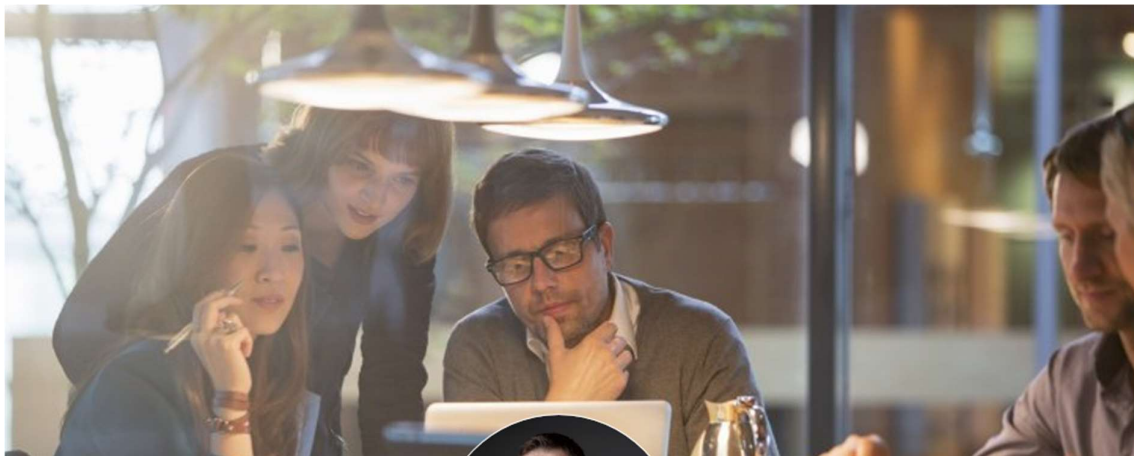


## FIXED INCOME FOCUS

February 2020



**Edouard Desbonnets**  
Investment Advisor, Fixed Income

### IN A WORD:

The health crisis, triggered by the coronavirus outbreak, is expected to hamper global growth. Risk aversion has been noticeable in bond markets but there has been no panic. Bond yields have fallen to near all-time lows. Credit spreads have widened moderately. Asian central banks have eased monetary policy. We don't think the Fed and the ECB will follow suit.

Bond yields are likely to rise once the risk aversion phase is over. The increase is expected to be limited notably due to supply and demand dynamics. Our 12-month targets are 2% for the US Treasury and -0.25% for the German Bund.

Periphery countries in the eurozone have made the headlines as their latest sovereign issues attracted record demand. Periphery bonds are expensive, and should remain so in the absence of attractive yields in other eurozone countries.

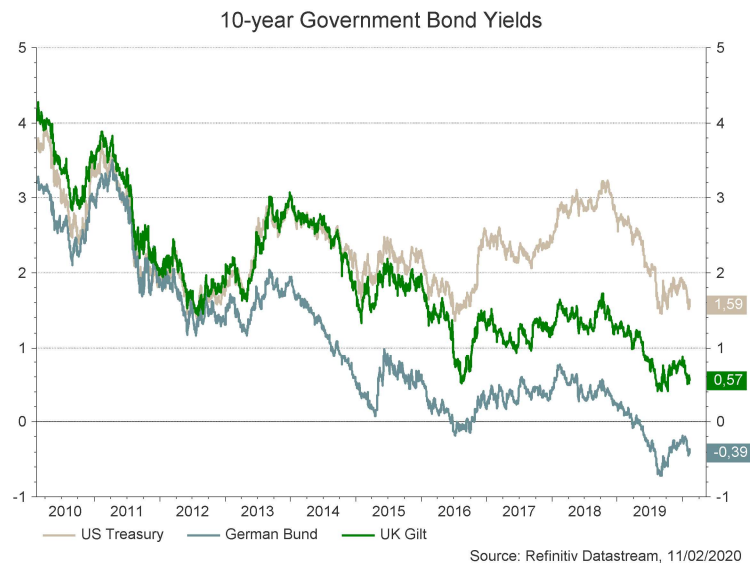
We maintain our preference for short-dated US dollar sovereign bonds, euro and dollar Investment Grade bonds, eurozone convertibles, Emerging Market sovereign bonds in local currency and Emerging Market corporate bonds denominated in hard currency.



**BNP PARIBAS**  
WEALTH MANAGEMENT

## Chart of the month: bond yields have fallen

Investors, concerned about the economic consequences of the coronavirus outbreak, have been buying safe-haven assets like government bonds, thus pushing yields lower. The Bund yield is about 0.30% above its all-time low while the US Treasury yield is about 0.20% above its all-time low.



## Central banks: a pause

- **US Federal Reserve**

- The Fed recognises that coronavirus poses a risk to growth, but does not suggest that it will cut rates.
- The markets are urging it to intervene: they expect 1.5 rate cuts this year, compared with 0.7 before the outbreak.
- We stick to our scenario for the US policy rate.

- **European Central Bank**

- The ECB has started its strategic review. The conclusions are expected by the end of the year. *"Review will encompass quantitative formulation of price stability, monetary policy toolkit, economic and monetary analyses and communication practices. Other considerations, such as financial stability, employment and environmental sustainability, will also be part of review."*
- The ECB believes that the outbreak will have short-term (not long-term) consequences. We therefore believe that it will not change its monetary policy in the immediate future. The market, on the other hand, is currently pricing in a 0.6 deposit rate cut this year.



## Bond yield targets

- We leave our 12-month forecasts unchanged, despite the coronavirus outbreak, as our growth and inflation expectations remain intact. Bond yields are likely to tighten again once the risk-off phase is over. This could happen when the number of new confirmed cases slows down.
- The rise in bond yields should, however, be limited due to the appetite of investors and central banks for government bonds (via their bond buying programmes), lower supply and new geopolitical risks (Brexit negotiations and the US presidential election in particular).

Bond yields	Maturity (years)	11/02/2020	12-month targets
US	2	1.42	1.50
	5	1.41	1.75
	10	1.59	2.00
	30	2.05	2.50
Germany	2	-0.64	-0.50
	5	-0.60	-0.40
	10	-0.39	-0.25
	30	0.14	0.00
UK	2	0.51	0.80
	5	0.44	0.85
	10	0.57	1.20
	30	1.06	1.65

Sources: Refinitiv Datastream, BNP Paribas WM

## View on Peripheral Bonds

- Bond issues in the periphery markets have made the headlines by setting new subscription records and demand far outstripped supply. The Spanish 10-year issue drew EUR 53bn of bids (the largest ever order book for a eurozone bond sale) for its new EUR 10bn bond sale. This was closely followed by the 16-year Italian issue: EUR 50bn bid for an issue size of EUR 9bn.
- The strong demand can be explained by investors' search for yield (only 13% of eurozone government bonds offer a yield of over 1%; note that the Greek 10-year yield has fallen below 1%), the additional demand generated by the ECB's bond buying programme, the reduced bond supply and the return of political stability in Italy and Spain.
- Periphery bonds have become expensive and yields are historically very low. Spreads against the German benchmark bond are low, but could tighten further due to the supply/demand dynamics and the lack of an attractive alternative in the eurozone.
- We have a neutral view on periphery bonds. They are expensive and should remain so.

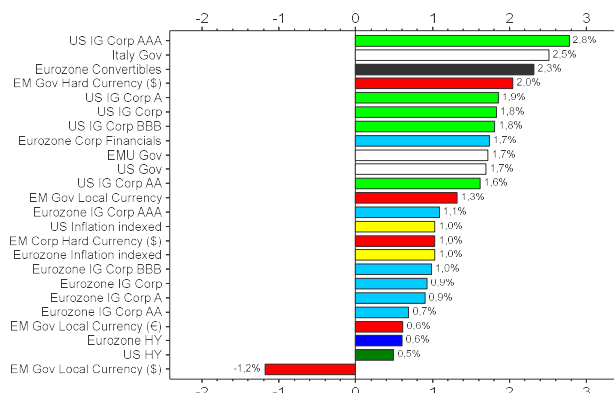


## Our views

GOVIES	-/=	<ul style="list-style-type: none"> <li>We are positive on the front-end of the US yield curve for USD-based investors as short-term yields have a limited upside.</li> <li>We are negative on long-term US govies and German govies, whatever the maturity.</li> <li>We stay neutral on periphery debt (Portugal, Italy, Spain).</li> </ul>
INVESTMENT GRADE	+	<ul style="list-style-type: none"> <li>We prefer corporate bonds over government bonds.</li> <li>We like EUR and US IG bonds with duration at benchmark. We focus on quality issuers in the US but we do not make that discrimination in the eurozone.</li> <li>We are positive on eurozone convertible bonds.</li> </ul>
HIGH YIELD	=	<ul style="list-style-type: none"> <li>We are neutral on both US and eurozone High Yield.</li> </ul>
EMERGING	+/=	<ul style="list-style-type: none"> <li>We are positive on EM sovereign debt in local currency and corporate debt in hard currency.</li> <li>We are neutral on EM government debt in hard currency.</li> </ul>

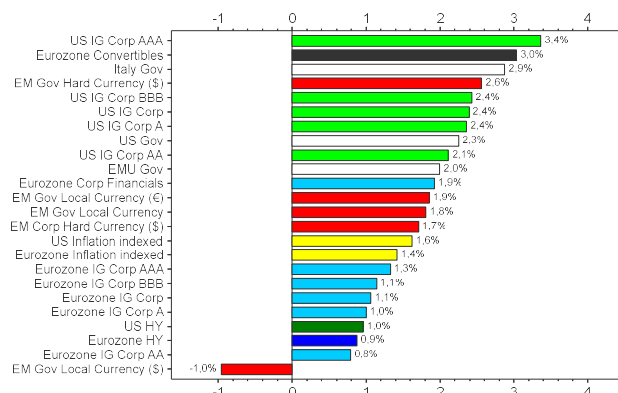
## Fixed Income returns

### Over the past 30 days



Source: Refinitiv Datastream, 11/02/2020. Index source: JPMorgan for Government Bonds and Emerging Markets (EM); Bloomberg Barclays for Investment Grade (IG) credit, ICE BofA for High Yield (HY) credit, Exane for Convertibles.

### Since 31 December 2019



Source: Refinitiv Datastream, 11/02/2020. Index source: JPMorgan for Government Bonds and Emerging Markets (EM); Bloomberg Barclays for Investment Grade (IG) credit, ICE BofA for High Yield (HY) credit, Exane for Convertibles.



**BNP PARIBAS**  
WEALTH MANAGEMENT



## THE INVESTMENT STRATEGY TEAM

### France

**Florent BRONES**  
Chief Investment Officer

### Asia

**Prashant BHAYANI**  
Chief Investment Officer, Asia

**Grace TAM**  
Chief Investment Advisor, Asia

### Belgium

**Philippe GIJSELS**  
Chief Investment Advisor

**Xavier TIMMERMANS**  
Senior Investment Strategy, PRB

**Alain GERARD**  
Senior Investment Advisor, Equities

**Pol TANSENS**  
Head of Real Estate Strategy

### Luxembourg

**Guy ERTZ**  
Chief Investment Advisor

**Edouard DESBONNETS**  
Investment Advisor, Fixed Income

### Switzerland

**Roger KELLER**  
Chief Investment Officer

## DISCLAIMER

This marketing document is provided by the Wealth Management business of BNP Paribas, a French public limited company with a capital of € 2,499,597,122, registered office 16 bd des Italiens 75009 Paris - France, registered at RCS Paris under number 662,042,449, authorised in France, under the number 662,042,449, approved in France by the Autorité des Marchés Financiers (AMF). As a marketing document, it has not been produced in accordance with regulatory constraints to ensure the independence of investment research and is not subject to the prior transaction ban. It has not been submitted to the AMF or other market authority. This document is confidential and intended solely for use by BNP Paribas SA, BNP Paribas Wealth Management SA and companies of their Group ("BNP Paribas") and the persons to whom this document is issued. It may not be distributed, published, reproduced or revealed by recipients to other persons or reference to another document without the prior consent of BNP Paribas.

This document is for informational purposes only and does not constitute an offer or solicitation in any State or jurisdiction in which such offer or solicitation is not authorised, or with persons in respect of whom such offer, solicitation or sale is unlawful. It is not, and should under no circumstances be considered as a prospectus. The information provided has been obtained from public or non-public sources that can be considered to be reliable, and although all reasonable precautions have been taken to prepare this document, and, in the event of any reasonable precautions, the accuracy or omission of the document shall not be recognised. BNP Paribas does not certify and guarantees any planned or expected success, profit, return, performance, effect, effect or profit (whether from a legal, regulatory, tax, financial, accounting or other point of view) or the product or investment. Investors should not give excessive confidence in theoretical historical information relating to theoretical historical performance. This document may refer to historical performance; Past performance is not a guide to future performance.

The information contained in this document has been drafted without taking into account your personal situation, including your financial situation, risk profile and investment objectives. Before investing in a product, the investor must fully understand the risks, including any market risk associated with the issuer, the financial merits and the suitability of such products and consult its own legal, tax, financial and accounting advisers before making an investment decision. Any investor must fully understand the characteristics of the transaction and, if not otherwise provided, be financially able to bear the loss of his investment and want to accept such risk. The investor should remember that the value of an investment as well as the income from them may fall as well as rise and that past performance is not a guide to future performance. Any investment in a product described is subject to prior reading and to an understanding of the product documentation, in particular that which describes in detail the rights and duties of the investors and the risks inherent in an investment in that product. In the absence of any written provision, BNP Paribas does not act as an investor's financial adviser for its transactions.

The information, opinions or estimates contained in this document reflect the author's judgement on the day of his drafting; they must not be considered as authority or be substituted by anyone in the exercise of his or her own judgement and subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity will be liable for any consequences that may arise from the use of the information, opinions or estimates contained in this document.

As a distributor of the products presented in this document, BNP Paribas may receive distribution fees on which you can obtain further information on specific request. BNP Paribas, its employees or Directors may hold positions in or relationship with their issuers.

By receiving this document you agree to be bound by the above limitations. © BNP Paribas (2020). All rights reserved



**BNP PARIBAS**  
WEALTH MANAGEMENT