C.I.A. NETWORK

Asset Strategy in Brief

June 2024

BNP PARIBAS
WEALTH MANAGEMENT

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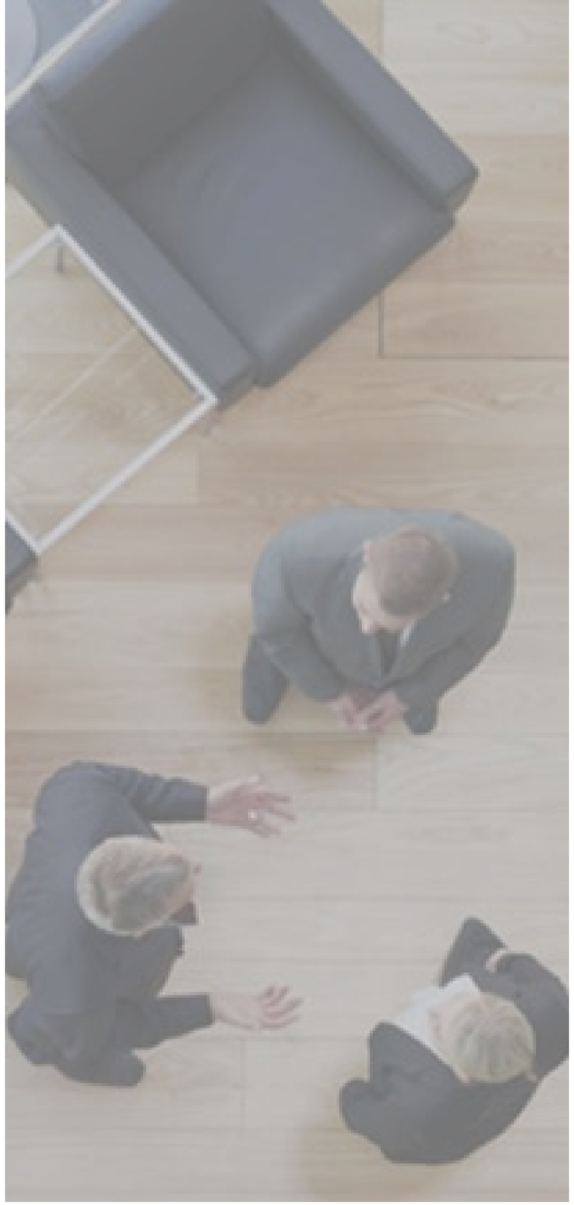

Summary

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Macro, market views

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Macro, Market Views

Macro			– Monthly inflation prints continue to decline on a bumpy path 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 rate cuts this year, the first in June in our view – GDP growth is running at an annualised 1.8% range in the US for Q2 2024 and is improving in the eurozone
Rates	=		– The Fed's "higher for longer" mantra and large Treasury coupon issuance should prevent an 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 further potential to tighten more 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 Small Caps. Positive on Healthcare, Industrials and Mining & construction materials. We also like EU financials, tech and REITs. – Potholes ahead- we downgrade EU Automobiles to Underweight due to increasing margin pressures from Chinese BEVs and falling used car prices. The sector is also vulnerable to a deterioration in global trade, especially from tariffs. – Taking profits on Basic Resources: a 20% run in 3 months should limit near-term potential to outperform -> downgrade to Neutral.
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 to balance the market in a context of high geopolitical risks, rising demand and slower non-OPEC production growth. – We move our rating back to positive as the expected correction proves to be very mild. EM central banks should continue their strategic purchases. Gold could reach USD2600/oz next year.
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/MXN: We decrease our USD/MXN 3-month target from 17.5 to 17 and our 12-month target from 18.5 to 17.5.

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	2.9	US Fed Funds Rate	5.50	5.25	5.00	US 10Y yield %	4.47	4.25
Eurozone	0.8	1.7	2.4	2.1	ECB Deposit Rate	4.00	3.75	3.00	Euro 10Y yield %	2.63	2.25
Japan	0.3	1.0	2.9	2.3	Bank of Japan Policy Rate	0	0.25	0.50	UK 10Y Yield %	4.28	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	5277	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	5032	n/a
									Oil Brent USD/bbl	81	85-95
									Gold USD/oz	2325	2600

Source: BNP Paribas WM. As at 3 June 2024

Asset Allocation

Allocation changes this month:

- **<u>Equities</u>: We downgrade EU Automobiles to Underweight, and downgrade Basic Resources to Neutral.**

- **<u>Bonds</u>: No change.**

- **<u>FX</u> : USD/MXN 3-month target from 17.5 to 17 and the 12-month target from 18.5 to 17.5.**

- **<u>Commodities</u>: Positive once again on Gold. A target of USD2600/oz next year seems reachable.**

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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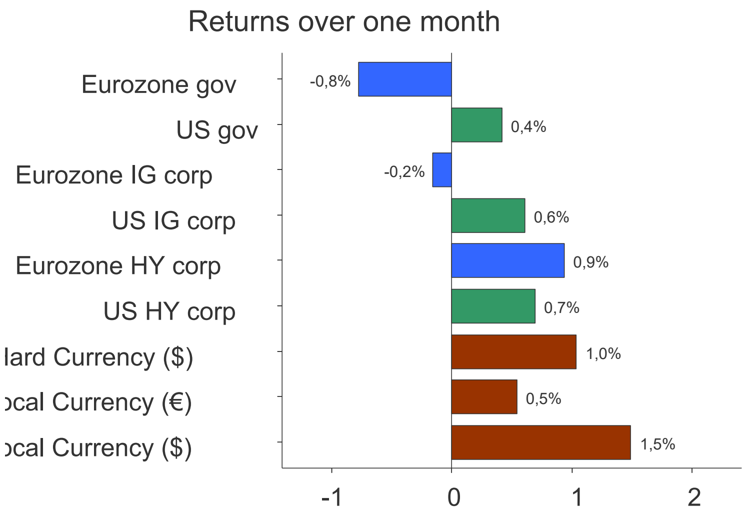
Fixed Income at a glance

Traders have dialled back their expectations for rate cuts as the disinflation path is unclear and economic growth has rebounded recently. Bond yields moved higher in May in Germany but not in the US. Credit markets continue to be robust due to strong technical support and consistent inflows.

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

10-year yields	29/05/2024	12-month targets
US	4.61	4.25
Germany	2.68	2.25
UK	4.40	3.65



Source: LSEG Datastream, Bloomberg and JPM indices, 29/05/2024

Central Banks

The ECB is likely to lead the rate-cutting cycle. We expect rate cuts in June, September and December this year in the eurozone. We only forecast one rate cut in the US this year: in September. We estimate the terminal rate 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

Credit spreads are low and are likely to trade rangebound into the November US Presidential election (and ahead of upcoming European Parliament elections. We keep a Neutral stance on peripheral debt and enjoy the carry.

Corporate Investment Grade (IG) Bonds

Spreads are tight, especially in the US, but not extreme. Corporate fundamentals are sound, and the rating drift is positive. All-in 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

High level of issuance. Corporates are tapping markets mostly to refinance at better conditions. Valuations are historically low, but fair compared with rate volatility and growth indicators. Spread dispersion is high.

Emerging Market (EM) Bonds

Global growth, declining rate volatility and lower dollar index bode well for EM. Moreover, EM debt markets have been recording inflows. Valuations look reasonable relative to other asset classes.

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Currencies

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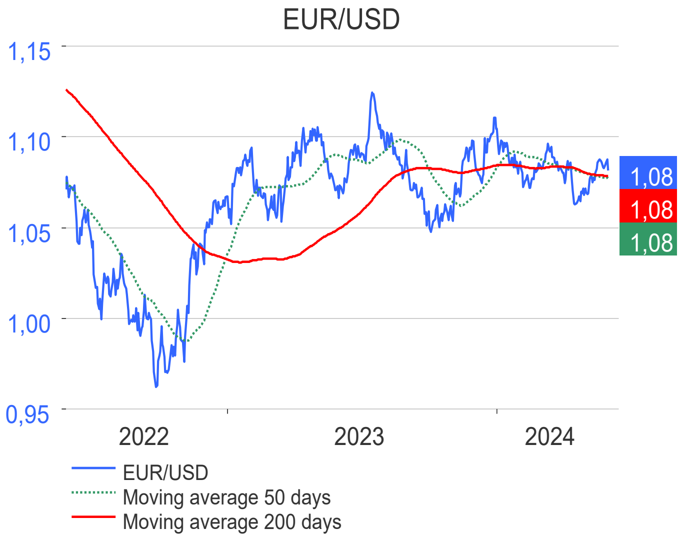
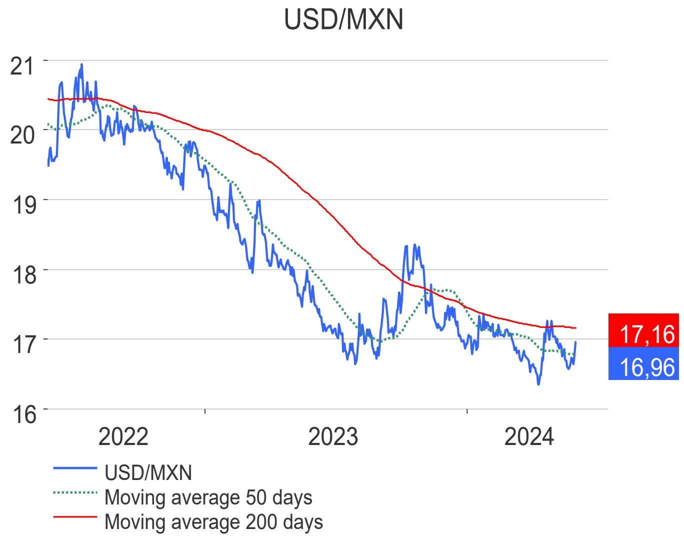
Currencies

1. **EUR/USD:** the expected differential in policy rate will 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. **USD/MXN:** with low volatility, the MXN is strengthening on the back of carry trades. The yield differential will continue to favour the MXN. We now expect rates to reach 9.75% late 2024. Relative political stability and nearshoring momentum are also supporting the MXN. **We decrease our USD/MXN 3-month target from 17.5 to 17 and our 12-month target from 18.5 to 17.5. That suggests less downside for the MXN.**



Source: LSEG Datastream, 29/05/2024



Source: LSEG Datastream, 30/05/2024

>> TARGET 12M EUR/USD: 1.12

We expect the Fed to cut rates only once this year (25bps in September) as some components of inflation remain sticky. We see 3 rate cuts for the ECB this year starting in June. The expected differential in policy rates will less favour of the US dollar. We maintain our 3-month **target at 1.06 and our 12-month target at 1.12.**

>> TARGET 12M USD/JPY: 140

The yield differential has supported the USD in recent months. Support for the JPY should come later this year as the Fed is set to cut rates and the BoJ should gradually increase its policy rate (as of September). **We maintain our USD/JPY 3-month target at 150 and our 12-month target at 140 (value of one US dollar).**

>> TARGET 12M USD/CNY: 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 targets at 7.2.**

>> TARGET 12M EUR/GBP: 0.86

We now see 2 rate cuts this year from the Bank of England, starting in September with rates reaching 4.75% end-2024. Low volatility, the 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 targets at 0.86.**

>> TARGET 12M EUR/CHF: 0.98

The SNB started to cut rates in March from 1.75% to 1.5%. Looking forward the rate differential is not expected to move much. **We expect stability and maintain our EUR/CHF 3- and 12-month targets at 0.98.**

>> TARGET 12M USD/MXN: 17.5

The Mexican central bank has started its rate-cutting cycle. In May Banxico maintained rates at 11%. We now expect rates to reach 9.75% (vs 9.5% previously) in late 2024. The MXN remains attractive for carry trades. **We decrease our USD/MXN 3-month target from 17.5 to 17 and our 12-month target from 18.5 to 17.5. That suggests less downside for the MXN.**

Forex at a glance

FX FORECASTS EUR

	Country		Spot 29/05/2024	Trend	Target 3 months (vs. EUR)	Trend	Target 12 months (vs. EUR)
	United States	EUR / USD	1,08	Neutral	1,06	Negative	1,12
	United Kingdom	EUR / GBP	0,85	Neutral	0,86	Neutral	0,86
	Japan	EUR / JPY	170,32	Positive	159	Positive	157
	Switzerland	EUR / CHF	0,99	Neutral	0,98	Neutral	0,98
	Australia	EUR / AUD	1,63	Positive	1,56	Positive	1,60
	New-Zealand	EUR / NZD	1,77	Neutral	1,77	Neutral	1,78
	Canada	EUR / CAD	1,48	Positive	1,40	Neutral	1,46
	Sweden	EUR / SEK	11,52	Positive	11,00	Positive	11,00
	Norway	EUR / NOK	11,42	Neutral	11,30	Positive	10,80
Asia	China	EUR / CNY	7,84	Positive	7,63	Negative	8,06
	India	EUR / INR	90,13	Positive	86,92	Neutral	91,84
Latam	Brazil	EUR / BRL	5,62	Positive	5,30	Neutral	5,60
	Mexico	EUR / MXN	18,34	Neutral	18,02	Negative	19,60

Sources: BNP Paribas, Eikon/Datastream

FX FORECASTS USD

	Country		Spot 29/05/2024	Trend	Target 3 months (vs. USD)	Trend	Target 12 months (vs. USD)
	Eurozone	EUR / USD	1,08	Neutral	1,06	Positive	1,12
	United Kingdom	GBP / USD	1,27	Negative	1,23	Positive	1,30
	Japan	USD / JPY	157,50	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	0,61	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	83,35	Neutral	82,00	Neutral	82,00
Latam	Brazil	USD / BRL	5,19	Positive	5,00	Positive	5,00
	Mexico	USD / MXN	16,96	Neutral	17,00	Negative	17,50
EMEA	South Africa	USD / ZAR	18,41	Positive	18,00	Positive	17,50
	USD Index	DXY	104,61	Neutral	105,49	Negative	100,01

Sources: BNP Paribas, Eikon/Datastream

03

Equities

Equities: Rotation incoming

Key Points

- **Feelings vs reality:** it feels different, but the median Nasdaq 100 stock is up only +4% this year and the equal-weighted index gained only +4,5% YTD. This tells a more mediocre picture of Tech's performance compared with other assets like Copper +21%, Gold +14%, SX5E +12%, Nikkei +16% or Hang Seng +11%.
- **The (less) magnificent 7:** Q1 was the 5th quarter in a row where, if the Mag-7 contribution is excluded, the remaining 493 S&P500 constituents showed outright negative y/y% EPS growth. In performance terms, The Magnificent 7 has turned into the Dynamic Duo, as only Nvidia and Alphabet managed to beat the S&P 500 over the last 3 months.
- **Beware the discount rate:** while a strong US economy should benefit stocks, not all are created equal. Valuations may become an increasing concern for investors hoping that the discount rate in their dividend discount model might soon recede. Rate cut expectations continue to get pushed further out. We stick to our expectation of a first – and sole - 2024 cut in September.
- **Wind of change:** over the past quarters, US earnings have strongly beaten the Eurozone. This is changing, with Q1 US earnings spread vs. Europe beginning to narrow. Looking at the median Q1 EPS growth rates, Europe improves from -7% to 0% y/y. The shift is consistent with relative bottoming in Euro Area PMI momentum vs the US and strengthens our preference for European vs US equities.

Main recommendations

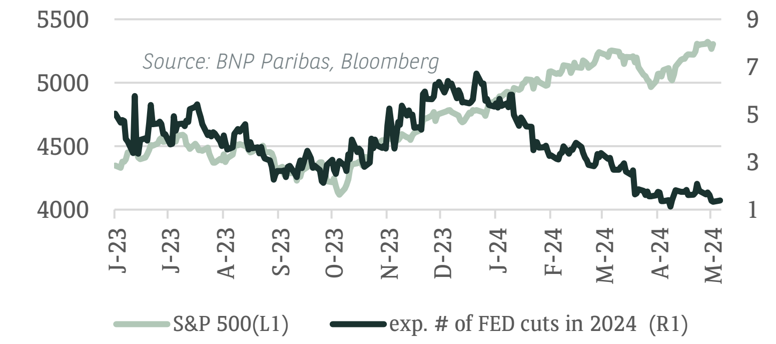
Stay long Europe: the sentiment around Europe remains poor which is reflected in a recent cover of "The Economist", a magazine. Historically though, such extreme headlines have had a track-record of proving a contrarian indicator (something even they have discussed in the past, highlighting a 68% contrarian hit rate on a 1Y view). Looking at the facts, the economy is recovering, and valuations remain attractive. **Reiterate Overweight.**

Take profits on Basic Resources: hopes for a stronger demand rebound, M&A activities and ongoing strength in copper pushed prices higher. While we still like the long-term story, a 20% run in 3 months looks should limit the potential to outperform in the near term -> **downgrade to Neutral.**

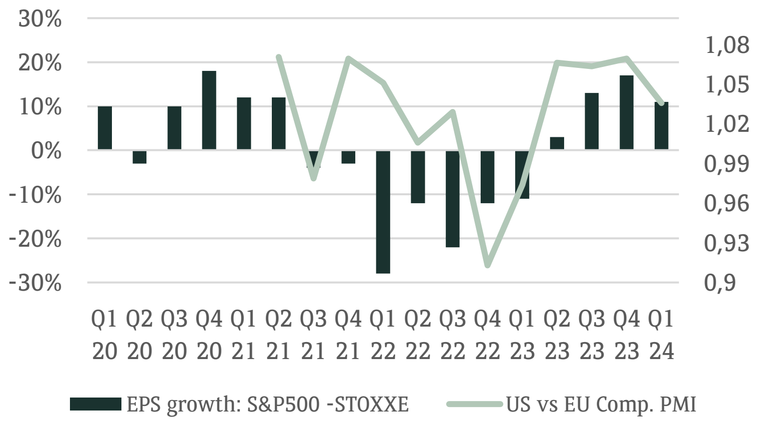
Potholes ahead- we downgrade EU Automobiles to Underweight due to increasing margin pressures from Chinese BEVs and falling used car prices. The sector is also vulnerable to a deterioration in global trade, especially from tariffs.

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

RATE-CUTS CONCERN MARKETS AGAIN



THE US-EU EPS GROWTH SPREAD NARROWS



Source: BNP Paribas, Bloomberg

05

Commodities

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Commodities at a glance

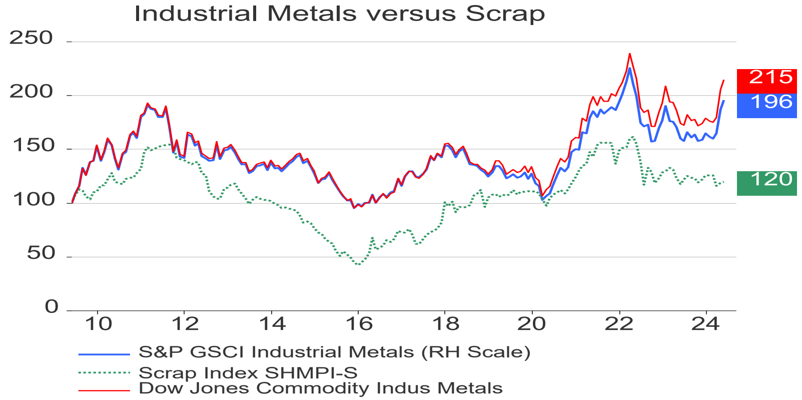
Oil prices gave back 10% from their top in April when the the risk of an open conflict between Iran and Israel was maximum. The Brent reached an intraday high above USD 92 before easing around USD 83 (29/05).

Most base Metals rose strongly in April and May. Since the start of 2024, tin has risen by 34%, nickel 23%, copper 22%, zinc 17%, aluminum 16% and lead 12% (as of 29/05).

Gold made a new high in May at 2450/oz before correcting around USD 2330. This happened despite a strong USD and high bond yields**. Gold could reach USD 2600/oz next year.**

BASE METALS

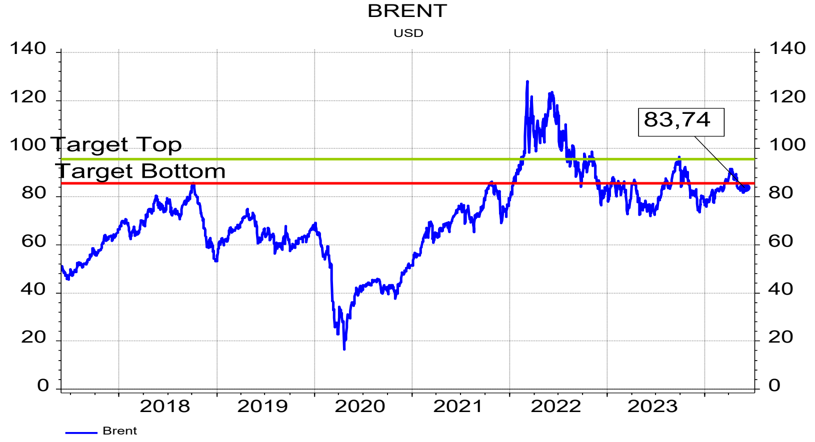
After the recent rally, we expect a few months of consolidation for copper and other base metals before they resume their uptrend as demand growth outpaces supply. Any dip should be bought.



Source: LSEG Datastream, 29-05-24

OIL

We keep our USD 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, 29-05-24

GOLD

We move our rating back to Positive as the expected correction proves to be very mild. EM central banks should continue their strategic purchases. Gold could reach USD 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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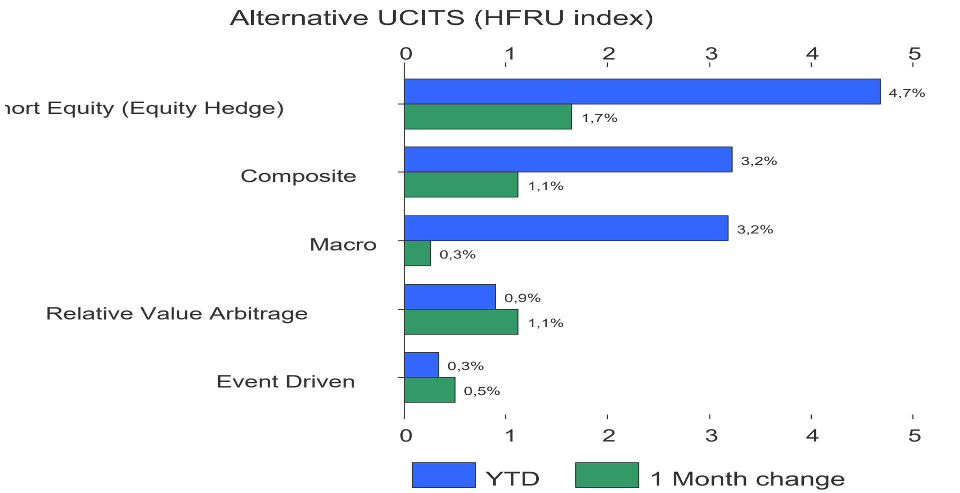
Alternative Investments at a glance

Performance has been positive over the past month for the main strategies. The same is true for the performance this year. Long-short equity funds were the best performers.

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



Source: LSEG Datastream, 28-05-24

Global Macro

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

Event Driven

Positive: rich equity markets are providing buyers with extra financial firepower for acquisitions. M&A activity is expected to tick up in 2024 with much higher volumes, as inflation slows and central banks signal future rate cuts. New distressed investment opportunities are bound to arise from higher funding costs with the "maturity wall" approaching.

Long/Short Equity

Positive: market breadth has improved recently after historical outperformance concentrated in the "magnificent seven", more favourable to stock-picking. Intra market equity dispersion has increased of late among equities, with a very wide gap between expensive and cheap stocks, paving the way for better long and short stock-picking opportunities.

Relative Value

Positive: the higher rate environment provides significant carry, but spreads are back at 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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