C.I.A. NETWORK

Asset Strategy in Brief

July 2024

BNP PARIBAS
WEALTH MANAGEMENT

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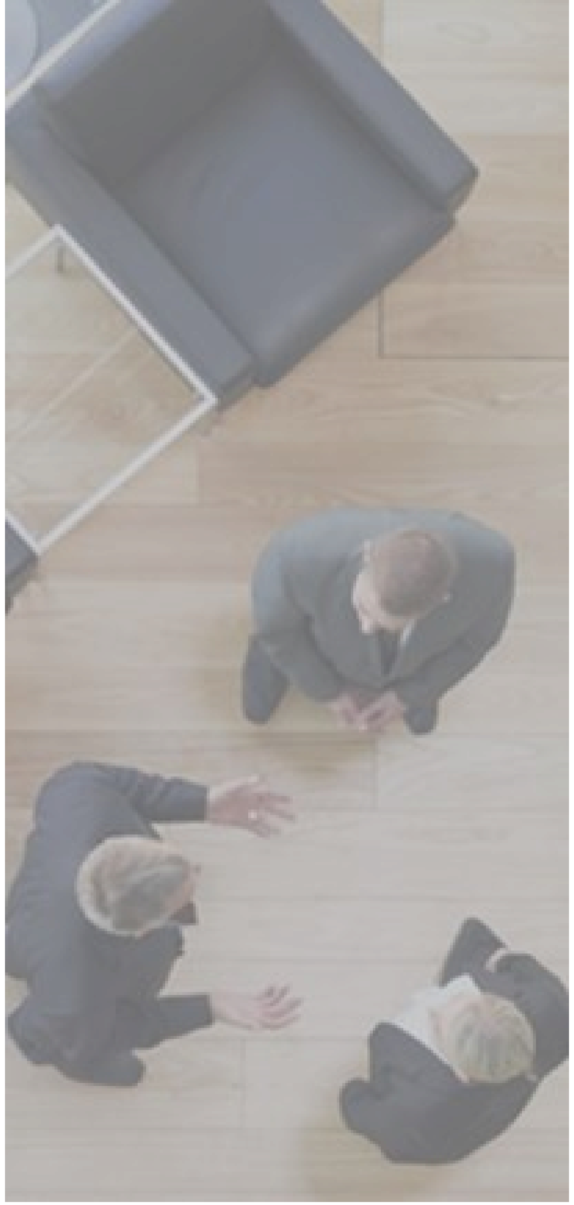

Summary

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Macro, Market Views

Macro			– Monthly inflation prints continue to decline but in a "bumpier" fashion especially in the US. – We expect the Fed to cut rates only once this year (25bps in September).The ECB leads the rate-cutting cycle with 2 further rates cuts this year – GDP growth is slowing in the US while we see signs of improvements in the eurozone
Rates	=		– The Fed "high for longer" mantra and high Treasury coupon issuance 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 more than US spreads in our view. Opportunities in non-French bonds. – 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	+		– We remain positive on equities: Key drivers remain improving global liquidity, to be helped by central banks lowering interest rates by year-end. – Favour eurozone, UK, Japan and Latin America. Within Asia prefer South Korea, China, Singapore, Indonesia. – We like EU Small Caps. Positive Health care, Industrials and Metals, mining & construction materials. We also like EU financials, tech and REITs. – We prefer investment themes like clean water, copper miners, electricity infrastructure, circular economy, deep value markets. – We focus on cheap stock markets with catalysts such as the UK, South Korea and Turkey.
Real Estate	=		– Lagged impact from higher interest rates to fade gradually. We see European real estate prices slowly stabilising, with rental yields now more attractive post reset in prices.
Commodities	+		– We keep our \$85-\$95 expected price range for Brent crude as OPEC+ production cuts help to balance the market in a context of elevated geopolitical risks, rising demand and slower non-OPEC production growth. . – We keep our positive view on gold. Central banks should continue their strategic purchases, geopolitical risks remain elevated and real interest rates should start to come down by the end of this year and in 2025. A target of \$2600/oz next year seems reachable.
FX			– EUR/USD: We maintain our 3-month target at 1.06 and our 12-month target at 1.12 (value of one euro). – USD/JPY: We maintain our USDJPY 3-month target at 150 and our 12-month target at 140 (value of one 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	2.5	1.8	3.4	2.3	US Fed Funds Rate	5.50	5.25	4.75	US 10Y yield %	4.41	4.25
Eurozone	0.9	1.6	2.3	2.0	ECB Deposit Rate	4.00	3.50	2.75	Euro 10Y yield %	2.57	2.25
Japan	0.3	1.0	2.7	2.4	Bank of Japan Policy Rate	0	0.25	0.50	UK 10Y Yield %	4.22	3.65
UK	0.6	1.2	2.6	2.2	Bank of England Base Rate	5.25	5.00	4.25	S&P 500	5460	n/a
China	5.2	4.3	-0.1	1.2	China MLF 1Y Interest Rate	2.50	2.25	2.15	Euro STOXX 50	4941	n/a
									Oil Brent USD/bbl	85	85-95
									Gold USD/oz	2326	2600

Source: BNP Paribas WM. As of 1 July, 2024

Asset Allocation

Allocation changes this month:

- <u>Equities</u>: No change.
- <u>Bonds</u>: No change.
- <u>FX</u> : No change.
- <u>Commodities</u>: Still positive.

Outlook Synthesis

	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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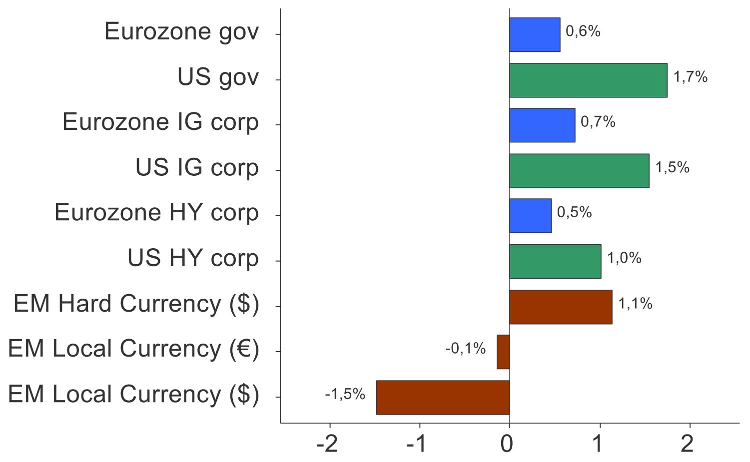
Fixed income at a glance

Both the ECB and the Fed remain data dependent. Volatility picked up amid political concerns and mixed economic data. US and German yields dropped in a flight-to-quality fashion, while EUR credit spreads widened. The move has retraced partially thereafter.

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	4.32	4.25
Germany	2.45	2.25
UK	4.14	3.65

Returns over one month



Source: LSEG Datastream, Bloomberg and JPM indices, 25/06/2024

Central Banks

The ECB cut rates in June while the Fed has been calling for patience. We expect two additional rate cuts by the ECB this year (Sept. and Dec.). We only forecast one rate cut in the US (Sept.). We estimate the terminal rates to be 2.5% in 2025 in the eurozone and 3.75% in 2026 in the US.

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

Peripheral spreads widened on political concerns (French snap elections) as the bund acted as the safe heaven asset. Volatility should normalise immediately after the election. We are Neutral on peripheral debt.

Corporate Investment Grade (IG) Bonds

Spreads have widened on French political concerns and have opened buying opportunities for non-French bonds. Yields are high. **We prefer maturities up to 7 years in the US and up to 10 years in the eurozone.**

Corporate High Yield (HY) Bonds

Credit spreads have widened and stabilised higher for EUR HY bonds. Despite attractive yields, uncertainty on French politics and eurozone economic growth warrant some caution. The distress ratio is high, but actual defaults remain low.

Emerging Market (EM) Bonds

EM bonds' return were mixed as EM currencies have underperformed EUR and USD. The environment remain supportive for EM bonds with global growth, declining rate volatility and lower dollar index.

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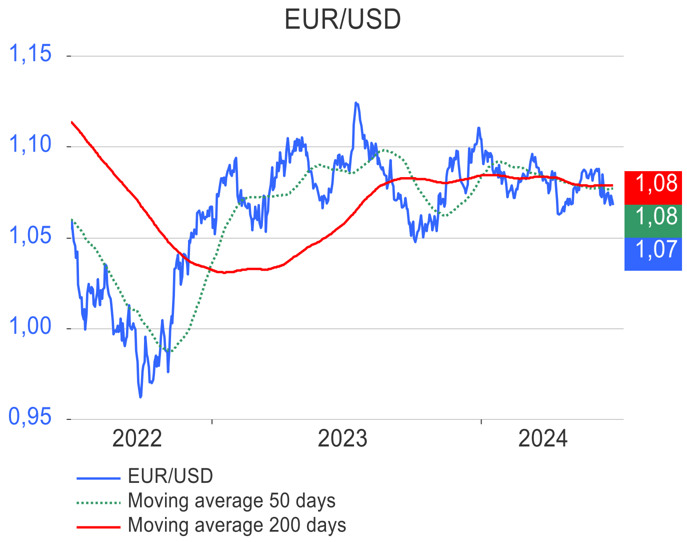
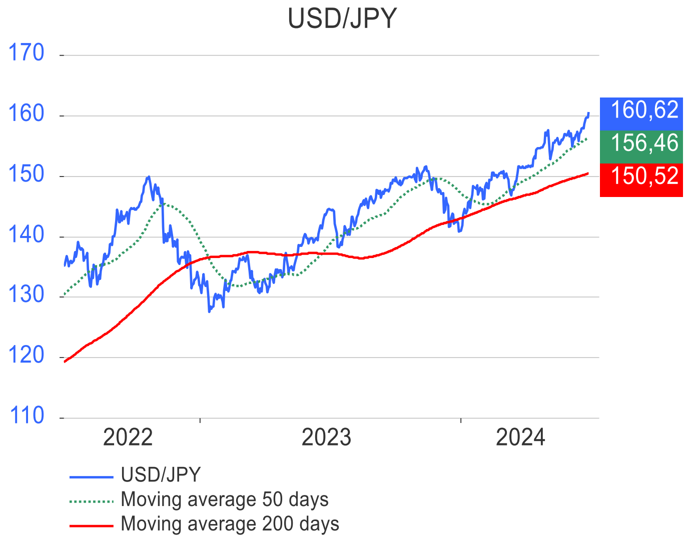
Currencies

Currencies

1. **EURUSD:** The expected differential in yields should become less supportive for the USD relative to the EUR over the next 12 months. **We maintain our 3-month target at 1.06 and our 12-month target at 1.12 (value of one euro).**
2. **USDJPY:** The yield differential has supported the USD over recent months and the JPY has widely been used as a funding currency for carry trades. We expect support for the JPY later this year as the Fed is poised to cut rates and the BoJ should gradually increase its policy rate, starting in September. **We maintain our USDJPY 3-month target at 150 and our 12-month target at 140 (value of one US dollar) suggesting an appreciation of the Yen.**



Source: LSEG Datastream, 26/06/2024



Source: LSEG Datastream, 26/06/2024

>> TARGET 12M EURUSD: 1.12

Our long-term outlook suggests more rate cuts in the US over 2025-26. This points to a gradual weakening of the USD against the euro. The long-term fair value (Purchasing Power parity) is estimated at around 1.37. **We maintain our 3-month target at 1.06 and our 12-month target at 1.12.**

>> TARGET 12M USDJPY: 140

The yield differential supported the USD over recent months. 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 (as of September). **We maintain our USDJPY 3-month target at 150 and our 12-month target at 140 (value of one US dollar).**

>> TARGET 12M USDCNY: 7.2

The loan prime rate 1Y and 5Y were maintained at 3.45% and 3.95%, respectively. We expect more stimulus to reach this year's 5% GDP growth target. The divergence in monetary policy trajectories between China and the United States should limit the appreciation potential of the CNY. **We maintain our 3- and 12-month target at 7.2.**

>> TARGET 12M EURGBP: 0.86

We anticipate two UK BoE rate cuts this year, with the first cut likely in September. Low volatility, relatively stable political outlook and overall economic indicators do not suggest a significant shift in the short-term outlook for the EUR/GBP exchange rate. **We maintain our 3- and 12-month target at 0.86.**

>> TARGET 12M EURCHF : 0.98

June 20th, the SNB made its second rate cut with a policy rate now at 1.25%. Inflation remains below the 2% target at 1.4% for the second consecutive month. Looking forward the rate differential is not expected to move much. **We expect stability and maintain our EURCHF 3- and 12-month target at 0.98**

>> TARGET 12M USDMXN: 17.5

The Mexican central bank started cutting rates. In May Banxico maintained rates at 11%. We now expect rates to reach 9.75% (vs 9.5% previously) late 2024. The MXN remains attractive for carry trades. **We maintain our USDMXN 3-month target at 17 and our 12-month target at17.5.**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 26/06/2024	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	171,56	Positive	159	Positive	157
	Switzerland	EUR / CHF	0,96	Negative	0,98	Negative	0,98
	Australia	EUR / AUD	1,61	Positive	1,56	Neutral	1,60
	New-Zealand	EUR / NZD	1,75	Neutral	1,77	Neutral	1,78
	Canada	EUR / CAD	1,46	Positive	1,40	Neutral	1,46
	Sweden	EUR / SEK	11,28	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,40	Neutral	11,30	Positive	10,80
Asia	China	EUR / CNY	7,76	Neutral	7,63	Negative	8,06
	India	EUR / INR	89,28	Positive	86,92	Negative	91,84
Latam	Brazil	EUR / BRL	5,88	Positive	5,30	Positive	5,60
	Mexico	EUR / MXN	19,44	Positive	18,02	Neutral	19,60

Sources: BNP Paribas, Eikon/Datastream

FX FORECASTS USD

	Country		Spot 26/06/2024	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	1,26	Negative	1,23	Positive	1,30
	Japan	USD / JPY	160,62	Positive	150,00	Positive	140,00
	Switzerland	USD / CHF	0,90	Negative	0,92	Positive	0,88
	Australia	AUD / USD	0,67	Positive	0,68	Positive	0,70
	New-Zealand	NZD / USD	0,61	Neutral	0,60	Positive	0,63
	Canada	USD / CAD	1,37	Positive	1,32	Positive	1,30
Asia	China	USD / CNY	7,27	Neutral	7,20	Neutral	7,20
	India	USD / INR	83,58	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	5,50	Positive	5,00	Positive	5,00
	Mexico	USD / MXN	18,20	Positive	17,00	Positive	17,50
EMEA	South Africa	USD / ZAR	18,26	Neutral	18,00	Positive	17,50
	USD Index	DXY	106,05	Neutral	105,49	Negative	100,01

Sources: BNP Paribas, Eikon/Datastream

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Equities

Equities: Entering a Politically-Charged H2 2024

Key Points

- **US is not the only show in equity town –** While the S&P 500 index continues to be propelled higher by Nvidia and other mega-cap tech stocks, note that the Japanese Nikkei 225 index has risen 19% in yen so far this year, while the MSCI Emerging Market index has gained over 12% in US dollar terms.
- **Political risk weighs on French stocks –** Following the announcement of snap French legislative elections to be held in early July, the French CAC 40 index has slipped 8% from recent peak and is now only +1% for the year to date. Volatility is likely to persist until the result of the 7 July second round of voting for the French parliament is known.
- **Focus on Deep Value, ignored stock markets –** We have initiated a new investment theme on Deep Value for patient, long-term investors. We focus on cheap stock markets with catalysts such as the UK, South Korea and Turkey. While still volatile, China could also prove to be an attractive, cheap investment for investors who can absorb the attendant volatility.

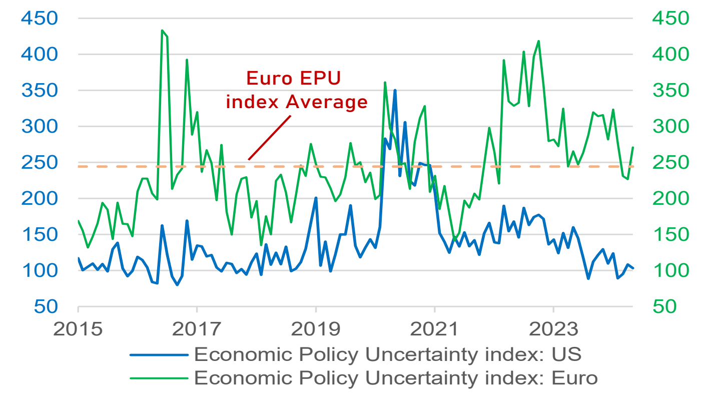
Main recommendations

Remain positive on global stocks – Key drivers remain improving global liquidity, to be helped by central banks lowering interest rates before year-end. Share buybacks and positive earnings growth are supplementary supports, while lower inflation and then lower long-term interest rates should also support valuation levels.

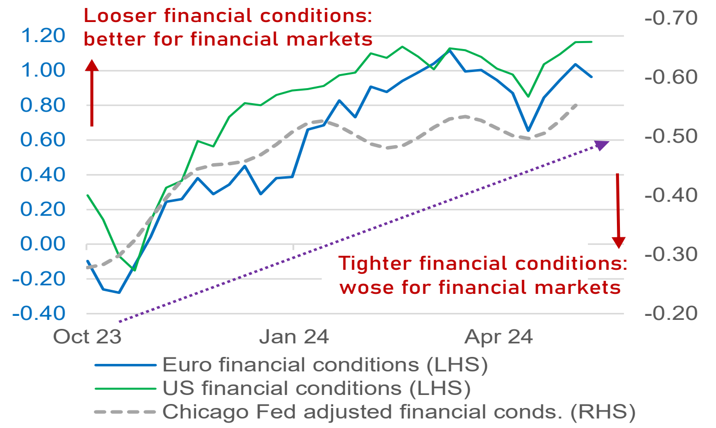
Preferred Investment Themes – Clean water, copper miners, electricity infrastructure; circular economy, deep value markets.

The key risk for stocks at this point is that the Federal Reserve cuts the Fed Funds benchmark interest rate too late to prevent a sharp rise in the unemployment rate, and ultimately a 2025 economic recession.

GEOPOLITICAL RISK INDICES FAIRLY STABLE



LOOSER FINANCIAL CONDITIONS HELP STOCKS



Source: BNP Paribas, Bloomberg

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Commodities

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Commodities at a glance

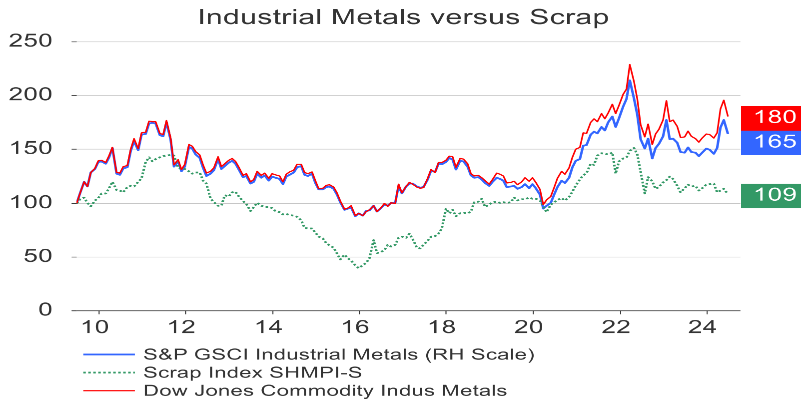
Oil prices are recovering recently, due to stronger demand for the summer driving season, while OPEC+ production cut tapering will only start as from October.

Most base Metals have corrected since their May peak, following their earlier strong rally. Year-to-date tin is still 26% higher, copper +11%, zinc +10%, aluminum, lead and nickel some 5-6% higher. Iron ore (-22%) and coal (-23%) are substantially lower (as of 27/06).

Gold is consolidating, following its strong rally till May. Chinese central bank paused its gold purchases in May.

BASE METALS

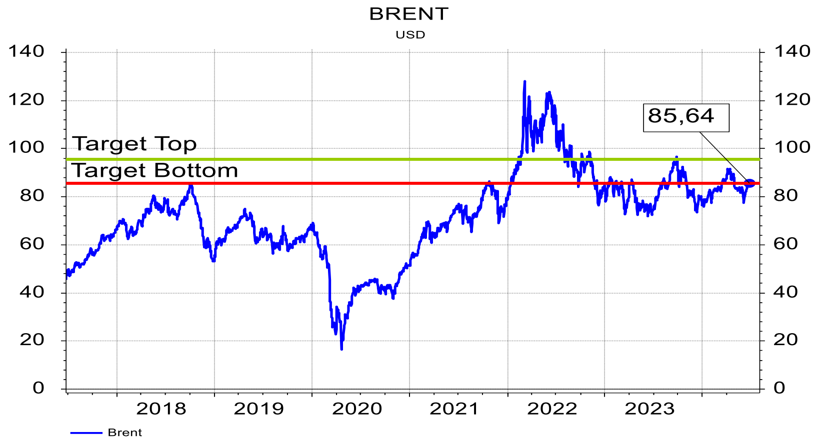
Recent correction offers a good new entry opportunity for copper and most other base metals. Over next years we expect strong demand trends (for energy transition, infrastructure, emerging markets), outpacing supply growth.



Source: LSEG Datastream, 26-06-24

OIL

We keep our $85-95 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, 26-06-24

GOLD

We remain positive as the expected correction proved to be very mild. EM central banks should continue their strategic purchases. Gold could reach $2600/oz next year.

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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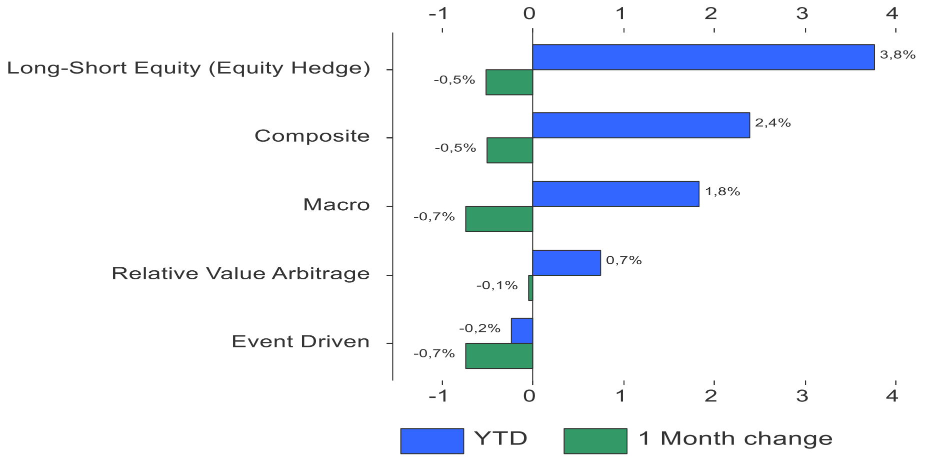
Alternative Investments at a glance

Performance slightly negative over the past month for the main strategies. The performance this year remains generally positive except for Event Driven. Long-short equities was the best performer.

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

Alternative UCITS (HFRU index)



Source: LSEG Datastream, 25/06/2024

Global Macro

Neutral : Markets will continue to contend with the pace of monetary easing, but also increasingly with political risk, culminating with the US presidential election. No matter the outcomes, macro managers will be able to adjust to new situations faster. Given those political potential surprises, directional bets should remain more challenging.

Event Driven

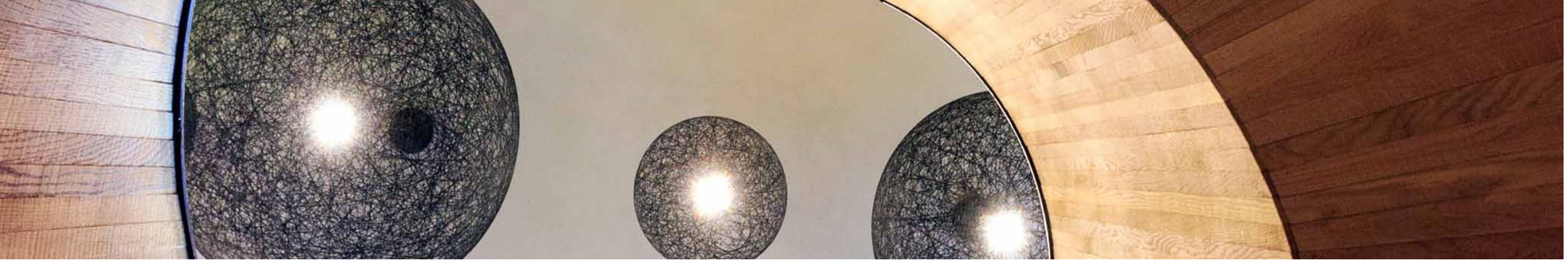
Positive: Following a series of unsuccessful antitrust enforcement actions, it appears that regulatory risk has become more predictable, whilst spreads remain wider on larger deals than recent historical levels. M&A activity is expected to tick up in 2024 with volumes increasing by an estimated 50%, according to a recent Morgan Stanley research note, as inflation slows and central banks signal a move towards future rate cuts.

Long / Short Equity

Positive: Intra-market equity dispersion has increased 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 get challenged on bearish sentiment, long/short should provide strong absolute returns with lower correlation to equity markets. With factor rotations, we continue to recommend macro aware and diversified managers

Relative Value

Positive : The higher rate environment provides significant yield carry, but spreads are back to historical tights on corporate bonds. A long/short strategy can earn consistently strong returns by identifying both winners and losers, while also hedging against macroeconomic downturns. The lagged effect of rising rates and the need to refinance ("maturity wall") starting in 2024 should cause dispersion between strong and weak issuers.



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