



OCTOBER 2020

# Investment Strategy



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Highlights Editorial Changes this month Summary of our main recommendations



- We stick to our U-shaped economic recovery scenario: growth will pick up in the second half of 2020 and gain momentum in 2021.
- There are several risks (China/US tensions, US elections, Brexit), but they are well known and already priced into the financial markets.
- Interest rates are low, negative in real terms, and will remain so for a long time.
- We maintain our buy on dips recommendation for equity markets. The ongoing consolidation is a good thing, and provides an opportunity to reinforce positions (ideally on the 200-day moving average).
- We are only making sector changes this month: we turn positive on industrial stocks and pharmaceuticals (instead of neutral). We downgrade our opinion on energy to neutral because the challenging environment persists.



**BNP PARIBAS**  
WEALTH MANAGEMENT

# Investment Strategy

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## Same economic scenario: a U-shaped recovery

We have the same scenario of a U-shaped global economic recovery starting in the second half of 2020 and amplifying in 2021. It is based on leading indicators (e.g. the PMIs in Europe and Asia, and the ISMs in the United States) and high frequency data (such as pollution, traffic jams in cities, electricity consumption, etc.). Household consumption is still dwindling, which explains the rise in precautionary savings; confidence is being eroded by growing uncertainty, unemployment and, of course, the pandemic. Some services sectors are severely impacted by the stoppage of tourism, as well as telecommuting and restriction measures related to Covid-19. The economy is running at only 95% of its potential.

We believe, however, that the measures taken by health authorities will limit the negative impact of the Coronavirus, and that thanks to the very active reflation policies (both monetary and fiscal), the economic recovery will be confirmed and will gain momentum next year. Bear in mind that fiscal policies to boost investments take time to bear fruit, particularly in the industrial sector.

Inflation will remain low in the industrialised world, below 2% in the United States, close to 0 in the eurozone, where the risk of deflation is still present, and is putting definite pressure on the ECB. The risk of an acceleration in inflation is very remote (3 to 5 years?), even with the ongoing economic policies.

## The main risks

The financial markets have had to grapple with the same risks for several months/quarters, the nature of these risks has not changed radically even though newsflow is somewhat changing their assessment in the short term.

Trade tensions between China and the United States are not in the spotlight at the moment, but they are here to stay. Both countries are competing strategically for long-term prospects.

The American elections will take place in a month's time. The outcome remains uncertain, even though Mr Biden has a clear lead in the polls, including in the 'swing states,' which are traditionally undecided states. The markets will accept a clear victory for either candidate, with or without a majority of the same camp in the Senate. But there is a serious risk that they will not like a dispute in the courts in the event of close results in some key states. Civil unrest/disorder could then break out in that case.

With regards to the Covid-19 pandemic, our baseline scenario is moderate: the virus will not disappear, so we will have to live with it for several more quarters. But we now know more about this virus and health authorities are implementing local measures that will be effective in curbing the pandemic.



Our key assumption is the following: what worked in Asia will be replicated elsewhere. A tougher scenario is possible, with a second wave leading to more general lockdowns, but the authorities will do their utmost to avoid this. On the other hand, a more optimistic scenario is also possible if a vaccine or drug becomes rapidly available.

Another risk is Brexit, but the ongoing negotiations between the United Kingdom and the European Union should be finalised soon. For parliaments to ratify the agreement before year-end, it must be signed by the end of October. But the risk of discord is high.

## Equity markets: buy on dips

In an environment in which interest rates are low and will remain so for a long time (below inflation in mature economies), the attraction of risky investments, i.e. essentially equities, remains intact. We are still convinced that every stock market downturn is an opportunity to reinforce positions because long-term economic growth will pick up and company profits will increase. The pandemic-related recession is temporary, and we have no doubt about the effectiveness of stimulus policies. Remember the American proverb, 'Don't Fight the Fed,' which can be applied to all central banks.

We maintain our directional trading view on stock markets and our opinions on the different regions: we are positive on the United States, the eurozone and the emerging markets (in particular Asia: China, Taiwan, South Korea, Singapore, India and Indonesia), so there are no changes this month

In the short term, a return of the global indices towards their 200-day moving average would provide an attractive entry level. The consolidation underway since September is a good thing as the markets were overbought. There are countless concerns, but they are largely priced in by the markets, in our view.





## Changes this month:

We have made three sector changes this month.

- 1) We turn positive on industrials to play the rebound in business investment that is particularly weak during the recession phase of economies. In addition, government investment in infrastructure (telecoms, energy, transport) will be on a large-scale in the coming years thanks to reflation policies. This improved momentum makes up for the fact that this sector is not cheap today.
- 2) We downgrade our recommendation on the energy sector to neutral. Indeed, weak demand persists, and although oil supply is well managed by the enlarged OPEC+ group of oil exporters, the sector is facing a very challenging environment, which persists.
- 3) In the health care sector, we adopt a positive opinion (once again) on pharmaceuticals, which have consolidated well, and we take some profits on Med-Tech/innovators in health care, which have performed very nicely. The health sector as a whole will continue to attract capital as investment in research will increase structurally.



EQUITIES	+	GLOBAL	+	<ul style="list-style-type: none"> <li>• <b>Buy the dips!</b> A slowdown in the economic rebound, political uncertainties and fears about a second wave of contagion are likely to weigh further on equities in the short term. The 200-day moving average area would be an ideal entry point.</li> <li>• <b>The primary trend is up.</b> With sales continuing to grow, earnings will narrow their gap versus their 2019 peak and be the main catalyst for higher equity prices over the medium term.</li> </ul>
		MARKETS	+	<ul style="list-style-type: none"> <li>• <b>Still positive on US stocks.</b> They remain solidly installed in their outperformance path.</li> <li>• <b>Attracted to Euro Area stocks:</b> recovery winners.</li> <li>• <b>Favourable outlook for Emerging Markets.</b> A superior earnings growth profile and a shift in benchmarks towards higher value-added stocks should lead to a further narrowing of the discount versus mature markets. Preference for Asian markets (China, Taiwan, South Korea, India, Singapore and Indonesia).</li> </ul>
		SECTORS	+	<ul style="list-style-type: none"> <li>• <b>Upgrading Industrials to positive.</b> Staying positive on Materials and Insurance.</li> <li>• <b>Downgrading Energy to neutral</b> but staying positive on EU oil majors for the long term.</li> <li>• <b>Positive on Healthcare: upgrading Pharma to positive; downgrading med tech and e-health.</b></li> <li>• <b>In Europe: positive on Technology.</b></li> </ul>
BONDS	-	GOVIES	-/=	<ul style="list-style-type: none"> <li>• We are <b>negative on German govies</b>, whatever the maturity, and on long-term US govies.</li> <li>• We are <b>positive on the front-end of the US yield curve for USD-based investors</b> as short-term yields have limited upside.</li> <li>• We are <b>positive on periphery debt</b> (Portugal, Italy, Spain, Greece) <b>on a buy on weakness strategy.</b></li> </ul>
		INVEST. GRADE	+	<ul style="list-style-type: none"> <li>• We <b>prefer corporate bonds</b> over government bonds.</li> <li>• We <b>like EUR and US IG bonds with a duration at benchmark</b> (5 and 8 years, respectively).</li> <li>• We are <b>positive on eurozone convertible bonds.</b></li> </ul>
		HIGH YIELD	=	<ul style="list-style-type: none"> <li>• <b>We are neutral on both US and eurozone HY.</b></li> </ul>
		EMERGING	+/=	<ul style="list-style-type: none"> <li>• <b>We are positive on EM local currency bonds</b>, for both USD and EUR based investors, and <b>neutral on EM hard currency bonds (sovereigns and corporates).</b></li> </ul>
FOREX	/	EURCHF	=	We revised our targets in line with our bearish view on the CHF near-term.
		USDCNY	=	We adjusted our targets following the CNY appreciation, and continue to see a stronger CNY near-term.
COMMODS	+	OIL	+	<ul style="list-style-type: none"> <li>• Fears about the global demand in the wake of the covid-19 resurgence seems exaggerated. US and OPEC+ production has decreased significantly. US stockpiles are declining. We expect Brent prices to trade in the range \$45-55/b in Q4 and above in 2021</li> </ul>
		GOLD	+	<ul style="list-style-type: none"> <li>• The ongoing correction offer nice entry points to benefit from further upside. Gold fundamentals remain bullish: negative real rates for longer, inflation fears linked to money printing and to a weakening USD. 12m expected trading range: \$1900/2100/oz .</li> </ul>
		BASE METALS	+	<ul style="list-style-type: none"> <li>• Prices are underpinned by the economic rebound underway in China, the leading buyer. Copper and Nickel are the more promising metals.</li> </ul>
ALTERNATIVES	/	REAL ESTATE	=	<ul style="list-style-type: none"> <li>• Positive for a 'value-added' commercial investment strategy, executed by first-class asset managers. Neutral on REITs with 'long-only' strategies, irrespective of geography.</li> </ul>
		Alt. UCITS	/	<ul style="list-style-type: none"> <li>• Positive on Relative Value, Macro and Long-Short equity. Neutral on Event-Driven.</li> </ul>







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