



DEFENSIVE DIVERSIFIERS: SEEKING LOW RISK YIELDS



Expected returns on good quality bonds are low. So investors will most likely move to other asset classes while limiting risk.

OUR RECOMMENDATIONS

- Diversification reduces the overall risk of the portfolio. Our recommendation: certain low-risk products or ones with a calculated risk like Investment Grade corporate bonds, alternative funds, and structured products.
- Such solutions benefit from the more volatile environment and the greater differences in the quality of companies.

RISKS

- Risks include: the sudden rise in interest rates, an issuer default, reduced liquidity from market tensions, or currency fluctuations.
- A broad diversification, short-term bonds and a choice of high-quality issuers can mitigate these risks.



Opportunities in the fixed-income universe

The health care crisis and subsequent market corrections are creating new opportunities in fixed income markets:

- Yield spreads have widened sharply on quality corporate debt and on subordinated financial debt.
- The banking sector is well capitalised, especially in Europe.
- The default rate among Investment Grade issuers is low.

Risks lie in the potential deferral or non-payment of the coupon, and no redemption at the first call date.

Green bonds issued by US companies also merit attention. There is a good supply and yields are attractive. They behave like traditional bonds, the difference being that they finance projects primarily aimed at mitigating climate change.

Finally, Emerging Market bonds in local currency also have certain advantages.

Valuations are low and Emerging Market currencies are undervalued, assuming that central banks in developed countries will remain accommodative. Emerging Market bonds in local currency are also a good diversification tool in portfolios. Leveraged loans in Europe offer both an attractive risk/return profile and a natural protection against the risk of rising interest rates since the income generated is based on variable interest rates. This type of asset is not suitable for all risk profiles. Liquidity can be low, so we recommend investing over a long period.

Alternative funds

Alternative strategies have suffered in the general risk aversion environment but once again demonstrated their diversification properties. Asset managers in this area can benefit from the increase (or decrease) in asset prices.

We favour 'Macro' and 'Long-Short Equity' strategies as the Covid-19 shock, trade tensions and populism are putting pressure on certain sectors, and generating volatility and therefore opportunities. 'Event-Driven' strategies also offer attractive prospects given the expected growth in non-performing loans and devalued assets.

Structured Products

The sharp increase in volatility since the beginning of the pandemic offers a more favourable environment for structuring products selling volatility with attractive asymmetric payoffs. These products quite frequently have partial capital protection. They are structured on very different underlyings, with varying degrees of complexity, from a simple stock market index to term contracts, options or interest rate spreads.

Structured products are portfolio diversification tools that can improve risk/return.



THEME 01 – High-quality stocks p.4

We must now favour companies which have high profitability, limited debt, low profit variability and large cash reserves.



THEME 02 – Defensive solutions p.5

The trend is to search for alternative returns via good quality corporate bonds, hedge funds and structured products.



THEME 03 – De-globalisation p.7

Protectionist trends and dependence on international supply chains are expected to lead to a stabilisation and even a decline in international trade in the long term. This 'deglobalisation' should provide opportunities for some companies or even for some countries. In particular, producers of goods and services which substitute imports are well positioned to benefit from this trend. The same is true for emerging market countries which compete with China.



THEME 04 – Digitalisation and technological innovations p.9

Alongside the trends in health care, this is one of the most marked trends: 5G and Artificial Intelligence will benefit from the increased communication and data needs generated by the crisis.



THEME 05 – Innovations in health care p.11

This sector is growing faster than the rest of the economy. Thanks to digitalisation, analytics, database management and Artificial Intelligence, the way treatment/care is given will change considerably at all levels and generate a wave of capital expenditure.

All the themes proposed at the beginning of the year remain attractive but will not be detailed in this document. However, an update on their performance since January is available at the end of this document.

THE INVESTMENT STRATEGY TEAM

France

Florent BRONES
Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia
Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
Chief Investment Advisor
Xavier TIMMERMANS
Senior Investment Strategy, PRB
Alain GERARD
Senior Investment Advisor, Equities
Pol Tansens
Head of Real Estate Strategy

Luxembourg

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

Switzerland

Roger Keller
Chief Investment Officer



@BNPP_Wealth



bnp-paribas-wealth-management



Elite Entrepreneurs



wealthmanagement.bnpparibas/fr

Voice of Wealth

DISCLAIMER

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

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

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

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

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

By receiving this document you agree to be bound by the above limitations.

© BNP Paribas (2020). All rights reserved.

