JANUARY 2021

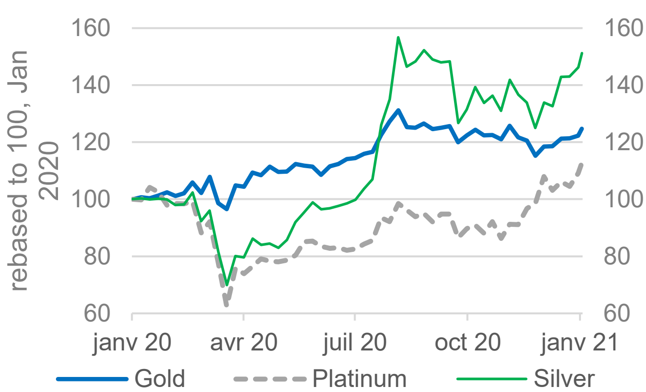
Investment Strategy Focus

Summary

1. **Risk-on environment remains**: the BNP Paribas WM Risk Radar for January remains at 0 out of 12, underlining a favourable backdrop for risk assets Prefer equities and commodities.
2. **Economicoptimism despite Covid**: manufacturing and services activity expands globally despite rising Covid-19 infection rates. Cyclical sector and mid/small-cap exposure preferred.
3. **Long-term interest rates start to drift higher**: with US 10-year Treasury yields at around 1% and German bund yields at -0.5%, we continue to prefer corporate credit to sovereign bonds.
4. **Precious metals rally as the US dollar weakens**: gold, silver and platinum all gain ground as real yields remain near lows. We remain positive on precious metals and mining exposure.
5. **The UK in focus post the Brexit deal with the EU**: we expect Sterling to strengthen modestly on the reduction in uncertainty. We upgrade our view on UK equities to positive on evident under-valuation and the removal of the No-Deal risk.
6. **Democrats win Georgia, suggesting further US stimulus:**: Democrats now have marginal control of the US Senate, after winning both Georgia Senate seats. Potentially positive for further US fiscal stimulus, thus for renewable energy, construction and financial sectors.
7. **New Covid-19 variant is the key risk**: should the new variant spread widely across Europe, this could arrest economic recovery and challenge our positive outlook on risk assets

Contents

PRECIOUS METALS CONTINUE THE STRONG MOMENTUM FROM 2020



Source: Yahoo! Finance, BNP Paribas Wealth Management

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WEALTH MANAGEMENT

The bank for a changing world

The Big Picture

Expecting a strong 2021 recovery

Rising Covid infection rate versus vaccinations: the rising Covid-19 infection rate, accelerated in part by a new, more contagious variant, has obliged the British government to impose the third nationwide lockdown in the UK.

A key risk to our expectation of strong economic recovery in early 2021 is a spread of this Coronavirus infection trend across Continental Europe and elsewhere, resulting in an obstacle to the current economic recovery.

However, we should set against this the positive impact that vaccination programmes in Europe and the US should have on the global economy, allowing these regions to reach herd immunity circa mid-year.

Now that a second Covid-19 vaccine (AstraZeneca) has been approved for use (in the UK initially), and Moderna's vaccine also now approved for use in Europe, these vaccination programmes should accelerate over H1 2021, with the most vulnerable segment of the population being vaccinated first.

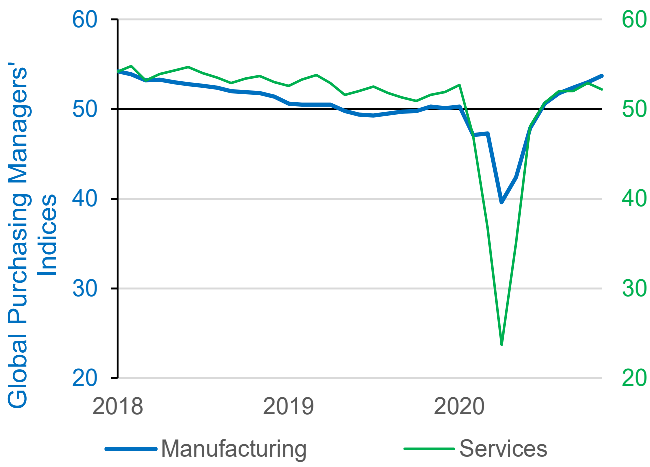
Manufacturing and services activity robust: global Purchasing Managers' Indices remain well above 50, highlighting growth in the industrial and consumer segments of the global economy. Over 5% for 2021 GDP growth is still expected by the consensus

Pent-up consumer demand waits: with US households due to receive a further payment of USD600 from the Federal government, and with savings rates still high in Europe, consumers are ready to spend. The signs are that end-year holiday spending was surprisingly strong, potentially boosting growth.

EU Recovery Fund to boost infrastructure spending: now that both Poland and Hungary have removed their potential objections to details of the EUR 1.8 trillion EU Recovery Fund, European infrastructure and renewables spending should receive a 2021 boost.

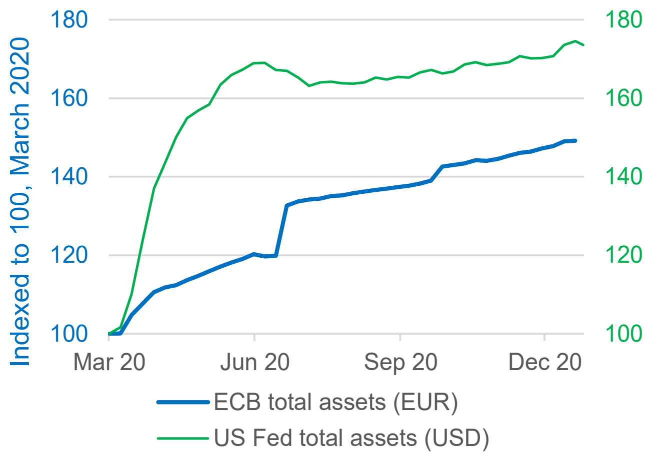
New China-EU deal: China and the EU concluded a new investment deal on 30 December 2020. This deal will facilitate EU market access to sectors in China, including health, auto, telco/cloud services, computer services, transport and financial services.

GLOBAL MANUFACTURING AND SERVICES ACTIVITY STAYS STRONG



Source: Refinitiv Datatsream

CENTRAL BANKS BUY MORE BONDS TO SUPPORT THE GLOBAL ECONOMY



Source: Refinitiv Datastream

CONCLUSION

Coordinated support from central banks and governments for the global economy will support strong expected growth in 2021. Recall that the current "lockdowns" are not at all as restrictive or damaging to regional economies as the lockdowns in March 2020.

The prospect of herd immunity via vaccination programmes could unleash pent-up consumer spending in mid-2021, which may give a fillip to growth.

Theme in Focus

Time for the UK to come in from the cold

UK agrees deal with the EU: at the very last possible moment, the UK government agreed a trade deal with the European Union, avoiding a no-deal scenario.

Details remain scarce: while this trade deal is welcome, question marks remain for instance over the ability of the UK to sell services, including advertising, legal and financial services, to European Union countries.

Uncertainty for the UK economy is reduced: while trade between the UK and European Union will not be as easy as in 2020 given significant, new non-trade barriers (e.g. customs checks and extra required import-export paperwork), this deal nevertheless reduces economic uncertainty by removing the risk of a disruptive no-deal scenario.

Sterling should appreciate more: as a result of the Brexit deal, we revise our expectations for EUR/GBP to reflect our expectations of a stronger pound, now that the risk of a no-deal Brexit has finally been eliminated.

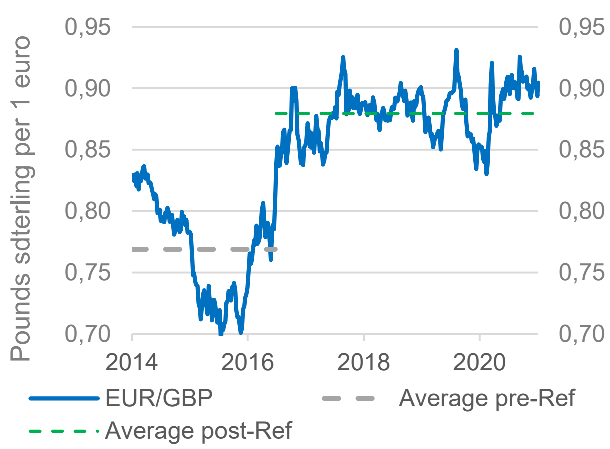
Our new 3-month target is 0.88 pounds sterling per 1 euro, and 0.86 pounds per 1 euro in 12 months.

UK stock market is cheap relative to global stocks: non-UK investors have largely avoided investments in UK stocks since 2016, given the ongoing Brexit uncertainty that lingered post referendum.

While the UK stock market has historically traded at a modest discount to global stocks given its lack of growth stocks and heavier weighting towards commodities and financial services, this valuation discount is now substantial at 14x 2021e P/E, 27% below the 19.1x that the MSCI World index trades on.

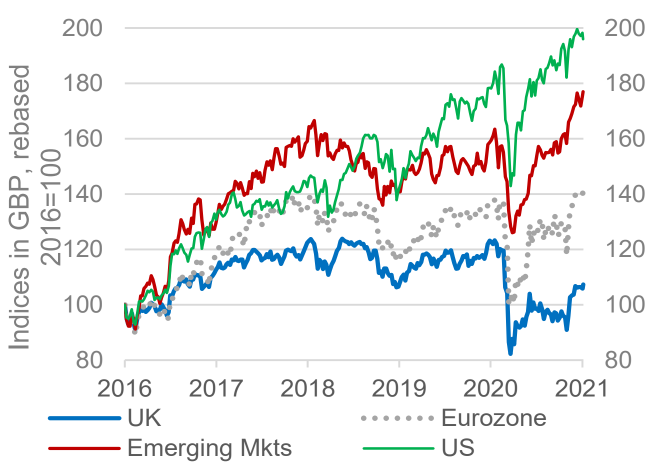
Favour domestic UK exposure: while the new lockdown will potentially impact the domestic economy in Q1 2021, we see huge scope for a UK economic rebound in 2021 overall. We prefer domestic (mid-cap) exposure e.g. to the FTSE 250 index, given the potential for pent-up consumer demand to drive growth around mid-year.

EURO/STERLING HAS AVERAGED 0.88 SINCE THE BREXIT REFERENDUM



Source: BNP Paribas, Refinitiv Datatsream

UK STOCKS HAVE LAGGED GLOBAL STOCK MARKETS ENORMOUSLY SINCE 2016



Source: BNP Paribas, Refinitiv Datastream

CONCLUSION

While the UK economy is set to suffer in the very short term from the new nationwide lockdown, we see this as an opportunity to gain exposure to an undervalued currency and a cyclical value stock market which has been largely avoided by investors since 2016. Favour domestic exposure, as this has the greatest rebound potential in our view.

Equity and Commodities Outlook

Precious metals start to rebound

Precious metals ended 2020 on a strong note: December proved to be a strong month for precious metal prices, with gold gaining 7%, silver 17% and platinum 11% over the month in dollar terms.

The key drivers remain in place for a strong precious metals performance in 2021, namely very low long-term real yields and high money supply growth.

The US 10-year real yield has sunk to a historic low of below -1%, while it is even lower at -1.5% in the eurozone. Equally, central bank support for economic recovery via Quantitative Easing measures is driving very high money supply growth, of 25% year-on-year in the US (M2) and 11% in the eurozone (M3). Both factors point to a positive outlook for precious metals.

Industrial demand is also recovering quickly for silver (thanks to solar panel and electronics demand) and for platinum owing to a recovery in demand for car catalytic converters. At the same time, supply cannot react, given the long mining investment cycle.

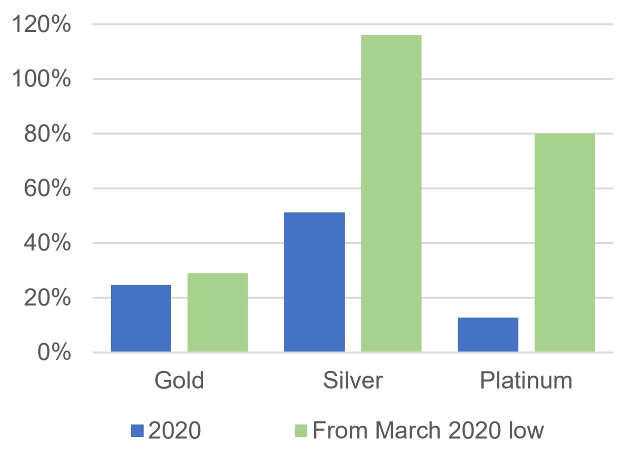
Stock market momentum is being helped by rising inflation expectations: ultimately, stock markets are driven by a combination of a) earnings growth and b) a valuation multiple expansion or contraction.

The valuation multiple is largely determined by long-term real rates, which remain supportive. 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 the risk that further lockdowns will hurt corporate earnings expectations for Q1 2021 – but this is not our central scenario.

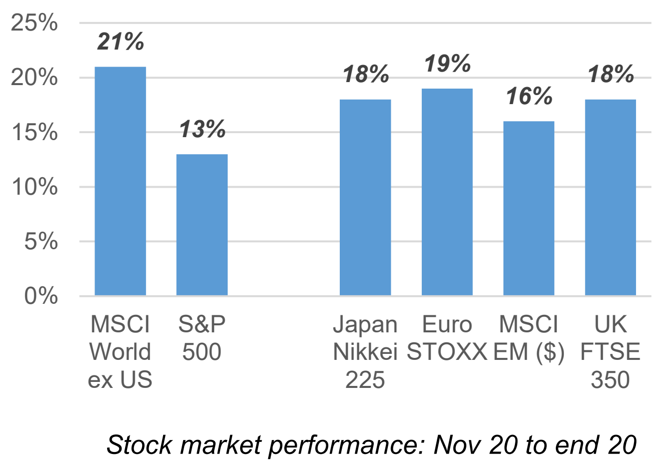
We maintain our positive outlook for Japanese, Emerging Market and eurozone equities, while also upgrading our view on UK equities to positive this month. We continue to favour mid- and small-cap exposure and cyclical sectors such as Industrial Goods

SILVER WAS THE STAR PERFORMER IN 2020; BUT PLATINUM STARTS TO ACCELERATE



Source: Yahoo! Finance

MSCI WORLD EX US OUTPERFORMS S&P 500



Source: Tradingview

CONCLUSION

We remain overweight in equities, with a focus on cyclical value via Japan and the UK, and on ESG via clean energy and the strong corporate governance theme.

Within commodities, we highlight our conviction for precious metals, with perhaps even more potential for silver and platinum than gold in the near term.

Bond, Credit and FX Outlook

US 10-Year Treasury yield breaks through 1%

US Treasury yields rise, eroding performance: since the start of August 2020, US Treasury bond yields have drifted higher from a low of 0.5% to over 1% as at 5 January 2021. Over this period, US 10-year Treasuries have posted a -8% return, highlighting that sovereign bond markets are vulnerable to any pick-up in inflation expectations. We remain cautious on nominal US Treasury bonds, and prefer exposure to US inflation-linked bonds (TIPs).

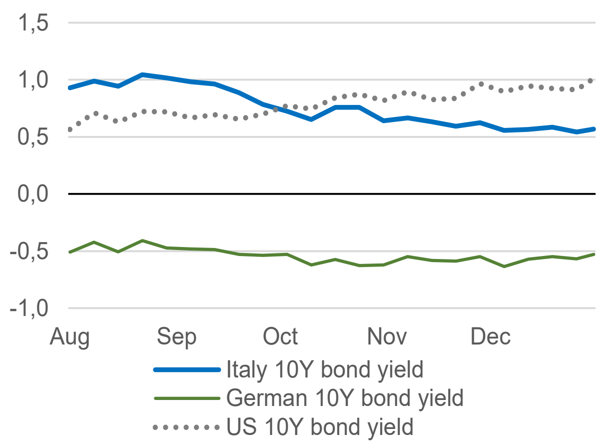
Despite the best efforts of the ECB, long-term euro inflation expectations struggle to move above 1.3%, in sharp contrast to the US. This is reflected in the stable performance of core eurozone sovereign bonds since October 2020, thereby outperforming the US.

Italian BTP yields are at risk from political tensions: the current tensions between Prime Minister Conte and coalition partner Renzi could reverse the fall in Italian BTP yields that has driven an 8% total return over the past year. We would see any surge higher in BTP yields as temporary and indeed a potential buying opportunity, given a low probability of early elections.

Fallen angels follow equities higher: US Fallen Angel High Yield credit continues to outperform US investment grade credit and US Treasury bonds, gaining 3% over December. With a 5% yield still on offer, we reiterate our positive outlook on this segment of the credit market.

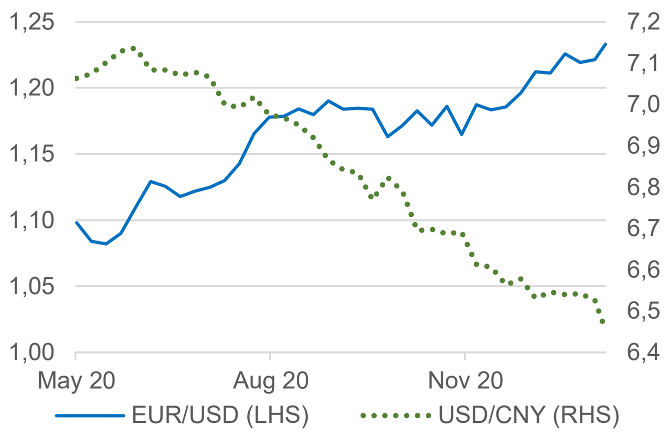
US dollar falls further, but is everyone short? The US dollar index has fallen consistently since March 2020; according to BNP Paribas CIB, US dollar positioning is now at a net -28 reading (out of 50), indicating that most investors are already positioned for a lower US dollar. We continue to expect a modestly weaker US dollar over 2021, but the bulk of the devaluation may already have taken place, at least for now.

ITALIAN BOND YIELDS HAVE FALLEN 0.5% SINCE AUGUST 2020



Source: St Louis Fed

THE US DOLLAR HAS WEAKENED CONSISTENTLY AGAINST THE EURO AND CHINESE RENMINBI



Source: Refinitiv Datastream

CONCLUSION

Investors are being inexorably forced higher up the risk and maturity curves in the hunt for income. We like fallen angels US credit, US preferred shares and EM hard-currency sovereign bonds for positive yields. Absolute return bond funds are a lower-risk alternative to low-yielding US and European sovereigns, in our view.

Summary of our main recommendations

	Current Recom	Prior Recom	Constituents	We like	We avoid	Comments
EQUITIES	+	+	Markets	EU, UK (NEW), Japan, EM: China, Taiwan, India, Sth Korea.		UK upgrade driven by Brexit deal catalyst reducing the uncertainty over the UK economy, combined with substantial under-valuation versus peers and the potential for pent-up consumption to boost growth over 2021.
			Sectors	Real Estate, Industrials, Materials, Insurance, Healthcare, EU Tech, EU Energy	Consumer staples	Positive on the Real Estate sector to play the end of 'stay at home'. With the vaccines, people in 2021 shall be able to leave their homes more often, go to the office, shopping malls, etc. The sector generally shows strong balance sheets, and attractive dividend yields.
			Styles/ Themes	Megatrend themes		Good potential remains for secular themes such as 5G, connected consumers, health tech, water, waste, infrastructure…etc.
BONDS	-	-	Govies	EM bonds (USD+ local currency)	US long-term Treasuries and German Bunds	Our 12-month targets are 1.40% for the 10-year Treasury yield and -0.25% (previously 0%) for the Bund yield.
			Segments	Peripheral euro and eurozone convertibles. IG credit and Fallen Angels.		Fallen Angel High Yield credit continues to benefit from the hunt for yield, as it still offers an attractive 5% yield.
			Maturities	At benchmark		
CASH	=	=				
COMMODITIES	+	+				Gold - positive: The sharp corrections after the vaccine news seems excessive. Negative real rates and inflation worries should drive gold back above USD 2000/oz. Oil - positive: OPEC+ restrictions, lower US production and recovering demand thanks to vaccines should keep Brent prices in the USD 45-55 range. Base metals - positive: prices are underpinned by the Chinese rebound and by pro-cyclical policies in Europe and US.
FOREX			EURGBP			Our new 3 and 12-month targets are respectively 0.88 and 0.86.
ALTERNATIVE UCITS				Long-short equity, relative-value and event-driven		

Economic, FX forecast tables

GDP Growth %	BNP Paribas Forecasts 2019	2020	2021	Forecast Revisions (%) 2020	2021
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					
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

CPI Inflation %	BNP Paribas Forecasts 2019	2020	2021	Forecast Revisions (%) 2020	2021
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

	Country	Spot 05/01/2021		Target three months Trend	Mid	Target twelve months Trend	Mid
Against euro	US	EUR / USD	1.23	Positive	1.20	Neutral	1.25
	UK	EUR / GBP	0.90	Positive	0.88	Positive	0.86
	Switzerland	EUR / CHF	1.08	Neutral	1.08	Negative	1,11
	Japan	EUR / JPY	126	Neutral	125	Neutral	128
	Norway	EUR / NOK	10.46	Negative	10.70	Positive	10.10
Against dollar	Japan	USD / JPY	103	Neutral	104	Neutral	102
	Canada	USD / CAD	1.27	Negative	1.31	Neutral	1.29
	Australia	AUD / USD	0.77	Negative	0.73	Negative	0.73
	New Zealand	NZD / USD	0.72	Negative	0.69	Neutral	0.71
	Brazil	USD / BRL	5.29	Neutral	5.30	Positive	4.50
	Russia	USD / RUB	74.5	Negative	76.0	Positive	68.0
	India	USD / INR	73.2	Negative	75.0	Negative	75.0
	China	USD / CNY	6.46	Negative	6.60	Neutral	6.50

Source: BNP Parinbas, Refinitiv Datastream

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