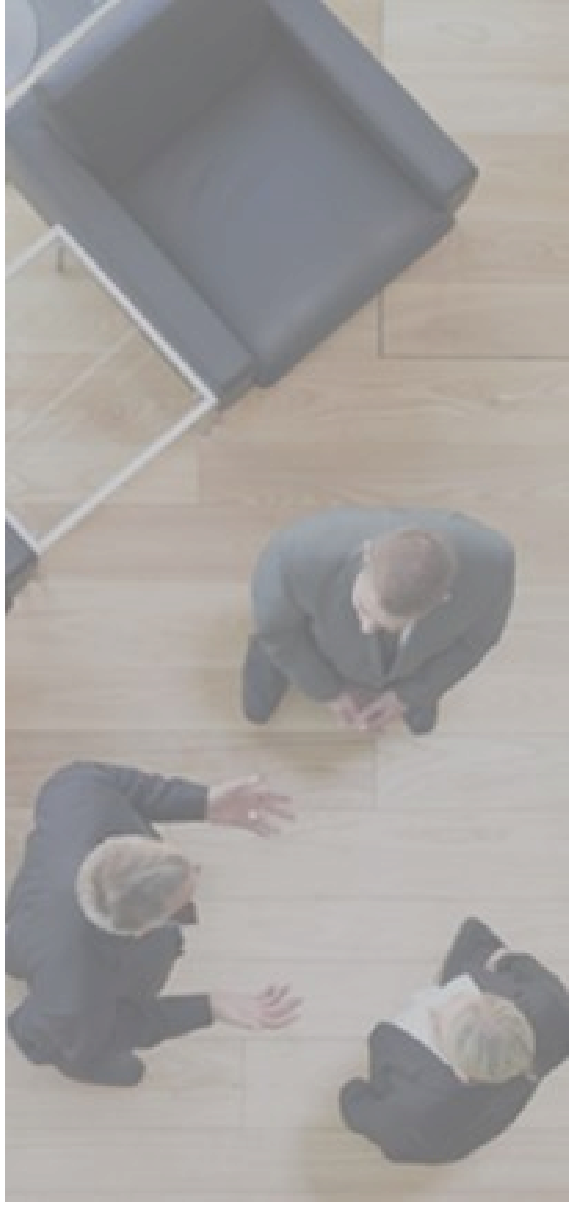
C.I.A. NETWORK

Asset Strategy in Brief

April 2024

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world



Summary

01

Macro, market views

Macro, Market Views

	Macro		– Monthly inflation prints continue to decline, but in a "bumpier" fashion as they descend below 3%. – US and EU central banks should cut interest rates starting in June. US Fed Funds rate to end 2024 at 4.75%, ECB deposit rate at 3.25%. Further benchmark interest rate cuts expected in 2025. – GDP growth is running at an annualised 2-3% range in the US for Q1 2024 and is improving from zero in the eurozone.
	Rates	=	– After a sharp fall in 10Y bond yields, there is little further price upside to our 12-month yield targets. – Lengthen maturities to intermediate in both EUR and USD government bonds (<10 years). – EM sovereign bonds (local currency and USD) still offer attractive 6%+ yields.
	Credit	+	– EUR spreads offer more potential to tighten more than US spreads in our view. – Prefer maturities up to 7 years in the eurozone and in the US. – 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. – European financials set to break out to new multi-year highs. We favour US and European Mid/Small)cap exposure.
	Real Estate	=	– Lagged impact from higher interest rates to fade after further falls in commercial real estate valuations in Q4 2023. We see European real estate prices slowly stabilising, with rental yields now more attractive post reset in prices.
	Commodities	+	– The prolongation of the OPEC+ production cuts, growing geopolitical risks and the prospects of a rate cut induced cyclical upswing should keep Brent prices in the USD85-95 range. – We expect gold to trade in a higher trading range USD 2100-2300 supported by central banks purchases, rising geopolitical risks and rate cuts outlook.
	FX		– EUR/CHF: We increase our 3-month target from 0.95 to 0.98 and maintain our 12-month target at 0.98 (per 1 euro). – USD/MXN: We decrease our 3-month target from 18 to 17.5 and maintain our 12-month target at 18.5 (per 1 US dollar).

Key macro & markets forecasts

	GDP Growth %		Inflation %		Central Bank Rates %				Key market forecasts		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.8	1.8	3.1	2.8	US Fed Funds Rate	5.50	5.25	4.50	US 10Y yield %	4.36	4.0
Eurozone	0.7	1.7	2.3	2.1	ECB Deposit Rate	4.00	3.75	3.00	Euro 10Y yield %	2.41	2.25
Japan	0.4	0.9	2.1	2.0	Bank of Japan Policy Rate	0	0.10	0.50	UK 10Y Yield %	4.08	3.65
UK	0.1	1.2	2.3	2.3	Bank of England Base Rate	5.25	5.00	4.25	S&P 500	5248	n/a
China	4.5	4.3	-0.1	1.2	China MLF 1Y Interest Rate	2.50	2.40	2.15	Euro STOXX 50	5081	n/a
									Oil Brent USD/bbl	88.4	85-95
									Gold USD/oz	2272	2100-2300

Source: BNP Paribas WM. As at 28 March 2024

Asset Allocation

Allocation changes this month:

- **<u>Equities</u>:**
  - We upgrade EU Small Caps to positive
  - We downgrade Consumer Discretionary and upgrade the Industrial Sector to Positive
- **<u>Bonds</u>: no change**
- **<u>Commodities</u>:**
  - Increase Gold target to USD 2100-2300

Outlook Summary

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

02

Bonds

BNP PARIBAS
WEALTH MANAGEMENT

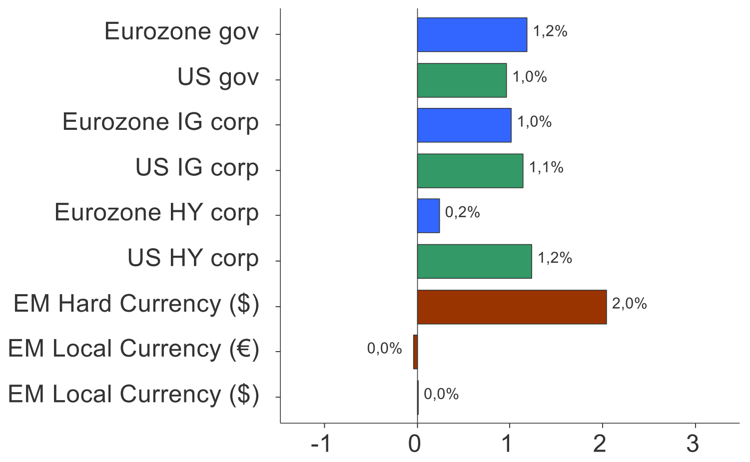
Fixed income at a glance

All major central banks, except the Bank of Japan, confirmed their easing bias and rate cuts to be made this year. Rate volatility has lessened. Calmer markets have allowed corporate spreads to compress further. Investors should continue to lock in current elevated yields in the fixed income space.

We favour US Treasuries, UK Gilts, US TIPS, EM bonds, and IG corporate bonds in the US and eurozone.

10-year bond yields	02/04/2024	12-month targets
US	4.36	4.00
Germany	2.41	2.25
UK	4.08	3.65

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 22/03/2024

Central Banks

We revised our expectations for 3 rate cuts this year in the US (4 previously) on the back of a stronger-than-expected economy. We forecast 4 cuts in 2025. In the eurozone, we maintain our expectation of 3 rate cuts this year and 3 next year. Both central banks should cut rates from June onwards.

Government Bonds

We stay Positive on US government bonds (**we extend preferred maturities to around benchmark i.e. up to 10 years**) and US TIPS with maturities up to 10 years. Neutral on German government bonds with a preference for intermediate maturities (up to 10 years).

Peripheral bonds

Improving credit metrics, coupled with risk sentiment and the new ECB operational framework, are a tailwind for peripheral countries. But valuations have become tight.

Corporate Investment Grade (IG) Bonds

High carry and favourable technical have been driving returns. **We prefer maturities of up to 7 years in the eurozone and in the US** (versus <5 years previously in the US).

Corporate High Yield (HY) Bonds

Valuations have become very tight, but demand remains very strong as investors focus on the level of yields rather than the spread. Indeed, spreads could stay tight in the absence of economic weakness or a geopolitical shock.

Emerging Market (EM) Bonds

Emerging Markets should benefit from the current environment of decent growth, central bank rate-cutting and dollar weakness.

03

Equities

BNP PARIBAS
WEALTH MANAGEMENT

Equities: What comes after the rally?

Key Points

- **Green shoots**: in past periods of early spring (think: March 2009 or 2020 or even March 2022/23) the search for green shoots in a troubled economy has dominated the narrative. But this year, 2024, several indices across the globe have hit fresh all-time highs. We (and the Fed) have increased US GDP growth forecasts, while manufacturing executive sentiment shows signs of improvement. The post-pandemic echo-boom era provides an interesting backdrop for risk assets,. This has been embraced by investors as the elevated price levels demonstrate.
- **Where to go from here?** Let's start with the obvious. This is a bull market, and the primary trend is higher. This point is worth stating because the biggest variables in the equation remain healthy: US growth is running above trend while other geographies are improving, and the Fed and other central banks may decide to make significant rate cuts. The tactical risk reward looks a bit blurred though, as measures of sentiment and positioning look stretched.
- **Look beneath the surface for more pockets of value**. While headline index levels may offer little additional upside from here, a breakdown of momentum may not lead to mayhem for investors. We find evidence that momentum laggards can provide significant catch-up potential.

Main recommendations

Buy the dip in Japan. After a strong bounce, the index may be subject to some profit-taking. The underlying trends of reflation and reform are still strong though. Japan remains one of our preferred regions. Favour exposure to corporate reform and nominal reflation.

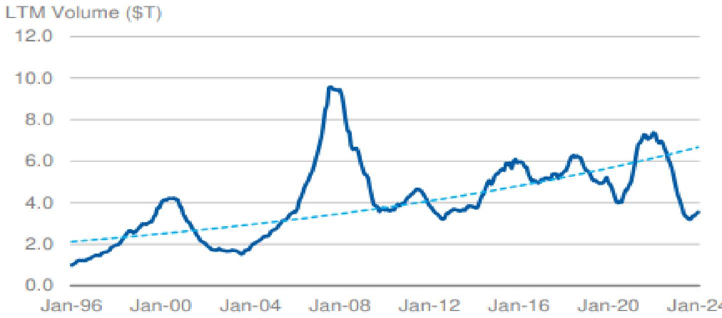
The great recovery in M&A activity? We find reasons to expect a material (50% y/y) uptick in M&A activity. Private equity funds face pressure to monetise their holdings, while corporations and private markets are sitting on large piles of cash. Europe and Japan could be the regions with the most potential, with Mid/Small-caps poised to benefit most from renewed M&A.

We upgrade EU Small Caps to positive on the back of appealing valuations and an improving economic backdrop. We also upgrade US and EU Industrials.

Changing our sector approach. We adopt STOXX Sector indices in Europe, while focussing on GICS Level 1 Sectors in the US. This is to improve the tradability of our views as we now follow the most liquid sector products.

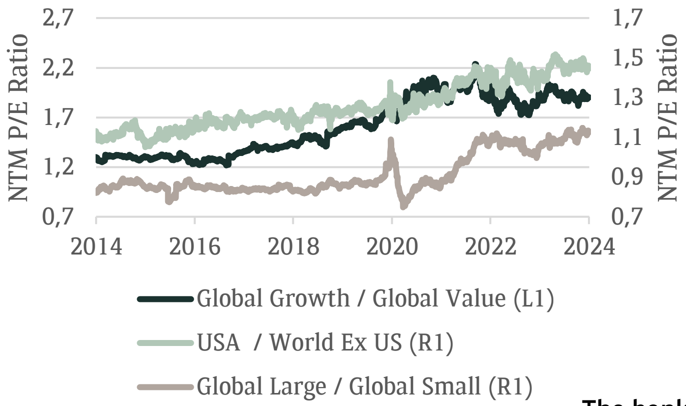
We downgrade Consumer Discretionary to underweight as we see a sluggish spending rebound, especially within high end fashion, questioning valuations.

SIMPLY "RETURNING TO THE TREND" WOULD SUGGEST A HUGE REBOUND IN M&A ACTIVITY



Source: Dealogic, Morgan Stanley Research; Note: Exhibit shows trailing LTM volume of global announced M&A, excluding withdrawn transactions

WE LIVE IN A WORLD WHERE US, LARGE CAP AND GROWTH STOCKS LOOK EXPENSIVE



Source: BNP Paribas, Bloomberg

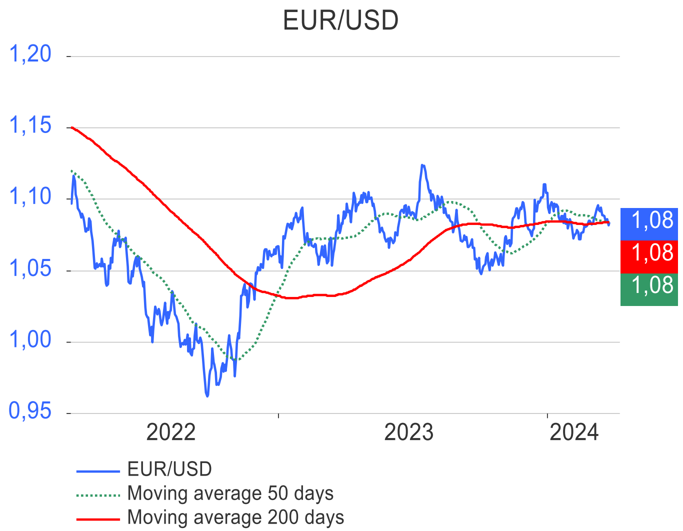
04

Currencies

BNP PARIBAS
WEALTH MANAGEMENT

Currencies

1. Both the US dollar index (DXY) and the Euro index (EXY) remained flat in March. Currency volatility has been falling, especially in EM currencies. The market is positioning for wider swings as the elections in the US approach (November 2024).
2. **EUR/CHF**: We increase our 3-month target from 0.95 to 0.98 and maintain our 12-month target at 0.98.
3. **USD/MXN:** We decrease our 3-month target from 18 to 17.5 and maintain our 12-month target at 18.5.



Source: LSEG Datastream, 25/03/2024

	Country	Spot 25/03/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,08	1,06	1,15
	United Kingdom	EUR / GBP	0,86	0,86	0,86
	Switzerland	EUR / CHF	0,97	0,98	0,98
	Japan	EUR / JPY	164,11	154	154
	Sweden	EUR / SEK	11,45	11,00	11,00
	Norway	EUR / NOK	11,61	11,30	10,80
Against dollar	Japan	USD / JPY	151,43	145	134
	Canada	USD / CAD	1,36	1,32	1,30
	Australia	AUD / USD	0,65	0,68	0,70
	New Zealand	NZD / USD	0,60	0,60	0,63
	Brazil	USD / BRL	4,99	5,00	5,00
	India	USD / INR	83,43	82,0	82,0
	China	USD / CNY	7,21	7,20	7,20

Source: BNP Paribas Wealth Management - LSEG Datastream

>> TARGET 12M EUR/USD: 1.15

We now expect the Fed and the ECB to initiate rate cuts in June 2024. By the end of the year, we expect both the Fed and the ECB to cut 75bps.

Looking ahead, we expect the Fed to cut rates more than the ECB in 2025 We maintain our 3-month target at 1.06 and our 12-month target at 1.15.

>> TARGET 12M EUR/GBP: 0.86

The potential for rate cuts is very similar to the ECB - i.e. 3 rate cuts in 2024. This, and the overall economic indicators, do not suggest a significant shift in the short--term outlook for the EUR/GBP exchange rate. We maintain our 3- and 12-month targets at 0.86.

>> TARGET 12M USD/JPY: 134

The BoJ raised interest rates on 19 March ending its negative interest rate policy in place since 2016. The JPY strengthened briefly following the news. Most central banks are expected to decrease rates this year and we should see a narrowing in the interest rate differential which would support our assumption of a stronger JPY.

>> TARGET 12M EUR/CHF : 0.98

The Swiss National Bank (SNB) made a surprise cut of its policy rate by 25bps to 1.5%. The CHF fell back from its peak. Looking forward the rate differential should gradually weaken the currency. However, we do not see it reach parity in 2024. **Our EUR/CHF 3-month target has been reached and we now increase it from 0.95 to 0.98. We maintain our 12-month target at 0.98.**

>> TARGET 12M USD/CNY: 7.2

In China inflation turned positive for the first time this year at 0.70% (year-on-year). The loan prime rate 1Y and 5Y were maintained at 3.45% and 3.95%, respectively. The divergence in monetary policy trajectories between China and the United States should limit any appreciation potential of the CNY.

>> TARGET 12M USD/MXN: 18.5

The Mexican central bank started its rate cutting cycle in March decreasing rates by 25bps to 11%, as expected. We forecast rates to reach 9.5% late 2024. The MXN has been a good carry trade since the pandemic and has pushed the USD/MXN (value of one USD) lower than anticipated. The attractiveness of the MXN should weaken as rates decrease. **We decrease our USD/MXN 3-month target from 18 to 17.5 and maintain our 12-month target at 18.5.**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 25/03/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,08	Positive	1,06	Negative	1,15
	United Kingdom	EUR / GBP	0,86	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	164,11	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,97	Neutral	0,98	Neutral	0,98
	Australia	EUR / AUD	1,66	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,81	Positive	1,77	Neutral	1,83
	Canada	EUR / CAD	1,47	Positive	1,40	Neutral	1,50
	Sweden	EUR / SEK	11,45	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,61	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,81	Positive	7,63	Negative	8,28
	India	EUR / INR	90,41	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,40	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,11	Negative	18,55	Negative	21,28

Sources: BNP Paribas, Eikon/Datastream

FX FORECASTS USD

	Country		Spot 25/03/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,08	Negative	1,06	Positive	1,15
	United Kingdom	GBP / USD	1,26	Negative	1,23	Positive	1,34
	Japan	USD / JPY	151,43	Positive	145,00	Positive	134,00
	Switzerland	USD / CHF	0,90	Negative	0,92	Positive	0,85
	Australia	AUD / USD	0,65	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,60	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,36	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,21	Neutral	7,20	Neutral	7,20
	India	USD / INR	83,43	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,99	Neutral	5,00	Neutral	5,00
	Mexico	USD / MXN	16,71	Negative	17,50	Negative	18,50
EMEA	South Africa	USD / ZAR	18,92	Positive	18,00	Positive	17,50
	USD Index	DXY	104,47	Neutral	105,00	Negative	97,40

Sources: BNP Paribas, Eikon/Datastream

05

Commodities

Commodities at a glance

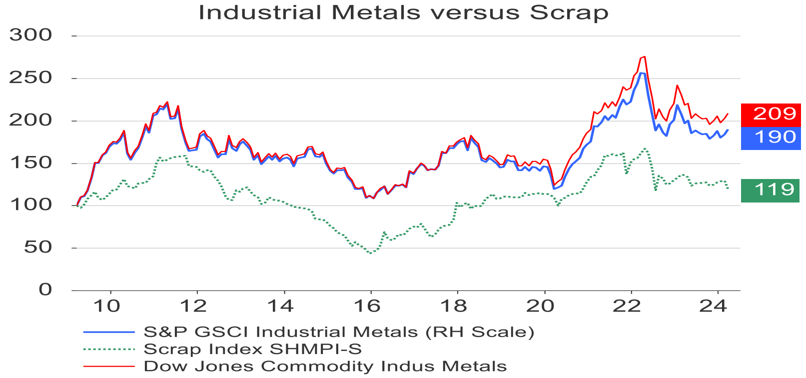
Oil prices have been moving in a slowly rising channel since their trough in mid-December. Brent ended March above USD85/barrel (26/03).

Most base metals rose in March. Since the start of 2024, tin has risen 9%, nickel and copper 3.5% while lead has lost -1.5%, aluminum -3% and zinc -7% (as at 25/03/2024).

Gold managed to breach its previous 3 tops at USD 2075/oz, surging to USD 2270 intraday. Bullion prices remain above USD 2200 despite rising bond yields.

BASE METALS

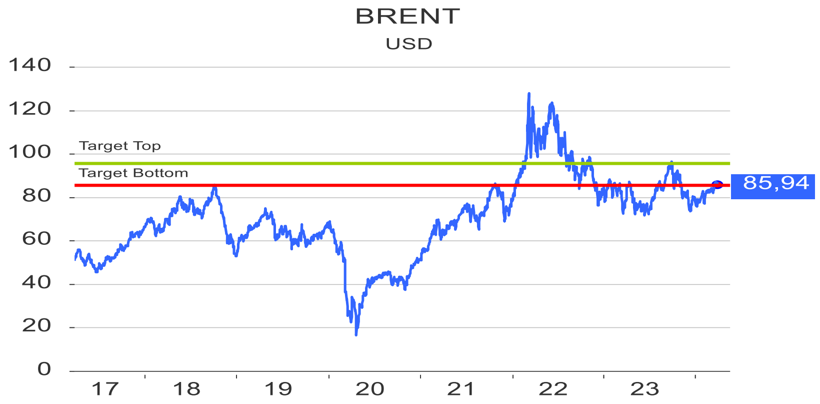
➕ The latest disappointing global manufacturing PMI should keep base metals in their present trading range. But we do expect better momentum in H2 2024 as cyclical demand meets structural (energy transition & defense). Copper is our preferred base metal.



Source: LSEG Datastream, 22-03-24

OIL

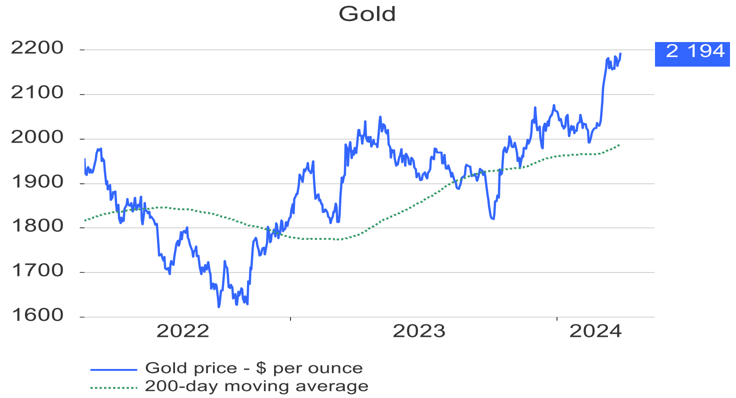
➕ The extension of OPEC+ production cuts, growing geopolitical risks and the prospects of a rate cut induced cyclical upswing should keep Brent prices in the USD 85-95 range.



Source: LSEG Datastream, 27/03/2024

GOLD

➕ We expect gold to trade in a higher trading range of USD 2100-2300 supported by central banks purchases, rising geopolitical risks and the rate cuts outlook.



Source: LSEG Datastream, 27/03/2024

06

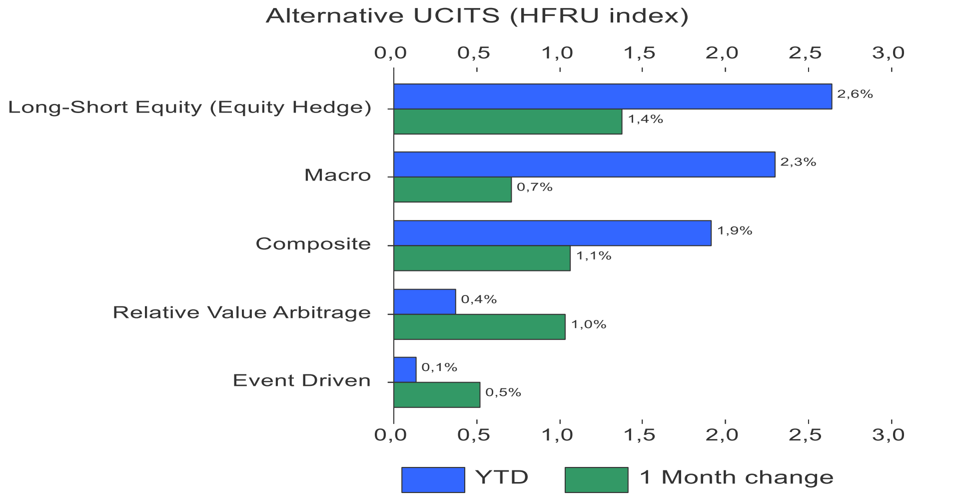
Alternative investments

BNP PARIBAS
WEALTH MANAGEMENT

Alternative Investments at a glance

Performance in all strategies were positive last month. Long-short and relative value strategies did best. This year long-short and macro have recorded the best performance.

This month, we upgrade Event Driven to Positive and downgrade Global Macro to Neutral. Positive opinion on Event Driven, Long-Short equities and Relative Value.



Source: LSEG Datastream, 22-03-24

Global Macro

Downgrade from Positive to Neutral: markets are now contending with the protracted effect of higher rates and inflation on economies, between a hard, soft or no landing, with materially different outcomes for all asset classes. Directional bets are currently more challenging than Relative Value trades.

Event Driven

Upgrade from Neutral to Positive: valuations have adjusted in the new rate environment, compensating for increased financing costs. Potential IRRs remain at attractive levels. Deal flow is rebounding from the low levels of 1H 2023. Rising equity markets are providing buyers with extra financial firepower for acquisitions. New distressed investment opportunities are bound to arise from higher funding cost with the "maturity wall" approaching.

Long/Short Equity

Positive: intra market equity dispersion has increased among equities of late, with a very wide gap between expensive and cheap stocks, paving the way for better long and short stock picking opportunities. If equity markets move sideways or down slightly, long/short should provide strong absolute returns with low correlation to equity markets.

Relative Value

Positive: the higher rate environment provides significant carry, but not so much larger spreads on corporate bonds. A long/short strategy can earn consistently strong returns by identifying both winners and losers, while hedging against macroeconomic downturns. The lagged effect of rising rates and the need to refinance ("maturity wall") starting in 2024 should cause dispersion between strong and weak issuers. Managers are currently well "paid to wait" on shorts, as they collect positive interest on the cash proceeds of these shorted bonds.

BNP PARIBAS WEALTH MANAGEMENT
CHIEF INVESTMENT ADVISOR (CIA) NETWORK

Edmund SHING
Global Chief Investment Officer

ASIA

Prashant BHAYANI
Chief Investment Officer

Grace TAM
Chief Investment Advisor

BELGIUM

Philippe GIJSELS
Chief Investment Advisor

Alain GERARD
Senior Investment Advisor, Equities

Xavier TIMMERMANS
Strategist Senior Investment, PRB

ITALY

Luca IANDIMARINO
Chief Investment Advisor

GERMANY

Stephan KEMPER
Chief Investment Strategist

LUXEMBOURG

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

FRANCE

Jean-Roland DESSARD
Chief Investment Advisor

Isabelle ENOS
Senior Investment Advisor

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world