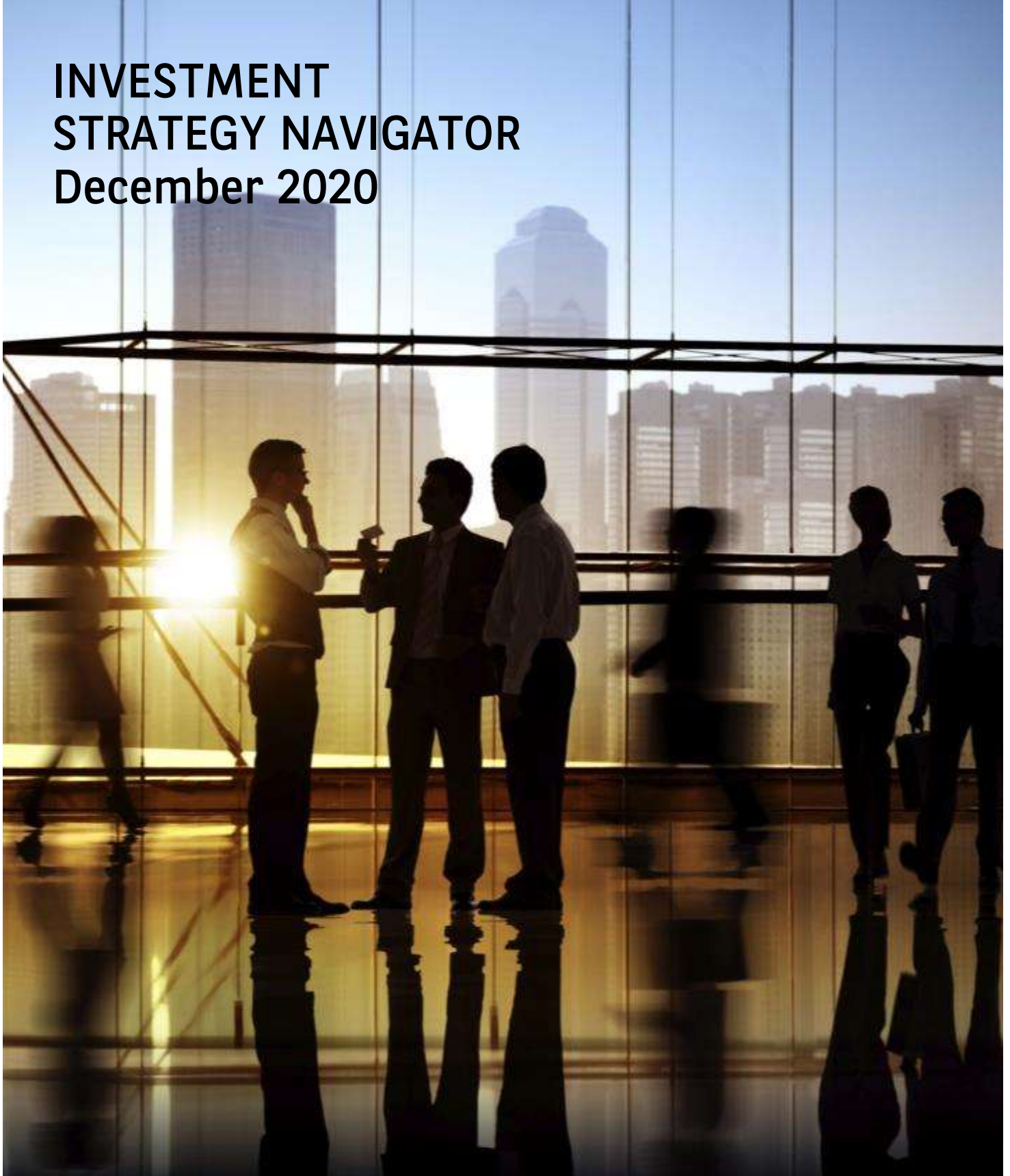


INVESTMENT STRATEGY NAVIGATOR

December 2020



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

IN BRIEF

- Economic outlook at a glance
- Financial markets at a glance
- Fixed income at a glance
- Forex at a glance
- Equities at a glance
- Commodities at a glance
- Alternative investments at a glance



ECONOMIC OUTLOOK AT A GLANCE

KEY ECONOMIC VIEWS

Growth

	BNP Paribas Forecasts			Forecast Revisions (%)	
	2019	2020	2021	2020	2021
GDP Growth %					
United States	2.2	-3.6	3.7	0.6	-0.5
Japan	0.7	-5.4	1.5	0.0	0.3
United Kingdom	1.5	-11.5	6.4	-1.8	-0.5
Eurozone	1.3	-7.5	5.6	0.5	0.4
Germany	0.6	-5.9	4.2	-0.3	-0.5
France	1.5	-9.5	6.3	0.3	-0.5
Italy	0.3	-9.1	6.0	0.9	0.7
Emerging				0.0	0.0
China	6.1	2.0	8.6	-0.5	1.1
India*	4.2	-11.4	11.6	0.0	2.0
Brazil	1.1	-4.5	3.0	0.5	0.0
Russia	1.3	-4.5	3.8	0.5	0.7

* Fiscal year

Source: BNP Paribas - Refinitiv
25/11/20

Inflation

	BNP Paribas Forecasts			Forecast Revisions (%)	
	2019	2020	2021	2020	2021
CPI Inflation %					
United States	1.8	1.3	1.9	0.0	0.0
Japan	0.5	0.0	-0.4	0.0	-0.1
United Kingdom	1.8	0.9	1.5	0.2	0.2
Eurozone	1.2	0.2	0.8	-0.1	-0.1
Germany					
France					
Italy					
Emerging					
China	2.9	2.6	2.3	-0.2	0.0
India*	4.8	5.8	4.3	0.3	0.9
Brazil	3.7	3.1	4.0	0.5	1.4
Russia	4.3	3.4	3.5	0.1	0.0

* Fiscal year

Source: BNP Paribas - Refinitiv
25/11/20

MAIN MARKETS & FINANCIAL RISKS

Positive Risks (Equities)

1. Major progress on a vaccine, efficient treatment and lower mortality rates could bring a positive surprise

Negative risks

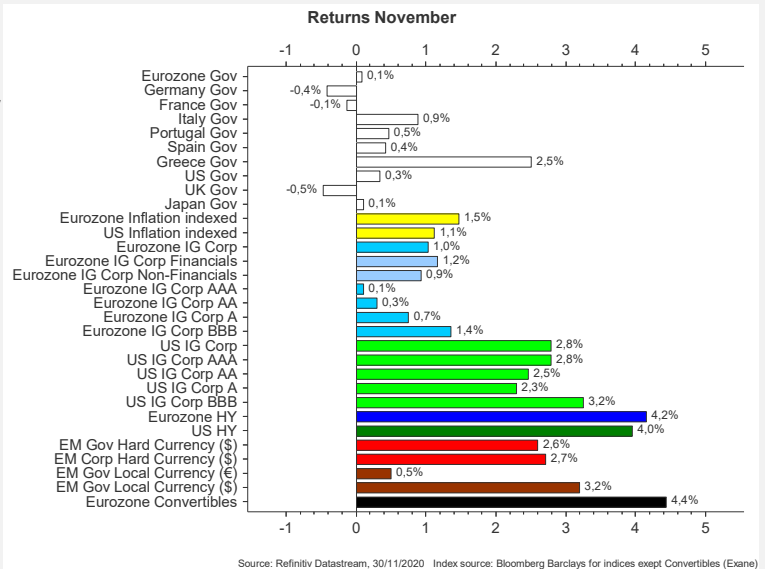
1. A US divided government could disagree on a budget compromise implying a weaker recovery and a lower inflation than expected.
2. In Europe, we could see a sharper opposition to a compromise on the recovery.
3. Vaccination might fall short of expectations and mobility restrictions would impact economic activity for a longer period.
4. Geopolitical concern about the relationship between the US and China could impact global trade.
5. A Brexit deal is still uncertain and the UK economy would suffer a lot.
6. Rising real yields could have a negative effect on a large number of assets such as equities, bonds, gold and real estate.

FINANCIAL MARKETS AT A GLANCE

EQUITIES	+	GLOBAL	+	<ul style="list-style-type: none"> • Positive outlook for 2021, based on normalising economic activity and strong earnings growth. • Overbought conditions are likely to generate a rise in volatility. The gap versus the 200-day moving average has rarely been that significant, sentiment is bullish and fund inflows have been particularly strong. A digestion phase is needed, hence, fine-tuning purchase prices is recommended.
		MARKETS	+	<ul style="list-style-type: none"> • Downgrading US stocks to neutral, mainly because of high valuations. • Upgrading Japan to positive: pro-cyclicality, rising profitability levels and attractive valuations. • Staying positive on Euro Area stocks: favourable structure amid improving global growth. • Positive on Emerging Markets, based on a superior earnings growth profile and room for further re-valuation. Favouring Asia (China, Taiwan, South Korea, India, Singapore and Indonesia).
		SECTORS	+	<ul style="list-style-type: none"> • Turning positive on Real Estate: attractive valuation and a play on the end of “stay at home”. • Positive on these pro-cyclical sectors: Materials, Industrials and Insurance. • Positive on this defensive sector: Healthcare. • In Europe: positive on Technology and Energy.
BONDS	-	GOVIES	-/=	<ul style="list-style-type: none"> • We are negative on German govies, whatever the maturity, and on long-term US govies. • We are positive on the front-end of the US yield curve for USD-based investors as short-term yields have limited upside. • We are positive on periphery debt (Portugal, Italy, Spain, Greece) on a buy on weakness strategy.
		INVEST. GRADE	+	<ul style="list-style-type: none"> • We prefer corporate bonds over government bonds. • We like EUR and US IG bonds with a duration at benchmark (5 and 8 years, respectively). • We are positive on eurozone convertible bonds.
		HIGH YIELD	=	<ul style="list-style-type: none"> • We are neutral on both US and eurozone HY. We prefer fallen angels.
		EMERGING	+	<ul style="list-style-type: none"> • We are positive on EM local currency bonds, for both USD and EUR based investors. We turned positive from neutral on EM hard currency bonds (sovereigns and corporates).
FOREX	/	EURUSD	=	We revised our 3-month target to 1.18 (from 1.16) and our 12-month target to 1.25 (from 1.22).
		USDCNY	=	We adjusted our USDCNY 3-month target to 6.60 and our 12-month target is 6.50
COMMODS	+	OIL	+	<ul style="list-style-type: none"> • OPEC+ restraints, lower US production and recovering demand thanks to vaccines should keep Brent prices in the \$45-55 range.
		GOLD	+	<ul style="list-style-type: none"> • The sharp corrections after the vaccine news seems excessive. Negative real rates and inflations worries should drive gold back above \$2000/oz
		BASE METALS	+	<ul style="list-style-type: none"> • Prices are underpinned by the Chinese rebound and by pro-cyclical policies in Europe and US.
ALTERNATIVES	/	Alt. UCITS	/	<ul style="list-style-type: none"> • We upgrade Event driven to positive. Positive on Relative Value, Macro, Long-Short equity and Event-Driven.

FIXED INCOME AT A GLANCE

- Risks asset outperformed in November following the news on the Covid vaccine, that would bring a brighter economic outlook quicker. Central banks did not let US and eurozone bond yields rise much. The amount of negative-yielding debt in the world reached record levels. Bond yields in the eurozone periphery countries hit an all-time low.
- Central banks are likely to stay very active in December and in 2021. We expect bond yields to remain low relative to history. We have decreased our 12-month target for the bund yield to -0.25% and have increased slightly our target for the Treasury yield, to 1.40%.
- This month, we take a positive view on US and eurozone fallen angels credit and we turn positive on emerging bonds in hard currency.



CENTRAL BANKS

- Both the Fed and the ECB are likely to stay dovish and policy rates will remain at current levels for the foreseeable future. The Fed's main tool is the QE and the ECB's main tools are the QE and the TLTROs (subsidies loans to banks).

INVESTMENT GRADE (IG)



- We are positive stance on US and eurozone IG bonds. The ECB and the Fed to a lesser extent support IG bonds. The supply/demand dynamic is a tailwind.
- We are also positive on convertibles in the eurozone.

EMERGING MARKETS BONDS



- We turn positive from neutral on EM bonds in hard currency. Valuations are not very cheap but the expected weaker dollar and low real yields in the US should spur flows to EM. Also, the political and commercial backdrop improved.
- We remain positive on EM local bonds.

GOVERNMENT BONDS



- We revised up our 12-month targets for the Treasury yield to 1.40% from 1.25% and we revised down our bund yield target to -0.25% from 0%. We stay positive on US short-term bonds for USD-based investors and negative for both US long-term bonds and German bonds.

PERIPHERAL & HIGH YIELD (HY)



- The ECB QE, the low rate volatility, the search for yield and the EU recovery fund are supportive for peripheral bonds. We stay positive on peripheral bonds with a buy on weakness strategy given tight valuations as bond yields are at their all-time lows.



- We stay neutral on HY bonds given relatively low spreads. We take a positive view on fallen angels. Their risk/reward profile is more attractive than the one of HY bonds, in our view.

FOREX AT A GLANCE

- The euro took advantage of the return of the risk appetite. Although we do not see a stronger dollar short term anymore, we don't believe in further euro appreciation as downside risks should cap gains. We revised our 3-month target to 1.18 (from 1.16) and our 12-month target to 1.25 (from 1.22).
- Following the recent appreciation the yen, we revised our 3-month USDJPY target to 104 (106 before) as we do not expect the dollar strength to resume. Our 12-month target remains at 102.
- We adjusted our USDCNY 3-month target to 6.60 as we see the yuan remaining broadly steady after several months of rally. Our new 12-month target is 6.50.

	Country	Spot		Target three months		Target twelve months	
		12/7/2020		Trend	Mid	Trend	Mid
Against euro	United States	EUR / USD	1.21	Positive	1.18	Negative	1.25
	United Kingdom	EUR / GBP	0.91	Neutral	0.90	Positive	0.88
	Switzerland	EUR / CHF	1.08	Neutral	1.08	Negative	1.11
	Japan	EUR / JPY	126	Positive	123	Neutral	128
	Norway	EUR / NOK	10.59	Neutral	10.70	Positive	10.10
Against dollar	Japan	USD / JPY	104	Neutral	104	Neutral	102
	Canada	USD / CAD	1.28	Negative	1.31	Neutral	1.29
	Australia	AUD / USD	0.74	Neutral	0.73	Neutral	0.73
	New Zealand	NZD / USD	0.70	Negative	0.69	Neutral	0.71
	Brazil	USD / BRL	5.10	Negative	5.30	Positive	4.50
	Russia	USD / RUB	73.5	Negative	76.0	Positive	68.0
	India	USD / INR	73.9	Neutral	75.0	Neutral	75.0
	China	USD / CNY	6.54	Neutral	6.60	Neutral	6.50

Source : Bloomberg - BNP Paribas WM

EUR/USD

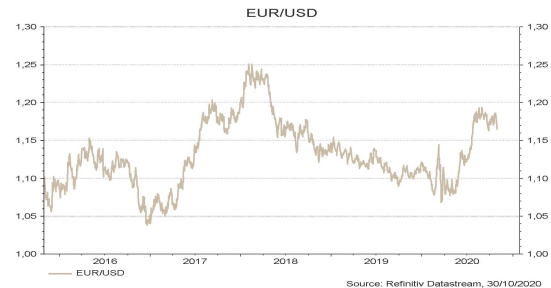
- The recent impulsive move suggests a consolidation. The potential is however limited. We revised our 3-month target to a value of one euro of 1.18 (from 1.16).
- Over the next 12 months there is more dollar weakness to come. We revised our target to 1.25 (from 1.22).

EUR/GBP

- We revised our 3-month USDJPY target to 104 (106 before) as we do not expect the dollar strength to resume.
- The low yield differential versus the USD and the cyclical rebound of the economy should drive the USDJPY to 102 over the next 12 months.

USD/CNY

- The recent strength of the CNY seems fully justified by the improved economic outlook and yield spread. We adjusted our USDCNY 3-month target to 6.60. The supportive environment, also offers more upside beyond an expected pause. We revised our 12-month target to 6.50.



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

EQUITIES AT A GLANCE

- **Positive outlook for 2021**, based on normalising economic activity and strong earnings growth.
- **Overbought conditions are likely to generate a rise in volatility.** The gap versus the 200-day moving average has rarely been that significant, sentiment is bullish and fund inflows have been particularly strong. A digestion phase is needed, hence, fine-tuning purchase prices is recommended.
- **Turning positive on Japan and downgrading the US to neutral.** Still positive on the EU and EM.
- **Sectors:** upgrading Real Estate to a positive stance as a play on the end of «stay at home».

Positive outlook for equities in 2021 thanks to strong earnings growth

	EPS growth		
	20 (current year)	21 (next year)	12M fwd
MSCI AC World	-16,5	27,7	22,4
MSCI Dev Mkts	-18,0	26,5	21,2
MSCI EM Mkts	-8,2	33,5	29,0
S&P500	-15,4	21,9	18,4
TSX Comp	-35,5	54,8	44,9
Euro Stoxx	-37,8	49,5	38,3
DAX	-15,9	32,1	27,8
CAC	-44,6	60,9	46,2
MIB	-48,3	57,4	41,8
IBEX	-81,0	253,6	142,0
AEX	-25,8	36,9	29,7
FTSE100	-42,5	44,6	31,8
SMI	-6,3	15,9	13,6
Topix	-26,8	-11,7	29,0
ASX200	-19,2	6,4	17,2

Source: IBES

GLOBAL EQUITIES



- Only in 1987 have we seen equity markets down by more than 30% at some point and then able to finish in positive territory!
- The outlook remains favourable thanks to strong earnings growth and attractive relative valuations. Some consolidation of recent gains should not come as a surprise.

EMERGING MARKETS



- Still among our favourite investments. This is not only because of superior earnings trends but also results from expectation for a continued narrowing of the discount.
- Preference for Asian markets: China, Taiwan, South Korea, India, Singapore and Indonesia.

SECTOR PREFERENCES



- Turning positive on Real Estate: a good way to play the end of "stay at home".
- We like Materials, Industrials and Insurance among cyclicals.
- In defensives, Healthcare has strong trump cards.
- In Europe, we like Technology and Energy.

DEVELOPED MARKETS



- Downgrading US stocks to neutral, mainly because of high valuations.
- Turning positive on Japan: pro-cyclicality, rising profitability and good value.
- Euro area stocks offer pro-cyclicality, cheap valuations and foreigners are underexposed.

INVESTING STYLE

- We would selectively rebalance towards Value in the forms of Japanese equities, and value combined with quality in the form of Leveraged Buyout candidate companies, given the amount of private equity dry powder waiting to be invested.
- SMID caps: the better structural choice, which is typically correlated with Value and domestic economic recovery, is to overweight mid- and small-cap size exposure in Europe and the US.

COMMODITIES AT A GLANCE

- **Gold:** Since its intra-day high of \$2075/oz on August 7, gold lost 14% (30/11) on bets the looming roll-out of Covid-19 vaccines will help drive an economic recovery that would reduce the need for safe haven assets.
- **Base metals:** Led by Chinese demand, all base metal prices rose markedly in Oct-Nov bringing the year to date gains to (as of 30/11/2020): zinc +23.0%, copper +21.5, nickel +17.3%, Aluminium +10.4%, tin 10.1% and lead +8.9%.
- **Oil:** since their intra-day trough at \$16 on April 22, the Brent prices recovered up to slightly above \$45/barrel at the end of August. They fell again to \$37.5 at the end of October as the second wave of Covid-19 infections hit Europe. Brent prices surge to \$48 following the vaccines news.



GOLD

The sharp corrections after the vaccine news seems excessive. Vaccines may solve the current health care crisis but the economy will continue to struggle requiring central banks keep their ultra-loose monetary policies for longer. Negative real interest rates and inflation fears should bring back gold prices above \$2000 in 2021.



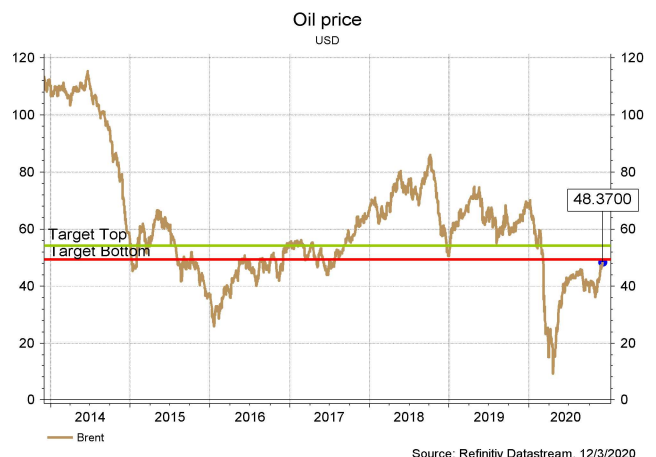
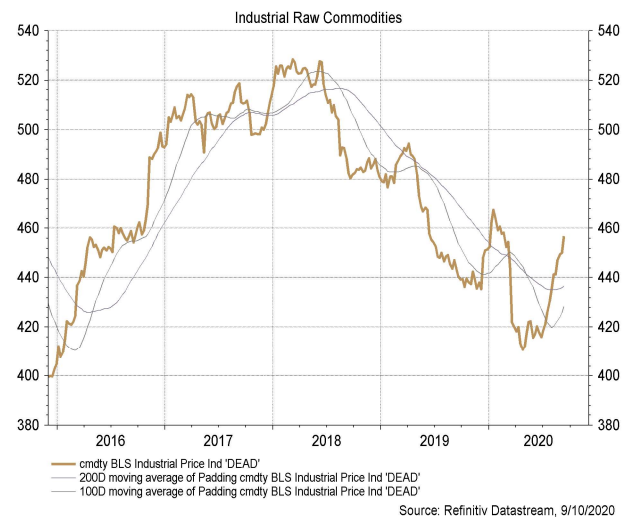
BASE METALS

Prices are underpinned by the economic rebound underway in China and the leading buyer and by the pro-cyclical policies in Europe and US. The energy transition is supporting copper and nickel prices



OIL

The OPEC+ decided that they will continue to balance the market by removing their production cuts more progressively. The vaccines roll-out should boost demand further. We expect Brent prices to trade in the \$45-55 range with possible spikes towards \$60.



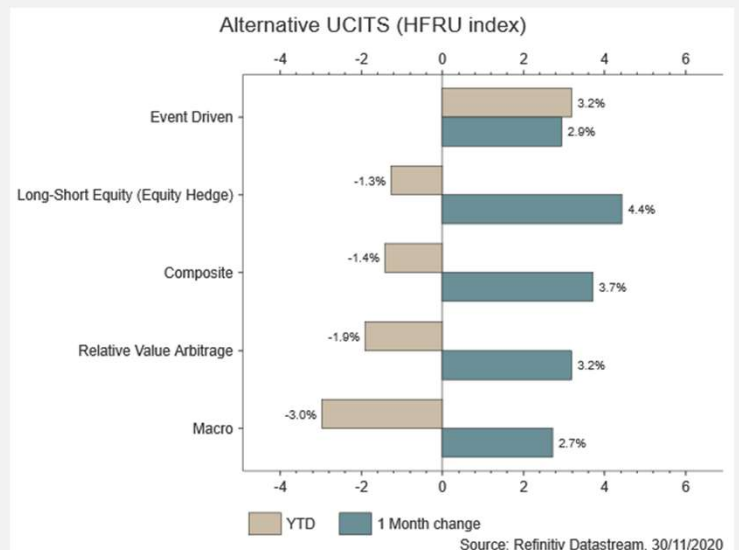
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Classification : Internal

ALTERNATIVE INVESTMENTS AT A GLANCE

- All strategies performed very well over November. This especially the case for Long Short equity and relative value. £
- The year-to-date performance is improving and is positive for event driven.
- We upgrade Event driven from Neutral to positive. We downgrade Macro/Directional to Neutral within Macro.
- We have a preference for Macro, Long-Short, Relative Value strategies et Event Driven.



GLOBAL MACRO



We remain positive. Fund managers are well positioned to benefit from large movements in the prices and volatility of assets resulting from the Covid-19 crisis in broad macro markets including currencies, interest rates, equity indices, and commodities. We downgrade Macro/Directional to Neutral.

LONG SHORT EQUITY



Positive opinion. The current context of disruptive innovation and structural changes, amplified by the Covid-19 crisis, (working from home, e-commerce, dematerialisation, deglobalisation) suggests a Schumpeterian environment of 'creative destruction' and thus a world of polarised winners and losers.

EVENT DRIVEN



Upgrade to positive: Disruption, US tax reforms and sector consolidation themes provide many opportunities. More M&A deals since the summer and more expected in 2021.

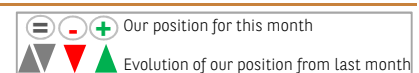
RELATIVE VALUE



We are positive: Managers focus on mispricing assets, anomalies in spreads (yield differences) as well as a mean-reversion of prices. The crisis will eventually create clear survivors and losers, even if most companies have been able to issue bonds to meet short-term financing needs. Convertible bond arbitrage is in a sweet spot, with record issuance post crisis and high single-stock volatility.



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Our 10 Investment Themes for 2021

- Theme 1: Vaccines, recovery, and reflation
- Theme 2: Low volatility absolute return
- Theme 3: Sniffing out yield truffles
- Theme 4: Constructing a new diversified portfolio for a changing world
- Theme 5: Enter the dragon: China's opening of capital markets and economic reform
- Theme 6: New consumption habits in a post-lockdown
- Theme 7: Shifting generational influences: how demographic trends are improving the quality of life
- Theme 8: Enablers of smart technologies
- Theme 9: The energy transition and the "Green Deal"
- Theme 10: Strong corporate governance as an aid to low-risk outperformance: investing in trust and profitability

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BNP Paribas Wealth Management Chief Investment Advisor (CIA) Network

Florent BRONES - Chief Investment Officer

Switzerland

Roger KELLER, Chief Investment Advisor

United States

Wade BALLIET, Chief Investment Advisor

Asia

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Edouard DESBONNETS, Investment Advisor Fixed Income

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