C.I.A. NETWORK

Investment Strategy Navigator

September 2021

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Agenda

01

Introduction

Financial markets at a glance
Economic Outlook & Risks

BNP PARIBAS
WEALTH MANAGEMENT

Financial markets at a glance

EQUITIES	+	Global	+	European stocks are still the preferred stock market destination, outperforming the US and emerging markets, and attracting substantial flows.
		Markets	+	**China conundrum:** since February, Chinese equities have sold off on regulatory tightening and a weaker credit impulse. On a 12+ month time horizon, we think investors should accumulate on this weakness.
		Sectors	+	**Healthcare in vogue**: Strong drug pipeline prospects with strength in particular in innovative healthcare devices and diagnostics. **We like Financials, Health Care, Real Estate, Precious metals, Construction Materials, Semiconductors and EU Energy.**
BONDS	-	Govies	- / =	Our 10-year bond yield targets are 2% in the US and 0% in Germany in one year. We stay negative on long-term bonds. We turn neutral from positive on US short-term bonds.
		Invest. Grade	=	We turn neutral from positive on US IG corporate bonds. Spreads have limited potential to compress further. We stay neutral on eurozone IG corporate bonds.
		High yield	=	We keep a neutral stance on high yield corporate bonds given tight valuations on average. We prefer fallen angels and rising stars as they offer a spread pick up.
		Emerging	+	We stay positive on EM bonds. US yields have stabilised and EM currencies have potential to appreciate.

FOREX	/	EUR/USD	=	We expect the EURUSD to hover around 1.17 as uncertainty could drag on for a few more weeks. **We keep our 1.22 one-year target.**
		USD	=	The dollar strengthened over the summer months as global uncertainty was on the rise. Commodity currencies suffered from weakness in China and local pandemic issues. **We see less upside for the AUD, NZD and CAD. Less downside for the CHF after the more dovish ECB comments.**
COMMOS	+	Oil	=	Brent prices dropped in August to $65 from around $75 early in July. The were back around $70 at the end of August on improving news from China. Our one-year target is $70-$80 with risks skewed on the downside in the coming months.
		Gold	+	Gold prices declined from $1900/oz early in June back to $1700 its March low, before rebounding to around $1800 at the end of August. We expect gold to trade in the 1800-2000 range as supply and demand dynamic remain favorable.
		Base metals	=	We expect base metals to rebound in anticipation of a recovery. Our **medium-term outlook remains bullish as we expect global growth to remain above trend.**
ALTERNATIVES	/	Alt. UCITS	=/+	**We downgrade our rating from positive to neutral on Relative value**. We have a preference for Macro and Event Driven strategies. Neutral on Relative Value and Long/Short Equity.
REAL ESTATE	+	Real Estate	+	The outlook for global real estate is positive: rents and values are well-supported and real yields should remain low for long.

Economic outlook

KEY ECONOMIC VIEWS

Growth

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

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

POSITIVE RISKS (EQUITIES)

1. As long as no vaccine resistant variants become dominant, vaccine rollout and new treatments could accelerate the reopening of economies. Services stand to profit particularly from such a scenario.
2. The ECB's dovish stance is expected to be maintained and should continue to support European equities.

NEGATIVE RISKS

1. Rising bond yields and especially real yields could hinder the effectiveness of current stimulus programs.
2. Political and Geopolitical risks remain high and are not expected to come down in the short-term and could materialize as local conflicts and tariffs.
3. Certain COVID-19 variants could turn out to be vaccine- or treatment-resistant, increasing the cost of the pandemic and making it longer.
4. Long term inflation upside risks could materialize in a combination of a retreat in globalization, retiring workforce and policy makers wanting to run the economy hot.

02

Global macro

Economic growth and inflation
EU recovery
Inflation & Commodities
Global trade and mobility

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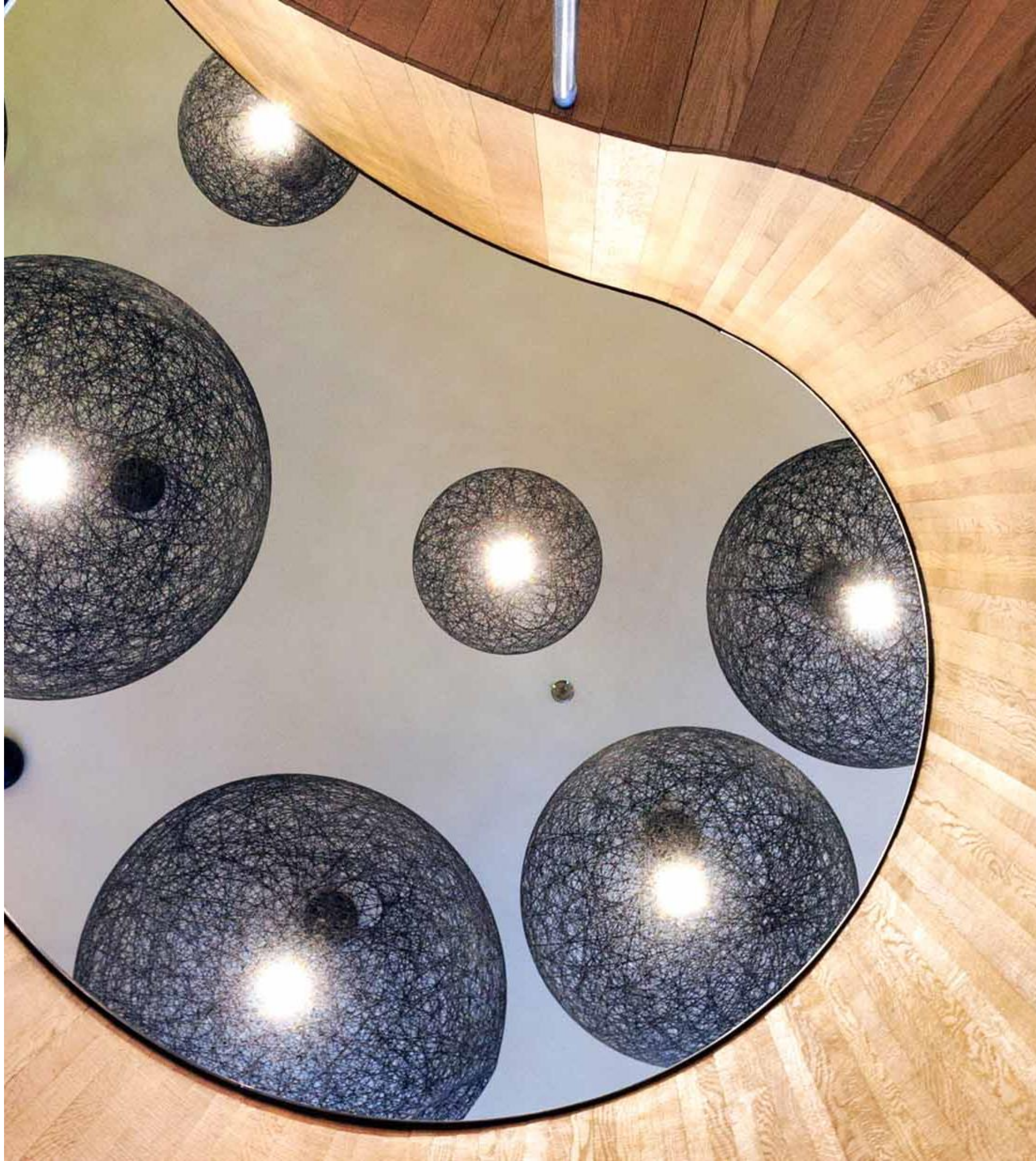

Economic growth and inflation

SUSTAINED ECONOMIC GROWTH

Economies were highly responsive to the easing of restrictions during the second quarter. Indeed, recent business surveys suggest that growth could be peaking. Furthermore, 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 was consumption as economies reopened, resulting in a strong rebound in the Services sector. Manufacturing 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
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Italy	0.6	-0.1	1.5	1.9
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China	2.9	2.5	1.7	2.8
India*	4.8	6.1	5	5
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Russia	4.3	3.4	5.8	4.3

* Fiscal year

Source: Refinitiv - BNP Paribas

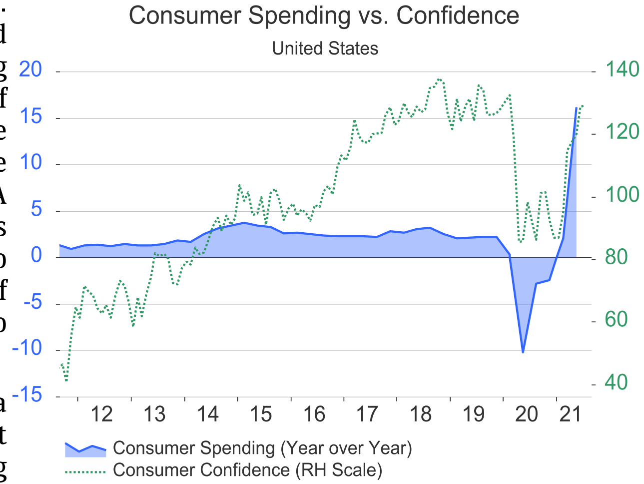
Consumer spending

Consumption is ongoing and hindered by variants

US CONSUMPTION DRIVEN BY GOODS

The spending shift to services has not happened yet. While Americans have spent generously on goods, at higher levels than seen pre-pandemic, services have lagged and were expected to resume this summer. We still expect a sharp rise with the end of the current wave in the US.

- Consumer spending has rebounded sharply in the first half of 2021. Individuals in the US have accumulated an extra $2tn and have started spending the money. As the consumption of services (restaurants, vacations etc...) are limited by COVID restrictions, goods have been the primary source of spending. A good illustration are cars for which prices jumped on the secondhand market due to extra demand and limited production of new cars. Base effects also contributed to the high yearly growth figures.
- Services are most likely going to be a strong driver for growth once the current wave is going to pass, likely replacing goods as the destination of consumer spending.
- We need to monitor consumer confidence for further upside (see chart).

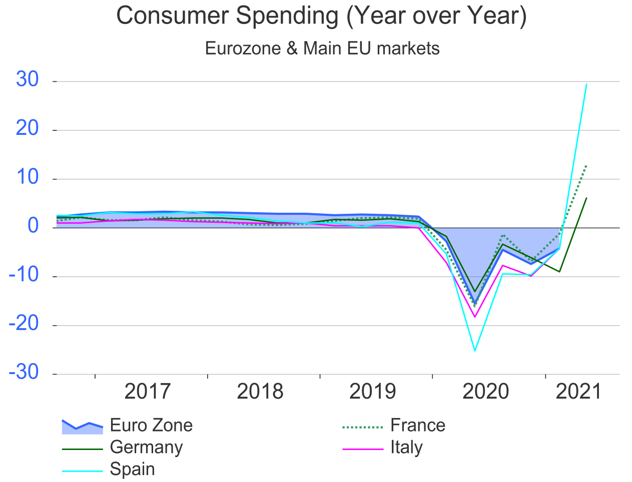


Source: Refinitiv Datastream, Q2 21

A MORE BALANCED EU

Consumer spending in Europe recouped some of its losses fairly quickly after the initial COVID lockdowns. The bias towards goods spending looks to be less important than in the US

- Similarly, to what was observed in the US, private spending fell sharply during pandemic related mobility restrictions.
- Relative to the US, spending in Europe took longer to get going again, likely due to renewed hard and soft lockdowns across the continent.
- High savings rates led to a high level of pent-up demand that should support growth.
- Strong base effects also explain the high year-on-year figures in consumer spending. The case of Spain being a good example (see chart).



Source: Refinitiv Datastream, Q1 21

Heat Map ECB

ONGOING ECONOMIC REOPENING

The major trend over the summer was the reopening of countries to allow the service industry to profit from the summer, especially travel. This was made possible thanks to high vaccination rates across the continent. Countries were able to reopen their borders without putting their health systems under too much pressure.

- Vaccination programs have continued over the summer with most European countries reaching a "fully vaccinated" rate of over 50%. Some countries have announced a third dose to fight new variants starting in September (e.g. France, Germany etc.).

- We still expect the Eurozone to experience more economic recovery over the last four months of the year. Long-term effects of Covid on the economy are still an unknown and could range from a reduced workforce or sustained higher inflation. Unemployment figures have steadily decreased over the summer, reaching 7,7% in June. During the end of 2021, we expect a more recovery with the pent-up demand, fiscal stimulus measures and a very accommodative ECB.

- PMI business surveys have normalized slightly over the summer with the composite PMI falling for the second month in row to 59,5. The service PMI fell to 59,7 and the Manufacturing PMI fell back to 61,9. These are still high levels.

- Retail Sales and Industrial Production are still recovering all over the Eurozone, supporting the ongoing recovery.

Description	Type	Latest Release	08/2020	09/2020	10/2020	11/2020	12/2020	01/2021	02/2021	03/2021	04/2021	05/2021	06/2021	07/2021	08/2021
Hard data															
Industrial production y/y	% y/y	06 - 2021	-2,87	-4,54	-2,74	-0,57	0,29	-1,49	-2,75	15,11	41,50	15,76	6,38		
Retail Sales y/y	% y/y	06 - 2021	4,32	2,75	4,42	-1,73	1,01	-4,66	-0,91	13,97	23,84	8,50	4,53		
EuroCOIN	% q/q	07 - 2021	-667,56	-657,27	-59,89	-59,30	30,76	171,23	196,30	917,20	-371,95	-521,71	-191,73	-171,87	
Exports y/y	% y/y	06 - 2021	-12,50	-3,41	-8,99	-1,09	2,60	-8,89	-2,27	12,63	46,75	34,96	23,75		
Survey Indicators															
Composite PMI Index	Index	08 - 2021	51,90	50,40	50,00	45,30	49,10	47,80	48,80	53,20	53,80	57,10	59,50	60,20	59,50
Services PMI Index	Index	08 - 2021	50,50	48,00	46,90	41,70	46,40	45,40	45,70	49,60	50,50	55,20	58,30	59,80	59,70
Manufacturing PMI Index	Index	08 - 2021	51,70	53,70	54,80	53,80	55,20	54,80	57,90	62,50	62,90	63,10	63,40	62,80	61,50
- New orders Index	Index	08 - 2021	51,34	50,52	49,22	44,25	49,04	47,86	49,03	53,05	53,39	58,35	59,97	60,31	59,31
- New export orders Index	Index	08 - 2021	48,81	51,57	51,68	49,07	50,89	51,14	53,85	58,23	58,07	58,26	58,65	58,37	57,50
Economic Sentiment Indicator	Index	08 - 2021	146,60	47,80	15,70	109,60	192,20	142,00	160,40	151,70	144,50	136,50	102,50	65,20	-13,30
Consumer confidence	Index	07 - 2021	-13,70	-12,70	-15,50	-17,80	-13,10	-13,80	-13,20	-9,90	-9,70	-4,60	-0,80	-2,90	
Household financial situation expectations	Index	07 - 2021	-3,80	-3,00	-4,00	-5,90	-3,00	-4,10	-3,60	-1,10	1,20	1,60	2,10	0,90	
Labour market and Wages															
Unemployment rate	%	06 - 2021	8,60	8,50	8,30	8,10	8,10	8,20	8,20	8,10	8,10	8,00	7,70		
Employment	% y/y	06 - 2021	14,98	14,89	11,80	8,17	7,86	7,15	9,27	13,89	12,71	7,95	-2,64		
Inflation															
Headline HICP	% y/y	07 - 2021	-0,17	-0,31	-0,28	-0,29	-0,27	0,91	0,94	1,33	1,62	1,98	1,90	2,16	
Core HICP	% y/y	07 - 2021	0,37	0,21	0,23	0,25	0,23	1,41	1,11	0,94	0,74	0,95	0,89	0,71	
Market based inflation expectations (5y5y forwards)	%	08 - 2021	1,23	1,14	1,18	1,20	1,26	1,29	1,35	1,51	1,50	1,58	1,58	1,60	1,70
Monetary Dynamics															
M1 y/y	% y/y	07 - 2021	12,40	13,00	13,00	13,60	14,60	15,50	15,40	12,80	11,40	10,60	10,80	10,90	
M2 y/y	% y/y	07 - 2021	8,95	9,66	9,72	10,06	10,99	11,42	11,36	9,53	8,34	7,51	7,56	7,56	
M3 y/y	% y/y	07 - 2021	8,86	9,75	9,91	10,31	11,60	11,71	11,44	9,34	8,40	7,64	7,58	7,55	
Forex															
EURUSD	FX rate	08 - 2021	0,85	0,86	0,84	0,84	0,82	0,82	0,82	0,85	0,83	0,82	0,84	0,85	0,85
NEER	Index	08 - 2021	109,49	109,12	109,47	108,39	109,59	109,02	109,46	108,02	109,35	109,50	108,12	107,68	107,39
Commodity Prices															
Brent Oil Prices USD	$b bl	08 - 2021	46,01	40,91	40,71	47,30	50,88	55,44	66,69	61,21	65,75	68,80	76,45	74,86	69,07
Brent Oil Prices USD	% y/y	08 - 2021	-21,54	-34,45	-34,40	-26,86	-26,54	-6,57	17,60	138,91	314,30	103,55	85,65	72,93	50,12
Credit Conditions															
IG credit spread	Index	08 - 2021	1,14	1,21	1,11	0,93	0,93	0,90	0,87	0,92	0,85	0,86	0,83	0,84	0,84
HY credit spread	Index	08 - 2021	4,40	4,69	4,38	3,63	3,47	3,36	3,01	3,16	2,98	2,96	3,01	2,99	2,91

Source: Refinitiv DataStream / BNP PARIBAS - WM

Heat Map FED

TEMPORY HESITATION

The fiscal stimulus is continuing to bear fruits, but in an environment of ever increasing Delta variant cases. While hospitalizations are not out of hand as of yet, we need to monitor the evolution. PMI values fell from their all time highs reached in June but remain very high.

- PMI business surveys reached levels never seen before during the summer, with the manufacturing PMI even reaching 70,4 in June. August values have come down somewhat reflecting fears regarding a new wave with Composite PMI falling to 55.4, Services PMI falling to 55.2 and manufacturing PMI staying relatively high at 61.2. This reflects the preference consumers have for goods over services in the US currently. That should change as Covid fears diminish. The supply chain constraints are still a major issue and need to be monitored.

- The multi-year public spending programs and related fiscal multiplier effects should support confidence and growth at levels above trend.

- Unemployment and Initial Jobless Claims are falling. We continue to expect a growing trend in hiring with limited pressure on wages as improved job market conditions, the end of social benefit programs and a normalization in schools should lead to a rise in the participation rate.

- The vaccination progress in the US is ongoing, with 51% of the population being fully vaccinated and 60% of the population having received at least one dose. Older individuals are better protected with a fully vaccinated rate reaching 81%, and 91% having received at least one dose. It however appears that the USA will not be able to reach herd immunity because of vaccine reluctance.

Description	Type	Latest Release	08/2020	09/2020	10/2020	11/2020	12/2020	01/2021	02/2021	03/2021	04/2021	05/2021	06/2021	07/2021	08/2021
Hard data															
Industrial production y/y	% y/y	07 - 2021	-6,62	-6,56	-4,75	-4,73	-3,28	-1,67	-4,86	1,72	17,77	16,48	9,90	6,56	
Capacity Utilisation	%	07 - 2021	72,27	72,07	72,87	73,26	74,11	74,96	72,68	74,72	74,74	75,33	75,45	76,12	
Retail Sales y/y	% y/y	07 - 2021	3,22	5,96	5,55	3,78	2,31	9,40	6,50	29,71	53,42	28,05	18,73	15,78	
Industrial new orders y/y	% y/y	06 - 2021	-7,74	-6,69	-6,83	-2,11	-2,03	3,17	3,96	21,19	34,69	31,16	22,31		
Survey Indicators															
Composite PMI Index	Index	08 - 2021	54,60	54,30	56,30	58,60	55,30	58,70	59,50	59,70	63,50	68,70	63,70	59,90	55,40
Services PMI Index	Index	08 - 2021	55,00	54,60	56,90	58,40	54,80	58,30	59,80	60,40	64,70	70,40	64,60	59,90	55,20
Manufacturing PMI Index	Index	08 - 2021	53,10	53,20	53,40	56,70	57,10	59,20	58,60	59,10	60,50	62,10	62,10	63,40	61,20
- New orders Index	Index	07 - 2021	66,20	60,90	66,90	65,70	67,50	61,10	64,80	68,00	64,30	67,00	66,00	64,90	
- New export orders Index	Index	07 - 2021	70,00	69,00	75,00	71,00	75,00	75,00	73,00	76,00	77,00	77,00	77,00	78,00	
- Orders Inventory Ratio	Index	07 - 2021	1,00	1,00	1,10	1,10	1,30	0,90	1,00	1,20	1,10	1,20	1,10	1,20	
Economic Sentiment Indicator	Index	08 - 2021	235,30	170,40	127,90	81,40	43,80	78,20	85,00	24,10	43,80	4,00	22,50	8,70	-48,00
Consumer confidence	Index	08 - 2021	74,10	80,40	81,80	76,90	80,70	79,00	76,80	84,90	88,30	82,90	85,50	81,20	70,20
Household financial situation expectations	Index	08 - 2021	68,50	75,60	79,20	70,50	74,60	74,00	70,70	79,70	82,70	78,80	83,50	79,00	65,20
Labour market and Wages															
Unemployment rate	%	07 - 2021	8,40	7,80	6,90	6,70	6,70	6,30	6,20	6,00	6,10	5,80	5,90	5,40	
Initial Jobless Claims	%	07 - 2021	305,60	273,50	255,60	254,40	250,00	298,10	242,70	-77,50	-82,90	-78,50	-74,80	-68,40	
Employment	% y/y	07 - 2021	-6,71	-6,75	-5,49	-5,51	-5,61	-5,44	-5,35	-3,01	13,35	10,49	6,69	6,17	
Real Wages	% y/y	07 - 2021	4,65	4,80	4,53	4,52	5,47	5,24	5,23	4,28	0,33	1,92	3,68	3,98	
Inflation															
Headline CPI	% y/y	07 - 2021	1,33	1,41	1,20	1,14	1,30	1,37	1,68	2,64	4,15	4,93	5,33	5,28	
Core CPI	% y/y	07 - 2021	1,71	1,72	1,63	1,66	1,62	1,40	1,28	1,65	2,96	3,80	4,45	4,23	
Core PCE	% y/y	06 - 2021	1,60	1,50	1,40	1,40	1,50	1,50	1,40	1,80	3,10	3,40	3,50		
Market based inflation expectations (5y5y forwards)	%	08 - 2021	2,70	2,70	2,40	2,50	2,50	2,70	2,70	2,80	2,70	3,00	2,80	2,80	3,00
Monetary Dynamics															
M1 y/y	% y/y	07 - 2021	339,30	341,30	341,80	344,70	344,10	350,40	356,50	336,10	296,20	18,00	16,00	15,70	
M2 y/y	% y/y	07 - 2021	23,10	23,80	23,70	24,30	24,80	25,90	27,10	24,40	18,10	13,90	12,20	12,10	
Forex															
EURUSD	FX rate	08 - 2021	0,85	0,86	0,84	0,84	0,82	0,82	0,82	0,85	0,83	0,82	0,84	0,85	0,85
NEER	Index	08 - 2021	109,49	109,12	109,47	108,39	109,59	109,02	109,46	108,02	109,35	109,50	108,12	107,68	107,39
Commodity Prices															
Brent Oil Prices USD	$b bl	08 - 2021	46,01	40,91	40,71	47,30	50,88	55,44	66,69	61,21	65,75	68,80	76,45	74,86	69,07
Brent Oil Prices USD	% y/y	08 - 2021	-21,54	-34,45	-34,40	-26,86	-26,54	-6,57	17,60	138,91	314,30	103,55	85,65	72,93	50,12
Credit Conditions															
IG credit spread	Index	08 - 2021	1,14	1,21	1,11	0,93	0,93	0,90	0,87	0,92	0,85	0,86	0,83	0,84	0,84
HY credit spread	Index	08 - 2021	4,40	4,69	4,38	3,63	3,47	3,36	3,01	3,16	2,98	2,96	3,01	2,99	2,91

Source: Refinitiv DataStream / BNP PARIBAS - WM

03

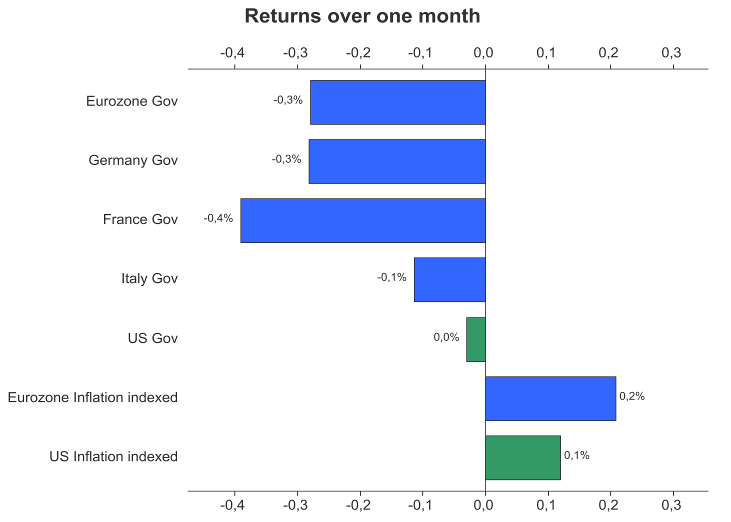
Fixed income

Central Banks
Bond Yields
Government Bonds
Corporate Bonds
Emerging Market Bonds

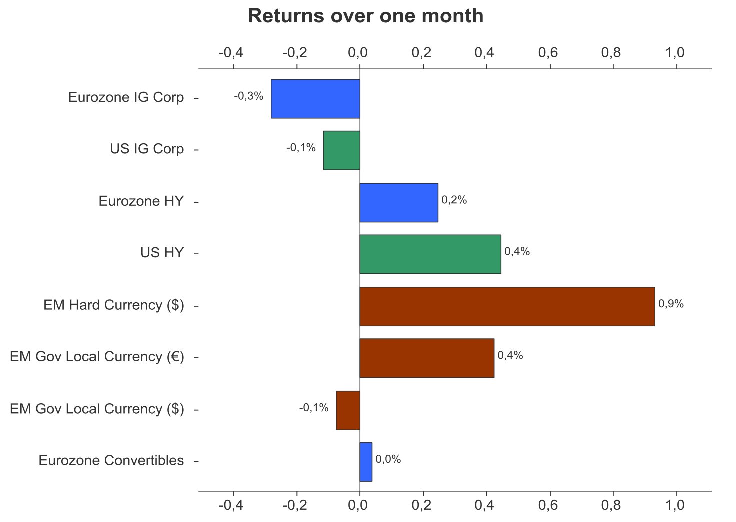
BNP PARIBAS
WEALTH MANAGEMENT

Fixed income at a glance

Rising Covid cases pushed investors to rethink the economic outlook and bond yields have fallen to very low levels. That trend is likely to reverse with the improvement in the US job market and the Fed reducing its bond buying programme. This month, we turn neutral from positive on US IG corporate bonds.



Source: Refinitiv Datastream, 30/08/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)



Source: Refinitiv Datastream, 30/08/2021 Source: Bloomberg Barclays indices exept Convertibles (Exane)

Central Banks

The countdown to the Fed tapering has started. In contrast, the ECB is in no rush to exit its "higher pace of purchase", in our view. We expect the Fed to announce the tapering in September and execute it in December. The ECB will probably not deliver any news on the emergency QE before the end of the year. The transition from PEPP to APP will be key for markets.

Government Bonds

We stay negative on US and German long-term government bonds. Risks are for higher yields in our view. Our 10-year bond yield targets are 2% in the US and 0% in Germany in one year.

We are neutral on US short-term government bonds.

Peripheral bonds

We stay neutral on the peripheral debt. Yields are low. Spreads are tight but won't widen significantly with the ECB in control.

Corporate Investment Grade (IG) Bonds

We turn neutral from positive on US IG corporate bonds. Spreads have limited potential to compress further. The asset class could face negative returns if Treasury yields tick up as the IG index duration is close to its all-time highs. We stay neutral on eurozone IG corporate bonds given valuations.

Corporate High Yield (HY) Bonds

HY bonds are expensive, reflecting the improvement of fundamentals. We don't find much value at the index level, hence our neutral view. We see more opportunities in rising stars and fallen angels bonds as they offer decent yield for less risk than HY bonds.

Emerging Market (EM) Bonds

EM assets have lagged. We see recent spread widening in EM hard currency as an opportunity and we stay positive on the asset class. We also stay positive on EM local bonds. They look attractive. The risk of Fed tapering is priced in after the recent correction in EM currencies.

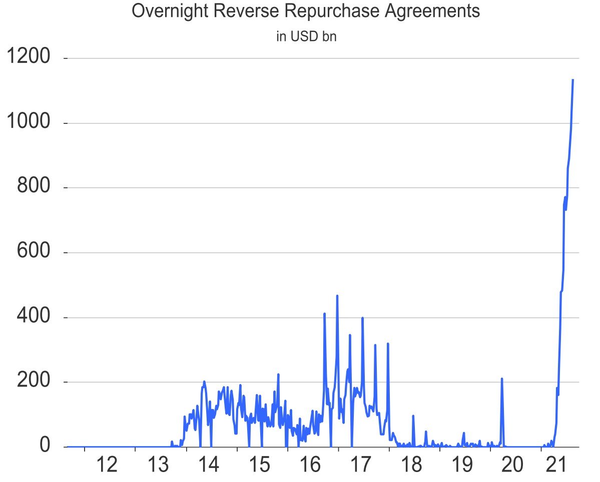
Central banks

Fed tapering, the final countdown

THE FED

The Fed seemed ready to taper already this year. We keep our assumption of a tapering announcement in September and we bring forward the execution for December rather than January 2022. We don't expect much impact as the tapering should be very slow.

- The Fed could start reducing the pace of asset purchases already this year as most policymakers think that the economy has made "substantial further progress" towards price stability and maximum employment.
- That plan could be delayed if the impacts of the Delta variant were persistent.
- We can question the current pace of asset purchases (USD120bn/month) given that most of this money creation got back to the Fed in reverse repo (see chart).
- We keep our assumption of a tapering announcement in September, and we bring forward the execution for December rather than January 2022.
- What really matters is the speed of the tapering. We expect a slow tapering so that the effects on financing conditions and risk assets would be limited.

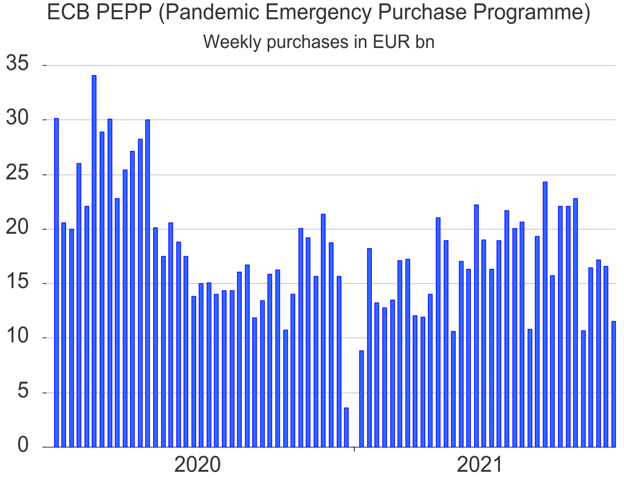


Source: Refinitiv Datastream, 24/08/2021

THE ECB

The focus remains on maintaining favourable financing conditions. With the Delta variant, uneven economic data and low inflation, the ECB may not be in a rush to reduce the high pace of purchase of the emergency QE programme. We expect it to happen in December, rather than September.

- As anticipated, the ECB was not very active in the markets during the summer period (see chart).
- The ECB announced its new forward guidance at the July meeting: rates will remain at current or lower level until inflation reaches 2%. The ECB will focus on both realised and projected inflation as well as how durable they can be.
- The ECB is likely to remain very dovish given the Delta variant and the uneven incoming economic data. It may maintain its "substantially higher pace" of asset purchases of PEPP (emergency QE) for a few more months.
- We expect the ECB to go back to a "normal" pace of purchase for the PEPP in December rather than September. The transition from PEPP to APP (classic QE) will be key.



Source: Refinitiv Datastream, 27/08/2021

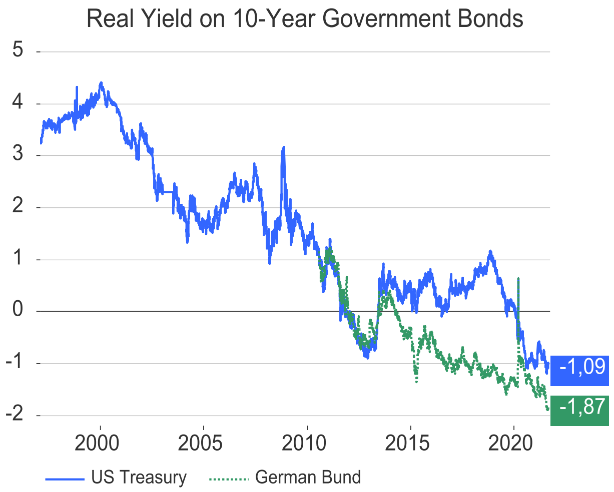
Bond yields and Inflation expectations

Short-term pause in a bear market

BOND YIELDS

Growth concerns pushed bond yields to low levels that are not reflecting fundamentals. We expect long-term bond yields to increase after the summer. Our 12-month targets for 10-year rates are 2% in the US and 0% in Germany.

- Long-term bond yields have fallen significantly during the summer period, pushing the global stock of negative-yielding bonds up by a whopping 25% in just two months, to $16.4tr.
- While fears of higher inflation were behind the sharp rise in long-term bond yields 8-12 months ago, concerns over growth have pushed bond yields back about a third of their rise in just a couple of months.
- The reaction of real yields is particularly striking as they hit a new all-time low in August, in both Germany (at -1.9%) and the US (-1.2%) (see chart).
- Our 12-month targets for 10-year yields are 2% in the US and 0% in the eurozone. Catalysts are the improvement in the job market, tapering, infrastructure spending and more sovereign bond issuance.

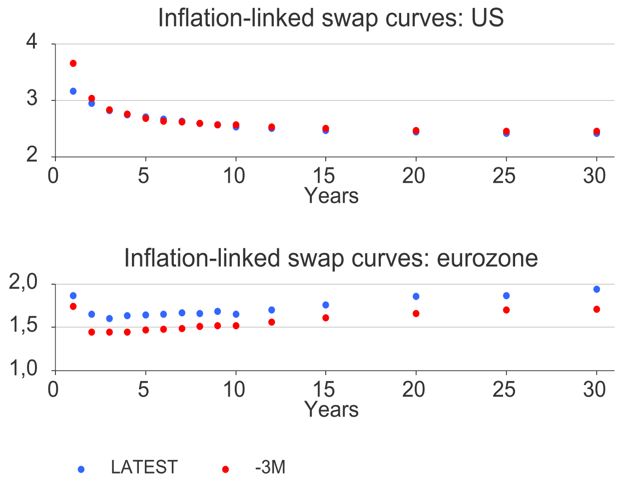


Source: Refinitiv Datastream, 31/08/2021

INFLATION EXPECTATIONS

We are neutral on inflation-linked bonds. We see limited upside for breakevens while risks are for higher real yields.

- Market based data shows that medium-to long-term inflation has not changed much compared to 3 month ago in the US, while short-term inflation has decelerated fast (see chart). Conversely, in the eurozone, both short- and long-term inflation are currently higher than 3 month ago. That being said, medium- and long-term inflation remain far from the 2% goal of the ECB.
- Ten-year breakevens have moved slightly higher over the summer, to 2.35% in the US and 1.41% in Germany.
- We prefer to stay neutral on inflation-linked bonds. The upside for breakevens is now limited in our view. In contrast, real yields are set to rise as concerns over the Delta variant fades and central banks talk about exiting emergency measures.
- We prefer floating rate notes or funds that actively manage duration in order to hedge against inflation and possible rising rates, especially in the US.



Source: Refinitiv Datastream, 30/08/2021

Government Bonds

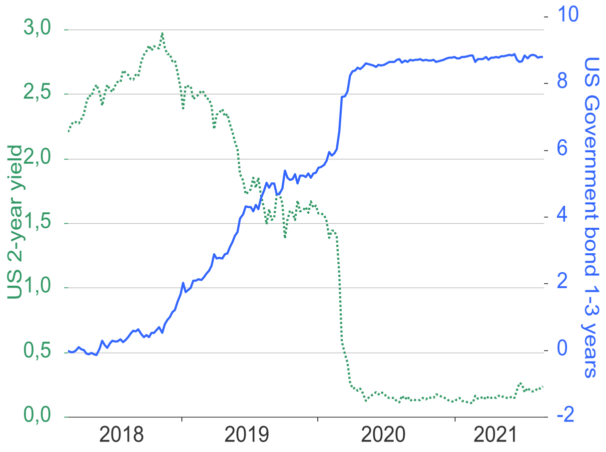
Prefer peripheral bonds

US AND GERMAN GOVIES

We stay negative on US and German long-term government bonds given the recent decline in yields. Risks are for higher yields in our view. As for short-date government bonds, we have a negative view for German ones and a neutral view for US ones.

- Treasuries -and bunds to a lesser extend- have been perceived as safe heavens during the summer as investors try to reassess the health of the global economy in light of the spread of the Delta variant.
- The last 10-year Treasury auction attracted stellar demand, also from foreign central banks (partially because of technical factors).
- We find US and German government bonds unattractive. The level of yields is very low and do not match with the level of growth, albeit declining, and inflation. We stay negative on long-term government bonds. We are also negative on German short-term government bonds.
- We are neutral on US short-dated government bonds.

US Government bond 1-3 years, Total return



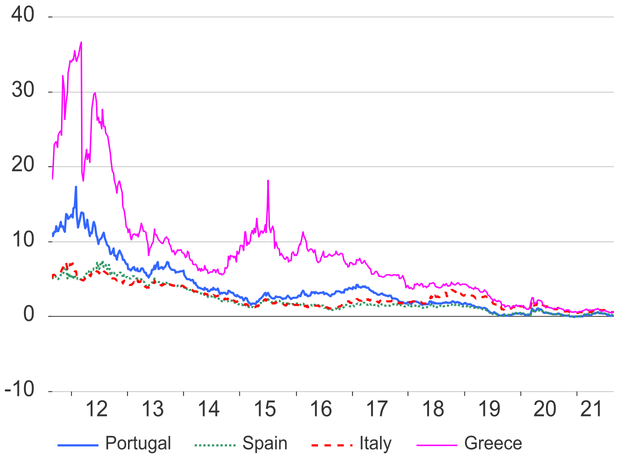
Source: Refinitiv Datastream, 30/08/2021

EUROZONE PERIPHERAL BONDS

We stay neutral on the peripheral debt. Yields are low. Spreads are tight but won't widen significantly with the ECB in control.

- Peripheral spreads have been widening slightly over the summer. Investors probably wanted to take some profits ahead of Jackson Hole meeting and high supply in September. Also, the vice president of the ECB made some slightly less dovish comments.
- Nevertheless, spreads remain very tight on a historical horizon and the ECB does not seem in a hurry to reduce its support via the emergency QE programme according to its chief economist.
- Indeed, the "higher pace of purchase" is likely to be maintained for the next few months as the ECB would take a decision on the end of the PEPP and the transition to the APP (classic QE) in December, in our view.
- We stay neutral on the peripheral debt. Yields are low. Spreads are tight but won't widen significantly with the ECB in control.

10-year government bond yields



Source: Refinitiv Datastream, 30/08/2021

Corporate Bonds

High cash prices means selective opportunities

INVESTMENT GRADE (IG)

We turn neutral from positive on US IG corporate bonds. Spreads have limited potential to compress further. The asset class could face negative returns if Treasury yields tick up as the IG index duration is close to its all-time highs. We stay neutral on eurozone IG corporate bonds given valuations.

- The traditional summer lull did not really happen this year in the corporate debt market. Companies rushed to raise debt already at the end of August to lock cheap refinancing and benefit from high investors' demand. This maybe paves the way to a larger-than-expected wave of supply in September, a month that is usually very busy in terms of new deals.
- Credit spreads are close to their historical lows post the Great Financial Crisis as credit fundamentals have improved substantially.
- We turn neutral from positive on US IG corporate bonds. The potential for further spread compression is limited. US IG corporate bonds are vulnerable to any rise in Treasury yields as the index duration is close to an all-time high at almost 8.8 years (see chart).

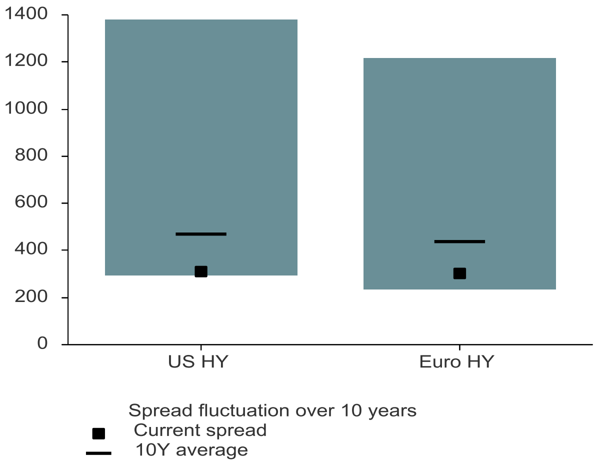
Source: Refinitiv Datastream, 30/08/2021

HIGH YIELD (HY)

HY bonds are expensive, reflecting the improvement of fundamentals. We don't find much value at the index level, hence our neutral view. We see more opportunities in rising stars and fallen angels bonds as they offer decent yield for less risk than HY bonds.

- Lower-rated bonds have underperformed higher-rated bonds during the summer period due to concerns about the delta variant and growth.
- The HY rally has started to lose momentum and to show more discrimination. Some issuers offered higher interest rates to attract investors.
- At the index level, HY spreads are not attractive (see chart) and are likely to remain tight as credit fundamentals are strong. The default rate will remain very low. It could reach 1% by year-end according to Fitch and around 1.25-1.5% by end-2022.
- We prefer to stay neutral on HY bonds given high valuations. We find more value in rising stars and fallen angels, which are usually mispriced when they jump from one cohort to another. In addition, they offer exposure to credit risk for less risk than HY.

Spread fluctuation over the past 10 years



Source: Refinitiv Datastream, 30/08/2021

Emerging Market Bonds

EM bonds are attractive

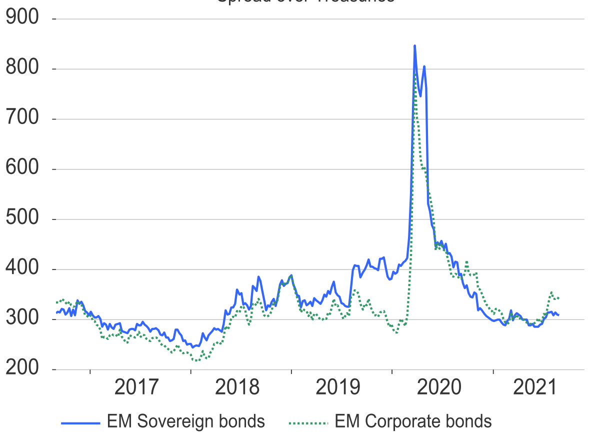
EM BONDS IN HARD CURRENCY

EM assets have lagged. We see recent spread widening as an opportunity and stay positive on the asset class.

- EM spreads over Treasuries have been widening since June for EM sovereigns and more so for EM corporates (see chart). The fear of a Fed tapering while growth is decelerating, the Delta variant plus the uncertainty over China growth and policy pushed investors out of EM assets.
- Concerns over the Fed tapering seem overdone. The Fed is likely to exit the QE programme is a very slow way.
- The pace of vaccination is slower in EM economies versus developed economies, but improving. The situation remains worrying in a few countries like Turkey, Thailand and Malaysia.
- EM assets have lagged. We see recent spread widening as an opportunity and stay positive on the asset class.

Corporate Emerging Market Hard Currency

Spread over Treasuries



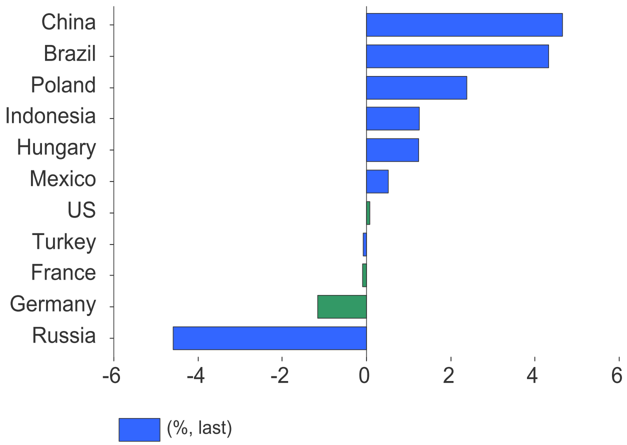
Source: Refinitiv Datastream, 31/08/2021

EM BONDS IN LOCAL CURRENCY

We stay positive on EM local bonds. EM bonds look attractive. The risk of Fed's taper is priced in after the correction in EM currencies.

- EM bonds in local currency posted positive returns in EUR terms (+0.9%) and were unchanged in USD terms during the summer period (July-August). That happened despite the fact that emerging currencies depreciated since June.
- The drop of emerging currencies may be the consequence of investors' worries over the consequence on EM markets of the Fed's intention to reduce its bond purchases. As markets already adjusted, EM bonds look attractive.
- A dozen of EM central banks, including large countries like Brazil, Russia and Mexico, have raised their policy rates to contain inflation and maintain the attractiveness of their real interest rates versus developed countries (see chart).
- We stay positive on EM local bonds.

EM real interest rates (%)



Source: Refinitiv Datastream, 15/10/2015

04

Forex

VS EUR
VS USD

BNP PARIBAS
WEALTH MANAGEMENT

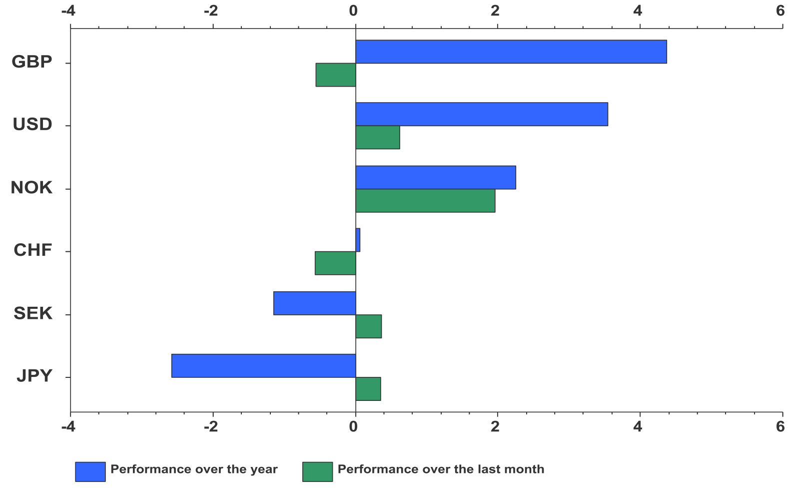
Forex at a glance

The dollar strengthened over the summer months as global uncertainty was on the rise. Commodity currencies and particularly those linked to the Chinese demand (AUD and NZD) suffered more.

Looking at EUR/USD, it fell from 1.19 to 1.17 (value of one euro) over the first summer weeks. It temporarily fell below 1.17 around August 20th. From a technical point of view, the key resistance and support levels are 1.22 and 1.16 respectively. Short-term, we expect the EURUSD to hover around 1.17 as uncertainty could drag on for a few more weeks. We keep our 1.22 one-year target.

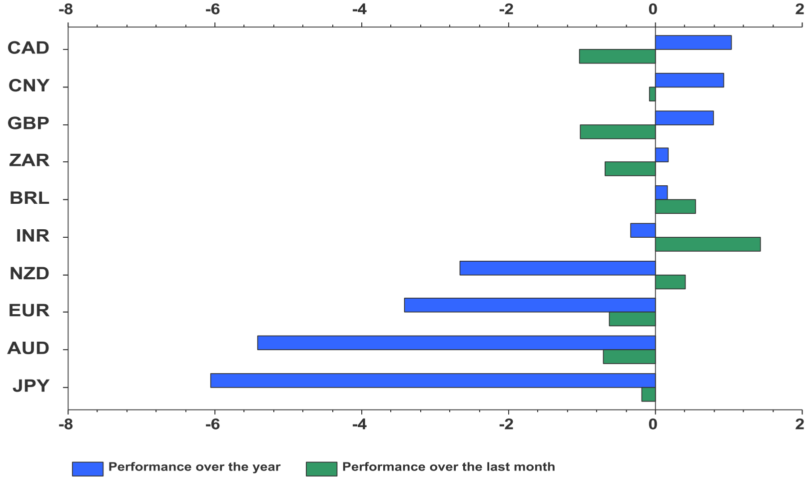
We see less potential for a depreciation of the CHF over the coming month. We revised our one-year EURCHF target to 1.12. The AUD and the NZD are penalized by the low vaccination rates and the temporary slowdown in China. We change our 3- and 12-month targets to see less upside. The same is true for Canada even though the high vaccination rate is supportive.

Currencies performance against the EUR (%)



Source: Refinitiv Datastream, 30/08/2021

Currencies performance against the USD (%)



Source: Refinitiv Datastream, 30/08/2021

EUR/USD

Source: Refinitiv Datastream, 30/08/2021

	Country	Spot 27/08/2021		Target three months Trend	Target three months Mid	Target twelve months Trend	Target twelve months Mid
Against euro	United States	EUR / USD	1,179	Neutral	1,17	Negative	1,22
	United Kingdom	EUR / GBP	0,857	Neutral	0,85	Positive	0,84
	Switzerland	EUR / CHF	1,077	Negative	1,10	Negative	1,12
	Japan	EUR / JPY	129,6	Neutral	130	Negative	135
	Sweden	EUR / SEK	10,19	Neutral	10,0	Neutral	10,0
	Norway	EUR / NOK	10,29	Positive	9,80	Positive	9,60
Against dollar	Japan	USD / JPY	110,0	Neutral	111	Neutral	111
	Canada	USD / CAD	1,263	Neutral	1,25	Neutral	1,24
	Australia	AUD / USD	0,730	Neutral	0,73	Positive	0,76
	New Zealand	NZD / USD	0,700	Neutral	0,70	Positive	0,73
	Brazil	USD / BRL	5,208	Positive	4,90	Positive	4,80
	Russia	USD / RUB	73,58	Positive	70,0	Positive	68,0
	India	USD / INR	73,70	Positive	72,0	Positive	72,0
	China	USD / CNY	6,480	Neutral	6,40	Neutral	6,40

Management

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

VS. EUR

Outlook for currencies versus EUR

	Country		Spot 27/08/2021	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,179	Neutral	1,17	Negative	1,22
	United Kingdom	EUR / GBP	0,857	Neutral	0,85	Positive	0,84
	Japan	EUR / JPY	129,6	Neutral	130	Negative	135
	Switzerland	EUR / CHF	1,077	Negative	1,10	Negative	1,12
	Australia	EUR / AUD	1,616	Neutral	1,60	Neutral	1,61
	New-Zealand	EUR / NZD	1,683	Neutral	1,67	Neutral	1,67
	Canada	EUR / CAD	1,488	Neutral	1,46	Neutral	1,51
	Sweden	EUR / SEK	10,19	Neutral	10,00	Neutral	10,00
	Norway	EUR / NOK	10,29	Positive	9,80	Positive	9,60
Asia	China	EUR / CNY	7,637	Neutral	7,49	Negative	7,81
	India	EUR / INR	86,86	Positive	84,24	Neutral	87,84
Latam	Brazil	EUR / BRL	6,138	Positive	5,73	Positive	5,86
EMEA	Russia	EUR / RUB	86,73	Positive	81,90	Positive	82,96

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

The EUR/USD fell from 1.19 to 1.17 (value of one euro) over the first summer weeks. It temporarily fell below 1.17 in August. Short-term, we expect the EURUSD to hover around 1.17 as uncertainty could drag on. We keep our 1.22 one-year target. We see less downside for the CHF after dovish ECB comments.

- On the macro front, Eurozone inflation accelerated to 2.2% in July from 1.9% the previous month. This upward trend should continue over the coming months, with inflation temporarily reaching levels above 3% by the end of this year. US inflation has probably peaked.
- Macro momentum to favour the euro: we expect the economic momentum as measured by the economic surprise index to show a growing divergence in favor of the Eurozone. The Eurozone has been lagging somewhat due to the delta variant and we expect some catching up over the autumn period. This, together with a more favorable risk environment, suggests that the euro should make a comeback in the second half of the year.
- The upside potential for the euro is however more limited than forecasted previously.
- Indeed, the outlook for central banks has evolved somewhat as we expect the Fed to hike rates in Q1 2023, with higher US yields likely to support the USD late next year as the first interest rate hike comes closer. At the same time, the ECB has proved more cautious than we expected, despite an increasingly strong European economic recovery. We expect no change in the policy rate for the ECB over the coming two years.
- **Short-term, we expect the EURUSD to hover around 1.17 as uncertainty could drag on for a few more weeks. We keep our 1.22 one-year target.**
- **We see less downside for the CHF after the more dovish ECB comments. We revised our one-year EURCHF target to 1.12 (1.14 before).**

VS. USD

Outlook for currencies versus USD

	Country		Spot 30/08/2021	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,179	Neutral	1,17	Positive	1,22
	United Kingdom	GBP / USD	1,374	Neutral	1,38	Positive	1,45
	Japan	USD / JPY	110,0	Neutral	111,00	Neutral	111,00
	Switzerland	USD / CHF	0,913	Negative	0,94	Neutral	0,92
	Australia	AUD / USD	0,730	Neutral	0,73	Positive	0,76
	New-Zealand	NZD / USD	0,700	Neutral	0,70	Positive	0,73
	Canada	USD / CAD	1,263	Neutral	1,25	Neutral	1,24
Asia	China	USD / CNY	6,480	Neutral	6,40	Neutral	6,40
	India	USD / INR	73,70	Positive	72,00	Positive	72,00
Latam	Brazil	USD / BRL	5,208	Positive	4,90	Positive	4,80
	Mexico	USD / MXN	20,27	Positive	19,70	Positive	19,00
EMEA	Russia	USD / RUB	73,58	Positive	70,00	Positive	68,00
	South Africa	USD / ZAR	14,75	Neutral	14,50	Neutral	15,00
	USD Index	DXY	92,69	Neutral	93,24	Negative	90,13

Source: Refinitiv Datastream, BGL BNP PARIBAS Wealth Management

The dollar strengthened over the summer months as global uncertainty was on the rise. Commodity currencies fell over the past few months as China slowed and on Covid concerns. We see less upside for the AUD, NZD and CAD.

- Commodity currencies fell over the past few months as China slowed and as a tightening of Covid 19 restrictions had a negative impact on economic activity. This is especially true for Australia and New-Zealand as they both have low vaccination rates.
- We however continue to keep a positive outlook on the currencies as they look cheap relative to the USD, especially as we expect yields to rise only gradually, supporting risky assets.
- Geopolitical tensions remain high in south-east Asia, while growth in China has been slowing. China being the main trade partner this represents a downside risk. We expect the outlook for China to improve but only gradually. This together with the worsening pandemic data and low vaccination rates suggests less upside for the AUD.
- **For the AUD, we change our 3- and 12-month targets to 0.73 and 0.76 respectively.**
- **For the NZD, we change our 3- and 12-month targets to 0.70 and 0.73 respectively.**
- The impact of recent trends is similar for the CAD. Indeed, The slowing of Chinese growth weighed on the outlook for some industrial metals.
- Canada has a high vaccination rate which makes further lockdowns unlikely and offers some support for the currency.
- **We less upside and change our USDCAD (value of one dollar) target on the 3- and 12-month horizon to 1.25 and 1.24 respectively.**

05

Equities

Global Equities
Investment Themes
Investment Factors
Sector Allocation
Sector Preferences

Equities at a glance

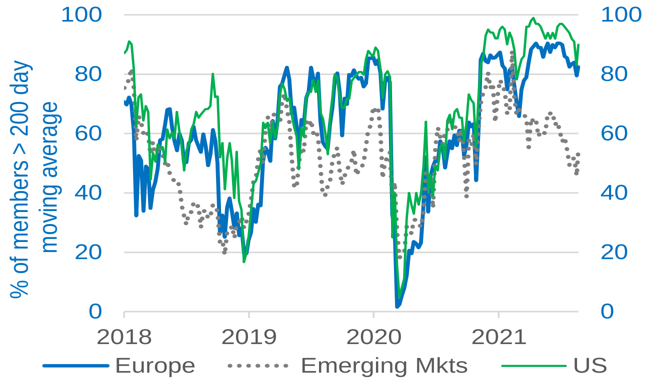
Surprisingly resilient stock market momentum over summer (thus far): Over July and August combined, the S&P 500 index and STOXX Europe 600 indices have gained a further 4%, defying the usual negative seasonal effects.

Judging by the very high number of companies above their own 200-day moving averages (80%+ in US and Europe), the breadth of this upwards momentum remains solid, supporting our positive equities stance.

Strongest US revenue growth in at least 13 years: 87% of S&P 500 companies have reported sales above consensus estimates for Q2 2021, the highest such proportion of revenue beats since at least 2008. In Europe, 67% of companies reporting Q2 earnings have beaten consensus estimates. For now, developed market sales and earnings momentum remains very strong,.

China conundrum: since February, Chinese equities have sold off on regulatory tightening and a weaker credit impulse. On a 12+ month time horizon, we think investors should accumulate on this weakness.

Strong momentum at stock level in Europe, US, but weak in EM



Source: Bloomberg

Sectors: Healthcare

European, US Healthcare in vogue: we remain bullish on the drug pipeline prospects for the global healthcare industry, with strength in particular in innovative healthcare devices and diagnostics. Note that in the US, Healthcare showed the highest proportion of revenue beats in Q2, underlining its strong profit momentum.

Factors: Small/Mid-Caps lead in Europe

In contrast to the US, European mid/small-caps still lead: The MSCI Europe Smallcap index (actually more a mid-cap index) continues to lead in Europe, now +23% over the year to date. Given the higher exposure of this segment to cyclical and industrial exposure, we expect further outperformance ahead.

Theme: Semiconductor shortages

The global semiconductor sector leads capex-related sectors: global semi supply shortages are hurting the Autos sector, but remain a boon for semiconductor capital equipment makers, given the need to expand global production capacity to meet current shortfalls.

Regional Allocation: UK, eurozone over US

Regional bias to Eurozone, UK: The UK remains very attractive on a cyclical value basis. We continue to prefer European SMID exposure. On a long-term basis, we would accumulate Chinese and Taiwanese equities on current weakness, with a focus on local A shares.

Neutral on US exposure, despite historically high valuations, price momentum is being sustained by very strong earnings results and increasing share buybacks. Watch the potential near-term risk from record PMI surveys.

Risks

A sharp downturn in US manufacturing and services PMI surveys could herald a consolidation phase in equities, as was seen in 2004 and again in 2011 once US PMIs fell from peak.

Global Equities view

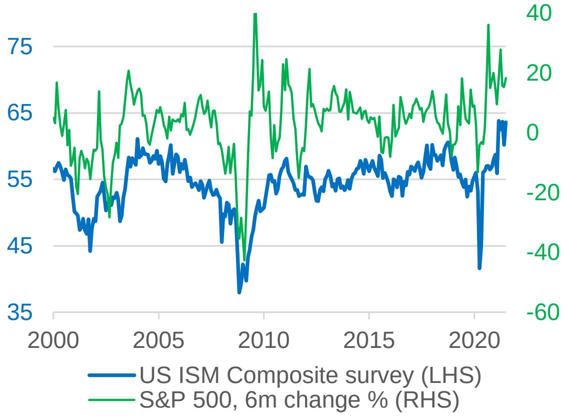
Beware any downturn in ISM PMI surveys

MACRO MOMENTUM IS NOW THE KEY

Watch the ISM surveys closely: the ISM PMI surveys have a good historic record of correlating with US stock market momentum, particularly around turning points. Note that the ISM Composite (Manufacturing + Services) index is at a 20-year high reading of 63.6. Beware the risk of stock market stagnation if, as in 2004 and 2011, the ISM surveys now retrace lower.

- **There Is No Alternative (TINA) works at last:** we have heard much about stocks being the only real liquid asset class for investors, given that cash, sovereign bonds and investment-grade corporate credit all yield less than inflation.
- Over the last few years, this switching out of bonds into stocks has not been evident. But at last TINA now seems to have come true, judging by the gargantuan investor flows into stocks over 2021 to date after outflows in 2019 and 2020. However, this has not come at the expense of bonds, as US-based bond funds continue to attract inflows as in previous years.
- **Key macro equity market drivers to monitor**: real interest rates, global M2 liquidity growth, macro growth momentum, global 2022e earnings revisions.

Downturn in US PMI surveys could trigger US stock market consolidation



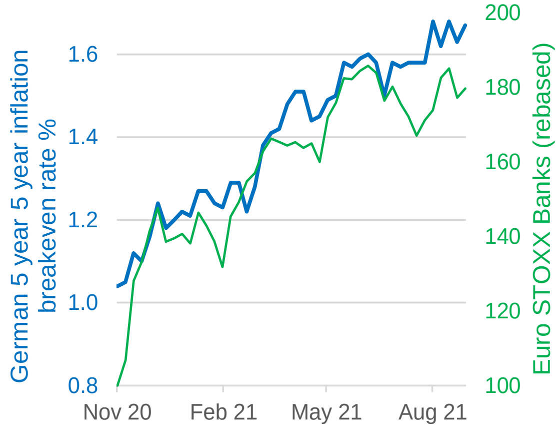
Source: BNP Paribas WM, Bloomberg

HIGHER INFLATION BREAKEVENS GOOD FOR EUROPE

One thing is clear from looking at historic periods of Europe outperformance v Rest of World, notably the US. Given the open and cyclical nature of the European economy, and the preponderance of financials in weighting terms in the region's stock markets, European financials (banks, insurance) have to rally for Europe to outperform.

- **European stocks perform when Banks rally:** Just as the 10-year streak of US out-performance has been driven by heavyweight growth sectors such as Technology and Consumer Discretionary, prior European outperformance was driven more by cyclical "value-oriented" sectors such as Industrial Goods and Financials.
- Since 2015, the extreme under-performance of European banks has been the key factor driving European equity under-performance.
- The 2021 rally in European banks has now become a key factor in this year's strength in European equities. Rising Euro inflation expectations suggest strong banks, European stock outperformance.

Higher German inflation breakevens suggest banks upside, European stock strength



Source: BNP Paribas WM, Bloomberg

Asian Equities view

OVERSOLD OPPORTUNITIES FOR THE LONG TERM

ASIA COUNTRY PREFERENCE

+	=	–
COUNTRY		
China, Taiwan Singapore South Korea India, Indonesia	Thailand Malaysia Philippines	-

- Investor sentiment could remain fragile in the near term, given the lack of obvious upside catalysts. We would point out that this is not the first time that regulatory compliance has weighed on Chinese stocks.
- In reality, nothing new: according to the MSCI Inc. CEO, regulatory tightening has driven a Chinese stock market sell-off "every three, four, five years [2011, 2015, 2018] and obviously the markets have sold off at the time. But very quickly afterwards, the markets have recovered and gone to new heights."
- We believe that this current episode of regulatory tightening and associated market volatility remain classic signs of the maturing of an emerging market. Likely to remain a testing environment for investors in the short term (next 3 months), those with a truly long-term (12-month+) investing horizon can consider this period a good time to accumulate Chinese stocks.
- At an index level, investors may prefer to focus their attention initially on the domestic A-shares index, which has shown much better resilience since February. It only has a 15.8% weighting in technology, and trades at an attractive 13.7x 12-month forward P/E valuation.

Focus on China domestic A-Shares

STRONG EARNINGS GROWTH IS EXPECTED IN 2021

		1-month (%)	YTD (%)	2020 (%)	Forward PE (x)	Trailing PB (x)	Dividend Yield (%) 2021f	EPS Growth (%) 2021f	EPS Growth (%) 2022f	ROE (%) 2021f
	Asia Ex-Japan	-0.2	5.8	22.5	15.6	2.1	2.1	37.0	12.3	11.4
North Asia	China	0.1	1.4	25.9	15.5	2.2	2.2	16.6	18.3	11.1
North Asia	Hong Kong	-1.1	9.5	2.1	17.4	1.4	2.6	32.1	13.3	8.4
North Asia	South Korea	3.1	10.0	34.0	11.7	1.4	2.2	97.6	5.5	13.1
North Asia	Taiwan	0.2	16.0	28.6	16.2	2.9	2.2	41.2	3.0	18.9
South Asia	India	2.3	14.7	16.8	22.7	3.7	1.1	33.8	16.7	12.8
South Asia	Indonesia	-4.0	-9.8	-9.5	15.2	2.5	2.5	28.7	20.1	14.9
South Asia	Malaysia	-1.9	-6.0	-1.7	14.0	1.7	3.3	110.4	-7.3	12.1
South Asia	Philippines	5.5	-1.9	-9.7	18.4	1.9	1.4	51.9	27.1	7.5
South Asia	Singapore	-1.1	9.4	-12.8	14.4	1.3	2.8	44.3	14.2	8.0
South Asia	Thailand	-0.6	4.8	-13.9	19.0	2.2	2.2	58.5	15.0	8.7

Source: Datastream, BNP Paribas (WM) as of 27 May 2021

Focus on positive earnings momentum

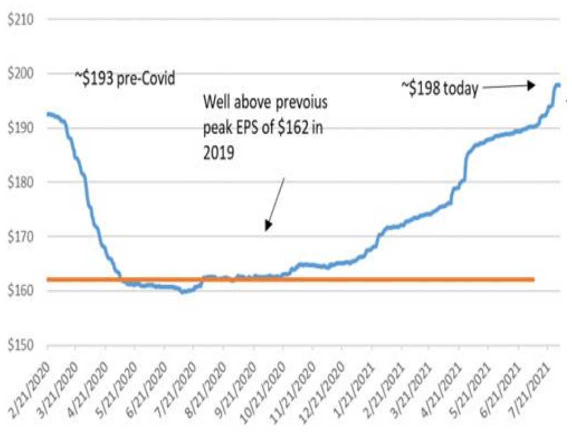
Q2 21 corporate results : exceptionally good!

USA Q2 21 RESULTS : MORE THAN 80% EARNINGS BEAT

We are reaching the end of the Q2/ H1-2021 reporting season and it has been among the best ever! In the US, more than 80% of companies have reported earnings better than expected. Q2 21 earnings are almost double those of the depressed level of Q2 20 when the Covid-19 was biting hard and many countries were in lockdown. Furthermore, US companies have beaten expectations by an impressive +15%.

- **All sectors beat earnings expectations.** Financials and Communication services (social networks such as Alphabet and Facebook are the major components of this sector) beat the most.
- Regarding 2021 corporate forecast, **cyclicals and some techs are leading** (energy, communication services, financials & materials) whereas defensives lag, particularly utilities.
- **Earnings revisions by the analysts – especially 2021 expected earnings (see chart) - continue to trend upwards and have almost reached $200 for the S&P 500.** Though value/ cyclicals have underperformed this Summer so far, most analysts' upward revisions have taken place there.
- **In Japan**, 70% of companies reported earnings better than expected.

S&P 500 2021 Consensus EPS now higher than estimates in early 2020 !



Source: FactSet, Raymond James research

EUROPE : BEST SALES BEAT SINCE 2009 !

In Europe, Q2 21 results were also excellent. Earnings beat forecast in 62% of the cases. And sales were better in 67% of the cases. Bank of America calculates that "Consensus Stoxx 600 EPS growth projections for 2021 as a whole have risen from 35% in March to 56%". It is huge. Expected 2021 earnings are now quite higher than in 2019.

- **This is the fifth consecutive quarter where Western corporate results are much better than expected.** The huge support brought by governments and monetary authorities keeps helping.
- **Rising costs:** Beside great results and improving expectations, inflation and cost pressures were often mentioned by companies in their reporting. At the moment, they mostly can pass through these costs to their clients with even rising profit margins (see chart). **Typically, inflation boosts corporate results and indexes until interest rates increase, as it then provokes a slowdown in demand.**
- **Historically, most vulnerable sectors to rising costs have been Industrials, Utilities, Consumer Staples & Discretionary.** This is one of the reasons why we are relatively more careful on these sectors.

S&P 500 EBIT MARGIN forward year consensus, forecast (Q - 20 years)

Source: Factset, Raymond James research

Sector Allocation

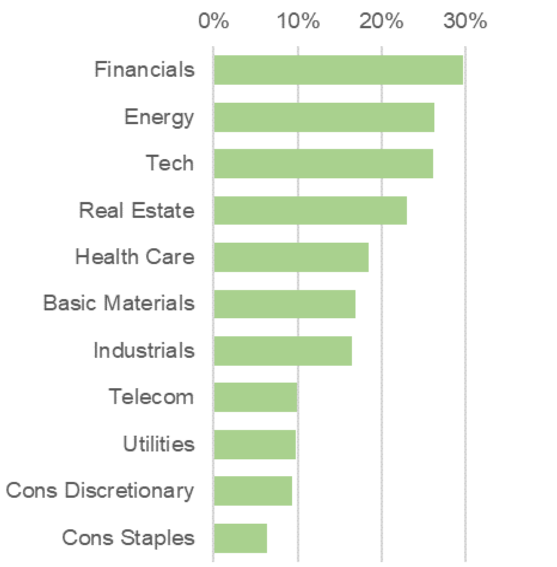
NO CHANGE THIS MONTH ; STAY DIVERSIFIED AND SELECTIVE

Major sectoral rotation in the market in recent months

Equity markets reached new highs in August. The Nasdaq crossed the 15,000 points threshold and the S&P 500 the 4,500 mark. Bond yields retreated the last few months due to business sentiment indicators peaking out, covid-19 delta variant, issues in China and the accommodative policies. Cyclical sectors have underperformed so far this Summer whereas technology and most defensive sectors outperformed.

- **Best sectors in the West over the last 3 months have been Technology, Health Care and Real Estate. In the US, Communication services (mainly the social networks) also outperformed as well as Industrials in Europe.**
- Several sectors have corrected, mainly due to their correlation with China: US energy records -10% over the last 2 months; traditional automakers, the luxury industry and some materials have also heavily dropped. There could be opportunities over there.
- **YTD,** following the recovery of sectors that were lagging early this year, outperforming sectors are now a 'mixed bag'. **In the US, these are Financials (+), Real estate (+) and Health Care (+), our current favourite sectors. Energy (=) and Tech also did well. Here, we like semis, AI, 5G, cloud, cybersecurity.**

US sectors: year-to-date performance

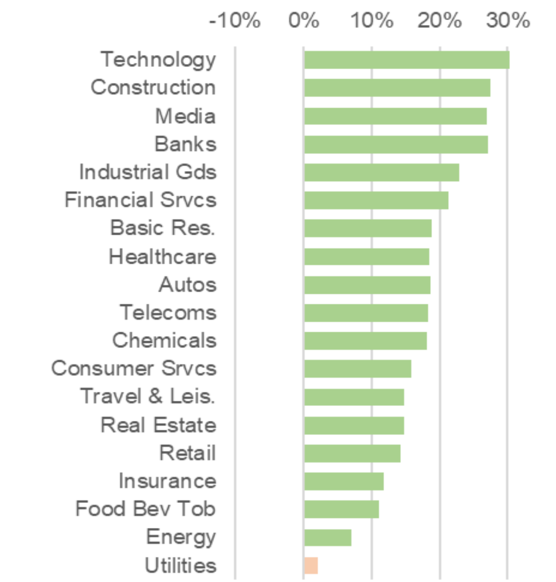


Source: FTSE Russell. Note: performance to 25 August

We recommend a sound diversification, favouring the cheapest sectors with good or improving cash flows among cyclicals and defensives. Financials, Health Care, Real Estate, Precious metals, Construction Materials, Semiconductors and EU Energy look good. On the other hand, avoid Utilities and sub-sectors that are suffering from rising costs/ input prices such as Household and Personal Care products.

- **Sell into Tech Strength:** We continue to recommend rotation out of ultra-long duration US Technology, especially out of those names with disappointing, little or no earnings. **At contrary, Semis (+) still show good momentum due to the unmet demand and thanks to their pricing power.**
- **Construction materials and Precious metals are one of the best way to play the American and European (green) infrastructure plans.**
- European Health care and Industrials have outperformed their US counterparts recently thanks to the rising USD.
- Half year corporate results have been quite supportive to our sector views. In the coming weeks, we will observe how much China is recovering, also how the delta variant keeps hurting and how much/ when the FED wants to taper its bond purchases.

Europe sectors: year-to-date performance



Source: STOXX. Note: performance to 25 August

06

Commodities

Oil
Gold
Base Metals

BNP PARIBAS
WEALTH MANAGEMENT

Commodities at a glance

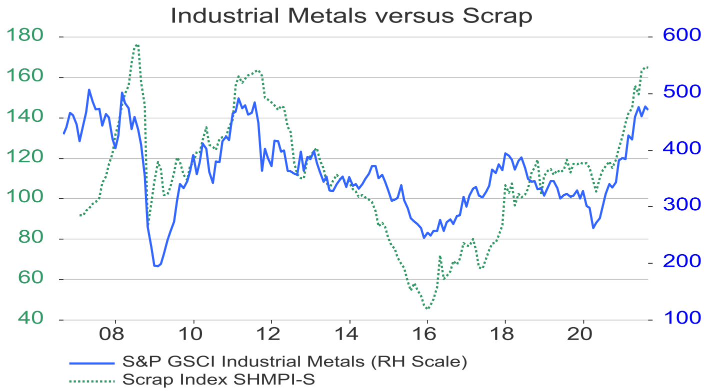
Gold prices declined from $1900/oz early in June back to $1700 its March low, before rebounding to around $1800 at the end of August. We expect gold to trade in the 1800-2000 range as supply and demand dynamic remain favorable.

Base metals have further consolidated in August their strong advance of the beginning of the year. Copper lost 15% from its May peak before rebounding at -11% (still +20% ytd). The medium-term outlook remain bright.

Oil: Brent prices dropped in August to $65 from around $75 early in July. The were back around $70 at the end of August on improving news from China. **Our medium-term outlook remains bullish as we expect global growth to remain above trend.**

BASE METALS

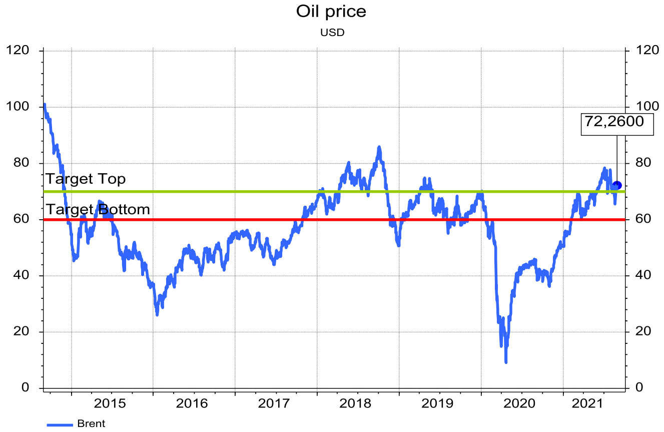
We expect base metals to remain above their rising 200 days moving average and resume their uptrend as soon as the situation improves in China. The medium-term outlook remain bright as demand increase while supply will remain tight.



Source: Refinitiv Datastream, 30/08/2021

OIL

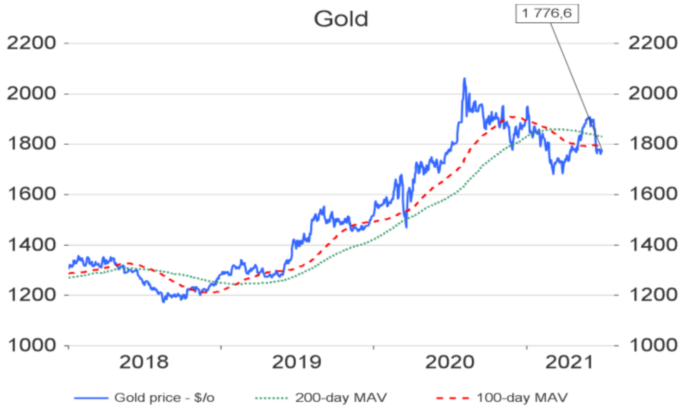
Our medium-term outlook remains bullish as we expect global growth to remain above trend. Downside risks are limited due to the OPEC+ supply management. Next year, risks will be on the upside if demand exceeds its 2019 level.



Source: Refinitiv Datastream, 27/08/2021

GOLD

Gold should benefit from the central bank efforts to keep real rates as low as possible given the high level of public debts. We expect gold to trade in the 1800-2000 range as supply and demand dynamic remain favorable.



Source: Refinitiv Datastream, 01/07/2021

Our position for this month

Evolution of our position from last month

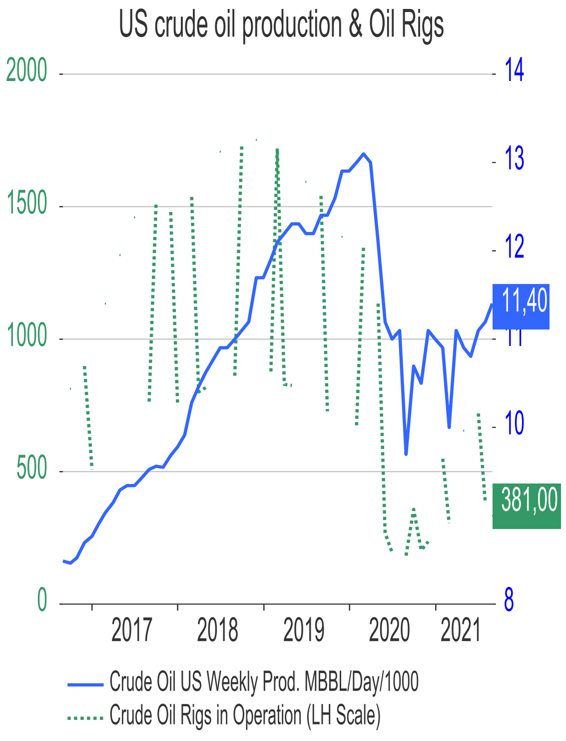
Oil

Stabilization expected before further strength

Oil prices suffered as the spread of virus delta variant in Asia has affected the global demand while on the production side, the OPEC+ alliance is reducing its supply cuts decided last year and US shale oil producers are slowly increasing the number of active rigs. Demand will increase again with the improvement of the health situation. Our 12m expected fair value range is now $70-$80.

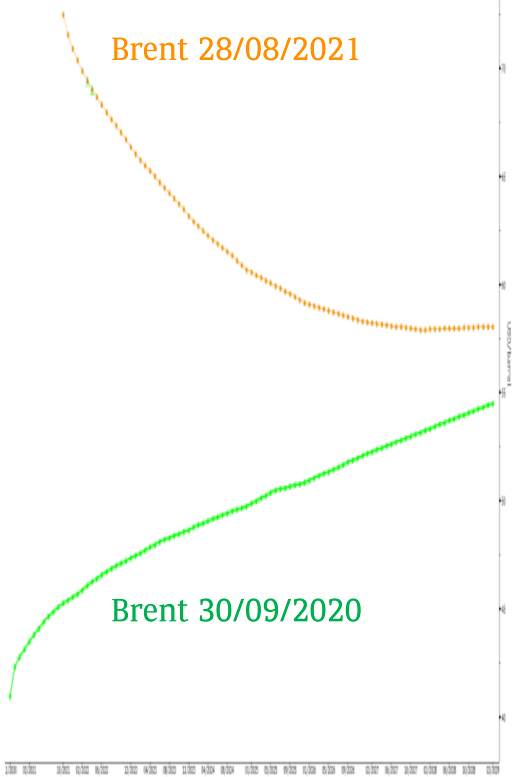
The term structure of the Brent futures remain in strong backwardation, a sign that there is no supply glut. The futures one-year rolling yield is now 7,5% (28//8). This with our positive outlook for the coming years are reasons for investors to keep their oil ETFs and/or buy on dips.

- The OPEC+ will reduce its production cuts by 0,4% mbd per month between August and December (cuts were at 5,7 mbd in July). Prudent supply management and high discipline within the alliance should limit the prices downside risk.
- The US shale oil production is slowly increasing.
- In China, the authorities zero-tolerance policy is starting to bear fruits. Lockdowns and travel restrictions are being progressively lifted. But the health remains worrying in countries like Malaysia, Thailand and Philippines where the vaccination rate is very low. The air traffic within China and in the rest of Asia has declined markedly.
- When demand will be back at pre-pandemic level (delayed by the delta variant well into in 2022) and all idled barrels back on the market, there will be little excess capacities left due to the low level of investment decisions made since the 2014 downturn. From there, if demand continue to increase prices could reach $90-100/b.



Source: Refinitiv Datastream, 30/08/2021

- **Backwardation**: is when the prices for future delivery decline in function of the maturity of the contracts
- **Contango**: is the opposite situation, prices for future delivery increase in function on the maturity of the contracts.
- **Rolling yield**: Commodity funds and ETFs invest via the future market and as they do not want to take delivery of the commodities they "roll the contracts" i.e. sell the contracts about to mature to buy new ones with a longer maturity. If they buy at a cheaper price, they make a gain when the contract arrives close to maturity (everything else unchanged), they have a positive rolling yield. In a contango situation, the rolling yield is negative.
- Final commodity users are usually ready to pay a higher price for immediate delivery. When supply is constrained and demand increases, the backwardation tend to increase. Inversely, excess supply tends to lead to contango.



Gold

Gold will face headwinds as we expect US real LT rates to increase frow their present historical lows but not sufficiently to be a problem for gold. We expect gold to trade in the 1800-2000 range as supply and demand dynamic remain favorable. Gold remains our preferred hedge against economic, financial and geopolitical tail risks.

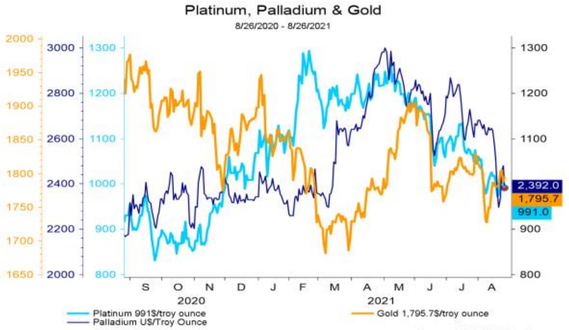
- Over the summer Gold suffered from a strong US dollar, high appetite for risk assets, high central bank credibility (trust in the transitory inflation story) and low geopolitical risks (before Afghanistan).
- Historically, periods with very high debt/GDP ratios were characterized by negative real interest rates
- Emerging central banks have restarted their purchase program stopped in 2020
- Palantir Technologies is the first company to invest part of its excess cash in gold (50 million), a new phenomenon?
- Gold mines supply hardly grows as new projects are just compensating the productivity decline of old mines.
- Technical signal: bullish above $1800/oz

Source: Refinitiv Datastream, 30/08/2021

Silver – Platinum - Palladium

Silver, platinum and palladium also corrected in line with gold and industrial metals but all three remained above their rising 200 days moving average. Medium term outlook remain bright due to the increasing demand for industrial usage linked to energy transition while there are constraints on the supply side.

- Silver is used for solar panels and connectors, palladium for autocatalytic converters (rising demand due to stricter emission standards and carbon taxes), while platinum is increasingly becoming a substitute for palladium in the automotive industry and should play a key role in the hydrogen economy (electrolysers and fuel cells).
- Silver demand suffered from the Chinese slowdown and Platinum and palladium from the supply chains disruptions in the automobile sector. These issues are temporary.
- Supply issues are there for years

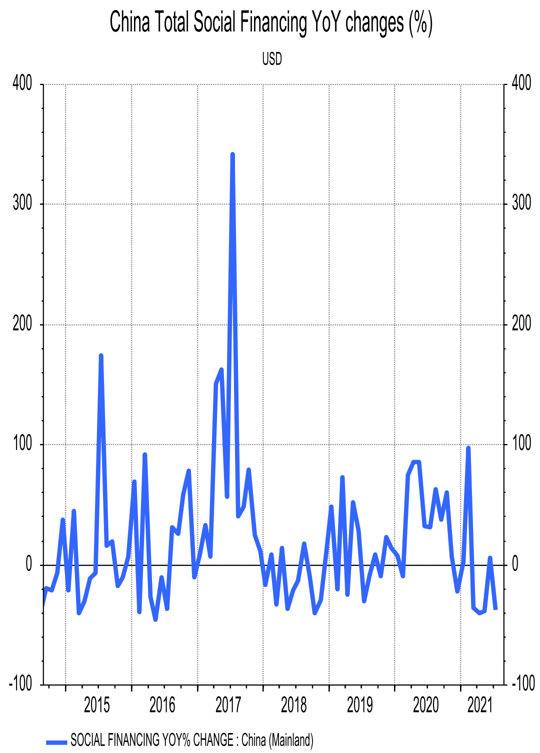


Base Metals

Medium term prospects remain bullish

We moved our stance on base metals from positive to neutral at the end of May as we expected a slowdown of the Chine economy. The spread of the highly contagious delta variant in Asia has amplified this slowdown. We expect base metals to rebound in anticipation of a recovery. Our **medium-term outlook remains bullish as we expect global growth to remain above trend.**

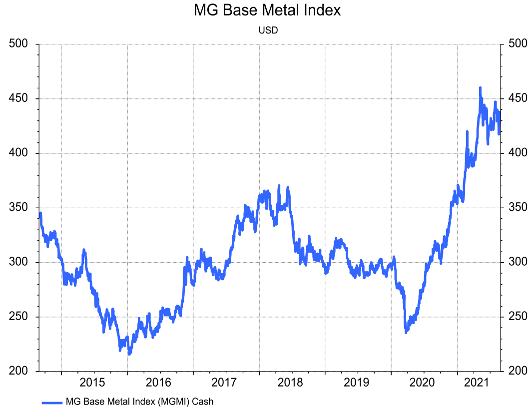
- At the end of August, base metals seems on the path of bottoming out as the Chinese central bank has pledged to stabilize the supply of credit and increase the monetary support for small businesses and the real economy
- Iron ores futures have declined 37% from its peak in May to its low mid of August. It is also explained by a change of focus away from the heavy industries in order to lower the country carbon emissions and redirect resources towards high technologies and private consumption.
- New technologies and the energy transition will need huge quantity of copper, aluminum, nickel and lithium. Copper has declined 15% from peak to trough but is still up 20% ytd (28/8).
- We expect copper, nickel, aluminum to remain above their 200 days rising moving average..



Source: Refinitiv Datastream, juil. 21

- Copper: short term volatility should remain high on the back of conflicting news (slowdown in China, sale of Chinese state reserves, labor strikes and heavy new taxes in Chile,...)
- But present levels are probably already good entry prices for the medium term as the energy transition related investments will boost demand in the years ahead while supply should remain inelastic. Supply is constrained by the lack of recent investments. It takes between 5 and 10 years to open and operate a new mine.

Source: Refinitiv Datastream, 30/08/2021



Source: Refinitiv Datastream, 30/08/2021

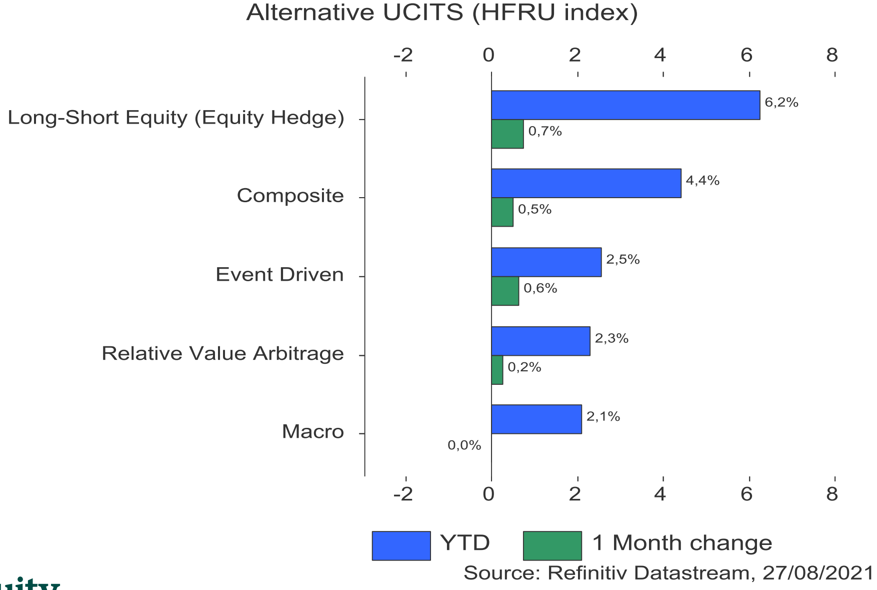
07

Alternatives

Alternative Investments

BNP PARIBAS
WEALTH MANAGEMENT

Alternative Investments at a glance



Alternative UCITS strategies recorded a strong performance this year with positive performance in all sub-strategies. The best performers were long-short equity and event-driven. Macro- is lagging. The performance ranking remains similar on a month-to-date basis.

We downgrade our rating from positive to neutral on Relative value. We have a preference for Macro and Event Driven strategies. Neutral on Relative Value and Long/Short Equity.

Global Macro

Positive. Massive central bank and government support last year, and public investment programs this year generate strong growth despite Covid related volatility. Fundamental macro traders are best equipped to anticipate this, as seen already through inflation pressures and impact on EMs. Macro strategies may offer protection from potential risk asset bubbles should liquidity get withdrawn by central banks.

Event Driven

Positive: Capital market activity will remain strong (M&A, IPOs,...) as borrowing costs remain cheap, and competition was altered by COVID. Appointments by the Biden Administration evidence a significant Antitrust agenda which could block some large merger deals. We favour smaller and European deals over the US going forward.

Long / Short Equity

Neutral. Long/short managers face challenging rotations between growth and value after the initial COVID crisis and recovery phases. Momentum is now unstable at best, as evidenced by the frequent underperformance of the manager's favourite (growth) stocks and outperformance of the most crowded shorts.

Relative Value

Downgrade to Neutral: Little spread compression potential now after historical rally and decreasing dispersion between strong and weaker corporate credits. Fixed income relative value was generally negatively impacted by the flattening of bond yield curves as it remained positioned for steepening.

08

Real Estate

Residential
Industrial/Logistics
Office
Retail
Specialised

BNP PARIBAS
WEALTH MANAGEMENT

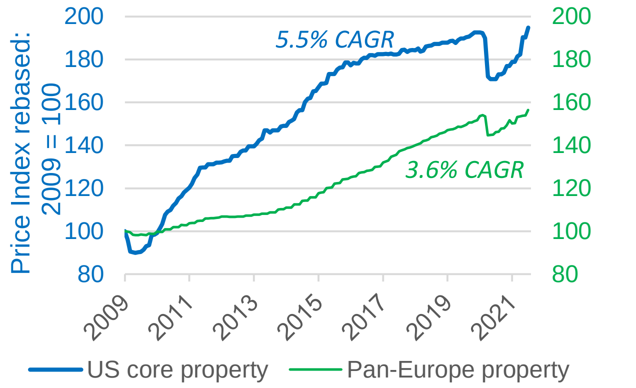
Real Estate at a glance

According to property consultants CBRE, Real Estate markets will continue to bounce back in 2021, but will not reach the levels of activity seen in 2019 due to lingering uncertainty in the office market.

The ongoing return to the office will accelerate through the remainder of 2021, and should reach more "normal levels of occupancy in H1 2022.

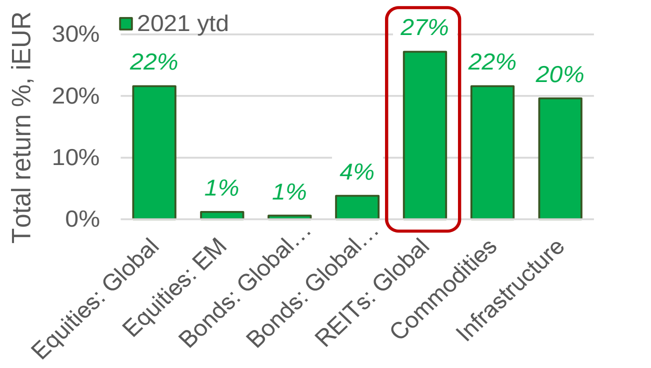
The outlook for global real estate is positive: rents and values are well-supported; the asset class is expanding. CBRE forecast a 2021e 7% global real estate return.

Commercial Real Estate Prices at Highs



Source: Green Street

Global listed real estate +27% in 2021



Source: Bloomberg.

Sectors: Selective strong demand for offices

Offices: demand for office space is recovering quickly, but occupiers are increasingly focused on higher-quality assets offering strong flexibility, technology and wellness features.

Regional: UK recovery in full swing

UK REITs recover quickly as Brexit fears fade: UK REITs have gained 23.5% over the year to date, driven by demand for income and by the strong rebound in domestic growth on reopening.

Boost from lower long-term real rates

Commercial real estate valuations benefit from record-low 10-year real yields: -2% in Germany, -1% in the US and -3% in the UK.

Preferred sectors, regions

Industrial/logistics (warehouses), residential and specialist sectors (e.g. cellphone towers, datacenters, elf-storage) are preferred as more defensive, growth-oriented real estate sectors. Prime city centre offices remain attractive, as the "death of offices" narrative is in our view vastly exaggerated..

In contrast, retail remains a difficult sector in Europe and the US (aside from supermarkets), with the lagged effect of bankruptcies and vacancies still to have its full effect. That said, look at the strong performance of the US Retail REIT segment since November 2020... A strong rebound in consumption could drive renewed interest.

Risks: Fed tapering

Real estate generally likes higher inflation as the growth in rents and property demand from a booming economy outweighs any modest rise in long-term financing costs. However, sharply higher long-term rates could deal a short-term setback to the Real Estate markets.

DISCLAIMER

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Alain GERARD
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Xavier TIMMERMANS
Senior Investment Strategist, PRB

LUXEMBOURG

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

UNITED STATES

Wade BALLIET
Chief Investment Advisor

The bank
for a changing
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Thank you

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