BNP PARIBAS WEALTH MANAGEMENT

2021 Investment Themes

Q4 Update

September 2021

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WEALTH MANAGEMENT

The bank
for a changing
world

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Appendix: list of 2021 Original Themes, Team, Disclaimer

Preface

AFTER THE RECOVERY, THEN WHAT?

Growth, not inflation, is now the real concern: since July, the reaction of the bond markets to decade-high US headline inflation rates of 5%+ has been puzzling. Rather than seeing rising bond yields, as one would normally expect (because bonds reflect higher future expected inflation), long-term bond yields have fallen from their end-March highs. US 10-year Treasury yields have declined to 1.3% (as of late-August), down 0.4% from over 1.7% in March. Similarly, German 10-year bund yields have lost 0.3% from their recent peak.

Cautious bond market signals: what are the bond markets telling us? They are suggesting that future growth, not inflation, is now the principal preoccupation of the financial markets. This may seem odd given the strong economic recovery evident on both sides of the Atlantic.

Fading effects from pandemic-related stimulus: bear in mind that this recovery has been fuelled by an abnormally large helping hand from the European and US central banks (zero interest rates, bond buying programmes) and governments (unemployment support, “helicopter money”, infrastructure investment spending). This economic boost was a response to the pandemic-induced lockdowns, and thus largely one-off in nature.

Is weaker growth ahead? As we progressively return to something resembling more normal economic activity, post-lockdowns (subject to any fallouts from new COVID-19 variants), the impact from this extraordinary economic stimulus will fade. The bond markets are telling us today that there is a substantial risk of subpar economic growth ahead, post-stimulus.

Risk of premature tightening of monetary policy: the markets are also warning of the risk of a policy mistake by the US Federal Reserve, that the Fed will react to these higher inflation rates by tightening monetary policy too early, at a time when growth is already slowing down. In past cycles, the primary trigger of economic recession has been central banks raising interest rates in response to rising inflation pressures. Recall that the sensitivity of the global economy to interest rates is today far higher than in the past, given the very high debt levels. Any modest tightening of Fed policy could heavily impact the US and global economy.

Investment boom? Surging government and corporate investment is a new trend that we believe will be persistent, after a decade of under-investment in the wake of the Great Financial Crisis. Structural shifts in demand and consumption post-lockdowns, and the ongoing record-low cost of debt financing are following winds for corporate investment. Companies are investing for growth, in order to cut costs and generate long-lasting productivity gains, while governments are investing both to support employment, and to upgrade key transport, housing and communications infrastructure.

Focus on real assets for income and diversification: in a world in which cash, Sovereign bond markets and Corporate credit markets offer historically low (or even negative) income yields to investors, we advocate greater exposure to real assets with positive after-inflation yields. We see attractive income and diversification benefits from exposure to infrastructure, real estate and commodities. Pension and insurance funds are having ever greater difficulty in meeting their future expected return targets, given their historically heavy weightings to bonds and credit. We expect these institutional investors to step up their exposure to these real asset classes in the future, looking to match their long-term liabilities with these long-term assets which purport to offer far higher future returns than fixed income.

Refocusing on healthcare and medtech: healthcare benefits today from a resurgence in investment plus emergent revolutionary technologies. The challenge? To enhance healthy living years while controlling spiralling costs. Healthcare companies are better targeting treatments via more accurate diagnostic techniques, detecting health issues early via a focus on wellness and prevention, and advancing the use of telemedicine for prompter, more effective healthcare delivery. Acceleration in new drug approvals (especially for age-related and psychiatric conditions, e.g. Alzheimer's/dementia and clinical depression) is boosting the drug pipelines of pharmaceutical and biotech companies, thus driving future profit growth.

Edmund Shing, PhD

01

Macro Outlook

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Economic growth and inflation

SUSTAINED ECONOMIC GROWTH

Economies were highly responsive to the easing of restrictions during the second quarter. Now, recent business surveys suggest that growth could be peaking. Nevertheless, growth is set to stay at high levels for several quarters as government expenditure programmes should generate larger-than-usual multiplier effects.

- The main driver of growth has been consumption as economies reopened, resulting in a strong rebound in the Services sector. Manufacturing has lagged a little, explained by previous strength and supply chain constraints.
- The fiscal (or Keynesian) multiplier effect should usher in a high growth environment for a longer period that could lead to positive surprises. According to the International Monetary Fund, this is particularly true when the interest rate is lower than economic growth in real terms (excluding inflation). Indeed, this should be the case over the coming quarters/years.
- Key risks: COVID-19 variants and supply chain disruptions. Recent developments have been encouraging, particularly with regards to supply chains. Progress on the vaccination front is reducing the likelihood of further lockdowns.

BNP Paribas Forecasts

GDP Growth %	2019	2020	2021	2022
United States	2.2	-3.5	6.9	4.7
Japan	0.3	-4.7	2.2	3.3
United Kingdom	1.5	-9.8	7.8	5.6
Eurozone	**1.3**	**-6.7**	**4.8**	**5.2**
Germany	0.6	-5.1	3.7	5.5
France	1.5	-8	6	4.6
Italy	0.3	-8.9	5.2	4.5
Emerging				
China	6.1	2.3	8.7	5.3
India*	4.2	-7.2	8.4	9.4
Brazil	1.1	-4.1	5.5	3
Russia	1.3	-4.5	4.5	3

* Fiscal year

Source: Refinitiv - BNP Paribas

INFLATION TO PEAK AROUND YEAR-END

Headline inflation has been running at impressive levels since spring, especially in the US (above 5% in June). Base effects and supply chain constraints will be key drivers in the short term. We expect a peak at the beginning of next year in most countries. The US has the biggest risk of persistent upside surprises given the situation in the job market.

- Key drivers are still very concentrated and relate to base effects, supply chain constraints and housing. However, there are concerns that they will spread. Risks are higher in the US than in other G10 countries. These are mainly due to companies' greater pricing power and the outlook for the labour market.
- The labour market (especially wages), is the key driver of inflation in the medium term. In the US, there are signs of stress, and wages will rise in the coming months, but less in other countries. The potential for workers to return to the job market, however, limits the risks in the US.
- Inflation will continue to stay high (or even accelerate) but should peak at the beginning of next year. Figures should converge towards 2% in early 2022 in the eurozone and around year-end in the US. A similar trend should be observed in most developing economies.

BNP Paribas Forecasts

CPI Inflation %	2019	2020	2021	2022
United States	1.8	1.2	3.9	2.7
Japan	0.5	0	0	0.2
United Kingdom	1.8	0.9	1.8	2.5
Eurozone	**1.2**	**0.3**	**2.1**	**1.8**
Germany	1.4	0.4	2.7	1.8
France	1.3	0.5	1.8	1.3
Italy	0.6	-0.1	1.5	1.9
Emerging				
China	2.9	2.5	1.7	2.8
India*	4.8	6.1	5	5
Brazil	3.7	3.2	7.2	4.8
Russia	4.3	3.4	5.8	4.3

* Fiscal year

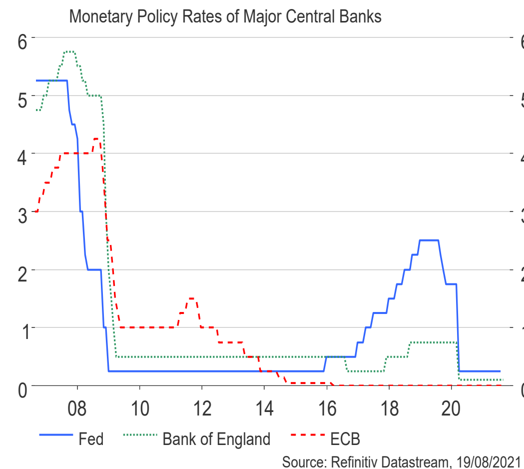
Source: Refinitiv - BNP Paribas

Central banks and bond yields

CENTRAL BANKS COULD DIVERGE

Main central banks expect the inflation overshoot to be temporary. Long-term inflation expectations remain anchored, suggesting high credibility. The US Federal Reserve (Fed) should announce tapering in September with an implementation in January 2022. The first interest rate hike is expected in the first quarter of 2023. No policy change by the ECB is anticipated during our forecast horizon.

- At its July meeting, the Fed hinted at tapering its bond purchases. It said that progress had been made towards meeting this goal despite the recent rise in COVID infections. However, it said it had not made enough headway to justify a policy change. Talks will continue until the Fed sees stronger job numbers. Furthermore, it should make a tapering announcement at the 22 September meeting with an implementation in January 2022. The first rate hike is expected in Q1 2023.
- The European Central Bank (ECB) maintained its dovish policy stance in July, and kept the high pace of purchasing begun in March. No major policy changes are on the cards in the short term. The ECB announced its new forward guidance of rates remaining at the current or lower level until inflation reaches 2%. The ECB will focus on both realised and projected inflation as well as the long-term trend.

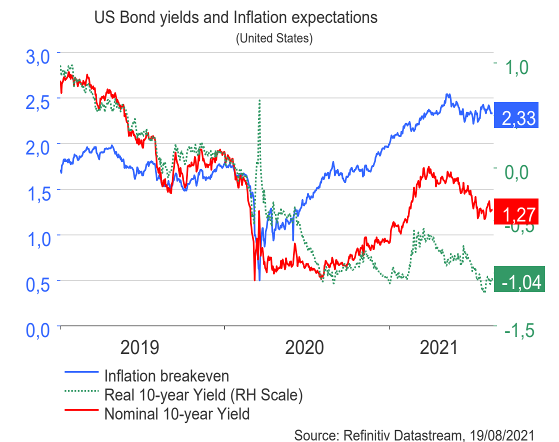


Source: Refinitiv Datastream, 19/08/2021

BOND YIELDS TOO LOW

The recent fall in bond yields is puzzling. Long-term inflation expectations have stabilised, and economic growth has rebounded sharply in recent months. Fresh concerns over a peak in economic growth and technical factors could explain this fall. We expect a normalisation in yields and more upside for US yields.

- Long-term bond yields fell sharply between early June and late July, particularly in the US. The markets focused on the ongoing growth in the US, albeit at a slower pace. In addition, some investors repriced the long-term inflation risk lower. The downward movement in bond yields was probably exacerbated by investors covering their short positions.
- In the US, we expect the 10-year government bond yield to rise to 2% in 12 months. We raised our 2-year and 5-year bond yield forecasts when the Fed hinted that it might hike rates sooner than planned. In the eurozone, upside for yields is more limited as the ECB is not expected to change its policy in the coming year. Our 12-month target is 0% for the German 10-year yield. A catalyst for higher longer-term bond yields could be a stronger jobs report, Fed tapering or an increase in bond issuance.



Source: Refinitiv Datastream, 19/08/2021

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Health is Wealth

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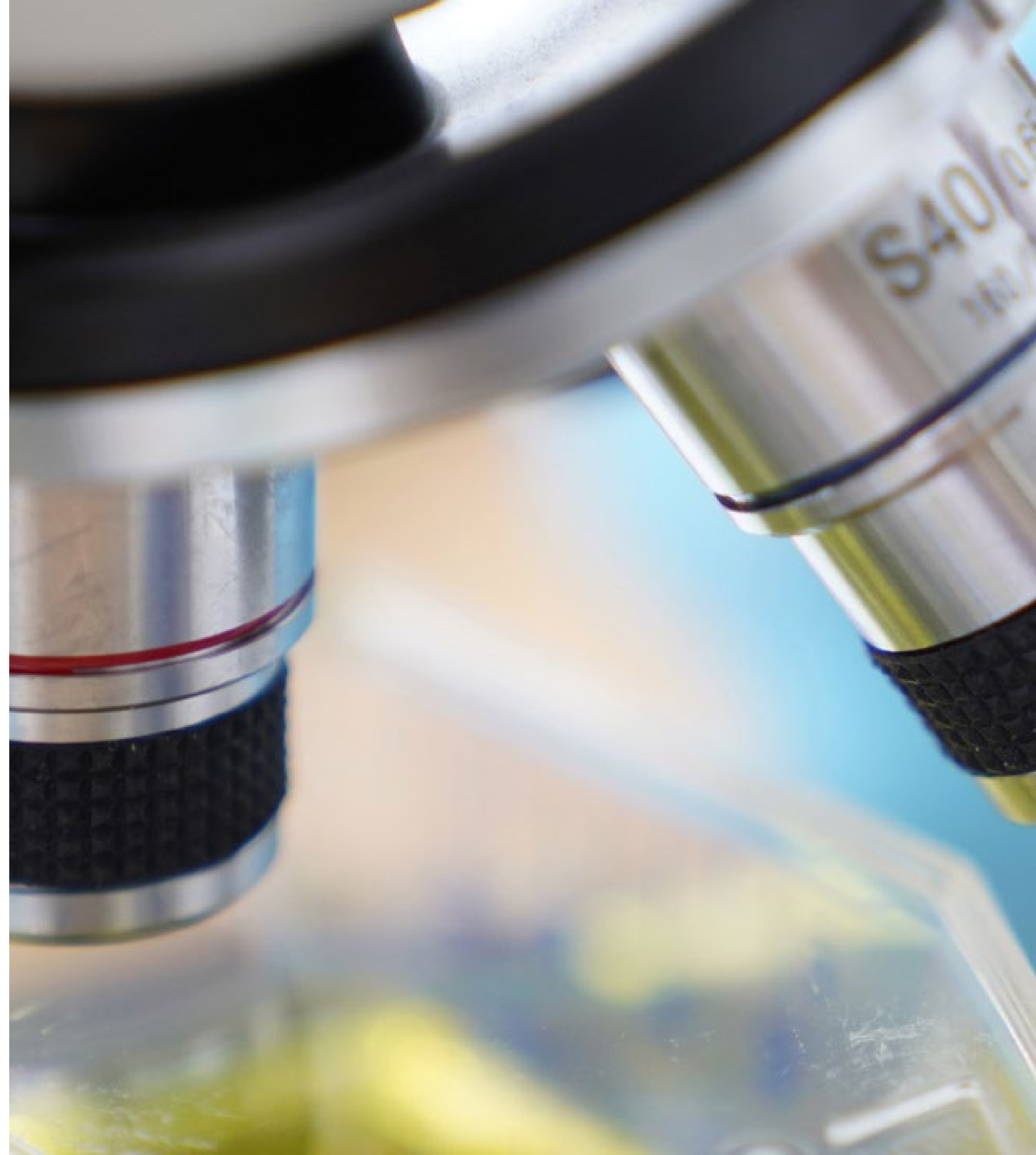
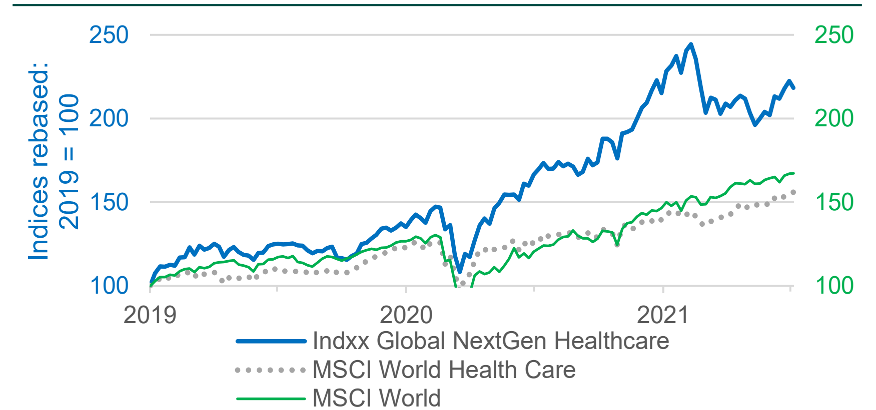


Health is Wealth

MEDIUM-TERM, MEDIUM RISK

- The COVID-19 pandemic has refocused spending on healthcare, and is spurring innovation in drug development and diagnostics.
- Long-term growth drivers remain ageing populations, the need to combat the rise of “lifestyle” diseases such as obesity, and a greater focus on prevention versus treatment of symptoms. Lockdowns have focused attention on the importance of mental health, a poorly-treated domain with huge negative economic and personal consequences.
- New technologies boost healthcare productivity, with fast growth in telemedicine and Artificial Intelligence that improve diagnostics and the identification of drug candidates.

Healthcare Innovation is a key growth theme



Source: BNP Paribas Wealth Management, Bloomberg

Revolution, not evolution in healthcare

“Necessity is the mother of invention”: nowhere has this adage been more true over 2020-21 than in the field of healthcare, with the development of diagnostic tests, effective treatments and vaccines to combat the spread of COVID-19 and its many variants.

Renewed public spending focus on Healthcare: the necessary boost to public spending on healthcare will have long-lasting effects on the delivery of effective healthcare globally.

In the US, the Biden administration is set to unleash significant government spending across the healthcare sector – focused on addressing the inequality of healthcare provision across the US. The adoption of far more digitally enabled healthcare services covering medical records and telemedicine will continue to be rolled out throughout 2021.

This will boost the need for healthcare and cloud computing to collaborate far more closely in delivering better healthcare, including remote medical services. Indeed, there is already evidence of accelerating cloud computing and cybersecurity spending at hospitals and other medical providers. This will help to ensure high-quality access to healthcare across the US and ultimately globally.

Healthcare in an ageing population: globally, the number of older people (currently at 703 million) is expected to more than double over the next 30 years, reaching 1.5 billion people in 2050. As a share of the world’s population, the number of people aged 65 or over is projected to increase from 6% today to 16% by 2050. A person aged 65 years in 2015-2020 is expected to live, on average, 17 more years. By 2045-2050, that figure will have soared to 19 years. In 2050, life expectancy at age 65 is projected to rise by almost 24 years in Australia and New Zealand.

The challenge is to provide better care, at lower cost: as populations age, healthcare is likely to become a bigger share of total spending. Companies that address age-related diseases should benefit, along with innovative businesses that provide technologies and new solutions to provide better care at lower cost.

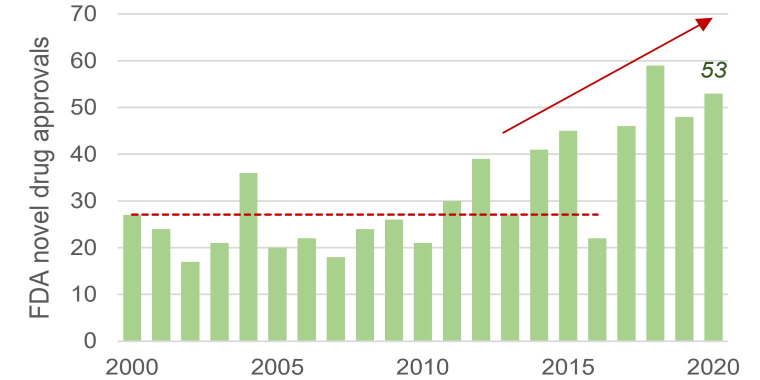
Secondly, demographics will be a key driver of structural shifts in consumer spending. Today, people over 60 contribute to about half of all household spending in Japan versus approximately 13% for the under 40s. As spending power shifts to older households in Western economies, companies seeking growth will need to cater to their specific demands.

Key medical megatrends: Robotics, Nanotechnology, Genome Sequencing, Healthcare Trackers, Biological Engineering , Bioinformatics, Neuroscience and Medical Devices.

Better health outcomes, lower costs

- **Wellness and prevention** of illness at the heart of achieving better health outcomes, at lower total costs. This includes targeting lifestyle changes (diet, exercise, sleep, stress) in a more holistic approach to health as well as both physical and mental wellbeing.
- **More numerous and better-targeted treatments:** more novel drugs are being developed and approved today, thanks to the use of Big Data and Artificial Intelligence techniques in both the diagnosis and identification of promising drug candidates for further research.
- **Multichannel service delivery**: just as in Retail, COVID-19 has boosted the take-up of telemedicine solutions, including online/video medical consultations.

More novel drugs have been approved in recent years



Source: US Food and Drug Administration

Technology drives healthcare productivity improvement

Shifting focus from healthcare to health: the aim is to detect potential health conditions earlier via proactive diagnostics and wearable sensors, then to treat medical conditions at an earlier stage and finally to monitor and adapt treatments over time, to better help consumers and improve outcomes at a lower cost for the healthcare system.

Data and platforms a key component: collection, storage and analysis of more comprehensive data about a patient's health is the essential infrastructure necessary for delivering the healthcare of tomorrow. Comprehensive diagnostics using this rich patient dataset will allow for better and earlier diagnosis of serious health conditions, and enable earlier, better targeted, and more effective treatments.

Focus on well-being: Western medicine needs to move away from the classical drug treatment model towards a focus on physical and mental wellness and well-being, thus targeting prevention of medical conditions rather than just the treatment of symptoms when the conditions arise. This means more focus on underlying causes of health issues as opposed to treating the resulting symptoms, via a more holistic view of lifestyle, diet and exercise as well as a greater focus on avoiding undue stress and thus better mental health.

Telehealth is here to stay: COVID-19 created a need for remote consultations of doctors via video conferencing, outside of the classical clinic or doctor's surgery/office setting. According to McKinsey, a consultancy, the number of patients using telehealth jumped from 11% to 46% in 2020, with this growth likely to continue.

Unsustainable healthcare inflation: how can we address the swelling cost burden on healthcare systems, whether largely private, and funded by insurance (as in the US) or public (as in Europe)? In the UK, for example, it costs three times more to look after a 75-year-old and five times more to look after an 80-year-old than a 30-year-old. In the US, average health spending per person rises from under USD3,000 in the 18-44 age range to USD11,316 for those aged 65 and over.

The challenge is thus twofold: not just extending people's total lifespan, but more importantly, a) extending their number of "healthy life years", while b) curbing the cost of healthcare provision for retirees.

Focus on key lifestyle choices: outside of the obvious medical treatment regimes, focus on "nutraceuticals" (foods with health properties), exercise equipment for better fitness, sleep aids.

03

Refocus on Real Assets

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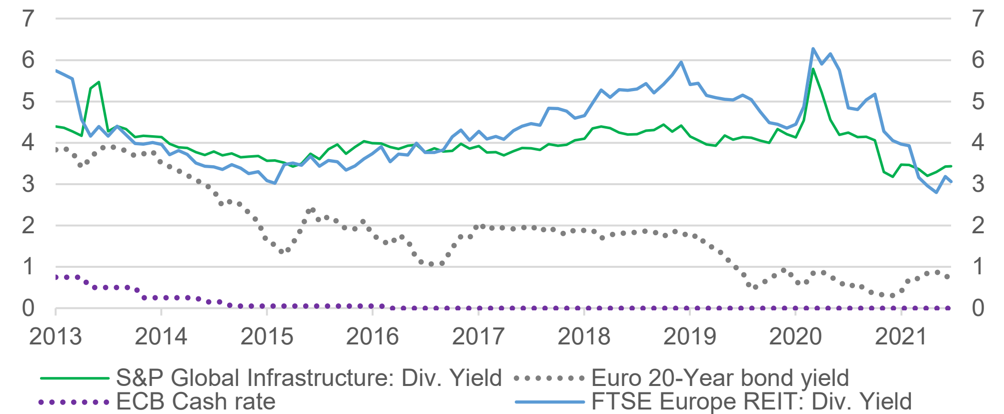
Refocus on Real Assets

- **Investors tend to allocate heavily to stocks, bonds and cash, but often ignore or under-allocate to real assets –** based on real estate, infrastructure and commodities.
- In a low-growth, low-yield world, cash flow is king.
- In the long term, the inflation regime is likely to shift away from the disinflation observed over the last 20+ years.
- Focus on assets with a) an essential product or service, b) a positive real yield and c) consistent cash flows.

Europe Real Estate and Infrastructure offer 3% better yields than long bonds



Source: Bloomberg

Cash flow is king in a low-yield, low-growth world

The current rapid recovery growth rate is unsustainable: at present, the global economy is experiencing a turbocharged recovery from the pandemic recession thanks to unprecedented levels of central bank and government support. But this cannot last. Inevitably, the "sugar high" of this abnormal boost to the global economy will fade in 2022 as the effects of this fiscal and monetary stimulus on growth start to wane.

Bond yields already signal concerns over future growth: the sharp decline in US 10-year Treasury yields from their 1.7% peak reached last March highlights that the bond market is concerned about the path of future growth. This contrasts with optimistic 2022 consensus US GDP growth forecasts, which remain elevated at over 4%.

Inflation should calm down, albeit remaining higher than in recent years: while we believe that the current US inflation spike is transitory, the market still expects 2.7% core inflation for 2022, substantially higher than in recent years. This points to US and Euro bond yields remaining well below inflation (i.e. offering negative real yields).

Target real assets that offer yields above inflation: we favour real assets that are cheap relative to bonds and cash, and can thus offer investors positive after-inflation yields.

Real Estate and Infrastructure offer inflation-hedged cash flows: both listed real estate (REITs) and infrastructure currently offer yields in the 3%-3.5% range, up to 3% above 20-year Eurozone Sovereign bond yields. As such, they are attractive relative to bonds and cash.

Low long bond yields are good for real assets: global real long bond yields remain close to all-time lows, thus offering unattractive future long-term returns. But these low rates are good for real assets, as investors refinance their debt at a lower rate, thereby increasing net cash flows.

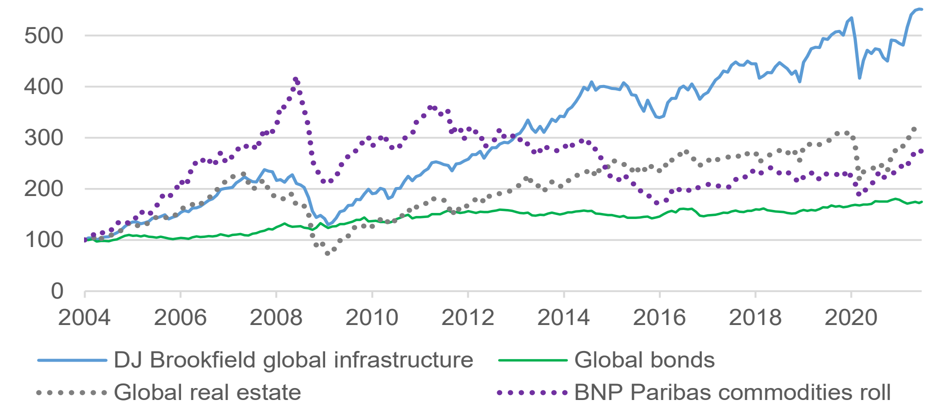
Institutional asset allocation to real assets will increase: over time, pension funds, insurance companies and retirees will need to generate stable income without taking too much risk. In a world in which cash and bond yields remain so low, this will force investors to raise allocations to real assets and alternatives in a hunt for returns, a trend which is already evident.

Commodities offer an attractive "roll yield": given the recent strength in commodity prices, led by industrial metals, oil and even lumber in recent months, we have seen a strong performance in our roll yield strategy based on energy and metals, gaining over 16% in the year to date. This remains a good strategy for generating income, being exposed to the term structure of commodity futures without taking a directional view on the underlying commodities themselves.

Bond-beating real assets

- **Improved liquidity for many real asset funds:** one of the main reasons that investors mention for not buying exposure to real asset funds is the lack of liquidity, with lengthy lock-in periods. However, this aspect has improved of late, with a growing number of unlisted strategies in real assets now offering consistent liquidity and transparency.
- **Quality infrastructure assets are valuable and scarce:** high demand for stable cash flow, inflation-linked long-duration income growth in infrastructure assets is coming from pension and insurance funds (to partially replace bond allocations).
- **Residential, commercial real estate in high demand:** there is also scarcity in growth pockets of real estate - industrial, datacentres, self-storage, and mobile phone towers.

Infrastructure has been a star, steady performer since 2009



Source: Bloomberg

Private and listed real asset funds are attractive

Not all real assets are illiquid: one of the main reasons that investors cite for not having an exposure to real assets is that these unlisted assets are illiquid. But this is not necessarily true because many unlisted strategies in real assets provide consistent liquidity and transparency.

Many real asset strategies are less volatile: numerous real assets, such as private infrastructure and certain segments within real estate, are based on hard assets (e.g. toll motorways and bridges). These are assets with predictable, consistent cash flows that do not vary much over time. This results in a lower volatility profile than for many listed asset classes, such as equities or High Yield bonds.

Infrastructure assets (transport networks, power and water utilities, energy storage and transport, renewable energy, mobile phone masts): attractive for their strong visibility on cash flows, inflation-hedging qualities and strong historic performance. These assets are in very high demand from pension funds and insurance companies to replace the yield component formerly fulfilled by Sovereign and Corporate bonds, and are thus scarce, supporting high valuations. Over the last 20 years, the Global Listed Infrastructure Organisation index has delivered an annual average total return of 10%.

Private real estate: both residential and commercial real estate exposure is attractive for long-term investors in view of the above-inflation yields, inflation-hedging qualities from inflation-linked rents and the financing benefits from very low debt costs. There is also structural growth to consider in many areas of real estate and a structural scarcity of quality assets in sectors such as residential, industrial/logistics/warehouses, datacentres and self-storage.

Office demand is recovering quickly on the "return-to-office" trend: in the US, listed office REITs have returned almost 50% since November 2020, and over 7% on an annual average basis since 2003. European office REITs have gained 40% since November last year, and 5.4% on an annual average basis since 2006. BNP Paribas Real Estate forecast an annual average 5% return from European offices from 2021 to 2025.

Residential real estate boosted by scarcity: since 2010, European listed residential REITs have returned an annual average return of over 17%. In the US, housebuilding slowed in the aftermath of the 2008 Great Financial Crisis, creating an "underbuilding gap" of 5.5 to 6.8 million homes since 2001, according to the National Association of Realtors. In Europe, pandemic-fuelled search for space has driven renewed demand for single-family housing with outdoor space.

04

Capex goes Boom

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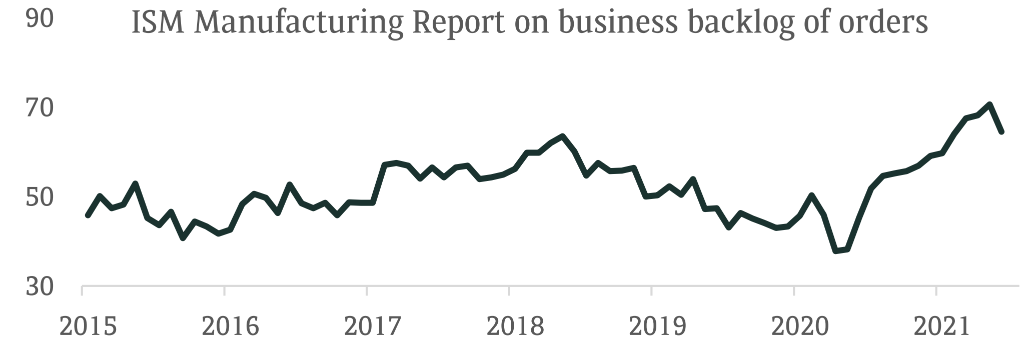
Capex boom, the real deal

Capex will NOT falter: in the wake of the Great Financial Crisis, growth faltered and Capex disappointed. But since World War 2, we have not experienced such coordinated fiscal and monetary stimulus. Above-average global growth is expected next year. Global Capex could be 20% above pre-pandemic levels by end-2022, recovering twice as quickly as post-2009.

Corporations are confident when consumer demand is robust: we exited this crisis with record levels for savings, stock markets and house prices. Animal spirits are finally returning, and shareholders are encouraging Capex rather than share buybacks/dividends.

Underinvestment: a number of sectors were underinvested in the previous cycle. The surge in demand with reopening is leading to bottlenecks, illustrated by the low levels of inventories and stretched supply chains. The early movers will capture market share.

Business backlog of orders still remains high



Source: Bloomberg

Don't forget that the new economy needs the old economy

Not a replay of the post Great Financial Crisis cycle: the financial crisis was an endogenous financial shock which created a long period of deleveraging of corporate and consumer balance sheets, exacerbated by an inadequate policy response which was withdrawn too early. In contrast, the pandemic was an exogenous shock, with demand recovering much faster.

This time, the mother of all policy responses: the recovery has been very different this time, with coordinated, mammoth, and timely fiscal and monetary responses. Central bank balance sheets have expanded dramatically. The Federal Reserve and the ECB are pledging symmetric inflation targets, suggesting that rates will be raised later rather than earlier in this cycle.

Europe Recovery Plan and Biden Infrastructure Plan: the Capex recovery will be boosted by multi-year federal infrastructure programmes. The Eurozone EUR 750bn recovery plan has a heavy emphasis on green transition infrastructure, digital transformation and health.

The Biden programme of green initiatives includes 500,000 EV charging points and electrification of school and transit buses. There will also be large investments in traditional road, rail, bridges, and power infrastructure, as well as cyber and digital infrastructure, including broadband access in rural areas. We expect this bill to be passed in the coming months.

Global GDP will exceed pre-pandemic levels by mid-2021: the speed of the global recovery has given CEOs greater confidence in the longer-term outlook. This is critical for longer-term Capex investments. With above-trend growth forecasts for 2022, corporate Capex today should result in quicker paybacks in terms of profits. Portfolio managers are also encouraging companies to reinvest for growth, rather than returning profits in dividends and share buybacks.

Making up for years of underinvestment: from 2009 to 2015, Capex remained below trend. The world was focused on deleveraging, which led to an uneven recovery. Then, when Capex finally began to recover in 2018/19, the US/China trade war and the global pandemic dented confidence.

The Capex boom is far from over, current data (e.g. from purchasing managers' surveys) continue to indicate low inventory levels across industry supply chains, while order backlogs are climbing on the back of strong end demand.

We also expect technology-related Capex spend to remain robust, driven by the demands of remote working and companies' desires to digitise/automate processes in order to boost productivity. According to a recent survey, ~60% of companies under coverage have increased their spending as a share of total investment, with two-thirds having plans for further increases over the next six months.

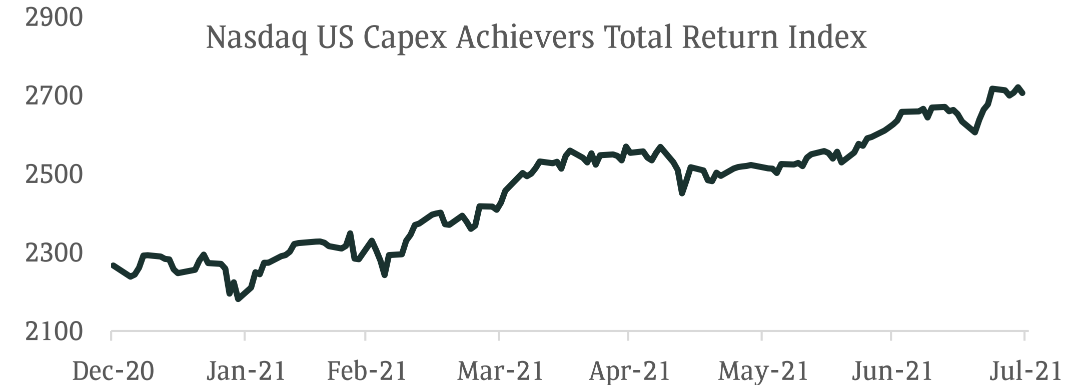
Traditional & digital infrastructure

The cyclical trade is NOT over! Profits have tended to lead Capex historically as the latter gives companies the flexibility to reinvest in their businesses. In addition, bank lending standards continue to improve which, in turn, supports Capex growth. Focus on selected cyclical sectors after the rally. Take advantage of “growth scares” to reinforce positions.

Smart portfolio construction is KEY. Not about Cyclicals vs. Growth, but broader allocation between cyclicals, selected growth, and defensive sectors like healthcare and quality stocks.

In addition, it is not only traditional infrastructure that matters, but allocations between traditional and digital infrastructure too. Their success goes hand in hand. For example, a delivery of an end-to-end e-commerce product requires container shipping, transport infrastructure, aerospace, airports, ports, roads, software, and final mile delivery logistics.

US Capex Index up 35% YTD



Source: Bloomberg

Poised to benefit from Capex: traditional infrastructure

Industrial equipment/automation: industrial equipment and automation solutions-oriented companies will benefit from onshoring and efforts to improve manufacturing productivity.

Traditional Infrastructure: a key pillar in the proposed Biden’s USD 2trn infrastructure plan is to revitalise ageing transport infrastructure, e.g. roads, bridges, rail, airports and ports. This will benefit construction equipment and construction materials-related companies.

Green infrastructure: a key component of the EU recovery plan is the approved budget spending tied to the energy transition. In the US, within infrastructure spending proposals, a significant proportion is allocated to supporting electric vehicle and green power generation development, as well as retrofitting buildings to be more energy efficient. Beneficiaries of both plans include the EV supply chain, and companies providing energy efficiency solutions for buildings, plus utilities pivoting aggressively towards green energy.

Aerospace: recovery in demand for air travel should improve utilisation rates and cash flow for airlines, improving flexibility for Capex. Fuel efficiency of new aircraft and carbon emissions will likely boost fleet replacement over time.

Poised to benefit from Capex: digital infrastructure

Semiconductor equipment companies: semi-equipment companies are the biggest beneficiaries of the current shortage of chips across different industry verticals and strong foundry Capex to address this shortage. These companies, together with Intel, will also benefit from the USD 50bn CHIPS Act.

Cloud-related Capex plays: cloud Capex continues to grow in 2021, driven by hyperscaler spending - Amazon’s Q1 2021 spend surged 78% year-on-year. With US cloud sales expected to grow at 30% annually on average over next few years, Capex related to cloud functions should rise accordingly. Beneficiaries include datacentre REITS and cloud semiconductor names.

5G-related Capex plays: the global roll-out of 5G is accelerating. For example, the US C-band auction is now completed, and communications service providers are significantly boosting 5G Capex spending. Beneficiaries include cellphone towers, network equipment companies and 5G infrastructure semis. Also, 5G is one of the seven flagships of Europe’s EU recovery and resilience facility. A significant share of the EUR 150bn budget is dedicated to 5G network infrastructure.

Software: investment in software, driven by the demands of remote working and companies’ desires to digitise/automate processes in order to boost productivity.

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Appendix: Our Original 10 Investment Themes for 2021

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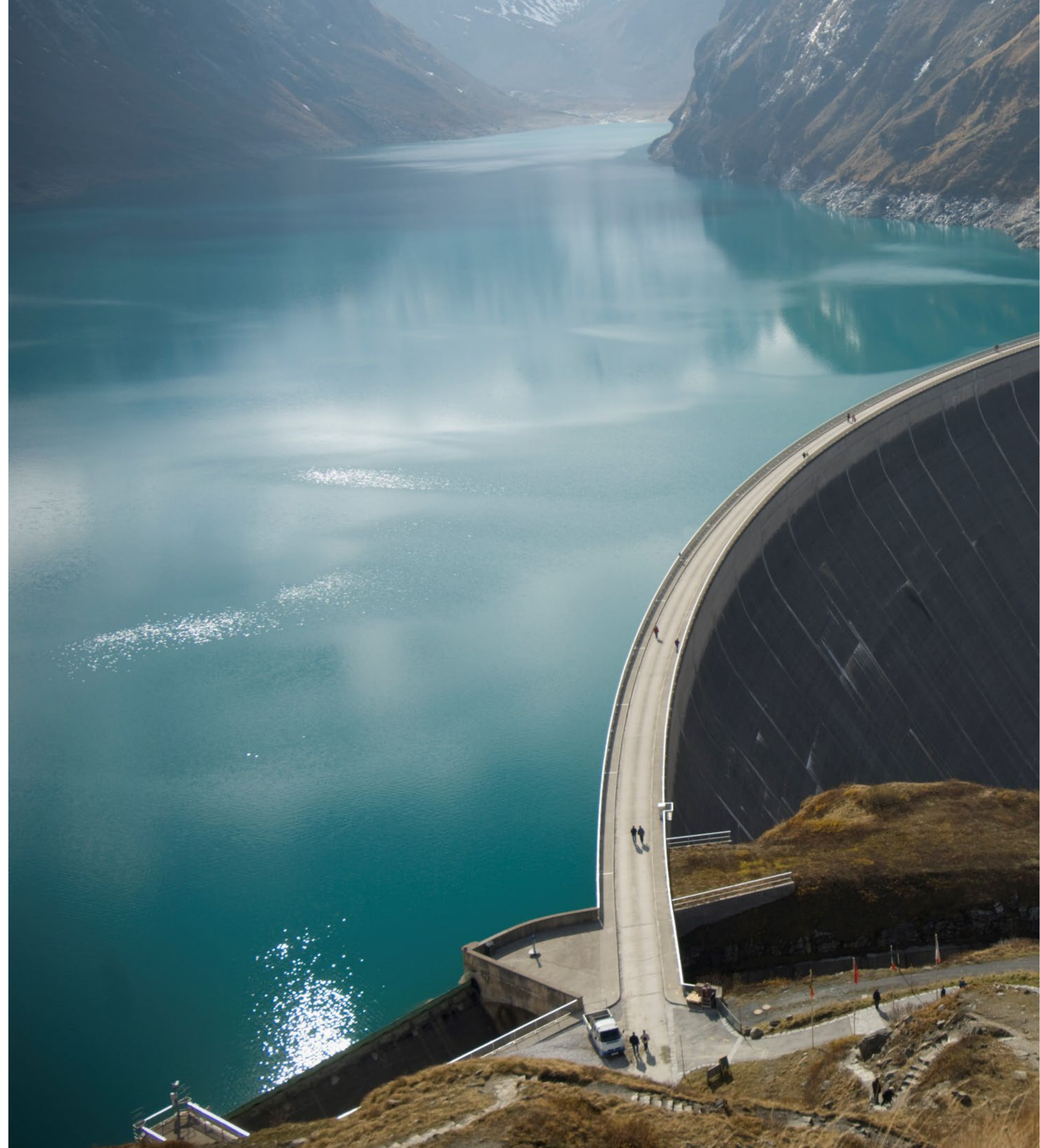

Our Original 10 Investment Themes for 2021

OUR INVESTMENT THEMES FOR 2021

THEME 1

Vaccines, recovery, and reflation
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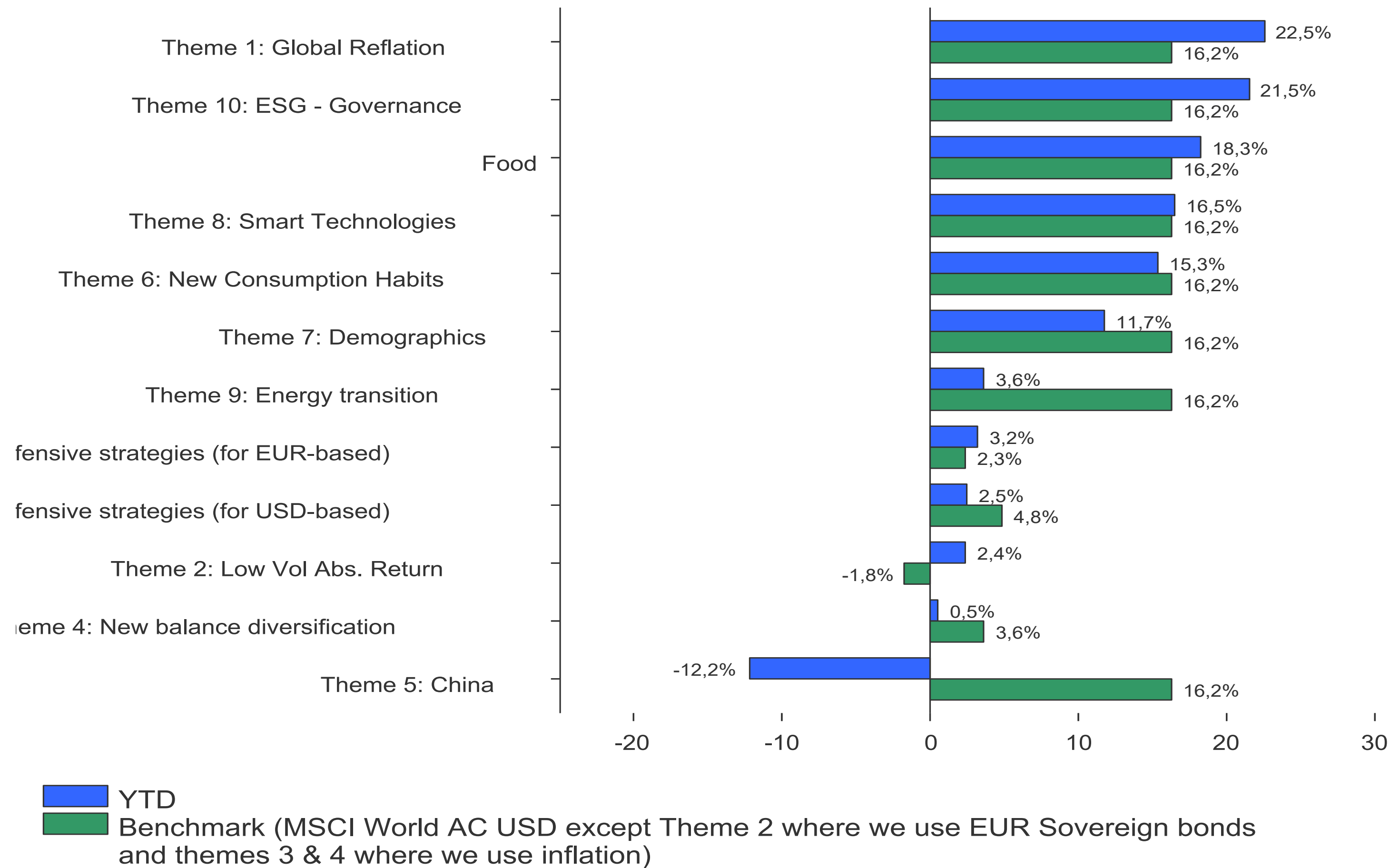
Investment Themes 2021: Returns since 1 January 2021 vs benchmark



Source: Refinitiv Datastream, 31/08/2021

Our Investment themes for 2021

Theme	Indices	Benchmarks
1: Vaccines, recovery, and reflation	MSCI World Cyclical Sectors USD S&P GSCI Industrial Metals Spot	MSCI All Country World USD
2: Low volatility absolute return: facing the challenge of a negative-yield world	HFRU Hedge Fund Composite EUR Money Market and credit Funds (BNP Sustainable Enhanced Bond 6 and 12M, Allianz Credit Opportunities)	Sovereign bonds EUR
3: Sniffing out yield truffles - EUR-based investors	ICE BofA EUR Non-Financial Subordinated bonds ICE BofA EUR Fallen Angel High Yield index Bloomberg EM Local Currency Government EUR	EUR inflation
- USD-based investors	ICE Bank Of America United States Fallen Angel High Yield Bloomberg EM USD Aggregate USD Bloomberg EM Local Currency Government USD	USD inflation
4: Constructing a new diversified portfolio for a changing world	Bloomberg US TIPS S&P GSCI Precious Metal Spot JPY/USD HFRU Macro	EUR inflation and USD inflation
5: Enter the dragon: China's opening of capital markets and economic reform	MSCI China USD	MSCI All Country World USD

Our Investment themes for 2021

Theme	Indices	Benchmarks
6: New consumption habits in a post-lockdown world	MSCI ACWI Consumer Discretionary MSCI ACWI Communication Services MSCI ACWI Information Technology	MSCI All Country World USD
7: Shifting generational influences: how demographic trends are improving the quality of life	STOXX Global Ageing Population USD Nasdaq Global Millennial Opportunity	MSCI All Country World USD
8: Enablers of smart technologies	MSCI ACWI IMI Disruptive Technology	MSCI All Country World USD
9: The energy transition and the 'green deal': long-term opportunities	MSCI Global Environment USD	MSCI All Country World USD
10: Strong governance as an aid to low-risk outperformance: investing in trust and profitability	MSCI World Governance	MSCI All Country World USD
11: The Future of Food: Health, Productivity and Water Security	BNPP Smart Food Rize Sustainable Future of Food Pictet Nutrition	MSCI All Country World USD

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