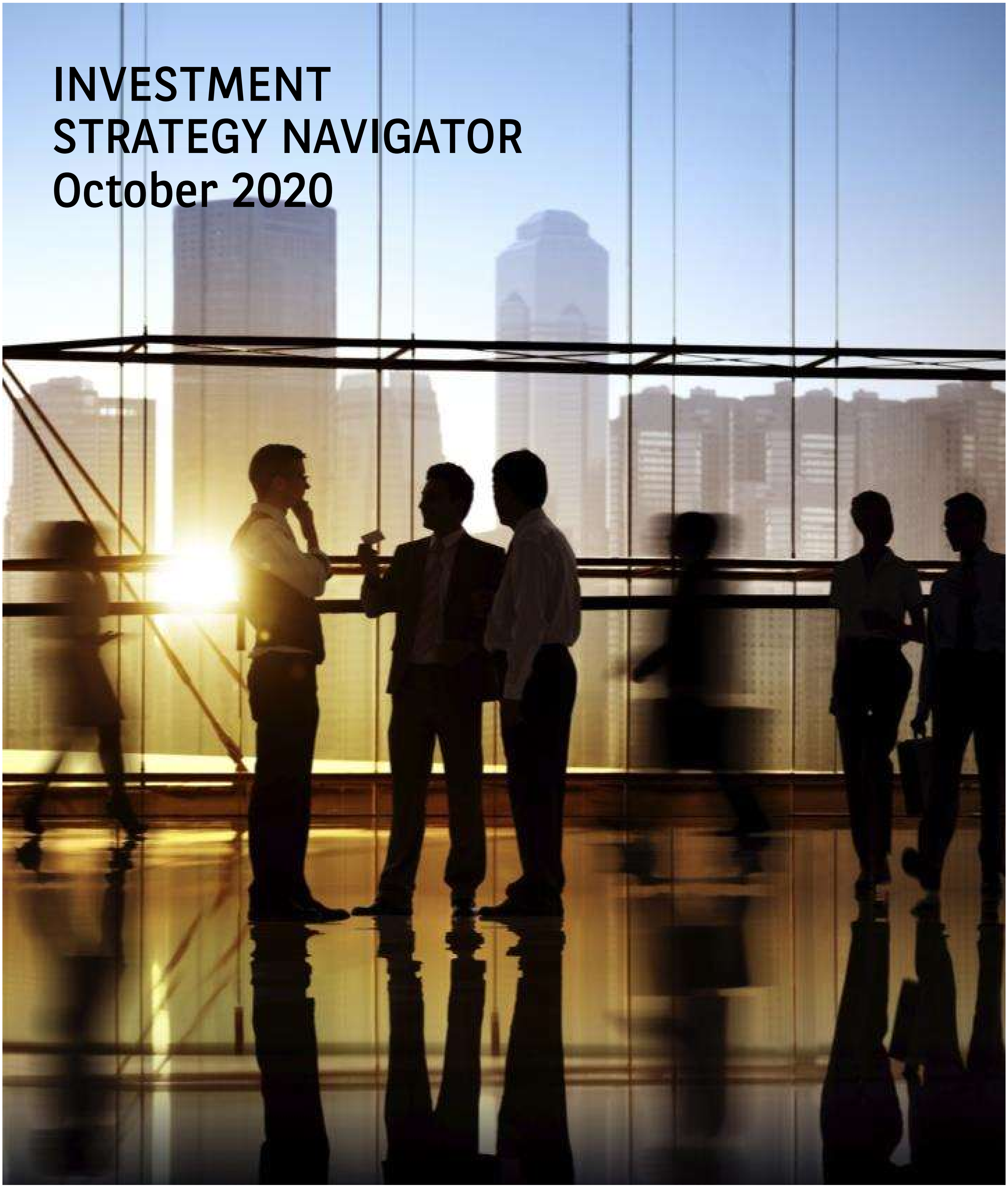
INVESTMENT STRATEGY NAVIGATOR October 2020



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

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

Inflation

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

* Fiscal year
Source: BNP Paribas
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MAIN MARKETS & FINANCIAL RISKS

Positive Risks (Equities)

1. The key risk for economic growth is renewed lock-down period via a lobal second wave. At the same time, markets are pricing a U shape scenario. Major progress on a vaccine and lower mortality rates could bring a positive surprise.

Negative risks

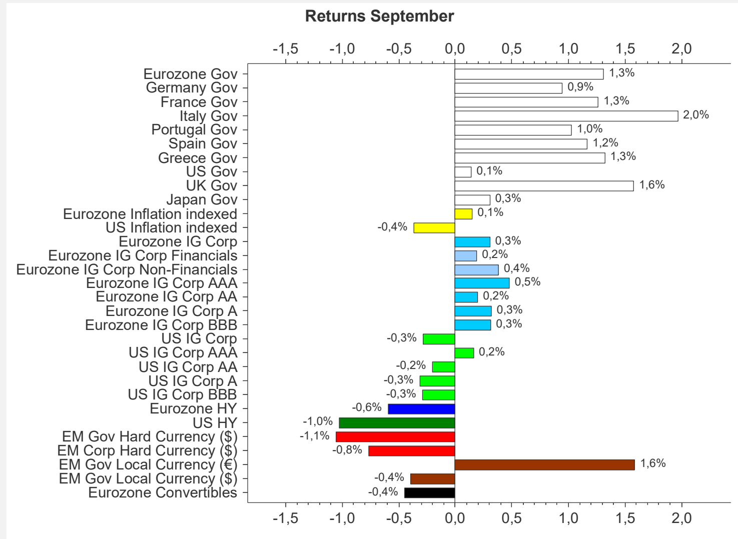
1. Renewed tensions between US and China.
2. The virus comes back in waves and implies more than local trageted lock-downs.
3. Bigger negative effects on supply and potential structural changes sch as deglobalization (corporates rethink their value chain models, a trend towards nationalizations and/or a permanent rise in saving ratios.
4. Political/Geopolitical risks remain elevated around the world. A key risk of that type is around the oil production and geopolitical interests.

FINANCIAL MARKETS AT A GLANCE

EQUITIES	+	GLOBAL	+	• **Buy the dips!** 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. • **The primary trend is up**. 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.
		MARKETS	+	• **Still positive on US stocks.** They remain solidly installed in their outperformance path. • **Attracted to Euro Area stocks:** recovery winners. • **Favourable outlook for Emerging Markets.** 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).
		SECTORS	+	• **Upgrading Industrials to positive.** Staying positive on Materials and Insurance. • **Downgrading Energy to neutral** but staying positive on EU oil majors for the long term. • **Positive on Healthcare: upgrading Pharma to positive; downgrading med tech and e-health.** • **In Europe: positive on Technology.**
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	/	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.
COMMOS	+	OIL	+	• 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
		GOLD	+	• 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 .
		BASE METALS	+	• Prices are underpinned by the economic rebound underway in China, the leading buyer. Copper and Nickel are the more promising metals.
ALTERNATIVES	/	REAL ESTATE	=	• Positive for a 'value-added' commercial investment strategy, executed by first-class asset managers. Neutral on REITs with 'long-only' strategies, irrespective of geography.
		Alt. UCITS	/	• Positive on Relative Value, Macro and Long-Short equity. Neutral on Event-Driven.

FIXED INCOME AT A GLANCE

- Risk assets declined in September on the back of renewed fears regarding Covid-19, no progress on the US fiscal plan and central banks on hold.
- Central banks opted for an uncomfortable wait-and-see posture in September. We expect more stimulus from both the ECB and the Fed before the end of the year.
- US and German short-term bond yields are likely to remain at current levels in 12 months. Long-term bond yields could however grind higher given upcoming large issuances.
- Most asset classes rebounded close to pre-Covid levels. We are cautiously optimistic, preferring Investment Grade corporate bonds, government bonds in the euro periphery and emerging local bonds.



Source: Refinitiv Datastream, 30/09/2020 Index source: Bloomberg Barclays for indices exept Convertibles (Exane)

CENTRAL BANKS

- Both the Fed and the ECB are likely to remain dovish for some time. We do not expect any rate hikes in the foreseeable future.
- We believe that the ECB will have to increase its PEPP programme before the end of the year to address the problem of a lack of inflation.

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)

- US and eurozone IG corporate bonds are not cheap but are a credible alternative to government bonds given the central banks' support. We stay positive on both asset classes.

PERIPHERAL & HIGH YIELD (HY)

- We stay positive on periphery bonds with a buy on weakness strategy. The ECB is suppressing interest rate volatility and capping spreads. Plus, the fundamental background is a tailwind and the events/risks agenda seems light.
- HY bonds are expensive relative to expected default risks. However, technicals are favourable. Higher volatility ahead of the US election may reduce the liquidity of the asset class and exacerbate all the moves. We prefer to stay neutral on HY bond.

EMERGING MARKETS BONDS

- We stay neutral on EM bonds in hard currency. Valuations remains rich, even after the decline in September
- We prefer local bonds, where EM currencies have potential to appreciate and central banks can lower rates.

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

FOREX AT A GLANCE

- The **US dollar** recorded as expected a temporary rebound. The second wave of virus in Europe, US elections and Brexit tough negotiations were the key drivers. We still expect further weakness.

- The market move towards safe haven assets benefitted the yen more than the USD. We think that the yen has further appreciation potential near-term against the greenback.

- The **Swiss franc** ended the month broadly flat after a negative performance against the euro over the summer period. We continue to see additional CHF downside pressure near-term.

	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	10.40	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	72.0	68.0
	India	USD / INR	75.0	75.0
	China	USD / CNY	6.80	6.70

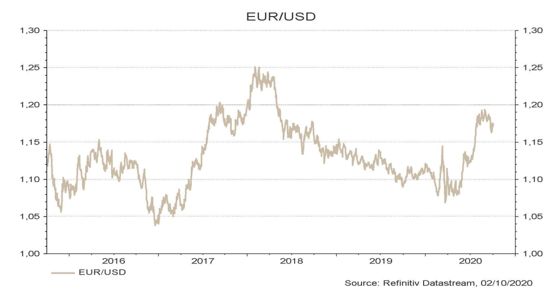
Source : BNP Paribas WM

Currency forecasts

EUR/USD

- The temporary correction of the EURUSD seen in September remains in line with our assumption of a stronger USD short-term at 1.16 (value for 1 euro).

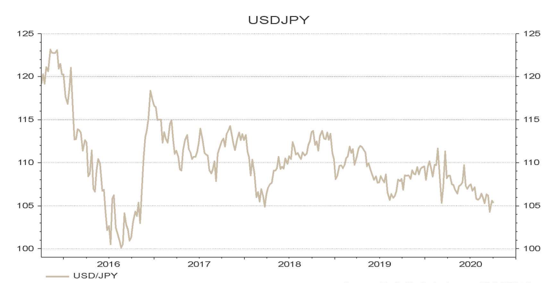
- Over the next 12 months, we keep our bearish scenario for the USD. We maintain our target at 1.22.



EUR/GBP

- The JPY should remain steady at current levels (106) short term.

- Near-term, we keep our downside view for the USDJPY around 102 (value of one USD).



EUR/CHF

- After the CHF depreciated in July, we see the EURCHF remaining steady around 1.08 (value of one euro) over the next 3 months.
- Near-term, we see negative drivers (higher risk appetite) bringing the EURCHF around 1.11.

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EQUITIES AT A GLANCE

- **Buy the dips!** 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.

- **The primary trend is up.** 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.

- **Favoured markets: the US, EU and EM.**

- **Sectors**: turning positive on Industrials; downgrading Energy to neutral.

Consensus earnings growth expectations are still too ambitious for 2021

	EPS growth		
	20 (current year)	21 (next year)	12M fwd
MSCI AC World	-19,1	29,9	15,5
MSCI Dev Mkts	-20,8	29,5	14,6
MSCI EM Mkts	-8,9	32,0	20,5
S&P500	-19,3	26,3	13,9
TSX Comp	-37,2	56,8	26,9
Euro Stoxx	-38,8	53,8	21,9
DAX	-19,0	39,1	23,4
CAC	-45,6	64,9	23,0
MIB	-50,8	61,0	16,3
IBEX	-80,5	271,6	49,6
AEX	-26,0	37,3	17,5
FTSE100	-43,0	44,5	12,2
SMI	-7,4	16,3	9,7
Topix	-26,8	-11,5	18,7
ASX200	-17,2	-0,1	10,8

Source: IBES

GLOBAL EQUITIES

- We would not be surprised if down the road investors look back to October and conclude it would have been an excellent month to go bottom fishing. Buy the dips.
- Vaccine news should improve. The underlying economic and earnings trends are expected to remain positive.

EMERGING MARKETS

- A superior earnings growth profile and a shift in benchmarks towards higher value-added stocks should result in a further narrowing of the discount versus DMs.
- Preference for Asian markets (China, Taiwan, South Korea, India, Singapore and Indonesia).

SECTOR PREFERENCES

- Upgrading Industrials to positive.
- Staying positive: Materials and Insurance.
- Downgrading Energy to neutral (but positive EU oil majors for the long term)
- Positive on Health Care: upgrading Pharma to positive; downgrading med tech and e-health.

DEVELOPED MARKETS

- US equities remain a core favourite, staying in a solid uptrend relative to the rest of the world.
- Invest in Euro area stocks. A global economy that gradually heals, coupled with substantial stimulus packages, provide room for re-valuation.

INVESTING STYLE

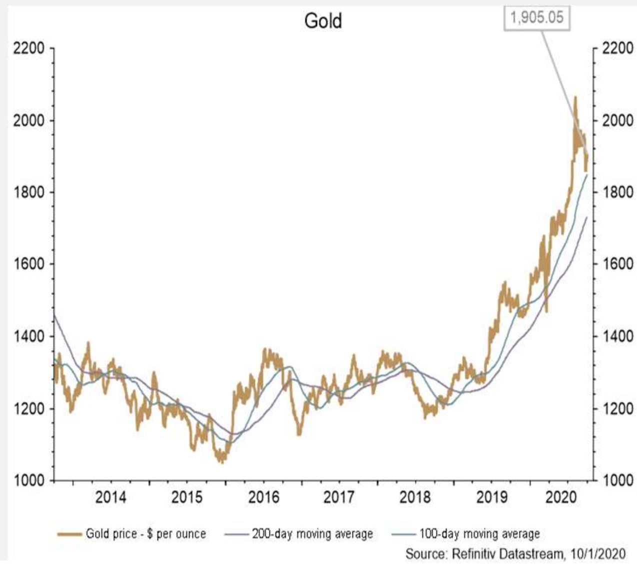
- A resumption in global earnings growth from Q3 and extremes in relative valuations should catalyse a reversal in relative performance later in the year and in 2021 in favour of Value.
- With the passage of time and as we get closer to the time when populations will get vaccinated, SMID caps should be positioned to deliver attractive returns, at least in the US and the euro zone, where valuations are attractive.

Our position for this month

Evolution of our position from last month

COMMODITIES AT A GLANCE

- **Gold:** A small rise in real bond yields was the trigger for some profit taking in a strongly overbought market bringing gold prices back around $1850/oz. The recent unexpected USD strength also weighed on the bullion. 12m expected trading range: $1900/2100/oz .
- **Base metals:** Base metals have recouped all their losses due to the covid-19. The retracements in September were relatively modest.
- **Oil:** The OPEC+ production increase and the contamination surge in Europe let to renewed supply glut worries and lower crude prices (around $40/b). We expect Brent prices to trade in the range $45-55/b.



GOLD

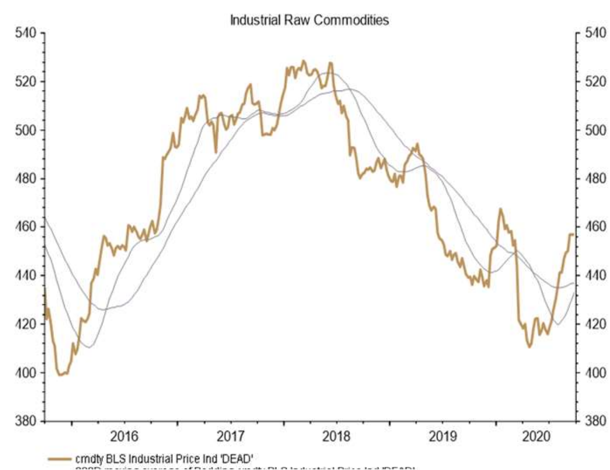
+

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 presumed excessive money printing and to a weakening USD. 12m expected trading range: $1900/2100/oz .

BASE METALS

+

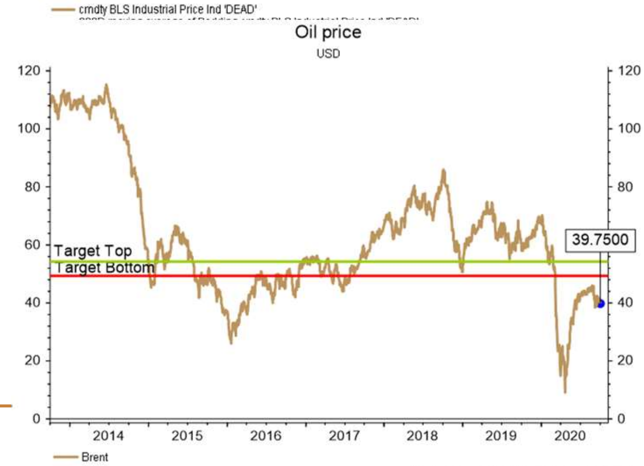
Prices are underpinned by the economic rebound underway in China, the leading buyer. Copper and Nickel are the more promising metals.



OIL

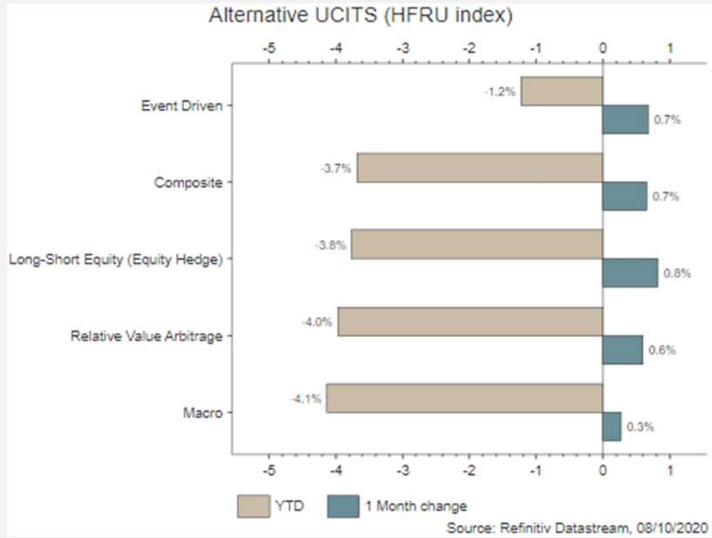
+

Fears about the global demand in the wake of the covid-19 resurgence seems exaggerated. US and OPEC+ productions have decreased significantly. US stockpiles are declining. We expect Brent prices to trade in the range $45-55/b in Q4 and above in 2021 underpinned by a lack of investments



ALTERNATIVE INVESTMENTS AT A GLANCE

- Alternative strategies enjoyed a fifth positive month in a row, as the recovery from the March shock continued.
- Long/short equity was again the main winner, as markets were positive, and growth stocks again outpaced value stocks. Relative value strategies also continued to do well, as credit spreads continued to normalize, with lower rated credits outperforming better quality paper., and convertible arbitrage was again a top performer.
- **We have a preference for Macro, Long-Short and Relative Value strategies.**



GLOBAL MACRO

We remain positive. Increasing deglobalization and differentiated country fiscal policy should offer more opportunities. CTAs have a role to play in a portfolio, as tail hedge in case of a lasting bear market, even if they are subject to reversals.

LONG SHORT EQUITY

Positive opinion. With the exception of some NASDAQ stocks, the March sell-off has left discounts in quality stocks, with strong recovery potential. The crisis will also no doubt create losers, offering attractive long/short opportunities for fundamental stock pickers

EVENT DRIVEN

We are neutral: Short term, COVID and US elections uncertainty means few new M&A deals, and on average the remaining open deals carry more risk post COVID. Nonetheless, we have started to see some pick-up in deal volume since late August. We expect to see a reorganization in various industries.

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. Convertible bond arbitrage is in a sweet spot, with record issuance post crisis and high single stock volatility

Our position for this month

Evolution of our position from last month

Disclaimer

BNP Paribas Wealth Management Chief Investment Advisor (CIA) Network

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BNP PARIBAS
WEALTH MANAGEMENT

The bank
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