C.I.A. NETWORK

# Asset Strategy in Brief

March 2024

BNP PARIBAS
WEALTH MANAGEMENT

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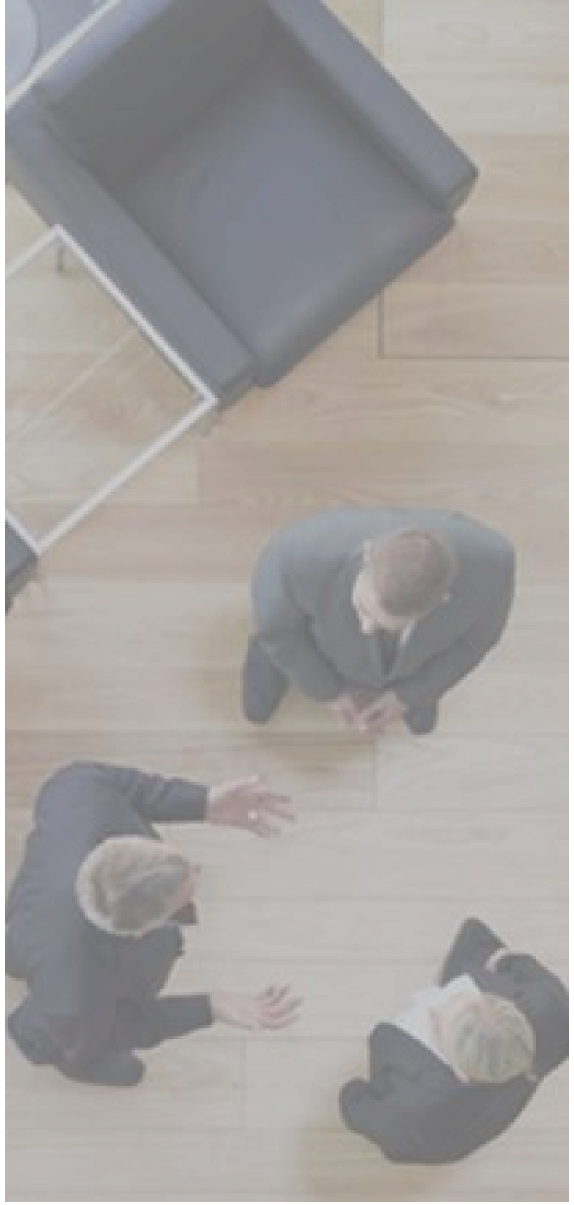
world



# SUMMARY

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# Macro, market views

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# Macro, Market Views

| | View | Comments |
|---|---|---|
| Macro | | – Monthly inflation prints have declined sharply over the last 6 months.<br>– US, EU central banks should cut interest rates starting in June. US Fed Funds rate to end 2024 at 4.5%, ECB deposit rate at 3.25%. Further benchmark interest rate cuts expected in 2025.<br>– GDP growth is running at an annualised 2.9% 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.<br>– Prefer short duration (2-3 year) government bonds for higher yields in the US. Extend duration in the eurozone.<br>– 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.<br>– Shorter maturities preferred in the US (<5 years). Extend maturities in the eurozone up to 7 years.<br>– 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.<br>– Favour eurozone, UK, Japan, Latin American markets post multi-year highs.<br>– European financials set to break out to new multi-year highs. |
| 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.<br>– 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, on narrowing US v EU interest rate gap by year-end. |

# 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 | 2.4 | US Fed Funds Rate | 5.5 | 5.25 | 3.75 | US 10Y yield % | 4.26 | 4.0 |
| Eurozone | 0.7 | 1.6 | 2.0 | 2 | ECB Deposit Rate | 4.0 | 4.0 | 3.25 | Euro 10Y yield % | 2.44 | 2.25 |
| Japan | 0.4 | 0.9 | 2.1 | 1.9 | Bank of Japan Policy Rate | -0.1 | 0.1 | 0.25 | UK 10Y Yield % | 4.15 | 3.65 |
| UK | -0.1 | 1.1 | 2 | 2.4 | Bank of England Base Rate | 5.25 | 5.25 | 4.25 | S&P 500 | 5096 | 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 | 4884 | n/a |
| | | | | | | | | | Oil Brent USD/bbl | 83.19 | 85-95 |
| | | | | | | | | | Gold USD/oz | 2056 | 2000-2020 |

*Source: BNP Paribas WM. As of March 1st, 2024*

# Asset Allocation

## Allocation changes this month:

- **Equity sectors: No change.**
- **Bonds: No change.**
- **Commodities: No change.**

### 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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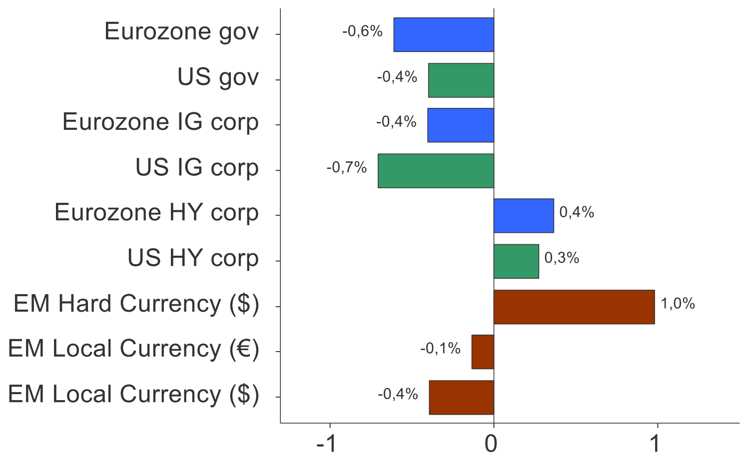
# Fixed income at a glance

Central bankers have pushed back again against early rate cuts. Traders have dialed back their expectations. Some are even hedging against a potential rate hike as US January inflation data were higher-than-expected. Bond yields have risen further. Bond supply have been very high but met with even higher demand as investors wants to lock in high yields, regardless the spread.

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

| 10-year yields | 28/02/2024 | 12-month targets |
|---|---|---|
| US | 4.27 | 4.00 |
| Germany | 2.46 | 2.25 |
| UK | 4.19 | 3.65 |

Returns over one month




Source: LSEG Datastream, Bloomberg and JPM indices, 28/02/2024

## Central Banks

Central bankers are not in a rush to cut rates given the resilience of the economy. We expect 100bps of rate cuts in the US and 75bps in the eurozone. We forecast both central banks to do the first rate cut in June.

## 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 with a preference for intermediate maturities (up to 10 years).

## Peripheral bonds

Credit metrics and the perception of idiosyncratic risk have improved in some peripheral countries. Spreads have tightened further and are unlikely to compress more in our view.

## Corporate Investment Grade (IG) Bonds

Demand for corporate bonds has been huge and spreads have tightened further. **We now prefer longer maturities in the eurozone (up to 7 years**, versus less than 5 years before). In the US, we prefer short maturities (<5 years).

## Corporate High Yield (HY) Bonds

Corporate fundamentals have been more resilient than expected despite higher refinancing costs. Spreads have tightened to unattractive levels with further very limited compression upside. 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.

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# Equities

# Are European Earnings finally turning the corner?

## Key Points

- **Earnings Season Update**: Over 80% of S&P500 companies and 55% of Stoxx600 companies have now reported Q4 results. EPS growth for the quarter is tracking at +7% y/y in the US, and -11% y/y in Europe. On aggregate, US companies strongly beat expectations with EPS surprises being 8%,. European companies have disappointed vs consensus expectations by 2%. More importantly though, while still in negative territory, the levels of NTM Sales and Earnings revisions breadth continue to improved. This increases our confidence that European earnings revisions are likely to trough near-term (if not forming a trough already) which supports our positive stance on the region.
- **Markets start to look at the 2024 US Presidential Election.** 2024 is fairly a super election year. Roughly 50% of the global population will head to the polls with the US presidential election being the *primus inter pares*. Despite the election will only take place in early November and the candidates not haven been chosen, markets start to look for the potential impact on companies. With betting odds of Mr. Trump winning rising, (recall, there are still legal cases pending which could prevent him to run at all) so are stocks which are expected to benefit from this victory while potential losers start to fall behind. We will provide more detailed information of which sectors may benefit / suffer from a given outcome in the month ahead.

## 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**

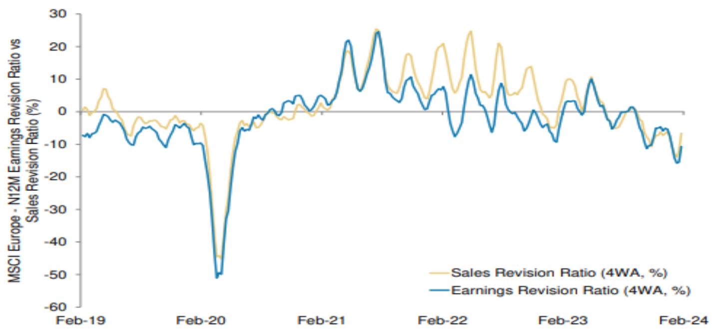
**Be cautious/selective with** expensive market segments, such as some large-cap US tech stocks and some Consumer Staples.

**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

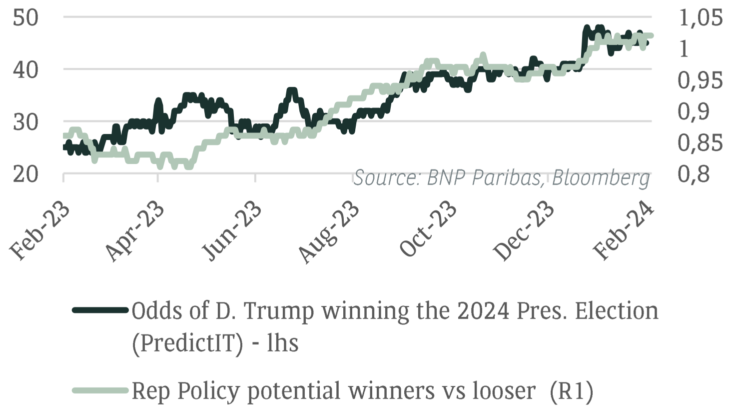
The key risks are that the US Federal Reserve or the ECB could be forced to further push out rate cuts or even shift back to a hawkish rhetoric should inflation surprisingly pick up again

### SALES AND EARNINGS REVISION BREADTH CONTINUE TO IMPROVE IN EUROPE




Source: MSCI, IBES, Morgan Stanley Research

### STOCKS EXPECTED TO BENEFIT FROM A GIVEN ELECTION OUTCOME START TO OUTPERFORM



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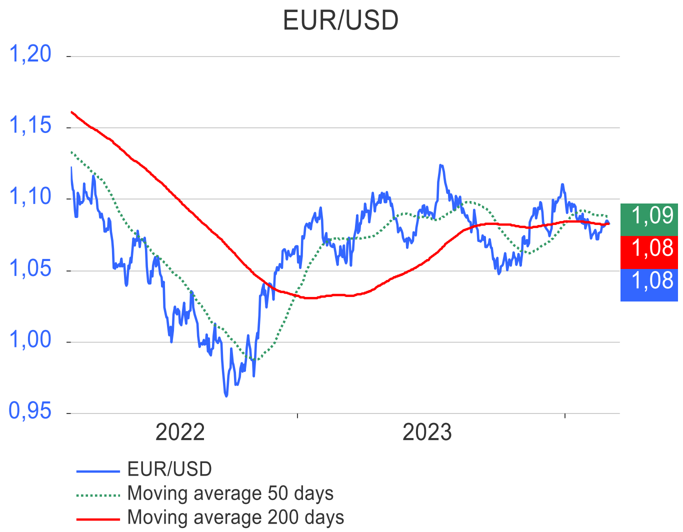
# Currencies

# Currencies

1. The US dollar index (DXY) increased 1% and the Euro index (EXY) remained flat in February.
2. FX volatility is weakening, especially in EM currencies. The market is positioning for wider swings as elections in the US approach (November 2024).
3. Bank of Japan (BoJ) board member Hajime Takata said the central bank's price target is finally coming into sight. On top of that the slightly higher than expected core CPI print at 2% y/y supports the case for the BoJ to end its negative interest rate policy. We will closely monitor the the spring wage negotiation - Rengo's preliminary outcome will be out on March 15.




Source: LSEG Datastream, 29/02/2024

| | Country | Spot 29/02/2024 | | 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 | 0,95 | 0,95 | 0,98 |
| | Japan | EUR / JPY | 161,97 | 154 | 154 |
| | Sweden | EUR / SEK | 11,20 | 11,00 | 11,00 |
| | Norway | EUR / NOK | 11,47 | 11,30 | 10,80 |
| Against dollar | Japan | USD / JPY | 149,67 | 145 | 134 |
| | Canada | USD / CAD | 1,36 | 1,32 | 1,30 |
| | Australia | AUD / USD | 0,65 | 0,68 | 0,70 |
| | New Zealand | NZD / USD | 0,61 | 0,60 | 0,63 |
| | Brazil | USD / BRL | 4,97 | 5,00 | 5,00 |
| | India | USD / INR | 82,92 | 82,0 | 82,0 |
| | China | USD / CNY | 7,19 | 7,20 | 7,20 |

Source: BNP WM - LSEG Datastream

## >> TARGET 12M EURUSD: 1.15

We expect the Fed and the ECB to initiate rate cuts in June 2024. By the end of the year, we expect the Fed to cut 100bps and the ECB to cut 75bps.

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 normalization 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

In February, 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% and lowered the 5-year LPR by 25 bps from 4.2% to 3.95. These policy shifts 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.

# Forex at a glance

## FX FORECASTS EUR

| | Country | | Spot 29/02/2024 | 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 | 0,86 | Neutral | 0,86 | Neutral | 0,86 |
| | Japan | EUR / JPY | 161,97 | Positive | 154 | Positive | 154 |
| | Switzerland | EUR / CHF | 0,95 | Neutral | 0,95 | Negative | 0,98 |
| | Australia | EUR / AUD | 1,66 | Positive | 1,56 | Neutral | 1,64 |
| | New-Zealand | EUR / NZD | 1,78 | Neutral | 1,77 | Negative | 1,83 |
| | Canada | EUR / CAD | 1,47 | Positive | 1,40 | Neutral | 1,50 |
| | Sweden | EUR / SEK | 11,20 | Neutral | 11,00 | Neutral | 11,00 |
| | Norway | EUR / NOK | 11,47 | Neutral | 11,30 | Positive | 10,80 |
| Asia | China | EUR / CNY | 7,78 | Neutral | 7,63 | Negative | 8,28 |
| | India | EUR / INR | 89,73 | Positive | 86,92 | Negative | 94,30 |
| Latam | Brazil | EUR / BRL | 5,38 | Neutral | 5,30 | Negative | 5,75 |
| | Mexico | EUR / MXN | 18,47 | Negative | 19,08 | Negative | 21,28 |

*Sources: BNP Paribas, Eikon/Datastream*

## FX FORECASTS USD

| | Country | | Spot 29/02/2024 | 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 | 1,26 | Negative | 1,23 | Positive | 1,34 |
| | Japan | USD / JPY | 149,67 | Positive | 145,00 | Positive | 134,00 |
| | Switzerland | USD / CHF | 0,88 | Neutral | 0,90 | Positive | 0,85 |
| | Australia | AUD / USD | 0,65 | Positive | 0,68 | Positive | 0,70 |
| | New-Zealand | NZD / USD | 0,61 | Neutral | 0,60 | Positive | 0,63 |
| | Canada | USD / CAD | 1,36 | Positive | 1,32 | Positive | 1,30 |
| Asia | China | USD / CNY | 7,19 | Neutral | 7,20 | Neutral | 7,20 |
| | India | USD / INR | 82,92 | Neutral | 82,00 | Neutral | 82,00 |
| Latam | Brazil | USD / BRL | 4,97 | Neutral | 5,00 | Neutral | 5,00 |
| | Mexico | USD / MXN | 17,07 | Negative | 18,00 | Negative | 18,50 |
| EMEA | South Africa | USD / ZAR | 19,18 | Positive | 18,00 | Positive | 17,50 |
| | USD Index | DXY | 104,16 | Neutral | 104,88 | Negative | 97,40 |

*Sources: BNP Paribas, Eikon/Datastream*

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# Commodities

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# Commodities at a glance

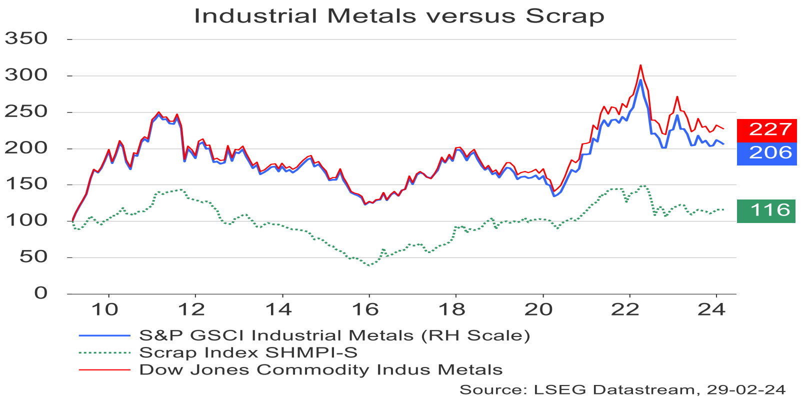
Oil prices remained in a tight range in February caught between geopolitical risks in the Middle East and a reasonably well supplied market. The Brent ended the month at 83,68$/barrel.

**Base Metals moved sideway in February.** Since the start of 2024, nickel rose 8% and tin4%, lead lost -0,5%, copper -1%, aluminum -7% and zinc -9% (as of 29/02)

Gold ended February roughly unchanged at $2044 after recovering some weakness during the Chinese lunar new year holidays.

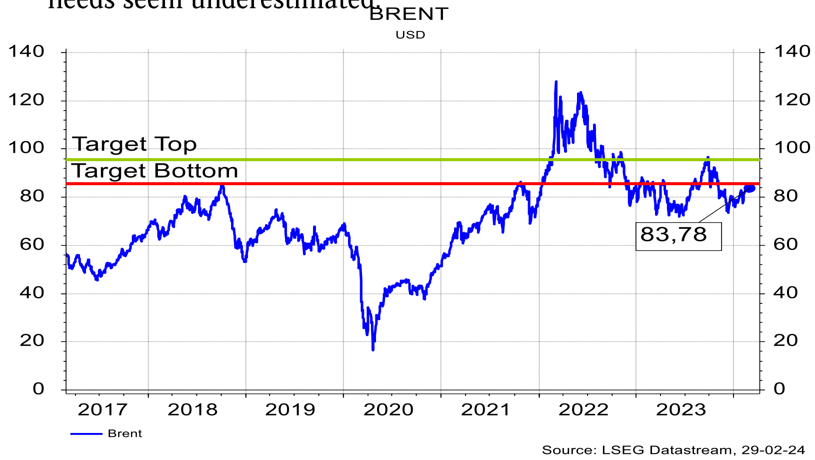
## BASE METALS

The latest disappointing manufacturing PMI should keep base metals in their present trading range, but we do expect a better momentum in H2 2024 as cyclical demand meets structural (energy transition & defense). Copper is our preferred base metal.




## OIL

As the OPEC+ supply management policy should be prolonged, and as market gauges continues to show signs of strength, we expect Brent price to trade back in the $85-95 range. MT outlook remains bullish as needs seem underestimated.




## 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.


Our position for this month

Evolution of our position from last month

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# Alternative investments

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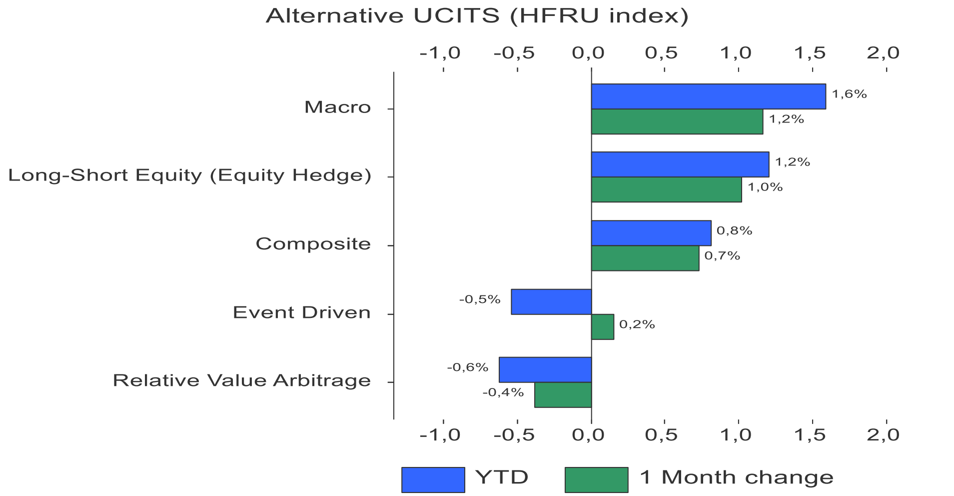
# Alternative Investments at a glance

Performance in macro and long-short strategies were strong. Event Driven was broadly flat and Relative Value was down marginally.

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



Source: LSEG Datastream, 28-02-24

## Global Macro

**Positive :** Markets are now contending with the protracted effect of higher rates and inflation on the economies, between hard, soft or no landing, with materially different outcomes for all asset classes. Macro managers are best positioned to play those, long or short.

## Event Driven

**Neutral**: Following a series of unsuccessful antitrust enforcement actions, it appears that regulatory risk has become more predictable. Valuations have adjusted in the new rate environment, compensating for increased financing costs.

## Long / Short Equity

**Positive:** After a quite defensive positioning in 2023, managers have reduced some painful shorts which were bearish bets on an upcoming recession. Intra market equity dispersion has increased of late among equities, paving the way for better long and short stock picking opportunities.

## Relative Value

**Positive** : The higher rate environment provides significant carry, but not so much larger spreads on corporate bonds. A recession or rising defaults would thus quickly hurt benchmarked long only strategies. A long/short strategy can earn consistently strong returns by identifying both winners and losers, while also hedging against macroeconomic shocks.

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