively.

The Bank of Canada has started tapering and could hike rates towards end-2022. We update our 12m USDCAD target to 1.22.

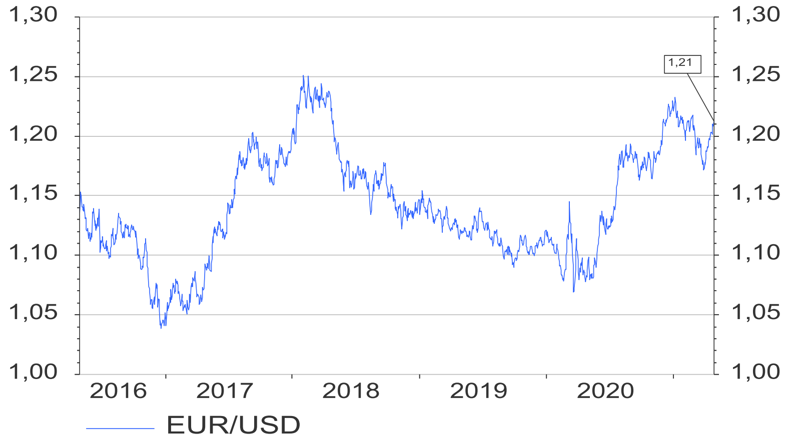


Source: Refinitiv Datastream, 28/04/2021



Source: Refinitiv Datastream, 28/04/2021

EUR/USD



Source: Refinitiv Datastream, 28/04/2021

	Country	Spot 29/04/21		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.21	1.20	1.25
	United Kingdom	EUR / GBP	0.87	0.85	0.84
	Switzerland	EUR / CHF	1.10	1.08	1.11
	Japan	EUR / JPY	131	133	139
	Sweden	EUR / SEK	10.12	10.0	10.0
	Norway	EUR / NOK	9.95	9.80	9.60
Against dollar	Japan	USD / JPY	109	111	111
	Canada	USD / CAD	1.23	1.24	1.22
	Australia	AUD / USD	0.78	0.78	0.80
	New Zealand	NZD / USD	0.72	0.72	0.75
	Brazil	USD / BRL	5.34	5.30	4.80
	Russia	USD / RUB	74.39	74.0	68.0
	India	USD / INR	74.20	75.0	75.0
	China	USD / CNY	6.47	6.60	6.50

Source: Refinitiv Datastream

Our position for this month

Evolution of our position from last month

VS. EUR

Outlook for currencies versus EUR

Region	Country		Spot 29/04/2021	Trend	Target 3 months (vs EUR)	Trend	Target 12 months (vs EUR)
	United States	EUR / USD	1.21	Neutral	1.20	Negative	1.25
	United Kingdom	EUR / GBP	0.87	Positive	0.85	Positive	0.84
	Japan	EUR / JPY	132	Neutral	133	Negative	139
	Switzerland	EUR / CHF	1.10	Neutral	1.11	Negative	1.14
	Australia	EUR / AUD	1.56	Neutral	1.54	Neutral	1.56
	New-Zealand	EUR / NZD	1.67	Neutral	1.67	Neutral	1.67
	Canada	EUR / CAD	1.49	Neutral	1.49	Negative	1.53
	Sweden	EUR / SEK	10.12	Neutral	10.00	Neutral	10.00
	Norway	EUR / NOK	9.95	Neutral	9.80	Positive	9.60
Asia	China	EUR / CNY	7.84	Neutral	7.92	Negative	8.13
Asia	India	EUR / INR	89.8	Neutral	90.0	Negative	93.75
Latam	Brazil	EUR / BRL	6..48	Neutral	6.36	Positive	6.00
EMEA	Russia	EUR / RUB	90.2	Neutral	88.8	Positive	85

Source: Refinitiv Datastream

We are positive on the GBP and the Scandinavian currencies as we expect a strong global recovery to support risk appetite this year. Equities, commodity prices and global growth should drive the appreciation of those currencies.

- Most of the positive factors supporting the GBP are priced in but there are still reasons to believe that the currency could appreciate further. Value stocks tend to do best in a weak dollar environment. Given their high weighing in UK equity indices, this should drive inflows. Moreover, the GBP is quite sensitive to the global equity sectors that the pandemic hit the most.
- The process and outlook for reopening is quite positive for the GBP.
- Also supportive is the fact that the real 2-year yield differential suggests that the GBP remains undervalued against the euro.
- **Therefore, we adjust our EURGBP targets (value of one euro) to 0.85 and 0.84 for the next 3 and 12 months (from 0.86). This suggests further upside for the GBP.**
- In Norway, the manufacturing PMI reached 60.1 in March, a 30-month high. Higher oil prices combined with the central bank having pulled forward its rate path suggest a 50% probability of a rate hike by year-end. This together with the positive global outlook, should support the NOK. **Therefore, we adjust our 3-month EURNOK target (value of one euro) to 9.8 (from 10.1) and our 12-month target to 9.6 (from 9.9).**
- The SEK should not see the same support from the Riksbank, which is much more dovish. The economy has a smaller services sector than other G10 economies, limiting the upside linked to reopening. Nevertheless, the improved global growth should support the SEK. **Therefore, we adjust our EURSEK targets to 10.0 (from 10.2) over the next 3 and 12 months (value of one euro).**

VS. USD

Outlook for currencies versus USD (1)

	Country		Spot 29/04/2021	Trend	Target 3 months (vs USD)	Trend	Target 12 months (vs USD)
	Eurozone	EUR / USD	1.21	Neutral	1.20	Positive	1.25
	United Kingdom	GBP / USD	1.40	Neutral	1.41	Positive	1.49
	Japan	USD / JPY	109	Neutral	111	Neutral	111
	Switzerland	USD / CHF	0.91	Neutral	0.93	Neutral	0.91
	Australia	AUD / USD	0.78	Neutral	0.78	Positive	0.80
	New-Zealand	NZD / USD	0.72	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	1.23	Neutral	1.24	Neutral	1.22
Asia	China	USD / CNY	6.47	Negative	6.60	Neutral	6.50
	India	USD / INR	74.2	Neutral	75.0	Neutral	75.0
Latam	Brazil	USD / BRL	5.34	Neutral	5.30	Positive	4.80
	Mexico	USD / MXN	19.93	Neutral	19.7	Positive	19.0
EMEA	Russia	USD / RUB	74.39	Neutral	74.0	Positive	68.0
	South Africa	USD / ZAR	14.25	Neutral	14.5	Negative	15.0
	USD Index	DXY	90.60	Neutral	91.4	Negative	88.4

Source: Refinitiv Datastream

The dollar sentiment remains bearish: the trade and current account deficit is widening. When other countries narrow the growth gap with the US later this year, the US could see large equity outflows from foreigners. The two-year yield differential should remain low. This environment suggest a weaker dollar.

- The 10Y US bond yield rose strongly in Q1 but it is now -18.3bps lower than the March 31 closing highs of 1.74%.
- Despite strong US growth, US 2Y real yields have continued to decline relative to trading partners.
- The market is quite hawkish relative to the Fed dots. This seems exaggerated.
- Vaccination campaigns are picking up in Europe, which will help the euro narrow the GDP gap with the US strongly in Q2 and Q3. This should support the euro.
- **Therefore, we keep our EURUSD target at 1.20 and 1.25 for the next 3 and 12 months, respectively. This suggests further upside for the euro.**
- The Bank of Canada has announced that it will reduce the weekly pace of government bond purchases. Even before this announcement, the BoC's balance sheet was already shrinking.
- The BoC also noted that it now expects the Canadian economy to return to full employment in H2 2022, which could mean a first rate hike by the end of next year. This is quite supportive for the CAD.
- Given the importance of the United States for Canada's exporters, the BoC should however remain sensitive to the strength of the CAD.
- **Therefore, we adjust our 3-month target to 1.24 (from1.25) and our 12-month target to 1.22 (from 1.25) for the USDCAD (value of one dollar). This suggests further appreciation for the CAD.**

VS. USD

Outlook for currencies versus USD (2)

	Country		Spot 29/04/2021	Trend	Target 3 months (vs USD)	Trend	Target 12 months (vs USD)
	Eurozone	EUR / USD	1.21	Neutral	1.20	Positive	1.25
	United Kingdom	GBP / USD	1.40	Neutral	1.41	Positive	1.49
	Japan	USD / JPY	109	Neutral	111	Neutral	111
	Switzerland	USD / CHF	0.91	Neutral	0.93	Neutral	0.91
	Australia	AUD / USD	0.78	Neutral	0.78	Positive	0.80
	New-Zealand	NZD / USD	0.72	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	1.23	Neutral	1.24	Neutral	1.22
Asia	China	USD / CNY	6.47	Negative	6.60	Neutral	6.50
	India	USD / INR	74.2	Neutral	75.0	Neutral	75.0
Latam	Brazil	USD / BRL	5.34	Neutral	5.30	Positive	4.80
	Mexico	USD / MXN	19.93	Neutral	19.7	Positive	19.0
EMEA	Russia	USD / RUB	74.39	Neutral	74.0	Positive	68.0
	South Africa	USD / ZAR	14.25	Neutral	14.5	Negative	15.0
	USD Index	DXY	90.60	Neutral	91.4	Negative	88.4

Source: Refinitiv Datastream

We continue to expect the BRL and MXN to appreciate over the year, but domestic uncertainties could limit the upside. The covid-19 crisis and concerns around debt should thus cap the potential of those currencies.

- The BRL was one of the best performing currencies against the USD in Q2. Positive sentiment has been the big driver of the move, with the government finding a deal on the 2021 budget. This is a positive development but idiosyncratic factors still weigh on the currency. Short-term, the covid-19 outbreak remains a key concern. Next year's elections and concerns around debt sustainability will certainly keep the BRL volatile for some time as well.
- That said, additional policy rate hikes are still expected as inflation figures reached 6.1% in March. A more hawkish policy stance and strong commodity prices should support the BRL despite political and social turmoil.
- **We keep our 3-month target for the USDBRL at 5.3 (value of one dollar) and update our 12-month target to 4.8 (4.5 previously). We thus still expect the currency to appreciate over the year.**
- The MXN also appreciated against the USD in April. With the central bank not expected to provide more easing and growth prospects benefiting from spillover effects from the US, the sentiment towards the peso has improved.
- The uncertainty around rates and bond yields in the US, could limit the upside among EMs currencies.
- Low foreign investor appetite for government bonds could also be a concern.
- **Therefore, we adjust our 3-month target to 19.7 (from 20.0) and our 12-month target to 19.0 (from 18.0) for the USDMXN (value of one dollar). This suggests less appreciation over the year.**

05

Equities

Global Equities view
Theme in Focus
Asian Equities view
Sector Allocation

BNP PARIBAS
WEALTH MANAGEMENT

Equities at a glance

Equity markets still in a clear uptrend: the key US, Europe, Japan and Emerging Markets stock indices remain well above their 200-day moving averages, pointing to clear uptrends.

The 200-day "members" moving average indicator suggests staying 100% long equities this month. The same is true for a simple "dual momentum" strategy, with equity indices posting positive absolute and relative momentum versus bonds.

In general, equities are not in a bubble, although some markets are clearly expensive versus history, notably US large-caps (the US remains our least-favoured region)

But beware, we are entering less favourable seasonality (May-Sept). Seasonality favours low volatility and defensive equity strategies over May-September, with cyclical stock indices such as the German DAX a typical under-performer.

China has lagged global equities

Source: BNP Paribas, Bloomberg

Sectors: Health care sneaks up on the rails

US, EU Heath care leads defensive sectors in March-April: Of all the defensive sectors that traditionally do well over the summer months, we prefer Health care for its long-term profitability and exposure to the ageing demographic theme.

Factors: Size still works in Europe, not US

Size works in Europe, but fades in the US: Smaller companies continue to outperform in Europe over the year to date, benefiting from stronger earnings outlooks and the prospect of economies gradually reopening. In contrast, the Russell 2000 small-cap index in the US is fading.

Theme: Reopening and Real Estate

Listed Real Estate likes reopening: in Europe; Residential and Logistics REITs have performed well, while self-storage, logistics and celltower REITs have done well in the US. Clearly, investors are looking to the growth stories in REITs for now.

Regional Allocation: UK, Japan over Nasdaq

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 equities on current weakness.

Neutral on US exposure, given rising risks to mega-cap Tech from increasing regulation, taxation (potential 28% US corporate tax rate) and long-term interest rates.

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.

Global Equities view

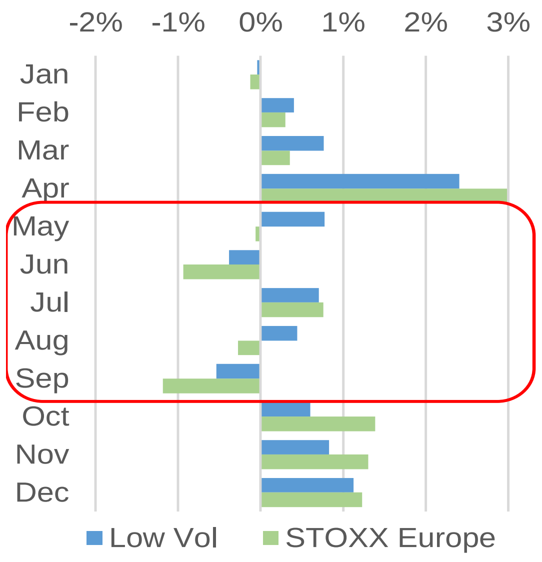
Trend-following indicators support equity exposure

TRENDS ARE STRONG, **BUT DON'T FORGET THE SEASONS**

With the Euro STOXX 50 going above 4000, and the MSCI World index hitting new all-time highs in mid-April, trend-following points to staying long equities for now. This is reinforced by the 200-day "members momentum" indicator, which is close to 100% for the S&P 500, and close to 90% for STOXX Europe.

- **Trend-following indicators remain positive for equity markets:** The MSCI World, S&P 500 and STOXX Europe indices sit well above their own rising 200-day moving averages, a positive trend-following signal.
- **Volatility also benign:** both VIX and VSTOXX implied volatility indices continue to decline, highlighting a positive risk backdrop for US and European equities.
- **But seasonality now becomes traditionally less** favourable for equities until October. More prudent investors should consider rotating into **defensive sectors and low volatility stocks** for the next few months, as these have typically outperformed over the summer months, especially in Europe.

May-Sept.: Low Volatility equities do better



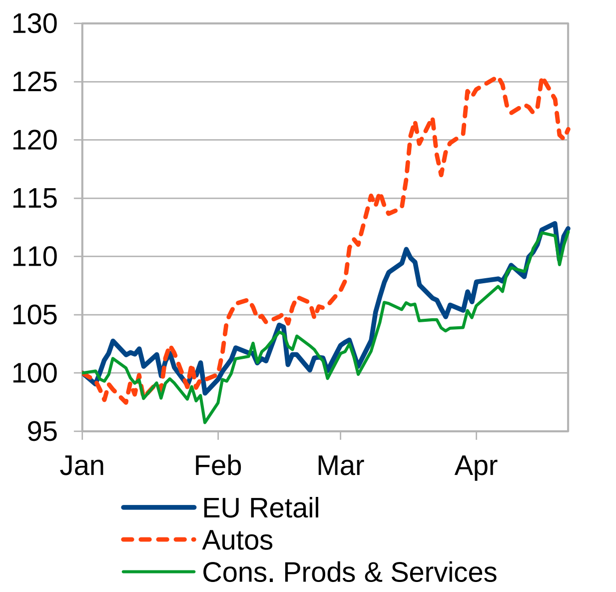
Note: Average monthly returns for Europe indices
Source: BNP Paribas.

RE-OPENING COULD BE THE PLAY FOR SUMMER

In Europe and the US, accelerating COVID vaccination rates are boosting a number of re-opening beneficiaries, including the Autos, Retail and Consumer Services sectors. Allied with bullish earnings momentum as activity indicators accelerate, we like this cyclical consumer exposure alongside listed Real Estate.

- **Re-opening sectors lead:** The US looks set to hit President Biden's revised target of 200 million Americans vaccinated in his first 100 days of office. Equally, after a slow start, Continental European countries have accelerated with their own vaccine efforts, with Germany having already administered over 23 million doses as of April 21.
- Over the quarter to date, European equity markets have been led higher by Consumer Products & Services, Retail and Real Estate. We expect these re-opening related sectors to continue to outperform in the near term, as countries gradually re-open their domestic services economies led by the UK.

Re-opening sectors have surged over March-April



Source: Bloomberg

Theme in Focus

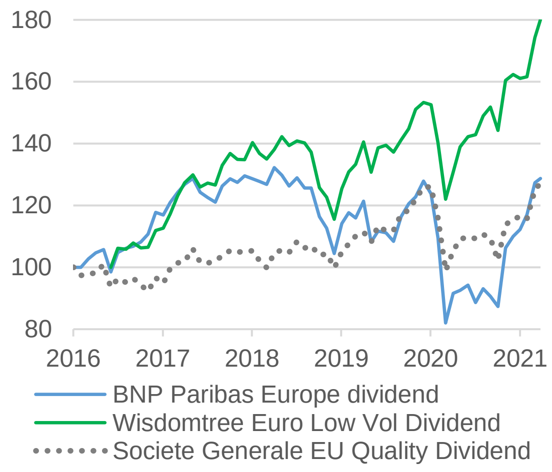
Low volatility dividend strategies look interesting

LOW VOL DIVIDEND STRATEGIES LOOK ATTRACTIVE

Dividends making a comeback in Europe with banks now able to pay 2021 dividends. Still very little yield on offer from cash, sovereign or even IG corporate bonds, while the Euro STOXX Select Dividend 30 index offers a 5%+ dividend yield prospectively.

- We prefer exposure not to a pure high dividend index like the Select 30, but rather **a dividend growth or quality dividend strategy** that may have a slightly lower, but still appealing dividend yield, combined with reasonable payout ratio, strong profitability and future dividend growth potential.
- Academic research has highlighted the **risk-adjusted outperformance over time of a low-volatility, high dividend equity portfolio strategy,** which correlates well with the quality/dividend growth approaches to income investing.
- **Moreover, the low volatility equity factor tends to outperform over the summer months (May through September)** versus higher beta equities, so this equity income approach should be well-placed from a seasonality perspective.

Low Vol/Quality Dividends Start to Perform



Source: BNP Paribas, Bloomberg

FACTORS: QUALITY AND MOMENTUM RECOVER

April has seen some reversal in factor performance, with US small-caps and the value factor giving back some recent relative gains, while the Quality and Momentum factors recaptured lost ground.

Factors	01 Jan - 22 Apr 2021	31 Mar - 22 Apr 2021
Europe:		
Value	11.6%	1.5%
Quality	10.9%	2.8%
Momentum	10.2%	2.5%
Small-cap	9.4%	4.3%
Low Volatility	7.8%	2.4%
US:		
Momentum	22.9%	3.9%
Small-cap	19.1%	1,0%
Value	14.3%	5.2%
Quality	13.9%	5.4%
Low Volatility	6.4%	4,1%

Source: BNP Paribas

Asian Equities view

GOOD 1Q EARNINGS RESULTS SO FAR

ASIA COUNTRY PREFERENCE

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

- Although it is still early days for the 1Q earnings season, more than half of reported Asian companies have beaten their EPS estimates. Consensus EPS growth for 2021 and 2022 is 30.2% and 16.3%, respectively.
- Indian equities underperformed as the new wave of Covid cases could see growth expectations revising downwards. Some expects daily cases to peak in early May. This could present opportunity for longer term investors to invest in large Indian banks as they are sufficiently capitalized, their market share is accelerating, deposit franchise is stronger and balance sheets are clean.
- China equities saw a mild rebound this month after a deep correction. China's 1Q GDP growth jumped to 18.3% yoy from a low base last year, while sequential growth slowing to about 2% qoq saar partly due to enhanced mobility restrictions early this year and policy normalization. The strong tourism and travel demand during the 3-day Qingming holiday in April implies that the recovery in domestic offline consumption (which has been a laggard in the post-Covid recovery) is speeding up.

Focus on Asian re-opening themes

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	2.7	5.2	22.5	16.1	2.0	2.2	30.2	16.3	11.3
North Asia	China	2.9	2.7	25.9	15.6	2.1	2.2	17.6	17.0	11.0
	Hong Kong	3.3	10.6	2.1	17.6	1.4	2.6	33.9	12.1	8.6
	South Korea	2.8	8.1	34.0	13.5	1.4	2.2	62.9	22.3	12.4
	Taiwan	4.2	17.2	28.6	17.9	2.9	2.3	23.5	10.1	17.8
South Asia	India	-1.7	3.3	16.8	21.5	3.5	1.2	35.4	17.7	13.9
	Indonesia	-0.1	-4.8	-9.5	14.9	2.3	2.6	34.3	22.1	14.4
	Malaysia	2.6	-2.0	-1.7	14.1	1.7	3.0	92.3	-6.4	11.8
	Philippines	-0.7	-10.6	-9.7	15.9	1.7	1.6	56.7	22.3	8.3
	Singapore	0.9	11.6	-12.8	14.8	1.3	3.0	44.9	16.0	8.1
	Thailand	-3.3	4.3	-13.9	18.0	1.9	2.2	49.0	17.4	8.4

Source: Datastream, BNP Paribas (WM) as of 26 April 2021

Sector Allocation

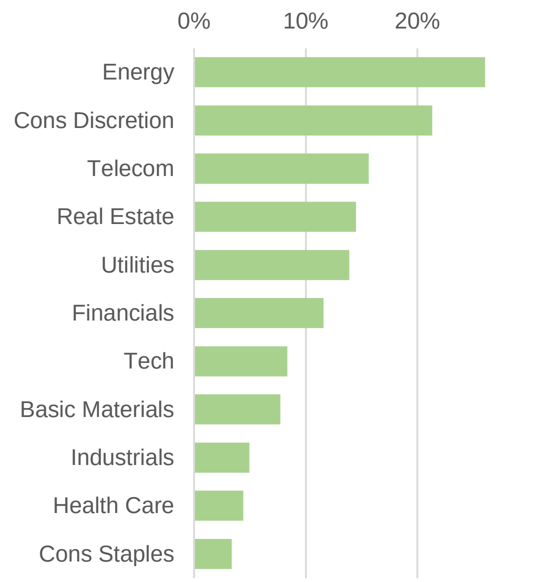
Getting tactically more defensive

RE-OPENING FAVOURS REAL ESTATE

Equity markets have been well oriented in April with most sectors recording a positive performance. Corporate results in the US have also been quite strong and supportive so far with more than 80% of companies beating earnings expectations (33% of companies have reported so far). Best sector in the US in April MTD has been real estate.

- **Real Estate (+) shines in the US** : US REITs have recently exceeded their pre-COVID highs, and are now benefiting from the retreat in long US bond yields to 1.6% at present. We would also look at UK REITs, which are also showing strong momentum as the UK economy reopens. German residential also has potential. The sector has been lagging in the West in the recent recovery. Real estate is a good play on re-opening.
- **Summer seasonality is positive for gold**, suggesting that gold miners could also benefit from a rebound in the gold price over the next few months (a commodity on which we remain positive).
- **In April, sectors that have been performing well are mainly defensive/ growth/ yield sensitive sectors**. Equity markets seem to need a pause in the cyclical rally.

US sectors: year-to-date performance

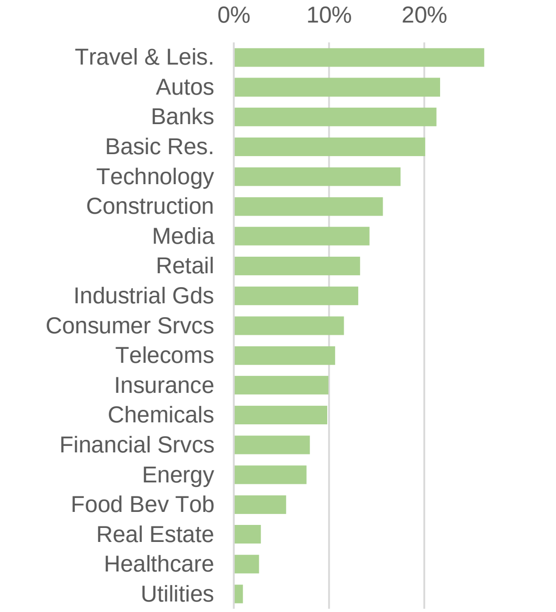


Source: FTSE Russell. Note: performance to 28 April

After the great outperformance of cyclical stocks over the last 6 months, we have decided, also due to less favourable seasonality, to reduce our bets. Industrials and Materials globally go from + to = (goldminers remain in + however). We revisit some defensive sectors that have been underperforming such as Consumer Staples: globally from – to = (HPC stays in – however) and Health Care: globally from = back to +.

- **Sell into Tech Strength:** We continue to recommend rotation out of ultra-long duration US technology names given the high valuation and shift higher in long bond yields of late, note the recent under-performance of the ARK Innovation ETF versus the S&P 500 as factor rotation out of Growth continues. We also recommend **more prudence now with the high flying sectors such as Industrials (from + to =) and Materials (from + to =; but goldminers stay in +). Financials remain in + in general.**
- **Healthcare goes from = to +** as reaching again new historic low relative valuation whereas cash flows and growth potential are high. It remains one of the best defensive diversification.
- After the underperformance of **Consumer Staples, some names look attractive again (especially in food & beverages). The reco goes from – to = except HPC that stays in** – (profit margins are under heavy pressure due to rising input costs).

Europe sectors: year-to-date performance



Source: STOXX. Note: performance to 28 April

06

Commodities

Oil

Gold & Base Metals

BNP PARIBAS
WEALTH MANAGEMENT

Commodities at a glance

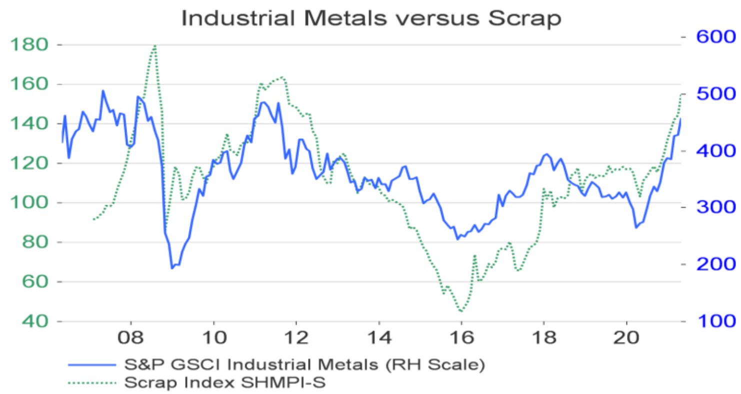
Gold: after a double bottom at $1675, the ounce is rebounding on the back of slightly lower real bond yields and a lower USD.

Base metals: after a pause in March, industrial metals resumed their rally in April led by copper. Sine the start of 2021, the Bloomberg Base Metal Index has gained 21% (27/4).

Oil: After reaching $71 in March on the back of stronger growth outlook, Brent price moved sideways to end April around $65/barrel.

BASE METALS

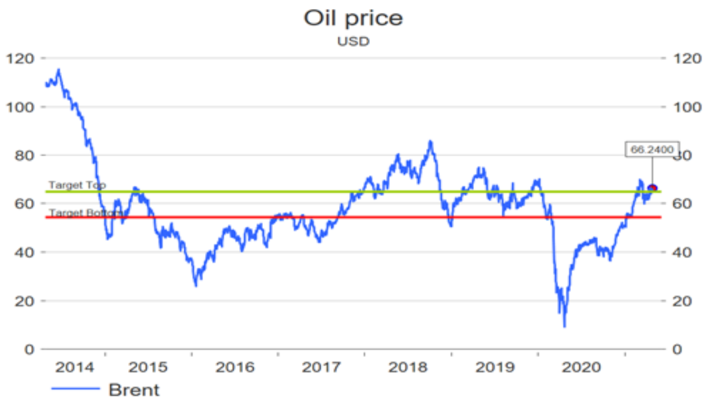
Base metals are reaching new highs due to vaccination led recovery hopes, fiscal stimuli, focus on infrastructure and energy transition. A decline of the Chinese demand could bring some short term relief.



Source: Refinitiv Datastream, 27/04/2021

OIL

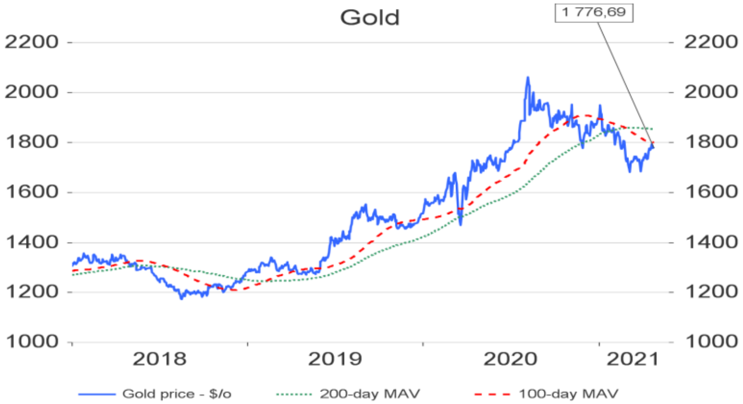
Excess capacities are still huge and should come back progressively on the market. We expect Brent to trade around $65 in the coming months and higher at the end of the year. Neutral short term, positive medium term.



Source: Refinitiv Datastream, 27/04/2021

GOLD

Negative or very low real yields, inflation fears, perceived excessive money creation and expected USD weakness, should push gold back to $2000/oz or above.



Source: Refinitiv Datastream, 27/04/2021

Our position for this month

Evolution of our position from last month

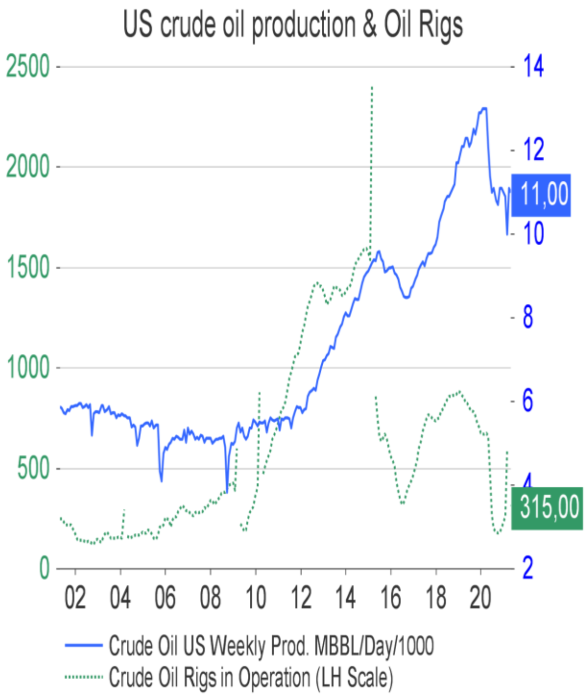
Oil

Light at the end of the tunnel

World oil consumption will rebound by 6 million barrel a day in 2021. Most of the fuel inventory accumulated during the pandemic will have dissipated by the end of this quarter. As the OPEC+ lifts progressively its production quotas, we expect Brent to trade around $65 in the coming months and higher after. **So in the short term we are neutral on oil but positive on the medium term**

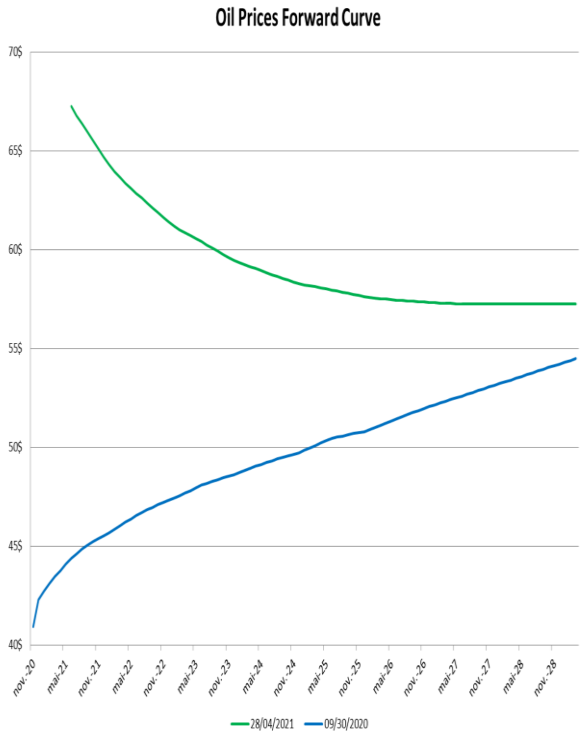
The term structure of the Brent futures is now in strong backwardation leading to a high rolling yield of 6% on one year. This with our positive outlook for the coming years are reasons for investors to keep their oil ETFs or buy on dips.

- OPEC+ confirmed plans to hike supply as demand recovers despite surging infections in India and Latin America. The 23-nation alliance intends to restart about 2 million barrels of daily output (out of the remaining 8 idled in 2020) over the next 3 months.
- In the US, the number of active shale oil rigs has increased to 315 (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)
- The medium-term outlook is bullish due to the low level of investment decisions made during the 2014-2017 downturn and again in 2020. Financing new investments will become more difficult as their long term profitability is put into question by the energy transition. As a consequence, a spike in price is likely between 2022 and 2025. This could accelerate the energy transition, which negative impact on oil demand is expected to become significant from 2025.



Source: Refinitiv Datastream, 27/04/2021

- **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: Refinitiv Datastream

Gold

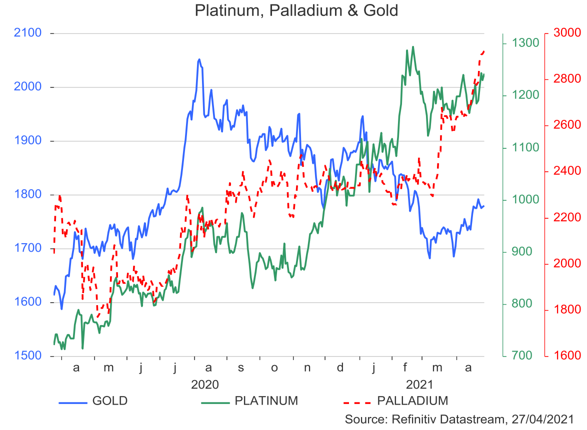
Gold prices are rebounding helped by slightly weaker real bond yields and lower USD. We expect this trend to persist as central banks do their best to keep financial conditions as attractive as possible. Inflation fears and worries of excessive money printing, should help gold prices back to $2000 or above.

- Historically, periods with very high debt/GDP ratios were characterized by negative real interest rates
- Jay Powell has confirmed 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. This is why gold is a also hedge against a weak growth scenario requiring even more QE.
- Gold is also a hedge against an overheating scenario (rising inflation)
- Gold's supply and demand dynamic remains positive for the precious metal. Investors are the marginal buyers/sellers moving the prices. The negative positioning on the future market is declining (a positive sign) and gold ETF AUM are stabilizing.
- Risk scenario: strong growth without inflation and with rising real yields

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).
- The silver-gold ratio is positively correlated (76%) with the ratio of cyclical stocks versus the overall market (silver outperforms gold when cyclical stocks outperform).
- Platinum is the critical metal used in the process that separates water into hydrogen and oxygen. Platinum also has a small jewelry market. Jewelry demand will remain healthy due to platinum's hefty discount to gold.
- The palladium market has been in deficit since 2012. Demand has risen sharply over the years as auto-makers use more of the metal to meet tightening emission standards of diesel-powered vehicles.



07

Alternatives

Alternative Investments

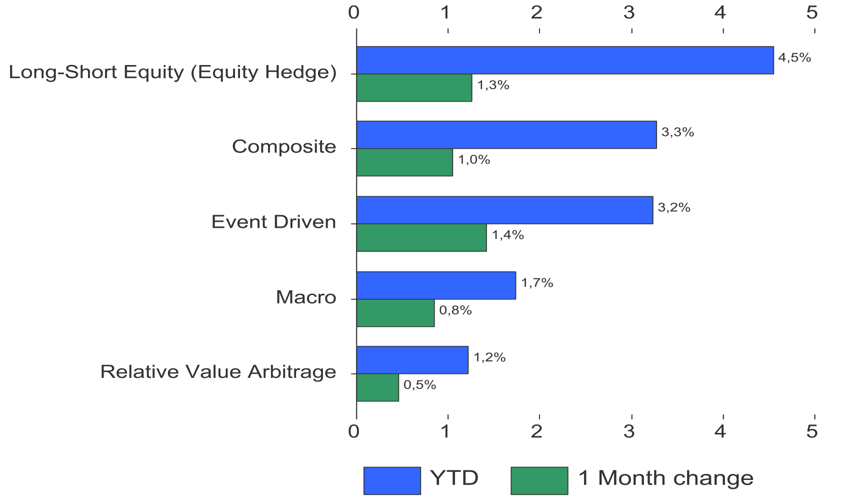
Alternative Investments at a glance

Alternative UCITS enjoyed another strong performance across many strategies over the past month. The best performers were Event-Driven and Long-Short. The same is true for since the beginning of the year

Upgrade Macro to positive and downgrade Long-Short Equity to neutral.

We have a preference for Macro, Relative Value and Event Driven strategies.

Alternative UCITS (HFRU index)



Source: Refinitiv Datastream, 26/04/2021

Global Macro

Upgrade to positive. President Biden is enacting far more impactful measures than expected, with likely strong impacts on corporations and markets. Fundamental macro traders are best equipped to anticipate those, as seen already through inflation anticipations and impact on EMs. Macro strategies may offer protection from potential pressure on equity valuations and risk assets in general.

Long / Short Equity

Downgrade to neutral. Long/short managers may face a more challenging backdrop after the rebound of Covid losers (cyclicals), and with the current questioning of "Covid winner" valuations (technology, ESG...). Also, the recent short squeeze has led to low single stock short exposure. Selected could continue to thrive.

Event Driven

Positive: Capital market activity to continue: M&A, IPOs, SPACs as borrowing costs remain cheap, and plenty of cash with corporates and P.E. funds. SPACs have gone through a severe correction after strong upside in the past 6 months, but they will continue to provide arbitrage opportunities. In Distressed, recovery opportunities abound in sectors hard hit by Covid-19, e.g. energy, retail, travel, leisure, gaming, etc.

Relative Value

We are positive: Despite tighter spreads, Covid-19 will still generate winners and losers. Rising interest rates may also impact weaker indebted businesses. With near-term liquidity needs, liability management trades are an area of opportunity (including equity vs debt arbitrage). Convertible bond arbitrage is in a sweet spot.

08

Real Estate

Residential
Industrial/Logistics
Office
Retail
Specialised

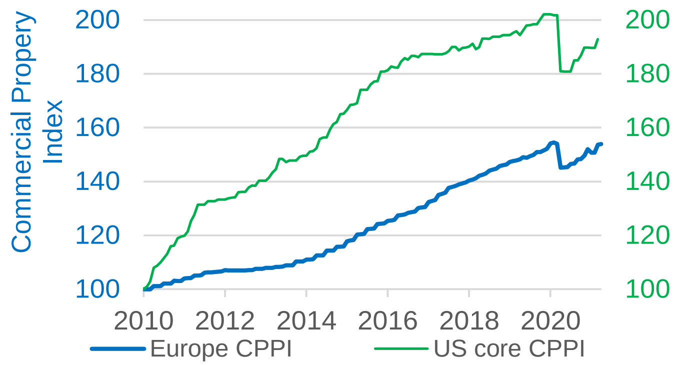
Real Estate at a glance

Real Estate attractive v Fixed Income: with US and European real long bond yields firmly in negative territory, residential and commercial real estate remains an attractive real yielding asset class.

Residential benefits from housing shortages: the combination of ultra-low lending rates and strong household formation growth drives demand growth in the rental sector, while supply has been slow to respond.

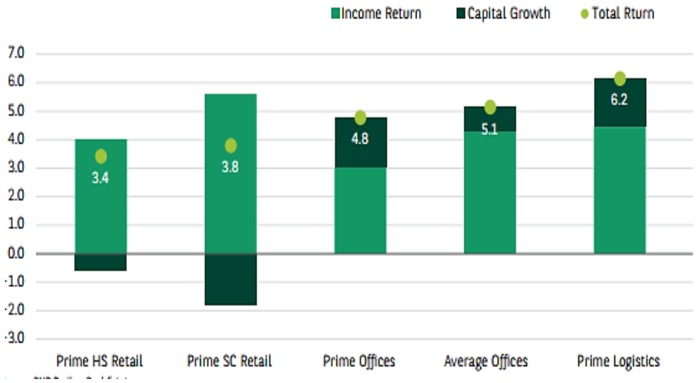
US REITs on fire: US investors have returned to US-listed REITs in force, driving REITs to outperform the S&P 500.

Europe commercial RE almost at 2020 high



Source: Green Street

BNPP RE total return forecasts 2021-2025



Source: BNP Paribas Real Estate

Sectors: Residential on fire

A defensive sector: One of the strengths of residential at the current time is its low correlation to economic downturns. The sector's necessity (to tenants) means relative insulation from the business cycle, unlike other property classes. Housing shortages remain a key driver of demand for rental accommodation.

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: REITs now outperform

Listed Real Estate likes reopening: in Europe; Residential and Logistics REITs have performed well, while self-storage, logistics and celltower REITs have done well in the US. Clearly, investors are looking to the growth stories in REITs for now rather than just the highest dividend yields.

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.

In contrast, retail remains a difficult sector in Europe and the US, with the lagged effect of bankruptcies and vacancies still to have its full effect. The retail sector will need to re-invent itself to regenerate demand, and BNP Paribas RE expect European retail rents to decline a further 4% on average in 2021 after -9% in 2020.

Risks: Vaccine re-emergence

Re-opening of European and US domestic economies remain a key driver for commercial real estate rents and capital values over the next few months. Clearly, any slowdown in vaccination rates and re-emergence of new COVID virus variants remain a risk.

DISCLAIMER

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