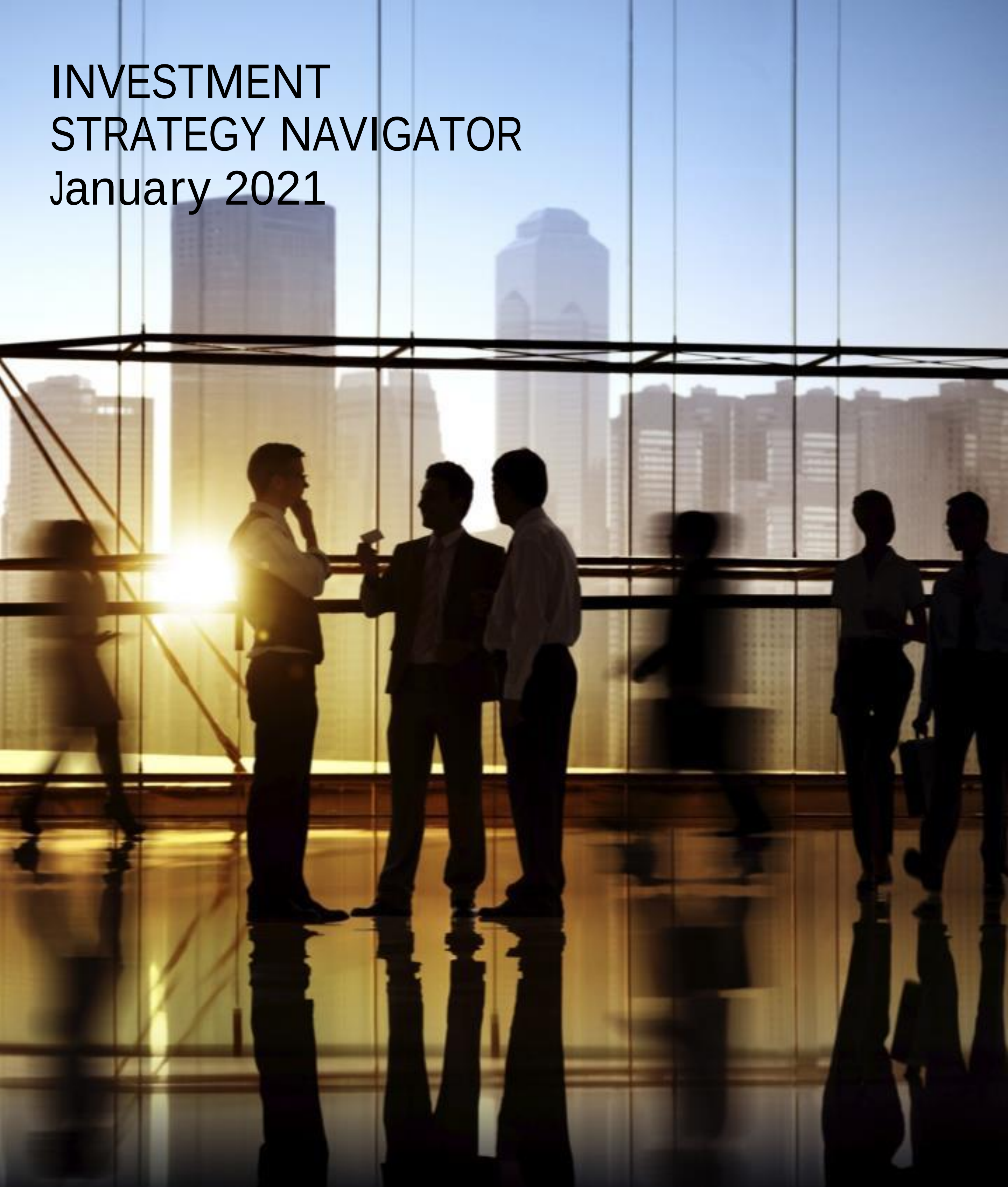
INVESTMENT STRATEGY NAVIGATOR
January 2021



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 (%)	
GDP Growth %	**2019**	**2020**	**2021**	**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				**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

25/11/20

Inflation

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

25/11/20

MAIN MARKETS & FINANCIAL RISKS

Positive Risks (Equities)

1. A turnaround in the speed of vaccination and the use of different vaccines could bring a positive surprise. Efficient treatment and lower mortality rates would be positive.

Negative risks

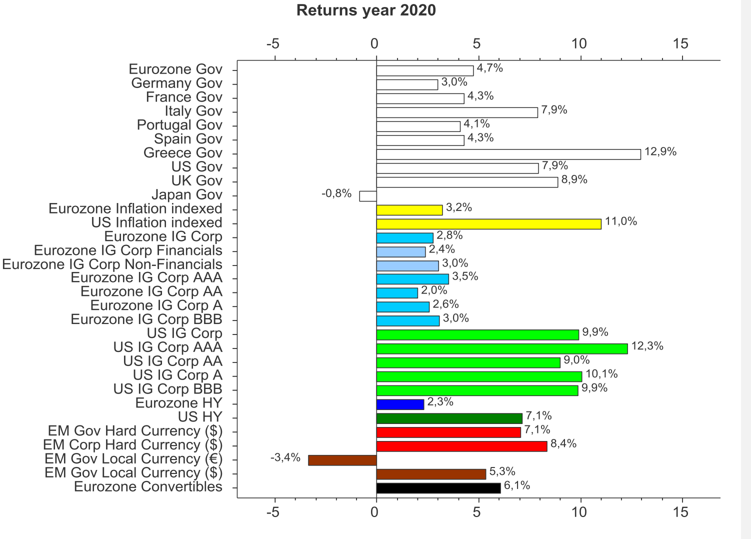
1. A US divided government could disagree on a budget compromise implying a weaker recovery and a lower inflation than expected. In Europe, we could see a slower implementation of the expenditure programs.
2. Vaccination might fall short of expectations and the higher infections rates could impact economic activity for a longer period.
3. Geopolitical concern about the relationship between the US and China could impact global trade.
4. A Brexit deal was reached, the UK economy could suffer more than expected and this could weigh on other countries in the Eurozone.
5. Rising real yields could have a negative effect on a large number of assets.

FINANCIAL MARKETS AT A GLANCE

EQUITIES	+	GLOBAL	+	• Positive outlook for 2021, based on normalising economic activity and strong earnings growth. • Overbought conditions are likely to generate a rise in volatility • Real long-term rates support high valuations.
		MARKETS	+	• Staying positive on Euro Area stocks: favourable structure amid improving global growth. • We upgrade UK equities to positive, given the successful conclusion of Brexit trade negotiations. With sterling likely to strengthen on this reduction in uncertainty for the UK economy, we would prefer more mid-cap, domestically-oriented exposure. • Last month we upgraded Japan to positive: pro-cyclicality, rising profitability levels and attractive valuations. • 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	+	• Positive on these pro-cyclical sectors: Materials, Industrials and Insurance. • Positive on this defensive sector: Healthcare. • In Europe: positive on Technology and Energy. • Last month, we turned positive on Real Estate: **a play on the end of "stay at home".**
BONDS	-	GOVIES	-/= +	• 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	+	• 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	=	• 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.
FOREX	/	EURUSD	=	We keep our consolidation scenario for the EURUSD short-term. It should however be limited to 1.20 for the next 3 months (1.18 previously). The 12-month target is still 1.25.
		EURGBP	=	We revise our EURGBP outlook and now expect 0.88 (0.90 previously) over a 3-month horizon and 0.86 (0.88 previously) over a 12- month horizon.
COMMOS	+	OIL	+	• Early in 2021, the oil market will swing dangerously close to a surplus. Supply management by the OPEC+ will be key. But 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	+	• Vaccines may solve the health care crisis but the economy will continue to struggle requiring ultra-loose monetary policies for longer. Negative real interest rates and inflation fears should bring back gold prices above \$2000 in 2021.
		BASE METALS	+	• Expectations of a synchronized global economic expansion in 2021, coupled with a soft dollar makes a bullish mix. The energy transition is supporting copper and nickel prices.
ALTERNATIVES	/	Alt. UCITS	/	Last month we upgraded Event-Driven from Neutral to Overweigh and downgraded Macro/Directional to Neutral. Positive long-short equity, Event-Driven and Relative value.

FIXED INCOME AT A GLANCE

- Almost all fixed income asset classes recorded solid returns in 2020, with the exception of emerging bonds in local currency once converted into euro, as the euro strengthened through the year. The unprecedented central **banks'** stimulus pushed bond yields to their lowest levels and forced investors to take on more risk to find decent yield.
- Most fixed income asset classes added gains in December, especially risk assets.
- We expect central banks to remain accommodative throughout 2021 to support the economic recovery. Bond yields should rise from very low levels as a consequence, but only gently as central banks are monitoring them.
- We prefer peripheral bonds, corporate bonds and emerging bonds.



Source: Refinitiv Datastream, 31/12/2020 Index source: Bloomberg Barclays for indices exept Convertibles (Exane)

CENTRAL BANKS

- Major central banks will remain accommodative in 2021 to support the economic recovery. Policy rates are likely to remain at current levels in the US and in Europe and central banks will continue their bond buying programmes.

GOVERNMENT BONDS

- We expect 10-year bond yield to rise gently, to -0.25% in Germany and to 1.40% in the US in 12 months.
- We stay positive on US short-term bonds for USD-based investors and we are negative for both US long-term bonds and German bonds.

INVESTMENT GRADE (IG)

- We are positive stance on US and eurozone IG bonds. The supply/demand dynamic is a tailwind. Bond scarcity should persist into 2021, mainly given declining corporate supply.
- We are also positive on convertibles in the eurozone.

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 close to their all-time lows.
- HY spreads have compressed to low levels that do not compensate enough for risks in our view. We have a neutral stance on HY bonds given the search-for-yield environment. We prefer fallen angels as their spread offer a pick up relative to better-rated HY bonds.

EMERGING MARKETS BONDS

- We are positive on emerging bonds, in both hard and local currency. The economic backdrop is supportive and we expect the dollar to weaken. EM bonds offer an attractive yield.

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

FOREX AT A GLANCE

- The euro kept strengthening against the greenback in December while the single currency rose by 2.4% against the dollar. The euro spiked close to 1.23 (value of one euro) . We revised our 3-month target to 1.20 (from 1.18) and keep our 12-month target to 1.25.
- The outlook for the pound has improved but the upside is still limited. We revise our outlook and now expect 0.88 (0.90 previously) over a 3-month horizon and 0.86 (0.88 previously) over a 12- month horizon. There is a key support level around 0.90.

	Country	Spot		Target three months		Target twelve months	
		1/5/2021		Trend	Mid	Trend	Mid
Against euro	United States	EUR / USD	1.23	Positive	1.20	Neutral	1.25
	United Kingdom	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

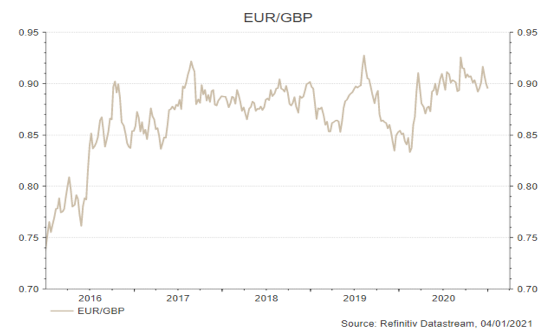
Source : Bloomberg - BNP Paribas WM

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 1.20 (from 1.18).
- Over the next 12 months, there is more dollar weakness to come. We keep our target to 1.25.

EUR/GBP

- The pound sterling has not yet seen a major rebound after the announcement of the Brexit deal.
- The outlook has improved. We expect 0.88 (0.90 previously) over a 3-month horizon and 0.86 (0.88 previously) over a 12- month horizon.



USD/CNY

- Given the strong appreciation of the yuan this year we think it should move back to its 50d moving average of 6.6 (value of one dollar) over the next 3 months.
- Over the next 12 months, we keep our target at 6.5.

Our position for this month

Evolution of our position from last month

EQUITIES AT A GLANCE

- Positive outlook for 2021, based on strong recovery in economic activity, historically-low real rates and rising inflation expectations that should fuel earnings.
- Sentiment has returned to Neutral. The near-euphoric mood seen at end-November **has calmed, with CNN's Fear & Greed index** back at Neutral.
- Turning positive on the UK post the Brexit deal with the EU **–** a cyclical value story that now has a catalyst in the form of reduction of uncertainty.
- Sectors/factors: Retaining a cyclical bias, as well as a mid-/small-cap bias, for greater leverage to continued economic rebound.

Positive outlook for equities in 2021 thanks to expected strong earnings rebound

	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

+

- December was a positive month for equity markets, aided by the news of impending COVID vaccination programs in the US and Europe, and continued expansion in global manufacturing and services.
- Long-term real rates continue to drift even lower, supporting equity valuations.

EMERGING MARKETS

+

- Emerging Market equities continue to outperform the US on a weaker US dollar, and robust Chinese economic activity.
- US 10-year real rates at a -1.1% historic low help emerging market equities.
- Preference for Asian markets: China, Taiwan, and South Korea.

SECTOR PREFERENCES

+

- We like Materials, Industrials and Insurance among cyclicals.
- In defensives, Healthcare has strong trump cards. Biotech looks especially promising.
- In Europe, we like Technology and Energy.
- We maintain our preference for quoted Real Estate.

DEVELOPED MARKETS

+

- Our preference for Emerging Markets and Japan was rewarded with outperformance versus the US in December – we expect more of the same in 2021.
- The Eurozone continues to grind higher as the EU Recovery Fund comes into focus, boosting infrastructure, capital spending.

INVESTING STYLE

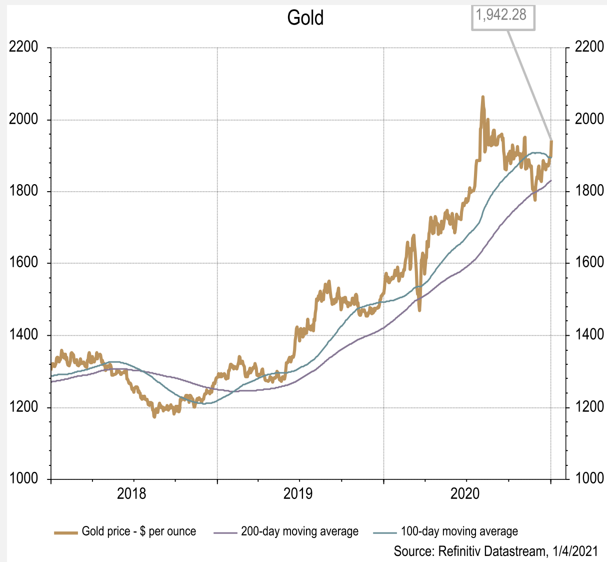
- We retain a bias towards Value in the forms of Japanese and now also UK equities, and value combined with quality in the form of Leveraged Buyout candidate companies, given the amount of private equity dry powder waiting to be invested.
- SMID caps: the better structural choice, which is typically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

= - + Our position for this month

Evolution of our position from last month

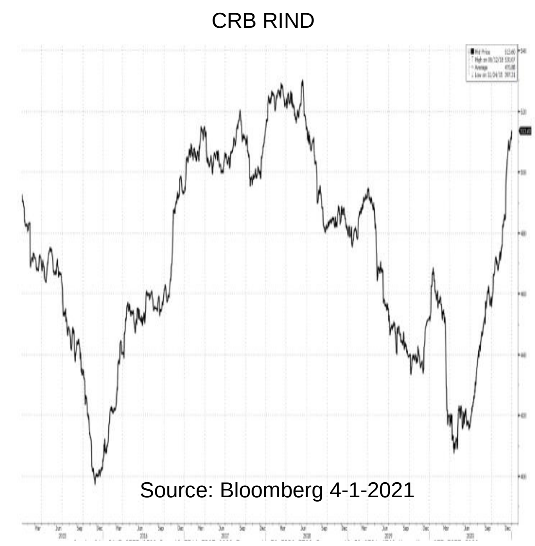
COMMODITIES AT A GLANCE

- Gold:. Between its intra-day high of $2075/oz on Aug 7 and early Dec, gold lost 14% 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. On 31/12, the bullion recovered to §1898/oz.
- Base metals: Led by Chinese demand, all base metal prices rose markedly in Oct-Nov bringing the year gains to: copper +26%, zinc +21%, nickel +18%, tin 18%, Aluminium +9%, and lead +3%.
- Oil: their intra-day trough at $16 on Apr 22, Brent prices recovered up to slightly above $45/barrel at the end of Aug. They fell again to $37.5 at the end of Oct as the second wave of Covid-19 infections hit Europe. Brent prices surge above $50 following the vaccines news.



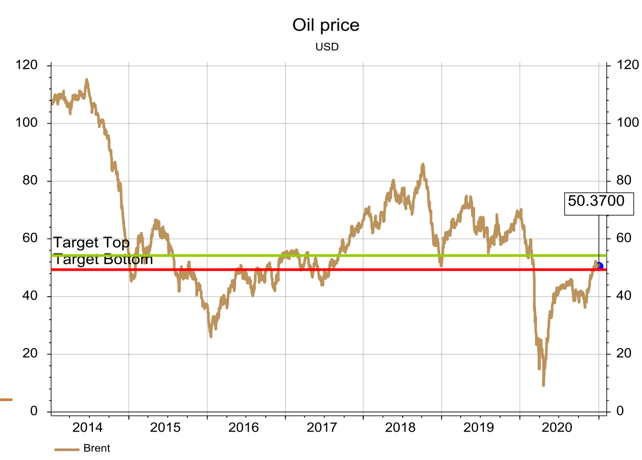
GOLD

The sharp corrections after the vaccine news was excessive. Vaccines may solve the sanitary crisis but the economy will still struggle with bankruptcies and high debt levels requiring CB to keep their ultra-loose monetary policies for quite a long time. Negative Real interest rates, USD weakness and inflation fears should bring back gold prices 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 makes a bullish mix. Excessive speculative positioning might lead to short-lived pullbacks. The energy transition is supporting copper and nickel prices.



OIL

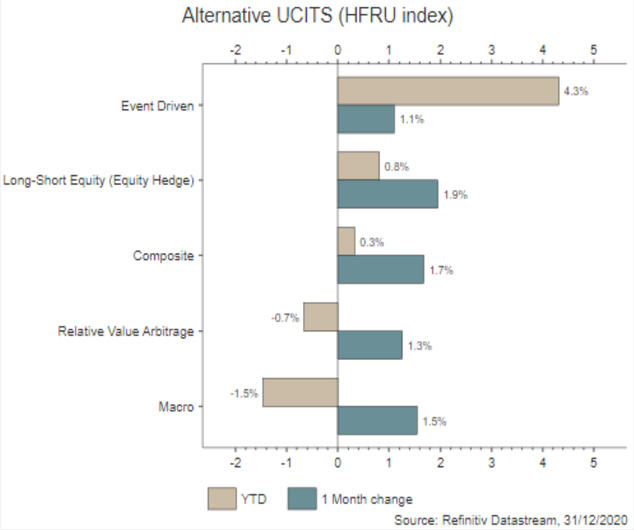
Early in 2021, the oil market will swing dangerously close to a surplus. Supply management by OPEC+ will be key. But the outlook of a further demand recovery should support prices. We expect Brent to trade in the range $45-55 in H1 2021 and $50-60 in H2.

ALTERNATIVE INVESTMENTS AT A GLANCE

- Hedge funds posted a strong performance over December, with significant beta contributions in equity and credit strategies driven by positive vaccine news. Over December, the best performers were long-short equity and relative value. Event-driven enjoyed a very strong year, with many new deals announced, tightening spreads, and very active capital markets.

- Last month, we upgraded Event driven from Neutral to positive. We downgraded Macro/Directional to Neutral.

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



GLOBAL MACRO

We remain 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

LONG SHORT EQUITY

Positive opinion. Equiies remain volatile short term, giving truly active managers trading opportunities. Even as the pandemics risk decreases, there will be winners and permanent losers, giving long/short opportunities for stock pickers.

EVENT DRIVEN

Upgrade to positive: These strategies take hedged positions on M&A targets to benefit from the difference between the market and offer prices. Disruption, US tax reforms and sector consolidation themes provide many opportunities.

RELATIVE VALUE

We are positive: The crisis will eventually create clear survivors and losers, even if most companies were able to issue bonds to solve short term needs. With another round of stimulus to come and hopefully recovery thanks to vaccines, long term rates are likely to rise and be volatile. The lower US/EUR rate differential makes investing in US credits on a EUR hedged basis more attractive. Convertible bond arbitrage is in a sweet spot.

Our position for this month

Evolution of our position from last month

Disclaimer

BNP Paribas Wealth Management Chief Investment Advisor (CIA) Network
Florent BRONES - Chief Investment Officer

Switzerland
Roger KELLER, Chief Investment Advisor

Belgium
Philippe GIJSELS, Chief Investment Advisor
Xavier TIMMERMANS, Investment Strategy PRB
Alain GERARD, Investment Advisor Equity

United States
Wade BALLIET, Chief Investment Advisor

Luxembourg
Guy ERTZ, Chief Investment Advisor
Edouard DESBONNETS, Investment Advisor Fixed Income

Asia
Prashant BHAYANI
Chief Investment Officer
Grace TAM
Chief Investment Advisor

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.

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world