BNP PARIBAS
WEALTH MANAGEMENT

2022 INVESTMENT THEMES
September update

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Contents

Start of a new bull, or pause in the old bear?

Stock markets have recovered a little, now what?

A summer mini-rally in stocks

The summer months have seen stock markets recover nearly half of the ground lost since the start of 2022. The US S&P 500 index has recovered from a 23% year-to-date fall in mid-June to just -12% by late August. In euro terms, the MSCI World index is today only just over 1% below its 2022 starting level once dividends are included.

Reasons for pessimism abound: however, economic recession worries continue to loom large as high inflation rates hold back corporate and consumer spending, particularly in Europe where sky-high energy costs weigh heavily. The US, Europe and China all have their own economic difficulties, with no major bloc able to act to power the global growth motor.

False hope or start of a true market rally? Are we likely to see a resumption of falling stock markets later this year, or is the recent mini-rally the start of better times ahead for stocks? Is all the bad news already priced in?

Which indicators to watch for hints of market direction?

Certain factors support stocks at the moment: financial conditions have improved, and investors are already very pessimistic, usually a good contrarian buying signal. The peak in US inflation is likely already past, with many forward indicators pointing to lower inflation over the months ahead. Lower inflation prints may allow the US Federal Reserve to scale back further interest rate hikes before year-end, allowing financial conditions to loosen and support risk assets.

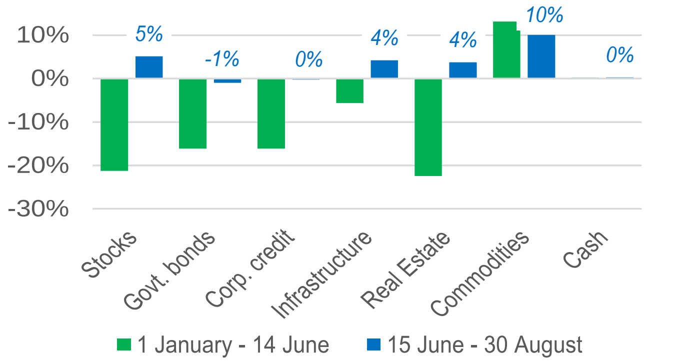
US inflation remains the key market driver: the direction and speed of the path of US inflation remains the key to financial markets. A disappointingly slow decline or even a stubbornly high inflation rate would drive fears of a deeper recession, higher bond yields and the risk of a bigger fall in corporate earnings. In contrast, a speedy decline in inflation thanks to weaker housing, goods and petrol prices could allow real bond yields to fall, and also improve the chances that US corporate earnings remain robust. This would benefit stock, bond and credit markets.

Themes: energy efficiency/conservation, food & water security, focus on income

The current energy crisis is forcing households and companies to embrace measures to reduce energy consumption in the short term. Record energy prices will further spur investment in low/zero-carbon energy generation and infrastructure, plus energy efficiency investments related to heating, lighting, transportation and production of goods and services. This fits neatly with our **circular economy investment theme**, focused on minimising resource and energy usage, improving durability of products and reducing waste. The energy crisis also indirectly impacts our **food & water security subtheme**, given the energy-intensive nature of production of nitrogen-based fertilisers. Higher energy prices are thus forcing up the cost of food, while widespread droughts over this summer have underlined the need to prioritise water security for drinking and for agriculture.

The recent rise in both short- and long-term interest rates, combined with the fall this year in stock, bond and credit markets, offer a long-awaited opportunity to **invest at higher bond and dividend yields,** at a time when high inflation continues to erode the value of low-yielding bank deposits.

ONLY COMMODITIES, INFRASTRUCTURE AND CASH HAVE NOT SUFFERED IN 2022.



Source: Bloomberg BNP Paribas WM, performance in US dollars
Note: Infrastructure and Real Estate are listed asset indices

Economic Outlook and Interest Rates

Looking for some relief

Economic indicators stabilise

There are lots of reasons to be pessimistic about the global economy: growth is slowing sharply in the US, Europe and China for different reasons. Europe is increasingly likely to enter an economic recession due to record high gas and electricity prices. We will monitor whether the rate of fall in leading economic indicators decelerates. In the past, this has often been a trigger for investor risk appetite to return. We have seen encouraging signs from business surveys and consumer confidence in the US. However, in Europe, any macro improvement should occur somewhat later.

Inflation is still key

Inflation rates have been very high almost everywhere, pressuring household budgets and resulting in weaker consumption. European industry is cutting back on production in response to very high energy prices, constituting a big drag on economic growth. In the US, we have seen a peak in inflation. Recent data show that consumer price inflation (CPI) has fallen since March for most core inflation measures. While inflation should trend downwards, we think it will remain solidly above target throughout 2023. In the eurozone, second quarter inflation averaged 8.0% before reaching 9.1% in August. We do not expect a peak until it approaches 10% in late autumn. The normalisation process thereafter should be slow and highly dependent on the evolution of energy prices. Inflation should stay above the ECB's target until late 2023.

Looking for stabilisation in interest rates

The peak in US inflation should be confirmed over the coming weeks. In the US, we see a terminal Fed Funds rate at 3.50%, to be reached by the end of the year. We no longer envisage rate cuts in late 2023. In the eurozone, we foresee the deposit rate at 1.50% by year-end and at 2.25% by Q4 2023. Bond yields have risen over the summer. We maintain our 12-month target for the 10-year yield at 3.25% in the US and 1.75% in Germany. The current levels suggest limited upside for bond yields. The difference between short and long-term maturities is quite small and therefore we prefer short-term maturities. We have a preference for higher quality corporate bonds. Companies show strong balance sheets thanks to debt reduction and refinancing during this low yield environment.

Risk aversion took the USD to record levels

The value of the euro (EUR/USD) has been hovering at around 1 in recent weeks. The growing risk of a European gas crisis owing to disruptions in Russian exports is weighing on the demand for the euro. The dollar's safe haven status is another key factor. Both the interest rate differential and long-term fair value estimates (purchasing power parity) suggest that once risk aversion stabilises, the euro should appreciate gradually. We were formerly too ambitious in our expectations for a re-appreciating euro. Our new 12-month EUR/USD target is USD1.08 per 1 euro (previously USD1.12).

GROWTH AND INFLATION

BNP Paribas Forecasts

GDP Growth %	2022	2023	2024
United States	2.6	1.9	1,7
Japan	1.4	1.1	0,6
United Kingdom	3.6	1.5	1,6
Eurozone	**2.5**	**2.3**	**2,2**
Germany	1.3	2.2	2,3
France	2.3	2.1	2
Italy	2.8	2.0	1,8
Emerging			
China	3.7	5.7	5,0
India*	8.3	6.2	6,5
Brazil	1.5	0.0	1,2
Russia	-7.0	0.8	0,3

* Fiscal year

Source: BNP Paribas Group Economic Research

BNP Paribas Forecasts

CPI Inflation %	2022	2023	2024
United States	7.5	3.9	2,4
Japan	1.9	1.0	0,7
United Kingdom	8.0	4.4	2,1
Eurozone	**7.9**	**4.1**	**2**
Germany	8.1	4.6	2,1
France	5.9	3.6	1,8
Italy	7.7	4.5	1,8
Emerging			
China	2.3	3.4	2,5
India*	7.9	5.9	5,5
Brazil	11.0	7.1	4,3
Russia	14.0	10.5	7,6

* Fiscal year

Source: BNP Paribas Group Economic Research

01

Responding to today's energy crisis

BNP PARIBAS
WEALTH MANAGEMENT

Responding to today's energy crisis

Europe is today engulfed by an energy crisis: natural gas and electricity prices have reached new all-time highs, largely driven by the sharp decline in Russian natural gas exports. We can no longer rely on cheap gas supplies for our electricity and heating needs, and must be more self-reliant for energy production. This situation should spur a renewed focus on renewable energy generation and storage, as well as investment in improved energy efficiency and conservation – a key subtheme of the circular economy theme.

Much of what we consume as goods and services require an enormous amount of energy for production, provision and transportation. The energy crisis thus places an even greater emphasis on making goods and services more efficient and durable, reinforcing our belief in the circular economy as a long-term theme.

OUR RECOMMENDATIONS

A cross-asset theme: Equities, Bonds, Infrastructure, Real Estate and Commodities

- Energy Efficiency: it is far easier to save energy rather than generate it, via energy conservation solutions including insulation, smart glass, geothermal heat pumps, automatic light sensors and power monitoring systems.
- Renewable/Clean Energy: given the need to generate more electricity via non-fossil fuel sources to ensure greater energy security and self-sufficiency.
- Smart Grid Infrastructure and Renewable Energy Storage: including battery metals, which are necessary raw materials for these storage systems.
- Circular Economy leaders: including a focus on better and more modular design, making products more easily repairable, longer-lasting and requiring fewer raw materials to produce, with a smaller carbon footprint. This covers leading manufacturers and technology companies in a number of manufacturing industries, also major operators in the sharing economy and in leasing.

KEY RISKS

- An overriding political imperative to lower prices for consumers and businesses could lead to a delay in the investments and policies required to drive higher investment in the circular economy in the near term.
- The enabling of new technologies to achieve optimal use of natural resources including energy could supersede current circular economy technologies and business models in the reuse, repair and recycling of goods and services.

Global energy demand just keeps rising...

Record-high European natural gas and electricity prices dominate the news, fuelled by restricted natural gas exports from Russia. With benchmark Dutch natural gas prices currently 15 times higher than the average for the first half of 2021, European gas demand is naturally starting to fall as companies cut back energy-intensive production and services.

Efforts to reduce the carbon intensity of the global economy up to now have been insufficient to arrest rising temperatures. We still consume far too much energy and too many goods, generating a carbon footprint which the world simply cannot sustain over the long term. According to BP, the world saw its largest ever increase in primary energy demand in 2021.

Renewable energy on the bounce

On the energy supply side, we can expect to see accelerated investment in low and zero-carbon energy production through renewable energy sources (principally solar and wind as well as geothermal). In order to reduce the volatility of energy supply as the world transitions away from gas-fired power generation to using more renewable energy sources, we need heavy investment in electricity storage via hydroelectric dams, industrial-scale batteries and gravity-focused energy storage solutions. To this end, renewable energy infrastructure and storage funds remain an excellent investment, offering solid rates of return and long-term growth.

Energy efficiency/conservation now in focus

From now on we must all focus on energy conservation and efficiency, as it is much more productive to save energy than it is to generate. This can take many forms, including heat pumps to partially or fully replace gas central heating, LED lighting, smart light controls and smart meters to reduce electricity consumption, and improved window, roof and wall insulation of homes and office buildings to reduce heat loss.

There are simple energy-saving measures to take: reduce speed limits on motorways; ask consumers to turn down their thermostats a touch; encourage the use of public transportation by reducing the cost of tickets. The International Energy Agency has produced a handbook entitled "Saving Oil in a Hurry", full of energy-saving measures that are useful at this time of energy crisis. Ultimately, record-high energy prices focus minds and should drive accelerated investment in the transition to a low-carbon energy future, which would be good for us all in the long run, even if we suffer today.

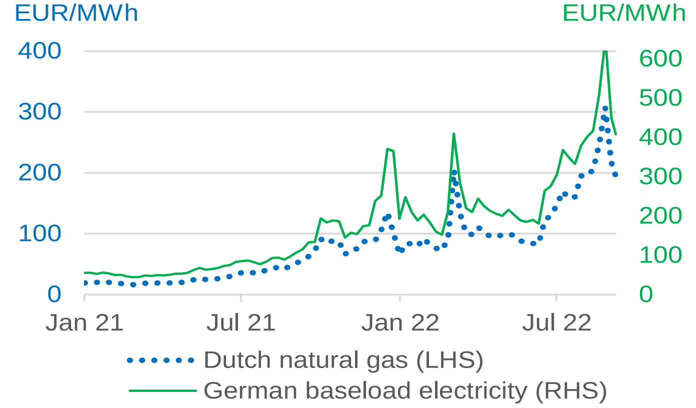
Investing in energy infrastructure

We favour energy efficiency and circular economy funds and stocks, as these should benefit from the intense focus on investment in both energy generation and energy conservation.

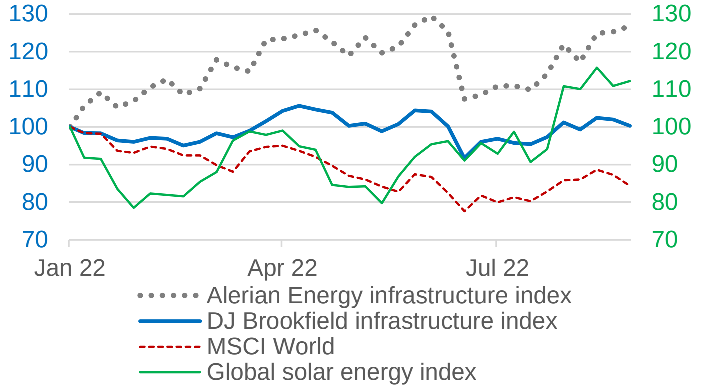
The circular economy as an indirect way to consumer less energy

Consider that a large slice of our daily consumption of goods and services is in fact an indirect consumption of the energy required to make and transport goods or to provide services. The energy crisis thus places an even greater emphasis on making goods and services more efficient and last longer, reinforcing our belief in the circular economy ("reuse, repair, recycle") as an important investment theme. Companies will invest heavily to find less energy-intensive methods of production of nitrogen fertilisers, aluminium and semiconductors, which are very energy-intensive processes.

EUROPEAN NATURAL GAS, ELECTRICITY PRICES TOUCH RECORD HIGHS



INFRASTRUCTURE AND SOLAR ENERGY HAVE PERFORMED WELL IN 2022



Source: Bloomberg BNP Paribas WM, 7 September 2022

02

Securing the bare necessities of life

THEME 2

Securing the bare necessities of life

The COVID-19 pandemic and conflict in Ukraine have reinforced and accelerated the megatrends in security.

At the top of the agenda are the transition towards renewable energies, and the identification of fossil-fuel energies as alternatives to Russian exports. Meanwhile, widespread concerns over shortages and rationing are forcing governments (especially in Europe) to implement massive investments to support the energy transition over a multi-year horizon. Two other challenges relate to the efficient use of - and access to - clean water, and securing the key raw materials needed for energy storage and efficiency. The Russia/Ukraine conflict has also highlighted the issues surrounding food security, while the increasing use of digital technologies stresses the importance of technology security, including the supply of semi-conductors and reliable cybersecurity tools.

OUR RECOMMENDATIONS

Investable sub-themes of this new strategic assets mega theme include:

1. Energy security: energy efficiency, renewable/biomass energy generation, battery metals & energy storage, hydrogen power, oil & gas infrastructure, oil & gas exploration & production, uranium/nuclear power.

2. Water and commodities: companies that provide technologies for water efficiency, recycling and desalinisation.

3. Food security and alternative food sources: solutions to combat malnutrition, via more effective water irrigation, fertilisers and technologies to boost crop yields, as well as companies which combat food waste. Alternatives to meat and vegan food.

4. Technology security: semiconductors, cybersecurity, satellite technology and networks.

KEY RISKS

- A major global recession should drive severe demand destruction for energy and raw materials, driving down commodity prices and thus hurting the profits of commodity-producing companies. It is, however, unlikely to jeopardise long-term trends.
- Investment solutions for this theme mainly relate to equities. Despite the theme's relevance and attractive expected returns, such solutions are subject to movements in global equity markets.

Energy, national security and sustainable growth

Europe is a prime example of a continent where priorities are shifting away from the import of relatively cheap natural gas from Russia towards the pressing need to identify alternative sources of natural gas and other energy. The race to guarantee energy security within the European Union is on. Indeed, this has become an issue of national security in several countries. Moreover, growing concerns over climate change are prompting governments to invest massively in renewable energies to accelerate the reduction of carbon dioxide emissions.

Security of water and raw materials

Increasing demand for water combined with its uneven and unreliable supply are making it one of the world's most precious resources. Huge investments are necessary to build and maintain efficient and sustainable infrastructure, for recycling and desalinisation activities for example. In other sectors, such as agriculture, water use must become more efficient.

Food security and alternative food

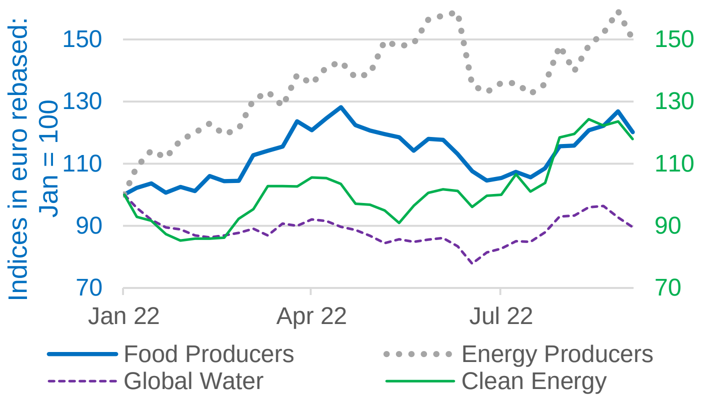
Turning now to food security, the developed world enjoyed a productivity boom in agriculture and farming that allowed food prices to decline steadily from 1980 to 2003, and then from 2011 to 2020. An environment in which the real (after-inflation) cost of food was falling around the globe turned into one of galloping food prices in late 2020, stirring up civil unrest in some developing economies in the process.

The Russia/Ukraine conflict has also highlighted the issues surrounding food security. Indeed these two countries are major food producers, and sanctions against Russia have contributed to the astounding upswing in fertilizer prices. Large investments are required to expand the supply/production of food to improve food security. We focus on two parts of the food value chain and watch companies actively involved in sustainable and environmentally-friendly food production: i) innovations in agricultural science including environmentally-friendly pesticides and fertilizers and precision farming (increasing the crop yield for any given number of inputs needed); ii) producers of new kinds of food, such as meat alternatives and vegan food.

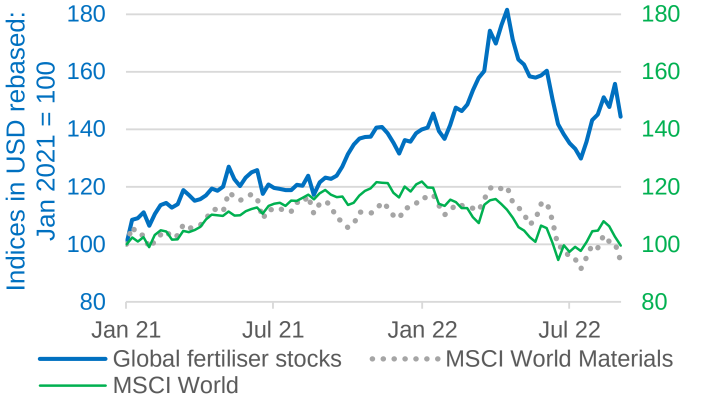
Technology security in chip production, cybersecurity

As in other security subthemes, we are likely to see ramped-up investment in some areas of technology, such as semiconductor production and cybersecurity. Until now, the backbone for all technology, namely semiconductor chips for processing, memory, storage and sensors, has been largely manufactured in the Far East (e.g. South Korea, Taiwan). The new emphasis on national security is set to usher in the construction of new semiconductor plants in the US and Europe, in order to secure supply in this extremely strategic industry. Cyberattacks have been on the rise in recent years while the use of digital technologies has been booming since the outbreak of the COVID-19 pandemic and the ensuing lockdowns. Indeed teleworking and the fast expansion of virtual and digital tools is driving demand for cybersecurity services.

FOOD, WATER AND ENERGY SECTOR INDICES HAVE OUTPERFORMED IN 2022



FERTILISER COMPANIES ARE SELLING AN INCREASINGLY VALUABLE FOOD INPUT



Source: Bloomberg BNP Paribas WM, 30 August 2022

03

Hunting for quality income

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Hunting for quality income

Both short- and long-term interest rates have risen sharply in the majority of countries since the beginning of the year. At the same time, global stock, bond and credit markets have suffered double-digit declines. Consequently, long-term investors can choose from a much more varied range of attractive income-bearing assets than in 2021.

Today, we see long-term value at moderate risk for income-seeking investors in three specific areas despite global economic growth slowing: i) US investment-grade corporate bonds, ii) global high dividend yielding stocks and iii) public and private infrastructure funds.

OUR RECOMMENDATIONS

This investment theme includes potential exposure to corporate bonds, dividend-yielding stocks as well as public and private infrastructure funds.

We favour:

- US investment-grade corporate bonds, funds and ETFs;
- Global quality dividend stocks, funds and ETFs;
- Share buyback ETFs;
- Private and publicly-listed infrastructure funds and ETFs

KEY RISKS

- A prolonged global economic recession is the principal risk to this theme, as it could result in rising corporate bond default rates and cuts to stock dividends.
- A prolonged period of stagflation (low/zero growth combined with high inflation rates) would also challenge this investment theme, as it is typically an unfavourable economic environment for both stock and credit markets.
- A recovery in the EUR/USD exchange rate in favour of a stronger euro could impact returns for euro investors in US corporate bonds – we would thus favour currency-hedged US corporate bond funds and ETFs for euro-based investors in order to minimise this risk.

US corporate credit now offer tempting yields

Today, we see three ways to gain income from the corporate world. Firstly, defensively-oriented investors may wish to look at investment grade corporate bonds. Credit spreads have widened since the start of 2022, pushing corporate bond yields up to levels not seen since 2009. We prefer US corporate credit over Europe, given lower economic risks and higher yields.

Investing in high dividend stocks

More dynamic investors can consider stocks with high dividend yields. This factor underperformed the broader market during the rally from the COVID-19 lows in March 2020. When growth is solid and inflation modest, dividends are of less importance as investors then prefer to invest in growth stocks. However, during times of high inflation this focus changes. Dividends are ultimately a function of revenues and profits. When inflation goes up, revenues tend to rise in conjunction with higher prices for goods and services. High dividend stocks backed by solid cash flows should thus outperform in today's macroeconomic environment.

We prefer a high dividend approach that also includes certain quality characteristics. Over the long term, this combination has outperformed both the broader market and pure unfiltered high dividend strategies.

A quality dividend approach wins over time

Avoiding dividend value traps. The capacity of a company to pay a dividend is vastly driven by its current profitability. Therefore investors may be well advised not to make the mistake of focusing solely on historical dividend payouts. A very costly mistake can in fact be to estimate the dividend yield based on the latest payout. The yield may be artificially inflated by a low share price, which itself could be a indicator of fundamental problems in the company. Thus, a purely high yield-focused investor may end up seeing the expected dividend cut, on top of a falling share price.

Hence, we prefer a quality dividend approach which takes into account the future capability of a company to maintain and grow its dividend payments over time. Quality companies tend to produce more stable cash flows over time, thus supporting stable dividend payouts.

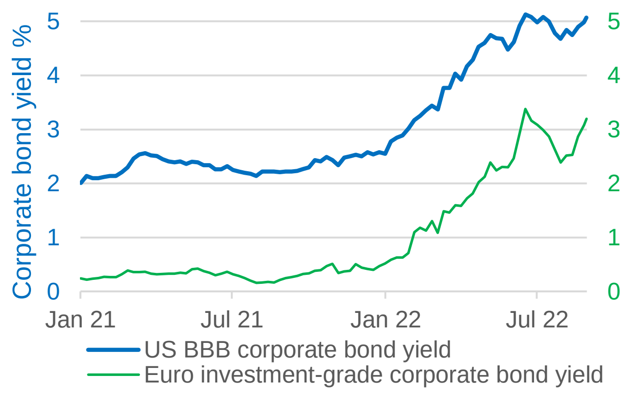
While the dividend yield of a quality income strategy may not be as high as for a pure high yield product, the quality approach helps the strategy to perform well in different market environments. We believe that quality dividend solutions are an attractive way of obtaining a more defensive equity exposure in a high inflation environment.

Infrastructure assets for income growth

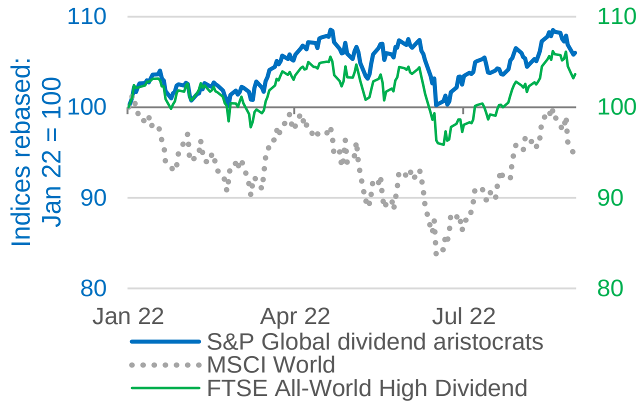
Infrastructure is a third asset class to consider for long-term stable income growth. Infrastructure funds include diversified exposure to a range of steady real income-generating assets, including transport (motorways, rail, ports, airports), energy (oil & gas pipelines, electricity and gas supply grids), water utility providers, social (hospitals, health clinics) and technology/telecoms (mobile phone masts, datacentres).

Long-term performance of listed and private infrastructure funds has been impressive, with the Dow Jones Brookfield Global Infrastructure index delivering a 10.8% annualised return since 2003, outperforming stocks and bonds. Given strong underlying demand, we see this trend continuing.

BBB INVESTMENT-GRADE CREDIT YIELDS HAVE RISEN TO OVER 5% IN THE US



DIVIDEND ARISTOCRATS, HIGH DIVIDEND YIELD STOCKS HAVE BEATEN MSCI WORLD IN 2022



Source: Bloomberg BNP Paribas WM, 30 August 2022

04

Our initial 2022 Investment Themes

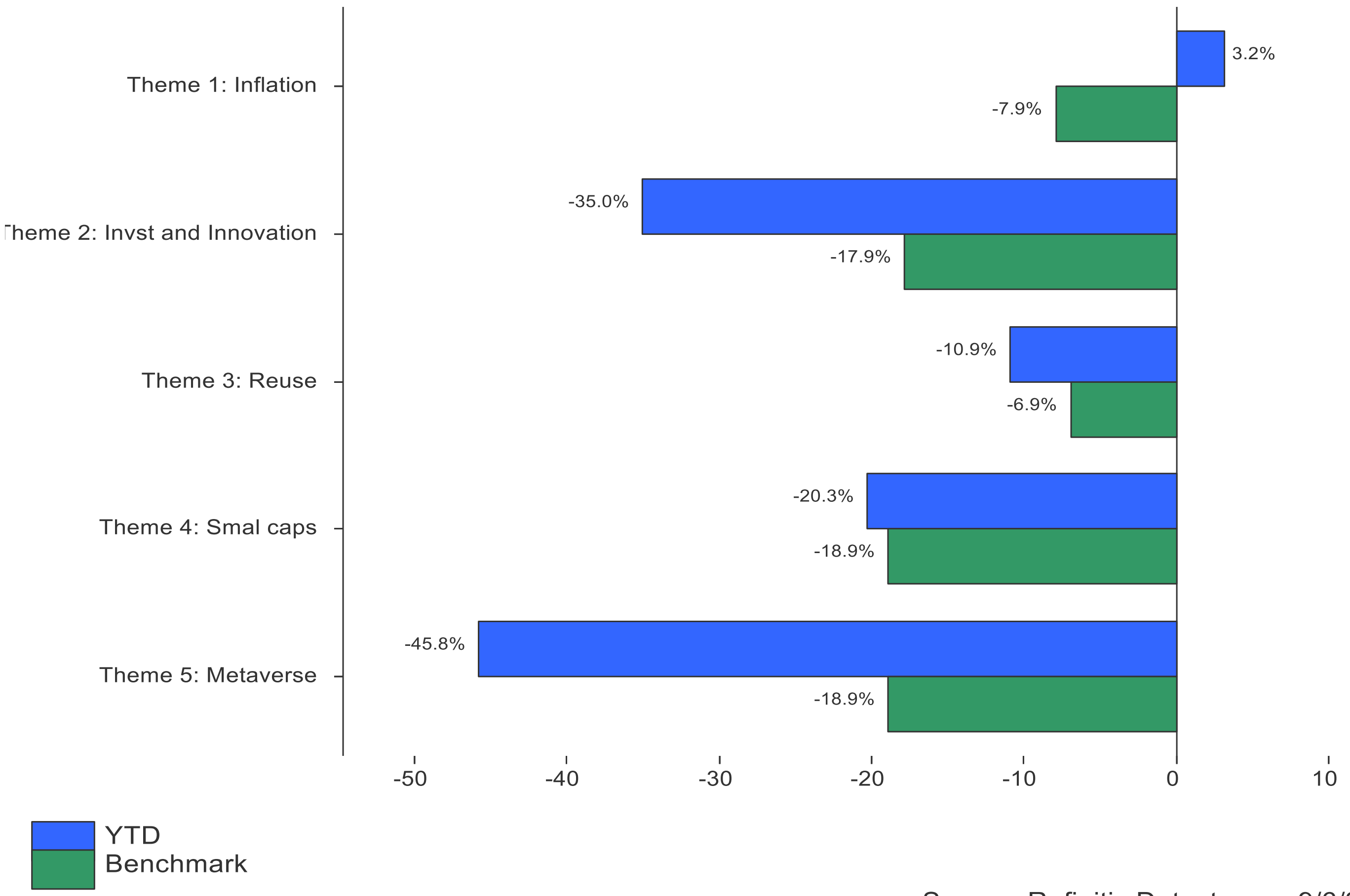
BNP PARIBAS
WEALTH MANAGEMENT

Investment Theme	Description	Suggested investments
Riding a new inflation regime *Protecting investment portfolios against high inflation*	The recent surge in energy prices, combined with double-digit house price inflation, ongoing supply chain disruptions and wage pressures point to a significant risk of higher inflation for longer.	▪ **Commodities** as the best long-term inflation hedge ▪ **Fixed income**: move away from nominal sovereign bonds, prefer floating-rate solutions ▪ **Other non-equity:** bonds with attractive yields, absolute return/flexible bond funds, long/short credit, inflation-linked products with low interest rate risks and convertible bonds. ▪ **Equity:** companies with pricing power & capital-light models
Identifying winning investments & innovations *A new focus on investment and innovation in the wake of the pandemic*	A combination of a) supply chain difficulties, b) post-pandemic desire to near shore; and c) strong profit/cash flow growth with d) historically cheap debt financing will all drive company capital expenditure in technology and equipment. Focus on productivity-boosting post-pandemic technology and work practices. Innovation from smaller companies and non-quoted growth companies/startups as new business starts explode.	▪ **Fixed income:** green investment-linked corporate bonds, high yield bonds ▪ **Other non-public equity:** private and listed infrastructure funds, health care and tech-focused growth private equity funds, warehousing and logistics real estate, hybrids e.g. preferred shares. ▪ **(Public) equity:** smaller company exposure (US/Europe/China), innovation in health care, innovation in applying technology to non-tech industries (e.g. construction) to boost productivity, 5G super-fast mobile internet investment/infrastructure, renewable energy/energy storage companies and funds.
Repair, reuse, recycle – the circular economy *Bolster resource efficiency, introduce new circular business models*	Companies which are designing reusable or repairable products (resale platforms and the shift away from single-use products). Includes energy storage/efficiency, water conservation/recycling, waste management, alternative foods/the future of food, agritech, ecosystem preservation and carbon capture/reuse.	▪ **Fixed income:** green investment-linked corporate bonds, high yield bonds ▪ **Other non-public equity:** private and listed infrastructure funds, health care and tech-focused growth private equity funds, warehousing and logistics real estate. ▪ **(Public) equity:** smaller company exposure, innovation in health care, innovation in applying technology to non-tech industries (construction to boost productivity, 5G, investment/infrastructure, renewable energy/energy storage companies and funds).
Small is (still) beautiful *Small companies are agile, operating in niche markets with lower competition*	Better exposure to high ongoing nominal growth and changing business models post-pandemic for productivity growth in mid-/small-cap companies in each major region. Highly correlated with cyclical value style outperformance, which we expect to continue in 2022 on steeper yield curves, strong domestic economic growth.	▪ **Fixed income**: private debt funds for unrated corporate debt, often of smaller companies ▪ **Other, non-public equity**: growth private equity funds, LBO private equity funds. Risk arbitrage and merger arbitrage hedge funds ▪ **Equity**: US/Europe/UK/Asian Small/Mid-Cap exposure (SMIDs) via funds, ETFs ▪ Benefit from late-cycle boom in M&A activity from trade buyers and also from private equity
Enter the Metaverse *The next era of the internet, immersive multimedia platforms*	Massive online social games and user-created virtual worlds, video-conferencing tools are another hint at what is to come. A platform not tied to any one app or a single place, digital or real. Virtual places will be persistent, so will the objects and identities of those moving through them, allowing digital goods and identities to move from one virtual world to another, and even into our world, with augmented reality.	▪ **Non-public equity**: tech-focused private equity funds, datacentre and 5G cellphone tower real estate. ▪ **Equity**: video games, cybersecurity, electronic payment systems, tokenisation enablers, blockchain-related companies, superfast internet providers (incl. mobile 5G), e-commerce, cross-media platform companies (Netflix, Google, Amazon, Roblox, Electronic Arts, Softbank, Tencent etc.), semiconductor producers, telemedicine and teleconferencing software/hardware.

Our initial 5 Investment Themes for 2022

Theme	Indices	Benchmarks
1: Riding a new inflation regime	BNP Paribas Energy & Metals Enhanced Roll TR index Horizon Kinetics Inflation Beneficiaries index HFRX Relative Value Fixed Income Corporate Index	USD Libor 3m (cash) MSCI All Country World USD Barclays Global Aggregate Bond index USD
2: Identifying winning investments & innovations	MSCI ACWI Autonomous Tech & Industrial Innovation index Refinitiv Venture Capital index Bloomberg MSCI Global Green Bond index	MSCI All Country World USD Barclays Global Aggregate Bond index USD
3: Repair, Reuse, Recycle	ECPI Circular Economy Leaders index	MSCI All Country World USD
4: Small is (still) beautiful	MSCI World Smallcap index	MSCI All Country World USD
5: Enter the Metaverse	Ball Metaverse index	MSCI All Country World USD

Performance of our original 2022 investment themes (in USD)



Source: Refinitiv Datastream, 9/6/2022

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