C.I.A. NETWORK

Asset Strategy in Brief

December 2024

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Macro, Market Views

Macro			– US economic data came out broadly better than expected especially on consumer sentiment. The manufacturing sector remains the weak point. Initial jobless claims suggest slower hiring, not layoffs. – In the eurozone, consumer confidence remains on an upward trend. The main worry is the manufacturing sector. The service sector is holding up somewhat better. China and global trade could bring positive surprises.
Rates	=		– US election: the Red wave suggests higher medium-term spending and deficit risks, putting pressure on long-term US Treasury yields. – US, Euro central banks to cut benchmark rates to 3.75%, 2% respectively by September 2025 – We see the US 10-year yield at 4.25% in 12 months. We keep our 12-month target on the German bund yield at 2.25%.
Credit	+		– We keep a Positive medium-term stance on US and eurozone corporate bonds of high quality ("Investment Grade"). – Prefer shorter maturities in the US and longer-term maturities in eurozone
Equities	+		– The key risks are that the market starts to reprice growth fears with central banks being perceived as "behind the curve". – Favour US, UK, Japan. In Asia prefer Singapore, South Korea, Indonesia. – We like Mid-/Small-Caps. Positive on Health Care, Industrials and Materials such as Metals. We also like Financials and REITs. – We prefer investment themes like clean water, copper miners, electricity infrastructure, the circular economy, and deep value markets.
Real Estate	=		– Lagged impact from higher interest rates to fade after stability in commercial real estate returns in Q2/Q3 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. – Listed REITs exposure preferred given low price/book values, 4%+ dividend yield
Commodities	+		– Gold: Positive view as EM central banks should continue strategic purchases and Asian households remain buyers. Gold 12m target remains USD 3000/ounce. – Downgrade to Negative stance on Oil, price range for Brent crude oil lowered to USD 60-70 on weaker global oil demand, potentially higher non-OPEC oil & gas supply and an expected reduction of OPEC+ production quota cuts in 2025.
FX			– US Presidential/Congress election result gives the US dollar added upwards momentum on wider expected rate differentials. EUR/USD 3-month target now USD 1.06, 12-month target USD 1.02 (for 1 euro) – USD/JPY targets now JPY 150 for both 3- and 12-month horizons. – USD/CNY 3-month target is at 7.20 and our 12-month target is at 7.30.

Key macro & markets forecasts

	GDP Growth %		Inflation %		Central Bank Rates %				Key market forecasts		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.7	2.1	2.9	2.3	US Fed Funds Rate	5.00	4.25	3.75	US 10Y yield %	4.20	4.25
Eurozone	0.8	1.5	2.3	1.9	ECB Deposit Rate	3.50	2.50	2.00	Euro 10Y yield %	2.04	2.25
Japan	-0.3	0.7	2.7	2.4	Bank of Japan Policy Rate	0.25	0.75	1.25	UK 10Y Yield %	4.23	3.65
UK	0.9	1.5	2.6	2.9	Bank of England Base Rate	5.00	4.50	4.00	S&P 500	6032	n/a
China	4.9	4.5	0.4	1.3	China MLF 1Y Interest Rate	2.00	1.30	1.00	Euro STOXX 50	4816	n/a
									Oil Brent USD/bbl	73	60-70
									Gold USD/oz	2641	3000

Source: BNP Paribas WM. As at 2 December 2024

Asset Allocation

Allocation changes this month:

- **Equities**: We downgrade Mexico to underperformance

- **Bonds**: For the Fed, we revised our terminal rate to 3.75% (from 3.25%) in September 2025. For the ECB, we envisage a terminal rate of 2% (2.25% previously) in September 2025. We have turned Neutral on EM bonds.

- **FX** : EUR/USD 3-month target is at 1.06 and 12-month target is at 1.02 (value of 1 EUR). USD/CNY 3-month target is at 7.20 and our 12-month target is at 7.30 (value of 1 USD).

- **Commodities**: We maintain our Gold target to USD 3000/oz. For oil, we are negative, with a lowered target range of USD 60-70.

Outlook Summary

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

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Bonds

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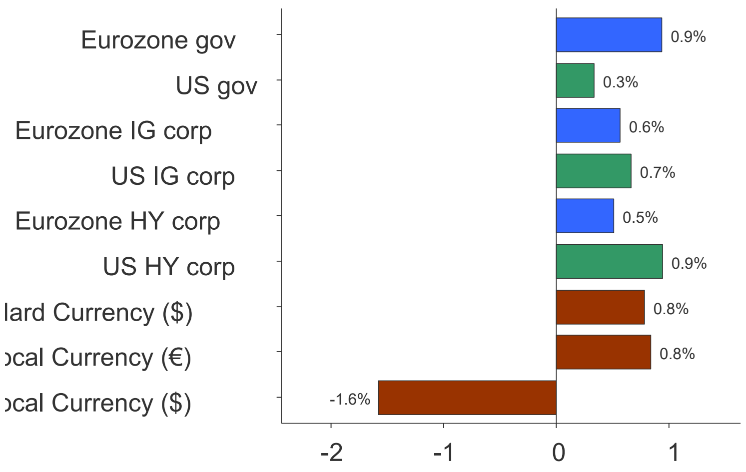
Fixed Income at a glance

The Trump trade (notably higher bond yields) has faded after since the nomination of the next Treasury secretary, and bond yields have retraced to the levels they were before the US election. In the eurozone, bond yields have declined on the back of growth concerns.

We have revised i) our Fed scenario towards fewer rate cuts; ii) our ECB scenario towards more rate cuts; iii) our US bond yields targets modestly higher – we see value in short-dated Treasuries; and iv) our view on EM bonds to Neutral from Positive.

10-year yields	27/11/2024	12-month targets
US	4.26	4.25
Germany	2.17	2.25
UK	4.28	3.65

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 27/11/2024

Central Banks

We expect the Fed to deliver fewer rate cuts than initially expected. We revised our terminal rate to reach 3.75% (from 3.25%) in September 2025. In the eurozone, we think the ECB will accelerate its rate-cutting cycle as growth slows. We envisage a terminal rate of 2% (2.25% previously) in September 2025.

Government Bonds

We remain tactically Neutral on government bonds amid great volatility and risk of higher bond yields in the US. Structurally, US government bonds remain attractive, with yields at their highest levels in 17 years. We are Positive on US short-term Treasuries.

Peripheral bonds

We are Neutral on peripheral bonds. Spreads are low and do not offer much potential to tighten further. Asset managers are on average already overweight on peripheral bonds.

Corporate Investment Grade (IG) Bonds

IG spreads are low but should remain low as long as growth holds and technicals stay strong. All-in yields are high. **We prefer short maturities in the US and up to 10 years in the eurozone.**

Corporate High Yield (HY) Bonds

Valuations are tight at the index level (notably driven by CCCs outperformance) but dispersion is elevated. We stay Neutral given high carry and favourable technicals.

Emerging Market (EM) Bonds

We turned Neutral on EM bonds given risks ahead (trade barriers, stronger USD, high-for-longer US yields) and tight valuations. The fundamentals remain however in place.

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Currencies

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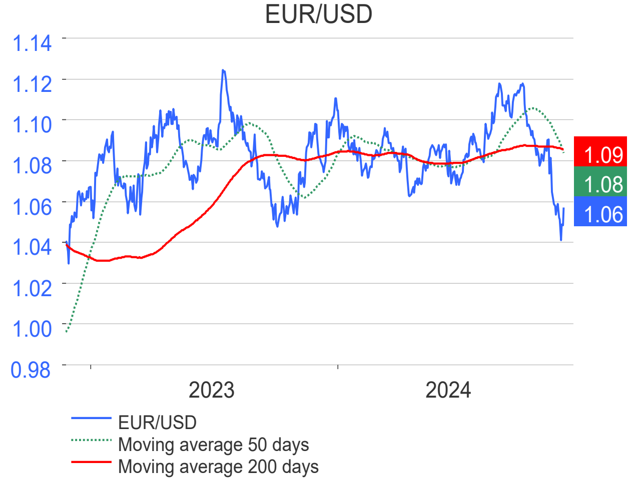
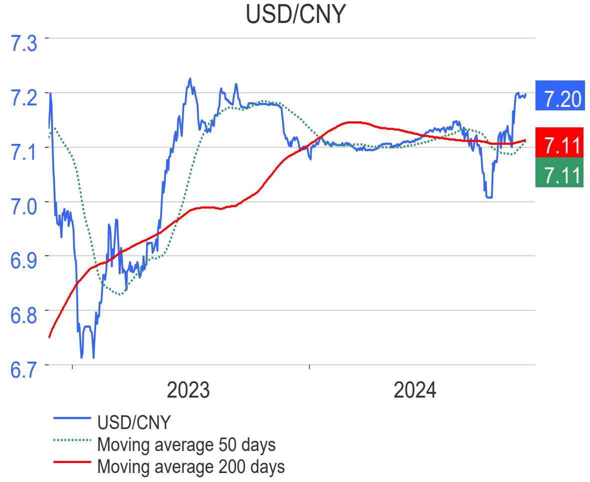
Currencies

1. We now expect a 25bp rate cut at the December meeting, followed by 3 cuts in 2025 until the policy rate reaches 3.75% in September 2025. We thus expect 50bp less in terms of cuts. As for the ECB, we now expect a 25bp cut in December with a faster rate-cutting cycle leading to a terminal rate to 2% in Q3 2025. We also expect a higher return for equities in the US over the coming months. **Our 3-month target is now at 1.06 and our 12-month target is at 1.02 (value of one €).**
2. Given the fact that the US central bank is expected to cut rates less than most other central banks, we make changes for other currencies relative to the USD**. We see more USD strength against the following currencies: AUD, NZD, JPY, CNY, INR, BRL and MXN. Against the EUR, we change our target of the GBP and SEK.**



Source: LSEG Datastream, 27/11/2024



Source: LSEG Datastream, 27/11/2024

>> TARGET 12M EUR/USD: 1.02

We expect the Fed to deliver fewer rate cuts than initially expected. We have revised our terminal rate to reach 3.75% (from 3.25%) in September 2025. In the eurozone, we think the ECB will accelerate its rate-cutting cycle as growth slows. We envisage a terminal rate of 2% (2.25% previously) in September 2025. **Our 3-month target is at 1.06 and our 12-month target is at 1.02 (value of one EUR).**

>> TARGET 12M EUR/GBP: 0.83

The BoE continues to adopt a more gradual approach to rate cuts than the ECB. Rate differentials should thus continue to be a source of support for the GBP. **Our 3- and 12-month target is at 0.83 (value of one EUR).**

>> TARGET 12M USD/CAD : 1.40

The risk for the currency is Trump's threat of high import tariffs. These could change the outlook for the interest rates. **Given this factor, our 3-month target for the CAD is 1.38 and our 12-month forecast is 1.40 (value of one USD). That suggests that the CAD should remain weak.**

>> TARGET 12M EUR/SEK : 11.20

Sweden is vulnerable to the implementation of global tariffs by the US President. The risk of additional rate cuts amid the ongoing fall in inflation and growth could anchor the SEK rate differentials at lower levels for the coming months. **Our EUR/SEK 3-month target is at 11.40 and our 12-month target is at 11.20 (value of one EUR). That reduces the potential for a SEK rebound.**

>> TARGET 12M USDCNY: 7.30

The authorities delivered a major fiscal package, even if it was somewhat below expectations. The risk of higher-than-expected US tariffs and our upward revision in the US terminal rate suggest more downside for the Chinese currency. **Therefore, our 3-month target is at 7.20 and our 12-month target is at 7.30 (value of one USD).**

>> TARGET 12M USDJPY: 150

Following Trump's victory, there is downside risk to Japanese economic growth due to a potential change in tariffs. However, the JPY could be less impacted by trade policies than other currencies as the Japanese central bank is expected to hike rates. **Given our new rate outlook, our USD/JPY 3- and 12-month target is 150.**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 27/11/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1.06	Neutral	1.06	Positive	1.02
	United Kingdom	EUR / GBP	0.83	Neutral	0.83	Neutral	0.83
	Japan	EUR / JPY	159.71	Neutral	159	Positive	153
	Switzerland	EUR / CHF	0.93	Neutral	0.94	Negative	0.96
	Australia	EUR / AUD	1.63	Neutral	1.61	Positive	1.59
	New-Zealand	EUR / NZD	1.79	Neutral	1.77	Positive	1.70
	Canada	EUR / CAD	1.48	Neutral	1.46	Positive	1.43
	Sweden	EUR / SEK	11.53	Neutral	11.40	Positive	11.20
	Norway	EUR / NOK	11.68	Neutral	11.60	Positive	11.30
Asia	China	EUR / CNY	7.66	Neutral	7.63	Positive	7.45
	India	EUR / INR	89.28	Neutral	89.04	Positive	85.68
Latam	Brazil	EUR / BRL	6.17	Positive	5.94	Positive	5.92
	Mexico	EUR / MXN	21.86	Neutral	22.26	Negative	22.44

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country		Spot 27/11/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1.06	Neutral	1.06	Negative	1.02
	United Kingdom	GBP / USD	1.27	Neutral	1.28	Negative	1.23
	Japan	USD / JPY	151.08	Neutral	150.00	Neutral	150.00
	Switzerland	USD / CHF	0.88	Neutral	0.89	Negative	0.94
	Australia	AUD / USD	0.65	Neutral	0.66	Neutral	0.64
	New-Zealand	NZD / USD	0.59	Neutral	0.60	Neutral	0.60
	Canada	USD / CAD	1.40	Neutral	1.38	Neutral	1.40
Asia	China	USD / CNY	7.25	Neutral	7.20	Neutral	7.30
	India	USD / INR	84.45	Neutral	84.00	Neutral	84.00
Latam	Brazil	USD / BRL	5.84	Positive	5.60	Neutral	5.80
	Mexico	USD / MXN	20.68	Neutral	21.00	Negative	22.00
EMEA	South Africa	USD / ZAR	18.23	Neutral	18.00	Positive	17.50
	USD Index	DXY	106.08	Neutral	105.47	Positive	108.80

Sources: BNP Paribas, LSEG

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Equities

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To know your future, you must know your past

A (not so) fresh start to the year?

- **Back to square one? –** As we approach a new year, investors may be forgiven for assuming that the clock will reset, and we will start anew. While it is true that performance is typically measured in yearly increments, it is also important to recognise that context matters. The rise in the S&P 500 in 2024 has been one of the strongest since 1928. In fact, we're observing one of the few periods with the S&P 500 being up >20% for two straight years in a row.
- **Profit growth vs. multiple expansion -** The rally of the last ~ 13 months was supported by a solid growth in corporate earnings. Nevertheless, around half of global equity returns in 2024 are based on an expansion of valuation multiples. We think that this can be explained, at least partly, by a growing optimism regarding lower inflation and a continuation of the rate cutting cycle. With valuations reaching fair-to-expensive levels in many markets, profit growth is likely to become the main driver of returns in 2025.
- **Moderating returns –** A (very) strong run itself is – based on past observations – no good reason to turn bearish. Bulls may take comfort from the fact that bull markets tend to last for almost 6 years. Additionally, the year following back-to-back 20%+ gains (8 occasions since 1950) has produced an average return of 12.3%. At the same time, the third year is often the weakest of a bull market, albeit it's still positive on average.

Main recommendations

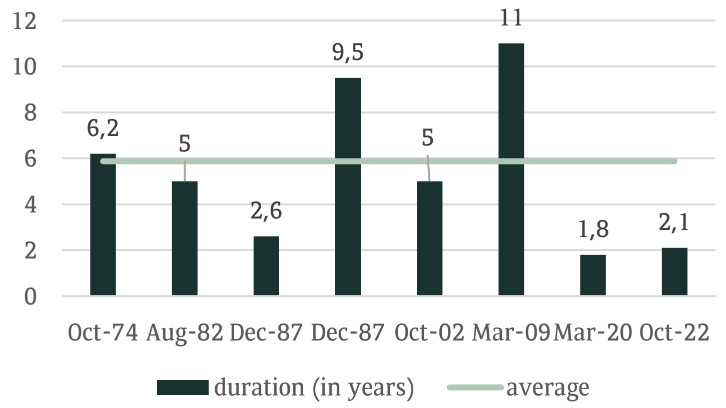
Riding the improving small cap business cycle – As we expect business sentiment and thus capex investments of SMIDs to improve in the US, we see increasing value in companies catering SMIDs as those should benefit via rising revenue potentials

Diversify away from US Mega Caps though as valuations look stretched. This limits the potential for further multiple expansion. We continue to find value in US SMIDs, certain European equities – especially growth compunders, high US exposure and certain value sectors – as well as in some Emerging markets

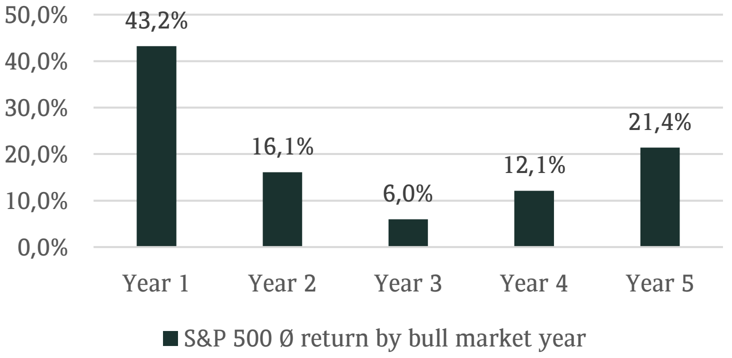
Hasta la vista – Downgrading Mexico to underperformance: The Mexican economic activity is likely to face a negative shock on the back of heightened tariff uncertainty and potential trade frictions. This adds to certain headwinds from the judicial reform and an unclear financing strategy of the energy reform. We also believe the impact on inflation will be to the upside, preventing Banxico from adopting a more aggressive cutting cycle.

The key risks are that the market starts to reprice growth fears with central banks being perceived as "behind the curve". Increasing policy uncertainty around tariffs could weight on sentiment, too.

THE AVERAGE SPX BULL MARKET LASTS ~ 6 YEARS



THE 3RD YEAR AS INTERMEDIATE LULL



Source: BNP Paribas, Bloomberg, Data since 1950

Asian Equities view

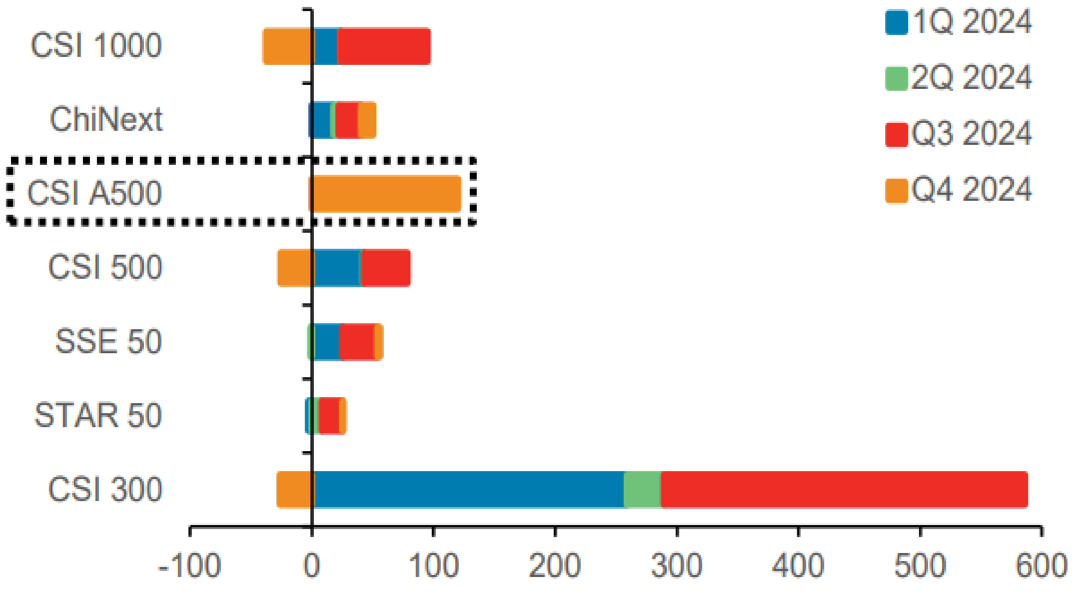
ASIA COUNTRY PREFERENCE

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

- **China –** Markets could remain volatile in the short term amid concerns over geopolitical tensions upon the recent nominations in President-elect Trump's new cabinet. We remain positive in the medium term. 1) There is still room for more fiscal stimulus. The 2025 economic policy direction will be set by the Central Economic Work Conference in December (likely during the second week). 2) We prefer A-shares to offshore Chinese equities amid ongoing corporate governance reforms and the swap facility that improves market liquidity and encourages inflows.
- **India –** There has been a correction since late September due to slowing economic and corporate earnings momentum. That said, we still believe any pullbacks are buying opportunities. BJP's recent landslide victory in Maharashtra should give the government the greenlight to push forward with more capex spending to boost growth in the coming months.

Chinese policymakers are trying to revive sentiment in the domestic equity market with supportive measures

Year-to-date inflow into index-tracking ETFs (RMB bn)



Sources: WIND, BNP Paribas

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Commodities

Commodities at a glance

Base metals corrected over last month, with still weak manufacturing PMIs, doubts about the effects of China's fiscal stimulus package and the fear over Trump's tariffs.

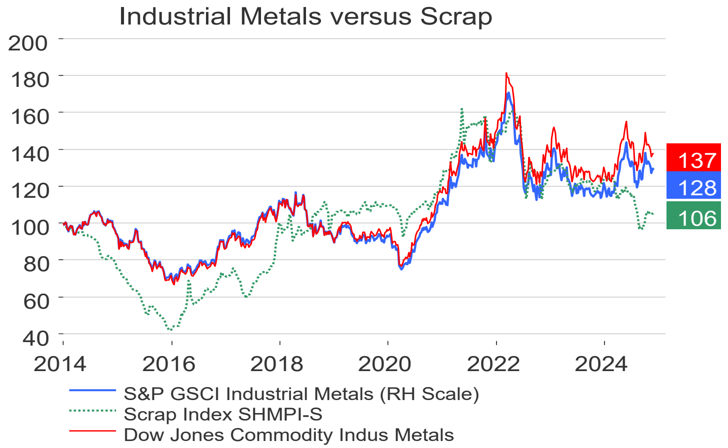
YTD iron ore, coal and battery materials declined, but most non-ferrous metals, despite recent correction, still post decent y-t-d gains: zinc +17%, tin +14%, aluminum +11%, copper +6%.

Brent price remained in its 70 – 80 USD trading range over last 3 months, with fading fear of an escalating Israel-Iran conflict (ceasefire with Hezbollah). Focus now returns to challenging supply-demand prospects.

Gold and silver corrected recently after their strong YTD rally, mainly due to a stronger USD and rising bond yields following Trump's election. Gold and silver are still up 28% YTD.

BASE METALS

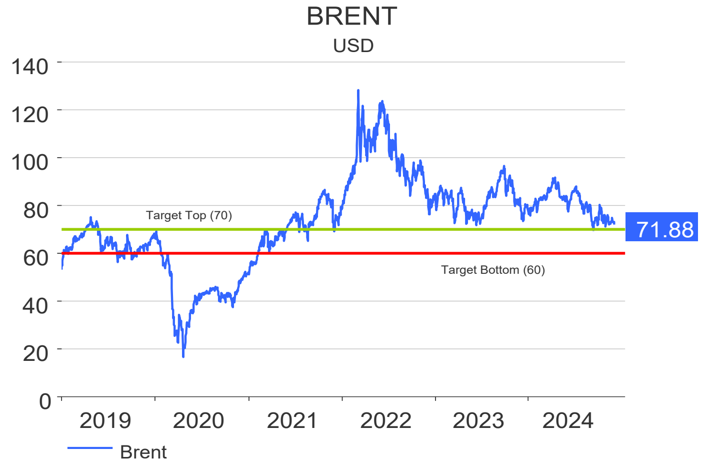
We expect a recovery of manufacturing PMIs in 2025/26, helped by lower interest rates and Chinese stimulus. Demand growth will accelerate thanks to energy transition, further EM urbanisation and infrastructure expansion, and will outpace supply growth.



Source: LSEG Datastream, 02/12/2024

OIL

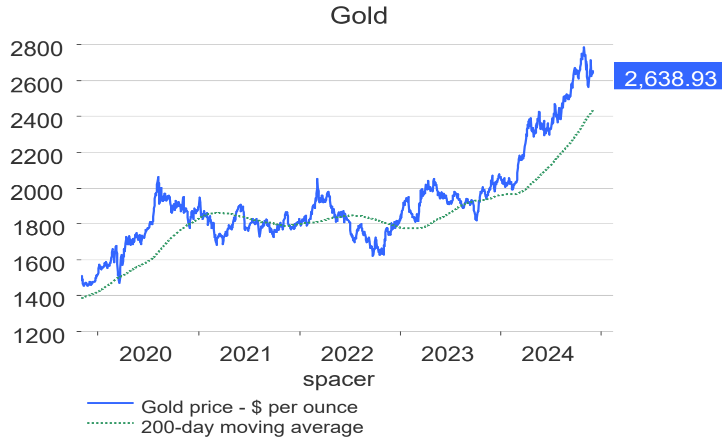
We downgrade to negative, with a lowered target range of USD 60-70. Downside risks persist in view of weak demand growth, Non-OPEC supply growth and the wish of OPEC+ to increase its production again.



Source: LSEG Datastream, 02/12/2024

GOLD

We expect the upward trend to continue, with major support from central banks' easing cycle, combined with Trump's reflationary policy, and likely concerns about high budget deficits and government debt as well as a possible trade war. **We maintain our Gold target at USD 3000/oz.**



Source: LSEG Datastream, 02/12/2024

Our position for this month

Evolution of our position from last month

06

Alternative Investments

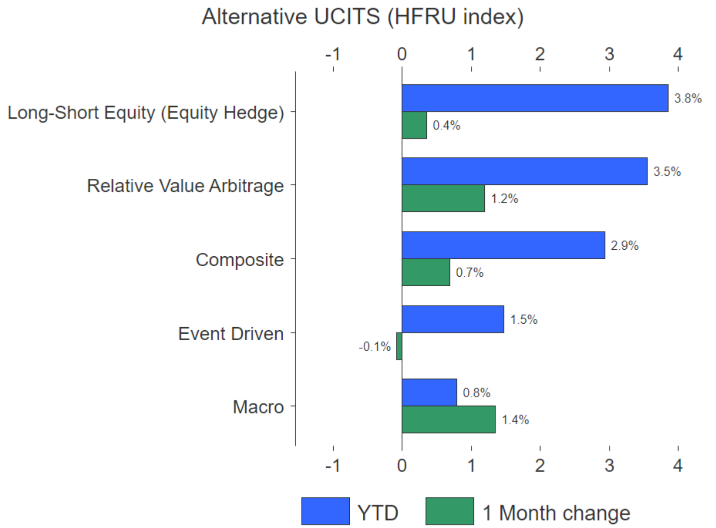
Alternative Investments at a glance

Performances have been mostly positive over the past month, especially for Macro and Relative Value.

They also remain positive over the year. Long-short equity remains the best performer year-to-date followed by Relative Value.

Macro remains the worst performer this year.

Positive opinion on Event Driven, Long-Short equity and Relative Value.



Source: LSEG Datastream, 25/11/2024

Global Macro

Neutral: Markets are now contending with the upcoming potentially radical decisions of the new Trump administration. No matter the outcomes, macro managers will be able to adjust to new situations faster, and hopefully even profit from them, bullish or bearish they may be. Given potential surprises, directional bets remain more challenging than Relative Value trades.

Event Driven

Positive: After the Trump win, Goldman Sachs projected a 20% increase in M&A activity in 2025. Regulatory deal blocking is likely to decrease, even if some specific deals may be blocked by the new administration for personal/business reasons. With less political uncertainty and likely regulatory easing, outstanding deals may yield a good end to the year for the Event Driven strategy, as in 2023.

Long/Short Equity

Positive: Market breadth has improved recently after historical outperformance concentrated in the "magnificent seven". Intra market equity dispersion is back to historically high levels, with a very wide gap between expensive and cheap stocks, paving the way for better long and short stock-picking opportunities.

Relative Value

Positive: For credit markets, the combination of resilient growth, moderating inflation and policy rates remains friendly, and credit thrives on that moderation. Nonetheless, the lagged effects of Fed cuts, and possible disappointing macro data could bring on greater volatility into credit markets. Credit dispersion has increased as high yield companies continue to react to a higher rate environment and the approaching debt maturity wall is forecast to be high in 2025.

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