
C.I.A. NETWORK

Asset Strategy in Brief

November 2024



BNP PARIBAS
WEALTH MANAGEMENT

The bank
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world

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




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Macro, Market Views

	Macro		<ul style="list-style-type: none"> – Economic growth remains globally resilient except in specific areas of the manufacturing sector, especially in Germany. Services are doing much better. China's stimulus measures should support the manufacturing sector. New elections in Germany should also be positive. – Trump's win with a likely Red sweep should lead to a new round of US import tariff increases, an extension of the 2017 tax cuts and further fiscal stimulus. This should be supportive for markets in the short term but could lead to lower growth and higher inflation in the medium term.
	Rates	=	<ul style="list-style-type: none"> – We remain tactically Neutral on government bonds amid great volatility before and after the US election, and risk of upside yields in the event of a Republican sweep. Structurally, US government bonds remain attractive as yields are at their highest in two decades.
	Credit	+	<ul style="list-style-type: none"> – We keep a positive stance for US and eurozone corporate bonds of high quality ("Investment Grade"). – For higher yield (at higher risk), consider the US fallen angels strategy and Euro subordinated financial bonds.
	Equities	+	<ul style="list-style-type: none"> – 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 weigh on sentiment, too. – We continue to find value in US SMIDs, European equities – especially growth compounders and certain value sectors – as well as in Emerging markets. – We maintain our Positive stance on the eurozone and Japan. Within Asia we like China, Singapore, South Korea and Indonesia. In Latin America, we maintain a Positive stance on Brazil. – We like EU and Japan SMIDs. We also like EU financials and REITs. In Japan, we are Positive on financials and domestic exposure. We prefer investment themes in Europe, such as Semiconductors & Equipment, Repower Europe. In Japan, we like governance reform achievers. In EM, we prefer APAC tech and Hang Seng technology. We downgrade European Oil & Gas to underperform
	Real Estate	=	<ul style="list-style-type: none"> – We expect further interest rate cuts from central banks. We see European real estate prices stabilising, with rental yields now more attractive post reset in prices.
	Commodities	+	<ul style="list-style-type: none"> – We remain Neutral, with a further reduced target range of USD 70-80. Downside risks persist in view of weak demand growth and the wish of OPEC+ to normalize its production cuts. Possible upside risk in case of further escalation of Middle East war. – We maintain our 12 months target price to USD 3000/oz, a 13% further upside
	FX		<ul style="list-style-type: none"> – US dollar is strengthening post the Republican victory in the US Presidential and Congress elections. We are reviewing our USD forecasts.

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	2.2	US Fed Funds Rate	5.00	4.50	3.75	US 10Y yield %	4.29	4
Eurozone	0.8	1.4	2.3	1.9	ECB Deposit Rate	3.25	3.00	2.25	Euro 10Y yield %	2.42	2.25
Japan	-0.2	0.7	2.7	2.4	Bank of Japan Policy Rate	0.25	0.50	0.75	UK 10Y Yield %	4.43	3.65
UK	1.0	1.5	2.5	2.3	Bank of England Base Rate	5.00	4.50	3.75	S&P 500	5813	n/a
China	4.9	4.5	0.4	1.3	China MLF 1Y Interest Rate	2.00	1.50	1.10	Euro STOXX 50	4885	n/a
									Oil Brent USD/bbl	73	70-80
									Gold USD/oz	2779	3000

Source: BNP Paribas WM. As at 30 October 2024

Asset Allocation

Allocation changes this month:

- ❑ **Equities:** We downgrade European Oil & Gas to Underweight
- ❑ **Bonds:** No major changes. One more rate cut by the ECB expected in 2024, and two consecutive 25bp rate cuts in 2024 in the US.
- ❑ **FX:** We change our USD/MXN 3-month target to 20 and our 12-month target to 19.5. We change our EUR/NOK 3-month target to 11.60 and maintain 12-month target at 11.30
- ❑ **Commodities:** We maintain our Gold target at USD 3000/oz. For oil, we remain Neutral, with a further reduced target range of USD 70-80.

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

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Bonds



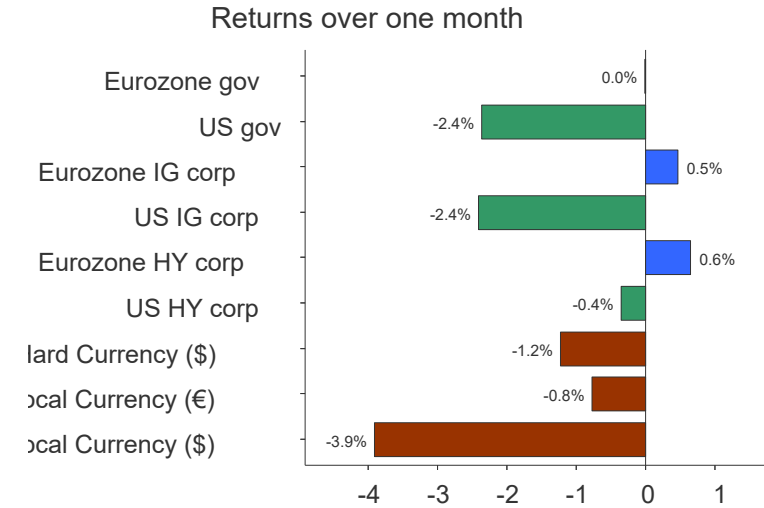
Fixed Income at a glance

After the victory of Donald Trump, and potentially a Republican sweep, the markets fear higher growth and higher inflation, with a rising possibility that the Fed could slow down the speed and amplitude of its rate-cutting cycle.

Bond returns in October were mixed. The sharp rise in US bond yields and the US dollar penalised US and EM assets, while EUR bonds delivered positive returns.

We favour high-quality assets (IG corporate bonds) and we may change our recommendation on EM bonds.

10-year yields	30/10/2024	12-month targets
US	4.29	4
Germany	2.42	2.25
UK	4.43	3.65



Source: LSEG Datastream, Bloomberg and JPM indices, 24/10/2024

Central Banks

We believe that the Fed will deliver less rate cuts than we expected since the new Trump administration will take measures that are inflationary. We will revise our estimate of the terminal (currently 3.25%) higher. We are also reviewing the impacts of trade barriers on the ECB.

Corporate Investment Grade (IG) Bonds

+ EUR IG spreads are not as tight as US IG spreads. The carry is attractive amid low volatility of returns. **We prefer short maturities in the US and up to 10 years in the eurozone.**

Government Bonds

= We remain tactically Neutral on government bonds amid great volatility before and after the US election, and risk of upside yields in the event of a Republican sweep. Structurally, US government bonds remain attractive as yields are at their highest in the past two decades.

Corporate High Yield (HY) Bonds

= Spreads have rallied further thanks to very firm technicals. The upside is now very limited, particularly in the US. We stay Neutral given high carry and favourable technicals.

Peripheral bonds

= The positive economic momentum have pushed peripheral spreads lower. The rating improvement has been partially validated in Italy. We are Neutral on peripheral bonds since the upside seems limited.

Emerging Market (EM) Bonds

The sharp rise in USD and US yields in October hit EM bonds' returns. The fundamentals remain, however, in place. We are reviewing our opinion given the new risks (trade barriers, stronger USD, higher US yields).

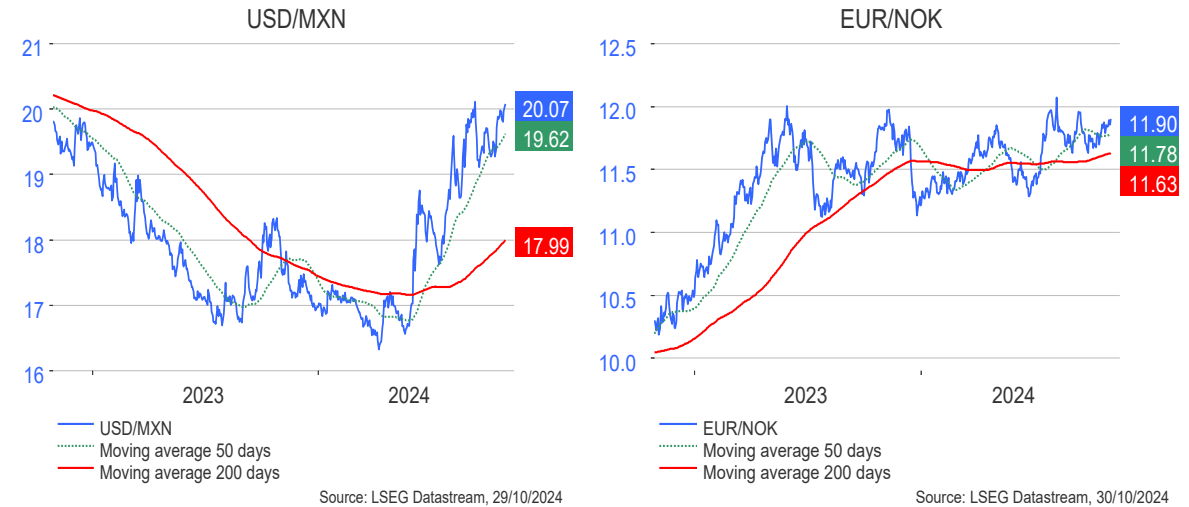
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Currencies



Currencies

- USD/MXN:** We expect the Banxico to cut its policy rate by 25bp at each of the two remaining meetings this year. The US election is contributing to an environment of uncertainty for the MXN. The currency will face fiscal risks. Therefore, we change our USD/MXN 3-month target to 20 and our 12-month target to 19.5 (value of one USD).
- EUR/NOK:** The Norges Bank has kept its policy rate unchanged at 4.5% given the upside risks to inflation. The NOK remains highly sensitive to oil prices as oil accounts more than 60% of Norway's exports. We change our EUR/NOK 3-month target to 11.60 and 12-month target to 11.30 (value of one EUR)



>> TARGET 12M EUR/USD: 1.12

We expect more 25bp ECB cuts with a terminal rate of 2.25%. As for the Fed, we see one more 25bp rate cuts in 2024, followed by a quarterly cadence until the policy rates reaches 3.25%. This scenario is under review, and we could see less cuts. Our 3-month target is at 1.08 and our 12-month target is at 1.12 (value of one €).



>> TARGET 12M EUR/GBP: 0.86

On 7 November the BoE cut its interest rate by 25bp to 4.75% from 5%. We expect it to proceed at a quarterly pace in 2025. The Pound overshot our target and we see a normalisation. We maintain our 3-month target at 0.86 and our 12-month target at 0.86 (value of one €).



>> TARGET 12M EUR/CHF : 0.96

The central bank has a policy rate of 1%. We expect another rate cut in December and see risks for further cuts. We think FX intervention is more likely to be used. We maintain our EUR/CHF 3-month target at 0.94 and 12-month target at 0.96 (value of one €).



>> TARGET 12M EUR/SEK : 11.10

The Riksbank is expected to deliver a 50bp cut this year. With inflation decreasing, the Riksbank cut rates ahead of other central banks. However, the recovery remains weak. Following the rate cuts, economic conditions are expected to improve, with strengthened consumption and stabilised inflation. We change our EUR/SEK 3-month target to 11.20 and our 12-month target to 11.10 (value of one €).



>> TARGET 12M USD/CNY: 7.1

China's Ministry of Finance delivered a more conservative fiscal package than initial market expectations. The 1Y & 5Y LPR dropped by 25bp to 3.1% and 3.6% respectively. The cut was largely expected by the market. We maintain our 3- and 12-month target to 7.1 (value of one USD).



>> TARGET 12M USD/JPY: 140

The BoJ kept the policy rate unchanged at 0.25% as expected on 30 October. We expect the next hike rates at the December meeting. In 2025, we see further 25bp hikes in March and June to take the policy rate to 1%. We maintain our USD/JPY 3-month target at 145 and our 12-month target at 140 suggesting a stabilisation after the recent weakening of the currency.



Forex at a glance

FX FORECASTS EUR

	Country	Spot 30/10/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD 1.09	Neutral	1.08	Negative	1.12
	United Kingdom	EUR / GBP 0.84	Negative	0.86	Negative	0.86
	Japan	EUR / JPY 166.39	Positive	157	Positive	157
	Switzerland	EUR / CHF 0.94	Neutral	0.94	Neutral	0.96
	Australia	EUR / AUD 1.65	Positive	1.59	Positive	1.60
	New-Zealand	EUR / NZD 1.82	Positive	1.71	Positive	1.78
	Canada	EUR / CAD 1.51	Positive	1.43	Positive	1.46
	Sweden	EUR / SEK 11.59	Positive	11.20	Positive	11.10
	Norway	EUR / NOK 11.89	Positive	11.60	Positive	11.30
Asia	China	EUR / CNY 7.74	Neutral	7.67	Negative	7.95
	India	EUR / INR 91.35	Positive	88.56	Neutral	91.84
Latam	Brazil	EUR / BRL 6.28	Positive	5.94	Positive	5.94
	Mexico	EUR / MXN 21.92	Neutral	21.60	Neutral	21.84

Sources: BNP Paribas, LSEG

FX FORECASTS USD

	Country	Spot 30/10/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD 1.09	Neutral	1.08	Positive	1.12
	United Kingdom	GBP / USD 1.30	Negative	1.26	Neutral	1.30
	Japan	USD / JPY 153.17	Positive	145.00	Positive	140.00
	Switzerland	USD / CHF 0.87	Neutral	0.87	Neutral	0.86
	Australia	AUD / USD 0.66	Positive	0.68	Positive	0.70
	New-Zealand	NZD / USD 0.60	Positive	0.63	Positive	0.63
	Canada	USD / CAD 1.39	Positive	1.32	Positive	1.30
Asia	China	USD / CNY 7.12	Neutral	7.10	Neutral	7.10
	India	USD / INR 84.09	Positive	82.00	Positive	82.00
Latam	Brazil	USD / BRL 5.78	Positive	5.50	Positive	5.30
	Mexico	USD / MXN 20.18	Neutral	20.00	Positive	19.50
EMEA	South Africa	USD / ZAR 17.68	Neutral	18.00	Neutral	17.50
	USD Index	DXY 103.99	Neutral	103.42	Negative	99.97

Sources: BNP Paribas, LSEG

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Equities



The final countdown

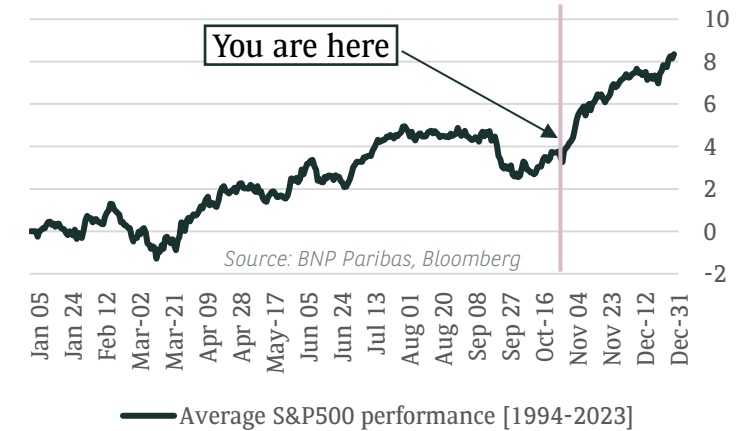
US Elections vs Seasonality

- **Seasonal tailwinds**– The market is entering the best six-month period of the year. Since 1950, the S&P500 returned on average 7,1% and traded higher in 77% of the occasions.
- **November** – when the sun shines bright for equities. November is the among the best months of the year, even in election years. We see several factors supporting this thesis. Supply from the largest sellers in the market – mutual funds having year end and pensions – will fade. In fact, November is the 4th largest month in terms of inflows into mutual equity funds in the US. Demand is likely to be increased further as corporates – the biggest buyers of equities – are about to come back online. November is the most important month for US buybacks, accounting for ~ 10,4% of the yearly flows
- **Donald Trump victory and potential US Red sweep election scenario.** The Republicans have won a Senate majority and are likely to win control of Congress. Additional US fiscal stimulus can be expected in 2025, plus deregulation efforts and higher likely import tariffs. Positive for stocks, especially cyclical sectors, small-caps.
- **The S&P 500 index has averaged a 12.9% annual return historically when the Republican party has controlled both the Presidency and Congress,** better than the annual average performance either under a Democratic administration (9.3%) or a divided Congress (8.3%).

Main recommendations

- ➔ **Stay the course and stick to your equity allocation** as the global economy and corporate profits will continue to grow through 2025 while interest rates will be trending lower; this combination suggests the broad backdrop for equities should be positive.
- 🔄 **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 (the only “Trump trade” which hasn’t worked yet), European equities – especially growth compounders and certain value sectors – as well as in Emerging Markets.
- ⬇️ **Black Gold has lost its glitter – Downgrading European Oil & Gas to Underperform.** Since our cut to neutral at the beginning of the year, the situation has worsened. The Damocles sword of OPEC spare capacities keeps oil prices muted while demand continues to remain weak. This is starting to translate into Capex cuts and increasing investor worries about the sustainability of current shareholder yields.
- ⚠️ **The key risks** are that the market will start to reprice growth fears with central banks being perceived as “behind the curve”. Increasing policy uncertainty around tariffs could weigh on sentiment, too.

WILL WE SEE ANOTHER YEAR-END RALLY?



ENTERING THE STATISTICALLY BEST EQUITY PERIOD

	S&P 500 Ø % change*	% up
Nov - Apr	7,1%	77,0%
Oct - Mar	6,7%	70,3%
Dec - May	5,4%	71,6%
Jul - Dec	4,8%	71,6%
Sep - Feb	4,7%	68,9%
Aug - Jan	4,5%	70,3%
Mar - Aug	4,4%	72,0%
Feb - Jul	4,4%	72,0%
Jan - Jun	4,3%	68,9%
Jun - Nov	3,4%	67,6%
Apr - Sep	2,7%	65,3%
May - Oct	1,7%	64,9%

Source: BNP Paribas, Bloomberg, Data since 1950

Asian Equities view

ASIA COUNTRY PREFERENCE



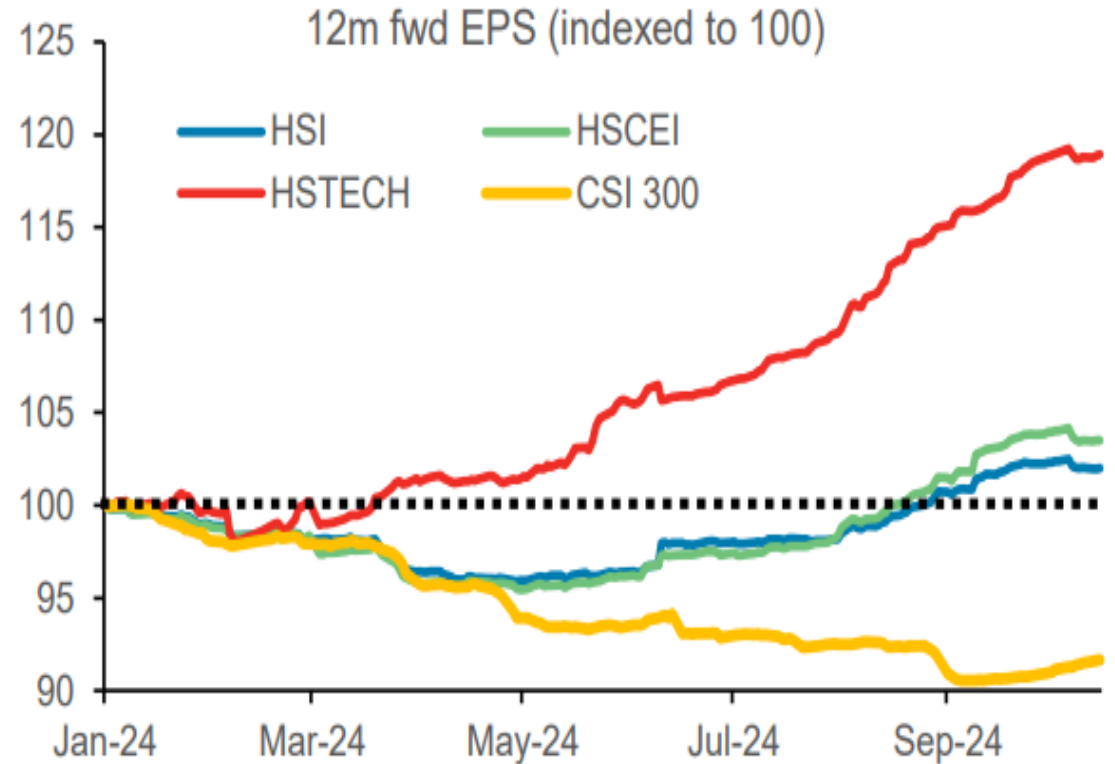
COUNTRY

China
Singapore
South Korea
Indonesia

Taiwan, Thailand
Malaysia
Philippines
India

- **China** – The market corrected after the sharp rally, but we remain positive in the medium term as i) the policy stance has become more favourable, and we expect new supportive policies to be introduced, ii) earnings estimates continue to be revised upward, and iii) valuations remain attractive. The market is closely monitoring whether fiscal policies will be unveiled following the early November National People’s Congress. The 2025 economic policy direction will be set by the Central Economic Work Conference in December.
- **India** – The structural growth story remains intact. However, in the short term, there is a risk that earnings estimates to will be revised downward with tech and consumer sectors facing weaker demand and banks under margin pressure. Valuations also look stretched. That said, pullbacks are buying opportunities.

Earnings in China stocks are bottoming out, with HS Tech Index being the first to recover



Source: WIND, HKEX, Bloomberg, BNP Paribas, as of 16 Oct 2024

05

Commodities



Commodities at a glance

Base metals were mixed last month, with still weak manufacturing PMIs, and waiting for more clarity on China’s fiscal stimulus package. Copper, nickel and tin corrected somewhat over last month, but iron ore and zinc are up. Ytd iron ore, coal and battery materials still declined, but most non-ferrous metals post decent Ytd gains: tin +22%, zinc +20%, aluminum +12%, copper +11%.

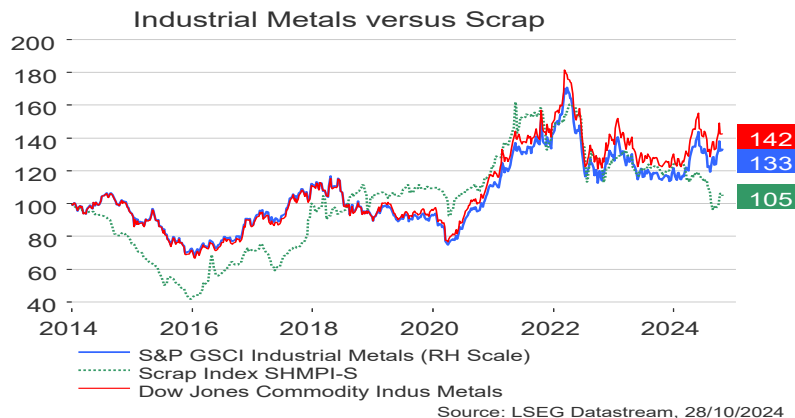
Brent price recently pulled back to the low end of its USD 70–80 trading range, due to fading fears of an escalating Israel-Iran conflict, as Israel’s retaliation has been milder than expected. The focus now returns to the challenging supply-demand prospects in the event that OPEC+ increases its production again

(decision expected on 1 Dec).

Gold continued its rally to reach new record highs, despite the recent headwinds of rebounding bond yields and a stronger USD. The gold price has been reassuringly resilient in the face of a stronger US dollar and higher bond yields post Donald Trump’s victory. Gold is up 35% Ytd, and silver even better at +43%.

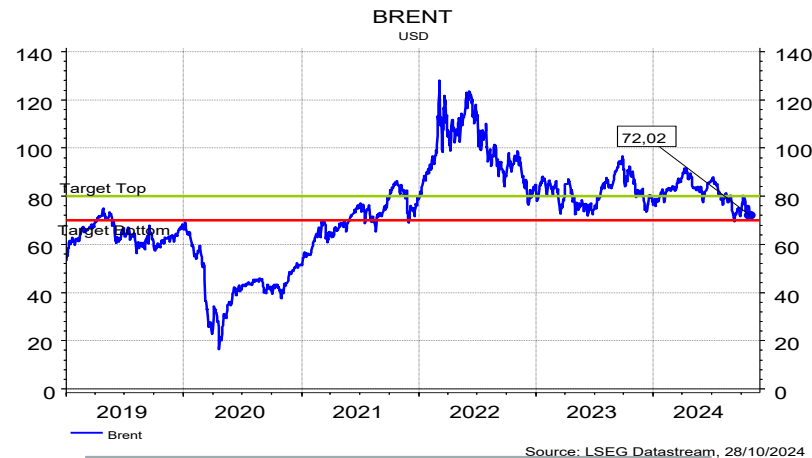
BASE METALS

+ We expect a recovery of manufacturing PMIs in 2025, helped by lower interest rates and Chinese stimulus. Demand growth will accelerate thanks to a) the energy transition, b) further EM urbanisation and c) infrastructure expansion, thus outpacing supply.



OIL

= We remain Neutral, with a target range of USD 70–80. Downside risks persist in view of weak demand growth and the OPEC+ plan to normalise its production cuts. A possible upside risk in the event of further escalation of Middle East war.



GOLD

+ We expect the upward trend to continue, with major support, over the coming next months, from declining interest rates and ongoing appetite/inflows from private investors.



06

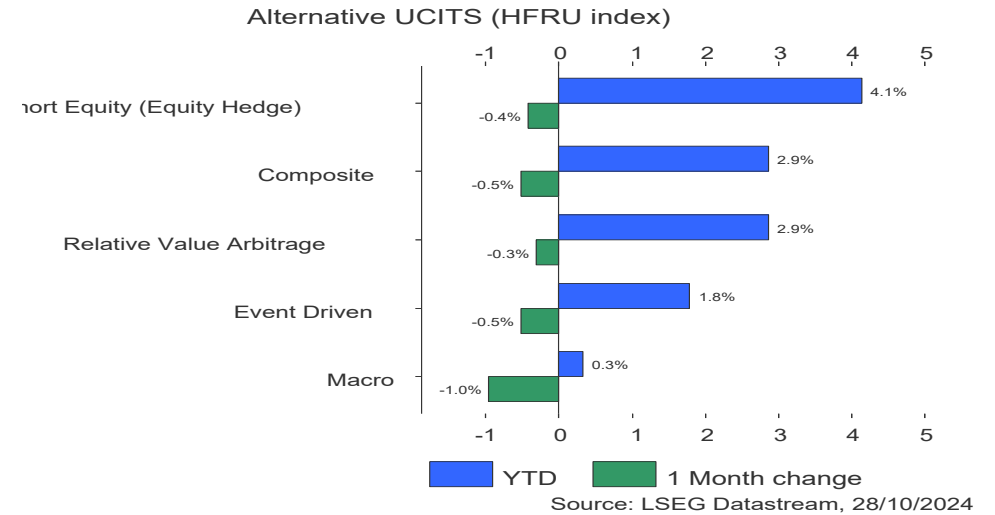
Alternative investments



Alternative Investments at a glance

Performances have been negative over the past month for the main strategies. They remain positive this year. Long-short equity remains the best performer year-to-date followed by Relative Value. Macro has been the worst performer over the past month.

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



Global Macro



Neutral: The visibility regarding market trends remains quite low. This is due to the remaining uncertainty linked to the pace of monetary easing and inflation scenario. Directional bets thus remain more challenging than Relative Value trades.

Event Driven



Positive: After a slow 2023, M&A activity is expected to continue to tick up after first-half M&A activity increased 18%. Despite the remaining political risk, the combination of increasing M&A volumes and rate cuts may yield a good end to the year for Event Driven strategies. 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 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. If equity markets face a more bearish sentiment, long/short strategies should provide better absolute returns compared with equity markets thus with low correlation.

Relative Value



Positive: Credit dispersion has increased as high yield issuers reacted to a higher rate environment and the maturity wall expected in 2025. For credit markets, the combination of resilient growth, and lower policy rates remains friendly, but the uncertainty around the US terminal rate could bring on greater volatility into credit markets.



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

Patrick CASSELMAN

Senior Equity and Commodities Strategist

ITALY

Luca IANDIMARINO
Chief Investment Advisor

GERMANY

Stephan KEMPER
Chief Investment Strategist

LUXEMBOURG

Guy ERTZ
Deputy Chief Investment Officer

Edouard DESBONNETS
Investment Advisor, Fixed Income

FRANCE

Charles GIROT
Senior Investment Advisor

Isabelle ENOS
Senior Investment Advisor

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