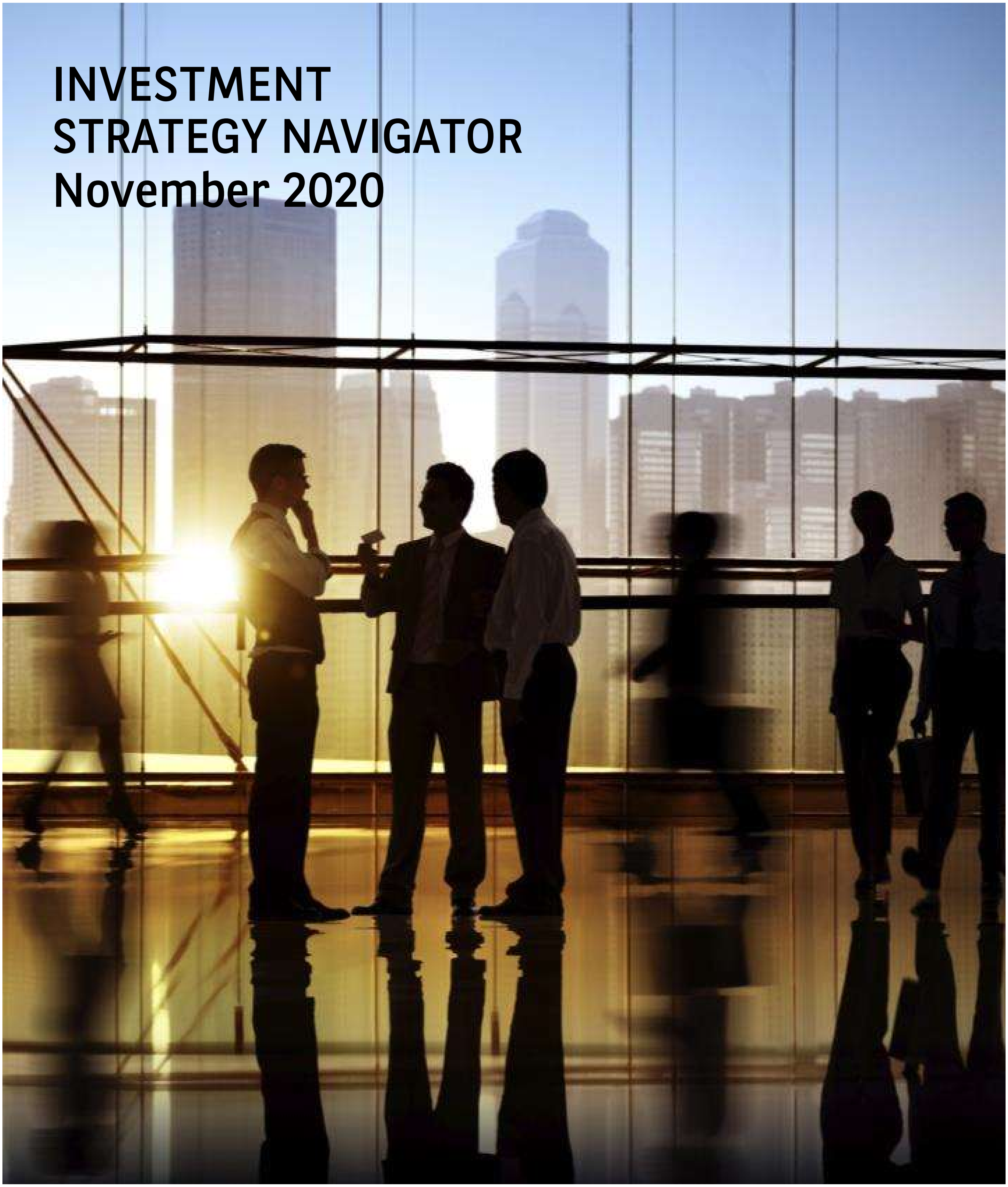
INVESTMENT STRATEGY NAVIGATOR
November 2020



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		
GDP Growth %	**2019**	**2020**	**2021**
United States	2.2	-4,2	4,2
Japan	0,7	-5,4	1,2
United Kingdom	1,5	-9,7	6,9
Eurozone	**1.3**	**-8**	**5,2**
Germany	0,6	-5,6	4,7
France	1,5	-9,8	6,8
Italy	0.3	-10	5,3
Emerging			
China	6,1	2,5	7,5
India*	4.2	-11,4	9,6
Brazil	1,1	-5	3
Russia	1,3	-5	3,1

* Fiscal year
Source: BNP Paribas
01/10/20

Inflation

	BNP Paribas Forecasts		
CPI Inflation %	**2019**	**2020**	**2021**
United States	1,8	1,3	1,9
Japan	0,5	0	-0,3
United Kingdom	1,8	0,7	1,3
Eurozone	**1,2**	**0,3**	**0,9**
Germany	1,4	0,6	1,6
France	1,6	0,6	0,9
Italy	0,6	-0,1	0,4
Emerging			
China	2.9	2,8	2,3
India*	4,8	5,5	3,4
Brazil	3.7	2,6	2,6
Russia	4,3	3,3	3,5

* Fiscal year
Source: BNP Paribas
01/10/20

MAIN MARKETS & FINANCIAL RISKS

Positive Risks (Equities)

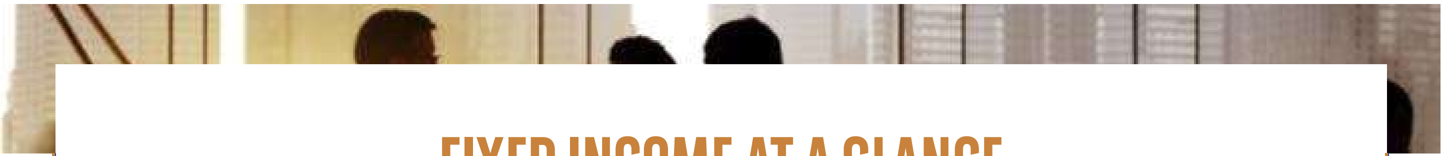
1. Major progress on a vaccine, efficient treatment and lower mortality rates could bring a positive surprise.

Negative risks

1. US elections with a close result leading to recounting and high uncertainty.
2. The virus comes back in waves and implies more than local targeted lock-downs.
3. Renewed tensions between US and China is a medium-term risk.
4. 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 saving ratios.
5. Political/Geopolitical risks remain elevated around the world. A renewed local conflict cannot be excluded.

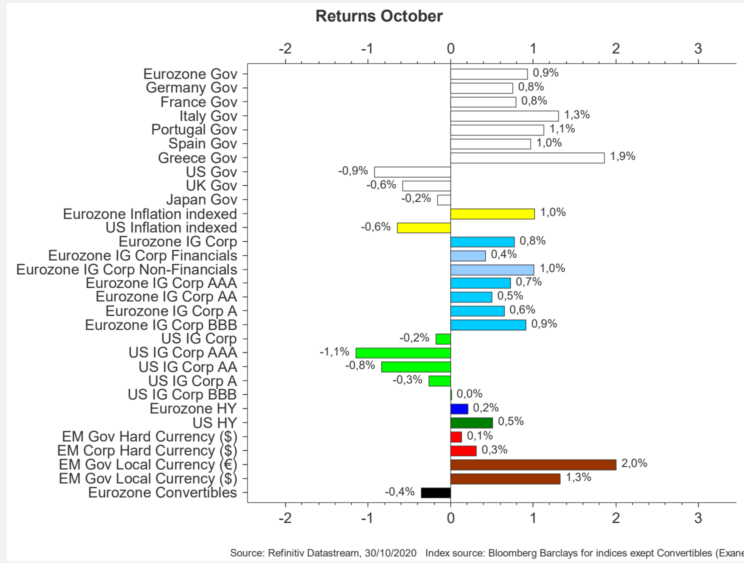
FINANCIAL MARKETS AT A GLANCE

EQUITIES	+	GLOBAL	+	• **Cracks are appearing in the resiliency of equity markets.** Downside risks should be limited by coming treatment/vaccine news, economic activity remaining positively oriented and a reduction in political uncertainties. • **Play the reflation game!** The 200-day moving average should be a good area where to practice the buy on dip approach. Fine-tuning purchase prices is important given that valuations limit the upside potential.
		MARKETS	+	• **US stocks remain among our favourites.** • **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 Asian markets (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. (pharma and biotech)** • **In Europe:** positive on **Technology and Energy.**
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.**
		EMERGING	+/=	• **We are positive on EM local currency bonds,** for both USD and EUR based investors, and **neutral on EM hard currency bonds (sovereigns and corporates)**.
FOREX	/	EURUSD	=	Given the worsening environment in Europe, we believe in the USD strength short-term, and see further correction towards 1.16 before the resumption of the USD weakness near term.
		USDTRY	=	We see the Turkish lira remaining under pressure short term. We revised our 3 and 12 month targets to 8.20 and 8.00 respectively.
COMMOS	+	OIL	+	• As the Covid resurgence is threatening the demand recovery, the OPEC+ hinted that they will continue to balance the market. Reduced investments in the shale oil industry but also in classical oil fields will weight progressively on the supply and push crude price higher in 2021
		GOLD	+	• Gold fundamentals remain bullish as real interest rates should remain extremely low for longer. Gold is seen as a hedge against the depreciation of the fiat currencies due to excessive money creation. Expected trading range to for the coming 12 months: $1900/2100/oz
		BASE METALS	+	• Prices are underpinned by the economic rebound underway in China the leading buyer and by the pro-cyclical policies in Europe and US. The energy transition is supporting copper and nickel prices.
ALTERNATIVES	/	Alt. UCITS	/	• Positive on Relative Value, Macro and Long-Short equity. Neutral on Event-Driven.



FIXED INCOME AT A GLANCE

- Central banks are not done yet, given the gloomy economic outlook, especially in the eurozone. The ECB is primed to deliver a major easing package in December.
- That would benefit mostly the European periphery. Long-term bond yields of Italy, Greece, Spain and Portugal could post new lows.
- US and German long-term bond yields have diverged lately. We expect both of them to edge higher on a 12-month horizon. US and German short-term bond yields are unlikely to move much as central banks do not intend to change their policy rate, in our view.



CENTRAL BANKS

- Both the Fed and the ECB are likely to stay dovish for the foreseeable future. The bond buying programmes have become the main tool for central banks. We do not expect any rate cuts.

GOVERNMENT BONDS

- Our targets are 1.25% for the 10-year Treasury and 0% for the Bund yield in 12 months.
- We stay positive on US short-term bonds for USD-based investors and negative for both US long-term bonds and German bonds.

INVESTMENT GRADE (IG)

- We keep a positive stance on US and eurozone IG bonds. Central banks and fiscal stimulus support the asset class. We are also positive on convertibles in the eurozone.

PERIPHERAL & HIGH YIELD (HY)

- The ECB, the low rate volatility and the search for yield are supportive for peripheral bonds. Several countries saw record lows on their 10-year and 30-year yields. We stay positive on peripheral bonds with a buy on weakness strategy.
- We stay neutral on HY bonds. Yields are attractive in a yield-starved world but spreads are low, in our view. Higher volatility ahead of the US election may reduce the liquidity of the asset class and exacerbate all the moves.

EMERGING MARKETS BONDS

- Despite the positive backdrop, we prefer to stay neutral on EM bonds in hard currency as valuations remains rich.
- We are positive on EM local bonds. EM currencies should appreciate and central banks can cut rates amid low inflation.

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

FOREX AT A GLANCE

- The dollar bounced back thanks to rising concerns on global growth due to the strong second wave of the virus in Europe. We think that the environment should remain supportive for the USD short-term.
- Surprisingly, the **British pound** remained steady, while mid-October was the initial deadline imposed by Johnson to find an agreement. Recently, bilateral talks resumed and helped bullish sentiment regarding an agreement by the end of the year.
- The **Norwegian krone** was subject to risk sentiment in October. The last week of October saw the NOK collapsing as the main European economies announced a second national lockdown.

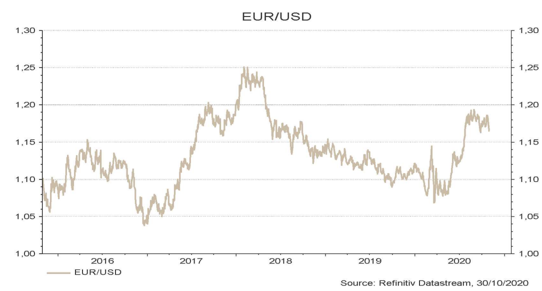
	Country	Currency Pair	Target three months Target	Target twelve months Target
Against euro	United States	EUR / USD	1.16	1.22
	United Kingdom	EUR / GBP	0.90	0.88
	Switzerland	EUR / CHF	1.08	1.11
	Japan	EUR / JPY	123	124
	Norway	EUR / NOK	10.70	10.10
Against dollar	Japan	USD / JPY	106	102
	Canada	USD / CAD	1.31	1.31
	Australia	AUD / USD	0.73	0.73
	New Zealand	NZD / USD	0.66	0.66
	Brazil	USD / BRL	5.30	4.50
	Russia	USD / RUB	76.0	68.0
	India	USD / INR	75.0	75.0
	China	USD / CNY	6.80	6.70

Source : BNP Paribas WM

Currency forecasts

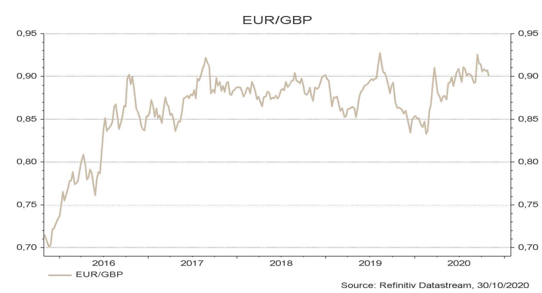
EUR/USD

- Given the worsening environment in Europe, we believe in the USD strength short-term, and see further correction towards 1.16 (value for 1 euro). Over the next 12 months, we keep our bearish scenario on the USD. We maintain our target at 1.22.



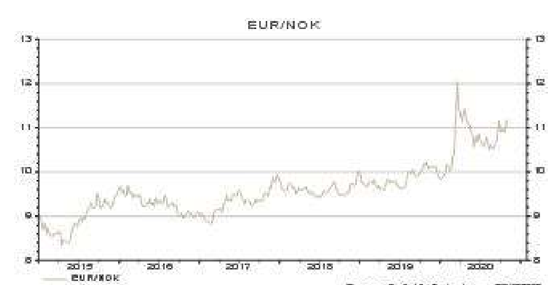
EUR/GBP

- The GBP should hover around current levels (0.90) short-term.
- Near-term, we think that the GBP has room for appreciation to 0.88 (value for 1 euro).



EUR/NOK

- We see an appreciation potential short-term but less than previously expected. We revised our 3-month target to 10.70 (from 10.40).
- We keep unchanged our 12-month target at 10.10.



Our position for this month

Evolution of our position from last month

EQUITIES AT A GLANCE

- **Cracks are appearing in the resiliency of equity markets.** Downside risks should be limited by coming treatment/vaccine news, economic activity remaining positively oriented and a reduction in political uncertainties.
- **Play the reflation game!** The ideal area where to buy on dips is the 200-day moving average. Fine-tuning purchase prices is important given that valuations limit the upside potential.
- **Favoured markets: the US, EU and EM.**
- **Sectors**: Materials, Industrials, Insurance, Healthcare.

A strong base effect combined with a continued recovery in global activity will generate strong earnings growth in 2021

	EPS growth		
	20 (current year)	21 (next year)	12M fwd
MSCI AC World	-18,6	29,2	19,3
MSCI Dev Mkts	-20,2	28,5	18,4
MSCI EM Mkts	-8,9	32,8	24,5
S&P500	-18,4	24,6	16,7
TSX Comp	-37,5	57,1	37,0
Euro Stoxx	-38,9	53,3	30,9
DAX	-18,3	37,6	27,4
CAC	-45,7	63,4	34,2
MIB	-50,5	60,0	28,7
IBEX	-78,0	216,8	75,6
AEX	-25,5	34,4	21,5
FTSE100	-42,8	44,4	21,3
SMI	-7,2	16,4	11,9
Topix	-26,9	-12,4	23,9
ASX200	-17,6	1,5	13,1

Source: IBES

GLOBAL EQUITIES

- Investors should take advantage of volatility: any visit of the 200-day moving average area should be used to buy. Above all because the world is on a recovery path, but also because high valuations limit upside potential and therefore require paying attention to purchase prices.

EMERGING MARKETS

- Superior earnings trends and room for re-rating as the share in indices of higher added value companies rises make emerging markets attractive investments.
- Preference for Asian markets: China, Taiwan, South Korea, India, Singapore and Indonesia.

SECTOR PREFERENCES

- We like Materials, Industrials and Insurance among cyclicals.
- In defensives, Healthcare has strong trump cards.
- In Europe, we like Technology and Energy.
- We avoid Consumer Staples.

DEVELOPED MARKETS

- US stocks remain our favourites: their relative uptrend remains solid.
- Euro area stocks offer pro-cyclicality, cheap valuations and foreigners are underexposed.
- Too early to upgrade Japan.
- Neutral: UK, Australia and Switzerland.

INVESTING STYLE

- The valuation gap in favour of Value has reached extremes. There are tentative signs of bottom building in the relative performance of Value. It should enter a phase of outperformance thanks to recovering economies and curve steepening.
- SMID caps: the current spread of the second wave of the pandemic represents a significant short-term handicap. Any weaknesses should however prove temporary and good buying opportunities in the US and the EU.

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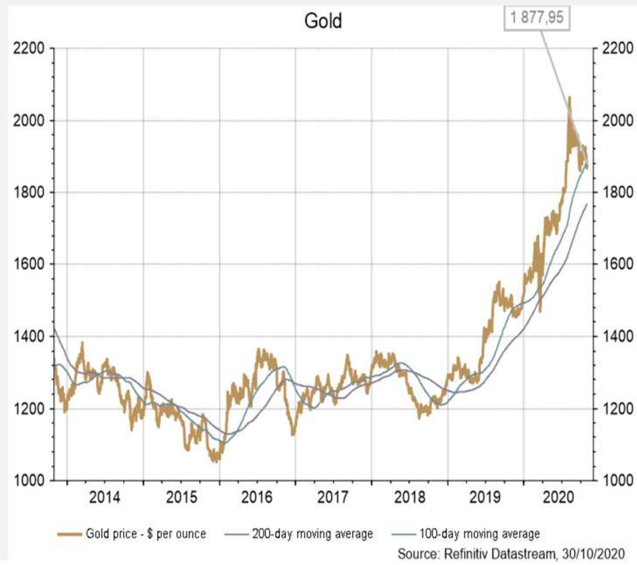
COMMODITIES AT A GLANCE

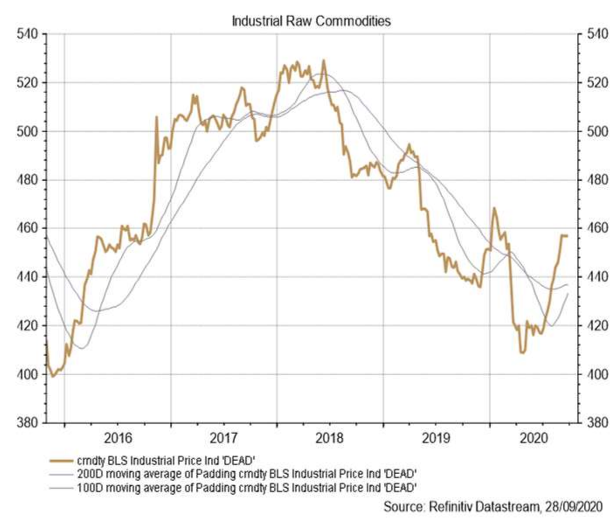
- **Gold:**. Since its intra-day high at $2075/oz on August 7, the gold ounce is in a consolidation phase. After having rebounded around $1850 end of Sept, it moved sideways around $1900.
- **Base metals:** Led by Chinese demand, base metals have recouped all their losses due to the covid-19 crisis. All base metal prices rose markedly in October bringing the year to date gains to (as of 23/10/2020): zinc +12.6%, nickel +12,0%, copper +11.2%, tin 7.2%, aluminium 1.8% and lead -7.3%.
- **Oil:** since their intra-day trough at $16 on April 22, the Brent prices recovered up to slightly above $45/barrel at the end of August. Lockdowns and travel restrictions fears due to the virus resurgence in Europe let to renewed supply glut worries and lower crude prices ($37/b).



GOLD

+

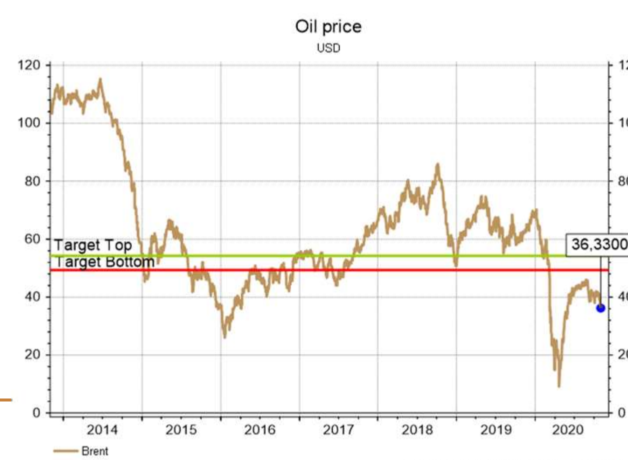
Gold fundamentals remain bullish as real interest rates should remain extremely low for longer. Gold is seen as a hedge against the depreciation of the fiat currencies due to excessive money creation. Expected trading range to for the coming 12 months: $1900/2100/oz



BASE METALS

+

Prices are underpinned by the economic rebound underway in China the leading buyer and by the pro-cyclical policies in Europe and US. The energy transition is supporting copper and nickel prices



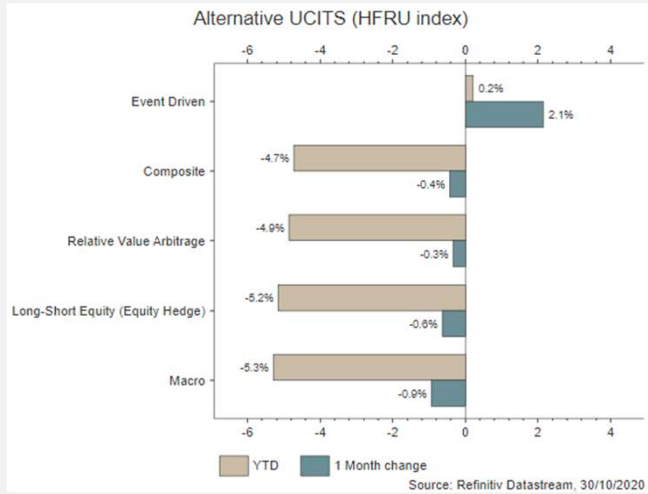
OIL

+

As the Covid resurgence is threatening the demand recovery, the OPEC+ hinted that they will continue to balance the market. Reduced investments in the shale oil industry but also in classical oil fields will weight progressively on the supply and push Brent prices above 50$ in 2021 (from 37$ on 30/10)

ALTERNATIVE INVESTMENTS AT A GLANCE

- October was the first negative month for alternative strategies as a whole since April. Directional strategies were hit the most by the change in trend, with discretionary managers hit on short USD and long inflation positioning, and systematic trend followers (CTAs) also hit on the USD reversal as well as profit taking on precious metals.
- Long/short equity managers helped cushion the Tech correction thanks to solid stock picking.
- **We have a preference for Macro, Long-Short and Relative Value strategies.**



GLOBAL MACRO

We remain positive. After the largest liquidity injections ever, managers expect pressure on the dollar, and possible inflation and rising rates. Increasing deglobalization and differentiated country fiscal policy should offer more relative value opportunities.

LONG SHORT EQUITY

Positive opinion. The crisis will also create losers, offering attractive long/short opportunities for stock pickers. We are becoming more comfortable with quantitative market neutral strategies, after a lot of assets left the space, and higher single stock volatility is generally more favourable.

EVENT DRIVEN

We are neutral: We expect to see a reorganization in various industries where companies with strong balance sheets acquire those weaker ones. A new wave of distressed investments will emerge from this crisis. Too early to move back to positive.

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. Although short term rates are anchored near zero by central banks, long term rates are likely to rise or at least 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, with record issuance post crisis and high single stock volatility.

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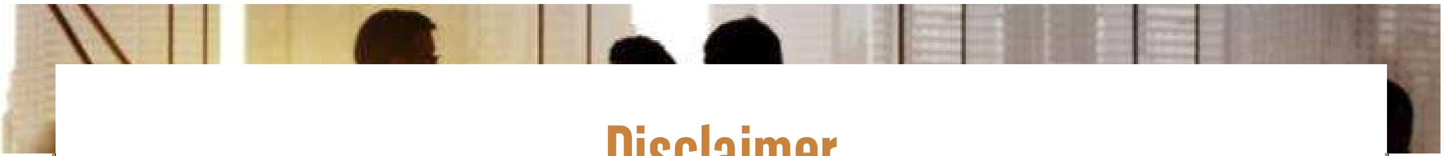
Evolution of our position from last month



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BNP PARIBAS
WEALTH MANAGEMENT

The bank
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