C.I.A. NETWORK

Asset Strategy in Brief

February 2024

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Macro, Market Views

	View	Comments
Macro		– Monthly inflation prints have declined sharply over the last 6 months. Central banks should cut interest rates starting in May. – GDP growth is running at an annualized 3.3% in the US for Q4, but around zero in the eurozone.
Rates	=	– After a sharp fall in 10-year bond yields, there is little further to gain to our 12-month yield targets. – Prefer short duration government bonds for their higher yields to maturity and ahead of supply risk. – EM sovereign bonds (local currency and USD) still offer attractive yields, in our view.
Credit	+	– EUR spreads offer more potential to tighten than US spreads in our view. – Investment grade, shorter duration preferred (<5 years duration). – 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. – French CAC-40 index reaches new all-time high. Insurance, Industrials and Technology sectors lead in Europe.
Real Estate	=	– Lagged impact from higher interest rates to fade, which should allow real estate prices to slowly stabilise.
Commodities	+	– Oil (+) Brent should remain in the USD 85-95 range due to gas/oil substitution & the progressive ban on Russian oil. Geopolitical risk premium in oil remains low. – Gold (+) is our preferred safe haven, weaker USD & stable long-term rates should help, 12-month expected range = USD 1950-2150.
FX		– Our EUR/USD target is USD 1.15 (value of 1 euro) in 12 months.

Key macro & markets forecasts

	GDP Growth %		Inflation %		Central Bank Rates %				Key market forecasts		
	2024e	2025e	2024e	2025e		Now	3M	12M		Now	12M
US	2.0	1.4	2.7	2.3	US Fed Funds Rate	5.5	5.25	3.75	US 10Y yield %	4.05	4.0
Eurozone	0.7	1.6	2.0	1.9	ECB Deposit Rate	4.0	4.0	3.25	Euro 10Y yield %	2.27	2.25
Japan	0.8	0.9	2.1	1.9	Bank of Japan Policy Rate	-0.1	0.1	0.25	UK 10Y Yield %	3.90	3.65
UK	-0.1	1.1	2.2	2.3	Bank of England Base Rate	5.25	5.25	4.25	S&P 500	4925	n/a
China	4.5	4.3	1.5	1.7	China MLF 1Y Interest Rate	2.5	2.35	2.25	Euro STOXX 50	4663	n/a
									Oil Brent USD/bbl	82.9	85-95
									Gold USD/oz	2034	1950-2150

Source: BNP Paribas WM. As of 30 January, 2024

01

Macro Insights

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Asset Allocation

Allocation changes this month:

- **Equity sectors:**
  - Upgraded US Small Caps to positive.
  - We downgrade Chemicals.
- **Bonds: No change.**
- **Commodities: No change.**

Outlook Synthesis

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

02

Fixed Income

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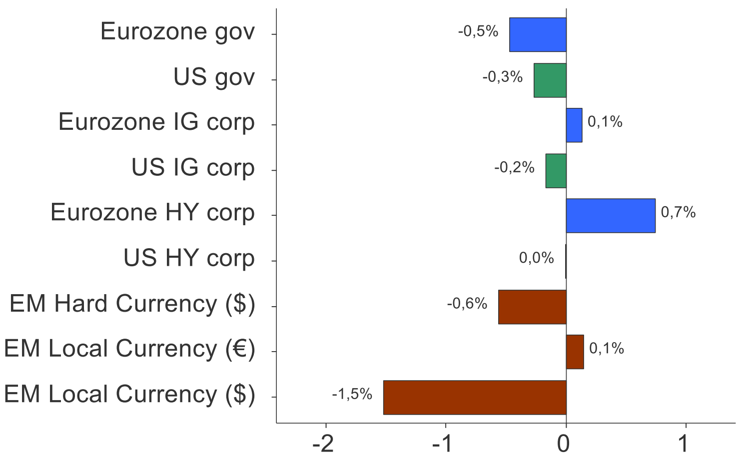
Fixed Income at a glance

Policy rate cuts are coming, but not as quickly as markets expect. Inflation risk persists. Macro economic data have been surprising to the upside. Bond yields have been volatile amid renewed concerns on the US regional banking sector. Bond issuance has been very high in January, but it's been very well absorbed by investors.

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

10-year yields	31/01/2024	12-month targets
US	3.95	4
Germany	2.16	2.25
UK	3.80	3.65

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 31/01/2024

Central Banks

The January FOMC meeting reinforces our assumption that the Fed would start cutting rates in May. We expect 150bps of rate cuts this year. The ECB should follow suit in June and cut rates by 75bps this year in our view.

Government Bonds

We stay Positive on US government bonds (prefer 2-3 years maturity) and US TIPS with maturities up to 10 years. Neutral on German government bonds.

Peripheral bonds

Spreads have tightened to reflect a strong reliance on large ECB rate cuts. Spreads could tighten in February amid high supply.

Corporate Investment Grade (IG) Bonds

Spreads have tightened further despite record issuance levels. Carry remains attractive. We prefer short maturities (< 5 years) in the eurozone and in the US.

Corporate High Yield (HY) Bonds

Credit spreads are very low as they are pricing an optimal scenario of a soft landing and a rapid rate cut cycle. We are more cautious. Carry is high but spreads could widen moderately.

Emerging Market (EM) Bonds

EM should benefit from the current environment of decent growth, central banks cutting rates and dollar weakening.

03

Equities

Equities: From the "Magnificient 7" to the "Super Six"

Key Points

- **Is this the beginning of the end?** We talked a lot about the embedded risk coming from (too?) ambitious valuations from certain US Mega Cap stocks. The first victim of those expectations seems to be Tesla. As growth has slowed, so has investor enthusiasm which led to a de-rating of its stock price and substantial underperformance vs the market and its "Magnificent 7" peers. In fact, we would argue that there are no "Mag 7" anymore but that we´re left with the "Super 6", for now.
- **On the way to the "Furious Five"?** If we are to see the rotation in stock leadership in the US stock market that we´re predicting, a gradual drop-off of the Magnificent 7 stocks one by one for different, stock-specific reasons over time would follow the typical rulebook for such a rotation.
- **Fresh All-Time-Highs (ATHs) are encouraging.** While many investors are somewhat reluctant to buy when new ATHs are hit, being shy at that very moment may be the worst thing to do. ATHs are usually a sign of strength and followed by new highs, especially, if a new high is reached after a longer period of time. If it takes the S&P 500 more than 12 month to hit a new ATH, the average performance during the following year was a gain of 14,84% with a 100% hit ratio. For reference: the unconditional average yearly performance since 1923 was 10,5% with a hit rate of 73%.

Main recommendations

Upgraded US Small Caps to positive. We see the stars aligned for a period of outperformance of US small caps as valuations, historical market patterns and economic growth are indicated future relative and absolute strength. We prefer the S&P 600 over the Russel 2000.

We stick to our positive view on EU Tech despite the good run recently and continue to like a barbell approach of selected growth and value (e.g. financials) sectors.

Country-wise, we maintain our positive stance on the eurozone, UK, Japan and Latin America

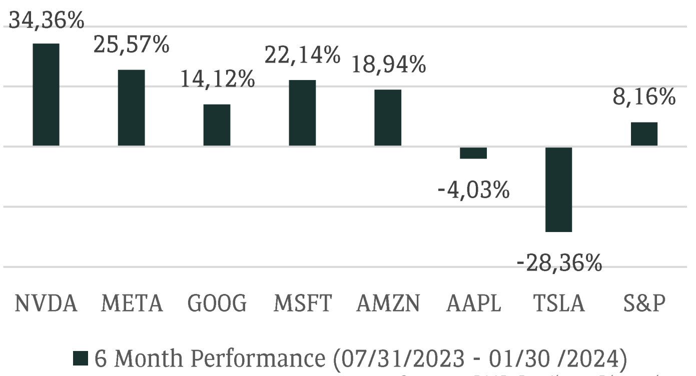
Be cautious/selective with expensive market segments, such as some large-cap US tech stocks and some Consumer Staples.

We downgrade Chemicals to negative due to ongoing earnings risk and too high valuations.

We see increasing risks for battery metals, especially lithium, as the market is likely to stay in surplus due to weaker demand.

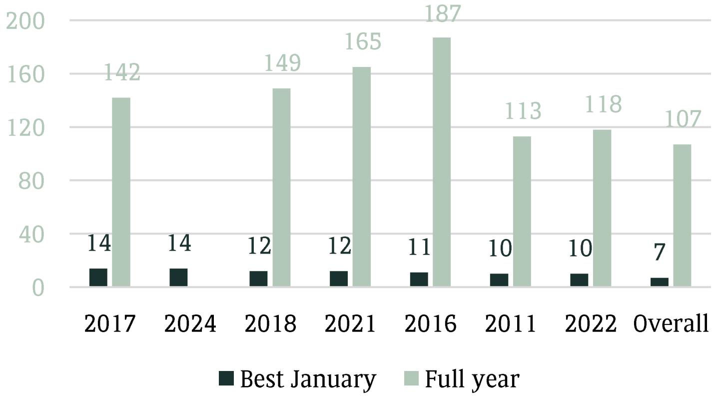
The key risks are that the US Federal Reserve or the ECB could raise interest rates more than expected, triggering a sharper economic slowdown or even a recession. Liquidity is likely to fall in the coming months, especially in the US.

TESLA & APPLE ARE STARTING TO FALL BEHIND



Source: BNP Paribas, Bloomberg

A SOLID START TO THE YEAR INDICATES AN ABOVE AVERAGE YEAR AHEAD FOR M&A DEALS



Source: BNP Paribas, Bloomberg

04

Forex

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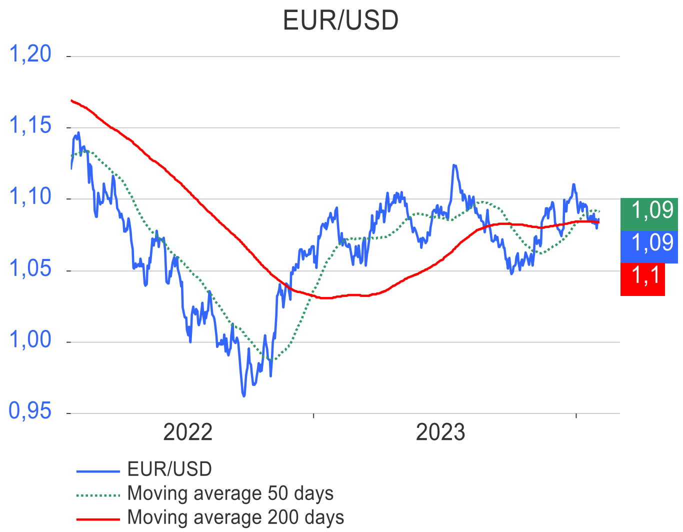
Currencies

1. The US dollar index (DXY) increased 2% and the Euro index (EXY) decreased 2% in January.
2. In China, we expect more easing policies ahead. These policy shifts will lead to a weakening of the CNY and enhance the rate differential favoring the USD . **We maintain our USDCNY 3-month target at 7.2 and change our 12-month target from 6.8 to 7.2 (value of one US dollar).**



Source: LSEG Datastream, 01/02/2024

	Country	Spot 31/01/2024		Target 3 months	Target 12 months
Against euro	United States	EUR / USD	1,08	1,06	1,15
	United Kingdom	EUR / GBP	0,85	0,86	0,86
	Switzerland	EUR / CHF	0,94	0,95	0,98
	Japan	EUR / JPY	160,21	154	154
	Sweden	EUR / SEK	11,32	11,00	11,00
	Norway	EUR / NOK	11,35	11,30	10,80
Against dollar	Japan	USD / JPY	147,85	145	134
	Canada	USD / CAD	1,34	1,32	1,30
	Australia	AUD / USD	0,66	0,68	0,70
	New Zealand	NZD / USD	0,61	0,60	0,63
	Brazil	USD / BRL	4,97	5,00	5,00
	India	USD / INR	83,12	82,0	82,0
	China	USD / CNY	7,18	7,20	7,20

Source: BNP WM - LSEG Datastream

>> TARGET 12M EURUSD: 1.15

We anticipate the Fed to initiate 150bps of rate cuts starting in May 2024. We expect the ECB to maintain its policy rates until June 2024, followed by a projected 75bps rate cut by year-end. This forecast suggests a narrowing interest rate differential between the USD and Euro, potentially exerting downward pressure on the USD.

>> TARGET 12M USDJPY: 134

The outlook for a gradual normalisation of monetary policy by the Bank of Japan (i.e. end of negative interest rate policy) should be supportive for the currency. This should be especially the case for the value of Yen against the USD as the Fed has biggest potential for rate cuts.

>> TARGET 12M AUDUSD: 0.70

Early December, the Reserve Bank of Australia (RBA) opted to maintain its policy rate at 4.35%, in line with expectations. Governor Michele Bullock, who's stuck with a hawkish tone, isn't expected to readily pivot to policy easing. That should support the AUD.

>> TARGET 12M EURGBP: 0.86

The potential for rate cuts is very similar to the ECB. This, and the overall economic indicators do not suggest a significant shift in the short-term outlook for the EUR/GBP exchange rate.

>> TARGET 12M EURCHF: 0.98

The Swiss National Bank (SNB) held its ground on monetary policy, maintaining rates at 1.75% as of December 14th. The potential for rate cuts is however more moderate compared to the ECB. The Swiss Franc should remain below parity.

>> TARGET 12M USD: 7.2

The PBoC cut banks' reserve requirement ratio by 50bp (vs 25bp expected) to 10% as of February 5th. This policy shift offers less support for the CNY especially given the expected major rate cuts by the Fed. We see no reason to expect an appreciation of the CNY. Both our 3- and 12-month target is 7.2. This is close to the level seen recently.

Forex at a glance

FX FORECASTS EUR

	Country		Spot 31/01/2024	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	0,85	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	160,21	Positive	154	Positive	154
	Switzerland	EUR / CHF	0,94	Neutral	0,95	Negative	0,98
	Australia	EUR / AUD	1,65	Positive	1,56	Neutral	1,64
	New-Zealand	EUR / NZD	1,77	Neutral	1,77	Negative	1,83
	Canada	EUR / CAD	1,46	Positive	1,40	Negative	1,50
	Sweden	EUR / SEK	11,32	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,35	Neutral	11,30	Positive	10,80
Asia	China	EUR / CNY	7,78	Neutral	7,63	Negative	8,28
	India	EUR / INR	90,07	Positive	86,92	Negative	94,30
Latam	Brazil	EUR / BRL	5,39	Neutral	5,30	Negative	5,75
	Mexico	EUR / MXN	18,63	Negative	19,08	Negative	21,28

Sources: BNP Paribas, LSEG Datastream

FX FORECASTS USD

	Country		Spot 31/01/2024	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	1,27	Negative	1,23	Positive	1,34
	Japan	USD / JPY	147,85	Neutral	145,00	Positive	134,00
	Switzerland	USD / CHF	0,86	Negative	0,90	Neutral	0,85
	Australia	AUD / USD	0,66	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,61	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,34	Neutral	1,32	Positive	1,30
Asia	China	USD / CNY	7,18	Neutral	7,20	Neutral	7,20
	India	USD / INR	83,12	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	4,97	Neutral	5,00	Neutral	5,00
	Mexico	USD / MXN	17,19	Negative	18,00	Negative	18,50
EMEA	South Africa	USD / ZAR	18,86	Positive	18,00	Positive	17,50
	USD Index	DXY	103,40	Neutral	104,88	Negative	97,40

Sources: BNP Paribas, LSEG Datastream

05

Commodities

Commodities at a glance

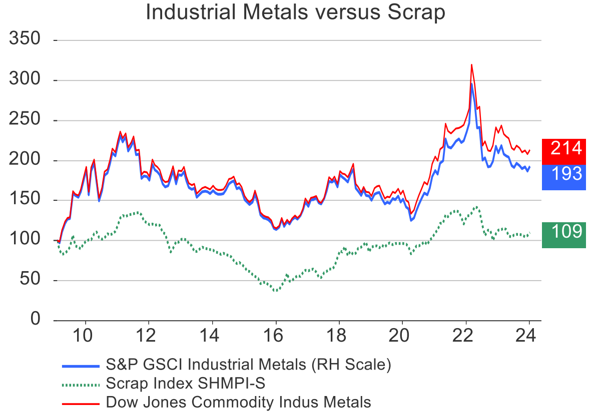
Oil prices were mainly driven in January by the geopolitical risks in the Middle East while supply was plentiful. The Brent ended the month up 6% at $81.7 (Brent)

Base Metals had a weak start in January but recovered at the end of the month. Since the start of 2024, lead rose 4%, tin 3%, copper 0,6% while nickel lost 2%, aluminum -4% and zinc 5% (as of 31/01)

Gold ended 2023 at $2063 and lost some ground in January as bond yields increased, and the dollar strengthened. Gold ended the month around $2054.

BASE METALS

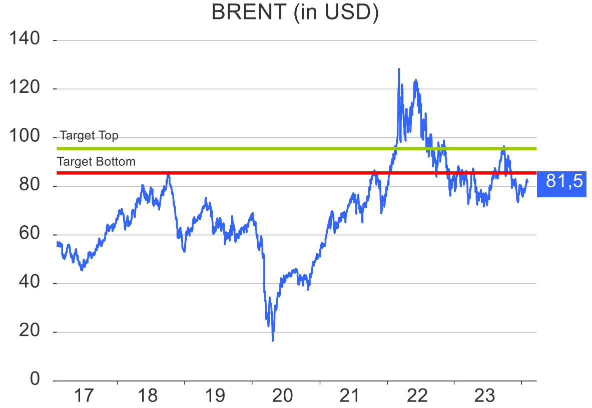
The bottoming out of global manufacturing PMI bodes well for base metals. It's a question of time before cyclical demand meets structural (energy transition & defense). Copper is our preferred base metal.



Source: LSEG Datastream, 01/02/2024

OIL

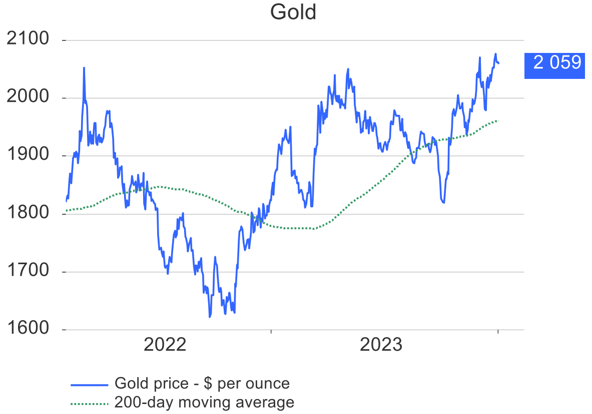
As the OPEC+ supply management policy should be prolonged, we expect Brent price to trade back in the $85-95 range. Medium-term outlook remains bullish as needs seem underestimated.



Source: LSEG Datastream, 01/02/2024

GOLD

We expect gold to trade in the $1950-2150 as lower real bond yields, a weakening USD, continuing EM central banks purchases, geopolitical and stagflation risks hedging underpin the market.



Source: LSEG Datastream, 02/01/2024

Our position for this month

Evolution of our position from last month

06

Alternative Investments

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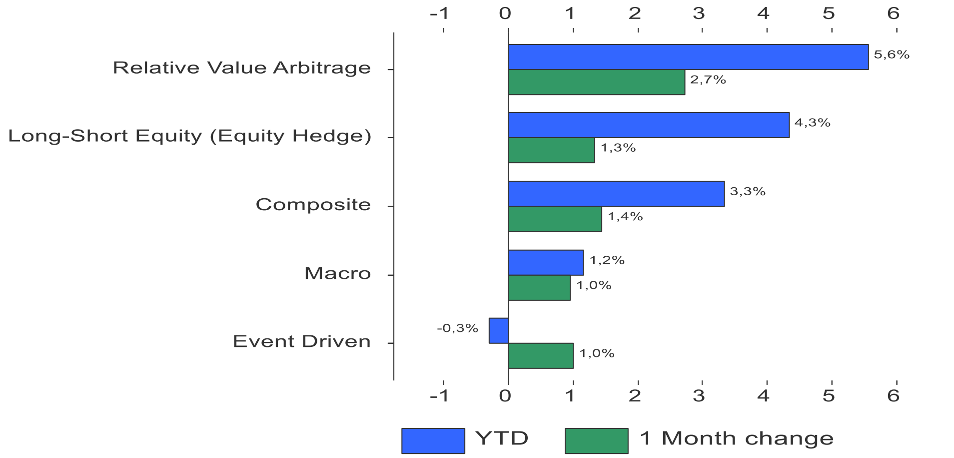
Alternative Investments

Performance in most alternative strategies was quite strong at the end of the year. Relative Value and Long-Short equity outperformed again the other strategies. This still remains true for the performances year-to-date.

Positive opinion on Macro, Long-Short equities and Relative Value. Neutral on Event Driven.

Alternative UCITS (HFRU index)



Source: LSEG Datastream, 28-12-23

Global Macro

Positive : Global economies have shifted from a transition phase where they seemed unaffected by Quantitative Tightening to bearing the consequences of "Rates higher for longer" with concrete and often adverse effects, and clearer trends to come.

Long / Short Equity

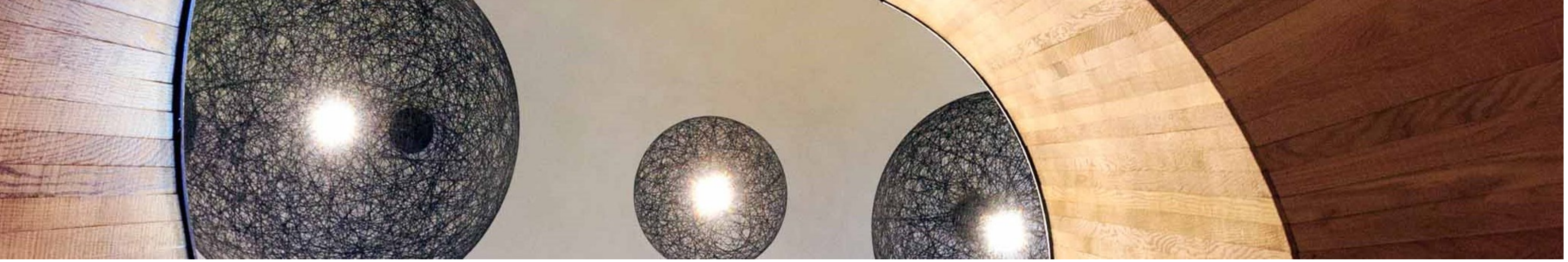
Positive: After a macro driven year, dispersion has increased lately amongst equity, paving the way for better long and short stock picking opportunities. If equity markets move sideways or down slightly, long/short should provide strong absolute returns with low correlation to equity markets.

Event Driven

Neutral: Deal flow has started to rebound somewhat from the subdued levels of 1H 2023 but remains on the low side despite a few new mega-deals of 1H 2023, noted by the return of mega-deal announcements. Valuations have adjusted in the new rate environment, compensating for increased financing costs.

Relative value

Positive : The high-rate environment provides significant carry, but the rising default rate poses a risk to a long-only strategy. A long/short strategy can earn consistently strong returns by identifying both winners and losers, while also hedging against macroeconomic shocks. Economic resilience from the lagged effect of rising rates and the need to refinance ("maturity wall") starting only next year have so far limited dispersion between strong and weak issuers.



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