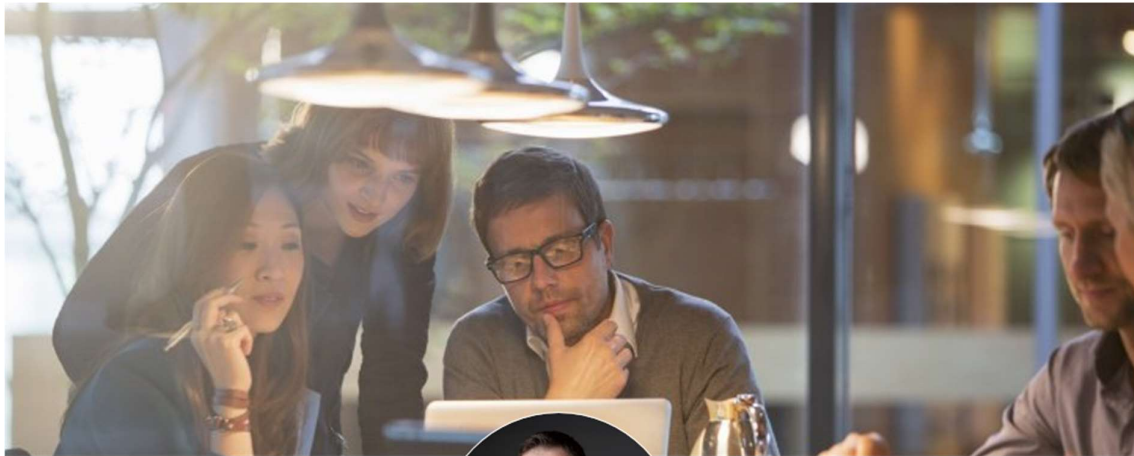


## FIXED INCOME FOCUS

November 2020



**Edouard Desbonnets**  
Investment Advisor, Fixed Income

### IN A WORD: ECB & EU

The European Central Bank is preparing to take more easing measures. The first EU bonds are a great success.

### Chart of the month: less disparity on 10-year yields in the euro zone

The ECB's chief economist wanted the yield spreads between eurozone countries to return to their pre-crisis levels. This has now been achieved and the ECB has reduced its bond purchases accordingly. However, it remains vigilant to the situation. The 10-year yields of all eurozone countries are close to their historical lows.



**BNP PARIBAS**  
WEALTH MANAGEMENT

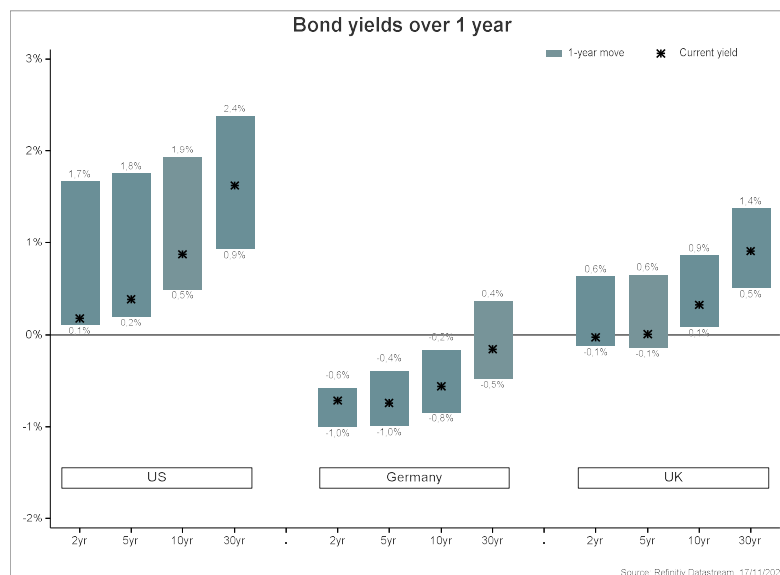
## Central banks: more stimulus in December

- **US Federal Reserve:**
  - We do not expect any change in the policy rates. The asset purchase programme has become the main tool of monetary policy.
  - More easing is coming in December in our view.
    - The Fed may slow the current pace (\$40bn per month) of purchases of Mortgage Backed Securities as it now holds a third of the market, and at the same time increase its purchases of Treasury bills (currently \$80bn per month).
    - It could buy bonds with a longer maturity as the Treasury will increase the maturity of the bonds it will issue next year.
- **European Central Bank:**
  - ECB members are unanimous that further stimulus measures are needed because the economic outlook is gloomy and inflation is too low. A strong support has therefore already been pre-announced, at the risk of disappointing the market.
  - It could take the form of :
    - An additional 500 billion euros for the PEPP (bond purchase programme to support the countries most affected by the pandemic) to bring it to 1.75 trillion; an extension of its validity by six months, thus until the end of 2021; an increase in the duration of the portfolio.
    - Doubling of the "classic" bond purchase programme (which has no end date, unlike the PEPP) of 20 billion euros at present.
    - Better conditions on TLTROs, these loans to banks at advantageous terms (rates up to -1%) as long as they lend to the real economy (companies, households).
  - We do not envisage any policy rate cuts.



## Bond yield targets

- Long-term bond yields were volatile in the first two weeks of November, hesitating between falling because of new lockdowns/restrictions and rising as a result of advances in vaccines. This volatility is expected to persist in the short term.
- On a 12-month horizon, the economic recovery and the numerous bond issues expected in 2021 suggest that US and German long-term yields should edge higher slightly (see table below). Central banks will be keen to curb this rise.
- Short-term bond yields are expected to remain stable over the next year in the euro area and the United States, due to a lack of central bank stimulus.



Bond yields	Maturity (years)	17/11/2020	12-month targets
US	2	0.17	0.25
	5	0.38	0.50
	10	0.86	1.25
	30	1.61	1.75
Germany	2	-0.72	-0.50
	5	-0.74	-0.25
	10	-0.56	0
	30	-0.16	0.25
UK	2	-0.03	0.25
	5	0.01	0.25
	10	0.32	0.50
	30	0.91	1.00

Sources: Refinitiv Datastream, BNP Paribas WM



## **The emerging market for bonds issued by the European Union**

- The EU issued four bonds for a total of €31bn, two on 20 October and two on 10 November, with maturities of 5, 10, 20 and 30 years, to finance the European recovery plan. Demand was extremely strong, 13 times higher than supply on average. Investors were attracted by the Socially Responsible Investment side of these bonds, as they are labelled 'Social bonds', and the yields were attractive in relation to the issuer's credit rating.
- These are the first large issues in the EU. The EU had already issued around 40 bonds in the past, but most of them were very small. The EU is expected to raise nearly 900bn over the next five years. The funding will go to the countries most affected by the health crisis. It marks a first step towards tax transfers between countries.
- The EU is rated AAA(Moody's)/AA(S&P)/AAA(Fitch)/AAA(DBRS). S&P has a positive outlook and may in fact improve its rating in the coming quarters. The EU is therefore part of the very select club of AAA issuers in the eurozone, along with Germany, the Netherlands and Luxembourg. Given the current shortage of AAA sovereign bonds, this new issuer offers new opportunities for institutional investors forced to hold high quality bonds.
- With a market close to 900 billion at term, EU bonds could compete with German bonds to be the eurozone's benchmark safe haven. That said, the German market should remain popular with investors because of its rating, its size (1.7tr euros) and its liquidity.

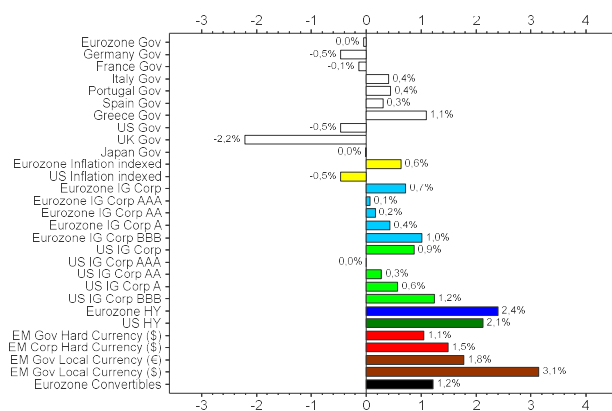


## Our views

GOVIES	-/=	<ul style="list-style-type: none"> <li>We are positive on the front-end of the US yield curve for USD-based investors as short-term yields have a limited upside.</li> <li>We are negative on long-term US govies and German govies, whatever the maturity.</li> </ul>
	+	<ul style="list-style-type: none"> <li>We stay positive on periphery debt (Portugal, Italy, Spain, Greece) on a buy on weakness strategy.</li> </ul>
INVESTMENT GRADE	+	<ul style="list-style-type: none"> <li>We prefer corporate bonds over government bonds.</li> <li>We like EUR and US IG bonds with a duration at benchmark (5 and 8 years, respectively).</li> <li>We are positive on eurozone convertible bonds.</li> </ul>
HIGH YIELD	=	<ul style="list-style-type: none"> <li>We are neutral on eurozone and US HY bonds.</li> </ul>
EMERGING	=	<ul style="list-style-type: none"> <li>Neutral on EM hard currency bonds (sovereigns and corporates).</li> </ul>
	+	<ul style="list-style-type: none"> <li>We are positive on EM local currency bonds, for both USD and EUR based investors.</li> </ul>

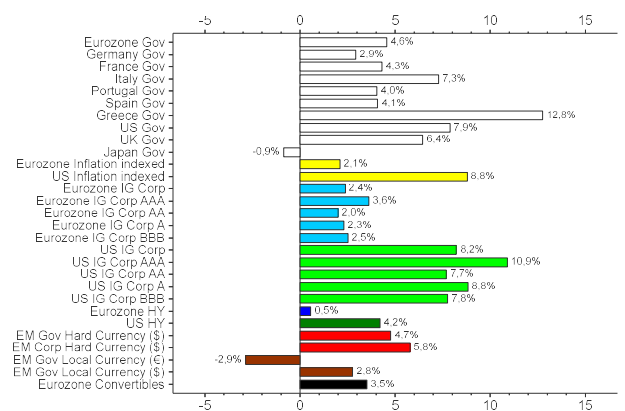
## Fixed Income returns

### Over the last 30 days



Source: Refinitiv Datastream, 17/11/2020. Source: Bloomberg Barclays indices except Convertibles (Evanex)

### Since 31 December 2019



Source: Refinitiv Datastream, 17/11/2020. Source: Bloomberg Barclays indices except Convertibles (Evanex)



**BNP PARIBAS**  
WEALTH MANAGEMENT



## THE INVESTMENT STRATEGY TEAM

### France

**Florent BRONES**  
Chief Investment Officer

### Asia

**Prashant BHAYANI**  
Chief Investment Officer, Asia

**Grace TAM**  
Chief Investment Advisor, Asia

### Belgium

**Philippe GIJSELS**  
Chief Investment Advisor

**Xavier TIMMERMANS**  
Senior Investment Strategy, PRB

**Alain GERARD**  
Senior Investment Advisor, Equities

**Pol TANSENS**  
Head of Real Estate Strategy

### Luxembourg

**Guy ERTZ**  
Chief Investment Advisor

**Edouard DESBONNETS**  
Investment Advisor, Fixed Income

### Switzerland

**Roger KELLER**  
Chief Investment Officer

## DISCLAIMER

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

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

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

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

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

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



**BNP PARIBAS**  
WEALTH MANAGEMENT



**BNP PARIBAS**  
WEALTH MANAGEMENT