DECEMBER 2023

Investment Strategy Focus 2024 Outlook

Summary

1. **Further inflation surprise?** Producer prices and supply chain tracking indices imply lower inflation over the next few months, both in the US and Europe. On the services side, rent inflation is cooling quickly, while wage growth is moderating as unemployment ticks up. Start-2024 could see a new global disinflation trend.

2. **Lock in attractive bond, credit yields now.** The death of the "higher for longer" mantra as inflation cools points to lower central bank reference rates from mid-2024. Lower inflation has pulled bond yields lower, boosting bond and credit prices. Conservative investors still have a historic opportunity to lock in attractive yields.

3. **Stocks benefit from rising liquidity, lower long-term rates.** Improving global liquidity, lower long-term rates and solid earnings trends support higher stock prices. Only the US Magnificent 7 look expensive today. Absent a serious global recession, stocks can continue to move higher over the next few months.

4. **Illiquid assets should rebound on lower cost of leverage.** After a challenging 2023 due to surging financing costs, illiquid assets such as private equity, private debt and infrastructure should perform more robustly in 2024. We advise diversifying larger portfolios into illiquid assets offering higher potential long-term returns.

5. **Top 2024 convictions.** In fixed income, we favour Euro investment grade credit and emerging market sovereign bonds. In equities, we highlight Japanese and Latin American stocks. In alternatives, we like precious metals and energy infrastructure funds.

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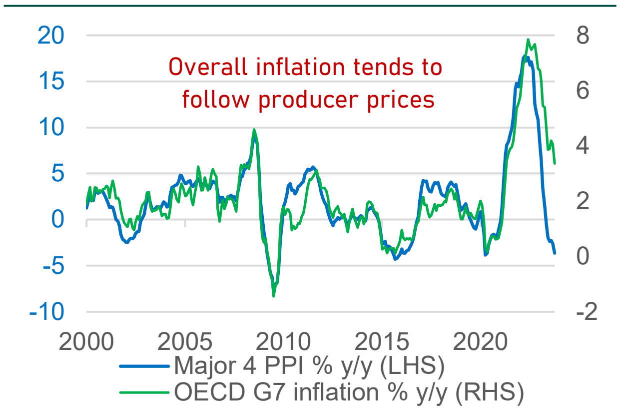
PRODUCER PRICE DECLINES SUGGEST LOWER GLOBAL INFLATION AHEAD



Source: BNP Paribas, Bloomberg.
Note: Major 4 economies = US, Eurozone, China, Japan

Edmund Shing, PhD

Global CIO
BNP Paribas Wealth Management

6 Top Convictions for 2024

1. **Fixed income**: **European investment grade credit.** Absolute yield on Euro investment grade corporate bonds (at 4.4%) sits close to an 11-year high, while credit spreads remain well above their 10-year historic average. Even in the worst recessions, investment grade bonds have never seen an annual default rate above 1%. Lower eurozone inflation should guide underlying Euro sovereign bond yields lower. *Short-term (2-5 yr) Euro IG credit offers the best risk-return trade-off.*

2. **Fixed income: Emerging market sovereign bonds** (local currency). An attractive gross yield of 6.3%, stronger EM currencies against a weaker US dollar, and emerging market central banks which are already cutting reference rates as inflation pressure weakens are all favourable factors for emerging market sovereign bonds. *Emerging market local currency sovereign bond funds.*

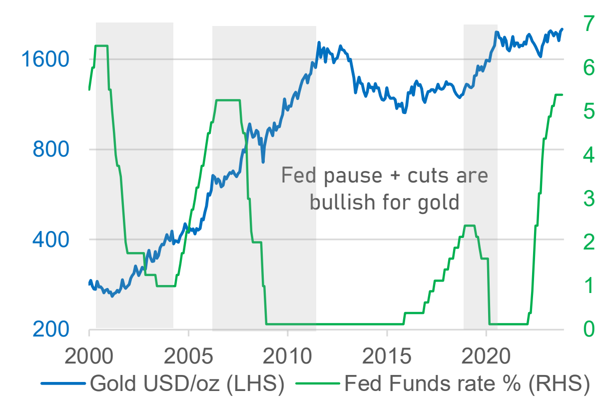
3. **Alternatives**: **Precious metals (gold, silver).** Boosted by i) continued central bank buying, ii) lower bond yields, iii) a weaker US dollar and iv) global geopolitical tensions, gold has just reached a new all-time high. Gold has typically performed very well in the past during Fed rate-cutting periods. We like the diversification benefits of precious metals, which today are ever more valuable in a balanced portfolio. *Physical gold, silver, precious metals miners.*

4. **Equities: Japanese stocks**. Strong local currency index performance in 2023 came on the back of an impressive drive to structurally improve profitability, unwind cross shareholdings; reduce cash balances and return a greater shareholder yield via share buybacks and dividends. Valuations remain modest, and further improvement in profitability can be expected in 2024. This should support earnings and dividend growth. Foreign investors remain underinvested in Japan versus global benchmarks, due to yen currency weakness. *Japanese equity funds.*

5. **Equities: Latin American stocks**. High commodity exposure (energy, metals), robust nominal growth and appreciating currencies are three drivers of outperformance by Brazilian and Mexican stocks. Valuations remain cheap (8x P/E for Brazilian, 13x P/E for Mexican stocks), while strong Brazilian real and Mexican peso momentum also helps US dollar and euro-based performance. *Latin American equity funds, ETFs.*

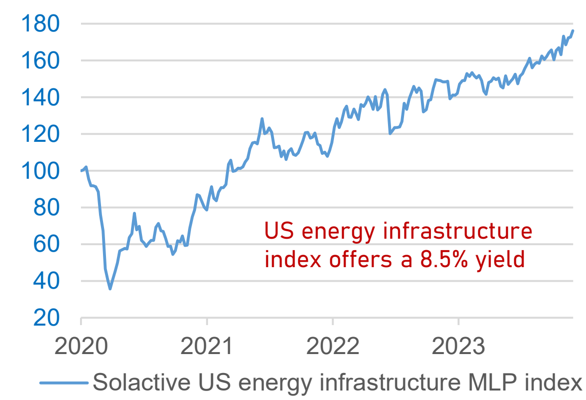
6. **Listed infrastructure: US energy infrastructure and MLPs** (Master Limited Partnerships). This energy infrastructure encompasses energy (oil & gas) pipelines and storage networks and is less governed by the price of oil and gas, but more by the volume of energy transported, processed and stored. With US oil output reaching a new all-time high of over 13m barrels/day, these energy infrastructure companies offer relatively stable growth and a generous income yield. *Energy infrastructure/MLP funds and ETFs.*

THREE IMPRESSIVE RALLIES IN GOLD DURING FED RATE PAUSE/CUTTING CYCLES



Source: BNP Paribas, Bloomberg.

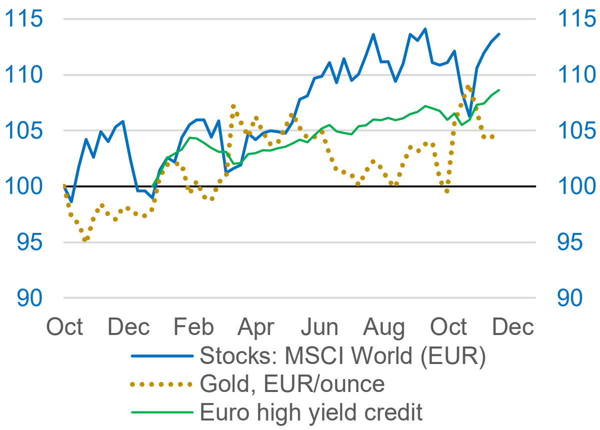
STRONG PERFORMANCE FROM US ENERGY INFRASTRUCTURE SINCE MARCH 2020



Source: BNP Paribas, Bloomberg

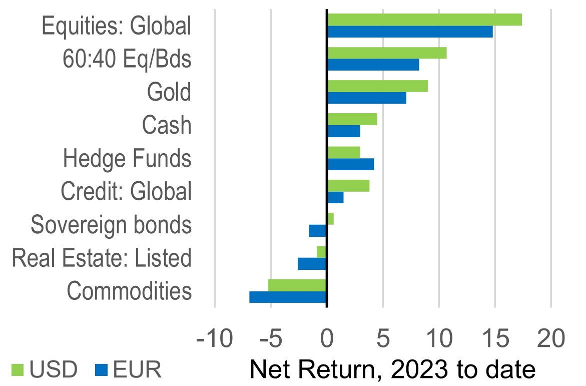
Sharp rebound for stock markets in November

STRONG STOCK, HIGH YIELD MOMENTUM



Source: BNP Paribas, Bloomberg. Note: total return indices in euros

EQUITIES AND GOLD LEAD THIS YEAR



Source: BNP Paribas, Bloomberg. Note: total return indices

Asset Allocation: Stocks edging back to year highs

Outlook Summary

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

NB. Alternatives include Commodities, Infrastructure and Alternative UCITS/hedge funds

Global Economic Outlook 2024

Guy Ertz

A necessary evil

Economic growth is slowing mainly due to the sharp rise in interest rates. This is the necessary evil to bring inflation down sustainably to target levels. Until now, high inflation has weighed on consumer confidence. At this stage, the US has held up better than the eurozone given the high level of household savings. This should, however, not be supportive in the future. Falling inflation and improved purchasing power should help gradually boost consumer confidence and thus consumer demand in most countries. We expect more weakness in the US relative to the eurozone over the coming months, as some of the negative effects of high interest rates, in particular mortgage rates, will still hamper growth.

The recessions should be moderate and limited in length. Companies are unlikely to start reducing staff given the perception of a scarcity of qualified workers. Strong job markets and the perception by households that jobs will remain plentiful suggest that consumer demand is unlikely to fall much (see chart). A major fall in US house prices also seems unlikely as the supply of houses remains low compared to household formation. Lower interest rates over 2024 should also support a gradual recovery. **We expect real growth in the US to be close to zero in the first two quarters of 2024 with full year growth of 0.9%**. In the eurozone, most of the weakness in growth is occurring now and we only expect an acceleration over 2025 with a full year figure of 0.6%. This is somewhat below consensus (Bloomberg). For 2025, the consensus expects 1.8% and 1.5% in the eurozone.

Disinflation to continue

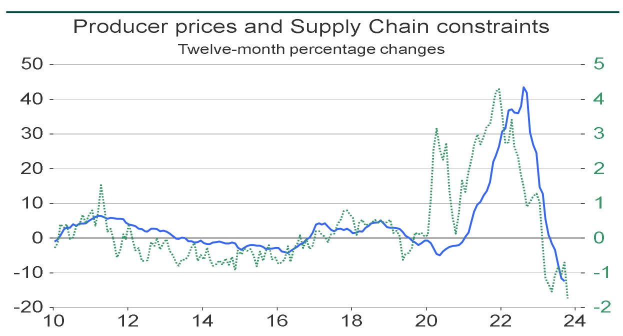
Inflation has continued to fall in recent months. US Headline inflation has receded from a peak of 9% to 3.2% in the US in September. In Europe, inflation has declined from 10% to 2.4%. Core inflation (excluding food and energy) peaked more recently and was last published at 4.0% in the US and 3.6% in the eurozone. Goods inflation has declined rapidly as supply chains have normalised (see chart below). Service inflation remains sticky, but we see early signs of trend changes. Sectors linked to tourism, restaurants and catering saw huge price pressures but are starting to normalise. All in all, inflation **has started to surprise to the downside.**

In business surveys, the fraction of companies reporting price increases in input prices has been falling from peak levels in most countries. There is, however, still a small majority seeing price increases, especially in the service sector. Inflation expectations have eased back from peaks both based on the pricing of financial assets and on surveys. We expect the disinflation trend to be sustained over the coming year. The process should be somewhat faster in the US compared with the eurozone, with inflation in 2024 expected at 2.6% in the US and 2.2% in the eurozone. This is well below the consensus for both regions. Inflation is expected to be around 2% in most industrialised countries by early 2025. **Disinflation is also continuing in emerging economies. We expect lower inflation in 2024 for most of those countries.** The only exception is China where inflation was close to zero this year. We expect a pick-up to 2% on average in 2024.

JOB MARKET STRENGTH

Source: LSEG Datastream, oct. 23

POWERFUL DISINFLATION DRIVERS



Source: LSEG Datastream, sept. 23

Risk scenarios and Currencies in 2024

Guy Ertz

Alternative scenarios

The main risk to our central scenario is a deeper-than-expected recession in the main economies, especially in the US. As mentioned, the main reason why we expect a moderate recession is that job losses should be lower than usual while the economy is slowing. We, however, need to monitor this closely; one key indicator to follow will be job losses, in particular the US jobless claims, as these data are published weekly. A deeper recession could lead to a fall in equity and corporate bond prices (especially high yield), while government bonds and gold should benefit.

Another risk is related to a further possible spike in oil prices resulting from a broadening of the conflict in the Middle East. We see the probability of such a scenario as relatively low.

The political agenda next year is very packed with elections in India, Mexico and Germany, as well as for the European Parliament, not to mention the US Presidential elections in November (see below). These elections will be key for monitoring signs of a shift towards protectionism, deglobalisation and intensified geopolitical tensions.

There is also a significant probability that financial markets could experience a more positive scenario. Our base-case scenario is somewhat more cautious than the consensus, and it is possible that inflation continues to fall without a major negative impact on growth and unemployment. Lower inflation would allow central banks to cut rates earlier, while the resilience of economic growth would support profit growth. This would be beneficial for most asset classes.

Currency convictions 2024

Now that most countries have probably reached their terminal rates, the key question for 2024 is which central bank will cut rates first and by how much. We see the US Federal Reserve cutting first, leading to a reduction in the interest differential relative to most other countries. A key 2024 trend should be a broad-based weakening of the US dollar. We also expect the Yen to strengthen, as the Bank of Japan should end its Yield Curve Control policy.

In the US, we believe the Fed will maintain its policy rate between 5.25%-5.5% until June 2024. We should then see 125bps in rate cuts to the end of 2024.

In the eurozone, we believe the ECB has reached its terminal rate at 4% after 10 consecutive hikes. Our outlook suggests the ECB will cut rates by 75bps, starting in September 2024. The interest rate differential should thus shift in favour of the euro in the coming months. In addition, the EUR/USD has reached the end of an eight-year purchasing power parity (PPP) cycle, now favoring the euro. **We maintain our EUR/USD 3-month target of USD 1.06 and our 12-month target of USD 1.15**.

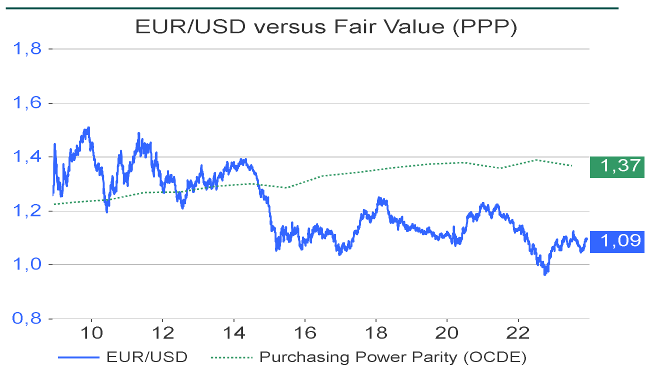
The Japanese Yen is the most undervalued currency with regards to its Purchasing Power Parity (PPP). The gap with this PPP value has even been widening. Looking forward we see the end of Yield Curve Control (YCC) in Q2 2024, with potentially higher interest rates resulting. This would reduce the interest rate differential with other key countries, especially given the rate cuts that we expect by most other central banks in 2024. **Our USD/JPY 3-month target remains JPY 145, and our 12-month target is JPY 134.**

POLITICAL AGENDA

2024	Country	Political Event	Implications
13-Jan	Taiwan	Leader and legislative elections	Currently, three parties have nominated candidates for the leader election.
April/May	India	Parliamentary elections	We expect the government to continue to announce measures to boost the manufacturing sector.
2-Jun	Mexico	Presidential election; Chamber of Deputies and Senate	Market focus could shift to Congress and the Senate:
4-Jun	US	Last day to hold presidential primary elections or caucuses	
9-Jun	EU	Parliamentary elections	Strong showing for populist parties could complicate EU decision-making.
Autumn	Germany	States elections - Saxony, Brandenburg, Thuringia	Could alter the probability for a change in government following the 2025 federal elections.
5-Nov	US	General elections	Contests for presidency, 33 Senate seats, House of Representatives, governorships, state legislatures, etc.

Source: BNP Paribas – UBS.

DOLLAR STILL OVERVALUED



Source: LSEG Datastream, 01-12-23

Liquidity and Financial Conditions Outlook

Global liquidity should rise in 2024

Since the 2008 financial crisis, key financial markets such as stock and bond markets have been increasingly driven by global liquidity flows. Ultra-low interest rates and heavy liquidity provision by global central banks to support the global economy have boosted overall macro liquidity levels.

However, the 2022 change in central bank policy to raising interest rates and also reducing their balance sheets tightened global liquidity and increased financial stress. This was the key driver behind poor stock and bond market performance from January to October of that year. However, latterly US liquidity has improved (using the Chicago Fed's Adjusted National Financial Conditions Index as a proxy). This is largely due to the ending of the central bank interest rate hiking cycle, with more central banks now cutting rather than raising policy rates.

As we move closer to 2024, we can look forward to the prospect of interest rate cuts, and potentially a revision to central bank policies of withdrawing liquidity through reduction of their balance sheets. Our expectation of a 2024 technical US recession is not enough to offset the liquidity-boosting effect of lower rates and a potential end to central bank bond selling.

The potential for the US dollar to weaken further against its major trading partners as the Federal Reserve turns to cutting the Fed Funds rate is a further potential positive for liquidity flows. In the past, the direction of the US dollar has been highly correlated with global liquidity flows, with a weaker dollar usually coinciding with stronger liquidity.

Can financial stress indices revisit 2021 lows?

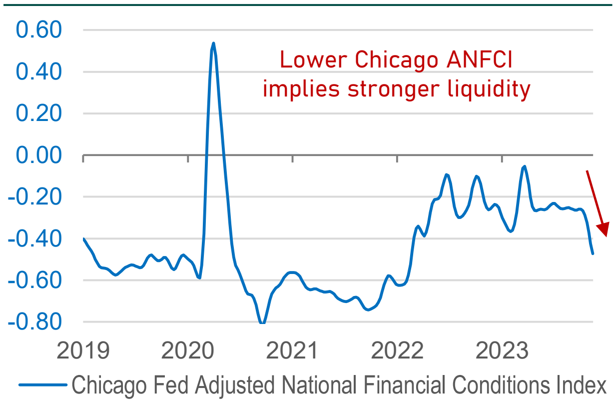
Since October 2022, financial stress has eased considerably thanks to a number of factors, including slowing inflation, lower credit spreads, and lower bond, stock and FX volatility.

While financial stress indices continue to fall in the near term, there is still a question of whether this lower stress can continue while the lagged effects of higher interest rates continue to impact economic growth. Recall that the full impact of Federal Fund rate hikes do not typically have their full economic impact for at least 12 months. In November 2022, the Fed Funds rate stood at 4%, still 1.5% below today's 5.5% rate. On the other hand, the 10-year US and eurozone bond yields had already risen to levels close to current yields by November 2022.

Nevertheless, with slowing US economic momentum and a European economy already stagnating, we could potentially see rising stress in credit spreads as we head into 2024, with knock-on effects in the form of higher financial market volatility.

But in our view, the key to the direction of overall financial conditions will remain the direction of global long-term interest rates. Should they continue to fall as we expect (towards 3.75% in 12 months in the case of the US 10-year Treasury bond yield), then overall financial stress could indeed maintain a downwards path. This would then support continued investment in stocks, corporate credit and other risk asset classes.

CHICAGO FED ADJUSTED NFCI INDEX POINTS TO STRONGER US LIQUIDITY



Source: BNP Paribas, Bloomberg.

LOWER FINANCIAL STRESS HELPS STOCKS AND BONDS

Source: BNP Paribas, Bloomberg.

Bond and Credit Outlook

Sovereign bonds slowly recover from 2022 trauma

Developed world sovereign bonds have begun to recover from the record declines inflicted from August 2021 to October 2022 by the twin impacts of decade-high inflation rates and the fastest central bank rate hiking cycles since the 1970s. US Treasury bond returns have been flat through 2023 to end-November, while eurozone sovereigns have posted a 4% return.

On the one hand, both short- and long-term bond yields remain close to their highest levels in over 15 years in Europe and the US, stimulating demand from pension funds and income-starved investors. On the other hand, new supply from developed world governments is also huge, with US Treasury net bond issuance to hit its second-highest annual amount on record in 2023.

We believe that the medium-term outlook for bonds is governed by the economic fundamentals of growth and inflation, rather than by supply and demand factors. Headline inflation continues to decline rapidly both in the US and Europe as higher rates slow growth, leading 10-year inflation breakeven rates lower to 2.3% in the US and 2.2% in Germany.

According to Columbia Threadneedle, US 10-year Treasury bonds have delivered an average 11.6% in the 12 months following a Fed rate pause, with a 100% hit rate (7 out of 7). To late November, US 10-year bonds had returned -2% since the Fed paused in late July, suggesting potentially stronger returns over the next eight months. **We favour Treasury Inflation-Protected bonds (TIPS) over nominal Treasury bonds, given high real yields and their historic outperformance.**

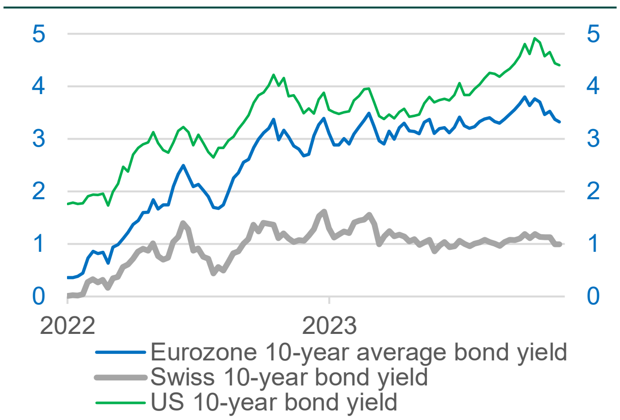
Credit returns to largely follow sovereigns

Investment-grade credit spreads are currently more generous for European BBB corporate bonds (1.7%) than for US BBB credit (1.3%), reflecting slightly better relative value for European IG credit. However, given the difference in effective durations between the two universes (4.6 years for European credit versus 6.6 years for US credit) and the higher underlying US 7-year Treasury yield, yields to maturity are still higher for US IG credit at 5.8% gross versus 4.6% for European IG credit.

Credit spreads reflect mainly default risk; note that the highest ever one-year default rate for BBB-rated bonds was 1% (according to S&P Global), and that was during a deep, painful recession. Today, the majority of corporate balance sheets are in aggregate relatively healthy with strong supporting cash flows. In addition, we do not expect a deep, prolonged recession. Thus, current credit spreads seem decent, if not outstanding value, particularly in Europe. **Euro-based investors should prefer Euro IG credit exposure, given EUR/USD hedging costs of 1.8% for 1 year**.

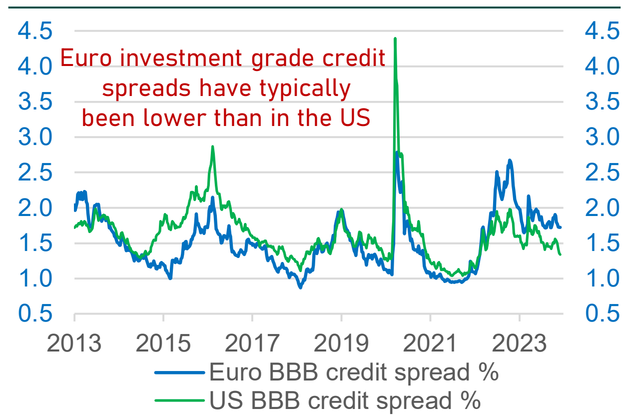
Selective value in High Yield, Mortgage segments: US high yield credit spreads sit below their 2010-23 average, thus not offering particular value versus history even if today's 8.4% gross yield looks appealing. However, selected segments are attractive in our view, including **Fallen Angels** (previously investment grade credit that has since been downgraded to high yield). **US agency mortgage-backed bonds** offer a 0.9% spread over equivalent US Treasury bonds and a 5.2% yield today, representing an attractive entry point in a low-risk bond segment.

10-YEAR SOVEREIGN BOND YIELDS HAVE PEAKED POST FED, ECB PAUSES



Source: BNP Paribas, Bloomberg.

EURO INVESTMENT GRADE CREDIT OFFERS HIGHER SPREADS THAN IN US



Source: BNP Paribas, Bloomberg

Equity Outlook

3 factors: earnings, bond yields, liquidity

Three factors will largely determine the direction of stock markets in 2024.

Liquidity will be the key factor in demand for stocks – rising global liquidity and looser financial conditions are key motors for stocks. We should also mention here the supportive backdrop for equity supply and demand: corporate share buybacks are likely to be the greatest source of demand for stocks in the near term, while there is a lack of new issues coming to market. This net shrinkage of equity supply suggests a moderately supportive backdrop for stocks.

Secondly, we should consider **valuations**. In general, valuations remain relatively cheap versus history for US ex megacaps, European, UK, Japanese and emerging market stocks across a number of metrics such as P/E. However higher valuations will require lower long-term interest rates, i.e. falling 10-year bond yields.

Thirdly, **earnings momentum** will be key, particularly given the lack of growth in the eurozone and our expectation for a US economic slowdown in 1H24. Of these three key factors for stocks, this is where we would have the most doubt. Up to now, decade-high inflation rates have allowed companies to expand profit margins as they have enjoyed pricing power, while strong consumer demand has also supported top-line growth. As consumers are growing less confident and as headline inflation recedes to more normalised levels, these two supports to earnings are weakening. Up to now, these potential drags have not impacted forward earnings estimates. But this could still change, if the economic outlook worsens.

Stocks like a Fed pause, but not a "real" recession

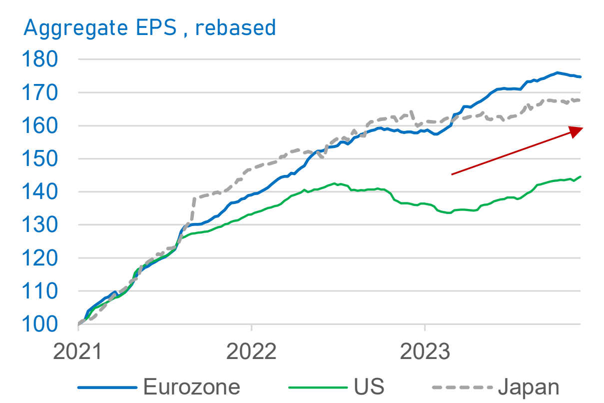
US stocks have traditionally gained of the order of 13% over the six months following a Fed pause. Since the Fed last raised rates to 5.5% at the end of July, US stocks have not progressed. To the end of January 2024, global stocks may then benefit from greater certainty over the end of the central bank rate hiking cycle, if we follow the typical pattern following a Fed pause.

The real question for stocks in 2024 revolves around the length and depth of US recession. In the event of a recession, any bear market typically begins roughly one month after the first Fed rate cut, as the economic downturn becomes evident. We see the Fed starting to cut policy rates in June, suggesting that the **crunch time for stocks will likely be 2H24.**

In the 1980 and 1990 recessions, stocks only suffered a modest correction before resuming their long-term uptrends. In contrast, in 2000 and 2008, stocks suffered major bear markets on the back of a deflating technology investment bubble and a financial crisis, which in turn respectively provoked a 29% and 37% decline in S&P 500 index earnings. For us, the key is whether the unemployment rate rises only modestly (as in 1990-92) or dramatically (as in 2007-09).

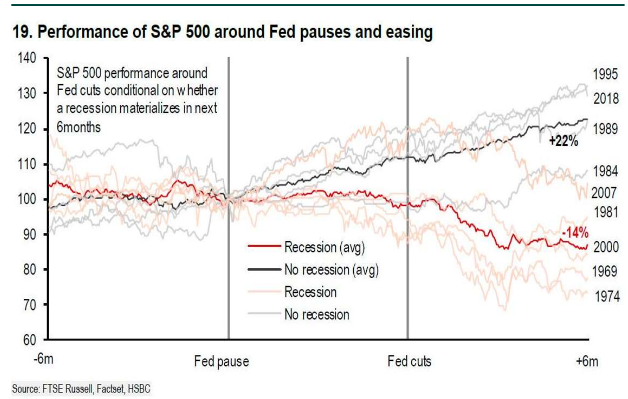
As we expect only a modest 2024 US recession, we look for a relatively small increase in unemployment. This in turn implies a relatively modest headwind to 2024 corporate earnings, and thus a correspondingly lower risk to stock market momentum over 2H24. **All of this suggests that we should not rush to cut our positive stance on global stocks for now.**

THROUGH MOST OF 2023, STOCK MARKET EPS FORECASTS HAVE INCREASED



Source: BNP Paribas, Bloomberg.
Note: 12-month forward consensus EPS estimates.

FED PAUSE IS GOOD FOR STOCKS OVER 6 MONTHS; THEN THE RECESSION CALL IS KEY



Source: FTSE Russell, Factset, HSBC

Commodities Outlook

Xavier Timmermans

Oil

World oil demand should continue to grow in 2024 despite an economic slowdown. Emerging countries (India, China) should underpin this growth together with a resilient US and a stable Europe.

On the supply side, non-OPEC+ producers (US, Guyana, Brazil, Argentina) could surprise by matching the growth in demand. The OPEC+ alliance needs to maintain its production cuts in the first months of 2024 to balance the markets. Saudi Arabia, which is leading the alliance together with Russia, accounts for the bulk of the cuts, which could lead to tensions and price volatility as the country tries to reach a broader sharing by OPEC members of the additional production cuts to be made.

In 2024, much will depend on the supply management by the OPEC+. As it was relatively successful until now, the odds favour a continuation of this policy. Recession fears at the beginning of the year could weigh on prices in early 2024 but the slow recovery forecast for 2H24 should propel **Brent crude oil prices back into the USD 85-95 range.**

Even not taking into account the geopolitical risks, crude oil prices are expected to remain high in the coming years due to growing demand from emerging markets and the huge costs of the decarbonisation. This is positive for the entire energy complex, alternative energy included.

Base metals

The short-term outlook remains clouded by the recession in the European industry and by the real estate crisis in China. Both issues are improving as manufacturing PMI may be bottoming out and as Chinese authorities have finally decided to help developers. At a given moment (perhaps spring 2024), a necessary restock should amplify the price recovery.

The medium-term outlook remains very bright due to the huge needs of the energy transition while supply is inelastic. Mining indices and basic resources funds show signs of bottoming out. Base metal producers remain among our medium-term key convictions.

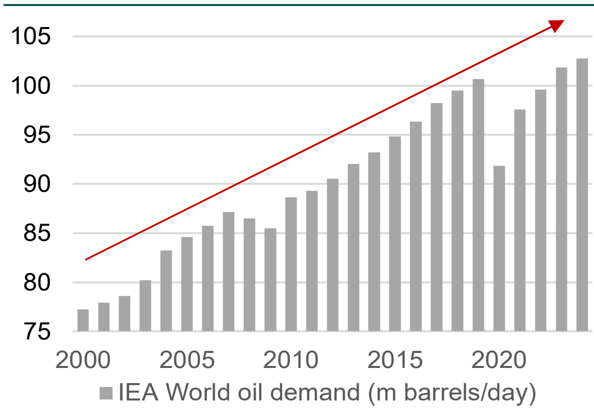
Precious metals

Gold has once again proven its value as a hedge against unexpected geopolitical risk. Bullion could hold its gains made after the Hamas attack thanks to declining bond yields and a weaker US dollar.

Central bank net buying of gold in the first three quarter of 2023 is 14% ahead of 2022 at 800 tons, the highest on record for the nine-month period. This should continue as countries like China and India continue to diversify their reserves away from the US. A seasonal pick-up in Chinese physical demand in the lead-up to the mid-February Lunar New Year could also provide support for a higher trading range.

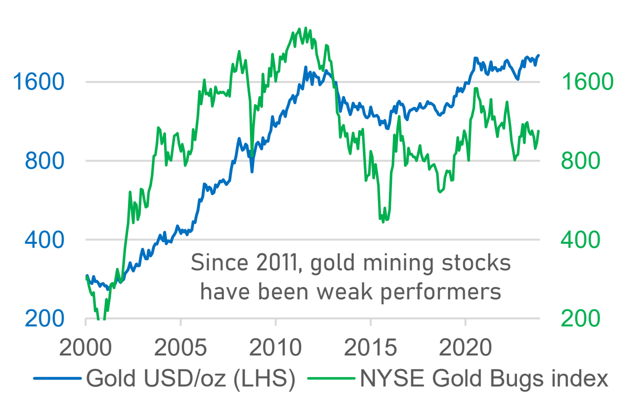
Gold miners have lagged the bullion in an unusual way, partly owing to last year's poor earnings as energy costs and power disruptions have impacted miners' bottom lines. But the context is improving thanks to lower energy and material prices. So, some catch-up seems overdue.

WORLD OIL DEMAND TO HIT NEW RECORD



Source: BNP Paribas, Bloomberg.

GOLD APPROACHES A NEW ALL-TIME HIGH



Source: BNP Paribas. Bloomberg.
Note: Shaded areas are Fed rate pause/cut periods

Real Estate, Private Assets Outlook

Real Estate stabilisation in view, post rate shock

After steady positive long-term real estate performance since 2010, 2023 has been a year of valuation reset for commercial real estate, triggered by the sharp rise in short- and long-term interest rates.

Long-term interest rates and total employment are the two key drivers of real estate demand and values. Long-term rates have already eased from their recent peak both in the US and Europe. We expect a further fall in US 10-year bond yields over the next 12 months towards 3.75%, together with lower G10 central bank reference rates from mid-2024 onwards. In addition, we expect the current historically high levels of total employment to persist, supporting both residential and commercial real estate demand.

According to our colleagues at BNP Paribas Real Estate, the highest rental growth over the next 5 years should be seen in the Residential and Logistics segments, where they see the strongest underlying demand. Logistics demand is still driven by the growth of online and click-and-collect retail models, driving robust rental growth. Residential rental demand should remain resilient in 2024, given poor affordability ratios in many countries, forcing people to rent for longer as they cannot afford to buy.

Office demand is impacted by the work-from-home trend, impacting demand primarily for secondary office locations. But prime office locations in Europe continue to see solid demand. Shrinking real estate investment this year will tighten the supply-demand balance in 2024-25, supporting values together with a positive impact from lower interest rates.

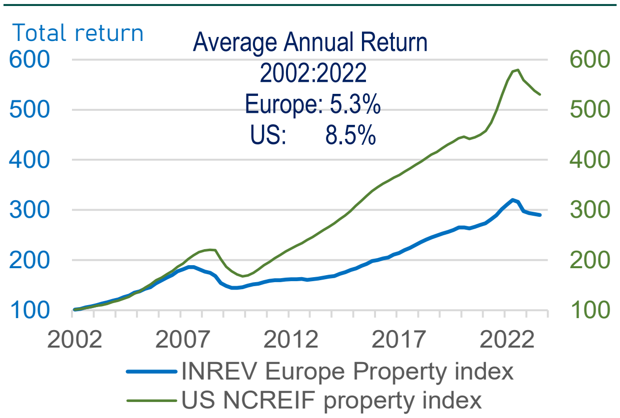
Private assets remain key components in large diversified portfolios

The rising cost of debt has hit all leveraged asset classes including private equity since mid-2022. According to Pitchbook private equity fund data, private equity fund returns (in US dollars) have rebounded +7.4% over the first half of 2023, after falling 2.1% in 2022. Leveraged Buyout funds (+6% in 1H23 according to Bloomberg) have recovered well so far this year, while Growth funds (0%) have struggled against a backdrop of more difficult financing conditions and a lack of exits via Initial Public Offerings (IPOs). Private debt funds have posted modest positive returns in 2022 and in 1H23 (1.4% and 1.9%) in spite of the difficult backdrop for the fixed income asset class, as a substantial proportion of this private debt is based on floating rates.

As always, selectivity and detailed due diligence is key when considering investment in private capital funds, given their illiquidity and the fact that the spread in long-term returns from the best to the worst funds is huge. Today this is more than ever true, with the tailwind of ultra-cheap debt financing at an end.

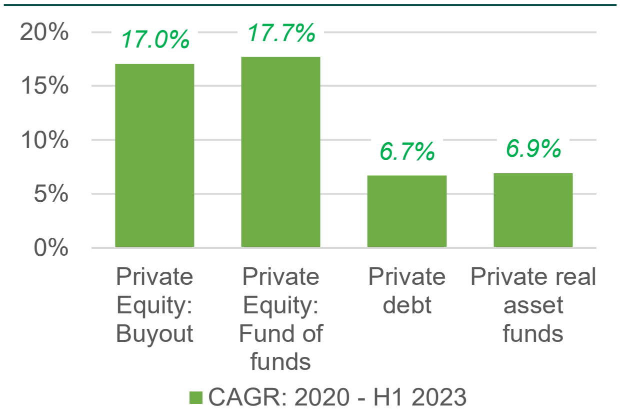
Returns are likely to be lower in future for private equity funds than over the past 10 years, given lower use of leverage and potentially lower exit valuations available via the IPO or secondary sale route. But even given this, we believe that steady investment over time in selected private equity buyout, infrastructure and private debt funds should form part of a diversified portfolio for long-term investors who seek higher returns and who can invest in illiquid assets.

EUROPEAN REAL ESTATE FUNDS: -2.6% RETURN OVER 9M 2023; US FUNDS -5.1%



Source: BNP Paribas, INREV, NCREIF.

STRONG PERFORMANCE FROM PRIVATE ASSETS DESPITE WEAKER 2H22



Source: Bloomberg (compound annual growth rates in US dollars)

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 (selective), China, S. Korea Singapore and Indonesia		Look through a temporary dip to the recovery beyond. 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, Energy, Materials, EU Financials & Technology		**Energy & Materials** to benefit from rebounding Chinese activity, 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	We add US govies (maturities up to 10Y). Prefer inflation-indexed bonds		Our 10-year bond yield targets are 3.75% in the US and 2.5% 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 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 80-95 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, weaker USD & stable LT rates should help, 12-month exp. range = USD 1900-2150.
FOREX			EUR/USD			Our EUR/USD target is USD 1.15 (value of 1 euro) in 12 months. Target change for Chinese CNY and Japanese JPY – less potential for rebound.
REAL ESTATE	=	=		Health Care, UK commercial		Unlisted real estate faces enduring headwinds from slowing economies and much higher financing rates. Prefer listed real estate.
ALTERNATIVE UCITS				Long/Short Equity and Relative Value		
INFRA STRUCTURE	+	+		Energy, transportation, water		Excellent long-term returns expected from private and listed infrastructure given long-term underinvestment.

Economic, FX forecast tables

BNP Paribas Forecasts			
GDP Growth %	2023	2024	2025
United States	2,4	0,9	1,3
Japan	1,8	1,0	0,9
United Kingdom	0,5	0,0	1,1
Eurozone	0,5	0,6	1,6
Germany	**-0,1**	**0,3**	**1,3**
France	0,8	0,6	1,4
Italy	0,7	0,9	1,5
Emerging			
China	5,2	4,5	4,3
India*	7,5	7,0	6,5
Brazil	3,1	1,8	1,8
* Fiscal year			
Source: BNP Paribas - 04/12/2023			

BNP Paribas Forecasts			
CPI Inflation %	2023	2024	2025
United States	4,1	2,6	2,3
Japan	3,2	2,6	1,8
United Kingdom	7,4	3,0	2,1
Eurozone	5,5	2,2	2,0
Germany	**6,1**	**2,4**	**2,1**
France	5,7	2,4	1,8
Italy	6,1	1,7	1,8
Emerging			
China	0,4	1,5	1,7
India*	5,8	5,7	4,5
Brazil	4,6	4,0	4,0
* Fiscal year			
Source: BNP Paribas - 04/12/2023			

	Country	Spot		Target 3	Target 12
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	0,98	0,98
	Japan	EUR / JPY	159,10	154	154
	Sweden	EUR / SEK	11,32	11,00	11,00
	Norway	EUR / NOK	11,75	11,30	10,80
Against dollar	Japan	USD / JPY	147,11	145	134
	Canada	USD / CAD	1,35	1,32	1,30
	Australia	AUD / USD	0,66	0,68	0,70
	New Zealand	NZD / USD	0,62	0,60	0,63
	Brazil	USD / BRL	4,93	5,00	5,00
	India	USD / INR	83,36	82,0	82,0
	China	USD / CNY	7,14	7,20	6,80

Source: BNP Paribas, Refinitiv Datastream. As at 7 December 2023

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