SEPTEMBER 2022

Investment Strategy Focus

Summary

1. **What will drive risk-on (stocks higher) or risk-off (stocks lower) behaviour?** The direction and speed of US inflation momentum (lower/faster better for risk); the direction of financial conditions (looser is positive); and stabilising economic activity (watch PMI surveys). Still too early to upgrade stocks or credit, in our view.

2. **High energy prices depress growth**: energy costs continue to exert a heavy economic toll in Europe. If natural gas and electricity prices remain at current levels for an extended period, we would expect European financial markets to suffer from weaker earnings. We upgrade crude oil to positive, downgrade base metals to neutral.

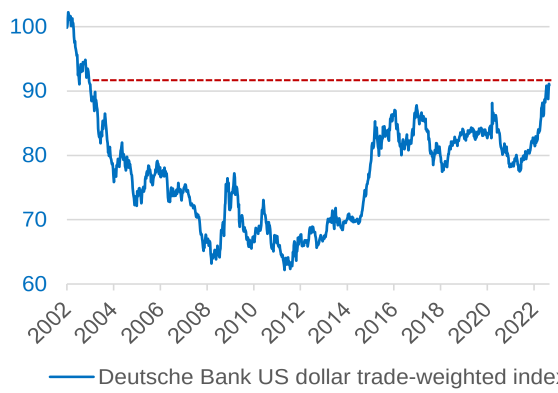
3. **The US dollar is a key swing factor for risk:** an even higher US dollar would depress stocks, emerging markets and commodities. In contrast, if the US dollar peaks now and begins to decline (if the Federal Reserve softens inflation-fighting policies), this could be positive for markets. We adjust our 12-month euro forecast to USD1.08.

4. **Did you know? Lows in US consumer sentiment are a good predictor for US stocks:** when US consumer sentiment has plunged to a low in the past, US stocks then have rallied over the next 6-12 months. Peak economic pessimism today could suggest better times ahead...

5. **Key idea in focus - Infrastructure still an attractive asset class**: holding up well in 2022 (especially in euros). Infrastructure delivers stable income growth and benefits from strong institutional demand for real assets. We favour exposure to global infrastructure funds.

Contents

US DOLLAR INDEX AT HIGHEST SINCE 2003



Source: Deutsche Bank, Bloomberg

Edmund Shing, PhD

Global CIO

BNP Paribas Wealth Management

BNP PARIBAS
WEALTH MANAGEMENT

The bank for a changing world

Our Key Convictions: biased towards real assets

Buy:

1. **UK, Japanese equities**
2. **Global energy including alternative/low-carbon**
3. **Gold and precious metals**
4. **Global infrastructure funds**
5. **Global macro/trend-following alternative UCITS/hedge funds**

Avoid:

1. **Euro cash**

Asset Allocation: No Changes in September

	Very underweight	Underweight	Neutral	Overweight	Very Overweight
Equities			=		
Government Bonds			=		
Corporate Credit			=		
Real Estate				+	
Alternatives				+	
Cash		-			

Note: Alternatives include Commodities, Infrastructure and Alternative UCITS/hedge funds

Markets Outlook

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

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. Japanese stocks have even recovered to nearly flat for this year, while UK stocks remain above January levels. 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: to be clear, 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.

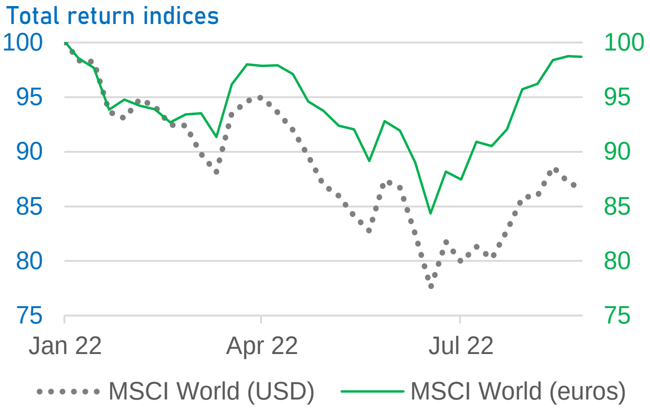
False hope or start of a true market rally? Are we likely to see a resumption of falling stock markets later this year, or is the recent mini-rally the start of better times ahead for stocks? Is all the bad news already priced in?

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. US 2-year and 5-year inflation swaps have eased back to 3%. 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.

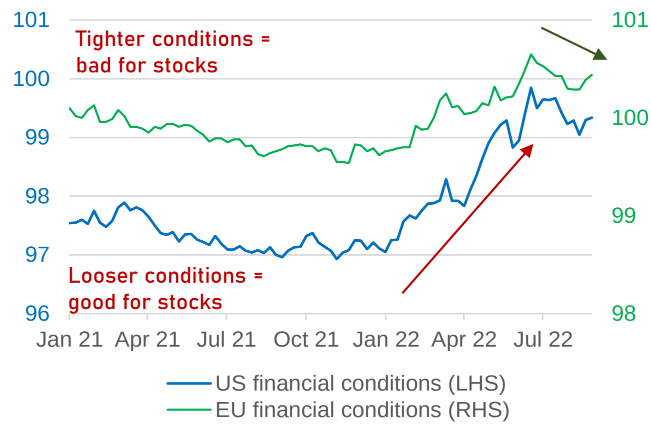
In contrast, a speedy decline in inflation thanks to weaker housing, goods and petrol prices could allow real bond yields to fall, raise the potential for US corporate earnings to remain robust and could drive a substantial loosening in financial conditions, boosting stock, bond and credit markets.

EUROPEAN INVESTORS IN GLOBAL EQUITIES ALMOST BACK TO BREAK-EVEN



Source: BNP Paribas, MSCI, Bloomberg

FINANCIAL CONDITIONS HAVE EASED, BUT NOWHERE NEAR AS LOOSE AS IN JANUARY



Source: Goldman Sachs, Bloomberg

INVESTMENT CONCLUSION

The likely downward path in US inflation (i.e. US inflation swaps fall to 3%) over the remainder of this year and into 2023 should encourage investors. However, much uncertainty around future US Fed Funds rates remains, holding bond and credit markets back. It still feels too early to take a positive stance on either stocks or corporate credit. Watch inflation expectations, real bond yields and the US dollar for hints to market direction.

The Macro Picture

Focus on US inflation and economic indicators

Negative factors are plentiful and obvious: economic growth is slowing sharply in the US, Europe and China for different reasons. Europe in particular is ever more likely to experience some sort of economic recession due to record-high gas and electricity prices. So global growth is weak. The key will be to monitor whether the rate of fall in the leading indicators slows (second derivative). This has often been a trigger for risk appetite to come back.

Inflation rates have been very high almost everywhere, putting a lot of pressure on households who then consume less as a result of the rise in prices. European industry is also cutting back on production because of the very high energy prices. So that is a big drag on economic growth.

Higher rates: in addition, central banks such as the ECB in Europe and the US Federal Reserve are raising interest rates, in order to slow inflation. But this comes at a price.

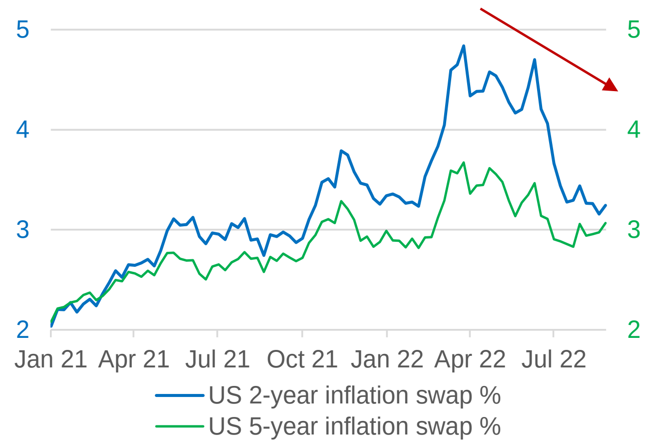
Some signs of resilience: European economic activity remains surprisingly resilient. But this can only persist if energy prices ease back further in the near term.

Three factors we follow very closely: firstly, we believe the US inflation rate has peaked, but how quickly is it going to decline in the months ahead? Components such as housing, goods and even petrol prices are all falling quite quickly, suggesting that inflation should fall. We await confirmation that US inflation is declining relatively quickly.

Secondly, European energy prices continue to surge in the lead-up to the 3-day Nord Stream 1 Russia-Europe gas pipeline shutdown. Will limited natural gas exports from Russia to Europe continue? This is our assumption, and we can expect European energy prices to decline. The peak in inflation will come with some delay, probably in November.

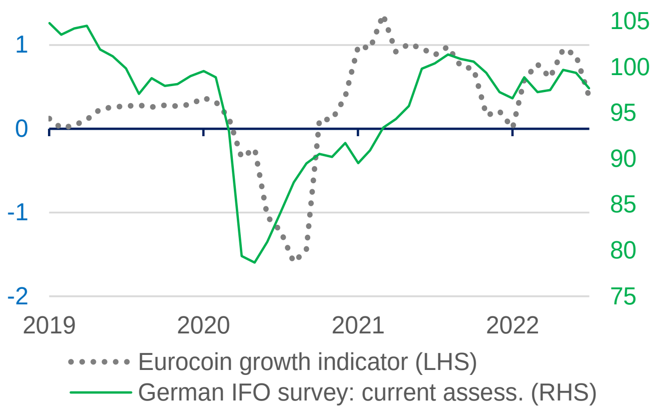
Thirdly, the US dollar has been incredibly strong over the last few months. This puts pressure on the global economy and on global markets, particularly on developing economies. Any inflection in trend to a weaker US dollar would tend to boost financial markets. This, in turn, will rely on a signal from the Federal Reserve that they will slow or even stop tightening monetary policy.

US INFLATION SWAPS RETURN TO THE 3% LEVEL



Source: Bloomberg

THE GERMAN ECONOMY LOOKS SURPRISINGLY RESILIENT, FOR NOW



Source: Bloomberg

INVESTMENT CONCLUSION

Growth is slowing sharply in the main regions. Europe is likely to experience a temporary recession due to record-high gas and electricity prices. The key will be to monitor whether the rate of fall in the leading indicators slows. US inflation has probably peaked and the eurozone should follow around November. This should take some pressure off central banks and will be key for financial markets.

Focus: are peak energy prices behind us?

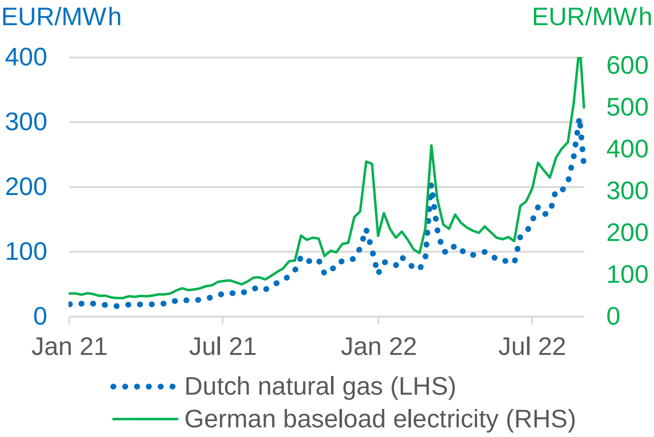
Europe suffers record gas, electricity prices

Russia continues to restrict natural gas exports to Europe: since end-2021, Russian piped gas exports to European Union (EU) countries have been cut by 70% (as at August 2022). Gazprom continues to restrict gas exports to certain countries including France, keeping the benchmark Dutch natural gas price at record levels, circa 5 times the average level in August 2021.

But almost balanced by increased gas imports elsewhere: we should note that total gas flows to the EU have only fallen by 5% versus October 2021 levels. This has been achieved through increased imports from other countries, largely in the form of Liquefied Natural Gas (LNG) shipments from Qatar and the US.

EU gas storage levels have exceeded the targeted 80% level: most European countries (except for the Netherlands) have already exceeded the EU 80% target for natural gas storage set for 1 November. If Russian gas flows are not completely shut off, then Europe can still navigate winter without the need to ration gas.

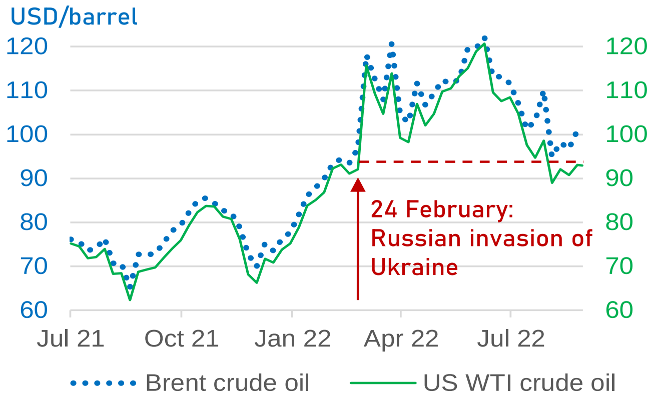
EUROPE IN THE THROES OF A SEVERE ENERGY CRISIS



Source: Bloomberg

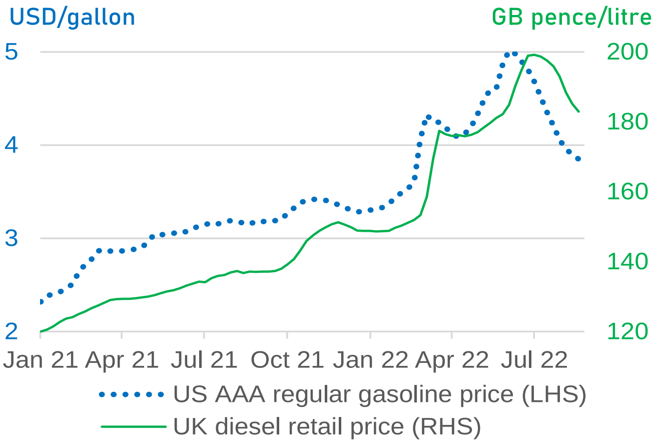
Oil prices ease back. Note that crude oil prices have returned close to their pre-Ukraine conflict levels, while retail petrol and diesel prices have registered substantial declines of late. Lower oil prices will help to calm inflation in time, and will take off some of the energy-related pressure on households and companies. Key here will be a continued effort to reduce oil and gas demand across the board, with restrictions in particular on energy-intensive production of aluminium and nitrogen fertilisers.

CRUDE OIL PRICES HAVE RETURNED CLOSE TO PRE-CONFLICT LEVELS



Source: Bloomberg

UK, US RETAIL PETROL, DIESEL PRICES DECLINE FROM HIGHS



Source: BNP Paribas, Bloomberg

INVESTMENT CONCLUSION

There are clear signs of reductions in gas and oil product demand in the US and in Europe, due to today's abnormally high energy prices. More demand adjustment should be made in coming months to ensure that Europe can get through winter without imposing gas and electricity rationing. We upgrade our crude oil view to positive within commodities (base metals downgraded to neutral), and see the current environment as still positive for both oil & gas and low carbon/renewable energy producers.

Bond, Credit and FX Outlook

Uncertainty around rates remains high

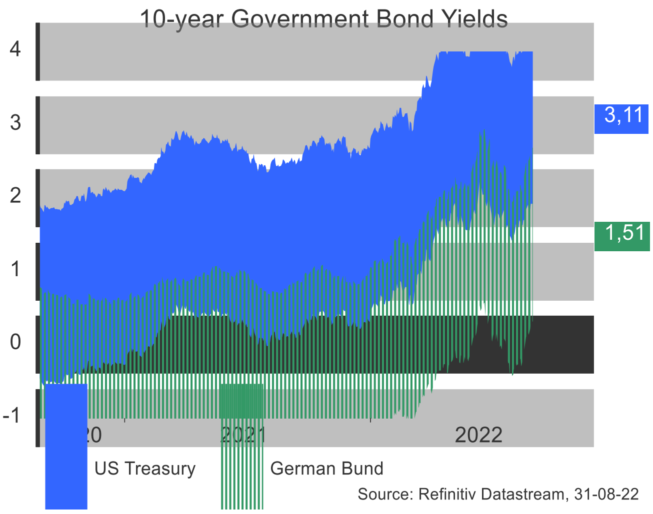
All about central banks: following the recent Fed member speeches and more precisely the comments by Jerome Powell at Jackson Hole, our scenario is for a "lower-for-longer" terminal fed funds rate. The peak in inflation should be confirmed over the coming weeks and should help the Fed to stop hiking at 3.5% by December 2022 which is a less restrictive level than in previous tightening cycles. The rate would stay there throughout 2023. Given the extreme inflationary pressures, we think the debate for the ECB is biased towards higher-than-expected policy rates. We expect 1.5% for the ECB policy rate at the end of this year and 2.25% at the end of 2023.

The upside for bond yields is limited. We keep our 12-month target for the 10-year yield at 3.25% in the US and 1.75% in Germany. The difference between short and longer-term maturities are such that we prefer short- to medium-term maturity bonds.

Preference for higher quality corporates. Corporate fundamentals are probably at their peak. Companies keep strong balance sheets thanks to debt reductions and refinancing during the low yield environment. The risk of default is thus relatively limited for investment grade companies despite the fall in economic activity. Too early to return to high yield corporates.

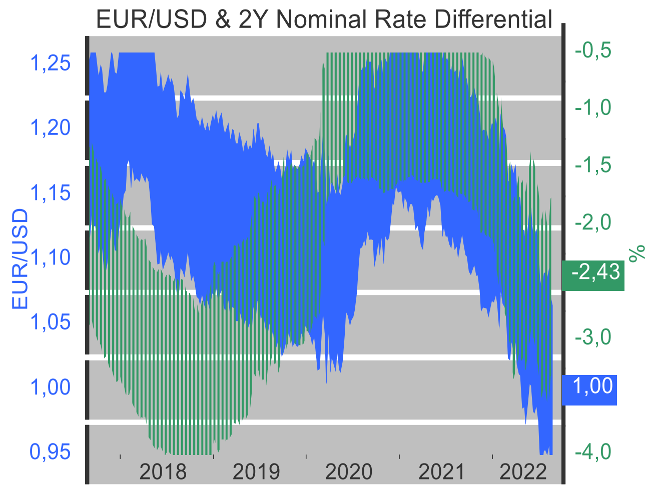
Risk aversion has led the USD to record levels. The value of one euro (EURUSD) is hovering at around 1 in recent weeks. Risks of a European gas crisis linked to a disruption in Russian exports have risen a lot of late. This has been weighing on the demand for the euro. The safe haven reputation of the USD has been 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 gradually move higher. Our initial targets look too ambitious. We thus revise our 12-month target from USD1.12 to USD1.08 (value of one euro).

LIMITED UPSIDE FOR BOND YIELDS



Source: Refinitiv Datastream, 31-08-22

FUNDAMENTALS SUGGEST HIGHER EURO



Source: Refinitiv Datastream, 31-08-22

INVESTMENT CONCLUSION

We maintain our 12-month target for 10-year bond yields at 3.25% in the US and 1.75% in Germany. Given the shrinking difference between short- and longer-term maturities, we prefer short-/medium-term bonds. We prefer US investment-grade corporates. Interest rate differentials and long-term fair value estimates (purchasing power parity) suggest that, once risk aversion stabilises, the euro should gradually move higher.

Equities Outlook

New bull market or end of bear market rally?

Inflation is ultimately the key. 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 -23% year-to-date in mid-June to -12% for the year so far by late August. Japanese stocks have even recovered to nearly flat for this year. For this recovery to be sustained, US inflation needs to ease steadily to year-end.

Real yields stabilise: stock market valuations have recovered a little on the modest retracement in US and European real yields. But a sustained move lower in the US 10-year real yield is required to support average or above-average P/E valuations.

Regional allocation: still like the UK, Japan

Currency weakness has been a boon for the UK stock market (helped by strong Oil & Gas and defensive sectors) and also for Japanese stocks, given its strong export bias. We continue to favour these two markets.

Energy still in focus: both the global Oil & Gas sector, and Renewable/Energy Conservation/Efficiency stocks.

Statistics suggest no new S&P 500 low

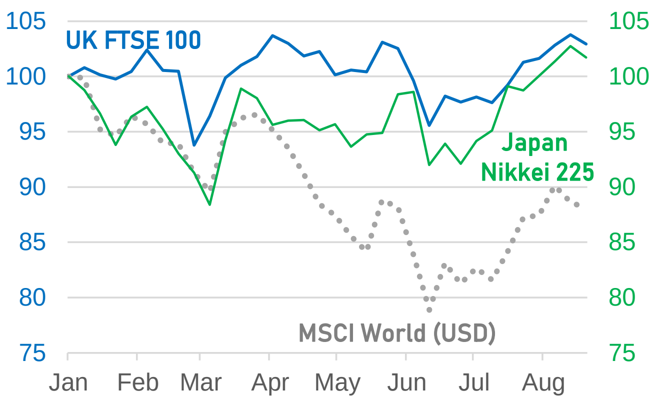
Historically speaking, the 15 bear markets in US stocks since 1958 have never seen new lows established, once 50% or more of the bear market drop has been recovered (as today). On average, following a 50% recovery from bear market, the S&P 500 has gained 7% over the next 3 months, 11% over 6 months and 19% over 12 months.

Depressed consumer sentiment could be a contrarian buy signal for US stocks

Each time that US consumer sentiment has sunk to lows and then rebounded, US stocks have subsequently performed strongly over the following 12 months. This is thus a good contrarian indicator, delivering double-digit returns over 12 months each of the 6 times that we have seen this type of setup since the 1970s.

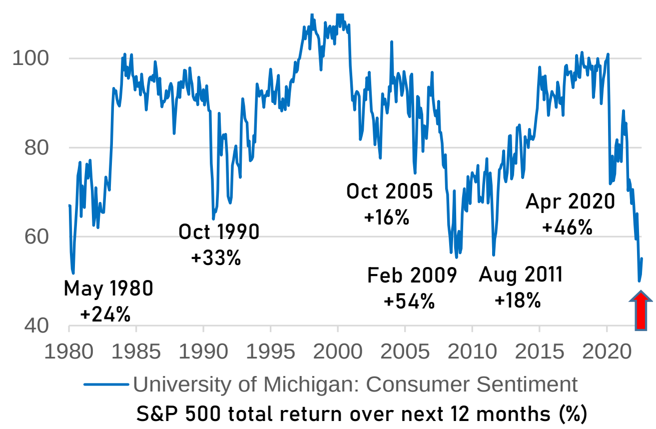
This remains a good reminder that some of the best buying opportunities arise when everyone is already very pessimistic.

UK AND JAPANESE EQUITIES LEAD IN LOCAL CURRENCY TERMS



Source: BNP Paribas, Bloomberg

DEPRESSED US CONSUMER SENTIMENT FLAGS POTENTIAL CONTRARIAN BUY SIGNAL



Investment Conclusion

The direction in US inflation, financial conditions and real yields will guide our view on stocks over the next few months – we retain a neutral stance for now. Unless we see lower inflation and real yields and looser financial conditions, stock markets should trade sideways or even decline to new lows, given the pressure on 2023 earnings estimates. In Europe, any sustained fall in record energy prices could prompt a rally in unloved European equities, following heavy outflows so far this year.

Summary of our main recommendations

	Current Recom	Prior Recom	Constituents	We like	We avoid	Comments
EQUITIES	=	=	Markets	UK, Japan, Latin America, S. Korea, Singapore and Indonesia		Historically low long-term real rates and accommodative financial conditions support the upward trend in global stocks in the long term. We continue to recommend a more defensive sector stance.
			Sectors	Financials, Health Care, Precious/'battery' metals, Semiconductors		We remain defensive in our sector allocation. We continue to recommend a more defensive sector stance, biased towards quality dividend/dividend growth and buyback strategies.
			Styles/ Themes	Megatrend themes		Circular Economy, Security, Income Growth themes
BONDS	=	=	Govies	US short-term Treasuries		We maintain our 10-year bond yield targets at 3.25% in the US and 1.75% in Germany in one year.
			Segments	US short- to medium-term IG credit. EM bonds in HC & LC.		
			Maturities	Lower than benchmark		
CASH	-	-				
COMMO-DITIES	+/=	+		Gold, Oil		Oil (= ➔ +) Brent should climb back in the $105-115 range due to gas/oil substitution & the progressive ban on Russian oil. Base metals (+ ➔ =) due to delay in the Chinese recovery, recession threat in Europe but MT outlook still+. Gold (+) preferred safe haven, weaker USD & stable LT rates should help, 12-m exp. range = §1750-1900
FOREX			EUR/USD			We adjust our EUR/USD target to USD1.08 (value of one euro) for the next 12 months.
REAL ESTATE	+	+		REITs, warehouses, Health Care, UK commercial		BNP Paribas REIM favours healthcare property exposure given strong demographic drivers and a lack of good quality assets. UK to outperform Continental Europe.
ALTERNATIVE UCITS				Macro, trend-following and event-driven		

Economic, FX forecast tables

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

	Country	Spot 9/1/2022		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	0.99	1.03	1.08
	United Kingdom	EUR / GBP	0.86	0.86	0.86
	Switzerland	EUR / CHF	0.98	1.00	1.00
	Japan	EUR / JPY	139.12	144	140
	Sweden	EUR / SEK	10.74	10.40	10.70
	Norway	EUR / NOK	9.98	9.60	9.60
Against dollar	Japan	USD / JPY	140.02	140	130
	Canada	USD / CAD	1.32	1.25	1.25
	Australia	AUD / USD	0.68	0.72	0.74
	New Zealand	NZD / USD	0.61	0.65	0.68
	Brazil	USD / BRL	5.21	5.00	5.00
	Russia	USD / RUB	60.50	100.0	90.0
	India	USD / INR	79.56	78.0	80.0
	China	USD / CNY	6.90	6.80	6.60

Source: BNP Paribas, Refinitiv Datastream. As of 7 July2022

THE INVESTMENT STRATEGY TEAM

FRANCE

Edmund SHING
Global Chief Investment Officer

Jean-Roland DESSARD
Chief Investment Advisor

Isabelle ENOS
Investment Advisor

ITALY

Luca IANDIMARINO
Chief Investment Advisor

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Xavier TIMMERMANS
Senior Investment Strategist, PRB

GERMANY

Stephan KEMPER
Investment Strategist

Stefan MALY

LUXEMBOURG

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Senior Investment Advisor, Fixed Income

ASIA

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

Pictures from Getty Images.