AUGUST 2024

Investment Strategy Focus

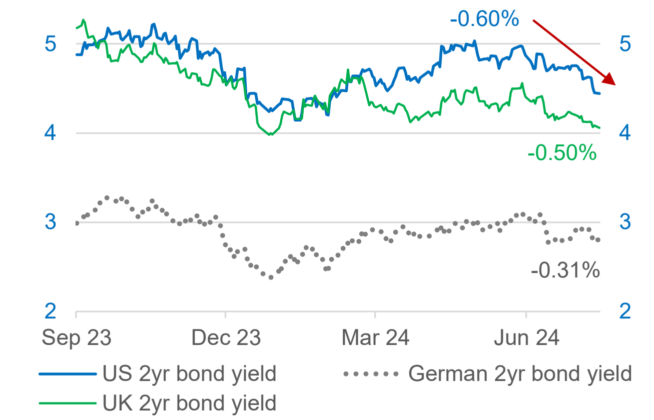
Spotlight on policy uncertainty and global disinflation

Summary

1. **Disinflation gathers steam**: major economies are entering a disinflation phase with inflation rates **fast approaching** 2%. More central banks will cut rates this year, with additional cuts expected in 2025. Fed rate cuts in the absence of economic recession benefit short-dated bonds, stocks, gold.
2. **Political focus switches to US elections:** focus on policy not politics. Immediate, dramatic trade tariff increases are unlikely given risks of surging US inflation and diminished household purchasing power. In the long term, global interest rate and economic cycles generally impact financial markets far more than politics.
3. **European, US debt sustainability is not a short-term concern:** government debt/GDP ratios and budget deficits have undoubtedly increased post 2020, but the average cost of outstanding debt is still low. Political uncertainty has been largely priced in. Prefer shorter-maturity bonds on falling inflation and central bank rates.
4. **Can the current rotation to smaller cap stocks continue?** July witnessed the largest 1-week rotation from US large-caps into the Russell 2000 index in history. Fed rate cuts should disproportionately aid small-caps, given their higher exposure to floating rate debt. We prefer US stock exposure in the form of equal-weighted S&P 500 or small-/mid-cap indices.
5. **When to "buy the dip"?** In July, global stocks (-4%) and commodity markets (-8%) have both retreated from recent highs. We see this as merely a late-cycle correction, given reasonable underlying liquidity, economic fundamentals and Q2 corporate results. Buy stocks and commodities on weakness by September.

Contents

SHARP FALL IN SHORT-TERM BOND YIELDS AS DISINFLATION TAKES HOLD



Source: BNP Paribas, Bloomberg

Edmund Shing, PhD

Global CIO
BNP Paribas Wealth Management

Macro, Market Views

	Macro		– Monthly inflation prints continue to decline on a bumpy path as they descend towards 2%. – We expect the Fed to cut rates once this year (25bps in September).The ECB should lead the rate-cutting cycle with 2 further rate cuts this year. – GDP growth should slow in the US over H2 but should rebound in the eurozone and China. Election-related volatility could persist to November.
	Rates	=	– Large Treasury bond issuance should prevent an imminent sharp decline in US bond yields. – We prefer intermediate maturities in EUR (<10 years) and short maturities in the US for the time being (3-5 years). – EM sovereign bonds (local currency and USD) still offer attractive 6%+ yields.
	Credit	+	– EUR spreads offer further potential to tighten more than US spreads in our view. – Prefer maturities up to 7 years in the US and up to 10 years in the eurozone. – For higher yield (at higher risk), consider the US fallen angels strategy and Euro subordinated financial bonds.
	Equities	+	– Key drivers include falling inflation, lower long-term interest rates, improving macro liquidity, and easing energy prices. – Favour eurozone, UK, Japan, Latin American markets post multi-year highs. – We like EU Small Caps. Positive on Healthcare, Industrials and Mining & construction materials. We also like EU financials, tech and REITs.
	Real Estate	=	– Lagged impact from higher interest rates to fade after further falls in commercial real estate valuations in Q1 2024. We see European real estate prices slowly stabilising, with rental yields now more attractive. – Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.
	Commod-ities	+	– We keep our USD85-95 expected price range for the Brent as OPEC+ production cuts help to balance the market in a context of high geopolitical risks, rising demand and slower non-OPEC production growth. – Gold: Positive view as EM central banks should continue strategic purchases and Asian households remain buyers. Gold could reach USD2600/oz next year.
	Alternative UCITS/ Private Assets	=	– We favour relative value equity, credit and event-driven funds for their robust risk-adjusted returns at low volatility. – Private equity buyout funds are a preferred private asset subclass, given robust long-term returns and an abundance of public market opportunities
	FX		– EUR/USD target is USD 1.12 (value of 1 euro) in 12 months, on narrowing US vs. EU interest rate gap in 2025.

Weaker activity opens the door for disinflation and rate cuts

Guy Ertz

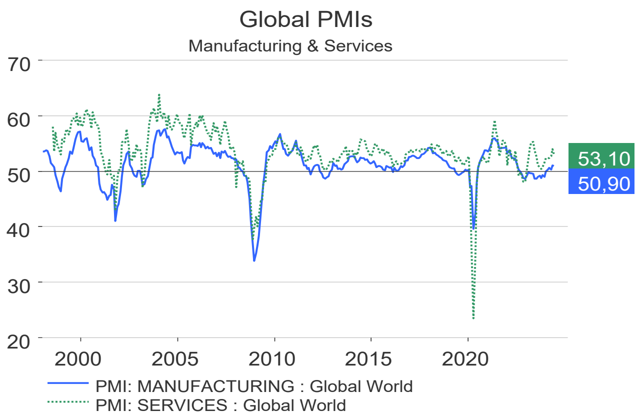
Leading indicators such as business surveys suggest a weakening of economic activity after a period of gradual recovery in industrialised countries. However, consumer demand remains relatively resilient as inflation is falling and central banks are expected to cut rates. Companies lowered job openings but are not laying off on a large scale. This is key because they have realised over the past 2 years that qualified workers are scarce. Surveys suggest that households remain confident about jobs and future income. Household generate up to two-thirds of total demand and should offer a key support going forward. Overall, surveys imply that companies are more cautious, but index levels do not suggest recession fears. China has shown signs of recovery as confirmed by recent data on intra-Asian trade. Structural challenges remain. At the Third Plenum, Chinese authorities raised hopes for further support measures. They will probably use a gradual approach. We may see some upside surprises.

Global inflation has been on a downward trend since late 2022. This disinflation was first driven by falling goods prices as the strong post-Covid demand reversed and demand shifted towards services. Service prices and items related to housing have been much stickier and this largely explains why the normalisation process in core inflation is slower. Now, cooling wage inflation suggests that more normalisation of inflation is ahead. The recent rise in container shipping costs is a concern but the total impact on core CPI inflation is small and should not derail the disinflation trend. The renewed fall in oil and gas prices is positive news.

In the US, consumer price inflation is slowing, in line with the cooling of job creation. After three months of sluggish growth, the CPI index fell in June, month-on-month, for the first time in two years. Core CPI inflation rose by 0.1% over the month, also clearly decelerating. Core inflation year-on-year for June was 3.3%. A few volatile categories explain this deceleration, with a -5% month-on-month decline in airfares and a -2.5% decline in hotel prices. Auto insurance rebounded as largely expected, but inflation in non-shelter services cooled, with recreation services and transportation services excluding auto insurance and airfares contracting and inflation in medical care services also printing lower. Rent for primary residence and owners' equivalent rent recorded their weakest monthly gains since July 2021 and April 2021, respectively. July core PCE inflation, the Fed's favourite measure, confirmed this with 0.2% month-on-month and 2.5% on a yearly basis. The recent rise in producer price inflation needs to be monitored. The Fed is expected to cut rates for the first time in September followed by further cuts next year and in 2026.

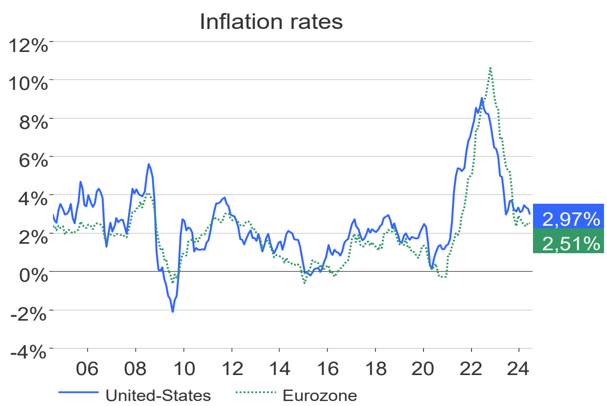
In the eurozone, flash headline inflation fell to 2.5% while core inflation was unchanged. Lower energy and food inflation were the key drivers. Headline inflation should reach 2% in the third quarter. Continued stickiness in the more wage-sensitive parts of the inflation basket, such as services, could somewhat delay disinflation in the core measure. The disinflationary trend remains in place and continues to suggest further rate cuts by the ECB. We expect 2 more rate cuts this year and 3 more next year.

PMI BUSINESS SURVEYS AT WORLD LEVEL



Source: LSEG Datastream, juin 24

KEY INFLATION MEASURES



Source: LSEG Datastream, juin 24

Debt sustainability issues on both sides of the Atlantic

Edouard Desbonnets

Pressures of growing government debt in Europe

The average European government budget deficit increased to 3.5% of GDP in 2023 from 3.4% in 2022, while the average government debt to GDP ratio fell to 81.7% from 83.4%.

High levels of debt can limit the country's ability to respond to economic shocks, making it more vulnerable to future crisis. The European Commission launched an Excessive Deficit Procedure (EDP) against 7 countries, including France, Italy and Belgium for failing to comply with the Stability and Growth Pact.

This comes at a time when France could face political paralysis, as no single party or bloc has secured enough votes to form a majority government.

Should we be worried? No.

First, in our view, political uncertainty in France is already priced in. The 10-year OAT-Bund bond spread has widened and stabilised at around 65-70bps.

Second, with an average nominal interest rate of 2.1% on outstanding eurozone debt, and inflation targeted at 2%, the real interest rate is about 0%. This is far less than potential growth, estimated at around 0.8%.

Third, the ECB has developed several tools over the years to deal with crises, whether targeting a specific country or the entire area. These tools include i) forward guidance; ii) active bond buying in the stressed countries either using the pandemic portfolio flexibility or the new Transmission Protection Instrument which counteracts disorderly widening of sovereign spreads not justified by fundamentals; and iii) the Outright Monetary Transactions, which is designed to safeguard policy transmission and preserve the euro.

US government debt burden has also risen sharply

Despite a resilient economy, the US deficit has grown to 5.6% of GDP in 2024. There does not seem to be any willingness on the part of either Democrats or Republicans to deal with this issue.

The Congressional Budget Office (CBO) estimates that this deficit will increase to 6.1% in 2025 before decelerating to 5.2% in 2027 and 2028, which remains uncomfortably high.

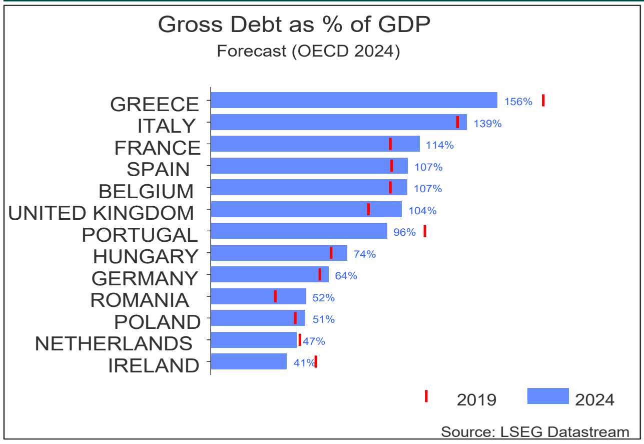
The US federal debt-to-GDP ratio is expected to reach 123% in 2024 and rise further to 134% in 2029 according to the IMF.

The debt ceiling (the government cannot issue new debt to finance its current spending once the outstanding debt reaches a specified absolute amount) will be reinstated at the start of January 2025, which will trigger last-minute political negotiations and market volatility.

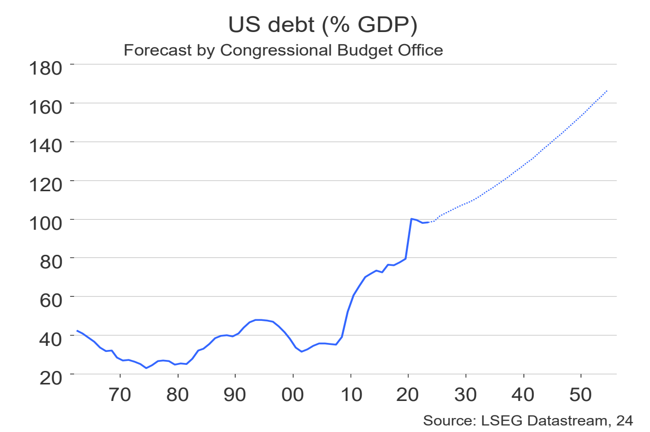
But, unlike other countries, the US can afford to run large deficits as it controls the world's reserve currency, and its real potential GDP (2.2%) exceeds the current average real cost of debt (0.9%).

So, these deficits can continue as long as the US Treasury issues new debt and investors remain buyers. A lack of investor appetite would increase the risk premium and could push bond yields higher, which in turn would increase the cost of servicing the debt. In our view, there is no risk of stress in the short or medium term. The risk is that high debt levels and higher servicing costs would eventually reduce potential economic growth as the federal government is forced to cut spending.

NOT ALL COUNTRIES HAVE INCREASED THEIR DEBT SINCE THE COVID PANDEMIC



US POLITICIANS WILL NEED TO TACKLE THE DEBT ISSUE AT SOME POINT



Stock markets hit a speed bump after a strong run

US and Japan lead global stocks

Over the first seven months of 2024, global stocks have delivered strong returns for investors. The Euro STOXX 50 returned 10% to date, while the S&P 500 did even better at +15%, benefiting from heavy mega-cap technology exposure.

However, there were even more impressive returns from several other markets: Taiwan at +23% in US dollar terms and Turkey at +43% in euro terms.

Statistically speaking, during the years since 1990 where the S&P 500 index has risen 10% or more over the first half of the year, it has returned an additional 11% on average over the second half of that same year.

With macro liquidity still strong, financial conditions still relatively loose and short- and long-term interest rates declining, we see a relatively positive backdrop for global stocks until the end of this year.

But watch for higher volatility

This does not mean that it will be all plain sailing for stock markets. Seasonally speaking, stock market volatility (as measured by the VIX index in the US and the VSTOXX index in Europe) trends higher from July to year-end. With the US Presidential elections still ahead of us (in November), stock market investors should brace themselves for choppier waters. It is also likely that we will see a shift in market leadership after such concentrated market momentum, away from mega-cap technology towards other sectors and regions. This rotation may already have started.

Europe, Value, Mid/Small to play catch-up?

We are entering a period of synchronised central bank rate-cutting cycles in Europe, North America and China, as inflation rates trend towards 2% or even below. We look for the Fed to begin cutting rates in September, while the European and Chinese central banks (ECB and PBOC) should continue to cut benchmark interest rates in the coming months.

In previous interest rate-cutting cycles since 1973 when an economic "soft landing" has been achieved (i.e. avoiding recession), stocks have gone up in the 3 months after the first US Federal Reserve rate cut. Sectors that have usually outperformed in this period include Financials, Healthcare and Consumer Cyclicals.

Look also to mid- and small-cap segments of the US and European stock markets for stronger upwards momentum for the remainder of 2024. While US mid- and small-cap stocks have lagged US mega-caps heavily since May, European and UK mid-/small-caps have performed strongly. Since the beginning of this year, the UK FTSE 250 mid-cap index has returned 11% in Sterling or +13% in euros. The MSCI Europe Small-cap index has delivered 8% so year-to-date – not as strong as the 10% return in the Euro STOXX 50 but demonstrating impressive "catch-up" momentum since mid-April, prior to the June ECB rate cut.

Conclusion: keep a positive allocation to global stocks but expect a sector and regional rotation away from US mega-caps into mid- and small-cap segments. We favour Financials and Healthcare sectors, and World ex-US focusing on deep value.

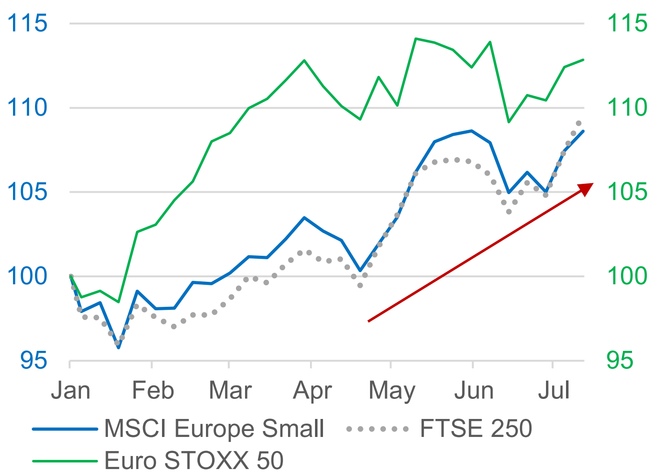
1990-, S&P 500 H1 RETURN OF 10%+ IS FOLLOWED BY AVERAGE +11% IN H2

S&P 500® Index Returns Exceeding 10%

Year	1H Return	2H Return	Forward 12-Mo. Return
1991	12.4%	12.4%	10.0%
1995	18.6%	13.1%	23.1%
1997	19.5%	9.6%	28.1%
1998	16.8%	8.4%	21.1%
1999	11.7%	7.0%	6.0%
2003	10.8%	14.1%	17.1%
2013	12.6%	15.1%	22.0%
2019	17.3%	9.8%	5.4%
2021	14.4%	10.9%	-11.9%
2023	15.9%	7.2%	21.2%
2024	14.5%		
Average		**10.8%**	**14.2%**

Source: Bloomberg.

UK, EUROPEAN MID-/SMALL-CAPS HAVE BEGUN TO CATCH UP WITH LARGE-CAPS



Source: BNP Paribas, Bloomberg.

Why small things matter

Stephan Kemper

The Great Rotation

In early July, the Russell 2000 sat at record lows versus the Nasdaq and at 23-year lows versus the S&P 500. US market breadth was the narrowest for over 20 years with less than 20% of stocks outperforming the index. CFTC data showed that asset managers had never been more short the Russell 2000 versus the S&P 500. Apparently, investors saw little reason to own small-cap equities. This view was changed by a surprisingly weak CPI number, which sparked hopes for more rate cuts from the Fed. The rotation has also been fuelled by perceived odds of the US election outcome as the policy advocated by Donald Trump is generally seen as supportive of smaller and medium sized companies.

In the week from 9 July, the Russell 2000 outperformed the Nasdaq by 12% (the biggest 1-week outperformance since the tech stock bubble burst in 2000) and the S&P 500 by 10% (the largest 1-week outperformance since the Black Monday stock market crash in 1987). During this move, market breadth increased as well with 76% of stocks beating the index. This was the best 1-week breadth measured in more than 20 years. The main driver behind the move was retail money. Over this week, investors have poured more than USD 1.3 billion into the largest ETF (IWM) tracking the Russell 2000, another record.

Dealer positioning was a further factor. Dealers and hedge funds were short of between 10 and 20% of the average daily Russell 200 ETF volume as the market headed into this rotation. They were thus forced to buy USD 9 billion worth of Russell 2000 index exposure over just one week as the index rose.

Small caps should enjoy further tailwinds

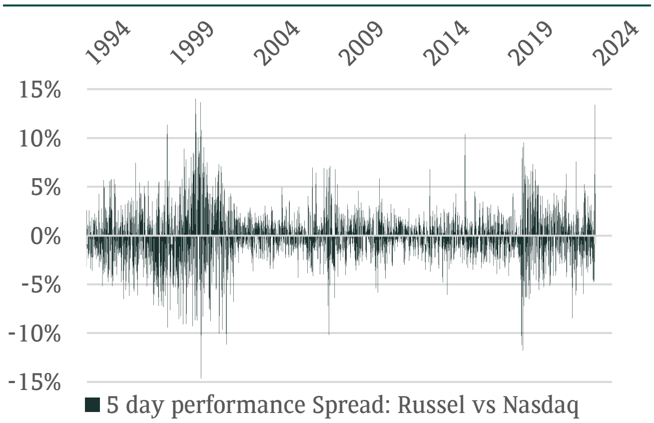
As expected, US inflation continues to decelerate, which should allow the Fed to start cutting rates in September. Lower rates are particularly positive for small caps as 30% of the outstanding debt of Russell 2000 companies consists of floating-rate debt. Lower interest rates will thus have a direct positive impact on analyst earnings estimates. Historically, stocks tend to do well when earnings per share (EPS) forecasts are revised higher.

The recent outperformance of Cyclical vs. Defensive stocks also suggests that the market expects some tailwinds from growth. June's upside surprise in core retail sales can be seen as a case in point.

The improved odds of a Republican clean sweep – Republicans winning both Congress and the White House – is also perceived as supportive. In 2016, small caps outperformed on Trump's "America First" domestically-focused politics. This domestic bias leaves small caps less vulnerable to higher tariffs.

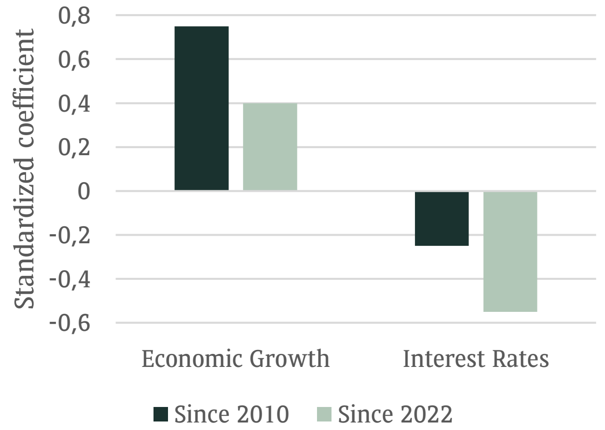
Earnings for small- and mid-cap stocks are expected to rise while markets are pricing a growth slowdown for US mega-cap names. Keep in mind that concerns about the prospect of "overinvestment" in AI, especially among "hyperscalers" (e.g. Amazon Web Services, Microsoft Azure and Google Cloud Platform), have recently come to the fore. A tightening of the earnings growth spread should provide a headwind to future mega-cap (out)performance while supporting small- and mid- caps. We continue to prefer exposure outside the expensive US mega-cap names via equal-weighted S&P 500 or small- / mid-cap indices.

THE HIGHEST MARGIN OF RUSSELL 2000 OUTPERFORMANCE SINCE 1999



Source: BNP Paribas, Bloomberg.

THE RUSSELL INDEX'S SENSITIVITY TO MOVES IN RATES HAS INCREASED RECENTLY



Source: BNP Paribas, Bloomberg.

US Elections: Focus on the economic cycle not just politics

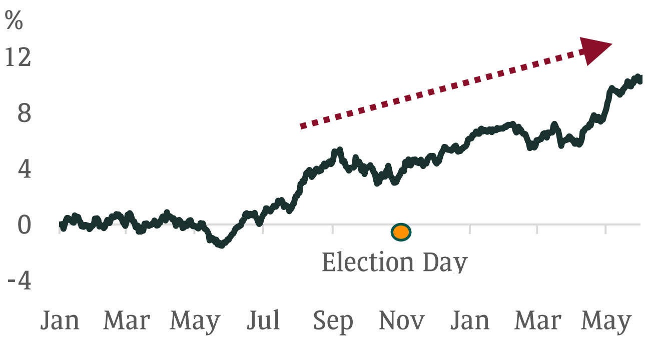
Prashant Bhayani

Focus on Policy not Politics

With regards to the upcoming US elections, one should **focus on policy not politics**. Thus far markets are proceeding normally with US equities +15% (as at 22 July) in election years, more than average.

Normally, the market pauses, and can fall moderately from September (data from 1932 to 2020), just before the election in November as investors reduce stock exposure. Post election, the market on average proceeds to go up in the final quarter of the year no matter which candidate or party is victorious.

S&P 500 INDEX AVERAGE CUMULATIVE RETURNS SINCE 1932 DURING PRESIDENTIAL ELECTION YEARS



Source: Capital Group, RIMES, Standard & Poor's, as of 16 July 2024

The composition of Congress will be key for changes to tax and the level of fiscal stimulus.

A sweeping victory for Mr Trump including in Congress could lead to a higher stock market in the near term, a stronger dollar and higher yields due to a rollover of his existing tax cuts, and perhaps additional tax cuts, deregulation, and additional tariffs other things being equal. Looking at history, the dollar rallied 5% and stock market went up 7% after Trump's "surprise" election in 2016.

Industries that could benefit from deregulation include Oil & Gas and Banking. However, we are in a very different inflation and interest rate cycle today. Furthermore, President Trump is a known candidate now. Hence, if it looks like he is winning, Trump trades could be priced well before the election. History does not repeat but it often rhymes.

If **Mr Trump is elected with a divided Congress,** expect less market impact. In this case, new tax cuts are unlikely.

There may be some tax cut extensions on selected groups as well as less deregulation. Tariffs do not require Congressional approval and Mr Trump has mentioned a 10% across-the-board tariff increase and as much as 60% on China. An immediate 60% tariff on Chinese goods would be difficult to implement given the higher potential inflation that could ensue, but more trade barriers would be very likely. This could result in a modestly stronger dollar and higher bond yields, but little stock market impact.

For the Democrats, the key will be how long it will take to select a Democratic nominee. Kamala Harris is the clear frontrunner, and given a slew of early endorsements, she is likely to be selected.

Democratic candidate: long-term implications

Currently Vice-President, Kamala Harris has a high probability of becoming the Democrat party candidate for President. She has been boosted by USD 200m in fundraising since her candidacy was announced, plus she has secured key endorsements. The focus will now shift to her pick of Vice-Presidential running mate who could be a candidate from a swing state with appeal to independent voters. From a policy perspective, she can be expected to be a Biden 2.0 (i.e. little change from current government policy). We await key policy pledges, but expect incrementalism given she was second in command in the Biden administration. She benefits from a younger demographic and widens the pool of voters for the Democrats in some key areas. The polls have narrowed from "peak Trump" after the assassination attempt, and there is plenty of time until November.

In the event that Kamala Harris wins the Presidency, the Democratic administration is more likely to face a divided Congress, as the Republicans currently have a higher probability of taking the Senate, than the Democrats of securing the House of Representatives. A split Congress would suggest a relatively neutral market impact on stocks, bonds, and the US dollars.

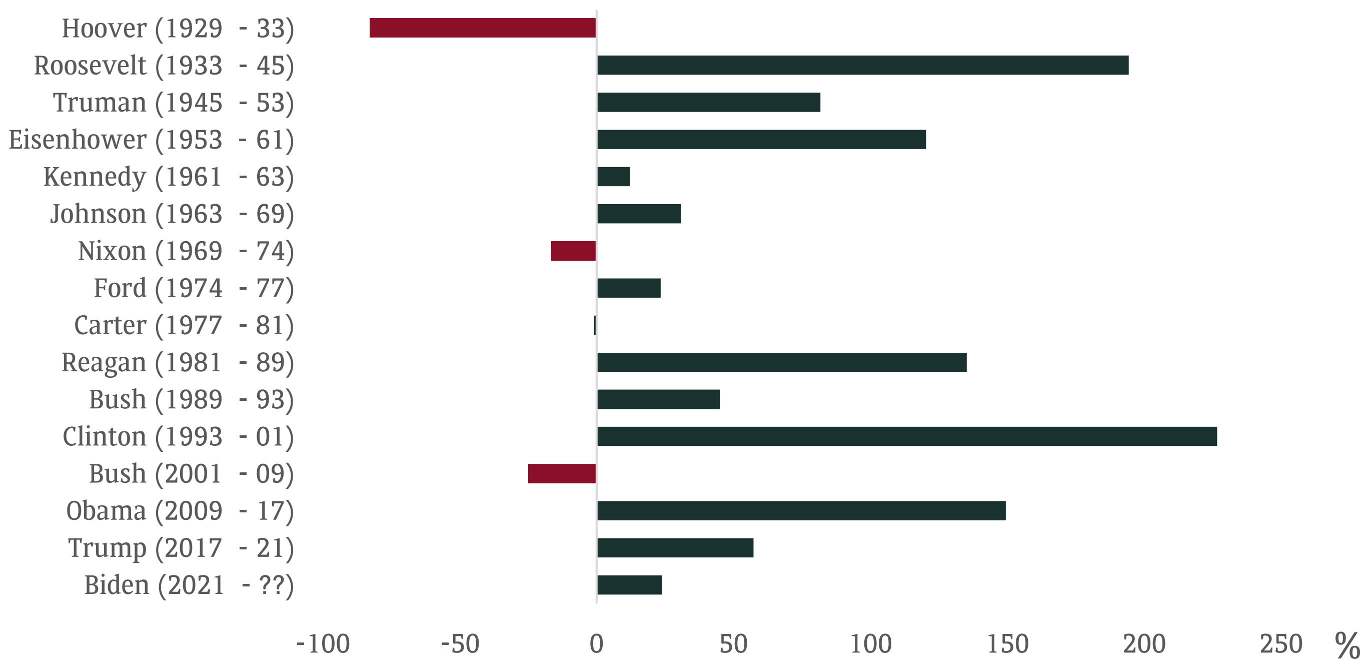
In the alternate scenario, in which Kamala Harris wins and the Democrats sweep Congress, this could lead to short-term moderate weakness in stocks. This would be due to not extending Trump's income tax cuts to everyone except perhaps low-income earners, as well as little deregulation.

Furthermore, the Democrats would also be able to implement more fiscal policies, which would possibly boost the economy and as a result, the dollar and bond yields by reducing the number of expected rate hikes. Sector implications are positive for clean energy and companies exposed to the IRA and reshoring in this scenario.

There is still some time before the US elections take place, with many possible scenarios and even possible candidates. Market participants recently priced in as much as a 70% probability of a Trump win. That seems overdone. The US and global interest rate and economic cycles are normally more important than the political cycle for the long term.

In that regard, in the longer term, it is important to keep in mind that stock markets go up over time, irrespective of whether the US is under a Republican or a Democratic president. **Only 3 times since 1929 has the stock market declined over the full term of a presidency (whether 1 or 2 terms).** These declines was largely due to the economic cycle (1. Great Depression, 2. Arab Oil Embargo, and 3. Great Financial Crisis). Hence, at this juncture, we do not recommend making major changes to asset allocation based on purely political scenarios.

DOW JONES INDUSTRIAL RETURNS DURING PRESIDENTIAL YEARS THROUGHOUT HISTORY



Source: Capital Group, RIMES, Standard & Poor's, as at 16 July 2024

Third (Plenum) time the charm?

Dannel Low

Key takeaways from the Third Plenum

China's four-day Third Plenum meeting, which typically takes place twice a decade, concluded on Thursday, 18 July, and it showed a high degree of policy continuity. Historically, the Third Plenum focuses primarily on medium to long-term goals rather than addressing short-term issues. Unsurprisingly, the meeting this time round was a reform-focused meeting of China's Communist Party Central Committee and yielded a communiqué long on commitments albeit short on specifics.

The key themes related to deepening reform and pursuing Chinese-style modernisation, as China aims to establish a high-level socialist market economic system by 2035. Specific goals include giving a bigger role to market mechanisms, creating a fairer and more dynamic market environment, opening up to the rest of the world, and expanding international cooperation via reform of foreign trade and investment. The government continues to present a solid long-term vision where unsurprisingly, innovation, green development, and consumption are keys to modernisation and growth drivers.

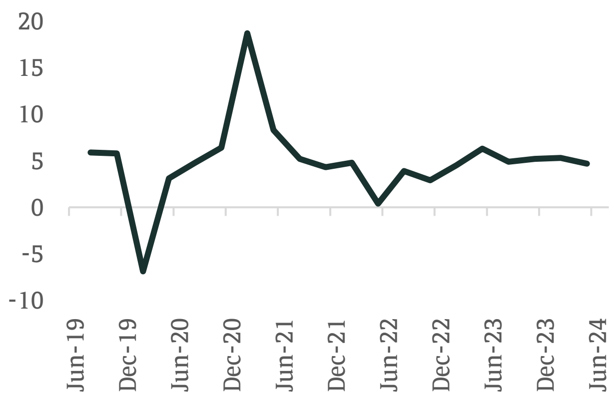
These policies will be rolled out successively, although President Xi Jinping and his team have promised to complete some reforms by 2029 when the People's Republic of China marks the 80th anniversary of its founding. Crucially, policy specifics on how these goals can be achieved will be more important to convince markets.

CPC pledged to hit near-term economic targets

The meeting commenced on 15 July, coincidentally (or perhaps deliberately) after the release of figures showing worse-than-expected GDP growth. Real GDP growth decelerated to 4.7% YoY in Q2, missing market expectations by 0.4ppt. The data seriously challenged the official 5% GDP growth target for full year 2024. The industrial sector growth remained strong, partly due to stronger exports, but the growth drag came mainly from the services sector, which slowed to 4.2% in Q2 on the back of softer domestic demand and an underperforming property sector.

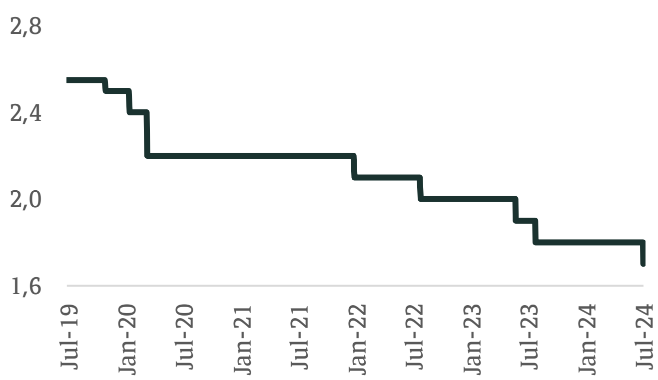
The GDP data sparked demand for more stimulus measures specifically for the property sector and consumption. Perhaps due to the increasingly troubled domestic and external landscape, during the meeting, the party did discuss achieving this year's growth target of 5%, keeping growth on track, and implementing macro policies that support domestic demand. This raises hope for more support measures in the near term. Nonetheless, the level of details so far does not point to more than a slow and considered approach to economic stimulus. Given recent weakness in economic data, the market will await more details on these important topics.

CHINA QUARTERLY GDP GROWTH (YOY%)



Source: Datastream, BNP Paribas, as at 22 July 2024.

CHINA 7-DAY REVERSE REPO RATE (%)



Source: Datastream, BNP Paribas, as at 22 July 2024.

PBoC sang the same tune

Following the conclusion of the Third Plenum, the People's Bank of China (PBoC) announced a 10bp cut in the 7-day reverse repo rate (to 1.7% from 1.8%) on Monday, 22 July. In addition, 1-year and 5-year loan prime rates were cut by 10bps (1-year LPR to 3.35% from 3.45%; 5-year LPR to 3.85% from 3.95%). The central bank acknowledged that the economy was facing insufficient demand and weak market expectations, and hence is was committed to adopting countercyclical tools to boost domestic confidence.

Although unexpected, the PBoC’s decision to cut its policy rate was in line with the policymakers’ strong determination to meet the 5% growth target conveyed by the Third Plenum. We think the PBoC is likely to stick to a steady and gradual pace of interest rate cuts. The growing conviction that the Fed is going to embark on an easing cycle in September provides more room for manoeuvre for the PBoC to cut rates earlier.

Looking ahead

Policymakers may need to rethink their near-term policy mix to achieve the 5% annual growth target. In particular, a budget revision is may be necessary to maintain the pace of spending in the context of a continued decline in local government revenues.

The latest end-July Politburo meeting offered little new stimulus, but policy guidance for H2 24 maintained a pro-growth stance. The Politburo emphasized boosting consumption, albeit the pace and timing of measures remain unclear. The target of 5% GDP growth was again reiterated, hence falling below that pace in Q3 could result in new stimulus in Q4 (such as another RMB1trn CGB quota).

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Constituents	We like	We avoid	Comments
EQUITIES	+	+	Markets	UK, Japan, eurozone, Latin America, China, S. Korea Singapore and Indonesia		Buoyant global liquidity continues to support stock markets. Key drivers include falling US inflation, lower long-term interest rates, improving macro liquidity, and easing energy prices. Build stock exposure gradually on market consolidations.
			Sectors	Global Health Care, Industrials, Materials, EU Financials & Technology	Telecoms, Consumer Discretionary, Consumer Staples	**Materials** to benefit from rebounding Chinese activity and low base metals inventories. **European banks** should benefit from surprisingly resilient consumption, rising Net Interest Margins & high levels of ECB deposit rate.
			Styles/ Themes	Quality, Megatrend themes		Circular Economy, Electrification, Security, Deep Value themes
BONDS	=	=	Govies	Favour US 5-7 year duration. Prefer inflation-indexed bonds		Our 10-year bond yield targets are 4.25% in the US and 2.25% in Germany in one year. Favour US inflation-linked bonds.
	+	+	Credit	US, Euro IG credit		We favour investment grade Credit, focusing on EU credit (especially financials) on the back of decade-high yields and strong balance sheets.
	+	+	EM bonds	USD and local currency		Attracted by high yields versus US high yield, solid economic prospects
CASH	-	-				
COMMO-DITIES	+	+		Gold Oil Industrial metals		Oil (+) Prolonged OPEC+ production cuts, growing geopolitical risks and the prospects of a rate cut induced cyclical upswing should keep Brent prices in the USD 85-95 range. Base metals (+) The outlook for the manufacturing sector is improving. Cyclical demand will meet structural while supply remains constrained. Gold (+) we remain positive on the medium-term for geopolitical reasons, 12-month range = USD 2600/oz.
FOREX			EUR/USD			Our EUR/USD target is USD 1.12 (value of 1 euro) in 12 months.
REAL ESTATE	=	=		Health Care, logistics/ warehouses		Unlisted real estate faces enduring headwinds from slowing economies and much higher financing rates. Prefer listed real estate.
ALTERNATIVE UCITS				Long/Short Equity, Credit and Relative Value, Trend-following		Relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023, offering lower risk returns, at low volatility.
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.

Economic, FX forecast tables

BNP Paribas Forecasts			
CPI Inflation %	2023	2024	2025
United States	4.1	2.9	2.3
Japan	3.3	2.6	2.5
Eurozone	**5.4**	**2.3**	**2.0**
Germany	6.0	2.6	2.5
France	5.7	2.5	1.9
Italy	5.9	1.0	1.8
Emerging			**0.0**
China	0.2	-0.1	1.2
India*	5.4	4.7	4.3
Brazil	4.6	4.1	4.0

* Fiscal year

Source : BNP Paribas, Bloomberg - 17/07/2024

BNP Paribas Forecasts			
GDP Growth %	2023	2024	2025
United States	2.5	2.5	1.8
Japan	1.8	-0.4	0.7
Eurozone	**0.6**	**0.9**	**1.6**
Germany	0.0	0.3	1.4
France	1.1	1.1	1.4
Italy	1.0	1.1	1.4
Emerging			
China	5.2	5.2	4.3
India*	8.2	6.9	6.7
Brazil	2.9	2.2	2.0

* Fiscal year

Source : BNP Paribas, Bloomberg - 17/07/2024

	Country	Spot 7/28/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1.09	1.06	1.12
	United Kingdom	EUR / GBP	0.84	0.84	0.86
	Switzerland	EUR / CHF	0.96	0.98	0.98
	Japan	EUR / JPY	166.68	159	157
	Sweden	EUR / SEK	11.73	11.00	11.00
	Norway	EUR / NOK	11.97	11.30	10.80
Against dollar	Japan	USD / JPY	153.54	150	140
	Canada	USD / CAD	1.38	1.32	1.30
	Australia	AUD / USD	0.66	0.68	0.70
	New Zealand	NZD / USD	0.59	0.60	0.63
	Brazil	USD / BRL	5.65	5.00	5.00
	India	USD / INR	83.73	82.0	82.0
	China	USD / CNY	7.25	7.40	7.20

Source: : BNP Paribas, Refinitiv Datastream. As at 28 july 2024

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