C.I.A. NETWORK

Asset Strategy in Brief

May 2024

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WEALTH MANAGEMENT

The bank
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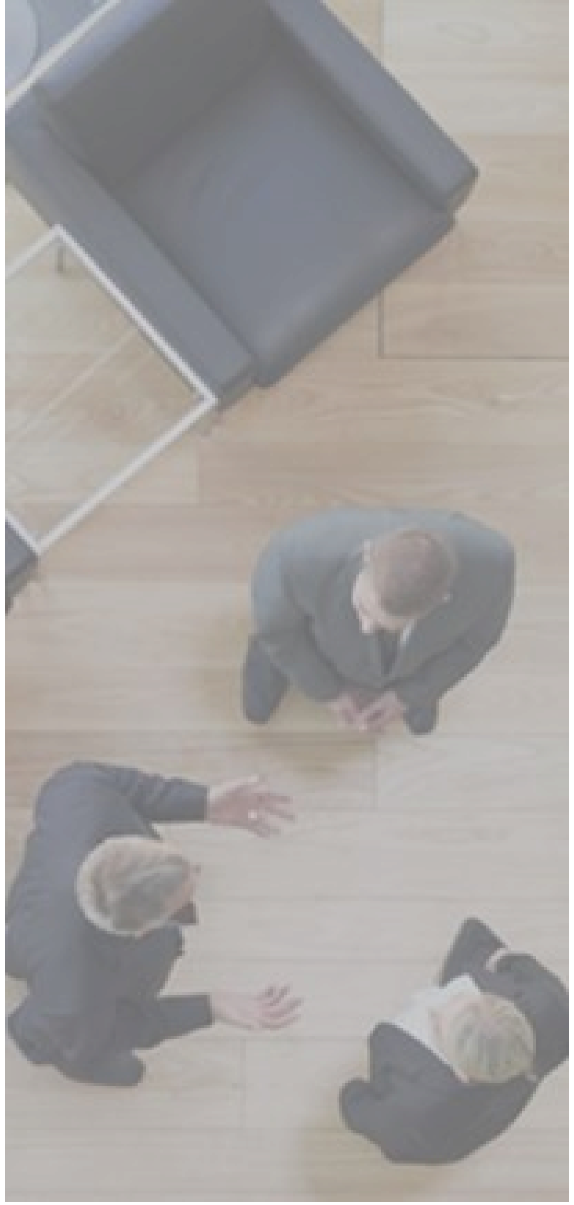

Summary

01

Macro, market views

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Macro, Market Views

Macro		– Monthly inflation prints continue to decline, but in a "bumpier" fashion as they descend below 3%. – We expect the Fed to cut rates only once this year (25bps in September). The ECB is likely to lead the rate-cutting cycle with 3 rates cuts this year, the first one in June in our view. – GDP growth is running at an annualised 2-3% range in the US for Q2 2024 and is improving from zero in the eurozone
Rates	=	– The Fed's "higher for longer" mantra should prevent any imminent sharp decline in 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 more potential to tighten 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 Mid/Small Caps. Positive Health care, Industrials and Metals, 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 Q4 2023. We see European real estate prices slowly stabilising, with rental yields now more attractive post reset in prices.
Commodities	+	– We keep our USD85-95 expected price range for the Brent as the OPEC+ production cuts help balancing the market in a context of high geopolitical risks, rising demand and slower non-OPEC production growth. – Short-term, we are tactically neutral and expect a consolidation in the USD2200-2400/oz range before a break above as EM central banks continue their strategic purchases.
FX		– EUR/USD: We maintain our 3-month target at 1.06 and decrease our 12-month target from 1.15 to 1.12. (per 1 euro). – USD/JPY: We adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140 (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	3.4	2.8	US Fed Funds Rate	5.50	5.25	5.00	US 10Y yield %	4.63	4.25
Eurozone	0.7	1.7	2.4	2.1	ECB Deposit Rate	4.00	3.75	3.00	Euro 10Y yield %	2.58	2.25
Japan	0.4	0.9	2.9	2.3	Bank of Japan Policy Rate	0	0.10	0.50	UK 10Y Yield %	4.37	3.65
UK	0.1	1.2	2.5	2.1	Bank of England Base Rate	5.25	5.00	4.25	S&P 500	5018	n/a
China	5.2	4.3	-0.1	1.2	China MLF 1Y Interest Rate	2.50	2.40	2.15	Euro STOXX 50	4895	n/a
									Oil Brent USD/bbl	85	85-95
									Gold USD/oz	2297	2200-2400

Source: BNP Paribas WM. As at 1 May 2024

Asset Allocation

Allocation changes this month:

- ❑ **<u>Equities</u>: No change**
- ❑ **<u>Bonds</u>: No change.**
- ❑ **FX :**
  - EURUSD : we adjust our 12-month target from 1.15 to 1.12
  - USDJPY: we adjust our 12-month target from 134 to 140
- ❑ **<u>Commodities</u>: No change**

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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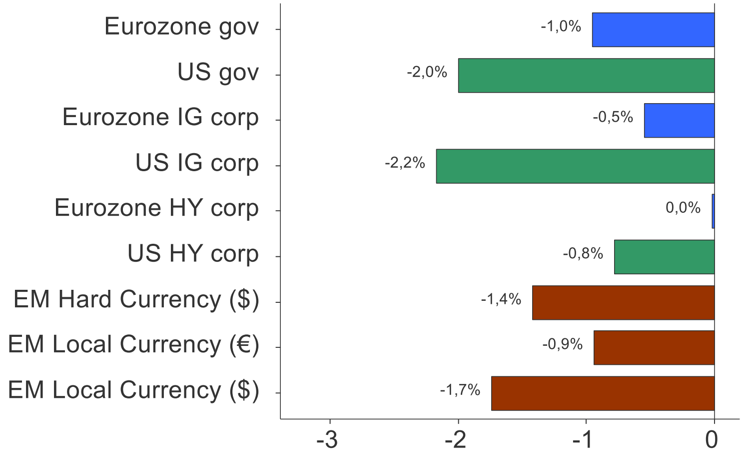
Fixed Income at a glance

US inflation data surprised to the upside again, triggering questions over the timing of the start of the rate-cutting cycle. There is less doubt that the ECB will cut rates soon so we should witness a policy decoupling. Bond yields have limited room to increase in the short term. 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 yields	26/04/2024	12-month targets
US	4.67	4.25
Germany	2.57	2.25
UK	4.33	3.65

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 29/04/2024

Central Banks

We expect the Fed to cut rates only once this year (25bps in September) as inflation continues to surprise to the upside and growth is holding up. The ECB is likely to lead the rate--cutting cycle with 3 rate cuts this year, the first one in June in our view.

Government Bonds

We are Positive on US government bonds (**we prefer short maturities 3-5 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

Credit spreads are tight as the ECB hints to start the rate-cutting cycle. We don't see clear catalysts for spreads to tighten more.

Corporate Investment Grade (IG) Bonds

Spreads are low, particularly in the US, but investors focus on all-in yields. IG bonds offer a good risk-reward profile. **We prefer maturities up to 7 years in the US and up to 10 years in the eurozone.**

Corporate High Yield (HY) Bonds

Spreads are tight and could stay tight in the absence of economic weakness or geopolitical shocks. There is no obvious catalyst that would lead to a sell-off. Defaults are being repriced lower on the back of growth that is holding up.

Emerging Market (EM) Bonds

EM disinflation trends are encouraging on average. Global growth is holding up. Financing channels improve. Yields are attractive. The dollar should weaken on a 12-month horizon.

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Equities

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Equities: Earnings Season in Focus

Key Points

- **A third of S&P500 companies** have reported Q1 earnings: 79% beat EPS estimates, surprising positively by 8%. EPS growth is at +6% y/y. Commodity sectors, Discretionary and Real Estate are down on a y/y basis, while Communications Services and Utilities have recorded double-digit EPS growth.

  On the topline, 54% of companies are beating sales estimates. Overall revenue growth is +3% y/y. At a sector level, Energy, Materials, Tech and Utilities are flat or down so far.

- **Over 30% of Stoxx600 companies** expected to report have released Q1 earnings. Of these 54% have beaten EPS estimates, surprising positively by 2%. Overall EPS growth prints at -8% y/y, and -4% y/y ex-Energy. Commodity sectors are the biggest drag on overall earnings, with 6 of the remaining 9 sectors also seeing negative or flat EPS growth. At the top line, 39% of companies are beating sales estimates. Revenue growth is -3% y/y, with only 3 of the 10 reporting sectors seeing positive sales growth.

- **14% of Topix companies** have reported Q4 2024 results, with 59% beating EPS estimates. Overall EPS growth is at +1% y/y, with 6 of 10 sectors with reported results seeing positive growth so far. On the top line, 51% of Topix companies have beaten sales estimates, delivering +2%y/y revenue growth. On the top line, 9 out of 11 sectors are recording positive growth.

Main recommendations

Regions and style preferences: Positive stance on the eurozone, UK, Japan and Latin America. Within Asia prefer China, Singapore, South Korea, Indonesia.

Sector preferences: Positive Health Care, Industrials and Materials like Metals, Mining & Construction Materials (e.g. Chemicals). In the EU, we also like Financials, Tech and REITs.

Buy the dip in copper mining stocks. A combination of stronger global end-demand and restricted supply has fuelled the surge in the copper price. Investment in new mines should come on stream only after 5-10 years, suggesting that supply will remain inelastic.

Remain selective within Chemicals: although demand could pick up, supply from China guaranteed to be plentiful in many areas. We prefer Industrial Gases within the sector.

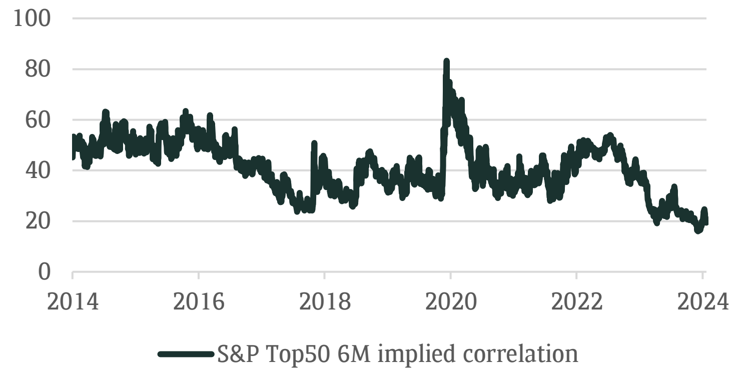
The key risks are that the US Federal Reserve or the ECB could be forced to further delay rate cuts or even shift back to a hawkish rhetoric should inflation surprisingly pick up again.

Earnings season snapshot

	S&P 500	Stoxx 600	Topix
% cos reported	33%	33%	14%
% cos beating EPS	79%	54%	59%
EPS % yoy	6%	-8%	1%
% cos beating Sales	54%	39%	54%
Sales % yoy	3%	-3%	2%

Source: BNP Paribas, Bloomberg, Data as of 26th April 2024

A STOCK PICKER'S MARKET: CORRELATION IS EXPECTED TO STAY LOW



Source: BNP Paribas, Bloomberg

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Currencies

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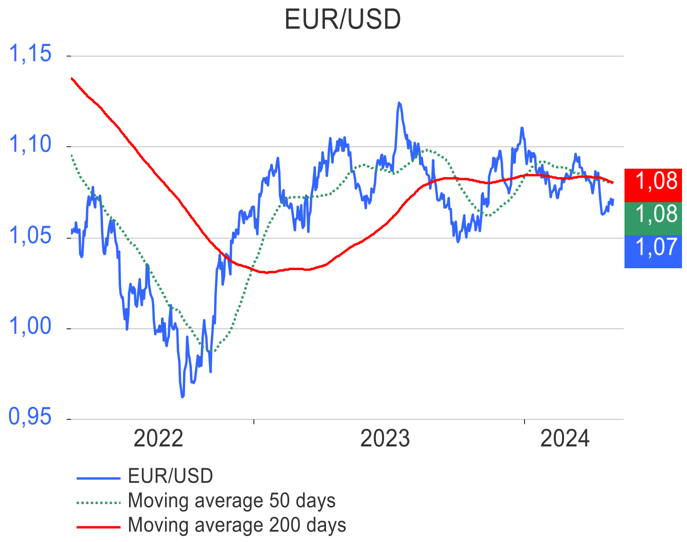
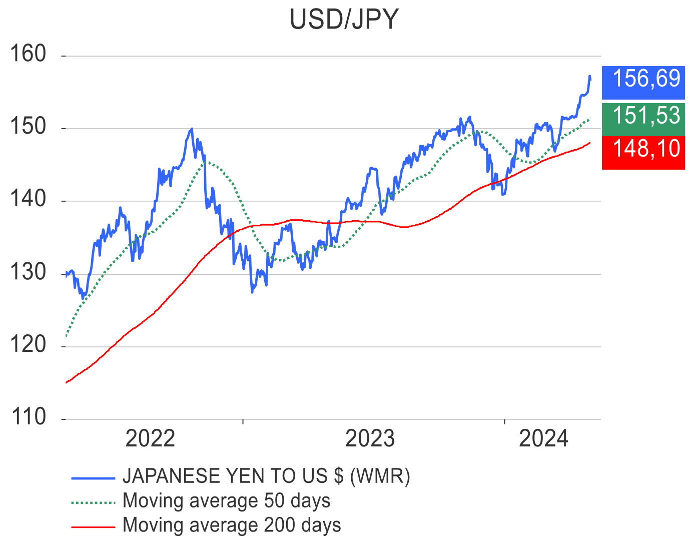
Currencies at a glance

1. **EURUSD:**. For 2024 we see 3 rate cuts for the ECB starting in June and 1 rate cut for the Fed in September. The expected differential in policy rate justifies seeing less depreciation potential for the USD relative to the EUR. **We maintain our 3-month target at 1.06 and we adjust our 12-month target from 1.15 to 1.12 (value of one euro).**
2. **USDJPY:** The end of Japan's negative interest rate policy in March should gradually increase the attractiveness of the Yen **We adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140 (value of one US dollar).**



Source: LSEG Datastream, 29/04/2024



Source: LSEG Datastream, 29/04/2024

>> TARGET 12M EURUSD: 1.12

We now see the Fed cutting only once this year and only in September. The ECB should start cutting rates in June with 75bp cuts this year. The expected differential in policy rate justifies changing our 12-month target. **We maintain our 3-month target at 1.06 and decrease our 12-month target from 1.15 to 1.12.**

>> TARGET 12M USDJPY: 140

Support for the JPY should come later this year as the Fed is set to cut rates and the BoJ to gradually increase their policy rate. **We adjust our USDJPY 3-month target from 145 to 150 and our 12-month target from 134 to 140 (value of one US dollar).**

>> TARGET 12M USDCNY: 7.2

The loan prime rates have been kept at 3.45% and 3.95%, respectively. The Q1 GDP printed higher than expected at 5.3%. We expect more stimulus to reach this year's 5% GDP growth. The divergence in monetary policy trajectories should limit any appreciation potential of the CNY.

>> TARGET 12M EURGBP: 0.86

We expect three rate cuts this year from the Bank of England (BoE) starting in August. Low volatility, relatively stable political outlook and overall economic indicators do not suggest a new trend. **We maintain our 3- and 12-month target at 0.86.**

>> TARGET 12M EURCHF : 0.98

Looking forward, the rate differential should gradually weaken the CHF as it remains a good currency for funding yield elsewhere. For now, we do not see the EURCHF reach parity in 2024. **We maintain our EURCHF 3- and 12-month target at 0.98**

>> TARGET 12M USDMXN: 18.5

The Mexican central bank started its rate cutting cycle in March decreasing rates by 25bps to 11%, as expected. We expect rates to reach 9.75% late 2024. The attractiveness of the MXN should weaken as Banxico gradually decreases rates. **We maintain our USDMXN 3-month target at 17.5 and our 12-month target at 18.5.**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 29/04/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,07	Neutral	1,06	Negative	1,12
	United Kingdom	EUR / GBP	0,85	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	167,86	Positive	159	Positive	157
	Switzerland	EUR / CHF	0,98	Neutral	0,98	Neutral	0,98
	Australia	EUR / AUD	1,63	Positive	1,56	Positive	1,60
	New-Zealand	EUR / NZD	1,79	Neutral	1,77	Neutral	1,78
	Canada	EUR / CAD	1,46	Positive	1,40	Neutral	1,46
	Sweden	EUR / SEK	11,71	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,78	Positive	11,30	Positive	10,80
Asia	China	EUR / CNY	7,76	Neutral	7,63	Negative	8,06
	India	EUR / INR	89,43	Positive	86,92	Negative	91,84
Latam	Brazil	EUR / BRL	5,48	Positive	5,30	Negative	5,60
	Mexico	EUR / MXN	18,26	Neutral	18,55	Negative	20,72

Sources: BNP Paribas, Eikon/Datastream

FX FORECASTS USD

	Country		Spot 29/04/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,07	Neutral	1,06	Positive	1,12
	United Kingdom	GBP / USD	1,25	Neutral	1,23	Positive	1,30
	Japan	USD / JPY	156,69	Positive	150,00	Positive	140,00
	Switzerland	USD / CHF	0,91	Neutral	0,92	Positive	0,88
	Australia	AUD / USD	0,66	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,60	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,37	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,25	Neutral	7,20	Neutral	7,20
	India	USD / INR	83,48	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	5,11	Positive	5,00	Positive	5,00
	Mexico	USD / MXN	17,04	Negative	17,50	Negative	18,50
EMEA	South Africa	USD / ZAR	18,64	Positive	18,00	Positive	17,50
	USD Index	DXY	105,58	Neutral	105,49	Negative	100,01

Sources: BNP Paribas, Eikon/Datastream

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Commodities

Commodities at a glance

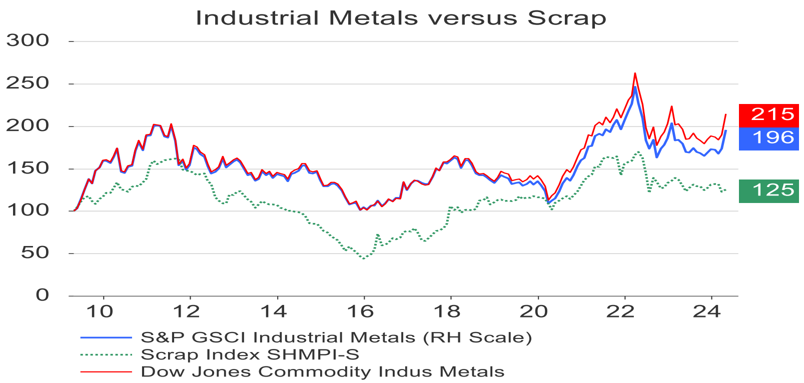
Oil prices rose strongly in April with the risk of an open conflict between Iran and Israel. The Brent reached an intraday high above USD92 before easing around USD88 (29/04).

Most base Metals rose strongly in April. Since the start of 2024, tin has risen 28%, copper 18%, nickel 15%, zinc 11%, aluminium 9% and lead 7% (as at 29/04).

Gold reached an all-time high at 2430/oz mid-April before stabilising at around USD2330 (29/04). This happened despite a strong USD and increasing bond yields.

BASE METALS

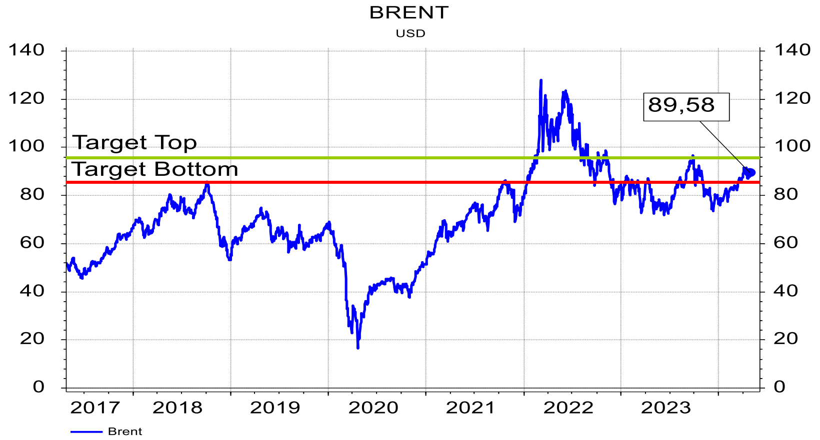
Production shortfalls and demand revival hopes are boosting prices. But the path to the new secular bull market driven by decarbonisation demand could be bumpy if manufacturing PMI and China disappoint again.



Source: LSEG Datastream, 26-04-24

OIL

We keep our USD85-95 expected price range for the Brent as the OPEC+ production cuts help balancing the market in a context of high geopolitical risks, rising demand and slower non-OPEC production growth.



Source: LSEG Datastream, 26-04-24

GOLD

Short term, we are tactically neutral and expect a consolidation in the USD2200-2400/oz range before a break above as EM central banks continue their strategic purchases.

Source: LSEG Datastream

Our position for this month

Evolution of our position from last month

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Alternative investments

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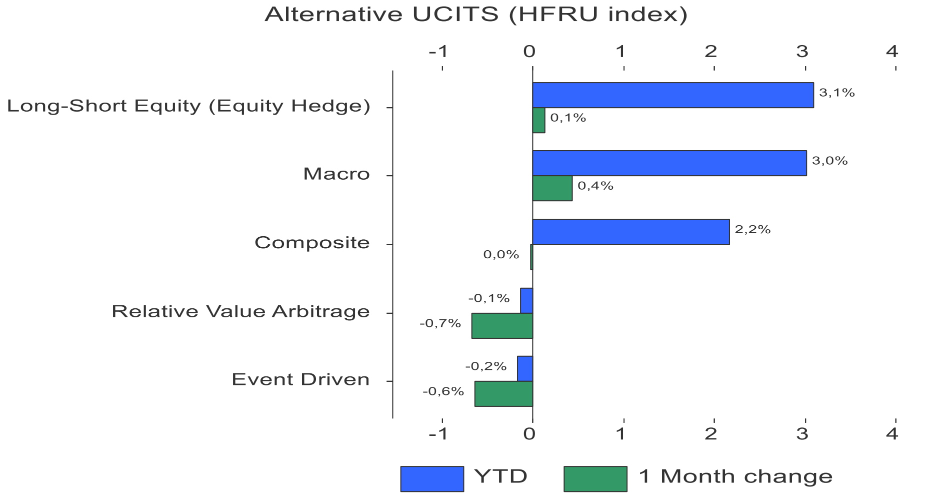
Alternative Investments at a glance

Performance was positive over the past month for Long-Short Equity and especially Macro. The same is true for the performance this year.

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



Source: LSEG Datastream, 26-04-24

Global Macro

Downgrade from Positive to Neutral: markets are now contending with the protracted effect of higher rates and future inflation, between hard, soft or no landing. Directional bets are currently more challenging than Relative Value trades, with arbitrage opportunities on diverging monetary policies across regions.

Event Driven

Positive: M&A activity is expected to tick up in 2024 with much higher volumes, as inflation slows and central banks signal future rate cuts. Rich equity markets are providing buyers with extra financial firepower for acquisitions. New distressed investment opportunities are bound to arise from higher funding costs 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 lagged effect of rising rates and the need to refinance debt ("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. Convertible bond arbitrage should benefit from increased issuance/refinancing, stabilised rates, and the end of long only investor outflows.

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

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