C.I.A. NETWORK

Investment Strategy Navigator

February 2021

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Agenda

01

Introduction

Economic Outlook & Risks
Financial markets at a glance

BNP PARIBAS
WEALTH MANAGEMENT

Economic outlook

KEY ECONOMIC VIEWS

Growth

BNP Paribas Forecasts				
GDP Growth %	2019	2020	2021	2022
United States	2.2	-3,6	4,2	4,1
Japan	0,3	-5,3	1,1	3
United Kingdom	1,5	-11,1	4	8,6
Eurozone	**1.3**	**-7,3**	**3,8**	**5,5**
Germany	0,6	-5,6	2,7	5,1
France	1,5	-9	5,5	4,7
Italy	0.3	-9	4,5	4,4
Emerging				
China	6,1	2,3	9,5	5,3
India*	4,2	-11,4	11,6	5
Brazil	1,1	-4,5	3	3
Russia	1,3	-4,5	3,8	3

* Fiscal year
Source: BNP Paribas - 15/01/2020

Inflation

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

* Fiscal year
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POSITIVE RISKS (EQUITIES)

1. Major progress on the vaccination process (new vaccines) that lead to a faster herd immunity could bring a positive surprise.

NEGATIVE RISKS

1. The more contagious variants of the virus could spread faster than the vaccination. This would imply more lockdowns compared with the current base case.
2. The Biden's administration measures against China may fuel trade tensions and is a medium-term risk.
3. Bigger negative effects on supply and potential structural changes such as deglobalization (corporates rethink their value chain models, a trend towards nationalizations and/or a permanent rise in savings ratios).
4. Political/Geopolitical risks remain elevated around the world. A renewed local conflict cannot be excluded.

Financial markets at a glance

Asset class	Segment	View	Comments
EQUIT +	Global	+	▪ Easy financial conditions support equities. The combination of historically low long-term real rates and accommodative financial conditions are giving a powerful boost to global stocks. ▪ The key risk remains a spike in European Covid-19 infection rates.
	Markets	+	▪ Attracted to the pro-cyclical profile of Euro Area stocks. ▪ Positive on Emerging Markets, based on a superior earnings growth profile and room for further re-valuation. Preference for China and Taiwan, and the more cyclical Japanese exposure.
	Sectors	+	▪ Positive on these pro-cyclical sectors: Materials, Industrials and Insurance. ▪ Positive on this defensive sector: Healthcare. (pharma and biotech) ▪ In Europe: positive on Technology and Energy.
BOND -	Govies	-/= +	▪ We are negative on German govies, irrespective of 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	+	▪ We prefer corporate bonds over government bonds. ▪ We like EUR and US IG bonds with a duration at benchmark (5 and 9 years, respectively). ▪ We are positive on eurozone convertible bonds.
	High yield	=	▪ We are neutral on both US and eurozone HY. We prefer fallen angels.
	Emerging	+/=	▪ We are positive on EM bonds, in both hard and local currency.

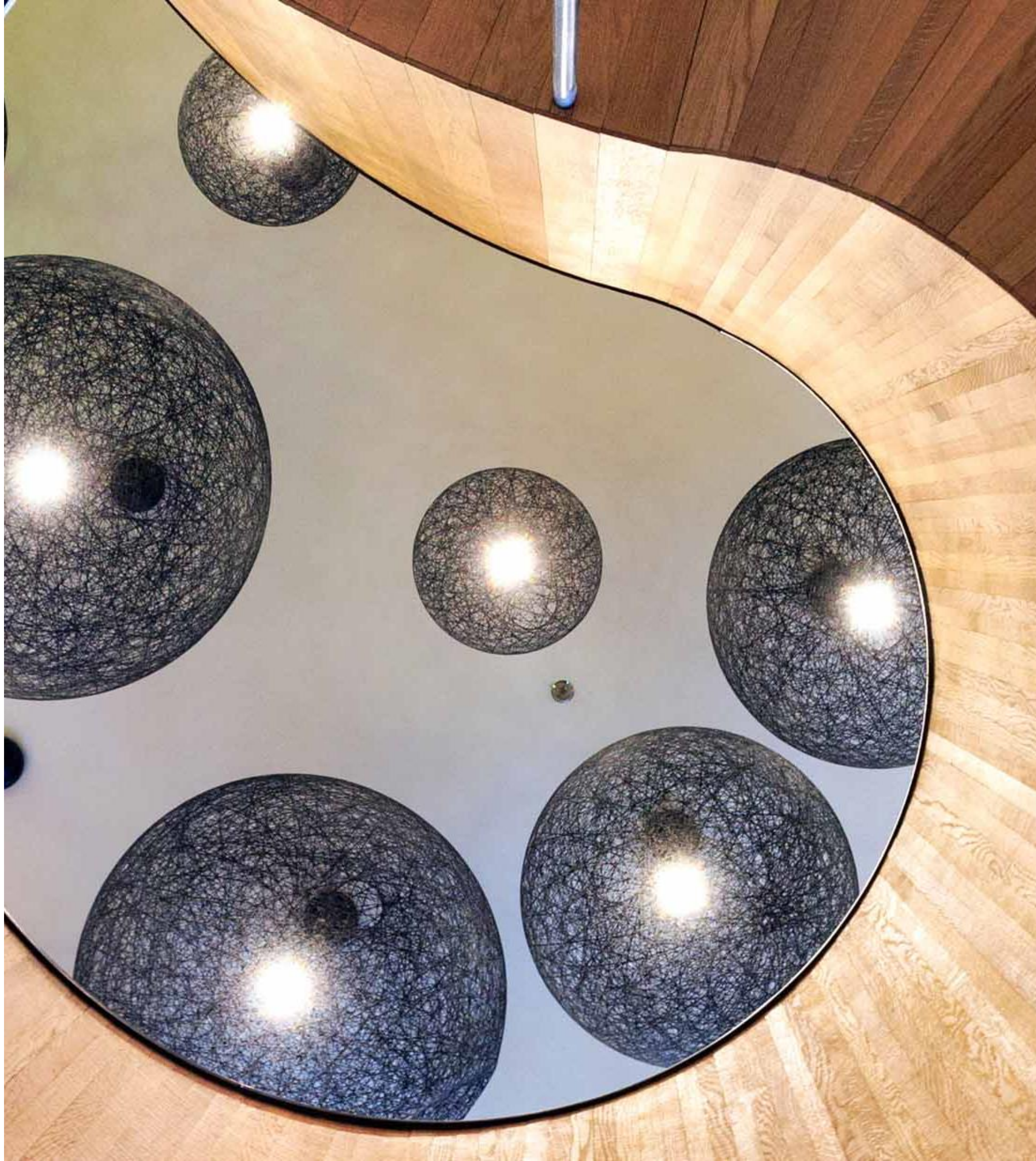
Asset class	Segment	View	Comments
FOREX /	EUR/NOK	=	▪ We see the NOK steadily appreciating over the year. Our 12-month target is now 9.9 (previously 10.1).
	EUR/SEK	=	▪ We expect a moderate depreciation for the SEK but it should remain stable in the near term. Our 12-month target is now 10.2 (previously 10.5).
	Commo FX	+	▪ We expect commodity currencies to keep appreciating in 2021 as the global economy recovers. We revise our 12-month targets for the CAD, AUD & NZD to 1.25, 0.8 and 0.75 (from 1.29, 0.73 and 0.71), respectively.
	USD/CNY	=	▪ We expect authorities to limit further appreciation but still see upside for the CNY. We revise our 12-month target to 6.4 (from 6.5).
COMM +	Oil	+	▪ The OPEC+ supply management in Q1 and the outlook of a further demand recovery should support prices. We expect Brent to trade in the range \$45-55 in H1 2021 and \$50-60 in H2.
	Gold	+	▪ Negative real interest rates, USD weakness and inflation fears should bring gold prices back above \$2000 in 2021.
	Base metals	+	▪ Expectations of a synchronized global economic expansion in 2021, coupled with a soft dollar and increased investor demand for real assets make a bullish mix.
ALTER /	Alt. ucits	/	▪ Positive on Relative Value, ▪ Event-Driven and Long-Short equity. ▪ Neutral on Macro.

02

Global macro

Economic growth and inflation
US and EU consumption
Economic Surprise Index
Business Surveys
Inflation Expectations
Global Trade

BNP PARIBAS WEALTH MANAGEMENT



Economic growth and inflation

Vaccines, keystones of the world economy

ECONOMIC GROWTH

It will still take some months for the US to overcome the shock caused by Covid-19. Economic growth will be driven by government expenditure supporting improvements in consumer and business sentiment. Activity should benefit strongly from the vaccines in H2.

- We expect a sharp acceleration of economic activity from the second quarter 2021 onwards.
- We expect eurozone GDP's growth to rise to 3.8% this year.
- The vaccines distribution and process is accelerating and deaths will slow down as fragile people will be mainly vaccinated within a few months.
- GDP will end 2021 below the end-2019 level. The output gap will gradually decrease due to a solid pickup in demand over 2021 and 2022.

BNP Paribas Forecasts

GDP Growth %	2019	2020	2021	2022
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* Fiscal year
Source: Refinitiv - BNP Paribas - 15/01/2020

INFLATION

Our inflation forecasts remain broadly unchanged for 2020 and 2021.
After the crisis, inflation should rise very gradually to levels consistent with central banks' targets.

- Inflationary pressures should remain generally weak over 2021-22 across both advanced and emerging economies.
- Our key optimistic scenario in the US is the assumption of a bigger fiscal stimulus that could boost both consumer and business confidence.
- The ECB will have little reason to change its policy stance and will remain exceptionally accommodative.
- Both demand and supply are being held down by virus-related lockdown restrictions. The arrival of the vaccines should provide a boost to both in H1 2021.

BNP Paribas Forecasts

CPI Inflation %	2019	2020	2021	2022
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* Fiscal year
Source: Refinitiv - BNP Paribas - 15/01/2020

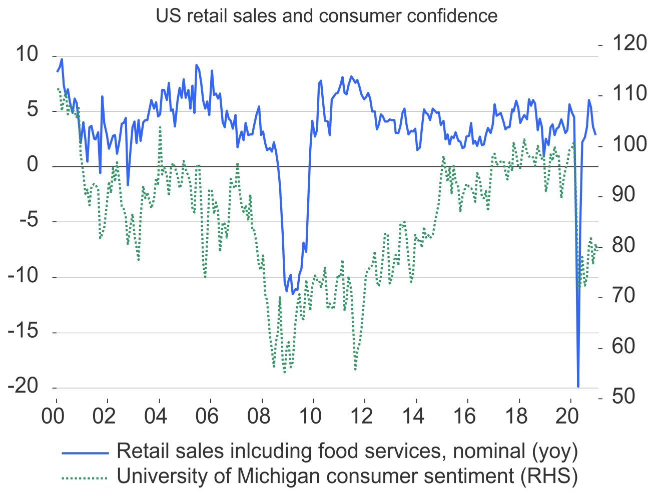
US and EU consumption

Consumption keeps recovering, but consumer confidence is still low

US CONSUMPTION

Retail sales are on their way back to normality but...
consumer confidence is recovering very slowly.

- Retail sales growth fell again during Q4, we see that the recovery is weak and Covid-19 still impacts consumption levels.
- The University of Michigan Consumer Sentiment index shows a progressive rebound but values are still lower than pre-pandemic levels.
- Short term, this could be an issue. Over Q2 2021, the vaccine and policy stimulus should improve sentiment and consumption.

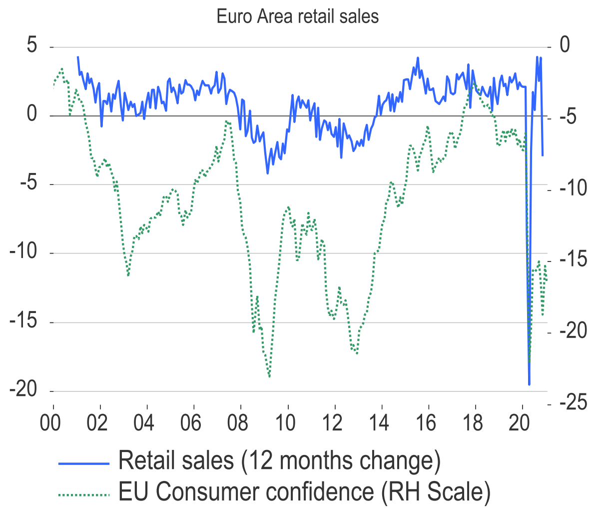


Source: Refinitiv Datastream, déc. 20

EU CONSUMPTION

Consumer confidence is stable but at a low level. The services sector continues to suffer from consumer caution.

- Consumer confidence dropped again in January to -16.5. The expectation of a vaccine didn't stabilize the situation after the second wave low levels (see chart). Worries about the virus and the unemployment rate is likely to boost savings and limit consumption. The service sector particularly continues to suffer from consumer caution and lockdown measures.
- Retail sales continue their recovery after a major fall. They rose back to normal values at the end of Q3 but fell back into negative territory in Q4.
- We expect a recovery in the second half of 2021 thanks to the vaccines and government expenditure.



Source: Refinitiv Datastream, nov. 20

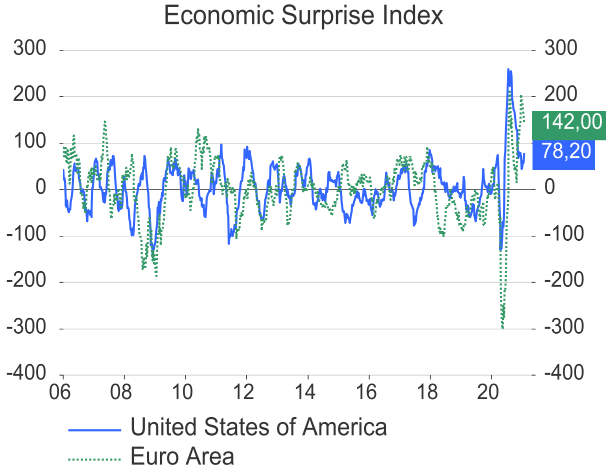
Economic Surprise Index

Differentiated evolution between developed and emerging economies

AFTER ITS SPECTACULAR RISE, BACK TO NORMALITY

The Euro Economic Surprise Index is stabilizing in Q1 2021. The US index has not fully recovered since it fell from its peak in August.

- The EU Economic Surprise Index saw a spectacular rise from -301.2 on 4 May to 142 on 27 January.
- The US Economic Surprise Index has not recovered since its peak of 254.6 in August. The shy rebound observed in early 2021 is promising a return to normality.
- The index measures the positive or negative surprises relative to expectations. These expectations should be adjusted gradually.

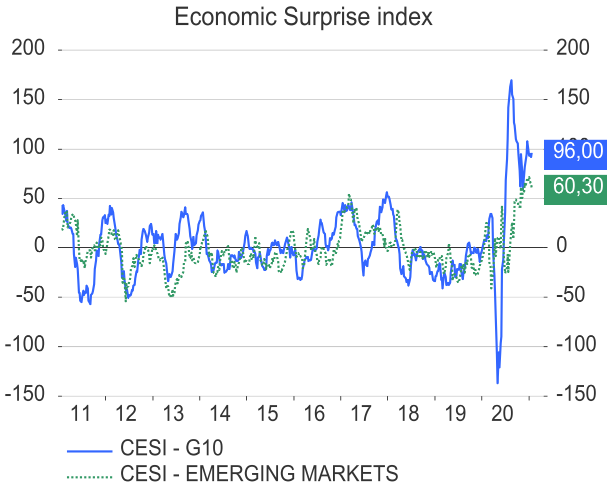


Source: Refinitiv Datastream, 27/01/2021

EM ARE CATCHING UP

EM economic surprise indices have been catching up, and are now at 60.3. The recovery is especially strong in China.

- Emerging Markets have been catching up with the G10 region with an index at 60.3 as of 27 January, i.e. at the same level as early December.
- Conversely, after its free fall since August, the G10 Economic Surprise Index is in a stabilization phase but at higher values than in the past, at 96 as of 27 January.
- We continue to see more evidence via high-frequency indicators suggesting that the Chinese economy is recovering. Elsewhere, the recovery for the EM markets is more gradual.



Source: Refinitiv Datastream, 27/01/2021

Business Surveys

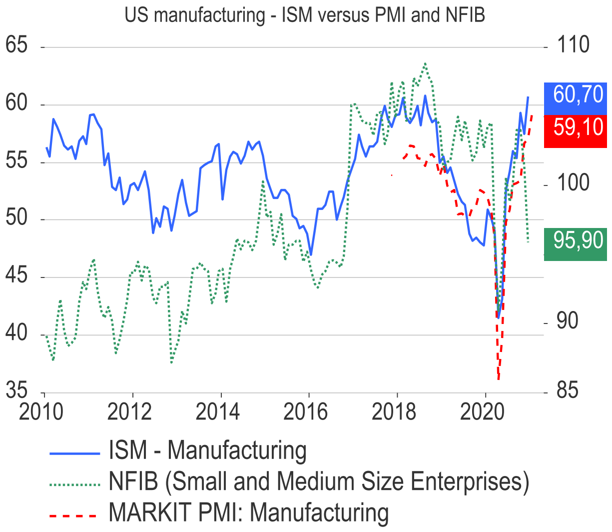
Signs of stabilization but the European's PMI are still low

UNITED STATES

US manufacturing is stable above 50. The NFIB (sentiment for small- and medium-sized companies) dropped but remains at a high level, which bodes well for the US.

- The Markit manufacturing PMI (59.1) reaches in January its highest values since 2012. Meanwhile, the ISM index (60.7) reaches a value not reached since 2011.

- The NFIB index, which covers small and medium companies, declined 5.5 points in December after a fall in November but remains at a high level. It covers a bigger part of the economy than the other surveys. This remains globally positive for US growth.



Source: Refinitiv Datastream, déc. 20

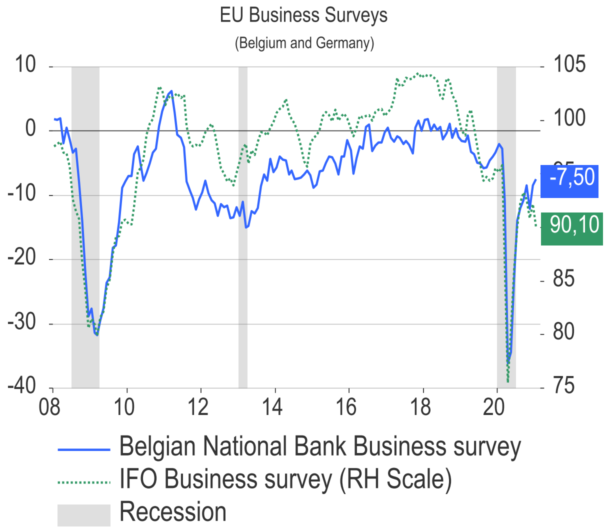
EUROZONE

Business surveys in the eurozone showed further signs of stabilization but are still below pre-pandemic levels. Most PMIs suggest that the outlook for major European countries is slightly positive.

- Business surveys in the Eurozone showed a strong recovery after the first wave, followed by another drop with the second wave of the virus. Then, we observed a shy increase due to the vaccine's hope.

- The German manufacturing PMI (57) remains above 55. Local business surveys (e.g. Ifo) have been above 90 for a few months. The French manufacturing PMI (51.5) dropped under 55 due to the bad sanitary conditions and fears of another lockdown.

- The Italian manufacturing PMI (52.8) is also below 55 but is still better than the French equivalent although the political situation is unstable.



Source: Refinitiv Datastream, janv. 21

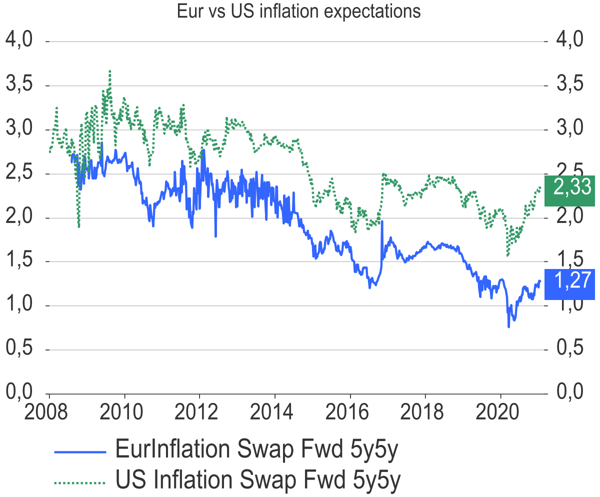
Inflation Expectations

Inflation is low but could rebound especially in the US

INFLATION EXPECTATIONS

In the medium term, we expect a rebound in activity to lead to reflation especially in the US. In the EU we expect a more moderate rise. This is reflected in the expectations.

- In the medium term, we expect the contraction in activity from the Covid-19 shock to subside and to lead to reflation across most developed economies.
- Inflation expectations point now to a gradual normalization of inflation rates in the coming years (see chart).
- In the US, the University of Michigan is showing optimistic trends with inflation expectations rising again month on month. In the eurozone, after hitting historical low values, the SPF is bouncing back but is still under average levels.



Source: Refinitiv Datastream, 27/01/2021

CHINA'S INFLATION

The government is supporting the economy and trying to be as smooth as possible regarding the monetary policy.
Inflation declined but will progressively raise back to normal values between H2 2021 and 2022.

- Our inflation expectations for 2021 (2.3%) are below the 2020 figures. However, China is one of the most resilient countries and its inflation will bounce back in 2022.
- PBOC's vice governor Chen Yulu communicated on a prudent monetary policy focused on stability without abrupt shifts.
- One of the major risks for the economic development of the country is the willingness of Westerns economies to relocate their production on their territory following the impact of the pandemic on global trade.

Source: Refinitiv Datastream, déc. 20

Global Trade

Global trade gives positive signals

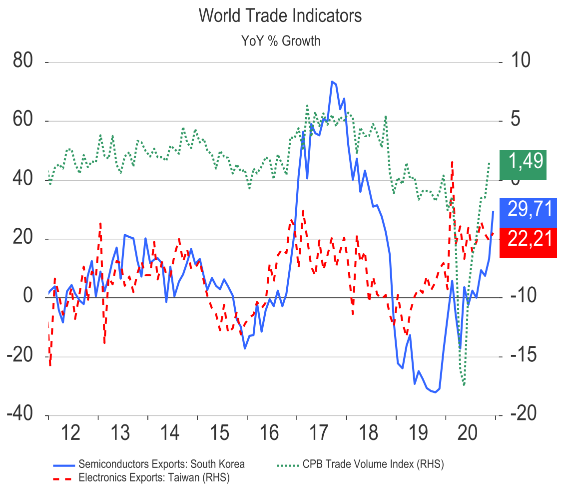
PATIENCE AND CAUTION

A sharp decline in global trade volumes since 2018, but a rebound is observed. Trade tensions weigh on global trade. Korean exports of semi-conductors and Taiwanese exports are recovering fast.

- Global trade is recovering slowly as the businesses are still prudent.

- Trade tensions are weighing on global trade. We do not expect a major deal between the US and China to be struck within the next year. The Biden administration has already mentioned that they will not be accommodative regarding China.

- Taiwanese electronic exports improved strongly with above 20% growth since early 2020. South Korean exports of semiconductors started to rebound after declining from late 2017. The pandemic stopped the recovery but we have been observing since H2 2020 a highly bullish trend.



Source: Refinitiv Datastream, déc. 20

GOOD NEWS

German exports are improving and expectations (based on surveys) are positive for 2021. Survey participants expect a slow recovery in exports as trade tensions linger.

- New exports orders growth increased to 8.76% YoY in November from 0.925 % YoY in September. This suggests that the manufacturing sector is rebounding. This is good news for Germany and Europe, as the economy is heavily dependent on external demand.

- Since H2 2020, business confidence has been positive in Germany. But exports began to recover from Q4. This month, new orders expectations are beginning to increase again. Firms reported in the IFO survey that they expect to have weak export orders over the next six months.

Source: Refinitiv Datastream, nov. 20

03

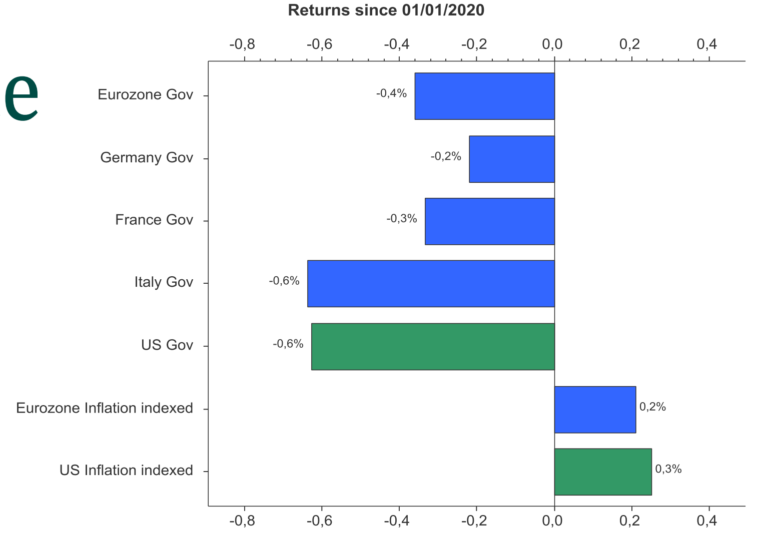
Fixed Income

Central Banks
Bond Yields & Inflation expectations
Government Bonds
Corporate Bonds
Emerging Market Bonds

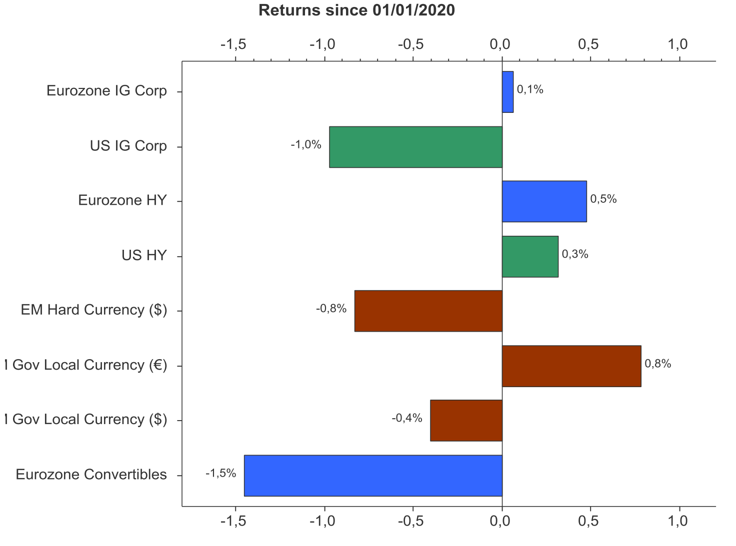
Fixed Income at a glance

Central banks will remain very accommodative this year, ensuring that real yields stay negative. Nominal yields have therefore a limited potential of moving higher.

We stay positive on EM bonds, IG and fallen angels corporate bonds. We also like peripheral bonds and see any spread widening as an opportunity to reinforce positions.



Source: Refinitiv Datastream, 27/01/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)



Source: Refinitiv Datastream, 27/01/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)

Central Banks

Both the Fed and the ECB have no intention to raise their policy rates. They want to maintain real yields low to support the economic recovery. The debate about tapering at the Fed is premature.

Government Bonds

Our 12-month targets are 1.40% for the 10-year Treasury yield and -0.25% for the Bund yield.

We stay positive on US short-term bonds for USD-based investors and negative for both US long-term bonds and German bonds.

Peripheral bonds

We are positive on peripheral bonds with a buy on weakness strategy. The ECB acts as a backstop, preventing any surge in spreads and maintaining rates volatility low. Valuations are tight and will remain so.

Corporate Investment Grade (IG) Bonds

IG bonds should remain in demand in 2021 despite higher risks than before if bond yields rise too much. Spreads are low but could move tighter.

Corporate High Yield (HY) Bonds

The low level of spreads does not make the HY asset class very attractive. We prefer fallen angels as they offer decent yields for lower risk compared with HY.

Emerging Market (EM) Bonds

We have a positive stance on EM bonds, in both hard and local currency. The global backdrop remains supportive for EM bonds, with an expected weaker dollar and supportive financial conditions.

Central banks

Central banks: dovish

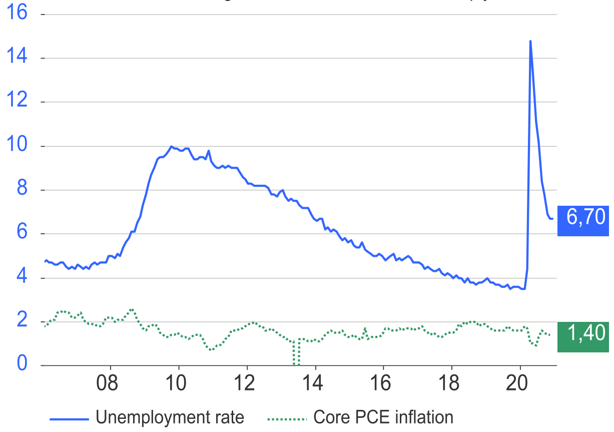
THE FED

The Fed will remain very accommodative. It is not expected to slow its asset purchases until substantial progress is made in terms of inflation and the job market.

- The Fed maintained its dovish tone at the January meeting as it sees that the economic recovery has moderated in recent months due to the winter virus surge. The long-term outlook is brighter.
- The Fed noted that it is very far off its employment target.
- It believes that base effects and a release of pent-up demand would drive inflation a bit higher in the near term. However, it would not react to this as it is easier to deal with higher inflation than low inflation.
- Powell reiterated that it is premature to talk about tapering.
- We expect the Fed to remain very accommodative this year, i.e. no rate hikes, no tapering and Powell dampening any taper talks.

Fed Dual Mandate

Goals of 2% average inflation over time and full emplyment



Source: Refinitiv Datastream, déc. 20

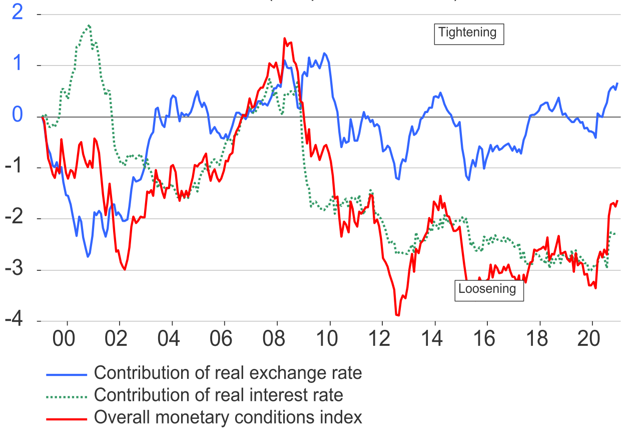
THE ECB

It's all about maintaining favorable financial conditions.

- The ECB is deterred from maintaining favourable financial conditions until at least March 2022. This suggests that the pace of bond buying via the pandemic programme (PEPP) could go either way.
- The ECB is looking for a new way to measure financial conditions with a synthetic index of bond spreads, corporate credit spreads, banks lending rates, etc. (see chart).
- We exclude any change in rates for the foreseeable future. The ECB will aim to keep real rates and rates volatility low.
- We think that the ECB will remain highly accommodative even when the economy improves and inflation picks up.

Euro Area monetary conditions

DG ECFIN (European Commission)



Source: Refinitiv Datastream, déc. 20

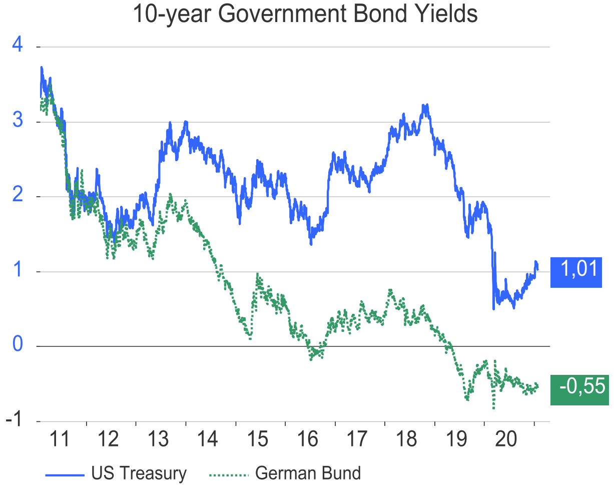
Bond yields and Inflation expectations

Bond yields are capped

BOND YIELDS

Our targets are -0.25% for the German 10-year yield in 12 months and 1.40% for the US 10-year yield.

- Both the Fed and the ECB aim to keep real yields negative. Neither has the intention to raise their policy rates. As such, nominal yields only have a limited potential to rise.
- President Biden's reflationary policy could push breakeven rates higher. Increased fiscal support should lead to greater issuance of Treasuries. Our 10-year bond yield target is 1.40% in 12 months.
- The rise in German long-term bond yields have been much more moderate than in the US (see chart). As the economy reopens and economic data surprise to the upside, bond yields could rise gently. Our target is -0.25% for the German bund yield in 12 months.

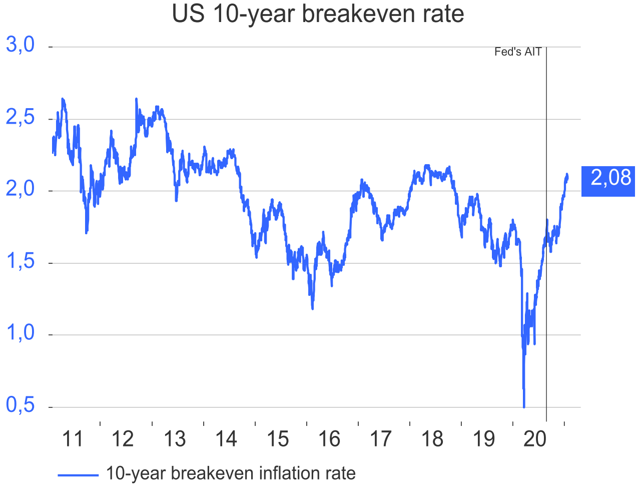


Source: Refinitiv Datastream, 28/01/2021

INFLATION EXPECTATIONS

We do not expect inflation to sustainably surprise to the upside.
Inflation breakevens have limited potential to rise. We stay neutral on inflation-linked bonds.

- EU core inflation may surge in January, but we do not see this as the beginning of a trend.
- Reflation has already been well discounted, especially in the US where the 10-year breakeven inflation rate has moved sustainably above 2% (see chart). This is also the result of the Fed's average inflation targeting policy. US inflation--linked bonds may outperform nominal bonds only slightly given that breakevens have already risen strongly.
- We 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, 28/01/2021

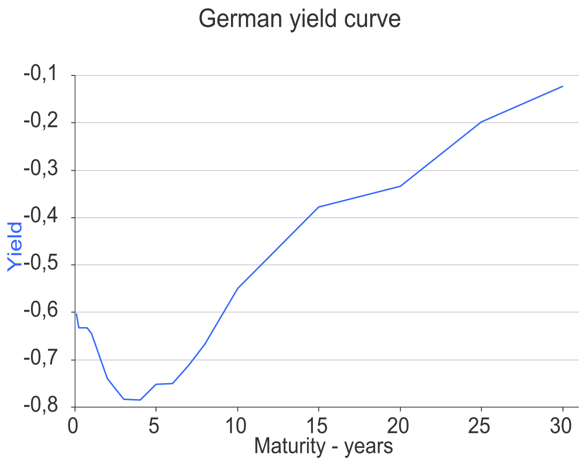
Government Bonds

Prefer peripheral bonds

US AND GERMAN GOVIES

We stay positive on US short-term bonds for USD-based investors.
We are negative on both US long-term bonds and German bonds.

- The selloff in US long-term government bonds has stopped. Sentiment has turned negative as the US fiscal stimulus may take more than a month to pass.
- The German yield curve is negative, even the 30-year yield is negative. See chart.
- Our bond yield targets imply that both US and German government bonds would deliver negative returns.
- US short-term bond yields are likely to remain close to current levels. Hence, US short-term government bonds are an alternative to cash for USD-based investors. Expected returns are limited though, given the low level of yields.

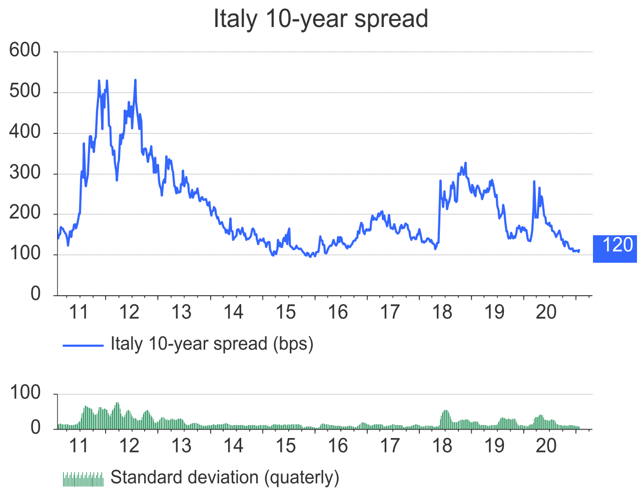


Source: Refinitiv Datastream, 27/01/2021

EUROZONE PERIPHERAL BONDS

We are positive on peripheral bonds with a buy on weakness strategy. The ECB acts as a backstop, preventing any surge in spreads and maintaining rates volatility low. Valuations are tight and will remain so.

- Political turmoil resurfaced in Italy. Prime Minister Conte resigned in order to form a new coalition government. The market reaction was quite muted (see chart) as the worst-case scenario of early elections was averted and the ECB would very likely react if Italian spreads were to widen substantially.
- We see any widening of Italian spread as an opportunity to reinforce positions, given the low/negative yield environment in the eurozone. Only peripheral bonds offer positive yields
- The ECB maintains GDP-weighted average spread over OIS of eurozone countries to pre-Covid crisis levels. The ECB has the capacity to absorb all the net issuance of the eurozone.



Source: Refinitiv Datastream, 27/01/2021

Corporate Bonds

Tight spreads but could be tighter

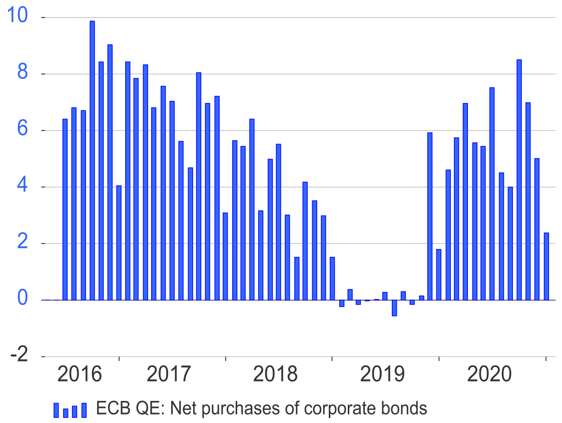
INVESTMENT GRADE (IG)

IG bonds should remain in demand in 2021 despite higher risks than before if bond yields rise too much. We favour duration at benchmark, i.e. 5 years in the eurozone and 9 years in the US.

- The primary market was very active in January. Companies rushed to refinance as bond yields rose. In the eurozone, bond issuances are 60% above the same period last year. Issuance is likely to fall in 2021 vs 2020 as most companies have already refinanced. IG funds are attracting sizable inflows. The supply/demand dynamic is favourable.
- In the eurozone, the ECB is buying corporate bonds (see chart) and is not likely to stop anytime soon. Expected returns may be low but positive.
- In the US, IG bonds have become more risky with spreads relatively low, high duration and the Fed backstop gone. Yet, spreads could tighten further thanks to the fiscal stimulus, more deleveraging and corporates cutting costs following the Covid crisis.

ECB QE : Asset purchase programme

Billions, EUR



Source: Refinitiv Datastream, déc. 20

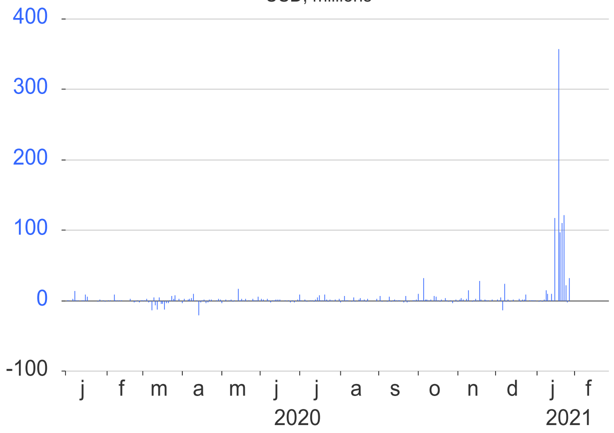
HIGH YIELD (HY)

The low level of spread makes the HY asset class not very attractive. We prefer fallen angels as they offer decent yields for lower risk compared with HY.

- Even though opportunities can be found in single names, we do not find high yield bonds a very attractive asset class. The rally has pushed the average price above par. Credit spreads are historically low, especially the lower end of the rating spectrum. Yields on the riskiest US HY bonds fell to an all-time low of 6.4%. HY bonds have low duration, making them more immune to rising bond yields.
- We keep our preference for fallen angels. They offer a higher yield than the better-rated HY bonds. Demand for fallen angels has been massive lately (see chart). The iShares ETF US fallen angels has doubled in size in the past two weeks.

iShares ETF US fallen angels - Fund flows

USD, millions



Source: Refinitiv Datastream, 28/01/2021

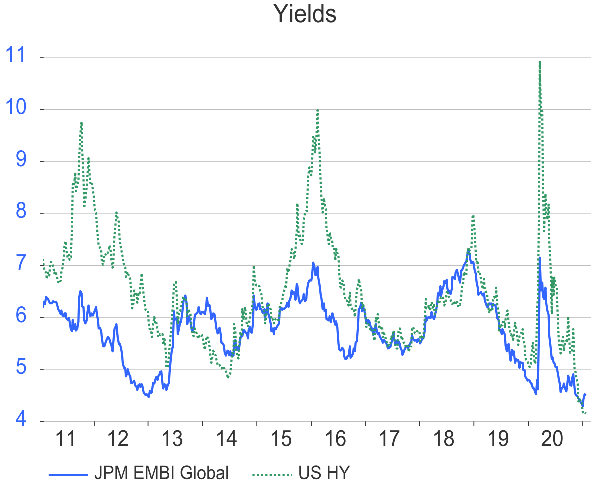
Emerging Market Bonds

EM bonds are attractive

EM BONDS IN HARD CURRENCY

EM bonds in hard currency are supported by the global backdrop and the Fed, who are maintaining supportive funding conditions in dollar.

- EM bonds in hard currency had a rough start to the year. Investors were worried about their debt servicing costs as the US Treasury yield had risen fast. Since then, US yields have receded as the Fed has made it clear that it does not intend to reduce its support now.
- The global backdrop remains supportive for EM bonds. Risks premium are low. USD liquidity is abundant. China is having a strong cyclical recovery.
- EM bonds in hard currency offer a higher yield than US HY bonds (see chart).
- We maintain a positive view on EM bonds in hard currency. EM bonds will continue to be supported by the loose monetary policy of the Fed. USD funding and liquidity are ample.

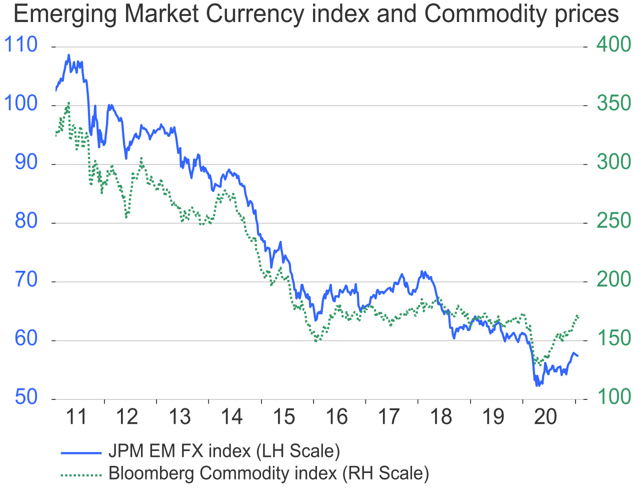


Source: Refinitiv Datastream, 28/01/2021

EM BONDS IN LOCAL CURRENCY

We continue to favour EM bonds in local currency. The asset class should benefit notably from higher EM currencies.

- The return of EM bonds in local currency depends very much on the return of EM currencies.
- The expected weaker dollar would be a strong tailwind to the asset class. Cyclical and high-yielding EM currencies have lagged the recovery. They are now expected to catch up, as terms of trade have improved and commodity prices have moved higher (see chart).
- EM markets are currently supported by central banks' loose policy, permitted by the low level of inflation in emerging countries.
- We keep a positive stance on EM bonds in local currency.



Source: Refinitiv Datastream, 28/01/2021

04

Forex

VS EUR
VS USD
CNY-CAD-AUD-NZD

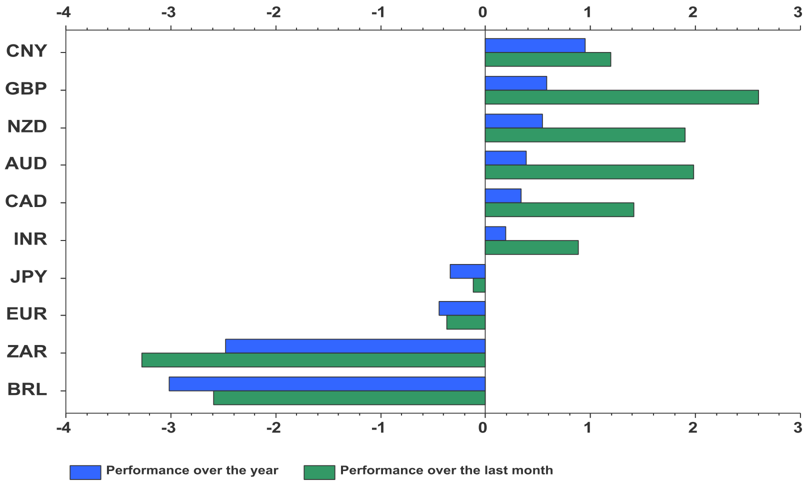
BNP PARIBAS
WEALTH MANAGEMENT

Forex at a glance

The first weeks of the year saw the greenback rebound. We expect USD gains to be short-lived as the Fed's policy rate guidance continues to cap front-end yields, while asset purchases cap longer-end rates and fiscal stimulus keeps inflation expectations high.

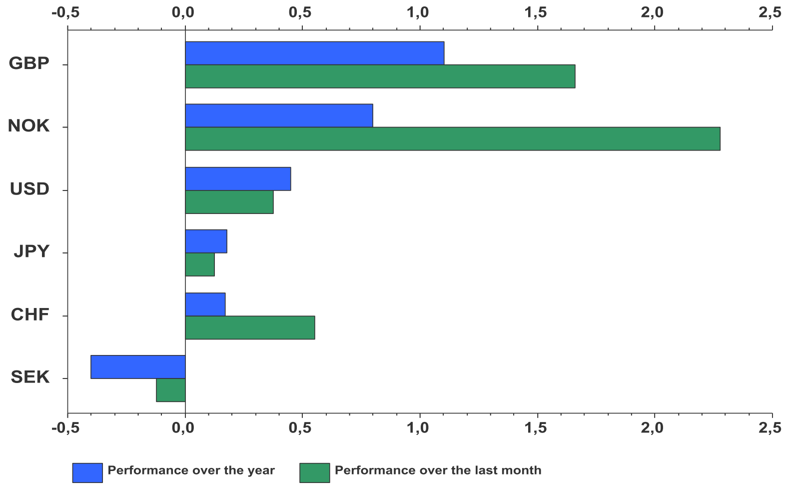
The **Chinese Yuan and Norwegian Krone should** appreciate steadily, as the long-term outlook is positive for both currencies.

Currencies performance against the USD (%)



Source: Refinitiv Datastream, 26/01/2021

Currencies performance against the EUR (%)



Source: Refinitiv Datastream, 26/01/2021

EUR/USD

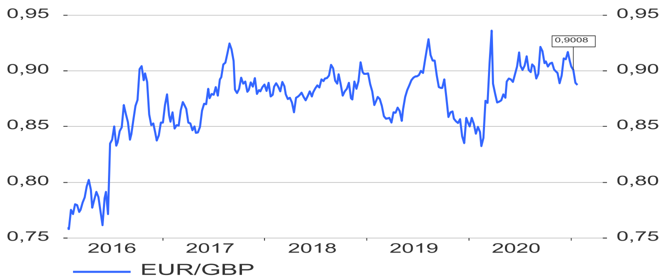
Given the current interest rate differential in Europe and in the US, we keep our bearish scenario for the USD. Our targets remain unchanged at 1.20 (value for 1 euro) and 1.25 over the next 3 and 12 months, respectively.

Source: Refinitiv Datastream, 27/01/2021

USD/CNY

The USDCNY should hover around current levels (6.5, value of one dollar) in the short term.

In 12 months, we think that the USDCNY still has some room for appreciation to 6.4 (revised from 6.5).



Source: Refinitiv Datastream, 27/01/2021

EUR/NOK

We see a gradual appreciation trend over the year for the NOK. We have revised our 3-month target to 10.2 (from 10.70) and our 12-month target to 9.9 (from 10.1).

Source: Refinitiv Datastream, 27/01/2021

Our position for this month

Evolution of our position from last month

VS. EUR

Outlook for currencies versus EUR

	Country		Spot 03/02/2021	Trend	Target 3 months (vs EUR)	Trend	Target 12 months (vs EUR)
	United States	EUR / USD	1.20	Neutral	1.20	Negative	1.25
	United Kingdom	EUR / GBP	0.88	Neutral	0.88	Positive	0.86
	Japan	EUR / JPY	126	Neutral	125	Neutral	128
	Switzerland	EUR / CHF	1.08	Neutral	1.08	Negative	1.11
	Australia	EUR / AUD	1.58	Neutral	1.58	Neutral	1.56
	New-Zealand	EUR / NZD	1.67	Neutral	1.67	Neutral	1.67
	Canada	EUR / CAD	1.54	Neutral	1.52	Neutral	1.56
	Sweden	EUR / SEK	10.12	Neutral	10.20	Neutral	10.20
	Norway	EUR / NOK	10.34	Neutral	10.20	Positive	9.90
Asia	China	EUR / CNY	7.77	Neutral	7.80	Negative	8.00
	India	EUR / INR	87.8	Negative	90.0	Negative	93.75
Latam	Brazil	EUR / BRL	6.46	Neutral	6.36	Positive	5.63
EMEA	Russia	EUR / RUB	91.7	Neutral	91.2	Positive	85

Source: Refinitiv Datastream

Diverging paths for Scandinavian currencies: positive outlook for the NOK over the year but moderate depreciation in the short term followed by stabilization for the SEK.

- The SEK appreciated by 4.6% against the euro in 2020 but it has started to decline in 2021. Inflation expectations are close to 6-year lows, which could prompt the Riksbank to turn more dovish. The downside risk is that it all leads to the market pricing in a chance of a rate cut in Sweden, falling into negative territory as the policy rate currently stands at 0%. Economic forecasts predict a 3.1% GDP contraction in Q1 2021, followed by a 6.7% increase (yoy) in Q2. The unemployment rate could jump as high as 9% in Q1 and progressively decrease starting from Q2. Near term, the expected global recovery should help an economy that relies on global trade. **Therefore, we revise our EURSEK target to 10.2 for the next 3 and 12 months (from 10.5 previously). This still suggests some downside for the SEK.**

- The NOK is one of the currencies that has suffered the most from the Covid-19 crisis. It has been recovering well since December and we believe it will keep doing so in 2021, appreciating back to pre-pandemic levels. The economy held up well to new sanitary measures and the sovereign wealth fund helps withstand further demand hits. Business confidence has been stable thanks to the rollout of vaccines. The Norges bank kept rates at zero at its last meeting but is expected to increase them in early 2022, maybe even sooner as house prices rise and credit growth recovers. Core inflation stands at 3%. It is a favourable backdrop for the NOK in 2021. **Therefore, we have revised the EURNOK to 10.20 over the next 3 months (from 10.70 previously) and to 9.9 over the next 12 months. This suggests strong upside for the NOK.**

VS. USD

Outlook for currencies versus USD

	Country		Spot 03/02/2021	Trend	Target 3 months (vs USD)	Trend	Target 12 months (vs USD)
	Eurozone	EUR / USD	1.20	Neutral	1.20	Positive	1.25
	United Kingdom	GBP / USD	1.37	Neutral	1.36	Positive	1.45
	Japan	USD / JPY	105	Neutral	104	Positive	102
	Switzerland	USD / CHF	0.9	Neutral	0.90	Neutral	0.89
	Australia	AUD / USD	0.76	Neutral	0.76	Positive	0.8
	New-Zealand	NZD / USD	0.72	Neutral	0.72	Positive	0.75
	Canada	USD / CAD	1.28	Neutral	1.27	Positive	1.25
Asia	China	USD / CNY	6.46	Neutral	6.50	Neutral	6.40
	India	USD / INR	72.9	Negative	75.0	Negative	75.0
Latam	Brazil	USD / BRL	5.37	Neutral	5.30	Positive	4.50
	Mexico	USD / MXN	20.1	Neutral	20.0	Positive	18.0
EMEA	Russia	USD / RUB	76.4	Neutral	76.0	Positive	68.0
	South Africa	USD / ZAR	14.9	Negative	17.0	Neutral	15.0
	USD Index	DXY	91.07	Neutral	91.1	Negative	87.8

Source: Refinitiv Datastream

We keep our bearish scenario for the USD in the near term. Covid-19 surge and lockdown measures led to a contraction in Q4 that could persist in Q1 but we expect a strong recovery later in the year thanks to the vaccines.

- The worsening of the sanitary situation in Europe forced governments to take tougher measures and the dollar took advantage of it in early January. Nevertheless, we expect those gains to be short-lived. Market sentiment will remain sensitive to the speed of the vaccination campaigns and we expect them to speed up exponentially. **We maintain our view of a stabilization of the EURUSD around 1.20 (value for 1 euro).**
- **We continue to see a weaker dollar over the next 12 months** as we think that both the nominal and real yield differential will remain very low as the Fed policy rate guidance caps front-end yields and the asset purchases programme puts downward pressure on longer-end yields.

The fiscal stimulus will keep inflation expectations higher, which will keep real yields low. The expected widening of the current account deficit and the strongly overvalued USD compared to the PPP also point to further dollar weakness . **Our 12-month EURUSD target remains 1.25.**

Update on CNY-CAD-AUD-NZD

Outlook for currencies versus USD

Stabilization ahead for the CNY and CAD: these currencies could face some headwinds in 2021 but should ultimately remain slightly above their current levels.

- The CNY carried its strong performance of 2020 into January, with the USDCNY going from 6.54 to 6.46. The GDP growth outlook is positive for 2021, with Covid-19 being a downside risk: schools closed in Beijing and the province of Hebei is under lockdown. We see limited appreciation in Q1, followed by a pullback in Q2 mainly because of the dividend payouts season, which prompts capital outflows. Moreover, monetary authorities should limit further CNY appreciation. On top of that, credit normalisation has begun but we don't expect any imminent interest rate hikes. **Therefore, we see USDCNY fluctuating around current levels (6.5) in the short term and to 6.4 over the next 12 months (6.5 previously).This suggests marginal upside.**
- The CAD has benefitted from rising oil prices and recent comments from the Bank of Canada. We expect closer trade relations with the USA with Biden as President but his policies could hurt Canada's ability to move oil to market. The market expects the BOC to tighten before the Fed, despite the authorities maintaining that no interest rate hike is expected before 2023. Moreover, a strong currency could lead to a more accommodative policy stance. The main drivers of the CAD appreciation remain our bearish view of the USD and the risk-on sentiment of investors. **Therefore, we have revised our 3-month target for the USDCAD from 1.31 to 1.27 (value of one dollar). Our 12-month target is now 1.25 (1.29 previously). This suggests more upside.**

The AUD and NZD are trending towards our long-term fair value: good fundamentals are behind the strong performance of both of these currencies. We see scope for further upside.

- Both currencies had a great performance against the dollar in 2020. Domestic data is supportive and China's recovery further boosted commodity prices. For Australia, iron ore exports are at risk given the recent tensions with China. This could hurt both the iron ore price and the AUD. Nevertheless, the AUD and NZD are cyclical currencies that will take advantage of the global economic recovery later this year and the interest rate differential with the US. The recent free trade deal between New Zealand and China should further support the country.
- On the monetary side, the Central Banks could be sensitive to currency strength. They still have scope to ease policy further, via QE expansion or negative interest rates. Nevertheless, the cash rate is expected to stay at 0.25% in New Zealand until at least 2022. Indeed, low rates and fiscal/monetary stimulus have propelled the housing market to historical highs, thus making a rate cut unlikely. The RBA should leave interest rate just above zero until at least 2022 as wage growth is flat and inflation in general is rather low. **We update our 3-month target to 0.76 (from 0.73) for the AUDUSD and to 0.72 (from 0.69) for the NZDUSD. Our 12-month target is now 0.8 (from 0.73) for the AUDUSD and 0.75 (from 0.71) for the NZDUSD. This implies further appreciation potential for both.**

05

Equities

BNP PARIBAS
WEALTH MANAGEMENT

Equities at a glance

Historically low real rates support equities: US and Euro 10-year real rates below -1% support equity valuations. Remain positive on equity exposure.

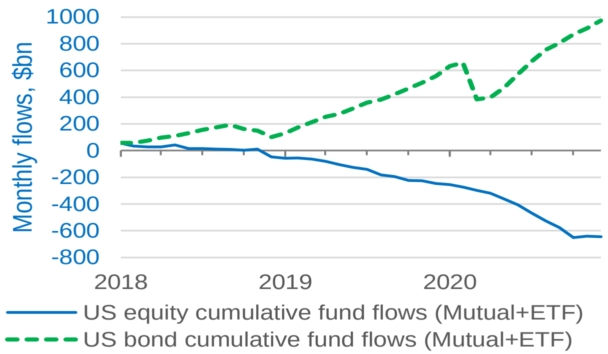
Risk-on environment remains: the BNPP WM Risk Radar for January remains at 0 out of 12, underlining a favourable backdrop for risk assets. Good for equities.

US financial conditions are the easiest since 1990: the Goldman Sachs US financial conditions index (looking at volatility, credit spreads, interest rates and other financial market indicators) is at its easiest (lowest) level recorded in over 30 years.

Flows have yet to return to equities: sentiment indices, such as the CNN Money Fear & Greed index, remain at neutral, while fund flow data underline that investors continue to favour bond over equity funds. This suggests that buying power for equities is not yet exhausted.

We remain positive on equities as an asset class.

Fund flows favour bonds over equities



Source: ICI

Sectors: Cyclical exposure preferred

Tactical reflation theme still working: in spite of sharply higher US and UK Covid-19 infection rates, our tactical reflation theme continues to benefit cyclical sectors, small- and mid-caps and the UK and Japanese stock markets.

Factors:

⊕ **Small- and mid-caps lead**: European small caps beat large-caps by 7% in December, with Q1 traditionally also strong for SMID exposure. Prefer EU and US SMID exposure.

Themes

⊕ Where to focus in Tech today? There are two particular areas of technology that we believe can continue to perform particularly well, potentially outperforming the mega-cap FANG stocks in 2021. These are the **semiconductor sector and video games & eSports stocks**

Regional Allocation: Favour cyclical markets

⊕ Regional bias to EM, Japan, eurozone, UK: December was a strong month for the MSCI World ex US index while the US is held back by political uncertainty. Favour China and Taiwan within EM, and the more cyclical eurozone and Japanese exposure.

⊜ Neutral on US exposure, given rising risks to mega-cap Tech from increasing regulation and taxation.

Risks

⊜ Volatility remains elevated given the strong market momentum, and sentiment is close to euphoric. A number of investment bubbles exist in "hot themes" such as renewable energy, cannabis, SAAS software, which could easily correct.

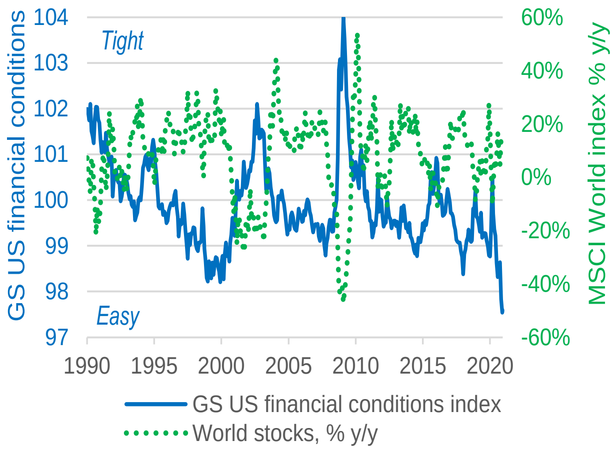
Global Equities view

Support from central banks suppressing real rates

FINANCIAL CONDITIONS REMAIN EASY

The combination of ultra-low long-term real rates specifically, and ultra-easy financial conditions more generally are a powerful cocktail for global stocks. Add to this the prospect of further US fiscal stimulus plus a strong outlook for corporate earnings recovery in 2021. This supports our positive view on equities.

- US financial conditions are the easiest since 1990: the Goldman Sachs US financial conditions is at its easiest (lowest) level recorded in over 30 years.
- Historically, easy financial conditions have correlated well with strong advances in global stock markets, as in 1999 and again in 2005-06. While the MSCI World index has gained 16% over the last year, current conditions would suggest further upside for stocks.
- Flows have yet to return to equities: sentiment indices, such as the CNN Money Fear & Greed index, remain at neutral, while fund flow data underline that investors continue to favour bond over equity funds. This suggests that buying power for equities is not yet exhausted.

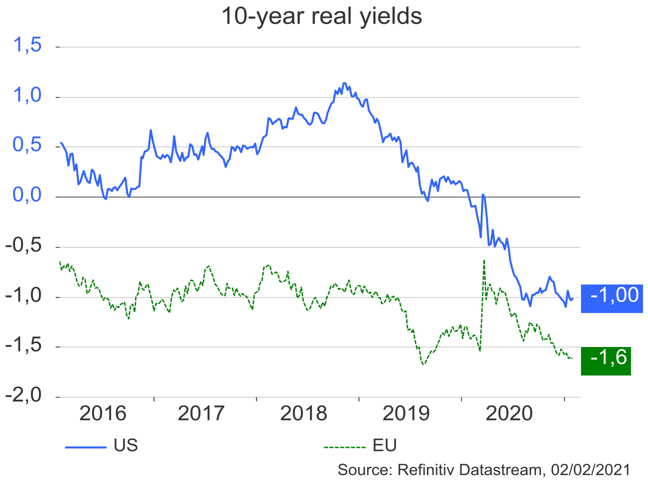


Source: Refinitiv Datastream

REAL INTEREST RATES REMAIN CLOSE TO HISTORIC LOWS

The key risk remains a sharp hike in European Covid-19 infection rates, triggering a renewed wave of stricter lockdowns which could put our 2021 economic rebound forecasts at risk.

- Stock market momentum helped by rising inflation expectations: ultimately, stock markets are driven by a combination of a) earnings growth and b) a valuation multiple expansion or contraction.
- The valuation multiple is largely determined by long-term real rates, which remain supportive both for equities and for precious metals. Forward-looking consensus earnings expectations continue to recover, helped by very positive earnings surprises for Q3 2020 (especially in the US).
- The key risk to positive stock market momentum is then the risk that further lockdowns will hurt corporate earnings expectations for Q1 2021 – but this is not our central scenario.



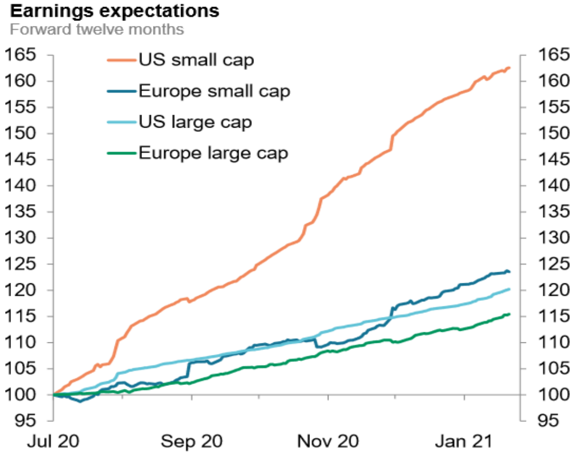
Q4 2020 Earnings Season in Focus

Strong Q4 earnings results so far in the US and Europe

EARNINGS BEATS COULD DRIVE 2021 UPGRADES

The Q4 earnings season has started very strongly : US companies that have reported so far (around 37% of the S&P 500) are beating their forecasts in more than 80% of cases (it is quite above the 74% average). In Europe, there have also been positive surprises. This is leading to positive earnings upgrades in 2021 forecasts.

- **US earnings have so far surprised by 13.6% above expectations** (somewhat boosted however by some positive 'exceptionals' for financials such as a decrease in provisioning); it is well above the 5-year average of 6.3%. If this trend holds it would be the fourth largest earnings percentage surprise since 2008.
- With this trend, **the 4th quarter could show year-over-year positive earnings growth in the US**; it would be great achievement in the pandemic context.
- Companies are now providing an outlook for 2021 whereas recently, many did not dare to be too precise. **Earnings expectations have continuously been revised upward (see chart).**

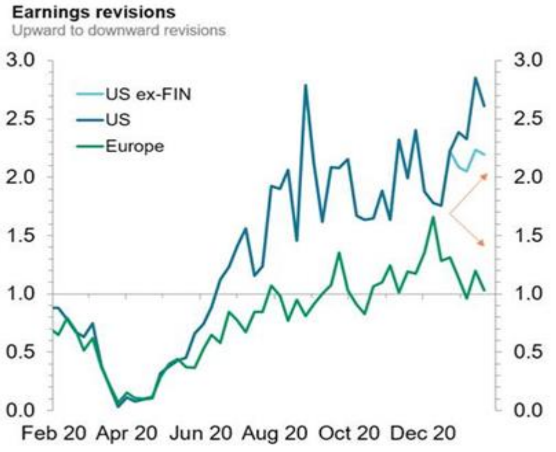


Data as of 23 January 2021. Sources: FactSet, BNP Paribas Asset Management.

POSITIVE REVISIONS ALSO IN EUROPE BUT NOW FADING

We have also had plentiful positive earnings revisions in Europe. However, with the Covid-19 resurgence, new strains, and a slow rate of vaccination, earnings revisions are somewhat losing momentum.

- In Europe, after recent strong upward earnings revisions, **2021 earnings per share (EPS) expectations are now 5% below 2019 EPS.**
- Latest improvements have mainly taken place among Basic Resources, Energy and Autos.
- Consensus EPS expectations for 2022 are now 11% above 2019 EPS.
- The Q4 results season in Europe is in the early days but there have been **plentiful positive earnings surprises in various sectors. Several European tech results have been impressive to date.**
- But there is currently some nervousness relating to the Covid-19 resurgence and new strains, particularly the UK variant. This is currently weighing on confidence.



Data as of 23 January 2021. Sources: FactSet,, BNP Paribas Asset Management.

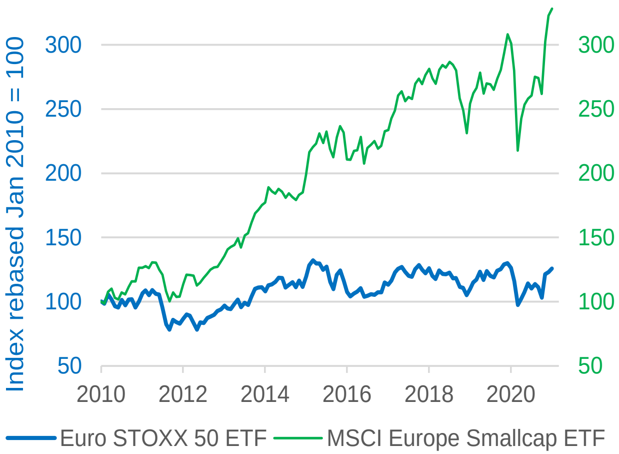
Theme in Focus

Mid- and Small-Caps Lead in Europe, US

SMALL IS BEAUTIFUL

In our view, a robust global economic rebound over the course of 2021 should benefit earnings growth in the more domestically-oriented mid- and small-cap segments of the European and US stock markets, and is better geared to economic recovery than the value factor. We prefer European and US SMID exposure to large-caps.

- **Structural outperformance**: European small-cap stocks have captured much more of the expansion in European profitability since the Great Financial Crisis, rising by over 11% per year since 2010, versus just 2% per year for the Euro STOXX 50 large-cap index.
- **Domestic economic recovery** helps small-caps: since the Covid-19 lockdown-driven low point for the eurozone in April, economic activity has recovered quickly over the last six months, particularly in the manufacturing sector.
- As we expect the eurozone recovery to strengthen in 2021 once we exit the latest round of lockdowns (which have not been as severe as the initial March lockdowns), earnings growth should rebound sharply in this segment of the European stock market.

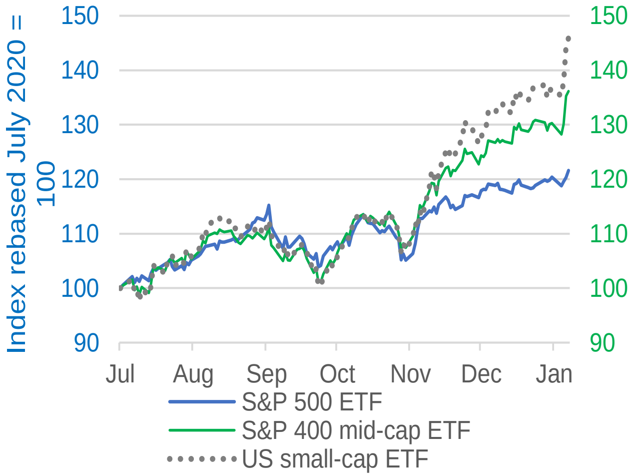


Source: iShares

SINCE NOVEMBER, US MID-/SMALL-CAPS HAVE TAKEN OFF

The key risk remains a sharp hike in European Covid-19 infection rates, triggering a renewed wave of stricter lockdowns which could put our 2021 economic rebound forecasts at risk.

- **SMID can mimic value**: In general, mid- and small-caps (SMID) outperform large caps after turning points in the economic cycle given their greater economic sensitivity. This is similar to the value factor, which also generally outperforms growth when economic growth recovers from recession.
- However, there is one crucial difference: since the 2009 Great Financial Crisis, the value style has hugely underperformed the growth style. In contrast, mid- and small-caps in Europe, in the form of the MSCI Europe small-cap ETF index, have far outperformed the Euro STOXX 50 index over this period.
- **Since July 2020, US small-caps have led the way**: The S&P 500 large-cap index has delivered a 21% return since July, well behind the S&P 400 mid-cap's 36% and the S&P 600 small-cap's 46% returns.

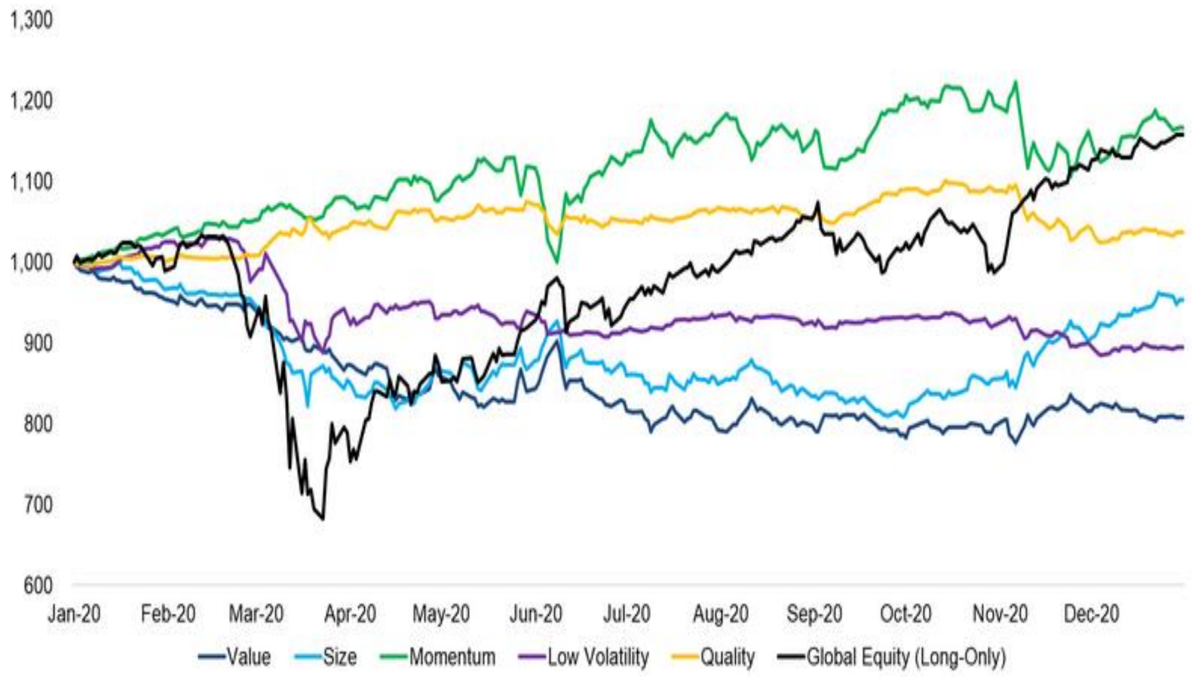


Source: S&P Global

Factors: Rotation out of Momentum into Small

Favour Small-caps, Value

MOMENTUM WAS THE CLEAR 2020 FACTOR WINNER



Source: factorresearch.com

LAST 3M: SMALL-CAPS, VALUE LEAD, LOW VOL TRAILS

Sharp rotation out of momentum into small-caps, value seen over last 3 months, on the back of the sharp equity market advance. Over January, these factors continued to lead, while low volatility (more defensive by nature) has lagged both in the US and Europe.

Factors	Oct 2020-Feb 2021	Jan 2021 - Feb 2021
Europe:		
Small-cap	17,7%	3,2%
Value	14,2%	3,3%
Quality	9,6%	1,5%
Momentum	7,2%	1,5%
Low Volatility	3,1%	0,0%
US:		
Small-cap	40,0%	8,7%
Value	18,0%	4,0%
Quality	16,1%	3,2%
Momentum	15,6%	3,5%
Low Volatility	8,0%	-0,5%

Source: BNP Paribas Asset Management

Asia: Value/cyclicals to catch up

Favour Asian cyclicals

ASIA COUNTRY PREFERENCE

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

VALUE/CYCLICALS ARE SET TO BENEFIT FROM ECONOMIC RECOVERY

North Asia (China/Hong Kong, Taiwan and South Korea) equities had a strong run in January, led by the tech sector.

While we see more clarity on anti-trust regulatory issues in China, we do not think the negative impact is totally behind us. We are still structurally positive on Asia tech sector, but expect a period of consolidation in the near term after a spectacular rebound recently. Weaknesses are good buying opportunities.

Asian cyclical/value sectors would benefit from continued economic recovery amid a pick-up in vaccine roll-out.

STRONG EARNINGS GROWTH IS EXPECTED IN 2021

		1-month (%)	2020 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2021f	EPS Growth (%) 2021f	EPS Growth (%) 2022f	ROE (%) 2021f
	Asia Ex-Japan	5.5	22.5	17.5	2.2	2.0	26.2	17.3	10.4
North Asia	China	8.4	25.9	17.1	2.6	2.0	18.3	17.8	10.1
North Asia	Hong Kong	2.8	2.1	18.1	1.4	2.6	31.8	12.0	8.8
North Asia	South Korea	6.6	34.0	14.7	1.5	1.5	45.7	22.4	12.3
North Asia	Taiwan	8.2	28.6	19.6	3.0	2.4	14.4	12.3	16.9
South Asia	India	-0.6	16.8	23.8	3.8	1.2	36.7	18.6	9.4
South Asia	Indonesia	0.6	-9.5	17.5	2.6	2.9	32.3	20.8	14.7
South Asia	Malaysia	-3.0	-1.7	14.5	1.7	3.0	65.5	-5.0	11.2
South Asia	Philippines	-4.1	-9.7	18.8	2.0	1.5	43.6	22.7	8.6
South Asia	Singapore	2.0	-12.8	15.0	1.2	3.7	47.9	18.4	6.5
South Asia	Thailand	0.2	-13.9	19.9	1.9	2.7	31.5	21.0	7.7

Source: Datatstream, BNP Paribas (WM) as of 29 January 2021

Sector Allocation

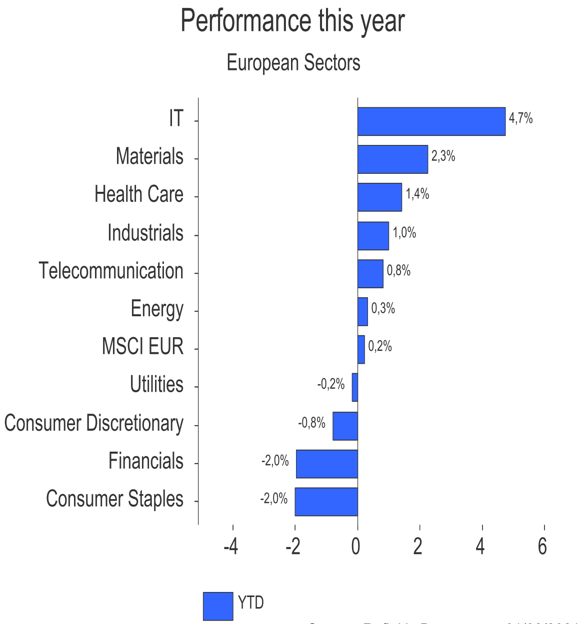
Favour Cyclical Sectors

WE LIKE CYCLICAL SECTORS, BUT BUY PREFERABLY ON DIPS

We still suggest playing the ongoing economic recovery, but at this stage rather via purchases on dips after the recent strong performance of value/cyclicals and some doubts relating to new Coronavirus strains and the speed of vaccination in Continental Europe.

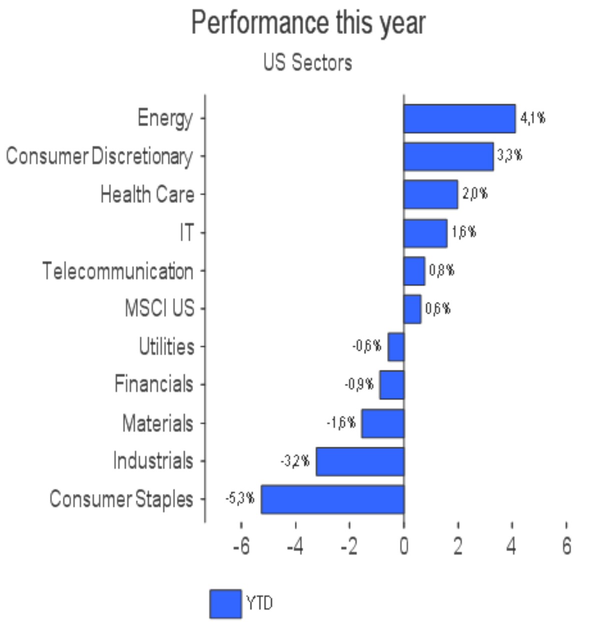
There is no change in our sector allocation this month. We suggest sticking to a 'barbell' approach with a mix of solid value/cyclicals and diversification via pharmaceuticals, real estate and select tech companies (semiconductors, 5G, AI, European tech).

- **We continue to play the ongoing economic recovery via materials, industrials,** as well as insurance and European energy stocks (we are positive on these sectors).
- **Pharmaceuticals and real estate globally as well as European tech** are not overvalued; they bring diversification and reduce portfolio volatility whereas their outlook is also improving.
- In January (see graph), several of our favourite sectors/industries performed well in Europe (materials, tech, energy, health care). That said, insurance and real estate have lagged so far in 2021.
- Some doubts have resurfaced: **new Coronavirus strains** could hamper people's moves and delay the recovery in the services sector (including commercial real estate).



Source: Refinitiv Datastream, 01/02/2021

- **In the United States, energy, tech and health care have been strong** while industrials, consumer staples and telecoms have lost ground.
- Besides autos and energy for which we recommend selectivity (some companies are more advanced and better positioned in restructuring and in their energy transition than others), banks are cheap. But the backdrop remains challenging for universal banks with the yield curve still flat, as well as disruptions and heightened competition from online players. We still recommend selectivity for this sector.
- **We favour a thematic approach for technology** (we like semiconductors, 5G, AI, European tech), **consumer discretionary, telecoms and utilities**. We avoid consumer staples (expensive and too defensive).



Source: Refinitiv Datastream, 01/02/2021

Sector Preferences

	SECTOR (MSCI level 1)	INDUSTRY +	INDUSTRY =	INDUSTRY -
+	Real Estate	Real Estate		
+	Materials	Materials		
+	Industrials	Commercial Services & Supplies Infrastructure Capital Goods Transportation		
+	Health Care	Pharmaceuticals & Biotech	Health Care Equipt, tech & Services	
=	Technology	EU Tech Hardware EU Software & Services EU Semiconductors & Equip	US Tech Hardware US Software & Services US Semiconductors & Equip	
=	Financials	Insurance	Banks & Divers. Fin.	
=	Energy	EU Energy	US Energy	
=	Consumer Discretionary		Consumer Durables & Apparel (Luxury goods) Consumer Services Retail Automobile & Components	
=	Communication Services		Telecom Media	
=	Utilities		Utilities	
-	Consumer Staples			HPC Food & Beverage Food Retail

06

Commodities

Gold
Oil
Base Metals

Commodities at a glance

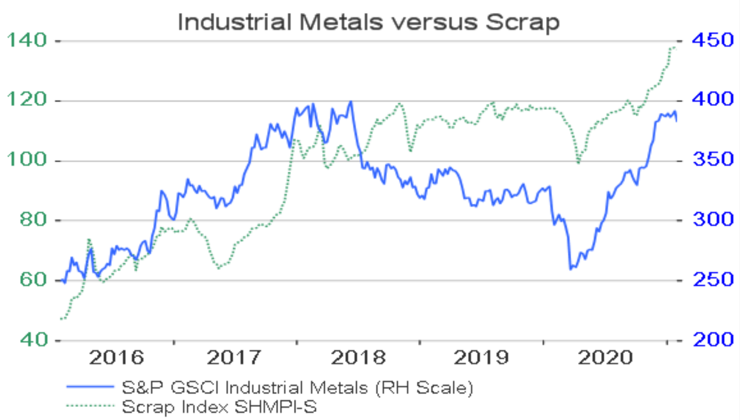
Gold: the precious metal lost 2% in January (27/1) on the back of higher US bonds yields and increasing risk appetite, testing its 200-day moving average (ca. $1840).

Base metals: Led by nickel, tin and copper, all base metals rose in January except zinc.

Oil: in January Brent prices rose from $51 to $55,7 (27/1) following the OPEC+ decision.

BASE METALS

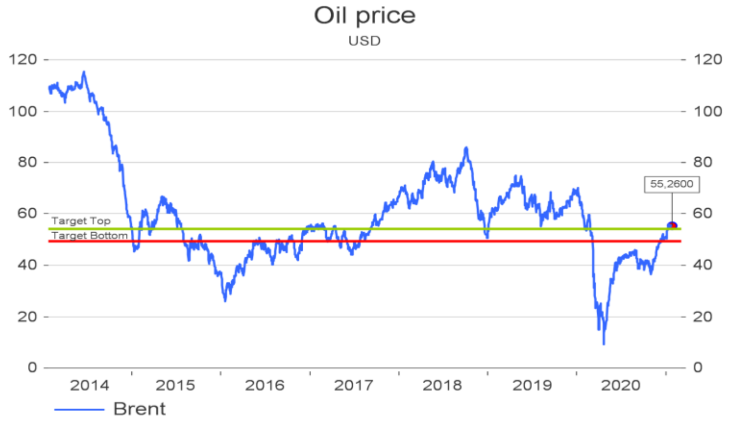
⊕ Expectations of a synchronized global economic expansion in 2021, coupled with a soft dollar and increased investor demand for real assets make a bullish mix.



Source: Refinitiv Datastream, 01/02/2021

OIL

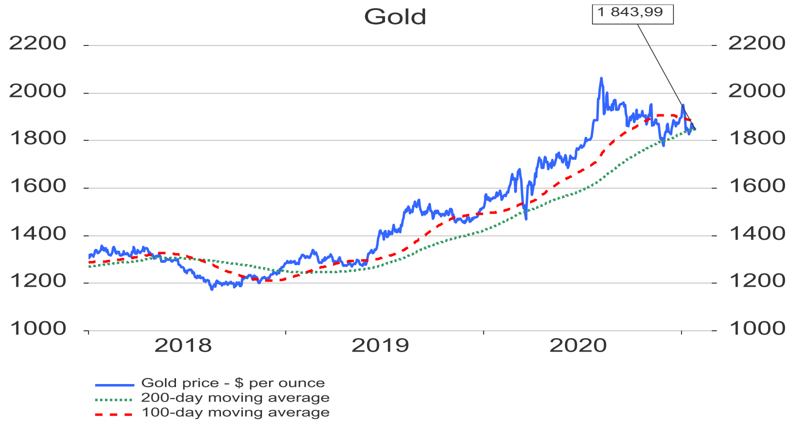
⊕ The OPEC+ supply management in Q1 and the outlook of a further demand recovery should support prices. We expect Brent to trade in the range of $45-55 in H1 2021 and $50-60 in H2.



Source: Refinitiv Datastream, 26/01/2021

GOLD

⊕ Negative real interest rates, USD weakness and inflation fears should bring back gold prices above $2,000 in 2021.



Source: Refinitiv Datastream, 27/01/2021

⊕ ⊖ ⊜ Our position for this month

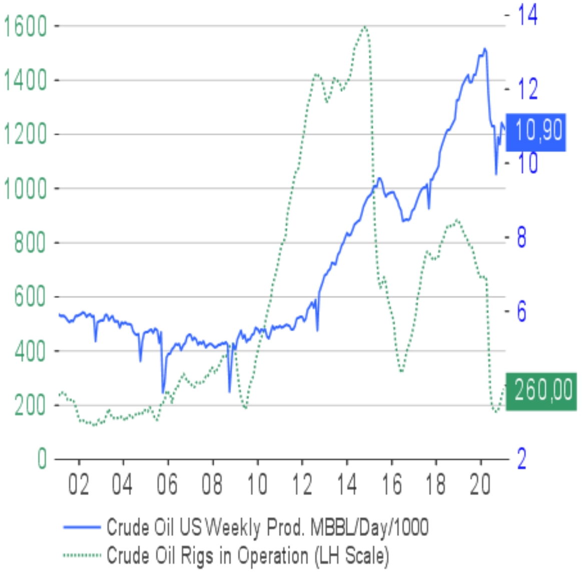
▲ ▼ ▲▼ Evolution of our position from last month

Oil

OPEC+ production restraints, in particular the decision of Saudi Arabia to reduce its production in Feb and March by 1mb/d should support prices in the period affected by low demand induced by the Covid resurgence.

- We expect Brent prices to trade in the $45-55 range in H1 and $50-60 in H2.
- As the Covid-19 resurgence is delaying the demand recovery, the OPEC+ decided to stop their production cuts more progressively than initially envisaged.
- The vaccines roll-out should boost demand in H2.
- Brent prices above $60 are unlikely to last as shale oil production would recover and OPEC+ would abandon their restraints.
- The medium-term outlook is bullish due to the low level of investment decisions made during the 2014-2017 downturn and again in 2020. Without investments, the production of traditional oil fields decline by 6-7% per year on average. As a consequence, a spike in the price is likely between 2023 and 2025. This could accelerate the energy transition, whose negative impact on oil demand is expected to become significant from 2025.

US crude oil production & Oil Rigs



Source: Refinitiv Datastream, 01/02/2021

Gold

Light at the end of the tunnel

Ultra accommodative monetary policies are expected to last for longer. Negative Real interest rates and inflation fears should bring gold prices back above $2,000 in 2021.

- Vaccines may solve the sanitary crisis but the economy will still struggle with bankruptcies and high debt levels, requiring central banks to keep their ultra-loose monetary policies for quite a long time. Worries related to the MT consequences of the use of unconventional monetary instruments are underpinning gold.
- Medium-term inflation worries in US is supporting gold prices despite low current inflation expectations.
- Gold is also seen as a hedge against the depreciation of the USD. Gold, like most major commodities, is typically inversely correlated with the USD.
- Investors have reduced their holdings in bullion-backed exchange-traded funds holdings but not dramatically (see chart).
- Gold's supply and demand dynamic remains positive for the precious metal.

Gold versus US Real Yields

Source: Refinitiv Datastream, 01/02/2021

07

Alternatives

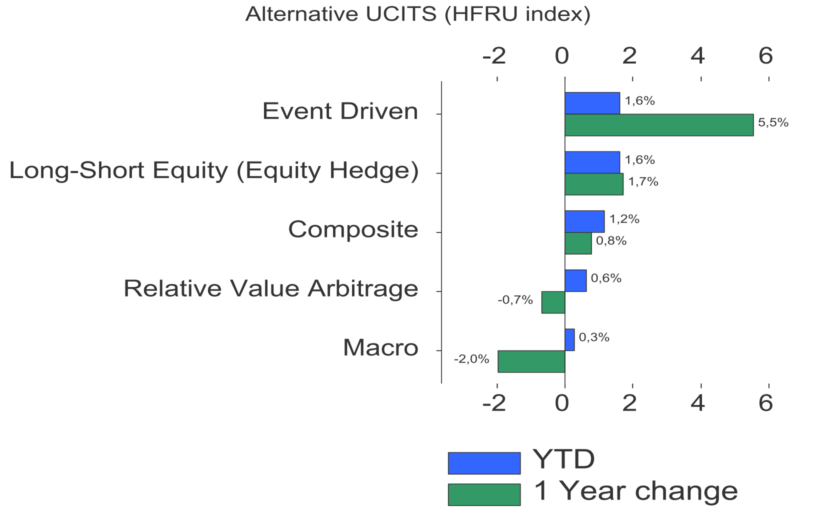
Alternative Investments

BNP PARIBAS
WEALTH MANAGEMENT

Alternative Investments at a glance

Over recent weeks, the best performers were Event-Driven and Long-Short Equity. Event-Driven enjoyed a very strong year, with many new deals announced, tightening spreads, and very active capital markets.

We have a preference for Long-Short, Relative Value et Event Driven strategies.



Source: Refinitiv Datastream, 25/01/2021

Global Macro

Neutral. Further government and central bank support should dilute "normal" economic reactions/volatility on currencies and bonds. Less tail risk in the short term following the US election, therefore protection role of macro funds less important even if still present.

Event Driven

Positive: Active capital market activity to continue: M&A, IPOs, spinoffs, SPACs. As borrowing costs remain historically cheap (rates close to zero), and robust debt/equity issuance boosted cash balances on corporate balance sheets. Private equity maintains a record level of available cash, Improved political stability and visibility post US elections favors more strategic deals.

Long / Short Equity

Positive opinion. Following the recent rally of value stocks, and given remaining political and public health uncertainties, equities may be volatile and offer opportunities. The current context of disruptive innovation and structural changes, amplified by the Covid-19 crisis, suggests a Schumpeterian environment of 'creative destruction' and thus a world of polarized winners and losers.

Relative Value

We are positive: With another round of stimulus to come and an expected recovery thanks to vaccines, long-term rates are likely to rise and be volatile. 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 issuers under stress.

BNP PARIBAS WEALTH MANAGEMENT
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UNITED STATES

Wade BALLIET
Chief Investment Advisor

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Thank you

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