APRIL 2024

Investment Strategy Focus

One Month to "Sell in May and go away?"

Summary

1. **Reiterate caution in "hot" momentum.** Continue to follow the rising trend in stocks for now. But this momentum is stretched, raising the risk of short-term correction if the flow of global liquidity reverses. Prefer value in cyclical stocks – Industrials, Banks, Insurance sectors.

2. **Japan finally ends negative rates:** the Bank of Japan has finally increased their interest rate to 0.1% but is unlikely to raise again in the short term. This move was widely expected, so the yen remains weak and Japanese stocks maintain momentum.

3. **Switzerland unexpectedly cuts rates:** the SNB leads major central banks with a 0.25% rate cut (to 1.5%). This decision led to a depreciation of the CHF after recent extreme strength. The expected ECB rate cut sequence starting in June should, however, limit the appreciation of the euro.

4. **Alternative UCITS/hedge funds deliver lower risk returns for conservative investors:** relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023. These strategies offer lower risk returns, at low/zero net market exposure. We favour relative value equity, credit and event-driven funds.

5. **Unabated demand for gold:** ongoing central bank buying and demand from Asian consumers have outweighed outflows from physical gold ETFs/funds. We see further tailwinds for gold from the start of the Federal Reserve's rate-cutting cycle in June. We raise our 12-month target range to USD 2100-USD 2300/ounce.

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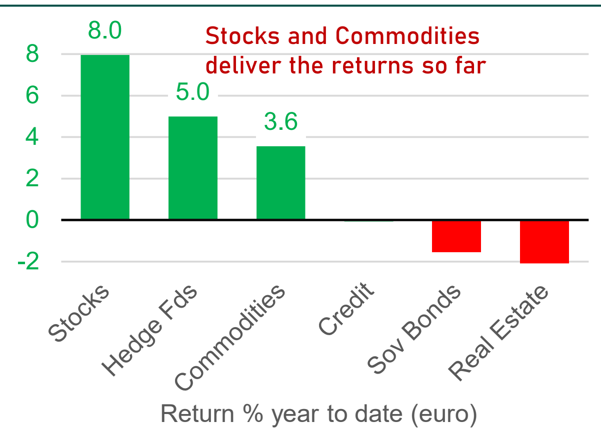
STOCKS AND COMMODITIES (GOLD) DRIVE INVESTOR RETURNS SO FAR IN 2024



Source: BNP Paribas, Bloomberg. Note: Real Estate is listed REITs

Edmund Shing, PhD

Global CIO

BNP Paribas Wealth Management

BNP PARIBAS WEALTH MANAGEMENT

The bank for a changing world

Macro, Market Views

Macro		– Monthly inflation prints have declined sharply over the last 6 months. – US, EU central banks should cut interest rates starting in June. US Fed Funds rate to end-2024 expected at 4.75% (3 cuts), ECB deposit rate expected at 3.25%. GDP growth is running at an annualised 2.1% in the US for Q1 2024 and is slowly 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 (<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, asset-backed securities funds. – We favour Euro financial sector corporate bond exposure.
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. – Key pick: eurozone cyclicals (Industrials, Banks, Insurance).
Real Estate	=	– Latest INREV quarterly survey suggests better European real estate sentiment – Lagged impact from higher interest rates to fade, which should allow real estate prices to slowly stabilise. – Industrial/logistics exposure preferred for healthy yields, higher expected rental growth on robust underlying demand growth.
Commod-ities	+	– Oil (+) Brent should remain in the USD 85-95 range due to gas/oil substitution & the progressive ban on Russian oil. – Gold (+) is our preferred safe-haven – a lower Fed Funds rate from June, weaker USD and stable long-term rates should help. Increased 12-month expected range = USD 2100-2300; a key diversifying asset.
Alternative UCITS/ Private Assets	=	– We favour relative value equity, credit and event-driven funds for their robust risk-adjusted returns at low volatility. – Private equity buyout funds are a preferred private asset subclass, given robust long-term returns and an abundance of public market opportunities
FX		– EUR/USD target is USD 1.15 (value of 1 euro) in 12 months, on narrowing US vs. EU interest rate gap by year-end. – EUR/CHF 3-month target raised to 0.98, maintain our 12-month target at 0.98 (value of one euro).

The SNB leads the pack

Guy Ertz, PhD

A flurry of central bank decisions...

The Reserve Bank of Australia emphasized that the battle against inflation continues. The Bank of Japan ended its negative rates policy with a first rate hike in 17 years. The European Central Bank hinted at the possibility of initiating a rate-cutting cycle in June. The Federal Reserve reiterated its plans to reduce rates sometime this year, and the Bank of England edged closer to its first rate cut. These policy stances were largely anticipated.

... and one surprise

The Swiss National Bank (SNB) caught markets off guard with an unexpected rate cut in March, lowering its policy rate from 1.75% to 1.5%.

The decision was justified by several factors. Firstly, the successful efforts to combat inflation over the past 2.5 years. With inflation consistently below 2% since June 2023, and notably dropping to 1.3% YoY in January and 1.2% YoY in February, the SNB is more comfortable given its inflation target range of 0-2%. Additionally, the SNB significantly revised its inflation forecasts downwards, projecting an average of 1.4% this year, 1.2% next year, and 1.1% in 2026.

Secondly, concerns about the strength of the Swiss Franc contributed to the decision.

Thirdly, risk management considerations suggested that maintaining high policy rates may pose more risks than cutting rates at this juncture.

Expect further SNB rate cuts

We anticipate another 25 basis point (0.25%) rate cut this year, followed by one more in 2025. By the end of 2025, we expect the policy rate to reach 1%. We don't see much upside for Swiss government bonds. The 10-year yield is unlikely to drop, rather, it may drift modestly higher but stay under 1% in 12 months' time.

Limited downside for the Swiss Franc (CHF)

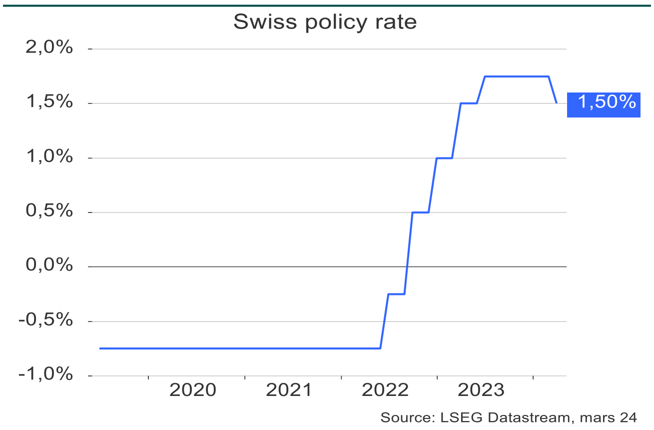
After reaching a peak against the euro around 0.93 (value of one euro) in late 2023, the Swiss franc has depreciated since the start of the year. In February, our EUR/CHF 3-month target was breached at 0.95. The move accelerated after the SNB's surprise decision to cut rates (see above). As expected, the policy statement retained the sentence that "*The SNB also remains willing to be active in the foreign exchange market as necessary*."

It appears that the SNB has favoured using rates over FX intervention as a tool for guiding inflation. Looking forward, the expected ECB rate-cut sequence starting in June should limit the appreciation of the euro. The Swiss currency is still regarded as a safe-haven currency, and we do not expect the euro to reach parity against the franc over the coming year. The European election in June could be a source of volatility.

Revising our 3-month EUR/CHF FX target

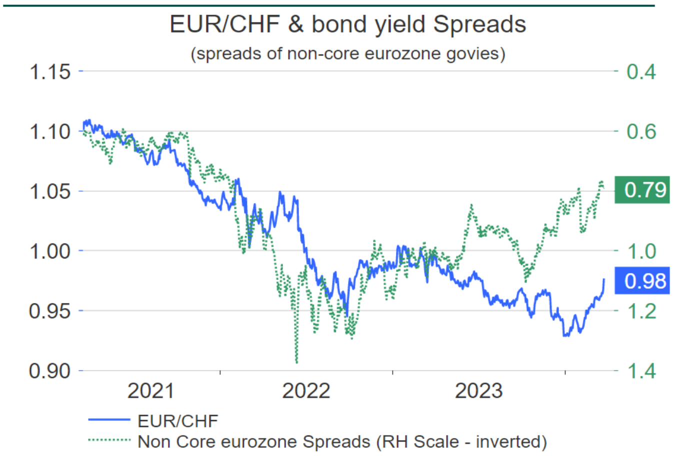
Given the latest developments, we increase our EUR/CHF 3-month target from 0.95 to 0.98 and maintain our 12-month target at 0.98 (value of one euro).

SWITZERLAND LEADS DM CENTRAL BANKS WITH A FIRST RATE CUT



Source: BNP Paribas, Bloomberg.

THE SWISS FRANC REMAINS A SAFE HAVEN CURRENCY



Source: LSEG Datastream.

Japan: a land of higher wages and positive rates, weak yen

Finally, an end to negative policy interest rates

The Bank of Japan is the last major central bank to end its longstanding negative policy interest rate, raising its policy rate to +0.1% in March. The Bank of Japan (BoJ) cut this policy rate to -0.1% at the beginning of 2016, where it has had remained for over 8 years.

Following a return to positive inflation rates in late 2021, inflation ex-fresh food has averaged 2.6% since, and is only now easing back to 2%. With Japan seemingly out of the deflationary environment it was trapped in since 1995, there is little reason for the Japanese central bank to continue with this negative interest rate policy.

But no support for the Japanese yen, thus far However, the BoJ has also signalled that they will maintain a relaxed monetary policy, with no hints as to the timing of any future interest rate hike. Clearly, the BoJ does not seem to be worried by the recent union-negotiated wage deal of 5.28% on average for the current year, higher than the 3.8% increase achieved in 2023 and the highest increase since 1991.

Interest rate futures markets only price a further 0.1% policy rate hike (to 0.2%) in October, which suggests a very cautious Bank of Japan.

As a result, there has been little impact on the key Japanese yen exchange rates, with the USD/JPY rate anchored close to recent lows at around Y150 per 1 US dollar and Y163 per 1 euro.

Japanese Nikkei index hangs onto the 40,000 level

The shift in the Bank of Japan's policy stance has had little impact on Japanese stocks thus far. The Nikkei 225 index broke above the 40,000 level for the first time ever in March, marking a 20% gain since the start of this year. The ongoing weakness of the yen underpins strength in Japanese exporters, while Japanese banks have gained 67% over the past year. Note that the Japanese banking sector still trades at a price/book ratio of under 0.8x, so is hardly expensive even after this impressive rally.

Japanese stocks: stay invested or take profits?

The MSCI Japan index has gained 46% over the past year in local currency terms (including dividends), and 29% in euro and dollar terms. There is thus a clear temptation to take profits, particularly after the rally in the year to date.

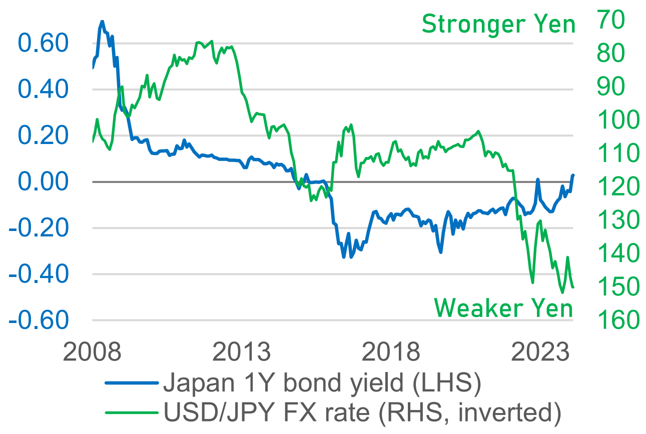
But on balance, we believe that the Japanese story remains one of long-term structural change, that can deliver further benefits to stock market profitability. We stick to our positive stance on Japanese stocks, looking to add on weakness.

Japan finally ends negative rates

The Bank of Japan has finally increased their interest rate to 0.1% but is unlikely to raise again in the short term.

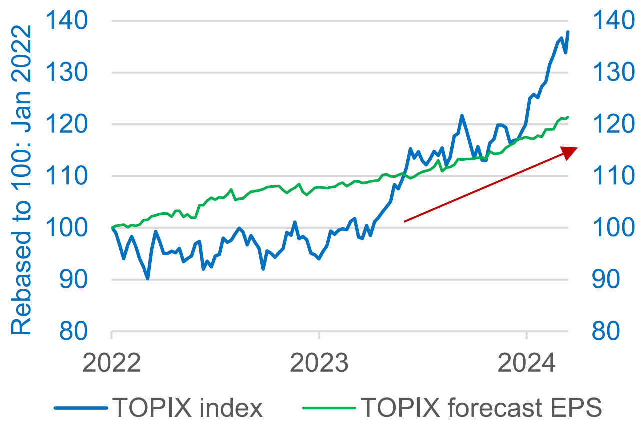
This was widely expected, so the yen remains weak and Japanese stocks maintain their positive momentum.

BACK TO POSITIVE INTEREST RATES, BUT YEN HAS NOT RALLIED AT ALL



Source: BNP Paribas, Bloomberg.

JAPANESE STOCK EARNINGS CONTINUE TO INCREASE STEADILY



Source: BNP Paribas, Bloomberg.

Positive on Stocks, watch for rotation into cyclical value

Cooling momentum trends after a fast start

January and February were dominated by the huge gains in the current fashion trends of mega-cap technology stocks and cryptocurrencies. By the end of February, the Bloomberg cryptocurrency index had already gained 43%, while US semiconductors had surged by 33% from the beginning of the year.

Over the year to date, spot bitcoin ETFs have grown to USD 60bn of assets under management since launch on 11 January, with two bitcoin ETFs featuring in the top 5 US ETFs by inflows over 2024 to date.

March might have finally marked the start of some profit-taking in these "hot momentum" segments of the financial markets. US momentum stocks were pausing for breath over March.

Better manufacturing confidence helps cyclicals

Steady improvement in the S&P/JP Morgan global manufacturing PMI back into modest expansion territory (over 50, at a February reading of 50.3) suggests a stronger outlook for industrial cyclical stocks. European and US Industrial Goods & Services sectors continue to power to fresh all-time highs, as does the industry-heavy Japanese Nikkei 225 index. In Europe, both the German DAX and Swedish OMX stock indices have also surged to new peaks, despite the stagnant European domestic growth environment.

Segments, such as industrial automation, energy efficiency and aerospace & defence remain key areas of strength, boosted by secular demand growth and record profitability.

Favour cyclical value in Financials, Industrials

Eurozone Banks are a key cyclical value sector which we continue to favour. Not only do they continue to benefit from high short-term interest rates, but they should also benefit from improving European consumer sentiment, helping loan demand, particularly for mortgages. In addition, strong balance sheets allow eurozone banks to boost shareholder returns often to double-digit levels, via high dividends combined with rising share buybacks.

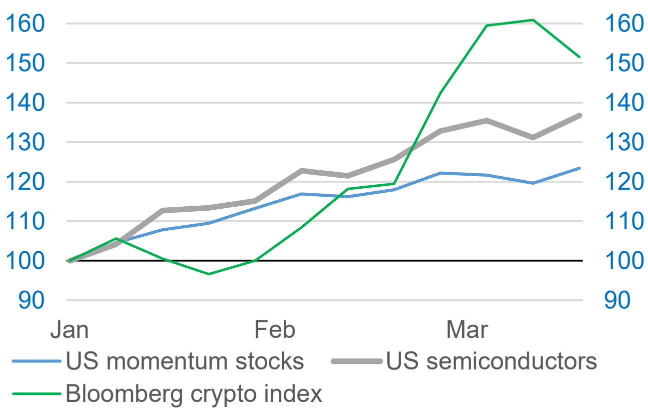
From 2009 to 2020, European banks underperformed both the Insurance sector and the broader European stock market dramatically following the 2008 financial crisis, as they were obliged, by stricter Basel regulations, to amass much higher levels of bank capital. This depressed profitability and shareholder returns. But at last this pressure has reduced, with net interest income boosted by a positive ECB deposit rate (4% currently, up from a negative rate in late 2022). Banks today are estimated to return EUR120bn to shareholders in 2024 via dividends and share buybacks, while returns on equity for the sector are forecast to return close to 10%.

Reiterate caution in "hot" momentum

Continue to follow the rising trend in stocks for now. But this momentum is stretched, raising the risk of a short-term correction if the flow of global liquidity reverses.

Prefer value in cyclical stocks – Industrial Goods & Services, Financials sectors.

MOMENTUM FACTOR STUTTERS IN MARCH AFTER STRONG START TO YEAR



Source: BNP Paribas, Bloomberg.

EURO BANKS ONLY BROKE THE LONG-TERM DOWNTREND IN 2023

Source: BNP Paribas, Bloomberg.

The 3 key commodities to watch: Oil, Gold and Copper

Robust demand for Gold, Oil, Copper…

Since peaking in the aftermath of the outbreak of the Ukraine conflict in mid-2022, the Bloomberg commodities index declined 30% to its recent trough at the end of February this year. Since this low point, gold, crude oil and copper prices have risen 6-7% on the back of robust demand and tighter supply.

Oil is supported by increasing demand from emerging markets (notably from Asia); copper continues to see growing demand both from electronics and from investment linked to the energy transition; and gold continues to be purchased in large quantities by various central banks.

…combines with tighter supply…

On the supply side, we see increasing constraints in oil production as the OPEC+ members pursue their current production cuts, while there is growing scepticism over the ability of the US to continue to grow onshore shale oil production yet further. Copper production has continued to undershoot expectations in Chile, Panama and China. Gold production continues to grow at about 3000 tons per year, limited to less than 1.5% of the total existing world stockpile.

…partly due to lower capital investment since 2016

Both copper and gold production suffer from a trend of long-term mining underinvestment since 2016, when global mining companies were sharply reducing capital investment plans. As a result, there has been little new mining capacity introduced over the past few years, with mining companies preferring to maximise profitability and efficiency of existing mines.

Strong long-term gold performance

The clear drawback to gold from an investor's point of view is the obvious lack of income, unlike for stocks, bonds, cash or real estate.

However, we should set against this lack of income the true diversification benefits that gold can bring to a portfolio dominated by stocks, bonds and real estate. Gold remains a universally-recognised alternative currency and a long-term store of value. It has a good habit of performing strongly at times of crisis, when these other asset classes tend to suffer.

Since the beginning of 2000, gold has returned an annual average 7.5% in euro terms, compared with 5.2% for global stocks and 2.9% for fixed income (bonds and credit). It has recently established a new all-time high of close to USD 2200/oz, in the process breaking its traditional correlation (of a higher gold price) with lower bond yields and a weaker US dollar.

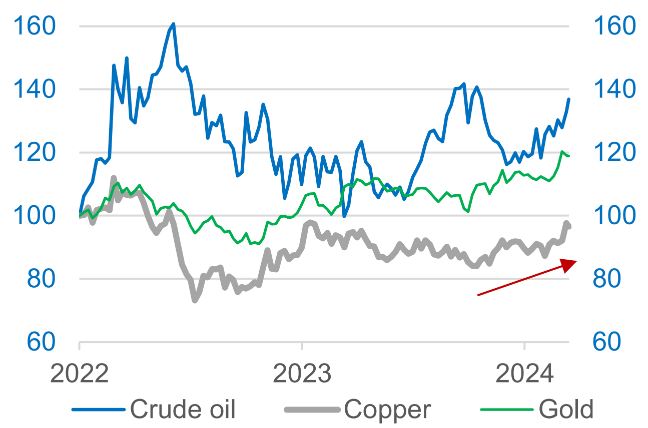
We remain long-term believers in the diversification benefits of gold in an investment portfolio, particularly for those concerned about the record expansion in money supply around the world since 2020.

Continued strong demand for gold

Ongoing central bank buying and demand also from Asian consumers has vastly outweighed outflows from physical gold ETFs/funds. We see further tailwinds for gold from the start of the Federal Reserve's rate-cutting cycle in June.

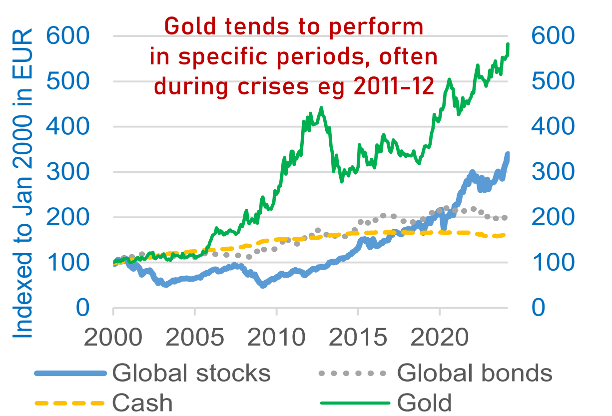
We raise our 12-month target range to USD 2100-USD 2300/ounce.

GOLD, OIL AND COPPER ALL RISING



Source: BNP Paribas, Bloomberg.

GOLD HAS BEATEN STOCKS, BONDS, CASH 2000-2024



Source: BNP Paribas, Bloomberg.

Alternative UCITS funds: attractive to risk-averse investors

Hedge Funds: Low volatility returns on offer

Lower volatility hedge fund/alternative UCITS fund strategies should be considered for inclusion in conservative investment portfolios, in our view. We focus on those strategies that take both long and short positions on stocks and corporate credit, thus reducing or eliminating any underlying market risk. These long/short funds use relative value strategies to extract performance, largely independent of the movements on the underlying stock and corporate credit markets.

Over the last 12 months (to end-February), credit, equity and event-driven hedge fund strategies have all returned between 5% and 9% in US dollar terms, net of fees. This performance far outstrips returns from long-only corporate credit and sovereign bond funds, as well as cash. Note the low volatility of credit hedge funds, which have averaged less than 5% in annualised terms since 2014.

Over the last 10 years, both credit and quantitative equity hedge funds have achieved annualised net returns of 4% or more while restricting annualised volatility (a measure of risk) to 4-5% and a maximum drawdown (monthly) in 2020 of 12% and 8% respectively.

Compare this with global sovereign bond and global corporate credit indices (in US dollars), which have returned just -0.6% and +1.3% annualised since 2014, but at a long-term annualised volatility of over 6%, and maximum drawdowns in 2022 of 24%-27%.

Steady fund performance attracts new capital

According to Goldman Sachs, capital allocators reported an average gain of 6.4% for January-November 2023, after a broadly flat 2022. For 2024, allocators expect to increase investment in hedge funds, focusing on credit strategies including distressed credit and long-short credit.

We believe that conservative investors looking for returns from assets with low volatility and limited drawdowns should consider alternative UCITs and hedge fund strategies which limit or eliminate exposure market direction. These include structured credit, long-short credit, long-short equity and quantitative equity strategies.

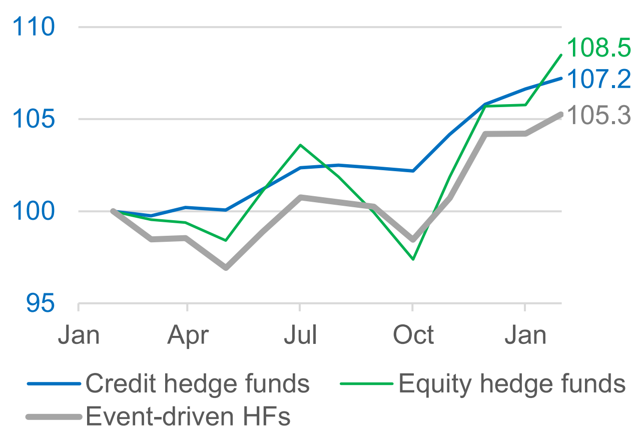
Moreover, given the rising tide of corporate actions and takeovers across the globe, event-driven strategies should be considered. The Bloomberg event-driven hedge fund index has returned 6.2% annualised since the beginning of 2020, with annualised volatility of just over 7%.

Alternative UCITS/hedge funds deliver lower risk returns for conservative investors

Relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023. These strategies offer lower risk returns, at low/zero net market exposure.

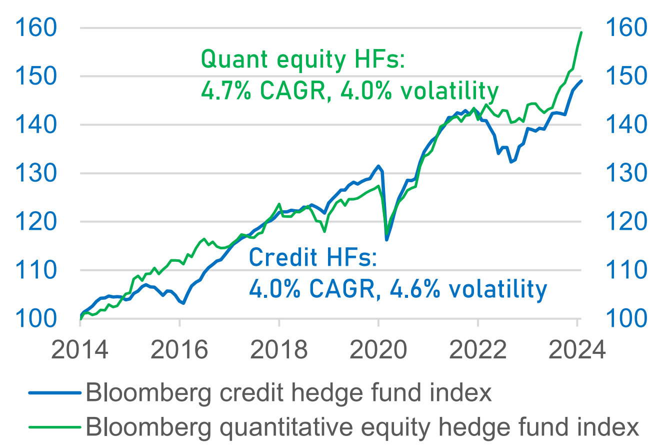
We favour relative value equity, credit and event-driven funds.

HEDGE FUND STRATEGIES PERFORM WELL SINCE OCTOBER, CREDIT MOST CONSISTENT



Source: BNP Paribas, Bloomberg. Note: net total return in USD, to end-February 2024.

CREDIT, QUANT EQUITY HEDGE FUNDS STRATEGIES KEEP VOLATILITY TO 4-5%



Source: BNP Paribas, Bloomberg

Summary of our main recommendations, by asset class

	Current Recom	Prior Recom	Constituents	We like	We avoid	Comments
EQUITIES	+	+	Markets	UK, Japan, eurozone, Latin America, China, S. Korea Singapore and Indonesia		Buoyant global liquidity continues to support stock markets. Key drivers include falling US inflation, lower long-term interest rates, improving macro liquidity, and easing energy prices. Build stock exposure gradually on market consolidations.
			Sectors	Global Health Care, Industrials, Materials, EU Financials & Technology	Telecoms, Consumer Discretionary, Consumer Staples	**Materials** to benefit from rebounding Chinese activity and low base metals inventories. **European banks** should benefit from surprisingly resilient consumption, rising Net Interest Margins & rising ECB deposit rate.
			Styles/ Themes	Quality, Megatrend themes		Circular Economy, Electrification, Security, Income Growth themes
BONDS	=	=	Govies	Favour US short duration. Prefer inflation-indexed bonds		Our 10-year bond yield targets are 4% in the US and 2.25% in Germany in one year. Favour US and UK inflation-linked bonds.
	+	+	Credit	US, Euro IG credit		We favour investment grade Credit, focusing on US and EU credit on the back of decade-high yields and strong balance sheets.
	+	+	EM bonds	USD and local currency		
CASH	-	-				
COMMO-DITIES	+	+		Gold Oil Industrial metals		Oil (+) Brent should remain in the USD 85-95 range due to gas/oil substitution & the progressive ban on Russian oil. Base metals (+) boosted by China's reopening in the short term, and energy transition demand in the longer term. Gold (+) is our preferred safe haven, and a weaker USD & stable LT rates should help, higher 12-month exp. range = USD 2100-2300.
FOREX			EUR/USD			Our EUR/USD target is USD 1.15 (value of 1 euro) in 12 months.
REAL ESTATE	=	=		Health Care, logistics/ warehouses		Unlisted real estate faces enduring headwinds from slowing economies and much higher financing rates. Prefer listed real estate.
ALTERNATIVE UCITS				Long/Short Equity, Credit and Relative Value, Trend-following		Relative value alternative UCITS funds have beaten bond/credit indices since the start of 2023, offering lower risk returns, at low volatility.
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.

Economic, FX forecast tables

GDP Growth %	2023	2024	2024-Bloomberg Consensus	2025	2025-Bloomberg Consensus
BNP Paribas Forecasts					
United States	2,5	2,8	2,2	1,8	1,7
Japan	1,9	0,4	0,7	0,9	1,1
United Kingdom	0,1	0,1	0,3	1,2	1,2
Eurozone	**0,5**	**0,7**	**0,5**	**1,7**	**1,3**
Germany	-0,1	0,0	0,1	1,1	1,1
France	0,9	0,7	0,7	1,4	1,3
Italy	0,7	0,9	0,6	1,4	1,1
Emerging					
China	5,2	4,5	4,6	4,3	4,3
India**	7,5	8,1	7,0	7,1	6,4
Brazil	3,1	1,8	1,7	1,8	2,0

** Fiscal year

Source : BNP Paribas, Bloomberg - 26/03/2024

CPI Inflation %	2023	2024	2024-Bloomberg Consensus	2025	2025-Bloomberg Consensus
BNP Paribas Forecasts					
United States	4,1	3,1	2,9	2,8	2,4
Japan	3,2	2,1	2,3	2,0	1,8
United Kingdom	7,4	2,3	2,5	2,3	2,1
Eurozone	**5.4**	**2,3**	**2,4**	**2,1**	**2,1**
Germany	6,1	2,3	2,5	2,1	2,1
France	5,7	2,4	2,6	1,8	2,0
Italy	6,0	1,2	1,6	1,8	2,0
Emerging					
China	0,4	-0,1	0,8	1,2	1,7
India*	5,8	5,5	5,4	4,8	4,6
Brazil	4,6	3,9	3,9	3,8	3,5

* Fiscal year

Source : BNP Paribas, Bloomberg - 26/03/2024

	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, Refinitiv Datastream. As at 27 March 2024

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